

Country Garden (2007 HK)

Mr. Yeung's retirement not a surprise

We think Mr. Yeung's retirement poses no material impact on CG as the ground has been laid back in 2018 with Ms. Yan being the co-Chairlady and stable management (The triangle Mr. Mo, Dr. Cheng and Ms. Wu). Instead, we think the change may give current management more flexibility for the strategy. Fundamental-wise, CG still recorded 35% YoY sales decline in 2M23 due to lack of new launches and underperforming lower tier cities. However, we think the March sales are going to be back at RMB30bn level (flattish YoY) on back of strong subscription and ASP upward trend. This would help alleviate the market concern on its liquidity. As for CG's land acquisition plan, we do not expect to happen so soon due to recent crowded land market and CG's debt repayment. Our TP and financials are currently under view.

■ **What is new:** Before market open on 1 Mar, Country Garden announced company's founder Mr. Yeung Kwok Keung proposed to resign as Chairman due to age reason (68 years old). Co-Chairman Ms. Yang Huiyan will become the sole Chairlady together with her Chairlady role in CGS. At the same time, executive Director Dr. Cheng Guangyu has been appointed as a member of Corporate Governance Committee.

■ **Our read: not a surprise and no material impact.**

- Firstly, the ground has been laid five years ago. Mr. Yeung has promoted Ms. Yang as co-Chairman for five years in Dec 2018. It was during one of the previous dark time for property sector and Country Garden itself in the lower tier cities. Therefore, Ms. Yang has the experience to handle pressure based on the past and the recent recovery would give her more boost to lead CG.
- Secondly, CG has long been worked under the management of professional managers system - Mr. Mo (CEO), Dr. Cheng (ED) and Ms. Wu (CFO). So, Mr. Yeung's retirement would further handle more power to the team which can ensure the more market-orientated flexibility.

■ **We expect CG sales to pick up in March on solid subscription:** Based on CRIC's latest data, Country Garden has recorded slight MoM increase in Feb sales but still down 35% YoY in 2M23 at RMB44bn (attributable). It is partly due to lack of new launches. However, if we look at the sales subscription, Feb is significantly stronger than Jan which will be booked into Mar sales. Therefore, we expect March sales to be back at RMB30bn level (flattish YoY) and may see positive YoY growth in Apr/May due to low base. Based on our channel check, CG's projects are also testing the water to increase ASP of 2-5% by lowering the discount. This is also a good sign.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21A	FY22E
Revenue (RMB mn)	379,079	485,908	462,856	523,064	667,448
YoY growth (%)	NA	28	-5	13	28
Net income (RMB mn)	34,618	39,550	35,022	26,797	54,352
EPS (RMB)	1.612	1.850	1.618	1.218	2.467
YoY growth (%)	NA	15	-13	-25	103
Consensus EPS (RMB)	N.A.	N.A.	NA	NA	0.2
P/E (x)	1.6	1.4	1.6	2.1	1.0
P/B (x)	0.5	0.4	0.4	0.3	0.3
Yield (%)	5.4	6.3	6.1	7.6	NA
ROE (%)	28.5	26.0	20.0	13.5	21.9
Net gearing (%)	49.6	46.3	49.3	45.2	51.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$13.36
(Previous TP) HK\$13.36)
Up/downside +457%
Current Price HK\$2.40

China Property Sector

Jeffrey Zeng

(852) 3916 3727

jeffreyzeng@cmbi.com.hk

Miao Zhang

(852) 3761 8910

zhangmiao@cmbi.com.hk

Bella Li

(852) 3757 6202

bellali@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	67,436
Avg 3 mths t/o (HK\$ mn)	827.07
52w High/Low (HK\$)	6.74/1.00
Total Issued Shares (mn)	27,638

Source: Bloomberg

Shareholding Structure

Yang Huiyan	52.61%
Ping An	5.38%
Free float	42.01%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-25.9%	-15.1%
3-mth	-17.8%	-28.1%
6-mth	-8.7%	-7.0%
12-mth	-60.4%	-54.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

- **Back to land acquisition mode?** CG currently has RMB900bn sellable resources in the land bank or 2.5 years of 2022 sales, which is not enough. However, we think it may not happen so soon as 1) Currently land market in quality cities (mainly tier 1-2 cities) has turned crowded so it may not be the best time for CG to buy. 2) The company still has US\$700mn offshore debt (two batches in July and Dec) and RMB20bn onshore debt. So, financially it is still under constraint.

