



Yuzhou (1628 HK) Consistently impressive

- FY16 core profit rose 26% YoY to RMB 2,047mn, 6% higher than our forecast
- 2017 sales target of RMB30bn implies a 29% YoY growth. Xiamen and Hefei account for 21% and 20% of saleable resources
- Government's tightening has allowed Yuzhou to acquire land at attractive prices
- Maintain **BUY** with revised TP of HK\$ 3.90 (from HK\$ 3.30), still based on a 60% discount to NAV

Core profit rose 26% YoY to RMB 2,047mn. Yuzhou's FY16 net profit rose 26% YoY to RMB 2,047mn, 6% higher than our forecast. Gross margin rose 0.5ppt YoY to 36.3%, one of the highest in the sector. Yuzhou has had a good track record in maintaining a higher margin than peers since listing and management believes gross margin will remain at above 30% for the next 2-3 years. In particular, FY16 presales ASP of RMB 12,689/sqm was 41% higher than FY16 booked ASP of RMB 9,000/sqm, implying further margin improvement in 2017. Net gearing declined 7.7ppt YoY to 71.7% in Dec 2016 as presales soared 66%YoY to RMB 23.2bn. DPS also jumped 22%YoY to HK\$ 0.22/share, implying a payout ratio of 37%, consistent with that in 2015. Chairman commented they will start distributing interim dividend in 2017 in addition to the final dividend.

2017 sales target of RMB 30bn implies a 29%YoY growth. Yuzhou's 2017 sales target of RMB 30bn is based on estimated saleable resources of RMB 50bn and a sell-through rate of 60%. They expect to launch 51% of the saleable resources (by value) in 1H17 and the rest in 2H17. As the Group expands into new YRD cities such as Hangzhou and Suzhou, Xiamen and Hefei take up a slightly lower proportion of total saleable value in 2017 at 21% (2016: 28%) and 20% (2016: 23%). Yuzhou spent ~RMB26.1bn to acquire 2.6mn sqm of new land in FY16; as a result, saleable resources in YRD now amount to ~RMB150bn.

Focus on first-home buyer and upgrader means less impact from tightening. As Yuzhou's projects are geared towards the mass market with reasonable ASP, they are not heavily subject to ASP control by the local government. Instead, the government's tightening has created opportunities for Yuzhou to acquire land at attractive prices. E.g., the Group acquired a site in Hangzhou and another in Wuhan via M&A as consolidation in market accelerates. It also acquired the Suzhou site through balloting, a mechanism that is triggered when the auction price reaches an upper limit set by the government.

Maintain BUY with revised TP of HK\$ 3.90. We factor in latest land acquisitions and raise our NAV/share estimate to HK\$ 9.70 (from HK\$ 8.29) and TP to HK\$ 3.90 (from HK\$ 3.30), still based on 60% discount to NAV. With strong acumen in selecting tier-2 cities and early entry into such markets, Yuzhou has been delivering sales and profit growth while attaining better margins than peers in a consistent manner. 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	17,805	22,374	29,389
Chg (% YoY)	32.4	31.8	30.2	25.7	31.4
Core net profit (RMB mn)	1,620	2,047	2,426	2,984	4,224
Chg (% YoY)	58.0	26.4	18.5	23.0	41.5
Core EPS (RMB)	0.44	0.53	0.63	0.78	1.10
Chg (% YoY)	48.5	21.3	18.5	23.0	41.5
BVPS (RMB)	2.62	2.78	3.17	3.64	4.31
Chg (% YoY)	10.6	6.4	13.8	14.9	18.4
Core PE (x)	6.6	5.5	4.6	3.7	2.6
P/B (x)	1.1	1.0	0.9	0.8	0.7
ROE (%)	16.8	19.2	20.0	21.4	25.6
ROA (%)	3.1	3.0	2.9	2.9	3.5
DPS(HK\$)	0.18	0.22	0.25	0.31	0.43
Yield (%)	5.5	6.7	7.6	9.4	13.3
Net gearing (%)	79.4	71.7	60.3	Net cash	Net cash

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Mar 23, 2017

Rating: **BUY**

TP: **HK\$ 3.90**

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Share price (HK\$)	3.27
Est. share price return	19.3%
Est. dividend yield	7.6%
Est. total return	26.9%
Previous Rating & TP	BUY, HK\$3.30

Previous Report Date Dec 12, 2016

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	3.35/1.8
Issued shares (mn)	3,816
Market cap (HK\$ mn)	12,479
3-mth avg daily turnover(HK\$ mn)	20.7
Major shareholder(s) (%)	

