



Yuzhou (1628 HK) A RMB100bn developer in the making

- Yuzhou's 7M17 presales jumped 63% YoY to RMB 24.2bn, achieving 60% of its full-year sales target (RMB 40bn)
- Yuzhou's 2020 target of RMB 100bn implies a 2017-20 CAGR of 36%. Yuzhou's 1H17 core profit jumped 40%YoY to RMB 920mn; gross margin (GM) edged up 0.5ppt YoY to 33.0% in 1H17
- Maintain **BUY** with revised TP of HK\$ 6.70 (from HK\$ 3.90), based on a 50% discount to NAV

Aiming to achieve RMB100bn sale by 2020. Yuzhou's presales performance has been impressive YTD. Driven by 23% and 33% YoY growth in GFA and ASP, Yuzhou's 7M17 presale soared 63% YoY to RMB 24.2bn, achieving 60% of its revised sales target of RMB 40bn (previous: RMB 30bn). Yuzhou has RMB 35.8bn of saleable resources in 2H17 in Xiamen (13%), Shanghai (14%), Nanjing (15%) and Hefei (16%) and other regions. By 2020, Yuzhou aims to achieve RMB 100bn in presale, implying a CAGR of 36% in 2017-20. We believe such target is achievable with Yuzhou's quality landbank across major tier 1&2 cities and its solid execution skills proven by its performance in the past five years when presales grew from just RMB 4.3bn in 2011 to RMB 23.2bn in 2016, representing a 40% CAGR.

1H17 results highlights. Yuzhou's 1H17 core profit jumped 40% YoY to RMB 920mn as revenue increased 75% YoY to RMB 7.2bn. GM edged up 0.5ppt YoY to 33.0% in 1H17, partially offset by higher LAT during the period. Net gearing increased 1ppt HoH to 73%, as RMB12.1bn was spent for the 1.1mn sqm of land purchase. Average finance cost declined slightly from 6.1% in FY16 to 6.0% in 1H17.

A big jump in rental income. Yuzhou's rental revenue increased 40% YoY to RMB 72mn in 1H17. As of June 30, 2017, Yuzhou held three shopping malls in operation, four commercial streets (golden street) projects, and three office buildings. The aggregate operating area was 0.56 mn sqm. The Group plans to hold more than 13 investment properties by 2018 and the total area in operation will increase to 1mn sqm.

Maintain BUY with revised TP of HK\$ 6.70. We factor in the latest land acquisitions and raise our 2017E NAV/share estimate to HK\$ 13.37 (from HK\$ 9.70) and TP to HK\$ 6.70 (from HK\$ 3.90), based on a 50% discount to NAV (from 60%). Yuzhou is one of our preferred small-/mid-cap picks for 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	22,548	29,670	31,504
Chg (% YoY)	32.4	31.8	64.9	31.6	6.2
Core net profit (RMB mn)	1,620	2,047	2,964	4,571	4,975
Chg (% YoY)	58.0	26.4	44.8	54.2	8.8
Core EPS (RMB)	0.44	0.53	0.77	1.19	1.30
Chg (% YoY)	48.5	21.3	44.8	54.2	8.8
BVPS (RMB)	2.62	2.78	3.29	4.06	4.90
Chg (% YoY)	10.6	6.4	18.0	23.6	20.7
Core PE (x)	9.3	7.7	5.3	3.4	3.2
P/B (x)	1.6	1.5	1.2	1.0	0.8
ROE (%)	16.8	19.2	23.5	29.4	26.5
ROA (%)	3.1	3.0	3.4	4.2	4.0
DPS(HK\$)	0.18	0.22	0.33	0.50	0.55
Yield (%)	3.7	4.5	6.6	10.2	11.1
Net gearing (%)	79.4	71.7	1.1	Net cash	Net cash

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Sep 6, 2017

Rating: **BUY**

TP: **HK\$ 6.70**

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Share price (HK\$)	4.92
Est. share price return	36.2%
Est. dividend yield	6.6%
Est. total return	42.2%
Previous Rating & TP	BUY, HK\$3.90

Previous Report Date May 17, 2017

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	5.12/2.44
Issued shares (mn)	3,816
Market cap (HK\$ mn)	18,943
3-mth avg daily turnover(HK\$ mn)	39.3
Major shareholder(s) (%)	
LAM Lung On & KWOK Ying Lan	68.3%

