

Greentown

Uncertainty of profit pattern

Maintain 'HOLD', gross profit margin slightly dropped, low visibility on profit from non-investment projects. 2017 result in line; core net profit increased by 13.5% YoY

Revenue increased by 44.8% from RMB 29.0 bn in 2016 to RMB 42.0 bn in 2017. GPM from property sales significantly improved by 13.1 ppts to 31.8%, mainly due to the delivery of Shanghai Bund House project, contributing 18.8% of total property sales with average selling price more than RMB 100,000 per sq.m. SG&A to total contracted sales maintained at a stable level with 3.1%, compared to 3.7% in 2016. Core net profit (excluding fair value gain and finance income) increased by 36.8% YoY. The company maintained a healthy balance sheet with 43.0% net gearing ratio, down from 58.1% in 2016. Its average funding cost also dropped by 50bps to 5.4% in 2017 from 5.9% in 2016.

Rising proportion of non-investment projects

The company's contracted sales amount from non-investment projects which are essentially white labelling projects achieved RMB 43.0 bn in 2017, representing 29% of total contracted sales, while in 2016 the proportion of this part was only 16%. The company currently has more than RMB 77.8 bn 2018 saleable resources allocating in non-investment projects, taking up more than 33% of its total 2018 saleable resources. We expect that for its RMB 170-180 bn sales target in 2018, proportion from non-investment projects will further increase to more than 30%. We believe the net profit margin will be around 5% for non-investment projects, which is lower than 10% of investment projects.

Strong support from major shareholder; stable strategy in core areas

As a major shareholder of Greentown, China Communications Construction Group ("CCCC") is bringing various benefit to the company such as land acquisition. We expect that with the strong support from CCCC, the company will be able to acquire high-quality land and have more channels to seek funding with lower cost. The company adheres its investment strategy of "core cities, core areas", with approximately RMB106.6 bn saleable value in first- and second-tier cities in 2018, accounting for 68% of total. Regarding newly added land bank in 2017, 75% are locating in first- and second-tier cities by estimated sales value.

We expect GPM to be at 20% in the next 3 years

We believe the company will deliver at around 20% GPM in next 3 years, as the company still needs time to enhance its sell through rate in 3rd and 4th tier cities and therefore the margins will be squeezed. We expect GPM will be 19%/20%/20% in 2018/2019/2020, respectively.

Revise up price target to HK\$11.62, 0% upside, 'HOLD'

We believe the company will continue to expand its non-investment projects, which will drive NPM lower. Destocking in 3rd tier cities will keep its GPM in low level (20% vs average 30%). Unclear profit pattern among non-investment projects and development projects will lower our expectation of growth of bottom line. In terms of valuation, the company's PE multiple is much higher than average level. Therefore, we maintain 'HOLD' and revise up price target to HK\$11.62, which implies 68% discount to Dec-18 NAV, 10.6x 2018e core PE and 9.4x 2019e core PE. The stock is trading at 68% discount to Dec-18 NAV, 10.6x 2018e core PE and 0.7x 2018e PB.

Stock code: 3900.HK

Rating: **HOLD**

Price target (HK\$) 11.62

| | |
|-----------------------------------|--------|
| Previous target(HK\$): | 8.91 |
| Current price (HK\$, 12 Apr 2018) | 11.58 |
| Upside/downside % | 0% |
| Market cap (HK\$ m) | 25,102 |
| Market cap (US\$ m) | 3,198 |
| Avg daily turnover (HK\$ m) | 80.0 |

Source: Bloomberg, AMTD Equity Research

Key forecasts

| (RMB m) | 2017 | 2018e | 2019e | 2020e |
|--------------|--------|--------|--------|--------|
| Revenue | 41,953 | 43,107 | 50,665 | 61,999 |
| yoy % | 45% | 3% | 18% | 22% |
| Attr NP | 1,662 | 1,897 | 2,148 | 2,566 |
| yoy % | 10% | 14% | 13% | 19% |
| Core Attr NP | 1,472 | 1,897 | 2,148 | 2,566 |
| yoy % | 0% | 29% | 13% | 19% |
| Gross margin | 19.2% | 19.3% | 19.5% | 20.2% |
| Net gearing | 43.0% | 43.5% | 21.9% | 17.8% |
| EPS | 0.68 | 0.88 | 0.99 | 1.19 |
| DPS | 0.20 | 0.16 | 0.18 | 0.21 |
| BPS | 12.23 | 13.11 | 14.10 | 15.29 |

