

China SCE (1966 HK)

Breakthrough RMB100bn next year

SUMMARY. Revenue and core net profit increased by 10.7% to RMB10.4bn and 28.9% to RMB1.54bn in 1H19, respectively. We estimate end-20 NAV to be HK\$8.05. As a result, we raise TP from HK\$4.56 to HK\$4.83. Maintain BUY.

- Interim core profit gained 29% to RMB1.5bn.** Revenue increased by 10.7% to RMB10.4bn in 1H19. 65% rise in recognized GFA to 0.94mn sq m offset 33% decline of recognized ASP to RMB10,669 per sq m. GM was affected by declining ASP and narrowed from 32.3% in 1H18 to 28.9% in 1H19. In the period, China SCE recorded a gain of RMB564mn from bargain purchase. Excluding non-cash items, core earnings increased by 28.9% to RMB1.54bn in 1H19.
- 78% contracted sales growth in 1H19.** In 1H19, over 100 projects in 32 cities were launched for pre-sales. Contracted sales amount and area soared by 77.9% to RMB37.0bn and 80.3% to 2.97mn sq m in 1H19, respectively. The Company focused on the property sales in Yangtze River Delta region, where contributed 36.8% of contracted sales amount in the period. By Jul, hit rate was 60.3% based on RMB70bn sales target. As at Jun 2019, pre-sold and unbooked properties totaled RMB35bn, of which RMB8bn will be recognized in 2H19. The management also hints that they are looking to have RMB130bn sales target next year.
- 29.01mn sq m total land bank in 37 cities.** China SCE acquired 27 new projects in 19 cities with total GFA of 5.27mn sq m, for a total consideration of RMB24.0bn in 1H19. As at Jun 2019, China SCE had invested properties projects in 37 cities with total GFA of 29.01mn sq m (attributable GFA 16.32mn sq m). In terms of land cost, investment in the first and second tier cities accounted for 12.4% and 65.2% of total land cost as at Jun 2019, respectively. In the future, the Company will focus to absorb land bank in the second and leading third tier cities. Average land cost was RMB3,787 per sq m, which is equivalent to 30.3% of pre-sales ASP in 1H19.
- Healthy balance sheet.** As at Jun 2019, cash on hand and total debt amounted to RMB23.5bn and RMB40.3bn, respectively. Net gearing ratio stood at 66.2%, which was a safe level. Although cost of debt increased to 6.7% in 1H19 from 6.4% in 1H18, it would not cause significant impact to its debt repayment ability as cash to short-term debt ratio was 2.6x.
- Maintain BUY.** We raise our earnings forecast by 22.2% to RMB3.70bn in 2019. We also forecast end-20 NAV to be HK\$8.05. As a result, we raise TP from HK\$4.56 to HK\$4.82, based on 40% discount to NAV.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	16,105	17,783	24,024	33,000	42,158
YoY growth (%)	29.0	10.4	35.1	37.4	27.8
Net income (RMB mn)	2,840	3,385	3,703	3,885	5,175
EPS (RMB)	0.80	0.88	0.90	0.94	1.25
YoY growth (%)	32.1	9.9	2.2	4.9	33.2
P/E (x)	4.5	4.1	4.0	3.8	2.9
P/B (x)	1.1	0.9	0.8	0.7	0.6
Yield (%)	4.8	5.3	6.5	7.8	8.5
ROE (%)	22.8	21.9	20.2	18.4	20.7
Net gearing (%)	71.8	62.3	66.1	70.1	64.5

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price HK\$4.83
 (Previous TP) HK\$4.56
Up/downside +21.1%
Current Price HK\$3.99

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Stock Data

Mkt Cap (HK\$ mn)	16,463
Avg 3 mths t/o (HK\$ mn)	32.3
52w High/Low (HK\$)	4.42/2.55
Total Issued Shares (mn)	4,126
Source: Bloomberg	

