

# Longfor (960 HK)

## Wu's retirement: short-term pain for long-term gain

We think Ms Wu's resignation may create some short-term volatility mainly because 1) Ms Wu is the idol of many investors and industry's spiritual leader. 2) This came sooner than market's expectation especially when the industry is facing pressure. However, from company's long-term perspective, Longfor is likely to become one of the few POEs to pass through this down cycle as 1) its sales is back on track with 3Q sales already up YoY and Oct sales is likely to further improve MoM. 2) Financing channel may further open up for its shopping mall-collateral debts (IP worth RMB180bn, a 20% LTV may give Longfor RMB36bn additional debt). So it will early redeem almost all the debts due in 1H23. 3) Most importantly, a stable and energetic management team (Mr. Chen, Shao and Zhao) will continue to execute C1-C5 strategy in the long term (Revenue from C2-C5 may reach RMB25bn this year). So we think the short-term downside is limited and may touch 0.5x PB (currently 0.58x PB) before seeing strong support.

■ **What's new:** After market close of 28 Oct, Longfor announced major management change. Its founder Ms.Wu Yajun resigned from Chairlady position and the current CEO Mr. Chen Xuping is promoted to take over Chairman. At the same time, Vice Chairman Mr. Shao will also become non-executive director from previous executive director. This series of change is another milestone for Longfor's future after Mr. Chen Xuping took over CEO during March 2022.

■ **Details of conference call:**

- **Ms. Wu's resignation** is partly due to physical condition that she is under several chronic illness that may not be fit enough for heavy work. Also, this power change is not something urgent, but a plan over 10 years to find the right person and build up the right corporation culture. Ms. Wu said she could have announced it much earlier but insisted to stay with the company to overcome the previous short-selling event.
- **Earnings outlook:** Management expects no earnings guidance change that 2022 NP will stay flat or slightly up while revenue may grow 15-20% YoY. In particular, the operating income (C2 – C5 segments) may reach RMB25bn this year and Mr. Chen is confident to achieve RMB100bn in the longer term.
- **Sales and land acquisition update:** 3Q sales already turned positive YoY. Management is confident to keep its current sales scale at RMB200bn+ even the industry size is half to RMB9tn. Longfor continued to buy 10 plots in Sep-Oct with NPM at 13-15% range and will likely to get another piece in Suzhou soon. So strategically, management has exited 30+ cities and focused just on 30 core cities in the long term.
- **Financing:** By 2022 year end, Longfor will early redeem almost all the debts in 1H23, including USD300mn offshore debt due in April. Management said the financing channel remains smooth after Ms Wu's resignation and they expect to do more long-term financing (up to 10-15 years term) using its shopping malls as collateral (currently the LTV is very low as they seldom use this channel).

**Buy (Maintain)**

**Target Price** HK\$52.59  
 (Previous TP HK\$52.59)  
**Up/downside** 300%  
**Current Price** HK\$13.12

### China Property Sector

#### Jeffrey Zeng

(852) 3916 3727

jeffreyzeng@cmbi.com.hk

#### Stock Data

Mkt Cap (HK\$ mn)	217,769
Avg 3 mths t/o (HK\$ mn)	318.76
52w High/Low (HK\$)	53.60/34.20
Total Issued Shares (mn)	6,066

Source: Bloomberg

#### Shareholding Structure

Cai Xinyi	42.7%
Cai Kui	23.3%
Pao Puiying	7.0%
Free float	27.0%

Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	-17.3%	-7.8%
3-mth	-20.8%	-9.4%
6-mth	-13.9%	5.0%
12-mth	-7.3%	-6.3%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

