

Powerlong (1238 HK)

Sustainable fast growth

- FY19 core profit attributable to owners of the company rose 45.3%YoY to RMB 2,680mn
- Sales target of RMB 75bn implies a 24%YoY growth
- Powerlong targets to open 11 malls in 2020
- Maintain **BUY** with revised TP HK\$ 7.80 based on 60% discount to NAV

Sales target of RMB 75bn implies 24% YoY growth. Powerlong's FY19 core profit attributable to owners of the company rose 45.3% YoY to RMB 2,680mn, beating our forecast by 15%, mainly due to a one-off project disposal gain (post-tax) of ~RMB 600mn. Revenue rose 33%YoY to RMB26.0bn, driven by 26%YoY growth in GFA delivered and 7% YoY growth in booked ASP. Gross margin edged down 2.1ppt YoY to 36.4% mainly on higher land cost and a lower proportion of commercial projects being booked. Net gearing dropped substantially by 20.4ppt YoY to 81.2% as a result of share placement and spin-off of Powerlong CM (9909 HK). In FY19, Powerlong acquired 7.32mn sqm of new projects at RMB 40.36mn. As at Dec 2019, Powerlong had a total landbank of 29.7mn sqm with an average land cost of RMB 3,016/sqm. Driven by an expanded landbank, Powerlong aims to achieve RMB 75bn sales in 2020 based on RMB 130bn of saleable resources, implying a 24% YoY growth. In 2M20, Powerlong's contracted sales dropped 20% YoY to RMB 4,821mn due to COVID-19 outbreak. The sales target implied a prudent sell-through rate of 58% compared to ~67% in FY19.

Rental revenue growth driven by mall completion. Powerlong targets to open 11 malls in 2020 and achieve RMB 3,400mn in rental and management fee income for 2020, up 20% YoY, which represents a moderate slowdown compared to FY19 (RMB 2,813mn,+25%YoY). Business in Powerlong's shopping malls has not recovered from the epidemic. Operating statistics showed that recent opening rate and foot traffic of existing tenants are only at 60% and 35-40% of the pre-outbreak level. The Group offered a 50% waiver in rent from CNY to end-march. As Powerlong's rental income and management fee per sqm rose 10% YoY to RMB 75/sqm, we expect the full-year impact of positive rent reversion occurred last year should partially offset the impact of the short-term rent waiver.

Maintain BUY with revised TP at HK\$ 7.80. We raise our 2020-21E core profit forecast by 2% on better-than-expected contracted sales. We raise our NAV forecast to HK\$ 19.60/share (from HK\$14.06/share) to factor in the latest land acquisitions. We raise our TP to HK\$ 7.80 (from HK\$5.60) based on an unchanged discount to NAV at 60%. Maintain **BUY**.

Results and Valuation

FY ended Dec 31	2018A	2019A	2020E	2020E	2021E
Revenue (RMB mn)	19,594	26,042	37,987	48,508	60,030
Chg (%YoY)	25.7	32.9	45.9	27.7	23.8
Core profit (RMB mn)*	1,844	2,680	3,498	4,612	6,105
Chg (%YoY)	34.0	45.3	30.5	31.8	32.4
EPS (RMB)	0.46	0.67	0.84	1.11	1.47
Chg (%YoY)	33.1	44.3	26.8	31.8	32.4
BVPS (RMB)	6.8	7.9	8.1	8.7	9.5
Chg (%YoY)	6.9	15.9	2.5	7.2	9.2
P/E (x)	11.0	7.6	6.0	4.5	3.4
P/B (x)	0.74	0.64	0.62	0.58	0.53
ROE (%)	9.5	13.8	17.8	21.9	26.2
ROA (%)	2.0	2.7	3.0	3.2	3.6
DPS (HK\$)	0.30	0.40	0.47	0.59	0.75
Yield (%)	5.29	7.05	8.29	10.42	13.28
Net gearing (%)	101.6	81.2	53.2	Net cash	Net cash

Note: RMB to HK\$= 1.12

* Excluded post-tax revaluation gains on IP and exchange gain/(losses);

Source(s): The Company, ABCI Securities estimates

Company report

Mar 11, 2020

Rating: **BUY**

TP: HK\$ 7.80

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Share price (HK\$)	5.70
Est. share price return	36.8%
Est. dividend yield	8.3%
Est. total return	45.1%
Previous Rating & TP	BUY, HK\$5.6
Previous Report Date	26 Mar 2019

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L(HK\$)	5.95/3.37
Issued shares (mn)	4,144
Market cap (HK\$ mn)	23,620
3-mth avg daily turnover (HK\$ mn)	26.61
Major shareholder(s) (%):	
Mr. Hoi Kin Hong	44.33
Mr. Hoi Wa Fong	14.38
Ms. Hoi Wa Fan	6.62

