Rapid Growth and Financial Optimization Lead to A New Stage

——Yango Group Initial Coverage

Yango Group
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Buy
(Initiation)

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We initiate Yango Group with a Buy rating and a price target of RMB 9.25. We expect the company's core EPS in 2019-2021 to be RMB 0.99, RMB 1.31 and RMB 1.77, respectively. Considering the company's high-quality land bank and significant financial improvement, we give a target NAV discount of 25% and a price target of RMB 9.25, corresponding to 9.3x PE in 2019, implying 34.5% upside potential.

Nationalized coverage with high-quality land bank and growing results: The market is concerned about the company's growth rate and financial stability. At present, we believe Yango Group will achieve a solid growth, the reasons for which include: 1) **The company has high-quality land bank and outstanding capability of M&A.** As of mid-2019, 45.6% of the company’s land resources are located in the Yangtze River Delta, Fujian province, and the Pearl River Delta, 85.9% of estimated sellable resources are located in tier-1 and tier-2 cities, GFA obtained from M&A in 2019 accounts for 56.2%, and the total land-to-sales ratio is c.33.7%; 2) **The company's results grew rapidly** with contracted sales of RMB 211.0bn (+29.6%) and net profit attributable to shareholders of RMB 4.02bn (+33.3%) in 2019, while maintaining interest-bearing liabilities of the same size, and decreasing net gearing as of end-2019 by 44.0pct YoY to 138.3%. As the company gradually releases its high-quality land reserves, continues acquiring land through multiple channels, and significantly optimizes its financial status, the company is expected to achieve a solid growth.

Cultivating key cities and grasping industry cycles to expand land bank: The company actively expands high-quality land bank in key cities through M&A, land consolidation, redevelopment, characteristic towns construction, and cooperation. The company identified the industry cycle, speeded up in 2016 and 2017, and adjusted in 2018 and 2019, with newly acquired GFA accounted for 276.9%、306.6%、107.6% and 72.7% of the sales area from 2016 to 2019. In recent years, the proportions of GFA acquired through M&A are all over 30% and reached 56.2% in 2019. Successful counter-cyclical land acquisition and outstanding M&A capabilities will support sales growth and strategic adjustment.

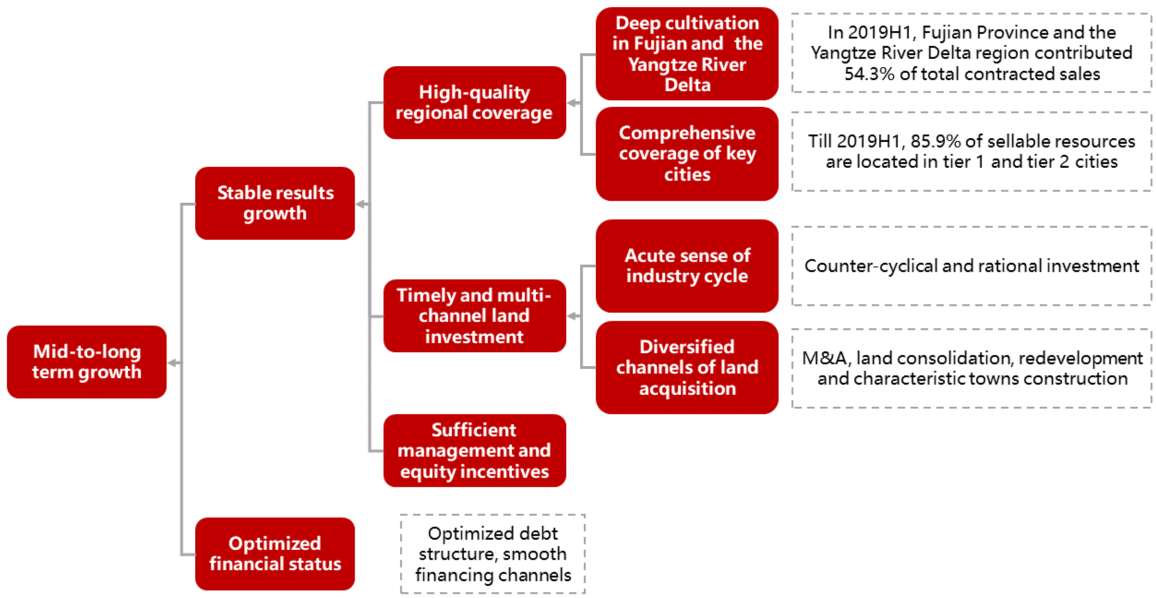
Optimized financial status: Benefiting from rapid sales growth, the company's result has grown steadily with improving profitability (ROE +2.1pct YoY to 18.5% in 2019); rich unsettled resources (advance payment +21.6% YoY to RMB 88.21bn in 2019Q3) will guarantee the release of the company's future results. The company's cash flow has continued to improve with its CFO continued to increase and cash to short-term debt ratio as of end-2019 increased to 130.1% (+51.6pct YoY). **Financing channels are diversified and smooth**. Recently, 8bn corporate bonds were approved by the Shenzhen Stock Exchange, and the financing cost as of 2019H has dropped to 7.7% (-22 bp from end-2018). Based on the company's continuous improvement in financial conditions, Fitch has upgraded the rating of the company to B + and Dagong Global to AAA in 2019. Optimized financial status is expected to ensure the company's healthy development and support the company's constant growth.

Financial highlights (RMB mn)	2016A	2017A	2018A	2019E	2020E	2021E
Revenue	19,598	33,163	56,470	61,490	81,733	111,181
(+/-)%	*-12%*	*69%*	*70%*	*9%*	*33%*	*36%*
Gross Profit	4,567	8,316	14,715	16,356	21,953	29,496
Net Profit	1,142	1,909	2,968	4,022	5,337	7,239
(+/-)%	*-19%*	*67%*	*55%*	*36%*	*33%*	*36%*
PE	24.59	14.72	9.47	6.99	5.26	3.88
PB	2.13	1.47	1.22	1.06	0.89	0.78

Content

1. Investment logic

Chart 1: High-quality regional coverage, counter-cyclical and diverse land acquisition channels, and operational and financial management will support the company's long-term growth



Source: CWSI Research

High-quality coverage facilitates sales growth, and optimized financial status supports company growth. At present, we believe Yango Group will achieve a solid growth, the reasons for which include: 1) **The company has high-quality land bank and outstanding capability of M&A**, as of mid-2019, 45.6% of the company's land resources are located in the Yangtze River Delta, Fujian province, and the Pearl River Delta, 85.9% of estimated sellable resources are located in tier-1 and tier-2 cities, and the GFA obtained from M&A in 2019 accounts for 56.2%, and the total land-to-sales ratio is c.33.7%; 2) **The company's results grew rapidly** with contracted sales of RMB 211.0bn (+ 29.6%) and net profit attributable to shareholders of RMB 4.02bn (+33.3%) in 2019, while maintaining interest-bearing liabilities of the same size, and decreasing net gearing as of end-2019 by 44.0pct YoY to 138.3%. As the company gradually releases its high-quality land reserves, continues acquiring land through multiple channels, and significantly optimizes its financial status, the company is expected to achieve a solid growth.

The national coverage has been implemented with contracted sales increasing rapidly. The company's real estate projects are mainly located in areas such as Fujian province, the Yangtze River Delta, and the Pearl River Delta. In 2019H1, the Yangtze

River Delta contributed 36.4% of the company's contracted sales, making it the company's largest source of sales. Mainland areas contributed 33.8%, including strategic cities such as Xi'an, Chengdu, Chongqing, Zhengzhou, and Changsha. The company focuses on key cities that 85.9% of the company's sellable resources are located in tier 1 and tier 2 cities as of mid-2019. The development and market heat of Yangtze River Delta, Fujian province and Pearl River Delta regions and key second-tier cities in the mainland will continue to support the company's sales performance, and the company's results is expected to continue to increase.

The company purchased land in a timely and rational manner and owned significant advantages of M&A. The company has adjusted its land acquisition strategy according to market conditions for many years, speeded up in 2016 and 2017, and adjusted duly in 2018 and 2019 that newly acquired GFA accounted for 276.9%, 306.6%, 107.6%, and 72.7% of the sales area of the year, indicating rational expansion of land bank. As of mid-2019, the company's sellable GFA reached 44.0mn sqm. The grasp of the industry cycle enables the company to deal with market risks in a graceful manner, and the successful counter-cyclical land acquisition can effectively support the company's sales growth and strategic adjustment at all stages. As for land acquisition channels, the company attaches importance to M&A, land consolidation, redevelopment and characteristic towns construction, and searches for external strategic cooperation. In recent years, the proportion of land bank acquired through M&A are all over 30%, reaching 85.5% and 53.1% in 2015 and 2016, and 56.2% in 2019. Diverse land acquisition channels will support the company's land-banking constantly and lay the foundation for the company's results growth.

