

# Dexin China (2019 HK)

## Strong sales growth to support earnings turnaround

Dexin delivered 10% YoY decline in 1H21 net profits mainly due to further GP margin erosion to 22% (-4.9ppt YoY), higher effective tax rate at 35% (vs. 25% in 1H20) and MI ratio at 54% (vs. 48% in 1H20). Looking forward, we think further GPM downward is limited and it may stay at 20-23% range. Also, this can stabilize the tax rate (especially LAT). Therefore with the strong sales growth (52% in 7M21) and improving attributable ratio to 50%, the earning could be back to growth trajectory in 2022. It is currently trading at 1x 2021E PB.

- 2021 sales set to beat target:** The Company has recorded very strong sales in 7M21 at RMB47bn (+52% YoY) thanks to the solid momentum in Hangzhou and YRD region. It has completed 64% of full year target vs. industry average of only 54%. We think it has a higher chance to beat its sales target and reach RMB80bn, implying 27% YoY given still resilient market in its key battle area. Looking forward, it has abundant land market of 20mn sq m (worth of RMB400bn) with 75% in the YRD region and we think it will achieve RMB100bn scale by 2022, earlier than its original target by 2023. This would provide solid top line growth for the financial results even with gross margin staying at 20-23% range.
- Healthier Balance sheet:** In 1H21, the Company further improved its balance sheet according to the requirements of three red lines. Cash/short-term debt stayed relatively stable at 1.4x while net gearing and liability/asset (excl. contracted liability) improved to 72.4% (75% in 2020) and 73.6% (74% in 2020). This has led to Dexin's lower funding rate to 8.1% in 1H21 from 8.9% in 2020. Things to note are: 1) MI remains large at 75% of shareholder's equity; 2) land/sales ratio at 63% in 1H21, higher than the soft requirement of PBOC as the Company acquired 27 plots with total land costs of RMB27bn (attributable ratio at 50%).
- 1H21 earnings highlight:** Dexin delivered a strong revenue growth of 69% YoY to RMB15.7bn thanks to the fast-growing sales in 2017/18. However GP Margin continued to be under pressure and declined to 22% in 1H21 vs. 27% in 1H20, which is in line with the industry trend. Gross profits grew 38% YoY to RMB2.85bn. Due to higher effective tax rate at 36% in 1H21 (25% in 1H20) and MI ratio to 54% (48% in 1H21), 1H21 net profits declined by 10% YoY to RMB640mn accounting for 56% of our full year estimate (vs. 59% in 1H/FY20). Net margin declined by 4.2ppt YoY to 4.8%, in line with GPM trend. No interim dividend was declared, same as last year.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	8,212	9,513	15,669	19,322	27,388
YoY growth (%)	0.0	15.8	64.7	23.3	41.7
Net income (RMB mn)	1,453	1,556	1,193	1,124	1,297
EPS (RMB)	0.71	0.60	0.37	0.42	0.48
YoY growth (%)	N.A.	-16.4	-37.4	11.2	15.3
Consensus EPS (RMB)	0.71	0.60	0.37	0.45	0.50
P/E (x)	3.5	4.1	6.6	5.7	5.2
P/B (x)	2.0	1.3	1.1	1.0	0.9
Yield (%)	3.1	6.0	4.7	6.4	7.2
ROE (%)	58.8	31.0	20.4	16.9	17.2
Net gearing (%)	67.5	68.6	75.0	66.0	60.4

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

Target Price **HK\$3.56**  
(Previous TP **HK\$3.56**)  
Up/Downside **+24.0%**  
Current Price **HK\$2.87**

### China Property Sector

#### Jeffrey Zeng

(852) 3916 3727

jeffreyzeng@cmbi.com.hk

#### Stock Data

Mkt Cap (HK\$ mn)	7,753
Avg 3 mths t/o (HK\$ mn)	3.63
52w High/Low (HK\$)	3.30/ 2.72
Total Issued Shares (mn)	2,701

Source: Bloomberg

#### Shareholding Structure

Hu Yiping	69.9%
Free float	30.1%

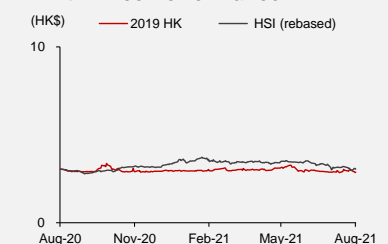
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	-0.7%	5.6%
3-mth	-8.3%	3.1%
6-mth	-5.6%	10.5%
12-mth	-4.3%	-5.1%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Figure 1: 1H2021 results summary

