

Redsun (1996 HK)

Seeking scale and profit

Revenue and core earnings increased by 146% to RMB9.62bn and 30.7% to RMB657mn in 1H20. According to CRIC, Redsun was ranked 46th largest developer based on contracted sales amount in 1H20. It plans to open another 11 Hong Yang Plazas (HYP) in coming years. Net gearing ratio was 69% as at Jun 2020. Balance sheet was healthy. We raise TP from HK\$3.22 to HK\$3.52. Maintain BUY.

- **Core profit surged 31% in 1H20.** Revenue surged 146% to RMB9.62bn because delivery GFA increased to 0.86mn sq m in 1H20. GM was reduced by 3.7ppts to 25.3% in 1H20. Interest expenses also increased 131% to RMB425mn in the period due to increase borrowings. Lastly, more reduction from minority interests due to co-operation with other developers dragged down core profit to RMB657mn in 1H20, up 30.7% YoY.
- **Contracted sales increased 4% in 1H20.** Contracted sales amount gained by 4.4% to RMB31.57bn but area dropped 8.5% to 2.15mn sq m in 1H20. According to CRIC, Redsun was ranked 46th largest developer based on contracted sales amount in 1H20. RMB87.8bn of properties will be launched in 2H20, of which 55% are located at Jiangsu area. With 50% sell through rate in 2H20, Redsun would achieve its full year target of RMB75bn.
- **Open 11 HYP in the future.** Revenue from property investment & operation increased 14% to RMB213mn in 1H20. Three HYP in Nanjing, Changzhou and Yantai are operating, of which Yantai HYP is asset-light model. Through asset-light model, Redsun can expand rapidly its shopping mall business. It plans to open another 11 HYP in the future.
- **Total land bank of 18.37mn sq m.** Redsun acquired 21 plots of land with total GFA of 3.07mn sq m in 1H20. Total and attributable land bank amounted to 18.37mn sq m and 9.67mn sq m as at Jun 2020, respectively. 169 property projects are located in 43 cities. Land bank in Jiangsu, YRD ex-Jiangsu and others accounted for 55%, 18% and 27% respectively.
- **Raise TP to HK\$3.52.** Net gearing ratio improved to 68.7% and cash/short debt ratio was 1.5x as at Jun 2020. Balance sheet was at healthy level. We forecast net profit to be RMB1.6bn, RMB2.1bn and RMB2.4bn in 2020-22, respectively. We raise end-20 NAV forecast from HK\$5.36 to HK\$5.87. As a result, we adjust TP from HK\$3.22 to HK\$3.52, representing a 30% discount to NAV. Reiterate BUY.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	9,239	15,170	20,111	25,853	30,059
YoY growth (%)	50.5	64.2	32.6	28.6	16.3
Net income (RMB mn)	1,412	1,468	1,599	2,092	2,427
EPS (RMB)	0.66	0.44	0.48	0.63	0.73
YoY growth (%)	N.A.	-33.3	9.0	30.8	16.0
Consensus EPS (RMB)	N.A.	N.A.	0.45	0.57	0.62
P/E (x)	3.6	5.4	5.0	3.8	3.3
P/B (x)	0.6	0.6	0.5	0.5	0.4
Yield (%)	3.4	4.1	5.2	7.2	8.0
ROE (%)	11.1	10.6	10.6	12.5	13.1
Net gearing (%)	68.3	70.4	63.8	63.9	63.9

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$3.52
(Previous TP)	HK\$3.22
Up/downside	+31.3%
Current Price	HK\$2.68

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Stock Data

Mkt Cap (HK\$ mn)	8,900
Avg 3 mths t/o (HK\$ mn)	13.7
52w High/Low (HK\$)	2.87/1.75
Total Issued Shares (mn)	3,321

Source: Bloomberg

Shareholding Structure

Zeng Huansha	72.3%
Free float	27.7%

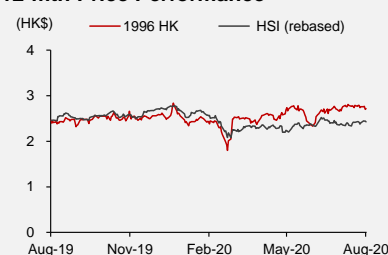
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	0.0%	-3.1%
3-mth	0.4%	-7.9%
6-mth	11.1%	16.4%
12-mth	12.5%	13.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

