



November 20, 2015
Company Report
Rating: BUY
TP: HK\$ 78.10

Share price (HK\$) 49.35
Est. share price return 57.1%
Est. 15E dividend yield 2.8%
Est. total return 59.9%

Previous Rating & TP BUY, HK\$88.00
Previous Report Date May 8, 2015

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Key Data

52Wk H/L(HK\$)	78.0/42.3
Issued shares (mn)	4,474
Market cap	222,066
3-mth avg daily turnover (HK\$ mn)	143.4
Major shareholder(s) (%):	
WANG Jian Lin	50.5

Source(s): Company, Bloomberg, ABCI Securities

FY14 Revenue breakdown (%)

Property Development	99.2
Property Management	0.8

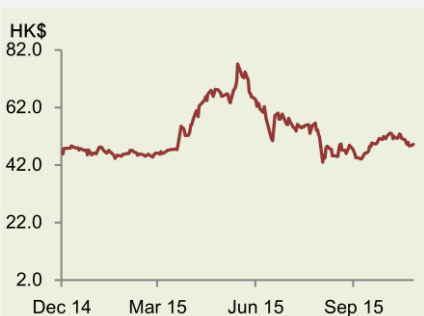
Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	(3.7)	0.0
3-mth	(6.7)	(4.5)
6-mth	(27.0)	(9.3)

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

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Wanda (3699 HK)

Lower-tier cites to boost growth; maintain BUY

- Reduced down-payment ratio for non-HPR cities should support better presales in tier 2&3 cities
- Rate cut should generate significant saving in finance cost saving and this will be reflected immediately in this year's P&L
- In 10M15, rental income surged 32.1%YoY to RMB11.6bn; presales grew 2.0%YoY to RMB109.8bn
- Maintain **BUY** with TP of HK\$ 78.10 (from HK\$ 75.40) based on a 50% discount to FY15E NAV.

Favorable policies in lower-tier cities help boost presales. Wanda's presales grew 2.0% YoY to RMB 109.8bn in 10M15, below the sector average growth of 14% YoY. The slower growth can be attributed to its high exposure in third-tier cities accounting for 68% of 1H15 presales. Following the reduction of down-payment ratio (from 30% to 25%) for non-HPR cities announced in Sep 2015, we expect property market in lower-tier cities will turn more active.

Rate cuts reduce finance cost. About 91% of Wanda's debt was raised onshore and PBOC rate-linked. Following multiple rate cuts in China, Wanda's average cost of debt dropped from 7.51% in FY14 to 6.96% in 1H15. Potential further rate cut in China will reduce interest expenses for onshore borrowing. Moreover, as China's corporate bond market turns active, Wanda's finance cost can be lowered by replacing trust loans (21% of total debt) with domestic corporate bonds. Wanda raised RMB 10bn through the 5-year medium-term note with a 4.6% coupon rate on Aug 3, 2015, and another RMB 5bn through the 5-year corporate bond with a 4.09% coupon rate on Aug 28, 2015. As net finance cost represented close to 20% of Wanda's EBIT in 2014, a lower interest cost will have an immediate impact on its net profit.

Fast growth in rental income. In 10M15, rental income grew 32.1% YoY to RMB 11.6bn. Shopping malls in the Wanda Plazas registered a foot traffic of 1,319mn visitors in 10M 15, up 27.7% YoY. We expect Wanda to open 21 new plazas in 2H15 (vs. 5 in 1H14), which should boost rental income in 2H15 and 2016.

