



December 12, 2016
Company Report
Rating: BUY
TP: HK\$ 3.30

Share price (HK\$)	2.87
Est. share price return	15.0%
Est. dividend yield	7.3%
Est. total return	22.3%

Previous Rating & TP	NA
Previous Report Date	NA

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Key Data

52Wk H/L(HK\$)	3.04/1.59
Issued shares (mn)	3,816
Market cap (HK\$ mn)	10,646
3-mth avg daily turnover (HK\$ mn)	23.14
Major shareholder(s) (%):	
LAM Lung On & KWOK Ying Lan	68.3%

Source(s): Company, Bloomberg, ABCI Securities

1H16 Revenue breakdown (%)

Property development	97.0
Property management	1.5
Property investment	1.2
Hotels & others	0.3

Source(s): Company, ABCI Securities

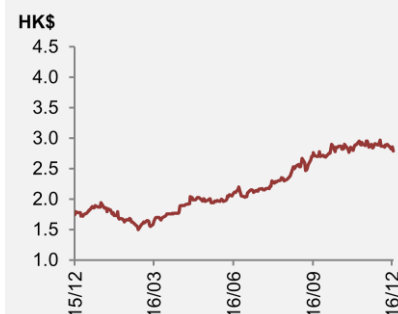
Share performance (%)

	Absolute	Relative*
1-mth	(2.1)	(1.8)
3-mth	3.3	8.9
6-mth	29.0	20.1

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Yuzhou (1628 HK)

Our property pick for SZ-HK connect

- YRD will be the key focus of Yuzhou, accountable for 70% of its saleable resources
- HPR only applies to Hefei's city centre. Yuzhou's project located in Feixi district, where HPR doesn't apply, achieved impressive presales.
- Yuzhou, eligible for southbound trading in the SZ-HK Stock Connect, will benefit from growing investment demand from mainland China.
- We maintain BUY on Yuzhou, TP HK\$3.30, still based on 60% discount to NAV.

YRD will be Yuzhou's key focus. We have conducted site visits to Yuzhou's projects in Nanjing, Hefei and Shanghai. The three regions accounted for 13%, 21% and 14% of Yuzhou's 10M16 presales (RMB20.4bn, +102%YoY; 93% of RMB 22bn revised target), respectively. In the future, YRD will be the Group's key focus as region will take up 70% of saleable resources. Recently, Yuzhou has also expanded to Hangzhou. To support the rapid development in the region, Yuzhou relocated its head office from Xiamen to Shanghai.

Nanjing: presales set to grow on the rising number of projects. We visited the The Jiqing (禹洲·吉庆里) project in Nanjing. The project contributed RMB 2,634mn to 10M16 presales, with ASP increasing from RMB 32,000/sqm during its first launch in Jan 2016, to ~RMB 35,500/sqm in Sep 2016. Although presales may slow on the implementation of HPR, Yuzhou's presales in Nanjing is set to grow, since only 1 out of the 7 projects in the pipeline were launched as of Dec 2016.

Hefei: differentiated property policies in the city. We visited two Yuzhou's projects in Hefei, the Yuzhou Royal Seal (禹洲·天玺) in Feixi and Yuzhou Central Town (禹洲·中央城) in the Xinzhan District. As HPR is not implemented in Feixi, investment demand accounts for 20-30% of presales from Royal Seal project. Presales ASP grew from RMB 6,348/sqm in Jan 2016 to RMB 11,600/sqm in Sep 2016. In contrary, for Yuzhou Central Town located in the city centre where HPR applies, sales performance slowed noticeably after tightening measures were enforced in Oct. According to the local sales team, only ~400 out of 650 units launched in Oct were sold at an ASP of RMB14,000/sqm up to Nov 2016.