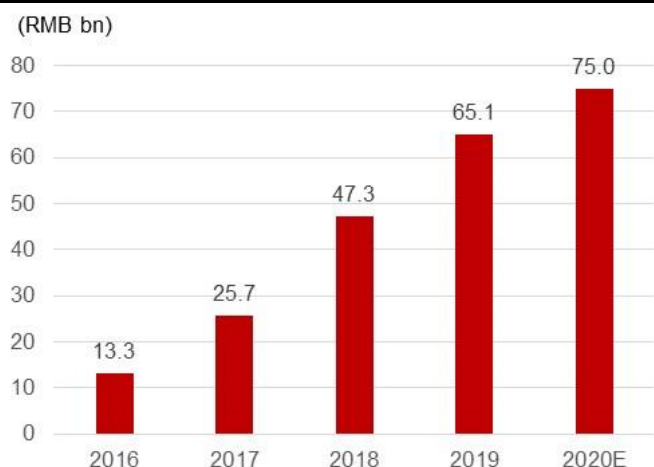
Related Reports

1. Explore out of Jiangsu – 30 Mar 2020
2. Backbone in Nanjing – 15 Nov 2019
3. Another fast-growing YD developer – 17 May 2019

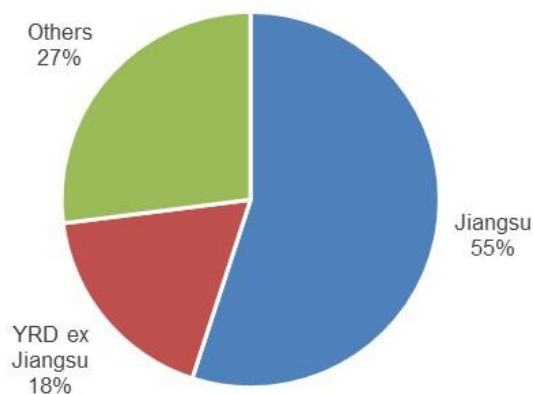
Figure 1: 2020 interim results

	1H20 (Rmb mn)	1H19 (Rmb mn)	Change (%)	Remark
Turnover	9,624	3,908	146.3%	
-Property development	9,398	3,703	153.8%	Delivery increased to 0.86mn sq m in 1H20
-Property investment & operation	213	186	14.2%	
-Hotel	13	18	-28.7%	
Cost of Sales	(7,189)	(2,775)	159.1%	
Gross Profit	2,434	1,132	115.0%	GM reduced by 3.7ppts to 25.3% in 1H20
Other income	179	244	-26.5%	
Distribution Cost	(320)	(263)	21.4%	
Administrative Expenses	(543)	(361)	50.3%	Business expansion
Other Expenses	(50)	(20)	147.7%	
EBIT	1,700	731	132.5%	
Interest Expense	(425)	(184)	131.3%	Increase borrowing
Associated	233	211	10.3%	
Revaluation gain of investment properties	57	285	-79.9%	
Pre-tax Profit	1,565	1,043	50.1%	
Taxation	(670)	(319)	110.3%	Effective tax rate enlarged 12.3ppts to 42.8% in 1H20
Profit after Tax	895	725	23.5%	
Minorities	(218)	19	N.A.	
Net Profit	677	743	-8.8%	
Core Profit	657	502	30.7%	Core margin declined 6.0ppts to 6.8% in 1H20

