Longfor Group (960 HK)

1H26: Expect Postive Bottom Line In 2027 And Back To Stable Growth Trajectory By 2028

Highlights

- 1H26 core net profit fell 95.4% yoy to Rmb64m, in line with the Rmb50m-100m profit warning. Recurring profit grew 4.2% yoy to Rmb6.7b.
- Management expects Longfor to report positive core net profit in 2027 and return to stable growth trajectory by 2028. The Rmb2.5b debt maturity in 2026 will be well covered.
- Maintain BUY, lower target price to HK$8.76.

1H26 Results

Year to 31 Dec (Rmbm)	1H26	2H25	1H25	yoy	hoh
Revenue	39,795	38,558	58,750	-32.3%	+3.2%
- PD	26,095	25,058	45,478	-42.6%	+4.1%
- IP operation	7,301	7,178	7,008	+4.2%	+1.7%
- Services and others	6,399	6,323	6,264	+2.2%	+1.2%
Gross Profit	4,424	2,013	7,422	-40.4%	+119.8%
Operating Profit	3,871	(1,149)	6,387	-39.4%	n/m
Core net profit	64	(3,080)	1,380	-95.4%	n/m
DPS (Rmb / share)	0.00	0.00	0.07	-100.0%	n/m
Margins					
GP margin	11.1%	5.2%	12.6%	-1.5ppt	+5.9ppt
Segment profit margin	6.8%	0.2%	8.9%	-2.1ppt	+6.6ppt
- PD	-15.8%	-27.8%	-2.6%	-13.2ppt	+12.0ppt
- IP operation	62.4%	65.6%	58.9%	+3.6ppt	-3.2ppt
- Services and others	28.3%	28.7%	28.4%	-0.1ppt	-0.4ppt
- recurring (IP + svcs)	44.1%	46.0%	41.7%	+2.4ppt	-1.9ppt
Core NP margin	0.2%	-7.6%	2.2%	-2.1ppt	+7.8ppt
Leverage					
Cash on hand (Rmbm)	24,883	29,201	44,666	-44.3%	-14.8%
Cash to ST debt ratio (x) *	~1.0x	1.14	>1.0x	n.a.	n.a.
Net gearing ratio	52.0%	52.2%	51.2%	+0.8pt	-0.2pt

Source: Longfor, UOB Kay Hian

Analysis

- **1H26 results continued to be dragged by property development (PD).** Core net profit fell 95.4% yoy to Rmb64m, in line with the guided range of Rmb50m-100m; attributable net profit of Rmb1,961m (-39.0% yoy) was flattered by a Rmb3,006m revaluation gain. PD revenue fell 42.6% yoy, while PD EBITDA margin declined 13.2ppt yoy. Recurring revenue grew 3.2% yoy, while EBITDA margin improved 2.4ppt to 44.1%. SG&A ratio rose 1.4ppt yoy to 6.9% on a smaller revenue base, while interest expense dropped 15.4% yoy with the average funding cost at 3.36% (1H25: 3.58%). The company declared no interim dividend, as expected.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	127,475	97,309	76,776	67,313	67,710
EBITDA	12,382	1,801	2,847	5,761	6,818
Operating profit	12,198	1,649	2,694	5,609	6,665
Net profit (rep./act.)	10,401	1,022	(4,934)	194	1,368
Net profit (adj.)	6,970	(1,700)	(4,934)	194	1,368
EPS (fen)	105.5	(24.9)	(44.6)	2.7	18.6
PE (x)	5.5	n.a.	n.a.	214.2	31.2
P/B (x)	0.2	0.2	0.3	0.3	0.3
EV/EBITDA (x)	19.2	132.1	83.6	41.3	34.9
Dividend yield (%)	5.5	1.2	0.0	0.1	1.0
Net margin (%)	8.2	1.1	(4.0)	0.3	2.0
Net debt/(cash) to equity (%)	73.6	71.3	76.3	74.7	77.2
Interest cover (x)	n.a.	n.a.	2.7	4.0	4.2
ROE (%)	6.6	0.6	(1.9)	0.1	0.9
Consensus net profit (Rmbm)	-	-	325.6	2,879.9	4,210.3
UOBKH/Consensus (x)	-	-	(9.47)	0.07	0.32

