

Poly Develop - A (600048 CH)

One of the fastest growing developers

The reported net profit of RMB28bn was 13.2% higher than our forecast of RMB24.7bn because of higher than our expected gross margin and more contribution from JCE. We raise our 2020 earnings forecast by 7.1% and raise TP to RMB22.16, which is equivalent to 8.0x 2020E P/E. Reiterate **BUY** recommendation.

- **Net profit surged 48% in 2019.** Revenue and net profit surged by 21.3% to RMB235.9bn and 47.9% to RMB28.0bn in 2019, respectively. The robust results were driven by increase of delivery GFA and margin improvement. GM for property development expanded by 2.7ppts to 35.4% in 2019. The reported net profit was 13.2% higher than our forecast of RMB24.7bn because of higher than our expected gross margin and more contribution from JCE. The Company declared final dividend of RMB0.82 per share, representing increase of payout ratio to 35%.
- **Top five in contracted sales in 2019.** Contracted sales amount increased by 14.1% to RMB461.8bn in 2019, respectively. Market share climbed to 2.89%. Cash collection ratio was 93% and cash collection from contracted sales amounted to RMB431.2bn in 2019. So net gearing ratio improved by 23.6ppts to 56.9% and cash on hand amounted to RMB139.4bn as at Dec 2019. Cost of debt reduced by 8bp to 4.95% in 2019. Balance sheet was strong. Although contracted sales dropped by 35% to RMB71bn in 1Q20, we expect Poly Development achieved 5% sales growth in 2020 due to its strong saleable resources.
- **213mn sq m land bank.** Poly Development acquired 127 projects of 26.8mn sq m land bank for considerations of RMB155.5bn in 2019. Meanwhile, attributable ratio for new land increased from 68% in 2018 to 71% in 2019. As at Dec 2019, GFA under development and for future planning were 132mn sq m and 81mn sq m, respectively. We estimate NAV to be RMB27.73 per share.
- **Leading property management company.** Poly Property Development (6049 HK, BUY) posted 49% net profit growth to RMB491mn in 2019. As at Dec 2019, it managed 1,490 properties projects in 170 cities. Total contracted GFA reached 498mn sq m as at Dec 2019.
- **Raise TP and forecast.** We raise our earnings forecast by 7.1% to RMB33.0bn in 2020 and 8.5% to RMB38.4bn in 2021. Accordingly, we raise our target price from RMB20.72 to RMB22.16, based on 8.0x 2020E P/E. Maintain **BUY** recommendation.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	194,555	235,981	301,311	347,892	401,678
YoY growth (%)	32.7	21.3	27.7	15.5	15.5
Net income (RMB mn)	18,904	27,959	33,048	38,404	44,616
EPS (RMB)	1.59	2.35	2.77	3.22	3.74
YoY growth (%)	20.5	47.8	17.9	16.2	16.2
Consensus EPS (RMB)	n.a.	n.a.	2.658	3.166	3.854
P/E (x)	9.9	6.7	5.7	4.9	4.2
P/B (x)	1.6	1.3	1.2	1.0	0.9
Yield (%)	3.2	5.2	6.2	7.1	8.3
ROE (%)	16.4	19.9	20.4	20.6	20.7
Net gearing (%)	80.6	56.9	60.9	55.2	52.8

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	RMB22.16
(Previous TP)	RMB20.72)
Up/downside	+40.6%
Current Price	RMB15.76

China Property Sector

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Stock Data

Mkt Cap (RMB mn)	188,059
Avg 3 mths t/o (RMB mn)	1,342
52w High/Low (RMB)	17.35/ 12.04
Total Issued Shares (mn)	11,953
Source: Bloomberg	

Shareholding Structure

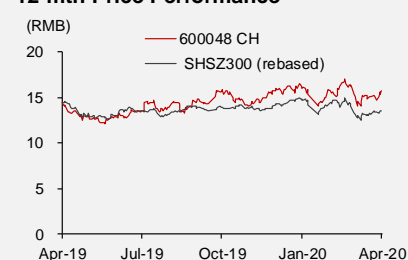
China Poly Group	40.7%
Free float	59.3%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-5.0%	-2.6%
3-mth	-5.1%	4.1%
6-mth	-1.9%	1.7%
12-mth	10.5%	15.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: BDO