LAM Lung On & KWOK Ying Lan 68.3%

Source(s): Bloomberg, ABCI Securities

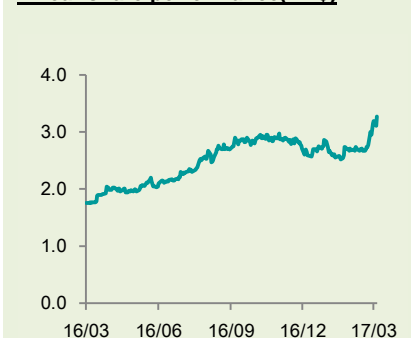
Share Performance (%)

	Absolute	Relative*
1-mth	22.0	20.0
3-mth	25.8	11.8
6-mth	7.0	3.1

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year share performance(HK\$)



Source(s): Bloomberg, ABCI Securities



Exhibit 1: Yuzhou's FY16 results

P&L	FY16	FY15	YoY
	RMBmn	RMBmn	(%)
Turnover	13,672	10,376	31.8
Cost of Sales	(8,713)	(6,666)	30.7
Gross Profit	4,959	3,709	33.7
Gross Margin (%)	36.3	35.8	+0.5ppt
Selling and distribution costs	(293)	(289)	1.6
Administrative expense	(429)	(369)	16.2
EBIT	4,237	3,052	38.8
EBIT Margin (%)	31.0	29.4	+1.6ppt
Other income	301	107	181.2
Fair Value gains on IP and others	(179)	179	na
Share of profit from JCE/ Assoc.	83	(42)	(298.5)
Finance cost	(246)	(152)	61.4
Profit before tax	4,197	3,143	33.5
Tax	(2,108)	(1,475)	42.9
- LAT	(985)	(591)	66.6
- Enterprise tax	(1,123)	(613)	83.2
Profit after tax	2,088	1,668	25.2
Minority Interest	(314)	(11)	2,665.9
Net profit	1,775	1,657	7.1
Core net profit	2,047	1,620	26.4
Core net margin	15.0	15.6	+0.1ppt
Core EPS (RMB)	0.54	0.44	21.8
DPS (HK\$)	0.22	0.18	22.2
Payout ratio	37%	36%	+1ppt

Operating statistics	FY16	FY15	YoY
			%
Contracted GFA (mn sqm)	1.83	1.40	30.4
Contracted ASP (RMB/sqm)	12,689	9,997	26.9
Contracted Sales (RMB mn)	23,206	14,018	65.5

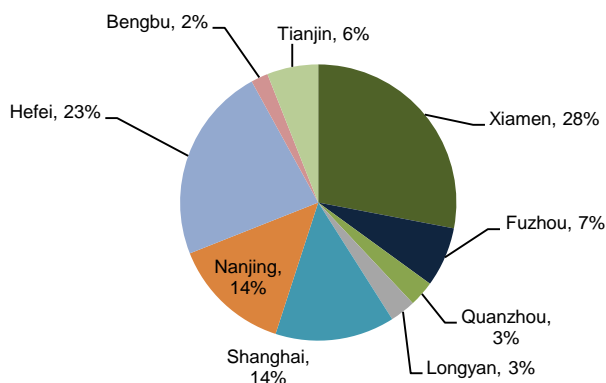
GFA Delivered (mn sqm)	1.48	1.11	33.9
Booked ASP (RMB/sqm)	9,000	9,172	(1.9)
Property sales booked (RMB mn)	13,345	10,158	31.4

Balance sheet	Dec-16	Dec-15	YoY
	RMBmn	RMBmn	
Gross debt	25,787	20,083	28.4
Cash	17,418	11,949	45.8
Net debt	8,369	8,134	2.9
Net gearing (%)	71.7%	79.4%	-7.7ppt

Revenue breakdown	FY16	FY15	YoY
	RMBmn	RMBmn	
Property development	13,345	10,158	31.4
Property management	182	122	48.9
Property investment	124	80	55.9
Hotels and Others	20	16	25.8
Total	13,672	10,376	31.8

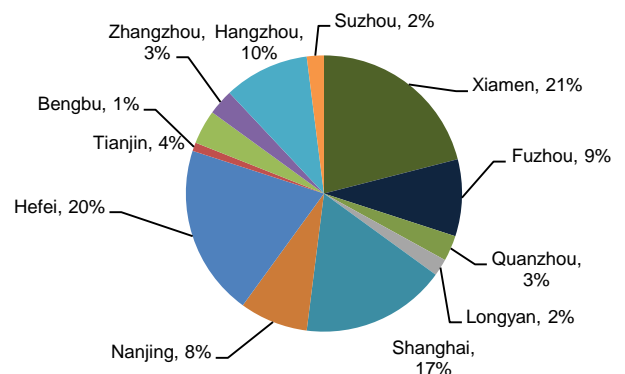
Source(s): Company, ABCI Securities

Exhibit 2: 2016 presales breakdown (total: RMB 23.2bn)



