

25 March 2019

Property | Real Estate

Greentown China (3900 HK)

Sell (Maintained)

Lacking Re-Rating Catalysts, Keep SELL

Target Price (Return)	HKD6.40 (-12%)
Price:	HKD7.28
Market Cap:	USD2,013m
Avg Daily Turnover (HKD/USD)	33m/4m

- Stay contrarian SELL with a new low end of consensus HKD6.40 TP from HKD7.30, 12% downside.** We believe concerns over Greentown China's weak profitability, worrisome gearings, and thin landbank may largely be factored into the underperformance of its share price. That said, other than a probable recovery of contracted sales growth, we do not see any exciting catalysts for an upgrade at the moment.
- Contracted sales growth is likely to catch up, but sustainability remains uncertain.** We regard the comeback of contracted sales growth (FY19F: +28%) as the sole spotlight this year, attributed to Greentown's aggressive land-replenishment activities beforehand. But, given total saleable resources of CNY530bn from its entire landbank and contracted sales target of CNY200bn, we doubt the sustainability of the sales growth outlook with its existing landbank scale. Greentown may need to continue its aggressive land acquisition approach to sustain sales growth, but this may – in turn – put further burden on its financial resources.
- Heavy leverage eroding net margins.** Greentown's net gearing – treating perpetual securities (PCS) as debt – rose to 105% in FY18, of which PCS accounted for 16% of total borrowings. Although there is no repayment pressure for PCS, we see financing costs – including distributions to PCS owners – have been eroding net margins (FY18: 2.8%), in our view. We believe management faces the dilemma of keeping its landbank scale or lowering gearing. Therefore, we forecast Greentown to continue struggling with net gearings of 104-109% and core net margins of 4-5% in FY19-21.
- FY18 results missed.** We estimate the firm's FY18 core earnings (stripping out all exceptional items and revaluation gains) at CNY1.7bn – significantly below our and Street estimates. It dropped 41% YoY, but stayed flat if excluding the disposal gains recorded in FY17. Besides the disappointing earnings performance, the increase in the aforementioned net gearings was another concern.
- Stay SELL, although concerns are gradually factored in.** Assuming the non-recurrence of substantial provisions and maintaining roughly the same scale of disposal gains, we expect Greentown to return to earnings growth from FY19, partially due to the low base effect. We cut FY19F-20F earnings 12% and 8%, and introduce FY21F earnings with 8% YoY growth (CAGR of 24.9% for FY18-21F). Similarly, we lower our end-FY19F ENAV 12% to HKD18.40 from HKD20.80. Maintaining a 65% discount to ENAV, we lower our TP to HKD6.40.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	23.8	3.9	31.2	(11.2)	(41.1)
Relative	12.6	1.0	13.0	4.1	(6.3)
52-wk Price low/high (HKD)	5.0–12.8				



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (CNYm)	41,953	60,303	62,255	69,969	74,408
Recurring net profit (CNYm)	2,854	1,675	2,710	3,015	3,261
Recurring net profit growth (%)	45.8	(41.3)	61.8	11.3	8.2
Recurring EPS (CNY)	1.32	0.77	1.19	1.26	1.30
Recurring P/E (x)	4.7	8.0	5.2	4.9	4.8
P/BV (x)	0.5	0.5	0.4	0.4	0.4
DPS (CNY)	0.20	0.23	0.25	0.28	0.30
Dividend Yield (%)	3.2	3.7	4.1	4.5	4.9
ROAE (%)	10.8	6.1	9.1	9.4	9.4
Net debt to equity (%)	75.3	105.2	103.3	106.4	108.7
Interest coverage (x)	1.0	1.5	0.8	0.9	0.9

