

# Yuzhou Group (1628 HK)

## Small but beautiful

We transfer the coverage of Yuzhou Group and maintain forecast and TP unchanged. We forecast net profit to grow by 25.9% to RMB4.40n in 2020 and 20.3% to RMB5.30bn in 2021. Our TP is HK\$4.81, based on 50% discount to NAV. The Company built dual headquarters in Shanghai and Shenzhen that will accelerate its development in Greater Bay Area. We are optimistic about its long term development and expect it to accomplish RMB100 sales target in 2020. Maintain BUY.

- Contracted sales grew 50% in 1H20.** Yuzhou is doing well in property sales. Contracted sales amount and area soared by 50.5% to RMB42.9bn and 41.1% to 2.61mn sq m, respectively. It accomplished about 43% of RMB100bn sales target in 2020 by Jun. Yuzhou's hit rate was better than peers. Yangtze River Delta (YRD) region and West Strait Economic Zone were the two largest contributors and accounted for 62.4% and 19.0% of contracted sales in 1H20, respectively.
- Spin-off of property management business is in pipeline.** Founded in 1997, Yuzhou Property Management ranked 36th on the list of "China Top 100 Property Service Providers in 2019" by CIA. In 2019, revenue from property management services amounted to RMB448mn and managed GFA was 13mn sq m. Following the recent sector rally, Yuzhou plans to spin off its property management business, which will be listed on HKEx this year.
- Dual headquarters in Shanghai and Shenzhen.** After relocated headquarters in Shanghai in 2016, Yuzhou established another headquarters in Nanshan District, Shenzhen in Jun 2020. Since then, Yuzhou started two-wheel-drive strategy that focuses on the business development in YRD region and Greater Bay Area. As of Dec 2019, total land bank amounted to 20.12mn sq m, of which that in Greater Bay Area only accounted for 6.2% of total land bank. Currently, Yuzhou had penetrated property market in HK, Huizhou, Foshan and Zhongshan. There are huge business opportunities for Yuzhou in Greater Bay Area.
- Maintain forecast and TP unchanged.** Properties pre-sold and unbooked amounted to RMB90bn and gross margin amounted to 26% as of Dec 2019, of which RMB50bn were consolidated. Earnings visibility is high. We forecast net profit to grow by 25.9% to RMB4.40n in 2020 and 20.3% to RMB5.30bn in 2021. We also estimate end-20 NAV to be HK\$9.62. As a result, our TP is HK\$4.81, based on 50% discount to NAV.

### 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.	0.89	1.09	1.26
P/E (x)	4.3	4.7	3.9	3.3	2.9
P/B (x)	1.0	0.9	0.8	0.7	0.6
Yield (%)	7.8	10.5	9.1	11.0	12.6
ROE (%)	19.3	16.7	18.5	19.5	19.5
Net gearing (%)	67.0	70.2	57.0	69.0	72.1

Source: Company data, Bloomberg, CMBIS estimate

**BUY (Maintain)**

Target Price	HK\$4.81
(Previous TP	HK\$4.81)
Up/Downside	+30.0%
Current Price	HK\$3.70

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#### Stock Data

Mkt Cap (HK\$ mn)	19,347
Avg 3 mths t/o (HK\$ mn)	32.35
52w High/Low (HK\$)	4.40/2.55
Total Issued Shares (mn)	5,229

Source: Bloomberg

#### Shareholding Structure

LAM LUNG ON	57.7%
OCT(Asia)	9.9%
Free float	32.4%

Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	2.0%	-2.5%
3-mth	15.9%	7.5%
6-mth	-11.9%	-4.0%
12-mth	0.5%	7.8%