Source(s): Company, ABCI Securities

Exhibit 3: 2017E saleable resources (total: RMB 50bn)



Source(s): Company, ABCI Securities estimates

Exhibit 4: Cash flow guidance

	2016A	2017E
	RMBbn	RMBbn
Presales and other income	23.3	26.2
Land premium	(11.4)	(12.0)
Construction	(6.8)	(8.0)
Others (Interest, tax, dividend & others)	(5.3)	(6.2)
Net cash flow	(0.2)	0.0

Source(s): Company, ABCI Securities estimates

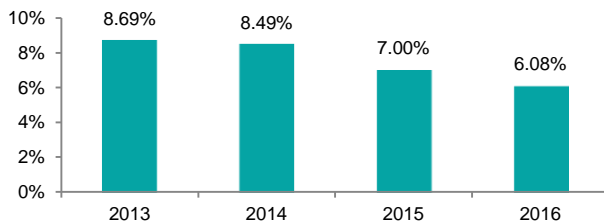


Exhibit 5: Yuzhou's Landbank (Dec16)

Region	City	Landbank	No. of project	Average land cost	% of total
		000 sqm		RMB/sqm	
Bohai Rim	Tianjin	416	4	3,117	4%
	Shanghai	892	9	8,362	9%
	Nanjing	517	6	9,561	5%
YRD	Hangzhou	299	1	13,738	3%
	Suzhou	453	2	7,703	5%
	Hefei	2,397	11	4,448	25%
West Strait	Bengbu	518	1	660	5%
	Xiamen	1,412	25	5,491	15%
	Fuzhou	548	4	5,609	6%
Central	Quanzhou	1,031	1	374	11%
	Longyan	203	1	1,921	2%
	Zhangzhou	255	1	2,400	3%
Offshore	Wuhan	598	1	6,000	6%
Offshore	Hong Kong	2	1	135,140	0%
Total		9,542	68	5,072	100%

Source(s): Company, ABCI Securities

Exhibit 6: Average finance cost



Source(s): Company, ABCI Securities

Exhibit 7: Major financing activities (FY16)

Type	Public/private	Amount	Maturity	Coupon	Credit rating
New issuance					
Onshore corp. bond	Private	RMB 2bn	3 years	6.28%	AA
Onshore corp. bond	Private	RMB 3bn	3 years	5.30%	AA+
Term facility	NA	US\$ 400mn	3.5 years	LIBOR+3.85%	NA
Offshore senior note	Public	US\$ 250mn	7 years	6.00%	BB-/B1
Early Redemption					
Guaranteed corp. bond	Private	HK\$ 1.5bn	6 years	10.00%	NA
Offshore senior note	Public	US\$ 300mn	5 years	8.75%	BB-/B1

