August 27, 2013
Equity Focus
Rating: BUY
TP: HK$ 19.00

Share price (HK$)	15.58
Est. share price return	22.0%
Est. dividend yield	4.4%
Est. total return	26.4%

Previous Rating &TP	Buy; HK$19.00
Previous Report Date	June 6, 2013

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Key Data

52Wk H/L(HK$)	17.00/7.95
Issued shares (mn)	2,143
Market cap (HK$ mn)	33,579
3-mth avg daily turnover (HK$ mn)	49.4
Major shareholder(s) (%):	
SONG Weiping	33.1
SHOU Bainian	23.5
Wharf	24.6

Source(s): Company, Bloomberg, ABCI Securities

FY12 Revenue breakdown (%)

Property development	96.7
Property investment	0.3
Property management	0.8
Others	2.2

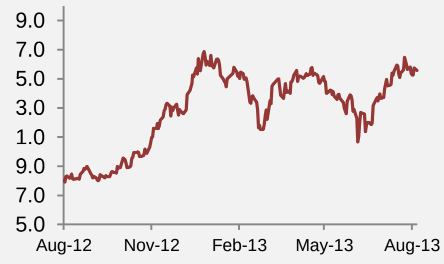
Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	7.3	7.1
3-mth	9.7	14.3
6-mth	1.4	5.2

*Relative to HSI
Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK$)



Source(s): Bloomberg, ABCI Securities

Greentown (3900 HK)

Solid 1H results; margins to improve in 2H. Reiterate BUY

- Greentown's core net profit was up 19.6% YoY to HK$ 1,620mn
- Key takeaways from analyst briefing: 1) Product mix transition is still taking place; 2) 1H13 gross margin was dragged down by projects in lower tier cities
- Dynasty on the Bund project could drive up margins in 2H13
- Maintain BUY with TP HK$ 19.00 based on a 40% discount (historical average during 2009- current) to NAV

Interim results review. Greentown's 1H13 core net profit (excluding fair value gains and one-off disposal items) increased 19.6% YoY to RMB 1,620mn, driven by 17% YoY increase in GFA delivered (1H13: 1.17 mn sqm, including both subsidiary & JV projects). Greentown guided that 2.34mn sqm of attributable GFA will be completed in 2H13, almost doubling that of the1H13 level (1.17mn sqm). Net gearing also remained healthy at 64.7% as at June 2013 (Dec 12: 63.7%) on disciplined land acquisition.

Key takeaways from analyst briefing include: 1) Continuous product mix transition: Despite the impressive growth in 1H13 contracted sales (RMB 29.4bn, +65% YoY), sell-through rate stayed low at 37% only. Management commented the low sell-through rate was caused by the larger units. Greentown has been increasing the proportion of smaller units in its product mix as they are more affordable to end-users; **2) 1H13 gross margin dragged down by projects in lower tier cities:** Although 1H13 gross margin improved 3.3ppt to 30.9%, it was lower than peers such as Kaisa (36.4%) and COLI (36.3%). The overall margin was dragged down by projects in lower tier cities acquired before 2012 (e.g. gross margin for Qingdao Ideal City was 9.1% only). Since 2012, Greentown has refocused on tier 1 cities by acquiring land in Shanghai and Hangzhou.

Expect better margins in 2H13- reiterate BUY. Despite the gross margin in 1H13 was low than expected (FY13E gross margin : 34.0%), we believe Greentown would be able to catch up in 2H because of : 1) the 8.8% YoY increase in presale ASP in 1H13; 2) the newly acquired Dynasty on the Bund project, of which 119k sqm GFA has been completed, would start selling in Sep 2013. ASP of comparable properties in nearby regions is about RMB 50k/sqm while the land cost of the project was only RMB 11.9k/sqm. We maintain our BUY recommendation with TP at HK$ 19.00 based on a 40% discount to NAV.

Risk factors： 1) Short track record with JV partners; 2) Possible off-balance sheet financing for JV projects.