Source: Company data, RHB

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FY18 Results Review

Figure 1: Greentown's FY18 results vs RHB forecasts

FY end Dec 31 (CNY m)	Actual		2H18			RHB			FY18			BBG	
	1H18	2H18	YoY	2H18	Diff (%)	FY17	FY18	YoY	FY18	Diff (%)	Consensus	FY18	
Turnover	33,534	26,769	-15.0%	26,310	1.7%	41,953	60,303	43.7%	59,843	0.8%	46,480	29.7%	
Property sales	31,420	23,854	-18.5%	24,036	-0.8%	37,936	55,274	45.7%	55,456	-0.3%			
Hotel operations	317	459	8.2%	436	5.3%	717	776	8.3%	753	3.1%			
Property rental	26	59	146.9%	47	26.0%	70	85	22.6%	73	16.7%			
Property mgmt and others	1,770	2,396	34.3%	1,791	33.8%	3,230	4,166	29.0%	3,561	17.0%			
Cost of sales	(27,455)	(19,095)	-25.0%	(20,003)	-4.5%	(33,877)	(46,550)	37.4%	(47,459)	-1.9%			
Gross profit	6,078	7,674	27.3%	6,307	21.7%	8,076	13,752	70.3%	12,385	11.0%			
Other income	516	1,322	72.1%	1,145	15.5%	1,345	1,838	36.7%	1,661	10.7%			
Selling expenses	(530)	(1,314)	20.0%	(989)	32.9%	(1,617)	(1,844)	14.1%	(1,519)	21.4%			
Administrative expenses	(1,246)	(2,650)	36.9%	(1,746)	51.7%	(2,860)	(3,895)	36.2%	(2,992)	30.2%			
Operating profit	4,818	5,032	33.6%	4,716	6.7%	4,944	9,851	99.2%	9,534	3.3%			
Revaluation change	0	132	N/A	0	N/A	253	132	N/A	0	N/A			
Exceptionals	1,081	(2,109)	N/A	0	N/A	2,120	(1,027)	N/A	1,081	N/A			
Finance cost	(627)	(925)	24.8%	(755)	22.5%	(1,477)	(1,552)	5.1%	(1,382)	12.3%			
Associates and JCEs	302	198	13.7%	702	-71.8%	550	500	-9.0%	1,005	-50.2%			
Profit before taxation	5,575	2,329	-37.9%	4,664	-50.1%	6,391	7,904	23.7%	10,239	-22.8%			
Taxation	(2,454)	(3,075)	31.0%	(2,666)	15.4%	(3,720)	(5,529)	48.6%	(5,119)	8.0%			
Profit after taxation	3,121	(746)	-153.2%	1,998	-137.3%	2,671	2,375	-11.1%	5,119	-53.6%			
MI/PCS	(786)	(586)	32.9%	(878)	-33.2%	(481)	(1,372)	185.0%	(1,664)	-17.5%			
Reported net profit	2,335	(1,332)	-238.6%	1,121	-218.8%	2,190	1,003	-54.2%	3,456	-71.0%			
Recurring net profit	1,524	151	-91.5%	1,121	-86.6%	2,854	1,675	-41.3%	2,645	-36.7%	2,094	-20.0%	
Basic EPS (CNY)	1.077	-0.614	-238.5%	0.443	-238.6%	1.012	0.463	-54.3%	1.521	-69.6%			
Core EPS (CNY)	0.703	0.069	-91.5%	0.461	-84.9%	1.319	0.773	-41.4%	1.164	-33.6%	1.080	-28.5%	
DPS (CNY)	0.000	0.230	15.0%	0.240	-4.2%	0.200	0.230	15.0%	0.240	-4.2%	0.224	2.7%	
BVPS (CNY)	13.433	12.721	4.0%	14.361	-11.4%	12.234	12.721	4.0%	14.361	-11.4%	12.945	-1.7%	
Gross margin	18.1%	28.7%		24.0%		19.2%	22.8%		20.7%				
Operating margin	14.4%	18.8%		17.9%		11.8%	16.3%		15.9%				
Effective tax rate	-44.0%	-132.0%		-57.2%		-58.2%	-69.9%		-50.0%				
Net margin	7.0%	-5.0%		4.3%		5.2%	1.7%		5.8%				
Recurring net margin	4.5%	0.6%		4.3%		6.8%	2.8%		4.4%				

