

Powerlong (1238 HK)

A thriving mall leaser in YRD

- As of June 2018, Powerlong had a landbank GFA of 18mn sqm. 2018 and Jan 2019 contracted sales value jumped 97%YoY and 54%YoY to RMB 41bn and RMB3.2bn.
- Recurring income (rental and property management) grew 25% YoY to RMB 1,060mn in 1H18. We expect recurring income to grow at 27% CAGR in 2018-20
- Initiate **BUY** with TP HK\$ 5.20 based on 60% discount to NAV

An urban complex developer in the Yangtze River Delta (YRD) region. Since its listing in 2009, Powerlong has been dedicated to developing and operating large-scale, multi-functional commercial real estate projects. As of June 2018, Powerlong had a landbank GFA of 18mn sqm, an investment properties portfolio of 4.726mn sqm, and hotels with 3,475 rooms in operation. In 2018, contracted sales jumped 97% YoY to RMB 41bn, much faster than the 14-44% YoY growth seen in 2013-17. The Group has stepped up its effort in residential development since 2018; residential sales accounted for 80.1% of total contracted sales in 2018, from 34.0% in 2016 and 63.5% in 2017.

Expanding recurring incomes. As at June 2018, Powerlong operates 36 malls with a total GFA of 4.73mn sqm. Recurring income, which includes rental income and property management fees, ballooned from RMB 701mn in 2013, to RMB 1,804mn in 2017, implying 27% CAGR during the period. Recurring income jumped 25%YoY to RMB 1,060 in 1H18. Fast growth in recurring income has been driven by rising GFA from new malls as well as better operation of existing ones. In 1H18, both sales and traffic of Powerlong's malls rose over 20%YoY. We expects recurring income to increase at 27% CAGR in 2018-20, in-line with management guidance.

Recurring income covered over 80% of finance cost. In 1H18, Powerlong's recurring income of RMB 1,060mn was equivalent to ~85% of gross finance cost. The sizeable recurring cash inflow has helped lower its cost of borrowing from banks and in the bond market. Average cost of debt declined from 6.29% in FY17 to 5.95% in 1H18.

Initiate BUY with TP at HK\$ 5.20. Our valuation is based on the discount-to-NAV method. We apply a WACC of 13.1% to assess the value of individual projects. End-2019E NAV is RMB 44.3bn, or HK\$ 13.07/share. Our TP at HK\$ 5.20 is based on a 60% discount (in line with small-/mid-cap peers) to our NAV estimates and implies 5.5x 2019E P/E and 0.60x 2019E P/B.

Results and Valuation

FY ended Dec 31	2016A	2017A	2018E	2019E	2020E
Revenue (RMB mn)	14,296	15,593	23,780	30,719	38,945
Chg (% YoY)	20.1	9.1	52.5	29.2	26.8
Core profit (RMB mn)*	1,831	1,910	2,263	3,205	4,534
Chg (% YoY)	23.2	4.3	18.5	41.6	41.4
EPS (RMB)	0.46	0.48	0.57	0.81	1.14
Chg (% YoY)	23.1	4.1	18.6	41.6	41.4
BVPS (RMB)	5.7	6.4	6.9	7.4	8.0
Chg (% YoY)	10.6	11.8	8.4	7.2	8.6
P/E (x)	6.7	6.5	5.5	3.9	2.7
P/B (x)	0.55	0.49	0.45	0.42	0.38
ROE (%)	8.1	7.5	8.2	10.9	14.1
ROA (%)	2.3	2.0	2.0	2.5	2.9
DPS (HK\$)	0.16	0.25	0.26	0.36	0.51
Yield (%)	4.37	6.83	7.21	9.93	14.05
Net gearing (%)	76.6	86.8	83.4	33.9	Net cash

Source(s): The Company, ABCI Securities estimates

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

Initiation report

Mar 1, 2019

Rating: BUY

TP: HK\$ 5.20

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Share price (HK\$)	3.66
Est. share price return	42.1%
Est. dividend yield	8.5%
Est. total return	50.6%
Previous Rating & TP	NA
Previous Report Date	NA

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	5.00/2.61
Issued shares (mn)	3,997
Market cap (HK\$ mn)	14,670
Avg daily turnover since listing (HK\$ mn)	4.15
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

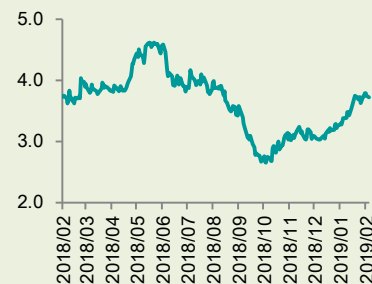
Share Performance (%)

	Absolute	Relative*
1-mth	8.6	4.0
3-mth	18.0	9.4
6-mth	(5.0)	(6.4)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year share performance(HK\$)



Source(s): Bloomberg, ABCI Securities

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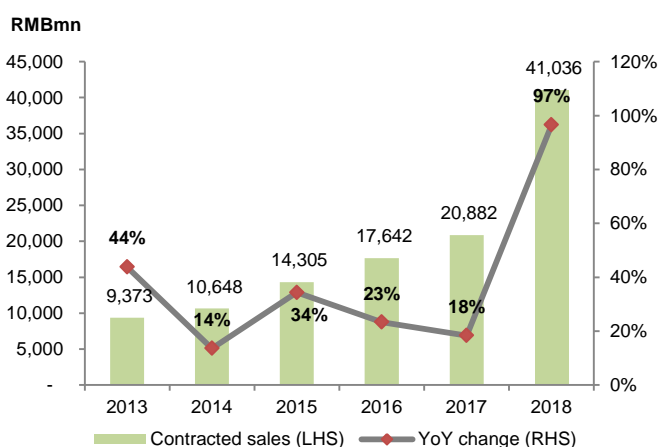
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An urban complex developer in the Yangtze River Delta (YRD) region

