

Poly Develop - A (600048 CH)

Healthy balance sheet drives future growth

Revenue and net profit slightly increased by 5.1% to RMB117.4bn and 2.9% to RMB13.2bn in 9M20, respectively. We believe its ample land bank and healthy balance sheet provide war chest for its future development. Our TP is RMB22.16, which is equivalent to 8.0x 2020E P/E. Reiterate **BUY** recommendation.

- **Net profit gained 3% in 9M20.** Revenue and net profit slightly increased by 5.1% to RMB117.4bn and 2.9% to RMB13.2bn in 9M20, respectively. Gross margin slightly retreated by 1.9ppts to 34.0% in the period but stood at the high level among peers. The Company managed cost well. Selling expenses declined by 3.6% to RMB3.3bn and administrative expenses only gained by 2.0% to RMB3.2bn in the period. So net profit margin only lost 0.2ppts to 11.2% in 9M20.
- **Outperformed contracted sales.** Contracted sales amount and area increased by 5.9% to RMB367.4bn and 6.6% to 24.44mn sq m in 9M20, respectively. It is better than the national property sales performance of 3.7% (in amount) and -1.8% (in area), respectively. We believe the leading brand name would support its sales job. And we expect it to achieve another record high contracted sales in 2020, compared with RMB461.8bn in 2019.
- **Healthy balance sheet secures long term growth.** Poly Development is a SOE and enjoys a lower funding cost. In addition, it has a healthy balance sheet. Net gearing ratio and cash/ST debt were 71% and 1.9x as of 30 Sep 2020, respectively. Furthermore, total liabilities/total assets (after deduction of contract liabilities) was 0.67x as of 30 Sep 2020. So Poly Development passes the recent new capital test. The Company gains advantage for its long-term growth because it can be better utilizing debt financing.
- **211m sq m attributable land bank.** The Company acquired 88 projects with total GFA of 19.82mn sq m with total considerations of RMB131.4bn in 9M20. In the same period, New starts GFA amounted to 38.39mn sq m. As of 30 Sep 2020, GFA under development and for future development were 140.2mn sq m and 70.8mn sq m. So total attributable land bank of 211mn sq m is sufficient for next five years development.
- **Maintain TP and forecast unchanged.** We maintain our earnings forecast unchanged. We forecast net profit to be RMB33.0bn in 2020 and RMB38.4bn in 2021. Our target price is RMB22.16, based on 8.0x 2020E P/E. Maintain **BUY** recommendation.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	194,555	235,981	301,311	347,892	401,678
YoY growth (%)	32.7	21.3	27.7	15.5	15.5
Net income (RMB mn)	18,904	27,959	33,048	38,404	44,616
EPS (RMB)	1.59	2.35	2.77	3.22	3.74
YoY growth (%)	20.5	47.8	17.9	16.2	16.2
Consensus EPS (RMB)	n.a.	n.a.	2.711	3.188	3.715
P/E (x)	9.7	6.5	5.5	4.8	4.1
P/B (x)	1.6	1.3	1.1	1.0	0.8
Yield (%)	3.3	5.3	6.3	7.3	8.5
ROE (%)	16.4	19.9	20.4	20.6	20.7
Net gearing (%)	80.6	56.9	60.9	55.2	52.8

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **RMB22.16**
 (Previous TP **RMB22.16**)
 Up/downside **+44.3%**
 Current Price **RMB15.36**

China Property Sector

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Stock Data

Mkt Cap (RMB mn)	183,811
Avg 3 mths t/o (RMB mn)	1,364
52w High/Low (RMB)	18.70/ 13.40
Total Issued Shares (mn)	11,967
Source: Bloomberg	

Shareholding Structure

China Poly Group	40.7%
Free float	59.3%

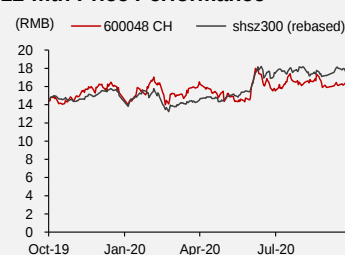
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-1.9%	-5.7%
3-mth	-0.3%	-2.2%
6-mth	-4.5%	-22.7%
12-mth	7.3%	-12.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: BDO

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Figure 1: 9M20 & 3Q20 results

