March 27, 2014
Company Report
Rating: BUY
TP: HK$ 9.70

Share price (HK$)	7.90
Est. share price return	22.8%
Est. dividend yield	7.6%
Est. total return	30.3%
Previous Rating &TP	BUY; HK$ 17.60
Previous Report Date	Nov 22, 2013

Analyst : Kenneth Tung
Tel: (852) 2147 8311
Email: kennethtung@abci.com.hk

Key Data

52Wk H/L(HK$)	16.76/7.79
Issued shares (mn)	2,159
Market cap	17,053
3-mth avg daily turnover (HK$ mn)	40.1
Major shareholder(s) (%):	
SONG Wei Ping	33.1
SOU Bainian	23.5
Wharf	24.6

Source(s): Company, Bloomberg, ABCI Securities

FY13 Revenue breakdown (%)

Property Development	94.7
Property Investment	0.4
Project Management	1.2
Others	3.7

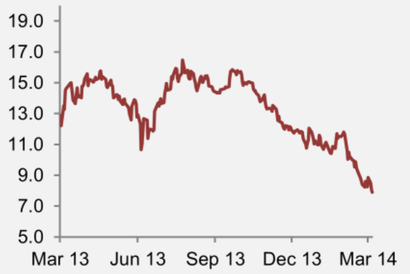
Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	(25.3)	(23.6)
3-mth	(33.3)	(29.3)
6-mth	(45.0)	(41.7)

*Relative to HSI
Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK$)



Source(s): Bloomberg, ABCI Securities

Greentown (3900 HK)

Slow-but-steady grower at bargain valuation

- Core profit grew 4.4% YoY to RMB 4,443mn, 14.6% below our forecast
- Greentown's 2014 presales target of RMB 65bn implies a flat growth yoy; gross margin is expected to be 27%-28%
- As the top developer in Hangzhou, Greentown is likely to suffer from declining transaction volume and ASP in the city given the ample supply
- The Group's subsidiary, Greentown Construction, currently manages 60 projects with 16mn sqm GFA, generating a project management fee of RMB350mn (+38% YoY) in FY13
- Maintain **BUY** with revised TP of HK$ 9.70, based on a 60% discount to our revised end-2014E NAV of HK$ 24.3/share

FY13 results below expectation. Greentown's FY13 core profit grew by a mere 4.4% YoY to RMB 4,443mn, 14.6% lower than our forecast of RMB 5,203mn, mainly because of the lower-than-expected margin. Gross margin for property sales dropped from 29.2% in FY12 to 28.4% in FY13. In the face of a slowing property market (especially in Hangzhou), we believe ASPs of Greentown's luxury products is likely to be adjusted down to facilitate sell-through, reducing margin in the future. Separately, the Group's gearing grew from 64% in FY12 to 77% in FY13, as new land acquisitions of 3.36mn sqm in FY13 reached RMB 24.3bn (attributable: RMB 10.4bn). DPS fell 15% to RMB 0.43. Overall, Greentown's FY13 results were weaker than expected.

Slower growth in 2014. Greentown set a prudent presales target of RMB 65bn for 2014, similar to presale achieved in 2013 at RMB 62bn. With estimated saleable resources of RMB 130bn in 2014, the Group would be able to achieve the target with a 50% sell-through rate, higher than the 42% in 2013. Greentown estimates a 60% sell-through for the new saleable resources of RMB 60bn in 2014, and a 40% sell-through for the remaining saleable resources of RMB70bn carried over from 2013. Margin-wise, management expects a gross margin of 27%-28% for the next few years amid China's softening property market.

Headwinds may persist in Hangzhou. In 2013, Greentown's presales in Hangzhou reached RMB 18.8bn and was ranked first in the city according to CRIC. Recent price cut in Hangzhou by some developers has triggered market's concern on potential oversupply in the region. Greentown's share price has been weak (dropped 25% MoM), given the Group's substantial exposure in Hangzhou. Management commented that property sale in the city is likely to slow as demand-supply divergence widens further. Total Inventory in Hangzhou by end-2013 was equivalent to 15 months of sale, hence property price had stayed flat . However, Greentown has diversified its geographical mix via the Sunac-Greentown JV platform, and exposure in Shanghai, where supply has been tight, increased. In 2013, the Sunac-Greentown JV was ranked third in terms of presale in Shanghai. *(continue next page)*

