Agile (3383 HK)
Hainan Clearwater Bay – the project that keeps on giving

- FY17 core profit jumped 109%YoY to RMB 5.7bn; GPM jumped 13.6ppt YoY to 40.1%
- Hainan Clearwater Bay project achieved RMB17bn in presales and a GPM of 62% in FY17
- 2018 presales target of RMB 110bn implies a 23% YoY growth
- Maintain **BUY** with revised TP of HK$ 22.60 based on a 50% discount to NAV

Company Report
Mar 23, 2018

Rating: BUY
TP: HK$ 22.60

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40% GPM is likely to sustain. Agile's FY17 core profit, excluding the effect of exchange gains and one-off items, soared 109% YoY to RMB 5.7bn. Although revenue only increased by 11%YoY to RMB 51.6bn, GPM jumped 13.6ppt YoY to 40.1% (vs. sector average of ~31%) as booked ASP rose 18%YoY to RMB 10.4k/sqm. In particular, presale of the Hainan Clearwater Bay project hit RMB 17bn with a GPM of 62%, topping the national presales ranking in 2017. Management expect overall GPM to sustain at the 40% level in the future given the Hainan Clearwater Bay project still has 5.1mn sqm of saleable GFA in reserve. Core NPM rose 5.2ppt YoY to 11.1%, in line with the sector average as LAT jumped 103% YoY while only 62% of finance cost was capitalized. Net gearing increased noticeably by 25.2ppt YoY to 71% as of Dec 2017, driven by the RMB 34.6bn used for new site acquisition totaling 9.64mn sqm (attributable GFA: 7.46mn sqm). These new projects could provide additional saleable resources of RMB 130bn. As at Dec 2017, Agile had a total landbank of 34.1mn sqm with an average cost of RMB 2,400/sqm. Agile declared a final DPS of HK$0.68 (interim: HK$0.22) for FY17.

2018 sales target implies a 23%YoY growth. Agile's FY17 presales jumped 52%YoY to RMB 89.7bn, as GFA rose 27%YoY while ASP improved 20% YoY to RMB 12.2k/sqm. In 2018, Agile aims to achieve RMB 110bn in presales, implying a 23%YoY growth. While the expected presale growth is slower than peers (30-60% YoY growth), we believe Agile will stand out from peers based on its superior margins. In Agile's three-year plan (2018-20) as presented by the management in the analyst conference, the Group is targeting a sales growth of 30% each year and a sustainable NPM higher than 12%. Besides, Agile will expedite their expansion in the environmental and construction businesses and plan to allocate RMB 10bn of capex to non-property business in 2018, while land capex will be ~RMB 50bn. By 2020, non-property business would present 20% of total revenue.

Maintain BUY with revised TP of HK$ 22.60. We factor in the better-than-expected presales growth as well as the recent spin-off of A-Living, and raise our NAV to HK$ 45.14/share (from HK$ 33.49). Our revised TP of HK$ 22.60 (from HK$16.70) is based on an unchanged NAV discount of 50%. Maintain **BUY**.

Risk Factors: 1) High LAT expenses; 2) Expansion into non-property business that may not be profitable; 3) Volatile sales performance of tourism projects in Hainan and Yunnan; 4) Asset concentration risk in Hainan and Yunnan.

Results and Valuation

FY ended Dec 31	2016A	2017A	2018E	2019E	2020E
Revenue (RMB mn)	46,679	51,607	70,767	85,564	116,279
Chg (%,YoY)	8.5	10.6	37.1	20.9	35.9
Core net profit (RMB mn)	2,744	5,722	7,587	10,086	14,974
Chg (%,YoY)	13.0	108.5	32.6	32.9	48.5
Core EPS (RMB)	0.70	1.46	1.94	2.57	3.82
Chg (%,YoY)	13.0	108.5	32.6	32.9	48.5
BVPS (RMB)	9.01	9.28	10.25	11.55	13.48
Chg (%,YoY)	2.9	2.9	10.5	12.7	16.7
Core P/E (x)	18.8	9.0	6.8	5.1	3.5
P/B (x)	1.5	1.4	1.3	1.1	1.0
ROE (%)	7.8	15.7	18.9	22.3	28.3
ROA (%)	2.1	3.5	3.6	4.0	5.4
DPS(HK$)	0.65	0.90	0.96	1.28	1.89
Yield (%)	4.0	5.5	5.9	7.8	11.5
Net gearing (%)	49.1	71.4	Net cash	Net cash	Net cash

