



November 22, 2013
Company Report
Rating: BUY
TP: HK\$ 17.60

Share price (HK\$) 13.30
Est. share price return 32.33 %
Est. dividend yield 5.20 %
Est. total return 37.53 %

Previous Rating & TP BUY; HK\$ 19.00
Previous Report Date Aug 26, 2013

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Key Data

52Wk H/L(HK\$)	16.76/8.988
Issued shares (mn)	2,154
Market cap	31,253
3-mth avg daily turnover (HK\$ mn)	49.4
Major shareholder(s) (%):	
SONG Wei Ping	33.1
SOU Bainian	23.5
Wharf	24.6

Source(s): Company, Bloomberg, ABCI Securities

FY12 Revenue breakdown (%)

Property Development	96.7
Property Investment	0.3
Property Management	0.8
Others	2.2

Source(s): Company, ABCI Securities

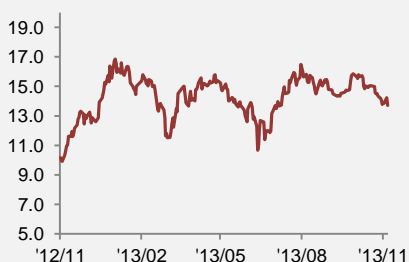
Share performance (%)

	Absolute	Relative*
1-mth	(12.5)	(13.7)
3-mth	(10.2)	(17.2)
6-mth	(7.7)	(8.8)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Greentown (3900 HK)

Gearing improving but risk looming; maintain BUY

- Greentown's gross finance cost dropped significantly from RMB 2.1bn in 1H12 to RMB 994mn in 1H13
- Shanghai projects registered impressive ASP growth in 2H13, and we expect the Group to enjoy premium pricing in 2014E on its strong brand
- We lower earnings forecasts by 9.0%/14.3% for FY14E/15E to price in slower sales on possible tightening policy
- Maintain BUY with revised TP of HK\$ 17.60 based on a 60% discount to our revised end-2014E NAV of HK\$ 43.9/share

Balance sheet improved in 2013. By raising low-cost offshore debts, Greentown gross finance cost decreased 54%YoY from RMB2.1bn in 1H12 to RMB 994mn in 1H13. We believe Greentown is in no urgency to acquire land in 2H13 based on its current landbank that has a GFA of 21.96 mn sqm (GFA delivered in FY11/12: 1.9mn sqm /1.0mn sqm). Having learnt its lesson of overleveraging in 2009-10, we believe Greentown will adopt a more cyclical landbanking strategy by aggregating land parcels actively in market downturn and avoid purchasing in an overheated market. We expect Greentown will continue to form JV with other companies to develop new projects in order to reduce financial risks and keep gearing low through off-balance sheet financing.

Shanghai projects achieved impressed ASP. Greentown launched several new projects in Shanghai in 2H13. The Francais Demeure project (land acquired in Oct 2013 via Sunac Greentown and Poly JV) achieved total presale of RMB 830mn at RMB 50,500/sqm in 10M13, while Greentown's Dynasty on the Bund achieved RMB618mn in presale at RMB 73,192/sqm in Sep. We believe Greentown's strong brand should generate a decent overall ASP (RMB 22k/sqm) and gross margin (33.5%) for 2014 presale.

Maintain Buy with TP revised down to HK\$17.60. We factor in Greentown's recent land acquisitions and slower sales on possible tightening policy, and cut our earnings forecasts by 9.0%/14.3% for 2014E/15E. We also roll forward and raise our FY14E NAV to RMB 34.6/share (or HK\$ 43.9/share) based on the quality landbank accumulated in Shanghai during the year. However, we lower our TP to HK\$ 17.60 (from HK\$ 19.00), as we raise our TP's discount to NAV from 40% to 60% to account for the higher policy risks in 2014, especially since Greentown has a high exposure in luxury residential segment.

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

Results and Valuation

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	21,964	35,393	25,855	29,779	40,043
Chg (% YoY)	96.8	61.1	(26.9)	15.2	34.5
Core net profit (RMB mn)	2,491	4,354	5,203	5,810	7,710
Chg (% YoY)	100.1	74.8	19.5	11.7	32.7
Underlying EPS (RMB)	1.52	1.89	2.25	2.51	3.33
Chg (% YoY)	99.9	24.3	19.0	11.7	32.7
BVPS (RMB)	7.28	8.89	10.64	12.66	15.50
Chg (% YoY)	16.9	22.1	19.6	19.0	22.5
Underlying PE (x)	6.9	5.6	4.7	4.2	3.1
PB (x)	1.4	1.2	1.0	0.8	0.7
ROE (%)	20.9	20.6	20.8	19.8	21.7
ROA (%)	1.9	4.0	4.4	4.4	5.3
DPS (RMB)	0.11	0.50	0.55	0.60	0.65
Dividend yield (%)	1.0	4.8	5.2	5.7	6.2
Net gearing (%)	219.7	63.7	74.6	47.2	(2.5)

