

Powerlong Real Estate Holdings Limited

Strong 1H20 results sets the stage for a share price rally, Reiterate Buy

Powerlong reported a strong set of 1H20 results, with core net profit growing 44% YoY. They are on track to deliver a 45% 2020E earnings growth and 10.3% div yield. We believe the 1H20 results will ease investors' concerns on its commercial properties amid COVID-19, and will drive the share price higher. We reiterate our Buy rating, with a HK\$6.50/sh target price.

On track to deliver a 45% 2020E earnings growth and 10.3% div yield

Powerlong's discounted valuations (4.9x 2020E P/E) compared to peers (sector: 5.5x 2020E P/E) reflects investors' concerns with COVID-19 impact on commercial real estate, in our view. We believe Powerlong's better than expected 1H20 rental income (53% of our full year estimate achieved) should alleviate such concerns. The stock is on track to deliver an attractive 10.3% 2020E dividend yield on current valuations, with a HK\$0.12/sh interim DPS declared. We believe the stock should trade closer to commercial property peers such as CR Land (9.1x 2020E P/E) and Longfor (11.1x), due to their better earnings quality (recurring rental income). Our Target Price of HK\$6.50/sh is based on a 6.0x target P/E and offers 23% upside.

Strong 1H20 results, core net profit grew 44% YoY, solid balance sheet

Powerlong announced a strong set of 1H20 results, with core net profit growing 44% YoY to RMB1.8bn. This represents 46% of our full year estimate, slightly ahead of our expectations. A HK\$0.12/sh interim DPS was declared. GP Margins have maintained at high levels of 37%, which is above industry average, while core net margins came in at 10.5%. Balance sheet was also strong with net debt to equity lowered slightly to 79.9% (2H19: 81.2%), while total assets to equity remained stable at 4.2x.

Contracted Sales on track, Commercial Prop edge underpins GP Margins

Powerlong has achieved a YTD July contracted sales run-rate of 52% and are on track to meet their 25% contracted sales growth target, in our view. Moreover, we reiterate our view that Powerlong's commercial property expertise will offer them competitive edge in land acquisition opportunities. This will not only result in higher than industry average profit margins (1H20 GPM: 37%), but also better sell-through rates due to the highly quality project locations (e.g. connectivity to metro stations).

13 new malls set for 2H20, footfall recovered 90% in existing malls

The foot traffic and economic activity (revenue) at Powerlong's shopping malls has now recovered back to 90% of normalized levels, following the challenges posed by COVID-19. The developer targets to complete and open 13 malls during 2H20. With M2 growth at 10.7% YoY in July, we believe the relatively loose monetary environment will continue to be favourable for Powerlong to refinance such construction loans to lower cost and longer dated onshore bank borrowings. Powerlong has also added commercial property expert Mr. Chen Deli to their senior management team, which we believe will be a key addition to further improve the company's execution capabilities.

Valuations attractive a 4.9x 2020E P/E, 10.3% 2020E div yield

We believe the stock's valuation is attractive at 4.9x 2020E P/E, and it should be trading at a premium to the sector average instead to reflect the higher recurring income compared to pure real estate developers in the sector (5.5x 2020E P/E). Our Target Price of HK\$6.50/sh is based on a 6.0x target P/E and offers 23% upside.

Stock code: 1238.HK
Rating: BUY

Price target (HK\$)	6.50
Current price (HK\$, 18 Aug 2020)	5.27
Upside/downside %	23%
Market cap (HK\$ m)	21,830
Market cap (US\$ m)	2,817
Avg daily turnover (US\$ m)	2.36

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	7.1	4.9	3.9	2.9
P/BV	0.6	0.6	0.5	0.5
Div. yield	7.8%	10.3%	12.7%	17.2%
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 1: Powerlong's 1H20 Results Summary