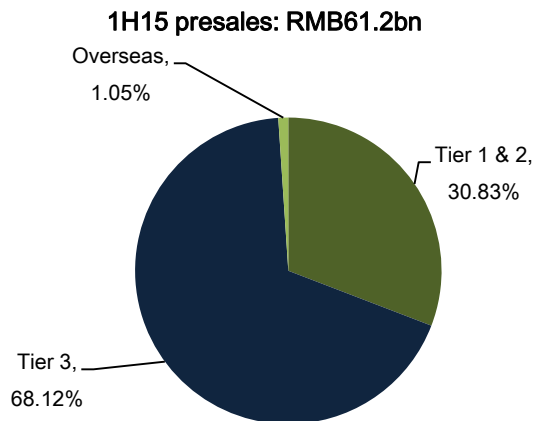
Maintain BUY with revised TP of HK\$ 78.10. We raise our NAV forecast from HK\$ 150.8/share to HK\$ 156.14/share as we roll forward our NAV estimate to 2016. We lift our TP to HK\$78.10 (from HK\$75.40), still base on a 50% discount to 2016E NAV. Wanda, being the key beneficiary of rate cut and policy relaxation, remains our top pick. Its shopping mall operation has stayed solid despite the slowing economy, which reflects its prowess in the commercial property realm. Maintain **BUY**.

Risk factors: 1) oversupply of shopping malls in China; 2) Competition from online retailing

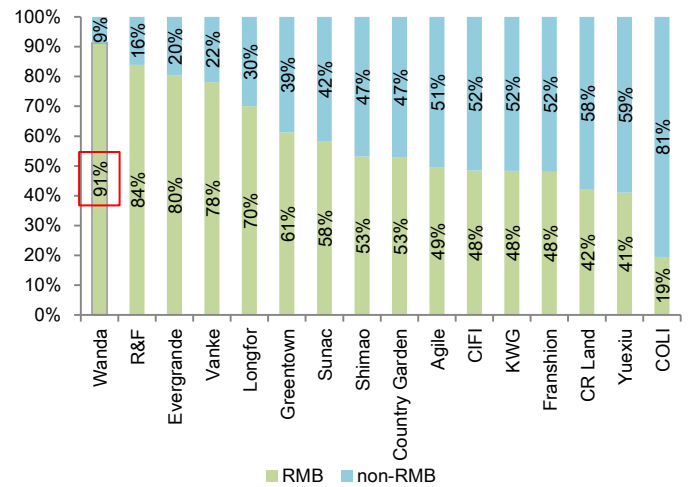
Results and Valuation

FY ended Dec 31	2013A	2014A	2015E	2016E	2017E
Revenue (RMB mn)	86,774	107,871	113,226	142,734	165,854
Chg (% YoY)	46.8	24.3	5.0	26.1	16.2
Core net profit (RMB mn)	12,999	14,824	16,801	22,972	29,850
Chg (% YoY)	19.4	14.0	13.3	36.7	29.9
Underlying EPS (RMB)	3.48	3.97	3.71	5.07	6.59
Chg (% YoY)	19.5	14.0	(6.6)	36.7	29.9
BVPS (RMB)	29.0	40.9	36.4	39.9	44.5
Chg (% YoY)	26.4	41.1	(11.2)	9.8	11.6
Underlying PE (x)	11.6	10.2	10.9	8.0	6.1
PB (x)	1.4	1.0	1.1	1.0	0.9
ROE (%)	12.0	9.7	10.2	12.7	14.8
ROA (%)	3.0	2.6	2.6	3.2	3.9
DPS (RMB)	-	0.95	1.11	1.52	1.98
Dividend yield (%)	-	2.4	2.8	3.8	4.9
Net gearing (%)	53.3	56.9	59.2	53.1	90.9

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

Exhibit 1: 1H15 presales by tiers of cities


Source(s): Company, ABCI Securities

Exhibit 2: Onshore debt as % of total debt


Source(s): Company, ABCI Securities

Exhibit 3: Wanda's 2016 E NAV estimates

	Attr. GFA (M sqm)	Net assets value (RMB m)	% of total	Valuation Methodology	Implied value per sqm (RMB)
Property development					
Residential	52.6	93,904	14%	DCF at WACC of 11.5%	1,786
Retail	7.0	124,742	18%		17,735
Office and others	44.6	233,136	34%		5,226
Subtotal	104.2	451,782	67%		4,334
Investment Properties	17.7	209,746	31%	6.0% cap rate on 2016E net rental income	11,843
Hotels		14,592	2%	8x 2016E EBITDA	
Total 2016E GAV	121.9	676,121	100%		5,544
2016E Net cash/ (debt)		(96,689)	-14%		
Total 2016E NAV		579,432	86%		
No. of share outstanding (diluted)		4,527			
NAV per share (RMB)		127.98			
Ex rate		1.22			
NAV per share (HKD)		156.14			
Target discount (%)		50%			
Target Price (HKD)		78.10			

