

22 March 2019

Property | Real Estate

## Agile Group (3383 HK)

**Buy** (Maintained)

### Trading Catalysts Ahead, Keep BUY

Target Price (Return)	HKD15.60 (+32%)
Price:	HKD11.84
Market Cap:	USD5,910m
Avg Daily Turnover (HKD/USD)	81m/10m

- **Maintain BUY with new HKD15.60 TP** from HKD17.00, 32% upside plus 10% yield. Despite current headwinds from the earnings miss and worrying leverages, we suggest not to overlook various catalysts, including the company as one of the major sizable beneficiaries from the GBA region, the explosive growth potential from its non-core businesses, and attractive FY19F yield. Trading at an attractive valuation of 4.3x FY19F P/E with 62% ENAV discount, we still see upside potential for Agile.

- **Sustainable contracted sales growth, riding on the GBA region.** Agile set out a prudent growth target of 10% for FY19F contracted sales to CNY113bn. There are concerns on Hainan (c.10% of total sales revenue), as policy restrictions are not likely to be loosened. That said, we believe the prevailing momentum in the Greater Bay Area (GBA), which contributed 27% of landbank and 21% of FY19F saleable resources, will be more than enough to fill the gap. Moreover, we estimate that projects in the GBA should be able to generate GPM of 35-40%, given the low land cost and Agile's expertise in the region.

- **Growing potential in non-core businesses,** which mainly include property management and environmental protection, recorded rapid income growth (+56%) and contributed 6.5% and 14% of FY18 total revenue and operating profit. As we see the booming capacity completion (CAGR of 159% and 9% for solid waste and water treatment for FY18-21F) and steady 20% growth of GFA under management, we believe they will become additional sources of earnings growth, and help to balance any downturn of property sales. As reference, management targets 50% contribution to total earnings in FY23F.

- **FY18 results missed.** FY18 core earnings (stripping out forex loss and revaluation gains) rose 11% YoY, but missed our and Street forecasts by 23% and 10%, mainly dragged by higher operating expenses and finance costs. Agile performed well in GPM (43.9%), which we believe to be highest among peers. However, net gearing (treating perpetual securities as debts) rose to 111%, the highest in recent years. Also, we believe the surging operating costs was mainly due to the scale expansion, especially to the non-core businesses.

We cut FY19F-20F earnings by 12% and 8%, and introduce FY21F earnings with 23% YoY growth. The higher operating and finance costs are partially offset by higher GPM and non-core businesses contribution. We lower our end-FY19F ENAV to HKD31.10 from HKD34.70. Maintaining a 50% discount to ENAV (roughly +1SD from historical mean), we lower our TP to HKD15.60.

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (CNYm)	51,607	56,145	68,305	76,383	93,241
Recurring net profit (CNYm)	6,019	6,671	9,085	10,101	12,430
Recurring net profit growth (%)	119.4	10.8	36.2	11.2	23.1
Recurring EPS (CNY)	1.55	1.72	2.34	2.60	3.20
Recurring P/E (x)	6.5	5.9	4.3	3.9	3.1
P/BV (x)	1.1	0.9	0.8	0.8	0.7
DPS (CNY)	0.75	0.85	1.05	1.17	1.44
Dividend Yield (%)	7.5	8.4	10.5	11.6	14.3
ROAE (%)	7.8	7.8	9.2	9.2	10.1
Net debt to equity (%)	96.0	111.1	110.2	107.6	102.9
Interest coverage (x)	1.8	1.3	1.2	1.2	1.3

Source: Company data, RHB

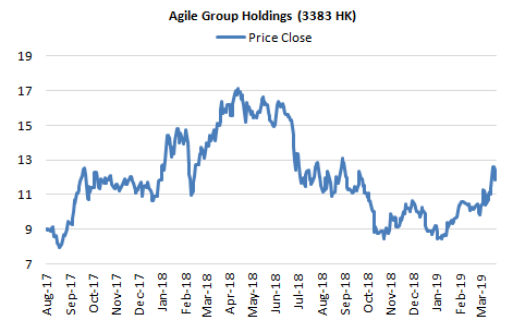
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	28.6	15.9	32.3	(4.2)	(25.7)
Relative	12.5	1.5	12.9	4.0	(7.5)
52-wk Price low/high (HKD)	8.1 – 17.8				



