



October 11, 2016  
Company Report  
Rating: BUY  
TP: HK\$ 1.40

Share price (HK\$)	1.08
Est. share price return	29.6%
Est. dividend yield	3.8%
Est. total return	33.4%

Previous Rating & TP	NA
Previous Report Date	NA

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**Key Data**

52Wk H/L(HK\$)	1.24/0.722
Issued shares (mn)	5,761.2
Market cap (HK\$ mn)	6,223
3-mth avg daily turnover (HK\$ mn)	3.35
Major shareholder(s) (%):	
Ms Zeng Jie, Baby	57.68%
TCL Corporation	17.96%

Source(s): Company, Bloomberg, ABCI Securities

**1H16 Revenue breakdown (%)**

Property development	80.9
Property operation services	12.8
Property investment	1.7
Others	4.6

Source(s): Company, ABCI Securities

**Share performance (%)**

	Absolute	Relative*
1-mth	(8.5)	(8.9)
3-mth	8.0	(6.9)
6-mth	17.1	0.0

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

**1-Year stock performance (HK\$)**



Source(s): Bloomberg, ABCI Securities

**Fantasia (1777 HK)**  
Asset-light but asset-right

- Fantasia differentiates itself from other developers by its asset-light operation
- GFA of Colour Life, Fantasia's residential property management arm, that grew strongly at 111% CAGR in 2012-15
- Colour Life's value-added services (VAS) accounted for 32% of 1H16 EBIT; active users in the Caizhiyu (彩之云) app surged by 138% CAGR to 1.1mn in 1H14-1H16
- Initiate **BUY** with TP of HK\$1.40 based on a 60% discount to NAV

**Property development business: growing steadily.** As at June 2016, Fantasia had a total landbank of 16.77mn sqm, spanning across 11 cities in China and Singapore. Fantasia focuses mainly on tier-1/2 markets, which account for 89.8% of its landbank. Highly selective in land acquisition, Fantasia does not follow a high asset turnover model. Landbank and presales grew steadily at 10.7% and 12.0% CAGRs during 2012-15. In 9M16, Fantasia's presales grew 16% YoY to RMB 9.5bn, consistent with the Group's historical pattern of steady growth.

**Property management is the key driver.** Colour Life (1778 HK), 50%-owned by Fantasia, is the Group's residential property management arm listed separately in June 2014. As of June 2016, Colour Life had 2,236 residential communities under management contracts or consultancy service arrangements with a total GFA of 360.1mn sqm. Colour Life's GFA under property management grew at 111% CAGR during 2012-15 to 304mn sqm. Since its IPO in 2014, Colour Life has acquired many smaller property management companies (PMCs) to strengthen its market share. Significant synergy is expected from its recent acquisition of Wanda's property management business.

**Profitable O2O business.** Colour Life provides various value-added services (VAS) online and offline to the residents within Colour Life's managed projects. In particular, registered and active users of the Caizhiyun (彩之云) app surged by 107%/138% CAGR to 2.2/1.1 mn over the past 2 years. The Group's VAS revenue also jumped 63% YoY to RMB 71mn, while VAS accounted for 32% of total EBIT in 1H16.

**Initiate BUY with TP of HK\$ 1.40 based on a 60% discount to NAV.** A 60% discount is applied to our 2017E NAV estimate of RMB17.2bn (or HK\$ 3.5/share); hence, our TP arrives at HK\$ 1.40/shr. Trading at 7.9x 2016PE with a 2016E yield of 3.8%, the counter is priced at a premium to small-/mid-cap peers; however, we think the higher price is justified by its fast-growing asset-light business. Initiate with **BUY**.

**Risk factors:** (1) Unrealized FX loss; (2) Reliance on offshore bond market;(3) Policy risks;(4) Growth of property management business highly dependent on acquisition; (5) Integration risk;(6) Competition in online business; (7) Potential conflict of interest; (8) Low average daily turnover

**Results and Valuation**

FY ended Dec 31	2014A	2015A	2016E	2017E	2018E
Revenue (RMB mn)	7,306	8,164	9,667	10,732	12,395
Chg (% YoY)	0.4	11.7	18.4	11.0	15.5
Core net profit (RMB mn) <sup>1</sup>	752	544	680	966	1,001
Chg (% YoY)	(30.5)	(27.7)	25.1	42.1	3.6
Underlying EPS (RMB)	0.13	0.09	0.12	0.17	0.17
Chg (% YoY)	(40.9)	(27.7)	25.1	42.1	3.6
BVPS (RMB)	1.6	1.8	1.9	2.0	2.1
Chg (% YoY)	9.8	10.0	4.3	5.8	5.7
Underlying PE (x)	7.1	9.9	7.9	5.5	5.4
P/B (x)	0.6	0.5	0.5	0.5	0.4
ROE (%)	8.0	5.2	6.3	8.4	8.2
ROA (%)	1.8	1.2	1.3	1.7	1.4
DPS(HK\$)	0.05	0.05	0.04	0.06	0.06
Yield (%)	4.99	4.63	3.80	5.40	5.60
Net gearing <sup>2</sup> (%)	86.7	75.6	61.9	57.3	47.2

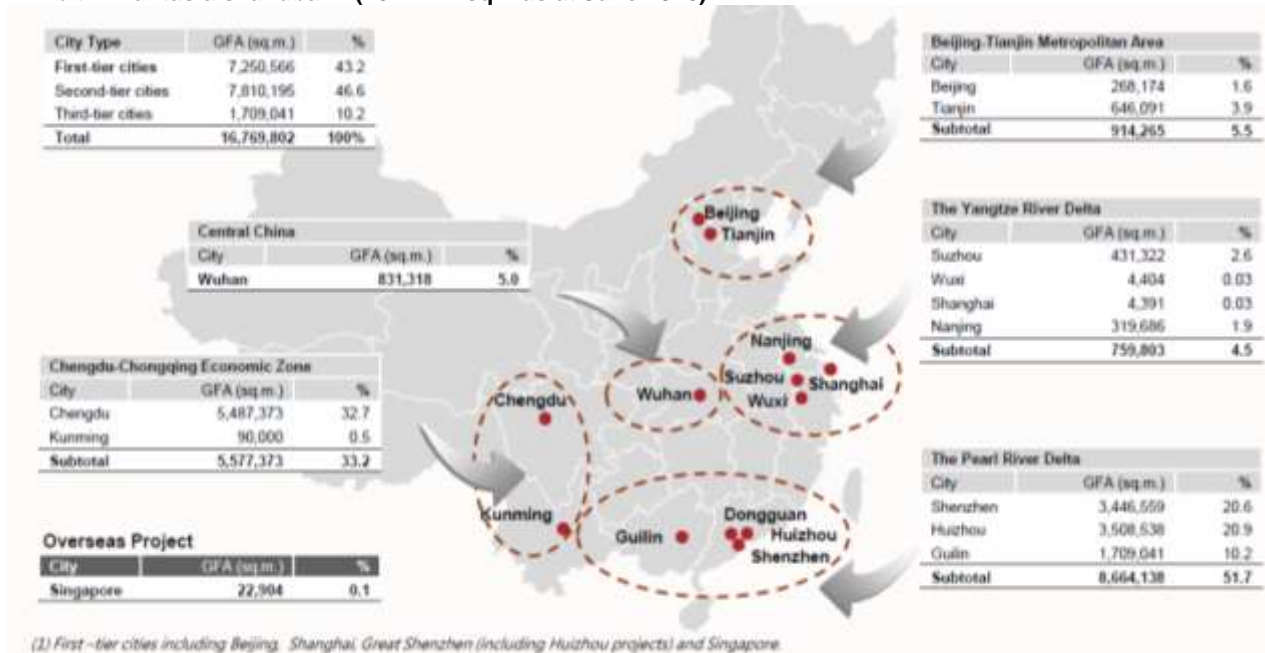
<sup>1</sup>Core net profit = Net profit - revaluation gain of investment properties

<sup>2</sup>Net gearing = Net debt / Shareholders' equity

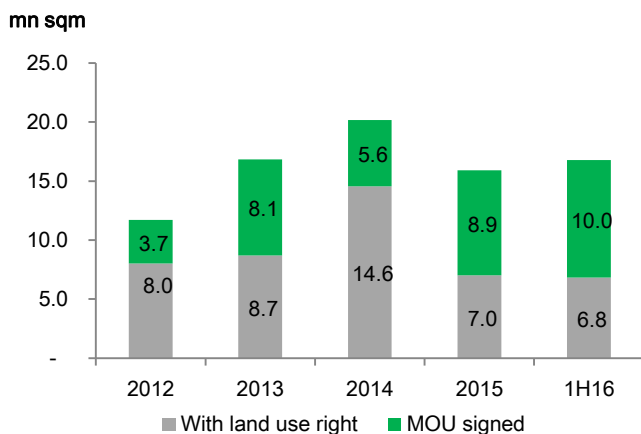
Source(s): Bloomberg, ABCI Securities estimates

