



Fantasia (1777 HK) Harvest time for O2O; reiterate BUY

- FY16 core profit dropped 11% YoY to RMB 643mn on higher finance costs
- Presales momentum would resume in 2017, with the Group targeting a presales of RMB 15bn (+ 23% YoY) for the year
- O2O business is progressing well. Value-added services (VAS) revenue of the Group's subsidiary, Colour Life (1778 HK), jumped 48% to RMB 157mn in FY16
- Maintain **BUY** with revised TP of HK\$ 1.37 (from HK\$ 1.40), still based on a 60% discount to NAV

Core profit declined 11% YoY to RMB 643mn. Fantasia reported a net profit decline of 33%YoY to RMB 806mn in FY16. Excluding the fair value gains and exchange losses, core profit declined 11% YoY to RMB 643mn, 5% lower than our estimates. The actual-forecast difference was mainly due to higher-than-expected finance cost of RMB 932mn, up 208% YoY, as capitalization ratio dropped from 77% in FY15 to 49% in FY16 while gross debt balance was driven up by bond issuance. Management commented the capitalization ratio may recover as new construction starts may rebound from 0.5mn sqm in 2016 to 1.5mn sqm in 2017. Gross margin improved 1.5ppt YoY to 32.3% due to booking of a high-margin Shenzhen project. Net gearing rose 5.2ppt YoY to 80.9% as at Dec 2016.

Presales momentum should resume in 2017. In FY16, Fantasia's presales rose 8.3% YoY to RMB 12.2bn, much lower than the average presales growth of 51% YoY among peers. However, given the low base in 2016 and its redevelopment pipeline in Shenzhen, management targets to achieve RMB 15bn in presales for 2017, implying a faster growth of 23% YoY. The 5 Shenzhen redevelopment projects with a planned GFA of 3.0mn sqm should also generate meaningful returns in the future.

Harvesting time for O2O. Property operation business jumped 30% YoY to RMB 1,652mn, thanks to its 50%-owned subsidiary, Colour Life (1778 HK), whose GFA under management grew 23% YoY to 395mn sqm and VAS revenue grew 48% YoY to 157mn. Its active online users jumped 102% YoY to 1.74mn. Qian Sheng Hua, the online platform of the Fantasia's financial division, generated sizeable revenue of RMB 73mn in FY16 since registered users rose from 0.4mn in FY15 to 1.2mn in FY16. Total invested amount via the platform soared to RMB 2,914mn in FY16 from RMB 600mn in FY15.

Maintain BUY with TP of HK\$ 1.37. We factor in a lower capitalization ratio for finance cost (from 77% to 60%) and trimmed our FY17E core profit forecast by 18%. We lower our end-17E NAV estimate by 2.3% to HK\$ 3.42/share (from HK\$ 3.50) on better-than-expected O2O business in property management and financial divisions. Our TP of HK\$ 1.37 (from HK\$ 1.40) is based on a 60% discount to NAV. Maintain **BUY**.

Risk factors: (1) Unrealized FX loss; (2) Reliance on offshore bond market; (3) Competition in online business; (4) Low average daily turnover.

Results and Valuation

FY ended Dec 31	2015A	2016A	2017E	2018E	2019E
Revenue (RMB mn)	8,164	10,921	11,435	13,958	15,564
Chg (% YoY)	11.7	33.8	4.7	22.1	11.5
Core net profit (RMB mn)	719	643	790	1,107	1,345
Chg (% YoY)	(4.4)	(10.5)	22.7	40.2	21.5
Core EPS (RMB)	0.12	0.11	0.14	0.19	0.23
Chg (% YoY)	(4.5)	(10.5)	22.7	40.2	21.5
BVPS (RMB)	1.8	1.9	2.0	2.1	2.3
Chg (% YoY)	10.0	5.3	4.6	6.6	7.2
Core PE (x)	8.9	9.9	8.1	5.8	4.7
P/B (x)	0.6	0.6	0.6	0.5	0.5
ROE (%)	6.9	5.9	6.9	9.1	10.3
ROA (%)	1.6	1.3	1.4	1.6	1.7
DPS(HK\$)	0.05	0.05	0.05	0.06	0.08
Yield (%)	4.03	4.03	4.03	4.84	6.45
Net gearing (%)	75.6	80.9	52.9	29.7	0.1

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Mar 21, 2017

Rating: BUY

TP: HK\$ 1.37

Analyst : Kenneth Tung

Tel: (852) 2147 8311

kennethtung@abci.com.hk

Share price (HK\$)	1.24
Est. share price return	10.5%
Est. dividend yield	4.0%
Est. total return	14.5%
Previous Rating & TP	BUY, HK\$1.40
Previous Report Date	Dec 12, 2016

