

Longfor (960 HK)

COVID-19 drags down 2020 performance

Revenue and core net profit increased by 30.4% to RMB151bn and 12.9% to RMB18.3bn in 2019, respectively. We cut our earnings forecast by 2.1% in 2019 to reflect outbreak situation. We estimate end-20 NAV to be HK\$48.95. As a result, we raise TP from HK\$26.06 to HK\$34.27. Maintain HOLD.

- Results in line.** Revenue and net profit gained by 30.4% to RMB151bn and 12.9% to RMB18.3bn in 2019, respectively. Excluding investment properties (IP) revaluation gain, core earnings advanced by 21.0% to RMB15.6bn in 2019, which was 4.1% below our forecast of RMB16.2bn. Longfor declared to pay final dividend of RMB0.84 per share that resulted in full year dividend of RMB1.2 per share or pay out of 45% based on core earnings.
- RMB260bn contracted sales in 2020.** In 2019, contracted sales amount and area gained by 20.9% to RMB242.5bn and 15.2% to 14.24mn sq m, respectively. Given about RMB410bn saleable resources launched, Longfor aims at RMB260bn sales target in 2020. Having about 82% of the saleable resources located in the first and second tier cities, Longfor is confident to have more than 60% sell through rate in this difficult moment.
- Rental income aims a 30% CAGR next three years.** Longfor provides rental concession for its mall tenant during outbreak period. Tenants only pay half of rent in 25/1-31/3. The Company estimates about RMB500mn rental income is lost but it is glad to support these tenants. In 2019, 10 shopping malls were opened with more than 90% occupancy rate. So we forecast rental income (malls + apartments) to grow by 25.8% to RMB7.3bn in 2020. Looking forwards, Longfor plans to add 10 malls each year and rooms of leasing apartment can reach 100,000 by end-20.
- Attributable land bank of 47.42mn sq m.** In 2019, the Company acquired 90 new projects with total attributable GFA of 12.73mn sq m. Attributable consideration was RMB78.7bn. As at end-10, attributable land bank amounted to 47.42mn sq m and covered 56 cities. Average land cost was RMB5,737 per sq m and estimated total sales value amounted to RMB930bn.
- Maintain HOLD.** We believe Longfor is one of the best in terms of financial position. As at end-19, net gearing ratio and cash/short term debt were 51.0% and 4.4x, respectively. We cut our earnings forecast by 2.1% in 2019 to reflect outbreak situation. We forecast end-20 NAV to be HK\$48.95. As a result, we raise TP to HK\$34.27, based on 30% discount to NAV.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	115,798	151,026	206,493	238,540	293,354
YoY growth (%)	60.7	30.4	36.7	15.5	23.0
Net income (RMB mn)	16,237	18,337	19,078	23,865	30,608
EPS (RMB)	2.779	3.130	3.190	3.987	5.114
YoY growth (%)	28.0	12.6	1.9	25.0	28.3
Consensus EPS (RMB)	N.A.	3.209	3.676	4.236	N.A.
P/E (x)	10.7	9.5	9.3	7.5	5.8
P/B (x)	2.2	1.9	1.7	1.5	1.3
Yield (%)	3.3	4.0	4.4	5.4	6.7
ROE (%)	19.9	19.5	17.9	20.1	22.9
Net gearing (%)	52.9	51.0	49.7	59.0	58.8

Source: Company data, Bloomberg, CMBIS estimates

HOLD (Maintain)

Target Price	HK\$34.27
(Previous TP)	HK\$26.06)
Up/downside	+3.4%
Current Price	HK\$33.15

China Property Sector

Samson Man, CFA

(852) 3900 0853
samsonman@cmbi.com.hk

Chengyu Huang

(852) 3761 8773
huangchengyu@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	198,411
Avg 3 mths t/o (HK\$ mn)	123.53
52w High/Low (HK\$)	38.65/25.07
Total Issued Shares (mn)	5,985

Source: Bloomberg

Shareholding Structure

Cai Xinyi	43.9%
Cai Kui	23.5%
Capital Group	5.0%

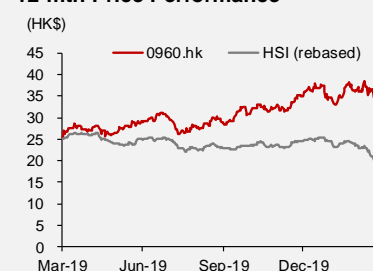
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-7.9%	-15.5%
3-mth	-5.3%	-18.7%
6-mth	15.0%	-13.8%
12-mth	39.5%	-22.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte Touche Tohmatsu