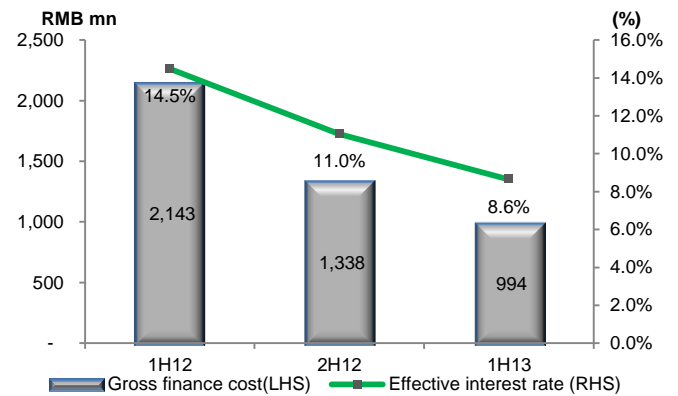
*Net gearing=Net debt/Total Shareholders' equity

Source(s): Bloomberg, ABCI Securities estimates

Exhibit 1: Greentown's debt financing in 2013

Date	Term	Currency	Size	Rate
Bond issuance			USD mn	(%)
28-Jan-13	5- year	USD	400	8.500
26-Mar-13	5- year	USD	300	7.864
6-May-13	3- year	RMB	400	4.625
Total			1,100	6.917
Off-shore bank loan				
23-Jul-13	3- year	USD	400	LIBOR+3.88%
25-Jul-13	3- year	USD	100	LIBOR+4%
Total			500	LIBOR+3.904%

Exhibit 2 : Greentown's finance cost and effective interest rate



Source(s): Company, ABCI Securities

Source(s): Company, ABCI Securities

Exhibit 3: Greentown's land acquisition in 9M13

Projects	Total consideration	Total GFA	Land cost per sqm	stake	Attributable	
	RMB mn	mn sqm	RMB/sqm	(%)	Consideration RMB mn	GFA mn sqm
Project in Hangzhou, Zhejiang province(杭州西溪融庄)	645	0.12	5,244	25%	161	0.03
Project in Hangzhou, Zhejiang province(杭州之江壹号)	2,398	0.53	4,562	25%	599	0.13
Project in Hangzhou, Zhejiang province(杭州杭州地铁武林置业)	3,000	0.24	12,295	45%	1,350	0.11
Project in Ningbo, Zhejiang province(宁波余姚三宗地块)	1,600	0.37	4,290	47%	752	0.18
Project in Shanghai(上海盛世江)	7,996	0.67	11,864	50%	3,998	0.34
Project in Shanghai(上海提篮桥地块)	1,044	0.04	26,832	50%	522	0.02
Project in Shanghai(上海香溢花城)	2,082	0.28	7,555	25%	510	0.07
Total	18,764	2.25	8,325	42%	7,893	0.87

Source(s): Companies, ABCI Securities

Exhibit 4: Major forecast changes for Greentown

	Previous			Current			Change (%)		
	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E
Core net profit (RMB mn)	5,173	6,780	8,475	5,203	5,810	7,710	0.6%	-14.3%	-9.0%
YoY chg (%)	18.8	31.1	25.0	19.5	11.7	32.7			
Contracted sales (RMB mn)	68,140	99,109	130,823	62,093	84,542	128,382	-8.9%	-14.7%	-1.9%
YoY chg (%)	33.4	45.4	32.0	21.6	36.2	51.9			
GFA delivery (mn sqm)	1.29	2.00	2.66	1.14	1.36	1.90	-12.1%	-32.2%	-28.8%
Gross margin (%)	34.0%	32.3%	31.8%	34.9%	33.6%	31.8%	+0.9ppt	+1.2ppt	-0.2ppt

Source(s): ABCI Securities estimates



Exhibit 5: Greentown's FY14E NAV

	Attr. GFA (mn sqm)	Net assets value (RMB mn)	% of total	Valuation Methodology	Implied value per sqm (RMB)
Property development					
Hangzhou	3.5	16,042	18%	DCF at WACC of 10.4%	4,604
Shanghai	0.9	12,639	14%		14,207
Zhoushan	3.2	9,550	11%		2,999
Qingdao	3.2	7,388	8%		2,325
Hainan	0.9	5,159	6%		6,036
Others cities	13.1	37,816	42%		2,888
Subtotal	24.7	88,592	98%		3,589
Investment Properties		1,146	1%	6% cap rate on net rental income	
Hotels		621	1%	5x EBITDA multiple	
Total GAV		90,359	100%		
2014E Net debt & perpetual convertible securities		(15,933)	-18%		
Total NAV		74,426	82%		
No. of share outstanding		2,153			
NAV per share (RMB)		34.6			
Exchange rate (HK\$/RMB)		1.27			
NAV per share (HK\$)		43.9			
Target discount (%)		60%			
Target Price (HK\$)		17.60			
WACC	10.4%				
Cost of debt	8.0%				
Cost of Equity	15.0%				
Debt/ (Debt + Equity)	51%				

