

# Longfor (960 HK)

## Rich in valuation

Revenue and core net profit increased by 42.2% to RMB38.6bn and 26.0% to RMB4.70bn in 1H19, respectively. We raise our earnings forecast by 6.8% to RMB17.8bn in 2019. We estimate end-20 NAV to be HK\$37.23. As a result, we raise TP from HK\$23.23 to HK\$26.06. Maintain HOLD.

- Interim core profit gained 26% to RMB4.9bn.** 30% increase in delivery GFA to 2.84mn sq m and 9.5% increase in recognized ASP to RMB12,044 per sq m drove revenue growth by 42.2% to RMB38.6bn in 1H19. In addition, 39% rise in rental income also fueled the revenue growth. GM narrowed from 37.1% in 1H18 to 32.6% in 1H19. Contribution from JCE of RMB1.06bn stimulated the earnings growth. Excluding non-cash items, core earnings increased by 26.0% to RMB4.7bn in 1H19. As at Jun 2019, pre-sold and unbooked properties amounted to RMB247bn with GM about 25-30%.
- Steady growth in contracted sales in 1H19.** In 1H19, contracted sales amount and area tumbled by 8.8% to RMB105.6bn and 3.5% to 6.51mn sq m, respectively. Sales in Chongqing and Hangzhou amounted to RMB14.2bn and RMB10.6bn, respectively, in 1H19. Longfor will launch about RMB240bn of properties, of which 57% are new ones, for sales in 2H19 so that it will accomplish full year sales target of RMB220bn.
- Leasing apartment is a surprise.** In 1H19, rental income grew by 39.2% to RMB2.58bn. Longfor disclosed that rental income from leasing apartments totaled RMB0.43bn in 1H19 and aims to have RMB1bn in 2019. Number of rooms under operation is expected to increase from 60k as at Jun 2019 to 80k as at Dec 2019. In 2H19, nine new shopping malls will commence operation. By the end-19, Longfor will operate 38 shopping malls with 3.62mn sq m leasable GFA.
- Total land bank of 70.93mn sq m.** In 1H19, the Company acquired 50 plots of land with total GFA of 9.24mn sq m (attributable GFA of 6.71mn sq m). Attributable consideration was RMB52.1bn. As at Jun 2019, total and attributable land bank amounted to 70.93mn sq m and 49.11mn sq m, respectively. Average land cost was RMB5,632 per sq m, which is equivalent to 34.7% of contracted ASP in 1H19. This land bank is sufficient for four years development and provides 25-30% GM.
- Maintain HOLD.** We cut delivery assumptions in 2019 but include revaluation gain in 2019. As a result, we adjust upwards our earnings forecast by 6.8% to RMB17.8bn in 2019. We also forecast end-20 NAV to be HK\$37.23. As a result, we raise TP from HK\$23.23 to HK\$26.06, based on 30% discount to NAV.

### Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	72,075	115,798	148,976	204,396	234,233
YoY growth (%)	31.5	60.7	28.7	37.2	14.6
Net income (RMB mn)	12,599	16,237	17,831	19,494	21,778
EPS (RMB)	2.170	2.779	3.007	3.287	3.672
YoY growth (%)	37.9	28.0	8.2	9.3	11.7
P/E (x)	11.6	9.0	8.3	7.6	6.8
P/B (x)	2.1	1.8	1.6	1.4	1.3
Yield (%)	3.0	3.9	4.6	5.2	5.8
ROE (%)	17.9	19.9	19.1	18.5	18.3
Net gearing (%)	56.9	49.6	54.3	48.1	46.9

Source: Company data, CMBIS estimates

## HOLD (Maintain)

Target Price	HK\$26.06
(Previous TP)	HK\$23.23)
Up/downside	-6.8%
Current Price	HK\$27.95

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### Stock Data

Mkt Cap (HK\$ mn)	166,599
Avg 3 mths t/o (HK\$ mn)	184
52w High/Low (HK\$)	32.15/16.08
Total Issued Shares (mn)	5,961

