

KWG (1813 HK)

How to repay US\$900mn debt due in Sep?

KWG is currently trading at 0.2x PB which has somehow priced in all the negatives: delay in audited report due to discrepancy of RMB22bn on non-restricted cash, -39% YoY decline in 2021 core earnings, 10% YoY decrease in 2022E sales target and **mounting debts in 2022E**. Now the hope is whether they can get additional HKD3-4.5bn financing from its Ap Lei Chau project, which can at least get closer to repay its USD900mn bond due in Sep. This may also depend on HK property market and banks' liquidity which are affected by US rate hike and challenging China economy.

- Softer guidance and weaker margins.** KWG only achieved RMB104bn pre-sales for 2021, missing its annual sales target by 16%. Due to tough market, management has guided softer for 2022 with target sales of RMB90-95bn (-8/-13% YoY) depending on the sell through rate (targeting 55-60%) on its RMB160bn sellable resource. It has 15% sellable resources exposure to Yangtze River delta which is impacted by the COVID so there could be more downside. GPM decreased 10.3ppts to 21.2% in 2021 from 31.5% in 2020. This decrease was in line with market trend together with RMB800mn impairment (if added back, GPM at 25%) and sale of parking spaces with low GPM at 7-8%, fragging down overall GPM. GPM guidance for 2022 is 25-30%, but may be difficult to see much upside given still tough market.
- Debt pressure piled in 2022.** KWG stayed within the Yellow category with liability to Asset (excluding presales) at 74.3% (75.1% in FY20), net gearing at 79.2% (61.7% in FY20) and cash to short-term debt at 1.4x (1.6x in FY20). Cash was down 34% YoY to RMB29bn (RMB46bn in 2020) causing net gearing and coverage ratio to deteriorate. The Company has RMB20.3bn due within 2022 (US\$900mn due September 2022) and has already repaid RMB6.2bn by April. Management thinks their top priority is to repay all debts due this year: RMB1.7bn CMBS in July and USD900mn debt in Sep.
- Eyes on Ap Lei Chau financing to repay USD900mn debt:** Together with Logan, the Company has 295 units (on average 2300sqf per unit and HKD50k/sqf) in Ap Lei Chau project worth HK\$30bn+ sellable resources under current market condition. It has been financed at 30% LTV and company hopes to add 20-30% financing to get 50-60% LTV. If successful, it will be able to release HK\$3-4.5bn (50/50% split with Logan). However, this would not be able to fully cover its US\$900mn (HK\$7bn) offshore bond due September. So extra help may be needed from onshore such as disposal of office buildings.
- Land acquisition update:** The Company cut back on land acquisitions in 2021, only acquiring 6 plots (-71% YoY) with RMB5.6bn (-76% YoY). Its new acquisition attributable ratio and consolidation also went down to 72%/75% from 82%/93% in 2020. As of Apr2022, they have not bought any plots.
- Valuation.** The Company is currently trading at 0.2x 2021 PB, which is already at a distress level for the mounting debt pressure. We **remain BUY** rating as there is still hope to get financing from Ap Lei Chau project. However, to reflect current market, we used 0.25x 2022E PB and derived a new TP at HK\$3.22 per share.

BUY (Maintain)

Target Price	HK\$3.22
(Previous TP)	HK\$17.87)
Up/downside	+24.3%
Current Price	HK\$2.59

China Property Sector

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Stock Data

Mkt Cap (HK\$ mn)	8,245
Avg 3 mths t/o (HK\$ mn)	65.58
52w High/Low (HK\$)	12.07/ 2.21
Total Issued Shares (mn)	3,184

Source: Bloomberg

Shareholding Structure

Kong Jian Min	62.74%
Free float	37.26%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-20.6%	-14.8%
3-mth	-42.2%	-29.5%
6-mth	-62.8%	-51.5%
12-mth	-79.3%	-69.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernest & Young

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue (RMB mn)	23,942	29,742	23,845	41,102	43,733
YoY growth (%)		24.2	-19.8	72.4	6.4
Core income (RMB mn)	9,806	6,677	3,979	5,541	5,528
EPS (RMB)	3.09	2.10	0.76	1.74	1.74
YoY growth (%)		-32.0	-63.8	129.5	-0.3
Consensus EPS (RMB)	N.A.	N.A.	N.A.	1.83	1.93
P/E (x)	0.7	1.0	2.8	1.2	1.2
P/B (x)	0.2	0.2	0.2	0.2	0.1
Yield (%)	26.1	34.4	43.3	17.2	55.8
ROE (%)	14.0	27.4	15.3	5.5	11.2
Net gearing (%)	66.4	75.4	61.7	79.2	60.4

Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: 2021 results

RMB mn	2020	2021	YoY
Proportionate Revenue	46,814	44,283	-5%
Gross profit	14,274	10,326	-28%
Net profit	6,380	3,980	-38%
Core profit	6,514	3,979	-39%
EPS (RMB)	2.10	0.76	-64%
DPS (RMB)	0.93	0.37	-60%
Dividend payout ratio	44.3%	48.7%	4.4 ppt
Attributable GP Margin	31.0%	23.3%	-7.6 ppt
Attributable Net Margin	13.6%	9.0%	-4.6 ppt
Net Gearing	61.7%	79.2%	
Liability to Asset (excl. presales)	75.1%	74.3%	
Cash / ST Debt	1.6 x	1.4 x	

Source: Company data, CMBIGM

The Company recorded core profit RMB4bn (-39% YoY), below our 2021E estimate of RMB8bn by 50%. Proportionate revenue (including JV & Associates) decreased 5% to RMB44bn. Attributable GP margin eroded to 23.3% (-7.6ppts YoY) due to higher sales commission which drove up operating leverage (SG&A/revenue ratio from 9% in 2020 to 15% in 2021), and NPM eroded 12.3ppts in 2021 to 9.0%. EPS was RMB0.76/share (-64% YoY) and the Company decided not to declare a final dividend this year. Interim dividend was RMB 0.37/share (48.7% payout ratio, +4.4ppts YoY).

Figure 2: KWG Valuation



Source: BBG

Figure 3: Comps table

Company	Ticker	Last price (LC)	Mkt Cap (LC mn)	TP (LC)	P/E			PB	Dividend Yield	
					20A	21A	22E	21A	21A	22E
Vanke - H	2202 HK	17.76	246,116	33.92	4.5	4.0	3.8	0.7	7%	7%
COLI	688 HK	24.15	264,317	30.49	6.0	5.8	5.1	0.6	5%	6%
Country Garden	2007 HK	5.19	120,140	13.36	3.2	2.4	2.1	0.5	10%	8%
CR Land	1109 HK	34.20	243,878	44.79	8.2	7.7	7.0	1.1	5%	5%
Longfor	960 HK	38.10	231,485	52.59	11.2	7.6	7.3	1.8	5%	6%
Shimao	813 HK	4.42	16,786	44.94	1.2	1.0	0.9	0.1	26%	29%
Agile	3383 HK	3.53	13,827	13.89	1.4	1.4	1.3	0.2	21%	19%
KWG	1813 HK	2.59	8,245	17.87	1.0	2.8	1.2	0.2	31%	29%
Times China	1233 HK	2.59	5,444	16.20	1.0	0.7	0.6	0.1	33%	24%
China SCE	1966 HK	1.33	5,615	5.60	1.5	1.3	1.0	0.2	23%	23%
Redsun	1996 HK	2.58	8,981	3.52	5.2	4.1	3.5	0.5	6%	8%
Vanke - A	000002 CH	18.23	205,459	31.36	4.7	4.1	3.9	1.0	7%	6%
Radiance	9993 HK	4.20	16,990	5.55	4.7	4.2	3.4	0.5	8%	10%
Dafa	6111 HK	3.88	3,195	8.32	9.5	5.1	4.5	0.8	NA	NA
Dexin	2019 HK	2.82	7,618	3.56	7.6	6.7	5.9	1.1	7%	7%
Average					4.7	3.9	3.4	0.6	13.9%	13.4%

