

KWG (1813 HK)

Ample quality resources in GBA

Revenue and core profit increased by 26.6% to RMB13.5bn and 31.4% to RMB3.3bn in 1H20, respectively. We raise TP from HK\$13.70 to HK\$17.87, based on 30% discount to NAV. Maintain BUY.

- Core profit surged 31% in 1H20.** Although recognized ASP tumbled 17% to RMB12,428 per sq m due to change in city mix, delivery GFA jumped 55% to 1.03mn sq m in 1H20. Total revenue and core profit soared by 26.6% to RMB13.5bn and 31.4% to RMB3.3bn in 1H20, respectively. Gross margin narrowed by 2.1ppts to 32.9% in 1H20 but stayed above industry level. SG&A/revenue ratio declined 3.0ppts to 9.2% in 1H20 due to better cost control. KWG declare RMB0.4 interim dividend.
- 45% hit rate by Jul.** Contracted sales amount gained 2% to RMB36.8bn in 1H20. In Jul, it further captured RMB0.23bn contracted sales. So KWG accomplished 45% hit rate based on RMB103.3bn sales target by Jul. The Company will launch RMB130bn properties in 2H20, of which 45% in GFA and 30% in YRD, in order to complete full year sales target. As at Jun 2020, presold and unbooked properties amounted to RMB65bn.
- 16.36mn sq m attributable land bank.** KWG acquired 10 new projects of total GFA of 1.11mn sq m (attributable 80%) in 1H20. As at Jun 2020, the Company had invested in 165 property projects in 40 cities with total GFA of 24.75mn sq m (attributable 66%). Total saleable resources amounted to RMB510bn, of which 50% are in GBA. Furthermore, KWG had signed 32 urban redevelopment projects with saleable GFA of 18.45mn sq m and leasable GFA of 2.6mn sq m.
- Recurring income reached RMB1.0bn in 1H20.** Eight shopping malls (0.7mn sq m GFA) and eight offices are in operation while 16 shopping malls (1.1mn sq m) and six offices are under-construction. Rental income gained 9.9% to RMB362mn in 1H20. Meanwhile, revenue of property management increased 751 to RMB0.55bn in the period. KWG is applying spin-off listing of KWG Living on HKEx. As at Dec 2019, KWG Living managed 18.3mn sq m residential and 3.3mn sq m commercial.
- Reiterate BUY.** Net gearing stayed at healthy level of 59.2% as at Jun 2020. We raise our core earnings forecast by 6.9% to RMB6.66bn in 2020 and 8.4% to RMB7.97bn in 2020. We also raise end-20 NAV forecast from HK\$22.84 to HK\$25.52. As a result, we raise TP from HK\$13.70 to HK\$17.87, based on 30% discount to NAV.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	7,477	24,956	31,564	38,280	45,723
YoY growth (%)	-35	234	26	21	19
Net income (RMB mn)	4,035	9,806	6,872	7,965	9,698
EPS (RMB)	1.28	3.09	2.16	2.51	3.05
YoY growth (%)	9.2	142.1	-30.0	15.9	21.8
Consensus EPS (RMB)	N.A.	2.07	2.28	2.62	3.01
P/E (x)	10.6	4.4	6.2	5.4	4.4
P/B (x)	1.5	1.2	1.0	0.9	0.8
Yield (%)	4.1	5.5	6.5	7.4	8.9
ROE (%)	14.0	27.4	15.3	15.9	17.2
Net gearing (%)	66.4	75.4	53.6	56.4	59.5

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$17.87
(Previous TP)	HK\$13.70)
Up/downside	+18.6%
Current Price	HK\$15.06

China Property Sector

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Stock Data

Mkt Cap (HK\$ mn)	47,861
Avg 3 mths t/o (HK\$ mn)	136
52w High/Low (HK\$)	15.8/5.68
Total Issued Shares (mn)	3,178

Source: Bloomberg

Shareholding Structure

Kong Jian Min	62.68%
Free float	37.32%

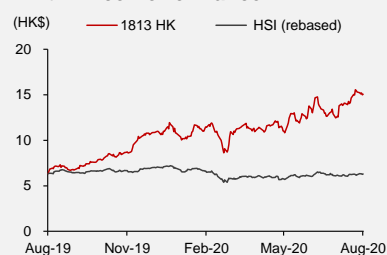
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	20.4%	17.2%
3-mth	35.9%	25.2%
6-mth	30.7%	38.4%
12-mth	138.1%	141.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernest & Young

