

Poly Property Development (6049 HK)

Utilizing the benefits of Parent Group

- 49% earnings growth in FY19.** Driven by increased business scale, Poly PD recorded a revenue of RMB5,967mn in FY19, up 41% YoY. Overall gross margin was stable at 20.3% (FY18: 20.1%). Net profit grew 49.3% to RMB491mn, representing net margin of 9.8%. Net profit was 4% below our forecast of RMB511mn, mainly due to the growth of PM segment revenue which was below our expectation (est. 54% vs. act. 32%).
- Robust PM business.** By end-FY19, Poly PD had a contracted GFA of 498mn sq m, and a managed GFA of 287mn sq m, an YoY increase of 137mn sq m and 96mn sq m, respectively. The Company now covers 170 cities across 29 provinces. Poly PD has been actively expanding to third parties market. Amid the 498mn sq m contracted GFA, 210mn sq m are attributed to the Parent Company, Poly Development (600048 CH, BUY), and 288 mn sq m are attributed to third parties. Public PM is the key niche market to Poly PD. Poly PD utilizes the benefit of SOE and Poly Group background in acquiring public projects. In public PM market, SOEs like Poly PD and COPH (2669 HK BUY) have clear advantage over other non-SOE PM companies. Amid 287mn sq m managed GFA, 139mn sq m are public projects (48% of managed GFA).
- Huge potential in VAS.** The Company's VAS-to-non-homeowners mainly comprises of pre-delivery services, which account for 81% of the segment revenue. Pre-delivery services mainly assist with developers' sales and marketing activities at property sales venues and display units. The Parent Company, Poly Development is one of the largest developers in the market with RMB461.8bn sales in FY19. We believe Poly PD could discover more business opportunities with the Parent Company other than pre-delivery services. Community VAS grew 85% to RMB1,154mn in FY19, accounting for 19.5% of total revenue and 39% of total gross profit. Poly Development is a large tie 1/core tier 2 cities focus developer. Thus, Poly PD has a strong foothold in these developed regions in which community VAS can enjoy a bigger market and stronger spending power of customers.
- Strong cash position, Maintain BUY.** Poly PD successfully raised HK\$4.7bn during the IPO in Dec 2019. By end-FY19, the Company had RMB6.5bn cash on hand, approx. 21% of mkt cap. These cash could bring opportunities including M&A, investment in new community VAS, setting up JVs with local government in mixed ownership reform and innovative business, etc., making sure its leading position in market. Furthermore, a big investment, for example a large M&A deal, can excite the market, creating a stock price catalyst. We raise our earnings forecast for FY20/21E by 1.9%/6.3% to RMB724mn/RMB947mn. We maintain our TP unchanged and **Maintain BUY**.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	4,229	5,967	8,333	10,559	13,009
YoY growth (%)	30.5	41.1	39.7	26.7	23.2
Net income (RMB mn)	328	491	724	947	1,195
EPS (HK\$)	N.A.	0.89	1.31	1.71	2.16
YoY growth (%)	N.A.	N.A.	47.6	30.7	26.3
Consensus EPS (RMB)	N.A.	N.A.	1.34	1.84	2.59
P/E (x)	N.A.	64.5	43.7	33.4	26.5
P/B (x)	N.A.	6.4	5.8	5.2	4.5
Yield (%)	N.A.	0.5	0.7	0.9	1.1
ROE (%)	50.5	9.7	13.0	15.2	16.9
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$75.70
(Previous TP)	HK\$75.70)
Up/Downside	+20.2%
Current Price	HK\$63.00

China Property Service Sector

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Stock Data

Mkt Cap (HK\$ mn)	34,860
Avg 3 mths t/o (HK\$ mn)	143.81
52w High/Low (HK\$)	71.45/40.8
Total Issued Shares (mn)	553

Source: Bloomberg

Shareholding Structure

Poly Development	72.3%
Free float	27.7%

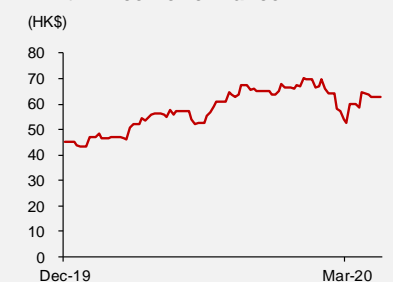
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-5.2%	5.5%
3-mth	30.6%	57.5%
6-mth	N.A.	N.A.
12-mth	N.A.	N.A.

