

26 March 2019

Property | Real Estate

Longfor Group Holdings (960 HK)

Buy (Maintained)

Steady And Quality Growth Ahead, Keep BUY

Target Price (Return)	HKD29.10 (+16%)
Price:	HKD25.15
Market Cap:	USD19,045m
Avg Daily Turnover (HKD/USD)	206m/26m

- **Maintain BUY with new HKD29.10 TP** from HKD26.70, 16% upside plus 6% yield. We reaffirm our view on Longfor for its attractive earnings growth, profit margins, solid financial strengths and quality landbank. Also, its growing investment property businesses should safeguard its ENAV and profit margins, in our view. Although it is unlikely to be a contender of contracted sales growth, it remains one of our picks for low-beta, solid fundamental plays.

- **Prudent but quality contracted sales growth target.** Longfor's 10% FY19F growth target might look a bit conservative. However, given 95% of its FY19F saleable resources are located in Tier-1 & 2 cities, we believe the company is comfortable in achieving a high sell-through rate, and sales should generate promising profit margins. Overall, we forecast for Longfor to maintain FY19F-21F GPM of 32-34%.

- **Buoyant outlook for investment property (IP) and rental apartment businesses.** Income from this segment has emerged as another growth driver. Longfor maintains its scale expansion plans, with nine and 16 new shopping malls to be launched in FY19F-20F, from the current 29 malls operating. However, with more completion volume (double the rooms in operation in FY19F), and the ramp-up of occupancy rate, we estimate income growth for Champion Apartment – Longfor's arm for long-term rental apartments – should accelerate in the next three years. Overall, we forecast a CAGR of 34% for income from these businesses in FY19F-21F. As the segment commands higher GPM compared with property sales, it also helps the company to sustain its GPM in long term.

- **FY18 results met, dividend payout a positive surprise.** FY18 core earnings rose 31.5% YoY – meeting Street forecasts, despite slightly below our forecast by 4%. Longfor has raised the payout ratio to 45%, from 40%. Its above-peers' financial strength is well maintained (net gearing at 53% and average funding cost at 4.55%), while short-term debt contributed a very low portion of 10% of the total borrowings.

- **Maintain BUY with higher TP driven by higher ENAV.** We raise FY19F-20F earnings both by 10%, and introduce FY21F earnings with 16% YoY growth and CAGR of 18.7% for FY18-21F. It mainly factors in faster revenue bookings, and higher IP income, but is partially offset by higher operating expenses. Similarly, we raise our end-FY19F ENAV by 9% to HKD38.80 from HKD35.60. Maintaining a 25% discount to ENAV (+2SD from its historical mean), we raise our TP to HKD29.10.

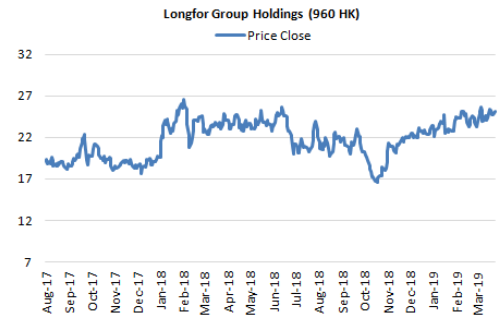
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	7.5	3.3	12.5	13.5	9.4
Relative	10.4	(1.5)	11.2	3.7	(5.9)
52-wk Price low/high (HKD)	16.1 – 26.2				



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (CNYm)	72,075	115,798	131,605	152,993	171,944
Recurring net profit (CNYm)	9,770	12,850	16,963	18,536	21,485
Recurring net profit growth (%)	25.9	31.5	32.0	9.3	15.9
Recurring EPS (CNY)	1.68	2.20	2.89	3.14	3.62
Recurring P/E (x)	12.7	9.7	7.4	6.8	5.9
P/BV (x)	1.8	1.5	1.4	1.2	1.1
DPS (CNY)	0.76	0.99	1.30	1.41	1.63
Dividend Yield (%)	3.5	4.6	6.1	6.6	7.6
ROAE (%)	13.8	15.7	18.6	18.3	19.0
Net debt to equity (%)	47.7	52.9	52.2	57.1	53.2
Interest coverage (x)	5.7	6.3	4.4	4.1	4.0

