

Redsun (1996 HK)

Explore out of Jiangsu

Core earnings of RMB1.25bn in 2019 was 13% below our estimate because of more than expected deduction from minority. Redsun has solid foundation in Jiangsu and plans to expand to other regions. We cut our earnings forecast by 21% in 2020 and 18% in 2021. We cut TP from HK\$3.37 to HK\$3.22. Maintain BUY.

- **More deduction from minority.** Revenue and net profit surged 64.2% to RMB15.2bn and 3.9% to RMB1.47bn in 2019, respectively. Gross margin declined by 6.1ppt to 25.1%. Core earnings increased by 2.7% to RMB1.25bn in the period, which was 13.0% below our forecast. Major discrepancy came from larger than expected deduction from minority. Full year dividend was RMB0.111, up 22% YoY, with core payout ratio of 30%.
- **Contracted sales increased 38% in 2019.** Contracted sales amount and area gained by 37.6% to RMB65.1bn and 38.8% to 4.9mn sq m in 2019, respectively. We believe its brand name and increased cooperation with other developers help the sales growth. Redsun expanded its footprint out from Jiangsu. Contracted sales outside Jiangsu increased from 17% in 2018 to 27% in 2019. In 2020, the Company sets sales target at RMB75bn and saleable resources from Jiangsu to account for 50%.
- **Total land bank of 16.93mn sq m.** Redsun acquired 57 plots of land with total GFA of 6.93mn sq m (attributable ratio of 49%) in 2019. Total and attributable land bank amounted to 16.93mn sq m and 9.25mn sq m as at end-19, respectively. Land bank in Jiangsu, YRD ex-Jiangsu and others accounted for 58%, 25% and 17% respectively.
- **Asset-light expansion plan.** Re-opening part of Nanjing Hong Yang Plaza in Aug 2019 drove the rental income up 14.6% to RMB411mn in 2019. In addition, the Company adopts asset-light model to accelerate its growth. In 2019, two asset-light shopping malls in Yantai and Tengzhou opened in 2019. The Company plans to open three malls in Yanjiao, Yangzhou and Hengyang through asset-light model in 2020 and number of shopping malls under its management will reach 15 in 2021 and beyond.
- **Trim forecasts and TP.** Financial status is well managed with net gearing ratio of 70% as at end-19. After consideration of minority, we cut earnings forecast by 20.6% to RMB1.56bn in 2019 and 18.1% to RMB2.11bn in 2021. We also cut end-20 NAV estimate from HK\$5.61 to HK\$5.36. As a result, we trim TP from HK\$3.37 to HK\$3.22, representing a 30% discount to NAV.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	9,239	15,170	20,115	25,858	30,063
YoY growth (%)	50.5	64.2	32.6	28.6	16.3
Net income (RMB mn)	1,412	1,468	1,563	2,112	2,436
EPS (RMB)	0.66	0.44	0.47	0.64	0.73
YoY growth (%)	N.A.	-33.3	6.5	35.1	15.4
Consensus EPS (RMB)	N.A.	N.A.	0.52	0.66	0.61
P/E (x)	3.4	5.1	4.8	3.6	3.1
P/B (x)	0.6	0.5	0.5	0.5	0.4
Yield (%)	3.6	4.4	5.5	7.6	8.5
ROE (%)	11.1	10.6	10.4	12.6	13.1
Net gearing (%)	68.3	70.4	66.2	68.2	68.1

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$3.22
(Previous TP)	HK\$3.37
Up/downside	+27.1%
Current Price	HK\$2.53

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)	8,400
Avg 3 mths t/o (HK\$ mn)	11.9
52w High/Low (HK\$)	3.2/1.75
Total Issued Shares (mn)	3,320

Source: Bloomberg

Shareholding Structure

Zeng Huansha	72.3%
Free float	27.7%

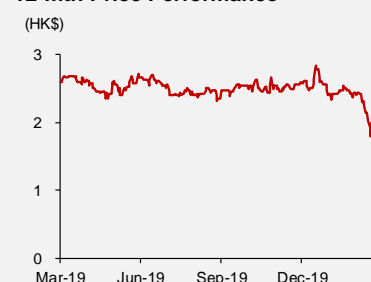
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	3.3%	9.7%
3-mth	-1.2%	7.1%
6-mth	7.2%	11.3%
12-mth	-1.7%	-1.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

