

Times China (1233 HK)

Faster urban redevelopment aids growth

- 1H19 core profit jumped 44%YoY to RMB 1.7bn; gross margin was up 4.3ppt YoY to 32.5%, driven by high-margin urban redevelopment business
- In 1H19, Times converted four urban redevelopment projects with an aggregate of GFA 1.5mn sqm, as compared to 0.8mn sqm for FY18
- Maintain **BUY** with revised TP to HK\$ 17.40 (from HK\$13.30) based on a 60% NAV discount

1H19 results overview. Times reported 1H19 revenue increased 52% YoY to RMB15,943mn, driven by higher booked ASP of RMB 15,080/sqm (+48%YoY) although booked GFA edged down 2% YoY to 0.98mn sqm. Gross margin improved 4.3ppt YoY to 32.5%, mainly due to the land sales revenue of RMB 641mn generated from urban redevelopment business, whose gross margin was high at 84.9%, vs. 29.9% for property development business. Core profit increased 44% YoY to RMB 1,701mn due to higher booked sales and gross margin. Since primary land sales do not entail any land appreciation tax (LAT), net margin of the urban redevelopment business was exceptionally high at 26.8%. Profit contribution from urban redevelopment business was RMB 172mn, representing 10% of core profit. Net gearing increased 8.3 ppt HoH to 70.8 % as at June 2019, due to the land CAPEX of RMB18.8bn allocated for 5.17 mn sqm of new project acquisition. As at June 2019, Times has a landbank of 23.08mn sqm with an average land cost of RMB 3,541/sqm. Management estimated total saleable resources to be ~RMB 400bn. In 7M19, contracted sales grew 18%YoY to RMB 36.8bn.

Faster urban redevelopment conversion. In 1H19, Times converted four urban redevelopment projects with a total GFA of 1.5mn sqm into RMB 31.9bn of saleable resources. Two of the projects were tendered publicly, hence generating land sales revenue. In 2018, Times only converted 0.8mn sqm of GFA into ~RMB14.5bn of saleable resources; management commented the increase can be partially attributed to the government's expedited approval process. We believe the shortened approval time may arise from the government's intention to control property price by increasing new land supply through urban redevelopment. Times also raised its urban redevelopment conversion target for 2019-21 from 10.8mn sqm in GFA to 12.47mn sqm. We believe these low-cost land reserves will support the margin level going forward.
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Results and Valuation

FY ended Dec 31	2017A	2018A	2019E	2020E	2021E
Revenue (RMB mn)	23,110	34,375	42,166	53,463	73,578
Chg (% YoY)	42.6	48.7	22.7	26.8	37.6
Core net profit (RMB mn)*	2,532	4,204	5,424	7,022	9,495
Chg (% YoY)	39.9	66.0	29.0	29.4	35.2
Core EPS (RMB)	1.38	2.29	2.79	3.62	4.89
Chg (% YoY)	39.9	66.0	21.9	29.4	35.2
BVPS (RMB)	8.5	9.2	11.4	13.9	17.4
Chg (% YoY)	70.5	8.9	23.3	22.2	24.6
Core P/E (x)	8.1	4.9	4.0	3.1	2.3
P/B (x)	1.3	1.21	0.98	0.80	0.65
ROE (%)	16.3	24.8	24.5	26.0	28.2
ROA (%)	2.5	3.3	3.2	3.4	4.1
DPS(RMB)	0.41	0.69	0.84	1.08	1.47
Yield (%)	3.70	6.13	7.48	9.68	13.08
Net gearing (%)	57.5	62.6	Net cash	Net cash	Net cash

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

** RMB /HKD: 1.12

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Aug 7, 2019

Rating: **BUY**
 TP: HK\$ 17.40

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Share price (HK\$)	12.50
Est. share price return	39.2%
Est. dividend yield	7.5%
Est. total return	46.7%
Previous Rating & TP	BUY, HK\$13.30
Previous Report Date	Jan 28, 2019

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	17.00/6.15
Issued shares (mn)	1,942
Market cap (HK\$ mn)	24,275
3-mth avg daily turnover(HK\$ mn)	86.78
Major shareholder(s) (%)	
SHUM Chiu Hung	61.54%

