

China SCE (1966 HK)

New business model helps buy cheap land

Revenue and net profit increased by 45.2% to RMB15.1bn and 10.3% to RMB2.11bn in 1H20, respectively. Property management business will be a highlight. We estimate end-20 NAV to be HK\$9.34. As a result, we adjust TP from HK\$5.74 to HK\$5.60. Maintain BUY.

- **Interim core profit advanced 19%.** Revenue and core profit grew by 45.2% to RMB15.1bn and 19.2% to RMB1.84bn in 2H20, respectively. 46% growth of revenue from property development was driven by 109% surge in delivery GFA to 1.09mn sq m but partially offset by 30% retreat in recognized ASP. About 27% of revenue of property development came from Quanzhou which had ASP of RMB7,863 per sq m. GM came down 1.0ppts to 27.9% in the period. Furthermore, admin expenses surged 63.7% to RMB1.03bn due to business expansion. Interim dividend of HK\$0.11 was declared.
- **Contracted sales gained 8% in 1H20.** Contracted sales amount advanced 8% to RMB40.1bn but area declined 8% to 2.73mn sq m in 1H20. Hit rate was 43% based on RMB93bn sales target. The Company will launch more projects in 2H20. Projects in Xiamen and Beijing account for 19% and 12% of total, respectively. In Jul 2020, China SCE achieved contracted sales of RMB7.7bn, up 49% YoY. As at Jun 2020, about RMB45bn (consolidation level) and RMB63bn (JCE) of properties were pre-sold and unbooked, of which RMB16bn (consolidation) and RMB29bn (JCE) will be booked in 2H20.
- **Land bank acquisitions by “One Body Two Wings” model.** China SCE acquired 10 new projects in eight cities with total GFA of 3.32mn sq m (attributable ratio of 79%). Eight of them were acquired through combination with shopping malls and leasing apartments. As at Jun 2020, China SCE had land bank in 54 cities with total GFA of 33.03mn sq m (attributable GFA 20.06mn sq m). Average land cost was RMB4,313/sq m, which is equivalent to 29% of contracted sales ASP of RMB14,680/sq m in 1H20.
- **Property management business is a highlight.** Revenue from property management grew by 46.4% to RMB233mn in 1H20. Contract GFA and managed GFA of residential are 20mn sq m and 10mn sq m, while those of commercial properties are 2.1mn sq m and 0.7mn sq m, respectively.
- **Maintain BUY.** We slightly adjust our earnings forecast. We trim end-20 NAV forecast from HK\$9.58 to HK\$9.34. As a result, we adjust TP from HK\$5.74 to HK\$5.60, based on 40% discount to NAV.

Earnings Summary

| (YE 31 Dec) | FY18A | FY19A | FY20E | FY21E | FY22E |
|---------------------|--------|--------|--------|--------|--------|
| Revenue (RMB mn) | 17,783 | 21,370 | 30,380 | 37,566 | 43,802 |
| YoY growth (%) | 10.4 | 20.2 | 42.2 | 23.7 | 16.6 |
| Net income (RMB mn) | 3,385 | 3,510 | 3,767 | 4,383 | 5,484 |
| EPS (RMB) | 0.88 | 0.84 | 0.90 | 1.04 | 1.31 |
| YoY growth (%) | 9.9 | -4.4 | 7.1 | 16.1 | 25.1 |
| Consensus RPS (RMB) | N.A. | N.A. | 0.92 | 1.14 | 1.39 |
| P/E (x) | 4.2 | 4.4 | 4.2 | 3.6 | 2.9 |
| P/B (x) | 0.9 | 0.9 | 0.8 | 0.7 | 0.6 |
| Yield (%) | 5.0 | 5.8 | 7.0 | 8.7 | 10.8 |
| ROE (%) | 21.9 | 20.0 | 18.4 | 18.5 | 19.8 |
| Net gearing (%) | 60.4 | 60.0 | 63.7 | 62.0 | 61.5 |

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

| | |
|---------------|----------|
| Target Price | HK\$5.60 |
| (Previous TP) | HK\$5.74 |
| Up/downside | +34.6% |
| Current Price | HK\$4.16 |

China Property Sector

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Stock Data

| | |
|--------------------------|-----------|
| Mkt Cap (HK\$ mn) | 17,481 |
| Avg 3 mths t/o (HK\$ mn) | 34.08 |
| 52w High/Low (HK\$) | 4.90/2.99 |
| Total Issued Shares (mn) | 4,202 |

