



Yuzhou (1628 HK) RMB 3.8bn acquisition to boost NAV

- Yuzhou's acquired 3.1mn sqm of attributable GFA from Coastal Greenland (1124 HK) at RMB 3.8bn
- The deal is attractively priced at RMB 1,214/sqm, or 0.93x P/B (Sep- end 2017)
- Yuzhou's saleable resources would increase by RMB 40bn to RMB 280bn after the transaction, based on our estimates
- We expect 2018E presales to grow 51% YoY to RMB 61bn
- Maintain **BUY** with revised TP of HK\$ 7.70 (from HK\$ 6.70) based on a 50% discount to end-2018E NAV

Yuzhou acquired 3.1mn sqm of attributable GFA at an attractive price. In Jan 2018, Yuzhou acquired seven projects with a total GFA of 5.5mn sqm (attributable area: 3.1mn sqm) from Coastal Greenland (1124 HK) at RMB 3.8bn. The acquired projects are located in Tianjin, Shenyang, Beijing, Wuhan and Foshan, boosting Yuzhou's attributable saleable resources by RMB 40bn to RMB 280bn. We believe the acquisition is appealing in multiple ways: **1) Bargain price** - the consideration at RMB3.8bn implies 0.93x Sep-end 2017 P/B (based on HK\$ 4.9bn NAV as of Sep 2017), or 2.7x FY17 P/E. Assuming there is no project-level debt, the average land cost is only at RMB 1,214/sqm, representing 9% of estimated blended ASP (RMB 12.9k/sqm) of the acquired projects; **2) Short payback period** - four out of the seven projects acquired are available for sales with the presales permits obtained. These projects present RMB 3.3bn of saleable resources, which could contribute to the Group's cash flow within a short period of time; **3) Immediate profit booking** - the acquired projects are likely to have a certain amount of unbooked revenue, which could be recognized in P&L in 2018.

Presales should grow 51% YoY to RMB 61bn in 2018E. Yuzhou's 2017 presale jumped 74% YoY to RMB 40.4bn as GFA sold increased 30% YoY to 2.38mn sqm while ASP rose 34% YoY to RMB 16,967/sqm. Following the abovementioned acquisition, we expect Yuzhou presales would grow 51% YoY to RMB 61bn (exceeding the Group's preliminary 2018 sales target of RMB 60bn).

Maintain BUY with revised TP of HK\$ 7.70. We factor in this acquisition and raise our 2018E NAV/share to HK\$ 15.45 (from HK\$ 13.37) and TP to HK\$ 7.70 (from HK\$ 6.70), based on a 50% discount to NAV (unchanged). Amid the ongoing market consolidation, this transaction demonstrated Yuzhou's ability in securing low-cost land bank via M&As. Trading at 5.2x 2018E P/E (vs. 7.8x for sector average), Yuzhou is our preferred small-/mid-cap pick based on its favorable exposure in major tier-2 cities in Hefei, Xiamen, and Nanjing, where demand is strong. Maintain **BUY**.

Risk factors: (1) Margin contraction on expensive land acquisition; (2) Placement risk; (3) Further policy tightening.

Results and Valuation

FY ended Dec 31	2015A	2016A	2017E	2018E	2019E
Revenue (RMB mn)	10,376	13,672	21,138	28,321	47,021
Chg (% YoY)	32.4	31.8	54.6	34.0	66.0
Core net profit (RMB mn)	1,620	2,047	2,835	3,839	6,820
Chg (% YoY)	58.0	26.4	38.5	35.4	77.6
Core EPS (RMB)	0.44	0.53	0.72	0.91	1.62
Chg (% YoY)	48.5	21.3	35.2	26.5	77.6
BVPS (RMB)	2.62	2.78	3.54	3.90	4.95
Chg (% YoY)	10.6	6.4	27.2	10.2	27.0
Core PE (x)	10.9	8.9	6.6	5.2	2.9
P/B (x)	1.8	1.7	1.4	1.2	1.0
ROE (%)	16.8	19.2	20.4	23.4	32.8
ROA (%)	3.1	3.0	3.1	3.0	4.4
DPS(HK\$)	0.18	0.22	0.29	0.39	0.70
Yield (%)	3.1	3.7	4.9	6.7	11.8
Net gearing (%)	79.4	71.7	83.8	37.6	Net cash

