



December 12, 2016
Company Report
Rating: BUY
TP: HK\$ 1.40

Share price (HK\$) 1.04
Est. share price return 34.6%
Est. dividend yield 4.0%
Est. total return 38.6%

Previous Rating & TP BUY; HK\$1.40
Previous Report Date October 11, 2016

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Key Data

52Wk H/L(HK\$)	1.24/0.722
Issued shares (mn)	5,761.2
Market cap (HK\$ mn)	6,049
3-mth avg daily turnover (HK\$ mn)	2.40
Major shareholder(s) (%):	
Ms Zeng Jie, Baby	57.68%
TCL Corporation	17.96%

Source(s): Company, Bloomberg, ABCI Securities

1H16 Revenue breakdown (%)

Property development	80.9
Property operation services	12.8
Property investment	1.7
Others	4.6

Source(s): Company, ABCI Securities

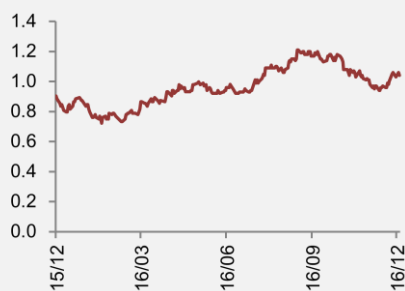
Share performance (%)

	Absolute	Relative*
1-mth	9.4	9.7
3-mth	(11.0)	(6.4)
6-mth	8.2	1.4

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Fantasia (1777 HK)
Positive outlook for 2017

- 11M16 presales grew 10% YoY to RMB 11.1bn; Shenzhen redevelopment projects will be the major driver for 2017
- Strategic partnership with Shanghai Yinwan will help boost Colour Life's O2O business
- Maintain BUY with TP of HK\$1.40, still based on a 60% discount to NAV

Shenzhen redevelopment projects to drive 2017 presales. Fantasia's 11M16 presales grew 10% YoY to RMB 11,127mn, representing 92.7% of its 2016 sales target of RMB12bn. GFA increased 1%YoY to 1.18mn sqm while ASP jumped 9% YoY to RMB 9,420/sqm. Since the major policy tightening by the government in Oct, homebuyers have turned more cautious and November presales declined 12% MoM to RMB 754mn. Although Fantasia's 11M16 presales growth of 11% YoY was slower than its peers (+65% YoY on average), we expect presales to increase in 2017 given the low base in 2016 and its redevelopment pipeline in Shenzhen. We expect regulatory approvals for its Kuiyong project in Dapeng New District (acquired in 2014) will be obtained in 1H17, adding ~0.25mn sqm of GFA to its landbank. This will increase Fantasia's saleable resource by about ~RMB 6.0bn, assuming an estimated ASP of RMB 25k/sqm, which is conservative in our view. Driven by the Shenzhen redevelopment projects, we expect presales to jump 26%YoY to RMB 14.2bn amid austerity measures in China's property market.

Strategic partnership with Shanghai Yinwan. In Nov 2016, Colour Life (1778 HK), Fantasia's property management arm, entered into a strategic partnership with Shanghai Yinwan, a major property management company (PMC) in China. Shanghai Yinwan managed 110mn sqm of GFA under its own operation and 250mn sqm of GFA under its franchised model, the Ikey Alliance. Colour Life's mobile app Caizhiyun will be promoted across projects managed by Shanghai Yinwan, hence the online user base would be enlarged significantly. In the past, the Caizhiyun app is used in projects managed or acquired by Colour Life. Going forward, this asset-light partnership model can expand the Group's O2O outreach to smaller PMCs lacking IT resources.

A niche SZ-HK connect player; maintain BUY with TP of HK\$ 1.40. The Shenzhen-HK connect was commenced on Dec 5, 2016 and Fantasia is among one of the eligible stocks for southbound trading under the program. Given its unique O2O business model, Fantasia would attract growing investment demand from mainland investors. Our TP is still based on a 60% discount to NAV (HK\$3.50/share). Maintain BUY.

