



Times Property (1233 HK)

Keep calm and buy on dip

- 1H17 core profit after minority interest rose 17% YoY to RMB 636mn
- Minority interest increased to RMB 301mn (from -RMB 22mn) since two of the six major projects delivered in 1H17 had a 49% minority interest
- In 1H17, Times's presale rose 27% YoY to RMB 17bn. Big Bay Area accounted for 87.2% of 1H17 presale
- Maintain **BUY** with revised TP of HK\$ 8.80 (from HK\$ 6.00) based on a 50% discount to NAV

Rising minority interest in 1H17 slowed profit growth. 1H17 revenue increased 53.1% YoY to RMB 8.7bn as GFA delivered grew 16.4%YoY to 0.77mn sqm. Gross margin edged up 0.1ppt YoY to 26.4% on higher ASP. Core profit rose 81.4% YoY to RMB 935mn before minority interest, but such growth fell to 17.6% YoY to RMB 635.7mn after the deduction. Minority interest increased to RMB 301mn (from -RMB22mn) since two of the six major projects delivered in 1H17 had a 49% minority interest. Management reassures the impact will lessen on a full-year basis since 16 projects will be delivered in 2H17. Net gearing increased 13.8ppt HoH to 68.9% as at June 2017, mostly because the Group acquired 1.9mn sqm of new projects at RMB 9.5bn in 1H17.

Big Bay area is still the focus. In 1H17, Times's presale rose 27% YoY to RMB 17bn (of which ~76% was attributable to the Group), driven by a 31%YoY increase in ASP. Times completed 52.4% of its FY17 target (RMB 32.5bn). The three key cities, Foshan, Guangzhou, and Zhuhai, accounted for 41%, 30%, and 9% of total presale, respectively. Including other cities such as Dongguan and Zhongshan, the Big Bay Area accounted for 87.2% of the 1H17 presale. As at June 2017, Times had a total landbank of 14.5mn sqm with an average cost of RMB 3,242/sqm. It has also acquired 3.7mn sqm of wholly-owned urban redevelopment projects in Guangzhou, Shenzhen and Foshan, and signed the letter of intent to secure another 10.0mn sqm of redevelopment site. Management expects 1mn sqm of these redevelopment sites to be transferred into the Group's landbank in 2H17.

Maintain BUY and raise TP to HK\$ 8.80. We factor in the latest land acquisitions and raise our 2017E NAV estimate to HK\$ 17.64/share (from HK\$ 14.99). We also lift our TP to HK\$ 8.80 (from HK\$ 6.00), based on a 50% discount (from 60%) to NAV. Overall, Times has demonstrated a steady profit growth since listing. Its 1H17 performance was eclipsed by the flurry of positive profit alerts issued among developers, who are hinting a profit growth of 40%-100%YoY for 1H17. We believe the Group's slower-than-expected profit growth in 1H17 is a one-off issue and suggest investors to buy on dip. Times is still our Top SME pick for the sector - its exposure in the Big Bay Area will pay strong dividend in the longer run. Reiterate **BUY**.

Risk factors: 1) Reduced margins on expensive land acquisitions; 2) Surging minority interest; 3) Further policy tightening.

Results and Valuation

FY ended Dec 31	2015A	2016A	2017E	2018E	2019E
Revenue (RMB mn)	13,638	16,206	23,464	31,938	41,388
Chg (% YoY)	30.9	18.8	44.8	36.1	29.6
Core net profit (RMB mn)	1,477	1,833	2,181	2,628	3,461
Chg (% YoY)	12.3	24.1	19.0	20.5	31.7
Core EPS (RMB)	0.81	1.00	1.19	1.43	1.89
Chg (% YoY)	5.6	24.1	19.0	20.5	31.7
BVPS (RMB)	3.9	5.0	5.9	6.9	8.2
Chg (% YoY)	22.7	28.6	17.8	17.5	19.6
Core PE (x)	6.4	5.2	4.3	3.6	2.7
P/B (x)	1.3	1.0	0.9	0.7	0.6
ROE (%)	20.8	20.1	20.3	20.8	22.9
ROA (%)	3.2	2.7	2.8	2.8	3.7
DPS(HK\$)	0.16	0.32	0.36	0.43	0.57
Yield (%)	3.03	6.10	6.91	8.33	10.97
Net gearing (%)	78.0	55.1	67.9	Net cash	Net cash

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Aug 7, 2017

Rating: **BUY**

TP: **HK\$ 8.80**

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Share price (HK\$)	5.99
Est. share price return	49.2%
Est. dividend yield	6.9%
Est. total return	56.1%
Previous Rating & TP	BUY, HK\$6.00
Previous Report Date	May 17, 2017