Source(s): Bloomberg, ABCI Securities estimates

Share price (HK$)	16.36
Est. share price return	38.1%
Est. dividend yield	5.9%
Est. total return	44.0%
Previous Rating &TP	BUY; HK$16.7
Previous Report Date	27 Sep 2017

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK$)	16.78/6.05
Issued shares (mn)	3,917
Market cap (HK$ mn)	64,082
3-mth avg daily turnover(HK$ mn)	135.26
Major shareholder(s) (%):	
Chen's family	63.75%

Source(s): Bloomberg, ABCI Securities

Share Performance

	Absolute	Relative*
1-mth	25.2	23.5
3-mth	47.9	39.9
6-mth	28.8	15.7

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year share performance(HK$)

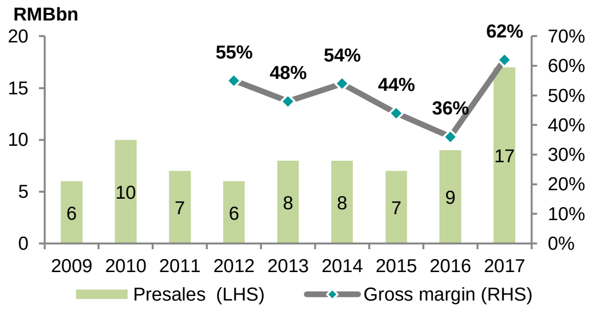
Source(s): Bloomberg, ABCI Securities

Exhibit 1: Agile's 2018 guidance

	FY18E	FY17A	*YoY chg.*
Presales (RMBmn)	110.00	89.70	*22.6*
New start GFA (mn sqm)	8.54	6.25	*36.6*
GFA under development (mn sqm)	16.72	10.92	*53.1*
Completed GFA (mn sqm)	5.20	3.07	*69.4*
Saleable resources (mn sqm)	12.00	10.35	*15.9*

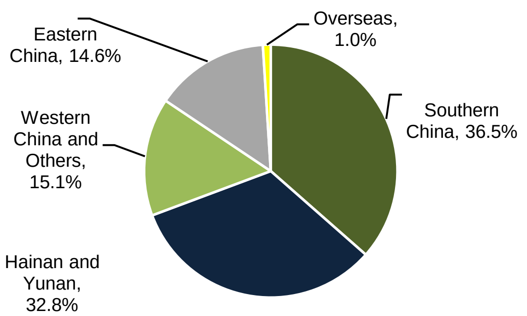
Source(s): Company, ABCI Securities estimates

Exhibit 2: Presales of Hainan Clearwater Bay



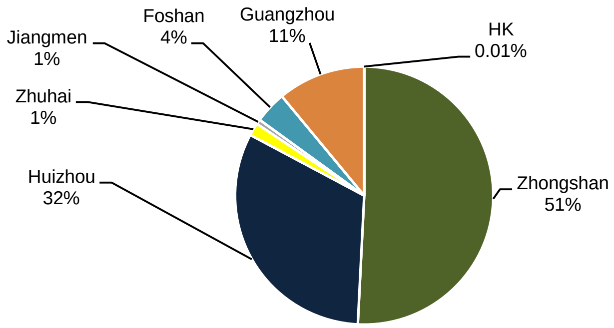
Source(s): Company, ABCI Securities

Exhibit 3: Landbank by region as at Dec 2017 (GFA: 34.1mn sqm)