Performance grows steadily and profitability gets improved. Benefiting from rapid sales growth, the company's revenue and net profit attributable to equity owners have grown steadily in recent years. In 2019, it achieved revenue of RMB 61.49bn (+8.9%) and net profit attributable to equity owners of RMB 4.02bn (+33.3%). In Q3 2019, advance received from customers reached RMB 88.21bn (+21.6%). Abundant unsettled resources will provide a strong guarantee for the release of the company's future results. In recent years, the company's gross margin, net margin and ROE have all rebounded. As of end-2018 and in the first three quarters in 2019, the company's gross margin reached 26.1% and 28.4%, and the net margin reached 6.9% and 7.6%, respectively. Annual weighted ROE for 2018FY and 2019FY reached 16.4% and 18.5%, both significantly up from the previous year.

Debt structure has been optimized and financing channels have been smooth. The company has strengthened its cash flow management in recent years. Cash flow from operating activities has turned positive since 2017 and reached RMB 21.83bn in 2018 and RMB 11.31bn in 2019Q3. In the past two years, the company's interest-bearing liabilities have remained the same size, the proportion of short-term liabilities has decreased, and the debt structure has continued to optimize, as of end-2019, cash to short-term debt ratio was c.130.1%. The company's financing channels are diverse and smooth, 8bn corporate bonds were approved by the Shenzhen Stock Exchange recently, financing cost of 2019H dropped to 7.7% (-22bp from end-2018), and net gearing as of end-2019 has dropped to c.138.3% (-43.94pct from end-2018). Based on the company's continuous improvement in financial conditions, Fitch has upgraded the rating of the company from B to B + in 2019, and Dagong Global has upgraded the company's long-term credit rating from AA+ to AAA. Optimized financial status is expected to continue to support the company's healthy development.

We initiate Yango Group with a Buy rating and a price target of RMB 9.25. We expect the company's core EPS in 2019-2021 to be RMB 0.99, RMB 1.31 and RMB 1.77, respectively. Considering the company's high-quality land bank and significant financial improvement, we give a target NAV discount of 25% and a price target of RMB 9.25, corresponding to 9.3x PE in 2019, implying 34.5% upside potential.

Note: There is certain uncertainty in the industry's regulatory policies and project settlement progress, and they may affect the sales performance of the company; macroeconomic and liquidity fluctuations may have an impact on the company's operations.

2.Expanding from Fujian to nationwide, with stable shareholding structure to ensure good management

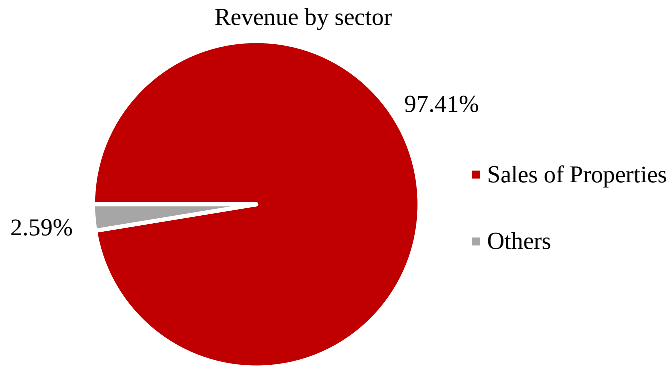
2.1 The company has realized all-region coverage and developed multiple businesses

Established in 1995, Yango Group is a real estate development platform controlled by Yango Holdings, one of the Global 500. Its major business consists real estate development and sales (containing residential, office and commercial), commercial operations and property management. Yango has started its expansion and quickly achieved nationwide coverage since 2012. As of end-2019, the company's total assets amounted to RMB 309.04bn (+17.5%). In 2019, Yango achived contracted sales of RMB 211.03bn (+29.6%), ranking 13th in 2019 CRIC sales ranking list.

The company expanded from Fujian throughout country. Yango took root in Fujian and actively expands nationwide. The company adheres to the investment strategy of all-regional development, all-channel land acquisition, and all-industry type development and the principle of "high turnover". It has covered all tier 1 and tier 2 cities and expanded to surrounding cities with development opportunities. The company has formulated 28 regional classification systems to strengthen nationalized management to achieve healthy development.

The company enjoys synergy of various real estate businesses. In addition to real estate development, the company has established commercial operations in 9 cities, and projects such as Yango Town, Yango World, and Yango Hui have been built according to local conditions. Commercial management area has exceeded 2.5 million square meters, providing support for the company's comprehensive development. Yango Group Property was established in 2001 with the vision of "creating China's most distinguished property service enterprise" and is committed to providing property owners with the warmest services.

Chart 2: Sales of properties is the main source of operating income

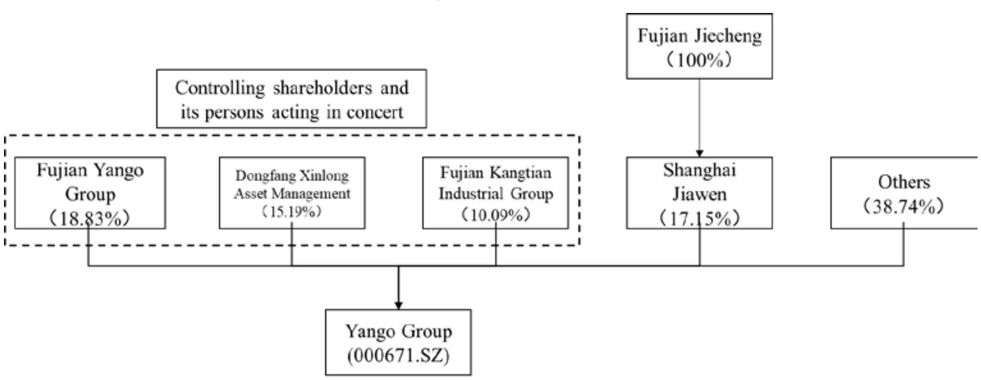


Source: Company announcement, CWSI Research; note: till 2019Q3

2.2 Stable shareholding structure ensures company's operation

The company owns stable shareholding structure and diverse shareholder structure. As of January 9, 2020, the company's single largest shareholder is Fujian Yango Group Co., Ltd. with c.18.83% shareholding. Its persons acting in concert are Dongfang Xinlong Asset Management Co., Ltd. and Fujian Kangtian Industrial Group Co., Ltd. with 15.19% and 10.09% of the share, respectively. The controlling shareholders and their persons acting in concert hold 44.11% shareholding in total, and shareholders' control is stable. Except for controlling shareholders, Shanghai Jiawen Investment Management Co., Ltd. holds 17.15% of the share and other shareholders hold 38.74%. The shareholding structure is relatively diverse.

Chart 3: Stable control of controlling shareholders and rich shareholder structure



Source: Wind, Company announcement, CSWI Research; note: till Jan 9, 2020

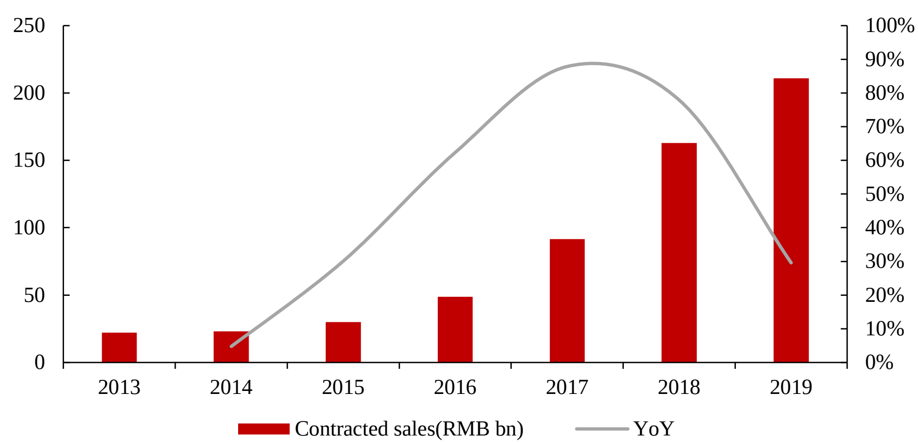
Controlling shareholders are powerful and willing to support the company's operations. The company is a real estate platform under Yango Holdings, which was founded in 1995 and ranked 368th in the Fortune Global 500 in 2019. It is a large investment holding company which incorporates six industrial groups including environmental protection, education, real estate, finance, property and capital. Its environmental protection platform is a leader in China's environmental protection industry. The education platform has more than 200 high-quality kindergartens and over 40 K12 schools. The financial platform is the largest private shareholders of Industrial Bank. The property and capital platforms both have strong comprehensive strength. The diverse sectors of Yango Holdings are also expected to create synergies.