Source: Bloomberg

Shareholding Structure

| | |
|-----------------|--------|
| Wong Chiu Yeung | 50.40% |
| Chen Yuanlai | 5.51% |
| Cheng Hiu Lok | 5.03% |
| Free float | 39.06% |

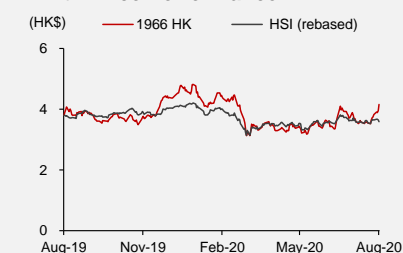
Source: HKEx

Share Performance

| | Absolute | Relative |
|--------|----------|----------|
| 1-mth | 6.2% | 5.8% |
| 3-mth | 14.5% | 10.9% |
| 6-mth | -11.4% | -2.7% |
| 12-mth | 3.7% | 8.3% |

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

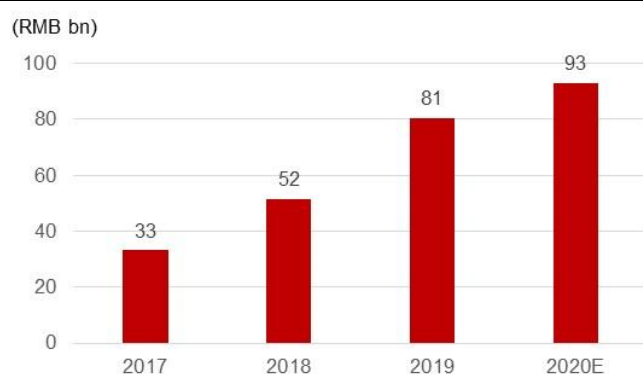
Auditor: Ernst & Young

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Figure 1: 2020 interim results

| | 1H20 (RMB mn) | 1H29 (RMB mn) | Change (%) | Remark |
|------------------------------------|------------------|------------------|---------------|--|
| Revenue | 15,135 | 10,423 | 45.2% | |
| Property development | 14,686 | 10,066 | 45.9% | Delivery GFA increased by 109% to 1.97mn sqm but ASP declined by 30% |
| Property investment | 154 | 133 | 15.8% | |
| Property management | 233 | 159 | 46.4% | Managed GFA 10.7mn sq m as of Jun 2020 |
| Project management | 61 | 64 | -4.2% | |
| Cost of sales | -10,910 | -7,412 | 47.2% | |
| Gross profit | 4,225 | 3,011 | 40.3% | Gross margin narrowed by 1.0ppts to 27.9% in 1H20 |
| Other income | 625 | 760 | -17.8% | |
| Marketing expenses | -312 | -231 | 34.7% | |
| Administrative expenses | -1,029 | -629 | 63.7% | More headcount for business expansion |
| Other expenses | -156 | 0 | N.A. | |
| EBIT | 3,353 | 2,910 | 15.2% | EBIT margin narrowed by 5.8ppts to 22.2% in 1H20 |
| Finance costs | -249 | -267 | -6.8% | |
| Share from associates and JVs | -7 | -134 | N.A. | |
| Exceptional | 462 | 732 | -36.9% | Fair value change of investment properties |
| PROFIT BEFORE TAX | 3,560 | 3,242 | 9.8% | |
| Income tax | -1,043 | -1,048 | -0.4% | Effective tax rate declined by 3.0ppts to 29.3% in 1H20 |
| PROFIT FOR THE YEAR | 2,517 | 2,194 | 14.7% | |
| Non-controlling interests | -402 | -277 | 45.1% | |
| Net profit to shareholders | 2,114 | 1,917 | 10.3% | Net margin narrowed by 4.4ppts to 14.0% in 1H20 |
| Core profit to shareholders | 1,841 | 1,544 | 19.2% | Core margin retreated by 2.7ppts to 12.2% in 1H20 |

