

Greentown

Uncertainty of profit pattern

Maintain 'HOLD', gross profit margin slightly dropped, low visibility on profit from non-investment projects. 2017 result in line; core net profit increased by 13.5% YoY

Revenue increased by 44.8% from RMB 29.0 bn in 2016 to RMB 42.0 bn in 2017. GPM from property sales significantly improved by 13.1 ppts to 31.8%, mainly due to the delivery of Shanghai Bund House project, contributing 18.8% of total property sales with average selling price more than RMB 100,000 per sq.m. SG&A to total contracted sales maintained at a stable level with 3.1%, compared to 3.7% in 2016. Core net profit (excluding fair value gain and finance income) increased by 36.8% YoY. The company maintained a healthy balance sheet with 43.0% net gearing ratio, down from 58.1% in 2016. Its average funding cost also dropped by 50bps to 5.4% in 2017 from 5.9% in 2016.

Rising proportion of non-investment projects

The company's contracted sales amount from non-investment projects which are essentially white labelling projects achieved RMB 43.0 bn in 2017, representing 29% of total contracted sales, while in 2016 the proportion of this part was only 16%. The company currently has more than RMB 77.8 bn 2018 saleable resources allocating in non-investment projects, taking up more than 33% of its total 2018 saleable resources. We expect that for its RMB 170-180 bn sales target in 2018, proportion from non-investment projects will further increase to more than 30%. We believe the net profit margin will be around 5% for non-investment projects, which is lower than 10% of investment projects.

Strong support from major shareholder; stable strategy in core areas

As a major shareholder of Greentown, China Communications Construction Group ("CCCC") is bringing various benefit to the company such as land acquisition. We expect that with the strong support from CCCC, the company will be able to acquire high-quality land and have more channels to seek funding with lower cost. The company adheres its investment strategy of "core cities, core areas", with approximately RMB106.6 bn saleable value in first- and second-tier cities in 2018, accounting for 68% of total. Regarding newly added land bank in 2017, 75% are locating in first- and second-tier cities by estimated sales value.

We expect GPM to be at 20% in the next 3 years

We believe the company will deliver at around 20% GPM in next 3 years, as the company still needs time to enhance its sell through rate in 3rd and 4th tier cities and therefore the margins will be squeezed. We expect GPM will be 19%/20%/20% in 2018/2019/2020, respectively.

Revise up price target to HK\$11.62, 0% upside, 'HOLD'

We believe the company will continue to expand its non-investment projects, which will drive NPM lower. Destocking in 3rd tier cities will keep its GPM in low level (20% vs average 30%). Unclear profit pattern among non-investment projects and development projects will lower our expectation of growth of bottom line. In terms of valuation, the company's PE multiple is much higher than average level. Therefore, we maintain 'HOLD' and revise up price target to HK\$11.62, which implies 68% discount to Dec-18 NAV, 10.6x 2018e core PE and 9.4x 2019e core PE. The stock is trading at 68% discount to Dec-18 NAV, 10.6x 2018e core PE and 0.7x 2018e PB.

Stock code: 3900.HK

Rating: **HOLD**

Price target (HK\$) 11.62

Previous target(HK\$):	8.91
Current price (HK\$, 12 Apr 2018)	11.58
Upside/downside %	0%
Market cap (HK\$ m)	25,102
Market cap (US\$ m)	3,198
Avg daily turnover (HK\$ m)	80.0

Source: Bloomberg, AMTD Equity Research

Key forecasts

(RMB m)	2017	2018e	2019e	2020e
Revenue	41,953	43,107	50,665	61,999
yoy %	45%	3%	18%	22%
Attr NP	1,662	1,897	2,148	2,566
yoy %	10%	14%	13%	19%
Core Attr NP	1,472	1,897	2,148	2,566
yoy %	0%	29%	13%	19%
Gross margin	19.2%	19.3%	19.5%	20.2%
Net gearing	43.0%	43.5%	21.9%	17.8%
EPS	0.68	0.88	0.99	1.19
DPS	0.20	0.16	0.18	0.21
BPS	12.23	13.11	14.10	15.29

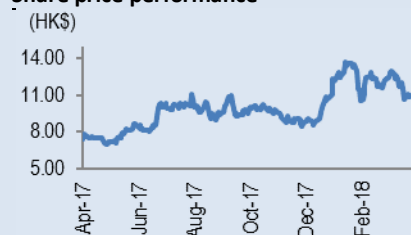
Source: Company data, AMTD Equity Research

Valuation

	2017	2018e	2019e	2020e
P/E	13.6	10.6	9.3	7.8
P/BV	0.8	0.7	0.7	0.6
Div. yield	2.2%	1.7%	1.9%	2.3%
ROE	5.8%	6.9%	7.3%	8.1%
ROA	0.7%	0.7%	0.7%	0.8%

