

Agile Property Holdings Ltd

Still plenty of problems to be solved

Agile is undergoing a period of internal restructuring. Due to the overexpansion in 2013, the Company has leveraged too much, which is leading to some margin squeeze. If the situation is not resolved in the near-term, Agile could enter into a vicious cycle and the model may no longer be sustainable. Management has acknowledged the problem, but think they have time hence are relying on the normal course of business – speed up destocking; increase cash recovery; and sales of non-core assets, in order to de-gear. We think this will be a slow recovery process and expect the stock price to remain under pressure during the period. We retain our Underweight on Agile, with Dec-2015 price target of HK\$4.3 per share. We could turn positive if there is more evidence of achieving positive free cash flow in 2015, or signs of sustainable improvement in asset turnover.

- **Just the start; margins likely to deteriorate further:** Agile's 2014 core profit fell 19% Y/Y, due to 350 bps post-LAT margin squeeze. Ex-Hainan margin has further deteriorated to sub-30% level. Benchmarking to other developers that do de-stock, we expect 25% post-LAT margin to be a stable level, and with Agile's Hainan project as buffer, Agile's margin should stabilize at 26-28% on our estimates. Without speeding up sales progress and growing the delivery, we think Agile will see stale earnings in the coming 2-3 years. ROE deteriorated to 8.7% in 2014, and we forecast further deterioration until 2017E.
- **Plans to de-gear are rather slow:** Agile management understands that the company is too leveraged, hence they have cut down landbanking and construction capex, and have set up a team to boost cash recovery. They expect the cash recovery rate to improve further from 90% in 2014 to close to 100% in 2015. Based on this, and Rmb45 bn sales target, the 2015 free cash flow is very slightly positive (+Rmb3 bn) on our estimates, resulting in end-2015E net gearing of 94%, vs 105% by end-2014, which is still high in our view.
- **Wait for signs of stabilization:** While we are skeptical on Agile's recovery story, we think the worst is over, provided that macro does not worsen further. We view Agile's credit profile as still acceptable for the coming 12 months without much major due. However, we think margin squeeze and ability to sell non-core assets will remain the biggest concerns on Agile and we do not think the stock will end its underperformance without reported numbers stabilise.

Agile Property Holdings Ltd (Reuters: 3383.HK, Bloomberg: 3383 HK)

Rmb in mn, year-end Dec	FY12A	FY13A	FY14A	FY15E	FY16E
Revenue (Rmb mn)	29,892	35,436	38,318	41,790	45,455
Net Profit (Rmb mn)	5,000	4,857	4,287	3,573	3,517
Core Profit (Rmb mn)	4,636	3,842	3,126	3,423	3,367
EPS (Rmb)	1.45	1.41	1.23	0.94	0.92
Core EPS (Rmb)	1.344	1.114	0.896	0.897	0.882
Core EPS growth (%)	45.0%	(17.1%)	(19.6%)	0.1%	(1.6%)
DPS (Rmb)	0.38	0.48	0.40	0.40	0.40
ROE	19.6%	12.9%	8.7%	8.7%	8.1%
P/E (Core)	2.7	3.2	4.0	4.0	4.1
P/BV (x)	0.5	0.4	0.3	0.3	0.3
BVPS (Rmb)	7.43	9.82	10.93	10.59	11.20
RNAV/Share	-	-	-	6.32	-
Dividend Yield	10.6%	13.2%	10.9%	10.9%	10.9%

Source: Company data, Bloomberg, J.P. Morgan estimates.

See page 13 for analyst certification and important disclosures, including non-US analyst disclosures.

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Underweight

3383.HK, 3383 HK

Price: HK\$4.51

▲ Price Target: HK\$4.30

Previous: HK\$4.00

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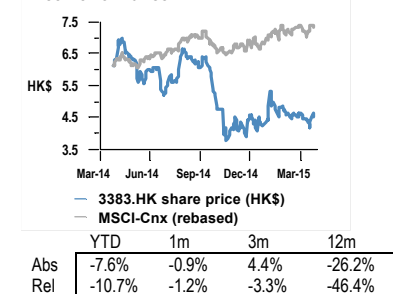
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Price Performance



Company Data	
Shares O/S (mn)	3,817
Market Cap (Rmb mn)	13,773
Market Cap (\$ mn)	2,219
Price (HK\$)	4.51
Date Of Price	25 Mar 15
Free Float(%)	36.1%
3M - Avg daily vol (mn)	11.43
3M - Avg daily val (HK\$ mn)	54.51
3M - Avg daily val (\$ mn)	7.0
MSCI-Cnx	7082.26
Exchange Rate	7.76
Price Target End Date	31-Dec-15

Table 1: Agile- valuation and financial summary

Key catalysts for the stock price:	Upside risks to our view:
<ul style="list-style-type: none"> Balance sheet deterioration, which should be reflected in higher funding cost; Landbank is deteriorating with increased exposure to oversupplied areas, which should result in lower sell-through rate and more inventory stack up. 	Potential upside risks to our PT are (1) better-than-expected sell-through rate for Agile's project; (2) government putting out supportive policies in low-tier cities; (3) aggressive stake increases by the Chen family.

Key financial metrics	FY12A	FY13	FY14A	FY15E
Revenues (LC)	29,892	35,436	38,318	41,790
Revenue growth (%)	30.3%	18.5%	8.1%	9.1%
EBITDA (LC)	10,554	10,099	9,047	8,965
EBITDA margin (%)	35.3%	28.5%	23.6%	21.5%
Tax rate (%)	29.5%	29.8%	33.9%	29.0%
Net profit (LC)	5,000	4,857	4,287	3,573
EPS (LC)	1.45	1.41	1.23	0.94
EPS growth (%)	22.4%	-2.8%	-12.8%	-23.8%
DPS (LC)	0.38	0.48	0.40	0.40
BVPS (LC)	7.43	9.82	10.93	10.59
Operating cash flow (LC mn)	352	(17,757)	(1,807)	9,813
Free cash flow (LC mn)	(1,634)	(19,795)	(2,754)	8,402
Interest cover (X)	134.00	144.60	43.19	90.28
Net margin (%)	16.7%	13.7%	11.2%	8.5%
Sales/assets (X)	0.3	0.3	0.3	0.3
Debt/equity (%)	99%	109%	103%	110%
Net debt/equity (%)	65%	73%	75%	69%
ROE (%)	20%	13%	9%	9%

Key model assumptions	FY15E
Residential ASP growth	-5-5%
WACC	12.4%

Source: J.P. Morgan estimates.

