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Powerlong Commercial (9909 HK)

Remain confident in delivery and occupancy improvement despite slower-than-expected FY20

Powerlong Commercial announced less-than-expected FY20 mall delivery and soft top-line growth, but core profit beat consensus due to all-round margin improvements. We think the Company's guidance of 40% NP CAGR is achievable given that 1) Powerlong's parentco is still set to deliver avg. 10+ malls per year given 100 mall contracts secured vs. 60 in operation, and parentco's 35% YoY growth in FY20 contract sales, and 2) has shown evidence it can reach ~95% occupancy in LT with FY20 occupancy up 2ppt from 1H20. We revise up earnings estimates in 2021E/22E to RMB459mn/592mn to reflect confidence under improved margin assumptions. **Lift TP to HK$33.2 and reiterate Top Pick.**

- **Commercial revenue softer than expected but overall margin enhanced.** FY20 Revenue was up 18.6% YoY to RMB1.92bn, lower than consensus/CMBI estimates, mainly due to less-than-expected mall delivery (17 vs. guidance of 20+). Core profit (excl. share incentives) was up 81% YoY to RMB 324mn, beating consensus and in line with our estimates, due to 1) +3.5ppt in commercial GPM due to higher contribution of pre-opening services; and 2) correction of low residential margins (2020: 23% vs. 2019: 13%) through introduction of VAS. Occupancy rate returned to pre-pandemic levels at 90%.
- **40% net profit CAGR achievable through improved mall delivery and occupancy.** The Company gave guidance of 22 new commercial projects in 2021 with 14 from parentco, 2 third-party and 6 Xinghui projects, which is a reasonable goal given 40 malls in reserve and potential for extra third-party gains. The Company also plans to improve occupancy rate to 93% in 2021 (95% in LT) through revising tenant portfolio for older, weak-performing malls, and keep delivering new projects with higher occupancy (new projects in 2020: 91.6%). Overall Powerlong aims for 40% NP CAGR which we think is achievable if the previous conditions are met.
- **Brand upgrade to facilitate third-party expansion.** Going forward, Powerlong's strategy is still one of fast expansion centered around its mid-tier offering Powerlong Plaza, but has a five-year plan to build 1-2 high-end, flagship malls in each of 6 major cities in YRD to improve the Powerlong brand, and facilitate third-party expansion. The Company's expansion team has tripled in size since the new CEO's arrival in June, and focuses on YRD regions and GBA.
- **Reiterate Top Pick; revise TP to HK$33.2.** We revise up earnings estimates in 2021E/22E to RMB459mn/592mn to reflect confidence under improved margin assumptions. **Catalysts:** 1) Update on key commercial PM metrics; 2) Potential M&A. Update TP to HK$33.2, reflecting 30x 2022E P/E; **Reiterate Top Pick.**

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$30.9)
Up/Downside	**+23.4%**
Current Price	**HK$26.9**

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Stock Data

Mkt Cap (HK$ mn)	17,324
Avg 3 mths t/o (HK$ mn)	49.75
52w High/Low (HK$)	29.95/9.34
Total Issued Shares (mn)	644

Source: Bloomberg

Shareholding Structure

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

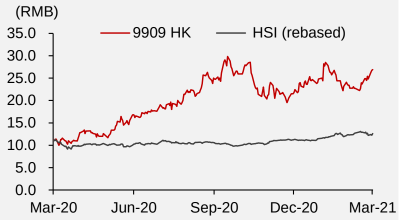
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	13.1%	13.7%
3-mth	24.4%	13.5%
6-mth	7.0%	-7.6%
12-mth	140.1%	117.0%

