

## Powerlong Real Estate Holdings Limited

### Growth Trajectory Intact, Reiterate Buy

We expect Powerlong to extend its growth trajectory into 2020, driven by launches of new projects acquired in 2H19 and home purchase demand stimulated by local government's policy easing. Following the stock's recent pull back, valuations are back at attractive levels of 4.2x 2020E P/E, 2019 div yield of 8.1%, reiterate Buy.

#### Earnings growth outlook intact despite COVID-19 outbreak, reiterate Buy

Powerlong has set a 25% contracted sales YoY growth target to RMB75bn for 2020, with an above industry average GP Margins of ~31-35%. This growth target is higher than our expected ~20% contracted sales growth. YTD Feb run-rate is at ~6.4%, reflecting management's confidence in the industry's outlook in the coming months, driven by project launches in 2Q20 and 3Q20. The developer has spent RMB21.5bn on land acquisitions across 41 projects during 2019. We believe that these new acquisitions are key contributors to the developer's RMB130bn 2020 sellable resources, driving the 25% contracted sales growth based on a ~58% sell-through rate.

#### 2019 results beat expectations by 7% amid better than expected GPM

Powerlong's 2019 core attrib. net profit came in at RMB2,680m, up 45.3% YoY, beating AMTD estimates by 7% amid better than expected GP Margins. 2019 Revenues grew 33% YoY to RMB26,042m, while 2019 GP Margins came in at 36% (vs 2019E: 34%). 2019 Net Debt to Equity was at 81% (1H19: 89%) aided by the fund raised through the share placement in Oct 2019. Company announced a Special Div of HK\$0.04/sh in additional to the HK\$0.27/sh Final Div, bringing the full year DPS to HK\$0.40/sh, implying a 2019 div yield of 8.1%.

#### 90% of sales office and construction sites reopened

Despite the impact of the COVID-19, Powerlong's contracted sales YTD Feb came in at RMB4.8bn and is only down 20% YoY (mitigated by a strong Jan 2020 and CNY base effect from 2019). As the developer does not have any exposure in Hubei Province, 90% of the company's sales office and construction sites have now reopened. Some individual staff might still be under travel restrictions, management expects the developer's production capacity to be back at full speed by end-March. We thus expect March contracted sales to recover and April should see a rebound in contracted sales.

#### Accommodative environment to recycle capital invested into Inv Prop

We believe Powerlong's rental income will be under pressure in 1H20 amid the virus outbreak. However, as we have pointed out in our [initiation report on 8 Oct 2019](#), we believe Powerlong's commercial properties offer them an edge in acquiring prime located low-cost land bank underpinning its contracted sales and profit margins. We argue that Powerlong's key to long term success lies with its ability to recycle the capital invested into shopping malls back into development properties, instead of focusing on the rental income stream itself. With 5-yr LPR having declined to 4.75% in Feb 20 (Oct 19: 4.85%), and monetary easing policies expected to remain, creating a favourable environment for Powerlong to recycle its invested capital via onshore financing, in our view.

#### Attractive valuations at 4.2x 2020E P/E and 0.6x 2019 P/B

We believe that Powerlong is currently trading at attractive valuations of 4.2x 2020E P/E and a 0.6x P/B. Our TP of HK\$7.18/sh is based on a target 2020E PE of 6.0x, offering 41% upside to its current share price.

Stock code: 1238.HK

Rating: BUY

Price target (HK\$)	7.18
Current price (HK\$, 9 Mar 2020)	5.08
Upside/downside %	41%
Market cap (HK\$ m)	21,050
Market cap (US\$ m)	2,697
Avg daily turnover (US\$ m)	3.20

