Yanlord Land Group Limited

(YLLG SP/YNLG.SI)

Reaping the fruits of labour

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- **We initiate coverage of Yanlord with an OUTPERFORM recommendation** and a target price of S$1.30. Our TP is based on a Sum-of-the-Parts valuation between Yanlord's development and rental businesses.
- The Chinese property market is one of few sectors that continued producing steadfast results amidst a recovering Chinese economy.
- Yanlord's target market segment has also been relatively unaffected, as luxury home purchases continue to rise. Recent 5M20 data shows promise, and management is confident of hitting pre-sale targets given earlier in the year.
- Yanlord's expansion into Singapore could be helpful for local investors to gain a better understanding of the company, which currently has the highest dividend yield across SGX-listed property developers, and a very fair dividend payout ratio.

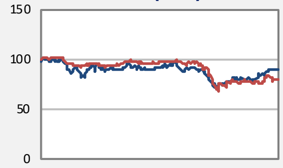
Poor 2020 economic outlook but property remains resilient. COVID-19 has taken a toll on the global economy, but property sectors in a few Asian countries have largely mounted a V-shaped rebound, buoyed by lower borrowing costs while also acting as a safe haven for capital amidst volatile financial markets. China is one such country, where residential property Average Selling Prices (ASP) continue a multi-year uptrend despite the prior lockdown and economic disruption.

Positioned for the growing affluent. Yanlord develops luxury residential properties, with one of the highest ASP amongst major listed Chinese developers. These properties are well suited for the growing population of wealthy Chinese.

2019 could be the trough, as Yanlord recently released operating figures for May and 5M2020, and we observe for substantially improved YoY performance. Contract pre-sales are up 68.4% YoY for 5M20, with a 41.8% YoY increase in contracted Gross Floor Area. Pre-sold property pricing averaged around 35,915 RMB/sqm, with Nanjing contributing the bulk of pre-sales. We think Yanlord will see substantially improved Gross Floor Area delivered and recognised revenue in the upcoming 3 years.

Enter the little red dot. Yanlord has increased their presence in Singapore, with the complete acquisition of United Engineers Limited, as well as a direct property purchase and re-development of a condominium together with a Hongkong Land subsidiary. We think this will help with Yanlord's branding amongst local investors, as the company is currently sitting at an attractive dividend rate versus peers.

Outperform (Initiation)			
Price as of 26 Jun 20 (SGI	1.16	**Performance (Absolute)**	
12M TP ($)	1.30	1 Month (%)	8.4
Previous TP ($)	na	3 Month (%)	20.2
Upside (%)	11.7	12 Month (%)	-10.8
Trading data		**Perf. vs STI Index (Red)**	
Mkt Cap ($mn)	2,241		
Issued Shares (mn)	1,932		
Vol - 3M Daily avg (mn)	1.8		
Val - 3M Daily avg ($mn)	2.0		
Free Float (%)	28.0%		
Major Shareholders		**Previous Recommendations**	
Zhong Sheng Jian	70.4%		
Zhong Siliang	1.6%		
Vanguard Group	1.3%		



YE 31 Dec (RMB mn)	2018A	2019A	2020F	2021F	2022F
Revenue	24888	18666	30076	31225	42206
PATMI	3457	3158	3494	3562	5833
Core PATMI	3346	2261	3674	3777	6038
Core EPS	1.73	1.17	1.90	1.96	3.13
Core EPS grth (%)	6.7	-32.4	62.5	2.8	59.9
Core P/E (x)	0.7	1.0	0.6	0.6	0.4
DPS (SGCents)	6.8	6.8	6.8	6.8	6.8
Div Yield (%)	5.9	5.9	5.9	5.9	5.9
Net Margin (%)	14.2	17.9	12.2	12.1	14.3
Gearing (%)	126.9	114.4	116.4	107.4	123.7
Price / Book (x)	0.5	0.4	0.4	0.4	0.5
ROE (%)	10.8	8.4	9.4	8.9	16.4

Source: Company Data, KGI Research

Valuation & Action: We apply an RNAV methodology for the property development business, with 11% WACC and a 30% discount to RNAV. We then apply DCF to the rental businesses from Yanlord and newly acquired United Engineers Limited to reach a TP of S$1.30. This represents an 11.7% upside to Friday's close price, and implies a 0.45x P/B value.

Conservative valuations; further S$0.20-0.40 upside. Our valuation currently excludes the rental income from Yanlord's own investment buildings, which potentially contributes another S$0.20 – 0.40 to the target price. Further upside will depend on whether Yanlord can capitalise their properties at more attractive margins.

Risks: Regulatory pressure from state and local governments, relatively high leverage, stagnant land bank, Forex risk.

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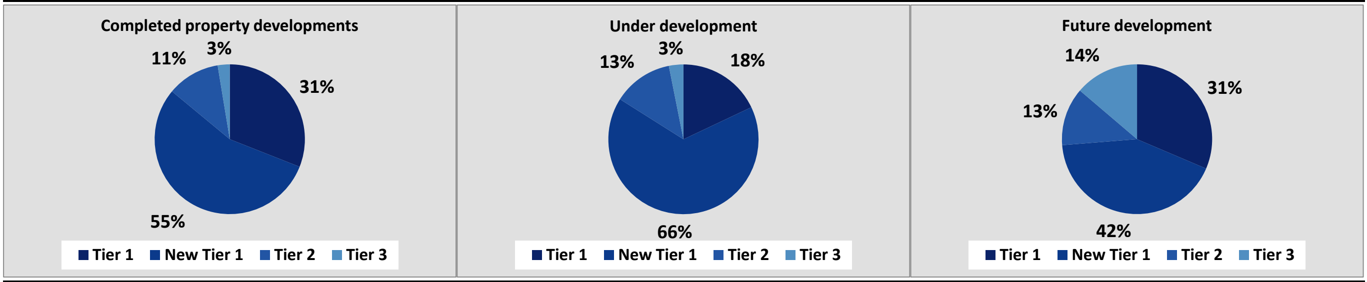
Investment Thesis

Right business strategy for the rising bourgeois

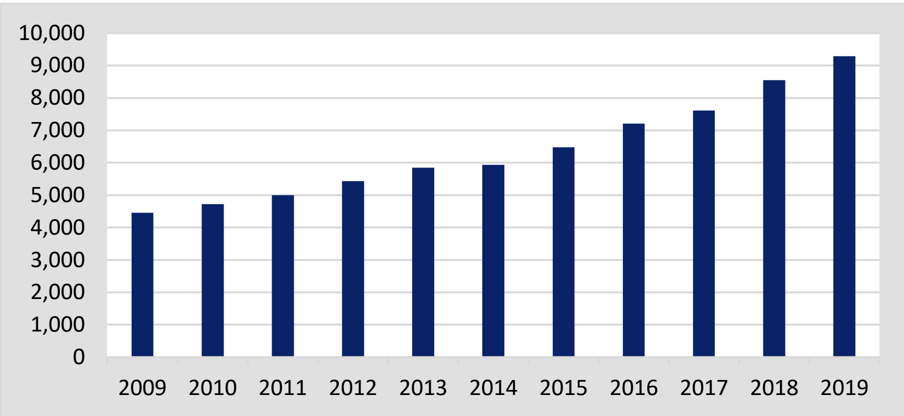
The bulk of Yanlord's business comes from the development and sales of luxury residential properties, concentrated in Tier 1 and Tier 2 cities, especially in up-and-coming New Tier 1 cities such as Chengdu and Nanjing. Yanlord has the expertise to take on projects with different quality expectations, with property price per square metre (psm) ranging from RMB 11,767 to RMB 186,818 (SGD 2,353 – 37,364). Yanlord's average sell price (ASP) is in the range of 30,000 – 40,000 RMB/sqm, at least triple of China's average residential property price and one of the highest when compared to Chinese real estate developer peers. Property psm range has widened recently up to 186k RMB/sqm, aided by villa development in New Tier 1 cities and property development in Singapore.

Figure 1: FY19's property development schedule by Gross Floor Area – more tier 3 development underway but largely tier 1 property developments.



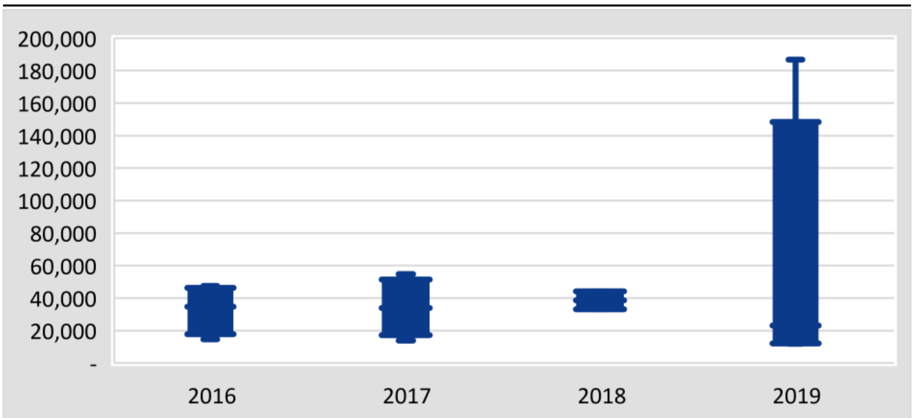
Source: Company data, KGI Research

Figure 2: China's average residential property price is cheaper than Yanlord's cheapest property. Figures in RMB/sqm.



