

Sinic Holdings (2103 HK)

From Jiangxi to YRD and GBA

Revenue and core earnings surged by 24.6% to RMB8.7bn and 71.5% to RMB680mn in 1H20, respectively. Contracted sales gained by 1.6% to RMB43.5bn in 1H20. Sinic acquired 22 new projects of attributable GFA 1.66mn sq m in 1H20. As at Jun 2020, total attributable land bank was 15.34mn sq m. We cut our core earnings forecast around 10%. We raise our TP from HK\$5.02 to HK\$5.06, representing a 50% discount to NAV. Maintain **BUY**.

- Core earnings soared 72% in 1H20.** Revenue and core earnings surged by 24.6% to RMB8.7bn and 71.5% to RMB680mn in 1H20, respectively. Delivery GFA and recognized ASP increased 11.0% to 0.73mn sq m and 9.5% to RMB11,588 per sq m in 1H20, respectively. GM declined by 2.9ppts to 30.2% in 1H20. The Company implemented better cost control as SG&A expenses to revenue ratio dropped from 8.9% in 1H19 to 7.1% in 1H20. Lastly, 11.3ppts decline of effective tax rate also drove earnings growth.
- Contracted ASP upped 10% in 1H20.** Attributable contracted sales amount gained by 6.8% to RMB21.1bn in 1H20. Jiangxi Province was the largest contribution among four regions and accounted for 41% of total attributable contracted sales. Contracted ASP was RMB14,264 per sq m in 1H20, up 9.7%.
- Make more effort on business development in YRD and GBA.** In 1H20, the Company acquired 22 new properties project with total GFA of 2.29mn sq m (Attri: 1.66mn sq m). Their average land cost was RMB5,601 per sq m. As at Jun 2020, total attributable land bank amounted to 15.34mn sq m, of which land bank in Jiangxi and GBA accounted for 32.2% and 31.0%, respectively. Looking forward, the Company will make more effort on the new projects acquisitions in YRD and GBA. It hopes land bank would be evenly distributed among the four regions.
- Improving financial position.** Net gearing ratio came down from 238% as at Dec 2018 to 67.0% as at Dec 2019, and further to 66.2% as at Jun 2020. Cash on hand and total borrowing amounted to RMB17.7bn and RMB28.4bn as at Jun 2020. Cash/short term debt ratio stood at 1.4x as at Jun 2020. Sinic is financial healthy for business expansion.
- Maintain BUY.** Due to the impact from COVID-19, we trim net profit forecast by 5.3% to RMB2.72bn in 2020, 10.2% to RMB3.3bn in 2021 and 9.7% to RMB3.84bn in 2022. We raise our end-20 NAV forecast from HK\$10.04 to HK\$10.11. Accordingly, we raise our TP from HK\$5.02 to HK\$5.06, representing a 50% discount to NAV. Maintain **BUY**.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	8,416	26,985	32,641	42,140	52,761
YoY growth (%)	60.6	220.7	21.0	29.1	25.2
Net income (RMB mn)	414	1,958	2,719	3,313	3,836
EPS (RMB)	0.14	0.64	0.76	0.93	1.07
YoY growth (%)	N/A	362.5	19.5	21.8	15.8
Consensus EPS (RMB)	N/A	N/A	0.728	0.910	1.080
P/E (x)	26.4	5.7	4.8	3.9	3.4
P/B (x)	N/A	1.6	1.3	1.0	0.8
Yield (%)	N/A	3.6	5.2	6.4	7.4
ROE (%)	9.7	24.0	26.6	26.1	24.6
Net gearing (%)	237.9	67.0	69.6	61.1	59.5

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$5.06**
(Previous TP **HK\$5.02**)
Up/Downside **+24.9%**
Current Price **HK\$4.05**

China Property Sector

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Stock Data

Mkt Cap (HK\$ mn)	14,459
Avg 3 mths t/o (HK\$ mn)	11.87
52w High/Low (HK\$)	4.55/ 3.60
Total Issued Shares (mn)	3,570

