

# KWG (1813 HK)

## Attractive valuation

Revenue and core profit increased by 207% to RMB10.6bn and 28.1% to RMB2.51bn in 1H19, respectively. We estimate end-20 NAV to be HK\$19.00. As a result, we cut TP from HK\$11.82 to HK\$11.04. Maintain BUY.

- Core profit gained 28% to RMB2.5bn in 1H19.** Delivery GFA jumped 152% to 0.65mn sq m and recognized ASP advanced 34.9% to RMB15,014 per sq m in 1H19. Meanwhile, rental income expanded 138% to RMB320mn in the period as more investment properties (IP) operated. Total revenue soared by 207% to RMB10.6bn. GM enlarged by 3.9ppts to 35.0% in 1H19. Although net finance expenses increased by 57% to RMB1.0bn, it offset by 6x increase in profit from JCE (about RMB2.68bn) in 1H19. Net and net profit advanced 1.7x to RMB6.0bn and 28.1% to RMB2.51bn in 1H19, respectively.
- 50% hit rate of contracted sales by Jul.** In 1H19, 95 new projects were launched for pre-sales, of which 15 were new ones. Contracted sales amount and area soared by 11% to RMB36.0bn and 12% to 2.12mn sq m in 1H19, respectively. Including the contracted sales of RMB6.71bn in Jul, KWG achieved hit rate of 50% based on full year sales target of RMB85bn by Jul. About RMB100bn saleable resources are available in 2019, of which 33% and 32% are located at GBA and YRD. As at Jun 2019, presold and unbooked properties amounted RMB53bn (attributable).
- 17.72mn sq m attributable land bank in 38 cities.** KWG acquired 16 new projects of attributable GFA of 1.75mn sq m. As at Jun 2019, the Company had invested 153 properties projects in 38 cities with attributable GFA of 17.72mn sq m. Average land cost was RMB5,000 per sq m, which is equivalent to 29.4% of pre-sales ASP in 1H19. Total saleable resources amounted to RMB503bn, of which 52% are in GBA. Furthermore, KWG had signed urban redevelopment agreements with 12 villages in GBA in total GFA of 11mn sq m.
- Recurring income increased 51% in 1H19.** Recurring income increased by 51% to RMB1.07bn in 1H19. Eight offices, eight shopping malls and 13 hotels are in operation now. Nine new shopping malls and six new office buildings will be completed and commence operation in coming future.
- Reiterate BUY.** We raise our core earnings forecast by 3.0% to RMB4.87bn in 2019. We also forecast end-20 NAV to be HK\$19.00. As a result, we cut TP from HK\$11.82 to HK\$11.40, based on 40% discount to NAV.

### Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	11,543	7,477	23,049	25,805	30,859
YoY growth (%)	30	-35	208	12	20
Net income (RMB mn)	3,620	4,035	8,322	5,780	6,042
EPS (RMB)	1.17	1.28	2.64	1.83	1.92
YoY growth (%)	1.9	9.2	106.7	-30.5	4.5
P/E (x)	5.1	4.6	2.2	3.2	3.1
P/B (x)	0.7	0.6	0.5	0.5	0.4
Yield (%)	6.9	9.5	11.8	13.0	13.5
ROE (%)	13.1	13.6	23.0	14.5	13.9
Net gearing (%)	67.9	64.8	73.0	78.9	77.0

Source: Company data, CMBIS estimates

## BUY (Maintain)

Target Price	HK\$11.40
(Previous TP)	HK\$11.82)
Up/downside	+73.0%
Current Price	HK\$6.59

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#### Stock Data

Mkt Cap (HK\$ mn)	20,922
Avg 3 mths t/o (HK\$ mn)	56.3
52w High/Low (HK\$)	9.59/4.64
Total Issued Shares (mn)	3,175
Source: Bloomberg	

#### Shareholding Structure

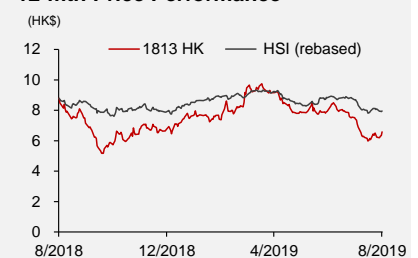
Kong Jian Min	62.74%
Free float	37.26%
Source: HKEx	

#### Share Performance

	Absolute	Relative
1-mth	-16.0%	-6.9%
3-mth	-19.7%	-14.2%
6-mth	-14.0%	-3.8%
12-mth	-28.7%	-21.0%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: Ernest & Young