3. The company achieved rapid sales growth and scale expansion, and enlarged land bank through timely investment

3.1 Scale grows rapidly with emphasis on quality

Contracted sales increased rapidly, and scale expanded at high speed. In 2018, contracted sales exceeded RMB 100bn for the first time, and exceeded RMB 200bn in 2019, 2016-2019 CAGR was 63.0%. In terms of contracted sales, the company ranked top 13 in 2019, up from outside top 50 in 2012. The company expanded rapidly and ranked first in the "Top 10 Fastest Growing Companies" in the 2019 China Top 500 Real Estate List jointly released by the China Real Estate Association and China Real Estate Evaluation Center of E-House China R&D Institute.

Chart 4: Contracted Sales grew rapidly and exceeded RMB 200bn in 2019



Source: CRIC, CWSI Research

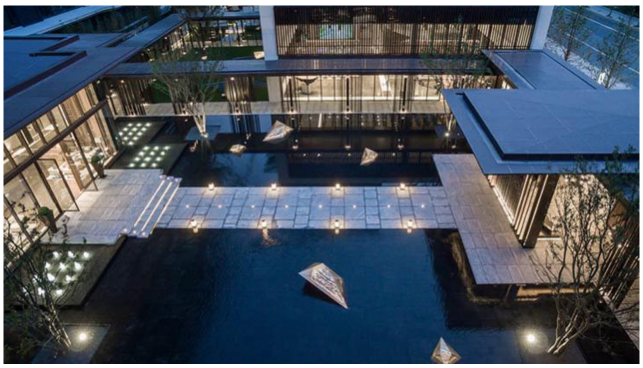
Table 1: The company's contracted sales rankings have grown rapidly

Year	Contracted sales (RMB bn)	Ranking
2012	-	Not in the top 50
2013	22.0	29
2014	23.1	29
2015	30.0	28
2016	48.7	26
2017	91.5	19
2018	162.8	14
2019	211.0	13

Source: CRIC, CWSI Research

The company attaches great importance to quality and explores green and healthy life. The company makes full use of the customer needs described by the operating system, and mechanism of flexible pricing to enhance the project's marketability in all aspects. The company has created "Tan series", “Yuelan series”, “Feili series” and other product series to enhance brand power. In 2018, the company launched the “Green Smart Home” residential product strategy, established a brand new healthy building standard, built smart communities and smart homes with cutting-edge technology, and provided customers with more high-quality products.

Chart 5: Hangzhou Yango・Tan Yue Project

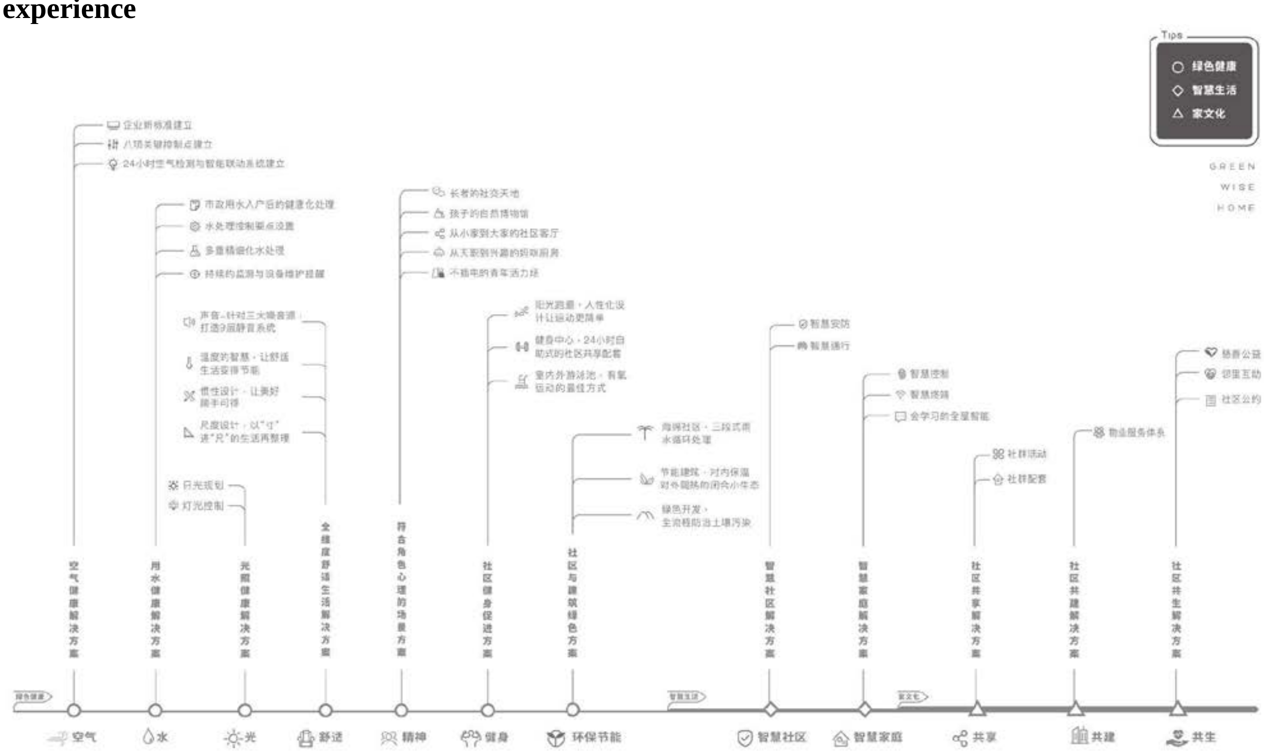


Source: Company website; CWSI Research

Chart 6: Yango Group Feili Yundi Project

Source: Company website; CWSI Research

Chart 7: The company advocated the concept of "Green Smart Home" in 2018 to optimize customer experience

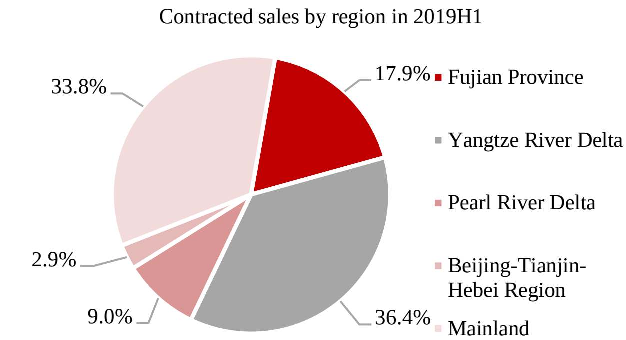


Source: Company website; CWSI Research

3.2 The company actively expands nationwide and optimizes regional distribution

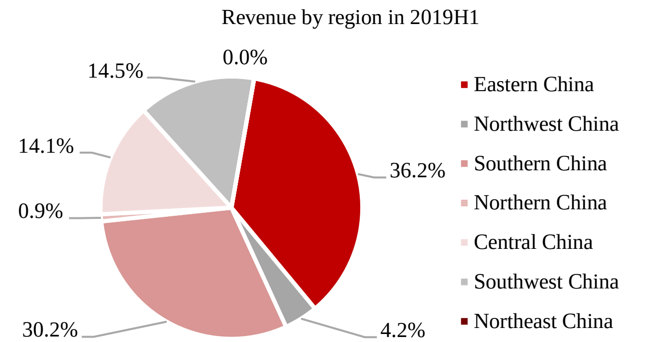
The company expanded from Fuzhou to the whole country and balanced sales distribution. The company started from Fuzhou and initiated a national coverage in 2012. Up to now, the company's main real estate projects have been distributed in Fujian province, the Yangtze River Delta, and the Pearl River Delta. In 2019H1, the Yangtze River Delta contributed 36.4% of the company's contracted sales, making it the company's largest source of sales; the mainland region contributed 33.8%, including Xi'an, Chengdu, Chongqing, Zhengzhou, Changsha and other strategic cities. Eastern China and Southern China are the company's main markets of revenue sources, contributing 36.2% and 30.2% in 2019H1, respectively. The Yangtze River Delta, Fujian province, Pearl River Delta and key second-tier cities in the mainland, which have high market heat, will continue to support the company's sales and thus enhance the company's results.