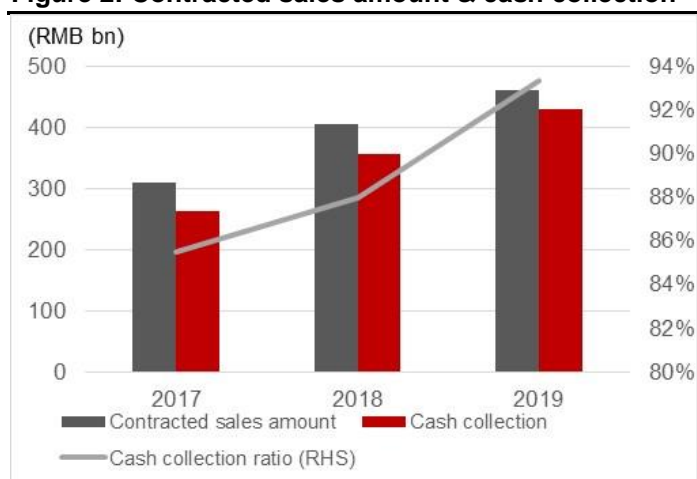
Related Reports

1. Rosy interim results – 13 Aug 2019
2. Interim profit surged 59% – 22 Jul 2019
3. West Point in China – 28 Jun 2019

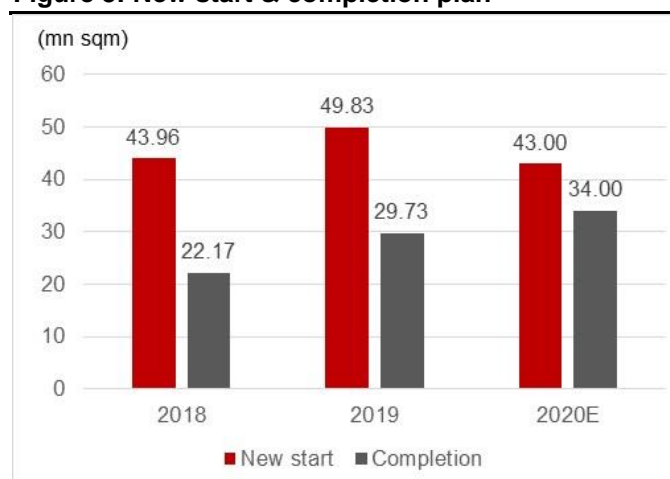
Figure 1: 2019 results

YE Dec 31 (RMB mn)	FY18A	FY19A	Change	FY19E	Diff
Revenue	194,555	235,981	21.3%	252,043	-6.4%
Sale of properties	182,498	223,731	22.6%	238,255	-6.1%
Other property related business	11,251	12,202	8.5%	12,939	-5.7%
Others	765	896	17.1%	803	11.6%
Other financial business	42	47	13.0%	46	3.2%
Cost of sales	-131,339	-153,450	16.8%	-170,606	-10.1%
Gross profit	63,217	82,531	30.6%	81,436	1.3%
Taxes and surcharges	-16,122	-21,841	35.5%	-21,424	1.9%
Selling expenses	-5,912	-6,681	13.0%	-7,561	-11.6%
Administrative expenses	-3,495	-4,233	21.1%	-4,537	-6.7%
R&D expenses	-41	-56	37.2%	-53	6.1%
EBIT	37,646	49,721	32.1%	47,862	3.9%
Finance costs	-2,585	-2,582	-0.1%	-3,278	-21.2%
Asset impairments	-2,351	-1,046	-55.5%	-	N.A.
Gain on fair value change	190	713	275.2%	-	N.A.
Investment gain, net	2,690	3,702	37.6%	2,421	52.9%
Other gain	2	-105	N.A.	-	N.A.
Operating profit	35,593	50,402	41.6%	47,005	7.2%
Other operating income, net	188	128	-31.7%	-	N.A.
Profit for year	35,780	50,531	41.2%	47,005	7.5%
Income tax	-9,631	-12,977	34.7%	-12,691	2.3%
Minority interests	-7,245	-9,595	32.4%	-9,608	-0.1%
Net profit to shareholders	18,904	27,959	47.9%	24,706	13.2%
Gross margin	32.5%	35.0%	+2.5ppts	32.3%	+2.7ppts
EBIT margin	19.3%	21.1%	+1.7ppts	19.0%	+2.1ppts
Pre-tax margin	18.4%	21.4%	+3.0ppts	18.6%	+2.8ppts
Tax rate	26.9%	25.7%	-1.2ppts	27.0%	-1.3ppts
Net margin	9.7%	11.8%	+2.1ppts	9.8%	+2.0ppts

