



January 23, 2015
Company Report
Rating: BUY
TP: HK\$ 3.30

Share price (HK\$) 2.29
Est. share price return 44.1%
Est. dividend yield 4.5%
Est. total return 48.6%

Previous Rating & TP HOLD; HK\$ 2.30
Previous Report Date Aug 20, 2014

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Key Data

52Wk H/L(HK\$)	2.76/1.79
Issued shares (mn)	9,162
Market cap (HK\$ mn)	21,038
3-mth avg daily turnover (HK\$ mn)	22.2
Major shareholder(s) (%):	
Sinochem Group	62.90

Source(s): Company, Bloomberg, ABCI Securities

FY13 Revenue breakdown (%)

Property Development	46.9
Property Leasing	6.0
Hotels	9.9
Land Development	34.6
Others	2.6

Source(s): Company, ABCI Securities

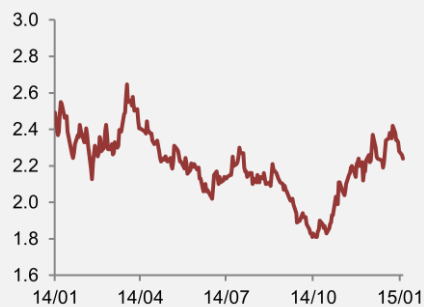
Share performance (%)

	Absolute	Relative*
1-mth	3.1	(1.7)
3-mth	22.1	16.2
6-mth	3.1	1.7

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Franshion (817 HK)

SOE play at bargain price; top BUY of the sector

- Presales rebounded 97% YoY to RMB4.1bn in Dec; we expect strong sales momentum to continue in 2015 on low base and land market recovery
- Share buyback of HK\$207mn (1% of total outstanding shares) reflects management's confidence in the company
- Upgrade to **BUY** from Hold with a revised TP of HK\$ 3.30 (from HK\$ 2.30) based on a 50% (from 60%) discount to FY15E NAV

Meaningful rebound in December. In Dec 2014, Franshion achieved record sales of RMB 4.1bn, up 97%YoY. The Group also registered land sales of RMB 1,692mn with an ASP of RMB 2,616/sqm, 12% lower than RMB 2,977/sqm in FY13. For the full year, Franshion's property sales rose 27% YoY to RMB 18.5bn while land sales declined 54%YoY to RMB 3bn. Although the total sales were below 80% of the reduced target (i.e. RMB 24bn, including RMB 6bn from land sales), we expect its 2015 presales to rebound on the low base 2014 and improved sentiment in the property market. In particular, we believe Franshion has deferred its land sales to 2015 to avoid oversupply in the market and stabilize land price (Franshion's ASP for land sales dropped 3% YoY only to RMB 2,879/sqm in 2014). We expect ASP for its Meixi Lake land parcels to rise by 10% YoY upon market recovery in 2015.

Share buyback of HK\$ 207mn in Nov and Dec. Franshion purchased a total of 93.3mn shares (1% of its total outstanding shares) in the open market at HK\$207mn, or HK\$2.23/share on average in the last 2 months of 2014. We think the buyback reflects the management's belief that the Group's shares are severely undervalued.

SOE developer with the most attractive price; upgrade to BUY. Franshion's valuations at 6.4x FY15E P/E and 66% discount to FY15E NAV are the lowest among the SOE developers (COLI: 8.1x FY15E P/E, 15% discount to FY15E NAV; CR Land: 9.3x FY15E P/E, 25% discount to FY15E NAV). We adjust our FY15E NAV forecast up to HK\$ 6.64 (from HK\$ 5.78) on stronger-than-expected sales momentum observed in Dec. Our TP of HK\$3.30 is based on 50% to NAV (from 60%), as we expect SOE developers would be rewarded with higher valuations based on their lower litigation risk than the small/mid-cap, non-SOE developers. Upgrade Franshion from Hold to **BUY**. The Group is our top pick for China property sector.

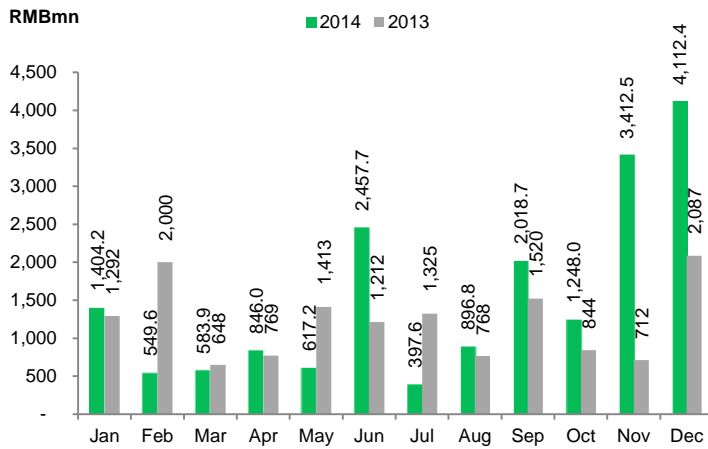
Risk factors: 1) Rising litigation risks across sector; 2) Further slowdown in land sales.

