

Powerlong Commercial (9909 HK)

Focus on YRD

Revenue and net profit gained by 16.0% to RMB869mn and 66.4% to RMB145mn in 1H20, respectively. Powerlong Comm will commence to operate 12 shopping malls with 1.35mn sq m managed GFA in 2H20. Furthermore, managed GFA of residential properties is expected to increase to 13mn sq m by end-20 and 15mn sq m by end-21. First M&A had started in Jul 2020 and more are expected.

- **Earnings jumped 66% in 1H20.** Revenue and net profit gained by 16.0% to RMB869mn and 66.4% to RMB145mn in 1H20, respectively. Revenue growth was driven by the rise in managed GFA to 18.6mn sq m in the period. Furthermore, improvement in gross margin and better SG&A cost control lifted overall profitability. Lastly, a 2.4ppts retreat on effective tax rate to 24.8% in 1H20 further boosted profitability.
- **12 new malls in 2H20.** As of Jun 2020, 51 commercial properties (up 6 YoY) with 7.0mn sq m (up 9.6% YoY) were under management, of which 45 were shopping malls and six were shopping streets. Revenue from commercial operation increased by 12.8% to RMB700mn in 1H20, of which income from Yangtze River Delta (YRD) accounted for 65%. Overall occupancy rate increased by 0.8ppts from a year ago to 87.1% as of Jun 2020. GM of commercial operation improved from 29.3% in 1H19 to 31.1% in 1H20. The Company plans to commence operations of 12 shopping malls in 2H20, of which two are owned by third parties. Total managed GFA of these 12 malls are 1.35mn sq m. It also utilizes technology to enhance consumers' experience and improve operating efficiency.
- **VAS enhanced margin.** Revenue from residential property management increased by 31.6% to RMB168mn in 1H20, of which revenue from VAS soared 117% to RMB42.9mn. GM of residential property management improved by 9.5ppts to 21.9% in 1H20 because of increase contribution of high margin VAS. Managed GFA increased by 10.2% to 11.65mn sq m in 1H20, of which YRD accounted for 44.6%. Managed GFA is expected to further increase to 13mn sq m by end-20 and 15mn sq m by end-21.
- **First M&A.** In Jul 2020, the Company announced to acquired 60% interest of Zhejiang Xinghui Commercial Management with RMB40.6mn. Xinghui is engaged in retail commercial property operation and management. It had 14 retail projects of 0.89mn sq m under management. The acquisition multiple is 11.3x 20E P/E or 8.8x 21E P/E based on profit guarantee. The Company will look for further target which managed five or more retail properties.

Earnings Summary

(YE 31 Dec)	FY16A	FY17A	FY18A	FY19A
Revenue (RMB mn)	753	973	1,200	1,620
YoY growth (%)	N.A.	29.3	23.4	35.0
Net income (RMB mn)	63	79	133	179
EPS (RMB)	N.A.	N.A.	0.329	0.440
YoY growth (%)	N.A.	N.A.	N.A.	179
P/E (x)	N.A.	N.A.	62.3	46.6
P/B (x)	N.A.	N.A.	N.A.	0.9
Yield (%)	N.A.	N.A.	N.A.	7.7
ROE (%)	354.0	81.6	58.0	11.3
Net gearing (%)	3842.7	284.2	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

NOT RATED

Current Price **HK\$22.85**

Property Management Sector

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Stock Data

Mkt Cap (HK\$ mn)	14,201
Avg 3 mths t/o (HK\$ mn)	22.8
52w High/Low (HK\$)	24.00/ 9.05
Total Issued Shares (mn)	622

Source: Bloomberg

Shareholding Structure

Powerlong Real Estate	65.1%
Hoi Wa Fong	7.2%
Free float	27.7%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	15.6%	14.3%
3-mth	47.0%	38.7%
6-mth	101.4%	118.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

