

# Longfor Group

Bloomberg: 960 HK Equity | Reuters: 0960.HK

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DBS Group Research . Equity

28 Mar 2022

## BUY

Last Traded Price (28 Mar 2022): HK\$38.55 (HSI : 21,685)  
Price Target 12-mth: HK\$55.56 (44% upside) (Prev HK\$54.63)

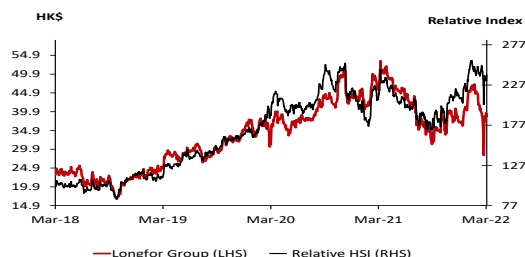
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### What's New

- Key beneficiary and presales outperformer when physical market recovers
- Recurring income businesses en-route to record 40%+ CAGR and offers solid support to dividend payout ratio, the highest in the sector
- Maintain BUY and sector top pick, with TP at HK\$55.56

### Price Relative



### Forecasts and Valuation

FY Dec (RMB m)	2020A	2021A	2022F	2023F
Turnover	184,547	223,375	257,770	286,754
EBITDA	137,937	140,587	135,646	154,552
Pre-tax Profit	47,109	48,515	46,756	51,838
Net Profit	20,741	24,742	24,885	27,341
Core Profit	18,690	22,440	24,885	27,341
Core Profit Gth (%)	20.2	20.1	10.9	9.9
Core EPS (RMB)	3.18	3.70	4.11	4.51
Core EPS (HK\$)	3.92	4.55	5.05	5.55
Core EPS Gth (%)	20.0	16.3	10.9	9.9
Core PE (X)	9.8	8.5	7.6	6.9
P/Cash Flow (X)	5.0	3.1	5.2	3.7
EV/EBITDA (X)	1.7	1.6	1.6	1.3
DPS (HK\$)	0.51	0.58	0.00	0.00
Div Yield (%)	1.3	1.5	0.0	0.0
Net Gearing (%)	(21.0)	(27.3)	(30.2)	(33.4)
ROE (%)	20.5	21.2	18.9	18.7
Book Value (HK\$)	22.70	25.36	28.14	31.19
P/Book Value (X)	1.7	1.5	1.4	1.2

EPS Rev (%): 1 1  
Consensus EPS (RMB): 4.26 4.76  
Other Broker Recs: B:30 S:0 H:0

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

## A long-term outperformer

### Investment Thesis

A key outperformer when the physical market recovers. Amid rising uncertainty in the property space, Longfor has set a conservative presales target of Rmb300bn in 2022 (+3% y-o-y) instead of its original +10% preliminary guidance, backed by c.Rmb470bn of saleable resources (+2% y-o-y). Having said that, along with Longfor's healthy liquidity position and solid land acquisition pace in FY21, the company is one of the best poised among peers to accelerate its saleable launch schedule when the physical market recovers. We remain confident on our view that Longfor will be a presales outperformer in 2022.

### Solid recurring income stream to safeguard dividend payment.

On one hand, Longfor's gross unbooked sales of Rmb315bn as at Dec-21 (80% consolidated interest, c.20% GPM) offers good visibility for the company's development business. Meanwhile, the performance of Longfor's recurring businesses (property management (PM), shopping malls, long-term rental) remain robust and are on track to deliver the company's targeted CAGR of 40%+. This should enable Longfor to maintain its sector-leading dividend payout ratio of >45% on core profit despite rising downside risks over dividend distribution in the sector given the worsening refinancing and liquidity outlook.

### Valuation:

Our TP is based on a SOTP method on FY22F estimates: (i) PM at 30x forward PE, (ii) IP at 15x forward EV/EBITDA, and (iii) property development at 8.9x PE, which is its 3-year average forward PE.

### Where we differ:

SOTP valuation method to reflect the true value of Longfor's businesses. Alongside Longfor's recent submission of an IPO application for its PM business and the growing scale of other non-property development businesses, we believe Longfor's valuation should reflect the value of these segments.

### Key Risks to Our View:

Slower-than-expected presales, stronger-than-expected margin decline, further share disposals by its 2nd-largest shareholder.

