

Powerlong Real Estate (1238 HK)

Fast growth with healthy balance sheet

- 2021 contracted sales target of RMB105bn (+29% YoY) based on RMB 170.3bn of saleable resources for 2021
- Fully comply with the three red-line requirement
- Powerlong Real Estates targets to open 13 malls in 2021
- Maintain **BUY** with revised TP HK\$ 9.50 based on a 70% discount to NAV

2021 sales target of RMB 105bn implies a 29% YoY growth. Powerlong Real Estate's ("Powerlong RE") FY20 core profit attributable to owners of the Company rose 34.2% YoY to RMB 3,596mn (vs ABCI estimates: RMB3,498mn). Revenue rose 36%YoY to RMB35.5bn, driven by 52%YoY growth in GFA delivered. Gross margin edged down 0.3ppt YoY to 36.1% as booked ASP dropped 8%YoY to RMB 11,564/sqm; nonetheless, it is still at the upper end of the industry range. Net gearing dropped substantially by 7.3ppt YoY to 73.9% despite aggressive land acquisition of 9.40mn sqm (translates into ~RMB133.2bn in saleable resources), or RMB 33.3bn of attributable land CAPEX. In particular, liabilities (excluding presales deposits)-to-assets ratio dropped to 69.9% and cash-to-short-term debt ratio was 122.6%. Powerlong RE has fully complied with the three-red line requirements. As at Dec 2020, the Group had a total landbank of 36.5mn sqm (+23%YoY) with an average land cost of RMB 3,466/sqm, which translates into RMB 447.8bn of saleable resources. Driven by an expanded landbank, Powerlong RE aims to achieve RMB 105bn in contracted sales for 2021, up 29% YoY; the target is based on the assumptions of 2021 saleable resources of RMB 170.3bn and a sell-through rate of ~62%. Nanjing will be a major contributor in 2021 as the Group acquired eight projects in the city in 2020. In 2M2021, contracted sales soared 213% YoY to RMB 15,101mn.

Rental and management fee income to resume faster growth. Powerlong RE targets to open 13 Powerlong Plaza in 2021 (vs. nine in 2020) and achieve RMB 4,000mn in rental and management fee income for 2021, up 24% YoY (vs. RMB 3,236mn and 15% YoY growth in 2020). Recovery was on track after COVID-19. Powerlong RE achieved an average occupancy of 89.9% in Dec 2020, up 0.5ppt YoY. Both single-store average passenger flow and single-store turnover have exceeded the 2019 level since Sep 2020. The Group also secured 15 mall development projects in 2020.

Maintain BUY with revise TP at HK\$ 9.50. We raise our 2021-22E core profit forecasts by 2% on better-than-expected 2021 contracted sales target. We raise our NAV forecast to HK\$ 31.53/share (from HK\$ 19.60/share) to factor in the latest land acquisitions. We raise our TP to HK\$ 9.50 (from HK\$7.80) based on a discount to NAV at 70% (from 60%) to reflect higher policy risk related to tightened bank borrowings. Maintain **BUY**.

Results and Valuation

FY ended Dec 31	2019A	2020A	2021E	2022E	2023E
Revenue (RMB mn)	26,042	35,495	46,418	57,311	75,259
Chg (% YoY)	32.9	36.3	30.8	23.5	31.3
Core profit (RMB mn)*	2,680	3,596	4,762	6,342	9,031
Chg (% YoY)	45.3	34.2	32.4	33.2	42.4
EPS (RMB)	0.67	0.87	1.15	1.53	2.18
Chg (% YoY)	44.3	30.3	32.4	33.2	42.4
BVPS (RMB)	7.9	8.7	9.4	10.2	11.5
Chg (% YoY)	15.9	10.5	7.0	9.1	12.3
P/E (x)	8.5	6.5	4.9	3.7	2.6
P/B (x)	0.71	0.64	0.60	0.55	0.49
ROE (%)	13.8	16.7	20.2	23.8	29.2
ROA (%)	2.7	3.1	3.4	3.5	4.5
DPS (HK\$)	0.40	0.45	0.64	0.81	1.10
Yield (%)	5.97	6.72	9.51	12.07	16.43
Net gearing (%)	81.2	73.9	16.1	Net cash	Net cash

