

# Poly Develop - A (600048 CH)

## Interim profit surged 59%

**SUMMARY.** Poly Development announced the preliminary interim results as net profit soared by 59.1% to RMB10.4bn in 1H19. The strong results were attributable to the margin improvement and less deduction from minority interests. The reported 1H19 net profit accounted for about 41.9% and 44.5% of our and market's full year 2019 forecast. We maintain our forecast and TP unchanged. Reiterate **BUY** recommendation.

- Interim results express.** Poly Development announced the preliminary interim results. Revenue and net profit surged by 19.5% to RMB71.16bn and 59.1% to RMB10.4bn in 1H19, respectively. The strong results were attributable to higher gross margin and higher attributable ratio that resulted in less deduction from minority interest. As a result, operating margin and net margin expanded by 3.5ppts YoY to 24.6% and 3.6ppts to 14.5% in 1H19, respectively. The reported 1H19 net profit accounted for about 41.9% of our full year 2019 forecast or 44.5% of market consensus forecast. There will be chance of earnings revision later.
- Contracted sales grew 17.3% 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. Sales growth slowed down to 5.7% in Jun but the Company climbed the ranking from fifth position in 2018 to fourth in 1H19. We expect its full year contracted sales to be RMB480bn in 2019. In other words, hit rate was 52.6% as at Jun. We believe Poly Development could achieve our sales expectation that translates contracted sales growth to 18.6% in 2019, compared with contracted sales of RMB404.8bn in 2018.
- Prudent in land market.** According to CRIC data, Poly Development acquired 7.16mn sq m land bank in considerations of RMB46.6bn in 1H19. Compared with contracted sales in the same period, the Company is conservative to the land market because it believed land price was relative high. As at Mar 2019, the Company owned land bank of 230mn sq m that is sufficient to its long-term development since it plans to have 27.5mn sq m of properties completion in 2019, 24% higher than 2018 actual completion of 22.17mn sq m.
- Maintain target price of RMB16.43.** We maintain our earnings forecast unchanged as RMB24.7bn in 2019 and RMB30.9bn in 2020. However, we believe the market will revise upwards forecast following to the interim results announcement. We maintain our target price of RMB16.43, representing 7.9x 2019E P/E. 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)	10.9	9.0	6.9	5.6	4.8
P/B (x)	1.7	1.5	1.3	1.1	1.0
Yield (%)	2.8	3.5	4.3	5.4	6.2
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	RMB16.43
(Previous TP)	RMB16.43)
Up/downside	+14.3%
Current Price	RMB14.38

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#### Stock Data

Mkt Cap (RMB mn)	171,068
Avg 3 mths t/o (RMB mn)	871
52w High/Low (RMB)	15.08/ 10.30
Total Issued Shares (mn)	11,896

Source: Bloomberg

#### Shareholding Structure

China Poly Group	40.7%
Free float	59.3%

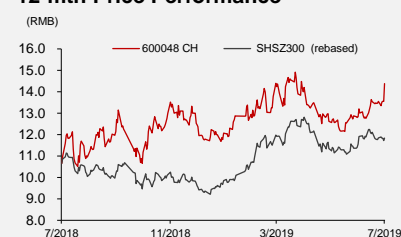
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	5.9%	3.0%
3-mth	-3.2%	4.6%
6-mth	12.3%	-5.6%
12-mth	28.2%	16.7%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

Auditor: BDO

#### Related Reports

- "China Property Sector – Market is weakening" – 17 Jul 2019
- "Poly Development (600048 CH) – West Point in China" – 28 Jun 2019