An expert in mixed-used development

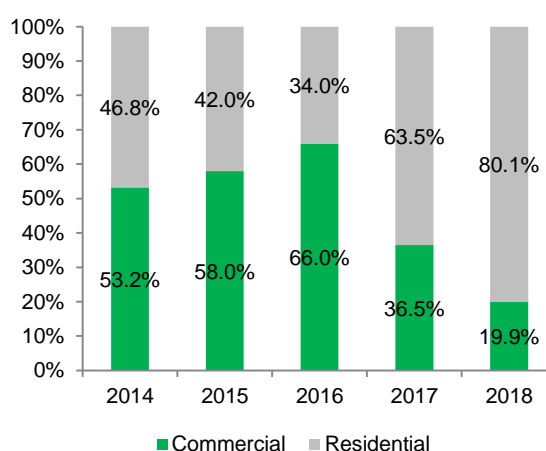
Since its listing in 2009, Powerlong has been developing and operating high large-scale and multi-functional commercial real estate projects. As of June 2018, the Group had a landbank GFA of 18mn sqm, an investment properties portfolio of 4.726mn sqm, and hotels with 3,475 rooms in operation. In 2018, contracted sales jumped 97%YoY to RMB 41bn, much higher than the 14-44%YoY growth observed in 2013-17. The Group has also stepped up its effort in residential developments since 2018, with residential sales taking up 80.1% of total contracted sales in 2018 (2016: 34.0%; 2017: 63.5%)

Exhibit 1: Powerlong's contracted sales



Source(s): The Company, ABCI Securities

Exhibit 2: Powerlong's contracted sales breakdown by property type

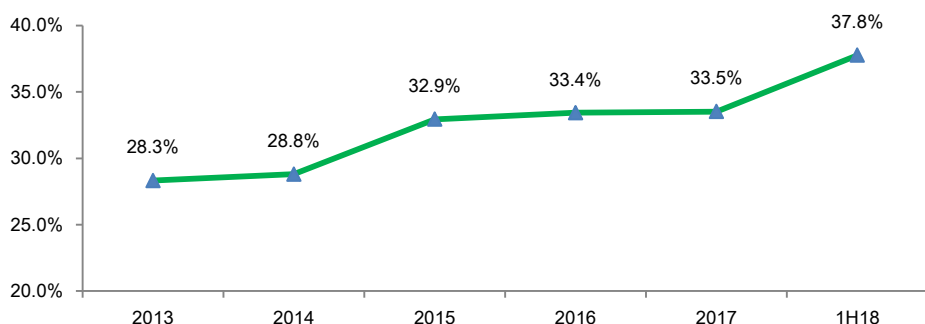


Source(s): The Company, ABCI Securities

Impressive gross margin

Since commercial properties are not subjected to price control and purchase restrictions, Powerlong has more flexibility in adjusting prices in its commercial projects. We estimate gross margin of its commercial projects is ~40%, much higher than 28-30% for residential. While increasing exposure in residential sales reduce some of its pricing ability, Powerlong's gross margin still increased at a steady pace from 28.3% in 2013 to 37.8% in 1H18.

Exhibit 3: Powerlong's gross margin



Source(s): The Company, ABCI Securities

Riding on robust property demand in YRD drove ASP

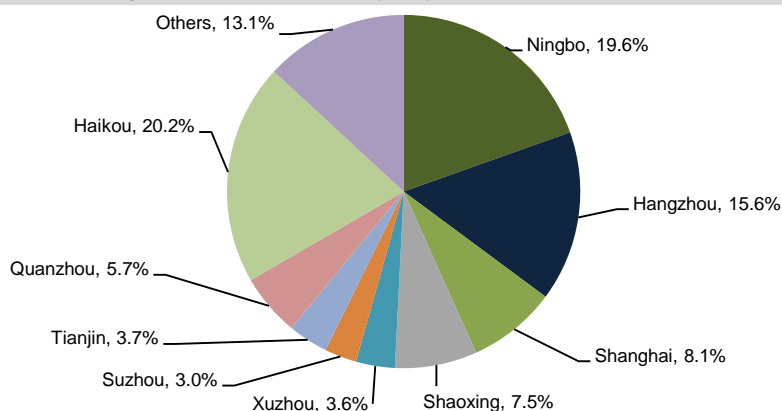
About 70.3% of Powerlong’s landbank is located in YRD. Major tier 1 & 2 cities in YRD, such as Shanghai, Nanjing, Hangzhou, and Ningbo, accounts for 9.4%, 5.2%, 11.1% and 10.4% of the landbank GFA. According to CIRC, property price in Shanghai, Nanjing, Hangzhou and Ningbo grew at 23%, 19%, 18% and 14% CAGRs in 2015-18. Driven by robust property demand in these major YRD cities, Powerlong’s contracted ASP also rose at 16% CAGR in 2015-18.

Exhibit 4: Powerlong’s landbank breakdown (Jun 2018)

Region	Province	City	GFA (mn sqm)	%
Yangtze River Delta	Jiangsu	Shanghai	1.69	9.4%
		Nanjing	0.94	5.2%
		Xuzhou	0.78	4.3%
		Wuxi	0.47	2.6%
		Nantong	0.46	2.6%
		Yancheng	0.46	2.6%
		Zhenjiang	0.43	2.4%
		Changzhou	0.42	2.3%
		Suzhou	0.39	2.1%
		Huaian	0.28	1.5%
	Zhejiang	Hangzhou	2.00	11.1%
		Ningbo	1.87	10.4%
		Wenzhou	0.67	3.7%
		Zhoushan	0.64	3.6%
		Shaoxing	0.57	3.2%
		Jinhua	0.48	2.6%
Anhui	Fuyang	0.11	0.6%	
Bohai Rim	Tianjin	Tianjin	0.72	4.0%
	Shandong	Yantai	0.83	4.6%
		Dongying	0.19	1.1%
		Qingdao	0.13	0.7%
Hainan	Hainan	Haikou	1.85	10.3%
Western Taiwan Strait	Fujian	Quanzhou	0.32	1.8%
		Xiamen	0.32	1.8%
		Zhangzhou	0.24	1.3%
Midwest	Henan	Luoyang	0.49	2.7%
		Xinxiang	0.18	1.0%
	Chongqing	Chongqing	0.01	0.0%
	Sichuan	Bazhong	0.08	0.5%
Total			18.00	100.0%