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	6.69/3.08
Issued shares (mn)	1,723
Market cap (HK\$ mn)	10,432
3-mth avg daily turnover(HK\$ mn)	22.96
Major shareholder(s) (%)	
SHUM Chiu Hung	68.62%

Source(s): Bloomberg, ABCI Securities

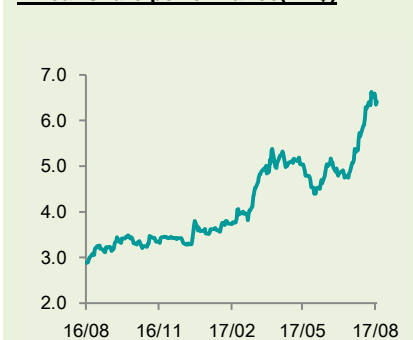
Share Performance

	Absolute	Relative*
1-mth	16.5	7.9
3-mth	25.0	11.0
6-mth	59.4	33.8

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year share performance(HK\$)

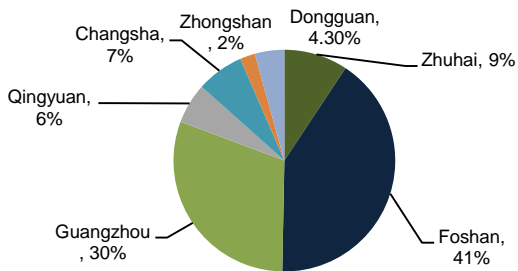


Source(s): Bloomberg, ABCI Securities

Exhibit 1: Times's 1H17 results

P&L	1H17	1H16	YoY Chg	Operating statistics	1H17	1H16	YoY Chg
	RMB mn	RMB mn	(%)				
Turnover	8,725	5,699	53.1	Presales GFA (mn sqm)	1.17	1.20	(2.8)
Cost of Sales & direct operating	(6,424)	(4,201)	52.9	Presales ASP (RMB/sqm)	14,614	11,152	31.0
Gross Profit	2,301	1,499	53.5	Presales Sales (RMB)	17,025	13,360	27.4
Gross Margin (%)	26.4	26.3	+0.1ppt	GFA Delivered (mn sqm)	0.77	0.66	16.4
Selling and distribution costs	(366)	(196)	87.2	Booked ASP (RMB/sqm)	10,908	8,227	32.6
Administrative expense	(397)	(260)	52.7	Property sales booked	8,399	5,442	54.3
EBIT	1,537	1,043	47.4				
EBIT Margin (%)	17.6	18.3	(0.7ppt)				
Other income, gains and losses	112	34	230.9	Balance sheet	Jun-17	Dec-16	HoH %
Fair value gain of investment	25	16	56.3		RMB mn	RMB mn	
Other exceptional items	(155)	0	na	Gross debt	29,584	20,801	42.2
Share of profit from JCE/ Associates	(2)	(5)	na	Cash	13,126	11,881	10.5
Finance cost	(174)	(123)	41.3	Net debt	16,458	8,920	84.5
Profit before tax	1,342	964	39.3	Net gearing (%)	68.9%	55.1%	+13.8ppt%
Tax	(544)	(436)	24.7	Revenue breakdown	1H17	1H16	HoH %
- LAT	(90)	(309)	(70.9)		RMB mn	RMB mn	
- Enterprise tax	(454)	(127)	258.4	Property development	8,399	5,442	54.3
				Rental	147	149	(1.3)
				Property management	179	108	65.9
				Total	8,725	5,699	53.1
Profit after tax	799	528	51.3				
Minority Interest	(301)	22	na				
Net profit	498	550	(9.4)				
Core net profit (before MI)	935	516	81.4				
Core net profit (after MI)	636	540	17.6				
Core net margin	7.3	9.5	(2.2ppt)				

Source(s): Company, ABCI Securities

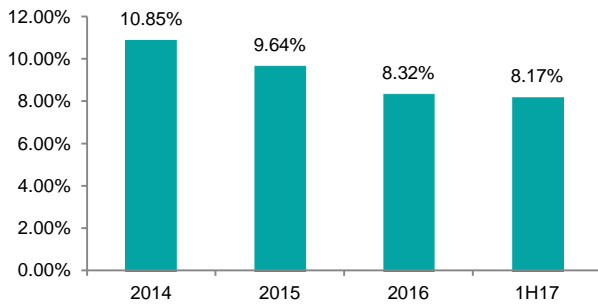
Exhibit 2: 1H17 presales breakdown (total: RMB 17.0bn)


