

## R&F properties

### High growth but higher gearing

#### Solid 2017 result, core net profit grew by 107% YoY

R&F achieved RMB 81.9 bn contracted sales in 2017, up by 35% YoY. The company set a 60% contracted sales growth target in 2018 and RMB 300 bn in 2020 which implies 54% CAGR in 2017-2020. Overall 2017 results are solid: revenue slightly improved by 10.3% YoY to RMB 59.3bn. Thanks to GPM growing by 7.1 pts to 35%, gross profit surged by 38% YoY. SG&A surged by 34%, which was close to 2017 sales growth of 35%. Profit for the year increased by 204% YoY, as one-off RMB 13.1 bn gain on bargaining purchase from acquisition of Wanda asset. Attr. core net profit surged by 100% to RMB 11 bn, representing core NPM of 18%. Booking ASP increased in 2017 pushed GPM improving and net profit enhancement. However, we have more concerns on R&F's balance sheet: 1) net gearing went even higher to 170% while contacted sales increased by 35%; cash and cash equivalent declined by 30% to only RMB 32 bn at YE17; 2) net debt surged by 47% to RMB 110 bn at YE17; 3) advanced proceeds received from customers amounted to only RMB 29 bn.

#### RMB 300 bn of sales target in 2020 implying 54% CAGR in 2017-2020

Following peers, R&F sets a 60% growth of contracted sales in 2018 and targets to RMB 130 bn/ 200 bn/ 300bn in 2018/2019/2020. The company will launch RMB 240 bn of saleable resource, 45%/55% in 1H/2H 2018, respectively. Among RMB 240 saleable resource, RMB 170 bn are new launches or new phases of existing projects. The company will launch 103 projects amounting within RMB 1 bn in terms of projects size to boost its sell-through rate. We noticed that the company would target to achieve RMB 3.5 bn/ 3.3 bn/ 3.1 bn in Jiangxi/Liaoning and Anhui, where only RMB 396 mn/ 772 mn & nil sales achieved in last year, respectively. We believe shanty housing redevelopment had helped destocking in these provinces in 2017. However, R&F's execution should be the key to achieve targets in these provinces.

#### Plan to reduce Capex for land acquisition in 2018

The company has sufficient saleable resource to support its sales target and will be cautious about the land market in 2018. We believe the company will reduce its Capex for land acquisitions in 2018, at least less than the RMB 584 bn in 2017. However, balance sheet expansion is unavoidable to achieve its aggressive 2020 target. In uptrend of funding costing and in a deleverage environment, it would be risky with abundant debts and high gearing.

#### We expect GPM to be above 30% in 2018

We believe the company will deliver over 30% GPM in next 3 years, as home price surged in last 2 years and relatively low cost of existing projects. The company plans to deliver 6.5 mn sq.m in 2018. We estimate booking ASP in 2018 will be around 12,500 per sq.m, which is close to 2016 contracted sales ASP. We expect GPM will be 34.5%/33.6%/33.1% in 2018/2019/2020, respectively.

#### Revise up price target to HK\$23.89, 14% upside, 'Hold'

We are cautious on property sector in this deaveraging environment. Rapid expansion strategy in the short term could be high uncertain. Moreover, high net gearing ratio is still a concern in the deleveraging environment. We maintain 'hold' rating and revise up target price to HK\$23.89 (due to inclusion of new projects in our NAV). Our price target implies 40% discount to Dec-18 NAV, 5.2x 2018e core PE and 4.1x 2019e core PE. The stock is trading at 47% discount to Dec-18 NAV, 4.6x 2018e core PE and 0.8x 2018e PB.

