

Company Report

China Merchants Securities (HK) Co., Ltd.
Hong Kong Equity Research

Greentown China (3900 HK)

A high-beta play on easing home tightening measures

■ FY14 core net profit fell 49% YoY (1H14: -62% YoY) with no dividend; core net profit was 9% higher than our estimates but 38% below that of consensus

■ In FY15E, China Communications Construction Group (CCCC) should bring new development opportunities and financial support; and we like Greentown's high sensitivity to home sales rebound in major cities (accounting for 80% of its FY15E profits geographically)

Poor FY14 results, but likely bottom out in FY15E

The poor results were mainly due to the booking of projects with a lower profit margin. In FY14, gross margin declined to 25.4% compared with 30.3% in FY13. It decided not to pay dividend for FY14 (FY13: HKD0.54/share). Overall, we believe the market has mostly priced in Greentown's weak earnings. In FY15/16E, we fine-tuned our estimates by -6%/+3% based on higher sales volume and higher operating expenses.

Focus on CCCC changes on Greentown

CCCC is one of the central government enterprises which are permitted to principally engage in property development business. We are positive on Greentown's outlook after the recent management changes. CCCC would bring new project cooperation opportunities to Greentown and it would help to lower its funding cost, in our view. We also expect the recovery of home sales market in major cities to be very favourable to Greentown's mid- and high-end products this year. It is a high-beta property play benefitting from easing home tightening policies.

Bargain valuation at 58% discount to NAV

We reiterate our BUY call but revised down TP by 10% to HKD8.9, based on 45% discount (no change) on lowered NAV at HKD16.2/share (previous: HKD18.1/share). Short-term downside risk: earnings downgrade (Bloomberg: FY15/16E earnings: 42%/34% higher than our estimate).

Financials

RMB mn	2012	2013	2014	2015E	2016E
Revenue	35,393	28,991	32,048	29,397	27,451
Revenue growth (%)	61%	-18%	11%	-8%	-7%
Core net profit	4,194	4,208	2,147	2,977	3,137
Core profit growth (%)	94%	0%	-49%	39%	5%
Core EPS (HK\$)	2.80	2.46	1.25	1.74	1.83
Net gearing (%)	61%	71%	93%	77%	76%
P/E (core EPS)	2.4x	2.7x	5.4x	3.9x	3.7x
P/B	0.6x	0.5x	0.5x	0.4x	0.4x
Dividend yield	9.0%	8.0%	0.0%	5.1%	5.4%

Source: Company data, CMS (HK) estimates

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WHAT'S NEW

TP and earnings changed

BUY

Previous	BUY
Price	HK\$6.75
12-month Target Price (Potential upside)	HK\$8.9 (+32%)
Previous	HK\$9.9

Price Performance



Source: Capital IQ

%	1m	6m	12m
3900 HK	2.3	(4.4)	(13.2)
MSCI China Real Estate	1.5	11.8	7.3

Industry: Property

Hang Seng Index	24855
HSCEI	12307

Key Data

52-week range (HK\$)	6.25-10.0
Market cap (HK\$ mn)	14587
Avg. daily volume (mn)	8.03
BVPS (HK\$) at 2014 y.e.	13.7

Shareholdings Structure

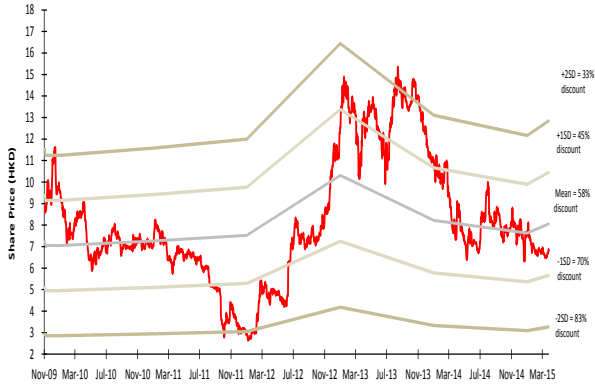
CCCC	24.3%
Wharf	24.3%
Management (Song, Shou and Luo)	23.1%
Free float	28.3%

