

Company Report

Franshion (817 HK)

July 25, 2013

Rating: BUY
TP: HK\$ 2.90
Initiation

Key Data

H-Share price (HK\$)	2.47
Upside potential (%)	17.41
52Wk H/L(HK\$)	3.02/ 2.19
Issued shares (mn)	9,161
Market cap (HK\$ mn)	22,629
3-mth avg daily turnover (HK\$ mn)	14.59
Major shareholder(s) (%):	
Sinochem Group	62.90

Source(s): Company, Bloomberg, ABCI Securities

FY12 Revenue breakdown (%)

Property Development	62.9
Property Leasing	6.4
Hotels	11.7
Land Development	15.4
Others	3.6

Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	6.0	(4.4)
3-mth	(6.4)	(4.6)
6-mth	(13.3)	(6.8)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year price performance (HK\$)



Source(s): Bloomberg, ABCI Securities

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An undervalued prime office developer

Listed in 2007, Franshion is the real estate platform of Sinochem Group. Franshion enjoys growing ASP and margins on (1) high demand for Grade A office in tier-1 cities; (2) primary land development in Meixi Lake whose land value appreciated by more than 23% in 1H13. Its rental income is expected to undergo further increase with the expiry of lease 2013-14. Its current valuation with a 49% discount to NAV is low compared to other SOE peers. Based on its growing earning power and the counter's cheap valuation, we recommend BUY with TP at HK\$2.90.

Strong pricing power. Leverage on its Jinmao brand, Franshion is able to register significant ASP hike for its office projects. ASP of Shanghai International Shipping Services Centre (SISSC) rose by 36% from RMB 60k/sqm in 2012 to RMB 90k/sqm in 2013. Owing to strong demand for Grade A offices, we expect Franshion's contracted sales to exceed its original target of RMB13bn to RMB 14bn (+34% YoY) By end-June, ~54% of the target was achieved.

Recurrent rental income keeps growing. Franshion generated HK\$ 1.1 bn in recurring rental income in FY12 from two major property in Beijing (Beijing Chemsunny and Sinochem Tower) and one property in Shanghai (Jin Mao Tower). Total GFA of investment properties was 372 k sqm. Due to limited Grade A office supply in tier-1 cities, spot rent of these properties is 50%-100% above passing rent in 2012.

Primary land development in Meixi Lake starts to bears fruit. Land transaction price in Meixi Lake jumped 23% to RMB 2,700/sqm in 1H13 from RMB 2,200/sqm in FY12, representing a 97% appreciation over the original cost of RMB 1,300/sqm. We expect maturing complementary infrastructure in the region (e.g. the metro station to be completed by Oct 2013) will enhance the land value further.

Initiate Franshion with BUY. We value Franshion's property projects by using the DCF-model with a WACC of 8.3%. A 40% discount rate (which is the historical average in 2009-current) is applied to our NAV forecast to derive the TP of HK\$ 2.90. Current valuation that implies a 49% discount to its NAV is low compared to other SOE players such as COLI (688 HK, 16%) and CR Land (1109 HK, 26%). Initiate with BUY.

Risk factors: 1) Potential dilution by convertible bonds and 2) difficulties in replenishing high-quality commercial land bank due to short supply.

FY ended Dec 31	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue (HK\$ mn)	6,592	17,176	19,170	28,538	35,764
Chg (%YoY)	3.8	160.6	11.6	48.9	25.3
Underlying Net Profit (HK\$ mn)*	1,455	2,154	2,841	3,715	5,308
Chg (%YoY)	45.9	48.0	31.9	30.8	42.9
Underlying EPS (HK\$)	0.13	0.20	0.29	0.37	0.52
Chg (%YoY)	45.9	48.0	46.4	27.7	39.6
BVPS (HK\$)	2.32	2.58	2.79	3.08	3.52
Chg (%YoY)	14.5	11.5	8.1	10.2	14.3
P/E (x)	18.3	12.4	8.5	6.6	4.7
P/B (x)	1.1	1.0	0.9	0.8	0.7
DPS(HK\$)	0.04	0.07	0.10	0.12	0.14
Yield (%)	1.6	2.8	4.0	4.9	5.7
ROE (%)	6.7	8.9	10.8	12.9	16.2
ROA (%)	2.1	2.6	3.0	3.5	4.7

Source(s): Company, Bloomberg, ABCI Securities estimates (Rmb1.0=HK\$1.26)

*Underlying net profit is calculated by deducting revaluation gain and one-time disposal gain from the Group's reported net profit



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High-end commercial SOE developer

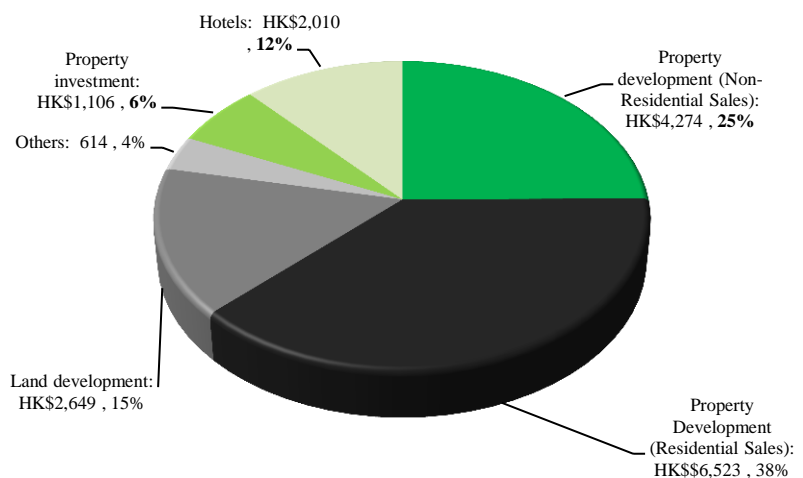
Listed in 2007, Franshion is the listed real estate platform of state-owned enterprise Sinochem Group. Franshion positions itself in the high-end segment. Jinmao Tower, once the tallest building in Shanghai, is one of its flagship properties.

Franshion has four main businesses :

1. **Property development** - Grade A office and luxury residential.
2. **Property leasing** - Beijing Chemsunny, Jinmao and Sinochem Tower as core portfolio.
3. **Hotels** - International branded hotels such as Ritz Carlton Sanya, Grant Hyatt Shanghai, and Westin Beijing etc.
4. **Primary land development** - mainly land sales in Meixi Lake.

Commercial properties (including non-residential sales, property investment, and hotels) accounted for 43% of Franshion's revenue in FY12. The high proportion of commercial properties in its revenue portfolio suggests a limited policy headwind.

Exhibit 1: Franshion's 2012 revenue mix (HK\$ mn)



Source(s): Franshion, ABCI Securities



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Franshion Properties

Exhibit 2: Franshion's Projects

Jinmao Tower



Beijing Chemsunny World Trade Centre



Beijing Jinmao Palace Guangqu



Ritz Carlton Hotel, Sanya



Source(s): Soufun

Strong pricing power on commercial property sales

Shanghai Office Empire

Replicating its success in the Shanghai Port International Cruise Terminal, Franshion still has two high-end offices in the pipeline at the Shanghai International Shipping Services Centre (SISSC) and Shanghai Haimen Road.

