



## CIFI (884 HK) From regional to national

- 2017 core profit rose 44.5%YoY to RMB 4,082mn
- Adjusted gross margin rose 4.3ppt YoY to 29.7% in 2017 as booked ASP grew 38%YoY
- 2018 presales target of RMB 140bn implies a 35%YoY growth based on RMB 250bn of estimated saleable resources
- Maintain **BUY** with revised TP of HK\$ 9.60 (from HK\$ 5.90) based on a 50% discount to NAV

## Company Report

Mar 15, 2018

Rating: **BUY**

TP: HK\$ 9.60

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**Encouraging FY17 results.** CIFI's 2017 core profit (after MI) rose 44.5%YoY to RMB 4,082mn, 3.7% higher than our forecast and 6.0% higher than consensus, mainly driven by 46% YoY increase in booked property sales. As booked ASP increased 38% YoY to RMB 14,710/sqm, adjusted gross margin (excluding effect of re-measurement of fair value of project stake acquired) improved 4.3ppt YoY to 29.7%. Net gearing was up by 1ppt YoY to 51% or by 20ppt YoY if perpetual capital instrument is calculated as debt. As of Dec 2017, CIFI's unbooked presale reached RMB 80bn, indicating high visibility in future earnings. Management is confident that gross margin would stay at the 25-30% level and net margin would not fall below 12% in coming years.

**2018 presales target of RMB 140bn implies a 35% YoY growth.** In FY17, CIFI's presale increased 96% YoY to RMB 104bn (or +88%YoY to RMB 55bn on attributable basis), as GFA presold rose 116%YoY while ASP declined 9.1%YoY to RMB 16.5k/sqm. CIFI has been shifting its focus from tier-1 to tier-2 ones due to the less stringent property price control in the latter. As a result, presale from tier-1 regions declined from 36% of total in 2016 to 15% in 2017. According to CRIC, CIFI was ranked 15<sup>th</sup> in terms of presales amount nationally, first in Suzhou and Hefei, and seventh in Hangzhou and Ningbo. CIFI set a presales target of RMB 140bn in 2018 based on a saleable resource of RMB 250bn and a 56% sell-through rate.

**From regional to national.** In 2017, CIFI acquired 78 new projects with a total GFA of 13.2mn at RMB 104.9bn (or RMB42.9bn on attributable basis), which would increase saleable resources by RMB 300bn. About 58% of the new projects (in terms of consideration) are acquired through open auction while the remainder comes from M&A. As at Dec 2017, unpaid land premium was RMB 11.2bn. In 2017, CIFI expanded its footprint in 17 new cities. Its landbank, which covered a total of 40 cities, reached 31.0mn sqm (attributable: 16mn sqm). Adding the 2.5mn sqm acquired in 2M18 and potential urban redevelopment projects, CIFI estimates its total landbank and saleable resources would reach 51mn sqm and RMB 700bn. By 2022, CIFI aims to become one of the top 8 developers by presales amount.

Share price (HK\$)	6.80
Est. share price return	41.2%
Est. dividend yield	3.7%
Est. total return	44.9%
Previous Rating & TP	BUY, HK\$5.90
Previous Report Date	Nov 14, 2017

Source(s): Bloomberg, ABCI Securities

### Key Data

52Wk H/L(HK\$)	7.36/2.6
Issued shares (mn)	7,602
Market cap (HK\$ mn)	51,717
3-mth avg daily turnover(HK\$ mn)	232.1
Major shareholder(s) (%)	
Lin's family	57.30%
Ping An	9.94%

