

Shimao Properties

Growth comes back again

Upgrade to 'BUY', net profit has bottomed out and accelerate its turnover for achievable sales growth. 2017 result in line; core net profit surged by 43.5% YoY

Revenue increased by 19% from RMB 59.3 bn in 2016 to RMB 70.4 bn in 2017. GPM slightly improved by 2.9 ppt to 30%. SG&A to contracted sales further compressed to 4.4%, down from 6.0% in 2016. Finance income surged by 4.5 times YoY to RMB 2.1 bn, which led net profit to increase 51.6% to 7.8 bn in 2017. Core net profit (excluding fair value gain and finance income) increased by 43.5% YoY. The company has suffered from destocking with low GPM in 2015 and 2016 (core net profit dropped by 42.1% in 2015 and further down by 8.9% 2016) and we expect net profit has bottomed out and will grow gradually in next 3 years.

39% YoY growth target of contracted sales in 2018

The company has announced its sales target of RMB 140 bn in 2018, which implies 39% YoY increase. Comparing with peers, the company's growth target is not aggressive. The company has prepared RMB 233.5 bn of saleable resource in 2018. 22% of saleable resource are in 1st tier cities, 40% are in main 2nd tier cities. Besides, the company has added 10.9 mn sq.m of new land reserve in 2017 and RMB 200 bn of saleable resource are in Greater Bay area.

We expect profit growth to come back again

The company has suffered from destocking with low GPM and product mix restructure in 2014 and 2015. The company's net profit in 2015 and 2016 was lower than that of 2014 and came to the bottom in 2016. In 2017, the company's net profit bottomed out and had a robust growth again. We believe the company has ended its destocking and product restructure. On the other hand, the company has prepared for its growth in future: optimize internal management, more cautious on land acquisitions to protect its profitability. That is why we can see that 60% of sales are targeting in 1st and 2nd tier cities. The company also had emphasized that incentive scheme had motivated project progress to be faster: e.g. shorter commencement period and construction period, starting pre-sale earlier. Regional companies have higher authorities for land acquisition and funding for projects. We expect the company will accelerate its turnover to boost its sales in 2018.

We expect GPM to be above 30%

We believe the company will deliver over 30% GPM in next 3 years, as ASP surged in last 2 years and these projects will be gradually delivered. Additionally, contracted sales of high-end products in 1st and 2nd tier cities will contribute high GPM in future. We expect GPM will be 30%/30%/31% in 2018/2019/2020, respectively.

Revise up price target to HK\$27.41, 27% upside, 'Buy'

Shimao's target should be more achievable with more saleable resource in 1st and 2nd tier cities (40% growth vs peers' over 60%). We also notice that some 1st tier cities, e.g. Shanghai, has approved more presales permission in last two weeks. We expect turnover and supplies in 1st and 2nd tier cities will rebound after low supplies with strict home price cap. Therefore, we revise up its rating to 'Buy' and revise up price target to HK\$27.41, which implies 45% discount to Dec-18 NAV, 8.2x 2018e core PE and 6.5x 2019e core PE. The stock is trading at 57% discount to Dec-18 NAV, 6.4x 2018e core PE and 0.9x 2018e PB.

Stock code: 813.HK

Rating: BUY

Price target (HK\$)	27.41
Previous target(HK\$):	18.89
Current price (HK\$, 3 Apr 2018)	21.55
Upside/downside %	27%
Market cap (HK\$ m)	72,990
Market cap (US\$ m)	9,299
Avg daily turnover (HK\$ m)	146.3

Source: Bloomberg, AMTD Equity Research

Key forecasts

(RMB m)	2017	2018e	2019e	2020e
Revenue	70,426	84,499	99,554	119,642
yoy %	19%	20%	18%	20%
Attr NP	7,840	9,050	11,297	14,584
yoy %	52%	15%	25%	29%
Core Attr NP	5,271	9,050	11,297	14,584
yoy %	43%	72%	25%	29%
Gross margin	30.4%	30.3%	30.5%	31.0%
Net gearing	56.3%	47.8%	32.5%	20.9%
EPS	1.56	2.68	3.35	4.32
DPS	0.86	1.28	1.60	2.06
BPS	17.08	19.77	23.11	27.44

Source: Company data, AMTD Equity Research

Valuation

	2017	2018e	2019e	2020e
P/E	11.0	6.4	5.1	4.0
P/BV	1.0	0.9	0.7	0.6
Div. yield	5.0%	7.4%	9.3%	12.0%
ROE	9.6%	14.6%	15.6%	17.1%
ROA	2.5%	2.4%	2.6%	3.0%