Source: Bloomberg

### Shareholding Structure

Cai Xinyi	44.0%
Cai Kui	23.5%
Peter Woo	6.0%
Free float	56.0%

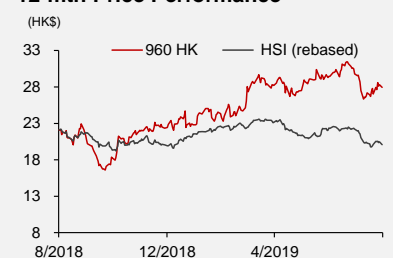
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-7.2%	1.3%
3-mth	3.1%	7.7%
6-mth	16.2%	28.6%
12-mth	29.5%	36.9%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: Deloitte Touche Tohmatsu

### Related Reports

- Aim at 20% CAGR on earnings – 26 Mar 2019
- Sound performance in rental business – 22 Aug 2018

Figure 1: 2019 interim results

	1H19A (Rmb mn)	1H18A (Rmb mn)	Growth (%)	Remark
<b>Turnover</b>	<b>38,570</b>	<b>27,121</b>	<b>42.2%</b>	
-Property development	34,165	24,037	42.1%	Recognized GFA and ASP grew by 29.8% and 9.5% in 1H19
-Property investment	2,577	1,851	39.2%	98% occupancy rate of shopping malls in 1H19
-Property management	1,828	1,232	48.3%	
Cost of Sales	(25,988)	(17,051)	52.4%	
<b>Gross Profit</b>	<b>12,582</b>	<b>10,070</b>	<b>24.9%</b>	Gross margin narrowed from 37.1% in 1H18 to 32.6% in 1H19
Other operating income	518	353	46.6%	
Distribution Cost	(1,175)	(871)	34.9%	
Administrative Expenses	(2,166)	(1,778)	21.8%	
<b>EBIT</b>	<b>9,759</b>	<b>7,774</b>	<b>25.5%</b>	
Net finance expense	(58)	(42)	40.1%	Cost of debt was 4.56% in 1H19
Associated	1,057	450	134.7%	Mainly from Guangzhou Tian Chen Longfor Mansion & Chengdu Huazhao
Exceptional	2,312	2,595	-10.9%	Revaluation gain of investment properties
Pre-tax Profit	13,070	10,778	21.3%	
Taxation	(4,920)	(4,085)	20.4%	Effective tax rate reduced by 0.3ppt to 37.6% in 1H19
Profit after Tax	8,150	6,693	21.8%	
Minority	(1,840)	(1,263)	45.7%	
<b>Net Profit</b>	<b>6,310</b>	<b>5,430</b>	<b>16.2%</b>	Interim dividend increased 20% to Rmb0.36 per share
<b>Underlying earnings</b>	<b>4,704</b>	<b>3,733</b>	<b>26.0%</b>	

Source: Company data

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
<b>Revenue</b>	148,976	204,396	234,233	159,716	206,820	233,932	-6.7%	-1.2%	0.1%
<b>Gross Profit</b>	46,322	59,461	67,986	49,549	60,149	67,920	-6.5%	-1.1%	0.1%
<b>EBIT</b>	38,255	48,766	55,724	40,827	49,309	55,668	-6.3%	-1.1%	0.1%
<b>Net profit</b>	17,831	19,494	21,778	16,699	19,750	21,733	6.8%	-1.3%	0.2%
<b>EPS (RMB)</b>	3.01	3.29	3.67	2.82	3.33	3.66	6.8%	-1.3%	0.2%
<b>Gross Margin</b>	31.1%	29.1%	29.0%	31.0%	29.1%	29.0%	0.1 ppt	0 ppt	0 ppt
<b>EBIT Margin</b>	25.7%	23.9%	23.8%	25.6%	23.8%	23.8%	0.1 ppt	0 ppt	0 ppt
<b>Net Margin</b>	12.0%	9.5%	9.3%	10.5%	9.5%	9.3%	1.5 ppt	0 ppt	0 ppt