**Stock code: 2777.HK**
**Rating: Hold**

Price target (HK\$)	23.89
Previous target(HK\$):	21.07
Current price (HK\$, 20 Mar 2018)	20.90
Upside/downside %	14%
Market cap (HK\$ m)	67,347
Market cap (US\$ m)	8,586
Avg daily turnover (HK\$ m)	181.3

Source: Bloomberg, AMTD Equity Research

#### Key forecasts

(RMB m)	2017	2018e	2019e	2020e
Revenue	59,278	80,829	97,409	118,174
yoy %	10%	36%	21%	21%
Attr NP	21,186	13,197	17,030	19,473
yoy %	214%	-38%	29%	14%
Core Attr NP	10,770	13,197	17,030	19,473
yoy %	100%	22%	29%	14%
Gross margin	35.4%	34.5%	33.6%	33.1%
Net gearing	169.6%	132.6%	121.6%	109.5%
EPS	3.34	4.10	5.28	6.04
DPS	1.10	0.69	0.88	1.01
BPS	19.10	23.19	28.48	34.52

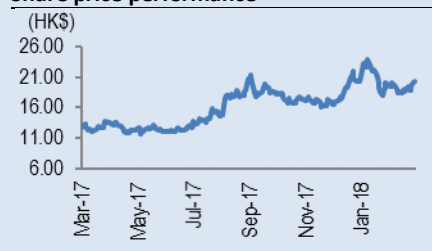
Source: Company data, AMTD Equity Research

#### Valuation

	2017	2018e	2019e	2020e
P/E	5.6	4.6	3.6	3.1
P/BV	1.0	0.8	0.7	0.5
Div. yield	5.8%	3.6%	4.7%	5.4%
ROE	20.9%	19.7%	20.7%	19.4%
ROA	7.1%	4.0%	4.6%	4.5%

Source: Bloomberg, AMTD Equity Research

#### Share price performance



Source: Bloomberg

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Figure 1: Previous forecast vs actual result

PnL, RMB '000	2016	2017	AMTD 2017E	YoY	Actual vs Est
Revenue	53,730,339	59,277,855	60,654,903	10.3%	-2.3%
Sales of properties	49,489,281	53,709,393	55,770,786	8.5%	-3.7%
Cost of sales	-38,543,599	-38,315,554	-42,284,335	-0.6%	-9.4%
<b>GPM</b>	28%	35%	30%	7.1 pts	5.1 pts
Gross profit	15,186,740	20,962,301	18,370,568	38.0%	14.1%
Other income	516,394	544,376	516,394	5.4%	5.4%
Fair value gains on investment properties	1,740,812	780,672	0	-55.2%	n.a.
Selling expenses	-1,315,362	-1,814,776	-1,729,033	38.0%	5.0%
Administrative expenses	-2,672,863	-3,526,982	-4,000,000	32.0%	-11.8%
Finance costs	-2,367,045	-1,672,979	-2,334,011	-29.3%	-28.3%
Profit before tax	11,868,840	28,475,020	11,688,532	139.9%	143.6%
Income tax expense	-4,812,823	-7,050,765	-4,726,194	46.5%	49.2%
Profit for the year	7,056,017	21,424,255	6,962,338	203.6%	207.7%
Adjusted profit for the year	5,505,830	11,008,081	6,662,229	99.9%	65.2%
<b>Profit for the year attributable to:</b>					
<b>Owners of the Company</b>	6,755,908	21,186,451	6,662,229	213.6%	218.0%
<b>Non-controlling interests</b>	26,166	94,237	26,166	260.2%	260.2%
<b>Core net profit</b>	5,205,721	10,770,277	6,936,172	106.9%	55.3%
Net Debt / Equity	160%	170%	115%	9.7 pts	54.8 pts
Current Ratio	204%	190%	239%	-14.3 pts	-49.4 pts
Interest Coverage	6.2x	11.0x	6.2x	4.7x	4.8x
ROA	2.98%	7.11%	2.84%	4.1 pts	4.3 pts
ROCE	4.03%	10.23%	4.10%	6.2 pts	6.1 pts
ROE	13.03%	17.50%	13.75%	7.9 pts	7.2 pts
GPM	28.26%	35.36%	30.29%	7.1 pts	5.1 pts
NPM	12.57%	35.74%	10.98%	23.2 pts	24.8 pts
Core NPM	10.25%	18.17%	11.44%	8.3 pts	7.1 pts
Total Debt	120,852,084	142,243,833	108,807,524	17.7%	30.7%
Cash	45,969,082	32,214,749	47,394,340	-29.9%	-32.0%
Net Debt	74,883,002	110,029,084	61,413,184	46.9%	79.2%
ST Debt	33,681,918	28,414,422	6,604,231	-15.6%	330.2%
Properties held under development	81,134,542	110,865,723	88,342,278	36.6%	25.5%
Advanced proceeds received from customers	19,546,810	29,058,143	32,976,024	48.7%	-11.9%

