

3 August 2018

Property | Real Estate

Real Estate

Overweight (Maintained)

1H18 Preview – Earnings Set To Beat

Stocks Covered: 13
Ratings (Buy/Neutral/Sell): 9 / 2 / 2

Reiterate **OVERWEIGHT** on the sector, given Chinese developers' solid earnings and property sales outlook, and undemanding valuation. **Top Picks** are Shimao, Country Garden and CIFI. We expect developers under our coverage to report a buoyant 35-40% YoY growth in core earnings for 1H18F. Strong contracted sales YTD are likely to spur further share repurchases for some developers in the next 3-6 months. That said, sector valuation is suffering, as investors are weighing on refinancing risk and CNY depreciation. We view these trends as favouring large-cap developers shopping for bargains and gaining further market share in the long term. We also like CR Land and Agile for potential earnings surprises.

1H18 results set to beat. We anticipate developers under our coverage to report a buoyant 35-40% YoY growth in core earnings, mainly driven by the booking of strong property sales performance in the past 1-2 years. Though developers' earnings are subjected to project completion and delivery schedule – which sometimes may distribute unevenly between 1H and 2H – we believe most developers, except Greentown China Holdings, are still in solid earnings growth trend. We also expect developers to maintain resilient margins – GPM: 30-31% and NPM: 11-12%, given strong ASP hike over FY16-17.

Potential earnings surprises from Country Garden Holdings, China Resource Land and Agile Property. CIFI Holdings and Sunac have already issued positive profit alerts. We anticipate Country Garden, CR Land and Agile to likely post >50% YoY growth in earnings, – the first two companies' earnings growth should be largely due to growth in delivery schedule, while Agile's earnings growth is more likely to be underpinned by steady expansion in profit margins.

Against all odds, contracted sales growth may remain solid in 2H18. Looking forward, we anticipate listed developers to continue accelerating new launches in 2H18. For the twelve developers under our coverage, we estimate they will record c.40% YoY growth in contracted sales revenue (vs sector average of 25-30% YoY), and eventually beat contracted sales target by 10-15% on average (Figure 2). Policy risk may still be an overhang, as city-specific austerity measures continue to be put in place to discourage speculative demand and distort headline property price statistics, especially in Tier-1&2 cities. However, we see a loosening policy trend on the supply, which aims at increasing land supply. It would help to relieve high-flying land prices and provide support on real estate investment and national property sales.

Maintain OVERWEIGHT. The sector is currently trading at 50% discount to NAV, retreating to -0.5SD from 10-year historical mean level despite it still being on track of buoyant earnings growth. Prefer Shimao, Country Garden and CIFI for secular growth in property sales and manageable gearing. We also like CR Land and Agile for potential earnings surprises in 1H18 results.

Top Picks

Shimao Property (813 HK) – BUY	HKD 30.0
Country Garden (2007 HK) – BUY	HKD 22.0
CIFI Holdings (884 HK) – BUY	HKD 7.80

Target Price

Developers' 1H18 earnings estimates

Name	Stock Code	Core net profit			1H as % of FY18F
		1H17 (CNY Bn)	1H18F	YoY (%)	
Sunac*	1918 HK	1.4	4.1	200.7%	32.0%
CR Land**	1109 HK	3.3	6.7	106.9%	27.5%
Agile	3383 HK	1.8	3.0	63.1%	35.8%
Country Garden	2007 HK	7.5	12.1	60.8%	35.9%
CIFI*	884 HK	1.5	2.3	47.2%	37.3%
Shimao	813 HK	3.7	5.3	43.5%	50.7%
KWG	1813 HK	1.4	2.0	40.4%	49.8%
Longfor	960 HK	2.8	3.8	32.0%	29.7%
COGO**	81 HK	0.7	0.9	24.3%	52.4%
COLI**	688 HK	16.8	20.8	24.0%	51.9%
Evergrande	3333 HK	19.9	22.2	11.7%	60.0%
Greentown	3900 HK	1.1	0.7	(34.9%)	29.2%
Total / Average		61.9	83.8	35.4%	43.3%