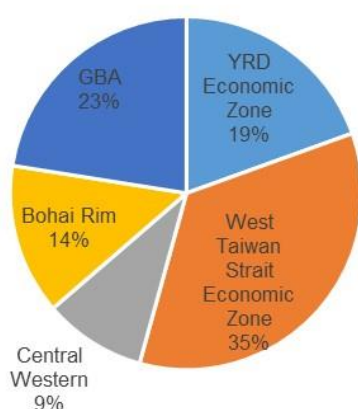
Source: Company data, CMBIS

Figure 2: Annual contracted sales amount

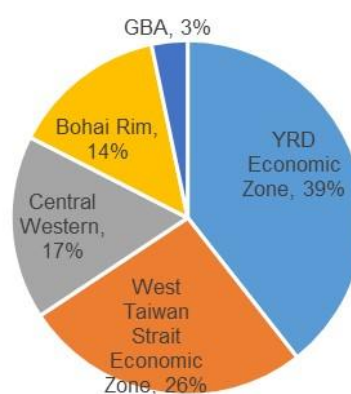
Source: Company data, CMBIS

Figure 3: Recognized GFA & ASP

Source: Company data, CMBIS

Figure 4: Property sales revenue in 1H20

Source: Company data, CMBIS

Figure 5: Contracted sales in 1H20

Source: Company data, CMBIS

Figure 6: New land bank acquisitions in 1H20

| Project name | City | Type | Interest | Above-ground GFA (sq m) | Land cost (RMB mn) | Average land cost (RMB/sqm) |
|----------------|------------|-------------|----------|-------------------------|--------------------|-----------------------------|
| Funworld | Weifang | Commercial | 100% | 97,634 | 67 | 682 |
| Parkview Mount | Weifang | Residential | 100% | 293,868 | 309 | 1,050 |
| Imperial Manor | Zhangjiaga | Mixed | 90% | 324,797 | 748 | 2,304 |
| The Skyland | Xiamen | Mixed | 65% | 210,000 | 10,355 | 49,310 |
| Imperial Manor | Fuzhou | Mixed | 99% | 330,062 | 4,560 | 13,816 |
| Funworld | Jieyang | Mixed | 53% | 501,874 | 690 | 1,375 |
| Royal Bay | Shaoguan | Residential | 100% | 457,612 | 900 | 1,968 |
| Funworld | Xiangtan | Mixed | 100% | 741,812 | 1,321 | 1,780 |
| Parkview Mount | Xuchang | Residential | 100% | 167,188 | 221 | 1,322 |
| Imperial Manor | Xuchang | Residential | 100% | 195,199 | 260 | 1,334 |
| Total | | | | 3,320,046 | 19,431 | 5,853 |

Source: Company data, CMBIS

Figure 7: Earning revision

| RMB mn | New | | | Old | | | Diff (%) | | |
|--------------|--------|--------|--------|--------|--------|--------|----------|----------|-------|
| | FY20E | FY21E | FY22E | FY20E | FY21E | FY22E | FY20E | FY21E | FY22E |
| Revenue | 30,380 | 37,566 | 43,802 | 30,380 | 37,566 | 43,802 | 0.0% | 0.0% | 0.0% |
| Gross Profit | 8,668 | 10,349 | 12,073 | 8,668 | 10,349 | 12,073 | 0.0% | 0.0% | 0.0% |
| EBIT | 6,547 | 8,148 | 9,810 | 6,548 | 8,148 | 9,818 | 0.0% | 0.0% | -0.1% |
| Net profit | 3,767 | 4,383 | 5,484 | 3,563 | 4,431 | 5,499 | 5.7% | -1.1% | -0.3% |
| EPS (RMB) | 0.90 | 1.04 | 1.31 | 0.85 | 1.06 | 1.31 | 5.5% | -1.6% | -0.7% |
| Gross Margin | 28.5% | 27.5% | 27.6% | 28.5% | 27.5% | 27.6% | 0 ppt | 0 ppt | 0 ppt |
| EBIT Margin | 21.6% | 21.7% | 22.4% | 21.6% | 21.7% | 22.4% | 0 ppt | 0 ppt | 0 ppt |
| Net Margin | 12.4% | 11.7% | 12.5% | 11.7% | 11.8% | 12.6% | 0.7 ppt | -0.1 ppt | 0 ppt |

Source: CMBIS estimates

Figure 8: End-20 NAV

| | NAV/share | | | | Remark |
|------------------------------|-----------|-----------|--------|----------|---------------|
| | (Rmb mn) | (HK\$ mn) | (HK\$) | % of NAV | |
| Properties under development | 32,347 | 36,061 | 8.58 | 92% | WACC of 9.7% |
| Investment property | 24,516 | 27,332 | 6.50 | 70% | 5-8% Cap rate |
| Gross Amount | 56,864 | 63,393 | 15.09 | 162% | |
| Net debt | -21,663 | -24,151 | (5.75) | -62% | Dec-20 |
| NAV | 35,201 | 39,243 | 9.34 | 100% | |