Source(s): Bloomberg, ABCI Securities

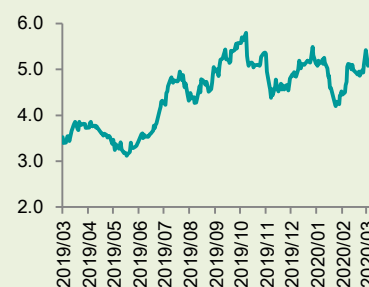
Share Performance (%)

	Absolute	Relative*
1-mth	26.0	36.1
3-mth	16.4	24.7
6-mth	16.8	25.8

*Relative to HSI

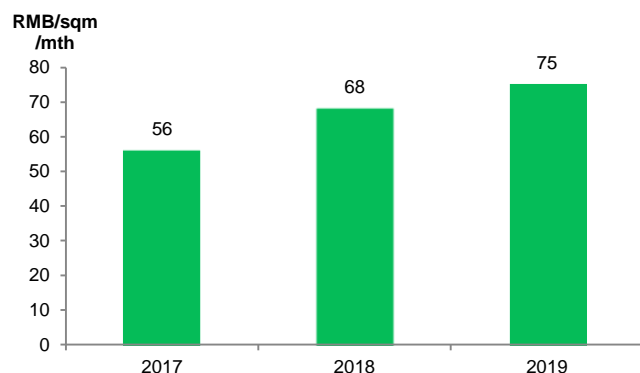
Source(s): Bloomberg, ABCI Securities

1-Year share performance(HK\$)

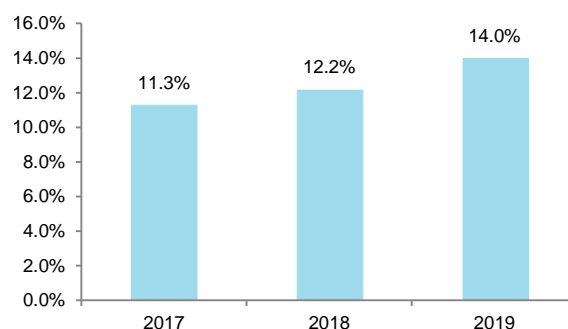


Source(s): Bloomberg, ABCI Securities

Risk factors: 1) Long payback period of shopping malls; 2) Threats from online retail, which may affect mall rental business; 3) Loss-making hotel business; 4) Growing minority interest due to the rising number of JV projects; 5) Uncertain development of COVID-19 epidemic .

Exhibit 1: Average rental income and management fee/sqm /mth


Source(s): The Company, ABCI Securities

Exhibit 2: Average yield on cost, excluding shopping malls in operation for less than 1 year


Source(s): The Company, ABCI Securities

Exhibit 3: Powerlong's 2019 results

P&L	2019	2018	YoY Chg	Operating statistics	2019	2018	YoY Chg
	RMB mn	RMB mn	(%)				(%)
Turnover	26,042	19,594	32.9	Contracted GFA (mn sqm)	3.77	2.82	33.5
Cost of Sales & direct operating costs	(16,559)	(12,041)	37.5	Contracted ASP (RMB/sqm)	16,018	14,543	10.1
Gross Profit	9,483	7,553	25.6	Contracted Sales (RMB mn)	60,350	41,036	47.1
Gross Margin (%)	36.4	38.5	(2.1ppt)				
				GFA Delivered (mn sqm)	1.79	1.42	25.8
Selling and distribution costs	(984)	(786)	25.3	Booked ASP (RMB/sqm)	12,573	11,732	7.2
Administrative expense	(1,440)	(1,481)	(2.8)	Property sales booked (RMBmn)	22,478	16,667	34.9
EBIT	7,059	5,286	33.5				
EBIT Margin (%)	27.1	27.0	+0.1ppt				
				Balance sheet	Dec-19	Dec-18	YoY %
Other income, gains and losses	121	167	(27.4)		RMB mn	RMB mn	
Fair value gain of investment properties	2,394	2,501	(4.2)	Gross debt	55,263	49,101	12.5
Other exceptional items	638	(757)	na	Cash	23,671	15,776	50.0
Share of profit from JCE/ Associates	376	187	100.7	Net debt	31,592	33,326	(5.2)
Finance cost	(732)	(570)	28.4	Net gearing (%)	81.2%	101.6%	(20.4ppt)
Profit before tax	9,856	6,813	44.7				
Tax	(3,838)	(3,166)	21.2				
- LAT	(1,566)	(1,468)	6.7	Revenue breakdown	2019	2018	YoY %
- Enterprise tax and others	(2,272)	(1,698)	33.8		RMB mn	RMB mn	
				- Property sales	22,478	16,667	34.9
Profit after tax	6,018	3,648	65.0	- Property leasing	1,420	1,124	26.4
Minority Interest and distribution to PCI	(1,977)	(811)	143.9	- Property management	1,393	1,125	23.8
Net profit	4,041	2,837	42.4	- Hotels and others	751	678	10.9
Core net profit (before MI)	4,390	2,579	70.2	Total	26,042	19,594	32.9
Core net profit (after MI)	2,680	1,844	45.3				
Core net margin	10.3%	9.4%	+0.9ppt				