Chart 8: The Yangtze River Delta contributed 36.4% of the company's contracted sales



Source: Company website; CWSI Research

Chart 9: Eastern and Southern China are main markets of revenue sources



Source: Company website; CWSI Research

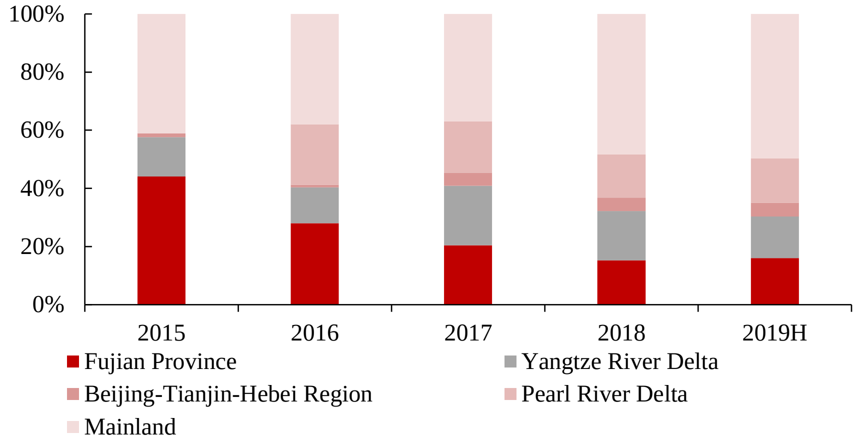
The company basically realized full coverage of tier 1 and tier 2 cities. Starting from Fujian province, the company has acquired land actively in recent years through multiple channels and achieved a national coverage. The company's land resources are concentrated in tier 1 and tier 2 cities. As of mid-2019, 85.9% of the company’s sellable resource and 76.2% of its GFA in land bank are located in tier 1 and tier 2 cities. The high-quality urban coverage will support the company's sales growth and cash collection, supporting its healthy and stable development.

Table 2: Started in Fujian and quickly spread across the country

Year	Coverage strategy
2012-2013	Regional focus and in-depth development; "One Belt, Multiple Points" (coastal economic belt, strategic cities); Focused on the development of Fuzhou, Xiamen, Shanghai and surrounding areas, as well as cities such as Lanzhou, Xi'an, Taiyuan
2014	The "2 + X" coverage was successfully implemented, and the Yangtze River Delta and Fujian province became the engines for the company's strategy
2015-2016	Regional coverage of "3 + 1 + X" (Yangtze River Delta, Beijing-Tianjin-Hebei region, Pearl River Delta + Fujian province + Strategic Cities)
2017	Explored new regions, strengthened and realized regional platforms; Established 30 regional companies, operated in 56 cities across the country, and basically formed nationwide coverage
2018-2019H	Achieved full coverage of tier 1 and tier 2 cities and radiated tier 3 and tier 4 cities, forming a high-quality urban belt coverage

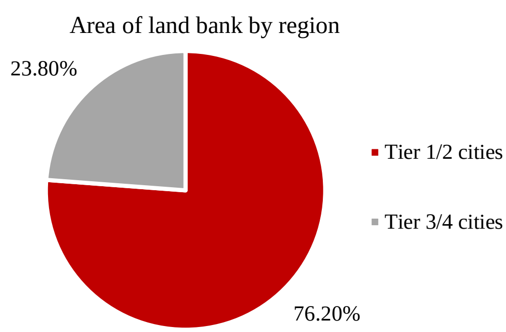
Source: Company Announcement, CWSI Research

Chart 10: Fast progress of nationwide coverage and diverse distribution of land bank



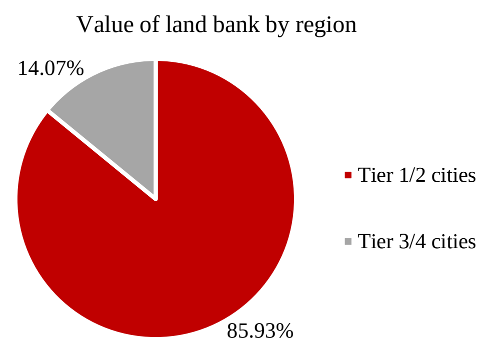
Source: Company Announcement, CWSI Research

Chart 11: Value of land bank in the tier 1 and tier 2 cities accounted for over 80%



Source: Company Announcement, CWSI Research; note: till 2019H1

Chart 12: Land bank area is concentrated in tier 1 and tier 2 cities



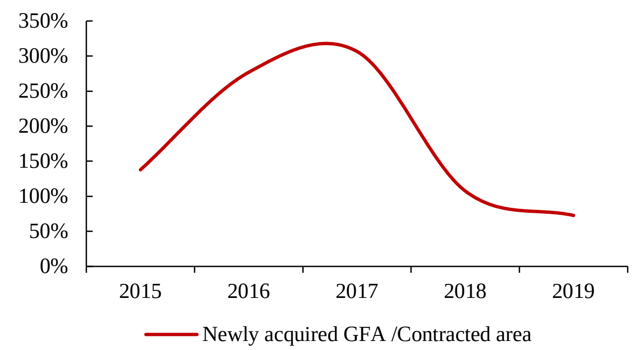
Source: Company Announcement, CWSI Research; note: till 2019H1

3.3 Acute sense of industry cycle and strong capability of M&A support sales growth and strategic adjustment

The company has grasped the industry cycle and implemented timely investment. The company has adjusted its land acquisition strategy in accordance with market conditions over the years. It speeded up in 2016 and 2017 with newly acquired GFA of 9.8mn sqm and 20.2mn sqm, respectively, which equals 276.9% and 306.6% of the contracted area of the year, indicating high intensity of land acquisition and broad expansion of land bank. In 2018 and 2019, the company adjusted in a timely manner according to market conditions, and invested through multiple channels with newly acquired GFA of 13.33mn sqm and 12.45mn sqm, respectively, which equals 107.6%

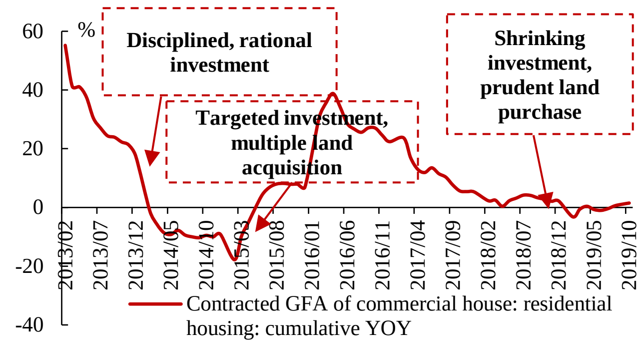
and 72.7% of the contracted area of the year. As of mid-2019, the company owned sufficient land reserve with sellable GFA of 44.0mn sqm. The company's sense of industry cycle enables itself to deal with market risks in a graceful manner. Successful counter-cyclical land acquisition can effectively support the company's sales growth and strategic adjustment throughout all stages.

