

## China Property

### A Bumpy Ride Ahead, Take Shelter under Dividend Yield

We believe that 2020 will be a challenging year for China Property Developers amid the macroeconomic slow down. We believe the government is unlikely to lift austerity measures such as HPR to stimulate home purchase demand. Investors should position for yield over growth, in our view, with our top picks CCRE, Aoyuan and Powerlong offering a 10-12% 2020E div yield.

#### Austerity measures to remain, 2020E New Home Sales to fall 13% YoY

We believe the slower global and China economic growth will weigh in on the new home sales. With market consensus expecting China's GDP to slow down to 2% YoY in 2020, we believe the lower economic activity will slow down the urbanization demand for properties. As a result, we estimate New Home Sales to fall 13% YoY to 1.3bn sqm and ASP to remain flat in 2020E.

#### We see limited default risk, developers in better shape than 2008-09

We believe it is a challenge for listed developers to achieve their sales targets of 9% YoY growth and some developers may need to revise down their targets during interim results, in our view, which may weigh on the sector's cash flows and share price. Nonetheless, we expect limited default risks in the sector as the property developers are now in a stronger position than in previous downturns (e.g. 2008-09, 2014-16) with more efficient operations, shorter construction cycle, lighter land bank and lower capex on commercial properties.

#### Position for Yield over Growth, our top picks offering 10-12% div yield

We believe 2020 will be a year seeking for stability and investors should be seeking for yield instead of growth across the property sector. For equity investors, we believe the opportunity lies with high dividend yield stocks which are backed by solid cash flows and a strong reported earnings growth. CCRE (0832.HK), Aoyuan (3883.HK) and Powerlong (1238.HK) remain as our top picks among the China Property Developers. We believe the stocks of these three developers are undervalued, offering a 2020E div yield of ~10-12%.

#### Trimmed Earnings and TP across our coverage, downgrade Dafa to Hold

We have lowered our 2020E-2021E net profit estimates by ~10% across our coverage to reflect the slower than expected contracted sales. We have trimmed our target price by ~8% on average. We have downgraded Dafa Properties to Hold on a slower than expected growth outlook.

#### AMTD Top Picks: CCRE, Aoyuan and Powerlong offering 10-12% 2020E Div Yield

Ticker	Name	Rating	Share Price	P/E 2020E	P/B 2019	Div Yield 2019	Div Yield 2020E	Target Price	Upside (%)
<b>China Property Developers</b>									
832.HK	CCRE	Buy	3.98	3.9x	1.0x	11.9%	12.2%	6.10	53%
3883.HK	Aoyuan	Buy	8.88	3.4x	1.4x	6.8%	10.3%	14.46	63%
1238.HK	Powerlong	Buy	4.66	4.3x	0.5x	8.8%	11.6%	6.50	40%
1996.HK	Redsun	Buy	2.41	4.1x	0.5x	5.1%	6.1%	3.22	33%
1628.HK	Yuzhou	Buy	3.21	4.1x	0.7x	12.7%	10.1%	3.98	24%
95.HK	Lvgem	Hold	2.30	6.2x	0.8x	2.7%	3.6%	2.58	12%
230.HK	Minmetals	Hold	1.02	4.2x	0.4x	7.8%	7.8%	1.09	7%
6111.HK	Dafa	Hold	4.26	6.3x	0.9x	3.8%	4.0%	3.73	-12%
<b>Average</b>				<b>4.6x</b>	<b>0.8x</b>	<b>7.4%</b>	<b>8.2%</b>		<b>27%</b>
<b>HK Property Developers</b>									
17.HK	NWD	Buy	8.82	11.0x	0.4x	5.8%	5.9%	14.17	61%
35.HK	Far East	Buy	2.64	6.3x	0.6x	8.3%	8.3%	4.21	59%
<b>Average</b>				<b>8.7x</b>	<b>0.5x</b>	<b>7.1%</b>	<b>7.1%</b>		<b>60%</b>
<b>China Property Management</b>									
3662.HK	Aoyuan Healthy Life	Buy	7.24	17.4x	5.3x	1.5%	2.3%	11.18	54%
<b>Average</b>				<b>17.4x</b>	<b>5.3x</b>	<b>1.5%</b>	<b>2.3%</b>		<b>54%</b>

Source: Company Data, Bloomberg, AMTD Research Estimates

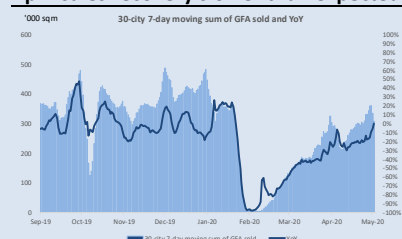
## China Property

### Coverage Summary

Ticker	Name	Rating
0832.HK	Central China	Buy
3883.HK	China Aoyuan	Buy
1238.HK	Powerlong	Buy
3662.HK	Aoyuan Healthy Life	Buy
0035.HK	Far East	Buy
0017.HK	New World Dev	Buy
1996.HK	Redsun	Buy
1628.HK	Yuzhou	Buy
0230.HK	Minmetals	Hold
0095.HK	LVGEM	Hold
6111.HK	Dafa	Hold

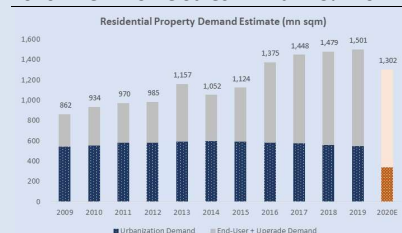
Source: AMTD Research

### April sales recovery slower than expected



Source: MOHURD, Wind

### 2020E New Home Sales will fall 13% YoY



Source: NBS, Wind, AMTD Research Estimates

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## Executive Summary

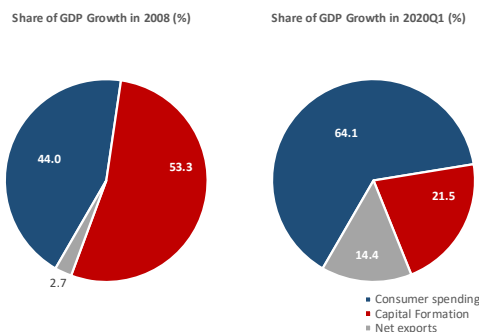
We believe the slower global and China economic growth will weigh in on the New Home Purchase demand. With market consensus expecting China's GDP to slow down to 2% YoY in 2020, we believe the lower economic activity will slow down the urbanization demand for properties, which we estimate to have contributed to ~36% of 2019's total demand. As a result, we estimate New Home Sales to fall 13% YoY to 1.3bn sqm and property prices to remain stable in 2020E.

### Austerity measures will remain, New Home Sales to decline 13% and ASP stays flat

We do not expect the Central Government to stimulate home purchase demand through lifting the property austerity measures, e.g. Home Purchase Restrictions, considering that Fixed Asset Investment is no longer as significant a GDP growth driver compared to back in 2008/09, while the potential consequences of a housing bubble is one that the Central Government would want to avoid. As a result, we do not expect a swift rebound in the property market and New Home Sales will fall by 13% to 1.3bn sqm in 2020E. We believe the market recovery will be a prolonged progress.

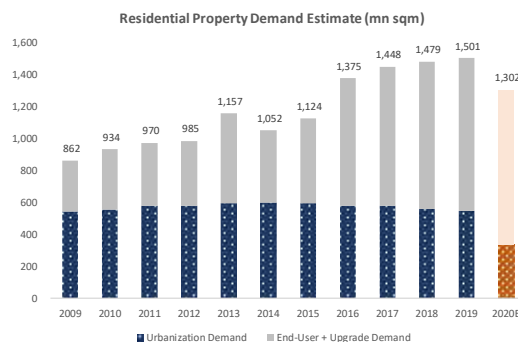
Property prices should hold up and remain stable during 2020E, as we believe most property developers would prioritize containing their capex spending over cutting their ASP's. Cutting ASP's under a weak home purchase demand environment runs the risk of potentially hurting margins and yet fail to boost volume.

**Figure 1: Fixed Asset Investment is no longer as crucial to GDP as 2008/09, we thus believe lifting austerity measures to stimulate home purchase demand is unlikely**



Source: Wind, NBS, AMTD Research

**Figure 2: We expect New Home Sales volume to decline 13% YoY to ~1.3bn sqm**

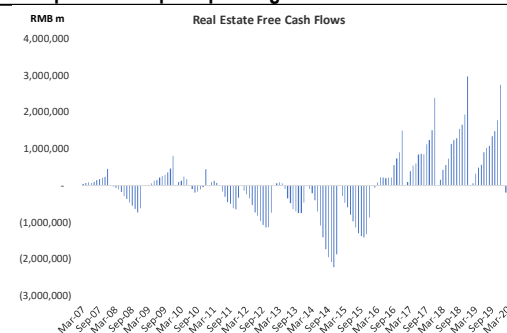


Source: Wind, NBS, AMTD Research  
E=AMTD Research Estimates

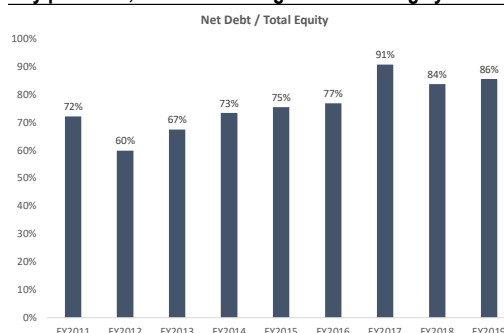
### Developers are in a Stronger Position than 2008-09 Downturn

We believe that the property developers are now in a stronger position than in previous downturns (e.g. 2008-09, 2014-16) with more efficient operations, shorter construction cycle and lighter land bank. Another key structural change in the industry have also been the lower CapEx spending on commercial properties during 2016-2019 compared to previous years of 2010-2015, lowering the capital requirement and thus risks involved. Contracted sales and earnings growth in the past three years have been fueled by free cash flows (figure 3) generated from business operations through contracted sales and thus financial leverage remained stable.

**Figure 3: Property Industry as a whole has been more disciplined in CapEx spending**



**Figure 4: Listed Developers: As growth is largely funded by pre-sales, financial leverage has been largely stable**



## 2020: Position for Yield over Growth

Under the backdrop of a macroeconomic growth slow down, we believe 2020 will be a year seeking for stability and investors should be seeking for yield instead of growth across the Property sector, which will favour the China Property Bonds over Equity, given the slower growth potential and increasing downside risks to the earnings growth outlook.

For equity investors, we believe the opportunity lies with high dividend yield stocks which are backed by solid cash flows and a strong reported earnings growth. From a fundamental perspective, developers which are able to payout a healthy dividend reflects the strength in the cash flow of the business, as well management's confidence in the company's outlook. From a valuation perspective, such a high dividend yield often reflects potential mispricing by the market amid recent volatility.

### Our Top Picks (CCRE, Aoyuan & Powerlong) offer a 10-12% 2020E div yield

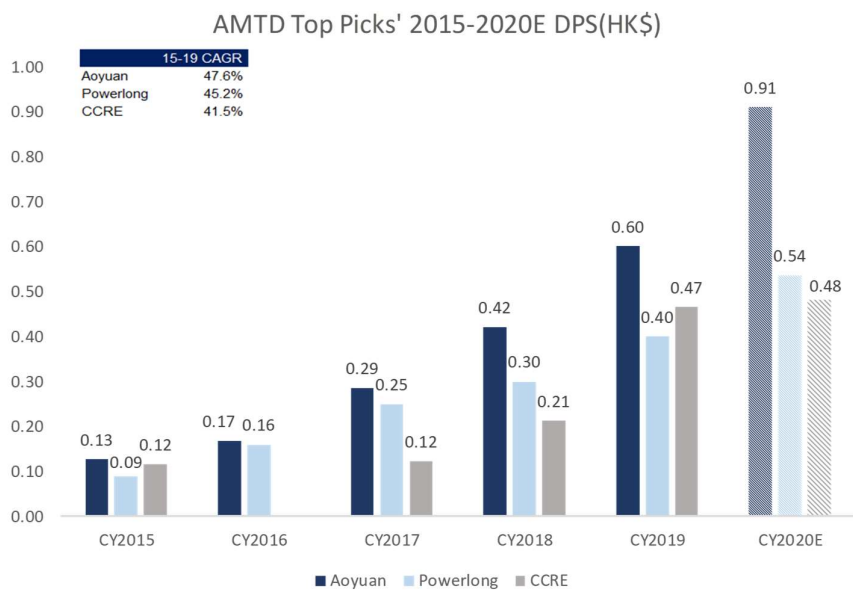
Central China (0832.HK), China Aoyuan (3883.HK) and Powerlong (1238.HK) remain as our top picks of the China Property Developer Sector for equity investors. We believe the stocks of these three developers are still undervalued, offering a 2019 div yield of 6.9-11.9% and we expect that to rise to a 2020E div yield of ~10-12%. This is underpinned by a solid reported earnings growth that we are expecting for 2020E and a stable payout ratio of 35-50% in-line with previous years.

**Figure 5: Our Top Picks CCRE, Aoyuan and Powerlong offering 10-12% 2020E div yield**

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1628.HK	Yuzhou	Buy	3.21	4.1x	0.7x	12.7%	10.1%	3.98	24%
95.HK	Lvgem	Hold	2.30	6.2x	0.8x	2.7%	3.6%	2.58	12%
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6111.HK	Dafa	Hold	4.26	6.3x	0.9x	3.8%	4.0%	3.73	-12%
<b>Average</b>				<b>4.6x</b>	<b>0.8x</b>	<b>7.4%</b>	<b>8.2%</b>		<b>27%</b>
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<b>China Property Management</b>									
3662.HK	Aoyuan Healthy Life	Buy	7.24	17.4x	5.3x	1.5%	2.3%	11.18	54%
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Source: Company Data, Bloomberg, AMTD Research Estimates

**Figure 6: Our Top Picks' high dividend yield is a result of the strong 2015-2019 DPS CAGR of ~40%-50%, which we expect to extend into 2020E**



Source: Company Data, AMTD Research Estimates

## What's Changed?

We are lowering our 2020E-2021E Net Profit Estimates for our coverage universe by ~10% on average and our Target Prices were also trimmed by 8% on average. We were previously factoring in a 20% YoY 2020E growth in contracted sales on average for our coverage universe, which are now lowered to ~12% on average following the COVID-19.

We have also downgraded Dafa Properties to a HOLD rating (from BUY).

For most China Property Developers, we are also introducing our 2022E earnings estimates for the first time.

**Figure 7: Changes to Target Price and Rating**

Ticker	Name	Rating		Target Price		Change (%)
		New	Old	New	Old	
China Property Developers						
832 HK	CCRE	Buy	Buy	6.10	6.00	2%
3883 HK	Aoyuan	Buy	Buy	14.46	14.35	1%
1238 HK	Powerlong	Buy	Buy	6.50	7.18	-9%
1996 HK	Redsun	Buy	Buy	3.22	3.32	-3%
1628 HK	Yuzhou	Buy	Buy	3.98	3.96	0%
95 HK	Lvgem	Hold	Hold	2.58	2.72	-5%
230 HK	Minmetals	Hold	Hold	1.09	1.14	-4%
6111 HK	Dafa	Hold	Buy	3.73	6.98	-46%
Average						-8%
HK Property Developers						
17 HK	New World Dev	Buy	Buy	14.17	14.13	0%
35 HK	Far East Consortium	Buy	Buy	4.21	4.21	0%
China Property Management						
3662 HK	Aoyuan Healthy Life	Buy	Buy	11.18	10.00	12%

Source: AMTD Research Estimates

**Figure 8: 2020E-2021E Net Profit Changes, introducing 2022E Net Profit**

Ticker	Name	AMTD Net Profit Estimates (New)			AMTD Net Profit Estimates (Old)			AMTD Net Profit Changes		
		20E	21E	22E	20E	21E	22E	20E	21E	22E
China Property Developers										
832 HK	CCRE	2,498	3,508	3,731	2,443	3,294	N/A	2%	6%	N/A
3883 HK	Aoyuan	6,354	7,148	8,161	6,304	7,216	N/A	1%	-1%	N/A
1238 HK	Powerlong	3,897	4,824	6,505	4,313	5,356	N/A	-10%	-10%	N/A
1996 HK	Redsun	1,747	2,076	2,455	2,022	2,480	N/A	-14%	-16%	N/A
1628 HK	Yuzhou	3,518	5,070	6,123	4,289	5,168	N/A	-18%	-2%	N/A
95 HK	Lvgem	1,655	1,722	2,506	1,745	1,825	2,614	-5%	-6%	-4%
230 HK	Minmetals	812	853	926	861	967	N/A	-6%	-12%	N/A
6111 HK	Dafa	506	536	644	743	905	N/A	-32%	-41%	N/A
Average								-10%	-10%	-4%
China Property Management										
3662 HK	Aoyuan Healthy Life	272	366	459	253	352	442	7%	4%	4%
HK Property Developers										
17 HK	New World Dev	8,161	8,412	10,085	8,947	9,713	8,965	-9%	-13%	12%
35 HK	Far East Consortium	972	1,286	1,598	1,573	1,728	1,891	-38%	-26%	-16%

Source: AMTD Research Estimates

**Central China:** We have slightly raised our 2020E-2021E earnings forecasts by 2-6% after the developer posted stronger than expected 2019 results. Based on our latest estimates, 2020E div yield would reach 11.9%. Our Target Price was slightly raised by ~2% to HK\$6.1/sh, which currently offers 53% upside to the current share price.

**China Aoyuan:** We have kept our 2020E-2021E earnings forecasts largely unchanged, following its solid 2019 results announced in March. Our Target Price of HK\$14.46/sh currently offers 63% upside.

**Powerlong Real Estate:** We have lowered our 2020E-2021E net profit estimates by ~10% mainly due to (1) lower rental income amid the COVID-19 outbreak in 2020E; and (2) we are also factoring in the lower attributable stake in the contracted sales achieved that are expected to be booked into 2020E-2021E.

**Redsun Properties:** We have lowered our 2020E-2021E net profit by 14-16% as we factor in the lower than expected attributable stake in the contracted sales achieved. We have lowered our target price by 3% to HK\$3.22/sh.

**Yuzhou Properties:** We have cut our 2020E and 2021E earnings forecast by 18% and 2% respectively, as we lowered our revenue forecasts for 2020E amid the lower than expected contract liabilities achieved on its 2019 balance sheet. Nonetheless, we have normalised our Target 2020E P/E Multiple to 5.0x (from 4.0x), now that our previous concerns over its 2019 earnings is now behind us.

**Far East Consortium:** We have lowered our FY20E-FY22E earnings estimates by 16-38% as we factor the (1) distribution to perpetual securities issued; and (2) lower revenues from hotels amid the travel restrictions affected by COVID-19. Our NAV and Target Price remains largely unchanged, as (1) The recent acquisition of Ensign House in Feb 2020 was value accretive; (2) Moreover, we believe the earnings loss from the Hotels Business are temporary and thus we adopt a long term hotel room rates for valuation.

**New World Development:** We have revised down our FY20E-FY21E earnings forecast by 9-13%, as we delay some of the property sales and revenue bookings into FY22E. As a result, our FY22E earnings forecast has been revised up by 12% to reach HK\$10bn. Since our revisions are only a delay in recognition, the impact on the NAV and thus Target Price is largely unchanged, with our new Target Price at HK\$14.17/sh.

**LVGEM:** We have cut our LVGEM 2020E-2022E earnings forecast by 5-6%, to reflect the latest construction schedule, delaying some of the revenue recognition in Kawei project. We maintain our Target P/E Multiple unchanged, and as a result our Target Price is also fine-tuned to HK\$2.58/sh.

**Minmetals:** We have revised down our 2020E-2022E earnings forecast by 6-12%, as we expect a slow down in contracted sales and the lower than expected 2019 contract liabilities (unrecognized sales) reported. As a result, our target price has also been revised down by 4% to HK\$1.09/sh.

**Dafa Properties (Downgrade to HOLD):** We are downgrading Dafa Properties to a Hold Rating (From Buy) for its slower growth prospects on the back of its weaker than expected 2019 results, low cash collection on its contracted sales and a slower attributable sales and earnings growth outlook. As a result, we have lowered our 2020E-2021E earnings forecasts by 32-41%. As we have maintained our 2020E target multiple of 5.5x unchanged, we have also lowered our target price by 46% to HK\$3.73/sh, offering downside of 12%.

**Aoyuan Healthy Life:** Our latest numbers have factored in the recent acquisition of Easy Life, and as a result, we have raised our 2020E-2022E earnings forecast by 4-7%. Our DCF-based target price has also been raised by 12% to HK\$11.18/sh as a result of the value-enhancing acquisition.

## Will Austerity Measures be Lifted?

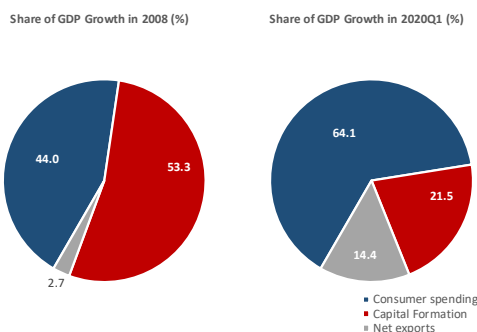
Three months on from the COVID-19 outbreak, we believe that the policy stimulus tone and direction has been set. We believe the Central Government is still determined to contain any potential housing bubble which could lead to further debt crisis down the road and thus will unlikely heavily stimulate home purchase demand. We should also take into account that China's GDP is no longer as heavily reliant on Fixed Asset Investment (Capital Formation) as it was back in 2008/09 (see Figure 9), and thus we do not believe the Central Government will lift the austerity measures after weighing up the risk-reward.

### Long term stability over swift short term rebound

We therefore believe that property demand side austerity measures such as HPR, ASP restrictions, down payment ratio, will remain. Supply side easing measures will be the main focus, with land premium payment schedules extended, financing costs lowered through monetary policies, while funding channels such as onshore corporate bond, capital markets financing and offshore NDRC quotas could also potentially be relaxed, in our view.

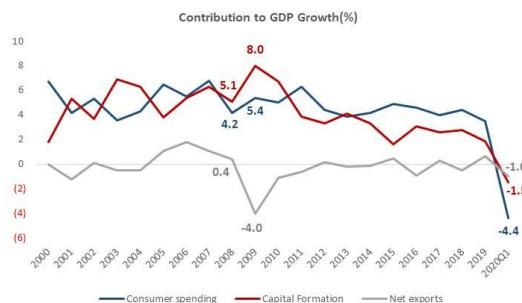
The improved liquidity and property supply-side measures will lower the risk of a cash crunch and thus default risk, in our view. Nonetheless, with the economy expected to remain fragile in 2020, and in the absence of demand-side stimulation measures, we expect home purchase demand to remain weak.

**Figure 9: China's GDP is no longer as reliant on Fixed Asset Investment as compared to 2008/09**



Source: Wind, NBS, AMTD Research

**Figure 10: Consumer Spending is now the key driver of GDP growth and thus Central Government's policy focus**



Source: Wind, NBS, AMTD Research

Note: Contribution to GDP= Growth × Share to GDP

### Local Government attempts to reverse Property Austerity Measures were retreated

Sticking with "Housing is for Living not for Speculation", politburo meeting on 17 April reiterated the principle. From Feb, there have been 7 cities withdrawing property-related policies, covering down payment reducing, purchase and resale restriction easing. We believe those are signals that control in property industry would not be relieved.



**Figure 11: One-day policies imply there is no sign of relieving control in property industry**

Date	Region/Institution	Area	Detail
21-Feb-20	Zhumadian, Henan	down payment	Minimum down payment for first/second common reserve funds loan will reduce from 30% to 20%.
3-Mar-20	Guangzhou, Guangdong	commercial office projects	Canceling the limitation on buyers for apartments, shops and other commercial office projects.
12-Mar-20	Baoji, Shaanxi	down payment	Encouraging commercial banks to reduce the down payment ratio and the maximum amount of provident fund loans will be raised from 400,000 yuan to 500,000 yuan.
15-Mar-20	Jinan, Shandong	pre-sale funds; housing purchase limitation	Pre-sale regulatory funds are levied and returned immediately. The purchase of two-star or above green building commercial residences within the area directly controlled by the pilot zone shall not be subject to the purchase restriction policy of Jinan city.
24-Mar-20	Haining, Zhejiang	housing purchase restriction	During the real estate expo from March 25 to April 24, temporarily canceling the housing purchase limitation for personnel without Haining hukou.
10-Apr-20	Qingdao, Shandong	purchase/resale restriction	Holding part of ownership in housing in certain situations is not regarded as owning a housing and restricted resale period declines from 5 years to 2 years.
22-Apr-20	Jingzhou, Hubei	down payment/mortgage loans/deed tax subsidy	Minimum down payment for first/second common reserve funds loan will reduce to 20%/30%. The upper limit of individual common reserve funds loan shall be raised from 450,000 yuan to 500,000 yuan. Purchasing new commercial housing in Jingzhou city before June 30 would be returned 100% of the deed tax.

Source: Xinhua, People's Daily, Global Times, China Daily, AMTD Research

**Demand-side Policies mainly fine-tuning Hukou and talent immigration policies**

Property-related policies to relieve the impact of COVID-19 are mainly rolled out in Feb and are basically related to land premium, tax payment and pre-sales, while demand stimulus is rare. From March, we found more new policies about hukou easing and talents introduction. On 9 April, NDRC proposed that easing urban residency restrictions to boost urbanization. Specifically, cities with a population under 3 million should remove barriers for rural residents to apply for urban household registration status; for cities with a population of over 3 million, restrictions should be eased for groups such as migrant workers with stable jobs and college students from rural areas.

Figure 12: Property-related policies to relieve the impact of COVID-19 are mainly rolled out in Feb and are basically related to land premium, tax payment and pre-sales, while demand stimulus is rare.

