2019 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 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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Sales Overview

In March 2019, the Group together with its joint ventures and associates achieved a contracted sales amount of approximately RMB6.733 billion and a contracted sales area of 568,142 sq.m., representing a year-on-year increase of 86% and 107% respectively. The average selling price for March 2019 was RMB11,852 per sq.m.

For the three months ended 31 March 2019, the Group together with its joint ventures and associates achieved an accumulated contracted sales amount of approximately RMB15.703 billion and an accumulated contracted sales area of 1,270,514 sq.m., representing a year-on-year increase of 35% and 35%, respectively. The average selling price for the three months ended 31 March 2019 was RMB12,360 per sq.m.

Land Bank

As at 31 March 2019, the Group together with its joint ventures and associates owned a land bank with an aggregate planned GFA of approximately 26.07 million sq.m.

Details of newly acquired land parcels in March 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.)
Tianjin	34%	Residential	38,670	58,006	9,947
Quanzhou	100%	Residential and Commercial	112,202	145,863	2,879

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Net Profit Increased by 19% in 2018, Declared a Final Dividend of HK14 Cents

China SCE announced 2018 annual results on March 20, with revenue of approximately RMB17.8 billion, representing a 10% increase. Gross profit margin increased by 0.5 percentage points to 34.6%. Profit attributable to owners of the parent increased by 19% to approximately RMB3.4 billion. The final dividend was HK14 cents per share, a dividend of HK21 cents per share for the full year, up 11% year-on-year.

Meanwhile, the net gearing ratio and the weighted average financing cost continued to improve. By the end of 2018, the net gearing ratio was 60.4%, a decrease of 11.4 percentage points from the end of last year. The weighted average financing cost was 6.4% for the year, an improvement of 0.1 percentage point year-on-year.

The contract sales target for 2019 increased to RMB70 billion.

Deutsche Bank Recommended as Top Pick, Various Research Houses Raised the Target Price

Deutsche Bank: China SCE is maintaining its strong growth momentum, DB expects the Group to deliver the highest growth in the sector, and believes China SCE is well-positioned for RMB100 billion club in 2020. 80% of China SCE's land bank is in major T1/2 cities, DB believes that the Group can maintain its gross margin at around 30% in the next few years. China SCE has developed a unique business model in rental apartments, coupled with its strong IP in pipeline in Beijing and Shanghai, DB expects its rental income and management fee to jump to RMB2 billion by 2021/22F. DB comments China SCE's 2018 results were in-line with higher margins, lower gearing and average financing cost, so DB lifts China SCE 2019-2020F earnings by 12-15%. DB adds China SCE to top picks and raises 12-months target price to HKD5.60 per share.

Citi: China SCE is gaining more traction on high-growth picture under "Go National" formula. Citi believes China SCE is on track to deliver c.32% sales CAGRs in 2018-2020E, riding on its efforts in the past three years to broaden its footprint with active landbanking and optimized internal hierarchy with an effective incentive scheme. China SCE's target of a national top-30 sales scale looks achievable. At the end of 2018, the Group's RMB28 billion unbooked sales at c.30% gross profit margin support decent earnings growth (25% CAGR to 2021E). Citi comments China SCE's 2018 results were broadly in-line, valuation is attractive and strong B/S allows room for growth in 2019. Citi affirms BUY, and raises target price to HKD4.25 per share.

HSBC: 2018 was a fruitful year for China SCE, the Group has delivered a 2018 sales target of RMB 50 billion, entered 10 new cities, acquired RMB 120 billion saleable resources but managed to keep down its leverage ratio. HSBC comments the China SCE is on track to achieve its long-term target of reaching RMB100 billion sales scale in 2020, with the Group's well-crafted expansion strategy and execution capability. HSBC mentioned China SCE's revenue was up by a modest 10% year-on-year, gross margin and net gearing improved. HSBC expects China SCE's contracted sales attributable ratio pick up to 60% in 2019, and considers it a positive development as it will enhance the Group's control over construction and sales pace. HSBC revises up NAV estimate, reiterates BUY, and raises target price to HKD4.70 per share.

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Haitong International: China SCE committed to attributable land costs of RMB17 billion in 2018, equivalent to 65% of attributable contract sales that year, well above the sector average of 43%. Haitong International estimates China SCE needs a sell-through rate of only about 60% to reach its contract-sales target of RMB70 billion. The Group has been in expansion mode and committed to attributable land costs of about RMB7.8 billion just in January–February 2019. In addition, about RMB20 billion unbooked sales shall be booked in FY19, which is equivalent to about 70% of Haitong International's forecast for property sales recognized in 2019, thus believe that earnings visibility is high for 2019. Haitong International affirms BUY and raises the target price to HKD5.82 per share.