Source: National Bureau of Statistics

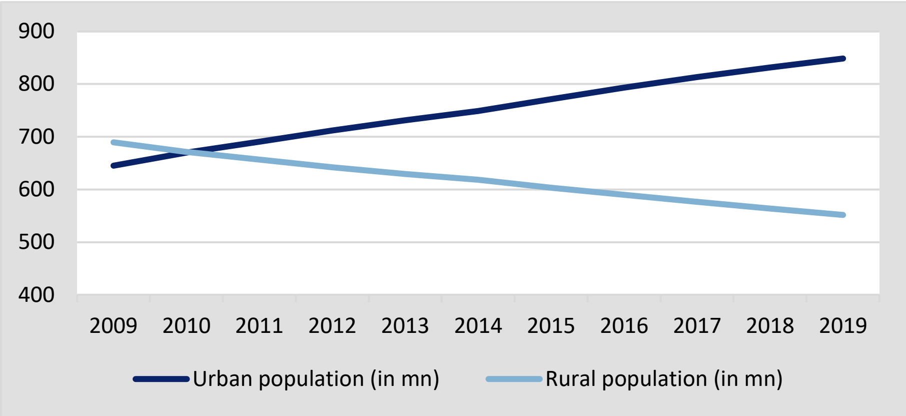
Figure 3: Yanlord ventures further into luxury property development, increasing property price psm. Figures in RMB/sqm.



Source: Company data, KGI Research

Yanlord's decision to venture into developing villas and more luxurious buildings is strategically in line with China's urbanization and growing affluence. China's modernization, involving a pivot away from labour-based production into advanced industrial development, has catalyzed the urbanization of the population. According to Credit Suisse's Global Wealth Databook 2019, wealth per adult in China has multiplied more than tenfold since 2000, and the country houses more than 113 million individuals with net worth over 100,000 USD, which is the highest amongst all countries surveyed, including US. High-end property is an attractive asset for the wealthy to acquire as it serves as a fairly strong hedge against inflation.

Figure 4: Urban population increased at 2.8% CAGR while rural population decreased at -2.2% CAGR.



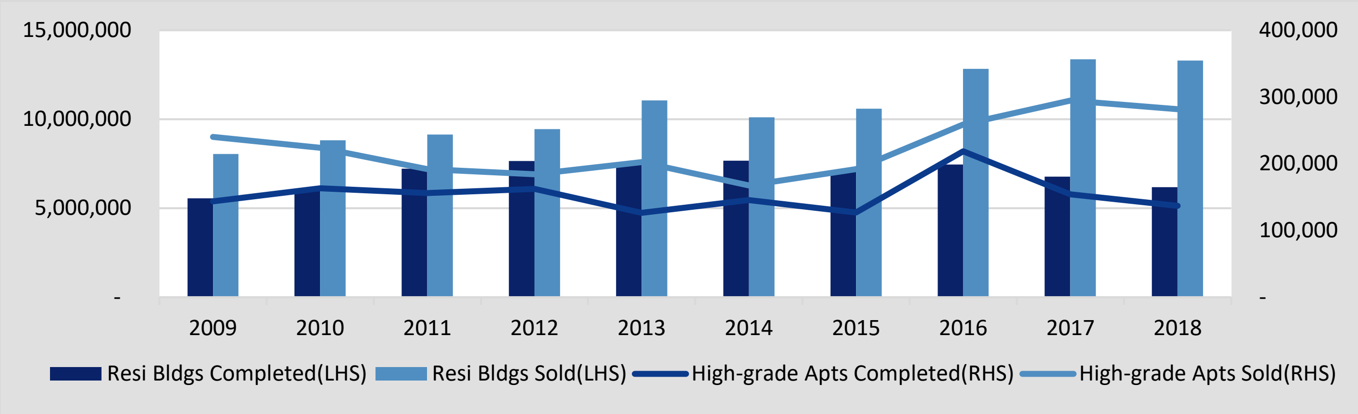
Source: National Bureau of Statistics

The worst could be over in 2019

Yanlord has experienced consecutive years of revenue contraction, fairly in line with broad residential property trends in China after the major policies implemented in 2016. Revenue fell 25% YoY in 2019, and gross profit margin fell to 41.2% from 46% in 2018.

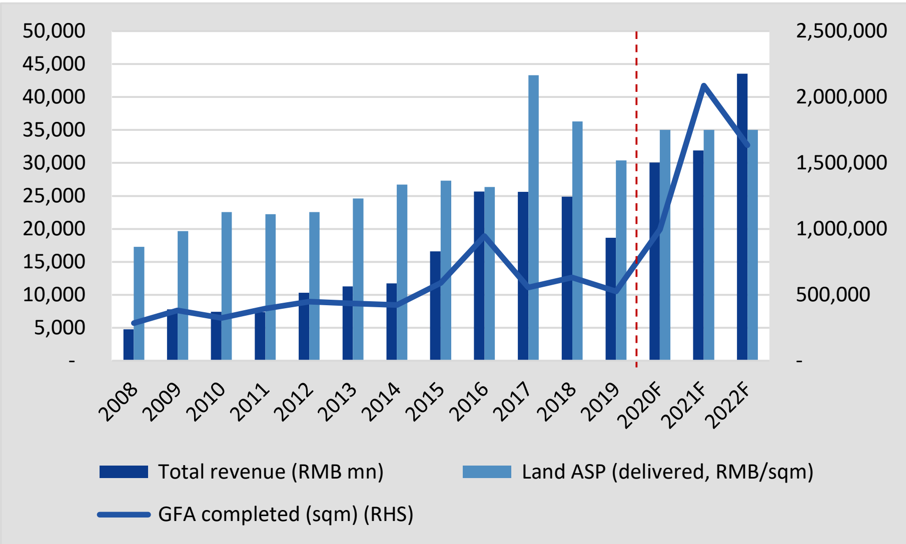
However, a turnaround could be in sight for 2020 and future years, as pre-sale figures have escalated substantially in 2019. Pre-sale figures in 2019 hit a record high of 55.7 RMB bn, a 116% increase over 2018. The pre-sales momentum has continued into 2020 as Yanlord continues to report pre-sales growth, with the latest report of 5M2020 pre-sales figure being 68.4% higher YoY compared to 5M2019. The company also has a respective pipeline of developments that will bear fruit in 2020 and 2021, and management believes they are on track to achieving their 70 RMB bn pre-sales target for this year, a 26% increase over last year's all-time high. Given the low default rates for residential property, we think Yanlord's increased order book will translate to stable, rising revenue in the latter years. Thus, we expect 2019 to be the trough for Yanlord, with substantial sales rebound to come as revenue recognition takes place.

Figure 5: Property sales peaked in 2016-2017 across China after cooling measures were introduced. LHS = Resi Buildings, RHS = High grade Apts.



Source: National Bureau of Statistics

Figure 6: Yanlord's GFA delivery and recognised revenue to pick up in the coming years



Source: Company data, KGI Research

Welcome to Singapore

In recent years, Yanlord has leveraged upon its ties with Singapore and established a local presence. In 2017, Yanlord and Perennial Real Estate Holdings took a 33.5% stake in United Engineers Limited (UEL), a locally listed property development and engineering company, through a consortium with Perennial Real Estate Holdings and Heng Yue Holdings. While the consortium in 2017 was not able to buy out all of UEL, a second offer was made in October 2019, where Yanlord took over Perennial's and Heng Yue's stakes. UEL was eventually acquired and de-listed from SGX in December 2019. Yanlord's current plans with UEL is to divest the non-property businesses that they lack the expertise in developing, while engaging in asset enhancement initiatives for UEL's existing property portfolio.

Yanlord has also gotten a direct foothold in the Singapore property market, with the successful tender for the Tulip Garden condominium together with MCL Land, a wholly-owned subsidiary of Hongkong Land. Development of the new condominium, Leedon Green, is underway and expected to be completed in 2022, with early ASP figures exceeding 100,000 RMB/sqm.

Acceptable leverage, good stable dividend

Overall, we see Yanlord's expansion into Singapore to have two main benefits for the company: firstly to achieve a modicum of diversification from Chinese property, and secondly to achieve greater mindshare amidst SGX investors, whom may have left Yanlord off their radar due to lack of familiarity or knowledge of the Chinese property market.

As a result, we see Yanlord as a very attractive investment candidate, with the highest dividend yield across SGX-listed mid/large cap property developer peers. With a fairly low dividend payout ratio of 19.5%, we think Yanlord can sustain their dividend rate, as they have done in 2019 despite weaker results, while having room for future dividend increments.

Figure 7: SG property developers' dividend yield and payout comparison

Company Name	BBG Ticker	Market Cap (S$ Mn)	Div Yield (%)	Div Payout Ratio (%)	Debt to Equity
YANLORD LAND GROUP LTD	YLLG SP	2241	5.9	19.5	115.3
SGX listed property developers (average)			**3.1**	**53.7**	**70.5**
CAPITALAND LTD	CAPL SP	14500	4.2	28.3	78.0
HONGKONG LAND HOLDINGS LTD	HKL SP	13220	5.4	259.3	13.1
CITY DEVELOPMENTS LTD	CIT SP	7672	2.3	32.9	88.0
UOL GROUP LTD	UOL SP	5728	2.6	30.8	34.5
FRASERS PROPERTY LTD	FPL SP	3629	3.6	31.3	108.1
UNITED INDUSTRIAL CORP LTD	UIC SP	3181	1.8	8.3	7.4
GUOCOLAND LTD	GUOL SP	1751	4.7	30.4	96.7
BUKIT SEMBAWANG ESTATES LTD	BS SP	1007	1.0	37.4	25.6
WING TAI HOLDINGS LTD	WINGT SP	1361	2.8	82.1	17.5
OXLEY HOLDINGS LTD	OHL SP	1012	4.2	29.7	237.9
HO BEE LAND LTD	HOBEE SP	1397	3.8	20.0	68.2
FIRST SPONSOR GROUP LTD	FSG SP	937	2.3	13.8	43.3
HONG FOK CORP LTD	HFC SP	576	1.5	10.0	29.9
Updated on 26 June 2020					

Source: Bloomberg, KGI Research

While local investors may be concerned with Yanlord's debt ratios, we think the values are fair for a Chinese property developer. Chinese property developers operate with significantly higher leverage, when compared to local Singapore property developers. Yanlord is one of the least leveraged when compared to other Chinese players.