## February 2020

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
9	10	11 Hangzhou, Zhejiang	12 Nanchang, Jiangxi Xi'an, Shaanxi Wuxi, Jiangsu Wuxi, Jiangsu Zhejiang	13 Shanghai Tianjin Nanjing, Jiangsu Jinan, Shandong	14 Xiamen, Fujian Hengyang, Hunan Hengyang, Hunan	15 Fuzhou, Fujian Fuzhou, Fujian
16	17 Shenyang, Liaoning	18 Zhongshan, GD Haikou, Hainan Shanya, Hainan	19 Suzhou, Jiangsu	20 Yunnan	21 Henan	22
23 Foshan, GD	24	25 Nanning, Guangxi Hangzhou, Zhejiang Haimeng, Jiangsu Haimeng, Jiangsu Dongguan, GD	26	27 Fuzhou, Jiangxi Nantong, Jiangsu Nantong, Jiangsu Qinzhou, Guangxi Shijiazhuang, Hebei	28 Hebi, Henan Suzhou, Jiangsu	29

## March 2020

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
1	2	3 Wenzhou, Zhejiang Jiujiang, Jiangxi Jiujiang, Jiangxi	4	5	6	7
8 Shandong Hainan	9	10	11 Shenzhen, GD	12	13	14
15	16	17 Hunan	18 Suzhou, Jiangsu Foshan, GD	19	20	21
22	23	24 Yiyang, Hunan	25	26	27 Jiangmen, GD Shenzhen, GD	28

## April 2020

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
			1	2 Shenyang, Liaoning	3 Shenyang, Liaoning	4
5	6	7	8	9 NDRC	10 Shanghai Nanjing, Jiangsu	11
12	13	14 Nanchang, Jiangsu	15 Lanzhou, Gansu Zixing, Hunan	16 Shenzhen, GD	17	18
19	20 Hubei Hubei Shenzhen, GD	21	22	23 Jiangsu, Huai'an	24	25

land premium payment/tax payment/loan  
pre-sale/pre-sale funds  
others  
tightening



housing provident fund/mortgage loans  
deed tax/housing subsidy  
hukou/qualifications/second-house  
crackdown on speculation



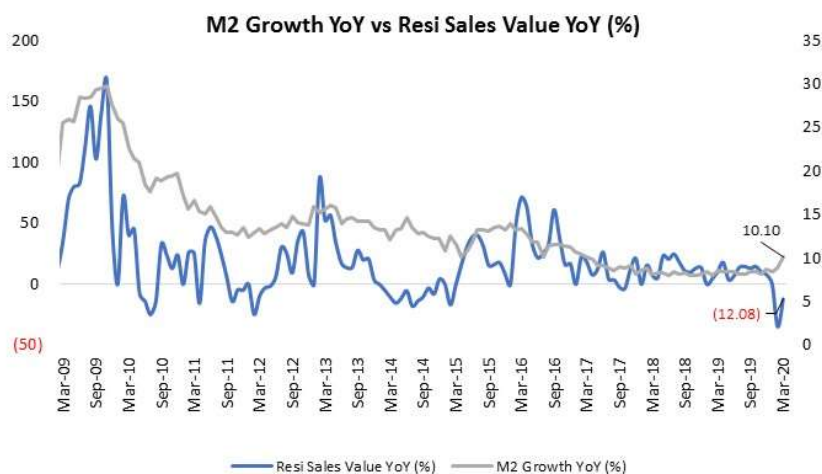
Source: Xinhua, People's Daily, Global Times, China Daily, AMTD Research

### Residential Sales Value will benefit from Monetary Easing

After the China New Year, PBoC has rolled out measures to inject liquidity to easing the monetary market and support the economy especially small and medium-size business, including interest rate cut, RRR cut, increasing re-lending and re-discount quota and etc.

In March, M2 beat market expectations with a YoY of 10.1% but residential property sales value dropped by 12.1% (34.7% in Jan-Feb). The residential sales value was slumped by 22.8% in Q1 partly given sales offices closed for nearly one month.

**Figure 13: In March, M2 beat market expectations with a YoY of 10.1% but residential property sales value dropped by 12.1%**

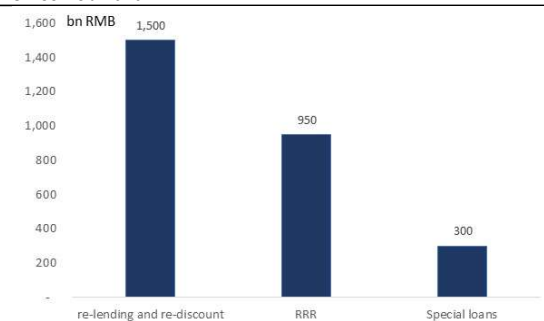


Source: PBoC, NBS, Wind, AMTD Research

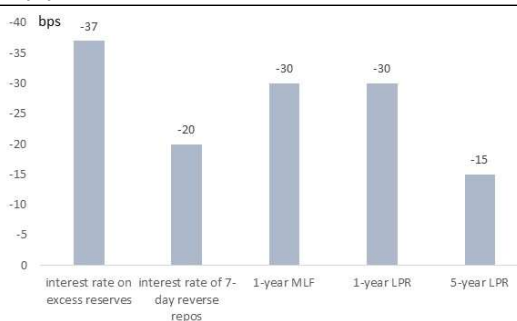
**Figure 14: Monetary Policy since COVID-19 outbreak**

Date	Institution	Target	Detail
20-Apr-20	PBoC	LPR	PBoC has released the eighth quotation of LPR. In February, the one-year LPR was 3.85%, and the 5-year LPR was 4.65%. The one-year LPR was cut by 20 basis points, while five-year LPR was cut by 10bps.
15-Apr-20	PBoC	MLF	PBoC launched 100 billion RMB MLF operation on April 16 and the bid interest rate was 2.95%, previously 3.15%.
3-Apr-20	PBoC	RRR	PBoC said it will cut the RRR for small and medium-sized banks by 100 bps in two equal steps, the first effective as of April 15 and the second as of May 15. The latest cuts would lower those banks' RRR to 6%. In addition, the interest rate on financial institutions' excess reserves with the central bank would be reduced to 0.35% from 0.72%, effective April 7.
31-Mar-20	PBoC	Re-lending and re-discount quota	The re-lending and re-discount quota for small and medium-sized banks will be expanded by 1 trillion yuan (about 141 billion U.S. dollars).
30-Mar-20	PBoC	7-day reverse repos	PBoC injected 50 billion yuan (about 7 billion U.S. dollars) into the market through the seven-day reverse repos at an interest rate of 2.2 percent, 20 basis points lower than the previous.
13-Mar-20	PBoC	RRR	PBoC announced it will implement targeted RRR cuts for eligible banks from March 16. The move will release 550 billion yuan (about \$78.57 billion) of long-term funds. The RRR cuts target inclusive finance, and banks that meet certain criteria can enjoy 50 to 100 basis points of RRR cuts. In addition, eligible joint-stock commercial banks will be given an additional targeted RRR cut of 100 basis points to support lending in inclusive finance.
12-Mar-20	PBoC/SAFE	Cross-border Finance	"PBoC and SAFE Notice Concerning Adjustment to the Full Caliber Cross-border Finance Macro-prudential Adjustment Parameter" (中国人民银行 国家外汇管理局关于调整全口径跨境融资宏观审慎调节参数的通知) issued on 11 March increases the cross-border finance macro-prudential adjustment parameter from 1 to 1.25, hoping to facilitate crossborder financing for domestic small businesses via adjustments to a key macro-prudential assessment parameter.
26-Feb-20	PBoC	Re-lending and re-discount quota	PBoC said it will increase re-lending, re-discount quota by 500 billion yuan to support small businesses on top of 300 billion yuan approved earlier in February. The re-lending rate for rural areas, agriculture, farmers and smaller businesses will also be lowered by 25 basis points to 2.5 percent.
20-Feb-20	PBoC	LPR	PBoC has released the seventh quotation of LPR. In February, the one-year LPR was 4.05%, and the 5-year LPR was 4.75%. The one-year LPR was cut by 10 basis points, while five-year LPR was cut by 5bps.
17-Feb-20	PBoC	MLF	PBoC launched 200 billion RMB MLF operation and 100 billion RMB seven-day reverse repurchase operation on February 17. Among them, the bid interest rate of the one-year 200 billion RMB MLF operation was 3.15%, previously 3.25%.
9-Feb-20	PBoC	Special loans for epidemic prevention and control	PBoC will issue loans totaling 300 billion yuan (about 43 billion U.S. dollars) to policy and commercial banks via its re-lending program as part of measures to finance the control of the novel coronavirus outbreak. The special loans will be issued at a preferential rate.
1-Feb-20	PBoC, Ministry of Finance, CBIRC, CSRC and SAFE	Liquidity, credit, bond issuance and etc.	30 financial measures were rolled out to ensure stability in outbreak, including credit easing and liquidity injection. The central bank will make use of open market operations, standing lending facility, re-lending and re-discount as monetary policy tools.

Source: PBoC, AMTD Research

**Figure 15: Providing funds through lending and RRR cut since Feb 2020**

Source: PBoC, AMTD Research

**Figure 16: Interest Rate cuts to inject liquidity since Feb 2020**

Source: PBoC, AMTD Research

Figure 17: Property-related Policy since COVID-19 outbreak

Date	Region/Institution	Area	Detail
11-Feb-20	Hangzhou, Zhejiang	land premium	Land premium payment can be deferred; adjusting the proportion of land auction margin; adjusting the payment period for land premium.
12-Feb-20	Nanchang, Jiangxi	land premium	Land premium payment can be deferred; adjusting the proportion of land auction margin; adjusting the payment period for land premium.
12-Feb-20	Wuxi, Jiangsu	pre-sale/tax payment	Commodity property can be pre-sold upon completion of 25% investment; tax payment can be deferred after application and approval.
12-Feb-20	Xi'an, Shaanxi	land premium	Land premium can be paid in installment within one year; the auction deposit can be determined by 20% of the starting price of the new transferred land.
12-Feb-20	Zhejiang	land premium	Land premium payment can be deferred.
13-Feb-20	Shanghai	land premium	Land premium payment can be deferred or paid in installment.
13-Feb-20	Tianjin	land premium	Land premium payment can be deferred.
13-Feb-20	Nanjing, Jiangsu	land premium	Land premium payment can be deferred.
13-Feb-20	Jinan, Shandong	land premium	Land premium payment can be deferred.
14-Feb-20	Xiamen, Fujian	pre-sale funds	Increasing financial support for real estate development enterprises and appropriately adjusting the supervision of pre-sale funds of commercial housing.
14-Feb-20	Hengyang, Hunan	land premium/deed tax subsidy	Deed tax subsidy policy for home buyers; expanding the scope of talent housing subsidy; speeding up the progress of mortgage loans; paying the land price in installments.
15-Feb-20	Fuzhou, Fujian	land premium/pre-sale	Commodity property can be pre-sold upon completion of 25% investment; land premium payment can be deferred or paid in installment.
17-Feb-20	Shenyang, Liaoning	pre-sale funds	Ensuring land supply; promoting the entry and sale of commercial housing; releasing the supervision funds for pre-sale of commercial housing; implementing tax and fee support policies.
18-Feb-20	Zhongshan, Guangdong	talent housing	Zhongshan will provide a number of fresh college graduates who directly settle down in Zhongshan with talent housing. At the same time, those graduated also can enjoy 3 years of social security subsidies once employed.
18-Feb-20	Haikou & Shanya, Hainan	land premium	Land premium can be paid in installments within one year during the outbreak.
19-Feb-20	Suzhou, Jiangsu	land premium	Extending the time limit for the payment of land premium.
20-Feb-20	Yunnan	pre-sale/pre-sale funds	Commodity property can be pre-sold upon completion of 25% investment; the portion of pre-sale funds used for office and management can be increased from 10% to 20%; providing preferential financial support for projects to resume work.
21-Feb-20	Henan	land premium/tax payment	Land premium can be paid in installment within one year; the auction deposit can be determined by 20% of the starting price of the new transferred land; deferring tax payment for a maximum of three months.
23-Feb-20	Foshan, GD	land premium	Land premium payment can be deferred.
25-Feb-20	Nanning, Guangxi	second housing	Buying the second housing within 144 square meters is allowed to use provident fund loans.
25-Feb-20	Hangzhou, Zhejiang	talent subsidy	A-class top talents can have housing subsidy of a maximum of RMB8 mn.
25-Feb-20	Haimeng, Jiangsu	land premium/pre-sale/tax payment/deed tax subsidy	Extending the time limit for the payment of land premium; commodity property can be pre-sold upon completion of 25% main structure; tax payment can be deferred; deed tax concessions for purchasing decoration housing.
25-Feb-20	Dongguan, Guangdong	housing provident fund	The loanable amount can be increased by up to 20% and the longest loan term of accumulation fund is 30 years.
27-Feb-20	Fuzhou, Jiangxi	housing provident fund	Housing subsidy of RMB150 per square meter for home buyers and an increase in the housing provident fund loan upper limit from RMB100,000 to RMB600,000, which will return to its original level from July 1 this year.
27-Feb-20	Nantong, Jiangsu	land premium/pre-sale	Land premium payment can be deferred; relaxing pre-sale permit requirements for commercial housing.
27-Feb-20	Qinzhou, Guangxi	deed tax subsidy	Housing deed tax subsidy of 100% in March, 80% in April and 50% from May to June.
27-Feb-20	Shijiazhuang, Hebei	pre-sale/pre-sale funds	Housing can be pre-sold on completion of not less than 25% of the investment; the proportion of pre-sale key funds under supervision is reduced from 40% to 30%.
28-Feb-20	Hebi, Henan	pre-sale/pre-sale funds	High-rise commercial housing with full completion of the ground 2 construction can be pre-sold; advancing disbursement of pre-sale funds.
28-Feb-20	Suzhou, Jiangsu	pre-sale	Housing can be pre-sold on completion of not less than 25% of the investment.
3-Mar-20	Wenzhou, Zhejiang	Talent housing	Undergraduates can buy a house with 30% discount and the first batch of more than 1700 sets will be launched in mid-March.
3-Mar-20	Jiujiang, Jiangxi	Loan/pre-sale funds/tax payment	Loans with a maturity of less than one year shall be extended; lowering commercial housing pre-sale funds supervision ratio; tax payment can be deferred.
3-Mar-20	Changzhou, Jiangsu	land premium	Land premium payment can be deferred.
8-Mar-20	Shandong	pre-sale/pre-sale funds	Shandong issued policies to moderately reduce the pre-sale conditions for commercial housing and pre-sale funds supervision retention ratio according to the actual situation.
8-Mar-20	Hainan	housing sale	Hainan has issued a circular requiring existing house sales system for the commercial residential housing built on newly leased land.
11-Mar-20	Shenzhen, Guangdong	pre-sale funds	Real estate enterprise meeting with the requirement can apply for unfreezing 20% of pre-sale funds.
17-Mar-20	Hunan	pre-sale funds	Hunan issued a notice putting forward to speed up the approval procedures of commercial housing pre-sale permits and relax pre-sale funds regulation.
18-Mar-20	Suzhou, Jiangsu	hukou	Graduates with a bachelor's degree can settle down directly, and graduates with a junior college degree need to pay social security for six months.
24-Mar-20	Yiyang, Hunan	deed tax subsidy	50% deed tax subsidy newly built commodity housing (excluding resettlement housing) below 144 square metre (excluding parking space, garage and miscellaneous room) in downtown area.
27-Mar-20	Jiangmen, Guangdong	housing purchase	Individual with college degree or above can buy a residential housing directly in Jiangmen without requirement of hukou and social security.
27-Mar-20	Shenzhen, Guangdong	tax payment	For unfinished products sold by real estate companies, gross profit margin for corporate income tax reduced to 15%.
3-Apr-20	Shenyang, Liaoning	pre-sale funds	Real estate enterprises can withdraw 10% of the pre-sale supervision funds they should retain before the end of June.
9-Apr-20	NDRC	hukou	Cities with a population under 3 million should remove barriers for rural residents to apply for urban household registration status. For cities with a population of over 3 million, restrictions should be eased for groups such as migrant workers with stable jobs and college students from rural areas.
10-Apr-20	Shanghai	Redevelopment	Allocating 10 billion yuan in advance to urgent urban redevelopment projects, and encouraging financial institutions to increase financing support for the urban redevelopment projects.
14-Apr-20	Nanchang, Jiangxi	Hukou	Nanchang has lifted all hukou restrictions.
15-Apr-20	Zixing, Hunan	deed tax/housing subsidy	Purchasing new housing before the end-2020 will obtain 50% deed tax subsidy. Eligible individuals will obtain house allowance of 10 thousand yuan/household.
15-Apr-20	Lanzhou, Gansu	mortgage loans	Lanzhou became the first city to cut the down payment for commercial property loans from 70% to 50%.
15-Apr-20	Foshan, GD	housing provident fund	Individuals can apply for housing provident fund loans twice. If the first housing provident fund loans are not paid off, individuals cannot apply for the second loans.provident fund loan.
16-Apr-20	Shenzhen, GD	land premium	Land premium payment can be deferred.
20-Apr-20	Shenzhen, GD	crackdown on speculation	Shenzhen Branch of PBoC ordered commercial banks in Shenzhen to investigate business loans collateralized with real estate which might illegally flow into housing market.
20-Apr-20	Hubei	land premium/pre-sale	Land premium payment can be paid in installment. Tax and fees can be deferred. Adjusting the proportion of land auction margin, pre-sales requirements and the proportion of pre-sale supervision funds.
23-Apr-20	Huainan, Jiangsu	housing purchase	There is no social security requirement for out-of-towners purchasing housing.

Source: Xinhua, People's Daily, Global Times, China Daily, AMTD Research

## National Sales Volume to Decline in 2020

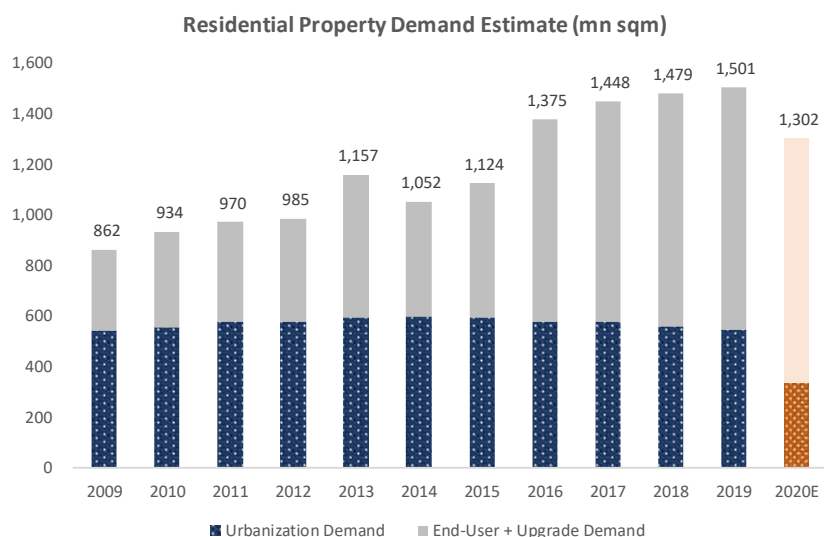
We believe the property demand can be mainly broken down into three key pillars, end-user demand, upgrade demand and urbanization demand. While the end user demand remains intact (see our report [“Virus Outbreak Tightens Cash Flow, but End-User Demand will remain intact”](#) dated 7 Feb 2020), we believe the urbanization and upgrade demand will be dampened and delayed until the economy is strengthened, which we believe to be 4Q20 at the earliest considering the current global travel restrictions in place.

### Lower urbanization demand amid slower economic growth

One of the key drivers of urbanization demand for housing has been job creation in the major urban cities, which is often led by the economic growth activity that comes along as corporates expand their business entering new cities. Taking into account the economic slowdown, such job creation growth will be limited and which will slow down the urbanization demand.

We estimate that the urbanization demand contributes to ~36% of the annual demand based on the urbanization rate of 1.3% last year in 2019. Assuming that urbanization rate is slowed down by half to 0.7% in 2020E, we calculate that the total annual demand and thus sales volume would fall by ~13% YoY to 1.3bn sqm. This together with the lower upgrade demand amid the economic slowdown affecting affordability, we believe that the full year annual sales volume will contract by ~13% YoY to 1.3bn sqm in 2020E.

**Figure 18: New Home Sales to fall in 2020E by 13% YoY due to lower Urbanization Demand**



Source: NBS, Wind, AMTD Research Estimates

### We expect property prices to remain stable

Considering that New Construction Starts grew by 9% YoY during 2019, we believe that developers will be facing stiff competition for contracted sales. However, since gross margins are already relatively thin, we expect developers to slow down CapEx instead of lowering ASP further to drive contracted sales. As a result, we expect ASP to remain flat during 2020E and thus, the full year National Sales Value should also decline 13% YoY during 2020E.

Figure 19: Residential Sales to decline -13% YoY, while Investment Growth slows to +7% YoY

Residential								
Unit	Sales m sqm	New Starts m sqm	Under Construction m sqm	Completion m sqm	Real Estate Inv RMBm	Sales Value RMBm	Avg Const 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
2019	1,501	1,675	6,277	680	9,707,074	13,943,997	1,547	9,287
2020E	1,302	1,591	6,703	728	10,366,745	12,096,004	1,547	9,287

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%
2019	1%	9%	10%	3%	14%	10%	3%	9%
2020E	-13%	-5%	7%	7%	7%	-13%	0%	0%

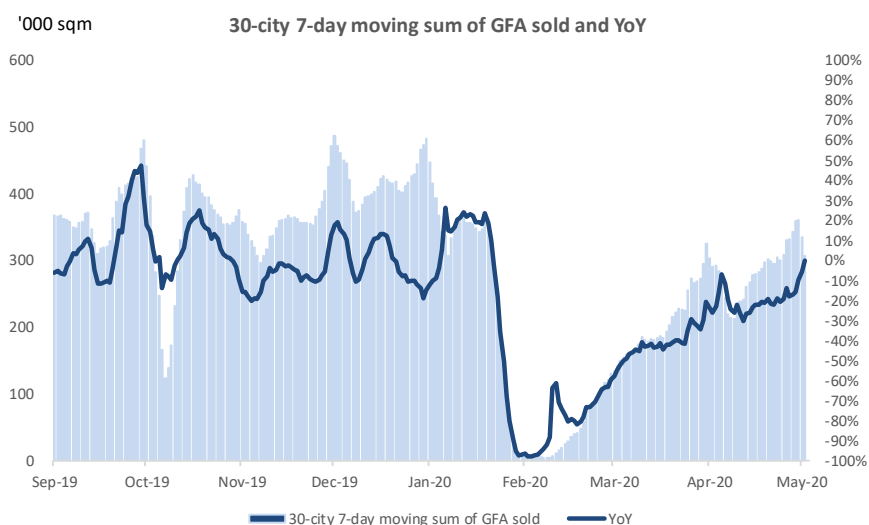
Source: NBS, Wind, AMTD Research Estimates

## April Sales Recovery is Slow, after the bounce in March

According to MOHURD, April MTD property sales volume in the top 30 cities shows a relatively weak start to 2Q20, falling 23% YoY. This shows that the strength in the March contracted sales was likely only reflecting the pent-up demand during Feb 2020, but not really a full-fledge recovery. We believe this is in-line with the weakened demand that we are expecting for the full year.

30 cities' 7-day GFA sold have bounced strongly since March on the weak Feb base. However, disappointingly the momentum failed to extend into April. The 7-day moving sum of GFA sold as of 2nd May has only recovered to Flat YoY despite the strong sales push ahead of the May holidays. We estimate the GFA sold in May will remain Flattish YoY.

**Figure 20: Daily Data – Sales recovery in April across top 30 cities has been relatively mild**



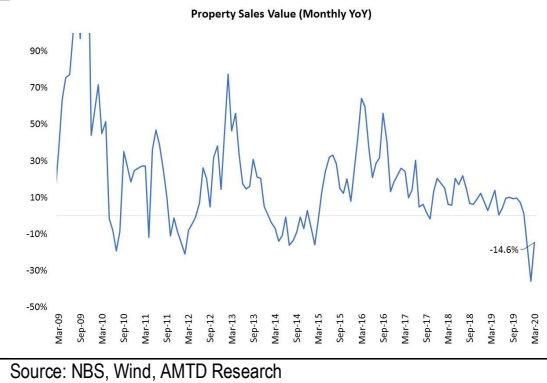
Source: MOHURD, Wind, AMTD Research



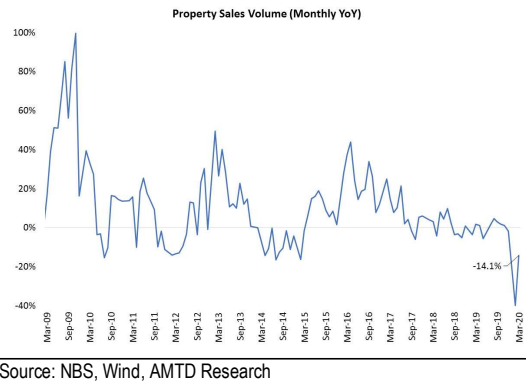
### March National Property Sales Volume & Value decline narrowed to ~14% YoY

Property sales value in March/Q1 dropped by 14.6% and 24.7% YoY, and sales volume in March/Q1 dropped by 14.1% and 26.3% YoY. Although the results in March exceeded the performance in Jan-Feb, developers are under high pressure to offset the losses in Q1.

**Figure 21: Property sales value in March/Q1 dropped by 14.6% and 24.7% YoY**



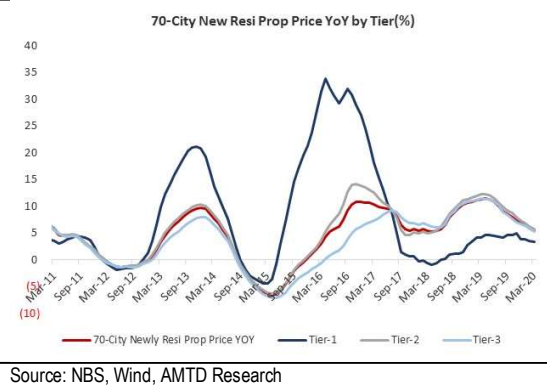
**Figure 22: Property sales volume in March/Q1 dropped by 14.1% and 26.3% YoY**



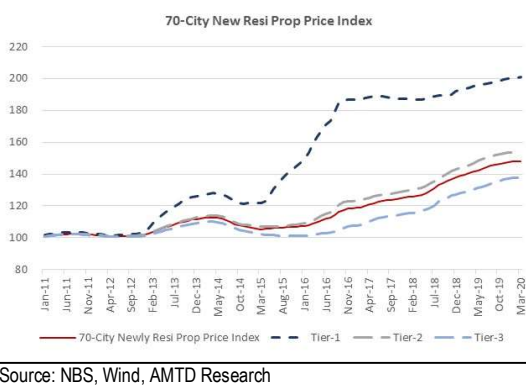
### Property Prices remaining largely stable

70-city new residential property price MoM/YoY was 0.1%/5.4% in March, with increasing residential property price in 38 cities and 63 cities on an MoM/YoY basis respectively. Albeit the improved MoM, the YoY growth declined mildly might show the insufficient demand risk.