## Steady growth as key

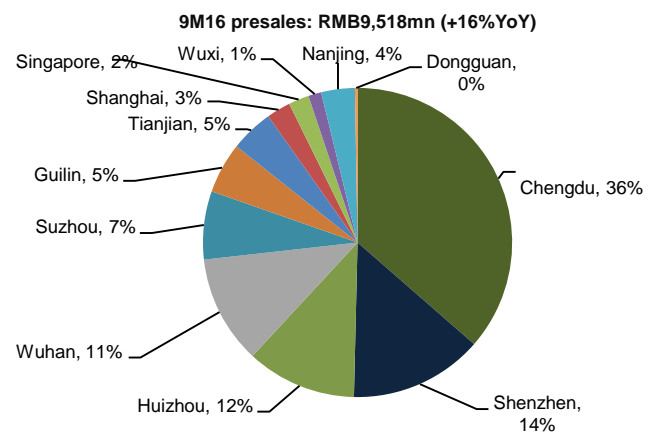
Including sites with MOUs established, as at June 2016, Fantasia had a total landbank of 16.77mn sqm spanning across 11 cities in China and overseas in Singapore. Fantasia focuses mainly on tier-1/2 markets that jointly account for 89.8% of its total landbank. Unlike some of its peers, Fantasia does not follow a high asset turnover model. Fantasia's landbank and presales grew steadily at 10.7% and 12.0% CAGRs during 2012-15. Rather than pursuing a fast topline growth that often results in high leverage, the Group maintains a healthy balance sheet. In 9M16, Fantasia's presales grew 16%YoY to RMB 9.5bn, consistent with the Group's steady growth trend. In fact, Fantasia did not procure land in open auction or tendering in the last 2 years. Instead, it acquires land via urban redevelopment or co-operation with the local-governments. These projects usually require less initial capital or can be developed on a rolling basis. In contrary, open auctions require payment of a large lump sum land premium within 12 months upon successful bidding.

**Exhibit 1: Fantasia's landbank (16.77mn sqm as at June 2016)**


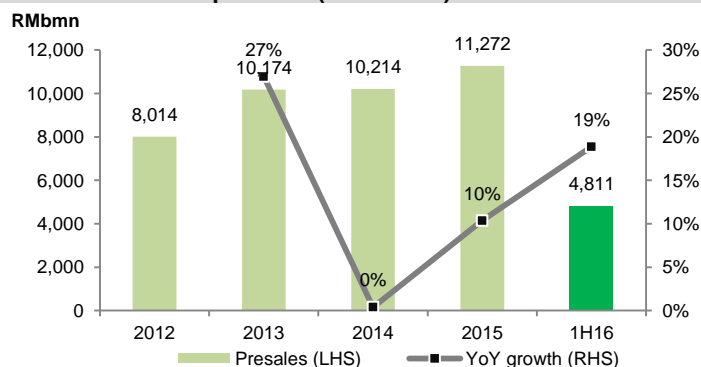
Source(s): Company, ABCI Securities

**Exhibit 2: Fantasia's landbank**


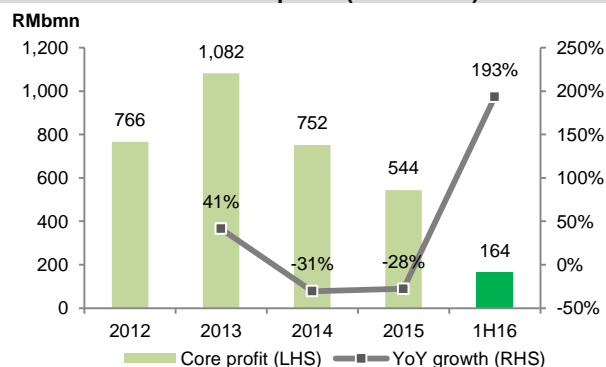
Source(s): Company, ABCI Securities

**Exhibit 3: Fantasia's presales by city (9M16)**


Source(s): Company, ABCI Securities

**Exhibit 4: Fantasia's presales (2012-1H16)**


Source(s): Company, ABCI Securities

**Exhibit 5: Fantasia's core profit (2013-1H16)**


Source(s): Company, ABCI Securities

Core profit (net profit excluding fair value gains of investment properties) has been shrinking since 2013, mainly due to the Group's strategy shift to expanding property management business after the spin-off of Colour Life and other non-property asset-light businesses. Driven by the fast-growing business in Colour Life, however, the Group's core profit rose by 193% YoY to RMB 164mn in 1H16. Going forward, we expect growth in property operation business (mainly includes residential property management business from Colour Life and commercial property management from Home E&E) should be higher than that of the property development division.

**Exhibit 6: EBIT breakdown (2012-1H16)**

RMBmn	2012	2013	2014	2015	1H16
Property development	2,205	2,294	1,854	1,421	1,139
Property investment*	126	3	61	116	31
Property operation services	109	130	299	381	204
Property agency	8	11	17	22	6
Hotels & Others	(54)	1	5	(9)	(11)
<b>Total</b>	<b>2,395</b>	<b>2,439</b>	<b>2,237</b>	<b>1,931</b>	<b>1,367</b>
As % of total EBIT					
Property development	92%	94%	83%	74%	83%
Property investment*	5%	0%	3%	6%	2%
Property operation services	5%	5%	13%	20%	15%
Property agency	0%	0%	1%	1%	0%
Hotels & Others	-2%	0%	0%	0%	-1%

\* Excluding fair value gains of IP

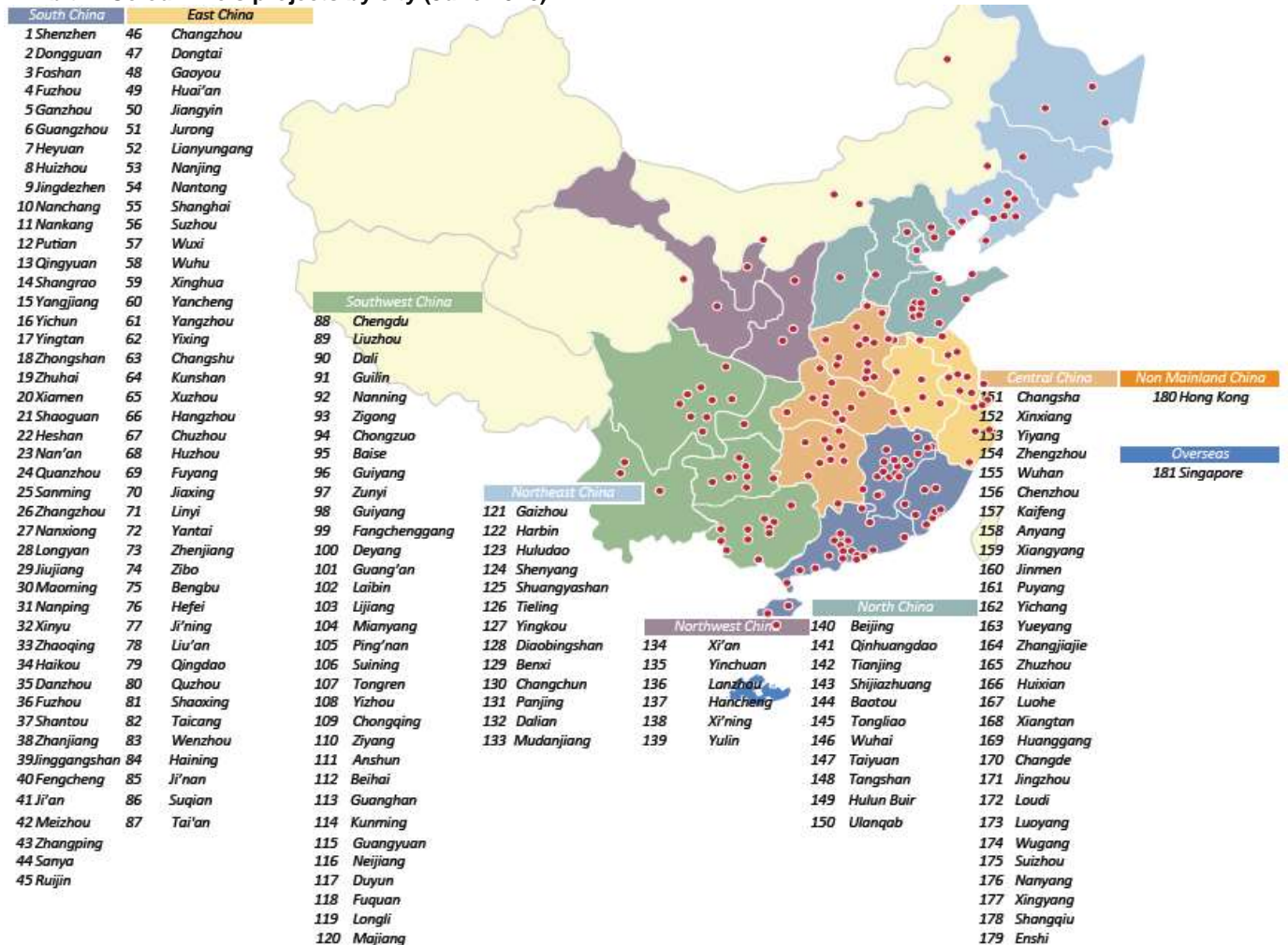
Source(s): Company, ABCI Securities

## Property management: a cash cow business

### Colour Life: GFA under management is growing fast

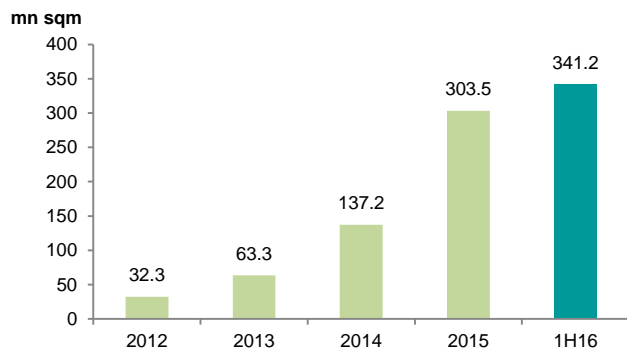
Colour Life (1778 HK), 50% owned by Fantasia, is the residential property management arm of Fantasia and was spun off as a separate listed company in June 2014. As of June 2016, Colour Life had 2,236 residential communities under management contracts or consultancy services arrangements with a total GFA of 360.1mn sqm.

