

# Shimao (813 HK)

## Aiming to have RMB300bn sales next year

Revenue and core net profit increased by 32.9% to RMB56.6bn and 20.6% to RMB5.31bn in 1H19, respectively. We raise our earnings forecast by 7.6% to RMB12.5bn in 2019. We estimate end-20 NAV to be HK\$37.91. As a result, we raise TP from HK\$26.21 to HK\$26.54, based on 30% discount to NAV. BUY.

- **Interim core profit gained 21% to RMB5.3bn.** 23% increase in recognized ASP to RMB15,713 per sq m and 6% increase in delivery GFA to 3.39mn sq m and drove revenue growth by 32.9% to RMB56.6bn in 1H19. GM narrowed from 31.0% in 1H18 to 30.1% in 1H19. Core earnings increased by 20.6% to RMB5.31bn in 1H19. As at Jun 2019, pre-sold and unbooked properties amounted to RMB135bn.
- **39% growth in contracted sales in 1H19.** In 1H19, contracted sales amount and area increased by 38.7% to RMB100.3bn and 23.3% to 5.56mn sq m, respectively. Sell through rate was 50%+ in 1H19. Shimao has accomplished 48% of full year sales target of RMB210bn. About RMB300bn of properties are launched for sales in 2H19. Shimao is confident to achieve the target sales. Meanwhile, the Company has hinted that there will be RMB500bn of properties available for sales in 2020. In other words, Shimao may have RMB300bn of sales in 2020 based on 60% sell through rate.
- **60% of land were acquired by M&A in 1H19.** Shimao acquired 60 projects with 14.21mn sq m land bank in RMB78.8bn in 1H19. About 60% of land in terms of value were acquired through M&A. The acquisition cost was well controlled and average land premium was RMB5,581 per sq m in 1H19 (or 31% of contracted ASP). Shimao has invested 301 projects in 101 cities with a total GFA of 64.07mn sq m (attributable GFA 40.72mn sq m). Total saleable value of total land bank is estimated to be RMB1,050bn.
- **Spin off hotel and property management businesses.** Recurrent income soared 75.3% YoY to RMB3.33bn in 1H19. Following the completion of renovation of several commercial properties and hotels as well as the expansion for property management business, we forecast recurrent income to grow at an 18.2% CAGR next three years. Shimao aims to spin off hotel and property management businesses next three years in order to reflect their fair value.
- **Raise TP to HK\$26.54.** We roll over end-20 NAV forecast to HK\$37.91. So we raise TP from HK\$26.21 to HK\$26.54, representing a 30% discount to NAV.

### Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	70,426	85,513	112,064	141,887	169,726
YoY growth (%)	18.8	21.4	31.1	26.6	19.6
Net income (RMB mn)	7,840	8,835	12,474	14,792	17,392
EPS (RMB)	2.32	2.65	3.75	4.44	5.22
YoY growth (%)	54.3	13.9	41.5	18.6	17.6
P/E (x)	8.1	7.1	5.0	4.2	3.6
P/B (x)	1.1	1.1	0.9	0.8	0.7
Yield (%)	4.8	5.7	6.9	8.0	8.0
ROE (%)	13.6	21.4	18.4	19.0	19.2
Net gearing (%)	56.5	56.6	58.1	55.1	52.4

Source: Company data, CMBIS estimates

### BUY (Maintain)

Target Price	HK\$26.54
(Previous TP	HK\$26.21)
Up/downside	+26.4%
Current Price	HK\$21.00

### China Property Sector

**Samson Man, CFA**  
 (852) 3900 0853  
 samsonman@cmbi.com.hk

**Chengyu Huang**  
 (852) 3761 8773  
 huangchengyu@cmbi.com.hk

### Stock Data

Mkt Cap (HK\$ mn)	69.331
Avg 3 mths t/o (HK\$ mn)	104.5
52w High/Low (HK\$)	26.95/14.32
Total Issued Shares (mn)	3,301
Source: Bloomberg	