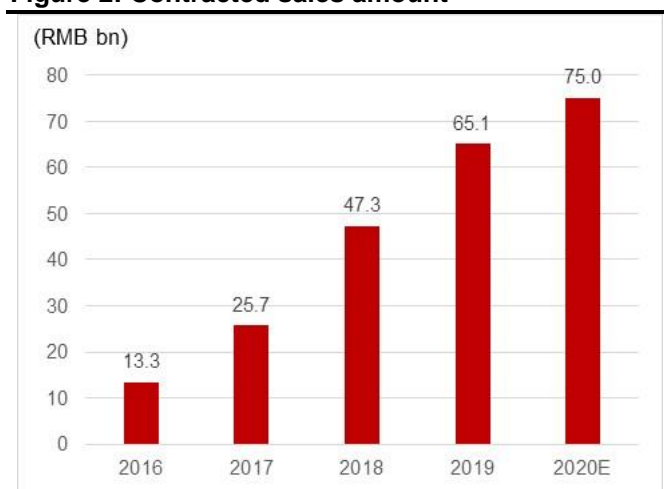
1. Backbone in Nanjing – 15 Nov 2019
2. Another fast-growing YD developer – 17 May 2019

Figure 1: 2019 results

	2018A (Rmb mn)	2019A (Rmb mn)	Change (%)	2019E (Rmb mn)	Diff (%)	Remark
Turnover	9,239	15,170	64.2%	14,692	3.3%	
-Property development	8,843	14,718	66.4%	14,352	2.6%	
-Rental	359	411	14.6%	300	37.1%	
-Hotel	37	40	8.3%	40	0.3%	
Cost of Sales	(6,352)	(11,356)	78.8%	(10,834)	4.8%	
Gross Profit	2,887	3,813	32.1%	3,857	-1.1%	Gross margin declined by 6.1ppts to 25.1% in 2019
Other operating income	236	331	40.4%	294	12.7%	
Distribution Cost	(342)	(652)	90.8%	(485)	34.5%	
Administrative Expenses	(686)	(1,090)	58.8%	(881)	23.6%	
Other expenses	(48)	(37)	-24.1%	(29)	24.4%	
EBIT	2,047	2,366	15.6%	2,755	-14.1%	SG&A/Revenue increased from 11.6% in 2018 to 11.7% in 2019
Interest expenses	(499)	(634)	27.0%	(595)	6.6%	
Associated	367	693	88.8%	400	73.3%	
Exceptional	261	310	19.0%	285	9.1%	
Pre-tax Profit	2,175	2,735	25.7%	2,845	-3.8%	
Taxation	(852)	(1,100)	29.0%	(1,184)	-7.1%	Effective tax rate expanded by 1.0ppts to 40.2% in 2019
Profit after Tax	1,323	1,636	23.6%	1,661	-1.5%	
Minority	89	(168)	N.A.	(15)	1022.0%	
Net Profit	1,412	1,468	3.9%	1,646	-10.8%	Final dividend of RMB0.111
Core Profit	1,214	1,247	2.7%	1,433	-13.0%	