Source: Company data, AMTD Equity Research

Figure 2: P&amp;L forecast and key ratios

PnL, RMB mn						YoY growth				
	2016	2017	2018e	2019e	2020e	2016	2017	2018e	2019e	2020e
Revenue	53,730	59,278	80,829	97,409	118,174	21.3%	10.3%	36.4%	20.5%	21.3%
Sales of properties	49,489	53,709	70,123	86,456	112,080	21.5%	8.5%	30.6%	23.3%	29.6%
Cost of sales	(38,544)	(38,316)	(52,977)	(64,642)	(79,087)					
Gross profit	15,187	20,962	27,853	32,767	39,087	6.9%	38.0%	32.9%	17.6%	19.3%
Selling expenses	(1,315)	(1,815)	(2,659)	(2,400)	(3,300)	46.7%	38.0%	46.5%	-9.7%	37.5%
Administrative expenses	(2,673)	(3,527)	(5,168)	(5,600)	(7,700)	10.9%	32.0%	46.5%	8.4%	37.5%
Share of post-tax loss of an associate	844	(33)	(37)	(40)	(44)					
Share of post-tax (losses)/profits of joint ventures	(64)	128	128	128	128					
Finance costs	(2,367)	(1,673)	(2,819)	(2,466)	(2,537)	9.9%	-29.3%	68.5%	-12.5%	2.9%
Profit before tax	11,869	28,475	17,843	22,933	26,178	2.4%	139.9%	-37.3%	28.5%	14.1%
Income tax expense	(4,813)	(7,051)	(4,408)	(5,666)	(6,467)					
Profit for the year	7,056	21,424	13,435	17,268	19,710	5.1%	203.6%	-37.3%	28.5%	14.1%
Profit for the year attributable to:										
<b>Net profit</b>	6,756	21,186	13,197	17,030	19,473	20.3%	213.6%	-37.7%	29.0%	14.3%
<b>Core net profit</b>	5,206	10,770	13,197	17,030	19,473	36.1%	106.9%	22.5%	29.0%	14.3%
Non-controlling interests	274	144	144	144	144					
Dividends	26	94	94	94	94					
Special Dividends	2,083	3,545	2,208	2,849	3,258					
EPS - basic	2.10	6.57	4.10	5.28	6.04					
EPS-underlying	1.62	3.34	4.10	5.28	6.04					
DPS - basic	0.65	1.10	0.69	0.88	1.01					
<b>BVPS</b>	13.61	19.10	23.19	28.48	34.52					
<b>Key Ratios, RMB mn</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>					
GPM	28.3%	35.4%	34.5%	33.6%	33.1%					
NPM	12.6%	35.7%	16.3%	17.5%	16.5%					
Core NPM	10.2%	18.6%	16.6%	17.7%	16.7%					
ROA	3.0%	7.1%	4.0%	4.6%	4.4%					
ROCE	4.0%	10.2%	6.2%	7.6%	8.5%					
ROE	13.0%	20.9%	19.7%	20.7%	19.4%					
Total Debt / EBITDA	8.2x	4.7x	6.5x	5.1x	4.0x					
Total Debt / Equity	258.0%	219.2%	171.7%	134.7%	100.2%					
Total Debt / Capitalization	72.1%	68.7%	63.2%	57.4%	50.1%					
Net Debt / EBITDA	5.1x	3.6x	5.0x	3.7x	3.1x					
Net Debt / Equity	159.9%	169.6%	132.6%	99.5%	76.5%					
Net Debt / Capitalization	44.7%	53.1%	48.8%	42.4%	38.2%					
Current Ratio	203.9%	189.7%	184.3%	165.5%	160.8%					
Cash / Total Assets	20.3%	10.8%	9.4%	9.0%	6.2%					
Inventory / Total Assets	47.8%	48.6%	53.4%	58.7%	66.1%					
Net debt / Net Inventory	69.2%	76.0%	59.5%	43.2%	30.3%					
Quick Ratio	151.4%	161.1%	161.0%	146.3%	148.4%					
Cash Ratio	52.6%	28.6%	23.4%	19.2%	12.4%					
Interest Coverage	6.2x	11.0x	7.5x	9.3x	8.1x					