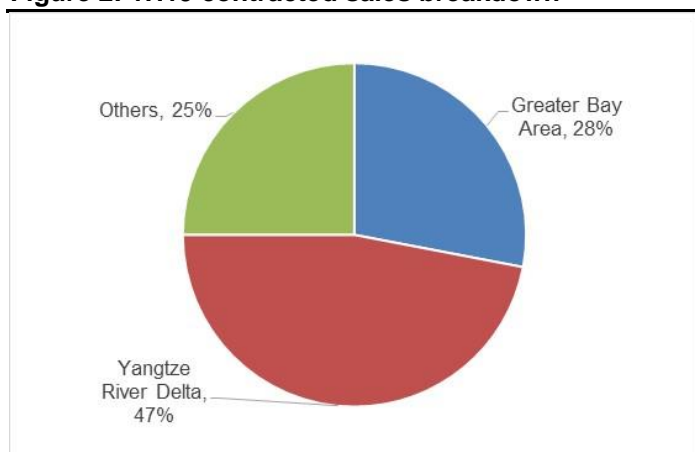
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- 30% growth in 2019 sales target – 28 Mar 2019

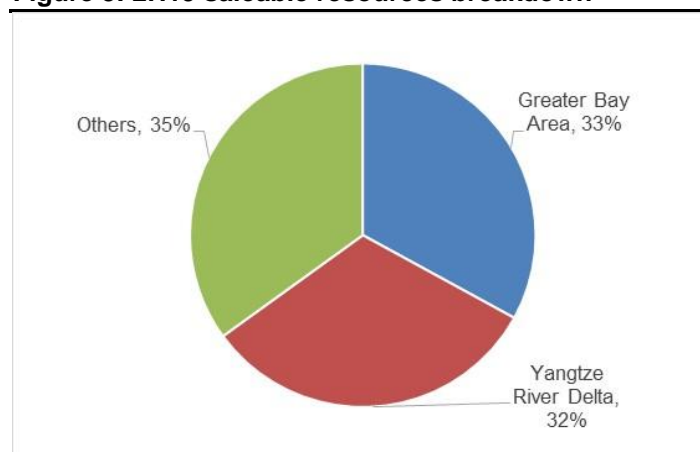
**Figure 1: 2019 interim results**

	1H19 (Rmb mn)	1H18 (Rmb mn)	Growth (%)	Remark
<b>Turnover</b>	<b>10,647</b>	<b>3,464</b>	<b>207.4%</b>	
-Property development	9,713	2,853	240.4%	1.5x gain in delivery GFA & 35% rise in ASP drove revenue growth in 1H19
-Property investment	320	135	137.8%	New IP commenced operation
-Hotel	251	223	12.6%	Suzhou Courtyard opened in Sep 2018
-Property management	363	253	43.6%	
Cost of Sales	(6,915)	(2,386)	189.9%	
<b>Gross Profit</b>	<b>3,732</b>	<b>1,078</b>	<b>246.2%</b>	GM enlarged 3.9ppts to 35.0% in 1H19
Other operating income	1,140	1,674	-31.9%	
Distribution Cost	(375)	(208)	80.1%	
Administrative Expenses	(913)	(546)	67.2%	
Other Expenses	(9)	(1)	560.0%	
<b>EBIT</b>	<b>3,575</b>	<b>1,996</b>	<b>79.1%</b>	
Net finance expenses	(1,005)	(642)	56.6%	Less interest capitalized in 1H19
Associated	2,682	385	595.8%	
Exceptional	3,055	1,186	157.6%	Revaluation gain of investment properties
Pre-tax Profit	8,307	2,926	183.9%	
Taxation	(2,158)	(762)	183.3%	
Profit after Tax	6,149	2,164	184.1%	
Minority	(186)	7	N.A.	
<b>Net Profit</b>	<b>5,964</b>	<b>2,171</b>	<b>174.6%</b>	Declared interim dividend of Rmb0.32
<b>Core</b>	<b>2,514</b>	<b>1,961</b>	<b>28.1%</b>	

Source: Company data

**Figure 2: 1H19 contracted sales breakdown**

Source: Company data

**Figure 3: 2H19 saleable resources breakdown**

Source: Company data

**Figure 4: Cash flow in 1H19**

	Amount (RMB mn)
Proceeds from pre-sales	23,120
Land premium paid	(9,506)
Construction cost	(9,667)
Interest expenses	(3,480)
SG&A expenses	(1,634)
Tax	(2,542)
<b>Net operating cash outflow</b>	<b>(3,709)</b>