Source(s): Bloomberg, ABCI Securities

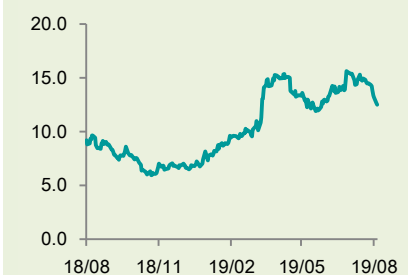
Share Performance

	Absolute	Relative*
1-mth	(11.8)	(3.4)
3-mth	6.1	16.1
6-mth	35.5	46.7

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year share performance(HK\$)



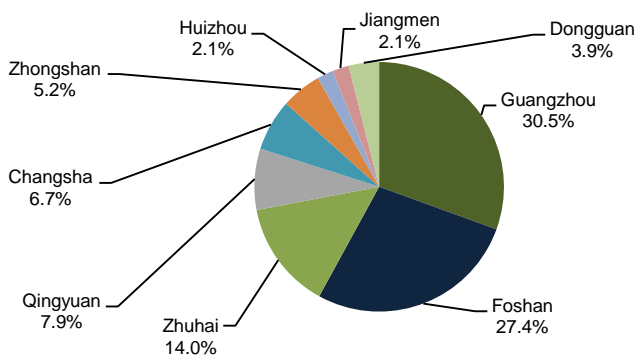
Source(s): Bloomberg, ABCI Securities

Reduction in financing cost amid tightening. Times's average financing cost fell 0.15ppt, from 7.70% in 2018 to 7.55% in 1H19 on improved credit rating, which was upgraded to BB- from B by S&P in Mar 2019. In May 2019, its credit rating was upgraded to AAA from AA- by United Credit Ratings and China Chengxin Securities Rating.

Maintain BUY with revised TP of HK\$17.40. Factoring in the new land acquisitions in 1H19, our NAV forecast rises to HK\$ 43.56/share (from HK\$ 33.22). Times remains to be one of our small/mid-cap top picks given its strategic focus on the Greater Bay Area and potential upside from redevelopment projects. We raise TP to HK\$17.40 (from HK\$13.30) based on an NAV discount of 60% (unchanged), in line with the sector's small/mid-cap average. Maintain **BUY**. To note, our forecasts do not assume any landbank addition from the existing urban redevelopment projects in the pipeline due to the uncertain schedule.

Risk factors: 1) Legal and compliance risks of urban redevelopment projects; 2) Contracted sales may slow if disposals of urban redevelopment projects affect conversion into saleable resources; 3) Further policy tightening on property market; 4) Further RMB depreciation.

Exhibit 1: 1H19 contracted sales breakdown (total: RMB 31.2bn)



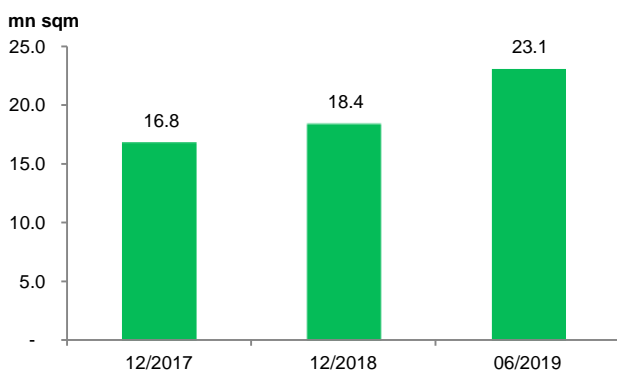
Source(s): Company, ABCI Securities

Exhibit 2: Landbank by city as at June 2019 (average land cost: RMB3,541/sqm)

City	mn sqm	%
Guangzhou	3.59	15.6%
Foshan	2.91	12.6%
Dongguan	1.02	4.4%
Zhongshan	1.40	6.1%
Huizhou	1.24	5.4%
Zhuhai	0.82	3.5%
Jiangmen	2.78	12.0%
Zhaoqing	0.68	3.0%
Qingyuan	5.87	25.4%
Chengdu	0.28	8.6%
Hangzhou	0.09	0.4%
Changsha	1.84	8.0%
Heyuan	0.21	0.9%
Shantou	0.19	0.8%
Shanwei	0.16	0.7%
Total	23.08	100.0%