Source(s): The Company, ABCI Securities

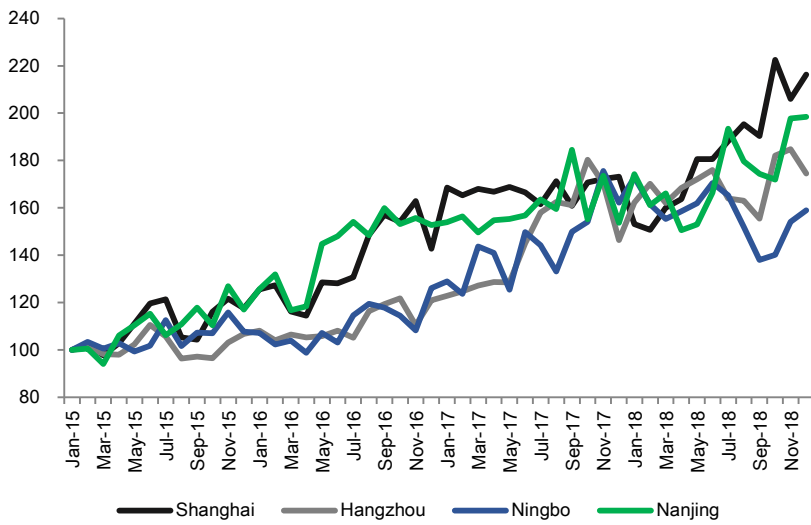
Exhibit 5: Powerlong’s contracted sales by city (1H18)



Source(s): The Company, ABCI Securities

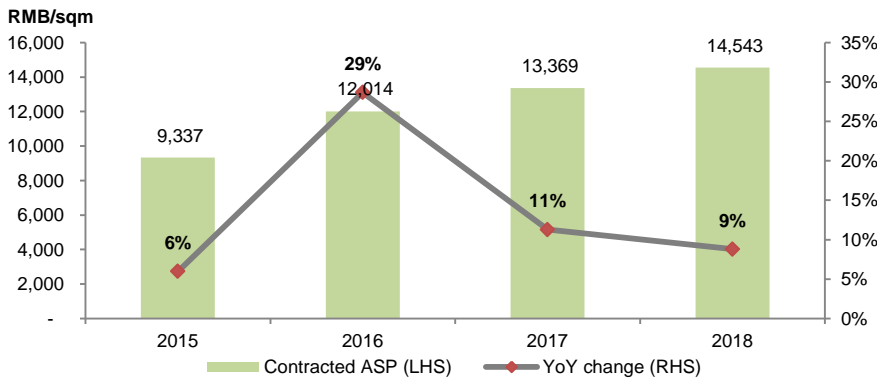


Exhibit 6: Property price index of major cities in YRD (Jan 2015=100)



Source(s): CRIC, ABCI Securities

Exhibit 7: Powerlong's contracted ASP



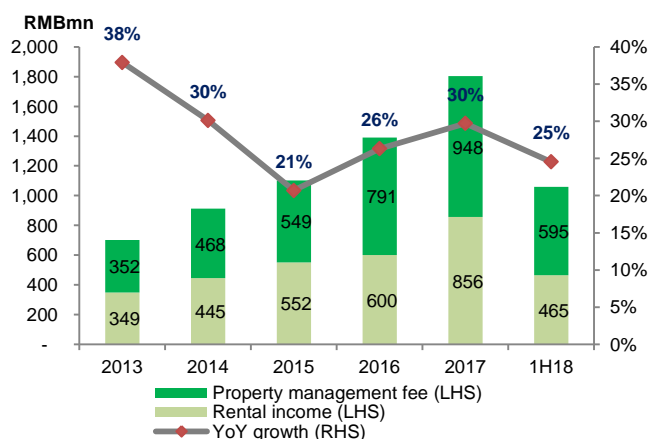
Source(s): Company, ABCI Securities

Rental and property management incomes are expanding fast

Growing number of new malls and higher rent

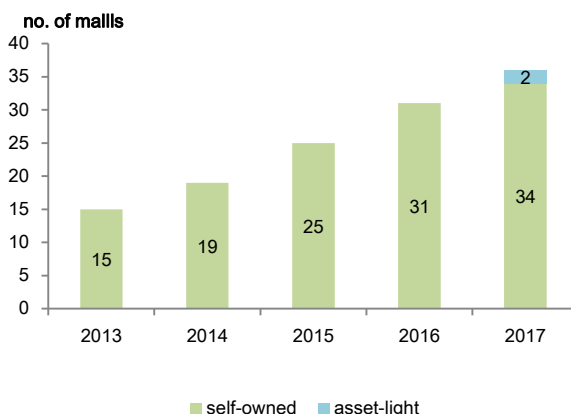
As at June 2018, Powerlong operated and managed 36 malls with a total GFA of 4.73mn sqm. Recurring income, which includes rental income and property management fees, grew from RMB 701mn in 2013, to RMB 1,804mn in 2017, implying 27% CAGR during the period. Recurring income jumped 25% YoY to RMB 1,060mn in 1H18, thanks to rising GFA from new malls and improved operation of existing ones. In 1H18, sales and traffic of Powerlong's malls increased by over 20% YoY. We expect recurring income to grow at 27% CAGR in 2018-2020E, in-line with management's guidance of 25% CAGR.

Exhibit 8: Recurring income- rental plus property management fee income



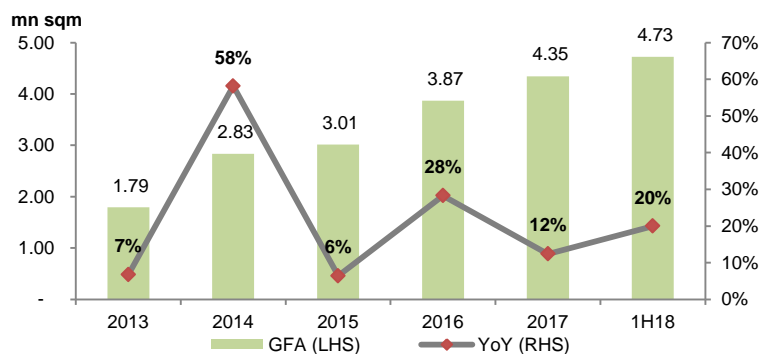
Source(s): The Company, ABCI Securities

Exhibit 9: No. of shopping malls



Source(s): The Company, ABCI Securities

Exhibit 10: GFA of investment properties



Source(s): The Company, ABCI Securities

By 2020, the no. of new malls developed by the Group will reach 55 (+53% from 2017), adding another 1.243mn sqm of GFA (+26% from Jun 2018) to its investment properties portfolio. As the malls are located in residential districts, where the major tenants are grocery stores or from F&B, retail performance would be less sensitive to economic slowdown as compared to malls in CBD area where the major tenants are luxury brands.