Related Reports

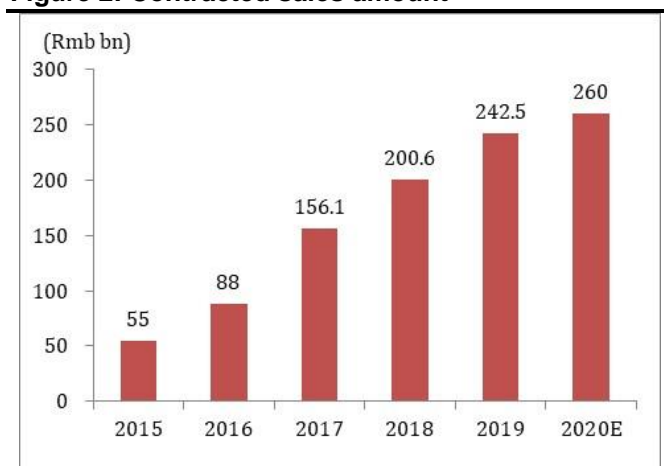
- Rich in valuation – 27 Aug 2019
- Aim at 20% CAGR on earnings – 26 Mar 2019
- Sound performance in rental business – 22 Aug 2018

Figure 1: 2019 results

	2018A	2019A	Growth	2019E	Diff	Remark
	(Rmb mn)	(Rmb mn)	(%)	(Rmb mn)	(%)	
Turnover	115,798	151,026	30.4%	148,976	1.4%	
-Property development	108,719	140,793	29.5%	140,400	0.3%	Delivery GFA increased by 30.6% to 10.68mn sq m in 2019
-Property investment	4,090	5,789	41.5%	4,631	25.0%	10 new shopping malls opened in 2019
-Property management	2,989	4,444	48.7%	3,945	12.7%	
Cost of Sales	(76,270)	(100,229)	31.4%	(102,654)	-2.4%	
Gross Profit	39,529	50,797	28.5%	46,322	9.7%	Gross margin narrowed by 0.5ppts to 33.6% in 2019
Other operating income	1,274	710	-44.3%	1,020	-30.4%	
Distribution Cost	(3,193)	(4,034)	26.3%	(3,426)	17.7%	
Administrative Expenses	(5,397)	(6,521)	20.8%	(5,661)	15.2%	
EBIT	32,212	40,951	27.1%	38,255	7.0%	
Net finance expense	(75)	(77)	2.9%	(118)	-34.9%	Cost of debt was 4.54% in 2019
Associated	643	1,352	110.2%	1,280	5.6%	
Exceptional	4,702	3,735	-20.6%	2,312	61.5%	Revaluation gain of investment properties
Pre-tax Profit	37,483	45,961	22.6%	41,729	10.1%	
Taxation	(16,592)	(19,409)	17.0%	(18,446)	5.2%	Effective tax rate narrowed by 2.0 ppt to 42.2% in 2019
Profit after Tax	20,891	26,552	27.1%	23,283	14.0%	
Minority	(4,654)	(8,216)	76.5%	(5,452)	50.7%	
Net Profit	16,237	18,337	12.9%	17,831	2.8%	Full year dividend was Rmb0.84
Underlying earnings	12,850	15,553	21.0%	16,225	-4.1%	

