

Sinic Holdings (2103 HK)

Breakthrough into industrial land acquisition

We like Sinic's new industrial land acquisition approach because it introduces theme park operator in negotiating with the government together and only needs to pay for the residential part if successful. If it could replicate this in more cities (such as Nanchang), this would support group sales/margin in a longer term. As for this year, we expect Sinic to record 15-20% sales growth and continue to focus on improving cash collection, funding improvement and attributable sales ratio. Maintain **BUY**.

- Expect Sales to grow 15-20% this year.** The Company recorded 25% YoY sales growth in 2020 to RMB 114bn. Due to the restriction of "three red line" on debts (<10% YoY growth for Sinic), we expect it to record 15-20% sales growth this year (with 45% attributable ratio). It has achieved RMB15.9bn in 2M21 (+124% YoY) with ASP reaching a new high at RMB15,400/sq m. It represented 12% of its annual target, in line with the industry. Also, Sinic will gradually improve attributable sales ratio and this would be seen in the 1H20 land acquisition with 72% attributable ratio.
- Breakthrough into industrial land acquisition:** apart from public land bidding and M&A, the Company has strategically looked for industrial land acquisitions opportunities. In Chengdu, it is negotiating with the government on a theme park land plot via the asset light model. This means the theme park part will be built and operated by a third party while Sinic only needs to pay for the residential part. If it succeeds, it may bring about RMB 10bn saleable resources with gross margin >30% to the Company. Sinic is also trying a similar approach at its home base Nanchang and we may expect 15-20% of its land acquisition from this channel.
- Improving balance sheet with lowering funding rate.** Since IPO, Sinic has improved its net gearing from 238% in 2018 to 66.2% in Jun 2020 and we expect it to stay below 80% due to disciplined land acquisition strategy (<40% of its sales). We think the next target is to bring liability/asset ratio back within the requirements of "three red line" and the key is to improve the cash collection ratio from 80% in 2020 to industry average of >85%. On the funding side, Sinic is also trying to lower the ratio of trust loans (from 36% in 2019 to 23% in 1H20 at 10-11% rate) by using offshore bond and syndicated loans. This would further help lower the overall funding rate.
- Maintain BUY.** Due to the COVID impact on completion, we trim core net profit to RMB1.94bn in 2020 from previous RMB 2.58bn. As a result, we also lower our end-20 NAV forecast to HK\$9.90 from HK\$10.11. Accordingly, we cut our TP to HK\$4.95, 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	27,577	29,743	32,003
YoY growth (%)	60.6	220.7	2.2	7.9	7.6
Net income (RMB mn)	414	1,958	2,079	2,231	2,299
EPS (RMB)	0.14	0.64	0.58	0.62	0.64
YoY growth (%)	NA	362.5	-8.6	7.3	3.1
Consensus EPS (RMB)	NA	NA	0.69	0.83	0.97
P/E (x)	26.4	5.2	5.7	5.3	5.1
P/B (x)	NA	1.4	1.2	1.0	0.9
Yield (%)	NA	3.9	4.4	4.7	4.9
ROE (%)	9.7	24.0	21.4	19.6	17.5
Net gearing (%)	237.9	67.0	68.5	71.5	74.6

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price HK\$4.95
(Previous TP) HK\$5.06
Up/Downside +24.4%
Current Price HK\$3.98

China Property Sector

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Stock Data

Mkt Cap (HK\$ mn)	14,209
Avg 3 mths t/o (HK\$ mn)	13.28
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%

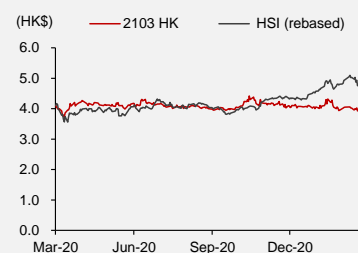
Source: Company data

Share Performance

	Absolute	Relative
1-mth	1.0%	1.7%
3-mth	-2.7%	-11.3%
6-mth	0.0%	-15.5%
12-mth	-6.8%	-16.2%