Source: Bloomberg

## FY18 Results Review

Figure 1: Agile's FY18 results vs RHB forecasts

FY end Dec 31 (CNY m)	Actual	Actual	2H18	RHB	2H18	Actual	Actual	FY18	RHB		BBG	
	1H18	2H18	YoY	2H18	Variance	FY17	FY18	YoY	FY18	Diff (%)	Consensus	Diff (%)
<b>Turnover</b>	24,206	31,939	32.4%	36,969	-13.6%	51,607	56,145	8.8%	61,175	-8.2%	61,069	-8.1%
Property sales	22,552	29,936	29.5%	35,389	-15.4%	49,262	52,488	6.5%	57,941	-9.4%		
Property rental	93	96	3.4%	90	6.6%	167	189	13.5%	183	3.2%		
Property mgmt and hotels	1,560	1,908	109.3%	1,490	28.0%	2,179	3,468	59.2%	3,050	13.7%		
Cost of sales	(12,188)	(19,283)	18.5%	(22,010)	-12.4%	(30,920)	(31,471)	1.8%	(34,198)	-8.0%		
<b>Gross profit</b>	<b>12,018</b>	<b>12,656</b>	<b>61.2%</b>	<b>14,958</b>	<b>-15.4%</b>	<b>20,687</b>	<b>24,674</b>	<b>19.3%</b>	<b>26,976</b>	<b>-8.5%</b>		
Other income and expenses	508	(17)	-83.5%	(38)	-54.2%	(78)	491	N/A	470	4.4%		
Selling and marketing costs	(1,031)	(1,287)	20.6%	(1,620)	-20.6%	(2,259)	(2,318)	2.6%	(2,651)	-12.6%		
Administrative expenses	(1,047)	(1,863)	130.3%	(1,567)	18.9%	(2,044)	(2,910)	42.3%	(2,613)	11.3%		
<b>Operating profit</b>	<b>10,449</b>	<b>9,488</b>	<b>61.7%</b>	<b>11,733</b>	<b>-19.1%</b>	<b>16,306</b>	<b>19,937</b>	<b>22.3%</b>	<b>22,182</b>	<b>-10.1%</b>		
Revaluation change	125	1,827	5592.1%	0	N/A	4	1,952	N/A	125	N/A		
Exceptionals	0	(1,347)	164.6%	0	N/A	4	(1,347)	N/A	0	N/A		
Finance cost - net	(853)	(315)	100.7%	(579)	-45.6%	(614)	(1,168)	90.2%	(1,432)	-18.4%		
Associates and JCEs	(51)	78	1724.3%	126	-38.5%	169	27	-84.0%	76	-64.2%		
<b>Profit before taxation</b>	<b>9,670</b>	<b>9,731</b>	<b>85.8%</b>	<b>11,281</b>	<b>-13.7%</b>	<b>15,869</b>	<b>19,401</b>	<b>22.3%</b>	<b>20,950</b>	<b>-7.4%</b>		
Taxation	(5,389)	(5,654)	77.2%	(5,928)	-4.6%	(9,089)	(11,043)	21.5%	(11,317)	-2.4%		
<b>Profit after taxation</b>	<b>4,280</b>	<b>4,077</b>	<b>99.1%</b>	<b>5,353</b>	<b>-23.8%</b>	<b>6,780</b>	<b>8,358</b>	<b>23.3%</b>	<b>9,633</b>	<b>-13.2%</b>		
MI/PCS	(521)	(711)	93.1%	(385)	84.6%	(755)	(1,233)	63.3%	(907)	36.0%		
<b>Reported net profit</b>	<b>3,759</b>	<b>3,366</b>	<b>100.4%</b>	<b>4,967</b>	<b>-32.2%</b>	<b>6,025</b>	<b>7,125</b>	<b>18.3%</b>	<b>8,726</b>	<b>-18.4%</b>		
<b>Recurring net profit</b>	<b>3,665</b>	<b>3,006</b>	<b>64.3%</b>	<b>4,967</b>	<b>-39.5%</b>	<b>6,019</b>	<b>6,671</b>	<b>10.8%</b>	<b>8,633</b>	<b>-22.7%</b>	<b>7,440</b>	<b>-10.3%</b>
Basic EPS (CNY)	0.968	0.867	100.1%	1.279	-32.2%	1.552	1.835	18.3%	2.248	-18.4%		
Core EPS (CNY)	0.944	0.774	64.5%	1.279	-39.5%	1.550	1.718	10.8%	2.223	-22.7%	1.895	-9.3%
DPS (HKD)	0.500	0.500	11.1%	0.633	-21.0%	0.900	1.000	11.1%	1.133	-11.7%	0.879	13.8%
BVPS (CNY)	10.147	10.622	16.8%	11.354	-6.5%	9.359	10.622	13.5%	11.354	-6.5%	11.195	-5.1%
Gross margin	49.6%	39.6%		40.5%		40.1%	43.9%		44.1%			
Operating margin	43.2%	29.7%		31.7%		31.6%	35.5%		36.3%			
Effective tax rate	-55.7%	-58.1%		-52.5%		-57.3%	-56.9%		-54.0%			
Net margin	15.5%	10.5%		13.4%		11.7%	12.7%		14.3%			
Core net margin	15.1%	9.4%		13.4%		11.7%	11.9%		14.1%			