Figure 1: Major developers' Feb sales a strong beat

Sales (RMB bn)	Feb-23	YoY	Jan-23	YoY	2M23	YoY	2022 sales	YoY
Yuexiu	13.5	379%	8.9	76%	22.4	185%	125.0	9%
COLI*	27.3	152%	13.2	-11%	40.5	58%	294.7	-20%
CR Land	24.2	148%	16.0	5%	40.2	61%	301.3	-5%
CM Shekou	22.5	124%	15.8	4%	38.3	52%	292.6	-10%
Longfor	17.3	86%	10.8	1%	28.1	40%	201.6	-30%
Binjiang	11.1	60%	12.1	17%	23.2	34%	153.9	-9%
Gemdale	14.8	54%	9.2	-38%	24.0	-2%	221.8	-23%
Poly	34.0	42%	29.5	4%	63.5	21%	457.3	-15%
Sino-Ocean	5.0	34%	3.3	-27%	8.3	1%	100.3	-26%
Vanke	28.7	-2%	28.6	-20%	57.3	-12%	416.9	-34%
CIFI	7.8	-6%	5.0	-41%	12.8	-23%	124.0	-50%
China SCE	3.8	-9%	3.1	-39%	6.9	-26%	59.0	-44%
Country Garden (attri)	22.8	-30%	22.0	-39%	44.8	-35%	357.5	-36%
Shimao	4.1	-43%	4.5	-40%	8.6	-42%	86.5	-68%
Sunac China	10.9	-51%	7.2	-74%	18.1	-64%	169.3	-72%
Average	247.8	30%	189.3	-21%	437.1	1%	3,361.9	-32%

Source: Company data

Financial Summary (under review)

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21A	FY22E
Revenue	379,079	485,908	462,856	523,064	667,448
Property development	369,405	475,012	449,341	507,478	650,320
Construction	5,265	6,219	8,779	9,360	10,045
Rental	227	412	526	840	711
Hotel	2,550	4,265	4,210	5,386	6,372
Property management	1,632	-	-	-	-
Gross profit	102,476	126,637	100,905	92,782	159,108
Other income and gains	4,344	3,288	2,816	1,637	3,740
Distribution expenses	(12,533)	(16,365)	(13,752)	(15,316)	(20,023)
Administrative expenses	(17,777)	(19,053)	(15,368)	(15,169)	(20,023)
R&D expenses	(1,224)	(1,973)	(2,649)	(3,308)	(2,403)
Operating profit	75,286	92,534	71,952	60,626	120,398
Finance expenses	1,348	1,171	7,306	3,497	909
Associates/JV	1,197	5,108	6,258	5,053	6,120
Exceptional	1,732	126	13	(227)	-
Pre-tax profit	79,563	98,939	85,529	68,949	127,427
Profits tax	(31,021)	(37,737)	(31,411)	(27,967)	(47,498)
Minority interest	(13,924)	(21,652)	(19,096)	(14,185)	(25,577)
Perpetual	-	-	-	-	-
Net profit	34,618	39,550	35,022	26,797	54,352