### Shareholding Structure

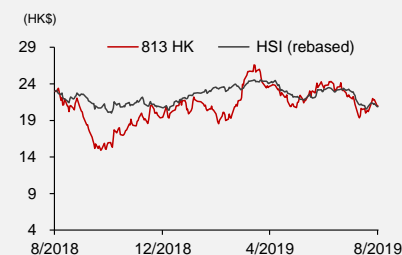
Hui Wing Mau	69.0%
Free float	31.0%
Source: HKEx	

### Share Performance

	Absolute	Relative
1-mth	-5.4%	4.6%
3-mth	0.5%	7.0%
6-mth	8.5%	21.5%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

**Auditor: PricewaterhouseCoopers**

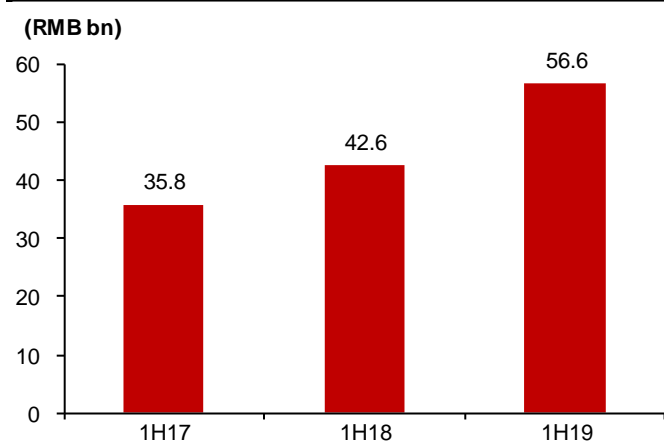
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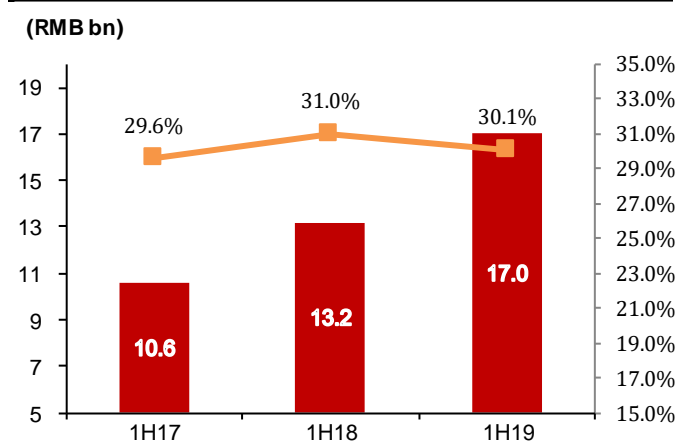
**Figure 1: 2019 interim results**

	1H19 (Rmb mn)	1H18 (Rmb mn)	Change (%)	Remark
<b>Turnover</b>	<b>56,564</b>	<b>42,571</b>	<b>32.9%</b>	
Property development	53,236	40,673	30.9%	Recognizing ASP gained 23.3% to RMB15,713 per sqm in 1H19
Property investment	722	494	46.2%	
Hotel	996	880	13.2%	
Property management and others	1,610	524	207.3%	
Cost of Sales	(39,544)	(29,364)	34.7%	
<b>Gross Profit</b>	<b>17,020</b>	<b>13,207</b>	<b>28.9%</b>	GM narrowed from 31.0% in 1H18 to 30.1% in 1H19
Other operating income	104	189	-44.7%	
Distribution Cost	(1,031)	(672)	53.4%	
Administrative Expenses	(2,313)	(1,711)	35.2%	
Other Expenses	(235)	(65)	264.7%	
<b>EBIT</b>	<b>13,545</b>	<b>10,949</b>	<b>23.7%</b>	
Net finance income	(170)	(387)	-56.2%	Less FX loss in 1H19
Associated	16	(134)	N.A.	Profit from Ningbo Sunjia project and Guangzhou Asian Games City
Exceptional	632	987	-35.9%	Revaluation gain of investment properties
Pre-tax Profit	14,024	11,415	22.9%	
Taxation	(6,454)	(5,233)	23.4%	Effective tax rate enlarged by 0.2ppts to 46.0% in 1H19
Profit after Tax	7,569	6,182	22.4%	
Minority	(2,464)	(1,911)	28.9%	
<b>Net Profit</b>	<b>5,105</b>	<b>4,271</b>	<b>19.5%</b>	Declared interim and special dividend of HK\$0.6 per share
<b>Core profit</b>	<b>5,309</b>	<b>4,401</b>	<b>20.6%</b>	

