

# Yuzhou Group (1628 HK)

## Weak in 1H and recover in 2H

Revenue gained by 20% to RMB14bn but core profit tumbled by 12% to RMB942mn in 1H20, respectively. Contracted sales grew 51% in 1H20 and hit rate reached 54% by Jul. RMB100bn sales target is expected to be achievable. The Company has just filed a listing of property management business on HKEx. Our TP of HK\$4.82 is equivalent to 50% discount to NAV (i.e. HK\$9.65). Maintain BUY.

- **Core profit to shareholders declined 12% in 1H20.** Revenue advanced by 20.4% to RMB14bn in 1H20. Gross margin tumbled by 3.6ppts to 23.4% in 1H20 because of RMB510mn adjustment on projects in Wuhan, Suzhou, Qingdao and Hefei. Excluding this, GM was 27.0% in 1H20, same as 1H19. But JCE recorded a loss of RMB176mn in 1H20, compared with gain of RMB240 a year ago. Furthermore, deduction from minority interests increased 98% to RMB531mn. As a result, core profit declined by 12.4% to RMB942mn in 1H20. Yuzhou declared an interim dividend of HK\$0.12.
- **Aiming at RMB100bn contracted sales.** Contracted sales amount and area soared 50.5% to RMB42.9bn and 40.8% to 2.61mn sq m in 1H20, respectively. Sales in YRD represented about 62% of contracted sales in 1H20. It is because Yuzhou acquired RMB100bn land reserve in 2019 so that it can launch RMB180bn properties for sales this year. In 2H20, about RMB115.8bn of properties are available for sales, of which 62% are located in YRD. Till Jul, accumulated contracted sales reached RMB53.9bn.
- **Spin-off of property management business is a plus.** Yuzhou disclosed that it has just filed the application of listing of property management business on HKEx. As of Jun 2020, contracted and managed GFA were 22mn sq m and 13mn sq m, respectively. Furthermore, management had disclosed that revenue and net profit of property management business was RMB570mn and about RMB45mn in 2019, respectively. After listing, property management business will be totally separated from Yuzhou Group and be an independent listed company. Shares of property management business will be distributed in a specie to the shareholders of Yuzhou Group.
- **Maintain BUY.** Properties pre-sold and unbooked amounted to RMB100bn as of Jun 2019, of which RMB45bn were consolidated and RMB30bn are delivered in 2H20. Earnings visibility is high. We forecast net profit to grow by 26.1% to RMB4.41bn in 2020 and 20.2% to RMB5.30bn in 2021. We also raise end-20 NAV estimate from HK\$9.62 to HK\$9.65. As a result, our TP is HK\$4.82, based on 50% discount to NAV.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	24,306	23,241	33,741	40,659	47,837
YoY growth (%)	12.0	-4.4	45.2	20.5	17.7
Net income (RMB mn)	3,398	3,495	4,407	5,297	6,048
EPS (RMB)	0.78	0.71	0.82	0.96	1.09
YoY growth (%)	11.4	-8.8	15.2	16.6	14.2
Consensus EPS	N.A.	N.A.	0.89	1.09	1.26
P/E (x)	4.2	4.6	4.0	3.4	3.0
P/B (x)	1.0	0.8	0.8	0.7	0.6
Yield (%)	7.9	10.7	8.7	10.5	12.0
ROE (%)	19.3	16.7	18.5	19.5	19.5
Net gearing (%)	67.0	70.2	57.0	69.0	72.1

Source: Company data, Bloomberg, CMBIS estimate

## BUY (Maintain)

Target Price	HK\$4.82
(Previous TP)	HK\$4.81
Up/Downside	+32.1%
Current Price	HK\$3.65

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### Stock Data

Mkt Cap (HK\$ mn)	20,228
Avg 3 mths t/o (HK\$ mn)	31.35
52w High/Low (HK\$)	4.40/2.55
Total Issued Shares (mn)	5,542

Source: Bloomberg

### Shareholding Structure

LAM Lung On	58.4%
OCT (Asia)	9.9%
Free float	31.7%

Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	23.9%	19.8%
3-mth	30.1%	16.7%
6-mth	5.6%	10.8%
12-mth	20.6%	23.6%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: EY