Source: Bloomberg

12-mth Price Performance



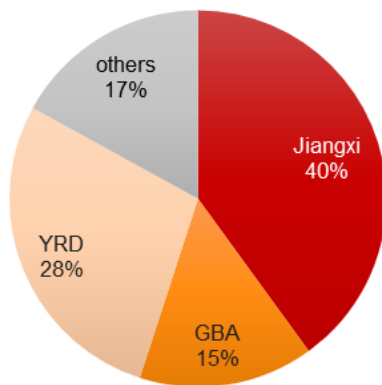
Source: Bloomberg

Auditor: Ernst & Young

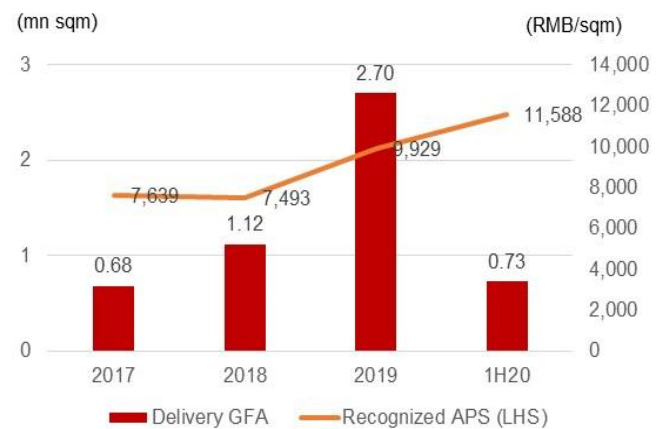
Figure 1: Earnings revision

(RMB mn)	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	27,577	29,743	32,003	32,641	42,140	52,761	-15.5%	-29.4%	-39.3%
Gross Profit	7,694	8,175	8,513	9,249	11,522	13,910	-16.8%	-29.0%	-38.8%
EBIT	4,983	5,424	5,541	5,923	7,569	8,925	-15.9%	-28.3%	-37.9%
Net profit	2,079	2,231	2,299	2,719	3,313	3,836	-23.5%	-32.7%	-40.1%
Core profit	1,937	2,231	2,299	2,577	3,313	3,836	-24.8%	-32.7%	-40.1%
EPS (RMB)	0.58	0.62	0.64	0.76	0.93	1.07	-23.5%	-32.7%	-40.1%
Gross Margin	27.9%	27.5%	26.6%	28.3%	27.3%	26.4%	-0.4 ppt	0.1 ppt	0.2 ppt
EBIT Margin	18.1%	18.2%	17.3%	18.1%	18.0%	16.9%	-0.1 ppt	0.3 ppt	0.4 ppt
Net Margin	7.5%	7.5%	7.2%	8.3%	7.9%	7.3%	-0.8 ppt	-0.4 ppt	-0.1 ppt