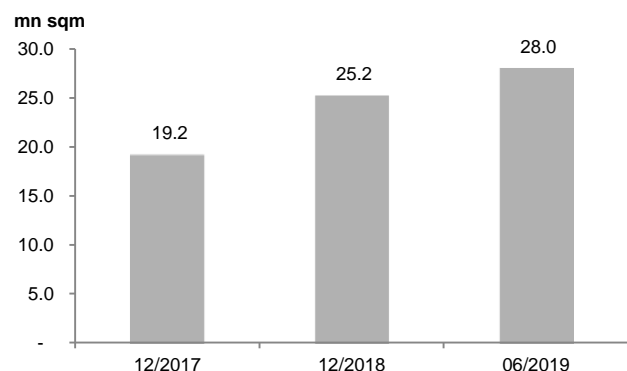
Source(s): Company, ABCI Securities

Exhibit 3: Total GFA of Times' s landbank



Source(s): Company, ABCI Securities

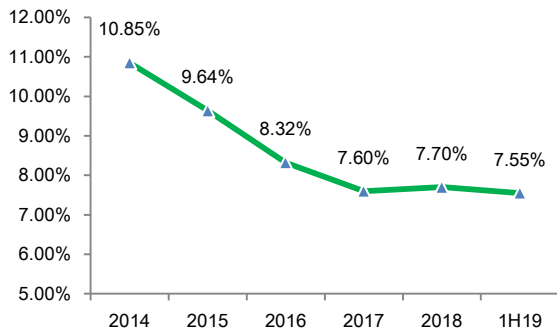
Exhibit 4: Planned GFA of urban redevelopment projects in the pipeline



Source(s): Company, ABCI Securities

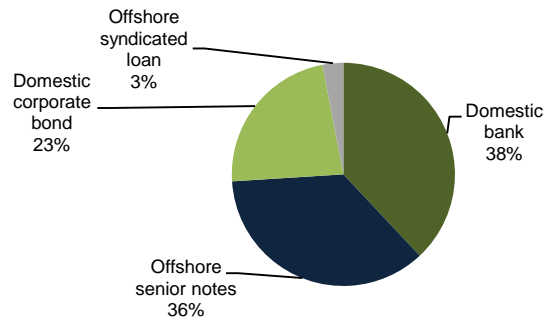


Exhibit 5: Average finance cost



Source(s): Company, ABCI Securities

Exhibit 6: Debt profile by type (June 2019)



Source(s): Company, ABCI Securities

Exhibit 7: Times's 1H19 results

P&L	1H19	1H18	YoY Chg	Operating statistics	1H19	1H18	YoY
	RMB mn	RMB mn	(%)		(%)		
Turnover	15,943	10,477	52.2	Contracted GFA (mn sqm)	2.06	1.51	36.8
Cost of Sales & direct operating costs	(10,755)	(7,521)	43.0	Contracted ASP (RMB/sqm)	15,131	17,240	(12.2)
Gross Profit	5,187	2,956	75.5	Contracted Sales (RMB)	31,230	26,002	20.1
Gross Margin (%)	32.5	28.2	+4.3ppt	GFA Delivered (mn sqm)	0.98	1.00	(2.1)
Selling and distribution costs	(546)	(364)	50.0	Booked ASP (RMB/sqm)	15,080	10,188	48.0
Administrative expense	(1,053)	(513)	105.4	Property sales booked	14,763	10,188	44.9
EBIT	3,589	2,079	72.6				
EBIT Margin (%)	22.5	19.8	+2.7ppt				
Other income, gains and losses	355	492	(27.8)	Balance sheet	Jun-19	Dec-18	HoH %
Fair value gain of investment properties	11	16	(29.2)		RMB mn	RMB mn	
Other exceptional items	21	41	na	Gross debt	50,120	47,631	5.2
Share of profit from JCE/ Associates	146	(164)	na	Cash	25,783	27,426	(6.0)
Finance cost	(432)	(247)	75.2	Net debt	24,338	20,205	20.5
Profit before tax	3,690	2,217	66.5	Net gearing (%)	70.8%	62.6%	+8.3ppt
Tax	(1,991)	(1,082)	84.1				
- LAT	(1,250)	(538)	132.5	Revenue breakdown	1H19	1H18	YoY %
- Enterprise tax and others	(741)	(544)	36.2		RMB mn	RMB mn	
Profit after tax	1,700	1,135	49.7	- Property sales	14,763	10,126	45.8
Minority Interest	(106)	49	(316.7)	- Property leasing	205	160	28.2
Net profit	1,594	1,184	34.6	- Urban redevelopment	641	0	na
Core net profit (before MI)	1,806	1,082	66.9	- Property management	333	190	74.7
Core net profit (after MI)	1,701	1,183	43.8	Total	15,942	10,477	52.2
Core net margin	10.7	11.3	-0.6ppt				