### Related Reports

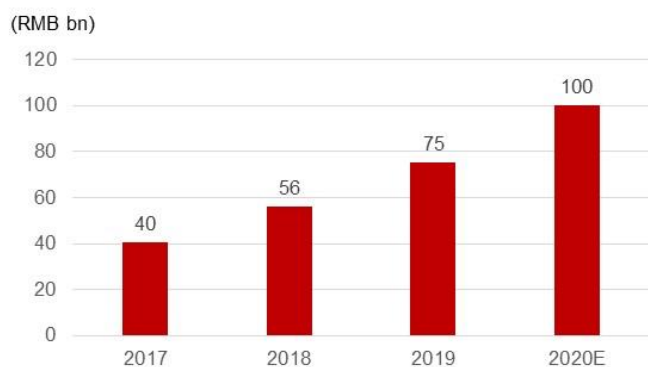
"Small but beautiful" – 10 Jul 2020

Figure 1: 2020 interim results

	1H20 (RMB mn)	1H19 (RMB mn)	Change (%)	Remark
<b>Revenue</b>	<b>14,007</b>	<b>11,637</b>	<b>20.4%</b>	
Property development	13,614	11,303	20.4%	Delivery GFA increased by 24% to 1.08mn sqm
Property investment	97	148	-34.1%	
Property management	289	179	62.2%	Managed GFA 13mn sq m as of Jun 2020
Hotel	6	9	-29.2%	
Cost of sales	-10,731	-8,497	26.3%	
<b>Gross profit</b>	<b>3,276</b>	<b>3,140</b>	<b>4.3%</b>	Fair value adjustment dragged down GM 3.6ppts to 23.4% in 1H20
Other income	366	187	95.4%	
Marketing expenses	-206	-181	13.8%	
Administrative expenses	-360	-316	14.0%	Better cost control
Other expenses	-53	-268	-80.3%	
<b>EBIT</b>	<b>3,024</b>	<b>2,563</b>	<b>18.0%</b>	EBIT margin narrowed by 0.4ppts to 21.6% in 1H20
Finance costs	-118	-90	31.2%	
Share from associates and JVs	-176	240	N.A.	
Revaluation of investment properties	9	582	-98.4%	
<b>Profit before tax</b>	<b>2,739</b>	<b>3,295</b>	<b>-16.9%</b>	
Income tax	-1,189	-1,388	-14.3%	Effective tax rate increased 1.3ppts to 43.4% in 1H20
<b>After tax profit</b>	<b>1,551</b>	<b>1,907</b>	<b>-18.7%</b>	
Non-controlling interests	-531	-268	98.2%	
Perpetual securities	-57	-53	6.5%	
<b>Net profit to shareholders</b>	<b>963</b>	<b>1,586</b>	<b>-39.3%</b>	Net margin narrowed by 6.8ppts to 6.9% in 1H20
<b>Core profit to shareholders</b>	<b>942</b>	<b>1,076</b>	<b>-12.4%</b>	

