



SZI (604 HK)

Strategic investment in HRE

- Acquired a 2.05% stake in Hengda Real Estates (HRE) at RMB 5.5bn
- The investment should generate a steady dividend income with 6.2-8.5% yield on cost in 2017E-19E
- Project disposal in tier-3/4 cities at RMB 5.4bn produced a one-off post-tax gain of HK\$ 2.912bn.
- Maintain **BUY** with revised TP of HK\$ 4.20 based on an unchanged NAV discount at 60%

A 2.05% stake in HRE at RMB5.5bn. SZI announced to acquire a 2.05% stake in Hengda Real Estates (HRE) - a potential A-share spin-off from Evergrande (3333 HK), at RMB 5.5bn. SZI is one of the 13 pre-IPO investors for this second-round fundraising exercise of HRE. The pricing was based on HRE's valuation at RMB 198bn (pre-money), and HRE will guarantee net profits of RMB24.3bn, RMB30.8bn and RMB33.7bn for 2017-19 and a 68% dividend payout, implying a dividend yield of 6.2-8.5% on cost or an annual dividend income of HK\$380-530mn (representing ~8% of core profit) for SZI over 2017-19. This transaction is mostly/entirely funded by the RMB 5.4bn disposal proceeds of tier-3/4 projects to Evergrande a week earlier. Further upside could come from mark-to-market appreciation upon HRE's successful A-share listing.

Project disposal in tier-3/4 cities. In May 2017, SZI sold their projects in Sanshui and Taizhou to Evergrande for RMB 5.425bn. SZI is expected to register a post-tax gain of HK\$ 2.912bn, representing 48% of our 2017E net profit estimate. The total GFA is ~1.0mn sqm, implying RMB 5,425/sqm. In 2016, these projects generated HK\$ 230mn in presales with an ASP range low at RMB 5,400-7,000/sqm. We believe the transaction is highly positive to SZI, given 1) the cash inflow of RMB 5.4bn, which will be reinvested into HRE's shares as financial assets; 2) these low-margin projects (~10% GP margin) will no longer affect SZI's overall profitability; 3) LAT saving, as project disposal would not require LAT payment. Due to housing oversupply in lower-tier cities, SZI has been actively disposing their tier 3/4 projects over the last few years.

Maintain BUY with revised TP of HK\$4.20. We factor in the RMB 5.4bn disposal proceeds as well as the RMB 5.5bn acquisition in HRE, and raise our NAV/share to HK\$ 10.49 (from HK\$ 9.46). We revise up our TP to HK\$4.20 (from HK\$3.80), still based on an unchanged 60% discount to NAV. We continue to favor SZI for its Big Bay Area exposure. Maintain **BUY**.

Risk factors: 1) Rising land cost in tier-1 cities; 2) Further policy tightening in SZ; 3) Delays in asset injections from parents; 4) Execution risks in urban redevelopment

Results and Valuation

FY ended Dec 31	2015A	2016A	2017E	2018E	2019E
Revenue (HK\$ mn)	18,428	21,354	23,658	27,471	28,711
Chg (% YoY)	33.3	15.9	10.8	16.1	4.5
Core net profit (HK\$ mn)	2,159	2,615	2,991	4,451	5,550
Chg (% YoY)	32.9	21.1	14.4	48.8	24.7
Core EPS (HK\$)	0.29	0.35	0.41	0.60	0.75
Chg (% YoY)	5.1	21.1	14.4	48.8	24.7
BVPS (HK\$)	4.59	4.33	4.95	5.25	5.62
Chg (% YoY)	(9.6)	(5.7)	14.4	6.1	7.2
Core PE (x)	12.7	10.5	9.2	6.2	4.9
P/B (x)	0.8	0.9	0.8	0.7	0.7
ROE (%)	6.5	8.0	8.0	11.2	13.1
ROA (%)	2.4	2.7	3.0	4.2	5.2
DPS(HK\$)	0.16	0.22	0.20	0.30	0.38
Yield (%)	4.3	5.9	5.4	8.1	10.1
Net gearing (%)	21.2	21.2	4.8	Net cash	Net cash

Source(s): Bloomberg, ABCI Securities estimates

Company Report

June 1, 2017

Rating: **BUY**

TP: **HK\$ 4.20**

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Share price (HK\$)	3.72
Est. share price return	12.9%
Est. dividend yield	5.9%
Est. total return	18.8%
Previous Rating & TP	BUY, HK\$3.80
Previous Report Date	May 17, 2017

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	3.92/2.91
Issued shares (mn)	7,649
Market cap (HK\$ mn)	28,227
3-mth avg daily turnover(HK\$ mn)	54.5
Major shareholder(s) (%)	
Shum Yip Holdings	61.23%

