

Redsun Properties (1996 HK)

Near to far: Scale, Shopping mall and profitability

Redsun delivered all-round solid results with core earnings up 11% and B/S in the green category. In the near term, we expect it to step into RMB100bn club in 2021E (+15% YoY) so it has the cash to accelerate shopping mall developments (11 malls by 2022 and then 3-5 projects per year). In the mid-to-long term, it will optimize the land acquisition channels with more M&A/complex projects to improve attributable ratio and profitability as land prices/ASP was at 50% in 2020 which may put pressure on the margins (22% in 2020). Maintain Buy rating.

- Contracted sales - aim for 15% YoY growth to reach RMB100bn.** In 2020, Redsun recorded RMB86.5/40.7bn contracted/attributable sales (+33%/16% YoY), with contributions from Jiangsu (53% of total) and other parts of YRD (25%). Given aggressive land acquisitions in 2020 (RMB49bn or 57% of total sales), the Company has prepared RMB155bn sellable resources with 60% in YRD region which should be enough to achieve the target (65% sell through rate). However, it's worth noting that the margin could further slide to 20% (22% in 2020) as the land price/ASP has reached 50% in 2020. Also the attributable sales ratio may stay below 50% (47% in 2020) given the attributable land bank is at a similar ratio of 48%. This may enlarge the MI ratio in the income statement, which was at 10% in 2020 vs. 45% in the balance sheet.
- Double its number of malls in 2 years.** As a late comer in the YRD shopping mall space, the Company had 6 malls in operation and it contributed RMB505mn revenue in 2020 (3% of total). Given the pipeline, we expect Redsun to open 5 malls in 2 years (2 asset-heavy and 3 asset-light ones) and thus may drive the rental to grow at 15% YoY. In a mid term, management guided to take 3-5 complex projects/year with continuing to focus on operation and tenant mix (occupancy rate >90% in 2020).
- 2020 results – core earnings up 11% YoY with B/S into green category.** Redsun delivered 33% YoY growth in revenue to RMB20.2bn. GP Margin declined to 22.4% in 2020 vs. 25.1% in 2019. Thanks to RMB252mn disposal gain, core net margin only contracted by 1.3ppt and core earnings grew by 11% YoY to RMB1.3bn. 2020 dividend was RMB0.122/share (20% payout ratio). For B/S, it met all the “three red lines” requirements with net gearing at 50%, unrestricted cash/ST Debt at 1.1x and liability/asset (excl. pre-sales) at 69.4%.
- Maintain Buy rating.** It is currently trading at 3.8x 2021E PE which looks attractive. We keep earnings unchanged and maintain Buy rating.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	9,239	15,170	20,159	25,853	30,059
YoY growth (%)	50.5	64.2	32.9	28.2	16.3
Net income (RMB mn)	1,412	1,468	1,661	2,092	2,427
EPS (RMB)	0.66	0.44	0.50	0.63	0.73
YoY growth (%)	N.A.	-33.3	13.6	26.0	16.0
Consensus EPS (RMB)	N.A.	N.A.	N.A.	0.57	0.64
P/E (x)	3.7	5.6	5.1	3.9	3.4
P/B (x)	0.6	0.6	0.5	0.5	0.4
Yield (%)	3.3	4.0	5.1	7.0	7.8
ROE (%)	11.1	10.6	10.6	12.5	13.1
Net gearing (%)	68.3	70.4	63.8	63.9	63.9

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$3.52
(Previous TP)	HK\$3.52)
Up/downside	+27.5%
Current Price	HK\$2.76

China Property Sector

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Stock Data

Mkt Cap (HK\$ mn)	9,175
Avg 3 mths t/o (HK\$ mn)	10.27
52w High/Low (HK\$)	3.04/2.26
Total Issued Shares (mn)	3,324
Source: Bloomberg	

Shareholding Structure

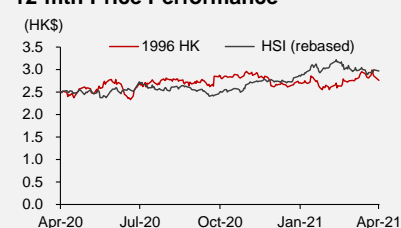
Zeng Huansha	72.3%
Free float	27.7%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	4.0%	4.6%
3-mth	5.5%	1.0%
6-mth	-0.3%	-17.4%
12-mth	13.9%	-6.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Figure 1: 2020 results summary