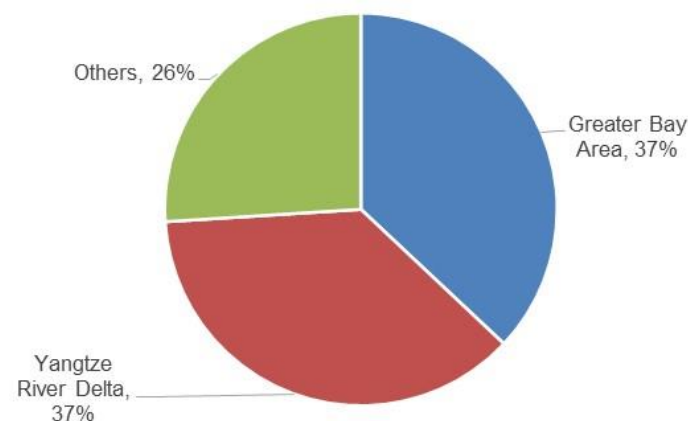
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- To break RMB100bn sales in 2020 – 30 Mar 2020
- Attractive valuation – 29 Aug 2019
- 30% growth in 2019 sales target – 28 Mar 2019

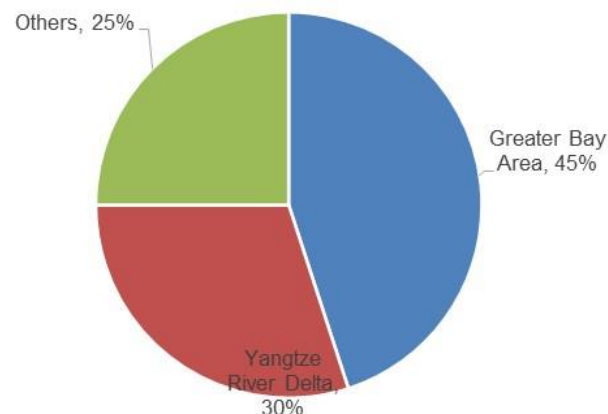
Figure 1: 2020 interim results

	1H20 (Rmb mn)	1H19 (Rmb mn)	Growth (%)	Remark
Turnover	13,483	10,647	26.6%	
-Property development	12,449	9,713	28.2%	55% increase in delivery GFA to 1.03mn sq m in 1H20
-Property investment	352	320	9.9%	
-Hotel	135	251	-46.2%	Affected by COVID-19
-Property management	547	363	50.6%	
Cost of Sales	(9,043)	(6,915)	30.8%	
Gross Profit	4,440	3,732	19.0%	GM narrowed 2.1ppts to 32.9% in 1H20
Other operating income	1,224	1,140	7.4%	
Distribution Cost	(419)	(375)	11.9%	
Administrative Expenses	(814)	(913)	-10.9%	Better cost control
Other Expenses	(3)	(9)	-64.1%	
EBIT	4,428	3,575	23.9%	
Net finance expenses	(546)	(1,005)	-45.6%	More interest capitalized in 1H20
Associated	1,131	2,682	-57.9%	
Revaluation gain of investment properties	352	3,055	-88.5%	
Pre-tax Profit	5,364	8,307	-35.4%	
Taxation	(1,704)	(2,158)	-21.0%	Effective tax rate expanded 5.8ppts to 31.8% in 2H20
Profit after Tax	3,660	6,149	-40.5%	
Minority	(144)	(186)	N.A.	
Net Profit	3,516	5,964	-41.0%	Declared interim dividend of Rmb0.4
Core	3,302	2,514	31.4%	

Source: Company data, CMBIS

Figure 2: 1H20 contracted sales amount

Source: Company data, CMBIS

Figure 3: 2H20 saleable resources breakdown

Source: Company data, CMBIS

Figure 4: Land bank breakdown

	Greater Bay Area	Yangtze River Delta	Central & Western Region	Bohai Rim Region	Total
No. of projects	53	63	32	17	165
GFA (mn sq m)	9.96	4.11	7.43	3.25	24.75
Saleable resources (RMB bn)	257	85	89	75	506
No. of cities	9	17	11	3	40

