

Redsun Properties Group Limited

Solid Balance Sheet, Stable Growth, Inexpensive Valuations

Redsun announced a solid 2019 balance sheet, despite a weaker than expected core attrib. net profit growth. We believe this solid balance sheet will offer management with flexibility to react to the uncertain macro environment, ensuring the developer's long term stability.

A solid balance sheet to underpin a 15% contracted sales growth

Redsun has successfully deleveraged its balance sheet to a Net Debt to Equity of 70.4% and Total Assets to Equity of 5.3x during 2H19. The developer targets to achieve a contracted sales of RMB75bn during 2020, based on a sellable resources of RMB110bn. The target sell-through rate of ~68% is higher than industry average (60%). Therefore, we believe there may be potential upside surprise in contracted sales growth, if the developer successfully identifies attractive acquisition opportunities that can add to its 2020 sellable resources.

2019 results slightly below our expectations on higher SG&A and MI

Redsun reported a core net profit of RMB1,415.2m, growing 25.8% YoY. However, core net profit attributable to shareholders was only at RMB1,247m, up by only 3% YoY. The core attrib. net profit was 9% below our expectations, mainly due to a higher than expected SG&A and high portion of Minority Interests. 2019 SG&A as percentage of contracted sales rose to 2.7% (2018: 2.2%), which is still reasonable and in-line with industry average. On the other hand, minority interest was 69% higher than our expectations.

A deleveraged balance sheet provides ammunition for 2020

Redsun's Net Debt to Equity has declined to 70.4% at end-2019 (1H19: 76%), while Total Assets to Equity has declined to 5.3x at end-2019 (1H19: 5.74x). We believe such a solid and healthy balance sheet gives management the flexibility to either remained disciplined to further lower financing costs, or take advantage of attractive land acquisition opportunities that may arise in 2020 and underpin its contracted sales growth. In the current uncertain macro environment, such a flexibility will ensure the developers' long term stability, in our view.

Challenges needed to be overcome during national expansion process

As Redsun continues to grow from the 2019 contracted sales levels of RMB65bn, expansion outside of Greater Jiangsu Region is inevitable. The developer entered into 17 new cities during 2019, including Jinan, Qingdao, Xi'an, Changsha and Zhengzhou. However, we believe it will take time for Redsun to develop its operational network and execution capabilities in these cities outside of its home turf of Jiangsu/Yangtze River Delta. 2020 will be a year which the developer strengthen its foothold in these cities/regions, developing a springboard for future growth.

Stock is trading at 3.4x 2020E P/E slightly below industry average

Redsun is currently trading at a 3.4x 2020E P/E, which is slightly below industry average (4.2x). At such valuations, we believe the market has already factored in the slower-than-expected 2019 core net profit growth and potential upside surprises in contracted sales could spark a rally in share price. Our Target Price of HK\$3.32/sh is based on a target 2020E P/E of 5.0x, offering 33% upside to current share price.

Stock code: 1996.HK

Rating: Buy

Price target (HK\$)	3.32
Current price (HK\$, 25th Mar 2020)	2.49
Upside/downside %	33%
Market cap (HK\$ m)	8,347
Market cap (US\$ m)	1,077
Avg daily turnover (US\$ m)	0.75

Source: Bloomberg, AMTD Equity Research

Key forecasts

(RMB m)	2018	2019	2020e	2021e
Revenue	9,239	15,170	18,371	22,045
yoy %	50.5%	64.2%	21.1%	20.0%
Net profit	1,323	1,636	2,168	2,659
yoy %	10.7%	23.6%	32.5%	22.7%
Core Net Profit	1,203	1,247	2,022	2,480
yoy %	-20.5%	2.7%	62.0%	22.7%
Gross margin	31.2%	25.1%	25.0%	25.0%
Net gearing	68.3%	70.4%	61.6%	55.5%
EPS	0.57	0.38	0.60	0.73
DPS	0.14	0.11	0.13	0.16
BPS	5.96	4.18	4.55	5.07

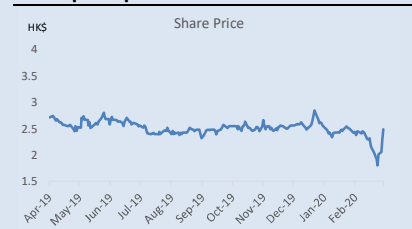
Source: Company data, AMTD Equity Research

Valuation

	2018	2019	2020e	2021e
P/E	3.9	6.0	3.4	2.8
P/BV	0.4	0.5	0.5	0.4
Div. yield	6.4%	5.0%	7.5%	8.9%
ROE	9.6%	9.0%	14.4%	15.3%
ROA	1.8%	1.3%	2.1%	2.1%

Source: Bloomberg, AMTD Equity Research

Share price performance



Source: Bloomberg

Jacky Chan
Analyst

+852 3163 3323

jacky.chan@amtdgroup.com

Karen Huang
Associate

+852 3163 3376

karen.huang@amtdgroup.com

Figure 1: Redsun 2019 Financial Results Analysis

FY19 Results (RMB '000)	FY19A	FY18A	YoY	FY19E	Diff
Sale of properties	14,718,381	8,843,003	66%	14,085,172	4%
Commercial property investment and operations	411,368	359,026	15%	430,831	-5%
Hotel operations	39,757	36,712	8%	44,054	-10%
Total Revenue	15,169,506	9,238,741	64%	14,560,058	4%
Cost of sales	(11,356,243)	(6,351,656)	79%	(10,920,043)	4%
Gross Profit	3,813,263	2,887,085	32%	3,640,014	5%
Other income and gains	331,217	235,973	40%	371,888	-11%
Selling and distribution expenses	(651,982)	(341,771)	91%	(461,391)	41%
Administrative expenses	(1,089,711)	(686,271)	59%	(926,466)	18%
Other expenses	(36,560)	(48,159)	-24%	(75,898)	-52%
Fair value gains/(losses) on investment properties	310,456	260,803	19%	-	N/A
Share of profits and losses of:					
Joint ventures	97,724	387,008	-75%	609,916	-84%
Associates	595,285	(19,993)	-3077%	(31,509)	-1989%
Finance costs	(634,309)	(499,297)	27%	(384,216)	65%
Profit before tax	2,735,383	2,175,378	26%	2,742,341	0%
Income tax expense	(1,099,523)	(852,253)	29%	(1,267,987)	-13%
Net profit	1,635,860	1,323,125	24%	1,474,353	11%
Owners of the Company	1,467,555	1,412,264	4%	1,375,026	7%
Non-controlling interests	168,305	(89,139)	-289%	99,327	69%
Core attributable NP	1,247,000	1,214,000	3%	1,375,026	-9%
Key Ratios					
GP Margins	25.1%	31.2%		25.0%	
Core Net Margins	8.2%	13.1%		9.4%	
FY19 Results (RMB '000)	FY19A	1H FY19		FY19E	
Net Debt to Equity	70.4%	76.0%		67.1%	
Total Assets to Total Equity	528.6%	574.3%		563.7%	

Source: Company data, E=AMTD Equity Research Estimates

IMPORTANT DISCLOSURES

AMTD Investment Ratings**Stock Rating**

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

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AMTD Global Markets Limited

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

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

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