

## Powerlong (1238 HK)

### Rental business to expand further

- 2M19 contracted sales jumped 51%YoY to RMB 6.1bn, on track to complete its RMB 50bn sales target.
- Gross margin jumped 5.0ppt YoY to 38.5% in 2018
- Expect 25% CAGR over 2018E-21E in recurring rental and management fee income, driven by rising GFA and rent rate
- Maintain **BUY** with revised TP HK\$ 5.60 based on 60% discount to NAV

**Quality fast growth.** Powerlong's contracted sales soared 97% YoY to RMB 41bn for 2018, driven by 81% YoY growth in GFA and 9% YoY growth in ASP. Powerlong's 2019 sales target of RMB 50bn implies a 21%YoY growth, with saleable resources amounting to RMB 90.2bn. In 2M19, contracted sales jumped 51%YoY to RMB 6,051mn, compared to 6% YoY decline among listed peers. The Group has increased asset turnover rate by active land acquisitions - it acquired 5.74mn sqm at RMB 24.9bn (or RMB 12.4bn on attributable basis) in 2018, of which 85% are saleable ones, adding another RMB 65bn to saleable resources. Margin rose along with faster sales growth. Given 40% of booked sales in 2018 came from non-residential products free from price control, gross margin climbed 5.0ppt YoY to 38.5% for the year. As at Dec 2018, landbank size was 21.2mn sqm, with an average land cost of RMB 2,486/sqm, equivalent to 17.1% of 2018 contracted ASP.

**Multiple drivers for recurring incomes.** Rental and management fee income grew 25%YoY to RMB 2,249mn in 2018, driven by 12% YoY increase in average rent rate (RMB68/sqm/mth) and 11% YoY growth in GFA from investment properties. Average yield on cost was 12.2%. In 2019, Powerlong plans to open 7 new malls in tier 1/2 cities such as Shanghai, Nanjing, and Hangzhou. We expect rental and management fee income to grow at 25% CAGR in 2018E-21E.

**Stable finance cost despite increased gearing.** Backed by recurring rental and management fee income from rental properties, Powerlong has been able to obtain bank loans at a cost lower than peers. Net gearing went up 14.8ppt YoY to 101.6% as at Dec 2018, driven by increased land purchase in 2018, but the average cost of debt was up only by 19bps YoY to 6.48% in 2018.

**Maintain BUY with revised TP at HK\$ 5.60.** We lower our 2019E core profit forecast by 27% on slower-than-expected completion and higher-than-expected minority interest as reflected in the 2018 results. However, we raise our NAV forecast by 8% to HK\$ 14.06/share to factor in the latest land acquisitions. We raise our TP to HK\$ 5.60 (from HK\$5.20) based on an unchanged discount to NAV at 60%. Maintain **BUY**.

#### Results and Valuation

FY ended Dec 31	2017A	2018A	2019E	2020E	2020E
Revenue (RMB mn)	15,593	19,594	26,890	34,986	43,842
Chg (% YoY)	9.1	25.7	37.2	30.1	25.3
Core profit (RMB mn)*	1,376	1,768	2,341	3,440	4,529
Chg (% YoY)	4.2	35.2	51.9	41.0	31.4
EPS (RMB)	0.35	0.45	0.59	0.87	1.14
Chg (% YoY)	(11.2)	28.6	32.4	47.0	31.6
BVPS (RMB)	6.4	6.9	7.2	7.7	8.3
Chg (% YoY)	11.8	7.8	4.4	6.6	8.4
P/E (x)	9.9	7.7	5.8	4.0	3.0
P/B (x)	0.54	0.50	0.48	0.45	0.41
ROE (%)	7.5	9.5	13.7	18.2	22.0
ROA (%)	2.0	2.0	2.4	2.8	3.3
DPS (HK\$)	0.25	0.30	0.33	0.46	0.58
Yield (%)	6.23	7.48	8.32	11.43	14.51
Net gearing (%)	86.8	101.6	29.1	Net cash	Net cash

