

Hong Kong

August 10, 2022 - 8:09 PM

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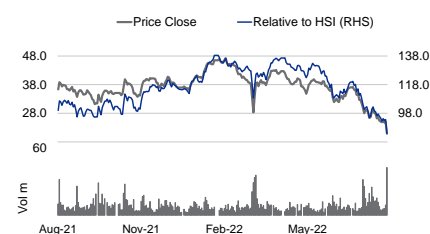
Consensus ratings*: Buy 29 Hold 1 Sell 0

Current price:	HK\$20.90
Target price:	HK\$49.50
Previous target:	HK\$49.50
Up/downside:	136.8%
CGS-CIMB / Consensus:	4.5%
Reuters:	0960.HK
Bloomberg:	960 HK
Market cap:	US\$16,183m
	HK\$127,031m
Average daily turnover:	US\$35.94m
	HK\$291.3m
Current shares o/s	6,061m
Free float:	34.3%

*Source: Bloomberg

Key financial forecasts

	Dec-22F	Dec-23F	Dec-24F
Net Profit (Rmbm)	24,620	27,103	30,342
Core EPS (Rmb)	4.05	4.46	5.00
Core EPS Growth	6.5%	10.1%	11.9%
FD Core P/E (x)	4.40	4.03	3.60
Recurring ROE	18.7%	18.6%	19.8%
P/BV (x)	0.79	0.71	0.71
DPS (Rmb)	1.81	1.99	2.23
Dividend Yield	10.1%	11.1%	12.4%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-40.6	-43.1	-42.5
Relative (%)	-30.9	-43	-16.2

Major shareholders

	% held
Wu Yajun & Cai Xinyi	42.7
Cai Kui	23.0

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Longfor Group

Management: No default on commercial bills

- Management stressed Longfor had not defaulted on any commercial bills. The outstanding balance of Rmb700m will be repaid by year-end, it said.
- SHCPE also confirmed that Longfor had not defaulted on its commercial bills and warned that spreading disinformation causes market instability.
- Management's indication of early repayment of debts due in 2023 in 4Q22 suggests Longfor's strong financial position and cash flow, in our view.
- We believe its sharp share price correction today is unjustified. Reiterate Add call and TP of HK\$49.5. It is our sector top pick.

No commercial bills default and balance to be paid by year-end

- Longfor's senior management, including its chairperson, vice chairman, CEO and CFO, held a business update call for investors this evening (10 Aug) on the latest developments and operational updates.
- About recent market talk of a possible default on its commercial bills, management stressed that this is incorrect. It said Longfor had not defaulted on any commercial bills. Management added that Longfor had stopped issuing commercial bills since last year, and the outstanding amount of commercial bills is about Rmb700m, which will be repaid by year-end.

Shanghai Commercial Paper Exchange (SHCPE) supports Longfor

- The Shanghai Commercial Paper Exchange also supported Longfor's position in an announcement ([click](#)) after market close today, and warned that spreading disinformation would affect market stability.

Healthy financials and plans for early repayment of some 2023 debt

- Management said it could not share Longfor's latest financial numbers due to the blackout period. CFO Mr. Zhao said that Longfor's financial position is very healthy given that short term debt makes up only about 10% of its total debts, and it records positive operational cash flow, based on its operations in the past few years.
- Mr. Zhao also highlighted that Longfor does not have debts due for the rest of the year. The company plans to repay some of debts due in 2023 in 4Q22, he said.

Proactive on land banking

- Management said Longfor replenished 20 plots of land in second- and top-tier cities, such as Beijing, Hangzhou, Chengdu, Hefei, in 7M22, with attributable land cost of Rmb16.8bn. The total sale value is about Rmb60bn.
- Sixteen plots of land were acquired from government public land auctions and many of these were transacted at reserve price. Longfor also acquired the remaining stake of a residential project from its JV partner KWG in Hong Kong.

JV project risk management

- Management said that its JV projects are not allowed to have non-traditional borrowing and JV partners can only take out their investment amounts and estimated profits.
- Meanwhile, JV partners are not allowed to pledge their JV equity for refinancing.
- Longfor has a whitelist of JV partners, most of whom are SOE developers. So far, there have been only a few JV project partners facing liquidity problems.

Management: Expect to see more supportive measures ahead

- Management expects to see more supportive measures until the property market normalises, given that land sales are key revenue sources for local governments.

