

Longfor Property

Stable growth as always

Upgrade to 'Buy' and revise up TP to HK\$ 25.34: 39% YoY growth of core net profit, GPM enhanced to 34%

2017 result beats our expectation: revenue improved by 32% YoY to RMB 72 bn. Thanks to GPM growing by 5 pts to 34%, gross profit surged by 55% YoY. SG&A to contracted sales was further compressed from 3.9% in 2016 to 3.2% in 2017. SG&A expense increased by 47% YoY, which was less than 2017 sales growth of 77%. Attr. core net profit improved by 39% to RMB 4.6 bn, with core NPM of 15%. Net gearing ratio slightly declined by 6 pts to 48% in FY2017. We expect the company will deliver stable growth of net profit in next 3 years and its balance exposure is also an advantage. Therefore, we upgrade its rating to 'Buy' and revise up TP to HK\$ 25.34.

RMB 200 bn of sales target in 2018, 28% YoY growth

Longfor is targeting RMB 200 bn of contracted sales in 2018, which implies 28% YoY growth. The company will launch over RMB 300 bn of saleable resource in 2018. In terms of sales value by region, the company will launch 27% in 1st tier cities and 70% in 2nd tier cities. 111 projects will be launched in 2018, 50 of which are brand new projects. The company's balance exposure will diversify its regional risk: 33 projects in Pan Bohai Rim, 30 projects in Yangtze River Delta, 26 projects in Western China, 15 projects in Southern China. The company is looking for good opportunities in Greater Bay area and Hainan province. A balanced exposure will be an advantage to reduce market risk.

No spin-off plan for commercial projects and more rental housing projects in future

The management explained that the commercial projects will provide better branding image and enhance the synergy and improve the premium for its residential projects. The company is still implementing the strategy that allocating 10% of sales to develop commercial projects for long-term investment. Regarding to long-term rental housing, the company will gradually develop it into 3 core brands in future. The company will insist its quality and profitability, rather than scale of rental housing. In 2017, GPM of rental housing is 60%. Funding for rental housing is at benchmark rate. The management believes the company has well prepared in the deleveraging environment, and acquired sufficient land resource in 2017. The company will selectively acquire projects with good profitability in 2018.

We expect GPM will close to 30% in next three years

We believe the company will deliver about 30% GPM in next 3 years, as home price surged in last 2 years. We estimate booking ASP will gradually increase and GPM should be above 30%. We expect GPM will be 32%/29%/29% in 2018/2019/2020, respectively.

Revise up rating to 'Buy' and price target to HK\$28.90, 22% upside

The company has more balanced and nationwide exposure, reasonable land cost and conservative for land acquisition in 2018. We expect the company will deliver steady growth of net profit in next 3 years. We prefer developers with steady growth and low funding cost in deaveraging environment. Longfor is our top pick among non-SOE developers and we revise up target price to HK\$28.90, upgrade to 'BUY' rating and (due to inclusion of new projects in our NAV). Our price target implies 35% discount to Dec-18 NAV, 12.0x 2018e core PE and 9.2x 2019e core PE. The stock is trading at 47% discount to Dec-18 NAV, 9.8x 2018e core PE and 1.5x 2018e PB.

Stock code: 960.HK

Rating: Buy

Price target (HK\$)	25.34
Previous target(HK\$):	20.87
Current price (HK\$, 22 Mar 2018)	23.60
Upside/downside %	22%
Market cap (HK\$ m)	135,760
Market cap (US\$ m)	17,298
Avg daily turnover (HK\$ m)	128

Source: Bloomberg, AMTD Equity Research

Key forecasts

(RMB m)	2017	2018e	2019e	2020e
Revenue	72,263	89,337	114,858	145,390
yoy %	32%	24%	29%	27%
Attr NP	14,386	12,598	16,502	19,535
yoy %	56%	-12%	31%	18%
Core Attr NP	10,694	12,598	16,502	19,535
yoy %	39%	18%	31%	18%
Gross margin	34.1%	31.6%	29.1%	29.3%
Net gearing	47.7%	31.4%	10.0%	15.0%
EPS	1.84	2.17	2.84	3.36
DPS	0.68	0.59	0.77	0.92
BPS	12.15	14.32	17.17	20.53

Source: Company data, AMTD Equity Research

Valuation

	2017	2018e	2019e	2020e
P/E	11.5	9.8	7.5	6.3
P/BV	1.7	1.5	1.2	1.0
Div. yield	3.2%	2.8%	3.6%	4.3%
ROE	15.6%	13.1%	16.2%	16.4%
ROA	5.5%	4.1%	4.0%	2.9%

Source: Bloomberg, AMTD Equity Research

Share price performance



Source: Bloomberg

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Figure 1: Previous forecast vs actual result

