

# Powerlong Real Estate Holdings Limited

## Recapitalised Balance Sheet for Value Accretive Opportunities

### Top-up Placement adds ammunition for value-accretive opportunities

On 15 Oct 2019, Powerlong has announced a share top-up placement of HK\$791.64m at HK\$5.4/sh, offering 146.6m shares, representing ~3.54% of enlarged shares in issue. Attractive land acquisition opportunities are arising in the property market during 2H19 and we believe the share placement will add ammunition to Powerlong's warchest for value-accretive acquisitions. From a trading technical perspective, we believe the increased public float of Powerlong's shares may also increase the stock's ADT (Average Daily Turnover), lowering investors' risk of a "valuation and liquidity trap" concerns in the longer run.

### Hangzhou project acquired for RMB3.6bn on 24 Sep 2019

A JV consortium including Powerlong has recently acquired a 486,500sqm GFA land in Hangzhou for a total consideration of RMB3.6bn translating to an attractive average land cost of RMB7,400/sqm. The site is primely located and well connected to a metro station. We believe the project can achieve an ASP of ~RMB30,000/sqm. We believe this will imply a GP Margins of ~55% for residential portion, before taking into the account capex related to non-sellable commercial properties of the project. We believe that such attractive acquisitions are value enhancive, and the latest fund raising will provide the company with the ammunition required to grab hold of these attractive opportunities and accelerate its net profit growth.

### Trading liquidity discount should be narrowed

We highlighted in our recent sector report "Time to ditch Stock Picking Methodology based on Tier 1, 2 and 3 cities", trading liquidity is one of investors' concerns for small-mid-cap property stocks such as Powerlong. Following the share placement, the public float will increase to 34.79% from 32.39% and would eventually result in higher trading liquidity of the stock. The average daily turnover of the stock is at around US\$4.8m.

### We expect Net Debt to Equity to remain stable at ~85-90%

Immediately after the share placement, we estimate that the net debt to equity will decline by ~4ppts to 87.4% (1H19: 91.4%), but we believe the company will deploy the capital raised and maintain a stable net debt to equity of ~85-90% at end-2019.

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

Powerlong is trading at 4.7x 2020E P/E and 0.7x 2019E P/B valuations which we believe is attractive considering our expected 2018-2021E net profit CAGR of 42%. We believe the stock offers an attractive entry point into a profitable business, underpinned by the land acquisition competitive edge through Powerlong's commercial properties development and operating capabilities. Our target price implies 6.2x 2020E P/E and offers 33% upside to the current share price.

Stock code: 1238.HK

Rating: BUY

<b>Price target (HK\$)</b>	<b>7.18</b>
Previous target(HK\$):	NA
Current price (HK\$, 15 Oct 2019)	5.39
Upside/downside %	33%
Market cap (HK\$ m)	22,335
Market cap (US\$ m)	2,870
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%	85.2%	72.6%	66.6%
EPS	0.46	0.60	1.04	1.29
DPS	0.20	0.18	0.29	0.36
BPS	6.83	7.18	7.93	8.86

Source: Company data, AMTD Equity Research

### Valuation

	2018	2019e	2020e	2021e
P/E	10.4	8.1	4.7	3.8
P/BV	0.7	0.7	0.6	0.5
Div. yield	4.2%	3.7%	6.1%	7.5%
ROE	6.8%	8.4%	13.1%	14.6%
ROA	2.8%	2.2%	3.3%	3.7%

Source: Bloomberg, AMTD Equity Research

### Share price performance



Source: Bloomberg

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#### Stock Rating

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

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