

# China / Hong Kong Company Update

## Country Garden

Bloomberg: 2007 HK EQUITY | Reuters: 2007.HK

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DBS Group Research . Equity

6 Apr 2022

### BUY

Last Traded Price (4 Apr 2022): HK\$6.35 (HSI : 22,502)  
Price Target 12-mth: HK\$8.62 (36% upside) (Prev HK\$12.46)

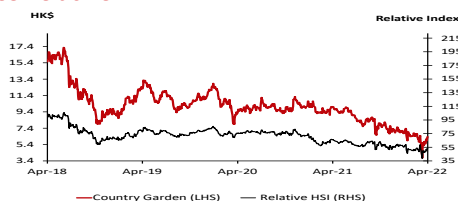
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#### What's New

- Balance sheet held up well despite tough liquidity conditions in the market – unrestricted cash to ST debt maintained at a fair 1.2x as at Dec-21
- Conservative 2022 target in light of market uncertainties
- Cut FY22-23F earnings by 36-44% to reflect lower margin assumptions and slower presales growth
- Maintain BUY with a lower TP of HK\$8.62

#### Price Relative



#### Forecasts and Valuation

FY Dec (RMB m)	2020A	2021A	2022F	2023F
Turnover	462,856	523,064	524,698	497,142
EBITDA	80,290	67,519	70,114	63,466
Pre-tax Profit	85,542	68,722	70,446	63,510
Net Profit	35,035	26,570	25,594	24,196
Core Profit	32,362	26,932	25,594	24,196
Core Profit Gth (%)	(19.3)	(16.8)	(5.0)	(5.5)
Core EPS (RMB)	1.50	1.22	1.16	1.10
Core EPS (HK\$)	1.84	1.51	1.43	1.35
Core EPS Gth (%)	(20.3)	(18.1)	(5.0)	(5.5)
Core PE (X)	3.4	4.2	4.4	4.7
P/Cash Flow (X)	nm	0.8	nm	nm
EV/EBITDA (X)	4.2	5.2	5.3	6.1
DPS (HK\$)	0.57	0.40	0.38	0.36
Div Yield (%)	9.0	6.2	5.9	5.6
Net Gearing (%)	55.6	45.4	40.5	36.0
ROE (%)	21.4	14.2	12.3	10.7
Book Value (HK\$)	9.96	11.13	12.18	13.18
P/Book Value (X)	0.6	0.6	0.5	0.5

EPS Rev (%): (36) (44)  
Consensus EPS (RMB) 1.26 1.32  
Other Broker Recs: B:24 S:2 H:3

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

### Overshadowed by misconceptions

#### Investment Thesis

**Weathering market uncertainties.** Market continues to hold a pessimistic view on CG for its exposure to lower tier cities despite its seemingly solid balance sheet and diversified geographical exposure. The market has overlooked the fact that a majority of CG's landbank is in quality Tier 3/4 cities with better economic outlook and demand resilience vs a typical lower-tier city. Approximately 93% of CG's landbank is in cities with population inflow, and 75% of projects are within the five key economic regions. While CG's 2022 presales target of Rmb455bn+ represents an 18% decline from 2021, this reflects a worst-case scenario that has factored in 1) slowest planned construction new starts; and 2) a very weak physical market. While the overall risk on lower-tier cities should not be ignored, we believe CG's current valuation at 4.4x FY22F PE (vs comparable peers of 6-9x) should have fully factored in such uncertainties.

**Concern on liquidity overplayed.** Alongside its Tier 3/4 city-centric exposure, CG's cash held in presales escrow accounts represented c.49% of its total cash on hand as at Dec-21. Despite this, CG's non-restricted cash to ST debt ratio was maintained at a fair 1.2x. This is made possible given its 1) strong focus on collection –attributable cash collection maintained at 90% for the 6th consecutive year despite its lower-tier city exposure and difficult market environment; and 2) well managed debt maturity profile –ST debt as a % of total debt has been <25% as at Dec-21. Meanwhile, refinancing channels remain partially open for CG despite the current tough operating climate. CG has tapped the offshore market for a HK\$3.9bn CB in Jan-22 and secured the approval to issue Rmb5bn MTN in the China Interbank market in Mar-22.

