

# Yuzhou Properties (1628 HK)

## Increased land acquisition; Attractive valuation

Yuzhou achieved 21% core earnings growth in 1H19 to RMB1.4bn. In 7M19, the Company achieved RMB34.5bn contracted sales, up 19.6% YoY, completing 52% of RMB67.0bn sales target. We trim our TP from HK\$5.48 to HK\$5.28. Maintain BUY.

- **20.6% core earnings growth in 1H19.** In 1H19, Yuzhou achieved 25.9% growth of revenue to RMB11.6bn. Gross margin dropped to 27.0% compared to 35.4%/30.7% in FY17/18 due to less YRD projects recognized during the period. On the other hand, effective tax rate dropped 5.6ppt to 42.1%, thus core net profit was up 20.6% to RMB1.4bn, representing core net margin of 12.0%. The Company declared an interim dividend of HK\$0.15 per share (incl. special dividend of HK\$0.03), up 36% YoY. The payout rose to 46.8% (incl. 10% of special dividend).
- **52% hit rate in 7M19.** In 1H19, the Company achieved RMB28.5bn contracted sales with 1.85mn sq m GFA sold, up 32.5% and 17.4%, respectively. This represented ASP of RMB15,366/sq m. YRD remains the core market of Yuzhou, contributing RMB19.7bn sales in 1H19, representing 69% of total sales. Yuzhou's FY19 sales target was RMB67.0bn and 2019 saleable resources amounted to RMB110.0bn (1H:40% 2H:60%). Thus, 1H19 sell-through was 65% and 2H saleable resources amounted to RMB80.0bn (2H newly launched: RMB66.0bn). Yuzhou only needs to achieve 48% sell-through in order to complete RMB67.0bn target. In 7M19, Yuzhou realized contracted sales of RMB34.5bn, completing 51.5% of annual sales target. As FY19 target was 19.6% higher than FY18 sales, we believe RMB67.0bn is a moderate and achievable target.
- **Increased land investment.** Yuzhou has increased its land investment in 1H19. During the period, Yuzhou added 2.12mn sq m new land bank, of which 82% were in tier-one/two cities or 46.3% in YRD and 18.8% in GBA. Total consideration amounted to RMB23.6bn and attributed land cost was RMB14.1bn. Total land cost to contracted sales was 83%. By comparison, total/attributable land cost in FY18 was RMB17.3bn/RMB8.1bn.
- **Attractive valuation, maintain BUY.** Due to margin decline, we trim FY19/20 core earnings forecast by 7.1%/4.2% to RMB3,900mn/5,024mn. We raise our FY19-end NAV forecast from HK\$7.84 to HK\$8.80. Given 40% discount, we trim our TP from HK\$5.48 to HK\$5.28. The counter is trading at 3.5x/3.0x FY19/20E P/E, lower than small-cap peers' average, with dividend yield of 11.5%/11.8% in FY19/20E, in our estimates. Hence, we believe current valuation is attractive. **Maintain BUY.**

### Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	21,701	24,306	33,196	41,239	46,787
YoY growth (%)	58.7	12.0	36.6	24.2	13.5
Net income (RMB mn)	2,762	3,398	4,292	5,024	6,142
EPS (RMB)	0.70	0.78	0.89	1.04	1.28
YoY growth (%)	48.9	11.4	14.3	17.1	22.3
P/E (x)	4.4	4.0	3.5	3.0	2.4
P/B (x)	0.9	0.9	0.8	0.7	0.6
Yield (%)	8.2	8.4	11.5	11.8	14.4
ROE (%)	19.1	19.3	21.4	21.7	22.7
Net gearing (%)	57.7	67.0	73.1	73.4	62.8

Source: Company data, CMBIS estimates

## BUY (Maintain)

Target Price	HK\$5.28
(Previous TP)	HK\$5.48)
Up/Downside	+57.1%
Current Price	HK\$3.36

### China Property Sector

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### Stock Data

Mkt Cap (HK\$ mn)	16,906
Avg 3 mths t/o (HK\$ mn)	30.1
52w High/Low (HK\$)	4.84/2.56
Total Issued Shares (mn)	4,814
Source: Bloomberg	