Management's overall thinking

- Longfor's chairperson said management had been calm in the face of volatile share and bond price movements but nothing much could be done in a blackout period. Nevertheless, she believes Longfor will emerge as one of the key winners from this round of rapid consolidation of the property market.

Reiterate our Add; Longfor is our top pick in the sector

- We reiterate our Add rating on Longfor with NAV-based TP of HK\$49.5 on its strong financials and diversified recurring income from malls and property management.
- Key risks to our call include further deterioration of the property market in the next 6-12 months and more developers facing liquidity problems.

Figure 1: China Property Peers Comparison

Company	Bloomberg Ticker	Share price (HK\$)	TP (HK\$)	Rating	Mkt cap (US\$ m)	NAV/sh (HK\$)	Disc. to NAV		P/E (x)				P/BV(x)			Yield (%)			Net Gearing (%)		
							NAV (%)	Upside (%)	2020	2021	2022F	2023F	2020	2021	2022F	2021	2022F	2023F	2020	2021	2022F
COLI	688 HK	20.15	28.20	ADD	28,931	31.3	36	40	5.0	5.2	4.9	4.5	0.6	0.6	0.5	7.0	7.4	8.0	31	31	25
CR Land	1109 HK	30.70	48.20	ADD	28,343	52.3	41	57	7.8	7.1	6.4	5.9	0.9	0.8	0.8	5.2	5.7	6.2	29	24	18
China Vanke - H	2202 HK	13.74	24.10	ADD	26,826	40.2	66	75	3.2	5.5	4.8	4.5	0.6	0.6	0.5	8.2	7.3	7.9	18	30	37
China Vanke - A	000002 CH	16.10	22.50	ADD	26,832	34.2	53	40	4.4	7.5	6.5	6.1	0.8	0.8	0.7	6.0	5.4	5.8	18	30	37
CIFI	884 HK	1.93	6.00	ADD	2,365	12.1	84	211	1.7	1.9	2.0	2.0	0.3	0.3	0.3	9.4	12.5	15.5	64	63	57
Country Garden	2007 HK	2.33	7.90	ADD	7,682	14.4	84	239	1.3	1.6	1.8	1.8	0.3	0.2	0.2	15.2	8.9	8.9	56	45	44
Greentown China	3900 HK	14.40	16.20	ADD	4,733	23.7	39	13	18.8	10.5	8.5	7.8	1.0	0.9	0.8	3.7	4.0	4.2	64	52	52
Guangzhou R&F	2777 HK	1.51	3.60	HOLD	765	12.0	87	138	1.1	NA	5.0	3.4	0.1	0.1	0.1	7.7	0.0	2.8	130	123	93
Longfor	960 HK	20.90	49.50	ADD	19,357	55.0	62	137	5.6	4.7	4.4	4.0	1.0	0.9	0.8	9.5	10.1	11.1	46	47	45
Yuzhou Group	1628 HK	0.36	0.68	HOLD	300	2.3	84	89	2.6	8.2	3.9	2.8	0.1	0.1	0.1	13.7	0.0	0.0	86	94	90
Zhongliang	2772 HK	0.85	2.50	HOLD	406	10.0	92	194	0.7	0.9	0.8	0.8	0.2	0.2	0.2	21.1	0.0	12.4	65	35	44
Agile	3383 HK	2.34	3.30	HOLD	1,218	11.2	79	41	0.9	1.2	1.6	1.5	0.1	0.1	0.1	20.5	0.0	0.0	61	51	46
China Aoyuan	3883 HK	1.18	1.10	REDUCE	446	5.6	79	(7)	0.6	2.1	2.8	3.3	0.1	0.2	0.1	0.0	0.0	0.0	83	81	77
KWG Group	1813 HK	1.47	7.10	ADD	629	14.1	90	383	0.6	1.0	0.9	0.9	0.1	0.1	0.1	29.3	10.8	11.4	62	79	62
Logan Group	3380 HK	2.18	3.50	ADD	1,579	11.8	82	61	0.9	1.1	1.2	1.1	0.3	0.2	0.2	23.3	0.0	9.5	61	82	71
Times China	1233 HK	1.32	4.40	ADD	378	14.5	91	233	0.4	0.7	0.7	0.6	0.1	0.1	0.1	7.3	7.9	15.5	68	79	56
Small and mid-cap average							81	151	3.1	3.2	2.7	2.3	0.3	0.2	0.21	15.1	3.9	7.9	73	73	63
Overall average							71	130	3.7	4.1	3.6	3.2	0.4	0.4	0.36	12.5	5.3	7.9	57	58	52