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Jan 25, 2018

Rating: **BUY**

TP: **HK\$ 7.70**

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Share price (HK\$)	5.88
Est. share price return	31.0%
Est. dividend yield	4.9%
Est. total return	35.9%
Previous Rating & TP	BUY, HK\$6.70
Previous Report Date	Nov 14, 2017

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	6.18/2.48
Issued shares (mn)	3,816
Market cap (HK\$ mn)	18,943
3-mth avg daily turnover(HK\$ mn)	71.69
Major shareholder(s) (%)	
LAM Lung On & KWOK Ying Lan	62.38%

Source(s): Bloomberg, ABCI Securities

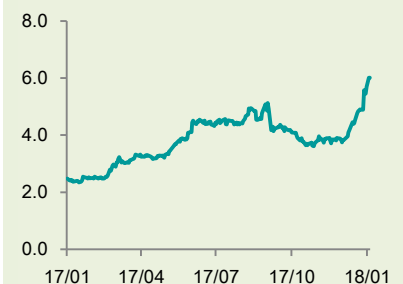
Share Performance (%)

	Absolute	Relative*
1-mth	55.6	39.6
3-mth	52.8	31.8
6-mth	32.4	8.9

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year share performance(HK\$)



Source(s): Bloomberg, ABCI Securities



Exhibit 1: Acquisition of seven projects from Coastal Greenland

No of projects	7
Consideration (RMB mn)	3,800
Attributable GFA (mn sqm)	3.13
Average land cost (RMB/sqm)	1,214
Net asset value- 30 Sep 2017 (HK\$ mn)	4,891
Net asset value- 30 Sep 2017 (RMB mn)	4,076
PB	0.93
Total sellable resources (RMB bn)	98.9
Attributable sellable resources (RMB bn)	40.0

Source(s): Company, ABCI Securities

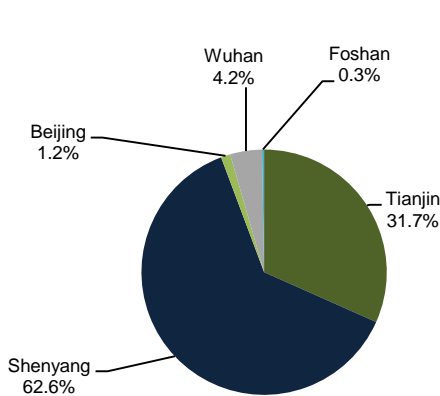
Exhibit 2: Financial performance of the acquired projects

Mar-end	FY16	FY17
	HK\$mn	HK\$mn
Revenue	1,089	2,477
Net profit/(loss) before taxation	(134)	1,913
Net profit/(loss) after taxation	(179)	1,617
PE	NA	2.4
Total assets	15,631	13,044
Total liabilities	(12,170)	(8,188)
Net assets	3,460	4,856

Source(s): Costal Greenland, ABCI Securities

Exhibit 3: Attributable GFA breakdown of the acquired projects by city (Jan 2018)

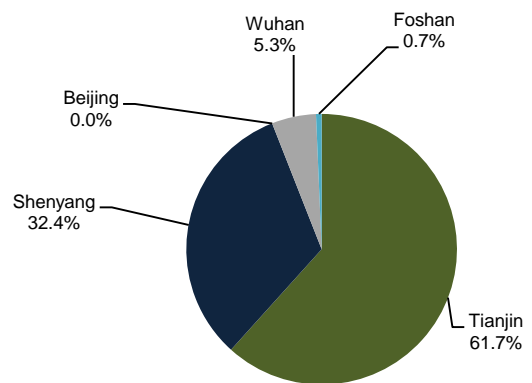
Attributable GFA: 3.13mn sqm



Source(s): Company, ABCI Securities

Exhibit 4: Attributable saleable resources of the acquired projects by city (Jan 2018)

