

KWG (1813 HK)

To break RMB100bn sales in 2020

Revenue and core profit increased by 234% to RMB25.0bn and 37% to RMB5.22bn in 2019, respectively. We raise TP from HK\$11.04 to HK\$13.70, based on 30% discount to NAV. Maintain BUY.

- Core profit beat our & street estimates.** Delivery GFA jumped 342% to 1.77mn sq m and rental income surged 65% to RMB627mn in 2019. Total revenue and net profit soared by 234% to RMB25.0bn and 143% to RMB9.81bn in 2019, respectively. Core profit jumped 37% to RMB5.22bn, which was 7.0% and 4.6% higher than our and street estimates. Full year dividend rose 32% to RMB0.74/share, equivalent to 45% core payout ratio.
- RMB103bn sales target in 2020.** Contracted sales amount and area soared by 31% to RMB86.1bn and 24% to 4.92mn sq m in 2019, respectively. The Company aims at RMB103.3bn sales target in 2020, based on RMB170bn saleable resources. Furthermore, it hopes to achieve a 30-40% CAGR for contracted sales next 2-3 years. As at end-19, presold and unbooked properties amounted to RMB63bn, which recorded ASP of RMB16,000/sq m.
- 17.01mn sq m attributable land bank in 39 cities.** KWG acquired 26 new projects of attributable GFA of 2.47mn sq m in 2019. As at end-19, the Company had invested in 156 property projects in 39 cities (newly entered Xian and Kunming) with attributable GFA of 17.01mn sq m. Total saleable resources amounted to RMB510bn, of which 50% are in GBA. Furthermore, KWG had signed urban redevelopment agreements with 26 villages in GBA for total GFA of 13.7mn sq m. Now, it is negotiating on 11 projects and wishes to finalize six projects in 2020.
- Recurring income increased 55% in 2019.** Recurring income increased by 55% to RMB2.19bn in 2019. As at end-19, 0.7mn sq m of shopping malls and 0.35mn sq m of offices were under operation with respective occupancy rate of 92% and 90%. In the future, nine shopping malls and seven offices will complete and operate. On the other hand, property management business is another growth engine with revenue rising 79% to RMB1.0bn in 2019.
- Reiterate BUY.** We raise our core earnings forecast by 7.8% to RMB6.2bn in 2020 and 21.6% to RMB7.3bn in 2020. We also forecast end-20 NAV to be HK\$22.84. As a result, we raise TP from HK\$11.40 to HK\$13.70, based on 40% discount to NAV.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	7,477	24,956	26,189	31,308	37,573
YoY growth (%)	-35	234	5	20	20
Net income (RMB mn)	4,035	9,806	6,231	7,346	8,711
EPS (RMB)	1.28	3.09	1.96	2.31	2.74
YoY growth (%)	9.2	142.1	-36.5	17.9	18.6
Consensus EPS (RMB)	N.A.	2.07	2.165	2.421	2.510
P/E (x)	7.5	3.1	4.9	4.1	3.5
P/B (x)	1.1	0.8	0.7	0.6	0.6
Yield (%)	5.9	7.8	8.7	10.1	12.0
ROE (%)	14.0	27.4	14.0	15.0	16.0
Net gearing (%)	66.4	75.4	66.0	67.9	66.8

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$13.70
(Previous TP)	HK\$11.40
Up/downside	+28.8%
Current Price	HK\$10.64

China Property Sector

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Stock Data

Mkt Cap (HK\$ mn)	33,801
Avg 3 mths t/o (HK\$ mn)	104
52w High/Low (HK\$)	12.1/5.6
Total Issued Shares (mn)	3,177

Source: Bloomberg

Shareholding Structure

Kong Jian Min	62.74%
Free float	37.26%

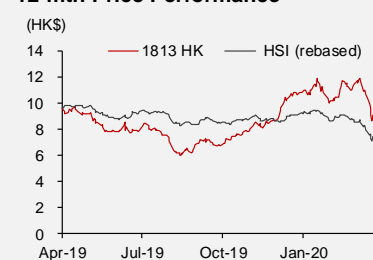
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-4.0%	6.8%
3-mth	1.1%	21.5%
6-mth	62.6%	79.7%
12-mth	15.7%	43.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernest & Young