Sensitivity analysis	NAV	EPS
Sensitivity to	Dec-15	FY15E
5% chg in residential ASP	5%	10%
1% chg in WACC	3%	n/a

Source: J.P. Morgan estimates.

Comparative metrics

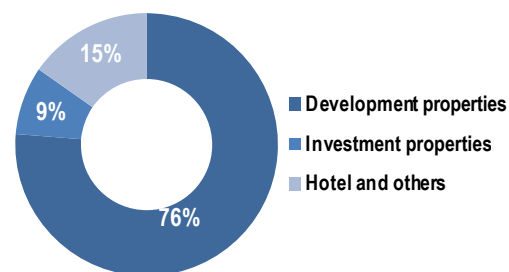
	CMP	Mkt Cap	P/E		NAV discount		P/BV		YTD
	LC	US\$m	FY15E	FY16E	Current	Forward	FY15E	FY16E	Stock perf.
Evergrande Real Estate	3.65	6,885	8.2	10.0	-38%	NA	0.8	0.7	19%
China Overseas Land Investment	23.55	24,819	7.5	6.7	-11%	-26%	1.2	1.1	5%
China Resources Land	20.80	17,514	10.6	9.7	-44%	-50%	1.1	1.0	3%
China Vanke - H shares	17.66	23,381	8.2	7.3	-18%	NA	1.5	1.3	0%
Franshion Properties	2.14	2,502	5.7	5.9	-55%	NA	0.5	0.5	-4%
Sino-Ocean Land	4.76	4,602	7.1	6.1	-63%	NA	0.6	0.6	8%
Shui On Land	1.72	1,774	15.8	9.1	-68%	NA	0.3	0.3	-6%
Shimao Properties	16.06	7,190	5.4	5.1	-31%	-21%	0.8	0.7	-7%
Guangzhou R&F	7.69	3,195	3.7	3.2	-47%	-42%	0.5	0.4	-20%
Agile Property	4.60	2,323	4.1	4.2	-27%	NA!	0.3	0.3	2%
KWG Property	5.15	1,956	3.9	3.1	-55%	-59%	0.6	0.5	-1%
Longfor Properties	10.34	7,745	6.6	6.3	-36%	-44%	0.9	0.8	2%
Country Garden	2.97	7,793	4.3	3.7	-27%	-19%	0.8	0.7	-4%

Source: Bloomberg, J.P. Morgan estimates. Prices are as of 25 March 2015

Valuation and price target basis

Our Dec-2015 Price Target is HK\$4.30, based on 4.0x 2015E P/E. The P/E we use for Agile is among the lowest of mid-cap developers due to the higher gearing, lower ROE and a declining margin trend.

NAV breakdown (Dec-15E)



Source: J.P. Morgan estimates.

JPM vs. consensus, change in estimates

EPS	FY15E	FY16E
JPM old	0.96	0.92
JPM new	0.90	0.88
% chg	-7%	-4%
Consensus	1.10	1.14

Source: Bloomberg, J.P. Morgan estimates.

Key takeaways from analyst briefing

Agile hosted an analyst briefing. Chairman Chen Zhuolin, CFO Sam Cheung and Executive Director Sean Li have participated.

2015 company targets

- 2015 sales target is Rmb45 bn, up 2% Y/Y. Management said they are frustrated of not being able to achieve the sales target and hence set a conservative target for 2015. YTD sales are about Rmb7 bn.
- New start target is 3.21 mn sqm, down 34% Y/Y as Agile wants to reduce construction capex.
- Net gearing target will be set at <80% (perpetual as equity)
- Development margin to be at 28% to 30% in 2015, versus 33.7% in 2014.

Operation

- **Inventories:** Completed unsold inventories have increased by 23% in 2014. Most of these are high-end residential. That said, aging of inventory has improved. Agile has sold Rmb5 bn of old stocks in 2014, with Rmb8 bn addition. Hence inventories rose from Rmb13 bn to Rmb16 bn.
- **Non-core assets sales:** Agile said they have Rmb20 bn worth of hotel and retail assets that can be sold. They may want to keep the prime assets such as headquarter in Guangzhou and mall in Shanghai, but are open to proposal for disposal of the others. But no definite plan or target is revealed.
- Agile will negotiate with government to return some of the land which sold badly or with bad margins. Among which there are about ten projects, with some in Ningbo.
- **JCE/Associate** is still suffering from loss, mainly from Tianjin Jinnan New City. Agile has made about Rmb2 bn equity investment in the Company and will discuss with its partner on how to resolve this. Management is more bullish on Guangzhou Asian Game City, and expect easing of HPR in Guangzhou could benefit that project
- In order to reduce construction cost, Company will look for ways to lower the construction capex. Reducing greenery is one of the things they will do.
- **Gross margin:** Hainan fetched gross margin of >50% still, and ~20% net margin for 2014's delivery. Projects outside Hainan fetched about 29-30% margin in 2014.

Strategy

- **Landbanking:** Will have Rmb5.5 bn land capex, of which Rmb0.95 bn is for existing land premium and Rmb4.5 bn is for new land acquisition. Overall landbanking strategy will be very cautious in 2015.
- **Human resources:** Agile looks to reduce labour cost by reducing headcount. That said, longer-term Chairman still wants to hire or promote a President/CEO to help him in the managerial work.

Financial

- Management expects construction capex to come down from Rmb22 bn in 2014 to Rmb17 bn in 2015, which we think is a bit too aggressive given that there is only an 8% decline in GFA under development. We think Rmb20 bn is more realistic.

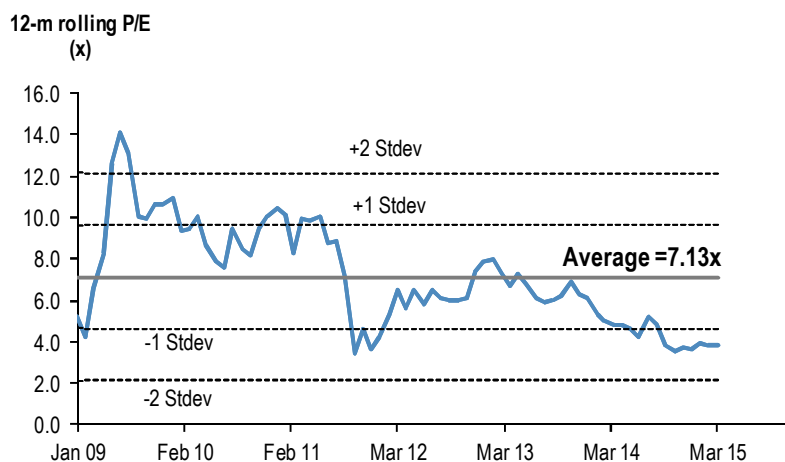
Table 2: Agile – Key cash flow items for 2014 and 2015E

	FY14	FY15E
Land costs	9,000	5,500
Construction costs	22,000	20,000
Tax payment	4,835	6,654
Interest	4,009	4,171
Others - div and others	4,741	3,505
Cash outflow	44,584	39,830
Contracted sales	44,160	44,507
Contracted sales cash receipt	39,594	42,043
Other income / cost	20	18
Cash inflow	39,614	42,061
Surplus/(shortfall)	(4,971)	2,231
Other cash flow	(1,955)	(1,098)
Free cash flow	(6,925)	1,133
Net gearing	105.1%	94.4%
Net debt	30,892	29,758

Source: Company data, J.P. Morgan estimates.