Source: Bloomberg

Shareholding Structure

Zhang Yuanlin	79.0%
Employee Incentive trust	4.2%
Public	16.8%

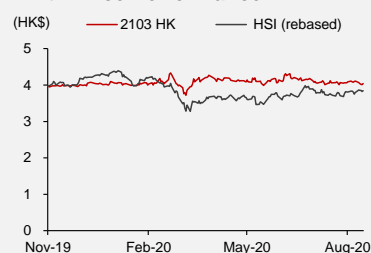
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-0.5%	-3.3%
3-mth	1.3%	-8.5%
6-mth	0.0%	2.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

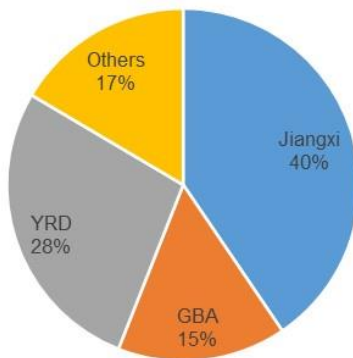
Auditor: Ernst & Young

Figure 1: 2020 interim results

	1H20 (RMB mn)	1H29 (RMB mn)	Change (%)	Remark
Revenue	8,703	6,983	24.6%	
Property development	8,410	6,921	21.5%	Delivery GFA increased by 11% to 0.73mn sqm and ASP gained 10% to RMB11,588/sqm
Project management	270	55	390.8%	
Other consultation	18	2	1113.0%	
Rental	5	6	-24.7%	
Cost of sales	(6,074)	(4,673)	30.0%	
Gross profit	2,630	2,310	13.8%	Gross margin narrowed by 2.9ppts to 30.2% in 1H20
Other income	126	(39)	N.A.	
Marketing expenses	(366)	(351)	4.3%	
Administrative expenses	(243)	(257)	-5.3%	Better cost control
Other expenses	(9)	(12)	-18.4%	
EBIT	2,138	1,652	29.4%	
Finance costs	(286)	(294)	-2.4%	
Share from associates and JVs	99	143	-30.8%	
Revaluation gain of investment properties	149	134	11.0%	
PROFIT BEFORE TAX	2,099	1,636	28.3%	
Income tax	(1,228)	(1,141)	7.6%	Effective tax rate declined by 11.3ppts to 58.5% in 1H20
PROFIT FOR THE YEAR	871	494	76.2%	
Non-controlling interests	(49)	(45)	8.3%	
Net profit to shareholders	822	449	83.1%	Net margin expanded by 3.0ppts to 9.4% in 1H20
Core profit to shareholders	680	396	71.5%	

