

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 RMB4.40bn 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 RMB4.40bn 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

China Property Sector

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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%

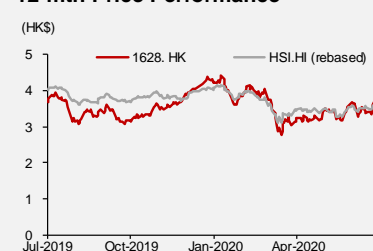
Source: HKEx

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

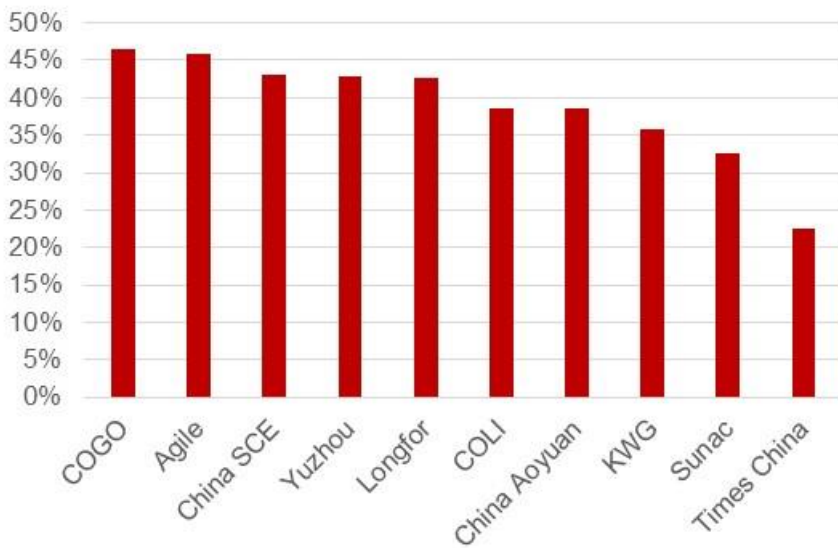


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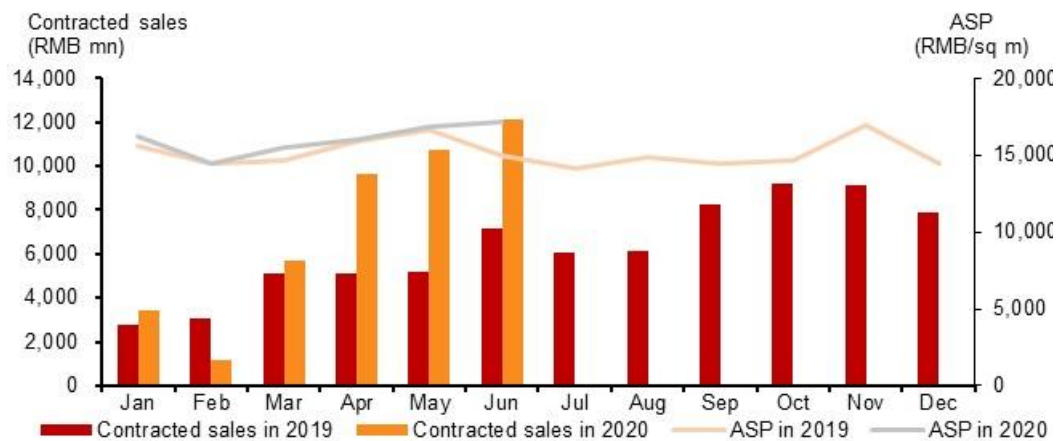
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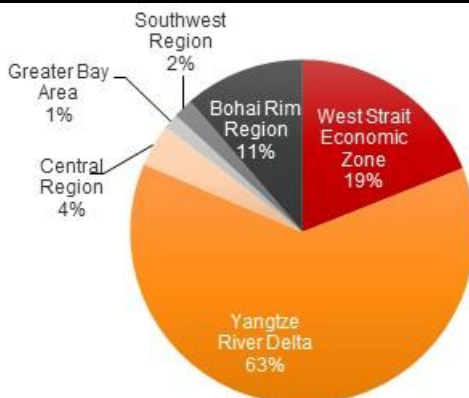
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Figure 1: Hit rate by Jun 2020

