

China Property

Time to ditch Stock Picking methodology based on Tier-1, 2, 3 exposure

We believe investors should adopt a bottom-up approach to pick stocks, based on a developer's execution capability improvement, instead of an asset allocation approach. Identifying companies that are undergoing organizational changes or with unique competitive edges, could be the sign of an up-and-coming multi-year outperformer. Aoyuan and Powerlong are our Top Picks, while Dafa is one for long term, in our view.

Bottom-up approach to identify multi-year outperformers

Market has de-rated the China Property Sector to 6x Fwd P/E and 1.3x P/B, reflecting the fundamental challenges the industry is facing, including property tightening policies and demographic dividend. Assuming that there will no longer be any policy stimulus to the China Property industry, we believe the industry's total annual sales is approaching a market ceiling during the next 2-3 years. We believe investors should move from picking stocks based on exposure (Tier-1,2,3 cities) to a more bottom-up execution oriented approach, to identify the up-and-coming multi-year outperformers. We initiate/assume coverage of eight HK-listed property stocks with Aoyuan (3883.HK) and Powerlong (1238.HK) our top picks of the sector.

Pick Companies' on Execution instead of Asset Allocation approach

One of the market consensus over the past few years in stock picking has been a preference towards developers with Tier-1 and 2 city exposures, over Lower-tier cities. We believe this is over-simplistic and would not have yielded outperformance in the past 5 years (Figure 2 and 3). We recommend investors to focus on personnel and organizational changes within developers that could potentially result in execution improvements overlooked by the markets. Organisational changes within a company could often become a springboard resulting in a multi-year contracted sales growth, driving stock performance.

Organisational changes start from the top

We identify Aoyuan as a developer who have seen top-level management changes in the past 2-3 years, and the results of the changes implemented have begun to reflect in their contracted sales growth. We believe they are still in the middle of a multi-year growth period, with 2019E contracted sales still expected to grow by ~25% YoY. Once the pre-sold properties are delivered and recognized on financial statements in the next 12-24 months, we believe it will result in a next wave of share price outperformance. Behind Aoyuan, Dafa Properties (6111.HK) is another name that we believe market should pay more attention to, having appointed a new CEO in 2018, who was ex-Shimao COO.

Demographic dividend peaked, property sales approaching a ceiling?

The working population (15-64 year olds) in China has peaked in 2014 and the downtrend has already begun. This together with urbanization demand have been key fundamental drivers of the industry in the past twenty years. Losing one of the key engines, would mean that we are very likely to be close towards a market ceiling in terms of National Residential Sales Volume, which reached 1.479bn sqm in 2018.

China Property

Coverage Summary

Ticker	Name	Rating	Target	Upside
3883.HK	Aoyuan	Buy	14.35	59%
1238.HK	Powerlong	Buy	7.18	26%
6111.HK	Dafa	Buy	6.98	25%
1996.HK	Redsun	Buy	3.32	34%
1628.HK	Yuzhou	Buy	3.96	25%
0035.HK	Far East	Buy	4.21	32%
0095.HK	Lvgem	Hold	2.79	1%
0230.HK	Minmetals	Hold	1.14	7%
Average				26%

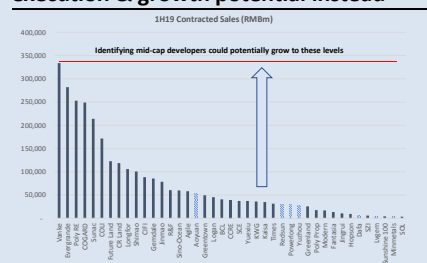
Source: Company data, AMTD Equity Research

Tier-1 & 2: No obvious outperformance



Source: Company Data; AMTD Equity Research

Picking mid-small cap developers with execution & growth potential instead



Source: NBS, Wind, AMTD Equity Research

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Picking the next Multi-Year Winners

We are initiating/assuming coverage on the China Property Industry, including seven mid-cap China property stocks and a HK/Global property stock (Far East Consortium, 0035.HK). An air of cautious tone has been sounded out by most of the major property developers during the recent 1H19 results announcements, which we believe reflects the challenging environment that they are facing at the moment. Nonetheless, with the sector trading at 6x 2020E P/E, c.1.38 SD below historical average, and 1.3x P/B, we believe markets have already fully priced in the current challenging macro environment and property tightening measures.

Unearthing Undiscovered Gems in Mid-Small cap Developer Space

For equity investors, it is all about growth and with the industry as a whole approaching a market ceiling or at least a bottle-neck, we recommend investors to look beyond the traditional large-cap names and seek for investment returns in the mid-small cap space.

The market leading large cap developers have shown that such a scale can be reached by any single developer and if the mid-cap developers can grow to a similar scale it could potentially represent a multiple times return for equity investors over the next 3-5 years.

Our preferred stocks in the sector are mid-cap stocks which are undergoing organization changes, driving a solid growth outlook, e.g. **China Aoyuan** (3883.HK). For investors with a longer term investment horizon, i.e. 2-3 years, we are also initiating coverage on **Dafa Properties** (6111.HK) with a Buy rating, as we believe the appointment of the management team from Shimao will lead a transformation in the developers' execution capabilities, but it may take some time for the changes to be materialised.

We also like companies with a solid competitive edge over its peers such as **Powerlong's** commercial property operational capabilities, which enhances profitability and land acquisition opportunities.

Figure 1: China Aoyuan is our Top Picks of the Sector for Growth Outlook

Ticker	Name	Rating	Share Price	2020E P/E	1H19 P/B	Target Price	Upside (%)
3883.HK	Aoyuan	Buy	9.04	3.46	1.11	14.35	59%
1238.HK	Powerlong	Buy	5.68	4.75	0.64	7.18	26%
6111.HK	Dafa	Buy	5.59	4.41	0.80	6.98	25%
1996.HK	Redsun	Buy	2.48	3.73	0.49	3.32	34%
1628.HK	Yuzhou	Buy	3.18	3.21	0.60	3.96	25%
0035.HK	Far East	Buy	3.20	4.71	0.60	4.21	32%
0095.HK	Lvgem	Hold	2.77	6.44	0.91	2.79	1%
0230.HK	Minmetals	Hold	1.07	3.75	0.34	1.14	7%
Average				4.31	0.69		26%

Source: Company Data; AMTD Equity Research
As of 8th Oct 2019

Market misperceptions in Stock Picking

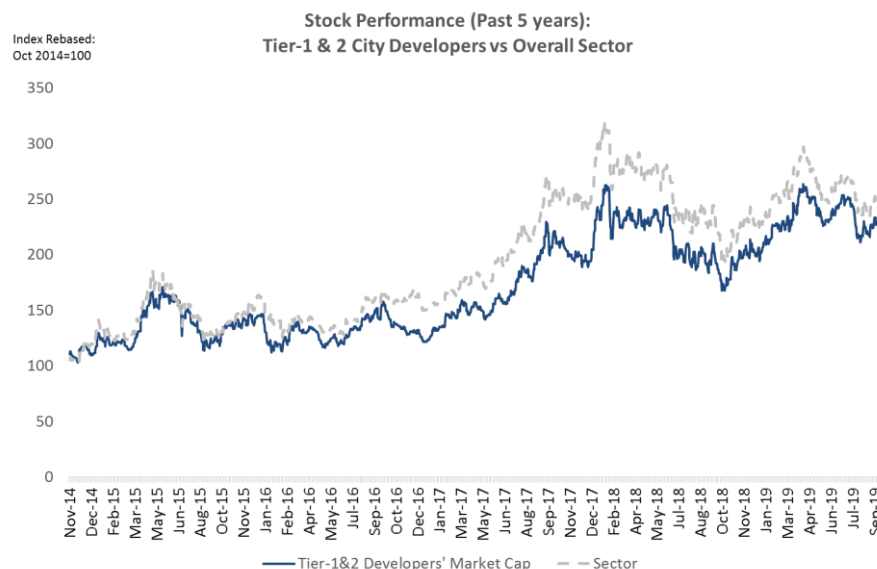
We believe there are two common stock picking misperceptions by investors in the market which creates a gap for investment opportunities, in our view:

- (1) **City-Tiering:** Pick stocks with Tier-1 and 2 cities' exposure and avoid Tier-3
- (2) **Funding Costs:** Buy large cap stocks because they have lower funding costs and better funding channels

We believe these two key points are often highlighted because they are the easiest quantifiable competitive advantages for financial analysts. However, if we adopt such a stock picking approach in this sector, we can see in Figure 2 and Figure 3 below that it will offer mixed results.

We therefore argue that these are NOT the key factors that drives the success of a company's underlying operations, thus its share price performance over time.

Figure 2: No Obvious Outperformance from Tier-1 and 2 City Developers

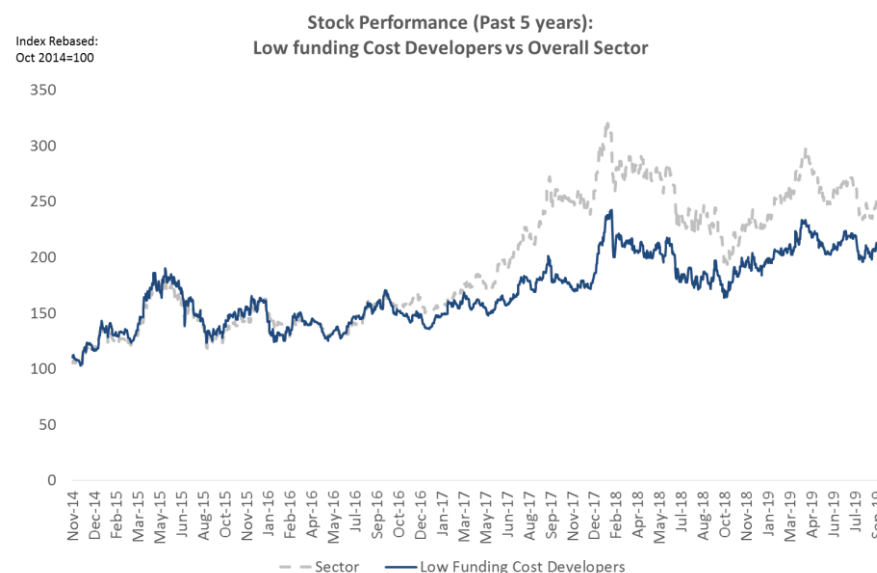


Source: Company Data; AMTD Equity Research

Tier-1&2 City Developers Included: Sunac, COLI, CR Land, Longfor, R&F, KWG, Greentown China, Yuexiu Prop, Sino-Ocean

This Group represents ~23% of the China Property Sectors' Total Market Cap

Figure 3: No Obvious Outperformance from Developers with Low Funding Cost



Source: Company Data; AMTD Equity Research

Low Funding Cost Developers included: COLI, CR Land, Poly RE, Poly Prop, China Jinmao, Yuexiu Property, Greentown China, Beijing Capital Land

This Group represents ~21% of the China Property Sectors' Total Market Cap

Pick Property Developers on Execution; and Property Investors on Exposure

The reason for this is that property developers are operating on a high asset turnover model, instead of an asset based investment properties model. Thus, the property assets on their balance sheet changes all the time and when property prices rise in these Tier-1, 2 cities, so does land cost.

Picking property developers is different from property investors (e.g. REITS, Landlords). We should not simply be assessing the location of companies' exposure, but its competitive advantage compared to other developers' instead. These competitive advantages will be reflected into higher sell-through rates, thus sustainable sales growth, and profit margins of the company.

Execution – How the developer creates value out of a piece of Land

We believe market should pick stocks by identifying the possible positive impact of management changes, organizational structure changes of senior management and measures implemented. Companies that are taking measures to institutionalize their companies, putting information systems and measures in place to decentralize the major decisions will create a scalable platform for growth, which will eventually be reflected in a developers' contracted sales and asset growth.

We thus highlight **Aoyuan** as our top pick under this category. For investors who have a longer term investment horizon, **Dafa Properties** is also another name undergoing similar changes, but we believe it may take another 1-2 years before we may see a more obvious impact by Mr. Liao's appointment as CEO (since 2018).

China Aoyuan's (3883.HK) journey to growth began upon the appointment of Mr. Ma Jun back in 2015, who has brought with him the operational expertise from his time with COLI. This year, they have appointed a new Head of Product Development from Longfor, Mr. Hu Hao, which we believe will bring improvements in Aoyuan's product designs & development that would help attract buyers over its competitors and hence drive sales growth.

We expect Aoyuan's contracted sales to grow ~25% YoY in 2019E, while net profit CAGR to grow by 41% during 2018-2021E, as the pre-sold properties are delivered to homebuyers and the relevant sales are recognized onto the financial statements.

Powerlong (1238.HK) on the other hand possesses a competitive edge in terms of operating shopping malls, in particularly community malls, which are more focused on local necessities and services that will complement the neighbouring residential property sales as well as a lower land acquisition cost and opportunities. We expect Powerlong's net profit to achieve a ~42% 2018-2021E Net Profit CAGR, highest among our coverage.

Dafa Properties (6111.HK) is also undergoing an institutionalization process, following the appointment of Mr. Liao as their CEO in 2018. However, it will take some time (usually >2 years) before such changes can be translated into operating and financial results. We thus recommend Dafa Properties for investors with a longer term investment horizon.

Sales Volume approaching the Ceiling?

China's Property sales volume growth has slowed down to 2% YoY in 2018 and 0.5% YoY in 2019 YTD (August). Property Prices have been the key driver for the sales value growth of 14% in 2018 and 9.9% YoY in 2019 YTD (Aug). Over the past 3 years (2016-2019), we believe the industry is showing signs that it is approaching the market ceiling with the CAGR for volume growth has already slowed to 2.4%, compared to the 5.9% CAGR during 2013-2016.

Over the next 2 years, we believe this sectors' growth will be driven by property price increases and market consolidation, as volume growth remains flattish.

Figure 4: Working Population in Urban Decline implies New Home Sales Volume may have peaked



Source: NBS, Wind, AMTD Equity Research

We analyze the three key driving factors of residential GFA sold, including number of residents aged 15-64, urbanization rate and housing upgraded demand, and while we expect urbanization growth rate and upgrade demand to maintain over the next 1-2 years, the ageing population will become a drag as 15-64 year old population will continue on its downtrend. We think the growth rate of GFA sold maybe dragged by the ageing population and the sales volume may have peaked if there would be no further stimulus.

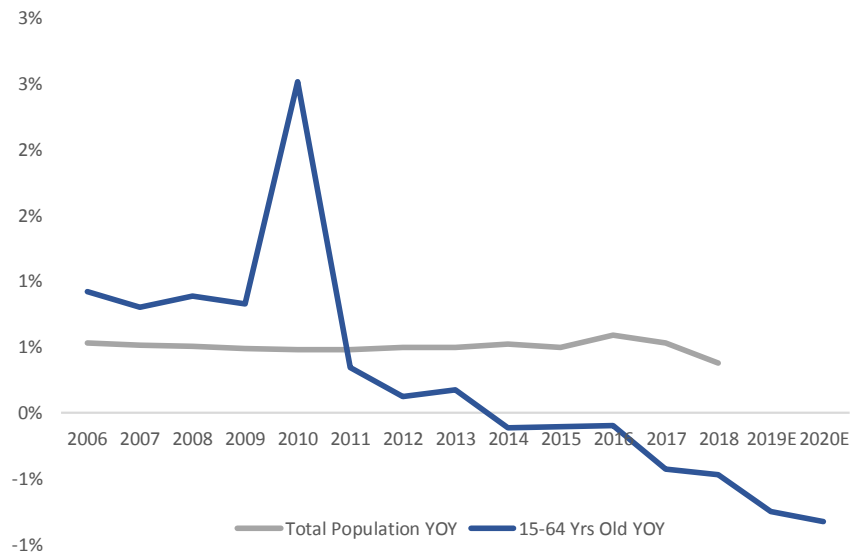
There are three major assumptions of our estimation:

Working Population

Firstly, people aged 15-64, the working population, is recognized as the main buyers of residential property in the light of purchasing power and demand for housing. The number of residents aged 15-64 equals the sum of births in relevant years multiply survival rate. In term of the historical data in 2016-2018, we assume the overall survival rate of the group is around 91.5%. According to our calculation, the number of residents aged 15-64 will decrease in 2019-2020. In addition, compared with the population aged 15-64 YOY

with the total population YOY, we see the former growth is even slower than the latter in the recent eight years (2011-2018), reflecting the aging tendency of population.

