

## Country Garden

Bloomberg: 2007 HK EQUITY | Reuters: 2007.HK

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DBS Group Research . Equity

1 Sep 2022

### BUY

Last Traded Price (31 Aug 2022): HK\$2.33 (HSI : 19,954)  
Price Target 12-mth: HK\$2.94 (26% upside) (Prev HK\$8.62)

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#### What's New

- Presales performances came in better than feared despite its concentrated exposure in lower tier cities
- Financial safety is top priority; dividends suspended until operating environment and profitability recover
- Cut FY22-23F earnings by 46-48% to reflect slower presales and lower margin assumptions
- Maintain BUY, with TP trimmed to HK\$2.94/sh

### Breaking through headwinds

#### Investment Thesis

Presales fared better than feared despite its lower-tier city exposure. Despite market concerns over its lower-tier city exposure, CG's presales outperformed peers with a 39% decline in 1H22 (vs -48% for 28 developers we track in 1H22), along with a satisfactory and above peers 50% sell-through rate. In contrary to consensus beliefs, the company's presales performance in Tier 3/4 cities (-37% y-o-y) actually fared slightly better than its projects in Tier 1 and 2 cities (-40% and --44% respectively). We believe the market has continued to overlook the fact that despite CG's concentration in Tier 3 and 4 cities, majority of those are with better economic outlook and demand resilience vs a typical lower-tier city.

**Demonstrating financial discipline.** CG was able to maintain positive OCF in 1H22 despite recording a sizeable decline in presales, thanks to its efforts to accelerate cash collection (1H22 at >90% for the seventh straight year), tight control in construction expenses, and liquidated stagnant assets worth c.Rmb6.9bn. While presales in 2H22 is expected to remain moderately subdued, CG believes it can maintain a slightly positive OCF for the full year while fulfilling its project delivery responsibilities via 1) optimising construction process according to sales – with plans to cut project new starts by 60%-70% to reduce capex; and 2) active management of SG&A and tax expense payments, among others.

#### Valuation:

Our TP is based on 4.8x FY23F EPS (vs.6.2x previously), 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

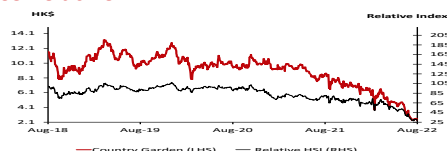
#### Key Risks to Our View:

More severe and lengthier-than-expected physical market decline and price correction, stronger-than-expected margin compression, and larger-than-expected impairments.

#### At A Glance

Issued Capital (m shrs)	3,366
Mkt Cap (HKm/US\$m)	52,375 / 6,673
Major Shareholders (%)	
Yang (Huiyan)	43.2
Free Float (%)	56.8
3m Avg. Daily Val. (US\$m)	76.82
GICS Industry: Industrials / Commercial & Professional Service	

#### Price Relative



#### Forecasts and Valuation

FY Dec (RMB m)	2021A	2022F	2023F	2024F
Turnover	523,064	444,788	381,746	347,521
EBITDA	67,519	31,597	28,676	30,064
Pre-tax Profit	68,722	31,929	28,719	30,108
Net Profit	26,570	13,816	12,517	11,432
Core Profit	26,932	13,816	12,517	11,432
Core Profit Gth (%)	(16.8)	(48.7)	(9.4)	(8.7)
Core EPS (RMB)	1.22	0.58	0.52	0.48
Core EPS (HK\$)	1.39	0.66	0.59	0.54
Core EPS Gth (%)	(18.1)	(53.0)	(9.4)	(8.7)
Core PE (X)	1.7	3.6	3.9	4.3
P/Cash Flow (X)	4.1	nm	nm	nm
EV/EBITDA (X)	4.2	9.4	10.2	9.5
DPS (HK\$)	0.37	0.00	0.00	0.00
Div Yield (%)	15.7	0.0	0.0	0.0
Net Gearing (%)	45.4	43.2	38.1	31.7
ROE (%)	14.2	6.7	5.7	5.0
Book Value (HK\$)	10.29	10.08	10.67	11.21
P/Book Value (X)	0.2	0.2	0.2	0.2
EPS Rev (%):		(46)	(48)	New
Consensus EPS (RMB)		1.70	2.27	2.91
Other Broker Recs:		B:36	S:1	H:2