Source: Company data, RHB

FY18 Results Review

Figure 1: Longfor's FY18 results vs RHB forecasts

FY end Dec 31 (CNY m)	Actual		2H18		RHB		2H18		Actual		RHB		BBG	
	1H18	2H18	YoY	2H18	Diff (%)	FY17	FY18	YoY	FY18	Diff (%)	Consensus	Diff (%)		
Turnover	27,121	88,678	65.8%	68,958	28.6%	72,075	115,798	60.7%	96,079	20.5%	101,289	14.3%		
Property sales	24,037	84,682	66.5%	65,937	28.4%	67,462	108,719	61.2%	89,975	20.8%				
Property investment	1,851	2,239	53.8%	1,697	31.9%	2,593	4,090	57.7%	3,549	15.3%				
Property mgmt and others	1,232	1,757	52.5%	1,324	32.7%	2,019	2,989	48.0%	2,556	16.9%				
Cost of sales	(17,051)	(59,219)	65.2%	(45,773)	29.4%	(47,639)	(76,270)	60.1%	(62,824)	21.4%				
Gross profit	10,070	29,459	67.0%	23,185	27.1%	24,436	39,529	61.8%	33,255	18.9%				
Selling and marketing exp	(871)	(2,322)	81.7%	(1,064)	118.1%	(1,797)	(3,193)	77.7%	(1,936)	65.0%				
Administrative expenses	(1,778)	(3,619)	53.2%	(2,094)	72.9%	(3,267)	(5,397)	65.2%	(3,871)	39.4%				
Other income/(losses)	263	128	4.4%	59	117.9%	532	391	-26.5%	322	21.5%				
Operating profit	7,684	23,646	67.4%	20,086	17.7%	19,904	31,330	57.4%	27,770	12.8%				
Revaluation change	2,532	1,011	-55.5%	0	N/A	4,420	3,543	N/A	2,532	N/A				
Exceptionals	0	1,469	N/A	0	N/A	91	1,469	N/A	0	N/A				
Finance income/(cost) - net	111	386	107.4%	(202)	N/A	270	498	84.2%	(91)	N/A				
Associates and JCEs	450	193	-90.0%	1,997	-90.3%	1,868	643	-65.6%	2,447	-73.7%				
Profit before taxation	10,778	26,705	44.1%	21,880	22.1%	26,554	37,483	41.2%	32,658	14.8%				
Taxation	(4,085)	(12,507)	80.1%	(8,161)	53.2%	(10,075)	(16,592)	64.7%	(12,247)	35.5%				
Profit after taxation	6,693	14,198	22.5%	13,718	3.5%	16,478	20,891	26.8%	20,411	2.3%				
Minority interests	(1,263)	(3,391)	-0.2%	(3,912)	-13.3%	(3,880)	(4,654)	19.9%	(5,175)	-10.1%				
Reported net profit	5,430	10,807	31.9%	9,807	10.2%	12,599	16,237	28.9%	15,237	6.6%				
Recurring net profit	3,730	9,120	31.7%	9,607	-5.1%	9,770	12,850	31.5%	13,337	-3.7%	12,867	-0.1%		
Basic EPS (CNY)	0.929	1.849	31.2%	1.647	12.3%	2.170	2.779	28.0%	2.576	7.9%				
Core EPS (CNY)	0.638	1.561	30.9%	1.616	-3.4%	1.683	2.199	30.7%	2.255	-2.5%	2.180	0.9%		
DPS (CNY)	0.300	0.690	23.7%	0.730	-5.5%	0.758	0.990	30.6%	1.030	-3.9%	0.883	12.1%		
BVPS (CNY)	12.470	13.975	15.0%	13.475	3.7%	12.155	13.975	15.0%	13.475	3.7%	13.459	3.8%		
Gross margin	37.1%	33.2%		33.6%		33.9%	34.1%		34.6%					
Operating margin	28.3%	26.7%		29.1%		27.6%	27.1%		28.9%					
Effective tax rate	-37.9%	-46.8%		-37.3%		-37.9%	-44.3%		-37.5%					
Net margin	20.0%	12.2%		14.2%		17.5%	14.0%		15.9%					
Core net margin	13.8%	10.3%		13.9%		13.6%	11.1%		13.9%					