Source(s): Company, ABCI Securities estimates



Exhibit 6: Greentown's 1H13 results

P&L	1H13	1H12	YoY Chg
	RMB mn	RMB mn	(%)
Turnover	10,214	12,601	(18.9)
Cost of Sales & direct operating costs	(7,056)	(9,125)	(22.7)
Gross Profit	3,158	3,475	(9.1)
Gross Margin (%)	30.9	27.6	3.3
Selling and distribution costs	(338)	(245)	38.0
Administrative expense	(668)	(600)	11.5
EBIT	2,152	2,631	(18.2)
EBIT Margin (%)	21.1	20.9	
Other income	377	506	(25.4)
Fair value gain of investment properties	0	0	na
Other exceptional items	671	557	na
Share of profit from JCE/ Associates	685	258	165.1
Finance cost	(266)	(272)	(2.4)
Profit before tax	3,620	3,680	(1.6)
Tax	(1,164)	(1,420)	(18.0)
- LAT	(472)	(731)	(35.5)
- Enterprise tax	(692)	(689)	0.5
Profit after tax	2,456	2,260	8.7
Minority Interest	(601)	(449)	33.9
Net profit	1,855	1,811	2.4
Core net profit	1,620	1,355	19.6
Core net margin	15.9	10.8	
Operating statistics			
Contracted GFA (mn sqm)	1.44	0.95	51.9
Contracted ASP (RMB/sqm)	20,395	18,744	8.8
Contracted Sales (RMB mn)	29,428	17,800	65.3
GFA Delivered- Subsidiary + JV (mn sqm)	1.17	0.99	17.4
Booked ASP- Subsidiary + JV (RMB/sqm)	19,582	14,600	34.1
Property sales booked- Subsidiary + JV (RMB mn)	22,817	14,488	57.5
Balance sheet			
	Jun-13	Dec-12	HoH %
	RMB mn	RMB mn	
Gross debt	24,652	21,373	15.3
Cash	10,392	7,898	31.6
Net debt	14,261	13,475	5.8
Net gearing (%)	64.7	63.7	0.9

Source(s): Company, ABCI Securities



Consolidated income statement (2011A-2015E)

FY Ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Revenue	21,964	35,393	25,855	29,779	40,043
Cost of sales	(14,555)	(24,679)	(16,829)	(19,767)	(27,306)
Gross Profit	7,408	10,714	9,026	10,012	12,738
SG&A expenses	(1,920)	(2,069)	(2,338)	(2,568)	(2,783)
EBIT	5,488	8,645	6,688	7,444	9,954
Finance cost	(416)	(564)	(315)	(324)	(294)
Share of profit of associates	833	513	2,845	3,100	3,939
Other income/ (expenses)	683	1,001	947	1,202	1,453
Fair value gain of investment properties	0	0	0	0	0
Disposal/one-off items	112	663	0	0	0
Profit before tax	6,701	10,257	10,165	11,422	15,053
Tax	(2,583)	(4,204)	(3,972)	(4,433)	(5,730)
Profit after tax	4,118	6,053	6,193	6,989	9,322
Minority interest	(1,543)	(1,202)	(990)	(1,179)	(1,612)
Reported net profit	2,575	4,851	5,203	5,810	7,710
Less: exceptional items	(84)	(497)	0	(0)	0
Underlying net profit	2,491	4,354	5,203	5,810	7,710
Per share					
Underlying EPS (RMB)	1.52	1.89	2.25	2.51	3.33
DPS (RMB)	0.11	0.50	0.55	0.60	0.65
Payout ratio (%)	7%	26%	24%	24%	20%
BVPS (RMB)	7.28	8.89	10.64	12.66	15.50
Growth %					
Revenue	96.8%	61.1%	-26.9%	15.2%	34.5%
Gross Profit	117.8%	44.6%	-15.8%	10.9%	27.2%
EBIT	214.8%	57.5%	-22.6%	11.3%	33.7%
Underlying net profit	100.1%	74.8%	19.5%	11.7%	32.7%
Margin %					
Gross margin	33.7%	30.3%	34.9%	33.6%	31.8%
Gross margin (post-LAT)	26.2%	24.4%	27.5%	26.6%	25.3%
EBIT margin	25.0%	24.4%	25.9%	25.0%	24.9%
Core net margin	14.6%	14.2%	12.9%	13.1%	13.4%
Key assumptions					
Contracted Sales (RMB mn)	33,100	51,071	62,093	84,542	128,382
GFA sold (m sqm)	1.74	2.58	2.68	3.72	5.83
ASP (RMB/sqm)	19,023	19,772	23,137	22,707	22,011
Booked Sales (RMB)	21,071	34,214	24,630	28,514	38,750
GFA delivered (m sqm)	1.04	1.91	1.14	1.36	1.90
Booked ASP (RMB/sqm)	20,319	17,894	21,653	21,022	20,422
Land acquisition (RMB mn)	11,100	12,100	7,893	-	-
GFA acquired (m sqm)	6.8	2.1	0.3	-	-
Land cost (RMB/sqm)	1,632	5,762	23,420	-	-
Land acquisition to Contracted sales (%)	33.5%	23.7%	12.7%	-	-

