

# China / Hong Kong Company Guide

# Yanlord Land Group

Version 4 | Bloomberg: YLLG SP EQUITY | Reuters: YNLG.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

18 May 2018

## BUY

Last Traded Price ( 17 May 2018): S\$1.74 (STI : 3,537)  
Price Target 12-mth: S\$2.27 (30% upside) (Prev S\$2.25)

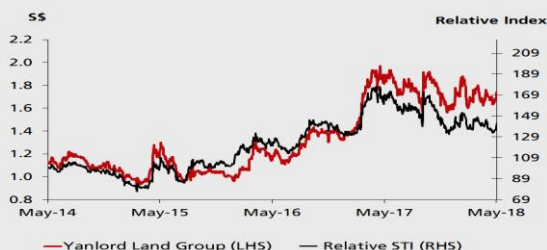
### Analyst

Danielle Wang CFA, +852 2820 4915 danielle\_wang@db.com  
Carol WU +852 2863 8841 carol\_wu@db.com  
Ken HE CFA, +86 21 6888 3375 ken\_he@db.com  
Jason LAM +852 2971 1773 jasonlamch@db.com

### What's New

- Potential material change in corporate structure and strategy
- Increasing willingness to speed up new launches at government guided price to improve asset turn
- On-track 1Q18 results alongside positive surprise on gross margin
- Maintain BUY on attractive valuations

### Price Relative



### Forecasts and Valuation

FY Dec (RMB m)	2016A	2017A	2018F	2019F
Turnover	25,664	25,638	27,878	29,501
EBITDA	7,584	11,521	12,055	11,663
Pre-tax Profit	7,472	11,362	11,458	10,908
Net Profit	2,697	3,216	3,536	4,089
Core Profit	2,301	3,032	3,536	4,089
Core Profit Gth (%)	151.6	31.8	16.6	15.6
EPS (RMB)	1.39	1.66	1.83	2.11
EPS (S\$)	0.29	0.35	0.38	0.45
EPS Gth (%)	83.9	19.9	9.9	15.6
PE (X)	6.0	5.0	4.5	3.9
P/Cash Flow (X)	1.6	nm	nm	nm
EV/EBITDA (X)	3.7	3.6	4.6	5.3
DPS (S\$)	0.05	0.07	0.08	0.09
Div Yield (%)	2.6	4.0	4.4	5.1
Net Gearing (%)	15.2	46.8	70.6	73.7
ROE (%)	13.0	14.7	14.6	15.0
Book Value (S\$)	2.28	2.47	2.78	3.14
P/Book Value (X)	0.8	0.7	0.6	0.6
Earnings Rev (%)			17	NEW
Consensus EPS (RMB)			1.89	2.16
Other Broker Recs:		B:3	S:0	H:2

Source of all data on this page: Company, DBSV, Thomson Reuters, HKEX

## Potential restructuring to accelerate

**Maintain BUY on attractive valuation and ongoing corporate restructuring.** The company has recruited senior personnel from large listed developers Vanke and Longfor for project and human resources management, and introduced professionals from Fosun for capital management. They will form a core team to review the company's strategy, form business plans, set up new corporate structures, incentive schemes and conduct financial market positioning. We expect corporate restructuring and corporate actions to improve asset turn and result in stock re-rating.

Currently trading at a distressed valuation of 4.5x FY18E PE and 3.9x FY19E PE, the counter has room for re-rating. We maintain BUY with a slightly adjusted TP of S\$2.27, pegged to 6x FY18E PE.

### Pre-sales target achievable if company set asset turn acceleration as a new strategy.

The company's 1Q18 pre-sales was slow at Rmb2.67bn (-31% yoy) and raised market concerns on its ability to achieve its pre-sales targets. However, we believe the new team is likely to set asset turn acceleration as one of the key strategies which will mean increasing willingness of launching new projects (some has been completed) in key cities at government required prices. This will help them catch up with pre-sales targets. Pre-sales in April recovered at Rmb2.48bn (+37% yoy).