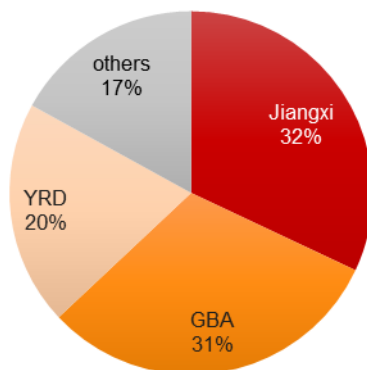
Source: Bloomberg, CMBIS estimates

Figure 2: Attributable contracted sales in 1H20

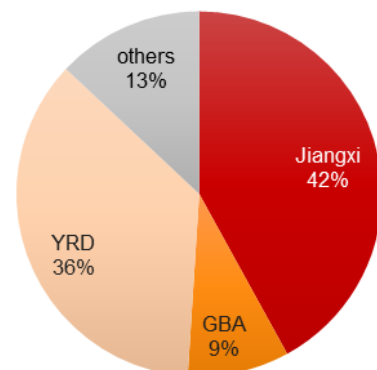
Source: Company data, CMBIS

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

Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	8,416	26,985	27,577	29,743	32,003	EBIT	2,121	6,479	4,983	5,424	5,541
Sale of properties	8,389	26,807	27,345	29,442	31,611	D&A	20	58	21	21	21
Others	26	178	232	301	392	Change in working capital	(15,834)	1,900	(8,648)	(11,509)	(17,309)
Cost of sales	(5,273)	(18,986)	(19,883)	(21,568)	(23,490)	Taxation	(1,075)	(1,311)	(2,211)	(2,532)	(2,558)
Gross profit	3,143	7,999	7,694	8,175	8,513	Others	16,493	(10,964)	5,872	(541)	1,424
Other income and gain	112	153	135	173	180	Operating cash flows	1,725	(3,839)	17	(9,137)	(12,882)
Selling and marketing expenses	(658)	(1,077)	(1,710)	(1,844)	(1,984)	Capex & Investment, net	(174)	(1,350)	(659)	(178)	(177)
Administrative Expenses	(430)	(569)	(1,103)	(1,041)	(1,120)	Associated companies	(961)	(8,549)	(3,122)	(3,147)	(2,176)
Other operating expenses	(46)	(27)	(33)	(39)	(47)	Others	(185)	637	-	-	-
EBIT	2,121	6,479	4,983	5,424	5,541	Investing cash flows	(1,320)	(9,261)	(3,781)	(3,325)	(2,353)
Share from JCE	39	102	122	147	176	Equity raised	-	1,973	-	-	-
Finance costs	(426)	(456)	(512)	(560)	(604)	Change of debts	5,351	4,395	5,315	3,112	3,000
Exceptional	129	140	149	-	-	Dividend	-	-	(464)	(520)	(558)
PROFIT BEFORE TAX	1,863	6,264	4,742	5,011	5,113	Others	(1,526)	10,256	-	-	-
Income tax	(1,309)	(4,250)	(2,482)	(2,532)	(2,558)	Financing cash flows	3,825	16,625	4,851	2,592	2,442
PROFIT FOR THE YEAR	555	2,014	2,260	2,479	2,555	Net change in cash	4,230	3,525	1,087	(9,869)	(12,792)
Non-controlling interests	(141)	(57)	(181)	(248)	(255)	Cash at the beginning	2,877	7,084	10,559	11,662	1,810
Net profit to shareholders	414	1,958	2,079	2,231	2,299	Exchange difference	(24)	(50)	17	17	17
Core profit	317	1,853	1,937	2,231	2,299	Cash at the end	7,084	10,559	11,662	1,810	(10,965)
						Pledged cash	2,982	6,040	7,639	7,118	5,394
						Cash at balance sheet	10,066	16,599	19,302	8,929	(5,571)
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	90,773	104,489	123,019	Sales mix (%)					
Properties inventory	47,655	51,790	58,965	71,472	89,080	Property development	99.7	99.3	99.2	99.0	98.8
Due from related parties	5,112	4,796	5,400	5,400	5,400	Others	0.3	0.7	0.8	1.0	1.2
Cash and cash equivalents	10,066	16,599	19,887	21,094	22,014	Total	100.0	100.0	100.0	100.0	100.0
Others	5,055	4,679	6,521	6,523	6,525	Profit & loss ratios (%)					
Non-current assets	9,720	18,360	22,169	25,472	27,804	Gross margin	37.3	29.6	27.9	27.5	26.6
PP&E	114	91	82	90	98	EBIT margin	25.2	24.0	18.1	18.2	17.3
Investment properties	1,153	1,751	2,400	2,550	2,700	Net margin	4.9	7.3	7.5	7.5	7.2
Investment in JCEs	4,574	13,225	16,347	19,493	21,669	Effective tax rate	70.2	67.8	52.3	50.5	50.0
Others	3,879	3,293	3,340	3,339	3,337	Growth (%)					
Total assets	77,608	96,224	112,942	129,961	150,823	Revenue	60.6	220.7	2.2	7.9	7.6
Current liabilities	59,549	66,260	77,276	91,288	107,170	Gross profit	77.9	154.5	-3.8	6.3	4.1
Trade and other payables	3,142	5,457	6,000	7,000	7,300	EBIT	98.1	205.5	-23.1	8.8	2.2
Contract liabilities	40,196	34,231	41,471	52,457	68,039	Net profit	335.2	373.4	6.2	7.3	3.1
Amount due to	1,400	5,957	6,800	6,800	6,800	Balance sheet ratios					
ST loan	9,225	11,645	13,974	16,000	16,000	Current ratio (x)	1.1	1.2	1.2	1.1	1.1
Others	5,586	8,969	9,031	9,031	9,031	Payables turnover days	218	105	73	73	73
Non-current liabilities	12,998	15,068	18,139	19,225	22,225	Inventory turnover days	3,299	996	1,082	1,210	1,384
LT loan	12,878	14,928	17,914	19,000	22,000	Net debt / total equity ratio (%)	237.9	67.0	68.5	71.5	74.6
Others	120	140	225	225	225	Returns (%)					
Total liabilities	72,547	81,328	95,415	110,513	129,395	ROE	9.7	24.0	21.4	19.6	17.5
Equity to shareholders	4,244	8,167	9,727	11,400	13,124	ROA	0.7	2.1	2.0	1.9	1.7
Non-controlling interests	817	6,729	7,800	8,048	8,303	Per share					
Total equity	5,060	14,896	17,527	19,448	21,428	EPS (RMB)	0.14	0.64	0.58	0.62	0.64
						DPS (RMB)	NA	0.13	0.15	0.16	0.16
						BVPS (RMB)	NA	2.3	2.7	3.2	3.7

Source: Company data, CMBIS estimates

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