

# 2019 August Newsletter

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China SCE Group Holdings Limited

**Stock Code: 1966.HK**

Best 50 of China Real Estate Developers



China SCE Group Holdings Limited ("China SCE" or the "Company") was established in 1996 and listed on the Main Board of The Stock Exchange of Hong Kong Limited in February 2010. The Group's major businesses include property development, commercial management, property management and rental apartments business. The Company is headquartered in Shanghai for its business operations, while implementing regional focused development strategy targeting the first- and second-tier cities in the Yangtze River Delta Economic Zone, the Bohai Rim Economic Zone, the Guangdong-Hong Kong-Macao Greater Bay Area, the West Taiwan Strait Economic Zone and Central Western Region.



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## Latest News

### Sales Overview

In August 2019, the Group together with its joint ventures and associates achieved a contracted sales amount of approximately RMB5.924 billion and a contracted sales area of 491,005 sq.m., representing a year-on-year increase of 47% and 84% respectively. The average selling price for August 2019 was RMB12,066 per sq.m.

For the eight months ended 31 August 2019, the Group together with its joint ventures and associates achieved an accumulated contracted sales amount of approximately RMB48.141 billion and an accumulated contracted sales area of 3,883,070 sq.m., representing a year-on-year increase of 65% and 74%, respectively. The average selling price for the eight months ended 31 August 2019 was RMB12,398 per sq.m.

### Land Bank

As at 31 August 2019, the Group together with its joint ventures and associates owned a land bank with an aggregate planned GFA of approximately 29.66 million sq.m.

*Details of newly acquired land parcels in August 2019 are as follows:*

City	Group's Equity Interest	Land-use Planning	Area of the Land Parcel (sq.m.)	Aggregate Planned GFA (sq.m.)	Average Land Cost (RMB/sq.m.)
Qingdao	100%	Residential	38,006	68,410	2,837
Jiangmen	50%	Residential and Commercial	46,154	138,510	4,800

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### **Attributable Core Profit Increased 29% in 1H2019, Declared an Interim Dividend of HK10 Cents**

China SCE announced 2019 interim results on August 22. For the six months ended 30 June 2019, the revenue increased by 10.7% to approximately RMB10.42 billion. The gross profit margin was 28.9%, and the profit for the period increased by 6.0% year-on-year to approximately RMB2.19 billion. Core profit attributable to owners of parent increased by 28.9% to approximately RMB1.54 billion. The Board has declared an interim dividend of HK10 cents per share, up 42.9% year-on-year.

The Group adopted flexible sales strategies to speed up the sales and cash collection efficiency. Financial position remained strong, as of 30 June 2019, the total cash and bank balances increased by 17.6% to approximately RMB23.5 billion, and the net gearing ratio was 66.2%.

The Group is confident to achieve the full year contracted sales target of RMB70 billion.

### **J.P. Morgan and Huatai Financial Recommended China SCE as Top Pick, Various Research Houses Raised the Target Prices**

*Analyst Coverage as of 31 August 2019*

Research House	Rating	Target Price(HKD)	Date
J.P. Morgan	Overweight(Top Pick)	5.70*	2019-8-23
Huatai Financial	Buy (Top Pick)	5.50	2019-8-23
BOCI	Buy (Top Pick)	4.50	2019-4-15
DBS	Not Rated (Top Pick)	-	2018-10-18
Citi	Buy	5.00*	2019-8-23
CMBI	Buy	4.83*	2019-8-23
Guotai Junan	Accumulate	-	2019-1-17
Haitong International	Buy	6.02*	2019-8-22
Haitong Securities	Outperform	4.87-5.85	2019-8-26
HSBC	Buy	5.00*	2019-8-22
Industrial Securities	Not Rated	-	2019-8-24
Macquarie	Outperform	6.29	2019-8-23
Northeast Securities	Buy	5.40	2019-8-31

\*Target prices raised after 2019 interim results announcement.

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**J.P. Morgan:**J.P. Morgan believes China SCE has figured out its own edge to achieve sustainable growth, the new "DP+asset-light IP" Strategy. J.P. Morgan thinks the quality of China SCE's management is high as shown by acute judgement on market, forward-looking vision and good risk control.

**Huatai Financial:**Huatai Financial likes China SCE's high earnings visibility and strong execution, and any faster-than-expected growth in these businesses could be positive surprises, thanks to the sustainable cash flows generated from the commercial platforms.

**Citi:**Citi believes China SCE is moving into a new stage of harvesting earnings in 2H2019-2021E. Citi expects net gearing shall be well controlled at 70-90% for growth with manageable debt scale, robust balance sheet shows room for growth. China SCE's focus on malls/ rental apartments created synergy to low-cost land acquisition.

**HSBC:**HSBC continues to be positive on China SCE's growth prospects, the contracted sales performance recorded the highest growth in HSBC's coverage universe, underpinning strong earnings growth in the medium term.

**Macquarie:**China SCE's core profit increased by 29%, and blue sky scenario of contracted sales to reach RMB125 billion for 2020, China SCE will continue to ramp up the rental apartment and shopping mall portfolio. Macquarie comments projected dividend yield of 7.7% for 2019E is attractive.

**Haitong International:**China SCE's interim DPS rose by 43% year-on-year, one of the biggest increases among its peers. Haitong International sees China SCE is striking a good balance between expansion and financial health.

**CMBI:**China SCE focuses to absorb land bank in the second- and leading third-tier cities. Average land cost was RMB3,787 per sq.m., which is equivalent to 30.3% of pre-sales average selling price in 1H2019.

**Haitong Securities:**China SCE's contracted sales began to surge in 2019. Land banking strategy was proven effective with the proportion of landbank in the first- and second-tier cities reached 77.7%. The debt structure has been gradually optimized, with net gearing below sector average, and the overall business was improving.

**Northeast Securities:**China SCE's contracted sales maintained a high growth rate, with abundant saleable resources. In the first half of the year, China SCE mastered the market cycle and deepened in covered cities. Rich landbank of China SCE offers safety cushion. At the same time, financial leverage remained solid, liquidity remained sufficient, and short-term debt coverage ratio has improved as compared to the end of 2018.

**Industrial Securities:**China SCE interim results were in line with expectations. Industrial Securities expects the contracted sales of China SCE to exceed RMB80 billion in 2019, a year-on-year growth rate of 56%. China SCE maintains a reasonable net gearing by accelerating turnover. The diversified business model of commercial and long-term rental apartment is gradually becoming clearer. Investors are recommended to pay attention to China SCE.

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