

# KWG Property (1813.HK)

## Greater Bay Will Benefit KWG

Hong Kong | Property | Company report

14 September 2017

### Investment Summary

- About 43.5% of the land in the land bank, in terms of GFA, is located in Guangzhou, Foshan and Hong Kong, the core cities of Guangdong-Hong Kong-Macau Greater Bay
- Declared first ever interim dividend of CNY0.10 per share

### Business Overview

**Promising 1H2017 result:** In 1H2017, KWG Property achieved sizable growth. Revenue grew at a sharp rate of 44.2% to CNY7,856.6Mn. Partially caused by the drop in revaluation gain and the decrease in profit contributed by joint ventures, net profit rose only 9.5% to CNY1,556.7Mn. Excluding the revaluation gain and other one off items, core profit rose 17.3% to CNY1,440.0Mn. In terms of profit margins, KWG Property successfully maintain its profit margin at a high level, primarily caused by the increase in the selling price. Gross profit margin increased from 35.6% in 1H2016 to 36.0% in 1H2017. Contracted sales was strong during the reporting period and KWG Property achieved an attributable contracted sales of CNY14.62Bn, a YoY growth of 28.0%. The company declared its first ever interim dividend of CNY0.10 per share.

**High quality land bank will assure the long term sales growth:** KWG Property has projects in 18 cities and the projects are located in cities with good economic development. The land bank has a GFA of about 11.85Mn square metres. In particular, KWG Property has a strong strategic presence in the Guangdong-Hong Kong-Macau Greater Bay. In February 2017 and May 2017, KWG Property formed a joint venture with Logan Property and Longfor Property respectively and successfully broke into the Hong Kong market by obtaining land in Ap Lei Chau and Kai Tak development area. As at 30/6/2017, the company has a GFA of about 5,159,000 square metres of land located in the Greater Bay region, representing 43.5% of the GFA of the land bank.

Greater Bay City (As at 30/6/2017)	GFA (Sq. M.)	% of Land Bank
Guangzhou	3,559,000	30.0%
Foshan	1,538,000	13.0%
Hong Kong	62,000	0.5%
<b>Total</b>	<b>5,159,000</b>	<b>43.5%</b>

Source: KWG Property

Apart from the Greater Bay, KWG Property also has strong presence in cities with strong economic development, such as Shanghai, Hangzhou, Nanjing, Beijing and Tianjin, which in total represent 19.2% of the GFA of the land bank. We expect KWG Property to benefit from the economic development in the Greater Bay and the cities with advanced economic development. We are particularly confident in the company's projects in the Greater Bay because the region is supported by the national development policy and the company has strong presence in the region.

### Neutral

CMP: HKD 8.47

(Closing price as at 12 Sep 2017)

TARGET: HKD 8.40 (-0.83 %)

#### COMPANY DATA

O/S SHARES (MN) :	3,054
MARKET CAP (HKDMN) :	26,630
52 - WK HI/LO (HKD):	8.10 / 3.62

#### SHARE HOLDING PATTERN , %

Kong Jianmin	61.15
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#### PRICE PERFORMANCE , %

	1M	3M	1Y
KWG Property	54.86	51.80	60.15
HIS	0.66	5.96	15.07

#### PRICE VS. HSI



Source: Phillip Securities (HK) Research

#### KEY FINANCIALS

HKD mn	FY15	FY16	FY17E	FY18E
Net Sales	8,340	8,865	11,794	12,452
Net Profit	3,414	3,461	3,755	4,085
EPS, HKD	1.3525	1.2779	1.3568	1.4761
PER, x	4.22	3.59	6.12	5.69
BVPS, HKD	8.7689	8.9627	9.3761	10.0982
P/BV, x	0.67	0.54	0.89	0.84
ROE, %	15.3	14.5	14.3	15.4

Source: Company reports, Phillip Securities Est.

