

# Times China (1233 HK)

## Beneficiary of urban development

Revenue and net profit declined by 6.4% to RMB14.9bn and 3.6% to RMB1.54bn in 1H20, respectively. Contracted sales gained by 9.8% to RMB40.4bn in 7M20, which was equivalent to 49% of hit rate. Total land bank amounted to 21.80mn sq m. The Company is undergoing 150 urban redevelopment projects that will become Times' land bank next seven years. We maintain our TP unchanged. Our TP of HK\$16.2 represents 40% discount to NAV of HK\$27.0. Maintain **BUY**.

- **Core earnings retreated 8.5% in 1H20.** Revenue and core earnings retreated by 6.4% to RMB14.9bn and by 8.5% to RMB1.56bn in 1H20, respectively. COVID-19 was one of the reasons. Change of product mix dragging down margin was another. Gross margin narrowed by 5.6ppts to 26.9% in the period. Lower gross margin for property development (26.3%) dragged down effective tax rate to 40.6% in 1H20 from 53.9% in 1H19 that supported earnings. Lastly, about RMB812mn profit was booked in other income arising from transformation of Guangzhou Hongwei project.
- **Sales promotion boosted pace.** Contracted sales amount and area gained by 9.8% to RMB40.4bn and 18.8% in 7M20, respectively. Hit rate was 48.7% based on RMB83bn sales target. The Company admitted that it used promotion to boost sales pace during the outbreak period so margin was sacrificed. Times plans to launch about RMB150bn properties for sales in full year so it is confident to achieve 2020 sales target.
- **Rely on urban redevelopment projects.** In 1H20, the Company only acquired seven parcels of land in Foshan, Changsha and Dongguan with total GFA of 0.92mn sq m (Attri: 0.55mn sq m). Land bank policy was prudent. It prefers more on urban redevelopment plans. Now, there are about 150 urban redevelopment plans undergoing with total GFA of 52mn sq m. In Jun 2020, Times successfully converted four urban redevelopment projects with total GFA of 1.37mn sq m in Guangzhou and Foshan. The Company believes that replenishing land bank by converting urban redevelopment projects is more cost effective. As of Jun 2020, total land bank amounted to 21.80mn sq m that spread across 16 mainland cities. Average land cost was RMB4,183 per sq m, which is equivalent to 30% of contracted ASP.
- **Maintain BUY.** We slightly adjust our earnings forecast. We estimate net profit to be RMB6.34bn, RMB7.09bn and RMB8.15bn in 2020-22, respectively. We maintain our TP unchanged. Our TP of HK\$16.2 represents 40% discount to NAV of HK\$27.0. Maintain **BUY**.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	34,375	42,433	50,680	58,786	65,431
YoY growth (%)	48.7	23.4	19.4	16.0	11.3
Net income (RMB mn)	4,399	5,213	6,335	7,088	8,152
EPS (RMB)	2.40	2.73	3.26	3.65	4.20
YoY growth (%)	58.9	13.8	19.5	11.9	15.0
Consensus EPS (RMB)	N/A	N/A	3.25	3.84	4.43
P/E (x)	5.0	4.4	3.7	3.3	2.8
P/B (x)	1.3	1.2	1.0	0.8	0.7
Yield (%)	5.8	7.1	8.2	9.2	10.6
ROE (%)	26.0	27.3	26.9	24.9	23.8
Net gearing (%)	62.6	67.2	82.9	88.2	79.0

Source: Company data, Bloomberg, CMBIS estimates

### BUY (Maintain)

Target Price	HK\$16.20
(Previous TP)	HK\$16.20)
Up/Downside	+21.8%
Current Price	HK\$13.30

### China Property Sector

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### Stock Data

Mkt Cap (HK\$ mn)	25,829
Avg 3 mths t/o (HK\$ mn)	64.8
52w High/Low (HK\$)	16.50/ 9.90
Total Issued Shares (mn)	1,942

Source: Bloomberg

### Shareholding Structure

Shum Chiu Hung	61.5%
Free float	38.5%

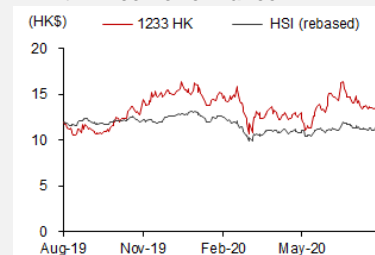
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-3.4%	-4.2%
3-mth	7.0%	1.1%
6-mth	-11.4%	-2.1%
12-mth	22.6%	25.3%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: Ernst & Young

