

China SCE (1966 HK)

Solid 1H21 Results

- 2021 results highlight:** China SCE delivered strong 1H21 results with core earnings growth of 20.1% YoY to RMB2.21bn. Revenue increased 35% YoY to RMB20.39bn in 1H21 mainly driven by its main business property development (+34% YoY) and partially enhanced by the 82% YoY growth in PM segment. However, GP margin eroded 2.9ppt to 25.1% in 1H21. With the help of improving operating leverage (SG&A/Revenue was down 2ppt YoY to 7% in 1H21) which narrowed NPM decrease to 11.7% in 1H21 (-2.3ppt YoY). EPS was RMB1.56/share (+11% YoY) and the Company declared an RMBD0.10/share (+9% YoY) interim dividend (17.7% payout ratio).
- Balance Sheet within Green Category:** The Company has stayed within the green category with liability to Asset (excluding presales) at 69.5% (68.7% in FY20), net gearing at 77.9% (59.2% in FY20) and cash to short-term debt at 1.2x (1.3x in FY20). In 1H21, average financing costs was 6.3% (-0.4ppt from 6.7% in 1H20). The increase in net gearing (+18.7ppt YoY) was due to cash balances reduction to RMB19.7bn (-16% YoY) and the increase of total debt to RMB50.6bn in 1H21 (+9% YoY). The decrease in cash also had its effect on cash to short-term debt coverage ratio, which decreased to 1.2x. Overall, the Company has successfully maintained in the green category with a healthy balance sheet.
- Land Acquisition and Sales Update:** China SCE acquired 19 new projects in 16 cities with total GFA of 5.57mn sq m and attributable land cost of RMB26.251bn (+71% YoY) with attributable ratio of 83.5% in 1H21 vs 79% in 1H20, which accounts for 44% of total contracted sales. As of 1H21, China SCE had land bank in 67 cities with total GFA of 39.67mn sq m (attributable GFA 28.13mn sq m). Average land cost was RMB5,642/sq m, which is equivalent to 35% (+4ppt from 29% in 1H20) of contracted sales ASP of RMB15,931 /sq m in 1H21.
- Maintain BUY:** The Company is currently trading at 2.7x 2021E PE, lower than its 5Y historical average of 4.4x and 1SD-below-average of 3.7x PE. PB is at 0.52x 2020. Please tune in for the Company's conference call at 9:30am today at the following link:

<https://miracle-plus.com/01966/20210830/default.html>

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	17,783	21,370	32,573	37,566	43,802
YoY growth (%)	10.4	20.2	52.4	23.7	16.6
Net income (RMB mn)	3,385	3,510	3,803	4,383	5,484
EPS (RMB)	0.88	0.84	0.91	1.04	1.31
YoY growth (%)	9.9	-4.4	8.3	16.1	25.1
Consensus RPS (RMB)	N.A.	N.A.	N.A.	0.96	1.17
P/E (x)	2.9	3.0	2.8	2.5	2.0
P/B (x)	0.6	0.6	0.5	0.5	0.4
Yield (%)	6.8	7.8	9.4	11.7	14.6
ROE (%)	21.9	20.0	18.1	18.5	19.8
Net gearing (%)	60.4	60.0	59.2	62.0	61.5

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$5.60
(Previous TP)	HK\$5.60)
Up/downside	+80.6%
Current Price	HK\$3.10

China Property Sector

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Stock Data

Mkt Cap (HK\$ mn)	13,089
Avg 3 mths t/o (HK\$ mn)	23.72
52w High/Low (HK\$)	4.18/ 2.64
Total Issued Shares (mn)	4,222

Source: Bloomberg

Shareholding Structure

Wong Chiu Yeung	50.05%
Chen Yuanlai	5.93%
Cheng Hiu Lok	5.45%
Free float	38.57%

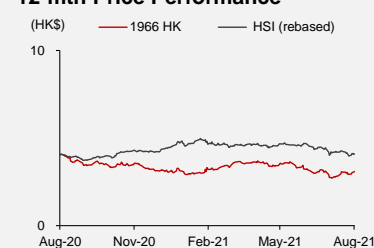
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	4.8%	8.0%
3-mth	-12.8%	0.0%
6-mth	-4.7%	8.7%
12-mth	-26.3%	-26.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Figure 1: 1H21 interim results

RMB mn	1H20	1H21	YoY	1H/2020	1H/2021E
Revenue	15,135	20,387	35%	46%	54%
- Property development	14,686	19,708	34%	47%	54%
- Property investment	154	207	34%	49%	51%
- Property management	233	425	82%	44%	61%
- Project management	61	46	-25%	36%	22%
Gross profit	4,225	5,110	21%	54%	49%
Net profit	2,114	2,377	12%	56%	54%
Core profit	1,840	2,210	20%		
EPS (RMB)	0.51	0.56	11%	56%	54%
DPS (RMB)	0.09	0.10	9%	31%	28%
Dividend payout ratio	18.0%	17.7%	-0.4 ppt		
GP Margin	27.9%	25.1%	-2.9 ppt		
Net Margin	14.0%	11.7%	-2.3 ppt		
	FY20	1H21			
Net Gearing	59.2%	77.9%			
Liability to Asset (excl. presales)	68.7%	69.5%			
Cash / ST Debt	1.3 x	1.2 x			