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	28,975,603	41,952,752	31,975,487	44.8%	31.2%
Sales of properties	25,520,532	37,936,017	28,174,909	48.6%	34.6%
Cost of sales	(22,953,628)	(33,877,152)	(25,226,370)	47.6%	34.3%
GPM	21%	19%	21%	nm	nm
Gross profit	6,021,975	8,075,600	6,749,117	34.1%	19.7%
Other income	977,400	1,223,089	977,400	25.1%	25.1%
Fair value gains on investment properties	50,000	253,400	0	406.8%	n.a.
Selling expenses	(1,347,245)	(1,616,716)	(1,320,000)	20.0%	22.5%
Administrative expenses	(2,860,501)	(2,859,701)	(2,800,000)	0.0%	2.1%
Finance costs	(1,037,480)	(1,476,671)	(1,049,309)	42.3%	40.7%
Profit before tax	3,748,229	6,390,768	5,085,279	70.5%	25.7%
Income tax expense	(1,525,686)	(3,719,803)	(2,249,669)	143.8%	65.3%
Profit for the year	2,222,543	2,670,965	2,835,610	20.2%	-5.8%
Adjusted profit for the year	2,185,043	2,480,915	2,126,112	13.5%	16.7%
Profit for the year attributable to:					
Owners of the Company	1,513,045	1,662,454	2,126,112	9.9%	-21.8%
Non-controlling interests	305,447	481,367	305,447	57.6%	57.6%
Core net profit	1,475,545	1,472,404	1,897,280	-0.2%	-22.4%
Net Debt / Equity	58%	43%	58%	nm	nm
Current Ratio	168%	147%	160%	-20.6 pts	-13.1 pts
Interest Coverage	1.4x	2.0x	1.6x	0.7x	0.4x
ROA	0.89%	0.70%	1.13%	-0.2 pts	-0.4 pts
ROCE	1.79%	1.75%	2.36%	0.0 pts	-0.6 pts
ROE	6.06%	5.76%	8.26%	-0.3 pts	-2.5 pts
GPM	20.78%	19.25%	21.11%	-1.5 pts	-1.9 pts
NPM	5.22%	3.96%	6.65%	-1.3 pts	-2.7 pts
Core NPM	5.09%	3.51%	6.65%	-1.6 pts	-3.1 pts
Total Debt	47,834,048	56,114,372	51,436,179	17.3%	9.1%
Cash	24,970,660	35,977,430	27,331,473	44.1%	31.6%
Net Debt	22,863,388	20,136,942	24,104,706	-11.9%	-16.5%
ST Debt	10,037,318	17,684,524	13,083,398	76.2%	35.2%
Properties held under development	61,485,671	83,149,261	86,901,031	35.2%	-4.3%
Advanced proceeds received from customers	38,422,675	65,900,213	67,590,443	71.5%	-2.5%

Source: Company data, AMTD Equity Research

Figure 2: P&L forecast and key ratios

PnL, RMB mn	2016	2017	2018e	2019e	2020e	2016	2017	2018e	2019e	2020e
Revenue	28,976	41,953	43,107	50,665	61,999	11.2%	44.8%	2.8%	17.5%	22.4%
Sale of properties	25,521	37,936	38,689	45,805	56,653					
Cost of sales	(22,954)	(33,877)	(34,792)	(40,776)	(49,494)					
Gross profit	6,022	8,076	8,315	9,889	12,504	11.1%	34.1%	3.0%	18.9%	26.4%
Selling expenses	(1,347)	(1,617)	(1,482)	(2,038)	(2,690)	9.6%	20.0%	-8.3%	37.5%	32.0%
Administrative expenses	(2,861)	(2,860)	(2,965)	(3,669)	(4,484)	11.2%	0.0%	3.7%	23.8%	22.2%
Share of post-tax loss of an associate	1,256	558	1,010	1,428	1,147					
Share of post-tax (losses)/profits of joint ventures	169	(8)	0	0	0					
Finance costs	(1,037)	(1,477)	(1,594)	(1,626)	(1,133)	17.1%	42.3%	7.9%	2.0%	-30.3%
Profit before tax	3,748	6,391	5,027	5,727	7,087	27.7%	70.5%	-21.3%	13.9%	23.8%
Income tax expense	(1,526)	(3,720)	(2,121)	(2,570)	(3,512)					
Profit for the year	2,223	2,671	2,906	3,157	3,575	76.5%	20.2%	8.8%	8.6%	13.2%
Profit for the year attributable to:										
Net profit	1,513	1,662	1,897	2,148	2,566	184.2%	9.9%	14.1%	13.2%	19.4%
Core net profit	1,476	1,472	1,897	2,148	2,566	20.0%	-0.2%	28.9%	13.2%	19.4%
Non-controlling interests	305	481	481	481	481					
Perpetual Securities & others	404	527	527	527	527					
Dividends	260	432	342	387	462					
EPS - basic	0.70	0.77	0.88	0.99	1.19					
EPS-underlying	0.70	0.77	0.87	0.99	1.18					
DPS - basic	0.68	0.68	0.88	0.99	1.19					
BVPS	0.12	0.20	0.16	0.18	0.21					
Key Ratios, RMB mn	2016	2017	2018e	2019e	2020e					
GPM	20.8%	19.2%	19.3%	19.5%	20.2%					
NPM	5.2%	4.0%	4.4%	4.2%	4.1%					
Core NPM	5.1%	3.5%	4.4%	4.2%	4.1%					
ROA	0.9%	0.7%	0.7%	0.7%	0.8%					
ROCE	1.8%	1.7%	1.7%	1.6%	1.8%					
ROE	6.1%	5.8%	6.9%	7.3%	8.1%					
Total Debt / EBITDA	10.8x	7.4x	11.0x	11.8x	10.6x					
Total Debt / Equity	121.6%	119.9%	148.4%	167.6%	159.0%					
Total Debt / Capitalization	54.9%	54.5%	59.7%	62.6%	61.4%					
Net Debt / EBITDA	5.2x	2.6x	3.2x	1.5x	1.2x					
Net Debt / Equity	58.1%	43.0%	43.5%	21.9%	17.8%					
Net Debt / Capitalization	26.2%	19.6%	17.5%	8.2%	6.9%					
Current Ratio	168.0%	147.4%	161.2%	166.9%	168.9%					
Cash / Total Assets	14.7%	15.3%	20.2%	25.8%	24.7%					
Inventory / Total Assets	51.9%	55.0%	52.3%	50.2%	52.8%					
Net debt / Net Inventory	25.9%	15.5%	16.0%	7.7%	5.9%					
Quick Ratio	139.6%	122.3%	125.2%	120.0%	123.6%					
Cash Ratio	28.4%	25.1%	36.0%	46.9%	45.3%					
Interest Coverage	1.4x	2.0x	1.5x	1.4x	1.6x					