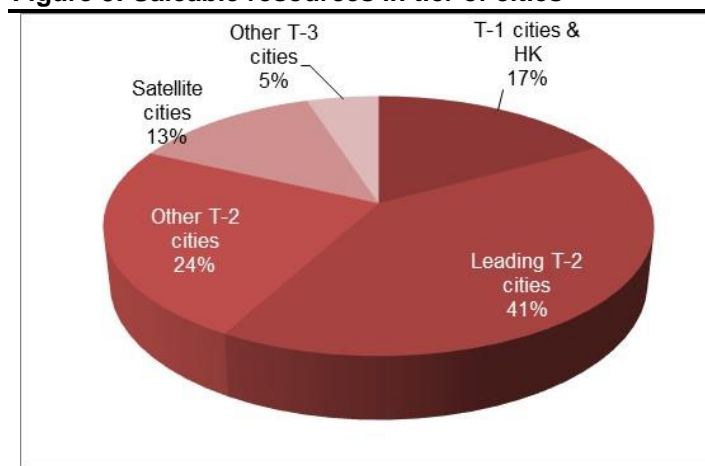
Source: Company data, CMBIS estimates

Figure 2: Contracted sales amount



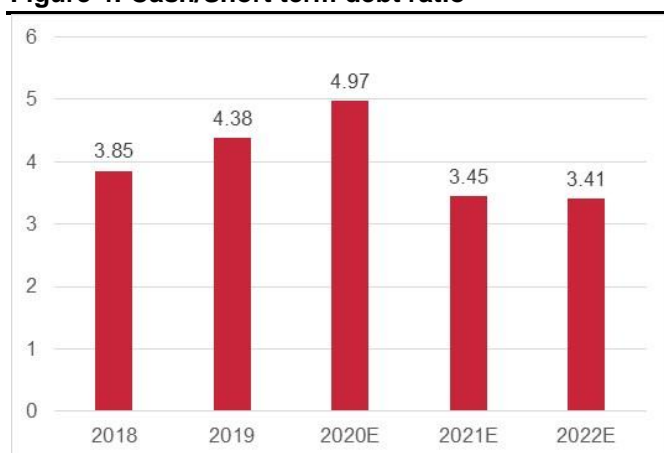
Source: Company data

Figure 3: Saleable resources in tier of cities



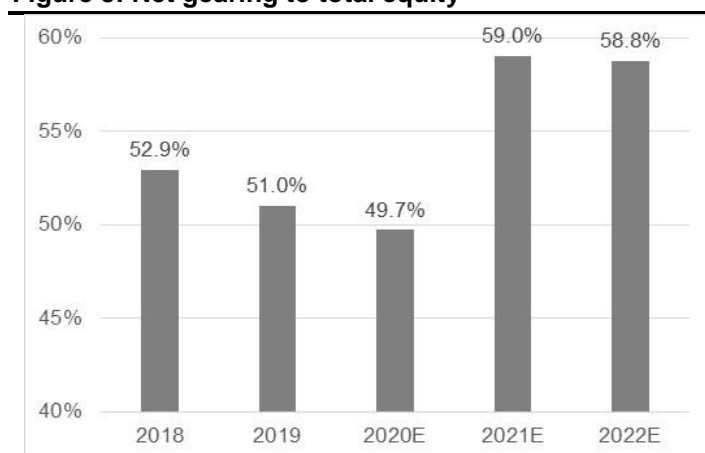
Source: Company data

Figure 4: Cash/Short term debt ratio



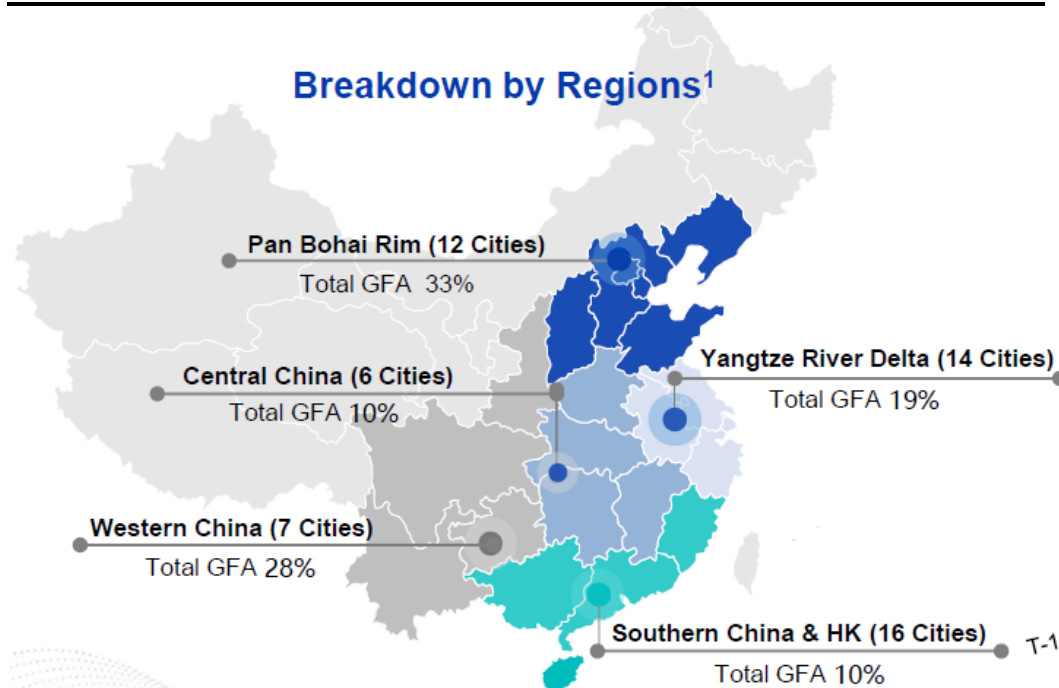
Source: Company data, CMBIS estimates

Figure 5: Net gearing to total equity



Source: Company data, CMBIS estimates

Figure 6: Land bank (Total GFA:68.14mn sq m as at end-19)



Source: Company data

Figure 7: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	206,493	238,540	293,354	204,396	234,233	N.A.	1.0%	1.8%	N.A.
Gross Profit	60,680	70,572	87,090	59,461	67,986	N.A.	2.1%	3.8%	N.A.
EBIT	50,261	58,370	71,654	48,766	55,724	N.A.	3.1%	4.7%	N.A.
Net profit	19,078	23,865	30,608	19,494	21,778	N.A.	-2.1%	9.6%	N.A.
EPS (RMB)	3.19	3.99	5.11	3.29	3.67	N.A.	-2.9%	8.6%	N.A.
Gross Margin	29.4%	29.6%	29.7%	29.1%	29.0%	N.A.	0.3 ppt	0.6 ppt	N.A.
EBIT Margin	24.3%	24.5%	24.4%	23.9%	23.8%	N.A.	0.5 ppt	0.7 ppt	N.A.
Net Margin	9.2%	10.0%	10.4%	9.5%	9.3%	N.A.	-0.3 ppt	0.7 ppt	N.A.

Source: CMBIS estimates

Figure 8: End-20 NAV estimation

	NAV/share				Remark
	(Rmb m)	(HK\$ m)	(HK\$)	% of NAV	
Properties under development	248,289	276,800	46.25	94%	WACC of 9.8%