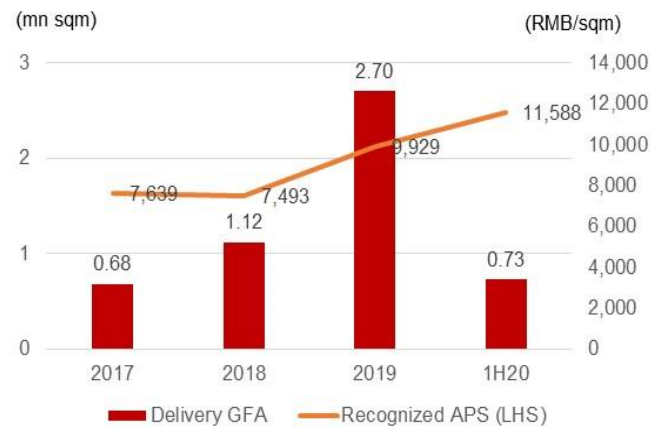
Source: Company data, CMBIS

Figure 2: Attributable contracted sales in 1H20



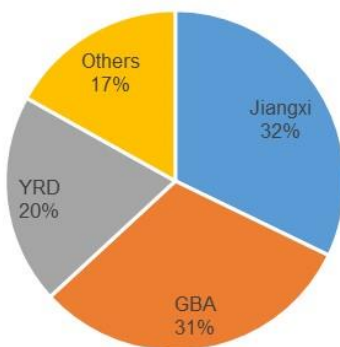
Source: Company data, CMBIS

Figure 3: GFA sold and ASP



Source: Company data, CMBIS

Figure 4: Land bank as at Jun 2020



Source: Company data, CMBIS

Figure 5: New land bank acquisitions in 1H20



Source: Company data, CMBIS

Figure 6: Earnings revision

(RMB mn)	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	32,641	42,140	52,761	35,680	46,789	58,346	-8.5%	-9.9%	-9.6%
Gross Profit	9,249	11,522	13,910	10,099	12,778	15,362	-8.4%	-9.8%	-9.5%
EBIT	5,923	7,569	8,925	6,455	8,373	9,835	-8.2%	-9.6%	-9.3%
Net profit	2,719	3,313	3,836	2,872	3,688	4,249	-5.3%	-10.2%	-9.7%
Core profit	2,577	3,313	3,836	2,872	3,688	4,249	-10.3%	-10.2%	-9.7%
EPS (RMB)	0.76	0.93	1.07	0.80	1.03	1.19	-5.3%	-10.2%	-9.7%
Gross Margin	28.3%	27.3%	26.4%	28.3%	27.3%	26.3%	0 ppt	0 ppt	0 ppt
EBIT Margin	18.1%	18.0%	16.9%	18.1%	17.9%	16.9%	0.1 ppt	0.1 ppt	0.1 ppt
Net Margin	8.3%	7.9%	7.3%	8.0%	7.9%	7.3%	0.3 ppt	0 ppt	0 ppt

Source: CMBIS estimates

Figure 7: CMBIS estimates vs consensus

(RMB mn)	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	32,641	42,140	52,761	33,768	42,272	51,717	-3.3%	-0.3%	2.0%
Gross Profit	9,249	11,522	13,910	9,539	11,688	13,964	-3.1%	-1.4%	-0.4%
EBIT	5,923	7,569	8,925	6,896	8,461	9,926	-14.1%	-10.5%	-10.1%
Net profit	2,719	3,313	3,836	2,623	3,283	3,881	3.7%	0.9%	-1.2%
Core profit	2,577	3,313	3,836	2,528	3,104	3,670	2.0%	6.7%	4.5%
EPS (RMB)	0.76	0.93	1.07	0.73	0.91	1.08	4.6%	2.0%	-0.5%
Gross Margin	28.3%	27.3%	26.4%	28.3%	27.7%	27.0%	0.1 ppt	-0.3 ppt	-0.6 ppt
EBIT Margin	18.1%	18.0%	16.9%	20.4%	20.0%	24.9%	-2.3 ppt	-2.1 ppt	-8 ppt
Net Margin	8.3%	7.9%	7.3%	7.8%	7.8%	10.1%	0.6 ppt	0.1 ppt	-2.8 ppt

Source: Bloomberg, CMBIS estimates

Figure 8: End-20 NAV forecast

	NAV (RMB mn)	NAV (HK\$)	NAV per share (HK\$)	% of NAV	Remark
Development properties	43,133	48,086	13.47	133.2%	DCF method with 7.0% WACC
Investment properties	1,784	1,988	0.56	5.5%	10% cap rate
GAV	44,916	50,074	14.03	138.7%	
Less: Net debt	(12,525)	(13,963)	(3.91)	-38.7%	
NAV	32,392	36,111	10.11	100%	

