

Redsun Properties (1996 HK)

Dual cores on track to support steady growth

Redsun delivered a steady 1H21 results with core earnings up 6% YoY and balance sheet remaining in the green category. For the DP business, it recorded a strong YTD sales at RMB56bn in 7M21 (+40% YoY) and was on track to meet RMB100bn target. For commercial side, it has recorded 37% rental income YoY growth in 1H21. Given the opening schedule (1 mall in 2H21 and 2 self-owned malls in 2022), we think it can continue to deliver 30% rental income YoY growth in 2021/22E. As for GPM, it may take another year to bottom at 20%. It is currently trading at 0.4x 2021E PB and 3.5x 2021E PE and below its 1SD-Below-Average of 3.9x PE. Maintain Buy.

- **Contracted sales – on track to achieve RMB100bn scale in 2021.** In 1H21, the Company reached RMB49bn in contracted sales (+55.7% YoY), accounting for 49% of its annual target and on track to complete RMB100bn by year-end. The contracted sales area was 2.9mn sqm(+35% YoY), with an average selling price of RMB17k/sqm (+16% YoY). In 1H21, sell-through rate was roughly 65% and full year guidance remains above 60%. With enough sellable resources at RMB110bn, we are confident it can achieve the target.
- **1H21 results highlights:** the company delivered a stable 1H21 earnings with core profits (excl. fair value gain) growing by 6% YoY to RMB674mn. It was mainly driven by 35% growth in total revenue at RMB13.0bn. However, GP margin further declined to 21% in 1H21 vs. 25% in 1H20 and 22% in 2020. SG&A has declined by 5% YoY in 1H21 due to great costs control and thus this has narrowed the net margin decline to only 1.3ppt at 5.2%.
- **Shopping mall opening on track to support 30% YoY rental growth in 2021/22E:** In 1H21, revenue from commercial operations amounted to RMB291.8mn, which rose 37.1% YoY. This increase is mainly attributable to rental increase from Nanjing and Hefei's Hong Yang Plaza and the opening of 1 mall in 1H21 and 2 malls in 2H20. Redsun will open one mall (asset-light model) in 2H21 and 2 self-owned malls in 2022 (Anqing and Changzhou with total GFA of 200k sqm). This could support 30% YoY rental growth in 21/22E.
- **Stable balance sheet within green category.** The Company has again stayed in the green category with liability to Asset (excluding presales) at 69.4% (69.4% in FY20), net gearing at 53.9% (50.3% in FY20) and cash to short-term debt at 1.7x (1.6x in FY20). The was due to slightly aggressive land acquisitions at RMB27bn (attributable ratio of 41% and at 55% of sales) in 1H21. Management aims for a higher attributable ratio at 50% by year-end.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	9,239	15,170	20,159	25,853	30,059
YoY growth (%)	50.5	64.2	32.9	28.2	16.3
Net income (RMB mn)	1,412	1,468	1,599	2,092	2,427
EPS (RMB)	0.66	0.44	0.50	0.63	0.73
YoY growth (%)	N.A.	-33.3	13.6	26.0	16.0
Consensus EPS (RMB)	N.A.	N.A.	N.A.	0.57	0.64
P/E (x)	3.3	5.0	4.4	3.5	3.0
P/B (x)	0.6	0.5	0.5	0.4	0.4
Yield (%)	3.3	4.0	5.1	7.0	7.8
ROE (%)	11.1	10.6	10.6	12.5	13.1
Net gearing (%)	68.3	70.4	63.8	63.9	63.9

Source: Company data, Bloomberg, CMBIS estimate

BUY (Maintain)

Target Price	HK\$3.52
(Previous TP)	HK\$3.52)
Up/downside	+32.8%
Current Price	HK\$2.65

China Property Sector

Jeffrey Zeng

(852) 3916 3727

jeffreyzeng@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	8,830
Avg 3 mths t/o (HK\$ mn)	11.49
52w High/Low (HK\$)	3.04/2.24
Total Issued Shares (mn)	3,332

Source: Bloomberg

Shareholding Structure

Zeng Huansha	72.3%
Free float	27.7%

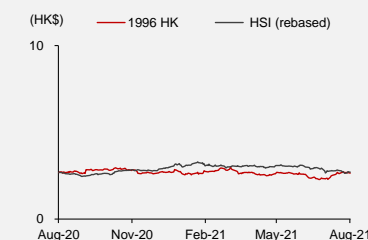
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	14.2%	17.7%
3-mth	0.4%	15.2%
6-mth	-3.3%	10.3%
12-mth	-1.5%	-1.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Figure 1: 1H21 results summary

RMB mn	1H20	1H21	YoY	1H/2020	1H/2021E
Revenue	9,624	12,964	35%	48%	50%
Gross profit	2,434	2,730	12%		
SG&A	863	820	-5%		
Net profit	677	739	9%	42%	35%
Core profit (excl. FV gain)	634	674	6%		
EPS (RMB)	0.20	0.22	10%	40%	35%
GP Margin	25.3%	21.1%	-4.2 ppt		
Net Margin	7.0%	5.7%	-1.3 ppt		
Core net Margin	6.6%	5.2%	-1.4 ppt		
	FY20	1H21	HoH		
Net Gearing	50.3%	53.9%	3.6 ppt		
Liability to Asset (excl. presales)	69.4%	69.4%	0 ppt		
Cash / ST Debt	1.6 x	1.7 x	8 ppt		