Source: Longfor, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	HK$6.79
Target Price	HK$8.76
Upside	+29.0%
Previous TP	HK$10.12

Stock Data

GICS sector	Real Estate
Bloomberg ticker:	960 HK
Shares issued (m):	7,097.4
Market Cap (HK$m):	48,191.4
Market cap (US$m):	6,147.0
3-mth avg t'over (US$m):	15.8

Price Performance (%)

52-week high/low HK$12.24/HK$5.98

1mth	3mth	6mth	1yr	YTD
0.6	(9.2)	(33.7)	(36.5)	(20.7)

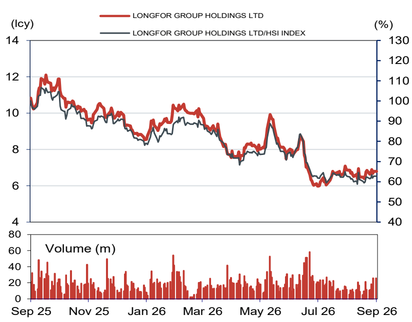
Major Shareholders (%)

Charm Talent International Ltd	43.96

Balance Sheet Metrics

FY26 NAV/Share (Rmb)	23.09
FY26 Net Debt/ Share (Rmb)	17.61

Price Chart



Source: Bloomberg

Company Description

Longfor Group operates as a real estate development company. It develops and markets residential and commercial properties in mainland China, and holds and operates an investment property portfolio led by its Paradise Walk shopping malls, together with rental housing and property management and smart construction services.

- **Management remains committed to sustained growth in recurring business with slightly more cautious tones…** Although management adopted a slightly more cautious tone on its targets at the interim results briefing than it did in Mar 26, management reiterated its objective of returning to positive core net profit in 2027 and restoring Longfor Group (Longfor) to a stable growth trajectory by 2028. We believe Longfor's proven execution capabilities in its mall operation (as evidenced by stronger same-store sales growth and 3.6ppt yoy improvement in EBITDA margin) and services businesses will provide meaningful support for its medium- to long-term growth prospects.
- **… and further debt reduction, supported by positive operating cash flow.** On debt repayment, maturities due in 2026 have declined substantially and the cash-to-short-term-debt ratio remains around 1.0x. While the cash balance has decreased, we believe the company's overall liquidity and refinancing risks remain manageable.

Key Targets

Item	Aug 26 management guidance
Recurring-business core net profit	Targeting approximately Rmb10b in core net profit from recurring businesses by 2028 (slightly softening from the targets of achieving Rmb10b by 2027-28 shared at Mar 26 meeting), based on an assumed net profit margin of around 30%.
C2: Mall operations	Revenue target of Rmb15b by 2028, implying around 10% CAGR over 2025-28. Growth is expected to be driven by the opening of around 10 malls per annum, including five heavy-asset malls and five light-asset malls.
C3: Rental housing	Revenue is expected to remain broadly stable, with management focusing on improving profitability.
C4: Property management	Revenue target of Rmb14b by 2028, implying around 5% CAGR over 2025-28, supported by expansion into high-quality third-party projects.
C5: Smart construction	Revenue target of Rmb2b by 2028, implying around 20% CAGR over 2025-28.
2026 operating cash flow after capex	Targeting approximately Rmb5b of positive operating cash flow after capex (slightly softening from the target of Rmb5b-10b shared at Mar 26 meeting)

