

28 March 2019

Property | Real Estate

Shimao Property Holdings (813 HK)

Buy (Maintained)

Becoming a Growth Player; Reiterate BUY

Target Price (Return) HKD30.40 (+27%)
 Price: HKD23.95
 Market Cap: USD10,073m
 Avg Daily Turnover (HKD/USD) 142m/18m

- **Reiterate BUY with new HKD30.40 (Street high-end) TP from HKD30.80, 27% upside plus 7% yield.** We believe Shimao's status as a leader among Top-20 developers in terms of contracted sales growth will remain. Also, its IP portfolio is approaching a mature stage for a spin-off in the next two years, which poses an additional catalyst. Together with its attractive yield, we recommend the company for those seeking high-beta and high-growth among large-to-mid cap developers.

- **Buoyant contracted sales growth story continues.** Shimao Property posted high sales growth for the second consecutive year (+48% and +70% in FY17 and FY18), after the completion of its destocking in the previous years. The company targets a 20% FY19 sales target to reach CNY210bn, of which CNY100bn should be completed in 1H19. New saleable resources acquired this year should be key for exceeding the full-year target going into 2H19. Overall, we believe Shimao is one of a few large/mid-cap developers still at an aggressive growth pace, enabling it to contest for Top 10 status (in contracted sales value terms) in FY19 – in FY18, it was ranked 11th.

- **Potential spin-off as additional catalyst.** While many developers are striving to increase investment properties (IP) income, Shimao has moved one step ahead by planning a spin-off of its IP portfolio. It recorded a segment income of CNY4.6bn (+27% YoY) in FY18, of which we expect the hotel and property management income to double in the next two years. This should be an appropriate timing for completing the spin-off.

- **FY18 earnings missed on slower GPM recovery.** FY18 core earnings rose 23% YoY, but were below our and Street forecasts by 6% and 19%. It was mainly due to slower-than-expected sales bookings and GPM, despite both being on an uptrend. GPM rebounded to 31.5%, despite slightly missing the guidance of 32%. Management guided for GPM to stay at c.30% going forward. Net gearing (treating perpetual as debt) is at 64.5%, while average funding cost is 5.8%. We believe both figures are well-controlled, given Shimao's aggressive land replenishment during the period.

- **Maintain BUY.** We cut FY19F-20F earnings by 14% and 12%, as we introduce FY21F earnings with 18% YoY growth. We factor in a slower bookings schedule, as earnings growth may lag behind contracted sales growth. However, we believe Shimao's earnings outlook remains attractive at 34.8% CAGR for FY18-21F, driven by contracted sales recovery since FY17. Given a higher valuation of its IP portfolio, we tweak our end-FY19F ENAV by -1% to HKD40.50, from HKD41.10. Maintaining a 25% discount to ENAV (+2SD from sector average), we trim our TP to HKD30.40.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	14.6	27.1	23.2	18.9	13.8
Relative	11.2	(0.1)	12.8	3.7	(6.7)
52-wk Price low/high (HKD)	14.2 – 26.2				



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (CNYm)	70,426	85,513	116,134	163,039	192,863
Recurring net profit (CNYm)	6,930	8,550	12,602	16,573	20,939
Recurring net profit growth (%)	18.8	21.4	35.8	40.4	18.3
Recurring EPS (CNY)	2.05	2.56	3.72	4.82	6.00
Recurring P/E (x)	9.9	7.9	5.5	4.2	3.4
P/BV (x)	1.2	1.1	1.0	0.9	0.8
DPS (HKD)	1.00	1.20	1.69	2.19	2.73
Dividend Yield (%)	4.2	5.0	7.1	9.1	11.4
ROAE (%)	12.0	14.4	18.9	21.6	23.4
Net debt to equity (%)	63.4	64.5	61.2	56.7	55.6
Interest coverage (x)	3.0	3.1	3.8	4.3	4.5