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Figure 1: Interim results

	(RMB mn)	(RMB mn)	(%)	Remark
Revenue	869	749	16.0%	
Commercial operation	700	621	12.8%	Commercial properties managed GFA increased 9.6% to 7.0mn sq m in 1H20
Residential property management	168	128	31.5%	Residential properties managed GFA increased 10.2% to 11.6mn sq m in 1H20
Cost of sales	-614	-551	11.4%	
Gross profit	255	198	28.8%	Gross margin enlarged by 2.9ppts to 29.3% in 1H20
Other income	11	9	30.1%	
Marketing expenses	-10	-17	-42.6%	Less marketing due to COVID-19
Administrative expenses	-46	-47	-1.9%	Better cost control
Net impairment losses on financial assets	-20	-4	448.9%	larger business scale and increased provision on COVID-19
EBIT	190	139	37.0%	
Finance costs	4	-19	N.A.	
Share from associates and JVs	-1	0	N.A.	
PROFIT BEFORE TAX	193	120	61.1%	
Income tax	-48	-33	47.1%	Effective tax rate declined by 2.4ppts to 24.8% in 1H20
PROFIT FOR THE YEAR	145	87	66.4%	
Non-controlling interests	0	0	N.A.	
Net profit to shareholders	145	87	66.4%	

Source: Company data, CMBIS

Figure 2: Commercial operation management

	Contracted GFA (k sq m)	1H20 GFA under management (k sq m)	Revenue (RMB mn)	Contracted GFA (k sq m)	1H19 GFA under management (k sq m)	Revenue (RMB mn)	Contracted GFA (%)	YoY change GFA under management (%)	Revenue (%)
Yangtze River Delta	5,496	3,160	452.3	3,562	2,630	406.5	54.3%	20.2%	11.3%
Southeast China	1,121	679	87.4	792	679	65.0	41.5%	0.0%	34.4%
Midwest China	1,499	1,385	95.6	1,404	1,385	89.6	6.8%	0.0%	6.7%
Bohai Economic Rim	1,781	1,758	65.1	1,764	1,679	60.0	1.0%	4.7%	8.4%
Total	9,897	6,982	700.4	7,522	6,373	621.2	31.6%	9.6%	12.8%

Source: Company data, CMBIS

Figure 3: Residential property management

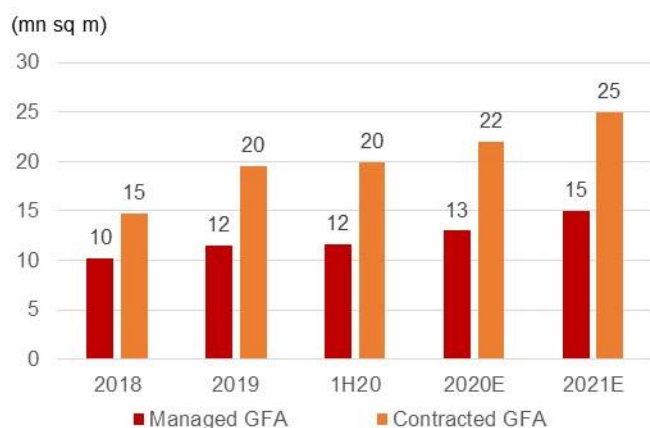
	Contracted GFA (k sq m)	1H20 GFA under management (k sq m)	Revenue (RMB mn)	Contracted GFA (k sq m)	1H19 GFA under management (k sq m)	Revenue (RMB mn)	Contracted GFA (%)	YoY change GFA under management (%)	Revenue (%)
Yangtze River Delta	10,977	5,189	81.0	8,377	4,188	61.7	31.0%	23.9%	31.3%
Southeast China	3,316	1,558	22.7	3,075	1,484	18.9	7.8%	5.0%	20.1%
Midwest China	2,766	2,594	32.7	2,766	2,594	20.6	0.0%	0.0%	59.2%
Bohai Economic Rim	2,852	2,306	31.8	2,852	2,306	26.8	0.0%	0.0%	19.0%
Total	19,911	11,647	168.2	17,070	10,572	127.9	16.6%	10.2%	31.5%

