



February 27, 2014
 Company Report
 Rating: BUY
 TP: HK\$ 3.60

Share price (HK\$) 2.31
 Est. share price return 55.8%
 Est. dividend yield 5.2%
 Est. total return 61.0%

Previous Rating & TP BUY; HK\$ 3.30
 Previous Report Date Nov 22, 2013

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

Key Data

52Wk H/L(HK\$)	3.02/2.17
Issued shares (mn)	9,162
Market cap	21.6
3-mth avg daily turnover (HK\$ mn)	2.5
Major shareholder(s) (%):	
Sinochem Group	62.90

Source(s): Company, Bloomberg, ABCI Securities

FY13 Revenue breakdown (%)

Property Development	46.9
Property Leasing	6.0
Hotels	9.9
Land Development	34.6
Others	2.6

Source(s): Company, ABCI Securities

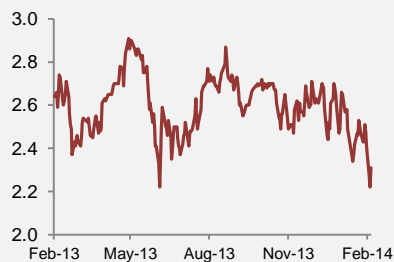
Share performance (%)

	Absolute	Relative*
1-mth	(8.2)	(10.6)
3-mth	(8.5)	(3.1)
6-mth	(12.3)	(15.6)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Franshion (817 HK)

A developer in momentum: FY13 results shout victory

- 2013 core profit surged 35% YoY to HK\$ 2.9bn. Gross margin improved further by 2.5ppt YoY to 44.4%, one of the industry's highest
- The Group's acquisition of Shanghai's land king would not threaten Franshion's gearing and margin. Franshion has a good track record in premium pricing and introducing JV partners in large projects
- 2014 sales targets of RMB 22bn (+51%YoY) for property sales and RMB 8bn (+25% YoY) for land sales are achievable in our view
- Maintain **BUY** with a revised TP of HK\$ 3.60 (from HK\$ 3.30) based on a 40% discount to our revised end-2014E NAV of HK\$ 6.03/share.

Gross margin continued to grow, up 2.5ppt YoY to 44.4%. Franshion's core profit surged 35% YoY to HK\$ 2,910mn, lower than our estimates by 3%. This is mainly due to higher-than-expected finance cost (Actual: HK\$ 1.3bn vs ABCI estimate: HK\$ 1.1bn) as capitalization ratio decreased to 43% in 2012 to 34% in 2013. Group's gross margin grew further to 44.4%, with two key business segments, property sales (GP margin: 45.3%, +4.0ppt YoY) and land development (GP Margin: 36.0%, +13.7ppt YoY), still going strong when margins deteriorate in other developers. Net gearing was up 12ppt YoY to 63%, but was lower than 1H13's 72%. If we re-categorize minority interest (contribution from Franshion's JV partner) as equity on the balance sheet, net gearing would trend up slightly to 45% in 2013 from 43% in 2012.

Addressing concerns on acquisition of Shanghai's "land king". In Jan 2014, Franshion acquired a prime land site in Shanghai for RMB 10.1bn, or RMB 47.6k/sqm-similar to secondary home prices (~RMB 55k/sqm) in the region. Since the transaction price is equivalent to 63% of the Group's market cap, concerns on Franshion's margin and gearing arise. Management reassured that: 1) the all-in cost of the project should be lower than RMB 63k/sqm, while ASP of RMB 80k/sqm could be easily achieved; 2) Franshion is now in talk with several potential JV partners for the project and may only pay a land premium of RMB 2bn should partnership occur. Besides, the Group's SOE background allows it to issue offshore USD bonds at low coupon rate, amid recent liquidity concern in the sector. We think market has over-reacted to Franshion's possible gearing hike and margin erosion.