Powerlong's management fee income exceeds the rental one. We believe this can be attributable to: 1) increasing management fee from sales of residential projects; 2) the Group may have shifted some of the leasing charges to the management fee due to the lower VAT entailed in the latter (VAT for management fee: 6%; VAT for property

leasing: 10%). Tenants in general are indifferent to the split between management and rental fees as long as the total amount remains unchanged. 3) growing management fee received from asset-light malls, which were owned by third parties

Exhibit 11: Shopping malls pipeline

Year of opening:	GFA(000sqm)
2H18	295
Shanghai Qingpu Powerlong Plaza	100
Xiamen Powerlong Yicheng	120
Jiangyou Powerlong Plaza (Asset-light)	75
2019	555
Shaoxing Powerlong Plaza	60
Shanghai Baoyang Powerlong Plaza	86
Ningbo High-tech Zone Powerlong Plaza	47
Nanjing Longhua Powerlong Plaza	60
Hangzhou Dajiangdong Powerlong Plaza	61
Hangzhou Lin'an Baihufan Project	53
Tianjin Powerlong City	40
Ningbo Yinzhou Powerlong Plaza	55
Hangzhou Lin'an Qingshanhu Project	93
2020	393
Zhoushan Putuo Project	35
Ningbo Ningfeng Railway Project	35
Zhoushan New City Project	88
Jinhua Yongkang Project	67
Shanghai Guozhan Powerlong City	67
Shanghai Yangpu Huanchuang Center	26
Hangzhou Future Sci-Tech City	75
Total	1,243

Source(s): The Company, ABCI Securities

Strategic alliance with Tencent (700 HK)

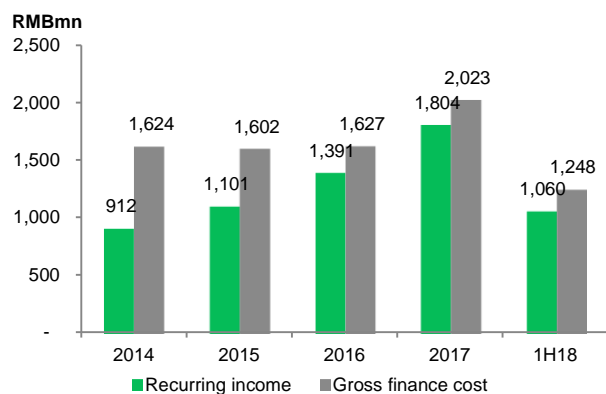
On Dec 26, 2018, Powerlong and Tencent announced cooperation in resource technology, business operation, artificial intelligence, big data, and the launch of "Button Project". Tencent will explore opportunities in applying cloud computing, WeChat payment, mini programmes, AI, location based service (LBS) and IoT in Powerlong's new commercial complexes. Tencent's profound C2B experience and online resources will help Powerlong improve customers' experience, allowing consumers to save time in finding car parks, paying fees and obtaining receipts.

Lower funding cost with asset-backed securities (ABS); recurring income can cover most of the finance cost

In 1H18, Powerlong's recurring income of RMB 1,060mn was equivalent to ~85% of gross finance cost. With the growing recurring cash inflow, Powerlong can obtain lower-cost borrowings from banks and in the bond market. Average cost of debt declined from 6.29% in FY17, to 5.95% in 1H18.

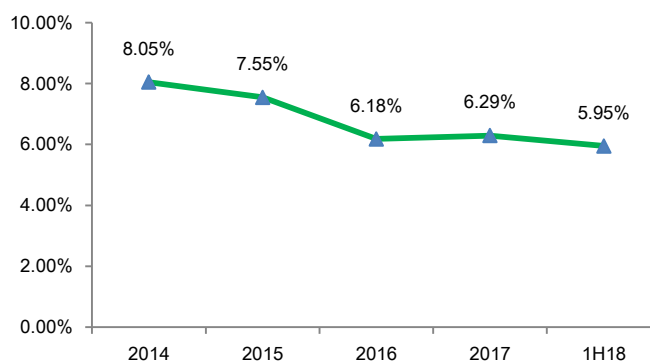
Alternatively, Powerlong can use its property management and rental contracts as collaterals to raise funds at an attractive rate through other financial instruments. In 2016, Powerlong issued RMB 600mn of ABS with a three-year term and an interest rate of 5.3-7.0%, pledged by the Group's rights of receipt of certain rental and property management fees. The trading yield of Powerlong's USD bond maturing at 2021 is around 7.4% as of 1 March 2019.

Exhibit 12: Recurring income and gross finance cost



Source(s): The Company, ABCI Securities

Exhibit 13: Average cost of debt



Source(s): The Company, ABCI Securities

Hotels under multiple brands

A multi-brand strategy

As at June 2018, Powerlong had 16 hotels with 3,475 rooms in operation. Eight hotels are currently managed by international brands such as Le Méridien, Radisson, Aloft or Four Points by Sheraton, while the rest are mainly under its self-operated brand, Artels. Envisaging to become the leader in artistic hotels, the Group expects income to grow at 40% CAGR for next 5 years.

Exhibit 14: Operating hotels by the no. of rooms (June 2018)

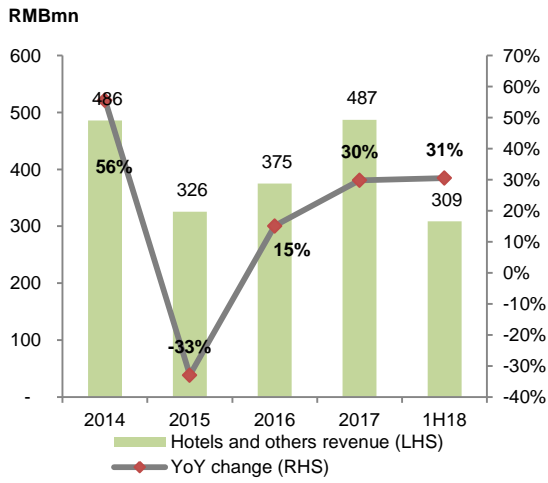
Project	Entrusted management (no of rooms)	Self-operated (no of rooms)	Opening
YRD	1,395	815	
Artels Huaian, Jiangsu	-	92	Jun-17
Le Méridien, Shanghai	240	-	Oct-16
Radisson Exhibition Center Shanghai	226	-	Sep-16
Radisson Blu Shanghai Pudong, Jinqiao	196	-	Jan-16
Artels+ Wujing, Shanghai	-	210	Dec-17
Artels+ Collection, Shanghai	-	184	Jun-17
Aloft Yancheng	296	-	Dec-13
Four Points by Sheraton Taicang	437	-	Jul-10
Juntels Binjiang, Hangzhou	-	175	Dec-17
Artels+ Fuyang Hangzhou	-	154	Nov-17
Bohai Rim	744	170	
Artels Qingdao	-	170	Dec-11
Aloft Haiyang	145	-	Jun-11
Four Points by Sheraton Qingdao Chengyang	302	-	Feb-11
Four Points by Sheraton Tai'an	297	-	Dec-10
Midwest	-	235	
Artels+ Collection Hechuan Chongqing	-	253	Dec-15
Midwest	-	98	
Artels Anxi Quanzhou	-	98	Sep-15
Total	2,139	1,318	

