

# Shimao (813 HK)

## Prepared for M&A

Shimao has rich war chest to face future challenges after HK\$4.6bn shares placement in Jan 2020. However, we trim our revenue forecast to reflect the recent outbreak. In addition, we also cut GM assumption and raise admin expense forecast. As a result, we reduce earnings forecast by 8.7%, 7.2% and 4.6% in 2019-21, respectively. We raise our end-20 NAV forecast from HK\$40.92 to HK\$45.06. TP is revised upward to HK\$31.55. Upgrade to BUY.

- **HK\$4.6bn shares placement.** Shimao underwent a top-up shares placement in Jan 2020. Through shares placement, 158mn new shares (representing 4.57% of enlarged capital) were issued at HK\$29.58 per share. Net proceeds of HK\$4.64bn would strengthen the financial position and help future M&A.
- **22% sales drop in 2M20.** In 2019 contracted sales amount and area increased by 48% to RMB260.1bn and 37% to 14.66mn sq m, respectively. The rosy results was attributable to the aggressive M&A so that saleable resources expanded substantially. However, sales momentum was deteriorated by COVID-19 in Jan and Feb 2020. Contracted sales amount and area dropped by 22% to RMB16.7bn and 23% to 0.96mn sq m in 2M20, respectively. Generally speaking, 1Q is the non-peak season. Shimao would launch around 15% of saleable resources in 1Q every year. If epidemic ends in Mar, impact to property sales would be limited.
- **Less than 5% of landbank in Hubei.** Shimao is a national property developer. As at Jun 2019, total land bank amounted to 64.07mn sq m that spread over 301 projects in 101 cities. Management revealed that land bank in Hubei accounted for less than 5% of total land bank and that in Wuhan only accounted for 1/3 of that in Hubei. Current situation in Wuhan or Hubei does not impose huge impact on the Company.
- **Upgrade to BUY.** After the shares placement, we believe Shimao has a healthy balance sheet to face coming challenges. However, revenue, especially in rental and hotel, will be adversely affected by COVID-19 outbreak. We trim our revenue forecast by 1.4% in 2020 and 1.7% in 2021. In addition, we cut GM assumption and raise admin expense forecast. As a result, we reduce earnings forecast by 8.7%, 7.2% and 4.6% in 2019-21, respectively. We raise our end-20 NAV forecast from HK\$40.92 to HK\$45.06. TP is revised upward to HK\$31.55. Recommendation is changed to BUY.

### Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	70,426	85,513	112,064	139,870	166,783
YoY growth (%)	18.8	21.4	31.1	24.8	19.2
Net income (RMB mn)	7,840	8,835	11,385	13,733	16,584
EPS (RMB)	2.32	2.65	3.42	3.98	4.79
YoY growth (%)	54.3	13.9	29.1	16.6	20.3
Consensus EPS (RMB)	N.A.	N.A.	3.46	4.23	4.85
P/E (x)	9.5	8.3	6.5	5.5	4.6
P/B (x)	1.3	1.3	1.1	1.0	0.8
Yield (%)	4.1	4.9	5.7	6.4	7.2
ROE (%)	13.6	21.4	17.1	17.2	18.1
Net gearing (%)	56.5	56.6	59.6	52.7	51.3

Source: Company data, Bloomberg, CMBIS estimates

### BUY (Up)

Target Price	HK\$31.55
(Previous TP	HK\$28.64)
Up/downside	+28.2%
Current Price	HK\$24.60

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#### Stock Data

Mkt Cap (HK\$ mn)	85,104
Avg 3 mths t/o (HK\$ mn)	318
52w High/Low (HK\$)	32.1/18.54
Total Issued Shares (mn)	3,460
Source: Bloomberg	

#### Shareholding Structure

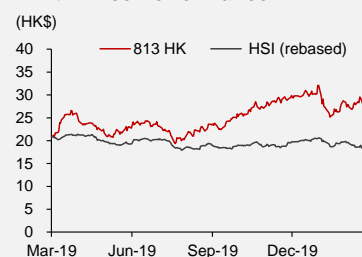
Hui Wing Mau	66.5%
Free float	33.5%
Source: HKEx	

#### Share Performance

	Absolute	Relative
1-mth	-8.5%	5.9%
3-mth	-9.6%	4.1%
6-mth	11.2%	26.6%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: PricewaterhouseCoopers

#### Related Reports

- 1) Price-in after 33% YTD share price surging – 8 Nov 2019
- 2) Aiming to have RMB300bn sales next year – 28 Aug 2019
- 3) HK projects to launch in coming year – 23 May 2019

**Figure 1: Shareholders structure after shares placing**

	Before completion of Placing and completion of Subscription		After completion of Placing but before completion of Subscription		After completion of Placing and completion of Subscription	
	No. of shares (mn)	(%)	No. of shares (mn)	(%)	No. of shares (mn)	(%)
Mr. Hui and his associates	2,299.2	69.64%	2,141.2	64.86%	2,299.2	66.46%
Other shareholders	1,002.3	30.36%	1,002.3	30.36%	1,002.3	28.97%
Placees	0.0	0.00%	158.0	4.79%	158.0	4.57%
Total	3,301.5	100%	3,301.5	100%	3,459.5	100%

