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Citi Raises Yuzhou Properties' (01628.HK) Target Price to HK\$6.3 with BUY Rating

Poised for the Next Leap in '18-20E with Sector-low 3.9x PER and 9% Div Yld

(2 January 2018, Hong Kong) One of China's top 40 real estate enterprises, **Yuzhou Properties Company Limited** ("Yuzhou Properties" or the "Company", together with its subsidiaries referred to as the "Group"; stock code: **01628.HK**) is reiterated BUY rating by Citi with a target price of HK\$6.3 recently. Citi believes Yuzhou Properties is poised for the next leap in 2018-2020E, with sector-low 3.9x PER and 8.7% dividend yield.

Pragmatic efforts to set faster growth in '17-20E, 30%+ earnings CAGR

With a concrete five-year plan, Yuzhou eyes 40% sales CAGR in '17-20E with a target of RMB100bn (c.70% attributable). Citi sees Yuzhou's effort to refuel (entering new cities; more M&As) for next growth phase is well under way and its scale expansion will gradually translate into high earnings growth (30%+ CAGR) on sustainable margins (30%+ GPM; around 14% NPM). At sector-low valuations (3.9x '18E PER; 8.7% yield), Citi expects the stock to re-rate on earnings upgrades and steady multiple expansion on strengthened landbank and high earnings visibility. Citi affirms Buy Rating with new target price of HK\$6.3, set at unchanged 6x '18 PE.

Achievable 40% CAGR sales target in '17-20E with strong earning visibility

With contribution from new cities (e.g. Suzhou; Hangzhou) and broader city exposure (e.g. Wuhan; PRD), Yuzhou has set a framework for the next growth phase. With 66%/72% sales growth achieved in '16/17E, its earning visibility for '17/18E is strong with sustainable high margin (33-35% GPM).

Enriched landbank in both breadth and depth to underpin Rmb100 sales scale by 2020E

With latest c.12msm landbank (c.Rmb250bn resources), Citi views Yuzhou's resources as abundant for '17-19E but more efforts (e.g., M&As) are needed to support a sustainable gross sales scale of Rmb100bn post-20E. With a broader geographical reach (newly included satellite cities), Yuzhou added over 3msm landbank in '17E with new expansion into Central and PRD (e.g. Wuhan, Huizhou, etc.) via M&A to underpin the Rmb100bn scale.

Placement completed successfully, solid B/S

Citi believes that Yuzhou's recent 350mn new shares issuance at HK\$4.53 strengthened its B/S for any potential opportunity.

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Yuzhou Properties Company Limited (01628.HK)

Established in 1994, Yuzhou Properties is a property developer headquartered in Shanghai with a national foothold. Adhering to its strategy of Cultivating in Regions Leading the Market, Yuzhou Properties strives to develop residential and commercial properties which align with market trends in first-and second-tier cities. As at 30 September 2017, the Company had 79 projects under various stages of development in Xiamen, Fuzhou, Shanghai, Tianjin, Nanjing, Hefei, Hangzhou, Suzhou, Yangzhou, Quanzhou, Zhangzhou, Longyan, Bengbu, Huizhou and Hong Kong. It had a over 10.49 million sq.m. in aggregate GFA under development or held for future development, with Yangtze River Delta Region, West Strait Economic Zone, Bohai Rim Region and Central Region accounting of 53%, 33%, 6%, 6% and 2% respectively, of the total. Renowned for its outstanding product quality, diversified product portfolio, strong brand awareness and seasoned management team, Yuzhou Properties has been named "Top 100 China Real Estate Enterprises" for eleven years in a row; and Top 50 China Real Estate Enterprises from 2011 to 2017.

For more information, please visit Yuzhou Properties' website: <http://www.yuzhou-group.com>.

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