Source: Company data, RHB

Changes In Earnings Forecasts

Figure 2: Changes to our forecasts

(CNYm)	FY19F			FY20F		
	Original	New	chg (%)	Original	New	chg (%)
Revenue	63,058	62,255	-1%	66,454	69,969	5%
Cost of goods sold	(49,078)	(47,502)	-3%	(51,684)	(53,321)	3%
Gross Profit	13,980	14,753	6%	14,769	16,648	13%
Selling expenses	(1,596)	(2,051)	28%	(1,677)	(2,154)	28%
General & admin expense	(3,153)	(4,084)	30%	(3,323)	(4,590)	38%
Others*	229	317	39%	236	326	39%
Revaluation gains/losses	0	0	N/A	0	0	N/A
Interest income	1,309	1,688	29%	1,401	1,561	11%
Interest expense	(1,559)	(2,034)	31%	(1,623)	(2,182)	34%
JCE & Associates	1,056	1,189	13%	1,109	1,291	16%
Profit before tax	10,266	9,778	-5%	10,893	10,900	0%
Income tax & LAT	(5,441)	(5,378)	-1%	(5,773)	(5,995)	4%
MI/PCS	(1,748)	(1,690)	-3%	(1,836)	(1,891)	3%
Reported net profit	3,077	2,710	-12%	3,283	3,015	-8%
Recurring net profit	3,077	2,710	-12%	3,283	3,015	-8%
Gross profit margin (%)	22.2%	23.7%	1.5%	22.2%	23.8%	1.6%
Reported net profit margin (%)	4.9%	4.4%	-0.5%	4.9%	4.3%	-0.6%
Recurring net profit margin (%)	4.9%	4.4%	-0.5%	4.9%	4.3%	-0.6%

Source: RHB

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Figure 3: Greentown's annual P&L (FY17-21F)

FY end Dec 31 (CNY m)	FY17	FY18F	FY19F	FY20F	FY21F
Property sales	37,936	55,274	56,350	63,018	66,209
Hotel operations	717	776	816	857	900
Property rental	70	85	90	94	99
Property mgmt and others	3,230	4,166	5,000	6,000	7,199
Total revenue	41,953	60,303	62,255	69,969	74,408
Cost of sales	(33,877)	(46,550)	(47,502)	(53,321)	(56,559)
Gross profit	8,076	13,752	14,753	16,648	17,849
Other income and expenses	(774)	308	317	326	336
Selling and marketing exp	(1,617)	(1,844)	(2,051)	(2,154)	(2,264)
Administrative expenses	(2,860)	(3,895)	(4,084)	(4,590)	(4,881)
Revaluation change	253	132	0	0	0
Exceptionals	3,752	(1,027)	0	0	0
Finance cost - net	(990)	(21)	(346)	(620)	(737)
Associates and JCEs	550	500	1,189	1,291	1,356
Profit before taxation	6,391	7,904	9,778	10,900	11,660
Taxation	(3,720)	(5,529)	(5,378)	(5,995)	(6,413)
Profit after taxation	2,671	2,375	4,400	4,905	5,247
MI / PCS	(481)	(1,372)	(1,690)	(1,891)	(1,986)
Reported net profit	2,190	1,003	2,710	3,015	3,261
Recurring net profit	2,854	1,675	2,710	3,015	3,261
Reported EPS (CNY)	1.012	0.463	1.191	1.261	1.300
Recurring EPS (CNY)	1.319	0.773	1.191	1.261	1.300
DPS (CNY)	0.200	0.230	0.251	0.279	0.302
Profit margin:					
Gross margin	19.2%	22.8%	23.7%	23.8%	24.0%
Reported net margin	5.2%	1.7%	4.4%	4.3%	4.4%
Recurring net margin	6.8%	2.8%	4.4%	4.3%	4.4%
YoY growth:					
Turnover	44.8%	43.7%	3.2%	12.4%	6.3%
Booked property sales revenue	48.6%	45.7%	1.9%	11.8%	5.1%
Reported net profit	14.2%	-54.2%	170.1%	11.3%	8.2%
Recurring net profit	45.8%	-41.3%	61.8%	11.3%	8.2%
Reported EPS	44.6%	-54.3%	157.2%	6.0%	3.0%
Recurring EPS	45.7%	-41.4%	54.1%	6.0%	3.0%

