

Longfor (960 HK)

Transition leaving growth muted

We think Longfor's strategy shift into safety would continue to leave it lagging behind those SOE peers in 2023E. **On the DP side, the lack of effective land bank** (only 22.5mn sqm excl. Yantai and sold but unbooked GFA) would put sales outlook under pressure especially in 2023E (guided -3% YoY). Also management will not expand total debts for land acquisition which limits the sales upside in a recovery market. **On the IP side**, shopping mall business is also transitioning into an asset-light model (6 of 11 malls in 2023E) which may negatively impact rental growth momentum to 15-25% YoY in 2023-25E (vs. previous expectation of 30% CAGR). So that would put its growth muted, especially 2023E earnings at -9% YoY. We cut TP to HKD24.9/share and downgrade to Hold. It's currently trading at 0.8x PB, still at a premium over SOE players like COLI (0.5x).

■ **Lack of sellable resources would limit its sales outlook:** during the conference call, management guided RMB195bn+ sales target in 2023E based on RMB300bn sellable resources and 65% sell-through rate. This means a 3% YoY decline compared to RMB202bn in 2022. **We think the key drag is its declining quality of the land bank:** among its 40mn sqm of attributable land bank, there was 10mn sqm already sold but unbooked GFA (14.8*68% attributable ratio) and 7.5mn sqm in Yantai that has been very hard to sell since 2015. So the effective land bank was only 22.5mn sqm or RMB350bn attributable sellable resources which is at 2.7 years of 2022 sales. Also management confirms not to leverage up this year to acquire more lands so there is limited 2023E sales upside and beyond. We think it will put its revenue booking under pressure with -14% YoY in 2023E.

■ **Shopping mall: transition into asset-light model would slow down rental growth.** Among the 15 mall openings in 2022, 3 are via asset-light model. This number will double in 2023E to 6 or 55% of total number of mall openings. We think this would negatively impact the rental income growth from previous 30%+ CAGR to 15-25% in 2023-25E based on our estimates. In the medium term, this transition may even lower the probability of having C2-C5 contributing 50% of core earnings in 5 years.

■ **2022 earnings in-line...** Company delivered core profits of RMB22.5bn (+0.5% YoY) implying 5% YoY decline in 2H22. Total revenue increased by 12% YoY but GP margin decreased to 21.2% (-4ppt YoY), mainly dragged by DP business at 17.9% GPM. Thanks to cost saving, core NPM was only down 1ppt YoY to 9%. Dividend payout ratio was cut to 30%, in line with guidance and the full-year dividend was RMB1.13/share (6% dividend yield).

■ **...but 2023E profit outlook not promising:** Management guided a steady core earnings growth in the future. However, we think 2023E will be still under challenge as 1) DP revenue booking will be undermined by 30% YoY sales decline in 2022. This is reflected by the sharp decline in 2022 contract liability to RMB124bn (-36% YoY) and only RMB227bn sold but unbooked revenue (-28% YoY). 2) Rental growth from shopping mall would slow down given more than 50% of the mall openings are via asset-light model. 3) GPM is unlikely to improve given the bad property market in 2022. So all in all, we think 2023E profit would decline 9% YoY mainly on 10% YoY drop in revenue (-13% YoY decline in DP revenue and +25% YoY in rental income).

■ **Downgrade to Hold and Cut TP to HK\$24.9.** We use NAV model (65% discount) to derive TP of HK\$24.9 based on the effective land bank of 22.5mn sqm and attributable net margin of 11%. **Upside catalysts:** Sales beat; PM spin-off; **Downside catalysts:** placement.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	223,375	250,565	226,655	234,176	242,764
YoY growth (%)	21.0	12.2	-9.5	3.3	3.7
Net income (RMB mn)	23,854	24,362	20,598	22,997	25,495
EPS (RMB)	4.05	4.08	3.44	3.84	4.26
YoY growth (%)	18.7	0.9	-15.7	11.6	10.9
Consensus EPS (RMB)	NA	NA	4.05	4.50	4.09
P/E (x)	4.7	4.7	5.5	4.9	4.5
P/B (x)	0.9	0.8	0.8	0.6	0.5
Yield (%)	8.9	5.9	5.4	6.1	6.7
ROE (%)	19.1	17.1	13.4	12.9	11.1
Net gearing (%)	45.6	58.3	39.7	31.4	14.9

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Down)

