

2021 March 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 March 2021, the Group together with its joint ventures and associates achieved a contracted sales amount of approximately RMB10.834 billion and a contracted sales area of 576,355 sq.m., representing a year-on-year increase of 80% and 34%, respectively. The average selling price for March 2021 was RMB18,798 per sq.m.

For the three months ended 31 March 2021, the Group together with its joint ventures and associates achieved an accumulated contracted sales amount of approximately RMB26.032 billion and an accumulated contracted sales area of 1,493,331 sq.m., representing a year-on-year increase of 101% and 66%, respectively. The average selling price for the three months ended 31 March 2021 was RMB17,432 per sq.m.

Land Bank

As of 31 March 2021, the Group together with its joint ventures and associates owned a land bank with an aggregate planned GFA of approximately 39.42 million sq.m.

Details of newly acquired land parcel in March 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.) |
|---------|------------------|-------------------------|----------------------------|---------------------------------|-------------------------------|-------------------------------|
| Tianjin | Beichen District | 38% | Residential and Commercial | 58,392 | 106,152 | 7,828 |

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Attributable Core Profit up 27% in 2020 Fully complied with "Three Red Lines" Requirements Declared a Final Dividend of HK18 Cents Per Share

China SCE announced 2020 annual results on 30 March 2021, revenue was approximately RMB32.57 billion, representing a 52.4% growth. Gross profit margin was 24.1%, profit for the period recorded an increase of 10.5% from the same period last year to RMB4.45 billion. Core profit attributable to owners of the parent grew 26.6% to approximately RMB3.35 billion. The final dividend was HK18 cents per share, together with an interim dividend of HK11 cents, the annual dividend payout ratio reached 30.8%.

As of December 2020, China SCE fully complied with the "Three Red Lines" requirements, the debt-to-asset ratio excluding advance receipts was 68.7%, decreased 4.8 percentage points as compared with last year; the net gearing ratio was 59.2%, decreased 0.8 percentage points; the unrestricted cash to short-term debt ratio was 1.3 times, much higher than the requirement of no less than 1. At the same time, the weighted average cost of financing further improved, down from 6.7% in the same period last year to 6.5%.

The contracted sales target for 2021 increased 18% to RMB120 billion.

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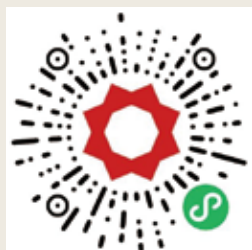
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Various Research Houses Affirmed BUY J.P. Morgan Reaffirmed China SCE as Top Pick Citi and Jefferies Raised Target Price

Analyst Coverage after 2020 Annual Results

| Research House | Rating | Target Price (HKD) |
|----------------------------|------------|--------------------|
| BOCI | Buy | 5.00 |
| Citi | Buy | 4.60 |
| CMB International | Buy | 5.60 |
| CRIC Securities | Buy | 5.52 |
| Deutsche Bank | Buy | 5.50 |
| Guotai Junan International | Buy | 5.40 |
| Guotai Junan | Accumulate | - |
| Haitong International | Outperform | 5.20 |
| Haitong Securities | Outperform | 5.52-6.62 |
| Huatai Financial | Buy | 5.80 |
| Jefferies | Buy | 5.12 |
| J.P. Morgan | Overweight | 5.20 |
| Morgan Stanley | Overweight | 5.76 |
| Northeast Securities | Buy | 4.90 |

(Listed in Alphabetical Order)

BOCI believes that China SCE has entered "Green Camp" under "Three Red Lines", which indicates decent growth ahead. BOCI reckons that the attributable contracted sales growth could reach as much as 30%, due to the improving attributable stake in land acquisition. BOCI believes that diversified land bank makes China SCE face less competition in residential land auction and secures resilient gross margins at approximately 25%.

Citi sees SCE enters a high earnings growth period in FY2021-2023E after outpaced sales growth in 2018-2020 (CAGR of 41%) at stable 25%+ gross profit margin and higher attributable stake. With footprint broadened to 62 cities (14 new cities in 2020), as well as optimized management structure and strong balance sheet (joined "Green Camp"), China SCE is on track for RMB120 billion sales in 2021E (18% year-on-year) and long-term 15-20% growth. Citi points out China SCE's "Dual-Track" strategy is working well and property management has a positive effect on commercial edges. Citi affirms BUY rating and raises the target price to HKD4.60 per share.

