

Agile (3383 HK)

Hainan is back

We forecast revenue and net profit to grow by 6.1% to RMB28.8bn and 6.5% to RMB5.4bn in 1H20, partly benefited from Hainan housing policy relaxation. Furthermore, we adjust upwards earnings forecast and NAV estimate due to more booking from Hainan and rise in A-Living (3319 HK, BUY) share price. Target Price is raised from HK\$10.65 to HK\$13.71. Maintain BUY.

- **Forecast a mildly profit growth in 1H20.** In 1H19, net profit grew 35% to RMB5.08bn partly due to RMB2.2bn after tax gain from disposal equity interest in a project company and RMB435mn re-measurement gains resulting from a JV transferred to a subsidiary. We believe this kind of gain will be reduced in 1H20 but partly compensated by increase of contribution from Hainan Clearwater Bay in the same period. As a result, we forecast revenue and net profit to grow by 6.1% to RMB28.8bn and 6.5% to RMB5.40bn in 1H20, respectively. Lastly, Agile achieved RMB55.1bn contracted sales in 1H20 or completed 46% of full year sales target of RMB120bn.
- **Policy relaxation for Hainan home buying.** Hainan government announced housing policy relaxation in Oct 2019 that tertiary education graduates with 1-year social security payment can buy home in Hainan. Therefore, Agile benefits from this policy change. The Company had already sold Hainan Clearwater Bay to some buyers 1 year ago. Their completions are pending for 2-year full social security payment and now reduce to 1-year. We expect about RMB4bn revenue from property development came from Hainan in 1H20 and enhanced profitability.
- **Another spin-off.** On the other hand, Agile is working to spin off A-City Group and listing on HKEx. A-City Group is a leading ecological habitat service provider with operation in 119 cities in 27 provinces in China. Revenue and net profit amounted to RMB5.1bn (up 45.1% YoY) and RMB775mn (up 58.0% YoY) in 2019, respectively. Given the successful performance of A-Living, we expect spin-off of A-City would enhance the value of Agile.
- **Raise forecast and TP.** Benefited from Hainan housing policy relaxation, we raise net profit forecast by 6.4% to RMB7.91bn in 2020 and 7.1% to RMB9.36bn in 2021. Furthermore, we raise our end-20 forecast from HK\$26.62 to HK\$27.41, partly due to the rise in A-Living share price. We raise TP from HK\$10.65 to HK\$13.71, based on 50% discount to NAV.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	56,145	60,239	72,275	83,865	92,159
YoY growth (%)	8.8	7.3	20.0	16.0	9.9
Net income (RMB mn)	7,125	7,512	7,907	9,361	10,204
EPS (RMB)	1.835	1.935	2.02	2.39	2.61
YoY growth (%)	18.3	5.4	4.3	18.4	9.0
Consensus EPS (RMB)	N.A.	N.A.	2.03	2.29	2.64
P/E (x)	4.7	4.4	4.3	3.6	3.3
P/B (x)	0.8	0.8	0.7	0.6	0.5
Yield (%)	10.4	10.4	10.4	12.0	13.6
ROE (%)	17.3	16.9	15.5	16.0	15.3
Net gearing (%)	79.1	82.8	80.8	74.3	74.0

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$13.71
(Previous TP	HK\$10.65)
Up/downside	+43.3%
Current Price	HK\$9.57

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Stock Data

Mkt Cap (HK\$ mn)	37,486
Avg 3 mths t/o (HK\$ mn)	82.39
52w High/Low (HK\$)	12.36/ 7.60
Total Issued Shares (mn)	3,917

Source: Bloomberg

Shareholding Structure

Chen Zhuo Lin	66.3%
Free float	33.7%

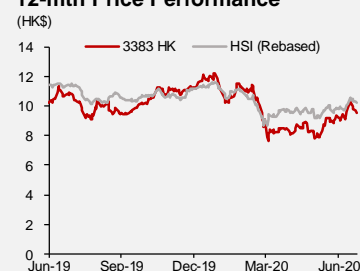
Source: Company data

Share Performance

	Absolute	Relative
1-mth	5.9%	1.0%
3-mth	12.9%	8.2%
6-mth	-19.4%	-8.7%
12-mth	-10.7%	-0.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