Target Price	HK\$24.9
(Previous TP)	HK\$52.59
Up/Downside	14.9%
Current Price	HK\$21.85

China Property

Jeffrey ZENG
(852) 3916 3727
jeffreyzeng@cmbi.com.hk

Miao ZHANG
(852) 3761 8910
zhangmiao@cmbi.com.hk

Bella LI
(852) 3757 6202
bellali@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	73,702.8
Avg 3 mths t/o (HK\$ mn)	24.6
52w High/Low (HK\$)	43.15/10.00
Total Issued Shares (mn)	3373.1

Source: FactSet

Shareholding Structure

Charm Talent Intl Ltd	43.0%
Junson Development	22.0%

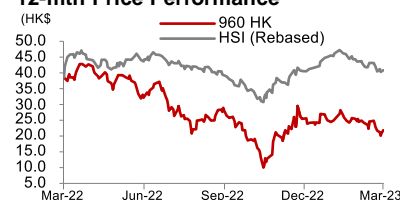
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-10.8%	-4.6%
3-mth	-15.3%	-15.6%
6-mth	-22.2%	-25.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Management guidance:

1. **Earnings guidance and dividend policy:** Management expects a steady core earnings growth in the future and guides 30% dividend payout ratio.
2. **2023E Market overview:** Management expects sales recovery to sustain in 2023E but with ups and downs. The divergence between high-tier and low-tier cities are still obvious. 2023E sales are very unlikely to go back to peak level in 2021 and Longfor will continue to focus on major 20 cities. Policy support is still necessary at a city level based on its communication with local governments.
3. **2023E sales target:** Longfor has prepared RMB300bn sellable resources with 65% sell-through rate. This would imply 10% sales YoY growth to reach RMB195bn.
4. **Sales ASP:** YTD Longfor has raised 1-3% city by city to mark to the current market.
5. **Leverage:** Longfor will not increase all total debts in 2023E so will rely on its C2-C5 businesses to drive the growth and profitability. In five years, management targets C2-C5 to contribute 50% net profits.
6. **Land acquisitions:** Longfor's 2022 land acquisitions were impacted by the lower-than-expected cash collection rate, so it was lagging behind. Longfor will be more proactive this year and match with the sales scale.
7. **US rate hike:** Longfor has hedged 98% of its interest rate exposure to USD yield. Also, it has enough support from domestic banks and financing industry that has driven its average borrowing cost to 4.1%. YTD banks continue to visit Longfor to show support for high-quality POEs so it targets to lower USD debt portion to 18% in 2023 from 23% in 2022.
8. **Placement:** Longfor has no plan to do placement as investors' confidence is not back. It will keep an eye on the market.
9. **C-REITs:** It is still targeting social housing and infrastructures so developers like Longfor are not the key beneficiary. There may be scope extension to include service apartment and shopping mall but the core for Longfor is to improve the asset turns.
10. **PM spin-off:** It is not the right time now.

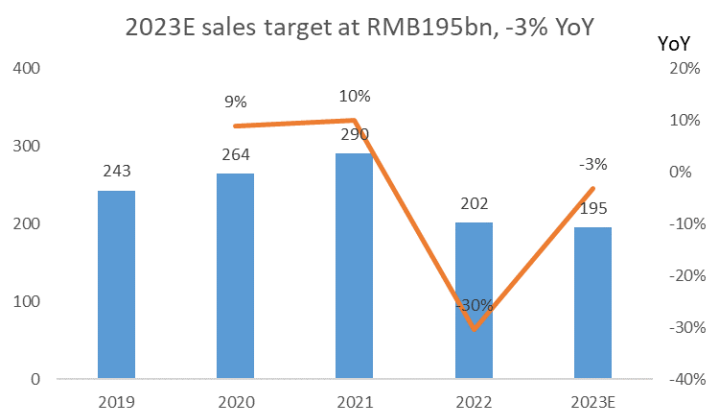
Figure 1: Longfor's FY22 earnings in line with market expectation

Longfor results summary			
RMB mn	2021	2022	YoY
Revenue	223,375	250,565	12%
- Property development	204,546	227,017	11%
- Rental	10,414	11,880	14%
- PM	8,416	11,668	39%
Gross profit	56,541	53,038	-6%
Net profit	23,854	24,362	2%
Core profit	22,438	22,542	0.5%
EPS (RMB)	4.05	4.08	1%
Core EPS (RMB)	3.81	3.78	-1%
DPS (RMB)	1.70	1.13	-34%
Dividend payout ratio	45%	30%	-14.8 ppt
GP Margin	25.3%	21.2%	-4.1 ppt
Net Margin	10.7%	9.7%	-1 ppt
Core Net Margin	10.0%	9.0%	-1 ppt
	FY21	FY22	
Net Gearing	46.7%	58.1%	
Debt to Asset (excl. presales)	67.4%	64.8%	
Cash / ST Debt	3.9 x	2.6 x	