- Unrestricted cash balance is low at Rmb 6.1 bn, but management does not think it is a big problem. Instead they think they have shown the determination to decrease debt via paying down Rmb16.4 bn debt in 2014.
- Cash recovery was Rmb38 bn in 2014 (out of which Rmb10 bn is from mortgages). Company expects to receive Rmb46 bn in 2015E, out of Rmb45 bn sales target. Out of that Rmb16 bn is receivable from 2014's sales, and Rmb30 bn from 2015 sales.
- Agile has made about Rmb100 mn impairment loss to a project in Foshan, which is completed.

Figure 1: Agile – 12 months forward rolling P/E



Source: Bloomberg, Company data, J.P. Morgan estimates.

Table 3: Agile – detailed net asset value estimate

Methodology	Attributable unsold as of end-2015 GFA / rooms Sqm / units	Dec-2015 NAV				
		EV psm Rmb	Gross EV Rmb mn	EV per share Rmb	% of EV	
Development Properties						
Guangzhou	Discounted cash flow	3,234,930	775	2,507	0.66	5%
Zhongshan	Discounted cash flow	1,701,257	2,094	3,562	0.93	7%
YRD	Discounted cash flow	4,390,716	2,994	13,147	3.44	27%
West	Discounted cash flow	6,175,118	841	5,192	1.36	10%
Lingshui	Discounted cash flow	6,406,078	775	4,967	1.30	10%
Yunnan	Discounted cash flow	5,457,228	615	3,357	0.88	7%
Foshan	Discounted cash flow	383,962	4,338	1,666	0.44	3%
Huizhou	Discounted cash flow	3,066,461	778	2,385	0.62	5%
Others	Discounted cash flow			968	0.25	2%
Less: Outstanding land cost	As of end-2014E			0	0.00	
	Effective landbank	24,348,938	1,550	37,750	9.89	76%
		21,042,683	1,794			
Investment Properties						
Guangzhou	Cap rate	88,466	19,765	1,749	0.46	4%
Shanghai	Cap rate	57,000	22,655	1,291	0.34	3%
Hainan	Cap rate	140,000	8,140	1,140	0.30	2%
		285,466	14,641	4,179	1.09	8%
Hotel						
China hotel	Cap rate	4,049	1.71	6,916	1.81	14%
				6,916	1.81	14%
Other businesses						
Property management and others	10X Forward P/E			660	0.17	1%
				660	0.17	1%
Total enterprise value (EV)			49,505	12.97	100%	
Less: net (debts) / cash			(30,534)	(8.00)		
Net asset value			18,971	4.97		
Number of shares outstanding (mn)			3,817			
Net asset value per share (Rmb per share)			4.97			
Net asset value per share (HK\$ per share)			6.32			
Share price as of 25-Mar-15			4.51			
Prem / (disc) to NAV			-29%			

Source: Bloomberg, J.P. Morgan estimates.

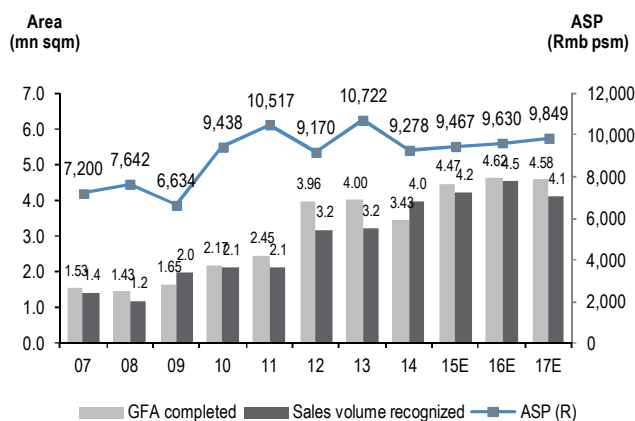
2014 annual result review

Agile reported core net profit Rmb3.13 bn, down 19% Y/Y, and core EPS was Rmb0.896. Overall speaking, Agile's 2014's result was below expectation. While delivery and development margin was inline, the LAT payment was much higher than expected. Post-LAT margin was squeezed from 32.5% to 29.0%, and should deteriorate further in our view. The overall development cost is lower than last year due to cost cutting exercise. Net margin post perpetual distribution was 9.5% in 2014. There was an exceptional gain of Rmb800 mn from primary land development, which was not a sustainable business of Agile hence we classified that as exceptional gain.

Final DPS was HK\$0.25, making the full year DPS to be at HK\$0.395 per share, implying 8.7% full year dividend yield (as of mid-day). This is in line with expectations as the largest shareholders participated in a rights issuance late-2014.

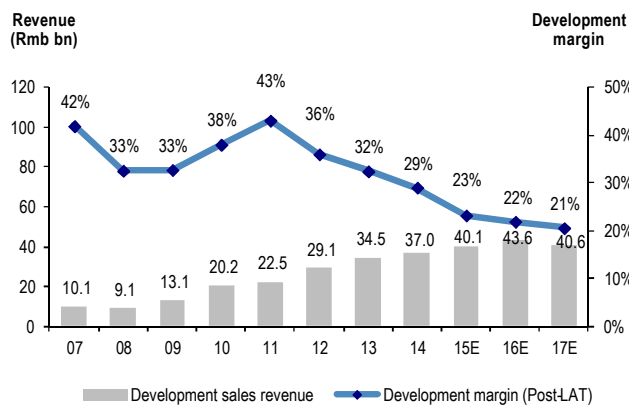
In terms of balance sheet, despite the inventory clearing initiative, Agile's completed unsold inventory has increased further to ~4 mn sqm by our estimates, or up another 19% in 2H2014, indicating that the situation has not been alleviated. The cash recovery rate was healthy, at close to 90%, the highest level since 2009, but is still low considering the low recovery in 2012 and 2013, meaning plenty of buyers have cancelled transactions, in our view. Cash level has further come down to only Rmb11.4 bn, with net gearing staying high at 105% (if perp is debt). Net cash outflow was Rmb2.9 bn in 2H2014.

