

19 March 2015

Underperform Unchanged

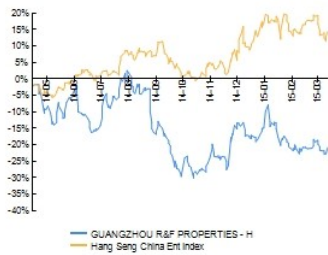
财务和利润率压力难以短期缓解，维持富力减持评级

富力地产 (2777:HK)

Market Data: Mar,18

Closing Price (HK\$)	7.61
Price Target (HK\$)	7.02
HSCEI	11,982
HSCCI	4,463
52-week High/Low (HK\$)	11.52/7.65
Market Cap (US\$m)	3,161
Market Cap (HK\$m)	24,500
Shares Outstanding (m)	3,198
Exchange Rate (Rmb-HK\$)	1.26

Price Performance Chart:



Source: Bloomberg

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Related Reports

"Guangzhou R&F Ppty CO.LTD (2777 HK)—Uncomfortable positions" Mar 21, 2014

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Financial summary and valuation

	2012	2013	2014	2015E	2016E
Revenue (RMB million)	30,364.00	36,271.29	34,705.60	45,218.51	55,495.89
YOY (%)	11	19	-4	30	23
Underlying net income(RMB mn)	5,150.00	5,820.00	3,948.81	4,630.90	5,019.14
YOY (%)	14.00	13.00	(32.00)	17.00	8.00
Net income (RMB million)	5,502.00	7,632.90	5,221.29	5,230.90	5,319.14
EPS (RMB)	1.72	2.39	1.63	1.64	1.66
Core EPS (RMB)	1.61	1.82	1.23	1.45	1.57
ROE (%)	21.02	19.87	11.60	12.04	11.58
Net Gearing (%)	84.87	117.30	173.93	163.12	158.83
Dividend Yield (%)	9.74	10.06	-	3.53	5.10
P/E (x)	3.82	3.38	4.99	4.25	3.92
P/B (x)	0.73	0.61	0.54	0.47	0.42

Note: Core EPS is calculated as if all non-recurring items are excluded. P/E is calculated as closing price divided by each year's core EPS.

投资要点:

大本营位于广州的房地产开发商富力地产近日公布 2014 年全年运营数据，因收入结算低于预期（预期值为 420 亿元，而公司仅实现 320 亿元），2014 年归属股东核心净利润同比下滑 32%至人民币 40 亿元，较我们之前预期低 20%左右。毛利率从 39%下滑 4 个百分点至 35%；同时由于毛利率下滑以及 13 亿元的永续债付息，公司核心净利从 16%下滑 5 个百分点至 11%。更令市场失望的是，公司本次不派发股息，这是公司上市 10 年来首次宣布不发放股息（过去 9 年公司平均股息分派率均在 40%以上）。

由于公司在 2013 年房地产土地市场过热时采取激进的扩张策略（2009-2012 年的土地款分别为 86 亿，83 亿，60 亿和 40 亿元，而 2013 年购地款为 430 亿元），公司净权益负债率因此从 2012 年底 86%的水平上升至 2013 年底的 117%以及 2014 年中期的 186%。2014 年底，我们看到公司负债率水平依然处于 174%的高位。其中，公司短期有息借贷从一年前的 180 亿攀升至 240 亿元，现金及现金等价物则从 240 亿下滑至 200 亿元。公司因此在 2014 年发行了约 150 亿元的永续债来试图挽救脆弱的资产负债表（根据国际会计准则，在资产负债表中永续债可记为权益项），但多数该类工具明股实债，且利息高企不能资本化不能在税前抵扣。公司全年的一般有息负债的利息费用是 58 亿，永续债利息支付是 13 亿。

