

Powerlong Real Estate Holdings Limited

Solid All Round Execution, Reiterate Buy

Powerlong reported a solid set of results with a deleveraged balance sheet and stable profit margins, while contracted sales growth is still targeted to maintain at 29% for 2021E. We believe Powerlong's solid 2020 results will drive its stock to outperform peers during this March 2021 results season. We raise our target price by ~24% to HK\$8.05/sh as we roll forward our 6.0x target P/E Multiple to 2021E. Reiterate Buy.

2021E Contracted Sales target to rise another 29%, stable profitability

We reiterate our view that Powerlong's commercial property business complements its residential business to drive profit margins and sell-through rates and therefore earnings growth. We believe the stock will thus outperform pure residential developers. The company has announced a 2021E contracted sales target of RMB105bn, marking a strong YoY growth of another 29%, while we estimate GP Margins to remain stable at ~34%. The developers' 2020 earnings was in-line with our estimate without major surprises. Reiterate Buy.

Core net profit grew 34% YoY while balance sheet deleveraged

Powerlong announced a solid set of 2020 results, with core net profit growing 34% YoY to RMB3,596m. This is largely in-line with our estimate. A HK\$0.33/sh final DPS was declared, bringing the full year DPS to HK\$0.45/sh, implying a 7.1% 2020A div yield. GP Margins have maintained at high levels of 36%, which is above industry average, while core net margins came in at 10.1%. Balance sheet was also strong with net debt to equity further lowered to 73.9% (1H20: 79.9%), while total assets to equity was also lowered to 3.8x. Our concern lies with the lack of growth in Contract Liabilities, which we believe is attributable to rise in JV projects.

Balance sheet met all Three Red-Lines of Regulation Target

Powerlong's 2020 balance sheet has met the requirements of the 3-red lines regulatory target, with Debt-to-Asset (excl. contract liabilities) at 69.9%, Net Gearing at 73.9% and Cash to Short Term Debt at 122.6%. We believe this will loosen up the developers' access to onshore capital to fund the growth of its contracted sales in the next few months. We believe that this is a key driver to Powerlong's business model as such access is fundamental towards the developer's ability to recycle the capex invested into its shopping malls.

Single Store footfall and average turnover recovered to pre-COVID levels

Powerlong's commercial properties, which have been one of investors' major concerns back in 1H20, have now recovered back to pre-COVID levels both in terms of footfall and average turnover. By 4Q20, the average turnover in Powerlong's shopping mall have recovered back to a positive YoY growth, with Dec 2020 growing by ~5% YoY. The developer plans to open 22 new shopping malls in 2021, with most of the project openings concentrated during Sep-Dec 2021. Revenue from commercial operations grew by 15% YoY in 2020, and we expect it to grow another ~20% YoY in 2021.

Valuations remain attractive considering earnings growth profile

We believe the stock's valuation is attractive at 4.7x 2021E P/E, considering its ~34% YoY core net profit growth. We believe it should be trading at a premium to the sector average instead to reflect the higher recurring income compared to pure residential developers in the sector. We have raised our target price by ~24% to HK\$8.05/sh, as we roll forward our 6.0x target P/E Multiple to 2021E.

Stock code: 1238.HK

Rating: BUY

Price target (HK\$)	8.05
Previous price target (HK\$)	6.50
Current price (HK\$, 2 Mar 2021)	6.30
Upside/downside %	28%
Market cap (HK\$ m)	25,174
Market cap (US\$ m)	3,248
Avg daily turnover (US\$ m)	6.84

Source: Bloomberg, AMTD Research

Key forecasts

(RMBm)	2019	2020	2021e	2022e
Revenue	26,042	35,495	40,367	53,827
yoy %	32.9%	36.3%	13.7%	33.3%
Gross Profit	9,483	12,816	13,725	18,301
yoy %	25.6%	35.1%	7.1%	33.3%
Core NP	2,680	3,596	4,824	6,505
yoy %	44.3%	34.2%	34.2%	34.8%
Gross margin	36.4%	36.1%	34.0%	34.0%
Net gearing	81.2%	73.9%	74.6%	67.7%
Core EPS	0.67	0.87	1.21	1.63
DPS	0.37	0.41	0.60	0.81
BPS	7.91	8.74	9.06	9.87

Source: Company data, AMTD Research

Valuation

	2019	2020	2021e	2022e
P/E	8.5	6.5	4.7	3.5
P/BV	0.7	0.6	0.6	0.6
Div. yield	6.5%	7.1%	10.6%	14.4%
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 1: Powerlong's 2020 Results Summary

FY20 Results (RMB '000)	FY20A	FY20E	20A/20E	FY19A	YoY/Chg
Sales of properties	31,485,863	33,037,213	95%	22,477,631	40%
Rental income of investment properties	1,561,769	1,419,940	110%	1,419,940	10%
Income of property management services	1,674,459	1,392,768	120%	1,392,768	20%
Income of other property development related services	773,209	901,552	86%	751,293	3%
Total Revenue	35,495,300	36,751,472	97%	26,041,632	36%
Cost of Goods Sold	(22,679,514)	(24,255,972)	94%	(16,558,591)	37%
Gross Profit	12,815,786	12,495,501	103%	9,483,041	35%
Fair value gains on investment properties – net	2,095,764	-	N/A	2,394,403	-12%
Selling and marketing costs	(1,096,220)	(1,389,347)	79%	(984,474)	11%
Administrative expenses	(1,545,590)	(2,031,770)	76%	(1,411,133)	10%
Other income and gains – net	34,224	1,308,389	3%	898,554	-96%
Operating profit	12,303,964	10,382,772	119%	10,380,391	19%
Share of profit of investments accounted for using the equity method	666,990	563,669	118%	375,755	78%
Finance costs	312,433	(640,854)	-49%	(899,775)	-135%
Profit before Tax	13,283,387	10,305,586	129%	9,856,371	35%
Income tax expense	(4,468,037)	(4,639,574)	96%	(3,838,474)	16%
Net Profit	8,815,350	5,666,013	156%	6,017,897	46%
Owners of the Company	6,093,216	3,896,653	156%	4,041,116	51%
Holders of Perpetual Capital Instruments	50,979	69,556	73%	69,556	-27%
Non-controlling interests	2,671,155	1,699,804	157%	1,907,225	40%
Core Attributable Net Profit	3,596,000	3,896,653	92%	2,679,583	34%
Key Ratios					
GP Margins	36.1%	34.0%		36.4%	-0.3%
Core Net Margins	10.1%	10.6%		10.3%	-0.2%
	FY20A	FY20E		FY19A	YoY/Chg
Net Debt to Equity	73.9%	87.6%		81.2%	-7.3%
Total Assets to Total Equity	3.8x	4.2x		4.2x	-0.4x

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

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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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