

Shimao (813 HK)

Price-in after 33% YTD share price surging

We change our recommendation to HOLD after 33% share price surging YTD. We believe its valuation is priced-in the future. We maintain our earnings forecast unchanged but raise end-20E NAV forecast to HK\$40.92 to reflect the spin-off plan for property management business. As a result, we raise TP from HK\$26.54 to HK\$28.64, based on 30% discount to NAV.

- **HOLD after 33% share price surging YTD.** Share price of Shimao soared 33.5% YTD. We believe investors like its robust contracted sales growth. We raise our end-20E NAV forecast to HK\$40.92 per share after factor in property management business. We adjust upward TP from HK\$26.54 to HK\$28.64. Recommendation is changed to HOLD.
- **45% growth in contracted sales in 10M19.** In 10M19, contracted sales amount and area increased by 45% to RMB197.2bn and 33% to 11.00mn sq m, respectively. Hit rate was 94% by Oct based on RMB210bn sales target. The Company increased its saleable resources to RMB300bn properties in 2H19. It is because the Company acquired some properties assets from Tahoe (000732 CH) and Guangdong Yuetai (600393 CH) in the early of the year and launched them for sales in 2H19. We expect robust sales growth will be sustainable in 2020 due to ample saleable resources.
- **Acquired RMB200bn+ saleable resources from Tahoe and Guangdong Yuetai.** Shimao acquired 60 projects with 14.21mn sq m land bank in RMB78.8bn in 1H19. The Company acquired assets from high gearing companies. It acquired 13 projects (RMB150bn worth estimated saleable resources) from Tahoe and 6 projects (RMB48bn worth estimated saleable resources) from Guangdong Yuetai. These assets can provide an estimated 10%+ net margin.
- **Spin off property management and hotel businesses.** Management disclosed that they are planning to spin off property management and hotel businesses in coming 2 years. We estimate value of property management and hotel businesses to be HK\$10bn and HK\$20bn, respectively. The success of spin off will further enhance NAV.
- **No share placement plan.** Some property companies have conducted share placements recently. Although share price of Shimao is in 10-year high, Jason Hui (Vice Chairman) denied any share placement plan at current time.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	70,426	85,513	112,064	141,887	169,726
YoY growth (%)	18.8	21.4	31.1	26.6	19.6
Net income (RMB mn)	7,840	8,835	12,474	14,792	17,392
EPS (RMB)	2.32	2.65	3.75	4.44	5.22
YoY growth (%)	54.3	13.9	41.5	18.6	17.6
P/E (x)	10.8	9.5	6.7	5.6	4.8
P/B (x)	1.5	1.4	1.2	1.1	0.9
Yield (%)	3.6	4.3	5.2	6.0	6.0
ROE (%)	13.6	21.4	18.4	19.0	19.2
Net gearing (%)	56.5	56.6	58.1	55.1	52.4

Source: Company data, CMBIS estimates

HOLD (Down)

Target Price	HK\$28.64
(Previous TP	HK\$26.54)
Up/downside	+2.7%
Current Price	HK\$27.90

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Stock Data

Mkt Cap (HK\$ mn)	92,112
Avg 3 mths t/o (HK\$ mn)	120
52w High/Low (HK\$)	28.7/16.48
Total Issued Shares (mn)	3,301
Source: Bloomberg	

Shareholding Structure

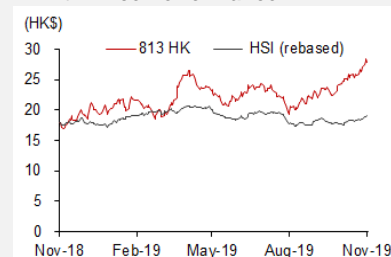
Hui Wing Mau	69.0%
Free float	31.0%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	17.5%	9.6%
3-mth	47.2%	38.1%
6-mth	22.8%	29.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

Related Reports

- 1) Aiming to have RMB300bn sales next year – 28 Aug 2019
- 2) HK projects to launch in coming year – 23 May 2019

Figure 1: Cathy Courtyard (with Tahoe)

Source: CMBIS

Figure 2: Model of Cathy Courtyard

Source: CMBIS

Figure 3: Guangzhou Swan Bay (from Yuetai)

Source: CMBIS

Figure 4: River view from Guangzhou Swan Bay

Source: CMBIS

Figure 5: End-20 NAV estimate

	(Rmb mn)	(HK\$ m)	NAV/share (HK\$)	% of NAV	Remark
Northern China	27,625	30,797	9.33	22.8%	DCF method with 10.4% WACC
Zhejiang	9,456	10,541	3.19	7.8%	
Shandong	5,391	6,010	1.82	4.4%	
Jiangsu & Shanghai	29,800	33,222	10.06	24.6%	
Central China	11,038	12,306	3.73	9.1%	
Western	12,316	13,730	4.16	10.2%	
Fujian	58,747	65,493	19.84	48.5%	
Southern China	10,506	11,712	3.55	8.7%	
JV	2,391	2,666	0.81	2.0%	
Shanghai Shimao	16,807	18,737	5.68	13.9%	
Property management	8,919	8,000	2.42	5.9%	
GAV	192,995	215,156	65.17	159.3%	
Net debt	(66,716)	(74,377)	(22.53)	-55.1%	
Perpetual bond	(5,100)	(5,686)	(1.72)	-4.2%	
NAV	121,179	135,094	40.92	100.0%	