大量买入的项目以及为降低杠杆，公司去年初将 14 年销售目标定在相当激进的 700 亿元，后因应市况不佳下调到 600 亿，最终实现 544 亿元（同比增长 29%）。公司将 2015 年全年销售目标定为 600 亿元，目标增长率放缓至 10%，但预计大部分销售将在下半年完成（预计上半年实现 180 亿，下半年实现 420 亿；而 2014 年上半年共实现合约销售 260 亿，下半年为 280 亿）。今年前两个月，公司分别仅实现合约销售 27 亿元（同比下滑 13%）以及 15 亿元（同比下滑 51%）。根据管理层指引，2015 年公司结算面积将增长 25%至 400 万方，而毛利率将稳定在 2014 年的水平。而在我们看来要实现这个目标依然充满挑战。

随着 2013 年公司高成本获取的项目于 2015 年开始陆续进入结算管道，我们认为公司未来利润率依然存在相当幅度的下滑空间（预计 2015 年为 33%，2016 年为 29%）。同时，基于放缓的交付速度，我们分别进一步将公司 2015/2016 年每股核心净利从 1.86/2.04 元下调 22%/23%至 1.45/1.57 元（分别同比增长 17%和 8%）我们同时将每股净资产值从 22.77%下调 23%至 17.55 港币。公司股价在近期大幅下挫后有超跌迹象，但在财务压力出现缓解迹象前难有重估机会。我们维持公司目标净资产值折价 60%不变，将目标价从 9.11 港币下调至 7.02 港币。考虑到目前股价较新目标价存在 10%的下降空间，我们维持减持评级。

Investment Highlights:

Results significantly miss. Guangzhou-based developer R&F reported 2014 core earnings attributable to shareholders dropped by 32% YoY to Rmb4bn, c.20% lower than we expected due to lower property sales revenue booking (Rmb32bn in actual vs Rmb42bn by estimates). Margin erosion was largely in line, with gross margin down c.4ppts from 39% to 35% due to the price cuts and product-mix and underlying net profit margin down c.5ppts from 16% to 11% (as a result of gross margin decline and a payment of Rmb1.3bn to perpetual security holders). What surprised more on the downside is no dividend was declared this year, which is the first-time of the company's decade-long listing history (the average pay-out ratio for the past 9 years is above 40%).

Balance sheet remains stretched. This is the key reason behind the dividend policy change. Due to a surge of land replenishment in a hot market of 2013 (Rmb43bn vs Rmb4bn, 6bn, 8.3bn, 8.6bn in 2012, 2011, 2010, 2009), the company's net gearing ratio has risen from 86% at end-2012 to 117% at end-2013 and 186% at mid-2014. While for the end of 2014, we saw the gearing stayed high at 174%. In particular, short-term borrowing increased to Rmb22bn from Rmb18bn one-year earlier, cash and cash equivalent decreased to Rmb20bn from Rmb24bn. The company introduced perpetual securities of Rmbc.15bn in 2014 as a tool to make up the balance sheet (which is recognized as equities instead of liabilities in accounting), but in essence it's the high-cost interests bearing indebtedness and should be paid eventually.

Challenging target. R&F revised 2014 sales target from Rmb70bn to Rmb 60bn in response to the sales cool down, but it finally has only achieved Rmb54.4bn(+29% YoY). It set 2015 sales target at Rmb60bn with the growth slowing down to 10%, but more would be skewed towards 2H15 (Rmb18bn/42bn in 1H/2H this year vs Rmb26bn/28bn in 1H/2H of 2014). In Jan and Feb, it achieved sales of Rmb2.7bn (-13% YoY) and Rmb1.5bn (-51% YoY). The company's guidance points to that delivery may increase by c.25% YoY to c.4mn sqm in 2015 and gross margin to be recognized would maintain stable at 2014, which in our view is again a challenging commitment.