Figure 5: Working Population Decline reflects the Aging Population

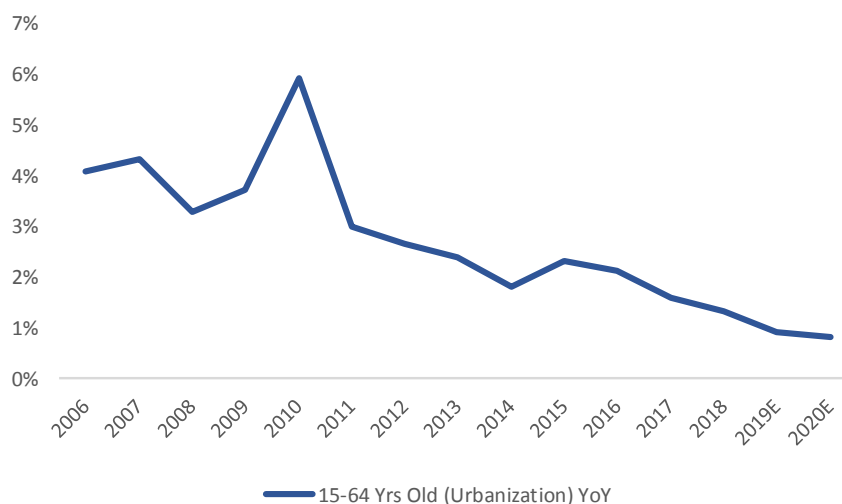


Source: NBS, Wind, AMTD Equity Research

Urbanization

Secondly, we assume urbanization rate increases by 1ppt-1.2ppt every year in the next 1-2 years (2019-2020) according to historical trend. Then we assume that the urbanization rate in the group aged 15-64 is the same with the total population. Although the YOY number is positive, the growth has slowed apparently to 1.0%-1.6% since 2017.

Figure 6: Urban Population Aged 15-64 YOY Decline



Source: NBS, Wind, AMTD Equity Research

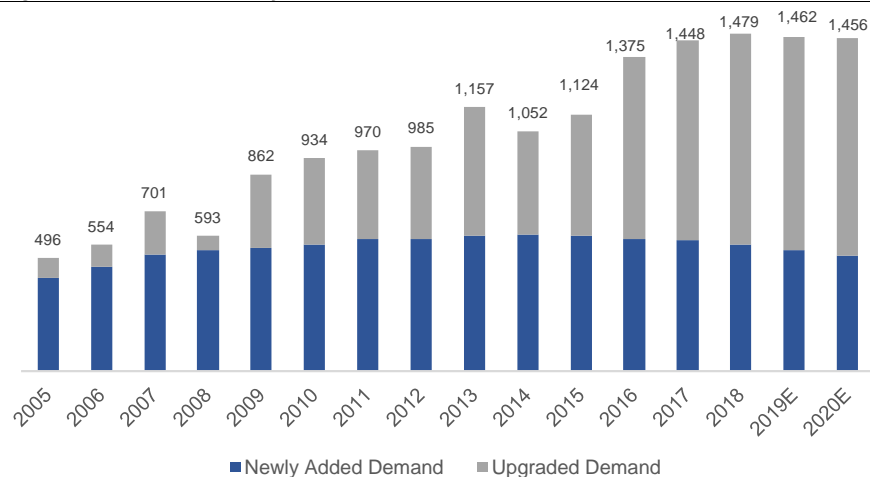
Upgrade Demand

Thirdly, residential demand can be divided into two parts, from newly added demand and upgraded demand. Newly added demand from newly-increased urban population, who we assume will purchase residential property in the next ten years respectively.

Upgraded demand is determined by the number of residents aged 15-64 and upgraded percentage (equals population that have upgraded demand / the number of residents aged 15-64). Based on historical data and our calculation, the upgraded percentage rapidly increased to 3.8% in 2016 and remained 4% in 2017-2018 owing to rebuilding shanty areas and issuing multiple policies to stimulate property industry. But we think the exorbitant percentage is entirely policy driven and without similar stimulus policies it will be difficult to grow further.

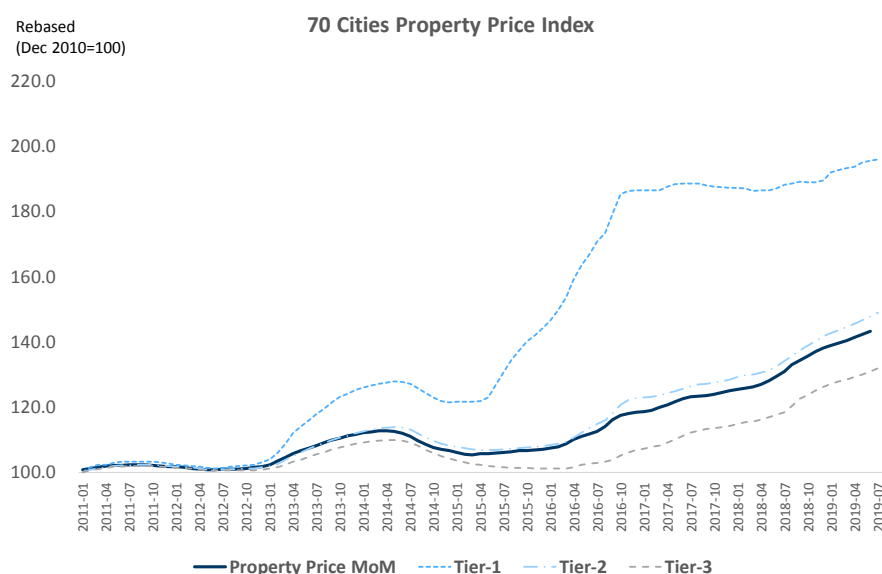
Thus, we conclude that residential demand may be approaching a market ceiling in 2019 along with the declining growth rate of working population in urban dragging the heels.

Figure 7: Residential Property Demand Estimate (million sq.m.)



Source: Wind, AMTD Equity Research

Figure 8: 70 Major Cities' Property Prices risen ~14% since end-2017; underpinning 2019E-2020E GP Margins



Source: NBS, Wind, AMTD Equity Research

Figure 9: Residential Sales Volume to be flat, ASP growth to drive Industry's Sales Value

Unit	Residential							
	Under Construction				Real Estate		Avg Const	
	Sales m sqm	New Starts m sqm	Construction m sqm	Completion m sqm	Inv RMBm	Sales Value RMBm	Cost RMB/sqm/yr	ASP RMB/sqm
2003	285	437	910	322	678,241	630,385	745	2,212
2004	338	479	1,082	347	883,695	861,937	817	2,549
2005	496	540	1,277	400	1,086,093	1,456,376	850	2,937
2006	554	636	1,515	432	1,363,841	1,728,781	900	3,119
2007	701	781	1,865	478	1,800,542	2,556,581	966	3,645
2008	593	799	2,167	477	2,244,087	2,119,600	1,036	3,576
2009	862	925	2,508	577	2,561,369	3,843,290	1,021	4,459
2010	934	1,295	3,149	612	3,402,623	4,412,065	1,080	4,725
2011	970	1,460	3,884	717	4,431,950	4,861,939	1,141	5,011
2012	985	1,307	4,290	790	4,937,421	5,346,718	1,151	5,430
2013	1,157	1,458	4,863	787	5,895,076	6,769,494	1,212	5,850
2014	1,052	1,249	5,151	809	6,435,215	6,241,095	1,249	5,934
2015	1,124	1,067	5,116	738	6,459,524	7,275,300	1,263	6,472
2016	1,375	1,159	5,213	772	6,870,387	9,906,417	1,318	7,203
2017	1,448	1,281	5,364	718	7,514,788	11,023,951	1,401	7,614
2018	1,479	1,534	5,700	660	8,519,225	12,639,260	1,495	8,544
2019E	1,509	1,564	6,637	627	9,919,768	13,536,647	1,495	8,971

YoY Growth								
2004	19%	10%	19%	8%	30%	37%	10%	15%
2005	47%	13%	18%	15%	23%	69%	4%	15%
2006	12%	18%	19%	8%	26%	19%	6%	6%
2007	27%	23%	23%	10%	32%	48%	7%	17%
2008	-15%	2%	16%	0%	25%	-17%	7%	-2%
2009	45%	16%	16%	21%	14%	81%	-1%	25%
2010	8%	40%	26%	6%	33%	15%	6%	6%
2011	4%	13%	23%	17%	30%	10%	6%	6%
2012	1%	-11%	10%	10%	11%	10%	1%	8%
2013	18%	12%	13%	0%	19%	27%	5%	8%
2014	-9%	-14%	6%	3%	9%	-8%	3%	1%
2015	7%	-15%	-1%	-9%	0%	17%	1%	9%
2016	22%	9%	2%	5%	6%	36%	4%	11%
2017	5%	11%	3%	-7%	9%	11%	6%	6%
2018	2%	20%	6%	-8%	13%	15%	7%	12%
2019E	2%	2%	16%	-5%	16%	7%	0%	5%

Source: NBS, Wind, AMTD Equity Research

Sector De-Rated – Pick Stocks instead of Sector Proxy

As noted in the mid-single digit P/E that the China property stocks are trading at, it reflects investors' concerns regarding the sustainability of earnings, which we believe is justified especially if the industry is approaching the market ceiling.

It is an increasing uncertainty how much further in scale and in earnings that the market leaders can grow if the industry growth is going to remain flattish or even possibly declining in the future.

On the contrary, for mid-cap developers, the leaders have already paved the way and visibility that such a scale and room for growth is achievable for a single company. We, therefore, argue that it removes one of the investment concerns for mid-cap developers as the question changes to "Who will be the next developer to reach the heights of Vanke", from "How much further can the market leaders' grow".

Figure 10: Sector's Fwd P/E trading ~1.38SD below 5-year Historical Average



Source: Bloomberg

Figure 11: Sector's P/B trading ~0.16 SD below 5-year Historical Average



Source: Bloomberg

The Bigger You Grow, the More Difficult it Gets?

Apart from funding availability, we would argue that economies of scale is not as obvious in the operating fundamentals of a property development business, when compared to landlord business model, property management business or other platform businesses.

Property development is generally a localized business on a project by project basis, where

- (1) **Product:** Products are difficult to effectively standardized as many localized factors comes into play (e.g. environment, urban planning, etc.) and there is a finite time-frame cycle to each project;
- (2) **Customer Acquisition Cost:** There are relatively few repeated purchases compared to other consumer products, as customer base (esp. end-users) are localized; and
- (3) **Scalability:** The more customers you serve, the more resources (human resources, capital and land) you will have to deploy into it.

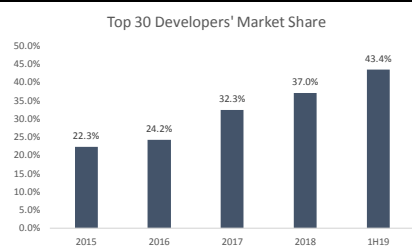
In contrary to companies with scalable business models, e.g. platforms such as shopping malls, if we look at the development of the listed companies over the past 10 years, we will be able to see that profit margins have not expanded along with its scale. Net Margins has actually declined due to various reasons, including mis-match in SG&A accounting

treatment, as well as easier access to capital across the industry which increased the competition for land and hence higher land costs.

The Bigger you are, the more Resources (Land, Capital, HR) is required to grow

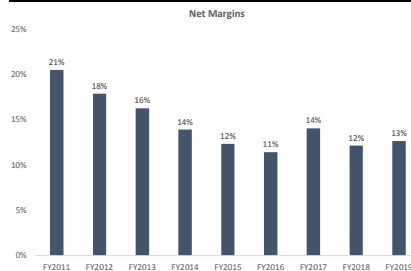
What this implies is that the bigger you are, the more challenging it is to sustain your revenue and earnings, as you would require more human resources, more capital and more land. If you have a pipeline shortage, you will lose your human resources, lose the capital allocation (from banks) and thus, developers would be more inclined to acquire projects at lower profit margins, even if it may not be financially attractive to an equity investor or the major shareholder's stand point.

Figure 12: Market Share of Top 30 Developers



Source: Company Data, Bloomberg

Figure 13: No improvement in Profitability while Developers gain market share



Source: Company Data

Scale mainly offers Brand Power in Supplier-end (Land & Financing)

So, what does scale offers you? Systemic bargaining/brand power when developers negotiate with counterparties for bank financing and land acquisition opportunities for more favourable terms.

The sector's overall balance sheet leverage measured by Total Assets to Total Equity has reached 5.25x in 1H19 (2018: 5.1x). The bulk of the financing comes from interest-free liabilities in the form of contracted liabilities (i.e. proceeds from contracted sales) and other payables. As a result, interest bearing debt remained stable at ~29% despite the growth in Total Assets on the Listed Developers' balance sheet.

What this implies is that if contracted sales decline, developers will have to fill the gap with interest bearing debt or equity if they are to maintain its scale and asset size. Alternatively, land bank acquisitions will have to slow down which may result in a fall in contracted sales and earnings in the subsequent year, unless sell-through rate improves.

If this happens, the most likely scenario in our view, is that the completion of properties will be delayed affecting the companies' brand as well as its earnings recognition on financial statements.

Balance Sheet Leverage at Historical Highs, don't be surprised if it goes higher

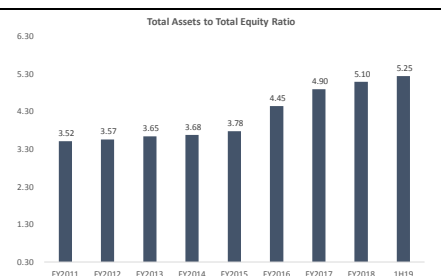
The sector's Balance Sheet leverage as measured by Total Assets/Total Equity are at historical highs of 5.25x in 1H19 (2018: 5.1x). 1H19 Net Debt to Equity levels have reached 89% (2018: 82%). Following the tightening policies aimed at the property industry relating to mortgage lending, trust financing and onshore/offshore bond financing, we believe developers are currently experiencing the tightest financial levels since 2016.

Strong contracted sales growth in 2016-2017 contributed to much of this balance sheet growth and leverage. We believe that over the next 1-2 years, developers will have to deliver the pre-sold properties to homebuyers and construction capex would have to grow further to meet these project delivery demands. Total Assets on balance sheet will be under pressure to continue to grow and funds will be required to fund such a growth.

However, as contracted sales growth slowed down in 1H19, while policy also tightened on the property-related financing (only allowing refinancing needs), we believe the developers are under high financial constraints to replace one of their key source of funding (pre-sale proceeds from homebuyers).

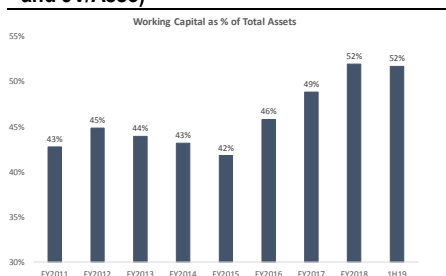
Trade and Other Payables (to contractors) could potentially be the first source of funds developers' draw upon to fund their continual asset growth required to deliver the pre-sold properties, but this may also mean a higher risk to project delivery and hence revenue recognition.

Figure 14: Industry's Assets to Equity has risen to historical Highs



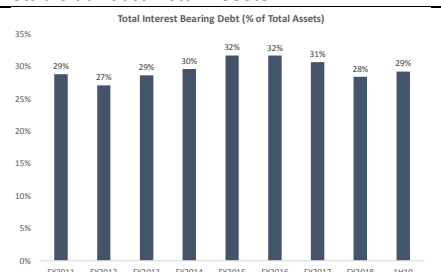
Source: Company Data, Bloomberg

Figure 15: Leverage is Funded by Working Capital (e.g. Customer Receipts, Payables and JV/Asso)



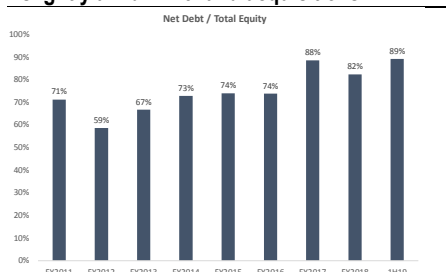
Source: Company Data, Bloomberg

Figure 16: Sectors' Interest Bearing Debt stable at ~30% Total Assets

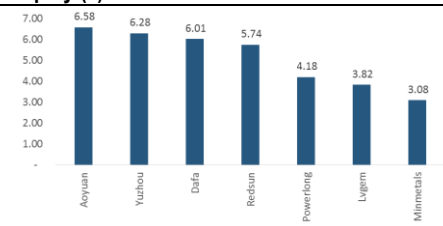


Source: Company Data, Bloomberg

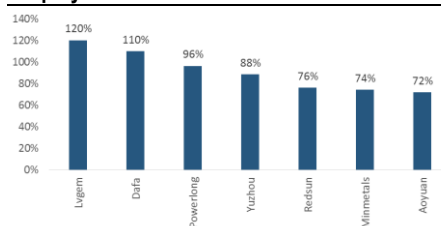
Figure 17: Sectors' Net Debt to Equity risen slightly amid 1H19 land acquisitions



Source: Company Data, Bloomberg

Figure 18: AMTD Coverage 1H19 Assets to Equity (x)

Source: Company Data, Bloomberg

Figure 19: AMTD Coverage 1H19 Net Debt to Equity

Source: Company Data, Bloomberg

Stock Picking: Changes Start From the Top

In terms of stock picking, we believe investors should look for structural organizational changes in companies. Undoubtedly, this is not easy, but a good starting point to begin with is to identify changes in the senior management team and capital structure improvements.

Many property developers started as a family business with the major shareholder driving the whole business from land acquisition, product design, development and property sales. However, for developers to seek to scale up to a next level the companies' operations will need to be institutionalized, systematic processes are required with a professional management team in place.

