



CIFI (884 HK) Solid FY16 results

- FY16 core profit rose 28%YoY to RMB 2,824mn, in line with consensus
- Gross margin rose 2.7ppt YoY to 25.4% in FY16; margin for 2017-18 would improve further
- 2016 presales jumped 75%YoY to RMB 53bn; 2017 sales target of RMB 65bn implies a 23%YoY growth
- Maintain **BUY** with revised TP of HK\$ 3.60 (from HK\$ 2.90), still based on a 60% discount to NAV

Margins to improve in 2017-18. CIFI's FY16 core profit rose 28% YoY to RMB 2,824mn, in line with consensus. Gross margin jumped 2.7ppt YoY to 25.4% despite booked ASP fell 17% YoY to RMB 10,686/sqm. As FY16 presales ASP of RMB 18,185/sqm is 70% higher than booked ASP, management emphasized margins would continue to improve in 2017-18 when projects with higher ASP are booked. Net gearing fell from 58% in Dec 2015 to 50% in Dec 2016 while average finance cost dropped 1.7ppt YoY to 5.5%. With the early redemption of 8.875% USD bond in 2017, average finance cost may slide further to 5%. CIFI announced a final DPS of HK\$ 0.13. Together with interim DPS of HK\$ 0.04, FY16 payout ratio is ~35%, consistent with previous year. Overall, CIFI's FY16 results look promising, showing good margins and a sound balance sheet.

2017 sales target of RMB 65bn implies a 23% YoY growth. In FY16, CIFI's presales rose 75% YoY to RMB 53bn. The 5 major tier-1/2 cities, Shanghai, Beijing, Suzhou, Hangzhou and Nanjing, accounted for 19%, 17%, 17%, 10%, and 8% of total presales, respectively. For 2017, CIFI sets a sales target of RMB 65bn (+23% YoY), assuming RMB 110bn of saleable resources and a 59% sell-through rate. Management commented the impact of policy tightening is less significant than the market expects. Some Hangzhou projects recently launched by the Group achieved a 93% sell-through rate. Management expects 55% of their annual sales target to be achieved in 1H17 as the property market has remained healthy so far. The Group has no plan to issue new shares despite its strong share price, given its high cost of equity at 6.3% dividend yield, as compared to cost of debt (5.5% for USD 285mn bond issued in Jan 2017). As at Dec 2016, CIFI hedged its non-RMB debt partially by US\$1.1bn, reducing its FX exposure from 46% of total debt to 21%.

Maintain BUY and raise TP to HK\$ 3.60. We factor in the latest land acquisitions and raise our 2017E NAV estimate to HK\$ 8.98/share (from HK\$ 7.24). We also lift our TP to HK\$ 3.60 (from HK\$ 2.90), still based on a 60% discount to NAV. Enabled by its business acumen in selecting cities with strong potential, CIFI has been delivering fast growth in sales and profit since its listing in 2012. Reiterate **BUY**.

Risk factors: 1) Potential policy tightening in tier-1/2 cities; 2) Expensive land acquisition may erode margins.

Results and Valuation

FY ended Dec 31	2015A	2016A	2017E	2018E	2019E
Revenue (RMB mn)	18,231	22,224	29,162	36,925	56,608
Chg (% YoY)	12.7	21.9	31.2	26.6	53.3
Core net profit (RMB mn)	2,210	2,824	3,449	4,237	5,107
Chg (% YoY)	14.0	27.8	22.1	22.8	20.5
Core EPS (RMB)	0.35	0.43	0.52	0.64	0.77
Chg (% YoY)	7.7	23.0	22.1	22.8	20.5
BVPS (RMB)	2.01	2.26	2.58	3.00	3.55
Chg (% YoY)	18.8	12.4	14.0	16.5	18.2
Core PE (x)	7.0	5.7	4.6	3.8	3.1
P/B (x)	1.2	1.1	0.9	0.8	0.7
ROE (%)	17.2	18.9	20.2	21.3	21.7
ROA (%)	3.3	3.2	3.6	3.9	4.4
DPS(HK\$)	0.14	0.17	0.20	0.21	0.22
Yield (%)	5.2	6.3	7.5	7.9	8.3
Net gearing (%)	59.2	50.4	52.2	Net cash	Net cash

