

Dexin China (2019 HK)

Aim for RMB100bn scale with earnings bounce

We continue to like Dexin's strategy to deepen its penetration in Hangzhou/YRD regions and expand its scale at a reasonable pace (15% YoY). The decline in 2020 core earnings was merely due to the strategical change to fast asset turnover and scale expansion in 2017/18 and we expect an improving earnings in 2021-22E (11/15% YoY) driven by top line growth and limited downside in GPM/MI. With stable balance sheet (yellow category, liability/asset ratio at 75%) and improving attributable ratio, Dexin may continue to deliver 15/20% sales/attributable sales CAGR in 2020-23E. Maintain Buy rating.

- **Attributable sales growth CAGR to reach 20% in 2020-23E.** Riding on the long-term development of Hangzhou (29% of its land bank)/YRD region (79%) and abundant RMB240bn sellable resources, management targets 15% sales CAGR in 2020-23E reaching RMB100bn. In particular, the target for 2021E is RMB73bn (+15% YoY) by assuming 60% sell-through rate. However, with 2020 sell-through rate of 80% and strong sales sentiment in 1Q21 (+300% sales growth in 2M21), we believe it may reach RMB80bn in 2021E setting a good base for RMB100bn. More importantly, management is trying to improve attributable ratio from 40% in 2020 to 50% in 2023 given that the attributable % of current land bank is >50%. This would be the industry trend as the scale goes up. Therefore, we estimate attributable sales growth to reach 20% CAGR.
- **We estimate earnings to bounce back from 2020:** The decline in 2020 core earnings was mainly due to GPM erosion and MI. For GPM erosion, the 25% level is in line with the industry and we think the downside is limited to 20-23%, as its 2017/2018 low-margin projects have been partly digested. For MI, the 2020 ratio was already 47%, close to Dexin's consolidated ratio. We think the future growing fuel would be the top line growth which management guided RMB20bn in 2021E (+25% YoY) and RMB28bn in 2022E (+40% YoY).
- **2020 results recap:** Dexin delivered a strong revenue growth of 65% YoY to RMB15.7bn thanks to the fast-growing sales in 2017/18. However GP Margin declined to 25% in 2020 vs. 32%, which is in line with the industry trend. Due to positive costs saving, SG&A/Revenue ratio dropped by 5ppts YoY to 8% but this has been offset by declining JV profits. Core earnings reached RMB1.0bn in 2020 (-25% YoY) mainly due to higher MI ratio to 47% (vs. 31% in 2019). Company declared a full-year dividend of RMB0.11/share in 2020.
- **Maintain Buy:** We revise up its 2021/22E revenue by 18/42% to reflect its fast sales growth but adjust down its GPM to 20-23% level. Therefore, we expect 2021/22E core earnings to grow 11/15% YoY, respectively. TP unchanged.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	8,212	9,513	15,669	19,322	27,388
YoY growth (%)	0.0	15.8	64.7	23.3	41.7
Net income (RMB mn)	1,453	1,556	1,193	1,124	1,297
EPS (RMB)	0.71	0.60	0.37	0.42	0.48
YoY growth (%)	N.A.	-16.4	-37.4	11.2	15.3
Consensus EPS (RMB)	0.71	0.60	0.37	0.45	0.50
P/E (x)	3.5	4.1	6.6	5.9	5.2
P/B (x)	2.0	1.3	1.1	1.0	0.9
Yield (%)	3.1	6.0	4.7	6.4	7.2
ROE (%)	58.8	31.0	20.4	16.9	17.2
Net gearing (%)	67.5	68.6	75.0	66.0	60.4

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$3.56
(Previous TP	HK\$3.56)
Up/Downside	+19.5%
Current Price	HK\$2.98

China Property Sector

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Stock Data

Mkt Cap (HK\$ mn)	8,050
Avg 3 mths t/o (HK\$ mn)	3.30
52w High/Low (HK\$)	3.44/ 2.73
Total Issued Shares (mn)	2,701

