

Redsun Properties Group Limited

A Year of Harvest, Maintain Buy

We believe 2020E is a year of harvest for Redsun. The developer is on track to beat its 15% contracted sales growth target, while net profit is set for a 40% growth as a reflection of the strong 2018-2019 contracted sales achieved. We raise our Target Price by 17% to HK\$3.78/sh and maintain our Buy rating.

Trading at 4.6x 2020E P/E on a 40% 2020E earnings growth

Redsun is on track to achieve a 40% 2020E earnings growth and may have a potential positive surprise in annual contracted sales (15% YoY growth target to RMB75bn) this year, in our view. YTD July, Redsun has recorded contracted sales of RMB40.8bn with a run rate of 54.4%, outpacing the industry average of 48.8%. 2H20E and 1H21E earnings have been largely secured by unrecognized revenue with RMB23.6bn contract liabilities (236% of 2H20E revenue) on its balance sheet. The developer has RMB87.8bn sellable resources available for 2H20 and they would beat their sales target if they achieve a 50% 2H20 sell-through rate. We maintain our Buy rating.

We raise our Target Price by 17% to HK\$3.78/sh, offering 40% upside

The stock is trading at 4.6x 2020E P/E (vs. industry average 5.5x P/E) and a 3.9x 2021E P/E, which we believe is undervalued. Redsun may potentially beat its 15% contracted sales growth and are on track to deliver a 40% net profit growth in 2020E. We raise our Target Price to HK\$3.78/sh as we roll forward our unchanged 5.5x target P/E multiple to 2021E.

1H20 results in line, 38% of our full year estimates locked-in

Redsun delivered a set of solid 1H20 results, in line with our expectations. The developer achieved RMB657mn attrib. core net profit in 1H20, growing 30.7% YoY, locking-in 38% of our full year estimates. 1H20 Gross margin remained steady at 25.3% (2019: 25.1%), slightly better than our estimates of 24.0% for 2020E. Coupled with high visibility of 2H20 earnings, we believe the developer is on track to achieve a 40% earnings growth this year.

Solid balance sheet with Net Debt to Equity ratio down to 68.7%

Net gearing ratio also declined slightly to 68.7% from 70.4% as of end-2019, as a reflection of the solid contracted sales and cash collection achieved during 1H20. PUD and completed properties remained stable, demonstrating orderly development and healthy sell-through rates. As of 1H20, Redsun had a total RMB32bn of interest-bearing borrowings, of which the percentage of short-term borrowings was down to 36.8% (2H19: 42.0%) and cash to ST borrowings ratio increased to 1.5x (2H19: 1.4x). Benefiting from penetration in the Greater Jiangsu Region and prudent geographic expansion, we believe Redsun would achieve a continual steady growth.

Share of Profits from JV & Asso projects slightly weaker than expected

During Redsun's contracted sales growth phase during 2018-2019, JV and associate projects have been taking the lead to underpin their growth in scale. However, 1H20 share of profits from JV and associates totaled only RMB233mn, amid the gross recognized revenue of RMB12bn from JV and associate projects. If we assume a ~30% attributable stake for this RMB12bn revenues, the Profit Before Tax margins would be at 6.4%, slightly below our expectations. We believe the earnings contributions from JV & Asso projects will continue be driven by a high top-line revenue growth.

Stock code: 1996.HK

Rating: Buy

Price target (HK\$)	3.78
Current price (HK\$, 26 Aug 2020)	2.70
Upside/downside %	40%
Market cap (HK\$ m)	8,966
Market cap (US\$ m)	1,157
Avg daily turnover (US\$ m)	1.77

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 Net Profit	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	6.5	4.6	3.9	3.3
P/BV	0.6	0.5	0.5	0.4
Div. yield	4.6%	5.5%	6.5%	7.7%
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