YE Dec 31 (RMB mn)	9M20	9M19	Change	3Q20	3Q19	Change
Revenue	117,482	111,826	5.1%	43,776	40,685	7.6%
Sale of properties	117,404	111,794	5.0%	43,727	40,673	7.5%
Others	40	6	587.0%	32	10	206.2%
Other financial business	38	26	43.9%	17	2	694.1%
Cost of sales	(77,511)	(71,690)	8.1%	(30,132)	(28,842)	4.5%
Gross profit	39,971	40,136	-0.4%	13,644	11,843	15.2%
Taxes and surcharges	(8,414)	(9,093)	-7.5%	(3,082)	(3,083)	-0.1%
Selling expenses	(3,291)	(3,413)	-3.6%	(1,406)	(1,433)	-1.8%
Administrative expenses	(3,148)	(3,088)	2.0%	(1,295)	(1,285)	0.7%
R&D expenses	(27)	(34)	-20.2%	(13)	(13)	2.7%
EBIT	25,091	24,509	2.4%	7,848	6,028	30.2%
Finance costs, net	(3,287)	(3,430)	-4.2%	(1,146)	(1,099)	4.2%
Asset impairments	(110)	(46)	139.0%	(27)	148	N.A.
Gain on fair value change	(8)	507	N.A.	(223)	270	N.A.
Investment gain, net	2,491	1,609	54.8%	384	728	-47.2%
Other gain	68	17	292.3%	30	12	137.2%
Operating profit	24,245	23,165	4.7%	6,866	6,087	12.8%
Other operating income, net	170	103	65.7%	103	20	416.9%
Profit for year	24,415	23,268	4.9%	6,969	6,107	14.1%
Income tax	(6,088)	(5,716)	6.5%	(1,964)	(1,517)	29.4%
Minority interests	(5,123)	(4,720)	8.5%	(1,925)	(1,711)	12.5%
Net profit to shareholders	13,204	12,832	2.9%	3,080	2,878	7.0%
Gross margin	34.0%	35.9%	-1.9ppts	31.2%	29.1%	2.1ppts
EBIT margin	21.4%	21.9%	-0.6ppts	17.9%	14.8%	3.1ppts
Pre-tax margin	20.8%	20.8%	0ppts	15.9%	15.0%	0.9ppts
Tax rate	24.9%	24.6%	0.4ppts	28.2%	24.8%	3.3ppts
Net margin	11.2%	11.5%	-0.2ppts	7.0%	7.1%	0ppts

Source: Company data, CMBIS estimates

Figure 2: Peer group valuation

Company	Ticker	Last price (LC)	Mkt Cap (LC mn)	Rating	TP (LC)	P/E			NAV/share (LC)	Discount to NAV
						19A	20E	21E		
Vanke - H	2202 HK	24.00	355,806	BUY	33.92	6.2	5.5	4.9	48.46	50.5%
COLI	688 HK	19.40	212,529	BUY	30.49	4.6	4.3	4.1	43.55	55.5%
Country Garden	2007 HK	9.54	210,218	BUY	13.36	4.6	4.6	3.9	26.72	64.3%
CR Land	1109 HK	31.55	224,981	BUY	44.79	6.9	7.6	6.3	63.98	50.7%
Longfor	960 HK	42.35	254,187	HOLD	34.27	12.1	11.9	9.5	48.95	13.5%
Shimao	813 HK	27.35	96,756	BUY	44.94	7.4	6.6	5.6	59.92	54.4%
Logan Property	3380 HK	12.12	66,897	BUY	17.43	5.4	4.6	4.0	29.05	58.3%
Agile	3383 HK	10.60	41,521	BUY	13.89	4.9	4.7	4.0	27.78	61.8%
KWG	1813 HK	10.24	32,543	BUY	17.87	3.0	4.3	3.7	25.52	59.9%
China Aoyuan	3883 HK	7.26	19,623	BUY	15.48	4.2	2.7	2.4	30.95	76.5%
Times China	1233 HK	10.32	20,040	BUY	16.20	3.4	2.8	2.5	32.40	68.1%
Yuzhou	1628 HK	2.99	16,593	BUY	4.82	3.8	3.3	2.8	9.65	69.0%
China SCE	1966 HK	3.32	14,017	BUY	5.60	3.5	3.3	2.9	9.34	64.5%
Redsun	1996 HK	2.81	9,335	BUY	3.52	6.4	5.9	4.5	5.87	52.1%
Sinic	2103 HK	4.17	14,888	BUY	5.06	6.5	5.5	4.5	10.11	58.8%
Vanke - A	000002 CH	27.55	307,129	BUY	31.36	7.9	7.0	6.2	48.46	43.1%
Poly Development	600048 CH	15.36	183,811	BUY	22.16	6.5	5.5	4.8	27.73	44.6%
Average						5.7	5.3	4.5		55.6%

Source: Bloomberg, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	194,555	235,981	301,311	347,892	401,678
Sale of properties	182,498	223,731	287,271	331,798	383,227
Other property related business	11,251	11,306	13,002	14,953	17,196
Others	765	896	985	1,084	1,192
Other financial business	42	47	52	57	63
Cost of sales	(131,339)	(153,450)	(202,322)	(233,628)	(269,778)
Gross profit	63,217	82,531	98,989	114,265	131,900
Taxes and surcharges	(16,122)	(21,841)	(25,611)	(29,571)	(34,143)
Selling expenses	(5,912)	(6,681)	(8,437)	(9,741)	(11,247)
Administrative expenses	(3,495)	(4,233)	(5,424)	(6,262)	(7,230)
R&D expenses	(41)	(56)	(72)	(83)	(96)
EBIT	37,646	49,721	59,446	68,608	79,184
Finance costs	(2,585)	(2,582)	(2,711)	(2,846)	(2,989)
Asset impairments	(2,351)	(1,202)	-	-	-
Gain on fair value change	190	713	-	-	-
Investment gain, net	2,690	3,702	4,442	5,330	6,396
Other gain	2	51	-	-	-
Operating profit	35,593	50,402	61,177	71,092	82,592
Other operating income, net	188	128	-	-	-
Profit for year	35,780	50,531	61,177	71,092	82,592
Income tax	(9,631)	(12,977)	(16,518)	(19,195)	(22,300)
Minority interests	(7,245)	(9,595)	(11,611)	(13,493)	(15,676)
Net profit to shareholders	18,904	27,959	33,048	38,404	44,616