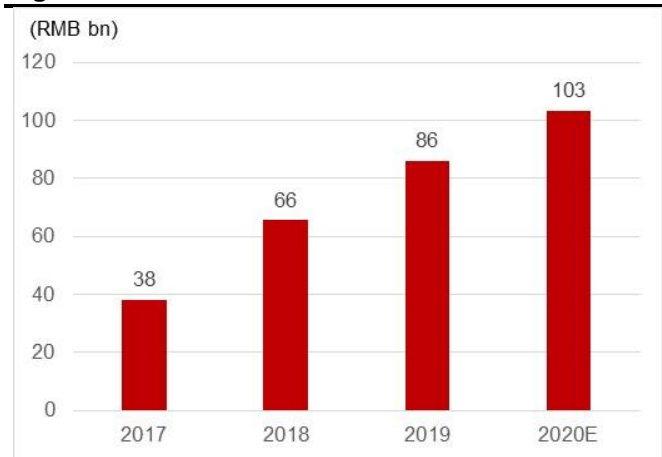
Related Reports

- "Attractive valuation" – 29 Aug 2019
- "30% growth in 2019 sales target" – 28 Mar 2019

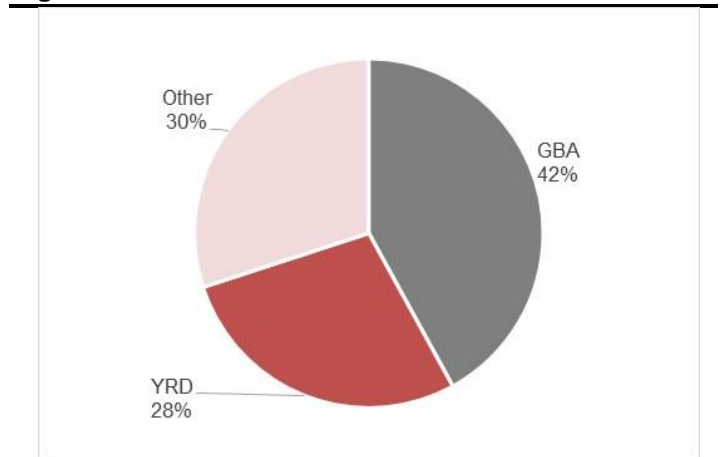
Figure 1: 2019 results

	FY18A (Rmb mn)	FY19A (Rmb mn)	Change (%)	FY19E (Rmb mn)	Diff (%)	Remark
Turnover	7,477	24,956	233.8%	23,049	8.3%	
-Property development	6,064	22,762	275.3%	21,151	7.6%	Delivered GFA surged 3.4x to 1.77mn sq m in 2019
-Property investment	379	627	65.3%	675	-7.2%	
-Hotel	468	553	18.1%	543	1.8%	
-Other	566	1,014	79.3%	680	49.2%	
Cost of Sales	(5,026)	(17,090)	240.0%	(14,679)	16.4%	
Gross Profit	2,451	7,866	220.9%	8,370	-6.0%	GM narrowed by 1.3ppts to 31.5% in 2019
Other operating income	2,703	2,859	5.8%	1,756	62.9%	
Distribution Cost	(532)	(1,007)	89.3%	(645)	56.1%	
Administrative Expenses	(1,314)	(1,726)	31.4%	(1,844)	-6.4%	
Other Expenses	(2)	(4)	158.0%	(115)	-96.1%	
EBIT	3,307	7,987	141.5%	7,521	6.2%	
Net finance income	(1,070)	(1,531)	43.1%	(2,058)	-25.6%	
Associated	1,440	3,447	139.5%	3,049	13.1%	
Exceptional	1,715	3,716	116.7%	3,055	21.7%	Revaluation gain of investment properties
Pre-tax Profit	5,391	13,619	152.6%	11,567	17.7%	
Taxation	(1,236)	(3,563)	188.2%	(2,995)	19.0%	Effective tax rate narrowed by 12.2ppts to 22.9% in 2018
Profit after Tax	4,155	10,056	142.0%	8,572	17.3%	
Minority	(119)	(250)	109.6%	(250)	0.1%	
Net Profit	4,035	9,806	143.0%	8,322	17.8%	Full year dividend of RMB0.74 per share, up 32% YoY
Core	3,812	5,215	36.8%	4,872	7.0%	

