



August 5, 2014  
Company Report  
Rating: HOLD  
TP: HK\$ 9.30

Share price (HK\$) 9.74  
Est. share price return (4.5)%  
Est. dividend yield 5.1%  
Est. total return 0.6%

Previous Rating & TP BUY; HK\$ 9.70  
Previous Report Date Mar 27, 2014

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**Key Data**

52Wk H/L(HK\$)	16.75/6.75
Issued shares (mn)	2,159
Market cap	19,115
3-mth avg daily turnover (HK\$ mn)	83.8
Major shareholder(s) (%):	
Sunac	24.3
Wharf	24.3

Source(s): Company, Bloomberg, ABCI Securities

**FY13 Revenue breakdown (%)**

Property Development	94.7
Property Investment	0.4
Project Management	1.2
Others	3.7

Source(s): Company, ABCI Securities

**Share performance (%)**

	Absolute	Relative*
1-mth	5.9	1.4
3-mth	31.3	16.1
6-mth	(9.4)	(21.1)

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

**1-Year stock performance (HK\$)**



Source(s): Bloomberg, ABCI Securities

## Greentown (3900 HK)

### Profit warning issued; margin erosion a major concern

- Greentown issued a profit warning that the Group's 1H14 reported net profit may drop 65% YoY
- Gross margin may drop 6ppt YoY from 29.7% in 1H13; presales also dropped 2% YoY to RMB 27.6bn, underperforming its peers which showed an average growth of 13% YoY
- Price war and high inventory level in Hangzhou render major recovery highly unlikely in the near term despite recent relaxation of home purchase restriction
- Downgrade to HOLD from Buy with revised TP of HK\$ 9.30 based on a 50% discount to NAV (from 60% previously)

**Profit warning: net profit may drop 65% YoY in 1H14.** Greentown issued a profit warning based on the preliminary review of its unaudited management accounts for 1H14 which shows that net profit may decline by 65% YoY. According to Greentown, there are 3 major factors leading to such significant profit decline: 1) the absence of a one-off acquisition gain of RMB 704mn in 1H13; 2) despite the fact that overall revenue was higher than that in 1H13, gross margin dropped by 6ppt YoY compared to 29.7% in 1H13 due to the recognition of low-margined projects; 3) the Group's JV and associates may recognize a loss in 1H14 (profit-making in 1H13) due to recognition of low-margined projects.

**Afflicted by poor sentiment in the Hangzhou market.** We believe the profit decline has been expected by the market as Greentown, being the top player in Hangzhou, has suffered from price war and inventory build-up this year. However, the margin decline of 6ppt is much steeper than expected, especially when the booking in 1H14 may have only reflected presales in 2H13 when the sentiment was better compared to 1H14. Besides, Greentown's presales were down 2% YoY (vs peer average of a 13% growth YoY) although significant discounts may have been made to clear inventories. Nonetheless, with the recent introduction of Sunac as a major shareholder, Greentown's presales outlook may improve for 2H14.

**Downgrade to HOLD with revised TP at HK\$ 9.30.** Given the lower-than- expected gross margin, we cut our core net profit forecasts by 13%/1% for FY14E/15E, and trim our NAV estimate to HK\$18.5 (from HK\$24.3). We also lower our TP to HK\$ 9.30 (from HK\$ 9.70) based on a 50% discount to NAV (from 60% previously). We lower our target discount to NAV as policy risks have been reducing since home purchase restriction in Hangzhou started to relax in July. As we believe Greentown's presales and margins are unlikely to recover in the near term, we downgrade Greentown to **HOLD** from Buy.