#### Valuation:

Our TP is based on 6.2x FY22F EPS, which was CG's 5-year forward PE average.

#### Where we differ:

**CG's solid financial management has been neglected.** We believe market concerns on Tier 3/4 cities have overshadowed CG's solid financial management capability. The current discount vs comparable peers is unwarranted and will likely narrow as market pessimism fades.

#### 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)	23,148
Mkt Cap (HK\$m/US\$m)	146,990 / 18,761
Major Shareholders (%)	
Yang (Huiyan)	61.3
Ping An Life Insurance Company of China, Ltd	7.8
Free Float (%)	31.0
3m Avg. Daily Val. (US\$m)	59.01
GICS Industry: Real Estate / Real Estate Management & Development	



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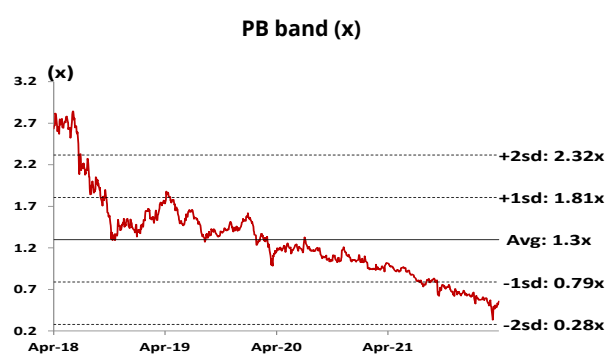
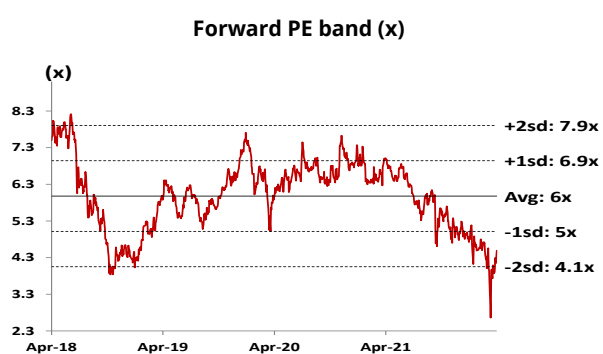
Live more, Bank less

## 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	2021A	2022F	2023F
<b>Revenues (RMB m)</b>					
Sales of properties	475,012	449,341	507,478	509,112	481,556
Construction and decoration	6,219	8,779	9,360	9,360	9,360
Property management services	0	0	0	0	0
Hotel services	4,265	4,210	5,386	5,386	5,386
Others	412	526	840	840	840
<b>Total</b>	<b>485,908</b>	<b>462,856</b>	<b>523,064</b>	<b>524,698</b>	<b>497,142</b>

Source: Company, DBS HK

### Income Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Turnover	485,908	462,856	523,064	524,698	497,142
Cost of Goods Sold	(359,271)	(361,951)	(430,282)	(435,330)	(414,998)
<b>Gross Profit</b>	<b>126,637</b>	<b>100,905</b>	<b>92,782</b>	<b>89,369</b>	<b>82,143</b>
Other Opg (Exp)/Inc	(34,103)	(28,953)	(32,156)	(33,636)	(31,870)
<b>Operating Profit</b>	<b>92,534</b>	<b>71,952</b>	<b>60,626</b>	<b>55,732</b>	<b>50,274</b>
Associates Inc	5,108	6,258	5,053	12,314	11,125
Net Interest (Exp)/Inc	1,171	7,306	3,497	2,399	2,111
Exceptional Gain/(Loss)	252	26	(454)	0	0
<b>Pre-tax Profit</b>	<b>99,065</b>	<b>85,542</b>	<b>68,722</b>	<b>70,446</b>	<b>63,510</b>
Tax	(37,737)	(31,411)	(27,967)	(25,599)	(23,582)
Minority Interest	(21,652)	(19,096)	(14,185)	(19,252)	(15,732)
<b>Net Profit</b>	<b>39,676</b>	<b>35,035</b>	<b>26,570</b>	<b>25,594</b>	<b>24,196</b>
<b>Core Profit</b>	<b>40,120</b>	<b>32,362</b>	<b>26,932</b>	<b>25,594</b>	<b>24,196</b>
Sales Gth (%)	28.2	(4.7)	13.0	0.3	(5.3)
Net Profit Gth (%)	9.1	(11.7)	(24.2)	(3.7)	(5.5)
Core Profit Gth (%)	17.7	(19.3)	(16.8)	(5.0)	(5.5)
Gross Mgn (%)	26.1	21.8	17.7	17.0	16.5
Core Profit Margin (%)	8.3	7.0	5.1	4.9	4.9
Tax Rate	38.1	36.7	40.7	36.3	37.1

