

# China / Hong Kong Company Guide

# Yanlord Land Group

Version 7 | Bloomberg: YLLG SP EQUITY | Reuters: YNLG.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

28 Feb 2020

## HOLD

Last Traded Price ( 28 Feb 2020): S\$1.16 (STI : 3,011)

Price Target 12-mth: S\$1.10 (5.0% downside) (Prev S\$1.47)

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### What's New

- **FY19 results were below our and consensus estimates on weaker-than-expected development margins and project deliveries**
- **Dividend was kept flat at Rmb0.34/share, which came as a pleasant surprise**
- **Gross margin to remain pressured on recognition of lower-margin projects; presales outlook for 2020 remains uncertain amid the COVID-2019 outbreak**
- **Maintain HOLD with a lower TP of S\$1.10**

### Price Relative



### Forecasts and Valuation

FY Dec (RMB m)	2018A	2019A	2020F	2021F
Turnover	24,888	18,666	22,733	29,500
EBITDA	11,236	10,071	6,701	7,916
Pre-tax Profit	10,542	8,795	5,637	6,785
Core Profit	3,154	1,067	2,378	2,971
Core Profit Gth (%)	4.0	(66.2)	122.9	24.9
Core EPS (RMB)	1.63	0.55	1.23	1.54
Core EPS (S\$)	0.33	0.11	0.25	0.31
Core EPS Gth (%)	4.3	(66.2)	122.9	24.9
Core PE (X)	3.6	10.5	4.7	3.8
P/Cash Flow (X)	7.4	3.0	nm	nm
EV/EBITDA (X)	4.5	5.4	8.5	7.5
DPS (S\$)	0.07	0.07	0.07	0.07
Div Yield (%)	5.7	5.8	5.8	5.8
Net Gearing (%)	96.8	78.6	79.2	76.9
ROE (%)	14.8	12.6	8.2	9.5
Book Value (S\$)	2.58	2.91	3.09	3.33
P/Book Value (X)	0.4	0.4	0.4	0.3
Earnings Rev (%)			(2)	New
Consensus EPS (RMB)			1.87	2.24
Other Broker Recs:		B: 0	S: 0	H: 3

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

## Lacking upside catalysts

**Ongoing margin pressure and uncertain presales outlook to weigh on share price performance – Maintain HOLD.**

We have identified gross margin trend and presales outlook as critical factors that drive Yanlord's share price and valuation multiple (P.3 for graphs). Yanlord will likely continue to face pressure on the profitability front given rising contributions from lower-margin projects located in Tier 2/3 cities. The ongoing COVID-2019 outbreak has also delayed construction works and halted most property sales activities, in turn posing a challenge towards Yanlord's execution capability to deal with uncertainties. Thus, we do not foresee plenty of room for share price increments and valuation expansion at this point. Maintain HOLD with a lower TP of S\$1.10.

**Where we differ? We foresee significant downside in consensus earnings estimates.** While Yanlord had achieved stellar presales growth of 116% to Rmb55.7bn in 2019, we believe meaningful revenue and earnings contribution from these presales will only come through after 2020. Our FY20/FY21 earnings forecasts are 34%/32% lower than market consensus estimates.

### Valuation:

Our new TP of S\$1.10 is based on a lower 4.5x FY20F PE (vs 6.0x previously), which is equivalent to its 3-year historical average of forward PE from FY17-19 to reflect uncertainties on Yanlord's presales outlook in 2020 and pressured margins.

### Key Risks to Our View:

Prolonged COVID-2019 outbreak; inability to launch its saleable resources as planned

### At A Glance

Issued Capital (m shrs)	1,932
Mkt Cap (SG\$m/US\$m)	2,260 / 1,634
Major Shareholders (%)	
Zhong (Sheng Jian)	69.7
Free Float (%)	30.3
3m Avg. Daily Val. (US\$m)	0.25
GICS Industry: Real Estate / Real Estate Mgmt & Development	