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
Revenue	17,783	21,370	32,573	37,566	43,802	EBIT	4,836	4,823	6,008	8,148	9,810
Property development	17,225	20,453	31,554	36,250	42,240	D&A	42	96	109	148	155
Property investment	131	285	315	403	484	Change in working capital	-2,034	-15,276	-9,163	-7,300	-9,400
Property management	337	458	532	699	838	Income tax paid	-1,653	-1,467	-1,650	-2,833	-2,802
Project management	91	174	172	215	241	Others	3,091	4,736	1,318	6,049	5,846
Cost of sales	-11,636	-15,478	-24,709	-27,217	-31,729	Net cash from operating	4,282	-7,088	-3,378	4,213	3,609
Gross profit	6,147	5,892	7,864	10,349	12,073	Capex	-1,825	-1,502	-1,015	-4,261	-3,050
Other income and gains	387	1,156	1,252	279	277	Associates/JV	-3,576	-4,701	-2,080	-700	-1,700
Distribution expenses	-398	-516	(759)	-676	-701	Other	-3,262	-250	-1,224	-136	-136
Administrative expenses	-1,299	-1,616	(2,094)	-1,803	-1,840	Net cash from investing	-8,663	-6,453	-4,319	-5,097	-4,886
Other expenses	0	-92	(255)	0	0	Equity raised	521	225	99	0	0
Operating profit	4,836	4,823	6,008	8,148	9,810	Change of Debts	10,399	8,732	10,277	2,500	1,400
Finance expenses	-402	-528	(683)	-877	-913	Dividend paid	-1,098	-1,076	-917	-1,059	-1,377
Associates/JV	535	154	642	362	450	Other	1,767	9,251	-3,727	0	0
Exceptional	1,083	1,405	597	0	0	Net cash from financing	11,590	17,132	5,732	1,441	23
Pre-tax profit	6,052	5,854	6,563	7,634	9,347	Net change in cash	7,208	3,591	-1,965	557	-1,254
Profits tax	-2,376	-1,831	-2,117	-2,833	-3,402	Cash at the beginning	8,145	15,515	19,151	19,089	19,656
Minority interest	-233	-478	-642	-418	-460	Exchange difference	162	45	6	10	10
Perpetual	-58	-35	0	0	0	Cash at the end	15,515	19,151	17,191	19,656	18,412
Net profit	3,385	3,510	3,803	4,383	5,484	Pledged deposit	4,458	4,748	4,985	4,748	4,748
Core profit	2,200	2,650	3,206	4,383	5,484	Cash at BS	19,973	23,899	22,176	24,404	23,160

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E	YE 31 Dec	FY18A	FY19A	FY20A	FY21E	FY22E
Non-current assets	39,277	52,638	59,088	60,643	64,838	Sales mix (%)					
Fixed asset	681	827	827	880	915	Property development	96.9	95.7	96.9	96.5	96.4
Investment properties	20,270	22,632	29,329	32,100	35,000	Property investment	0.7	1.3	1.0	1.1	1.1
Associates/JV	5,839	9,900	14,641	15,100	16,800	Property management	1.9	2.1	1.6	1.9	1.9
Intangible assets	3	3	3	3	3	Project management	0.5	0.8	0.5	0.6	0.5
Other non-current assets	12,484	19,277	14,287	12,560	12,120	Total	100.0	100.0	100.0	100.0	100.0
Current assets	62,214	96,744	111,527	120,484	130,660	Profit & loss ratios (%)					
Cash	19,973	23,899	23,400	24,404	23,160	Gross margin	34.6	27.6	24.1	27.5	27.6
Account receivable	5,258	9,232	9,640	12,800	14,800	Pre-tax margin	27.2	22.6	18.4	21.7	22.4
Inventories	31,344	57,158	72,447	76,500	85,400	Net margin	19.0	16.4	11.7	11.7	12.5
Other current assets	5,640	6,455	6,040	6,780	7,300	Effective tax rate	39.3	31.3	32.3	37.1	36.4
Current liabilities	54,226	85,049	94,054	106,100	113,600	Balance sheet ratios					
Borrowings	10,537	12,295	13,840	15,000	14,400	Current ratio (x)	1.1	1.1	1.2	1.1	1.2
Trade and other payables	18,277	27,393	25,617	34,800	36,300	Receivable day	107.9	157.7	108.0	124.4	123.3
Contract liabilities	21,540	34,902	45,696	43,000	49,000	Payable day	375.1	467.9	287.1	338.1	302.5
Deferred taxation	2,600	2,953	3,555	3,800	4,100	Inventory day	983.2	1347.9	1070.2	1025.9	982.4
Other current liabilities	1,273	7,505	5,346	9,500	9,800	Net gearing ratio (%)	62.3	60.0	59.2	62.0	61.5
Non-current liabilities	25,125	34,047	37,408	36,950	39,250	Returns (%)					
Borrowings	22,800	29,782	32,723	33,000	35,000	ROE	21.9	20.0	18.1	18.5	19.8
Other non-current liabilities	2,325	4,265	4,685	3,950	4,250	ROA	3.3	2.3	2.2	2.4	2.8
Shareholders' equity	15,482	17,579	20,998	23,677	27,648	Per share data					
Minority interest	5,957	12,707	18,154	14,400	15,000	EPS (RMB)	0.88	0.84	0.91	1.04	1.31
Perpetual bond	700	0	0	0	0	DPS (HK\$)	0.21	0.24	0.29	0.36	0.45
Total equity	22,139	30,286	39,153	38,077	42,648	BVPS (RMB)	4.05	4.30	5.00	5.63	6.58

Source: Company data, CMBIS estimates

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