Source: Company data, CMBIS estimates

Figure 2: Contracted sales amount

Source: Company data

Figure 3: 2020 saleable resources breakdown

Source: Company data

Figure 4: Operation statistics

(mn sqm)	2017	2018	2019
New starts	3.41	8.03	4.88
Completion	1.32	1.58	2.84
Under construction	7.57	14.02	16.06

Source: Company data

Figure 5: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	26,189	31,308	37,573	25,805	30,859	N.A.	1.5%	1.5%	N.A.
Gross Profit	9,289	10,581	12,659	9,235	10,518	N.A.	0.6%	0.6%	N.A.
EBIT	8,062	9,390	11,025	8,471	9,738	N.A.	-4.8%	-3.6%	N.A.
Net profit	6,231	7,346	8,711	5,780	6,042	N.A.	7.8%	21.6%	N.A.
Core profit	6,231	7,346	8,711	5,780	6,042	N.A.	7.8%	21.6%	N.A.
EPS (RMB)	1.96	2.31	2.74	1.83	1.92	N.A.	7.1%	20.8%	N.A.
Gross Margin	35.5%	33.8%	33.7%	35.8%	34.1%	N.A.	-0.3 ppt	-0.3 ppt	N.A.
EBIT Margin	30.8%	30.0%	29.3%	32.8%	31.6%	N.A.	-2 ppt	-1.6 ppt	N.A.
Net Margin	23.8%	23.5%	23.2%	22.4%	19.6%	N.A.	1.4 ppt	3.9 ppt	N.A.

Source: CMBIS estimates

Figure 6: End-20 NAV

	NAV/share				Remark
	(Rmb mn)	(HK\$ mn)	(HK\$)	% of NAV	
Properties under development	81,814	91,209	28.71	126%	WACC of 9.9%
Investment property	10,645	11,867	3.74	16%	8-10% cap rate
Hotel	3,548	3,956	1.25	5%	Rmn 1.0-4.8mn per room
Gross Amount	96,007	107,032	33.69	148%	
Net debt	(30,928)	(34,479)	(10.85)	-48%	Dec-20
NAV	65,079	72,552	22.84	100%	

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	7,477	24,956	26,189	31,308	37,573
Property sales	6,064	22,762	23,665	28,398	34,077
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)	(16,900)	(20,728)	(24,914)
Gross profit	2,451	7,866	9,289	10,581	12,659
Other income and gains	2,703	2,859	1,290	1,505	1,526
Distribution expenses	(532)	(1,007)	(1,048)	(1,127)	(1,277)
Administrative expenses	(1,314)	(1,726)	(1,467)	(1,565)	(1,879)
Other expenses	(2)	(4)	(3)	(3)	(4)
Operating profit	3,307	7,987	8,062	9,390	11,025
Finance expenses	(1,070)	(1,531)	(1,321)	(1,322)	(1,349)
Associates/JV	1,440	3,447	2,557	2,950	3,460
Exceptional	1,715	3,716	0	0	0
Pre-tax profit	5,391	13,619	9,298	11,017	13,136
Profits tax	(1,236)	(3,563)	(2,737)	(3,280)	(3,935)
Minority interest	(119)	(250)	(330)	(391)	(490)
Perpetual	0	0	0	0	0
Net profit	4,035	9,806	6,231	7,346	8,711
Core profit	3,812	5,215	6,231	7,346	8,711

