

Sinic Holdings (2103 HK)

Rising developer in YRD and GBA

- **Core earnings largely beats our expectation.** Revenue from property development increased by 220% to RMB26.8bn in FY19, driving the total revenue up 221% to RMB27.0bn. Due to the product mix of recognized projects, overall gross margin decreased from 37.3% in FY18 to 29.6% in FY19. On the other hand, effective tax rate decreased from 67.8% in FY18 to 48.5% in FY19, and minorities deduction also decreased significantly from 25.5% to 2.8%. Thus, core earnings was up 485% to RMB1,853mn. Final dividend was RMB0.13 per share, representing 25% of core profit payout. Earnings is 27% above our forecast, given that the revenue from property development is 20% above our forecast and minority deduction is 85% less than our forecast.
- **20% growth target.** In 2019, the Company achieved RMB91.4bn contracted sales, up 29% YoY. Attributable sales amounted to RMB45.1bn with 3.45mn sq m GFA sold, up 30% and 26% YoY, respectively. Among the RMB45.1bn attri. sales, 53%/24%/11% came from Jiangxi/GBA/YRD. Sales contribution from GBA and YRD has increased significantly during the past two years. Sinic sets FY20 attri sales target at 20% growth, which is equivalent to RMB54.1bn. Attri. saleable resources in FY20 amounted to RMB106.4bn, indicating target sell through at 51%.
- **More emphasize on YRD and GBA.** By end-FY19, total attri. land bank amounted to 15.09mn sq m, of which 33.1%, 17.3% and 32.5%, are in Jiangxi, YRD and GBA. While Sinic is keeping its leading position in Jiangxi, YRD and GBA market are playing more important role in the Company's development strategy. We expect over 50% of sales will come from these two regions. In fact, among the RMB106.4bn saleable resources, 24%, 22% and 28% are in Jiangxi, YRD and GBA.
- **Raise TP and maintain BUY rating.** We raise FY20/21 earnings forecast by 4.9%/2.0% to RMB2,872/3,668mn. We derive our end-FY20 NAV forecast at HK\$10.08 per share. Given 50% discount, we raise our TP from HK\$4.83 to HK\$5.02. **Maintain BUY.**

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	8,416	26,985	35,680	46,789	58,346
YoY growth (%)	60.6	220.7	32.2	31.1	24.7
Net income (RMB mn)	414	1,958	2,872	3,688	4,249
EPS (RMB)	0.14	0.64	0.80	1.03	1.19
YoY growth (%)	n.a.	n.a.	26.2	28.4	15.2
P/E (x)	n.a.	5.7	4.5	3.5	3.0
P/B (x)	n.a.	1.6	1.3	1.0	0.8
Yield (%)	n.a.	3.6	5.5	7.1	8.2
ROE (%)	9.7	24.0	27.8	28.2	26.1
Net gearing (%)	237.9	67.0	70.1	68.9	66.4

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price **HK\$5.02**
 (Previous TP: **HK\$4.83**)
 Up/Downside **+19.2%**
 Current Price **HK\$4.21**

China Property Sector

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Stock Data

Mkt Cap (HK\$ mn)	15,030
Avg 3 mths t/o (HK\$ mn)	10.55
52w High/Low (HK\$)	4.55/3.6
Total Issued Shares (mn)	3,570

Source: Bloomberg

Shareholding Structure

Zhang Yuanlin	83.19%
Free float	16.81%

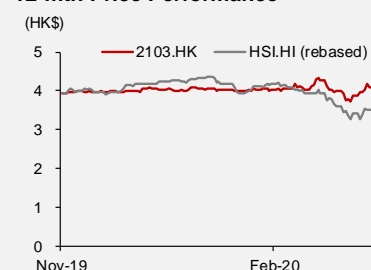
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	4.2%	15.4%
3-mth	4.0%	24.1%
6-mth	n.a	n.a
12-mth	n.a	n.a

