

KWG (1813 HK)

Aiming at 30% p.a. contracted sales growth

We had a meeting with Chairman Kong Jian Min and other management recently. The Company will focus on project development in Greater Bay Area (GBA) and Yangtze River Delta (YRD) due to ample opportunities there. In the future, KWG is looking for a 30% p.a. sustainable growth. We maintain our TP as HK\$11.4, which is based on 40% discount to our estimated end-20 NAV of HK\$19.0. Reiterate BUY.

- Contracted sales grew by 29% in 11M19.** Contracted sales area and amount surged by 28.6% to 4.47mn sq m and 29.0% to RMB76.9bn in 11M19, respectively, representing 91% of full year sales target of RMB85bn. Chairman Kong expects China property market will resume normal level in 1Q20. Backed by its portfolio in GBA and YRD as well as two luxury projects in HK, KWG is confident to achieve an average 30% annual growth in contracted sales next few years. In other words, the Company will join the league of RMB100bn contracted sales next year.
- Acquired 2.3mn sq m attributable land bank in 10M19.** In 10M19, KWG acquired 2.3mn sq m attributable land bank with considerations of RMB18bn. 16 out of 25 land bank acquisitions were carried out by M&A. The Company had newly entered Xi'an and Kunming. Furthermore, the Company is actively participating in urban redevelopment plan. It has already signed 12 urban redevelopment contracts with total GFA of 11.0mn sq m. Its major urban redevelopment projects are located in Guangzhou Huangpu district and Foshan city. For the Huangpu project, it might be launched for sales next year. KWG estimated about 0.3-0.6mn sq m of land bank can be converted from urban redevelopment plan every year.
- Sustainable recurrent income growth.** Chairman also revealed that about 40% growth in recurrent income is expected in 2019. Currently, eight offices, eight shopping malls and 13 hotels are operating in the tier 1 and 2 cities. Another nine new shopping malls and six new offices will open in the future. KWG will also study asset-light business model for hotel management.
- Property management spinoff on track.** Revenue from property management business increased by 43.6% to RMB363mn in 1H19. GFA under management were about 10mn sq m, of which 30-35% were commercial properties. The Company strikes to explore third party projects with one M&A deal completed and two under discussion. KWG plans to spin off its property management business in HKEx next year.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	11,543	7,477	23,049	25,805	30,859
YoY growth (%)	30	-35	208	12	20
Net income (RMB mn)	3,620	4,035	8,322	5,780	6,042
EPS (RMB)	1.17	1.28	2.64	1.83	1.92
YoY growth (%)	1.9	9.2	106.7	-30.5	4.5
P/E (x)	7.0	6.4	3.1	4.5	4.3
P/B (x)	0.9	0.9	0.7	0.7	0.6
Yield (%)	5.0	6.8	8.5	9.4	9.8
ROE (%)	13.1	13.6	23.0	14.5	13.9
Net gearing (%)	67.9	64.8	73.0	78.9	77.0

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	HK\$11.40
(Previous TP)	HK\$11.40)
Up/downside	+24.7%
Current Price	HK\$9.14

China Property Sector

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Stock Data

Mkt Cap (HK\$ mn)	29,018
Avg 3 mths t/o (HK\$ mn)	58.1
52w High/Low (HK\$)	9.23/5.60
Total Issued Shares (mn)	3,175

Source: Bloomberg

Shareholding Structure

Kong Jian Min	62.74%
Free float	37.26%

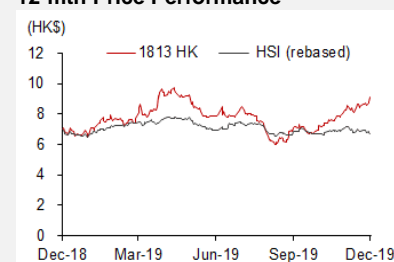
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	9.3%	12.3%
3-mth	27.9%	23.7%
6-mth	12.0%	14.1%
12-mth	23.9%	27.7%

