

Dexin China (2019 HK)

The landmark of Hangzhou

As a key Hangzhou player (32% of its land bank), Dexin has seized the booming local demand to expand into YRD/National Tier 2 cities and achieved 25% attributable sales CAGR in 2018-20 to RMB21.8bn. With abundant and quality land bank, we think it can continue to deliver 15-20% attributable sales growth in 20-22E. This growing scale would help Dexin to increase the attributable/consolidated sales ratio (35%/45% in 2020) to boost national brand influences and balance sheet transparency. Initiate with Buy.

- **The Hangzhou index.** As born and raised in Hangzhou, Dexin has 32% of its land bank in Hangzhou. In 2016-2021, Hangzhou primary property price has been up 11.5% CAGR to RMB28447/sq m in Jan 2021 based on CREIS. As a key beneficiary, Dexin's sales ASP also rose to RMB20,401/sq m in 2020 (+11% YoY) with a reasonable land cost/ASP ratio of 35%. In the future event of 2022 Asian game and YRD zone development, we think the local demand would remain robust and thus continuously benefit the Company.
- **Abundant saleable resources to drive 15-20% attributable sales growth CAGR in 20-22E:** As of 1H20, the Company had 4mn attributable land bank or 80bn saleable value, which is enough for 3-4 years of development. Within its land bank, 75%/60%+ are located in YRD region and Tier 1-2 cities. Therefore, we think this quality land bank + improving asset turnover (from land acquisition to cash flow breakeven at 8-12 months) would help Dexin deliver 15-20% sales growth in 21/22E, > the industry average of 10%.
- **Higher transparency on increasing attributable ratio:** Its attributable and consolidated sales ratio at 35%/43% in 2020 was much lower than the industry of 60-65%. Going forward, we think the ratio would start to increase based on higher attributable ratio of its land bank acquisition (at 46% in 1H20 and 40% for the overall land bank). This would increase the overall balance sheet transparency and thus have a positive impact on the funding rate (8.9% in 1H20). The Company had a net gearing ratio of 76% in 1H20 but with an off-balance debt of RMB14.4bn (26% attributable ratio).
- **Expect 6% core earnings CAGR in 2019-2022E on revenue growth.** Riding on strong sales in 2019/20, we forecast total revenue to grow at 26% CAGR in 2019-2022E to reach RMB19bn, but it would be partly offset by the drop in GPM to 25%. Therefore core earnings are expected to grow at 6% CAGR in 2019-22E. **Initiate at Buy with TP of HK\$3.56.** We derive TP by applying 50% discount to its NAV per share at HK\$7.12. It's currently trading at 3.8x 2021E PE, vs. industry average of 4.5x. **Risk:** policy tightening in Hangzhou.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	8,212	9,513	13,683	16,436	19,308
YoY growth (%)	0.0	15.8	43.8	20.1	17.5
Net income (RMB mn)	1,453	1,556	1,559	1,746	1,877
EPS (RMB)	0.71	0.60	0.58	0.65	0.70
YoY growth (%)	N.A.	-16.4	-3.4	12.0	7.5
Consensus EPS (RMB)	0.71	0.60	0.65	0.79	0.97
P/E (x)	3.5	4.1	4.3	3.8	3.6
P/B (x)	2.0	1.3	1.1	0.9	0.8
Yield (%)	3.1	6.0	4.7	6.4	7.2
ROE (%)	58.8	31.0	25.5	23.8	21.7
Net gearing (%)	67.5	68.6	78.7	76.5	59.2

Source: Company data, Bloomberg, CMBIS estimates

BUY (Initiation)

Target Price	HK\$3.56
Up/Downside	+19.5%
Current Price	HK\$2.98

China Property Sector

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Stock Data

Mkt Cap (HK\$ mn)	8,050
Avg 3 mths t/o (HK\$ mn)	3.30
52w High/Low (HK\$)	3.44/ 2.73
Total Issued Shares (mn)	2,701

Source: Bloomberg

Shareholding Structure

Hu Yiping	69.9%
Free float	30.1%

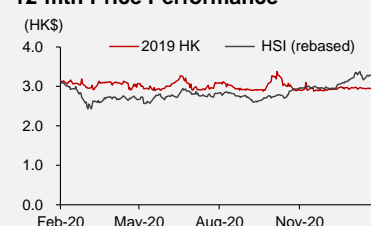
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	0.3%	-5.0%
3-mth	3.1%	-10.6%
6-mth	-3.6%	-19.5%
12-mth	-1.3%	-9.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	8,212	9,513	13,683	16,436	19,308
Property development	8,171	9,446	13,600	16,330	19,176
Property investment	27	55	71	92	116
Hotel	14	12	12	14	16
Cost of sales	(5,089)	(6,454)	(10,224)	(12,278)	(14,419)
Gross profit	3,123	3,059	3,459	4,159	4,889
Other income and gains	94	171	164	164	164
Distribution expenses	(294)	(458)	(616)	(740)	(869)
Administrative expenses	(452)	(721)	(1,013)	(1,200)	(1,390)
Other expenses	192	186	219	250	281
Operating profit	2,663	2,238	2,215	2,633	3,075
Finance expenses	(375)	(432)	(575)	(619)	(645)
Associates/JV	579	1,175	1,200	1,300	1,350
Exceptional	-	-	-	-	-
Pre-tax profit	2,867	2,981	2,840	3,314	3,780
Profits tax	(1,026)	(725)	(513)	(627)	(751)
After-tax profit	1,841	2,257	2,327	2,688	3,029
Minority interest	(388)	(700)	(768)	(941)	(1,151)
Perpetual	-	-	-	-	-
Net profit	1,453	1,556	1,559	1,747	1,878
Core profit	1,453	1,556	1,559	1,747	1,878