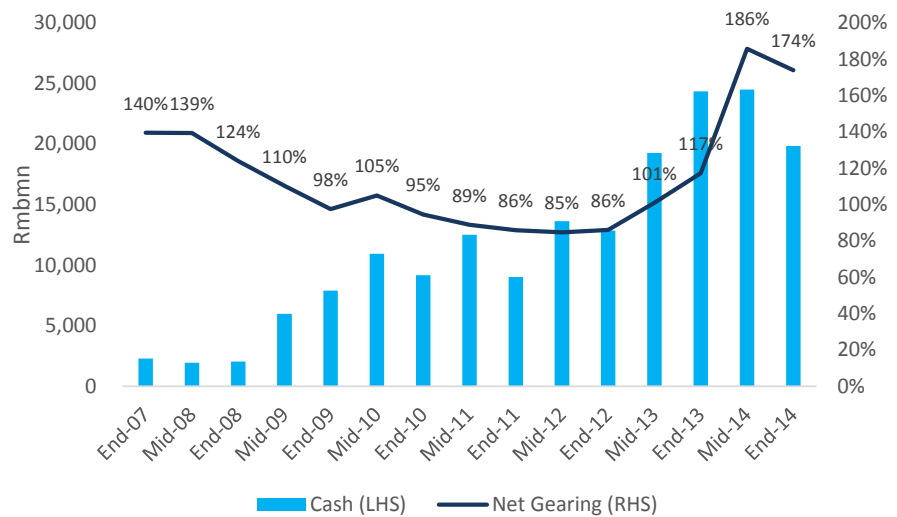
Underperform reiterated. With the high-cost projects acquired in 2013 entering into revenue booking since 2015, we maintain our view that there's further room for gross margin drop (33% in 2015, 29% in 2016). We further cut core EPS of 2015 and 2016 by 22% and 23% to from Rmb1.86 and Rmb2.04 to Rmb1.45 (+17% YoY) and Rmb1.57(+8% YoY) on a slower delivery pace, meanwhile we cut NAV by 23% from HK\$22.77 to HK\$17.55. A rebound is likely after the near-term oversold, but a re-rating for the laggard like R&F is less likely before clear visibility on gearing cut. We keep target NAV disc at 60% and lower our target price from HK\$9.11 to HK\$7.02. This implies c.10% downside potential, we maintain the rating at Underperform.

Fig 1: Land purchase surged in a hot market 2013

Listcos	Land purchase by value (Rmb bn)						As % of contracted Sales					
	09A	10A	11A	12A	13A	14A	09A	10A	11A	12A	13A	14A
Vanke	25	59	25	44	76	29	39%	55%	20%	31%	44%	13%
COLI	23	21	24	36	51	42	54%	39%	35%	40%	46%	35%
CR land	24	17	19	9	28	43	96%	78%	53%	18%	42%	62%
Country Garden	3	7	8	10	30	17	15%	20%	19%	20%	28%	13%
Shimao	12	21	10	4	35	19	54%	68%	31%	9%	52%	27%
Longfor	18	19	9	19	15	17	100%	58%	24%	48%	32%	35%
Evergrande	8	33	34	17	71	20	26%	66%	42%	18%	70%	15%
R&F	9	9	5	4	44	5	36%	27%	16%	11%	104%	10%
Sino-ocean	9	31	8	4	1	17	63%	144%	29%	12%	3%	43%
Agile	16	12	2	3	13	2	81%	38%	5%	8%	32%	5%
Sunac	1	4	8	11	26	12	17%	53%	48%	43%	74%	29%
Poly Ppty	12	13	4	2	9	8	148%	112%	25%	8%	32%	35%
KWG	3	10	4	2	6	8	44%	88%	36%	15%	36%	36%
Average	163	256	159	164	404	238	60%	65%	29%	22%	46%	27%