**Auditor: Deloitte**

## Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21A	FY22E
Revenue (RMB mn)	115,798	151,026	184,547	212,992	233,116
YoY growth (%)	60.7	30.4	22.2	15.4	9.4
Net income (RMB mn)	16,237	18,337	20,002	30,008	31,237
EPS (RMB)	2.779	3.130	3.410	5.014	5.219
YoY growth (%)	28.0	12.6	9.0	47.0	4.1
Consensus EPS (RMB)	N.A.	N.A.	3.2	3.7	4.3
P/E (x)	5.3	4.5	4.0	2.5	2.0
P/B (x)	2.2	1.9	0.9	0.5	0.5
Yield (%)	3.3	4.0	4.8	5.4	6.7
ROE (%)	19.9	19.5	18.6	25.2	22.3
Net gearing (%)	52.9	51.0	46.5	58.9	57.0

Source: Company data, Bloomberg, CMBIGM estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21A	FY22E
<b>Revenue</b>	<b>115,798</b>	<b>151,026</b>	<b>184,547</b>	<b>212,992</b>	<b>233,116</b>
Property development	108,719	140,793	170,981	195,000	209,250
Property investment	4,090	5,789	7,576	9,917	12,982
Property management	2,989	4,444	5,990	8,074	10,884
Cost of sales	(76,270)	(100,229)	(130,517)	(141,090)	(157,930)
<b>Gross profit</b>	<b>39,529</b>	<b>50,797</b>	<b>54,031</b>	<b>71,902</b>	<b>75,186</b>
Other income and gains	1,274	710	1,922	1,355	1,320
Distribution expenses	(3,193)	(4,034)	(5,034)	(5,112)	(5,362)
Administrative expenses	(5,397)	(6,521)	(7,294)	(7,668)	(8,159)
Other expenses	0	0	0	0	0
<b>Operating profit</b>	<b>32,212</b>	<b>40,951</b>	<b>43,624</b>	<b>60,477</b>	<b>62,986</b>
Finance expenses	(75)	(77)	(106)	(110)	(119)
Associates/JV	643	1,352	1,282	1,250	1,250
Exceptional	4,702	3,735	1,570	0	0
<b>Pre-tax profit</b>	<b>37,483</b>	<b>45,961</b>	<b>46,370</b>	<b>61,617</b>	<b>64,116</b>
Profits tax	(16,592)	(19,409)	(17,529)	(22,771)	(24,041)
Profit after tax	20,891	26,552	28,840	38,846	40,076
Minority interest	(4,654)	(8,216)	(8,838)	(8,838)	(8,838)
Perpetual	0	0	0	0	0
<b>Net profit</b>	<b>16,237</b>	<b>18,337</b>	<b>20,002</b>	<b>30,008</b>	<b>31,237</b>
<b>Core profit</b>	<b>12,710</b>	<b>15,553</b>	<b>18,825</b>	<b>30,008</b>	<b>31,237</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21A	FY22E
<b>EBIT</b>	<b>32,212</b>	<b>40,951</b>	<b>43,624</b>	<b>60,477</b>	<b>62,986</b>
D&A	223	142	258	245	272
Change in working capital	55,342	(24,448)	(16,811)	(19,000)	(11,200)
Income tax paid	(10,247)	(11,234)	(15,615)	(23,071)	(24,141)
Others	343	43,164	39,062	(10,795)	(13,582)
<b>Net cash from operating</b>	<b>77,874</b>	<b>48,575</b>	<b>36,730</b>	<b>7,856</b>	<b>14,335</b>
Capex	(88,367)	(45,153)	(14,631)	(18,478)	(12,406)
Associates/JV	(12,453)	(7,750)	(4,052)	100	(700)
Other	(15,143)	0	(22,721)	0	0
<b>Net cash from investing</b>	<b>(115,964)</b>	<b>(52,903)</b>	<b>(41,403)</b>	<b>(18,378)</b>	<b>(13,106)</b>
Equity raised	(129)	0	(161)	0	0
Change of Debts	40,456	26,179	13,727	11,400	14,700
Dividend paid	(4,489)	(6,152)	(7,459)	(8,679)	(10,055)
Other	20,693	0	22,790	0	0
<b>Net cash from financing</b>	<b>56,531</b>	<b>20,027</b>	<b>28,897</b>	<b>2,721</b>	<b>4,645</b>
Net change in cash	18,441	15,699	16,223	(7,801)	5,874
Cash at the beginning	26,642	45,083	60,782	43,995	36,194
Exchange difference	0	0	0	0	0
<b>Cash at the end</b>	<b>45,083</b>	<b>60,782</b>	<b>77,006</b>	<b>36,194</b>	<b>42,068</b>
Pledged deposit	181	169	0	169	169
Cash at BS	45,264	60,952	77,006	36,363	42,238