Transformation of companies often take place at least 1-2 years after new senior management appointments are made. Of course, such management personnel changes may or may not work out as expected, but if it does, it often provides a spring board for a multi-year growth.

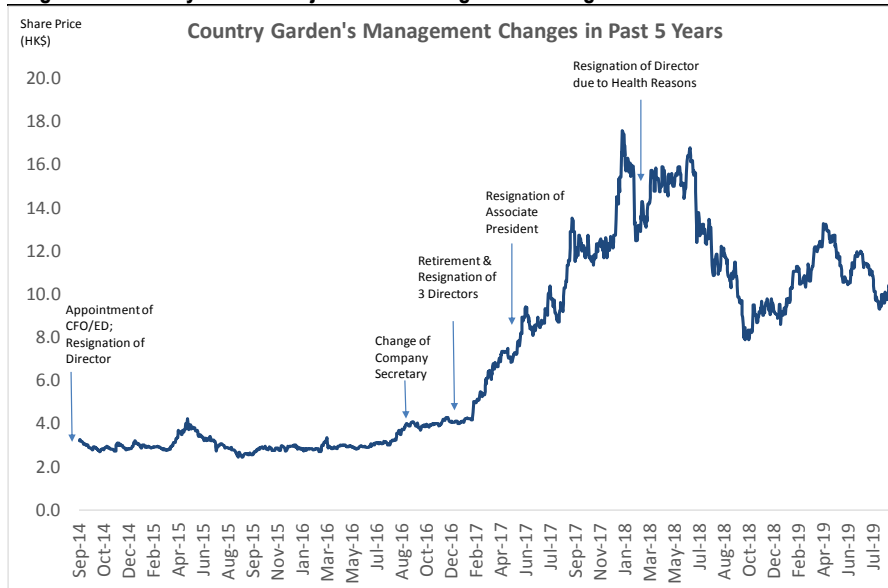
Within our coverage universe, we highlight the management changes made in Aoyuan and Dafa during the past 3 years that we believe could potentially spark an era of multi-year growth.

Case Study of Market Leaders

Country Garden (2007.HK, Non-Rated), Vanke (2202.HK, Non-Rated) and Sunac (1918.HK, Non-Rated), then subsequently followed by Longfor (0960.HK, Non-Rated), Aoyuan (3883.HK) and Future Land (1030.HK, Non-Rated) were arguably the successful stories of the past 3 years, with their aggregate Contracted Sales and Market Cap rising by 185% and 77% respectively.

One thing they have in common, is the institutionalization of their respective companies, led by professional management. Major shareholders/Family related management have stepped into the sides, replaced by professional management and organization structures.

We highlight the transformation of Country Garden (2007.HK, Non-rated) and Longfor (0960.HK, Non-rated) in the charts below to illustrate their growth in the past 3 years.

Figure 20: Country Garden: Major Senior Management Changes

Source: HK Stock Exchange; AMTD Equity Research

Figure 21: Longfor Group: Major Senior Management Changes

Source: HK Stock Exchange; AMTD Equity Research

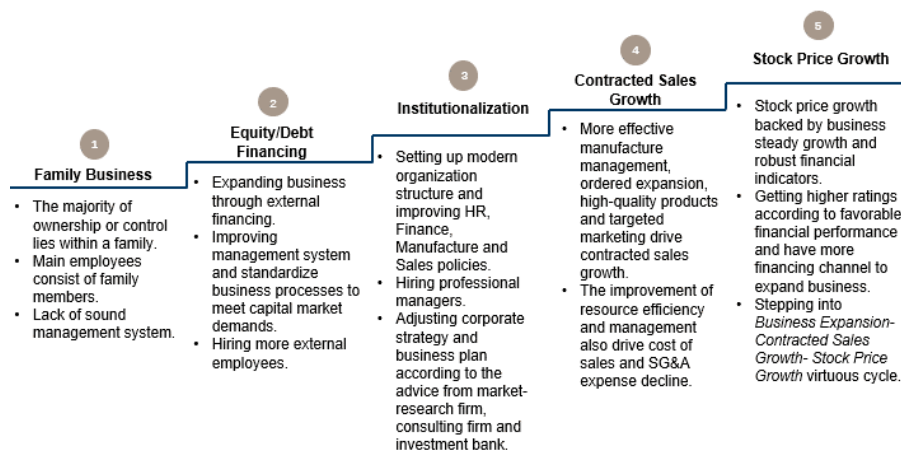
From Family Business to a Systemic Organization

According to the case studies above, we summarize the successful property developer's growth cycle. Property industry company commonly starts from family business, where the majority of ownership or control lying within a family and main employees consisting of family members. Then the company sets to improve management system and standardize business processes after gaining equity or debt financing.

Meanwhile, more professional managers join the company for the business expansion. For the increasing managing scope, the company is gradually institutionalized, such as setting up model organization structure and improving HR, finance, manufacture and sales policies. In this stage, the company relies on professional advice, both from internal professional managers and external consulting firms and investment banks.

More effective management and ordered expansion will drive contracted sales growth, which leads to robust financial results and stock price growth.

Figure 22: Property Developers' Roadmap to Growth

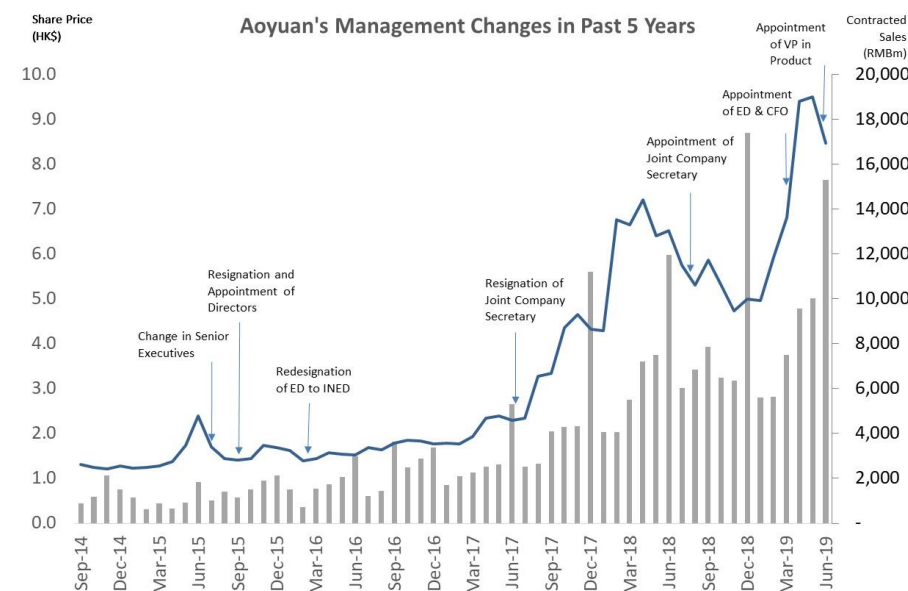


Source: Company Data; AMTD Equity Research

AMTD Coverage Universe

1. China Aoyuan

Figure 23: China Aoyuan: Major Senior Management Changes/Appointments



Source: HK Stock Exchange; AMTD Equity Research

In China Aoyuan, there were eight senior managers joining the company in the past five years. Four of them have rich experience in property industry and others are experts in financial and capital market field.

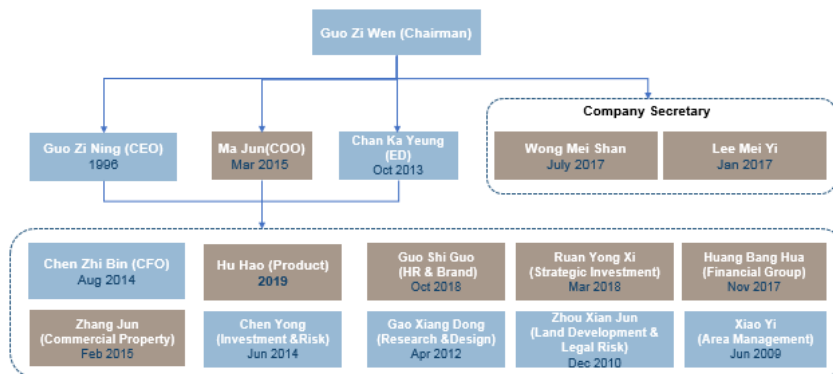
Mr. Ma Jun, ED and COO, previously worked at China Overseas Property Tianjin Company as deputy general manager and Autren Real Estate as an executive vice president before joining the Group in March 2015.

Mr. Chan Ka Yeung, Executive Director, responsible for corporate finance of listed company, capital markets management, and management of International Investment Group, etc.. He also previously worked at Agile Group as Deputy Head of Capital Markets and Zhong An Real Estate Company Limited as Chief Investment Officer before joining the Group in Oct 2013.

Mr. Zhang Jun, responsible for the management of the Commercial Property Group, previously worked at Wanda Group and Yurun Group as a deputy general manager before joining the Group in February 2015.

Mr. Hu Hao, responsible for the product management, previously worked for Longfor Properties as head of product design and development before joining the Group in 2019.

Mr. Guoshiguo, responsible for the administration, human resources and brand management, previously worked at Wanda Group and Homnicen Group as the general managers (human resources) and chief human resource officer before joining the Group in October 2018.

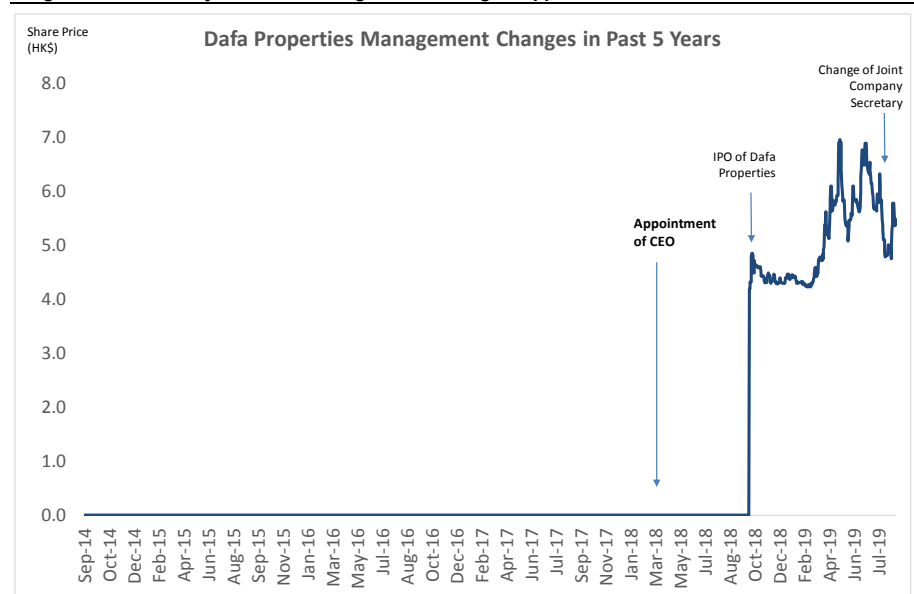
Figure 24: Management Organisation Chart of Aoyuan

Source: Company Data; AMTD Equity Research

Note: 1. Blue number is the date when the person joined the company.

2. Brown mark means that the individual has joined the company in the past 5 years.

2. Dafa Properties

Figure 25: Dafa: Major Senior Management Changes/Appointments

Source: HK Stock Exchange; AMTD Equity Research

In Dafa, there were seven senior managers joining the company in the past five years. Six of them once served for market leaders in property industry.

Mr. Liao Lujiang, ED and CEO, was previously an executive director of Shimao Property and responsible for operation, information technology and human resources from 2011 to 2018, before joining the company in March 2018. He also worked for Longfor Properties from 2006 to 2011 and was responsible for human resource management.

Mr. Luo Jun, CFO of the group, worked for Beijing Capital Land, Tahoe Group, Zhongliang Holding Group and Central South Construction Group in succession before joining the company in 2019.

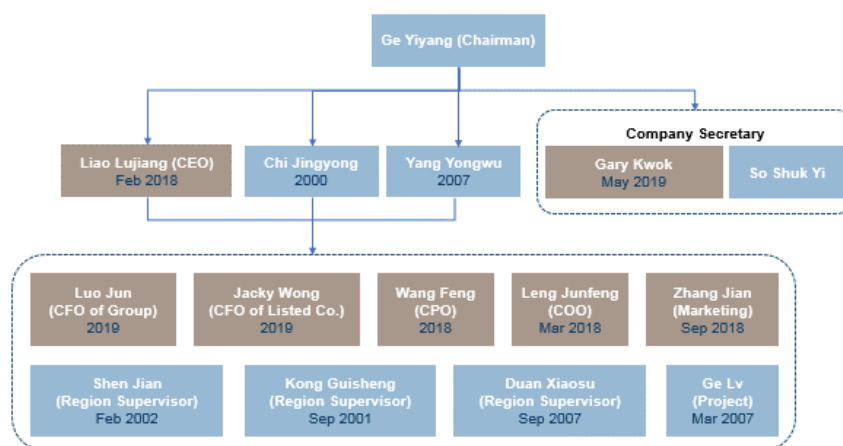
Mr. Jacky Wong, CFO of the listed company, worked for Yuzhou Group as CFO before joining the company in 2019.

Mr. Wang Feng, CPO, worked for Tahoe Group as general manager in design center before joining the company in 2018.

Mr. Leng Junfeng, the senior vice president of the product operation center since March 2018, served for Tahoe Group, Shimao Group, and China Overseas Property in succession from 1997 to 2018.

Mr. Zhang Jian, the vice president of the marketing center since September 2018, was responsible for marketing at China SCE Property, Shimao Group and Longfor Properties in succession from 2007 to 2018.

Figure 26: Management Organisation Chart of Dafa



Source: Company Data; AMTD Equity Research

Note: 1. Blue number is the date when the person joined the company.

2. Brown mark means that the individual has joined the company in the past 5 years

Key Investment Risks

Valuation and Liquidity Trap?

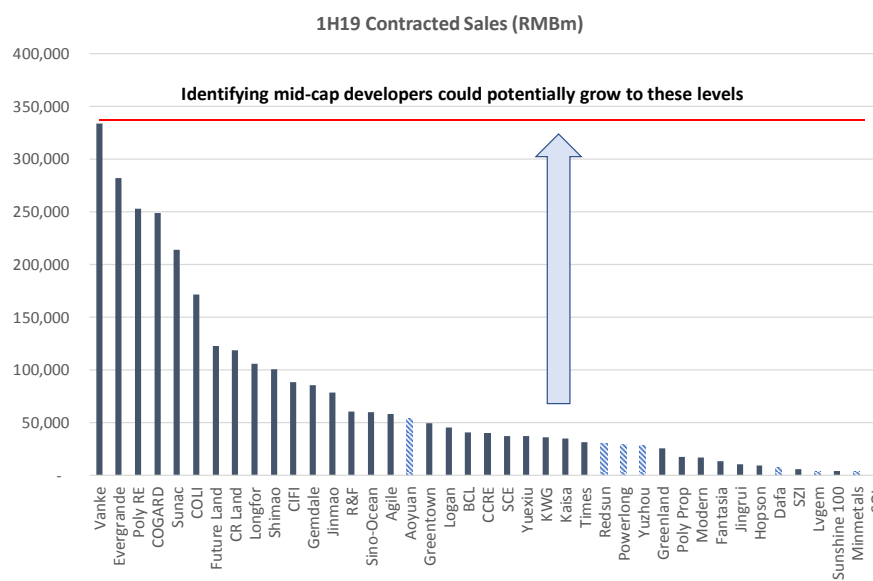
Property developers' growing at 20-30% or above YoY, while trading at less than 6x Fwd P/E are undoubtedly attractive from a valuation perspective, but many investors would point out that the low trading liquidity makes such investments a valuation trap. We agree, and thus, believe that equity investors in this small-mid cap property developers space will need to look at this space in a similar way to private equity investments.

We recommend investors to invest in a diversified portfolio of potential multi-bagger returns over the next 3-5 years, a diversified portfolio because the risks are high, but overall returns will be balanced out by the multi-bagger return stock that you have invested in.

For equity investors, it is all about growth and with the industry as a whole approaching a market ceiling, we recommend investors to look beyond the traditional large-cap names and seek for investment returns in the mid-small cap space.

The market leading large cap developers have shown that such a scale can be reached and if the mid-cap developers can grow to a similar scale it could potentially represent a multiple times return for equity investors over the next 3-5 years.

Figure 27: 1H19 Contracted Sales By Developer



Source: Company Data; AMTD Equity Research

Sacrifices made during the chase for Scale

Many investors would probably have heard developers mention time and time again that they have to reach RMB100bn annual contracted sales in scale, RMB200bn contracted sales in scale, and many have done this through JV projects. One of the main reason for this, in our view, is that contracted sales league table matters, as it gives developers' brand power.

Such brand power comes into play when negotiating for funding with banks and in negotiation for land acquisitions. It thus, is indeed necessary. However, we believe it is important for financial investors to look beyond the contracted sales numbers but the actual cashflow that generated through the sales and subsequent earnings recognized on financial statements.