Results and Valuation

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	21,964	35,393	28,612	42,521	55,936
Chg (%,YoY)	*96.8*	*61.1*	*(19.2)*	*48.6*	*31.5*
Core Net Income (RMB mn)[1]	2,491	4,354	5,170	6,777	8,471
Chg (%,YoY)	*100.1*	*74.8*	*18.7*	*31.1*	*25.0*
Underlying EPS (RMB)	1.52	2.12	2.52	3.30	4.13
Chg (%,YoY)	*99.9*	*39.7*	*18.7*	*31.1*	*25.0*
BVPS (RMB)	7.28	10.09	12.18	15.07	18.81
Chg (%,YoY)	*16.9*	*38.5*	*20.7*	*23.8*	*24.8*
Underlying PE (x)	8.1	5.8	4.9	3.7	3.0
P/B (x)	1.7	1.2	1.0	0.8	0.7
ROE (%)	20.9	20.6	20.6	22.2	22.5
ROA (%)	1.9	4.0	4.5	5.4	6.4
DPS(RMB)	0.11	0.50	0.55	0.60	0.65
Yield (%)	0.9	4.0	4.4	4.9	5.3
Net gearing (%)[2]	219.7	63.7	60.8	13.3	(36.6)

[1]Core net income =Net profit - revaluation gain of investment properties and one-off items
[2]Net gearing=Net debt/Shareholders' equity
Source(s): Bloomberg, ABCI estimates

Exhibit 1: Greentown's 1H13 results

P&L	1H13	1H12	YoY Chg	Remarks
	RMBm	RMBm	(%)	
Turnover	**10,214**	**12,601**	***(18.9)***	Projects with subsidiaries: GFA delivery was down 13% YoY to 0.65 mn sqm; ASP was down 8% YoY to RMB14.8k/ sqm
Cost of Sales & direct operating costs	(7,056)	(9,125)	*(22.7)*	
Gross Profit	**3,158**	**3,475**	***(9.1)***	
Gross Margin (%)	***30.9***	***27.6***	***3.3***	Projects with subsidiaries: - Gross margin from property sales: improved from 26.5% in 1H12 to 29.7% in 1H13
Selling and distribution costs	(338)	(245)	*38.0*	
Administrative expense	(668)	(600)	*11.5*	
EBIT	**2,152**	**2,631**	***(18.2)***	
EBIT Margin (%)	***21.1***	***20.9***		
Other income	377	506	*(25.4)*	
Fair value gain of investment properties	0	0	*na*	
Other exceptional items	671	557	*na*	
Share of profit from JCE/ Associates	685	258	*165.1*	Projects with JCE/ Associates: - GFA delivery was up 108% YoY to 0.52 mn sqm; ASP was up 156% YoY to RMB 25.5k/ sqm - Gross margin: down from 39.6% in 1H12 to 23.4% in 1H13
Finance cost	(266)	(272)	*(2.4)*	
Profit before tax	**3,620**	**3,680**	*(1.6)*	
Tax	**(1,164)**	**(1,420)**	***(18.0)***	
- LAT	(472)	(731)	*(35.5)*	
- Enterprise tax	(692)	(689)	*0.5*	
Profit after tax	**2,456**	**2,260**	*8.7*	
Minority Interest	(601)	(449)	*33.9*	
Net profit	**1,855**	**1,811**	*2.4*	
Core net profit	**1,620**	**1,355**	*19.6*	
Core net margin	***15.9***	***10.8***		
Operating statistics				
Contracted GFA (mn sqm)	1.44	0.95	*51.9*	
Contracted ASP (RMB/sqm)	20,395	18,744	*8.8*	
Contracted Sales (RMBm)	**29,428**	**17,800**	*65.3*	
GFA Delivered- Subsid + JV (mn sqm)	1.17	0.99	*17.4*	Expect 2H13 completion to reach 2.34mn sqm in attributable GFA
Booked ASP- Subsid + JV (RMB/sqm)	19,582	14,600	*34.1*	
Property sales booked- Subsid + JV (RMBm)	**22,817**	**14,488**	***57.5***	