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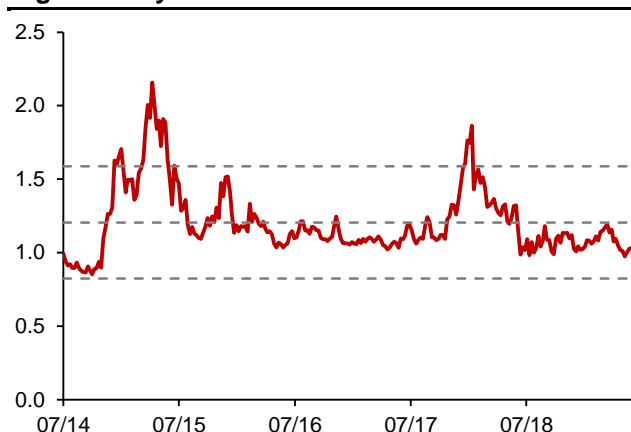
**Figure 1: Preliminary interim results**

	1H19 (RMB mn)	1H18 (RMB mn)	Change (%)	1H19 as % of FY19E	1H18 as % of FY18
Revenue	71,160	59,536	19.5%	28.2%	30.6%
Operating profit	17,506	12,567	39.3%	37.2%	35.3%
Pre-tax profit	17,588	12,695	38.5%	37.4%	35.5%
Profit attributable to shareholders	10,353	6,505	59.1%	41.9%	34.4%
EPS (RMB)	0.87	0.55	58.2%	41.8%	34.6%
BVPS (RMB)	10.60	10.25	3.4%	N.A.	N.A.

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 (HK\$)	Discount to NAV
						18A	19E	20E		
Vanke - H	2202 HK	31.05	387,986	BUY	35.48	8.9	7.8	6.5	44.35	30.0%
COLI	688 HK	28.65	313,895	HOLD	32.13	7.0	7.0	6.3	45.89	37.6%
Country Garden	2007 HK	11.36	246,062	BUY	16.49	6.2	5.7	5.2	29.98	62.1%
CR Land	1109 HK	34.75	240,850	HOLD	33.18	8.7	9.0	7.4	47.30	26.5%
Longfor	960 HK	31.20	185,929	HOLD	23.23	9.9	9.8	8.2	33.19	6.0%
Shimao	813 HK	23.15	76,430	BUY	26.21	7.7	5.9	4.7	37.45	38.2%
Logan Property	3380 HK	12.90	70,718	HOLD	13.10	7.7	6.3	5.3	21.81	40.9%
Agile	3383 HK	10.86	42,539	BUY	15.93	5.2	4.9	4.5	28.96	62.5%
KWG	1813 HK	7.88	25,012	BUY	11.82	5.4	4.6	4.2	19.70	60.0%
China Aoyuan	3883 HK	11.42	30,724	BUY	13.00	11.2	6.7	4.7	19.21	40.6%
Times China	1233 HK	14.96	29,050	BUY	15.60	5.5	4.8	3.9	26.00	42.5%
Yuzhou	1628 HK	3.94	18,969	BUY	5.48	4.4	4.0	3.2	7.84	49.7%
China SCE	1966 HK	4.21	17,371	BUY	4.56	4.2	5.0	4.0	7.60	44.6%
COGO	81 HK	4.25	14,549	BUY	5.38	5.8	4.6	3.7	10.76	60.5%
Vanke - A	000002 CH	30.71	341,792	BUY	31.68	10.0	8.7	7.3	44.35	21.3%
Poly Development	600048 CH	14.38	171,068	BUY	16.64	9.0	6.9	5.6	N.A.	N.A.
<b>Average</b>						<b>7.3</b>	<b>6.4</b>	<b>5.3</b>		<b>41.5%</b>