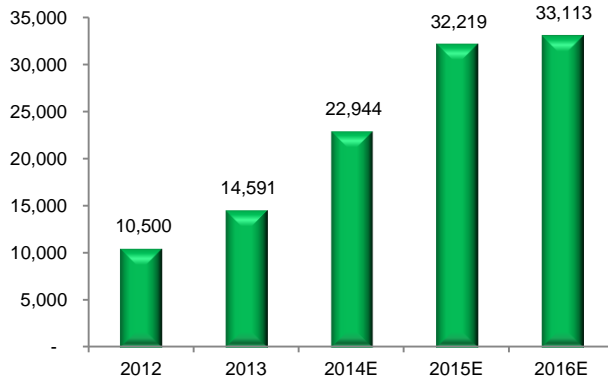
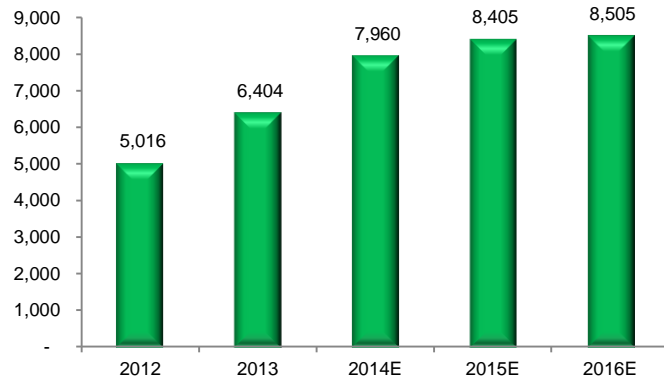
2014 sales outlook remains robust. Franshion announced its 2014 sales target to be RMB 22bn for property sales and RMB 8bn for primary land sales, implying growth of 51% and 25% YoY. These targets may seem aggressive but management sees upside risk, given the Group currently assumes no contribution from Nansha project and Meixi Lake Phase 2 acquired in 4Q13.
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Results and Valuation

FY ended Dec 31	2012A	2013A	2014E	2015E	2016E
Revenue (HK\$ mn)	17,176	20,719	32,545	43,228	50,724
Chg (% YoY)	160.6	20.6	57.1	32.8	17.3
Core net profit (HK\$ mn)	2,154	2,910	4,019	5,739	6,874
Chg (% YoY)	48.0	35.1	38.1	42.8	19.8
Underlying EPS (HK\$)	0.23	0.30	0.40	0.56	0.66
Chg (% YoY)	39.6	30.7	34.4	39.7	18.7
BVPS (HK\$)	2.58	3.07	3.39	3.85	4.44
Chg (% YoY)	11.5	18.8	10.4	13.8	15.3
Underlying PE (x)	10.1	7.7	5.8	4.1	3.5
PB (x)	0.9	0.8	0.7	0.6	0.5
ROE (%)	8.9	10.0	12.6	15.9	16.5
ROA (%)	2.6	2.4	3.0	4.0	4.6
DPS (HK\$)	0.07	0.10	0.12	0.16	0.16
Dividend yield (%)	3.0	4.1	5.2	6.9	6.9
Net gearing (%)	51.3	62.6	77.4	25.0	(30.4)

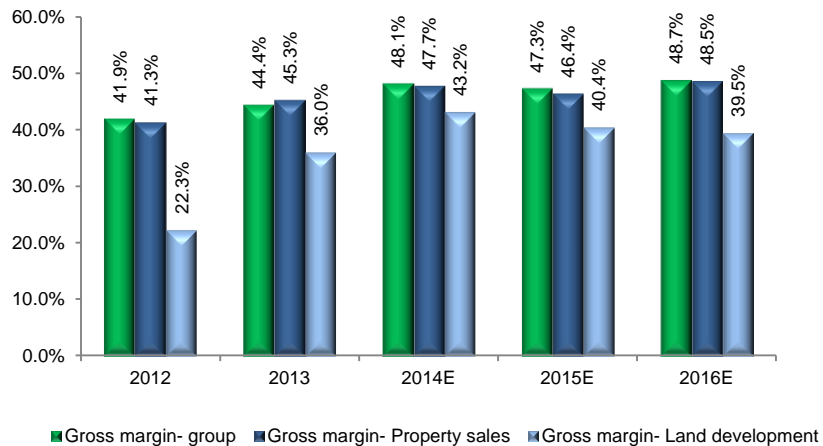
*Net gearing=Net debt/Total Shareholders' equity
 Source(s): Bloomberg, ABCI Securities estimates

On primary land business, Franshion expects to secure one to two new projects in 2014. Potential projects in discussion include the ones in Nansha, Nanjing and Qingdao. Going forward, we expect Franshion's luxury residential and commercial sales, together with primary land business, will continue to drive up presales (+57% YoY to RMB 22.9bn) and gross margin (+3.7ppt YoY to 48.1%) in 2014E.