Note: RMB to HK\$= 1.19

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

Source(s): The Company, ABCI Securities estimates

Company report
Mar 10, 2021
Rating: **BUY**
TP: HK\$ 9.50

Analyst : Kenneth Tung
Tel: (852) 2147 8311
kennethtung@abci.com.hk

Share price (HK\$)	6.70
Est. share price return	41.8%
Est. dividend yield	9.5%
Est. total return	51.3%
Previous Rating & TP	BUY, HK\$7.8
Previous Report Date	11 Mar 2020

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L(HK\$)	7.30/3.79
Issued shares (mn)	4,142
Market cap (HK\$ mn)	27,751
3-mth avg daily turnover (HK\$ mn)	29.79
Major shareholder(s) (%):	
Mr. Hoi Kin Hong	44.34
Mr. Hoi Wa Fong	14.62
Ms. Hoi Wa Fan	6.47

Source(s): Bloomberg, ABCI Securities

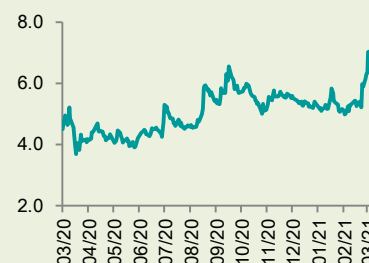
Share Performance (%)

	Absolute	Relative*
1-mth	41.9	44.1
3-mth	30.2	18.8
6-mth	33.7	14.0

*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 pandemic .

Exhibit 3: Powerlong RE's 2020 results

<u>P&L</u>	2020	2019	YoY Chg	<u>Operating statistics</u>	2020	2019	YoY Chg
	RMB mn	RMB mn	(%)				(%)
Turnover	35,495	26,042	36.3	Contracted GFA (mn sqm)	5.33	3.77	41.4
Cost of Sales & direct operating costs	(22,680)	(16,559)	37.0	Contracted ASP (RMB/sqm)	15,308	16,018	(4.4)
Gross Profit	12,816	9,483	35.1	Contracted Sales (RMB mn)	81,551	60,350	35.1
Gross Margin (%)	36.1	36.4	(0.3ppt)	GFA Delivered (mn sqm)	2.72	1.79	52.3
Selling and distribution costs	(1,096)	(984)	11.4	Booked ASP (RMB/sqm)	11,564	12,573	(8.0)
Administrative expense	(1,696)	(1,440)	17.8	Property sales booked (RMBmn)	31,486	22,478	40.1
EBIT	10,024	7,059	42.0				
EBIT Margin (%)	28.2	27.1	1.1ppt				
Other income, gains and losses	182	121	50.3	<u>Balance sheet</u>	Dec-20	Dec-19	YoY %
Fair value gain of investment properties	2,096	2,394	(12.5)		RMB mn	RMB mn	
Other exceptional items	1,208	638	89.3	Gross debt	66,567	55,263	20.5
Share of profit from JCE/ Associates	667	376	77.5	Cash	28,276	23,671	19.5
Finance cost	(893)	(732)	22.1	Net debt	38,291	31,592	21.2
Profit before tax	13,283	9,856	34.8	Net gearing (%)	73.9%	81.2%	(7.3ppt)
Tax	(4,468)	(3,838)	16.4				
- LAT	(1,680)	(1,566)	7.3	<u>Revenue breakdown</u>	2020	2019	YoY %
- Enterprise tax and others	(2,788)	(2,272)	22.7		RMB mn	RMB mn	
Profit after tax	8,815	6,018	46.5	- Property sales	31,486	22,478	40.1
Minority Interest and distribution to PCI	(2,722)	(1,977)	37.7	- Property leasing	1,562	1,420	10.0
Net profit	6,093	4,041	50.8	- Property management	1,674	1,393	20.2
Core net profit (before MI)	6,038	4,390	37.5	- Hotels and others	773	751	2.9
Core net profit (after MI)	3,596	2,680	34.2	Total	35,495	26,042	36.3
Core net margin	10.1	10.3	(0.2ppt)				