PnL, RMB '000	2016	2017	AMTD 2017E	YoY	Actual vs Est
Revenue	54,799,495	72,262,735	68,969,799	31.9%	4.8%
Sales of properties	51,441,402	67,462,452	64,701,969	31.1%	4.3%
Cost of sales	(38,864,114)	(47,639,212)	(47,825,797)	22.6%	-0.4%
GPM	29%	34%	31%	5.0 pts	3.4 pts
Gross profit	15,935,381	24,623,523	21,144,002	54.5%	16.5%
Other income	180,737	847,520	180,737	368.9%	368.9%
Fair value gains on investment properties	2,018,112	4,923,287	-	144.0%	n.a.
Selling expenses	(1,427,723)	(1,796,698)	(2,433,355)	25.8%	-26.2%
Administrative expenses	(2,022,328)	(3,267,424)	(4,506,213)	61.6%	-27.5%
Finance costs	(53,059)	(45,275)	(52,967)	-14.7%	-14.5%
Profit before tax	15,956,310	27,656,248	15,657,393	73.3%	76.6%
Income tax expense	(5,979,580)	(9,390,161)	(5,868,135)	57.0%	60.0%
Profit for the year	9,976,730	18,266,087	9,789,258	83.1%	86.6%
Adjusted profit for the year	8,463,146	14,573,622	9,789,258	72.2%	48.9%
Profit for the year attributable to:					
Owners of the Company	9,194,817	14,386,196	9,007,345	56.5%	59.7%
Non-controlling interests	781,913	3,879,891	781,913	396.2%	396.2%
Core net profit	7,681,233	10,693,731	9,007,345	39.2%	18.7%
Net Debt / Equity	54%	48%	26%	-6.2 pts	21.4 pts
Current Ratio	151%	132%	139%	-19.8 pts	-7.5 pts
Interest Coverage	4.6x	6.7x	5.2x	2.1x	1.5x
ROA	4.09%	3.97%	3.26%	-0.1 pts	0.7 pts
ROCE	7.42%	9.09%	6.31%	1.7 pts	2.8 pts
ROE	13.14%	16.16%	13.83%	3.0 pts	2.3 pts
GPM	29.08%	34.07%	30.66%	5.0 pts	3.4 pts
NPM	16.78%	19.91%	13.06%	3.1 pts	6.8 pts
Core NPM	14.02%	14.80%	14.19%	0.8 pts	0.6 pts
Total Debt	57,872,070	77,404,193	57,872,070	33.8%	33.8%
Cash	17,355,472	26,761,273	35,569,832	54.2%	-24.8%
Net Debt	40,516,598	50,642,920	22,302,238	25.0%	127.1%
ST Debt	5,333,349	5,588,597	8,604,231	4.8%	-35.0%
Properties held under development	99,673,161	162,200,635	133,193,138	62.7%	21.8%
Advanced proceeds received from customers	44,124,849	93,217,477	86,069,928	111.3%	8.3%

