

Powerlong Commercial (9909 HK)

Visibility enhanced for 2021 target with on-track rental/sales growth and more reasonable opening schedule

Powerlong recorded an impressive May Golden Week (May 4-8) mall traffic and avg. SSSG of +44% YoY, higher than market average +20%. We believe overall visibility is enhanced for 2021 target due to 1) on-track rental and sales growth; 2) a more reasonable opening schedule with two malls planned in Jun-Jul; and 3) occupancy improvements & brand upgrade under new CEO. Our TP of HK\$33.2 reflects 30x 2022E P/E. **Reiterate Top Pick.**

- Strong mall traffic and rental growth during 4M21.** During May Golden Week, mall traffic growth and avg. SSSG were both up 44% YoY vs. market average +20%, and highlights a strong 2021 so far in terms of mall sales and rental income: 1) we estimate 4M21 sales to have gained 70% from low 2020 base; 2) assuming on-schedule openings and similar seasonality to historical data on rental income (5-10% growth every HY), we estimate 27-34% YoY growth in 2021E, on-track for parentco's guidance of +24% YoY. Powerlong takes a fixed 5% rental income, but has a new system for some newer malls where it takes from the higher of rental income/EBITDA, allowing for higher correlation between operations income and sales.
- Opening plans pushed earlier for better visibility.** Powerlong guides a record 22 new openings in 2021 with 14 from parentco, 2 third-party and 6 Xinghui projects. Two malls have completed tenant sourcing, and their opening are pushed to June from 4Q21. Xinghui also opened its first shopping street of 2021 in May. We think pushing the opening schedule earlier improves visibility and reduces the chance for delays.
- Occupancy and brand improvements under new CEO.** Since new CEO Mr. Chen's arrival in June 2020, Powerlong has prioritized improving occupancy, brand upgrade, and asset-light expansion. Under his guidance Powerlong 1) has ensured occupancy rate for new malls are consistently above 95%, and are improving old malls through tenant adjustments; 2) has formed partnerships with key upscale tenants like Apple and to secure their presence in Powerlong's malls; 3) are in talks for 3 M&A deals for small-to-mid sized shopping street projects, which could be secured by 3Q21 along with other third-party contracts.
- Visibility enhanced for 2021 targets.** We estimate 2021 earnings to be RMB459mn or +45% YoY, and believe that Powerlong's progress so far, in sales, occupancy, new openings, etc. enhances overall visibility on achieving 2021 and longer-term targets (40% NP CAGR with 95% occupancy rate). **Catalysts:** 1) Third-party/M&A deals in 2H21; 2) Better-than-expected operating metrics. Maintain TP of HK\$33.2 which reflects 30x 2022E P/E.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	1,200	1,620	1,921	2,632	3,445
YoY growth (%)	23.4	35.0	18.6	37.0	30.9
Net income (RMB mn)	133	179	305	459	592
EPS (RMB)	N.A.	0.44	0.49	0.71	0.92
YoY growth (%)	N.A.	N.A.	11.6	45.0	29.0
Consensus EPS (RMB)	N.A.	0.44	0.48	0.70	0.94
P/E (x)	N.A.	N.A.	45.5	31.4	24.3
P/B (x)	N.A.	N.A.	6.6	5.8	4.7
Yield (%)	N.A.	N.A.	1.2	1.8	2.4
ROE (%)	58.0	11.3	14.1	18.4	19.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$33.2
(Previous TP)	HK\$33.2)
Up/Downside	+15.1%
Current Price	HK\$28.9

China Property Service Sector

Bowen Li

(852) 3657 6239
bowenli@cmbi.com.hk

Jeffrey Zeng

(852) 3916 3727
jeffreyzeng@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	18.579
Avg 3 mths t/o (HK\$ mn)	47.01
52w High/Low (HK\$)	31.65/ 12.98
Total Issued Shares (mn)	644
Source: Bloomberg	