Source: Company data, CMBIGM

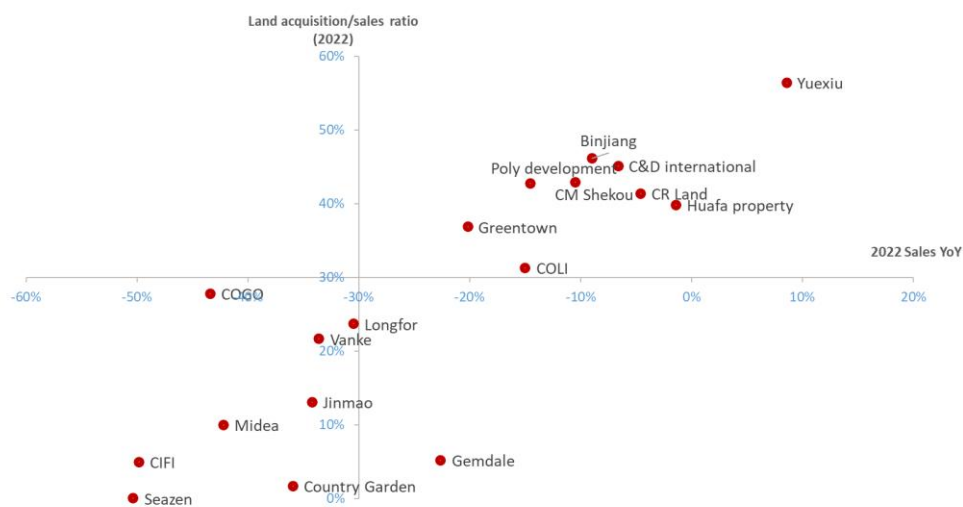
Development business still under pressure

1. Management expects 2023E contracted sales to reach RMB195bn (-3% YoY) based on RMB300bn sellable resources and 65% sell-through rate. We think this is below market expectation of positive growth.
2. However, this is not really a surprise as it has lagged behind major peers (mainly SOE) on land acquisitions in 2023E (Figure 3) at 25% land acquisition/sales ratio. Also management is not willing to leverage up its balance sheet so we do not expect land acquisitions to pick up strongly to drive high growth amid a still recovering market.
3. Its 7.5mn sqm of land bank in Yantai contributes 19% of total attributable land banks which are hard to sell. This will also drag its effective sellable resources.
4. We expect booking GPM to remain depressed in 2023E at 16% vs. 17.9% in 2022 reflecting the bad market in 2022. It may start to recover in 2024E and 2025E.

Figure 2: 2023E sales target at RMB195bn (-3% YoY)

Source: Company data, CMBIGM

Figure 3: Longfor's sales and land acquisitions lagged behind the industry in 2022 which may drag its sales recovery



Source: Company data, CMBIGM

Figure 4: there was 7.5mn sqm of attributable land bank in Yantai that has been hard to sell since 2015

分地区土储分布				LONGFOR 龙湖
地区	城市	建筑面积 (平米)	权益建筑面积 (平米)	
环渤海地区	北京	906,098	432,482	
	沈阳	1,976,070	1,180,596	
	青岛	2,004,732	1,282,924	
	烟台	7,512,535	7,512,535	
	济南	1,826,013	1,520,685	
	大连	86,445	67,194	
	天津	1,072,189	896,007	
	保定	520,667	520,667	
	石家庄	473,464	366,097	
	威海	100,910	70,637	
	太原	286,226	286,226	
	长春	1,269,502	909,561	
	唐山	321,750	160,875	
	晋中	79,511	79,511	
	小计	18,436,112	15,285,997	
西部地区	重庆	4,050,110	2,599,839	
	成都	2,723,792	1,875,068	
	西安	1,508,561	1,144,948	
	贵阳	2,528,363	1,454,321	
	昆明	1,368,314	1,280,501	
	咸阳	1,109,054	618,941	
	兰州	1,094,897	826,752	
	小计	14,383,091	9,800,370	