Source: CMBIS estimates

Financial Summary

Income statement

| YE 31 Dec (RMB mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|-------------------------|---------------|---------------|---------------|---------------|---------------|
| Revenue | 17,783 | 21,370 | 30,380 | 37,566 | 43,802 |
| Property development | 17,225 | 20,453 | 29,280 | 36,250 | 42,240 |
| Property investment | 131 | 285 | 336 | 403 | 484 |
| Property management | 337 | 458 | 573 | 699 | 838 |
| Project management | 91 | 174 | 192 | 215 | 241 |
| Cost of sales | -11,636 | -15,478 | -21,712 | -27,217 | -31,729 |
| Gross profit | 6,147 | 5,892 | 8,668 | 10,349 | 12,073 |
| Other income and gains | 387 | 1,156 | 249 | 279 | 277 |
| Distribution expenses | -398 | -516 | -608 | -676 | -701 |
| Administrative expenses | -1,299 | -1,616 | -1,762 | -1,803 | -1,840 |
| Other expenses | 0 | -92 | 0 | 0 | 0 |
| Operating profit | 4,836 | 4,823 | 6,547 | 8,148 | 9,810 |
| Finance expenses | -402 | -528 | -821 | -877 | -913 |
| Associates/JV | 535 | 154 | 280 | 362 | 450 |
| Exceptional | 1,083 | 1,405 | 462 | 0 | 0 |
| Pre-tax profit | 6,052 | 5,854 | 6,469 | 7,634 | 9,347 |
| Profits tax | -2,376 | -1,831 | -2,364 | -2,833 | -3,402 |
| Minority interest | -233 | -478 | -338 | -418 | -460 |
| Perpetual | -58 | -35 | 0 | 0 | 0 |
| Net profit | 3,385 | 3,510 | 3,767 | 4,383 | 5,484 |
| Core profit | 2,200 | 2,650 | 3,494 | 4,383 | 5,484 |

Cash flow summary

| YE 31 Dec (RMB mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|--------------------------------|---------------|---------------|----------------|---------------|---------------|
| EBIT | 4,836 | 4,823 | 6,547 | 8,148 | 9,810 |
| D&A | 42 | 96 | 135 | 148 | 155 |
| Change in working capital | -2,034 | -15,276 | -8,204 | -7,300 | -9,400 |
| Income tax paid | -1,653 | -1,467 | -1,743 | -2,833 | -2,802 |
| Others | 3,091 | 4,736 | 10,653 | 6,049 | 5,846 |
| Net cash from operating | 4,282 | -7,088 | 7,389 | 4,213 | 3,609 |
| Capex | -1,825 | -1,502 | -5,443 | -4,261 | -3,050 |
| Associates/JV | -3,576 | -4,701 | -4,500 | -700 | -1,700 |
| Other | -3,262 | -250 | -110 | -136 | -136 |
| Net cash from investing | -8,663 | -6,453 | -10,053 | -5,097 | -4,886 |
| Equity raised | 521 | 225 | 50 | 0 | 0 |
| Change of Debts | 10,399 | 8,732 | 3,423 | 2,500 | 1,400 |
| Dividend paid | -1,098 | -1,076 | -880 | -1,059 | -1,377 |
| Other | 1,767 | 9,251 | 0 | 0 | 0 |
| Net cash from financing | 11,590 | 17,132 | 2,592 | 1,441 | 23 |
| Net change in cash | 7,208 | 3,591 | -72 | 557 | -1,254 |
| Cash at the beginning | 8,145 | 15,515 | 19,151 | 19,089 | 19,656 |
| Exchange difference | 162 | 45 | 10 | 10 | 10 |
| Cash at the end | 15,515 | 19,151 | 19,089 | 19,656 | 18,412 |
| Pledged deposit | 4,458 | 4,748 | 4,748 | 4,748 | 4,748 |
| Cash at BS | 19,973 | 23,899 | 23,837 | 24,404 | 23,160 |