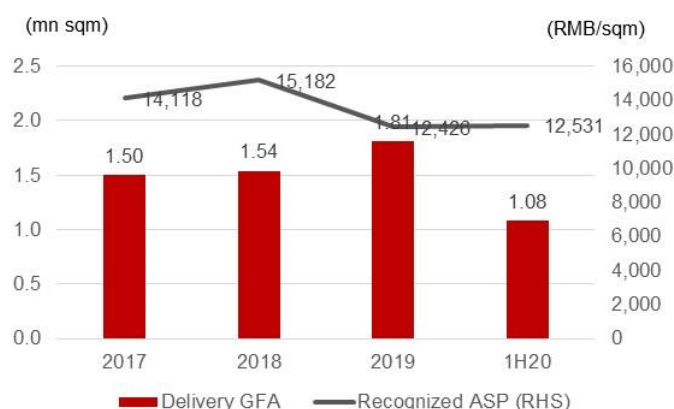
Source: Companies data, CMBIS

Figure 2: Contracted sales amount



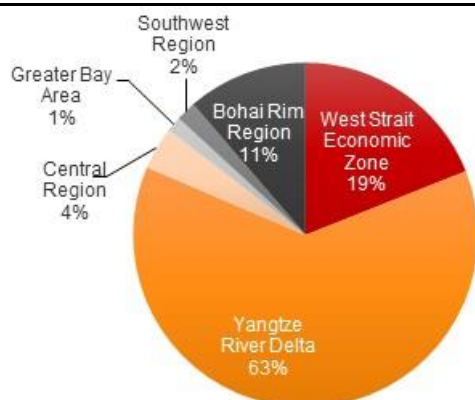
Source: Company data, CMBIS

Figure 3 Recognized ASP and GFA



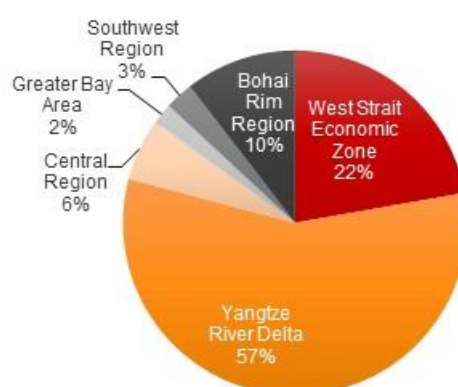
Source: Company data, CMBIS

Figure 4: Contracted sales amount in 1H20 by region

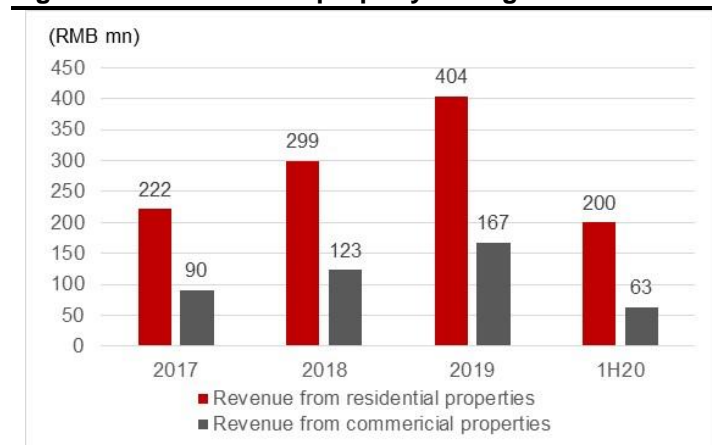


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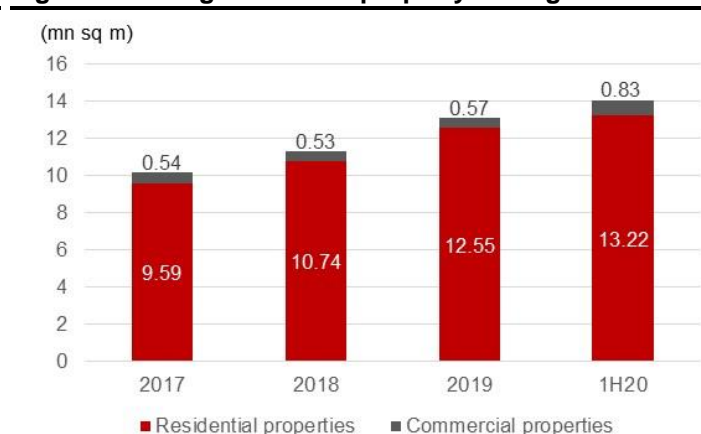
Figure 5: Contracted sales area in 1H20 by region



Source: Company data, CMBIS

**Figure 6: Revenue from property management**

Source: Company data, CMBIS

**Figure 7: Managed GFA for property management**

Source: Company data, CMBIS

**Figure 8: Earnings revision**

(RMB mn)	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	33,741	40,659	47,837	33,741	40,659	47,837	0.0%	0.0%	0.0%
Gross Profit	8,960	10,717	12,516	8,960	10,717	12,516	0.0%	0.0%	0.0%
EBIT	7,684	9,223	10,758	7,684	9,223	10,758	0.0%	0.0%	0.0%
Net profit	4,407	5,297	6,048	4,402	5,297	6,048	0.1%	0.0%	0.0%
EPS (RMB)	0.82	0.96	1.09	0.84	1.01	1.16	-2.8%	-5.8%	-5.8%
Gross Margin	26.6%	26.4%	26.2%	26.6%	26.4%	26.2%	0 ppt	0 ppt	0 ppt
EBIT Margin	22.8%	22.7%	22.5%	22.8%	22.7%	22.5%	0 ppt	0 ppt	0 ppt
Net Margin	13.1%	13.0%	12.6%	13.0%	13.0%	12.6%	0 ppt	0 ppt	0 ppt

