

Newsletter

August 2020

POWERLONG REAL ESTATE HOLDINGS LIMITED

Stock Code : 1238.HK



Stock (8 September, 2020):

Closing Price :	HK\$ 5.65
52-week High/Low :	HK\$ 3.51- 6.32
Market Cap :	23.41 billion HK\$
No. of Issued Shares :	4,142 million

Recent IR Activities:

Date	Activities	Venue
9-10 Sep	China Securities Autumn Capital Markets Conference 2020	Shanghai
12 Oct	BofA Asian Credit Conference 2020	Virtual Conference

Investor Relations Department

Email : IR@powerlong.com
Phone : +852 2169 1955 (Hong Kong)
+86 21 5175 9999 x 8508 (Shanghai)

LBS Communications Consulting

Email : powerlong@lbs-comm.com
Phone : +852 3752 2673

Company Website

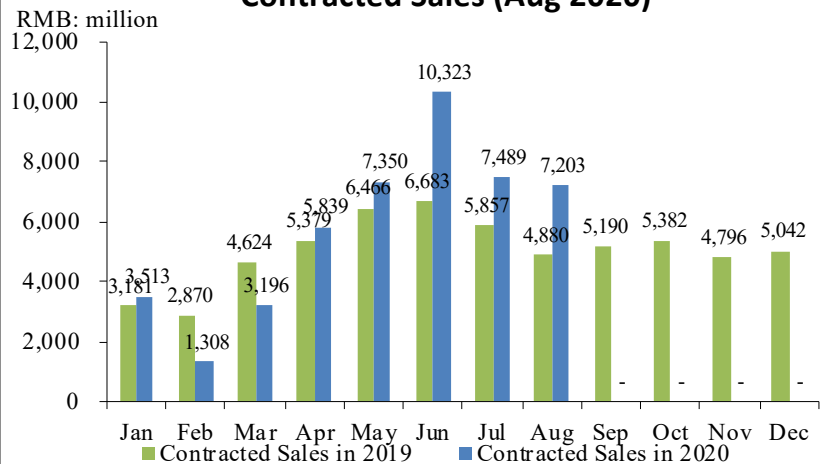
www.powerlong.com

Contracted Sales

In August, the Company recorded contracted sales (including contracted sales value by joint ventures and associated companies) of approximately RMB7,203 million for the GFA of approximately 467,365 sq.m. The Company achieved approximately RMB46,220 million cumulative contracted sales (including contracted sales value by joint ventures and associated companies), representing a YoY increase of 15.7%, and with the GFA of approximately 3,015,232 sq.m., representing a YoY increase of 23.6%.

No.	Type of Business	Contracted Sales (RMB: million)	Ratio
1	Commercial	8,212	17.8%
2	Residential	38,008	82.2%

Contracted Sales (Aug 2020)



Company News

Powerlong Real Estate 2020 Interim Results: Growth continued, abundant quality land banks

Key performance indicators maintained growth momentum:

- Contracted sales of **RMB 31.53 billion**, a YoY increase of **8%**
- Total contracted sales area was **2.047 million sq.m.**, a YoY increase of **14.8%**
- Operating income was **RMB 17.17 billion**, a YoY increase of **40.1%**
- Gross profit margin was **37.1%**, maintained leadership within the industry
- Net profit was **RMB 3.5 billion**, a YoY increase of **42.8%**
- Core profit was **RMB 2.89 billion**, a YoY increase of **56.2%**
- Dividend of **HKD 0.12** per share, a YoY increase of **33%**

On the morning of August 19, Powerlong Real Estate (1238.HK, “Powerlong”) held its 2020 interim results investor presentation. Chief Executive Officer Mr. Hoi Wa Fong, Associate President Mr. Chen De Li, Vice President and Chief Financial Officer Mr. Liao Ming Shun as well as Vice President and General Manager of Capital Management Center Mr. Huang Wen Zhong attended the presentation. **In the first half of 2020, Powerlong achieved contracted sales of RMB 31.53 billion, an increase of 8% YoY, which exceeded the average sales growth rate of various real estate companies according to China Index Academy. As of the end of July, Powerlong’s contracted sales reached 39.018 billion, representing 52% of its annual sales target.**



Company News

Mr. Hoi Wa Fong, Chief Executive Officer of Powerlong Real Estate commented: “COVID-19 disrupted the normal pace of development of various industries during first half of 2020, the real estate industry also experienced a brief shutdown. At the same time, the economic development situation at home and abroad became more complicated which brings great uncertainties in economic growth. Under such situation, Powerlong managed to actively fight against the epidemic while maintained stable operations. Its performance indicators continued to grow in the first half of the year.”