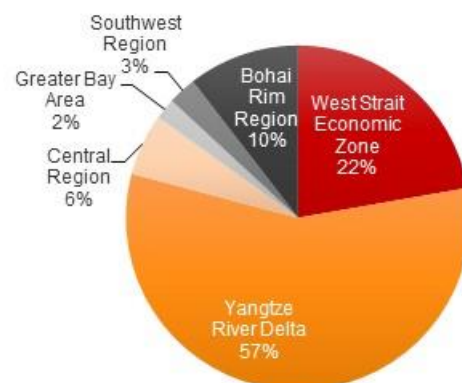
Source: Companies data

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

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	24,306	23,241	33,741	40,659	47,837
Sale of properties	23,626	22,470	32,804	39,544	46,540
Rental income	245	305	381	477	596
Property mgmt fee income	417	448	537	618	680
Hotel operation income	18	18	19	20	22
Cost of sales	(16,839)	(17,149)	(24,781)	(29,941)	(35,322)
Gross profit	7,467	6,092	8,960	10,717	12,516
Other income	439	512	580	620	730
Selling & distribution expenses	(459)	(660)	(675)	(813)	(957)
Administrative expenses	(606)	(1,091)	(844)	(894)	(1,052)
Other expenses	(54)	(311)	(337)	(407)	(478)
EBIT	6,786	4,543	7,684	9,223	10,75
Share from associates and	(52)	166	320	485	535
Finance costs	(223)	(182)	(256)	(320)	(480)
Exceptional	224	2,078	-	-	-
PROFIT BEFORE TAX	6,735	6,605	7,748	9,388	10,81
Income tax	(3,009)	(2,638)	(2,789)	(3,380)	(3,893)
PROFIT FOR THE YEAR	3,726	3,967	4,959	6,008	6,920
Non-controlling interests	(221)	(361)	(446)	(601)	(761)
Perpetual interest	(107)	(111)	(111)	(111)	(111)
Net profit to shareholders	3,398	3,495	4,402	5,297	6,048
Core profit	3,419	3,987	4,402	5,297	6,048

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Current assets	90,471	119,797	128,123	142,930	167,640
Inventory	45,346	49,088	52,896	62,694	78,814
Trade and other receivables	14,683	33,745	28,000	30,000	32,000
Cash and equivalent	27,162	28,456	38,718	41,728	48,317
Others	3,279	8,509	8,509	8,509	8,509
Non-current assets	24,592	26,638	29,234	32,055	34,902
PP&E	934	2,803	2,843	2,879	2,911
Investment properties	10,526	12,864	13,100	13,400	13,680
Associated	10,013	9,339	11,659	14,144	16,679
Others	3,120	1,632	1,632	1,632	1,632
Total assets	115,063	141,435	157,357	174,985	202,542
Current liabilities	64,520	74,851	76,450	83,119	98,030
Contracted liabilities	13,752	8,658	5,854	8,310	17,770
Trade payable	6,857	9,783	11,895	13,474	15,895
ST loan	16,430	15,272	17,562	20,197	23,226
Others	27,481	41,138	41,138	41,138	41,138
Non-current liabilities	29,113	42,856	48,916	55,884	63,898
LT loan	27,202	40,397	46,456	53,425	61,439
Others	1,910	2,459	2,459	2,459	2,459
Total liabilities	93,633	117,708	125,366	139,003	161,928
Shareholders' fund	17,575	20,991	23,808	27,198	31,069
Minority interests	1,944	5,824	6,271	6,872	7,633
Perpetual securities	1,912	1,912	1,912	1,912	1,912
TOTAL EQUITY	21,430	28,728	31,991	35,982	40,614

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19E	FY20A	FY21E	FY22E
Profit before tax	6,735	6,605	7,748	9,388	10,813
D&A, impairment	77	83	80	84	88
Change in working capital	3,130	(13,712)	1,244	(7,763)	(4,239)
Others	(6,785)	1,165	(2,995)	(3,825)	(6,388)
Net cash from operating	3,157	(5,859)	6,077	(2,116)	274
Capex	(105)	(369)	(620)	(620)	(620)
Associated companies	(1,483)	(18,575)	(2,000)	(2,000)	(2,000)
Others	-	-	-	-	-
Net cash from investing	(1,588)	(18,944)	(2,620)	(2,620)	(2,620)
Equity raised	36	3,349	-	-	-
Change of debts	10,637	20,979	8,350	9,603	11,043
Others	(794)	973	(1,695)	(2,018)	(2,288)
Net cash from financing	9,879	25,300	6,655	7,585	8,755
Net change in cash	11,449	497	10,112	2,850	6,410
Cash at the beginning	15,596	27,162	28,456	38,718	41,728
Exchange difference	117	796	150	160	180
Cash at the end of the year	27,162	28,456	38,718	41,728	48,317

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Sale of properties	97.2	96.7	97.2	97.3	97.3
Rental income	1.0	1.3	1.1	1.2	1.2
Property management fee	1.7	1.9	1.6	1.5	1.4
Hotel operation income	0.1	0.1	0.1	0.0	0.0
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	30.7	26.2	26.6	26.4	26.2
EBIT margin	27.9	19.5	22.8	22.7	22.5
Net margin	14.0	15.0	13.0	13.0	12.6
Effective tax rate	44.7	39.9	36.0	36.0	36.0
Growth (%)					
Revenue	12.0	-4.4	45.2	20.5	17.7
Gross profit	-2.8	-18.4	47.1	19.6	16.8
EBIT	3.9	-33.1	69.2	20.0	16.6
Net profit	23.0	2.8	25.9	20.3	14.2
Balance sheet ratios					
Current ratio (x)	1.4	1.6	1.7	1.8	1.8
Receivable turnover days	220	530	303	269	244
Payables turnover days	149	208	175	164	164
Inventory turnover days	681	771	572	563	601
Net debt / total equity ratio (%)	67.0	70.2	57.0	69.0	72.1
Returns (%)					
ROE	19.3	16.7	18.5	19.5	19.5
ROA	3.2	2.8	3.2	3.4	3.4
Per share					
EPS (RMB)	0.78	0.71	0.84	1.01	1.16
DPS (RMB)	0.26	0.35	0.30	0.37	0.42
BVPS (RMB)	3.43	3.88	4.42	5.07	5.81

Source: Company data, CMBIS estimates

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