Source: Bloomberg

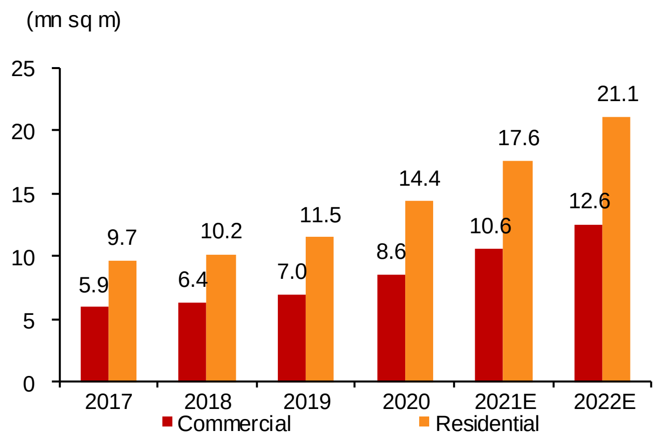
12-mth Price Performance



Source: Bloomberg

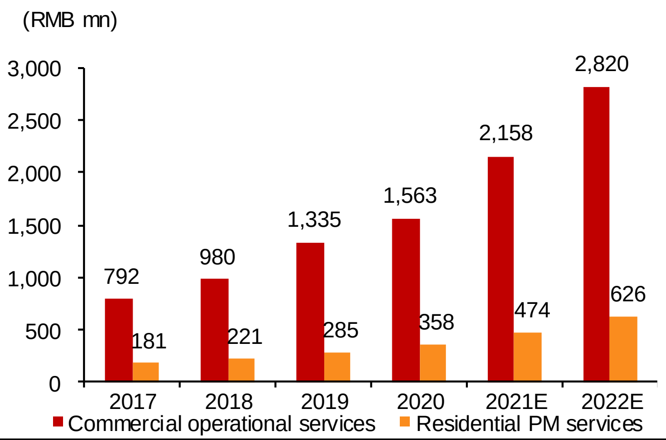
Auditor: PwC

Figure 1: GFA under management



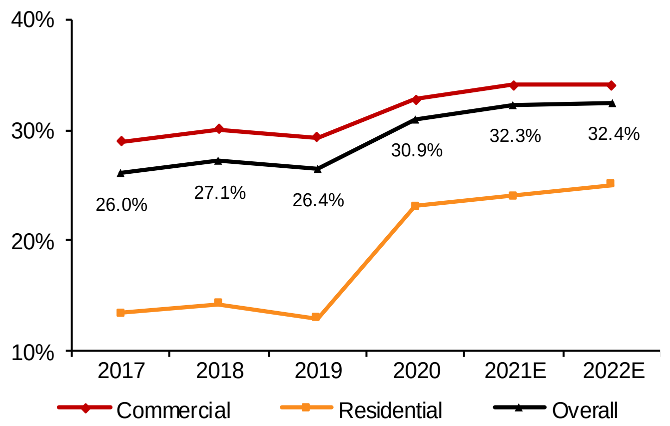
Source: Company data, CMBIS estimates

Figure 2: Revenue



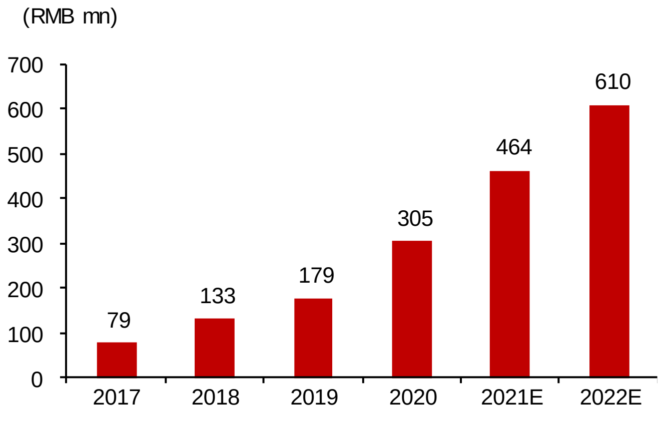
Source: Company data, CMBIS estimates

Figure 3: Gross margin



Source: Company data, CMBIS estimates

Figure 4: Net profit



Source: Company data, CMBIS estimates

Figure 5: Earnings revision

	New		Old		Diff (%)	
RMB mn	**FY21E**	**FY22E**	**FY21E**	**FY22E**	**FY21E**	**FY22E**
Revenue	2,632	3,445	2,751	3,461	-4.3%	-0.5%
Gross Profit	849	1,118	807	1,037	5.2%	7.8%
Operating profit	641	846	571	739	12.3%	14.5%
Net profit	464	610	415	532	11.8%	14.7%
EPS (RMB)	0.72	0.95	0.67	0.85	7.5%	11.4%
Gross Margin	32.3%	32.4%	29.3%	29.9%	2.9ppts	2.5ppts
Operating Margin	24.4%	24.6%	20.8%	21.4%	3.6ppts	3.2ppts
Net Margin	17.6%	17.7%	15.1%	15.4%	2.5ppts	2.3ppts