Figure 2: Agile historical ASP and GFA recognized



Source: Company data, J.P. Morgan estimates.

Figure 3: Agile historical development sales revenue and development margin (after LAT)



Source: Company data, J.P. Morgan estimates.

Table 4: Agile – 2014 annual result summary

	2H2013	1H2014	2H2014	% H/H	% Y/Y	2014	JPM 2014E	% Y/Y	vs JPM
Property development and decoration	19,687.6	16,654.8	20,381.8	22%	4%	37,036.6	36,806.2	7%	1%
Property management	292.1	326.0	357.1	10%	22%	683.1	632.8	25%	8%
Rental income	34.2	39.1	31.4	-20%	-8%	70.5	181.2	30%	-61%
Hotel operation	207.0	261.4	266.0	2%	29%	527.4	323.8	43%	63%
Gross Revenue	20,220.9	17,281.3	21,036.3	22%	4%	38,317.6	37,944.0	8%	1%
Selling and marketing expenses	(937.8)	(951.2)	(832.9)	-12%	-11%	(1,784.2)	(1,675.1)	17%	7%
Admin expenses	(615.7)	(793.0)	(644.4)	-19%	5%	(1,437.4)	(1,606.2)	12%	-11%
Total SG&A	(1,553.4)	(1,744.2)	(1,477.4)	-15%	-5%	(3,221.6)	(3,281.3)	15%	-2%
Property development and decoration	5,482.8	4,370.5	4,846.9	11%	-12%	9,217.3	9,015.2	-6%	2%
Property management	60.6	(1.3)	67.3	-5096%	11%	66.0	53.5	43%	23%
Rental income	14.6	7.8	12.2	56%	-17%	20.0	18.1	18%	10%
Hotel operation	(21.9)	(157.4)	(99.1)	-37%	353%	(256.5)	(197.5)	137%	30%
EBIT	5,536.2	4,219.6	4,827.3	14%	-13%	9,046.9	8,889.4	-8%	2%
Interest expenses	(34.8)	(169.0)	(40.5)	-76%	16%	(209.5)	(240.5)	200%	-13%
Operating profit	5,501.4	4,050.6	4,786.8	18%	-13%	8,837.4	8,648.8	-9%	2%
Share of associates / JCEs (mainly AGC)	(14.0)	(39.0)	(33.6)	-14%	140%	(72.6)	(10.0)	39%	626%
Profit before tax	5,487.4	4,011.5	4,753.2	18%	-13%	8,764.8	8,638.8	-9%	1%
LAT	(1,062.6)	(872.1)	(963.6)	10%	-9%	(1,835.7)	(1,823.1)	-4%	1%
Income tax	(1,500.1)	(1,258.1)	(1,741.0)	38%	16%	(2,999.1)	(2,495.0)	3%	20%
Minority Interests	(399.4)	(234.7)	(214.4)	-9%	-46%	(449.1)	(302.1)	-35%	49%
Distribution to Perpetual Securities	(183.2)	(177.1)	(177.7)	0%	-3%	(354.8)	(358.1)	4%	-1%
Core net profit	2,342.0	1,469.5	1,656.6	13%	-29%	3,126.1	3,660.6	-19%	-15%
Exceptional items	384.1	412.9	0.0	-100%	-100%	691.5	412.9	-22%	NM
Reported net profit	2,723.0	2,042.6	1,966.0	-4%	-28%	4,287.2	4,233.7	-12%	1%
Total DPS (HK\$)	0.330	0.145	0.250	72%	-24%	0.395	0.445	-17%	-11%
Reported EPS (Rmb)	0.790	0.585	0.563	-4%	-29%	1.228	1.213	-13%	1%
Core EPS (Rmb)	0.679	0.421	0.475	13%	-30%	0.896	1.049	-20%	-15%
Fully diluted EPS (Rmb)	0.766	0.385	0.766	99%	0%	1.151	1.137	-13%	1%
Net gearing	70.8%	80.0%	81.0%	1.0%	10.2%	81.0%	79.8%	10%	1.2%
Margins									
Gross development margin (pre LAT)	37.1%	33.3%	34.6%	1.3%	-2.5%	34.0%	33.7%	-4.0%	0.3%
Gross development margin (post LAT)	31.7%	28.1%	29.8%	1.8%	-1.9%	29.0%	28.8%	-3.4%	0.3%
EBIT margin	27.4%	24.4%	22.9%	-1.5%	-4.4%	23.6%	22.3%	-4.1%	1.3%
Operating margin	27.2%	23.4%	22.8%	-0.7%	-4.5%	23.1%	22.1%	-4.4%	1.0%
Net margin (before MI)	13.6%	10.1%	9.1%	-1.0%	-4.6%	9.5%	9.8%	-3.4%	-0.2%
SG&A % sales	-7.7%	-10.1%	-7.0%	3.1%	0.7%	-8.4%	-8.6%	-0.5%	0.2%
Effective tax rate	-27.3%	-31.1%	-36.4%	-5.3%	-9.1%	-20.8%	-21.8%	-1.2%	1.0%
LAT % sales	-5.4%	-5.2%	-4.7%	0.5%	0.7%	-8.1%	-6.8%	0.3%	-1.3%
Development properties									
GFA recognized (sqm) - Subsidiary	1,764,535	1,750,000	2,241,877	28%	27%	3,991,877	3,511,349	24%	14%
Gross revenue psm (Rmb) - Subsidiary	11,157	9,517	9,091	-4%	-19%	9,278	10,482	-13%	-11%
Contracted sales (Rmb mn)	24,200	21,670	22,490	4%	-7%	44,160	44,160	9%	0%
Contracted sales (sqm)	2,117,000	2,205,000	2,383,000	8%	13%	4,588,000	4,588,000	32%	0%
ASP (Rmb psm)	11,431	9,828	9,438	-4%	-17%	9,625	9,625	-17%	0%

Source: Company data, J.P. Morgan estimates

NAV and earnings revision

After updating for the latest sales, ASP, and delivery schedule, we have revised our 2015E/2016E/2017E core EPS by -7%/-4%/+6% respectively. We have also revised our Dec-2015 NAV down by 34% to HK\$6.32 per share.