Balance sheet	June-13	Dec-12	HoH %	Remarks
	RMBm	**RMBm**		
Gross debt	24,652	21,373	*15.3*	
Cash	10,392	7,898	*31.6*	
Net debt	**14,261**	**13,475**	*5.8*	
Net gearing (%)	**64.7**	**63.7**	*0.9*	

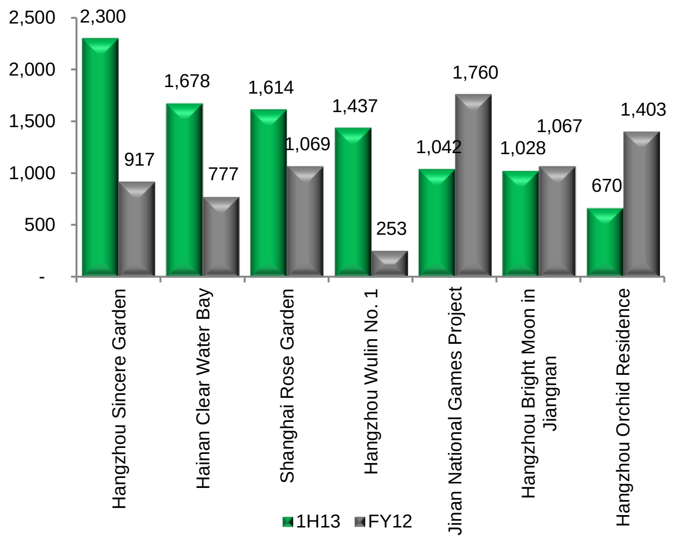
Source(s): Company, ABCI Securities

Exhibit 2: Greentown's 1H13 contracted sales by region

Projects	Contracted GFA	Contracted Sales	Contracted ASP
	'000 sqm	RMBm	RMBm
Hangzhou Sincere Garden	66.7	2,300	34,491
Hainan Clear Water Bay	65.9	1,678	25,476
Shanghai Rose Garden	18.4	1,614	87,807
Hangzhou Wulin No. 1	19.4	1,437	73,927
Jinan National Games Project	81.4	1,042	12,801
Hangzhou Bright Moon	32.6	1,028	31,537
Hangzhou Xizi International	23.4	844	36,126
Shanghai Yulan Garden	19.2	828	43,138
Hangzhou Orchid Residence	13.6	670	49,417
Jinan Lily Garden	71.6	627	8,756
Suzhou Majestic Mansion	15.4	603	39,230
Dongying Ideal City	45.9	584	12,723
Hangzhou Idyllic Garden	25.1	584	23,282
Shaoxing Lily Garden	36.6	560	15,291
Others	907.8	15,029	16,555
1H13 Total	**1,442.9**	**29,428**	**20,395**

Source(s): Company, ABCI Securities

Exhibit 3: Contracted sales of Greentown's major projects in 1H13 vs FY12 (RMB mn)



Source(s): Company, ABCI Securities

Exhibit 4: Greentown's FY13E NAV

	Attr. GFA (mn sqm)	Net assets value (RMB mn)	% of total	Valuation Methodology	Implied value per sqm (RMB)
Property development					
Hangzhou	3.2	11,669	18%	DCF at WACC of 13.1%	3,633
Shanghai	0.8	8,353	13%		10,090
Zhoushan	3.2	7,455	11%		2,341
Qingdao	3.2	6,043	9%		1,902
Hainan	0.9	4,355	7%		5,096
Others cities	12.92	25,853	40%		2,001
Subtotal	**24.2**	**63,729**	**98%**		**2,636**
Investment Properties		1,042	2%	6% cap rate on net rental income	
Hotels		575	1%	5x EBITDA multiple	
Total FY13E GAV		**65,345**	**100%**		
Net debt & perpetual convertible securities		(17,338)	-27%		
Total FY13E NAV		**48,006**	**73%**		
No. of share outstanding		1,889			
NAV per share (RMB)		**25.4**			
Exchange rate (HKD/RMB)		1.26			
NAV per share (HK$)		**32.0**			
Target discount (%)		40.0%			
Target Price (HK$)		**19.00**			