Source: Company data

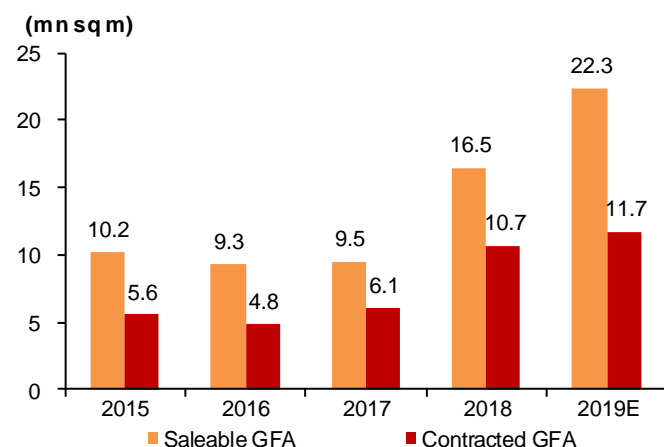
**Figure 2: 1H revenue**

Source: Company data

**Figure 3: Gross profit and margin**

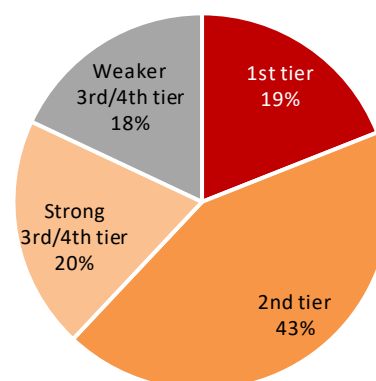
Source: Company data

Figure 4: Saleable GFA vs. Contracted GFA



Source: Company data

Figure 5: 2H saleable resources by tiers of cities



Source: Company data

Figure 6: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	112,064	141,887	169,726	111,663	141,345	169,037	0.4%	0.4%	0.4%
Gross Profit	34,317	42,614	50,244	34,027	41,949	49,724	0.9%	1.6%	1.0%
EBIT	28,153	34,843	40,611	27,887	34,209	40,133	1.0%	1.9%	1.2%
Net profit	12,474	14,792	17,392	11,595	14,419	17,155	7.6%	2.6%	1.4%
EPS (RMB)	3.75	4.44	5.22	3.48	4.33	5.15	7.6%	2.6%	1.4%
Gross Margin	30.6%	30.0%	29.6%	30.5%	29.7%	29.4%	0.1 ppt	0.4 ppt	0.2 ppt
EBIT Margin	25.1%	24.6%	23.9%	25.0%	24.2%	23.7%	0.1 ppt	0.4 ppt	0.2 ppt
Net Margin	11.1%	10.4%	10.2%	10.4%	10.2%	10.1%	0.7 ppt	0.2 ppt	0.1 ppt

Source: CMBIS estimates

Figure 7: End-20 NAV estimate

	NAV/share				Remark
	(Rmb mn)	(HK\$ m)	(HK\$)	% of NAV	
Northern China	27,625	30,797	9.33	24.6%	DCF method with 10.4% WACC
Zhejiang	9,456	10,541	3.19	8.4%	
Shandong	5,391	6,010	1.82	4.8%	
Jiangsu & Shanghai	29,800	33,222	10.06	26.5%	
Central China	11,038	12,306	3.73	9.8%	
Western	12,316	13,730	4.16	11.0%	
Fujian	58,747	65,493	19.84	52.3%	
Southern China	10,506	11,712	3.55	9.4%	
JV	2,391	2,666	0.81	2.1%	
Shanghai Shimao	16,807	18,737	5.68	15.0%	
GAV	184,076	205,213	62.16	164.0%	
Net debt	(66,716)	(74,377)	(22.53)	-59.4%	
Perpetual bond	(5,100)	(5,686)	(1.72)	-4.5%	
NAV	112,260	125,151	37.91	100.0%	