Table 5: Agile - earnings and NAV change

	FY15E	FY16E	FY17E
Gross revenue (Rmb mn)			
Old	41,356	45,097	42,322
New	41,790	45,455	43,908
% change	1%	1%	4%
Core net profit (Rmb mn)			
Old	3,668	3,499	2,928
New	3,423	3,367	3,098
% change	-7%	-4%	6%
Core EPS (Rmb)			
Old	0.961	0.917	0.767
New	0.897	0.882	0.812
% change	-7%	-4%	6%
NAV (HK\$ per share) Dec-15			
Old	9.59		
New	6.32		
% change	-34%		

Source: J.P. Morgan estimates.

Table 6: Agile – detailed earnings model, December 31 fiscal year-end, 2007–17E (Rmb mn)

	2007	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E
Gross Revenue breakdown											
Property development and decoration	10,144.8	9,094.0	13,058.5	20,196.8	22,466.0	29,145.8	34,466.9	37,036.6	40,483.1	43,956.7	42,200.4
Property management	165.3	203.3	232.5	257.3	338.7	418.2	547.1	683.1	783.6	949.2	1,130.8
Rental income	-	-	-	16.5	18.2	25.6	54.2	70.5	183.9	193.1	202.8
Hotel operation	2.2	28.9	39.8	49.6	121.7	302.1	368.2	527.4	339.1	356.1	373.9
Gross Revenue	10,312.3	9,326.3	13,330.8	20,520.2	22,944.6	29,891.8	35,436.4	38,317.6	41,789.8	45,455.1	43,907.8
Business tax and levies	(507.5)	(454.4)	(653.1)	(1,033.2)	(1,254.7)	(1,637.7)	(1,949.0)	-	(2,298.4)	(2,500.0)	(2,414.9)
Cost of sales	(5,105.3)	(5,890.0)	(8,376.7)	(11,131.3)	(10,590.4)	(17,456.2)	(22,821.7)	(25,886.8)	(30,675.6)	(33,968.9)	(33,790.4)
Gross profit	5,207.0	3,436.3	4,954.1	9,388.9	12,354.2	12,435.5	12,614.7	12,430.8	11,114.2	11,486.2	10,117.3
Selling and marketing expenses	(326.9)	(462.5)	(537.2)	(694.6)	(835.0)	(974.5)	(1,522.8)	(1,784.2)	(1,605.7)	(1,605.7)	(1,364.9)
Admin expenses	(381.7)	(619.1)	(611.8)	(718.3)	(876.6)	(1,124.6)	(1,284.6)	(1,437.4)	(543.6)	(408.8)	(205.8)
EBIT breakdown											
Property development and decoration	4,593.6	2,351.7	3,583.8	7,516.7	10,721.1	10,438.0	9,851.8	9,217.3	8,511.8	8,970.9	7,887.2
Property management	1.0	(16.8)	16.0	19.3	(24.5)	(14.4)	46.3	66.0	66.3	80.3	95.6
Rental income	-	-	-	3.3	3.6	10.8	17.0	20.0	18.4	19.3	20.3
Hotel operation	(6.3)	(7.4)	(14.8)	27.4	(115.6)	(144.8)	(108.3)	(256.5)	(225.1)	(314.3)	(304.8)
EBIT	4,588.2	2,327.5	3,585.0	7,566.7	10,584.6	10,289.6	9,806.7	9,046.9	8,371.3	8,756.2	7,698.3
Interest expenses	(265.9)	(147.1)	(63.3)	(91.2)	-	(78.8)	(69.8)	(209.5)	(99.3)	(109.4)	(128.1)
Gross interest expenses	(531.0)	(716.0)	(652.2)	(1,295.0)	(1,781.0)	(2,527.8)	(2,681.4)	(3,653.8)	(3,812.6)	(4,200.5)	(4,919.9)
Less: interest capitalized	265.1	568.9	588.9	1,203.7	1,781.0	2,449.0	2,611.6	3,444.3	3,713.3	4,091.1	4,791.7
Operating profit	4,322.3	2,180.4	3,521.7	7,475.4	10,584.6	10,210.9	9,736.9	8,837.4	8,272.0	8,646.8	7,570.1
Share of associates / JCEs (mainly AGC)	-	-	-	-	120.9	(89.0)	(52.4)	(72.6)	35.4	74.9	146.9
Profit before tax	4,322.3	2,180.4	3,521.7	7,475.4	10,705.5	10,121.9	9,684.5	8,764.8	8,307.4	8,721.7	7,717.1
LAT	(999.0)	(530.8)	(743.8)	(1,864.0)	(3,032.3)	(2,324.3)	(1,907.7)	(1,835.7)	(1,956.3)	(2,187.2)	(1,521.5)
Income tax	(1,344.7)	(641.1)	(917.3)	(1,952.0)	(3,333.4)	(3,015.6)	(2,899.0)	(2,999.1)	(2,398.9)	(2,507.6)	(2,195.3)