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<b>Highlighted City (As at 30/6/2017)</b>	<b>GFA (Sq. M.)</b>	<b>% of Land Bank</b>
Shanghai	567,000	4.8%
Hangzhou	315,000	2.7%
Nanjing	49,000	0.4%
Beijing	388,000	3.2%
Tianjin	961,000	8.1%
<b>Total</b>	<b>2,280,000</b>	<b>19.2%</b>

Source: KWG Property

**Expand land bank replenishment sources to neighbouring cities:** In 1H2017, KWG Property entered 6 cities for the first time, namely Wuhan, Xuzhou, Jiaxing, Taizhou, Jinan and Hong Kong. Some of these cities are located close to regions and cities with strong economic development and are well-connected to those cities and regions, thus allowing the cities to benefit in terms of economic development. In particular, the Ap Lei Chau project in Hong Kong is expected to be one of the most profitable project. Given the unobstructed view of the ocean, the site will be developed into villas and apartments specifically for middle to high end users.

<b>New City</b>	<b>GFA (Sq. M.)</b>
Wuhan	138,000
Xuzhou	153,000
Jiaxing	105,000
Taizhou	194,000
Jinan	151,000
Hong Kong	62,000

Source: KWG Property

**Net gearing ratio dropped slightly:** As at 30/6/2017, including restricted cash, the company had a huge cash reserve of CNY30.6Bn. Due to the huge cash reserve, the net gearing ratio dropped to 64.1%, which is healthy in comparison with the peers in the industry. The company achieved good sales throughout the reporting period and operates in regions with good economic development especially the Greater Bay region, which about 43.5% of the land, in terms of GFA, is located there. Therefore, we expect the amount of debt KWG Property currently bears being manageable.

## Investment Thesis, Valuation & Risk

**Our valuation model suggests a target price of HK\$8.40:** KWG Property announced the first ever interim dividend in FY2017. We are confident in the future projects of KWG Property especially it has a substantial portion of its land locating in the Greater Bay region. Moreover, KWG Property focuses primarily on cities with advanced economic development and will thus benefit from it. Therefore, a target price of HK\$8.40, corresponding to a P/E and P/B of 6.12x and 0.89x, has been assigned, with a `Neutral` rating assigned. (Closing price as at 12 Sep 2017)

<b>Downside Risks</b>	(1): Tightening regulations in Chinese property industry (2): High gearing ratio
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## Financials

FYE	FY2014	FY2015	FY2016	FY2017F	FY2018F
<b>Valuation Ratios</b>					
Price Earnings (P/E)	4.18	4.22	3.59	6.12	5.69
Price to Book (P/B)	0.64	0.67	0.54	0.89	0.84
<b>Per Share Data (HKD)</b>					
EPS	1.3976	1.3525	1.2779	1.3568	1.4761
Book Value Per Share	8.6473	8.7689	8.7153	9.3761	10.0982
Dividend Per Share	0.4118	0.3411	0.5667	0.6960	0.7540
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	10.5	(20.3)	6.3	33.0	5.6
Operating Income	8.6	(25.4)	(9.2)	52.8	2.1
Net Profit	18.9	4.4	1.4	8.5	16.9
<b>Margins</b>					
Gross Profit Margin	35.5	36.1	34.6	35.6	35.4
Operating Profit Margin	70.6	65.1	57.9	66.0	64.9
Net Profit Margin	31.2	40.9	39.0	31.8	32.8
<b>Key Ratios</b>					
ROE (%)	16.0	15.3	14.5	14.3	15.4
ROA (%)	4.6	4.3	3.1	3.3	3.6
<b>Income Statement (CNY Mn)</b>					
<b>Revenue</b>	10,466	8,340	8,865	11,794	12,452
- Cost of Goods Sold	(6,748)	(5,330)	(5,795)	(7,593)	(8,038)
<b>Gross Income</b>	3,718	3,010	3,070	4,201	4,414
- Operating Expenses	(1,093)	(1,051)	(1,292)	(1,484)	(1,640)
<b>Operating Income</b>	2,625	1,959	1,778	2,717	2,774
- Net Non-Operating Gain	2,021	2,704	2,749	2,388	2,792
<b>Pretax Income</b>	4,646	4,663	4,527	5,105	5,566
- Income Tax Expenses	(1,377)	(1,249)	(1,066)	(1,350)	(1,481)
<b>Net Profit</b>	3,269	3,414	3,461	3,755	4,085

Source: Company, Phillip Securities (HK) Research Estimates  
(Financial figures as at 12 Sep 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

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