**Risk factors:** 1) High costs of new sites acquired may slash margins; 2) Upside risk: faster presale after introduction of Sunac as a major shareholder

### Results and Valuation

FY ended Dec 31	2012A	2013A	2014E	2015E	2016E
Revenue (RMB mn)	35,393	28,991	28,183	31,409	38,807
Chg (% YoY)	61.1	(18.1)	(2.8)	11.4	23.6
Core net profit (RMB mn)	4,257	4,443	3,849	3,812	5,711
Chg (% YoY)	70.9	4.4	(13.4)	(1.0)	49.8
Underlying EPS (RMB)	1.85	1.76	1.64	1.63	2.50
Chg (% YoY)	21.5	(4.5)	(6.7)	(1.0)	53.8
BVPS (RMB)	8.89	10.62	11.76	12.88	14.83
Chg (% YoY)	22.1	19.4	10.7	9.5	15.2
Underlying PE (x)	4.2	4.4	4.7	4.8	3.1
PB (x)	0.9	0.7	0.7	0.6	0.5
ROE (%)	20.1	17.8	13.5	12.4	16.3
ROA (%)	4.0	3.6	2.9	2.8	3.8
DPS (RMB)	0.50	0.43	0.40	0.40	0.45
Dividend yield (%)	6.4	5.5	5.1	5.1	5.8
Net gearing (%)	63.7	77.1	80.5	84.1	31.4

\*Net gearing=Net debt/Total Shareholders' equity

Source(s): Bloomberg, ABCI Securities estimates



Exhibit 1: Revised FY14E NAV of Greentown

	Attr. GFA (Mn sqm)	Net assets value (RMB mn)	% of total	Valuation Methodology	Implied value per sqm (RMB)
<b>Property development</b>					
Hangzhou	3.6	9,539	16%	DCF at WACC of 11.5%	2,665
Shanghai	0.9	10,746	19%		12,079
Zhoushan	3.2	6,310	11%		1,982
Qingdao	3.2	2,902	5%		913
Hainan	0.9	3,345	6%		3,913
Others cities	13.4	22,556	39%		1,690
<b>Subtotal</b>	<b>25.0</b>	<b>55,398</b>	<b>96%</b>		<b>2,213</b>
Investment Properties		1,018	2%	6% cap rate on net rental income	
Greentown Construction		840	1%		4x 2014E PE
Hotels		577	1%		5x EBITDA multiple
<b>Total GAV</b>		<b>57,833</b>	<b>100%</b>		
2014E Net debt & perpetual convertible securities		(25,955)	-45%		
<b>Total NAV</b>		<b>31,878</b>	<b>55%</b>		
No. of share outstanding		2,153			
<b>NAV per share (RMB)</b>		<b>14.8</b>			
Exchange rate (HKD/RMB)		1.25			
<b>NAV per share (HKD)</b>		<b>18.5</b>			
Target discount (%)		50%			
<b>Target Price (HKD)</b>		<b>9.30</b>			
<b>WACC</b>	<b>11.5%</b>				
Cost of debt	8.0%				
Cost of equity	20.0%				
<b>Debt/ ( Debt + Equity)</b>	<b>60%</b>				