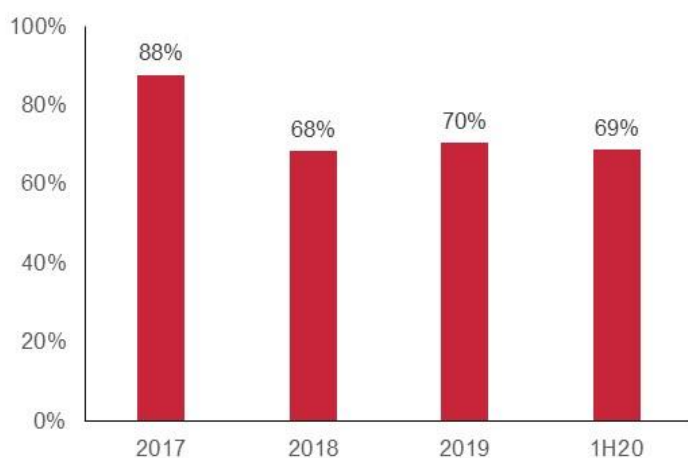
Source: Company data, CMBIS estimates

Figure 2: Contracted sales amount

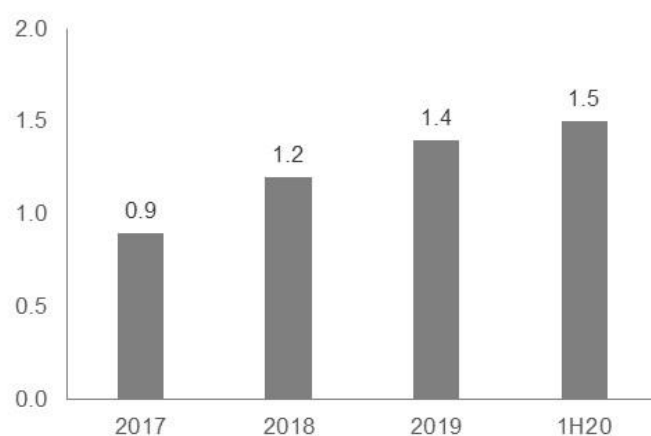
Source: Company data, CMBIS

Figure 3: Land bank by region

Source: Company data, CMBIS

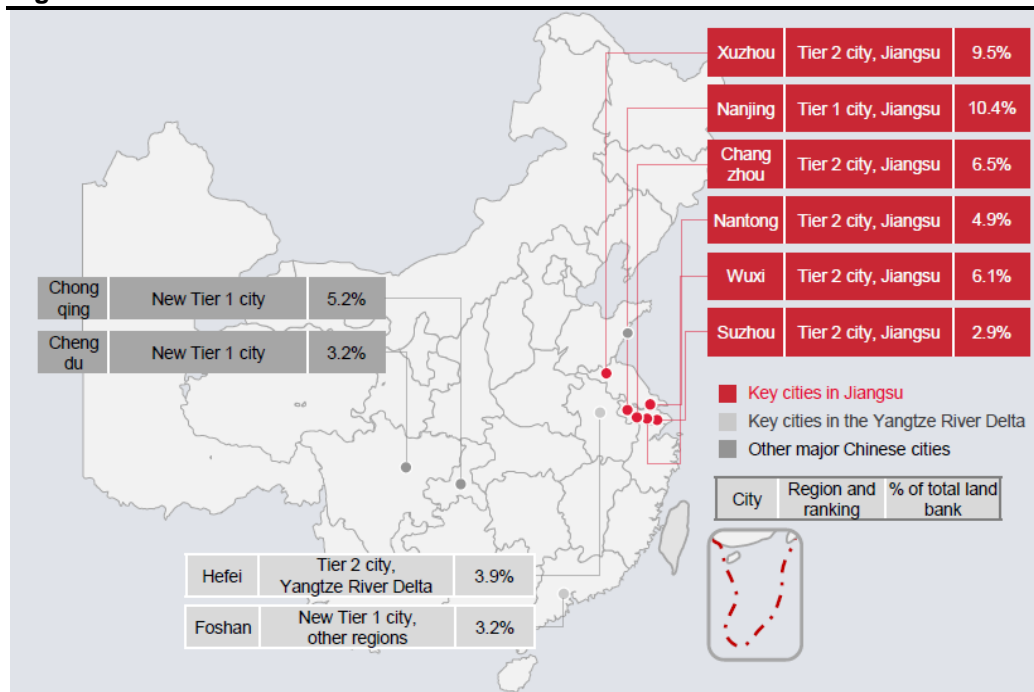
Figure 4: Net gearing ratio

Source: Company data, CMBIS

Figure 5: Cash/short term debts

Source: Company data, CMBIS

Figure 6: Land bank



Source: Company data

Figure 7: Earnings revision

(RMB mn)	FY20E	New FY21E	FY22E	FY20E	Old FY21E	FY22E	FY20E	Diff (%) FY21E	FY22E
Revenue	20,111	25,853	30,059	20,115	25,858	30,063	0.0%	0.0%	0.0%
Gross Profit	5,206	6,663	7,735	5,205	6,662	7,734	0.0%	0.0%	0.0%
EBIT	3,310	4,319	5,046	3,307	4,313	5,040	0.1%	0.1%	0.1%
Net profit	1,599	2,092	2,427	1,563	2,112	2,436	2.3%	-1.0%	-0.4%
EPS (RMB)	0.48	0.63	0.73	0.47	0.64	0.73	2.3%	-1.0%	-0.4%
Gross Margin	25.9%	25.8%	25.7%	25.9%	25.8%	25.7%	0 ppt	0 ppt	0 ppt
EBIT Margin	16.5%	16.7%	16.8%	16.4%	16.7%	16.8%	0 ppt	0 ppt	0 ppt
Net Margin	8.0%	8.1%	8.1%	7.8%	8.2%	8.1%	0.2 ppt	-0.1 ppt	0 ppt

Source: CMBIS estimates

Figure 8: CMBIS estimates vs consensus

(RMB mn)	FY20E	CMBIS FY21E	FY22E	FY20E	Consensus FY21E	FY22E	FY20E	Diff (%) FY21E	FY22E
Revenue	20,111	25,853	30,059	19,508	25,433	30,535	3.1%	1.7%	-1.6%
Gross Profit	5,206	6,663	7,735	4,753	6,219	7,298	9.5%	7.1%	6.0%
EBIT	3,310	4,319	5,046	2,830	3,979	4,635	17.0%	8.5%	8.9%
Net profit	1,599	2,092	2,427	1,620	2,040	2,412	-1.3%	2.5%	0.6%
EPS (RMB)	0.48	0.63	0.73	0.45	0.57	0.62	8.2%	11.5%	17.9%
