

Zhongliang (2772 HK)

Jan sales briefing

We attended sales briefing of Zhongliang for its sales activities in Jan. Sales activities were adversely affected by Chinese New Year and coronavirus outbreak. We believe other developers also face similar problems. So this is a typical case to show how developers face the current situation.

- **Weak sales in Jan, even in Feb.** We have recently attended conference call of Zhongliang for its Jan sales briefing. Contracted sales amount and area were RMB7.4bn and 0.73mn sq m in Jan 2020 respectively, compared with RMB10bn contracted sales in the same period of a year ago. The weaker-than-expected sales were attributed by the CNY and coronavirus. Actually, sales activities almost stopped from 20 Jan. Based on the government instruction, sales centers in 50 mainland cities were closed. Although there are about 30 sales centers opening and Zhongliang will adopt new on-line sales channel in Feb, the Company expects sales pace will not recover in Feb.
- **RM260bn saleable resources in 2020, of which <3% in Hubei.** The Company maintains its plan to launch RMB260bn properties for sales in 2020, of which less than 3% are located in Hubei. Based on 70% sell-through rate, sales target in 2020 is RMB180bn, compared with contracted sales of RMB153bn in 2019. The Company may introduce some promotions (such as price cut) to attract the buyers once coronavirus outbreak is eased. Furthermore, it believes this kind of promotion will only last for short period of time because China government may introduce some measures to stimulate housing demand, such as rate cut and lifting restriction of purchase. However, these stimulus policies may be waited until outbreak issue is almost solved.
- **Prudent cash management.** At end-2019, cash on hand and total debt amounted to RMB26bn and RMB38bn, respectively. Net gearing ratio stood around 70% in the same period. In Jan 2020, Zhongliang acquired nine land parcels with total GFA of 0.91mn sq m. So total attributable unpaid land premium was RMB10bn by Jan 2020. The Company believed "Cash is King" and would like to maintain RMB15-20bn cash on hand anytime. In the coming future, cash inflow will be affected by sluggish sales. As a result, Zhongliang would reduce land purchase and slow down construction works to reduce cash outflow. Slowing down construction may result in completion delay that will affect revenue recognition in 2020.

Earnings Summary

(YE 31 Dec)	FY16A	FY17A	FY18A
Revenue (RMB mn)	2,925	14,026	30,215
YoY growth (%)	N.A.	379.5	115.4
Net income (RMB mn)	(169)	503	1,931
EPS (RMB)	N.A.	N.A.	N.A.
YoY growth (%)	N.A.	N.A.	N.A.
P/E (x)	N.A.	N.A.	N.A.
P/B (x)	N.A.	N.A.	N.A.
Yield (%)	N.A.	N.A.	N.A.
ROE (%)	N.A.	21.2	37.4
Net gearing (%)	1790.2	339.5	58.1

Source: Company data

NOT RATED

Current Price

HK\$5.76

China Property Sector

Samson Man, CFA

(852) 3900 0853

samsonman@cmbi.com.hk

Chengyu Huang

(852) 3761 8773

huangchengyu@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	20,631
Avg 3 mths t/o (HK\$ mn)	20.3
52w High/Low (HK\$)	6.56/4.81
Total Issued Shares (mn)	3,582

Source: Bloomberg

Shareholding Structure

Yang Jian & Family	82.94%
Free flow	17.06%

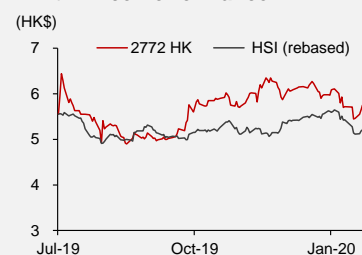
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-3.9%	0.2%
3-mth	-0.3%	0.5%
6-mth	6.3%	0.6%
12-mth	N.A.	N.A.

