

China SCE (1966 HK)

“One Body Two Wings” model

Revenue and core profit increased by 20.2% to RMB21.4bn and 20.4% to RMB2.65bn in 2019, respectively. The reported core profit was 20% below our estimate. We estimate end-20 NAV to be HK\$9.58. As a result, we raise TP from HK\$4.83 to HK\$5.74. Maintain BUY.

- **Missed our estimate.** Revenue and net profit increased by 20.2% to RMB21.4bn and 3.7% to RMB3.51bn in 2019, respectively. Core earnings grew by 20.5% to RMB2.65bn in the period, which was 20.4% below our forecast but in line with market. Major discrepancies came from lower than our expected GM (27.6% actual vs 30.4% our estimate) and slower revenue growth. Full year dividend was HK\$0.24/share, equivalent to 33% payout.
- **RMB93bn contracted sales target in 2020.** Due to the outbreak, contracted sales amount tumbled 23% to RMB6.9bn in 2M20. Therefore, the Company tuned down its sales plan after a 57% growth of contracted sales in 2019. It targets a RMB93bn contracted sales in 2020, based on RMB170bn saleable resources and 55% sell through rate. About 100 new projects will be launched in 2020 and about 69% of new projects come from the first and second tier cities. As at end-19, about RMB45bn (consolidation level) and RMB46bn (JCE level) of properties were pre-sold and unbooked.
- **32.09mn sq m total land bank in 47 cities.** China SCE acquired 46 new projects in 36 cities (including 12 new cities) with total GFA of 9.8mn sq m (attributable ratio of 63%), for a total consideration of RMB47.7bn in 2019. As at end-19, China SCE had land bank in 47 cities with total GFA of 32.09mn sq m (attributable GFA 18.5mn sq m). Average land cost was RMB4,002/sq m, which is competitive compared with its contracted sales ASP of RMB12,728/sq m in 2019.
- **“One Body Two Wings” business model.** China SCE adopts the strategy of property development as the main body and shopping mall as well as long-term leasing apartment businesses as two wings. By 2025, China SCE hopes to have 100 shopping malls and 0.2mn rental apartments. Because of synergy, China SCE can obtain land banks with high quality and competitive cost.
- **Maintain BUY.** We cut our earnings forecast by 8.3% to RMB3.56bn in 2020 and 14.4% to RMB4.43bn in 2020 due to lower GM assumption. We raise end-20 NAV forecast from HK\$8.05 to HK\$9.58 to reflect the new land acquisitions. As a result, we raise TP from HK\$4.83 to HK\$5.74, 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	3,563	4,431	5,499
EPS (RMB)	0.88	0.84	0.85	1.06	1.31
YoY growth (%)	9.9	-4.4	1.5	24.4	24.1
Consensus RPS (RMB)	N.A.	N.A.	0.915	1.157	N.A.
P/E (x)	3.5	3.7	3.6	2.9	2.4
P/B (x)	0.8	0.7	0.6	0.6	0.5
Yield (%)	6.1	7.0	8.4	10.4	13.0
ROE (%)	21.9	20.0	17.6	18.9	20.0
Net gearing (%)	60.4	60.0	61.1	59.6	53.2

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$5.74
(Previous TP	HK\$4.83)
Up/downside	+66.6%
Current Price	HK\$3.45

China Property Sector

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Stock Data

Mkt Cap (HK\$ mn)	14,428
Avg 3 mths t/o (HK\$ mn)	28.2
52w High/Low (HK\$)	4.82/3.13
Total Issued Shares (mn)	4,182
Source: Bloomberg	

Shareholding Structure

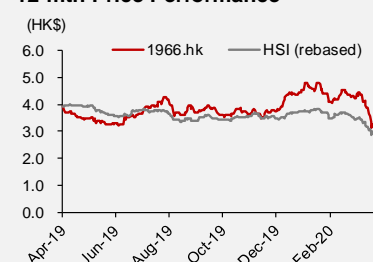
Wong Chiu Yeung	50.33%
Chen Yuanlai	5.51%
Cheng Hiu Lok	5.03%
Free float	39.13%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-19.5%	-11.3%
3-mth	-24.5%	-18.2%
6-mth	-5.3%	-11.2%
12-mth	-10.7%	-20.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

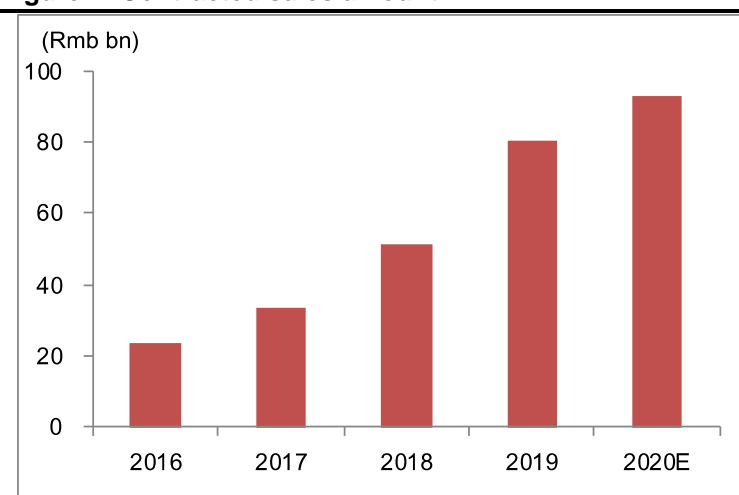
1. Breakthrough RMB100bn next year – 23 Aug 2019
2. Always have fun – 21 Mar 2019
3. Operating leverage – 27 Aug 2018