Source: Company data, RHB

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FY18 Results Review

Figure 1: Shimao'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	Diff (%)	FY17	FY18	YoY	FY18	Diff (%)	Consensus	Diff (%)
Turnover	42,571	42,942	24.1%	48,964	-12.3%	70,426	85,513	21.4%	91,534	-6.6%	85,730	-0.3%
Property sales	40,673	40,233	23.3%	46,710	-13.9%	66,796	80,907	21.1%	87,383	-7.4%		
Hotel operation	880	1,028	14.6%	999	3.0%	1,708	1,908	11.7%	1,879	1.6%		
Property investment	386	510	68.2%	396	28.6%	680	895	31.6%	782	14.5%		
Others	632	1,171	51.0%	858	36.4%	1,242	1,803	45.1%	1,490	21.0%		
Cost of sales	(29,364)	(29,200)	22.9%	(32,075)	-9.0%	(48,996)	(58,564)	19.5%	(61,439)	-4.7%		
Gross profit	13,207	13,742	26.8%	16,888	-18.6%	21,430	26,949	25.8%	30,096	-10.5%		
Other income - net	114	(312)	N/A	32	N/A	21	(198)	N/A	146	N/A		
Selling expenses	(672)	(1,351)	49.4%	(859)	57.2%	(1,462)	(2,023)	38.4%	(1,531)	32.1%		
Administrative expenses	(1,711)	(1,719)	31.1%	(1,511)	13.7%	(2,990)	(3,430)	14.7%	(3,222)	6.4%		
Operating profit	10,939	10,360	20.5%	14,550	-28.8%	16,999	21,298	25.3%	25,489	-16.4%		
Revaluation change	997	913	184.5%	0	N/A	679	1,910	181.1%	997	91.6%		
Finance cost - net	(387)	50	-94.8%	65	-22.9%	1,328	(337)	N/A	(322)	4.6%		
Associates and JCEs	(134)	(100)	-44.7%	468	N/A	(315)	(233)	-26.0%	334	N/A		
Profit before taxation	11,415	11,224	15.6%	15,083	-25.6%	18,692	22,638	21.1%	26,498	-14.6%		
Taxation	(5,233)	(5,095)	13.0%	(6,258)	-18.6%	(8,121)	(10,327)	27.2%	(11,491)	-10.1%		
Profit after taxation	6,182	6,129	17.8%	8,825	-30.6%	10,571	12,311	16.5%	15,007	-18.0%		
MI	(1,911)	(1,565)	25.9%	(1,779)	-12.0%	(2,730)	(3,476)	27.3%	(3,690)	-5.8%		
Reported net profit	4,271	4,564	15.2%	7,046	-35.2%	7,840	8,835	12.7%	11,317	-21.9%		
Recurring net profit	4,401	4,149	26.9%	6,168	-32.7%	6,930	8,550	23.4%	10,569	-19.1%	9,094	-6.0%
Basic EPS (CNY)	1.266	1.381	17.6%	2.038	-32.3%	2.324	2.647	13.9%	3.305	-19.9%		
Core EPS (CNY)	1.305	1.257	29.7%	1.781	-29.5%	2.054	2.562	24.7%	3.086	-17.0%	2.658	-3.6%
DPS (HKD)	0.500	0.700	16.7%	1.002	-30.2%	1.000	1.200	20.0%	1.502	-20.1%	1.053	14.0%
BVPS (CNY)	17.249	17.748	3.9%	20.119	-11.8%	17.083	17.748	3.9%	20.119	-11.8%	19.355	-8.3%
Gross margin	31.0%	32.0%		34.5%		30.4%	31.5%		32.9%			
Operating margin	25.7%	24.1%		29.7%		24.1%	24.9%		27.8%			
Effective tax rate	-45.8%	-45.4%		-41.5%		-43.4%	-45.6%		-43.4%			
Net margin	10.0%	10.6%		14.4%		11.1%	10.3%		12.4%			
Core net margin	10.3%	9.7%		12.6%		9.8%	10.0%		11.5%			