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

\*\*RMB to HK\$= 1.168

Source(s): The Company, ABCI Securities estimates

## Company report

Mar 26, 2019

Rating: BUY

TP: HK\$ 5.60

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Share price (HK\$)	4.01
Est. share price return	39.6%
Est. dividend yield	8.3%
Est. total return	47.9%
Previous Rating & TP	BUY, HK\$5.2
Previous Report Date	1 Mar 2019

Source(s): Bloomberg, ABCI Securities

#### Key Data

52Wk H/L(HK\$)	5.00/2.61
Issued shares (mn)	3,997
Market cap (HK\$ mn)	16,028
3-mth avg daily turnover (HK\$ mn)	6.34
Major shareholder(s) (%):	
Mr. Hoi Kin Hong	45.95
Mr. Hoi Wa Fong	14.71
Ms. Hoi Wa Fan	4.91

Source(s): Bloomberg, ABCI Securities

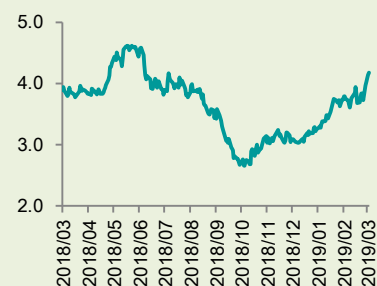
#### Share Performance (%)

	Absolute	Relative*
1-mth	9.3	10.1
3-mth	34.4	20.5
6-mth	17.7	13.2

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

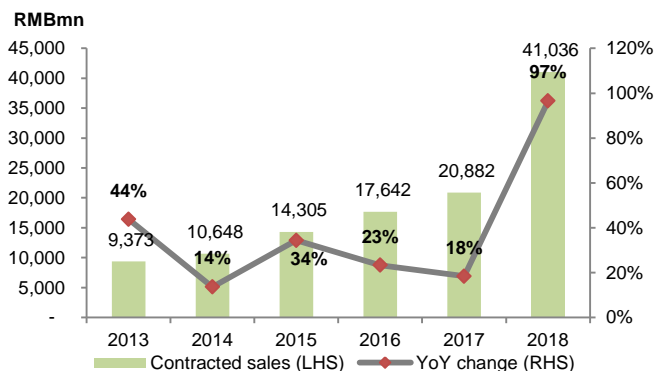
#### 1-Year share performance(HK\$)



Source(s): Bloomberg, ABCI Securities

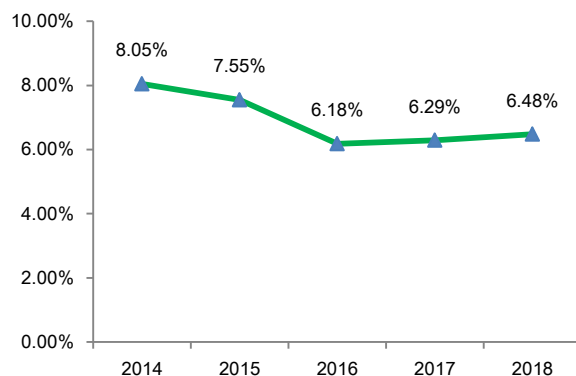
**Risk factors:** 1) Long payback period of shopping malls; 2) Threats from online retail, which may affect mall rental business; 3) Loss-making hotel business; 4) Increasing residential sales may increase exposure to policy risk; 5) growing minority interest due to rising number of JV projects; 6) Growing refinancing risk as net gearing increases.