Key differentiating features of Franshion's two Shanghai office projects are:

- En-bloc sales strategy:** As opposed to the skyscrapers (e.g. Jinmao and Shanghai IFC etc), Franshion's SISSC consists of multiple low-rise blocks. Each block is usually sold to one sizeable corporate along with the building's naming right.
- River view offices:** The two projects are close to each other with a view of the Huangpu River. Given the lack of the river view offices at the site, Franshion could command a higher ASP for these in the area.

Exhibit 3: Franshion's Shanghai commercial portfolio



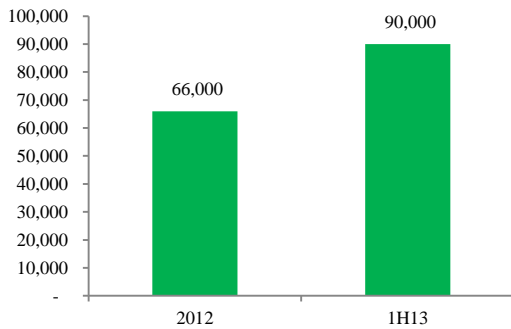
Source(s): Franshion

Strong pricing power

Leverage on its Jinmao brand, Franshion is able to register significant ASP improvement for its SISSC project. Selling price rose by 36% from RMB 60k/sqm in 2012 to RMB 90k/sqm in 1H13.

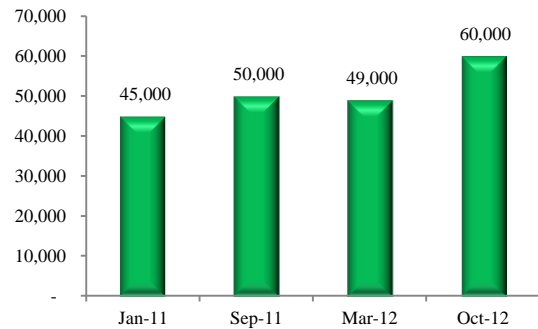
Despite severe tightening measure in the residential market, ASP of Jinmao Residence Guangqu, Franshion's high-end residential projects in Beijing, has been rising in subsequent launches since 2011. For example, ASP of Phase 3 in Oct 2012 was RMB 60k/sqm, 33% higher than ASPs of Phase 1 & 2 launched in Jan 2011. This demonstrated the Group's strong pricing power for its products.

Exhibit 4: ASP of SISSC (RMB/sqm)



Source(s): Franshion; ABCI Securities

Exhibit 5: ASP of Beijing Jinmao Residence (RMB/sqm)



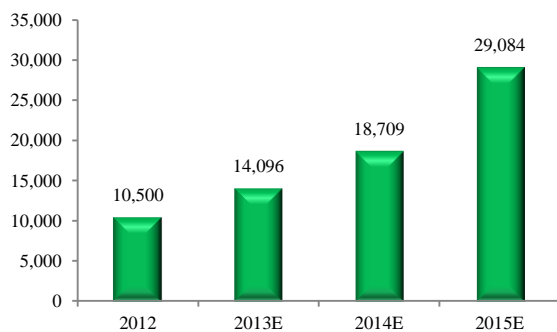
Source(s): Franshion; ABCI Securities

Expect 44% YoY growth for 2013 contracted sales

Apart from ASP improvement, we expect contracted sales amount will also grow along with increasing saleable property. Franshion's FY13 contracted sales target was RMB 13bn (2012 actual contracted sales: RMB10.5bn), implying a 76% sell-through rate on RMB 17bn saleable property in 2013.

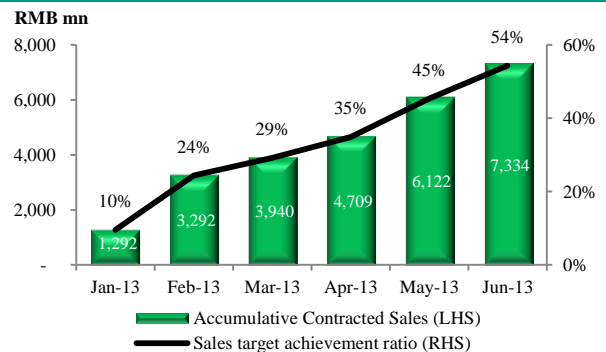
We expect Franshion's contracted sales in FY13 to reach RMB14b (+34% YoY), given that 54% of the target was achieved by end-June. As new projects in Suzhou, Changsha and Lijiang in the pipeline, we forecast contracted sales to reach RMB 29bn in 2015E, implying a 44% CAGR in 2013E-15E.

Exhibit 6: Contracted sales (RMB mn)



Source(s): Franshion, ABCI Securities estimates

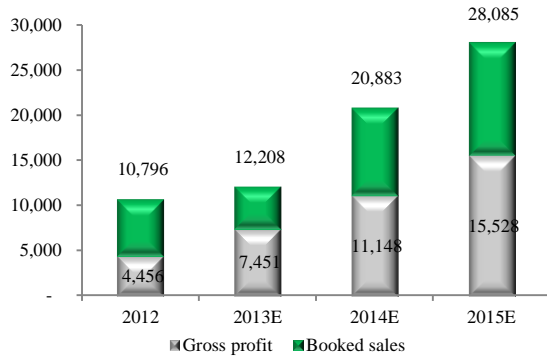
Exhibit 7: Monthly contracted sales and achievement Ratio



Source(s): Franshion, ABCI Securities

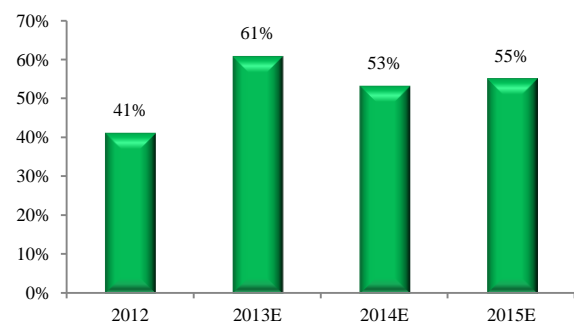


Exhibit 8: Property development-booked sales & gross profit (HK\$ mn)



Source(s): Franshion, ABCI Securities estimates

Exhibit 9: Property development- GP Margin (%)



Source(s): Franshion, ABCI Securities estimates

Investment Properties: Ample room for rent hike

Spot 50-100% above passing rent

Franshion generated about HK\$ 1.1bn in 2012 from three major properties in Beijing and Shanghai, namely the Beijing Chemsunny, Sinochem Tower in Beijing, and Jin Mao Tower in Shanghai. Due to limited supply of high-quality Grade A office at prime locations, spot rent of these commercial properties is 50%-100% above passing rent in 2012. We expect strong upward rental revisions upon the expiry of leases in 2013 (~33% of GFA) and 2014 (~50% of GFA).

