



March 26, 2015 Company Report Under Review

Share price (HK\$) 1.54

Previous Rating & TP Under review
Previous Report Date July 24, 2014

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Key Data

52Wk H/L(HK\$)	3.75/1.26
Issued shares (mn)	4,041
Market cap (HK\$ mn)	5,942
3-mth avg daily turnover (HK\$ mn)	4.01
Major shareholder(s) (%): Wong Choi Hing	51.85
Source(s): Company, Bloomberg, ABCI Securities	

FY14 Revenue breakdown (%)

Property Development	99.4
Property Investment	0.2
Others	0.4
Source(s): Company, ABCI Securities	

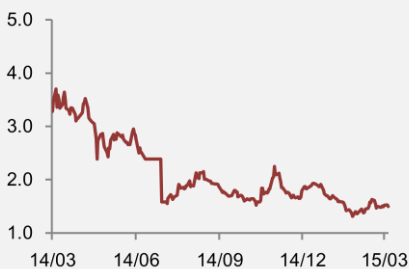
Share performance (%)

	Absolute	Relative*
1-mth	5.0	6.4
3-mth	(19.1)	(22.6)
6-mth	(15.4)	(17.7)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Hydoo (1396 HK) FY14 results highlights

- Core profit dropped 66% YoY to RMB 476mn; presales dropped 58%YoY to RMB 2.9bn due to delays in Yantai and Lanzhou projects
- Expect presales to recover in FY15 on more project launches
- Takes time for the Group to rebuild investors' confidence. We will resume coverage until more confirming signs of a normalized operation emerge

FY14 results review. Core profit (excluding non-recurring items) declined 66% YoY to RMB 476mn as booked sales dropped 29% YoY to RMB3.4bn while gross margin declined 20ppt YoY to 41.6%. Excluding the Mianyang project, which has a lower margin due to higher cost incurred for construction on the hillside, overall margin was largely stable. Balance sheet remained healthy with a net cash balance of RMB 455mn as at Dec 2014, lower than the RMB 3.5bn a year ago. Hydoo's presales tumbled 58% YoY to RMB 2,930mn, as GFA sold dropped 48% YoY to 0.47mn sqm while ASP fell 20% to RMB 6,292/sqm. Despite deteriorating financial performance, Hydoo announced a DPS of HK\$ 0.06, implying a 3.9% dividend yield based on its current share price.

New management team to meet investors. Hydoo's new management team, Mr Wang Jianli (Chairman and Executive Director), Mr Wang Dewen (CEO) and Mr Chan Sze Hon (CFO) were present in the latest analyst presentation. It was the new management's first appearance in public since the resignation of its ex-chairman, Mr Wong Choi Hing. More specifically, Mr Chan, who has been the CFO in listed companies such as Fantasia (1777 HK) and Wuzhou (1369 HK), has solid experience in the industry.

Strategic alliance with Ping An Real Estates (PARE). In Jan 2015, Hydoo issued a US\$ 120mn in convertible bonds with a coupon rate of 7.0% and an exercise price of HK\$ 1.956 to PARE and established a new strategic alliance with the latter. PARE intended to make a strategic investment under RMB1.5bn in Hydoo's future trade and logistics centers. We believe introduction of strategic investors may help improve Hydoo's image. In 2015, Hydoo targets to achieve RBM6bn in presales, back to FY13 peak level. Presales in 2014 was affected by construction delays in the Yantai and Lanzhou projects in 2H14, but management believes project sales will resume pace in 2015. The Group plans to add 2-3 more new projects this year and do not see major difficulties in securing new projects, as local governments in tier 3/4 cities are still eager to boost economy by building logistic parks despite slowdown in China's economy.

Coverage suspended until more confirming signs emerge. Despite management's restructuring effort, it will take time for the Group to reestablish its reputation and regain investors' confidence. We believe it would take 1-2 years before Hydoo's financial performance can return to its 2013 level. Although new management team has shown effort and determination, we will resume official coverage (with rating, TP and profit forecast under review) until more confirming signs of a normalized operation emerge.

Risk factors: 1) Uncertain timing and sizes of government grants; 2) Overreliance on investors' demand; 3) lack of investors' confidence after resignation of ex-Chairman.

Results and Valuation

FY ended Dec 31	2011A	2012A	2013A	2014A
Revenue (RMB mn)	833	1,607	4,756	3,360
Chg (% YoY)	770.0	93.0	196.0	(29.4)
Underlying Net Income (RMB mn) ¹	216	363	1,418	479
Chg (% YoY)	1,100.0	67.9	291.0	(66.2)
Underlying EPS (RMB)	0.07	0.12	0.44	0.12
Chg (% YoY)	1,100.0	67.9	260.1	(72.7)
BVPS (RMB)	0.12	0.32	1.36	1.07
Chg (% YoY)	97.2	154.9	328.7	(21.5)
Underlying PE (x)	17.1	10.2	2.8	10.4
P/B (x)	9.9	3.9	0.9	1.2
ROE (%)	58.0	38.2	32.1	11.2
ROA (%)	7.2	7.1	12.9	4.0
DPS(HK\$)	-	-	0.15	0.04
Yield (%)	-	-	12.4	3.4
Net gearing ² (%)	42.4	76.2	(82.2)	(11.5)

¹Underlying net income =Net profit - revaluation gain of investment properties and one-off items

²Net gearing=Net debt/Total equity

Source(s): Bloomberg, ABCI Securities calculation

Exhibit 1: Hydoo's FY14 results

P&L	FY14	FY13	YoY Chg
	RMBm	RMBm	(%)
Turnover	3,360	4,756	(29.4)
Cost of Sales & direct operating costs	(1,961)	(1,824)	7.5
Gross Profit	1,399	2,932	(52.3)
Gross Margin (%)	41.6	61.6	(20.0ppt)
Selling and distribution costs	(182)	(129)	40.8
Administrative and other expense	(440)	(336)	31.1
EBIT	777	2,467	(68.5)
EBIT Margin (%)	23.1	51.9	(28.8ppt)
Other income	26	16	56.1
Non-recurring items	44	(89)	na
Share of profit from JCE/ Associates	-	-	na
Finance cost	(9)	(70)	(87.4)
Profit before tax	837	2,325	(64.0)
Tax	(331)	(1,149)	(71.2)
- LAT	(185)	(687)	(73.1)
- Enterprise tax	(146)	(462)	(68.3)
Profit after tax	506	1,176	(56.9)
Minority Interest	6	2	207.2
Net profit	512	1,178	(56.5)
Core net profit	479	1,418	(66.2)
Core net margin	14.3	29.8	

Operating statistics	FY14	FY13	YoY Chg
			%
Contracted GFA (mn sqm)	0.47	0.89	(47.9)
Contracted ASP (RMB/sqm)	6,292	7,833	(19.7)
Contracted Sales (RMB mn)	2,930	7,005	(58.2)
GFA Delivered (mn sqm)	0.50	0.69	(28.1)
Booked ASP (RMB/sqm)	6,700	6,843	(2.1)
Property sales booked (RMB mn)	3,342	4,749	(29.6)

Balance sheet	Dec 14	Dec 13	YoY chg
	RMB mn	RMB mn	ppt
Gross debt	1,562	884	76.7
Cash	2,017	4,396	(54.1)
Net debt	(455)	(3,512)	NA
Net gearing (%)	Net cash	Net cash	

Source(s): Company, ABCI Securities

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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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