Results and Valuation

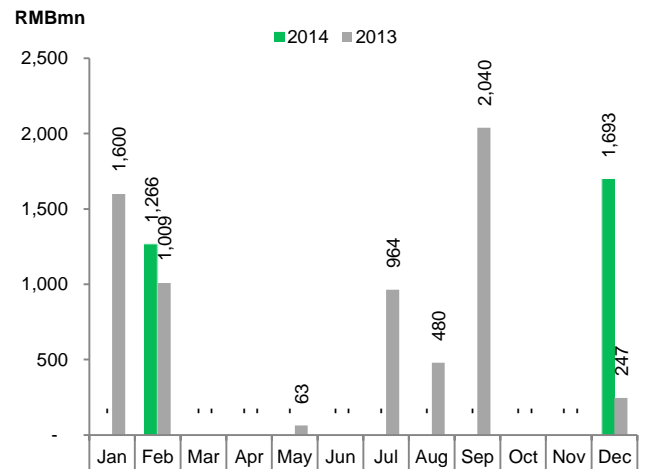
FY ended Dec 31	2012A	2013A	2014E	2015E	2016E
Revenue (HK\$ mn)	17,176	20,719	33,966	35,063	39,451
Chg (% YoY)	160.6	20.6	63.9	3.2	12.5
Core net profit (HK\$ mn)	2,154	2,910	3,131	3,532	4,714
Chg (% YoY)	48.0	35.1	7.6	12.8	33.5
Core EPS (HK\$)	0.23	0.30	0.32	0.36	0.47
Chg (% YoY)	39.6	30.7	7.8	11.6	30.8
BVPS (HK\$)	2.58	3.07	3.32	3.59	3.95
Chg (% YoY)	11.5	18.8	8.2	8.2	10.1
Core PE (x)	10.0	7.7	7.1	6.4	4.9
PB (x)	0.9	0.7	0.7	0.6	0.6
ROE (%)	8.9	10.0	10.1	10.6	12.8
ROA (%)	2.6	2.4	2.5	2.7	3.5
DPS (HK\$)	0.07	0.10	0.10	0.12	0.16
Dividend yield (%)	3.1	4.1	4.5	5.1	6.8
Net gearing (%)	51.3	62.6	72.3	36.4	4.8

*Net gearing=Net debt/Total equity

Source(s): Bloomberg, ABCI Securities estimates

Exhibit 1: Franshion's presales performance (residential and commercial) in 2013-July 2014
Exhibit 2: Franshion's land sales in 2013-July 2014


Source(s): Company; ABCI Securities

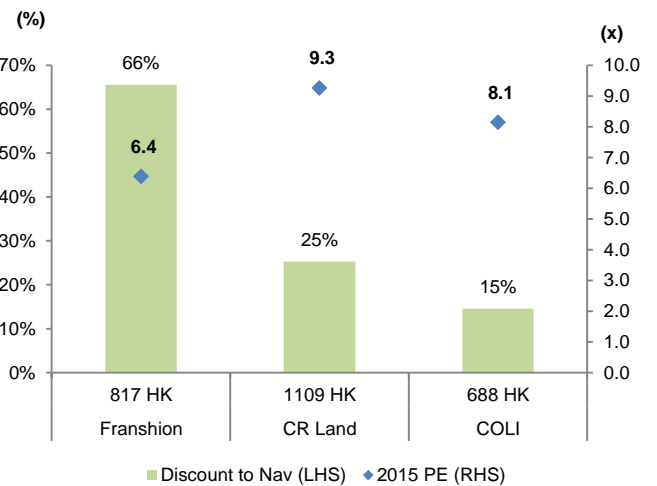


Source(s): Company; ABCI Securities

Exhibit 3: Franshion's share buyback in 2014
Exhibit 4: Franshion's valuation compared to other SOE developers