Figure 8: Chinese property developers' dividend yield, payout, and debt-to-equity ratios

Company Name	BBG Ticker	Price (local curr.)	Market Cap (S$ Mn)	Div Yield (%)	Div Payout Ratio (%)	Debt to Equity
YANLORD LAND GROUP LTD	YLLG SP	SGD 1.16	2241	5.9	19.5	115.3
Chinese property developers (average)				**7.2**	**38.2**	**180.6**
CHINA VANKE CO LTD-H	2202 HK	HKD 24.45	58789	5.5	30.4	104.1
CHINA EVERGRANDE GROUP	3333 HK	HKD 19.72	46428	5.9	50.1	223.1
COUNTRY GARDEN HOLDINGS CO	2007 HK	HKD 9.77	38374	7.2	31.4	169.5
CHINA AOYUAN GROUP LTD	3883 HK	HKD 9.68	4698	9.6	35.2	261.4
YUEXIU PROPERTY CO LTD	123 HK	HKD 1.41	3920	8.2	40.8	133.6
GREENTOWN CHINA HOLDINGS	3900 HK	HKD 7.69	3444	4.4	54.6	136.0
YUZHOU PROPERTIES CO	1628 HK	HKD 3.40	3192	10.4	50.5	193.8
CHINA OVERSEAS GRAND OCEANS	81 HK	HKD 4.63	2846	6.4	23.2	143.3
POLY PROPERTY GROUP CO LTD	119 HK	HKD 2.34	1539	6.8	20.0	184.5

Source: Bloomberg, KGI Research

Valuation

Revenue: We assume that projects are sold off within 3 years of the date of completion, with 80% of GFA successfully pre-sold and the remaining 20% sold after completion date. From Yanlord's FY19 annual report, there are currently 46 properties undergoing development, which are used for our projections. Our projections currently use an average project ASP of 35,000 RMB/sqm, which is fairly in line with Yanlord's historic property ASP, as well as 5M20's pre-sales figures. For the two properties in Singapore, we estimate using percentage-of-completion methodology, taking 5 years as the development guidance and assuming 100% sell-through rate.

For the property investments & operations segment, we increase estimates to RMB 1,571/1,584/1,598 bn for 2020/2021/2022, based on estimated contributions from the acquisition of UEL. We kept other revenue to be constant, leading to 2020/2021/2022F revenue to be +61.1%/-3.8%/+35.2% YoY.

Valuation: We value Yanlord using the Sum-of-the-Parts methodology of its two core businesses. We use a Relative Net Asset Value (RNAV) methodology for the property development business, applying 12% PATMI margin to Yanlord's share of profits from property under development, an 11% WACC for NPV calculation, and a 30% discount to our RNAV value to arrive at a target price of S$0.89/share. We separately value UEL's rental business at S$0.41/share using DCF methodology, also with 11% WACC. Our final target price for Yanlord is S$1.30, 11.7% upside from Friday's close. Our valuation methodology currently excludes the impact of Yanlord's own rental businesses due to the lack of available data, which we estimate should contribute another S$0.20 – 0.40 to the target price.

Yanlord currently trades at cheap valuations, relative to its past and to peers. Amongst SGX-listed large cap property developers, Yanlord's current P/B of 0.4x is almost 25% below peer average of 0.53x, while also being 21% below their 5-year P/B average. This has resulted in a dividend yield of 5.9%, the highest amongst SGX-listed property developer peers, with the company staying at a comfortable dividend payout ratio of 19.5%.

Figure 9: Yanlord is currently trading below 5-year historical Price/Book range

Source: Bloomberg, KGI Research

Figure 10: Peer comparison table

Company Name	BBG Ticker	Price (local curr.)	Market Cap (S$ Mn)	P/E (x)			P/B (x)		5-YR P/B AVG (x)	3y EPS CAGR (%)	Div Yield (%)	Div Payout Ratio (%)	YTD Price Performance (%)	1y Price Performance (%)	1mth Price Performance (%)	Debt to Equity
				Current	FY20F	FY21F	Current	FY20F								
YANLORD LAND GROUP LTD	YLLG SP	SGD 1.16	2241	3.4	3.2	2.7	0.4	0.4	0.5	2%	5.9	19.5	-4.1	-11.5	4.5	115.3
Chinese property developers (average)				**6.7**	**4.6**	**4.0**	**0.9**	**0.8**	**0.9**	**0.2**	**7.2**	**38.2**	**-19.6**	**-1.6**	**5.9**	**180.6**
CHINA VANKE CO LTD-H	2202 HK	HKD 24.45	58789	6.4	5.7	5.1	1.3	1.1	1.9	17%	5.5	30.4	-26.5	-15.8	-2.6	104.1
CHINA EVERGRANDE GROUP	3333 HK	HKD 19.72	46428	13.7	7.2	6.4	1.6	1.4	1.8	-15%	5.9	50.1	-8.7	-10.0	19.1	223.1
COUNTRY GARDEN HOLDINGS CO	2007 HK	HKD 9.77	38374	4.8	4.3	3.8	1.3	1.1	1.6	23%	7.2	31.4	-21.7	-17.6	2.8	169.5
CHINA AOYUAN GROUP LTD	3883 HK	HKD 9.68	4698	5.6	3.8	3.0	1.6	1.2	1.0	60%	9.6	35.2	-23.8	-12.5	13.9	261.4
YUEXIU PROPERTY CO LTD	123 HK	HKD 1.41	3920	5.3	4.8	4.1	0.5	0.5	0.5	15%	8.2	40.8	-21.7	-19.9	1.4	133.6
GREENTOWN CHINA HOLDINGS	3900 HK	HKD 7.69	3444	12.9	6.4	5.9	0.6	0.5	0.6	-15%	4.4	54.6	-19.6	37.3	-0.4	136.0
YUZHOU PROPERTIES CO	1628 HK	HKD 3.40	3192	4.3	3.6	3.0	0.8	0.6	0.9	1%	10.4	50.5	-19.8	-5.8	5.9	193.8
CHINA OVERSEAS GRAND OCEANS	81 HK	HKD 4.63	2846	4.8	3.7	3.1	0.8	0.7	0.7	34%	6.4	23.2	-14.1	33.4	13.8	143.3
POLY PROPERTY GROUP CO LTD	119 HK	HKD 2.34	1539	2.2	3.0	2.4	0.3	0.2	0.4	25%	6.8	20.0	-27.6	-18.2	-8.9	184.5
SGX listed property developers (average)				**14.0**	**13.1**	**11.7**	**0.5**	**0.5**	**0.7**	**0.0**	**3.1**	**53.7**	**-21.9**	**-22.5**	**3.7**	**70.5**
CAPITALAND LTD	CAPL SP	SGD 2.87	14500	6.2	14.4	12.4	0.6	0.6	0.8	12%	4.2	28.3	-23.5	-18.9	-1.0	78.0
HONGKONG LAND HOLDINGS LTD	HKL SP	USD 4.07	13220	48.0	9.3	9.2	0.2	0.2	0.4	-81%	5.4	259.3	-29.2	-38.8	11.8	13.1
CITY DEVELOPMENTS LTD	CIT SP	SGD 8.46	7672	13.9	17.6	13.3	0.8	0.7	0.9	4%	2.3	32.9	-22.7	-10.5	10.2	88.0
UOL GROUP LTD	UOL SP	SGD 6.79	5728	12.0	18.7	14.3	0.6	0.6	0.7	-27%	2.6	30.8	-18.4	-9.7	1.2	34.5
FRASERS PROPERTY LTD	FPL SP	SGD 1.24	3629	8.4	10.3	10.4	0.5	0.5	0.7	-5%	3.6	31.3	-26.6	-34.0	3.3	108.1
UNITED INDUSTRIAL CORP LTD	UIC SP	SGD 2.22	3181	5.3	-	-	0.4 I/A	N/A	0.6	42%	1.8	8.3	-22.6	-24.5	6.2	7.4
GUOCOLAND LTD	GUOL SP	SGD 1.48	1751	6.0	8.2	11.4	0.4	0.4	0.7	-19%	4.7	30.4	-24.5	-26.0	6.5	96.7
BUKIT SEMBAWANG ESTATES LTD	BS SP	SGD 3.89	1007	13.2	-	-	0.8 I/A	N/A	1.0	18%	1.0	37.4	-16.9	-33.0	-1.0	25.6
WING TAI HOLDINGS LTD	WINGT SP	SGD 1.77	1361	26.7	22.7	19.0	0.4	0.4	0.4	42%	2.8	82.1	-12.4	-13.7	0.6	17.5
OXLEY HOLDINGS LTD	OHL SP	SGD 0.24	1012	9.7	3.2	3.2	0.7	0.6	1.4	-22%	4.2	29.7	-32.4	-26.2	0.0	237.9
HO BEE LAND LTD	HOBEE SP	SGD 2.10	1397	4.2	-	-	0.4 I/A	N/A	0.5	16%	3.8	20.0	-12.0	-11.8	3.4	68.2
FIRST SPONSOR GROUP LTD	FSG SP	SGD 1.17	937	5.7	-	-	0.6 I/A	N/A	0.7	32%	2.3	13.8	-15.8	-12.7	4.5	43.3
HONG FOK CORP LTD	HFC SP	SGD 0.68	576	4.1	-	-	0.3 I/A	N/A	0.4	-20%	1.5	10.0	-13.9	-19.0	-3.5	29.9

Updated on 26 June 2020

Source: Bloomberg, KGI Research

China Property Market Review and Outlook

Cautiously positive on the Chinese economy

Speed bump is bottoming out

China, the earliest epicenter of the COVID-19 pandemic outbreak, went through the most draconian quarantine and lockdown measures in February and March and suffered from an unprecedented economic downturn in 1Q20. GDP growth contracted by 6.8% YoY (negative growth for the first time in more than two decades). Domestic consumption, investment, and international trade activities simultaneously plunged. In summary, China's overall economy was largely halted for about two months.