Figure 1: 2019 results

	2018A (RMB mn)	2019A (RMB mn)	Change (%)	2019E (RMB mn)	Diff (%)	Remark
Turnover	17,783	21,370	20.2%	24,024	-11.0%	
-Property development	17,225	20,453	18.7%	23,253	-12.0%	72% rise in delivery GFA partially offset 31% decline of recognized ASP in 2019
-Rental	131	285	117.3%	250	13.6%	
-Property management	337	458	36.1%	421	8.8%	
-Project management	91	174	92.5%	100	75.0%	
Cost of Sales	(11,636)	(15,478)	33.0%	(16,713)	-7.4%	
Gross Profit	6,147	5,892	-4.1%	7,311	-19.4%	Gross margin narrowed by 7ppts to 27.6% in 2019
Other operating income	387	1,156	198.9%	791	46.2%	
Distribution Cost	(398)	(516)	29.5%	(480)	7.4%	
Administrative Expenses	(1,299)	(1,616)	24.5%	(1,393)	16.0%	
Other Expenses	0	(92)	N.A.	0	N.A.	
EBIT	4,836	4,823	-0.3%	6,228	-22.6%	
Interest Expense	(402)	(528)	31.5%	(669)	-21.1%	Cost of debt was 6.7% in 2019
Associated	535	154	-71.2%	350	-55.9%	
Exceptional	1,083	1,405	29.8%	732	91.9%	Revaluation gain for investment properties
Pre-tax Profit	6,052	5,854	-3.3%	6,641	-11.9%	
Taxation	(2,376)	(1,831)	-22.9%	(2,556)	-28.4%	Effective tax rate narrowed from 39.3% in 2018 to 31.3% in 2019
Profit after Tax	3,677	4,023	9.4%	4,085	-1.5%	
Minorities	(233)	(478)	105.0%	(318)	50.3%	
Perpetual securities	(58)	(35)	-39.3%	(64)	-44.7%	
Net Profit	3,385	3,510	3.7%	3,703	-5.2%	Declared final dividend of HK\$0.14
Core Profit	2,200	2,650	20.5%	3,330	-20.4%	

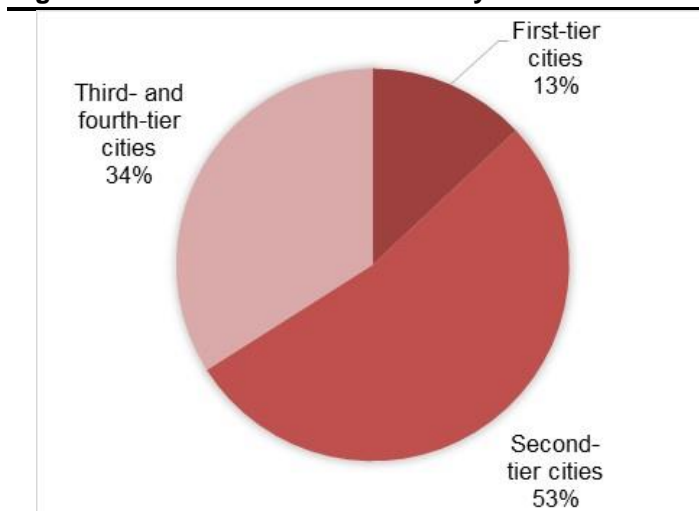
Source: Company data, CMBIS estimates

Figure 2: Contracted sales amount



Source: Company data

Figure 3: Contracted sales amount by tier of cities in 2019



Source: Company data

Figure 4: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	30,380	37,566	43,802	33,000	42,158	N.A.	-7.9%	-10.9%	N.A.
Gross Profit	8,668	10,349	12,073	9,381	11,973	N.A.	-7.6%	-13.6%	N.A.
EBIT	6,548	8,148	9,818	7,566	9,938	N.A.	-13.5%	-18.0%	N.A.
Net profit	3,563	4,431	5,499	3,885	5,175	N.A.	-8.3%	-14.4%	N.A.
EPS (RMB)	0.85	1.06	1.31	0.94	1.25	N.A.	-9.4%	-15.2%	N.A.
Gross Margin	28.5%	27.5%	27.6%	28.4%	28.4%	N.A.	0.1 ppt	-0.9 ppt	N.A.
EBIT Margin	21.6%	21.7%	22.4%	22.9%	23.6%	N.A.	-1.4 ppt	-1.9 ppt	N.A.
Net Margin	11.7%	11.8%	12.6%	11.8%	12.3%	N.A.	0 ppt	-0.5 ppt	N.A.