Source(s): Company, ABCI Securities



Exhibit 8: 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	2.2	6,855	17%		3,049
Hefei	3.5	8,437	21%		2,431
Shanghai	1.1	4,402	11%	DCF with WACC of 10.5%	4,151
Nanjing	0.6	4,442	11%		7,268
Fuzhou	0.7	1,970	5%		2,732
Others	4.9	12,477	30%		2,551
Subtotal	13.0	38,582	94%		2,967
Investment Properties		2,483	6%	6.0% cap rate on 2017E net rental	
Total 2017E GAV		41,065	100%		
2017E Net cash/ (debt)		(8,003)	-19%		
Total 2017E NAV		33,062	81%		
No. of share outstanding (diluted)		3,816			
NAV per share (RMB)		8.66			
Ex rate		1.12			
NAV per share (HKD)		9.70			
Target discount (%)		60%			
Target Price (HKD)		3.90			
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	17,805	22,374	29,389
Cost of sales	(4,992)	(6,666)	(8,713)	(11,863)	(15,374)	(20,163)
Gross Profit	2,845	3,709	4,959	5,942	7,001	9,226
SG&A expenses	(547)	(658)	(722)	(953)	(1,147)	(1,332)
EBIT	2,298	3,052	4,237	4,988	5,854	7,894
Finance cost	(175)	(152)	(246)	(348)	(432)	(462)
Share of profit of associates	0	(42)	83	7	15	18
Other income/ (expenses)	75	107	129	101	96	91
Fair value gain of investment properties	493	-	-	-	-	-
Disposal/one-off items	-	179	(7)	-	-	-
Profit before tax	2,692	3,143	4,197	4,748	5,534	7,541
Tax	(1,329)	(1,475)	(2,108)	(2,141)	(2,491)	(3,298)
Profit after tax	1,363	1,668	2,088	2,607	3,043	4,243
Minority interest	(109)	(11)	(314)	(181)	(58)	(20)
Reported net profit	1,254	1,657	1,775	2,426	2,984	4,224
<i>Less: exceptional items</i>	(229)	(37)	272	-	-	-
Underlying net profit	1,025	1,620	2,047	2,426	2,984	4,224
Per share						
Underlying EPS (RMB)	0.30	0.44	0.53	0.63	0.78	1.10
DPS (HK\$)	0.16	0.18	0.22	0.25	0.31	0.43
Payout ratio (%)	54%	41%	41%	39%	39%	39%
BVPS (RMB)	2.36	2.62	2.78	3.17	3.64	4.31
Growth %						
Revenue	4.9%	32.4%	31.8%	30.2%	25.7%	31.4%
Gross Profit	22.7%	30.4%	33.7%	19.8%	17.8%	31.8%
EBIT	19.7%	32.8%	38.8%	17.7%	17.4%	34.8%
Underlying net profit	-6.0%	58.0%	26.4%	18.5%	23.0%	41.5%
Margin %						
Gross margin	36.3%	35.8%	36.3%	33.4%	31.3%	31.4%
Gross margin (post-LAT)	28.9%	30.7%	29.8%	26.5%	24.8%	25.0%
EBIT margin	29.3%	29.4%	31.0%	28.0%	26.2%	26.9%
Core net margin	12.7%	15.2%	14.7%	14.6%	13.5%	14.4%
Key assumptions						
Contracted Sales (RMB mn)	12,001	14,018	23,206	31,468	37,957	42,080
GFA sold (mn sqm)	1.20	1.40	1.83	2.37	2.74	2.89
ASP (RMB/sqm)	9,972	9,997	12,689	13,302	13,843	14,569
Booked Sales (RMB mn)	7,681	10,158	13,345	17,453	22,001	28,999
GFA delivered (mn sqm)	0.74	1.11	1.48	1.24	1.55	2.18
Booked ASP (RMB/sqm)	10,437	9,172	9,000	14,102	14,159	13,285

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	67,652	86,815	104,064
Cash	9,296	10,973	15,599	17,965	44,601	73,917
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	42,702	35,229	23,162
Other current assets	1,118	1,714	2,290	2,290	2,290	2,290
Non-current assets	9,515	8,107	16,868	16,839	16,802	16,753
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	7,394	7,397	7,400
Other non-current assets	252	677	896	896	896	896
Total Assets	39,075	52,846	68,861	84,491	103,617	120,817
Current Liabilities	17,279	25,626	35,327	49,355	66,662	81,332
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	25,886	41,194	53,863
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	71,216	88,524	103,193
Net Assets	9,390	10,241	11,673	13,275	15,093	17,624
Shareholders' Equity	8,173	9,622	10,666	12,137	13,947	16,508
Perpetual capital instrument	-	-	-	-	-	-
Minority Interest	1,216	620	1,007	1,137	1,146	1,116
Total Equity	9,390	10,241	11,673	13,275	15,093	17,624
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	8,003	(16,633)	(43,949)
Net gearing (%)	60%	79%	72%	60%	-110%	-249%
Contracted sales/ Total assets (x)	31%	27%	34%	37%	37%	35%

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	5,039	5,915	7,966
Change in Working Capital	(82)	(997)	7,435	128	24,076	26,121
Tax payment	(817)	(1,355)	(2,108)	(2,141)	(2,491)	(3,298)
Operating cash flow	1,424	742	9,602	3,025	27,500	30,790
Purchase of PP&E	(55)	(112)	(20)	(20)	(20)	(20)
Addition of Investment Properties	(331)	(881)	-	-	-	-
Others	(333)	(324)	(856)	107	108	105
Investing cash flow	(718)	(1,316)	(876)	87	88	85
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)	(955)	(1,175)	(1,662)
Others	1,134	(691)	(50)	(50)	(50)	(50)
Financing cash flow	5,082	2,251	(4,101)	(746)	(952)	(1,560)
Net cash inflow/ (outflow)	5,788	1,677	4,625	2,366	26,636	29,316
Cash- beginning	3,508	9,296	10,973	15,599	17,965	44,601
Cash- year-end	9,296	10,973	15,599	17,965	44,601	73,917

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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