Exhibit 7: Colour Life's projects by city (June 2016)

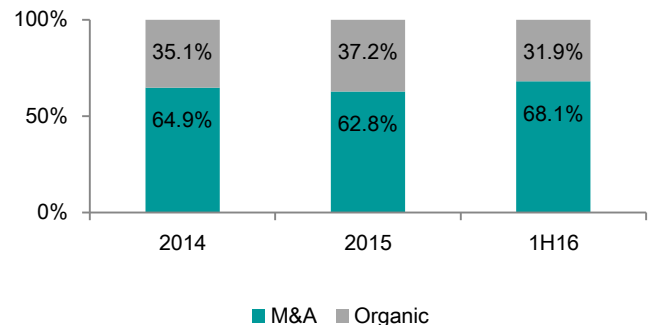


Source(s): Company, ABCI Securities

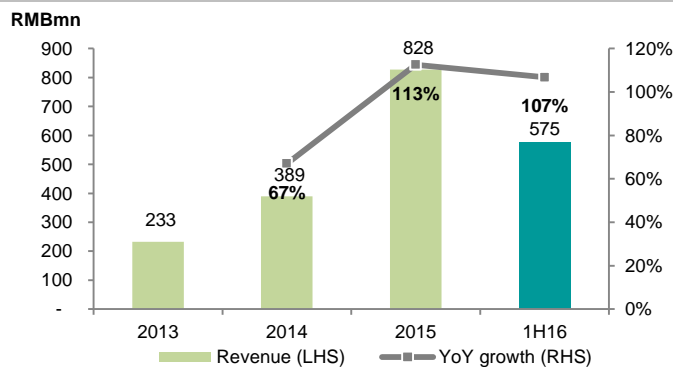
Colour Life has been growing on a fast track since 2012. The Group's GFA under property management grew at 111% CAGR during 2012-15 to 304mn sqm and 12% HoH in June 2016 to 341mn sqm. Since its IPO in 2014, Colour Life has acquired many smaller property management companies (PMC) to expand its market share. Over 63-68% of new projects were obtained by acquisition during 2014-1H16, while the rest came from organic growth. Driven by a rising contracted GFA, the Group's revenue and adjusted net profit grew at 88% and 100% CAGRs in 2013-15.

**Exhibit 8: Colour Life's GFA under property management**


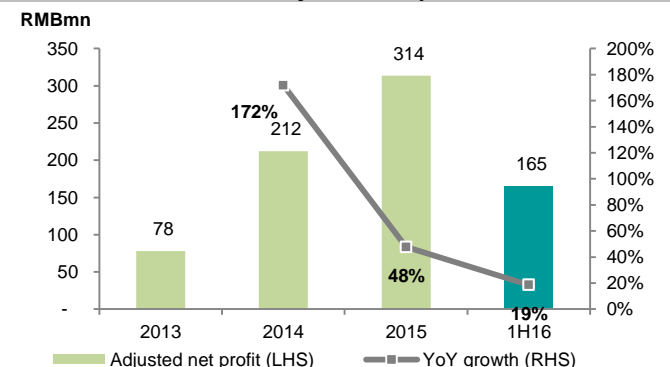
Source(s): Company, ABCI Securities

**Exhibit 9: Colour Life's new projects via M&A vs. organic growth**


Source(s): Company, ABCI Securities

**Exhibit 10: Colour Life's revenue**


Source(s): Company, ABCI Securities

**Exhibit 11: Colour Life's adjusted net profit**


Source(s): Company, ABCI Securities

Some notable features of PMC in China:

- Many property management contracts in China do not specify an expiration date.** Under the current regulations, the preliminary management contracts entered with developers will only be expired when the Property Owner Association (POA) is formed. However, threshold for residents to form a POA is high, as it requires approval from (i) property owners jointly possessing at least 50% of GFA; (ii) 50% of residents in the property. Many residential estates have not had a POA for years after delivery. Besides, the management fee is normally determined based on a per sqm basis. As a result, these management contracts produce a steady cash flow over a long period for the PMC.
- Lump sum or commission basis:** In China, PMC normally charge their fees on a lump sum or commission basis. In the former, the entire fixed management fee is booked by the PMC, who is fully responsible for the daily operating costs, as revenue. In this way, PMC will benefit from cost saving or suffer from cost overrun. If the PMC charges its clients on a commission basis, a proportion (e.g.10%) of the management fee is considered as commission revenue; the remaining amount collected is reserved as working capital for the daily operation. Risk of cost overrun/ saving will be borne by the property owners, meaning that PMC will charge an extra fee or refund the property owners based on the cost and collected fees.

As Colour Life continues to acquire smaller PMCs who mostly adopt a lump sum fee structure, margins have declined, as reflected by the slower growth in net profit than revenue. In 1H16, revenue grew 107% YoY to RMB 575mn but adjusted net profit only increased 19% YoY to RMB 165mn in 1H16.

### Profitable O2O business

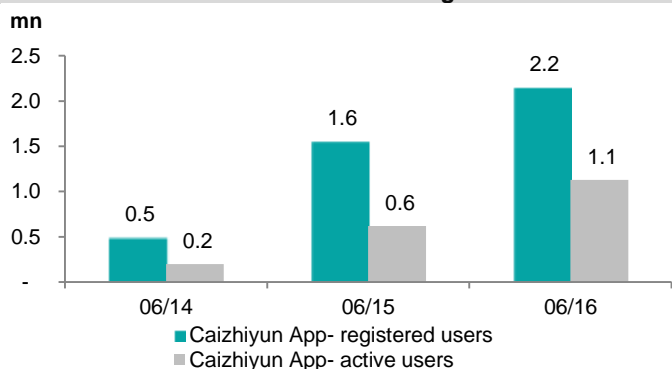
Colour Life provides various value-added services (VAS) online and offline to residents of the company's managed projects. In particular, registered and active users of the app "Caizhiyun" (彩之云), the company's online community service platform providing a wide array of services and products, surged by 107%/138% CAGRs to 2.2/1.1 mn in the last two years, indicating huge demand for Colour Life's O2O services. Colour Life's VAS revenue also jumped 63% YoY to RMB 71mn, while VAS accounted for 32% of Colour Life's EBIT in 1H16.

Several O2O businesses achieved notable improvement in 1H16:

- **E-repair:** Colour Life is gradually transferring its repairing services from offline to the Caizhiyun App. Daily order of the E-repair reached 8,000 as of June 2016, and 85% of the customers rated full satisfaction. The E-repair helps Colour Life to convert fixed labor cost into variable cost based on individual order settlement.
- **Colour Wealth Life Value-added Plan (CWLVP):** CWLVP is an online platform for 3<sup>rd</sup>-party wealth management products. Through CWLVP, residents may earn an interest rate slightly higher than the bank deposit rate; also, they can enjoy a reduction in management fee. As of June 2016, 36,791 households participated in the program and accumulated an investment amount of RMB 603mn, up 593% YoY compared with 1H15.
- **Colour Life Property:** under this program, property developers will deposit part of the home purchase payment into the Group's wealth management products, while the return will be rewarded to homebuyers in the form of coupons for purchase of products and services in the Caizhiyun App. This program can speed up cash collection for developers while homebuyers can obtain their desired services online. As of June 2016, the program entered into cooperation agreement with 24 developers across 27 cities in China.