Source(s): Bloomberg, ABCI Securities

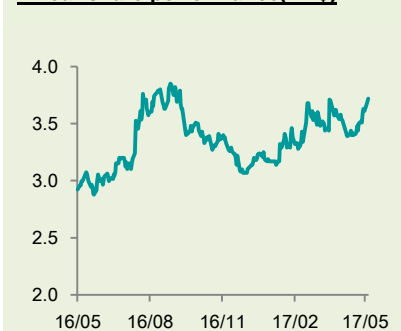
Share Performance (%)

	Absolute	Relative*
1-mth	7.0	2.5
3-mth	12.2	2.5
6-mth	9.9	(2.5)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year share performance(HK\$)



Source(s): Bloomberg, ABCI Securities



Exhibit 1: SZI's 2017E NAV

	Attr. GFA (mn sqm)	Net assets value (RMB mn)	% of total	Valuation Method	Implied value per sqm (RMB)
Property development					
Shenzhen	2.2	45,151	54%		20,437
Huizhou	1.7	2,677	3%		1,550
Shunde	0.4	1,199	1%	DCF with	2,717
Wuhan	0.7	1,705	2%	WACC of 7.4%	2,565
Changsha	0.4	419	0%		1,167
Others	2.3	5,522	7%		2,405
Subtotal	7.3	56,674	67%		7,722
Investment properties	1.1	19,102	23%	6.0% cap rate on 2017E net rental	
Stake in Evergrande Real Estates		6,160	7%	Book cost	
Stake in Road King (1098 HK)		2,206	3%	Market value	
Stake in Coastal Greenland (1124 HK)		144	0%	Market value	
Total 2017E GAV		84,286	100%		
2017E Net cash/ (debt)		(6,851)	-8%		
Total 2017E NAV		77,435	92%		
No. of share outstanding (diluted)		7,384			
NAV per share (HKD)		10.49			
Target discount (%)		60%			
Target Price (HKD)		4.20			
WACC					
WACC		7.4%			
Cost of debt		4.5%			
Cost of equity		10.0%			
Debt/ (Debt + Equity)		39%			

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2014A-2019E)

FY Ended Dec 31 (HK\$ mn)	2014A	2015A	2016A	2017E	2018E	2019E
Revenue	13,827	18,428	21,354	23,658	27,471	28,711
Cost of sales	(9,754)	(12,054)	(13,083)	(14,675)	(15,816)	(15,206)
Gross Profit	4,073	6,374	8,271	8,983	11,655	13,505
SG&A expenses	(1,626)	(1,521)	(2,113)	(2,611)	(2,958)	(2,841)
EBIT	2,447	4,854	6,158	6,372	8,698	10,664
Finance cost	(743)	(708)	(838)	(887)	(869)	(851)
Share of profit of associates	697	608	1,143	562	638	756
Other income/ (expenses)	907	589	298	221	619	780
Fair value gain of investment properties	1,609	1,515	1,860	0	0	0
Disposal/one-off items	935	(346)	(328)	3,093	0	0
Profit before tax	5,853	6,511	8,293	9,361	9,085	11,350
Tax	(2,349)	(3,423)	(4,822)	(3,159)	(4,352)	(5,352)
Profit after tax	3,504	3,087	3,471	6,202	4,734	5,999
Minority interest	(375)	(218)	(300)	(118)	(283)	(449)
Reported net profit	3,129	2,869	3,171	6,084	4,451	5,550
Less: exceptional items	(1,505)	(710)	(556)	(3,093)	0	0
Underlying net profit	1,624	2,159	2,615	2,991	4,451	5,550
Per share						
Underlying EPS (HK\$)	0.28	0.29	0.35	0.41	0.60	0.75
DPS (HK\$)	0.16	0.16	0.22	0.20	0.30	0.38
Payout ratio (%)	58%	55%	62%	50%	50%	50%
BVPS (HK\$)	5.07	4.59	4.33	4.95	5.25	5.62
Growth %						
Revenue	41.4%	33.3%	15.9%	10.8%	16.1%	4.5%
Gross Profit	13.1%	56.5%	29.7%	8.6%	29.7%	15.9%
EBIT	0.9%	98.3%	26.9%	3.5%	36.5%	22.6%
Underlying net profit	-9.1%	32.9%	21.1%	14.4%	48.8%	24.7%
Margin %						
GPM	29.5%	34.6%	38.7%	38.0%	42.4%	47.0%
GPM (post-LAT)	14.5%	17.8%	19.5%	23.5%	25.2%	26.8%
EBIT margin	17.7%	26.3%	28.8%	26.9%	31.7%	37.1%
Core net margin	6.5%	8.7%	5.5%	14.0%	14.9%	18.3%
Key assumptions						
Contracted Sales (HK\$ mn)	8,994	19,166	21,436	22,745	30,858	23,603
GFA sold (mn sqm)	0.63	0.95	0.90	1.20	1.15	0.80
ASP (HK\$/sqm)	14,173	20,227	23,937	18,947	26,949	29,435
Booked Sales (HK\$ mn)	10,938	15,057	16,470	19,710	22,848	23,586
GFA delivered (mn sqm)	0.76	0.80	0.80	0.91	0.96	0.83
Booked ASP (HK\$/sqm)	14,443	18,728	20,471	21,708	23,703	28,527