Profitability has often been sacrificed as developers aggressively acquire land in quantity in order to reach the scale desired, as we have mentioned above in the scalability of the property development business model.

Figure 28: Contracted Sales League Table offers developers brand power



排名	企业简称	流量金额 (亿元)	排名	企业简称	权益金额 (亿元)
1	碧桂园	7286.9	1	中国恒大	5241.0
2	万科地产	6069.2	2	碧桂园	5203.6
3	中国恒大	5511.0	3	万科地产	4248.4
4	融创中国	4600.0	4	绿地控股	3431.0
5	保利发展	4050.0	5	融创中国	3262.0
6	绿地控股	3812.2	6	保利发展	2875.5
7	中海地产	2687.9	7	中海地产	2511.6
8	新城控股	2204.3	8	华润置地	1811.2
9	华润置地	2106.0	9	新城控股	1697.7
10	龙湖集团	2006.7	10	华夏幸福	1610.0
11	世茂房地产	1761.2	11	世茂房地产	1523.0
12	招商蛇口	1705.0	12	龙湖集团	1404.7
13	华夏幸福	1680.0	13	富力地产	1310.6

Source: CRIC

JV increases the execution and financial liquidity risks

Moreover, many developers attempt to grow the scale of their operations through JV companies, and the increased JV project companies have lowered the transparency in financial statements. We believe that it is even more important to highlight the higher execution risks involved in JV & Asso companies. It is not uncommon that disputes arise between JV partners in terms of the execution strategy of the projects, financial arrangements (e.g. use of the contracted sales proceeds). This increases the potential liquidity risks.

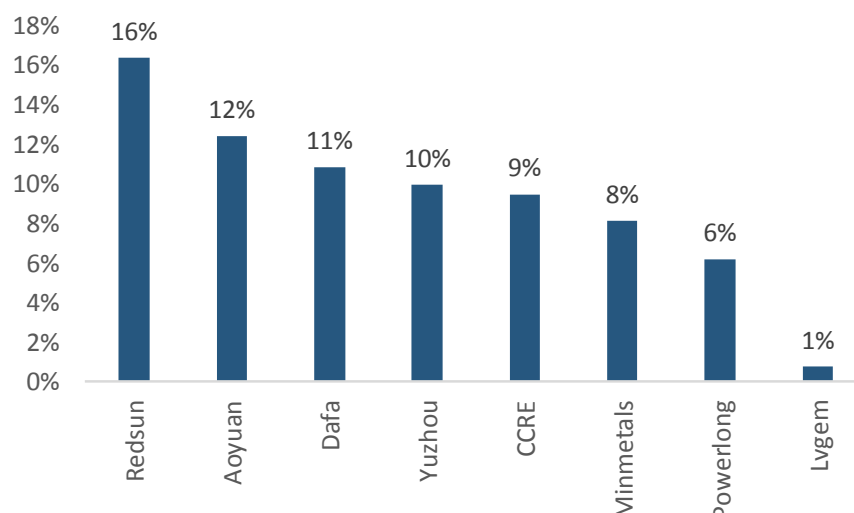
The increasing amount of JV projects have led to market's concerns over the contracted sales numbers reported by property developers, in our view. JV and Minority Interest (Figure 29) has become an increasingly important source of funding for property developers' balance sheet growth over the past 2-3 years. On average JV, Asso & MI represents ~10% of Total Assets for our coverage, which is fairly high considering the JV & Asso are based on equity accounting.

If we assume a same Assets to Equity ratio for the respective JV/Asso companies, JV, Asso Companies' Assets for our coverage universe will actually represent 28% of the Total Assets.

Positives: From a developers' execution perspective, sometimes this is inevitable due to the nature of many land acquisition opportunities through M&A. Moreover, this is also an opportunity for developers to further leverage up their balance sheet to drive growth without affecting the financial metrics on balance sheet, in order to maintain a low funding cost.

Concerns: However, this inevitably lowers the information transparency for equity investors in between the financial reporting periods, despite the announcement of monthly contracted sales data, and hence investors require more certainty (e.g. audited accounts) to compensate for the risks involved.

Figure 29: JV, Asso & MI as % of Total Assets by Developers as of 1H19



Source: Company Data; AMTD Equity Research
JV & Asso based on Equity Accounting method as per Financial Reporting Standards

Valuation Methodology

P/E based valuation metrics for Property Developers, SOTP for Far East (0035.HK)

We adopt a P/E valuation methodology to arrive at our 12-months target price for the earnings driven China Property Developers.

We believe that China property developers are currently operating on a high asset turnover business model, and since sales and earnings growth are the key share price drivers, we believe an earnings based valuation approach is more appropriate compared to asset based approaches such as P/B or Disc. To NAV.

For Far East Consortium (0035.HK), we adopt a Sum-of-the-parts approach considering its diversified business model including Property Development, Hotels and Car Parks. Our Sum-of-The-Parts NAV is at HK\$7.02/sh, and our Target Price of HK\$4.21 implies a 40% Disc. To NAV.

We adopt a Target P/E range of 4-6.5x P/E ratio for our coverage universe, with an average of 5.21x, which is slightly below the average that the sector average is currently trading (2019E) at.

Our Target P/E ratio for the Property Developers are ranked based on the earnings growth (Net Profit CAGR 2018-2021E) and balance sheet leverage (represented by Assets to Equity & Net Debt to Equity).

Figure 30: China: Target P/E Multiples based on Earnings Growth and Balance Sheet Leverage

	Target P/E Multiple (x)	2018-21E Net Profit CAGR	1H19 Assets to Equity	1H19 Net Debt to Equity	Target Price (HK\$)
0095.HK Lvgem	6.50	35%	3.82	120%	2.79
1238.HK Powerlong	6.00	42%	4.18	96%	7.18
3883.HK Aoyuan	5.50	41%	6.58	72%	14.35
6111.HK Dafa	5.50	28%	6.01	110%	6.98
1996.HK Redsun	5.00	27%	5.74	76%	3.32
1628.HK Yuzhou	4.00	14%	6.28	88%	3.96
0230.HK Minmetals	4.00	3%	3.08	74%	1.14
Average	5.21	27%	5.10	91%	

Source: Company Data; AMTD Equity Research

Figure 31: Far East: Target Price Based on 40% Discount to NAV

HK\$ m	FY20 NAV	NAV per share (HK\$)
Property development	11,720	5.24
Hotel	16,316	7.29
Car parks	1,128	0.50
Property investment	367	0.16
The Star	1,152	0.51
TWC	400	0.18
SOTP Valuation (FY20)	31,083	13.89
Net debt	(15,373)	(6.87)
Net Asset Value (FY20)	15,710	7.02
Discount		40%
Price target (FY20)		4.21
Current share price (HK\$, 8 Oct 2019)		3.20
Implied upside		32%

Source: Company Data; AMTD Equity Research

Figure 32: China Property: Peers Valuation comparison

Date	8/10/2019	Share Price (HK\$)	Mkt cap (USD mn)	FY18 P/E	FY19E P/E	FY20E P/E	FY18 P/B	FY19E P/B	FY20E P/B	Div. yield
Equity										
China Property Developers										
2202 HK	Vanke	27.65	41,469	9.1x	7.5x	6.5x	2.0x	1.7x	1.4x	3.87%
688 HK	COLI	25.20	35,198	7.4x	6.1x	5.2x	1.0x	0.9x	0.8x	3.57%
1109 HK	CR Land	33.35	29,468	10.1x	8.9x	7.6x	1.5x	1.4x	1.2x	3.77%
3333 HK	Evergrande	17.58	29,423	6.2x	5.2x	4.8x	1.7x	1.5x	1.2x	0.00%
2007 HK	Country Garden	10.34	28,552	6.5x	5.4x	4.7x	1.8x	1.5x	1.2x	4.72%
960 HK	Longfor	30.00	22,799	13.6x	10.9x	9.0x	2.2x	1.9x	1.7x	3.30%
1918 HK	Sunac	32.10	18,176	9.4x	5.5x	4.3x	2.5x	1.8x	1.3x	2.58%
813 HK	Shimao	24.30	10,228	8.0x	6.6x	5.3x	1.2x	1.1x	0.9x	5.06%
3380 HK	Logan	11.16	7,801	8.9x	6.2x	5.0x	2.3x	1.8x	1.4x	4.66%
2777 HK	R&F	12.12	4,979	4.1x	3.2x	2.7x	0.6x	0.5x	0.5x	10.15%
3383 HK	Agile	9.85	4,919	5.4x	5.0x	4.3x	0.9x	0.8x	0.7x	8.78%
884 HK	CIFI	4.57	4,594	5.5x	4.5x	3.7x	1.2x	1.0x	0.9x	5.11%
123 HK	Yuexiu	1.72	3,395	7.6x	8.0x	7.0x	0.6x	0.6x	0.6x	4.65%
3883 HK	Aoyuan	9.04	3,101	8.6x	4.9x	3.5x	1.8x	1.5x	1.1x	2.77%
1233 HK	Times	12.40	3,070	5.4x	4.4x	3.5x	1.3x	1.1x	0.9x	5.55%
6158 HK	Zhenro	5.29	2,946	11.1x	7.3x	5.6x	1.6x	1.3x	1.2x	2.84%
1813 HK	KWG	7.16	2,898	5.9x	4.4x	3.6x	0.8x	0.7x	0.6x	7.82%
1238 HK	Powerlong	5.68	2,894	11.0x	8.2x	4.7x	0.7x	0.7x	0.6x	3.57%
1638 HK	Kaisa	3.59	2,784	4.6x	6.0x	4.6x	1.0x	0.9x	0.7x	2.51%
1628 HK	Yuzhou	3.18	2,040	3.6x	3.9x	3.2x	0.7x	0.7x	0.6x	8.58%
3301 HK	Ronshine	9.16	2,014	6.6x	4.2x	3.2x	1.1x	1.0x	0.8x	3.49%
1966 HK	China SCE	3.61	1,899	6.3x	4.6x	3.5x	1.0x	0.8x	0.7x	4.97%
3900 HK	Greentown	6.83	1,890	14.8x	5.9x	5.3x	0.5x	0.5x	0.5x	3.37%
95 HK	Lvgem	2.77	1,764	14.2x	12.4x	6.4x	1.1x	1.0x	0.9x	1.81%
272 HK	Shui On Land	1.59	1,634	4.8x	17.7x	15.9x	0.3x	0.3x	0.3x	6.64%
119 HK	Poly Prop	2.73	1,274	5.3x	5.2x	NA	0.4x	0.4x	NA	4.18%
1098 HK	Roadking	13.14	1,255	NA	NA	NA	0.6x	NA	NA	7.59%
1996 HK	Redsun	2.48	1,050	3.9x	5.4x	3.7x	0.4x	0.5x	0.5x	4.31%
6111 HK	Dafa	5.59	590	7.6x	5.3x	4.4x	1.1x	0.9x	0.8x	3.02%
230 HK	Minmetals	1.07	457	3.7x	4.0x	3.7x	0.4x	0.4x	0.3x	6.32%
Total			275,740	7.6x	6.4x	5.1x	1.1x	1.0x	0.9x	4.67%

Source: Bloomberg Estimates, AMTD Equity Research Estimates for AMTD Coverage Stocks

Note: As of 8th Oct 2019

Company Section

China Aoyuan Property

2H19 Sales Growth to Propel Stock Higher, Assume Coverage with Buy

We assume coverage of China Aoyuan Property with a Buy Rating and a new Target Price of HK\$14.35/sh. Stock is trading at attractive valuations of 3.5x 2020E P/E, while 2H19 contracted sales momentum remains strong and will be a key catalyst driving share price higher.

Higher growth, higher transparency should warrant premium valuations

With the stock trading at 3.5x 2020E P/E, we believe investors still haven't fully appreciate the stock's sales and earnings growth, and higher financial transparency thanks to fewer JV/Asso projects (only 10 out of 230 projects are non-consolidated) and we thus initiate coverage with a Buy and a TP of HK\$14.35/sh. If contracted sales growth momentum maintains into 2H19, it should drive the share price higher. Meanwhile, further improvements in product design and development will enhance Aoyuan's competitive edge over peers and underpin their continual contracted sales growth and profit margins beyond 2020E.

Product Improvement to drive 2020E contracted sales and beyond

China Aoyuan appointed Mr. Hu Hao (ex-Longfor Head of Product Development) in 2019 as Senior Vice President to oversee the company's product design and development. We believe we should start to see positive impact from changes introduced by Mr. Hu into the product designs and development processes in 2020E contracted sales. An improved product design and development process will increase Aoyuan's competitive edge in attracting homebuyers, in our view, and will also enhance the development efficiency and thus could optimize asset turnover and cost control.

Offshore real estate assets offer natural FX hedge to Offshore Debt

RMB's recent depreciation of 6% since Apr 2019 has raised investors' concerns on China property developers' offshore debt exposure. For Aoyuan, we believe their offshore property assets, including projects in HK, Sydney, Toronto and Vancouver will offer a natural hedge towards the offshore debt. USD denominated offshore debt of Aoyuan stood at RMB27.1bn as of 1H19. Meanwhile, we estimate the company's offshore assets to be over ~RMB10bn on balance sheet, representing at least ~35% of offshore debt.

1H19 results solid, contracted sales growth continue into 2H19

China Aoyuan reported a solid set of 1H19 results, with revenue growing by 73% YoY and net profit grew by 79% YoY. Such an earnings growth is in-line with the contracted sales growth that the company announced and this helps dispel investors' concerns on the quality of Aoyuan's contracted sales, including the cash collection rate. 1H19 Net Debt to Equity remains healthy at 72% (end-2018: 63%). Overall balance sheet leverage, Total Assets/Total Equity, is also up slightly at ~6.6x (end-2018: 6.1x).

Stock trading at inexpensive valuations of 3.5x 2020E P/E

Our price target of HK\$14.35/sh (59% upside to current share price) is based on a 5.5x 2020E P/E ratio, largely in-line with the industry average. It also implies a 2.4x 2019E P/B, which is justified by a 33% 2019E ROE.

This report marks the transfer of coverage of China Aoyuan to Jacky Chan from Michelle Li.

Stock code: 3883.HK

Rating: Buy

Price target (HK\$)	14.35
Previous price target (HK\$)	NA
Current price (HK\$, 8th Oct 2019)	9.04
Upside/downside %	59%
Market cap (HK\$ m)	24,321
Market cap (US\$ m)	3,101
Avg daily turnover (US\$ m)	11.68

Source: Bloomberg, AMTD Equity Research

Key forecasts

(RMB m)	2018	2019e	2020e	2021e
Revenue	31,006	52,146	64,973	77,815
yoy %	62.2%	68.2%	24.6%	19.8%
Net profit	2,939	5,528	7,123	8,154
yoy %	47.4%	83.1%	42.5%	14.5%
Core Attr NP	2,550	4,422	6,304	7,216
yoy %	61.9%	73.5%	42.5%	14.5%
Gross margin	31.1%	31.0%	31.5%	30.5%
Net gearing	63.2%	61.4%	60.4%	60.4%
EPS	0.95	1.65	2.35	2.69
DPS	0.25	0.46	0.65	0.75
BPS	4.43	5.62	7.32	9.27

Source: Company data, AMTD Equity Research

Valuation

	2018	2019e	2020e	2021e
P/E	8.6	4.9	3.5	3.0
P/BV	1.8	1.5	1.1	0.9
Div. yield	3.1%	5.6%	8.0%	9.2%
ROE	23.1%	32.8%	36.3%	32.5%
ROA	1.5%	2.0%	2.4%	2.4%

Source: Bloomberg, AMTD Equity Research

Share price performance



Source: Bloomberg

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Figure 33: Financial Forecasts and key ratios

PnL, RMB mn	2017	2018	2019e	2020e	2021e	Cash Flow Statement, RMB mn	2017	2018	2019e	2020e	2021e
Revenue	19,115	31,006	52,146	64,973	77,815	Operating activities					
Sales of properties	17,960	29,740	50,753	63,441	76,130	Profit before income tax	3,626	6,954	9,936	12,803	14,656
Cost of sales	(14,004)	(21,372)	(35,981)	(44,507)	(54,081)	Operating CF before Working Cap	3,483	6,719	10,673	13,615	15,521
Gross profit	5,111	9,634	16,165	20,467	23,733	Increase in inventories	(94)	54	-	-	-
Selling expenses	(926)	(1,432)	(2,607)	(3,249)	(3,891)	Increase in properties for sale	(13,507)	(16,380)	(36,762)	(34,555)	(40,654)
Administrative expenses	(800)	(1,736)	(2,920)	(3,638)	(4,357)	Increase in Contracted Liabilities	8,459	22,571	17,929	18,978	22,773
Share of results of asso	0	(2)	(2)	(2)	(2)	Cash (used in) from operations	(3,443)	14,548	925	3,339	3,595
Share of results of JV	(116)	37	37	37	37	PRC Income tax paid	(1,313)	(2,385)	(4,408)	(5,680)	(6,502)
Finance costs	(268)	(411)	(737)	(812)	(865)	Interest paid	(2,007)	(3,576)	(2,948)	(3,247)	(3,460)
Profit before tax	3,626	6,954	9,936	12,803	14,656	Net Operating Cashflows	(6,763)	8,588	(6,431)	(5,587)	(6,367)
Income tax expense	(1,673)	(4,015)	(4,408)	(5,680)	(6,502)						
Net profit	1,952	2,939	5,528	7,123	8,154	Net Investing Cashflows	(9,944)	(16,963)	3,360	2,029	2,029
Core attr. net profit	1,575	2,550	4,422	6,304	7,216	Financing activities					
Dividends	259	670	1,228	1,750	2,003	New bank and other borrowings raised	24,663	28,480	-	-	-
Special Dividends	142	-	-	-	-	Repayment of bank and other borrowings	(5,000)	(17,373)	12,500	-	-
EPS - basic	0.61	0.90	1.65	2.35	2.69	Net Financing Cashflows	31,046	16,370	13,483	685	591
EPS-underlying	0.59	0.95	1.65	2.35	2.69	Net Cash Flows	14,339	7,995	10,412	(2,873)	(3,747)
DPS - basic	0.15	0.25	0.46	0.65	0.75	Effect of foreign exchange rate changes	(41)	173	-	-	-
BVPS	3.80	4.43	5.62	7.32	9.27						