Source(s): The Company, ABCI Securities

Exhibit 4: Powerlong RE's 2021E 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	23.2	89,824	75%	DCF with WACC of 12.2%	4,598
Investment Properties	5.1	18,533	16%	6.5% cap rate on 2021E net rental;	
Hotels		305	0%	0.4x historical PB	
Powerlong CM (9909 HK)		10,894	9%	65.06% share of market value	
Total 2020E GAV		119,555	100%		

2021E Net cash/ (debt)	(9,236)	-8%
Perpetual capital instruments	(520)	0%

Total 2021E NAV	109,800	92%
------------------------	----------------	------------

No. of share outstanding (diluted)	4,144
------------------------------------	-------

NAV per share (RMB)	26.50
----------------------------	--------------

Ex rate	1.19
---------	------

NAV per share (HKD)	31.53
----------------------------	--------------

Target discount (%)	70%
---------------------	-----

Target Price (HKD)	9.50
---------------------------	-------------

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 forecasts

	New	Old	Change	Reason
TP (HK\$)	9.50	7.80	22%	Better-than-expected contracted sales performance; latest land acquisition
Core profit (RMBmn)				
- 2021E	4,761	4,680	2%	Better-than-expected contracted sales and land acquisition
- 2022E	6,337	6,192	2%	Better-than-expected contracted sales and land acquisition

Source(s): Company, ABCI Securities estimates

Financial statements

Consolidated income statement (2019A-2023E)

FY Ended Dec 31 (RMB mn)	2019A	2020A	2021E	2022E	2023E
Revenue	26,042	35,495	46,418	57,311	75,259
Cost of sales	(16,559)	(22,680)	(29,830)	(37,271)	(49,382)
Gross Profit	9,483	12,816	16,587	20,040	25,877
SG&A expenses	(2,424)	(2,792)	(3,491)	(4,225)	(5,129)
EBIT	7,059	10,024	13,097	15,815	20,748
Finance cost	(732)	(893)	(1,309)	(1,290)	(1,270)
Share of profit of associates	376	667	645	825	1,145
Other income/ (expenses)	121	182	296	560	956
Fair value gain of investment properties	2,394	2,096	-	-	-
Disposal/one-off items	638	1,208	-	-	-
Profit before tax	9,856	13,283	12,729	15,910	21,580
Tax	(3,838)	(4,468)	(4,898)	(5,851)	(7,691)
Profit after tax	6,018	8,815	7,830	10,059	13,889
Minority interest	(1,977)	(2,722)	(3,068)	(3,717)	(4,857)
Reported net profit	4,041	6,093	4,762	6,342	9,031
<i>Less: exceptional items</i>	(1,361)	(2,497)	-	-	-
Core net profit	2,680	3,596	4,762	6,342	9,031
Per share					
Reported EPS (RMB)	1.00	1.47	1.15	1.53	2.18
Core EPS (RMB)	0.67	0.87	1.15	1.53	2.18
DPS (HK\$)	0.40	0.45	0.64	0.81	1.10
Payout ratio (%)	50%	43%	47%	44%	42%
BVPS (RMB)	7.91	8.74	9.35	10.21	11.46
Growth %					
Revenue	32.9%	36.3%	30.8%	23.5%	31.3%
Gross Profit	25.6%	35.1%	29.4%	20.8%	29.1%
EBIT	33.5%	42.0%	30.7%	20.8%	31.2%
Core net profit	45.3%	34.2%	32.4%	33.2%	42.4%
Margin %					
Gross margin	36.4%	36.1%	35.7%	35.0%	34.4%
EBIT margin	27.1%	28.2%	28.2%	27.6%	27.6%
Core net margin	10.3%	10.1%	10.3%	11.1%	12.0%
Key assumptions					
Contracted Sales (RMB mn)	60,350	81,551	105,526	94,262	73,002
GFA sold (mn sqm)	3.77	5.33	7.01	6.31	4.91
ASP (RMB/sqm)	16,018	15,308	15,044	14,950	14,878
Booked Sales (RMB mn)	22,478	31,486	40,771	50,066	66,167
GFA delivered (mn sqm)	1.79	2.72	2.68	3.31	4.39
Booked ASP (RMB/sqm)	12,573	11,564	15,210	15,115	15,065

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2019A-2023E)

