2021 August Newsletter

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 key focused strategy in the Yangtze River Delta Economic Zone, the Guangdong-Hong Kong-Macao Greater Bay Area, the Bohai Rim Economic Zone, the West Taiwan Strait Economic Zone and Central Western Region.

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Sales Overview

In August 2021, the Group together with its joint ventures and associates achieved a contracted sales amount of approximately RMB8.055 billion and a contracted sales area of 614,183 sq.m. The average selling price for August 2021 was RMB13,115 per sq.m.

For the eight months ended 31 August 2021, the Group together with its joint ventures and associates achieved an accumulated contracted sales amount of approximately RMB75.136 billion and an accumulated contracted sales area of 4,899,886 sq.m, representing a year-on-year increase of 32% and 21%, respectively. The average selling price for the eight months ended 31 August 2021 was RMB15,334 per sq.m.

Land Bank

As of 31 August 2021, the Group together with its joint ventures and associates owned a land bank with an aggregate planned GFA of approximately 40.25 million sq.m.

Details of newly acquired land parcels in August 2021 are as follows:

City	Location	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.)
Yantai	Penglai District	100%	Residential	23,220	77,090	1,022
Shanghai	Minhang District	20%	Commercial	8,103	16,207	11,415
Quanzhou	Nan'an	40%	Residential	20,580	48,042	4,413

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Attributable Core Profit up 20%
Declared an Interim Dividend of HK12 cents per Share

On 27 August 2021, China SCE announced 2021 Interim Results, with revenue significantly increased by 35% year-on-year ("YoY") to RMB20.39 billion. Core profit attributable to owners of the parent grew 20% YoY to RMB2.21 billion. The interim dividend was HK12 cents, representing a YoY growth of 9%.

Financial management remained prudent, the Group continued to fully comply with the "Three Red Lines" and remained in the "Green Camp".

Weighted average financing costs further decreased to 6.3%, which was at a lower level compared to peers of similar operating scale within the industry.

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Various Research Houses Affirmed BUY Rating Reflecting Attractive Valuation and Strong Earnings Growth

Post 1H2021 Research Report Summary		
Research House	Rating	Target Price (HKD)
BOCI	Buy	4.75
Citi	Buy	4.62
CLSA	Buy	4.70
CMB International	Buy	5.60
Deutsche Bank	Buy	5.60
Guotai Junan	Buy	4.50
Haitong International	Outperform	4.20
HSBC	Buy	4.90
Huatai Securities	Buy	5.80
Jefferies	Buy	4.61
J.P. Morgan	Overweight	4.00
Morgan Stanley	Overweight	4.01

(Listed in Alphabetical Order)

"The company spent around RMB26.3bn on new land acquisition. One of the reasons is the sufficient cash inflow from soaring contracted sales. Also, equipped with the capabilities in long term rental business and commercial property business, the company is confident to maintain relatively stable gross margin on land acquisitions by leveraging such abilities to promote comprehensive development." - **BOCI**

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"China SCE's strong 1H21 result kicks off its expected high growth period in '21E-23E after outpaced sales growth in '18-20 (41% CAGR) at stable 22-25% GPM and higher attri. stake (71%* for landbank; 81%* for new lands in 1H). With a broadened footprint in 67 cities, strong B/S (in "green camp") and lower finance costs (6.3%), SCE looks set for 15-20% LT sales growth. Its dual track strategy is working well, with i) IP: added six new malls (now 38 incl. pipeline; 4/11 to open in 2H21/22) to back target of RMB4.5bn rental from 100 malls by '25E; ii) LT apartment: secured c.40k rooms & Rmb24bn funds under mgmt. With attractive valuation (2.7x 21E P/E, 79% NAV disc; 12.1% yield), affirm Buy." - **CITI**