However, China managed to reopen its economy as soon as late March due to the effective containment of infections, and the macro data in April started to show a bottom-out in economic activities. The two of the troika of economic drivers, consumption and investment, gradually recovered although remained weak compared to historical averages.

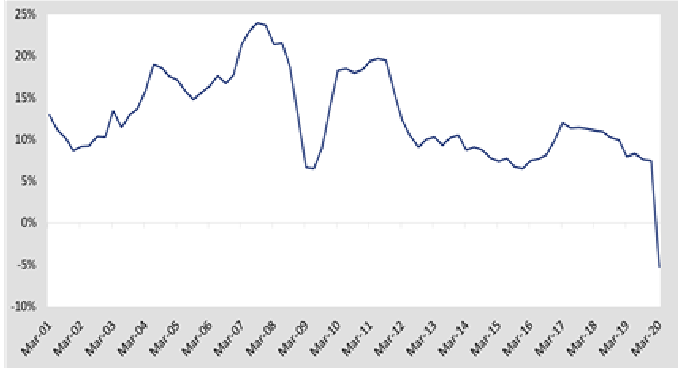
There was a declining contraction of retail sales (Fig. 12), from -17% YoY in April to -14% YoY in May. And the decrease of growth in fixed asset investment (Fig. 13) was narrowed to a single digit of -8%, the lowest decline since November 2019. Trade activities (Fig. 14) were still soft given than the major overseas markets have yet to fully contain the pandemic, especially in Americas. The respective growth of import and export was reported at -3% YoY and -16% YoY in May. However, China continues to experience stagflation as industrial profits continued to shrink, outrunning the decline in inflation. The biggest concern is the job market which stayed at a three-year high level of unemployment (Fig. 16).

Cautiously positive on 2H20 economic outlook

The two sessions in late May, National People's Congress and Chinese People's Political Consultative Conference, did not deliver a full-blown stimulus package which the market has been expecting since March. Meanwhile, there was no GDP growth target set for 2020. Instead, the government will be concentrating on "Six stabilities" and "Six ensures/guarantees" (employment, finance, foreign trade, foreign investment, domestic investment and market expectation), out of which employment is the top priority. China's economy has been through the worst, but remains far from a full recovery.

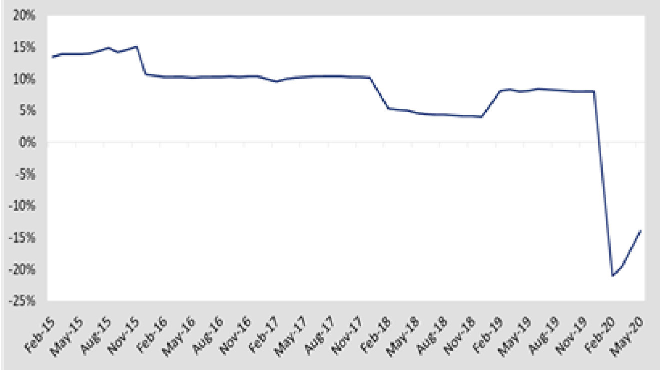
While trade tensions have abated over the past few quarters, we note that the conflict has now spread to the technological sector, and the finance sector is likely to be the next victim of geopolitics. However, China's 1.4bn population consumer market provides a strong buffer for the external impact. China has been transforming its economic structure over the decade by increasing reliance on domestic consumption (56% as of 2019). Business with internal demand includes consumer goods and services, such as catering and tourism, and has been recovering healthily since the lockdown measures were lifted in late March. Furthermore, the residential property sector is almost exclusively reliant on domestic demand and is largely unaffected by geopolitics and international trade relations. In a nutshell, we are cautiously positive on China's economic outlook in 2H20.

Figure 11: Unprecedented GDP contraction over last two decades



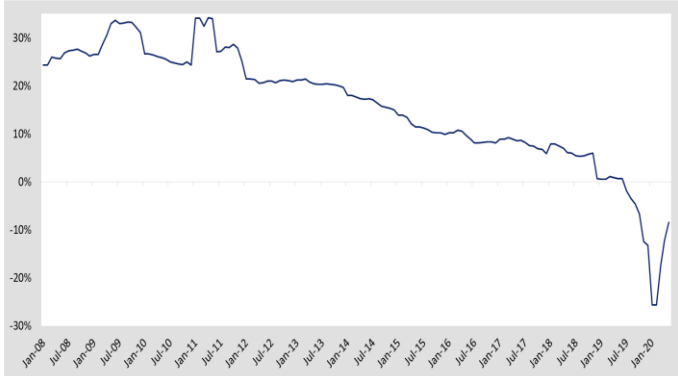
Source: National Bureau of Statistics, KGI Research

Figure 12: Retail sales of consumer goods growth YoY



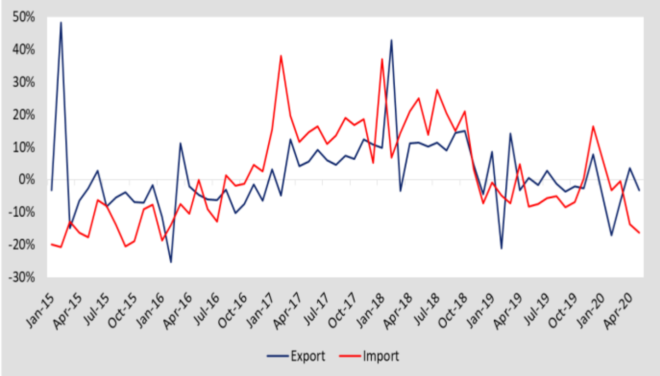
Source: National Bureau of Statistics, KGI Research

Figure 13: Deflated fixed asset investment growth YoY



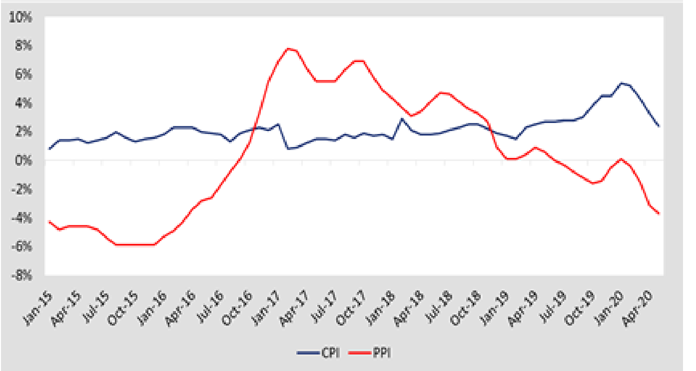
Source: National Bureau of Statistics, KGI Research

Figure 14: Soft International trade growth YoY



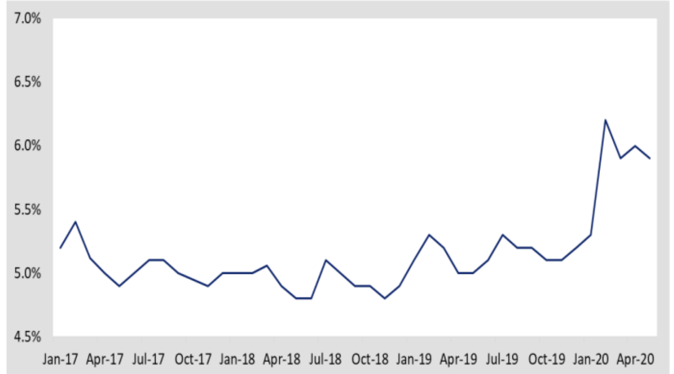
Source: National Bureau of Statistics, KGI Research

Figure 15: CPI tops out but PPI trending downward



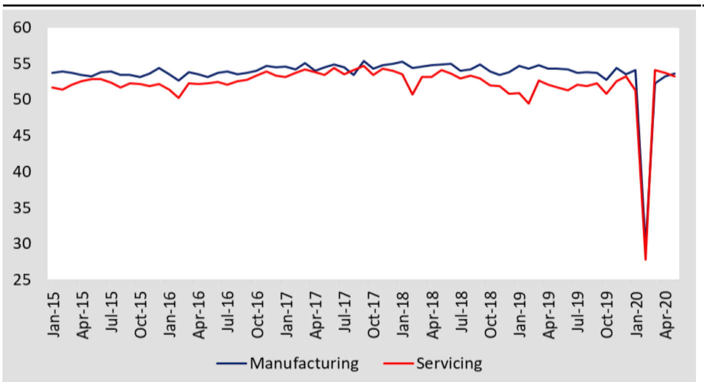
Source: National Bureau of Statistics, KGI Research