Exhibit 10: Existing Investment properties Portfolio

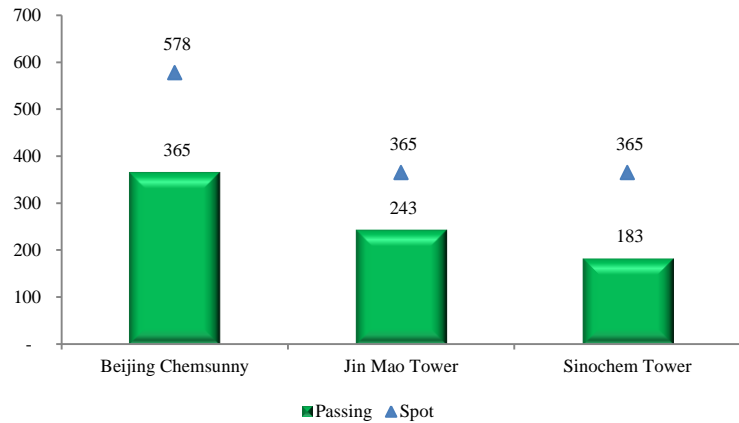
Project	Opening		Stake	2012
	Year	GFA		Revenue
		('000 sqm)	(%)	(HK\$ mn)
Beijing Chemsunny World Trade Centre	2006	111	100	537
Jin Mao Tower (office + retail)	1999	189	100	471
Sinochem tower	1995	49	100	87
Nanjing International Centre*	2011	140	51	NA
		489		1,095

* Acquired in Feb 2013

Source(s): Franshion; ABCI Securities



Exhibit 11: Spot vs Passing Rent (RMB/sqm/mth)



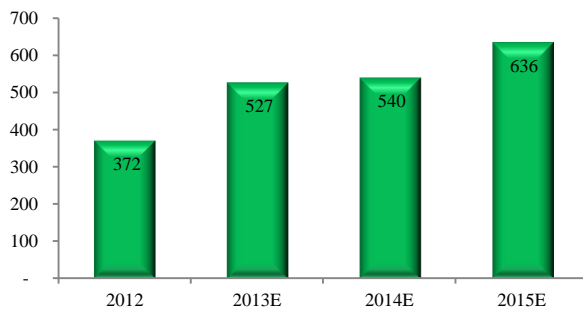
Source(s): Franshion; ABCI Securities

Rising GFA on M&A and existing pipeline

Besides its healthy organic growth, the Group’s strong balance sheet and low funding cost allowed it to complete an M&A deal in Feb 2013 to acquire 51% stake of Nanjing International Centre at RMB 1.1bn. The project has ~ 140k sqm of developed office/retail rental properties (Phase 1) and 196k sqm of raw land (Phase 2) for future development. We estimate the newly acquired Nanjing International square will generate an addition rental income of HK\$ 139mn in 2013E.

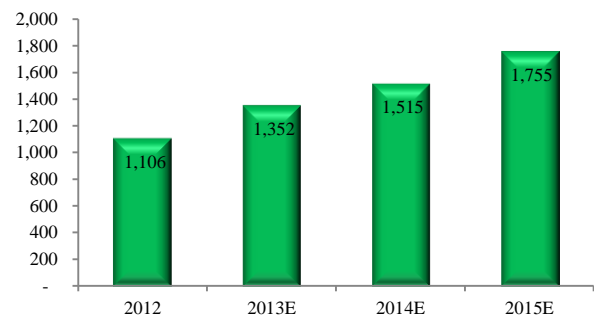
Furthermore, as Franshion planned to reserve part of the office/retail spaces in its Changsha R&D Centre (~15k sqm), Lijiang Whisper (~13k sqm) and Shanghai International Shipping Service Centre (~96k sqm), we expect the GFA of investment properties will increase to 636k by 2015E, 71% higher than 2012.

Exhibit 12: GFA of Franshion’s investment properties portfolio (k sqm)



Source(s): Franshion; ABCI Securities estimates

Exhibit 13: Franshion’s rental revenue (HK\$ mn)



Source(s): Franshion; ABCI Securities estimates



Hotel portfolio dragged down by Sanya, Hainan

As at Dec 2012, Franshion has a hotel portfolio with 6 properties and 2,872 rooms. Business performance in FY12 was dragged down by hotels in Sanya (Revenue of Ritz Carlton, Sanya:-9.4% YoY; Hilton, Sanya: -16.3% YoY) due to numerous hotel openings in the area.

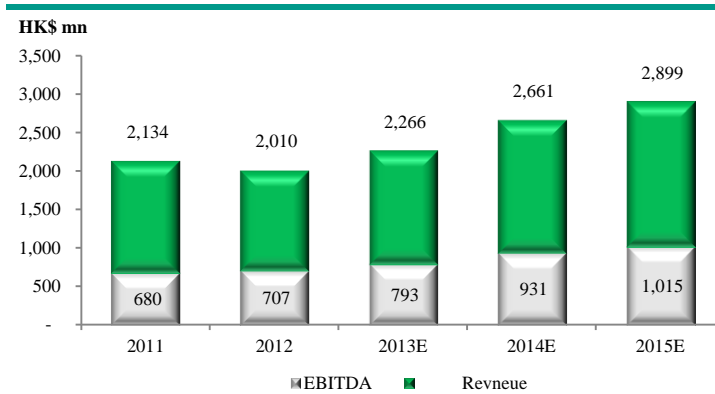
Despite hotel operation in Sanya may still be under pressure in the near term, with the acquisition of Westin Nanjing (231 rooms), completion of renovation in the Wangfujing Grand Hotels (405 rooms) and other hotel projects in the pipeline such as Chongming Hyatt (231 rooms) and Lijiang Grand Hyatt (381 rooms), we expect revenue from the hotel operation to grow at a CAGR of 13% in 2013E-15E.

Exhibit 14: Hotel portfolio as at Dec 2012

Project	Location	No. of rooms	2012			YoY Chg (%)		
			Revenue	Occupancy	Avg. Room rate	Revenue	Occupancy	Avg. Room rate
			(HKDm)	(%)	(RMB)			
Grand Hyatt Shanghai	Shanghai	555	552	60	1,676	(2.2)	1.0	(5.4)
Hilton Sanya Resort & Spa	Sanya	501	313	59.2	1,858	(16.3)	(8.3)	(8.1)
The Ritz-Carlton, Sanya	Sanya	450	500	62.1	3,081	(9.4)	(15.3)	10.7
Westin Beijing, Chaoyang	Beijing	550	443	76.5	1,540	9.1	(2.1)	13.5
Wangfujing Grand Hotel	Beijing	405	NA	NA	NA	NA	NA	NA
JW Marriott Shenzhen	Shenzhen	411	202	71.5	1,025	4.7	(2.8)	6.4
Total		2,872	2,010					