Source(s): Bloomberg, ABCI Securities

### Share Performance

	Absolute	Relative*
1-mth	18.9	11.4
3-mth	44.7	34.2
6-mth	50.9	33.9

\*Relative to HSI

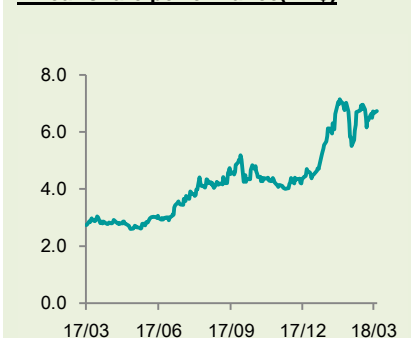
Source(s): Bloomberg, ABCI Securities

### Results and Valuation

FY ended Dec 31	2016A	2017A	2018E	2019E	2020E
Revenue (RMB mn)	22,224	31,824	52,187	82,503	108,994
Chg (% YoY)	21.9	43.2	64.0	58.1	32.1
Core net profit (RMB mn)	2,824	4,082	6,146	6,977	9,265
Chg (% YoY)	27.8	44.5	50.6	13.5	32.8
Core EPS (RMB)	0.42	0.56	0.78	0.92	1.22
Chg (% YoY)	21.2	33.5	38.7	18.0	32.8
BVPS (RMB)	2.23	2.87	3.15	3.87	4.66
Chg (% YoY)	10.8	28.9	9.7	22.9	20.5
Core PE (x)	13.1	9.8	7.1	6.0	4.5
P/B (x)	2.5	1.9	1.7	1.4	1.2
ROE (%)	18.9	19.5	24.7	23.7	26.1
ROA (%)	3.2	2.7	3.3	3.3	3.8
DPS(HK\$)	0.17	0.23	0.27	0.32	0.43
Yield (%)	2.5	3.4	4.0	4.7	6.3
Net gearing (%)	50.4	50.9	32.7	Net cash	Net cash

Source(s): Bloomberg, ABCI Securities estimates

### 1-Year share performance(HK\$)



Source(s): Bloomberg, ABCI Securities



**Active fundraising to lower funding costs.** CIFI's finance cost dropped 30bps YoY to 5.2% in FY17. In July 2017, CIFI issued 680mn new shares to raise HK\$ 2.42bn to further strengthen its balance sheet. Following the placement, Ping An (2318 HK) has become a strategic shareholder with a 9.9% stake. In Aug and Dec 2017, the Group completed two USD 300mn perpetual capital securities issuances at 5.375%. In Jan 2018, it issued a tranche of zero-coupon bonds worth HK\$ 2.79bn due 2019 with a conversion price of HK\$ 9.30 (30% premium to last close).

**Maintain BUY and raise TP to HK\$ 9.60.** We factor in the latest land acquisitions and raise our 2018E NAV estimate to HK\$ 19.11/share (from HK\$ 11.89). We also revise up our TP to HK\$ 9.60 (from HK\$ 5.90) based on an unchanged NAV discount of 50%. By delivering a higher-than-industry growth, CIFI is gradually transforming from a regional player to a national one. Now a member of MSCI China Index, CIFI will have a much widened investor base. Reiterate **BUY**.

**Risk factors:** 1) Potential policy tightening in tier-1/2 cities; 2) Expensive land acquisition may erode margins; 3) Declining ASP due to expansion into lower-tier cities

**Exhibit 1: CIFI's FY17 results**

P&L	2017	2016	YoY
	RMBmn	RMBmn	(%)
<b>Turnover</b>	<b>31,824</b>	<b>22,224</b>	<b>43.2</b>
Cost of Sales	(23,203)	(16,579)	40.0
<b>Gross Profit</b>	<b>8,621</b>	<b>5,646</b>	<b>52.7</b>
<b>Gross Margin (%)</b>	<b>27.1</b>	<b>25.4</b>	<b>+1.7ppt</b>
<b>Adjusted Gross margin*</b>	<b>29.7</b>	<b>25.4</b>	<b>4.3</b>
Selling and distribution costs	(610)	(524)	16.2
Administrative expense	(1,268)	(879)	44.3
<b>EBIT</b>	<b>6,744</b>	<b>4,242</b>	<b>59.0</b>
<b>EBIT Margin (%)</b>	<b>21.2</b>	<b>19.1</b>	<b>+2.1ppt</b>
Other income	476	162	194.3
Fair Value gains on IP and others	658	(100)	na
Share of profit from JCE/ Assoc.	2,106	1,063	98.1
Finance cost	(262)	(530)	(50.5)
<b>Profit before tax</b>	<b>9,721</b>	<b>4,837</b>	<b>101.0</b>
<b>Tax</b>	<b>(3,893)</b>	<b>(1,672)</b>	<b>132.8</b>
- LAT	(2,124)	(606)	250.3
- Enterprise tax	(1,769)	(613)	188.5
<b>Profit after tax</b>	<b>5,829</b>	<b>3,164</b>	<b>84.2</b>
Minority Interest	(1,320)	(357)	270.0
<b>Net profit</b>	<b>4,508</b>	<b>2,808</b>	<b>60.6</b>
<b>Core net profit</b>	<b>4,082</b>	<b>2,824</b>	<b>44.5</b>
<b>Core net margin</b>	<b>12.8</b>	<b>12.7</b>	<b>+0.1ppt</b>

