

Country Garden (2007 HK)

Aiming at 10% growth

Net profit in 2019 of RMB39.6bn was in line with our and market estimates. The Company achieved RMB552.2bn attributable contracted sales in 2019 and expects to have RMB6,07bn target in 2020. Given the leading position, we believe CG will benefit from current turbulent moment. We slightly adjust our earnings forecast and trim TP to HK\$14.55. Reiterate BUY recommendation.

- Inline 2019 results.** Revenue and net profit surged by 28.2% to RMB485.9bn and 14.2% to RMB39.6bn in 2019, respectively. Driven by 31% surge in delivery GFA, revenue from property development gained by 29% to RMB475bn in 2019. Meanwhile, SG&A expenses were well control with SG&A expenses/revenue ratio narrowed by 0.6ppts to 7.7% in the period. Core profit advanced by 17.6% to RMB40.1bn in 2019, 2.3% below our estimate. Full year dividend grew by 17% to RMB0.5712 per share with 31% payout ratio.
- 10% up of 2020 sales target.** Contracted sales amount dropped 28% to RMB53.8bn in 2M20 due to COVID-19 outbreak. CG is confident to have 10% sales growth in 2020, based on RMB906.6bn saleable resources and 67% sell through rate (vs 72% in 2019). As at end-19, pre-sold and unbooked properties amounted to RMB715.8bn with GM estimate of 24%.
- 259mn sq m attributable land bank.** CG acquired 398 projects with attributable GFA of 52.72mn sq m in 2019. As at end-19, total attributable land bank amounted to 259mn sq m in 2,512 projects covering 282 mainland cities. These land banks are projected to provide RMB1,702bn saleable resources, of which 17.1%, 36.1% and 46.8% are located in tier 1, tier 2 and tier 3 & 4 cities, respectively.
- Healthy balance sheet.** CG maintains its prudent financial policy. Net gearing ratio and cash/short term debt ratio were 46.3% and 2.3x as at end-19, respectively. We believe its financial position is one of the best among the private owned developers. Cost of debt was 6.34% in 2019 and we believe there is room of improvement in the future.
- Maintain BUY.** Being the market leader, we believe CG will benefit from this difficult moment. We forecast earnings to grow by 14.6% to RMB45.3bn in 2020 and 10.9% to RMB50.2bn in 2021. We cut end-20 NAV forecast from HK\$27.64 to HK\$26.45. Accordingly, we trim TP from HK\$15.20 to HK\$14.55, based on 45% discount to NAV. Maintain BUY recommendation.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	379,079	485,908	545,755	595,379	667,448
YoY growth (%)	67.1	28.2	12.3	9.1	12.1
Net income (RMB mn)	34,618	39,550	45,308	50,235	57,267
EPS (RMB)	1.612	1.850	2.084	2.311	2.634
YoY growth (%)	31.3	14.8	12.6	10.9	14.0
Consensus EPS (RMB)	N.A.	N.A.	2.054	2.374	2.520
P/E (x)	5.1	4.4	3.9	3.5	3.1
P/B (x)	1.5	1.2	1.0	0.8	0.7
Yield (%)	6.0	7.0	7.6	8.5	8.5
ROE (%)	28.5	26.0	25.4	23.4	22.3
Net gearing (%)	49.6	46.3	51.5	45.1	47.2

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$14.55
(Previous TP)	HK\$15.20)
Up/downside	+60.1%
Current Price	HK\$9.09

China Property Sector

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Stock Data

Mkt Cap (HK\$ mn)	198,657
Avg 3 mths t/o (HK\$ mn)	33
52w High/Low (HK\$)	13.04/7.36
Total Issued Shares (mn)	21,854

Source: Bloomberg

Shareholding Structure

Yang Huiyan	57.47%
Ping An	8.97%
Free float	33.56%

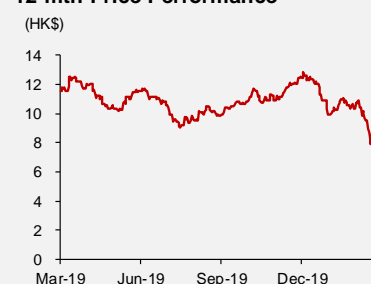
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-11.9%	-6.5%
3-mth	-26.9%	-20.8%
6-mth	-7.9%	-4.4%
12-mth	-20.6%	-20.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