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	112,318	131,605	17%	130,012	152,993	18%
Cost of goods sold	(75,347)	(87,096)	16%	(89,195)	(103,587)	16%
Gross profit	36,971	44,508	20%	40,817	49,406	21%
Selling and marketing exp	(2,404)	(3,692)	54%	(2,809)	(4,390)	56%
Administrative expenses	(4,834)	(6,257)	29%	(5,557)	(7,382)	33%
Other gains and losses	390	473	22%	471	573	22%
Exceptionals	0	0	N/A	0	0	N/A
Revaluation gain	0	0	N/A	0	0	N/A
Interest Expense	(359)	(389)	8%	(424)	(456)	8%
Interest income	325	453	39%	358	591	65%
Associate and JCEs	3,430	1,591	-54%	4,273	1,893	-56%
Profit before tax	33,518	36,686	9%	37,129	40,235	8%
Taxation	(12,067)	(14,491)	20%	(13,367)	(15,692)	17%
Minority interests	(5,994)	(5,232)	-13%	(6,860)	(6,007)	-12%
Reported net profit	15,457	16,963	10%	16,903	18,536	10%
Recurring net profit	15,457	16,963	10%	16,903	18,536	10%
Gross profit margin (%)	32.9%	33.8%	0.9ppts	31.4%	32.3%	0.9ppts
Reported net profit margin (%)	13.8%	12.9%	-0.9ppts	13.0%	12.1%	-0.9ppts
Recurring net profit margin (%)	13.8%	12.9%	-0.9ppts	13.0%	12.1%	-0.9ppts

Source: RHB

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

FY end Dec 31 (CNY m)	FY17	FY18F	FY19F	FY20F	FY21F
Property sales	67,462	108,719	122,225	140,331	154,847
Property investment	2,593	4,090	5,597	7,660	10,482
Property mgmt and others	2,019	2,989	3,782	5,002	6,616
Total revenue	72,075	115,798	131,605	152,993	171,944
Cost of sales	(47,639)	(76,270)	(87,096)	(103,587)	(115,595)
Gross profit	24,436	39,529	44,508	49,406	56,349
Other income and expenses	532	391	473	573	693
Selling and marketing exp	(1,797)	(3,193)	(3,692)	(4,390)	(4,971)
Administrative expenses	(3,267)	(5,397)	(6,257)	(7,382)	(8,297)
Exceptionals	91	1,469	0	0	0
Revaluation change	4,420	3,543	0	0	0
Finance cost - net	270	498	63	135	132
Associates and JCEs	1,868	643	1,591	1,893	2,181
Profit before taxation	26,554	37,483	36,686	40,235	46,087
Taxation	(10,075)	(16,592)	(14,491)	(15,692)	(17,974)
Profit after taxation	16,478	20,891	22,195	24,543	28,113
MI	(3,880)	(4,654)	(5,232)	(6,007)	(6,628)
Reported net profit	12,599	16,237	16,963	18,536	21,485
Recurring net profit	9,770	12,850	16,963	18,536	21,485
Reported EPS (CNY)	2.170	2.779	2.888	3.141	3.622
Recurring EPS (CNY)	1.683	2.199	2.888	3.141	3.622
DPS (CNY)	0.758	0.990	1.300	1.413	1.630
Profit margin:					
Gross margin	33.9%	34.1%	33.8%	32.3%	32.8%
Reported net margin	17.5%	14.0%	12.9%	12.1%	12.5%
Recurring net margin	13.6%	11.1%	12.9%	12.1%	12.5%
YoY growth:					
Turnover	31.5%	60.7%	13.6%	16.3%	12.4%
Booked property sales revenue	31.1%	61.2%	12.4%	14.8%	10.3%
Reported net profit	37.6%	28.9%	4.5%	9.3%	15.9%
Recurring net profit	25.9%	31.5%	32.0%	9.3%	15.9%
Reported EPS	37.9%	28.0%	4.0%	8.7%	15.3%
Recurring EPS	26.2%	30.7%	31.4%	8.7%	15.3%

