

China / Hong Kong Company Update

Country Garden

Bloomberg: 2007 HK EQUITY | Reuters: 2007.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

25 Aug 2021

BUY

Last Traded Price (24 Aug 2021): HK\$8.29 (HSI : 25,728)
Price Target 12-mth: HK\$12.46 (50% upside) (Prev HK\$12.45)

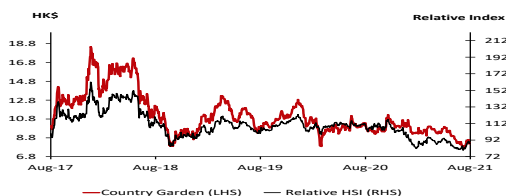
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What's New

- 1H21 results in line with stable growth in earnings
- Well-poised to outperform under the current policy environment led by superior management quality and execution capability
- Solid balance sheet offers flexibility to capture land acquisition opportunities in 2H21
- Maintain BUY with TP of HK\$12.46

Price Relative



Forecasts and Valuation

FY Dec (RMB m)	2020A	2021F	2022F	2023F
Turnover	462,856	530,665	581,352	626,021
EBITDA	78,700	88,403	94,934	100,424
Pre-tax Profit	85,542	87,929	94,460	100,247
Net Profit	35,035	35,353	39,752	42,974
Core Profit	32,362	35,353	39,752	42,974
Core Profit Gth (%)	(19.3)	9.2	12.4	8.1
Core EPS (RMB)	1.50	1.60	1.80	1.95
Core EPS (HK\$)	1.80	1.93	2.17	2.34
Core EPS Gth (%)	(20.3)	7.3	12.4	8.1
Core PE (X)	4.6	4.3	3.8	3.5
P/Cash Flow (X)	nm	nm	nm	nm
EV/EBITDA (X)	4.8	4.8	5.0	5.3
DPS (HK\$)	0.56	0.55	0.62	0.67
Div Yield (%)	6.7	6.7	7.5	8.1
Net Gearing (%)	55.6	50.6	48.5	47.3
ROE (%)	21.4	18.8	18.5	17.6
Book Value (HK\$)	9.73	10.93	12.48	14.15
P/Book Value (X)	0.9	0.8	0.7	0.6
EPS Rev (%)		0	0	New
Consensus EPS (RMB)		1.65	1.89	2.19
Other Broker Recs:		B:18	S:1	H:5

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Superior operation quality not in price

Investment Thesis

Large valuation discount to peers is unwarranted. The company guided that land acquired in 2020 and 1H21 are expected to yield 20-25% gross margin (GPM) compared with reported GPM of c.19%. With up to 97% of CG's projects having been able to meet the target returns made at the time of land purchase, we believe CG's recognized GPM is likely to bottom out in 2022 and addresses market concerns on its profitability. Meanwhile, CG's efforts on raising operational efficiency and profit via refinements in its existing procedures and internal systems is starting to bear fruit, evidenced by its sector-leading cash collection rate, recovering presales margins, and solid SG&A cost ratio improvements in 1H21. Trading at 4.3x FY21F PE that is much lower than large cap names' 5.1x with comparable gearing ratio, we believe CG's valuation is attractive.

Capable of capturing land acquisition opportunities in 2H21. With developers' land premiums to be capped at 40% of presales before they reach the "Green Camp" under the "Three Red Lines" policy, we believe those Tier 1/2 focused developers will face more restrictions in terms of securing more saleable resources. This may enable CG to stand out given its higher flexibility to capture land acquisition opportunities both in high and lower tier cities.

Valuation:

Our TP is based on an unchanged 6.6x FY21F EPS, which was the average 1-year forward PE of large-caps in 2019, a year we believe that exhibits similar qualities to this year.

Where we differ:

More confident on CG's competitiveness under the new policy environment. Despite concerns over a potential liquidity squeeze in Tier 3/4 cities, we believe the market has overlooked the positives side of these cities – which offers higher ASP/cost ratio and faster asset turnover – elements that are increasingly valuable as the "Three Red Lines" policy comes in effects.

Key Risks to Our View:

Significant slowdown in the overall property market and price correction; stronger than expected margin compression.

At A Glance

Issued Capital (m shrs)	22,035
Mkt Cap (HK\$m/US\$m)	182,670 / 23,456
Major Shareholders (%)	
Yang (Huiyan)	60.8
Ping An Life Insurance Company of China, Ltd	8.0
Free Float (%)	31.2
3m Avg. Daily Val. (US\$m)	23.94
GICS Industry: Real Estate / Real Estate Management & Development	