Source: Company data, RHB

## Changes In Earnings Forecasts

Figure 2: Changes to our forecasts

(CNYm)	FY19F			FY20F		
	Original	New	chg (%)	Original	New	chg (%)
<b>Revenue</b>	65,099	68,305	5%	72,932	76,383	5%
Cost of goods sold	(38,023)	(39,858)	5%	(44,349)	(45,980)	4%
<b>Gross Profit</b>	<b>27,075</b>	<b>28,448</b>	<b>5%</b>	<b>28,583</b>	<b>30,403</b>	<b>6%</b>
Selling expense	(2,373)	(2,569)	8%	(2,565)	(2,787)	9%
General & admin expense	(2,326)	(3,155)	36%	(2,514)	(3,340)	33%
Other incomes and expenses	611	638	4%	794	829	4%
Interest Expense	(1,186)	(1,937)	63%	(1,214)	(2,077)	71%
Interest Income	258	270	5%	236	280	18%
JCE & Associate items	95	94	-1%	103	106	4%
<b>Pre-tax profit</b>	<b>22,154</b>	<b>21,789</b>	<b>-2%</b>	<b>23,423</b>	<b>23,414</b>	<b>0%</b>
Taxation	(10,741)	(11,439)	6%	(11,304)	(11,941)	6%
MI and PCS distribution	(1,079)	(1,264)	17%	(1,149)	(1,372)	19%
<b>Reported net profit</b>	<b>10,334</b>	<b>9,085</b>	<b>-12%</b>	<b>10,970</b>	<b>10,101</b>	<b>-8%</b>
<b>Recurring net profit</b>	<b>10,334</b>	<b>9,085</b>	<b>-12%</b>	<b>10,970</b>	<b>10,101</b>	<b>-8%</b>
Gross profit margin (%)	41.6%	41.6%	0.1ppts	39.2%	39.8%	0.6ppts
Reported net profit margin (%)	15.9%	13.3%	-2.6ppts	15.0%	13.2%	-1.8ppts
<b>Recurring net profit margin (%)</b>	<b>15.9%</b>	<b>13.3%</b>	<b>-2.6ppts</b>	<b>15.0%</b>	<b>13.2%</b>	<b>-1.8ppts</b>

Source: RHB

Figure 3: Agile's annual P&amp;L (FY17-21F)