Profitability continues to grow, financially sound with sufficient funds

While achieving steady sales growth, Powerlong Real Estate has maintained excellent operating quality and efficiency. During the Period under Review, it recorded operating income of RMB 17.17 billion, a YoY increase of 40.1%; gross profit margin was 37.1%, maintained its leadership within the industry; net profit was RMB 3.5 billion, an increase of 42.8% over the same period last year. Adhering to the concept of symbiosis and win-win, Powerlong continued to maximize shareholders' equity. The interim dividend increased by 33% YoY to HKD 0.12 per share.

Cash flow is particularly important for survival, especially in the first half of this year. Powerlong has always maintained stringent management principles. As of the end of June 2020, Powerlong's cash and cash equivalents were RMB 26.442 billion, an increase of 11.7% YoY. At the same time, Powerlong successfully issued USD 250 million bonds in the first half of the year and obtained a credit line of RMB 75 billion from domestic banks and other financial institutions, creating sufficient capital reserves.

For the six months ended 30 June 2020, Powerlong's average financing cost of the new debt was 6.22%, which was lower than the average financing cost of 6.4% of the 30 listed real estate companies in 2019 according to the China Index Academy. In terms of liabilities, Powerlong's net debt ratio was 79.9% for the first half of 2020. The net debt ratio has been declining since 2018 which proved Powerlong's determination in stabilizing its financial leverage.

Company News

High-quality and abundant land bank, Deep focus on the Yangtze River Delta (“YRD”)

With the tightening of industry regulatory policies, land prices in the auction market maintained an upward trend, resulting in the narrowing of profit margin for developers. During the Period under Review, Powerlong adopted a flexible land acquisition strategy and added 15 high-quality land plots in first- and second-tier cities. The total capacity was 2.38 million sq.m., and the newly-added saleable value was RMB 47.3 billion, and the equity ratio was 61%. The total land premium rate was 8.8%, and the low-cost land acquisition leaves plenty of room for profits.

As of the end of June, Powerlong has deployed 129 saleable projects in 38 cities in the Yangtze River Delta, Greater Bay Area, Haixi, Bohai Rim, Midwest and Hainan, with a total land reserve of 28.59 million sq.m. and an average cost of RMB 3,201 / sq.m., the total saleable value was RMB 385.8 billion. Among them, the Yangtze River Delta accounts for 76.1%, and the first- and second- tiers account for more than 60%. A sound investment layout will help accelerate Powerlong’s sales and ensure profitability.

Under the policy of “Implementing policies in accordance with the city”, Powerlong accurately grasped the laws and trends of urban rotation and formulated its land investment logic. In addition to deepening its focus in Yangtze River Delta, the Greater Bay Area is also the focus of Powerlong. After its maiden entry into the Greater Bay Area in 2019 by obtaining two high-quality land plots, Powerlong will be launching two major projects in the region in the near future, with a total value of RMB 5.9 billion. The Greater Bay Area will become Powerlong’s future growth driver.

A new ecosystem established through innovation, Powerlong CM’s completed its first merger and acquisition (“M&A”) deal

COVID-19 accelerated the development of new business trends. Digitalization has undoubtedly become one of the major development strategies of all walks of life. Facing the impact of the epidemic, Powerlong Commercial (“Powerlong CM”) quickly established a comprehensive anti-epidemic control mechanism, introduced a number of support policies for merchants, gradually restored operations and recovered shopping mall revenue and passenger flow. Average occupancy rate reached 87.1%. At the same time, Powerlong continued its effort on technology empowerment. In addition to continuing to promote the "New Commerce", it also focused on business innovation and development. In the "New Five-Year Strategic Plan" (2021-2025), Powerlong officially released the "New Business Ecology".

Company News

The development route of "Dot-Line-Face-Sphere" will be deployed to establish high-density coverage of interconnected and grid layout in YRD, and ultimately to achieve multi-dimensional online, offline, and cross-industries integration. Powerlong aimed at, through technological investments, to achieve business integration and upgrade, to form a self-circulating business ecology and to create values.

In addition to the updated development, Powerlong CM completed its first M&A deal. In July 2020, Powerlong CM successfully acquired 60% equity of Zhejiang Xinghui Commercial Management Co., Ltd. ("Zhejiang Xinghui"). Zhejiang Xinghui's business covers development, commercial design, commercial operation, strategic investment, property management, etc. The current cumulative operating area exceeds 1.5 million sq.m.. Zhejiang Xinghui had 14 retail commercial projects under management, with a total GFA of approximately 890,000 square meters including car parks. The acquisition is conducive to the promotion of Powerlong's development strategy of deepening its focus in YRD. Powerlong CM currently has 65 projects in the Yangtze River Delta, accounting for 70% of the total project area.