RMB mn	2019	2020	YoY	CMBI Est	Difference
Revenue	15,170	20,159	33%	20,111	0%
Gross profit	3,813	4,508	18%	5,206	-13%
Net profit	1,468	1,661	13%	1,599	4%
Core profit	1,186	1,313	11%	1,579	-17%
EPS (RMB)	0.44	0.50	14%	0.48	4%
Core EPS (RMB)	0.36	0.39	10%	0.48	-18%
DPS (RMB)	0.11	0.12	10%	0.14	-13%
Dividend payout ratio	20.9%	20.3%	-0.7 ppt	24.1%	-3.9 ppt
Margin	2019	2020	YoY	CMBI Est	Difference
GP margin	25.1%	22.4%	-2.8 ppt	25.9%	-3.5 ppt
Net margin	9.7%	8.2%	-1.4 ppt	8.0%	0.3 ppt
Core net margin	7.8%	6.5%	-1.3 ppt	7.9%	-1.3 ppt
Margin	2019	2020	YoY	CMBI Est	Difference
Net gearing	70.4%	50.3%	-20.1 ppt	63.8%	-13.5 ppt
Debt to asset (excl. presales)	72.6%	69.4%	-3.2 ppt	74.0%	-4.6 ppt
Cash/ST debt	1.14	1.62	42%	1.51	8%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	9,239	15,170	20,111	25,853	30,059
Property development	8,843	14,718	19,575	25,254	29,400
Property investment	359	411	498	557	613
Hotel	37	40	38	42	45
Cost of sales	(6,352)	(11,356)	(14,905)	(19,190)	(22,324)
Gross profit	2,887	3,813	5,206	6,663	7,735
Other income and gains	236	331	316	344	347
Distribution expenses	(342)	(652)	(804)	(982)	(1,112)
Administrative expenses	(686)	(1,090)	(1,368)	(1,655)	(1,864)
Other expenses	(48)	(37)	(40)	(52)	(60)
Operating profit	2,047	2,366	3,310	4,319	5,046
Finance expenses	(499)	(634)	(749)	(740)	(715)
Associates/JV	367	693	580	620	650
Exceptional	261	310	57	-	-
Pre-tax profit	2,175	2,735	3,198	4,199	4,981
Profits tax	(852)	(1,100)	(1,359)	(1,798)	(2,129)
After-tax profit	1,323	1,636	1,839	2,402	2,852
Minority interest	89	(168)	(240)	(310)	(425)
Perpetual	-	-	-	-	-
Net profit	1,412	1,468	1,599	2,092	2,427
Core profit	1,214	1,247	1,579	2,092	2,427

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
EBIT	2,047	2,366	3,310	4,319	5,046
Depreciation and amortization	80	128	128	136	144
Change in working capital	(6,322)	1,757	(7,973)	(5,040)	(7,840)
Income tax paid	(454)	(1,019)	(1,157)	(1,698)	(2,049)
Others	2,021	(2,243)	7,145	2,938	5,629
Net cash from operating	(2,628)	990	1,453	655	930
Capex	(1,469)	(1,544)	(1,024)	(993)	(1,081)
Associates/JV	(3,434)	(5,060)	(779)	(400)	(600)
Other	923	120	(110)	(136)	(136)
Net cash from investing	(3,980)	(6,484)	(1,912)	(1,529)	(1,817)
Equity raised	3,113	-	-	-	-
Change of Debts	9,523	7,884	3,354	2,700	1,800
Dividend paid	-	(304)	(331)	(417)	(572)
Other	(2,273)	304	-	-	-
Net cash from financing	10,363	7,885	3,023	2,283	1,228
Net change in cash	3,755	2,390	2,564	1,409	341
Cash at the beginning	2,478	6,233	8,692	11,265	12,684
Exchange difference	-	68	10	10	10
Cash at the end	6,233	8,692	11,265	12,684	13,035
Pledged deposit	6,223	8,153	8,153	8,153	8,153
Cash at BS	12,456	16,844	19,418	20,837	21,188

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Non-current assets	13,609	21,099	22,729	23,997	25,565
Fixed asset	989	808	780	840	880
Investment properties	9,397	11,572	12,500	13,300	14,200
Associates/JV	2,739	7,821	8,600	9,000	9,600
Intangible assets	12	12	9	7	5
Other non-current assets	472	885	840	850	880
Current assets	54,313	74,298	85,338	94,097	104,588
Cash	12,456	16,844	19,418	20,837	21,188
Account receivable	2,600	7,712	8,120	8,860	9,300
Inventories	30,869	39,621	47,800	53,800	63,100
Other current assets	8,388	10,120	10,000	10,600	11,000
Current liabilities	40,649	56,876	62,800	68,700	76,900
Borrowings	10,827	12,411	12,900	13,800	14,400
Trade and other payables	6,638	4,846	12,500	14,200	16,100
Contract liabilities	16,639	32,016	27,000	31,000	36,000
Deferred taxation	1,604	2,169	2,400	2,400	2,400
Other current liabilities	4,941	5,434	8,000	7,300	8,000
Non-current liabilities	13,423	20,475	24,150	26,300	27,900
Borrowings	11,093	17,135	20,000	21,800	23,000
Other non-current liabilities	2,330	3,340	4,150	4,500	4,900
Shareholders' equity	12,695	13,888	15,117	16,744	18,533
Minority interest	1,155	4,159	6,000	6,350	6,820
Perpetual bond	0	0	0	0	0
Total equity	13,850	18,046	21,117	23,094	25,353

Key ratios

YE 31 Dec	FY18A	FY19A	FY20A	FY21E	FY22E
Sales mix (%)					
Property development	95.7	97.0	97.3	97.7	97.8
Property investment	3.9	2.7	2.5	2.2	2.0
Hotel	0.4	0.3	0.2	0.2	0.2
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	31.2	25.1	25.9	25.8	25.7
Pre-tax margin	22.2	15.6	16.5	16.7	16.8
Net margin	15.3	9.7	8.0	8.1	8.1
Effective tax rate	39.2	40.2	42.5	42.8	42.7
Balance sheet ratios					
Current ratio (x)	1.3	1.3	1.4	1.4	1.4
Receivable day	102.7	185.6	147.4	125.1	112.9
Payable day	262.3	116.6	226.9	200.5	195.5
Inventory day	1773.9	1273.5	1170.5	1023.3	1031.7
Net gearing ratio (%)	68.3	70.4	63.8	63.9	63.9
Returns (%)					
ROE	11.1	10.6	10.6	12.5	13.1
ROA	2.1	1.5	1.5	1.8	1.9
Per share data					
EPS (RMB)	0.66	0.44	0.50	0.63	0.73
DPS (RMB)	0.09	0.11	0.14	0.19	0.22
BVPS (RMB)	3.82	4.18	4.55	5.04	5.58

Source: Company data, CMBIS estimates

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