

Shimao (813 HK)

Giant aircraft takes off

Revenue and net profit gained by 14.1% to RMB64.6bn and 3.1% to RMB5.27bn in 1H20, respectively. Spin-off of Shimao Services is on the way and expected to be completed this year. We raise TP to HK\$44.94. Maintain BUY.

- **Interim core profit gained 5%.** Revenue and net profit gained by 14.1% to RMB64.6bn and 3.1% to RMB5.27bn in 1H20, respectively. Top-line growth was driven by 16.6% increase of delivery GFA to 3.95mn sq m. However, net finance cost increased 3.2x to RMB714mn in 1H20 due to FX loss. Core earnings increased by 4.7% to RMB5.56bn in the period. Interim dividend increased from HK\$0.6 in 1H19 to HK\$0.7 (including special dividend HK\$0.1) in 1H20.
- **New business model of “Giant Aircraft Strategy”.** Diversification would enhance return and reduce risk. Shimao kicked off a “Giant Aircraft Strategy” business model in 2020. Property development business is main body, commercial properties operation, hotel operation, property management and finance are solid wings while investments in advanced technology, medical treatment, education, elderly care and culture are key empenage. The Company introduced two investors to Shimao Services and recorded RMB600mn gain for existing shares sales. Then, HK\$0.1 special dividend was declared in the period.
- **Contracted sales up 10% in 1H20.** Contracted sales upped 10.1% to RMB110.5bn in 1H20. Shimao will launch RMB400bn properties for sales in 2H20 in order to accomplish its RMB300bn sales target in 2020. In 1H20, Shimao acquired 12.32mn sq m land bank. As of Jun 2020, total attributable land bank amounted to 51.86mn sq m in 423 projects in 135 cities.
- **Shimao Services on listing application.** Shimao Services filed A1 application proof for IPO on HKEx in Jun 2020. According to China Index Academy, Shimao Services was ranked 12th in 2019. As of 20 Jun 2020, contracted GFA was 124.4mn sq m covering 495 properties projects. We expect listing will be completed in 2020 and create value to shareholders.
- **Raise TP to HK\$44.94.** Net gearing ratio stood comfortable level of 57.8% as at Jun 2020. Looking forward, Shimao aims at 20-30% sales growth and 20%+ core earnings growth in 2020-24. This would be an encouraging signal. We raise end-20 NAV forecast from HK\$50.46 to HK\$59.92 after new land bank and raise Shimao Services valuation to HK\$25bn. As a result, we raise TP from HK\$37.85 to HK\$44.94, representing 25% discount to NAV.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	85,513	111,517	142,281	169,660	196,407
YoY growth (%)	21.4	30.4	27.6	19.2	15.8
Net income (RMB mn)	8,835	10,898	12,978	15,507	18,250
EPS (RMB)	2.65	3.31	3.71	4.38	5.16
YoY growth (%)	13.9	25.1	12.0	18.2	17.7
Consensus EPS (RMB)	N.A.	N.A.	3.87	4.59	5.41
P/E (x)	12.7	10.2	9.1	7.7	6.5
P/B (x)	1.9	1.7	1.4	1.3	1.1
Yield (%)	3.2	3.9	4.2	4.7	4.7
ROE (%)	21.4	16.4	16.1	17.1	17.6
Net gearing (%)	56.6	57.4	53.5	58.2	56.7

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$44.94
(Previous TP)	HK\$37.85
Up/downside	+19.8%
Current Price	HK\$37.50

China Property Sector

Samson Man, CFA

(852) 3900 0853

samsonman@cmbi.com.hk

Bowen Li

(852) 3657 6239

bowenli@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	132,664
Avg 3 mths t/o (HK\$ mn)	194
52w High/Low (HK\$)	37.45/20.3
Total Issued Shares (mn)	3,538

Source: Bloomberg

Shareholding Structure

Hui Wing Mau	65.0%
Free float	35.0%

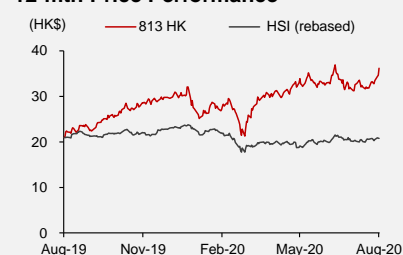
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	9.0%	5.6%
3-mth	5.2%	-5.3%
6-mth	27.9%	34.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

Related Reports

1. A series of good news – 21 May 2020
2. Expansion through M&A – 31 Mar 2020
3. Prepare for M&A – 16 Mar 2020
4. Price-in after 33% YTD share price surging – 8 Nov 2019

