

Poly Develop - A (600048 CH)

Rosy interim results

SUMMARY. Poly Development announced interim results as net profit soared by 53.3% to RMB10.0bn in 1H19. The strong results were attributable to the margin improvement and increase of delivery GFA. We maintain our forecast unchanged but raise TP to RMB20.72 after rolling over 2020E P/E. Reiterate **BUY** recommendation.

- **Interim results jumped 53%.** Revenue and net profit surged by 19.5% to RMB71.6bn and 53.3% to RMB10.0bn in 1H19, respectively. The strong results were driven by increase of delivery GFA and margin improvement. GM for property development expanded by 5.7ppts to 41.0% in 1H19. As a result, overall GM and NM improved to 39.8% and 18.2% in 1H19, respectively.
- **Cash collection of RMB216.8bn in 1H19.** Contracted sales amount and area increased by 17.3% to RMB252.6bn and 12.6% to 16.37mn sq m in 1H19, respectively. Cash collection ratio was 86% and cash proceeds from contracted sales amounted to RMB216.8bn in 1H19. So net gearing ratio stayed at healthy level of 76.6% as at Jun 2019. In Jul, Poly Development achieved contracted sales of RMB27bn that resulted in 58.3% of hit rate based on our full year contracted sales forecast of RMB480bn in 2019. Although property market sentiment becomes cloudy in 2H19, we believe Poly Development would achieve our sales forecast.
- **8.26mn sq m land bank replenishment in 1H19.** Poly Development acquired 44 projects of 8.26mn sq m land bank for considerations of RMB53.3bn in 1H19. During the period, new starts and completion were 28.94mn sq m and 11.67mn sq m, respectively. As at Jun 2019, GFA under development and for future development were 110.7mn sq m and 76.2mn sq m, respectively. These land banks were mainly situated at the first and second tier cities or major city clusters. We estimate NAV to be RMB25.11 per share.
- **Spin off property management business in HKEx.** The Company is applying to spin off its property management business in HKEx. As at Apr 2019, it managed 549 residential communities and 268 non-residential properties in 136 cities. Total contracted GFA reached 371.4mn sq m as at Apr 2019.
- **Reiterate BUY and raise TP.** We maintain our earnings forecast unchanged as RMB24.7bn in 2019 and RMB30.9bn in 2020. But we roll over our valuation to 2020E, based on 8.0x P/E. We raise our target price from RMB16.43 to RMB20.72. Reiterate **BUY** recommendation.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	146,659	194,555	252,043	316,015	364,871
YoY growth (%)	-5.2	32.7	29.5	25.4	15.5
Net income (RMB mn)	15,634	18,904	24,706	30,867	35,391
EPS (RMB)	1.32	1.59	2.08	2.59	2.98
YoY growth (%)	20	20.5	30.6	24.9	14.7
P/E (x)	10.4	8.6	6.6	5.3	4.6
P/B (x)	1.6	1.4	1.2	1.1	0.9
Yield (%)	2.9	3.7	4.6	5.7	6.5
ROE (%)	15.3	16.4	18.6	20.0	19.8
Net gearing (%)	86.4	80.6	71.2	64.4	56.3

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	RMB20.72
(Previous TP)	RMB16.43)
Up/downside	+51.5%
Current Price	RMB13.68

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Stock Data

Mkt Cap (RMB mn)	162,721
Avg 3 mths t/o (RMB mn)	867
52w High/Low (RMB)	15.08/ 10.56
Total Issued Shares (mn)	11,896

Source: Bloomberg

Shareholding Structure

China Poly Group	40.7%
Free float	59.3%

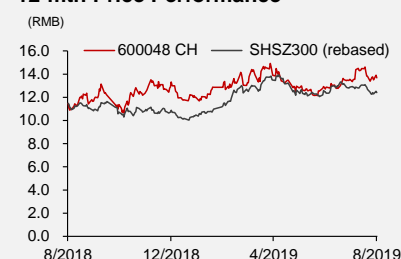
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	2.7%	5.8%
3-mth	7.3%	8.2%
6-mth	8.2%	-2.6%
12-mth	19.0%	9.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: BDO

Related Reports

1. "Poly Development (600048 CH) – Interim profit surged 59%" – 22 Jul 2019
2. "Poly Development (600048 CH) – West Point in China" – 28 Jun 2019

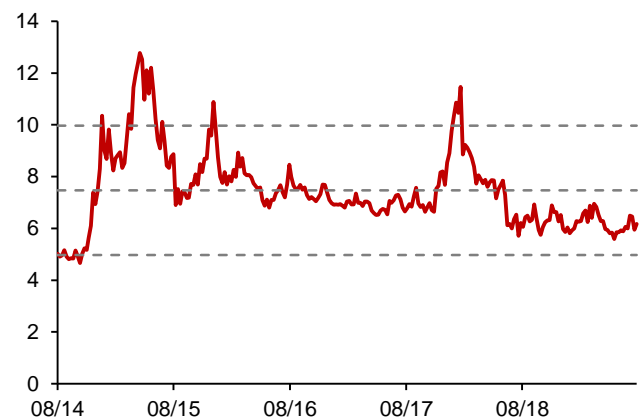
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Figure 1: 2019 interim results

