

15 March 2019

Property | Real Estate

CIFI Holdings (884 HK)

Buy (Maintained)

Still Rapidly Growing; Reiterate BUY

Target Price (Return) HKD7 (+31%)
 Price: HKD5.33
 Market Cap: USD5,262m
 Avg Daily Turnover (HKD/USD) 119m/15m

- **Reiterate BUY with a new HKD7 TP from HKD7.90, 31% upside with 7% FY19F yield.** Given CIFI's 25% YoY contracted sales growth for FY19F and our estimated core earnings CAGR of 23.2% for FY18-21F, it should still be among the developers recording the fastest contracted sales and steady earnings growth. As we see its valuation – 50% discount to end-FY19F ENAV with 5x FY19F P/E) as attractive – the retreat in share price is an opportunity to re-accumulate.

- **Still a leader in contracted sales growth.** Riding on its heavy reliance on Tier-2 cities and selected Tier-3 cities (67% of FY19 saleable resources and 80% of total land bank), CIFI aims to grow contracted sales by 25% YoY to CNY190bn in FY19 and be among the Top 8 developers in total contracted sales revenue. We believe the company will continue to outperform the sector average of 10-15% growth this year and upgrade itself into a large-sized developer (in sales value terms) in the long term. CIFI has strategically lowered its Tier-3 cities exposure to 10%, from 20%. That said, management expects a slower sales pace in 1H19, before it ramps up in 2H19 – when there is more certainty on economic recovery and policy support.

- **Higher gearing level should not pose as an immediate threat.** We expect CIFI's net gearing (treating perpetual bonds as debt) to stay at 70-90% in FY19-21F, slightly higher than the sector average of 70-80%, as it intends to continue fleshing out its rapid asset turnover strategy. That said, investors may be less concerned on its gearing amidst loosening monetary policies and onshore financing approvals ahead in China. On the other hand, investors may be concerned over CIFI's slower FY18 earnings growth, as core earnings missed our forecast by 9% (but in line with Street estimates). We think it was mainly due to slower revenue booking – at 18% below our estimate – while its 36% earnings growth is comparable to that of its peers.

- **Lower earnings forecasts, fine-tuning our ENAV.** We cut FY19F-20F earnings 14%, mainly due to slower revenue recognition and finance income – although this was partially offset by lower MI distribution. We also introduce our FY21F earnings with 11% YoY growth, consequently deriving a CAGR of 23.2% for FY18-21F. At the same time, we fine-tune our end-FY19F ENAV to HKD10.70 from HKD10.50, but widen our target discount to 35% from 25% – +1SD from the sector average – to arrive at our new HKD7 TP.

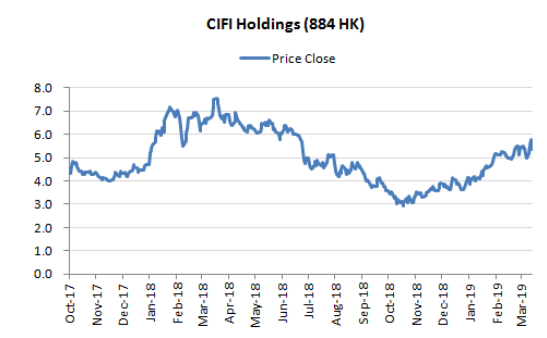
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	28.1	6.0	30.6	40.6	(21.6)
Relative	11.6	1.5	10.6	5.7	(8.2)
52-wk Price low/high (HKD)	7.7 – 2.9				



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (CNYm)	31,824	42,368	59,895	81,257	98,117
Recurring net profit (CNYm)	4,082	5,536	7,022	9,265	10,343
Recurring net profit growth (%)	44.5	35.6	26.8	31.9	11.6
Recurring EPS (CNY)	0.58	0.72	0.90	1.18	1.30
Recurring P/E (x)	7.9	6.3	5.0	3.8	3.5
P/BV (x)	1.5	1.4	1.2	1.0	0.8
DPS (CNY)	0.19	0.26	0.32	0.41	0.46
Dividend Yield (%)	4.2	5.7	7.0	9.1	10.1
ROAE (%)	22.8	23.8	25.2	27.9	26.1
Net debt to equity (%)	70.0	81.5	81.1	88.6	86.0
Interest coverage (x)	3.1	2.0	2.7	3.3	3.5