Chart 13: The company timely adjusts the intensity of land acquisition to support sales growth



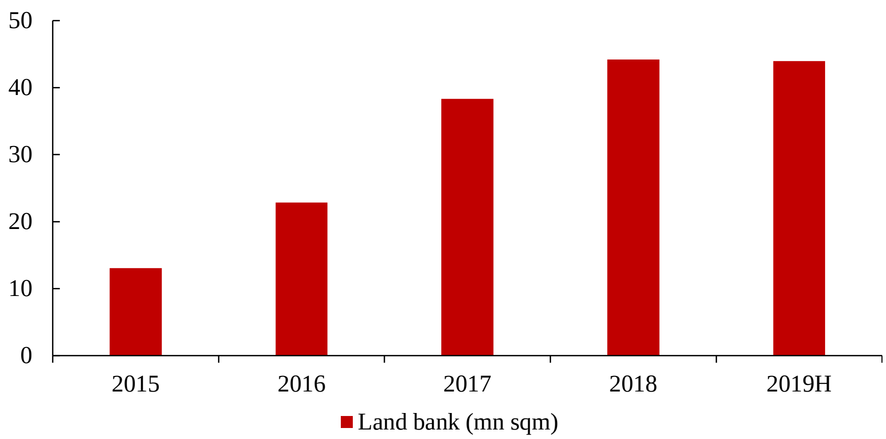
Source: Company Announcement, CWSI Research; note: newly acquired GFA in 2019 is calculated from the 2019 Interim Report and monthly operation announcement from Jul to Dec 2019

Chart 14: The company grasps the industry cycle and invests in the right time



Source: Company Announcement, CWSI Research

Chart 15: Timely efforts made to acquire land bring sufficient land bank



Source: Company Announcement, CWSI Research

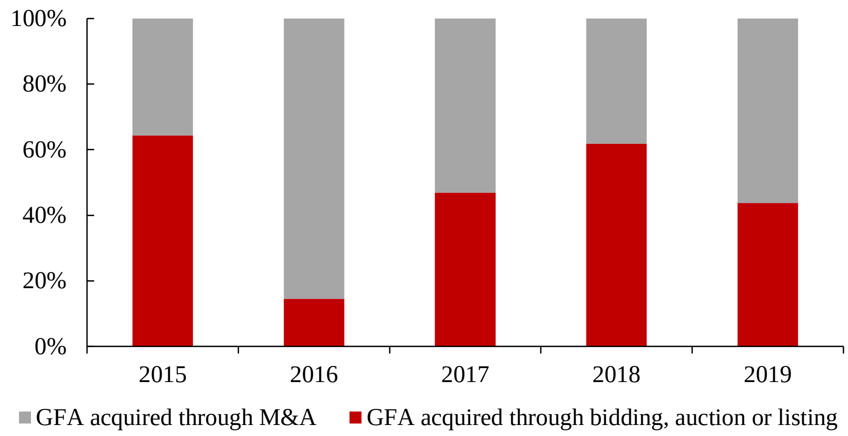
The company has various land acquisition channels and advantage of M&A. The company has begun in 2015 to focus on acquiring projects through M&A, and thus became experienced in it. M&A enables the company to acquire land resources together with a team familiar with the local market so that the company can more effectively expand the regional coverage. In recent years, the proportion of Yango's land bank acquired through M&A has been over 30%, reaching 85.5% and 53.1% in 2015 and 2016, and 56.2% in 2019. In 2017, the company ranked second in the "Top 10 Real Estate Enterprise with Strongest M&A Capabilities in China" by EH consulting. Since 2017, the company has further expanded land acquisition channels, and purchased land through land consolidation, redevelopment, characteristic towns construction, and external strategic cooperation. Diverse land acquisition channels will support the company's continued land-banking and lay the foundation for the company's results growth.

Table 3: The company made rational investment through grasp of the industry cycle and gradually diversified its land acquisition channels

Year	Land acquisition strategy
2012	Rational investment, pay attention to the rationality of land prices
2013	Disciplined, rational investment
2014	Counter-cycle targeted investment, disciplined, rational investment
2015	Made decisions in a prudent way; acquired projects through means of public auctions and tenders and M&A to achieve targeted investment
2016	Based on core indicators, make full use of the resource of partners, shareholders, etc., and make prudent decisions to obtain projects through a variety of methods such as public auctions and tenders and M&A to achieve targeted investment
2017	Initiated diverse channels of land acquisition. In addition to public auctions and tenders and M&A, land consolidation, redevelopment, characteristic towns, etc., and also sought external strategic cooperation
2018-2019H	Conducted investment coverage appropriately through various methods such as public auctions and tenders, M&A, land consolidation, redevelopment, characteristic towns, and external strategic cooperation

Source: Company Announcement, CWSI Research

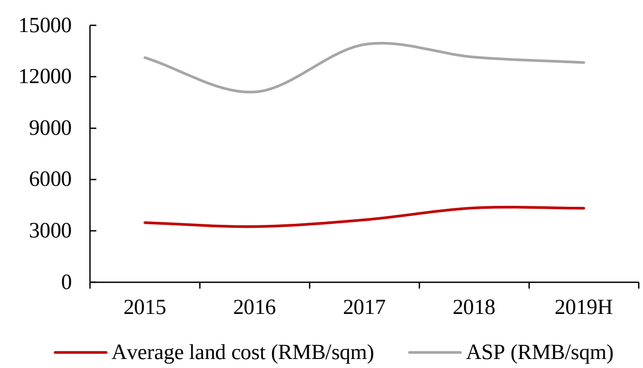
Chart 16: Active land acquisition through M&A



Source: Company Announcement, CWSI Research; note: newly acquired GFA in 2019 is calculated from the 2019 Interim Report and monthly operation announcement from Jul to Dec 2019

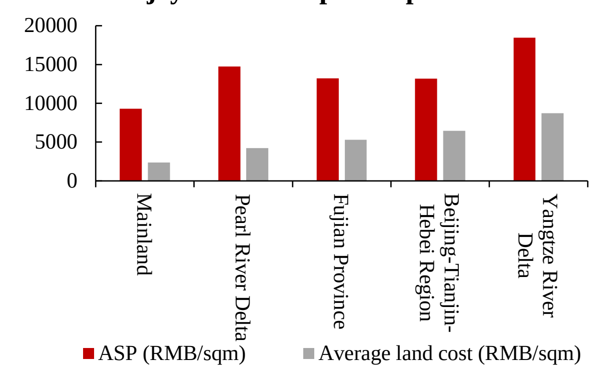
The company has controlled land acquisition costs to guarantee profit margins. As of mid-2019, the company's average land cost was RMB 4322.2/sqm, ASP in 2019H was RMB12,829/sqm, and the land-to-sales ratio was 33.7%. In terms of different regions, the company has the lowest land-to-sales ratio in Mainland, the Pearl River Delta, and Greater Fujian, of 25.7%, 28.6%, and 40.1%, respectively. Reasonable land cost will provide support for profitability.

Chart 17: Reasonable land cost supports profitability



Source: Company Announcement, CWSI Research

Chart 18: Mainland, Pearl River Delta and Fujian Province enjoys sufficient profit space



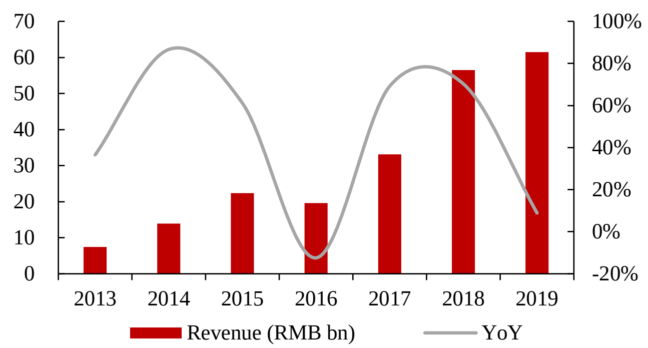
Source: Company Announcement, CWSI Research; note: till 2019H

4. Profitability increases, and financial status optimize

4.1 Results grow rapidly with abundant unsettled resources

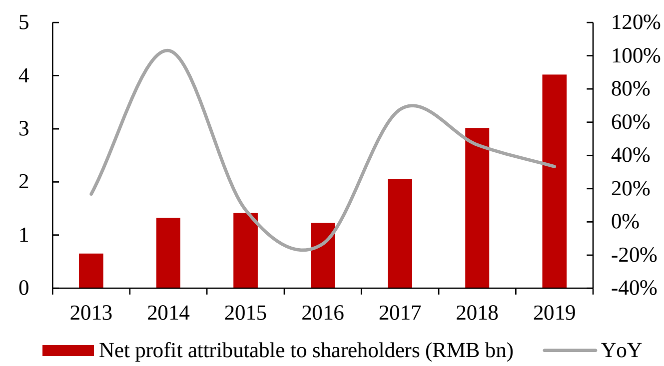
Profit continues to increase rapidly, and unsettled resources are abundant. Benefiting from rapid sales growth, the company's revenue and net profit attributable to equity owners have grown steadily in recent years. In 2019, it realized revenue of RMB 61.49bn (+8.9%) and net profit attributable to equity owners of RMB 4.02bn (+33.3%). At the same time, advance receipts have grown rapidly and reached RMB 88.21bn (+21.6%) in 2019Q3. The abundant unsettled resources will provide a strong guarantee for the release of the company's future results.

