

## Minmetals Land Limited

### Consolidating for a Brighter Future

Following the asset injection during 2020, we believe the developer is in a period of restructuring and consolidation of the business. While Minmetals Land's core net profit came in weaker than expected, the strengthened balance sheet shows that the cash flows of the business is strong and healthy. We maintain our Hold rating.

#### Net Debt To Equity improved to ~50% reflects cash flow strength

Following the asset injection during 2020, we believe the developer is in a period of restructuring and consolidation of the business. While Minmetals Land's core net profit came in weaker than expected at only RMB112m (down 85% YoY), we believe this reflects the weakness of the business before its asset restructuring during 2020. We take comfort from the strengthened balance sheet where net debt to equity has deleveraged to 50% (2019: 79%). This together with the significant increase in contract liabilities (up 180% YoY) on balance sheet implies that the cash flow of the underlying business are solid and healthy, in our view. The increase in contract liabilities reflects the solid contracted sales growth of 124% YoY to RMB19,360m underpinned by the asset injection completed during the year.

#### Weaker than expected 2020 results amid lower revenue and margins

Minmetals' results came in weaker than expected with core net profit declining 85% YoY to RMB112m. This is due to a revenue decline of 34% YoY to RMB7,661m coupled with a decline in GP Margins to 16% (2019: 24%). As a result, the core net profit margin was only at 1.6% (2019: 7.3%). A final dividend of HK\$0.01/sh is declared along with a special dividend of HK\$0.01/sh.

#### Asset restructuring during 2020 will underpin future growth

We believe that the assets acquired through the asset injection during 2020, will underpin the developers' future contracted sales and earnings growth. The assets acquired from its controlling shareholder comprises of 11 property projects across five cities and also includes a property management company. This acquisition added 3.03m sqm to the developer's land bank and contributes to the results since Sep 2020 onwards. In addition to the improved financials and scale of operations, we believe the asset injection also removes an overhang relating to investors' concerns on potential conflicts with the controlling shareholder's real estate development operations.

#### Fairly Valued at 0.31x P/B, Maintain Hold

We believe the stock is currently valued at a P/B of 0.31x. We slightly revise down our target price to HK\$1.01/sh as we lower our Target 2021E PE Multiple to 3.75x amid the weaker than expected net profit reported. Our new target price implies 13% upside from the current share price levels. We maintain our Hold rating.

Stock code: 0230.HK

Rating: Hold

<b>Price target (HK\$)</b>	<b>1.01</b>
Previous price target (HK\$)	1.18
Current price (HK\$, 26 Mar 2021)	0.89
Upside/downside %	13%
Market cap (HK\$ m)	2,979
Market cap (US\$ m)	384
Avg daily turnover (US\$m)	0.05

Source: Bloomberg, AMTD Research

#### Key forecasts

(HK\$ m)	2019	2020	2021e	2022e
Revenue	11,261	7,662	13,778	15,742
YoY %	3.0%	-32.0%	79.8%	14.3%
Gross Profit	2,673	1,230	3,031	3,463
YoY %	-31.2%	-54.0%	146.3%	14.3%
Core Net Profit	827	122	912	1,354
YoY %	-6.2%	-85.2%	646.8%	48.5%
Gross margin	23.7%	16.1%	22.0%	22.0%
Net gearing	79.1%	50.0%	87.4%	85.9%
EPS	0.25	0.04	0.27	0.40
DPS	0.08	0.02	0.09	0.13
BPS	2.75	2.87	3.06	3.34

Source: Company data, AMTD Research

#### Valuation

	2019	2020	2021e	2022e
P/E	3.6	24.4	3.3	2.2
P/BV	0.32	0.31	0.29	0.27
Div. yield	9.0%	1.9%	10.1%	14.6%
ROE	9.0%	1.3%	7.6%	12.9%
ROA	1.7%	0.2%	1.2%	2.0%

Source: Bloomberg, AMTD Research

#### Share price performance



Source: Bloomberg

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Figure 1: Minmetals FY20 Financial Results Summary

FY20 Results (HKD '000)	FY20A	FY20E	Diff (%)	FY19A	YoY/Chg
Sale of properties	7,071,620	10,614,996	-33%	10,329,101	-32%
Revenue from specialised construction contracts	529,429	907,833	-42%	864,603	-39%
Rental and management fee income from investment properties	60,597	71,113	-15%	67,727	-11%
<b>Total Revenue</b>	<b>7,661,646</b>	<b>11,593,942</b>	<b>-34%</b>	<b>11,261,431</b>	<b>-32%</b>
Cost of sales	(6,431,192)	(9,159,214)	-30%	(8,588,071)	-25%
<b>Gross profit</b>	<b>1,230,454</b>	<b>2,434,728</b>	<b>-49%</b>	<b>2,673,360</b>	<b>-54%</b>
Other income, other gains and losses	495,945	106,675	365%	103,616	379%
Fair value changes on investment properties	(50,586)	-		107,550	-147%
Selling and marketing expenses	(255,866)	(415,133)	-38%	(242,035)	6%
Administrative and other expenses	(752,540)	(583,832)	29%	(567,088)	33%
Expected credit losses, net of reversal	(14,534)	-		3,832	-479%
Finance income	222,799	221,744	0%	221,744	0%
Finance costs	(69,471)	(37,034)	88%	(26,739)	160%
Share of results of associates	4,469	-		(3,761)	-219%
Share of results of joint ventures	(2,260)	-		(10,380)	-78%
<b>Profit before tax</b>	<b>808,410</b>	<b>1,727,148</b>	<b>-53%</b>	<b>2,260,099</b>	<b>-64%</b>
Income tax expense	(371,070)	(702,577)	-47%	(907,516)	-59%
<b>Net profit</b>	<b>437,340</b>	<b>1,024,570</b>	<b>-57%</b>	<b>1,352,583</b>	<b>-68%</b>
Owners of the Company	112,370	660,948	-83%	942,689	-88%
Holder of perpetual capital instruments	220,578	219,089	1%	219,089	1%
Non-controlling interests	104,392	144,533	-28%	190,805	-45%
<b>Core attributable NP</b>	<b>122,118</b>	<b>660,948</b>	<b>-82%</b>	<b>826,780</b>	<b>-85%</b>
<b>Key Ratios</b>					
GP Margins	16.1%	21.0%		23.7%	-7.7ppt
Core Net Margins	1.6%	6.0%		7.3%	-5.7ppt
	<b>FY20A</b>	<b>FY20E</b>		<b>FY19A</b>	<b>YoY/Chg</b>
Net Debt to Equity	50%	87%		79%	-29.4ppt
Total Assets to Total Equity	2.9x	3.3x		3.0x	-0.1x

Source: Company data, 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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