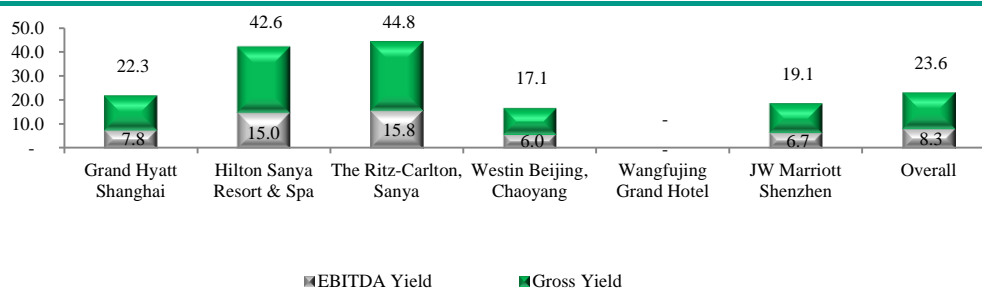
Source(s): Franshion, ABCI Securities

Exhibit 15: Hotel revenue and EBITDA



Source(s): Franshion; ABCI Securities estimate

Exhibit 16: Gross/EBITDA Yield (%) on Cost



* Wangfujing Grand Hotel under renovation

Source(s): Franshion; ABCI Securities

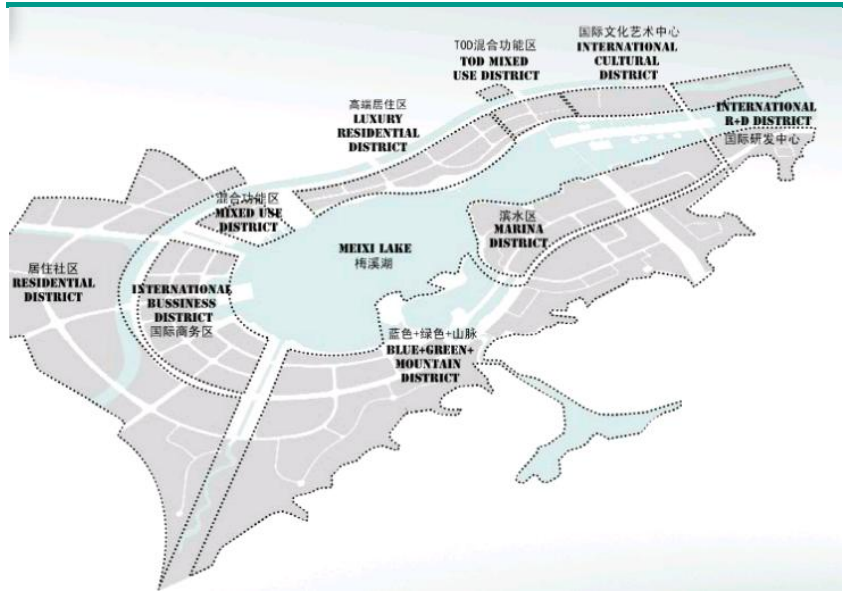


Meixi Lake: Enjoying the land appreciation

In 2011, Franshion (80%) and China State Construction (20%) jointly acquired Meixi Lake primary land development at RMB 12.8bn. Total project has a GFA of 9.45mn sqm, implying a land cost of ~RMB1,300/sqm. Key project terms include:

- Franshion can collect 92% of land premium while remaining 8% will be entitled by local government.
- No LAT will be applied on primary land development.

Exhibit 17:Meixi Lake development plan in Changsha

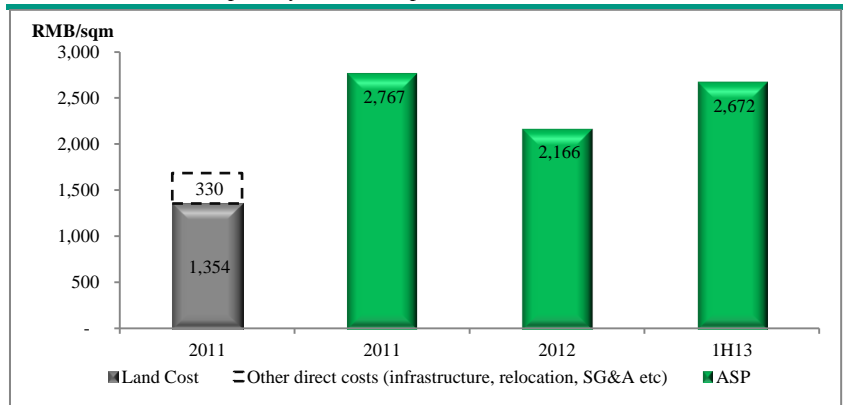


Source(s): Franshion,

Land price on fire

Despite the huge initial upfront investment, Meixi Lake starts to bear fruit in 2013. Land transaction price in Meixi Lake jumped 23% to RMB 2,700/sqm in 1H13 vs. RMB 2,200/sqm in 2012, implying a 97% appreciation over the original cost of RMB 1,300/sqm. We expect with the increases in (1) complementary infrastructure (e.g. metro station to be completed by Oct 2013) and (2) surrounding population upon completion of more residential projects will further enhance the land value.

Exhibit 18: Meixi Lake primary land development- Contracted ASP (2011-1H13)



Source(s): Franshion, Changsha Land & Resources Bureau



Currently, pre-sale price of the residential projects near Meixi Lake is at RMB 7.5k-8k/sqm. Based on the land price of RMB 3k /sqm, we estimate gross margin to be in the satisfactory range of 20-25% even if we assume ASP remain constant in the future.

Exhibit 19: Residential projects on pre-sale in Meixi Lake

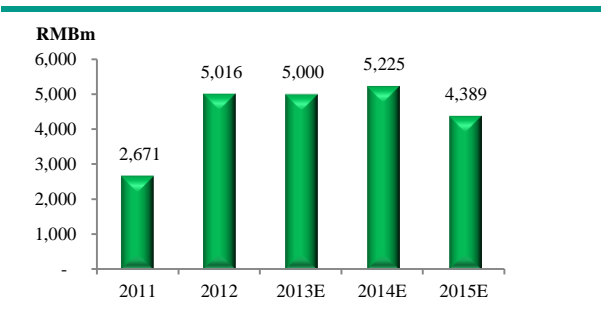


Source(s): Soufun, ABCI Securities

High margin business without LAT

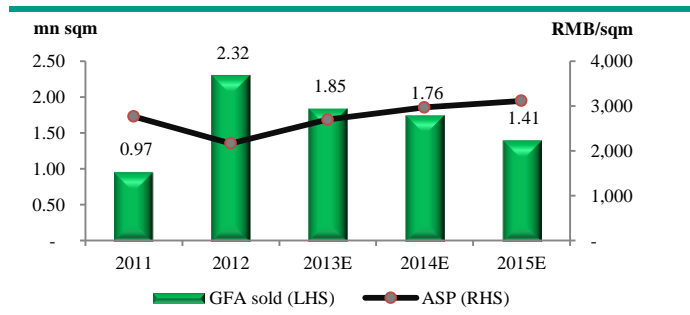
Franshion targets to generate RMB 5bn of sales revenue from Meixi Lake development in 2013E. We believe this is achievable given Franshion has already secured RMB 2.7bn from land sales in 1H13. As LAT is not applicable to primary land development, we expect Franshion to achieve a high net margin in the range of 20.4%-28.0% for 2013E-15E.