Source(s): Company, ABCI Securities estimates



**Consolidated income statement (2012A-2016E)**

<b>FY Ended Dec 31 (RMB mn)</b>	<b>2012A</b>	<b>2013A</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>
<b>Revenue</b>	<b>35,393</b>	<b>28,991</b>	<b>28,183</b>	<b>31,409</b>	<b>38,807</b>
Cost of sales	(24,679)	(20,215)	(20,785)	(24,560)	(29,590)
<b>Gross Profit</b>	<b>10,714</b>	<b>8,775</b>	<b>7,398</b>	<b>6,849</b>	<b>9,217</b>
SG&A expenses	(2,069)	(2,340)	(2,656)	(2,884)	(3,132)
<b>EBIT</b>	<b>8,645</b>	<b>6,435</b>	<b>4,742</b>	<b>3,965</b>	<b>6,085</b>
Finance cost	(564)	(507)	(406)	(406)	(345)
Share of profit of associates	513	1,570	2,731	2,665	3,889
Other income/ (expenses)	1,001	728	647	1,105	1,183
Fair value gain of investment properties	-	-	-	-	-
Disposal/one-off items	663	919	-	-	-
<b>Profit before tax</b>	<b>10,257</b>	<b>9,146</b>	<b>7,714</b>	<b>7,328</b>	<b>10,813</b>
Tax	(4,204)	(3,156)	(2,940)	(2,603)	(3,864)
<b>Profit after tax</b>	<b>6,053</b>	<b>5,990</b>	<b>4,774</b>	<b>4,725</b>	<b>6,950</b>
Minority interest	(1,202)	(1,105)	(925)	(913)	(1,238)
<b>Reported net profit</b>	<b>4,851</b>	<b>4,886</b>	<b>3,849</b>	<b>3,812</b>	<b>5,711</b>
<i>Less: exceptional items</i>	<i>(594)</i>	<i>(443)</i>	<i>-</i>	<i>0</i>	<i>(0)</i>
<b>Underlying net profit</b>	<b>4,257</b>	<b>4,443</b>	<b>3,849</b>	<b>3,812</b>	<b>5,711</b>
<b>Per share</b>					
Underlying EPS (RMB)	1.85	1.76	1.64	1.63	2.50
DPS (RMB)	0.50	0.43	0.40	0.40	0.45
Payout ratio (%)	27%	24%	24%	25%	18%
BVPS (RMB)	8.89	10.62	11.76	12.88	14.83
<b>Growth %</b>					
Revenue	61.1%	-18.1%	-2.8%	11.4%	23.6%
Gross Profit	44.6%	-18.1%	-15.7%	-7.4%	34.6%
EBIT	57.5%	-25.6%	-26.3%	-16.4%	53.5%
Underlying net profit	70.9%	4.4%	-13.4%	-1.0%	49.8%
<b>Margin %</b>					
Gross margin	30.3%	30.3%	26.2%	21.8%	23.8%
Gross margin (post-LAT)	24.4%	25.9%	21.5%	18.5%	19.8%
EBIT margin	24.4%	22.2%	16.8%	12.6%	15.7%
Core net margin	14.2%	12.9%	7.2%	6.6%	7.9%
<b>Key assumptions</b>					
Presales (RMB mn)	51,071	62,100	65,246	87,205	141,923
GFA sold (mn sqm)	2.58	3.09	3.20	4.20	6.00
ASP (RMB/sqm)	19,772	20,097	20,389	20,750	23,651
Booked Sales (RMB mn)	34,214	27,460	26,891	30,006	37,285
GFA delivered (mn sqm)	1.91	1.65	1.31	1.58	1.90
Booked ASP (RMB/sqm)	17,894	16,604	20,531	18,990	19,646

