

Buy

(maintained)

Real Estate

## JINKE PROPERTY GROUP

(000656.SZ)

High Performance Growth Shows the Effects of Strategies

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### Company Profile

JINKE PROPERTY GROUP CO., LTD. is a China-based company principally engaged in the development and distribution of real estates. The Company mainly operates through three segments. Real Estate segment is primarily engaged in the development of residential and commercial properties, as well as the development and operation of industrial estates. Community Integrated Services segment mainly provides property management services. New Energy segment consists of wind power and photovoltaic power generation. The Company is also involved in hotel management, gardening and architecture decoration businesses. The Company operates its business in domestic market, mainly in Chongqing and Jiangsu Province, China. (Source: Reuters)

### Event

JINKE PROPERTY GROUP (the company) published its 2019 preliminary financial report, stating that it realized full-year revenue of CNY 67.773bn, surging 64.36% from a year earlier; its net profit attributable to shareholders came in at CNY 5.676bn, up 46.06% from the previous year; its EPS stood at CNY 1.05, rising 45.83% from a-year ago.

### Comment

**A great performance growth was achieved in 2019, beating expectations.** The company is expected to achieve revenue of CNY 67.773bn in 2019, surging 64.36% from a year earlier; its net profit attributable to shareholders is expected to come in at CNY 5.676bn, up 46.06% from the previous year. The weighted average ROE was 23.93%, up 4.48pct from 2018. The net profit growth was slower than that of revenue, which, on one hand, was attributed to inventory falling price reserves of CNY 981mn in 2019; on the other hand, was due to a higher proportion of minority interest with 11% in 2019 from 3% in 2018.

**The sales maintained a high growth, ensuring its future performance.** As statistics shows, the sales amount reached CNY 180.34bn, a surge of 52% compared with the same period last year, with a 2015-2019 CAGR of 69%. The sales maintained a high growth, laying a solid foundation to its future performance.

**2019 still saw active moves in premium land reserves.** For the first three quarters, the company spent CNY 61.35bn in land purchase, accounting for 49% of the sales amount; the new land reserve was 24.46 million square meters, up 38.1% YoY, taking up 196% of the sales areas. In terms of regional landscape, the third- and four- tiered cities snatched 74.8% of the land purchased. The average land-purchase price for the first three quarters was CNY 2,509/square meter, accounting for 25% of the average selling price.

**The financial leverage has been further optimized.** It is expected that the company's asset-liability ratio will be 83.78% at the end of 2019, flat with the performance last year; the asset-liability ratio after deducting deposit received is expected to be CNY 48.12%, down 2.44pct YoY. As of Q319, the net debt rate was 144.3%, edging up from 136.5% recorded at the end of 2018, but a great decline from 218.2% in 2017.



**The financing costs have been reduced greatly since 2020.** The company has issued supershort-term financing of CNY 800mn and corporate bond of CNY 2.3bn since the beginning of 2020. Among which, 1) the supershort-term financing is CNY 800mn lasting 270 days with a financing interest rate of 5.3% while that of the same type in 2019 was 5.88%; 2) the “2+1”- year corporate bond is CNY 1.9bn with a coupon rate of 6% while that of the same type in 2019 was 6.5%. the financing costs have been reduced obviously.

**In addition, the company carried out multiple incentive schemes.** In December 2019, the company announced its 2019-2023 employee incentive schemes with the total capital amount no more than CNY 2.5bn in phase one. As of February 20th, the company has accumulatively purchased CNY 51.524 million shares for CNY 340mn through bidding at stock exchanges, which accounts for 0.96% of the total shares and the average closing price stands at CNY 6.58/share.

#### **Earnings forecast and investment recommendation**

The company has a better-than-expected performance in sales and presents outstanding capabilities in land purchase, which laying a solid foundation for its future performance. We estimate its EPS to be CNY 1.05/CNY 1.32 for year 2019/2020, implying 7.1x/ 5.7x PE in 2019/ 2020, respectively, based on the closing price of March 3rd 2020. Maintain “Buy” rating.

**Potential risks:** great contraction in mortgage and consumer loans

*This English translation of the original Chinese version <金科股份业绩快报点评：业绩高增长，战略显成效> issued by Industrial Securities on March 04, 2020 is for information purpose only. In case of a discrepancy, the Chinese original will prevail.*