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2011A-2015E)

As of Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Current assets	115,214	93,334	97,408	108,799	120,864
Cash	3,615	6,164	6,006	10,791	20,517
Restricted cash	2,269	1,734	1,734	1,734	1,734
Trade & other receivables	5,180	4,713	4,713	4,713	4,713
Property under development	70,628	50,543	54,775	61,381	63,720
Other current assets	33,522	30,180	30,180	30,180	30,180
Non-current assets	12,762	14,373	20,981	22,199	23,575
Property, plant & equipment	2,861	3,675	3,989	4,287	4,575
Investment properties	1,730	1,731	1,731	1,731	1,731
Investment in Associate and JCE	6,927	7,577	13,871	14,791	15,879
Other non-current assets	1,244	1,390	1,390	1,390	1,390
Total Assets	127,977	107,707	118,388	130,998	144,439
Current Liabilities	92,858	73,562	79,462	86,601	92,346
Short term borrowings	16,146	15,256	20,256	20,256	15,256
Trade & other payables	13,238	15,959	15,959	15,959	15,959
Pre-sales deposits	45,759	28,848	29,748	36,887	47,632
Other current liabilities	17,715	13,500	13,500	13,500	13,500
Non-current liabilities	17,475	6,657	6,657	6,657	6,657
Long term borrowings	16,048	6,118	6,118	6,118	6,118
Other payables	992	0	0	0	0
Other non-current liabilities	435	539	539	539	539
Total Liabilities	110,333	80,219	86,118	93,258	99,003
Net Assets	17,643	27,488	32,270	37,741	45,437
Shareholders' Equity	11,940	19,058	22,899	27,241	33,375
Perpetual Convertible Securities	0	2,084	2,084	2,084	2,084
Minority Interest	5,703	6,346	7,286	8,415	9,977
Total Equity	17,643	27,488	32,270	37,741	45,437
Key ratio					
Gross debt (RMB mn)	32,194	21,373	26,373	26,373	21,373
Net debt (RMB mn)	26,311	13,475	18,633	13,848	(878)
Net gearing (%)	220%	64%	75%	47%	-2%
Contracted sales/ Total assets (x)	0.26	0.47	0.52	0.65	0.89

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
EBITDA	5,641	8,814	6,875	7,646	10,166
Change in Working Capital	(4,085)	(3,006)	(1,547)	2,371	10,070
Tax payment	(1,680)	(1,109)	(3,972)	(4,433)	(5,730)
Operating Cash flow	(125)	4,700	1,356	5,584	14,505
Purchase of PP&E	(569)	(1,078)	(500)	(500)	(500)
Addition of Investment Properties	6	5	-	-	-
Investment in Associate/ JCE	(249)	(50)	(5,525)	(100)	(100)
Proceeds from Disposals	-	7,603	-	-	-
Others	(2,690)	231	3,023	3,483	4,404
Investing Cash flow	(3,502)	6,712	(3,002)	2,883	3,804
Debt raised	14,958	11,483	15,000	10,000	10,000
Debt repaid	(16,290)	(18,695)	(10,000)	(10,000)	(15,000)
Interest expenses	(2,821)	(3,586)	(2,101)	(2,163)	(1,958)
Equity raised	-	2,075	-	-	-
Convertible securities raised	-	2,084	-	-	-
Dividend to shareholders	(589)	(164)	(1,361)	(1,469)	(1,576)
Others	(424)	(2,060)	(50)	(50)	(50)
Financing Cash flow	(5,166)	(8,863)	1,488	(3,681)	(8,584)
Net cash inflow/ (outflow)	(8,793)	2,548	(158)	4,785	9,726
Cash- beginning	12,408	3,615	6,164	6,006	10,791
Cash- year-end	3,615	6,164	6,006	10,791	20,517

Source(s): Company, ABCI Securities estimates

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Analyst Certification

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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 from 2007-2011

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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