

# Yuzhou Properties (1628 HK)

## RMB100bn sales milestone in 2020

- 4% core earnings EPS growth in FY19.** In FY19, revenue was down 4% to RMB23.2bn due to less projects consolidated in FY19 to keep up the scale of total contracted sales. Gross margin also dropped from 30.7% to 26.2%. Thus, gross profit decreased by 18% to RMB6.1bn. On the other hand, the Company recorded RMB1,656 gain from sale of subsidiary and JCE, and effective tax rate also dropped 4.8ppt to 39.9%. As a result, core profit still achieved 17% growth to RMB3,987mn, which is slightly above our forecast of RMB3,900mn. However, due to enlarged share capital caused by the 1H19 scrip dividend option, core EPS only grew 3.8% to RMB0.81. After a 1H19 special interim dividend, Yuzhou declared another FY19 special final dividend, representing FY19 full year core payout of 46%, including 10% special payout.
- Targeting RMB100.0bn sales in 2020.** In FY19, the Company achieved RMB75.1bn contracted sales with 4.97mn sq m GFA sold, up 34% and 34%, respectively. YRD remains the core market of Yuzhou, contributing 65% of total sales. Yuzhou's FY20 sales target was RMB100.0bn. Saleable resources amounted to RMB180.0bn, indicating target sell-through of 56%. The management admits the disease outbreak has adversely affected the sales in 1Q20. But the management is confident of catching up in the rest of FY20. 56% sell-through target is not demanding. With tier1/tier2 accounts for over 90% of FY20 saleable resources, we believe RMB100.0bn is achievable.
- Quality land bank.** In 2019, Yuzhou acquired 4.62mn sq m new land bank with saleable resources of RMB100.4bn, tier1/tier2 cities account for over 95%. By end-FY19, total land bank of the Company reached 20.12mn sq m, with aggregate saleable resource of RMB366.1bn, expecting ASP of RMB18,196/sq m. YRD/GBA/Bohai Rim/West Strait accounts for 43.3%/6.2%/18.2%/21.3% of total land bank. Furthermore, 86% of the land bank are in tier1/tier2 cities. The Company's land bank layout is attractive among mid-to-small size developers.
- Looking forward to accomplishing milestones in FY20.** Due to margin decline and enlarged capital, we trim FY20/21 EPS by 19%/21% to RMB0.84/1.01. We derive our end-FY20 NAV forecast at HK\$9.62 per share. Given 50% discount, we trim our TP from HK\$5.28 to HK\$4.81. The management has revealed a possible spinoff of its PM business as soon as end of FY20. If RMB100.0bn sales and spinoff plan are both accomplished in FY20, we believe, they would boost market confidence in Yuzhou. After the RMB100.0bn sales, the management reveals it will focus more on the attributable interest, which could enhance the earnings quality and financial visibility. The counter is trading at 3.4x/2.8x FY20/21E P/E, with dividend yield of 10.6%/12.8% in FY20/21E, according to our estimates. The Company has a good quality of land bank and current valuation is undemanding. With catalysts we mentioned above, we **maintain BUY** rating.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	24,306	23,241	33,741	40,659	47,837
YoY growth (%)	12.0	-4.4	45.2	20.5	17.7
Net income (RMB mn)	3,398	3,495	4,402	5,297	6,048
EPS (RMB)	0.78	0.71	0.84	1.01	1.16
YoY growth (%)	11.4	-8.8	18.5	20.3	14.2
Consensus EPS	N.A.	N.A.	0.98	1.00	1.12
P/E (x)	3.7	4.0	3.4	2.8	2.5
P/B (x)	0.8	0.7	0.6	0.6	0.5
Yield (%)	9.1	12.2	10.6	12.8	14.6
ROE (%)	19.3	16.7	18.5	19.5	19.5
Net gearing (%)	67.0	70.2	72.1	76.1	72.8

Source: Company data, Bloomberg, CMBIS estimate

**BUY (Maintain)**

Target Price	HK\$4.81
(Previous TP)	HK\$5.28
Up/Downside	+51.3%
Current Price	HK\$3.18

