



August 28, 2015
Company Report
Rating: BUY
TP: HK\$ 75.40

Share price (HK\$) 48.00
Est. share price return 57.1%
Est. 15E dividend yield 2.8%
Est. total return 59.9%

Previous Rating & TP BUY, HK\$88.00
Previous Report Date May 8, 2015

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Key Data

52Wk H/L(HK\$) 78.0/42.45
Issued shares (mn) 4,474
Market cap 222,746
3-mth avg daily turnover (HK\$ mn) 497.8
Major shareholder(s) (%):
WANG Jian Lin 50.5
Source(s): Company, Bloomberg, ABCI Securities

FY14 Revenue breakdown (%)

Property Development 99.2
Property Management 0.8
Source(s): Company, ABCI Securities

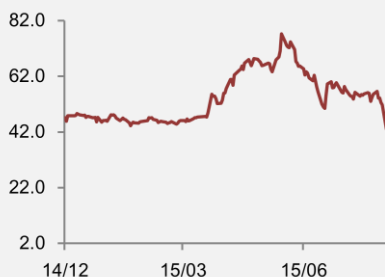
Share performance (%)

	Absolute	Relative*
1-mth	(10.1)	0.6
3-mth	(22.6)	(3.5)
6-mth	5.5	19.2

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Wanda (3699 HK)
An outperformer in rate cut cycle

- Core profit surged 117% YoY to RMB 2,264mn in 1H15
- For property sales business, presales grew 10%YoY to RMB 61bn while gross margin improved by 0.5ppt YoY to 39.5%
- Rental revenue grew 31% YoY to RMB 6.3bn. On a like-for-like basis, retail sales grew 11%YoY for Wanda's shopping centers in tier-1 cities and 13%YoY in tier-2/3 cities.
- The asset-light model should reduce Wanda's capex and gearing in future.
- With 91% of total debt raised onshore, Wanda's finance cost saving should increase further on the recent rate cut
- Maintain **BUY** with TP of HK\$ 75.40 (from HK\$ 88.00) based on a 50% discount to FY15E NAV.

Core profit increased 117% YoY to RMB 2,264mn in 1H15. Wanda 1H15 core profit increased 117% YoY to RMB 2,264mn as revenue increased by 33%YoY to RMB 30.9bn. Wanda delivered strong operating metrics in its two core segments:

1) Property sales - booked sales increased 29%YoY to RMB 21bn, driven by higher GFA delivery (+12%YoY to 1.72mn sqm) and booked ASP (+15%YoY to RMB 21k/sqm). In 1H15, presales also went up 10%YoY to RMB 61bn, in line with the average growth of 11% YoY among peers. Margin-wise, gross margin improved by 0.5ppt YoY to 39.5% in 1H15, which is impressive given the sector-wide decline in margins resulted from an oversupplied property market in 2014. We believe Wanda is one of very few players who can achieve a double-digit growth in presales while keeping its gross margin at above 35%.

2) Property leasing - rental revenue increased 31% YoY to RMB 6,345mn. LFA of Wanda's shopping centers reached 12.06mn sqm in 1H15 (5% higher than FY14) while average rent improved to RMB 97.29/sqm/mth (8.3% higher than FY14). Retail sales of Wanda's shopping centers were strong at RMB 54.6bn in 1H15. On a like-for-like basis, retail sales of Wanda's grew 11%YoY for shopping centers in tier-1 cities and 13% in tier-2/3 cities. We believe growth in 2H15 may accelerate further because of **a) an increasing number of Wanda Plaza to be launched.** Given that only five of the 26 new shopping centers commenced operation in 1H15, the rest is like to be opened in 2H; **b) Adjusting tenant mix.** In the past few years, Wanda leased a substantial portion of its GFA to department store business and KTV owned by its parent group. In 2015, as its parent decided to scale down unprofitable operations, Wanda can replace those GFA with third-party tenants providing higher returns. Wanda will terminate ~50% of the department store GFA and 20 of the 60 KTV centers, hence we expect rent rate to rise by 20-40% with the new leases.