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Mar 9, 2017

Rating: **BUY**

TP: **HK\$ 3.60**

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Share price (HK\$)	2.71
Est. share price return	32.8%
Est. dividend yield	7.5%
Est. total return	40.3%
Previous Rating & TP	BUY, HK\$2.90
Previous Report Date	Nov 3, 2016

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	2.77/1.67
Issued shares (mn)	6,676
Market cap (HK\$ mn)	18,683
3-mth avg daily turnover(HK\$ mn)	24.18
Major shareholder(s) (%)	
Lin's family	53.82%

Source(s): Bloomberg, ABCI Securities

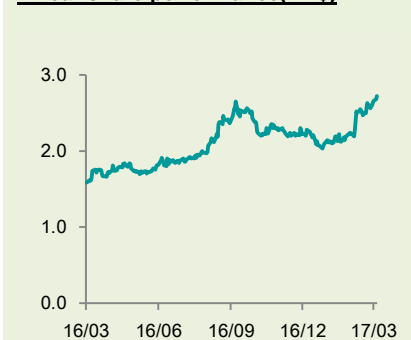
Share Performance

	Absolute	Relative*
1-mth	26.5	24.3
3-mth	21.5	16.9
6-mth	8.6	8.6

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year share performance(HK\$)



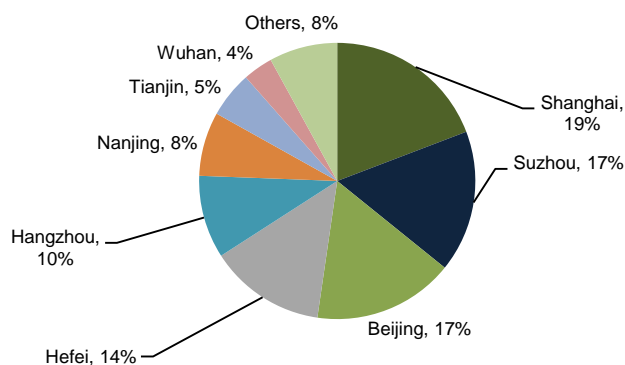
Source(s): Bloomberg, ABCI Securities

Exhibit 1: CIFI's FY16 results

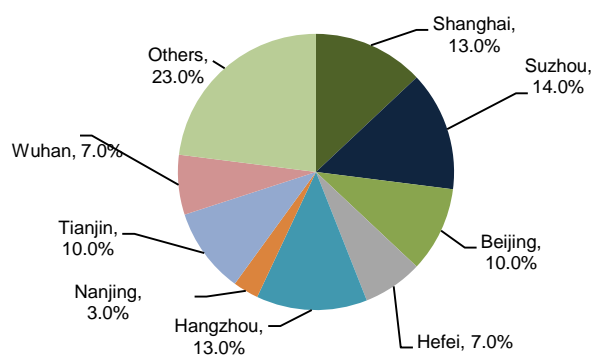
P&L	FY16	FY15	YoY
	RMBmn	RMBmn	(%)
Turnover	22,224	18,231	21.9
Cost of Sales	(16,579)	(14,087)	17.7
Gross Profit	5,646	4,144	36.2
Gross Margin (%)	25.4	22.7	+2.7ppt
Selling and distribution costs	(524)	(371)	41.4
Administrative expense	(879)	(607)	44.7
EBIT	4,242	3,165	34.0
EBIT Margin (%)	19.1	17.4	+1.7ppt
Other income	162	321	(49.6)
Fair Value gains on IP and others	(100)	348	na
Share of profit from JCE/ Assoc.	1,063	173	515.6
Finance cost	(530)	(203)	161.1
Profit before tax	4,837	3,805	27.1
Tax	(1,672)	(1,334)	25.4
- LAT	(606)	(318)	90.7
- Enterprise tax	(1,066)	(613)	73.9
Profit after tax	3,164	2,471	28.1
Minority Interest	(357)	(375)	(4.9)
Net profit	2,808	2,095	34.0
Core net profit	2,824	2,210	27.8
Core net margin	12.7	12.1	+0.6 ppt
EPS (RMB)	0.42	0.34	23.0
DPS (RMB)	0.17	0.14	21.4
Payout (%)	36%	34%	+2.0ppt