Source: Bloomberg

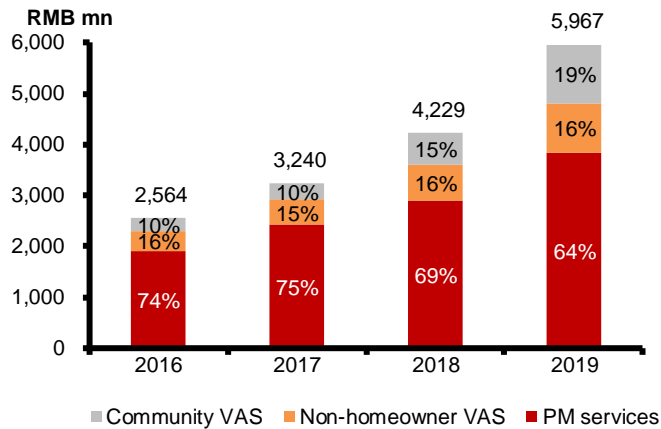
12-mth Price Performance



Source: Bloomberg

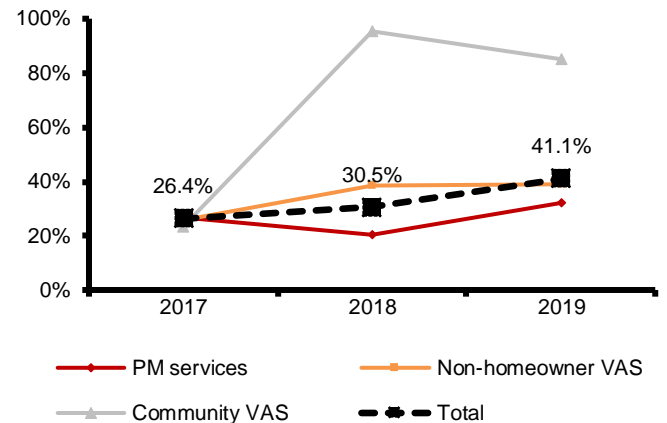
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Figure 1: Revenue