"China SCE has again delivered solid results which could ease market concern regarding its earnings growth while actively building up its rental portfolio. The spin-off of its property management business in early July has proved its excellent execution capability, and we trust the opening of four shopping malls in 4Q21 will further enhance investors' confidence. Its "all-green" balance sheet also suggests that China SCE has been disciplined for its dual-track expansion." - **CLSA**

"China SCE delivered strong 1H21 results with core earnings growth of 20.1% YoY to RMB2.21bn. The Company has stayed within the green category with liability to Asset at 69.5%, net gearing at 77.9% and cash to short-term debt at 1.2x. China SCE had land bank in 67 cities with total GFA of 39.67mn sq m. The Company is currently trading at 2.7x 2021E PE, lower than its 5Y historical average of 4.4x. PB is at 0.52x 2020." - **CMBI**

"China SCE adopts the TOD development model and is able to secure an adequate pipeline of projects with transport access. Moreover, the land costs are lower than they would be for land acquired via public auction. Management expects the sites acquired in 1H21 to fetch 25% margins and is maintaining its RMB 120bn sales target in FY21 and guides for 15-20% growth in sales beyond FY21, which is achievable, given the potential growth in saleable resources." - **Deutsche Bank**

"Under its dual-track strategy in developing commercial properties, China SCE has acquired total 38 malls and 39,352 apartment rooms under management. We believe the Company's commercial business is well on track to reach a sizable portfolio, and the rental income is likely to bring some upside surprise in the coming years. Guided by the management, the sites acquired through commercial complexes, especially the TOD projects, should have better certainty in securing GPM at 25% level." - **Guotai Junan**

Note

* : Attributable ratios by GFA

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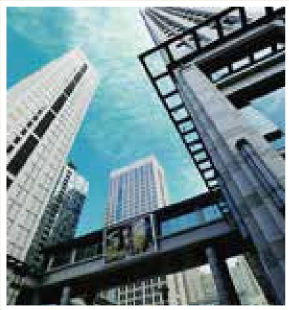
"In 1H21, China SCE's rental income was up significantly by 34% YoY, partly due to opening of SCE Funworld (shopping mall) in Shuitou and Xianyou; Currently China SCE owns 38 shopping malls with a total GFA of 2.3 million. China SCE is one of very midsmall cap developers which has strong operational focus in investment properties. More developers are putting expansion focus on investment properties as profitability of property development is coming down and China SCE could enjoy some first mover advantage." - **Haitong International**

"China SCE maintained a solid earnings growth pace of 20% y-o-y in 1H21. Its high revenue growth at 35% y-o-y in 1H21 helped to offset the gross margin compression. The company's high contracted sales growth has provided the basis for solid revenue bookings in the near term. Administrative cost control (-25% y-o-y) and lower minority interest deduction (-17% y-o-y) contributed to earnings growth. Its land acquisition attributable ratio has a favourable trend and increased from 80% in 2020 to 84% in 1H21. We like its strong top-line growth and its rising attributable ratio trend in the medium term." - **HSBC**

"SCE reported strong 1H21 results with 20% core earnings growth that beat our expectation. We believe the company's strong sales and rental would sustain ~20% earnings CAGR (amid largely stable GPM) and support stock re-rating in the medium-term. We see the company as a good candidate to evolve into a quality mid-cap developer." - **Jefferies**

"1H21 core net profit grew 20% Y/Y (4% above JPM estimate), which is one of the strongest rates among developers. Remarkably, >90% of the land acquired in 1H21 is related to malls and rental apartments, showing how its land-banking strategy continues to play out well in 2021. As of 1H21, 38 malls are already in the pipeline. SCE is in fact a rarity among small-cap developers with (1) higher-than-average growth; (2) proven "dual-core" land-banking strategy; (3) compliance with all three red lines; and (4) good track record and high-quality management. Stay Overweight." - **JP Morgan**

"China SCE reported 1H21 core earnings +20.1% y-y, beating market consensus of +15% y-y. Gross margin was 25.1%, higher than market consensus of 23%. Maintain Overweight." - **Morgan Stanley**



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