Source: Bloomberg

12-mth Price Performance



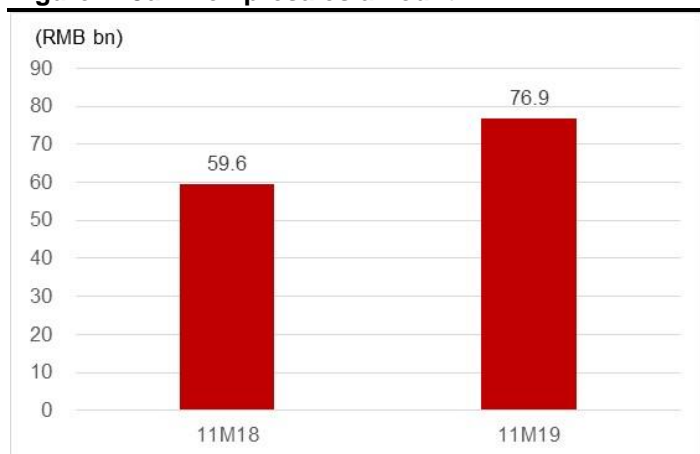
Source: Bloomberg

Auditor: Ernest & Young

Related Reports

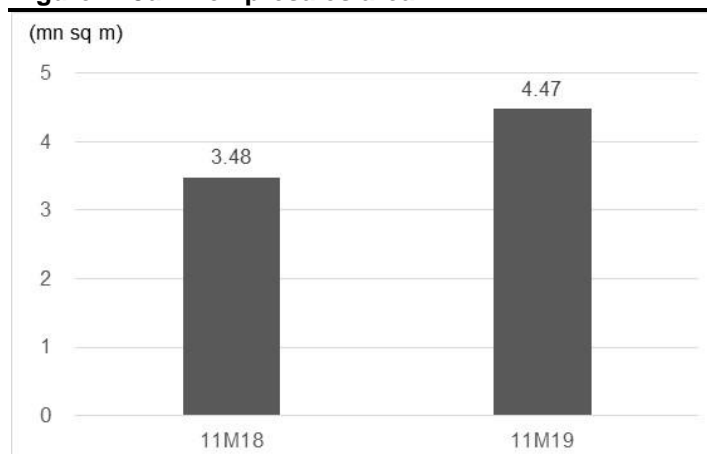
- "Attractive valuation" – 29 Aug 2019
- "30% growth in 2019 sales target" – 28 Mar 2019

Figure 1: Jan-Nov presales amount



Source: Company data

Figure 2: Jan-Nov presales area



Source: Company data

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	11,543	7,477	23,049	25,805	30,859
Property sales	10,432	6,064	21,151	23,665	28,398
Rental	231	379	675	775	915
Hotel	424	468	543	565	621
Property management	455	566	680	800	925
Cost of sales	(7,523)	(5,026)	(14,679)	(16,569)	(20,341)
Gross profit	4,020	2,451	8,370	9,235	10,518
Other income and gains	633	2,703	1,756	1,533	1,751
Distribution expenses	(433)	(532)	(645)	(723)	(833)
Administrative expenses	(937)	(1,314)	(1,844)	(1,445)	(1,543)
Other expenses	(502)	(2)	(115)	(129)	(154)
Operating profit	2,782	3,307	7,521	8,471	9,738
Finance expenses	(330)	(1,070)	(2,058)	(2,308)	(2,446)
Associates/JV	1,898	1,440	3,049	2,557	2,250
Exceptional	1,205	1,715	3,055	0	0
Pre-tax profit	5,555	5,391	11,567	8,720	9,543
Profits tax	(1,950)	(1,236)	(2,995)	(2,610)	(3,110)
Minority interest	15	(119)	(250)	(330)	(391)
Perpetual	0	0	0	0	0
Net profit	3,620	4,035	8,322	5,780	6,042
Core profit	3,523	3,812	4,872	5,780	6,042

