

Longfor Properties (960.HK)

Strong Contracted Sales Paves Road for Rapid Growth

Hong Kong | Property | Company report

21 July 2017

Investment Summary

- Achieved very strong sales in 1H2017, completing about 84% of the annual sales target, with a YoY growth of 140%
- Active replenishment of the land in Tier 1 Cities and Tier 2 Cities, which normally have strong demand for properties

Company Overview

Strong acceleration in contracted sales in 1H2017: Longfor Properties continued its strong momentum in sales in 1H2017. Until June 2017, the accumulated contracted sales of FY2017 had a YoY growth of 140%, with a total amount of CNY92.63Bn and total sales area of 5.95Mn square metres, completing 84.2% of the FY2017 annual sales target, which is CNY110Bn. In fact, the contracted sales in FY2017 accelerated so quickly that it exceeded the full year contracted sales of FY2016, which is CNY88.14Bn, in just 6 months. In addition, in FY2017, the aggregate saleable resources worth about CNY170Bn, indicating that Longfor Properties has the ability to meet the strong demand despite the better than expected sales. Given the strong sales and the healthy financial condition of Longfor Properties, we have revised the target price of Longfor Properties to HK\$20.35.

Active participant in the land market: Longfor Properties continues to be active in the land market in FY2017. Throughout the first half of FY2017, Longfor Properties obtained more than 30 new projects, and achieved milestones by expanding the coverage of the company from 26 cities in FY2016 to 31 cities in the first half of FY2017. In particular, the company successfully obtained projects in the cities of Guangdong-Hong Kong-Macau Greater Bay Area, i.e. Hong Kong and Shenzhen, allowing the company to take advantage of the national development policy as well as to increase the strategic presence in the Southern China region.

Project	Type	Interest	Gross GFA (Sq. M.)	Attributable Cost/Sq. M.
Sha Tau Kok, Shenzhen	Commercial	100%	1,350,000	CNY35,757
Kai Tak, Hong Kong	Residential	50%	53,500	HKD135,229

Source: Longfor Properties

Longfor Properties continued its strategies of mainly targeting at Tier 1 Cities and Tier 2 Cities, both of which usually have strong demand for housing due to the economic development and increase in population, in its land bank replenishment. Selected new projects are as follow:

Project	Type	Interest	Gross GFA (Sq. M.)	Attributable Cost/Sq. M.
Gaoliying, Beijing	Residential	20%	156,700	CNY31,300
Qinglonghu, Beijing	Residential	20%	210,500	CNY26,657
Changle, Fuzhou*	Residential	70%	131,400	CNY2,500
Lanbao, Hangzhou	Residential	100%	21,000	CNY5,804
Beitang, Tianjin,	Residential	100%	173,000	CNY14,797
Lingang Industrial Park, Shanghai	Residential	77%	333,400	CNY6,425

Source: Longfor Properties

*: First project in the city

Accumulate

CMP HKD19.00

(Closing price at 19 Jul 2017)

TARGET HKD20.35 (+7.11%)

COMPANY DATA

O/S SHARES (MN) :	5,881
MARKET CAP (HKDMN) :	111,749
52 - WK HI/LO (HKD):	19.28 / 9.50

SHARE HOLDING PATTERN , %

Wu Yajun	44.11
Cai Kui	26.51
Woo Kwong Ching peter	6.00

PRICE PERFORMANCE , %

	1M	3M	1Y
Longfor Properties	22.27	40.53	79.24
HSI	2.89	11.95	21.89

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY15	FY16	FY17E	FY18E
Net Sales	47,423	54,799	66,030	78,356
Net Profit	9,364	9,935	10,983	12,519
EPS, CNY	1.8112	1.7447	1.8675	2.1285
PER, x	5.97	5.91	10.17	9.40
BVPS, CNY	11.1128	11.7503	12.9270	14.2496
P/BV, x	1.06	0.94	1.47	1.40
ROE, %	16.3	14.8	14.4	14.9

Source: Company reports, Phillip Securities Est.

John Wong (2277 6527)
johnycwong@phillip.com.hk

Investment property segment remains strong: Longfor Properties's investment properties are solely shopping malls assets and had a strong performance. In FY2016, the company's investment property segment had a GFA of 1,938,418 square metres. The investment property business has 3 different business lines targeting at different consumer group. Paradise Walk series, Starry Street series and MOCO series are metropolitan shopping malls, community shopping malls and high end shopping malls respectively and they regularly achieves high occupancy rate, averaging 95.1% in FY2016. The company currently has 6 investment property construction projects, all of which are shopping malls of the Paradise Walk series and are expected to commence business in either FY2017 or FY2018.

Project	Completion Date	GFA (Sq. M.)
Chongqing Hometown Paradise Walk	FY2017	93,343
Suzhou Shishan Paradise Walk	FY2017	190,553
Hangzhou Binjiang Paradise Walk	FY2017	158,067
Chongqing U-City Paradise Walk	FY2017	102,365
Shanghai Baoshan Paradise Walk	FY2017	96,803
Changzhou Longcheng Paradise Walk	FY2018	119,139
Total		760,270

Source: Longfor Properties

Recorded low borrowing cost of new senior note: Longfor Properties's borrowing cost continued its past decreasing trend. In FY2016, the weighted average borrowing cost of Longfor Properties was 4.92%, being the fifth consecutive year of the decreasing borrowing cost.