Shanghai: presales ASP control in place. We visited the Bustling Centre (禹洲·老城里) and Yuhang (禹洲·丁香里) project in Jiading District, Shanghai. For the Bustling Centre project debuted in 2015, ASP rose from RMB24,000/sqm in Oct 2015, to RMB 28,000 in Mar 2016 and RMB 35,000/sqm in Aug 2016, representing a 46% price hike in less than a year. However, local management commented the Yuhang project, which was launched in Nov 2016, experienced some presales price control as the government attempts to reign in the property price. As a result, secondary homes are sold at a higher price compared to new projects in the region.

Results and Valuation

FY ended Dec 31	2014A	2015A	2016E	2017E	2018E
Revenue (RMB mn)	7,837	10,376	12,850	17,489	23,761
Chg (% YoY)	4.9	32.4	23.9	36.1	35.9
Core net profit (RMB mn) ¹	1,025	1,620	1,935	2,588	3,545
Chg (% YoY)	(6.0)	58.0	19.4	33.8	37.0
Underlying EPS (RMB)	0.30	0.44	0.51	0.68	0.93
Chg (% YoY)	(6.0)	48.5	15.1	33.8	37.0
BVPS (RMB)	2.36	2.62	2.82	3.22	3.76
Chg (% YoY)	11.0	10.6	7.8	14.1	17.0
Underlying PE (x)	8.6	5.8	5.0	3.8	2.7
P/B (x)	1.1	1.0	0.9	0.8	0.7
ROE (%)	12.5	16.8	18.0	21.1	24.7
ROA (%)	2.6	3.1	2.9	3.5	4.4
DPS(HK\$)	0.16	0.18	0.21	0.28	0.38
Yield (%)	5.6	6.3	7.3	9.7	13.4
Net gearing ² (%)	59.8	79.4	79.5	Net Cash	Net Cash

¹Core net profit = Net profit - revaluation gain of investment properties and one-off items

²Net gearing = Net debt / Shareholders' equity

Source(s): Bloomberg, ABCI Securities estimates



Yuzhou is our property pick for the Shenzhen-HK Stock Connect. The Shenzhen-HK Stock Connect was commenced on Dec 5, 2016. Yuzhou, an eligible stock for southbound trading in the program, will benefit from growing investment demand from mainland China. Yuzhou has been active in promoting its brand to mainland investors. Close to 40 sell/ buy side analysts attended the reverse roadshow held in Nov, 2016, with many representing the Chinese brokerage firms. We maintain BUY on Yuzhou with TP of HK\$3.30 based on a 60% discount to NAV.

Risk factors: 1) Margin contraction on expensive land acquisition; 2) Placement risk; 3) Further policy tightening

Exhibit 1: Nanjing project- Yuzhou The Jiqing (禹洲·吉庆里)



Source(s): Company, ABCI Securities

Exhibit 2: Nanjing project- Yuzhou The Jiqing (禹洲·吉庆里)



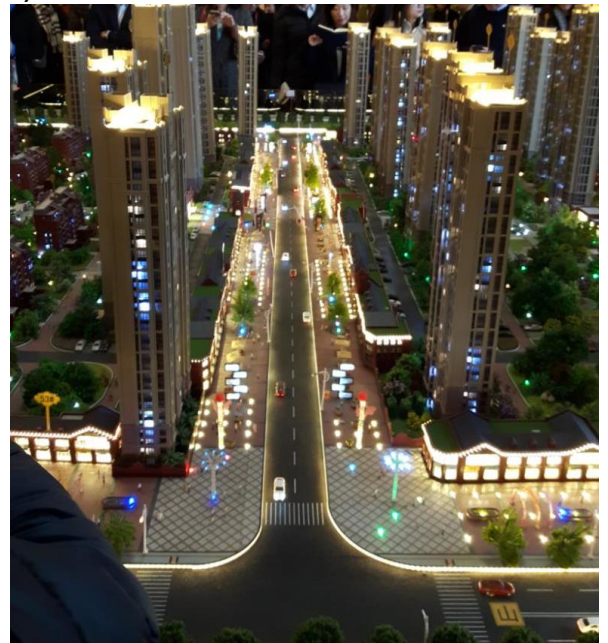
Source(s): Company, ABCI Securities

Exhibit 3: Hefei project- Yuzhou Royal Seal (禹洲·天玺)