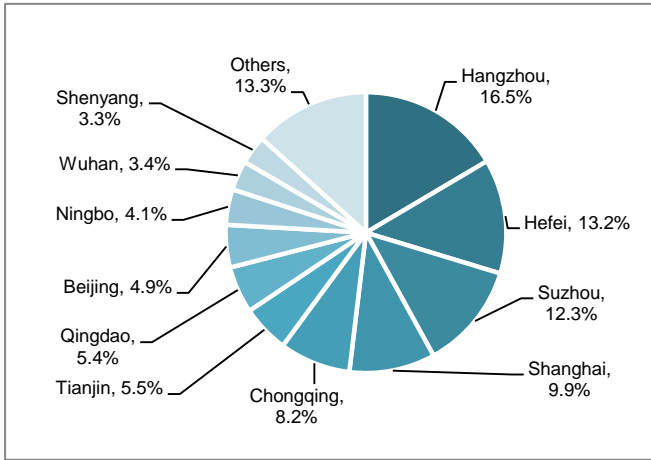
Operating statistics	2017	2016	YoY
			(%)
Contracted GFA (mn sqm)	6.29	2.92	115.8
Contracted ASP (RMB/sqm)	16,530	18,185	(9.1)
<b>Contracted Sales (RMB mn)</b>	<b>104,002</b>	<b>53,010</b>	<b>96.2</b>
GFA Delivered (mn sqm)	2.06	1.94	6.3
Booked ASP (RMB/sqm)	14,710	10,686	37.7
<b>Booked sales (RMB mn)</b>	<b>30,295</b>	<b>20,713</b>	<b>46.3</b>
<b>Land bank (mn sqm)</b>			
- Total	31.0	17.5	77.1
- Attributable	16.0	10.5	52.4
<b>New land acquisition (mn sqm)</b>			
- Total	13.2	6.5	103.1
- Attributable	5.9	3.5	68.6
<b>Balance sheet</b>	<b>Dec-17</b>	<b>Dec-16</b>	<b>YoY</b>
	RMB mn	RMB mn	(%)
Gross debt	47,239	29,311	61.2
Cash	29,787	20,677	44.1
<b>Net debt</b>	<b>17,452</b>	<b>8,634</b>	<b>102.1</b>
<b>Net gearing (%)</b>	<b>51%</b>	<b>50%</b>	<b>+1ppt</b>
<b>Net gearing – PCI as debt (%)</b>	<b>70%</b>	<b>50%</b>	<b>+20ppt</b>