**1Q18 results on track with surprising gross profit margin.** 1Q18 result locked-in 25.8% and 24.5% of our FY18 revenue and core earnings forecasts. 1Q18 core earnings arrived at Rmb868m under our calculation, down 9.3% y-o-y given an 87% increase in minority interest led by the booking of Shanghai Yanlord on the Park (Yanlord's interest: 50%) and Shanghai Yanlord Western Gardens (Yanlord's interest: 60%) which had larger attributable portions of minority interests. Net debt ratio remains fair at 50.7% in 1Q18.

### Valuation:

We maintain our BUY rating on Yanlord with a slightly higher TP of S\$2.27, based on 6x FY18 PE.

### Key Risks to Our View:

Inability to obtain pre-sale approval timely at satisfactory prices may pose downside risks on the company's profit margins and affect its ability to achieve pre-sales targets.

### At A Glance

Issued Capital (m shrs)	1,949
Mkt. Cap (S\$m/US\$m)	3,395 / 2,530
Major Shareholders	
Zhong (Sheng Jian) (%)	68.8
Free Float (%)	31.2
3m Avg. Daily Val. (US\$m)	1.3

ICB Industry: Financials / Real Estate



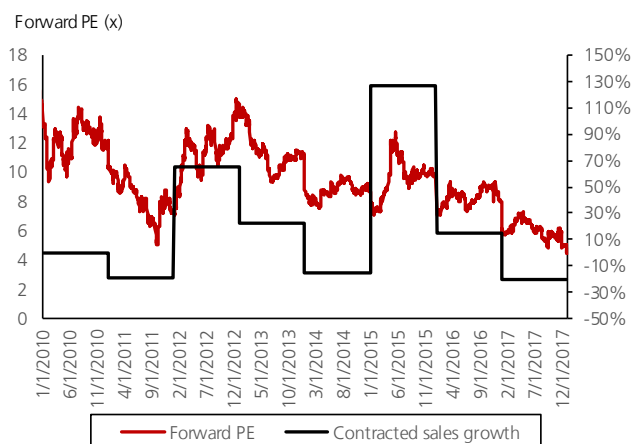
## CRITICAL FACTORS TO WATCH

## Critical Factors

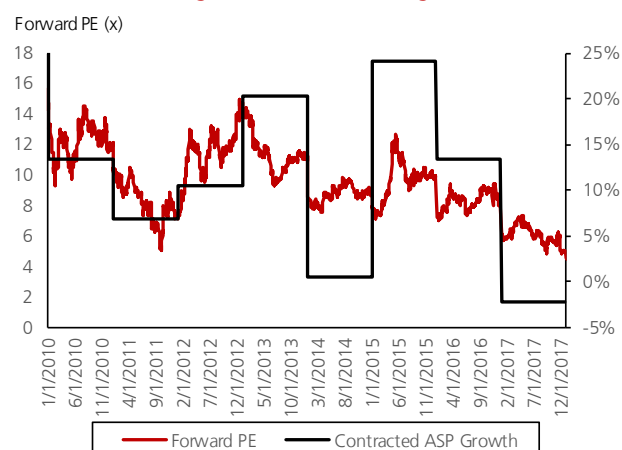
**Contracted sales growth.** Presales growth has always been seen as a key leading indicator that demonstrates a developer's ability to turn its land resources into property sales for later recognition of revenue and earnings upon project deliveries. Such a rule is no different to Yanlord, whose forward PE valuation awarded by the market is found to be fairly correlated to its annual contracted sales growth. After an accelerated period of growth in annual contracted sales, Yanlord's contracted sales growth declined from 2013-2014 alongside a muted property market in China. Correspondingly, Yanlord's forward PE multiple followed the trend and the counter was de-rated until 2015, where contracted sales bottomed and posted a strong y-o-y presales growth of 127%. Yanlord's PE multiple has then further de-rated, however, on slowed presales growth in 2016 and a negative presales growth in 2017 led by the company's hesitation to launch saleable resources under restrictive pricing policies, which have at some level capped the company's selling prices and thus profit margins on its premium development projects. Looking forward, we expect the delayed saleable resources held by the company to be gradually released over the remaining course of 2018 given the company's changing stance to seek for scale, which should drive a round of recovery on the company's presales and in turn trigger a round of upward re-rating in valuation of the counter.