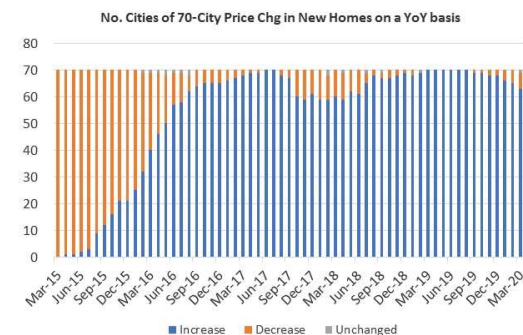
**Figure 23: In March, 70-city new residential property price YoY was 5.4% and Tier-2 cities has the highest growth of 5.8%**



**Figure 24: In March, 70-city new residential property price MoM was 0.1%, higher than 0.0% in Feb**

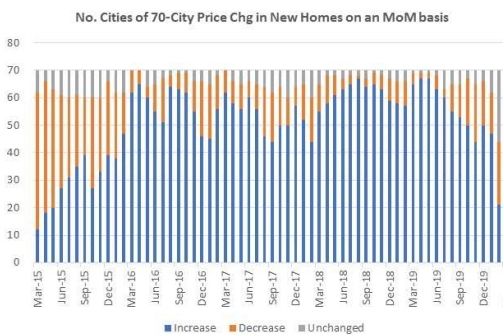


**Figure 25: In March, newly-built residential property price increased in 63 cities on a YoY basis, 21-month lowest since July 2018**



Source: NBS, Wind, AMTD Research

**Figure 26: In March, newly-built residential property price increased in 38 cities on an MoM basis, higher than 21 in Feb but still implying insufficient demand**



Source: NBS, Wind, AMTD Research

### Secondary Residential Prices also remained stable

70-city secondary residential property price MoM/YoY was 0.0%/2.7% in March. Shenzhen led the rebound among tier-1 cities with MoM/YoY growth in Shenzhen of 1.6%/9.7%, while Beijing (YoY -0.7%), Shanghai (YoY 1.6%) and Guangzhou (YoY -0.9%) maintained stable. On 21 Apr, Shenzhen Branch of PBoC ordered commercial banks in Shenzhen to investigate business loans collateralized with real estate, which might flow into real estate again and heat up the market. That is consistent with the policy orientation and demonstrates a tough stance on speculators.

**Figure 27: In March, 70-city secondary residential property price YoY was 2.7% and Tier-3 cities has the highest growth of 2.8%**



Source: NBS, Wind, AMTD Research

**Figure 28: In March, 70-city secondary residential property price MoM was 0.0%, improving from -0.1% in Feb. Shenzhen had the highest MoM growth of 1.6%**

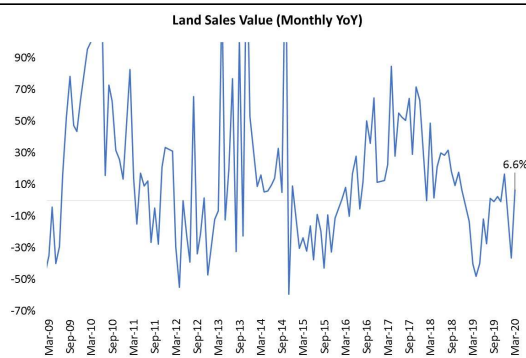


Source: NBS, Wind, AMTD Research

## Land Market: Recovered in March, but still relatively restrained

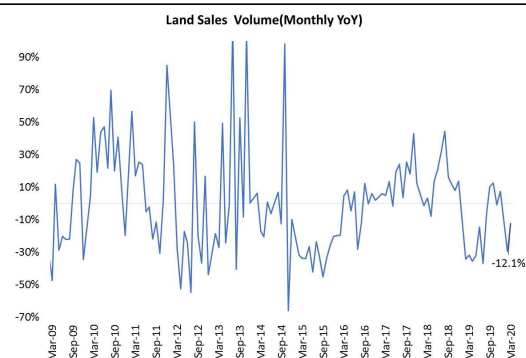
Land sales value also recorded positive YoY growth of 6.6% in March while the land sales volume in March declined by 12.1% YoY. In Q1, 100-city residential land sales value decrease by 16%, in line with -18.1% YoY of national land sales value. 100-city residential land premium rate was ~20% in March, higher than ~13% in Feb and ~11% in Jan, showing the strong confidence of developers.

**Figure 29: Land sales value in March/Q1 rose by 6.6% and -18.1% YoY**



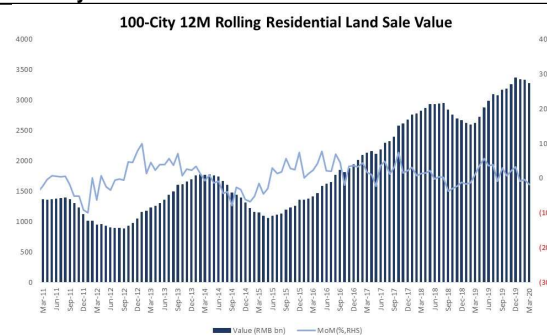
Source: NBS, Wind, AMTD Research

**Figure 30: Land sales volume in March/Q1 declined by 12.1% and 22.6% YoY**



Source: NBS, Wind, AMTD Research

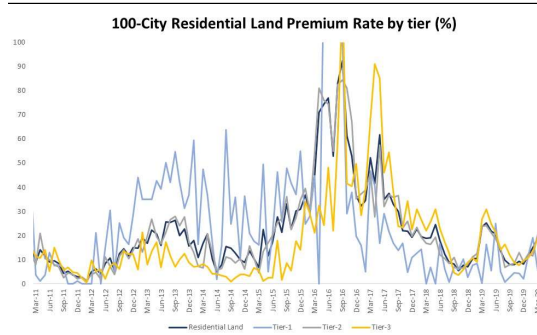
**Figure 31: In March, 12M rolling residential land sales value declined by 1.7% MoM; In Q1, residential land sales value was down by 16%**



Source: Wind, AMTD Research

Note: Residential land includes comprehensive commercial and residential land

**Figure 32: In March, land premium rate was ~20%, while tier-1 city slumped to 6% from 19% in Feb**



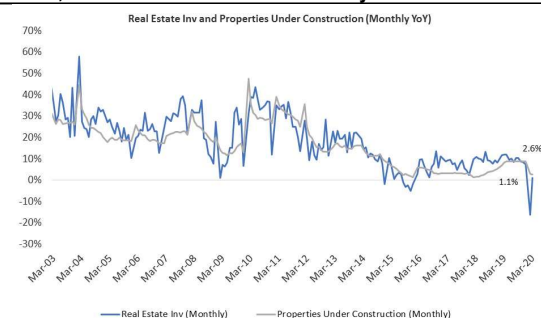
Source: Wind, AMTD Research

Note: Residential land includes comprehensive commercial and residential land

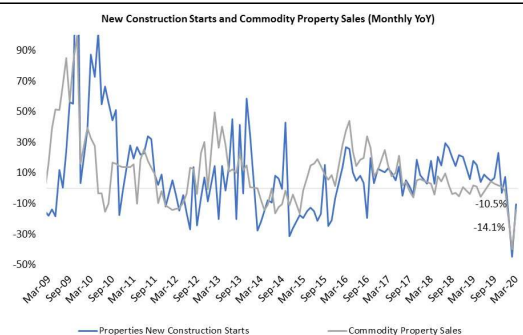
### Real Estate Investment rebounded in March as construction sites reopened

In March, real estate investment and property under construction growth were back to positive after gradual resumption, demonstrating that real estate industry is getting back on track, which also supports our view that national property-related policies is minor probability event.

**Figure 33: In March, real estate investment and property under construction increased by 1.1% and 2.6% respectively. In Q1, real estate investment declined by 7.7% to RMB2.2 tn**



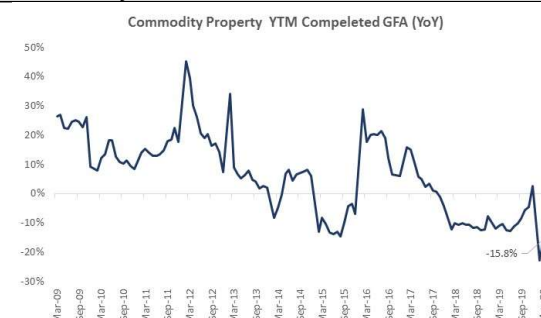
**Figure 34: New construction starts in March/Q1 decreased by 10.5% and 27.2%**



### Completed Inventory Slowly Creeping Up Once More

Following the deleveraging and inventory clearout across the property industry in the past three years, we are now seeing signs that completed inventory is now slowly creeping up once more. With new home purchase demand falling as we expect in 2020E, we believe the inventory pressure will rise again, putting pressure on developers' cash flows.

**Figure 35: As of March, commodity property completed GFA decreased by 15.8% in 2020**



**Figure 36: As of March, GFA of commodity property held for sales rose by 2.1% in 2020**



## China Developers: Challenging Year Ahead

We believe the austerity measures introduced into the property industry during the past decade, along with the regulatory improvements, have fundamentally changed the way developers operate their business.

As a result, we believe property developers are in a better shape than 2008-09, which will put them on a stronger footing to weather this latest economic downturn.

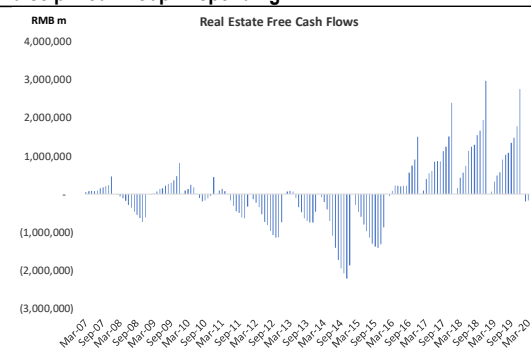
### Limited Default Risk, but we expect a prolonged Growth Recovery

One of the key questions asked by investors over the past 1-2 months have been the potential default risks in the China Property sector. While we believe that cash flows will be tighter than at any point in the past 2-3 years, we believe the China Property sector as a whole is now more mature and financially disciplined than in the last major economic downturn of 2008-2009. Moreover, improved operational efficiency and regulatory enhancements have also contributed to the shortening the construction cycle, lowering the capital risk.

On a Macro level, this can be seen through the industry's Free Cash Flows (Real Estate Sales – Real Estate Investment) that are just in the slight negative in March.

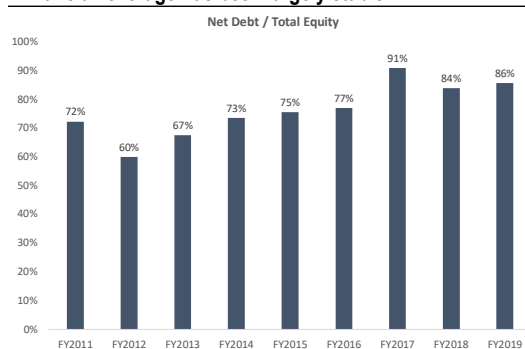
On a Micro level, with the net debt to equity ratio of our universe (mostly mid-cap developers) have deleveraged to ~76% (1H19: 92%), while Total Assets to Equity ratio has remained stable at ~5.7x (1H19: 5.9x).

**Figure 37: Property Industry as a whole has been more disciplined in CapEx spending**



Source: NBS, AMTD Research

**Figure 38: As growth is largely funded by pre-sales, financial leverage has been largely stable**



Source: Company Data, AMTD Research

### Property Industry has come a long way from 2008/09

We believe that the China Property Industry is now much healthier than 2008/2009. This is thanks to the austerity measures, regulation changes and improvement during the past decade. As a result, we believe the industry is in a better position to weather the storm than in previous downturns.

1. **Smaller Land Bank:** With Home Purchase Restrictions and ASP restrictions in place for the longer term, developers no longer have incentive to hoard land in expectation of value accretion through land price appreciation. Most listed developers have a smaller land bank size of ~2-3 years, compared to ~5+ years back in 2008-2009.
2. **Smaller project sizes:** Average project sizes are also smaller compared to 10 years ago, with 300-500k sqm projects more common. Compared to 2007-2011 era where 1+m sqm projects such as Agile Clearwater Bay, Evergrande Qidong, Longfor Yantai Banyan Bay were the norm. Such a smaller project size gives developers a more flexibility in their CapEx spending.
3. **Construction cycle is quicker:** Since ASP has often been capped by the austerity measures, GP Margins have been squeezed and developers had to squeeze their construction cycle to raise the asset turnover to maintain its IRR on each project. Back in 2008-09, full construction cycles are often 3-5 years, and would often take 1-2 years to successfully acquire pre-sale permit. Meanwhile, today the construction cycle is often now 2-3 years, with pre-sale permit often obtained within 0.5-1 year of land acquisition.

Compared to 2008-2009, all of these improvements have lowered the risk for the capital deployed, developers' cash flows are less rigid and can easily control their CapEx spending according to the contracted sales achieved.

### Contracted Sales Targets not just reflecting Optimism, but a Requirement

Under this backdrop, we believe that the HK-listed China developers' average sales target of a ~9% YoY growth will be a challenge and developers could be revising down their sales target during the course of the year, which could put pressure on share prices. Nonetheless, from a cash flow perspective, we also expect developers to slow down the pace of their land acquisition and construction CapEx, to balance their books, but it will come at the expense of growth potential.

Top 30 HK-listed developers have completed 13% of their 2020 annual contracted sales target on average as of March, while their contracted sales declined by 28% in Q1. In March, the monthly average contracted sales YoY was -10% and one-thirds had positive growth. Our top pick CCRE realized 31%/61% contracted sales YoY in Q1/March, outperforming peers.

**Figure 39: Top 30 HK-listed developers set an average growth target of 9% and they have completed 13% as of March, while their contracted sales declined by 28% in Q1 (RMB mn)**

Ticker	Name	03/2020	YoY	1-3M 2020	YoY	2020 Target	YoY	Run Rate
3333 HK	Evergrande	62,080	13%	147,370	23%	650,000	8%	23%
2202 HK	Vanke	54,940	-4%	137,880	-8%	630,840	0%	22%
2007 HK	COGARD	47,040	4%	100,880	-16%	607,422	10%	17%
1918 HK	Sunac	30,920	-18%	61,760	-23%	600,000	8%	10%
688 HK	China Overseas	26,774	6%	59,716	-12%	400,000	6%	15%
1030 HK	Future Land	14,258	-38%	30,981	-34%	250,000	-8%	12%
813 HK	Shimao	20,320	6%	37,030	-9%	300,000	15%	12%
1109 HK	CR Land	22,410	-13%	38,914	-24%	262,000	8%	15%
960 HK	Longfor	21,050	8%	38,160	-14%	260,000	7%	15%
884 HK	CIFI	10,100	-47%	22,400	-35%	230,690	15%	10%
817 HK	Jinmao	13,045	30%	26,055	-8%	200,000	24%	13%
3301 HK	Ronshine	7,843	-25%	18,238	-28%	158,275	12%	12%
2777 HK	R&F	8,020	-32%	16,710	-33%	152,000	10%	11%
3377 HK	Sino-Ocean	9,000	-18%	15,520	-30%	130,000	0%	12%
3900 HK	Greentown	10,400	17%	17,000	-6%	155,710	15%	11%
3383 HK	Agile	7,650	-35%	15,650	-38%	117,970	0%	13%
3883 HK	Aoyuan	7,280	-3%	14,300	-24%	132,227	12%	11%
3380 HK	Logan	7,120	-9%	15,860	-7%	115,406	20%	14%
1813 HK	KWG	6,168	-2%	13,040	-16%	103,300	20%	13%
1638 HK	Kaisa	4,800	-13%	11,500	-17%	100,000	13%	12%
1966 HK	SCE	6,022	-11%	12,929	-18%	93,000	16%	14%
2868 HK	BCL	2,400	-50%	7,550	-46%	80,000	-1%	9%
1233 HK	Times	4,670	-30%	12,424	-11%	82,300	5%	15%
1628 HK	Yuzhou	5,717	12%	10,362	-6%	100,000	33%	10%
123 HK	Yuexiu	4,843	-34%	9,108	-36%	80,200	11%	11%
1996 HK	Redsun	2,781	-44%	5,940	-36%	75,000	15%	8%
832 HK	CCRE	6,562	61%	10,741	31%	80,000	11%	13%
1238 HK	Powerlong	3,196	-31%	8,017	-25%	75,000	24%	11%
337 HK	Greenland	828	-94%	3,733	-76%	55,000	14%	7%
1777 HK	Fantasia	2,103	10%	4,495	-9%	45,000	24%	10%
<b>Total/Average</b>		<b>430,340</b>	<b>-10%</b>	<b>924,262</b>	<b>-28%</b>	<b>6,321,340</b>	<b>9%</b>	<b>13%</b>

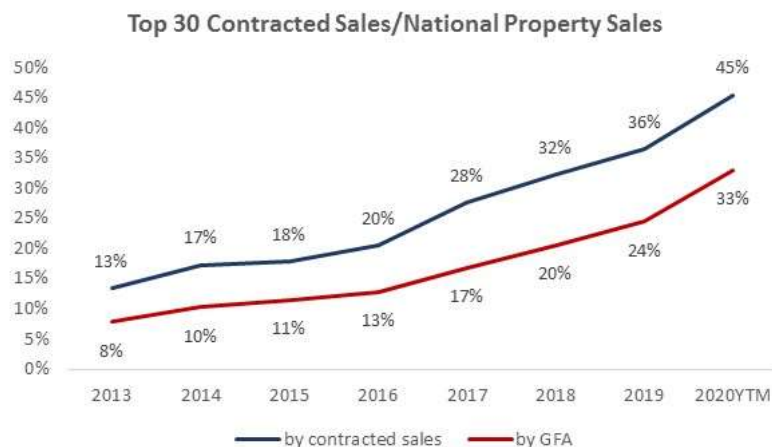
Source: Bloomberg, Company Data, AMTD Research

Note: March and 1-3M 2020 YoY average are weighted and run rate average is simple

### Listed Developers to continue to gain Market Share

Top 30 HK-listed developers' share of national property sales reached 45% in 20Q1 from 36% in 2019 in term of contracted sales and we believe consolidation will continue as non-real estate specialist developers will continue to exit the market as has been the trend over the past 3 years.

**Figure 40: Top 30 HK-listed developers' share of national property sales reached 45% in 20Q1**



Source: Bloomberg, Company Data, AMTD Research



Figure 41: In 20Q1, major developers recorded negative growth on a YoY basis except Evergrande and CCRE

Company	Ticker	1-3M 2020	2020 Target	2019	2018	2017	2016	2015
Evergrande	3333 HK Equity	23.2%	8.1%	9.0%	10.1%	34.2%	85.4%	53.1%
Vanke	2202 HK Equity	-7.7%	0.0%	3.9%	14.5%	45.3%	39.5%	21.5%
COGARD	2007 HK Equity	-15.9%	10.0%	10.0%	-8.9%	78.3%	120.3%	8.8%
Sunac	1918 HK Equity	-22.7%	7.9%	20.7%	27.3%	133.1%	127.7%	3.6%
Poly RE	600048 CH Equity	-35.2%	N/A	14.1%	30.9%	47.2%	36.3%	12.8%
China Overseas	688 HK Equity	-12.2%	6.1%	42.2%	35.6%	4.1%	25.0%	33.7%
CSCEC	601668 CH Equity	-11.2%	N/A	26.8%	31.8%	17.1%	26.2%	21.7%
Future Land	1030 HK Equity	-33.7%	-7.7%	22.5%	74.8%	94.4%	103.8%	30.3%
Shimao	813 HK Equity	-9.2%	15.4%	47.6%	74.8%	47.9%	1.6%	-4.5%
CR Land	1109 HK Equity	-24.0%	8.0%	15.1%	64.3%	33.1%	36.0%	28.2%
Longfor	960 HK Equity	-14.2%	7.2%	20.9%	28.5%	77.1%	61.6%	11.2%
CIFI	884 HK Equity	-34.9%	15.0%	32.0%	46.2%	96.2%	75.4%	42.4%
Gemdale	600383 CH Equity	-16.6%	N/A	29.7%	15.3%	113.9%	6.7%	25.8%
Jinmao	817 HK Equity	-8.0%	24.4%	28.7%	115.4%	54.8%	34.7%	49.9%
Ronshine	3301 HK Equity	-28.1%	12.0%	15.9%	142.6%	103.9%	106.8%	N/A
R&F	2777 HK Equity	-32.6%	10.0%	5.4%	60.1%	34.5%	11.9%	0.0%
Sino-Ocean	3377 HK Equity	-29.7%	0.0%	18.7%	55.2%	40.1%	24.3%	1.0%
Greentown	3900 HK Equity	-6.1%	15.0%	33.8%	-2.0%	7.8%	33.2%	-9.4%
Agile	3383 HK Equity	-37.6%	0.0%	14.9%	14.4%	69.8%	19.4%	0.2%
Aoyuan	3883 HK Equity	-23.7%	12.0%	29.3%	100.2%	78.1%	68.8%	24.1%
Midea	3990 HK Equity	50.9%	N/A	28.1%	55.8%	146.1%	85.6%	N/A
Logan	3380 HK Equity	-6.8%	20.2%	33.7%	65.4%	51.2%	40.0%	53.6%
KWG	1813 HK Equity	-15.7%	20.0%	31.5%	128.3%	28.6%	10.4%	-1.5%
Kaisa	1638 HK Equity	-16.9%	13.5%	25.8%	56.7%	49.8%	222.5%	-60.0%
SCE	1966 HK Equity	-17.7%	15.5%	56.7%	54.5%	41.3%	62.1%	21.9%
BCL	2868 HK Equity	-45.7%	-1.0%	14.4%	26.5%	22.7%	40.0%	30.8%
Times	1233 HK Equity	-11.1%	5.0%	29.3%	45.6%	41.9%	50.3%	28.3%
Yuzhou	1628 HK Equity	-5.8%	33.1%	34.1%	38.9%	73.7%	65.5%	16.8%
Yuexiu	123 HK Equity	-36.3%	11.2%	24.8%	41.4%	35.1%	21.7%	12.9%
Redsun	1996 HK Equity	-36.1%	15.1%	37.7%	N/A	N/A	N/A	N/A
CCRE	832 HK Equity	31.5%	11.4%	33.8%	76.5%	51.0%	28.0%	1.2%
Powerlong	1238 HK Equity	-24.9%	24.3%	47.1%	96.5%	18.4%	23.3%	36.7%
Greenland	337 HK Equity	-76.2%	13.5%	27.8%	26.0%	65.3%	4.8%	34.5%
Poly Prop	119 HK Equity	-13.9%	N/A	20.2%	12.5%	2.6%	24.7%	29.7%
Modern	1107 HK Equity	-1.1%	16.0%	14.2%	42.9%	33.9%	46.8%	57.2%
Fantasia	1777 HK Equity	-8.8%	24.3%	20.0%	49.6%	65.2%	8.3%	10.3%
Jiayuan	2768 HK Equity	-15.3%	24.7%	43.1%	94.6%	N/A	N/A	N/A
Jingrui	1862 HK Equity	-34.8%	0.0%	-0.3%	37.4%	9.5%	93.0%	-4.5%
Hopson	754 HK Equity	-13.1%	N/A	61.2%	69.6%	7.6%	-13.0%	94.5%
Sunshine 100	2608 HK Equity	-47.3%	N/A	-14.5%	14.0%	1.8%	39.0%	12.4%
SOL	272 HK Equity	138.2%	12.0%	-14.0%	-32.0%	-7.0%	6.8%	120.6%
Yida China	3639 HK Equity	-27.8%	N/A	-15.2%	17.5%	N/A	N/A	N/A
Minmetals	230 HK Equity	N/A	N/A	44.0%	-11.5%	-35.0%	43.7%	21.2%
Dafa	6111 HK Equity	N/A	15.0%	67.8%	204.1%	N/A	N/A	N/A
Lvgem	95 HK Equity	N/A	N/A	48.1%	17.1%	337.8%	162.8%	N/A
Top 30 Developers YoY		-27.8%	8.7%	20.1%	31.5%	52.9%	54.8%	18.3%

Source: Company Data, AMTD Research

Light yellow on company name denotes AMTD Coverage

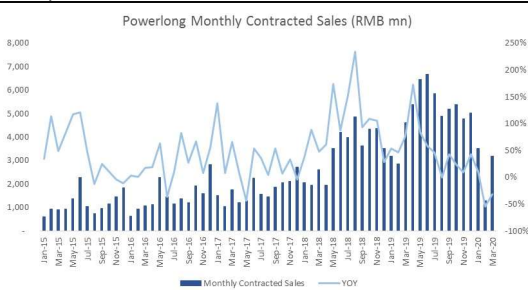
## Monthly Contracted Sales of AMTD Coverage

**Figure 42: Aoyuan Monthly Contracted Sales (Value vs YoY)**



Source: Company Data, AMTD Research

**Figure 43: Powerlong Monthly Contracted Sales (Value vs YoY)**



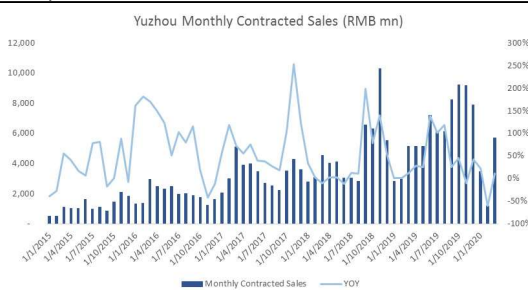
Source: Company Data, AMTD Research

**Figure 44: CCRE Monthly Contracted Sales (Value vs YoY)**



Source: Company Data, AMTD Research

**Figure 45: Yuzhou Monthly Contracted Sales (Value vs YoY)**



Source: Company Data, AMTD Research

**Figure 46: Redsun Monthly Contracted Sales (Value vs YoY)**

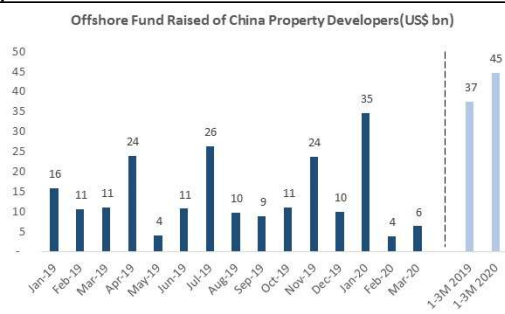


Source: Company Data, AMTD Research

## 2020 Offshore Debt Refinancing Risks Alleviated

Thanks to the strong Jan 2020 debt market, we have seen a record high USD offshore bond issuance by China Property developers during 1Q20, totaling USD45bn. We estimate that there are an aggregate of ~USD34bn of offshore debt maturing by major Chinese Property Developers in 2020E and thus we believe the near term offshore refinancing risks are alleviated.

