

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

Donald Yu, Analyst

+852 3163 3384

Donald.Yu@amtdgroup.com
Max Liang, Analyst

+852 3163 3384

Max.Liang@amtdgroup.com
Michelle Li, Analyst

+852 3163 3383

Michelle.Li@amtdgroup.com

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%
GPM	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%
Profit for the year attributable to:					
Owners of the Company	2,283,640	6,025,244	4,172,109	163.8%	44.4%
Non-controlling interests	415,263	472,663	415,263	13.8%	13.8%
Core net profit	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&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:									
Net profit	2,284	6,025	6,828	8,705	10,489	64.3%	163.8%	13.3%	27.5%
Core net profit	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				
Key Ratios, RMB mn	2016	2017e	2018e	2019e	2020e				
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

Balance Sheet, RMB mn	2016	2017	2018e	2019e	2020e
Non-current assets	35,586	50,714	50,714	50,714	50,714
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
Current liabilities	55,252	83,473	121,705	155,663	181,546
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
Non-current liabilities	32,318	35,708	55,808	55,538	66,505
Borrowings	31,181	34,529	54,629	54,359	65,326
Deferred tax liabilities	1,137	1,175	1,175	1,175	1,175
Capital and reserves	44,155	44,176	51,287	60,274	71,045
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
Cash Flow Statement, RMB mn	2016	2017e	2018e	2019e	2020e
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)	-	-	-	-
Net cash (used in) from operating activities	6,887	9,281	2,029	(3,612)	(3,364)
Net cash used in investing activities	(3,719)	(6,355)	-	-	-
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)
Net cash from (used in) financing activities	1,873	3,684	4,516	2,458	(1,341)
Net increase in cash and cash equivalents	5,041	6,610	6,545	(1,153)	(4,705)
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
Cash and cash equivalents at end of the year	12,432	19,042	25,586	24,433	19,728

Source: Company data, AMTD Equity Research

IMPORTANT DISCLOSURES

AMTD Investment Ratings

Stock Rating

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

Analyst Certification

We, Donald Yu, Max Liang and Michelle Li, hereby certify that (i) all of the views expressed in this research report reflect accurately our personal views about the subject company or companies and its or their securities; and (ii) no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed by us in this research report, nor is it tied to any specific investment banking transactions performed by AMTD Global Markets Limited.

AMTD Global Markets Limited

Address: 23/F & 25/F, Nexxus Building, No. 41 Connaught Road Central, Central, Hong Kong

Tel: (852) 3163-3288 **Fax:** (852) 3163-3289

GENERAL DISCLOSURES

The research report is prepared by AMTD Global Markets Limited ("AMTD") and is distributed to its selected clients.

This research report provides general information only and is not to be construed as an offer to sell or a solicitation of an offer to buy any security in any jurisdiction where such offer or solicitation would be illegal. It does not (i) constitute a personal advice or recommendation, including but not limited to accounting, legal or tax advice, or investment recommendations; or (ii) take into account any specific clients' particular needs, investment objectives and financial situation. AMTD does not act as an adviser and it accepts no fiduciary responsibility or liability for any financial or other consequences. This research report should not be taken in substitution for judgment to be exercised by clients. Clients should consider if any information, advice or recommendation in this research report is suitable for their particular circumstances and seek legal or professional advice, if appropriate.

This research report is based on information from sources that we considered reliable. We do not warrant its completeness or accuracy except with respect to any disclosures relative to AMTD and/or its affiliates. The value or price of investments referred to in this research report and the return from them may fluctuate. Past performance is not reliable indicator to future performance. Future returns are not guaranteed and a loss of original capital may occur.

The facts, estimates, opinions, forecasts and any other information contained in the research report are as of the date hereof and are subject to change without prior notification. AMTD, its group companies, or any of its or their directors or employees ("AMTD Group") do not represent or warrant, expressly or impliedly, that the information contained in the research report is correct, accurate or complete and it should not be relied upon. AMTD Group will accept no responsibilities or liabilities whatsoever for any use of or reliance upon the research report and its contents.

This research report may contain information from third parties, such as credit ratings from credit ratings agencies. The reproduction and redistribution of the third party content in any form by any means is forbidden except with prior written consent from the relevant third party. Third party content providers do not guarantee the timeliness, completeness, accuracy or availability of any information. They are not responsible for any errors or omissions, regardless of the cause, or for the results obtained from the use of such content. Third party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability of fitness for a particular purpose or use. Third party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their content. Credit ratings are statements of opinions and are not statements of fact or recommendations to purchase, hold or sell securities. They do not address the suitability of securities for investment purposes, and should not be relied on as investment advice.

To the extent allowed by relevant and applicable law and/or regulation: (i) AMTD, and/or its directors and employees may deal as principal or agent, or buy or sell, or have long or short positions in, the securities or other instruments based thereon, of issuers or securities mentioned herein; (ii) AMTD may take part or make investment in financing transactions with, or provide other services to or solicit business from issuer(s) of the securities mentioned in the research report; (iii) AMTD may make a market in the securities in respect of the issuer mentioned in the research report; (iv) AMTD may have served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this research report or may be providing, or have provided within the previous 12 months, other investment banking services, or investment services in relation to the investment concerned or a related investment.

AMTD controls information flow and manages conflicts of interest through its compliance policies and procedures (such as, Chinese Wall maintenance and staff dealing monitoring).

The research report is strictly confidential to the recipient. No part of this research report may be reproduced or redistributed in any form by any means to any other person without the prior written consent of AMTD Global Markets Limited.