

Redsun Properties Group Limited

Recapitalised Balance Sheet, Steady Growth Ahead

We maintain our Buy rating on Redsun Properties, as we believe that the company will continue to maintain its steady growth while valuations remain undemanding at 3.9x 2021E P/E. The developer has successfully deleveraged its balance sheet to meet all Three Red-Lines, which we believe is positive for its funding cost and channels.

Three Red-Lines passed, credit positive, but may come at a cost

We believe Redsun Properties is continuing on a steady growth trajectory in spite of a challenging environment. Under the three red-lines regulatory environment, Redsun has achieved green lights for all three categories, which we believe will smoothen the company's financing channels for growth. However, the sharp rise in non-controlling interests on balance sheet implies that shareholders' attributable stake in projects, and thus future shareholders' profit will be diluted, in our view. We believe this may result in downside risks to our 2021E-2022E earnings estimates as a result. Nonetheless, we believe the stock's valuation of 3.9x 2021E P/E implies that market's growth expectations for the stock are also relatively low. We thus believe the slower growth is already factored in the price. Maintain Buy.

2020 revenues meet expectations, core net profit grew ~11% YoY

Redsun's 2020 core net profit grew by ~11% YoY to RMB1,313m, while revenues grew by ~33% to RMB20,159m. Revenues were in-line with our expectations, but core net profits were lower than our expectations due to lower profit margins, which is in-line with the industry. GP Margins came in at 22.4%, while core net margins was at 6.5%, which we believe is in-line with industry average. A final dividend of HK\$0.145/sh is declared, implying a 5% dividend yield based on the current share price.

Contracted Sales to grow by 15% in 2021E, in our view

We estimate that Redsun's contracted sales will grow by another 15% YoY in 2021E bringing the developers' total contracted sales to reach RMB99.5bn, in our view. The developer has a total sellable resources of RMB140bn in 2021E, of which Jiangsu Province (60% of sellable resources) will continue to be the key focus. Greater Bay Area (10% of sellable resources) is rising in significance for the developer outside of Yangtze River Delta, and the developer will continue to reinvest into the region.

Balance sheet deleveraged, but non-controlling interest surged

Redsun's 2020 balance sheet has seen a significant improvement, with net debt to equity deleveraged to 50.3%, Total Assets excl. contract liabilities at 69.4%, cash to short term debt ratio at 1.6x. Nonetheless, it does come at a cost, in our view, with Non-Controlling Interest as percentage of Total Assets rising to ~10% (2019: 4.3%). This effectively causes dilution towards shareholders' equity, in our view. Unless the developer buys back these non-controlling stakes ahead of project completion, we believe this may dilute the growth in shareholder's profit in the future.

Valuation undemanding at 3.9x 2021E P/E, Maintain Buy

We believe the stock's valuation of 3.9x 2021E P/E is undemanding, and our target price of HK\$3.78/sh offers 30% upside to the current share price. We maintain our Buy rating. Key downside risks include (1) Slower than expected contracted sales growth in 2021E; and (2) Tightening of monetary policies and announcement of new austerity measures.

Stock code: 1996.HK

Rating: Buy

Price target (HK\$)	3.78
Current price (HK\$, 31 Mar 2021)	2.91
Upside/downside %	30%
Market cap (HK\$ m)	9,674
Market cap (US\$ m)	1,244
Avg daily turnover (US\$ m)	1.31

Source: Bloomberg, AMTD Research

Key forecasts

(RMB m)	2019	2020	2021e	2022e
Revenue	15,170	20,159	22,935	26,408
yoy %	64.2%	32.9%	13.8%	15.1%
Gross Profit	3,813	4,508	5,504	6,338
yoy %	32.1%	18.2%	22.1%	15.1%
Core Net Profit	1,186	1,313	2,076	2,455
yoy %	2.7%	10.7%	58.1%	18.2%
Gross margin	25.1%	22.4%	24.0%	24.0%
Net gearing	70.4%	50.3%	74.5%	67.8%
EPS	0.38	0.40	0.63	0.74
DPS	0.11	0.12	0.16	0.19
BPS	4.18	4.53	5.04	5.60

Source: Company data, AMTD Research

Valuation

	2019	2020	2021e	2022e
P/E	6.5	6.2	3.9	3.3
P/BV	0.6	0.5	0.5	0.4
Div. yield	4.5%	5.0%	6.4%	7.6%
ROE	9.0%	8.6%	12.4%	13.2%
ROA	1.3%	1.1%	1.7%	1.7%

Source: Bloomberg, AMTD Research

Share price performance



Source: Bloomberg

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Figure 1: Redsun FY20 Financial Results Summary

FY20 Results (RMB '000)	FY20A	FY20E	Diff (%)	FY19A	YoY/Chg
Sale of properties	19,615,845	19,378,783	1%	14,718,381	33%
Commercial operations	505,224	493,642	2%	411,368	23%
Hotel operations	37,632	47,708	-21%	39,757	-5%
Total Revenue	20,158,701	19,920,133	1%	15,169,506	33%
Cost of sales	(15,650,959)	(15,139,301)	3%	(11,356,243)	38%
Gross Profit	4,507,742	4,780,832	-6%	3,813,263	18%
Other income and gains	632,630	434,944	45%	331,217	91%
Selling and distribution expenses	(927,623)	(749,779)	24%	(651,982)	42%
Administrative expenses	(990,669)	(1,253,168)	-21%	(1,089,711)	-9%
Other expenses	(39,356)	(48,009)	-18%	(36,560)	8%
Fair value gains/(losses) on investment properties	258,949	-	NA	310,456	-17%
Share of profits and losses of:			NA		N/A
Joint ventures	(85,034)	298,802	-128%	97,724	-187%
Associates	528,110	796,805	-34%	595,285	-11%
Finance costs	(725,412)	(623,864)	16%	(634,309)	14%
Profit before tax	3,159,337	3,636,563	-13%	2,735,383	15%
Income tax expense	(1,304,397)	(1,650,875)	-21%	(1,099,523)	19%
Net profit	1,854,940	1,985,687	-7%	1,635,860	13%
Owners of the Company	1,660,967	1,747,405	-5%	1,467,555	13%
Non-controlling interests	193,973	238,282	-19%	168,305	15%
Core attributable NP	1,313,000	1,747,405	-25%	1,186,000	11%
Key Ratios					
GP Margins	22.4%	24.0%		25.1%	-2.8ppt
Core Net Margins	6.5%	8.8%		7.8%	-1.3ppt
	FY20A	FY20E		FY19A	YoY/Chg
Net Debt to Equity	50.3%	80.7%		70.4%	-20.1ppt
Total Assets to Total Equity	4.3x	5.7x		5.3x	-0.9x

Source: Company data, E=AMTD Equity Research Estimates

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AMTD Investment Ratings

Stock Rating

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

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