Source: Company data

Figure 5: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	23,049	25,805	30,859	22,775	25,490	30,488	1.2%	1.2%	1.2%
Gross Profit	8,370	9,235	10,518	8,124	8,953	10,184	3.0%	3.2%	3.3%
EBIT	7,521	8,471	9,738	6,927	7,737	8,943	8.6%	9.5%	8.9%
Net profit	8,322	5,780	6,042	4,728	5,238	5,431	76.0%	10.3%	11.3%
Core profit	4,872	5,780	6,042	4,728	5,238	5,431	3.0%	10.3%	11.3%
EPS (RMB)	2.64	1.83	1.92	1.50	1.66	1.72	76.0%	10.3%	11.3%
Gross Margin	36.3%	35.8%	34.1%	35.7%	35.1%	33.4%	0.6 ppt	0.7 ppt	0.7 ppt
EBIT Margin	32.6%	32.8%	31.6%	30.4%	30.4%	29.3%	2.2 ppt	2.5 ppt	2.2 ppt
Net Margin	36.1%	22.4%	19.6%	20.8%	20.5%	17.8%	15.3 ppt	1.8 ppt	1.8 ppt

Source: CMBIS estimates

Figure 6: End-20 NAV

	NAV/share				Remark
	(Rmb mn)	(HK\$ mn)	(HK\$)	% of NAV	
Properties under development	72,834	81,198	25.58	135%	WACC of 7.9%
Investment property	10,645	11,867	3.74	20%	8-10% cap rate
Hotel	3,548	3,956	1.25	7%	Rmn 1.0-4.8mn per room
Gross Amount	87,028	97,021	30.56	161%	
Net debt	(32,910)	(36,689)	(11.56)	-61%	Dec-20
NAV	54,118	60,332	19.00	100%	

Source: CMBIS estimates

## Financial Summary

Income statement						Cash flow summary					
YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E	YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Revenue</b>	<b>11,543</b>	<b>7,477</b>	<b>23,049</b>	<b>25,805</b>	<b>30,859</b>	<b>EBIT</b>	2,782	3,307	7,521	8,471	9,738
Property sales	10,432	6,064	21,151	23,665	28,398	D&A	147	158	234	322	349
Rental	231	379	675	775	915	Change in working capital	(15,567)	(7,742)	(4,591)	(7,100)	(3,700)
Hotel	424	468	543	565	621	Income tax paid	(710)	(1,103)	(1,094)	(1,530)	(2,410)
Property management	455	566	680	800	925	Others	3,879	3,109	5,063	2,825	6,340
Cost of sales	(7,523)	(5,026)	(14,679)	(16,569)	(20,341)	<b>Net cash from operating</b>	<b>(9,469)</b>	<b>(2,272)</b>	<b>7,133</b>	<b>2,988</b>	<b>10,317</b>
<b>Gross profit</b>	<b>4,020</b>	<b>2,451</b>	<b>8,370</b>	<b>9,235</b>	<b>10,518</b>	Capex	(870)	1,051	(8,966)	(2,936)	(4,942)
Other income and gains	633	2,703	1,756	1,533	1,751	Associates/JV	(1,174)	(4,993)	(1,832)	(3,000)	(5,000)
Distribution expenses	(433)	(532)	(645)	(723)	(833)	Other	0	0	0	0	0
Administrative expenses	(937)	(1,314)	(1,844)	(1,445)	(1,543)	<b>Net cash from investing</b>	<b>(2,043)</b>	<b>(3,943)</b>	<b>(10,799)</b>	<b>(5,936)</b>	<b>(9,942)</b>
Other expenses	(502)	(2)	(115)	(129)	(154)	Equity raised	0	0	0	0	0
<b>Operating profit</b>	<b>2,782</b>	<b>3,307</b>	<b>7,521</b>	<b>8,471</b>	<b>9,738</b>	Change of Debts	26,139	19,166	10,418	6,800	4,100
Finance expenses	(330)	(1,070)	(2,058)	(2,308)	(2,446)	Dividend paid	(1,093)	(1,156)	(1,988)	(2,209)	(2,429)
Associates/JV	1,898	1,440	3,049	2,557	2,250	Other	(74)	1,546	0	0	0
Exceptional	1,205	1,715	3,055	0	0	<b>Net cash from financing</b>	<b>24,972</b>	<b>19,556</b>	<b>8,430</b>	<b>4,591</b>	<b>1,671</b>
<b>Pre-tax profit</b>	<b>5,555</b>	<b>5,391</b>	<b>11,567</b>	<b>8,720</b>	<b>9,543</b>	Net change in cash	13,459	13,341	4,765	1,644	2,046
Profits tax	(1,950)	(1,236)	(2,995)	(2,610)	(3,110)	Cash at the beginning	25,771	39,199	52,578	57,359	59,020
Minority interest	15	(119)	(250)	(330)	(391)	Exchange difference	(31)	38	17	17	17
Perpetual	0	0	0	0	0	<b>Cash at the end</b>	<b>39,199</b>	<b>52,578</b>	<b>57,359</b>	<b>59,020</b>	<b>61,083</b>
<b>Net profit</b>	<b>3,620</b>	<b>4,035</b>	<b>8,322</b>	<b>5,780</b>	<b>6,042</b>	Pledged deposit	1,268	4,099	3,070	3,070	3,070
<b>Core profit</b>	<b>3,523</b>	<b>3,812</b>	<b>4,872</b>	<b>5,780</b>	<b>6,042</b>	Cash at BS	40,467	56,677	60,429	62,090	64,153