A shift to an asset-light model to lower gearing. Wanda also announced its switch to an asset-light model through the KuaiQian platform. Under the cooperation framework agreement, KuaiQian (68.7% owned by Wanda's Chairman, Mr. Wang Jianlin), an online payment and finance company, will be responsible for raising fund for the land and construction cost, while Wanda will provide construction management and operation management of the properties injected. (continue next page)

Results and Valuation

FY ended Dec 31	2013A	2014A	2015E	2016E	2017E
Revenue (RMB mn)	86,774	107,871	113,226	142,734	165,854
Chg (% YoY)	46.8	24.3	5.0	26.1	16.2
Core net profit (RMB mn)	12,999	14,824	16,801	22,972	29,850
Chg (% YoY)	19.4	14.0	13.3	36.7	29.9
Underlying EPS (RMB)	3.48	3.97	3.71	5.07	6.59
Chg (% YoY)	19.5	14.0	(6.6)	36.7	29.9
BVPS (RMB)	29.0	40.9	36.4	39.9	44.5
Chg (% YoY)	26.4	41.1	(11.2)	9.8	11.6
Underlying PE (x)	11.4	10.0	10.7	7.8	6.0
PB (x)	1.4	1.0	1.1	1.0	0.9
ROE (%)	12.0	9.7	10.2	12.7	14.8
ROA (%)	3.0	2.6	2.6	3.2	3.9
DPS (RMB)	-	0.95	1.11	1.52	1.98
Dividend yield (%)	-	2.4	2.8	3.8	5.0
Net gearing (%)	53.3	56.9	59.2	53.1	90.9

*Net gearing=Net debt/Total Shareholders' equity

Source(s): Bloomberg, ABCI Securities estimates

When the shopping centers begin operation, Wanda will share 30% of the net property income while the remaining 70% will be entitled to its partner, KuaiQian. In the first seven years of operation, KuaiQian will be guaranteed an annualized return on investment of 7.5%; any shortfall will be compensated by Wanda's 30% share of the profit. If the actual return exceeds 7.5%, Wanda's profit-sharing ratio will increase. We believe Wanda will use the platform to fund the development of the Wanda Plazas, and net gearing should fall substantially in the long run as the Group will no longer be bearing the land and construction costs. In its early stage of cooperation, Wanda will transfer five Wanda Plazas to the platform for a consideration of RMB 1.035bn (at 1.03x P/B). The total investment is estimated to be RMB 4.75bn.

Beneficiary in a rate cut cycle. Although Wanda's net debt increased 32%HoH to RMB 116bn and net gearing jumped 17.0ppt HoH to 73.7%, net finance cost decreased 2%YoY to RMB 3.76bn while average borrowing cost dropped from 7.51% in FY14 to 6.96% in 1H15. Such impressive improvements were driven by **1) a series of rate cut in China since end-2014.** Offshore debt (RMB15.1bn) only accounted for 8.68% of total debt in 1H15. The majority of debt was raised onshore and PBOC rate-linked. Further rate cut in China will save interest expenses for onshore borrowing, while interest rate of offshore debt may rise upon expected rate hike in the U.S. towards end-2015; **2) Active refinancing for trust loan repayment.** Trust loan accounted for 20.98% (RMB 36.5bn) of total borrowing by 1H15 and entails a rather high interest cost. Wanda raised RMB10bn with the 5-year note at a 4.6% coupon rate on Aug 3, 2015. The Group raised another RMB 5bn in domestic corporate bond with a 5-year maturity and a coupon rate low at 4.09%. As net finance cost represented close to 20% of Wanda's EBIT in 2014, reducing interest cost will have an immediate positive impact on its net profit.

Maintain BUY with unadjusted TP of HK\$ 75.40. We lift our FY15E NAV estimate from HK\$146.6 to HK\$150.8 to factor in the strong interim results. We lower our TP to HK\$75.40 (from HK\$88.00) with a higher NAV discount of 50% (from 40%) based on the recent market correction and de-rating of China's property sector on forex debt exposure. Wanda is our top BUY for China's property sector, given its strong rental revenue growth outlook and reduced financing cost.