Jacky Chan
Analyst

+852 3163 3323

jacky.chan@amtdgroup.com

Karen Huang
Associate

+852 3163 3376

karen.huang@amtdgroup.com

Figure 1: Redsun 1H20 Financial Results Summary

1HFY20 Results (RMB '000)	1HFY20A	FY20E	1H20/20E	1HFY19A	YoY/Chg
Sale of properties	9,398,208	19,378,783	48%	3,703,189	154%
Commercial operations	212,839	493,642	43%	186,413	14%
Hotel operations	12,765	47,708	27%	17,899	-29%
Total Revenue	9,623,812	19,920,133	48%	3,907,501	146%
Cost of sales	(7,189,382)	(15,139,301)	47%	(2,775,162)	159%
Gross Profit	2,434,430	4,780,832	51%	1,132,339	115%
Other income and gains	179,188	434,944	41%	243,959	-27%
Selling and distribution expenses	(319,716)	(749,779)	43%	(263,333)	21%
Administrative expenses	(543,059)	(1,253,168)	43%	(361,312)	50%
Other expenses	(50,488)	(48,009)	105%	(20,379)	148%
Fair value gains/(losses) on investment propertie	57,302	-	N/A	284,576	-80%
Share of profits and losses of:			N/A		N/A
Joint ventures	(26,237)	298,802	-9%	20,318	-229%
Associates	259,141	796,805	33%	190,861	36%
Finance costs	(425,186)	(623,864)	68%	(183,826)	131%
Profit before tax	1,565,375	3,636,563	43%	1,043,203	50%
Income tax expense	(670,307)	(1,650,875)	41%	(318,670)	110%
Net profit	895,068	1,985,687	45%	724,533	24%
Ow ners of the Company	677,418	1,747,405	39%	743,053	-9%
Non-controlling interests	217,650	238,282	91%	(18,520)	-1275%
Core attributable NP	656,600	1,747,405	38%	502,300	31%
Key Ratios					
GP Margins	25.3%	24.0%		29.0%	-3.7ppt
Core Net Margins	6.8%	8.8%		12.9%	-6.0ppt
	1HFY20A	FY20E		FY19A	YoY/Chg
Net Debt to Equity	68.7%	80.7%		70.4%	-1.7ppt
Total Assets to Total Equity	5.0x	5.7x		5.3x	-0.2x

Source: Company data, E=AMTD Equity Research Estimates

Figure 2: China Property Developers: Peers Valuation comparison

Date	26/8/2020	Share Price	Mkt cap	P/E			P/B			Div. yield
				FY19	FY20E	FY21E	FY19	FY20E	FY21E	
Ticker	Name(EN)	(HK\$)	(USD mn)							FY19
China Property Developers										
2202 HK	Vanke	25.40	44,417	6.8x	6.0x	5.4x	1.4x	1.2x	1.0x	4.7%
1109 HK	CR Land	36.45	33,538	8.1x	9.5x	8.3x	1.4x	1.2x	1.1x	3.3%
688 HK	COLI	23.20	32,796	5.6x	6.0x	5.2x	0.8x	0.8x	0.7x	4.5%
960 HK	Longfor	40.45	31,307	13.9x	11.5x	9.7x	2.3x	2.1x	1.8x	3.4%
3333 HK	Evergrande	18.54	31,244	13.0x	6.9x	5.8x	1.5x	1.3x	1.2x	4.0%
2007 HK	Country Garden	10.02	28,489	4.9x	4.6x	4.0x	1.3x	1.1x	0.9x	6.5%
1918 HK	Sunac	34.30	20,629	6.6x	4.7x	3.8x	1.7x	1.3x	1.0x	4.1%
813 HK	Shimao	37.50	17,117	10.3x	9.2x	7.6x	1.7x	1.5x	1.3x	4.4%
3380 HK	Logan	14.98	10,668	7.5x	6.0x	5.0x	2.4x	1.8x	1.5x	6.3%
884 HK	CIFI	6.75	7,158	8.6x	5.9x	4.9x	1.6x	1.3x	1.1x	5.2%
1813 HK	KWG	15.22	6,241	4.8x	6.8x	5.5x	1.2x	1.1x	0.9x	5.5%
1030 HK	Seazen	7.27	5,825	5.8x	4.8x	4.1x	1.6x	1.2x	1.0x	4.8%
3383 HK	Agile	11.10	5,610	5.8x	4.7x	4.4x	0.9x	0.7x	0.7x	9.4%
2777 HK	R&F	10.00	4,510	3.0x	3.1x	2.8x	0.4x	0.4x	0.3x	14.5%
3883 HK	Aoyuan*	9.32	3,250	5.5x	3.6x	3.2x	1.5x	1.2x	1.0x	6.6%
3990 HK	Midea RE	19.72	3,131	5.4x	4.2x	3.4x	1.1x	0.9x	0.8x	9.2%
1238 HK	Powerlong*	5.82	3,111	8.0x	5.4x	4.4x	0.7x	0.6x	0.6x	7.0%
1638 HK	Kaisa	3.94	3,109	8.5x	4.1x	3.3x	0.8x	0.7x	0.6x	2.9%
123 HK	Yuexiu	1.55	3,096	5.8x	5.3x	4.5x	0.5x	0.5x	0.5x	6.7%
1233 HK	Times	12.06	3,022	3.8x	3.5x	3.0x	1.1x	0.9x	0.7x	7.9%
3900 HK	Greentown	9.39	3,022	8.0x	6.9x	6.5x	0.7x	0.7x	0.6x	3.6%
6158 HK	Zhenro	4.72	2,660	7.4x	6.2x	4.9x	1.1x	1.0x	0.9x	2.4%
1628 HK	Yuzhou*	3.65	2,610	4.8x	4.6x	3.2x	0.8x	0.7x	0.6x	11.3%
2772 HK	Zhongliang	5.15	2,380	4.0x	3.6x	3.0x	1.9x	1.3x	1.0x	19.2%
1966 HK	China SCE	4.15	2,250	5.2x	4.6x	3.7x	0.9x	0.8x	0.7x	5.8%
95 HK	Lvgem*	3.01	1,978	11.0x	8.2x	7.9x	1.1x	1.0x	0.9x	2.0%
3301 HK	Ronshine	7.15	1,571	3.5x	2.9x	2.4x	0.7x	0.6x	0.5x	5.1%
832 HK	CCRE*	3.58	1,297	4.5x	3.5x	2.5x	0.9x	0.8x	0.7x	13.2%
119 HK	Poly Prop	2.50	1,181	2.7x	3.1x	2.6x	0.3x	0.3x	0.2x	8.4%
272 HK	Shui On Land	1.13	1,175	5.1x	NA	NA	0.2x	0.2x	NA	11.0%
1996 HK	Redsun*	2.70	1,157	6.5x	4.6x	3.9x	0.6x	0.5x	0.5x	4.6%
2019 HK	Dexin China	3.06	1,067	4.6x	4.3x	3.5x	1.5x	NA	NA	3.0%
1098 HK	Roadking	10.42	1,007	2.7x	NA	NA	0.4x	NA	NA	11.3%
6111 HK	Dafa*	5.32	568	8.4x	7.9x	7.5x	1.2x	1.1x	1.0x	3.0%
230 HK	Minmetals*	0.96	415	3.9x	4.9x	3.5x	0.3x	0.3x	0.3x	8.3%
Total/Average			322,605	6.4x	5.5x	4.6x	1.1x	0.9x	0.8x	6.7%