Live more, Bank less

## Yanlord Land Group

### CRITICAL FACTORS TO WATCH

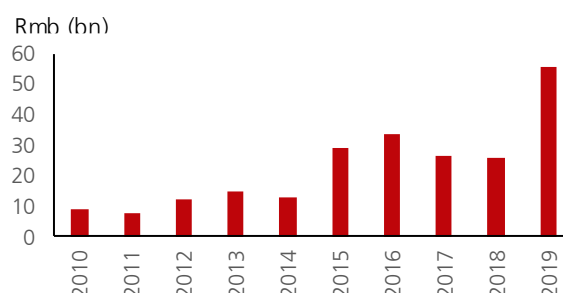
#### Critical Factors

**Contracted sales performance.** Presales performance has always been seen as a key leading indicator for a developer's ability to turn its land resources into property sales to be recognised as revenue and earnings upon project deliveries. Such a rule applies to Yanlord as well, whose forward PE valuation is fairly correlated to its annual contracted sales growth. The relationship was disrupted in 2019 given a notable drop in the attributable interest of Yanlord's presales to c.50-55%, but we expect the association to resume given an expectedly similar attributable interest level in presales for 2020.

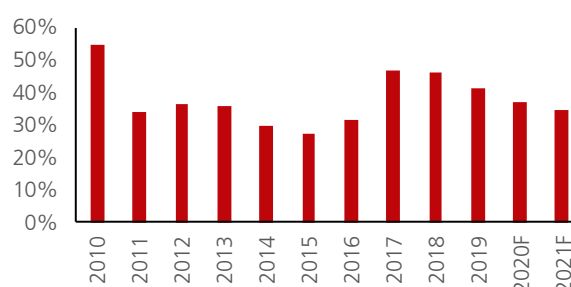
Currently, presales growth target in 2020 is set at a Rmb65bn, up c.17% (at similar magnitude for attributable basis as well) from 2019 on the back of a rich saleable resource pipeline of Rmb125bn. This translates into a modest targeted sell-through rate of 52% as compared to Yanlord's 68% in 2019. Yet, the ongoing COVID-2019 outbreak adds uncertainty into the equation. First, construction pace has been delayed by an expected c.1-1.5mths. This would lead to a more second-half tilted saleable resources launch schedule (30:70 between 1H:2H, mostly at end-3Q or 4Q) and would increase the chance of Yanlord falling short of its targeted saleable resources for the year. Moreover, most sales centres are currently closed or are experiencing significant drops in footfalls (given traffic restrictions and temporarily weakened buyer sentiment). Property sales activities will likely remain muted before the virus is fully contained. Yanlord's presales target currently incorporates a relatively muted 1Q and expects recovery to start from 2Q. Despite encouraging signs relating to the control of COVID-2019 in China, uncertainty remains on Yanlord's presales outlook nonetheless.

**Gross margin trend.** Gross margin has been found to have an evident relationship developers' share price performance, as it generally reflects their ability to command profits at the project level and thus the successfulness of the company's growth strategy. This is no different for the case of Yanlord over the past 10 years. The developer's gross margin has started to enter a downtrend alongside its strategy to expand into Tier 2/3 cities, together with the combined result of increased land prices but controlled selling prices. So has its share price performances. Looking forward, we believe Yanlord's gross margins will remain pressured alongside expectedly rising recognition of lower-margin projects from Tier 2/3 cities.