Source: CMBIGM

Figure 4: Ap Lei Chau project



Source: CMBIGM

Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21A	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	23,942	29,742	23,845	41,102	43,733	EBIT	7,738	8,201	2,780	7,056	6,747
Property sales	22,762	28,487	22,192	39,483	42,000	D&A	263	292	NA	428	449
Rental	627	801	957	910	983	Change in working capital	(845)	(7,056)	NA	(1,000)	(1,692)
Hotel	553	454	696	709	750	Income tax paid	(1,172)	(1,610)	NA	(3,172)	(3,040)
Property management	0	0	0	0	0	Others	(2,943)	1,304	NA	3,746	3,747
Cost of sales	(16,496)	(20,383)	(18,799)	(31,307)	(34,146)	Net cash from operating	3,042	1,131	2,780	7,058	6,210
Gross profit	7,446	9,359	5,046	9,794	9,587	Capex	(2,588)	(3,374)	NA	(2,100)	(1,967)
Other income and gains	2,854	1,628	1,788	1,951	2,101	Associates/JV	(9,012)	(370)	NA	(3,000)	(4,000)
Distribution expenses	(1,006)	(1,222)	(1,808)	(1,808)	(1,881)	Other	0	0	NA	0	0
Administrative expenses	(1,551)	(1,561)	(1,839)	(2,877)	(3,061)	Net cash from investing	(11,601)	(3,745)	NA	(5,100)	(5,967)
Other expenses	(4)	(3)	(405)	(4)	0	Equity raised	0	0	NA	0	1
Operating profit	7,738	8,201	2,780	7,056	6,747	Change of Debts	8,774	(11,986)	NA	(254)	(1,897)
Finance expenses	(1,531)	(1,034)	(303)	(1,068)	(1,053)	Dividend paid	(1,767)	(2,539)	NA	(3,272)	(3,813)
Associates/JV	3,445	2,481	2,266	3,150	3,300	Other	279	6,716	NA	0	1
Exceptional	3,716	415	(662)	0	0	Net cash from financing	7,286	(7,809)	NA	(3,526)	(5,708)
Pre-tax profit	13,368	10,063	4,081	9,138	8,993	Net change in cash	(1,272)	(10,423)	(11,188)	(1,568)	(5,465)
Profits tax	(3,497)	(3,398)	(1,518)	(3,172)	(3,040)	Cash at the beginning	52,578	51,378	40,636	38,130	36,562
Minority interest	(250)	(225)	(142)	(425)	(425)	Exchange difference	73	(319)	0	0	0
Perpetual	0	0	0	0	0	Cash at the end	51,378	40,636	29,447	36,562	31,098
Net profit	9,621	6,440	2,421	5,541	5,528	Pledged deposit	5,356	5,834	5,834	5,834	5,833
Core profit	9,806	6,677	3,979	5,541	5,528	Cash at BS	56,734	46,470	29,447	42,396	36,931

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21A	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21A	FY22E	FY23E
Non-current assets	84,578	94,396	108,538	104,759	110,434	Sales mix (%)					
Fixed asset	6,411	7,780	9,173	8,200	8,250	Property sales	95.1	95.8	93.1	96.1	96.0
Investment properties	27,263	29,321	29,954	33,500	35,000	Rental	2.6	2.7	4.0	2.2	2.2
Associates/JV	47,667	52,211	62,263	56,000	60,000	Hotel	2.3	1.5	2.9	1.7	1.7
Intangible assets	0	0	0	0	1	Property management	0.0	0.0	0.0	0.0	0.0
Other non-current assets	3,237	5,085	7,148	7,059	7,183	Total	100.0	100.0	100.0	100.0	100.0
Current assets	129,745	137,802	123,711	131,941	129,976	Profit & loss ratios (%)					
Cash	56,734	44,580	29,447	36,562	31,098	Gross margin	31.1	31.5	21.2	23.8	21.9
Account receivable	9,568	11,729	16,997	12,500	13,000	Pre-tax margin	32.3	27.6	11.7	17.2	15.4
Inventories	62,690	80,614	76,181	82,000	85,000	Net margin	41.0	22.4	10.2	13.5	12.6
Other current assets	753	878	1,085	878	878	Effective tax rate	26.2	33.8	37.2	34.7	33.8
Current liabilities	109,672	121,114	112,166	117,595	118,867	Balance sheet ratios					
Borrowings	23,728	25,255	20,334	19,896	18,000	Current ratio (x)	1.2	1.1	1.1	1.1	1.1
Trade and other payables	9,072	13,166	13,348	14,500	16,308	Receivable day	145.9	143.9	260.2	111.0	108.5
Contract liabilities	27,627	31,746	39,925	31,746	31,798	Payable day	138.3	161.6	204.3	128.8	136.1
Deferred taxation	9,926	12,285	13,067	13,000	13,000	Inventory day	1387.1	1443.5	1479.1	956.0	908.6
Other current liabilities	39,318	38,662	25,493	38,453	39,761	Net gearing ratio (%)	75.4	61.7	79.2	60.4	64.2
Non-current liabilities	66,408	57,168	60,381	58,097	58,527	Returns (%)					
Borrowings	61,850	52,605	56,385	53,527	53,527	ROE	27.4	15.3	5.5	11.2	10.8
Other non-current liabilities	4,559	4,563	3,996	4,569	5,000	ROA	25.6	12.4	4.1	9.1	8.8
Shareholders' equity	35,795	43,535	44,321	49,299	51,013	Per share data					
Minority interest	2,448	10,382	15,381	11,709	12,000	EPS (RMB)	3.09	2.10	0.76	1.74	1.74
Perpetual bond	0	0	0	0	0	DPS (RMB)	0.74	0.93	0.37	1.20	1.20
Total equity	38,243	53,917	59,702	61,008	63,013	BVPS (RMB)	11.27	13.69	13.93	15.52	16.05

Source: Company data, CMBIS estimates

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