RMB mn	1H20	1H21	YoY	1H/2020	1H/2021E
<b>Revenue</b>	<b>7,757</b>	<b>13,071</b>	<b>69%</b>	<b>50%</b>	<b>68%</b>
Gross profit	2,070	2,850	38%		
EBIT	1,662	2,251	35%		
PBT	1,800	2,145	19%		
Tax	457	767	68%		
MI	643	748	16%		
<b>Net profit</b>	<b>700</b>	<b>630</b>	<b>-10%</b>	<b>59%</b>	<b>56%</b>
EPS (RMB)	0.26	0.23	-12%		
<b>GP Margin</b>	<b>26.7%</b>	<b>21.8%</b>	<b>-4.9 ppt</b>		
<b>Net Margin</b>	<b>9.0%</b>	<b>4.8%</b>	<b>-4.2 ppt</b>		
	<b>FY20</b>	<b>1H21</b>	HoH		
<b>Net Gearing</b>	75.0%	72.4%	-2.6 ppt		
<b>Liability to Asset (excl. presales)</b>	74.0%	73.6%	-0.4 ppt		
<b>Cash / ST Debt</b>	1.4 x	1.4 x	-3 ppt		

Source: Company data, CMBIS

## Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Revenue</b>	<b>8,212</b>	<b>9,513</b>	<b>15,669</b>	<b>19,322</b>	<b>27,388</b>	Profit before tax	2,867	2,981	3,105	3,181	3,664
Property development	8,171	9,446	15,550	19,170	27,200	Depreciation and amortization	12	19	34	38	43
Property investment	27	55	100	131	163	Change in working capital	(3,710)	(35)	(2,392)	(2,201)	(2,571)
Hotel	14	12	18	22	25	Income tax paid	(250)	(418)	(845)	(933)	(1,071)
Cost of sales	(5,089)	(6,454)	(11,767)	(14,804)	(21,269)	Others	(1,870)	(2,715)	-	-	-
<b>Gross profit</b>	<b>3,123</b>	<b>3,059</b>	<b>3,902</b>	<b>4,518</b>	<b>6,119</b>	<b>Net cash from operating</b>	<b>(2,952)</b>	<b>(169)</b>	<b>(98)</b>	<b>86</b>	<b>65</b>
Other income and gains	94	171	323	130	130	Capex	(274)	(806)	(480)	(500)	(520)
Distribution expenses	(294)	(458)	(458)	(869)	(1,232)	Associates/JV	(721)	(1,672)	(1,500)	(1,000)	(1,000)
Administrative expenses	(452)	(721)	(747)	(1,063)	(1,506)	Other	3,453	(1,658)	(1,500)	(1,000)	(1,000)
Other expenses	192	186	(27)	-	-	<b>Net cash from investing</b>	<b>2,457</b>	<b>(4,136)</b>	<b>(3,480)</b>	<b>(2,500)</b>	<b>(2,520)</b>
<b>Operating profit</b>	<b>2,663</b>	<b>2,238</b>	<b>2,994</b>	<b>2,716</b>	<b>3,510</b>	Equity raised	-	1,429	-	-	-
Finance expenses	(375)	(432)	(481)	(634)	(646)	Change of Debts	4,229	5,025	5,208	1,701	1,088
Associates/JV	579	1,175	593	1,100	800	Dividend paid	(472)	(270)	(216)	(358)	(337)
Exceptional	-	-	-	-	-	Other	274	195	3,583	2,150	2,580
<b>Pre-tax profit</b>	<b>2,867</b>	<b>2,981</b>	<b>3,105</b>	<b>3,181</b>	<b>3,664</b>	<b>Net cash from financing</b>	<b>4,031</b>	<b>6,379</b>	<b>8,575</b>	<b>3,493</b>	<b>3,330</b>
Profits tax	(1,026)	(725)	(845)	(933)	(1,071)	Net change in cash	3,536	2,073	4,997	1,079	876
After-tax profit	1,841	2,257	2,260	2,248	2,593	Cash at the beginning	3,951	7,487	9,564	14,561	15,640
Minority interest	(388)	(700)	(1,068)	(1,124)	(1,297)	Exchange difference	-	4	-	-	-
Perpetual	-	-	-	-	-	<b>Cash at the end</b>	<b>7,487</b>	<b>9,564</b>	<b>14,561</b>	<b>15,640</b>	<b>16,515</b>
<b>Net profit</b>	<b>1,453</b>	<b>1,556</b>	<b>1,193</b>	<b>1,124</b>	<b>1,297</b>	Pledged deposit	-	-	-	-	-
<b>Core profit</b>	<b>1,453</b>	<b>1,556</b>	<b>1,011</b>	<b>1,124</b>	<b>1,297</b>	Cash at BS	7,487	9,564	14,561	15,640	16,515