### At A Glance

Issued Capital (m shrs)	6,074
Mkt Cap (HK\$m/US\$m)	236,279 / 30,183
Major Shareholders (%)	
Charm Talent International Ltd	42.6
Silverland Assets Ltd	23.0
Woo (Kwong Ching)	7.0
Free Float (%)	27.4
3m Avg. Daily Val. (US\$m)	44.46
GICS Industry: Real Estate / Real Estate Management & Development	



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## Longfor Group

### FY21 result summary

FY Dec (RMB mn)	FY20	FY21	y-o-y %
<b>Revenue</b>	<b>184,547</b>	<b>223,375</b>	<b>21%</b>
Property sales	170,981	204,546	20%
Property investment	7,576	10,414	37%
Property management and related services	5,990	8,416	41%
Cost of goods sold	(130,517)	(166,835)	28%
<b>Gross profit</b>	<b>54,031</b>	<b>56,541</b>	<b>5%</b>
Other income and gains	1,099	1,416	29%
SG&A	(12,328)	(16,285)	32%
Other expenses	(726)	(786)	8%
<b>Operating profit</b>	<b>42,075</b>	<b>40,886</b>	<b>-3%</b>
Change in fair value of financial instruments	(14)	(102)	655%
Fair value gain upon transfer to investment properties	(42)	3	-108%
Fair value gains on investment properties	2,351	2,846	21%
Interest income	823	1,207	47%
Finance costs	(106)	(146)	38%
Share results of JV/asso.	1,282	2,932	129%
<b>Pretax profit</b>	<b>46,370</b>	<b>47,627</b>	<b>3%</b>
Tax	(17,529)	(15,839)	-10%
LAT	(8,591)	(6,910)	-20%
Income Tax	(8,938)	(8,929)	0%
Minority interests	(8,838)	(7,935)	-10%
<b>Reported profit</b>	<b>20,002</b>	<b>23,854</b>	<b>19%</b>
<b>Reported core earnings attributable to shareholders</b>	<b>18,690</b>	<b>22,440</b>	<b>20%</b>
Gross profit margin (%)	29.3%	25.3%	↓ 4 ppts
Reported profit margin (%)	10.8%	10.7%	↓ 0 ppts
Core profit margin (%)	10.1%	10.0%	↓ 0 ppts
SG&A as % of top line	6.7%	7.3%	↑ 1 ppts
SG&A as % of contracted sales	4.6%	5.6%	↑ 1 ppts
Effective tax rate (%)	38%	33%	↓ 5 ppts
EPS (Rmb)	3.41	4.05	19%
Core EPS (Rmb)	3.18	3.81	20%
DPS (Rmb)	1.43	1.70	19%
Dividend payout ratio (%) (on reported core earning)	46%	46%	↓ 0 ppts
Net debt to equity ratio	46.0%	46.7%	↑ 1 ppts
Cash	77,828	88,535	14%
Contracted sales	270,609	290,090	7%
Recognized Sales (Rmb m)	170,981	204,546	20%
Recognized GFA ('000 sm)	12,011	13,773	15%
Recognized ASP (Rmb/ sm)	14,235	14,851	4%
No. of shares (Mn)	5,869	5,894	0%
	<b>Jun-21</b>	<b>Dec-21</b>	
Net debt to equity ratio	46.0%	46.7%	↑ 1 ppts
S/T debt as % of total debt	9.5%	7.6%	↓ 2 ppts
Cash	99,474	88,535	-11%
% of restricted cash	0.5%	0.5%	↓ 0 ppts
	<b>Jun-21</b>	<b>Dec-21</b>	
<b>Three-Red-Lines</b>			
Net gearing ratio	46.0%	46.7%	↑ 1 ppts
Cash to ST debt	5.5	6.1	11%
Adj. liabilities to asset ratio	68.3%	67.4%	↓ 1 ppts