Source(s): Bloomberg, ABCI Securities

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): Bloomberg, ABCI Securities

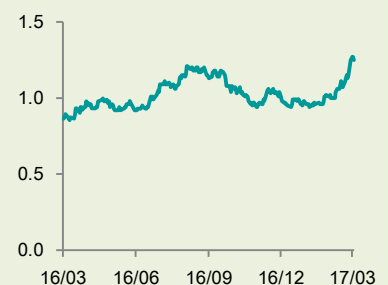
Share Performance

	Absolute	Relative*
1-mth	22.0	20.0
3-mth	25.8	11.8
6-mth	7.0	3.1

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year share performance(HK\$)



Source(s): Bloomberg, ABCI Securities

Exhibit 1: Fantasia's FY16 results

P&L	FY16	FY15	YoY
	RMBmn	RMBmn	(%)
Turnover	10,921	8,164	33.8
Cost of Sales	(7,392)	(5,646)	30.9
Gross Profit	3,528	2,519	40.1
Gross Margin (%)	32.3	30.9	+1.5ppt
Selling and distribution costs	(222)	(319)	(30.2)
Administrative expense	(851)	(741)	14.8
EBIT	2,455	1,459	68.3
EBIT Margin (%)	22.5	17.9	+4.6ppt
Other income	78	125	(37.6)
Fair Value gains on IP and others	883	890	(0.8)
Other exceptional items	3	0	na
Disposal of subsidiaries	640	790	(19.0)
Exchange loss	(666)	(234)	185.1
Share of profit from JCE/ Assoc.	46	(7)	na
Finance cost	(932)	(302)	208.4
Profit before tax	2,507	2,721	(7.9)
Tax	(1,442)	(1,319)	9.3
- LAT	(694)	(342)	102.7
- Enterprise tax	(747)	(976)	(23.4)
Profit after tax	1,065	1,403	(24.1)
Minority Interest	(259)	(192)	34.5
Net profit	806	1,211	(33.4)
Core net profit	643	718	(10.5)
Core net margin	5.9%	8.8%	-2.9ppt

Operating statistics	FY16	FY15	YoY
			%
Contracted GFA (mn sqm)	1.33	1.29	2.8
Contracted ASP (RMB/sqm)	9,212	8,745	5.3
Contracted Sales (RMB mn)	12,206	11,272	8.3
Balance sheet	Dec-16	Dec-15	YoY
	RMB mn	RMB mn	
Gross debt	21,747	13,477	61.4
Cash	11,134	4,218	164.0
Net debt	10,613	9,259	14.6
Net gearing (%)	80.9%	75.6%	+5.2ppt
Revenue	FY16	FY15	YoY
	RMBmn	RMBmn	
Property development	8,366	6,562	27%
Property investment	242	183	32%
Property operation services	1,652	1,270	30%
Others	661	149	343%
Total	10,921	8,164	34%
Finance cost capitalization	FY16	FY15	YoY
	RMBmn	RMBmn	
Gross finance cost <A>	1,836	1,324	39%
Capitalization 	(903)	(1,021)	-12%
Net finance cost to P&L	932	302	208%
Capitalization ratio <B/A>	49%	77%	-28ppt

Source(s): Company, ABCI Securities

Exhibit 2: Key operating statistics (FY16)

Division	Business	Operational statistics	Performance	YoY change
Colour Life (1777 HK)	Property management	Area under management	395.1mn sqm	23%
		No. of communities	2,339	17%
	O2O	Registered user	3.03mn	51%
		Active user	1.74mn	102%
		VAS revenue	RMB156.9mn	48%
		Invested amount of E-Wealth	RMB1,923mn	261%
Financial	Qian Sheng Hua (钱生花)	Register user	1.2mn	200%
		Total invested amount via the platform	RMB2,914mn	386%

Source(s): Company, ABCI Securities

Exhibit 3: Shenzhen urban renewal project (Dec 16)

Project	Planned GFA (mn sqm)	Status
Pingshan	0.58	TBC
Longhua Yushi	0.99	TBC
Kwai Chung	1.18	Construction started in 2017
Meilin Yuehua	0.13	Being reviewed for approval
Shuitou	0.16	Being reviewed for approval