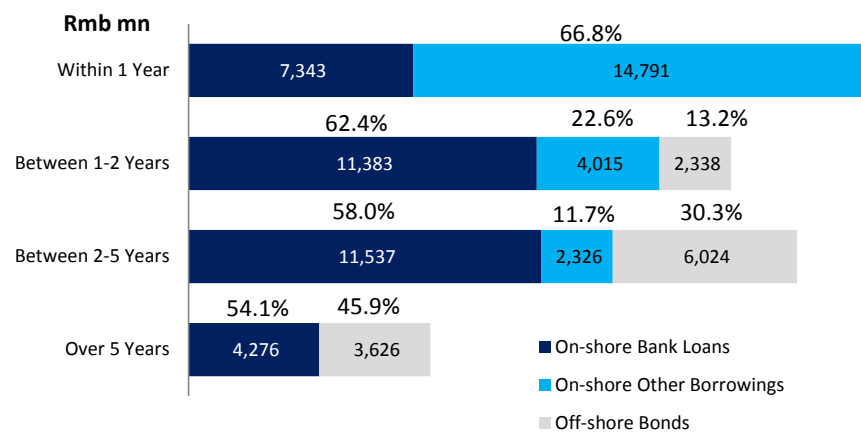
Source: Company data, SWS Research

Figure 2: Balance sheet stretched again



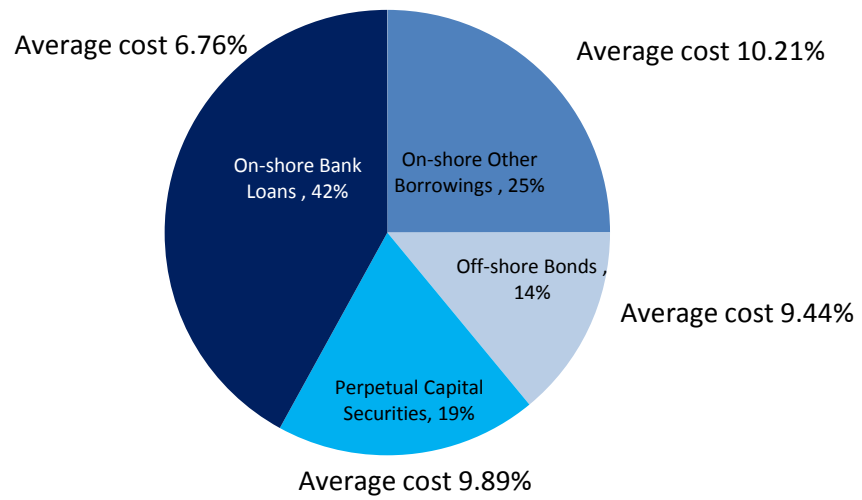
Source: Company data, SWS Research

Figure 3: Uncomfortable debt profile



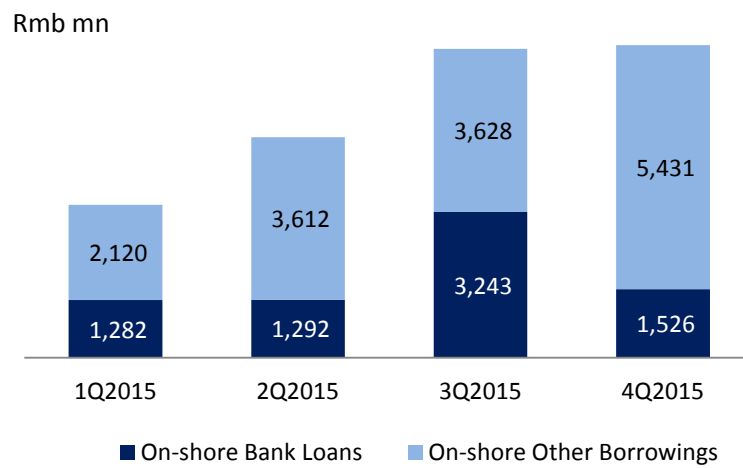
Source: Company data, SWS Research

Figure 4: A large proportion of perpetual securities introduced in 2014



Source: Company data, SWS Research

Figure 5: Debt Repayment in 2015 by Quarter



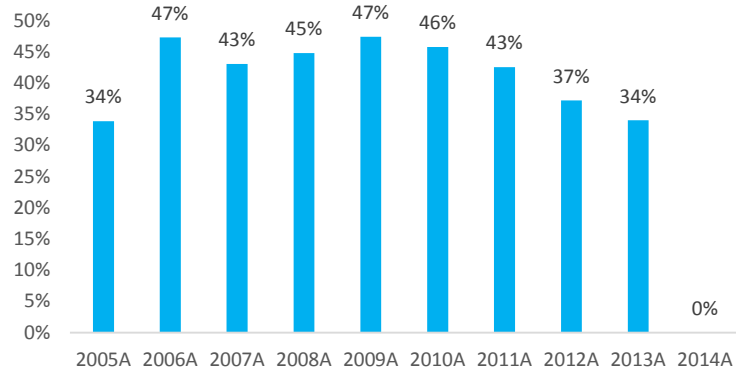
Source: Company data, SWS Research

Figure 6: Contracted sales in 2015 may skew more towards 2nd half

	In Rmb bn		
	Full-Year	1H	2H
Sales Target for 2015	60	18	42
Actual Sales in 2014	54	26	28

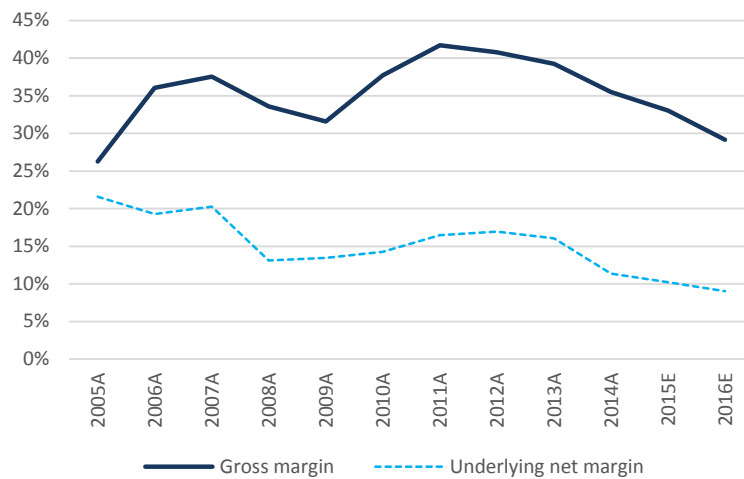
Source: Company data, SWS Research

Figure 7: First-time in the decade-long history without dividends declared



Source: Company data, SWS Research

Figure 8: Our forecast of margin trend



Source: Company data, SWS Research

Fig9: Valuation and target price