Source: Company data, AMTD Equity Research

Valuation

| | 2017 | 2018e | 2019e | 2020e |
|------------|------|-------|-------|-------|
| P/E | 13.6 | 10.6 | 9.3 | 7.8 |
| P/BV | 0.8 | 0.7 | 0.7 | 0.6 |
| Div. yield | 2.2% | 1.7% | 1.9% | 2.3% |
| ROE | 5.8% | 6.9% | 7.3% | 8.1% |
| ROA | 0.7% | 0.7% | 0.7% | 0.8% |

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 | 28,975,603 | 41,952,752 | 31,975,487 | 44.8% | 31.2% |
| Sales of properties | 25,520,532 | 37,936,017 | 28,174,909 | 48.6% | 34.6% |
| Cost of sales | (22,953,628) | (33,877,152) | (25,226,370) | 47.6% | 34.3% |
| GPM | 21% | 19% | 21% | nm | nm |
| Gross profit | 6,021,975 | 8,075,600 | 6,749,117 | 34.1% | 19.7% |
| Other income | 977,400 | 1,223,089 | 977,400 | 25.1% | 25.1% |
| Fair value gains on investment properties | 50,000 | 253,400 | 0 | 406.8% | n.a. |
| Selling expenses | (1,347,245) | (1,616,716) | (1,320,000) | 20.0% | 22.5% |
| Administrative expenses | (2,860,501) | (2,859,701) | (2,800,000) | 0.0% | 2.1% |
| Finance costs | (1,037,480) | (1,476,671) | (1,049,309) | 42.3% | 40.7% |
| Profit before tax | 3,748,229 | 6,390,768 | 5,085,279 | 70.5% | 25.7% |
| Income tax expense | (1,525,686) | (3,719,803) | (2,249,669) | 143.8% | 65.3% |
| Profit for the year | 2,222,543 | 2,670,965 | 2,835,610 | 20.2% | -5.8% |
| Adjusted profit for the year | 2,185,043 | 2,480,915 | 2,126,112 | 13.5% | 16.7% |
| Profit for the year attributable to: | | | | | |
| Owners of the Company | 1,513,045 | 1,662,454 | 2,126,112 | 9.9% | -21.8% |
| Non-controlling interests | 305,447 | 481,367 | 305,447 | 57.6% | 57.6% |
| Core net profit | 1,475,545 | 1,472,404 | 1,897,280 | -0.2% | -22.4% |
| Net Debt / Equity | 58% | 43% | 58% | nm | nm |
| Current Ratio | 168% | 147% | 160% | -20.6 pts | -13.1 pts |
| Interest Coverage | 1.4x | 2.0x | 1.6x | 0.7x | 0.4x |
| ROA | 0.89% | 0.70% | 1.13% | -0.2 pts | -0.4 pts |
| ROCE | 1.79% | 1.75% | 2.36% | 0.0 pts | -0.6 pts |
| ROE | 6.06% | 5.76% | 8.26% | -0.3 pts | -2.5 pts |
| GPM | 20.78% | 19.25% | 21.11% | -1.5 pts | -1.9 pts |
| NPM | 5.22% | 3.96% | 6.65% | -1.3 pts | -2.7 pts |
| Core NPM | 5.09% | 3.51% | 6.65% | -1.6 pts | -3.1 pts |
| Total Debt | 47,834,048 | 56,114,372 | 51,436,179 | 17.3% | 9.1% |
| Cash | 24,970,660 | 35,977,430 | 27,331,473 | 44.1% | 31.6% |
| Net Debt | 22,863,388 | 20,136,942 | 24,104,706 | -11.9% | -16.5% |
| ST Debt | 10,037,318 | 17,684,524 | 13,083,398 | 76.2% | 35.2% |
| Properties held under development | 61,485,671 | 83,149,261 | 86,901,031 | 35.2% | -4.3% |
| Advanced proceeds received from customers | 38,422,675 | 65,900,213 | 67,590,443 | 71.5% | -2.5% |

