

2020 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 2020, the Group together with its joint ventures and associates achieved a contracted sales amount of approximately RMB9.214 billion and a contracted sales area of 695,921 sq.m., representing a year-on-year increase of 56% and 42%, respectively. The average selling price for August 2020 was RMB13,240 per sq.m.

For the eight months ended 31 August 2020, the Group together with its joint ventures and associates achieved an accumulated contracted sales amount of approximately RMB57.015 billion and an accumulated contracted sales area of 4,050,254 sq.m., representing a year-on-year increase of 18% and 4%, respectively. The average selling price for the eight months ended 31 August 2020 was RMB14,077 per sq.m.

Land Bank

As at 31 August 2020, the Group together with its joint ventures and associates owned a land bank with an aggregate planned GFA of approximately 35.91 million sq.m.

Details of newly acquired land parcels in August 2020 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.)
Chizhou	100%	Residential and Commercial	213,691	369,510	1,548
Quanzhou	34%	Residential	58,981	145,002	3,765
Quanzhou	100%	Residential	25,521	79,115	3,160
Zhumadian	100%	Residential and Commercial	261,917	755,975	1,488

Disclaimer:

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01

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Benefited from the Strong Growth in Interim Revenue Attributable Core Profit up 19%

China SCE announced 2020 interim results on 19 August 2020, with revenue of approximately RMB15.14 billion, representing a 45% growth on a year-on-year basis. Gross profit margin was stable at 27.9%; profit for the period recorded an increase of 15% from the same period last year to RMB2.52 billion. Core profit attributable to owners of the parent grew 19% compared to 1H2019 to approximately RMB1.84 billion. The board declared an interim dividend of HK11 cents per share, representing a 10% growth.

As of end of June 2020, net gearing ratio was 68.3%, remaining at a lower than market level, while average financing costs remained at a stable level of 6.7%.

Numbers of Brokers Affirmed BUY Rating Citi, Haitong International, Jefferies and Macquarie Raised Target Price

Research Reports Post-2020 Interim Results

Research House	Rating	Target Price (HKD)
BOCI	Buy	5.01
Citi	Buy	5.30
CLSA	Buy	4.80
CMB International	Buy	5.60
CRIC Securities	Buy	5.52
Guotai Junan	Accumulate	-
Haitong International	Outperform	7.18
Haitong Securities	Outperform	5.52-6.62
HSBC	Buy	4.60
Huatai Financial	Buy	5.80
Jefferies	Buy	5.90
J.P. Morgan	Overweight	6.00
Macquarie	Outperform	5.64
Morgan Stanley	Overweight	5.76
Northeast Securities	Buy	4.90

(Listed in Alphabetical Order)

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Citi believes China SCE is moving into a new stage of harvesting its 2020E/2021E earnings given outpaced sales growth in 2018/2019, evidenced by 1H2020 results. Citi comments China SCE posted strong 1H2020 results with core profit grew 69% year-on-year if excludes gains on bargain purchase of projects, and property management business is a positive on both commercial and residential.

CLSA sees steady growth in both contracted sales and core profits, and most importantly, China SCE has a healthy balance sheet resulted from solid interim results. CLSA believes a comfortable RMB100 billion contracted sales in 2020 and a possible property management spin-off are likely to catalyze the share price.

CMB International thinks their new "Dual-Track" business model helps China SCE buying cheap land. Potential spin-off of property management business will be another highlight.

CRIC Securities points out that China SCE's interim results has recorded strong growth against the trend, sufficient contract liabilities may accelerate earnings release, with ample saleable resources will drive the contract sales to RMB100 billion in 2020.

Haitong International comments the growth rate of China SCE's core profit should be markedly higher than peers (19% in 1H2020), and says China SCE has been proactive in buying land during 1H2020 while maintaining a strong financial health.

Haitong Securities says China SCE 1H2020 results has achieved outstanding performance, continues to pursue the "Dual-Track" strategy and proactively expanding its high-quality land bank.

HSBC thinks China SCE 1H2020 results clearly stand out among peers - core profit up 69% year-on-year (excluding one-off gain from last year) and 2H2020 contracted sales will be supported by ample saleable resources of RMB130 billion.

Huatai Financial believes that China SCE's satisfactory interim results have strengthened their confidence towards the Company. Furthermore, Huatai Financial thinks any spin-off of China SCE's commercial & property management arm will be a potential positive share-price catalyst.

Jefferies likes China SCE's "Dual-Track" strategy and believes the potential spin-off of property management business would serve as a good medium-term catalyst.

J.P. Morgan comments China SCE's 1H2020 results showed initial evidence of the long overdue earnings release with a strong pick-up in delivery. J.P. Morgan expects China SCE to see a rerating with three catalysts in 2H2020: (1) acceleration of sales growth (2) further proof of land-banking strategy & (3) potential spin-off of property management. J.P. Morgan reaffirms China SCE as their Top Pick.

Macquarie says China SCE's diversified business strategy is progressing well with potential spin-off of property management.

Morgan Stanley writes China SCE's core earnings excluding one-off gain rose 69%, beating expectation, and Morgan Stanley expects earnings growth to speed up with potential property management spin-off as catalyst.

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04