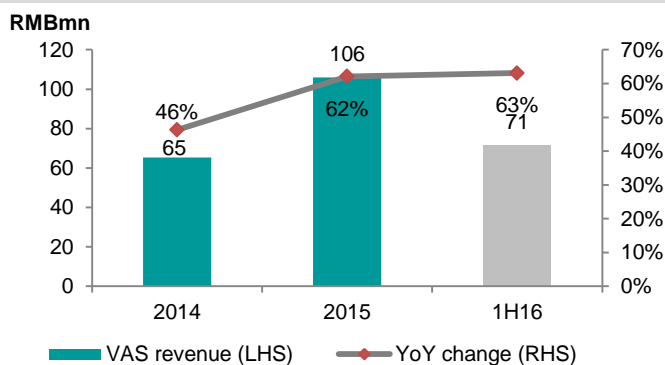
Driven by innovations above, the platform usage fee (i.e. revenue generated by the Caizhiyun App and other online platforms) soared 106% YoY to RMB 37mn in 1H16. Unlike many online players who need to operate at loss to build up their online user base, Colour Life's VAS business is profitable with an EBIT margin of 80% in 1H16.

**Exhibit 12: Colour Life's no. of online registered users**

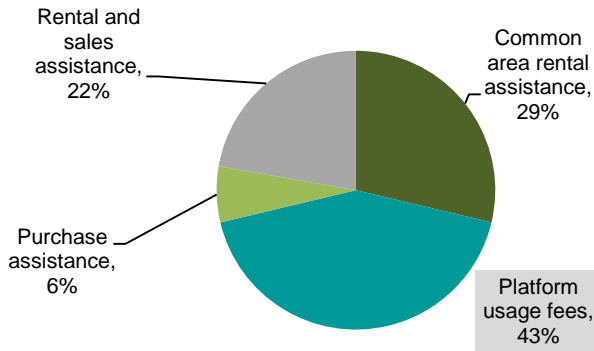


Source(s): Company, ABCI Securities

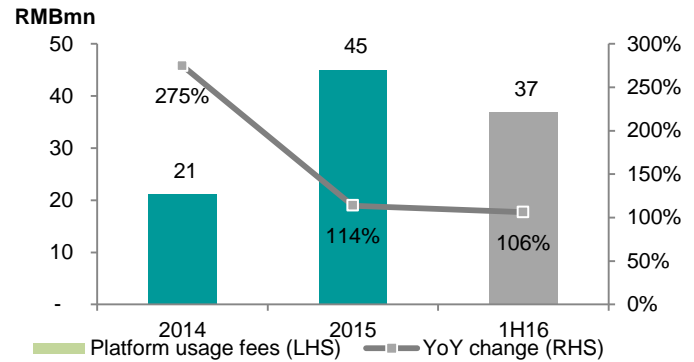
**Exhibit 13: Colour Life's VAS revenue**



Source(s): Company, ABCI Securities

**Exhibit 14: VAS revenue breakdown (2015)**


Source(s): Company, ABCI Securities

**Exhibit 15: Colour Life's platform usage fee**


Source(s): Company, ABCI Securities

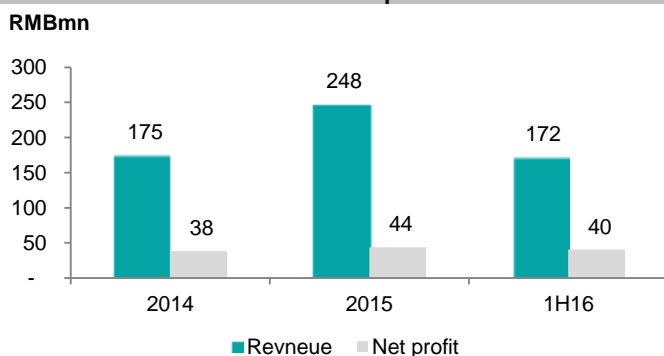
**Exhibit 16: Colour Life's EBIT breakdown**

RMBmn	2014	2015	1H16
Property management	168	206	93
Engineering	32	63	30
Value added services	60	71	57
<b>Total</b>	<b>260</b>	<b>340</b>	<b>180</b>
<b>YoY change</b>			
Property management	301%	23%	29%
Engineering	174%	99%	-33%
Value added services	51%	19%	77%
<b>Total</b>	<b>178%</b>	<b>31%</b>	<b>20%</b>
<b>As % of total</b>			
Property management	65%	61%	51%
Engineering	12%	18%	17%
Value added services	23%	21%	32%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

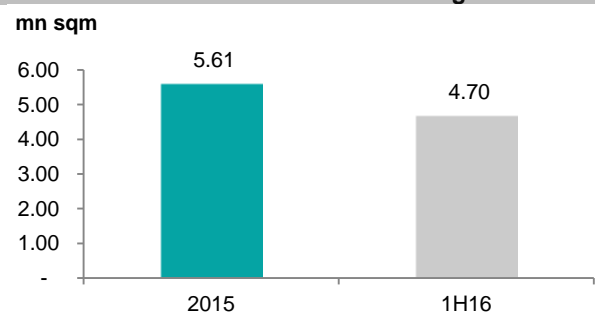
Source(s): Company, ABCI Securities

### Home E&E: solution provided to commercial properties

While Colour Life is specialized in residential property management, Fantasia also established the Home E&E Group (HEG; 65.3%-owned) to conduct the commercial property management business. In Dec 2015, Home E&E's share was listed in the New Third board (834669). In 1H16, HEG added a GFA of 4.7mn sqm under its management. As of June 2016, its operation covered 35 cities across China.

**Exhibit 17: HEG's revenue and net profit**


Source(s): Company, ABCI Securities

**Exhibit 18: HEG's new GFA under management**


Source(s): Company, ABCI Securities



### **The Wanda acquisition will help expand market share**

In Aug 2016, Fantasia announced to acquire Wanda property management at RMB 1.98bn via the Shenzhen Xingfu Wangxing Investment partnership, which is 50%-owned by the Group. The portfolio to be acquired has a total GFA of 64mn sqm, of which 23mn was delivered and 20mn will be delivered in 2 years. The remaining GFA, whose development plan has not been determined, is assumed to be delivered after 2 years and beyond. Out of the 43mn sqm GFA delivered or to be delivered in 2 years, about 25.5mn sqm will be managed by Colour Life while 17.7mn will be managed by Home E&E. Injection to these subsidiaries should take place in 1 or 2 years after the acquisition completes.

Given the high percentage of commercial space in Wanda's portfolio, we estimate a management fee of RMB 5/sqm/mth, or RMB 1.4bn/year. If we assume an industry net margin of 7-8%, we estimate Wanda should generate a net profit of RMB 100mn/year. Besides, given the high proportion of uncompleted GFA (~1.8x completed GFA), we expect net profit to increase to RMB 300mn upon completion. Wanda, being the largest landlord in China, will attract quality tenants for their commercial space. Hence, we believe the cash collection rate will be high. We believe this acquisition will strengthen Fantasia's property management market share on both the residential and commercial sides.





## Other major divisions of Fantasia

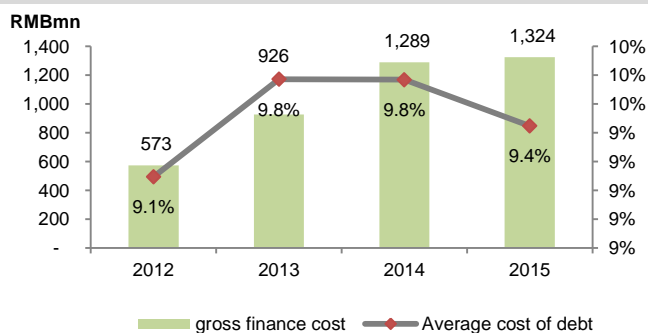
Fantasia has recently developed several non-property operations which require limited capital. They include: community finance, tourism, business community, education, and retirement homes.

- **Community finance:** in 1H16, Fantasia's community financial group offers off-line micro credit, community P2P internet finance, insurance brokerage business, finance leases, and 3<sup>rd</sup>-party payment. Qian Sheng Hua (錢生花), the online financial platform under the Group, financed over RMB 900mn with 0.37mn newly registered users in 1H16. With the improved earning capacity, Fantasia expects this division to be profitable this year.
- **Tourism:** as of June 2016, the Group operated 7 hotels in Shenzhen, Chengdu, Tianjin, Ningbo, Yixing, Taipei and New York. Fantasia also expanded into the tourism industry through the acquisition of Morning Star Group in Dec 2015. Morning Star is one of the leading travel agents in HK with an extensive branch network. In 2016, Morning Star introduced the Hong Kong-style quality tourism services to ~1000 residential communities in China and is dedicated to become a major player in community outbound travel.
- **Business Community:** the Group's business community division focuses on shopping mall operations. The Group launched 20 commercial asset-light projects in 1H16, covering Tibet and provinces such as Jiangxi, Jilin, Guangdong, and more.
- **Education:** in 1H16, the Group entered into a cooperation agreement with Virscend Education Company Limited (成實外教育有限公司) on May 13, 2016, and successfully added Chengdu Foreign Languages Primary School (成都外國語學校附屬小學) into the Group's Chengdu Meinian Plaza project, which is a mixed-used development venture.
- **Retirement Home:** in 1H16, Futainian, the Group's retirement home operation, continued to explore different opportunities. Futainian actively participates in the government's procurement projects on homecare services, exploring the method and standard of home-based homecare services to improve service quality and strengthen service skills. It successfully won the tender for projects such as the Chengdu High-Technology Zone home services.