Gross Margin	25.9%	25.8%	25.7%	24.4%	24.5%	23.9%	1.5 ppt	1.3 ppt	1.8 ppt
EBIT Margin	16.5%	16.7%	16.8%	14.5%	15.6%	15.2%	2 ppt	1.1 ppt	1.6 ppt
Net Margin	8.0%	8.1%	8.1%	8.3%	8.0%	7.9%	-0.4 ppt	0.1 ppt	0.2 ppt

Source: Bloomberg, CMBIS estimates

Figure 9: End-20 NAV estimates

	(Rmb mn)	(HK\$ mn)	NAV/share (HK\$)	% of NAV	Remark
Properties under development	24,740	27,580	8.31	142%	WACC of 12%
Investment property	6,222	6,936	2.09	36%	8% cap rate
Gross Amount	30,962	34,517	10.39	177%	
Net debt	(13,482)	(15,030)	(4.53)	-77%	Dec-20
NAV	17,480	19,487	5.87	100%	

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	9,239	15,170	20,111	25,853	30,059
Property development	8,843	14,718	19,575	25,254	29,400
Property investment	359	411	498	557	613
Hotel	37	40	38	42	45
Cost of sales	(6,352)	(11,356)	(14,905)	(19,190)	(22,324)
Gross profit	2,887	3,813	5,206	6,663	7,735
Other income and gains	236	331	316	344	347
Distribution expenses	(342)	(652)	(804)	(982)	(1,112)
Administrative expenses	(686)	(1,090)	(1,368)	(1,655)	(1,864)
Other expenses	(48)	(37)	(40)	(52)	(60)
Operating profit	2,047	2,366	3,310	4,319	5,046
Finance expenses	(499)	(634)	(749)	(740)	(715)
Associates/JV	367	693	580	620	650
Exceptional	261	310	57	-	-
Pre-tax profit	2,175	2,735	3,198	4,199	4,981
Profits tax	(852)	(1,100)	(1,359)	(1,798)	(2,129)
After-tax profit	1,323	1,636	1,839	2,402	2,852
Minority interest	89	(168)	(240)	(310)	(425)
Perpetual	-	-	-	-	-
Net profit	1,412	1,468	1,599	2,092	2,427
Core profit	1,214	1,247	1,579	2,092	2,427