Source(s): Bloomberg, ABCI Securities

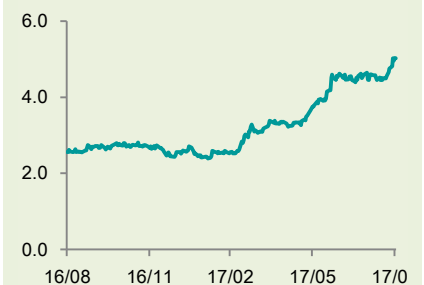
Share Performance (%)

	Absolute	Relative*
1-mth	7.4	6.7
3-mth	28.8	20.8
6-mth	95.4	66.2

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year share performance(HK\$)



Source(s): Bloomberg, ABCI Securities



Exhibit 1: Yuzhou's 1H17 results

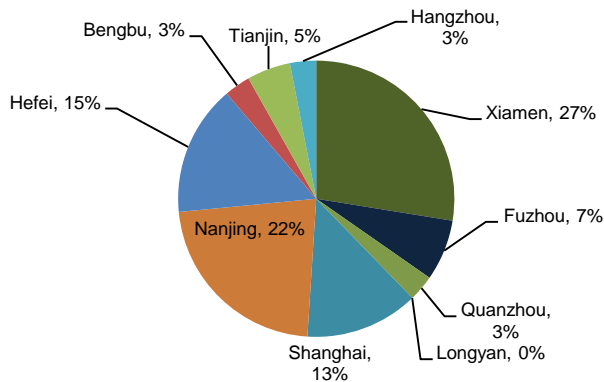
P&L	1H17	1H16	YoY Chg
	RMBmn	RMBmn	(%)
Turnover	7,247	4,143	74.9
Cost of Sales & direct operating costs	(4,859)	(2,798)	73.6
Gross Profit	2,388	1,345	77.5
Gross Margin (%)	33.0	32.5	+0.5ppt
Selling and distribution costs	(176)	(107)	64.4
Administrative expense	(273)	(155)	76.3
EBIT	1,939	1,084	79.0
EBIT Margin (%)	26.8	26.2	+0.6ppt
Other income	103	116	(11.3)
Fair Value gains on IP and other exceptionalities	39	223	(82.3)
Share of profit from JCE/ Associates	(34)	(5)	632.1
Finance cost	(224)	(156)	43.7
Profit before tax	1,823	1,262	44.5
Tax	(1,065)	(579)	84.0
- LAT	(504)	(196)	156.9
- Enterprise tax	(562)	(383)	46.7
Profit after tax	758	683	11.1
Minority Interest	28	10	163.2
Net profit	786	693	13.4
Core net profit	920	657	40.0
Core net margin	12.7	15.9	-3.2ppt

Source(s): Company, ABCI Securities

Operating statistics	1H17	1H16	YoY Chg
			%
Contracted GFA (mn sqm)	1.28	1.01	27.1
Contracted ASP (RMB/sqm)	16,736	12,738	31.4
Contracted Sales (RMBmn)	21,487	12,872	66.9
GFA Delivered (mn sqm)	0.63	0.53	18.8
Booked ASP (RMB/sqm)	11,204	7,592	47.6
Property sales booked (RMBmn)	7,047	4,019	75.4

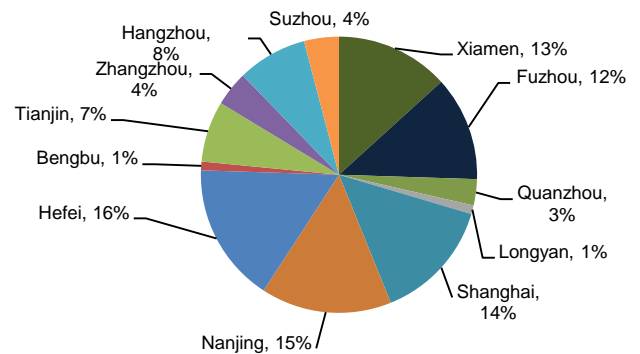
Balance sheet	Jun-17	Dec-16	HoH chg
	RMB mn	RMB mn	ppt
Gross debt	27,826	25,787	7.9
Cash	19,604	17,418	12.6
Net debt	8,222	8,369	(1.8)
Net gearing (%)	73%	72%	+1ppt

Exhibit 2: 1H17 presales breakdown (Total: RMB 21.5bn)



Source(s): Company, ABCI Securities

Exhibit 3: 2H17E saleable resources (Total: RMB 35.8bn)