**Shanghai's residential ASP growth.** Being known as a premium residential property developer with sizable exposure in Shanghai (1Q18: c.18% of completed projects and c.7.0% land resources for future development in GFA terms are located in Shanghai), Yanlord's forward PE multiple appears to have postulated a relationship with Shanghai's annual residential ASP growth, which is somewhat natural given its direct impact to Yanlord's achievable profit margins on its development projects in Shanghai. While Shanghai's residential ASP decelerated since 2015 and entered into the negative territory in 2017 on the back of restrictive pricing policies implemented by the government, Yanlord's PE valuation followed and portrayed a round of de-rating. Nevertheless, looking forward into 2018, while policy relaxation is unlikely to be seen within this tier 1 city, we expect Shanghai's residential ASP to maintain stable at its 2017 level or record a mild positive y-o-y growth, which should signal a near-term bottom for the company's continuous de-rating lasted over the past few years.

Contracted sales growth



Shanghai's residential ASP growth



Source: Company, DBS Vickers

### Actual results vs expectations

	Growth	% of our forecast	% of consensus forecast	Below or above expectation
Revenue	14%	26%	25%	In line
Core earnings	-9%	25%	24%	In line

	1Q17	1Q18	Up/Down	Below or above expectation
Gross margin	49.5%	55.7%	Up	Better
Core net margin	15.1%	12.1%	Down	In-line

	Dec-17	Mar-18	Up/Down	Below or above expectation
Cash level (Rmb m)	17,838	16,266	Down	In line
Net debt ratio	46.8%	50.7%	Up	In line

Source: Company, Bloomberg, DSB Vickers

## 1Q2018 result summary

FY Dec (RMB mn)	1Q17	1Q18	y-o-y %	Comments
<b>Revenue</b>	<b>6,321</b>	<b>7,188</b>	<b>14%</b>	Despite a 47% decline in GFA delivered, the negative impact was more than offset by the 109% increase in ASP of delivered GFA.
COGS	(3,195)	(3,184)	0%	
<b>Gross Profit</b>	<b>3,126</b>	<b>4,004</b>	<b>28%</b>	GP margin surged 6ppt to 55.7% thanks to higher ASP of GFA delivered
Fair value G/L on investment properties	-	-	n.a	
Other operating income	6	7	19%	
Interest income	63	115	81%	
Selling expenses	(82)	(84)	2%	
Administrative expenses	(166)	(225)	35%	
Net foreign exchange gain/ (loss)	(35)	(99)	183%	Forex loss led by quarter end conversion of foreign currency denominated monetary items against function currency in certain entities of the Group.
Other operating expenses	(1)	(2)	160%	
Finance costs	(113)	(133)	17%	
Share of gain (loss) of jointly controlled entities	188	110	-41%	Share of JV profit mainly from Yanlord Perennial Investment and Tangshan Nanhu Eco-City project
<b>Pre-tax income</b>	<b>2,985</b>	<b>3,693</b>	<b>24%</b>	
Total Tax	(1,518)	(1,897)	25%	
<b>Profit for the period</b>	<b>1,468</b>	<b>1,796</b>	<b>22%</b>	
<b>Profit attributable to:</b>				
- Minority Interests	534	999	87%	
- Shareholders	<b>934</b>	<b>797</b>	<b>-15%</b>	Led by greater profit recognition from projects with a larger attributable portion of minority interest.
<b>Core earning</b>	<b>957</b>	<b>868</b>	<b>-9%</b>	
Gross profit margin (%)	49%	55.7%	↑ 6 ppts	
Core net profit margin (%)	15%	12%	↓ 3 ppts	
Reported net profit margin (%)	15%	11%	↓ 4 ppts	
SG&A as % of top line	4%	4%	↑ 0 ppts	
Effective Tax Rate (%)	51%	51%	↑ 1 ppts	
Reported EPS (RMB)	0.48	0.413	↓ 7 ppts	
Core EPS (RMB)	0.493	0.449	↓ 4 ppts	
DPS (RMB)	-	-	Flat	No dividend was declared in 1Q18 and 1Q17
Dividend payout ratio	0%	0%	Flat	
GFA delivered (sm)	158,378	83,867	-47%	
ASP of sales delivered (RMB /sm)	38,339	80,172	109%	

Source: Company, DSB Vickers

### Balance Sheet:

**Healthy balance sheet on little acquisition activities.** Despite relatively muted contracted sales over 1Q18 given little saleable resources were launched over the period, the company's net debt to equity ratio was maintained at a healthy level of c.51% as Yanlord stayed on the sideline from land acquisitions in 1Q18 with only c.Rmb100m incurred for land acquisitions. Looking forward, we expect net gearing to fluctuate between 50%-100% in anticipation of sizable quality land acquisition opportunities.