Source(s): Company, ABCI Securities

Exhibit 4: Landbank in Big Bay Area as at Dec 2017 (GFA: 11.1mn sqm)



Source(s): Company, ABCI Securities

Exhibit 5: Agile's 2017 results

P&L	2017	2016	*YoY*
	RMB mn	RMB mn	(%)
Turnover	**51,607**	**46,679**	**10.6**
Cost of Sales	(30,920)	(34,313)	(9.9)
Gross Profit	**20,687**	**12,366**	**67.3**
GPM(%)	**40.1**	**26.5**	**+13.6ppt**
Selling and distribution costs	(2,259)	(2,098)	7.7
Administrative expense	(2,441)	(1,654)	47.6
EBIT	**15,988**	**8,614**	**85.6**
EBIT Margin (%)	**31.0**	**18.5**	**+12.5ppt**
Other income	570	279	104.7
Fair Value gains on IP and others	400	(779)	na
Share of profit from JCE/ Assoc.	169	7	2,292.5
Finance cost	(1,263)	(637)	98.4
Profit before tax	**15,864**	**7,483**	**112.0**
Tax	**(9,089)**	**(4,433)**	**105.0**
- LAT	(5,290)	(2,610)	102.7
- Enterprise tax	(3,799)	(1,824)	108.3
Profit after tax	**6,776**	**3,050**	**122.2**
Minority Interest	(282)	(351)	(19.5)
Distribution of PCS	(473)	(415)	13.8
Net profit	**6,021**	**2,284**	**163.7**
Core net profit	**5,722**	**2,744**	**108.5**
Core NPM	**11.1**	**5.9**	**+5.2ppt**

Operating statistics	2017	2016	*YoY*
			%
Contracted GFA (mn sqm)	7.36	5.81	26.6
Contracted ASP (RMB/sqm)	12,189	10,126	20.4
Contracted Sales (RMB mn)	**89,711**	**58,866**	**52.4**
GFA Delivered (mn sqm)	4.73	5.08	(6.9)
Booked ASP (RMB/sqm)	10,415	8,809	18.2
Booked sales (RMB mn)	**49,262**	**44,752**	**10.1**

Balance sheet	Dec-17	Dec-16	YoY chg
	RMB mn	RMB mn	ppt
	61,675	43,996	40.2
Gross debt	30,120	22,311	35.0
Cash	31,555	21,685	45.5
Net debt	**71.4%**	**49.1%**	**+22.3ppt**
Net gearing (%)	**96.0%**	**70.8%**	**+25.2ppt**

Source(s): Company, ABCI Securities

Exhibit 6: Agile's 2018E NAV

	Attr. GFA (mn sqm)	Net assets value (RMB mn)	% of total	Valuation Method	Implied value per sqm (RMB)
Property development					
Southern China	14.4	28,618	24%		1,993
Eastern China	4.8	7,580	6%		1,574
Western China and other region	5.9	5,808	5%	DCF with WACC of 9.5%	982
Hainan and Yunnan	16.7	64,621	55%		3,873
Overseas	0.5	1,479	1%		3,184
Subtotal	**42.2**	**108,107**	**92%**		**2,599**
A-Living (3319 HK)		5,991	5%	Market value (54% stake)	
Investment properties		2,997	3%	6.0% cap rate on 2018E rental income	
Hotels		751	1%	10x 2018E EBITDA	
Total 2018E GAV		**136,760**	**100%**		
2018E Net cash/ (debt)		32,950	28%		
Perpetual capital instruments		(8,201)	-7%		
Total 2018E NAV		**142,595**	**121%**		
No. of share outstanding (diluted)		3,917			
NAV per share (RMB)		**36.40**			
Ex rate		1.24			
NAV per share (HKD)		**45.14**			
Target discount (%)		50%			
Target Price (HKD)		**22.60**			