Source: Company data, CMBIS

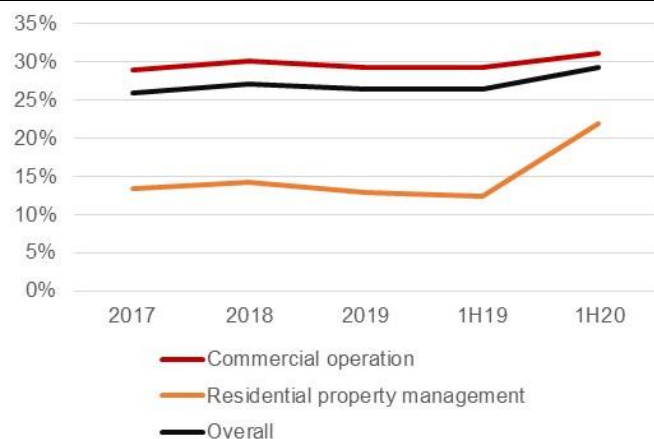
Figure 4: New shopping malls opening in 2H20

No	Project	Location	Opening date	Estimated GFA (sq m)
From Powerlong Group and its JV/associates				
1	Jinjiang Powerlong Plaza (Ph 2)	Jinjiang	Sep-20	46,486
2	Hangzhou Qinsan Lake Powerlong Plaza (Ph 1)	Hangzhou	Oct-20	189,524
3	Hangzhou Daijiangdong Powerlong Plaza	Hangzhou	Nov-20	95,373
4	Yongkang Powerlong Plaza	Jinhua	Nov-20	89,900
5	Quanzhou Taishang Powerlong Plaza	Quanzhou	Dec-20	148,950
6	Yancheng Chengdong Powerlong Plaza	Yancheng	Dec-20	135,932
7	Tianjin Yujiapu Powerlong Plaza	Tianjin	Dec-20	162,836
8	Zhangzhou Longwen Powerlong Plaza	Zhangzhou	Dec-20	66,186
9	Zhuji Powerlong Plaza	Shaoxing	Dec-20	138,600
10	Xinxiang Powerlong Land	Xinxiang	Sep-20	33,738
11	Huai'an Powerlong Land (Ph 2)	Huai'an	Dec-20	34,000
Sub-total				1,141,525
From independent third parties				
12	Shaoxing Kejiao Powerlong Plaza	Shaoxing	Nov-20	100,007
13	Hangzhou Qinsan Lake Powerlong Plaza (Ph 2)	Hangzhou	Dec-20	110,000
Sub-total				210,007
TOTAL				1,351,532

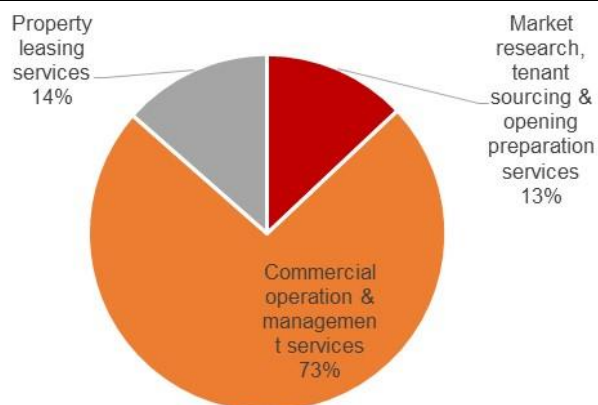
Source: Company data, CMBIS

Figure 5: Residential property management

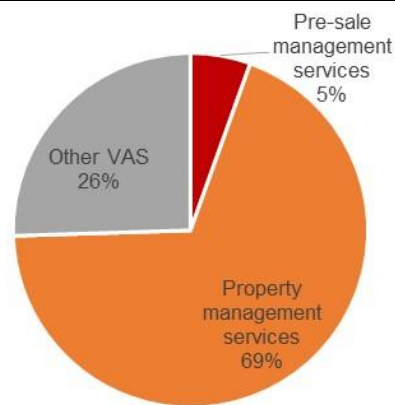
Source: Company data, CMBIS

Figure 6: Gross margin

Source: Company data, CMBIS

Figure 7: Breakdown for revenue of commercial operation services in 1H20

Source: Company data, CMBIS

Figure 8: Breakdown for revenue of residential property management in 1H20

Source: Company data, CMBIS

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