Source: Bloomberg, CMBIS estimates

## Financial Summary

### Income statement

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Revenue</b>	<b>146,659</b>	<b>194,555</b>	<b>252,043</b>	<b>316,015</b>	<b>364,871</b>
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)
<b>Gross profit</b>	<b>45,526</b>	<b>63,217</b>	<b>81,436</b>	<b>100,630</b>	<b>116,162</b>
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)
<b>EBIT</b>	<b>26,313</b>	<b>37,646</b>	<b>47,862</b>	<b>59,165</b>	<b>68,288</b>
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	-	-	-
<b>Operating profit</b>	<b>25,545</b>	<b>35,593</b>	<b>47,005</b>	<b>58,728</b>	<b>67,334</b>
Other operating income, net	171	188	-	-	-
<b>Profit for year</b>	<b>25,716</b>	<b>35,780</b>	<b>47,005</b>	<b>58,728</b>	<b>67,334</b>
Income tax	(6,022)	(9,631)	(12,691)	(15,856)	(18,180)
Minority interests	(4,060)	(7,245)	(9,608)	(12,004)	(13,763)
<b>Net profit to shareholders</b>	<b>15,634</b>	<b>18,904</b>	<b>24,706</b>	<b>30,867</b>	<b>35,391</b>

### Balance sheet

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Current assets</b>	<b>647,337</b>	<b>766,481</b>	<b>934,059</b>	<b>1,106,48</b>	<b>1,260,25</b>
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
<b>Non-current assets</b>	<b>50,297</b>	<b>80,012</b>	<b>80,556</b>	<b>81,405</b>	<b>82,567</b>
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
<b>Total assets</b>	<b>697,635</b>	<b>846,494</b>	<b>1,014,615</b>	<b>1,187,885</b>	<b>1,342,826</b>
<b>Current liabilities</b>	<b>364,159</b>	<b>444,897</b>	<b>561,104</b>	<b>676,754</b>	<b>765,950</b>
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
<b>Non-current liabilities</b>	<b>175,312</b>	<b>215,103</b>	<b>240,115</b>	<b>264,125</b>	<b>291,332</b>
Long-term loans	176,156	214,939	239,951	263,961	291,169
Others	156	164	164	164	164
<b>Total liabilities</b>	<b>539,471</b>	<b>660,000</b>	<b>801,219</b>	<b>940,878</b>	<b>1,057,282</b>
<b>Equity to shareholders</b>	<b>101,923</b>	<b>115,423</b>	<b>132,716</b>	<b>154,324</b>	<b>179,097</b>
Perpetual bonds	5,000	6,500	6,500	6,500	6,500
Minority interest	51,240	64,572	74,180	86,184	99,947
<b>Total equity</b>	<b>158,163</b>	<b>186,494</b>	<b>213,396</b>	<b>247,007</b>	<b>285,544</b>

Source: Company data, CMBIS estimates

### Cash flow summary

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Profit after tax</b>	<b>19,694</b>	<b>26,149</b>	<b>34,313</b>	<b>42,871</b>	<b>49,154</b>
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
<b>Net cash from operating</b>	<b>(29,261)</b>	<b>11,893</b>	<b>10,789</b>	<b>7,345</b>	<b>15,262</b>
Fixed asset Capex & Investment	(7,892)	(13,819)	(1,730)	(2,080)	(2,450)
Associated companies	(10,614)	401	-	-	-
Others	1,556	(41)	-	-	-
<b>Net cash from investing</b>	<b>(16,951)</b>	<b>(13,459)</b>	<b>(1,730)</b>	<b>(2,080)</b>	<b>(2,450)</b>
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)	-	-	-
<b>Net cash from financing</b>	<b>67,382</b>	<b>46,498</b>	<b>30,633</b>	<b>18,931</b>	<b>20,487</b>
<b>Net change in cash</b>	<b>21,169</b>	<b>44,932</b>	<b>39,693</b>	<b>24,196</b>	<b>33,298</b>
Cash at the beginning	46,952	67,983	113,076	152,768	176,964
Exchange difference	(138)	161	-	-	-
<b>Cash at the end of the year</b>	<b>67,983</b>	<b>113,076</b>	<b>152,768</b>	<b>176,964</b>	<b>210,262</b>

### Key ratios

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Sales mix (%)</b>					
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
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Profit &amp; loss ratios (%)</b>					
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
<b>Growth (%)</b>					
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
<b>Balance sheet ratios</b>					
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
<b>Returns (%)</b>					
ROE	15.3	16.4	18.6	20.0	19.8
ROA	2.8	3.1	3.4	3.6	3.7
<b>Per share</b>					
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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