Operating statistics	FY16	FY15	YoY
			%
Contracted GFA (mn sqm)	2.92	2.06	41.8
Contracted ASP (RMB/sqm)	18,185	14,700	23.7
Contracted Sales (RMB mn)	53,010	30,223	75.4
GFA Delivered (mn sqm)	1.94	1.32	46.4
Booked ASP (RMB/sqm)	10,686	12,873	(17.0)
Booked sales (RMB mn)	20,713	17,046	21.5
Balance sheet	Dec-16	Dec-15	YoY
	RMB mn	RMB mn	
Gross debt	29,311	13,861	111.5
Cash	20,677	7,124	190.3
Net debt	8,634	6,737	28.2
Net gearing (%)	50%	58%	-8.0ppt

Source(s): Company, ABCI Securities

Exhibit 2: 2016 presales breakdown (total: RMB 53.0bn)


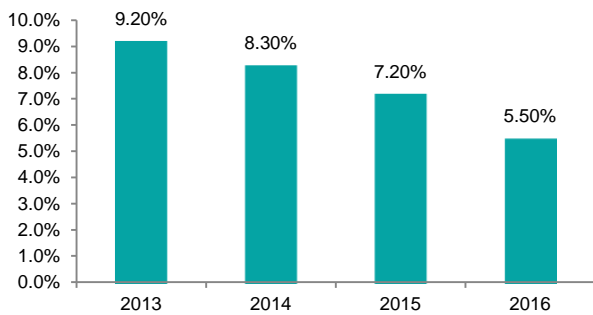
Source(s): Company, ABCI Securities

Exhibit 3: 2017E saleable resources breakdown (total: RMB 110bn)


Source(s): Company, ABCI Securities estimates



Exhibit 4: Average finance cost



Source(s): Company, ABCI Securities

Exhibit 5: Debt profile (Dec 2016)

	Dec-16	Dec-15	YoY
Average cost of debt	5.5%	7.2%	-1.7ppt
Average cost of :			
Onshore bank loan	5.9%	6.6%	-0.7ppt
Onshore corporate bond	4.8%	5.0%	-0.2ppt
Offshore bank loan	4.2%	4.5%	-0.3ppt
offshore senior note	8.3%	9.8%	-1.5ppt

Source(s): Company, ABCI Securities

Exhibit 6: Major financing activities (2016-Jan 2017)

Month	Issuance	Amount	Coupon	Maturity
Mar 2016	HKD/USD club loan	USD600mn	LIBOR/HIBOR +4%	3 year
Dec 2016	HKD/USD club loan	USD303mn	LIBOR/HIBOR +3.7%	4 year
Jan 2017	Offshore USD bond	USD285mn	5.5%	5 year

Source(s): Company, ABCI Securities

Exhibit 7: Cash flow guidance

	2016A	2017E
	RMBbn	RMBbn
Presales (attributable basis)	30.7	38.0
Land (attributable basis)	(11.6)	(20.0)
Construction (attributable basis)	(8.9)	(10.0)
Tax	(3.5)	(4.4)
Finance cost	(1.5)	(1.8)
SG&A	(1.6)	(1.8)
Operating cash flow	3.6	0.0