Date	No of share mn	avg price HK\$	amount HK\$m
21-Nov-14	3.0	2.10	6.3
25-Nov-14	5.0	2.15	10.7
26-Nov-14	6.0	2.18	13.1
28-Nov-14	2.0	2.19	4.4
01-Dec-14	4.0	2.16	8.6
02-Dec-14	8.9	2.20	19.5
03-Dec-14	3.0	2.23	6.7
04-Dec-14	1.5	2.26	3.4
08-Dec-14	2.0	2.22	4.4
10-Dec-14	4.0	2.16	8.7
11-Dec-14	2.0	2.16	4.3
12-Dec-14	2.0	2.21	4.4
15-Dec-14	5.0	2.24	11.2
16-Dec-14	10.0	2.22	22.2
17-Dec-14	10.0	2.22	22.2
18-Dec-14	13.0	2.28	29.7
19-Dec-14	11.9	2.32	27.7
Total	93.3	2.23	207.6

Source(s): HKex; ABCI Securities



Source(s): Bloomberg; ABCI Securities estimates



Exhibit 5: Franshion's FY15E NAV

	Attr. GFA (mn sqm)	Net assets value (HKD mn)	% of total	Valuation Methodology	Implied value per sqm (HKD)
Property development					
Beijing	0.8	8,450	11%	DCF at WACC of 9.6%	10,031
Shanghai	0.6	13,699	17%		22,860
Changsha	1.5	2,540	3%		1,730
Suzhou	0.3	1,835	2%		6,699
Chongqing	1.1	7,510	9%		6,569
Others	2.6	11,741	15%		4,511
Subtotal	5.8	45,775	58%		7,910
Primary Land Development	4.1	14,731	19%	Mkt value	3,628
Investment Properties	0.5	11,096	14%	8.5% cap rate on net rental income	
Hotels		7,664	10%	Market value of stake in Jinmao investment (6139 HK)	
Total 2015E GAV		79,266	100%		
2015E Net debt (including Perpetual convertible securities)		(18,441)	-23%		
Total 2015E NAV		60,825	77%		
No. of share outstanding		9,161			
NAV per share (HKD)		6.64			
Target discount (%)		50%			
Target Price (HKD)		3.30			
WACC	9.6%				
Cost of debt	6.5%				
Cost of Equity	15.0%				
Debt/ (Debt + Equity)	53%				

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2012A-2016E)

FY Ended Dec 31 (HK\$ mn)	2012A	2013A	2014E	2015E	2016E
Revenue	17,176	20,719	33,966	35,063	39,451
Cost of sales	(9,977)	(11,519)	(20,155)	(19,664)	(21,120)
Gross Profit	7,199	9,200	13,811	15,400	18,331
SG&A expenses	(1,407)	(1,785)	(2,045)	(2,590)	(2,912)
EBIT	5,792	7,415	11,765	12,810	15,419
Finance cost	(986)	(1,325)	(1,650)	(1,758)	(1,758)
Share of profit of associates	2	2	0	0	446
Other income/ (expenses)	284	524	299	421	658
Fair value gain of investment properties	1,626	1,831	0	0	0
Disposal/one-off items	5	0	0	0	0
Profit before tax	6,723	8,448	10,414	11,473	14,765
Tax	(2,783)	(3,393)	(4,895)	(5,470)	(6,903)
Profit after tax	3,940	5,055	5,520	6,003	7,862
Minority interest	(563)	(807)	(2,389)	(2,471)	(3,148)
Reported net profit	3,378	4,247	3,131	3,532	4,714
Less: exceptional items	(1,223)	(1,337)	0	(0)	(0)
Underlying net profit	2,154	2,910	3,131	3,532	4,714
Per share					
Underlying EPS (HK\$)	0.23	0.30	0.32	0.36	0.47
DPS (HK\$)	0.07	0.10	0.10	0.12	0.16
Payout ratio (%)	31%	32%	32%	33%	33%
BVPS (HK\$)	2.58	3.07	3.32	3.59	3.95
Growth %					
Revenue	160.6%	20.6%	63.9%	3.2%	12.5%
Gross Profit	101.4%	27.8%	50.1%	11.5%	19.0%
EBIT	139.7%	28.0%	58.7%	8.9%	20.4%
Underlying net profit	48.0%	35.1%	7.6%	12.8%	33.5%
Margin %					
Gross margin	41.9%	44.4%	40.7%	43.9%	46.5%
Gross margin (post-LAT)	19.3%	15.0%	20.8%	20.6%	21.9%
EBIT margin	33.7%	35.8%	34.6%	36.5%	39.1%
Core net margin	15.8%	17.8%	16.3%	17.1%	18.8%
Key assumptions					
Presales (HK\$m)	13,230	18,384	23,181	33,190	35,493
GFA sold (m sqm)	0.31	0.57	0.96	0.96	0.84
ASP (HK\$/sqm)	43,009	32,087	24,033	34,419	42,504
Booked Sales (HK\$)	10,796	9,708	26,450	25,060	27,760
GFA delivered (m sqm)	0.46	0.22	0.88	0.77	0.73
Booked ASP (HK\$/sqm)	23,328	44,144	30,123	32,347	37,839

