

## Agile

### Diversifying non-property businesses

#### Projects in Hainan and Zhongshan boosted GPM to 40%

Thanks to the high margin of projects in Hainan and Zhongshan, growth of gross profit improved by 67% YoY to RMB 20.69 bn. GPM surged from 26.5% in 2016 to 40.1% in 2017, Attr. net profit margin surged from 4.9% in 2016 to 11.7% in 2017 while core net profit increased by 166.5% YoY, which implies 11.7% of core net profit margin in 2017 (vs 4.8% in 2016). Booking ASP increasing and lower booking cost in 2017 resulted GPM and net profit enhancement.

#### Strategic expansion to nationwide presence in 2020

The company sets its sales target at RMB 110 bn in 2018, which implies 23% YoY increase. The company will focus on both quality and scale. Comparing with peers, the company's growth target is very conservative. The company has approximately RMB 180 bn - 200 bn saleable resources with a total GFA of 12 mn sq.m, while 37%/21%/18%/24% of saleable resources are in southern China/eastern China/ Hainan & Yunnan/other places, respectively. Land acquisition will focus on core cities and nearby cities, especially tier 2 and 3 cities in Greater Bay area, Yangtze River Economic Belt and other cities such as Xi'an and Zhengzhou. The management expects that 1) GPM will be at similar level with that in 2017; 2) net profit margin will be maintained at around 12% in 2018-2020; 3) Net gearing ratio increased from 49.1% in 2016 to 71.4% in 2017 gearing will remain at similar level in 2018; 4) the company would like to enhance its business in non-property development segment, especially focusing on environment protection and construction, with RMB 10bn investment in 2018.

#### Looking for diversified businesses in future

The company will focus on property development business in future, and enter some non-property business: e.g. environmental waste treatment & construction business. We believe the company is in exploring stage of these businesses. The company has 21 waste treatment plants and 2 water plants with 70 mn tons of processing capacity. The company also has started its construction business and covers 34 cities. We expect these segments will gradually grow in future. The management expects that 50% income will be generated from non-property sector in next 5 years. We estimate that it should take a longer time to achieve.

#### GPM is supported by Hainan projects and ASP surged in Zhongshan

We believe the company will deliver over 35% GPM in 2018, as projects in Hainan and Zhongshan will keep contributing high GPM. In next 3 years, we believe the contribution pattern would not change and GPM will be 38.0%/37.6%/36.7% in 2018/2019/2020, respectively.

#### Revise up price target to HK\$17.80, 4% upside, 'HOLD'

Business diversification will take time to achieve, which has high uncertainty. The company's main profit contribution is still from Zhongshan and Hainan, but stricter home purchase restriction is introduced in Hainan. High concentration of profit contribution from certain areas could imply high concentration risks. Therefore, we maintain its rating 'HOLD' and revise up target price to HK\$17.80. Our price target implies 50% discount to Dec-18 NAV, 8.1x 2018e core PE and 6.4x 2019e core PE. The stock is trading at 52% discount to Dec-18 NAV, 7.8x 2018e core PE and 1.2x 2018e PB.

**Stock code: 3383.HK**
**Rating: HOLD**
**Price target (HK\$) 17.80**

Previous target(HK\$): 9.96

Current price (HK\$, 12 Apr 2018) 17.10

Upside/downside % 4%

Market cap (HK\$ m) 67,060

Market cap (US\$ m) 8,543

Avg daily turnover (HK\$ m) 150.0

Source: Bloomberg, AMTD Equity Research

**Key forecasts**

(RMB m)	2017	2018e	2019e	2020e
Revenue	51,607	62,726	78,213	94,619
yoy %	11%	22%	25%	21%
Attr NP	6,025	6,828	8,705	10,489
yoy %	164%	13%	27%	20%
Core Attr NP	6,022	6,828	8,705	9,734
yoy %	167%	13%	27%	12%
Gross margin	40.1%	38.0%	37.6%	36.7%
Net gearing	71.4%	58.5%	56.5%	53.4%
EPS	1.55	1.76	2.24	2.70
DPS	0.55	0.62	0.79	0.95
BPS	9.36	11.12	13.36	16.06

Source: Company data, AMTD Equity Research

**Valuation**

	2017	2018e	2019e	2020e
P/E	8.8	7.8	6.1	5.1
P/BV	1.5	1.2	1.0	0.9
Div. yield	4.0%	4.5%	5.8%	7.0%
ROE	18.9%	19.1%	19.9%	18.4%
ROA	3.7%	3.0%	3.2%	3.3%