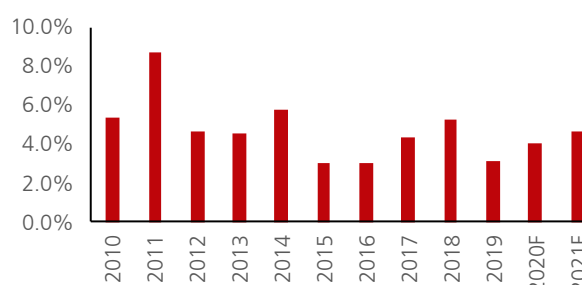
Contracted sales



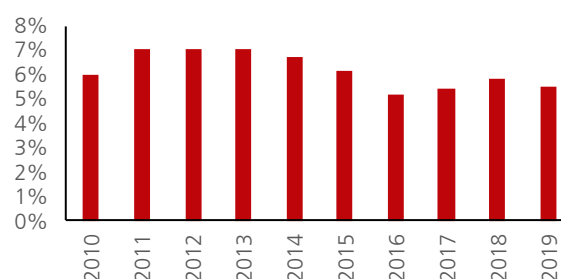
Gross margin



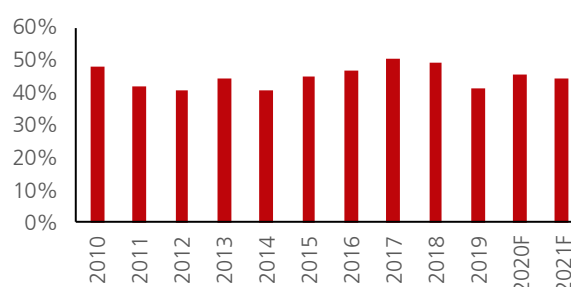
SG&A as % of revenue



Average funding cost



Effective tax rate

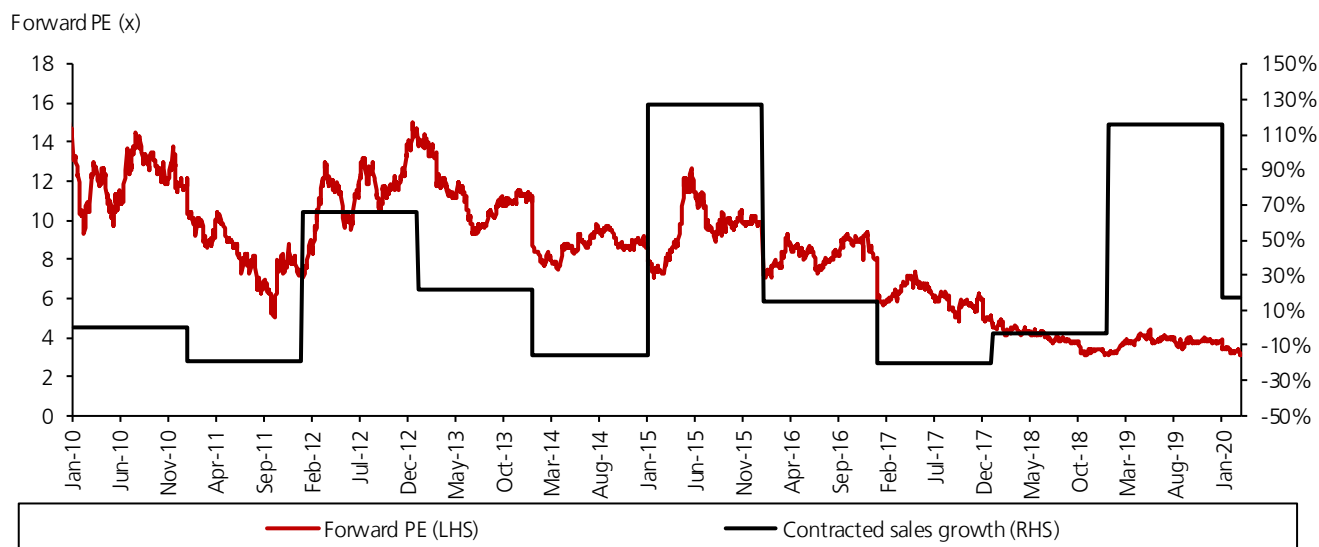


Source: Company, DBS HK

## Yanlord Land Group

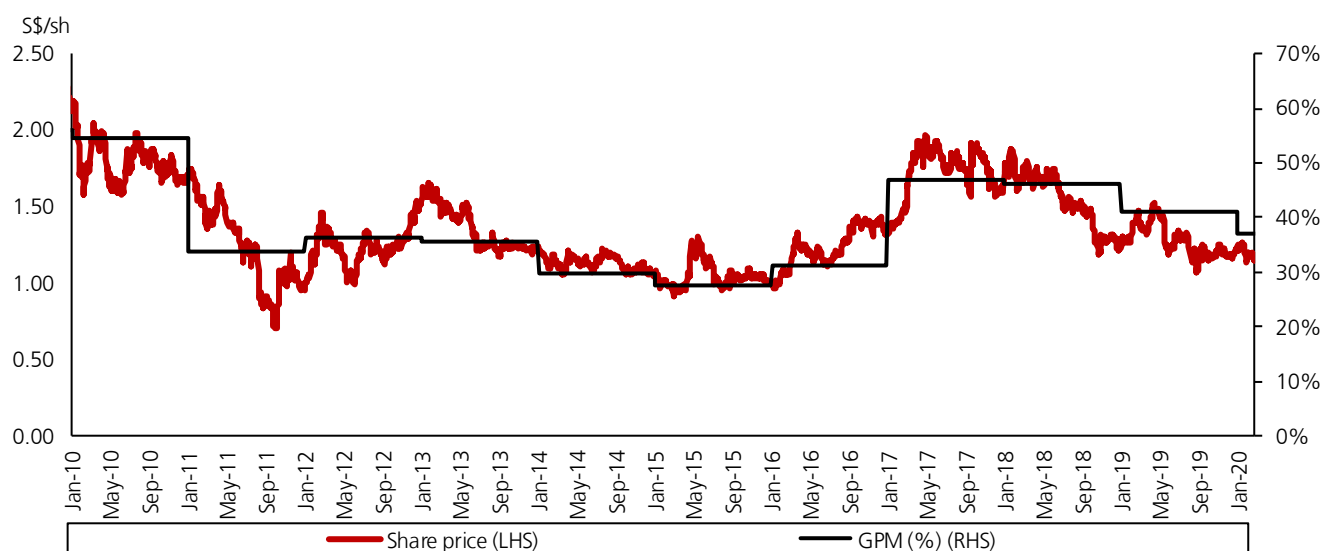
### Appendix 1: A look at Company's listed history – what drives its share price?