Balance sheet

| YE 31 Dec (RMB mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|--------------------------------|---------------|---------------|----------------|----------------|----------------|
| Non-current assets | 39,277 | 52,638 | 57,403 | 60,643 | 64,838 |
| Fixed asset | 681 | 827 | 820 | 880 | 915 |
| Investment properties | 20,270 | 22,632 | 28,000 | 32,100 | 35,000 |
| Associates/JV | 5,839 | 9,900 | 14,400 | 15,100 | 16,800 |
| Intangible assets | 3 | 3 | 3 | 3 | 3 |
| Other non-current assets | 12,484 | 19,277 | 14,180 | 12,560 | 12,120 |
| Current assets | 62,214 | 96,744 | 109,237 | 120,484 | 130,660 |
| Cash | 19,973 | 23,899 | 23,837 | 24,404 | 23,160 |
| Account receivable | 5,258 | 9,232 | 11,200 | 12,800 | 14,800 |
| Inventories | 31,344 | 57,158 | 68,000 | 76,500 | 85,400 |
| Other current assets | 5,640 | 6,455 | 6,200 | 6,780 | 7,300 |
| Current liabilities | 54,226 | 85,049 | 98,780 | 106,100 | 113,600 |
| Borrowings | 10,537 | 12,295 | 16,000 | 15,000 | 14,400 |
| Trade and other payables | 18,277 | 27,393 | 32,000 | 34,800 | 36,300 |
| Contract liabilities | 21,540 | 34,902 | 38,000 | 43,000 | 49,000 |
| Deferred taxation | 2,600 | 2,953 | 3,500 | 3,800 | 4,100 |
| Other current liabilities | 1,273 | 7,505 | 9,280 | 9,500 | 9,800 |
| Non-current liabilities | 25,125 | 34,047 | 33,850 | 36,950 | 39,250 |
| Borrowings | 22,800 | 29,782 | 29,500 | 33,000 | 35,000 |
| Other non-current liabilities | 2,325 | 4,265 | 4,350 | 3,950 | 4,250 |
| Shareholders' equity | 15,482 | 17,579 | 20,510 | 23,677 | 27,648 |
| Minority interest | 5,957 | 12,707 | 13,500 | 14,400 | 15,000 |
| Perpetual bond | 700 | 0 | 0 | 0 | 0 |
| Total equity | 22,139 | 30,286 | 34,010 | 38,077 | 42,648 |

Key ratios

| YE 31 Dec | FY18A | FY19A | FY20E | FY21E | FY22E |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Sales mix (%) | | | | | |
| Property development | 96.9 | 95.7 | 96.4 | 96.5 | 96.4 |
| Property investment | 0.7 | 1.3 | 1.1 | 1.1 | 1.1 |
| Property management | 1.9 | 2.1 | 1.9 | 1.9 | 1.9 |
| Project management | 0.5 | 0.8 | 0.6 | 0.6 | 0.5 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Profit & loss ratios (%) | | | | | |
| Gross margin | 34.6 | 27.6 | 28.5 | 27.5 | 27.6 |
| Pre-tax margin | 27.2 | 22.6 | 21.6 | 21.7 | 22.4 |
| Net margin | 19.0 | 16.4 | 12.4 | 11.7 | 12.5 |
| Effective tax rate | 39.3 | 31.3 | 36.5 | 37.1 | 36.4 |
| Balance sheet ratios | | | | | |
| Current ratio (x) | 1.1 | 1.1 | 1.1 | 1.1 | 1.2 |
| Receivable day | 107.9 | 157.7 | 134.6 | 124.4 | 123.3 |
| Payable day | 375.1 | 467.9 | 384.5 | 338.1 | 302.5 |
| Inventory day | 983.2 | 1347.9 | 1143.1 | 1025.9 | 982.4 |
| Net gearing ratio (%) | 62.3 | 60.0 | 63.7 | 62.0 | 61.5 |
| Returns (%) | | | | | |
| ROE | 21.9 | 20.0 | 18.4 | 18.5 | 19.8 |
| ROA | 3.3 | 2.3 | 2.3 | 2.4 | 2.8 |
| Per share data | | | | | |
| EPS (RMB) | 0.88 | 0.84 | 0.90 | 1.04 | 1.31 |
| DPS (HK\$) | 0.21 | 0.24 | 0.29 | 0.36 | 0.45 |
| BVPS (RMB) | 4.05 | 4.30 | 4.88 | 5.63 | 6.58 |

Source: Company data, CMBIS estimates

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| | |
|-----------------------|---|
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