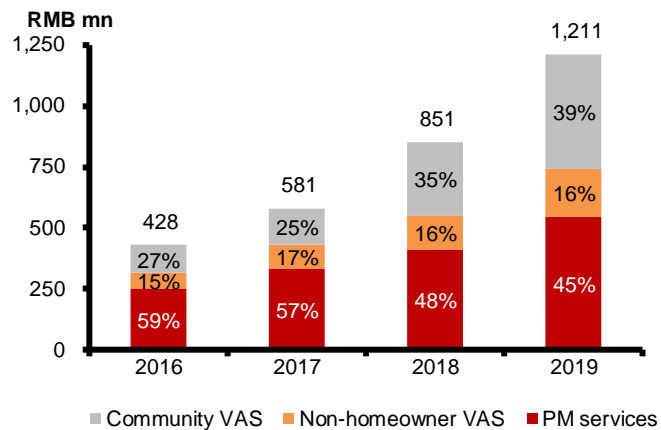
Source: Company data

Figure 2: Revenue growth



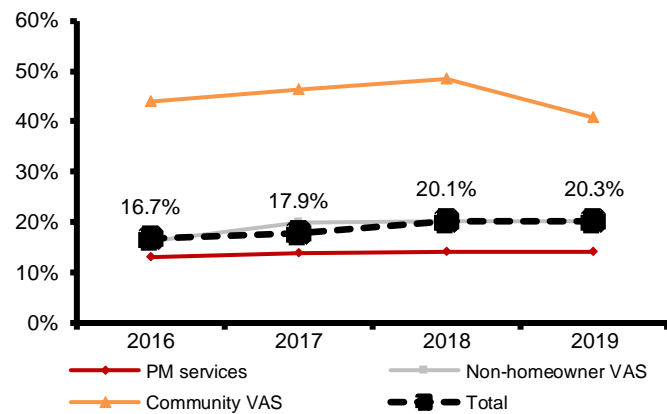
Source: Company data

Figure 3: Gross profit



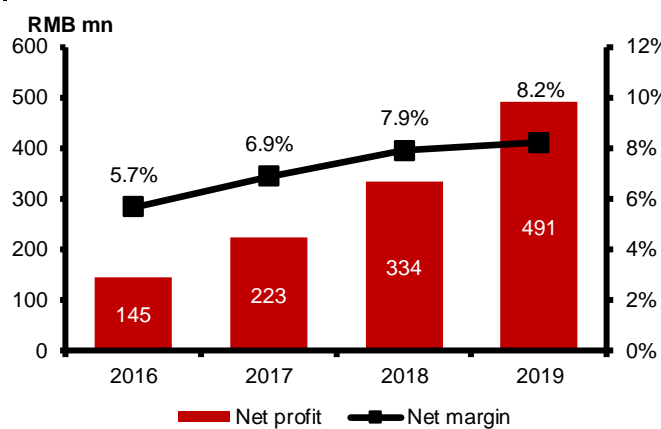
Source: Company data

Figure 4: Gross margin



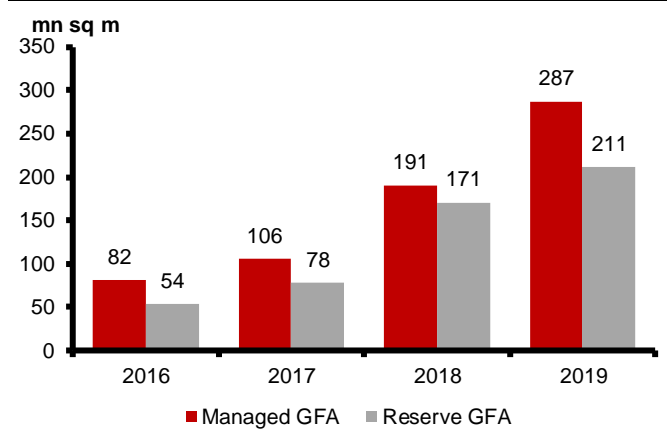
Source: Company data

Figure 5: Net profit



Source: Company data

Figure 6: GFA



Source: Company data

Figure 7: Earnings revision

RMB mn	New		Old		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	8,333	10,559	8,015	9,662	4.0%	9.3%
Gross Profit	1,762	2,277	1,692	2,083	4.2%	9.4%
EBIT	1,002	1,313	979	1,227	2.4%	7.0%
Net profit	724	947	711	890	1.9%	6.3%
EPS (RMB)	1.31	1.71	1.28	1.61	1.9%	6.3%
Gross Margin	21.1%	21.6%	21.1%	21.6%	0ppts	0ppts
EBIT Margin	12.0%	12.4%	12.2%	12.7%	-0.2ppts	-0.3ppts
Net Margin	8.7%	9.0%	8.9%	9.2%	-0.2ppts	-0.2ppts