#### 1-year forward PE to contracted sales growth



Source: Company, DBS HK

#### Share price to recognised gross margins



Source: Company, DBS (HK)

### Results vs expectations

Rmb (mn)	Actual	Our estimates	Consensus estimated	Below/above expectation
Revenue	18,666	20,342	22,866	Below
Core earnings	1,067	2,326	3,032	Below
Revenue growth	-25%	-18%	-8%	Below
Core earnings growth	-66%	-26%	-4%	Below

	2019	2018	Up/Down	Below/above
Gross margin	41.2%	46.0%	Down	Below
Core net margin	5.7%	12.7%	Down	Below
SG&A as % of contracted sales	3.1%	5.3%	Down	Above

	2019	2018	Up/Down	Below/above
Cash level (Rmb m)	13,818	10,317	Up	In-line
Net debt ratio	80%	97%	Down	In-line

	2019	2018	Yield	Below/above
Full year DPS (Rmb)	0.34	0.33	6%	Above

Source: Company, DBS (HK)

## FY19 result summary

FY Dec (RMB mn)	FY18	FY19	y-o-y %	Comment
<b>Revenue</b>	<b>24,888</b>	<b>18,666</b>	<b>-25%</b>	
Property development	23,679	16,787	-29%	Led mainly by a 17%/16% decline in recognised GFA/ASP
Property investment	549	914	66%	
Others	660	966	46%	
COGS	(13,433)	(10,983)	-18%	
<b>Gross Profit</b>	<b>11,455</b>	<b>7,684</b>	<b>-33%</b>	GPM declined 5ppt to 41.2%
Fair value G/L on investment properties	391	1,876	379%	Island - Land Parcel G73, carparks of Yanlord Marina Center Section A&B in Zhuhai, and the existing Smriti Curtilage in Suzhou
Interest income	551	719	30%	
Other operating income	266	1,145	331%	Primarily contributed by net of gain on bargain purchase and loss on remeasurement of retained interests in associates and JV arising from the acquisition of UEL, and fair value gains from put liability to acquire non-controlling interests and interest income
Net forex gain/ loss	(102)	34	n.a.	
Selling expenses	(398)	(574)	44%	Led by increase in staff costs and intermediary agency fee incurred
Administrative expenses	(955)	(1,145)	20%	Mainly led by professional fee and related expenses incurred in connection with the acquisition of UEL and administrative expenses in the accounts of UEL, and offset by one-off loss caused by the typhoon hitting Zhuhai in
Other operating expenses	(33)	(11)	-67%	
Finance costs	(694)	(1,276)	84%	Mainly due to an increase in interest expenses for the financing of investment in JV and associates
Share of profit (loss) of associates and jointly controlled entities	61	343	459%	Mainly from the sharing of profits from Tianjin Hong Qiao Land, Yanlord Investment (Singapore) Pte. Ltd and Sino-Singapore Nanjing Eco Hi-tech Island
<b>Pre-tax income</b>	<b>10,542</b>	<b>8,795</b>	<b>-17%</b>	
Income Tax Expenses	(5,146)	(3,607)	-30%	
Total Tax	<b>(5,146)</b>	<b>(3,607)</b>	<b>-30%</b>	
Minority Interests	(1,851)	(1,838)	-1%	
<b>Reported profit</b>	<b>3,545</b>	<b>3,350</b>	<b>-5%</b>	
<b>Core earning</b>	<b>3,154</b>	<b>1,067</b>	<b>-66%</b>	
Gross profit margin (%)	46.0%	41.2%	↓ 5 ppts	
Core net profit margin (%)	12.7%	5.7%	↓ 7 ppts	
Reported net profit margin (%)	14%	18%	↑ 4 ppts	
SG&A as % of revenue	5%	9%	↑ 4 ppts	
SG&A as % of contracted sales	5%	3%	↓ 2 ppts	
Effective Tax Rate (%)	49%	41%	↓ 8 ppts	
Reported EPS (RMB)	1.84	1.73	-5%	
Core EPS (RMB)	1.63	0.55	-66%	
DPS (RMB)	0.333	0.343	3%	
Dividend payout ratio (on reported EPS)	18%	20%	↑ 2 ppts	
Contracted sales (Rmb m)	25,774	55,704	116%	
Recognized Sales (Rmb m)	23,679	16,787	-29%	
Recognized GFA ('000 sm)	632	527	-17%	
Recognized ASP (Rmb/ sm)	36,293	30,375	-16%	
	<b>FY18</b>	<b>FY19</b>		
Net debt to equity ratio	97%	80%	↓ 17 ppts	
Cash (Rmb m)	10,317	13,818	34%	