Source(s): Company, ABCI Securities

Exhibit 3: Land bank by city as at Jun 2017 (average land cost: RMB3,242/sqm)

City	mn sqm	%
Guangzhou	1.87	13%
Foshan	2.94	20%
Zhuhai	1.49	10%
Qingyuan	4.12	28%
Changsha	2.16	15%
Zhongshan	0.54	4%
Huizhou	0.87	6%
Dongguan	0.50	4%
Total	14.50	100%

Source(s): Company, ABCI Securities

Exhibit 4: Average finance cost


Source(s): Company, ABCI Securities

Exhibit 5: Cash flow breakdown

	1H17A RMB bn
Presales	12.9
Land	(12.0)
Construction	(4.5)
Finance cost	(0.9)
Tax	(1.6)
SG&A	(0.8)
Operating cash flow	(6.9)

Source(s): Company, ABCI Securities

Exhibit 6: Times's 2017E NAV

	Attr. GFA (mn sqm)	Net assets value (RMB mn)	% of total	Valuation Method	Implied value per sqm (RMB)
Property development					
Guangzhou	3.1	8,387	21%	DCF with	2,732
Foshan	3.7	18,907	48%	WACC of	5,076
Zhuhai	2.0	5,087	13%	13.2%	2,503
Dongguan	0.7	3,117	8%		4,712
Qingyuan	3.8	1,483	4%		390
Others	1.1	2,384	6%		2,102
Subtotal	14.4	39,364	94%		2,729
Investment Properties		2,584	6%	6.5% cap rate on 2017E net rental	
Total 2017E GAV		41,948	100%		
2017E Net cash/ (debt)		(14,082)	-34%		
Total 2017E NAV		27,866	66%		
No. of share outstanding (diluted)		1,834			
NAV per share (RMB)		15.20			
Ex rate		1.16			
NAV per share (HKD)		17.64			
Target discount (%)		50%			
Target Price (HKD)		8.80			
WACC					
WACC		13.2%			
Cost of debt		9.0%			
Cost of equity		25.0%			
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	10,419	13,638	16,206	23,464	31,938	41,388
Cost of sales	(7,233)	(10,092)	(11,956)	(16,931)	(22,421)	(30,524)
Gross Profit	3,186	3,546	4,250	6,533	9,517	10,864
SG&A expenses	(828)	(880)	(1,279)	(1,656)	(2,356)	(2,583)
EBIT	2,358	2,666	2,971	4,877	7,161	8,281
Finance cost	(232)	(175)	(240)	(332)	(498)	(415)
Share of profit of associates	4	(0)	66	0	0	0
Other income/ (expenses)	0	34	93	0	0	0
Fair value gain of investment properties	0	0	0	0	0	0
Disposal/one-off items	105	96	269	0	0	0
Profit before tax	2,235	2,621	3,161	4,545	6,663	7,866
Tax	(881)	(1,070)	(1,178)	(2,020)	(3,225)	(3,666)
Profit after tax	1,354	1,551	1,982	2,524	3,438	4,201
Minority interest	(75)	(130)	(27)	(344)	(810)	(740)
Reported net profit	1,279	1,420	1,955	2,181	2,628	3,461
<i>Less: exceptional items</i>	36	57	(122)	0	0	0
Underlying net profit	1,315	1,477	1,833	2,181	2,628	3,461
Per share						
Underlying EPS (RMB)	0.76	0.81	1.00	1.19	1.43	1.89
DPS (RMB)	0.14	0.16	0.32	0.36	0.43	0.57
Payout ratio (%)	19%	19%	32%	30%	30%	30%
BVPS (RMB)	3.16	3.87	4.98	5.87	6.89	8.24
Growth %						
Revenue	7.5%	30.9%	18.8%	44.8%	36.1%	29.6%
Gross Profit	36.2%	11.3%	19.9%	53.7%	45.7%	14.2%
EBIT	44.9%	13.1%	11.4%	64.1%	46.8%	15.6%
Underlying net profit	39.5%	12.3%	24.1%	19.0%	20.5%	31.7%
Margin %						
Gross margin	30.6%	26.0%	26.2%	27.8%	29.8%	26.2%
Gross margin (post-LAT)	26.2%	23.2%	24.1%	23.4%	23.8%	21.1%
EBIT margin	22.6%	19.5%	18.3%	20.8%	22.4%	20.0%
Core net margin	12.2%	10.8%	10.6%	10.8%	10.8%	10.1%
Key assumptions						
Contracted Sales (RMB mn)	15,234	19,508	29,327	34,715	43,863	39,019
GFA sold (mn sqm)	1.40	2.17	2.47	2.57	3.18	3.20
ASP (RMB/sqm)	10,913	9,011	11,859	13,493	13,776	12,187
Booked Sales (RMB mn)	10,095	13,225	15,620	22,839	31,273	40,680
GFA delivered (mn sqm)	0.84	1.49	1.94	1.66	2.29	3.04
Booked ASP (RMB/sqm)	12,061	8,861	8,066	13,787	13,681	13,388