Related Reports

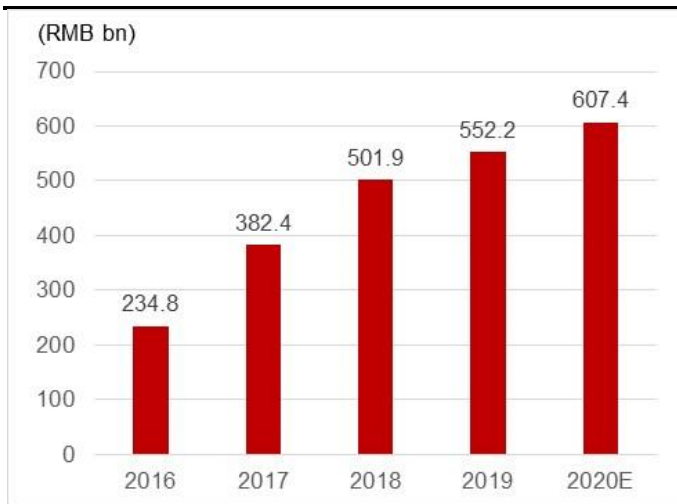
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Figure 1: 2019 results

	2018A	2019A	Change	2019E	Diff	Remark
	(Rmb mn)	(Rmb mn)	(%)	(Rmb mn)	(%)	
Turnover	379,079	485,908	28.2%	479,880	1.3%	
-Property development	369,405	475,012	28.6%	468,000	1.5%	Delivery GFA surged by 30.8% to 56.mn sq m in 2019
-Construction	5,265	6,219	18.1%	6,845	-9.1%	
-Rental	227	412	81.5%	272	51.2%	
-Hotel	2,550	4,265	67.3%	2,805	52.0%	
-Property management	1,632	0	-100.0%	1,958	-100.0%	
Cost of Sales	(276,603)	(359,271)	29.9%	(351,934)	2.1%	
Gross Profit	102,476	126,637	23.6%	127,947	-1.0%	Gross margin declined by 0.9ppts to 26.1% in 2019
Other operating income	4,344	3,288	-24.3%	2,370	38.7%	
Distribution Cost	(12,533)	(16,365)	30.6%	(16,316)	0.3%	
Administrative Expenses	(17,777)	(19,053)	7.2%	(21,595)	-11.8%	
R&D	(1,224)	(1,973)	61.2%	(1,680)	17.5%	
EBIT	75,286	92,534	22.9%	90,726	2.0%	SG&A/Revenue declined from 8.3% in 2018 to 7.7% in 2019
Net finance income	1,348	1,171	-13.1%	1,105	6.0%	100% capital interest expenses
Associated	1,197	5,108	326.7%	2,850	79.2%	
Exceptional	1,732	126	-92.7%	16	687.5%	
Pre-tax Profit	79,563	98,939	24.4%	94,697	4.5%	
Taxation	(31,021)	(37,737)	21.6%	(36,118)	4.5%	Effective tax rate declined by 0.8ppts to 38.1% in 2019
Profit after Tax	48,542	61,202	26.1%	58,579	4.5%	
Minority	(13,924)	(21,652)	55.5%	(17,500)	23.7%	
Net Profit	34,618	39,550	14.2%	41,079	-3.7%	Total dividend RMB0.5712 in 2018, up 17.0% YoY
Core Profit	34,130	40,124	17.6%	41,067	-2.3%	

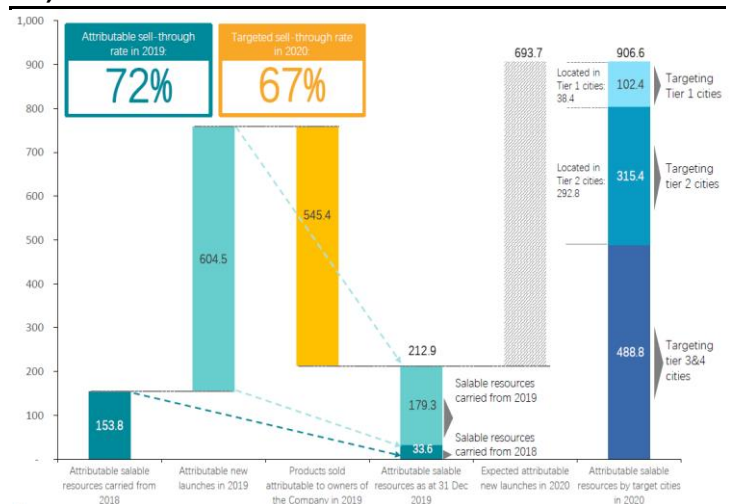
Source: Company data, CMBIS estimates

Figure 2: Attributable contracted sales amount



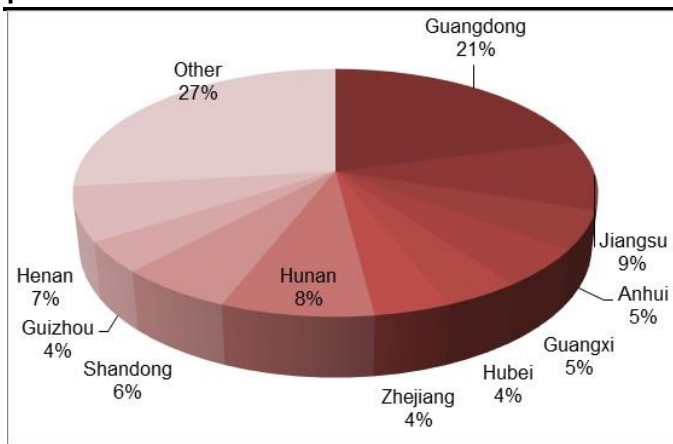
Source: Company data

Figure 3: Attributable saleable resources in 2020 (RMB bn)