Source: Bloomberg, CMBIS estimates

**Figure 9: CMBIS vs consensus estimates**

(RMB mn)	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	33,741	40,659	47,837	31,101	37,429	45,233	8.5%	8.6%	5.8%
Gross Profit	8,960	10,717	12,516	8,323	9,939	11,841	7.7%	7.8%	5.7%
EBIT	7,684	9,223	10,758	7,791	8,940	11,179	-1.4%	3.2%	-3.8%
Net profit	4,407	5,297	6,048	4,843	5,728	6,492	-9.0%	-7.5%	-6.8%
EPS (RMB)	0.82	0.96	1.09	0.89	1.09	1.26	-7.9%	-12.6%	-13.4%
Gross Margin	26.6%	26.4%	26.2%	26.8%	26.6%	26.2%	-0.2 ppt	-0.2 ppt	0 ppt
EBIT Margin	22.8%	22.7%	22.5%	25.1%	23.9%	24.7%	-2.3 ppt	-1.2 ppt	-2.2 ppt
Net Margin	13.1%	13.0%	12.6%	15.6%	15.3%	14.4%	-2.5 ppt	-2.3 ppt	-1.7 ppt

Source: Bloomberg, CMBIS estimates

**Figure 10: End-20 NAV**

	NAV (RMB mn)	NAV/share (RMB)	NAV/share (HK\$)	% of NAV	Remark
Development project	64,311	11.60	12.94	134%	DCF method with 10% WAC 10% cap rate
Investment Properties	3,814	0.69	0.77	8%	
GAV	68,125	12.29	13.70	142%	
Less: Net debt	(18,245)	(3.29)	(3.67)	-38%	
Less: Perpetual bonds	(1,912)	(0.35)	(0.38)	-4%	
<b>NAV</b>	<b>47,968</b>	<b>8.66</b>	<b>9.65</b>	<b>100%</b>	