Source: Longfor, UOB Kay Hian

Key Operational Figures

	2023	2024	2025	1H25	1H26
Contracted sales (Rmbm)	173,490	101,120	63,160	35,010	16,550
yoy	-13.9%	-41.7%	-37.5%	-31.5%	-52.7%
Contracted sales GFA (000 sqm)	10,796	7,124	5,186	2,614	1,750
Contracted sales ASP (Rmb/sqm)	16,070	14,194	12,179	13,393	9,457
yoy	4.0%	-11.7%	-14.2%	-4.4%	-29.4%
IP operation revenue, net of tax (Rmbm)	12,940	13,520	14,190	7,010	7,300
yoy	8.9%	4.5%	1.6%	2.5%	4.1%
Property service revenue, net of tax (Rmbm)	11,950	13,190	12,580	6,260	6,400
yoy	n.a.	10.4%	-1.3%	0.0%	2.2%
Recurring revenue (Rmbm)	24,890	26,710	26,770	13,270	13,700
yoy	n.a.	7.3%	0.2%	1.3%	3.2%
Mall rental income (Rmbm)	n.a.	10,780	11,210	5,500	5,980
Shopping mall occupancy (%)	96.2	96.8	96.8	96.8	97.4
Net gearing ratio (%)	55.9	51.7	52.2	51.2	52.0

Source: Longfor, UOB Kay Hian

Valuation/Recommendation

- **Maintain BUY with a lower target price of HK$8.76,** based on a lower target PE of 6.0x on recurring earnings and a target P/B of 0.1x on PD. While pre-sale reform will tighten funding in the near term, Longfor's completed transition should underpin resilient operations. The lower target PE reflects more cautious investor sentiment in the next six months.

Earnings Revision/Risk

- Trim our 2026 earnings forecast to -Rmb4.9b from -Rmb3.0b previously to factor in a lower PD margin assumption. Our 2027/28 forecasts remain unchanged.

Share Price Catalyst

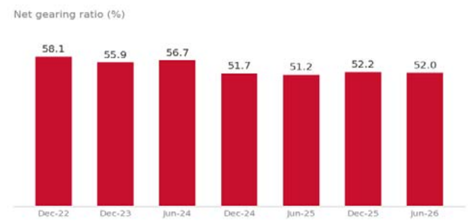
- Stronger-than-expected recovery in the property market of Tier 2 cities.

1H26 Contracted Sales By Region

Region	1H26 (Rmbm)	1H25 (Rmbm)
Pan Bohai Rim	5,347	8,228
Western China	4,687	9,825
Yangtze River Delta	3,592	9,293
Southern China	1,997	4,206
Central China	927	3,458
Total contracted sales	16,550	35,010
Contracted GFA (000 sqm)	1,750	2,614
ASP (Rmb/sqm)	9,457	13,393

Source: Longfor, UOB Kay Hian

Net Gearing Ratio



Source: Longfor, UOB Kay Hian

Recurring Businesses: Revenue Mix And KPIs

	1H26	1H25
Revenue, net of tax (Rmb b)		
Property operation	7.30	7.01
- of which mall rental income	5.98	5.50
Property service	6.40	6.26
Total recurring revenue (Rmb b)	13.70	13.27
KPIs	1H26	1H25
Mall rental income growth (yoy)	+8.7%	+4.9%
Shopping mall occupancy (%)	97.4	96.8
Shopping malls in operation	96	89
Rental housing occupancy (%)	94.9	95.6

Source: Longfor, UOB Kay Hian

Profit & Loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	97,308.6	76,776.3	67,312.5	67,710.1
EBITDA	1,801.3	2,846.7	5,761.4	6,817.7
Deprec. & amort.	152.6	152.6	152.6	152.6
EBIT	1,648.6	2,694.1	5,608.7	6,665.1
Total other non-operating income	4,517.1	0.0	0.0	0.0
Associate contributions	(1,237.8)	(1,114.0)	(1,002.6)	(902.3)
Net interest income/(expense)	310.1	(1,046.1)	(1,444.8)	(1,623.2)
Pre-tax profit	5,238.1	534.0	3,161.3	4,139.6
Tax	(4,190.5)	(3,000.0)	(3,000.0)	(3,000.0)
Minorities	(25.7)	(616.5)	32.3	227.9
Net profit	1,021.8	(4,934)	193.6	1,367.5
Net profit (adj.)	(1,700.0)	(4,934)	193.6	1,367.5