Chart 19: Revenue grew steadily in recent years



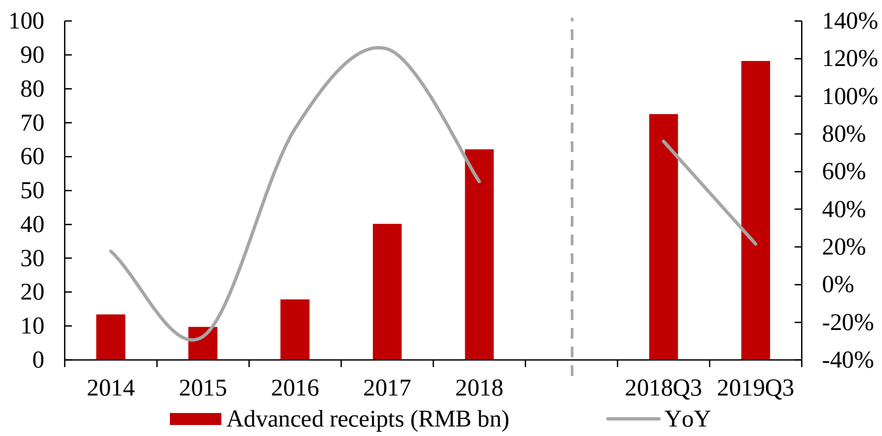
Source: Company Announcement, CWSI Research

Chart 20: Net profit attributable to shareholders continued to increase



Source: Company Announcement, CWSI Research

Chart 21: Abundant unsettled resources guarantee release of future results

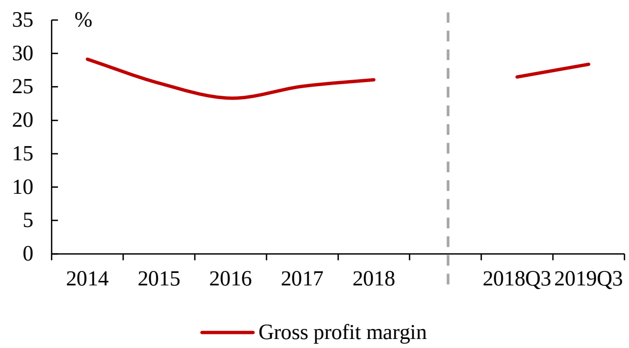


Source: Wind, Company Announcement, CWSI Research

4.2 Profit improves and dividend performance is stable

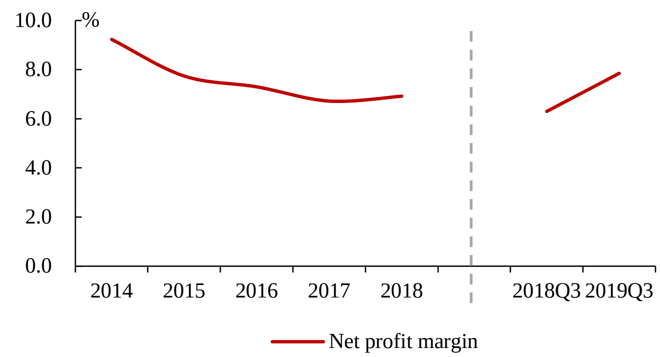
The company achieves increasing profit and values shareholder returns. The company's gross margin, net margin and ROE have all rebounded in recent years. As of end-2018 and 2019Q3, the company's gross margin was 26.1% and 28.4%, and the net margin was 6.9% and 7.6%, respectively. Weighted ROE for 2018 and 2019 was 16.4% and 18.5%, respectively, both significantly up from the previous year. At the same time, the company has implemented cash dividends for 13 times since 2006, with cumulative cash dividends of RMB 1.32bn, attaching importance to shareholder returns and consolidating the company's shareholder base.

Chart 22: Gross profit margin increased significantly as compared to 2016



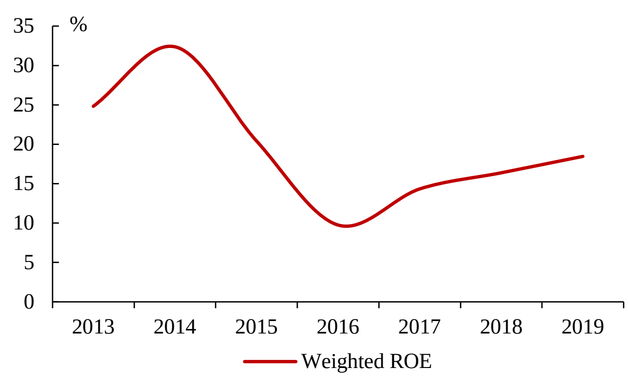
Source: Company Announcement, CWSI Research

Chart 23: Net profit margin has been increasing steadily



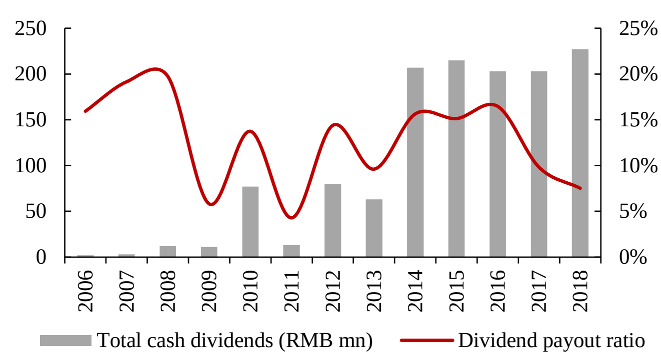
Source: Company Announcement, CWSI Research

Chart 24: ROE has rebounded significantly in recent years



Source: Company Announcement, CWSI Research

Chart 25: Dividends are stable and shareholder base is consolidated

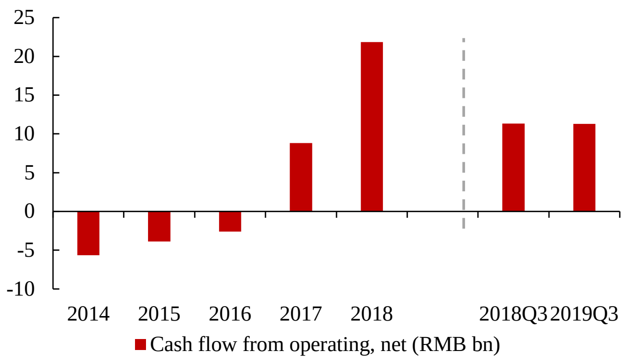


Source: Company Announcement, CWSI Research

4.3 Cash flow has been improved, and debt structure has been optimized

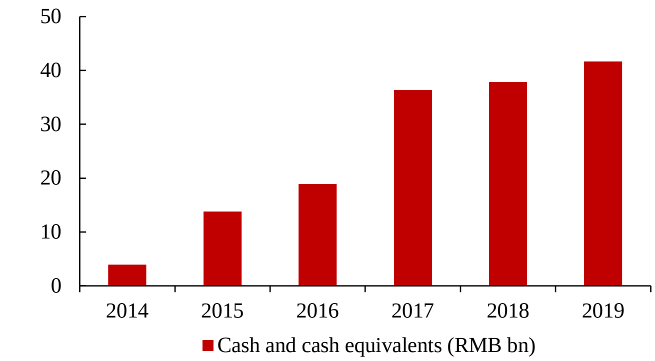
Cash flow has been improved constantly, and the scale of interest-bearing liabilities has declined steadily. The company has strengthened its cash flow management in recent years. The average cash collection rate in 2019H reached 80.5%, enhancing the cash flow condition. Cash flow from operating activities has been positive since 2017, reaching RMB 21.83bn in 2018 and RMB 11.31bn in 2019Q3. Cash and cash equivalents have also increased significantly in recent years. In the past two years, the company's interest-bearing liabilities have remained the same size. The proportion of short-term liabilities has decreased, and the debt structure has continued to optimize. As of end-2019, cash to short-term interest-bearing liabilities ratio was c.130.1%, which means the company achieves effective coverage of short-term debt.