Source(s): Company, ABCI Securities



Exhibit 8: Times's 2019E NAV

	Attr. GFA (mn sqm)	Net assets value (RMB mn)	% of total	Valuation Method	Implied value per sqm (RMB)
Property development					
Guangzhou	4.1	12,104	19%		2,773
Foshan	5.1	22,600	35%	DCF with	4,210
Zhuhai	2.5	3,724	6%	WACC of	1,364
Others	9.1	23,182	36%	13.2%	2,457
Subtotal	20.9	61,609	95%		2,818
Investment Properties		3,424	5%	6.5% cap rate on 2019E net rental income	
Total 2019E GAV		65,034	100%		
2019E Net cash/ (debt)		10,834	17%		
Total 2019E NAV		75,868	117%		
No. of share outstanding (diluted)		1,942			
NAV per share (RMB)		39.07			
Ex rate		1.12			
NAV per share (HKD)		43.56			
Target discount (%)		60%			
Target Price (HKD)		17.40			
WACC	13.2%				
Cost of debt	9.0%				
Cost of equity	25.0%				
Debt/ (Debt + Equity)	65%				

Source(s): Company, ABCI Securities estimates

Exhibit 9: Changes in TP and profit forecast

	New	Old	Change	Reason
TP (HK\$)	17.40	13.30	31%	Factored in new land acquisition in 1H19
Core profit (RMBmn)				
- 2019E	5,424	4,321	26%	Raised revenue forecast from urban redevelopment business due to faster approvals
- 2020E	7,022	6,152	14%	Raised revenue forecast from urban redevelopment business due to faster approvals

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2017A-2021E)

FY Ended Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
Revenue	23,110	34,375	42,166	53,463	73,578
Cost of sales	(16,660)	(23,754)	(27,700)	(34,229)	(48,316)
Gross Profit	6,450	10,621	14,466	19,234	25,262
SG&A expenses	(1,677)	(2,315)	(3,063)	(3,817)	(4,260)
EBIT	4,773	8,306	11,403	15,416	21,003
Finance cost	(401)	(667)	(685)	(685)	(685)
Share of profit of associates	225	(331)	0	0	0
Other income/ (expenses)	353	419	43	78	117
Fair value gain of investment properties	0	0	0	0	0
Disposal/one-off items	338	612	0	0	0
Profit before tax	5,288	8,339	10,761	14,809	20,434
Tax	(1,947)	(3,527)	(4,438)	(6,227)	(8,636)
Profit after tax	3,341	4,811	6,323	8,582	11,798
Minority interest	(674)	(412)	(899)	(1,560)	(2,303)
Reported net profit	2,667	4,399	5,424	7,022	9,495
<i>Less: exceptional items</i>	(135)	(195)	0	0	(0)
Core net profit	2,532	4,204	5,424	7,022	9,495
Per share					
Core EPS (RMB)	1.38	2.29	2.79	3.62	4.89
DPS (RMB)	0.41	0.69	0.84	1.08	1.47
Payout ratio (%)	30%	30%	30%	30%	30%
BVPS (RMB)	8.49	9.24	11.40	13.93	17.36
Growth %					
Revenue	42.6%	48.7%	22.7%	26.8%	37.6%
Gross Profit	51.8%	64.7%	36.2%	33.0%	31.3%
EBIT	60.6%	74.0%	37.3%	35.2%	36.2%
Core net profit	39.9%	66.0%	29.0%	29.4%	35.2%
Margin %					
Gross margin	27.9%	30.9%	34.3%	36.0%	34.3%
Gross margin (post-LAT)	26.0%	30.2%	31.7%	32.3%	29.8%
EBIT margin	20.7%	24.2%	27.0%	28.8%	28.5%
Core net margin	12.4%	13.6%	15.0%	16.1%	16.0%
Key assumptions					
Contracted Sales (RMB mn)	41,629	60,595	75,718	83,654	85,059
GFA sold (mn sqm)	2.82	3.73	5.50	6.37	6.11
ASP (RMB/sqm)	14,752	16,232	13,758	13,126	13,915
Booked Sales (RMB mn)	22,473	30,779	38,236	49,168	68,884
GFA delivered (mn sqm)	1.70	2.17	2.50	3.66	5.05
Booked ASP (RMB/sqm)	13,249	14,160	15,291	13,416	13,634