Minority Interests	(8.0)	9.5	(136.8)	(442.9)	(1,128.4)	(146.2)	(693.0)	(449.1)	(171.2)	(301.7)	(544.2)
Distribution to Perpetual Securities	-	-	-	-	-	-	(342.5)	(354.8)	(358.1)	(358.1)	(358.1)
Core net profit	1,970.7	1,017.9	1,723.8	3,216.6	3,211.4	4,635.8	3,842.4	3,126.1	3,422.9	3,367.2	3,098.0
Revaluation gain / (loss) - after tax	-	-	-	2,398.7	72.3	133.4	130.7	469.6	150.0	150.0	150.0
Underlying net profit	1,970.7	1,017.9	1,723.8	5,615.3	3,283.7	4,769.2	3,973.1	3,595.7	3,572.9	3,517.2	3,248.0
Exceptional items	132.2	4,449.0	141.4	360.5	821.5	231.3	883.8	691.5	-	-	-
Reported net profit	2,102.8	5,466.9	1,865.2	5,975.7	4,105.3	5,000.5	4,856.9	4,287.2	3,572.9	3,517.2	3,248.0
Fully diluted EPS (Rmb)	0.56	1.46	0.52	1.71	1.14	1.36	1.32	1.15	0.88	0.87	0.80
Core EPS (Rmb)	0.53	0.27	0.48	0.92	0.93	1.34	1.11	0.90	0.90	0.88	0.81
Total DPS (HK\$)	0.21	0.34	0.18	0.29	0.34	0.38	0.48	0.40	0.40	0.40	0.40
Payout ratio	36%	107%	32%	26%	30%	23%	34%	34%	35%	36%	39%
Exceptional items											
Exchange gains/loss	(70.5)	64.8	(2.2)	-	-	-	-	-	-	-	-
Exchange gains on senior notes	202.7	239.6	5.6	360.5	644.6	31.5	588.1	(83.1)	-	-	-
Fair value change of financial assets	-	-	-	-	176.9	199.8	295.7	-	-	-	-
Disposal gain / (loss)	-	4,144.6	138.0	-	-	-	-	774.6	-	-	-
Total	132.2	4,449.0	141.4	360.5	821.5	231.3	883.8	691.5	-	-	-
Margin											
Gross margin	50.5%	36.8%	37.2%	45.8%	53.8%	41.6%	35.6%	32.4%	26.6%	25.3%	23.0%
Pre-LAT development margin	51.8%	38.4%	38.4%	47.3%	56.6%	44.0%	38.0%	34.0%	27.2%	25.7%	23.0%
Post-LAT development margin	41.9%	32.6%	32.8%	38.0%	43.1%	36.1%	32.5%	29.0%	22.4%	20.8%	19.4%
EBIT margin	44.5%	25.0%	26.9%	36.9%	46.1%	34.4%	27.7%	23.6%	20.0%	19.3%	17.5%
Operating margin	41.9%	23.4%	26.4%	36.4%	46.1%	34.2%	27.5%	23.1%	19.8%	19.0%	17.2%
Net Margin (before MI)	19.2%	10.8%	14.0%	17.8%	18.4%	16.3%	12.9%	9.5%	8.5%	7.9%	8.0%
YoY growth (%)											
Gross Revenue	54.5%	-9.6%	42.9%	53.9%	11.8%	30.3%	18.5%	8.1%	9.1%	8.8%	-3.4%
EBIT	80.0%	-49.3%	54.0%	111.1%	39.9%	-2.8%	-4.7%	-7.7%	-7.5%	4.6%	-12.1%
Core net profit	54.5%	-48.3%	69.3%	86.6%	-0.2%	44.4%	-17.1%	-18.6%	9.5%	-1.6%	-8.0%
Reported net profit	69.2%	160.0%	-65.9%	220.4%	-31.3%	21.8%	-2.9%	-11.7%	-16.7%	-1.6%	-7.7%
Development properties											
GFA recognized (sqm) - Subsidiary	1,409,093	1,190,000	1,968,552	2,140,000	2,136,132	3,178,383	3,214,594	3,991,877	4,281,775	4,564,390	4,378,466
Y/Y%	32%	-16%	65%	9%	0%	49%	1%	24%	7%	7%	-4%
Gross revenue psm (Rmb) - Subsidiary	7,200	7,642	6,634	9,438	10,517	9,170	10,722	9,278	9,455	9,630	9,638
Y/Y%	18%	6%	-13%	42%	11%	-13%	17%	-13%	2%	2%	0%
Contracted sales (Rmb mn)	10,000	10,450	20,100	32,300	31,500	33,068	40,340	44,160	44,507	44,192	38,336
Y/Y%	NA	4%	92%	61%	-2%	5%	22%	9%	1%	-1%	-13%
Contracted sales (sqm)	1,440,000	1,490,000	2,330,000	2,830,000	3,110,000	3,239,737	3,480,000	4,588,000	4,819,956	4,755,461	4,119,625
Y/Y%	NA	3%	56%	21%	10%	4%	7%	32%	5%	-1%	-13%
Average Selling Price (Rmb psm)	6,944	7,013	8,627	11,413	10,129	10,207	11,592	9,625	9,234	9,293	9,306
Y/Y%	NA	1%	23%	32%	-11%	1%	14%	-17%	-4%	1%	0%