Exhibit 20: Franshion’s primary land development- contracted sales



Source(s): Franshion, Changsha Land & Resources Bureau

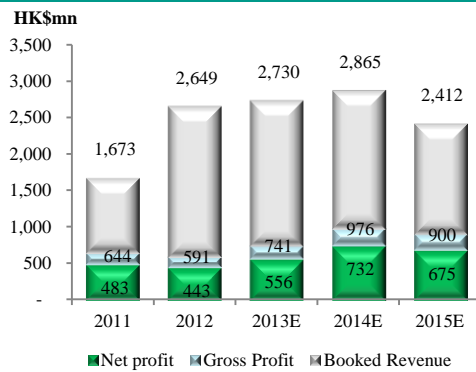
Exhibit 21: Franshion’s primary land development- GFA vs ASP



Source(s): Franshion, Changsha Land & Resources Bureau

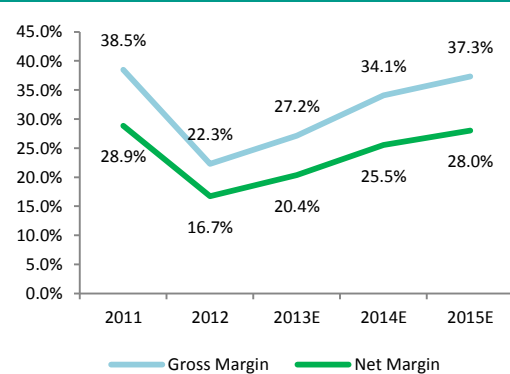


Exhibit 22: Land development- booked revenue, gross and net profit



Source(s): Franshion; ABCI Securities Estimates

Exhibit 23: Land development- gross / net margin (%)

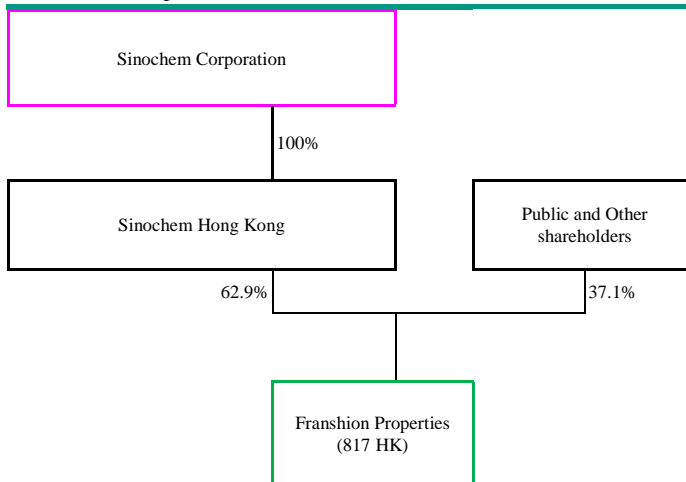


Source(s): Franshion; ABCI Securities Estimates

SOE background enables favorable funding cost

Franshion is currently 62.87% owned by Sinochem, a key state-owned conglomerate engaging in energy, chemical, financial, and real estate business via Franshion. Backed by its SOE parent, Franshion can borrow 3-year loans at 5% discount to PBOC rate in most Chinese banks.

Exhibit 24: Group structure



Source(s): Franshion, ABCI Securities

Further, Franshion has also been active in off-shore financing by leveraging on its SOE background. In Oct 2012, Franshion raised US\$ 500mn via bonds (due in 2017) at 4.7% coupon rate (lower than mid-cap non-SOE peers at 6-8%) to extend overall debt maturity. For off-shore loan, Franshion can borrow at a rate of LIBOR+200bps - a more favorable rate than its non-SOE peers (e.g. Longfor secured a HK\$ \$7.6bn 4-year loan at HIBOR+310bps in July 2013; Sunac raised USD400m 3-year term facilities at LIBOR+388bps in July 2013).



Exhibit 25: Franshion's bond yield (%) by maturity



Source(s): Bloomberg, ABC Securities

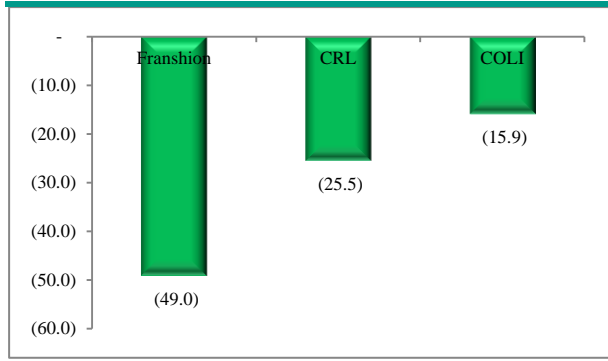


SOE player at a bargain

Cheapest SOE developer despite highest rental income

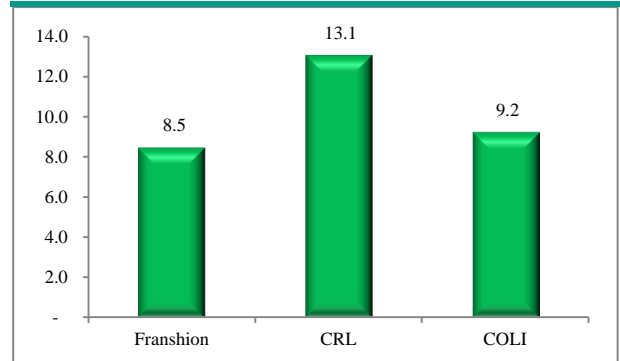
As a SOE player, Franshion has not enjoyed premium valuation that COLI and CR Land have. Franshion now trades at a 49% discount to FY13E NAV, vs. 22-26% for CR Land and COLI.

Exhibit 26: SOE players' discount to NAV (%)



Source(s): Company data, ABCI Securities estimates

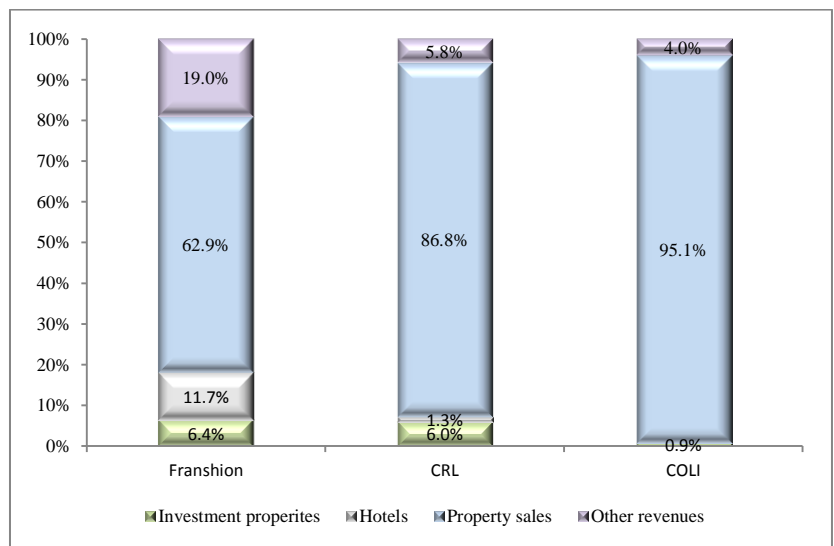
Exhibit 27: SOE players' 2013E P/E (x)



Source(s): Company data, ABCI Securities estimates

In terms of percentage, contribution of rental revenue is highest (6.4%) in Franshion among the SOE players (CR Land: 6.0%; COLI: 0.9%). The market normally gives a premium valuation to companies with a heavy focus on property rental business due to its secure nature. We therefore believe that Franshion is deeply undervalued.