Source: Company data, CMBIGM

Figure 5: Yantai only sold 20mn sqm in 2022 with ASP drop 50% YoY

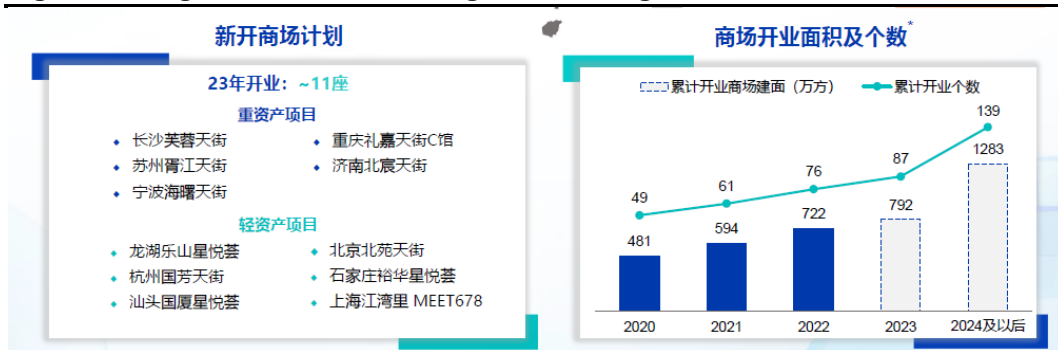
2022年分城市合约销售 (续)		LONGFOR 龙湖					
	城市	合约销售 (人民币, 百万)		合约面积 (万平米)		合约单价 (人民币元/平米)	
		2022年	2021年	2022年	2021年	2022年	2021年
34	南宁	1,243	1,181	11.0	10.7	11,301	10,997
35	泉州	1,178	3,642	9.2	33.4	12,801	10,909
36	兰州	1,154	1,360	11.4	11.6	10,123	11,736
37	绍兴	1,102	3,983	5.2	18.8	21,192	21,239
38	大连	1,086	2,873	9.2	19.4	11,809	14,816
39	烟台	1,019	1,018	20.1	9.6	5,068	10,590
40	厦门	906	4,097	5.6	14.9	16,173	27,408
41	佛山	905	1,424	6.1	9.0	14,839	15,871
42	湖州	883	371	5.5	1.8	16,047	20,450
43	南通	796	183	5.1	1.6	15,614	11,808
44	扬州	779	978	6.8	6.5	11,456	15,068
45	深圳	759	463	2.6	1.7	29,204	26,625
46	郑州	693	3,170	6.3	22.6	10,998	14,045
47	湛江	679	78	6.9	0.6	9,843	14,117
48	太原	659	963	7.4	9.6	8,907	10,074
49	威海	577	1,308	5.6	11.8	10,296	11,085
50	赣州	574	560	6.0	5.7	9,567	9,885
51	唐山	565	587	7.2	5.3	7,846	11,162
52	江门	444	578	6.4	6.7	6,934	8,632
53	三亚	434	1,230	2.2	5.0	19,723	24,586
54	金华	389	-	1.7	-	22,900	-
55	宁德	277	566	2.2	4.0	12,595	14,095
56	徐州	276	1	2.3	0.1	12,009	1,316
57	晋中	271	266	3.1	2.8	8,729	9,616
58	中山	241	547	2.3	3.8	10,470	14,430
59	珠海	206	1,671	2.7	7.6	7,611	22,074
60	盐城	204	413	0.9	1.9	22,844	21,687
61	嘉兴	143	1,367	4.1	13.4	3,483	10,234
62	茂名	142	86	2.9	1.3	4,897	6,518
63	肇庆	125	75	2.4	1.1	5,200	7,046
64	常德	122	471	2.8	7.4	4,339	6,358
65	其他	200	914	3.5	9.4	5,714	9,723
合计		201,588	290,090	1,304.7	1,708.9	15,451	16,975

Source: Company data, CMBIGM

Shopping mall transiting into asset light model

Among all 15 mall openings in 2022E, 3 of them are via asset-light model. The number of such model will double in 2023E to 6 or (55% of total number of mall openings in 2023E). This would have an impact on the rental income growth momentum from 30%+ CAGR to 15-25% in 2023-25E based on our estimates. Therefore, the earnings contribution from IP may slow down in 2023E and beyond.