Source: CMBIS estimates

## Financial Summary

### Income statement

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Revenue</b>	<b>70,426</b>	<b>85,513</b>	<b>112,064</b>	<b>141,887</b>	<b>169,726</b>
Property sales	66,796	80,907	106,400	135,300	162,120
Rental	992	1,091	1,418	1,630	1,875
Hotel	1,708	1,908	2,309	2,678	3,080
Property management	646	895	1,083	1,321	1,559
Others	285	712	855	957	1,091
Cost of sales	(48,996)	(58,564)	(77,748)	(99,273)	(119,481)
<b>Gross profit</b>	<b>21,430</b>	<b>26,949</b>	<b>34,317</b>	<b>42,614</b>	<b>50,244</b>
Other income and gains	545	323	560	600	720
Distribution expenses	(1,462)	(2,023)	(2,241)	(2,838)	(3,564)
Administrative expenses	(2,990)	(3,430)	(3,922)	(4,824)	(5,940)
Other expenses	(524)	(520)	(560)	(709)	(849)
<b>Operating profit</b>	<b>16,999</b>	<b>21,298</b>	<b>28,153</b>	<b>34,843</b>	<b>40,611</b>
Finance expenses	1,328	(337)	(388)	(430)	(452)
Associates/JV	(315)	(233)	30	(380)	(380)
Exceptional	679	1,910	632	0	0
<b>Pre-tax profit</b>	<b>18,692</b>	<b>22,638</b>	<b>28,427</b>	<b>34,033</b>	<b>39,779</b>
Profits tax	(8,121)	(10,327)	(12,212)	(15,064)	(17,830)
Minority interest	(2,436)	(3,214)	(3,399)	(3,835)	(4,215)
Perpetual	(294)	(262)	(342)	(342)	(342)
<b>Net profit</b>	<b>7,840</b>	<b>8,835</b>	<b>12,474</b>	<b>14,792</b>	<b>17,392</b>
<b>Core profit</b>	<b>6,930</b>	<b>8,551</b>	<b>11,842</b>	<b>14,792</b>	<b>17,392</b>

### Cash flow summary

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>EBIT</b>	<b>16,999</b>	<b>21,298</b>	<b>28,153</b>	<b>34,843</b>	<b>40,611</b>
Depreciation and amortization	665	664	676	696	714
Change in working capital	2,641	(7,180)	(21,051)	(15,400)	(16,200)
Income tax paid	(6,133)	(6,042)	(12,604)	(15,064)	(17,830)
Others	(2,694)	(6,530)	1,064	(548)	(2,047)
<b>Net cash from operating</b>	<b>11,479</b>	<b>2,210</b>	<b>(3,762)</b>	<b>4,527</b>	<b>5,248</b>
Capex	(8,305)	(2,768)	(289)	(704)	(786)
Associates/JV	(17,655)	(2,989)	(1,043)	(1,627)	(2,927)
Other	2,954	(452)	1,917	250	550
<b>Net cash from investing</b>	<b>(23,005)</b>	<b>(6,208)</b>	<b>585</b>	<b>(2,081)</b>	<b>(3,163)</b>
Equity raised	(65)	(1,647)	0	0	0
Change of Debts	22,590	17,996	2,868	2,700	3,600
Dividend paid	(2,542)	(3,373)	(3,888)	(4,570)	(5,019)
Other	746	6,135	(125)	(300)	(400)
<b>Net cash from financing</b>	<b>20,728</b>	<b>19,111</b>	<b>(1,145)</b>	<b>(2,170)</b>	<b>(1,819)</b>
Net change in cash	9,202	15,113	(4,322)	276	267
Cash at the beginning	19,359	28,537	43,688	39,342	39,594
Exchange difference	(24)	38	(24)	(24)	(24)
<b>Cash at the end</b>	<b>28,537</b>	<b>43,688</b>	<b>39,342</b>	<b>39,594</b>	<b>39,837</b>
Pledged deposit	4,469	5,888	5,942	5,942	5,942
Cash at BS	33,007	49,577	45,284	45,536	45,779