	2012	2013	2014	2015	2016
Borrowing cost	6.72%	6.58%	6.40%	5.74%	4.92%

Source: Longfor Properties

In July 2017, Longfor Properties took a step further in decreasing borrowing cost by issuing a US\$450Mn 3.875% senior notes due in FY2022. The coupon rate of this issue is the lowest borrowing cost in the history of Longfor Properties, indicating the strength of the company's financial position.

Investment Thesis, Valuation and Risk

Our valuation model suggests a target price of HK\$20.35: Longfor Properties achieved a very strong sales and completed about 84% of the annual sales target in FY2017. Moreover, Longfor Properties has been active in the land market and actively acquiring land in Tier 1 Cities and Tier 2 Cities, both of which have a strong demand for housing due to both increasing population and economic development. Therefore, a target price of HK\$20.35, corresponding to a P/E and P/B of 10.17x and 1.47x respectively, has been assigned, with an 'Accumulate' rating assigned.

Downside Risks	(1): Tightening policy in Chinese property market (2): Possible high cost to acquire land in public market in both Hong Kong and China
-----------------------	---

Financials

FYE	2014	2015	2016	2017F	2018F
Valuation Ratios					
Price Earnings (P/E)	5.35	5.97	5.91	10.17	9.40
Price to Book (P/B)	1.13	1.06	0.94	1.47	1.40
Per Share Data (CNY)					
EPS	1.9093	1.8112	1.7447	1.8675	2.1285
Book Value Per Share	10.2609	11.1128	11.7503	12.9270	14.2496
Dividend Per Share	0.3544	0.4199	0.5178	0.6908	0.8059
Growth & Margins (%)					
Growth					
Revenue	22.8	(7.0)	15.6	20.5	18.7
Operating Income	16.6	(5.3)	18.2	12.6	17.3
Net Profit	1.3	7.0	6.1	10.6	14.0
Margins					
Gross Profit Margin	26.5	27.4	29.1	27.7	27.7
Operating Profit Margin	21.9	22.3	22.8	22.3	22.5
Net Profit Margin	17.2	19.7	18.1	18.3	19.0
Key Ratios					
ROE (%)	17.5	16.3	14.8	14.4	14.9
ROA (%)	5.0	4.9	4.1	4.4	4.9
Income Statement (CNY Mn)					
Revenue	50,991	47,423	54,799	66,030	78,356
- Cost of Goods Sold	(37,475)	(34,408)	(38,864)	(47,736)	(56,664)
Gross Income	13,516	13,015	15,935	18,294	21,692
- Operating Expenses	(2,363)	(2,453)	(3,450)	(4,235)	(5,199)
Operating Income	11,153	10,562	12,485	14,059	16,493
- Net Non-Operating Gain	2,474	3,376	3,471	2,955	2,842
Pretax Income	13,627	13,938	15,956	17,014	19,335
- Income Tax Expenses	(4,876)	(4,574)	(6,021)	(6,031)	(6,816)
Net Profit	8,751	9,364	9,935	10,983	12,519

Source: Company, Phillip Securities (HK) Research Estimates
(Financial figures as at 19 Jul 2017)

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm 5\%$ from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

Disclosure of Interest

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2017 Phillip Securities (Hong Kong) Limited

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel : (65) 6533 6001
Fax : (65) 6535 6631
Website: www.poems.com.sg

HONG KONG

Phillip Securities (HK) Ltd
Exchange Participant of the Stock Exchange of Hong Kong
11/F United Centre 95 Queensway
Hong Kong
Tel (852) 22776600
Fax (852) 28685307
Websites: www.phillip.com.hk

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel (62-21) 57900800
Fax (62-21) 57900809
Website: www.phillip.co.id

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel (66-2) 6351700 / 22680999
Fax (66-2) 22680921
Website: www.phillip.co.th

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel (44-20) 7426 5950
Fax (44-20) 7626 1757
Website: www.kingandshaxson.com

AUSTRALIA

PhillipCapital Australia
Level 12, 15 William Street,
Melbourne, Victoria 3000, Australia
Tel (613) 96188238
Fax (613) 92002272
Website: www.phillipcapital.com.au

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel (603) 21628841
Fax (603) 21665099
Website: www.poems.com.my

JAPAN

PhillipCapital Japan K.K.
Nagata-cho Bldg.,
8F, 2-4-3 Nagata-cho,
Chiyoda-ku, Tokyo 100-0014
Tel (81-3) 35953631
Fax (81-3) 35953630
Website: www.phillip.co.jp

CHINA

Phillip Financial Advisory (Shanghai) Co. Ltd
No 436 Hengfeng Road,
Greentech Unit 604,
Postal code 200070
Tel (86-21) 51699400
Fax (86-21) 63532643
Website: www.phillip.com.cn

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel (33-1) 45633100
Fax (33-1) 45636017
Website: www.kingandshaxson.com

UNITED STATES

Phillip Futures Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1.312.356.9000
Fax +1.312.356.9005