### Shareholding Structure

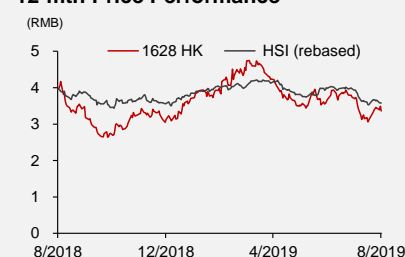
LAM LUNG ON	57.16%
OCT(Asia)	9.90%
Free float	32.94%
Source: HKEx	

### Share Performance

	Absolute	Relative
1-mth	-6.7%	3.3%
3-mth	0.0%	6.3%
6-mth	-9.8%	1.1%
12-mth	-15.7%	-7.1%

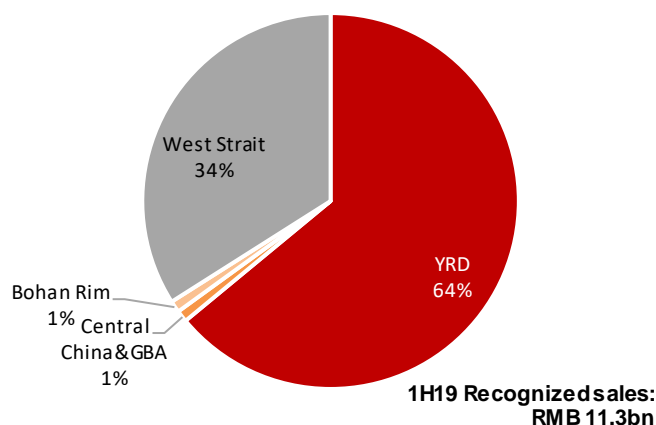
Source: Bloomberg

### 12-mth Price Performance

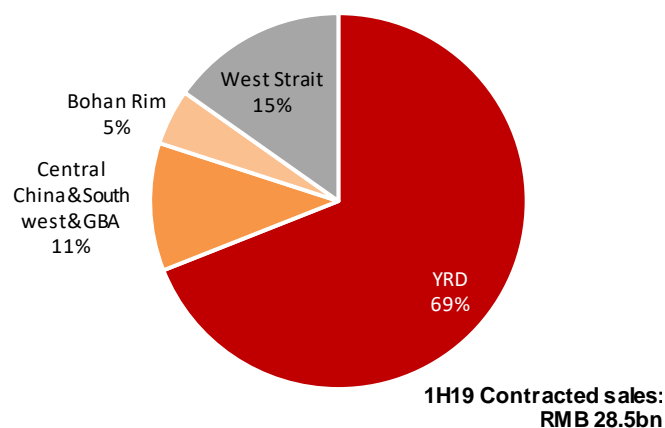


Source: Bloomberg

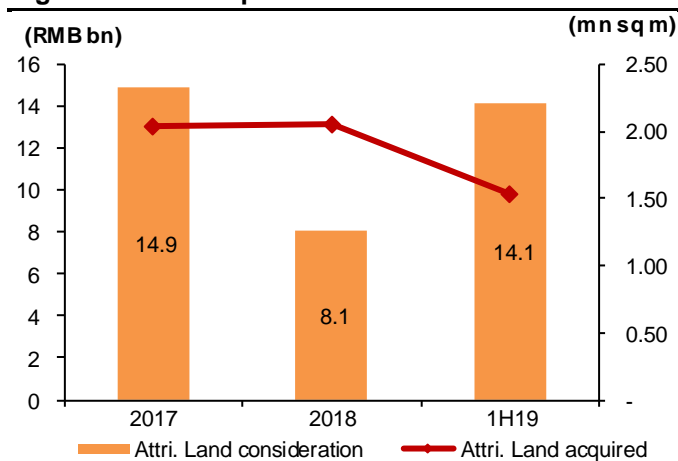
Auditor: EY

**Figure 1: 1H19 recognized sales breakdown**

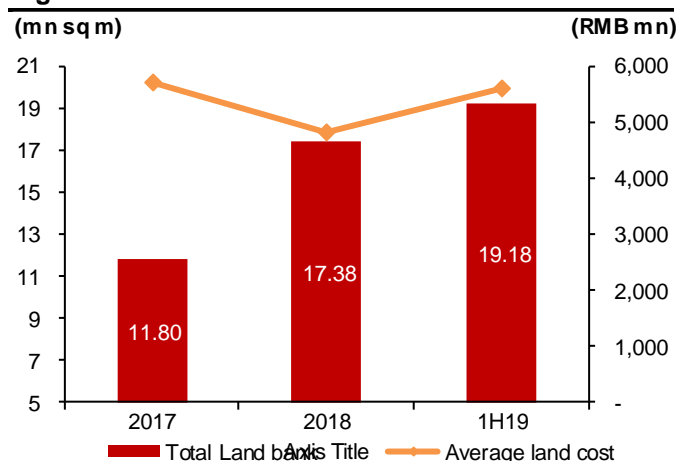
Source: Company data

**Figure 2: 1H19 contracted sales breakdown**

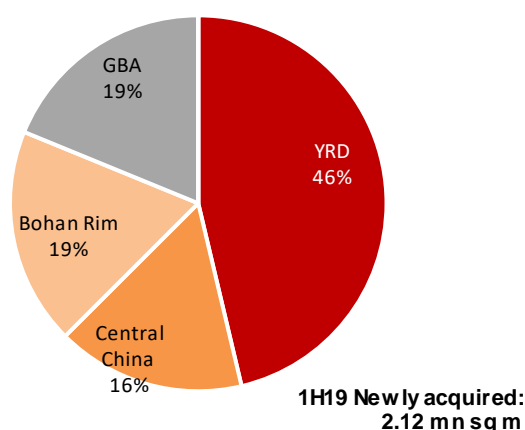
Source: Company data

**Figure 3: Land acquisition**

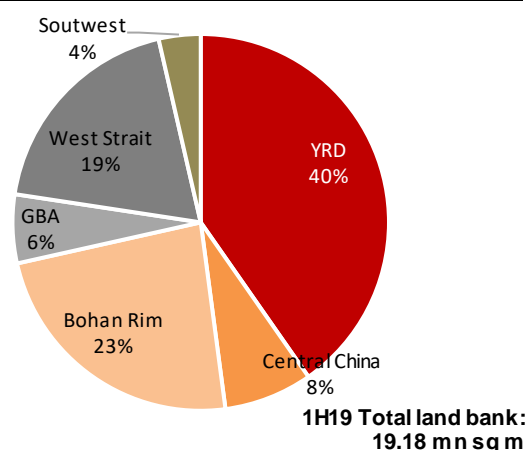
Source: Company data

**Figure 4: Land bank**

Source: Company data

**Figure 5: 1H19 land acquisition breakdown**

Source: Company data

**Figure 6: Land bank breakdown**

Source: Company data

Figure 7: Interim results

(RMB mn)	1H18	1H19	YoY
<b>Revenue</b>	<b>9,243</b>	<b>11,637</b>	<b>26%</b>
Sale of properties	8,973	11,303	26%
