UOBKayHian



# Longfor Group (960 HK)

## Takeaways From Channel Checks And 1H26 Results Preview

### Highlights

- **Expect a broadly breakeven bottom line in 1H26.** We expect 1H26 revenue of recurring business to grow over 3% yoy, led by malls (rental +~9%, tenant sales +16%). However, PD gross margin is expected to widen to a ~10% loss (from -6.9% in 2025).
- **Debt reduction on track.** Interest-bearing debt would have fell over Rmb5b in 1H26. For the RMb7.2b debt maturity in 2026, Rmb2.6 has been paid, while there are solid repayment plans for the remaining amount.
- **Maintain BUY with a lower SOTP target price of HK$10.12** due to a lower PD book value estimate. We expect higher margin pressure in 2H26 due to higher booking volume and year-end destocking, thus further cutting earnings 26/27/28 forecast to Rmb-3b/194m/1.4b, respectively.

### Analysis

- We conducted a channel check on Longfor Group (Longfor) on 16 July. Key takeaways are:
  - a) **Weak contracted sales and expanded booking loss of property development (PD) in 1H26.** Contracted sales fell 52.7% yoy in 1H26 to Rmb16.6b, which is weaker than market expectations of an around 20% yoy decline. This is mainly due to Longfor's weak exposure in Tier 1 cities and thin new-launch pipeline. We expect continued weakness of sales in 2H26, lowering our forecasted sales decline from -20% to -40% in 2026. Booking margin for property development is forecasted to fall further from -6.9% in 2025 to around -10% in 1H26.
  - b) **More cautious and strategic on land acquisition.** In 1H26, Longfor bought four plots of land (in Qingdao/Wuxi/Dalian/Lanzhou) for a total consideration of Rmb1.36b, which is equivalent to 8.2% of sales. Through the acquisition of these four lands, Longfor can further improve the terms of its other inventories in the same cities. We expect this kind of strategic land acquisition to become a main investment focus.
  - c) **Malls remain the standout.** We expect 1H26 mall rental income to grow about 9% yoy (same-store rental growth +~3% yoy) and tenant sales to grow around 16% yoy (same-store tenant sales +~8% yoy), showing that Longfor is largely on track to achieve its target of 5% same-store rental growth and 10% rental growth in 2026, helped by 2025's asset-enhancement (AEI) upgrades to nine large malls. Among categories, retail (including boutique supermarkets) and F&B led while entertainment stayed soft.

**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 | -3,083 | 194 | 1,368 |
| Net profit (adj.) | 6,970 | -1,700 | -3,083 | 194 | 1,368 |
| EPS (fen) | 105.5 | (24.9) | (44.6) | 2.7 | 18.6 |
| PE (x) | 5.5 | n.a. | n.a. | 212.2 | 30.9 |
| P/B (x) | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 |
| EV/EBITDA (x) | 19.2 | 131.9 | 83.4 | 41.2 | 34.8 |
| Dividend yield (%) | 5.6 | 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) | - | - | 897.5 | 3,426.8 | 4,983.3 |
| UOBKH/Consensus (x) | - | - | -3.43 | 0.06 | 0.27 |

*Source: Longfor, Bloomberg, UOB Kay Hian*

| | |
|---|---|
| **BUY** (Maintained) | |
| Share Price | HK$6.67 |
| Target Price | HK$10.12 |
| Upside | 51.7% |
| Previous TP | HK$10.95 |

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**Stock Data**

| | |
|---|---|
| GICS sector | Real Estate |
| Bloomberg ticker: | 960 HK |
| Shares issued (m): | 7,097.4 |
| Market Cap (Rmbm): | 47,339.7 |
| Market cap (US$m): | 6,038.1 |
| 3-mth avg t'over (US$m): | 21.0 |

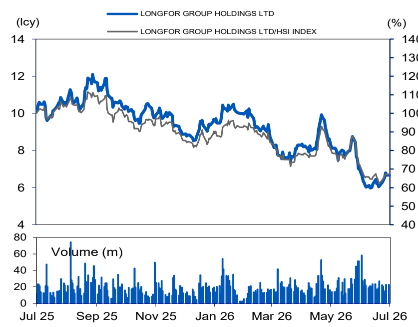
**Price Performance (%)**

| 52-week high/low | | | | HK$12.24/HK$5.92 |
|---|---|---|---|---|
| 1mth | 3mth | 6mth | 1yr | YTD |
| (5.0) | (19.6) | (28.7) | (33.6) | (22.1) |

| Major Shareholders | % |
|---|---|
| Charm Talent | 43.96 |

| Major Shareholders | |
|---|---|
| FY26 NAV/Share (Rmb) | 23.09 |
| FY26 Net Debt/ Share (Rmb) | 17.61 |

**Price Chart**




*Source: Bloomberg*

**Company Description**

Longfor Group Holdings operates as a real estate development company. The company develops and markets residential areas, office buildings, hotels, restaurants, and other related areas. Longfor Group Holdings also provides community management, landscape greening materials maintenance, real estate agencies, and other services.

d) **Rental housing dragged the operating line.** We expect the asset management (rental housing) segment's revenue to decline by over 10% yoy in 1H26, as Longfor is proactively exiting from low-efficiency, high-cost sublease projects.

e) **Property management (PM) back to growth territory.** After 2025's decline (low-efficiency exits, fewer deliveries, fee pressure on some estates), We expect PM revenue and profit to bounce back to low single-digit growth.

f) **Debt reduction is on track.** Interest-bearing debt fell over Rmb5b in 1H26, with funding cost dropping below 3.5% and tenors lengthening as operating-property loans replaced short-dated bonds. Of the Rmb7.2b in 2026 maturities: a) Rmb2.6b has been repaid in 1H26; b) the Rmb1.1b onshore bond due in Aug 26 has been arranged; c) Rmb2.3b in China Bond Insurance Corporation (CBIC) bonds will be refinanced with IP loans; and d) the Rmb1.2b offshore loan due in Dec 26 will be financed by free cashflow (OCF after capex), which is expected at about Rmb1.0b (Rmb5b-10b full-year target).

g) **Preview for 1H26 results.** We expect total revenue to decline by over 30% yoy, mainly dragged by weaker PD revenue. Revenue of recurring business is expected to grow at over 3%, after combining the performance of malls, rental housing and PM. We forecast 1H26 core profit to be around breakeven levels, with the decline in DP earnings largely offset by resilient recurring income.

## Earnings Revision/Risk

- We cut our 2026/27/28 core net profit forecasts from Rmb-1.5b/+4.8b/+5.2b to Rmb-3b/194m/1.4b, respectively, as we lower our forecast of PD gross profit margin from -10%/-6%/-3% previously to -12%/-10%/-8%.

## Valuation/Recommendation

- **Maintain BUY with a lower target price of HK$10.12.** We keep our targeted PE of recurring earnings at 7.0x and targeted PB of the PD business at 0.1x. With the PD business' lower PB, we lower our SOTP derived target price by 7.6% to HK$10.12. Maintain BUY.
- **Expect greater PD margin pressure in 2H26.** While we look for a broadly breakeven bottom line in 1H26, we see development-property margins coming under greater pressure in 2H26, driven by higher booking volume and year-end destocking. We maintain our expectation that Longfor will return to profitability in 2027, though we are now more cautious on the strength of the rebound.

## Share Price Catalyst

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

## 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 | (3,082.6) | 193.6 | 1,367.5 |
| Net profit (adj.) | (1,700.0) | (3,082.6) | 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 Metrics

| 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 |

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