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DB points out China SCE delivered a solid set of FY2020 full-year results and showed solid fundamentals despite industry headwinds. DB estimates China SCE will continue to deliver a decent CAGR for its profit in FY2021-2023E. Under the "Dual-Track" strategy, DB assumes a CAGR of 39% in non-development income in FY2021-2023E and contribution from this segment would account for more than 10% of gross profit by FY2023E.

Guotai Junan International comments that China SCE delivered satisfactory 2020 results. Guotai Junan International expects China SCE to maintain attractive land cost/ASP ratio through its commercial advantages, which in turn will support a sustainable gross profit margin of 25% level in the future.

Haitong International comments that China SCE contracted sales target growth rate is one of the fastest among all key developers they are tracking. Besides, China SCE is also one of the few non-SOE mid cap developers who didn't cross any lines under the "Three Red Lines" policy. Haitong International believes that the sizeable unbooked sales will bring good earnings visibility for China SCE.

Jefferies believes China SCE's "Dual-Track" strategy would sustain its sales/earnings growth at around 20% with stable gross profit margin in the medium-term. Also, Jefferies forecasts China SCE's expanding mall/rental apartment portfolio would support its recurrent income at CAGR of 35% in FY2020-2023E. Jefferies reiterates BUY rating with target price lifted to HKD5.12 per share and sees the spin-off of property management business as a positive catalyst.

J.P. Morgan believes China SCE's contracted sales growth will continue to outperform peers, on both total and attributable basis. J.P. Morgan suggests the results would further enhance investors' confidence in China SCE as it exhibits a good mix of both growth and defensiveness. Further, J.P. Morgan reaffirms China SCE as their Top Pick over the next 12 months, as China SCE has a track record of developing and operating a shopping mall with sensible yield, which enables China SCE to get integrated projects that can create synergies between development properties and investment properties.

Morgan Stanley says China SCE reported strong 2020 results and expects steady growth ahead. Morgan Stanley estimates the land bank of China SCE can support 3.1 years of contracted sales.

Successfully Issued USD300 Million 5.95% Senior Notes due 2024

On 23 March 2021, China SCE and its subsidiary guarantors entered into a purchase agreement with HSBC, BofA Securities, Deutsche Bank, Guotai Junan International, The Bank of East Asia, Limited, and UBS in connection with the issue of senior notes in the aggregate principal amount of USD300 million, which will mature on 29 September 2024. China SCE intends to use the net proceeds for refinancing certain of its existing offshore indebtedness, which will become due within one year. The total subscription of the senior notes exceeds 11 times of its issuance amount, reflecting investors' support and confidence.

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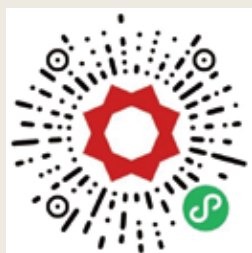


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Obtained a 3.5-year Offshore Syndicated Loan Equivalent to USD388 Million

By an agreement dated 22 March 2021 entered into by and among, inter alia, China SCE as borrower; certain of its subsidiaries as original guarantors; HSBC, Bank of China (Hong Kong) Limited and Hang Seng Bank Limited as mandated lead arrangers and bookrunners; a syndicate of banks as the original lenders; and BOCHK as the agent, the banks have agreed to grant to China SCE a HKD351,000,000 and USD342,500,000 dual tranche term facility. The facility is for refinancing existing financial indebtedness of the Group and funding payment of any fees, costs and expenses payable by China SCE and its relevant subsidiaries.

The facility is for a term of three years and six months commencing on the date on which the first utilisation of the facility is made under the facility agreement. The annual interest rate is the Hong Kong Interbank Offered Rate or the London Interbank Offered Rate plus 3.7%.

China SCE Awarded "Top 50 of China Real Estate Developers" for Seven Consecutive Years First-time Listed in the "Top 10 of Operations of China Commercial Real Estate Developers"

On 16 March 2021, the "2021 China Real Estate Top 500 Evaluation Results Release Conference" co-sponsored by China Real Estate Association and China Real Estate Appraisal Center of Shanghai E-House Real Estate Research Institute were announced in Shanghai. China SCE has been ranked among the "Top 50 of China Real Estate Developers" for seven consecutive years and ranked 41st in 2021. At the same time, it was selected as the "2021 TOP10 of Operations of China Commercial Real Estate Developers". China SCE's high-end product line, "Tian Series (天字系)", also won the "2021 Best Projects of China Real Estate Developers" award.

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