Rental income from investment properties	102	148	44%
Property management fee income	158	177	12%
Hotel operation income	9	9	-1%
Others	1	1	175%
Cost of sales	(6,329)	(8,497)	34%
<b>Gross profit</b>	<b>2,914</b>	<b>3,140</b>	<b>8%</b>
<i>Gross margin</i>	<i>31.5%</i>	<i>27.0%</i>	<i>-4.5ppt</i>
Other income	82	187	128%
Selling and distribution expenses	(194)	(181)	-7%
Administrative expenses	(297)	(316)	7%
Other expenses	(50)	(268)	439%
<b>EBIT</b>	<b>2,456</b>	<b>2,563</b>	<b>4%</b>
<i>EBIT margin</i>	<i>26.6%</i>	<i>22.0%</i>	<i>-4.6ppt</i>
Share from associates and JVs	397	240	-40%
Finance costs	(281)	(90)	-68%
Exceptional	86	582	575%
<b>PROFIT BEFORE TAX</b>	<b>2,658</b>	<b>3,295</b>	<b>24%</b>
Income tax	(1,267)	(1,388)	10%
<b>PROFIT FOR THE YEAR</b>	<b>1,391</b>	<b>1,907</b>	<b>37%</b>
Non-controlling interests	(60)	(268)	344%
Perpetual interest	(51)	(53)	4%
<b>Net profit to shareholders</b>	<b>1,279</b>	<b>1,586</b>	<b>24%</b>
<b>Core net profit</b>	<b>1,158</b>	<b>1,397</b>	<b>21%</b>
<i>Core net margin</i>	<i>12.5%</i>	<i>12.0%</i>	<i>-0.5ppt</i>

