

Yuzhou Properties (1628 HK)

Increased land acquisition; Attractive valuation

Yuzhou achieved 21% core earnings growth in 1H19 to RMB1.4bn. In 7M19, the Company achieved RMB34.5bn contracted sales, up 19.6% YoY, completing 52% of RMB67.0bn sales target. We trim our TP from HK\$5.48 to HK\$5.28. Maintain BUY.

- 20.6% core earnings growth in 1H19.** In 1H19, Yuzhou achieved 25.9% growth of revenue to RMB11.6bn. Gross margin dropped to 27.0% compared to 35.4%/30.7% in FY17/18 due to less YRD projects recognized during the period. On the other hand, effective tax rate dropped 5.6ppt to 42.1%, thus core net profit was up 20.6% to RMB1.4bn, representing core net margin of 12.0%. The Company declared an interim dividend of HK\$0.15 per share (incl. special dividend of HK\$0.03), up 36% YoY. The payout rose to 46.8% (incl. 10% of special dividend).
- 52% hit rate in 7M19.** In 1H19, the Company achieved RMB28.5bn contracted sales with 1.85mn sq m GFA sold, up 32.5% and 17.4%, respectively. This represented ASP of RMB15,366/sq m. YRD remains the core market of Yuzhou, contributing RMB19.7bn sales in 1H19, representing 69% of total sales. Yuzhou's FY19 sales target was RMB67.0bn and 2019 saleable resources amounted to RMB110.0bn (1H:40% 2H:60%). Thus, 1H19 sell-through was 65% and 2H saleable resources amounted to RMB80.0bn (2H newly launched: RMB66.0bn). Yuzhou only needs to achieve 48% sell-through in order to complete RMB67.0bn target. In 7M19, Yuzhou realized contracted sales of RMB34.5bn, completing 51.5% of annual sales target. As FY19 target was 19.6% higher than FY18 sales, we believe RMB67.0bn is a moderate and achievable target.
- Increased land investment.** Yuzhou has increased its land investment in 1H19. During the period, Yuzhou added 2.12mn sq m new land bank, of which 82% were in tier-one/two cities or 46.3% in YRD and 18.8% in GBA. Total consideration amounted to RMB23.6bn and attributed land cost was RMB14.1bn. Total land cost to contracted sales was 83%. By comparison, total/attributable land cost in FY18 was RMB17.3bn/RMB8.1bn.
- Attractive valuation, maintain BUY.** Due to margin decline, we trim FY19/20 core earnings forecast by 7.1%/4.2% to RMB3,900mn/5,024mn. We raise our FY19-end NAV forecast from HK\$7.84 to HK\$8.80. Given 40% discount, we trim our TP from HK\$5.48 to HK\$5.28. The counter is trading at 3.5x/3.0x FY19/20E P/E, lower than small-cap peers' average, with dividend yield of 11.5%/11.8% in FY19/20E, in our estimates. Hence, we believe current valuation is attractive. **Maintain BUY.**

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	21,701	24,306	33,196	41,239	46,787
YoY growth (%)	58.7	12.0	36.6	24.2	13.5
Net income (RMB mn)	2,762	3,398	4,292	5,024	6,142
EPS (RMB)	0.70	0.78	0.89	1.04	1.28
YoY growth (%)	48.9	11.4	14.3	17.1	22.3
P/E (x)	4.4	4.0	3.5	3.0	2.4
P/B (x)	0.9	0.9	0.8	0.7	0.6
Yield (%)	8.2	8.4	11.5	11.8	14.4
ROE (%)	19.1	19.3	21.4	21.7	22.7
Net gearing (%)	57.7	67.0	73.1	73.4	62.8

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price HK\$5.28
 (Previous TP) HK\$5.48
Up/Downside +57.1%
Current Price HK\$3.36

China Property Sector

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Stock Data

Mkt Cap (HK\$ mn)	16,906
Avg 3 mths t/o (HK\$ mn)	30.1
52w High/Low (HK\$)	4.84/2.56
Total Issued Shares (mn)	4,814

Source: Bloomberg

Shareholding Structure

LAM LUNG ON	57.16%
OCT (Asia)	9.90%
Free float	32.94%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-6.7%	3.3%
3-mth	0.0%	6.3%
6-mth	-9.8%	1.1%
12-mth	-15.7%	-7.1%