Source(s): The Company, ABCI Securities

Revenue from hotels and other business dropped 33 %YoY in 2015 due to divestment of department store business before the hotel business became a standalone segment in 2015. The segment's revenue increased 15%YoY in 2016, 30%YoY in 2017 and 31%YoY in 1H18 subsequently. To generate meaningful profits, however, we believe the business would need cost restructuring. In 2017 and 1H18, the Group registered a segmental operating loss of RMB 103mn and RMB 83mn. The loss can be partially attributed to the five new hotels in Hangzhou, Shanghai and Huaian that only started operation in 2017. We estimate it would take 2-3 years for the new hotels to achieve a stabilized occupancy and average daily rate. In our view, Powerlong's hotel operation is a business adjunct to its mixed-use complex development- its value lies on brand enhancement and increasing the Group's pricing power in shopping mall leasing and non-residential sales.



Exhibit 15: Revenue from Hotels and other business



Source(s): The Company, ABCI Securities

Exhibit 16: Hotel projects in the pipeline

Hotels	Rooms	Year of opening
Fuyang Baolong Wyndham Grand Plaza Royale	178	2H18
Henan Xinxiang Artels+ Hotel	163	2019
Yantai Penglai Juntel	79	2019
Xiamen W Hotel	280	2019
Zhoushan Lincheng Juntel	280	2020
Zhoushan Pier Juntel	329	2020
Nanjing Gaochun Juntel	300	2020
Yantai Penglai Artels+	168	2020
Qingdao Shaohai Juntel	119	2020
Haikou Artels+ Hotel	439	2020

Source(s): The Company, ABCI Securities

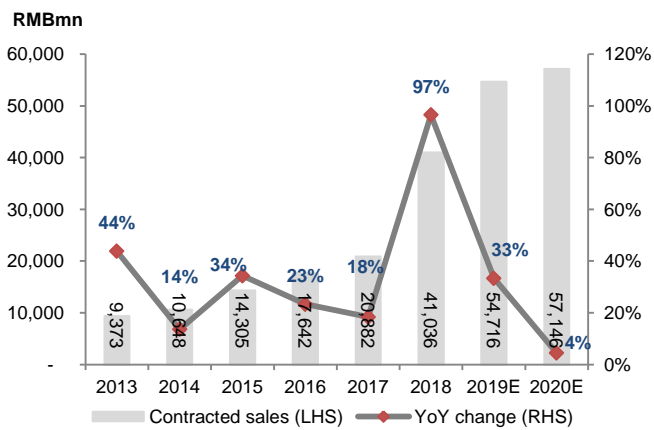


Earnings forecasts

Core net profit to expand at 42% CAGR over 2018E-20E

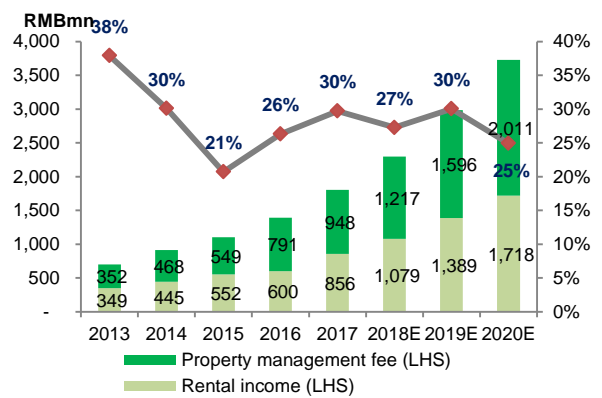
Driven by robust housing demand in YRD and increase in saleable resources, we expect contracted sales to grow 33% in 2019E to RMB 55bn (2018: +97%YoY to RMB 41bn). In 1H18, Powerlong acquired 3.3mn sqm of land at RMB 16.6bn (or RMB 8.1bn on attributable basis) to boost saleable resources by ~RMB 50bn (based on an estimated ASP of RMB~15,000/sqm). Driven by higher contracted ASP (2018: RMB 14,543/sqm, +9%YoY), gross margin would increase from 33.5% in 2017, to 36.2% in 2018. Recurring income would increase at 27% CAGR for 2018-20E, in line with guidance. Overall, we forecast core net profit to rise from RMB 2,263mn in 2018E to RMB 4,534mn in 2020E, representing a 42% CAGR in 2018E-20E.

Exhibit 17: Powerlong's contracted sales



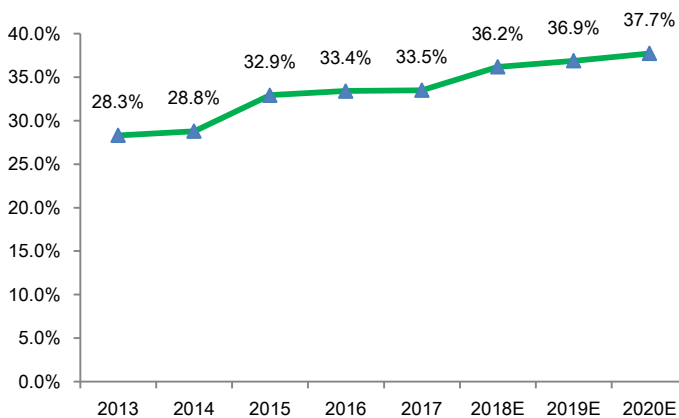
Source(s): The Company, ABCI Securities estimates

Exhibit 18: Powerlong's recurring income



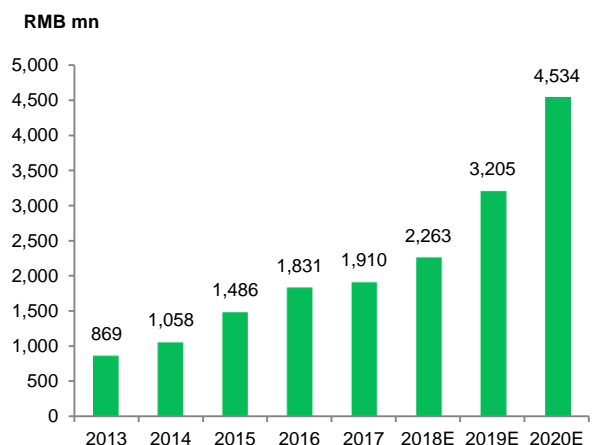
Source(s): The Company, ABCI Securities estimates