Figure 6: Longfor malls are transiting into asset-light models



Source: Company data, CMBIGM

Earnings outlook

To reflect above, we forecasted 2023E revenue to decline 10% YoY reaching RMB226bn, mainly due to 13% decline YoY in DP business (2022 sales down 30% YoY) and 25% YoY growth in rental income. GPM may stay relatively stable YoY at 21% and thus core net profit is estimated to decline 10% due to top line pressure.

Figure 7: Latest forecast revision

(RMB mn)	FY23E	FY24E	FY25E	YoY		
				FY23E	FY24E	FY25E
Revenue	226,655	234,176	242,764	-9.5%	3.3%	3.7%
Gross Profit	46,983	51,509	56,206	-11.4%	9.6%	9.1%
Net profit	20,598	22,997	25,495	-8.6%	11.6%	10.9%
Gross Margin	21%	22%	23%	-0.4ppt	1.3ppt	1.2ppt
Net Margin	9.1%	9.8%	10.5%	-0.6ppt	+0.7ppt	+0.7ppt

Source: CMBIGM estimates

Downgrade to Hold and New TP of HKD24.9/share

Below shows our NAV calculation method using NAV discount of 65%. This would imply a target price of HKD24.9/share and it's equivalent to 6.3x 2023E PE and 0.9x PB. Longfor is currently trading at 5.5x 2023E PE and 0.8x PB, which is still at a premium over SOE players like COLI (0.5x PB)

Figure 8: NAV calculation
Longfor NAV calculation

attributable land bank (mn sqm): 29.3 Excl. those sold but unbooked

2022 ASP (RMB/sqm): 15,451

ASP assumption

- 2023E 0%

- 2024E 0%

- 2025E 0%

- 2026E 0%

Land cost (RMB/sqm): 6,500 Excl. Yantai's low land cost

Construction cost (RMB/sqm): 5,000

Interest (RMB/sqm): 500

Construction cost assumption

- 2023E 2%

- 2024E 2%

- 2025E 2%

- 2026E 2%

SG&A/Sales 5%

	2023E	2024E	2025E	2026E
Sales volume (mn sqm)	7	7	7	8
ASP	15,451	15,451	15,451	15,451
Attributable Sales value (RMB bn)	108	108	108	129
COGS	86	86	87	100
SG&A	5	5	5	6
Tax	5	5	4	6
Profits	12	12	11	16
DCF	12	11	9	16
NAV of current landbank (RMB bn)	48			

IP 188

Attributable Equity 142

Total NAV 378

Discount to NAV 65%

HKDRMB 0.9

Target price (HKD/share) 24.9

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	184,547	223,375	250,565	226,655	234,176	242,764
Cost of goods sold	(130,517)	(166,835)	(197,527)	(179,672)	(182,667)	(186,558)
Gross profit	54,031	56,541	53,038	46,983	51,509	56,206
Operating expenses	(6,112)	(9,086)	(6,029)	(5,421)	(5,523)	(5,594)
Selling expense	1,182	1,735	765	725	827	988
Admin expense	(7,294)	(10,821)	(6,794)	(6,146)	(6,350)	(6,583)
Operating profit	43,624	41,991	41,671	36,376	40,627	45,057
Other income	1,922	1,735	765	725	827	988
Other expense	(5,034)	(5,464)	(5,338)	(5,186)	(5,358)	(5,555)
EBIT	43,624	41,991	41,671	36,376	40,627	45,057
Interest expense	(106)	(146)	(158)	(138)	(128)	(123)
Pre-tax profit	46,370	47,627	45,822	37,659	41,920	46,356
Income tax	(17,529)	(15,839)	(12,999)	(9,908)	(10,937)	(12,006)
After tax profit	28,840	31,788	32,823	27,752	30,983	34,349
Minority interest	(8,838)	(7,935)	(8,461)	(7,153)	(7,987)	(8,854)
Net profit	20,002	23,854	24,362	20,598	22,997	25,495
Core net profit	18,688	22,438	22,542	20,598	22,997	25,495
Net dividends	(8,393)	(10,020)	(6,741)	(6,179)	(6,899)	(7,649)
BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	576,776	644,388	540,238	508,109	527,421	559,920
Cash & equivalents	77,828	88,535	72,624	82,332	92,986	114,671
Restricted cash	0	0	0	0	0	0
Account receivables	30,740	37,466	29,820	26,974	27,869	28,891
Inventories	381,776	413,943	331,320	287,476	292,267	298,493
Other current assets	86,433	104,445	106,474	111,327	114,298	117,864
Non-current assets	188,383	231,263	246,536	261,049	275,729	290,409
PP&E	1,529	1,696	1,350	1,350	1,350	1,350
Deferred income tax	8,867	10,891	11,217	11,217	11,217	11,217
Investment in JVs & assos	18,135	26,747	29,186	29,186	29,186	29,186
Intangibles	214	2,403	2,196	2,196	2,196	2,196
Other non-current assets	14,739	23,698	24,712	24,712	24,712	24,712
Total assets	765,159	875,651	786,774	769,158	803,150	850,329
Current liabilities	399,508	446,543	335,875	326,005	327,502	329,448
Short-term borrowings	18,338	11,585	20,657	20,657	20,657	20,657
Account payables	113,216	134,185	93,448	89,836	91,333	93,279
Tax payable	33,353	37,014	33,611	33,611	33,611	33,611
Other current liabilities	52,212	68,884	62,983	62,983	62,983	62,983
Contract liabilities	182,389	194,874	125,176	118,917	118,917	118,917
Non-current liabilities	172,926	207,231	217,720	191,419	191,419	175,262
Long-term borrowings	149,029	178,139	187,866	161,565	161,565	145,408
Other non-current liabilities	23,897	29,092	29,854	29,854	29,854	29,854
Total liabilities	572,435	653,773	553,595	517,424	518,921	504,710
Share capital	527	529	546	546	546	546
Retained earnings	96,609	113,213	130,346	141,748	166,256	218,792
Total shareholders equity	192,724	221,878	233,179	251,734	284,229	345,619
Minority interest	84,380	96,928	91,079	98,232	106,219	115,073
Total equity and liabilities	765,159	875,651	786,774	769,158	803,150	850,329