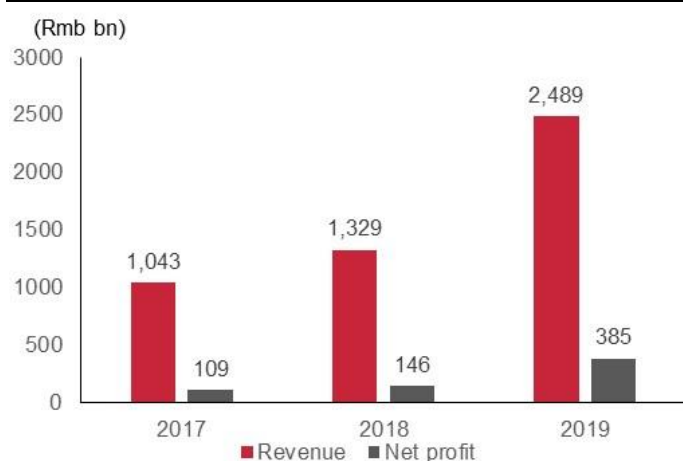
Figure 1: 2020 interim results

	1H20 (Rmb mn)	1H19 (Rmb mn)	Change (%)	Remark
Turnover	64,553	56,564	14.1%	
-Property development	61,466	53,236	15.5%	Delivery GFA increased 16.6% to 3.95mn sq m
-Hotel	453	996	-54.5%	Affected by COVID-19
-Commercial properties operation	734	722	1.7%	
-Property management	1,900	1,609	18.0%	
Cost of Sales	(45,041)	(39,544)	13.9%	
Gross Profit	19,512	17,020	14.6%	Gross margin stayed at 30.2% in 1H20
Other income	352	104	237.4%	
Distribution Cost	(1,507)	(1,031)	46.1%	
Administrative Expenses	(2,659)	(2,313)	15.0%	
Other Expenses	(384)	(234)	63.9%	
EBIT	15,314	13,546	13.0%	
Interest Expense	(714)	(170)	320.9%	Increase in FX loss
Associated	54	16	239.1%	
Revaluation gain of investment properties	309	632	-51.2%	
Pre-tax Profit	14,963	14,025	6.7%	
Taxation	(6,961)	(6,454)	7.8%	Effective tax rate increased from 46.0% in 1H19 to 46.5% in 1H20
Profit after Tax	8,002	7,570	5.7%	
Minorities	(2,736)	(2,464)	11.1%	
Net Profit	5,266	5,106	3.1%	Interim dividend of HK\$0.7 including HK\$0.1 special dividend in 1H20
Core Profit	5,558	5,309	4.7%	