Related Research

Greentown (3900 HK) – Ending the disputes with Sunac (BUY), 5 Jan 2015

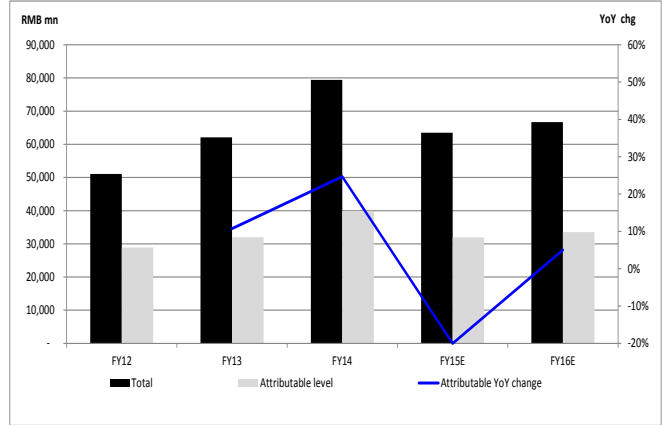
Focus charts

Figure 1: Discount to NAV Band



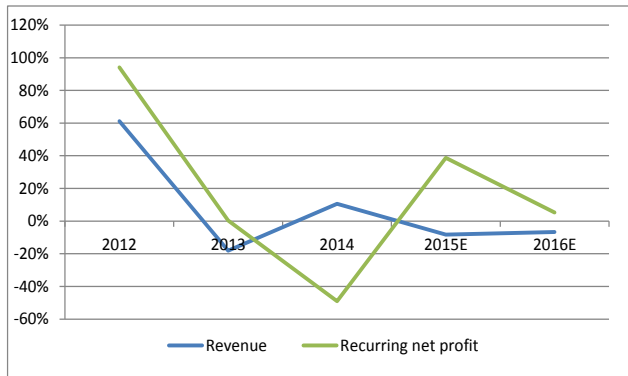
Source: Bloomberg, CMS (HK)

Figure 2: Contracted sales



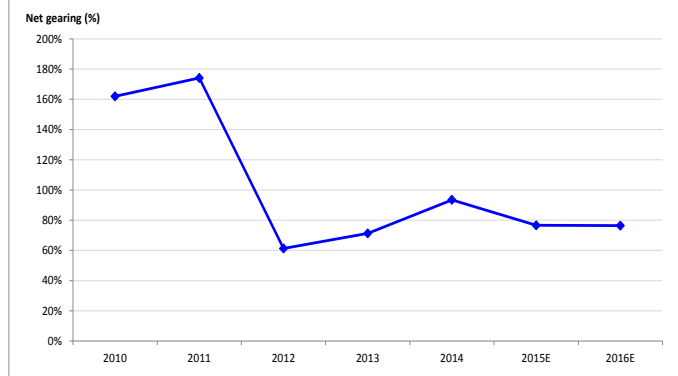
Source: Company data, CMS (HK)

Figure 3: Revenue and profit growth



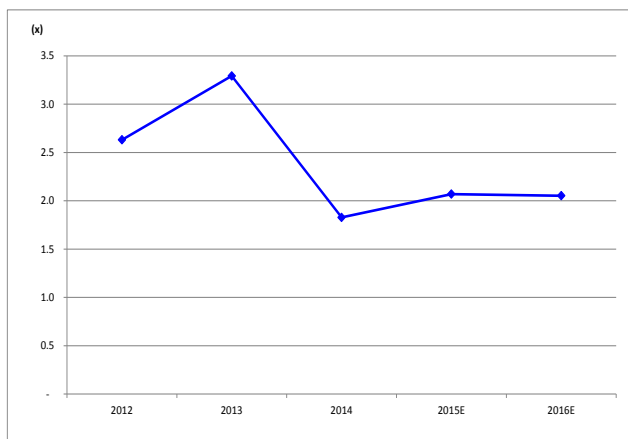
Source: Company data, CMS (HK)

Figure 4: Net gearing



Source: Company data, CMS (HK)

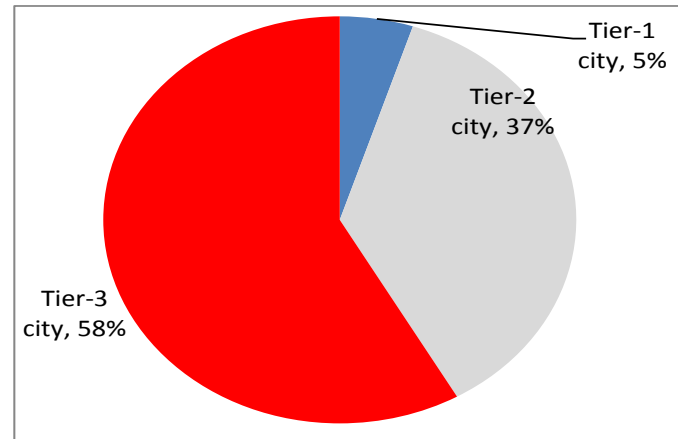
Figure 5: Interest coverage



Source: CMS (HK)