Source: Bloomberg

Shareholding Structure

Hu Yiping	69.9%
Free float	30.1%

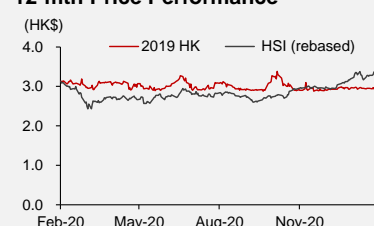
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	0.3%	-5.0%
3-mth	3.1%	-10.6%
6-mth	-3.6%	-19.5%
12-mth	-1.3%	-9.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Figure 1: 2020 results summary

RMB mn	2019	2020	YoY	CMBI Est	Difference
Revenue	9,513	15,669	64.7%	13,683	15%
Gross profit	3,059	3,902	28%	3,459	13%
Net profit	1,557	1,193	-23%	1,559	-24%
Core net profit	1,352	1,011	-25%	1,559	-35%
Core EPS (RMB)	0.52	0.37	-28%	0.58	-35%
DPS (RMB)	0.18	0.11	-39%	0.14	-21%
Dividend payout ratio	34.5%	29.5%	-5 ppt	20.2%	9.3 ppt
Margin	2019	2020	YoY	CMBI Est	Difference
GP Margin	32.2%	24.9%	-7.3 ppt	25.3%	-0.4 ppt
Net Margin	16.4%	7.6%	-8.8 ppt	11.4%	-3.8 ppt
Core net Margin	14.2%	6.4%	-7.8 ppt	11.4%	-4.9 ppt
Balance sheet	2019	2020	YoY	CMBI Est	Difference
Net gearing	69.0%	75.0%	6 ppt	75.2%	-0.2 ppt
Debt to asset (excl. presales)	73.0%	74.0%	1 ppt	1.4%	72.6 ppt
Cash/ST debt	1.44	1.40	-3%	1.40	0%

Source: Company data, CMBIS

Figure 2: Earnings revision

(RMB mn)	New		Old		Diff (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	19,322	27,388	16,436	19,308	17.6%	41.8%
Gross Profit	4,518	6,119	4,159	4,889	8.6%	25.2%
EBIT	2,716	3,510	2,633	3,075	3.1%	14.1%
Net profit	1,124	1,297	1,747	1,878	-35.7%	-31.0%
Gross Margin	23.4%	22.3%	25.3%	25.3%	-1.9 ppt	-3 ppt
EBIT Margin	14.1%	12.8%	16.0%	15.9%	-2 ppt	-3.1 ppt
Net Margin	5.8%	4.7%	10.6%	9.7%	-4.8 ppt	-5 ppt

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	8,212	9,513	15,669	19,322	27,388
Property development	8,171	9,446	15,550	19,170	27,200
Property investment	27	55	100	131	163
Hotel	14	12	18	22	25
Cost of sales	(5,089)	(6,454)	(11,767)	(14,804)	(21,269)
Gross profit	3,123	3,059	3,902	4,518	6,119
Other income and gains	94	171	323	130	130
Distribution expenses	(294)	(458)	(458)	(869)	(1,232)
Administrative expenses	(452)	(721)	(747)	(1,063)	(1,506)
Other expenses	192	186	(27)	-	-
Operating profit	2,663	2,238	2,994	2,716	3,510
Finance expenses	(375)	(432)	(481)	(634)	(646)
Associates/JV	579	1,175	593	1,100	800
Exceptional	-	-	-	-	-
Pre-tax profit	2,867	2,981	3,105	3,181	3,664
Profits tax	(1,026)	(725)	(845)	(933)	(1,071)
After-tax profit	1,841	2,257	2,260	2,248	2,593
Minority interest	(388)	(700)	(1,068)	(1,124)	(1,297)
Perpetual	-	-	-	-	-
Net profit	1,453	1,556	1,193	1,124	1,297
Core profit	1,453	1,556	1,011	1,124	1,297