Source: CMBIS estimates

Financial Summary

Income statement

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	70,426	85,513	112,064	141,887	169,726
Property sales	66,796	80,907	106,400	135,300	162,120
Rental	992	1,091	1,418	1,630	1,875
Hotel	1,708	1,908	2,309	2,678	3,080
Property management	646	895	1,083	1,321	1,559
Others	285	712	855	957	1,091
Cost of sales	(48,996)	(58,564)	(77,748)	(99,273)	(119,481)
Gross profit	21,430	26,949	34,317	42,614	50,244
Other income and gains	545	323	560	600	720
Distribution expenses	(1,462)	(2,023)	(2,241)	(2,838)	(3,564)
Administrative expenses	(2,990)	(3,430)	(3,922)	(4,824)	(5,940)
Other expenses	(524)	(520)	(560)	(709)	(849)
Operating profit	16,999	21,298	28,153	34,843	40,611
Finance expenses	1,328	(337)	(388)	(430)	(452)
Associates/JV	(315)	(233)	30	(380)	(380)
Exceptional	679	1,910	632	0	0
Pre-tax profit	18,692	22,638	28,427	34,033	39,779
Profits tax	(8,121)	(10,327)	(12,212)	(15,064)	(17,830)
Minority interest	(2,436)	(3,214)	(3,399)	(3,835)	(4,215)
Perpetual	(294)	(262)	(342)	(342)	(342)
Net profit	7,840	8,835	12,474	14,792	17,392
Core profit	6,930	8,551	11,842	14,792	17,392

Cash flow summary

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
EBIT	16,999	21,298	28,153	34,843	40,611
Depreciation and amortization	665	664	676	696	714
Change in working capital	2,641	(7,180)	(21,051)	(15,400)	(16,200)
Income tax paid	(6,133)	(6,042)	(12,604)	(15,064)	(17,830)
Others	(2,694)	(6,530)	1,064	(548)	(2,047)
Net cash from operating	11,479	2,210	(3,762)	4,527	5,248
Capex	(8,305)	(2,768)	(289)	(704)	(786)
Associates/JV	(17,655)	(2,989)	(1,043)	(1,627)	(2,927)
Other	2,954	(452)	1,917	250	550
Net cash from investing	(23,005)	(6,208)	585	(2,081)	(3,163)
Equity raised	(65)	(1,647)	0	0	0
Change of Debts	22,590	17,996	2,868	2,700	3,600
Dividend paid	(2,542)	(3,373)	(3,888)	(4,570)	(5,019)
Other	746	6,135	(125)	(300)	(400)
Net cash from financing	20,728	19,111	(1,145)	(2,170)	(1,819)
Net change in cash	9,202	15,113	(4,322)	276	267
Cash at the beginning	19,359	28,537	43,688	39,342	39,594
Exchange difference	(24)	38	(24)	(24)	(24)
Cash at the end	28,537	43,688	39,342	39,594	39,837
Pledged deposit	4,469	5,888	5,942	5,942	5,942
Cash at BS	33,007	49,577	45,284	45,536	45,779

Balance sheet

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19A	FY20A	FY21A
Non-current assets	85,027	88,748	88,541	90,391	92,841
Fixed asset	21,690	22,543	23,200	23,800	24,000
Investment properties	34,036	36,891	37,200	38,000	39,300
Associates/JV	16,418	18,556	19,300	20,000	21,500
Intangible assets	1,841	1,841	1,841	1,841	1,841
Other non-current assets	11,042	8,917	7,000	6,750	6,200
Current assets	222,531	288,849	310,784	332,656	353,779
Cash	33,007	49,577	45,284	45,536	45,779
Account receivable	15,584	19,923	23,000	25,000	28,000
Inventories	155,160	199,011	222,000	241,000	258,000
Other current assets	18,781	20,338	20,500	21,120	22,000
Current liabilities	135,477	187,895	196,400	208,000	217,100
Borrowings	18,326	31,306	30,000	31,200	33,300
Trade and other payables	33,524	50,585	55,600	61,200	65,000
Contract liabilities	34,117	47,173	52,000	56,800	60,000
Deferred taxation	15,641	20,595	20,800	20,800	20,800
Other current liabilities	33,869	38,235	38,000	38,000	38,000
Non-current liabilities	75,335	84,422	88,000	89,500	91,000
Borrowings	69,309	77,825	82,000	83,500	85,000
Other non-current liabilities	6,025	6,596	6,000	6,000	6,000
Shareholders' equity	57,635	59,234	67,825	78,046	90,420
Minority interest	34,912	40,946	42,000	42,400	43,000
Perpetual bond	4,200	5,100	5,100	5,100	5,100
Total equity	96,747	105,280	114,925	125,546	138,520

Key ratios

YE Dec 31	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Property sales	94.8	94.6	94.9	95.4	95.5
Rental	1.4	1.3	1.3	1.1	1.1
Hotel	2.4	2.2	2.1	1.9	1.8
Property management	0.9	1.0	1.0	0.9	0.9
Others	0.4	0.8	0.8	0.7	0.6
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	30.4	31.5	30.6	30.0	29.6
Pre-tax margin	24.1	24.9	25.1	24.6	23.9
Net margin	11.1	10.3	11.1	10.4	10.2
Effective tax rate	43.4	45.6	43.0	44.3	44.8
Balance sheet ratios					
Current ratio (x)	1.6	1.5	1.6	1.6	1.6
Receivable day	80.8	85.0	74.9	64.3	60.2
Payable day	173.7	215.9	181.1	157.4	139.8
Inventory day	1155.9	1240.3	1042.2	886.1	788.2
Net gearing ratio (%)	56.5	56.6	58.1	55.1	52.4
Returns (%)					
ROE	13.6	14.9	18.4	19.0	19.2
ROA	2.5	2.3	3.1	3.5	3.9
Per share data					
EPS (RMB)	2.32	2.65	3.75	4.44	5.22
DPS (HK\$)	1.00	1.20	1.45	1.68	1.68
BVPS (RMB)	17.02	17.49	20.54	23.64	27.39

Source: Company data, CMBIS estimates

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