

China / Hong Kong Company Update

Longfor Group

Bloomberg: 960 HK Equity | Reuters: 0960.HK

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DBS Group Research . Equity

24 Jul 2023

BUY

Last Traded Price (21 Jul 2023): HK\$16.16 (HSI : 19,075)
Price Target 12-mth: HK\$27.82 (72% upside) (Prev HK\$29.51)

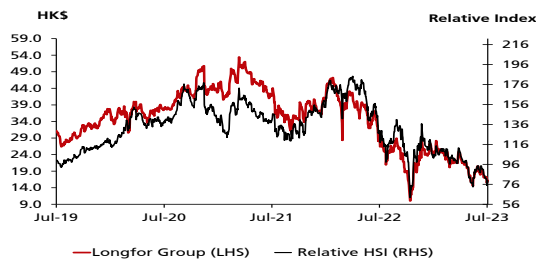
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What's New

- Revenue and earnings shortfall from weak FY22 presales offset by continued ramp-up of recurring income businesses
- Finetuned FY23/24F earnings by 2-3% to reflect weaker development booking assumption
- Recent share price volatility may create decent entry point for investors
- Maintain BUY and sector top pick with TP of 27.82HK\$/sh

Price Relative



Forecasts and Valuation

FY Dec (RMB m)	2022A	2023F	2024F	2025F
Turnover	250,565	217,013	231,106	248,691
EBITDA	134,393	112,281	116,865	132,386
Pre-tax Profit	45,822	38,337	39,724	44,478
Net Profit	24,362	21,651	22,111	23,755
Core Profit	22,540	21,651	22,111	23,755
Core Profit Gth (%)	0.4	(3.9)	2.1	7.4
Core EPS (RMB)	3.72	3.57	3.65	3.92
Core EPS (HK\$)	4.05	3.89	3.97	4.26
Core EPS Gth (%)	0.4	(3.9)	2.1	7.4
Core PE (X)	4.0	4.2	4.1	3.8
P/Cash Flow (X)	9.0	nm	1.2	0.9
EV/EBITDA (X)	2.4	3.0	2.9	2.7
DPS (HK\$)	1.26	1.17	1.19	1.28
Div Yield (%)	7.8	7.2	7.4	7.9
Net Gearing (%)	58.1	56.7	54.6	52.2
ROE (%)	18.2	14.5	13.4	13.1
Book Value (HK\$)	25.51	28.23	31.01	33.99
P/Book Value (X)	0.6	0.6	0.5	0.5

EPS Rev (%): (2) (3) New
Consensus EPS (RMB) 3.71 3.80 4.22
Other Broker Recs: B:28 S:0 H:2

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

Sound fundamentals overlooked

Investment Thesis

The undisputed quality POE developer. Known for its prudent financial management, Longfor is the only POE developer that has secured an investment grade rating from all three foreign rating agencies amid the sector turbulence. Longfor also has an established and rapidly growing stream of recurring income from its shopping mall, rental housing and property service businesses, adding resilience into its earnings profile (c.27% of profit in FY22A). Longfor has consistently generated above-peers core ROE in the past few years.

Shortfall from property development to be cushioned by resilient recurring businesses. Longfor's 31% y-o-y presales drop in 2022 and lower presales GPM of c.15% will likely weigh on development earnings in 2023. However, shortfall will largely be offset by the growing stream of recurring income from the higher margin rental income from shopping malls and solid growth from property management. We expect its blended GPM will remain stable at >21% in FY23 and gradually pick up thereafter as development margins bottom out (presales margin YTD 2023 at >20%) and we see higher contribution from its recurring businesses.

Continued presales outperformance to catalyze share price recovery. Longfor has accelerated its land acquisition pace and spent c.Rmb25bn in gross premiums (+11% y-o-y), representing c.25% premium to presales in 1H23 (vs. c.20% in 2H22), placing it the highest among POE names and the top 5 across developers we track. Alongside its reputation and sufficient saleable resources at hand, Longfor was the only POE name that was able to deliver presales growth in 1H23 (+13% vs POE avg: -27%) and we believe the counter should be able to maintain its presales outperformance throughout the year. Meanwhile, growing rental income from shopping malls (6 new opening in 1H23, out of 11 targets in 2023) should enhance its earnings resilience.

BUY and sector top pick with TP revised to HK\$27.82/sh. Near-term share price volatility may create decent entry points. Our TP is based on 1.0x FY23F PB, equivalent to its avg forward PB in FY13-14 when core ROE was at a similar level and the property sector was in a downturn.

Key Risks

Larger-than-expected development margin compression; weaker-than-expected physical market and consumption recovery.

At A Glance

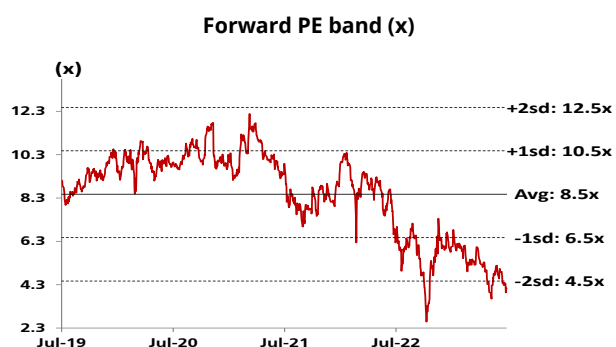
Issued Capital (m shrs)	6,282
Mkt Cap (HKm/US\$m)	101,517 / 12,986
Major Shareholders (%)	
Charm Talent International Ltd	43.6
Silverland Assets Ltd	21.3
Woo (Kwong Ching)	6.7
Free Float (%)	28.3
3m Avg. Daily Val. (US\$m)	34.9
GICS Industry: Real Estate / Real Estate Management & Development	