**Exhibit 1: Powerlong's contracted sales**



Source(s): The Company, ABCI Securities

**Exhibit 2: Powerlong's average cost of debt**



Source(s): The Company, ABCI Securities

**Exhibit 3: Powerlong's 2018 results**

P&L	2018			2017			YoY Chg			
	RMB mn	RMB mn	(%)	RMB mn	RMB mn	(%)	Operating statistics	2018	2017	YoY Chg
<b>Turnover</b>	<b>19,594</b>	<b>15,593</b>	<b>25.7</b>				Contracted GFA (mn sqm)	2.82	1.56	80.6
Cost of Sales & direct operating costs	(12,041)	(10,368)	16.1				Contracted ASP (RMB/sqm)	14,543	13,369	8.8
<b>Gross Profit</b>	<b>7,553</b>	<b>5,225</b>	<b>44.5</b>				<b>Contracted Sales (RMB mn)</b>	<b>41,036</b>	<b>20,882</b>	<b>96.5</b>
<b>Gross Margin (%)</b>	<b>38.5</b>	<b>33.5</b>	<b>+5.0ppt</b>				GFA Delivered (mn sqm)	1.42	1.45	(1.8)
Selling and distribution costs	(786)	(500)	57.2				Booked ASP (RMB/sqm)	11,732	9,196	27.6
Administrative expense	(1,481)	(895)	65.4				<b>Property sales booked (RMBmn)</b>	<b>16,667</b>	<b>13,302</b>	<b>25.3</b>
<b>EBIT</b>	<b>5,286</b>	<b>3,830</b>	<b>38.0</b>							
<b>EBIT Margin (%)</b>	<b>27.0</b>	<b>24.6</b>	<b>+2.4ppt</b>							
Other income, gains and losses	167	159	5.0				<b>Balance sheet</b>	<b>Dec-18</b>	<b>Dec-17</b>	<b>YoY %</b>
Fair value gain of investment properties	2,501	2,135	17.1					<b>RMB mn</b>	<b>RMB mn</b>	
Other exceptional items	(757)	759	na				Gross debt	49,101	35,536	38.2
Share of profit from JCE/ Associates	187	197	(5.1)				Cash	15,776	9,962	58.4
Finance cost	(570)	(932)	(38.8)				Net debt	33,326	25,574	30.3
<b>Profit before tax</b>	<b>6,813</b>	<b>6,148</b>	<b>10.8</b>				<b>Net gearing (%)</b>	<b>101.6%</b>	<b>86.8%</b>	<b>+14.8ppt</b>
<b>Tax</b>	<b>(3,166)</b>	<b>(2,280)</b>	<b>38.8</b>							
- LAT	(1,468)	(702)	109.1				<b>Revenue breakdown</b>	<b>2018</b>	<b>2017</b>	<b>YoY %</b>
- Enterprise tax and others	(1,698)	(1,579)	7.6					<b>RMB mn</b>	<b>RMB mn</b>	
<b>Profit after tax</b>	<b>3,648</b>	<b>3,868</b>	<b>(5.7)</b>				- Property sales	16,667	13,302	25.3
Minority Interest and distribution to PCI	(811)	(531)	52.7				- Property leasing	1,124	856	31.2
<b>Net profit</b>	<b>2,837</b>	<b>3,337</b>	<b>(15.0)</b>				- Property management	1,125	948	18.7
<b>Core net profit (before MI)</b>	<b>2,579</b>	<b>1,907</b>	<b>35.2</b>				- Hotels and others	678	487	39.3
<b>Core net profit (after MI)</b>	<b>1,768</b>	<b>1,376</b>	<b>28.5</b>				<b>Total</b>	<b>19,594</b>	<b>15,593</b>	<b>25.7</b>
<b>Core net margin</b>	<b>9.0</b>	<b>8.8</b>	<b>+0.2ppt</b>							