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#### Stock Data

Mkt Cap (HK\$ mn)	16,605
Avg 3 mths t/o (HK\$ mn)	35.32
52w High/Low (HK\$)	4.45/2.58
Total Issued Shares (mn)	5,222

Source: Bloomberg

#### Shareholding Structure

LAM LUNG ON	57.8%
OCT(Asia)	9.9%
Free float	32.3%

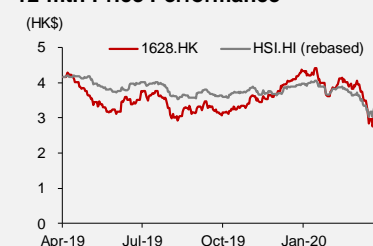
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	-19.1%	-7.8%
3-mth	-27.4%	-10.2%
6-mth	2.9%	16.1%
12-mth	-24.9%	-3.7%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

Auditor: EY

Figure 1: FY19 results

Rmb mn	FY19	FY18	YoY
<b>Revenue</b>	<b>23,241</b>	<b>24,306</b>	<b>-4%</b>
Sale of properties	22,470	23,626	-5%
Rental income from investment properties	305	245	25%
Property management fee income	448	417	7%
Hotel operation income	18	18	-3%
<b>Gross profit</b>	<b>6,092</b>	<b>7,467</b>	<b>-18%</b>
GPM	26.2%	30.7%	-4.5 ppt
Other income	512	439	17%
Selling and distribution expenses	(660)	(459)	44%
Administrative expenses	(1,091)	(606)	80%
Other expenses	(311)	(54)	470%
<b>EBIT</b>	<b>4,543</b>	<b>6,786</b>	<b>-33%</b>
Share from associates and JVs	166	(52)	-416%
Finance costs	(182)	(223)	-19%
Exceptional	2,078	224	827%
<b>PROFIT BEFORE TAX</b>	<b>6,605</b>	<b>6,735</b>	<b>-2%</b>
Income tax	(2,638)	(3,009)	-12%
<b>PROFIT FOR THE YEAR</b>	<b>3,967</b>	<b>3,726</b>	<b>6%</b>
Non-controlling interests	(361)	(221)	63%
Perpetual interest	(111)	(107)	4%
<b>Net profit to shareholders</b>	<b>3,495</b>	<b>3,398</b>	<b>3%</b>
<b>Core profit</b>	<b>3,987</b>	<b>3,419</b>	<b>17%</b>

Source: Company data

Figure 2: Earnings revision

RMB mn	New		Old		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
<b>Revenue</b>	33,741	40,659	41,239	46,787	-18.2%	-13.1%
<b>Gross Profit</b>	8,960	10,717	12,017	14,094	-25.4%	-24.0%
<b>EBIT</b>	7,684	9,223	10,101	11,892	-23.9%	-22.4%
<b>Net profit</b>	4,402	5,297	5,024	6,142	-12.4%	-13.8%
<b>EPS (RMB)</b>	0.84	1.01	1.04	1.28	-18.9%	-20.8%
<b>Gross Margin</b>	26.6%	26.4%	29.1%	30.1%	-2.6 ppt	-3.8 ppt
<b>EBIT Margin</b>	22.8%	22.7%	24.5%	25.4%	-1.7 ppt	-2.7 ppt
<b>Net Margin</b>	13.0%	13.0%	12.2%	13.1%	0.9 ppt	-0.1 ppt

Source: CMBIS estimates

Figure 3: NAV table

	NAV (RMB mn)	NAV/share (RMB)	NAV/share (HK\$)	% of NAV	Remark
Development project	64,311	12.32	13.73	143%	DCF method with 10% WACC
Investment Properties	3,814	0.73	0.81	8%	10% cap rate
GAV	68,125	13.05	14.55	151%	
Less: Net debt	(23,081)	(4.42)	(4.93)	-51%	
<b>NAV</b>	<b>45,044</b>	<b>8.63</b>	<b>9.62</b>	<b>100%</b>	