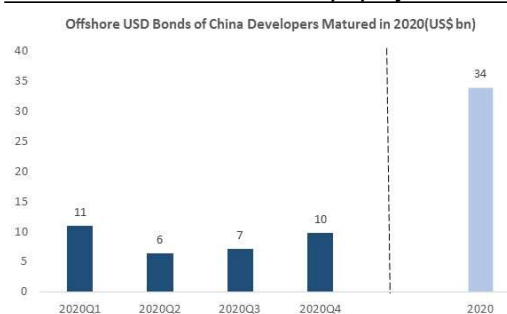
**Figure 47: Offshore Fund Raised in property sector have plummeted since Feb 2020**



Source: Wind, HKEX, AMTD Research

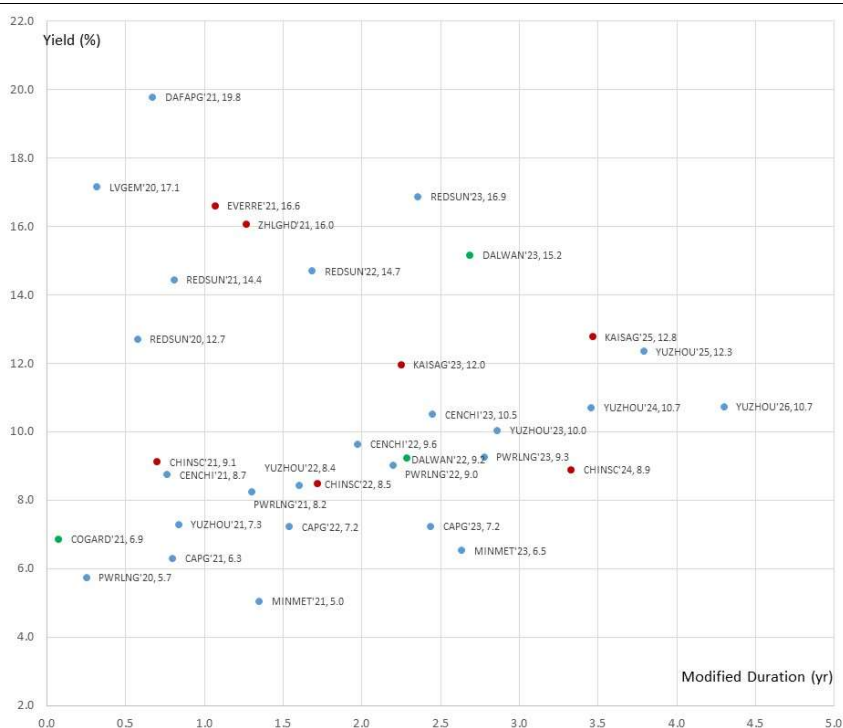
Notes: Including bond, loan and equity financing but excluding IPO

**Figure 48: Offshore Fund Raised in 20Q1 has exceeded the Offshore Bonds matured in 2020 in property sector**



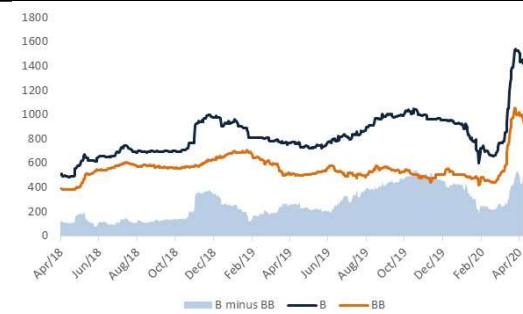
Source: Wind, AMTD Research

**Figure 49: Relative Value of Bonds issued by AMTD coverage companies as at 23rd April 2020**



Source: Bloomberg, AMTD Research

Blue denotes bonds issued by AMTD Coverage; Green denotes BB rating bonds; Red denotes B rating bonds

**Figure 50: Average Z-Spread of HY Offshore Bonds in China Property**

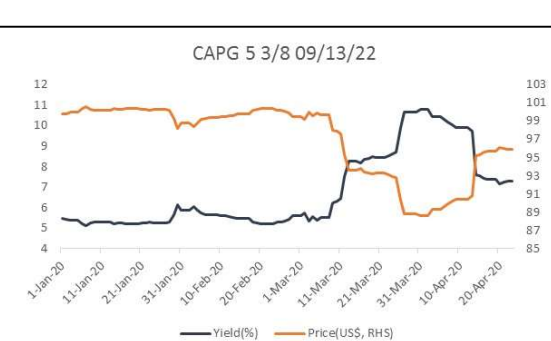
Source: Bloomberg, AMTD Research

**Figure 51: UST 12M/10yr Yield and Federal Funds Target Rate**

Source: Bloomberg, AMTD Research

**Bond Performance of AMTD Coverage**

Following the sharp decline in March 2020, the offshore bond market has stabilized during April, which will also alleviate investor's concern on the near term refinancing risks for developers that require new issuances to refinance their maturing debt.

**Figure 52: Aoyuan Property Bond time series (Price vs YTM)**

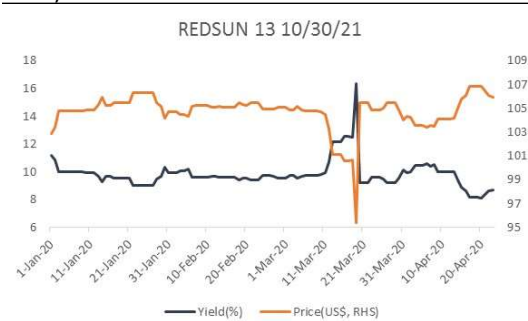
Source: Bloomberg, AMTD Research

**Figure 53: CCRE Property Bond Time Series (Price vs YTM)**

Source: Bloomberg, AMTD Research

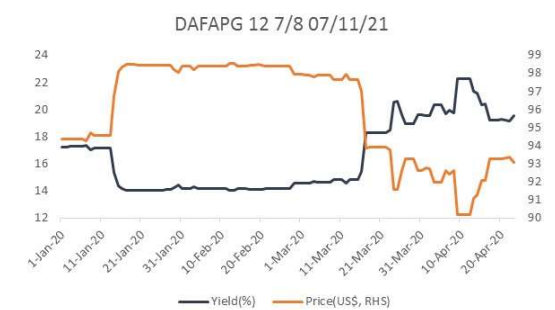
**Figure 54: Powerlong Property Bond Time Series (Price vs YTM)**

Source: Bloomberg, AMTD Research

**Figure 55: Redsun Property Bond Time Series (Price vs YTM)**

Source: Bloomberg, AMTD Research

Figure 56: Dafa Property Bond time series (Price vs YTM)



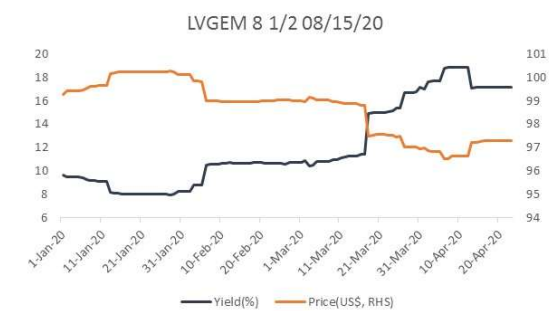
Source: Bloomberg, AMTD Research

Figure 57: Yuzhou Property Bond Time Series (Price vs YTM)



Source: Bloomberg, AMTD Research

Figure 58: Lvgem Property Bond time series (Price vs YTM)



Source: Bloomberg, AMTD Research

Figure 59: Minmetals Property Bond Time Series (Price vs YTM)



Source: Bloomberg, AMTD Research

## Valuations and Risks

We continue to adopt a target P/E Multiple for China Property Developers, given their high asset turnover business model. We are adopting a target Forward P/E Multiple range of 4.5-7.0x, in-line with the current trading average of the sector's ~5.7x 2019 P/E. Our target multiples of each company is determined largely by the expected earnings growth outlook and balance sheet leverage.

For HK property developers, we adopt a Disc. to NAV approach, as their business is more asset based with investment properties and hotels as its key assets.

For China Property Management companies, we adopt a DCF-based valuation methodology to reflect the stable recurring income and cash flow nature of its business.

**Figure 60: China Property Developers adopting a 4.5-7.0x 2020E P/E Multiple**

	Target P/E Multiple (x)	2019-22E Net Profit CAGR	19 Assets to Equity	19 Net Debt to Equity	Target Price (HK\$)
0095.HK Lvgem	7.00	27%	3.74	135%	2.58
0832.HK CCRE	6.00	24%	11.42	6%	6.10
1238.HK Powerlong	6.00	34%	4.18	81%	6.50
3883.HK Aoyuan	5.50	26%	7.84	77%	14.46
1996.HK Redsun	5.50	25%	5.29	70%	3.22
6111.HK Dafa	5.50	10%	4.90	78%	3.73
1628.HK Yuzhou	5.00	21%	4.93	66%	3.98
0230.HK Minmetals	4.50	4%	3.01	79%	1.09
<b>Average</b>	<b>5.63</b>	<b>21%</b>	<b>5.66</b>	<b>74%</b>	

Source: AMTD Research Estimates

**Figure 61: The sector is now trading at 6x P/E, ~1.22 SD below 5-year historical mean**



**Figure 62: The sector is now trading at 1.3x P/B, ~0.68 SD below 5-year historical mean**



Figure 63: HK Property Developers: Discount to NAV Valuation Methodology

		Disc. to NAV	2020E NAV (HK\$)	Target Price (HK\$)
0017.HK	NWD	45%	25.77	14.17
0035.HK	Far East	40%	7.04	4.21

Source: AMTD Research Estimates

Figure 64: Aoyuan Healthy Life adopts a DCF-based Valuation

Stage 1	766
Stage 2	2,838
Stage 3	2,550
Net cash	723
Total equity value (Rmb mn)	6,876
Total equity value (HK \$mn)	7,640
Shares outstanding (mn)	683
<b>Price target (HK\$)</b>	<b>11.18</b>
Implied 2020e PE	25.3x
Implied 2021e PE	18.8x

Source: AMTD Research Estimates

Figure 65: China Property Management Companies: Peers Valuation comparison

Date	23/4/2020	Share Price	Mkt cap	P/E			P/B			Div. yield
Ticker	Name(EN)	(HK\$)	(USD mn)	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19
<b>China Property Management</b>										
6098 HK	Country Garden Services	35.40	12,416	50.8x	39.4x	28.9x	16.1x	12.0x	9.2x	0.5%
3319 HK	A-Living Services	38.90	6,692	38.1x	27.2x	20.9x	7.5x	6.3x	5.4x	1.3%
6049 HK	Poly PPT Dev	78.40	5,597	58.0x	50.7x	36.6x	7.4x	6.6x	5.9x	0.4%
2669 HK	China Overseas PH	8.64	3,664	53.9x	40.7x	31.9x	18.9x	13.8x	10.4x	0.5%
2869 HK	Greentown Service	9.60	3,457	51.0x	37.9x	29.2x	8.8x	7.5x	6.4x	0.9%
1995 HK	Eversunshine	9.92	1,966	61.2x	36.6x	23.9x	10.6x	9.9x	7.7x	0.5%
1755 HK	S-Enjoy Services	16.36	1,727	43.3x	29.7x	20.6x	13.0x	10.4x	8.5x	1.2%
9909 HK	Powelong CM	12.20	978	24.9x	23.7x	16.3x	4.2x	3.4x	3.0x	0.0%
2606 HK	Languang Justbon	39.15	900	11.4x	10.6x	8.0x	2.9x	2.4x	2.0x	NA
9928 HK	Times Neighbor	5.90	692	32.4x	22.1x	12.2x	5.4x	NA	NA	0.6%
3662 HK	Aoyuan Healthy Life*	7.24	678	25.0x	17.4x	12.9x	5.3x	4.5x	3.9x	1.5%
1778 HK	Colour Life	3.46	635	8.5x	7.4x	6.7x	1.1x	1.0x	0.9x	3.0%
2168 HK	Kaisa Prosperity	26.35	476	20.0x	15.4x	11.5x	5.0x	4.1x	3.3x	2.0%
3316 HK	Languang Justbon	10.90	389	20.2x	16.9x	13.1x	3.8x	NA	NA	3.9%
1922 HK	Yincheng Life Service	2.27	78	13.0x	7.9x	5.7x	4.5x	1.9x	1.5x	8.2%
<b>Total/Average</b>			<b>40,344</b>	<b>34.1x</b>	<b>25.6x</b>	<b>18.6x</b>	<b>7.6x</b>	<b>6.4x</b>	<b>5.2x</b>	<b>1.8%</b>

Source: Bloomberg Estimates, \*AMTD Research Estimates for AMTD Coverage Stocks

Note: As of 23rd Apr 2020

Figure 66: HK/China Property Developers: Peers Valuation comparison

Date	23/4/2020	Share Price	Mkt cap	P/E			P/B			Div. yield
Ticker	Name(EN)	(HK\$)	(USD mn)	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19
<b>China Property Developers</b>										
2202 HK	Vanke	24.45	40,691	6.4x	5.6x	4.9x	1.3x	1.1x	1.0x	4.8%
688 HK	COLI	26.20	37,034	6.2x	6.1x	5.5x	0.9x	0.8x	0.7x	4.0%
960 HK	Longfor	38.35	29,637	13.0x	10.9x	9.1x	2.2x	1.9x	1.7x	3.5%
1109 HK	CR Land	31.10	28,612	6.8x	8.0x	6.8x	1.1x	1.0x	0.9x	3.9%
2007 HK	Country Garden	9.62	27,147	4.7x	4.2x	3.7x	1.2x	1.0x	0.9x	6.7%
3333 HK	Evergrande	12.96	22,143	9.0x	4.3x	3.8x	1.1x	0.9x	0.8x	5.7%
1918 HK	Sunac	33.05	19,843	6.2x	4.3x	3.5x	1.6x	1.2x	0.9x	4.2%
813 HK	Shimao	30.65	13,680	8.3x	7.3x	6.0x	1.4x	1.2x	1.1x	5.4%
3380 HK	Logan	11.90	8,461	5.5x	4.7x	3.9x	1.9x	1.4x	1.1x	7.9%
884 HK	CIFI	5.63	5,742	7.1x	4.9x	4.0x	1.3x	1.1x	0.9x	4.4%
1813 HK	KWG	11.32	4,639	3.6x	5.0x	3.8x	0.9x	0.8x	0.7x	7.4%
2777 HK	R&F	9.34	4,212	2.8x	2.5x	2.3x	0.4x	0.3x	0.3x	15.5%
3383 HK	Agile	8.14	4,114	4.2x	3.7x	3.3x	0.6x	0.5x	0.5x	13.9%
3883 HK	Aoyuan*	8.88	3,097	5.3x	3.4x	3.0x	1.4x	1.1x	0.9x	6.8%
1233 HK	Times	12.24	3,066	3.8x	3.4x	2.8x	1.1x	0.9x	0.7x	7.8%
123 HK	Yuxiu	1.44	2,876	5.3x	4.9x	4.2x	0.5x	0.5x	0.4x	7.2%
6158 HK	Zhenro	4.90	2,761	7.6x	6.0x	4.8x	1.1x	1.0x	0.9x	2.3%
2772 HK	Zhongliang	5.62	2,597	4.3x	3.7x	3.0x	2.1x	1.4x	1.0x	17.6%
1238 HK	Powerlong*	4.66	2,491	6.3x	4.3x	3.5x	0.5x	0.5x	0.5x	8.8%
1638 HK	Kaisa	2.93	2,306	6.2x	3.5x	2.7x	0.6x	0.4x	0.3x	3.9%
1628 HK	Yuzhou*	3.21	2,162	4.2x	4.1x	2.8x	0.7x	0.6x	0.5x	12.7%
3900 HK	Greentown	7.13	1,997	6.0x	5.5x	4.8x	0.5x	0.5x	0.4x	4.8%
1966 HK	China SCE	3.30	1,781	4.1x	3.6x	2.9x	0.7x	0.6x	0.5x	7.3%
3301 HK	Ronshine	7.68	1,702	3.7x	2.8x	2.4x	0.7x	0.6x	0.5x	4.8%
95 HK	Lvgem*	2.30	1,503	8.3x	6.2x	6.0x	0.8x	0.7x	0.7x	2.7%
832 HK	CCRE*	3.98	1,412	5.0x	3.9x	2.8x	1.0x	0.9x	0.7x	11.9%
272 HK	Shui On Land	1.29	1,342	5.8x	NA	NA	0.2x	0.2x	0.2x	9.5%
119 HK	Poly Prop	2.60	1,228	2.8x	NA	NA	0.3x	NA	NA	8.0%
1098 HK	Roadking	11.40	1,102	2.9x	NA	NA	0.5x	NA	NA	10.4%
2019 HK	Dexin China	3.09	1,077	4.6x	4.3x	3.5x	1.5x	NA	NA	NA
1996 HK	Redsun*	2.41	1,032	5.8x	4.1x	3.5x	0.5x	0.5x	0.4x	5.1%
6111 HK	Dafa*	4.26	455	6.6x	6.3x	5.9x	0.9x	0.8x	0.8x	3.8%
230 HK	Minmetals*	1.02	440	4.1x	4.2x	4.0x	0.4x	0.4x	0.3x	7.8%
<b>Total/Average</b>			<b>282,382</b>	<b>5.7x</b>	<b>4.9x</b>	<b>4.1x</b>	<b>1.0x</b>	<b>0.8x</b>	<b>0.7x</b>	<b>7.2%</b>
<b>HK Property Developers</b>										
16 HK	SHK Properties	104.20	38,956	9.3x	9.0x	8.6x	0.5x	0.5x	0.5x	4.8%
1113 HK	CK Asset	47.50	22,634	6.1x	8.3x	7.3x	0.5x	0.5x	0.5x	4.4%
12 HK	Henderson Land	31.25	19,519	10.3x	9.6x	10.3x	0.5x	0.5x	0.5x	5.8%
17 HK	NWD*	8.82	11,571	10.2x	11.0x	10.7x	0.4x	0.4x	0.4x	5.8%
83 HK	Sino Land	10.60	9,635	10.3x	7.5x	8.4x	0.5x	0.5x	0.4x	5.2%
683 HK	Kerry Properties	21.15	3,974	5.7x	7.1x	6.4x	0.3x	0.3x	0.3x	6.4%
35 HK	Far East*	2.64	807	4.2x	6.3x	4.8x	0.5x	0.5x	0.4x	8.3%
<b>Total/Average</b>			<b>107,095</b>	<b>8.0x</b>	<b>8.4x</b>	<b>8.1x</b>	<b>0.5x</b>	<b>0.4x</b>	<b>0.4x</b>	<b>5.8%</b>

Source: Bloomberg Estimates, \*AMTD Research Estimates for AMTD Coverage Stocks

Note: As of 23rd Apr 2020



## **Company Summary**

## Central China Real Estate Limited

### Reaping in the Harvest and More is to Come

**We reiterate our Buy rating on CCRE, one of our top picks of the sector. 2019 results beat consensus estimate by 26%. The stock is now offering an 11.9% div yield, backed by strong positive cash flows which saw net debt to equity decline to 6%. A solid 34% net profit 2-yr CAGR outlook is highly visible with unrecognized sales locked-in on balance sheet.**

#### 11.9% dividend yield, highly visible 34% 2019-2021E earnings CAGR

Central China Real Estate (CCRE) is set for another two years of highly visible 34% net profit CAGR during 2020E-2021E, in our view, underpinned by RMB53bn of contract liabilities (143% of 2020E revenues) locked-in on end-2019 balance sheet. Contracted sales is targeted to grow by another 11% in 2020E to RMB80bn. At 3.9x P/E, we believe market is yet to reflect the fair value of the company and the stock is now offering a 11.9% 2019 div yield. This dividend is underpinned by solid cash flows as reflected by its 6% net debt to equity, in our view. We reiterate our Buy rating with a Target Price of HK\$6.1/sh, offering 53% upside to current share price.

#### Strong 2019 results on higher revenues and better margins

CCRE reported a strong set of 2019 results, with core net profit rising 150% YoY to RMB1.96bn, beating consensus estimate by 26%, mainly due to higher than expected revenue and GP Margins. 2019 revenues were 12% higher than our estimate at RMB30.8bn, while GP Margins were also better than expected at 26%, above our estimate of 24%. Final DPS of HK\$0.31/sh was declared, bringing 2019 Full Year DPS to HK\$0.466/sh (up 118% YoY)

#### Net Debt to Equity lowered to 6%, reflects strong positive cash flows

We believe the decline in financial leverage, while maintaining growth, reflects the positive cash flow strength that the developer is generating from its underlying business. CCRE's Net Debt to Equity (incl. Restricted Cash) has been lowered further to 6% (1H19: 18%), one of the lowest in the industry. Even if we exclude restricted cash, the Net Debt to Equity is still at comfortable levels of 64% (1H19: 61%). Total Assets to Equity remained stable at 11.4x (1H19: 11.2x), as the developer continues to fund its balance sheet mostly with non-interest bearing liabilities.

#### March contracted sales almost doubled the Jan-Feb aggregate amount

Central China's 1Q20 Heavy Assets contracted sales reached ~RMB10.7bn (up 31.4% YoY), implying a contracted sales of RMB6.6bn (up 61.1% YoY) achieved in March. This almost doubled the aggregate amount of the first two months total contracted sales. Light Assets contracted sales was at RMB2.7bn down 41.6% YoY. We believe a further rise in momentum is required to achieve its RMB80bn Heavy Assets contracted sales target.

#### Reiterate our Buy Rating with a TP of HK\$6.1/sh, 11.9% 2019 div yield

We reiterate our Buy rating, with the stock currently trading at attractive valuations of 3.9x 2020E P/E, below the industry average of 4.9x 2020E P/E. Our target price of HK\$6.1/sh is based on a 6.0x 2020E P/E. Key downside risks include (1) Lack of supportive policy easing measures in Henan Province causing a weaker than expected contracted sales amid the weak economy; (2) Construction delays causing a delay in revenue recognition.

Stock code: 0832.HK

Rating: Buy

<b>Price target (HK\$)</b>	<b>6.10</b>
Previous price target (HK\$)	6.00
Current price (HK\$, 23 Apr 2020)	3.98
Upside/downside %	53%
Market cap (HK\$ m)	11,086
Market cap (US\$ m)	1,430
Avg daily turnover (US\$ m)	1.39

Source: Bloomberg, AMTD Research

#### Key forecasts

(RMBm)	2019	2020e	2021e	2022e
Revenue	30,767	37,020	45,349	47,963
yoy %	108.1%	20.3%	22.5%	5.8%
Gross Profit	8,005	9,632	11,800	12,480
yoy %	57.2%	20.3%	22.5%	5.8%
Core Net Profit	1,957	2,498	3,508	3,731
yoy %	149.7%	27.6%	40.4%	6.4%
Gross margin	26.0%	26.0%	26.0%	26.0%
Net gearing	5.6%	5.1%	20.1%	18.0%
EPS	0.72	0.91	1.28	1.37
DPS	0.43	0.44	0.54	0.57
BPS	3.56	4.03	4.78	5.57

Source: Company Data, AMTD Research

#### Valuation

	2019	2020e	2021e	2022e
P/E	5.0	3.9	2.8	2.6
P/BV	1.0	0.9	0.7	0.6
Div. yield	11.9%	12.2%	15.0%	16.0%
ROE	20.1%	22.7%	26.9%	24.5%
ROA	1.4%	1.5%	1.9%	1.8%

Source: Bloomberg, AMTD Research

#### Share price performance



Source: Bloomberg

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Figure 67: Central China Real Estate 2019 Financial Forecasts and Key Ratios

PnL, RMB mn	2018	2019	2020e	2021e	2022e	Balance Sheet, RMB mn	2018	2019	2020e	2021e	2022e
Revenue	14,783	30,767	37,020	45,349	47,963	Investment Properties	2,916	3,213	3,213	3,213	3,213
COGS	(9,692)	(22,761)	(27,388)	(33,549)	(35,483)	Interest in JV/Asso	10,365	9,844	9,844	9,844	9,844
<b>Gross Profit</b>	<b>5,091</b>	<b>8,005</b>	<b>9,632</b>	<b>11,800</b>	<b>12,480</b>	PP&E and Others	6,431	7,427	7,427	7,427	7,427
						<b>Non-current assets</b>	<b>19,712</b>	<b>20,484</b>	<b>20,484</b>	<b>20,484</b>	<b>20,484</b>
Selling and marketing expenses	(1,188)	(1,901)	(2,110)	(2,216)	(2,327)	Inventories and other contract costs	50,316	69,993	88,714	104,438	120,948
General and administrative expenses	(1,552)	(1,722)	(1,911)	(2,007)	(2,107)	Deposits and prepayments	9,162	15,146	17,868	19,614	20,594
Share of results of JV	(18)	(34)	(41)	(50)	(53)	Cash & Cash Equivalents	14,202	22,708	26,528	27,818	31,656
Share of results of Asso	16	178	214	262	277	Others	8,570	15,636	15,636	15,636	15,636
Reval Gains from Inv Prop	606	93	-	-	-	<b>Current assets</b>	<b>82,251</b>	<b>123,483</b>	<b>148,745</b>	<b>167,506</b>	<b>188,834</b>
Others	244	893	279	342	362	Contract Liabilities	40,830	52,955	65,680	72,853	80,385
Finance costs	(226)	(395)	(458)	(548)	(593)	Bank and Other Borrowings	5,346	12,519	12,519	12,519	12,519
<b>Profit before tax</b>	<b>2,972</b>	<b>5,116</b>	<b>5,605</b>	<b>7,584</b>	<b>8,040</b>	Trade and Other Payables	28,924	43,616	50,506	55,360	62,250
Income tax expense	(1,557)	(2,701)	(2,610)	(3,379)	(3,567)	Others	833	1,208	1,208	1,208	1,208
<b>Net profit</b>	<b>1,415</b>	<b>2,416</b>	<b>2,995</b>	<b>4,205</b>	<b>4,473</b>	<b>Current liabilities</b>	<b>75,933</b>	<b>110,297</b>	<b>129,913</b>	<b>141,940</b>	<b>156,361</b>
Shareholders' Profit	1,154	2,015	2,498	3,508	3,731	Bank and Other Borrowings	14,505	18,972	22,822	26,822	30,822
Minority Interest	261	400	496	697	742	Others	1,254	2,096	2,096	2,096	2,096
<b>Shareholders' Core Net Profit</b>	<b>784</b>	<b>1,957</b>	<b>2,498</b>	<b>3,508</b>	<b>3,731</b>	<b>Non-current liabilities</b>	<b>15,759</b>	<b>21,068</b>	<b>24,918</b>	<b>28,918</b>	<b>32,918</b>
Dividends	330	779	1,198	1,472	1,565	Capital and reserves	8,837	9,718	11,018	13,054	15,220
Special Dividends	-	-	-	-	-	<b>Shareholders' equity</b>	<b>8,837</b>	<b>9,718</b>	<b>11,018</b>	<b>13,054</b>	<b>15,220</b>
EPS - basic	0.44	0.74	0.91	1.28	1.37	Non-controlling interests	1,433	2,884	3,381	4,078	4,819
EPS-underlying	0.30	0.72	0.91	1.28	1.37	<b>Total equity</b>	<b>10,270</b>	<b>12,602</b>	<b>14,399</b>	<b>17,132</b>	<b>20,040</b>
DPS - basic	0.19	0.43	0.44	0.54	0.57						
Cash Flow Statement, RMB mn	2018	2019	2020e	2021e	2022e	Key Ratios, RMB mn	2018	2019	2020e	2021e	2022e
Profit Before Tax	2,972	5,116	5,605	7,584	8,040	GP Margins	34.4%	26.0%	26.0%	26.0%	26.0%
<b>Operating CF before Working Cap</b>	<b>2,626</b>	<b>5,116</b>	<b>5,605</b>	<b>7,584</b>	<b>8,040</b>	Net Margins	9.6%	7.9%	8.1%	9.3%	9.3%
PUD	(20,513)	(19,677)	(18,721)	(15,724)	(16,510)	Core Attri Net Margins	5.3%	6.4%	6.7%	7.7%	7.8%
Deposits & Prepayments	(2,307)	(5,984)	(2,721)	(1,746)	(981)	ROE	8.9%	20.1%	22.7%	26.9%	24.5%
Trade & Other Payables	3,853	14,692	6,890	4,854	6,890	ROA	0.8%	1.4%	1.5%	1.9%	1.8%
Increase in contract liabilities	23,041	12,125	12,725	7,173	7,531	Net Debt / Total Equity	20.2%	5.6%	5.1%	20.1%	18.0%
Others	30	2,416	2,995	4,205	4,473	Net Debt / Shareholders' Equity	23.4%	7.3%	6.7%	26.4%	23.7%
<b>Net Operating Cashflows</b>	<b>4,103</b>	<b>3,571</b>	<b>1,167</b>	<b>(1,238)</b>	<b>1,404</b>	Total Assets / Total Equity	993%	1142%	1175%	1097%	1045%
						Total Assets / Shareholders' Equity	1154%	1481%	1536%	1440%	1375%
<b>Net Investing Cashflows</b>	<b>(3,238)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	Asset Turnover (Contracted Sales)	53%	50%	47%	45%	42%
Bank & Other Borrowings	(1,202)	(570)	3,850	4,000	4,000						
Others	3,228	(779)	(1,198)	(1,472)	(1,565)						
<b>Net Financing Cashflows</b>	<b>2,026</b>	<b>(1,350)</b>	<b>2,652</b>	<b>2,528</b>	<b>2,435</b>						
<b>Net Cash Flows</b>	<b>2,891</b>	<b>2,222</b>	<b>3,820</b>	<b>1,290</b>	<b>3,838</b>						

Source: Company Data, AMTD Research

# China Aoyuan Group Limited

## Execution Strength Shines Through in Times of Adversity

**We reiterate our Buy rating on Aoyuan. We find the stock's valuations of 3.4x 2020E P/E attractive, especially considering its 2020E 54% YoY earnings growth is already largely secured through unrecognized sales. 2020E contracted sales is targeted to grow by another 12% YoY to RMB132bn despite the recent disruptions by COVID-19.**

### 3.4x 2020E P/E and a 10% 2020E div yield stock on 54% earnings growth

We believe the stock is trading at unwarranted distressed valuations of 3.4x 2020E P/E and it offers investors an attractive entry point. The developer's 2020E 54% net profit growth is highly visible as it is already largely secured by unrecognized sales. Meanwhile 2020E contracted sales is still targeted to grow by another 12% YoY to reach RMB132bn (based on a 60% sell-through rate) despite the disruptions from the COVID-19. We reiterate our Buy rating and Aoyuan remains as one of our top picks of the sector.