Exhibit 1: Franshion- Presales (RMB mn)

Exhibit 2 : Franshion- Land sales (RMB mn)


Source(s): Company, ABCI Securities estimates

Source(s): Company, ABCI Securities estimates

Exhibit 3: Franshion's gross margin


Source(s): Company, ABCI Securities estimates

Gearing and margin concerns overdone, maintain BUY. Factoring in the recently acquired projects and better-than-expected management guidance, we raise our 2014E/15E core profit estimates by 2.5%/5.5%. We also revise up our 2014E NAV estimate to HK\$ 6.03/share (from HK\$ 5.57). Our new TP of HK\$ 3.60 (from HK\$ 3.30) is based on a 40% discount to the Group's end-2014E NAV, comparable to its historical trading discount averaging at 38% since listing. We believe the recent correction in share price on gearing and margin concerns has been overdone. Maintain **BUY**.

Risk factors: 1) Potential dilution by CB; 2) Depletion of premium commercial landbank



Exhibit 4: Franshion's FY14E NAV

	Attr. GFA (Mn sqm)	Net asset value (HK\$ m)	% of total	Valuation Methodology	Implied value per sqm (HK\$)
Property development					
Beijing	0.8	12,297	14%	DCF at WACC of 9.7%	14,599
Shanghai	0.6	18,371	21%		32,586
Changsha	1.5	2,804	3%		1,909
Suzhou	0.3	2,100	2%		7,666
Chongqing	1.1	6,772	8%		5,924
Others	2.6	10,868	12%		4,222
Subtotal	5.7	53,214	60%		9,298
Primary Land Development	4.1	15,232	17%	Mkt value	3,751
Investment Properties	0.5	15,542	18%	6% cap rate on net rental income	
Hotels		4,106	5%	5x EBITDA multiple	
Total 2014E GAV		88,093	100%		
2014E Net debt (including Perpetual convertible securities)		(32,808)	-37%		
Total 2014E NAV		55,285	63%		
No. of share outstanding		9,161			
NAV per share (HK\$)		6.03			
Target discount (%)		40%			
Target Price (HK\$)		3.60			
WACC					
WACC		9.7%			
Cost of Debt		6.5%			
Cost of Equity		15.0%			
Debt/ (Debt + Equity)		53%			

Source(s): Company, ABCI Securities estimates



Exhibit 5: Franshion's FY13 Results

P&L	FY13 results			FY12	YoY Chg
	Actual	ABCI estimates	YoY Chg		
	HK\$ mn	HK\$ mn	(%)	HK\$ mn	(%)
Turnover	20,719	20,087	3.1	17,176	20.6
Property sales	9,708	10,755	(9.7)	10,796	(10.1)
Primary land development	7,160	5,330	34.3	2,649	170.3
Property leasing	1,249	1,324	(5.7)	1,106	12.9
Hotel	2,061	2,063	(0.1)	2,010	2.5
Others	541	614	(11.8)	614	(11.8)
Cost of Sales & direct operating costs	(11,519)	(9,351)	23.2	(9,977)	15.5
Gross Profit	9,200	10,736	(14.3)	7,199	27.8
Gross Margin (%)	44.4	53.4	(9.0)	41.9	2.5
Selling and distribution costs	(624)	(585)	6.6	(439)	42.0
Administrative expense	(1,162)	(1,086)	7.0	(968)	20.0
EBIT	7,415	9,065	(18.2)	5,792	28.0
EBIT Margin (%)	35.8	45.1		33.7	
Other income, gains and losses	504	214	135.8	284	77.3
Fair value gain of investment properties	1,831	0	NA	1,626	12.6
Other exceptional items	0	0	NA	2	(100.0)
Share of profit from JCE/ Associates	2	0	NA	1	76.2
Finance cost	(1,325)	(1,100)	20.4	(986)	34.3
Profit before tax	8,428	8,178	3.0	6,719	NA
Tax	(3,393)	(3,854)	(12.0)	(2,783)	21.9
- LAT	(1,286)	(2,412)	(46.7)	(1,145)	12.3
- Enterprise tax	(2,107)	(1,442)	46.2	(1,638)	28.7
Profit after tax	5,034	4,325	16.4	3,936	27.9
Minority Interest	(807)	(1,321)	(38.9)	(563)	43.5
Net profit	4,227	3,004	40.7	3,374	25.3
Underlying net profit	2,910	3,004	(3.1)	2,154	35.1