Source: Company data, CMBIS

Figure 5: Earnings revision

(RMB mn)	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	31,564	38,280	45,723	26,189	31,308	37,573	20.5%	22.3%	21.7%
Gross Profit	10,007	12,104	14,423	9,289	10,581	12,659	7.7%	14.4%	13.9%
EBIT	8,951	10,751	12,890	8,062	9,390	11,025	11.0%	14.5%	16.9%
Net profit	6,872	7,965	9,698	6,231	7,346	8,711	10.3%	8.4%	11.3%
Core profit	6,658	7,965	9,698	6,231	7,346	8,711	6.9%	8.4%	11.3%
EPS (RMB)	2.16	2.51	3.05	1.96	2.31	2.74	10.3%	8.4%	11.3%
Gross Margin	31.7%	31.6%	31.5%	35.5%	33.8%	33.7%	-3.8 ppt	-2.2 ppt	-2.1 ppt
EBIT Margin	28.4%	28.1%	28.2%	30.8%	30.0%	29.3%	-2.4 ppt	-1.9 ppt	-1.2 ppt
Net Margin	21.8%	20.8%	21.2%	23.8%	23.5%	23.2%	-2 ppt	-2.7 ppt	-2 ppt

Source: CMBIS estimates

Figure 6: CMBIS estimates vs consensus

(RMB mn)	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	31,564	38,280	45,723	30,380	39,726	48,783	3.9%	-3.6%	-6.3%
Gross Profit	10,007	12,104	14,423	9,464	12,141	14,635	5.7%	-0.3%	-1.5%
EBIT	8,951	10,751	12,890	6,973	9,883	12,226	28.4%	8.8%	5.4%
Net profit	6,872	7,965	9,698	6,881	8,358	9,931	-0.1%	-4.7%	-2.3%
Core profit	6,658	7,965	9,698	6,483	8,668	10,810	2.7%	-8.1%	-10.3%
EPS (RMB)	2.16	2.51	3.05	2.28	2.62	3.01	-5.2%	-4.3%	1.6%
Gross Margin	31.7%	31.6%	31.5%	31.2%	30.6%	30.0%	0.6 ppt	1.1 ppt	1.5 ppt
EBIT Margin	28.4%	28.1%	28.2%	23.0%	24.9%	25.1%	5.4 ppt	3.2 ppt	3.1 ppt
Net Margin	21.8%	20.8%	21.2%	22.6%	21.0%	20.4%	-0.9 ppt	-0.2 ppt	0.9 ppt

Source: CMBIS estimates

Figure 7: End-20 NAV

	NAV/share				Remark
	(Rmb mn)	(HK\$ mn)	(HK\$)	% of NAV	
Properties under development	77,575	86,482	27.22	107%	WACC of 9.9%
Investment property	10,645	11,867	3.74	15%	8-10% cap rate
Hotel	3,548	3,956	1.25	5%	Rmn 1.0-4.8mn per room
Property management	8,696	7,800	2.46	10%	
Gross Amount	100,463	111,999	35.26	138%	
Net debt	(27,730)	(30,914)	(9.73)	-38%	Dec-20
NAV	72,733	81,085	25.52	100%	

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	7,477	24,956	31,564	38,280	45,723
Property sales	6,064	22,762	29,040	35,370	42,228
Rental	379	627	720	849	1,002
Hotel	468	553	565	621	683
Property management	566	1,014	1,240	1,440	1,810
Cost of sales	(5,026)	(17,090)	(21,558)	(26,176)	(31,301)
Gross profit	2,451	7,866	10,007	12,104	14,423
Other income and gains	2,703	2,859	1,915	1,943	2,084
Distribution expenses	(532)	(1,007)	(1,199)	(1,378)	(1,555)
Administrative expenses	(1,314)	(1,726)	(1,768)	(1,914)	(2,058)
Other expenses	(2)	(4)	(3)	(4)	(5)
Operating profit	3,307	7,987	8,951	10,751	12,890
Finance expenses	(1,070)	(1,531)	(1,375)	(1,444)	(1,477)
Associates/JV	1,440	3,447	2,557	2,950	3,460
Exceptional	1,715	3,716	352	0	0
Pre-tax profit	5,391	13,619	10,486	12,258	14,872
Profits tax	(1,236)	(3,563)	(3,283)	(3,922)	(4,749)
Minority interest	(119)	(250)	(330)	(370)	(425)
Perpetual	0	0	0	0	0
Net profit	4,035	9,806	6,872	7,965	9,698
Core profit	3,812	5,215	6,658	7,965	9,698