Investment property	96,379	107,446	17.95	37%	Cap rate of 6-8%
Leasing apartments	6,000	6,689	1.12	2%	4x 20 P/S
Gross Amount	350,668	390,935	65.32	133%	
Net debt	(87,856)	(97,944)	(16.36)	-33%	Dec 2020
NAV	262,813	292,991	48.95	100%	

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	115,798	151,026	206,493	238,540	293,354
Property development	108,719	140,793	193,500	221,200	270,600
Property investment	4,090	5,789	7,283	9,642	12,631
Property management	2,989	4,444	5,711	7,698	10,123
Cost of sales	(76,270)	(100,229)	(145,813)	(167,968)	(206,265)
Gross profit	39,529	50,797	60,680	70,572	87,090
Other income and gains	1,274	710	1,557	1,634	1,579
Distribution expenses	(3,193)	(4,034)	(4,749)	(5,486)	(6,747)
Administrative expenses	(5,397)	(6,521)	(7,227)	(8,349)	(10,267)
Other expenses	0	0	0	0	0
Operating profit	32,212	40,951	50,261	58,370	71,654
Finance expenses	(75)	(77)	(104)	(110)	(119)
Associates/JV	643	1,352	854	1,000	1,250
Exceptional	4,702	3,735	0	0	0
Pre-tax profit	37,483	45,961	51,010	59,261	72,785
Profits tax	(16,592)	(19,409)	(23,612)	(27,195)	(33,327)
Profit after tax	20,891	26,552	27,398	32,065	39,458
Minority interest	(4,654)	(8,216)	(8,320)	(8,200)	(8,850)
Perpetual	0	0	0	0	0
Net profit	16,237	18,337	19,078	23,865	30,608
Core profit	12,710	15,553	19,078	23,865	30,608