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	59,286,161	70,425,874	68,917,605	18.8%	2.2%
Sales of properties	56,196,877	66,795,945	66,523,392	18.9%	0.4%
Cost of sales	(42,937,532)	(48,996,361)	(47,957,110)	14.1%	2.2%
GPM	28%	30%	30%	2.9 pts	0.0 pts
Gross profit	16,348,629	21,429,513	20,960,495	31.1%	2.2%
Other income	838,785	545,095	838,785	-35.0%	-35.0%
Fair value gains on investment properties	1,996,673	679,484	-	-66.0%	n.a.
Selling expenses	(1,352,643)	(1,461,804)	(1,747,396)	8.1%	-16.3%
Administrative expenses	(2,742,720)	(2,989,871)	(3,543,150)	9.0%	-15.6%
Finance costs	(1,175,946)	1,328,414	(1,401,524)	-213.0%	-194.8%
Profit before tax	13,195,878	18,691,753	14,390,310	41.6%	29.9%
Income tax expense	(5,685,493)	(8,121,060)	(5,245,470)	42.8%	54.8%
Profit for the year	7,510,385	10,570,693	9,144,841	40.7%	15.6%
Adjusted profit for the year	6,012,880	8,001,100	9,144,841	33.1%	-12.5%
Profit for the year attributable to:					
Owners of the Company	5,171,855	7,840,494	7,274,017	51.6%	7.8%
Non-controlling interests	2,338,530	2,730,199	1,870,824	16.7%	45.9%
Core net profit	3,674,350	5,270,901	7,274,017	43.5%	-27.5%
Net Debt / Equity	51%	56%	49%	5.7 pts	7.4 pts
Current Ratio	160%	164%	161%	4.7 pts	3.2 pts
Interest Coverage	2.6x	3.0x	2.2x	0.4x	0.8x
ROA	1.97%	2.55%	2.61%	0.6 pts	-0.1 pts
ROCE	3.45%	4.62%	4.60%	1.2 pts	0.0 pts
ROE	7.16%	9.58%	12.97%	2.4 pts	-3.4 pts
GPM	27.58%	30.43%	30.41%	2.9 pts	0.0 pts
NPM	8.72%	11.13%	10.55%	2.4 pts	0.6 pts
Core NPM	6.20%	7.48%	10.55%	1.3 pts	-3.1 pts
Total Debt	66,943,512	87,504,692	63,989,310	30.7%	36.7%
Cash	22,234,833	33,006,772	16,327,958	48.4%	102.1%
Net Debt	44,708,679	54,497,920	47,661,352	21.9%	14.3%
ST Debt	17,755,309	18,195,220	17,564,994	2.5%	3.6%
Properties held under development	120,342,997	133,554,704	150,058,103	11.0%	-11.0%
Advanced proceeds received from customers	31,903,265	34,117,188	40,179,873	6.9%	-15.1%