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21A	FY22E
EBIT	75,286	92,534	71,952	60,626	120,398
D&A	1,044	1,562	2,067	2,387	1,731
Change in working capital	8,606	(26,566)	(35,687)	19,960	(68,000)
Income tax paid	(35,698)	(27,614)	(42,156)	(37,219)	(41,198)
Others	(19,857)	(25,246)	(17,807)	(34,899)	(29,446)
Net cash from operating	29,381	14,670	(21,631)	10,855	(16,515)
Capex	(16,892)	1,298	(6,232)	(3,219)	(1,944)
Associates/JV	(13,191)	(5,454)	(6,562)	(7,515)	(5,500)
Other	17,814	(14,934)	6,877	(7,308)	(600)
Net cash from investing	(12,269)	(19,090)	(5,917)	(18,042)	(8,044)
Equity raised	3,378	(320)	-	-	-
Change of Debts	78,645	36,100	(39,211)	(13,586)	23,000
Dividend paid	(9,432)	(11,369)	(16,152)	(6,052)	(15,204)
Other	1,241	849	1,227	6,734	-
Net cash from financing	73,832	25,260	(54,136)	(12,904)	7,796
Net change in cash	90,944	20,840	(81,684)	(20,091)	(16,763)
Cash at the beginning	137,084	228,343	248,985	167,153	230,185
Exchange difference	315	(198)	(148)	(108)	50
Cash at the end	228,343	248,985	167,153	146,954	213,472
Pledged deposit	14,200	19,363	16,470	34,346	16,743
Cash at BS	242,543	268,348	183,623	181,300	230,215

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21A	FY22E
Non-current assets	229,944	275,635	273,653	234,428	353,150
Fixed asset	23,421	24,240	26,345	27,099	30,000
Investment properties	16,435	12,923	15,659	16,302	14,500
Associates/JV	46,659	52,113	63,441	72,841	67,500
Intangible assets	670	745	1,423	1,370	750
Other non-current assets	142,759	185,614	166,785	116,816	240,400
Current assets	1,399,750	1,631,517	1,742,156	1,713,937	1,867,215
Cash	242,543	268,348	183,623	181,300	230,215
Account receivable	443,491	462,215	432,897	430,400	560,000
Inventories	680,097	867,862	1,095,158	1,064,189	1,040,000
Other current assets	33,619	33,092	30,478	38,048	37,000
Current liabilities	1,219,406	1,398,752	1,492,959	1,378,905	1,568,120
Borrowings	126,097	116,272	96,241	79,018	120,000
Trade and other payables	498,821	594,548	660,293	550,591	650,000
Contract liabilities	562,800	646,996	695,614	709,255	750,000
Deferred taxation	30,783	40,367	39,519	39,160	46,800
Other current liabilities	905	569	1,292	881	1,320
Non-current liabilities	236,880	289,792	265,847	268,833	324,200
Borrowings	202,378	253,331	230,244	238,904	280,000
Other non-current liabilities	34,502	36,461	35,603	29,929	44,200
Shareholders' equity	121,330	151,939	175,102	198,736	248,045
Minority interest	52,078	66,669	81,901	101,891	80,000
Perpetual bond	0	0	0	0	0
Total equity	173,408	218,608	257,003	300,627	328,045

Key ratios

YE 31 Dec	FY18A	FY19A	FY20A	FY21A	FY22E
Sales mix (%)					
Property development	97.4	97.8	97.1	97.0	97.4
Construction	1.4	1.3	1.9	1.8	1.5
Rental	0.1	0.1	0.1	0.2	0.1
Hotel	0.7	0.9	0.9	1.0	1.0
Property management	0.4	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	27.0	26.1	21.8	17.7	23.8
Pre-tax margin	19.9	19.0	15.5	11.6	18.0
Net margin	9.1	8.1	7.6	5.1	8.1
Effective tax rate	39.0	38.1	36.7	40.6	37.3
Balance sheet ratios					
Current ratio (x)	1.1	1.2	1.2	1.2	1.2
Receivable day	427.0	347.2	341.4	300.3	306.2
Payable day	480.3	446.6	520.7	384.2	355.5
Inventory day	897.4	881.7	1104.4	902.7	746.7
Net gearing ratio (%)	49.6	46.3	55.6	45.4	51.8
Returns (%)					
ROE	28.5	26.0	20.0	13.5	21.9
ROA	2.1	2.1	1.7	1.4	2.4
Per share data					
EPS (RMB)	1.61	1.85	1.62	1.22	2.47
DPS (RMB)	0.49	0.57	0.46	0.31	0.69
BVPS (RMB)	5.61	7.02	7.95	8.59	11.26

Source: Company data, CMBIGM estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIGM

OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Market Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Market Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBIGMG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBIGMG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBIGMG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBIGMG at +65 6350 4400 for matters arising from, or in connection with the report.