Source: CMBIS estimates

## Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>24,306</b>	<b>23,241</b>	<b>33,741</b>	<b>40,659</b>	<b>47,837</b>	<b>Profit before tax</b>	<b>6,190</b>	<b>6,735</b>	<b>6,605</b>	<b>7,748</b>	<b>9,388</b>
Sale of properties	23,626	22,470	32,804	39,544	46,540	D&A, impairment	83	77	131	50	50
Rental income	245	305	381	477	596	Change in working capital	181	3,130	(4,640)	(3,879)	(2,303)
Property mgmt fee income	417	448	537	618	680	Others	(3,941)	(6,785)	(2,638)	(2,789)	(3,380)
Hotel operation income	18	18	19	20	22	<b>Net cash from operating</b>	<b>2,512</b>	<b>3,157</b>	<b>(542)</b>	<b>1,130</b>	<b>3,756</b>
Cost of sales	(16,839)	(17,149)	(24,781)	(29,941)	(35,322)	Fixed assets Capex & Investment, net	(673)	(105)	-	-	-
<b>Gross profit</b>	<b>7,467</b>	<b>6,092</b>	<b>8,960</b>	<b>10,717</b>	<b>12,516</b>	Associated companies	(9,485)	(1,483)	(2,000)	(2,600)	(2,600)
Other income	439	512	580	620	730	Others	-	-	-	-	-
Selling & distribution expenses	(459)	(660)	(675)	(813)	(957)	<b>Net cash from investing</b>	<b>(10,157)</b>	<b>(1,588)</b>	<b>(2,000)</b>	<b>(2,600)</b>	<b>(2,600)</b>
Administrative expenses	(606)	(1,09)	(844)	(894)	(1,05)	Equity raised	138	36	-	-	-
Other expenses	(54)	(311)	(337)	(407)	(478)	Change of debts	7,045	10,637	12,037	8,350	9,603
<b>EBIT</b>	<b>6,786</b>	<b>4,543</b>	<b>7,684</b>	<b>9,223</b>	<b>10,75</b>	Others	131	(794)	(1,821)	(1,585)	(1,907)
Share from associates and	(52)	166	320	485	535	<b>Net cash from financing</b>	<b>7,314</b>	<b>9,879</b>	<b>10,216</b>	<b>6,766</b>	<b>7,696</b>
Finance costs	(223)	(182)	(256)	(320)	(480)	Net change in cash	(331)	11,449	7,673	5,296	8,852
Exceptional	224	2,078	-	-	-	<b>Cash at the beginning</b>	<b>15,599</b>	<b>15,596</b>	<b>27,162</b>	<b>34,836</b>	<b>40,131</b>
<b>PROFIT BEFORE TAX</b>	<b>6,735</b>	<b>6,605</b>	<b>7,748</b>	<b>9,388</b>	<b>10,81</b>	Exchange difference	329	117	-	-	-
Income tax	(3,00)	(2,63)	(2,78)	(3,38)	(3,89)	<b>Cash at the end of the year</b>	<b>15,596</b>	<b>27,162</b>	<b>34,836</b>	<b>40,131</b>	<b>48,983</b>
<b>PROFIT FOR THE YEAR</b>	<b>3,726</b>	<b>3,967</b>	<b>4,959</b>	<b>6,008</b>	<b>6,920</b>	<b>Key ratios</b>					
Non-controlling interests	(221)	(361)	(446)	(601)		<b>YE 31 Dec</b>	<b>FY18A</b>	<b>FY19A</b>	<b>FY20E</b>	<b>FY21E</b>	<b>FY22E</b>
Perpetual interest	(107)	(111)	(111)	(111)	(111)	<b>Sales mix (%)</b>					
<b>Net profit to shareholders</b>	<b>3,398</b>	<b>3,495</b>	<b>4,402</b>	<b>5,297</b>	<b>6,048</b>	Sale of properties	97.2	96.7	97.2	97.3	97.3
<b>Core profit</b>	<b>3,419</b>	<b>3,987</b>	<b>4,402</b>	<b>5,297</b>	<b>6,048</b>	Rental income	1.0	1.3	1.1	1.2	1.2