	1H19 (RMB mn)	1H18 (RMB mn)	Growth (%)	1H19 as % of FY19E	1H18 as % of FY18
Revenue	71,121	59,518	19.5%	28.2%	30.6%
Operating profit	17,080	12,543	36.2%	36.3%	35.3%
Pre-tax profit	17,163	12,672	35.4%	36.5%	35.5%
Attr. Net profit	9,955	6,495	53.3%	40.3%	34.4%
EPS (RMB)	0.84	0.55	52.7%	40.4%	34.6%

Source: Company data

Figure 2: 5-year forward P/E

Source: Bloomberg

Figure 3: 5-year forward P/B

Source: Bloomberg

Figure 4: Peer group

Company	Ticker	Last price (LC)	Mkt Cap (LC mn)	Rating	TP (LC)	P/E			NAV/share (LC)	Discount to NAV
						18A	19E	20E		
Vanke - H	2202 HK	27.10	337,900	BUY	35.48	7.9	6.9	5.8	44.35	38.9%
COLI	688 HK	24.45	267,879	HOLD	32.13	6.0	6.0	5.4	45.89	46.7%
Country Garden	2007 HK	9.35	202,525	BUY	16.49	5.2	4.8	4.3	29.98	68.8%
CR Land	1109 HK	30.05	208,275	HOLD	33.18	7.7	7.9	6.5	47.30	36.5%
Longfor	960 HK	26.70	159,149	HOLD	23.23	8.6	8.5	7.2	33.19	19.6%
Shimao	813 HK	20.00	66,030	BUY	26.21	6.8	5.2	4.1	37.45	46.6%
Logan Property	3380 HK	10.10	55,377	HOLD	13.10	6.1	5.1	4.3	21.81	53.7%
Agile	3383 HK	9.09	35,606	BUY	15.93	4.4	4.2	3.8	28.96	68.6%
KWG	1813 HK	5.98	18,985	BUY	11.82	4.2	3.6	3.2	19.70	69.6%
China Aoyuan	3883 HK	9.07	24,402	BUY	13.00	9.0	5.4	3.8	19.21	52.8%
Times China	1233 HK	12.42	24,117	BUY	16.20	4.6	4.0	3.3	27.20	54.3%
Yuzhou	1628 HK	3.06	15,396	BUY	5.48	3.5	3.2	2.5	7.84	61.0%
China SCE	1966 HK	3.70	15,267	BUY	4.56	3.8	4.5	3.6	7.60	51.3%
COGO	81 HK	3.49	11,948	BUY	5.38	4.8	3.8	3.0	10.76	67.6%
Vanke - A	000002 CH	27.33	304,268	BUY	31.68	8.9	7.8	6.5	39.78	31.3%
Poly Development	600048 CH	13.68	162,741	BUY	20.72	8.6	6.6	5.3	24.11	43.3%
Average						6.3	5.5	4.5		50.7%

Source: Bloomberg, CMBIS estimates

Financial Summary

Income statement

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	146,659	194,555	252,043	316,015	364,871
Sale of properties	137,778	182,498	238,255	300,201	346,732
Other property related business	8,694	11,251	12,939	14,879	17,111
Others	151	765	803	884	972
Other financial business	36	42	46	50	55
Cost of sales	(101,133)	(131,339)	(170,606)	(215,385)	(248,709)
Gross profit	45,526	63,217	81,436	100,630	116,162
Taxes and surcharges	(12,473)	(16,122)	(21,424)	(26,861)	(31,014)
Selling expenses	(3,883)	(5,912)	(7,561)	(8,848)	(10,216)
Administrative expenses	(2,823)	(3,495)	(4,537)	(5,688)	(6,568)
R&D expenses	(35)	(41)	(53)	(67)	(77)
EBIT	26,313	37,646	47,862	59,165	68,288
Finance costs	(2,390)	(2,585)	(3,278)	(3,101)	(3,883)
Asset impairments	(61)	(2,351)	-	-	-
Gain on fair value change	(1)	190	-	-	-
Investment gain, net	1,680	2,690	2,421	2,663	2,929
Other gain	3	2	-	-	-
Operating profit	25,545	35,593	47,005	58,728	67,334
Other operating income, net	171	188	-	-	-
Profit for year	25,716	35,780	47,005	58,728	67,334
Income tax	(6,022)	(9,631)	(12,691)	(15,856)	(18,180)
Minority interests	(4,060)	(7,245)	(9,608)	(12,004)	(13,763)
Net profit to shareholders	15,634	18,904	24,706	30,867	35,391