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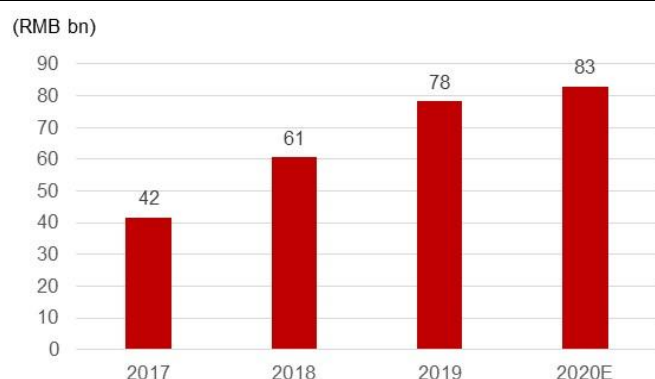
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Figure 1: Interim results

	1H20 (RMB mn)	1H19 (RMB mn)	Change (%)	Remark
<b>Revenue</b>	<b>14,925</b>	<b>15,943</b>	<b>-6.4%</b>	
Property development	14,713	14,763	-0.3%	Delivery GFA increased by 17% to 1.15mn sqm but ASP declined by 15%
Property investment	212	205	3.1%	
Urban redevelopment business	0	641	N.A.	
Property management	0	333	N.A.	Separated to Times Neighborhood
Cost of sales	-10,903	-10,755	1.4%	
<b>Gross profit</b>	<b>4,022</b>	<b>5,187</b>	<b>-22.5%</b>	Gross margin narrowed by 0.56pts to 26.9% in 1H20
Other income	1,194	376	217.4%	RMB812mn income from urban development project in 1H20
Marketing expenses	-517	-546	-5.2%	
Administrative expenses	-700	-720	-2.8%	
Other expenses	-176	-332	-47.1%	
<b>EBIT</b>	<b>3,823</b>	<b>3,965</b>	<b>-3.6%</b>	
Finance costs	-544	-432	25.8%	
Share from associates and JVs	-233	146	N.A.	
Exceptional	0	11	-100.0%	Fair value change of investment properties
<b>PROFIT BEFORE TAX</b>	<b>3,046</b>	<b>3,690</b>	<b>-17.5%</b>	
Income tax	-1,236	-1,991	-37.9%	Effective tax rate declined by 13.4pts to 40.6% in 1H20
<b>PROFIT FOR THE YEAR</b>	<b>1,811</b>	<b>1,700</b>	<b>6.5%</b>	
Non-controlling interests	-274	-106	158.7%	
<b>Net profit to shareholders</b>	<b>1,537</b>	<b>1,594</b>	<b>-3.6%</b>	Net margin expanded by 0.3pts to 10.3% in 1H20
<b>Core profit to shareholders</b>	<b>1,556</b>	<b>1,701</b>	<b>-8.5%</b>	

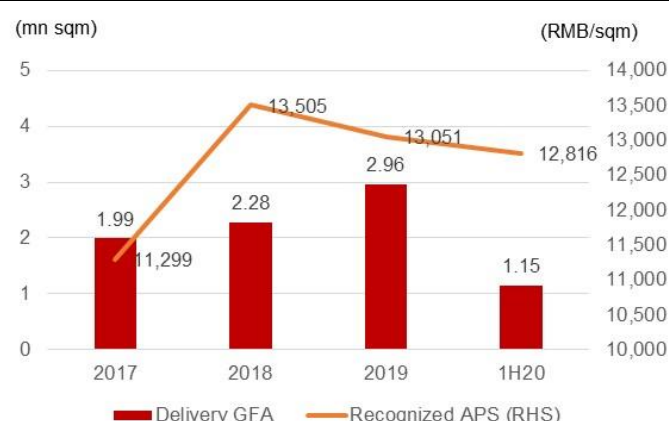
Source: Company data, CMBIS

Figure 2: Contracted sales



Source: Company data, CMBIS

Figure 3: GFA sold and ASP



Source: Company data, CMBIS

Figure 4: Land bank



Source: Company data, CMBIS

Figure 5: 1H20 contracted sales by city



Source: Company data, CMBIS

Figure 6: 2020 business plan

	1H20 (mn sqm)	2H20 (mn sqm)	FY20 (mn sqm)
New start	2.70	4.80	7.50
Completion	1.40	2.60	4.00
Delivery	1.15	1.35	2.50