Shareholding Structure

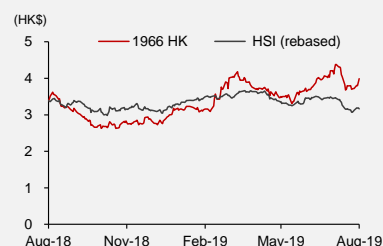
Wong Chiu Yeung	51.0%
Chen Yuanlai	5.18%
Cheng Hiu Lok	3.67%
Free float	39.58%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-7.4%	1.4%
3-mth	12.4%	18.3%
6-mth	23.8%	34.9%
12-mth	16.3%	-22.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

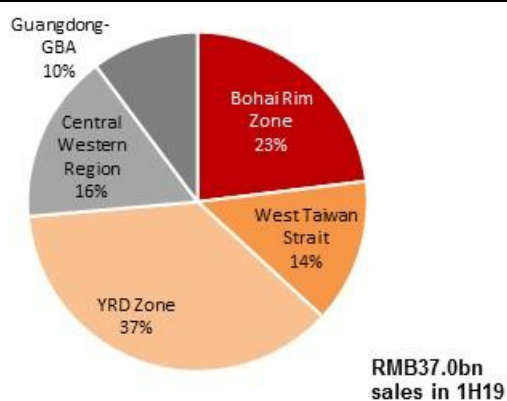
- Always have fun – 21 Mar 2019
- Operating leverage – 27 Aug 2018

Figure 1: 2019 interim results

	1H19A (Rmb mn)	1H18A (Rmb mn)	Growth (%)	Remark
Turnover	10,423	9,415	10.7%	
-Property development	10,066	9,134	10.2%	65% rise in recognized GFA offset 33% decline in ASP in 1H19
-Rental	133	75	77.7%	Rental income of SCE Plaza in Shanghai commenced contribution
-Property management	159	143	11.6%	
-Land development	0	0	N.A.	
-Project management	64	63	0.9%	
Cost of Sales	(7,412)	(6,373)	16.3%	
Gross Profit	3,011	3,042	-1.0%	Gross margin was narrowed from 32.3% in 1H18 to 28.9% in 1H19
Other operating income	760	133	469.7%	
Distribution Cost	(231)	(136)	70.5%	Increase # of projects on sales
Administrative Expenses	(629)	(425)	48.1%	Increase # of staff and RMB71mn share option expenses in 1H19
Other Expenses	0	0	N.A.	
EBIT	2,910	2,615	11.3%	
Net finance expense	(267)	(259)	3.1%	Cost of debt increased from 6.4% in 1H18 to 6.7% in 1H19
Associated	(134)	549	N.A.	
Exceptional	732	327	123.6%	Revaluation gain of investment properties
Pre-tax Profit	3,242	3,233	0.3%	
Taxation	(1,048)	(1,163)	-10.0%	Effective tax rate reduced by 3.7ppts to 32.3% in 1H19
Profit after Tax	2,194	2,069	6.0%	
Minority	(245)	(23)	987.4%	
Perpetual securities	(32)	(27)	20.0%	
Net Profit	1,917	2,020	-5.1%	Declared interim dividend of HK\$0.1 per share
Core earnings	1,544	1,198	28.9%	