Results and Valuation

FY ended Dec 31	2012A	2013A	2014E	2015E	2016E
Revenue (RMB mn)	35,393	28,991	27,388	32,839	38,422
Chg (% YoY)	61.1	(18.1)	(5.5)	19.9	17.0
Core net profit (RMB mn)	4,257	4,443	5,169	5,862	7,206
Chg (% YoY)	70.9	4.4	16.3	13.4	22.9
Underlying EPS (RMB)	1.85	1.76	2.05	2.33	2.86
Chg (% YoY)	21.5	(4.5)	16.5	13.4	22.9
BVPS (RMB)	8.89	10.62	12.46	14.57	17.26
Chg (% YoY)	22.1	19.4	17.3	16.9	18.4
Underlying PE (x)	3.4	3.6	3.1	2.7	2.2
PB (x)	0.7	0.6	0.5	0.4	0.4
ROE (%)	20.1	17.8	17.9	17.5	18.4
ROA (%)	4.0	3.6	3.7	4.1	4.5
DPS (RMB)	0.50	0.43	0.48	0.53	0.58
Dividend yield (%)	7.9	6.8	7.6	8.4	9.2
Net gearing (%)	63.7	77.1	61.0	46.9	Net cash

*Net gearing=Net debt/Total Shareholders' equity
Source(s): Bloomberg, ABCI Securities estimates

Exhibit 1: Developers' presale in Hangzhou in 2013

	Developer	2013 presales RMB bn
1	**Greentown**	**18.8**
2	Vanke	8.2
3	Hangzhou Binjiang	7.9
4	Longfor	6.1
5	COLI	5.5
6	Gemdale	4.5
7	Dothink Group	4.0
8	Shimao	3.1
9	Sino Ocean	2.7
10	Poly	2.3

Source(s): CRIC, ABCI Securities

Exhibit 2 : Developers' presale in Shanghai in 2013

	Developer	2013 presales RMB bn
1	Greenland	24.3
2	Vanke	14.5
3	**Sunac-Greentown**	**11.4**
4	COLI	8.6
5	Dahua Group	8.5
6	Poly	7.7
7	Hutchison	7.0
8	Future Land	6.5
9	Shanghai Chengtou	6.0
10	Overseas Chinese Town	5.9

Source(s): CRIC, ABCI Securities

Asset-light subsidy to contribute in future. Greentown Construction (GC), a fully-owned subsidiary of Greentown established 3 years ago, engages in third-party construction management. GC normally collects 5%-7% of a project's presale revenue as management fee, while land, construction and finance costs of the projects will be provided by the project owners. As of 2013, GC managed over 60 projects with an aggregate GFA of 16mn sqm. Although current revenue size is still small at RMB 350mn (+38% YoY) for FY13, GC's revenue can easily reach RMB 1.2bn if overall presales revenue of its projects reaches RMB 20bn (approx. one-third of Greentown's Group level presales) a year. Also, the fact that GC's business model does not require any land and construction capex may help contribute to a healthier balance sheet for the Group as its business scale expands.

Maintain BUY on bargain valuation with revised TP of HK$ 9.70. Taking into account of Greentown's recent land acquisitions and slower sales based on its on conservative guidance for 2014, we cut our 2014E/15E core profit forecasts by 17%/19%. TP is revised down to HK$ 9.70 (from HK$ 17.60) on a higher WACC assumption (from 10.4% to 11.8%) to factor in increased risks related to Greentown's exposure in Hangzhou. Nonetheless, its current valuation at 3.0x FY14E P/E, or 68% discount to end-FY14E NAV, and the implied FY14E dividend yield of 7.6% all unanimously point to a good buying opportunity. Maintain **BUY**.

.

Risk factors: 1) High cost of new sites acquired may slash margins; 2) Slowing sales growth due to high base; 3) Further tightening measures on property sector.