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Figure 1: FY19 results

RMB mn	FY19	FY18	YoY
Revenue	26,985	8,416	221%
Sale of properties	26,807	8,389	220%
Others	178	26	576%
Cost of sales	(18,986)	(5,273)	260%
Gross profit	7,999	3,143	154%
GPM	29.6%	37.3%	-7.7ppt
Other income and gain	153	112	37%
Selling and marketing expenses	(1,077)	(658)	64%
Administrative Expenses	(569)	(430)	32%
Other operating expenses	(27)	(46)	-41%
EBIT	6,479	2,121	206%
Share from JCE	102	39	158%
Finance costs	(456)	(426)	7%
Exceptional	140	129	8%
PROFIT BEFORE TAX	6,264	1,863	236%
Income tax	(4,250)	(1,309)	225%
PROFIT FOR THE YEAR	2,014	555	263%
Non-controlling interests	(57)	(141)	-60%
Net profit to shareholders	1,958	414	373%
Core Net Profit	1,853	317	485%
Core NM	6.9%	3.8%	+3.1ppt

Source: Company data

Figure 2: Earnings revision

RMB mn	New		Old		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	35,680	46,789	40,681	55,001	-12.3%	-14.9%
Gross Profit	10,099	12,778	12,227	15,429	-17.4%	-17.2%
EBIT	6,455	8,373	8,019	10,175	-19.5%	-17.7%
Net profit	2,872	3,688	2,739	3,618	4.9%	2.0%
EPS (RMB)	0.80	1.03	0.77	1.01	4.9%	2.0%
Gross Margin	28.3%	27.3%	30.1%	28.1%	-1.8 ppt	-0.7 ppt
EBIT Margin	18.1%	17.9%	19.7%	18.5%	-1.6 ppt	-0.6 ppt
Net Margin	8.0%	7.9%	6.7%	6.6%	1.3 ppt	1.3 ppt

Source: CMBIS estimates

Figure 3: NAV table

	NAV (RMB mn)	NAV (HK\$)	NAV per share (HK\$)	% of NAV	Remark
Development properties	42,513	47,394	13.27	132.2%	DCF method with 10% WACC
Investment properties	1,784	1,988	0.56	5.5%	10% cap rate
GAV	44,296	49,383	13.83	137.7%	
Less: Net debt	(12,134)	(13,527)	(3.79)	-37.7%	
NAV	32,162	35,855	10.04	100%	

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	8,416	26,985	35,680	46,789	58,346
Sale of properties	8,389	26,807	35,448	46,487	57,954
Others	26	178	232	301	392
Cost of sales	(5,273)	(18,986)	(25,580)	(34,011)	(42,984)
Gross profit	3,143	7,999	10,099	12,778	15,362
Other income and gain	112	153	135	173	180
Selling & marketing expenses	(658)	(1,077)	(2,319)	(2,901)	(3,617)
Administrative expenses	(430)	(569)	(1,427)	(1,638)	(2,042)
Other operating expenses	(46)	(27)	(33)	(39)	(47)
EBIT	2,121	6,479	6,455	8,373	9,835
Share from JCE	39	102	122	147	176
Finance costs	(426)	(456)	(512)	(560)	(604)
Exceptional	129	140	-	-	-
PROFIT BEFORE TAX	1,863	6,264	6,065	7,959	9,407
Income tax	(1,309)	(4,250)	(2,944)	(3,861)	(4,686)
PROFIT FOR THE YEAR	555	2,014	3,122	4,098	4,722
Non-controlling interests	(141)	(57)	(250)	(410)	(472)
Net profit to shareholders	414	1,958	2,872	3,688	4,249