Source: Company, DBS HK

## Country Garden

### Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Fixed Assets	175,760	153,558	96,532	96,532	96,532
Invt in Assocs & JVs	52,113	63,441	72,841	72,841	72,841
Other LT Assets	99,875	120,095	137,896	137,896	137,896
Cash & ST Invt	268,348	183,623	181,300	163,399	148,917
Other Current Assets	1,363,169	1,558,533	1,532,637	1,698,531	1,864,306
<b>Total Assets</b>	<b>1,907,152</b>	<b>2,015,809</b>	<b>1,948,365</b>	<b>2,096,358</b>	<b>2,247,652</b>
ST Debt	116,551	96,241	79,018	79,018	79,018
Creditors	1,241,544	1,355,907	1,259,846	1,387,235	1,522,473
Other Current Liab	40,657	40,811	40,041	40,041	40,041
LT Debt	253,331	230,244	238,904	221,404	203,905
Other LT Liabilities	36,461	35,603	29,929	29,929	29,929
Minority Interests	66,669	81,901	101,891	121,143	136,875
Shareholder's Equity	151,939	175,102	198,736	217,588	235,410
<b>Total Capital</b>	<b>1,907,152</b>	<b>2,015,809</b>	<b>1,948,365</b>	<b>2,096,358</b>	<b>2,247,652</b>
Share Capital (m)	21,375	21,641	21,996	21,996	21,996
Net Cash/(Debt)	(101,534)	(142,862)	(136,622)	(137,023)	(134,006)
Working Capital	80,968	161,815	232,750	271,256	301,792
Net Gearing (%)	46.4	55.6	45.4	40.5	36.0

Source: Company, DBS HK

### Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Profit Before Tax	99,065	85,542	68,722	70,446	63,510
Assoc. & JV Inc/(loss)	(5,108)	(6,258)	(5,053)	(12,314)	(11,125)
Tax Paid	(41,041)	(42,156)	(27,967)	(25,599)	(23,582)
Depr/Amort	1,548	2,067	0	0	0
Chg in Wkg.Cap.	(97,790)	(45,325)	105,312	(38,506)	(30,537)
Other Non-Cash	57,992	(15,501)	(3,270)	(2,399)	(2,111)
<b>Operating CF</b>	<b>14,666</b>	<b>(21,631)</b>	<b>137,744</b>	<b>(8,373)</b>	<b>(3,845)</b>
Net chg in inv.	0	0	0	0	0
Assoc, MI, Invsmt	(19,091)	(5,917)	8,877	14,714	13,236
<b>Investing CF</b>	<b>(19,091)</b>	<b>(5,917)</b>	<b>8,877</b>	<b>14,714</b>	<b>13,236</b>
Net Chg in Debt	35,685	(39,247)	(159,434)	(17,500)	(17,499)
New Capital	1,091	3,561	0	0	0
Dividend	(10,410)	(16,152)	(7,059)	(6,742)	(6,374)
Other Financing CF	(919)	(2,150)	(327)	0	0
<b>Financing CF</b>	<b>25,447</b>	<b>(53,988)</b>	<b>(166,820)</b>	<b>(24,242)</b>	<b>(23,873)</b>
Chg in Cash	20,832	(81,684)	(20,199)	(17,901)	(14,482)
Chg in Net Cash	(14,808)	(41,328)	6,240	(401)	3,017

Source: Company, DBS HK

**Country Garden**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	25-Aug-21	HK\$8.29	HK\$12.46	Buy

Source: DBS HK

Analyst: *Danielle Wang*  
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*Zoe Zhang*  
*Dexter Chun*

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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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