中骏集团

2018 August Newsletter

China SCE Group Holdings Limited

Stock Code: 1966.HK
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China SCE Group Holdings Limited ("China SCE" or the "Company") was established in 1996 and listed on the Main Board of The Stock Exchange of Hong Kong Limited in February 2010. The Group's major businesses include property development, property investment and property management. The Company is headquartered in Shanghai for its business operations, while implementing regional focused development strategy targeting the first- and second-tier cities in the Yangtze River Delta Economic Zone, the Bohai Rim Economic Zone, the Guangdong-Hong Kong-Macao Greater Bay Area,the West Taiwan Strait Economic Zone and Central Western Region.

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Sales Overview

In August 2018, the Group together with its joint ventures and associates achieved a contracted sales amounted of approximately RMB4.018 billion and a contracted sales area of 266,867 sq.m., representing a year-on-year increase of 74% and 111%, respectively. The average selling price for August 2018 was RMB15,054 per sq.m.

For the eight months ended 31 August 2018, the Group together with its joint ventures and associates achieved an accumulated contracted sales amount of approximately RMB29.120 billion, and an accumulated contracted sales area of 2,229,327 sq.m., representing a year-on-year increase of 46% and 100%, respectively. The average selling price for the eight months ended 31 August 2018 was RMB13,062 per sq.m.

Land Bank

As at 31 August 2018, the Group together with its joint ventures and associates owned a land bank with an aggregate planned GFA of approximately 22.87 million sq.m.

Details of newly acquired land parcels in August 2018 are as follows:

City	Group's Equity Interest	Land-use Planning	Area of the Land Parcel (sq.m.)	Aggregate Planned GFA (sq.m.)	Average Land Cost (RMB/sq.m.)
Shanghai	100%	Commercial	39,306	98,266	10,488
Ningbo	51%	Residential	43,850	107,433	12,800
Quanzhou	80%	Residential	53,916	247,924	659
Quanzhou	40%	Residential and Commercial	22,927	59,610	2,281
Chongqing	33%	Residential and Commercial	130,592	339,970	4,373

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Interim Profit Doubled, Declared HK7 Cents Interim Dividend

On 23 August, China SCE announced its 2018 first half results with revenue increased to RMB9.4 billion, representing a 15% increase. Gross profit margin maintained at a relatively high level of 32.3%, representing a 1.6 percentage point gain. In the first half, profit attributable to owners of the parent rose by a sharp 99% to RMB2 billion. Interim dividend was HK7 cents, 17% higher than the last corresponding period, return on equity climbed by 7.4 percentage points to 30.5%.

At the same time, financing costs and gearing ratio continued to improve. Average financing costs was 6.4% in the first half, 0.8 percentage point better than in the same period last year. Net gearing ratio was 69.2%, 2.6 percentage points lower compared with the same period last year.

Securities Firms Raise Target Price

After China SCE announced its 2018 interim results, eight major securities firms, namely Deutsche Bank, Macquarie, Citi, HSBC, BOCI, Haitong International, CMB International and Haitong Securities affirmed a BUY rating. Deutsche Bank, Macquarie and Haitong International raised the target prices of the Company. Among them, the highest target price reached HK$6.38 per share.

Deutsche Bank stated that China SCE reported a solid 2018 interim results with decent profit growth, stable high gross margin, improved net gearing ratio and weighted average borrowing costs. In the first half of 2018, China SCE aggressively expanded its land bank that now 65% of its GAV were exposed to first and second-tier cities. The average cost of its land bank was RMB4,000 per sq.m., which will support its gross margins at around 30% in the next few years. The bank expected China SCE's full-year sales to exceed RMB52 billion in 2018, a 58% year-on-year increase, and a 30% earnings CAGR and 7-12% dividend yield between 2018 and 2020. Thus, it affirmed China SCE a BUY rating and raised the target price to HK$5.83 per share.

Macquarie pointed out that China SCE turned aggressive in growth and expanded its land bank in 2017. The Company should have taken price restriction into consideration since it's the same year when price cap became prevalent. Profitability is more sustainable. Expansion in new cities and penetration in existing cities help the Company in gaining market share. Its contracted sales amount should accelerate to 44% CAGR between 2017 and 2020, and reach RMB100 billion by 2020. Earnings would follow suit and Macquarie expects China SCE's revenue and earnings at CAGR of 30% and 35% respectively between 2017 and 2020. The Company's balance sheet stayed healthy, showing its capability in cashflow management. The Company has completed most of the refinancing for 2018, hence funding cost is not necessarily much higher. Therefore, Macquarie affirmed China SCE a BUY rating and raised the target price to HK$6.29 per share.