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	FY19E	FY20E	FY21E	FY22E
Revenue	8,416	26,985	32,641	42,140	52,761	EBIT	2,121	6,479	5,923	7,569	8,925
Sale of properties	8,389	26,807	32,409	41,838	52,369	D&A	20	58	21	21	21
Other	26	178	232	301	392	Change in working capital	(15,834)	1,900	(5,142)	(2,665)	(1,755)
Cost of sales	(5,273)	(18,986)	(23,393)	(30,617)	(38,851)	Tax paid	(1,075)	(1,311)	(2,455)	(3,474)	(4,235)
Gross profit	3,143	7,999	9,249	11,522	13,910	Others	16,493	(10,964)	5,872	(541)	1,424
Other income	112	153	135	173	180	Net cash from operating	1,725	(3,839)	4,218	909	4,380
Selling expenses	(658)	(1,077)	(2,122)	(2,613)	(3,271)	Capex	(174)	(1,350)	(659)	(178)	(177)
Administrative expenses	(430)	(569)	(1,306)	(1,475)	(1,847)	Associated companies	(961)	(8,549)	(4,122)	(5,147)	(5,176)
Other expenses	(46)	(27)	(33)	(39)	(47)	Others	(185)	637	-	-	-
EBIT	2,121	6,479	5,923	7,569	8,925	Net cash from investing	(1,320)	(9,261)	(4,781)	(5,325)	(5,353)
Finance costs	39	102	122	147	176	Equity raised	-	1,973	-	-	-
Share from JCE	(426)	(456)	(512)	(560)	(604)	Change of debts	5,351	4,395	5,315	2,812	7,100
Revaluation gain	129	140	149	-	-	Dividend	-	-	(464)	(680)	(828)
Profit before tax	1,863	6,264	5,682	7,155	8,497	Others	(1,526)	10,256	-	-	-
Income tax	(1,309)	(4,250)	(2,726)	(3,474)	(4,235)	Net cash from financings	3,825	16,625	4,851	2,132	6,272
Profit for the year	555	2,014	2,956	3,681	4,262	Net change in cash	4,230	3,525	4,288	(2,284)	5,299
Non-controlling interests	(141)	(57)	(236)	(368)	(426)	Cash at the beginning	2,877	7,084	10,559	14,863	12,597
Net profit to shareholders	414	1,958	2,719	3,313	3,836	Exchange difference	(24)	(50)	17	17	17
Core net profit	317	1,853	2,577	3,313	3,836	Cash at the end	7,084	10,559	14,863	12,597	17,913
						Pledged cash	2,982	6,040	4,500	4,500	4,500
						Cash at balance sheet	10,066	16,599	19,364	17,097	22,413
Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Current assets	67,887	77,864	86,744	92,793	100,514	Sales mix (%)					
Properties for sale	47,655	51,790	55,456	58,914	61,160	Sale of properties	99.7	99.3	99.3	99.3	99.3
Amount due from	5,112	4,796	5,400	5,400	5,400	Others	0.3	0.7	0.7	0.7	0.7
Bank balances and cash	10,066	16,599	19,363	21,947	27,413	Total	100.0	100.0	100.0	100.0	100.0
Others	5,055	4,679	6,525	6,533	6,541						
Non-current assets	9,720	18,360	23,169	28,472	33,804	Profit & loss ratios (%)					
PPE	114	91	82	90	98	Gross margin	37.3	29.6	28.3	27.3	26.4
Investment properties	1,153	1,751	2,400	2,550	2,700	EBIT margin	25.2	24.0	18.1	18.0	16.9
Associates & JVs	4,574	13,225	17,347	22,493	27,669	Net margin	4.9	7.3	8.3	7.9	7.3
Others	3,879	3,293	3,340	3,339	3,337	Effective tax rate	70.2	67.8	48.0	48.6	49.8
Current liabilities	59,549	66,260	73,767	79,981	84,131	Balance sheet ratios					
Trade and other payables	3,142	5,457	6,000	6,800	7,300	Current ratio (x)	1.1	1.2	1.2	1.2	1.2
Contract liabilities	40,196	34,231	37,962	42,850	45,000	Payables turnover days	218	105	73	73	73
Amount due to	1,400	5,957	6,800	6,800	6,800	Inventory turnover days	3,299	996	865	702	575
ST loan	9,225	11,645	13,974	14,500	16,000	Net debt / total equity ratio (%)	237.9	67.0	69.6	61.1	59.5
Others	5,586	8,969	9,031	9,031	9,031						
Non-current liabilities	12,998	15,068	18,139	20,425	26,025	Returns (%)					
LT loan	12,878	14,928	17,914	20,200	25,800	ROE	9.7	24.0	26.6	26.1	24.6
Others	120	140	225	225	225	ROA	0.7	2.1	2.7	3.0	3.2
Total equity	5,060	14,896	18,007	20,859	24,162	Per share					
Equity to shareholders	4,244	8,167	10,207	12,691	15,568	EPS (RMB)	0.14	0.64	0.76	0.93	1.07
Non-controlling interests	817	6,729	7,800	8,168	8,594	DPS (RMB)	N.A.	0.13	0.19	0.23	0.27
						BVPS (RMB)	N.A.	2.3	2.9	3.6	4.4

Source: Company data, CMBIS estimates

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