Exhibit 28: Rental revenue as % of total revenue



Source(s): Company data, ABCI Securities



Exhibit 29: Peer valuations

China Property	Ticker	Rating	Mkt cap	Share Price	Performance			Discount to NAV	2013E NAV	P/E			Yield (%)			P/B			
					1M	YTD	2012			2012A	2013E	2014E	2012A	2013E	2014E	2012A	2013E	2014E	
			(HK\$ bn)	(local ccy)	% Chg	% Chg	% Chg	(%)	(HK\$)										
Residential :																			
1	COLI	688 HK	BUY	179.0	21.90	15.4	(5.2)	76.1	(15.9)	26.05	11.2	9.2	7.3	1.9	2.2	2.7	2.1	1.7	1.5
2	CR Land	1109 HK	NR	121.2	20.80	9.8	(1.4)	70.4	(25.5)	27.93	16.0	13.1	10.4	1.6	1.9	2.4	1.8	1.5	1.3
3	Country Garden	2007 HK	NR	77.7	4.21	12.3	3.7	38.6	(31.0)	6.10	9.0	7.6	6.5	4.1	4.8	5.5	1.6	1.4	1.2
4	Longfor	960 HK	NR	62.4	11.46	(7.1)	(24.5)	76.5	(45.3)	20.95	9.1	7.8	6.7	2.2	2.5	3.0	1.6	1.4	1.2
5	Shimao	813 HK	NR	57.2	16.48	17.2	12.7	121.9	(44.3)	29.57	8.0	7.4	6.1	3.3	4.1	4.8	1.3	1.1	1.0
6	Evergrande	3333 HK	NR	51.0	3.18	13.2	(25.2)	31.6	(62.6)	8.50	4.2	4.7	4.0	-	5.3	6.0	1.0	0.8	0.7
7	Guangzhou R&F	2777 HK	NR	36.7	11.40	(1.4)	(11.6)	109.4	(55.5)	25.60	6.0	5.2	4.6	6.6	7.2	8.1	1.1	1.0	0.8
8	Agile	3383 HK	NR	28.0	8.13	(0.5)	(25.4)	55.9	(64.2)	22.73	4.5	4.5	4.0	4.7	5.3	5.9	0.9	0.7	0.6
9	Greentown	3900 HK	BUY	31.5	14.64	13.3	3.1	320.1	(54.5)	32.16	5.5	4.6	3.5	4.3	4.7	5.1	1.2	1.0	0.8
10	Sino Ocean	3377 HK	NR	23.7	4.04	(0.5)	(30.2)	64.0	(53.8)	8.75	6.8	6.8	5.6	5.8	5.9	6.7	0.5	0.5	0.5
11	COGO	81 HK	NR	21.3	9.35	(5.5)	0.3	47.2	(32.6)	13.87	8.9	7.4	5.9	1.2	1.6	1.9	2.7	1.9	1.5
12	Yuexiu Properties	123 HK	NR	18.5	1.99	4.7	(18.8)	122.7	(62.4)	5.29	14.1	7.3	6.1	3.3	4.6	5.6	0.7	0.6	0.6
13	Sunac	1918 HK	BUY	17.9	5.38	4.3	(10.3)	277.4	(66.0)	15.81	5.4	3.8	3.5	2.0	2.6	2.8	1.4	1.0	0.8
14	KWG	1813 HK	NR	12.7	4.38	4.0	(24.7)	121.3	(66.3)	13.00	5.3	4.3	3.7	4.3	5.6	6.4	0.7	0.6	0.5
15	Glorious	845 HK	NR	8.9	1.14	(6.6)	(21.9)	15.9	(67.4)	3.50	10.3	5.1	4.1	-	1.8	2.6	0.4	0.4	0.3
16	Kaisa	1638 HK	BUY	8.5	1.72	(7.0)	(28.3)	77.8	(65.6)	4.99	5.1	3.5	2.3	-	-	-	0.5	0.5	0.4
17	CIFI	884 HK	NR	7.9	1.37	0.7	(2.1)	5.3	(67.1)	4.17	6.8	4.4	3.3	3.6	4.7	6.3	1.0	0.8	0.6
18	BJ Capital Land	2868 HK	NR	5.8	2.80	(4.1)	(13.0)	109.1	(67.3)	8.56	5.4	3.5	2.6	8.4	9.3	12.4	0.8	0.5	0.4
HK Listed Avg							3.5	(12.4)	96.7	(52.6)	7.9	6.1	5.0	3.2	4.1	4.9	1.2	1.0	0.8
<i>- Large cap (>HKD30b) avg</i>							10.1	(6.6)	69.2	(41.8)	9.6	8.3	6.8	2.2	3.5	4.1	1.6	1.3	1.1
<i>- Small-mid cap (<HKD30b) avg</i>							0.1	(15.3)	110.5	(61.3)	7.0	5.0	4.1	3.7	4.4	5.3	1.0	0.8	0.7
1	Vanke	000002 CH	NR	135.1	10.28	(3.1)	0.4	30.3	(32.4)	15.20	8.4	6.9	5.6	1.9	2.0	2.3	1.7	1.4	1.1
2	Poly-A	600048 CH	NR	90.4	10.66	(5.4)	(26.3)	39.6	(42.6)	18.57	8.5	6.6	5.2	2.3	2.9	3.8	1.7	1.4	1.1
3	China Merchants Property	000024 CH	NR	53.3	26.80	7.2	(12.1)	68.9	na	na	13.6	10.4	8.2	1.1	1.4	1.7	1.9	1.6	1.4
4	Gemdale	600383 CH	NR	38.2	7.20	1.4	(3.8)	46.3	(12.1)	8.19	8.9	8.1	6.7	1.2	2.3	2.6	1.3	1.2	1.0
A-share Listed Avg							0.0	(10.5)	46.3	(29.0)	9.8	8.0	6.4	1.6	2.1	2.6	1.6	1.4	1.2
Commercial:																			
1	SOHO China	410 HK	NR	30.9	6.40	6.1	2.9	21.5	na	na	8.0	7.8	11.1	4.9	5.0	4.7	0.8	0.8	0.7
2	Hui Xian REIT	87001 HK	NR	25.9	4.00	4.4	(3.6)	19.6	na	na	16.7	20.0	13.9	6.0	6.2	6.4	0.7	0.7	0.7
3	Franshion	817 HK	BUY	22.6	2.47	2.5	(11.5)	103.6	(49.0)	4.85	12.4	8.5	6.6	2.8	4.0	4.9	1.0	0.9	0.8
4	Shui On Land	272 HK	NR	18.6	2.32	2.7	(38.1)	55.6	na	na	55.7	9.4	7.9	2.6	3.9	4.1	0.3	0.4	0.4
5	Yuexiu REIT	405 HK	NR	11.3	4.12	1.0	12.0	7.3	na	na	11.8	34.3	25.1	6.5	7.1	7.3	0.7	0.7	0.7
6	China South City	1668 HK	BUY	11.5	1.88	16.8	60.7	19.4	(68.2)	5.91	6.4	6.0	3.4	5.3	5.3	8.0	0.7	0.7	0.6
7	Zall	2098 HK	NR	10.5	2.99	6.0	(3.9)	(5.2)	na	na	13.4	na	na	2.0	na	na	1.7	na	na
Commercial Avg							5.6	2.6	31.7		17.7	14.3	11.3	4.3	5.2	5.9	0.9	0.7	0.7
<i>- Developers</i>							7.0	3.5	50.0		20.6	7.9	7.2	3.9	4.6	5.4	0.7	0.7	0.6
<i>- Landlords/REIT</i>							2.7	4.2	13.4		14.2	27.1	19.5	6.2	6.6	6.9	0.7	0.7	0.7