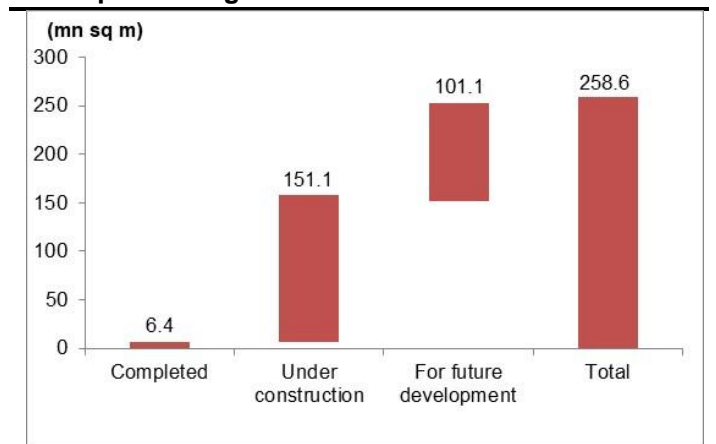
Source: Company data

Figure 4: Attributable land bank breakdown by province



Source: Company data

Figure 5: Attributable land bank breakdown by development stage



Source: Company data

Figure 6: 2,512 projects cover 282 mainland cities


Note:

1. There are 24 projects outside Mainland China

Source: Company data

Figure 7: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	545,755	595,379	667,448	547,814	597,808	N.A.	-0.4%	-0.4%	N.A.
Gross Profit	143,496	153,576	172,114	144,026	154,159	N.A.	-0.4%	-0.4%	N.A.
EBIT	104,804	112,200	127,130	104,904	114,096	N.A.	-0.1%	-1.7%	N.A.
Net profit	45,308	50,235	57,267	45,548	50,676	N.A.	-0.5%	-0.9%	N.A.
EPS (RMB)	2.08	2.31	2.63	2.10	2.33	N.A.	-0.5%	-0.9%	N.A.
Gross Margin	26.3%	25.8%	25.8%	26.3%	25.8%	N.A.	0 ppt	0 ppt	N.A.
EBIT Margin	19.2%	18.8%	19.0%	19.1%	19.1%	N.A.	0.1 ppt	-0.2 ppt	N.A.
Net Margin	8.3%	8.4%	8.6%	8.3%	8.5%	N.A.	0 ppt	0 ppt	N.A.

Source: CMBIS estimates

Figure 8: End-20 NAV

	NAV/share				
	(Rmb mn)	(HK\$ mn)	(HK\$)	% of NAV	Remark
Properties under development	603,658	672,974	30.79	116%	WACC of 11.4%
Investment property	13,200	14,716	0.67	3%	At book
Hotel	28,661	31,952	1.46	6%	
Gross Amount	645,518	719,641	32.93	124%	
Net debt	(126,961)	(141,540)	(6.48)	-24%	Dec 2020
NAV	518,557	578,102	26.45	100%	

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	379,079	485,908	545,755	595,379	667,448
Property development	369,405	475,012	533,125	580,609	650,320
Construction	5,265	6,219	7,338	8,659	10,045
Rental	227	412	515	618	711
Hotel	2,550	4,265	4,777	5,493	6,372
Property management	1,632	-	-	-	-
Cost of sales	(276,603)	(359,271)	(402,259)	(441,803)	(495,334)
Gross profit	102,476	126,637	143,496	153,576	172,114
Other income and gains	4,344	3,288	2,785	3,278	3,740
Distribution expenses	(12,533)	(16,365)	(18,010)	(19,648)	(22,026)
Administrative expenses	(17,777)	(19,053)	(21,284)	(22,624)	(24,028)
Other expenses	(1,224)	(1,973)	(2,183)	(2,382)	(2,670)
Operating profit	75,286	92,534	104,804	112,200	127,130
Finance expenses	1,348	1,171	1,030	947	955
Associates/JV	1,197	5,108	3,200	4,200	5,120
Exceptional	1,732	126	-	-	-
Pre-tax profit	79,563	98,939	109,033	117,348	133,206
Profits tax	(31,021)	(37,737)	(41,410)	(43,472)	(48,989)
Minority interest	(13,924)	(21,652)	(22,316)	(23,640)	(26,949)
Perpetual	-	-	-	-	-
Net profit	34,618	39,550	45,308	50,235	57,267
Core profit	34,130	40,124	45,308	50,235	57,267