Source(s): Company, ABCI Securities estimates



**Consolidated balance sheet (2012A-2016E)**

<b>As of Dec 31 (RMB mn)</b>	<b>2012A</b>	<b>2013A</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>
<b>Current assets</b>	<b>93,334</b>	<b>101,622</b>	<b>112,784</b>	<b>114,734</b>	<b>128,116</b>
Cash	6,164	10,686	12,062	4,012	13,929
Restricted cash	1,734	595	595	595	595
Trade & other receivables	4,713	4,381	4,381	4,381	4,381
Property under development	50,543	52,132	61,918	71,919	75,383
Other current assets	30,180	33,828	33,828	33,828	33,828
<b>Non-current assets</b>	<b>14,373</b>	<b>20,714</b>	<b>21,343</b>	<b>21,964</b>	<b>22,577</b>
Property, plant & equipment	3,675	4,864	5,194	5,515	5,827
Investment properties	1,731	1,832	1,832	1,832	1,832
Investment in Associate and JCE	7,577	11,864	12,164	12,464	12,764
Other non-current assets	1,390	2,154	2,154	2,154	2,154
<b>Total Assets</b>	<b>107,707</b>	<b>122,336</b>	<b>134,127</b>	<b>136,699</b>	<b>150,692</b>
<b>Current Liabilities</b>	<b>73,562</b>	<b>65,127</b>	<b>72,583</b>	<b>71,883</b>	<b>80,488</b>
Short term borrowings	15,256	6,018	11,018	6,018	1,018
Trade & other payables	15,959	17,911	17,911	17,911	17,911
Pre-sales deposits	28,848	23,428	25,884	30,184	43,789
Other current liabilities	13,500	17,770	17,770	17,770	17,770
<b>Non-current liabilities</b>	<b>6,657</b>	<b>25,197</b>	<b>25,197</b>	<b>25,197</b>	<b>25,197</b>
Long term borrowings	6,118	24,494	24,494	24,494	24,494
Other payables	0	0	0	0	0
Other non-current liabilities	539	704	704	704	704
<b>Total Liabilities</b>	<b>80,219</b>	<b>90,325</b>	<b>97,780</b>	<b>97,080</b>	<b>105,685</b>
<b>Net Assets</b>	<b>27,488</b>	<b>32,011</b>	<b>36,347</b>	<b>39,618</b>	<b>45,007</b>
<b>Shareholders Equity</b>	<b>19,058</b>	<b>22,863</b>	<b>25,308</b>	<b>27,717</b>	<b>31,917</b>
Perpetual Convertible Securities	2,084	2,084	3,100	3,100	3,100
Minority Interest	6,346	7,064	7,939	8,802	9,990
<b>Total Equity</b>	<b>27,488</b>	<b>32,011</b>	<b>36,347</b>	<b>39,618</b>	<b>45,007</b>
<b>Key ratio</b>					
Gross debt (RMB mn)	21,373	30,512	35,512	30,512	25,512
Net debt (RMB mn)	13,475	19,230	22,855	25,905	10,988
Net gearing (%)	64%	77%	80%	84%	31%
Presales/ Total assets (x)	0.47	0.51	0.49	0.64	0.94

Source(s): Company, ABCI Securities estimates



**Consolidated cash flow statement (2012A-2016E)**

<b>FY ended Dec 31 (RMB mn)</b>	<b>2012A</b>	<b>2013A</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>
EBITDA	8,814	6,593	4,912	4,144	6,273
Change in Working Capital	(3,006)	(2,218)	(5,030)	(3,400)	12,093
Tax payment	(1,109)	(3,101)	(2,940)	(2,603)	(3,864)
<b>Operating cash flow</b>	<b>4,700</b>	<b>1,274</b>	<b>(3,058)</b>	<b>(1,859)</b>	<b>14,502</b>
Purchase of PP&E	(1,078)	(1,385)	(500)	(500)	(500)
Addition of Investment Properties	5	3	-	-	-
Investment in Associate/ JCE	(50)	(1,230)	(100)	(100)	(100)
Proceeds from Disposals	7,603	324	-	-	-
Others	231	(2,696)	3,179	3,570	4,873
<b>Investing cash flow</b>	<b>6,712</b>	<b>(4,984)</b>	<b>2,579</b>	<b>2,970</b>	<b>4,273</b>
Debt raised	11,483	17,033	15,000	10,000	10,000
Debt repaid	(18,695)	(16,721)	(10,000)	(15,000)	(15,000)
Interest expenses	(3,586)	(2,305)	(2,707)	(2,707)	(2,297)
Equity raised	2,075	-	-	-	-
Convertible securities raised	2,084	-	1,016	-	-
Dividend to shareholders	(164)	(1,077)	(1,125)	(1,125)	(1,232)
Others	(2,060)	11,304	(329)	(329)	(329)
<b>Financing cash flow</b>	<b>(8,863)</b>	<b>8,233</b>	<b>1,855</b>	<b>(9,160)</b>	<b>(8,858)</b>
<b>Net cash inflow/ (outflow)</b>	<b>2,548</b>	<b>4,522</b>	<b>1,376</b>	<b>(8,050)</b>	<b>9,917</b>
Cash- beginning	3,615	6,164	10,686	12,062	4,012
<b>Cash- year-end</b>	<b>6,164</b>	<b>10,686</b>	<b>12,062</b>	<b>4,012</b>	<b>13,929</b>

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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