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E
EBIT	3,307	7,987	8,062	9,390	11,025
D&A	158	263	348	356	403
Change in working capital	(7,742)	(3,677)	(8,014)	(3,700)	(5,700)
Income tax paid	(1,103)	525	(3,345)	(3,080)	(3,935)
Others	3,109	8,473	8,489	4,996	5,999
Net cash from operating	(2,272)	13,571	5,540	7,962	7,792
Capex	1,051	(11,085)	(862)	(4,942)	(3,388)
Associates/JV	(4,993)	(9,499)	(4,333)	(4,500)	(4,600)
Other	0	0	0	0	0
Net cash from investing	(3,943)	(20,584)	(5,195)	(9,442)	(7,988)
Equity raised	0	0	0	0	0
Change of Debts	19,166	7,795	422	4,800	4,200
Dividend paid	(1,156)	(2,000)	(2,446)	(2,732)	(3,113)
Other	1,546	0	0	0	0
Net cash from financing	19,556	5,795	(2,024)	2,068	1,087
Net change in cash	13,341	(1,217)	(1,679)	588	891
Cash at the beginning	39,199	52,578	51,378	49,716	50,321
Exchange difference	38	17	17	17	17
Cash at the end	52,578	51,378	49,716	50,321	51,229
Pledged deposit	4,099	5,356	5,356	5,356	5,356
Cash at BS	56,677	56,734	55,072	55,677	56,585

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	63,761	84,578	89,180	98,400	106,000
Fixed asset	5,351	6,411	6,200	6,800	6,800
Investment properties	17,491	27,263	28,000	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	2,980	3,100	3,100
Current assets	120,776	129,745	133,592	138,597	146,705
Cash	56,677	56,734	55,072	55,677	56,585
Account receivable	7,364	9,568	9,800	10,200	10,200
Inventories	56,222	62,690	68,000	72,000	79,200
Other current assets	513	753	720	720	720
Current liabilities	89,909	109,672	103,200	108,400	115,300
Borrowings	17,364	23,728	18,000	18,800	20,000
Trade and other payables	4,077	9,072	6,600	7,300	8,800
Contract liabilities	21,729	27,627	31,300	35,000	39,200
Deferred taxation	6,852	9,926	9,300	9,300	9,300
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	44,392	49,007	54,605
Minority interest	2,993	2,448	2,500	2,710	2,920
Perpetual bond	0	0	0	0	0
Total equity	32,561	38,243	46,892	51,717	57,525

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Property sales	81.1	91.2	90.4	90.7	90.7
Rental	5.1	2.5	2.7	2.7	2.7
Hotel	6.3	2.2	2.2	2.0	1.8
Property management	7.6	4.1	4.7	4.6	4.8
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	32.8	31.5	35.5	33.8	33.7
Pre-tax margin	44.2	32.0	30.8	30.0	29.3
Net margin	54.0	39.3	23.8	23.5	23.2
Effective tax rate	22.9	26.2	29.4	29.8	30.0
Balance sheet ratios					
Current ratio (x)	1.3	1.2	1.3	1.3	1.3
Receivable day	359.5	139.9	136.6	118.9	99.1
Payable day	199.0	132.7	92.0	85.1	85.5
Inventory day	4082.8	1338.9	1468.7	1267.9	1160.3
Net gearing ratio (%)	64.8	75.4	66.0	67.9	66.8
Returns (%)					
ROE	13.6	27.4	14.0	15.0	16.0
ROA	2.2	25.6	13.3	14.2	15.1
Per share data					
EPS (RMB)	1.28	3.09	1.96	2.31	2.74
DPS (RMB)	0.56	0.74	0.83	0.96	1.15
BVPS (RMB)	9.32	11.28	13.97	15.43	17.19

Source: Company data, CMBIS estimates

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