Source(s): The Company, ABCI Securities



Exhibit 4: Powerlong's 2020E NAV

	Attr. GFA (mn sqm)	Net assets value (RMB mn)	% of total	Valuation Method	Implied value per sqm (RMB)
	(mn sqm)	(RMB mn)	% of total		
Property development	17.0	78,228	81%	DCF with WACC of 12.2%	4,598
Investment Properties	5.1	13,298	14%	6.5% cap rate on 2020E net rental;	
Hotels		305	0%	0.4x historical PB	
Powerlong CM (9909 HK)		4,439	5%	65.06% share of market value	
Total 2020E GAV		96,270	100%		
2020E Net cash/ (debt)		(22,926)	-24%		
Perpetual capital instruments		(820)	-1%		
Total 2020E NAV		72,523	75%		
No. of share outstanding (diluted)		4,144			
NAV per share (RMB)		17.50			
Ex rate		1.12			
NAV per share (HKD)		19.60			
Target discount (%)		60%			
Target Price (HKD)		7.80			

WACC	12.2%
Cost of debt	9.0%
Cost of equity	20.0%
Debt/ (Debt + Equity)	59%

Source(s): ABCI Securities estimates

Exhibit 5: Changes in TP and profit forecast

	New	Old	Change	Reason
TP (HK\$)	7.80	5.60	39%	Better-than expected contracted sales performance; latest land acquisition
Core profit (RMBmn)				
- 2020E	3,498	3,440	2%	Better-than expected contracted sales performance
- 2021E	4,611	4,529	2%	Better-than expected contracted sales performance

Source(s): Company, ABCI Securities estimates

Financial statements

Consolidated income statement (2018A-2022E)

FY Ended Dec 31 (RMB mn)	2018A	2019E	2020E	2021E	2022E
Revenue	19,594	26,042	37,987	48,508	60,030
Cost of sales	(12,041)	(16,559)	(24,291)	(31,739)	(39,360)
Gross Profit	7,553	9,483	13,697	16,769	20,669
SG&A expenses	(2,267)	(2,424)	(3,070)	(3,705)	(4,486)
EBIT	5,286	7,059	10,627	13,065	16,184
Finance cost	(570)	(732)	(1,115)	(1,125)	(1,105)
Share of profit of associates	187	376	500	659	863
Other income/ (expenses)	167	121	232	431	809
Fair value gain of investment properties	2,501	2,394	0	0	0
Disposal/one-off items	(757)	638	0	0	0
Profit before tax	6,813	9,856	10,244	13,029	16,751
Tax	(3,166)	(3,838)	(4,253)	(5,156)	(6,434)
Profit after tax	3,648	6,018	5,992	7,873	10,317
Minority interest	(811)	(1,977)	(2,494)	(3,261)	(4,212)
Reported net profit	2,837	4,041	3,498	4,612	6,105
<i>Less: exceptional items</i>	(993)	(1,361)	(0)	0	(0)
Core net profit	1,844	2,680	3,498	4,612	6,105
Per share					
Core EPS (RMB)	0.46	0.67	0.84	1.11	1.47
DPS (HK\$)	0.30	0.40	0.47	0.59	0.75
Payout ratio (%)	58%	54%	50%	47%	46%
BVPS (RMB)	6.83	7.91	8.11	8.69	9.49
Growth %					
Revenue	25.7%	32.9%	45.9%	27.7%	23.8%
Gross Profit	44.5%	25.6%	44.4%	22.4%	23.3%
EBIT	38.0%	33.5%	50.6%	22.9%	23.9%
Core net profit	34.0%	45.3%	30.5%	31.8%	32.4%
Margin %					
Gross margin	38.5%	36.4%	36.1%	34.6%	34.4%
Gross margin (post-LAT)	36.5%	35.2%	33.3%	32.4%	32.4%
EBIT margin	27.0%	27.1%	28.0%	26.9%	27.0%
Core net margin	9.4%	10.3%	9.2%	9.5%	10.2%
Key assumptions					
Contracted Sales (RMB mn)	41,036	60,350	70,720	87,005	86,897
GFA sold (mn sqm)	2.82	3.77	4.72	5.86	5.61
ASP (RMB/sqm)	14,543	16,018	14,983	14,856	15,485
Booked Sales (RMB mn)	16,667	22,478	33,842	43,327	53,619
GFA delivered (mn sqm)	1.42	1.79	2.22	2.88	3.52
Booked ASP (RMB/sqm)	11,732	12,573	15,265	15,047	15,229