1HFY20 Results (RMB '000)	1HFY20A	FY20E	1H20/20E	1HFY19A	YoY/Chg
Sales of properties	15,343,046	33,037,213	46%	10,497,829	46%
Rental income of investment properties	748,885	1,419,940	53%	634,809	18%
Income of property management services	783,965	1,392,768	56%	756,399	4%
Income of other property development related services	294,073	901,552	33%	362,457	-19%
Total Revenue	17,169,969	36,751,472	47%	12,251,494	40%
Cost of Goods Sold	(10,807,043)	(24,255,972)	45%	(7,498,963)	44%
Gross Profit	6,362,926	12,495,501	51%	4,752,531	34%
Fair value gains on investment properties – net	1,205,186	-	N/A	813,068	48%
Selling and marketing costs	(445,561)	(1,389,347)	32%	(427,237)	4%
Administrative expenses	(703,085)	(2,031,770)	35%	(631,809)	11%
Other income and gains – net	215,965	1,308,389	17%	165,192	31%
Operating profit	6,635,431	10,382,772	64%	4,671,745	42%
Share of profit of investments accounted for using the equity method	371,683	563,669	66%	256,250	45%
Finance costs	(992,159)	(640,854)	155%	(627,209)	58%
Profit before Tax	6,014,955	10,305,586	58%	4,300,786	40%
Income tax expense	(2,520,170)	(4,639,574)	54%	(1,852,661)	36%
Net Profit	3,494,785	5,666,013	62%	2,448,125	43%
Owners of the Company	2,219,545	3,896,653	57%	1,803,118	23%
Holders of Perpetual Capital Instruments	30,323	69,556	44%	25,562	19%
Non-controlling interests	1,244,917	1,699,804	73%	619,445	101%
Core Attributable Net Profit	1,797,000	3,896,653	46%	1,245,000	44%
Key Ratios					
GP Margins	37.1%	34.0%		38.8%	-1.7%
Core Net Margins	10.5%	10.6%		10.2%	0.3%
	1HFY20A	FY20E		FY19A	YoY/Chg
Net Debt to Equity	79.9%	87.6%		81.2%	-1.3%
Total Assets to Total Equity	4.2x	4.2x		4.2x	0.0x

Source: Company data, AMTD Research
E=AMTD Research Estimates

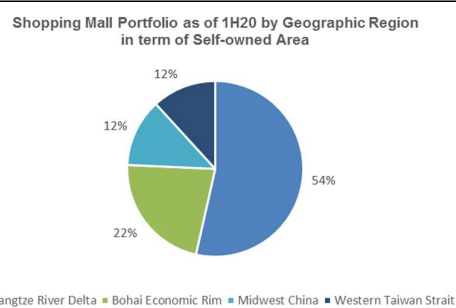
Pipeline of Commercial Properties

Figure 2: As of 1H20, the company's shopping mall portfolio totals 3.2m sqm



Source: Company Data, AMTD Research

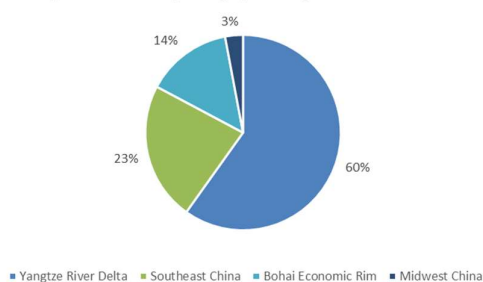
Figure 3: As of 1H20, 54% of shopping malls are located in YRD



Source: Company Data, AMTD Research

Figure 4: 60% of new malls to be opened in 2H20 are mainly focused in Yangtze River Delta

Pipeline in 2H20 by Geographic Region in term of GFA

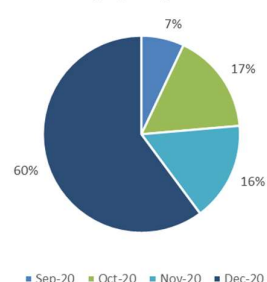


Source: Company Data, AMTD Research

Notes: excluding malls from independent third parties

Figure 5: 60% of 2H20 new commercial properties pipeline are targeted for Dec 2020 completion

