



CIFI (884 HK)

Quality and sustainable growth

- 1H19 core profit rose 17%YoY to RMB 2,870mn
- Adjusted gross margin rose 0.8ppt YoY to 34.5% in 1H19
- Multiple land acquisition channels helped lower land cost
- For new projects acquired in 7M19, it took 6.5 months to proceed to presales stage
- Maintain **BUY** with revised TP of HK\$ 6.20 (from HK\$ 5.10) based on a 60% discount to NAV

1H19 results overview. CIFI's 1H19 revenue increased 9% YoY to RMB 20,063mn since booked GFA increased by 24%YoY to 1.29mn sqm, offsetting the 16% YoY decline in booked ASP at RMB14,017/sqm. Adjusted gross margin improved 0.8ppt YoY to 34.5% despite lower booked ASP due to penetration into lower tier cities. Core profit increased 17% YoY to RMB 2,870mn due to higher booked sales and gross margin. Cash collection rate improved from 87% in FY18 to 95% in 1H19. Net gearing increased 2.3 ppt HoH to 69.5 % as at June 2019 due to RMB 32.4bn attributable land capex for acquiring 8.78 mn sqm of new projects. As at June 2019, CIFI had a landbank of 46.8mn sqm, or 63.0mn sqm including recent land acquisitions pending for certificates. Management estimates total saleable resources would be ~RMB 980bn as at Jun 2019. In 7M19, CIFI's contracted sales jumped 31%YoY to RMB 103bn, achieving 54% of its full-year target of RMB 190bn.

Multiple land acquisition channels to lower land cost. CIFI's average land acquisition cost declined by 20% from RMB 6,190/sqm in FY18 to RMB 4,967/sqm in 7M19, mainly driven by increasing land acquisitions via M&A and urban redevelopment. Public tendering, as a percentage of total land capex paid, declined from 89% in 2018 to 61% in 7M19. Recent tightening on property financing may have forced smaller regional developers to divest their projects to mitigate rising refinancing pressure. Larger listed players, such as CIFI, will be better positioned to increase market share as more M&A opportunities arise.

Better efficiency. CIFI has transformed itself from a regional player in YRD to a national one. Efficiency has improved through the economies of scale. Based on the Group's estimates, average construction cycle has been shortened by 4 months in 2018-19. For new projects acquired so far in 2019, it took only 6.5 months on average to progress from land acquisition to presales stage.

Maintain BUY with revised TP HK\$6.20. Factoring in the latest land acquisitions in 7M19, we raise our NAV forecast to HK\$15.61/share (from HK\$ 12.64), and revise up our TP to HK\$ 6.20 (from HK\$ 5.10), based on an unchanged 60% discount to NAV. However, we lower our 2019E-20E core profit forecasts by 3-8% on expected rise in SG&A expenses stemming from upcoming M&As and urban redevelopment projects. Maintain **BUY**.

Risk factor: 1) Declining ASP due to expansion into lower-tier cities; 2) Longer-than expected approval process of urban redevelopment projects resulted in lower asset turnover; 3) Hidden liabilities of M&A projects.

Results and Valuation

FY ended Dec 31	2017A	2018A	2019E	2020E	2021E
Revenue (RMB mn)	31,824	42,368	98,608	115,571	125,221
Chg (% YoY)	43.2	33.1	132.7	17.2	8.3
Core net profit (RMB mn)*	4,082	5,536	7,244	8,775	9,473
Chg (% YoY)	44.5	35.6	30.9	21.1	8.0
Core EPS (RMB)	0.56	0.70	0.94	1.13	1.22
Chg (% YoY)	33.5	24.9	33.5	21.1	8.0
BVPS (RMB)	2.87	3.24	3.88	4.57	5.32
Chg (% YoY)	28.9	12.8	19.7	17.9	16.4
Core P/E (x)	6.8	5.4	4.1	3.4	3.1
P/B (x)	1.3	1.2	1.0	0.8	0.7
ROE (%)	19.5	21.6	24.1	24.8	23.0
ROA (%)	2.7	2.3	2.7	2.7	2.3
DPS(HK\$)	0.23	0.30	0.36	0.44	0.48
Yield (%)	5.5	7.1	8.6	10.4	11.3
Net gearing (%)	50.9	67.2	23.1	Net cash	Net cash