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E
EBIT	75,286	92,534	104,804	112,200	127,130
D&A	1,044	1,562	1,487	1,630	1,731
Change in working capital	8,606	(26,566)	(39,467)	(4,000)	(68,000)
Income tax paid	(35,698)	(27,614)	(37,540)	(37,972)	(42,689)
Others	(19,857)	(25,246)	(37,120)	(49,129)	(24,891)
Net cash from operating	29,381	14,670	(7,836)	22,729	(6,719)
Capex	(16,892)	1,298	(5,338)	(4,342)	(1,944)
Associates/JV	(13,191)	(5,454)	(3,887)	(6,000)	(5,500)
Other	17,814	(14,934)	4,186	(800)	(600)
Net cash from investing	(12,269)	(19,090)	(5,039)	(11,142)	(8,044)
Equity raised	3,378	(320)	-	-	-
Change of Debts	78,645	36,100	(3,603)	11,000	23,000
Dividend paid	(9,432)	(11,369)	(12,881)	(13,914)	(15,001)
Other	1,241	849	-	-	-
Net cash from financing	73,832	25,260	(16,484)	(2,914)	7,999
Net change in cash	90,944	20,840	(29,359)	8,673	(6,763)
Cash at the beginning	137,084	228,343	248,985	219,676	228,399
Exchange difference	315	(198)	50	50	50
Cash at the end	228,343	248,985	219,676	228,399	221,686
Pledged deposit	14,200	19,363	19,363	19,363	19,363
Cash at BS	242,543	268,348	239,039	247,762	241,049

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	229,944	275,635	291,750	334,650	353,150
Fixed asset	23,421	24,240	28,000	30,000	30,000
Investment properties	16,435	12,923	13,200	14,100	14,500
Associates/JV	46,659	52,113	56,000	62,000	67,500
Intangible assets	670	745	750	750	750
Other non-current assets	142,759	185,614	193,800	227,800	240,400
Current assets	1,399,750	1,631,517	1,672,539	1,772,762	1,876,049
Cash	242,543	268,348	239,039	247,762	241,049
Account receivable	443,491	462,215	480,000	510,000	560,000
Inventories	680,097	867,862	920,000	980,000	1,040,000
Other current assets	33,619	33,092	33,500	35,000	35,000
Current liabilities	1,219,406	1,398,752	1,430,800	1,513,600	1,568,120
Borrowings	126,097	116,272	116,000	110,000	120,000
Trade and other payables	498,821	594,548	592,000	638,000	650,000
Contract liabilities	562,800	646,996	680,000	720,000	750,000
Deferred taxation	30,783	40,367	42,000	44,500	46,800
Other current liabilities	905	569	800	1,100	1,320
Non-current liabilities	236,880	289,792	287,200	307,200	324,200
Borrowings	202,378	253,331	250,000	267,000	280,000
Other non-current liabilities	34,502	36,461	37,200	40,200	44,200
Shareholders' equity	121,330	151,939	178,289	214,612	256,879
Minority interest	52,078	66,669	68,000	72,000	80,000
Perpetual bond	0	0	0	0	0
Total equity	173,408	218,608	246,289	286,612	336,879

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Property development	97.4	97.8	97.7	97.5	97.4
Construction	1.4	1.3	1.3	1.5	1.5
Rental	0.1	0.1	0.1	0.1	0.1
Hotel	0.7	0.9	0.9	0.9	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	26.3	25.8	25.8
Pre-tax margin	19.9	19.0	19.2	18.8	19.0
Net margin	9.1	8.1	8.3	8.4	8.6
Effective tax rate	39.0	38.1	38.0	37.0	36.8
Balance sheet ratios					
Current ratio (x)	1.1	1.2	1.2	1.2	1.2
Receivable day	427.0	347.2	321.0	312.7	306.2
Payable day	480.3	446.6	395.9	391.1	355.5
Inventory day	897.4	881.7	834.8	809.6	766.4
Net gearing ratio (%)	49.6	46.3	51.5	45.1	47.2
Returns (%)					
ROE	28.5	26.0	25.4	23.4	22.3
ROA	2.1	2.1	2.3	2.4	2.6
Per share data					
EPS (RMB)	1.61	1.85	2.08	2.31	2.63
DPS (RMB)	0.49	0.57	0.62	0.69	0.69
BVPS (RMB)	5.61	7.02	8.24	9.91	11.87

Source: Company data, CMBIS estimates

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