Source(s): The Company, ABCI Securities



Exhibit 4: Powerlong's 2019E 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	11.9	43,549	73%	DCF with WACC of 12.2% 6.5% cap rate on 2019E net rental; 15x 2019E PE for property management 0.4x PB for hotels	3,668
Investment Properties, property management and hotels		16,334	27%		
<b>Total 2019E GAV</b>		<b>59,883</b>	<b>100%</b>		
2019E Net cash/ (debt)		(10,347)	-17%		
Perpetual capital instruments		(1,552)	-3%		
<b>Total 2019E NAV</b>		<b>47,999</b>	<b>80%</b>		
No. of share outstanding (diluted)		3,997			
<b>NAV per share (RMB)</b>		<b>12.01</b>			
Ex rate		1.17			
<b>NAV per share (HKD)</b>		<b>14.06</b>			
Target discount (%)		60%			
<b>Target Price (HKD)</b>		<b>5.60</b>			

<b>WACC</b>	<b>12.2%</b>
Cost of debt	9.0%
Cost of equity	20.0%
<b>Debt/ ( Debt + Equity)</b>	<b>59%</b>

Source(s): ABCI Securities estimates

## Financial statements

### Consolidated income statement (2016A-2020E)

FY Ended Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
<b>Revenue</b>	15,593	19,594	26,890	34,986	43,842
Cost of sales	(10,368)	(12,041)	(17,144)	(22,088)	(27,492)
<b>Gross Profit</b>	5,225	7,553	9,746	12,898	16,350
SG&A expenses	(1,395)	(2,267)	(2,690)	(3,434)	(4,278)
<b>EBIT</b>	3,830	5,286	7,056	9,464	12,072
Finance cost	(932)	(570)	(901)	(963)	(1,000)
Share of profit of associates	197	187	319	453	596
Other income/ (expenses)	159	167	283	437	532
Fair value gain of investment properties	2,135	2,501	0	0	0
Disposal/one-off items	759	(757)	0	0	0
<b>Profit before tax</b>	6,148	6,813	6,756	9,391	12,200
Tax	(2,280)	(3,166)	(2,840)	(3,870)	(4,948)
<b>Profit after tax</b>	3,868	3,648	3,916	5,521	7,252
Minority interest	(531)	(811)	(1,576)	(2,080)	(2,723)
<b>Reported net profit</b>	3,337	2,837	2,341	3,440	4,529
<i>Less: exceptional items</i>	(1,961)	(1,069)	0	0	0
<b>Core net profit</b>	1,376	1,768	2,341	3,440	4,529
<b>Per share</b>					
Core EPS (RMB)	0.35	0.45	0.59	0.87	1.14
DPS (HK\$)	0.25	0.30	0.33	0.46	0.58
Payout ratio (%)	62%	57%	48%	45%	44%
BVPS (RMB)	6.38	6.88	7.18	7.66	8.30
<b>Growth %</b>					
Revenue	9.1%	25.7%	37.2%	30.1%	25.3%
Gross Profit	9.4%	44.5%	29.0%	32.3%	26.8%
EBIT	8.2%	38.0%	33.5%	34.1%	27.6%
Core net profit	-11.0%	28.5%	32.4%	47.0%	31.6%
<b>Margin %</b>					
Gross margin	33.5%	38.5%	36.2%	36.9%	37.3%
Gross margin (post-LAT)	34.0%	36.5%	34.8%	35.0%	35.5%
EBIT margin	24.6%	27.0%	26.2%	27.1%	27.5%
Core net margin	8.8%	9.0%	8.7%	9.8%	10.3%
<b>Key assumptions</b>					
Contracted Sales (RMB mn)	20,882	41,036	54,716	57,146	58,757
GFA sold (mn sqm)	1.56	2.82	3.74	3.87	3.95
ASP (RMB/sqm)	13,369	14,543	14,641	14,777	14,892
Booked Sales (RMB mn)	13,302	16,667	23,302	30,589	38,395
GFA delivered (mn sqm)	1.45	1.42	1.60	2.09	2.60
Booked ASP (RMB/sqm)	9,196	11,732	14,569	14,662	14,756