Source: Company, DBS (HK)

## Yanlord Land Group

### Balance Sheet:

**Gearing moderately picked up on the consolidation of United Engineers (UEL).** Despite strong presales in 4Q19, Yanlord's net gearing ratio rose slightly to c.80% as the company settled in part the payments for the acquisition of UEL in Dec-19 as well as consolidating the company into Yanlord's balance sheet. Looking forward, Yanlord intends to maintain its gearing level at c.80%. Average borrowing costs in 2019 stood at 5.5% (FY18: 5.8%) and is expected to see mild improvements this year alongside anticipation of a decent onshore credit environment.

### Share Price Drivers:

**Better-than-expected presales growth.** Presales growth of Yanlord has been identified as one of the key factors that denotes the company's PE valuations over the past. If the company achieves better-than-expected presales growth, it may witness a round of share price and valuation re-rating.

### Key Risks:

**Prolonged COVID-2019 outbreak.** The ongoing COVID-2019 outbreak has halted most property sales-related activities and affected buyer sentiments. Currently, delay in sales progress remains manageable and Yanlord expects market activities to recover from 2Q onwards. Yet, a longer-than-expected virus outbreak may further affect presales outlook, and to a certain extent, Yanlord may no longer be able to regain loss ground.

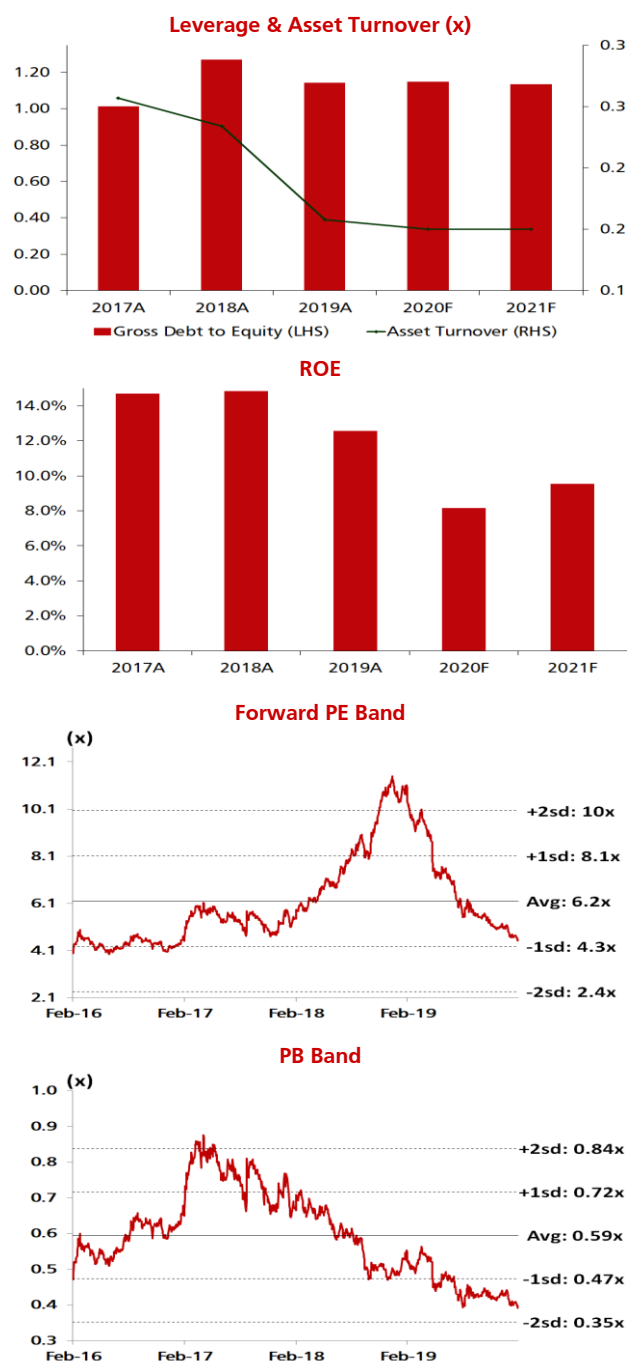
**Inability to timely launch its saleable resources.** Yanlord currently expects a 1-1.5 month delay in its construction process as a result of the COVID-2019 outbreak. Accordingly, the company's saleable resources will now have a heavier tilt towards 2H (30:70 between 1H:2H) and more on end-3Q and 4Q. In the case of Yanlord failing to launch its saleable resources on time, the company's presales outlook could be affected.