Balance Sheet, RMB mn	2017	2018	2019e	2020e	2021e	Key Ratios, RMB mn	2017	2018	2019e	2020e	2021e
Non-current assets	9,696	17,051	17,051	17,051	17,051	GPM	26.7%	31.1%	31.0%	31.5%	30.5%
Current assets	116,110	171,808	227,372	263,950	306,356	NPM	8.6%	7.8%	8.5%	9.7%	9.3%
Properties held under development	77,069	114,894	151,656	186,211	226,865	Core NPM	8.2%	8.2%	8.5%	9.7%	9.3%
Pledged bank deposits	1,771	2,281	2,281	2,281	2,281	ROA	1.7%	1.5%	2.0%	2.4%	2.4%
Bank balances and cash	24,769	36,012	46,424	43,551	39,804	ROCE	3.3%	3.1%	4.6%	5.8%	6.3%
Others	12,501	18,620	27,010	31,907	37,406	ROE	16.5%	23.1%	32.8%	36.3%	32.5%
Current liabilities	75,573	121,033	170,535	206,741	247,995	Total Debt / EBITDA	10.6x	8.0x	6.6x	5.2x	4.5x
Contract Liabilities	34,760	59,966	77,896	96,873	119,647	Total Debt / Equity	148.8%	187.8%	200.4%	173.8%	150.8%
Senior note and bond	7,118	4,470	4,470	4,470	4,470	Total Debt / Capitalization	59.8%	65.3%	66.7%	63.5%	60.1%
Borrowings	13,371	19,261	30,000	35,000	40,000	Net Debt / EBITDA	3.6x	2.7x	2.0x	1.8x	1.8x
Others	20,323	37,334	58,169	70,397	83,878	Net Debt / Equity	51.0%	63.2%	61.4%	60.4%	60.4%
Non-current liabilities	23,106	37,092	38,853	33,853	28,853	Net Debt / Capitalization	20.5%	22.0%	20.4%	22.0%	24.1%
Borrowings	14,423	21,490	23,251	18,251	13,251	Current Ratio	153.6%	142.0%	133.3%	127.7%	123.5%
Senior notes	5,457	12,500	12,500	12,500	12,500	Cash / Total Assets	21.1%	20.3%	19.9%	16.3%	13.0%
Others	3,226	3,102	3,102	3,102	3,102	Inventory / Total Assets	61.4%	60.9%	62.1%	66.3%	70.2%
Capital and reserves	27,126	30,734	35,034	40,408	46,558	Net debt / Net Inventory	17.9%	16.9%	14.2%	13.1%	12.4%
Shareholders' equity	10,155	11,872	15,067	19,621	24,834	Quick Ratio	118.5%	110.3%	104.8%	105.5%	106.6%
Non-controlling interests	16,971	18,862	19,967	20,786	21,724	Cash Ratio	35.1%	31.6%	28.6%	22.2%	17.0%
Total equity	27,126	30,734	35,034	40,408	46,558						

Source: Company data, AMTD Equity Research

Dafa Properties Group Limited

A Family Business Morphing into a Newly Listed Institution

We initiate coverage of Dafa Properties with a Buy Rating and a Target Price of HK\$6.98/sh. We expect the company's contracted sales growth will improve, driving share price higher, as Mr. Liao Lujiang improves the company's operational efficiency, bringing his experience from Shimao.

Initiate coverage with a Buy rating with a TP of HK\$6.98/sh

We initiate coverage of Dafa Properties with a Buy Rating and a TP of HK\$6.98/sh. Following the appointment of Mr. Liao Lujiang (ex-Shimao ED and COO) as ED and CEO since Mar 2018, Chairman Ge and CEO Liao has put in place measures to improve company's efficiency and we expect to start to see the impact on the company's growth. These operational improvements, together with the companies' strengthened capital structure will fuel the company to embark on a new era of multi-year growth with net profit to grow by 28% CAGR during 2018-2021E.

Founded in Wenzhou, baton passed on to Chairman Ge Yiyang

Mr. Ge Hekai, the major shareholder of Dafa Properties, founded the Group's Real Estate business since 1996 in Wenzhou. They have subsequently expanded into Shanghai and has since then rooted their business around the Yangtze River Delta. Mr. Ge Yiyang, son of Mr. Ge Hekai, joined the Group as management trainee and worked in various key positions within the group over the past 12 years before being appointed as Chairman of the Board since 2018. We expect the management team under the leadership of Chairman Ge Yiyang and CEO Liao Lujiang will spur on a new chapter of growth for Dafa Properties' Group.

Increased funding channels to support High Asset Turnover business

Following the company's listing on HK Stock Exchange in 2018, the developer announced a solid set of 1H19 results and have now access to offshore capital markets to propel growth, without further stretching its balance sheet. Such improved capital funding source will fuel the company's efficient operational business engine, given its high 66% 2019E Asset Turnover (on contracted sales). The developer's 1H19 Net Debt to Equity remained at 110%, similar to 2018 levels, while Assets to Equity also remained stable at ~6x, compared to 5.93x on end-2018. We expect a moderate deleveraging of the companies' balance sheet as management balances between growth and financial risks.

Key project launches to propel contracted sales higher

The company has recorded a 41% YoY growth in 1H19 contracted sales to reach RMB7.1bn, with a healthy 70% sell-through rate. We expect the momentum to continue, propelled by more than RMB10bn of new sellable resources set to be launched into the market in 1H19, driving a ~18% YoY 2019E full year contracted sales growth to reach RMB15bn, in our view.

Valuations attractive considering growth prospects

Dafa Properties is trading at 4.4x 2020E P/E with a high earnings visibility. Over 80% of the 2019E net profit is already secured by contracted liabilities on balance sheet. We believe the stock offers a 25% upside to our TP of HK\$6.98/sh which is based on a 5.5x 2020E P/E. Key risks include (1) Property related monetary policies to further tighten; (2) Land bank replenishment opportunities fewer than expected; (3) Macroeconomy weakens more than expected resulting in ASP downside pressure.

Stock code: 6111.HK

Rating: **BUY**

Price target (HK\$)	6.98
Previous target(HK\$):	NA
Current price (HK\$, 8th Oct 2019)	5.59
Upside/downside %	25%
Market cap (HK\$ m)	4,628
Market cap (US\$ m)	590
Avg daily turnover (US\$ m)	0.19

Source: Bloomberg, AMTD Equity Research

Key forecasts

(RMB m)	2018	2019e	2020e	2021e
Revenue	5,946	8,863	10,636	12,763
yoy %	30.1%	49.1%	20.0%	20.0%
Net profit	489	629	763	929
yoy %	239.5%	28.5%	21.2%	21.7%
Core Attr NP	432	613	743	905
yoy %	350.0%	41.9%	21.2%	21.7%
Gross margin	26.6%	25.0%	25.0%	25.0%
Net gearing	108.1%	97.0%	76.8%	58.3%
EPS	0.66	0.94	1.14	1.39
DPS	0.18	0.24	0.29	0.35
BPS	4.74	5.45	6.31	7.35

Source: Company data, AMTD Equity Research

Valuation

	2018	2019e	2020e	2021e
P/E	7.6	5.3	4.4	3.6
P/BV	1.1	0.9	0.8	0.7
Div. yield	3.7%	4.7%	5.7%	6.9%
ROE	14.0%	17.3%	18.1%	18.9%
ROA	2.2%	2.7%	3.0%	3.4%

Source: Bloomberg, AMTD Equity Research

Share price performance



Source: Bloomberg

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Figure 34: Financial Forecasts and key ratios

PnL, RMB mn	2017	2018	2019e	2020e	2021e	Balance Sheet, RMB mn	2017	2018	2019e	2020e	2021e
Revenue	4,570	5,946	8,863	10,636	12,763	Investment Properties	2,497	2,582	2,582	2,582	2,582
COGS	(3,912)	(4,364)	(6,647)	(7,977)	(9,572)	Interest in JV/Asso	-	106	106	106	106
Gross Profit	657	1,582	2,216	2,659	3,191	PP&E and Others	446	421	421	421	421
						Non-current assets	2,943	3,109	3,109	3,109	3,109
Selling and marketing exp	(94)	(177)	(212)	(255)	(306)	PUD & Held for Sale	9,305	12,097	14,872	16,336	18,093
General and admin exp	(134)	(375)	(450)	(540)	(648)	Deposits and prepayments	1,198	1,067	1,067	1,067	1,067
Share of results of JV & Asso	(3)	(4)	(6)	(7)	(8)	Cash & Cash Equivalents	377	1,487	2,284	2,596	2,980
Reval Gains from Inv Prop	58	61	-	-	-	Others	1,454	1,497	1,497	1,497	1,497
Others	(15)	35	49	59	71	Current assets	12,335	16,149	19,719	21,496	23,638
Finance costs	(134)	(133)	(145)	(162)	(173)						
Profit before tax	336	989	1,452	1,755	2,127	Contract Liabilities	5,014	6,986	7,625	8,392	9,312
						Bank and Other Borrowings	590	2,194	3,006	3,006	3,006
Income tax expense	(191)	(500)	(823)	(992)	(1,198)	Trade and Other Payables	1,448	2,288	3,034	3,468	3,989
Net profit	144	489	629	763	929	Others	453	695	695	695	695
Shareholders' Profit	137	477	613	743	905	Current liabilities	7,506	12,164	14,360	15,561	17,001
Minority Interest	7	13	16	20	24						
Shareholders' Core Net Profit	96	432	613	743	905	Bank and Other Borrowings	5,397	3,451	4,351	4,351	4,351
						Others	386	396	396	396	396
Dividends	-	120	154	187	227	Non-current liabilities	5,784	3,847	4,747	4,747	4,747
Special Dividends	-	-	-	-	-						
EPS - Basic (RMB)	0.23	0.73	0.94	1.14	1.39	Capital and reserves	1,989	3,083	3,542	4,098	4,775
Core EPS - Basic (RMB)	0.16	0.66	0.94	1.14	1.39	Shareholders' equity	1,989	3,083	3,542	4,098	4,775
DPS - basic (RMB)	-	0.18	0.24	0.29	0.35						
						Non-controlling interests & Perp	(1)	163	179	199	222
						Total equity	1,988	3,246	3,721	4,297	4,998
Cash Flow Statement, RMB mn	2017	2018	2019e	2020e	2021e	Key Ratios, RMB mn	2017	2018	2019e	2020e	2021e
Profit before income tax	336	989	1,452	1,755	2,127	GP Margins	14%	27%	25%	25%	25%
Operating CF before Working Cap	416	1,038	1,963	2,304	2,676	Net Margins	3%	8%	7%	7%	7%
						Core Altri Net Margins	2%	7%	7%	7%	7%
PUD	(1,489)	(2,457)	(2,774)	(1,464)	(1,757)	ROE	5%	14%	17%	18%	19%
Deposits & Prepayments	(288)	70	-	-	-	ROA	1%	2%	3%	3%	3%
Trade & Other Payables	381	266	746	434	521	Net Debt / Total Equity	272%	108%	97%	77%	58%
Increase in contract liabilities	(765)	1,988	639	767	920	Net Debt / Shareholders' Equity	271%	114%	102%	80%	61%
Others	(648)	(476)	(1,334)	(1,541)	(1,747)	Total Assets / Total Equity	768%	593%	614%	573%	535%
Net Operating Cashflows	(2,393)	429	(761)	499	612	Total Assets / Shareholders' Equity	768%	625%	645%	600%	560%
						Asset Turnover (Contracted Sales)	27%	65%	66%	73%	81%
Net Investing Cashflows	(115)	388	-	-	-						
Bank & Other Borrowings	4,007	(831)	(1,064)	-	-						
Others	(1,277)	1,124	2,621	(187)	(227)						
Net Financing Cashflows	2,729	293	1,557	(187)	(227)						
Net Cash Flows	220	1,110	797	312	385						

Source: Company data, AMTD Equity Research

Redsun Properties Group Limited

A Rising Sun under the Market's Radar, initiate with Buy

Redsun has high earnings visibility secured through its pre-sold properties, with the stock trading at 3.7x 2020E P/E, we initiate coverage with a Buy rating and a TP of HK\$3.32/sh.

A 3.7x P/E stock with two years' earnings secured, initiate with Buy

We initiate coverage of Redsun Properties with a Buy Rating and a TP of HK\$3.32/sh. We believe our 27% net profit CAGR of 2018-2021E is highly secured by pre-sale proceeds (estimating to be RMB30bn if incl. JV & Asso, representing 206% of our 2019E revenue). We believe there will be upside risk to our earnings forecasts if 2H19 contracted sales beat our expectations. With the stock still trading at 3.7x 2020E P/E, we believe market has yet to fully reflect the earnings growth that the developer has locked-in through its contracted sales. We thus initiate coverage of Redsun with a Buy rating and a Target Price of HK\$3.32/sh.

Roots from Nanjing, professional management driving transformation

Mr. Zeng Huansha, Chairman and Executive Director, founded Redsun Group in Nanjing in 1996 and entered the real estate business in 2003. Since 2011, Redsun Properties expanded into the Greater Jiangsu Market and the Yangtze River Delta Region. CEO, Mr. He Jie joined Redsun in 2012 and was appointed as CEO and Executive Director of Redsun Properties since Mar 2018. Mr. Janus Lui, formerly Times China CFO, was also recently appointed as Executive Director and Vice President of the Company in July 2019.

2019E and 2020E net profit highly secured

As of 1H19, Redsun has RMB23bn of contract liabilities (pre-sold proceeds) on their consolidated balance sheet, which represents ~158% of our 2019E revenue. This has not yet included the pre-sale proceeds from JV/Asso projects, which cannot be easily verified through the company's balance sheet. If we take the "Due to Related Companies" as a proxy, it would add another RMB7.3bn to the unrecognized sales proceeds, bringing it to ~RMB30bn, or 206% of our 2019E revenue.

Focusing in Jiangsu and Yangtze River Delta will help cost control

We believe the company's continual focus their project investment (~54%) in Jiangsu Province and Yangtze River Delta will help their cost control through more efficient resource management. For a developer at Redsun's scale (~134 projects), it is important not to spread themselves too thin to establish a "Nationwide Presence" for the sake of it. This will help in leveraging on a stronger local brand name, controlling their SG&A expenses and identifying attractive land acquisition opportunities.

Market not fully reflected the actual earnings achieved

Redsun Properties is trading at 3.7x 2020E P/E and our TP of HK\$3.32/sh offers 34% upside potential. Our TP is based on a 5x 2020E P/E, which is highly secured by sales proceeds pre-sold before 1H19. Over 80% of the 2019E net profit is already secured by contracted liabilities on 1H19 balance sheet. Key risks include (1) Property related monetary policies to further tighten; (2) Land bank replenishment opportunities fewer than expected; (3) Macroeconomy weakens more than expected resulting in ASP downside pressure.