Source: Bloomberg

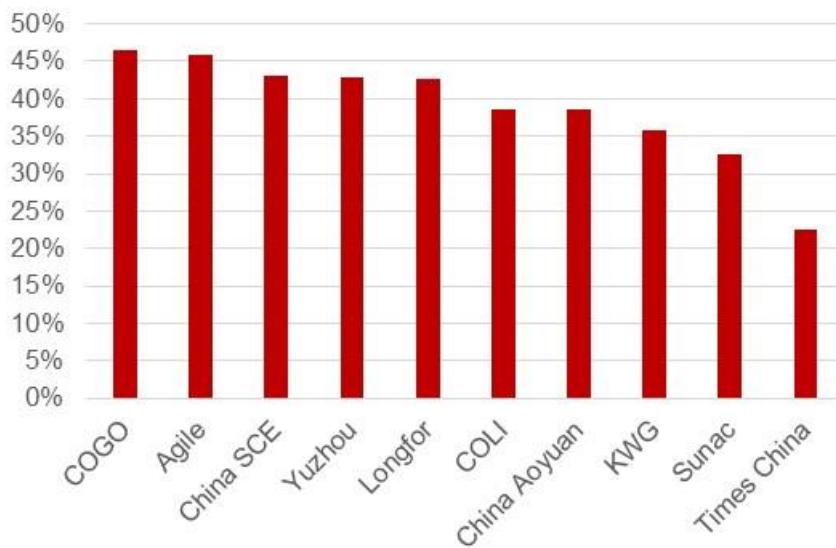
#### 12-mth Price Performance



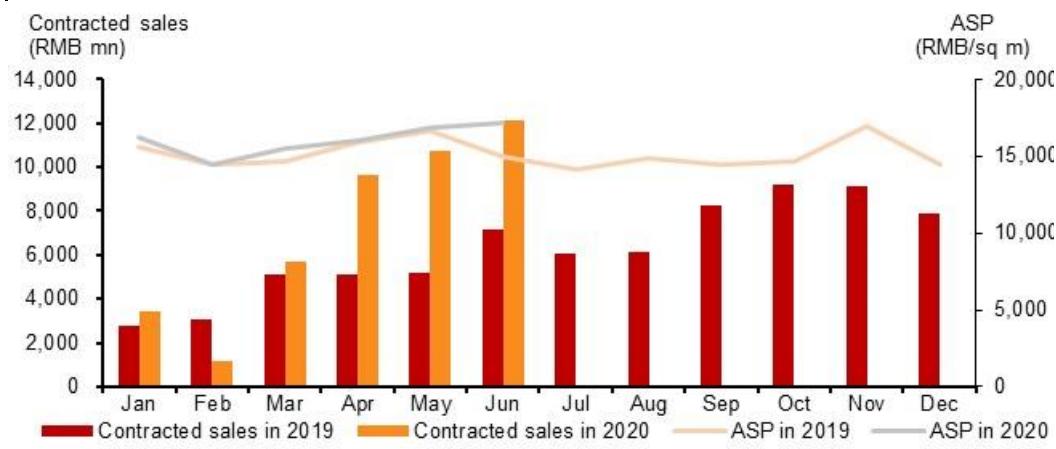
Source: Bloomberg

#### Auditor: EY

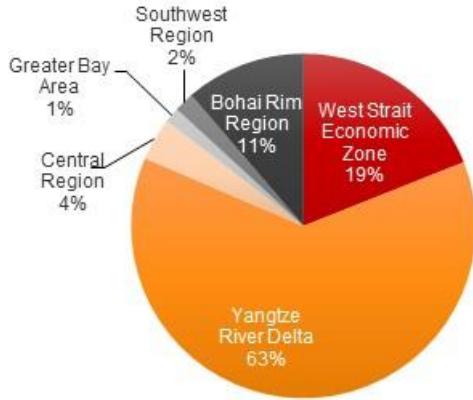
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**Figure 1: Hit rate by Jun 2020**