Source: Company data, AMTD Equity Research

Figure 3: Balance sheet forecast & Cash flow forecast

Balance Sheet, RMB mn	2016	2017	2018e	2019e	2020e
Non-current assets	22,111	24,194	24,194	24,194	24,194
Current assets	147,684	211,634	230,950	268,478	288,811
Properties for development	14,289	25,468	25,468	25,468	25,468
Pledged bank deposits	2,293	5,907	5,907	5,907	5,907
Bank balances and cash	22,678	30,070	45,634	69,569	71,524
Others	108,424	150,189	153,941	167,534	185,912
Current liabilities	87,928	143,588	143,311	160,825	170,970
Advanced proceeds received from customers	38,423	65,900	67,590	88,637	105,521
Borrowings	10,037	17,685	15,717	12,184	5,446
Others	39,468	60,003	60,003	60,003	60,003
Non-current liabilities	42,541	45,446	62,660	80,044	87,184
Bank and other borrowings - due after one year	37,797	38,430	57,236	74,620	81,760
Others	4,745	7,016	5,424	5,424	5,424
Capital and reserves	39,327	46,794	49,173	51,803	54,850
Equity attributable to owners of the Company	24,690	26,479	28,376	30,524	33,091
Perpetual capital instruments	5,599	8,604	8,604	8,604	8,604
Non-controlling interests	9,037	11,712	12,193	12,675	13,156
Cash Flow Statement, RMB mn	2016	2017e	2018e	2019e	2020e
Profit before income tax	3,748	6,391	5,027	5,727	7,087
Operating cash flows before movements in working capital	2,845	6,391	5,027	5,727	7,087
Decrease in properties under development	(5,691)	(21,664)	(3,752)	(13,593)	(18,378)
Decrease in pre-sale deposits	12,654	27,478	1,690	21,047	16,884
Cash (used in) from operations	5,861	(5,277)	2,965	13,180	5,593
Income taxes paid	(2,411)	(3,720)	(2,121)	(2,570)	(3,512)
Net cash (used in) from operating activities	3,450	(8,997)	844	10,610	2,081
Net cash used in investing activities	2,166	13,314	3,360	0	0
Financing activities					
Proceeds from borrowings	29,262	13,639	24,970	24,617	7,634
Repayments of borrowings	(21,494)	(10,037)	(13,083)	(10,765)	(7,233)
Net cash from (used in) financing activities	2,112	3,075	11,360	13,325	(126)
Net increase in cash and cash equivalents	7,728	7,392	15,564	23,935	1,955
Effect of foreign exchange rate changes	70	0	0	0	0
Cash and cash equivalents at beginning of the year	14,880	22,678	30,070	45,634	69,569
Cash and cash equivalents at end of the year	22,678	30,070	45,634	69,569	71,524

Source: Company data, AMTD Equity Research

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Sell	Stock with potential loss of over 20% over the next 12 months

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