Source(s): Company, ABCI Securities estimates

Exhibit 6: Land acquisition (2013- Feb 2014)

Date	City	GFA ('000sqm)	Total Land Premium (RMB mn)	AV (RMB/sqm)	%	Sales launch
Jan-13	Beijing	299	3,530	11,815	51%	2013
Feb-13	Changsha	336	1,090	3,242	100%	2014
Feb-13	Nanjing	345	816 (for 51% stake)	4,644	51%	2013
Aug-13	Ningbo	158	1,424	9,012	51%	2014
Sep-13	Guangzhou	568	1,953	3,440	100%	2015
Dec-13	Chongqing	226	730	3,233	100%	2014
2013 Total		1,931	9,543	5,365		
Jan-14	Shanghai	212	10,100	47,609	Seeking JV partners	
Jan-14	Hangzhou	172	2,370	13,779	Seeking JV partners	
Feb-14	Beijing	373	6,000	16,086	50%	
Jan-Feb Total		757	18,470	25,472		

Source(s): Company, ABCI Securities

Exhibit 7: 2014E Management Guidance

Sales target			
RMB bn	FY13	FY14E	YoY
Property sales	14.6	22.0	51%
Land sales	6.4	8.0	25%
Total	21.0	30	43%
Major cash flow items			
RMB bn	FY13	FY14E	YoY
Land premium	15.0	15.0	0%
Construction	6.0	8.5	42%
SG&A	1.5	1.8	20%
Tax	3.2	3.6	13%
Finance cost	1.5	2.0	33%

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2012A-2016E)

FY Ended Dec 31 (HK\$ mn)	2012A	2013A	2014E	2015E	2016E
Revenue	17,176	20,719	32,545	43,228	50,724
Cost of sales	(9,977)	(11,519)	(16,893)	(22,802)	(26,015)
Gross Profit	7,199	9,200	15,652	20,425	24,710
SG&A expenses	(1,407)	(1,785)	(2,434)	(3,077)	(3,403)
EBIT	5,792	7,415	13,218	17,348	21,307
Finance cost	(986)	(1,325)	(1,650)	(1,758)	(1,758)
Share of profit of associates	2	2	-	-	-
Other income/ (expenses)	284	524	369	583	1,153
Fair value gain of investment properties	1,626	1,831	-	-	-
Disposal/one-off items	5	-	-	-	-
Profit before tax	6,723	8,448	11,937	16,173	20,701
Tax	(2,783)	(3,393)	(5,141)	(7,688)	(9,937)
Profit after tax	3,940	5,055	6,796	8,485	10,765
Minority interest	(563)	(807)	(2,777)	(2,745)	(3,891)
Reported net profit	3,378	4,247	4,019	5,739	6,874
Less: exceptional items	(1,223)	(1,337)	-	(0)	0
Underlying net profit	2,154	2,910	4,019	5,739	6,874
Per share					
Underlying EPS (HKD)	0.23	0.30	0.40	0.56	0.66
DPS (HKD)	0.07	0.10	0.12	0.16	0.16
Payout ratio (%)	31%	32%	30%	29%	24%
BVPS (HKD)	2.58	3.07	3.39	3.85	4.44
Growth %					
Revenue	160.6%	20.6%	57.1%	32.8%	17.3%
Gross Profit	101.4%	27.8%	70.1%	30.5%	21.0%
EBIT	139.7%	28.0%	78.3%	31.2%	22.8%
Underlying net profit	48.0%	35.1%	38.1%	42.8%	19.8%
Margin %					
Gross margin	41.9%	44.4%	48.1%	47.3%	48.7%
Gross margin (post-LAT)	19.3%	15.0%	20.3%	24.8%	26.6%
EBIT margin	33.7%	35.8%	40.6%	40.1%	42.0%
Core net margin	15.8%	17.8%	20.9%	19.6%	21.2%
Key assumptions					
Contracted Sales (HKDm)	13,230	18,384	29,368	41,241	42,385
GFA sold (m sqm)	0.31	0.57	1.13	1.20	0.89
ASP (HKD/sqm)	43,009	32,087	25,954	34,409	47,538
Booked Sales (HKD)	10,796	9,708	19,840	33,565	40,860
GFA delivered (m sqm)	0.46	0.22	0.65	1.11	0.98
Booked ASP (HKD/sqm)	23,328	44,144	30,585	30,261	41,606