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Citi commended China SCE's delivered strong 2018 first half results. Supported by its ample saleable resources of more than RMB80 billion, the 50% growth in full year sales target is likely to beat. Given that China SCE, under its nationwide expansion strategy, had actively acquired land in 2017 and the first half of 2018 at base or low price, Citi expected the Company to be able to achieve its sales targets in 2019 and 2020, while maintaining gross profit margin and low leverage. Unbooked sales of RMB20 billion at 25%-30% gross profit margin, also support high earnings growth of 40% CAGR until year 2020. Therefore, Citi considered China SCE is equipped with the required DNA of a quality high flyer, and reiterated a BUY rating with the target price HK$6.38 per share.

HSBC said the interim results of China SCE showed its solid execution and risk awareness amid a tightening environment. The Company has branched out to seven new cities during the period, despite spending more on land acquisition compared to first half of 2017, China SCE maintained good control of leverage with declining net gearing level and a lower funding cost. HSBC expected the Company's RMB60 billion saleable resources in the second half of 2018 are sufficient for achieving its full year sales target. High growth is expected to continue for the Company in 2019. HSBC therefore maintained a BUY rating with the target price HK$5.00 per share.

Haitong International stated that core earnings of China SCE in first half 2018 accounted for 46% of full year market consensus estimates, it is on track to meet full-year consensus estimates. The Company was active in land bank acquisition in the first half of 2018, yet remained in good financial health. Land acquisition cost accounting for around 65% of its attributable contracted sales, a fairly high ratio compared with peers. China SCE aims to maintain net gearing ratio at 70% - 80%, which is a reasonable range given the Company's target of rapid growth. Haitong International raised the earnings estimates for 2018 and 2019 after lowering the selling cost assumptions. New net asset value per share is revised to HK$9.38, Haitong International affirmed a BUY rating and raised the target price to HK$5.63 per share.

BOCI said China SCE reported a higher growth in core net profit than revenue due to contribution from its associates and joint ventures in the first half of 2018. RMB60 billion saleable resources is planned for second half of 2018, the full year sales target of RMB50 billion is within reach. Gross profit margin of the Company in first half rose to 32.3% and is expected to stay at between 25% and 30% in the long run. BOCI likes China SCE's impressively systematic and methodical way of land banking with an emphasis on IRR, to ensure margin and asset turnover, which should help the Company to maintain its superior ROE in the future, with an industry-leading core ROE at around 20% between 2018-2020. Therefore, BOCI affirmed a BUY rating with target price at HK$5.51 per share.

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CMB International pointed out that China SCE's contracted sales amount grew by 34.1% to RMB20.81 billion in the first half of 2018. Properties pre-sold but un-booked amounted to RMB20 billion, supporting the Company to achieve its 2018 sales target of RMB50 billion. China SCE also had a land bank of total area up to 19.86 million sq.m. as of 30 June 2018, with an average land cost of RMB4,020 per sq.m., representing 31.8% of the contracted average selling price which was competitive. The Company's cost of debt declined while net gearing ratio slightly reduced, CMB International believes the Company can manage its balance sheet well. At the same time, its cash on hand and debts maturing within 1 year amounted to RMB17.1 billion and RMB10.3 billion respectively, and its interest coverage ratio was 3.6 times. All ratios indicated that China SCE's financial status was healthy. Thus, CMB International raised the Company's 2018 earnings forecast by 42.4% to RMB3.42 billion and core profit forecast in 2018 is revised to RMB2.6 billion. CMB International affirmed a BUY rating with a target price HK$4.73 per share.

Haitong Securities affirmed China SCE's core net profit climbing steadily in the first half of 2018 with stable net profit margin. The net gearing ratio and financing cost of the Company decreased, reflecting its sound financial management approach. For the first six months of the year, China SCE achieved realised contracted sales amount of RMB20.8 billion, representing a 34% year-on-year growth. The 31 new projects in the first half of the year mainly located at second and strong third-tier cities, reflecting the Company's core cities focused and multiple channel land banking strategy. Haitong expected China SCE's profit attributable to owners in 2018 and 2019 to be RMB2.472 billion and RMB3.547 billion respectively, earnings per share to be RMB0.65 and RMB0.93 respectively. This would translate into a price-earnings ratio of 4.75 times and 3.32 times for 2018 and 2019 respectively. Hence, Haitong gave China SCE a reasonable six-month price range estimate of between HK$4.49 and HK$5.24, a discount of approximately 51% to 58% to its net asset value per share, and affirmed the Company's OUTPERFORM rating.

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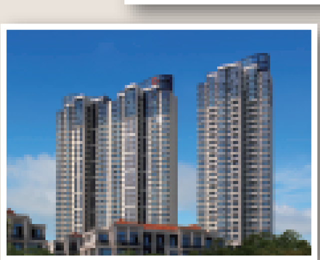

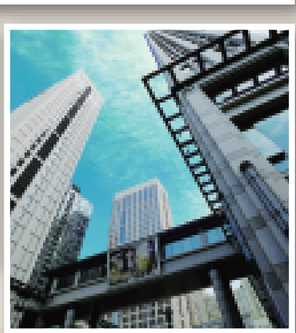

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