Company	Code	Market Cap (HK\$bn)	Rating	Target price (HK\$)	+/- (%)	PE (x)			PB (x)			NAV Disc	Return	
						13E	14E	15E	13E	14E	15E		2013	2014
Vanke	2202 HK	22	Not Rated	--	--	10.1	8.4	7.4	2.0	1.6	1.3	-15%	11%	25%
COLI	688 HK	177	O-PF	29.00	34%	9.3	7.6	6.3	1.6	1.4	1.1	-25%	-5%	7%
CR land	1109 HK	116	O-PF	22.98	16%	12.2	9.8	9.7	1.4	1.0	1.0	-27%	-8%	9%
Country Garden	2007 HK	53	Hold	3.50	21%	5.0	5.0	4.4	0.9	0.7	0.7	-42%	20%	-29%
Shimao	813 HK	53	BUY	20.30	33%	5.8	4.6	3.8	1.0	0.9	0.7	-47%	22%	2%
Longfor	960HK	53	O-PF	11.72	19%	6.9	6.3	5.7	1.2	0.9	0.8	-46%	-27%	-5%
Evergrande	3333 HK	55	U-PF	3.13	-10%	5.4	4.9	4.3	0.8	0.6	0.5	-44%	-30%	25%
R&F	2777 HK	24	U-PF	7.02	-8%	3.3	4.9	4.2	0.6	0.5	0.5	-57%	-8%	-11%
Sino-ocean	3377 HK	35	BUY	6.63	37%	7.7	8.0	6.4	0.6	0.7	0.6	-49%	-9%	-10%
Agile	3383 HK	14	O-PF	5.40	29%	2.5	2.6	3.7	0.4	0.3	0.3	-69%	-22%	-44%
Sunac	1918HK	22	BUY	8.68	33%	5.4	4.9	3.8	0.9	0.8	0.7	-47%	-21%	81%
Poly Ppty	119 HK	13	U-PF	3.67	3%	6.7	6.3	5.9	0.4	0.4	0.4	-61%	-29%	-18%
KWG	1813 HK	14	O-PF	6.05	28%	4.7	3.9	3.2	0.6	0.5	0.5	-57%	-20%	33%
Average						6.2	5.7	5.1	0.9	0.7	0.7	-48%	-10%	5%