Source: Company data, CMBIS

Figure 2: Great aircraft strategy business model

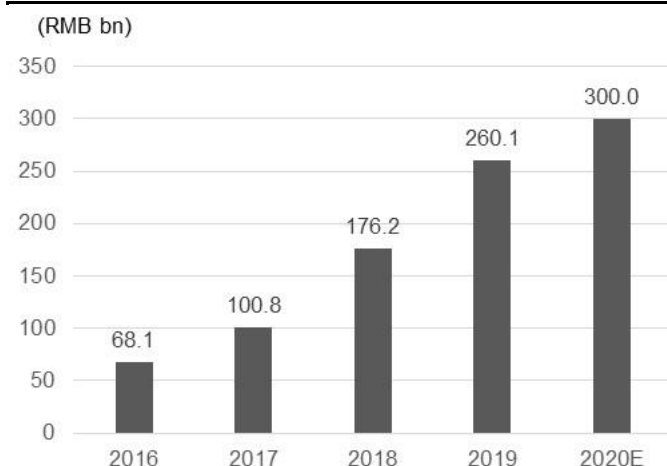
Source: Company data

Figure 3: Revenue and net profit of Shimao Services

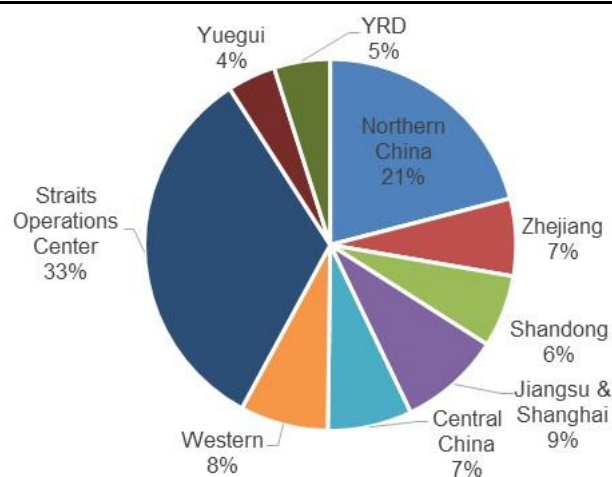
Source: Company data, CMBIS

Figure 4: Contract and managed GFA of Shimao Services

Source: Company data, CMBIS

Figure 5: Contracted sales amount

Source: Company data, CMBIS

Figure 6: Attributable land bank

Source: Company data, CMBIS

Figure 7: Earnings revision

(RMB mn)	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	142,281	169,660	196,407	142,281	169,660	196,407	0.0%	0.0%	0.0%
Gross Profit	41,451	49,028	56,734	41,451	49,028	56,734	0.0%	0.0%	0.0%
EBIT	33,372	39,399	45,473	33,372	39,399	45,473	0.0%	0.0%	0.0%
Net profit	12,978	15,507	18,250	12,731	15,483	18,204	1.9%	0.2%	0.3%
EPS (RMB)	3.71	4.38	5.16	3.64	4.38	5.15	1.9%	0.2%	0.3%
Gross Margin	29.1%	28.9%	28.9%	29.1%	28.9%	28.9%	0 ppt	0 ppt	0 ppt
EBIT Margin	23.5%	23.2%	23.2%	23.5%	23.2%	23.2%	0 ppt	0 ppt	0 ppt
Net Margin	9.1%	9.1%	9.3%	8.9%	9.1%	9.3%	0.2 ppt	0 ppt	0 ppt

Source: CMBIS estimates

Figure 8: CMBIS estimates vs consensus

(RMB mn)	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	142,281	169,660	196,407	141,303	175,983	209,377	0.7%	-3.6%	-6.2%
Gross Profit	41,451	49,028	56,734	42,145	51,871	61,289	-1.6%	-5.5%	-7.4%
EBIT	33,372	39,399	45,473	33,653	40,383	47,467	-0.8%	-2.4%	-4.2%
Net profit	12,978	15,507	18,250	13,459	16,114	19,517	-3.6%	-3.8%	-6.5%
EPS (RMB)	3.71	4.38	5.16	3.87	4.59	5.41	-4.0%	-4.5%	-4.7%
Gross Margin	29.1%	28.9%	28.9%	29.8%	29.5%	29.3%	-0.7 ppt	-0.6 ppt	-0.4 ppt
EBIT Margin	23.5%	23.2%	23.2%	23.8%	22.9%	22.7%	-0.4 ppt	0.3 ppt	0.5 ppt
Net Margin	9.1%	9.1%	9.3%	9.5%	9.2%	9.3%	-0.4 ppt	0 ppt	0 ppt

Source: CMBIS estimates

Figure 9: End-20 NAV estimate

			NAV/share		Remark
	(Rmb mn)	(HK\$ m)	(HK\$)	% of NAV	
Northern China	33,916	37,810	10.69	17.8%	DCF method with 9.0% WACC
Zhejiang	17,316	19,304	5.46	9.1%	
Shandong	15,906	17,733	5.01	8.4%	
Jiangsu & Shanghai	34,495	38,456	10.87	18.1%	
Central China	13,722	15,298	4.32	7.2%	
Western	12,043	13,426	3.80	6.3%	
Straits Operations Center	84,315	93,996	26.57	44.3%	
Yuegui	8,082	9,010	2.55	4.3%	
YRD	14,074	15,690	4.44	7.4%	
JV	0	0	0.00	0.0%	
Shanghai Shimao	0	0	0.00	0.0%	
Property management	27,871	25,000	7.07	11.8%	
GAV	261,739	291,794	82.48	137.7%	
Net debt	(66,932)	(74,618)	(21.09)	-35.2%	
Perpetual bond	(4,665)	(5,201)	(1.47)	-2.5%	
NAV	190,142	211,975	59.92	100.0%	

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	85,513	111,517	142,281	169,660	196,407
Property sales	80,907	105,291	133,650	159,600	184,680
Rental	1,091	1,428	1,528	1,757	2,021
Hotel	1,908	2,097	2,265	2,605	2,995
Property mgnt. & others	1,607	2,701	4,838	5,698	6,711
Cost of sales	(58,564)	(77,386)	(100,830)	(120,632)	(139,673)
Gross profit	26,949	34,131	41,451	49,028	56,734
Other income and gains	323	281	600	720	720
Distribution expenses	(2,023)	(2,825)	(2,846)	(3,563)	(4,125)
Administrative expenses	(3,430)	(4,381)	(5,122)	(5,938)	(6,874)
Other expenses	(520)	(338)	(711)	(848)	(982)
Operating profit	21,298	26,868	33,372	39,399	45,473
Finance expenses	(337)	(285)	(421)	(502)	(575)
Associates/JV	(233)	97	(380)	(380)	(380)
Exceptional	1,910	2,335	309	0	0
Pre-tax profit	22,638	29,015	32,880	38,516	44,518
Profits tax	(10,327)	(12,635)	(15,047)	(17,796)	(20,581)
Minority interest	(3,214)	(5,141)	(4,514)	(4,871)	(5,345)
Perpetual	(262)	(342)	(342)	(342)	(342)
Net profit	8,835	10,898	12,978	15,507	18,250
Core profit	8,835	10,478	12,669	15,507	18,250