WACC	9.5%
Cost of debt	6.0%
Cost of equity	18.0%
Debt/ (Debt + Equity)	63%

Source(s): Company, ABCI Securities estimates

Consolidated income statement (2015A-2020E)

FY Ended Dec 31 (RMB mn)	2015A	2016A	2017A	2018E	2019E	2020E
Revenue	43,004	46,679	51,607	70,767	85,564	116,279
Cost of sales	(32,191)	(34,313)	(30,920)	(45,033)	(53,324)	(69,384)
Gross Profit	10,813	12,366	20,687	25,734	32,240	46,896
SG&A expenses	(3,312)	(3,752)	(4,700)	(6,256)	(7,869)	(10,362)
EBIT	7,501	8,614	15,988	19,478	24,371	36,533
Finance cost	(417)	(637)	(1,263)	(2,031)	(1,930)	(1,829)
Share of profit of associates	(115)	7	169	-	-	-
Other income/ (expenses)	212	279	570	487	997	1,056
Fair value gain of investment properties	-	-	-	-	-	-
Disposal/one-off items	(985)	(779)	405	-	-	-
Profit before tax	6,196	7,483	15,869	17,934	23,438	35,760
Tax	(3,895)	(4,433)	(9,089)	(8,355)	(10,881)	(17,836)
Profit after tax	2,302	3,050	6,780	9,579	12,557	17,924
Minority interest	(553)	(351)	(282)	(1,336)	(1,799)	(2,328)
Reported net profit	1,749	2,699	6,498	8,243	10,757	15,596
Less: exceptional items	680	45	(776)	(656)	(671)	(686)
Underlying net profit	2,429	2,744	5,722	7,587	10,086	14,910
Per share						
Underlying EPS (RMB)	0.62	0.70	1.46	1.94	2.57	3.81
DPS (HK$)	0.54	0.65	0.90	0.96	1.28	1.89
Payout ratio (%)	87%	93%	62%	50%	50%	50%
BVPS (RMB)	8.76	9.01	9.28	10.25	11.55	13.47
Growth %						
Revenue	12.2%	8.5%	10.6%	37.1%	20.9%	35.9%
Gross Profit	-13.0%	14.4%	67.3%	24.4%	25.3%	45.5%
EBIT	-15.7%	14.8%	85.6%	21.8%	25.1%	49.9%
Underlying net profit	-38.2%	13.0%	108.5%	32.6%	32.9%	47.8%
Margin %						
Gross margin	25.1%	26.5%	40.1%	36.4%	37.7%	40.3%
Gross margin (post-LAT)	20.9%	21.8%	31.3%	30.7%	32.0%	33.5%
EBIT margin	17.4%	18.5%	31.0%	27.5%	28.5%	31.4%
Core net margin	6.5%	6.9%	11.3%	12.6%	13.9%	14.8%
Key assumptions						
Contracted Sales (RMB mn)	44,230	52,820	89,711	111,272	116,178	127,882
GFA sold (mn sqm)	5.07	5.30	7.36	8.92	9.01	9.39
ASP (RMB/sqm)	8,725	9,962	12,189	12,472	12,889	13,626
Booked Sales (RMB mn)	41,421	44,752	49,262	66,985	80,497	109,727
GFA delivered (mn sqm)	4.79	5.08	4.73	5.38	6.37	8.39
Booked ASP (RMB/sqm)	8,643	8,809	10,415	12,447	12,647	13,077

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2015A-2020E)