Source: Company data, CMBIS estimates

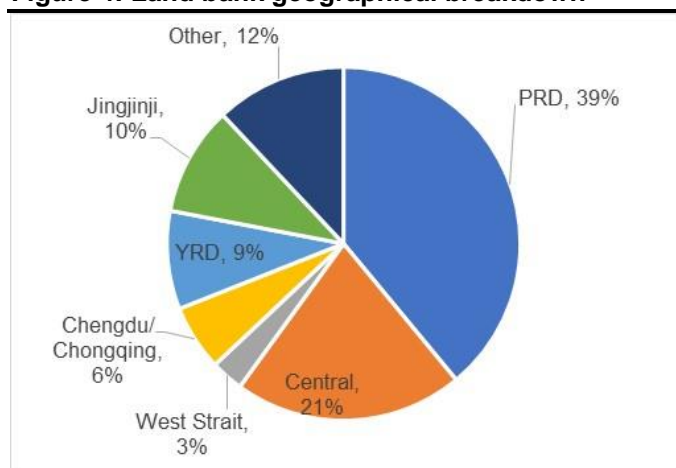
Figure 2: Contracted sales amount & cash collection

Source: Company data

Figure 3: New start & completion plan

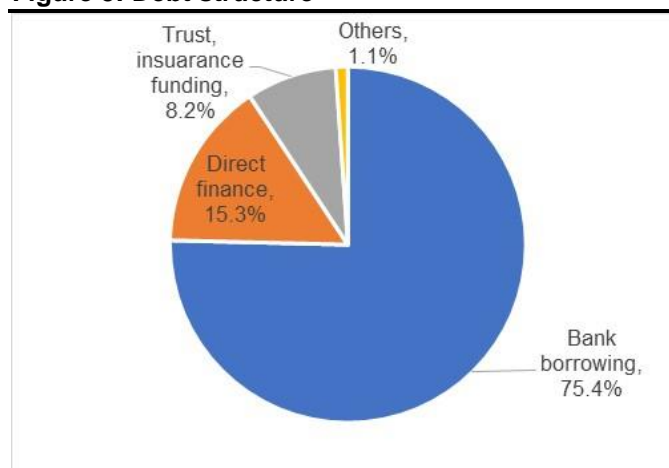
Source: Company data

Figure 4: Land bank geographical breakdown



Source: Company data

Figure 5: Debt structure



Source: Company data

Figure 6: Earnings revision

RMB mn	New		Old		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	301,311	347,892	316,015	364,871	-4.7%	-4.7%
Gross Profit	98,989	114,265	100,630	116,162	-1.6%	-1.6%
Operating Profit	61,177	71,092	58,728	67,334	4.2%	5.6%
Net profit	33,048	38,404	30,867	35,391	7.1%	8.5%
EPS (RMB)	2.77	3.22	2.59	2.98	6.7%	8.2%
Gross Margin	32.9%	32.8%	31.8%	31.8%	1 ppt	1 ppt
Operating Margin	20.3%	20.4%	18.6%	18.5%	1.7 ppt	2 ppt
Net Margin	11.0%	11.0%	9.8%	9.7%	1.2 ppt	1.3 ppt