Risk factors: 1) Rising online retailing in China; 2) Substantial government grant received; 3) Significant related-party transactions;

Exhibit 1: Operating statistics of property leasing segment

	1H15	FY14	Change
Total GFA (mn sqm)	18.43	17.71	4.1%
Total LFA (mn sqm)	12.06	11.49	5.0%
Occupancy	98.1%	99.3%	-1.2ppt
Average rent (RMB/sqm/mth)	97.29	89.84	8.3%

Source(s): Company, ABCI Securities

Exhibit 2: Visitation and like-for-like retail sales growth by operation duration (1H15)

Years of operation	No. of Wanda plaza	No. of daily visitation ('000)	Like-for-like visitation growth	Average daily retail sales (RMBmn)	Like-for-like retail sales growth
<3 years	61	43	8%	2.24	10%
3-5 years	32	55	7%	3.45	16%
>5 years	14	67	1%	4.47	10%

Source(s): Company, ABCI Securities

Exhibit 3: Visitation and like-for-like retail sales growth by city tier (1H15)

Tiers of cities	No. of daily visitation ('000)	Like-for-like visitation growth	Average daily retail sales (RMBmn)	Like-for-like retail sales growth
Tier 1	63	3%	4.40	11%
Tier 2	53	6%	3.13	13%
Tier 3	45	7%	2.51	13%

Source(s): Company, ABCI Securities



Exhibit 4: Wanda's 1H15 results

P&L				Operating statistics					
	1H15	1H14	YoY Chg	1H15	1H14	YoY Chg	1H15	1H14	YoY Chg
	RMBmn	RMBmn	(%)	Contracted GFA ('000 sqm)	6.54	4.77	37		
Turnover	30,894	23,251	33	Contracted ASP (RMB/sqm)	9,363	11,655	(20)		
Property sales	20,989	16,293	29	Presales (RMB mn)	61,237	55,604	10		
Property leasing	6,345	4,861	31	GFA Delivered (mn sqm)	1.72	1.54	12		
Hotel	2,234	1,770	26	Booked ASP (RMB/sqm)	12,210	10,590	15		
Others	1,326	327	306	Property sales booked (RMB mn)	20,989	16,293	29		
Cost of Sales	(17,206)	(12,821)	34	Gross margin by segment	1H15	1H14	YoY Chg		
Gross Profit	13,688	10,430	31	Property sales	39.5%	39.1%	+0.5 ppt		
Gross Margin (%)	44.3	44.9	-0.6ppt	Property leasing	74.3%	73.6%	+0.6ppt		
Selling and distribution costs	(2,257)	(2,104)	7	Hotel	23.9%	29.0%	-5.1ppt		
Administrative expense	(3,633)	(2,537)	43	Others	11.3%	-8.0%	+19.3		
EBIT	7,798	5,789	35	Balance sheet	Jun 15	Dec 14	HoH %		
EBIT Margin (%)	25.2	24.9	+0.3ppt		RMBmn	RMBmn			
Other income, gains and losses	1,020	577	77	Gross debt	174,239	180,969	(4)		
Fair value gain of investment properties	3,910	5,227	(25)	Cash	57,770	93,035	(38)		
Other exceptional items	330	613	(46)	Net debt	116,469	87,934	32		
Share of profit from JCE/ Associates	(7)	(1)	600	Net gearing(%)	73.7	56.7	+17.0ppt		
Finance cost	(3,760)	(3,820)	(2)						
Profit before tax	9,291	8,385	11						
Tax	(4,079)	(3,468)	18						
- LAT	(1,918)	(1,497)	28						
- Enterprise tax	(2,161)	(1,971)	10						
Profit after tax	5,212	4,917	6						
Minority Interest	(18)	48	(138)						
Net profit	5,194	4,965	5						
Underlying net profit	2,264	1,045	117						