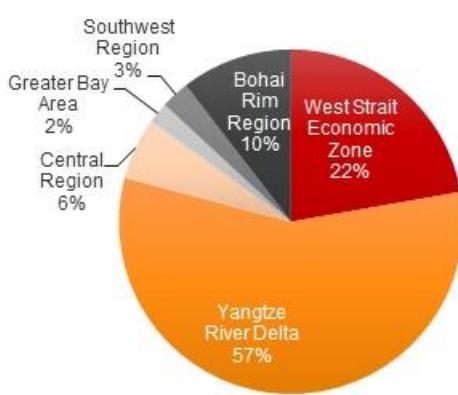
Source: Companies data

**Figure 2: Monthly contracted sales**

Source: Company data, CMBIS

**Figure 3: Contracted sales amount in 1H20**

Source: Company data, CMBIS

**Figure 4: Contracted sales area in 1H20**

Source: Company data, CMBIS

## Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19E	FY20A	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>6,735</b>	<b>6,605</b>	<b>7,748</b>	<b>9,388</b>	<b>10,813</b>
Sale of properties	23,626	22,470	32,804	39,544	46,540	D&A, impairment	77	83	80	84	88
Rental income	245	305	381	477	596	Change in working capital	3,130	(13,712)	1,244	(7,763)	(4,239)
Property mgmt fee income	417	448	537	618	680	Others	(6,785)	1,165	(2,995)	(3,825)	(6,388)
Hotel operation income	18	18	19	20	22	<b>Net cash from operating</b>	<b>3,157</b>	<b>(5,859)</b>	<b>6,077</b>	<b>(2,116)</b>	<b>274</b>
Cost of sales	(16,839)	(17,149)	(24,781)	(29,941)	(35,322)	Capex	(105)	(369)	(620)	(620)	(620)
<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	(1,483)	(18,575)	(2,000)	(2,000)	(2,000)
Other income	439	512	580	620	730	Others	-	-	-	-	-
Selling & distribution expenses	(459)	(660)	(675)	(813)	(957)	<b>Net cash from investing</b>	<b>(1,588)</b>	<b>(18,944)</b>	<b>(2,620)</b>	<b>(2,620)</b>	<b>(2,620)</b>
Administrative expenses	(606)	(1,091)	(844)	(894)	(1,052)	Equity raised	36	3,349	-	-	-
Other expenses	(54)	(311)	(337)	(407)	(478)	Change of debts	10,637	20,979	8,350	9,603	11,043
<b>EBIT</b>	<b>6,786</b>	<b>4,543</b>	<b>7,684</b>	<b>9,223</b>	<b>10,75</b>	Others	(794)	973	(1,695)	(2,018)	(2,288)
Share from associates and	(52)	166	320	485	535	<b>Net cash from financing</b>	<b>9,879</b>	<b>25,300</b>	<b>6,655</b>	<b>7,585</b>	<b>8,755</b>
Finance costs	(223)	(182)	(256)	(320)	(480)	Net change in cash	11,449	497	10,112	2,850	6,410
Exceptional	224	2,078	-	-	-	<b>Cash at the beginning</b>	<b>15,596</b>	<b>27,162</b>	<b>28,456</b>	<b>38,718</b>	<b>41,728</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	117	796	150	160	180
Income tax	(3,009)	(2,638)	(2,789)	(3,380)	(3,893)	<b>Cash at the end of the year</b>	<b>27,162</b>	<b>28,456</b>	<b>38,718</b>	<b>41,728</b>	<b>48,317</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>						
Non-controlling interests	(221)	(361)	(446)	(601)	(761)						
Perpetual interest	(107)	(111)	(111)	(111)	(111)						
<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>						
<b>Core profit</b>	<b>3,419</b>	<b>3,987</b>	<b>4,402</b>	<b>5,297</b>	<b>6,048</b>						
Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Current assets</b>	<b>90,471</b>	<b>119,797</b>	<b>128,123</b>	<b>142,930</b>	<b>167,640</b>	<b>Sales mix (%)</b>					
Inventory	45,346	49,088	52,896	62,694	78,814	Sale of properties	97.2	96.7	97.2	97.3	97.3
Trade and other receivables	14,683	33,745	28,000	30,000	32,000	Rental income	1.0	1.3	1.1	1.2	1.2
Cash and equivalent	27,162	28,456	38,718	41,728	48,317	Property management fee	1.7	1.9	1.6	1.5	1.4
Others	3,279	8,509	8,509	8,509	8,509	Hotel operation income	0.1	0.1	0.1	0.0	0.0
<b>Non-current assets</b>	<b>24,592</b>	<b>26,638</b>	<b>29,234</b>	<b>32,055</b>	<b>34,902</b>	<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
PP&E	934	2,803	2,843	2,879	2,911	<b>Profit &amp; loss ratios (%)</b>					
Investment properties	10,526	12,864	13,100	13,400	13,680	Gross margin	30.7	26.2	26.6	26.4	26.2
Associated	10,013	9,339	11,659	14,144	16,679	EBIT margin	27.9	19.5	22.8	22.7	22.5
Others	3,120	1,632	1,632	1,632	1,632	Net margin	14.0	15.0	13.0	13.0	12.6
<b>Total assets</b>	<b>115,063</b>	<b>141,435</b>	<b>157,357</b>	<b>174,985</b>	<b>202,542</b>	Effective tax rate	44.7	39.9	36.0	36.0	36.0
<b>Current liabilities</b>	<b>64,520</b>	<b>74,851</b>	<b>76,450</b>	<b>83,119</b>	<b>98,030</b>	<b>Growth (%)</b>					
Contracted liabilities	13,752	8,658	5,854	8,310	17,770	Revenue	12.0	-4.4	45.2	20.5	17.7
Trade payable	6,857	9,783	11,895	13,474	15,895	Gross profit	-2.8	-18.4	47.1	19.6	16.8
ST loan	16,430	15,272	17,562	20,197	23,226	EBIT	3.9	-33.1	69.2	20.0	16.6
Others	27,481	41,138	41,138	41,138	41,138	Net profit	23.0	2.8	25.9	20.3	14.2
<b>Non-current liabilities</b>	<b>29,113</b>	<b>42,856</b>	<b>48,916</b>	<b>55,884</b>	<b>63,898</b>	<b>Balance sheet ratios</b>					
LT loan	27,202	40,397	46,456	53,425	61,439	Current ratio (x)	1.4	1.6	1.7	1.8	1.8
Others	1,910	2,459	2,459	2,459	2,459	Receivable turnover days	220	530	303	269	244
<b>Total liabilities</b>	<b>93,633</b>	<b>117,708</b>	<b>125,366</b>	<b>139,003</b>	<b>161,928</b>	Payables turnover days	149	208	175	164	164
Shareholders' fund	17,575	20,991	23,808	27,198	31,069	Inventory turnover days	681	771	572	563	601
Minority interests	1,944	5,824	6,271	6,872	7,633	<b>Net debt / total equity ratio (%)</b>	67.0	70.2	57.0	69.0	72.1
Perpetual securities	1,912	1,912	1,912	1,912	1,912	ROE	19.3	16.7	18.5	19.5	19.5
<b>TOTAL EQUITY</b>	<b>21,430</b>	<b>28,728</b>	<b>31,991</b>	<b>35,982</b>	<b>40,614</b>	ROA	3.2	2.8	3.2	3.4	3.4
Shareholders' fund	17,575	20,991	23,808	27,198	31,069	<b>Per share</b>					
Minority interests	1,944	5,824	6,271	6,872	7,633	EPS (RMB)	0.78	0.71	0.84	1.01	1.16
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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