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



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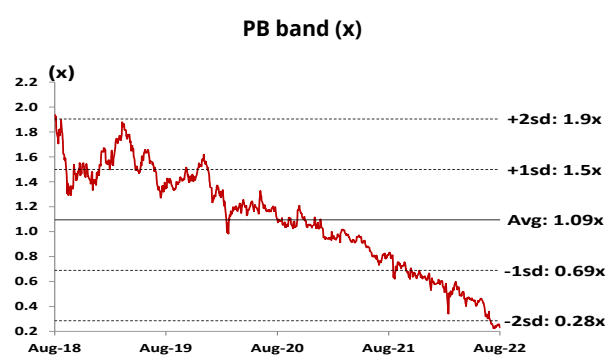
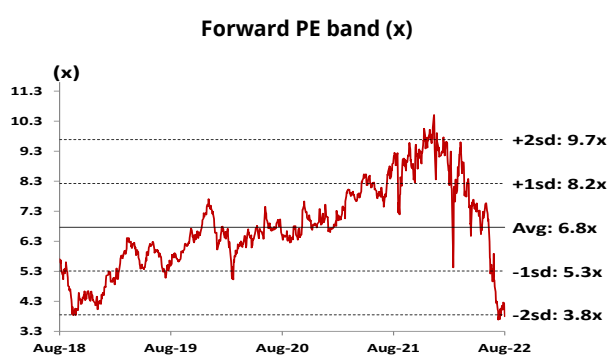
Live more, Bank less

## 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	2020A	2021A	2022F	2023F	2024F
<b>Revenues (RMB m)</b>					
Sales of properties	449,341	507,478	430,138	367,938	334,471
Construction and decoration	8,779	9,360	8,424	7,582	6,823
Property management services	0	0	0	0	0
Hotel services	4,210	5,386	5,386	5,386	5,386
Others	526	840	840	840	840
<b>Total</b>	<b>462,856</b>	<b>523,064</b>	<b>444,788</b>	<b>381,746</b>	<b>347,521</b>

Source: Company, DBS HK

### Income Statement (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Turnover	462,856	523,064	444,788	381,746	347,521
Cost of Goods Sold	(361,951)	(430,282)	(390,912)	(334,129)	(302,811)
<b>Gross Profit</b>	<b>100,905</b>	<b>92,782</b>	<b>53,875</b>	<b>47,617</b>	<b>44,710</b>
Other Opg (Exp)/Inc	(28,953)	(32,156)	(28,736)	(24,663)	(20,851)
<b>Operating Profit</b>	<b>71,952</b>	<b>60,626</b>	<b>25,140</b>	<b>22,954</b>	<b>23,859</b>
Associates Inc	6,258	5,053	4,390	3,655	4,138
Net Interest (Exp)/Inc	7,306	3,497	2,399	2,111	2,111
Exceptional Gain/(Loss)	26	(454)	0	0	0
<b>Pre-tax Profit</b>	<b>85,542</b>	<b>68,722</b>	<b>31,929</b>	<b>28,719</b>	<b>30,108</b>
Tax	(31,411)	(27,967)	(10,150)	(11,568)	(11,224)
Minority Interest	(19,096)	(14,185)	(7,963)	(4,635)	(7,452)
<b>Net Profit</b>	<b>35,035</b>	<b>26,570</b>	<b>13,816</b>	<b>12,517</b>	<b>11,432</b>
<b>Core Profit</b>	<b>32,362</b>	<b>26,932</b>	<b>13,816</b>	<b>12,517</b>	<b>11,432</b>
Sales Gth (%)	(4.7)	13.0	(15.0)	(14.2)	(9.0)
Net Profit Gth (%)	(11.7)	(24.2)	(48.0)	(9.4)	(8.7)
Core Profit Gth (%)	(19.3)	(16.8)	(48.7)	(9.4)	(8.7)
Gross Mgn (%)	21.8	17.7	12.1	12.5	12.9
Core Profit Margin (%)	7.0	5.1	3.1	3.3	3.3
Tax Rate	36.7	40.7	31.8	40.3	37.3