Shareholding Structure

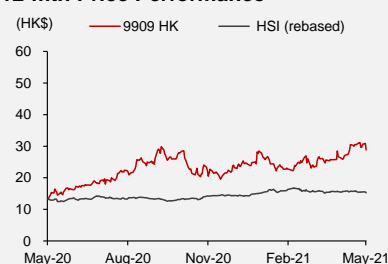
Powerlong Real Estate	65.1%
Hoi Wa Fong	7.2%
Free float	27.7%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	15.8%	16.2%
3-mth	35.9%	42.8%
6-mth	39.6%	28.4%
12-mth	130.9%	95.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	1,200	1,620	1,921	2,632	3,445	Profit before tax	183	247	420	634	821
Commercial operational services	980	1,335	1,563	2,158	2,820	D&A	109	104	2	3	4
Residential property management services	221	285	358	474	626	Change in working capital	54	224	282	358	424
Cost of sales	(875)	(1,192)	(1,327)	(1,790)	(2,353)	Others	10	(41)	(113)	(170)	(220)
Gross Profit	326	428	595	842	1,093	Net cash from operating	356	533	592	825	1,029
Other income	14	17	33	-	-	Capex	(3)	(6)	(5)	(10)	(17)
Selling expenses	(31)	(42)	(36)	(50)	(65)	JV/Associates	-	(5)	-	-	-
Administrative expenses	(80)	(117)	(134)	(158)	(207)	Others	(29)	713	-	-	-
Impairment	(3)	(7)	(23)	-	-	Net cash from investing	(31)	702	(5)	(10)	(17)
Operating profit	225	279	434	634	821	Equity raised	-	1,277	-	-	-
JV/Associates	-	-	(3)	-	-	Change of debts	170	(364)	-	-	-
Finance cost	(43)	(32)	(11)	-	-	Others	(55)	(85)	(165)	(176)	(264)
Pre-tax Profit	183	247	420	634	821	Net cash from financing	116	827	(165)	(176)	(264)
Income tax	(50)	(69)	(113)	(170)	(220)	Net change in cash	441	2,063	421	639	749
PROFIT FOR THE YEAR	133	179	307	464	601	Cash at the beginning of year	113	553	2,616	3,037	3,676
Non-controlling interest	-	-	(2)	(6)	(9)	Exchange difference	(0)	(0)	-	-	-
Net attributable profit	133	179	305	459	592	Cash at the end of the year	553	2,616	3,037	3,676	4,425
Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E	YE 31 Dec	FY18A	FY19A	FY20A	FY21E	FY22E
Non-current assets	719	267	801	1,258	1,514	Sales mix (%)					
PP&E	173	7	10	17	23	Commercial operational	81.6	82.4	81.3	82.0	81.8
Investment properties	156	207	688	1,138	1,388	Residential property	18.4	17.6	18.7	18.0	18.2
Others	390	53	103	103	103	Total	100.0	100.0	100.0	100.0	100.0
Current assets	1,458	2,824	3,719	4,044	4,906	Profit & loss ratios (%)					
Trade and other receivables	416	205	267	365	478	Gross margin	27.1	26.4	30.9	32.0	31.7
Cash and cash equivalents	553	2,616	3,449	3,676	4,425	Net margin	11.1	11.0	15.9	17.4	17.2
Others	489	3	3	3	3	Effective tax rate	27.1	27.8	26.8	26.8	26.8
Total assets	2,178	3,091	4,520	5,303	6,420	Growth (%)					
Current liabilities	1,597	1,313	1,689	2,145	2,682	Revenue	23.4	35.0	18.6	37.0	30.9
Trade and other payables	648	763	1,061	1,432	1,882	Gross profit	28.6	31.5	38.8	41.6	29.8
Others	949	550	628	713	801	Operating profit	51.9	23.9	55.2	46.3	29.4
Non-current liabilities	351	190	666	666	666	Net profit	69.7	34.0	70.8	50.3	29.0
Deferred income tax	7	-	3	3	3	Balance sheet ratios					
Others	344	190	663	663	663	Current ratio (x)	0.9	2.1	2.2	1.9	1.8
Total liabilities	1,948	1,504	2,355	2,811	3,348	Receivable turnover days	25	26	31	31	31
Equity to shareholders	230	1,587	2,166	2,492	3,072	Returns (%)					
Non-controlling interests	-	-	-	-	-	ROE	58.0	11.3	14.1	18.4	19.3
Total Equity	230	1,587	2,166	2,492	3,072	ROA	6.1	5.8	6.7	8.6	9.2
						Per share					
						EPS (RMB)	N.A.	0.44	0.49	0.71	0.92
						DPS (RMB)	N.A.	0.17	0.27	0.41	0.53
						BVPS (RMB)	N.A.	2.65	3.36	3.87	4.77

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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