Source: CMBIS estimates

Figure 3: End-20 NAV

	NAV/share				Remark
	(Rmb m)	(HK\$ m)	(HK\$)	% of NAV	
Properties under development	192,442	214,539	36.10	97%	WACC of 9.5%
Investment property	64,562	71,976	12.11	33%	Cap rate of 6-8%
IP under development	22,920	25,552	4.30	12%	WACC of 9.5%
Leasing apartments	4,800	5,351	0.90	2%	4x 20 P/S
Gross Amount	284,724	317,418	53.41	143%	
Net debt	(86,236)	(96,138)	(16.18)	-43%	Dec 2020
<b>NAV</b>	<b>198,488</b>	<b>221,280</b>	<b>37.23</b>	<b>100%</b>	

Source: CMBIS estimates

## Financial Summary

### Income statement

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Revenue</b>	<b>72,075</b>	<b>115,798</b>	<b>148,976</b>	<b>204,396</b>	<b>234,233</b>
Property development	67,462	108,719	140,400	193,500	221,200
Property investment	2,593	4,090	4,631	5,767	6,366
Property management	2,019	2,989	3,945	5,128	6,667
Cost of sales	(47,639)	(76,270)	(102,654)	(144,935)	(166,247)
<b>Gross profit</b>	<b>24,436</b>	<b>39,529</b>	<b>46,322</b>	<b>59,461</b>	<b>67,986</b>
Other income and gains	436	1,274	1,020	1,160	1,323
Distribution expenses	(1,797)	(3,193)	(3,426)	(4,701)	(5,387)
Administrative expenses	(3,267)	(5,397)	(5,661)	(7,154)	(8,198)
Other expenses	0	0	0	0	0
<b>Operating profit</b>	<b>19,807</b>	<b>32,212</b>	<b>38,255</b>	<b>48,766</b>	<b>55,724</b>
Finance expenses	(45)	(75)	(118)	(128)	(140)
Associates/JV	1,868	643	1,280	854	1,000
Exceptional	4,923	4,702	2,312	0	0
<b>Pre-tax profit</b>	<b>26,554</b>	<b>37,483</b>	<b>41,729</b>	<b>49,491</b>	<b>56,584</b>
Profits tax	(10,075)	(16,592)	(18,446)	(23,278)	(26,606)
Minority interest	16,478	20,891	23,283	26,214	29,978
Perpetual	0	0	0	0	0
<b>Net profit</b>	<b>12,599</b>	<b>16,237</b>	<b>17,831</b>	<b>19,494</b>	<b>21,778</b>
<b>Core profit</b>	<b>9,770</b>	<b>12,710</b>	<b>16,225</b>	<b>19,494</b>	<b>21,778</b>

### Cash flow summary

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>EBIT</b>	<b>19,807</b>	<b>32,212</b>	<b>38,255</b>	<b>48,766</b>	<b>55,724</b>
D&A	29	223	88	96	102
Change in working capital	58,938	55,342	(19,712)	(9,000)	(29,200)
Income tax paid	(7,147)	(10,247)	(18,005)	(21,028)	(23,356)
Others	(280)	343	(1,556)	(9,555)	(10,963)
<b>Net cash from operating</b>	<b>71,347</b>	<b>77,874</b>	<b>(930)</b>	<b>9,279</b>	<b>(7,693)</b>
Capex	(88,897)	(88,367)	(8,113)	(6,496)	(4,552)
Associates/JV	(8,672)	(12,453)	5,892	(3,400)	400
Other	(13,335)	(15,143)	0	0	0
<b>Net cash from investing</b>	<b>(110,904)</b>	<b>(115,964)</b>	<b>(2,221)</b>	<b>(9,896)</b>	<b>(4,152)</b>
Equity raised	277	(129)	0	0	0
Change of Debts	17,565	40,456	11,380	10,600	15,000
Dividend paid	(2,739)	(4,489)	(6,168)	(6,998)	(7,828)
Other	33,839	20,693	0	0	0
<b>Net cash from financing</b>	<b>48,941</b>	<b>56,531</b>	<b>5,213</b>	<b>3,602</b>	<b>7,172</b>
Net change in cash	9,384	18,441	2,062	2,985	(4,673)
Cash at the beginning	17,258	26,642	45,083	47,145	50,130
Exchange difference	0	0	0	0	0
<b>Cash at the end</b>	<b>26,642</b>	<b>45,083</b>	<b>47,145</b>	<b>50,130</b>	<b>45,457</b>
Pledged deposit	119	181	134	134	134
Cash at BS	26,761	45,264	47,279	50,264	45,591