* Dated as at 24 July 2013

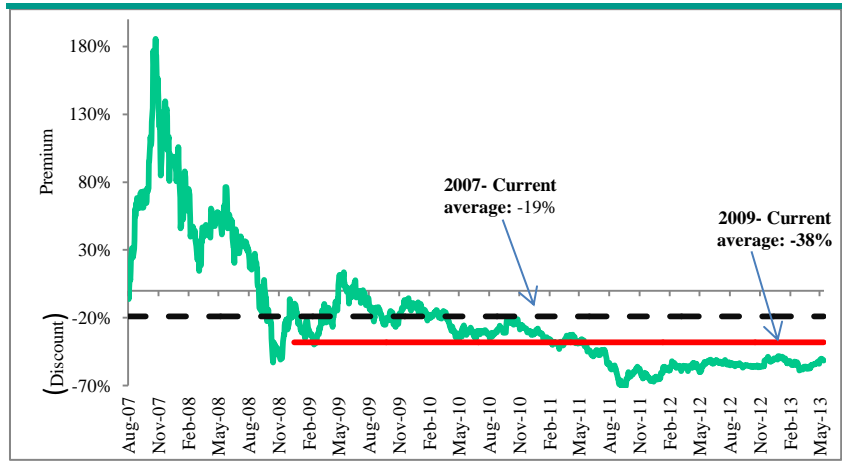
Source(s): Bloomberg; ABCI Securities estimates

Initiate Franshion with BUY with TP at HK\$2.90

To value the Group's property development projects, we use a DCF-model and apply a WACC of 8.3%. We assess the value of the primary land projects at the market value of RMB 2,700/sqm (HK\$ 3,276/sqm) by referring to the latest transaction price in 1H13. For investment properties, we apply a 6% cap rate on net rental income, while using a 5x EV/EBITDA multiple to assess its hotel business. We derive the Franshion's TP of HKD2.90 based on a 40% discount (in line with historical average in 2009-current) to its NAV to derive the TP of HKD2.90, implying a valuation of 9.8x 2013E P/E and 1.0x 2013E P/B, which is lower than its SOE peers such as CR land and COLI.



Exhibit 30: Franshion's discount to NAV



Source(s): Franshion, ABCI Securities

Exhibit 31: Franshion's 2013E NAV breakdown

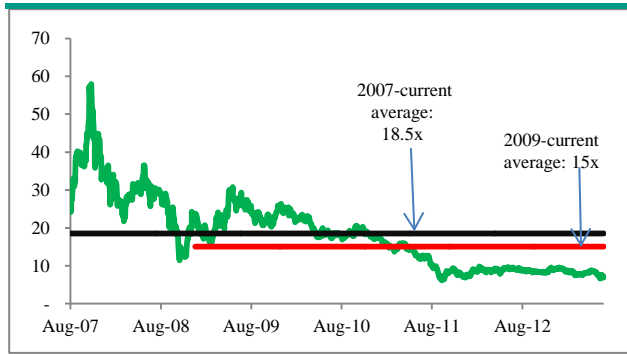
	Attr. GFA (M sqm)	Net assets value (HK\$ m)	% of total	Valuation Methodology	Implied value per sqm (HK\$)
Property development					
Beijing	0.8	14,366	21%	DCF at WACC of 8.3%	17,055
Shanghai	0.4	8,860	13%		25,198
Changsha	1.5	5,321	8%		3,623
Suzhou	0.3	3,592	5%		10,490
Chongqing	0.5	2,370	3%		4,734
Others	1.2	2,806	4%		2,371
Subtotal	4.2	37,315	54%		8,909
Primary Land Development	4.3	14,627	21%	Mkt value	3,402
Investment Properties	0.5	13,521	19%	6% cap rate on net rental income	
Hotels		3,966	6%	5x EBITDA multiple	
Total 2013E GAV		69,429	100%		
2013E Net debt (including Perpetual convertible securities)		(25,017)	-36%		
Total 2013E NAV		44,412	64%		
No. of share outstanding		9,161			
NAV per share (HK\$)		4.85			
Target discount (%)		40%			
Target Price (HK\$)		2.90			
Current price (HK\$)		2.47			
Upside		17%			
WACC					
WACC		8.3%			
Cost of debt		6.5%			
Cost of Equity		12.0%			
Debt/ (Debt + Equity)		52%			

* Share price as at July 24, 2013

Source(s): Franshion, ABCI Securities estimates

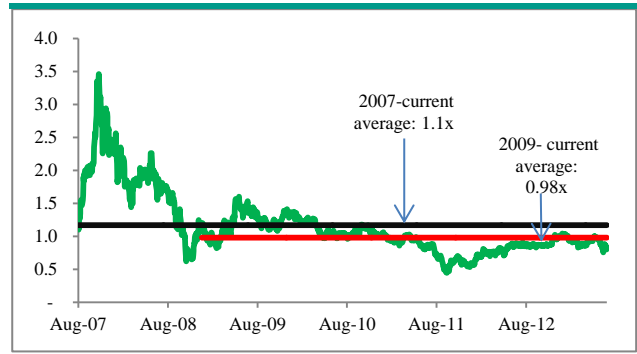


Exhibit 32: Franshion's historical forward P/E



Source(s): Franshion, ABCI Securities

Exhibit 33: Franshion's historical forward P/B



Source(s): Franshion, ABCI Securities

What are the risks?

Potential convertible bonds (CB) dilution: In 2010, Franshion issued an US\$ 600m perpetual CB with a 6.8% coupon rate and an exercise price of HK\$ 2.83. If its share price exceeds the exercise price from the current level of HK\$ 2.47, the CB will result in a 18% dilution upon new share conversion. If the CB is not converted until 2015, Franshion has an option to redeem the bond at 110% of principal amount.