Source(s): Company, ABCI Securities

Exhibit 4: Hefei project- Yuzhou Royal Seal (禹洲·天玺)



Source(s): Company, ABCI Securities

Exhibit 5: Hefei project- Yuzhou Central Town (禹洲·中央城)



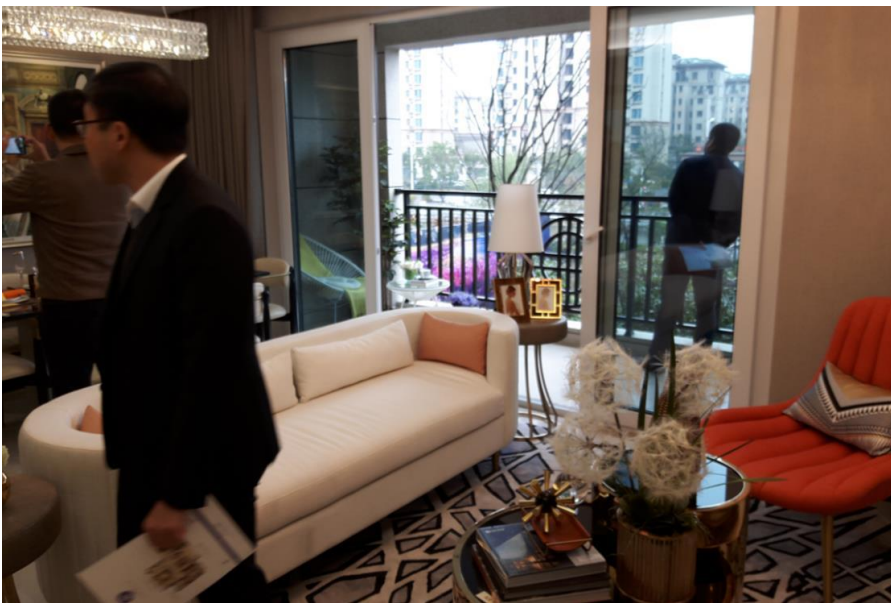
Source(s): Company, ABCI Securities

Exhibit 6: Hefei project- Yuzhou Central Town (禹洲·中央城)



Source(s): Company, ABCI Securities

Exhibit 7: Shanghai project- Yuzhou Yuhang project (禹洲·丁香里)



Source(s): Company, ABCI Securities

Exhibit 8: Shanghai project- Yuzhou Yuhang project (禹洲·丁香里)



Source(s): Company, ABCI Securities

Exhibit 9: Shanghai project- The Bustling Centre (禹洲·老城里)


Source(s): Company, ABCI Securities

Exhibit 10: Shanghai project- The Bustling Centre (禹洲·老城里)


12号		均价(元/㎡)		总价	
楼号	房号	建筑面积(㎡)	均价	总价	总价
25层	2502	135.88	141.72	19380.00	19380.00
24层	2402	141.72	141.72	20080.00	20080.00
23层	2302	141.72	141.72	20080.00	20080.00
22层	2202	141.72	141.72	20080.00	20080.00
21层	2102	141.72	141.72	20080.00	20080.00
20层	2002	141.72	141.72	20080.00	20080.00
19层	1902	141.72	141.72	20080.00	20080.00
18层	1802	141.72	141.72	20080.00	20080.00
17层	1702	141.72	141.72	20080.00	20080.00
16层	1602	140.85	140.85	19800.00	19800.00
15层	1502	140.85	140.85	19800.00	19800.00
14层	1402	140.85	140.85	19800.00	19800.00
13层	1302	140.85	140.85	19800.00	19800.00
12层	1202	140.85	140.85	19800.00	19800.00
11层	1102	140.85	140.85	19800.00	19800.00
10层	1002	140.85	140.85	19800.00	19800.00
9层	902	140.85	140.85	19800.00	19800.00
8层	802	140.85	140.85	19800.00	19800.00
7层	702	140.85	140.85	19800.00	19800.00
6层	602	140.85	140.85	19800.00	19800.00
5层	502	140.85	140.85	19800.00	19800.00
4层	402	140.85	140.85	19800.00	19800.00
3层	302	140.85	140.85	19800.00	19800.00
2层	202	140.85	140.85	19800.00	19800.00
1层	102	137.92	36414	4995870	4995870