Chart 26: Cash flow from operating has become positive in recent years



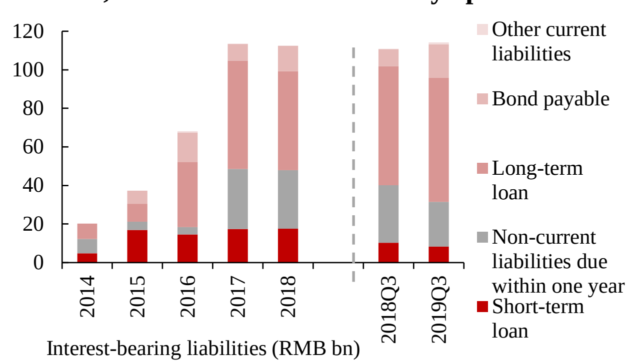
Source: Company Announcement, CWSI Research

Chart 27: Cash and cash equivalents increase constantly



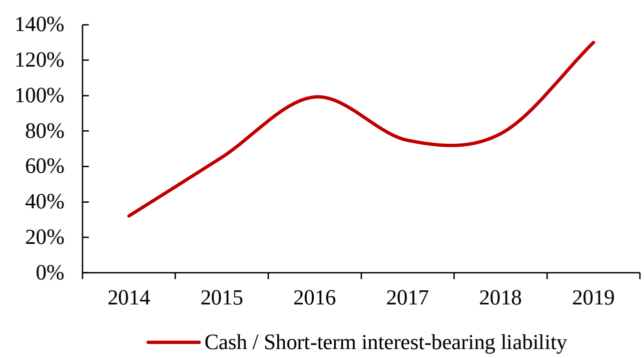
Source: Company Announcement, CWSI Research

Chart 281: Scale of interest-bearing liabilities is strictly controlled; debt structure is constantly optimized



Source: Company Announcement, CWSI Research

Chart 29: Full coverage of short-term debt by cash is gradually realized

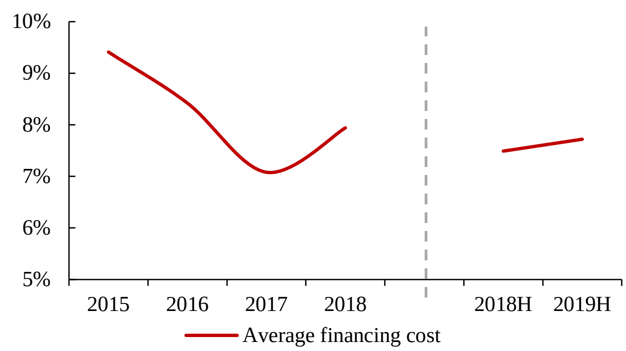


Source: Company Announcement, CWSI Research

4.4 Financing costs dropped, and financing channels remain smooth

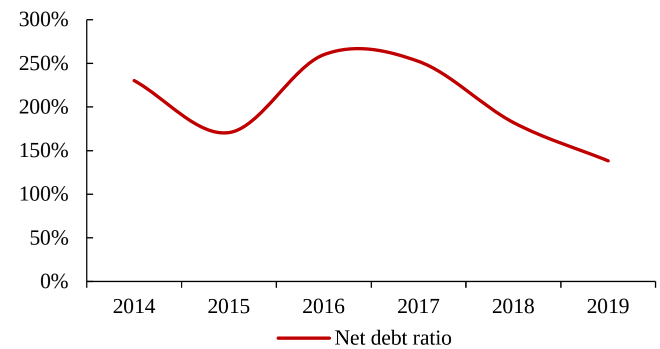
Financing costs are low, and the net gearing continued to decline. The company's average financing cost as of 2019H is c.7.7%, which is 22 bp lower than that as of end-2018. The net gearing as of end-2019 decreased to c.138.3%, which is 43.94pct lower than that as of end-2018, Yango’s average financing cost and net gearing have been optimized. The company's financing channels are smooth. In 2019, it successfully raised funds through the issuance of corporate bonds, private placement notes, commercial papers and ABS, and 8bn corporate bonds were recently approved by the Shenzhen Stock Exchange. Based on the company's continuous improvement of financial conditions, Fitch has upgraded the rating of company from B to B + in 2019, and Dagong Global has upgraded the company's long-term credit rating from AA + to AAA. Optimized financial performance is expected to continue to support the company's healthy development.

Chart 30: Average financing cost has decreased



Source: Company Announcement, CWSI Research

Chart 312: Net debt ratio has decreased constantly



Source: Wind, Company Announcement, CWSI Research

Table 4: Diverse and smooth financing channels support the healthy development of the company

Value Date	Type	Issue Size (RMB mn)	Currency	Due Date	Coupon Rate (Current Period)
2019-02-28	General Corporate Bond	1500	CNY	2022-02-28	7.50%
2019-03-22	Private Placement Note	500	CNY	2022-03-22	7.50%
2019-04-12	General Corporate Bond	800	CNY	2022-04-12	7.50%
2019-04-19	Commercial Papers	900	CNY	2020-04-18	6.50%
2019-04-24	CSRC Director ABS	320	CNY	2039-10-27	7.50%
2019-04-24	CSRC Director ABS	310	CNY	2039-10-27	-
2019-04-24	CSRC Director ABS	730	CNY	2039-10-27	5.50%
2019-04-24	CSRC Director ABS	740	CNY	2039-10-27	6.50%

Source: Wind, CWSI Research

Table 5: The credit rating of the Group is upgraded to B+ and AAA by Fitch and Dagong Global, respectively

Agency	Rating	Outlook
Dagong Global	AAA	Stable
CCXI	AA+	Stable
Lianhe Global	BB-	Stable
Moody	B2	Stable
Fitch	B+	Stable

Source: Wind, CWSI Research

5. The company actively employs equity incentives, strengthens management and control, and attaches great importance to talent and efficient operation

Introduction of talents guarantees the company's business development. The company adheres to the talent strategy of "Introduction, development, and encouragement", and recruits excellent talents in the industry to ensure the company's business development. The company's Executive Chairman and President Zhu Rongbin used to work in COLI as Director, Assistant General Manager and General Manager of East China Region, and in Country Garden as Co-president and Executive Director, having more than 20 years of real estate development and related business experience and enjoying a high reputation in the industry. The company's Executive Vice President Wu Jianbin used to serve as Executive Director, Chief Financial Officer and Deputy General Manager in COLI, Executive Director and Chief Financial Officer of Country Garden, and has rich industry resources. The company's Executive Vice President, Kan Naigui, used to serve as General Manager of the development management department of COLI, General Manager of COLI (Tianjin), Assistant President and Head of the Cost Center of Shimao Group, Vice President, Executive Director of Shimao Group, Executive Director of Shimao Group concurrently responsible for cost center and design center. The company's emphasis on talent introduction will provide a strong guarantee for the company's development.

Table 6: The company actively introduces outstanding talents in the industry to ensure the company's business development

Name	Position	Introduction
Lin Tengjiao	Chairman of the Board	Born in April 1968, graduated with a master's degree from Guanghua School of Management, Peking University, Representative of the National People's Congress, Vice President of China Overseas Chinese Merchants Association, Vice President of China Private Education Association, Vice President of China Real Estate Investment Association, Vice Chairman of Fujian Provincial Federation of Industry and Commerce.
Zhu Rongbin	Executive Chairman and President	Born in December 1972, graduated from the Department of Civil Engineering of Tsinghua University with a master's degree, a national registered supervision engineer, a national registered cost engineer and a senior engineer. From 1995 to 2008, he worked at COLI. He used to be the Director, Assistant General Manager and General Manager of East China Region of COLI. From 2008 to 2013, he worked at R&F as former Vice President and General Manager of South China; since 2013 he worked in Country Garden as former Co-president and Executive Director. Used to serve as the Former Executive Vice President of Guangdong Real Estate Association. He has more than 20 years of real estate development and related business experience and enjoys a high reputation in the industry.
Wu Jianbin	Executive Vice President	Born in September 1962, PhD in business administration, senior accountant, adjunct professor at Xi'an Jiaotong University and Shanghai University of Economics and Business. Former Executive Director, Chief Financial Officer and Deputy General Manager of COLI; Executive Director and Chief Financial Officer of COLI; Executive Director and Chief Financial Officer of Country Garden.
Han Naigui	Executive Vice President	Born in November 1967, master's degree, qualified as a cost engineer. Previously served as Deputy General Manager of COLI (Guangzhou), General Manager of Development Management Department of COLI, General Manager of COLI (Tianjin), Assistant President and Head of Cost Center of Shimao Group, Vice President of Shimao Group, Executive Director of Shimao Group concurrently responsible for cost center and design center.