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	59,286	70,426	84,499	99,554	119,642	2.7%	18.8%	20.0%	17.8%	20.2%
Sale of properties	56,197	66,796	81,872	96,664	116,463	2.9%	18.9%	22.6%	18.1%	20.5%
Cost of sales	(42,938)	(48,996)	(58,860)	(69,173)	(82,601)					
Gross profit	16,349	21,430	25,639	30,381	37,041	-0.6%	31.1%	19.6%	18.5%	21.9%
Selling expenses	(1,353)	(1,462)	(1,886)	(2,169)	(2,494)	-16.3%	8.1%	29.0%	15.0%	15.0%
Administrative expenses	(2,743)	(2,990)	(2,600)	(2,990)	(3,439)	-16.3%	9.0%	-13.0%	15.0%	15.0%
Share of post-tax loss of an associate	38	0	0	0	0					
Share of post-tax (losses)/profits of joint ventures	(486)	(315)	(315)	(315)	(315)					
Finance costs	(1,176)	1,328	(912)	(1,175)	(1,496)	-16.5%	-213.0%	-168.6%	28.8%	27.3%
Profit before tax	13,196	18,692	19,947	23,753	29,318	-3.8%	41.6%	6.7%	19.1%	23.4%
Income tax expense	(5,685)	(8,121)	(8,167)	(9,726)	(12,004)					
Profit for the year	7,510	10,571	11,780	14,028	17,314	-7.9%	40.7%	11.4%	19.1%	23.4%
Profit for the year attributable to:										
Net profit	5,172	7,840	9,050	11,297	14,584	-15.4%	51.6%	15.4%	24.8%	29.1%
Core net profit	3,674	5,271	9,050	11,297	14,584	-39.5%	43.5%	71.7%	24.8%	29.1%
Non-controlling interests	2,339	2,730	2,730	2,730	2,730					
Dividends	2,465	2,896	4,313	5,384	6,951					
EPS - basic	1.51	2.32	2.68	3.35	4.32					
EPS-underlying	1.07	1.56	2.68	3.35	4.32					
DPS - basic	0.72	0.86	1.28	1.60	2.06					
BVPS	15.28	17.08	19.77	23.11	27.44					
Key Ratios, RMB mn	2016	2017	2018e	2019e	2020e					
GPM	27.6%	30.4%	30.3%	30.5%	31.0%					
NPM	8.7%	11.1%	10.7%	11.3%	12.2%					
Core NPM	6.2%	7.5%	10.7%	11.3%	12.2%					
ROA	2.0%	2.5%	2.4%	2.6%	3.0%					
ROCE	3.5%	4.6%	4.6%	5.1%	5.9%					
ROE	7.2%	9.6%	14.6%	15.6%	17.1%					
Total Debt / EBITDA	4.5x	5.0x	4.8x	4.4x	4.0x					
Total Debt / Equity	75.9%	90.4%	92.6%	90.2%	89.1%					
Total Debt / Capitalization	43.1%	47.5%	48.1%	47.4%	47.1%					
Net Debt / EBITDA	3.0x	3.1x	2.5x	1.6x	0.9x					
Net Debt / Equity	50.7%	56.3%	47.8%	32.5%	20.9%					
Net Debt / Capitalization	28.8%	29.6%	24.8%	17.1%	11.0%					
Current Ratio	159.5%	164.3%	159.8%	154.7%	167.5%					
Cash / Total Assets	8.5%	10.7%	12.9%	16.4%	19.3%					
Inventory / Total Assets	45.9%	43.4%	49.8%	51.0%	52.1%					
Net debt / Net Inventory	37.2%	40.8%	27.6%	18.1%	11.4%					
Quick Ratio	140.8%	139.9%	133.2%	123.2%	128.3%					
Cash Ratio	18.7%	24.4%	26.5%	31.5%	39.2%					
Interest Coverage	2.6x	3.0x	2.9x	2.7x	2.6x					

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	72,713	85,027	85,027	85,027	85,027
Current assets	189,190	222,531	292,584	347,074	408,133
Properties under development	120,343	133,555	188,025	220,362	256,747
Completed properties held for sale	0	0	0	0	0
Restricted bank deposits	2,876	4,469	4,469	4,469	4,469
Bank balances and cash	19,359	28,537	44,120	66,273	90,947
Others	46,613	55,970	55,970	55,970	55,970
Current liabilities	118,609	135,477	183,145	224,332	243,646
Advanced proceeds received from customers	31,903	34,117	79,389	109,800	139,473
Borrowings	17,755	18,195	20,591	31,367	21,008
Others	68,950	83,165	83,165	83,165	83,165
Non-current liabilities	55,077	75,335	85,939	85,215	109,647
Borrowings	49,188	69,309	79,914	79,190	103,621
Others	5,889	6,025	6,025	6,025	6,025
Capital and reserves	88,217	96,747	108,527	122,554	139,868
Equity attributable to owners of the Company	52,456	57,635	66,684	77,982	92,565
Perpetual capital instruments	4,500	4,200	4,200	4,200	4,200
Non-controlling interests	31,261	34,912	37,642	40,373	43,103
Cash Flow Statement, RMB mn	2016	2017e	2018e	2019e	2020e
Operating activities					
Profit before income tax	13,196	18,692	19,947	23,753	29,318
Operating cash flows before movements in working capital	12,896	16,994	19,947	23,753	29,318
Cash (used in) from operations	5,630	17,717	10,750	21,827	22,606
Interest received	370	2,060	0	0	0
Interest paid	(4,929)	(5,734)	(7,147)	(9,208)	(11,726)
PRC Income tax paid	(4,531)	(8,121)	(8,167)	(9,726)	(12,004)
Net cash (used in) from operating activities	(3,461)	5,922	(4,564)	2,893	(1,125)
Net cash used in investing activities	(5,507)	(3,130)	0	0	0
Financing activities					
Proceeds from borrowings	65,179	25,440	30,565	30,643	45,440
Repayments of borrowings	(69,760)	(19,053)	(17,565)	(20,591)	(31,367)
Net cash from (used in) financing activities	5,709	6,387	20,147	19,260	25,799
Net increase in cash and cash equivalents	(3,258)	9,178	15,582	22,153	24,674
Cash and cash equivalents at beginning of the year	22,592	19,359	28,537	44,120	66,273
Cash and cash equivalents at end of the year	19,359	28,537	44,120	66,273	90,947

Source: Company data, AMTD Equity Research

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

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