Source(s): Company, ABCI Securities estimates



Exhibit 8: CIFI's 2017E NAV

	Attr. GFA (mn sqm)	Net assets value (RMB mn)	% of total	Valuation Method	Implied value per sqm (RMB)
Property development					
Shanghai	2.2	12,046	19%	DCF with WACC of 9.3%	5,561
Suzhou	2.4	9,526	15%		3,999
Hangzhou	1.3	5,589	9%		4,370
Beijing	0.8	5,018	8%		6,321
Tianjin	2.0	4,777	7%		2,425
Chongqing	1.9	4,675	7%		2,420
Others	6.8	21,249	33%		3,125
Subtotal	17.3	62,880	98%		
Investment Properties		1,120	2%	6.0% cap rate on 2017E net rental	
Total 2017E GAV		64,000	100%		
2017E Net cash/ (debt)		(10,882)	-17%		
Total 2017E NAV		53,118	83%		
No. of share outstanding (diluted)		6,627			
NAV per share (RMB)		8.02			
Ex rate		1.12			
NAV per share (HKD)		8.98			
Target discount (%)		60%			
Target Price (HKD)		3.60			
WACC					
WACC	9.3%				
Cost of debt	6.0%				
Cost of equity	18.0%				
Debt/ (Debt + Equity)	65%				

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2014A-2019E)

FY Ended Dec 31 (RMB mn)	2014A	2015A	2016A	2017E	2018E	2019E
Revenue	16,179	18,231	22,224	29,162	36,925	56,608
Cost of sales	(11,993)	(14,087)	(16,579)	(20,973)	(26,702)	(42,210)
Gross Profit	4,187	4,144	5,646	8,189	10,222	14,398
SG&A expenses	(849)	(978)	(1,403)	(1,714)	(1,879)	(1,831)
EBIT	3,338	3,165	4,242	6,475	8,343	12,567
Finance cost	(386)	(203)	(530)	(729)	(598)	(323)
Share of profit of associates	(119)	173	1,063	2,074	2,120	992
Other income/ (expenses)	103	321	306	62	90	162
Fair value gain of investment properties	245	-	-	-	-	-
Disposal/one-off items	143	348	(245)	-	-	-
Profit before tax	3,325	3,805	4,837	7,881	9,956	13,398
Tax	(1,325)	(1,334)	(1,672)	(2,900)	(3,597)	(5,149)
Profit after tax	2,000	2,471	3,164	4,982	6,359	8,249
Minority interest	(138)	(375)	(357)	(1,533)	(2,123)	(3,142)
Reported net profit	1,861	2,095	2,808	3,449	4,237	5,107
<i>Less: exceptional items</i>	78	115	16	-	-	-
Underlying net profit	1,939	2,210	2,824	3,449	4,237	5,107
Per share						
Underlying EPS (RMB)	0.32	0.35	0.43	0.52	0.64	0.77
DPS (HK\$)	0.11	0.14	0.17	0.20	0.21	0.22
Payout ratio (%)	34%	40%	40%	39%	33%	29%
BVPS (RMB)	1.69	2.01	2.26	2.58	3.00	3.55
Growth %						
Revenue	35.9%	12.7%	21.9%	31.2%	26.6%	53.3%
Gross Profit	36.4%	-1.0%	36.2%	45.0%	24.8%	40.8%
EBIT	48.6%	-5.2%	34.0%	52.6%	28.9%	50.6%
Underlying net profit	27.6%	14.0%	27.8%	22.1%	22.8%	20.5%
Margin %						
Gross margin	25.9%	22.7%	25.4%	28.1%	27.7%	25.4%
Gross margin (post-LAT)	23.7%	22.4%	24.3%	22.7%	22.8%	21.3%
EBIT margin	20.6%	17.4%	19.1%	22.2%	22.6%	22.2%
Core net margin	11.3%	11.2%	10.3%	10.0%	11.5%	12.8%
Key assumptions						
Contracted Sales (RMB mn)	21,205	30,223	53,010	66,979	78,421	73,544
GFA sold (mn sqm)	1.73	2.06	2.92	3.64	4.36	4.43
ASP (RMB/sqm)	12,236	14,700	18,185	18,421	17,977	16,614
Booked Sales (RMB mn)	15,654	17,047	20,713	27,573	35,255	54,852
GFA delivered (mn sqm)	1.42	1.32	1.57	1.66	2.12	3.51
Booked ASP (RMB/sqm)	11,048	12,875	13,223	16,613	16,616	15,637