WACC	**13.1%**
Cost of debt	8.5%
Cost of Equity	20.0%
Debt/ (Debt + Equity)	**50%**

Source(s): Company, ABCI Securities estimates

Consolidated income statement (2011A-2015E)

FY Ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Revenue	**21,964**	**35,393**	**28,612**	**42,521**	**55,936**
Cost of sales	(14,555)	(24,679)	(18,882)	(28,773)	(38,154)
Gross Profit	**7,408**	**10,714**	**9,730**	**13,748**	**17,782**
SG&A expenses	(1,920)	(2,069)	(2,338)	(2,568)	(2,783)
EBIT	**5,488**	**8,645**	**7,392**	**11,181**	**14,999**
Finance cost	(416)	(564)	(385)	(321)	(283)
Share of profit of associates	833	513	1,895	1,573	1,180
Other income/ (expenses)	683	1,001	1,477	1,789	2,221
Fair value gain of investment properties	0	0	0	0	0
Disposal/one-off items	112	663	0	0	0
Profit before tax	**6,701**	**10,257**	**10,379**	**14,221**	**18,118**
Tax	(2,583)	(4,204)	(4,116)	(5,721)	(7,312)
Profit after tax	**4,118**	**6,053**	**6,263**	**8,501**	**10,805**
Minority interest	(1,543)	(1,202)	(1,093)	(1,724)	(2,334)
Reported net profit	**2,575**	**4,851**	**5,170**	**6,777**	**8,471**
Less: exceptional items	*(84)*	*(497)*	*0*	*0*	*0*
Underlying net profit	**2,491**	**4,354**	**5,170**	**6,777**	**8,471**
Per share					
Underlying EPS (RMB)	1.52	2.12	2.52	3.30	4.13
DPS (RMB)	0.11	0.50	0.55	0.60	0.65
Payout ratio (%)	7%	24%	22%	18%	16%
BVPS (RMB)	7.28	10.09	12.18	15.07	18.81
Growth %					
Revenue	96.8%	61.1%	-19.2%	48.6%	31.5%
Gross Profit	117.8%	44.6%	-9.2%	41.3%	29.3%
EBIT	214.8%	57.5%	-14.5%	51.3%	34.2%
Underlying net profit	100.1%	74.8%	18.7%	31.1%	25.0%
Margin %					
Gross margin	33.7%	30.3%	34.0%	32.3%	31.8%
Gross margin (post-LAT)	26.2%	24.4%	26.9%	25.5%	25.2%
EBIT margin	25.0%	24.4%	25.8%	26.3%	26.8%
Core net margin	14.6%	14.2%	15.3%	16.3%	17.2%
Key assumptions					
Contracted Sales (RMB mn)	33,100	51,071	68,140	99,109	130,823
GFA sold (mn sqm)	1.74	2.58	3.21	4.76	6.15
ASP (RMB/sqm)	19,023	19,772	21,208	20,813	21,259
Booked Sales (RMB)	21,071	34,214	27,387	41,257	54,643
GFA delivered (mn sqm)	1.04	1.91	1.29	2.00	2.66
Booked ASP (RMB/sqm)	20,319	17,894	21,170	20,622	20,516
Land acquistion (RMB mn)	11,100	12,100	4,510	-	-
GFA acquired (mn sqm)	6.8	2.1	0.4	-	-
Land cost (RMB/sqm)	1,632	5,762	12,450		
Land acquisition to Contracted sales (%)	33.5%	23.7%	6.6%		
Land bank GFA (mn sqm)	16.3	24.2	24.2	22.2	19.5

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2011A-2015E)