Source: CMBIS estimates

Figure 7: Peer group

Company	Ticker	Last price (LC)	Mkt Cap (LC mn)	Rating	TP (LC)	P/E			NAV/share (LC)	Discount to NAV
						19A	20E	21E		
Vanke - H	2202 HK	25.00	322,641	BUY	36.69	6.5	5.7	5.0	52.42	52.3%
COLI	688 HK	25.65	281,027	BUY	28.12	6.1	6.2	5.4	40.17	36.1%
Country Garden	2007 HK	9.57	209,147	BUY	14.55	4.6	4.1	3.7	26.45	63.8%
CR Land	1109 HK	31.50	224,625	BUY	44.25	6.9	7.6	6.3	63.22	50.2%
Longfor	960 HK	37.50	224,629	HOLD	34.27	10.7	10.5	8.4	48.95	23.4%
Shimao	813 HK	30.30	104,823	BUY	32.21	8.2	7.4	6.1	46.02	34.2%
Logan Property	3380 HK	12.56	69,218	BUY	14.50	5.6	5.2	4.3	29.00	56.7%
Agile	3383 HK	8.49	33,256	BUY	10.65	3.9	4.0	3.4	26.62	68.1%
KWGG	1813 HK	11.48	36,469	BUY	13.70	3.3	5.3	4.5	22.84	49.7%
China Aoyuan	3883 HK	9.03	24,407	BUY	15.48	5.2	3.4	2.9	30.95	70.8%
Times China	1233 HK	12.88	25,011	BUY	16.20	4.2	3.6	3.1	32.40	60.2%
Yuzhou	1628 HK	3.17	16,552	BUY	4.81	4.0	3.4	2.8	9.62	67.0%
China SCE	1966 HK	3.45	14,428	BUY	4.79	3.5	3.7	3.8	7.99	56.8%
COGO	81 HK	4.76	16,295	BUY	7.21	3.6	3.1	2.8	10.30	53.8%
Redsun	1996 HK	2.44	8,101	BUY	3.22	5.5	5.2	3.8	5.36	54.5%
Sinic	2103 HK	4.10	14,638	BUY	5.02	6.4	5.1	4.0	10.08	59.3%
Vanke - A	000002 CH	26.58	294,474	BUY	31.60	7.7	6.7	5.9	52.42	49.3%
Poly Development	600048 CH	15.76	188,059	BUY	22.16	6.7	5.7	4.9	27.73	43.2%
Average						5.7	5.3	4.5		52.8%

Source: Bloomberg, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	194,555	235,981	301,311	347,892	401,678
Sale of properties	182,498	223,731	287,271	331,798	383,227
Other property related business	11,251	11,306	13,002	14,953	17,196
Others	765	896	985	1,084	1,192
Other financial business	42	47	52	57	63
Cost of sales	(131,339)	(153,450)	(202,322)	(233,628)	(269,778)
Gross profit	63,217	82,531	98,989	114,265	131,900
Taxes and surcharges	(16,122)	(21,841)	(25,611)	(29,571)	(34,143)
Selling expenses	(5,912)	(6,681)	(8,437)	(9,741)	(11,247)
Administrative expenses	(3,495)	(4,233)	(5,424)	(6,262)	(7,230)
R&D expenses	(41)	(56)	(72)	(83)	(96)
EBIT	37,646	49,721	59,446	68,608	79,184
Finance costs	(2,585)	(2,582)	(2,711)	(2,846)	(2,989)
Asset impairments	(2,351)	(1,202)	-	-	-
Gain on fair value change	190	713	-	-	-
Investment gain, net	2,690	3,702	4,442	5,330	6,396
Other gain	2	51	-	-	-
Operating profit	35,593	50,402	61,177	71,092	82,592
Other operating income, net	188	128	-	-	-
Profit for year	35,780	50,531	61,177	71,092	82,592
Income tax	(9,631)	(12,977)	(16,518)	(19,195)	(22,300)
Minority interests	(7,245)	(9,595)	(11,611)	(13,493)	(15,676)
Net profit to shareholders	18,904	27,959	33,048	38,404	44,616

