

Shimao (813 HK)

Expansion through M&A

Revenue and net profit surged 30.4% to RMB111.5bn and 23.3% to RMB10.9bn in 2019, respectively. Core profit in 2019 was 2.6% below our estimate. In 2020, Shimao sets full year sales target as RMB300bn. It plans to spin off property management (PM) and hotel businesses in coming two years. We forecast core profit to be RMB12.7bn, RMB15.5bn and RMB18.2bn in 2020-22, respectively. TP is revised upward to HK\$32.21, equivalent to 30% discount to NAV. Maintain BUY.

- Core profit inline.** Revenue and net profit jumped 30.4% to RMB111.5bn and 23.3% to RMB10.9bn in 2019, respectively. 20% increase in delivery GFA and 9% increase in recognized ASP drove the top-line growth. Gross margin slightly declined by 0.9ppts to 30.6% in 2019. Core profit grew by 22.5% to RMB10.5bn in 2019, 2.6% below our forecast. Full year dividend upped 21% to HK\$1.45, equivalent to 41% of payout ratio.
- RMB300bn sales target in 2020.** Shimao acquired many property projects in 2019. The Company will launch about RMB500bn saleable resources in 2020, of which 20% in first tier cities and 49% in second tier ones. Assuming 60% sales through rate, Shimao expects to achieve RMB300bn sales target in 2020. As at end-19, about RMB140bn of properties were pre-sold and unbooked that would provide one year earnings visibility.
- 65% of new land bank acquired by M&A.** Shimao acquired land bank aggressively in 2019. It acquired 115 plots of land with total GFA of 30.92mn sq m, of which 65% of new land were acquired through M&A. As at end-19, total attributable land bank amounted to 47.19mn sq m, which spread across 349 projects in 120 cities. Shimao estimates total value of land bank amounts to RMB1,300bn. Furthermore, another RMB400bn of land bank may be converted by urban redevelopment projects in the future.
- Raise TP to HK\$32.21.** Shimao plans to spin off PM and hotel businesses in coming two years. Contracted GFA of PM business was 100mn sq m as at end-19. Shimao expects to double it in 2020. Therefore, we estimate revenue from PM will rise 86% to RMB4.6bn in 2020. We forecast core profit to grow by a CAGR of 20.2% to RMB12.7bn, RMB15.5bn and RMB18.2bn in 2020-22, respectively. Furthermore, we raise our end-20 NAV forecast from HK\$45.06 to HK\$46.02. TP is revised upward to HK\$32.21. Recommendation is maintained as BUY.

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	12,723	15,467	18,188
EPS (RMB)	2.65	3.31	3.69	4.47	5.26
YoY growth (%)	13.9	25.1	11.5	21.1	17.6
Consensus EPS (RMB)	N.A.	3.46	4.23	4.85	5.85
P/E (x)	8.6	6.9	6.1	5.1	4.3
P/B (x)	1.3	1.1	1.0	0.9	0.8
Yield (%)	4.7	5.7	6.2	7.0	7.0
ROE (%)	21.4	16.4	16.2	17.4	18.0
Net gearing (%)	56.6	57.4	59.1	63.7	64.1

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price HK\$32.21
 (Previous TP) HK\$31.55
Up/downside +27.3%
Current Price HK\$25.30

China Property Sector

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Stock Data

Mkt Cap (HK\$ mn)	87525
Avg 3 mths t/o (HK\$ mn)	120
52w High/Low (HK\$)	32.1/18.54
Total Issued Shares (mn)	3,460
Source: Bloomberg	

Shareholding Structure

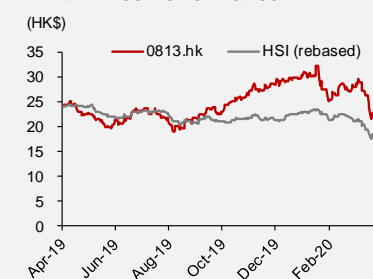
Hui Wing Mau	66.5%
Free float	33.5%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-9.3%	-11.3%
3-mth	-15.4%	-18.2%
6-mth	10.5%	-11.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

Related Reports

- Prepare for M&A – 16 Mar 2020
- Price-in after 33% YTD share price surging – 8 Nov 2019
- Aiming to have RMB300bn sales next year – 28 Aug 2019
- HK projects to launch in coming year – 23 May 2019