### 54% YoY 2020E net profit growth largely secured

With RMB86bn of contract liabilities (118% of 2020E revenue) on Aoyuan's balance sheet as of end-2019, we believe our 2020E earnings are already largely secured by unrecognized sales. We thus believe that the developer is on track to deliver a 54% YoY earnings growth in 2020E, among the high-end of our coverage universe. While we believe there are downside risks to our 2020E GP Margins, but it will be offset by stronger than expected revenue recognition as a result of Aoyuan's high asset turnover model, underpinning its 33.2% 2020E ROE.

### 2019 results in-line with consensus expectations

Aoyuan announced a 2019 core attrib. net profit of RMB4,122m, up 60% YoY, in-line with bloomberg consensus estimate (RMB4,213m). GP Margins was at 29.7%, declining slightly from 31.1% of 2018. Core Net Margins came in at 8.2% (2018: 8.3%). The developer continued to maintain a solid balance sheet with Net Debt to Equity at 74.9% (1H19: 64.2%), while Total Assets to Equity stood at 7.8x (1H19: 6.6x).

### Acquisition of Kinghand adds 18 projects to landbank

In April 2020, Aoyuan announced the proposed acquisition of 29.99% stake in Kinghand Industrial Investment Group for RMB1.16bn, a Shenzhen-listed A-share real estate company. Kinghand had an annual contracted sales of RMB4.8bn in 2018, with a land bank of 1.237m sqm. We believe Aoyuan will be able to extract more value out of the land bank, thus value enhance.

### GBA Urban Redevelopment remain as the key earnings growth driver

We believe Urban Redevelopment projects in the Greater Bay Area (GBA) will continue to be Aoyuan's key earnings growth driver in 2020, with ~33% of its total land bank value in urban redevelopment projects. Among these projects, 89% are in the Greater Bay Area, which will continue to be a key strategic region of economic growth.

### At 3.4x 2020E P/E, valuations have approached distressed levels

Aoyuan is currently trading at 3.4x 2020E P/E (vs industry average of 4.9x P/E), offering a 10% 2020E div yield which we believe have already priced in downside risks regarding slower growth. We fine-tuned our Target Price to HK\$14.46/sh, which is based on a 5.5x 2020E P/E.

Stock code: 3883.HK

Rating: Buy

Price target (HK\$)	14.46
Previous price target (HK\$)	14.35
Current price (HK\$, 23 Apr 2020)	8.88
Upside/downside %	63%
Market cap (HK\$ m)	23,839
Market cap (US\$ m)	3,076
Avg daily turnover (US\$ m)	12.60

Source: Bloomberg, AMTD Research

#### Key forecasts

(RMB m)	2019	2020e	2021e	2022e
Revenue	50,531	73,156	86,035	98,793
yoy %	63.0%	44.8%	17.6%	14.8%
Gross Profit	15,021	21,747	24,950	28,650
yoy %	55.9%	44.8%	14.7%	14.8%
Core NP	4,122	6,354	7,148	8,161
yoy %	60.1%	54.2%	12.5%	14.2%
Gross margin	29.7%	29.7%	29.0%	29.0%
Net gearing	74.9%	67.1%	77.1%	79.1%
EPS	1.54	2.37	2.66	3.04
DPS	0.55	0.83	0.93	1.06
BPS	5.60	7.14	8.87	10.84

Source: Company Data, AMTD Research

#### Valuation

	2019	2020e	2021e	2022e
P/E	5.3	3.4	3.0	2.7
P/BV	1.4	1.1	0.9	0.7
Div. yield	6.8%	10.3%	11.5%	13.2%
ROE	27.4%	33.2%	30.0%	28.0%
ROA	1.8%	2.0%	2.0%	2.0%

Source: Bloomberg, AMTD Research

#### Share price performance



Source: Bloomberg

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Figure 68: China Aoyuan Group Financial Forecasts and key ratios

PnL, RMB mn	2018	2019	2020e	2021e	2022e	Balance Sheet, RMB mn	2018	2019	2020e	2021e	2022e
Revenue	31,006	50,531	73,156	86,035	98,793	Non-current assets	17,051	27,423	27,423	27,423	27,423
Sales of properties	29,740	48,091	70,472	83,082	95,545	Current assets	171,808	262,458	304,131	351,010	399,958
Cost of sales	(21,372)	(35,510)	(51,409)	(61,085)	(70,143)	Properties held under development	114,894	158,931	192,800	229,773	266,767
<b>Gross profit</b>	<b>9,634</b>	<b>15,021</b>	<b>21,747</b>	<b>24,950</b>	<b>28,650</b>	Pledged bank deposits	2,281	9,313	9,313	9,313	9,313
Selling expenses	(1,432)	(2,138)	(3,095)	(3,640)	(4,180)	Bank balances and cash	36,012	58,043	54,090	56,841	62,097
Administrative expenses	(1,736)	(2,435)	(3,525)	(4,145)	(4,760)	Others	18,620	36,171	47,928	55,083	61,781
Share of results of asso	(2)	(5)	(2)	(2)	(2)	Current liabilities	121,033	196,847	237,710	271,163	300,776
Share of results of jv	37	(45)	41	40	46	Contract Liabilities	59,966	86,056	98,667	111,129	125,461
Finance costs	(411)	(718)	(903)	(1,157)	(1,435)	Senior note and bond	4,470	8,064	8,064	8,064	8,064
<b>Profit before tax</b>	<b>6,954</b>	<b>10,589</b>	<b>14,263</b>	<b>16,046</b>	<b>18,318</b>	Borrowings	19,261	33,809	35,000	40,000	40,000
Income tax expense	(4,015)	(5,368)	(6,327)	(7,118)	(8,127)	Others	37,334	68,918	95,979	111,970	127,251
<b>Net profit</b>	<b>2,939</b>	<b>5,222</b>	<b>7,935</b>	<b>8,927</b>	<b>10,192</b>	Non-current liabilities	37,092	56,037	51,136	58,136	70,136
<b>Shareholders' Core Net Profit</b>	<b>2,574</b>	<b>4,122</b>	<b>6,354</b>	<b>7,148</b>	<b>8,161</b>	Borrowings	21,490	35,152	30,251	37,251	49,251
Dividends	991	1,477	2,224	2,502	2,856	Senior notes	12,500	18,739	18,739	18,739	18,739
Special Dividends	-	-	-	-	-	Others	3,102	2,146	2,146	2,146	2,146
EPS - basic	0.90	1.56	2.37	2.66	3.04	Capital and reserves	30,734	36,997	42,708	49,134	56,469
EPS-underlying	0.96	1.54	2.37	2.66	3.04	<b>Shareholders' equity</b>	<b>11,872</b>	<b>15,030</b>	<b>19,160</b>	<b>23,806</b>	<b>29,111</b>
DPS - basic	0.36	0.55	0.83	0.93	1.06	Non-controlling interests	18,862	21,967	23,548	25,327	27,359
BVPS	4.43	5.60	7.14	8.87	10.84	<b>Total equity</b>	<b>30,734</b>	<b>36,997</b>	<b>42,708</b>	<b>49,134</b>	<b>56,469</b>
<b>Cash Flow Statement, RMB mn</b>	<b>2018</b>	<b>2019</b>	<b>2020e</b>	<b>2021e</b>	<b>2022e</b>	<b>Key Ratios, RMB mn</b>	<b>2018</b>	<b>2019</b>	<b>2020e</b>	<b>2021e</b>	<b>2022e</b>
Operating activities						GPM	31.1%	29.7%	29.7%	29.0%	29.0%
Profit before income tax	6,954	10,589	14,263	16,046	18,318	NPM	7.8%	8.3%	8.7%	8.3%	8.3%
<b>Operating CF before Working Cap</b>	<b>6,398</b>	<b>10,910</b>	<b>15,166</b>	<b>17,203</b>	<b>19,754</b>	Core NPM	8.3%	8.2%	8.7%	8.3%	8.3%
Increase in inventories	54	(17)	-	-	-	ROA	1.5%	1.8%	2.0%	2.0%	2.0%
Increase in properties for sale	(16,380)	(44,037)	(33,868)	(36,973)	(36,994)	ROCE	3.1%	3.8%	4.8%	5.0%	5.0%
Increase in Contracted Liabilities	22,571	26,090	12,611	12,462	14,332	ROE	21.7%	27.4%	33.2%	30.0%	28.0%
Cash (used in) from operations	14,228	(9,765)	(1,355)	(4,425)	(210)	Total Debt / EBITDA	8.0x	8.5x	6.1x	6.0x	5.9x
PRC Income tax paid	(2,385)	(5,368)	(6,327)	(7,118)	(8,127)	Total Debt / Equity	187.8%	258.8%	215.5%	211.8%	205.5%
Interest paid	(3,576)	-	(3,612)	(4,629)	(5,742)	Total Debt / Capitalization	65.3%	72.1%	68.3%	67.9%	67.3%
<b>Net Operating Cashflows</b>	<b>8,267</b>	<b>(15,133)</b>	<b>(11,295)</b>	<b>(16,172)</b>	<b>(14,078)</b>	Net Debt / EBITDA	2.7x	2.5x	1.9x	2.2x	2.3x
Advances to JV/Asso/MI	(5,756)	11,149	10,567	5,954	5,884	Net Debt / Equity	58.9%	74.9%	67.1%	77.1%	79.1%
Others	(11,207)	-	-	-	-	Net Debt / Capitalization	22.0%	21.4%	21.3%	24.7%	25.9%
<b>Net Investing Cashflows</b>	<b>(16,963)</b>	<b>11,149</b>	<b>10,567</b>	<b>5,954</b>	<b>5,884</b>	Current Ratio	142.0%	133.3%	127.9%	129.4%	133.0%
Financing activities						Cash / Total Assets	20.3%	23.2%	19.1%	17.5%	16.7%
New bank and other borrowings raised	28,480	-	-	-	-	Inventory / Total Assets	60.9%	54.9%	58.2%	60.7%	62.4%
Repayment of bank and other borrowings	(17,373)	28,209	(3,710)	12,000	12,000	Net debt / Net Inventory	16.9%	17.9%	14.9%	16.5%	16.7%
<b>Net Financing Cashflows</b>	<b>16,050</b>	<b>26,015</b>	<b>(3,224)</b>	<b>12,970</b>	<b>13,450</b>	Quick Ratio	110.3%	99.1%	101.3%	105.0%	109.2%
<b>Net Cash Flows</b>	<b>7,354</b>	<b>22,030</b>	<b>(3,953)</b>	<b>2,751</b>	<b>5,256</b>	Cash Ratio	31.6%	34.2%	26.7%	24.4%	23.7%
						Total Assets / Total Equity	6.1x	7.8x	7.8x	7.7x	7.6x

Source: Company Data, AMTD Research

# Aoyuan Healthy Life Group Company Limited

## A Transformative Acquisition, more than Doubling in Scale

**Aoyuan Healthy Life is our top pick among China Property Management Companies. At 17.4x 2020E P/E (Sector average: 25.6x), we believe the stock is underappreciated by investors despite the strong 2019 results. We have raised our target price and earnings forecasts to reflect the acquisition of Easy Life on 22 April 2020. We reiterate our Buy rating.**

### Acquisition of Easy Life value enhance, raising our TP by 12%

Following the acquisition of Easy Life, Aoyuan Healthy Life's GFA under management is expected to grow by 166% to over 40m sqm (2019: 15m sqm) in scale. At an acquisition cost of 13x P/E, we believe the acquisition is value enhance, adding 4-7% to our net profit forecasts and thus adding 12% to our DCF-based target price. We expect the acquisition to complete by end-June 2020. The company will also have doubled in size in terms of number of staff, with Easy Life and Aoyuan Healthy Life each has over 3,000 employees.

### 2019 Results beat AMTD Estimates by 19% on stronger profit margins

Aoyuan Healthy Life announced a net profit of RMB163.1m, rising 108.3% YoY. If we exclude the one-off Listing Expenses, the core net profit comes in at RMB178.4m, beating AMTD estimate by 19% due to stronger than expected profit margins. GP Margins improved to 37% (2018: 34%), while core net margins rose to 20% (2018: 15%). Revenues came in at RMB901m, in-line with our estimates.

### Easy Life acquisition should drive a valuation re-rating

One of investors' main concerns on Aoyuan Healthy Life has been on their relatively lack of property management projects developed by 3<sup>rd</sup> party developers and higher share of profits from commercial property and value-added services. We believe that this perception will change following the acquisition of Easy Life, where most of Easy Life's earnings are basic property management fees and from 3<sup>rd</sup>-party projects, spanning across Residential and Non-residential projects. The staff team acquired from Easy Life will continue to fuel the growth of 3<sup>rd</sup> party projects going forward.

### Expansion into Healthcare and Beauty an ongoing process

Aoyuan Healthy Life is on track to develop its Healthcare business line, having signed a cooperative agreement with parent company China Aoyuan Group to manage the Shanghai Fengxian Project. Aoyuan Healthy Life will be providing the service of early stage consulting, leasing and property management for the project. Moreover, the company has already added a strong team of Healthcare specialists to expand the Healthcare business, including Executive Vice President Mr. Su Bo, ex-President of Panyu Central Hospital and Mr. Bai Chengmin, ex-CEO of Oracle Medical Group.

### 17.4x 2020E P/E for a 37% earnings CAGR stock

Aoyuan Healthy Life is trading at valuations of 17.4x 2020E P/E, which we believe is attractive considering the 37% net profit CAGR that we are expecting for 2019-2022E. Such valuations is also significantly below the property management sector's average of 25.6x. We believe the discounted valuations is unwarranted considering its industry-high profit margins and thus a high 2020E ROE of 28.6%. Our Target Price of HK\$11.18/sh is based on a DCF valuation methodology and implies a 2020E P/E of 17.4x.

Stock code: 3662.HK

**Rating: Buy**

<b>Price target (HK\$)</b>	<b>11.18</b>
Previous price target (HK\$)	10.00
Current price (HK\$, 23 Apr 2020)	7.24
Upside/downside %	54%
Market cap (HK\$ m)	5,258
Market cap (US\$ m)	678
3M Avg daily turnover (US\$ m)	8.75

Source: Bloomberg, AMTD Research

### Key forecasts

(RMBm)	2019	2020e	2021e	2022e
Revenue	901	1,694	2,359	2,927
yoy %	45.6%	88.1%	39.3%	24.1%
Gross Profit	337	491	668	840
yoy %	61.5%	45.8%	36.1%	25.7%
Core NP	178	272	366	459
yoy %	108.4%	69.7%	34.6%	25.3%
Gross margin	37.4%	29.0%	28.3%	28.7%
Net gearing	Net Cash	Net Cash	Net Cash	Net Cash
EPS	0.26	0.37	0.50	0.63
DPS	0.10	0.15	0.20	0.25
BPS	1.24	1.45	1.67	1.91

Source: Company Data, AMTD Research

### Valuation

	2019	2020e	2021e	2022e
P/E	25.0	17.4	12.9	10.3
P/BV	5.3	4.5	3.9	3.4
Div. yield	1.5%	2.3%	3.1%	3.9%
ROE	37.3%	28.6%	32.3%	35.3%
ROA	11.7%	17.7%	20.6%	22.5%

Source: Bloomberg, AMTD Research

### Share price performance



Source: Bloomberg

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Figure 69: Aoyuan Healthy Life Financial Forecasts and Key ratios

PnL, RMB mn	2018	2019	2020e	2021e	2022e	Balance Sheet, RMB mn	2018	2019	2020e	2021e	2022e
Revenue	618.8	900.8	1,694.2	2,359.4	2,926.8	Property, plant and equipment	12.7	20.2	268.2	268.2	268.2
COGS	(410.1)	(563.7)	(1,202.9)	(1,690.9)	(2,086.8)	Intangible assets	3.0	4.3	3.5	2.8	2.2
<b>Gross Profit</b>	<b>208.8</b>	<b>337.1</b>	<b>491.3</b>	<b>668.4</b>	<b>840.0</b>	Goodwill	3.5	3.5	3.5	3.5	3.5
Selling and marketing expenses	(1.3)	(2.5)	(2.9)	(4.0)	(5.1)	Deferred tax assets	7.4	2.6	2.6	2.6	2.6
General and administrative expenses	(89.0)	(126.0)	(118.6)	(165.2)	(204.9)	Deposits paid for acquisition of PPE	1.1	-	-	-	-
Impairment losses on trade receivable	(1.0)	(3.5)	(0.5)	(1.0)	(0.9)	Deferred contract costs	2.3	2.9	2.9	2.9	2.9
IPO expenses	(15.5)	(15.9)	-	-	-	Others	-	318.6	318.6	318.6	318.6
Other income and other gains and loss	6.6	31.8	15.1	19.3	19.3	<b>Non-current assets</b>	<b>30.0</b>	<b>352.2</b>	<b>599.2</b>	<b>598.5</b>	<b>598.0</b>
Interests on bank borrowing	(0.0)	(2.3)	-	-	-	Inventories and other contract costs	0.1	0.7	0.2	0.2	0.2
<b>Profit before tax</b>	<b>108.5</b>	<b>218.6</b>	<b>384.4</b>	<b>517.6</b>	<b>648.3</b>	Trade and other receivables	87.0	106.9	165.0	118.7	292.0
Income tax expense	(30.2)	(55.5)	(107.6)	(144.9)	(181.5)	Deferred contract costs	9.5	5.0	22.2	15.7	31.3
<b>Net profit</b>	<b>78.3</b>	<b>163.1</b>	<b>276.8</b>	<b>372.7</b>	<b>466.8</b>	Amounts due from fellow subsidiaries	175.9	64.4	64.4	64.4	64.4
Shareholders' Profit	78.1	162.5	272.1	366.3	458.9	Amounts due from related parties	0.2	33.8	7.2	34.1	7.8
Minority Interest	0.1	0.6	4.7	6.3	7.9	Bank balances and cash	200.3	822.9	837.3	1,024.1	1,238.0
<b>Shareholders' Core Net Profit</b>	<b>93.7</b>	<b>178.4</b>	<b>272.1</b>	<b>366.3</b>	<b>458.9</b>	<b>Current assets</b>	<b>473.1</b>	<b>1,033.6</b>	<b>1,096.4</b>	<b>1,257.2</b>	<b>1,633.7</b>
Dividends	-	38.5	65.4	108.8	146.5	Contract Liabilities	120.8	93.9	109.4	126.6	136.8
Special Dividends	-	-	-	-	-	Bank and Other Borrowings	1.8	100.3	100.3	100.3	100.3
EPS - basic	0.17	0.24	0.37	0.50	0.63	Trade and Other Payables	226.2	297.6	346.1	361.7	516.4
EPS-underlying	0.20	0.26	0.37	0.50	0.63	Others	27.2	34.2	68.1	40.4	77.8
DPS - basic	-	0.10	0.15	0.20	0.25	<b>Current liabilities</b>	<b>376.0</b>	<b>526.1</b>	<b>623.9</b>	<b>629.0</b>	<b>831.3</b>
BPS	0.27	1.24	1.45	1.67	1.91	Deferred tax liability	0.8	1.1	1.1	1.1	1.1
						Others	-	12.8	12.8	12.8	12.8
						<b>Non-current liabilities</b>	<b>0.8</b>	<b>13.9</b>	<b>13.9</b>	<b>13.9</b>	<b>13.9</b>
						Capital and reserves	125.7	845.1	1,056.5	1,211.5	1,385.2
						<b>Shareholders' equity</b>	<b>125.7</b>	<b>845.1</b>	<b>1,056.5</b>	<b>1,211.5</b>	<b>1,385.2</b>
						Non-controlling interests	0.6	1.2	1.2	1.2	1.2
						<b>Total equity</b>	<b>126.3</b>	<b>846.3</b>	<b>1,057.7</b>	<b>1,212.8</b>	<b>1,386.5</b>
Cash Flow Statement, RMB mn	2018	2019	2020e	2021e	2022e	Key Ratios, RMB mn	2018	2019	2020e	2021e	2022e
Profit Before Tax	108.5	218.6	384.4	517.6	648.3	GP Margins	34%	37%	29%	28%	29%
<b>Operating CF before Working Cap</b>	<b>107.5</b>	<b>225.3</b>	<b>389.4</b>	<b>572.5</b>	<b>703.0</b>	Net Margins	13%	18%	16%	16%	16%
PUD	0.0	(0.6)	0.5	(0.0)	-	Core Attr Net Margins	15%	20%	16%	16%	16%
Trade & Other Receivables	2.9	(23.4)	(58.6)	45.4	(174.2)	ROE	66%	37%	29%	32%	35%
Trade & Other Payables	29.2	71.4	48.5	15.5	154.7	ROA	15%	12%	18%	21%	22%
Increase in contract liabilities	75.7	(26.8)	15.4	17.2	10.3	Net Debt / Total Equity	Net cash	Net cash	Net cash	Net cash	Net cash
Deferred Contract Costs	2.7	3.9	(17.3)	6.6	(15.7)	Net Debt / Shareholders' Equity	Net cash	Net cash	Net cash	Net cash	Net cash
Others	5.5	35.3	(47.2)	(199.4)	(118.0)	Total Assets / Total Equity	398%	164%	160%	153%	161%
<b>Net Operating Cashflows</b>	<b>223.6</b>	<b>285.1</b>	<b>330.7</b>	<b>457.7</b>	<b>560.1</b>	Total Assets / Shareholders' Equity	400%	164%	160%	153%	161%
<b>Net Investing Cashflows</b>	<b>(249.2)</b>	<b>(342.1)</b>	<b>(251.6)</b>	<b>(53.2)</b>	<b>(53.2)</b>	Asset Turnover	115%	95%	110%	133%	143%
Bank & Other Borrowings	1.8	98.5	-	-	-						
Others	40.5	577.0	(65.4)	(217.7)	(293.1)						
<b>Net Financing Cashflows</b>	<b>42.2</b>	<b>675.5</b>	<b>(65.4)</b>	<b>(217.7)</b>	<b>(293.1)</b>						
<b>Net Cash Flows</b>	<b>16.6</b>	<b>618.5</b>	<b>13.8</b>	<b>186.9</b>	<b>213.8</b>						

Source: Company Data, AMTD Research



# Powerlong Real Estate Holdings Limited

## Growth Trajectory Intact, Reiterate Buy

We expect Powerlong to extend its growth trajectory into 2020, driven by launches of new projects acquired in 2H19 and home purchase demand stimulated by local government's policy easing. Following the stock's recent pull back, valuations are back at attractive levels of 4.3x 2020E P/E, 2020E div yield of 11.6%, reiterate Buy.

**Earnings growth outlook intact despite COVID-19 outbreak, reiterate Buy**  
Powerlong has set a 25% contracted sales YoY growth target to RMB75bn for 2020, with an above industry average GP Margins of ~31-35%. This growth target is higher than our expected ~20% contracted sales growth. YTD March run-rate is at ~11%, reflecting management's confidence in the industry's outlook in the coming months, driven by project launches in 2Q20 and 3Q20. The developer has spent RMB21.5bn on land acquisitions across 41 projects during 2019. We believe that these new acquisitions are key contributors to the developer's RMB130bn 2020 sellable resources, driving the 25% contracted sales target growth based on a ~58% sell-through rate.

### 2019 results beat expectations by 7% amid better than expected GPM

Powerlong's 2019 core attrib. net profit came in at RMB2,680m, up 44.3% YoY, beating AMTD estimates by 7% amid better than expected GP Margins. 2019 Revenues grew 33% YoY to RMB26,042m, while 2019 GP Margins came in at 36% (vs 2019E: 34%). 2019 Net Debt to Equity was at 81% (1H19: 89%) aided by the fund raised through the share placement in Oct 2019. Company announced a Special Div of HK\$0.04/sh in additional to the HK\$0.27/sh Final Div, bringing the full year DPS to HK\$0.40/sh, implying a 2019 div yield of 8.8%.