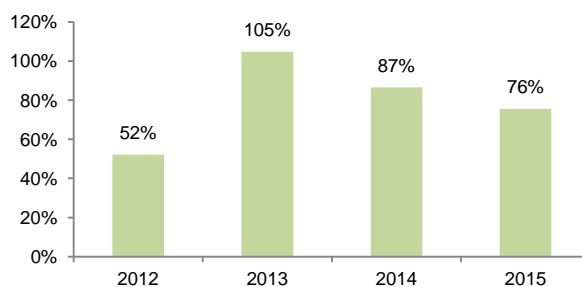
## Asset-light model enables balance sheet improvement

### Falling gearing and finance cost

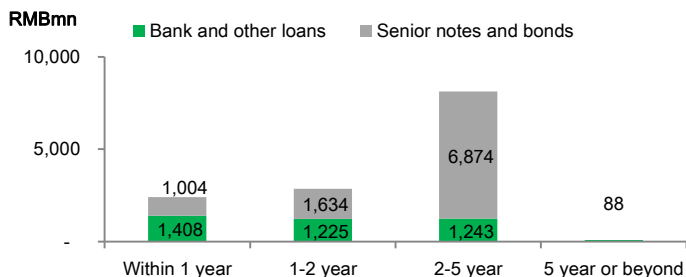
Average borrowing cost of Fantasia declined from 9.8% in 2014 to 9.4% in 2015. Net gearing also declined from 105% in Dec 13, to 87% in Dec 14 and 76% in Dec 15. The Group has been active in the bond issuance after its HK IPO in 2009. During 2013-1H16, the Group raised a total of USD 1bn USD bond and RMB 1.6bn dim sum bond offshore. Since Sep 2015, Fantasia has moved into the domestic bond market and raised a total of RMB 3.7bn. Debt repayment has been lengthened by the bonds issued. As at Dec 2015, debt to be repaid within 2 years only accounted for 39% of total debt.

**Exhibit 19: Weighted average cost of debt and gross finance cost**


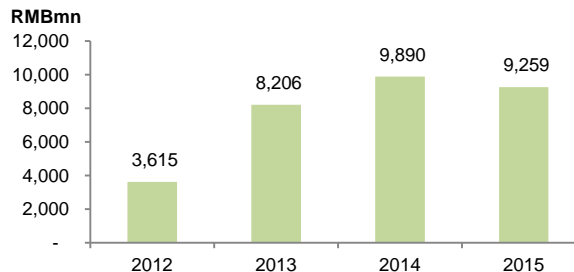
Source(s): Company, ABCI Securities

**Exhibit 20: Net gearing**


Source(s): Company, ABCI Securities

**Exhibit 21: Repayment profile (as at Dec 2015)**


Source(s): Company, ABCI Securities

**Exhibit 22: Net debt balance**


Source(s): Company, ABCI Securities

**Exhibit 23: List of senior notes and bonds issued since 2012**

Date	Domestic/offshore	Currency	Amount (mn)	Coupon	Maturity
Sep-12	Offshore USD bond	USD	250	13.80%	2017
Jan-13	Offshore USD bond	USD	250	10.75%	2020
May-13	Offshore dim-sum bond	RMB	1,000	7.88%	2016
Jan-14	Offshore USD bond	USD	300	10.63%	2019
May-15	Offshore USD bond	USD	200	11.50%	2018
Sep-15	Domestic public corporate bond	RMB	2,000	6.95%	2020
Jan-16	Domestic public corporate bond	RMB	1,100	7.29%	2020
Jan-16	Domestic non-public corporate bond	RMB	100	6.95%	2019
May-16	Offshore dim-sum bond	RMB	600	9.50%	2019
May-16	Domestic non-public corporate bond	RMB	500	7.50%	2019
Sep-16	Offshore USD bond	USD	400	7.38%	2021

Source(s): Company, ABCI Securities

### Bond yield comparison

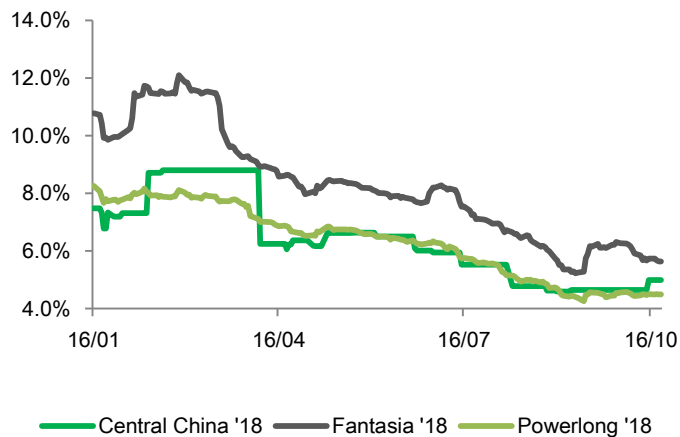
Since 2016, Fantasia's bond yield has been declining due to strong presales and ability to raised cheap onshore debt in the sector. Yield of Fantasia's 2018 bond dropped from 10.7% in Jan to 5.6% in Oct, providing lucrative capital gains for bond investors. Fantasia's bond yield is higher than its peers whose bonds have a similar credit rating. The Group's 2018 bond (S&P rating: B) trades at a premium to Powerlong's (S&P rating: B-); its 2019 bond also trades at a premium to Sunac's (S&P rating: B) and China South City's (S&P rating: B-). We think there should be room for Fantasia to lower its offshore borrowing cost further.

**Exhibit 24: Credit rating of major small-/mid-cap developers**

	BBG	S&P	Moody	Fitch
Country Garden	2007 HK	BB	Ba1	BB+
Longfor	960 HK	BB	Ba2	BBB-
Shimao	813 HK	BB	Ba3	BBB-
Central China	832 HK	B+	Ba3	-
Agile	3383 HK	B+	B1	-
Future Land	1030 HK	B+	B1	-
KWG	1813 HK	B+	B2	-
R&F	2777 HK	B	B1	BB
Sunac	1918 HK	B	B2	BB
Fantasia	1777 HK	B	B3	-
Powerlong	1238 HK	B-	B3	-
China South City	1668 HK	B-	-	B
Evergrande	3333 HK	CCC+	B3	-

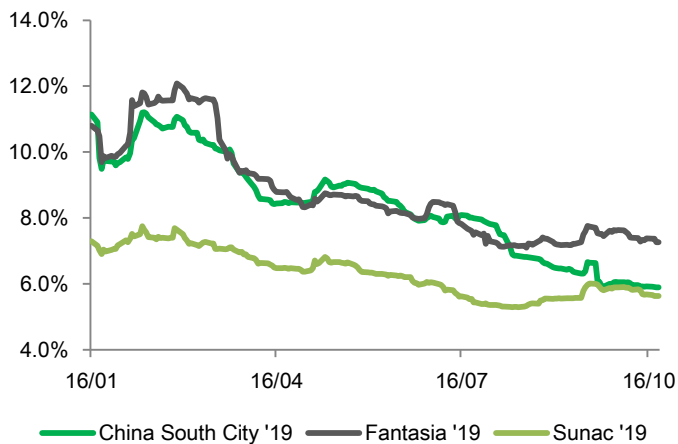
Source(s): Bloomberg, ABCI Securities

**Exhibit 25: Bond yield comparison (with maturity in 2018)**



Source(s): Bloomberg, ABCI Securities

**Exhibit 26: Bond yield comparison (with maturity in 2019)**



Source(s): Bloomberg, ABCI Securities



## Initiate BUY with TP of HK\$1.40 based on a 60% discount to NAV

Exhibit 27: Fantasia's end- FY17E NAV estimates

	Attr. GFA (mn sqm)	Net assets value (RMB mn)	% of total	Valuation Methodology	Implied value per sqm (RMB)
<b>Property development</b>					
Chengdu	2.1	3,983	21%	DCF with WACC of 11.6%	1,914
Shenzhen	0.4	3,425	18%		8,191
Beijing	0.3	2,718	15%		10,134
Guilin	1.7	2,108	11%		1,233
Nanjing	0.3	1,766	10%		5,525
Tianjin	0.6	1,392	8%		2,155
Suzhou	0.4	1,378	7%		3,674
Huizhou	0.7	567	3%		789
Others	2.4	1,219	7%		500
<b>Subtotal</b>	<b>7.2</b>	<b>18,556</b>	<b>76%</b>		
Colour Life (1778 HK)		2,447	10%	50% stake in Colour Life's mkt value	
Home E&E		598	2%	10x 2017E EBIT; 65.3% stake	
Investment Properties		2,903	12%	6.5% cap rate on 2017E net rental	
<b>Total 2017E GAV</b>		<b>24,504</b>	<b>100%</b>		
2017E Net cash/ (debt)		(7,262)	(30%)		
<b>Total 2017E NAV</b>		<b>17,242</b>	<b>70%</b>		
No. of share outstanding (diluted)		5,761			
<b>NAV per share (RMB)</b>		<b>2.99</b>			
Ex rate		1.17			
<b>NAV per share (HKD)</b>		<b>3.50</b>			
Target discount (%)		60%			
<b>Target Price (HKD)</b>		<b>1.40</b>			
<b>WACC</b>	<b>11.6%</b>				
Cost of debt	8.0%				
Cost of Equity	20.0%				
<b>Debt/ ( Debt + Equity)</b>	<b>60%</b>				

Source(s): Company, ABCI Securities estimates

Our valuation of Fantasia is based on the discount-to-NAV method, one of the most common valuation metrics used for developers in China:

- **Property development:** we conduct a DCF analysis and apply a WACC of 11.6% to gauge the value of individual projects; total value of property development projects arrives at RMB 18.5bn.
- **Colour Life (1778 HK):** this is calculated based on Colour Life's market value and the Group's 50% stake in the HK-listed company. This adds RMB 2.4bn to the GAV.
- **Home E&E:** given the lack of transaction in the New Third Board, we apply 10x 2017E EBIT for its valuation, which is in line with China's PMC average. This segment represents RMB 0.6bn or 2% of GAV
- **Investment properties:** We apply a cap rate of 6.5% on 2017E net rental income to arrive at our estimate of RMB 2.9bn.