## Appendix

Balance Sheet				Mn/CNY
FY	2018A	2019E	2020E	2021E
<b>Current Assets</b>	213341	294389	353345	394730
Cash and Cash Equivalent	29852	40828	52863	66079
Trading Financial Assets	0	0	0	0
Account Receivables	1584	3282	3122	4850
Other Receivables	13023	17200	25771	25539
Inventory	160835	218938	259114	284577
<b>Non-current Asset</b>	17357	23475	21242	21727
Available-for-sale Financial Assets	473	377	398	416
Long-term Equity Investment	7368	10250	9289	9609
Investment Real Estate	3615	6875	5788	6150
Fixed Assets	2374	2863	3023	3001
Construction in Progress	1453	799	439	242
Oil and Gas Assets	0	0	0	0
Intangible Assets	64	56	48	40
<b>Total Assets</b>	230699	317864	374586	416458
<b>Current Liabilities</b>	137626	206353	246885	270879
Short-term Loans	3196	4934	5969	14842
Notes Payable	2660	2287	4333	4612
Account Payable	13681	20960	29088	36121
Others	118088	178172	207495	215304
<b>Non-current Liabilities</b>	55307	68489	78800	90203
Long-term Loans	47370	53885	64033	75414
Others	7936	14604	14767	14789
<b>Total Liabilities</b>	192932	274842	325685	361082
Share Capital	5340	5340	5340	5340
Capital Reserve	4100	4457	5151	5844
Undistributed Profit	9831	16171	19622	23334
Minority Interest	14586	15483	16428	17565
<b>Total Shareholders' Equity</b>	37767	43023	48901	55376
<b>Total Liabilities and Equity</b>	230699	317864	374586	416458

Cash Flow Statement				Mn/CNY
FY	2018A	2019E	2020E	2021E
Net Profit	3886	5676	7138	8556
Depreciation and Amortization	238	219	255	275
Property Depreciation Preparation	-97	648	76	144
Amortization of Intangible Assets	36	35	36	36
Loss from Fair Value Change	66	44	20	30
Financial Expense	50	1160	1249	1754
Investment Loss	186	-157	-43	-81
Minority Interest Income	135	897	945	1137
Change in Working Capitals	14120	3869	7490	13192
<b>Cash Flows from Operating Activities</b>	-9669	4069	2302	-1367
<b>Cash Flows from Investment Activities</b>	-4240	-5937	2022	-668
<b>Cash Flows from Financing Activities</b>	12856	12844	7711	15251
Net Change in Cash	-1053	10976	12035	13216
Beginning Balance of Cash	18627	29852	40828	52863
Ending Balance of Cash	17574	40828	52863	66079

Income Statement				Mn/CNY
FY	2018A	2019E	2020E	2021E
<b>Operating Income</b>	41234	67773	88105	110132
Operating Expense	29453	47441	62555	78524
Business Tax and Surcharges	1407	2643	4150	5209
Selling Expense	2562	3687	4969	6211
Administrative Expense	2340	3578	4714	5881
Financial Expense	50	1160	1249	1754
Asset Impairment	35	845	35	25
Change in Fair Value	66	44	20	30
Investment Income	-186	157	43	81
<b>Operating Profit</b>	5339	8619	10497	12638
Non-business Income	87	80	0	0
Non-business Expense	215	360	0	0
<b>Total Profit</b>	5210	8339	10497	12638
Income Tax	1190	1766	2414	2945
Net Profit	4021	6574	8083	9693
Minority Interest Income	135	897	945	1137
<b>Net Profit Attributable to Parent Company</b>	3886	5676	7138	8556
<b>EPS(CNY)</b>	0.72	1.05	1.32	1.58

Key Financial Ratios				
FY	2018A	2019E	2020E	2021E
<b>Growth</b>				
Increase Rate of Business Revenue	18.6%	64.4%	30.0%	25.0%
Increase Rate of Business Profit	75.9%	61.5%	21.8%	20.4%
Net Profit Growth Rate	93.8%	46.1%	25.7%	19.9%
<b>Profitability</b>				
Gross Margin Rate	28.6%	30.0%	29.0%	28.7%
Net Profit Margin	9.4%	8.4%	8.1%	7.8%
ROE	16.8%	20.6%	22.0%	22.6%

Solvency				
Asset-liability Ratio	83.6%	86.5%	86.9%	86.7%
Current Ratio	1.55	1.43	1.43	1.46
Quick Ratio	0.38	0.36	0.38	0.40
<b>Operation Capacity</b>				
Asset Turnover Ratio	21.3%	24.7%	25.4%	27.8%
AR Turnover Ratio	25.49	26.46	26.14	26.25
<b>Stock Info(CNY)</b>				
EPS	0.72	1.05	1.32	1.58
OCFPS	0.25	0.75	0.43	-0.25
NAVPS	4.29	5.09	6.01	6.99
<b>Valuation Ratio</b>				
PE	10.4	7.1	5.7	4.7
PB	1.7	1.5	1.2	1.1

## Introduction of Share Investment Rating

### Industry Investment Rating

When measuring the difference between the markup of the industry index and that of the market's benchmarks (Shanghai Composite Index/Shenzhen Component Index) within twelve months after the release of the report, we define the terms as follows:

- **Overweight:** Industry performs better than that of the whole market;
- **Neutral:** Industry performs about the same as that of the whole market;
- **Underweight:** Industry performs worse than that of the whole market

### Company Investment Rating

When measuring the difference between the markup of the company stock price and that of the market's benchmarks (Shanghai Composite Index/Shenzhen Component Index) within twelve months after the release of this report, we define the terms as follows:

- **Buy:** With a markup more than 15% better than that of the market;
- **Outperform:** With a markup 5% to 15% better than that of the market;
- **Neutral:** With a markup less than 5% better or worse than that of the market;
- **Underperform:** With a markup more than 5% worse than that of the market.

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