### Most of sales office and construction sites reopened

Despite the impact of the COVID-19, Powerlong's contracted sales YTD March came in at RMB8.0bn and is only down 25% YoY (mitigated by a strong Jan 2020 and CNY base effect from 2019). As the developer does not have any exposure in Hubei Province, most of the company's sales office and construction sites have now reopened.

### Accommodative environment to recycle capital invested into Inv Prop

We believe Powerlong's rental income will be under pressure in 1H20 amid the virus outbreak. However, as we have pointed out in our [initiation report on 8 Oct 2019](#), we believe Powerlong's commercial properties offer them an edge in acquiring prime located low-cost land bank underpinning its contracted sales and profit margins. We argue that Powerlong's key to long term success lies with its ability to recycle the capital invested into shopping malls back into development properties, instead of focusing on the rental income stream itself. With 5-yr LPR having declined to 4.65% in April 20 (Oct 19: 4.85%), and monetary easing policies expected to remain, creating a favourable environment for Powerlong to recycle its invested capital via onshore financing, in our view.

### Attractive valuations at 4.3x 2020E P/E and 0.5x 2019 P/B

We believe that Powerlong is currently trading at attractive valuations of 4.3x 2020E P/E and a 0.5x P/B. Our new TP of HK\$6.50/sh is based on a target 2020E PE of 6.0x, offering 40% upside to its current share price.

Stock code: 1238.HK

Rating: Buy

<b>Price target (HK\$)</b>	<b>6.50</b>
Previous target(HK\$):	7.18
Current price (HK\$, 23 Apr 2020)	4.66
Upside/downside %	40%
Market cap (HK\$ m)	19,308
Market cap (US\$ m)	2,491
Avg daily turnover (US\$ m)	3.36

Source: Bloomberg, AMTD Research

### Key forecasts

(RMB m)	2019	2020e	2021e	2022e
Revenue	26,042	36,751	40,367	53,827
yoy %	32.9%	41.1%	9.8%	33.3%
Gross Profit	9,483	12,496	13,725	18,301
yoy %	25.6%	31.8%	9.8%	33.3%
Core Net Profit	2,680	3,897	4,824	6,505
yoy %	44.3%	45.4%	23.8%	34.8%
Gross margin	36.4%	34.0%	34.0%	34.0%
Net gearing	81.2%	87.6%	95.2%	85.9%
EPS	0.67	0.98	1.21	1.63
DPS	0.37	0.49	0.60	0.81
BPS	7.91	8.46	9.06	9.87

Source: Company Data, AMTD Research

### Valuation

	2019	2020e	2021e	2022e
P/E	6.3	4.3	3.5	2.6
P/BV	0.5	0.5	0.5	0.4
Div. yield	8.8%	11.6%	14.4%	19.4%
ROE	8.4%	11.5%	13.3%	16.5%
ROA	3.7%	3.2%	3.4%	3.9%

Source: Bloomberg, AMTD Research

### Share price performance



Source: Bloomberg

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Figure 70: Powerlong Financial Forecasts and key ratios

PnL, RMB mn	2018	2019	2020e	2021e	2022e	Balance Sheet, RMB mn	2018	2019	2020e	2021e	2022e
Revenue	19,594	26,042	36,751	40,367	53,827	Investment Properties	45,659	51,085	53,585	56,085	58,585
COGS	(12,041)	(16,559)	(24,256)	(26,642)	(35,526)	Interest in JV/Asso	4,127	5,594	5,594	5,594	5,594
<b>Gross Profit</b>	<b>7,553</b>	<b>9,483</b>	<b>12,496</b>	<b>13,725</b>	<b>18,301</b>	PP&E and Others	5,400	6,200	6,200	6,200	6,200
Selling and marketing exp	(786)	(984)	(1,389)	(1,526)	(2,035)	<b>Non-current assets</b>	<b>55,187</b>	<b>62,879</b>	<b>65,379</b>	<b>67,879</b>	<b>70,379</b>
General and admin exp	(1,481)	(1,440)	(2,032)	(2,232)	(2,976)	PUD & Held for Sale	41,793	47,064	61,951	87,561	121,893
Share of results of JV & Asso	187	376	564	1,518	1,897	Deposits and prepayments	18,267	27,376	27,376	27,376	27,376
Reval Gains from Inv Prop	2,501	2,394	-	-	-	Cash & Cash Equivalents	14,840	20,306	18,631	15,082	18,251
Others	216	927	1,308	1,437	1,916	Others	1,968	4,872	4,872	4,872	4,872
Finance costs	(1,377)	(900)	(641)	(641)	(641)	<b>Current assets</b>	<b>76,868</b>	<b>99,618</b>	<b>112,831</b>	<b>134,891</b>	<b>172,392</b>
<b>Profit before tax</b>	<b>6,813</b>	<b>9,856</b>	<b>10,306</b>	<b>12,281</b>	<b>16,463</b>	<b>Total Assets</b>	<b>132,055</b>	<b>162,497</b>	<b>178,210</b>	<b>202,770</b>	<b>242,771</b>
Income tax expense	(3,166)	(3,838)	(4,640)	(5,290)	(7,071)	Contract Liabilities	16,444	22,695	25,567	38,136	55,103
<b>Net profit</b>	<b>3,648</b>	<b>6,018</b>	<b>5,666</b>	<b>6,991</b>	<b>9,392</b>	Bank and Other Borrowings	14,721	15,321	15,321	15,321	15,321
Shareholders' Profit	2,837	4,041	3,897	4,824	6,505	Trade and Other Payables	20,726	30,205	35,397	38,879	51,843
Minority Interest	688	1,907	1,700	2,097	2,818	Others	6,642	8,626	8,626	8,626	8,626
Perpetual Securities	123	70	70	70	70	<b>Current liabilities</b>	<b>58,533</b>	<b>76,846</b>	<b>84,911</b>	<b>100,962</b>	<b>130,893</b>
<b>Shareholders' Core Net Profit</b>	<b>1,857</b>	<b>2,680</b>	<b>3,897</b>	<b>4,824</b>	<b>6,505</b>	Bank and Other Borrowings	34,380	39,942	43,942	47,942	51,942
Dividends	1,053	1,338	1,948	2,412	3,252	Others	6,336	6,801	6,801	6,801	6,801
Special Dividends	-	148	-	-	-	<b>Non-current liabilities</b>	<b>40,717</b>	<b>46,744</b>	<b>50,744</b>	<b>54,744</b>	<b>58,744</b>
EPS - basic	0.71	1.00	0.98	1.21	1.63	Capital and reserves	27,287	31,840	33,789	36,201	39,453
EPS-underlying	0.46	0.67	0.98	1.21	1.63	<b>Shareholders' equity</b>	<b>27,287</b>	<b>31,840</b>	<b>33,789</b>	<b>36,201</b>	<b>39,453</b>
DPS - basic	0.26	0.37	0.49	0.60	0.81	Non-controlling interests & Perp	5,517	7,067	8,767	10,864	13,682
BVPS	6.83	7.91	8.46	9.06	9.87	<b>Total equity</b>	<b>32,805</b>	<b>38,907</b>	<b>42,555</b>	<b>47,065</b>	<b>53,135</b>
						<b>Total Liabilities and Equity</b>	<b>132,055</b>	<b>162,497</b>	<b>178,210</b>	<b>202,770</b>	<b>242,771</b>
Cash Flow Statement, RMB mn	2018	2019	2020e	2021e	2022e	Key Ratios, RMB mn	2018	2019	2020e	2021e	2022e
Profit Before Tax	6,813	9,856	10,306	12,281	16,463	GP Margins	39%	36%	34%	34%	34%
<b>Operating CF before Working Cap</b>	<b>5,519</b>	<b>9,856</b>	<b>10,306</b>	<b>12,281</b>	<b>16,463</b>	Net Margins	19%	23%	15%	17%	17%
PUD	(13,991)	(5,271)	(14,887)	(25,610)	(34,332)	Core Attri Net Margins	9%	10%	11%	12%	12%
Deposits & Prepayments	2,141	-	-	-	-	ROE	7%	8%	12%	13%	16%
Trade & Other Payables	(1,659)	9,479	5,192	3,482	12,964	ROA	3%	4%	3%	3%	4%
Increase in contract liabilities	12,625	6,250	2,873	12,569	16,967	Net Debt / Total Equity	102%	81%	88%	95%	86%
Others	(3,551)	(3,554)	(4,640)	(5,290)	(7,071)	Net Debt (Perp as Debt) / SH Equity	128%	102%	113%	126%	118%
<b>Net Operating Cashflows</b>	<b>1,086</b>	<b>16,760</b>	<b>(1,157)</b>	<b>(2,568)</b>	<b>4,991</b>	Total Assets / Total Equity	403%	418%	419%	431%	457%
<b>Net Investing Cashflows</b>	<b>(8,718)</b>	<b>(5,426)</b>	<b>(2,500)</b>	<b>(2,500)</b>	<b>(2,500)</b>	Total Assets / Shareholders' Equity	484%	510%	527%	560%	615%
Bank & Other Borrowings	19,821	6,162	4,000	4,000	4,000	Asset Turnover (Contracted Sales)	31%	37%	42%	50%	57%
Others	(6,743)	(12,030)	(2,018)	(2,482)	(3,322)						
<b>Net Financing Cashflows</b>	<b>13,077</b>	<b>(5,869)</b>	<b>1,982</b>	<b>1,518</b>	<b>678</b>						
<b>Net Cash Flows</b>	<b>5,445</b>	<b>5,466</b>	<b>(1,674)</b>	<b>(3,549)</b>	<b>3,170</b>						

Source: Company Data, AMTD Research

# 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 4.1x 2020E P/E slightly below industry average

Redsun is currently trading at a 4.1x 2020E P/E, which is slightly below industry average (4.9x). 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\$3.22/sh is based on a target 2020E P/E of 5.5x, offering 33% upside to current share price.

Stock code: 1996.HK

Rating: Buy

<b>Price target (HK\$)</b>	<b>3.22</b>
Previous price target (HK\$)	3.32
Current price (HK\$, 23 Apr 2020)	2.41
Upside/downside %	33%
Market cap (HK\$ m)	8,079
Market cap (US\$ m)	1,042
Avg daily turnover (US\$ m)	1.68

Source: Bloomberg, AMTD Research

### Key forecasts

(RMB m)	2019	2020e	2021e	2022e
Revenue	15,170	19,920	22,935	26,408
yoy %	64.2%	31.3%	15.1%	15.1%
Gross Profit	3,813	4,781	5,504	6,338
yoy %	32.1%	25.4%	15.1%	15.1%
Core NP	1,247	1,747	2,076	2,455
yoy %	2.7%	40.1%	18.8%	18.2%
Gross margin	25.1%	24.0%	24.0%	24.0%
Net gearing	70.4%	80.7%	74.5%	67.8%
EPS	0.38	0.53	0.63	0.74
DPS	0.11	0.13	0.16	0.19
BPS	4.18	4.58	5.04	5.60

Source: Company Data, AMTD Research

### Valuation

	2019	2020e	2021e	2022e
P/E	5.8	4.1	3.5	2.9
P/BV	0.5	0.5	0.4	0.4
Div. yield	5.1%	6.1%	7.3%	8.6%
ROE	9.0%	11.5%	12.4%	13.2%
ROA	1.3%	1.6%	1.7%	1.7%

Source: Bloomberg, AMTD Research

### Share price performance



Source: Bloomberg

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Figure 71: Redsun Financial Forecasts and key ratios

PnL, RMB mn	2018	2019	2020e	2021e	2022e	Balance Sheet, RMB mn	2018	2019	2020e	2021e	2022e
Revenue	9,239	15,170	19,920	22,935	26,408	Investment Properties	9,397	11,572	10,197	10,597	10,997
COGS	(6,352)	(11,356)	(15,139)	(17,431)	(20,070)	Interest in JV/Asso	2,739	7,821	7,821	7,821	7,821
<b>Gross Profit</b>	<b>2,887</b>	<b>3,813</b>	<b>4,781</b>	<b>5,504</b>	<b>6,338</b>	PP&E and Others	1,473	1,706	1,706	1,706	1,706
						<b>Non-current assets</b>	<b>13,609</b>	<b>21,099</b>	<b>19,724</b>	<b>20,124</b>	<b>20,524</b>
Selling and marketing exp	(342)	(652)	(750)	(862)	(992)						
General and admin exp	(686)	(1,090)	(1,253)	(1,441)	(1,657)	PUD & Held for Sale	30,865	39,609	56,009	70,113	86,331
Share of results of JV & Asso	367	693	1,096	1,261	1,452	Deposits and prepayments	9,526	15,963	15,963	15,963	15,963
Rev al Gains from Inv Prop	261	310	-	-	-	Cash & Cash Equivalents	6,233	8,692	9,329	9,183	9,139
Others	188	295	387	446	513	Others	7,689	10,035	10,035	10,035	10,035
Net Finance costs	(499)	(634)	(624)	(624)	(624)	<b>Current assets</b>	<b>54,313</b>	<b>74,298</b>	<b>91,336</b>	<b>105,294</b>	<b>121,468</b>
<b>Profit before tax</b>	<b>2,175</b>	<b>2,735</b>	<b>3,637</b>	<b>4,284</b>	<b>5,031</b>						
						Contract Liabilities	16,639	26,124	35,091	45,403	57,262
Income tax expense	(852)	(1,100)	(1,651)	(1,925)	(2,241)	Bank and Other Borrowings	10,827	12,411	13,827	13,827	13,827
<b>Net profit</b>	<b>1,323</b>	<b>1,636</b>	<b>1,986</b>	<b>2,359</b>	<b>2,790</b>	Trade and Other Payables	6,638	10,738	12,135	14,344	16,888
Shareholders' Profit	1,412	1,468	1,747	2,076	2,455	Others	6,545	7,603	7,603	7,603	7,603
Minority Interest	(89)	168	238	283	335	<b>Current liabilities</b>	<b>40,649</b>	<b>56,876</b>	<b>68,656</b>	<b>81,177</b>	<b>95,579</b>
<b>Shareholders' Core Net Profit</b>	<b>1,214</b>	<b>1,247</b>	<b>1,747</b>	<b>2,076</b>	<b>2,455</b>	Bank and Other Borrowings	11,093	17,135	19,472	19,472	19,472
						Others	2,330	3,340	3,340	3,340	3,340
Dividends	304	369	440	523	618	<b>Non-current liabilities</b>	<b>13,423</b>	<b>20,475</b>	<b>22,812</b>	<b>22,812</b>	<b>22,812</b>
Special Dividends	-	-	-	-	-						
EPS - Basic (RMB)	0.66	0.44	0.53	0.63	0.74	Capital and reserves	12,695	13,888	15,195	16,749	18,585
Core EPS - Basic (RMB)	0.57	0.38	0.53	0.63	0.74	<b>Shareholders' equity</b>	<b>12,695</b>	<b>13,888</b>	<b>15,195</b>	<b>16,749</b>	<b>18,585</b>
DPS - basic (RMB)	0.09	0.11	0.13	0.16	0.19						
BVPS	5.96	4.18	4.58	5.04	5.60	Non-controlling interests	1,155	4,159	4,397	4,680	5,015
						<b>Total equity</b>	<b>13,850</b>	<b>18,046</b>	<b>19,592</b>	<b>21,429</b>	<b>23,600</b>
<b>Cash Flow Statement, RMB mn</b>	<b>2018</b>	<b>2019</b>	<b>2020e</b>	<b>2021e</b>	<b>2022e</b>	<b>Key Ratios, RMB mn</b>	<b>2018</b>	<b>2019</b>	<b>2020e</b>	<b>2021e</b>	<b>2022e</b>
Profit Before Tax	2,175	2,735	3,637	4,284	5,031	GP Margins	31%	25%	24%	24%	24%
<b>Operating CF before Working Cap</b>	<b>2,012</b>	<b>5,183</b>	<b>6,029</b>	<b>6,676</b>	<b>7,423</b>	Net Margins	14%	11%	10%	10%	11%
						Core Atri Net Margins	13%	8%	9%	9%	9%
PUD	(5,011)	(8,743)	(16,401)	(14,103)	(16,219)	ROE	10%	9%	11%	12%	13%
Deposits & Prepayments	1,329	-	-	-	-	ROA	2%	1%	2%	2%	2%
Trade & Other Payables	274	1,960	1,398	2,209	2,543	Net Debt / Total Equity	68%	70%	81%	74%	68%
Increase in contract liabilities	5,746	9,484	8,967	10,312	11,859	Net Debt / Shareholders' Equity	75%	91%	104%	95%	86%
Others	(6,977)	(3,547)	(4,043)	(4,317)	(4,633)	Total Assets / Total Equity	490%	529%	567%	585%	602%
<b>Net Operating Cashflows</b>	<b>(2,628)</b>	<b>4,337</b>	<b>(4,050)</b>	<b>777</b>	<b>973</b>	Total Assets / Shareholders' Equity	535%	687%	731%	749%	764%
						Asset Turnover (Contracted Sales)	38%	29%	29%	29%	30%
<b>Net Investing Cashflows</b>	<b>(3,980)</b>	<b>(2,175)</b>	<b>1,375</b>	<b>(400)</b>	<b>(400)</b>						
Bank & Other Borrowings	16,032	7,627	3,753	-	-						
Others	(5,669)	(369)	(440)	(523)	(618)						
<b>Net Financing Cashflows</b>	<b>10,363</b>	<b>7,258</b>	<b>3,313</b>	<b>(523)</b>	<b>(618)</b>						
<b>Net Cash Flows</b>	<b>3,755</b>	<b>9,419</b>	<b>638</b>	<b>(146)</b>	<b>(45)</b>						

Source: Company Data, AMTD Research

# Far East Consortium International Limited

## The Chase for Yield will be Positive for Overseas Property Sales

With US Fed and Reserve Bank of Australia cutting rates in the last few days, we believe global property investors will scour the globe to chase for yield once economy recovers. This should stimulate the UK and Australia property sales of Far East Consortium (FEC), following its recent launches of Consort Place in London and Queen's Wharf Brisbane.

### Asset inflation trend will attract global property investors

Property is often considered as a relatively safe asset class and is almost a must have for Global High Net Worth Individuals in their portfolio. As central banks around the world cut their countries' respective benchmark rates, we expect the lower borrowing costs will drive rental yields lower, resulting in property asset inflation in the medium term. We believe that FEC is well poised to capture this trend with their recently launched property projects in London Canary Wharf and Brisbane in Australia, respectively. We estimate that UK and Australia contribute to ~80% of FEC FY20E property development revenues. Depending on the project, global property investors can contribute up to ~50% of such property sales.

### Consort Place London: A gem at the heart of Canary Wharf

FEC recently launched Consort Place for sale in Feb 2020, a project that is at the heart of Canary Wharf, neighbouring the London headquarters of JP Morgan, HSBC, Morgan Stanley, etc. Consort Place is a 390,000 sqft mixed-used residential development project and we believe it is on track to be a key FY2020-2021 sales contributor with a GDV of ~HK\$4bn, with an ASP of ~GBP1,000-1,100/sqft.

### Queen's Wharf Brisbane: A scarce Resi/Com/Hotel/Casino Development

The developer has also launched its Queen's Wharf Brisbane project for sale in Feb 2020, which was well received by the market despite the COVID-19 outbreak. The project is also mixed-used development comprising of residential, hotel and a casino, overlooking the Brisbane river. Phase 1 was recently launched with 252,000 sqft and is expecting to achieve a total GDV of ~HK\$3.3bn.

### Hotel portfolio face challenges, but mitigated by quarantine packages

COVID-19 outbreak is putting pressure on the company's hotel portfolio, with occupancy rates under pressure, which is the key driver behind our earnings cut of 16-38% for FY20E-22E. Nonetheless, the silver lining comes in the HK Hotels business, where some of the hotels have offered 14-day quarantine packages for people to observe the government's compulsory self-quarantine requirement after returning home from overseas. We believe that this helped to raise the occupancy rates at some selective hotels back to 100% in March 2020, and ~70% on average, albeit on a lower ADR.

### Stock offering 8.3% div yield, at 6.3x FY20E P/E, 0.5x FY20E P/B

We believe Far East Consortium is trading at attractive valuations of 6.3x FY20E P/E and a 0.5x FY20E P/B. The book value are mostly at cost, as hotels are not mark to market under the accounting rules. This makes the valuation all the more attractive, considering that it is trading at a same P/B with other HK property developers who have a large investment property portfolio which is marked-to-market on their books.

Stock code: 0035.HK

Rating: Buy

<b>Price target (HK\$)</b>	<b>4.21</b>
Previous Price target (HK\$)	4.21
Current price (HK\$, 23 Apr 2020)	2.64
Upside/downside %	59%
Market cap (HK\$ m)	6,255
Market cap (US\$ m)	807
Avg daily turnover (US\$ m)	0.57

Source: Bloomberg, AMTD Research

### Key forecasts

(HKm)	FY19	FY20e	FY21e	FY22e
Revenue	6,842	6,927	9,101	13,635
yoy %	17.3%	1.2%	31.4%	49.8%
Gross Profit	2,610	1,992	2,800	4,961
yoy %	-0.9%	-23.7%	40.6%	77.1%
Core Net Profit	1,457	972	1,286	1,598
yoy %	9.6%	-33.3%	32.4%	24.2%
Gross margin	38.1%	28.8%	30.8%	36.4%
Net gearing*	45.4%	54.1%	50.1%	54.9%
EPS	0.64	0.42	0.56	0.69
DPS	0.22	0.22	0.22	0.24
BPS	5.85	5.81	5.96	6.21

Source: Company Data, AMTD Research

\*Hotel Portfolio Revalued to Market Value

### Valuation

	FY19	FY20e	FY21e	FY22e
P/E	4.2	6.3	4.8	3.8
P/BV	0.5	0.5	0.4	0.4
Div. yield	8.3%	8.3%	8.4%	9.1%
ROE	10.9%	7.2%	9.3%	11.1%
ROA	4.5%	1.7%	2.7%	3.2%

Source: Bloomberg, AMTD Research

### Share price performance



Source: Bloomberg

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Figure 72: Far East Consortium Financial Forecasts and key ratios

PnL, HKD mn	FY2018	FY2019	FY2020e	FY2021e	FY2022e	Balance Sheet, HKD mn	FY2018	FY2019	FY2020e	FY2021e	FY2022e
Revenue	5,831	6,842	6,927	9,101	13,635	Investment Properties	3,229	5,426	5,560	6,481	7,084
COGS	(3,197)	(4,233)	(4,935)	(6,300)	(8,674)	Interest in JV/Asso	-	-	-	-	-
<b>Gross Profit</b>	<b>2,634</b>	<b>2,610</b>	<b>1,992</b>	<b>2,800</b>	<b>4,961</b>	PP&E and Others	10,578	13,693	13,497	13,282	12,991
Selling and marketing exp	(128)	(166)	(104)	(182)	(273)	<b>Non-current assets</b>	<b>13,807</b>	<b>19,119</b>	<b>19,057</b>	<b>19,763</b>	<b>20,074</b>
General and admin exp	(661)	(827)	(827)	(993)	(2,184)	PUD & Held for Sale	11,243	12,451	13,689	13,082	15,417
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	4,530	5,229	3,691
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)	<b>Current assets</b>	<b>20,682</b>	<b>19,959</b>	<b>23,257</b>	<b>23,348</b>	<b>24,146</b>
<b>Profit before tax</b>	<b>2,156</b>	<b>2,312</b>	<b>1,011</b>	<b>1,575</b>	<b>2,454</b>	<b>Total Assets</b>	<b>34,489</b>	<b>39,078</b>	<b>42,313</b>	<b>43,111</b>	<b>44,220</b>
Income tax expense	(571)	(544)	(273)	(425)	(1,021)	Contract Liabilities	-	974	974	974	974
<b>Net profit</b>	<b>1,585</b>	<b>1,769</b>	<b>738</b>	<b>1,150</b>	<b>1,432</b>	Bank and Other Borrowings	5,286	4,236	4,236	4,236	4,236
Shareholders' Profit	1,567	1,714	568	860	1,133	Trade and Other Payables	1,725	1,532	1,838	2,205	2,647
Minority Interest	19	55	77	85	93	Others	3,272	357	357	357	357
Perpetual Securities Distribution	-	-	93	206	206	<b>Current liabilities</b>	<b>10,283</b>	<b>7,099</b>	<b>7,405</b>	<b>7,772</b>	<b>8,213</b>
<b>Shareholders' Core Net Profit</b>	<b>1,329</b>	<b>1,457</b>	<b>972</b>	<b>1,286</b>	<b>1,598</b>	Bank and Other Borrowings	10,161	17,112	17,112	17,112	17,112
Dividends	506	506	505	515	559	Others	902	1,235	1,235	1,235	1,235
Special Dividends	-	-	-	-	-	<b>Non-current liabilities</b>	<b>11,062</b>	<b>18,347</b>	<b>18,347</b>	<b>18,347</b>	<b>18,347</b>
Core EPS - Basic (HKD)	0.59	0.64	0.42	0.56	0.69	Capital and reserves	12,971	13,413	13,476	13,821	14,395
DPS - basic (HKD)	0.22	0.22	0.22	0.22	0.24	<b>Shareholders' equity</b>	<b>12,971</b>	<b>13,413</b>	<b>13,476</b>	<b>13,821</b>	<b>14,395</b>
						Non-controlling interests & Perp	173	219	3,086	3,171	3,264
						<b>Total equity</b>	<b>13,144</b>	<b>13,632</b>	<b>16,562</b>	<b>16,992</b>	<b>17,659</b>
						<b>Total Liabilities and Equity</b>	<b>34,489</b>	<b>39,078</b>	<b>42,314</b>	<b>43,111</b>	<b>44,220</b>
Cash Flow Statement, HKD mn	FY2018	FY2019	FY2020e	FY2021e	FY2022e	Key Ratios, HKD mn	FY2018	FY2019	FY2020e	FY2021e	FY2022e
Profit before income tax	2,156	2,312	1,011	1,575	2,454	GP Margins	45%	38%	29%	31%	36%
<b>Operating CF before Working Cap</b>	<b>2,178</b>	<b>2,113</b>	<b>1,011</b>	<b>1,575</b>	<b>2,454</b>	Net Margins	27%	26%	11%	13%	11%
PUD	(1,321)	(2,897)	(1,238)	607	(2,336)	Core Attri Net Margins	23%	21%	14%	14%	12%
Deposits & Prepayments	(400)	435	-	-	-	ROE	10%	11%	7%	9%	11%
Trade & Other Payables	852	(231)	306	368	441	ROA	5%	5%	2%	3%	3%
Increase in contract liabilities	-	(546)	-	-	-	Net Debt / Total Equity	54%	106%	75%	69%	75%
Others	(2,574)	(504)	(273)	(425)	(1,021)	Net Debt to Equity (Perp as Debt)	54%	106%	111%	102%	108%
<b>Net Operating Cashflows</b>	<b>(1,266)</b>	<b>(1,630)</b>	<b>(194)</b>	<b>2,125</b>	<b>(462)</b>	Net Debt / Total Equity (Hotel Revalue)	29%	45%	54%	50%	55%
<b>Net Investing Cashflows</b>	<b>(1,617)</b>	<b>(2,567)</b>	<b>(30)</b>	<b>(912)</b>	<b>(517)</b>	Total Assets / Total Equity	262%	287%	255%	254%	250%
Bank & Other Borrowings	6,587	11,931	-	-	-	Total Assets / Shareholders' Equity	266%	291%	314%	312%	307%
Others	(4,624)	(8,267)	2,285	(515)	(559)						
<b>Net Financing Cashflows</b>	<b>1,963</b>	<b>3,664</b>	<b>2,285</b>	<b>(515)</b>	<b>(559)</b>						
<b>Net Cash Flows</b>	<b>(920)</b>	<b>(532)</b>	<b>2,060</b>	<b>699</b>	<b>(1,538)</b>						

Source: Company Data, AMTD Research

# Yuzhou Properties Company Limited

## Valuations Attractive, Stable Yield Play

**We believe Yuzhou will have to focus on selling its completed properties held for sale during 2020E. Despite our conservative 2020E earnings estimate (24% below consensus), the stock is still set to offer a 10% 2020E dividend yield. We maintain our Buy rating.**

### 10% 2020E dividend yield based on our conservative earnings forecast

We believe Yuzhou is currently trading at deeply discounted valuations and the stock is now offering a 12.7% 2019 dividend yield including the special dividend. Looking forward into 2020E, we still expect the dividend yield to reach 10%, as a result of its deeply discount valuations. This is already based on our relatively conservative 2020E earnings estimate, which is already 24% below consensus estimate. As a result, we main our Buy rating.