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	46,678,865	51,607,059	50,650,451	10.6%	1.9%
Sales of properties	44,751,782	49,261,750	48,530,660	10.1%	1.5%
Cost of sales	(34,313,168)	(30,919,581)	(32,859,868)	-9.9%	-5.9%
<b>GPM</b>	26%	40%	35%	13.6 pts	5.0 pts
Gross profit	12,365,697	20,687,478	17,790,583	67.3%	16.3%
Other income	(251,926)	606,158	(251,926)	-340.6%	-340.6%
Fair value gains on investment properties	42,960	4,376	-	-89.8%	na
Selling expenses	(2,097,973)	(2,258,938)	(2,580,500)	7.7%	-12.5%
Administrative expenses	(1,458,191)	(2,044,294)	(1,794,000)	40.2%	14.0%
Finance costs	(1,124,531)	(898,674)	(1,184,929)	-20.1%	-24.2%
Profit before tax	7,483,114	15,868,814	11,986,306	112.1%	32.4%
Income tax expense	(4,433,480)	(9,088,536)	(7,048,203)	105.0%	28.9%
Profit for the year	3,049,634	6,780,278	4,938,103	122.3%	37.3%
Adjusted profit for the year	3,017,414	6,776,996	4,938,103	124.6%	37.2%
<b>Profit for the year attributable to:</b>					
<b>Owners of the Company</b>	2,283,640	6,025,244	4,172,109	163.8%	44.4%
<b>Non-controlling interests</b>	415,263	472,663	415,263	13.8%	13.8%
<b>Core net profit</b>	2,251,420	6,021,962	4,172,109	167.5%	44.3%
Net Debt / Equity	49%	71%	52%	22.3 pts	19.2 pts
Current Ratio	174%	135%	180%	-39.1 pts	-44.6 pts
Interest Coverage	2.6x	5.1x	3.7x	2.4x	1.4x
ROA	1.73%	3.69%	2.76%	2.0 pts	0.9 pts
ROCE	2.68%	6.21%	4.51%	3.5 pts	1.7 pts
ROE	8.67%	18.92%	13.21%	10.2 pts	5.7 pts
GPM	26.49%	40.09%	35.12%	13.6 pts	5.0 pts
NPM	4.89%	11.68%	8.24%	6.8 pts	3.4 pts
Core NPM	6.46%	13.13%	9.75%	6.7 pts	3.4 pts
Total Debt	43,995,924	61,675,239	48,153,060	40.2%	28.1%
Cash	22,310,618	30,120,123	22,714,392	35.0%	32.6%
Net Debt	21,685,306	31,555,116	25,438,668	45.5%	24.0%
ST Debt	12,815,016	27,146,235	11,224,267	111.8%	141.9%
Properties held under development	7,309,147	7,573,037	7,309,147	3.6%	3.6%
Advanced proceeds received from customers	699,275	986,760	699,275	41.1%	41.1%

Source: Company data, AMTD Equity Research

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

PnL, RMB mn	2016	2017	2018e	2019e	2020e	2016	2017	2018e	2019e
Revenue	46,679	51,607	62,726	78,213	94,619	8.5%	10.6%	21.5%	24.7%
Sales of developed properties	44,752	49,262	60,167	75,418	91,565				
Cost of sales	(34,313)	(30,920)	(38,904)	(48,776)	(59,905)				
Gross profit	12,366	20,687	23,822	29,438	34,713	14.4%	67.3%	15.2%	23.6%
Selling expenses	(2,098)	(2,259)	(2,117)	(2,498)	(2,873)	17.5%	7.7%	-6.3%	18.0%
Administrative expenses	(1,458)	(2,044)	(2,117)	(2,498)	(2,873)	1.0%	40.2%	3.6%	18.0%
Share of post-tax loss of an associate	(3)	86	86	86	86				
Share of post-tax (losses)/profits of joint ventures	10	83	83	83	83				
Finance costs	(1,125)	(899)	(1,046)	(1,159)	(1,179)	-15.1%	-20.1%	16.4%	10.8%
Profit before tax	7,483	15,869	19,157	23,897	28,403	20.8%	112.1%	20.7%	24.7%
Income tax expense	(4,433)	(9,089)	(11,574)	(14,437)	(17,160)				
Profit for the year	3,050	6,780	7,583	9,460	11,244	32.5%	122.3%	11.8%	24.7%
Profit for the year attributable to:									
<b>Net profit</b>	2,284	6,025	6,828	8,705	10,489	64.3%	163.8%	13.3%	27.5%
<b>Core net profit</b>	2,251	6,022	6,828	8,705	9,734	-0.1%	167.5%	13.4%	27.5%
Holders of perpetual capital instruments	415	473	473	473	473				
Non-controlling interests	351	282	282	282	282				
Dividends	1,569	2,129	2,413	3,076	3,706				
EPS - basic	0.59	1.55	1.76	2.24	2.70				
EPS-underlying	0.58	1.55	1.76	2.24	2.51				
DPS - basic	0.18	0.55	0.62	0.79	0.95				
NAV per share	9.09	9.36	11.12	13.36	16.06				
<b>Key Ratios, RMB mn</b>	<b>2016</b>	<b>2017e</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>				
GPM	26.5%	40.1%	38.0%	37.6%	36.7%				
NPM	4.9%	11.7%	10.9%	11.1%	11.1%				
Core NPM	4.8%	11.7%	10.9%	11.1%	10.3%				
ROA	1.7%	3.7%	3.0%	3.2%	3.3%				
ROCE	2.7%	6.2%	6.1%	7.0%	7.8%				
ROE	8.7%	18.9%	19.1%	19.9%	18.4%				
Total Debt / EBITDA	4.8x	3.7x	3.3x	2.8x	2.3x				
Total Debt / Equity	99.6%	139.6%	130.0%	115.5%	96.7%				
Total Debt / Capitalization	49.9%	58.3%	56.5%	53.6%	49.2%				
Net Debt / EBITDA	2.4x	1.9x	1.5x	1.4x	1.3x				
Net Debt / Equity	49.1%	71.4%	58.5%	56.5%	53.4%				
Net Debt / Capitalization	24.6%	29.8%	25.4%	26.2%	27.1%				
Current Ratio	174.0%	134.9%	146.3%	141.8%	147.8%				
Cash / Total Assets	16.9%	18.4%	16.0%	13.1%	9.7%				
Inventory / Total Assets	45.8%	38.4%	53.1%	60.9%	68.2%				
Net debt / Net Inventory	36.0%	50.4%	24.7%	20.6%	17.4%				
Quick Ratio	133.6%	98.9%	116.2%	119.0%	130.9%				
Cash Ratio	40.4%	36.1%	30.1%	22.8%	17.0%				
Interest Coverage	2.6x	5.1x	5.5x	6.3x	7.3x				