### Balance sheet

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19A	FY20A	FY21A
<b>Non-current assets</b>	<b>85,027</b>	<b>88,748</b>	<b>88,541</b>	<b>90,391</b>	<b>92,841</b>
Fixed asset	21,690	22,543	23,200	23,800	24,000
Investment properties	34,036	36,891	37,200	38,000	39,300
Associates/JV	16,418	18,556	19,300	20,000	21,500
Intangible assets	1,841	1,841	1,841	1,841	1,841
Other non-current assets	11,042	8,917	7,000	6,750	6,200
<b>Current assets</b>	<b>222,531</b>	<b>288,849</b>	<b>310,784</b>	<b>332,656</b>	<b>353,779</b>
Cash	33,007	49,577	45,284	45,536	45,779
Account receivable	15,584	19,923	23,000	25,000	28,000
Inventories	155,160	199,011	222,000	241,000	258,000
Other current assets	18,781	20,338	20,500	21,120	22,000
<b>Current liabilities</b>	<b>135,477</b>	<b>187,895</b>	<b>196,400</b>	<b>208,000</b>	<b>217,100</b>
Borrowings	18,326	31,306	30,000	31,200	33,300
Trade and other payables	33,524	50,585	55,600	61,200	65,000
Contract liabilities	34,117	47,173	52,000	56,800	60,000
Deferred taxation	15,641	20,595	20,800	20,800	20,800
Other current liabilities	33,869	38,235	38,000	38,000	38,000
<b>Non-current liabilities</b>	<b>75,335</b>	<b>84,422</b>	<b>88,000</b>	<b>89,500</b>	<b>91,000</b>
Borrowings	69,309	77,825	82,000	83,500	85,000
Other non-current liabilities	6,025	6,596	6,000	6,000	6,000
<b>Shareholders' equity</b>	<b>57,635</b>	<b>59,234</b>	<b>67,825</b>	<b>78,046</b>	<b>90,420</b>
Minority interest	34,912	40,946	42,000	42,400	43,000
Perpetual bond	4,200	5,100	5,100	5,100	5,100
Total equity	96,747	105,280	114,925	125,546	138,520

### Key ratios

YE Dec 31	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Sales mix (%)</b>					
Property sales	94.8	94.6	94.9	95.4	95.5
Rental	1.4	1.3	1.3	1.1	1.1
Hotel	2.4	2.2	2.1	1.9	1.8
Property management	0.9	1.0	1.0	0.9	0.9
Others	0.4	0.8	0.8	0.7	0.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	30.4	31.5	30.6	30.0	29.6
Pre-tax margin	24.1	24.9	25.1	24.6	23.9
Net margin	11.1	10.3	11.1	10.4	10.2
Effective tax rate	43.4	45.6	43.0	44.3	44.8
<b>Balance sheet ratios</b>					
Current ratio (x)	1.6	1.5	1.6	1.6	1.6
Receivable day	80.8	85.0	74.9	64.3	60.2
Payable day	173.7	215.9	181.1	157.4	139.8
Inventory day	1155.9	1240.3	1042.2	886.1	788.2
Net gearing ratio (%)	56.5	56.6	58.1	55.1	52.4
<b>Returns (%)</b>					
ROE	13.6	14.9	18.4	19.0	19.2
ROA	2.5	2.3	3.1	3.5	3.9
<b>Per share data</b>					
EPS (RMB)	2.32	2.65	3.75	4.44	5.22
DPS (HK\$)	1.00	1.20	1.45	1.68	1.68
BVPS (RMB)	17.02	17.49	20.54	23.64	27.39

Source: Company data, CMBIS estimates

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## CMB International Securities Limited

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

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