

Country Garden

Sales momentum in lower tier cities continues

Strong sales momentum remains in 1Q18,

Country Garden's sales momentum remains strong in 1Q18. The company has achieved RMB 188 bn of contracted sales in 1Q18, up 25% YoY. Country Garden is still ranking No.1 in terms of contracted sales and contracted GFA, according to CRIC. We expect Country Garden will maintain its strong sales momentum in 1H18, as sufficient saleable resource, mortgage quota and higher home price in lower tier cities comparing with that of last year. However, the company hasn't announced its sales target for 2018. 78% YoY growth of sales in 2017 should be hard to exceed in 2018.

Core net profit surged 123% in 2017; beat our estimates

Topline increased by 48.2% YoY, thanks to the adoption of HKFRS 15, contributing 15% of total revenues. GPM surged from 21.1% in 2016 to 25.9% in 2017. SG&A to contracted sales declined from 4% in 2016 to 3.3% in 2017. Attr. net profit margin surged from 5.8% in 2016 to 8.8% in 2017 while core net profit increased by 123.4% YoY, which beat our estimation by 21%.

Lower tier city strategy to benefit from continued urbanization

The company will keep focusing in lower tier cities with high turnover rate. Satellite cities of 1st tier cities and core locations of 3rd tier cities will be main targets. Besides, the company will accelerate its construction pace by standardize module building method and arranging all designation before land acquisition. In 2018, the company is targeting to complete construction in 12 months, which will accelerate its booking pace as well.

212 mn sq.m of land reserve for future development

Abundant land reserve of Country Garden supports sale growth in future. As of Dec 2017, the company has 212 mn sq.m of land reserve, 28% of which are in Guangdong, 13% in Jiangsu and 9 % in Anhui. In 2017, Country Garden had acquired 14.1 mn sq.m of land reverse in 2017. In terms of GFA, 69%/28% located in 3rd and 2nd tier cities. However, total attr. land consideration in 2017 amounts RMB 327.1 bn, which is about 60% of its 2017 contracted sales.

We expect GPM to be above 20% in next 3 years

We believe the company will deliver over 20% GPM in 2018, as home price surged in 2017 and reducing construction cost by module building method for standard high-rise products. We believe GPM will be 24.3%/24.1%/22.9% in 2018/2019/2020, respectively.

Revise up price target to HK\$17.20, 3% upside, 'HOLD'

We believe Country Garden's penetration in lower tier cities will keep contributing high turnover, while shanty housing redevelopment is still ongoing (5.8 mn units to redevelopment in 2018). And surged home price in lower tier cities also protect the company's margin. However, we believe the home prices in lower tier cities have limited upside potential in the coming two years and this will bring uncertainty to the company's margin from a longer-term perspective. In terms of valuation, we believe the company valuation is high, trading at 9.1x 18 core PE (vs. peers average of 7.4 x 18PE) and 2.2x 18 PB. Therefore, we maintain its rating 'HOLD' and revise up target price to HK\$17.20, due to new acquisitions are added to updated NAV. Our price target implies 50% discount to Dec-18 NAV, 9.4x 2018e core PE and 6.6x 2019e core PE. The stock is trading at 52% discount to Dec-18 NAV, 9.1x 2018e core PE and 2.2x 2018e PB.

Stock code: 2007.HK

Rating: HOLD

Price target (HK\$)	17.20
Previous target(HK\$):	11.20
Current price (HK\$, 12 Apr 2018)	16.70
Upside/downside %	3%
Market cap (HK\$ m)	363,056
Market cap (US\$ m)	46,250
Avg daily turnover (HK\$ m)	862.8

Source: Bloomberg, AMTD Equity Research

Key forecasts

(RMB m)	2017	2018e	2019e	2020e
Revenue	226,900	355,376	464,967	587,772
yoy %	48%	57%	31%	26%
Attr NP	26,064	33,856	46,698	56,151
yoy %	126.3%	29.9%	37.9%	20.2%
Core Attr NP	19,929	31,167	44,010	53,462
yoy %	123%	56%	41%	21%
Gross margin	25.9%	24.3%	24.1%	22.9%
Net gearing	56.9%	44.4%	26.3%	16.2%
EPS	0.94	1.47	2.07	2.52
DPS	0.15	0.20	0.27	0.33
BPS	4.41	6.01	8.21	10.85

Source: Company data, AMTD Equity Research

Valuation

	2017	2018e	2019e	2020e
P/E	14.2	9.1	6.4	5.3
P/BV	3.0	2.2	1.6	1.2
Div. yield	1.1%	1.5%	2.0%	2.4%
ROE	22.4%	22.1%	23.1%	21.5%
ROA	2.5%	3.1%	4.0%	4.9%

Source: Bloomberg, AMTD Equity Research

Share price performance



Source: Bloomberg

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Figure 1: Previous forecast vs actual result