FY end Dec 31 (CNY m)	FY17	FY18	FY19F	FY20F	FY21F
Property sales	49,262	52,488	63,579	70,046	84,432
Property rental	167	189	217	250	288
Property mgmt and hotels	2,179	3,468	4,509	6,087	8,521
<b>Total revenue</b>	<b>51,607</b>	<b>56,145</b>	<b>68,305</b>	<b>76,383</b>	<b>93,241</b>
Cost of sales	(30,920)	(31,471)	(39,858)	(45,980)	(57,743)
<b>Gross profit</b>	<b>20,687</b>	<b>24,674</b>	<b>28,448</b>	<b>30,403</b>	<b>35,498</b>
Other income and expenses	(78)	491	638	829	1,078
Selling and marketing exp	(2,259)	(2,318)	(2,569)	(2,787)	(2,955)
Administrative expenses	(2,044)	(2,910)	(3,155)	(3,340)	(3,447)
Revaluation change	4	1,952	0	0	0
Exceptionals	4	(1,347)	0	0	0
Finance cost - net	(614)	(1,168)	(1,667)	(1,797)	(1,925)
Associates and JCEs	169	27	94	106	117
<b>Profit before taxation</b>	<b>15,869</b>	<b>19,401</b>	<b>21,789</b>	<b>23,414</b>	<b>28,366</b>
Taxation	(9,089)	(11,043)	(11,439)	(11,941)	(14,467)
<b>Profit after taxation</b>	<b>6,780</b>	<b>8,358</b>	<b>10,350</b>	<b>11,473</b>	<b>13,899</b>
MI / PCS	(755)	(1,233)	(1,264)	(1,372)	(1,469)
<b>Reported net profit</b>	<b>6,025</b>	<b>7,125</b>	<b>9,085</b>	<b>10,101</b>	<b>12,430</b>
<b>Recurring net profit</b>	<b>6,019</b>	<b>6,671</b>	<b>9,085</b>	<b>10,101</b>	<b>12,430</b>
Reported EPS (CNY)	1.552	1.835	2.340	2.602	3.201
Recurring EPS (CNY)	1.550	1.718	2.340	2.602	3.201
DPS (HKD)	0.900	1.000	1.179	1.311	1.614
<b>Profit margin:</b>					
Gross margin	40.1%	43.9%	41.6%	39.8%	38.1%
Reported net margin	11.7%	12.7%	13.3%	13.2%	13.3%
Recurring net margin	11.7%	11.9%	13.3%	13.2%	13.3%
<b>YoY growth:</b>					
Turnover	10.6%	8.8%	21.7%	11.8%	22.1%
Booked property sales revenue	10.1%	6.5%	21.1%	10.2%	20.5%
Reported net profit	163.8%	18.3%	27.5%	11.2%	23.1%
Recurring net profit	119.4%	10.8%	36.2%	11.2%	23.1%
Reported EPS	163.8%	18.3%	27.5%	11.2%	23.1%
Recurring EPS	119.4%	10.8%	36.2%	11.2%	23.1%