Source: Bloomberg

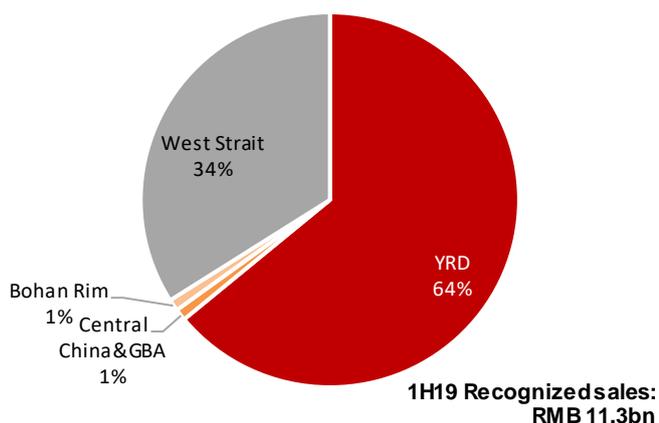
12-mth Price Performance



Source: Bloomberg

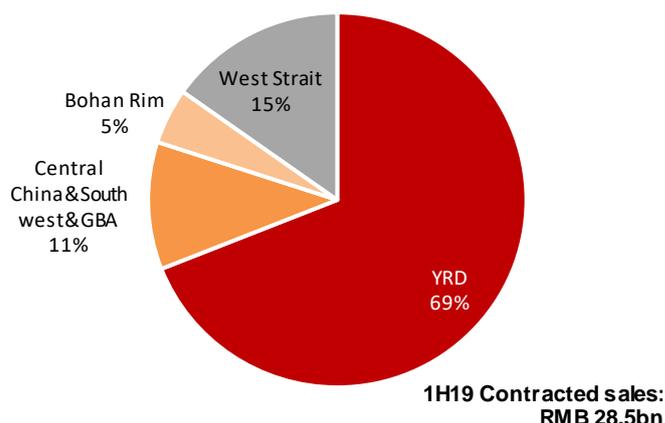
Auditor: EY

Figure 1: 1H19 recognized sales breakdown



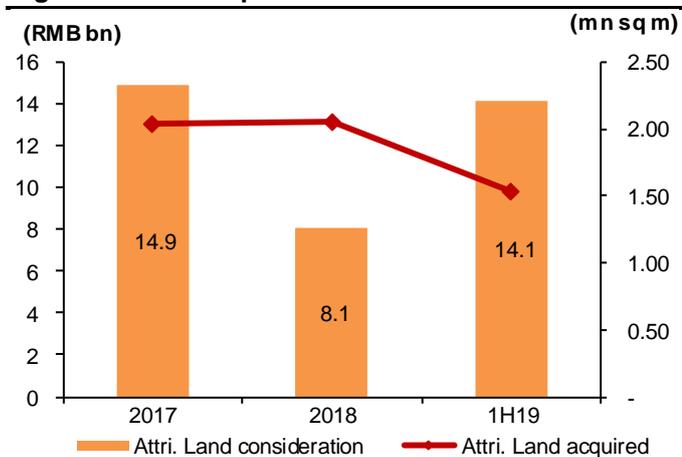
Source: Company data

Figure 2: 1H19 contracted sales breakdown



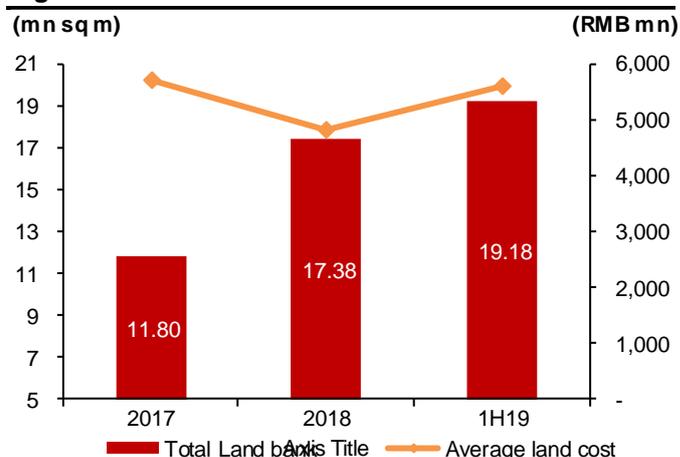
Source: Company data

Figure 3: Land acquisition



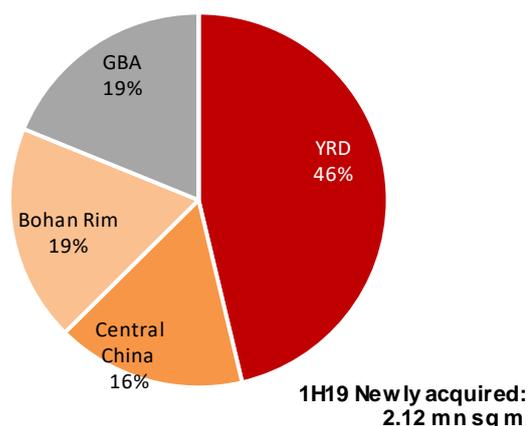
Source: Company data

Figure 4: Land bank



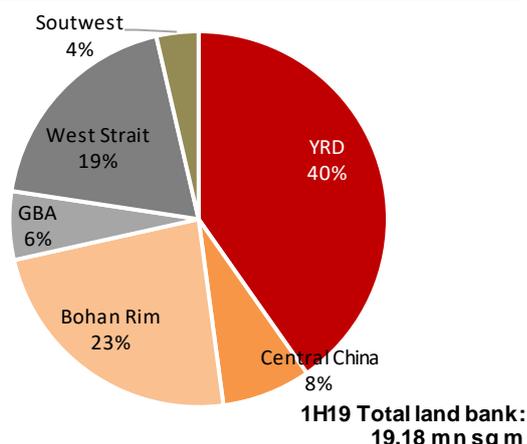
Source: Company data

Figure 5: 1H19 land acquisition breakdown



Source: Company data

Figure 6: Land bank breakdown



Source: Company data

Figure 7: Interim results

(RMB mn)	1H18	1H19	YoY
Revenue	9,243	11,637	26%
Sale of properties	8,973	11,303	26%
Rental income from investment properties	102	148	44%
Property management fee income	158	177	12%
Hotel operation income	9	9	-1%
Others	1	1	175%
Cost of sales	(6,329)	(8,497)	34%
Gross profit	2,914	3,140	8%
<i>Gross margin</i>	<i>31.5%</i>	<i>27.0%</i>	<i>-4.5ppt</i>
Other income	82	187	128%
Selling and distribution expenses	(194)	(181)	-7%
Administrative expenses	(297)	(316)	7%