Source: RHB

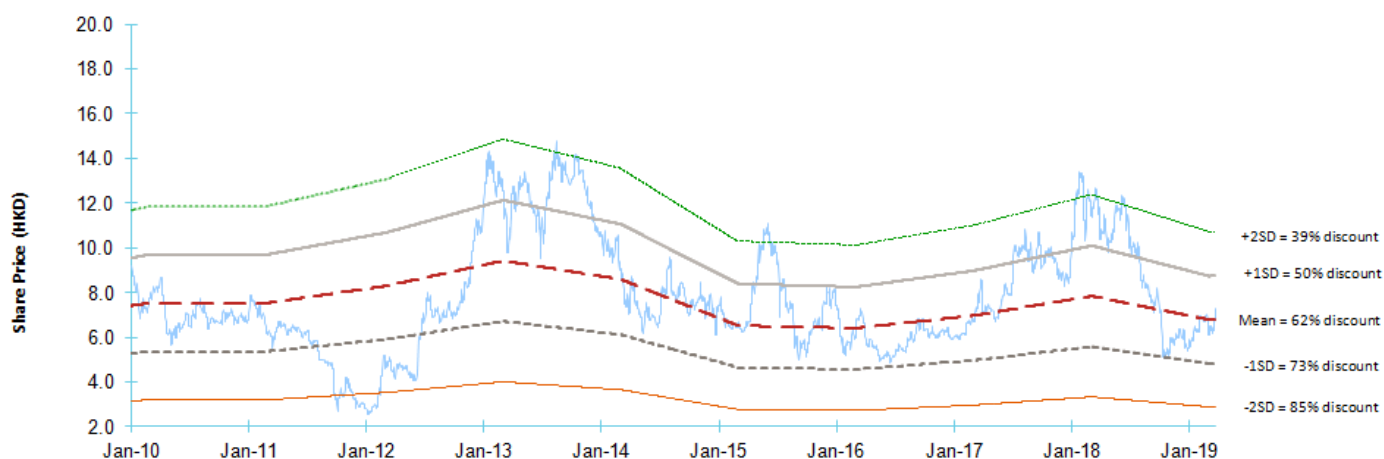
Valuations

Figure 4: Greentown's end-FY19F ENAV

Details	Total HKDm	HKD/share	% of Total
Land bank and properties under development	81,371	37.6	205%
Hotel properties and other fixed assets	12,192	5.6	31%
Investment properties	5,174	2.4	13%
Net debts as of end-FY19F	(58,999)	(27.3)	-148%
Total	39,738	18.4	100%

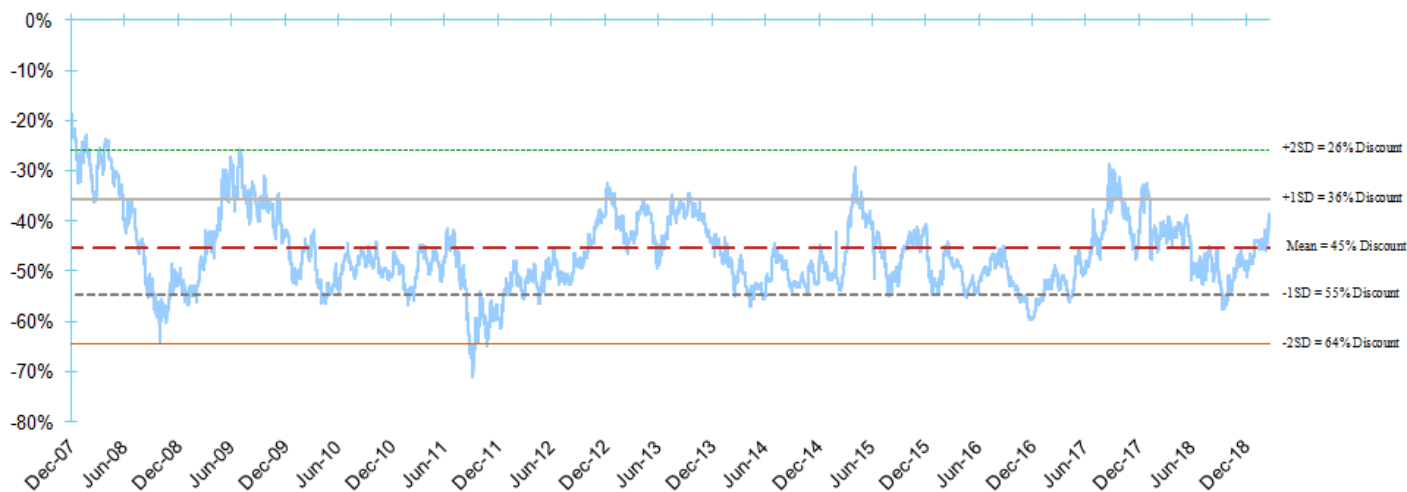
Source: RHB

Figure 5: Greentown's 5-year rolling forward ENAV band



Source: Bloomberg, RHB

Figure 6: China property sector – 10-year ENAV discount band



Source: Bloomberg, RHB

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