WACC	
WACC	11.1%
Cost of debt	7.0%
Cost of Equity	18.0%
Debt/ (Debt + Equity)	54%

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2012A-2017E)

FY Ended Dec 31 (RMB mn)	2012A	2013A	2014A	2015E	2016E	2017E
Revenue	59,091	86,774	107,871	113,226	142,734	165,854
Cost of sales	(28,807)	(49,438)	(61,945)	(57,022)	(72,744)	(82,199)
Gross Profit	30,284	37,336	45,926	56,204	69,989	83,655
SG&A expenses	(7,219)	(9,565)	(13,653)	(18,961)	(22,520)	(22,397)
EBIT	23,065	27,771	32,273	37,243	47,469	61,259
Finance cost	(3,861)	(5,855)	(7,132)	(7,822)	(7,301)	(8,108)
Share of profit of associates	0	(9)	(2)	0	0	0
Other income/ (expenses)	2,162	4,142	3,206	1,834	1,613	1,308
Fair value gain of investment properties	21,898	15,443	13,455	0	0	0
Disposal/one-off items	0	0	0	0	0	0
Profit before tax	43,264	41,492	41,800	31,254	41,782	54,459
Tax	(15,443)	(16,610)	(16,699)	(14,454)	(18,810)	(24,609)
Profit after tax	27,821	24,882	25,101	16,801	22,972	29,850
Minority interest & Perpetual coupons	(511)	(301)	(262)	0	0	0
Reported net profit	27,310	24,581	24,839	16,801	22,972	29,850
Less: exceptional items	(16,424)	(11,582)	(10,015)	(0)	(0)	0
Underlying net profit	10,887	12,999	14,824	16,801	22,972	29,850
Per share						
Underlying EPS (RMB)	2.91	3.48	3.97	3.71	5.07	6.59
DPS (RMB)	-	-	0.95	1.11	1.52	1.98
Payout ratio (%)	0%	0%	24%	30%	30%	30%
BVPS (RMB)	22.95	29.01	40.94	36.35	39.90	44.52
Growth %						
Revenue	16.4%	46.8%	24.3%	5.0%	26.1%	16.2%
Gross Profit	24.6%	23.3%	23.0%	22.4%	24.5%	19.5%
EBIT	28.6%	20.4%	16.2%	15.4%	27.5%	29.0%
Underlying net profit	17.2%	19.4%	14.0%	13.3%	36.7%	29.9%
Margin %						
Gross margin	51.2%	43.0%	42.6%	49.6%	49.0%	50.4%
Gross margin (post-LAT)	39.3%	31.3%	32.6%	31.0%	31.0%	32.2%
EBIT margin	39.0%	32.0%	29.9%	32.9%	33.3%	36.9%
Core net margin	19.3%	15.3%	13.9%	14.8%	16.1%	18.0%
Key assumptions						
Contracted Sales (RMBm)	101,200	126,400	160,100	181,246	247,730	235,759
GFA sold (m sqm)	7.39	10.59	11.89	13.60	17.07	15.81
ASP (RMB/sqm)	13,700	11,941	13,470	13,323	14,509	14,915
Booked Sales (RMB)	50,573	74,981	91,748	92,653	118,688	139,661
GFA delivered (m sqm)	3.48	6.28	7.17	8.89	10.15	10.29
Booked ASP (RMB/sqm)	14,541	11,932	12,791	10,418	11,698	13,573

Source: Company, ABCI Securities estimates



Consolidated balance sheet (2012A-2017E)