Risk factors: (1) Unrealized FX loss; (2) Reliance on offshore bond market; (3) Policy risks; (4) Growth of property management business highly dependent on acquisition; (5) Integration risk; (6) Competition in online business; (7) Low average daily turnover.

Results and Valuation

FY ended Dec 31	2014A	2015A	2016E	2017E	2018E
Revenue (RMB mn)	7,306	8,164	9,667	10,732	12,395
Chg (% YoY)	0.4	11.7	18.4	11.0	15.5
Core net profit (RMB mn) ¹	752	544	680	966	1,001
Chg (% YoY)	(30.5)	(27.7)	25.1	42.1	3.6
Underlying EPS (RMB)	0.13	0.09	0.12	0.17	0.17
Chg (% YoY)	(40.9)	(27.7)	25.1	42.1	3.6
BVPS (RMB)	1.6	1.8	1.9	2.0	2.1
Chg (% YoY)	9.8	10.0	4.3	5.8	5.7
Underlying PE (x)	7.1	9.8	7.8	5.5	5.3
P/B (x)	0.6	0.5	0.5	0.5	0.4
ROE (%)	8.0	5.2	6.3	8.4	8.2
ROA (%)	1.8	1.2	1.3	1.7	1.4
DPS(HK\$)	0.05	0.05	0.04	0.06	0.06
Yield (%)	5.18	4.81	3.95	5.61	5.81
Net gearing ² (%)	86.7	75.6	61.9	57.3	47.2

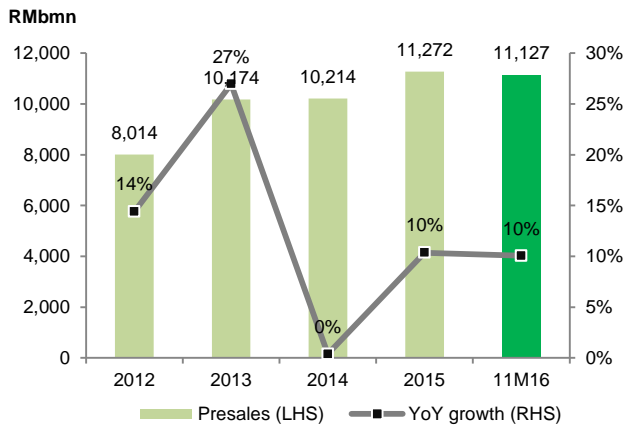
¹Core net profit = Net profit - revaluation gain of investment properties

²Net gearing = Net debt / Shareholders' equity

Source(s): Bloomberg, ABCI Securities estimates

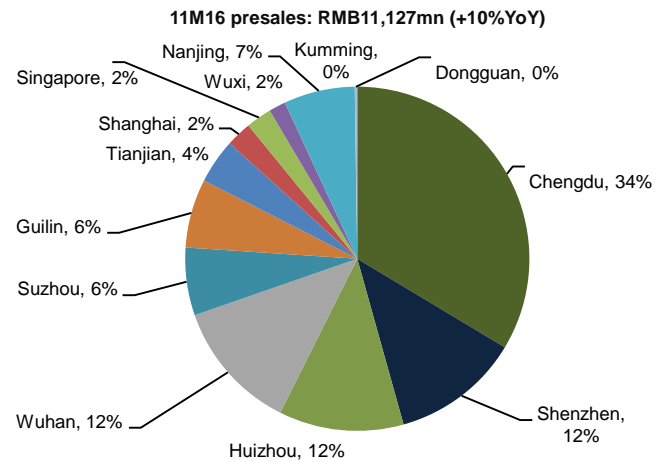


Exhibit 1: Fantasia's presales (2012-11M16)



Source(s): Company, ABCI Securities

Exhibit 2: Fantasia's presales by city (11M16)