Source: Company data

Figure 8: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
<b>Revenue</b>	33,196	41,239	46,787	34,246	41,092	55,717	-3.1%	0.4%	-16.0%
<b>Gross Profit</b>	9,350	12,017	14,094	10,590	12,548	17,008	-11.7%	-4.2%	-17.1%
<b>EBIT</b>	7,834	10,101	11,892	8,815	10,426	14,068	-11.1%	-3.1%	-15.5%
<b>Net profit</b>	4,292	5,024	6,142	4,196	5,246	7,164	2.3%	-4.2%	-14.3%
<b>EPS (RMB)</b>	0.89	1.04	1.28	0.87	1.09	1.49	2.5%	-4.3%	-14.4%
<b>Gross Margin</b>	30.0%	29.7%	28.3%	29.7%	29.8%	29.7%	0.3 ppt	-0.1 ppt	-1.4 ppt
<b>EBIT Margin</b>	23.8%	23.9%	22.5%	23.6%	23.4%	23.2%	0.2 ppt	0.5 ppt	-0.7 ppt
<b>Net Margin</b>	11.8%	12.2%	11.5%	11.4%	11.1%	10.9%	0.4 ppt	1.1 ppt	0.6 ppt

Source: CMBIS estimates

Figure 9: Peers comparison

Name	BLP Ticker	Share Price (LC)	Mkt Cap (LC bn)	P/E			P/B		
		28/8/2019		18A	19E	20E	18A	19E	20E
SHENZHEN INVEST	604 HK	2.92	25.3	7.0	6.9	6.4	0.6	0.5	0.5
YUEXIU PROPERTY	123 HK	1.73	26.8	6.6	7.2	6.2	0.6	0.6	0.6
CHINA AOYUAN GRO	3883 HK	9.60	25.8	9.0	5.6	3.9	1.9	1.6	1.2
TIMES CHINA HOLD	1233 HK	12.38	24.0	4.4	4.0	3.2	1.2	1.0	0.8
MIDEA REAL ESTAT	3990 HK	19.48	23.2	5.3	4.9	3.6	1.3	1.1	0.9
SINO-OCEAN GROUP	3377 HK	2.80	21.3	5.0	5.4	3.7	0.4	0.4	0.4
ZHENRO PROPERTIE	6158 HK	4.81	21.0	7.8	6.1	4.5	1.3	1.1	1.0
KWG GROUP HOLDIN	1813 HK	6.35	20.2	4.2	3.7	2.9	0.6	0.6	0.5
POWERLONG REAL	1238 HK	4.77	19.1	5.7	5.9	4.4	0.6	0.6	0.6
YUZHOU PROPERTIE	1628 HK	3.36	16.9	4.0	3.5	3.0	0.9	0.8	0.7
KAISA GROUP	1638 HK	2.76	16.8	5.1	4.5	3.5	0.7	0.6	0.5
CHINA SCE GROUP	1966 HK	3.95	16.3	3.8	4.6	3.6	0.9	0.8	0.7
RONSHINE CHINA H	3301 HK	9.08	15.7	5.5	3.8	2.8	1.0	0.9	0.6
GREENTOWN CHINA	3900 HK	7.06	15.3	33.1	5.4	5.1	0.4	0.5	0.4
CHINA OVERSEAS G	81 HK	3.71	12.7	5.1	3.8	3.2	0.7	0.6	0.5
POLY PROPERTY	119 HK	2.79	10.2	4.6	2.9	2.7	0.3	0.3	0.3
<b>Average (excl. outliers)</b>				<b>5.5</b>	<b>4.9</b>	<b>3.9</b>	<b>0.8</b>	<b>0.7</b>	<b>0.6</b>