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
EBIT	2,782	3,307	7,521	8,471	9,738
D&A	147	158	234	322	349
Change in working capital	(15,567)	(7,742)	(4,591)	(7,100)	(3,700)
Income tax paid	(710)	(1,103)	(1,094)	(1,530)	(2,410)
Others	3,879	3,109	5,063	2,825	6,340
Net cash from operating	(9,469)	(2,272)	7,133	2,988	10,317
Capex	(870)	1,051	(8,966)	(2,936)	(4,942)
Associates/JV	(1,174)	(4,993)	(1,832)	(3,000)	(5,000)
Other	0	0	0	0	0
Net cash from investing	(2,043)	(3,943)	(10,799)	(5,936)	(9,942)
Equity raised	0	0	0	0	0
Change of Debts	26,139	19,166	10,418	6,800	4,100
Dividend paid	(1,093)	(1,156)	(1,988)	(2,209)	(2,429)
Other	(74)	1,546	0	0	0
Net cash from financing	24,972	19,556	8,430	4,591	1,671
Net change in cash	13,459	13,341	4,765	1,644	2,046
Cash at the beginning	25,771	39,199	52,578	57,359	59,020
Exchange difference	(31)	38	17	17	17
Cash at the end	39,199	52,578	57,359	59,020	61,083
Pledged deposit	1,268	4,099	3,070	3,070	3,070
Cash at BS	40,467	56,677	60,429	62,090	64,153

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	53,207	63,761	74,380	80,180	89,900
Fixed asset	4,174	5,351	6,080	6,200	6,800
Investment properties	13,719	17,491	25,500	28,000	32,000
Associates/JV	32,832	38,168	40,000	43,000	48,000
Intangible assets	0	0	0	0	0
Other non-current assets	2,483	2,752	2,800	2,980	3,100
Current assets	81,738	120,776	130,849	140,610	147,073
Cash	40,467	56,677	60,429	62,090	64,153
Account receivable	3,499	7,364	9,200	9,800	10,200
Inventories	37,449	56,222	60,500	68,000	72,000
Other current assets	323	513	720	720	720
Current liabilities	49,407	89,909	89,800	96,400	105,700
Borrowings	3,741	17,364	13,200	15,000	16,100
Trade and other payables	2,644	4,077	5,600	6,600	7,300
Contract liabilities	8,455	21,729	25,000	28,000	35,000
Deferred taxation	6,638	6,852	8,000	8,800	9,300
Other current liabilities	27,929	39,887	38,000	38,000	38,000
Non-current liabilities	57,292	62,068	77,402	82,682	85,882
Borrowings	55,905	60,418	75,000	80,000	83,000
Other non-current liabilities	1,387	1,649	2,402	2,682	2,882
Shareholders' equity	27,607	29,567	36,207	39,778	43,391
Minority interest	638	2,993	1,820	1,930	2,000
Perpetual bond	0	0	0	0	0
Total equity	28,246	32,561	38,027	41,708	45,391

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Property sales	90.4	81.1	91.8	91.7	92.0
Rental	2.0	5.1	2.9	3.0	3.0
Hotel	3.7	6.3	2.4	2.2	2.0
Property management	3.9	7.6	3.0	3.1	3.0
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	34.8	32.8	36.3	35.8	34.1
Pre-tax margin	24.1	44.2	32.6	32.8	31.6
Net margin	31.4	54.0	36.1	22.4	19.6
Effective tax rate	35.1	22.9	25.9	29.9	32.6
Balance sheet ratios					
Current ratio (x)	1.7	1.3	1.5	1.5	1.4
Receivable day	110.6	359.5	145.7	138.6	120.6
Payable day	83.6	199.0	88.7	93.4	86.3
Inventory day	1816.9	4082.8	1504.4	1498.0	1292.0
Net gearing ratio (%)	67.9	64.8	73.0	78.9	77.0
Returns (%)					
ROE	13.1	13.6	23.0	14.5	13.9
ROA	2.7	2.2	4.1	2.6	2.5
Per share data					
EPS (RMB)	1.17	1.28	2.64	1.83	1.92
DPS (RMB)	0.41	0.56	0.70	0.77	0.80
BVPS (RMB)	8.75	9.32	11.41	12.53	13.67

Source: Company data, CMBIS estimates

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