Source: RHB

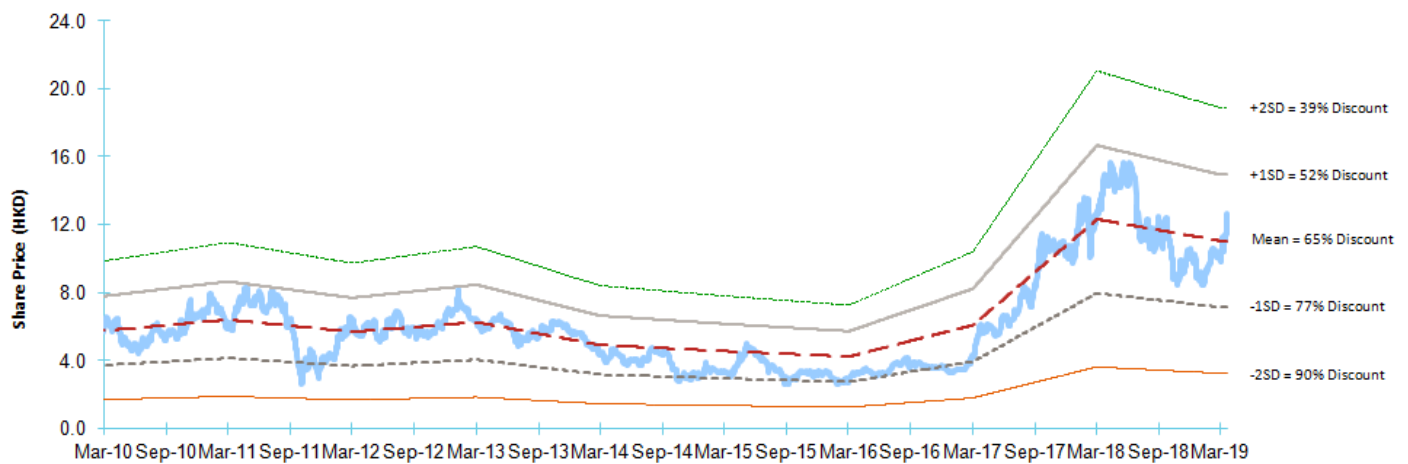
## Valuations

Figure 4: Agile's end-FY19F ENAV

Details	Total HKDm	HKD/share	% of Total
Landbank - development properties	153,256	39.1	126%
Landbank - investment properties & hotels	23,225	5.9	19%
Property management (A-Living)	13,000	3.3	11%
Net debt as at end-FY19F	(67,654)	(17.3)	-56%
<b>Total</b>	<b>121,827</b>	<b>31.1</b>	<b>100%</b>

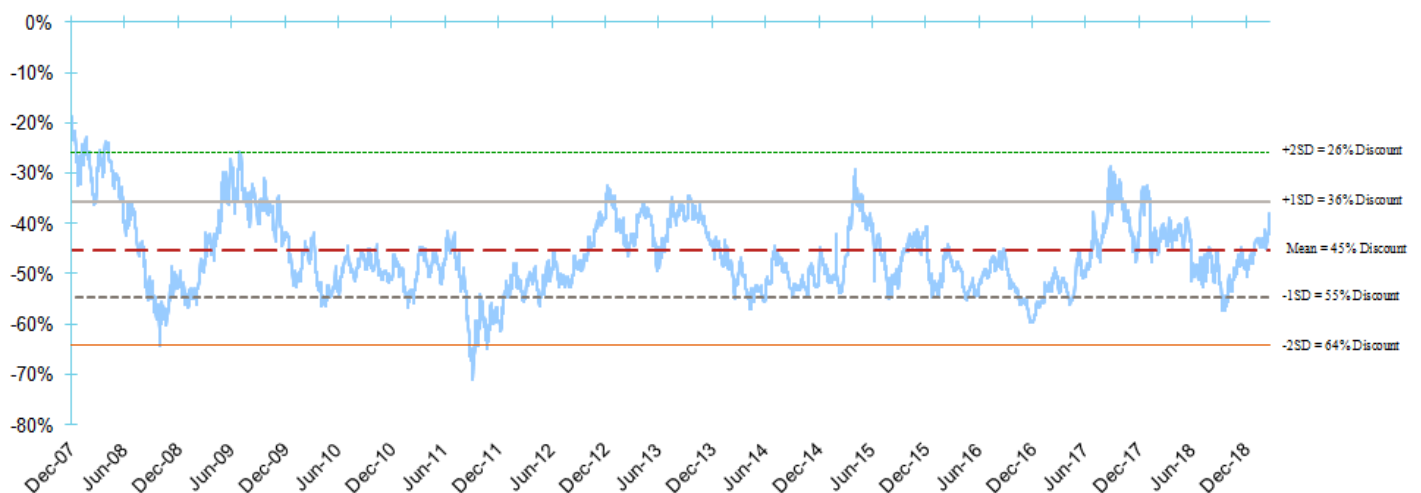
Source: RHB

Figure 5: Agile'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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