Source: Bloomberg, AMTD Equity Research

#### Key forecasts

(RMB m)	2018	2019	2020e	2021e
Revenue	19,594	26,042	43,824	48,268
yoy %	25.7%	32.9%	68.2%	10.1%
Core Attr NP	1,844	2,680	4,313	5,356
yoy %	24.4%	45.3%	60.9%	24.2%
Gross margin	38.5%	36.4%	33.5%	33.5%
Net gearing	101.6%	81.2%	72.6%	66.6%
Core EPS	0.46	0.67	1.04	1.29
DPS	0.26	0.37	0.29	0.36
BPS	6.83	7.91	7.93	8.86

Source: Company data, AMTD Equity Research

#### Valuation

	2018	2019	2020e	2021e
P/E	10.4	6.9	4.2	3.4
P/BV	0.7	0.6	0.6	0.5
Div. yield	5.8%	8.1%	6.6%	8.2%
ROE	6.8%	8.9%	13.2%	14.6%
ROA	2.8%	4.0%	3.3%	3.7%

Source: Bloomberg, AMTD Equity Research

#### Share price performance



Source: Bloomberg

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Figure 1: Powerlong's FY2019 Results slightly beat our expectations

FY19 Results (RMB '000)	FY19A	FY19E	Diff/Chg	FY18A	YoY/Chg
Sales of properties	22,477,631	23,434,325	-4%	16,667,415	35%
Rental income of investment properties	1,419,940	1,348,266	5%	1,123,555	26%
Income of property management services	1,392,768	1,350,100	3%	1,125,083	24%
Income of other property development related services	751,293	813,284	-8%	677,737	11%
<b>Total Revenue</b>	<b>26,041,632</b>	<b>26,945,975</b>	<b>-3%</b>	<b>19,593,790</b>	<b>33%</b>
Cost of Goods Sold	(16,558,591)	(17,916,396)	-8%	(12,041,179)	38%
<b>Gross Profit</b>	<b>9,483,041</b>	<b>9,029,579</b>	<b>5%</b>	<b>7,552,611</b>	<b>26%</b>
Fair value gains on investment properties – net	2,394,403	-	N/A	2,500,520	-4%
Selling and marketing costs	(984,474)	(1,080,813)	-9%	(785,914)	25%
Administrative expenses	(1,439,687)	(1,546,809)	-7%	(1,480,700)	-3%
Other income and gains – net	927,108	297,557	212%	216,369	328%
<b>Operating profit</b>	<b>10,380,391</b>	<b>6,699,515</b>	<b>55%</b>	<b>8,002,886</b>	<b>30%</b>
Share of profit of investments accounted for using the equity method	375,755	257,490	46%	187,234	101%
Finance costs	(899,775)	(843,210)	7%	(1,376,659)	-35%
<b>Profit before Tax</b>	<b>9,856,371</b>	<b>6,113,795</b>	<b>61%</b>	<b>6,813,461</b>	<b>45%</b>
Income tax expense	(3,838,474)	(2,755,145)	39%	(3,165,812)	21%
<b>Net Profit</b>	<b>6,017,897</b>	<b>3,358,650</b>	<b>79%</b>	<b>3,647,649</b>	<b>65%</b>
<b>Owners of the Company</b>	<b>4,041,116</b>	<b>2,496,702</b>	<b>62%</b>	<b>2,837,007</b>	<b>42%</b>
Holders of Perpetual Capital Instruments	69,556	123,045	-43%	123,045	-43%
Non-controlling interests	1,907,225	738,903	158%	687,597	177%
<b>Core Attributable Net Profit</b>	<b>2,680,000</b>	<b>2,496,702</b>	<b>7%</b>	<b>1,844,000</b>	<b>45%</b>
<b>Key Ratios</b>					
GP Margins	36%	34%		39%	
Core Net Margins	10%	9%		19%	
Net Debt to Equity	81%	89%		102%	

Source: Company data, AMTD Equity Research  
E=AMTD Equity Research Estimates

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#### Stock Rating

<b>Buy</b>	Stock with potential return of over 20% over the next 12 months
<b>Hold</b>	Stock with potential return of -20% to +20% over the next 12 months
<b>Sell</b>	Stock with potential loss of over 20% over the next 12 months

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