Source: Company data, AMTD Equity Research

Figure 2: P&L forecast and key ratios

| PnL, RMB mn | 2016 | 2017 | 2018e | 2019e | 2020e | 2016 | 2017 | 2018e | 2019e | 2020e |
|--|----------------|----------------|----------------|----------------|----------------|---------------|--------------|---------------|--------------|---------------|
| Revenue | 28,976 | 41,953 | 43,107 | 50,665 | 61,999 | 11.2% | 44.8% | 2.8% | 17.5% | 22.4% |
| Sale of properties | 25,521 | 37,936 | 38,689 | 45,805 | 56,653 | | | | | |
| Cost of sales | (22,954) | (33,877) | (34,792) | (40,776) | (49,494) | | | | | |
| Gross profit | 6,022 | 8,076 | 8,315 | 9,889 | 12,504 | 11.1% | 34.1% | 3.0% | 18.9% | 26.4% |
| Selling expenses | (1,347) | (1,617) | (1,482) | (2,038) | (2,690) | 9.6% | 20.0% | -8.3% | 37.5% | 32.0% |
| Administrative expenses | (2,861) | (2,860) | (2,965) | (3,669) | (4,484) | 11.2% | 0.0% | 3.7% | 23.8% | 22.2% |
| Share of post-tax loss of an associate | 1,256 | 558 | 1,010 | 1,428 | 1,147 | | | | | |
| Share of post-tax (losses)/profits of joint ventures | 169 | (8) | 0 | 0 | 0 | | | | | |
| Finance costs | (1,037) | (1,477) | (1,594) | (1,626) | (1,133) | 17.1% | 42.3% | 7.9% | 2.0% | -30.3% |
| Profit before tax | 3,748 | 6,391 | 5,027 | 5,727 | 7,087 | 27.7% | 70.5% | -21.3% | 13.9% | 23.8% |
| Income tax expense | (1,526) | (3,720) | (2,121) | (2,570) | (3,512) | | | | | |
| Profit for the year | 2,223 | 2,671 | 2,906 | 3,157 | 3,575 | 76.5% | 20.2% | 8.8% | 8.6% | 13.2% |
| Profit for the year attributable to: | | | | | | | | | | |
| Net profit | 1,513 | 1,662 | 1,897 | 2,148 | 2,566 | 184.2% | 9.9% | 14.1% | 13.2% | 19.4% |
| Core net profit | 1,476 | 1,472 | 1,897 | 2,148 | 2,566 | 20.0% | -0.2% | 28.9% | 13.2% | 19.4% |
| Non-controlling interests | 305 | 481 | 481 | 481 | 481 | | | | | |
| Perpetual Securities & others | 404 | 527 | 527 | 527 | 527 | | | | | |
| Dividends | 260 | 432 | 342 | 387 | 462 | | | | | |
| EPS - basic | 0.70 | 0.77 | 0.88 | 0.99 | 1.19 | | | | | |
| EPS-underlying | 0.70 | 0.77 | 0.87 | 0.99 | 1.18 | | | | | |
| DPS - basic | 0.68 | 0.68 | 0.88 | 0.99 | 1.19 | | | | | |
| BVPS | 0.12 | 0.20 | 0.16 | 0.18 | 0.21 | | | | | |
| Key Ratios, RMB mn | 2016 | 2017 | 2018e | 2019e | 2020e | | | | | |
| GPM | 20.8% | 19.2% | 19.3% | 19.5% | 20.2% | | | | | |
| NPM | 5.2% | 4.0% | 4.4% | 4.2% | 4.1% | | | | | |
| Core NPM | 5.1% | 3.5% | 4.4% | 4.2% | 4.1% | | | | | |
| ROA | 0.9% | 0.7% | 0.7% | 0.7% | 0.8% | | | | | |
| ROCE | 1.8% | 1.7% | 1.7% | 1.6% | 1.8% | | | | | |
| ROE | 6.1% | 5.8% | 6.9% | 7.3% | 8.1% | | | | | |
| Total Debt / EBITDA | 10.8x | 7.4x | 11.0x | 11.8x | 10.6x | | | | | |
| Total Debt / Equity | 121.6% | 119.9% | 148.4% | 167.6% | 159.0% | | | | | |
| Total Debt / Capitalization | 54.9% | 54.5% | 59.7% | 62.6% | 61.4% | | | | | |
| Net Debt / EBITDA | 5.2x | 2.6x | 3.2x | 1.5x | 1.2x | | | | | |
| Net Debt / Equity | 58.1% | 43.0% | 43.5% | 21.9% | 17.8% | | | | | |
| Net Debt / Capitalization | 26.2% | 19.6% | 17.5% | 8.2% | 6.9% | | | | | |
| Current Ratio | 168.0% | 147.4% | 161.2% | 166.9% | 168.9% | | | | | |
| Cash / Total Assets | 14.7% | 15.3% | 20.2% | 25.8% | 24.7% | | | | | |
| Inventory / Total Assets | 51.9% | 55.0% | 52.3% | 50.2% | 52.8% | | | | | |
| Net debt / Net Inventory | 25.9% | 15.5% | 16.0% | 7.7% | 5.9% | | | | | |
| Quick Ratio | 139.6% | 122.3% | 125.2% | 120.0% | 123.6% | | | | | |
| Cash Ratio | 28.4% | 25.1% | 36.0% | 46.9% | 45.3% | | | | | |
| Interest Coverage | 1.4x | 2.0x | 1.5x | 1.4x | 1.6x | | | | | |