Source: Company data, RHB

Changes In Earnings Forecasts

Figure 2: Changes to our forecasts

(CNY m)	FY19F			FY20F		
	Original	New	chg (%)	Original	New	chg (%)
Revenue	133,059	116,134	-13%	174,622	163,039	-7%
Cost of goods sold	(89,902)	(79,235)	-12%	(119,090)	(114,659)	-4%
Gross Profit	43,157	36,899	-14%	55,532	48,380	-13%
Selling expense	(3,013)	(2,217)	-26%	(3,552)	(2,408)	-32%
General & admin expense	(5,192)	(3,905)	-25%	(6,157)	(4,277)	-31%
Interest Expense	(1,262)	(1,228)	-3%	(1,490)	(1,455)	-2%
Interest Income	892	736	-17%	1,061	941	-11%
JCE & Associate items	660	584	-11%	971	754	-22%
Pre-tax profit	35,439	30,891	-13%	46,625	42,029	-10%
Income tax & LAT	(15,279)	(13,568)	-11%	(20,072)	(18,563)	-8%
MI & PCS distributions	(5,579)	(4,721)	-15%	(7,615)	(6,893)	-9%
Reported net profit	14,581	12,602	-14%	18,937	16,573	-12%
Recurring net profit	14,581	12,602	-14%	18,937	16,573	-12%
Gross profit margin (%)	32.4%	31.8%	-0.7ppts	31.8%	29.7%	-2.1ppts
Reported net profit margin (%)	11.0%	10.9%	-0.1ppts	10.8%	10.2%	-0.7ppts
Recurring net profit margin (%)	11.0%	10.9%	-0.1ppts	10.8%	10.2%	-0.7ppts

Source: RHB

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

FY end Dec 31 (CNY m)	FY17	FY18	FY19F	FY20F	FY21F
Property development	66,796	80,907	109,776	153,857	178,830
Property investment	1,708	1,908	2,404	3,005	3,757
Hotel operation	680	895	1,790	3,581	7,162
Others	1,242	1,803	2,163	2,596	3,115
Total revenue	70,426	85,513	116,134	163,039	192,863
Property development	14,877	18,540	26,635	35,296	41,047
Property investment	674	795	984	1,229	1,530
Hotel operation	676	852	1,729	3,474	6,892
Others	773	1,112	1,451	1,789	2,024
EBIT	16,999	21,298	30,798	41,788	51,493
Revaluation change	679	1,910	0	0	0
Net Interest income/ (Expense)	1,328	(337)	(491)	(514)	(540)
Associates and JCEs	(315)	(233)	584	754	743
Profit before taxation	18,692	22,638	30,891	42,029	51,696
Taxation	(8,121)	(10,327)	(13,568)	(18,563)	(22,278)
Profit after taxation	10,571	12,311	17,322	23,466	29,418
Minority interests	(2,730)	(3,476)	(4,721)	(6,893)	(8,480)
Reported net profit	7,840	8,835	12,602	16,573	20,939
Recurring net profit	6,930	8,550	12,602	16,573	20,939
Reported EPS (CNY)	2.32	2.65	3.72	4.82	6.00
Recurring EPS (CNY)	2.05	2.56	3.72	4.82	6.00
DPS (HKD)	1.00	1.20	1.69	2.19	2.73
Profit margin:					
Gross margin	30.4%	31.5%	31.8%	29.7%	30.6%
EBIT margin	24.1%	24.9%	26.5%	25.6%	26.7%
Reported net margin	11.1%	10.3%	10.9%	10.2%	10.9%
Recurring net margin	9.8%	10.0%	10.9%	10.2%	10.9%
YoY growth:					
Turnover	18.8%	21.4%	35.8%	40.4%	18.3%
Booked property sales revenue	18.9%	21.1%	35.7%	40.2%	16.2%
Reported net profit	51.6%	12.7%	42.6%	31.5%	26.3%
Recurring net profit	10.9%	23.4%	47.4%	31.5%	26.3%
Reported EPS	54.3%	13.9%	40.5%	29.6%	24.5%
Recurring EPS	12.8%	24.7%	45.2%	29.6%	24.5%