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Figure 1: 2019 interim results forecast

	1H19A (Rmb mn)	1H20E (Rmb mn)	Change (%)
Turnover	27,114	28,768	6.1%
Cost of Sales	(18,894)	(18,987)	0.5%
Gross Profit	8,220	9,781	19.0%
EBIT	10,975	9,062	21.1%
Pre-tax Profit	10,201	10,184	-0.2%
Taxation	(4,308)	(4,074)	-5.4%
Profit after Tax	5,894	6,110	3.7%
Minority	(400)	(286)	-28.5%
Perpetual securities	(417)	(420)	0.6%
Net Profit	5,077	5,404	6.5%

Source: Company data, CMBIS estimates

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	72,275	83,865	92,159	70,920	79,771	89,047	1.9%	5.1%	3.5%
Gross Profit	23,045	27,458	30,119	22,704	26,225	29,210	1.5%	4.7%	3.1%
EBIT	19,084	22,700	24,683	18,675	21,682	23,851	2.2%	4.7%	3.5%
Net profit	7,907	9,361	10,204	7,435	8,740	9,630	6.4%	7.1%	6.0%
EPS (RMB)	2.02	2.39	2.61	1.91	2.25	2.48	5.7%	6.2%	5.0%
Gross Margin	31.9%	32.7%	32.7%	32.0%	32.9%	32.8%	-0.1 ppt	-0.1 ppt	-0.1 ppt
EBIT Margin	26.4%	27.1%	26.8%	26.3%	27.2%	26.8%	0.1 ppt	-0.1 ppt	0 ppt
Net Margin	10.9%	11.2%	11.1%	10.5%	11.0%	10.8%	0.5 ppt	0.2 ppt	0.3 ppt

Source: CMBIS estimates

Figure 3: End-20 NAV

	(Rmb mn)	(HK\$ mn)	NAV/share (HK\$)	% of NAV	Remark
Properties under development	126,644	141,186	36.04	131%	WACC of 7.7%
Investment property	8,620	9,610	2.45	9%	At cost
Hotel	7,174	7,998	2.04	7%	Rmb 0.8-5.0mn per room
A-Living	25,672	28,620	7.31	27%	Market cap
Gross Amount	168,110	187,414	47.85	175%	
Net debt	(58,219)	(64,904)	(16.57)	-60%	Dec-20
Perpetual securities	(13,567)	(15,125)	(3.86)	-14%	
NAV	96,324	107,385	27.41	100%	

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	56,145	60,239	72,275	83,865	92,159
Property sales	52,488	54,177	64,200	70,620	76,270
Rental	189	173	180	189	200
Hotel	722	802	882	970	1,067
Property management	2,133	3,577	5,125	9,595	11,259
Environmental	614	1,510	1,888	2,492	3,364
Cost of sales	(31,471)	(41,881)	(49,229)	(56,408)	(62,041)
Gross profit	24,674	18,358	23,045	27,458	30,119
Other income and gains	977	5,818	1,821	1,952	2,122
Distribution expenses	(2,318)	(2,026)	(2,313)	(2,768)	(3,226)
Administrative expenses	(2,910)	(3,999)	(3,108)	(3,522)	(3,871)
Other expenses	(257)	(228)	(361)	(419)	(461)
Operating profit	20,166	17,923	19,084	22,700	24,683
Finance expenses	(2,744)	(2,530)	(1,871)	(1,885)	(1,979)
Associates/JV	27	1,086	810	845	880
Exceptional	1,952	117	-	-	-
Pre-tax profit	19,401	16,596	18,023	21,660	23,584
Profits tax	(11,043)	(7,363)	(8,281)	(10,229)	(11,097)
Minority interest	(556)	(871)	(985)	(1,221)	(1,433)
Perpetual	(677)	(850)	(850)	(850)	(850)
Net profit	7,125	7,512	7,907	9,361	10,204