Other expenses	(50)	(268)	439%
EBIT	2,456	2,563	4%
<i>EBIT margin</i>	<i>26.6%</i>	<i>22.0%</i>	<i>-4.6ppt</i>
Share from associates and JVs	397	240	-40%
Finance costs	(281)	(90)	-68%
Exceptional	86	582	575%
PROFIT BEFORE TAX	2,658	3,295	24%
Income tax	(1,267)	(1,388)	10%
PROFIT FOR THE YEAR	1,391	1,907	37%
Non-controlling interests	(60)	(268)	344%
Perpetual interest	(51)	(53)	4%
Net profit to shareholders	1,279	1,586	24%
Core net profit	1,158	1,397	21%
<i>Core net margin</i>	<i>12.5%</i>	<i>12.0%</i>	<i>-0.5ppt</i>

Source: Company data

Figure 8: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	33,196	41,239	46,787	34,246	41,092	55,717	-3.1%	0.4%	-16.0%
Gross Profit	9,350	12,017	14,094	10,590	12,548	17,008	-11.7%	-4.2%	-17.1%
EBIT	7,834	10,101	11,892	8,815	10,426	14,068	-11.1%	-3.1%	-15.5%
Net profit	4,292	5,024	6,142	4,196	5,246	7,164	2.3%	-4.2%	-14.3%
EPS (RMB)	0.89	1.04	1.28	0.87	1.09	1.49	2.5%	-4.3%	-14.4%
Gross Margin	30.0%	29.7%	28.3%	29.7%	29.8%	29.7%	0.3 ppt	-0.1 ppt	-1.4 ppt
EBIT Margin	23.8%	23.9%	22.5%	23.6%	23.4%	23.2%	0.2 ppt	0.5 ppt	-0.7 ppt
Net Margin	11.8%	12.2%	11.5%	11.4%	11.1%	10.9%	0.4 ppt	1.1 ppt	0.6 ppt