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21A	FY22E
<b>Non-current assets</b>	<b>134,855</b>	<b>156,983</b>	<b>188,383</b>	<b>207,127</b>	<b>223,477</b>
Fixed asset	3,366	1,982	2,809	2,350	2,500
Investment properties	84,410	130,804	152,486	168,000	180,000
Associates/JV	14,937	14,805	18,135	17,300	18,000
Intangible assets	0	67	214	67	67
Other non-current assets	32,142	9,325	14,739	19,410	22,910
<b>Current assets</b>	<b>372,029</b>	<b>495,261</b>	<b>576,776</b>	<b>482,290</b>	<b>513,627</b>
Cash	45,264	60,952	77,828	46,520	51,777
Account receivable	22,573	28,692	30,740	32,000	35,000
Inventories	247,389	337,174	381,776	360,000	385,000
Other current assets	56,804	68,444	86,433	43,770	41,850
<b>Current liabilities</b>	<b>249,844</b>	<b>333,920</b>	<b>399,508</b>	<b>325,809</b>	<b>342,209</b>
Borrowings	11,743	13,927	18,338	13,500	15,200
Trade and other payables	62,234	91,974	113,216	80,000	76,800
Contract liabilities	113,440	155,156	182,389	172,000	192,000
Deferred taxation	21,612	28,288	33,353	27,300	27,200
Other current liabilities	40,815	44,575	52,212	33,009	31,009
<b>Non-current liabilities</b>	<b>116,222</b>	<b>151,647</b>	<b>172,926</b>	<b>168,800</b>	<b>183,200</b>
Borrowings	108,077	132,072	149,029	148,000	161,000
Other non-current liabilities	8,145	19,575	23,897	20,800	22,200
<b>Shareholders' equity</b>	<b>81,661</b>	<b>93,956</b>	<b>107,817</b>	<b>118,807</b>	<b>133,694</b>
Minority interest	59,157	72,721	84,380	76,000	78,000
Perpetual bond	0	0	0	0	0
Total equity	140,818	166,678	192,724	194,807	211,694

### Key ratios

YE 31 Dec	FY18A	FY19A	FY20A	FY21A	FY22E
<b>Sales mix (%)</b>					
Property development	93.9	93.2	92.6	91.6	89.8
Property investment	3.5	3.8	4.1	4.7	5.6
Property management	2.6	2.9	3.2	3.8	4.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	34.1	33.6	29.3	33.8	32.3
Pre-tax margin	27.8	27.1	23.6	28.4	27.0
Net margin	14.0	12.1	10.8	14.1	13.4
Effective tax rate	44.3	42.2	37.8	37.0	37.5
<b>Balance sheet ratios</b>					
Current ratio (x)	1.5	1.5	1.4	1.5	1.5
Receivable day	71.2	69.3	60.8	54.8	54.8
Payable day	196.2	222.3	223.9	137.1	120.2
Inventory day	1183.9	1227.9	1067.7	931.3	889.8
Net gearing ratio (%)	49.6	51.0	46.5	58.9	57.0
<b>Returns (%)</b>					
ROE	19.9	19.5	18.6	25.2	22.3
ROA	3.2	11.0	10.4	15.4	14.3
<b>Per share data</b>					
EPS (RMB)	2.78	3.13	3.41	5.01	5.22
DPS (RMB)	0.99	1.20	1.43	1.60	2.00
BVPS (RMB)	13.75	15.70	33.92	19.91	23.43

Source: Company data, CMBIGM estimates

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## CMB International Global Market Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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