Source(s): Company; ABCI Securities

Exhibit 5: Wanda's 2015E NAV estimates

	Attr. GFA (M sqm)	Net assets value (RMB m)	% of total	Valuation Method	Implied value per sqm (RMB)
Property development					
Residential	52.6	146,217	22%	DCF at WACC of 11.5%	2,780
Retail	7.0	108,128	16%		15,373
Office and others	44.6	226,648	34%		5,080
Subtotal	104.2	480,994	73%		4,615
Investment Properties	17.7	169,022	26%	6.0% cap rate on 2015E net rental income	9,544
Hotels		12,644	2%	8x 2015E EBITDA	
Total 2015E GAV	121.9	662,660	100%		5,434
2015E Net cash/ (debt)		(98,418)	-15%		
Total 2015E NAV		564,241	85%		
No. of share outstanding (diluted)		4,527			
NAV per share (RMB)		124.63			
Ex rate		1.21			
NAV per share (HKD)		150.80			
Target discount (%)		50%			
Target Price (HKD)		75.40			

WACC	11.5%
Cost of debt	8.0%
Cost of Equity	18.0%
Debt/ (Debt + Equity)	54%

Source(s): Company; ABCI Securities estimates



Consolidated income statement (2012A-2017E)

FY Ended Dec 31 (RMB mn)	2012A	2013A	2014A	2015E	2016E	2017E
Revenue	59,091	86,774	107,871	113,226	142,734	165,854
Cost of sales	(28,807)	(49,438)	(61,945)	(57,022)	(72,744)	(82,199)
Gross Profit	30,284	37,336	45,926	56,204	69,989	83,655
SG&A expenses	(7,219)	(9,565)	(13,653)	(18,961)	(22,520)	(22,397)
EBIT	23,065	27,771	32,273	37,243	47,469	61,259
Finance cost	(3,861)	(5,855)	(7,132)	(7,822)	(7,301)	(8,108)
Share of profit of associates	0	(9)	(2)	0	0	0
Other income/ (expenses)	2,162	4,142	3,206	1,834	1,613	1,308
Fair value gain of investment properties	21,898	15,443	13,455	0	0	0
Disposal/one-off items	0	0	0	0	0	0
Profit before tax	43,264	41,492	41,800	31,254	41,782	54,459
Tax	(15,443)	(16,610)	(16,699)	(14,454)	(18,810)	(24,609)
Profit after tax	27,821	24,882	25,101	16,801	22,972	29,850
Minority interest & Perpetual coupons	(511)	(301)	(262)	0	0	0
Reported net profit	27,310	24,581	24,839	16,801	22,972	29,850
Less: exceptional items	(16,424)	(11,582)	(10,015)	(0)	(0)	0
Underlying net profit	10,887	12,999	14,824	16,801	22,972	29,850
Per share						
Underlying EPS (RMB)	2.91	3.48	3.97	3.71	5.07	6.59
DPS (RMB)	-	-	0.95	1.11	1.52	1.98
Payout ratio (%)	0%	0%	24%	30%	30%	30%
BVPS (RMB)	22.95	29.01	40.94	36.35	39.90	44.52
Growth %						
Revenue	16.4%	46.8%	24.3%	5.0%	26.1%	16.2%
Gross Profit	24.6%	23.3%	23.0%	22.4%	24.5%	19.5%
EBIT	28.6%	20.4%	16.2%	15.4%	27.5%	29.0%
Underlying net profit	17.2%	19.4%	14.0%	13.3%	36.7%	29.9%
Margin %						
Gross margin	51.2%	43.0%	42.6%	49.6%	49.0%	50.4%
Gross margin (post-LAT)	39.3%	31.3%	32.6%	31.0%	31.0%	32.2%
EBIT margin	39.0%	32.0%	29.9%	32.9%	33.3%	36.9%
Core net margin	19.3%	15.3%	13.9%	14.8%	16.1%	18.0%
Key assumptions						
Contracted Sales (RMBm)	101,200	126,400	160,100	181,246	247,730	235,759
GFA sold (m sqm)	7.39	10.59	11.89	13.60	17.07	15.81
ASP (RMB/sqm)	13,700	11,941	13,470	13,323	14,509	14,915
Booked Sales (RMB)	50,573	74,981	91,748	92,653	118,688	139,661
GFA delivered (m sqm)	3.48	6.28	7.17	8.89	10.15	10.29
Booked ASP (RMB/sqm)	14,541	11,932	12,791	10,418	11,698	13,573

Source: Company, ABCI Securities estimates



Consolidated balance sheet (2012A-2017E)