Source: Company data, CMBIS

Figure 7: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	50,680	58,786	65,431	51,872	59,512	66,302	-2.3%	-1.2%	-1.3%
Gross Profit	14,152	16,609	18,568	14,748	16,972	19,003	-4.0%	-2.1%	-2.3%
EBIT	11,903	13,315	15,002	11,662	13,402	14,298	2.1%	-0.6%	4.9%
Net profit	6,335	7,088	8,152	6,169	7,148	8,301	2.7%	-0.8%	-1.8%
EPS (RMB)	3.26	3.65	4.20	3.18	3.68	4.27	2.6%	-0.8%	-1.7%
Gross Margin	27.9%	28.3%	28.4%	28.4%	28.5%	28.7%	-0.5 ppt	-0.3 ppt	-0.3 ppt
EBIT Margin	23.5%	22.7%	22.9%	22.5%	22.5%	21.6%	1 ppt	0.1 ppt	1.4 ppt
Net Margin	12.5%	12.1%	12.5%	11.9%	12.0%	12.5%	0.6 ppt	0 ppt	-0.1 ppt

Source: CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>34,375</b>	<b>42,433</b>	<b>50,680</b>	<b>58,786</b>	<b>65,431</b>
Sale of properties	30,779	39,080	48,674	55,617	61,554
Property leasing	328	461	597	774	1,002
Property mgmt fee	492	725	-	-	-
Urban redevelopment business	2,776	2,168	1,409	2,395	2,874
Cost of sales	(23,754)	(29,998)	(36,528)	(42,177)	(46,863)
<b>Gross profit</b>	<b>10,621</b>	<b>12,436</b>	<b>14,152</b>	<b>16,609</b>	<b>18,568</b>
Other income	419	925	1,350	880	1,080
Selling expenses	(836)	(1,212)	(1,267)	(1,470)	(1,636)
Administrative expenses	(1,112)	(1,554)	(1,723)	(1,999)	(2,225)
Other expenses	(367)	(562)	(608)	(705)	(785)
<b>EBIT</b>	<b>8,725</b>	<b>10,03</b>	<b>11,903</b>	<b>13,315</b>	<b>15,002</b>
Finance costs	(331)	1,209	(867)	(934)	(1,242)
Share from JCE	(667)	(1,011)	1,390	1,599	2,158
Exceptional	612	109	-	-	-
<b>Profit before tax</b>	<b>8,339</b>	<b>10,33</b>	<b>12,427</b>	<b>13,980</b>	<b>15,918</b>
Income tax	(3,527)	(4,779)	(5,540)	(6,276)	(7,057)
<b>Profit for the year</b>	<b>4,811</b>	<b>5,560</b>	<b>6,886</b>	<b>7,704</b>	<b>8,861</b>
Non-controlling interests	(412)	(348)	(551)	(616)	(709)
<b>Net profit to shareholders</b>	<b>4,399</b>	<b>5,213</b>	<b>6,335</b>	<b>7,088</b>	<b>8,152</b>
<b>Core net profit</b>	<b>4,204</b>	<b>5,466</b>	<b>6,335</b>	<b>7,088</b>	<b>8,152</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Current assets</b>	<b>115,940</b>	<b>141,256</b>	<b>153,881</b>	<b>166,997</b>	<b>178,142</b>
Properties for sale	50,677	61,461	72,709	83,571	88,413
Trade and other receivables	4,890	6,102	7,287	8,453	9,409
Amount due from	6,112	10,298	10,298	10,298	10,298
Bank balances and cash	23,374	25,875	27,488	23,713	25,074
Others	30,886	37,521	36,099	40,962	44,949
<b>Non-current assets</b>	<b>13,113</b>	<b>19,842</b>	<b>21,442</b>	<b>23,150</b>	<b>25,419</b>
PPE	1,550	1,096	1,316	1,436	1,556
Investment properties	1,336	3,489	3,489	3,489	3,489
Associates & JVs	5,157	10,107	11,497	13,096	15,254
Others	5,069	5,149	5,139	5,129	5,119
<b>Current liabilities</b>	<b>54,585</b>	<b>88,002</b>	<b>87,257</b>	<b>93,082</b>	<b>97,663</b>
Trade and other payables	8,521	14,471	14,611	18,979	19,088
Contracted liabilities	19,029	21,579	22,706	24,289	27,034
Amount due to	3,418	4,950	4,950	4,950	4,950
ST loan	7,312	18,598	16,586	16,460	16,186
Others	16,306	28,404	28,404	28,404	28,404
<b>Non-current liabilities</b>	<b>42,171</b>	<b>37,391</b>	<b>47,376</b>	<b>50,797</b>	<b>53,214</b>
LT loan	40,319	34,663	44,648	48,069	50,486
Others	1,852	2,728	2,728	2,728	2,728
<b>Total equity</b>	<b>32,296</b>	<b>35,704</b>	<b>40,690</b>	<b>46,268</b>	<b>52,683</b>
Equity to shareholders	16,952	19,087	23,522	28,484	34,190
Non-controlling interests	15,344	16,617	17,168	17,784	18,493

### Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>EBIT</b>	<b>9,310</b>	<b>10,125</b>	<b>11,903</b>	<b>13,315</b>	<b>15,002</b>
D&A	143	156	90	90	90
Change in working capital	(20,615)	(4,617)	(12,293)	(7,659)	(5,689)
Tax paid	(2,210)	(3,269)	(5,540)	(6,276)	(7,057)
Others	12,850	(1,607)	2,422	(3,291)	797
<b>Net cash from operating</b>	<b>(523)</b>	<b>789</b>	<b>(3,418)</b>	<b>(3,821)</b>	<b>3,143</b>
Capex	(2,573)	(2,033)	(310)	(210)	(210)
Associated companies	(3,730)	(11,896)	(1,182)	(1,359)	(1,834)
Others	(775)	(314)	10	10	10
<b>Net cash from investing</b>	<b>(7,079)</b>	<b>(14,242)</b>	<b>(1,482)</b>	<b>(1,559)</b>	<b>(2,034)</b>
Equity raised	2,756	5,338	-	-	-
Change of debts	12,839	7,334	7,973	3,295	2,143
Dividend	(760)	(1,499)	(1,640)	(1,901)	(2,126)
Others	1,606	4,605	-	-	-
<b>Net cash from financing</b>	<b>16,441</b>	<b>15,779</b>	<b>6,333</b>	<b>1,395</b>	<b>17</b>
Net change in cash	8,840	2,325	1,433	(3,985)	1,125
<b>Cash at the beginning</b>	<b>14,263</b>	<b>23,374</b>	<b>25,875</b>	<b>27,488</b>	<b>23,713</b>
Exchange difference	271	175	180	210	235
<b>Cash at the end</b>	<b>23,374</b>	<b>25,875</b>	<b>27,488</b>	<b>23,713</b>	<b>25,074</b>

### Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales mix (%)</b>					
Sale of properties	89.5	92.1	96.0	94.6	94.1
Property leasing	1.0	1.1	1.2	1.3	1.5
Property management fee	1.4	1.7	0.0	0.0	0.0
Urban redevelopment business	8.1	5.1	2.8	4.1	4.4
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	30.9	29.3	27.9	28.3	28.4
EBIT margin	25.4	23.6	23.5	22.7	22.9
Net margin	12.8	12.3	12.5	12.1	12.5
Effective tax rate	42.3	46.2	44.6	44.9	44.3
<b>Growth (%)</b>					
Revenue	48.7	23.4	19.4	16.0	11.3
Gross profit	64.7	17.1	13.8	17.4	11.8
Net profit	64.9	18.5	21.5	11.9	15.0
<b>Balance sheet ratios</b>					
Current ratio (x)	2.1	1.6	1.8	1.8	1.8
Receivable turnover days	52	52	52	52	52
Payables turnover days	131	176	146	164	164
Inventory turnover days	779	748	767	767	767
Net debt / total equity ratio (%)	62.6	67.2	82.9	88.2	79.0
<b>Returns (%)</b>					
ROE	26.0	27.3	26.9	24.9	23.8
ROA	3.7	3.5	3.9	4.1	4.4
<b>Per share</b>					
EPS (RMB)	2.40	2.73	3.26	3.65	4.20
DPS (RMB)	0.69	0.84	0.98	1.10	1.26
BVPS (RMB)	8.92	9.89	12.00	14.56	17.50

Source: Company data, CMBIS estimates

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