



August 24, 2016
Company Report
Rating: BUY
TP: HK\$ 3.60

Share price (HK\$) 2.42
Est. share price return 48.7%
Est. dividend yield 4.3%
Est. total return 53.0%

Previous Rating & TP BUY; HK\$ 3.70
Previous Report Date Mar 23, 2016

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Key Data

52Wk H/L(HK\$) 2.68/1.73
Issued shares (mn) 10,671
Market cap (HK\$ mn) 25,825
3-mth avg daily turnover (HK\$ mn) 13.27
Major shareholder(s) (%):
Sinochem Group 53.98
Source(s): Company, Bloomberg, ABCI Securities

1H16 Revenue breakdown (%)

Property Development 55.3
Property Leasing 7.2
Hotels 10.5
Land Development 24.5
Others 2.5
Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	6.6	2.8
3-mth	14.7	2.6
6-mth	30.3	9.6

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

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Jinmao (817 HK)

When rising land price is a good thing; maintain BUY

- Core profit rose 34% YoY to HK\$ 1.2bn
- Gross margin dropped 1.2ppt YoY to 40%; land development business is the key margin driver, entailing a gross margin of 67% in 1H16
- 1H16 presales soared 102% YoY to RMB 20.7bn
- Tier-1 cities account for 54% of 1H16 presales
- Maintain BUY with a revised TP of HK\$ 3.60 (from HK\$ 3.70) based on a 60% discount to FY16E NAV

1H16 core profit jumped 34% YoY to HK\$ 1,230mn. Jinmao's 1H16 core profit jumped 34%YoY to HK\$ 1,230mn, as revenue increased 41%YoY to HK\$ 10,388mn. Land development was the key revenue driver (from nil in 1H15 to HK\$2.5bn in 1H16) upon booking of Nanjing Qinglong primary development project. Meanwhile, revenue from property leasing stayed flat at HK\$ 743mn and hotel revenue declined 5% YoY to HK\$ 1,096mn. Gross margin remained high at 40.0%, down slightly by 1.2ppt YoY. Primary land development was also the key margin driver in 1H16, as the Nanjing Qinglong projects entailed a gross margin of 67.4%, much higher than the gross margin of secondary development projects (i.e. property developments on sites obtained through auctions) that declined from 35% in 1H15 to 21% in 1H16. As competition for land intensifies, Jinmao's primary land development business is set to benefit from a higher margin, which in turn would compensate for the declining profitability in secondary development.

Introduction of JV partners to ease financial burden. On the balance sheet side, net gearing edged up by 0.8ppt HoH to 56.1%. Land acquisition in 8M16 was RMB 34bn, though most of these transactions were conducted through JV partnership; hence, attributable land premium was ~RMB10bn. Finance cost declined 17% YoY to HK\$ 262mn as average cost of debt improved to 5.05% from 5.35% in Dec 15. Overall, Jinmao's 1H16 results are encouraging as Jinmao's industry-high gross margin remained intact on primary land development business. This should ease some of the concerns surrounding the Group's acquisition of the Shenzhen "land king" in Shenzhen in June 2016. The 146k sqm Shangtang station site was priced at RMB 8.3bn (or RMB 56.7k/sqm), of which the Group hold a 70% stake.

1H16 presale soared 102% YoY to RMB 20,705mn. Jinmao's property presale jumped 57% YoY to RMB 16,063mn, driven by 31%YoY GFA increase and a 20% ASP hike. It also registered primary land sales of RMB 4,642mn (1H15: nil) during 1H16. As of July 2016, Jinmao achieved a total presale of RMB 26.0bn (comprised of RMB17.8bn of presales property and RMB8.2bn of presales land), representing 72% of its sales target (RMB 36bn). Excluding land sales, Beijing, Shanghai, Guangzhou accounted for 14%, 34% and 6% of 7M16 presale. Jinmao's presale should remain strong given its high exposure in tier-1 cities that accounted for 54% of the latest total. As of June 2016, Jinmao has a landbank of 12.3mn sqm for property development, 0.55mn sqm for leasing, 0.57mn sqm for hotels, and 20.4mn sqm for primary land development. (Continue next page)