Attributable saleable resources: RMB40bn



Source(s): Company, ABCI Securities



Exhibit 5: Yuzhou's 2018E NAV

	Attr. GFA (mn sqm)	Net asset value (NAV) (RMB mn)	% of total	Valuation Method	Implied value per sqm (RMB)
Property development					
Xiamen	3.5	7,923	12%	DCF at WACC of	2,294
Hefei	5.2	20,678	31%	10.5%	3,967
Shanghai	1.0	7,302	11%		7,322
Nanjing	1.8	11,798	18%		6,615
Hangzhou	0.4	4,368	7%		9,777
Tianjin	1.6	6,383	10%		4,015
Others	5.2	4,628	7%		898
Subtotal	18.6	63,081	96%		3,385
Property investment & management		2,855	4%	6.0% cap rate on 2018E rental income	
Total 2018E GAV		65,936	100%		
2018E Net debt		(10,770)	-16%		
Perpetual capital instrument		(1,997)	-3%		
Total 2018E NAV		53,170	81%		
No. of share outstanding (diluted)		4,200			
NAV per share (RMB)		12.66			
Ex rate		1.22			
NAV per share (HKD)		15.45			
Target discount (%)		50%			
Target Price (HKD)		7.70			
WACC					
Cost of debt		7.3%			
Cost of equity		20.0%			
Debt/ (Debt + Equity)		65%			

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2014A-2019E)

FY Ended Dec 31 (RMB mn)	2014A	2015A	2016A	2017E	2018E	2019E
Revenue	7,837	10,376	13,672	21,138	28,321	47,021
Cost of sales	(4,992)	(6,666)	(8,713)	(12,744)	(17,100)	(30,582)
Gross Profit	2,845	3,709	4,959	8,394	11,221	16,439
SG&A expenses	(547)	(658)	(722)	(953)	(1,267)	(1,514)
EBIT	2,298	3,052	4,237	7,440	9,953	14,925
Finance cost	(175)	(152)	(246)	(335)	(402)	(432)
Share of profit of associates	0	(42)	83	17	37	414
Other income/ (expenses)	75	107	129	39	28	42
Fair value gain of investment properties	493	-	-	-	-	-
Disposal/one-off items	-	179	(7)	-	-	-
Profit before tax	2,692	3,143	4,197	7,162	9,616	14,949
Tax	(1,329)	(1,475)	(2,108)	(3,790)	(5,109)	(7,914)
Profit after tax	1,363	1,668	2,088	3,371	4,506	7,035
Minority interest	(109)	(11)	(314)	(537)	(667)	(215)
Reported net profit	1,254	1,657	1,775	2,835	3,839	6,820
Less: exceptional items	(229)	(37)	272	-	-	-
Underlying net profit	1,025	1,620	2,047	2,835	3,839	6,820
Per share						
Underlying EPS (RMB)	0.30	0.44	0.53	0.72	0.91	1.62
DPS (HK\$)	0.16	0.18	0.22	0.29	0.39	0.70
Payout ratio (%)	54%	41%	41%	40%	43%	43%
BVPS (RMB)	2.36	2.62	2.78	3.54	3.90	4.95
Growth %						
Revenue	4.9%	32.4%	31.8%	54.6%	34.0%	66.0%
Gross Profit	22.7%	30.4%	33.7%	69.3%	33.7%	46.5%
EBIT	19.7%	32.8%	38.8%	75.6%	33.8%	50.0%
Underlying net profit	-6.0%	58.0%	26.4%	38.5%	35.4%	77.6%
Margin %						
Gross margin	36.3%	35.8%	36.3%	39.7%	39.6%	35.0%
Gross margin (post-LAT)	28.9%	30.7%	29.8%	30.8%	30.5%	25.9%
EBIT margin	29.3%	29.4%	31.0%	35.2%	35.1%	31.7%
Core net margin	12.7%	15.2%	14.7%	15.9%	15.8%	14.1%
Key assumptions						
Contracted Sales (RMB mn)	12,001	14,018	23,206	40,398	61,068	72,567
GFA sold (mn sqm)	1.20	1.40	1.83	2.38	3.58	4.19
ASP (RMB/sqm)	9,972	9,997	12,689	16,967	17,080	17,333
Booked Sales (RMB mn)	7,681	10,158	13,345	20,786	27,947	46,631
GFA delivered (mn sqm)	0.74	1.11	1.48	1.20	1.57	3.15
Booked ASP (RMB/sqm)	10,437	9,172	9,000	17,320	17,820	14,807