Source(s): Company, ABCI Securities



Exhibit 4: Fantasia's 2017E NAV

	Attr. GFA (mn sqm)	Net assets value (RMB mn)	% of total	Valuation Method	Implied value per sqm (RMB)
Property development					
Chengdu	2.1	3,903	22%		1,876
Shenzhen	0.4	3,309	19%		7,913
Beijing	0.3	2,652	15%		9,891
Guilin	1.7	2,148	12%		1,257
Nanjing	0.3	1,736	10%	DCF with WACC of 9.6%	5,432
Tianjin	0.6	1,259	7%		1,949
Suzhou	0.4	1,340	8%		3,574
Huizhou	0.7	383	2%		533
Others	2.4	1,135	6%		466
Subtotal	7.2	17,866	72%		2,471
Colour Life (1778 HK)		2,259	9%	50% stake in Colour Life's mkt value	
Home E&E		487	2%	10x 2017E EBIT; 65.3% stake	
Investment Properties		4,178	17%	6.5% cap rate on 2017E net rental	
Total 2017E GAV		24,790	100%		
2017E Net cash/ (debt)		(7,209)	-29%		
Total 2017E NAV		17,580	71%		
No. of share outstanding (diluted)		5,761			
NAV per share (RMB)		3.05			
Ex rate		1.12			
NAV per share (HKD)		3.42			
Target discount (%)		60%			
Target Price (HKD)		1.37			
WACC					
Cost of debt		8.0%			
Cost of equity		15.0%			
Debt/ (Debt + Equity)		60%			

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2014A-2019E)

FY Ended Dec 31 (RMB mn)	2014A	2015A	2016A	2017E	2018E	2019E
Revenue	7,306	8,164	10,921	11,435	13,958	15,564
Cost of sales	(4,499)	(5,645)	(7,392)	(7,873)	(9,285)	(10,487)
Gross Profit	2,807	2,519	3,528	3,562	4,672	5,077
SG&A expenses	(855)	(1,060)	(1,074)	(1,320)	(1,717)	(1,618)
EBIT	1,951	1,459	2,455	2,243	2,956	3,459
Finance cost	(291)	(302)	(932)	(783)	(921)	(1,114)
Share of profit of associates	(13)	(7)	46	0	0	0
Other income/ (expenses)	23	30	81	108	150	206
Fair value gain of investment properties	672	656	640	0	0	0
Disposal/one-off items	187	885	217	0	0	0
Profit before tax	2,530	2,722	2,507	1,568	2,184	2,551
Tax	(1,157)	(1,319)	(1,442)	(667)	(959)	(1,092)
Profit after tax	1,372	1,403	1,065	901	1,225	1,460
Minority interest	(117)	(192)	(259)	(111)	(118)	(115)
Reported net profit	1,255	1,211	806	790	1,107	1,345
<i>Less: exceptional items</i>	(504)	(492)	(163)	0	0	0
Underlying net profit	752	719	643	790	1,107	1,345
Per share						
Underlying EPS (RMB)	0.13	0.12	0.11	0.14	0.19	0.23
DPS (HK\$)	0.05	0.05	0.05	0.05	0.06	0.08
Payout ratio (%)	41%	40%	45%	36%	31%	34%
BVPS (RMB)	1.64	1.81	1.90	1.99	2.12	2.27
Growth %						
Revenue	0.4%	11.7%	33.8%	4.7%	22.1%	11.5%
Gross Profit	0.5%	-10.3%	40.1%	1.0%	31.2%	8.7%
EBIT	-2.0%	-25.2%	68.2%	-8.7%	31.8%	17.0%
Underlying net profit	-30.5%	-4.4%	-10.5%	22.7%	40.2%	21.5%
Margin %						
Gross margin	38.4%	30.9%	32.3%	31.2%	33.5%	32.6%
Gross margin (post-LAT)	37.1%	33.2%	33.9%	38.8%	40.7%	40.4%
EBIT margin	26.7%	17.9%	22.5%	19.6%	21.2%	22.2%
Core net margin	10.1%	3.1%	3.4%	7.9%	8.8%	9.4%
Key assumptions						
Contracted Sales (RMB mn)	10,214	11,272	12,252	15,603	20,538	18,620
GFA sold (mn sqm)	1.38	1.29	1.33	1.61	1.93	1.71
ASP (RMB/sqm)	7,394	8,745	9,212	9,682	10,646	10,879
Booked Sales (RMB mn)	6,535	6,562	8,366	8,239	10,118	11,068
GFA delivered (mn sqm)	1.07	0.99	0.70	0.82	0.94	1.14
Booked ASP (RMB/sqm)	6,092	6,661	11,868	10,068	10,744	9,718