Balance sheet

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Current assets	647,337	766,481	934,059	1,106,48	1,260,25
Cash on hand	68,051	113,431	153,124	177,320	210,618
Note & account receivable	1,873	2,044	2,648	3,320	3,833
Prepayment	54,243	26,045	34,121	43,077	49,742
Inventory	439,669	474,505	593,710	732,308	845,609
Others	83,501	150,456	150,456	150,456	150,456
Non-current assets	50,297	80,012	80,556	81,405	82,567
Investment properties	16,525	19,890	20,176	20,714	21,492
Fixed assets	4,104	4,594	4,674	4,788	4,946
Intangible assets	41	119	136	163	210
Deferred expense	209	356	516	686	866
Others	29,419	55,053	55,053	55,053	55,053
Total assets	697,635	846,494	1,014,615	1,187,885	1,342,826
Current liabilities	364,159	444,897	561,104	676,754	765,950
Short-term loans	3,067	3,011	5,041	6,320	7,297
Note & account payable	46,839	50,686	59,712	68,923	74,613
Advances from customers	226,189	299,795	390,666	489,823	565,550
Current portion of non-current liabilities	26,428	45,707	59,988	65,990	72,792
Others	61,636	45,698	45,698	45,698	45,698
Non-current liabilities	175,312	215,103	240,115	264,125	291,332
Long-term loans	176,156	214,939	239,951	263,961	291,169
Others	156	164	164	164	164
Total liabilities	539,471	660,000	801,219	940,878	1,057,282
Equity to shareholders	101,923	115,423	132,716	154,324	179,097
Perpetual bonds	5,000	6,500	6,500	6,500	6,500
Minority interest	51,240	64,572	74,180	86,184	99,947
Total equity	158,163	186,494	213,396	247,007	285,544

Source: Company data, CMBIS estimates

Cash flow summary

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Profit after tax	19,694	26,149	34,313	42,871	49,154
Depreciation, amortization, impairment	854	3,366	1,187	1,231	1,288
Change in working capital	(50,160)	(19,231)	(27,988)	(39,858)	(39,062)
Others	352	1,610	3,278	3,101	3,883
Net cash from operating	(29,261)	11,893	10,789	7,345	15,262
Fixed asset Capex & Investment	(7,892)	(13,819)	(1,730)	(2,080)	(2,450)
Associated companies	(10,614)	401	-	-	-
Others	1,556	(41)	-	-	-
Net cash from investing	(16,951)	(13,459)	(1,730)	(2,080)	(2,450)
Capital injected	15,869	12,783	-	-	-
Change of Debts	66,862	57,086	41,323	31,292	34,987
Dividend and interest paid	(15,291)	(21,401)	(10,689)	(12,361)	(14,500)
Others	(58)	(1,971)	-	-	-
Net cash from financing	67,382	46,498	30,633	18,931	20,487
Net change in cash	21,169	44,932	39,693	24,196	33,298
Cash at the beginning	46,952	67,983	113,076	152,768	176,964
Exchange difference	(138)	161	-	-	-
Cash at the end of the year	67,983	113,076	152,768	176,964	210,262

Key ratios

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Sale of properties	93.9	93.8	94.5	95.0	95.0
Other property related business	5.9	5.8	5.1	4.7	4.7
Others	0.1	0.4	0.3	0.3	0.3
Other financial business	0.0	0.0	0.0	0.0	0.0
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	31.0	32.5	32.3	31.8	31.8
EBIT margin	17.9	19.3	19.0	18.7	18.7
Operating margin	17.4	18.3	18.6	18.6	18.5
Net margin	10.7	9.7	9.8	9.8	9.7
Effective tax rate	23.4	26.9	27.0	27.0	27.0
Growth (%)					
Revenue	-5.2	32.7	29.5	25.4	15.5
Gross profit	1.4	38.9	28.8	23.6	15.4
EBIT	9.4	43.1	27.1	23.6	15.4
Operating profit	10.5	39.3	32.1	24.9	14.7
Net profit	25.9	20.9	30.7	24.9	14.7
Balance sheet ratios					
Current ratio (x)	1.8	1.7	1.7	1.6	1.6
Receivable turnover days	5	4	4	4	4
Payables turnover days	169	141	128	117	110
Inventory turnover days	1,587	1,319	1,270	1,241	1,241
Net debt / total equity ratio (%)	86.4	80.6	71.2	64.4	56.3
Returns (%)					
ROE	15.3	16.4	18.6	20.0	19.8
ROA	2.8	3.1	3.4	3.6	3.7
Per share					
EPS (RMB)	1.32	1.59	2.08	2.59	2.98
DPS (RMB)	0.400	0.500	0.623	0.778	0.893
BVPS (RMB)	8.59	9.69	11.14	12.96	15.03

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