Share price data as of 10 Aug 2022; * A-share data stated in Rmb

SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS

BY THE NUMBERS

Profit & Loss

(Rmbm)	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	223,375	247,919	276,535	307,052
Gross Profit	56,541	63,229	71,682	81,304
Operating EBITDA	40,256	45,316	51,620	58,834
Depreciation And Amortisation	0	0	0	0
Operating EBIT	40,256	45,316	51,620	58,834
Financial Income/(Expense)	1,060	1,048	1,038	1,025
Pretax Income/(Loss) from Assoc.	2,932	3,812	4,384	4,822
Non-Operating Income/(Expense)	3,480	1,265	1,439	1,660
Profit Before Tax (pre-EI)	47,729	51,441	58,481	66,341
Exceptional Items				
Pre-tax Profit	47,729	51,441	58,481	66,341
Taxation	(14,323)	(18,358)	(22,137)	(25,619)
Exceptional Income - post-tax				
Profit After Tax	33,406	33,083	36,344	40,722
Minority Interests	(7,935)	(8,463)	(9,241)	(10,380)
Prof. & Special Div	0	0	0	0
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	25,471	24,620	27,103	30,342
Recurring Net Profit	22,440	24,620	27,103	30,342
Fully Diluted Recurring Net Profit	22,440	24,620	27,103	30,342

Balance Sheet

(Rmbm)	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	88,535	100,095	109,477	140,428
Properties Under Development				
Total Debtors	45,917	48,212	50,623	53,154
Inventories	406,016	426,404	447,829	470,347
Total Other Current Assets	103,921	119,016	136,333	156,193
Total Current Assets	644,388	693,728	744,262	820,122
Fixed Assets	184,657	187,787	198,154	209,196
Total Investments	26,747	26,747	26,747	26,747
Intangible Assets	0	0	0	0
Total Other Non-Current Assets	19,859	20,100	20,874	21,980
Total Non-current Assets	231,263	234,634	245,775	257,923
Short-term Debt	14,501	17,501	21,501	26,501
Current Portion of Long-Term Debt				
Total Creditors	330,553	344,215	350,574	373,519
Other Current Liabilities	101,489	103,613	114,262	146,072
Total Current Liabilities	446,543	465,329	486,337	546,093
Total Long-term Debt	177,566	189,566	205,566	225,566
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	1,742	1,916	2,108	2,318
Total Non-current Liabilities	179,308	191,482	207,673	227,884
Total Provisions	27,923	33,508	40,210	48,252
Total Liabilities	653,774	690,319	734,220	822,228
Shareholders' Equity	124,949	138,576	153,577	153,577
Minority Interests	96,928	99,467	102,240	102,240
Total Equity	221,878	238,043	255,817	255,817

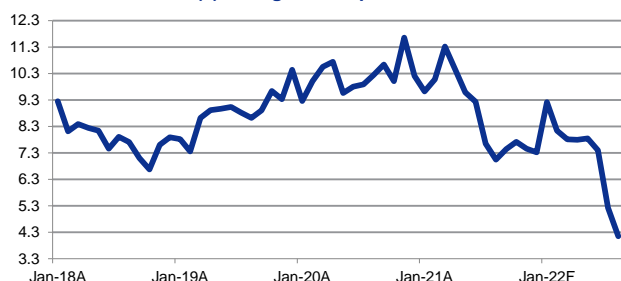
Cash Flow

(Rmbm)	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	40,256	45,316	51,620	58,834
Cash Flow from Invnt. & Assoc.	2,932	3,812	4,384	4,822
Change In Working Capital	(20,277)	(23,148)	(33,722)	(20,785)
Straight Line Adjustment				
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense	310	372	446	535
Other Operating Cashflow	8,503	5,443	5,642	6,198
Net Interest (Paid)/Received	(6,735)	(7,413)	(7,952)	(8,662)
Tax Paid	(16,002)	(18,416)	(20,936)	(23,750)
Cashflow From Operations	8,987	5,966	(518)	17,192
Capex	0	0	0	0
Disposals Of FAs/subsidiaries				
Disposals of Investment Properties				
Acq. Of Subsidiaries/investments				
Other Investing Cashflow	1,207	1,207	1,207	1,207
Cash Flow From Investing	1,207	1,207	1,207	1,207
Debt Raised/(repaid)	10,000	15,000	20,000	25,000
Proceeds From Issue Of Shares	0	0	0	0
Shares Repurchased				
Dividends Paid	(9,095)	(10,612)	(11,307)	(12,448)
Preferred Dividends				
Other Financing Cashflow	0	0	0	0
Cash Flow From Financing	905	4,388	8,693	12,552