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	29,137	40,755	58,654	68,510	81,980	84,523
Cash	2,726	4,841	8,923	3,448	22,815	45,443
Restricted cash	2,692	3,908	2,958	2,958	2,958	2,958
Trade & other receivables	1,225	1,978	2,579	2,579	2,579	2,579
Property under development	20,123	23,543	32,702	48,032	42,136	22,051
Other current assets	2,371	6,485	11,493	11,493	11,493	11,493
Non-current assets	3,947	5,115	10,435	10,365	10,295	10,225
Property, plant & equipment	885	1,005	1,242	1,172	1,102	1,032
Investment properties	1,398	1,353	1,598	1,598	1,598	1,598
Investment in Associate and JCE	49	240	2,721	2,721	2,721	2,721
Other non-current assets	1,615	2,517	4,875	4,875	4,875	4,875
Total Assets	33,085	45,870	69,089	78,875	92,275	94,748
Current Liabilities	16,997	19,984	33,078	38,011	48,772	48,080
Short-term borrowings	1,786	359	1,956	1,956	1,956	1,956
Trade & other payables	3,556	3,715	3,288	3,288	3,288	3,288
Pre-sales deposits	8,531	10,304	24,011	28,944	39,705	39,013
Other current liabilities	3,124	5,606	3,822	3,822	3,822	3,822
Non-current liabilities	10,371	16,628	19,820	19,755	19,755	19,755
Long-term borrowings	9,323	15,609	18,845	18,780	18,780	18,780
Other payables	0	0	0	0	0	0
Other non-current liabilities	1,047	1,019	975	975	975	975
Total Liabilities	27,367	36,612	52,898	57,766	68,527	67,835
Net Assets	5,717	9,258	16,191	21,109	23,748	26,913
Shareholders' Equity	5,438	7,100	9,132	10,756	12,636	15,111
Minority Interest	279	2,158	7,059	10,353	11,113	11,802
Total Equity	5,717	9,258	16,191	21,109	23,748	26,913
Key ratio						
Gross debt (RMB mn)	11,109	15,968	20,801	20,736	20,736	20,736
Net debt (RMB mn)	5,692	7,219	8,920	14,330	(5,037)	(27,665)
Net gearing (%)	100%	78%	55%	68%	-21%	-103%
Contracted sales/ Total assets (x)	0.46	0.43	0.42	0.44	0.48	0.41

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2014A-2019E)

FY ended Dec 31 (RMB mn)	2014A	2015A	2016E	2017E	2018E	2019E
EBITDA	2,420	2,745	3,061	4,967	7,251	8,371
Change in Working Capital	(3,041)	(7,743)	(5,149)	(9,068)	17,818	20,638
Tax payment	(881)	(1,070)	(1,178)	(2,020)	(3,225)	(3,666)
Operating cash flow	(1,503)	(6,069)	(3,266)	(6,122)	21,844	25,343
Purchase of PP&E	(20)	(20)	(20)	(20)	(20)	(20)
Addition of Investment Properties	(100)	(100)	0	0	0	0
Others	0	34	93	0	0	0
Investing cash flow	(120)	(86)	73	(20)	(20)	(20)
Debt raised	4,590	13,855	13,532	3,935	4,000	4,000
Debt repaid	(2,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)
Interest expenses	(1,189)	(1,266)	(1,665)	(1,661)	(1,659)	(1,659)
Equity raised	0	0	0	0	0	0
Dividend to shareholders	(247)	(269)	(543)	(621)	(749)	(986)
Others	(50)	(50)	(50)	3,015	(50)	(50)
Financing cash flow	1,104	8,270	7,274	667	(2,458)	(2,695)
Net cash inflow/ (outflow)	(519)	2,116	4,081	(5,475)	19,367	22,628
Cash- beginning	3,245	2,726	4,841	8,923	3,448	22,815
Cash- year-end	2,726	4,841	8,923	3,448	22,815	45,443

Source(s): Company, ABCI Securities estimates

Disclosures

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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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