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E	YE 31 Dec	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Non-current assets</b>	<b>4,830</b>	<b>8,091</b>	<b>8,310</b>	<b>8,768</b>	<b>9,283</b>	<b>Sales mix (%)</b>					
Fixed asset	268	379	375	371	368	Property development	99.5	99.3	99.2	99.2	99.3
Investment properties	1,768	2,924	3,375	3,841	4,323	Property investment	0.3	0.6	0.6	0.7	0.6
Associates/JV	0	0	0	0	0	Hotel	0.2	0.1	0.1	0.1	0.1
Intangible assets	1	1	1	1	1	<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Other non-current assets	2,792	4,787	4,559	4,554	4,592	<b>Profit &amp; loss ratios (%)</b>					
<b>Current assets</b>	<b>44,780</b>	<b>59,196</b>	<b>73,100</b>	<b>80,404</b>	<b>90,161</b>	Gross margin	38.0	32.2	24.9	23.4	22.3
Cash	7,488	9,570	14,561	15,640	16,515	EBIT margin	32.4	23.5	19.1	14.1	12.8
Account receivable	2,703	3,513	5,596	6,901	9,781	Net margin	17.7	16.4	7.6	5.8	4.7
Inventories	28,030	37,249	41,079	44,000	48,000	Effective tax rate	35.8	24.3	27.2	29.3	29.2
Other current assets	6,559	8,864	11,864	13,864	15,864	<b>Balance sheet ratios</b>					
<b>Current liabilities</b>	<b>38,039</b>	<b>45,902</b>	<b>54,233</b>	<b>58,309</b>	<b>65,247</b>	Current ratio (x)	1.2	1.3	1.3	1.4	1.4
Borrowings	5,355	5,540	6,094	6,399	6,719	Receivable day	120.1	134.8	130.4	130.4	130.4
Trade and other payables	2,668	4,324	7,844	9,870	14,179	Payable day	191.4	244.5	243.3	243.3	243.3
Contract liabilities	20,921	27,628	27,628	27,628	27,628	Inventory day	2010.5	2106.7	1274.3	1084.8	823.7
Deferred taxation	969	1,242	1,242	1,242	1,242	Net gearing ratio (%)	67.5	68.6	75.0	66.0	60.4
Other current liabilities	8,126	7,168	11,424	13,171	15,479	<b>Returns (%)</b>					
<b>Non-current liabilities</b>	<b>4,701</b>	<b>10,651</b>	<b>14,656</b>	<b>16,656</b>	<b>18,046</b>	ROE	58.8	31.0	20.4	16.9	17.2
Borrowings	4,424	9,308	13,962	15,358	16,126	ROA	2.9	2.3	1.5	1.3	1.3
Other non-current liabilities	277	1,343	694	1,298	1,920	<b>Per share data</b>					
<b>Shareholders' equity</b>	<b>2,473</b>	<b>5,013</b>	<b>5,848</b>	<b>6,635</b>	<b>7,543</b>	EPS (RMB)	0.71	0.60	0.37	0.42	0.48
Minority interest	4,395	5,721	6,674	7,572	8,608	DPS (RMB)	0.09	0.18	0.14	0.19	0.22
Perpetual bond	0	0	0	0	0	BVPS (RMB)	1.22	1.92	2.16	2.46	2.79
Total equity	6,869	10,735	12,522	14,207	16,150						

Source: Company data, CMBIS estimates

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## Disclaimer

CMBIS or its affiliate(s) have investment banking relationship with the issuers covered in this report in preceding 12 months.

## CMBIS Ratings

<b>BUY</b>	: Stock with potential return of over 15% over next 12 months
<b>HOLD</b>	: Stock with potential return of +15% to -10% over next 12 months
<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
<b>NOT RATED</b>	: Stock is not rated by CMBIS
<b>OUTPERFORM</b>	: Industry expected to outperform the relevant broad market benchmark over next 12 months
<b>MARKET-PERFORM</b>	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
<b>UNDERPERFORM</b>	: Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

**CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.