Source: Company data, AMTD Equity Research

**Figure 3: Balance sheet forecast & Cash flow forecast**

<b>Balance Sheet, RMB mn</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
<b>Non-current assets</b>	<b>35,586</b>	<b>50,714</b>	<b>50,714</b>	<b>50,714</b>	<b>50,714</b>
Current assets	96,139	112,644	178,086	220,761	268,383
Properties held under development	36,707	46,990	101,828	145,656	197,983
Properties held for sale	13,976	9,916	13,976	13,976	13,976
Prepayments for acquisition of land use rights	9,614	5,763	5,763	5,763	5,763
Restricted bank deposits	9,879	11,078	11,078	11,078	11,078
Bank balances and cash	12,432	19,042	25,586	24,433	19,728
Others	13,531	19,855	19,855	19,855	19,855
<b>Current liabilities</b>	<b>55,252</b>	<b>83,473</b>	<b>121,705</b>	<b>155,663</b>	<b>181,546</b>
Borrowings	12,815	27,146	12,035	15,236	3,400
Advanced proceeds received from customers	10,617	19,461	72,804	103,561	141,280
Others	31,819	36,866	36,866	36,866	36,866
<b>Non-current liabilities</b>	<b>32,318</b>	<b>35,708</b>	<b>55,808</b>	<b>55,538</b>	<b>66,505</b>
Borrowings	31,181	34,529	54,629	54,359	65,326
Deferred tax liabilities	1,137	1,175	1,175	1,175	1,175
<b>Capital and reserves</b>	<b>44,155</b>	<b>44,176</b>	<b>51,287</b>	<b>60,274</b>	<b>71,045</b>
Equity attributable to owners of the Company	35,310	36,335	43,164	51,868	62,357
Perpetual capital instruments	5,598	5,529	5,529	5,529	5,529
Non-controlling interests	3,248	2,312	2,594	2,876	3,159
<b>Cash Flow Statement, RMB mn</b>	<b>2016</b>	<b>2017e</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Profit for the year	3,050	6,780	7,583	9,460	11,244
Operating cash flows before movements in working capital	9,291	6,780	7,583	9,460	11,244
Property under development and completed properties held for sale	9,033	(6,223)	(58,898)	(43,828)	(52,327)
Advance proceeds received from customers	3,507	8,844	53,343	30,757	37,719
Cash (used in) from operations	15,012	9,281	2,029	(3,612)	(3,364)
Interest paid	(2,746)	-	-	-	-
PRC Income tax paid	(5,380)	-	-	-	-
<b>Net cash (used in) from operating activities</b>	<b>6,887</b>	<b>9,281</b>	<b>2,029</b>	<b>(3,612)</b>	<b>(3,364)</b>
<b>Net cash used in investing activities</b>	<b>(3,719)</b>	<b>(6,355)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Financing activities					
Proceeds from borrowings	25,278	23,297	16,213	14,966	14,367
Repayments of borrowings	(27,956)	(19,140)	(11,224)	(12,035)	(15,236)
<b>Net cash from (used in) financing activities</b>	<b>1,873</b>	<b>3,684</b>	<b>4,516</b>	<b>2,458</b>	<b>(1,341)</b>
<b>Net increase in cash and cash equivalents</b>	<b>5,041</b>	<b>6,610</b>	<b>6,545</b>	<b>(1,153)</b>	<b>(4,705)</b>
Effect of foreign exchange rate changes	(17)	-	-	-	-
Cash and cash equivalents at beginning of the year	7,407	12,432	19,042	25,586	24,433
<b>Cash and cash equivalents at end of the year</b>	<b>12,432</b>	<b>19,042</b>	<b>25,586</b>	<b>24,433</b>	<b>19,728</b>

Source: Company data, AMTD Equity Research

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<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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