Macquarie: For 2019, China SCE has budgeted RMB70 billion and the growth rate (+36% YoY) is one of the highest among peers so far. This is backed by saleable resources of RMB120 billion and for new launches, second-tier cities account for 47%. China SCE's core profit grew 16%, missed consensus due to lower than expected delivery and high SG&A. Gross margin expanded to 34.6%, gearing improved to 60%, there is still headroom for further investment. Macquarie comments China SCE's rental apartment business operated under the brand Funlive, established an investment fund with Gaw Capital, this should help enhance the equity return. Macquarie affirms OUTPERFORM, target price is HKD6.29 per share.

BOCI: China SCE's revenue increased 10% YoY, thanks to a higher gross margin and less minority interest from booked projects, core net profit grew 15.6% to RMB2.2 billion, largely in line with BOCI estimates. With continually growing project booking and gradually stabilising additional investment in human resources, BOCI expects future SG&A ratio to decline, which will support core earnings growth. BOCI believes current strong balance sheet allows China SCE more flexibility in land acquisition and future expansion, and expertise in operating rental apartment also gives China SCE advantages in acquiring land resources in first-tier and core second-tier cities at reasonable prices. BOCI maintains BUY, target price is HKD4.50 per share.

CMBI: China SCE's net profit jumped by 19.2% to RMB3.39 billion in 2018. Revenue growth was less than expectation due to delay in some project completions. Meanwhile, SG&A expenses/revenue ratio squeezed from 2017, net gearing ratio improved. China SCE will develop "Fun+Happy Life" Ecosystem, new business segments such as Funlive apartment, Funwork co-working space based on consumption upgrades and customers' lifestyle. About 245 million and 39 million share options were exercised in 4Q2018 and 1Q2019, respectively. Chairman also increased his stake by 105 million shares in 2018 and Jan 2019. CMBI writes this may reflect the management's confidence in the Group. CMBI reiterates BUY, target price is HKD4.56 per share.

Northeast Securities: China SCE maintained a high sales growth in 2018, with first-tier and second-tier cities accounting for over 50% of the total. Saleable resources for 2019 are sufficient, mainly in the second-tier and strong third-tier cities. China SCE maintained a consistently sound financial positions, with the weighted average financing cost at a relatively low level, and enough cash for short-term debt repayment. Northeast reiterates BUY rating and raised its 6-month target price to HKD4.90 per share.

Industrial Securities: China SCE maintained a steady growth, which was in line with expectations. The Group achieved strong sales growth in 2016-2018, and will soon speed up the performance. China SCE's contract sales will maintain a growth rate of over 30%, backed by abundant saleable resources. Nearly 80% of the total landbank is located in first-tier and second-tier cities, which will benefit from the improved market sentiment in second-tier cities once policy eased. The Group's stock price now traded at 6 times PE of 2018 core net profit, and the dividend yield is over 5%.

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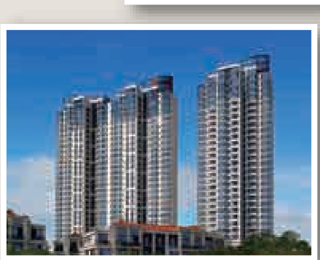
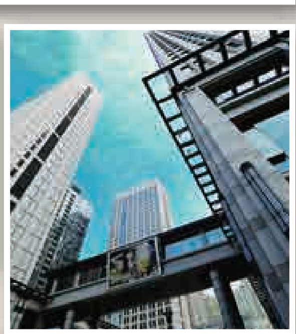
China SCE Again Awarded in "2019 Best 50 of China Real Estate Developers"

China Real Estate Association and China Real Estate Appraisal Centre jointly announced the "Best 500 of China Real Estate Developers" on March 20, 2019. By its key concept of "the future determines the present", active and diverse land bank, high-quality products and fast-growing results and profit, China SCE ranked 42nd on the list and 2nd on "Best 10 of Regional Operations of China Real Estate Developers" list.





Investor Relations Contact

China SCE Group Holdings Limited

Ms. Doreen Chiu – Director of Investor Relations/
Ms. Echo Zou – Investor Relations Manager
Tel (HK) : 852-2622 2049
Tel (SH) : 86-21-5263 6826
Fax : 852-2342 6643
Email : ir@sce-re.com

Mr. Paul Li – Financial Controller & Company Secretary
Tel : 852-2191 3960
Fax : 852-2342 6643
Email : paulli@sce-re.com

LBS Communications Consulting Limited

Pauline Fu
Tel : 852-3752 2674
Email : sceir@lbs-comm.com