As of Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Current assets	**115,214**	**93,334**	**94,128**	**103,227**	**107,890**
Cash	3,615	6,164	4,385	15,579	28,397
Restricted cash	2,269	1,734	1,734	1,734	1,734
Trade & other receivables	5,180	4,713	4,713	4,713	4,713
Property under development	70,628	50,543	53,116	51,021	42,865
Other current assets	33,522	30,180	30,180	30,180	30,180
Non-current assets	**12,762**	**14,373**	**21,191**	**23,262**	**24,931**
Property, plant & equipment	2,861	3,675	3,989	4,287	4,575
Investment properties	1,730	1,731	1,731	1,731	1,731
Investment in Associate and JCE	6,927	7,577	14,082	15,854	17,235
Other non-current assets	1,244	1,390	1,390	1,390	1,390
Total Assets	**127,977**	**107,707**	**115,320**	**126,490**	**132,821**
Current Liabilities	**92,858**	**73,562**	**76,178**	**80,208**	**77,189**
Short term borrowings	16,146	15,256	15,256	15,256	10,256
Trade & other payables	13,238	15,959	15,959	15,959	15,959
Pre-sales deposits	45,759	28,848	31,464	35,494	37,475
Other current liabilities	17,715	13,500	13,500	13,500	13,500
Non-current liabilities	**17,475**	**6,657**	**6,657**	**6,657**	**6,657**
Long term borrowings	16,048	6,118	6,118	6,118	6,118
Other payables	992	0	0	0	0
Other non-current liabilities	435	539	539	539	539
Total Liabilities	**110,333**	**80,219**	**82,835**	**86,865**	**83,846**
Net Assets	**17,643**	**27,488**	**32,485**	**39,625**	**48,975**
Shareholders' equity	**11,940**	**19,058**	**23,011**	**28,477**	**35,543**
Perpetual Convertible Securities	0	2,084	2,084	2,084	2,084
Minority Interest	5,703	6,346	7,389	9,063	11,348
Total Equity	**17,643**	**27,488**	**32,485**	**39,625**	**48,975**
Key ratio					
Gross debt (RMB mn)	32,194	21,373	21,373	21,373	16,373
Net debt (RMB mn)	26,311	13,475	15,254	4,060	(13,758)
Net gearing (%)	220%	64%	61%	13%	-37%
Contracted sales/ Total assets (x)	0.26	0.47	0.59	0.78	0.98

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
EBITDA	5,641	8,814	7,579	11,382	15,211
Change in Working Capital	(4,085)	(3,006)	2,222	7,941	11,741
Tax payment	(1,680)	(1,109)	(4,116)	(5,721)	(7,312)
Operating Cash flow	**(125)**	**4,700**	**5,685**	**13,603**	**19,640**
Purchase of PP&E	(569)	(1,078)	(500)	(500)	(500)
Addition of Investment Properties	6	5	-	-	-
Investment in Associate/ JCE	(249)	(50)	(4,510)	(100)	(100)
Proceeds from Disposals	-	7,603	-	-	-
Others	(2,690)	231	1,377	1,689	2,121
Investing Cash flow	**(3,502)**	**6,712**	**(3,632)**	**1,089**	**1,521**
Debt raised	14,958	11,483	10,000	10,000	10,000
Debt repaid	(16,290)	(18,695)	(10,000)	(10,000)	(15,000)
Interest expenses	(2,821)	(3,586)	(2,565)	(2,137)	(1,887)
Equity raised	-	2,075	-	-	-
Convertible securities raised	-	2,084	-	-	-
Dividend to shareholders	(589)	(164)	(1,216)	(1,311)	(1,405)
Others	(424)	(2,060)	(50)	(50)	(50)
Financing Cash flow	**(5,166)**	**(8,863)**	**(3,831)**	**(3,498)**	**(8,342)**
Net cash inflow/ (outflow)	**(8,793)**	**2,548**	**(1,779)**	**11,194**	**12,818**
Cash at beginning	12,408	3,615	6,164	4,385	15,579
Cash at year-end	**3,615**	**6,164**	**4,385**	**15,579**	**28,397**

Source(s): Company, ABCI Securities estimates

Disclosures

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Definition of equity rating

Rating	Definition
Buy	Stock return ≥ Market return rate
Hold	Market return – 6% ≤ 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 ≤180 day volatility/180 day benchmark index volatility
High	1.5 ≤ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	1.0 ≤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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