Source(s): Company, ABCI Securities estimates

Exhibit 4: Cash flow guidance

	1H17	2017E
	RMBbn	RMBbn
Presales and other income	14.56	28.7
Land premium	(7.88)	(17.0)
Construction	(2.89)	(7.0)
Others (Interest, tax, dividend & others)	(3.65)	(6.6)
Net cash flow	0.14	(1.9)

Source(s): Company, ABCI Securities estimates

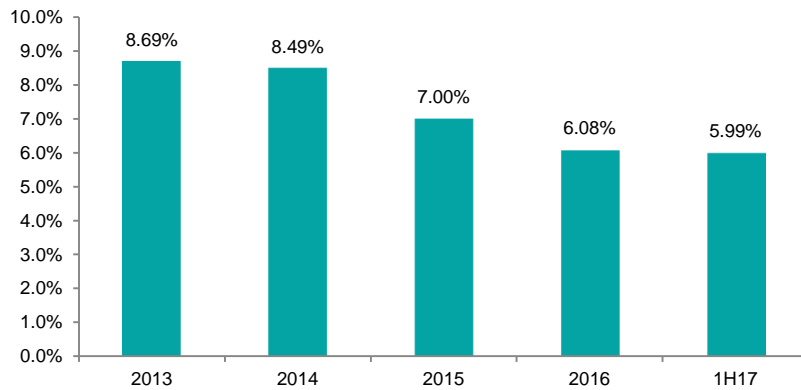


Exhibit 5: Yuzhou's Landbank (Jun 17)

Region	City	Landbank	No. of project	Average land cost	% of total
		000 sqm		RMB/sqm	
Bohai Rim	Tianjin	565	6	5,980	6%
YRD	Shanghai	773	9	8,139	8%
	Nanjing	872	9	8,531	9%
	Hangzhou	449	2	15,849	4%
	Suzhou	578	4	8,375	6%
	Hefei	2,159	11	4,744	21%
	Bengbu	494	1	660	5%
	West Strait	Xiamen	1,467	26	6,194
Fuzhou		505	4	5,852	5%
Quanzhou		989	1	374	10%
Longyan		23	1	1,858	0%
Zhangzhou		466	3	6,201	5%
Central	Wuhan	598	1	6,000	6%
Big Bay Area	Huizhou	191	1	3,670	2%
	Hong Kong	2	1	135,140	0%
Total		10,131	80	5,879	100%