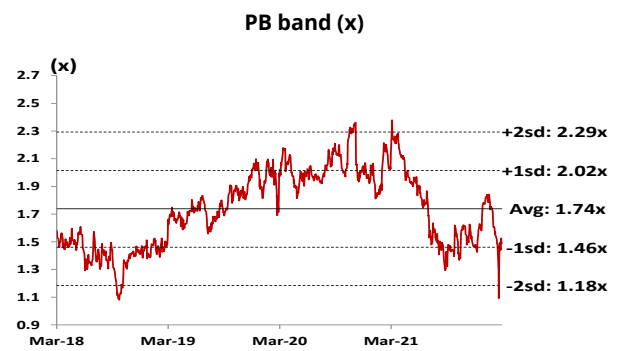
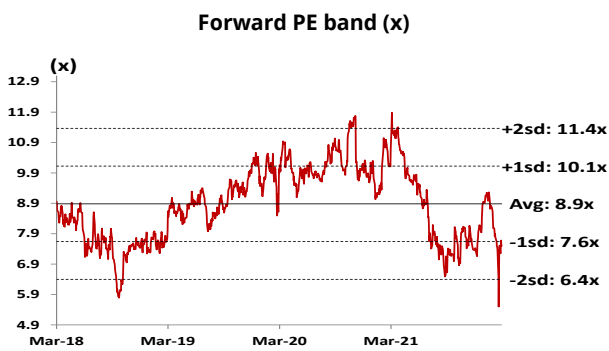
Source: Company, DBS HK

## Longfor Group

### Company Background

Longfor Group (Longfor) was founded in Chongqing in 1993 and listed on the Hong Kong Stock Exchange in 2009. Longfor is primarily engaged in property development, investment, and management. It has built a nationwide presence over the years with a land bank of 73.5m sm as at Dec 21. Longfor's contracted sales has ranked in the top 10 among HK-listed China property developers since its listing and was one of the first developers involved in the development of shopping malls in China. The company has built an extensive track record of over 15 years in the maintenance and operation of commercial properties.

### Historical PE and PB band



Source: Thomson Reuters, DBS HK

## Longfor Group

### Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
<b>Revenues (RMB m)</b>					
Property Development	140,793	170,981	204,546	231,928	252,571
Property Investment	5,789	7,576	10,414	14,058	18,276
Property Management	4,444	5,990	8,416	11,783	15,907
<b>Total</b>	<b>151,026</b>	<b>184,547</b>	<b>223,375</b>	<b>257,770</b>	<b>286,754</b>

Source: Company, DBS HK

### Income Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Turnover	151,026	184,547	223,375	257,770	286,754
Cost of Goods Sold	(100,229)	(130,517)	(166,835)	(195,152)	(216,890)
<b>Gross Profit</b>	<b>50,797</b>	<b>54,031</b>	<b>56,541</b>	<b>62,618</b>	<b>69,864</b>
Other Opg (Exp)/Inc	(10,555)	(12,328)	(16,285)	(17,545)	(18,573)
<b>Operating Profit</b>	<b>40,242</b>	<b>41,702</b>	<b>40,256</b>	<b>45,072</b>	<b>51,291</b>
Associates Inc	1,352	1,282	2,932	63	146
Net Interest (Exp)/Inc	633	717	1,060	1,620	401
Exceptional Gain/(Loss)	3,958	3,408	4,266	0	0
<b>Pre-tax Profit</b>	<b>46,185</b>	<b>47,109</b>	<b>48,515</b>	<b>46,756</b>	<b>51,838</b>
Tax	(19,409)	(17,529)	(15,839)	(17,798)	(20,600)
Minority Interest	(8,216)	(8,838)	(7,935)	(4,072)	(3,897)
<b>Net Profit</b>	<b>18,560</b>	<b>20,741</b>	<b>24,742</b>	<b>24,885</b>	<b>27,341</b>
<b>Core Profit</b>	<b>15,550</b>	<b>18,690</b>	<b>22,440</b>	<b>24,885</b>	<b>27,341</b>
Sales Gth (%)	30.4	22.2	21.0	15.4	11.2
Net Profit Gth (%)	16.5	11.8	19.3	0.6	9.9
Core Profit Gth (%)	27.6	20.2	20.1	10.9	9.9
Gross Mgn (%)	33.6	29.3	25.3	24.3	24.4
Core Profit Margin (%)	10.3	10.1	10.0	9.7	9.5
Tax Rate	42.0	37.2	32.6	38.1	39.7