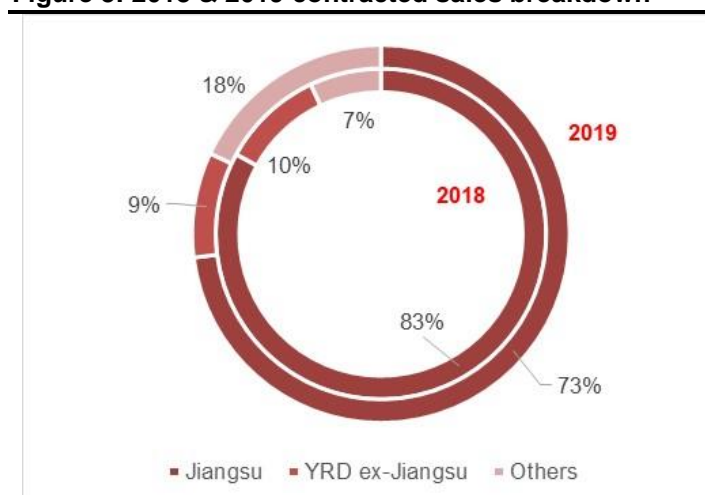
Source: Company data, CMBIS estimates

Figure 2: Contracted sales amount



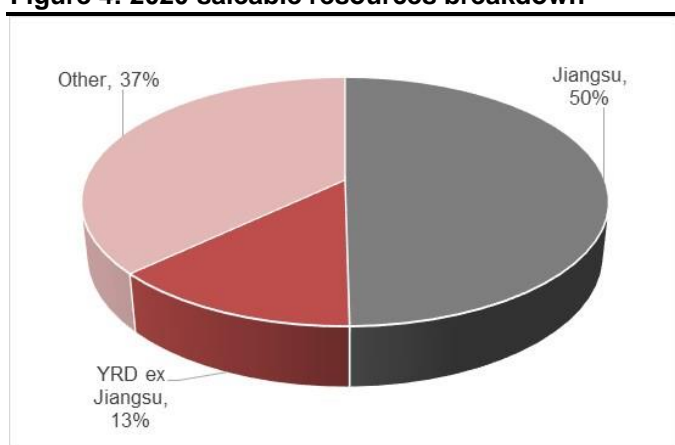
Source: Company data, CMBIS

Figure 3: 2018 & 2019 contracted sales breakdown



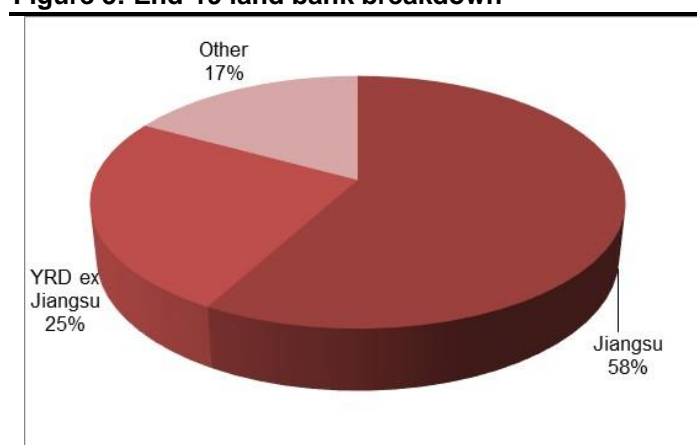
Source: Company data, CMBIS

Figure 4: 2020 saleable resources breakdown



Source: Company data, CMBIS

Figure 5: End-19 land bank breakdown



Source: Company data, CMBIS

Figure 6: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	20,115	25,858	30,063	20,019	26,088	N.A.	0.5%	-0.9%	N.A.
Gross Profit	5,205	6,662	7,734	5,141	6,664	N.A.	1.2%	0.0%	N.A.
EBIT	3,307	4,313	5,040	3,698	4,879	N.A.	-10.6%	-11.6%	N.A.
Net profit	1,563	2,112	2,436	1,968	2,580	N.A.	-20.6%	-18.1%	N.A.
EPS (RMB)	0.47	0.64	0.73	0.59	0.78	N.A.	-20.6%	-18.1%	N.A.
Gross Margin	25.9%	25.8%	25.7%	25.7%	25.5%	N.A.	0.2 ppt	0.2 ppt	N.A.
EBIT Margin	16.4%	16.7%	16.8%	18.5%	18.7%	N.A.	-2 ppt	-2 ppt	N.A.
Net Margin	7.8%	8.2%	8.1%	9.8%	9.9%	N.A.	-2.1 ppt	-1.7 ppt	N.A.

Source: CMBIS estimates

Figure 7: End-20 NAV estimation

			NAV/share		Remark
	(Rmb mn)	(HK\$ mn)	(HK\$)	% of NAV	
Properties under development	22,907	25,537	7.69	144%	WACC of 12%
Investment property	6,222	6,936	2.09	39%	8% cap rate
Gross Amount	29,129	32,474	9.78	183%	
Net debt	(13,170)	(14,682)	(4.42)	-83%	Dec-20
NAV	15,959	17,791	5.36	100%	

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	9,239	15,170	20,115	25,858	30,063
Property development	8,843	14,718	19,575	25,254	29,400
Property investment	359	411	498	557	613
Hotel	37	40	42	46	50
Cost of sales	(6,352)	(11,356)	(14,910)	(19,196)	(22,330)
Gross profit	2,887	3,813	5,205	6,662	7,734
Other income and gains	236	331	315	340	343
Distribution expenses	(342)	(652)	(805)	(983)	(1,112)
Administrative expenses	(686)	(1,090)	(1,368)	(1,655)	(1,864)
Other expenses	(48)	(37)	(40)	(52)	(60)
Operating profit	2,047	2,366	3,307	4,313	5,040
Finance expenses	(499)	(634)	(735)	(707)	(698)
Associates/JV	367	693	580	620	650
Exceptional	261	310	-	-	-
Pre-tax profit	2,175	2,735	3,152	4,225	4,993
Profits tax	(852)	(1,100)	(1,349)	(1,803)	(2,131)
After-tax profit	1,323	1,636	1,803	2,422	2,861
Minority interest	89	(168)	(240)	(310)	(425)
Perpetual	-	-	-	-	-
Net profit	1,412	1,468	1,563	2,112	2,436
Core profit	1,214	1,247	1,563	2,112	2,436