Exhibit 3: Greentown's FY13 results

P&L	FY13	FY12	YoY Chg
	RMB mn	RMB mn	(%)
Turnover	**28,991**	**35,393**	***(18.1)***
Cost of Sales & direct operating costs	(20,215)	(24,679)	*(18.1)*
Gross Profit	**8,775**	**10,714**	***(18.1)***
Gross Margin (%)	***30.3***	***30.3***	***(0.0)***
Selling and distribution costs	(849)	(665)	*27.6*
Administrative expense	(1,492)	(1,404)	*6.2*
EBIT	**6,435**	**8,645**	***(25.6)***
EBIT Margin (%)	***22.2***	***24.4***	***-2.2ppt***
Other income	728	1,001	*(27.2)*
Fair Value gains on IP and other exceptional items	919	663	*na*
Share of profit from JCE/ Associates	1,570	513	*205.8*
Finance cost	(507)	(564)	*(10.2)*
Profit before tax	**9,146**	**10,257**	*(10.8)*
Tax	**(3,156)**	**(4,204)**	***(24.9)***
- LAT	(1,253)	(2,066)	*(39.3)*
- Enterprise tax	(1,903)	(2,138)	*(11.0)*
Profit after tax	**5,990**	**6,053**	*(1.0)*
Minority Interest	(1,105)	(1,202)	*(8.1)*
Net profit	**4,886**	**4,851**	*0.7*
Core net profit	**4,443**	**4,257**	*4.4*
Core net margin	***15.3***	***12.0***	

Operating statistics	FY13	FY12	YoY Chg %
Presales GFA (mn sqm)	3.09	2.58	*19.6*
Presales ASP (RMB/sqm)	20,097	19,772	*1.6*
Presales Sales (RMB mn)	**62,100**	**51,071**	*21.6*
GFA Delivered- Subsid + JV (mn sqm)	3.16	2.59	*21.8*
Booked ASP- Subsid + JV (RMB/sqm)	19,124	16,999	*12.5*
Property sales booked- Subsid + JV (RMB mn)	**60,381**	**44,063**	***37.0***

Balance sheet	Dec-13	Dec-12	YoY chg
	RMB mn	**RMB mn**	*ppt*
Gross debt	30,512	21,373	*42.8*
Cash	11,281	7,898	*42.8*
Net debt	**19,230**	**13,475**	*42.7*
Net gearing (%)	**77.1**	**63.7**	*13.3*

Source(s): Companies, ABCI Securities

Exhibit 4: Greentown's land acquisition in FY13

Projects	Total consideration RMB mn	Total GFA mn sqm	Land cost per sqm RMB/sqm	Stake (%)	Consideration RMB mn	Attributable GFA mn sqm
Hangzhou Melodious Manor	645	0.124	5,202	25%	161	0.03
Hangzhou Zhijiang No.1	1,200	0.526	2,281	25%	300	0.13
Shanghai Dynasty on the Bund	7,996	0.675	11,846	50%	3,998	0.34
Hangzhou Xin Hua Yuan	357	0.143	2,497	30%	107	0.04
Hangzhou Wulin Plaza Metro	3,000	0.242	12,397	45%	1,350	0.11
Shanghai Hongkou Project	1,044	0.039	26,769	26%	266	0.01
Shanghai Central Garden	2,276	0.468	4,863	30%	685	0.14
Yuyao Mingyuan	1,633	0.373	4,378	47%	768	0.18
Yiwu Jiangbin Road South	2,987	0.402	7,430	35%	1,045	0.14
Hangzhou Qiantang Mingyue	2,653	0.190	13,963	50%	1,327	0.10
Xinchang Qixing	518	0.174	2,977	80%	414	0.14
Total	**24,309**	**3.356**	**7,243**		**10,421**	**1.35**

Source(s): Companies, ABCI Securities

Exhibit 5: Greentown's FY14E NAV

	Attr. GFA (M sqm)	Net assets value (RMB m)	% of total	Valuation Method	Implied value per sqm (RMB)
Property development					
Hangzhou	3.6	10,798	18%	DCF at WACC of 11.8%	3,017
Shanghai	0.9	10,248	17%		11,520
Zhoushan	3.2	6,645	11%		2,087
Qingdao	3.2	3,531	6%		1,111
Hainan	0.9	3,351	6%		3,920
Others cities	13.4	23,836	39%		1,785
Subtotal	**25.0**	**58,410**	**96%**		**2,333**
Investment Properties		1,018	2%	6% cap rate on net rental income	
Greentown Construction		910	1%	4x 2014E PE	
Hotels		577	1%	5x EBITDA multiple	
Total GAV		**60,915**	**100%**		
2014E Net debt & perpetual convertible securities		(19,715)	(32%)		
Total NAV		**41,200**	**68%**		
No. of share outstanding		2,153			
NAV per share (RMB)		**19.1**			
Exchage rate (HKD/RMB)		1.27			
NAV per share (HKD)		**24.3**			
Target discount (%)		60%			
Target Price (HKD)		**9.70**			