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Current assets	766,481	936,922	1,047,856	1,194,408	1,374,637
Cash on hand	113,431	139,419	148,237	181,723	217,902
Note & account receivable	2,044	1,845	2,356	2,720	3,141
Prepayment	26,045	42,751	40,464	46,726	53,956
Inventory	474,505	584,001	687,895	794,334	930,734
Others	150,456	168,905	168,905	168,905	168,905
Non-current assets	80,012	96,287	97,827	99,777	102,027
Investment properties	19,890	19,510	20,810	22,410	24,210
Fixed assets	4,594	7,472	7,632	7,832	8,082
Intangible assets	48,489	59,046	59,046	59,046	59,046
Deferred expense	1,949	3,602	3,602	3,602	3,602
Others	5,090	6,657	6,737	6,887	7,087
Total assets	846,494	1,033,209	1,145,683	1,294,184	1,476,664
Current liabilities	444,897	599,700	639,874	718,485	815,140
Short-term loans	3,011	3,133	4,520	5,218	6,025
Note & account payable	50,686	113,153	64,743	70,088	80,933
Advances from customers	299,795	327,813	418,566	483,274	557,991
Current portion of non-current liabilities	45,707	63,326	60,707	68,565	78,852
Others	45,698	92,276	91,339	91,339	91,339
Non-current liabilities	215,103	203,986	243,195	274,630	315,777
Long-term loans	214,939	203,590	242,826	274,261	315,409
Others	164	396	369	369	369
Total liabilities	660,000	803,687	883,069	993,115	1,130,918
Equity to shareholders	115,423	140,342	161,823	186,785	215,786
Perpetual bonds	6,500	15,680	15,680	15,680	15,680
Minority interest	64,572	73,500	85,111	98,605	114,281
Total equity	186,494	229,522	262,614	301,070	345,746

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit after tax	26,149	37,554	44,659	51,897	60,292
Depreciation, amortization, impairment	3,366	2,307	480	480	480
Change in working capital	(19,231)	202	(59,774)	(43,011)	(58,489)
Others	1,610	(1,061)	2,711	2,846	2,989
Net cash from operating	11,893	39,001	(11,924)	12,212	5,272
Fixed asset Capex & Investment	(13,819)	(10,994)	(2,984)	(2,430)	(2,730)
Associated companies	401	(690)	-	-	-
Others	(41)	1,186	-	-	-
Net cash from investing	(13,459)	(10,498)	(2,984)	(2,430)	(2,730)
Capital injected	12,783	18,042	-	-	-
Change of Debts	57,086	4,129	38,003	39,992	52,242
Dividend and interest paid	(21,401)	(23,329)	(14,277)	(16,288)	(18,604)
Others	(1,971)	(1,677)	-	-	-
Net cash from financing	46,498	(2,835)	23,726	23,705	33,637
Net change in cash	44,932	25,668	8,817	33,486	36,179
Cash at the beginning	67,983	113,076	138,820	147,637	181,123
Exchange difference	161	76	-	-	-
Cash at the end of the year	113,076	138,820	147,637	181,123	217,303

Key ratios

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Sale of properties	93.8	94.8	95.3	95.4	95.4
Other property related business	5.8	4.8	4.3	4.3	4.3
Others	0.4	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	32.5	35.0	32.9	32.8	32.8
EBIT margin	19.3	21.1	19.7	19.7	19.7
Operating margin	18.3	21.4	20.3	20.4	20.6
Net margin	9.7	11.8	11.0	11.0	11.1
Effective tax rate	26.9	25.7	27.0	27.0	27.0
Growth (%)					
Revenue	32.7	21.3	27.7	15.5	15.5
Gross profit	38.9	30.6	19.9	15.4	15.4
EBIT	43.1	32.1	19.6	15.4	15.4
Operating profit	39.3	41.6	21.4	16.2	16.2
Net profit	20.9	47.9	18.2	16.2	16.2
Balance sheet ratios					
Current ratio (x)	1.7	1.6	1.6	1.7	1.7
Receivable turnover days	4	3	3	3	3
Payables turnover days	141	269	117	110	110
Inventory turnover days	1,319	1,389	1,241	1,241	1,259
Net debt / total equity ratio (%)	80.6	56.9	60.9	55.2	52.8
Returns (%)					
ROE	16.4	19.9	20.4	20.6	20.7
ROA	3.1	3.6	3.9	4.0	4.1
Per share					
EPS (RMB)	1.59	2.35	2.77	3.22	3.74
DPS (RMB)	0.50	0.82	0.97	1.13	1.31
BVPS (RMB)	9.69	11.76	13.56	15.66	18.09

Source: Company data, CMBIS estimates

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