

FIG
Real Estate
Equity – China

Neutral (V)

Target price (HKD)	3.10
Share price (HKD)	2.98
Forecast dividend yield (%)	6.0
Potential return (%)	8.0

Note: Potential return equals the percentage difference between the current share price and the target price, plus the forecast dividend yield

Performance	1M	3M	12M
Absolute (%)	-1.7	-1.3	-27.3
Relative ^A (%)	0.4	-2.8	-47.2

Index^A HSCEI

RIC 2007.HK
Bloomberg 2007 HK

Market cap (USDm) 7,775
Market cap (HKDm) 60,648

Enterprise value (CNYm) 94,678
Free float (%) 24

Note: (V) = volatile (please see disclosure appendix)

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Country Garden (2007 HK)

N(V): First take – earnings disappoint but dividend still attractive

- ▶ **We estimate that FY2014 core earnings grew by only 3% which is 10% below our forecast**
- ▶ **Despite a slight decline in pay-out ratio, the final dividend yield remains attractive at >6%**
- ▶ **Neutral (V) rating with a target price of HKD3.10**

FY2014 results – further margin compression, but net gearing under control: We calculate core earnings of Rmb8,765m, which is up 3% y-o-y. This is around 10% lower than our forecast and consensus. Please note that the company refer to core earnings of Rmb9,240mn in the results announcement which excluded the exchange translation loss and early redemption penalty of a senior note. We estimate core EPS came in at Rmb0.458 representing a 2% decline which reflects the new shares issued from the scrip dividend offer and rights issue in 2014. Net gearing reported is 60% vs. 67% in 2013 partly as a result of the rights issue.

What are the key discrepancies? (1) While revenue was 6% higher than our forecast, gross profit margin continued to slip from the interim level to 26% (vs. our 28.8%). In our view, this reflects the cost of pursuit for 'supernormal' growth from 2013; (2) While selling & marketing cost was flat y-o-y, administrative expenses were up 55% y-o-y. Again, we assume this reflects the higher selling incentives paid to maintain its high contracted sales; (3) There is a total of Rmb450mn finance cost from exchange translation loss and early redemption penalty of a senior note; and (4) The combined effect is a 15% shortfall to our pre-tax profit estimate, which translated to a 10% miss to our number (after taking out revaluation gains net of tax); and (5) Final DPS of Rmb14.75c represents a pay-out ratio of 32%. It is 18% lower than our expectation, reflecting the 10% shortfall in EPS and a lower pay-out ratio than our estimated 36%. One thing to note is that the dividend will be paid in cash only with no scrip option. Last year half the dividends were paid out in scrip which resulted in cash outlay of only Rmb1.5bn vs. the Rmb3bn based on the all cash proposition this year.

Neutral (V) rating, dividend yield still attractive: We have a Neutral (V) rating on Country Garden with a target price of HKD3.10 based on 40% discount (0.5 S.D. below historical mean) to forward NAV of HKD5.1 per share. The margin trend and consensus miss in the FY14 results are obviously not positive news to the market, but it offers more than 6% FY14 final dividend yield even with a cutback pay-out ratio. The share price has reacted positively, but we will need to gauge what management have to say in terms of margin outlook and growth targets. **Risks:** Upside risks include stronger than expected sales performance, higher than expected ASP. Downside risks include failure to convert subscriptions into contracted sales; and uncertainties related to macroeconomic and property-specific policies in China.

Country Garden FY 2014 result comparison table

(RMB m)	2013	2014	y-o-y%
Turnover			
Sales of properties	60,043	81,898	36%
Rendering of construction, fitting and decoration services	867	468	-46%
Property investments		87	-
Rendering of property management services	777	964	24%
Rendering of hotel services	995	1,132	14%
Total Turnover	62,682	84,549	35%
Cost of sales	(43,713)	(62,494)	43%
Gross Profit	18,969	22,055	16%
Fair value gain on IP		1,880	
Finance income	803	255	-68%
Other gains	64	186	189%
Selling and marketing costs	(4,304)	(4,356)	1%
Administrative expenses	(2,033)	(3,160)	55%
Profit from operating activities	13,499	16,860	25%
Finance cost		(450)	-
Share of results of associates & JCE	(26)	(40)	55%
Profit before taxation	13,473	16,369	21%
Taxation	(4,625)	(5,757)	24%
Minority Interests	(334)	(383)	15%
Net Profit	8,514	10,229	20%
Revaluation gain on IP, net of tax.FV gains adjustments		1,464	-
Core Profit	8,514	8,765	3%
Reported EPS (RMB)	0.466	0.534	15%
Core EPS (RMB)	0.466	0.458	-2%
DPS (RMB)	0.168	0.148	-12%
Payout ratio	36%	32.2%	-
Liquidity			
Long-term borrowings	43,815	46,139	5%
Short-term borrowings	12,434	14,929	20%
Cash (ex-restricted cash)	18,910	18,761	-1%
Cash (incl-restricted cash)	26,680	27,214	2%
Net Debt (ex-restricted cash)	37,339	42,308	13%
Net Debt (incl-restricted cash)	29,569	33,855	14%
Shareholder's equity	43,954	56,686	29%
Net gearing (ex-restricted cash)	85%	75%	(10)
Net gearing (incl-restricted cash)	67%	60%	(7.6)
Net gearing reported	67%	60%	(7.6)
Margins			%-pt
Selling expenses to contracted sales ratio	4.1%	3.4%	(0.7)
SG&A to contracted sales ratio	6.0%	5.8%	(0.1)
SG&A to turnover	10.1%	8.9%	(1.2)
Gross margin	30%	26%	(4.2)
PBT margin	21%	19%	(2.1)
Reported NP margin	13.6%	12.1%	(1.5)
Underlying NP margin	13.6%	10.4%	(3.2)

Source: Company data, HSBC calculations

Disclosure appendix

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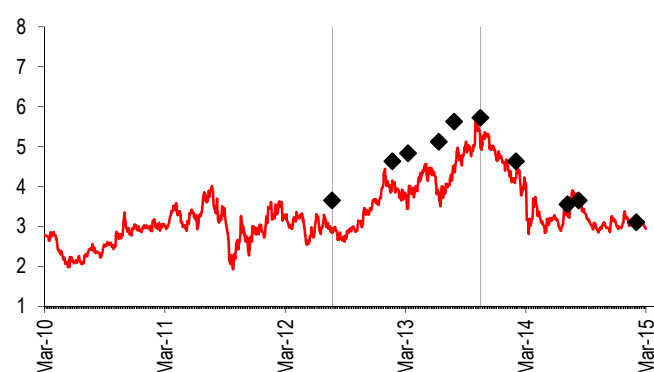
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Share price and rating changes for long-term investment opportunities

Country Garden (2007.HK) Share Price performance HKD Vs HSBC rating history



Source: HSBC

Recommendation & price target history

From	To	Date
N/A	Overweight (V)	30 July 2012
Overweight (V)	Neutral (V)	24 October 2013
Target Price	Value	Date
Price 1	3.65	30 July 2012
Price 2	4.63	30 January 2013
Price 3	4.83	19 March 2013
Price 4	5.12	20 June 2013
Price 5	5.62	06 August 2013
Price 6	5.72	24 October 2013
Price 7	4.63	09 February 2014
Price 8	3.55	16 July 2014
Price 9	3.65	19 August 2014
Price 10	3.10	09 February 2015

Source: HSBC

HSBC & Analyst disclosures

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Company	Ticker	Recent price	Price Date	Disclosure
COUNTRY GARDEN	2007.HK	2.98	11-Mar-2015	1, 5, 6, 7

Source: HSBC

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