Results and Valuation

FY ended Dec 31	2014A	2015A	2016E	2017E	2018E
Revenue (HK\$ mn)	29,548	22,110	34,843	44,210	47,264
Chg (% YoY)	42.6	(25.2)	57.6	26.9	6.9
Core net profit (HK\$ mn)	3,610	2,874	3,729	4,812	5,987
Chg (% YoY)	24.0	(20.4)	29.7	29.1	24.4
Core EPS (HK\$)	0.37	0.27	0.33	0.41	0.51
Chg (% YoY)	22.8	(25.6)	20.0	26.8	22.9
BVPS (HK\$)	3.53	3.46	3.49	3.80	4.20
Chg (% YoY)	15.1	(2.0)	0.8	9.1	10.3
Core PE (x)	6.6	8.9	7.4	5.8	4.8
PB (x)	0.7	0.7	0.7	0.6	0.6
ROE (%)	10.9	8.1	9.8	11.6	13.1
ROA (%)	2.6	1.8	2.2	2.7	3.3
DPS (HK\$)	0.12	0.08	0.10	0.14	0.17
Dividend yield (%)	4.8	3.3	4.3	5.6	7.0
Net gearing (%)	58.1	55.3	59.2	32.5	15.3

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

Primary land development: A game changer. While almost all developers are suffering from a rising land cost, Jinmao's primary land business enjoys a growing margin. ASP for Jinmao's Nanjing Qinglong project jumped 79% to RMB 18.8k/sqm compared to RMB 10.5k/sqm for FY15, thus the project's gross margin rallied from 52% in FY15 to 67% in 1H16. The Meixi lake project in Changsha also saw a 44% ASP increase from RMB 2,879/sqm in FY14 to RMB 4,147/sqm in 1H16 after land auction suspension in FY15. Given the lack of land appreciation tax (LAT), we estimate the net margin for primary land development could be as high as 40%, compared to the margin range of 10-18% for secondary development projects in general. However, the major risk in primary land development lies on the uncertain schedule of land sales, which is subjected to changes by local governments based on market conditions.

Maintain BUY with revised TP of HK\$ 3.60. We factor in Jinmao's latest land acquisitions and adjust our 2016E NAV forecast to HK\$ 8.96 (from HK\$ 9.36) given the lower-than-expected margin of property development. We also lower our TP to HK\$ 3.60 (from HK\$ 3.70), still based on a 60% discount to NAV. Aside from the Group's high exposure in tier-1 cities and its impressive presales growth, we are optimistic on Jinmao's primary land development business amid intensifying land competition. Maintain **BUY**.

Risk factors: 1) High FX debt exposure; 2) Uncertain land sales schedule.

Exhibit 1: Jinmao's 1H16 results

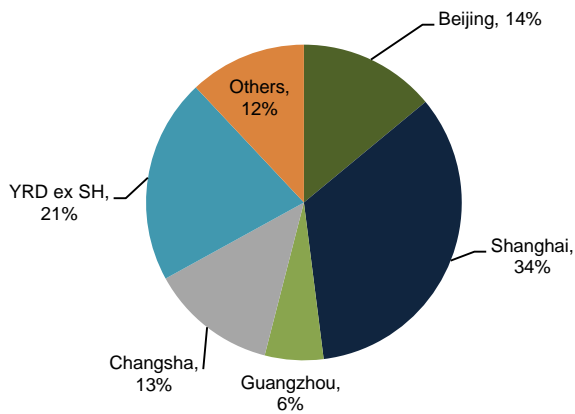
P&L	1H16	1H15	YoY Chg	Operating statistics	1H16	1H15	YoY Chg
	HK\$m	HK\$m	(%)				
Turnover	10,388	7,382	41	Presales GFA ('000 sqm)	0.67	0.51	31
Property sales	5,747	5,268	9	Presales ASP (RMB/sqm)	24,141	20,180	20
Primary land development	2,541	0	na	Presale (RMBmn)	16,063	10,246	57
Property leasing	743	745	(0)	GFA delivered (mn sqm)	0.25	0.22	14
Hotel	1,096	1,154	(5)	Booked ASP (HK\$/sqm)	22,725	23,794	(4)
Others	262	216	22	Property sales booked (HK\$m)	5,747	5,268	9
Cost of Sales & direct operating costs	(6,232)	(4,339)	44	Presales land area (mn sqm)	0.46	0	na
Gross Profit	4,156	3,042	37	Presales ASP (HK\$/sqm)	10,135	0	na
Gross Margin (%)	40.0	41.2	-1.2ppt	Land presale (HK\$m)	4,642	0	na
Selling and distribution costs	(322)	(338)	(5)	Land booked (mn sqm)	0.19	0	na
Administrative expense	(872)	(763)	14	Booked ASP (HK\$/sqm)	13,588	0	na
EBIT	2,962	1,942	53	Booked land sales (HK\$m)	2,541	0	na
EBIT Margin (%)	28.5	26.3	+2.2ppt				
Other income, gains and losses	375	550	(32)	Gross margin by segment	1H16	1H15	YoY Chg
Fair value gain of investment properties	480	899	(47)	Property and land development	35.0%	34.0%	+1 ppt
Other exceptional items	0	0	na	- Property sales	21.0%	34.0%	-13 ppt
Share of profit from JCE/ Associates	(82)	(51)	62	- Land development	67.4%	NA	NA
Finance cost	(262)	(314)	(17)	Property leasing	90.0%	90.0%	-
Profit before tax	3,472	3,026	15	Hotel	49.0%	48.0%	+1ppt
Tax	(1,419)	(988)	44	Balance sheet	Jun 16	Dec 15	HoH %
- LAT	(437)	(185)	137	Gross debt	50,325	48,978	3
- Enterprise tax	(982)	(804)	22	Cash	17,109	16,417	4
Profit after tax	2,053	2,037	1	Net debt	33,216	32,561	2
Minority Interest	(514)	(503)	2	Net gearing (%)	56.1	55.3	+0.8ppt
Net profit	1,540	1,535	0				
Core net profit	1,230	918	34				

