2022 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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Latest News

Sales Overview

In March 2022, the Group together with its joint ventures and associates achieved a contracted sales amount of approximately RMB8.010 billion and a contracted sales area of 485,257 sq.m. The average selling price for March 2022 was RMB16,506 per sq.m.

For the three months ended 31 March 2022, the Group, together with its joint ventures and associates achieved an accumulated contracted sales amount of approximately RMB17.251 billion and an accumulated contracted sales area of 1,284,011 sq.m. The average selling price for the three months ended 31 March 2022 was RMB13,435 per sq.m.

Land Bank

As of 31 March 2022, the Group together with its joint ventures and associates owned a land bank with an aggregate planned GFA of approximately 38.21 million sq.m.

No new land parcels were acquired in March 2022.

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Financial position remains solid with continued revenue growth Fully complied with "Three Red Lines" Requirements Outlook unanimously rated as stable by credit rating agencies

China SCE announced 2021 annual results on 30 March 2022, revenue was approximately RMB37.737 billion, representing an increase of approximately 16.0% over 2022, of which income from property sales was around RMB36.154 billion, representing a healthy 15% increase year on year (y-on-y). Approximately 3.30 million sq.m. of GFA was delivered. Gross profit increased significantly by 4.0% to approximately RMB8.174 billion. Profit for the year reached approximately RMB3.669 billion; core profit attributable to owners of the parent grew approximately RMB3.106 billion. The Board recommended a final dividend of HK6 cents per share. Added to the interim dividend of HK12 cents per share, the full-year dividend per share was HK18 cents, a 14% return-on-equity ratio.

As of December 2021, China SCE fully complied with the "Three Red Lines" requirements. The gearing ratio, excluding advance receipts, was 67.3% and the net gearing-ratio was 70.7%. Unrestricted cash to short-term debt was 1 time. Moreover, the Group's weighted average finance cost for the year was 6.4%, a significant improvement over last year. The Group also remitted funds in advance for the repayment of a USD500 million senior note due in March 2022. With no other USD bonds maturing within the next year, the Group's financial position therefore remains solid. Six domestic and overseas credit rating agencies unanimously rated its outlook as table.

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Various Research Houses Affirmed "BUY" Investment Rating

Analyst Coverage after 2020 Annual Results

Research House	Rating
Citi	Buy
CLSA	Buy
Deutsche Bank	Buy
HSBC	Buy
J.P. Morgan	Overweight

(Listed in Alphabetical Order)

Citi sees SCE's dual-engine strategy is on track: (a) Investment Properties: 14/19 malls in operation by '22/23E (9 opened by 21) with total 32 malls (incl. pipeline); (b) Long-term-rental Apartments: secured total of 35k rooms with 9.1k room opened and cooperated with other investment funds in 8 projects for total asset value of RMB6.8bn. (c) Property Development: planned RMB136bn resources in '22E with broadened footprint ; (d) green-camp balance sheet , with no USD notes due in '22E after repaid USD500m note in Mar-22 and 6.4% finance costs ('20: 6.7%). Given SCE's commitment to stakeholders' interests, management's safety-first philosophy, optimized management structure and attractive valuations (1.6x '22 PE; 12% yield at 20% payout), maintain Buy. New TP HK$2.0.

CLSA comments that China SCE's prudent financial management has ensured its long-term business sustainability, evidenced by its continuous land purchase and investment property build-up. Its solid balance sheet (passing all leverage-related thresholds), with no USD bond due until April 2023, hints at low default risk. They believe the current valuation of 1.5x 22CL PE should have priced in all market uncertainties. New target price HK$1.84 and reiterate BUY rating.

DB points out even after sizeable land acquisitions last year, China SCE maintained an unrestricted cash level, which is sufficient to cover debt maturing in 2022. China SCE should be able to roll over more bank borrowings under the current accommodative policy environment, suggesting lower cash flow pressure than other privately-owned developers. DB switches their valuation yardstick from P/E to P/BV, as earning forecasts are becoming fluid. Instead of earnings, investors will be more concerned about the company's liquidity outlook, and the realizable value of its net assets. TP HK$2.43, based on 0.35x FY22E P/BV, higher than the 0.2x P/BV of its close peers. Maintaining BUY rating.