Source: Company data, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	**1,200**	**1,620**	**1,921**	**2,632**	**3,445**
Commercial operational services	980	1,335	1,563	2,158	2,820
Residential property management services	221	285	358	474	626
Cost of sales	(875)	(1,192)	(1,327)	(1,790)	(2,353)
Gross Profit	**326**	**428**	**595**	**842**	**1,093**
Other income	14	17	33	-	-
Selling expenses	(31)	(42)	(36)	(50)	(65)
Administrative expenses	(80)	(117)	(134)	(158)	(207)
Impairment	(3)	(7)	(23)	-	-
Operating profit	**225**	**279**	**434**	**634**	**821**
JV/Associates	-	-	(3)	-	-
Finance cost	(43)	(32)	(11)	-	-
Pre-tax Profit	**183**	**247**	**420**	**634**	**821**
Income tax	(50)	(69)	(113)	(170)	(220)
PROFIT FOR THE YEAR	**133**	**179**	**307**	**464**	**601**
Non-controlling interest	-	-	(2)	(6)	(9)
Net Profit attribute to	**133**	**179**	**305**	**459**	**592**

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Non-current assets	**719**	**267**	**801**	**1,258**	**1,514**
PP&E	173	7	10	17	23
Investment properties	156	207	688	1,138	1,388
Others	390	53	103	103	103
Current assets	**1,458**	**2,824**	**3,719**	**4,044**	**4,906**
Trade and other receivables	416	205	267	365	478
Cash and cash equivalents	553	2,616	3,449	3,676	4,425
Others	489	3	3	3	3
Total assets	**2,178**	**3,091**	**4,520**	**5,303**	**6,420**
Current liabilities	**1,597**	**1,313**	**1,689**	**2,145**	**2,682**
Trade and other payables	648	763	1,061	1,432	1,882
Others	949	550	628	713	801
Non-current liabilities	**351**	**190**	**666**	**666**	**666**
Deferred income tax	7	-	3	3	3
Others	344	190	663	663	663
Total liabilities	**1,948**	**1,504**	**2,355**	**2,811**	**3,348**
Equity to shareholders	**230**	**1,587**	**2,166**	**2,492**	**3,072**
Non-controlling interests	-	-	-	-	-
Total Equity	**230**	**1,587**	**2,166**	**2,492**	**3,072**

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Profit before tax	**183**	**247**	**420**	**634**	**821**
D&A	109	104	2	3	4
Change in working capital	54	224	282	358	424
Others	10	(41)	(113)	(170)	(220)
Net cash from operating	**356**	**533**	**592**	**825**	**1,029**
Capex	(3)	(6)	(5)	(10)	(17)
JV/Associates	-	(5)	-	-	-
Others	(29)	713	-	-	-
Net cash from investing	**(31)**	**702**	**(5)**	**(10)**	**(17)**
Equity raised	-	1,277	-	-	-
Change of debts	170	(364)	-	-	-
Others	(55)	(85)	(165)	(176)	(264)
Net cash from financing	**116**	**827**	**(165)**	**(176)**	**(264)**
Net change in cash	441	2,063	421	639	749
Cash at the beginning of year	**113**	**553**	**2,616**	**3,037**	**3,676**
Exchange difference	(0)	(0)	-	-	-
Cash at the end of the year	**553**	**2,616**	**3,037**	**3,676**	**4,425**

Key ratios

YE 31 Dec	FY18A	FY19A	FY20A	FY21E	FY22E
Sales mix (%)					
Commercial operational	81.6	82.4	81.3	82.0	81.8
Residential property	18.4	17.6	18.7	18.0	18.2
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Profit & loss ratios (%)					
Gross margin	27.1	26.4	30.9	32.0	31.7
Net margin	11.1	11.0	15.9	17.4	17.2
Effective tax rate	27.1	27.8	26.8	26.8	26.8
Growth (%)					
Revenue	23.4	35.0	18.6	37.0	30.9
Gross profit	28.6	31.5	38.8	41.6	29.8
Operating profit	51.9	23.9	55.2	46.3	29.4
Net profit	69.7	34.0	70.8	50.3	29.0
Balance sheet ratios					
Current ratio (x)	0.9	2.1	2.2	1.9	1.8
Receivable turnover days	25	26	31	31	31
Returns (%)					
ROE	58.0	11.3	14.1	18.4	19.3
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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