Source(s): Company, ABCI Securities

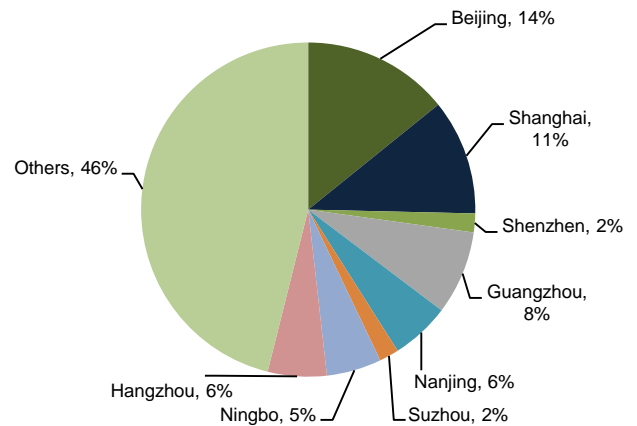
Exhibit 2: Land acquisition up to Aug 2016

Month	City	GFA	Land premium	AV	stake
		mn sqm	RMB mn	RMB/sqm	%
Jan-16	Qingdao	0.280	450	1,608	100%
Feb-16	Ningbo	0.128	794	6,201	100%
Mar-16	Tianjin	0.285	4,100	14,391	100%
May-16	Nanjing	0.188	6,960	36,957	50%
June-16	Shenzhen	0.146	8,290	56,781	70%
June-16	Hangzhou	0.194	6,410	33,106	49%
July-16	Hefei	0.227	3,670	16,159	49%
Aug-16	Zhengzhou	0.095	3,510	36,916	100%
Total		1.543	34,184	22,155	

Source(s): Company, ABCI Securities

Exhibit 3: Jinmao's 1H16 presale by city (excluding land sales; total presale: RMB16.1bn, +57%YoY)


Source(s): Company, ABCI Securities

Exhibit 4: Jinmao's landbank by city as at June 2016 (excluding primary land development; total GFA:13.5mn sqm)


Source(s): Company, ABCI Securities

Exhibit 5: Primary land development (Jun 2016)

Project	City	Planned GFA mn sqm	Stake
Meixi Lake International New City Project Phase I	Changsha	2.6	80%
Meixi Lake International New City Project Phase II	Changsha	12.7	100%
Meixi Lake International New City Land Block A Project	Changsha	0.8	80%
Sanya Yazhou Primary Land development project	Sanya	0.9	51%
Nanjing Qinglong Mountain International Ecological New City	Nanjing	3.4	80%