Source: CMBIS estimates

Figure 5: End-20 NAV

	NAV/share				Remark
	(Rmb/mn)	(HK\$/mn)	(HK\$)	% of NAV	
Properties under development	32,060	35,741	8.55	89%	WACC of 7.7%
Investment property	24,516	27,332	6.54	68%	5-8% Cap Rate
Gross Amount	56,576	63,072	15.08	157%	
Net debt	(20,636)	(23,006)	(5.50)	-57%	Dec-20
NAV	35,940	40,067	9.58	100%	

Source: CMBIS estimates

Financial Summary

Income statement

YE Dec 31 (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
Land development	0	0	0	0	0
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	278	285
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	6,548	8,148	9,818
Finance expenses	(402)	(528)	(812)	(856)	(902)
Associates/JV	535	154	420	395	450
Exceptional	1,083	1,405	0	0	0
Pre-tax profit	6,052	5,854	6,156	7,687	9,366
Profits tax	(2,376)	(1,831)	(2,255)	(2,838)	(3,407)
Minority interest	(233)	(478)	(338)	(418)	(460)
Perpetual	(58)	(35)	0	0	0
Net profit	3,385	3,510	3,563	4,431	5,499
Core profit	2,200	2,650	3,563	4,431	5,499

Cash flow summary

YE Dec 31 (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
EBIT	4,836	4,823	6,548	8,148	9,818
D&A	42	96	135	134	142
Change in working capital	1,644	(20,672)	(7,504)	(5,300)	(5,400)
Income tax paid	(367)	269	(2,334)	(2,938)	(2,907)
Others	2,694	17,904	2,899	2,975	5,258
Net cash from operating	8,849	2,421	(256)	3,020	6,911
Capex	(10,628)	(2,604)	(2,623)	(3,271)	(5,042)
Associates/JV	(2,415)	(4,061)	1,400	(500)	(400)
Other	(120)	(135)	(110)	(136)	(136)
Net cash from investing	(13,162)	(6,800)	(1,333)	(3,907)	(5,578)
Equity raised	507	108	0	0	0
Change of Debts	11,815	8,739	2,423	2,300	2,600
Dividend paid	(648)	(843)	(878)	(1,054)	(1,370)
Other	0	0	0	0	0
Net cash from financing	11,674	8,004	1,545	1,246	1,230
Net change in cash	7,360	3,626	(45)	359	2,563
Cash at the beginning	8,145	15,515	19,151	19,116	19,485
Exchange difference	10	10	10	10	10
Cash at the end	15,515	19,151	19,116	19,485	22,058
Pledged deposit	4,458	4,748	4,748	4,748	4,748
Cash at BS	19,973	23,899	23,864	24,233	26,806

Balance sheet

YE Dec 31 (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	39,277	52,638	51,433	54,583	59,303
Fixed asset	681	827	1,000	1,180	1,320
Investment properties	20,270	22,632	25,000	28,000	32,800
Associates/JV	5,839	9,900	8,500	9,000	9,400
Intangible assets	3	3	3	3	3
Other non-current assets	12,484	19,277	16,930	16,400	15,780
Current assets	62,214	96,744	101,864	105,533	116,506
Cash	19,973	23,899	23,864	24,233	26,806
Account receivable	5,258	9,232	6,500	6,800	7,200
Inventories	31,344	57,158	65,000	68,000	76,000
Other current assets	5,640	6,455	6,500	6,500	6,500
Current liabilities	54,226	85,049	83,400	85,300	94,100
Borrowings	10,537	12,295	12,500	13,800	14,400
Trade and other payables	18,277	27,393	25,000	23,000	26,000
Contract liabilities	21,540	34,902	38,000	44,000	49,000
Deferred taxation	2,600	2,953	2,900	3,000	3,200
Other current liabilities	1,273	7,505	5,000	1,500	1,500
Non-current liabilities	25,125	34,047	36,150	36,950	39,250
Borrowings	22,800	29,782	32,000	33,000	35,000
Other non-current liabilities	2,325	4,265	4,150	3,950	4,250
Shareholders' equity	15,482	17,579	20,247	23,466	27,459
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	33,747	37,866	42,459

Key ratios

YE Dec 31	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
Land development	0.0	0.0	0.0	0.0	0.0
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	11.7	11.8	12.6
Effective tax rate	39.3	31.3	36.6	36.9	36.4
Balance sheet ratios					
Current ratio (x)	1.1	1.1	1.2	1.2	1.2
Receivable day	107.9	157.7	78.1	66.1	60.0
Payable day	375.1	467.9	300.4	223.5	216.7
Inventory day	983.2	1347.9	1092.7	911.9	874.3
Net gearing ratio (%)	62.3	60.0	61.1	59.6	53.2
Returns (%)					
ROE	21.9	20.0	17.6	18.9	20.0
ROA	3.3	2.3	2.3	2.8	3.1
Per share data					
EPS (RMB)	0.88	0.84	0.85	1.06	1.31
DPS (HK\$)	0.21	0.24	0.29	0.36	0.45
BVPS (RMB)	4.05	4.30	4.84	5.61	6.57

Source: Company data, CMBIS estimates

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