Note: Operating profit / total interest (including capitalized portion)

Figure 6: Landbank (GFA)



Source: Company data, CMS (HK)

FY14 Annual Results Financials

Figure 7: FY14 P&L highlights

(RMB mn)	Actual FY13	Actual FY14	YoY chg	Forecast FY14	Variance	Comments
Revenue	28,991	32,048	10.5%	29,705	8%	
Cost of goods sold	(20,215)	(23,916)	18.3%	(22,276)	7%	
Gross Profit	8,776	8,132	-7.3%	7,429	9%	The gross margin squeeze was due to price cut impact, which was in line with our expectation
Gross margin (%)	30.3%	25.4%		25.0%		
Selling expenses	(849)	(992)	16.8%	(992)	0%	
General and admin expenses	(1,491)	(1,835)	23.1%	(2,061)	-11%	
Finance cost	(507)	(680)	34.1%	(515)	32%	
JCEs & Asso.	1,570	408	-74.0%	394	4%	The profit decline from JCE/Asso was due to 1) the booking of different sales mix at lower profit margin in 2014 and 2) RMB217mn impairment loss
Others	1,648	895	-45.7%	1,148	-22%	
Net profit before tax and MI	9,147	5,928	-35.2%	5,403	10%	
Tax	(3,156)	(2,719)	-13.8%	(2,569)	6%	
Minority Interests	(1,105)	(1,138)	3.0%	(860)	32%	
Reported net profit	4,886	2,071	-57.6%	1,975	5%	
Recurring net profit	4,208	2,147	-49.0%	1,975	9%	
GFA delivered (k sqm)	1,654	1,937	17.1%	1,563	24%	
Booked ASP (RMB psm)	16,604	15,545	-6.4%	17,882	-13%	
Net debts	21,314	29,745	39.6%	28,910	3%	
Net gearing (%)	71.2%	93.4%		89.3%		
Presales deposits received	23,428	20,116	-14.1%	20,482	-2%	
Dividend (HKD/share)	0.54	-	-100.0%	0.23	-100%	Greentown proposed no dividend in 2014, which may relate to weaker balance sheet at 2014 y.e.

Source: Company, CMS (HK)

Figure 8: Key Financials

Key Financials in Profit and Loss					
(RMB mn)	FY12	FY13	FY14	FY15E	FY16E
GFA delivered, excluding JCEs/Asso. (k sqm) (1)	1,912	1,654	1,937	1,423	1,317
Average selling price booked (RMB psm) (2)	17,894	16,604	15,545	19,183	19,090
Property sales revenue (1) x (2)	34,214	27,460	30,111	27,298	25,142
Others	1,179	1,531	1,937	2,131	2,344
Total Revenue	35,393	28,991	32,048	29,429	27,486
Gross profit	10,714	8,776	8,132	8,030	8,016
Profits from JCEs / Asso.	513	1,570	408	1,969	2,541
GFA delivered, in JCEs/Asso. level (k sqm)	681	1,503	2,098	2,383	2,341
Reported net profit	4,851	4,886	2,071	2,977	3,137
Recurring net profit	4,194	4,208	2,147	2,977	3,137
Total contracted sales	51,050	62,100	79,400	63,520	66,696
Attributable contracted sales	28,900	32,000	39,900	31,920	33,516
Property development cost (RMB psm)	12,704	11,896	11,892	13,540	13,004
Recurring profit per GFA delivered (RMB psm)	1,925	1,595	898	709	452
YoY changes (In %)					
GFA delivered	84.2%	-13.5%	17.1%	-26.5%	-7.4%
Average selling price	-11.9%	-7.2%	-6.4%	23.4%	-0.5%
Revenue	61.1%	-18.1%	10.5%	-8.2%	-6.6%
Gross profit	44.6%	-18.1%	-7.3%	-1.3%	-0.2%
Profits from JCEs / Asso.	-38.4%	206.0%	-74.0%	382.6%	29.1%
GFA booking from JCEs / Asso.	-18.1%	120.7%	39.6%	13.6%	-1.8%
Reported net profit	88.4%	0.7%	-57.6%	43.8%	5.3%
Recurring net profit	94.1%	0.3%	-49.0%	38.7%	5.3%
Contracted sales	54.2%	21.6%	27.9%	-20.0%	5.0%
Margin ratios (In %)					
Gross margin	30.3%	30.3%	25.4%	27.3%	29.2%
Recurring net profit margin	11.8%	14.5%	6.7%	10.1%	11.4%