Source(s): Company, ABCI Securities estimates

**Consolidated balance sheet (2016A-2020E)**

As of Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
<b>Current assets</b>	45,461	76,868	105,938	135,697	160,760
Cash	9,387	14,840	39,818	67,438	82,763
Restricted cash	576	936	936	936	936
Trade & other receivables	10,193	16,260	16,260	16,260	16,260
Property under development	20,761	41,793	45,885	48,024	57,763
Other current assets	4,544	3,039	3,039	3,039	3,039
<b>Non-current assets</b>	50,030	55,187	56,795	58,538	60,423
Property, plant & equipment	3,529	3,371	3,660	3,950	4,239
Investment properties	39,218	45,659	46,659	47,659	48,659
Investment in Associate and JCE	4,187	4,127	4,446	4,899	5,495
Other non-current assets	3,097	2,030	2,030	2,030	2,030
<b>Total Assets</b>	95,491	132,055	162,733	194,235	221,184
<b>Current Liabilities</b>	35,503	58,533	86,475	114,060	135,778
Short-term borrowings	9,756	14,721	16,721	18,721	20,721
Trade & other payables	17,208	20,726	20,726	20,726	20,726
Pre-sales deposits	3,819	16,444	42,387	67,971	87,689
Other current liabilities	4,720	6,642	6,642	6,642	6,642
<b>Non-current liabilities</b>	30,514	40,717	40,717	40,717	40,717
Long-term borrowings	25,780	34,380	34,380	34,380	34,380
Other non-current liabilities	4,734	6,336	6,336	6,336	6,336
<b>Total Liabilities</b>	66,017	99,250	127,192	154,776	176,495
<b>Net Assets</b>	29,474	32,805	35,541	39,459	44,689
<b>Shareholders' Equity</b>	25,337	27,287	28,498	30,385	32,943
Perpetual Capital Instruments	1,722	1,552	1,552	1,552	1,552
Minority Interest	2,415	3,965	5,491	7,521	10,195
<b>Total Equity</b>	29,474	32,805	35,541	39,459	44,689
<b>Key ratio</b>					
Gross debt (RMB mn)	35,536	49,101	51,101	53,101	55,101
Net debt (RMB mn)	25,574	33,326	10,347	(15,273)	(28,597)
Net gearing (%)*	87%	102%	29%	-39%	-64%

\* 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	4,014	5,486	7,266	9,674	12,282
Change in Working Capital	291	(3,097)	24,552	26,333	12,978
Tax payment	(1,032)	(3,166)	(2,840)	(3,870)	(4,948)
<b>Operating cash flow</b>	<b>3,272</b>	<b>(776)</b>	<b>28,978</b>	<b>32,137</b>	<b>20,312</b>
Purchase of PP&E	(256)	(500)	(500)	(500)	(500)
Addition of Investment Properties	(1,217)	(1,000)	(1,000)	(1,000)	(1,000)
Others	(6,714)	167	283	437	532
<b>Investing cash flow</b>	<b>(8,187)</b>	<b>(1,333)</b>	<b>(1,217)</b>	<b>(1,063)</b>	<b>(968)</b>
Debt raised	24,702	13,998	6,000	6,000	6,000
Debt repaid	(8,540)	(4,000)	(4,000)	(4,000)	(4,000)
Interest expenses	(1,952)	(2,958)	(3,603)	(3,851)	(3,998)
Equity raised	0	0	0	0	0
Dividend to shareholders	(543)	(1,017)	(1,130)	(1,553)	(1,971)
Others	(8,339)	1,539	(50)	(50)	(50)
<b>Financing cash flow</b>	<b>5,328</b>	<b>7,563</b>	<b>(2,783)</b>	<b>(3,454)</b>	<b>(4,020)</b>
<b>Net cash inflow/ (outflow)</b>	<b>413</b>	<b>5,453</b>	<b>24,978</b>	<b>27,620</b>	<b>15,324</b>
Cash- beginning	8,974	9,387	14,840	39,818	67,438
<b>Cash- year-end</b>	<b>9,387</b>	<b>14,840</b>	<b>39,818</b>	<b>67,438</b>	<b>82,763</b>

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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