<b>Balance sheet</b>						Property management fee	1.7	1.9	1.6	1.5	1.4
<b>YE 31 Dec (RMB mn)</b>	<b>FY18A</b>	<b>FY19A</b>	<b>FY20E</b>	<b>FY21E</b>	<b>FY22E</b>	Hotel operation income	0.1	0.1	0.1	0.0	0.0
<b>Current assets</b>	<b>90,471</b>	<b>114,856</b>	<b>124,093</b>	<b>139,186</b>	<b>164,157</b>	<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Inventory	45,346	49,086	52,896	62,694	78,814	<b>Profit &amp; loss ratios (%)</b>					
Trade and other receivables	14,683	28,806	28,806	28,806	28,806	Gross margin	30.7	26.2	26.6	26.4	26.2
Cash and equivalent	27,162	29,409	34,836	40,131	48,983	EBIT margin	27.9	19.5	22.8	22.7	22.5
Others	3,279	7,556	7,556	7,556	7,556	Net margin	14.0	15.0	13.0	13.0	12.6
<b>Non-current assets</b>	<b>24,592</b>	<b>26,639</b>	<b>29,009</b>	<b>31,544</b>	<b>34,129</b>	Effective tax rate	44.7	39.9	36.0	36.0	36.0
PP&E	934	2,803	2,853	2,903	2,953	<b>Growth (%)</b>					
Investment properties	10,526	12,864	12,864	12,864	12,864	Revenue	12.0	-4.4	45.2	20.5	17.7
Associated	10,013	9,339	11,659	14,144	16,679	Gross profit	-2.8	-18.4	47.1	19.6	16.8
Others	3,120	1,632	1,632	1,632	1,632	EBIT	3.9	-33.1	69.2	20.0	16.6
<b>Total assets</b>	<b>115,063</b>	<b>141,495</b>	<b>153,101</b>	<b>170,730</b>	<b>198,286</b>	Net profit	23.0	2.8	25.9	20.3	14.2
<b>Current liabilities</b>	<b>64,520</b>	<b>69,912</b>	<b>72,195</b>	<b>78,865</b>	<b>93,775</b>	<b>Balance sheet ratios</b>					
Contracted liabilities	13,752	8,595	5,791	8,247	17,707	Current ratio (x)	1.4	1.6	1.7	1.8	1.8
Trade payable	6,857	9,098	11,895	13,474	15,895	Receivable turnover days	0	0	0	0	0
ST loan	16,430	15,272	17,562	20,197	23,226	Payables turnover days	149	194	175	164	164
Others	27,481	36,947	36,947	36,947	36,947	Inventory turnover days	681	771	572	563	601
<b>Non-current liabilities</b>	<b>29,113</b>	<b>42,855</b>	<b>48,915</b>	<b>55,883</b>	<b>63,897</b>	Net debt / total equity ratio (%)	67.0	70.2	72.1	76.1	72.8
LT loan	27,202	40,397	46,456	53,425	61,439	<b>Returns (%)</b>					
Others	1,910	2,458	2,458	2,458	2,458	ROE	19.3	16.7	18.5	19.5	19.5
<b>Total liabilities</b>	<b>93,633</b>	<b>112,768</b>	<b>121,110</b>	<b>134,748</b>	<b>157,672</b>	ROA	3.2	2.8	3.2	3.5	3.5
Equity attributable to shareholders	17,575	20,991	23,808	27,198	31,069	<b>Per share</b>					
Non-controlling interests	1,944	5,824	6,271	6,872	7,633	EPS (RMB)	0.78	0.71	0.84	1.01	1.16
Senior perpetual securities	1,912	1,912	1,912	1,912	1,912	DPS (RMB)	0.26	0.35	0.30	0.37	0.42
<b>TOTAL EQUITY</b>	<b>21,430</b>	<b>28,728</b>	<b>31,991</b>	<b>35,982</b>	<b>40,614</b>	BVPS (RMB)	3.43	3.88	4.42	5.07	5.81

Source: Company data, CMBIS estimates

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