Source: CMS (HK)

FY15/16E earnings revisions

We revised up the revenue and gross profits forecast for factoring in a larger completion scale based on Greentown's property pre-sales and completion pipelines. Meanwhile, we also increased our estimates on selling, general and administrative expenses since Greentown would spend more on clearing inventories. Overall, we adjusted our FY15/16E earnings by -6%/+3%.

Figure 9: Changes in P&L forecasts

(RMB mn)	FY15E			FY16E		
	Original	New	chg (%)	Original	New	chg (%)
Revenue	27,124	29,397	8%	24,554	27,451	12%
Cost of goods sold	(19,718)	(21,367)	8%	(18,168)	(19,434)	7%
Gross Profit	7,407	8,030	8%	6,386	8,016	26%
Selling expense	(1,022)	(1,143)	12%	(1,074)	(1,201)	12%
General & admin expense	(1,704)	(1,906)	12%	(1,789)	(2,001)	12%
Interest Expense	(491)	(731)	49%	(491)	(780)	59%
Interest Income	354	400	13%	364	400	10%
JCE & Associate items	1,969	1,969	0%	2,541	2,541	0%
Others	0	0	n.a.	0	0	n.a.
Pre-tax profit	6,512	6,619	2%	5,938	6,977	17%
Income tax & LAT	(2,599)	(2,760)	6%	(2,108)	(2,788)	32%
Minority Interests	(742)	(882)	19%	(788)	(1,052)	34%
Reported net profit	3,171	2,977	-6%	3,042	3,137	3%
Recurring net profit	3,171	2,977	-6%	3,042	3,137	3%
Gross profit margin (%)	27.3%	27.3%	0.0%	26.0%	29.2%	3.2%
Reported net profit margin (%)	11.7%	10.1%	-1.6%	12.4%	11.4%	-1.0%
Recurring net profit margin (%)	11.7%	10.1%	-1.6%	12.4%	11.4%	-1.0%
Recurring net profit margin, ex. JCE/Asso. (%)	7.2%	6.4%	-0.7%	5.2%	6.0%	0.8%

Source: CMS (HK)

Sector's valuation

Figure 10: Peer comparison: valuation (Based on closing prices as of 30 March 2015)