Mr. Hoi Wa Fong, Chief Executive Officer of Powerlong Real Estate commented: "Powerlong has full confidence in fulfilling its sales target with 40% YoY growth and ensuring the smooth opening of 10 commercial complexes. 2020 marks the 30th anniversary of Powerlong Group. Our theme is "Established with love for the long journey together". With its comprehensive strength in multiple dimensions, such as revenue growth, high-quality land banks, and precise strategic planning, Powerlong continues to improve in many key performance indicators. On this basis, Powerlong announced a new five-year development strategy. In the next five years, Powerlong will rely on the "1+1+N" strategy to strive to achieve "Double Hundred Double Thousand" goals including total 100 self-owned shopping malls within five years, Core profit over RMB 10 billion, equity sales over RMB 100 billion, and total market value of listed companies over RMB 100 billion. Powerlong is committed to becoming a respected century-old company, the world's leading urban space operator, and continuing to create value for shareholders and investors."

Company News

Standard & Poor's: Upgrading Powerlong Real Estate's rating outlook to "positive"

On August 27, Standard & Poor's Global Ratings ("S&P") announced its upgrade on the rating outlook of Powerlong Real Estate (HK.1238) to "positive", and confirm its "B+" long-term credit rating and "B" senior notes debt rating.

S&P stated in its announcement that Powerlong Real Estate has strong sales capabilities and stable revenue growth, and its good debt management is essential in further deleveraging. In addition, S&P expects that through the expansion of its commercial business, Powerlong's rental income will continue to increase, and profitability is expected to further improve.

S&P specifically pointed out that the Yangtze River Delta has a strong economic foundation and population inflows, while most of Powerlong's saleable resources are located in the Yangtze River Delta. Therefore, Powerlong is more defensive during market fluctuations. As of the end of July this year, Powerlong Real Estate had contracted sales of RMB 39.018 billion, 52% of its annual sales target. To this end, S&P predicted that Powerlong will achieve an annual sales target of RMB 75 billion with sufficient saleable value and a 50%-60% sell-through rate. At the same time, based on the rapid growth of contracted sales revenue in the past two years, S&P also expected that Powerlong will continue to maintain a strong revenue growth in 2020, and low land costs will help Powerlong maintains better profit margins than its peers in the future.

Company News

Moody's: Upgraded Powerlong Real Estate's rating outlook to "positive"

On August 31, Moody's issued a rating report, which raised the rating outlook of Powerlong Real Estate (1238.HK) to "positive" and confirmed Powerlong's B1 company rating and B2 debt rating. Moody's upgrade demonstrated its full affirmation of Powerlong's future income certainty, high gross profit, and steady growth in recurring income.

Moody's pointed out that, based on its excellent operating capabilities and its focus on the Yangtze River Delta, Powerlong recorded excellent sales performance in the first half of 2020. It is expected that Powerlong's contracted sales will continue to grow strongly in 2020, which will provide sufficient guarantee for revenue recognition and liquidity in the next 12-18 months. At the same time, Powerlong's abundant low-cost and high-quality land reserves provide sufficient flexibility for sales pricing and lay the foundation for high gross profit. It is expected that Powerlong will maintain a high gross profit level of 34% in the next 12-18 months.

Moody's also expressed its optimism about the steady growth of Powerlong's recurring income. The report stated that based on the mall opening plan in the next two years, Powerlong's recurring income is expected to maintain at the compound annual growth rate of 25%, further improving its interest coverage. In terms of debt structure, Moody's expected that Powerlong's debt structure will be further improved in the next 12-18 months, with debt coverage ratio and interest coverage ratio both steadily improving.

Research Reports

Goldman Sachs Gao Hua initiated coverage on Powerlong Real Estate with Conviction BUY rating

On August 19, 2020 which Powerlong Real Estate's (HK.1238) announced its 2020 interim results, Goldman Sachs Gao Hua (“GSGH”), a leading international investment bank, released its initiation report on Powerlong with a “Buy” rating with target price of HK\$7.5.