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
EBIT	21,298	26,868	33,372	39,399	45,473
Depreciation and amortization	664	955	724	750	783
Change in working capital	(7,180)	3,892	(56,606)	(16,400)	(15,200)
Income tax paid	(6,042)	(7,565)	(11,996)	(17,596)	(20,381)
Others	(6,530)	5,330	23,053	5,251	2,946
Net cash from operating	2,210	29,480	(11,453)	11,404	13,621
Capex	(2,768)	(3,262)	(4,072)	(5,750)	(4,767)
Associates/JV	(2,989)	(12,891)	(5,197)	(6,427)	(6,727)
Other	(452)	6	4,398	550	0
Net cash from investing	(6,208)	(16,146)	(4,871)	(11,627)	(11,494)
Equity raised	(1,647)	0	6,233	0	0
Change of Debts	17,996	7,582	8,945	14,500	6,000
Dividend paid	(3,373)	(5,783)	(4,644)	(5,300)	(5,649)
Other	6,135	(6,479)	6,479	(8,000)	(2,000)
Net cash from financing	19,111	(4,680)	17,013	1,200	(1,649)
Net change in cash	15,113	8,653	689	977	478
Cash at the beginning	28,537	43,688	52,357	53,022	53,975
Exchange difference	38	16	(24)	(24)	(24)
Cash at the end	43,688	52,357	53,022	53,975	54,430
Pledged deposit	5,888	7,266	7,614	7,614	7,614
Cash at BS	49,577	59,623	60,636	61,589	62,043

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	88,748	117,528	119,050	125,900	133,250
Fixed asset	22,543	24,141	25,000	26,100	26,850
Investment properties	36,891	56,063	60,000	65,400	70,200
Associates/JV	18,556	24,167	25,300	26,200	28,000
Intangible assets	1,841	2,009	2,000	2,000	2,000
Other non-current assets	8,917	11,148	6,750	6,200	6,200
Current assets	288,849	353,926	417,356	442,189	467,843
Cash	49,577	59,623	60,636	61,589	62,043
Account receivable	19,923	18,733	21,400	24,800	28,000
Inventories	199,011	248,119	308,000	328,000	350,000
Other current assets	20,338	27,451	27,320	27,800	27,800
Current liabilities	187,895	257,350	288,000	298,000	314,500
Borrowings	31,306	36,782	35,000	40,000	43,500
Trade and other payables	50,585	79,058	85,000	92,000	102,000
Contract liabilities	47,173	74,652	92,000	98,000	103,000
Deferred taxation	20,595	25,216	28,000	28,000	28,000
Other current liabilities	38,235	41,642	48,000	40,000	38,000
Non-current liabilities	84,422	97,399	108,365	118,072	120,775
Borrowings	77,825	89,773	100,500	110,000	112,500
Other non-current liabilities	6,596	7,626	7,865	8,072	8,275
Shareholders' equity	59,234	66,255	80,650	90,826	103,427
Minority interest	40,946	45,784	54,000	55,800	57,000
Perpetual bond	5,100	4,665	5,391	5,391	5,391
Total equity	105,280	116,704	140,041	152,017	165,818

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Property sales	94.6	94.4	93.9	94.1	94.0
Rental	1.3	1.3	1.1	1.0	1.0
Hotel	2.2	1.9	1.6	1.5	1.5
Property mgnt. & others	1.9	2.4	3.4	3.4	3.4
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	31.5	30.6	29.1	28.9	28.9
Pre-tax margin	24.9	24.1	23.5	23.2	23.2
Net margin	10.3	9.8	9.1	9.1	9.3
Effective tax rate	45.6	43.5	45.8	46.2	46.2
Balance sheet ratios					
Current ratio (x)	1.5	1.4	1.4	1.5	1.5
Receivable day	85.0	61.3	54.9	53.4	52.0
Payable day	215.9	258.8	218.1	197.9	189.6
Inventory day	1240.3	1170.3	1114.9	992.4	914.6
Net gearing ratio (%)	56.6	57.4	53.5	58.2	56.7
Returns (%)					
ROE	14.9	16.4	16.1	17.1	17.6
ROA	2.3	2.3	2.4	2.7	3.0
Per share data					
EPS (RMB)	2.65	3.31	3.71	4.38	5.16
DPS (HK\$)	1.20	1.45	1.58	1.78	1.78
BVPS (RMB)	17.49	20.07	23.31	26.25	29.90

Source: Company data, CMBIS estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIS Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIS

OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.