As of Dec 31 (RMB mn)	2012A	2013A	2014A	2015E	2016E	2017E
Current assets	149,003	196,302	261,472	309,986	353,405	386,550
Cash	48,585	69,525	86,303	75,819	77,548	29,364
Restricted cash	2,131	4,139	6,732	6,732	6,732	6,732
Trade & other receivables	333	280	848	848	848	848
Property under development	76,378	100,474	145,192	204,191	245,880	327,209
Other current assets	21,576	21,884	22,397	22,397	22,397	22,397
Non-current assets	186,109	234,742	302,822	346,827	365,831	387,404
Property, plant & equipment	18,246	25,955	35,147	38,361	41,575	44,789
Investment properties	159,074	198,539	248,101	288,892	304,682	323,041
Investment in Associate and JCE	11	125	485	485	485	485
Other non-current assets	8,778	10,123	19,089	19,089	19,089	19,089
Total Assets	335,112	431,044	564,294	656,813	719,237	773,955
Current Liabilities	157,129	180,277	235,461	316,219	362,563	396,386
Short term borrowings	21,872	21,466	36,859	36,859	36,859	76,859
Trade & other payables	25,662	34,628	53,743	53,743	53,743	53,743
Pre-sales deposits	94,070	104,273	129,397	210,156	256,500	250,322
Other current assets	15,525	19,910	15,462	15,462	15,462	15,462
Non-current liabilities	90,632	136,895	173,687	173,687	173,687	173,687
Long term borrowings	71,547	112,916	144,505	144,505	144,505	144,505
Other payables	0	0	0	0	0	0
Other non-current assets	19,085	23,979	29,182	29,182	29,182	29,182
Total Liabilities	247,761	317,172	409,148	489,906	536,250	570,073
Net Assets	87,351	113,872	155,146	166,906	182,987	203,882
Shareholders Equity	85,727	108,286	152,814	164,574	180,655	201,550
Minority Interest	1,624	5,586	2,332	2,332	2,332	2,332
Total Equity	87,351	113,872	155,146	166,906	182,987	203,882
Key ratio						
Gross debt (RMBm)	93,419	134,382	181,364	181,364	181,364	221,364
Net debt (RMBm)	42,703	60,718	88,329	98,813	97,084	185,268
Net gearing (%)	49%	53%	57%	59%	53%	91%

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2012A-2017E)

FY Ended Dec 31 (RMB mn)	2012A	2013A	2014A	2015E	2016E	2017E
EBITDA	23,946	28,825	33,806	39,236	49,462	63,252
Change in Working Capital	622	(8,531)	291	27,510	10,021	(81,546)
Tax payment	(11,559)	(11,680)	(16,205)	(14,454)	(18,810)	(24,609)
Operating Cash flow	13,009	8,614	17,892	52,293	40,674	(42,903)
Purchase of PP&E	(3,255)	(5,207)	(5,207)	(5,207)	(5,207)	(5,207)
Addition of Investment Properties	(19,550)	(14,953)	(29,810)	(40,791)	(15,791)	(18,359)
Others	(1,369)	(1,888)	3,206	1,834	1,613	1,308
Investing Cash flow	(24,174)	(22,048)	(31,811)	(44,164)	(19,384)	(22,258)
Debt raised	57,470	84,359	58,860	50,000	50,000	50,000
Debt repaid	(33,848)	(40,304)	(37,300)	(50,000)	(50,000)	(10,000)
Interest expenses	(6,043)	(10,504)	(12,375)	(13,573)	(12,668)	(14,068)
Equity raised	0	0	25,058	0	0	0
Dividend to shareholders	(1,967)	(1,999)	(3,546)	(5,040)	(6,891)	(8,955)
Others	90	2,822	0	0	0	(0)
Financing Cash flow	15,702	34,374	30,697	(18,613)	(19,559)	16,977
Net cash inflow/ (outflow)	4,537	20,940	16,778	(10,484)	1,730	(48,184)
Cash- beginning	44,048	48,585	69,525	86,303	75,819	77,548
Cash- year-end	48,585	69,525	86,303	75,819	77,548	29,364

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 2010-2014

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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