Figure 16: Surveyed unemployment rate climbing to a three-year high



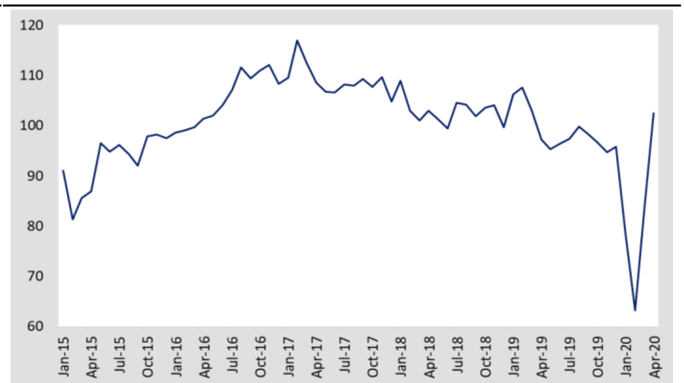
Source: National Bureau of Statistics, KGI Research

Figure 17: PMI back to normal



Source: National Bureau of Statistics, KGI Research

Figure 18: CEIC leading indicator for China



Source: CEIC, KGI Research

Chinese residential property - Long term stability, short term sparks

Ten-year review of the Chinese property market

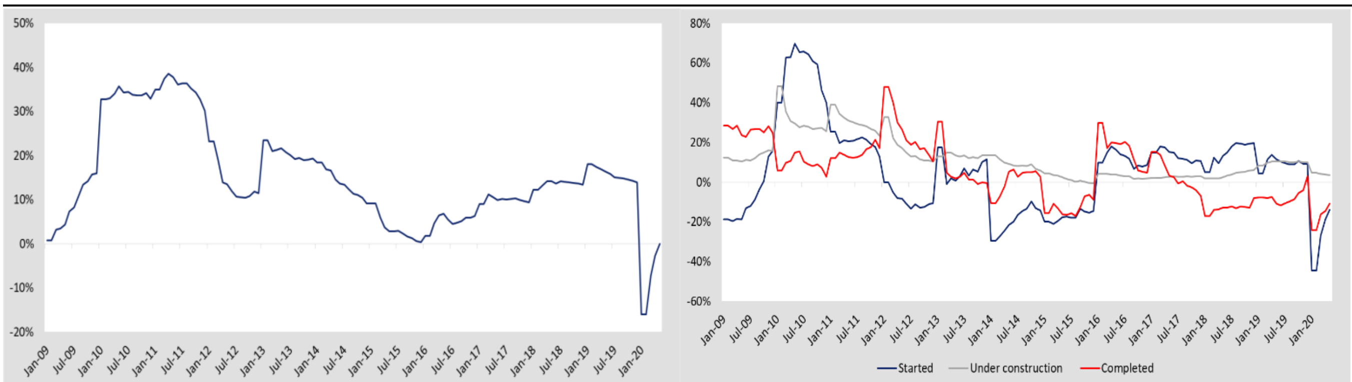
After the global financial crisis (GFC) in 2008, China's residential property market entered a phase of cyclical advancement and spiral ascendance, subjected to administrative, monetary, and fiscal policies. During the GFC, China launched a massive RMB 4 tn fiscal stimulus program which propelled the infrastructure and real estate development.

Residential property investment growth (Figure 19) jumped to over 30% and had sustained capital inflows during 2010 and 2011, and building floor space (Figure 19) started skyrocketing with a growth as high as over 60% in 2010 (-20% in early 2009). In 2012, the authority promptly curtailed the exuberant property market by enacting the property-purchasing limitations to rein in speculations. Investment growth in residential properties fell to 10% YoY in mid-2012, and new project development was cooled down phenomenally as property floor space sharply dropped by 11%-13% in 2H12.

However, there was another change in 2013 where the central government promoted urbanisation as a strategy to drive economic growth since the demand for property was relatively stabilised, driven by living purpose rather than speculation. From 2013 to 2015, residential property market experienced disinflation with a gradual decline in both investment growth and new project growth. The slow-down in growth was justified as developers over-expanded through debt funding, leading to diminishing marginal returns. The downturn ended by the end of 2015, and a small upcycle initiated, driven by a new round of economic rectification policy and supply-side reforms.

In 2016 and 2017, the theme of the development in the residential property market was de-stocking. Under the circumstances of tightening concessions for new projects, developers rampantly cleared the projects under construction or new projects with concessions granted before the cooling measures enacted. Hence, there was a sharp jump in floor space completed in 2016. Since 2016 till the pre-COVID period, the residential property market grew with a more stable upward trajectory, aided by improved regulations.

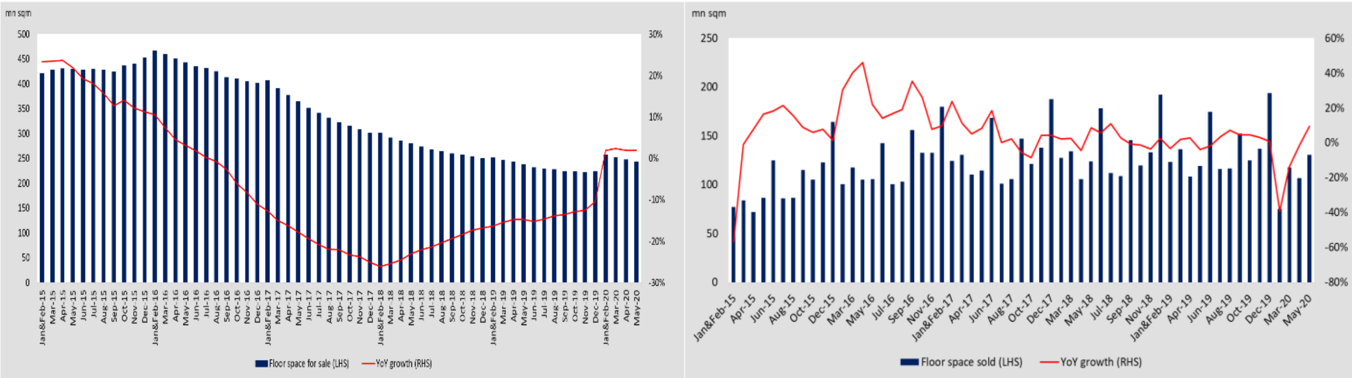
Figure 19: LHS: Residential property investment growth YoY. RHS: Residential property floor space growth YoY by progress type



Source: National Bureau of Statistics, KGI Research

On the demand-side, demand growth has never ceased until the outbreak of COVID-19. During the de-stocking period in 2016, the demand surged with floor space sold (Figure 20, RHS) soaring by 24% YoY on average as a strong expectation of increase in prices due to an ongoing supply control. However, growth soon fell to low single digits in the next couple of years as the authority did not budge on the purchase limitation to a large extent. Sales of residential property thus stayed lukewarm from 2017 to 2019.

Figure 20: LHS: Residential floor space for sale growth YoY (supply). RHS: Residential property floor space sold growth YoY (demand)



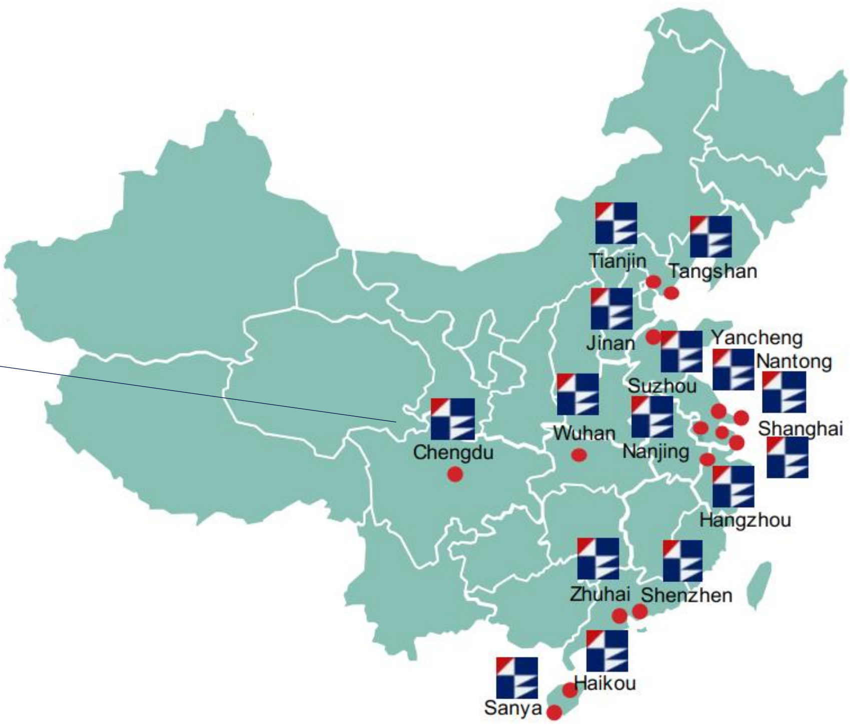
Source: National Bureau of Statistics, KGI Research

Top tier cities' residential property market updates

The majority of Yanlord's property development projects are located in the top tier cities (capital cities or top GDP contributors in each province) of China, and out of which Chengdu, Nanjing, Shanghai, and Suzhou are the main revenue sources. Therefore, we shed some colour of the residential property market in each of them in the following pages.