### Balance sheet

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Non-current assets</b>	<b>129,096</b>	<b>134,855</b>	<b>146,580</b>	<b>162,410</b>	<b>172,160</b>
Fixed asset	863	3,366	3,800	4,200	4,650
Investment properties	68,095	84,410	92,000	98,000	102,000
Associates/JV	13,193	14,937	16,000	17,200	18,000
Intangible assets	0	0	0	0	0
Other non-current assets	46,945	32,142	34,780	43,010	47,510
<b>Current assets</b>	<b>233,668</b>	<b>372,029</b>	<b>403,999</b>	<b>455,544</b>	<b>480,911</b>
Cash	26,761	45,264	47,279	50,264	45,591
Account receivable	14,184	22,573	25,000	28,000	32,000
Inventories	163,000	247,389	282,000	330,000	360,000
Other current assets	29,724	56,804	49,720	47,280	43,320
<b>Current liabilities</b>	<b>177,494</b>	<b>249,844</b>	<b>265,500</b>	<b>301,050</b>	<b>305,900</b>
Borrowings	5,589	11,743	10,200	6,800	6,800
Trade and other payables	32,213	62,234	68,000	72,000	76,800
Contract liabilities	93,217	113,440	125,000	163,000	163,000
Deferred taxation	15,211	21,612	22,300	24,250	27,300
Other current liabilities	31,264	40,815	40,000	35,000	32,000
<b>Non-current liabilities</b>	<b>79,091</b>	<b>116,222</b>	<b>128,925</b>	<b>143,175</b>	<b>158,375</b>
Borrowings	71,816	108,077	121,000	135,000	150,000
Other non-current liabilities	7,275	8,145	7,925	8,175	8,375
<b>Shareholders' equity</b>	<b>70,567</b>	<b>81,661</b>	<b>93,154</b>	<b>105,529</b>	<b>118,796</b>
Minority interest	35,612	59,157	63,000	68,200	70,000
Perpetual bond	0	0	0	0	0
Total equity	106,179	140,818	156,154	173,729	188,796

### Key ratios

YE Dec 31	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Sales mix (%)</b>					
Property development	93.6	93.9	94.2	94.7	94.4
Property investment	3.6	3.5	3.1	2.8	2.7
Property management	2.8	2.6	2.6	2.5	2.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	33.9	34.1	31.1	29.1	29.0
Pre-tax margin	27.5	27.8	25.7	23.9	23.8
Net margin	17.5	14.0	12.0	9.5	9.3
Effective tax rate	37.9	44.3	44.2	47.0	47.0
<b>Balance sheet ratios</b>					
Current ratio (x)	1.3	1.5	1.5	1.5	1.6
Receivable day	71.8	71.2	61.3	50.0	49.9
Payable day	163.1	196.2	166.6	128.6	119.7
Inventory day	1248.9	1183.9	1002.7	831.1	790.4
Net gearing ratio (%)	56.9	49.6	54.3	48.1	46.9
<b>Returns (%)</b>					
ROE	17.9	19.9	19.1	18.5	18.3
ROA	3.5	3.2	3.2	3.2	3.3
<b>Per share data</b>					
EPS (RMB)	2.17	2.78	3.01	3.29	3.67
DPS (RMB)	0.76	0.99	1.15	1.30	1.45
BVPS (RMB)	11.98	13.75	15.67	17.76	19.99

Source: Company data, CMBIS estimates

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