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Current assets	766,481	936,922	1,047,856	1,194,408	1,374,637
Cash on hand	113,431	139,419	148,237	181,723	217,902
Note & account receivable	2,044	1,845	2,356	2,720	3,141
Prepayment	26,045	42,751	40,464	46,726	53,956
Inventory	474,505	584,001	687,895	794,334	930,734
Others	150,456	168,905	168,905	168,905	168,905
Non-current assets	80,012	96,287	97,827	99,777	102,027
Investment properties	19,890	19,510	20,810	22,410	24,210
Fixed assets	4,594	7,472	7,632	7,832	8,082
Intangible assets	48,489	59,046	59,046	59,046	59,046
Deferred expense	1,949	3,602	3,602	3,602	3,602
Others	5,090	6,657	6,737	6,887	7,087
Total assets	846,494	1,033,209	1,145,683	1,294,184	1,476,664
Current liabilities	444,897	599,700	639,874	718,485	815,140
Short-term loans	3,011	3,133	4,520	5,218	6,025
Note & account payable	50,686	113,153	64,743	70,088	80,933
Advances from customers	299,795	327,813	418,566	483,274	557,991
Current portion of non-current liabilities	45,707	63,326	60,707	68,565	78,852
Others	45,698	92,276	91,339	91,339	91,339
Non-current liabilities	215,103	203,986	243,195	274,630	315,777
Long-term loans	214,939	203,590	242,826	274,261	315,409
Others	164	396	369	369	369
Total liabilities	660,000	803,687	883,069	993,115	1,130,918
Equity to shareholders	115,423	140,342	161,823	186,785	215,786
Perpetual bonds	6,500	15,680	15,680	15,680	15,680
Minority interest	64,572	73,500	85,111	98,605	114,281
Total equity	186,494	229,522	262,614	301,070	345,746

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit after tax	26,149	37,554	44,659	51,897	60,292
Depreciation, amortization, impairment	3,366	2,307	480	480	480
Change in working capital	(19,231)	202	(59,774)	(43,011)	(58,489)
Others	1,610	(1,061)	2,711	2,846	2,989
Net cash from operating	11,893	39,001	(11,924)	12,212	5,272
Fixed asset Capex & Investment	(13,819)	(10,994)	(2,984)	(2,430)	(2,730)
Associated companies	401	(690)	-	-	-
Others	(41)	1,186	-	-	-
Net cash from investing	(13,459)	(10,498)	(2,984)	(2,430)	(2,730)
Capital injected	12,783	18,042	-	-	-
Change of Debts	57,086	4,129	38,003	39,992	52,242
Dividend and interest paid	(21,401)	(23,329)	(14,277)	(16,288)	(18,604)
Others	(1,971)	(1,677)	-	-	-
Net cash from financing	46,498	(2,835)	23,726	23,705	33,637
Net change in cash	44,932	25,668	8,817	33,486	36,179
Cash at the beginning	67,983	113,076	138,820	147,637	181,123
Exchange difference	161	76	-	-	-
Cash at the end of the year	113,076	138,820	147,637	181,123	217,303

Key ratios

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Sale of properties	93.8	94.8	95.3	95.4	95.4
Other property related business	5.8	4.8	4.3	4.3	4.3
Others	0.4	0.4	0.3	0.3	0.3
Other financial business	0.0	0.0	0.0	0.0	0.0
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	32.5	35.0	32.9	32.8	32.8
EBIT margin	19.3	21.1	19.7	19.7	19.7
Operating margin	18.3	21.4	20.3	20.4	20.6
Net margin	9.7	11.8	11.0	11.0	11.1
Effective tax rate	26.9	25.7	27.0	27.0	27.0
Growth (%)					
Revenue	32.7	21.3	27.7	15.5	15.5
Gross profit	38.9	30.6	19.9	15.4	15.4
EBIT	43.1	32.1	19.6	15.4	15.4
Operating profit	39.3	41.6	21.4	16.2	16.2
Net profit	20.9	47.9	18.2	16.2	16.2
Balance sheet ratios					
Current ratio (x)	1.7	1.6	1.6	1.7	1.7
Receivable turnover days	4	3	3	3	3
Payables turnover days	141	269	117	110	110
Inventory turnover days	1,319	1,389	1,241	1,241	1,259
Net debt / total equity ratio (%)	80.6	56.9	60.9	55.2	52.8
Returns (%)					
ROE	16.4	19.9	20.4	20.6	20.7
ROA	3.1	3.6	3.9	4.0	4.1
Per share					
EPS (RMB)	1.59	2.35	2.77	3.22	3.74
DPS (RMB)	0.50	0.82	0.97	1.13	1.31
BVPS (RMB)	9.69	11.76	13.56	15.66	18.09

Source: Company data, CMBIS estimates

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