We subtract our 2016E net debt estimate (RMB 7.3bn) from the end-2017E GAV of RMB 24.5bn to derive our end-2017E NAV of RMB 17.2n, or HK\$ 3.50/share. We apply a 60% discount (the lower end of sector's discount range) to our NAV estimates and derive our TP of HK\$1.40, implying 7.2x 2017E P/E and 0.6x 2017E P/B.

Compared to the small-cap peers priced at 5.3x 2017E P/E with a 6.2% yield on average, Fantasia is slightly more expensive (5.5x 2017E P/E with a 5.4%

yield). However, we think the Group deserves a premium valuation for its fast-growing property management and O2O business that have a strong potential to become major drivers of the Group. We initiate **BUY** for the counter with a TP of HK\$ 1.40.

Exhibit 35: Valuation of the HK-listed Chinese developers

China Property	Ticker	Rating	TP	Mkt. cap	Shr Price	Performance			Discount	Valuation								
						3M	YTD	2015		to NAV	P/E			Yield (%)			P/B	
						(HKD bn)	(local ccy)	% Chg	% Chg		% Chg	(%)	2015A	2016E	2017E	2015A	2016E	2017E
<b>Residential :</b>																		
COLI	688 HK	BUY	31.70	274.5	25.05	0	(5)	22	(20.89)	8.3	7.2	5.4	3.7	4.2	5.6	1.2	1.2	1.1
Vanke-H	2202 HK	NR		321.1	19.88	26	(8)	30	(13.29)	17.8	9.2	7.8	4.2	4.7	5.6	1.9	1.7	1.5
CR Land	1109 HK	NR		140.0	20.20	12	(8)	13	(42.47)	9.9	8.2	7.0	2.8	3.3	3.8	1.2	1.1	0.9
Country Garden	2007 HK	NR		88.8	4.00	23	32	11	(32.17)	7.9	7.7	6.2	3.8	4.1	4.9	1.1	1.1	0.9
Longfor	960 HK	NR		66.8	11.44	16	3	19	(35.57)	8.3	7.1	6.2	3.6	4.0	4.6	1.0	0.9	0.8
Evergrande	3333 HK	BUY	7.30	76.6	5.60	17	(10)	143	(53.66)	34.9	11.3	4.8	7.9	4.4	10.4	0.5	0.6	0.6
Guangzhou R&F	2777 HK	NR		36.3	11.28	11	34	6	(36.14)	5.5	4.9	4.3	12.4	8.2	8.9	0.7	0.7	0.6
Shimao	813 HK	NR		36.0	10.50	6	(19)	(15)	(61.99)	5.0	4.8	4.4	6.3	6.5	7.1	0.6	0.6	0.5
SZI	604 HK	BUY	4.60	27.7	3.63	18	6	70	(60.21)	12.4	9.2	7.4	4.4	5.5	6.8	0.8	0.8	0.7
Sino Ocean	3377 HK	NR		26.6	3.54	10	(26)	18	(63.51)	9.5	7.0	5.8	3.4	4.9	5.8	0.5	0.5	0.5
Sunac	1918 HK	HOLD	5.40	18.2	5.35	8	(6)	(22)	(65.60)	4.5	5.0	4.5	4.2	3.6	4.0	0.8	0.7	0.6
Logan	3380 HK	BUY	4.70	19.0	3.42	20	37	13	(63.82)	7.5	6.3	5.3	4.1	4.4	5.8	1.2	1.1	0.9
Agile	3383 HK	NR		17.2	4.40	(0)	12	2	(60.51)	6.1	5.6	4.8	3.2	5.6	6.7	0.4	0.4	0.4
CIFI	884 HK	BUY	3.20	15.1	2.24	19	39	21	(61.91)	5.6	4.2	3.6	6.3	6.7	7.1	1.0	0.9	0.7
KWG	1813 HK	NR		14.7	4.83	10	(10)	14	(71.93)	4.4	4.0	3.6	7.0	7.6	8.6	0.6	0.5	0.5
Yuexiu Properties	123 HK	NR		15.1	1.22	27	(7)	(7)	(60.00)	10.5	9.5	7.9	3.8	3.9	4.6	0.4	0.4	0.4
Greentown	3900 HK	HOLD	6.10	14.3	6.60	17	(14)	0	(46.03)	16.3	10.1	6.8	0.0	2.0	2.9	0.5	0.5	0.5
Yuzhou	1628 HK	BUY	3.30	11.1	2.90	35	49	17	(65.28)	5.7	4.9	3.7	6.2	7.2	9.7	1.1	1.0	0.9
BJ Capital Land	2868 HK	NR		9.6	3.17	4	(3)	29	(42.36)	8.9	5.6	4.3	7.3	6.2	7.7	0.6	na	na
LVGEM	95 HK	BUY	2.70	11.6	2.47	18	3	9	(54.74)	273.6	15.3	6.8	0.4	2.3	5.2	2.2	2.0	1.7
<b>Fantasia</b>	<b>1777 HK</b>	<b>BUY</b>	<b>1.60</b>	<b>6.2</b>	<b>1.08</b>	<b>9</b>	<b>24</b>	<b>15</b>	<b>(69.16)</b>	<b>9.9</b>	<b>7.9</b>	<b>5.5</b>	<b>4.6</b>	<b>3.8</b>	<b>5.4</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>
Times Property	1233 HK	NR		6.2	3.61	20	42	(14)	NA	3.6	2.9	2.3	5.0	6.7	8.7	0.7	0.6	0.5
COGO	81 HK	NR		5.7	2.49	10	(24)	(17)	(73.05)	6.7	4.8	3.6	0.0	1.4	1.8	0.5	0.5	0.4
<b>HK Listed Avg</b>						<b>15</b>	<b>6</b>	<b>16</b>	<b>(52.47)</b>	<b>21.0</b>	<b>7.1</b>	<b>5.3</b>	<b>4.5</b>	<b>4.8</b>	<b>6.2</b>	<b>0.9</b>	<b>0.8</b>	<b>0.7</b>
- Large cap (>HKD30b), ex Evergrande						<b>13</b>	<b>4</b>	<b>12</b>	<b>(34.65)</b>	<b>8.9</b>	<b>7.0</b>	<b>5.9</b>	<b>5.3</b>	<b>5.0</b>	<b>5.8</b>	<b>1.1</b>	<b>1.0</b>	<b>0.9</b>
- Small-mid cap (<HKD30b), ex LVGEM						<b>15</b>	<b>7</b>	<b>10</b>	<b>(61.18)</b>	<b>7.8</b>	<b>6.1</b>	<b>4.9</b>	<b>4.2</b>	<b>5.1</b>	<b>6.2</b>	<b>0.7</b>	<b>0.6</b>	<b>0.6</b>

\*closing as at 7 Oct 2016

Source(s): Company, ABCI Securities estimates

Exhibit 28: Valuation of the PMCs in China

China Property	Ticker	Rating	TP	Mkt. cap	Shr Price	Performance			Discount	Valuation								
						3M	YTD	2015		to NAV	P/E			Yield (%)			P/B	
						(HKD bn)	(local ccy)	% Chg	% Chg		% Chg	(%)	2015A	2016E	2017E	2015A	2016E	2017E
<b>Property management:</b>																		
Colourlife	1778 HK	NR		6.0	6.01	5	(8)	(9)		30.7	17.1	13.2	1.6	1.9	2.6	4.1	3.5	2.9
COP	2669 HK	NR		5.5	1.66	39	33	na		46.7	na	na	0.7	na	na	8.7	na	na
Synergis	2340 HK	NR		0.4	1.19	2	(16)	(20)		7.5	na	na	5.2	na	na	1.8	na	na
Zhong Ao	1538 HK	NR		0.9	1.13	(12)	(42)	na		9.6	17.1	7.0	2.2	2.7	4.5	1.6	1.4	1.2
Greentown Services	2869 HK	NR		8.0	2.88	na	na	na		34.8	22.6	17.7	0.0	1.0	1.4	52.1	na	na
<b>PMC avg</b>						<b>9</b>	<b>(8)</b>	<b>(14)</b>		<b>25.9</b>	<b>18.9</b>	<b>12.7</b>	<b>1.9</b>	<b>1.9</b>	<b>2.8</b>	<b>13.6</b>	<b>2.5</b>	<b>2.1</b>