Note: * Reported positive profit alert
Note 2: ** Reporting currency in HKD
Source: RHB

37% growth in contracted sales revenue

Developer	Ticker	1H18 Sales (CNY bn)	1H18 % YoY (%)	FY18 Target (CNY bn)	6M18 lock-in (%)	FY18F Sales (CNY bn)	Completion Ratio (%)
Country Garden	2007 HK	412.5	43%	n.a.	-	813.8	-
Evergrande	3333 HK	304.2	25%	550.0	55%	639.2	116%
Sunac	1918 HK	191.5	76%	450.0	43%	506.2	112%
COLI*	688 HK	150.8	18%	290.0	52%	312.5	108%
Longfor	960 HK	97.1	5%	200.0	49%	215.1	108%
CR Land	1109 HK	94.3	49%	183.0	52%	217.0	119%
Greentown	3900 HK	75.4	27%	n.a.	-	160.9	-
Shimao	813 HK	72.3	60%	140.0	52%	161.1	115%
CIFI	884 HK	66.0	40%	140.0	47%	159.8	114%
Agile	3383 HK	46.6	15%	110.0	42%	132.3	120%
KWG	1813 HK	32.4	122%	65.0	50%	71.9	111%
COGO*	81 HK	28.5	54%	n.a.	-	46.3	-
Total		1,571.6	37%	2,128.0	50%	3,436.1	113%

Note: * Reporting currency in HKD
Source: RHB

Company	Stock code	Rating	TP (HKD)	Price (HKD)	End-FY18F ENAV (HKD)	ENAV disc(prem) (%)
Agile Property	3383 HK	BUY	20.00	11.36	34.00	67%
COGO	81 HK	SELL	2.30	2.58	6.60	61%
COLI	688 HK	BUY	36.60	23.55	43.00	45%
China Resources Land	1109 HK	BUY	31.50	27.05	42.00	36%
China South City	1668 HK	BUY	2.40	1.46	6.90	79%
CIFI Holdings	884 HK	BUY	7.80	4.44	10.40	57%
Country Garden	2007 HK	BUY	22.00	11.02	25.80	57%
Evergrande	3333 HK	BUY	31.70	20.10	42.20	52%
Greentown China	3900 HK	SELL	7.10	8.70	20.30	57%
KWG Property	1813 HK	NEUTRAL	10.00	8.21	22.30	63%
Longfor	960 HK	BUY	26.30	21.50	35.10	39%
Shimao Property	813 HK	BUY	30.00	20.90	40.00	48%
Sunac	1918 HK	NEUTRAL	31.00	22.55	41.30	45%

Source: Company data, RHB

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3 August 2018

Developers' Key Statistics

Figure 1: Developers' earnings estimates

Name	Stock Code	Core net profit			Core net profit			1H as %	1H as %
		1H17	1H18F	YoY	FY17	FY18F	YoY	of FY17	of FY18F
		(CNY Bn)		(%)	(CNY Bn)		(%)	(%)	(%)
Sunac*	1918 HK	1.4	4.1	200.7%	11.1	12.8	15.4%	12.3%	32.0%
CR Land**	1109 HK	3.3	6.7	106.9%	19.2	24.4	27.6%	17.0%	27.5%
Agile	3383 HK	1.8	3.0	63.1%	6.0	8.4	39.0%	30.5%	35.8%
Country Garden	2007 HK	7.5	12.1	60.8%	24.7	33.6	36.3%	30.4%	35.9%
CIFI*	884 HK	1.5	2.3	47.2%	4.1	6.1	48.6%	37.7%	37.3%
Shimao	813 HK	3.7	5.3	43.5%	6.9	10.4	49.4%	52.8%	50.7%
KWG	1813 HK	1.4	2.0	40.4%	2.7	4.1	49.4%	53.0%	49.8%
Longfor	960 HK	2.8	3.8	32.0%	9.8	12.6	29.4%	29.1%	29.7%
COGO**	81 HK	0.7	0.9	24.3%	1.1	1.7	50.1%	63.2%	52.4%
COLI**	688 HK	16.8	20.8	24.0%	34.3	40.1	16.9%	49.0%	51.9%
Evergrande	3333 HK	19.9	22.2	11.7%	25.9	37.0	42.7%	76.7%	60.0%
Greentown	3900 HK	1.1	0.7	(34.9%)	2.9	2.4	(14.8%)	38.1%	29.2%
Total / Average		61.9	83.8	35.4%	148.6	193.6	30.2%	41.6%	43.3%