We provide an overview of the property market of the following key cities below: Chengdu, Nanjing, Shanghai, and Suzhou

Figure 21: Yanlord is well-diversified across key Tier 1 and 2 cities in China



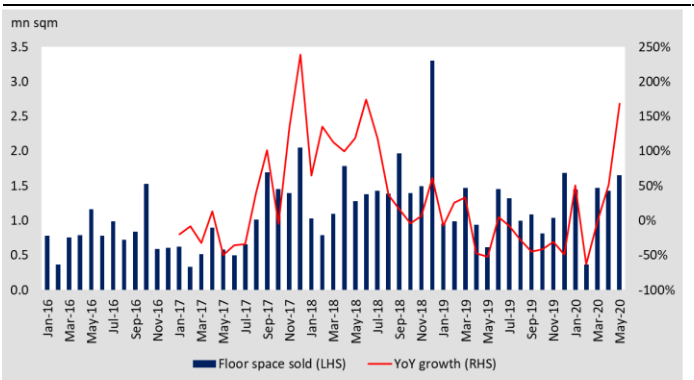
Source: Company, KGI Research

Chengdu is the capital city in Sichuan province. Its 2019 GDP is at RMB1.7tn with a 10.9% growth YoY. Chengdu is strategically positioned as the core and pivotal city in the Southwestern part.

Chengdu property market. The growth of sales of residential property before COVID-19 has trended down since late 2017. The floor space sold peaked in December 2018 and then plunged by 20% on average in 2019. The turn was the consequence of the rapid growth in the property price.

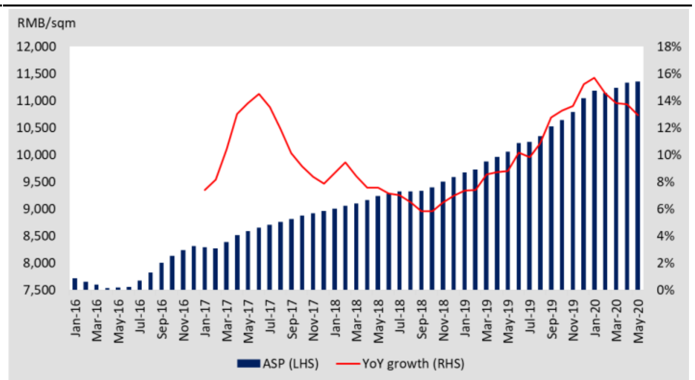
Over past five years, the average transaction property has been trending up without a pause. However, price increment accelerated in 2019 (10.6% in 2019 vs 7.3% in 2018). Meanwhile, the average land transaction price jumped back to the high level of the de-stocking period in 2016 and 2017. Since the outbreak of COVID-19, the demand for residential property performed a V-shape rebound amid the ongoing upswing of prices in both land and property transaction.

Figure 22: Chengdu's monthly residential property floor space sold



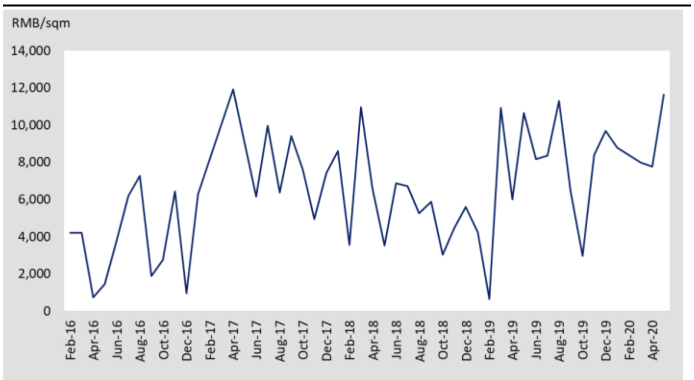
Source: China Index Academy, KGI Research

Figure 23: Chengdu's monthly average residential property transaction price



Source: Fang.com, KGI Research

Figure 24: Chengdu's monthly average land transaction floor price

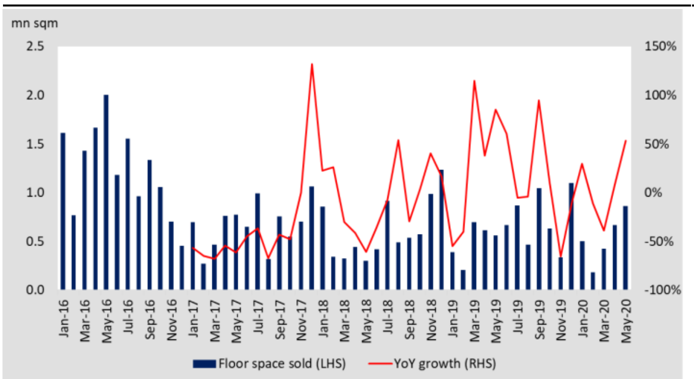


Source: China Index Academy, KGI Research

Nanjing is the capital city in Jiangsu province. Its 2019 GDP reached RMB1.4tn with a 9.4% growth YoY. Nanjing is positioned as a megacity and one of the core cities in the Yangtze River Delta economic zone.

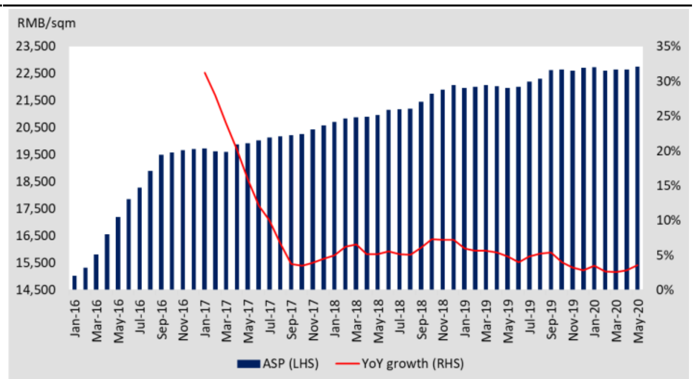
Nanjing property market. The growth of sales of residential property and land transactions fell after the peak in 2016 when the nationwide de-stocking was initiated and has been stable through 2017 to 2019. After the sharp jump in property prices in 2016, the steepness of the slope flattened. The monthly average residential property transaction price maintained growth at the range between 4 - 7% since August 2017. This was due mainly to further implementation of cooling measures in the city. Since the outbreak of COVID-19, the demand for residential property also embraced a sharp rebound but the price growth remains mild.

Figure 25: Nanjing's monthly residential property floor space sold



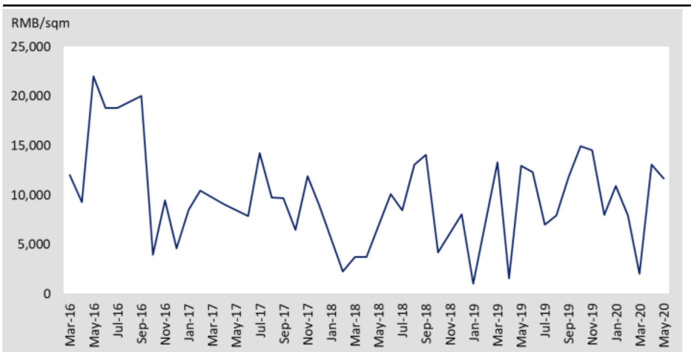
Source: China Index Academy, KGI Research

Figure 26: Nanjing's monthly residential property average transaction price



Source: Fang.com, KGI Research

Figure 27: Nanjing's monthly land transaction floor price

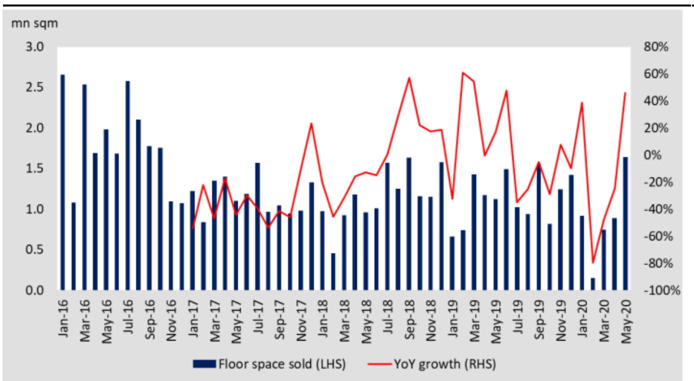


Source: China Index Academy, KGI Research

Shanghai is the municipality directly under the central government. Its 2019 GDP reached RMB3.8tn with a 6.0% growth YoY. Shanghai is positioned as the ultra-megacity and China's financial, trade, and maritime hub.