Source: Company, DBS HK

## Country Garden

### Balance Sheet (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Fixed Assets	153,558	96,532	96,532	96,532	96,532
Invt in Assocs & JVs	63,441	72,841	72,841	72,841	72,841
Other LT Assets	120,095	137,896	137,896	137,896	137,896
Cash & ST Invt	183,623	181,300	161,239	153,454	151,848
Other Current Assets	1,558,533	1,532,637	1,670,965	1,879,813	2,234,249
<b>Total Assets</b>	<b>2,015,809</b>	<b>1,948,365</b>	<b>2,066,633</b>	<b>2,267,695</b>	<b>2,620,525</b>
ST Debt	96,241	79,018	79,018	79,018	79,018
Creditors	1,355,907	1,259,846	1,373,835	1,575,246	1,926,692
Other Current Liab	40,811	40,041	40,041	40,041	40,041
LT Debt	230,244	238,904	221,404	203,904	186,404
Other LT Liabilities	35,603	29,929	29,929	29,929	29,929
Minority Interests	81,901	101,891	109,854	114,488	121,940
Shareholder's Equity	175,102	198,736	212,552	225,069	236,501
<b>Total Capital</b>	<b>2,015,809</b>	<b>1,948,365</b>	<b>2,066,633</b>	<b>2,267,695</b>	<b>2,620,525</b>
Share Capital (m)	21,641	21,996	24,025	24,025	24,025
Net Cash/(Debt)	(142,862)	(136,622)	(139,183)	(129,468)	(113,574)
Working Capital	161,815	232,750	257,089	264,527	267,516
Net Gearing (%)	55.6	45.4	43.2	38.1	31.7

Source: Company, DBS HK

### Cash Flow Statement (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Profit Before Tax	85,542	68,722	31,929	28,719	30,108
Assoc. & JV Inc/(loss)	(6,258)	(5,053)	(4,390)	(3,655)	(4,138)
Tax Paid	(42,156)	(37,219)	(10,150)	(11,568)	(11,224)
Depr/Amort	2,067	2,387	0	0	0
Chg in Wkg.Cap.	(45,325)	195,090	(63,680)	(81,211)	(28,413)
Other Non-Cash	(15,501)	(213,072)	(2,399)	(2,111)	(2,111)
<b>Operating CF</b>	<b>(21,631)</b>	<b>10,855</b>	<b>(48,691)</b>	<b>(69,825)</b>	<b>(15,778)</b>
Net chg in inv.	0	0	0	0	0
Assoc, MI, Invsmt	(5,917)	(18,042)	6,789	5,766	6,249
<b>Investing CF</b>	<b>(5,917)</b>	<b>(18,042)</b>	<b>6,789</b>	<b>5,766</b>	<b>6,249</b>
Net Chg in Debt	(39,247)	(13,429)	(17,500)	(17,500)	(17,500)
New Capital	3,561	6,352	0	0	0
Dividend	(16,152)	(6,052)	0	0	0
Other Financing CF	(2,150)	333	0	0	0
<b>Financing CF</b>	<b>(53,988)</b>	<b>(12,796)</b>	<b>(17,500)</b>	<b>(17,500)</b>	<b>(17,500)</b>
Chg in Cash	(81,684)	(20,091)	(20,061)	(7,786)	(1,606)
Chg in Net Cash	(41,328)	6,240	(2,561)	9,714	15,894

Source: Company, DBS HK

**Country Garden**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	19-Nov-21	HK\$53.70	HK\$75.61	Buy
2:	11-Feb-22	HK\$51.55	HK\$78.82	Buy
3:	28-Jul-22	HK\$17.44	HK\$33.19	Buy

Source: DBS HK

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## Country Garden

DBS HK recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**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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