### Possible upside movements on average borrowing cost.

Yanlord's FY17 average borrowing cost mildly rose to 5.375% from 5.19% in FY16. Considering the company's recent issuance of US\$350m 6.75% senior note and a tightening credit environment witnessed across the on-shore and off-shore bond market, we believe Yanlord's average borrowing cost could see some upside movements in FY18.

### Share Price Drivers:

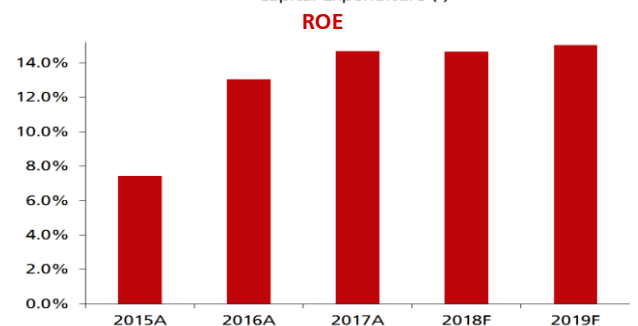
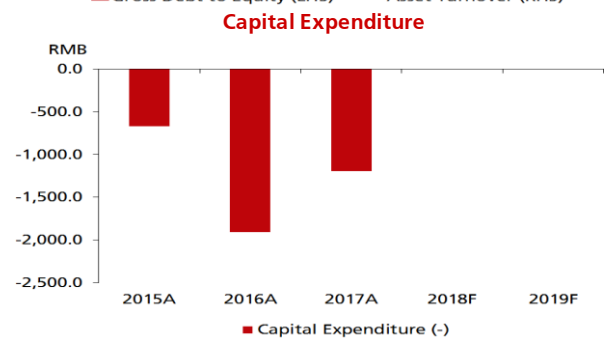
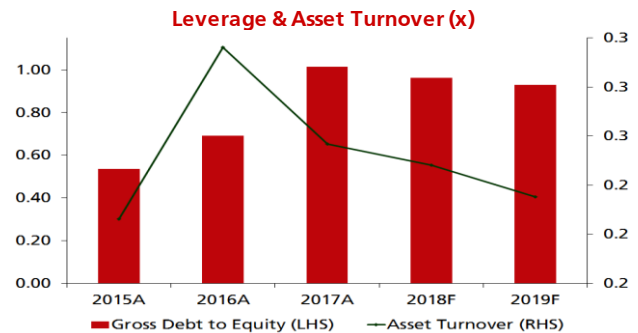
**Returning presales growth from accelerated saleable resources launches.** Yanlord's presales growth in 2017 was relatively muted and sizably missed its presales target give the company's reservation to launch their premium projects under restrictive pricing policies in key tier 1/2 cities. However, as the company showed signs to accelerate its launch of saleable resources in 2018, we believe Yanlord could see better presales growth and thus improve earning visibility.

### Key Risks:

**Policy adjustments in key Tier 1/2 cities.** Yanlord's best-selling projects and the newly acquired projects are located in key Tier 1/2 cities, which are subject to tight control by the government. Alongside the unchanged policy stance to maintain a stable property market under a controlled manner, Yanlord's ability to obtain pre-sale approvals from these key cities could be impacted and thereby affect the achievable margins of its premium development projects.

### Company Background

Yanlord Land Group Ltd (Yanlord) is a real estate development company focusing on high-end and luxury residential developments. It has an established land bank in 14 major cities of over 6.71m sm as at 1Q18, including Shanghai, Nanjing, Tianjin, Chengdu, Suzhou, Shenzhen and Zhuhai.