* Excluding changes in fair value of investment properties and other exceptional items

** RMB /HKD: 1.11

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Aug 14, 2019

Rating: BUY

TP: HK\$ 6.20

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Share price (HK\$)	4.22
Est. share price return	46.9%
Est. dividend yield	8.6%
Est. total return	55.5%
Previous Rating & TP	BUY, HK\$5.10

Previous Report Date Jan 28, 2019

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	5.709/2.86
Issued shares (mn)	7,744
Market cap (HK\$ mn)	32,683
3-mth avg daily turnover(HK\$ mn)	95.04
Major shareholder(s) (%)	
Lin's family	53.64%
Ping An	9.64%

Source(s): Bloomberg, ABCI Securities

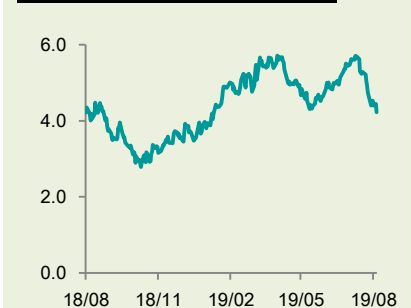
Share Performance

	Absolute	Relative*
1-mth	(19.8)	(9.7)
3-mth	(5.3)	5.7
6-mth	(8.2)	3.2

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year share performance(HK\$)



Source(s): Bloomberg, ABCI Securities



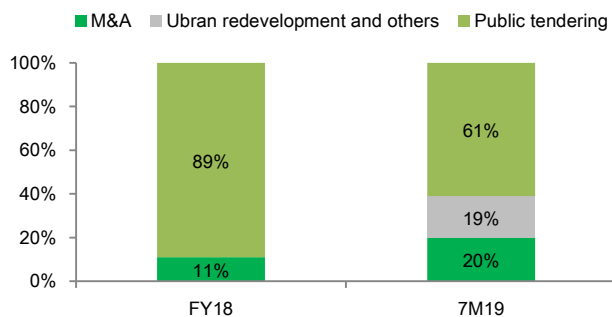
Exhibit 1: CIFI's 1H19 results

P&L	1H19	1H18	YoY
	RMBmn	RMBmn	(%)
Turnover	20,063	18,421	8.9
Cost of Sales	(14,120)	(14,069)	0.4
Gross Profit	5,943	4,352	36.6
Gross Margin (%)	29.6	23.6	+6.0ppt
Adjusted Gross margin*	34.5	33.7	+0.8ppt
Selling and distribution costs	(640)	(413)	54.9
Administrative expense	(1,266)	(1,045)	21.2
EBIT	4,037	2,894	39.5
EBIT Margin (%)	20.1	15.7	+4.4ppt
Other income	291	365	(20.1)
Exceptional items	-	1,335	na
Fair Value gains on IP and others	630	269	na
Share of profit from JCE/ Assoc.	1,812	1,108	63.6
Finance cost	(360)	(135)	166.2
Profit before tax	6,410	5,836	9.9
Tax	(1,997)	(1,659)	20.4
- LAT	(1,000)	(1,267)	(21.0)
- Enterprise tax	(997)	(392)	154.4
Profit after tax	4,413	4,177	5.7
Minority Interest	(1,219)	(758)	60.9
Net profit	3,194	3,419	(6.6)
Core net profit	2,870	2,446	17.3
Core net margin	14.3	13.3	+1.0ppt

Operating statistics	1H19	1H18	YoY
			(%)
Contracted GFA (mn sqm)	5.09	4.33	17.5
Contracted ASP (RMB/sqm)	17,382	15,314	13.5
Contracted Sales (RMB mn)	88,440	66,032	33.9
GFA Delivered (mn sqm)	1.29	1.04	24.0
Booked ASP (RMB/sqm)	14,017	16,774	(16.4)
Booked sales (RMB mn)	18,026	17,395	3.6
Balance sheet	Jun-19	Dec-18	HoH
	RMB mn	RMB mn	(%)
Gross debt	94,768	77,865	21.7
Cash	54,300	44,618	21.7
Net debt	40,467	33,247	21.7
Net gearing (%)	69.5%	67.2%	+2.3ppt
Net gearing – PCI as debt (%)	81.7%	81.5%	+0.2ppt