Source: Company data, AMTD Equity Research

Figure 2: P&L forecast and key ratios

PnL, RMB mn						YoY growth				
	2016	2017	2018e	2019e	2020e	2016	2017	2018e	2019e	2020e
Revenue	54,799	72,263	89,337	114,858	145,390	15.6%	31.9%	23.6%	28.6%	26.6%
Sales of properties	51,441	67,462	84,056	109,050	139,001					
Cost of sales	(38,864)	(47,639)	(61,090)	(81,456)	(102,797)					
Gross profit	15,935	24,624	28,247	33,402	42,593	22.4%	54.5%	14.7%	18.2%	27.5%
Selling expenses	(1,428)	(1,797)	(2,302)	(2,762)	(4,320)	40.3%	25.8%	28.1%	20.0%	56.4%
Administrative expenses	(2,022)	(3,267)	(4,186)	(5,024)	(6,624)	40.9%	61.6%	28.1%	20.0%	31.9%
Share of post-tax loss of an associate	1,051	1,215	1,215	1,215	1,215					
Share of post-tax (losses)/profits of joint ventures	383	654	654	654	654					
Finance costs	(53)	(45)	(45)	(45)	(45)	23.1%	-14.7%	0.0%	0.0%	0.0%
Profit before tax	15,956	27,656	24,932	28,790	34,822	14.5%	73.3%	-9.8%	15.5%	21.0%
Income tax expense	(5,980)	(9,390)	(8,454)	(8,408)	(11,408)					
Profit for the year	9,977	18,266	16,478	20,382	23,415	-5.6%	83.1%	-9.8%	23.7%	14.9%
Profit for the year attributable to:										
Net profit	9,195	14,386	12,598	16,502	19,535	-9.8%	56.5%	-12.4%	31.0%	18.4%
Core net profit	7,681	10,694	12,598	16,502	19,535	-4.4%	39.2%	17.8%	31.0%	18.4%
Non-controlling interests	782	3,880	3,880	3,880	3,880					
Dividends	2,083	3,919	3,432	4,496	5,322					
EPS - basic	1.58	2.48	2.17	2.84	3.36					
EPS-underlying	1.32	1.84	2.17	2.84	3.36					
DPS - basic	1.32	1.84	2.17	2.84	3.36					
BVPS	0.36	0.68	0.59	0.77	0.92					
Key Ratios, RMB mn	2016	2017	2018e	2019e	2020e					
GPM	29.1%	34.1%	31.6%	29.1%	29.3%					
NPM	16.8%	19.9%	14.1%	14.4%	13.4%					
Core NPM	14.0%	14.8%	14.1%	14.4%	13.4%					
ROA	4.1%	4.0%	2.9%	3.2%	3.2%					
ROCE	7.4%	9.1%	6.6%	7.8%	8.4%					
ROE	13.1%	16.2%	16.4%	18.1%	17.9%					
Total Debt / EBITDA	4.2x	3.4x	3.1x	2.7x	2.2x					
Total Debt / Equity	77.0%	72.9%	63.1%	54.1%	46.5%					
Total Debt / Capitalization	43.5%	42.2%	38.7%	35.1%	31.7%					
Net Debt / EBITDA	2.9x	2.2x	1.5x	0.5x	0.7x					
Net Debt / Equity	53.9%	47.7%	31.4%	10.0%	15.0%					
Net Debt / Capitalization	30.5%	27.6%	19.2%	6.5%	10.3%					
Current Ratio	151.4%	131.6%	126.0%	127.5%	133.4%					
Cash / Total Assets	7.7%	7.4%	9.0%	12.3%	8.7%					
Inventory / Total Assets	44.7%	44.9%	50.9%	54.0%	62.6%					
Net debt / Net Inventory	40.3%	31.1%	17.5%	5.2%	6.6%					
Quick Ratio	132.4%	116.6%	109.8%	106.6%	118.6%					
Cash Ratio	19.0%	15.1%	16.2%	20.9%	14.8%					
Interest Coverage	4.6x	6.7x	7.3x	8.5x	10.2x					

Source: Company data, AMTD Equity Research

Figure 3: Balance sheet forecast & Cash flow forecast

Balance Sheet, RMB mn	2016	2017	2018e	2019e	2020e
Non-current assets	86,342	129,096	129,096	129,096	129,096
Current assets	138,489	233,668	302,366	384,099	472,992
Properties held under development	100,512	163,000	219,543	277,150	376,697
Properties held for sale	97	119	119	119	119
Bank balances and cash	17,258	26,642	38,797	62,922	52,268
Others	20,621	43,907	43,907	43,907	43,907
Current liabilities	91,462	177,494	239,895	301,246	354,536
Short-term borrowings	44,125	93,217	145,437	206,788	272,267
Deposits received on sale of properties	5,333	5,589	15,770	15,770	3,581
Others	42,004	78,688	78,688	78,688	78,688
Non-current liabilities	58,253	79,091	68,909	68,909	81,098
Borrowings	52,539	71,816	61,634	61,634	73,823
Others	5,714	7,275	7,275	7,275	7,275
Equity attributable to owners of the Company	75,115	106,179	122,657	143,039	166,453
Perpetual capital instruments	61,765	70,567	83,165	99,667	119,202
Non-controlling interests	13,350	35,612	39,492	43,372	47,252
Cash Flow Statement, RMB mn	2016	2017	2018e	2019e	2020e
Profit before income tax	15,956	27,656	24,932	28,790	34,822
Operating cash flows before movements in working capital	13,168	27,702	24,978	28,835	34,868
Increase in properties under development for sales	(17,219)	(61,995)	(57,076)	(57,607)	(99,548)
Decrease in accounts and bills payables, deposits received and accrued charges	9,175	49,114	52,220	61,350	65,479
Cash (used in) from operations	36,592	10,469	20,654	32,579	799
PRC Income tax paid	(3,919)	(9,390)	(8,454)	(8,408)	(11,408)
Net cash (used in) from operating activities	32,673	1,079	12,200	24,171	(10,609)
Net cash used in investing activities	(40,117)	(45)	(45)	(45)	(45)
Financing activities					
Proceeds from borrowings	19,564	5,333	5,589	15,770	15,770
Repayments of borrowings	(22,645)	(5,333)	(5,589)	(15,770)	(15,770)
Net cash from (used in) financing activities	6,782	8,351	0	0	0
Net increase in cash and cash equivalents	(662)	9,384	12,155	24,126	(10,654)
Cash and cash equivalents at beginning of the year	17,920	17,258	26,642	38,797	62,922
Cash and cash equivalents at end of the year	17,258	26,642	38,797	62,922	52,268

Source: Company data, AMTD Equity Research

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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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