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	46,370	47,627	45,822	37,659	41,920	46,356
Depreciation & amortization	42,885	41,991	41,671	36,376	40,627	45,057
Tax paid	(15,615)	(15,897)	(14,369)	(9,908)	(10,937)	(12,006)
Change in working capital	(16,811)	(8,331)	(20,167)	36,820	(4,189)	(5,302)
Others	26,013	10,280	12,997	15,473	18,445	22,010
Net cash from operations	36,730	28,532	20,621	79,250	44,434	50,247
Investing						
Capital expenditure	(14,631)	(18,216)	(12,427)	(15,000)	(15,000)	(15,000)
Acquisition of subsidiaries/ investments	(4,052)	(7,614)	(7,614)	(2,377)	0	0
Others	(22,721)	(22,902)	(22,902)	(22,902)	(22,902)	(22,902)
Net cash from investing	(41,403)	(48,732)	(42,943)	(40,279)	(37,902)	(37,902)
Financing						
Dividend paid	(7,459)	(9,102)	(9,305)	(6,536)	(6,124)	(6,675)
Net borrowings	13,727	26,161	18,800	(26,301)	0	(16,156)
Proceeds from share issues	(161)	(1,132)	0	0	0	0
Others	14,790	15,372	15,372	15,372	15,372	15,372
Net cash from financing	20,897	31,298	24,866	(17,466)	9,247	(7,459)
Net change in cash						
Cash at the beginning of the year	60,782	77,006	88,104	90,648	112,153	127,933
Exchange difference	0	0	0	0	0	0
Cash at the end of the year	77,006	88,104	90,648	112,153	127,933	132,820
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	22.2%	21.0%	12.2%	(9.5%)	3.3%	3.7%
Gross profit	6.4%	4.6%	(6.2%)	(11.4%)	9.6%	9.1%
Operating profit	6.5%	(3.7%)	(0.8%)	(12.7%)	11.7%	10.9%
EBIT	6.5%	(3.7%)	(0.8%)	(12.7%)	11.7%	10.9%
Net profit	9.1%	19.3%	2.1%	(15.5%)	11.6%	10.9%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	29.3%	25.3%	21.2%	20.7%	22.0%	23.2%
Operating margin	23.6%	18.8%	16.6%	16.0%	17.3%	18.6%
Return on equity (ROE)	11.1%	11.5%	10.7%	8.5%	8.6%	8.1%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Current ratio (x)	1.4	1.4	1.6	1.6	1.6	1.7
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/B	1.9	1.7	1.1	0.7	0.6	0.5
Div yield (%)	4.1	4.9	4.2	5.4	6.0	6.7

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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CMB International Global Markets Limited

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

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