### Environmental, Social, Governance:

Yanlord has a good track record of delivering high-quality green projects in China with credits awarded by the central, provincial and municipal governments as the standard-bearer for responsible and environmental-friendly development. The company has also received notable recognitions overseas. For example, its development, Yanlord Landmark in Chengdu, attained LEED-EB certification with the highest rating of platinum level. Renowned for its product quality, Yanlord also secures above-average satisfactions levels throughout all stages of its services (pre-sales services, product and post-sale services) to their customers.

### Company Background

Yanlord Land Group Ltd (Yanlord) is a real estate development company focusing on high-end and luxury residential developments. It had an established land bank of over 9.2m sm in 15 major cities as at Dec-19, including Shanghai, Nanjing, Tianjin, Chengdu, Suzhou, Shenzhen, and Zhuhai.



Source: Company, DBS HK

## Segmental Breakdown (RMB m)

FY Dec	2017A	2018A	2019A	2020F	2021F
<b>Revenues (RMB m)</b>					
Sales of properties	24,759	23,679	16,787	20,760	27,428
Rental income of investment	358	549	914	959	1,007
Others	521	660	966	1,014	1,065
<b>Total</b>	<b>25,638</b>	<b>24,888</b>	<b>18,666</b>	<b>22,733</b>	<b>29,500</b>

Source: Company, DBS HK

## Income Statement (RMB m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Turnover	25,638	24,888	18,666	22,733	29,500
Cost of Goods Sold	(13,594)	(13,433)	(10,983)	(14,327)	(19,354)
<b>Gross Profit</b>	<b>12,044</b>	<b>11,455</b>	<b>7,684</b>	<b>8,406</b>	<b>10,147</b>
Other Opg (Exp)/Inc	275	28	1,203	0	0
<b>Operating Profit</b>	<b>11,179</b>	<b>10,130</b>	<b>7,166</b>	<b>5,709</b>	<b>6,569</b>
Associates Inc	338	61	343	992	1,346
Net Interest (Exp)/Inc	(126)	(694)	(1,276)	(1,065)	(1,130)
Exceptional Gain/(Loss)	(29)	1,045	2,561	0	0
<b>Pre-tax Profit</b>	<b>11,362</b>	<b>10,542</b>	<b>8,795</b>	<b>5,637</b>	<b>6,785</b>
Tax	(5,742)	(5,146)	(3,607)	(2,560)	(2,998)
Minority Interest	(2,404)	(1,851)	(1,838)	(699)	(816)
<b>Net Profit</b>	<b>3,216</b>	<b>3,545</b>	<b>3,350</b>	<b>2,378</b>	<b>2,971</b>
<b>Core Profit</b>	<b>3,032</b>	<b>3,154</b>	<b>1,067</b>	<b>2,378</b>	<b>2,971</b>
Sales Gth (%)	(0.1)	(2.9)	(25.0)	21.8	29.8
Net Profit Gth (%)	19.2	10.2	(5.5)	(29.0)	24.9
Core Profit Gth (%)	31.8	4.0	(66.2)	122.9	24.9
Gross Mgn (%)	47.0	46.0	41.2	37.0	34.4
Core Profit Margin (%)	11.8	12.7	5.7	10.5	10.1
Tax Rate	50.5	48.8	41.0	45.4	44.2