Source: RHB

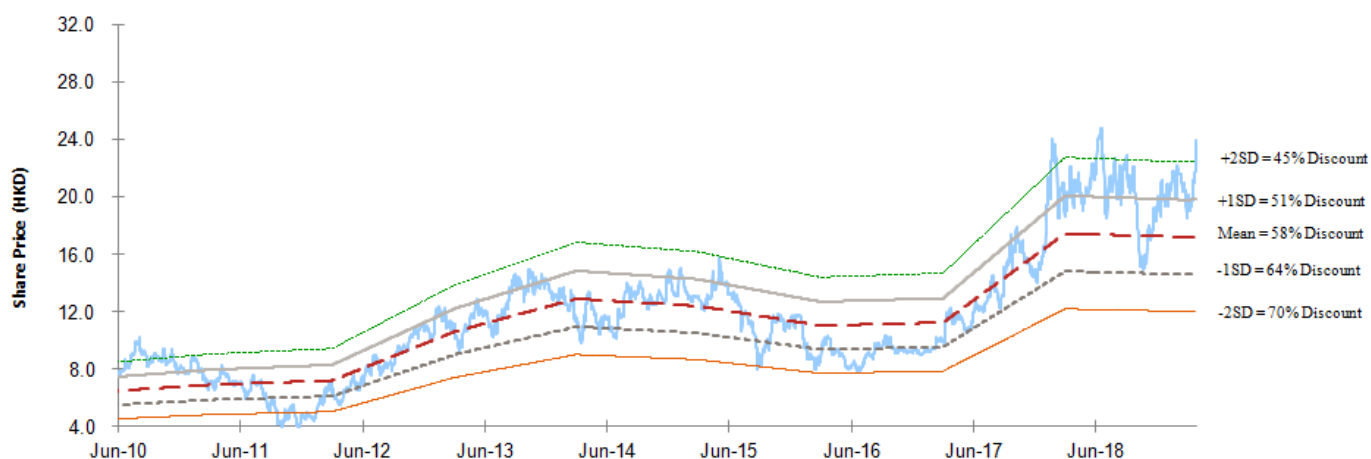
Valuation

Figure 4: Shimao's end-FY19F ENAV

Details	Total HKDm	HKD/share	% of Total
Landbank and properties under development	155,035	47.0	116%
Investment properties	35,900	10.9	27%
Hotels	23,934	7.2	18%
Net debts as of end-FY19F	(81,012)	(24.5)	-61%
Total	133,857	40.5	100%

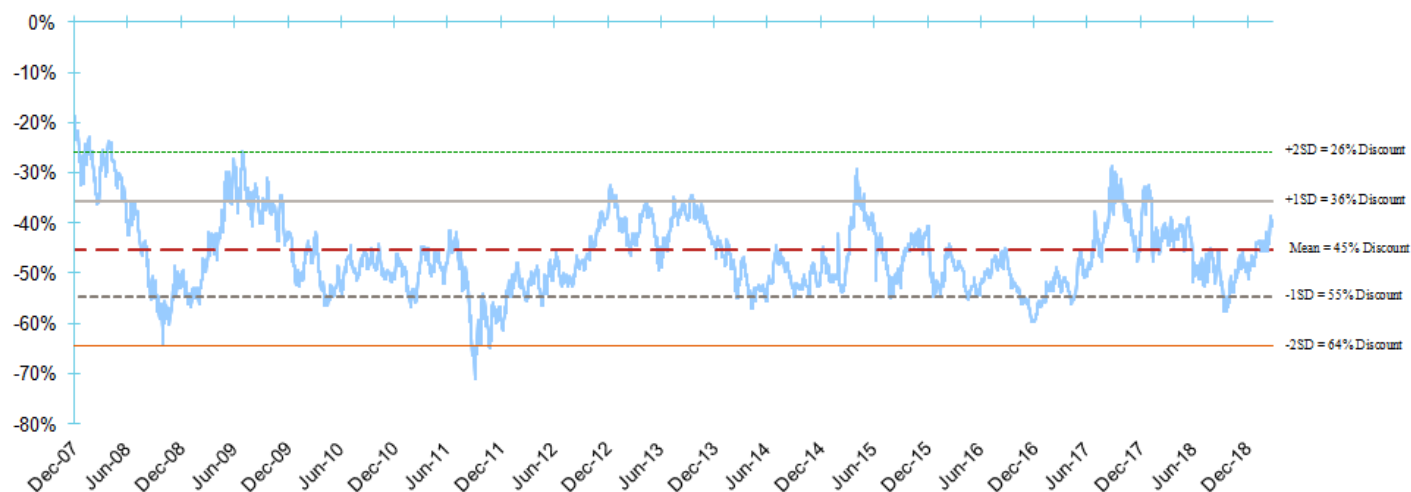
Source: RHB

Figure 5: Shimao'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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