\*Exclude effect of re-measurement of fair value of projects acquired

Source(s): Company, ABCI Securities

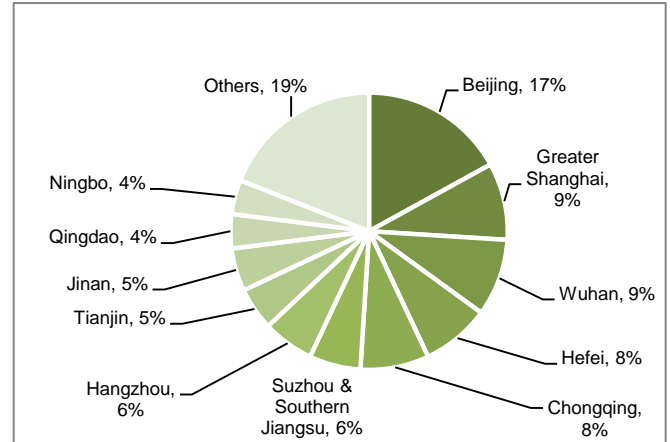


**Exhibit 2: 2017 presales breakdown (total: RMB 104bn)**



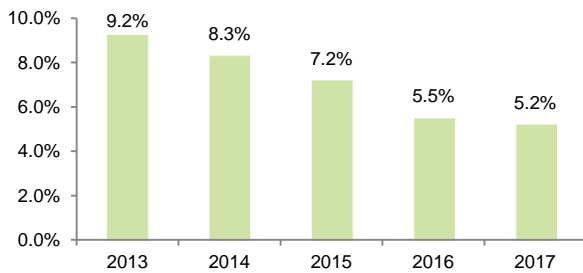
Source(s): Company, ABCI Securities

**Exhibit 3: 2018 sellable resources (RMB250bn)**



Source(s): Company, ABCI Securities

**Exhibit 4: Average finance cost**



Source(s): Company, ABCI Securities

**Exhibit 5: Cash flow guidance**

	2017A	2018E
	RMBbn	RMBbn
Presales (attributable basis)	46.8	77.0
Land (attributable basis)	(40.0)	(50.0)
Construction (attributable basis)	(10.0)	(13.0)
Tax	(7.0)	(9.0)
Finance cost	(2.3)	(2.8)
SG&A	(1.8)	(2.2)
<b>Operating cash flow</b>	<b>(14.3)</b>	<b>-</b>

Source(s): Company, ABCI Securities estimates



**Exhibit 6: CIFI's 2018E NAV**

	Attr. GFA (mn sqm)	Net assets value (RMB mn)	% of total	Valuation Method	Implied value per sqm (RMB)
<b>Property development</b>					
Shanghai	1.7	5,450	4%		3,132
Suzhou	1.9	3,679	3%		1,922
Hangzhou	1.0	1,472	1%		1,432
Beijing	0.6	2,005	1%	DCF with WACC of 9.3%	3,145
Tianjin	1.6	1,880	1%		1,188
Chongqing	1.6	2,091	1%		1,347
Others	18.7	122,196	87%		6,541
<b>Subtotal</b>	<b>27.1</b>	<b>138,774</b>	<b>99%</b>		<b>5,114</b>
Investment Properties		1,700	1%	6.0% cap rate on 2018E net rental	
<b>Total 2018E GAV</b>		<b>140,474</b>	<b>100%</b>		
2018E Net cash/ (debt)		(23,311)	-16%		
<b>Total 2018E NAV</b>		<b>117,162</b>	<b>84%</b>		
No. of share outstanding (diluted)		7,602			
<b>NAV per share (RMB)</b>		<b>15.41</b>			
Ex rate		1.24			
<b>NAV per share (HKD)</b>		<b>19.11</b>			
Target discount (%)		50%			
<b>Target Price (HKD)</b>		<b>9.60</b>			
<b>WACC</b>					
Cost of debt		6.0%			
Cost of equity		20.0%			
<b>Debt/ (Debt + Equity)</b>		<b>69%</b>			