Company	Ticker	Price	Mkt cap (USDm)	3-mth avg t/o (USDmn)	NAV (HKD)	Discount to NAV (%)	FY14 P/E (x)	FY15 P/E (x)	FY13 yield (%)	FY14 yield (%)	FY13 P/B (x)	FY14 P/B (x)	Net gearing FY13 (%)	Net gearing FY14 (%)
Large peer average						26.3	9.1	6.9	5.3	5.1	1.5	1.2	62.7	77.5
China Overseas	688 HK	26.00	27,404	78.7	29.5	11.9	8.9	7.3	1.8	2.1	1.9	1.6	28.2	31.7
CR Land	1109 HK	22.20	18,695	36.1	33.0	32.7	11.0	9.5	2.0	2.2	1.7	1.5	38.8	42.7
Country Garden	2007 HK	3.15	8,266	13.7	4.7	33.3	5.2	5.2	6.7	5.9	1.1	0.9	64.3	62.2
Evergrande	3333 HK	3.93	7,414	14.6	5.3	25.8	16.8	7.2	13.8	13.7	1.0	0.9	147.6	251.0
Longfor	960 HK	10.80	8,090	5.4	14.6	26.0	7.1	5.6	2.7	3.3	1.3	1.0	57.9	57.1
Shimao Property	813 HK	16.68	7,469	20.3	27.3	38.9	5.5	5.3	4.9	5.5	1.1	1.0	57.4	57.6
China Vanke-H	2202 HK	18.66	25,418	25.6	22.0	15.2	9.5	8.0	N/A	3.2	2.1	1.8	44.7	40.1
Mid-and-small peer average						55.3	8.7	7.1	5.5	4.6	0.6	0.6	67.0	78.3
Agile Property	3383 HK	5.00	2,525	7.5	14.4	65.3	3.5	3.7	9.5	7.9	0.5	0.5	97.6	96.6
CM Land	978 HK	1.18	746	1.7	3.3	64.2	12.1	7.5	1.0	0.8	0.9	1.0	3.7	49.4
COGO	81 HK	3.70	1,089	1.9	8.0	53.8	6.8	7.5	3.0	1.4	0.7	0.7	44.0	77.0
Franshion Ppt	817 HK	2.33	2,724	2.6	4.5	48.2	5.8	5.2	4.1	5.0	0.6	0.6	60.9	63.8
Greentown China	3900 HK	6.75	1,881	4.3	16.2	58.3	5.4	3.9	8.0	0.0	0.5	0.5	71.2	93.4
Hopson	754 HK	5.74	1,661	1.0	25.0	77.0	10.3	15.5	N/A	0.0	0.2	N/A	61.6	N/A
KWG Property	1813 HK	5.45	2,070	5.4	15.7	65.3	4.9	3.9	6.7	7.6	0.7	0.6	56.3	66.8
Poly Property	119 HK	3.92	1,851	9.8	8.1	51.6	8.8	7.7	5.7	3.0	0.5	0.4	110.7	111.2
Shenzhen Investment	604 HK	2.99	2,566	3.0	6.0	50.2	8.8	8.2	5.0	5.8	0.7	0.5	77.8	N/A
Shui On Land	272 HK	1.81	1,868	2.0	n.a.	n.a.	26.8	10.3	3.4	3.1	0.3	0.3	92.1	82.0
Sino Ocean	3377 HK	4.80	4,641	4.0	8.0	40.0	7.3	6.5	4.9	5.6	0.7	0.6	71.0	55.4
SOHO China	410 HK	5.27	3,533	3.0	8.6	38.7	24.5	22.9	5.9	5.7	0.6	0.5	20.3	29.6
Sunac	1918 HK	7.00	3,054	16.3	12.4	43.5	5.0	3.1	3.4	3.4	1.4	1.1	69.7	44.5
Average						46.5	8.8	7.1	5.4	4.7	0.9	0.8	65.7	78.0

Source: CMS (HK), Bloomberg

Figure 11: Greentown's discount to NAV Band



Source: CMS (HK), Bloomberg

Figure 12: Greentown's end-FY15E NAV

Details	Total HKD mn	HKD/share	% of Total
Land bank and properties under development	70,660	32.7	202%
Hotel properties and other fixed assets	8,027	3.7	23%
Investment properties	2,365	1.1	7%
Due to fellow companies	(12,313)	(5.7)	-35%
Net debts at End-FY15E	(33,743)	(15.6)	-96%
Total	34,998	16.2	100%

Source: CMS (HK)

Financial Summary

Balance Sheet

RMB mn	2012	2013	2014	2015E	2016E
Current assets	93,334	101,622	106,328	120,497	131,956
Cash	6,164	10,686	7,734	13,485	14,207
Restricted cash	1,734	595	1,351	1,351	1,351
Current receivables	4,713	4,380	5,215	5,215	5,215
Properties held for sale	7,330	13,063	15,651	8,819	8,235
Properties under development & land prepaid	49,156	45,248	47,062	62,313	73,633
Due from fellow companies, JV/Asso.	21,619	24,981	27,157	27,157	27,157
Other current assets	2,618	2,669	2,158	2,158	2,158
Non-current assets	14,373	20,713	20,816	17,341	20,076
Fixed assets	5,405	6,695	8,108	8,314	8,508
Investment in associates / JCEs	7,577	11,864	10,533	6,852	9,393
Other non-current assets	1,391	2,154	2,175	2,175	2,175
Total assets	107,707	122,335	127,144	137,838	152,032
Current liabilities	73,562	65,127	67,775	72,051	80,177
Bank and other loans	15,255	6,018	12,167	12,167	12,167
Presales receipts in advance	28,848	23,428	20,116	24,578	32,784
Accounts payable & other payables	15,959	17,911	19,381	19,381	19,381
Other current liabilities	13,500	17,770	16,111	15,925	15,846
Non-current liabilities	8,741	27,281	27,539	30,539	33,539
Bank and other loans	8,202	26,577	26,663	29,663	32,663
Others	539	704	876	876	876
Total Liabilities	82,303	92,408	95,314	102,590	113,716
Shareholders' equity	19,058	22,863	23,640	26,617	29,158
Minority interests	6,346	7,064	8,190	8,631	9,157
Total equity & liabilities	107,707	122,335	127,144	137,838	152,032