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before tax	2,867	2,981	2,840	3,314	3,780
Depreciation and amortization	12	19	34	38	43
Change in working capital	(3,710)	(35)	(4,391)	(2,512)	(2,211)
Income tax paid	(250)	(418)	(513)	(627)	(751)
Others	(1,870)	(2,715)	-	-	-
Net cash from operating	(2,952)	(169)	(2,031)	213	861
Capex	(274)	(806)	(480)	(500)	(520)
Associates/JV	(721)	(1,672)	(1,500)	(1,000)	(1,000)
Other	3,453	(1,658)	(1,500)	(1,000)	(1,000)
Net cash from investing	2,457	(4,136)	(3,480)	(2,500)	(2,520)
Equity raised	-	1,429	-	-	-
Change of Debts	4,229	5,025	5,208	1,701	1,088
Dividend paid	(472)	(270)	(216)	(468)	(524)
Other	274	195	3,583	2,150	2,580
Net cash from financing	4,031	6,379	8,575	3,383	3,144
Net change in cash	3,536	2,073	3,064	1,096	1,485
Cash at the beginning	3,951	7,487	9,564	12,628	13,725
Exchange difference	-	4	-	-	-
Cash at the end	7,487	9,564	12,628	13,725	15,209
Pledged deposit	-	-	-	-	-
Cash at BS	7,487	9,564	12,628	13,725	15,209

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	4,830	8,091	8,310	8,768	9,283
Fixed asset	268	379	375	371	368
Investment properties	1,768	2,924	3,375	3,841	4,323
Associates/JV	0	0	0	0	0
Intangible assets	1	1	1	1	1
Other non-current assets	2,792	4,787	4,559	4,554	4,592
Current assets	44,780	59,196	72,138	79,116	86,239
Cash	7,488	9,570	12,628	13,725	15,209
Account receivable	2,703	3,513	4,887	5,870	6,896
Inventories	28,030	37,249	42,759	45,657	48,270
Other current assets	6,559	8,864	11,864	13,864	15,864
Current liabilities	38,039	45,902	53,204	56,625	60,681
Borrowings	5,355	5,540	6,094	6,399	6,719
Trade and other payables	2,668	4,324	6,816	8,185	9,613
Contract liabilities	20,921	27,628	27,628	27,628	27,628
Deferred taxation	969	1,242	1,242	1,242	1,242
Other current liabilities	8,126	7,168	11,424	13,171	15,479
Non-current liabilities	4,701	10,651	14,173	15,569	16,337
Borrowings	4,424	9,308	13,962	15,358	16,126
Other non-current liabilities	277	1,343	211	211	211
Shareholders' equity	2,473	5,013	6,105	7,328	8,642
Minority interest	4,395	5,721	6,967	8,362	9,862
Perpetual bond	0	0	0	0	0
Total equity	6,869	10,735	13,071	15,690	18,505

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Property development	99.5	99.3	99.4	99.4	99.3
Property investment	0.3	0.6	0.5	0.6	0.6
Hotel	0.2	0.1	0.1	0.1	0.1
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	38.0	32.2	25.3	25.3	25.3
EBIT margin	32.4	23.5	16.2	16.0	15.9
Net margin	17.7	16.4	11.4	10.6	9.7
Effective tax rate	35.8	24.3	18.1	18.9	19.9
Balance sheet ratios					
Current ratio (x)	1.2	1.3	1.4	1.4	1.4
Receivable day	120.1	134.8	130.4	130.4	130.4
Payable day	191.4	244.5	243.3	243.3	243.3
Inventory day	2010.5	2106.7	1526.6	1357.3	1221.9
Net gearing ratio (%)	67.5	68.6	79.8	72.0	59.8
Returns (%)					
ROE	58.8	31.0	25.5	23.8	21.7
ROA	2.9	2.3	1.9	2.0	2.0
Per share data					
EPS (RMB)	0.71	0.60	0.58	0.65	0.70
DPS (RMB)	0.09	0.18	0.14	0.19	0.22
BVPS (RMB)	1.22	1.92	2.26	2.71	3.20

Source: Company data, CMBIS estimates

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