Source(s): Company, ABCI Securities estimates

**Consolidated income statement (2015A-2020E)**

FY Ended Dec 31 (RMB mn)	2015A	2016A	2017A	2018E	2019E	2020E
<b>Revenue</b>	18,231	22,224	31,824	52,187	82,503	108,994
Cost of sales	(14,087)	(16,579)	(23,203)	(37,517)	(62,803)	(81,395)
<b>Gross Profit</b>	4,144	5,646	8,621	14,670	19,700	27,599
SG&A expenses	(978)	(1,403)	(1,877)	(2,344)	(2,700)	(3,160)
<b>EBIT</b>	3,165	4,242	6,744	12,326	17,000	24,439
Finance cost	(203)	(530)	(262)	(1,161)	(1,161)	(1,134)
Share of profit of associates	173	1,063	2,106	3,002	2,579	2,170
Other income/ (expenses)	321	306	476	24	34	77
Fair value gain of investment properties	-	-	-	-	-	-
Disposal/one-off items	348	(245)	977	-	-	-
<b>Profit before tax</b>	3,805	4,837	10,041	14,191	18,452	25,553
Tax	(1,334)	(1,672)	(3,893)	(4,904)	(6,521)	(9,250)
<b>Profit after tax</b>	2,471	3,164	6,149	9,287	11,931	16,303
Minority interest	(375)	(357)	(1,320)	(3,141)	(4,954)	(7,037)
<b>Reported net profit</b>	2,095	2,808	4,828	6,146	6,977	9,265
Less: exceptional items	115	16	(746)	-	(0)	0
<b>Underlying net profit</b>	2,210	2,824	4,082	6,146	6,977	9,265
<b>Per share</b>						
Underlying EPS (RMB)	0.35	0.42	0.56	0.78	0.92	1.22
DPS (HK\$)	0.14	0.17	0.23	0.27	0.32	0.43
Payout ratio (%)	40%	40%	41%	35%	35%	35%
BVPS (RMB)	2.01	2.23	2.87	3.15	3.87	4.66
<b>Growth %</b>						
Revenue	12.7%	21.9%	43.2%	64.0%	58.1%	32.1%
Gross Profit	-1.0%	36.2%	52.7%	70.2%	34.3%	40.1%
EBIT	-5.2%	34.0%	59.0%	82.8%	37.9%	43.8%
Underlying net profit	14.0%	27.8%	44.5%	50.6%	13.5%	32.8%
<b>Margin %</b>						
Gross margin	22.7%	25.4%	27.1%	28.1%	23.9%	25.3%
Gross margin (post-LAT)	22.4%	24.3%	21.4%	23.5%	20.2%	21.5%
EBIT margin	17.4%	19.1%	21.2%	23.6%	20.6%	22.4%
Core net margin	11.2%	10.3%	10.4%	12.0%	11.3%	13.0%
<b>Key assumptions</b>						
Contracted Sales (RMB mn)	30,223	53,010	103,985	142,968	158,643	196,545
GFA sold (mn sqm)	2.06	2.92	6.29	8.52	9.06	10.21
ASP (RMB/sqm)	14,700	18,185	16,537	16,779	17,505	19,247
Booked Sales (RMB mn)	17,047	20,713	30,295	50,579	80,811	107,214
GFA delivered (mn sqm)	1.32	1.94	2.06	3.25	4.98	5.45
Booked ASP (RMB/sqm)	12,875	10,686	14,710	15,554	16,232	19,682

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2015A-2020E)

As of Dec 31 (RMB mn)	2015A	2016A	2017A	2018E	2019E	2020E
<b>Current assets</b>	53,489	70,933	126,071	162,656	185,007	219,207
Cash	14,874	20,328	29,787	30,026	82,918	174,784
Restricted cash	32	349	-	-	-	-
Trade & other receivables	8,305	9,625	10,808	10,808	10,808	10,808
Property under development	27,085	28,084	43,732	80,077	49,536	(8,130)
Other current assets	3,194	12,547	41,745	41,745	41,745	41,745
<b>Non-current assets</b>	13,963	17,548	25,686	26,089	26,449	26,769
Property, plant & equipment	49	76	85	88	90	93
Investment properties	5,842	5,773	14,402	14,402	14,402	14,402
Investment in Associate and JCE	7,698	8,839	8,626	9,026	9,384	9,701
Other non-current assets	374	2,860	2,573	2,573	2,573	2,573
<b>Total Assets</b>	67,452	88,480	151,758	188,745	211,456	245,976
<b>Current Liabilities</b>	29,733	44,926	79,185	89,312	105,042	126,759
Short-term borrowings	2,794	4,457	12,154	12,154	12,154	12,154
Trade & other payables	14,214	7,854	13,602	13,602	13,602	13,602
Pre-sales deposits	10,396	15,391	25,549	35,677	51,406	73,123
Other current liabilities	2,329	17,224	27,880	27,880	27,880	27,880
<b>Non-current liabilities</b>	22,435	26,271	38,303	40,553	38,303	38,303
Long-term borrowings	21,161	24,935	35,419	37,669	35,419	35,419
Other payables	-	-	-	-	-	-
Other non-current liabilities	1,274	1,337	2,884	2,884	2,884	2,884
<b>Total Liabilities</b>	52,169	71,197	117,487	129,865	143,345	165,062
<b>Net Assets</b>	15,283	17,283	34,270	58,879	68,112	80,914
<b>Shareholders' Equity</b>	12,827	14,980	20,904	24,898	29,433	35,456
Perpetual capital instrument	-	-	3,848	3,848	3,848	3,848
Minority Interest	2,456	2,303	9,519	30,133	34,830	41,611
<b>Total Equity</b>	15,283	17,283	34,270	58,879	68,112	80,914
<b>Key ratio</b>						
Gross debt (RMB mn)	23,955	29,391	47,572	49,822	47,572	47,572
Net debt (RMB mn)	9,050	8,714	17,785	19,796	(35,345)	(127,212)
Net gearing (%)	59%	50%	51%	33%	-52%	-158%
Contracted sales/ Total assets (x)	45%	60%	69%	76%	75%	80%