Balance Sheet

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Fixed assets	225,827.1	239,543.6	248,891.0	258,238.4
Other LT assets	53,553.1	52,439.1	51,436.6	50,534.2
Cash/ST investment	27,361.9	17,349.3	12,884.8	1,488.1
Other current assets	289,120.2	273,931.6	265,081.9	253,412.1
Total assets	595,862.4	583,263.7	578,294.2	563,672.8
ST debt	15,794.7	15,320.9	14,554.8	13,827.1
Other current liabilities	170,914.4	165,366.0	167,708.4	159,425.7
LT debt	127,694.2	123,863.4	117,670.2	111,786.7
Other LT liabilities	44,456.4	44,176.8	43,724.8	43,295.4
Shareholders' equity	162,809.9	159,727.3	159,858.9	160,788.8
Minority interest	74,192.7	74,809.2	74,776.9	74,549.0
Total liabilities & equity	595,862.4	583,263.7	578,294.2	563,672.8

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	21,876.3	10,610.0	9,453.4	9,453.8
Profit fo the year	5,238.1	534.0	3,161.3	4,139.6
Tax	(4,190.5)	(3,000.0)	(3,000.0)	(3,000.0)
Deprec. & amort.	152.6	152.6	152.6	152.6
Associates	1,237.8	1,114.0	1,002.6	902.3
Working capital changes	22,690.0	11,250.1	9,976.2	9,277.0
Non-cash items	(4,699.1)	0.0	0.0	0.0
Other operating cashflows	1,447.5	559.3	(1,839.4)	(2,017.7)
Investing	(9,189.0)	(12,495.0)	(5,883.0)	(5,840.0)
Capex (growth)	105.1	0.0	0.0	0.0
Investment	29,538.6	28,424.6	27,422.0	26,519.7
Others	(40,565.3)	(40,919.6)	(33,305.0)	(32,359.7)
Financing	(33,276.9)	(8,127.7)	(8,034.7)	(15,010.3)
Dividend payments	(677.6)	(492.9)	0.0	(62.0)
Proceeds from borrowings	(26,497.7)	(2,832.5)	(3,436.3)	(9,904.0)
Loan repayment	(5,574.1)	(4,802.3)	(4,598.4)	(5,044.3)
Others/interest paid	(527.6)	0.0	0.0	0.0
Net cash inflow (outflow)	(20,589.6)	(10,012.7)	(4,464.3)	(11,396.4)
Beginning cash & cash equivalent	47,951.6	27,361.9	17,349.3	12,884.8
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	27,361.9	17,349.2	12,885.0	1,488.3

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	1.9	3.7	8.6	10.1
Pre-tax margin	5.4	0.7	4.7	6.1
Net margin	1.1	(4.0)	0.3	2.0
ROA	0.2	(0.5)	0.0	0.2
ROE	0.6	(1.9)	0.1	0.9
Growth				
Turnover	(23.7)	(21.1)	(12.3)	0.6
EBITDA	(85.5)	58.0	102.4	18.3
Pre-tax profit	(72.0)	(89.8)	492.1	30.9
Net profit	(90.2)	n.a.	n.a.	606.4
Net profit (adj.)	n.a.	n.a.	n.a.	606.4
EPS	n.a.	n.a.	n.a.	585.8
Leverage				
Debt to total capital	37.7	37.2	36.0	34.8
Debt to equity	88.1	87.1	82.7	78.1
Net debt/(cash) to equity	71.3	76.3	74.7	77.2
Interest cover (x)	n.a.	2.7	4.0	4.2