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	30,052	53,489	70,933	78,154	90,469	99,019
Cash	7,094	14,874	20,328	20,160	39,423	67,669
Restricted cash	30	32	349	349	349	349
Trade & other receivables	5,017	8,305	14,246	14,246	14,246	14,246
Property under development	15,223	27,085	28,084	35,473	28,525	8,830
Other current assets	2,688	3,194	7,926	7,926	7,926	7,926
Non-current assets	13,487	13,963	17,548	17,859	18,175	18,378
Property, plant & equipment	48	49	76	80	84	88
Investment properties	5,206	5,842	5,773	5,773	5,773	5,773
Investment in Associate and JCE	7,907	7,698	8,839	9,146	9,458	9,658
Other non-current assets	325	374	2,860	2,860	2,860	2,860
Total Assets	43,539	67,452	88,480	96,013	108,644	117,398
Current Liabilities	20,111	29,733	44,926	48,879	56,619	58,658
Short-term borrowings	3,035	2,794	4,457	6,457	3,457	457
Trade & other payables	10,110	14,214	22,274	22,274	22,274	22,274
Pre-sales deposits	5,016	10,396	15,391	17,344	28,084	33,123
Other current liabilities	1,950	2,329	2,804	2,804	2,804	2,804
Non-current liabilities	11,845	22,435	26,271	26,271	26,271	26,271
Long-term borrowings	10,825	21,161	24,935	24,935	24,935	24,935
Other payables	-	-	-	-	-	-
Other non-current liabilities	1,019	1,274	1,337	1,337	1,337	1,337
Total Liabilities	31,956	52,169	71,197	75,150	82,890	84,929
Net Assets	11,583	15,283	17,283	20,863	25,754	32,469
Shareholders' Equity	10,205	12,827	14,980	17,077	19,896	23,519
Perpetual capital instrument	586	-	-	-	-	-
Minority Interest	792	2,456	2,303	3,786	5,858	8,950
Total Equity	11,583	15,283	17,283	20,863	25,754	32,469
Key ratio						
Gross debt (RMB mn)	13,861	23,955	29,391	31,391	28,391	25,391
Net debt (RMB mn)	6,737	9,050	8,714	10,882	(11,381)	(42,627)
Net gearing (%)	58%	59%	50%	52%	-44%	-131%
Contracted sales/ Total assets (x)	49%	45%	60%	70%	72%	63%

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	3,352	3,184	4,258	6,491	8,359	12,583
Change in Working Capital	2,035	(3,783)	959	(3,735)	19,482	26,563
Tax payment	(1,325)	(1,334)	(1,672)	(2,900)	(3,597)	(5,149)
Operating cash flow	4,062	(1,934)	3,545	(144)	24,244	33,996
Purchase of PP&E	(20)	(20)	(20)	(20)	(20)	(20)
Addition of Investment Properties	-	-	-	-	-	-
Others	(3,135)	359	106	1,829	1,899	955
Investing cash flow	(3,155)	339	86	1,809	1,879	935
Debt raised	10,000	10,000	10,000	10,000	5,000	5,000
Debt repaid	(9,508)	(572)	(11,791)	(8,000)	(8,000)	(8,000)
Interest expenses	(1,436)	(1,774)	(2,150)	(2,431)	(2,391)	(2,151)
Equity raised	-	1,056	-	-	-	-
Dividend to shareholders	(663)	(893)	(1,127)	(1,352)	(1,418)	(1,484)
Others	732	1,557	6,891	(50)	(50)	(50)
Financing cash flow	(874)	9,374	1,823	(1,833)	(6,860)	(6,686)
Net cash inflow/ (outflow)	33	7,780	5,455	(168)	19,263	28,245
Cash- beginning	7,061	7,094	14,874	20,328	20,160	39,423
Cash- year-end	7,094	14,874	20,328	20,160	39,423	67,669

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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