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
EBIT	2,047	2,366	3,310	4,319	5,046
Depreciation and amortization	80	128	128	136	144
Change in working capital	(6,322)	1,757	(7,973)	(5,040)	(7,840)
Income tax paid	(454)	(1,019)	(1,157)	(1,698)	(2,049)
Others	2,021	(2,243)	7,145	2,938	5,629
Net cash from operating	(2,628)	990	1,453	655	930
Capex	(1,469)	(1,544)	(1,024)	(993)	(1,081)
Associates/JV	(3,434)	(5,060)	(779)	(400)	(600)
Other	923	120	(110)	(136)	(136)
Net cash from investing	(3,980)	(6,484)	(1,912)	(1,529)	(1,817)
Equity raised	3,113	-	-	-	-
Change of Debts	9,523	7,884	3,354	2,700	1,800
Dividend paid	-	(304)	(331)	(417)	(572)
Other	(2,273)	304	-	-	-
Net cash from financing	10,363	7,885	3,023	2,283	1,228
Net change in cash	3,755	2,390	2,564	1,409	341
Cash at the beginning	2,478	6,233	8,692	11,265	12,684
Exchange difference	-	68	10	10	10
Cash at the end	6,233	8,692	11,265	12,684	13,035
Pledged deposit	6,223	8,153	8,153	8,153	8,153
Cash at BS	12,456	16,844	19,418	20,837	21,188

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	13,609	21,099	22,729	23,997	25,565
Fixed asset	989	808	780	840	880
Investment properties	9,397	11,572	12,500	13,300	14,200
Associates/JV	2,739	7,821	8,600	9,000	9,600
Intangible assets	12	12	9	7	5
Other non-current assets	472	885	840	850	880
Current assets	54,313	74,298	85,338	94,097	104,588
Cash	12,456	16,844	19,418	20,837	21,188
Account receivable	2,600	7,712	8,120	8,860	9,300
Inventories	30,869	39,621	47,800	53,800	63,100
Other current assets	8,388	10,120	10,000	10,600	11,000
Current liabilities	40,649	56,876	62,800	68,700	76,900
Borrowings	10,827	12,411	12,900	13,800	14,400
Trade and other payables	6,638	4,846	12,500	14,200	16,100
Contract liabilities	16,639	32,016	27,000	31,000	36,000
Deferred taxation	1,604	2,169	2,400	2,400	2,400
Other current liabilities	4,941	5,434	8,000	7,300	8,000
Non-current liabilities	13,423	20,475	24,150	26,300	27,900
Borrowings	11,093	17,135	20,000	21,800	23,000
Other non-current liabilities	2,330	3,340	4,150	4,500	4,900
Shareholders' equity	12,695	13,888	15,117	16,744	18,533
Minority interest	1,155	4,159	6,000	6,350	6,820
Perpetual bond	0	0	0	0	0
Total equity	13,850	18,046	21,117	23,094	25,353

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Property development	95.7	97.0	97.3	97.7	97.8
Property investment	3.9	2.7	2.5	2.2	2.0
Hotel	0.4	0.3	0.2	0.2	0.2
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	31.2	25.1	25.9	25.8	25.7
Pre-tax margin	22.2	15.6	16.5	16.7	16.8
Net margin	15.3	9.7	8.0	8.1	8.1
Effective tax rate	39.2	40.2	42.5	42.8	42.7
Balance sheet ratios					
Current ratio (x)	1.3	1.3	1.4	1.4	1.4
Receivable day	102.7	185.6	147.4	125.1	112.9
Payable day	262.3	116.6	226.9	200.5	195.5
Inventory day	1773.9	1273.5	1170.5	1023.3	1031.7
Net gearing ratio (%)	68.3	70.4	63.8	63.9	63.9
Returns (%)					
ROE	11.1	10.6	10.6	12.5	13.1
ROA	2.1	1.5	1.5	1.8	1.9
Per share data					
EPS (RMB)	0.66	0.44	0.48	0.63	0.73
DPS (RMB)	0.09	0.11	0.14	0.19	0.22
BVPS (RMB)	3.82	4.18	4.55	5.04	5.58

Source: Company data, CMBIS estimates

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