



September 1, 2015 Company Report Rating: UNRATED

Share price (HK\$) 0.92

Analyst: Kenneth Tung
Tel: (852) 2147 8311
Email: kennethtung@abci.com.hk

Key Data

52Wk H/L(HK\$)	2.29/0.77
Issued shares (mn)	4,014
Market cap (HK\$ mn)	3,733
3-mth avg daily turnover (HK\$ mn)	4.01
Major shareholder(s) (%): Wong Choi Hing	51.85

Source(s): Company, Bloomberg, ABCI Securities

FY14 Revenue breakdown (%)

Property Development	99.4
Property Investment	0.2
Others	0.4

Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	(4.1)	9.8
3-mth	(38.8)	(21.3)
6-mth	(35.6)	(26.1)

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

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Hydoo (1396 HK) 1H15 results highlights

- 1H15 reported net profit rose 23%YoY to RMB 271mn; core profit declined from RMB 196mn in 1H14 to RMB 18mn
- Net gearing rose to 23% as of June 2015 from a net cash position in Dec 2014
- Presales rose 27% YoY to RMB 1,876m as GFA sold increased by 29%YoY
- Entered into agreements to develop projects in One-Belt-One-Road region including Bangkok

1H15 results review. Reported net profit increased 23%YoY to RMB 271mn in 1H15. Excluding the fair value gain of investment properties and embedded derivative of convertible bond, 1H15 core net profit was ~RMB18mn, much lower than the RMB196mn achieved in 1H14. The core net profit was mainly driven down by (i) gross margin that fell from 63.6% in 1H14 to 46.1% in 1H15 on changes in product mix; (ii) higher finance cost of RMB 65mn in 1H15 vs. RMB 1mn in 1H14. Hydoo was in a net cash position in Dec 14 as compared to having a net debt of RMB 1bn in June 2015. However, its net gearing at 23% as of June 2014 is still healthy. In Jan 2015, Hydoo introduced Ping An Real Estate as a strategic investor by issuing a US\$ 120mn of 5-year convertible note with a conversion price of HK\$ 1.956 and a 7%coupon.

1H15 presales rose 27%YoY to RMB 1,876mn. Hydoo achieved RMB 1,876mn in 1H15 presales, up 27%YoY as GFA sold expanded by 29%YoY. 6M15 presale amounted to 31% of FY15 sales target of RMB6bn, but the Group remains confident in achieving its target as the majority of its new projects will be launched in Sep-Dec this year. In 1H15, Hydoo acquired a new project in Jiamusi with an estimated GFA of 191ksqm. Together with additional land acquisitions in existing projects during 1H15, its land bank rose from 9.6mn sqm in Dec 14 to 10.4mn sqm in Jun 15.

Hydoo's One-Belt-One-Road (OBOR) strategy. To actively participate in China's One-Belt-One-Road strategy, Hydoo entered into new investment frame work agreements to develop the Taizhou and Panzhuhua projects, which are strategically located in the OBOR zone. Hydoo also entered into MOU to develop a trade center in Bangkok - a key city in the ASEAN region of OBOR.

Risk factors: 1) Uncertain timing and sizes of government grants; 2) Overreliance on investors' demand; 3) Concerns related to resignation of ex-chairman.

Results and Valuation

FY ended Dec 31	2011A	2012A	2013A	2014A
Revenue (RMB mn)	833	1,607	4,756	3,360
Chg (% YoY)	770.0	93.0	196.0	(29.4)
Underlying Net Income (RMB mn) ¹	216	363	1,418	479
Chg (% YoY)	1,100.0	67.9	291.0	(66.2)
Underlying EPS (RMB)	0.07	0.12	0.44	0.12
Chg (% YoY)	1,100.0	67.9	260.1	(72.7)
BVPS (RMB)	0.12	0.32	1.36	1.07
Chg (% YoY)	97.2	154.9	328.7	(21.5)
Underlying PE (x)	10.6	6.3	1.7	6.4
P/B (x)	6.1	2.4	0.6	0.7
ROE (%)	58.0	38.2	32.1	11.2
ROA (%)	7.2	7.1	12.9	4.0
DPS(HK\$)	-	-	0.15	0.04
Yield (%)	-	-	20.1	5.5
Net gearing ² (%)	42.4	76.2	Net cash	Net cash

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

²Net gearing=Net debt/Total equity

Source(s): Bloomberg, ABCI Securities

Exhibit 1: Hydoo's 1H15 results

P&L	1H15	1H14	YoY Chg
	RMBmn	RMBmn	(%)
Turnover	950	974	(2.5)
Cost of Sales & direct operating costs	(512)	(354)	44.5
Gross Profit	438	620	(29.3)
Gross Margin (%)	46.1	63.6	(17.5ppt)
Selling and distribution costs	(83)	(73)	13.6
Administrative and other expense	(240)	(218)	9.7
EBIT	116	329	(64.8)
EBIT Margin (%)	12.2	33.7	(21.6ppt)
Other income	64	4	1,693.6
Non-recurring items	338	33	928.2
Share of profit from JCE/ Associates	-	-	na
Finance income	7	8	(5.6)
Finance cost	(65)	(1)	7,977.1
Profit before tax	460	372	23.6
Tax	(179)	(153)	17.2
- LAT	(50)	(88)	(43.3)
- Enterprise tax	(130)	(65)	98.2
Profit after tax	281	219	28.1
Minority Interest	(10)	2	(630.2)
Net profit	271	221	22.7
Core net profit	18	196	(91.0)

Operating statistics	1H15	1H14	YoY Chg
			%
Contracted GFA (mn sqm)	0.29	0.22	29.2
Contracted ASP (RMB/sqm)	6,526	6,618	(1.4)
Contracted Sales (RMB mn)	1,876	1,473	27.4
GFA Delivered (mn sqm)	0.13	0.14	(4.0)
Booked ASP (RMB/sqm)	6,941	6,933	0.1
Property sales booked (RMB mn)	927	964	(3.9)

Balance sheet	Jun-15	Dec-14	YoY chg
	RMB mn	RMB mn	
Gross debt	2,719	1,562	74.0
Cash	1,651	1,819	(9.2)
Net debt	1,068	(257)	NA
Net gearing (%)	23%	Net cash	

Source(s): Company, ABCI Securities

Disclosures

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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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**Office address: ABCI Securities Company Limited, 13/F Fairmont House,
8 Cotton Tree Drive, Central, Hong Kong.**

Tel: (852) 2868 2183