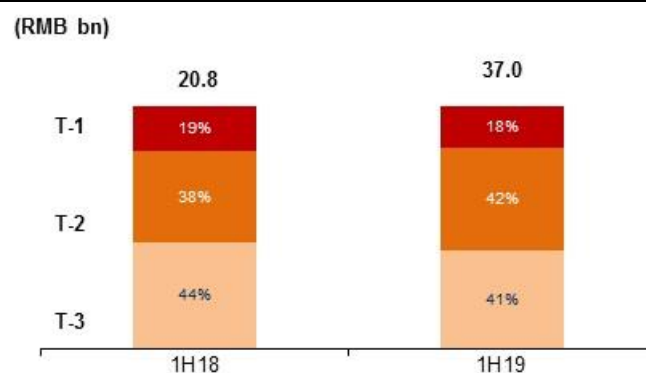
Source: Company data

Figure 2: Contracted sales amount by regions in 1H19



Source: Company data

Figure 3: Contracted sales amount by tier of cities in 1H19



Source: Company data

Figure 4: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	24,024	33,000	42,158	23,822	29,716	35,630	0.9%	11.0%	18.3%
Gross Profit	7,311	9,381	11,973	7,928	9,303	10,799	-7.8%	0.8%	10.9%
EBIT	6,228	7,566	9,938	6,311	7,576	8,803	-1.3%	-0.1%	12.9%
Net profit	3,703	3,885	5,175	3,030	3,817	4,363	22.2%	1.8%	18.6%
EPS (RMB)	0.90	0.94	1.25	0.74	0.93	1.06	21.8%	1.8%	18.6%
Gross Margin	30.4%	28.4%	28.4%	33.3%	31.3%	30.3%	-2.8 ppt	-2.9 ppt	-1.9 ppt
EBIT Margin	25.9%	22.9%	23.6%	26.5%	25.5%	24.7%	-0.6 ppt	-2.6 ppt	-1.1 ppt
Net Margin	15.4%	11.8%	12.3%	12.7%	12.8%	12.2%	2.7 ppt	-1.1 ppt	0 ppt

Source: CMBIS estimates

Figure 5: End-20 NAV

	NAV/share				Remark
	(Rmb mn)	(HK\$ mn)	(HK\$)	% of NAV	
Properties under development	24,879	27,736	6.72	83%	WACC of 8.2%
Investment property	24,516	27,332	6.62	82%	Market rate
Gross Amount	49,395	55,067	13.35	166%	
Net debt	(19,586)	(21,835)	(5.29)	-66%	Dec-20
NAV	29,809	33,232	8.05	100%	

Source: CMBIS estimates

Financial Summary

Income statement						Cash flow summary					
YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E	YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	16,105	17,783	24,024	33,000	42,158	EBIT	3,781	4,836	6,228	7,566	9,938
Property development	15,574	17,225	23,253	32,090	41,075	D&A	39	42	104	115	121
Property investment	123	131	250	296	355	Change in working capital	1,968	1,644	(9,175)	(3,600)	(5,400)
Property management	270	337	421	505	606	Income tax paid	(1,326)	(367)	(1,315)	(2,630)	(3,423)
Land development	86	0	0	0	0	Others	(1,038)	2,694	7,760	(2,881)	1,065
Project management	52	91	100	110	123	Net cash from operating	3,424	8,849	3,602	(1,430)	2,301
Cost of sales	(10,620)	(11,636)	(16,713)	(23,619)	(30,185)	Capex	(3,889)	(10,628)	(2,322)	(1,261)	(2,495)
Gross profit	5,485	6,147	7,311	9,381	11,973	Associates/JV	(4,035)	(2,415)	(4,161)	1,500	200
Other income and gains	123	387	791	248	284	Other	(154)	(120)	(135)	(110)	(136)
Distribution expenses	(531)	(398)	(480)	(544)	(632)	Net cash from investing	(8,078)	(13,162)	(6,618)	129	(2,431)
Administrative expenses	(963)	(1,299)	(1,393)	(1,518)	(1,686)	Equity raised	1,223	507	108	0	0
Other expenses	(333)	0	0	0	0	Change of Debts	5,035	11,815	6,662	4,200	2,600
Operating profit	3,781	4,836	6,228	7,566	9,938	Dividend paid	(1,029)	(648)	(831)	(901)	(1,074)
Finance expenses	(392)	(402)	(669)	(789)	(853)	Other	364	0	0	0	0
Associates/JV	808	535	350	420	395	Net cash from financing	5,593	11,674	5,938	3,299	1,526
Exceptional	1,263	1,083	732	0	0	Net change in cash	939	7,360	2,922	1,998	1,395
Pre-tax profit	5,461	6,052	6,641	7,197	9,480	Cash at the beginning	7,212	8,145	15,515	18,447	20,455
Profits tax	(2,012)	(2,376)	(2,556)	(2,910)	(3,823)	Exchange difference	(5)	10	10	10	10
Minority interest	(557)	(233)	(318)	(338)	(418)	Cash at the end	8,145	15,515	18,447	20,455	21,860
Perpetual	(52)	(58)	(64)	(64)	(64)	Pledged deposit	1,497	4,458	4,159	4,159	4,159
Net profit	2,840	3,385	3,703	3,885	5,175	Cash at BS	9,642	19,973	22,606	24,614	26,019
Core profit	1,903	2,200	3,330	3,885	5,175						