Source: Company Announcement, CWSI Research

The company has built a talent pool and strengthened regional control. Since 2012, the company has launched the "Child of Light" project for fresh graduates, which has continuously injected fresh blood into the company's talent team. The company has been awarded "Best Employer of the Year" in China for 6 consecutive years. The company attaches great importance to the self-blood-making mechanism of internal talents. The “Photosynthetic Engineering” talent development system, the “Thousand Talents Plan”, and the “Hundreds of Talents” talent plan have achieved remarkable results. Talents are effectively trained and supply for key positions. As of mid-2019, the company has officially implemented 28 regional management systems to match the company's management after expansion.

The company has established an incentive system to improve operational efficiency. The company has established a comprehensive and multi-level incentive system and has established a multi-dimensional and multi-level incentive evaluation system. In Jul 2018, the company launched 2018 Equity Incentive Plan involving 345 million stock options (8.52% of the company's total share at that time) and 424 people. The incentive plan sets assessment targets for each of the year from 2018 to 2021 and requires revenue and net profit to increase by no less than 35%, 82%, 146%, and 232% compared to that of 2017, respectively. Higher performance goals and sufficient incentives will stimulate the motivation of the staff and have a positive effect on improvement of overall operating efficiency.

Table 7: The company's 2018 equity incentive plan sets a high target for performance assessment

Exercise period	Target for performance assessment
First exercise period for the first grant of stock options	The revenue in 2018 increases by no less than 35% compared to 2017, and the net profit in 2018 increases by no less than 35% compared to 2017
First exercise period for the second grant of stock options	The revenue in 2019 increases by no less than 82% compared to 2017, and the net profit in 2019 increases by no less than 82% compared to 2017
First exercise period for the third grant of stock options	The revenue in 2020 increases by no less than 146% compared to 2017, and the net profit in 2020 increases by no less than 146% compared to 2017
First exercise period for the fourth grant of stock options	The revenue in 2021 increases by no less than 232% compared to 2017, and the net profit in 2021 increases by no less than 232% compared to 2017

Source: Company Announcement, CWSI Research

6. Valuation

We initiate Yango Group with a Buy rating and a price target of RMB 9.25. We expect the company's core EPS in 2019-2021 to be RMB 0.99, RMB 1.31 and RMB 1.77, respectively. Considering the company's high-quality land bank and significant financial improvement, we give a target NAV discount of 25% and a price target of RMB 9.25, corresponding to 9.3x PE in 2019, implying 34.5% upside potential. (The latest share price is the closing price on 16 Mar, 2020)

Table 8: Yango Group – NAV breakdown

NAV Breakdown (RMB bn)	**2019**
NAV added（RMB bn）	26.32
Equity attributable to equity owners (RMB bn, mid-2019)	24.05
NAV (RMB bn)	50.37
No. of shares outstanding (bn)	4.08
NAV per share (RMB / share)	**12.34**
Share price (RMB / share) at 16 Mar 20	6.88
NAV Discount	44.23%

Source: CWSI Research

7. Note

1) There is certain uncertainty in the industry's regulatory policies and project settlement progress, or they may affect the sales performance of listed companies;

2) Macroeconomic and liquidity fluctuations may have an impact on the company's operations.

Income statement

RMB mn	2017A	2018A	2019E	2020E	2021E
Revenues	33,163	56,470	61,490	81,733	111,181
COGS	-24,847	-41,755	-45,134	-59,779	-81,685
Gross Profit	8,316	14,715	16,356	21,953	29,496
	0	0	0	0	0
Selling and marketing expenses	-961	-1,757	-1,925	-2,861	-3,558
Administrative expenses	-1,177	-1,577	-1,845	-2,452	-3,669
EBIT	3,588	7,416	8,037	10,756	14,265
Interest expense	-392	-673	-1,488	-1,721	-2,002
Interest income	165	314	795	849	982
Associates	70	55	73	78	144
Other gains/adjustments	5	57	0	0	0
PBT	3,604	6,389	6,905	9,528	12,981
Tax	1,375	2,483	2,003	2,839	3,920
Minority	166	889	881	1,351	1,821
Net profit (core)	1,909	2,968	4,022	5,337	7,239
Shares outstanding (weighted)	4,050	4,050	4,082	4,082	4,082
EPS (core)	0.47	0.73	0.99	1.31	1.77

Cash flow statement

RMB mn	2017A	2018A	2019E	2020E	2021E
PBT ex. Exceptionals	3,604	6,389	6,905	9,528	12,981
Change in working cap.	6,180	16,395	7,433	-401	236
Others	-964	-953	89	-657	-1,577
CF from operations	8,819	21,831	14,427	8,470	11,640
	0	0	0	0	0
Investment properties	-17,246	-9,738	-5,413	-6,831	-6,528
Others	-14,772	-6,133	-1,869	-1,880	-1,364
CF from investing	-32,018	-15,872	-7,281	-8,710	-7,891
Free cash flow	-23,199	5,959	7,145	-240	3,748
Free cash flow per share	-6	1	2	-0	1
Equity financing	7,666	9,593	195	-0	-0
Debt financing	41,781	-2,258	-1,147	3,487	4,111
Others	-9,733	-13,626	-2,381	-1,706	-4,971
CF from financing	39,713	-6,291	-3,333	1,781	-860
	0	0	0	0	0
Increase in cash and cash equivalents	16,514	-332	3,812	1,541	2,888
Beginning cash	16,308	32,795	37,848	41,660	43,201
Ending cash	32,795	32,447	41,660	43,201	46,089

Balance sheet

RMB mn	2017A	2018A	2019E	2020E	2021E
Investment properties	5,529	8,575	10,576	12,896	15,411
Others	7,433	10,145	12,017	13,964	15,513
Associates	1,875	9,300	12,711	17,221	21,232
Total fixed assets	14,837	28,021	35,304	44,080	52,156
	0	0	0	0	0
Inventories	126,491	142,172	179,299	210,456	256,244
Receivables	524	1,256	1,196	1,612	2,163
Bank balances & cash	36,374	37,848	41,660	43,201	46,089
Others	35,025	54,100	51,942	58,410	69,070
Total assets	213,250	263,397	309,401	357,760	425,722
	0	0	0	0	0
Current liabilities	117,097	156,838	183,463	226,390	287,548
Long term debt	56,275	51,418	58,419	60,930	62,657
Other long term liabilities	0	0	0	0	0
Deferred income tax	731	1,126	1,202	1,333	1,450
Long term liabilities	65,584	65,529	80,606	79,348	80,092
Minority Interests	11,419	18,051	18,932	20,283	22,104
Shareholders' funds	19,150	22,979	26,401	31,738	35,978
Total liabilities and equity	213,250	263,397	309,401	357,760	425,722

Ratio Analysis (%)

	2017A	2018A	2019E	2020E	2021E
Gross Margin	25.1%	26.1%	26.6%	26.9%	26.5%
Operating margin	10.8%	13.1%	13.1%	13.2%	12.8%
Net profit margin	5.8%	5.3%	6.5%	6.5%	6.5%
Sales growth	69.2%	70.3%	8.9%	32.9%	36.0%
EBIT growth	66.2%	106.7%	8.4%	33.8%	32.6%
Net profit growth	67.1%	55.5%	35.5%	32.7%	35.6%
EPS growth	67.1%	55.5%	34.5%	32.7%	35.6%
BVPS	4.73	5.67	6.47	7.78	8.81
Interest coverage (x)	9.16	11.01	5.40	6.25	7.13
Net debt to total capital	80%	70%	55%	55%	53%
Net debt to equity (w/o restricted cash)	252%	182%	154%	138%	126%
Sales/assets	0.20	0.24	0.21	0.25	0.28
Assets/equity	11.14	11.46	11.72	11.27	11.83
ROA	1.1%	1.2%	1.4%	1.6%	1.8%
ROE	11.8%	14.1%	16.3%	18.4%	21.4%
ROCE	2.3%	2.9%	3.5%	4.1%	5.4%

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Accumulate – Describes stocks that we expect to provide a relative return of between 5% and 20%.
Hold – Describes stocks that we expect to provide a relative return of between -10% and +5%.
Sell – Describes stocks that we expect to provide a relative return of <-10%.
2) Sector Ratings:
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Neutral – Describes sectors that we expect to provide a relative return of between -10% and +10%.
Underweight – Describes sectors that we expect to provide a relative return of <-10%.

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