Exhibit 19: Powerlong's gross margin



Source(s): The Company, ABCI Securities estimates

Exhibit 20: Powerlong's net profit

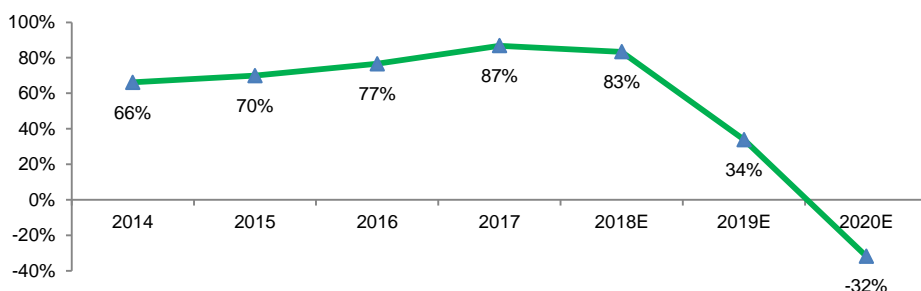


Source(s): The Company, ABCI Securities estimates

Net gearing should decline on contracted sales growth

As investment properties and hotels, which represented ~40% of the Group's total assets as at June 2018, entail a long payback period, Powerlong's net gearing tend to be higher than peers. However, as asset turnover accelerates on contracted sales growth (2018: +97% YoY) driven by residential sales, which accounted for 80.1% of total contracted sales (+16.6ppt YoY), we expect net gearing would trend down from 83% in 2018E to 34% in 2019E, assuming no new acquisitions in 2019.

Exhibit 21: Powerlong's net gearing



Source(s): The Company, ABCI Securities estimates

Exhibit 22: Powerlong's 1H18 results

P&L	1H18	1H17	YoY Chg	Operating statistics	1H18	1H17	YoY
	RMB mn	RMB mn	(%)		(%)		
Turnover	9,284	7,631	21.7	Contracted GFA (mn sqm)	1.16	0.66	76.2
Cost of Sales & direct operating costs	(5,778)	(4,867)	18.7	Contracted ASP (RMB/sqm)	14,087	13,761	2.4
Gross Profit	3,505	2,764	26.8	Contracted Sales (RMB mn)	16,341	9,061	80.3
Gross Margin (%)	37.8	36.2	+1.5ppt	GFA Delivered (mn sqm)	0.72	0.62	16.9
Selling and distribution costs	(357)	(254)	40.3	Booked ASP (RMB/sqm)	10,983	10,612	3.5
Administrative expense	(569)	(483)	17.7	Property sales booked	7,916	6,544	21.0
EBIT	2,580	2,026	27.3				
EBIT Margin (%)	27.8	26.6	+1.2ppt				
Other income, gains and losses	0	0	na	Balance sheet	Jun-18	Dec-17	HoH %
Fair value gain of investment properties	1,002	636	57.6	RMB	RMB mn		
Other exceptional items	(37)	170	na	Gross debt	42,719	35,536	20.2
Share of profit from JCE/ Associates	46	87	na	Cash	13,821	9,962	38.7
Finance cost	(397)	(288)	38.2	Net debt	28,897	25,574	13.0
Profit before tax	3,193	2,631	21.4	Net gearing (%)	94.8%	86.8%	+8.1ppt
Tax	(1,409)	(1,084)	30.0				
- LAT	(602)	(405)	48.7	Revenue breakdown	1H18	1H17	YoY %
- Enterprise tax and others	(807)	(679)	18.9	RMB	RMB mn		
Profit after tax	1,784	1,547	15.3	- Property sales	7,916	6,544	21.0
Minority Interest and distribution to PCI	(453)	(57)	699.2	- Property leasing	465	413	12.4
Net profit	1,330	1,490	(10.7)	- Property management	595	437	36.0
Core net profit	1,227	972	26.2	- Hotels and others	309	237	30.5
Core net margin	13.2	12.7	+0.5ppt	Total	9,284	7,631	21.7

Source(s): The Company, ABCI Securities

Initiate BUY with TP at HK\$5.20 based on 60% discount to NAV

Our valuation for Powerlong is based on the discount-to-NAV method, one of the most common valuation metrics used for PRC developers:

- **Property development:** a DCF analysis with a WACC of 13.1% is applied to assess the value of Powerlong's projects for sales; total value of property development projects arrives at RMB 41.8bn.
- **Investment properties, property management and hotels:** a cap rate of 6.5% is applied to 2019E net rental income for Powerlong's investment properties; a 15x 2019E P/E is used for the valuation of Powerlong's property management business, which is in line with HK-listed PMC average. For hotels, we use 0.4x PB to value the segment, given its loss-making status.

Our end-2019E NAV of RMB 44.3bn (HK\$ 13.07/shr) is derived by subtracting 2019E net debt (RMB 12.4bn) and PCI balance (RMB1.7bn) from the end-2019E GAV of RMB 58.4bn. We apply a 60% discount (in-line with small-mid cap peers) to the 2019E NAV to obtain a TP of HK\$ 5.20. Our target valuation of 5.5x 2019E P/E with a 7.0% yield is higher than small-mid cap peers' average of 4.5x 2019E P/E with an 8.5% yield. We believe Powerlong deserves a valuation premium to peers given: 1) significant recurring income forms a cushion when property market enters a down cycle; 2) sizeable recurring income can ensure the company sufficient cashflow for dividend payments. We expect a payout ratio of ~40% in 2019-20E. Initiate with **BUY**.