\*closing as at 7 Oct 2016

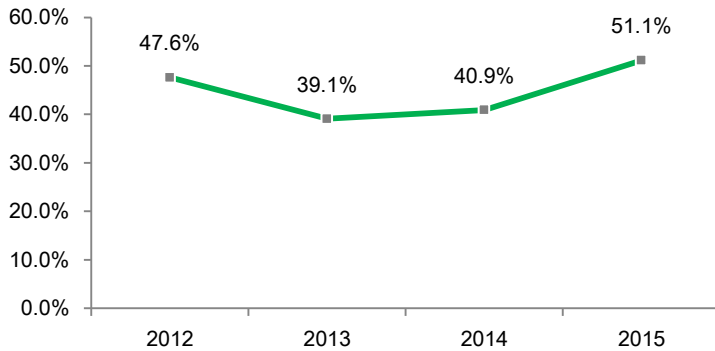
Source(s): Company, ABCI Securities estimates

## Risk factors

### Risks associated with property development business

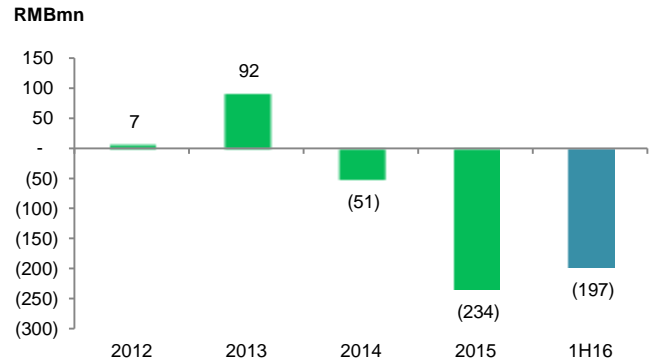
**Unrealized FX loss.** Non-RMB debts accounted for 51% of total borrowing as at Dec 2015. Due to the recent RMB depreciation, Fantasia registered a FX loss of RMB 234mn in 2014 and RMB 197mn in 2015. Further depreciation of RMB will result in higher exchange losses.

**Exhibit 29: % of non-RMB debt**



Source(s): Company, ABCI Securities

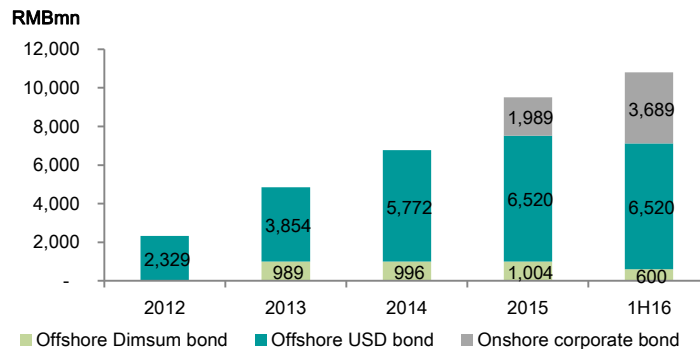
**Exhibit 30: FX gain and (loss)**



Source(s): Company, ABCI Securities

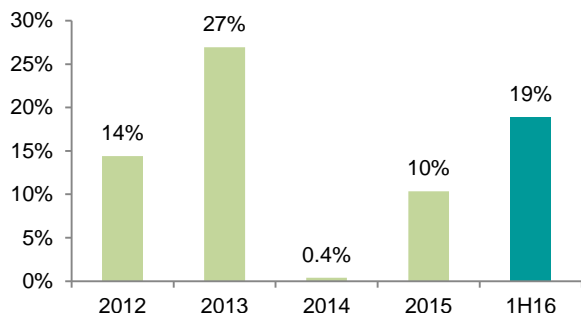
**Reliance on offshore bond market.** Size of Fantasia's offshore senior notes remains large. Offshore bond market tends to be volatile and sensitive to external economic environment such as interest rate and currency expectation. Due to the weak RMB demand offshore, Fantasia issued the RMB 600-dim sum bond in May 2016 at 9.5% coupon, higher than its dim sum bond with a 7.88% coupon issued in 2013 when RMB was expected to appreciate. Also, due to FX control, onshore RMB may not be remitted to overseas in time. Fantasia may have to refinance the bond at a higher coupon rate if liquidity in the bond market contracts.

**Exhibit 31: Aggregate amount of offshore and onshore senior notes**

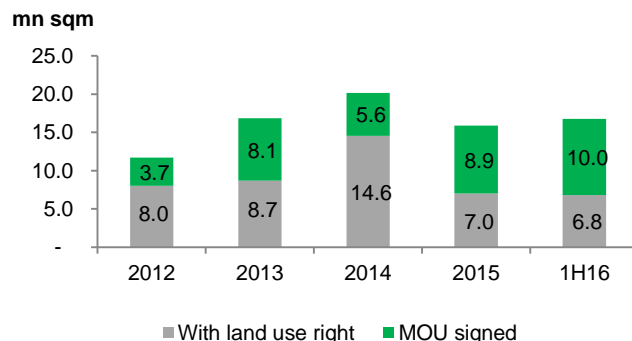


Source(s): Company, ABCI Securities

**Slower-than-peer growth in property development business.** Growth in Fantasia's property development has been much slower than peers. Presales growth was just 10% YoY in 2015 and 19% YoY in 1H16, below the national new home sales growth of 17% YoY for 2015 and 44% YoY for 1H16. The Group is selective in land acquisition, which contributes to its shrinking landbank that dropped 21% YoY to 15.9mn sqm in 2015. If the Group fails to expand its landbank, depletion in saleable resources and declining presales can be expected.

**Exhibit 32: Fantasia's presales YoY growth**


Source(s): Company, ABCI Securities

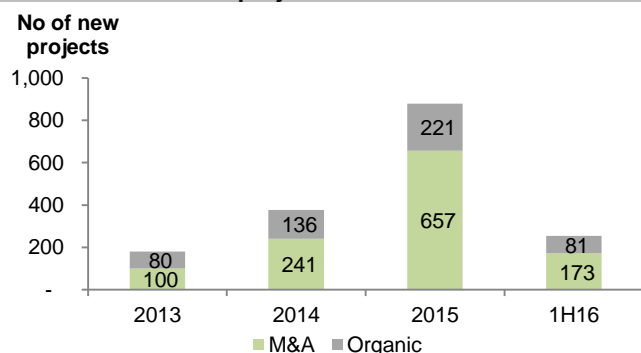
**Exhibit 33: Fantasia's land bank**


Source(s): Company, ABCI Securities

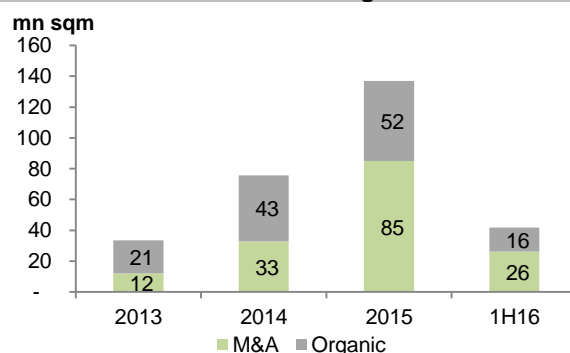
**Policy risks in property sector.** In 8 out of the 11 cities that Fantasia has covered (Shenzhen, Beijing, Shanghai, Nanjing, Suzhou, Tianjin, Wuxi and Wuhan), property tightening measures, such as increased down payment for 2<sup>nd</sup> home and home purchase restriction, were in place as of early Oct. This can be detrimental to sales.

### Risk factors associated with property management business

**Growth of property management business is highly dependent on acquisition.** Over 60% of Colour Life's new property management projects were obtained via acquisitions in the past few years. If the group cannot identify any desirable targets in the future, growth in the property management business may slow significantly. On the other hand, the Group may turn overly aggressive in acquisition, which can result in enormous financial burden, a stretched balance sheet, and an increased cost of debt.

**Exhibit 34: No. of new projects**


Source(s): Company, ABCI Securities

**Exhibit 35: New GFA under management**


Source(s): Company, ABCI Securities

**Integration risk.** Integrating an acquired entity into existing business usually present challenges. Cultural differences between companies could lead to conflicts and the loss of major talents, offsetting expected synergies from a merger. This is particular important in this labor-intensive industry.

**Online business is highly competitive.** For the past few years, Fantasia's fast-growing O2O business has not incurred any major operating losses. As the business grows, however, Fantasia may need to compete for online users or customers with rebates and incentives in the form of cash or equivalents, especially if they are considering a significant expansion. This will represent a



major expense for the O2O business and reduce profitability.