### 2019 results miss consensus, but in-line with our expectations

Yuzhou's 2019 results were largely in-line with our expectations, with a net profit of RMB3,967m. We calculate that the shareholders' core net profit to come in at around RMB3,432m, which is in-line with our estimate (RMB3,563m) despite missing consensus estimate (RMB4,076m). Consolidated revenue was down 4% YoY, and 17% below our expectations at RMB23,241m, as the miss was offset by one-off project disposal gains. JV & Associate profits were also lower than our expectations, due to impairment losses recorded at its Hefei and Zhangzhou projects.

### Contract Liabilities dropped due to fewer consolidated projects

As Yuzhou marched on towards its RMB100bn contracted sales target (34% YoY growth), its end-2019 consolidated contract liabilities have declined to RMB8.6bn lowering the upcoming earnings visibility. This was mainly due to the higher no. of JV project companies which were not consolidated due to technical reasons impacted by the COVID-19 situation, in our view. Without COVID-19, we believe that there should have been an additional ~RMB20bn of contract liabilities that should have been consolidated bringing the total amount to approx. ~RMB28bn, underpinning 2020E revenues.

### Clearing completed inventory should be a priority for 2020E

Yuzhou's completed properties held for sale has grown to RMB20.84bn at end-2019 (2018: RMB13.05bn). This represented 122% of 2019 COGS, implying ~14 months of inventory, on top of the new project launches for pre-sales. We believe that Yuzhou will need to focus on shifting these inventory during 2020E to avoid it to become a drag on its balance sheet, resulting in a rise in net gearing. On a positive note, sales from these projects will be able to recognized into revenue straight away and could result in an upside risk to our earnings estimate.

### Our price target of HK\$3.98/sh implies 24% upside potential

We have raised our target multiple of Yuzhou to 5.0x P/E ratio as the 2019 earnings overhang is now removed, in our view. Our new target price of HK\$3.98 offers 24% upside potential. 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 slowdown in the macroeconomy.

**Stock code: 1628.HK**

**Rating: Buy**

<b>Price target (HK\$)</b>	<b>3.98</b>
Previous price target (HK\$)	3.96
Current price (HK\$, 23 Apr 2020)	3.21
Upside/downside %	24%
Market cap (HK\$ m)	16,761
Market cap (US\$ m)	2,163
Avg daily turnover (US\$ m)	4.12

Source: Bloomberg, AMTD Research

### Key forecasts

(RMB m)	2019	2020e	2021e	2022e
Revenue	23,241	26,694	40,342	48,411
yoy %	-4.4%	14.9%	51.1%	20.0%
Gross Profit	6,092	7,074	10,691	12,829
yoy %	-18.4%	16.1%	51.1%	20.0%
Core NP	3,432	3,518	5,070	6,123
yoy %	3.4%	2.5%	44.1%	20.8%
Gross margin	26.2%	26.5%	26.5%	26.5%
Net gearing	82.3%	82.0%	90.2%	108.0%
EPS	0.70	0.72	1.03	1.25
DPS	0.37	0.30	0.42	0.51
BPS	4.27	4.72	5.35	6.11

Source: Company Data, AMTD Research

### Valuation

	2019	2020e	2021e	2022e
P/E	4.2	4.1	2.8	2.3
P/BV	0.7	0.6	0.5	0.5
Div. yield	12.7%	10.1%	14.4%	17.4%
ROE	16.3%	15.2%	19.3%	20.4%
ROA	2.4%	1.8%	2.1%	2.1%

Source: Bloomberg, AMTD Research

### Share price performance



Source: Bloomberg

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Figure 73: Yuzhou Financial Forecasts and key ratios

PnL, RMB mn	2018	2019	2020e	2021e	2021e	Balance Sheet, RMB mn	2018	2019	2020e	2021e	2021e
Revenue	24,306	23,241	26,694	40,342	48,411	Investment Properties	10,526	12,864	13,364	13,864	14,364
COGS	(16,839)	(17,149)	(19,620)	(29,652)	(35,582)	Interest in JVI/Asso	10,013	9,339	9,339	9,339	9,339
<b>Gross Profit</b>	<b>7,467</b>	<b>6,092</b>	<b>7,074</b>	<b>10,691</b>	<b>12,829</b>	PP&E and Others	4,054	4,435	4,435	4,435	4,435
Selling and marketing exp	(459)	(660)	(878)	(1,054)	(1,264)	<b>Non-current assets</b>	<b>24,592</b>	<b>26,639</b>	<b>27,139</b>	<b>27,639</b>	<b>28,139</b>
General and admin exp	(606)	(1,091)	(1,452)	(1,742)	(2,091)	PUD & Held for Sale	45,346	49,086	101,126	148,400	197,705
Share of results of JV & Asso	(52)	166	1,487	1,784	2,141	Deposits and prepayments	1,468	3,005	3,005	3,005	3,005
Reval Gains from Inv Prop	166	601	-	-	-	Cash & Cash Equivalents	27,162	29,409	33,346	33,529	28,764
Others	443	1,857	667	202	242	Others	16,494	33,357	33,357	33,357	33,357
Net Finance costs	(223)	(360)	(216)	(237)	(259)	<b>Current assets</b>	<b>90,471</b>	<b>114,856</b>	<b>170,833</b>	<b>218,290</b>	<b>262,831</b>
<b>Profit before tax</b>	<b>6,735</b>	<b>6,605</b>	<b>6,682</b>	<b>9,643</b>	<b>11,598</b>	<b>Total Assets</b>	<b>115,063</b>	<b>141,495</b>	<b>197,972</b>	<b>245,929</b>	<b>290,970</b>
Income tax expense	(3,009)	(2,638)	(2,605)	(3,823)	(4,594)	Contract Liabilities	13,752	8,595	51,867	71,483	95,023
<b>Net profit</b>	<b>3,726</b>	<b>3,967</b>	<b>4,077</b>	<b>5,821</b>	<b>7,004</b>	Bank and Other Borrowings	16,430	15,272	15,272	15,272	15,272
Shareholders' Profit	3,505	3,606	3,629	5,180	6,234	Trade and Other Payables	29,817	40,881	45,460	64,052	75,043
Minority Interest	221	361	449	640	770	Others	4,521	5,165	5,165	5,165	5,165
<b>Shareholders' Core Net Profit</b>	<b>3,320</b>	<b>3,432</b>	<b>3,518</b>	<b>5,070</b>	<b>6,123</b>	<b>Current liabilities</b>	<b>64,520</b>	<b>69,912</b>	<b>117,763</b>	<b>155,972</b>	<b>190,502</b>
Dividends	843	980	1,452	2,072	2,493	Bank and Other Borrowings	27,202	40,397	46,397	52,397	58,397
Special Dividends	-	318	-	-	-	Others	1,910	2,458	2,458	2,458	2,458
EPS - Basic (RMB)	0.81	0.73	0.74	1.05	1.27	<b>Non-current liabilities</b>	<b>29,113</b>	<b>42,855</b>	<b>48,855</b>	<b>54,855</b>	<b>60,855</b>
Core EPS - Basic (RMB)	0.77	0.70	0.72	1.03	1.25	Capital and reserves	17,575	20,991	23,168	26,277	30,017
DPS - basic (RMB)	0.29	0.37	0.30	0.42	0.51	<b>Shareholders' equity</b>	<b>17,575</b>	<b>20,991</b>	<b>23,168</b>	<b>26,277</b>	<b>30,017</b>
						Non-controlling interests & Perp	3,856	7,736	8,185	8,825	9,596
						<b>Total equity</b>	<b>21,430</b>	<b>28,728</b>	<b>31,353</b>	<b>35,102</b>	<b>39,612</b>
						<b>Total Liabilities and Equity</b>	<b>115,063</b>	<b>141,495</b>	<b>197,972</b>	<b>245,929</b>	<b>290,970</b>
<b>Cash Flow Statement, RMB mn</b>	<b>2018</b>	<b>2019</b>	<b>2020e</b>	<b>2021e</b>	<b>2021e</b>	<b>Key Ratios, RMB mn</b>	<b>2018</b>	<b>2019</b>	<b>2020e</b>	<b>2021e</b>	<b>2021e</b>
Profit before income tax	6,735	6,605	6,682	9,643	11,598	GP Margins	31%	26%	27%	27%	27%
<b>Operating CF before Working Cap</b>	<b>6,564</b>	<b>6,965</b>	<b>6,898</b>	<b>9,881</b>	<b>11,857</b>	Net Margins	15%	17%	15%	14%	14%
PUD	8,950	(2,450)	(47,101)	(41,842)	(43,381)	Core Attr Net Margins	14%	15%	13%	13%	13%
Deposits & Prepayments	1,958	-	-	-	-	ROE	19%	16%	15%	19%	20%
Trade & Other Payables	3,629	11,064	4,579	18,592	10,991	ROA	3%	2%	2%	2%	2%
Increase in contract liabilities	(11,407)	(13,917)	43,272	19,616	23,540	Net Debt (Perp as Debt) / Total Equity	83%	82%	82%	90%	108%
Others	(6,537)	(7,291)	(7,760)	(9,492)	(10,777)	Net Debt / Total Equity (Perp as Equity)	67%	70%	71%	80%	98%
<b>Net Operating Cashflows</b>	<b>3,157</b>	<b>(5,630)</b>	<b>(112)</b>	<b>(3,245)</b>	<b>(7,771)</b>	Net Debt (Perp as Debt) / SH Equity	93%	105%	104%	114%	136%
<b>Net Investing Cashflows</b>	<b>(1,588)</b>	<b>(2,338)</b>	<b>(500)</b>	<b>(500)</b>	<b>(500)</b>	Total Assets / Total Equity	537%	493%	631%	701%	735%
Bank & Other Borrowings	(3,440)	12,037	6,000	6,000	6,000	Total Assets / Shareholders' Equity	655%	674%	854%	936%	969%
Others	13,320	(1,821)	(1,452)	(2,072)	(2,493)	Asset Turnover (Contracted Sales)	49%	53%	51%	49%	49%
<b>Net Financing Cashflows</b>	<b>9,879</b>	<b>10,216</b>	<b>4,548</b>	<b>3,928</b>	<b>3,507</b>						
<b>Net Cash Flows</b>	<b>11,449</b>	<b>2,247</b>	<b>3,937</b>	<b>183</b>	<b>(4,765)</b>						

Source: Company Data, AMTD Research



# New World Development

## Solid Foundations to Ride out Near Term Challenges

**We expect NWD to remain as an outperformer among the HK Property developers despite the near term macroeconomic challenges. New World China Land (NWCL) is taking an increasingly important role as the company's key growth driver with a 20% CAGR target, while 1H FY20 Dev Margins reached 60%. We believe NWD's valuations should re-rate to reflect such execution improvement. Reiterate Buy.**

### China business underappreciated by market, valuations should re-rate

We believe the recent pull-back in share price to valuations of 66% disc. to NAV and 5.8% div yield, offers investors an attractive entry point into NWD for its upcoming growth potential. Management maintained their RMB20bn China contracted sales target for FY20E and is set for a 20% medium term CAGR. We believe that such a growth target is all the more impressive when taking into account the 1H FY20 60% China Dev Margins (vs industry average ~25%). We expect the stock's valuations to re-rate to a narrower disc. to NAV to reflect such execution improvement. We reiterate our Buy rating with a TP of HK\$14.17/sh, based on a 45% target disc. to NAV.

### 1H FY20 results in-line despite challenges from HK social unrest

NWD achieved a 1H FY20 underlying net profit of HK\$3,929m (44% of FY20E), down 27% YoY, mainly due to lack of project completions in HK during 1H FY20 (Dev Prop revenues declined 60% YoY during the period). 1H FY20 rental revenues from Inv Prop grew 23% YoY, while segment rental profits still grew 13% YoY, despite the HK social unrest during the period. Net Margins improved to 12% (1H FY19: 11%) underpinned by a 6% YoY decline in SG&A as a result of successful cost saving measures.

### China Property: A new lease of life under a new management structure

We expect to see an improvement in operational efficiency within NWD and New World China Land (NWCL) on the back of the recent internal organisational restructuring. During 2H FY20, Dr. Adrian Cheng has been re-designated as Executive Vice-Chairman and CEO of NWD and appointed as Executive Chairman of NWCL, respectively. Meanwhile, Mr. Choy Hon-Ping and Ms. Echo Huang have been promoted to Vice Executive Chairman and CEO of NWCL, respectively. It was also announced that Ms. Echo Huang was further appointed as Executive Director of NWD, along with Ms. Chiu Wai-Wan, Jenny. We believe these are important changes and lays the foundation to achieve management's 20% contracted sales CAGR target.

### HK Property: All eyes on ~HK\$30bn Tai Wai Station Development

Tai Wai Station development project is the key sales driver of the year, with the project offering 3,090 units across 3 phases, with an expected GDV of ~HK\$30bn. Phase 1 is expected to be launched in 2Q20 and we estimate to achieve ~HK\$10bn of sales proceeds (~65% of our FY20E HK Property Sales). We expect the project to fetch an ASP of ~HK\$20,000/sqft. Other key sales drivers incl. the office project in Cheung Sha Wan and Mount Pavilia in Sai Kung, which recently (Feb 2020) achieved a record high ASP of HK\$43,012/sqft for the sale of a special unit.

### Stock is currently trading at 66% Disc. to NAV and 11.0x FY20E P/E

NWD is currently trading at deeply discount valuations of 66% Disc. to NAV compared to its historical average of 55% Disc. to NAV. In terms of PE, the stock is trading at 11.0x FY20E P/E.

Stock code: 17.HK

Rating: Buy

<b>Price target (HK\$)</b>	<b>14.17</b>
Previous price target (HK\$)	14.13
Current price (HK\$, 23 Apr 2020)	8.82
Upside/downside %	61%
Market cap (HK\$ m)	89,685
Market cap (US\$ m)	11,570
3M Avg daily turnover (US\$ m)	23.00

Source: Bloomberg, AMTD Research

### Key forecasts

(HK\$m)	FY19	FY20e	FY21e	FY22e
Revenue	76,764	74,716	76,856	87,148
yoy %	26.5%	-2.7%	2.9%	13.4%
Gross Profit	25,022	23,909	24,594	28,759
yoy %	21.7%	-4.4%	2.9%	16.9%
Core Net Profit	8,814	8,161	8,412	10,085
yoy %	10.5%	-7.4%	3.1%	19.9%
Gross margin	32.6%	32.0%	32.0%	33.0%
Net gearing	41%	41%	42%	41%
EPS	0.86	0.80	0.82	0.99
DPS	0.51	0.52	0.53	0.54
BPS	21.90	22.26	22.58	23.07

Source: Company data, AMTD Research

### Valuation

	FY19	FY20e	FY21e	FY22e
P/E	10.2	11.0	10.7	8.9
P/BV	0.4	0.4	0.4	0.4
Div. yield	5.8%	5.9%	6.1%	6.2%
ROE	8.3%	3.6%	3.7%	4.3%
ROA	3.7%	1.6%	1.6%	1.9%

Source: Bloomberg, AMTD Research

### Share price performance



Source: Bloomberg

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Figure 74: New World Development Financial Forecasts and key ratios

PnL, HK mn	FY18	FY19	FY20e	FY21e	FY22e	Balance Sheet, HK mn	FY18	FY19	FY20e	FY21e	FY22e
Revenue	60,689	76,764	74,716	76,856	87,148	Investment Properties	149,728	173,327	180,241	185,972	197,531
COGS	(40,125)	(51,742)	(50,807)	(52,262)	(58,389)	Interest in JV/Asso	73,844	50,866	53,409	54,744	56,113
<b>Gross Profit</b>	<b>20,563</b>	<b>25,022</b>	<b>23,909</b>	<b>24,594</b>	<b>28,759</b>	PP&E and Others	85,828	128,928	127,468	128,050	125,956
						<b>Non-current assets</b>	<b>309,400</b>	<b>353,120</b>	<b>361,118</b>	<b>368,766</b>	<b>379,599</b>
Selling and marketing exp	(1,084)	(2,161)	(1,527)	(1,866)	(1,368)	PUD & Held for Sale	79,472	57,276	57,958	58,264	60,263
General and admin exp	(8,142)	(6,299)	(7,776)	(7,836)	(10,522)	Deposits and prepayments	25,520	25,722	25,722	25,722	25,722
Share of results of JV & Asso	3,083	4,683	4,558	4,689	5,317	Cash & Cash Equivalents	63,456	63,732	61,783	59,635	58,749
Reval Gains from Inv Prop	15,367	8,180	-	-	-	Others	3,607	3,436	3,570	3,597	3,710
Others	4,271	460	121	121	121	<b>Current assets</b>	<b>172,055</b>	<b>150,165</b>	<b>149,033</b>	<b>147,218</b>	<b>148,444</b>
Finance costs	(704)	(756)	(965)	(965)	(965)	Contract Liabilities	65,059	48,753	49,987	51,419	57,447
<b>Profit before tax</b>	<b>33,354</b>	<b>29,129</b>	<b>18,321</b>	<b>18,738</b>	<b>21,343</b>	Bank and Other Borrowings	20,629	41,776	41,776	41,776	41,776
Income tax expense	(6,272)	(7,490)	(7,555)	(7,647)	(8,220)	Income Taxes Accrued/Payable	8,992	10,641	10,641	10,641	10,641
Other adjustment	(537)	(803)	-	-	-	Others	9	87	87	87	87
<b>Net profit</b>	<b>26,545</b>	<b>20,836</b>	<b>10,766</b>	<b>11,091</b>	<b>13,123</b>	<b>Current liabilities</b>	<b>94,689</b>	<b>101,257</b>	<b>102,491</b>	<b>103,923</b>	<b>109,951</b>
Shareholders' Profit	23,338	18,160	8,161	8,412	10,085	Bank and Other Borrowings	120,124	114,559	114,559	114,559	114,559
Minority Interest	3,207	2,676	2,605	2,679	3,038	Others	11,460	12,105	12,624	12,896	13,175
<b>Shareholders' Core Net Profit</b>	<b>7,978</b>	<b>8,814</b>	<b>8,161</b>	<b>8,412</b>	<b>10,085</b>	<b>Non-current liabilities</b>	<b>131,584</b>	<b>126,664</b>	<b>127,182</b>	<b>127,455</b>	<b>127,734</b>
EPS - Basic (HKD)	2.33	1.78	0.80	0.82	0.99	Capital and reserves	138,724	145,989	149,602	152,944	157,889
Core EPS - Basic (HKD)	0.80	0.86	0.80	0.82	0.99	<b>Shareholders' equity</b>	<b>216,250</b>	<b>223,865</b>	<b>227,478</b>	<b>230,819</b>	<b>235,765</b>
DPS - basic (HKD)	0.48	0.51	0.52	0.53	0.54	Non-controlling interests & Perp	38,932	51,500	53,000	53,787	54,594
BVPS	21.63	21.90	22.26	22.58	23.07	<b>Total equity</b>	<b>255,182</b>	<b>275,365</b>	<b>280,477</b>	<b>284,606</b>	<b>290,359</b>
<b>Cash Flow Statement, HK mn</b>						<b>Key Ratios, HK mn</b>					
Profit before income tax	33,354	29,129	18,321	18,738	21,343	GP Margins	34%	33%	32%	32%	33%
<b>Operating CF before Working Cap</b>	<b>9,473</b>	<b>11,835</b>	<b>10,604</b>	<b>10,897</b>	<b>12,772</b>	Net Margins	38%	24%	11%	11%	12%
PUD	2,217	12,931	(280)	(52)	(3,164)	Core Attr Net Margins	13%	11%	11%	11%	12%
Deposits & Prepayments	2,345	(202)	-	-	-	ROE	12%	8%	4%	4%	4%
Trade & Other Payables	14,324	(16,306)	1,234	1,432	6,028	ROA	5%	4%	2%	2%	2%
Increase in contract liabilities	-	-	-	-	-	Net Debt / Total Equity	34%	41%	41%	42%	41%
Others	(1,260)	(18,551)	384	245	166	Net Debt / Shareholders' Equity	69%	79%	78%	77%	75%
<b>Net Operating Cashflows</b>	<b>27,099</b>	<b>(10,294)</b>	<b>11,942</b>	<b>12,523</b>	<b>15,801</b>	Total Assets / Total Equity	189%	183%	182%	181%	182%
<b>Net Investing Cashflows</b>	<b>(35,282)</b>	<b>(7,035)</b>	<b>(10,843)</b>	<b>(10,388)</b>	<b>(12,354)</b>	Total Assets / Shareholders' Equity	223%	225%	224%	224%	224%
Bank & Other Borrowings	(6,367)	27,636	-	-	-	Asset Turnover (Contracted Sales)	9%	5%	5%	6%	10%
Others	10,899	(10,031)	(3,048)	(4,283)	(4,332)						
<b>Net Financing Cashflows</b>	<b>4,532</b>	<b>17,604</b>	<b>(3,048)</b>	<b>(4,283)</b>	<b>(4,332)</b>						
<b>Net Cash Flows</b>	<b>(3,650)</b>	<b>276</b>	<b>(1,948)</b>	<b>(2,148)</b>	<b>(885)</b>						

Source: Company data, AMTD Research Estimates

Note: Fiscal year ends 30 June

# LVGEM (China) Real Estate Investment Company Limited

## Solid Execution on Highly Profitable Urban Redevelopment Land Bank

LVGEM announced a solid set of 2019 results with core net profit 26% higher than our estimate. We believe the developer is on track to a 41% 2020E net profit growth with the sales from Shenzhen Urban Redevelopment projects Mangrove Bay No.1 and Meijing Plaza being the key earnings driver for 2020E.

### RMB15bn sellable resources in GBA Urban Redevelopment Projects

LVGEM reported a solid set of 2019 results with core net profit beating our estimate by 26%. In 2020, the developer has RMB15bn of sellable resources across Shenzhen and Zhuhai. Of which, we estimate that Mangrove Bay No. 1 and Meijing Plaza in Shenzhen will achieve an aggregate contracted sales of approx. RMB6bn, which will be recognized straight into 2020E revenues. We have lowered our 2020E-2022E net profit estimates by 4-6% respectively to reflect the latest project launch and completion schedules.

### 2019 core net profit 26% above our estimates

LVGEM's results were stronger than our expectations on higher than expected sales from the completed Mangrove Bay No. 1 project during 2019. Excl. revaluation gains from Investment Properties, we calculate that the 2019 core net profit of LVGEM to be at RMB1,236m (up 43% YoY), which is 26% above our estimate. 2019 revenue rose 53% YoY to RMB6,902m, thanks to solid sales (RMB4.4bn) achieved at Mangrove Bay No. 1 which contributed to ~65% of 2019 revenues. 2019 GP Margins remain at 64%, above industry average, underpinned by urban redevelopment projects.

### Baishizhou – Target to complete Ph 1 relocation contracts in 3Q20

The signing of relocation contracts for Ph 1 of the project are ongoing, and the developer targets to complete the Ph 1 process in 3Q20. The project is primarily located at the heart of Shenzhen in Nanshan District and has a total GFA of 3.58m sqm, of which 1.8m sqm are sellable/leasable GFA after excl. resettlement area. The developer will acquire the remaining 75% stake from the controlling shareholder in due course, depending on market conditions and project development progress. This project will take over the baton as the key growth driver of the company from 2022 onwards.

### Net gearing rose in 2H19 to 135%, while HK NEO faces challenges

Balance sheet has softened from 1H19 levels, with net debt to equity rising to 135% (1H19: 121%). This is mainly attrib. to the acquisition of Zhuhai Dongqiao project. LVGEM's HK NEO occupancy rate remained at 50%, similar to 1H19 levels. We believe management faces an uphill task to ramp up the occupancy rates and rental income from HK NEO, considering the slowdown in macroeconomy amid the COVID-19 pandemic.

### We have trimmed our TP by 5% to HK\$2.58 to reflect rising macro risks

We have trimmed our TP to HK\$2.58/sh (from HK\$2.72/sh) to reflect the rising macro risks amid the COVID-19 outbreak. Our TP is based on a 7.0x target 2020E P/E. Key risks to the stock include (1) Dilution overhang from the conversion of the controlling shareholders' preference shares; (2) Revaluation loss to HK NEO may put further pressure on balance sheet; and (3) Higher than expected acquisition cost of the remaining 75% of Baishizhou project, and potential dilution if equity issuance is required.