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E
EBIT	32,212	40,951	50,261	58,370	71,654
D&A	223	142	216	245	272
Change in working capital	55,342	(24,448)	(2,264)	(19,000)	(11,200)
Income tax paid	(10,247)	(11,234)	(25,545)	(27,495)	(33,427)
Others	343	43,164	(11,960)	(10,795)	(13,582)
Net cash from operating	77,874	48,575	10,708	1,324	13,718
Capex	(88,367)	(45,153)	(19,513)	(18,478)	(12,406)
Associates/JV	(12,453)	(7,750)	11,242	100	(700)
Other	(15,143)	0	0	0	0
Net cash from investing	(115,964)	(52,903)	(8,271)	(18,378)	(13,106)
Equity raised	(129)	0	0	0	0
Change of Debts	40,456	26,179	4,101	11,400	14,700
Dividend paid	(4,489)	(6,152)	(7,296)	(8,020)	(10,055)
Other	20,693	0	0	0	0
Net cash from financing	56,531	20,027	(3,195)	3,380	4,645
Net change in cash	18,441	15,699	(758)	(13,674)	5,257
Cash at the beginning	26,642	45,083	60,782	60,025	46,351
Exchange difference	0	0	0	0	0
Cash at the end	45,083	60,782	60,025	46,351	51,608
Pledged deposit	181	169	169	169	169
Cash at BS	45,264	60,952	60,194	46,520	51,777

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	134,855	156,983	185,677	207,127	223,477
Fixed asset	3,366	1,982	2,100	2,350	2,500
Investment properties	84,410	130,804	150,000	168,000	180,000
Associates/JV	14,937	14,805	16,200	17,300	18,000
Intangible assets	0	67	67	67	67
Other non-current assets	32,142	9,325	17,310	19,410	22,910
Current assets	372,029	495,261	475,924	482,290	513,627
Cash	45,264	60,952	60,194	46,520	51,777
Account receivable	22,573	28,692	28,000	32,000	35,000
Inventories	247,389	337,174	340,000	360,000	385,000
Other current assets	56,804	68,444	47,730	43,770	41,850
Current liabilities	249,844	333,920	322,909	325,809	342,209
Borrowings	11,743	13,927	12,100	13,500	15,200
Trade and other payables	62,234	91,974	84,000	80,000	76,800
Contract liabilities	113,440	155,156	163,000	172,000	192,000
Deferred taxation	21,612	28,288	27,800	27,300	27,200
Other current liabilities	40,815	44,575	36,009	33,009	31,009
Non-current liabilities	116,222	151,647	157,900	168,800	183,200
Borrowings	108,077	132,072	138,000	148,000	161,000
Other non-current liabilities	8,145	19,575	19,900	20,800	22,200
Shareholders' equity	81,661	93,956	106,791	118,807	133,694
Minority interest	59,157	72,721	74,000	76,000	78,000
Perpetual bond	0	0	0	0	0
Total equity	140,818	166,678	180,791	194,807	211,694

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Property development	93.9	93.2	93.7	92.7	92.2
Property investment	3.5	3.8	3.5	4.0	4.3
Property management	2.6	2.9	2.8	3.2	3.5
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	34.1	33.6	29.4	29.6	29.7
Pre-tax margin	27.8	27.1	24.3	24.5	24.4
Net margin	14.0	12.1	9.2	10.0	10.4
Effective tax rate	44.3	42.2	46.3	45.9	45.8
Balance sheet ratios					
Current ratio (x)	1.5	1.5	1.5	1.5	1.5
Receivable day	71.2	69.3	49.5	49.0	43.5
Payable day	196.2	222.3	148.5	122.4	95.6
Inventory day	1183.9	1227.9	851.1	782.3	681.3
Net gearing ratio (%)	49.6	51.0	49.7	59.0	58.8
Returns (%)					
ROE	19.9	19.5	17.9	20.1	22.9
ROA	3.2	11.0	10.6	12.3	14.5
Per share data					
EPS (RMB)	2.78	3.13	3.19	3.99	5.11
DPS (RMB)	0.99	1.20	1.30	1.60	2.00
BVPS (RMB)	13.75	15.70	17.84	19.85	22.34

Source: Company data, CMBIS estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIS Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIS

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.