Source: Bloomberg, Company data, SWS Research

Appendix

Figure 1: Forecast Income Statement

Rmbm	2010A	2011A	2012A	2013A	2014A	2015E	2016E
Revenue	24,641	27,370	30,364	36,271	34,706	45,219	55,496
Property sales	22,972	25,390	28,057	33,651	31,651	41,858	51,800
Property rentals	375	491	628	727	827	910	1,001
Hotel mgmt	610	758	830	900	1,109	1,219	1,341
Others	684	731	849	993	1,119	1,231	1,354
Cost of Sales	(15,349)	(15,954)	(17,987)	(22,037)	(22,392)	(30,279)	(39,309)
Gross Profit	9,292	11,416	12,377	14,234	12,314	14,939	16,187
Revaluation gains	1,109	436	660	2,436	1,638	800	400
Other Income	259	290	166	293	392	353	325
SG&A							
Selling and market expenses	(426)	(472)	(454)	(627)	(896)	(1,020)	(1,020)
Administration expense	(1,121)	(1,453)	(1,522)	(1,839)	(2,220)	(2,442)	(2,686)
Other operating income	(36)	(9)					
EBIT	9,077	10,208	11,227	14,498	11,228	12,631	13,205
Jointly controlled entities	(68)	99	316	307	145	152	160
Finance Costs	(940)	(1,139)	(1,502)	(1,934)	(1,216)	(1,351)	(1,546)
Profit before tax	8,069	9,168	10,041	12,871	10,157	11,431	11,819
Tax expense	(3,613)	(4,334)	(4,382)	(5,226)	(3,650)	(4,700)	(4,923)
Inc tax	(1,644)	(1,904)	(2,247)	(2,878)	(2,367)	(2,858)	(2,955)
LAT	(1,747)	(2,430)	(2,135)	(2,348)	(1,283)	(1,842)	(1,968)
Deferred	(222)						
Profit for the year	4,456	4,835	5,659	7,645	6,507	6,732	6,896
Minority interests	(106)	7	(157)	(12)	46	48	50
Profit to perpetual security holders					(1,331)	(1,549)	(1,627)
Profit attr to shareholders	4,350	4,841	5,502	7,633	5,221	5,231	5,319
Dividends paid	1,611	1,920	1,917	1,980	0	695	1,004
Basic EPS	1.35	1.51	1.72	2.39	1.63	1.64	1.66
Diluted EPS	1.35	1.51	1.72	2.39	1.63	1.64	1.66
DPS	0.50	0.60	0.60	0.62	0.00	0.22	0.31
Core EPS	1.09	1.40	1.61	1.82	1.23	1.45	1.57

Figure 2: Forecast Balance Sheet:

Rmbm	2010A	2011A	2012A	2013A	2014A	2015E	2016E
Land use rights	670	680	850	1,098	1,198	1,318	1,450
Investment property	12,461	12,687	13,347	15,888	18,048	20,048	22,048
PP&E	4,119	4,125	5,491	6,567	7,496	8,246	9,070
Others	8,114	9,258	9,416	10,229	12,917	14,159	15,525
Non-current assets	25,364	26,750	29,104	33,782	39,659	43,770	48,092
Properties under development	29,067	33,087	39,427	56,111	81,328	89,191	98,285
Completed properties held for sale	4,767	6,035	7,964	10,992	17,222	18,944	20,839
Cash and cash equivalents	5,653	6,126	7,026	17,722	23,871	21,261	19,130
Restricted cash	3,514	2,900	5,835	6,622	6,339	6,973	7,670
Receivable	7,229	7,581	7,609	13,163	10,891	11,980	13,178
Others	1,822	1,679	1,622	1,955	-7,470	-8,718	-10,118
Current assets	52,052	57,408	69,483	106,565	132,181	139,632	148,984
Total assets	77,416	84,158	98,587	140,347	171,840	183,402	197,076
Share capital and premiums	805	805	805	805	805	805	805
Retained earnings	14,660	17,568	21,476	27,130	30,750	36,050	41,750
Other reserves	4,323	4,152	4,186	4,172	4,410	4,851	5,336
Majority interests	19,788	22,525	26,467	32,107	35,965	41,707	47,891
Perpetual securities				1,000	15,648	15,648	15,648
Minority interests	211	207	364	376	532	585	644
Total equity	19,999	22,732	26,831	33,483	52,145	57,940	64,183
Borrowings	20,669	18,285	28,420	43,352	45,554	51,352	56,352
Others	2,151	2,366	2,780	4,186	3,450	3,795	4,175
Non-current liabilities	22,820	20,651	31,200	47,538	49,004	55,147	60,527
Advanced sales proceeds	15,479	14,055	13,165	13,778	19,226	21,149	23,263
Trade Payable	7,845	10,125	12,680	17,782	19,271	19,124	19,668
Borrowings	7,184	10,093	7,212	18,095	22,105	18,595	18,095
Tax Payable	4,089	6,503	7,500	9,671	10,089	10,168	11,091
Current liabilities	34,597	40,776	40,556	59,326	70,691	69,036	72,117
Total liabilities	57,417	61,427	71,756	106,864	119,695	124,183	132,643
Total equity and liabilities	77,416	84,158	98,587	140,347	171,840	182,123	196,826

Figure 3: Forecast Cash Flow Statement:

Rmbm	2010A	2011A	2012A	2013E	2014E	2015E	2016E
Cash generated from/(used in) operations	6,168	(725)	(3,420)	(15,119)	(7,000)	(5,000)	(4,000)
Others	(4,273)				(1,235)	578	(875)
Net cash generated from operating activities	1,895	(725)	(3,420)	(15,119)	(8,235)	(4,422)	(4,875)
Acquisitions	(1,109)	673			(4,500)	(2,000)	(1,000)
Others	(2,403)				(764)	(688)	(756)
Net cash generated from Investing activities	(3,512)	673	0	0	(5,264)	(2,688)	(1,756)
Proceeds from issuance of shares							
Proceeds from placement of shares				1,000	14,648	0	0
Net borrowings	2,110	525	7,254	25,815	4,000	4,500	4,500
Others	(1,482)						
Net cash generated from financing activities	628	525	7,254	26,815	18,648	4,500	4,500
Increase in cash and cash equivalents	(989)	473	3,834	11,696	5,149	(2,610)	(2,131)
Cash and cash equivalents at beginning of year	6,642	5,653	6,126	7,026	18,722	23,871	21,261
Exchange losses on cash and cash equivalents			(2,934)				
Cash and cash equivalents at end of the year	5,653	6,126	7,026	18,722	23,871	21,261	19,130

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