

Sinic Holdings (2103 HK)

Profitability over scale after achieving more balanced land bank

Sinic delivered a steady growth in 1H21 with core earnings up 7% YoY to RMB730mn. Balance sheet remains relatively stable thanks to disciplined land acquisitions in 1H21 (only at 8% of its sales). Looking forward, we think Sinic will continue to deep root in 4 regions to focus on profitability and deliver a 15-20% YoY attributable sales growth in 2021/22E with RMB200bn attributable land bank. This would provide a solid base for its earnings growth (driven by revenue) as we think GP margin has bottomed in 1H21 and will stay at 22%.

- 1H21 results highlight:** Sinic delivered 1H21 results with core earnings growth of 7.4% YoY to RMB730mn. Revenue increased 29% YoY to RMB11.22bn. GP margin eroded 8.5ppt to 21.7% in 1H21 due to the increased land cost of properties delivered during this period. With the help of decreasing effective tax rate to 50% in 1H21 (-11ppt from 61% in 1H20), net margin eroded only 2.6ppt to 6.8%. EPS was RMB0.21/share (-9% YoY).
- GP Margin bottomed:** The Company's gross profit declined 7% YoY to RMB2.4bn and the corresponding GP margin declined 8.5ppt YoY to 21.7% in 1H21. We think GPM has bottomed and will stay stable as the GPM of its unbooked revenue (RMB60bn attributable) is at 22%.
- Balance sheet maintained and will reach green category within 1 year:** The Company has stayed within the yellow category with liability to asset (excluding presales) at 73.5% (73.2% in FY20) above the required 70%, net gearing at 50.5% (63.6% in FY20) and cash to short-term debt at 1.4x (1.2x in FY20) within RRR requirements. We think it will reach green category within 1 year given disciplined land acquisitions. In 1H21, weighted average financing cost was at 8.7% (-1.6ppt YoY). Contracted liability increased 40% HoH to RMB36bn in 1H21.
- Disciplined Land acquisition in 1H21 to put profitability over scale:** Sinic cut back its land acquisitions in 1H21 and only acquired 5 plots (7 plots in 1H20), 2 in Jiangxi and 3 in YRD. Attributable land cost was RMB2.18bn (-77% YoY) with average land cost at RMB4.3k/sq m (-24% YoY). Attributable land cost accounted for 8% of attributable contracted sales. We are positive on this move given 1) higher profitability with lower land costs; 2) budgets can be saved for more opportunities in 2H21. 1H21 cash collection was at 78% with sell-through rate at 65%.
- Maintain Buy.** The Company is trading at 5.4x 2021E PE below its 5Y historical average of 5.9x PE and 1SD-Below-Average of 5.3x PE.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	8,416	26,985	28,069	29,743	32,003
YoY growth (%)	60.6	220.7	4.0	7.9	7.6
Net income (RMB mn)	414	1,958	1,960	2,231	2,299
EPS (RMB)	0.14	0.64	0.55	0.62	0.64
YoY growth (%)	NA	362.5	-14	7.3	3.1
Consensus EPS (RMB)	NA	NA	NA	0.64	0.72
P/E (x)	24.9	5.4	6.3	5.6	5.4
P/B (x)	NA	1.4	1.3	1.1	1.0
Yield (%)	NA	3.6	3.9	4.3	4.5
ROE (%)	9.7	24.0	19.9	19.6	17.5
Net gearing (%)	237.9	67.0	63.6	71.5	74.6

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$4.95
(Previous TP)	HK\$4.95)
Up/Downside	+17.9%
Current Price	HK\$4.20

China Property Sector

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Stock Data

Mkt Cap (HK\$ mn)	14,281
Avg 3 mths t/o (HK\$ mn)	10.02
52w High/Low (HK\$)	4.58/ 3.79
Total Issued Shares (mn)	3,570

Source: Bloomberg

Shareholding Structure

Zhang Yuanlin	83.19%
Public	16.81%

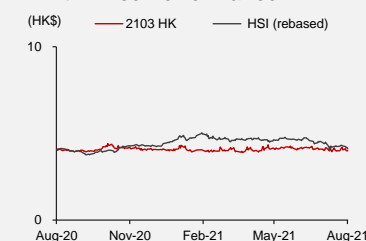
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-2.2%	5.9%
3-mth	-3.1%	7.1%
6-mth	-0.5%	17.7%
12-mth	-2.0%	-3.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Figure 1: 1H21 results summary

RMB mn	1H20	1H21	YoY	1H/2020	1H/2021E
Revenue	8,703	11,219	29%	31%	38%
- Property development	8,410	10,846	29%	31%	37%
- Other	293	373	27%	45%	124%
Gross profit	2,630	2,438	-7%	38%	30%
Net profit	822	764	-7%	42%	34%
Core profit	680	730	7%		
EPS (RMB)	0.23	0.21	-9%	42%	34%
DPS (RMB)	-	-			
Dividend payout ratio	-	-			
GP Margin	30.2%	21.7%	-8.5 ppt		
Net Margin	9.4%	6.8%	-2.6 ppt		
	FY20	1H21			
Net Gearing	63.6%	50.5%			
Liability to Asset (excl. presales)	73.2%	73.5%			
Cash / ST Debt	1.2 x	1.4 x			