Note: * Reported positive profit alert

Note 2: ** Reporting currency in HKD

Source: RHB

Figure 2: Developers' contracted sales summary and forecasts

Developer	Ticker	1H17	1H18	1H18	2H17	2H18F	2H18F	FY17	FY18F	FY18F	FY18	6M18	Completion
		Contracted Sales	Contracted Sales	% YoY	Contracted Sales	Contracted Sales	% YoY	Contracted Sales	Contracted Sales	% YoY	target	lock-in	Ratio
		(CNY bn)	(CNY bn)	(%)	(CNY bn)	(CNY bn)	(%)	(CNY bn)	(CNY bn)	(%)	(CNY bn)	(%)	(%)
Country Garden	2007 HK	288.9	412.5	43%	261.9	401.3	53%	550.8	813.8	48%	n.a.	-	-
Evergrande	3333 HK	244.1	304.2	25%	256.9	335.0	30%	501.0	639.2	28%	550.0	55%	116%
Sunac	1918 HK	108.9	191.5	76%	253.2	314.7	24%	362.0	506.2	40%	450.0	43%	112%
COLI*	688 HK	127.3	150.8	18%	105.8	161.6	53%	233.1	312.5	34%	290.0	52%	108%
Longfor	960 HK	92.6	97.1	5%	63.5	118.0	86%	156.1	215.1	38%	200.0	49%	108%
CR Land	1109 HK	63.2	94.3	49%	88.9	122.7	38%	152.1	217.0	43%	183.0	52%	119%
Greentown	3900 HK	59.5	75.4	27%	86.8	85.5	(1%)	146.3	160.9	10%	n.a.	-	-
Shimao	813 HK	45.1	72.3	60%	55.7	88.8	60%	100.8	161.1	60%	140.0	52%	115%
CIFI	884 HK	47.2	66.0	40%	56.9	93.7	65%	104.0	159.8	54%	140.0	47%	114%
Agile	3383 HK	40.4	46.6	15%	49.3	85.7	74%	89.7	132.3	47%	110.0	42%	120%
KWG	1813 HK	14.6	32.4	122%	14.1	39.5	180%	28.7	71.9	150%	65.0	50%	111%
COGO*	81 HK	18.5	28.5	54%	18.6	17.9	(4%)	37.1	46.3	25%	n.a.	-	-
Total		1,150.3	1,571.6	37%	1,311.3	1,864.5	42%	2,461.6	3,436.1	40%	2,128.0	50%	113%