*Exclude effect of re-measurement of fair value of projects acquired
Source(s): Company, ABCI Securities

Exhibit 2: CIFI's land acquisition amount by types



Source(s): Company, ABCI Securities



Exhibit 3: CIFI's 2019E NAV

	Attr. GFA (mn sqm)	Net assets value (RMB mn)	% of total	Valuation Method	Implied value per sqm (RMB)
Property development	38.7	114,516	94%	DCF with WACC of 10.0%	2,957
Investment Properties		6,714	5%	6.0% cap rate on 2018E net rental	
Ever Sunshine (1995 HK)		1,198	1%	Market value	
Total 2019E GAV		122,428	100%		
2019E Net cash/ (debt)		(13,509)	-11%		
Total 2019E NAV		108,919	89%		
No. of share outstanding (diluted)		7,744			
NAV per share (RMB)		14.06			
Ex rate		1.11			
NAV per share (HKD)		15.61			
Target discount (%)		60%			
Target Price (HKD)		6.20			

WACC	10.0%
Cost of debt	7.5%
Cost of equity	20.0%
Debt/ (Debt + Equity)	69%

Source(s): Company, ABCI Securities estimates

Exhibit 4: Changes in TP and profit forecast

	New	Old	Change	Reason
TP (HK\$)	6.20	5.10	22%	Factored in new land acquisitions in 1H19
Core profit (RMBmn)				
- 2019E	7,244	7,479	-3%	Raised SG&A expenses assumption, as increasing number of M&A and urban redevelopment projects may drive operating expenses
- 2020E	8,775	9,538	-8%	Raised SG&A expenses assumption, as increasing number of M&A and urban redevelopment projects may drive operating expenses

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2017A-2021E)

FY Ended Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
Revenue	31,824	42,368	98,608	115,571	125,221
Cost of sales	(23,203)	(31,755)	(75,473)	(84,486)	(89,876)
Gross Profit	8,621	10,613	23,136	31,085	35,345
SG&A expenses	(1,877)	(3,275)	(4,907)	(6,275)	(8,102)
EBIT	6,744	7,338	18,229	24,810	27,243
Finance cost	(262)	(369)	(964)	(1,024)	(1,084)
Share of profit of associates	2,106	2,175	1,457	807	198
Other income/ (expenses)	476	565	34	73	146
Fair value gain of investment properties	-	-	-	-	-
Disposal/one-off items	977	1,607	-	-	-
Profit before tax	10,041	11,317	18,755	24,666	26,503
Tax	(3,893)	(4,199)	(6,696)	(8,949)	(9,741)
Profit after tax	6,149	7,118	12,059	15,717	16,762
Minority interest	(1,320)	(1,709)	(4,815)	(6,941)	(7,289)
Reported net profit	4,828	5,409	7,244	8,775	9,473
Less: exceptional items	(746)	127	-	-	-
Core net profit	4,082	5,536	7,244	8,775	9,473
Per share					
Underlying EPS (RMB)	0.56	0.70	0.94	1.13	1.22
DPS (HK\$)	0.23	0.30	0.36	0.44	0.48
Payout ratio (%)	41%	43%	39%	39%	39%
BVPS (RMB)	2.87	3.24	3.88	4.57	5.32
Growth %					
Revenue	43.2%	33.1%	132.7%	17.2%	8.3%
Gross Profit	52.7%	23.1%	118.0%	34.4%	13.7%
EBIT	59.0%	8.8%	148.4%	36.1%	9.8%
Underlying net profit	44.5%	35.6%	30.9%	21.1%	8.0%
Margin %					
Gross margin	27.1%	25.0%	23.5%	26.9%	28.2%
Gross margin (post-LAT)	21.4%	20.4%	21.4%	24.9%	26.5%
EBIT margin	21.2%	17.3%	18.5%	21.5%	21.8%
Core net margin	10.4%	8.8%	10.8%	12.9%	13.2%
Key assumptions					
Contracted Sales (RMB mn)	103,985	152,000	201,802	205,645	199,500
GFA sold (mn sqm)	6.29	9.57	12.62	12.10	12.32
ASP (RMB/sqm)	16,537	15,884	15,989	16,999	16,195
Booked Sales (RMB mn)	30,295	39,014	93,530	109,030	117,427
GFA delivered (mn sqm)	2.06	4.41	5.99	6.43	7.20
Booked ASP (RMB/sqm)	14,710	8,847	15,605	16,958	16,314