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 67.7m sm as at Jun 22. 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

Key Assumptions

FY Dec	2023F	2024F	2025F
Property price growth	0.0%	0.0%	0.0%
Rental for office	0.0%	0.0%	0.0%
Rental for retail	5.0%	5.0%	5.0%
ADR growth for hotel	0.0%	0.0%	0.0%

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenues (RMB m)					
Property Development	204,546	227,017	185,234	192,154	204,824
Property Investment	10,414	11,880	15,444	18,533	20,386
Property Management	8,416	11,668	16,335	20,419	23,482
Total	223,375	250,565	217,013	231,106	248,691

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Turnover	223,375	250,565	217,013	231,106	248,691
Cost of Goods Sold	(166,835)	(197,527)	(170,926)	(181,556)	(192,517)
Gross Profit	56,541	53,038	46,087	49,550	56,174
Other Opg (Exp)/Inc	(16,285)	(12,132)	(9,988)	(11,742)	(12,986)
Operating Profit	40,256	40,906	36,099	37,809	43,188
Associates Inc	2,932	1,421	1,208	1,027	822
Net Interest (Exp)/Inc	1,060	1,144	1,030	888	469
Exceptional Gain/(Loss)	3,378	2,350	0	0	0
Pre-tax Profit	47,627	45,822	38,337	39,724	44,478
Tax	(15,839)	(12,999)	(10,653)	(11,043)	(12,899)
Minority Interest	(7,935)	(8,461)	(6,033)	(6,569)	(7,824)
Net Profit	23,854	24,362	21,651	22,111	23,755
Core Profit	22,440	22,540	21,651	22,111	23,755
Sales Gth (%)	21.0	12.2	(13.4)	6.5	7.6
Net Profit Gth (%)	19.3	2.1	(11.1)	2.1	7.4
Core Profit Gth (%)	20.1	0.4	(3.9)	2.1	7.4
Gross Mgn (%)	25.3	21.2	21.2	21.4	22.6
Core Profit Margin (%)	10.0	9.0	10.0	9.6	9.6
Tax Rate	33.3	28.4	27.8	27.8	29.0

Source: Company, DBS HK

Longfor Group

Balance Sheet (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Fixed Assets	3,649	2,770	2,412	2,053	2,053
Invt in Assocs & JVs	26,747	29,186	29,186	29,186	29,186
Other LT Assets	200,867	214,580	214,580	214,580	214,580
Cash & ST Invt	88,535	72,624	63,850	57,107	50,937
Other Current Assets	555,854	467,614	483,026	522,321	574,532
Total Assets	875,651	786,774	793,053	825,246	871,288
ST Debt	14,501	20,657	20,657	20,657	20,657
Creditors	329,060	218,624	203,714	213,860	235,449
Other Current Liab	102,982	96,594	96,594	96,594	96,594
LT Debt	177,565	187,351	187,351	187,351	187,351
Other LT Liabilities	29,665	30,369	30,369	30,369	30,369
Minority Interests	96,928	91,079	97,111	103,680	111,504
Shareholder's Equity	124,949	142,100	157,256	172,734	189,363
Total Capital	875,651	786,774	793,053	825,246	871,288
Share Capital (m)	6,058	6,058	6,058	6,058	6,058
Net Cash/(Debt)	(103,532)	(135,384)	(144,158)	(150,901)	(157,071)
Working Capital	123,812	152,396	182,717	211,866	242,489
Net Gearing (%)	46.7	58.1	56.7	54.6	52.2

Source: Company, DBS HK

Cash Flow Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Profit Before Tax	47,627	45,822	38,337	39,724	44,478
Assoc. & JV Inc/(loss)	(1,586)	(641)	0	0	0
Tax Paid	(15,897)	(17,676)	(10,653)	(11,043)	(12,899)
Depr/Amort	359	359	359	359	359
Chg in Wkg.Cap.	3,920	(16,771)	(28,322)	45,851	72,878
Other Non-Cash	(5,893)	(1,486)	(1,030)	(888)	(469)
Operating CF	28,532	9,961	(1,309)	74,002	104,347
Net chg in inv.	(14,567)	(10,215)	0	0	0
Assoc, MI, Invsmt	(34,165)	(2,197)	(2,000)	(75,000)	(103,859)
Investing CF	(48,732)	(12,412)	(2,000)	(75,000)	(103,859)
Net Chg in Debt	26,161	16,654	0	0	0
New Capital	119	32	0	0	0
Dividend	(8,671)	(5,512)	(6,495)	(6,633)	(7,127)
Other Financing CF	13,689	(24,732)	1,030	888	469
Financing CF	31,298	(13,558)	(5,466)	(5,745)	(6,658)
Chg in Cash	11,098	(16,009)	(8,774)	(6,743)	(6,170)
Chg in Net Cash	(13,992)	(31,852)	(8,774)	(6,743)	(6,170)

Source: Company, DBS HK

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Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	Target Price	Rating
1	11-Aug-22	HK\$20.90	HK\$30.26	BUY
2	30-Aug-22	HK\$25.95	HK\$30.05	BUY
3	2-Feb-23	HK\$25.85	HK\$29.25	BUY
4	20-Mar-23	HK\$21.85	HK\$29.51	BUY

Source: DBS HK

Analyst: Jason Lam
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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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