Source: CMBIS estimates

Figure 9: Peers comparison

Name	BLP Ticker	Share Price (LC)			Mkt Cap			P/E			P/B		
		28/8/2019			(LC bn)			18A	19E	20E	18A	19E	20E
SHENZHEN INVEST	604 HK	2.92			25.3			7.0	6.9	6.4	0.6	0.5	0.5
YUEXIU PROPERTY	123 HK	1.73			26.8			6.6	7.2	6.2	0.6	0.6	0.6
CHINA AOYUAN GRO	3883 HK	9.60			25.8			9.0	5.6	3.9	1.9	1.6	1.2
TIMES CHINA HOLD	1233 HK	12.38			24.0			4.4	4.0	3.2	1.2	1.0	0.8
MIDEA REAL ESTAT	3990 HK	19.48			23.2			5.3	4.9	3.6	1.3	1.1	0.9
SINO-OCEAN GROUP	3377 HK	2.80			21.3			5.0	5.4	3.7	0.4	0.4	0.4
ZHENRO PROPERTIE	6158 HK	4.81			21.0			7.8	6.1	4.5	1.3	1.1	1.0
KWG GROUP HOLDIN	1813 HK	6.35			20.2			4.2	3.7	2.9	0.6	0.6	0.5
POWERLONG REAL	1238 HK	4.77			19.1			5.7	5.9	4.4	0.6	0.6	0.6
YUZHOU PROPERTIE	1628 HK	3.36			16.9			4.0	3.5	3.0	0.9	0.8	0.7
KAISA GROUP	1638 HK	2.76			16.8			5.1	4.5	3.5	0.7	0.6	0.5
CHINA SCE GROUP	1966 HK	3.95			16.3			3.8	4.6	3.6	0.9	0.8	0.7
RONSHINE CHINA H	3301 HK	9.08			15.7			5.5	3.8	2.8	1.0	0.9	0.6
GREENTOWN CHINA	3900 HK	7.06			15.3			33.1	5.4	5.1	0.4	0.5	0.4
CHINA OVERSEAS G	81 HK	3.71			12.7			5.1	3.8	3.2	0.7	0.6	0.5
POLYPROPERTY	119 HK	2.79			10.2			4.6	2.9	2.7	0.3	0.3	0.3
Average (excl. outliers)								5.5	4.9	3.9	0.8	0.7	0.6

Source: Bloomberg, CMBIS estimates

Financial Summary

Income statement

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	21,701	24,306	33,196	41,239	46,787
Property development	21,213	23,626	32,387	40,282	45,653
Property investment	140	245	293	352	423
Others	347	435	515	605	712
Cost of sales	(14,018)	(16,839)	(23,846)	(29,223)	(32,693)
Gross profit	7,683	7,467	9,350	12,017	14,094
Other income and gain	132	439	277	229	230
Selling expense	(491)	(459)	(664)	(825)	(936)
Admin expense	(500)	(606)	(730)	(907)	(1,029)
Other expenses	(293)	(54)	(398)	(412)	(468)
EBIT	6,532	6,786	7,834	10,101	11,892
Share from JCE	(83)	(52)	523	651	737
Finance costs	(708)	(223)	(708)	(439)	(499)
Exceptional	450	224	582	-	-
Pre-tax profit	6,190	6,735	8,231	10,313	12,130
Profits tax	(3,063)	(3,009)	(3,450)	(4,612)	(5,338)
Profit for the year	3,127	3,726	4,781	5,700	6,792
Minority interests	(337)	(221)	(382)	(570)	(543)
Perpetual interest	(28)	(107)	(107)	(107)	(107)
Net profit	2,762	3,398	4,292	5,024	6,142
Core profit	2,464	3,245	3,900	5,024	6,142