PnL, RMB '000	2016	2017	AMTD 2017E	YoY	Actual vs Est
Revenue	153,086,977	226,899,786	193,557,711	48.2%	17.2%
Sales of properties	148,180,135	220,157,369	192,193,548	48.6%	14.5%
Cost of sales	(120,850,891)	(168,114,404)	(151,068,778)	39.1%	11.3%
GPM	21.1%	25.9%	22.0%	4.9 pts	4.0 pts
Gross profit	32,236,086	58,785,382	42,488,933	82.4%	38.4%
Other income	1,530,465	2,611,495	1,530,465	70.6%	70.6%
Fair value gains on investment properties	711,604	504,718	-	-29.1%	n.a.
Selling expenses	(7,383,618)	(10,002,400)	(11,220,000)	35.5%	-10.9%
Administrative expenses	(4,970,364)	(8,301,008)	(6,120,000)	67.0%	35.6%
Finance costs	(1,095,305)	3,276,086	(1,085,872)	-399.1%	-401.7%
Profit before tax	21,390,572	46,521,969	25,955,230	117.5%	79.2%
Income tax expense	(7,727,349)	(17,770,164)	(8,014,976)	130.0%	121.7%
Profit for the year	13,663,223	28,751,805	17,940,254	110.4%	60.3%
Adjusted profit for the year	11,066,953	22,617,738	17,203,380	104.4%	31.5%
Profit for the year attributable to:					
Owners of the Company	11,516,815	26,063,518	17,203,380	126.3%	51.5%
Non-controlling interests	736,874	2,688,287	736,874	264.8%	264.8%
Core net profit	8,920,545	19,929,451	16,466,506	123.4%	21.0%
Net Debt / Equity	49%	57%	39%	8.3 pts	18.0 pts
Current Ratio	120%	113%	119%	-6.8 pts	-6.7 pts
Interest Coverage	6.0x	6.6x	7.3x	0.6x	nm
ROA	1.95%	2.48%	2.38%	0.5 pts	0.1 pts
ROCE	5.80%	9.21%	7.34%	3.4 pts	1.9 pts
ROE	14.11%	22.35%	17.28%	8.2 pts	5.1 pts
GPM	21.06%	25.91%	21.95%	4.9 pts	4.0 pts
NPM	7.52%	11.49%	8.89%	4.0 pts	2.6 pts
Core NPM	5.83%	8.78%	8.51%	3.0 pts	0.3 pts
Total Debt	136,196,876	214,765,027	134,911,679	57.7%	59.2%
Cash	96,490,887	148,402,122	96,165,500	53.8%	54.3%
Net Debt	39,705,989	66,362,905	38,746,179	67.1%	71.3%
ST Debt	30,512,725	47,671,787	34,506,334	56.2%	38.2%
Properties held under development	216,383,252	360,921,992	347,170,148	66.8%	4.0%
Advanced proceeds received from customers	192,408,932	346,747,257	306,215,384	80.2%	13.2%

Source: Company data, AMTD Equity Research

Figure 2: P&L forecast and key ratios

PnL, RMB mn	2016	2017	2018e	2019e	2020e	2017	2018e	2019e	2020e
Revenue	153,087	226,900	355,376	464,967	587,772	35.2%	48.2%	56.6%	30.8%
Sales of properties	148,180	220,157	348,392	457,718	580,231				
Cost of sales	(120,851)	(168,114)	(268,952)	(352,692)	(453,004)				
Gross profit	32,236	58,785	86,424	112,276	134,767	41.0%	82.4%	47.0%	29.9%
Selling expenses	(7,384)	(10,002)	(13,219)	(15,202)	(18,395)	57.5%	35.5%	32.2%	15.0%
Administrative expenses	(4,970)	(8,301)	(11,897)	(13,682)	(16,722)	53.9%	67.0%	43.3%	15.0%
Share of post-tax loss of an associate	362	(352)	(352)	(352)	(352)				
Share of post-tax (losses)/profits of joint ventures	-	-	-	-	-				
Finance costs	(1,095)	3,276	(640)	(610)	(593)	-15.1%	-399.1%	-119.5%	-4.7%
Profit before tax	21,391	46,522	62,926	85,041	101,317				
Income tax expense	(7,727)	(17,770)	(26,382)	(35,654)	(42,478)	50.9%	130.0%	48.5%	35.1%
Profit for the year	13,663	28,752	36,544	49,387	58,839	40.7%	110.4%	27.1%	35.1%
Profit for the year attributable to:									
Net profit	11,517	26,064	33,856	46,698	56,151	24.2%	126.3%	29.9%	37.9%
Core net profit	11,067	22,618	33,856	46,698	56,151	27.3%	104.4%	49.7%	37.9%
Non-controlling interests	737	2,688	2,688	2,688	2,688				
Perpetual capital securities	1,410	-	-	-	-				
Dividends	3,734	3,205	4,164	5,743	6,906				
EPS - basic	0.52	1.23	1.60	2.20	2.65				
EPS-underlying	0.40	0.94	1.47	2.07	2.52				
DPS - basic	0.17	0.15	0.20	0.27	0.33				
NAV per share	3.18	4.41	6.01	8.21	10.85				
Key Ratios, RMB mn	2016	2017	2018e	2019e	2020e				
GPM	21.1%	25.9%	24.3%	24.1%	22.9%				
NPM	7.5%	11.5%	9.5%	10.0%	9.6%				
Core NPM	5.8%	8.8%	8.8%	9.5%	9.1%				
ROA	1.9%	2.5%	3.1%	4.0%	4.9%				
ROCE	5.8%	9.5%	9.6%	11.5%	11.9%				
ROE	14.1%	22.4%	22.1%	23.1%	21.5%				
Total Debt / EBITDA	5.9x	5.0x	3.5x	2.7x	2.4x				
Total Debt / Equity	166.9%	184.2%	145.2%	113.9%	95.3%				
Total Debt / Capitalization	62.5%	64.8%	59.2%	53.3%	48.8%				
Net Debt / EBITDA	1.7x	1.5x	1.1x	0.6x	0.4x				
Net Debt / Equity	48.7%	56.9%	44.4%	26.3%	16.2%				
Net Debt / Capitalization	18.2%	20.0%	18.1%	12.3%	8.3%				
Current Ratio	119.6%	112.8%	126.1%	134.0%	153.4%				
Cash / Total Assets	16.3%	14.1%	14.1%	15.4%	17.9%				
Inventory / Total Assets	51.0%	46.9%	48.7%	49.2%	46.6%				
Net debt / Net Inventory	13.2%	13.5%	12.7%	9.4%	7.9%				
Quick Ratio	95.8%	93.5%	104.9%	109.6%	120.8%				
Cash Ratio	23.8%	19.3%	21.3%	24.4%	32.7%				
Interest Coverage	6.0x	6.6x	9.4x	12.2x	13.4x				