Source(s): Company, ABCI Securities estimates

**Consolidated cash flow statement (2015A-2020E)**

FY ended Dec 31 (RMB mn)	2015A	2016A	2017A	2018E	2019E	2020E
EBITDA	3,184	4,258	6,762	12,344	17,017	24,457
Change in Working Capital	(3,783)	959	(24,938)	(23,509)	48,978	82,029
Tax payment	(1,334)	(1,672)	(3,893)	(4,904)	(6,521)	(9,250)
<b>Operating cash flow</b>	<b>(1,934)</b>	<b>3,545</b>	<b>(22,069)</b>	<b>(16,069)</b>	<b>59,475</b>	<b>97,236</b>
Purchase of PP&E	(20)	(20)	(20)	(20)	(20)	(20)
Addition of Investment Properties	-	-	-	-	-	-
Others	359	106	(11,801)	2,626	2,255	1,930
<b>Investing cash flow</b>	<b>339</b>	<b>86</b>	<b>(11,821)</b>	<b>2,606</b>	<b>2,235</b>	<b>1,910</b>
Debt raised	10,000	16,082	51,467	7,250	2,750	5,000
Debt repaid	(572)	(10,915)	(8,000)	(5,000)	(5,000)	(5,000)
Interest expenses	(1,774)	(2,150)	(2,311)	(3,869)	(3,869)	(3,779)
Equity raised	1,056	-	2,107	-	-	-
Dividend to shareholders	(893)	(1,143)	(1,674)	(2,151)	(2,442)	(3,243)
Others	1,557	(50)	1,760	17,473	(257)	(257)
<b>Financing cash flow</b>	<b>9,374</b>	<b>1,823</b>	<b>43,348</b>	<b>13,703</b>	<b>(8,818)</b>	<b>(7,279)</b>
<b>Net cash inflow/ (outflow)</b>	<b>7,780</b>	<b>5,455</b>	<b>9,458</b>	<b>239</b>	<b>52,892</b>	<b>91,867</b>
Cash- beginning	7,094	14,874	20,328	29,787	30,026	82,918
<b>Cash- year-end</b>	<b>14,874</b>	<b>20,328</b>	<b>29,787</b>	<b>30,026</b>	<b>82,918</b>	<b>174,784</b>

Source(s): Company, ABCI Securities estimates



## Disclosures

### Analyst Certification

I, Kenneth Tung, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

### Disclosures of Interests

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### Definition of equity rating

Rating	Definition
Buy	Stock return $\geq$ Market return rate
Hold	Market return $- 6\% \leq$ Stock return $<$ Market return rate
Sell	Stock return $<$ Market return $- 6\%$

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate

Time horizon of share price target: 12-month

### Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 1.5
Low	180 day volatility/180 day benchmark index volatility $<$ 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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