Balance sheet

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Current assets	63,159	90,471	104,838	125,697	143,069
Inventory	27,559	45,346	52,700	64,875	72,905
Trade and other receivables	15,630	14,683	19,917	24,744	28,072
Cash and equivalent	15,596	27,162	28,942	32,800	38,812
Others	4,373	3,279	3,279	3,279	3,279
Non-current assets	16,746	24,592	25,043	25,626	26,302
PP&E	875	934	861	794	732
Investment properties	8,140	10,526	10,526	10,526	10,526
Associated	6,990	10,013	10,536	11,186	11,924
Others	741	3,120	3,120	3,120	3,120
Total assets	79,905	115,063	129,881	151,324	169,370
Current liabilities	48,013	64,520	73,432	86,186	96,467
Contracted liabilities	10,269	13,752	15,290	18,005	20,136
Trade payables	5,154	6,857	9,538	11,689	13,077
Other payables and accruals	12,468	22,960	25,535	31,723	35,990
ST loan	16,704	16,430	18,548	20,248	22,742
Taxation	1,893	2,552	2,552	2,552	2,552
Others	1,524	1,968	1,968	1,968	1,968
Non-current liabilities	14,449	29,113	32,167	37,127	40,464
LT loan	10,863	27,202	30,257	35,217	38,554
Others	3,586	1,910	1,910	1,910	1,910
Total liabilities	62,462	93,633	105,600	123,313	136,931
Minority Interest	1,062	1,944	2,326	2,896	3,440
Senior perpetual securities	1,912	1,912	1,912	1,912	1,912
Shareholders' equity	14,469	17,575	20,043	23,202	27,088

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
EBIT	6,532	6,786	7,834	10,101	11,892
Depreciation and amortization	83	39	73	67	62
Change in working capital	(10,508)	(1,161)	(5,794)	(5,948)	(3,572)
Income tax paid	(3,063)	(3,009)	(3,450)	(4,612)	(5,338)
Others	9,469	501	2,582	1,500	-
Net cash from operating activities	2,512	3,157	1,245	1,108	3,043
Capex	33	(3,315)	582	-	-
Associated companies	(115)	(3,075)	-	-	-
Others	(10,075)	4,802	(3,575)	(3,443)	(2,613)
Net cash from investing activities	(10,157)	(1,588)	(2,993)	(3,443)	(2,613)
Equity raised	(4)	(3)	(2)	(1)	-
Change of Debts	1,781	16,064	5,173	6,660	5,831
Dividend paid	(1,061)	(330)	(815)	(546)	(606)
Others	5,247	(6,012)	(830)	78	357
Net cash from financing activities	5,962	9,720	3,526	6,192	5,582
Net change in cash	(1,683)	11,289	1,778	3,856	6,012
Cash at the beginning of the year	15,599	15,596	27,162	28,943	32,800
Exchange difference	(4)	(3)	(2)	(1)	-
Cash at the end of the year	15,596	27,162	28,943	32,800	38,812

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Property development	97.8	97.2	97.6	97.7	97.6
Property investment	0.6	1.0	0.9	0.9	0.9
Others	1.6	1.8	1.6	1.5	1.5
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	35.4	30.7	28.2	29.1	30.1
Pre-tax margin	28.5	27.7	24.8	25.0	25.9
Net margin	12.7	14.0	12.9	12.2	13.1
Core net margin	11.4	13.4	11.7	12.2	13.1
Effective tax rate	49.5	44.7	41.9	44.7	44.0
Growth (%)					
Revenue	58.7	12.0	36.6	24.2	13.5
Gross profit	54.9	(2.8)	25.2	28.5	17.3
EBIT	55.4	3.9	15.4	28.9	17.7
Net profit	49.7	19.2	28.3	19.2	19.2
Core profit	55.6	23.0	26.3	17.1	22.3
Balance sheet ratios					
Current ratio (x)	1.4	1.5	1.5	1.5	1.5
Receivable turnover days	263	220	219	219	219
Payables turnover days	134	149	146	146	146
Inventory turnover days	718	983	807	810	814
Net debt / total equity ratio (%)	57.7	67.0	73.1	73.4	62.8
Returns (%)					
ROE	19.1	19.3	21.4	21.7	22.7
ROA	3.9	3.2	3.7	3.8	4.0
Per share					
EPS (RMB)	0.70	0.78	0.89	1.04	1.28
DPS (RMB)	0.25	0.26	0.36	0.37	0.45
BVPS (RMB)	3.46	3.43	3.93	4.58	5.39

Source: Company data, CMBIS estimates

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