Source: Company data, J.P. Morgan estimates.

Table 7: Agile – detailed balance sheet model, December 31 fiscal year-end, 2007 –17E (Rmb mn)

	2007	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E
Current assets											
Properties under development + Land use rights	8,246.2	14,050.2	12,612.3	25,626.1	32,291.9	33,775.2	33,480.8	50,518.1	60,211.1	72,061.0	84,087.7
Completed properties held for sale	1,740.1	2,203.4	2,484.0	3,376.1	3,637.6	7,936.0	13,083.8	16,138.2	11,511.0	12,792.1	18,228.3
Prepayments for acquisitions of land use rights	8,168.8	4,558.8	8,584.9	10,140.8	7,993.7	2,949.4	9,910.7	3,700.8	3,700.8	3,700.8	3,700.8
Trade receivables	1,056.9	1,478.5	1,290.7	2,911.7	4,814.5	6,596.4	12,425.0	11,674.9	11,674.9	11,674.9	11,674.9
Income tax recoverable	-	47.9	120.2	104.4	70.7	57.1	51.4	721.3	721.3	721.3	721.3
Restricted cash	1,362.9	2,208.2	1,755.5	4,199.0	2,644.1	3,880.1	6,249.7	5,362.1	5,362.1	5,362.1	5,362.1
Cash & cash equivalents	2,582.5	3,044.3	4,372.2	6,481.7	4,683.7	5,748.6	6,783.6	6,067.8	12,566.0	4,057.1	(2,618.7)
Total current assets	23,157.4	27,591.3	31,219.8	52,839.7	56,136.2	60,942.8	81,985.0	94,183.2	105,747.1	110,369.2	121,156.4
Non-current assets											
Property, plant & equipment	127.8	260.8	1,868.7	2,253.2	3,573.8	5,222.7	6,476.4	7,696.0	8,560.8	9,303.6	9,913.5
Land use rights	5,384.4	6,967.2	2,191.4	2,283.3	2,455.0	2,810.2	2,554.2	2,288.3	1,830.7	1,464.5	1,171.6
Intangible assets	3.2	103.5	9.5	12.0	19.2	61.3	57.4	60.9	60.9	60.9	60.9
Investment properties	-	-	-	4,997.9	5,248.0	5,589.6	5,793.8	5,846.3	5,996.3	6,146.3	6,296.3
Properties under development	-	-	6,673.6	5,675.0	13,865.0	14,790.7	16,146.2	9,663.0	9,663.0	9,663.0	9,663.0
Deferred income tax assets	33.1	54.9	48.4	70.3	173.3	268.6	316.2	501.8	501.8	501.8	501.8
Interest in JCE / Associates	-	-	-	-	204.8	1,060.9	1,088.5	1,251.4	1,251.4	1,251.4	1,251.4
Other non-current assets	-	-	2,166.8	1,746.8	102.9	102.9	117.5	2,157.2	2,157.2	2,157.2	2,157.2
Total non-current assets	5,548.5	7,386.5	12,958.4	17,038.6	25,642.0	29,906.8	32,550.2	29,465.0	30,022.0	30,548.7	31,015.7
Total assets	28,705.9	34,977.8	44,178.2	69,878.3	81,778.2	90,849.5	114,535.2	123,648.2	135,769.1	140,917.9	152,172.1
Current liabilities											
Bank borrowings	1,375.1	3,509.5	2,228.8	5,262.3	7,659.7	6,192.6	12,353.7	16,470.7	12,354.0	12,354.0	12,354.0
Trade & other payables	7,988.2	6,248.2	6,765.6	9,646.3	11,650.1	13,970.6	19,524.5	17,333.4	19,066.7	20,973.4	23,070.7
Advances from customers	440.2	1,069.5	5,770.6	12,333.7	13,511.9	9,682.3	6,428.3	9,215.6	10,775.1	8,863.6	4,253.6
Current income tax liabilities	2,388.0	2,773.4	3,479.7	4,757.6	8,418.2	9,856.0	10,509.4	12,366.3	12,984.7	13,633.9	14,315.6
Total current liabilities	12,191.6	13,600.7	18,244.7	31,999.8	41,239.9	39,701.5	48,815.8	55,386.0	55,180.4	55,824.9	53,993.9
Non-current liabilities											
Bank borrowings	3,647.3	3,886.1	5,414.4	9,375.8	6,331.5	8,273.3	14,737.2	15,942.0	19,734.6	21,627.2	32,127.2
Senior notes	3,000.0	2,673.0	4,437.0	6,120.0	5,839.0	10,179.0	9,909.0	9,909.0	13,110.1	13,110.1	13,110.1
Convertible bond and embedded securities	-	-	-	-	3,061.5	3,030.8	2,856.7	-	2,856.7	2,856.7	2,856.7
Deferred income tax liabilities	833.3	1,023.4	1,008.9	2,047.6	1,549.6	1,753.1	1,649.3	1,315.9	1,315.9	1,315.9	1,315.9
Total non-current liabilities	7,480.6	7,582.5	10,860.3	17,543.4	16,781.5	23,236.2	29,152.1	27,166.9	37,017.2	38,909.9	49,409.9
Equity attrib to equity holders of the parent											
Share capital & premium	5,102.2	4,937.1	4,597.1	3,795.0	3,658.5	3,658.5	3,642.7	5,098.0	5,098.0	5,098.0	5,098.0
Subordinated Perpetual Capital Securities	-	-	-	-	-	-	4,486.0	4,483.4	4,340.0	4,340.0	4,340.0
Other reserves	684.1	684.1	699.7	783.3	947.0	1,190.1	1,298.1	2,297.2	2,297.2	2,297.2	2,297.2
Retained profit	2,714.6	5,894.2	8,385.5	13,426.8	16,411.7	20,099.6	23,525.6	25,356.1	27,721.9	30,031.9	32,072.7
Proposed dividend	514.1	1,400.7	379.4	675.9	657.3	665.2	899.8	899.8	982.3	982.3	982.3
Shareholders' equity	9,014.9	12,916.0	14,061.7	18,681.1	21,674.5	25,613.5	33,852.2	38,134.4	40,439.4	42,749.4	44,790.3
Minority interest	18.8	878.7	1,011.5	1,654.1	2,082.3	2,298.3	2,715.1	2,960.9	3,132.1	3,433.8	3,978.0
Total equity	9,033.7	13,794.6	15,073.2	20,335.2	23,756.8	27,911.8	36,567.3	41,095.3	43,571.5	46,183.2	48,768.3
Total liabilities and shareholders equity	28,705.9	34,977.8	44,178.2	69,878.3	81,778.2	90,849.5	114,535.2	123,648.2	135,769.1	140,917.9	152,172.1
Net debt to equity	45.2%	37.3%	42.3%	53.9%	57.7%	58.6%	70.8%	81.0%	73.6%	99.8%	133.6%
Net debt to equity (if perps is debt)	45.2%	37.3%	42.3%	53.9%	57.7%	58.6%	96.9%	105.1%	94.5%	122.4%	158.7%
Total debt / total assets	27.9%	28.8%	27.3%	29.7%	24.2%	27.1%	32.3%	34.2%	33.3%	33.4%	37.8%
Book value per share (Rmb)	2.41	3.46	3.93	5.38	6.25	7.43	9.82	9.99	10.59	11.20	11.73

Source: Company data, J.P. Morgan estimates.

Investment Thesis, Valuation and Risks

Agile Property Holdings Ltd (*Underweight; Price Target: HK\$4.30*)

Investment Thesis

Agile is seeing deterioration in its balance sheet and landbank, which could lead to slower sell-through rate and more inventory. Agile's management has acknowledged the problem and is selling assets off quickly with price-cuts, but this is resulting in margin squeeze, which we think will remain an overhang until the reported numbers stabilize.

Valuation

We maintain our Underweight rating on Agile. Our Dec-2015 Price Target is HK\$4.30, based on 4.0x 2015E P/E. The P/E we use for Agile is among the lowest of mid-cap developers due to the higher gearing, lower ROE and a declining margin trend. We may turn positive on the stock if there are more evidence on achieving positive free cash flow in 2015, or signs of sustainable improvement in asset turnover.

Risks to Rating and Price Target

Potential upside risks to our PT are (1) better-than-expected sell-through rate for Agile's project; (2) government putting out supportive policies in Zhongshan or Hainan; (3) aggressive stake increases by the Chen family.