Figure 1: 2019 results

	FY18A (Rmb mn)	FY19A (Rmb mn)	Change (%)	FY19E (Rmb mn)	Diff (%)	Remark
Turnover	85,513	111,517	30.4%	112,064	-0.5%	
Property development	80,907	105,291	30.1%	106,400	-1.0%	Recognized GFA & ASP surged 19.8% & 8.6% in 2019
Property investment	1,091	1,428	30.9%	1,418	0.7%	Reopen of SH Shimao Festival City in 9/2018
Hotel	1,908	2,097	9.9%	2,309	-9.2%	
Property management & other	1,607	2,701	68.0%	1,938	39.4%	Contracted GFA reached 100m sq m at end-19
Cost of Sales	(58,564)	(77,386)	32.1%	(78,492)	-1.4%	
Gross Profit	26,949	34,131	26.6%	33,572	1.7%	GM dropped by 0.9ppts to 30.6% in 2019
Other operating income	323	281	-12.9%	560	-49.8%	
Distribution Cost	(2,023)	(2,825)	39.6%	(2,241)	26.0%	
Administrative Expenses	(3,430)	(4,381)	27.7%	(4,258)	2.9%	
Other Expenses	(520)	(338)	-35.1%	(560)	-39.7%	
EBIT	21,298	26,868	26.2%	27,072	-0.8%	
Net finance income	(337)	(285)	-15.5%	(394)	-27.6%	
Associated	(233)	97	-141.5%	(280)	N.A.	
Exceptional	1,910	2,335	22.2%	632	269.4%	Revaluation gain of investment properties
Pre-tax Profit	22,638	29,015	28.2%	27,031	7.3%	
Taxation	(10,327)	(12,635)	22.3%	(11,905)	6.1%	Effective tax rate narrowed by 2.1ppts to 43.5% in 2019
Profit after Tax	12,311	16,380	33.1%	15,126	8.3%	
Non-controlling interests	(3,476)	(5,482)	57.7%	(3,741)	46.6%	
Net Profit	8,835	10,898	23.3%	11,385	-8.0%	Full year dividend HK\$1.45, up 20.8% YoY
Core	8,551	10,478	22.5%	10,752	-2.6%	

Source: Company data, CMBIS estimates

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	142,281	169,660	196,407	139,870	166,783	N.A.	1.7%	1.7%	N.A.
Gross Profit	41,451	49,028	56,734	41,264	48,798	N.A.	0.5%	0.5%	N.A.
EBIT	33,372	39,399	45,473	33,332	39,345	N.A.	0.1%	0.1%	N.A.
Net profit	12,723	15,467	18,188	13,733	16,584	N.A.	-7.4%	-6.7%	N.A.
EPS (RMB)	3.69	4.47	5.26	3.98	4.79	N.A.	-7.2%	-6.7%	N.A.
Gross Margin	29.1%	28.9%	28.9%	29.5%	29.3%	N.A.	-0.4 ppt	-0.4 ppt	N.A.
EBIT Margin	23.5%	23.2%	23.2%	23.8%	23.6%	N.A.	-0.4 ppt	-0.4 ppt	N.A.
Net Margin	8.9%	9.1%	9.3%	9.8%	9.9%	N.A.	-0.9 ppt	-0.8 ppt	N.A.

Source: CMBIS estimates

Figure 3: End-20 NAV estimate

	NAV/share		(HK\$)	% of NAV	Remark
	(Rmb mn)	(HK\$ m)			
Northern China	27,473	30,628	8.85	19.2%	DCF method with 9.8% WACC
Zhejiang	12,880	14,360	4.15	9.0%	
Shandong	14,360	16,009	4.63	10.1%	
Jiangsu & Shanghai	28,295	31,544	9.12	19.8%	
Central China	10,330	11,517	3.33	7.2%	
Western	12,717	14,178	4.10	8.9%	
Straits Operations Cente	63,090	70,335	20.33	44.2%	
Yuegui	4,324	4,820	1.39	3.0%	
YRD	9,528	10,622	3.07	6.7%	
JV	2,779	3,098	0.90	1.9%	
Shanghai Shimao	17,474	19,480	5.63	12.2%	
Property management	11,148	10,000	2.89	6.3%	
GAV	214,399	239,018	69.09	150.1%	
Net debt	(66,932)	(74,618)	-21.57	-46.9%	
Perpetual bond	(4,665)	(5,201)	-1.50	-3.3%	
NAV	142,802	159,200	46.02	100.0%	
NAV per share		46.02			