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E
EBIT	2,047	2,366	3,307	4,313	5,040
Depreciation and amortization	80	128	128	138	146
Change in working capital	(6,322)	(15,657)	(2,812)	(5,550)	(7,570)
Income tax paid	(454)	(436)	(1,446)	(1,703)	(2,131)
Others	2,021	15,229	2,469	3,008	5,383
Net cash from operating	(2,628)	1,631	1,645	205	868
Capex	(1,469)	(2,116)	(1,104)	(1,004)	(1,084)
Associates/JV	(3,434)	(5,082)	(579)	(600)	(600)
Other	923	(135)	(110)	(136)	(136)
Net cash from investing	(3,980)	(7,333)	(1,792)	(1,740)	(1,820)
Equity raised	3,113	-	-	-	-
Change of Debts	9,523	7,627	2,154	2,100	3,600
Dividend paid	-	(271)	(331)	(417)	(572)
Other	(2,273)	795	-	-	-
Net cash from financing	10,363	8,151	1,823	1,683	3,028
Net change in cash	3,755	2,449	1,676	148	2,076
Cash at the beginning	2,478	6,233	8,692	10,377	10,535
Exchange difference	-	10	10	10	10
Cash at the end	6,233	8,692	10,377	10,535	12,621
Pledged deposit	6,223	8,153	8,153	8,153	8,153
Cash at BS	12,456	16,844	18,530	18,688	20,774

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	13,609	21,099	22,492	23,991	25,563
Fixed asset	989	808	860	930	972
Investment properties	9,397	11,572	12,500	13,300	14,200
Associates/JV	2,739	7,821	8,400	9,000	9,600
Intangible assets	12	12	12	11	11
Other non-current assets	472	885	720	750	780
Current assets	54,313	74,298	79,930	87,338	98,294
Cash	12,456	16,844	18,530	18,688	20,774
Account receivable	2,600	7,712	4,200	4,850	5,320
Inventories	30,869	39,621	47,200	53,200	61,200
Other current assets	8,388	10,120	10,000	10,600	11,000
Current liabilities	40,649	56,876	60,220	65,400	72,600
Borrowings	10,827	12,411	12,900	13,800	14,400
Trade and other payables	6,638	4,846	6,100	7,200	8,100
Contract liabilities	16,639	32,016	33,000	35,000	40,000
Deferred taxation	1,604	2,169	2,100	2,100	2,100
Other current liabilities	4,941	5,434	6,120	7,300	8,000
Non-current liabilities	13,423	20,475	22,320	23,780	26,850
Borrowings	11,093	17,135	18,800	20,000	23,000
Other non-current liabilities	2,330	3,340	3,520	3,780	3,850
Shareholders' equity	12,695	13,888	15,082	16,729	18,527
Minority interest	1,155	4,159	4,800	5,420	5,880
Perpetual bond	0	0	0	0	0
Total equity	13,850	18,046	19,882	22,149	24,407

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Property development	95.7	97.0	97.3	97.7	97.8
Property investment	3.9	2.7	2.5	2.2	2.0
Hotel	0.4	0.3	0.2	0.2	0.2
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	31.2	25.1	25.9	25.8	25.7
Pre-tax margin	22.2	15.6	16.4	16.7	16.8
Net margin	15.3	9.7	7.8	8.2	8.1
Effective tax rate	39.2	40.2	42.8	42.7	42.7
Balance sheet ratios					
Current ratio (x)	1.3	1.3	1.3	1.3	1.4
Receivable day	102.7	185.6	76.2	68.5	64.6
Payable day	262.3	116.6	110.7	101.6	98.3
Inventory day	1773.9	1273.5	1155.4	1011.6	1000.4
Net gearing ratio (%)	68.3	70.4	66.2	68.2	68.1
Returns (%)					
ROE	11.1	10.6	10.4	12.6	13.1
ROA	2.1	1.5	1.5	1.9	2.0
Per share data					
EPS (RMB)	0.66	0.44	0.47	0.64	0.73
DPS (RMB)	0.09	0.11	0.14	0.19	0.22
BVPS (RMB)	3.82	4.18	4.54	5.04	5.58

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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