Source: Company, ABCI Securities estimates



Consolidated balance sheet (2012A-2016E)

As of Dec 31 (HK\$ mn)	2012A	2013A	2014E	2015E	2016E
Current assets	38,199	46,720	45,470	57,097	67,362
Cash	12,888	14,490	14,818	26,650	38,520
Restricted cash	576	303	303	303	303
Trade & other receivables	2,003	4,202	4,202	4,202	4,202
Properties under development	10,384	10,714	10,714	10,714	10,714
Properties held for sale	3,078	5,915	5,915	5,915	5,915
Land under development	6,696	5,163	3,585	3,379	1,774
Other current assets	12,348	17,011	15,433	15,228	13,623
Non-current assets	44,303	74,123	81,141	76,089	66,914
Property, plant & equipment	6,956	7,495	8,026	8,548	9,063
Properties under development	13,047	33,318	39,806	36,231	26,095
Land under development	5,408	4,549	4,549	2,549	2,549
Investment properties	16,575	22,018	22,018	22,018	22,018
Investment in Associate and JCE	39	42	42	42	488
Other non-current assets	2,279	6,700	6,700	6,700	6,700
Total Assets	82,502	120,843	126,611	133,186	134,276
Current Liabilities	25,726	39,604	36,531	38,525	33,529
Short term borrowings	8,952	6,139	11,139	11,139	11,139
Trade & other payables	6,233	9,504	9,504	9,504	9,504
Pre-sales deposits	8,235	16,749	8,677	10,670	5,674
Other current liabilities	2,306	7,212	7,212	7,212	7,212
Non-current liabilities	22,273	34,020	34,020	34,020	34,020
Long term borrowings	19,323	29,667	29,667	29,667	29,667
Other payables	-	-	-	-	-
Other non-current liabilities	2,950	4,353	4,353	4,353	4,353
Total Liabilities	47,999	73,624	70,551	72,545	67,548
Net Assets	34,503	47,219	56,060	60,641	66,727
Shareholders Equity	24,290	28,974	30,957	33,430	36,730
Perpetual Convertible Securities	4,588	4,588	4,588	4,588	4,588
Minority Interest	5,625	13,658	20,514	22,623	25,409
Total Equity	34,503	47,219	56,060	60,641	66,727
Key ratio					
Gross debt (HK\$m)	28,275	35,806	40,806	40,806	40,806
Net debt (HK\$m)	14,811	21,013	25,685	13,853	1,982
Net gearing (%)	51%	63%	72%	36%	5%
Presales/ Total assets (x)	0.16	0.15	0.18	0.25	0.26

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2012A-2016E)

FY ended Dec 31 (HK\$ mn)	2012A	2013A	2014E	2015E	2016E
EBITDA	6,022	7,684	12,042	13,095	15,713
Change in Working Capital	(4,186)	(10,505)	(12,142)	8,668	7,639
Tax payment	(1,137)	(2,365)	(4,895)	(5,470)	(6,903)
Operating Cash flow	699	(5,186)	(4,994)	16,293	16,449
Purchase of PP&E	(310)	(808)	(808)	(808)	(808)
Addition of Investment Properties	(20)	0	0	0	0
Investment in Associate/ JCE	0	0	0	0	0
Proceeds from Disposals	0	0	0	0	0
Others	(968)	32	299	421	658
Investing Cash flow	(1,298)	(776)	(509)	(387)	(150)
Debt raised	16,488	25,961	10,000	10,000	10,000
Debt repaid	(13,369)	(21,339)	(5,000)	(10,000)	(10,000)
Interest expenses	(949)	(1,947)	(2,490)	(2,652)	(2,652)
Equity raised	0	0	0	0	0
Convertible securities coupon payments	(317)	(317)	(312)	(312)	(312)
Dividend to shareholders	(366)	(641)	(939)	(1,060)	(1,414)
Others	(222)	5,848	4,572	(50)	(50)
Financing Cash flow	1,264	7,564	5,831	(4,074)	(4,429)
Net cash inflow/ (outflow)	665	1,602	328	11,832	11,870
Cash- beginning	12,224	12,888	14,490	14,818	26,650
Cash- year-end	12,888	14,490	14,818	26,650	38,520

Source(s): Company, ABCI Securities estimates

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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 from 2009-2013

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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