**Potential conflict of interest.** Fantasia has diversified away from its property development business to residential and commercial property management through Colour Life, Home E&E and its recent acquisition of Wanda Property Management. Investors could be confused by its overall business direction, and conflict of interest may arise among the 3 property management companies under the Group.





**Consolidated income statement (2014A-2018E)**

<b>FY Ended Dec 31 (RMB mn)</b>	<b>2014A</b>	<b>2015A</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>
<b>Revenue</b>	<b>7,306</b>	<b>8,164</b>	<b>9,667</b>	<b>10,732</b>	<b>12,395</b>
Cost of sales	(4,499)	(5,645)	(6,673)	(7,234)	(8,383)
<b>Gross Profit</b>	<b>2,807</b>	<b>2,519</b>	<b>2,995</b>	<b>3,498</b>	<b>4,011</b>
SG&A expenses	(855)	(1,060)	(1,331)	(1,451)	(1,842)
<b>EBIT</b>	<b>1,951</b>	<b>1,459</b>	<b>1,663</b>	<b>2,047</b>	<b>2,169</b>
Finance cost	(291)	(302)	(262)	(246)	(265)
Share of profit of associates	(13)	(7)	0	0	0
Other income/ (expenses)	23	30	0	0	0
Fair value gain of investment properties	672	890	0	0	0
Disposal/one-off items	187	652	0	0	0
<b>Profit before tax</b>	<b>2,530</b>	<b>2,722</b>	<b>1,402</b>	<b>1,801</b>	<b>1,905</b>
Tax	(1,157)	(1,319)	(621)	(760)	(821)
<b>Profit after tax</b>	<b>1,372</b>	<b>1,403</b>	<b>781</b>	<b>1,041</b>	<b>1,083</b>
Minority interest	(117)	(192)	(101)	(75)	(82)
<b>Reported net profit</b>	<b>1,255</b>	<b>1,211</b>	<b>680</b>	<b>966</b>	<b>1,001</b>
<i>Less: exceptional items</i>	<i>(504)</i>	<i>(667)</i>	<i>0</i>	<i>0</i>	<i>0</i>
<b>Underlying net profit</b>	<b>752</b>	<b>544</b>	<b>680</b>	<b>966</b>	<b>1,001</b>
<b>Per share</b>					
Underlying EPS (RMB)	0.13	0.09	0.12	0.17	0.17
DPS (RMB)	0.05	0.05	0.04	0.06	0.06
Payout ratio (%)	41%	53%	35%	35%	35%
BVPS (RMB)	1.64	1.81	1.88	1.99	2.11
<b>Growth %</b>					
Revenue	0.4%	11.7%	18.4%	11.0%	15.5%
Gross Profit	0.5%	-10.3%	18.9%	16.8%	14.7%
EBIT	-2.0%	-25.2%	14.0%	23.1%	6.0%
Underlying net profit	-30.5%	-27.7%	25.1%	42.1%	3.6%
<b>Margin %</b>					
Gross margin	38.4%	30.9%	31.0%	32.6%	32.4%
Gross margin (post-LAT)	37.1%	33.2%	34.9%	38.2%	38.6%
EBIT margin	26.7%	17.9%	17.2%	19.1%	17.5%
Core net margin	10.1%	3.1%	8.1%	9.7%	8.7%
<b>Key assumptions</b>					
Contracted Sales (RMBmn)	10,214	11,272	14,247	15,319	19,605
GFA sold (m sqm)	1.38	1.29	1.14	1.30	1.65
ASP (RMB/sqm)	7,394	8,745	12,484	11,760	11,907
Booked Sales (RMB)	6,535	6,562	7,551	8,086	9,210
GFA delivered (mn sqm)	1.07	0.99	0.60	0.66	0.77
Booked ASP (RMB/sqm)	6,092	6,661	12,484	12,301	11,956

Source: Company, ABCI Securities estimates



**Consolidated balance sheet (2014A-2018E)**

As of Dec 31 (RMB mn)	2014A	2015A	2016E	2017E	2018E
<b>Current assets</b>	<b>28,250</b>	<b>31,242</b>	<b>37,858</b>	<b>43,616</b>	<b>56,258</b>
Cash	3,738	2,882	4,694	4,879	7,838
Restricted cash	915	1,336	1,336	1,336	1,336
Trade & other receivables	3,873	4,604	4,604	4,604	4,604
Property under development	19,477	21,836	26,640	32,212	41,896
Other current assets	247	584	584	584	584
<b>Non-current assets</b>	<b>13,004</b>	<b>13,309</b>	<b>13,173</b>	<b>13,005</b>	<b>12,800</b>
Property, plant & equipment	1,542	1,767	1,631	1,463	1,258
Investment properties	6,642	6,885	6,885	6,885	6,885
Investment in Associate and JCE	612	417	417	417	417
Other non-current assets	4,208	4,240	4,240	4,240	4,240
<b>Total Assets</b>	<b>41,254</b>	<b>44,551</b>	<b>51,031</b>	<b>56,621</b>	<b>69,058</b>
<b>Current Liabilities</b>	<b>18,234</b>	<b>19,684</b>	<b>26,380</b>	<b>31,315</b>	<b>43,068</b>
Short term borrowings	4,869	2,412	2,412	2,412	4,412
Trade & other payables	5,516	6,627	6,627	6,627	6,627
Pre-sales deposits	3,387	5,556	12,252	17,187	26,939
Other current assets	4,462	5,089	5,089	5,089	5,089
<b>Non-current liabilities</b>	<b>11,608</b>	<b>12,627</b>	<b>12,627</b>	<b>12,627</b>	<b>12,627</b>
Long term borrowings	9,674	11,065	11,065	11,065	11,065
Other payables	0	0	0	0	0
Other non-current assets	1,935	1,562	1,562	1,562	1,562
<b>Total Liabilities</b>	<b>29,842</b>	<b>32,311</b>	<b>39,007</b>	<b>43,942</b>	<b>55,695</b>
<b>Net Assets</b>	<b>11,412</b>	<b>12,240</b>	<b>12,024</b>	<b>12,679</b>	<b>13,364</b>
<b>Shareholders' Equity</b>	<b>9,453</b>	<b>10,408</b>	<b>10,852</b>	<b>11,481</b>	<b>12,134</b>
Minority Interest	1,249	1,121	1,172	1,197	1,230
Perpetual capital instrument	711	711	0	0	0
<b>Total Equity</b>	<b>10,702</b>	<b>11,530</b>	<b>12,024</b>	<b>12,679</b>	<b>13,364</b>
<b>Key ratio</b>					
Gross debt (RMBmn)	14,543	13,477	13,477	13,477	15,477
Net debt (RMBmn)	9,890	9,259	7,447	7,262	6,303
Net gearing (%)	87%	76%	62%	57%	47%
Contracted sales/ Total assets (x)	0.25	0.25	0.28	0.27	0.28

Source(s): Company, ABCI Securities estimates



**Consolidated cash flow statement (2013A-2017E)**

<b>FY ended Dec 31 (RMB mn)</b>	<b>2014A</b>	<b>2015A</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>
EBITDA	2,042	1,589	1,820	2,234	2,394
Change in Working Capital	137	255	2,776	194	963
Tax payment	(766)	(522)	(621)	(760)	(821)
<b>Operating cash flow</b>	<b>1,413</b>	<b>1,323</b>	<b>3,975</b>	<b>1,669</b>	<b>2,536</b>
Purchase of PP&E	(570)	(424)	(20)	(20)	(20)
Addition of Investment Properties	(653)	(604)	0	0	0
Others	(608)	4	0	0	0
<b>Investing cash flow</b>	<b>(1,831)</b>	<b>(1,024)</b>	<b>(20)</b>	<b>(20)</b>	<b>(20)</b>
Debt raised	10,368	4,794	4,000	4,000	4,000
Debt repaid	(6,857)	(6,565)	(4,000)	(4,000)	(2,000)
Interest expenses	(1,026)	(1,120)	(1,146)	(1,078)	(1,158)
Equity raised	(1,831)	(1,024)	(20)	(20)	(20)
Dividend to shareholders	(306)	(245)	(237)	(336)	(348)
Others	3,161	1,244	(741)	(30)	(30)
<b>Financing cash flow</b>	<b>3,510</b>	<b>(2,916)</b>	<b>(2,143)</b>	<b>(1,464)</b>	<b>444</b>
<b>Net cash inflow/ (outflow)</b>	<b>3,092</b>	<b>(2,617)</b>	<b>1,812</b>	<b>185</b>	<b>2,959</b>
Cash- beginning	2,777	3,738	2,882	4,694	4,879
<b>Cash- year-end</b>	<b>5,869</b>	<b>1,121</b>	<b>4,694</b>	<b>4,879</b>	<b>7,838</b>

Source(s): Company, ABCI Securities estimates

## Disclosures

### Analyst Certification

I, Tung Yiu Kei, Kenneth, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

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### Definition of equity rating

Rating	Definition
Buy	Stock return $\geq$ Market return rate
Hold	Market return – 6% $\leq$ Stock return < Market return rate
Sell	Stock return < Market return – 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate

Time horizon of share price target: 12-month

### Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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