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2014A-2019E)

As of Dec 31 (RMB mn)	2014A	2015A	2016A	2017E	2018E	2019E
Current assets	28,250	31,242	32,213	40,294	53,732	64,464
Cash	3,738	2,882	9,137	12,517	17,440	23,737
Restricted cash	915	1,336	1,998	1,998	1,998	1,998
Trade & other receivables	3,873	4,604	4,604	4,604	4,604	4,604
Property under development	19,477	21,836	15,396	20,096	28,612	33,046
Other current assets	247	584	1,078	1,078	1,078	1,078
Non-current assets	13,004	13,309	17,539	17,385	17,196	16,965
Property, plant & equipment	1,542	1,767	2,078	1,924	1,735	1,505
Investment properties	6,642	6,885	6,982	6,982	6,982	6,982
Investment in Associate and JCE	612	417	1,687	1,687	1,687	1,687
Other non-current assets	4,208	4,240	6,792	6,792	6,792	6,792
Total Assets	41,254	44,551	49,752	57,679	70,928	81,429
Current Liabilities	18,234	19,684	15,705	23,069	35,489	45,041
Short-term borrowings	4,869	2,412	2,505	2,505	4,505	6,505
Trade & other payables	5,516	6,627	4,445	4,445	4,445	4,445
Pre-sales deposits	3,387	5,556	2,817	10,181	20,601	28,154
Other current liabilities	4,462	5,089	5,938	5,938	5,938	5,938
Non-current liabilities	11,608	12,627	20,927	20,927	20,927	20,927
Long-term borrowings	9,674	11,065	19,242	19,242	19,242	19,242
Other payables	0	0	0	0	0	0
Other non-current liabilities	1,935	1,562	1,684	1,684	1,684	1,684
Total Liabilities	29,842	32,311	36,632	43,996	56,416	65,968
Net Assets	11,412	12,240	13,121	13,683	14,512	15,461
Shareholders' Equity	9,453	10,408	10,955	11,457	12,218	13,102
Perpetual capital instrument	1,249	1,121	2,165	2,226	2,294	2,359
Minority Interest	711	711	0	0	0	0
Total Equity	10,702	11,530	13,121	13,683	14,512	15,461
Key ratio						
Gross debt (RMB mn)	14,543	13,477	21,747	21,747	23,747	25,747
Net debt (RMB mn)	9,890	9,259	10,613	7,232	4,310	12
Net gearing (%)	87%	76%	81%	53%	30%	0%
Contracted sales/ Total assets (x)	0.25	0.25	0.25	0.27	0.29	0.23

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2014A-2019E)

FY ended Dec 31 (RMB mn)	2014A	2015A	2016A	2017E	2018E	2019E
EBITDA	2,042	1,589	2,629	2,417	3,165	3,710
Change in Working Capital	137	255	1,835	3,838	3,030	4,232
Tax payment	(766)	(522)	(1,442)	(667)	(959)	(1,092)
Operating cash flow	1,413	1,323	3,022	5,587	5,236	6,850
Purchase of PP&E	(570)	(424)	(20)	(20)	(20)	(20)
Addition of Investment Properties	(653)	(604)	0	0	0	0
Others	(608)	4	81	108	150	206
Investing cash flow	(1,831)	(1,024)	61	88	130	186
Debt raised	10,368	4,794	10,056	4,000	4,000	4,000
Debt repaid	(6,857)	(6,565)	(4,000)	(4,000)	(2,000)	(2,000)
Interest expenses	(1,026)	(1,120)	(1,836)	(1,957)	(2,047)	(2,227)
Equity raised	(1,831)	(1,024)	61	88	130	186
Dividend to shareholders	(306)	(245)	(288)	(288)	(346)	(461)
Others	3,161	1,244	(821)	(138)	(180)	(236)
Financing cash flow	3,510	(2,916)	3,172	(2,295)	(443)	(738)
Net cash inflow/ (outflow)	3,092	(2,617)	6,255	3,380	4,923	6,298
Cash- beginning	2,777	3,738	2,882	9,137	12,517	17,440
Cash- year-end	5,869	1,121	9,137	12,517	17,440	23,737

Source(s): Company, ABCI Securities estimates



Disclosures

Analyst Certification

I, Kenneth Tung, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

Disclosures of Interests

ABC Securities Company Limited and/or its affiliates, within the past 12 months, have investment banking relationship with one or more of the companies mentioned in the report.

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.

Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2017 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

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

Tel: (852) 2868 2183