Exhibit 23: Powerlong's 2019E NAV

	Attr. GFA (mn sqm)	Net assets value (RMB mn)	% of total	Valuation Method	Implied value per sqm (RMB)
Property development	11.9	41,754	72%	DCF with WACC of 13.1%	3,517
Investment Properties, property management and hotels		16,685	29%	6.5% cap rate on 2019E net rental; 15x 2019E PE for property management 0.4x PB for hotels	
Total 2019E GAV		58,439	100%		
2019E Net cash/ (debt)		(12,406)	-21%		
Perpetual capital instruments		(1,722)	-3%		
Total 2019E NAV		44,310	76%		
No. of share outstanding (diluted)		3,967			
NAV per share (RMB)		11.17			
Ex rate		1.17			
NAV per share (HKD)		13.07			
Target discount (%)		60%			
Target Price (HKD)		5.20			

WACC	13.1%
Cost of debt	9.0%
Cost of equity	20.0%
Debt/ (Debt + Equity)	52%

Source(s): ABCI Securities estimates

Exhibit 24: Valuation of HK-listed China developers

China Property	Ticker	Mkt cap	Share Price	Performance			Discount to NAV	Valuation									
				3M	YTD	2018		P/E			Yield (%)			P/B			
		(HKD bn)	(local ccy)	% Chg	% Chg	% Chg	(%)	2017A	2018E	2019E	2017A	2018E	2019E	2017A	2018E	2019E	
Residential :																	
1	Evergrande#	3333 HK	318.2	24.25	(2)	3	(13)	(23.61)	9.04	6.89	6.07	0.00	7.25	8.24	2.44	2.07	1.77
2	Vanke-H*	2202 HK	358.7	29.80	11	12	30	(34.32)	11.35	8.11	6.78	3.55	4.25	5.13	2.09	1.80	1.53
3	COLI#	688 HK	316.6	28.90	6	7	7	(43.53)	9.76	8.13	6.62	2.77	3.32	4.08	1.19	1.08	0.96
4	Country Garden*	2007 HK	223.8	10.34	7	8	(36)	(49.31)	7.72	5.61	4.37	4.54	6.05	7.83	1.82	1.48	1.10
5	CR Land*	1109 HK	203.1	29.30	1	(3)	31	(33.35)	9.03	8.06	6.92	3.36	4.20	4.99	1.40	1.26	1.11
6	Sunac#	1918 HK	145.1	32.85	26	29	(21)	(58.19)	23.38	9.92	6.93	1.79	1.83	2.62	2.55	2.17	1.73
7	Longfor*	960 HK	138.5	23.30	6	1	18	(43.24)	12.07	9.05	7.26	3.39	4.43	5.60	1.61	1.48	1.28
8	Guangzhou R&F*	2777 HK	47.3	14.68	21	24	(33)	(57.76)	5.31	3.93	3.16	8.80	10.30	12.60	0.62	0.59	0.53
9	Shimao*	813 HK	61.3	18.56	(4)	(11)	23	(59.12)	7.53	5.80	4.49	5.36	6.71	8.46	0.92	0.81	0.72
10	Logan#	3380 HK	61.4	11.18	22	14	21	(48.72)	11.44	7.26	5.88	3.67	5.09	6.29	2.53	2.09	1.74
11	Jinmao#	817 HK	44.0	3.81	2	8	2	(72.22)	10.79	8.57	6.24	6.87	4.68	6.43	1.24	1.14	1.03
12	Agile#	3383 HK	38.4	9.81	(8)	7	(22)	(75.29)	5.72	4.29	3.65	9.17	9.10	10.69	0.90	0.81	0.72
13	Sino Ocean*	3377 HK	28.0	3.67	5	6	(36)	(68.90)	5.92	4.90	4.12	8.46	8.60	10.49	0.48	0.46	0.42
14	CIFI#	884 HK	39.7	5.12	31	23	(12)	(59.49)	7.78	6.03	4.52	4.49	4.94	6.60	1.52	1.40	1.15
15	KWG*	1813 HK	23.4	7.38	6	6	(24)	(76.94)	5.64	4.41	3.47	6.52	8.27	10.26	0.69	0.62	0.54
16	Yuexiu Properties*	123 HK	22.4	1.81	25	26	(1)	(48.29)	10.35	6.65	5.82	5.19	6.29	7.13	0.58	0.54	0.51
17	Yuzhou#	1628 HK	18.4	3.83	12	19	(23)	(66.41)	4.39	3.63	3.14	7.34	9.47	10.98	0.89	0.81	0.69
18	Times Property#	1233 HK	18.7	10.20	40	17	13	(69.30)	6.29	4.47	3.69	4.77	6.71	8.14	1.02	0.88	0.76
19	Aoyuan#	3883 HK	16.5	6.17	23	24	16	(66.85)	7.75	6.00	3.95	4.76	5.00	7.60	1.44	1.23	1.01
20	Powerlong#	1238 HK	14.6	3.66	15	19	(28)	(71.74)	6.48	5.47	3.86	6.83	7.21	9.93	0.49	0.45	0.43
Average					12	12	(3)	(55.52)	9.01	6.41	5.11	4.99	6.13	7.59	1.37	1.20	1.02
- Large cap					8	8	1	(44.71)	10.58	7.28	5.84	3.73	5.37	6.62	1.63	1.42	1.19
- Small-mid cap					16	15	(7)	(65.24)	7.61	5.62	4.45	6.12	6.82	8.46	1.13	1.00	0.86

*Bloomberg's consensus forecast; # ABCI Securities estimates
Source(s): Bloomberg, ABCI Securities estimates



Risk factors

- **Long payback period of shopping malls.** We estimate Powerlong's shopping malls entail a ~10% gross yield on costs, which implies a payback period of ~10 years. An increasing number of shopping malls will drag down asset turnover, which may push up net gearing.
- **Threats from online retail.** As online retail turns popular, rental pricing of Powerlong's shopping malls could be affected upon contract renewal. Online sales of physical goods grew 25.4%YoY in 2018, 16.4ppt higher than total retail sales value growth, representing 18.4% of total retail sales. By GFA, a large proportion of Powerlong's malls are leased to F&B, cinemas, or gyms, whose businesses are less likely to be impacted by online retail.
- **Increasing residential sales may result in higher policy risks.** Residential sales accounted for 80.1% of total contracted sales in 2018, up 16.6ppt YoY. As home prices are highly regulated by the government, Powerlong's ASP could be pressured if new tightening measures are introduced.
- **Loss-making hotel business.** Hotels business registered an operating loss of RMB 83mn in 1H18. The business is highly sensitive to economic environment, meaning that such losses would widen if a downturn occurs.
- **Interest rate risk:** According to Powerlong's 2018 interim report, every 50bps increase in interest rate will result in RMB51mn increase in finance costs.
- **Foreign exchange risk:** As of Jun 2018, Powerlong's borrowings denominated in US\$ or HK\$ amounted to ~RMB10,454 mn, representing 25% of total borrowing. Declining RMB will result in unrealized FX losses in the group's FX debt.