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2018A-2022E)

As of Dec 31 (RMB mn)	2018A	2019E	2020E	2021E	2022E
Current assets	76,868	99,618	136,824	176,739	214,452
Cash	14,840	20,306	30,972	85,332	138,996
Restricted cash	936	3,365	3,365	3,365	3,365
Trade & other receivables	16,260	18,763	18,763	18,763	18,763
Property under development	41,793	47,064	73,604	59,159	43,208
Other current assets	3,039	10,120	10,120	10,120	10,120
Non-current assets	55,187	62,879	64,606	66,492	68,582
Property, plant & equipment	3,371	5,225	5,452	5,679	5,906
Investment properties	45,659	51,085	52,085	53,085	54,085
Investment in Associate and JCE	4,127	5,594	6,094	6,753	7,616
Other non-current assets	2,030	975	975	975	975
Total Assets	132,055	162,497	201,430	243,231	283,033
Current Liabilities	58,533	76,846	111,576	147,740	180,062
Short-term borrowings	14,721	15,321	17,321	16,321	15,321
Trade & other payables	20,726	29,973	29,973	29,973	29,973
Pre-sales deposits	16,444	22,695	55,425	92,588	125,910
Other current liabilities	6,642	8,858	8,858	8,858	8,858
Non-current liabilities	40,717	46,744	46,744	46,744	46,744
Long-term borrowings	34,380	39,942	39,942	39,942	39,942
Other non-current liabilities	6,336	6,801	6,801	6,801	6,801
Total Liabilities	99,250	123,590	158,320	194,484	226,805
Net Assets	32,805	38,907	43,110	48,747	56,228
Shareholders' Equity	27,287	31,840	33,600	36,025	39,345
Perpetual Capital Instruments	1,552	820	820	820	820
Minority Interest	3,965	6,246	8,690	11,901	16,063
Total Equity	32,805	38,907	43,110	48,747	56,228
Key ratio					
Gross debt (RMB mn)	49,101	55,263	57,263	56,263	55,263
Net debt (RMB mn)	33,326	31,592	22,926	(32,434)	(87,098)
Net gearing (%) [*]	102%	81%	53%	-67%	-155%

* Our financial model does not include any unconfirmed land acquisitions in future to avoid inflating NAV without substantial grounds; therefore, our net gearing forecasts for FY20E-22E declines consistently based on the assumption of no land purchase, which may deviate from the historical practice of the Company.

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2018A-2022E)

FY ended Dec 31 (RMB mn)	2018A	2019E	2020E	2021E	2022E
EBITDA	5,486	7,332	10,900	13,338	16,457
Change in Working Capital	(3,097)	(3,946)	9,068	54,513	52,125
Tax payment	(3,166)	(3,838)	(4,253)	(5,156)	(6,434)
Operating cash flow	(776)	(452)	15,716	62,694	62,148
Purchase of PP&E	(500)	(500)	(500)	(500)	(500)
Addition of Investment Properties	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
Others	167	121	232	431	809
Investing cash flow	(1,333)	(1,379)	(1,268)	(1,069)	(691)
Debt raised	14,052	14,280	6,000	6,000	6,000
Debt repaid	(4,000)	(4,000)	(4,000)	(7,000)	(7,000)
Interest expenses	(2,958)	(3,599)	(3,993)	(4,029)	(3,958)
Equity raised	0	704	0	0	0
Dividend to shareholders	(1,071)	(1,428)	(1,738)	(2,186)	(2,786)
Others	1,539	1,339	(50)	(50)	(50)
Financing cash flow	7,563	7,297	(3,781)	(7,264)	(7,794)
Net cash inflow/ (outflow)	5,453	5,466	10,666	54,360	53,663
Cash- beginning	9,387	14,840	20,306	30,972	85,332
Cash- year-end	14,840	20,306	30,972	85,332	138,996

Source(s): Company, ABCI Securities estimates

Disclosures

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Rating	Definition
Buy	Stock return \geq Market return rate (10%)
Hold	- Market return (-10%) \leq Stock return < Market return rate (10%)
Sell	Stock return < - Market return (-10%)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months
Market return rate: average market return rate since 2008 (HSI total return index 2008-19 CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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