Source: Company, DBS HK

**Balance Sheet (RMB m)**

FY Dec	2017A	2018A	2019A	2020F	2021F
Fixed Assets	31,909	34,685	42,113	41,921	41,728
Invt in Assocs & JVs	5,127	7,316	8,833	8,833	8,833
Other LT Assets	5,948	10,079	9,414	9,414	9,414
Cash & ST Invt	17,838	10,648	14,287	15,115	16,672
Other Current Assets	45,380	43,952	55,248	97,921	143,954
<b>Total Assets</b>	<b>106,201</b>	<b>106,681</b>	<b>129,895</b>	<b>173,203</b>	<b>220,601</b>
ST Debt	2,557	8,293	14,478	14,478	14,478
Creditors	29,359	19,558	27,079	64,962	106,224
Other Current Liab	5,661	8,540	11,603	11,603	11,603
LT Debt	30,576	33,438	31,164	34,164	37,165
Other LT Liabilities	5,346	3,973	5,665	5,665	5,665
Minority Interests	9,972	7,849	11,660	12,359	13,175
Shareholder's Equity	22,731	25,030	28,247	29,972	32,291
<b>Total Capital</b>	<b>106,201</b>	<b>106,681</b>	<b>129,895</b>	<b>173,203</b>	<b>220,601</b>
Share Capital (m)	1,936	1,932	1,932	1,932	1,932
Net Cash/(Debt)	(15,295)	(31,083)	(31,355)	(33,527)	(34,971)
Working Capital	10,360	15,854	16,566	21,356	26,127
Net Gearing (%)	50.8	96.8	78.6	79.2	76.9

Source: Company, DBS HK

**Cash Flow Statement (RMB m)**

FY Dec	2017A	2018A	2019A	2020F	2021F
Profit Before Tax	11,362	10,542	8,795	5,637	6,785
Assoc. & JV Inc/(loss)	(338)	(61)	(343)	992	1,346
Tax Paid	(4,072)	(4,111)	(2,787)	(2,560)	(2,998)
Depr/Amort	33	88	193	193	193
Chg in Wkg.Cap.	3,954	(717)	8,530	(5,488)	(5,588)
Other Non-Cash	(21,581)	(4,230)	(10,643)	(992)	(1,346)
<b>Operating CF</b>	<b>(10,647)</b>	<b>1,510</b>	<b>3,744</b>	<b>(2,219)</b>	<b>(1,608)</b>
Net chg in inv.	(3)	(173)	6	0	0
Assoc, MI, Invsmt	(4,628)	(12,236)	(77)	0	0
<b>Investing CF</b>	<b>(4,631)</b>	<b>(12,409)</b>	<b>(71)</b>	<b>0</b>	<b>0</b>
Net Chg in Debt	17,294	7,910	4,677	3,000	3,001
New Capital	0	0	0	0	0
Dividend	(416)	(630)	(652)	(652)	(652)
Other Financing CF	(1,641)	(3,733)	(4,382)	699	816
<b>Financing CF</b>	<b>15,237</b>	<b>3,547</b>	<b>(357)</b>	<b>3,047</b>	<b>3,165</b>
Chg in Cash	215	(7,481)	3,500	827	1,557
Chg in Net Cash	(12,649)	(15,789)	(271)	(2,173)	(1,444)

Source: Company, DBS HK



### Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	16-May-19	S\$1.44	S\$1.47	Hold

Source: DBS HK

Analyst: Danielle WANG CFA,  
Ken HE CFA,  
Jason LAM

DBS HK recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**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 share price catalysts within this time frame)

*\*Share price appreciation + dividends*

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Sources for all charts and tables are DBS HK unless otherwise specified.

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