WACC	**11.8%**
Cost of Debt	8.0%
Cost of Equity	20.0%
Debt/ (Debt + Equity)	**58%**

Source(s): Company, ABCI Securities estimates

Consolidated income statement (2012A-2016E)

FY Ended Dec 31 (RMB mn)	2012A	2013A	2014E	2015E	2016E
Revenue	**35,393**	**28,991**	**27,388**	**32,839**	**38,422**
Cost of sales	(24,679)	(20,215)	(18,184)	(22,357)	(26,484)
Gross Profit	**10,714**	**8,775**	**9,204**	**10,482**	**11,938**
SG&A expenses	(2,069)	(2,340)	(2,656)	(2,884)	(3,132)
EBIT	**8,645**	**6,435**	**6,548**	**7,598**	**8,806**
Finance cost	(564)	(507)	(406)	(406)	(345)
Share of profit of associates	513	1,570	2,970	3,257	4,203
Other income/ (expenses)	1,001	728	1,174	1,275	1,435
Fair value gain of investment properties	0	0	0	0	0
Disposal/one-off items	663	919	0	0	0
Profit before tax	**10,257**	**9,146**	**10,287**	**11,724**	**14,100**
Tax	(4,204)	(3,156)	(4,040)	(4,552)	(5,359)
Profit after tax	**6,053**	**5,990**	**6,247**	**7,172**	**8,740**
Minority interest	(1,202)	(1,105)	(1,078)	(1,310)	(1,534)
Reported net profit	**4,851**	**4,886**	**5,169**	**5,862**	**7,206**
Less: exceptional items	*(594)*	*(443)*	*0*	*0*	*0*
Underlying net profit	**4,257**	**4,443**	**5,169**	**5,862**	**7,206**
Per share					
Underlying EPS (RMB)	1.85	1.76	2.05	2.33	2.86
DPS (RMB)	0.5	0.43	0.48	0.53	0.58
Payout ratio (%)	27%	24%	23%	23%	20%
BVPS (RMB)	8.89	10.62	12.46	14.57	17.26
Growth %					
Revenue	61.10%	(18.10%)	(5.50%)	19.90%	17.00%
Gross Profit	44.60%	(18.10%)	4.90%	13.90%	13.90%
EBIT	57.50%	(25.60%)	1.80%	16.00%	15.90%
Underlying net profit	70.90%	4.40%	16.30%	13.40%	22.90%
Margin %					
Gross margin	30.30%	30.30%	33.60%	31.90%	31.10%
Gross margin (post-LAT)	24.40%	25.90%	26.50%	25.30%	24.70%
EBIT margin	24.40%	22.20%	23.90%	23.10%	22.90%
Core net margin	14.20%	12.90%	12.00%	11.90%	11.80%
Key assumptions					
Presales (RMB mn)	51,071	62,100	72,495	92,281	137,123
GFA sold (mn sqm)	2.58	3.09	3.2	4.20	6.00
ASP (RMB/sqm)	19,772	20,097	22,654	21,958	22,851
Booked Sales (RMB)	34,214	27,460	26,096	31,436	36,899
GFA delivered (mn sqm)	1.91	1.65	1.23	1.54	1.82
Booked ASP (RMB/sqm)	17,894	16,604	21,138	20,469	20,268

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2012A-2016E)