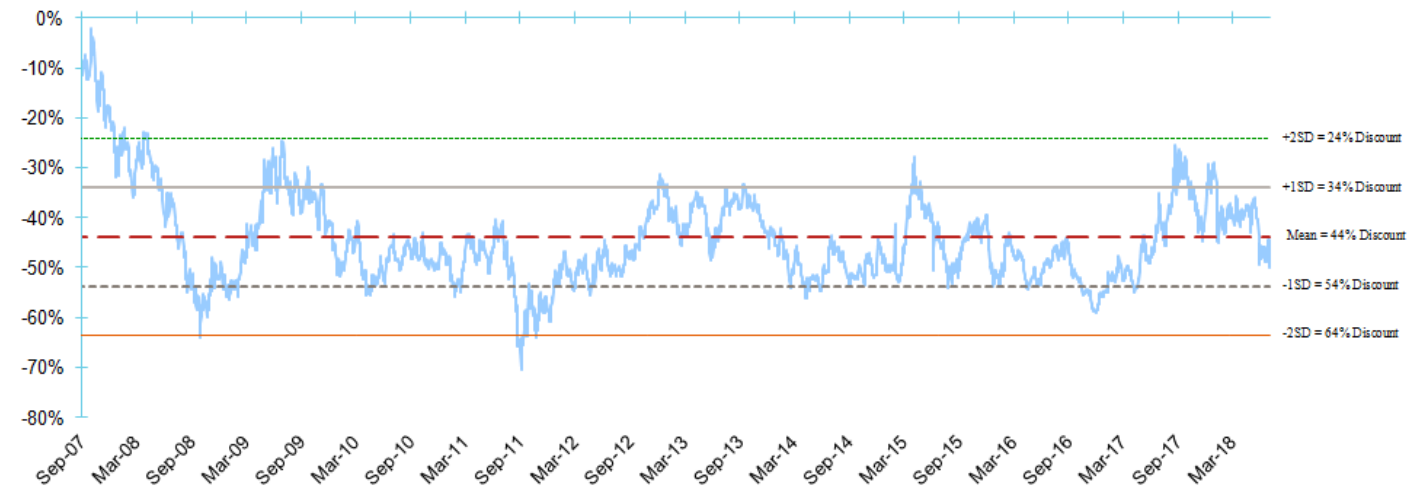
Note: * Reporting currency in HKD

Source: RHB

3 August 2018

Sector Valuation

Figure 3: China Property's 10-year ENAV discount band



Source: RHB

3 August 2018

Peer Comparison

Company	Stock code	*Price (HKD)	Mkt cap (USDm)	3-mth avg t/o (USDm)	RHB/Cons NAV (HKD)	Discount to NAV (%)	P/E		EPS YoY change		3-yr EPS CAGR (%)	P/BV		Div yield		
							FY18F (x)	FY19F (x)	FY18F (%)	FY19F (%)		FY18F (x)	FY19F (x)	FY18F (%)	FY19F (%)	
Large peer average							43.9	6.7	5.3	19.4	25.8	20.7	1.4	1.2	5.8	6.5
China Vanke	2202 HK	23.35	34,356	31.4	33.34	30.0	6.4	5.2	24.5	22.8	19.8	1.4	1.2	5.5	6.9	
**Country Garden	2007 HK	11.02	30,449	106.1	25.80	57.3	6.1	4.6	35.3	33.5	29.7	1.7	1.3	5.6	7.2	
**Evergrande	3333 HK	20.10	33,794	66.3	42.20	52.4	5.9	4.9	-3.1	20.3	10.3	1.6	1.4	10.3	9.3	
**China Overseas	688 HK	23.55	32,872	54.1	43.00	45.2	6.4	5.4	17.3	18.6	17.4	0.9	0.8	4.0	4.7	
**CR Land	1109 HK	27.05	23,885	42.3	42.00	35.6	7.6	6.5	28.0	17.8	20.8	1.2	1.0	4.5	5.3	
**Sunac	1918 HK	22.55	12,648	80.6	41.30	45.4	6.6	4.0	6.3	64.2	33.3	1.7	1.2	3.3	5.0	
**Longfor	960 HK	21.50	16,244	14.6	35.10	38.7	8.7	6.9	27.2	25.9	24.5	1.4	1.2	4.5	5.7	
Mid-and-small peer average							50.6	7.2	5.9	29.4	21.9	19.0	0.7	0.6	6.4	7.6
**Shimao	813 HK	20.90	9,019	22.1	40.00	47.8	6.7	5.3	32.1	25.5	27.2	0.9	0.8	5.8	7.3	
**Agile	3383 HK	11.36	5,669	15.8	34.00	66.6	5.3	4.2	21.2	24.0	22.2	0.9	0.8	8.7	10.8	
Guangzhou R&F	2777 HK	13.60	5,583	15.3	20.86	34.8	3.8	3.0	33.4	24.5	26.4	0.6	0.5	10.5	12.7	