Source: Company data, AMTD Equity Research

Figure 3: Balance sheet forecast &amp; Cash flow forecast

Balance Sheet, RMB mn	2016	2,017	2018e	2019e	2020e
<b>Non-current assets</b>	<b>48,034</b>	<b>84,429</b>	<b>84,429</b>	<b>84,429</b>	<b>84,429</b>
<b>Current assets</b>	<b>178,378</b>	<b>213,680</b>	<b>241,485</b>	<b>289,830</b>	<b>353,840</b>
Properties held under development	81,135	110,866	140,295	185,674	255,988
Properties held for sale	26,783	33,449	33,449	33,449	33,449
Bank balances and cash	25,306	19,697	18,073	21,039	14,735
Others	45,154	49,668	49,668	49,668	49,668
<b>Current liabilities</b>	<b>87,474</b>	<b>112,666</b>	<b>131,000</b>	<b>175,111</b>	<b>220,068</b>
Short-term borrowings	33,682	28,414	24,241	31,300	18,514
Deposits received on sale of properties	19,547	29,058	51,566	88,618	146,362
Others	34,245	55,193	55,193	55,193	55,193
<b>Non-current liabilities</b>	<b>92,101</b>	<b>120,550</b>	<b>116,729</b>	<b>103,838</b>	<b>103,325</b>
Borrowings	87,170	113,829	110,009	97,118	96,604
Others	4,931	6,720	6,720	6,720	6,720
Equity attributable to owners of the Company	43,778	61,532	74,730	91,759	111,232
Perpetual capital instruments	2,404	2,404	2,404	2,404	2,404
Non-controlling interests	654	957	1,051	1,145	1,240
Cash Flow Statement, RMB mn	2016	2017e	2018e	2019e	2020e
Profit for the year	7,056	21,424	13,435	17,268	19,710
Operating cash flows before movements in working capital	15,129	35,374	24,678	28,914	32,330
— Properties under development and completed properties held for sale	(1,165)	(36,397)	(29,429)	(45,379)	(70,314)
— Deposits received on sale of properties	1,139	9,511	22,508	37,052	57,743
Cash (used in) from operations	5,705	9,815	17,757	20,587	19,759
Interest paid	(5,217)	(6,899)	(6,835)	(5,981)	(6,153)
Enterprise income tax and land appreciation tax paid	(3,826)	(7,051)	(4,408)	(5,666)	(6,467)
Net cash (used in) from operating activities	(3,338)	(4,135)	6,514	8,941	7,139
Net cash used in investing activities	2,526	(18,976)	0	0	0
Financing activities					
Net Proceeds from borrowings, net of transaction costs	33,847	21,392	(7,994)	(5,832)	(13,300)
Net cash from (used in) financing activities	12,080	17,573	(8,138)	(5,975)	(13,444)
Net increase in cash and cash equivalents	11,268	(5,538)	(1,624)	2,966	(6,304)
Effect of foreign exchange rate changes	29	0	0	0	0
Cash and cash equivalents at beginning of the year	13,938	25,235	19,697	18,073	21,039
Cash and cash equivalents at end of the year	25,235	19,697	18,073	21,039	14,735

Source: Company data, AMTD Equity Research

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## IMPORTANT DISCLOSURES

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#### Stock Rating

<b>Buy</b>	Stock with potential return of over 20% over the next 12 months
<b>Hold</b>	Stock with potential return of -20% to +20% over the next 12 months
<b>Sell</b>	Stock with potential loss of over 20% over the next 12 months

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