Cashflow Statement

RMB mn	2012	2013	2014	2015E	2016E
Operating cashflow	1,593	3,719	(2,163)	3,742	5,044
Profit before tax	10,257	9,147	5,928	6,619	6,977
Working capital chg	(2,694)	1,059	(1,330)	4,671	6,273
Tax paid	(1,109)	(2,641)	(3,402)	(2,946)	(2,867)
Interest paid	(3,586)	(2,448)	(3,125)	(3,359)	(3,584)
Other operating cashflow	(1,275)	(1,398)	(234)	(1,244)	(1,755)
Investing cashflow	6,232	(9,220)	(5,167)	(550)	(6,200)
Fixed assets additions	(1,078)	(1,768)	(1,571)	(600)	(600)
Land and investment property capex	(479)	(5,559)	(6,000)	(6,000)	(6,000)
Subsidiary acquisitions / disposals	7,720	0	0	0	0
(Inc) dec in JCEs / Asso.	437	(3,104)	1,739	5,650	0
Other investing cashflow	(368)	1,211	665	400	400
Financing cashflow	(5,276)	10,040	4,378	2,559	1,878
Dividend paid	(351)	(1,397)	(926)	0	(595)
Issuances of equity shares	2,076	89	0	0	0
Increase/decrease in loans	(10,011)	9,233	5,304	3,000	3,000
Paid / repaid from sister companies	0	2,337	0	0	0
Other financing cashflow	3,010	(222)	0	(441)	(526)
Cashflows for the year	2,549	4,539	(2,952)	5,751	722
Cash at the beginning	3,615	6,164	10,686	7,734	13,485
Exchange difference	0	(17)	0	0	0
Cash at the end	6,164	10,686	7,734	13,485	14,207

Source: Company data, CMS (HK) estimates

Profit & Loss Statement

RMB mn	2012	2013	2014	2015E	2016E
Revenue	35,393	28,991	32,048	29,397	27,451
Cost of goods sold	(24,679)	(20,215)	(23,916)	(21,367)	(19,434)
Gross Profit	10,714	8,776	8,132	8,030	8,016
Selling exp	(665)	(849)	(992)	(1,143)	(1,201)
Admin exp	(1,404)	(1,491)	(1,835)	(1,906)	(2,001)
Finance cost	(564)	(507)	(680)	(731)	(780)
JCE & Associates	513	1,570	408	1,969	2,541
Others	1,663	1,648	895	400	400
Pre-tax profit	10,257	9,147	5,928	6,619	6,977
Income tax	(4,204)	(3,156)	(2,719)	(2,760)	(2,788)
MI	(1,202)	(1,105)	(1,138)	(882)	(1,052)
Reported net profit	4,851	4,886	2,071	2,977	3,137
Core profit	4,194	4,208	2,147	2,977	3,137
Core EPS (RMB)	2.22	1.95	0.99	1.38	1.45
DPS (RMB)	0.50	0.43	0.00	0.28	0.29

Financial Ratios

(%)	2012	2013	2014	2015E	2016E
Growth (%)					
Revenue	61%	-18%	11%	-8%	-7%
Gross profit	45%	-18%	-7%	-1%	0%
Recurring net profit	94%	0%	-49%	39%	5%
PUD and inventory growth	-33%	3%	8%	13%	15%
Contracted sales growth	54%	22%	28%	-20%	5%
Profitability (%)					
Gross margin	30%	30%	25%	27%	29%
Effective tax rate	41%	35%	46%	42%	40%
Recurring net profit margin	12%	15%	7%	10%	11%
ROE	27%	20%	9%	12%	11%
ROA	4%	4%	2%	2%	2%
Liquidity					
Free cash flows (RMB mn)	7,825	(5,501)	(7,330)	3,192	(1,156)
Total Debt - Total Equity Ratio	92%	109%	122%	119%	117%
Net Debt - Total Equity Ratio	61%	71%	93%	77%	76%
Interest coverage (x)	2.6	3.3	1.8	2.1	2.1

Investment Ratings

Rating	Definition
BUY	Expected to outperform the market index by >10% over the next 12 months
NEUTRAL	Expected to outperform or underperform the market index by 10% or less over the next 12 months
SELL	Expected to underperform the market index by >10% over the next 12 months

Analyst Disclosure

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