Source: Company, DBS Vickers

## Segmental Breakdown (RMB m)

FY Dec	2015A	2016A	2017A	2018F	2019F
<b>Revenues (RMB m)</b>					
Sales of properties	15,833	24,894	24,759	26,981	28,604
Rental income of investment	401	363	358	376	376
Others	348	407	521	521	521
Others	0	0	0	0	0
<b>Total</b>	<b>16,581</b>	<b>25,664</b>	<b>25,638</b>	<b>27,878</b>	<b>29,501</b>

Source: Company, DBS Vickers

## Income Statement (RMB m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Turnover	16,581	25,664	25,638	27,878	29,501
Cost of Goods Sold	(12,026)	(17,645)	(13,594)	(14,899)	(16,840)
<b>Gross Profit</b>	<b>4,555</b>	<b>8,020</b>	<b>12,044</b>	<b>12,980</b>	<b>12,661</b>
Other Opg (Exp)/Inc	42	33	275	0	0
<b>Operating Profit</b>	<b>3,737</b>	<b>7,061</b>	<b>11,179</b>	<b>11,690</b>	<b>11,088</b>
Associates Inc	(29)	(5)	338	365	575
Net Interest (Exp)/Inc	(88)	(80)	(126)	(597)	(755)
Exceptional Gain/(Loss)	697	495	(29)	0	0
<b>Pre-tax Profit</b>	<b>4,317</b>	<b>7,472</b>	<b>11,362</b>	<b>11,458</b>	<b>10,908</b>
Tax	(1,947)	(3,495)	(5,742)	(6,972)	(5,532)
Minority Interest	(902)	(1,280)	(2,404)	(950)	(1,287)
<b>Net Profit</b>	<b>1,469</b>	<b>2,697</b>	<b>3,216</b>	<b>3,536</b>	<b>4,089</b>
<b>Core Profit</b>	<b>914</b>	<b>2,301</b>	<b>3,032</b>	<b>3,536</b>	<b>4,089</b>
Sales Gth (%)	41.3	54.8	(0.1)	8.7	5.8
Net Profit Gth (%)	7.0	83.7	19.2	9.9	15.6
Core Profit Gth (%)	44.7	151.6	31.8	16.6	15.6
Gross Mgn (%)	27.5	31.2	47.0	46.6	42.9
Core Profit Margin (%)	5.5	9.0	11.8	12.7	13.9
Tax Rate	45.1	46.8	50.5	60.8	50.7

Source: Company, DBS Vickers

## Balance Sheet (RMB m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Fixed Assets	17,232	18,307	31,909	31,875	31,842
Invt in Assocs & JVs	1,094	1,811	5,127	5,127	5,127
Other LT Assets	1,415	2,720	5,948	5,948	5,948
Cash & ST Invt	17,568	18,104	17,838	6,469	4,971
Other Current Assets	42,589	52,506	45,380	69,000	84,498
<b>Total Assets</b>	<b>79,897</b>	<b>93,448</b>	<b>106,201</b>	<b>118,419</b>	<b>132,386</b>
ST Debt	3,971	8,311	2,557	2,557	2,557
Creditors	25,704	32,016	29,359	35,798	42,208
Other Current Liab	5,305	6,671	5,661	5,661	5,661
LT Debt	12,423	12,438	30,576	32,576	35,576
Other LT Liabilities	1,959	4,002	5,346	5,346	5,346
Minority Interests	10,199	8,963	9,972	10,922	12,209
Shareholder's Equity	20,335	21,047	22,731	25,559	28,830
<b>Total Capital</b>	<b>79,897</b>	<b>93,448</b>	<b>106,201</b>	<b>118,419</b>	<b>132,386</b>
Share Capital (m)	1,949	1,947	1,936	1,936	1,936
Net Cash/(Debt)	1,174	(2,646)	(15,295)	(28,664)	(33,162)
Working Capital	11,579	13,820	10,360	27,541	36,629
Net Gearing (%)	2.3	15.2	46.8	70.6	73.7