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

Note: As of 26 Aug 2020

IMPORTANT DISCLOSURES

AMTD Investment Ratings

Stock Rating

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

Analyst Certification

We, Jacky Chan and Karen Huang, hereby certify that (i) all of the views expressed in this research report reflect accurately our personal views about the subject company or companies and its or their securities; and (ii) no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed by us in this research report, nor is it tied to any specific investment banking transactions performed by AMTD Global Markets Limited.

Firm Disclosure

AMTD Global Markets Limited has an investment banking relationship with Redsun Properties Group Limited and/or their affiliate(s) within the past 12 months.

AMTD Global Markets Limited

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

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

GENERAL DISCLOSURES

The research report is prepared by AMTD Global Markets Limited ("AMTD") and is distributed to its selected clients.

This research report provides general information only and is not to be construed as an offer to sell or a solicitation of an offer to buy any security in any jurisdiction where such offer or solicitation would be illegal. It does not (i) constitute a personal advice or recommendation, including but not limited to accounting, legal or tax advice, or investment recommendations; or (ii) take into account any specific clients' particular needs, investment objectives and financial situation. AMTD does not act as an adviser and it accepts no fiduciary responsibility or liability for any financial or other consequences. This research report should not be taken in substitution for judgment to be exercised by clients. Clients should consider if any information, advice or recommendation in this research report is suitable for their particular circumstances and seek legal or professional advice, if appropriate.

This research report is based on information from sources that we considered reliable. We do not warrant its completeness or accuracy except with respect to any disclosures relative to AMTD and/or its affiliates. The value or price of investments referred to in this research report and the return from them may fluctuate. Past performance is not reliable indicator to future performance. Future returns are not guaranteed and a loss of original capital may occur.

The facts, estimates, opinions, forecasts and any other information contained in the research report are as of the date hereof and are subject to change without prior notification. AMTD has no obligation to update, modify or amend any part of this research report or to otherwise notify a recipient thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate, or if research on the subject company is withdrawn. AMTD, its group companies, or any of its or their directors or employees ("AMTD Group") do not represent or warrant, expressly or impliedly, that the information contained in the research report is correct, accurate or complete and it should not be relied upon. AMTD Group will accept no responsibilities or liabilities whatsoever for any use of or reliance upon the research report and its contents.

This research report may contain information from third parties, such as credit ratings from credit ratings agencies. The reproduction and redistribution of the third party content in any form by any means is forbidden except with prior written consent from the relevant third party. Third party content providers do not guarantee the timeliness, completeness, accuracy or availability of any information. They are not responsible for any errors or omissions, regardless of the cause, or for the results obtained from the use of such content. Third party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability of fitness for a particular purpose or use. Third party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their content. Credit ratings are statements of opinions and are not statements of fact or recommendations to purchase, hold or sell securities. They do not address the suitability of securities for investment purposes, and should not be relied on as investment advice.

To the extent allowed by relevant and applicable law and/or regulation: (i) AMTD, and/or its directors and employees may deal as principal or agent, or buy or sell, or have long or short positions in, the securities or other instruments based thereon, of issuers or securities mentioned herein; (ii) AMTD may take part or make investment in financing transactions with, or provide other services to or solicit business from issuer(s) of the securities mentioned in the research report; (iii) AMTD may make a market in the securities in respect of the issuer mentioned in the research report; (iv) AMTD may have served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this research report or may be providing, or have provided within the previous 12 months, other investment banking services, or investment services in relation to the investment concerned or a related investment.

AMTD controls information flow and manages conflicts of interest through its compliance policies and procedures (such as, Chinese Wall maintenance and staff dealing monitoring).

The research report is strictly confidential to the recipient. No part of this research report may be reproduced or redistributed in any form by any means to any other person without the prior written consent of AMTD Global Markets Limited.