As of Dec 31 (RMB mn)	2012A	2013A	2014A	2015E	2016E	2017E
Current assets	149,003	196,302	261,472	309,986	353,405	386,550
Cash	48,585	69,525	86,303	75,819	77,548	29,364
Restricted cash	2,131	4,139	6,732	6,732	6,732	6,732
Trade & other receivables	333	280	848	848	848	848
Property under development	76,378	100,474	145,192	204,191	245,880	327,209
Other current assets	21,576	21,884	22,397	22,397	22,397	22,397
Non-current assets	186,109	234,742	302,822	346,827	365,831	387,404
Property, plant & equipment	18,246	25,955	35,147	38,361	41,575	44,789
Investment properties	159,074	198,539	248,101	288,892	304,682	323,041
Investment in Associate and JCE	11	125	485	485	485	485
Other non-current assets	8,778	10,123	19,089	19,089	19,089	19,089
Total Assets	335,112	431,044	564,294	656,813	719,237	773,955
Current Liabilities	157,129	180,277	235,461	316,219	362,563	396,386
Short term borrowings	21,872	21,466	36,859	36,859	36,859	76,859
Trade & other payables	25,662	34,628	53,743	53,743	53,743	53,743
Pre-sales deposits	94,070	104,273	129,397	210,156	256,500	250,322
Other current assets	15,525	19,910	15,462	15,462	15,462	15,462
Non-current liabilities	90,632	136,895	173,687	173,687	173,687	173,687
Long term borrowings	71,547	112,916	144,505	144,505	144,505	144,505
Other payables	0	0	0	0	0	0
Other non-current assets	19,085	23,979	29,182	29,182	29,182	29,182
Total Liabilities	247,761	317,172	409,148	489,906	536,250	570,073
Net Assets	87,351	113,872	155,146	166,906	182,987	203,882
Shareholders Equity	85,727	108,286	152,814	164,574	180,655	201,550
Minority Interest	1,624	5,586	2,332	2,332	2,332	2,332
Total Equity	87,351	113,872	155,146	166,906	182,987	203,882
Key ratio						
Gross debt (RMBm)	93,419	134,382	181,364	181,364	181,364	221,364
Net debt (RMBm)	42,703	60,718	88,329	98,813	97,084	185,268
Net gearing (%)	49%	53%	57%	59%	53%	91%

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2012A-2017E)

FY Ended Dec 31 (RMB mn)	2012A	2013A	2014A	2015E	2016E	2017E
EBITDA	23,946	28,825	33,806	39,236	49,462	63,252
Change in Working Capital	622	(8,531)	291	27,510	10,021	(81,546)
Tax payment	(11,559)	(11,680)	(16,205)	(14,454)	(18,810)	(24,609)
Operating Cash flow	13,009	8,614	17,892	52,293	40,674	(42,903)
Purchase of PP&E	(3,255)	(5,207)	(5,207)	(5,207)	(5,207)	(5,207)
Addition of Investment Properties	(19,550)	(14,953)	(29,810)	(40,791)	(15,791)	(18,359)
Others	(1,369)	(1,888)	3,206	1,834	1,613	1,308
Investing Cash flow	(24,174)	(22,048)	(31,811)	(44,164)	(19,384)	(22,258)
Debt raised	57,470	84,359	58,860	50,000	50,000	50,000
Debt repaid	(33,848)	(40,304)	(37,300)	(50,000)	(50,000)	(10,000)
Interest expenses	(6,043)	(10,504)	(12,375)	(13,573)	(12,668)	(14,068)
Equity raised	0	0	25,058	0	0	0
Dividend to shareholders	(1,967)	(1,999)	(3,546)	(5,040)	(6,891)	(8,955)
Others	90	2,822	0	0	0	(0)
Financing Cash flow	15,702	34,374	30,697	(18,613)	(19,559)	16,977
Net cash inflow/ (outflow)	4,537	20,940	16,778	(10,484)	1,730	(48,184)
Cash- beginning	44,048	48,585	69,525	86,303	75,819	77,548
Cash- year-end	48,585	69,525	86,303	75,819	77,548	29,364

Source(s): Company, ABCI Securities estimates

Disclosures

Analyst Certification

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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 2010-2014

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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