Financial statements

Consolidated income statement (2016A-2020E)

FY Ended Dec 31 (RMB mn)	2016A	2017A	2018E	2019E	2020E
Revenue	14,296	15,593	23,780	30,719	38,945
Cost of sales	(9,517)	(10,368)	(15,174)	(19,385)	(24,243)
Gross Profit	4,778	5,225	8,606	11,334	14,701
SG&A expenses	(1,238)	(1,395)	(1,759)	(2,342)	(2,990)
EBIT	3,540	3,830	6,847	8,992	11,711
Finance cost	(265)	(932)	(1,195)	(1,259)	(1,297)
Share of profit of associates	314	197	459	642	877
Other income/ (expenses)	0	0	0	0	0
Fair value gain of investment properties	1,520	2,135	1,002	0	0
Disposal/one-off items	(402)	918	0	0	0
Profit before tax	4,708	6,148	7,113	8,375	11,291
Tax	(1,959)	(2,280)	(2,770)	(3,348)	(4,428)
Profit after tax	2,749	3,868	4,343	5,027	6,864
Minority interest	(285)	(531)	(1,329)	(1,822)	(2,330)
Reported net profit	2,465	3,337	3,014	3,205	4,534
Less: exceptional items	(634)	(1,427)	(751)	0	0
Core net profit	1,831	1,910	2,263	3,205	4,534
Per share					
Core EPS (RMB)	0.46	0.48	0.57	0.81	1.14
DPS (HK\$)	0.16	0.25	0.26	0.36	0.51
Payout ratio (%)	30%	44%	40%	38%	38%
BVPS (RMB)	5.71	6.38	6.92	7.42	8.12
Growth %					
Revenue	20.1%	9.1%	52.5%	29.2%	26.8%
Gross Profit	21.8%	9.4%	64.7%	31.7%	29.7%
EBIT	31.1%	8.2%	78.8%	31.3%	30.2%
Core net profit	23.2%	4.3%	18.5%	41.6%	41.4%
Margin %					
Gross margin	33.4%	33.5%	36.2%	36.9%	37.7%
Gross margin (post-LAT)	31.7%	34.0%	34.3%	35.2%	36.0%
EBIT margin	24.8%	24.6%	28.8%	29.3%	30.1%
Core net margin	11.2%	8.9%	13.2%	14.3%	15.4%
Key assumptions					
Contracted Sales (RMB mn)	17,642	20,882	41,036	54,716	57,146
GFA sold (mn sqm)	1.47	1.56	2.82	3.74	3.87
ASP (RMB/sqm)	12,014	13,369	14,543	14,641	14,777
Booked Sales (RMB mn)	12,530	13,302	20,802	26,848	34,064
GFA delivered (mn sqm)	1.18	1.45	1.44	1.84	2.32
Booked ASP (RMB/sqm)	10,627	9,196	14,454	14,572	14,680

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2016A-2020E)

As of Dec 31 (RMB mn)	2016A	2017A	2018E	2019E	2020E
Current assets	36,822	45,461	57,667	74,053	100,675
Cash	8,974	9,387	11,144	26,554	54,204
Restricted cash	1,174	576	576	576	576
Trade & other receivables	4,568	10,193	10,193	10,193	10,193
Property under development	20,243	20,761	31,210	32,186	31,158
Other current assets	1,863	4,544	4,544	4,544	4,544
Non-current assets	42,305	50,030	52,807	54,766	56,960
Property, plant & equipment	2,798	3,529	3,845	4,161	4,478
Investment properties	34,353	39,218	41,219	42,219	43,219
Investment in Associate and JCE	2,605	4,187	4,646	5,289	6,166
Other non-current assets	2,549	3,097	3,097	3,097	3,097
Total Assets	79,128	95,491	110,474	128,819	157,635
Current Liabilities	26,656	35,503	45,498	61,687	85,432
Short-term borrowings	7,536	9,756	11,756	13,756	15,756
Trade & other payables	11,234	17,208	17,208	17,208	17,208
Pre-sales deposits	4,073	3,819	11,814	26,003	47,748
Other current liabilities	3,812	4,720	4,720	4,720	4,720
Non-current liabilities	26,532	30,514	32,103	30,514	30,514
Long-term borrowings	22,490	25,780	27,369	25,780	25,780
Other non-current liabilities	4,042	4,734	4,734	4,734	4,734
Total Liabilities	53,187	66,017	77,602	92,201	115,946
Net Assets	25,940	29,474	32,873	36,618	41,689
Shareholders' Equity	22,618	25,337	27,457	29,430	32,221
Perpetual Capital Instruments	1,730	1,722	1,722	1,722	1,722
Minority Interest	1,592	2,415	3,693	5,465	7,745
Total Equity	25,940	29,474	32,873	36,618	41,689
Key ratio					
Gross debt (RMB mn)	30,026	35,536	39,125	39,536	41,536
Net debt (RMB mn)	19,878	25,574	27,405	12,406	(13,244)
Net gearing (%)	77%	87%	83%	34%	-32%

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2016A-2020E)

FY ended Dec 31 (RMB mn)	2016A	2017A	2018E	2019E	2020E
EBITDA	3,699	4,014	7,030	9,175	11,895
Change in Working Capital	(219)	291	(661)	15,100	24,719
Tax payment	(745)	(1,032)	(2,770)	(3,348)	(4,428)
Operating cash flow	2,735	3,272	3,600	20,927	32,186
Purchase of PP&E	(80)	(256)	(500)	(500)	(500)
Addition of Investment Properties	(2,414)	(1,217)	(1,000)	(1,000)	(1,000)
Others	(2,517)	(6,714)	0	0	0
Investing cash flow	(5,011)	(8,187)	(1,500)	(1,500)	(1,500)
Debt raised	9,122	24,702	6,000	6,000	6,000
Debt repaid	(4,742)	(8,540)	(4,000)	(4,000)	(4,000)
Interest expenses	(1,365)	(1,952)	(2,986)	(3,146)	(3,243)
Equity raised	0	0	0	0	0
Dividend to shareholders	(269)	(543)	(895)	(1,232)	(1,743)
Others	2,864	(8,339)	1,539	(1,639)	(50)
Financing cash flow	5,610	5,328	(342)	(4,018)	(3,036)
Net cash inflow/ (outflow)	3,334	413	1,758	15,410	27,650
Cash- beginning	5,640	8,974	9,387	11,144	26,554
Cash- year-end	8,974	9,387	11,144	26,554	54,204

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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