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Current assets	67,887	77,864	82,503	86,980	90,840
Properties inventory	47,655	51,790	53,268	53,332	51,446
Amount due from	5,112	4,796	4,796	4,796	4,796
Cash and cash equivalents	7,084	10,559	13,714	18,118	23,855
Others	8,037	10,718	10,725	10,734	10,743
Non-current assets	9,720	18,360	22,641	27,947	33,281
PP&E	114	91	101	111	121
Investment properties	1,153	1,751	1,901	2,051	2,201
Investment in JCEs	4,574	13,225	17,347	22,493	27,669
Others	3,879	3,293	3,292	3,291	3,290
Total assets	77,608	96,224	105,144	114,926	124,122
Current liabilities	59,549	66,260	69,791	72,815	74,052
Trade and other payables	3,142	5,457	5,116	6,802	8,597
Contracted liabilities	40,196	34,231	35,774	34,317	30,406
Amount due to	1,400	5,957	5,957	5,957	5,957
ST loan	9,225	11,645	13,974	16,769	20,123
Others	5,586	8,969	8,969	8,969	8,969
Non-current liabilities	12,998	15,068	18,053	21,636	25,935
LT loan	12,878	14,928	17,913	21,496	25,795
Others	120	140	140	140	140
Total liabilities	72,547	81,328	87,844	94,451	99,987
Equity to shareholders	4,244	8,167	10,321	13,087	16,274
Non-controlling interests	817	6,729	6,978	7,388	7,860
Total equity	5,060	14,896	17,300	20,475	24,135

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E
Profit before tax	1,863	6,264	6,065	7,959	9,407
D&A	20	21	21	21	21
Change in working capital	1,673	(5,311)	(282)	156	(240)
Others	(1,831)	(4,516)	(3,066)	(4,008)	(4,861)
Operating cash flows	1,725	(3,542)	2,738	4,129	4,327
Capex & Investment, net	(220)	(180)	(180)	(180)	(180)
Associated companies	(961)	(3,500)	(4,000)	(5,000)	(5,000)
Others	(139)	-	-	-	-
Investing cash flows	(1,320)	(3,680)	(4,180)	(5,180)	(5,180)
Equity raised	4	1,818	-	-	-
Change of debts	3,821	9,344	5,315	6,378	7,653
Others	-	(464)	(718)	(922)	(1,062)
Financing cash flows	3,825	10,698	4,597	5,455	6,591
Net change in cash	4,230	3,475	3,155	4,404	5,737
Cash at the beginning	2,877	7,084	10,559	13,714	18,118
Exchange difference	(24)	-	-	-	-
Cash at the end	7,084	10,559	13,714	18,118	23,855

Key ratios

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Property development	99.7	99.3	99.4	99.4	99.3
Others	0.3	0.7	0.6	0.6	0.7
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	37.3	29.6	28.3	27.3	26.3
EBIT margin	25.2	24.0	18.1	17.9	16.9
Net margin	4.9	7.3	8.0	7.9	7.3
Effective tax rate	70.2	67.8	48.5	48.5	49.8
Growth (%)					
Revenue	60.6	220.7	32.2	31.1	24.7
Gross profit	77.9	154.5	26.3	26.5	20.2
EBIT	98.1	205.5	-0.4	29.7	17.5
Net profit	335.2	373.4	46.7	28.4	15.2
Balance sheet ratios					
Current ratio (x)	1.1	1.2	1.2	1.2	1.2
Receivable turnover days	0	0	0	0	0
Payables turnover days	218	105	73	73	73
Inventory turnover days	3,299	996	760	572	437
Net debt / total equity ratio (%)	237.9	67.0	70.1	68.9	66.4
Returns (%)					
ROE	9.7	24.0	27.8	28.2	26.1
ROA	0.7	2.1	3.0	3.6	3.8
Per share					
EPS (RMB)	0.14	0.64	0.80	1.03	1.19
DPS (RMB)	n.a.	0.13	0.20	0.26	0.30
BVPS (RMB)	n.a.	2.3	2.9	3.7	4.6

Source: Company data, CMBIS estimates

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