Source: Company data, RHB

FY18 Results Review

Figure 1: CIFI's FY18 results vs RHB forecasts

FY end Dec 31 (CNY m)	Actual	Actual	2H18	RHB	2H18	Actual	Actual		RHB	FY18	BBG	FY18
	1H18	2H18	YoY	2H18	Variance	FY17	FY18	YoY (%)	FY18	Variance	Consensus	Variance
Turnover	18,421	23,947	16.3%	33,276	-28.0%	31,824	42,368	33.1%	51,697	-18.0%	42,355	0.0%
Property sales	17,395	21,619	9.7%	32,692	-33.9%	30,295	39,014	28.8%	50,086	-22.1%		
Property investment	57	180	314.5%	47	283.4%	94	237	151.0%	104	128.1%		
Property mgmt and others	969	2,148	155.5%	537	299.6%	1,435	3,117	117.2%	1,507	106.9%		
Cost of sales	(14,069)	(17,686)	13.9%	(23,600)	-25.1%	(23,203)	(31,755)	36.9%	(37,668)	-15.7%		
Gross profit	4,352	6,261	23.6%	9,676	-35.3%	8,621	10,613	23.1%	14,028	-24.3%		
Other income	1,335	731	-20.4%	(335)	-317.8%	796	2,066	159.6%	1,000	106.6%		
Selling and marketing exp	(413)	(740)	118.6%	(571)	29.6%	(610)	(1,153)	89.2%	(984)	17.2%		
Administrative expenses	(1,045)	(1,077)	61.0%	(951)	13.3%	(1,268)	(2,122)	67.4%	(1,995)	6.3%		
Operating profit	4,229	5,175	4.0%	7,820	-33.8%	7,540	9,404	24.7%	12,049	-22.0%		
Revaluation change	269	(163)	15.2%	0	N/A	658	106	N/A	269	-60.5%		
Finance cost - net	229	(598)	84.1%	(643)	-7.0%	(262)	(369)	40.6%	(414)	-11.0%		
Associates and JCEs	1,108	1,068	-21.6%	2,162	-50.6%	2,106	2,175	3.3%	3,270	-33.5%		
Profit before taxation	5,836	5,481	-6.7%	9,338	-41.3%	10,041	11,317	12.7%	15,173	-25.4%		
Taxation	(1,659)	(2,540)	8.9%	(4,976)	-49.0%	(3,893)	(4,199)	7.9%	(6,635)	-36.7%		
Profit after taxation	4,177	2,942	-16.9%	4,361	-32.6%	6,149	7,118	15.8%	8,538	-16.6%		
MI/Perpetuals	(758)	(952)	9.6%	(1,477)	-35.6%	(1,320)	(1,709)	29.5%	(2,235)	-23.5%		
Reported net profit	3,419	1,990	-25.5%	2,884	-31.0%	4,828	5,409	12.0%	6,303	-14.2%		
Recurring net profit	2,446	3,090	21.5%	3,655	-15.5%	4,082	5,536	35.6%	6,101	-9.3%	5,448	1.6%
Basic EPS (CNY)	0.448	0.254	-30.0%	0.442	-42.4%	0.682	0.703	3.0%	0.890	-21.1%		
Core EPS (CNY)	0.321	0.398	14.0%	0.541	-26.3%	0.576	0.719	24.7%	0.861	-16.5%	0.734	-2.0%
DPS (CNY)	0.061	0.197	35.4%	0.251	-21.5%	0.189	0.258	36.4%	0.312	-17.3%	0.245	5.2%
BVPS (CNY)	3.081	3.325	12.7%	3.530	-5.8%	2.952	3.325	12.7%	3.530	-5.8%	3.471	-4.2%
Gross margin	23.6%	26.1%		29.1%		27.1%	25.0%		27.1%			
Operating margin	23.0%	21.6%		23.5%		23.7%	22.2%		23.3%			
Effective tax rate	-28.4%	-46.3%		-53.3%		-38.8%	-37.1%		-43.7%			
Net margin	18.6%	8.3%		8.7%		15.2%	12.8%		12.2%			
Core net margin	13.3%	12.9%		11.0%		12.8%	13.1%		11.8%			