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 | 22,111 | 24,194 | 24,194 | 24,194 | 24,194 |
| Current assets | 147,684 | 211,634 | 230,950 | 268,478 | 288,811 |
| Properties for development | 14,289 | 25,468 | 25,468 | 25,468 | 25,468 |
| Pledged bank deposits | 2,293 | 5,907 | 5,907 | 5,907 | 5,907 |
| Bank balances and cash | 22,678 | 30,070 | 45,634 | 69,569 | 71,524 |
| Others | 108,424 | 150,189 | 153,941 | 167,534 | 185,912 |
| Current liabilities | 87,928 | 143,588 | 143,311 | 160,825 | 170,970 |
| Advanced proceeds received from customers | 38,423 | 65,900 | 67,590 | 88,637 | 105,521 |
| Borrowings | 10,037 | 17,685 | 15,717 | 12,184 | 5,446 |
| Others | 39,468 | 60,003 | 60,003 | 60,003 | 60,003 |
| Non-current liabilities | 42,541 | 45,446 | 62,660 | 80,044 | 87,184 |
| Bank and other borrowings - due after one year | 37,797 | 38,430 | 57,236 | 74,620 | 81,760 |
| Others | 4,745 | 7,016 | 5,424 | 5,424 | 5,424 |
| Capital and reserves | 39,327 | 46,794 | 49,173 | 51,803 | 54,850 |
| Equity attributable to owners of the Company | 24,690 | 26,479 | 28,376 | 30,524 | 33,091 |
| Perpetual capital instruments | 5,599 | 8,604 | 8,604 | 8,604 | 8,604 |
| Non-controlling interests | 9,037 | 11,712 | 12,193 | 12,675 | 13,156 |
| Cash Flow Statement, RMB mn | 2016 | 2017e | 2018e | 2019e | 2020e |
| Profit before income tax | 3,748 | 6,391 | 5,027 | 5,727 | 7,087 |
| Operating cash flows before movements in working capital | 2,845 | 6,391 | 5,027 | 5,727 | 7,087 |
| Decrease in properties under development | (5,691) | (21,664) | (3,752) | (13,593) | (18,378) |
| Decrease in pre-sale deposits | 12,654 | 27,478 | 1,690 | 21,047 | 16,884 |
| Cash (used in) from operations | 5,861 | (5,277) | 2,965 | 13,180 | 5,593 |
| Income taxes paid | (2,411) | (3,720) | (2,121) | (2,570) | (3,512) |
| Net cash (used in) from operating activities | 3,450 | (8,997) | 844 | 10,610 | 2,081 |
| Net cash used in investing activities | 2,166 | 13,314 | 3,360 | 0 | 0 |
| Financing activities | | | | | |
| Proceeds from borrowings | 29,262 | 13,639 | 24,970 | 24,617 | 7,634 |
| Repayments of borrowings | (21,494) | (10,037) | (13,083) | (10,765) | (7,233) |
| Net cash from (used in) financing activities | 2,112 | 3,075 | 11,360 | 13,325 | (126) |
| Net increase in cash and cash equivalents | 7,728 | 7,392 | 15,564 | 23,935 | 1,955 |
| Effect of foreign exchange rate changes | 70 | 0 | 0 | 0 | 0 |
| Cash and cash equivalents at beginning of the year | 14,880 | 22,678 | 30,070 | 45,634 | 69,569 |
| Cash and cash equivalents at end of the year | 22,678 | 30,070 | 45,634 | 69,569 | 71,524 |

Source: Company data, AMTD Equity Research

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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 |

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