Key Ratios

	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	21.0%	11.0%	11.5%	11.0%
Operating EBITDA Growth	(3.5%)	12.6%	13.9%	14.0%
Operating EBITDA Margin	18.0%	18.3%	18.7%	19.2%
Net Cash Per Share (Rmb)	(17.04)	(17.61)	(19.36)	(18.38)
BVPS (Rmb)	20.57	22.81	25.28	25.28
Gross Interest Cover	5.07	5.26	5.64	5.96
Effective Tax Rate	14.2%	22.8%	22.7%	22.7%
Net Dividend Payout Ratio	30.2%	33.1%	31.4%	30.8%
Accounts Receivables Days	67.66	69.29	65.23	61.85
Inventory Days	855.0	822.6	778.8	744.3
Accounts Payables Days	686.3	666.8	619.0	587.0
ROIC (%)	10.5%	10.4%	10.9%	11.3%
ROCE (%)	10.1%	10.1%	10.5%	11.1%
Return On Average Assets	5.04%	4.53%	4.91%	5.18%

12-mth Fwd FD P/E (x) - Longfor Group



Key Drivers

	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Contracted sales (Rmb m)	290,090.0	297,192.6	317,755.5	334,717.6
Contracted sales GFA (m sq m)	17.1	17.5	18.7	19.7
Overall gross profit margin (%)	25.3%	25.5%	25.9%	26.5%
SG&A expense / revenue (%)	7.0%	6.7%	7.3%	7.0%

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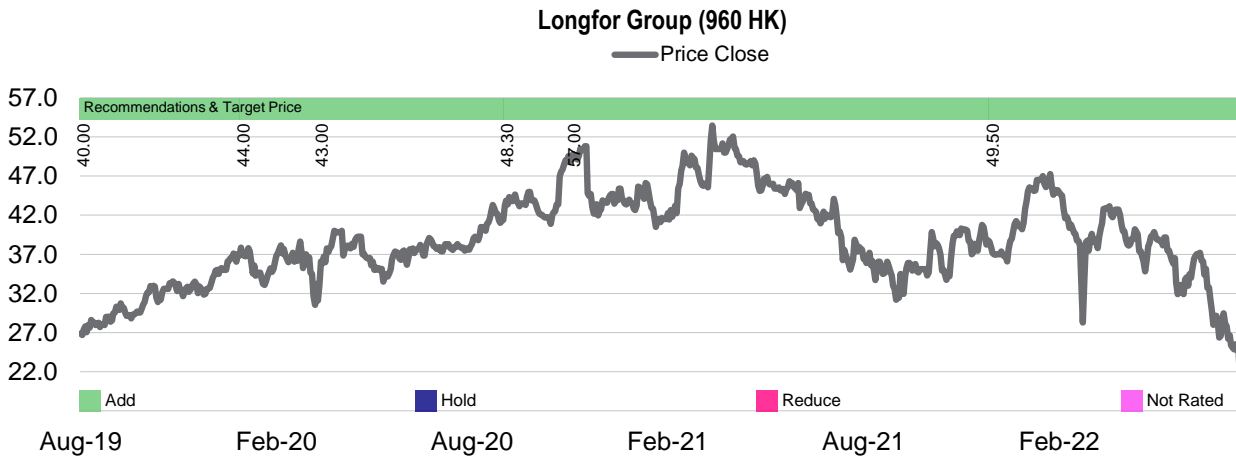
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Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2022		
643 companies under coverage for quarter ended on 30 June 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
Hold	24.6%	0.0%
Reduce	7.0%	0.2%

Spitzer Chart for stock being researched (2 year data)



Recommendation Framework

Stock Ratings

Definition:

Add The stock's total return is expected to exceed 10% over the next 12 months.

Hold The stock's total return is expected to be between 0% and positive 10% over the next 12 months.

Reduce The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

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Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.

Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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