Balance sheet						Key ratios					
YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E	YE Dec 31	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Non-current assets</b>	<b>53,207</b>	<b>63,761</b>	<b>74,380</b>	<b>80,180</b>	<b>89,900</b>	<b>Sales mix (%)</b>					
Fixed asset	4,174	5,351	6,080	6,200	6,800	Property sales	90.4	81.1	91.8	91.7	92.0
Investment properties	13,719	17,491	25,500	28,000	32,000	Rental	2.0	5.1	2.9	3.0	3.0
Associates/JV	32,832	38,168	40,000	43,000	48,000	Hotel	3.7	6.3	2.4	2.2	2.0
Intangible assets	0	0	0	0	0	Property management	3.9	7.6	3.0	3.1	3.0
Other non-current assets	2,483	2,752	2,800	2,980	3,100	<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Current assets</b>	<b>81,738</b>	<b>120,776</b>	<b>130,849</b>	<b>140,610</b>	<b>147,073</b>	<b>Profit &amp; loss ratios (%)</b>					
Cash	40,467	56,677	60,429	62,090	64,153	Gross margin	34.8	32.8	36.3	35.8	34.1
Account receivable	3,499	7,364	9,200	9,800	10,200	Pre-tax margin	24.1	44.2	32.6	32.8	31.6
Inventories	37,449	56,222	60,500	68,000	72,000	Net margin	31.4	54.0	36.1	22.4	19.6
Other current assets	323	513	720	720	720	Effective tax rate	35.1	22.9	25.9	29.9	32.6
<b>Current liabilities</b>	<b>49,407</b>	<b>89,909</b>	<b>89,800</b>	<b>96,400</b>	<b>105,700</b>	<b>Balance sheet ratios</b>					
Borrowings	3,741	17,364	13,200	15,000	16,100	Current ratio (x)	1.7	1.3	1.5	1.5	1.4
Trade and other payables	2,644	4,077	5,600	6,600	7,300	Receivable day	110.6	359.5	145.7	138.6	120.6
Contract liabilities	8,455	21,729	25,000	28,000	35,000	Payable day	83.6	199.0	88.7	93.4	86.3
Deferred taxation	6,638	6,852	8,000	8,800	9,300	Inventory day	1816.9	4082.8	1504.4	1498.0	1292.0
Other current liabilities	27,929	39,887	38,000	38,000	38,000	Net gearing ratio (%)	67.9	64.8	73.0	78.9	77.0
<b>Non-current liabilities</b>	<b>57,292</b>	<b>62,068</b>	<b>77,402</b>	<b>82,682</b>	<b>85,882</b>	<b>Returns (%)</b>					
Borrowings	55,905	60,418	75,000	80,000	83,000	ROE	13.1	13.6	23.0	14.5	13.9
Other non-current liabilities	1,387	1,649	2,402	2,682	2,882	ROA	2.7	2.2	4.1	2.6	2.5
<b>Shareholders' equity</b>	<b>27,607</b>	<b>29,567</b>	<b>36,207</b>	<b>39,778</b>	<b>43,391</b>	<b>Per share data</b>					
Minority interest	638	2,993	1,820	1,930	2,000	EPS (RMB)	1.17	1.28	2.64	1.83	1.92
Perpetual bond	0	0	0	0	0	DPS (RMB)	0.41	0.56	0.70	0.77	0.80
Total equity	28,246	32,561	38,027	41,708	45,391	BVPS (RMB)	8.75	9.32	11.41	12.53	13.67

Source: Company data, CMBIS estimates

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