Source: Company data, AMTD Equity Research

Figure 3: Balance sheet forecast & Cash flow forecast

Balance Sheet, RMB mn	2016	2017	2018e	2019e	2020e
Non-current assets	106,736	181,754	181,754	181,754	181,754
Current assets	484,836	867,915	916,242	972,349	971,053
Properties under development	216,383	360,922	400,253	433,363	402,712
Completed properties held for sale	30,885	27,886	30,885	30,885	30,885
Restricted cash	11,844	11,318	11,318	11,318	11,318
Cash and cash equivalents	84,647	137,084	143,080	166,078	195,432
Others	141,076	330,705	330,705	330,705	330,705
Current liabilities	405,314	769,537	726,558	725,595	632,913
Advanced proceeds received from customers	192,409	346,747	350,915	349,259	270,697
Corporate bonds	8,207	16,814	-	-	-
Bank and other borrowings	30,513	47,672	21,135	21,827	7,708
Others	174,185	358,303	354,508	354,508	354,508
Non-current liabilities	104,642	163,521	218,282	225,965	258,512
Bank and other borrowings	97,477	146,484	201,245	208,928	241,475
Others	7,166	17,037	17,037	17,037	17,037
Capital and reserves	81,615	116,612	153,156	202,543	261,382
Equity attributable to owners of the Company	70,128	93,671	127,526	174,225	230,375
Perpetual capital instruments	-	-	-	-	-
Non-controlling interests	11,487	22,941	25,630	28,318	31,006
Cash Flow Statement, RMB mn	2016	2017e	2018e	2019e	2020e
Profit for the year	13,663	28,752	36,544	49,387	58,839
Operating cash flows before movements in working capital	20,898	46,522	62,926	85,041	101,317
Property under development and completed properties held for sale	(43,516)	(188,038)	(42,330)	(33,109)	30,650
Advanced proceeds received from customers	88,294	154,338	4,168	(1,656)	(78,562)
Cash (used in) from operations	57,303	183,824	24,764	50,275	53,405
PRC Income tax paid	(9,919)	(17,770)	(26,382)	(35,654)	(42,478)
Interest paid	(6,121)	(10,736)	(9,877)	(9,277)	(8,931)
Net cash (used in) from operating activities	41,263	155,317	(11,495)	5,344	1,996
Net cash used in investing activities	(20,457)	(56,166)	-	-	-
Financing activities					
New bank and other borrowings raised	36,536	37,435	42,121	29,511	40,255
Repayment of bank and other borrowings	(20,507)	(38,720)	(34,506)	(21,135)	(21,827)
Net cash from (used in) financing activities	27,454	(46,715)	17,491	17,653	27,358
Net increase in cash and cash equivalents	48,260	52,437	5,996	22,997	29,354
Effect of foreign exchange rate changes	147	-	-	-	-
Cash and cash equivalents at beginning of the year	36,241	84,647	137,084	143,080	166,078
Cash and cash equivalents at end of the year	84,647	137,084	143,080	166,078	195,432

Source: Company data, AMTD Equity Research

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