As of Dec 31 (RMB mn)	2012A	2013A	2014E	2015E	2016E
Current assets	**93,334**	**101,622**	**117,118**	**122,404**	**136,811**
Cash	6,164	10,686	17,286	14,244	25,771
Restricted cash	1,734	595	595	595	595
Trade & other receivables	4,713	4,381	4,381	4,381	4,381
Property under development	50,543	52,132	61,028	69,356	72,235
Other current assets	30,180	33,828	33,828	33,828	33,828
Non-current assets	**14,373**	**20,714**	**21,343**	**21,964**	**22,577**
Property, plant & equipment	3,675	4,864	5,194	5,515	5,827
Investment properties	1,731	1,832	1,832	1,832	1,832
Investment in Associate and JCE	7,577	11,864	12,164	12,464	12,764
Other non-current assets	1,390	2,154	2,154	2,154	2,154
Total Assets	**107,707**	**122,336**	**138,461**	**144,369**	**159,387**
Current Liabilities	**73,562**	**65,127**	**76,196**	**76,299**	**84,053**
Short term borrowings	15,256	6,018	11,018	6,018	1,018
Trade & other payables	15,959	17,911	17,911	17,911	17,911
Pre-sales deposits	28,848	23,428	29,497	34,600	47,354
Other current liabilities	13,500	17,770	17,770	17,770	17,770
Non-current liabilities	**6,657**	**25,197**	**25,197**	**25,197**	**25,197**
Long term borrowings	6,118	24,494	24,494	24,494	24,494
Other payables	0	0	0	0	0
Other non-current liabilities	539	704	704	704	704
Total Liabilities	**80,219**	**90,325**	**101,393**	**101,497**	**109,251**
Net Assets	**27,488**	**32,011**	**37,068**	**42,872**	**50,137**
Shareholders Equity	**19,058**	**22,863**	**26,821**	**31,365**	**37,146**
Perpetual Convertible Securities	2,084	2,084	2,084	2,084	2,084
Minority Interest	6,346	7,064	8,092	9,352	10,836
Total Equity	**27,488**	**32,011**	**36,997**	**42,801**	**50,066**
Key ratio					
Gross debt (RMB mn)	21,373	30,512	35,512	30,512	25,512
Net debt (RMB mn)	13,475	19,230	17,631	15,672	(855)
Net gearing (%)	64%	77%	61%	47%	Net cash
Presales / Total assets (x)	0.47	0.51	0.52	0.64	0.86

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2012A-2016E)

FY ended Dec 31 (RMB mn)	2012A	2013A	2014E	2015E	2016E
EBITDA	8,814	6,593	6,719	7,777	8,994
Change in Working Capital	(3,006)	(2,178)	(526)	(924)	11,827
Tax payment	(1,109)	(3,156)	(4,040)	(4,552)	(5,359)
Operating cash flow	**4,700**	**1,259**	**2,152**	**2,301**	**15,462**
Purchase of PP&E	(1,078)	(500)	(500)	(500)	(500)
Addition of Investment Properties	5	-	-	-	-
Investment in Associate/ JCE	(50)	(7,312)	(100)	(100)	(100)
Proceeds from Disposals	7,603	-	-	-	-
Others	231	1,784	3,945	4,332	5,438
Investing cash flow	**6,712**	**(6,027)**	**3,345**	**3,732**	**4,838**
Debt raised	11,483	15,000	15,000	10,000	10,000
Debt repaid	(18,695)	(2,055)	(10,000)	(15,000)	(15,000)
Interest expenses	(3,586)	(2,431)	(2,707)	(2,707)	(2,297)
Equity raised	2,075	-	-	-	-
Convertible securities raised	2,084	-	-	-	-
Dividend to shareholders	(164)	(1,103)	(1,210)	(1,318)	(1,426)
Others	(2,060)	(50)	(50)	(50)	(50)
Financing cash flow	**(8,863)**	**9,361**	**1,033**	**(9,075)**	**(8,773)**
Net cash inflow/ (outflow)	**2,548**	**4,593**	**6,529**	**(3,042)**	**11,527**
Cash- beginning	3,615	6,164	10,757	17,286	14,244
Cash- year-end	**6,164**	**10,757**	**17,286**	**14,244**	**25,771**

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.

Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates may pursue financial interests to the companies mentioned in the report.

Definition of equity rating

Rating	Definition
Buy	Stock return ≥ Market return rate
Hold	Market return – 6% ≤ 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 from 2009-2013
Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	2.6 ≤180 day volatility/180 day benchmark index volatility
High	1.5 ≤ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	1.0 ≤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.

Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the

revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.
ABCI Securities Company Limited and/or its affiliates may pursue financial interests to the companies mentioned in the report.
ABCI Securities Company Limited and/or its affiliates, within the past 12 months, have investment banking relationship with one or more of the companies mentioned in the report.

Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.
Tel: (852) 2868 2183