Source: Company, DBS Vickers

### Cash Flow Statement (RMB m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Profit Before Tax	4,317	7,472	11,362	11,458	10,908
Assoc. & JV Inc/(loss)	29	5	(338)	0	0
Tax Paid	(1,847)	(2,951)	(4,072)	(6,972)	(5,532)
Depr/Amort	35	32	33	33	33
Chg in Wkg.Cap.	13,916	7,533	3,954	(18,131)	(10,375)
Other Non-Cash	(2,494)	(1,787)	(21,581)	0	0
<b>Operating CF</b>	<b>13,952</b>	<b>10,289</b>	<b>(10,647)</b>	<b>(13,612)</b>	<b>(4,967)</b>
Net chg in inv.	0	0	(3)	0	0
Assoc, MI, Invsmt	(584)	(8,133)	(4,628)	0	0
<b>Investing CF</b>	<b>(584)</b>	<b>(8,133)</b>	<b>(4,631)</b>	<b>0</b>	<b>0</b>
Net Chg in Debt	(1,886)	1,498	17,294	2,000	3,000
New Capital	0	0	0	0	0
Dividend	(113)	(142)	(416)	(707)	(818)
Other Financing CF	(612)	(3,065)	(1,641)	950	1,287
<b>Financing CF</b>	<b>(2,611)</b>	<b>(1,709)</b>	<b>15,237</b>	<b>2,243</b>	<b>3,469</b>
Chg in Cash	10,960	66	215	(11,369)	(1,498)
Chg in Net Cash	14,393	(3,819)	(12,649)	(13,369)	(4,498)

Source: Company, DBS Vickers

### Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	15-Aug-17	S\$1.82	S\$2.25	Buy
2:	15-Nov-17	S\$1.74	S\$2.25	Buy

Source: DBS Vickers

Analyst: Danielle Wang CFA,

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**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return i.e. > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

*Share price appreciation + dividends*

Completed Date: 18 May 2018 12:14:12 (HKT)

Dissemination Date: 18 May 2018 16:33:09 (HKT)

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**DBS Vickers (Hong Kong) Limited**

18<sup>th</sup> Floor Man Yee building, 68 Des Voeux Road Central, Central, Hong Kong

Tel: (852) 2820-4888, Fax: (852) 2868-1523

Company Regn. No. 31758

**DBS Regional Research Offices**

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**HONG KONG**

**DBS Vickers (Hong Kong) Ltd**

**Contact: Carol Wu**

18th Floor Man Yee Building

68 Des Voeux Road Central

Central, Hong Kong

Tel: 852 28204888

Fax: 852 2863 1523

e-mail: [dbsvhk@db.com](mailto:dbsvhk@db.com)

Participant of the Stock Exchange of Hong Kong Ltd

**MALAYSIA**

**AllianceDBS Research Sdn Bhd**

**Contact: Wong Ming Tek (128540 U)**

19th Floor, Menara Multi-Purpose,

Capital Square,

8 Jalan Munshi Abdullah 50100

Kuala Lumpur, Malaysia.

Tel.: 603 2604 3333

Fax: 603 2604 3921

e-mail: [general@alliancedbs.com](mailto:general@alliancedbs.com)

**SINGAPORE**

**DBS Bank Ltd**

**Contact: Janice Chua**

12 Marina Boulevard,

Marina Bay Financial Centre Tower 3

Singapore 018982

Tel: 65 6878 8888

Fax: 65 65353 418

e-mail: [equityresearch@db.com](mailto:equityresearch@db.com)

Company Regn. No. 196800306E

**INDONESIA**

**PT DBS Vickers Sekuritas (Indonesia)**

**Contact: Maynard Priajaya Arif**

DBS Bank Tower

Ciputra World 1, 32/F

Jl. Prof. Dr. Satrio Kav. 3-5

Jakarta 12940, Indonesia

Tel: 62 21 3003 4900

Fax: 6221 3003 4943

e-mail: [research@id.dbsvickers.com](mailto:research@id.dbsvickers.com)

**THAILAND**

**DBS Vickers Securities (Thailand) Co Ltd**

**Contact: Chanpen Sirithanarattanukul**

989 Siam Piwat Tower Building,

9th, 14th-15th Floor

Rama 1 Road, Pathumwan,

Bangkok Thailand 10330

Tel. 66 2 857 7831

Fax: 66 2 658 1269

e-mail: [research@th.dbs.com](mailto:research@th.dbs.com)

Company Regn. No 0105539127012

Securities and Exchange Commission, Thailand