Source: RHB

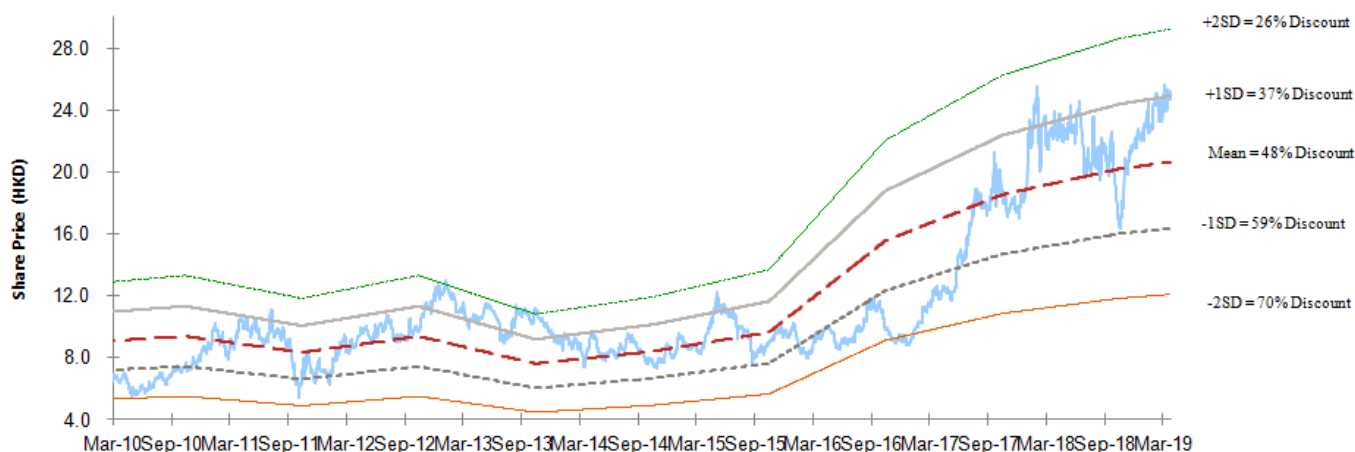
Valuations

Figure 4: Longfor's end-FY19F ENAV

Details	Total HKD m	HKD/share	% of Total
Landbank and properties under development	218,031	37.4	96%
Investment properties	104,049	17.8	46%
Net debts as of end-FY19F	(95,495)	(16.4)	-42%
Total	226,586	38.8	100%

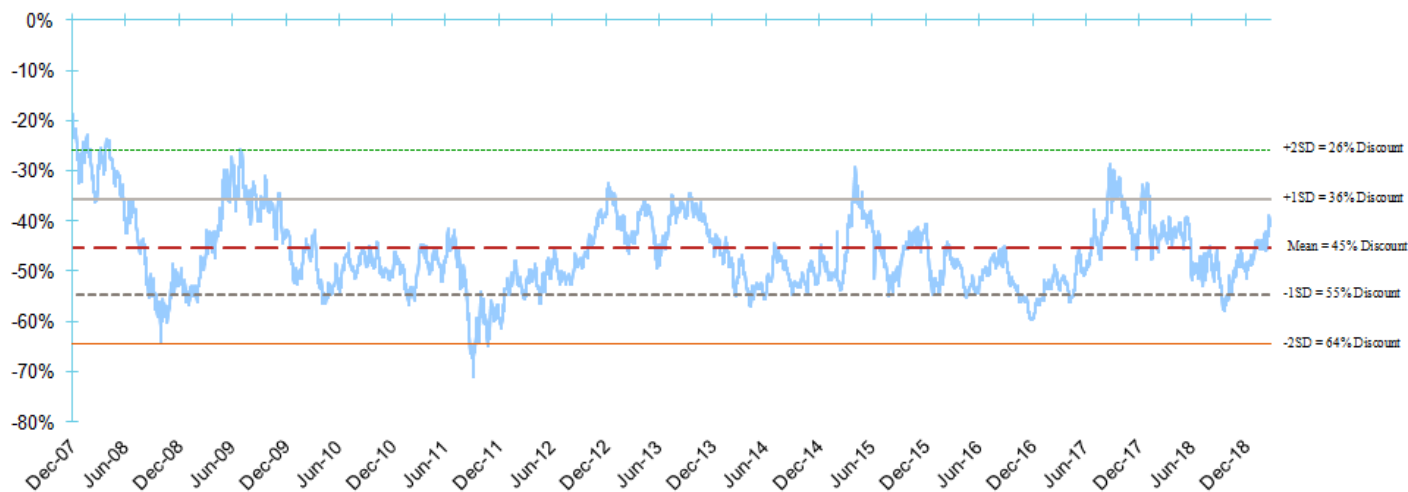
Source: RHB

Figure 5: Longfor'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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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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