China Jinmao	817 HK	3.45	5,077	16.1	5.23	34.0	6.9	5.3	19.7	29.7	28.9	0.9	0.8	5.9	7.6	
**CIFI	884 HK	4.44	4,392	16.0	10.40	57.3	5.3	4.1	26.8	28.7	26.9	1.1	0.9	6.7	8.6	
Sino-Ocean	3377 HK	4.29	4,162	5.5	6.80	36.9	5.7	4.8	22.3	19.7	22.2	0.5	0.5	7.6	9.3	
**KWG	1813 HK	8.21	3,300	15.6	22.30	63.2	4.8	3.7	52.0	30.6	35.9	0.7	0.6	7.3	9.4	
Shenzhen Inv	604 HK	2.75	2,823	6.0	8.50	67.6	7.3	6.2	-27.1	17.3	-6.1	0.5	0.5	6.7	7.5	
Kaisa	1638 HK	2.99	2,312	6.8	5.60	46.6	1.8	1.4	214.5	N/A	N/A	0.8	N/A	3.9	N/A	
**Greentown	3900 HK	8.70	2,403	7.8	20.30	57.1	7.7	6.9	27.7	11.5	15.2	0.6	0.5	2.5	2.7	
Yuexiu Property	123 HK	1.43	2,259	7.6	1.86	23.1	6.2	5.0	6.6	23.3	16.2	0.4	0.4	6.4	8.0	
SOHO China	410 HK	3.61	2,391	3.1	7.30	50.5	39.3	29.9	N/A	31.3	N/A	0.5	0.5	4.0	4.6	
Hopson	754 HK	6.44	1,826	1.2	13.08	50.8	10.2	10.1	N/A	1.6	N/A	N/A	N/A	3.0	3.0	
Shui On Land	272 HK	1.77	1,818	5.0	5.90	70.0	8.4	7.8	-23.4	7.7	0.2	0.3	0.3	4.2	4.4	
**CSC	1668 HK	1.46	1,490	4.0	6.90	78.8	6.0	4.9	N/A	22.4	N/A	0.3	0.3	3.4	5.1	
Poly HK	119 HK	3.00	1,399	3.1	7.00	57.1	4.8	4.7	72.0	1.6	N/A	0.4	0.4	6.0	6.0	
**COGO	81 HK	2.58	1,125	2.8	6.60	60.9	3.8	3.1	42.8	21.3	25.5	0.4	0.4	2.4	2.9	
Fantasia	1777 HK	1.13	830	1.2	2.60	56.5	4.1	3.2	20.0	29.2	24.9	0.4	0.3	6.2	7.4	
Sector average							45.5	6.8	5.5	21.8	24.9	20.3	1.2	1.0	5.9	6.8