Difficulties in replenishing high-quality commercial land bank: Acquiring prime office land site has become increasingly difficult. For instance, out of the seven land acquisitions in 2012, Franshion only secured one office development site. Upon tightening liquidity in China, Franshion may secure more office/retail projects and M&A opportunities (similar to its acquisition in Nanjing International Plaza in early 2013) going forward.

Consolidated income statement (FY11A-FY15E)

Dec-end (HKDm)	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue	6,592	17,176	19,170	28,538	35,764
Cost of sales	(3,017)	(9,977)	(8,560)	(13,621)	(16,224)
Gross Profit	3,575	7,199	10,609	14,917	19,540
SG&A expenses	(1,158)	(1,407)	(1,675)	(2,129)	(2,791)
EBIT	2,417	5,792	8,934	12,787	16,749
Finance cost	(859)	(986)	(1,100)	(1,279)	(1,368)
Share of profit of associates	4	2	-	-	-
Other income/ (expenses)	213	284	197	303	523
Fair value gain of investment properties	931	1,626	-	-	-
Disposal/one-off items	1,392	5	-	-	-
Profit before tax	4,097	6,723	8,031	11,811	15,903
Tax	(1,187)	(2,783)	(4,046)	(5,656)	(7,985)
Profit after tax	2,911	3,940	3,986	6,155	7,919
Minority interest	(566)	(563)	(1,145)	(2,440)	(2,610)
Reported net profit	2,344	3,378	2,841	3,715	5,308
Less: exceptional items	(889)	(1,223)	-	-	-
Underlying net profit	1,455	2,154	2,841	3,715	5,308
Per share					
Underlying EPS (HK\$)	0.13	0.20	0.29	0.37	0.52
DPS (HK\$)	0.04	0.07	0.10	0.12	0.14
Payout ratio (%)	30%	35%	34%	32%	27%
BVPS (HK\$)	2.32	2.58	2.79	3.08	3.52
Growth %					
Revenue	3.8%	160.6%	11.6%	48.9%	25.3%
Gross Profit	8.2%	101.4%	47.4%	40.6%	31.0%
EBIT	0.9%	139.7%	54.3%	43.1%	31.0%
Underlying net profit	45.9%	48.0%	31.9%	30.8%	42.9%
Margin %					
Gross margin	54.2%	41.9%	55.3%	52.3%	54.6%
Gross margin (post-LAT)	8.7%	19.3%	24.7%	26.4%	28.5%
EBIT margin	36.7%	33.7%	46.6%	44.8%	46.8%
Core net margin	17.7%	15.8%	20.8%	21.6%	22.1%
Key assumptions					
Contracted Sales (HKDm)		13,230	17,761	23,573	36,646
GFA sold (m sqm)		0.31	0.51	0.87	1.02
ASP (HK\$/sqm)		43,009	34,902	27,102	35,918
Booked Sales (HK\$)		10,796	12,208	20,883	28,085
GFA delivered (m sqm)		0.46	0.29	0.66	0.87
Booked ASP (HK\$/sqm)		23,328	42,571	31,431	32,367

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (FY11A-FY15E)

Dec-end (HKDm)	FY11A	FY12A	FY13E	FY14E	FY15E
Current assets	24,968	38,199	36,001	49,193	62,651
Cash	12,224	12,888	12,270	26,964	41,623
Restricted cash	368	576	576	576	576
Trade & other receivables	105	2,003	2,003	2,003	2,003
Properties under development	7,030	10,384	10,384	10,384	10,384
Properties held for sale	840	3,078	3,078	3,078	3,078
Land under development	2,623	6,696	5,116	3,614	2,413
Other current assets	5,240	12,348	10,767	9,266	8,065
Non-current assets	44,803	44,303	58,768	55,660	50,000
Property, plant & equipment	6,891	6,956	7,018	7,073	7,121
Properties under development	11,844	13,047	27,450	24,287	18,579
Land under development	9,223	5,408	5,408	5,408	5,408
Investment properties	14,890	16,575	16,575	16,575	16,575
Investment in Associate and JCE	36	39	39	39	39
Other non-current assets	1,919	2,279	2,279	2,279	2,279
Total Assets	69,771	82,502	94,769	104,853	112,651
Current Liabilities	17,610	25,726	35,285	40,676	42,199
Short term borrowings	6,028	8,952	13,952	18,952	18,952
Trade & other payables	5,349	6,233	6,233	6,233	6,233
Pre-sales deposits	5,229	8,235	12,794	13,185	14,709
Other current liabilities	1,005	2,306	2,306	2,306	2,306
Non-current liabilities	21,613	22,273	22,273	22,273	22,273
Long term borrowings	19,171	19,323	19,323	19,323	19,323
Other payables	-	-	-	-	-
Other non-current liabilities	2,442	2,950	2,950	2,950	2,950
Total Liabilities	39,224	47,999	57,558	62,949	64,473
Net Assets	30,547	34,503	37,210	41,904	48,179
Shareholders Equity	21,583	24,290	26,215	28,831	32,856
Perpetual Convertible Securities	4,588	4,588	4,588	4,588	4,588
Minority Interest	4,377	5,625	6,408	8,486	10,734
Total Equity	30,547	34,503	37,210	41,904	48,179
Key ratio					
Gross debt (HKDm)	25,199	28,275	33,275	38,275	38,275
Net debt (HKDm)	12,607	14,811	20,429	10,736	(3,923)
Net gearing (%)	48%	51%	66%	32%	-10%
Contracted sales/ Total assets (x)	-	0.16	0.19	0.22	0.33

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (FY11A-FY15E)

Dec-end (HKDm)	FY11A	FY12A	FY13E	FY14E	FY15E
EBITDA	2,641	6,022	9,172	13,032	17,001
Change in Working Capital	(8,642)	(4,186)	(7,363)	6,101	9,552
Tax payment	(1,110)	(1,137)	(4,046)	(5,656)	(7,985)
Operating CF	(7,111)	699	(2,237)	13,477	18,568
Purchase of PP&E	(207)	(310)	(300)	(300)	(300)
Addition of Investment Properties	(7)	(20)	0	0	0
Investment in Associate/ JCE	0	0	0	0	0
Proceeds from Disposals	0	0	0	0	0
Others	3,488	(968)	197	303	523
Investing CF	3,274	(1,298)	(103)	3	223
Debt raised	30,470	16,488	10,000	10,000	10,000
Debt repaid	(24,338)	(13,369)	(5,000)	(5,000)	(10,000)
Interest expenses	(787)	(949)	(2,000)	(2,325)	(2,488)
Equity raised	0	0	0	0	0
Convertible securities raised	(317)	(317)	(312)	(312)	(312)
Dividend to shareholders	(229)	(366)	(916)	(1,099)	(1,283)
Others	33	(222)	(50)	(50)	(50)
Financing CF	4,831	1,264	1,721	1,213	(4,132)
Net cash inflow/ (outflow)	994	665	(618)	14,693	14,659
Cash- beginning	11,230	12,224	12,888	12,270	26,964
Cash- year-end	12,224	12,888	12,270	26,964	41,623

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 2007-2011

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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