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)	(442)	(555)	(656)
Associates/JV	(233)	97	(380)	(380)	(380)
Exceptional	1,910	2,335	0	0	0
Pre-tax profit	22,638	29,015	32,550	38,464	44,437
Profits tax	(10,327)	(12,635)	(14,971)	(17,784)	(20,563)
Minority interest	(3,214)	(5,141)	(4,514)	(4,871)	(5,345)
Perpetual	(262)	(342)	(342)	(342)	(342)
Net profit	8,835	10,898	12,723	15,467	18,188
Core profit	8,835	10,478	12,723	15,467	18,188

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19E	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)	(19,445)	(35,606)	(29,400)	(25,200)
Income tax paid	(6,042)	(7,078)	(16,720)	(17,784)	(20,563)
Others	(6,530)	39,576	8,979	10,012	6,062
Net cash from operating	2,210	40,876	(9,251)	2,977	6,555
Capex	(2,768)	(19,814)	(3,072)	(6,750)	(4,767)
Associates/JV	(2,989)	(24,751)	(997)	(5,927)	(6,227)
Other	(452)	(2,231)	4,398	550	0
Net cash from investing	(6,208)	(46,796)	329	(12,127)	(10,994)
Equity raised	(1,647)	4,160	0	0	0
Change of Debts	17,996	17,424	1,445	12,500	15,500
Dividend paid	(3,373)	(3,867)	(4,611)	(5,203)	(5,524)
Other	6,135	(3,104)	2,979	(700)	(1,300)
Net cash from financing	19,111	14,613	(188)	6,597	8,676
Net change in cash	15,113	8,693	(9,110)	(2,553)	4,238
Cash at the beginning	28,537	43,688	52,357	43,224	40,647
Exchange difference	38	(24)	(24)	(24)	(24)
Cash at the end	43,688	52,357	43,224	40,647	44,861
Pledged deposit	5,888	7,266	7,266	7,266	7,266
Cash at BS	49,577	59,623	50,490	47,913	52,127

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	88,748	117,528	114,850	121,200	128,050
Fixed asset	22,543	24,141	25,000	26,100	26,850
Investment properties	36,891	56,063	59,000	65,400	70,200
Associates/JV	18,556	24,167	22,100	21,500	22,800
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	362,710	387,713	423,427
Cash	49,577	59,623	50,490	47,913	52,127
Account receivable	19,923	18,733	21,400	24,800	28,000
Inventories	199,011	248,119	270,000	293,000	320,000
Other current assets	20,338	27,451	20,820	22,000	23,300
Current liabilities	187,895	257,350	247,500	257,100	271,000
Borrowings	31,306	36,782	35,000	40,000	43,500
Trade and other payables	50,585	79,058	68,000	65,000	70,000
Contract liabilities	47,173	74,652	81,500	89,100	94,500
Deferred taxation	20,595	25,216	25,000	25,000	25,000
Other current liabilities	38,235	41,642	38,000	38,000	38,000
Non-current liabilities	84,422	97,399	99,000	106,500	118,500
Borrowings	77,825	89,773	93,000	100,500	112,500
Other non-current liabilities	6,596	7,626	6,000	6,000	6,000
Shareholders' equity	59,234	66,255	78,395	88,648	101,312
Minority interest	40,946	45,784	48,000	52,000	56,000
Perpetual bond	5,100	4,665	4,665	4,665	4,665
Total equity	105,280	116,704	131,060	145,313	161,977

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	8.9	9.1	9.3
Effective tax rate	45.6	43.5	46.0	46.2	46.3
Balance sheet ratios					
Current ratio (x)	1.5	1.4	1.5	1.5	1.6
Receivable day	85.0	61.3	54.9	53.4	52.0
Payable day	215.9	258.8	174.4	139.8	130.1
Inventory day	1240.3	1170.3	977.4	886.5	836.2
Net gearing ratio (%)	56.6	57.4	59.1	63.7	64.1
Returns (%)					
ROE	14.9	16.4	16.2	17.4	18.0
ROA	2.3	2.3	2.7	3.0	3.3
Per share data					
EPS (RMB)	2.65	3.31	3.69	4.47	5.26
DPS (HK\$)	1.20	1.45	1.58	1.78	1.78
BVPS (RMB)	17.49	20.07	22.66	25.62	29.29

Source: Company data, CMBIS estimates

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