3 August 2018

Company	Stock code	Mkt cap (USDm)	Revenue		Net profit		Gross margin	Net margin		Net gearing		ROE		Share price change	
			FY17 (USDm)	FY18F (USDm)	FY17 (USDm)	FY18F (USDm)	FY17 (%)	FY17 (%)	FY18F (%)	FY17 (%)	FY18F (%)	FY17 (%)	FY18F (%)	1-mth (%)	YTD (%)
Large peer average							31.8	15.8	12.5	96.3	23.1	24.5	22.4	-8.2	-11.7
China Vanke	2202 HK	34,356	34,753	45,668	4,108	5,124	32.3	11.8	11.2	14.1	N/A	22.8	23.3	-14.9	-25.2
Country Garden	2007 HK	30,449	33,224	51,615	3,816	5,000	25.9	11.5	9.7	55.0	29.6	31.8	29.4	-20.1	-22.3
Evergrande	3333 HK	33,794	45,542	65,791	3,569	5,796	36.1	7.8	8.8	237.8	N/A	30.7	32.7	0.5	-25.4
China Overseas	688 HK	32,872	20,890	26,921	5,194	5,125	33.4	24.9	19.0	27.1	13.6	16.7	14.5	-8.9	-6.4
CR Land	1109 HK	23,885	15,108	18,991	2,932	3,128	40.3	19.4	16.5	43.1	27.0	17.7	16.4	2.3	17.6
Sunac	1918 HK	12,648	9,646	20,370	1,711	1,901	20.7	17.7	9.3	249.1	N/A	32.8	23.5	-17.9	-30.3
Longfor	960 HK	16,244	10,554	14,180	1,845	1,852	33.9	17.5	13.1	47.8	22.2	19.0	17.3	1.7	9.9
Mid-and-small peer average							33.2	31.8	12.5	88.0	46.4	14.2	12.4	-9.4	-13.6
Shimao	813 HK	9,019	10,312	12,619	1,148	1,351	30.4	11.1	10.7	61.1	55.9	14.2	14.7	1.5	22.9
Agile	3383 HK	5,669	7,557	9,274	951	1,070	40.1	12.6	11.5	93.8	13.2	16.8	17.3	-15.0	-4.2
Guangzhou R&F	2777 HK	5,583	8,680	11,460	3,123	1,474	35.4	36.0	12.9	188.8	104.5	40.2	15.4	-14.1	-22.8
China Jinmao	817 HK	5,077	4,550	6,127	582	720	32.3	12.8	11.7	69.1	53.6	12.9	13.0	-12.4	0.3
CIFI	884 HK	4,392	4,660	5,964	707	829	27.1	15.2	13.9	49.4	N/A	26.9	22.5	-11.0	-5.7
Sino-Ocean	3377 HK	4,162	6,712	7,676	749	719	24.5	11.2	9.4	66.5	33.5	11.1	9.9	-5.9	-20.4
KWG	1813 HK	3,300	1,690	2,393	530	660	34.8	31.4	27.6	72.4	44.7	14.0	15.3	-16.7	-10.1
Shenzhen Inv	604 HK	2,823	1,306	2,383	631	381	34.6	48.3	16.0	22.0	N/A	13.3	7.1	-3.8	-15.1
Kaisa	1638 HK	2,312	4,800	10,080	481	1,256	27.3	10.0	12.5	326.2	N/A	20.5	38.5	-10.7	-32.2
Greentown	3900 HK	2,403	6,143	6,452	321	300	19.2	5.2	4.7	59.1	51.8	6.5	6.8	-17.3	-13.5
Yuexiu Property	123 HK	2,259	3,484	3,921	331	358	25.7	9.5	9.1	84.1	45.0	7.2	7.4	-4.7	-2.1
SOHO China	410 HK	2,391	287	284	693	70	74.0	241.2	24.6	51.4	N/A	14.1	1.4	-3.2	-21.0
Hopson	754 HK	1,826	1,761	N/A	738	N/A	36.8	41.9	N/A	71.9	N/A	9.8	N/A	-7.9	-15.9
Shui On Land	272 HK	1,818	2,702	2,313	328	218	42.6	12.2	9.4	55.1	N/A	4.4	3.0	-11.1	-18.1
CSC	1668 HK	1,490	1,198	1,577	575	250	43.3	48.0	15.8	76.8	N/A	14.0	10.4	-4.6	-28.8
Poly HK	119 HK	1,399	4,039	4,864	314	285	20.6	7.8	5.9	72.1	N/A	9.3	6.4	-7.4	-26.3
COGO	81 HK	1,125	2,583	3,460	162	251	20.1	6.3	7.3	77.6	15.4	10.6	13.7	-10.7	-38.1
Fantasia	1777 HK	830	1,432	2,000	169	200	29.6	11.8	10.0	87.1	N/A	9.8	7.5	-13.7	5.6
Average							32.8	27.3	12.5	90.3	39.2	17.1	15.3	-9.1	-13.1

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Buy: Share price may exceed 10% over the next 12 months

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

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated: Stock is not within regular research coverage

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