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
EBIT	20,166	17,923	19,084	22,700	24,683
D&A	603	866	985	966	1,036
Change in working capital	(8,055)	(19,809)	(15,950)	(4,400)	(10,000)
Income tax paid	(8,159)	(9,276)	(9,423)	(10,109)	(11,097)
Others	(1,927)	(4,255)	6,502	(3,248)	(3,784)
Net cash from operating	2,628	(14,551)	1,198	5,909	838
Capex	(1,677)	(1,967)	(369)	(2,223)	(1,678)
Associates/JV	(3,056)	(2,091)	1,911	(500)	(1,100)
Other	(12,976)	7,939	(468)	(468)	(468)
Net cash from investing	(17,708)	3,881	1,074	(3,191)	(3,246)
Equity raised	0	-	-	-	-
Change of Debts	24,789	5,449	(5,670)	7,000	2,000
Dividend paid	(3,960)	(4,124)	(3,150)	(3,689)	(4,216)
Other	10,907	7,126	-	-	-
Net cash from financing	31,736	8,451	(8,820)	3,311	(2,216)
Net change in cash	16,655	(2,219)	(6,547)	6,029	(4,624)
Cash at the beginning	19,042	35,776	33,551	26,809	32,643
Exchange difference	79	(6)	(195)	(195)	(195)
Cash at the end	35,776	33,551	26,809	32,643	27,825
Pledged deposit	9,285	9,004	9,004	9,004	9,004
Cash at BS	45,062	42,555	35,813	41,647	36,828

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	63,538	82,467	75,640	80,030	84,020
Fixed asset	8,754	11,702	11,200	12,500	13,000
Investment properties	8,804	8,496	8,620	8,810	9,200
Associates/JV	10,088	14,711	12,800	13,300	14,400
Intangible assets	2,101	5,475	2,500	2,800	2,800
Other non-current assets	33,791	42,083	40,520	42,620	44,620
Current assets	166,908	190,764	182,881	197,830	204,236
Cash	45,062	42,555	32,781	38,530	34,636
Account receivable	27,735	35,360	28,300	30,000	33,000
Inventories	87,714	105,462	116,000	123,000	130,000
Other current assets	6,397	7,388	5,800	6,300	6,600
Current liabilities	120,378	147,668	126,435	133,750	135,750
Borrowings	35,333	42,297	35,000	38,000	40,000
Trade and other payables	42,534	53,918	43,100	45,200	45,200
Contract liabilities	25,490	33,654	32,000	34,200	34,200
Deferred taxation	17,015	17,563	16,100	16,100	16,100
Other current liabilities	7	236	235	250	250
Non-current liabilities	55,087	60,228	60,000	64,120	64,120
Borrowings	53,196	54,373	56,000	60,000	60,000
Other non-current liabilities	1,890	5,855	4,000	4,120	4,120
Shareholders' equity	41,239	44,474	51,019	58,623	66,270
Minority interest	5,407	7,296	7,500	7,800	8,100
Perpetual bond	8,335	13,567	13,567	13,567	13,567
Total equity	54,981	65,336	72,086	79,990	88,386

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Property sales	93.5	89.9	88.8	84.2	82.8
Rental	0.3	0.3	0.2	0.2	0.2
Hotel	1.3	1.3	1.2	1.2	1.2
Property management	3.8	5.9	7.1	11.4	12.2
Others	1.1	2.5	2.6	3.0	3.7
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	43.9	30.5	31.9	32.7	32.7
Pre-tax margin	35.9	29.8	26.4	27.1	26.8
Net margin	12.7	12.5	10.9	11.2	11.1
Effective tax rate	56.9	44.4	45.9	47.2	47.1
Balance sheet ratios					
Current ratio (x)	1.4	1.3	1.4	1.5	1.5
Receivable day	180.3	214.3	142.9	130.6	130.7
Payable day	276.5	326.7	217.7	196.7	179.0
Inventory day	1017.3	919.1	860.1	795.9	764.8
Net gearing ratio (%)	79.1	82.8	80.8	74.3	74.0
Returns (%)					
ROE	17.3	16.9	15.5	16.0	15.3
ROA	3.1	2.7	3.1	3.4	3.5
Per share data					
EPS (RMB)	1.84	1.93	2.02	2.39	2.61
DPS (HK\$)	1.00	1.00	1.00	1.15	1.30
BVPS (RMB)	10.53	11.35	13.02	14.97	17.03

Source: Company data, CMBIS estimates

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