Source(s): Company, ABCI Securities

Exhibit 6: Average finance cost



Source(s): Company, ABCI Securities



Exhibit 7: Yuzhou's 2017E NAV

	Attr. GFA (mn sqm)	Net assets value (RMB mn)	% of total	Valuation Method	Implied value per sqm (RMB)
Property development					
Xiamen	2.1	5,296	12%	DCF at WACC of	2,565
Hefei	3.2	6,702	16%	10.5%	2,103
Shanghai	1.0	3,653	9%		3,752
Nanjing	0.6	3,528	8%		6,287
Fuzhou	0.7	1,565	4%		2,363
Others	5.3	19,470	46%		3,677
Subtotal	12.7	40,215	94%		3,156
Investment Properties		2,483	6%	6.0% cap rate on 2017E rental income	
Total 2017E GAV		42,698	100%		
2017E Net cash/ (debt)		(193)	0%		
Total 2017E NAV		42,505	100%		
No. of share outstanding (diluted)		3,816			
NAV per share (RMB)		11.14			
Ex rate		1.20			
NAV per share (HKD)		13.37			
Target discount (%)		50%			
Target Price (HKD)		6.70			
WACC					
WACC		10.5%			
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	22,548	29,670	31,504
Cost of sales	(4,992)	(6,666)	(8,713)	(15,019)	(20,085)	(21,297)
Gross Profit	2,845	3,709	4,959	7,529	9,585	10,207
SG&A expenses	(547)	(658)	(722)	(953)	(1,106)	(1,216)
EBIT	2,298	3,052	4,237	6,576	8,479	8,991
Finance cost	(175)	(152)	(246)	(348)	(432)	(462)
Share of profit of associates	0	(42)	83	21	45	53
Other income/ (expenses)	75	107	129	113	117	105
Fair value gain of investment properties	493	-	-	-	-	-
Disposal/one-off items	-	179	(7)	-	-	-
Profit before tax	2,692	3,143	4,197	6,362	8,209	8,687
Tax	(1,329)	(1,475)	(2,108)	(2,705)	(3,433)	(3,644)
Profit after tax	1,363	1,668	2,088	3,657	4,777	5,043
Minority interest	(109)	(11)	(314)	(694)	(206)	(68)
Reported net profit	1,254	1,657	1,775	2,964	4,571	4,975
<i>Less: exceptional items</i>	(229)	(37)	272	-	-	-
Underlying net profit	1,025	1,620	2,047	2,964	4,571	4,975
Per share						
Underlying EPS (RMB)	0.30	0.44	0.53	0.77	1.19	1.30
DPS (HK\$)	0.16	0.18	0.22	0.33	0.50	0.55
Payout ratio (%)	54%	41%	41%	42%	42%	42%
BVPS (RMB)	2.36	2.62	2.78	3.29	4.06	4.90
Growth %						
Revenue	4.9%	32.4%	31.8%	64.9%	31.6%	6.2%
Gross Profit	22.7%	30.4%	33.7%	51.8%	27.3%	6.5%
EBIT	19.7%	32.8%	38.8%	55.2%	28.9%	6.0%
Underlying net profit	-6.0%	58.0%	26.4%	44.8%	54.2%	8.8%
Margin %						
Gross margin	36.3%	35.8%	36.3%	33.4%	32.3%	32.4%
Gross margin (post-LAT)	28.9%	30.7%	29.8%	26.9%	26.1%	26.2%
EBIT margin	29.3%	29.4%	31.0%	29.2%	28.6%	28.5%
Core net margin	12.7%	15.2%	14.7%	16.1%	15.9%	15.8%
Key assumptions						
Contracted Sales (RMB mn)	12,001	14,018	23,206	40,843	45,076	42,629
GFA sold (mn sqm)	1.20	1.40	1.83	2.76	2.99	2.69
ASP (RMB/sqm)	9,972	9,997	12,689	14,803	15,081	15,868
Booked Sales (RMB mn)	7,681	10,158	13,345	22,197	29,297	31,113
GFA delivered (mn sqm)	0.74	1.11	1.48	1.44	1.87	2.18
Booked ASP (RMB/sqm)	10,437	9,172	9,000	15,419	15,649	14,278

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	71,216	91,300	108,592
Cash	9,296	10,973	15,599	25,775	58,082	88,355
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	38,456	26,233	13,252
Other current assets	1,118	1,714	2,290	2,290	2,290	2,290
Non-current assets	9,515	8,107	16,868	16,842	16,811	16,769
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	7,397	7,406	7,416
Other non-current assets	252	677	896	896	896	896
Total Assets	39,075	52,846	68,861	88,058	108,111	125,361
Current Liabilities	17,279	25,626	35,327	48,965	65,897	79,902
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	25,496	40,428	52,434
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	70,826	87,758	101,764
Net Assets	9,390	10,241	11,673	17,232	20,353	23,597
Shareholders' Equity	8,173	9,622	10,666	12,588	15,553	18,779
Perpetual capital instrument	-	-	-	-	-	-
Minority Interest	1,216	620	1,007	4,644	4,800	4,818
Total Equity	9,390	10,241	11,673	17,232	20,352	23,597
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	193	(30,114)	(58,387)
Net gearing (%)	60%	79%	72%	1%	-148%	-247%
Contracted sales/ Total assets (x)	31%	27%	34%	46%	42%	34%

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	6,626	8,539	9,063
Change in Working Capital	(82)	(997)	7,435	3,984	28,451	26,371
Tax payment	(817)	(1,355)	(2,108)	(2,705)	(3,433)	(3,644)
Operating cash flow	1,424	742	9,602	7,905	33,557	31,791
Purchase of PP&E	(55)	(112)	(20)	(20)	(20)	(20)
Addition of Investment Properties	(331)	(881)	-	-	-	-
Others	(333)	(324)	(856)	130	153	147
Investing cash flow	(718)	(1,316)	(876)	110	133	127
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)	(1,741)	(1,727)	(1,847)
Equity raised	-	623	-	-	-	-
Dividend to shareholders	(405)	(443)	(843)	(1,042)	(1,606)	(1,748)
Others	1,134	(691)	(50)	2,944	(50)	(50)
Financing cash flow	5,082	2,251	(4,101)	2,161	(1,384)	(1,645)
Net cash inflow/ (outflow)	5,788	1,677	4,625	10,177	32,307	30,272
Cash- beginning	3,508	9,296	10,973	15,599	25,775	58,082
Cash- year-end	9,296	10,973	15,599	25,775	58,082	88,355

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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