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Profit before tax	2,867	2,981	3,105	3,181	3,664
Depreciation and amortization	12	19	34	38	43
Change in working capital	(3,710)	(35)	(2,392)	(2,201)	(2,571)
Income tax paid	(250)	(418)	(845)	(933)	(1,071)
Others	(1,870)	(2,715)	-	-	-
Net cash from operating	(2,952)	(169)	(98)	86	65
Capex	(274)	(806)	(480)	(500)	(520)
Associates/JV	(721)	(1,672)	(1,500)	(1,000)	(1,000)
Other	3,453	(1,658)	(1,500)	(1,000)	(1,000)
Net cash from investing	2,457	(4,136)	(3,480)	(2,500)	(2,520)
Equity raised	-	1,429	-	-	-
Change of Debts	4,229	5,025	5,208	1,701	1,088
Dividend paid	(472)	(270)	(216)	(358)	(337)
Other	274	195	3,583	2,150	2,580
Net cash from financing	4,031	6,379	8,575	3,493	3,330
Net change in cash	3,536	2,073	4,997	1,079	876
Cash at the beginning	3,951	7,487	9,564	14,561	15,640
Exchange difference	-	4	-	-	-
Cash at the end	7,487	9,564	14,561	15,640	16,515
Pledged deposit	-	-	-	-	-
Cash at BS	7,487	9,564	14,561	15,640	16,515

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Non-current assets	4,830	8,091	8,310	8,768	9,283
Fixed asset	268	379	375	371	368
Investment properties	1,768	2,924	3,375	3,841	4,323
Associates/JV	0	0	0	0	0
Intangible assets	1	1	1	1	1
Other non-current assets	2,792	4,787	4,559	4,554	4,592
Current assets	44,780	59,196	73,100	80,404	90,161
Cash	7,488	9,570	14,561	15,640	16,515
Account receivable	2,703	3,513	5,596	6,901	9,781
Inventories	28,030	37,249	41,079	44,000	48,000
Other current assets	6,559	8,864	11,864	13,864	15,864
Current liabilities	38,039	45,902	54,233	58,309	65,247
Borrowings	5,355	5,540	6,094	6,399	6,719
Trade and other payables	2,668	4,324	7,844	9,870	14,179
Contract liabilities	20,921	27,628	27,628	27,628	27,628
Deferred taxation	969	1,242	1,242	1,242	1,242
Other current liabilities	8,126	7,168	11,424	13,171	15,479
Non-current liabilities	4,701	10,651	14,656	16,656	18,046
Borrowings	4,424	9,308	13,962	15,358	16,126
Other non-current liabilities	277	1,343	694	1,298	1,920
Shareholders' equity	2,473	5,013	5,848	6,635	7,543
Minority interest	4,395	5,721	6,674	7,572	8,608
Perpetual bond	0	0	0	0	0
Total equity	6,869	10,735	12,522	14,207	16,150

Key ratios

YE 31 Dec	FY18A	FY19A	FY20A	FY21E	FY22E
Sales mix (%)					
Property development	99.5	99.3	99.2	99.2	99.3
Property investment	0.3	0.6	0.6	0.7	0.6
Hotel	0.2	0.1	0.1	0.1	0.1
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	38.0	32.2	24.9	23.4	22.3
EBIT margin	32.4	23.5	19.1	14.1	12.8
Net margin	17.7	16.4	7.6	5.8	4.7
Effective tax rate	35.8	24.3	27.2	29.3	29.2
Balance sheet ratios					
Current ratio (x)	1.2	1.3	1.3	1.4	1.4
Receivable day	120.1	134.8	130.4	130.4	130.4
Payable day	191.4	244.5	243.3	243.3	243.3
Inventory day	2010.5	2106.7	1274.3	1084.8	823.7
Net gearing ratio (%)	67.5	68.6	75.0	66.0	60.4
Returns (%)					
ROE	58.8	31.0	20.4	16.9	17.2
ROA	2.9	2.3	1.5	1.3	1.3
Per share data					
EPS (RMB)	0.71	0.60	0.37	0.42	0.48
DPS (RMB)	0.09	0.18	0.14	0.19	0.22
BVPS (RMB)	1.22	1.92	2.16	2.46	2.79

Source: Company data, CMBIS estimates

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