Source: Company, DBS HK

**Balance Sheet (RMB m)**

FY Dec	2019A	2020A	2021A	2022F	2023F
Fixed Assets	1,982	2,809	3,649	3,409	3,409
Invt in Assocs & JVs	14,805	18,135	26,747	26,747	26,747
Other LT Assets	140,196	167,439	200,867	200,867	200,867
Cash & ST Invt	60,952	77,828	88,535	100,338	114,338
Other Current Assets	434,310	498,949	555,854	607,973	646,855
<b>Total Assets</b>	<b>652,245</b>	<b>765,159</b>	<b>875,651</b>	<b>939,334</b>	<b>992,215</b>
ST Debt	13,927	18,338	11,585	11,585	11,585
Creditors	247,129	295,605	329,060	354,984	368,930
Other Current Liab	72,863	85,565	105,898	105,898	105,898
LT Debt	14,777	18,927	16,339	16,339	16,339
Other LT Liabilities	136,870	153,999	190,891	210,891	230,891
Minority Interests	72,721	84,380	96,928	101,001	104,898
Shareholder's Equity	93,956	108,344	124,949	138,636	153,674
<b>Total Capital</b>	<b>652,245</b>	<b>765,159</b>	<b>875,651</b>	<b>939,334</b>	<b>992,215</b>
Share Capital (m)	5,859	5,869	6,058	6,058	6,058
Net Cash/(Debt)	32,247	40,562	60,610	72,413	86,413
Working Capital	114,317	117,778	120,896	147,092	172,027
Net Gearing (%)	(19.3)	(21.0)	(27.3)	(30.2)	(33.4)

Source: Company, DBS HK

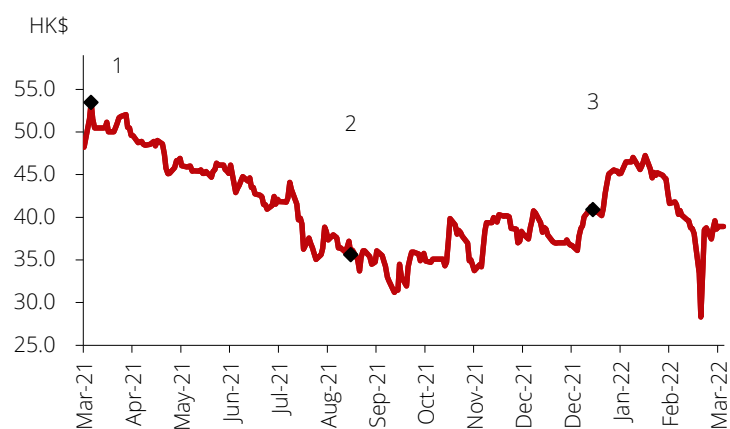
**Cash Flow Statement (RMB m)**

FY Dec	2019A	2020A	2021A	2022F	2023F
Profit Before Tax	45,961	46,370	47,627	46,756	51,838
Assoc. & JV Inc/(loss)	(761)	(594)	0	0	0
Tax Paid	(14,413)	(15,615)	(15,839)	(17,798)	(20,600)
Depr/Amort	142	240	240	240	240
Chg in Wkg.Cap.	7,463	10,422	29,661	8,804	20,065
Other Non-Cash	(4,121)	(4,090)	(1,060)	(1,620)	(401)
<b>Operating CF</b>	<b>34,276</b>	<b>36,730</b>	<b>60,629</b>	<b>36,382</b>	<b>51,142</b>
Net chg in inv.	(15,930)	(11,759)	(22,279)	0	0
Assoc, MI, Invsmt	(19,314)	(29,644)	(44,667)	(35,000)	(45,240)
<b>Investing CF</b>	<b>(35,244)</b>	<b>(41,403)</b>	<b>(66,946)</b>	<b>(35,000)</b>	<b>(45,240)</b>
Net Chg in Debt	25,445	17,060	26,678	20,000	20,000
New Capital	351	2,187	0	0	0
Dividend	(5,894)	(7,181)	(10,322)	(11,198)	(12,304)
Other Financing CF	(3,236)	8,831	1,060	1,620	401
<b>Financing CF</b>	<b>16,667</b>	<b>20,897</b>	<b>17,416</b>	<b>10,422</b>	<b>8,098</b>
Chg in Cash	15,699	16,223	11,098	11,803	14,000
Chg in Net Cash	7,746	8,315	20,048	11,803	14,000

Source: Company, DBS HK

**Longfor Group**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	30-Mar-21	HK\$51.55	HK\$57.65	Buy
2:	26-Aug-21	HK\$37.20	HK\$59.17	Buy
3:	12-Jan-22	HK\$41.25	HK\$54.63	Buy

Source: DBS HK

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## Longfor Group

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**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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