Source: Bloomberg, 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	8,416	26,985	28,069	29,743	32,003	EBIT	2,121	6,479	5,492	5,424	5,541
Sale of properties	8,389	26,807	27,414	29,442	31,611	D&A	20	58	55	21	21
Others	26	178	655	301	392	Change in working capital	(15,834)	1,900	(3,587)	(11,509)	(17,309)
Cost of sales	(5,273)	(18,986)	(21,209)	(21,568)	(23,490)	Taxation	(1,075)	(1,311)	(1,307)	(2,532)	(2,558)
Gross profit	3,143	7,999	6,860	8,175	8,513	Others	16,493	(10,964)	9,383	(541)	1,424
Other income and gain	112	153	200	173	180	Operating cash flows	1,725	(3,839)	948	(9,137)	(12,882)
Selling and marketing expenses	(658)	(1,077)	(956)	(1,844)	(1,984)	Capex & Investment, net	(174)	(1,350)	119	(178)	(177)
Administrative Expenses	(430)	(569)	(580)	(1,041)	(1,120)	Associated companies	(961)	(8,549)	(3,142)	(3,147)	(2,176)
Other operating expenses	(46)	(27)	(33)	(39)	(47)	Others	(185)	637	(392)	-	-
EBIT	2,121	6,479	5,492	5,424	5,541	Investing cash flows	(1,320)	(9,261)	(3,414)	(3,325)	(2,353)
Share from JCE	39	102	65	147	176	Equity raised	-	1,973	-	-	-
Finance costs	(426)	(456)	(565)	(560)	(604)	Change of debts	5,351	4,395	1,674	3,112	3,000
Exceptional	129	140	134	-	-	Dividend	-	-	(464)	(520)	(558)
PROFIT BEFORE TAX	1,863	6,264	5,086	5,011	5,113	Others	(1,526)	10,256	1,304	-	-
Income tax	(1,309)	(4,250)	(3,048)	(2,532)	(2,558)	Financing cash flows	3,825	16,625	2,513	2,592	2,442
PROFIT FOR THE YEAR	555	2,014	2,038	2,479	2,555	Net change in cash	4,230	3,525	47	(9,869)	(12,792)
Non-controlling interests	(141)	(57)	(78)	(248)	(255)	Cash at the beginning	2,877	7,084	10,559	11,662	1,810
Net profit to shareholders	414	1,958	1,960	2,231	2,299	Exchange difference	(24)	(50)	320	17	17
Core profit	317	1,853	1,860	2,231	2,299	Cash at the end	7,084	10,559	10,925	1,810	(10,965)
						Pledged cash	2,982	6,040	6,610	7,118	5,394
						Cash at balance sheet	10,066	16,599	17,535	8,929	(5,571)
Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Current assets	67,887	77,864	76,636	104,489	123,019	Sales mix (%)					
Properties inventory	47,655	51,790	47,813	71,472	89,080	Property development	99.7	99.3	97.7	99.0	98.8
Due from related parties	5,112	4,796	6,010	5,400	5,400	Others	0.3	0.7	2.3	1.0	1.2
Cash and cash equivalents	10,066	16,599	17,535	21,094	22,014	Total	100.0	100.0	100.0	100.0	100.0
Others	5,055	4,679	5,277	6,523	6,525	Profit & loss ratios (%)					
Non-current assets	9,720	18,360	19,992	25,472	27,804	Gross margin	37.3	29.6	24.4	27.5	26.6
PP&E	114	91	73	90	98	EBIT margin	25.2	24.0	19.6	18.2	17.3
Investment properties	1,153	1,751	2,395	2,550	2,700	Net margin	4.9	7.3	7.0	7.5	7.2
Investment in JCEs	4,574	13,225	14,382	19,493	21,669	Effective tax rate	70.2	67.8	59.9	50.5	50.0
Others	3,879	3,293	3,142	3,339	3,337	Growth (%)					
Total assets	77,608	96,224	96,628	129,961	150,823	Revenue	60.6	220.7	4.0	7.9	7.6
Current liabilities	59,549	66,260	61,961	91,288	107,170	Gross profit	77.9	154.5	-14.2	6.3	4.1
Trade and other payables	3,142	5,457	6,908	7,000	7,300	EBIT	98.1	205.5	-15.2	8.8	2.2
Contract liabilities	40,196	34,231	25,586	52,457	68,039	Net profit	335.2	373.4	0.1	7.3	3.1
Amount due to	1,400	5,957	5,133	6,800	6,800	Balance sheet ratios					
ST loan	9,225	11,645	14,095	16,000	16,000	Current ratio (x)	1.1	1.2	1.2	1.1	1.1
Others	5,586	8,969	10,239	9,031	9,031	Payables turnover days	218	105	119	73	73
Non-current liabilities	12,998	15,068	15,603	19,225	22,225	Inventory turnover days	3,299	996	823	1,210	1,384
LT loan	12,878	14,928	15,567	19,000	22,000	Net debt / total equity ratio (%)	237.9	67.0	63.6	71.5	74.6
Others	120	140	36	225	225	Returns (%)					
Total liabilities	72,547	81,328	77,564	110,513	129,395	ROE	9.7	24.0	19.9	19.6	17.5
Equity to shareholders	4,244	8,167	9,865	11,400	13,124	ROA	0.7	2.1	2.1	1.9	1.7
Non-controlling interests	817	6,729	9,198	8,048	8,303	Per share					
Total equity	5,060	14,896	19,064	19,448	21,428	EPS (RMB)	0.14	0.64	0.55	0.62	0.64
						DPS (RMB)	NA	0.13	0.14	0.16	0.16
						BVPS (RMB)	NA	2.3	2.8	3.2	3.7

Source: Company data, CMBIS estimates

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