Source: Company data

**Figure 2: Earnings revision**

RMB mn	New			Old			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	112,064	139,870	166,783	112,064	141,887	169,726	0.0%	-1.4%	-1.7%
Gross Profit	33,572	41,264	48,798	34,317	42,614	50,244	-2.2%	-3.2%	-2.9%
EBIT	27,072	33,332	39,345	28,153	34,843	40,611	-3.8%	-4.3%	-3.1%
Net profit	11,385	13,733	16,584	12,474	14,792	17,392	-8.7%	-7.2%	-4.6%
EPS (RMB)	3.42	3.98	4.79	3.75	4.44	5.22	-8.8%	-10.3%	-8.2%
Gross Margin	30.0%	29.5%	29.3%	30.6%	30.0%	29.6%	-0.7 ppt	-0.5 ppt	-0.3 ppt
EBIT Margin	24.2%	23.8%	23.6%	25.1%	24.6%	23.9%	-1 ppt	-0.7 ppt	-0.3 ppt
Net Margin	10.2%	9.8%	9.9%	11.1%	10.4%	10.2%	-1 ppt	-0.6 ppt	-0.3 ppt

Source: CMBIS estimates

**Figure 3: End-20 NAV estimate**

	NAV/share				Remark
	(Rmb mn)	(HK\$ m)	(HK\$)	% of NAV	
Northern China	27,473	30,627	8.85	19.6%	DCF method with 10.7% WACC
Zhejiang	12,249	13,655	3.95	8.8%	
Shandong	7,037	7,845	2.27	5.0%	
Jiangsu & Shanghai	32,598	36,341	10.50	23.3%	
Central China	12,140	13,534	3.91	8.7%	
Western	13,526	15,080	4.36	9.7%	
Fujian	63,758	71,079	20.55	45.6%	
Southern China	12,034	13,415	3.88	8.6%	
JV	2,688	2,997	0.87	1.9%	
Shanghai Shimao	18,098	20,176	5.83	12.9%	
Property management	11,148	10,000	2.89	6.4%	
GAV	212,748	237,178	68.56	152.1%	
Net debt	(67,805)	(75,591)	(21.85)	-48.5%	
Perpetual bond	(5,100)	(5,686)	(1.64)	-3.6%	
NAV	139,843	155,901	45.06	100.0%	

Source: CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Revenue</b>	<b>70,426</b>	<b>85,513</b>	<b>112,064</b>	<b>139,870</b>	<b>166,783</b>
Property sales	66,796	80,907	106,400	133,650	159,600
Rental	992	1,091	1,418	1,517	1,744
Hotel	1,708	1,908	2,309	2,424	2,788
Property management	646	895	1,083	1,321	1,559
Others	285	712	855	957	1,091
Cost of sales	(48,996)	(58,564)	(78,492)	(98,606)	(117,985)
<b>Gross profit</b>	<b>21,430</b>	<b>26,949</b>	<b>33,572</b>	<b>41,264</b>	<b>48,798</b>
Other income and gains	545	323	560	600	720
Distribution expenses	(1,462)	(2,023)	(2,241)	(2,797)	(3,502)
Administrative expenses	(2,990)	(3,430)	(4,258)	(5,035)	(5,837)
Other expenses	(524)	(520)	(560)	(699)	(834)
<b>Operating profit</b>	<b>16,999</b>	<b>21,298</b>	<b>27,072</b>	<b>33,332</b>	<b>39,345</b>
Finance expenses	1,328	(337)	(394)	(426)	(437)
Associates/JV	(315)	(233)	(280)	(380)	(380)
Exceptional	679	1,910	632	0	0
<b>Pre-tax profit</b>	<b>18,692</b>	<b>22,638</b>	<b>27,031</b>	<b>32,526</b>	<b>38,527</b>
Profits tax	(8,121)	(10,327)	(11,905)	(14,640)	(17,414)
Minority interest	(2,436)	(3,214)	(3,399)	(3,812)	(4,188)
Perpetual	(294)	(262)	(342)	(342)	(342)
<b>Net profit</b>	<b>7,840</b>	<b>8,835</b>	<b>11,385</b>	<b>13,733</b>	<b>16,584</b>
<b>Core profit</b>	<b>6,930</b>	<b>8,551</b>	<b>10,752</b>	<b>13,733</b>	<b>16,584</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>EBIT</b>	<b>16,999</b>	<b>21,298</b>	<b>27,072</b>	<b>33,332</b>	<b>39,345</b>
Depreciation and amortization	665	664	676	696	714
Change in working capital	2,641	(7,180)	(21,051)	(15,400)	(16,200)
Income tax paid	(6,133)	(6,042)	(12,297)	(14,640)	(17,414)
Others	(2,694)	(6,530)	(3,308)	3,543	(2,016)
<b>Net cash from operating</b>	<b>11,479</b>	<b>2,210</b>	<b>(8,908)</b>	<b>7,531</b>	<b>4,429</b>
Capex	(8,305)	(2,768)	(289)	(704)	(786)
Associates/JV	(17,655)	(2,989)	(1,146)	(1,627)	(2,927)
Other	2,954	(452)	1,917	250	550
<b>Net cash from investing</b>	<b>(23,005)</b>	<b>(6,208)</b>	<b>481</b>	<b>(2,081)</b>	<b>(3,163)</b>
Equity raised	(65)	(1,647)	4,160	0	0
Change of Debts	22,590	17,996	2,868	2,700	3,600
Dividend paid	(2,542)	(3,373)	(3,888)	(4,492)	(5,203)
Other	746	6,135	(125)	(300)	(400)
<b>Net cash from financing</b>	<b>20,728</b>	<b>19,111</b>	<b>3,016</b>	<b>(2,092)</b>	<b>(2,003)</b>
Net change in cash	9,202	15,113	(5,411)	3,358	(736)
Cash at the beginning	19,359	28,537	43,688	38,253	41,587
Exchange difference	(24)	38	(24)	(24)	(24)
<b>Cash at the end</b>	<b>28,537</b>	<b>43,688</b>	<b>38,253</b>	<b>41,587</b>	<b>40,827</b>
Pledged deposit	4,469	5,888	5,942	5,942	5,942
Cash at BS	33,007	49,577	44,195	47,529	46,769

### Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Non-current assets</b>	<b>85,027</b>	<b>88,748</b>	<b>88,541</b>	<b>90,391</b>	<b>92,841</b>
Fixed asset	21,690	22,543	23,200	23,800	24,000
Investment properties	34,036	36,891	37,200	38,000	39,300
Associates/JV	16,418	18,556	19,300	20,000	21,500
Intangible assets	1,841	1,841	1,841	1,841	1,841
Other non-current assets	11,042	8,917	7,000	6,750	6,200
<b>Current assets</b>	<b>222,531</b>	<b>288,849</b>	<b>309,695</b>	<b>334,649</b>	<b>354,769</b>
Cash	33,007	49,577	44,195	47,529	46,769
Account receivable	15,584	19,923	23,000	25,000	28,000
Inventories	155,160	199,011	222,000	241,000	258,000
Other current assets	18,781	20,338	20,500	21,120	22,000
<b>Current liabilities</b>	<b>135,477</b>	<b>187,895</b>	<b>196,400</b>	<b>208,000</b>	<b>217,100</b>
Borrowings	18,326	31,306	30,000	31,200	33,300
Trade and other payables	33,524	50,585	55,600	61,200	65,000
Contract liabilities	34,117	47,173	52,000	56,800	60,000
Deferred taxation	15,641	20,595	20,800	20,800	20,800
Other current liabilities	33,869	38,235	38,000	38,000	38,000
<b>Non-current liabilities</b>	<b>75,335</b>	<b>84,422</b>	<b>88,000</b>	<b>89,500</b>	<b>91,000</b>
Borrowings	69,309	77,825	82,000	83,500	85,000
Other non-current liabilities	6,025	6,596	6,000	6,000	6,000
<b>Shareholders' equity</b>	<b>57,635</b>	<b>59,234</b>	<b>66,735</b>	<b>80,039</b>	<b>91,410</b>
Minority interest	34,912	40,946	42,000	42,400	43,000
Perpetual bond	4,200	5,100	5,100	5,100	5,100
Total equity	96,747	105,280	113,835	127,539	139,510

### Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Sales mix (%)</b>					
Property sales	94.8	94.6	94.9	95.6	95.7
Rental	1.4	1.3	1.3	1.1	1.0
Hotel	2.4	2.2	2.1	1.7	1.7
Property management	0.9	1.0	1.0	0.9	0.9
Others	0.4	0.8	0.8	0.7	0.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	30.4	31.5	30.0	29.5	29.3
Pre-tax margin	24.1	24.9	24.2	23.8	23.6
Net margin	11.1	10.3	10.2	9.8	9.9
Effective tax rate	43.4	45.6	44.0	45.0	45.2
<b>Balance sheet ratios</b>					
Current ratio (x)	1.6	1.5	1.6	1.6	1.6
Receivable day	80.8	85.0	74.9	65.2	61.3
Payable day	173.7	215.9	181.1	159.7	142.3
Inventory day	1155.9	1240.3	1032.3	892.1	798.2
Net gearing ratio (%)	56.5	56.6	59.6	52.7	51.3
<b>Returns (%)</b>					
ROE	13.6	14.9	17.1	17.2	18.1
ROA	2.5	2.3	2.9	3.2	3.7
<b>Per share data</b>					
EPS (RMB)	2.32	2.65	3.42	3.98	4.79
DPS (HK\$)	1.00	1.20	1.40	1.58	1.78
BVPS (RMB)	17.02	17.49	20.21	23.14	26.42

Source: Company data, CMBIS estimates

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