As of Dec 31 (RMB mn)	2015A	2016A	2017A	2018E	2019E	2020E
Current assets	90,119	96,139	112,644	161,937	201,450	225,359
Cash	7,407	12,432	19,042	80,551	146,529	183,234
Restricted cash	5,730	9,879	11,078	11,078	11,078	11,078
Trade & other receivables	8,383	11,463	16,396	16,396	16,396	16,396
Property under development	61,412	50,683	56,906	44,690	18,225	5,429
Other current assets	7,186	11,683	9,221	9,221	9,221	9,221
Non-current assets	27,194	35,586	50,714	50,154	49,493	48,714
Property, plant & equipment	6,652	7,309	7,573	6,913	6,152	5,273
Investment properties	6,369	6,327	5,887	5,887	5,887	5,887
Investment in Associate and JCE	1,137	4,739	7,006	7,106	7,206	7,306
Other non-current assets	13,036	17,210	30,249	30,249	30,249	30,249
Total Assets	117,313	131,725	163,358	212,091	250,942	274,072
Current Liabilities	50,531	55,252	83,473	121,095	152,942	166,107
Short-term borrowings	16,487	12,815	27,146	24,146	21,146	18,146
Trade & other payables	15,621	21,102	23,264	23,264	23,264	23,264
Pre-sales deposits	7,111	10,617	19,461	60,083	94,929	111,094
Other current liabilities	11,312	10,717	13,602	13,602	13,602	13,602
Non-current liabilities	24,787	32,318	35,708	35,708	35,708	35,708
Long-term borrowings	23,543	31,181	34,533	34,533	34,533	34,533
Other payables	-	-	-	-	-	-
Other non-current liabilities	1,244	1,137	1,175	1,175	1,175	1,175
Total Liabilities	75,318	87,570	119,181	156,803	188,650	201,815
Net Assets	41,995	44,155	44,176	55,288	62,293	72,257
Shareholders' Equity	34,308	35,310	36,335	40,159	45,242	52,757
Perpetual capital instrument	4,489	5,598	5,529	8,201	8,373	8,545
Minority Interest	3,198	3,248	2,312	6,928	8,677	10,955
Total Equity	41,995	44,155	44,176	55,288	62,293	72,257
Key ratio						
Gross debt (RMB mn)	40,030	43,996	61,680	58,680	55,680	52,680
Net debt (RMB mn)	26,893	21,685	31,560	(32,950)	(101,927)	(141,633)
Net gearing (%)	64%	49%	71%	-60%	-164%	-196%
Contracted sales/ Total assets (x)	38%	40%	55%	52%	46%	47%

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2015A-2020E)

FY ended Dec 31 (RMB mn)	2015A	2016A	2017A	2018E	2019E	2020E
EBITDA	7,937	9,142	16,579	20,158	25,152	37,432
Change in Working Capital	8,381	5,870	10,794	55,320	63,670	31,197
Tax payment	(6,021)	(5,380)	(9,089)	(8,355)	(10,881)	(17,836)
Operating cash flow	10,297	9,632	18,285	67,123	77,941	50,793
Purchase of PP&E	(329)	(870)	(20)	(20)	(20)	(20)
Addition of Investment Properties	(211)	-	-	-	-	-
Others	(160)	(2,849)	623	387	897	956
Investing cash flow	(699)	(3,719)	603	367	877	936
Debt raised	15,122	21,001	1,881	5,000	5,000	5,000
Debt repaid	(18,631)	(27,956)	(8,000)	(8,000)	(8,000)	(8,000)
Interest expenses	(3,161)	(2,746)	(3,313)	(4,513)	(4,288)	(4,063)
Equity raised	-	-	-	-	-	-
Dividend to shareholders	(766)	(1,276)	(3,525)	(3,763)	(5,003)	(7,396)
Others	(822)	10,088	680	5,295	(549)	(564)
Financing cash flow	(8,258)	(889)	(12,277)	(5,981)	(12,841)	(15,023)
Net cash inflow/ (outflow)	1,340	5,024	6,610	61,509	65,977	36,705
Cash- beginning	6,068	7,407	12,432	19,042	80,551	146,529
Cash- year-end	7,407	12,432	19,042	80,551	146,529	183,234

Source(s): Company, ABCI Securities estimates

Disclosures

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Definition of equity rating

Rating	Definition
Buy	Stock return ≥ Market return rate
Hold	Market return – 6% ≤ 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 ≤180 day volatility/180 day benchmark index volatility
High	1.5 ≤ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	1.0 ≤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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