Source: Company, ABCI Securities estimates



Consolidated balance sheet (2012A-2016E)

As of Dec 31 (HK\$ mn)	2012A	2013E	2014E	2015E	2016E
Current assets	38,199	46,720	40,780	59,006	82,662
Cash	12,888	14,490	12,282	30,321	54,550
Restricted cash	576	303	303	303	303
Trade & other receivables	2,003	4,202	4,202	4,202	4,202
Properties under development	10,384	10,714	10,714	10,714	10,714
Properties held for sale	3,078	5,915	5,915	5,915	5,915
Land under development	6,696	5,163	1,430	1,617	1,044
Other current assets	12,348	17,011	13,278	13,466	12,893
Non-current assets	44,303	74,123	93,756	82,991	66,506
Property, plant & equipment	6,956	7,495	8,026	8,548	9,063
Properties under development	13,047	33,318	52,420	43,133	26,133
Land under development	5,408	4,549	4,549	2,549	2,549
Investment properties	16,575	22,018	22,018	22,018	22,018
Investment in Associate and JCE	39	42	42	42	42
Other non-current assets	2,279	6,700	6,700	6,700	6,700
Total Assets	82,502	120,843	134,536	141,997	149,168
Current Liabilities	25,726	39,604	47,962	50,766	49,000
Short term borrowings	8,952	6,139	11,139	11,139	11,139
Trade & other payables	6,233	9,504	9,504	9,504	9,504
Pre-sales deposits	8,235	16,749	20,107	22,911	21,145
Other current liabilities	2,306	7,212	7,212	7,212	7,212
Non-current liabilities	22,273	34,020	34,020	34,020	34,020
Long term borrowings	19,323	29,667	29,667	29,667	29,667
Other payables	-	-	-	-	-
Other non-current liabilities	2,950	4,353	4,353	4,353	4,353
Total Liabilities	47,999	73,624	81,982	84,786	83,020
Net Assets	34,503	47,219	52,554	57,211	66,148
Shareholders Equity	24,290	28,974	31,893	36,167	41,575
Perpetual Convertible Securities	4,588	4,588	4,588	4,588	4,588
Minority Interest	5,625	13,658	16,073	18,456	21,985
Total Equity	34,503	47,219	52,554	59,211	68,148
Key ratio					
Gross debt (HKDm)	28,275	35,806	40,806	40,806	40,806
Net debt (HKDm)	14,811	21,013	28,220	10,182	(14,047)
Net gearing (%)	51%	63%	77%	25%	-30%
Contracted sales/ Total assets (x)	0.16	0.15	0.22	0.29	0.28

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2012A-2016E)

FY ended Dec 31 (HK\$ mn)	2012A	2013E	2014E	2015E	2016E
EBITDA	6,022	7,684	13,495	17,633	21,600
Change in Working Capital	(4,186)	(10,505)	(11,172)	12,799	16,701
Tax payment	(1,137)	(2,365)	(5,141)	(7,688)	(9,937)
Operating Cashflow	699	(5,186)	(2,818)	22,744	28,365
Purchase of PP&E	(310)	(808)	(808)	(808)	(808)
Addition of Investment Properties	(20)	0	0	0	0
Investment in Associate/ JCE	0	0	0	0	0
Proceeds from Disposals	0	0	0	0	0
Others	(968)	32	369	583	1,153
Investing Cashflow	(1,298)	(776)	(439)	(225)	345
Debt raised	16,488	25,961	10,000	10,000	10,000
Debt repaid	(13,369)	(21,339)	(5,000)	(10,000)	(10,000)
Interest expenses	(949)	(1,947)	(2,490)	(2,652)	(2,652)
Equity raised	0	0	0	0	0
Convertible securities raised	(317)	(317)	(312)	(312)	(312)
Dividend to shareholders	(366)	(641)	(1,099)	(1,466)	(1,466)
Others	(222)	5,848	(50)	(50)	(50)
Financing Cashflow	1,264	7,564	1,049	(4,480)	(4,480)
Net cash inflow/ (outflow)	665	1,602	(2,208)	18,039	24,229
Cash- beginning	12,224	12,888	14,490	12,282	30,321
Cash- year-end	12,888	14,490	12,282	30,321	54,550

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 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**