GSGH expressed full confidence in the development of Powerlong in its report. It stated that Powerlong, as one of the earliest shopping mall developers and operators in China, has been able to move on to a new growth path since its strategic transformation in 2014. GSGH forecasted: Thanks to Powerlong’s focus on the Yangtze River Delta and its long-term pursuit of high-quality and low-priced land portfolios, future sales growth prospects are strong. The compound annual growth rate of contracted sales from 2019 to 2021 is about 23%, significantly higher than industry average of 10%. Secondly, Powerlong has a lot of room for development in terms of scale and operational efficiency, and will reach the top level shopping mall developers. Powerlong is improving its business through a complete product line and technical cooperation with Tencent, operational efficiency and quality will further be enhanced which strengthen the implementation of light asset expansion strategy. It is expected that by 2025, there will be 150 shopping malls in operation.

GSGH also emphasized that Powerlong’s sales have maintained steady growth. The first seven months of 2020 have increased by 11% YoY, which is much higher than the industry average of 1%. However, its share price valuation is still very far from other peers. Among which, the market's implied commercial valuation of shopping malls in transition is 2.3 times the expected rental income in 2020, which is much lower than the industry average of 6.3 times. GSGH gave Powerlong a "BUY" rating.

On September 8, GSGH issued another report, stating that Powerlong has upgraded its management manpower since June, and the pace of rectification of the mall business is faster than expected. GSGH is optimistic about its management team, share incentive plan, reorganization of mergers and acquisitions, further strengthening of product lines, continued focus on the Yangtze River Delta and the Greater Bay Area. GSGH raised the target price of Powerlong to HK\$8.5, and added Powerlong to the list of Conviction BUY.

Research Reports

Powerlong Real Estate: Interim Results exhibited strong growth, received “BUY” rating from numerous institutions

Institutions	Target Price	Research Reports Highlights
Citi*	HKD8.0	Strong 2020 Interim Performance , Raised target price
UBS*	HKD6.7	Comprehensive development model facilitates development, Ranked as the industry's Top Pick
Jefferies*	HKD7.0	Reiterated Top Pick and raised the target price
CLSA	HKD7.2	Profitability has grown steadily, strong “Buy” rating
Huatai HK*	HKD7.8	Outstanding interim results, Raised target price
GTJA	HKD7.2	Steady sales growth, core profit growth exceeded expectations
UOB	HKD6.61	The YRD strategy boosts sales growth, Core profit growth exceeded expectations
Industrial Securities	HKD7.7	Earnings growth exceeds expectations, Raised target price
AMTD	HKD6.5	The shopping mall opening plan is progressing steadily, Advantages of the commercial sector supported business growth
Huachuang Securities	HKD7.03	Interim results jumped significantly, Maintained "Strong Buy"
Southwest Securities	HKD7.82	Fully benefited from its regional deep-growing strategy, Performance exceeded expectations
Guosen Securities	Maintained BUY	Achieved high growth, stable financials, and established significant advantages in deep commercial cultivation
Zhongda Securities	HKD7.1	Performance is steadily improving, advantages of commercial and residential synergies are gradually revealing

* The institution named Powerlong as industry's Top Pick

Honors of the month

Award Date	Awards	Awarding Authority
12 August	2020 Boao Real Estate Forum "China Real Estate Awards-2020 China Annual Influential Real Estate Brand"	Guardian China
18 August	Ranked 16th in "2020 Shanghai Top 100 Private Enterprises List"	Shanghai Enterprise Confederation, Shanghai Entrepreneurs Association and Jiefang Daily
25 August	2020 China Listed Real Estate Enterprise Financial Strength Award "Tao Zhugong Award"	ChinaLou.CN and YBLi.net

Company Introduction

Powerlong Real Estate Holdings Limited (the "Company", "Powerlong" and "Powerlong Real Estate") is a real estate enterprise listed on the main board of The Stock Exchange of Hong Kong Ltd., specializing in the development and operation of high-quality, large-scale, multi-functional commercial complexes. Powerlong has developed a series of urban complexes named "Powerlong Plaza" integrating large-scale shopping centers, supermarkets, department stores, retail stores, cinemas, food plazas, quality residential properties and other leisure facilities, which have become large-scale commercial landmarks in cities where such complexes locate. Property projects are generally located in prime positions close to the city center of fast-growing, emerging cities in Shanghai Municipality, Jiangsu Province, Zhejiang Province, Fujian Province, Shandong Province, Tianjin Municipality, Henan Province, Chongqing Municipality, Anhui Province. Powerlong has been awarded for many years China Real Estate Top50 Enterprises, China Commercial Real Estate Top5 Enterprises, China Top10 Listed Real Estate Enterprises, China Top5 Commercial Project Brand Value, China Top5 Commercial Real Estate Corporate Brand Value, etc.