Source(s): Company, ABCI Securities

Exhibit 3: Fantasia's end- FY17E NAV estimates

	Attr. GFA (mn sqm)	Net assets value (RMB mn)	% of total	Valuation Methodology	Implied value per sqm (RMB)
Property development					
Chengdu	2.1	3,983	21%	DCF with WACC of 11.6%	1,914
Shenzhen	0.4	3,425	18%		8,191
Beijing	0.3	2,718	15%		10,134
Guilin	1.7	2,108	11%		1,233
Nanjing	0.3	1,766	10%		5,525
Tianjin	0.6	1,392	8%		2,155
Suzhou	0.4	1,378	7%		3,674
Huizhou	0.7	567	3%		789
Others	2.4	1,219	7%		500
Subtotal	7.2	18,556	76%		
Colour Life (1778 HK)		2,447	10%	50% stake in Colour Life's mkt value	
Home E&E		598	2%	10x 2017E EBIT; 65.3% stake	
Investment Properties		2,903	12%	6.5% cap rate on 2017E net rental	
Total 2017E GAV		24,504	100%		
2017E Net cash/ (debt)		(7,262)	(30%)		
Total 2017E NAV		17,242	70%		
No. of share outstanding (diluted)		5,761			
NAV per share (RMB)		2.99			
Ex rate		1.17			
NAV per share (HKD)		3.50			
Target discount (%)		60%			
Target Price (HKD)		1.40			
WACC	11.6%				
Cost of Debt	8.0%				
Cost of Equity	20.0%				
Debt/ (Debt + Equity)	60%				

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2014A-2018E)

FY Ended Dec 31 (RMB mn)	2014A	2015A	2016E	2017E	2018E
Revenue	7,306	8,164	9,667	10,732	12,395
Cost of sales	(4,499)	(5,645)	(6,673)	(7,234)	(8,383)
Gross Profit	2,807	2,519	2,995	3,498	4,011
SG&A expenses	(855)	(1,060)	(1,331)	(1,451)	(1,842)
EBIT	1,951	1,459	1,663	2,047	2,169
Finance cost	(291)	(302)	(262)	(246)	(265)
Share of profit of associates	(13)	(7)	0	0	0
Other income/ (expenses)	23	30	0	0	0
Fair value gain of investment properties	672	890	0	0	0
Disposal/one-off items	187	652	0	0	0
Profit before tax	2,530	2,722	1,402	1,801	1,905
Tax	(1,157)	(1,319)	(621)	(760)	(821)
Profit after tax	1,372	1,403	781	1,041	1,083
Minority interest	(117)	(192)	(101)	(75)	(82)
Reported net profit	1,255	1,211	680	966	1,001
<i>Less: exceptional items</i>	<i>(504)</i>	<i>(667)</i>	<i>0</i>	<i>0</i>	<i>0</i>
Underlying net profit	752	544	680	966	1,001
Per share					
Underlying EPS (RMB)	0.13	0.09	0.12	0.17	0.17
DPS (RMB)	0.05	0.05	0.04	0.06	0.06
Payout ratio (%)	41%	53%	35%	35%	35%
BVPS (RMB)	1.64	1.81	1.88	1.99	2.11
Growth %					
Revenue	0.4%	11.7%	18.4%	11.0%	15.5%
Gross Profit	0.5%	-10.3%	18.9%	16.8%	14.7%
EBIT	-2.0%	-25.2%	14.0%	23.1%	6.0%
Underlying net profit	-30.5%	-27.7%	25.1%	42.1%	3.6%
Margin %					
Gross margin	38.4%	30.9%	31.0%	32.6%	32.4%
Gross margin (post-LAT)	37.1%	33.2%	34.9%	38.2%	38.6%
EBIT margin	26.7%	17.9%	17.2%	19.1%	17.5%
Core net margin	10.1%	3.1%	8.1%	9.7%	8.7%
Key assumptions					
Contracted Sales (RMBmn)	10,214	11,272	14,247	15,319	19,605
GFA sold (m sqm)	1.38	1.29	1.14	1.30	1.65
ASP (RMB/sqm)	7,394	8,745	12,484	11,760	11,907
Booked Sales (RMB)	6,535	6,562	7,551	8,086	9,210
GFA delivered (mn sqm)	1.07	0.99	0.60	0.66	0.77
Booked ASP (RMB/sqm)	6,092	6,661	12,484	12,301	11,956