Source: Bloomberg, CMBIS estimates

## Financial Summary

Income statement						Cash flow summary					
YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E	YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Revenue</b>	<b>21,701</b>	<b>24,306</b>	<b>33,196</b>	<b>41,239</b>	<b>46,787</b>	<b>EBIT</b>	<b>6,532</b>	<b>6,786</b>	<b>7,834</b>	<b>10,101</b>	<b>11,892</b>
Property development	21,213	23,626	32,387	40,282	45,653	Depreciation and amortization	83	39	73	67	62
Property investment	140	245	293	352	423	Change in working capital	(10,508)	(1,161)	(5,794)	(5,948)	(3,572)
Others	347	435	515	605	712	Income tax paid	(3,063)	(3,009)	(3,450)	(4,612)	(5,338)
Cost of sales	(14,018)	(16,839)	(23,846)	(29,223)	(32,693)	Others	9,469	501	2,582	1,500	-
<b>Gross profit</b>	<b>7,683</b>	<b>7,467</b>	<b>9,350</b>	<b>12,017</b>	<b>14,094</b>	<b>Net cash from operating activities</b>	<b>2,512</b>	<b>3,157</b>	<b>1,245</b>	<b>1,108</b>	<b>3,043</b>
Other income and gain	132	439	277	229	230	Capex	33	(3,315)	582	-	-
Selling expense	(491)	(459)	(664)	(825)	(936)	Associated companies	(115)	(3,075)	-	-	-
Admin expense	(500)	(606)	(730)	(907)	(1,029)	Others	(10,075)	4,802	(3,575)	(3,443)	(2,613)
Other expenses	(293)	(54)	(398)	(412)	(468)	<b>Net cash from investing activities</b>	<b>(10,157)</b>	<b>(1,588)</b>	<b>(2,993)</b>	<b>(3,443)</b>	<b>(2,613)</b>
<b>EBIT</b>	<b>6,532</b>	<b>6,786</b>	<b>7,834</b>	<b>10,101</b>	<b>11,892</b>	Equity raised	(4)	(3)	(2)	(1)	-
Share from JCE	(83)	(52)	523	651	737	Change of Debts	1,781	16,064	5,173	6,660	5,831
Finance costs	(708)	(223)	(708)	(439)	(499)	Dividend paid	(1,061)	(330)	(815)	(546)	(606)
Exceptional	450	224	582	-	-	Others	5,247	(6,012)	(830)	78	357
<b>Pre-tax profit</b>	<b>6,190</b>	<b>6,735</b>	<b>8,231</b>	<b>10,313</b>	<b>12,130</b>	<b>Net cash from financing activities</b>	<b>5,962</b>	<b>9,720</b>	<b>3,526</b>	<b>6,192</b>	<b>5,582</b>
Profits tax	(3,063)	(3,009)	(3,450)	(4,612)	(5,338)	<b>Net change in cash</b>	<b>(1,683)</b>	<b>11,289</b>	<b>1,778</b>	<b>3,856</b>	<b>6,012</b>
<b>Profit for the year</b>	<b>3,127</b>	<b>3,726</b>	<b>4,781</b>	<b>5,700</b>	<b>6,792</b>	Cash at the beginning of the year	15,599	15,596	27,162	28,943	32,800
Minority interests	(337)	(221)	(382)	(570)	(543)	Exchange difference	(4)	(3)	(2)	(1)	-
Perpetual interest	(28)	(107)	(107)	(107)	(107)	<b>Cash at the end of the year</b>	<b>15,596</b>	<b>27,162</b>	<b>28,943</b>	<b>32,800</b>	<b>38,812</b>
<b>Net profit</b>	<b>2,762</b>	<b>3,398</b>	<b>4,292</b>	<b>5,024</b>	<b>6,142</b>	<b>Key ratios</b>					
<b>Core profit</b>	<b>2,464</b>	<b>3,245</b>	<b>3,900</b>	<b>5,024</b>	<b>6,142</b>	YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Balance sheet</b>						Sales mix (%)					
YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E	Property development	97.8	97.2	97.6	97.7	97.6
<b>Current assets</b>	<b>63,159</b>	<b>90,471</b>	<b>104,838</b>	<b>125,697</b>	<b>143,069</b>	Property investment	0.6	1.0	0.9	0.9	0.9
Inventory	27,559	45,346	52,700	64,875	72,905	Others	1.6	1.8	1.6	1.5	1.5