Stock code: 1996.HK

Rating: **BUY**

Price target (HK\$)	3.32
Previous target(HK\$):	NA
Current price (HK\$, 8th Oct 2019)	2.48
Upside/downside %	34%
Market cap (HK\$ m)	8,234
Market cap (US\$ m)	1,050
Avg daily turnover (US\$ m)	0.75

Source: Bloomberg, AMTD Equity Research

Key forecasts

(RMB m)	2018	2019e	2020e	2021e
Revenue	9,239	14,560	18,371	22,045
yoy %	50.5%	57.6%	26.2%	20.0%
Net profit	1,323	1,474	2,168	2,659
yoy %	10.7%	11.4%	47.0%	22.7%
Core Attr NP	1,203	1,375	2,022	2,480
yoy %	-20.5%	14.3%	47.0%	22.7%
Gross margin	31.2%	25.0%	25.0%	25.0%
Net gearing	68.3%	67.1%	61.6%	55.5%
EPS	0.57	0.41	0.60	0.73
DPS	0.14	0.09	0.13	0.16
BPS	5.96	4.15	4.55	5.07

Source: Company data, AMTD Equity Research

Valuation

	2018	2019e	2020e	2021e
P/E	3.9	5.4	3.7	3.1
P/BV	0.4	0.5	0.5	0.4
Div. yield	6.4%	4.0%	5.8%	7.0%
ROE	9.5%	10.0%	13.2%	14.3%
ROA	1.8%	1.6%	2.1%	2.2%

Source: Bloomberg, AMTD Equity Research

Share price performance



Source: Bloomberg

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Figure 35: Financial Forecasts and key ratios

PnL, RMB mn	2017	2018	2019e	2020e	2021e	Balance Sheet, RMB mn	2017	2018	2019e	2020e	2021e
Revenue	6,140	9,239	14,560	18,371	22,045	Investment Properties	8,723	9,397	9,797	10,197	10,597
COGS	(3,648)	(6,352)	(10,920)	(13,778)	(16,534)	Interest in JV/Asso	1,445	2,739	2,739	2,739	2,739
Gross Profit	2,492	2,887	3,640	4,593	5,511	PP&E and Others	992	1,473	1,473	1,473	1,473
Selling and marketing exp	(240)	(342)	(461)	(554)	(664)	Non-current assets	11,160	13,609	14,009	14,409	14,809
General and admin exp	(305)	(686)	(926)	(1,112)	(1,334)	PUD & Held for Sale	18,800	30,865	42,922	56,456	72,696
Share of results of JV & Asso	418	367	578	953	1,144	Deposits and prepayments	4,868	9,526	9,526	9,526	9,526
Reval Gains from Inv Prop	(287)	261	-	-	-	Cash & Cash Equivalents	2,478	6,233	10,573	10,340	10,186
Others	265	188	296	373	448	Others	4,019	7,689	7,689	7,689	7,689
Net Finance costs	(442)	(499)	(384)	(384)	(384)	Current assets	30,166	54,313	70,710	84,011	100,098
Profit before tax	1,901	2,175	2,742	3,870	4,721	Contract Liabilities	10,290	16,639	25,906	36,128	48,394
Income tax expense	(705)	(852)	(1,268)	(1,702)	(2,062)	Bank and Other Borrowings	4,637	10,827	10,827	10,827	10,827
Net profit	1,195	1,323	1,474	2,168	2,659	Trade and Other Payables	5,208	6,638	8,022	9,768	11,864
Shareholders' Profit	1,221	1,412	1,375	2,022	2,480	Others	3,819	6,545	6,545	6,545	6,545
Minority Interest	(25)	(89)	99	146	179	Current liabilities	23,953	40,649	51,300	63,268	77,629
Shareholders' Core Net Profit	1,514	1,203	1,375	2,022	2,480	Bank and Other Borrowings	6,993	11,093	16,060	16,060	16,060
Dividends	-	304	296	435	533	Others	1,922	2,330	2,330	2,330	2,330
Special Dividends	-	-	-	-	-	Non-current liabilities	8,915	13,423	18,390	18,390	18,390
EPS - Basic (RMB)	-	0.66	0.41	0.60	0.73	Capital and reserves	8,298	12,695	13,774	15,361	17,308
Core EPS - Basic (RMB)	-	0.57	0.41	0.60	0.73	Shareholders' equity	8,298	12,695	13,774	15,361	17,308
DPS - basic (RMB)	-	0.14	0.09	0.13	0.16	Non-controlling interests	159	1,155	1,254	1,400	1,579
BVPS	-	5.96	4.15	4.55	5.07	Total equity	8,457	13,850	15,028	16,761	18,887
Cash Flow Statement, RMB mn	2017	2018	2019e	2020e	2021e	Key Ratios, RMB mn	2017	2018	2019e	2020e	2021e
Profit Before Tax	1,901	2,175	2,742	3,870	4,721	GP Margins	41%	31%	25%	25%	25%
Operating CF before Working Cap	2,153	2,012	4,858	5,985	6,836	Net Margins	19%	14%	10%	12%	12%
PUD	(4,884)	(5,011)	(12,057)	(13,534)	(16,241)	Core Attri Net Margins	25%	13%	9%	11%	11%
Deposits & Prepayments	(1,329)	1,329	-	-	-	ROE	18%	9%	10%	13%	14%
Trade & Other Payables	(235)	274	1,384	1,746	2,095	ROA	4%	2%	2%	2%	2%
Increase in contract liabilities	(56)	5,746	9,267	10,222	12,266	Net Debt / Total Equity	88%	68%	67%	62%	55%
Others	853	(6,977)	(3,383)	(3,818)	(4,177)	Net Debt / Shareholders' Equity	89%	75%	73%	67%	61%
Net Operating Cashflows	(3,498)	(2,628)	69	601	779	Total Assets / Total Equity	489%	490%	564%	587%	608%
Net Investing Cashflows	1,179	(3,980)	(400)	(400)	(400)	Total Assets / Shareholders' Equity	498%	535%	615%	641%	664%
Bank & Other Borrowings	7,091	16,032	4,967	-	-	Asset Turnover (Contracted Sales)	30%	38%	42%	43%	44%
Others	(4,693)	(5,669)	(296)	(435)	(533)						
Net Financing Cashflows	2,399	10,363	4,672	(435)	(533)						
Net Cash Flows	79	3,755	4,340	(233)	(154)						

Source: Company data, AMTD Equity Research

Powerlong Real Estate Holdings Limited

A Limelight in a Challenging Industry

We initiate coverage of Powerlong with a Buy Rating and a Target Price of HK\$7.18/sh. We believe the company's commercial properties development and operations is a competitive edge in acquire profitable development opportunities. 42% 2018-2021E Net Profit CAGR is among the highest in our coverage universe.

Initiate coverage with a Buy rating with a TP of HK\$7.18/sh

We initiate coverage of Powerlong with a Buy Rating and a TP of HK\$7.18/sh. Powerlong's GP Margins of 34% (2019E) is unparalleled in the industry, thanks to the contributions from commercial property sales. In an industry where GP Margins have continually been under pressure over the past 12 months, we believe Powerlong offers investors a limelight into a profitable business in a challenging industry. The developers' strength and experience in the sales and operations in commercial properties space provide them with an unrivalled competitive edge.

Commercial Properties is a Competitive Edge in Land Banking

Ecommerce's impact on commercial properties has been well-documented and we believe is fully reflected into the stocks' valuation. However, we would argue that rentals is not the key earnings driver of Powerlong, but instead a key competitive edge in land acquisitions. Commercial Properties is a competitive edge for Powerlong in acquiring low cost land bank, to maintain solid profitability, while their core earnings driver still comes from property sales (88% of 2019E Revenues), while rental income is only 4.5% of revenue and will remain relatively insignificant.

Capital recycling of commercial properties will be a key to success

Construction of shopping malls and offices for rental purposes is a capital intensive business and often a drag towards property developers' earnings growth. Successful capital recycling from these assets will also be a key to success for driving future growth. Powerlong recycles the capital through sales of shops, offices and serviced apartments, while shopping malls held for lease can be used as a collateral for a long term (~10 years) commercial bank loans.

Spin-off of property management arm value-accretive, in our view

On 20 Aug 2019, company announced plans to spin off the property management business of Powerlong. Considering that property management companies are currently trading at ~25x 2020E P/E, compared to the 4.7x 2020E P/E of Powerlong (1238.HK), we believe that a successful spin-off will lower the overall cost of capital of the developer, providing an additional funding channel for the group, as well as being valuation enhancer to Powerlong (1238.HK).

Undemanding valuations at 4.7x 2020E P/E and 0.7x 2019E P/B

Powerlong is trading at 4.4x 2020E P/E and 0.7x 2019E P/B. Considering that we expect the companies' core earnings to continue to grow by 42% CAGR during 2018-2021E, we believe the stock offers an attractive entry point into a profitable business. Our target price is based on a 6x 2020E P/E multiple and offers 26% upside to the current share price.

Investment concerns: (1) Commercial assets that are difficult to sell or lease (e.g. offices) will drag on the cash flows of the company; (2) Investment demand for retail spaces weaken amid economic slowdown.

Stock code: 1238.HK

Rating: **BUY**

Price target (HK\$)	7.18
Previous target(HK\$):	NA
Current price (HK\$, 8th Oct 2019)	5.68
Upside/downside %	26%
Market cap (HK\$ m)	22,705
Market cap (US\$ m)	2,895
Avg daily turnover (US\$ m)	4.80

Source: Bloomberg, AMTD Equity Research

Key forecasts

(RMB m)	2018	2019e	2020e	2021e
Revenue	19,594	26,946	43,824	48,268
yoy %	25.7%	37.5%	62.6%	10.1%
Net profit	3,648	3,359	5,466	6,752
yoy %	-5.7%	-7.9%	62.8%	23.5%
Core Attr NP	1,857	2,497	4,313	5,356
yoy %	24.4%	34.4%	72.7%	24.2%
Gross margin	38.5%	33.5%	33.5%	33.5%
Net gearing	101.6%	89.0%	75.8%	69.3%
EPS	0.46	0.62	1.08	1.34
DPS	0.20	0.19	0.30	0.38
BPS	6.83	7.26	8.04	9.00

Source: Company data, AMTD Equity Research

Valuation

	2018	2019e	2020e	2021e
P/E	11.0	8.2	4.7	3.8
P/BV	0.7	0.7	0.6	0.6
Div. yield	4.0%	3.7%	6.0%	7.4%
ROE	6.8%	8.6%	13.4%	14.9%
ROA	2.8%	2.2%	3.3%	3.7%

Source: Bloomberg, AMTD Equity Research

Share price performance



Source: Bloomberg

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Figure 36: Financial Forecasts and key ratios

PnL, RMB mn	2017	2018	2019e	2020e	2021e	Balance Sheet, RMB mn	2017	2018	2019e	2020e	2021e
Revenue	15,593	19,594	26,946	43,824	48,268	Investment Properties	39,218	45,659	48,159	50,659	53,159
COGS	(10,368)	(12,041)	(17,916)	(29,139)	(32,093)	Interest in JV/Asso	4,187	4,127	4,127	4,127	4,127
Gross Profit	5,225	7,553	9,030	14,685	16,174	PP&E and Others	6,625	5,400	5,400	5,400	5,400
Selling and marketing exp	(500)	(786)	(1,081)	(1,758)	(1,936)	Non-current assets	50,030	55,187	57,687	60,187	62,687
General and admin exp	(895)	(1,481)	(1,547)	(3,312)	(2,771)	PUD & Held for Sale	20,761	41,793	53,293	63,481	78,580
Share of results of JV & Asso	197	187	257	419	461	Deposits and prepayments	14,343	18,267	18,267	18,267	18,267
Reval Gains from Inv Prop	2,135	2,501	-	-	-	Cash & Cash Equivalents	9,387	14,840	18,763	20,301	19,317
Others	558	216	298	484	533	Others	970	1,968	1,968	1,968	1,968
Finance costs	(573)	(1,377)	(843)	(570)	(570)	Current assets	45,461	76,868	92,291	104,017	118,132
Profit before tax	6,148	6,813	6,114	9,948	11,892	Total Assets	95,491	132,055	149,978	164,204	180,819
Income tax expense	(2,280)	(3,166)	(2,755)	(4,482)	(5,140)	Contract Liabilities	3,819	16,444	29,019	32,620	41,262
Net profit	3,868	3,648	3,359	5,466	6,752	Bank and Other Borrowings	9,756	14,721	10,415	10,415	10,415
Shareholders' Profit	3,337	2,837	2,497	4,313	5,356	Trade and Other Payables	17,208	20,726	21,587	28,087	30,935
Minority Interest	414	688	739	1,030	1,273	Others	4,720	6,642	6,642	6,642	6,642
Perpetual Securities	117	123	123	123	123	Current liabilities	35,503	58,533	67,663	77,764	89,254
Shareholders' Core Net Profit	1,493	1,857	2,497	4,313	5,356	Bank and Other Borrowings	25,780	34,380	40,686	40,686	40,686
Dividends	655	813	748	1,218	1,504	Others	4,734	6,336	6,336	6,336	6,336
Special Dividends	-	-	-	-	-	Non-current liabilities	30,514	40,717	47,022	47,022	47,022
EPS - basic	0.84	0.71	0.62	1.08	1.34	Capital and reserves	25,337	27,287	29,036	32,131	35,983
EPS-underlying	0.38	0.46	0.62	1.08	1.34	Shareholders' equity	25,337	27,287	29,036	32,131	35,983
DPS - basic	0.17	0.20	0.19	0.30	0.38	Non-controlling interests & Perp	4,137	5,517	6,256	7,287	8,560
BVPS	5.70	6.83	7.26	8.04	9.00	Total equity	29,474	32,805	35,292	39,418	44,543
Cash Flow Statement, RMB mn	2017	2018	2019e	2020e	2021e	Total Liabilities and Equity	95,491	132,055	149,978	164,204	180,819
Profit Before Tax	6,148	6,813	6,114	9,948	11,892	Key Ratios, RMB mn	2017	2018	2019e	2020e	2021e
Operating CF before Working Cap	4,014	5,519	6,114	9,948	11,892	GP Margins	34%	39%	34%	34%	34%
PUD	(509)	(13,991)	(11,501)	(10,188)	(15,099)	Net Margins	25%	19%	12%	12%	14%
Deposits & Prepayments	(2,718)	2,141	-	-	-	Core Attri Net Margins	10%	9%	9%	10%	11%
Trade & Other Payables	2,370	(1,659)	861	6,500	2,848	ROE	6%	7%	9%	13%	15%
Increase in contract liabilities	(255)	12,625	12,575	3,601	8,642	ROA	4%	3%	2%	3%	4%
Others	(1,583)	(3,551)	(2,755)	(4,482)	(5,140)	Net Debt / Total Equity	87%	102%	89%	76%	69%
Net Operating Cashflows	1,320	1,086	5,294	5,379	3,143	Net Debt (Perp as Debt) / SH Equity	108%	128%	113%	98%	90%
Net Investing Cashflows	(8,187)	(8,718)	(2,500)	(2,500)	(2,500)	Total Assets / Total Equity	324%	403%	425%	417%	406%
Bank & Other Borrowings	13,480	19,821	2,000	-	-	Total Assets / Shareholders' Equity	377%	484%	517%	511%	503%
Others	(6,190)	(6,743)	(871)	(1,341)	(1,627)	Asset Turnover (Contracted Sales)	22%	31%	37%	40%	44%
Net Financing Cashflows	7,290	13,077	1,129	(1,341)	(1,627)						
Net Cash Flows	423	5,445	3,923	1,538	(984)						

Source: Company data, AMTD Equity Research

Far East Consortium

Globally Diversified in a Challenging World Economy

We assume coverage of Far East Consortium with a Buy Rating and a new Target Price of HK\$4.21/sh. This report marks the transfer of coverage from Michelle Li to Jacky Chan.

Assume Coverage with a Buy Rating and a TP of HK\$4.21/sh

Far East Consortium has one of the most diversified portfolio of assets across the HK/China property companies. Amidst investors' concerns with the potential FX risks in RMB, GBP, and HKD, we believe Far East offers property focused investors exposure towards a diversified portfolio of property assets and project execution capabilities across Hong Kong, China, Australia, UK and Malaysia. Australia and UK Resi/Com/Hotel assets contributes to 24% and 16% of the company's NAV.

Property Development - Australia Properties to drive earnings growth

Australia Property Development is going to be a key earnings driver for Far East, with almost ~50% of the companies' sellable resources in the pipeline coming from Australia. West Side Place in Melbourne has been one of the best selling projects in Australia and we expect the project to contribute to 20% of FY2020-2021E sales, while The Star Residences in Gold Coast will be launching Tower 2 in 1H FY2020E. The developer's UK projects in London (Consort Place) and Manchester (Northern Gateway) will contribute to another ~30% of the sellable resources in the pipeline.

Ritz Carlton Perth to add ~20% to Hotel revenues

Far East is scheduled to open the Ritz-Carlton Perth to their portfolio in 2H2020, we expect the hotel to contribute HK\$440m of recurring revenue once it approaches stabilization in FY2022E, this implies ~20% of FY2020-2022E Hotel revenues. Over the next 3-4 years, the Hotel Operations will also have new additions in Melbourne (Ritz-Carlton), Gold Coast (Dorsett) and London (Dorsett & Hornsey Town Hall), respectively.

Capital deployed for long term gains

Net Debt to Equity risen to 106% in FY19 (FY18: 54%), as a result of recent acquisitions and construction capex for Hotels under development in the pipeline. However, for a fairer comparison with other HK Landlords' balance sheets, Far East's hotel portfolio should be marked to market (currently at cost), similar to other investment properties. Net Debt to Equity would then be a healthy 45% at end-FY19 instead. If the developer manages to recycle the capital invested into their hotel portfolio, we believe it would drive a re-rating in the stock.

Price target at HK\$4.21 (32% upside) based on a SOTP Valuation

Our Target Price of HK\$4.21/sh offers a 32% upside on current share price is based on a 40% discount to our Sum-Of-The-Parts (SOTP) NAV. The stock is currently trading at ~50% deep discount to our SOTP NAV, which we believe is not warranted, since the developer is still actively growing its NAV through its property development business (~50% of revenues and ~38% of NAV). Key risks to the stock includes: (1) Brexit resulting in downward pressure in UK residential ASP; (2) UK tourism negatively impacted by Brexit, resulting in lower UK Hotels revenues; (3) HK political instability resulting downward pressure on HK residential prices and HK Hotel RevPAR.