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2014A-2019E)

As of Dec 31 (HK\$ mn)	2014A	2015A	2016A	2017E	2018E	2019E
Current assets	59,686	55,498	56,984	61,126	65,884	65,185
Cash	8,375	9,708	9,860	15,076	27,408	36,536
Restricted cash	1,282	4,111	2,204	2,204	2,204	2,204
Trade & other receivables	715	528	323	323	323	323
Properties under development	30,795	30,312	35,292	28,058	20,483	10,656
Properties held for sale	14,708	9,032	7,515	7,515	7,515	7,515
Inventories	136	99	93	93	93	93
Other current assets	18,519	10,840	9,306	15,466	15,466	15,466
Non-current assets	34,819	35,587	39,562	40,054	40,616	41,292
Property, plant & equipment	3,421	4,144	3,844	3,775	3,700	3,619
Properties under development	-	-	-	-	-	-
Investment properties	20,019	20,908	22,807	22,807	22,807	22,807
Investment in Associate and JCE	8,039	6,875	7,296	7,858	8,495	9,252
Other non-current assets	3,341	3,659	5,614	5,614	5,614	5,614
Total Assets	94,505	91,085	96,546	101,180	106,500	106,477
Current Liabilities	34,843	30,677	36,306	36,284	39,146	35,948
Short term borrowings	12,057	5,274	5,288	4,788	4,288	3,788
Trade & other payables	10,525	6,568	9,236	9,236	9,236	9,236
Pre-sales deposits	3,765	8,366	8,905	9,383	12,745	10,048
Other current assets	8,496	10,469	12,877	12,877	12,877	12,877
Non-current liabilities	26,888	24,839	24,019	24,019	24,019	24,019
Long term borrowings	17,342	16,101	14,469	14,469	14,469	14,469
Other payables	1,736	1,315	752	752	752	752
Other non-current assets	7,811	7,423	8,798	8,798	8,798	8,798
Total Liabilities	61,731	55,516	60,325	60,303	63,165	59,967
Net Assets	32,774	35,569	36,221	40,877	43,336	46,509
Shareholders' Equity	30,496	33,326	32,811	37,399	39,624	42,399
Minority Interest	2,278	2,243	3,410	3,478	3,711	4,110
Total Equity	32,774	35,569	36,221	40,877	43,336	46,509
Key ratio						
Gross debt (HK\$ mn)	29,399	21,375	19,757	19,257	18,757	18,257
Net debt (HK\$ mn)	19,741	7,556	7,694	1,977	(10,855)	(20,483)
Net gearing (%)	60%	21%	21%	5%	-25%	-44%
Contracted sales/ Total assets (x)	0.10	0.21	0.22	0.22	0.29	0.22

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2014A-2019E)

FY ended Dec 31 (HK\$ mn)	2014A	2015A	2016A	2017E	2018E	2019E
EBITDA	2,596	5,009	6,339	6,558	8,889	10,862
Change in Working Capital	112	10,253	2,643	4,547	11,153	7,342
Tax payment	(1,074)	(3,423)	(4,822)	(3,159)	(4,352)	(5,352)
Operating cash flow	1,634	11,839	4,160	7,946	15,691	12,852
Purchase of PP&E	(117)	(117)	(117)	(117)	(117)	(117)
Addition of Investment Properties	(359)	0	0	0	0	0
Investment in Associate/ JCE	(1,520)	0	0	0	0	0
Others	(435)	589	298	541	619	780
Investing cash flow	(2,431)	472	182	424	502	664
Debt raised	20,780	5,000	8,745	10,000	10,000	10,000
Debt repaid	(15,382)	(16,179)	(10,000)	(10,500)	(10,500)	(10,500)
Interest expenses	(1,850)	(1,385)	(1,261)	(1,109)	(1,086)	(1,063)
Equity raised	0	0	0	0	0	0
Dividend to shareholders	(324)	(1,132)	(1,624)	(1,495)	(2,225)	(2,775)
Others	(702)	2,717	(50)	(50)	(50)	(50)
Financing cash flow	2,527	(10,979)	(4,190)	(3,154)	(3,861)	(4,388)
Net cash inflow/ (outflow)	1,730	1,333	151	5,217	12,332	9,128
Cash- beginning	6,645	8,375	9,708	9,860	15,076	27,408
Cash- year-end	8,375	9,708	9,860	15,076	27,408	36,536

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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