Trade and other receivables	15,630	14,683	19,917	24,744	28,072	<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Cash and equivalent	15,596	27,162	28,942	32,800	38,812	<b>Profit &amp; loss ratios (%)</b>					
Others	4,373	3,279	3,279	3,279	3,279	Gross margin	35.4	30.7	28.2	29.1	30.1
<b>Non-current assets</b>	<b>16,746</b>	<b>24,592</b>	<b>25,043</b>	<b>25,626</b>	<b>26,302</b>	Pre-tax margin	28.5	27.7	24.8	25.0	25.9
PP&E	875	934	861	794	732	Net margin	12.7	14.0	12.9	12.2	13.1
Investment properties	8,140	10,526	10,526	10,526	10,526	Core net margin	11.4	13.4	11.7	12.2	13.1
Associated	6,990	10,013	10,536	11,186	11,924	Effective tax rate	49.5	44.7	41.9	44.7	44.0
Others	741	3,120	3,120	3,120	3,120	<b>Growth (%)</b>					
<b>Total assets</b>	<b>79,905</b>	<b>115,063</b>	<b>129,881</b>	<b>151,324</b>	<b>169,370</b>	Revenue	58.7	12.0	36.6	24.2	13.5
<b>Current liabilities</b>	<b>48,013</b>	<b>64,520</b>	<b>73,432</b>	<b>86,186</b>	<b>96,467</b>	Gross profit	54.9	(2.8)	25.2	28.5	17.3
Contracted liabilities	10,269	13,752	15,290	18,005	20,136	EBIT	55.4	3.9	15.4	28.9	17.7
Trade payables	5,154	6,857	9,538	11,689	13,077	Net profit	49.7	19.2	28.3	19.2	19.2
Other payables and accruals	12,468	22,960	25,535	31,723	35,990	Core profit	55.6	23.0	26.3	17.1	22.3
ST loan	16,704	16,430	18,548	20,248	22,742	<b>Balance sheet ratios</b>					
Taxation	1,893	2,552	2,552	2,552	2,552	Current ratio (x)	1.4	1.5	1.5	1.5	1.5
Others	1,524	1,968	1,968	1,968	1,968	Receivable turnover days	263	220	219	219	219
<b>Non-current liabilities</b>	<b>14,449</b>	<b>29,113</b>	<b>32,167</b>	<b>37,127</b>	<b>40,464</b>	Payables turnover days	134	149	146	146	146
LT loan	10,863	27,202	30,257	35,217	38,554	Inventory turnover days	718	983	807	810	814
Others	3,586	1,910	1,910	1,910	1,910	Net debt / total equity ratio (%)	57.7	67.0	73.1	73.4	62.8
<b>Total liabilities</b>	<b>62,462</b>	<b>93,633</b>	<b>105,600</b>	<b>123,313</b>	<b>136,931</b>	<b>Returns (%)</b>					
Minority Interest	1,062	1,944	2,326	2,896	3,440	ROE	19.1	19.3	21.4	21.7	22.7
Senior perpetual securities	1,912	1,912	1,912	1,912	1,912	ROA	3.9	3.2	3.7	3.8	4.0
<b>Shareholders' equity</b>	<b>14,469</b>	<b>17,575</b>	<b>20,043</b>	<b>23,202</b>	<b>27,088</b>	<b>Per share</b>					
						EPS (RMB)	0.70	0.78	0.89	1.04	1.28
						DPS (RMB)	0.25	0.26	0.36	0.37	0.45
						BVPS (RMB)	3.46	3.43	3.93	4.58	5.39

Source: Company data, CMBIS estimates

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<b>HOLD</b>	: Stock with potential return of +15% to -10% over next 12 months
<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
<b>NOT RATED</b>	: Stock is not rated by CMBIS

<b>OUTPERFORM</b>	: Industry expected to outperform the relevant broad market benchmark over next 12 months
<b>MARKET-PERFORM</b>	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
<b>UNDERPERFORM</b>	: Industry expected to underperform the relevant broad market benchmark over next 12 months

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