As of Dec 31 (RMB mn)	2019A	2020A	2021E	2022E	2023E
Current assets	99,618	121,489	153,685	207,097	230,139
Cash	20,306	25,339	53,395	100,708	166,564
Restricted cash	3,365	2,937	2,937	2,937	2,937
Trade & other receivables	18,763	18,598	18,598	18,598	18,598
Property under development	47,064	63,309	67,450	73,548	30,734
Other current assets	10,120	11,306	11,306	11,306	11,306
Non-current assets	62,879	73,643	75,508	77,553	79,919
Property, plant & equipment	5,225	5,222	5,442	5,663	5,883
Investment properties	51,085	58,243	59,243	60,243	61,243
Investment in Associate and JCE	5,594	7,642	8,287	9,112	10,258
Other non-current assets	975	2,535	2,535	2,535	2,535
Total Assets	162,497	195,132	229,194	284,651	310,059
Current Liabilities	76,846	89,330	117,831	166,095	181,498
Short-term borrowings	15,321	20,668	19,668	18,668	17,668
Trade & other payables	29,973	35,230	35,230	35,230	35,230
Pre-sales deposits	22,695	22,757	52,258	101,522	117,925
Other current liabilities	8,858	10,676	10,676	10,676	10,676
Non-current liabilities	46,744	54,000	54,000	54,000	54,000
Long-term borrowings	39,942	45,900	45,900	45,900	45,900
Other non-current liabilities	6,801	8,101	8,101	8,101	8,101
Total Liabilities	123,590	143,330	171,831	220,095	235,498
Net Assets	38,907	51,801	57,363	64,555	74,561
Shareholders' Equity	31,840	36,221	38,764	42,290	47,488
Perpetual Capital Instruments	820	520	520	520	520
Minority Interest	6,246	15,061	18,079	21,746	26,553
Total Equity	38,907	51,801	57,363	64,555	74,561
Key ratio					
Gross debt (RMB mn)	55,263	66,567	65,567	64,567	63,567
Net debt (RMB mn)	31,592	38,291	9,236	(39,078)	(105,934)
Net gearing (%) [*]	81%	74%	16%	-61%	-142%

* 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 FY21E-23E 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 (2019A-2023E)

FY ended Dec 31 (RMB mn)	2019A	2020A	2021E	2022E	2023E
EBITDA	7,332	10,303	13,376	16,094	21,028
Change in Working Capital	107	(7,722)	28,739	46,495	62,494
Tax payment	(1,734)	(4,468)	(4,898)	(5,851)	(7,691)
Operating cash flow	5,705	(1,886)	37,217	56,738	75,830
Purchase of PP&E	(657)	(500)	(500)	(500)	(500)
Addition of Investment Properties	(2,007)	(1,000)	(1,000)	(1,000)	(1,000)
Others	1,310	182	296	560	956
Investing cash flow	(1,353)	(1,318)	(1,204)	(940)	(544)
Debt raised	30,179	18,165	6,000	6,000	6,000
Debt repaid	(23,354)	(4,000)	(7,000)	(7,000)	(7,000)
Interest expenses	(2,952)	(4,323)	(4,689)	(4,618)	(4,547)
Equity raised	706	0	0	0	0
Dividend to shareholders	(1,151)	(1,554)	(2,219)	(2,816)	(3,833)
Others	(2,313)	(50)	(50)	(50)	(50)
Financing cash flow	1,114	8,237	(7,958)	(8,484)	(9,430)
Net cash inflow/ (outflow)	5,466	5,033	28,056	47,314	65,856
Cash- beginning	14,840	20,306	25,339	53,395	100,708
Cash- year-end	20,306	25,339	53,395	100,708	166,564

Source(s): Company, ABCI Securities estimates

Disclosures

Analyst Certification

I, Tung Yiu Kei Kenneth, 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.

Definition of equity rating

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

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 (For reference: HSI total return index 2008-20CAGR at 9.2%)

Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates may pursue financial interests to the companies mentioned in the report.

Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, Groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research mgt and senior mgt (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2021 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

**Office address: ABCI Securities Company Limited, 13/F Fairmont House,
8 Cotton Tree Drive, Central, Hong Kong.
Tel: (852) 2868 2183**