Live more, Bank less

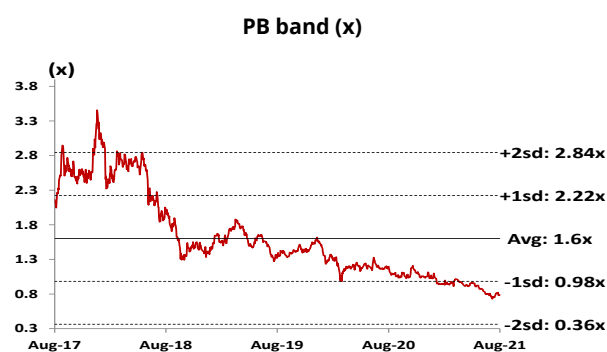
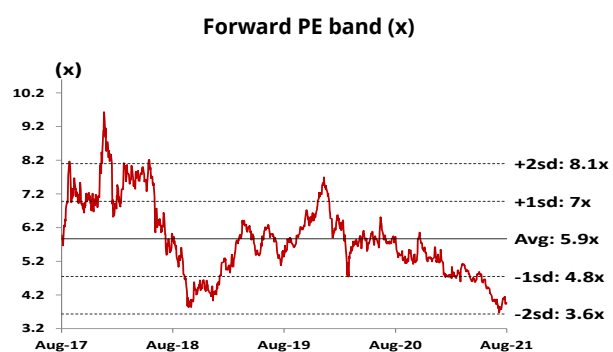
1H21 results summary

FY Dec (RMB m)	1H21	1H20	Change (y-o-y)
Revenue	234,930	184,957	27%
<i>Sales of properties</i>	227,899	179,949	27%
<i>Rendering of construction and decoration services</i>	4,130	3,219	28%
<i>Property investment</i>	374	221	69%
<i>Rendering of hotel services</i>	2,527	1,568	61%
Cost of sales	(188,646)	(140,070)	35%
Gross profit	46,284	44,887	3%
Net gain/(loss)	1,739	1,880	-8%
Selling and marketing costs	(7,700)	(6,894)	12%
Administrative expenses	(7,504)	(7,604)	-1%
Operating profit	32,819	32,269	2%
Finance income	1,903	1,886	1%
Net impairment losses on financial and contract assets	(551)	(854)	-35%
Fair value gain on IP	(48)	3	n.a.
Share of (loss)/profit of associates	3,122	2,583	21%
Profit before income tax	37,245	35,887	4%
<i>Income tax expense</i>	(7,433)	(7,501)	-1%
<i>LAT</i>	(7,392)	(6,460)	14%
Total tax	(14,825)	(13,961)	6%
Profit for the year	22,420	21,926	2%
Attributable to:			
Equity holders of the company (Net profit)	14,996	14,132	6%
Minority interests	7,424	7,794	-5%
Core net profit - company	15,216	14,607	4%
Gross profit margin (%)	19.7%	24.3%	↓ 5 pts
Post LAT gross profit margin (%)	16.6%	20.8%	↓ 4 pts
Reported profit margin (%)	6.4%	7.6%	↓ 1 pts
Core profit margin (%)	6.0%	7.2%	↓ 1 pts
SG&A as % of revenue	6.5%	7.8%	↓ 1 pts
SG&A as % of contracted sales	5.0%	5.4%	↓ 0 pts
Effective tax rate (%)	40%	39%	↑ 1 pts
EPS (RMB)	0.69	0.66	5%
Core EPS (RMB)	0.65	0.62	5%
DPS (RMB)	0.21	0.21	2%
Dividend pay-out ratio on core earnings	31%	31%	↑ 0 pts
Contracted sales (RMB mn)	303,090	266,950	14%
GFA recognized ('000 sm)	28,509	22,172	29%
ASP recognized (Rmb/sm)	7,994	8,116	-2%
	Jun-21	Dec-20	
Net debt to equity ratio	50%	56%	↓ 6 pts
Adj liabilities to asset ratio	79%	81%	↓ 2 pts
Cash to ST Debt	2.1	1.9	12%
Cash on hand	186,238	183,623	1%
Short term debt as % of total debt	27%	29%	↓ 3 pts

Source: Company, DBS HK

Country Garden**Company Background**

Country Garden Holdings Company Limited (CG) is a developer focusing on residential developments in China and Malaysia. It has one of the largest land banks among Chinese developers. It also develops large-scale communities with full facilities such as schools, hotels, hospitals, and parks.

Historical PE and PB band

Source: Thomson Reuters, DBS HK

Country Garden

Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenues (RMB m)					
Sales of properties	475,012	449,341	517,150	567,837	612,506
Construction and decoration	6,219	8,779	8,779	8,779	8,779
Property management services	0	0	0	0	0
Hotel services	4,265	4,210	4,210	4,210	4,210
Others	412	526	526	526	526
Total	485,908	462,856	530,665	581,352	626,021