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2017A-2021E)

As of Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
Current assets	90,402	115,940	156,243	194,883	219,647
Cash	14,263	23,374	54,414	92,750	133,594
Restricted cash	2,944	4,052	4,052	4,052	4,052
Trade & other receivables	3,253	4,890	4,890	4,890	4,890
Property under development	47,888	48,869	58,133	58,437	42,357
Other current assets	22,054	34,755	34,755	34,755	34,755
Non-current assets	10,977	13,113	13,002	12,891	12,780
Property, plant & equipment	1,379	1,550	1,439	1,328	1,217
Investment properties	1,498	1,336	1,336	1,336	1,336
Investment in Associate and JCE	4,734	5,157	5,157	5,157	5,157
Other non-current assets	3,366	5,069	5,069	5,069	5,069
Total Assets	101,379	129,052	169,244	207,774	232,428
Current Liabilities	44,713	54,585	88,742	120,847	136,600
Short-term borrowings	6,030	7,312	7,312	7,312	7,312
Trade & other payables	7,992	11,938	11,938	11,938	11,938
Pre-sales deposits	24,011	19,029	53,185	85,290	101,043
Other current liabilities	6,679	16,306	16,306	16,306	16,306
Non-current liabilities	28,720	42,171	42,171	42,171	42,171
Long-term borrowings	27,259	40,319	40,319	40,319	40,319
Other payables	0	0	0	0	0
Other non-current liabilities	1,461	1,852	1,852	1,852	1,852
Total Liabilities	73,433	96,756	130,913	163,017	178,771
Net Assets	27,946	32,296	38,332	44,757	53,657
Shareholders' Equity	15,572	16,952	22,139	27,054	33,700
Minority Interest	12,374	15,344	16,193	17,703	19,956
Total Equity	27,946	32,296	38,332	44,757	53,657
Key ratio					
Gross debt (RMB mn)	33,289	47,631	47,631	47,631	47,631
Net debt (RMB mn)	16,082	20,205	(10,834)	(49,171)	(90,015)
Net gearing (%)	58%	63%	-28%	-110%	-168%
Contracted sales/ Total assets (x)	0.41	0.47	0.45	0.40	0.37

* 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	4,902	8,437	11,534	15,547	21,133
Change in Working Capital	(7,245)	(3,884)	28,018	34,926	34,959
Tax payment	(2,005)	(2,210)	(4,438)	(6,227)	(8,636)
Operating cash flow	(4,348)	2,343	35,115	44,246	47,456
Purchase of PP&E	(256)	(20)	(20)	(20)	(20)
Addition of Investment Properties	0	0	0	0	0
Others	(8,240)	(6,911)	43	78	117
Investing cash flow	(8,496)	(6,931)	23	58	97
Debt raised	24,702	25,876	4,000	4,000	4,000
Debt repaid	(8,540)	(13,036)	(4,000)	(4,000)	(4,000)
Interest expenses	(2,237)	(3,014)	(3,810)	(3,810)	(3,810)
Equity raised	0	0	0	0	0
Dividend to shareholders	(543)	(760)	(1,627)	(2,106)	(2,848)
Others	4,802	4,633	1,340	(50)	(50)
Financing cash flow	18,184	13,699	(4,098)	(5,967)	(6,709)
Net cash inflow/ (outflow)	5,340	9,111	31,039	38,337	40,844
Cash- beginning	8,923	14,263	23,374	54,414	92,750
Cash- year-end	14,263	23,374	54,414	92,750	133,594

Source(s): Company, ABCI Securities estimates

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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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