Source: CMBIS estimates

## Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Revenue</b>	<b>24,306</b>	<b>23,241</b>	<b>33,741</b>	<b>40,659</b>	<b>47,837</b>	<b>EBIT</b>	6,786	4,543	7,684	9,223	10,758
Sale of properties	23,626	22,470	32,804	39,544	46,540	D&A, impairment	77	83	80	84	88
Rental income	245	305	381	477	596	Change in working capital	4,269	1,884	4,048	(10,219)	(15,699)
Property management	417	448	537	618	680	Taxation	(3,856)	(2,607)	(2,793)	(3,380)	(3,893)
Hotel operation income	18	18	19	20	22	Others	(4,119)	(9,762)	(2,616)	2,171	9,094
Cost of sales	(16,839)	(17,149)	(24,781)	(29,941)	(35,322)	<b>Net cash from operating</b>	<b>3,157</b>	<b>(5,859)</b>	<b>6,403</b>	<b>(2,121)</b>	<b>349</b>
<b>Gross profit</b>	<b>7,467</b>	<b>6,092</b>	<b>8,960</b>	<b>10,717</b>	<b>12,516</b>	Capex	(4,546)	(3,230)	(360)	(420)	(400)
Other income	439	512	580	620	730	Associated companies	3,174	(10,606)	(2,320)	(2,485)	(2,535)
Selling expenses	(459)	(660)	(675)	(813)	(957)	Others	(215)	(5,108)	-	-	-
Administrative expenses	(606)	(1,091)	(844)	(894)	(1,052)	<b>Net cash from investing</b>	<b>(1,588)</b>	<b>(18,944)</b>	<b>(2,680)</b>	<b>(2,905)</b>	<b>(2,935)</b>
Other expenses	(54)	(311)	(337)	(407)	(478)	Equity raised	1,602	23	-	-	-
<b>EBIT</b>	<b>6,786</b>	<b>4,543</b>	<b>7,684</b>	<b>9,223</b>	<b>10,758</b>	Change of debts	9,035	20,956	8,350	9,603	11,043
Finance costs	(223)	(182)	(256)	(320)	(480)	Dividend	(567)	(296)	(1,821)	(1,587)	(1,907)
Associates/JV	(52)	166	320	485	535	Others	(190)	4,618	(111)	(111)	(111)
Exceptional	224	2,078	9	-	-	<b>Net cash from financing</b>	<b>9,879</b>	<b>25,300</b>	<b>6,419</b>	<b>7,905</b>	<b>9,026</b>
<b>PROFIT BEFORE TAX</b>	<b>6,735</b>	<b>6,605</b>	7,758	9,388	10,81	Net change in cash	11,449	497	10,142	2,880	6,440
Income tax	(3,009)	(2,638)	(2,793)	(3,380)	(3,893)	<b>Cash at the beginning</b>	<b>15,596</b>	<b>27,162</b>	<b>28,456</b>	<b>38,718</b>	<b>41,728</b>
<b>PROFIT FOR THE YEAR</b>	<b>3,726</b>	<b>3,967</b>	4,965	6,008	6,920	Exchange difference	117	796	120	130	150
Non-controlling interests	(221)	(361)	(447)	(601)	(761)	<b>Cash at the end of the year</b>	<b>27,162</b>	<b>28,456</b>	<b>38,718</b>	<b>41,728</b>	<b>48,317</b>
Perpetual interest	(107)	(111)	(111)	(111)	(111)						
<b>Net profit to shareholders</b>	<b>3,398</b>	<b>3,495</b>	4,407	5,297	6,048						
<b>Core profit</b>	<b>3,419</b>	<b>3,987</b>	4,402	5,297	6,048						
<b>Balance sheet</b>						<b>Key ratios</b>					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Current assets</b>	<b>90,471</b>	<b>119,797</b>	<b>128,123</b>	<b>142,930</b>	<b>167,640</b>	<b>Sales mix (%)</b>					
Inventory	45,346	49,088	52,896	62,694	78,814	Sale of properties	97.2	96.7	97.2	97.3	97.3
Trade and other receivables	14,683	33,745	28,000	30,000	32,000	Rental income	1.0	1.3	1.1	1.2	1.2
Cash and equivalent	27,162	28,456	38,718	41,728	48,317	Property management	1.7	1.9	1.6	1.5	1.4
Others	3,279	8,509	8,509	8,509	8,509	Hotel operation income	0.1	0.1	0.1	0.0	0.0
<b>Non-current assets</b>	<b>24,592</b>	<b>26,638</b>	<b>29,238</b>	<b>32,059</b>	<b>34,906</b>	<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
PP&E	934	2,803	2,843	2,879	2,911	<b>Profit &amp; loss ratios (%)</b>					
Investment properties	10,526	12,864	13,104	13,404	13,684	Gross margin	30.7	26.2	26.6	26.4	26.2
Associated	10,013	9,339	11,659	14,144	16,679	EBIT margin	27.9	19.5	22.8	22.7	22.5
Others	3,120	1,632	1,632	1,632	1,632	Net margin	14.0	15.0	13.1	13.0	12.6
<b>Total assets</b>	<b>115,063</b>	<b>141,435</b>	<b>157,361</b>	<b>174,989</b>	<b>202,546</b>	Effective tax rate	44.7	39.9	36.0	36.0	36.0
<b>Current liabilities</b>	<b>64,520</b>	<b>74,851</b>	<b>76,450</b>	<b>83,119</b>	<b>98,030</b>	<b>Growth (%)</b>					
Contracted liabilities	13,752	8,658	5,854	8,310	17,770	Revenue	12.0	-4.4	45.2	20.5	17.7
Trade payable	6,857	9,783	11,895	13,474	15,895	Gross profit	-2.8	-18.4	47.1	19.6	16.8
ST loan	16,430	15,272	17,562	20,197	23,226	EBIT	3.9	-33.1	69.2	20.0	16.6
Others	27,481	41,138	41,138	41,138	41,138	Net profit	23.0	2.8	26.1	20.2	14.2
<b>Non-current liabilities</b>	<b>29,113</b>	<b>42,856</b>	<b>48,916</b>	<b>55,884</b>	<b>63,898</b>	<b>Balance sheet ratios</b>					
LT loan	27,202	40,397	46,456	53,425	61,439	Current ratio (x)	1.4	1.6	1.7	1.7	1.7
Others	1,910	2,459	2,459	2,459	2,459	Receivable turnover days	220	530	303	269	244
<b>Total liabilities</b>	<b>93,633</b>	<b>117,708</b>	<b>125,366</b>	<b>139,003</b>	<b>161,928</b>	Payables turnover days	149	208	175	164	164
Shareholders' fund	17,575	20,991	23,812	27,202	31,073	Inventory turnover days	681	771	572	563	601
Minority interests	1,944	5,824	6,271	6,872	7,633	Net debt / total equity ratio (%)	67.0	70.2	57.0	69.0	72.1
Perpetual securities	1,912	1,912	1,912	1,912	1,912	<b>Returns (%)</b>					
<b>TOTAL EQUITY</b>	<b>21,430</b>	<b>28,728</b>	<b>31,995</b>	<b>35,986</b>	<b>40,618</b>	ROE	19.3	16.7	18.5	19.5	19.5
						ROA	3.2	2.8	3.2	3.4	3.4
						<b>Per share</b>					
						EPS (RMB)	0.78	0.71	0.82	0.96	1.09
						DPS (RMB)	0.26	0.35	0.29	0.34	0.39
						BVPS (RMB)	3.43	3.88	4.17	4.78	5.48

Source: Company data, CMBIS estimates

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