Balance sheet						Key ratios					
YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E	YE Dec 31	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	24,586	39,277	46,183	45,883	48,373	Sales mix (%)					
Fixed asset	105	681	800	880	990	Property development	96.7	96.9	96.8	97.2	97.4
Investment properties	10,252	20,270	22,400	23,500	25,800	Property investment	0.8	0.7	1.0	0.9	0.8
Associates/JV	3,424	5,839	10,000	8,500	8,300	Property management	1.7	1.9	1.8	1.5	1.4
Intangible assets	3	3	3	3	3	Land development	0.5	0.0	0.0	0.0	0.0
Other non-current assets	10,802	12,484	12,980	13,000	13,280	Project management	0.3	0.5	0.4	0.3	0.3
						Total	100.0	100.0	100.0	100.0	100.0
Current assets	41,589	62,214	75,906	82,214	90,819	Profit & loss ratios (%)					
Cash	9,642	19,973	22,606	24,614	26,019	Gross margin	34.1	34.6	30.4	28.4	28.4
Account receivable	2,939	5,258	5,500	5,800	6,300	Pre-tax margin	23.5	27.2	25.9	22.9	23.6
Inventories	24,707	31,344	42,000	46,500	53,200	Net margin	17.6	19.0	15.4	11.8	12.3
Other current assets	4,300	5,640	5,800	5,300	5,300	Effective tax rate	36.8	39.3	38.5	40.4	40.3
Current liabilities	34,638	54,226	61,600	62,800	69,300	Balance sheet ratios					
Borrowings	7,958	10,537	10,000	11,200	13,800	Current ratio (x)	1.2	1.1	1.2	1.3	1.3
Trade and other payables	7,678	18,277	20,000	21,200	23,000	Receivable day	66.6	107.9	83.6	64.2	54.5
Contract liabilities	15,611	21,540	25,000	25,000	28,000	Payable day	174.0	375.1	303.9	234.5	199.1
Deferred taxation	1,644	2,600	2,800	2,900	3,000	Inventory day	849.2	983.2	917.3	718.6	643.3
Other current liabilities	1,748	1,273	3,800	2,500	1,500	Net gearing ratio (%)	71.8	62.3	66.1	70.1	64.5
Non-current liabilities	14,979	25,125	33,455	36,650	36,950	Returns (%)					
Borrowings	13,565	22,800	30,000	33,000	33,000	ROE	22.8	21.9	20.2	18.4	20.7
Other non-current liabilities	1,414	2,325	3,455	3,650	3,950	ROA	4.3	3.3	3.0	3.0	3.7
Shareholders' equity	12,458	15,482	18,334	21,147	25,042	Per share data					
Minority interest	3,400	5,957	8,000	6,800	7,200	EPS (RMB)	0.80	0.88	0.90	0.94	1.25
Perpetual bond	700	700	700	700	700	DPS (HK\$)	0.19	0.21	0.26	0.31	0.34
Total equity	16,558	22,139	27,034	28,647	32,942	BVPS (RMB)	3.26	4.05	4.49	5.13	6.07

Source: Company data, CMBIS estimates

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