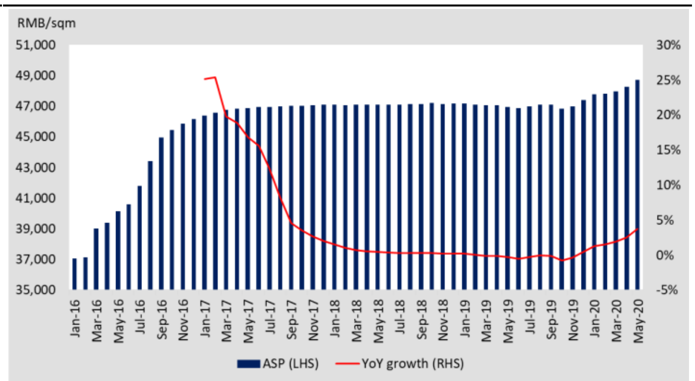
Shanghai property market. Similar to Nanjing, the growth of sales of residential property and land transactions plummeted from the peak in 2016. Unlike Nanjing, residential property prices barely grew from 2017 to late 2019 after exceeding 20% growth within 2016. The property market in Shanghai has become one of the top-notch markets in the world, and the price growth is moderate as the base is high. On the other hand, the rise of other satellite cities alleviate the upward pressure on Shanghai's property price. Since the outbreak of COVID-19, the demand for residential property also had a strong comeback and the price growth started to tick up.

Figure 28: Shanghai's monthly residential property floor space sold



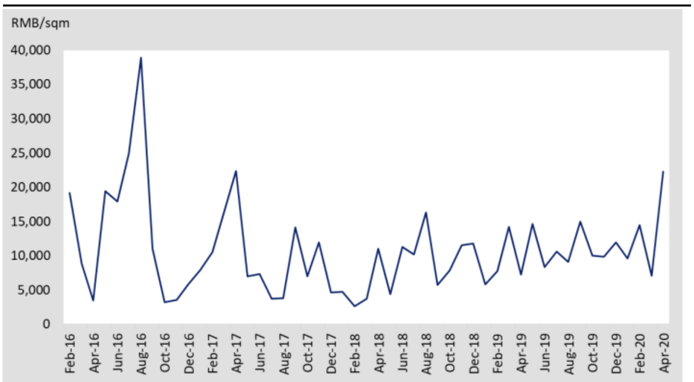
Source: China Index Academy, KGI Research

Figure 29: Shanghai's monthly residential property average transaction price



Source: Fang.com, KGI Research

Figure 30: Shanghai's monthly land transaction floor price

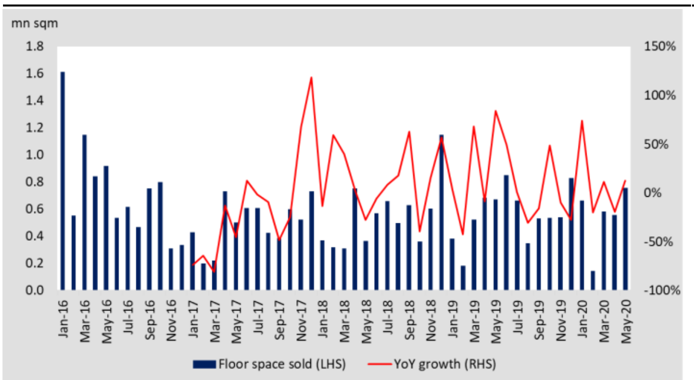


Source: China Index Academy, KGI Research

Suzhou is a large city in Jiangsu province with ancient relics. Its 2019 GDP arrived at RMB1.9tn with a 3.4% growth YoY. Suzhou is positioned as the pivotal city in the Yangtze River Delta economic zone.

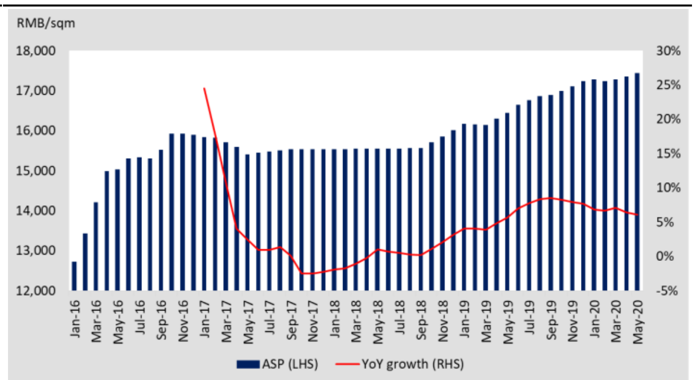
Suzhou property market. The growth of sales of residential property and land transactions plunged in early 2017 from the peak in 2016. Prior to 4Q18, growth in residential property prices paused from mid-2017 to 3Q18 after a 25% growth within 2016. The price rally resumed in 4Q18, due mainly to the jump in land auction prices. The average land transaction price throughout 2019 was the highest over the past five years. After the outbreak of COVID-19, the demand for residential property remained the same level as in 2018 and 2019, but property prices continued a mild uptrend.

Figure 31: Suzhou's monthly residential property floor space sold



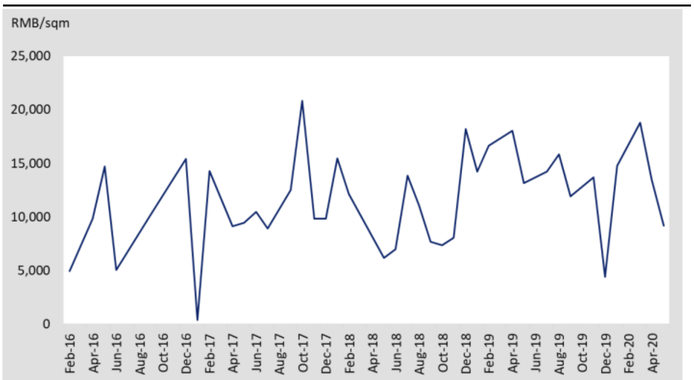
Source: China Index Academy, KGI Research

Figure 32: Suzhou's monthly residential property average transaction price



Source: Fang.com, KGI Research

Figure 33: Suzhou's monthly land transaction floor price



Source: China Index Academy, KGI Research

"For living but not for speculation"

The central government proposed that "housing is for living but not for speculation" for the first time in the central economic work conference in 2016. Accordingly, the provincial and municipal governments gradually released the specific cooling measures accordingly.

Last year, the central government reiterated the gist in the annual central economic work conference. Even though China's economy suffered from the impact from COVID-19 without any growth this year, the authorities have no plans to unwind the nationwide property-purchasing limitation. Such policies have resulted in the establishment of a long-effect mechanism* for the property market, the control and regulation upon which will be sustained moving forward.

Therefore, the overall property market including investments and transactions in China will likely not experience the exponential growth like it did after the 2008 Global Financial Crisis. Instead, commodity property floor space sold is expected to drop by 7% ~ 8.5% YoY while the average selling price will structurally continue to grow moderately. Meanwhile, new floor space constructed is expected to decrease by 3% YoY as the restriction of labor traffic remains.

**long-effect mechanism: a system to maintain the functionality and sustain the realisation of expectation in the long run.*

Post COVID-19 V-shape rebound across property hotspots

While Yanlord's four major markets are enjoying a post COVID-19 rebound, a few other key property hotspots such as Hangzhou are seeing equally strong interest. Demand has been aided by two points: accommodative monetary policy leading to historically low borrowing costs for property buyers, as well as a recent relaxation of *hukou* requirements, leading to increased cross-regional property demand. Should the buying momentum be sustained, we expect there to be little to no COVID-19 impact to the property market for the whole of 2020.

Risks

Government property cooling measures

Property development in China is highly susceptible to government regulation, with various checks and balances in place to prevent heavy profiteering. Government regulation spans across the entire housing development process, from controls on land auctions such as minimum deposits required from developers or price caps on homes, to regulations on home ownership and mortgage financing. As a property developer with a large focus on residential properties, Yanlord is fairly exposed to the full spectrum of regulations, which can limit their profitability.

The same regulations in turn benefit property developers by creating market stability, as there will be reduced fluctuations in yearly land supply/demand, and land pricing. The need for government cooling measures is also a "good problem" for residential property developers to have, as it indicates strong demand for property.

Given the current success of regulations in curbing volatility in the property market, we expect a few characteristics for Yanlord and other Chinese property developers. in the upcoming years. Firstly, margins are likely to remain subdued given the implementations of official price caps in certain cities, while land costs continue to trend upwards. Secondly, land bank acquisitions would likely be smaller in scale, as apart from the aforementioned increased land costs, borrowing conditions are gradually tightening. We think this could be why Yanlord is currently seeking diversification beyond their core business of property development in China, with interest in rental businesses as well as cross-country expansion.

Highly leveraged

Despite being one of the least indebted companies amongst Chinese property developer peers, Yanlord's leverage is still above average. Due to the recent UEL acquisition, Yanlord has taken on more debt, and has weakened their overall profit margins. S&P has subsequently downgraded ratings on Yanlord's bonds, which are yielding 5.55% to 7.05% on the market. This could put pressure on Yanlord's future borrowing costs, despite the overall downtrend in interest rates.