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	9,239	15,170	20,111	25,853	30,059
Property development	8,843	14,718	19,575	25,254	29,400
Property investment	359	411	498	557	613
Hotel	37	40	38	42	45
Cost of sales	(6,352)	(11,356)	(14,905)	(19,190)	(22,324)
Gross profit	2,887	3,813	5,206	6,663	7,735
Other income and gains	236	331	316	344	347
Distribution expenses	(342)	(652)	(804)	(982)	(1,112)
Administrative expenses	(686)	(1,090)	(1,368)	(1,655)	(1,864)
Other expenses	(48)	(37)	(40)	(52)	(60)
Operating profit	2,047	2,366	3,310	4,319	5,046
Finance expenses	(499)	(634)	(749)	(740)	(715)
Associates/JV	367	693	580	620	650
Exceptional	261	310	57	-	-
Pre-tax profit	2,175	2,735	3,198	4,199	4,981
Profits tax	(852)	(1,100)	(1,359)	(1,798)	(2,129)
After-tax profit	1,323	1,636	1,839	2,402	2,852
Minority interest	89	(168)	(240)	(310)	(425)
Perpetual	-	-	-	-	-
Net profit	1,412	1,468	1,599	2,092	2,427
Core profit	1,214	1,247	1,579	2,092	2,427

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
EBIT	2,047	2,366	3,310	4,319	5,046
Depreciation and amortization	80	128	128	136	144
Change in working capital	(6,322)	1,757	(7,973)	(5,040)	(7,840)
Income tax paid	(454)	(1,019)	(1,157)	(1,698)	(2,049)
Others	2,021	(2,243)	7,145	2,938	5,629
Net cash from operating	(2,628)	990	1,453	655	930
Capex	(1,469)	(1,544)	(1,024)	(993)	(1,081)
Associates/JV	(3,434)	(5,060)	(779)	(400)	(600)
Other	923	120	(110)	(136)	(136)
Net cash from investing	(3,980)	(6,484)	(1,912)	(1,529)	(1,817)
Equity raised	3,113	-	-	-	-
Change of Debts	9,523	7,884	3,354	2,700	1,800
Dividend paid	-	(304)	(331)	(417)	(572)
Other	(2,273)	304	-	-	-
Net cash from financing	10,363	7,885	3,023	2,283	1,228
Net change in cash	3,755	2,390	2,564	1,409	341
Cash at the beginning	2,478	6,233	8,692	11,265	12,684
Exchange difference	-	68	10	10	10
Cash at the end	6,233	8,692	11,265	12,684	13,035
Pledged deposit	6,223	8,153	8,153	8,153	8,153
Cash at BS	12,456	16,844	19,418	20,837	21,188

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Non-current assets	13,609	21,099	22,729	23,997	25,565
Fixed asset	989	808	780	840	880
Investment properties	9,397	11,572	12,500	13,300	14,200
Associates/JV	2,739	7,821	8,600	9,000	9,600
Intangible assets	12	12	9	7	5
Other non-current assets	472	885	840	850	880
Current assets	54,313	74,298	85,338	94,097	104,588
Cash	12,456	16,844	19,418	20,837	21,188
Account receivable	2,600	7,712	8,120	8,860	9,300
Inventories	30,869	39,621	47,800	53,800	63,100
Other current assets	8,388	10,120	10,000	10,600	11,000
Current liabilities	40,649	56,876	62,800	68,700	76,900
Borrowings	10,827	12,411	12,900	13,800	14,400
Trade and other payables	6,638	4,846	12,500	14,200	16,100
Contract liabilities	16,639	32,016	27,000	31,000	36,000
Deferred taxation	1,604	2,169	2,400	2,400	2,400
Other current liabilities	4,941	5,434	8,000	7,300	8,000
Non-current liabilities	13,423	20,475	24,150	26,300	27,900
Borrowings	11,093	17,135	20,000	21,800	23,000
Other non-current liabilities	2,330	3,340	4,150	4,500	4,900
Shareholders' equity	12,695	13,888	15,117	16,744	18,533
Minority interest	1,155	4,159	6,000	6,350	6,820
Perpetual bond	0	0	0	0	0
Total equity	13,850	18,046	21,117	23,094	25,353

Key ratios

YE 31 Dec	FY18A	FY19A	FY20A	FY21E	FY22E
Sales mix (%)					
Property development	95.7	97.0	97.3	97.7	97.8
Property investment	3.9	2.7	2.5	2.2	2.0
Hotel	0.4	0.3	0.2	0.2	0.2
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	31.2	25.1	25.9	25.8	25.7
Pre-tax margin	22.2	15.6	16.5	16.7	16.8
Net margin	15.3	9.7	8.0	8.1	8.1
Effective tax rate	39.2	40.2	42.5	42.8	42.7
Balance sheet ratios					
Current ratio (x)	1.3	1.3	1.4	1.4	1.4
Receivable day	102.7	185.6	147.4	125.1	112.9
Payable day	262.3	116.6	226.9	200.5	195.5
Inventory day	1773.9	1273.5	1170.5	1023.3	1031.7
Net gearing ratio (%)	68.3	70.4	63.8	63.9	63.9
Returns (%)					
ROE	11.1	10.6	10.6	12.5	13.1
ROA	2.1	1.5	1.5	1.8	1.9
Per share data					
EPS (RMB)	0.66	0.44	0.50	0.63	0.73
DPS (RMB)	0.09	0.11	0.14	0.19	0.22
BVPS (RMB)	3.82	4.18	4.55	5.04	5.58

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 or its affiliate(s) have investment banking relationship with the issuers covered in this report in preceding 12 months.

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

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

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.