Source: Company, ABCI Securities estimates



Consolidated balance sheet (2014A-2018E)

As of Dec 31 (RMB mn)	2014A	2015A	2016E	2017E	2018E
Current assets	28,250	31,242	37,858	43,616	56,258
Cash	3,738	2,882	4,694	4,879	7,838
Restricted cash	915	1,336	1,336	1,336	1,336
Trade & other receivables	3,873	4,604	4,604	4,604	4,604
Property under development	19,477	21,836	26,640	32,212	41,896
Other current assets	247	584	584	584	584
Non-current assets	13,004	13,309	13,173	13,005	12,800
Property, plant & equipment	1,542	1,767	1,631	1,463	1,258
Investment properties	6,642	6,885	6,885	6,885	6,885
Investment in Associate and JCE	612	417	417	417	417
Other non-current assets	4,208	4,240	4,240	4,240	4,240
Total Assets	41,254	44,551	51,031	56,621	69,058
Current Liabilities	18,234	19,684	26,380	31,315	43,068
Short term borrowings	4,869	2,412	2,412	2,412	4,412
Trade & other payables	5,516	6,627	6,627	6,627	6,627
Pre-sales deposits	3,387	5,556	12,252	17,187	26,939
Other current assets	4,462	5,089	5,089	5,089	5,089
Non-current liabilities	11,608	12,627	12,627	12,627	12,627
Long term borrowings	9,674	11,065	11,065	11,065	11,065
Other payables	0	0	0	0	0
Other non-current assets	1,935	1,562	1,562	1,562	1,562
Total Liabilities	29,842	32,311	39,007	43,942	55,695
Net Assets	11,412	12,240	12,024	12,679	13,364
Shareholders' Equity	9,453	10,408	10,852	11,481	12,134
Minority Interest	1,249	1,121	1,172	1,197	1,230
Perpetual capital instrument	711	711	0	0	0
Total Equity	10,702	11,530	12,024	12,679	13,364
Key ratio					
Gross debt (RMBmn)	14,543	13,477	13,477	13,477	15,477
Net debt (RMBmn)	9,890	9,259	7,447	7,262	6,303
Net gearing (%)	87%	76%	62%	57%	47%
Contracted sales/ Total assets (x)	0.25	0.25	0.28	0.27	0.28

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2013A-2017E)

FY ended Dec 31 (RMB mn)	2014A	2015A	2016E	2017E	2018E
EBITDA	2,042	1,589	1,820	2,234	2,394
Change in Working Capital	137	255	2,776	194	963
Tax payment	(766)	(522)	(621)	(760)	(821)
Operating cash flow	1,413	1,323	3,975	1,669	2,536
Purchase of PP&E	(570)	(424)	(20)	(20)	(20)
Addition of Investment Properties	(653)	(604)	0	0	0
Others	(608)	4	0	0	0
Investing cash flow	(1,831)	(1,024)	(20)	(20)	(20)
Debt raised	10,368	4,794	4,000	4,000	4,000
Debt repaid	(6,857)	(6,565)	(4,000)	(4,000)	(2,000)
Interest expenses	(1,026)	(1,120)	(1,146)	(1,078)	(1,158)
Equity raised	(1,831)	(1,024)	(20)	(20)	(20)
Dividend to shareholders	(306)	(245)	(237)	(336)	(348)
Others	3,161	1,244	(741)	(30)	(30)
Financing cash flow	3,510	(2,916)	(2,143)	(1,464)	444
Net cash inflow/ (outflow)	3,092	(2,617)	1,812	185	2,959
Cash- beginning	2,777	3,738	2,882	4,694	4,879
Cash- year-end	5,869	1,121	4,694	4,879	7,838

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

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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