HSBC says China SCE is a relatively resilient name in the POE space. Its net gearing remains at a comfortable level of 71% (1H21: 78%) with modest debt maturity. Its earliest offshore bond due will be on April 2023 (USD500m) and it also has a manageable amount of onshore bond (RMB3.4bn) due in 2H22. Management is guiding for a saleable resource of RMB130bn with a target sale-through of 55-60%, implying gross sales of RMB72-78bn (down 25-30% y-o-y), while we believe its attributable sales should have a much narrower drop. HSBC maintains Buy rating with a target price of HK$1.9 on the stock and believes China SCE still has the growth potential when the industry headwind subsides.

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J.P. Morgan comments that China SCE has been staying true to 'dual-track' strategy, was active in land acquisition in 1H21, but slowed down in 2H21 to cope with the market downturn. Credit metrics worsened slightly as a result, but the company remains in the green category under the Three Red Lines. Although growth momentum may come down (along with industry trend), J.P. Morgan believes SCE will likely survive the market turmoil due to: (1) a relatively healthy balance sheet; and (2) no public offshore bonds due for the rest of 2022 (onshore bonds due total RMB 3.4bn, but should be manageable). With strong sales growth in the past few years, we think SCE's earnings growth will outperform the sector. Maintain "Overweight" rating with a price target of HK $2.10.

New Launch of China SCE·Hangzhou Woven City and Shanghai Imperial Manor Received Enthusiastic Response

In March 2022, China SCE's two major highly anticipated projects in Hangzhou and Shanghai, SCE - Woven City and SCE - Imperial Manor, have been launched, and achieved good performance in both sales and reputation. On March 11, SCE - Woven City in Hangzhou was sold out on the first day of launch, generated sales of more than RMB1.1 billion. On March 14, the initial sales of SCE - Imperial Manor in Shanghai was over RMB1.8 billion galvanizing great interest in the project.

SCE - Woven City is the second batch of "Future Community" pilot projects in Zhejiang Province, which is inspired by the planning and design concept of Toyoda's "Woven City" in Tokyo, Japan. The project has a total GFA of 1.5 million sq.m., including high-end residential buildings, top commercial areas, quality apartments, commercial street and other business forms. SCE - Woven City will be developed into a highly desired headquarter for leading enterprises for Shanghai and Hangzhou.

Located in the core area of Songjiang University Town, Shanghai, SCE - Imperial Manor is planned to be the first complex vibrant community in Songjiang, covering residential area, themed promenades, commercial space as well as other comprehensive urban symbiosis units. The project enjoys a unique location and core resources making it a valuable place for high net worth people to come together.

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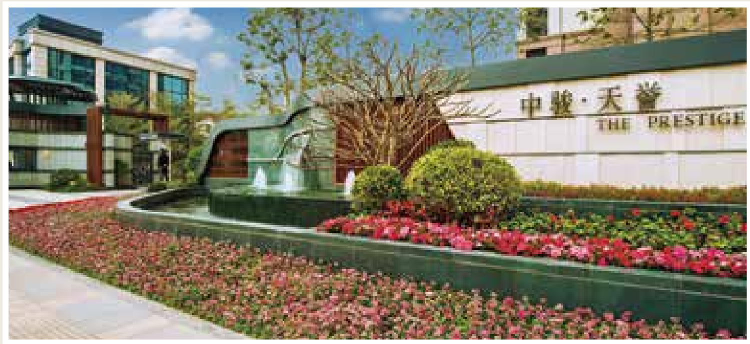

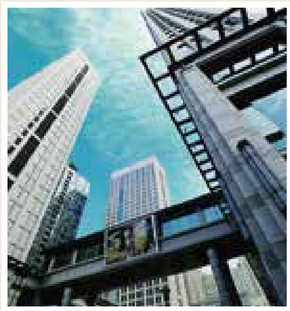

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