Source(s): Company, ABCI Securities

Exhibit 6: Jinmao's FY16E NAV

	Attr. GFA (mn sqm)	Net assets value (HK\$ mn)	% of total	Valuation Method	Implied value per sqm (HK\$)
Property development					
Beijing	0.8	7,073	5%	DCF at WACC of 8.9%	8,397
Shanghai	0.5	12,027	9%		24,974
Changsha	2.1	5,160	4%		2,459
Suzhou	0.3	1,967	1%		7,182
Chongqing	1.5	7,481	5%		5,078
Others	9.0	76,675	54%		8,535
Subtotal	12.7	110,383	78%		8,706
Primary Land Development	4.1	14,733	10%	Mkt value	3,629
Investment Properties	0.5	10,032	7%	8.5% cap rate on 2016E net rental income	
Hotels		6,121	4%	Market value of stake in Jinmao investment (6139 HK)	
Total 2016E GAV		141,269	100%		
2016E Net debt (including Perpetual convertible securities)		(45,644)	-32%		
Total 2016E NAV		95,624	68%		
No. of share outstanding		10,668			
NAV per share (HKD)		8.96			
Target discount (%)		60%			
Target Price (HKD)		3.60			
WACC	8.9%				
Cost of debt	5.4%				
Cost of equity	15.0%				
Debt/ (Debt + Equity)	55%				

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2013A-2018E)

FY Ended Dec 31 (HK\$ mn)	2013A	2014A	2015A	2016E	2017E	2018E
Revenue	20,719	29,548	22,110	34,843	44,210	47,264
Cost of sales	(11,519)	(17,989)	(13,561)	(20,157)	(27,014)	(27,711)
Gross Profit	9,200	11,559	8,549	14,687	17,195	19,553
SG&A expenses	(1,785)	(2,593)	(2,517)	(3,262)	(3,557)	(3,274)
EBIT	7,415	8,965	6,032	11,425	13,638	16,279
Finance cost	(1,325)	(1,222)	(568)	(1,411)	(1,411)	(1,411)
Share of profit of associates	2	(33)	(106)	492	853	918
Other income/ (expenses)	524	546	1,139	124	132	161
Fair value gain of investment properties	1,831	2,310	1,586	0	0	0
Disposal/one-off items	0	(26)	(110)	0	0	0
Profit before tax	8,448	10,540	7,973	10,631	13,213	15,947
Tax	(3,393)	(3,884)	(2,871)	(4,696)	(5,436)	(6,481)
Profit after tax	5,055	6,656	5,103	5,935	7,778	9,466
Minority interest	(807)	(1,360)	(1,313)	(2,206)	(2,966)	(3,479)
Reported net profit	4,247	5,296	3,789	3,729	4,812	5,987
Less: exceptional items	(1,337)	(1,686)	(915)	0	0	0
Underlying net profit	2,910	3,610	2,874	3,729	4,812	5,987
Per share						
Underlying EPS (HK\$)	0.30	0.37	0.27	0.33	0.41	0.51
DPS (HK\$)	0.10	0.12	0.08	0.10	0.14	0.17
Payout ratio (%)	32%	31%	29%	32%	33%	33%
BVPS (HK\$)	3.07	3.53	3.46	3.49	3.80	4.20
Growth %						
Revenue	20.6%	42.6%	-25.2%	57.6%	26.9%	6.9%
Gross Profit	27.8%	25.6%	-26.0%	71.8%	17.1%	13.7%
EBIT	28.0%	20.9%	-32.7%	89.4%	19.4%	19.4%
Underlying net profit	35.1%	24.0%	-20.4%	29.7%	29.1%	24.4%
Margin %						
Gross margin	44.4%	39.1%	38.7%	42.2%	38.9%	41.4%
Gross margin (post-LAT)	15.0%	21.7%	19.6%	21.4%	19.6%	20.3%
EBIT margin	35.8%	30.3%	27.3%	32.8%	30.8%	34.4%
Core net margin	17.8%	16.8%	18.6%	15.6%	15.7%	18.1%
Key assumptions						
Presale (HK\$ mn)	18,384	23,108	33,366	44,289	52,811	43,175
GFA sold (mn sqm)	0.57	0.88	1.10	1.67	1.78	1.55
ASP (HK\$/sqm)	32,087	26,155	30,253	26,481	29,725	27,865
Booked Sales (HK\$ mn)	9,708	21,895	16,316	27,024	34,166	36,129
GFA delivered (mn sqm)	0.22	0.68	0.65	0.98	1.32	1.38
Booked ASP (HK\$/sqm)	44,144	32,108	25,250	27,511	25,838	26,244

Source: Company, ABCI Securities estimates



Consolidated balance sheet (2013A-2018E)