Source(s): Company, ABCI Securities



Consolidated income statement (2013A-2018E)

FY Ended Dec 31 (RMB mn)	2013A	2014A	2015A	2016E	2017E	2018E
Revenue	7,471	7,837	10,376	12,850	17,489	23,761
Cost of sales	(5,152)	(4,992)	(6,666)	(8,241)	(11,547)	(16,066)
Gross Profit	2,319	2,845	3,709	4,609	5,943	7,695
SG&A expenses	(400)	(547)	(658)	(891)	(1,040)	(1,163)
EBIT	1,919	2,298	3,052	3,718	4,903	6,532
Finance cost	(170)	(175)	(152)	(221)	(300)	(376)
Share of profit of associates	(3)	0	(42)	-	5	11
Other income/ (expenses)	78	75	107	120	129	137
Fair value gain of investment properties	617	493	-	-	-	-
Disposal/one-off items	19	-	179	-	-	-
Profit before tax	2,461	2,692	3,143	3,616	4,737	6,303
Tax	(971)	(1,329)	(1,475)	(1,650)	(2,118)	(2,748)
Profit after tax	1,490	1,363	1,668	1,966	2,618	3,555
Minority interest	(20)	(109)	(11)	(31)	(30)	(10)
Reported net profit	1,470	1,254	1,657	1,935	2,588	3,545
Less: exceptional items	(380)	(229)	(37)	0	0	(0)
Underlying net profit	1,090	1,025	1,620	1,935	2,588	3,545
Per share						
Underlying EPS (RMB)	0.32	0.30	0.44	0.51	0.68	0.93
DPS (HK\$)	0.15	0.16	0.18	0.21	0.28	0.38
Payout ratio (%)	48%	54%	41%	41%	41%	41%
BVPS (RMB)	2.13	2.36	2.62	2.82	3.22	3.76
Growth %						
Revenue	91.9%	4.9%	32.4%	23.9%	36.1%	35.9%
Gross Profit	50.3%	22.7%	30.4%	24.3%	28.9%	29.5%
EBIT	53.0%	19.7%	32.8%	21.8%	31.9%	33.2%
Underlying net profit	34.6%	-6.0%	58.0%	19.4%	33.8%	37.0%
Margin %						
Gross margin	31.0%	36.3%	35.8%	35.9%	34.0%	32.4%
Gross margin (post-LAT)	24.8%	28.9%	30.7%	28.3%	26.9%	25.8%
EBIT margin	25.7%	29.3%	29.4%	28.9%	28.0%	27.5%
Core net margin	13.6%	12.7%	15.2%	15.3%	14.9%	14.9%
Key assumptions						
Contracted Sales (RMB mn)	10,959	12,001	14,018	22,162	24,860	25,727
GFA sold (mn sqm)	1.04	1.20	1.40	1.83	2.02	2.02
ASP (RMB/sqm)	10,499	9,972	9,997	12,127	12,298	12,753
Booked Sales (RMB mn)	7,349	7,681	10,158	12,632	17,271	23,543
GFA delivered (mn sqm)	0.79	0.74	1.11	1.04	1.43	1.91
Booked ASP (RMB/sqm)	9,247	10,437	9,172	12,127	12,105	12,295

Source: Company, ABCI Securities estimates



Consolidated balance sheet (2013A-2018E)