Source: Bloomberg

12-mth Price Performance



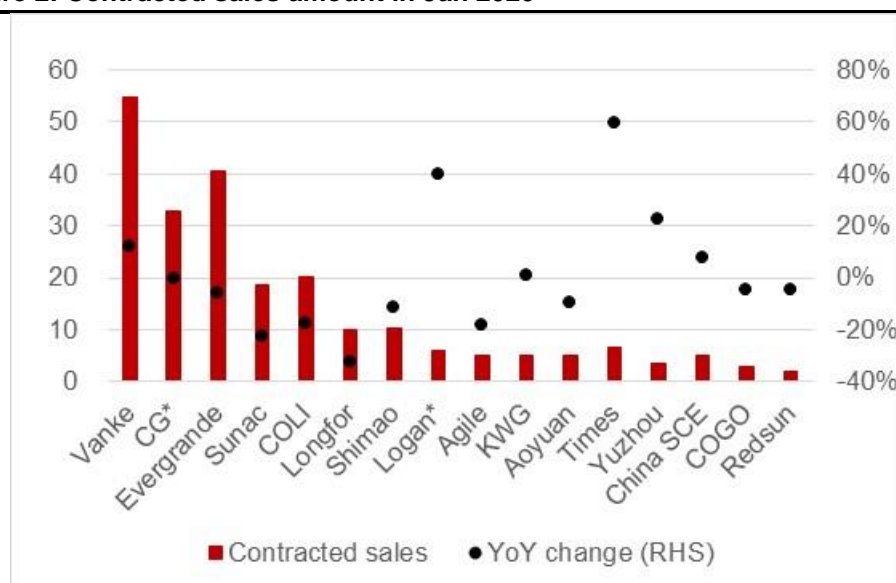
Source: Bloomberg

Auditor: Ernst & Young

Figure 1: Zhongliang's land bank acquisition in Jan 2020

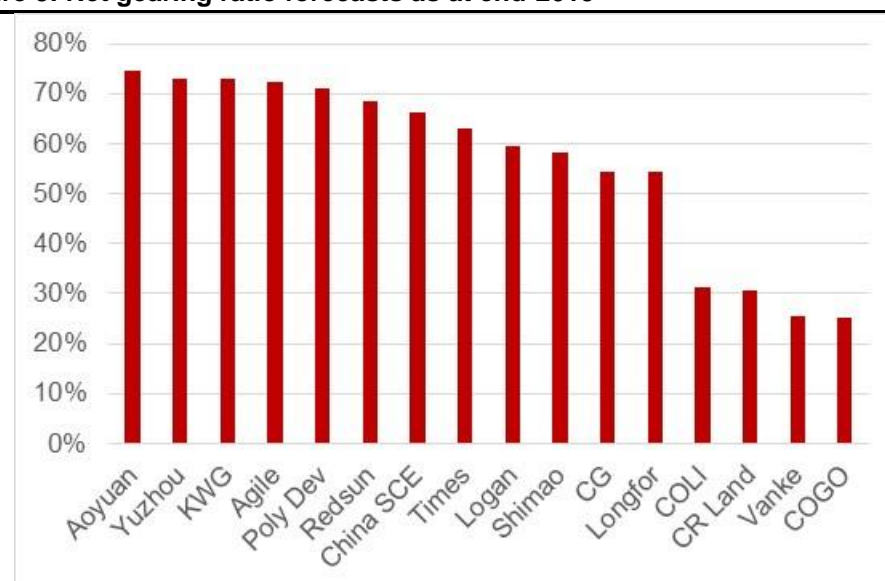
Project	City	Site area (sq m)	Total GFA (sq m)	Land cost (RMB mn)	Avg land cost (RMB/sq m)
Future Science and Technology City	Hangzhou	97,535	214,577	4,902	22,843
Huayuan Street, Kecheng District	Quzhou	43,329	73,659	397	5,383
Lukang North Plant	Jining	30,716	61,433	198	3,230
Higer Education Park, Huaian Development Zone	Huaian	68,362	150,397	354	2,352
Shangrao City Center	Shangrao	53,928	129,427	713	5,505
Fancheng District	Xiangyang	5,517	12,138	29	2,387
High-tech Zone	Xiangyang	29,496	79,639	268	3,361
National Land, Hanshan County	Ma'anshan	43,698	74,287	128	1,729
Gong'an County	Jingzhou	44,367	110,917	191	1,720
Total		416,948	906,474	7,179	7,919

Source: Company data

Figure 2: Contracted sales amount in Jan 2020

Source: Companies data

*Attributable contracted sales amount

Figure 3: Net gearing ratio forecasts as at end-2019

Source: CMBIS estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

Disclosure

CMBIS or its affiliate(s) have investment banking relationship with the issuers covered in this report in preceding 12 months.

CMBIS Ratings

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

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

CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS and/or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US, institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.