As of Dec 31 (HK\$ mn)	2013A	2014A	2015A	2016E	2017E	2018E
Current assets	46,720	55,658	73,763	64,909	80,945	92,213
Cash	14,490	12,455	13,126	4,630	21,207	33,017
Restricted cash	303	1,598	3,291	3,291	3,291	3,291
Trade & other receivables	4,202	3,593	3,040	3,040	3,040	3,040
Properties under development	10,714	18,319	23,181	23,181	23,181	23,181
Properties held for sale	5,915	7,619	7,540	7,540	7,540	7,540
Land under development	5,163	3,400	5,568	5,211	4,669	4,127
Other current assets	17,011	19,693	31,124	30,766	30,225	29,683
Non-current assets	74,123	82,367	85,137	106,112	98,970	91,088
Property, plant & equipment	7,495	12,423	14,608	14,968	15,283	15,598
Properties under development	33,318	27,759	22,441	42,563	34,253	25,138
Land under development	4,549	9,560	12,814	12,814	12,814	12,814
Investment properties	22,018	24,356	25,165	25,165	25,165	25,165
Investment in Associate and JCE	42	1,861	2,897	3,389	4,242	5,160
Other non-current assets	6,700	6,408	7,213	7,213	7,213	7,213
Total Assets	120,843	138,026	158,900	171,021	179,915	183,301
Current Liabilities	39,604	33,903	54,206	55,906	58,828	54,906
Short term borrowings	6,139	4,072	8,575	8,575	8,575	8,575
Trade & other payables	9,504	13,629	22,352	22,352	22,352	22,352
Pre-sales deposits	16,749	9,610	14,099	15,800	18,722	14,800
Other current liabilities	7,212	6,592	9,179	9,179	9,179	9,179
Non-current liabilities	34,020	47,790	45,791	45,791	45,791	45,791
Long term borrowings	29,667	42,687	40,403	40,403	40,403	40,403
Other payables	-	-	-	-	-	-
Other non-current liabilities	4,353	5,103	5,388	5,388	5,388	5,388
Total Liabilities	73,624	81,693	99,997	101,697	104,619	100,697
Net Assets	47,219	56,333	58,903	69,324	75,296	82,604
Shareholders' Equity	28,974	33,062	35,455	38,065	41,433	45,624
Perpetual Convertible Securities	4,588	4,588	4,588	4,588	4,588	4,588
Minority Interest	13,658	18,682	18,860	26,671	29,275	32,392
Total Equity	47,219	56,333	58,903	69,324	75,296	82,604
Key ratio						
Gross debt (HK\$m)	35,806	46,759	48,978	48,978	48,978	48,978
Net debt (HK\$m)	21,013	32,707	32,561	41,056	24,479	12,670
Net gearing (%)	45%	58%	55%	59%	33%	15%
Presale/ Total assets (x)	0.15	0.17	0.21	0.26	0.29	0.24

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2013A-2018E)

FY ended Dec 31 (HK\$ mn)	2013A	2014A	2015A	2016E	2017E	2018E
EBITDA	7,684	9,277	6,405	11,873	14,131	16,771
Change in Working Capital	(10,505)	2,540	6,173	(16,654)	13,184	7,146
Tax payment	(2,365)	(3,884)	(2,871)	(4,696)	(5,436)	(6,481)
Operating cash flow	(5,186)	7,933	9,707	(9,477)	21,879	17,436
Purchase of PP&E	(808)	(808)	(808)	(808)	(808)	(808)
Addition of Investment Properties	0	0	0	0	0	0
Investment in Associate/ JCE	0	0	0	0	0	0
Proceeds from Disposals	0	0	0	0	0	0
Others	32	546	1,139	124	132	161
Investing cash flow	(776)	(262)	331	(684)	(676)	(647)
Debt raised	25,961	10,000	10,000	10,000	10,000	10,000
Debt repaid	(21,339)	(20,352)	(19,791)	(10,000)	(10,000)	(10,000)
Interest expenses	(1,947)	(2,572)	(2,757)	(2,821)	(2,821)	(2,821)
Equity raised	0	0	4,348	0	0	0
Convertible securities coupon payments	(317)	(312)	(317)	(312)	(312)	(312)
Dividend to shareholders	(641)	(1,043)	(800)	(1,119)	(1,444)	(1,796)
Others	5,848	4,573	(50)	5,917	(50)	(50)
Financing cash flow	7,564	(9,706)	(9,367)	1,665	(4,627)	(4,979)
Net cash inflow/ (outflow)	1,602	(2,035)	671	(8,496)	16,577	11,810
Cash- beginning	12,888	14,490	12,455	13,126	4,630	21,207
Cash- year-end	14,490	12,455	13,126	4,630	21,207	33,017

Source(s): Company, ABCI Securities estimates

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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 2011-2016

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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