As of Dec 31 (RMB mn)	2013A	2014A	2015A	2016E	2017E	2018E
Current assets	21,847	29,560	44,739	56,510	67,520	73,772
Cash	3,508	9,296	10,973	12,078	28,931	45,541
Restricted cash	376	489	976	976	976	976
Trade & other receivables	1,630	1,679	2,163	2,163	2,163	2,163
Property under development	13,985	16,979	28,913	39,580	33,737	23,379
Other current assets	2,349	1,118	1,714	1,714	1,714	1,714
Non-current assets	5,515	9,515	8,107	9,120	9,063	8,992
Property, plant & equipment	454	795	871	831	773	700
Investment properties	4,851	5,960	6,471	6,471	6,471	6,471
Investment in Associate and JCE	-	2,508	89	1,141	1,142	1,144
Other non-current assets	209	252	677	677	677	677
Total Assets	27,362	39,075	52,846	65,630	76,583	82,764
Current Liabilities	11,483	17,279	25,626	37,293	46,747	50,887
Short term borrowings	1,984	3,805	3,987	5,987	7,987	9,987
Trade & other payables	2,504	3,690	6,297	6,297	6,297	6,297
Pre-sales deposits	4,003	3,893	7,221	16,888	24,342	26,482
Other current assets	2,992	5,890	8,120	8,120	8,120	8,120
Non-current liabilities	8,407	12,407	16,979	16,979	16,979	16,979
Long term borrowings	7,726	11,599	16,096	16,096	16,096	16,096
Other payables	-	-	-	-	-	-
Other non-current assets	681	808	883	883	883	883
Total Liabilities	19,890	29,685	42,605	54,271	63,725	67,865
Net Assets	7,472	9,390	10,241	11,359	12,858	14,899
Shareholders' Equity	7,362	8,173	9,622	10,757	12,277	14,358
Perpetual capital instrument	-	-	-	-	-	-
Minority Interest	110	1,216	620	601	581	541
Total Equity	7,472	9,390	10,241	11,359	12,858	14,899
Key ratio						
Gross debt (RMB mn)	9,710	15,404	20,083	22,083	24,083	26,083
Net debt (RMB mn)	5,827	5,620	8,134	9,029	(5,824)	(20,434)
Net gearing (%)	78%	60%	79%	79%	-45%	-137%
Contracted sales/ Total assets (x)	40%	31%	27%	34%	32%	31%

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2013A-2018E)

As of Dec 31 (RMB mn)	2013A	2014A	2015A	2016E	2017E	2018E
EBITDA	1,947	2,322	3,094	3,777	4,980	6,625
Change in Working Capital	1,887	(82)	(997)	255	14,497	13,627
Tax payment	(876)	(817)	(1,355)	(1,650)	(2,118)	(2,748)
Operating Cash flow	2,958	1,424	742	2,382	17,359	17,503
Purchase of PP&E	(123)	(55)	(112)	(20)	(20)	(20)
Addition of Investment Properties	-	(331)	(881)	-	-	-
Others	(3,771)	(333)	(324)	(932)	133	146
Investing Cash flow	(3,894)	(718)	(1,316)	(952)	113	126
Debt raised	5,721	7,945	8,144	10,000	10,000	10,000
Debt repaid	(3,544)	(2,462)	(4,088)	(8,000)	(8,000)	(8,000)
Interest expenses	(868)	(1,130)	(1,295)	(1,476)	(1,500)	(1,505)
Equity raised	-	-	623	-	-	-
Dividend to shareholders	(231)	(405)	(443)	(799)	(1,069)	(1,464)
Others	35	1,134	(691)	(50)	(50)	(50)
Financing Cash flow	1,113	5,082	2,251	(325)	(619)	(1,019)
Net cash inflow/ (outflow)	178	5,788	1,677	1,105	16,853	16,610
Cash- beginning	3,330	3,508	9,296	10,973	12,078	28,931
Cash- year-end	3,508	9,296	10,973	12,078	28,931	45,541

Source(s): Company, ABCI Securities estimates



Disclosures

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 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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