Stock code: 0035.HK

Rating: **BUY**

Price target (HK\$)	4.21
Previous Price target (HK\$)	NA
Current price (HK\$, 8th Oct 2019)	3.20
Upside/downside %	32%
Market cap (HK\$ m)	7,468
Market cap (US\$ m)	952
Avg daily turnover (US\$ m)	0.23

Source: Bloomberg, AMTD Equity Research

Key forecasts

(HK\$ m)	FY19	FY20e	FY21e	FY22e
Revenue	6,842	8,076	11,702	12,360
yoy %	17.3%	18.0%	44.9%	5.6%
Net profit	1,769	1,230	1,368	1,500
yoy %	11.6%	-30.5%	11.2%	9.7%
Core Attr NP	1,457	1,573	1,728	1,891
yoy %	9.6%	8.0%	9.9%	9.4%
Gross margin	38.1%	33.2%	26.9%	40.7%
Net gearing*	45.4%	61.1%	58.7%	61.3%
EPS	0.64	0.68	0.75	0.82
DPS	0.22	0.24	0.26	0.29
BPS	5.85	6.05	6.36	6.69

Source: Company data, AMTD Equity Research

*Hotel Portfolio Revalued to Market Value

Valuation

(HK\$ m)	FY19	FY20e	FY21e	FY22e
P/E (x)	5.0	4.7	4.3	3.9
P/BV (x)	0.5	0.5	0.5	0.5
Div yield	6.9%	7.4%	8.2%	8.9%
ROE	10.9%	11.2%	11.7%	12.2%
ROA	4.5%	2.9%	3.2%	3.4%

Source: Bloomberg, AMTD Equity Research

Share price performance



Source: Bloomberg

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Figure 37: Financial Forecasts and key ratios

PnL, HKD mn	FY2018	FY2019	FY2020e	FY2021e	FY2022e	Balance Sheet, RMB mn	FY2018	FY2019	FY2020e	FY2021e	FY2022e
Revenue	5,831	6,842	8,076	11,702	12,360	Investment Properties	3,229	5,426	7,060	8,693	11,008
COGS	(3,197)	(4,233)	(5,392)	(8,550)	(7,331)	Interest in JV/Asso	-	-	-	-	-
Gross Profit	2,634	2,610	2,683	3,151	5,028	PP&E and Others	10,578	13,693	13,590	13,464	13,262
						Non-current assets	13,807	19,119	20,650	22,157	24,270
Selling and marketing exp	(128)	(166)	(121)	(234)	(247)						
General and admin exp	(661)	(827)	(827)	(993)	(2,184)	PUD & Held for Sale	11,243	12,451	13,689	12,914	12,894
Share of results of JV & Asso	10	18	-	-	-	Deposits and prepayments	523	468	468	468	468
Reval Gains from Inv Prop	-	-	-	-	-	Cash & Cash Equivalents	3,032	2,471	2,706	2,737	1,482
Others	530	1,045	300	300	300	Others	5,884	4,570	4,570	4,570	4,570
Net Finance costs	(229)	(368)	(350)	(350)	(350)	Current assets	20,682	19,959	21,432	20,688	19,413
Profit before tax	2,156	2,312	1,685	1,874	2,547						
						Total Assets	34,489	39,078	42,082	42,845	43,684
Income tax expense	(571)	(544)	(455)	(506)	(1,046)						
Net profit	1,585	1,769	1,230	1,368	1,500	Contract Liabilities	-	974	974	974	974
Shareholders' Profit	1,567	1,714	1,169	1,302	1,427	Bank and Other Borrowings	5,286	4,236	4,236	4,236	4,236
Minority Interest	19	55	61	67	73	Trade and Other Payables	1,725	1,532	1,532	1,532	1,532
						Others	3,272	357	357	357	357
Shareholders' Core Net Profit	1,329	1,457	1,573	1,728	1,891	Current liabilities	10,283	7,099	7,099	7,099	7,099
Dividends	506	506	551	605	662	Bank and Other Borrowings	10,161	17,112	17,112	17,112	17,112
Special Dividends	-	-	-	-	-	Others	902	1,235	1,235	1,235	1,235
Core EPS - Basic (HKD)	0.59	0.64	0.68	0.75	0.82	Non-current liabilities	11,062	18,347	18,347	18,347	18,347
DPS - basic (HKD)	0.22	0.22	0.24	0.26	0.29						
						Capital and reserves	12,971	13,413	14,032	14,728	15,493
						Shareholders' equity	12,971	13,413	14,032	14,728	15,493
						Non-controlling interests & Perp	173	219	2,605	2,671	2,745
						Total equity	13,144	13,632	16,636	17,400	18,238
Cash Flow Statement, HKD mn	FY2018	FY2019	FY2020e	FY2021e	FY2022e	Total Liabilities and Equity	34,489	39,078	42,082	42,845	43,684
Profit before income tax	2,156	2,312	1,685	1,874	2,547						
Operating CF before Working Cap	2,178	2,113	1,685	1,874	2,547						
						Key Ratios, RMB mn	FY2018	FY2019	FY2020e	FY2021e	FY2022e
PUD	(1,321)	(2,897)	(1,238)	775	19	GP Margins	45%	38%	33%	27%	41%
Deposits & Prepayments	(400)	435	-	-	-	Net Margins	27%	26%	15%	12%	12%
Trade & Other Payables	852	(231)	-	-	-	Core Attri Net Margins	23%	21%	19%	15%	15%
Increase in contract liabilities	-	(546)	-	-	-	ROE	10%	11%	11%	12%	12%
Others	(2,574)	(504)	(455)	(506)	(1,046)	ROA	5%	5%	3%	3%	3%
Net Operating Cashflows	(1,266)	(1,630)	(8)	2,143	1,520	Net Debt / Total Equity	54%	106%	86%	82%	85%
						Net Debt to Equity (Perp as Debt)	54%	106%	116%	110%	112%
Net Investing Cashflows	(1,617)	(2,567)	(1,530)	(1,508)	(2,113)	Net Debt / Total Equity (Hotel Revalued)	29%	45%	61%	59%	61%
						Total Assets / Total Equity	262%	287%	253%	246%	240%
Bank & Other Borrowings	6,587	11,931	-	-	-	Total Assets / Shareholders' Equity	266%	291%	300%	291%	282%
Others	(4,624)	(8,267)	1,774	(605)	(662)						
Net Financing Cashflows	1,963	3,664	1,774	(605)	(662)						
Net Cash Flows	(920)	(532)	235	31	(1,255)						

Source: Company data, AMTD Equity Research

Yuzhou Properties Company Limited

Inexpensive Valuations, Initiate with Buy

We initiate coverage of Yuzhou Properties with a Buy Rating and a Target Price of HK\$3.96/sh. 2019E earnings growth is flattish, but we expect growth to pick up in 2020E. Dividend yield of ~8.6% is attractive, considering that it is at similar levels to the YTM of 2023 Senior Notes.

8.6% Dividend Yield including Special Dividend, initiate with Buy

We believe Yuzhou is currently trading at deeply discounted valuations and the stock is now offering a 8.6% dividend yield (incl. HK 3 cents/sh of interim special dividend), similar to the ~8.7% YTM of its 2023 senior notes. If we exclude the special dividend, the stock still offers 7.8% dividend yield at current valuations. We believe the deeply discounted valuation reflects investors' concerns on the company's net profit growth outlook, which we believe are factored into our 2019E-2021E net profit estimates. We initiate with a Buy Rating and a TP of HK\$3.96/sh.

Scaling up through JV and Asso Projects

Yuzhou's management has set a near-to-medium term target of hitting RMB100bn contracted sales per annum, on gross basis, with an increasingly heavy reliance on minority stakes in projects through JV & Associates. We believe this RMB100bn contracted sales target has its significance in League Tables and hence, the branding of the company for the purpose of bank financing and land acquisitions. However, we would also highlight that JV & Asso projects will increase other risks including cash flow arrangements at the JV companies, as well as strategic execution risks at project level.

Gross Margins under pressure, 2019E net profit growth slows down

Yuzhou's 1H19 GP Margins came in at 27%, down from the 30% of 2018, while the GP Margins compression in 1H19 may partially be due to interest capitalized, we expect the full year profit margins to remain at similar levels amid ASP pre-sale control policies in selective cities. We believe the downward pressure in GP Margins will partially offset the revenue growth (both consolidated together with JV & Asso) achieved through their contracted sales.

Balance sheet further stretched but still manageable

Yuzhou's Total Assets to Total Equity has increased to 6.3x as of 1H19 (2018: 5.4x), while Net Debt to Equity (Perp as Debt) increased to 88% at 1H19 (2018: 83%). Such balance sheet leverage are in-line with industry average and are manageable. However, it would also mean that any land bank acquisition opportunities for expansion would be dependent on the sell-through rates, and hence, contracted sales in 2H19.

Our price target of HK\$3.96/sh implies 25% upside potential

Our price target of HK\$3.96/sh (25% upside to current share price) is based on a 4.0x 2020E P/E ratio, slightly higher than the 2019 P/E that the stock is currently trading at. It also implies a 0.87x 2019E P/B. Key risks to the stock includes (1) JV & Associate project sales proceeds being restricted in JV & Associate level causing financial pressure; (2) Property related tightening measures including ASP controls to further put pressure on profit margins; (3) Sell-through rates further decreases amid slow down in the macroeconomy.

Stock code: 1628.HK

Rating: Buy

Price target (HK\$)	3.96
Previous price target (HK\$)	NA
Current price (HK\$, 8th Oct 2019)	3.18
Upside/downside %	25%
Market cap (HK\$ m)	16,000
Market cap (US\$ m)	2,040
Avg daily turnover (US\$ m)	2.00

Source: Bloomberg, AMTD Equity Research

Key forecasts

(RMB m)	2018	2019e	2020e	2021e
Revenue	24,306	27,925	33,511	40,213
yoy %	12.0%	14.9%	20.0%	20.0%
Net profit	3,726	3,791	4,563	5,498
yoy %	19.2%	1.7%	20.4%	20.5%
Core Attr NP	3,480	3,563	4,289	5,168
yoy %	37.3%	2.4%	20.4%	20.5%
Gross margin	30.7%	27.0%	27.0%	27.0%
Net gearing	83.3%	83.8%	84.2%	84.2%
EPS	0.80	0.74	0.89	1.08
DPS	0.24	0.25	0.26	0.32
BPS	4.06	4.18	4.81	5.57

Source: Company data, AMTD Equity Research

Valuation

	2018	2019e	2020e	2021e
P/E	3.6	3.9	3.2	2.7
P/BV	0.7	0.7	0.6	0.5
Div. yield	8.6%	8.6%	9.2%	11.1%
ROE	19.8%	17.7%	18.6%	19.3%
ROA	3.0%	2.6%	2.7%	2.9%

Source: Bloomberg, AMTD Equity Research

Share price performance



Source: Bloomberg

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Figure 38: Financial Forecasts and key ratios

PnL, RMB mn	2017	2018	2019e	2020e	2021e	Balance Sheet, RMB mn	2017	2018	2019e	2020e	2021e
Revenue	21,701	24,306	27,925	33,511	40,213	Investment Properties	8,140	10,526	11,026	11,526	12,026
COGS	(14,018)	(16,839)	(20,386)	(24,463)	(29,355)	Interest in JV/Asso	6,990	10,013	10,013	10,013	10,013
Gross Profit	7,683	7,467	7,540	9,048	10,857	PP&E and Others	1,616	4,054	4,054	4,054	4,054
						Non-current assets	16,746	24,592	25,092	25,592	26,092
Selling and marketing exp	(491)	(459)	(441)	(529)	(635)	PUD & Held for Sale	27,559	45,346	60,241	77,976	99,258
General and admin exp	(500)	(606)	(727)	(873)	(1,047)	Deposits and prepayments	3,673	1,468	1,468	1,468	1,468
Share of results of JV & Asso	(83)	(52)	672	806	968	Cash & Cash Equivalents	15,596	27,162	31,416	34,545	37,217
Reval Gains from Inv Prop	380	166	-	-	-	Others	16,331	16,494	16,494	16,494	16,494
Others	(91)	443	509	610	732	Current assets	63,159	90,471	109,619	130,484	154,437
Net Finance costs	(708)	(223)	(295)	(334)	(372)						
Profit before tax	6,190	6,735	7,258	8,729	10,503	Total Assets	79,905	115,063	134,712	156,076	180,530
Income tax expense	(3,063)	(3,009)	(3,467)	(4,165)	(5,006)	Contract Liabilities	10,269	13,752	19,174	25,681	33,488
Net profit	3,127	3,726	3,791	4,563	5,498	Bank and Other Borrowings	16,704	16,430	15,880	15,880	15,880
Shareholders' Profit	2,790	3,600	3,563	4,289	5,168	Trade and Other Payables	17,622	29,817	34,654	40,213	46,884
Minority Interest	337	126	227	274	330	Others	3,418	4,521	4,521	4,521	4,521
Shareholders' Core Net Profit	2,536	3,480	3,563	4,289	5,168	Current liabilities	48,013	64,520	74,228	86,294	100,773
Dividends	1,061	1,061	1,050	1,264	1,523	Bank and Other Borrowings	10,863	27,202	34,402	40,402	46,402
Special Dividends	-	-	131	-	-	Others	3,586	1,910	1,910	1,910	1,910
EPS - Basic (RMB)	0.71	0.83	0.74	0.89	1.08	Non-current liabilities	14,449	29,113	36,313	42,313	48,313
Core EPS - Basic (RMB)	0.64	0.80	0.74	0.89	1.08	Capital and reserves	14,469	17,575	20,088	23,113	26,758
DPS - basic (RMB)	0.27	0.24	0.25	0.26	0.32	Shareholders' equity	14,469	17,575	20,088	23,113	26,758
						Non-controlling interests & Perp	2,974	3,856	4,083	4,357	4,687
						Total equity	17,443	21,430	24,171	27,470	31,444
Cash Flow Statement, RMB mn	2017	2018	2019e	2020e	2021e	Total Liabilities and Equity	79,905	115,063	134,712	156,076	180,530
Profit before income tax	6,190	6,735	7,258	8,729	10,503	Key Ratios, RMB mn	2017	2018	2019e	2020e	2021e
Operating CF before Working Cap	6,772	6,564	7,552	9,063	10,875	GP Margins	35%	31%	27%	27%	27%
PUD	2,513	8,950	(11,166)	(13,504)	(16,575)	Net Margins	14%	15%	14%	14%	14%
Deposits & Prepayments	(1,397)	1,958	-	-	-	Core Attri Net Margins	12%	14%	13%	13%	13%
Trade & Other Payables	806	3,629	4,836	5,559	6,671	ROE	18%	20%	18%	19%	19%
Increase in contract liabilities	(1,741)	(11,407)	5,422	6,506	7,808	ROA	3%	3%	3%	3%	3%
Others	(4,441)	(6,537)	(7,490)	(8,731)	(10,085)	Net Debt (Perp as Debt) / Total Equity	77%	83%	84%	84%	84%
Net Operating Cashflows	2,512	3,157	(846)	(1,106)	(1,306)	Net Debt / Total Equity (Perp as Equity)	58%	67%	69%	71%	73%
Net Investing Cashflows	(10,157)	(1,588)	(500)	(500)	(500)	Net Debt (Perp as Debt) / SH Equity	83%	93%	93%	93%	93%
Bank & Other Borrowings	(1,367)	(3,440)	6,650	6,000	6,000	Total Assets / Total Equity	458%	537%	557%	568%	574%
Others	8,681	13,320	(1,050)	(1,264)	(1,523)	Total Assets / Shareholders' Equity	552%	655%	671%	675%	675%
Net Financing Cashflows	7,314	9,879	5,600	4,736	4,477	Asset Turnover (Contracted Sales)	50%	49%	50%	52%	54%
Net Cash Flows	(331)	11,449	4,254	3,129	2,671						

Source: Company data, AMTD Equity Research

LVGEM (China) Real Estate Investment Company Limited

Fully valued Shenzhen Urban Redevelopment Developer, Initiate with Hold

We initiate coverage of LVGEM China with a Hold Rating and a Target Price of HK\$2.79/sh. The company has a high GP Margins, and net profit growth, but we believe valuations are rich compared to peers.

High profit margin projects to drive near term earnings

We initiate coverage of Lvgem (China) with a Hold rating as we believe the stock is already richly valued at 6.4x 2020E P/E, compared to the other developers under our coverage. With a key focus in Shenzhen Urban Redevelopment Projects, Lvgem (China)'s has one of the highest profitability across our coverage universe with 2019E GP Margins reaching ~70% and a net margins of ~22%. Earnings growth outlook is also strong as we estimate a ~35% 2018-2021E Net Profit CAGR. However, we are concerned with the company's balance sheet leverage with 1H19 Net Debt to Equity of 120%.