Figure 34: S&P downgraded Yanlord's credit ratings post-acquisition

Bond type	Principle	Yield	S&P		Moody's	
			2019	2020	2019	2020
5.875% senior note	USD 450 mn	5.55%	BB-	B+	Ba3(-)	Ba3
6.75% senior note	USD 350 mn	6.37%	BB-	B+	Ba3(-)	Ba3
6.8% senior note	USD 400 mn	7.05%	BB-	B+	Ba3(-)	Ba3

Source: Bloomberg. Data retrieved on 26 June 2020

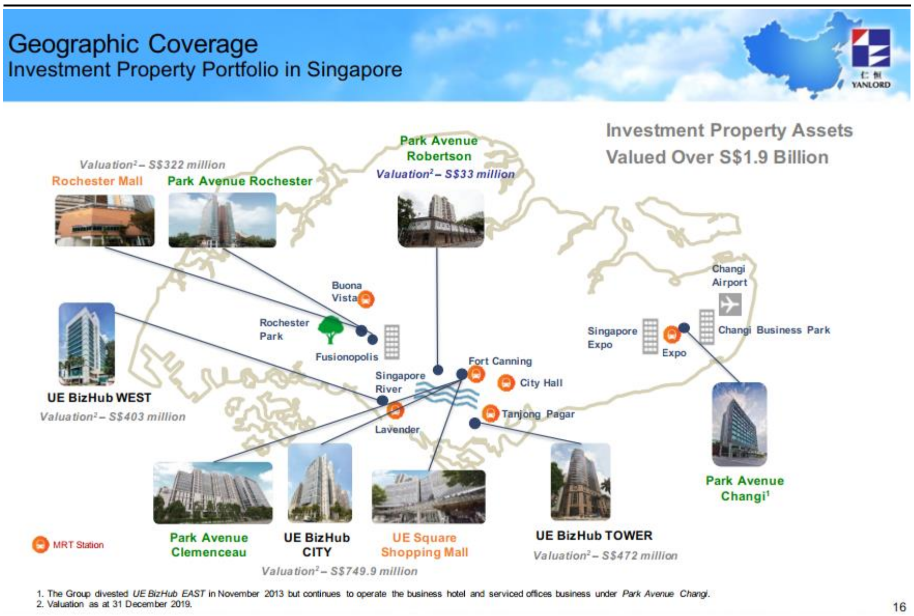
Company Overview

Yanlord Land Group Limited is a real estate developer based in the People's Republic of China (PRC), focused on developing high-end residential and retail commercial property projects in selected key and high growth cities in the PRC. Established in 1993, Yanlord expanded out of Shanghai into Nanjing within 1 year, and their early presence in these two tier 1 cities has helped build brand equity. Yanlord expanded into West China in 2001 by establishing Yanlord Guizhou in Guiyang, developing their first commercial project with Xintian Centre. Yanlord continued its expansion into various other Chinese cities, such as Chengdu, Tianjin, Suzhou, and Zhuhai, cumulating in the decision to publicly list on SGX in 2006. Yanlord has continued expansion into other China cities, such as Shenzhen, Sanya, Tangshan, Nantong, Zhongshan, Wuhan, Hangzhou, Jinan, and Haikou.

2018 marked a milestone for Yanlord when they made their first purchase in the Singapore property market, with a joint bid for the freehold Tulip Garden site near Holland Village at the price of about S$1,790 psf, to be subsequently redeveloped into Leedon Green condominium. Yanlord also has controlling ownership of 10 other properties in Singapore, after obtaining a controlling stake in United Engineers Limited (UEL) in 4Q 2019.

As of writing, Yanlord currently has properties for sale in Singapore and 8 Chinese cities: Suzhou, Shanghai, Chengdu, Nanjing, Zhuhai, Nantong, Sanya and Tianjin. Yanlord also has active developments in the remaining 8 Chinese cities, with a total land bank of 9,166 million sqm as of 31 December 2019.

Figure 35: Property portfolio in Singapore



Source: Company data, KGI Research

Financials

YE 31 Dec					
INCOME STATEMENT (RMB mn)	**2018A**	**2019A**	**2020F**	**2021F**	**2022F**
Revenue	**24,888**	**18,666**	**30,076**	**31,225**	**42,206**
Commission and fees	(13,433)	(10,983)	(17,745)	(18,423)	(24,902)
Gross Profit	**11,455**	**7,684**	**12,331**	**12,802**	**17,304**
D&A expense	(88)	(193)	(180)	(215)	(205)
Selling, general, admin expenses	(1,354)	(1,720)	(2,707)	(2,748)	(3,630)
Profit from Operations	**10,014**	**5,771**	**9,445**	**9,839**	**13,470**
Finance income/(expenses)	(143)	(557)	(919)	(903)	(774)
Other operating income/(expenses)	191	1,512	512	536	762
Fair value gain/(loss)	391	1,876	0	0	0
Profit before Tax	**10,454**	**8,602**	**9,037**	**9,473**	**13,458**
Income tax	(5,146)	(3,607)	(3,705)	(4,073)	(5,787)
Profit	**5,308**	**4,996**	**5,332**	**5,399**	**7,671**
Non-controlling interests	1,851	1,838	1,838	1,838	1,838
PATMI	**3,457**	**3,158**	**3,494**	**3,562**	**5,833**

BALANCE SHEET (RMB mn)	**2018A**	**2019A**	**2020F**	**2021F**	**2022F**
Cash and cash equivalents	10,648	14,287	14,932	20,088	19,476
Trade and other receivables	1,902	4,110	4,832	4,772	6,437
Other current assets	42,050	51,138	52,275	50,212	49,834
Current Assets	**54,600**	**69,535**	**72,038**	**75,072**	**75,748**
Property, plant and equipment	3,178	3,930	4,051	4,148	4,365
Investment properties	31,508	38,183	38,183	38,183	38,183
JV and Associates	13,231	13,566	13,566	13,566	13,566
Other non-current assets	4,164	4,681	4,681	4,681	4,681
Non-current Assets	**52,080**	**60,360**	**60,482**	**60,578**	**60,796**
Total assets	**106,681**	**129,895**	**132,520**	**135,650**	**136,543**
Trade and other payables	9,700	15,155	20,203	17,862	26,210
Borrowings (current)	8,293	14,478	14,478	14,478	14,478
Other current liabilities	18,397	23,527	22,246	24,899	23,042
Current Liabilities	**36,391**	**53,159**	**56,927**	**57,239**	**63,729**
Borrowings (non-current)	33,438	31,164	31,164	31,164	31,164
Other non-current liabilities	3,973	5,665	5,219	4,740	4,740
Non-current liabilities	**37,411**	**36,829**	**36,383**	**35,904**	**35,904**
Shareholders equity ex NCI	25,030	28,247	27,549	30,847	25,249
Non-controlling interests	7,849	11,660	11,660	11,660	11,660
Total Equity	**32,879**	**39,907**	**39,210**	**42,508**	**36,910**
Total Liabilities and Equity	**106,681**	**129,895**	**132,520**	**135,650**	**136,543**

CASH FLOW STATEMENT (RMB mn)	**2018A**	**2019A**	**2020F**	**2021F**	**2022F**
Profit before Tax	10,542	8,795	9,037	9,473	13,458
Other non-cash adjustments	(3,550)	(3,666)	1,504	(168)	(1,103)
Change in Working Capital	(2,531)	2,687	(4,303)	(352)	(8,271)
Income Tax Paid	(2,951)	(4,072)	(4,111)	(2,787)	(3,705)
CF from operating activities	**1,510**	**3,744**	**2,127**	**6,165**	**378**
(Purchase)/Disposal of PPE	(461)	(133)	(301)	(312)	(422)
(Purchase)/Disposal of investment ppty	(189)	(169)	0	0	0
Other CFI	(11,759)	231	357	373	502
CF from investing activities	**(12,409)**	**(71)**	**56**	**61**	**80**
Dividends Paid	(1,967)	(1,086)	(1,086)	(1,086)	(1,086)
Debt Raised / (Repaid)	7,910	4,677	0	0	0
Equity Raised / (Bought Back)	(716)	(431)	0	0	0
Other Cash from Financing	(3,112)	(4,380)	16	16	16
CF from financing activities	**3,547**	**(357)**	**(1,070)**	**(1,070)**	**(1,070)**
Net increase in cash & cash equiv.	(7,351)	3,316	1,114	5,156	(611)
FX effects	(129)	184	0	0	0
Beginning Cash	17,798	10,317	13,818	14,932	20,088
Ending Cash	**10,317**	**13,818**	**14,932**	**20,088**	**19,476**

KEY RATIOS	**2018A**	**2019A**	**2020F**	**2021F**	**2022F**
Profitability					
Core EPS (SGD)	0.34	0.23	0.37	0.38	0.62
DPS (SGD Cents)	6.8	6.8	6.8	6.8	6.8
Dividend Yield (%)	5.9	5.9	5.9	5.9	5.9
Profitability ratios					
Gross margin	46.0%	41.2%	41.0%	41.0%	41.0%
EBITDA margin	43.3%	42.1%	32.0%	32.2%	32.4%
Net margin	14.2%	17.9%	12.2%	12.1%	14.3%
ROE	10.8%	8.4%	9.4%	8.9%	16.4%
ROA	3.3%	2.6%	2.8%	2.8%	4.4%
Financial Structure (x)					
Current ratio	1.5	1.3	1.3	1.3	1.2
Interest coverage	15.4	6.0	7.4	7.7	10.6
Net Debt/Equity (%)	94.8	86.2	77.6	62.5	65.9
Total Debt/Equity (%)	126.9	114.4	116.4	107.4	123.7
Market Valuation (x)					
Price / Earnings	3.2	3.4	3.1	3.0	1.9
Price / Book	0.5	0.4	0.4	0.4	0.5
EV / EBITDA	4.7	6.9	5.6	4.8	3.6

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Rating	Definition
Outperform (OP)	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Neutral (N)	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Underperform (U)	We take a negative view on the stock. The stock is expected to underperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon
Not Rated (NR)	The stock is not rated by KGI Securities.
Restricted (R)	KGI policy and/or applicable law regulations preclude certain types of communications, including an investment recommendation, during the course of KGI's engagement in an investment banking transaction and in certain other circumstances.

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