Stock code:0095.HK

Rating: Hold

<b>Price target (HK\$)</b>	<b>2.58</b>
Previous price target (HK\$)	2.72
Current price (HK\$, 23 Apr 2020)	2.30
Upside/downside %	12%
Market cap (HK\$ m)	11,460
Market cap (US\$ m)	1,479
Avg daily turnover (US\$m)	1.64

Source: Bloomberg, AMTD Research

### Key forecasts

(RMB m)	2019	2020e	2021e	2022e
Revenue	6,902	7,894	10,747	12,079
yoy %	52.9%	14.4%	36.1%	12.4%
Gross Profit	4,430	5,325	5,653	7,073
yoy %	64.9%	20.2%	6.2%	25.1%
Core NP	1,236	1,655	1,722	2,506
yoy %	43.2%	33.9%	4.1%	45.6%
Gross margin	64.2%	67.5%	52.6%	58.6%
Net gearing	135.2%	133.9%	131.8%	138.4%
EPS	0.25	0.33	0.35	0.50
DPS	0.06	0.07	0.08	0.11
BPS	2.59	2.85	3.12	3.51

Source: Company Data, AMTD Research

### Valuation

	2019	2020e	2021e	2022e
P/E	8.3	6.2	6.0	4.1
P/BV	0.8	0.7	0.7	0.6
Div. yield	2.7%	3.6%	3.7%	5.4%
ROE	9.6%	11.6%	11.1%	14.3%
ROA	2.5%	3.1%	2.9%	4.1%

Source: Bloomberg, AMTD Research

### Share price performance



Source: Bloomberg

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Figure 75: LVGEM Financial Forecasts and key ratios

PnL, RMB mn	2018	2019	2020e	2021e	2022e	Balance Sheet, RMB mn	2018	2019	2020e	2021e	2022e
Revenue	4,516	6,902	7,894	10,747	12,079	Investment Properties	22,117	23,568	23,568	23,568	23,568
COGS	(1,830)	(2,472)	(2,569)	(5,095)	(5,005)	Interest in JV/Asso	522	522	522	522	522
<b>Gross Profit</b>	<b>2,686</b>	<b>4,430</b>	<b>5,325</b>	<b>5,653</b>	<b>7,073</b>	PP&E and Others	1,532	2,370	2,370	2,370	2,370
Selling and marketing exp	(133)	(134)	(153)	(209)	(235)	<b>Non-current assets</b>	<b>24,171</b>	<b>26,460</b>	<b>26,460</b>	<b>26,460</b>	<b>26,460</b>
General and admin exp	(390)	(461)	(528)	(719)	(808)	PUD & Held for Sale	10,710	10,633	12,633	16,719	19,513
Share of results of JV & Asso	(0)	(0)	(0)	(0)	(0)	Deposits and prepayments	890	3,231	3,231	3,231	3,231
Reval Gains from Inv Prop	323	(20)	-	-	-	Cash & Cash Equivalents	3,674	5,543	8,146	9,669	8,920
Others	327	809	128	175	196	Others	3,967	2,870	2,870	2,870	2,870
Net Finance costs	(658)	(1,256)	(910)	(1,019)	(1,127)	<b>Current assets</b>	<b>19,241</b>	<b>22,277</b>	<b>26,879</b>	<b>32,488</b>	<b>34,534</b>
<b>Profit before tax</b>	<b>2,156</b>	<b>3,367</b>	<b>3,862</b>	<b>3,882</b>	<b>5,100</b>	<b>Total Assets</b>	<b>43,412</b>	<b>48,736</b>	<b>53,339</b>	<b>58,948</b>	<b>60,994</b>
Income tax expense	(925)	(1,617)	(2,198)	(2,150)	(2,580)	Contract Liabilities	2,268	2,505	1,653	2,916	-
<b>Net profit</b>	<b>1,230</b>	<b>1,750</b>	<b>1,664</b>	<b>1,731</b>	<b>2,520</b>	Bank and Other Borrowings	5,824	11,049	11,049	11,049	11,049
Shareholders' Profit	1,237	1,740	1,655	1,722	2,506	Trade and Other Payables	1,384	1,112	1,112	1,112	1,112
Minority Interest	(7)	10	9	10	14	Others	2,214	3,095	3,095	3,095	3,095
<b>Shareholders' Core Net Profit</b>	<b>863</b>	<b>1,236</b>	<b>1,655</b>	<b>1,722</b>	<b>2,506</b>	<b>Current liabilities</b>	<b>11,690</b>	<b>17,761</b>	<b>16,909</b>	<b>18,171</b>	<b>15,255</b>
Dividends	234	276	369	384	559	Bank and Other Borrowings	17,500	15,150	19,309	22,309	25,309
EPS - Basic (RMB)	0.25	0.35	0.33	0.35	0.50	Others	2,783	2,791	2,791	2,791	2,791
Core EPS - Basic (RMB)	0.18	0.25	0.33	0.35	0.50	<b>Non-current liabilities</b>	<b>20,283</b>	<b>17,941</b>	<b>22,100</b>	<b>25,100</b>	<b>28,100</b>
Core EPS - Diluted (RMB)	0.10	0.14	0.19	0.20	0.29	Capital and reserves	11,331	12,928	14,213	15,551	17,498
DPS - basic (RMB)	0.05	0.06	0.07	0.08	0.11	<b>Shareholders' equity</b>	<b>11,331</b>	<b>12,928</b>	<b>14,213</b>	<b>15,551</b>	<b>17,498</b>
DPS - Diluted (RMB)	0.03	0.03	0.04	0.04	0.07	Non-controlling interests & Perp	107	107	116	126	139
BV per share (RMB)	2.31	2.59	2.85	3.12	3.51	<b>Total equity</b>	<b>11,439</b>	<b>13,035</b>	<b>14,330</b>	<b>15,677</b>	<b>17,638</b>
						<b>Total Liabilities and Equity</b>	<b>43,412</b>	<b>48,736</b>	<b>53,339</b>	<b>58,948</b>	<b>60,994</b>
Cash Flow Statement, RMB mn	2018	2019	2020e	2021e	2022e	Key Ratios, RMB mn	2018	2019	2020e	2021e	2022e
Profit Before Tax	2,156	3,367	3,862	3,882	5,100	GP Margins	59%	64%	67%	53%	59%
<b>Operating CF before Working Cap</b>	<b>2,308</b>	<b>4,623</b>	<b>4,772</b>	<b>4,900</b>	<b>6,228</b>	Net Margins	27%	25%	21%	16%	21%
PUD	(1,381)	77	(2,000)	(4,086)	(2,794)	Core Attri Net Margins	19%	18%	21%	16%	21%
Deposits & Prepay ments	(1,194)	-	-	-	-	ROE	8%	10%	12%	11%	14%
Trade & Other Payables	783	(272)	-	-	-	ROA	2%	3%	3%	3%	4%
Increase in contract liabilities	2,268	237	(852)	1,262	(2,916)	Net Debt / Total Equity	138%	135%	134%	132%	138%
Others	(29)	(1,617)	(2,198)	(2,150)	(2,580)	Net Debt / Shareholders' Equity	139%	136%	135%	133%	140%
<b>Net Operating Cashflows</b>	<b>2,756</b>	<b>3,048</b>	<b>(278)</b>	<b>(74)</b>	<b>(2,062)</b>	Total Assets / Total Equity	380%	374%	372%	376%	346%
<b>Net Investing Cashflows</b>	<b>(6,419)</b>	<b>(2,079)</b>	<b>-</b>	<b>-</b>	<b>-</b>	Total Assets / Shareholders' Equity	383%	377%	375%	379%	349%
Bank & Other Borrowings	(4,995)	2,914	4,160	3,000	3,000	Asset Turnover (Contracted Sales)	5%	10%	14%	18%	0%
Others	8,534	(1,572)	(1,279)	(1,403)	(1,686)						
<b>Net Financing Cashflows</b>	<b>3,539</b>	<b>1,342</b>	<b>2,880</b>	<b>1,597</b>	<b>1,314</b>						
<b>Net Cash Flows</b>	<b>(124)</b>	<b>2,311</b>	<b>2,603</b>	<b>1,524</b>	<b>(749)</b>						

Source: Company Data, AMTD Research

# Minmetals Land Limited

Limited downside risks, but lack of excitement, Maintain Hold

We maintain our Hold rating on Minmetals Land, as we expect the developers' earnings growth to remain flattish into 2020E and 2021E. There is limited offshore refinancing risks secured by a HK\$6bn syndicated loan in Jan 2020. The stock offers a stable dividend yield of 7.8% with the stock trading at a 4.2x 2020E P/E. Maintain Hold.

## Contracted sales and earnings to remain stable into 2020E and 2021E

We expect Minmetals Land's contracted sales to achieve a stable 0-5% growth in 2020E, which will be at around RMB8.6bn-9bn. As a result, we are lowering our 2020E-2021E net profit estimate by 6% and 12% respectively, to reflect the challenging operating environment. Net profit growth will be flattish for both 2020E and 2021E as a result, and we thus maintain our Hold rating amid the lack of earnings growth.

## 2019 core net profit declined, but in-line with expectations

Minmetals Land reported a 2019 net profit of HKD943m, edging up 1% YoY. We calculate that the 2019 core net profit was at HKD827m (down 6% YoY), in-line with our estimate (HK\$799m). Revenues were also in-line with our estimate at HK\$11,261m. 2019 Gross Margins declined to 23.7% (2018: 35.6%) in-line with the industry trend.

## RMB1,080m contracted sales achieved in 1Q20

Minmetals achieved a contracted sales of RMB1,080m during 1Q20, with a GFA sold achieved at 66,700sqm, implying an ASP of RMB16,200/sqm. This represents a ~12% run-rate to our 2020E contracted sales achieved, which is largely in-line with the industry average of the Top 30 listed developers.

## HK\$6bn syndicated loan secured in Jan 2020

Minmetals Land maintained a healthy balance sheet as of end-2019, with net debt to equity remaining at a stable 79% (2018: 76%). The developer has successfully taken advantage of the refinancing window in Jan 2020 to secure a HK\$6bn 4-year syndicated loan, which will have secured most of the offshore refinancing needs for 2020.

## 7.8% dividend yield, 4.2x 2020E P/E

The stock is currently trading at 4.2x 2020E P/E and offers a 7.8% dividend yield. Our price target of HK\$1.09/sh is based on a 4.5x 2020E P/E ratio, which is the lowest among our coverage universe to reflect its lack of growth. It also implies a 0.37x 2019 P/B. Key risks to the stock include (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\$)	1.09
Previous price target (HK\$)	1.14
Current price (HK\$, 23 Apr 2020)	1.02
Upside/downside %	7%
Market cap (HK\$ m)	3,414
Market cap (US\$ m)	440
Avg daily turnover (US\$m)	0.17

Source: Bloomberg, AMTD Research

## Key forecasts

(HK\$ m)	2019	2020e	2021e	2022e
Revenue	11,261	10,790	11,273	12,300
yoy %	3.0%	-4.2%	4.5%	9.1%
Gross Profit	2,673	2,562	2,676	2,920
yoy %	-31.2%	-4.2%	4.5%	9.1%
Core Net Profit	827	812	853	926
yoy %	-6.2%	-1.8%	5.1%	8.6%
Gross margin	23.7%	23.7%	23.7%	23.7%
Net gearing	79.1%	87.9%	82.8%	79.0%
EPS	0.25	0.24	0.25	0.28
DPS	0.08	0.08	0.08	0.09
BPS	2.75	2.91	3.08	3.27

Source: Company Data, AMTD Research

## Valuation

	2019	2020e	2021e	2022e
P/E	4.1	4.2	4.0	3.7
P/BV	0.4	0.4	0.3	0.3
Div. yield	7.8%	7.8%	8.0%	8.7%
ROE	9.0%	8.3%	8.3%	8.5%
ROA	1.7%	1.6%	1.6%	1.7%

Source: Bloomberg, AMTD Research

## Share price performance



Source: Bloomberg

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Figure 76: Minmetals Land Financial Forecasts and key ratios

PnL, HKD mn	2018	2019	2020e	2021e	2022e	Balance Sheet, HKD mn	2018	2019	2020e	2021e	2022e
Revenue	10,931	11,261	10,790	11,273	12,300	Investment Properties	2,256	2,367	2,367	2,367	2,367
COGS	(7,044)	(8,588)	(8,229)	(8,597)	(9,380)	Interest in JV/Asso	1,249	1,208	1,208	1,208	1,208
<b>Gross Profit</b>	<b>3,887</b>	<b>2,673</b>	<b>2,562</b>	<b>2,676</b>	<b>2,920</b>	PP&E and Others	1,816	2,301	2,301	2,301	2,301
						<b>Non-current assets</b>	<b>5,322</b>	<b>5,876</b>	<b>5,876</b>	<b>5,876</b>	<b>5,876</b>
Selling and marketing exp	(176)	(242)	(281)	(292)	(336)	PUD & Held for Sale	25,787	24,723	27,184	28,274	30,219
General and admin exp	(539)	(567)	(647)	(676)	(738)	Deposits and prepayments	11,868	13,934	13,934	13,934	13,934
Share of results of JV & Asso	(14)	(14)	(14)	(14)	(15)	Cash & Cash Equivalents	3,608	3,850	3,586	3,664	3,539
Rev al Gains from Inv Prop	134	108	-	-	-	Others	667	578	578	578	578
Others	(18)	81	62	67	76	<b>Current assets</b>	<b>41,931</b>	<b>43,086</b>	<b>45,283</b>	<b>46,451</b>	<b>48,270</b>
Net Finance costs	189	222	222	222	222	<b>Total Assets</b>	<b>47,253</b>	<b>48,961</b>	<b>51,158</b>	<b>52,326</b>	<b>54,146</b>
<b>Profit before tax</b>	<b>3,463</b>	<b>2,260</b>	<b>1,903</b>	<b>1,982</b>	<b>2,128</b>						
Income tax expense	(1,716)	(908)	(703)	(734)	(795)	Contract Liabilities	6,125	4,558	3,822	4,015	4,798
<b>Net profit</b>	<b>1,747</b>	<b>1,353</b>	<b>1,200</b>	<b>1,248</b>	<b>1,333</b>	Bank and Other Borrowings	1,015	7,263	7,263	7,263	7,263
Shareholders' Profit	935	943	812	853	926	Trade and Other Payables	10,683	10,907	10,907	10,907	10,907
Minority Interest	628	191	169	176	188	Others	446	244	244	244	244
Perp Securities	184	219	219	219	219	<b>Current liabilities</b>	<b>18,270</b>	<b>22,971</b>	<b>22,236</b>	<b>22,429</b>	<b>23,211</b>
<b>Shareholders' Core Net Profit</b>	<b>881</b>	<b>827</b>	<b>812</b>	<b>853</b>	<b>926</b>						
Dividends	268	268	268	273	296	Bank and Other Borrowings	14,039	9,491	11,491	11,491	11,491
Special Dividends	-	-	-	-	-	Others	134	232	232	232	232
EPS - Basic (HKD)	0.28	0.28	0.24	0.25	0.28	<b>Non-current liabilities</b>	<b>14,173</b>	<b>9,724</b>	<b>11,724</b>	<b>11,724</b>	<b>11,724</b>
Core EPS - Basic (HKD)	0.26	0.25	0.24	0.25	0.28						
DPS - basic (HKD)	0.08	0.08	0.08	0.08	0.09	Capital and reserves	8,368	9,194	9,738	10,318	10,947
BV per share	2.50	2.75	2.91	3.08	3.27	<b>Shareholders' equity</b>	<b>8,368</b>	<b>9,194</b>	<b>9,738</b>	<b>10,318</b>	<b>10,947</b>
						Non-controlling interests & Perp	6,443	7,073	7,461	7,856	8,264
						<b>Total equity</b>	<b>14,810</b>	<b>16,267</b>	<b>17,199</b>	<b>18,174</b>	<b>19,211</b>
						<b>Total Liabilities and Equity</b>	<b>47,253</b>	<b>48,961</b>	<b>51,158</b>	<b>52,326</b>	<b>54,146</b>
Cash Flow Statement, HKD mn	2018	2019	2020e	2021e	2021e	Key Ratios, HKD mn	2018	2019	2020e	2021e	2021e
Profit before income tax	3,463	2,260	1,903	1,982	2,128	GP Margins	36%	24%	24%	24%	24%
<b>Operating CF before Working Cap</b>	<b>3,347</b>	<b>2,260</b>	<b>1,903</b>	<b>1,982</b>	<b>2,128</b>	Net Margins	16%	12%	11%	11%	11%
PUD	(1,394)	1,064	(2,461)	(1,090)	(1,945)	Core Attri Net Margins	8%	7%	8%	8%	8%
Deposits & Prepayments	(348)	-	-	-	-	ROE	11%	9%	8%	8%	8%
Trade & Other Payables	2,805	(2,039)	-	-	-	ROA	2%	2%	2%	2%	2%
Increase in contract liabilities	(3,781)	(1,566)	(735)	193	783	Net Debt / Total Equity	76%	79%	88%	83%	79%
Others	(2,286)	(908)	(703)	(734)	(795)	Net Debt (Perp as Debt) / Shareholders' Equity	180%	181%	197%	187%	179%
<b>Net Operating Cashflows</b>	<b>(1,657)</b>	<b>(1,189)</b>	<b>(1,996)</b>	<b>351</b>	<b>171</b>	Total Assets / Total Equity	319%	301%	297%	288%	282%
<b>Net Investing Cashflows</b>	<b>87</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	Total Assets / Shareholders' Equity	565%	533%	525%	507%	495%
Bank & Other Borrowings	276	1,699	2,000	-	-	Asset Turnover (Contracted Sales)	12%	18%	18%	20%	22%
Others	(729)	(268)	(268)	(273)	(296)						
<b>Net Financing Cashflows</b>	<b>(453)</b>	<b>1,432</b>	<b>1,732</b>	<b>(273)</b>	<b>(296)</b>						
<b>Net Cash Flows</b>	<b>(2,024)</b>	<b>242</b>	<b>(264)</b>	<b>78</b>	<b>(125)</b>						

Source: Company Data, AMTD Research

# Dafa Properties Group Limited

## 2019 earnings missed, slower growth ahead, Downgrade to Hold

Dafa Properties has set a 15% contracted sales growth target for 2020E, where when take into account the decline in attributable stake will result in a flattish revenue and earnings growth outlook, in our view. We downgrade Dafa Properties to a Hold rating (from Buy), as we believe the stock is fairly valued at 6.3x 2020E P/E.

### 15% contracted sales growth driven by lower attributable stakes

Management has set a contracted sales target of RMB24bn, implying a 15% YoY growth. If we take into account the lower attributable stake, we expect a flattish revenue and earnings growth outlook. Following the weaker than expected 2019 results, we have lowered our 2020E-2021E net profit forecasts by 32-41%, respectively. The stock is trading at a 6.3x 2020E P/E, which is above industry average and thus we have downgrade our rating to Hold, with a revised target price of HK\$3.73/sh.

### 2019 Core Net Profit missed consensus estimate by 30%

Dafa reported a shareholders' net profit of RMB516m, up 8.1% YoY. If we exclude the fair value gains from Inv Prop, we calculate that the core net profit to be at ~RMB479m, up 11% YoY, but 22% and 30% below AMTD and Consensus estimates, respectively. This is mainly due to the lower than expected revenues recognized during the period, with 2019 revenues 17% below our estimate at RMB7,398m. GP Margins were slightly down to 22.9% (2018: 26.6%), in-line with industry trend.

### Lower financial leverage a major positive

Dafa's Net Debt to Equity has been lowered sharply to 78% (1H19: 132%), which we believe is a major positive to its financing cost and access to capital going forward. Refinancing risks and financing costs has been one of investors' key concerns on Dafa Properties in the past 6-9 months, in our view. We believe the improved balance sheet financial leverage, together with a more accommodative onshore credit environment should ease investor's concerns on the stock, in our view.

### Completed Property Held For Sale rose sharply due to Wuhu Project

We have noted that the completed properties held for sale on a Balance Sheet at end-2019 has risen to RMB2.86bn (2018: RMB1.09bn). This represents ~50% of 2019 COGS, rising sharply from the 2018 levels of ~25% of COGS. Within this Completed Properties Held for Sale, RMB1.2bn is attrib. to a project in Wuhu, which is 75% pre-sold already and was just not yet recognized as revenues due to technical reasons.

### Stock is fairly valued at 6.3x 2020E P/E

Following our earnings revisions, we believe the stock's fairly valued at 6.3x 2020E P/E. Our target price of HK\$3.73/sh is based on a target 2020E P/E of 5.5x (unchanged).

Stock code: 6111.HK

Rating: Hold

<b>Price target (HK\$)</b>	<b>3.73</b>
Previous target(HK\$):	6.98
Current price (HK\$, 23 Apr 2020)	4.26
Upside/downside %	-12%
Market cap (HK\$ m)	3,527
Market cap (US\$ m)	455
Avg daily turnover (US\$ m)	4.62

Source: Bloomberg, AMTD Research

### Key forecasts

(RMB m)	2019	2020e	2021e	2022e
Revenue	7,398	7,845	7,873	7,696
yoy %	24.4%	6.0%	0.4%	-2.2%
Gross Profit	1,697	1,765	1,771	1,732
yoy %	7.3%	4.0%	0.4%	-2.2%
Core NP	479	506	536	644
yoy %	10.8%	5.7%	5.9%	20.1%
Gross margin	22.9%	22.5%	22.5%	22.5%
Net gearing	77.8%	72.4%	76.3%	71.2%
EPS	0.58	0.61	0.65	0.78
DPS	0.14	0.15	0.16	0.19
BPS	4.13	4.59	5.08	5.66

Source: Company Data, AMTD Research

### Valuation

	2019	2020e	2021e	2022e
P/E	6.6	6.3	5.9	4.9
P/BV	0.9	0.8	0.8	0.7
Div. yield	3.8%	4.0%	4.2%	5.1%
ROE	14.0%	13.3%	12.7%	13.7%
ROA	1.7%	1.7%	1.6%	1.6%

Source: Bloomberg, AMTD Research

### Share price performance



Source: Bloomberg

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Figure 77: Dafa Properties Financial Forecasts and key ratios

PnL, RMB mn	2018	2019	2020e	2021e	2022e	Balance Sheet, RMB mn	2018	2019	2020e	2021e	2022e
Revenue	5,946	7,398	7,845	7,873	7,696	Investment Properties	2,582	2,799	2,799	2,799	2,799
COGS	(4,364)	(5,702)	(6,080)	(6,101)	(5,964)	Interest in JV/Asso	106	116	116	116	116
<b>Gross Profit</b>	<b>1,582</b>	<b>1,697</b>	<b>1,765</b>	<b>1,771</b>	<b>1,732</b>	PP&E and Others	421	2,296	2,296	2,296	2,296
						<b>Non-current assets</b>	<b>3,109</b>	<b>5,210</b>	<b>5,210</b>	<b>5,210</b>	<b>5,210</b>
Selling and marketing exp	(177)	(269)	(302)	(363)	(435)	PUD & Held for Sale	12,097	12,709	14,667	19,006	25,651
General and admin exp	(375)	(393)	(454)	(544)	(653)	Deposits and prepay ments	1,067	2,121	2,121	2,121	2,121
Share of results of JV & Asso	(4)	70	128	333	736	Cash & Cash Equivalents	1,487	2,812	3,623	3,011	2,926
Reval Gains from Inv Prop	61	57	-	-	-	Others	1,497	4,849	4,849	4,849	4,849
Others	35	39	4	4	4	<b>Current assets</b>	<b>16,149</b>	<b>22,491</b>	<b>25,260</b>	<b>28,987</b>	<b>35,547</b>
Finance costs	(133)	(250)	(314)	(327)	(344)	Contract Liabilities	6,986	7,063	8,137	10,968	16,115
<b>Profit before tax</b>	<b>989</b>	<b>951</b>	<b>827</b>	<b>874</b>	<b>1,040</b>	Bank and Other Borrowings	2,194	3,320	4,164	4,164	4,164
Income tax expense	(500)	(350)	(238)	(250)	(291)	Trade and Other Payables	2,288	4,134	4,523	4,929	5,753
<b>Net profit</b>	<b>489</b>	<b>601</b>	<b>589</b>	<b>624</b>	<b>750</b>	Others	695	1,334	1,334	1,334	1,334
Shareholders' Profit	477	516	506	536	644	<b>Current liabilities</b>	<b>12,164</b>	<b>15,852</b>	<b>18,158</b>	<b>21,395</b>	<b>27,366</b>
Minority Interest	13	85	83	88	106	Bank and Other Borrowings	3,451	3,622	3,622	3,622	3,622
<b>Shareholders' Core Net Profit</b>	<b>432</b>	<b>479</b>	<b>506</b>	<b>536</b>	<b>644</b>	Others	396	2,570	2,570	2,570	2,570
						<b>Non-current liabilities</b>	<b>3,847</b>	<b>6,192</b>	<b>6,192</b>	<b>6,192</b>	<b>6,192</b>
Dividends	120	56	126	134	161	Capital and reserves	3,083	3,423	3,802	4,204	4,687
Special Dividends	-	-	-	-	-	<b>Shareholders' equity</b>	<b>3,083</b>	<b>3,423</b>	<b>3,802</b>	<b>4,204</b>	<b>4,687</b>
EPS - Basic (RMB)	0.73	0.62	0.61	0.65	0.78	Non-controlling interests & Perp	163	2,235	2,318	2,406	2,512
Core EPS - Basic (RMB)	0.66	0.58	0.61	0.65	0.78	<b>Total equity</b>	<b>3,246</b>	<b>5,657</b>	<b>6,120</b>	<b>6,610</b>	<b>7,199</b>
DPS - basic (RMB)	0.14	0.14	0.15	0.16	0.19						
<b>BVPS</b>	<b>3.72</b>	<b>4.13</b>	<b>4.59</b>	<b>5.08</b>	<b>5.66</b>						
Cash Flow Statement, RMB mn	2018	2019	2020e	2021e	2022e	Key Ratios, RMB mn	2018	2019	2020e	2021e	2022e
Profit Before Tax	989	951	827	874	1,040	GP Margins	27%	23%	23%	23%	23%
<b>Operating CF before Working Cap</b>	<b>1,038</b>	<b>1,714</b>	<b>1,800</b>	<b>1,847</b>	<b>2,013</b>	Net Margins	8%	8%	8%	8%	10%
						Core Net Margins	7%	6%	6%	7%	8%
PUD	(2,457)	(612)	(1,958)	(4,339)	(6,645)	ROE	14%	14%	13%	13%	14%
Deposits & Prepay ments	70	-	-	-	-	ROA	2%	2%	2%	2%	2%
Trade & Other Payables	266	18	389	406	824	Net Debt / Total Equity	107%	78%	72%	76%	71%
Increase in contract liabilities	1,988	76	1,075	2,830	5,148	Net Debt / Shareholders' Equity	113%	129%	117%	120%	109%
Others	(476)	(1,113)	(1,211)	(1,223)	(1,264)	Total Assets / Total Equity	593%	490%	498%	517%	566%
<b>Net Operating Cashflows</b>	<b>429</b>	<b>83</b>	<b>94</b>	<b>(478)</b>	<b>76</b>	Total Assets / Shareholders' Equity	625%	809%	801%	813%	870%
						Asset Turnover (Contracted Sales)	65%	76%	83%	88%	89%
<b>Net Investing Cashflows</b>	<b>388</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>						
Bank & Other Borrowings	(831)	(1,478)	843	-	-						
Others	1,124	2,719	(126)	(134)	(161)						
<b>Net Financing Cashflows</b>	<b>293</b>	<b>1,241</b>	<b>717</b>	<b>(134)</b>	<b>(161)</b>						
<b>Net Cash Flows</b>	<b>1,110</b>	<b>1,324</b>	<b>811</b>	<b>(612)</b>	<b>(85)</b>						

Source: Company Data, AMTD Research



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<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
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