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Turnover	485,908	462,856	530,665	581,352	626,021
Cost of Goods Sold	(359,271)	(361,951)	(427,988)	(466,706)	(502,798)
Gross Profit	126,637	100,905	102,677	114,646	123,223
Other Opg (Exp)/Inc	(34,103)	(28,953)	(35,820)	(39,241)	(42,256)
Operating Profit	92,534	71,952	66,858	75,405	80,966
Associates Inc	5,108	6,258	21,071	19,055	19,281
Net Interest (Exp)/Inc	1,171	7,306	0	0	0
Exceptional Gain/(Loss)	252	26	0	0	0
Pre-tax Profit	99,065	85,542	87,929	94,460	100,247
Tax	(37,737)	(31,411)	(23,256)	(23,140)	(24,658)
Minority Interest	(21,652)	(19,096)	(29,319)	(31,568)	(32,615)
Net Profit	39,676	35,035	35,353	39,752	42,974
Core Profit	40,120	32,362	35,353	39,752	42,974
Sales Gth (%)	28.2	(4.7)	14.7	9.6	7.7
Net Profit Gth (%)	9.1	(11.7)	0.9	12.4	8.1
Core Profit Gth (%)	17.7	(19.3)	9.2	12.4	8.1
Gross Mgn (%)	26.1	21.8	19.3	19.7	19.7
Core Profit Margin (%)	8.3	7.0	6.7	6.8	6.9
Tax Rate	38.1	36.7	26.4	24.5	24.6

Source: Company, DBS HK

Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Fixed Assets	175,760	153,558	153,558	153,558	153,558
Invt in Assocs & JVs	52,113	63,441	63,441	63,441	63,441
Other LT Assets	99,875	120,095	120,095	120,095	120,095
Cash & ST Invt	268,348	183,623	153,742	113,875	70,808
Other Current Assets	1,363,169	1,558,533	1,927,094	2,309,465	2,657,395
Total Assets	1,907,152	2,015,809	2,354,489	2,696,993	3,001,857
ST Debt	116,551	96,241	96,241	96,241	96,241
Creditors	1,241,544	1,355,907	1,655,249	1,955,320	2,214,403
Other Current Liab	40,657	40,811	40,603	40,603	40,603
LT Debt	253,331	230,244	215,244	197,744	180,245
Other LT Liabilities	36,461	35,603	35,603	35,603	35,603
Minority Interests	66,669	81,901	111,220	142,788	175,404
Shareholder's Equity	151,939	175,102	200,328	228,693	259,358
Total Capital	1,907,152	2,015,809	2,354,489	2,696,993	3,001,857
Share Capital (m)	21,375	21,641	22,035	22,035	22,035
Net Cash/(Debt)	(101,534)	(142,862)	(157,743)	(180,110)	(205,678)
Working Capital	80,968	161,815	231,242	313,542	402,389
Net Gearing (%)	46.4	55.6	50.6	48.5	47.3

Source: Company, DBS HK

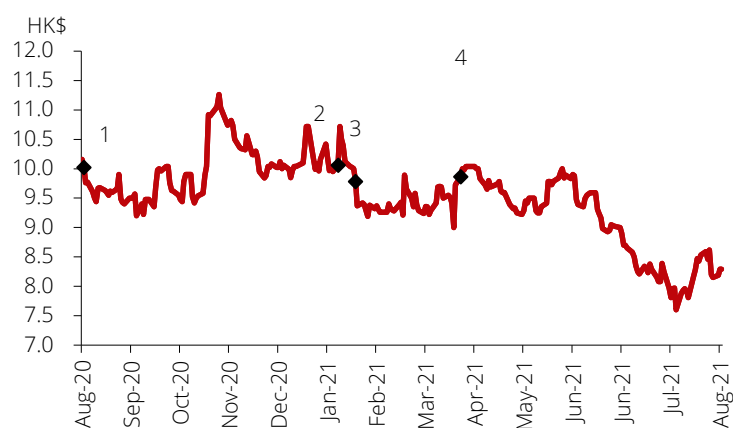
Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Profit Before Tax	99,065	85,542	87,929	94,460	100,247
Assoc. & JV Inc/(loss)	(5,108)	(6,258)	(21,071)	(19,055)	(19,281)
Tax Paid	(41,041)	(42,156)	(23,256)	(23,140)	(24,658)
Depr/Amort	1,548	2,067	0	0	0
Chg in Wkg.Cap.	(97,790)	(45,325)	(69,219)	(82,300)	(88,847)
Other Non-Cash	57,992	(15,501)	0	0	0
Operating CF	14,666	(21,631)	(25,618)	(30,035)	(32,539)
Net chg in inv.	0	0	0	0	0
Assoc. MI, Invsmt	(19,091)	(5,917)	21,071	19,055	19,281
Investing CF	(19,091)	(5,917)	21,071	19,055	19,281
Net Chg in Debt	35,685	(39,247)	(15,000)	(17,500)	(17,499)
New Capital	1,091	3,561	0	0	0
Dividend	(10,410)	(16,152)	(10,127)	(11,387)	(12,310)
Other Financing CF	(919)	(2,150)	0	0	0
Financing CF	25,447	(53,988)	(25,127)	(28,887)	(29,809)
Chg in Cash	20,832	(81,684)	(29,881)	(39,867)	(43,066)
Chg in Net Cash	(14,808)	(41,328)	(14,881)	(22,367)	(25,567)

Source: Company, DBS HK

Country Garden

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	26-Aug-20	HK\$10.16	HK\$13.71	Buy
2:	18-Jan-21	HK\$9.95	HK\$16.67	Buy
3:	28-Jan-21	HK\$9.78	HK\$13.80	Buy
4:	29-Mar-21	HK\$9.73	HK\$12.45	Buy

Source: DBS HK

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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