Mangrove Bay No. 1 and Meijing Plaza – The Twin Earnings Driver

Over 90% of the property developers' revenues were contributed by Mangrove Bay No. 1 project in Shenzhen, as this project boasts a GP Margin of ~70%. The project still has ~RMB4bn of sellable resources, which we expect to be launched in 2020E and contribute to the developers' 2020E revenue and net profit. Moreover, the developer has recently launched the Meijing Plaza project in Sep 2019, another urban redevelopment project with an ASP of ~RMB76,000/sqm, we expect the sales from this project to also be a key earnings driver for 2020E and 2021E.

Highly leveraged balance sheet as a result of HK NEO acquisition

The developer acquired the HK NEO project in Oct 2017 for a total consideration of HK\$9bn, which has resulted in a surge in the developers' balance sheet leverage to 121% in 1H19. Amid the economic challenges that Hong Kong is currently facing, we believe office rentals will be under pressure and it will be a tough challenge for Lvgem (China) reach their rental target of HK\$300m p.a. If the final achieved rents are below the Independent Valuer's valuation assumption on Lvgem's balance sheet, there is a potential risk of a revaluation loss on the property and may put further pressure on the developers' balance sheet.

Crown Jewel Baishizhou Project still in Major Shareholder's land bank

Following the asset injection of Dongguan Project by the Major Shareholder in May 2019, we believe market's attention has turned towards the Shenzhen urban redevelopment project in Baishizhou, which is currently owned by the major shareholder. This is a 3.58m sqm project in a prime location of Shenzhen. According to the 2019 Interim Report, management indicates that the project will be injected into the listed company when it matures and the uncertainties are being eliminated.

Our price target of HK\$2.79/sh

Our price target of HK\$2.79/sh is based on a 6.4x 2020E P/E ratio, highest Target P/E multiple across our coverage universe. It also implies a 1.01x 2019E P/B. Key risks to the stock includes (1) Revaluation loss to HK NEO putting further pressure on balance sheet; (2) Asset injection of Baishizhou project at higher than market expected valuations.

Stock code:0095.HK

Rating: Hold

Price target (HK\$)	2.79
Previous price target (HK\$)	NA
Current price (HK\$, 8th Oct 2019)	2.77
Upside/downside %	1%
Market cap (HK\$ m)	13,837
Market cap (US\$ m)	1,764
Avg daily turnover (US\$m)	2.07

Source: Bloomberg, AMTD Equity Research

Key forecasts

(RMB m)	2018	2019e	2020e	2021e
Revenue	4,516	4,525	8,116	9,682
yoy %	52.2%	0.2%	79.4%	19.3%
Core Attr NP	863	984	1,902	2,135
yoy %	27.7%	13.9%	93.4%	12.2%
Gross margin	59.5%	69.7%	70.8%	62.1%
Net gearing	137.6%	124.1%	118.8%	112.5%
EPS	0.18	0.20	0.39	0.44
Diluted EPS	0.14	0.11	0.21	0.24
DPS	0.06	0.05	0.10	0.11
Diluted DPS	0.03	0.03	0.05	0.06
BPS	2.31	2.46	2.75	3.08

Source: Company data, AMTD Equity Research

Valuation

	2018	2019e	2020e	2021e
P/E	14.2	12.4	6.4	5.7
P/BV	1.1	1.0	0.9	0.8
Div. yield	2.5%	2.0%	3.8%	4.3%
ROE	7.6%	8.1%	14.1%	14.1%
ROA	2.0%	2.1%	3.8%	3.8%

Source: Bloomberg, AMTD Equity Research

Share price performance



Source: Bloomberg

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Figure 39: Financial Forecasts and key ratios

PnL, RMB mn	2017	2018	2019e	2020e	2021e	Balance Sheet, RMB mn	2017	2018	2019e	2020e	2021e
Revenue	2,968	4,516	4,525	8,116	9,682	Investment Properties	19,651	22,117	22,117	22,117	22,117
COGS	(1,030)	(1,830)	(1,369)	(2,367)	(3,673)	Interest in JV/Asso	522	522	522	522	522
Gross Profit	1,938	2,686	3,156	5,749	6,008	PP&E and Others	2,481	1,532	1,532	1,532	1,532
						Non-current assets	22,654	24,171	24,171	24,171	24,171
Selling and marketing exp	(68)	(133)	(133)	(239)	(285)	PUD & Held for Sale	6,351	10,710	13,016	15,217	18,967
General and admin exp	(362)	(390)	(391)	(702)	(837)	Deposits and prepayments	1,138	890	890	890	890
Share of results of JV & Asso	(0)	(0)	(0)	(0)	(0)	Cash & Cash Equivalents	3,975	3,674	5,290	6,207	8,246
Reval Gains from Inv Prop	478	323	-	-	-	Others	2,679	3,967	3,967	3,967	3,967
Others	124	327	155	279	333	Current assets	14,143	19,241	23,163	26,281	32,070
Net Finance costs	(614)	(658)	(739)	(812)	(922)						
Profit before tax	1,497	2,156	2,048	4,275	4,297	Total Assets	36,797	43,412	47,334	50,452	56,242
Income tax expense	(459)	(925)	(1,059)	(2,363)	(2,150)						
Net profit	1,039	1,230	989	1,912	2,147	Contract Liabilities	-	2,268	4,443	4,115	5,282
Shareholders' Profit	1,035	1,237	984	1,902	2,135	Bank and Other Borrowings	4,316	5,824	5,824	5,824	5,824
Minority Interest	3	(7)	5	11	12	Trade and Other Payables	600	1,384	1,384	1,384	1,384
						Others	4,735	2,214	2,214	2,214	2,214
Shareholders' Core Net Profit	676	863	984	1,902	2,135	Current liabilities	9,651	11,690	13,864	13,537	14,703
Dividends	-	304	241	467	524	Bank and Other Borrowings	14,594	17,500	18,500	20,500	23,500
EPS - Basic (RMB)	0.22	0.25	0.20	0.39	0.44	Others	2,483	2,783	2,783	2,783	2,783
Core EPS - Basic (RMB)	0.14	0.18	0.20	0.39	0.44	Non-current liabilities	17,077	20,283	21,283	23,283	26,283
Core EPS - Diluted (RMB)	0.12	0.14	0.11	0.21	0.24						
DPS - basic (RMB)	-	0.06	0.05	0.10	0.11	Capital and reserves	9,836	11,331	12,074	13,509	15,120
DPS - Diluted (RMB)	-	0.03	0.03	0.05	0.06	Shareholders' equity	9,836	11,331	12,074	13,509	15,120
BV per share (RMB)	2.10	2.31	2.46	2.75	3.08	Non-controlling interests & Perp	233	107	113	123	135
						Total equity	10,069	11,439	12,187	13,632	15,255
Cash Flow Statement, RMB mn	2017	2018	2019e	2020e	2021e	Total Liabilities and Equity	36,797	43,412	47,334	50,452	56,242
Profit Before Tax	1,497	2,156	2,048	4,275	4,297						
Operating CF before Working Cap	1,609	2,308	2,787	5,087	5,219	Key Ratios, RMB mn	2017	2018	2019e	2020e	2021e
						GP Margins	65%	59%	70%	71%	62%
PUD	(686)	(1,381)	(2,307)	(2,201)	(3,750)	Net Margins	35%	27%	22%	24%	22%
Deposits & Prepayments	1,160	(1,194)	-	-	-	Core Attri Net Margins	23%	19%	22%	23%	22%
Trade & Other Payables	(321)	783	-	-	-	ROE	7%	8%	8%	14%	14%
Increase in contract liabilities	-	2,268	2,175	(328)	1,167	ROA	2%	2%	2%	4%	4%
Others	(534)	(29)	(1,059)	(2,363)	(2,150)	Net Debt / Total Equity	126%	138%	124%	119%	113%
Net Operating Cashflows	1,228	2,756	1,596	196	485	Net Debt / Shareholders' Equity	129%	139%	125%	120%	114%
						Total Assets / Total Equity	365%	380%	388%	370%	369%
Net Investing Cashflows	(6,335)	(6,419)	-	-	-	Total Assets / Shareholders' Equity	374%	383%	392%	373%	372%
						Asset Turnover (Contracted Sales)	14%	5%	12%	13%	17%
Bank & Other Borrowings	(2,941)	(4,995)	1,000	2,000	3,000						
Others	8,799	8,534	(980)	(1,279)	(1,446)						
Net Financing Cashflows	5,859	3,539	20	721	1,554						
Net Cash Flows	751	(124)	1,616	917	2,039						

Source: Company data, AMTD Equity Research

Minmetals Land Limited

Stable but Lack of Growth, Initiate with Hold

We initiate coverage of Minmetals Land with a Hold Rating and a Target Price of HK\$1.14/sh amid the lack of contracted sales and earnings growth. A solid SOE developer, but lack of excitement.

Lack of excitement, recovering from 2018 contracted sales decline

Minmetals Land suffered from a contracted sales decline of 15% in 2018 amid the tough property markets, and have bounced back this year with a 46% YoY contracted sales growth recorded in 1H19. We believe the developer is on track to meet its 2019 contracted sales target RMB9.5bn, which will represent a 40% YoY growth. Nonetheless, as this is still 18% below the RMB11.7bn contracted sales achieved in 2017, we expect the developers' net profit growth to remain flattish during 2018-2021E with a CAGR of 3%.

Nanjing projects to remain a key earnings driver

Nanjing is Minmetals key market with ~18% of the developer's land bank spread across 7 projects in Nanjing. The city contributed to ~50% of the developers' 1H19 contracted sales and we expect a similar split to remain for the full year 2019E. The developers' JV projects in Pukou and Hexi of Nanjing is expected to be launched for sale in 2H2019 and they will be key projects to watch. These two projects carry a land cost of RMB14,700/sqm and RMB28,300/sqm respectively, and considering that neighbouring projects are currently achieving ASP's of up to ~RMB30,000/sqm and RMB45,000/sqm respectively, we believe both projects should achieve decent GP margins of ~30%.

Healthy balance sheet with debt backed by Parent Company

Minmetals Land has a healthy balance sheet with a 1H19 Net Debt to Total Equity of 74%, which includes a ~RMB3.9bn Perpetual Capital Security as Equity. The listed company has the backing of the parent company China Minmetals Corporation (CMC) in their debt issuances, as CMC often acts as a Keepwell Provider. This results in a relatively lower financing costs than industry average, and hence Minmetals Land's weighted average borrowing costs is only at 4.92% in 1H19. If we adopt a more conservative approach and assume the Perpetual Security as a debt instead, then Net Debt to Shareholders' Equity stands at 172% in 1H19.

Our price target of HK\$1.14/sh implies 7% upside

Our price target of HK\$1.14/sh (7% upside to current share price) is based on a 4.0x 2020E P/E ratio. It also implies a 0.43x 2019E P/B. Key risks to the stock includes (1) Contracted sales slower than expected; (2) Property policies tighten further resulting in ASP restraints and margin compression.

Stock code: 0230.HK

Rating: Hold

Price target (HK\$)	1.14
Previous price target (HK\$)	NA
Current price (HK\$, 8th Oct 2019)	1.07
Upside/downside %	7%
Market cap (HK\$ m)	3,581
Market cap (US\$ m)	457
Avg daily turnover (US\$m)	0.04

Source: Bloomberg, AMTD Equity Research

Key forecasts

(RMB m)	2018	2019e	2020e	2021e
Revenue	10,931	11,421	12,141	13,299
yoy %	-8.4%	4.5%	6.3%	9.5%
Net profit	1,747	1,535	1,632	1,797
yoy %	20.6%	-12.1%	6.3%	10.1%
Core Attr NP	881	799	861	967
yoy %	34.1%	-9.3%	7.8%	12.3%
Gross margin	35.6%	35.6%	35.6%	35.6%
Net gearing	75.9%	59.4%	55.1%	51.4%
EPS	0.26	0.24	0.26	0.29
DPS	0.09	0.08	0.08	0.09
BPS	2.50	2.66	2.83	3.03

Source: Company data, AMTD Equity Research

Valuation

	2018	2019e	2020e	2021e
P/E	3.7	4.0	3.7	3.3
P/BV	0.4	0.4	0.3	0.3
Div. yield	9.4%	8.0%	8.7%	9.7%
ROE	10.5%	9.0%	9.1%	9.5%
ROA	1.9%	1.5%	1.6%	1.7%

Source: Bloomberg, AMTD Equity Research

Share price performance



Source: Bloomberg

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Figure 40: Financial Forecasts and key ratios

PnL, RMB mn						Balance Sheet, RMB mn					
	2017	2018	2019e	2020e	2021e		2017	2018	2019e	2020e	2021e
Revenue	11,936	10,931	11,421	12,141	13,299	Investment Properties	1,814	2,256	2,256	2,256	2,256
COGS	(7,842)	(7,044)	(7,360)	(7,824)	(8,570)	Interest in JV/Asso	1,318	1,249	1,249	1,249	1,249
Gross Profit	4,094	3,887	4,061	4,317	4,729	PP&E and Others	2,156	1,816	1,816	1,816	1,816
Selling and marketing exp	(186)	(176)	(246)	(270)	(297)	Non-current assets	5,287	5,322	5,322	5,322	5,322
General and admin exp	(590)	(539)	(563)	(599)	(656)	PUD & Held for Sale	25,353	25,787	30,078	32,014	34,192
Share of results of JV & Asso	(5)	(14)	(14)	(15)	(17)	Deposits and prepayments	12,003	11,868	11,868	11,868	11,868
Reval Gains from Inv Prop	151	134	-	-	-	Cash & Cash Equivalents	5,632	3,608	5,296	5,238	5,120
Others	(53)	(18)	(16)	(8)	5	Others	743	667	667	667	667
Net Finance costs	147	189	-	-	-	Current assets	43,731	41,931	47,910	49,787	51,848
Profit before tax	3,558	3,463	3,221	3,424	3,764	Total Assets	49,018	47,253	53,232	55,110	57,170
Income tax expense	(2,109)	(1,716)	(1,686)	(1,793)	(1,967)	Contract Liabilities	10,384	6,125	10,829	11,354	11,932
Net profit	1,449	1,747	1,535	1,632	1,797	Bank and Other Borrowings	3,978	1,015	1,015	1,015	1,015
Shareholders' Profit	713	935	799	861	967	Trade and Other Payables	9,517	10,683	10,683	10,683	10,683
Minority Interest	735	628	552	586	646	Others	598	446	446	446	446
Perp Securities	1	184	184	184	184	Current liabilities	24,477	18,270	22,974	23,499	24,076
Shareholders' Core Net Profit	657	881	799	861	967	Bank and Other Borrowings	10,770	14,039	14,039	14,039	14,039
Dividends	-	304	259	280	314	Others	169	134	134	134	134
Special Dividends	-	-	-	-	-	Non-current liabilities	10,939	14,173	14,173	14,173	14,173
EPS - Basic (RMB)	0.21	0.28	0.24	0.26	0.29	Capital and reserves	8,353	8,368	8,907	9,489	10,142
Core EPS - Basic (RMB)	0.20	0.26	0.24	0.26	0.29	Shareholders' equity	8,353	8,368	8,907	9,489	10,142
DPS - basic (RMB)	-	0.09	0.08	0.08	0.09	Non-controlling interests & Perp	5,250	6,443	7,179	7,949	8,780
						Total equity	13,603	14,810	16,086	17,438	18,921
Cash Flow Statement, RMB mn						Key Ratios, RMB mn					
	2017	2018	2019e	2020e	2021e		2017	2018	2019e	2020e	2021e
Profit before income tax	3,558	3,463	3,221	3,424	3,764	GP Margins	34%	36%	36%	36%	36%
Operating CF before Working Cap	3,552	3,347	3,221	3,424	3,764	Net Margins	12%	16%	13%	13%	14%
PUD	(4,652)	(1,394)	(4,291)	(1,936)	(2,178)	Core Attri Net Margins	6%	8%	7%	7%	7%
Deposits & Prepayments	6,184	(348)	-	-	-	ROE	8%	11%	9%	9%	10%
Trade & Other Payables	251	2,805	-	-	-	ROA	1%	2%	2%	2%	2%
Increase in contract liabilities	(2,906)	(3,781)	4,704	525	577	Net Debt / Total Equity	62%	76%	59%	55%	51%
Others	(2,613)	(2,286)	(1,686)	(1,793)	(1,967)	Net Debt (Perp as Debt) / Shareholde	130%	180%	153%	146%	139%
Net Operating Cashflows	(185)	(1,657)	1,948	221	196	Total Assets / Total Equity	360%	319%	331%	316%	302%
Net Investing Cashflows	(5,954)	87	-	-	-	Total Assets / Shareholders' Equity	587%	565%	598%	581%	564%
Bank & Other Borrowings	3,053	276	-	-	-	Asset Turnover (Contracted Sales)	18%	22%	20%	21%	22%
Others	3,286	(729)	(259)	(280)	(314)						
Net Financing Cashflows	6,339	(453)	(259)	(280)	(314)						
Net Cash Flows	200	(2,024)	1,688	(58)	(118)						

Source: Company data, AMTD Equity Research

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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
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Analyst Certification

We, Jacky Chan, Michelle Li and Karen Huang, 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.

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