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Turnover	4,229	5,967	8,333	10,559	13,009
Property management	2,910	3,844	5,217	6,560	8,074
VAS to non-property owners	697	969	1,269	1,598	1,934
Community VAS	623	1,154	1,847	2,401	3,001
Cost of sales	(3,378)	(4,756)	(6,571)	(8,282)	(10,157)
Gross Profit	851	1,211	1,762	2,277	2,852
Other income	24	59	25	30	35
Administrative expenses	(415)	(574)	(783)	(993)	(1,223)
Other expenses	(4)	(1)	(2)	(2)	(3)
EBIT	456	695	1,002	1,313	1,662
Share from JCE	5	16	16	18	18
Finance cost, net	(1)	(1)	(1)	(1)	(1)
Exceptional	3	(25)	-	-	-
Pre-tax Profit	463	685	1,017	1,330	1,679
Income tax	(127)	(182)	(275)	(359)	(453)
PROFIT FOR THE YEAR	336	503	743	971	1,226
Non-controlling interest	(8)	(13)	(19)	(24)	(31)
Net Profit	328	491	724	947	1,195

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY21E
Profit before tax	463	685	1,017	1,330	1,679
D&A	27	20	20	20	20
Chg in working capital	74	(115)	(76)	(72)	(79)
Others	(131)	(16)	(291)	(377)	(471)
Net cash from operating	433	574	670	901	1,149
FA Capex & Inv, net	8	(25)	(27)	(27)	(27)
Associated companies	(31)	-	-	-	-
Others	-	-	-	-	-
Net cash from investing	(23)	(25)	(27)	(27)	(27)
Equity raised	-	4,314	-	-	-
Chg of debts	-	-	-	-	-
Others	(210)	(166)	(217)	(284)	(359)
Net cash from financing	(210)	4,148	(217)	(284)	(359)
Net change in cash	199	4,697	426	590	763
Cash at the beginning	1,597	1,794	6,491	6,917	7,507
Exchange difference	-	-	-	-	-
Cash at the end	1,796	6,491	6,917	7,507	8,270

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Property management	68.8	64.4	62.6	62.1	62.1
VAS to non-property owners	16.5	16.2	15.2	15.1	14.9
Community VAS	14.7	19.3	22.2	22.7	23.1
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	20.1	20.3	21.1	21.6	21.9
EBIT margin	10.8	11.6	12.0	12.4	12.8
Net margin	7.8	8.2	8.7	9.0	9.2
Effective tax rate	27.4	26.6	27.0	27.0	27.0
Growth (%)					
Revenue	30.5	41.1	39.7	26.7	23.2
Gross profit	46.6	42.2	45.5	29.3	25.3
EBIT	58.8	52.3	44.3	31.0	26.6
Net profit	49.7	49.3	47.6	30.7	26.3
Balance sheet ratios					
Current ratio (x)	2.1	2.0	2.0	2.0	3.0
Receivable turnover days	17	24	24	24	24
Payables turnover days	21	19	19	19	19
Inventory turnover days	7	4	4	4	4
Net debt / total equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	50.5	9.7	13.0	15.2	16.9
ROA	13.2	6.6	9.1	10.8	12.3
Per share					
EPS (RMB)	n.a	0.89	1.31	1.71	2.16
DPS (RMB)	n.a	0.30	0.39	0.51	0.65
BVPS (RMB)	n.a	8.96	9.88	11.07	12.58

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	255	268	291	316	341
PPE	91	99	104	109	114
Intangible assets	99	96	98	100	102
Others	65	73	89	107	125
Current assets	2,297	7,303	7,902	8,655	9,597
Inventories	66	46	64	81	99
Trade and other receivables	196	391	547	693	853
Cash and cash equivalents	1,812	6,509	6,935	7,525	8,288
Others	224	357	357	357	357
Total assets	2,552	7,571	8,193	8,971	9,938
Current liabilities	1,831	2,424	2,521	2,612	2,712
Trade and other payables	1,081	1,434	1,530	1,621	1,721
Contracted liabilities	704	3	3	3	3
Others	45	988	988	988	988
Non-current liabilities	29	25	25	25	25
Deferred income tax	13	13	13	13	13
Others	15	12	12	12	12
Total liabilities	1,859	2,449	2,545	2,637	2,737
Equity to shareholders	650	5,055	5,562	6,225	7,061
Non-controlling interests	43	67	85	110	140
Total Equity	693	5,122	5,648	6,334	7,202

Source: Company data, CMBIS estimates

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