Pipeline in 2H20 by Opening Date in term of GFA



Source: Company Data, AMTD Research

Notes: excluding malls from independent third parties

Valuation

Figure 6: China Property Developers: Peers Valuation comparison

Date	18/8/2020	Share Price	Mkt cap	P/E			P/B			Div. yield
Ticker	Name(EN)	(HK\$)	(USD mn)	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19
China Property Developers										
2202 HK	Vanke	26.05	45,283	6.9x	6.2x	5.6x	1.4x	1.2x	1.1x	4.6%
688 HK	COLI	23.40	33,079	5.6x	6.0x	5.2x	0.8x	0.8x	0.7x	4.5%
3333 HK	Evergrande	19.52	32,896	13.6x	7.4x	6.1x	1.6x	1.4x	1.2x	3.8%
1109 HK	CR Land	34.85	32,065	7.7x	9.1x	7.9x	1.3x	1.2x	1.1x	3.5%
960 HK	Longfor	39.25	30,378	13.5x	11.1x	9.3x	2.3x	2.0x	1.7x	3.5%
2007 HK	Country Garden	10.28	29,228	5.1x	4.4x	3.9x	1.3x	1.1x	0.9x	6.3%
1918 HK	Sunac	36.05	21,681	6.9x	4.9x	4.0x	1.8x	1.4x	1.1x	3.9%
813 HK	Shimao	33.25	15,177	9.1x	8.1x	6.8x	1.5x	1.3x	1.2x	4.9%
3380 HK	Logan	14.36	10,227	7.2x	5.9x	4.9x	2.3x	1.7x	1.4x	6.6%
884 HK	CIFI	6.83	7,243	8.7x	5.9x	4.9x	1.6x	1.4x	1.1x	5.1%
1813 HK	KWG	14.98	6,143	4.8x	6.7x	5.5x	1.2x	1.1x	0.9x	5.6%
3383 HK	Agile	10.20	5,155	5.3x	4.5x	4.0x	0.8x	0.7x	0.7x	10.2%
2777 HK	R&F	9.43	4,253	2.9x	2.9x	2.4x	0.4x	0.4x	0.3x	15.4%
3883 HK	Aoyuan*	10.22	3,564	6.1x	3.9x	3.5x	1.7x	1.3x	1.1x	6.0%
1233 HK	Times	13.30	3,332	4.2x	3.7x	3.1x	1.2x	1.0x	0.8x	7.2%
1638 HK	Kaisa	3.95	3,116	8.5x	4.1x	3.3x	0.9x	0.6x	0.5x	2.9%
3900 HK	Greentown	9.48	3,051	8.1x	7.7x	7.1x	0.7x	0.7x	0.6x	3.6%
123 HK	Yuexiu	1.49	2,977	5.6x	5.0x	4.3x	0.5x	0.5x	0.4x	6.9%
6158 HK	Zhenro	5.02	2,829	7.8x	6.4x	5.1x	1.2x	1.1x	0.9x	2.3%
1238 HK	Powerlong*	5.27	2,817	7.1x	4.9x	3.9x	0.6x	0.6x	0.5x	7.8%
1628 HK	Yuzhou*	3.82	2,732	5.0x	4.9x	3.4x	0.8x	0.7x	0.6x	10.8%
2772 HK	Zhongliang	5.48	2,533	4.2x	3.7x	3.0x	2.0x	1.4x	1.0x	18.1%
1966 HK	China SCE	3.89	2,109	4.8x	4.3x	3.4x	0.8x	0.7x	0.6x	6.2%
95 HK	Lvgem*	2.57	1,689	9.4x	7.0x	6.8x	0.9x	0.8x	0.7x	2.4%
3301 HK	Ronshine	7.02	1,542	3.4x	2.8x	2.4x	0.7x	0.6x	0.5x	5.2%
832 HK	CCRE*	3.78	1,369	4.8x	3.8x	2.7x	1.0x	0.9x	0.7x	12.5%
272 HK	Shui On Land	1.19	1,238	5.4x	NA	NA	0.2x	0.2x	NA	10.4%
119 HK	Poly Prop	2.57	1,214	2.8x	3.2x	2.7x	0.3x	0.3x	0.3x	8.1%
1996 HK	Redsun*	2.79	1,195	6.8x	4.8x	4.1x	0.6x	0.6x	0.5x	4.4%
2019 HK	Dexin China	3.10	1,081	4.7x	4.3x	3.6x	1.5x	NA	NA	2.9%
1098 HK	Roadking	10.60	1,025	2.7x	NA	NA	0.4x	NA	NA	11.1%
6111 HK	Dafa*	5.00	534	7.9x	7.4x	7.0x	1.1x	1.0x	0.9x	3.2%
230 HK	Minmetals*	0.96	415	3.9x	4.9x	3.5x	0.3x	0.3x	0.3x	8.3%
Total/Average			313,168	6.4x	5.5x	4.6x	1.1x	0.9x	0.8x	6.6%

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

Note: As of 18th Aug 2020

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

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