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
EBIT	3,307	7,987	8,951	10,751	12,890
D&A	158	263	348	377	405
Change in working capital	(7,742)	(2,664)	(7,814)	(5,000)	(6,600)
Income tax paid	(1,103)	(1,172)	(2,591)	(3,722)	(4,749)
Others	3,109	(8,690)	11,675	3,535	3,746
Net cash from operating	(2,272)	(4,276)	10,569	5,942	5,692
Capex	1,051	(1,869)	(3,012)	(3,014)	(3,510)
Associates/JV	(4,993)	(2,815)	(4,333)	(4,500)	(4,600)
Other	0	0	0	0	0
Net cash from investing	(3,943)	(4,684)	(7,345)	(7,514)	(8,110)
Equity raised	0	0	0	0	0
Change of Debts	19,166	15,026	7,422	7,000	3,500
Dividend paid	(1,156)	(1,767)	(2,605)	(2,859)	(3,272)
Other	1,546	(5,572)	0	0	0
Net cash from financing	19,556	7,687	4,818	4,141	228
Net change in cash	13,341	(1,272)	8,041	2,569	(2,190)
Cash at the beginning	39,199	52,578	51,378	59,436	62,022
Exchange difference	38	73	17	17	17
Cash at the end	52,578	51,378	59,436	62,022	59,849
Pledged deposit	4,099	5,356	5,834	5,834	5,834
Cash at BS	56,677	56,734	65,270	67,856	65,683

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	63,761	84,578	91,815	99,085	106,805
Fixed asset	5,351	6,411	6,850	7,000	7,120
Investment properties	17,491	27,263	29,500	32,000	35,000
Associates/JV	38,168	47,667	52,000	56,500	61,100
Intangible assets	0	0	0	0	0
Other non-current assets	2,752	3,237	3,465	3,585	3,585
Current assets	120,776	129,745	145,790	153,776	158,603
Cash	56,677	56,734	65,270	67,856	65,683
Account receivable	7,364	9,568	9,800	10,200	10,200
Inventories	56,222	62,690	70,000	75,000	82,000
Other current assets	513	753	720	720	720
Current liabilities	89,909	109,672	113,200	119,000	122,000
Borrowings	17,364	23,728	25,000	28,000	28,500
Trade and other payables	4,077	9,072	8,800	9,200	9,600
Contract liabilities	21,729	27,627	30,800	33,200	35,300
Deferred taxation	6,852	9,926	10,600	10,600	10,600
Other current liabilities	39,887	39,318	38,000	38,000	38,000
Non-current liabilities	62,068	66,408	72,680	76,880	79,880
Borrowings	60,418	61,850	68,000	72,000	75,000
Other non-current liabilities	1,649	4,559	4,680	4,880	4,880
Shareholders' equity	29,567	35,795	44,875	49,981	56,408
Minority interest	2,993	2,448	6,850	7,000	7,120
Perpetual bond	0	0	0	0	0
Total equity	32,561	38,243	51,725	56,981	63,528

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Property sales	81.1	91.2	92.0	92.4	92.4
Rental	5.1	2.5	2.3	2.2	2.2
Hotel	6.3	2.2	1.8	1.6	1.5
Property management	7.6	4.1	3.9	3.8	4.0
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	32.8	31.5	31.7	31.6	31.5
Pre-tax margin	44.2	32.0	28.4	28.1	28.2
Net margin	54.0	39.3	21.8	20.8	21.2
Effective tax rate	22.9	26.2	31.3	32.0	31.9
Balance sheet ratios					
Current ratio (x)	1.3	1.2	1.3	1.3	1.3
Receivable day	359.5	139.9	113.3	97.3	81.4
Payable day	199.0	132.7	101.8	87.7	76.6
Inventory day	4082.8	1338.9	1185.2	1045.8	956.2
Net gearing ratio (%)	64.8	75.4	53.6	56.4	59.5
Returns (%)					
ROE	13.6	27.4	15.3	15.9	17.2
ROA	2.2	25.6	13.3	14.0	15.3
Per share data					
EPS (RMB)	1.28	3.09	2.16	2.51	3.05
DPS (RMB)	0.56	0.74	0.88	1.00	1.20
BVPS (RMB)	9.32	11.28	14.13	15.73	17.76

Source: Company data, CMBIS estimates

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