Source: Company data, RHB

Changes In Earnings Forecasts

Figure 2: Changes to our forecasts

FY end Dec 31 (CNY m)	FY19F			FY20F		
	Original	New	chg (%)	Original	New	chg (%)
Revenue	70,165	59,895	-15%	91,817	81,257	-12%
Cost of goods sold	(51,432)	(44,972)	-13%	(67,513)	(62,016)	-8%
Gross profit	18,732	14,922	-20%	24,304	19,241	-21%
Selling and marketing exp	(1,401)	(1,516)	8%	(1,877)	(1,753)	-7%
Administrative expenses	(2,774)	(2,741)	-1%	(3,635)	(3,118)	-14%
Other income and expenses (incl. forex loss)	167	731	N/A	173	789	N/A
Revaluation change	0	0	N/A	0	0	N/A
Interest income	1,198	479	-60%	1,288	448	-65%
Interest expense	(516)	(429)	-17%	(552)	(457)	-17%
Associate and JCEs	4,470	3,276	-27%	5,877	4,486	-24%
Profit before tax	19,876	14,721	-26%	25,579	19,635	-23%
Taxation	(8,707)	(5,601)	-36%	(11,110)	(8,055)	-27%
Minority interests	(2,960)	(2,099)	-29%	(3,732)	(2,314)	-38%
Reported net profit	8,208	7,022	-14%	10,737	9,265	-14%
Recurring net profit	8,208	7,022	-14%	10,737	9,265	-14%
Gross profit margin (%)	26.7%	24.9%	-1.8%	26.5%	23.7%	-2.8%
Reported net profit margin (%)	11.7%	11.7%	0.0%	11.7%	11.4%	-0.3%
Recurring net profit margin (%)	11.7%	11.7%	0.0%	11.7%	11.4%	-0.3%

Source: RHB

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

FY end Dec 31 (CNY m)	FY17	FY18	FY19F	FY20F	FY21F
Property sales	30,295	39,014	56,051	76,760	92,698
Property investment	94	237	415	726	1,270
Property mgmt and others	1,435	3,117	3,428	3,771	4,148
Total revenue	31,824	42,368	59,895	81,257	98,117
Property sales	6,378	7,571	9,654	13,014	14,750
Property investment	57	154	277	488	826
Property mgmt and others	733	1,186	1,464	1,657	1,724
EBIT	7,168	8,910	11,395	15,159	17,300
Revaluation change	658	106	0	0	0
Net interest income/ (expense)	110	125	50	(10)	(119)
Associates and JCEs	2,106	2,175	3,276	4,486	5,417
Profit before taxation	10,041	11,317	14,721	19,635	22,598
Taxation	(3,893)	(4,199)	(5,601)	(8,055)	(9,444)
Profit after taxation	6,149	7,118	9,121	11,580	13,154
Minority interests & perpetual	(1,320)	(1,709)	(2,099)	(2,314)	(2,811)
Reported net profit	4,828	5,409	7,022	9,265	10,343
Recurring net profit	4,082	5,536	7,022	9,265	10,343
Reported EPS (CNY)	0.68	0.70	0.90	1.18	1.30
Recurring EPS (CNY)	0.58	0.72	0.90	1.18	1.30
DPS (HKD)	0.23	0.30	0.37	0.49	0.54
DPS (CNY)	0.19	0.26	0.32	0.41	0.46
Profit margin:					
Gross margin	27.1%	25.0%	24.9%	23.7%	23.1%
EBIT margin	22.5%	21.0%	19.0%	18.7%	17.6%
Reported net margin	15.2%	12.8%	11.7%	11.4%	10.5%
Recurring net margin	12.8%	13.1%	11.7%	11.4%	10.5%
YoY growth:					
Turnover	43.2%	33.1%	41.4%	35.7%	20.7%
Booked property sales revenue	46.3%	28.8%	43.7%	36.9%	20.8%
Reported net profit	72.0%	12.0%	29.8%	31.9%	11.6%
Recurring net profit	44.5%	35.6%	26.8%	31.9%	11.6%
Reported EPS	62.7%	3.0%	28.5%	30.6%	10.5%
Recurring EPS	36.8%	24.7%	25.6%	30.6%	10.5%