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2017A-2021E)

As of Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
Current assets	126,071	207,351	236,281	293,743	372,097
Cash	29,787	43,328	68,066	173,565	311,263
Restricted cash	-	1,290	1,290	1,290	1,290
Trade & other receivables	10,808	16,740	16,740	16,740	16,740
Property under development	43,732	94,376	98,568	50,532	(8,813)
Other current assets	41,745	51,617	51,617	51,617	51,617
Non-current assets	25,686	33,711	33,946	34,116	34,225
Property, plant & equipment	85	134	123	113	102
Investment properties	14,402	16,147	16,147	16,147	16,147
Investment in Associate and JCE	8,626	14,291	14,536	14,717	14,837
Other non-current assets	2,573	3,138	3,138	3,138	3,138
Total Assets	151,758	241,061	270,227	327,859	406,322
Current Liabilities	79,185	123,344	143,524	189,107	254,747
Short-term borrowings	12,154	12,563	17,563	22,563	27,563
Trade & other payables	13,602	25,888	25,888	25,888	25,888
Pre-sales deposits	25,549	44,238	59,418	100,001	160,641
Other current liabilities	27,880	40,654	40,654	40,654	40,654
Non-current liabilities	38,303	68,271	68,271	68,271	68,271
Long-term borrowings	35,419	64,469	64,469	64,469	64,469
Other payables	-	-	-	-	-
Other non-current liabilities	2,884	3,802	3,802	3,802	3,802
Total Liabilities	117,487	191,615	211,795	257,378	323,018
Net Assets	34,270	49,446	58,432	70,481	83,304
Shareholders' Equity	20,904	25,604	30,034	35,400	41,193
Perpetual capital instrument	3,848	3,884	3,884	3,884	3,884
Minority Interest	9,519	19,959	24,515	31,197	38,228
Total Equity	34,270	49,446	58,432	70,481	83,304
Key ratio					
Gross debt (RMB mn)	47,572	77,032	82,032	87,032	92,032
Net debt (RMB mn)	17,785	32,415	12,676	(87,823)	(220,521)
Net gearing (%)	51%	67%	23%	-123%	-264%
Contracted sales/ Total assets (x)	69%	63%	75%	63%	49%

* 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 FY19E-21E 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 (2017A-2021E)

FY ended Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
EBITDA	6,762	7,369	18,259	24,841	27,274
Change in Working Capital	523	(6,204)	16,452	94,425	126,129
Tax payment	(1,688)	(4,003)	(6,696)	(8,949)	(9,741)
Operating cash flow	5,596	(2,838)	28,016	110,316	143,663
Purchase of PP&E	(44)	(46)	(20)	(20)	(20)
Addition of Investment Properties	(1,372)	(207)	-	-	-
Others	(18,386)	(14,824)	1,245	700	224
Investing cash flow	(19,802)	(15,078)	1,225	680	204
Debt raised	24,298	51,344	10,000	10,000	10,000
Debt repaid	(10,840)	(26,751)	(5,000)	(5,000)	(5,000)
Interest expenses	(2,187)	(3,825)	(6,429)	(6,829)	(7,229)
Equity raised	2,026	-	-	-	-
Dividend to shareholders	(1,081)	(1,602)	(2,814)	(3,409)	(3,680)
Others	11,448	12,291	(259)	(259)	(259)
Financing cash flow	23,664	31,457	(4,502)	(5,497)	(6,168)
Net cash inflow/ (outflow)	9,458	13,541	24,739	105,499	137,698
Cash- beginning	20,328	29,787	43,328	68,066	173,565
Cash- year-end	29,787	43,328	68,066	173,565	311,263

Source(s): Company, ABCI Securities estimates

Disclosures

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Rating	Definition
Buy	Stock return \geq Market return rate (10%)
Hold	- Market return (-10%) \leq Stock return $<$ Market return rate (10%)
Sell	Stock return $<$ - Market return (-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 2005 (HSI total return index 2005-17 CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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