Agile Property Holdings Ltd: Summary of Financials

Income Statement					Cash flow statement				
Rmb in millions, year end Dec	FY14	FY15E	FY16E	FY17E	Rmb in millions, year end Dec	FY14	FY15E	FY16E	FY17E
Revenues	38,318	41,790	45,455	43,908	EBIT	9,047	8,371	8,756	7,698
% change Y/Y	8.1%	9.1%	8.8%	(3.4%)	Depr. & amortization	0	594	715	848
EBIT	9,047	8,371	8,756	7,698	Change in working capital	(325)	9,016	(2,029)	(8,209)
% change Y/Y	(7.7%)	(7.5%)	4.6%	(12.1%)	Others	(2,040)	0	0	0
EBIT Margin	23.6%	20.0%	19.3%	17.5%	Cash flow from operations	(1,807)	9,813	(1,453)	(8,299)
Net Interest	(209)	(99)	(109)	(128)	Capex	(1,458)	(1,458)	(1,458)	(1,458)
Earnings before tax	8,765	8,307	8,722	7,717	Disposal/(purchase)	417	0	0	0
% change Y/Y	(9.5%)	(5.2%)	5.0%	(11.5%)	Net Interest	(3,654)	(3,813)	(4,201)	(4,920)
Tax	(4,835)	(4,355)	(4,695)	(3,717)	Free cash flow	(2,754)	8,402	(2,861)	(9,691)
as % of EBT	55.2%	52.4%	53.8%	48.2%	Equity raised/(repaid)	2,452	(143)	0	0
Net income (reported)	4,287	3,573	3,517	3,248	Debt raised/(repaid)	2,465	5,734	1,893	10,500
% change Y/Y	(11.7%)	(16.7%)	(1.6%)	(7.7%)	Other	4,287	0	0	0
Core net profit	3,126	3,423	3,367	3,098	Dividends paid	(1,652)	(1,483)	(1,565)	(1,565)
% change Y/Y	(18.6%)	9.5%	(1.6%)	(8.0%)	Beginning cash	6,784	11,665	24,163	21,655
Shares outstanding	3,817	3,817	3,817	3,817	Ending cash	11,665	24,163	21,655	20,979
EPS (reported) (Rmb)	1.23	0.94	0.92	0.85	DPS (Rmb)	0.40	0.40	0.40	0.40
% change Y/Y	(12.8%)	(23.8%)	(1.6%)	(7.7%)					
Core EPS (Rmb)	0.896	0.897	0.882	0.812					
% change Y/Y	(19.6%)	0.1%	(1.6%)	(8.0%)					
Balance sheet					Ratio Analysis				
Rmb in millions, year end Dec	FY14	FY15E	FY16E	FY17E	% , year end Dec	FY14	FY15E	FY16E	FY17E
Cash and cash equivalents	11,430	17,928	9,419	2,743	EBIT margin	23.6%	20.0%	19.3%	17.5%
Accounts receivable	12,396	12,396	12,396	12,396	Net margin	11.2%	8.5%	7.7%	7.4%
Inventories	66,656	71,722	84,853	102,316	SG&A/Sales	8.4%	5.1%	4.4%	3.6%
Others	3,701	3,701	3,701	3,701					
Current assets	94,183	105,747	110,369	121,156	Sales per share growth	6.8%	(0.3%)	8.8%	(3.4%)
LT investments	-	-	-	-	Sales growth	8.1%	9.1%	8.8%	(3.4%)
Net fixed assets	20,210	20,617	20,994	21,311	Net profit growth	(11.7%)	(16.7%)	(1.6%)	(7.7%)
Total Assets	123,648	135,769	140,918	152,172	EPS growth	(12.8%)	(23.8%)	(1.6%)	(7.7%)
Liabilities					Interest coverage (x)	43.2	90.3	86.6	66.7
ST loans	16,471	12,354	12,354	12,354	Net debt to total capital	42.9%	40.9%	46.7%	54.2%
Payables	17,333	19,067	20,973	23,071	Net debt to equity	75.2%	69.1%	87.8%	118.3%
Others	21,582	23,760	22,497	18,569	Sales/assets	0.3	0.3	0.3	0.3
Total current liabilities	55,386	55,180	55,825	53,994	Assets/equity	3.3	3.3	3.3	3.3
Long-term debt	25,851	35,701	37,594	48,094	ROE	8.7%	8.7%	8.1%	7.1%
Other liabilities	1,316	1,316	1,316	1,316	ROCE	5.3%	4.7%	4.5%	4.0%
Total Liabilities	82,553	92,198	94,735	103,404					
Shareholder's equity	38,134	40,439	42,749	44,790					
BVPS	10.93	10.59	11.20	11.73					

Source: Company reports and J.P. Morgan estimates.

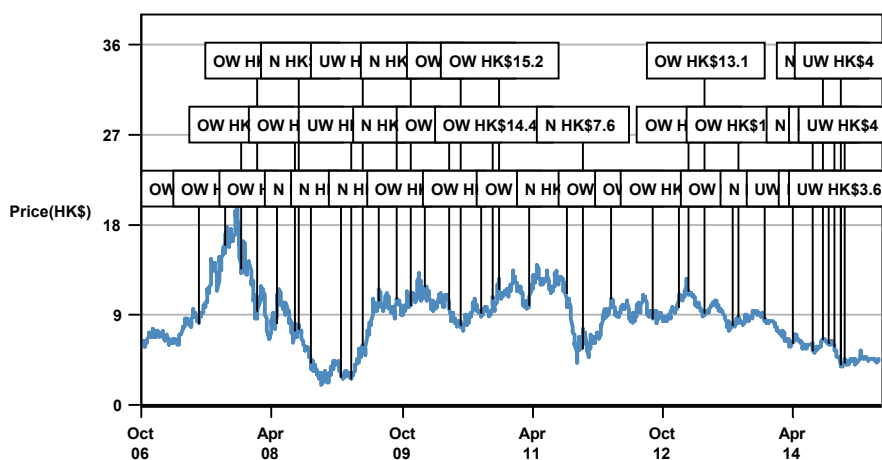
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Agile Property Holdings Ltd (3383.HK, 3383 HK) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage May 31, 2007.

Date	Rating	Share Price (HK\$)	Price Target (HK\$)
31-May-07	OW	8.17	11.50
17-Sep-07	OW	15.96	18.00
26-Nov-07	OW	13.66	19.00
01-Feb-08	OW	9.47	14.00
20-Apr-08	OW	8.19	10.70
07-Jul-08	OW	7.46	9.00
28-Jul-08	N	7.52	8.00
11-Sep-08	N	4.26	4.30
19-Jan-09	N	2.74	2.55
02-Mar-09	UW	2.65	2.30
15-Apr-09	UW	5.90	5.20
24-Jun-09	N	10.44	10.50
10-Sep-09	N	10.60	12.00
03-Nov-09	N	9.99	12.50
08-Jan-10	OW	11.82	14.50
16-Apr-10	OW	9.57	13.00
07-Jun-10	OW	7.98	9.50
23-Aug-10	OW	9.17	12.40
18-Oct-10	OW	10.70	14.40
11-Nov-10	OW	11.62	15.20
17-Mar-11	OW	10.08	14.00
19-Aug-11	N	11.10	13.30
25-Oct-11	N	5.69	7.60
23-Feb-12	OW	10.60	13.00
17-Aug-12	OW	8.63	12.50

30-Nov-12	OW	9.78	12.40
17-Jan-13	OW	11.36	14.00
26-Mar-13	OW	9.17	13.10
22-Jul-13	OW	7.91	11.00
16-Aug-13	OW	8.80	10.00
27-Nov-13	N	8.58	10.00
30-Mar-14	UW	6.28	6.00
22-Jun-14	N	5.38	5.90
31-Jul-14	N	6.51	7.50
27-Aug-14	N	6.19	7.35
22-Sep-14	N	5.81	6.40
13-Oct-14	UW	3.95	4.00
16-Oct-14	UW	4.16	3.60
30-Oct-14	UW	4.15	4.00

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