Source: RHB

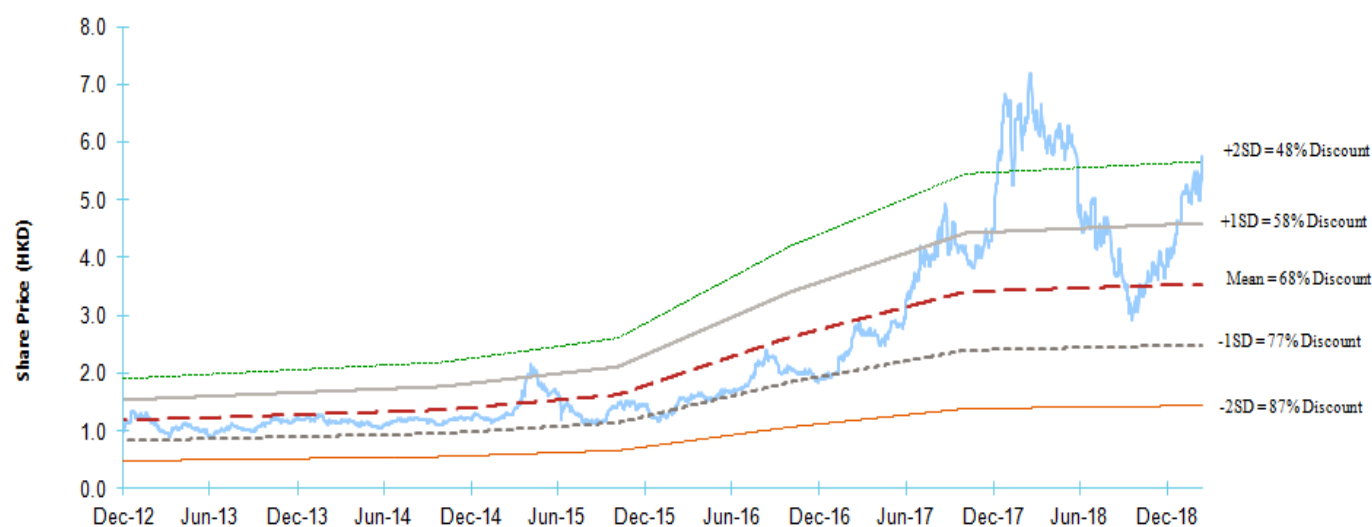
Valuations

Figure 4: CIFI's end-FY19F ENAV

Details	Total HKD m	HKD/share	% of Total
Landbank and properties under development	141,560	18.3	171%
Investment properties	22,796	2.9	28%
Net debts as of end-FY19F	(81,752)	(10.5)	-99%
Total	82,604	10.7	100%

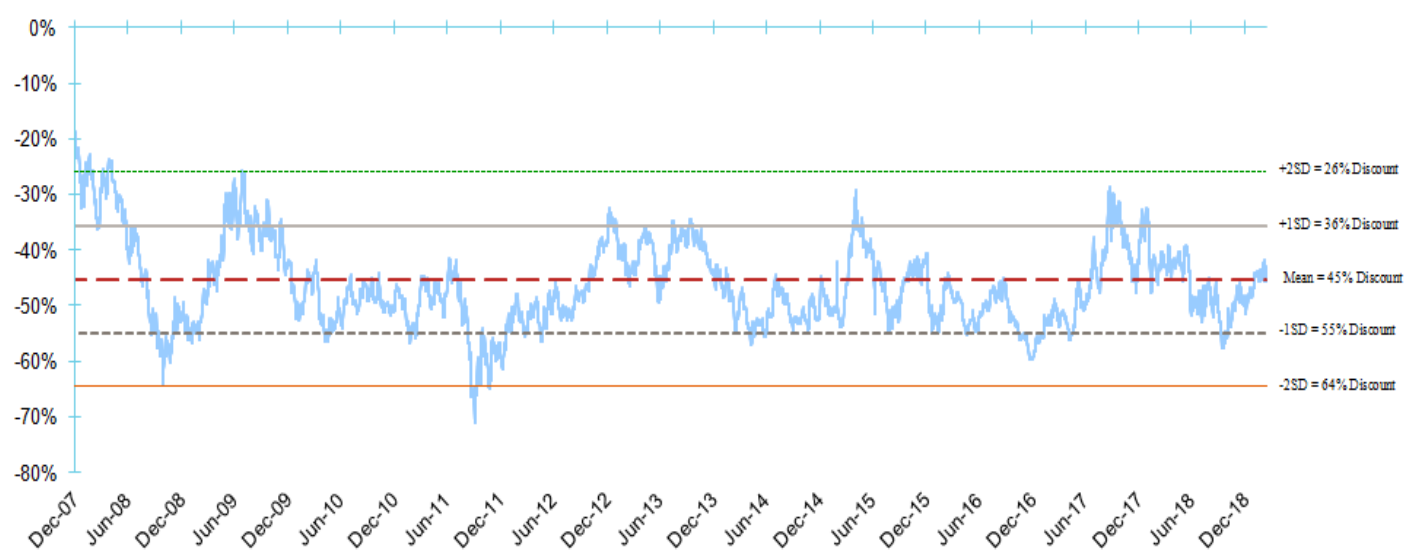
Source: RHB

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



Source: Bloomberg, RHB

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



Source: Bloomberg, RHB

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