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2014A-2019E)

As of Dec 31 (RMB mn)	2014A	2015A	2016A	2017E	2018E	2019E
Current assets	29,560	44,739	51,992	75,388	109,408	139,496
Cash	9,296	10,973	15,599	6,926	17,198	62,553
Restricted cash	489	976	1,819	1,819	1,819	1,819
Trade & other receivables	1,679	2,163	2,877	2,877	2,877	2,877
Property under development	16,979	28,913	29,409	61,477	85,224	69,957
Other current assets	1,118	1,714	2,290	2,290	2,290	2,290
Non-current assets	9,515	8,107	16,868	16,841	16,808	16,838
Property, plant & equipment	795	871	1,062	1,031	991	938
Investment properties	5,960	6,471	7,518	7,518	7,518	7,518
Investment in Associate and JCE	2,508	89	7,392	7,396	7,403	7,486
Other non-current assets	252	677	896	896	896	896
Total Assets	39,075	52,846	68,861	92,229	126,216	156,334
Current Liabilities	17,279	25,626	35,327	50,019	81,006	106,642
Short-term borrowings	3,805	3,987	4,808	6,808	8,808	10,808
Trade & other payables	3,690	6,297	5,979	5,979	5,979	5,979
Pre-sales deposits	3,893	7,221	13,858	26,550	55,537	79,173
Other current liabilities	5,890	8,120	10,682	10,682	10,682	10,682
Non-current liabilities	12,407	16,979	21,861	21,861	21,861	21,861
Long-term borrowings	11,599	16,096	20,979	20,979	20,979	20,979
Other payables	-	-	-	-	-	-
Other non-current liabilities	808	883	882	882	882	882
Total Liabilities	29,685	42,605	57,188	71,880	102,867	128,503
Net Assets	9,390	10,241	11,673	20,349	23,349	27,831
Shareholders' Equity	8,173	9,622	10,666	13,891	16,382	20,806
Perpetual capital instrument	-	-	-	1,997	1,997	1,997
Minority Interest	1,216	620	1,007	4,460	4,970	5,027
Total Equity	9,390	10,241	11,673	20,349	23,349	27,831
Key ratio						
Gross debt (RMB mn)	15,404	20,083	25,787	27,787	29,787	31,787
Net debt (RMB mn)	5,620	8,134	8,369	19,042	10,770	(32,585)
Net gearing (%)	60%	79%	72%	84%	38%	-124%
Contracted sales/ Total assets (x)	31%	27%	34%	44%	48%	46%

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2014A-2019E)

FY ended Dec 31 (RMB mn)	2014A	2015A	2016A	2017E	2018E	2019E
EBITDA	2,322	3,094	4,276	7,491	10,014	14,998
Change in Working Capital	(82)	(997)	7,435	(18,035)	6,445	40,199
Tax payment	(817)	(1,355)	(2,108)	(3,790)	(5,109)	(7,914)
Operating cash flow	1,424	742	9,602	(14,335)	11,349	47,283
Purchase of PP&E	(55)	(112)	(20)	(20)	(20)	(20)
Addition of Investment Properties	(331)	(881)	-	-	-	-
Others	(333)	(324)	(856)	53	57	373
Investing cash flow	(718)	(1,316)	(876)	33	37	353
Debt raised	7,945	8,144	6,378	10,000	10,000	10,000
Debt repaid	(2,462)	(4,088)	(8,000)	(8,000)	(8,000)	(8,000)
Interest expenses	(1,130)	(1,295)	(1,586)	(1,676)	(1,607)	(1,727)
Equity raised	-	623	-	1,321	-	-
Dividend to shareholders	(405)	(443)	(843)	(930)	(1,349)	(2,396)
Others	1,134	(691)	(50)	4,914	(157)	(157)
Financing cash flow	5,082	2,251	(4,101)	5,629	(1,114)	(2,281)
Net cash inflow/ (outflow)	5,788	1,677	4,625	(8,673)	10,273	45,355
Cash- beginning	3,508	9,296	10,973	15,599	6,926	17,198
Cash- year-end	9,296	10,973	15,599	6,926	17,198	62,553

Source(s): Company, ABCI Securities estimates



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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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