

COMPANY NOTE

Target | Estimate Change

China | Property | China Property

4 June 2015

Jefferies

Poly Property (119 HK) Emerging Signs of Recovery, Hold

Key Takeaway

De-leverage of Poly HK should take place gradually with prudent land acquisitions this year. Shenzhen project launch would help to uplift the sales figure in June with a higher-than-expected ASP, thanks to a strong local market. We believe the company now is on track for recovery but growth visibility remains low with a destocking theme. Trading at 0.5x PB, future re-rating should come from the restructure with Poly A once there is a clear plan. Maintain Hold.

SOE reform has gathered pace: We believe the integration of Poly HK and Poly A (600048 CH, NC) may accelerate this year driven by the looming wave of SOE reform in China. We believe the integration may be conducted through share acquisition/asset injection. Either way, the transaction price should be close to its book value, while Poly HK is trading at only 0.5x PB. Thus we believe a future re-rating of the company should come from the integration with a visible plan in the mid/long term.

Contracted sales to pick up gradually: Contracted sales of Poly HK should pick up gradually along with overall market recovery. Sales in May should not be exciting as there was a lack of major new launches. Shenzhen Poly Yuedu Garden launching (cRmb1bn resources) in early June should notch up a high sell-through and higher-than-expected ASP (Rmb30k+ psm vs. previous estimation of Rmb25k). The theme of the year, however, should still be inventory clearance for the ultra high completed property held-for-sale.

Financial position could improve moderately: As of May, only two land parcels in Wuhan and Weihai were acquired with total value less than 10% of contracted sales. With the current landbank (landbank period of c10yrs) sufficient for the next few years' development, we like the recent actions of the company since new mgmt has been on board. Prudent expansion should help to lower the gearing level in 2015. Earnings visibility, however, is still blurry during the destocking stage, in our view.

NAV/earnings estimation revise: We revised up our NAV estimate by 6% to HK\$8.2/shr for the strong market and lower net debt assumption. Our earnings estimates for 2015/16E were also increased by 10%/14% for higher pace of sales.

Valuation/Risks

Our new PT of HK\$4.1/shr (from HK\$3.4) is based on a 50% discount (from 55%) to our new NAV est. of HK\$8.2/shr (from HK\$7.6); narrowed discount is mainly due to accelerated SOE reform. **Catalysts:** successful restructure & better sales; **Risks:** poor sales & gearing hike.

HKD	Prev.	2013A	Prev.	2014A	Prev.	2015E	Prev.	2016E
Rev. (MM)	--	28,625.0	--	28,509.0	31,722.0	31,878.0	33,360.0	33,598.0
Core Earnings (MM)	--	2,048	--	403	1,106	1,219	1,307	1,495
BV/Share	--	8.15	--	8.16	8.39	8.40	8.67	8.69
P/B	--	0.5x	--	0.5x	--	0.5x	--	0.5x
Dividend	--	0.22	--	0.08	0.08	0.10	0.08	0.12
Div. Yield	--	5.23%	--	1.90%	--	2.38%	--	2.85%
EPS								
FY Dec	--	0.56	--	0.11	0.30	0.33	0.36	0.41
FY P/E	--	7.5x	--	38.3x	--	12.8x	--	10.3x

HOLD

Price target HK\$4.10
(from HK\$3.40)
Price HK\$4.21

Bloomberg: 119 HK
Reuters: 0119.HK

Financial Summary

Net Debt (MM): HK\$35,826.0

Market Data

52 Week Range: HK\$5.29 - HK\$2.81

Total Entprs. Value (MM): HK\$51,017.4

Market Cap. (MM): HK\$15,191.4

Shares Out. (MM): 3,608.4

Float (MM): 2,027.6

Avg. Daily Vol.: 28,744,760

Michael He *

Equity Analyst

+852 3743 8026 mhe@jefferies.com

Venant Chiang *

Equity Analyst

+852 3743 8013 venant.chiang@jefferies.com

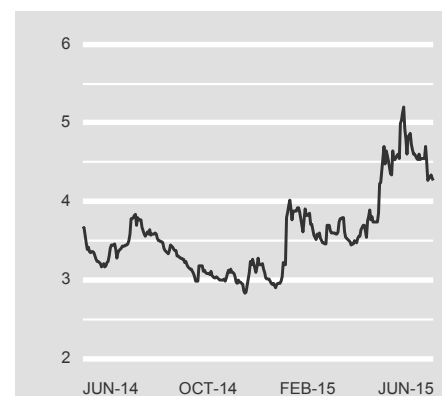
Parvani Zheng *

Equity Analyst

+852 3743 8019 pzhang@jefferies.com

* Jefferies Hong Kong Limited

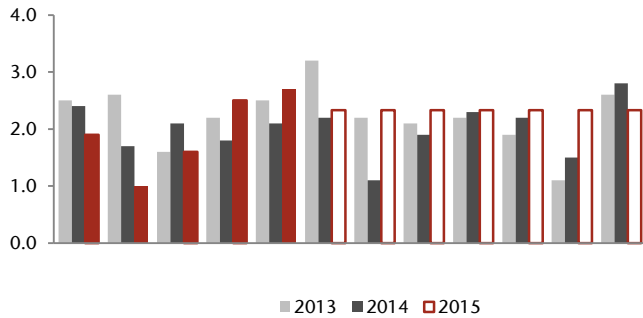
Price Performance



Contracted sales to pick up gradually

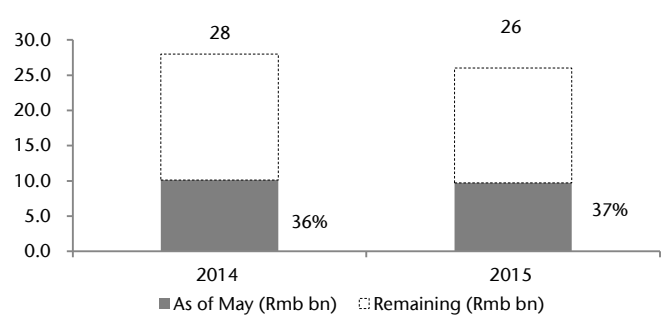
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Exhibit 1: Monthly Presales (Rmb bn)



Source: Company data, Jefferies, *May sales est. by Jefferies

Exhibit 2: Presales locked-in comparison



Source: Company data, Jefferies, *May sales est. by Jefferies

Valuation analysis

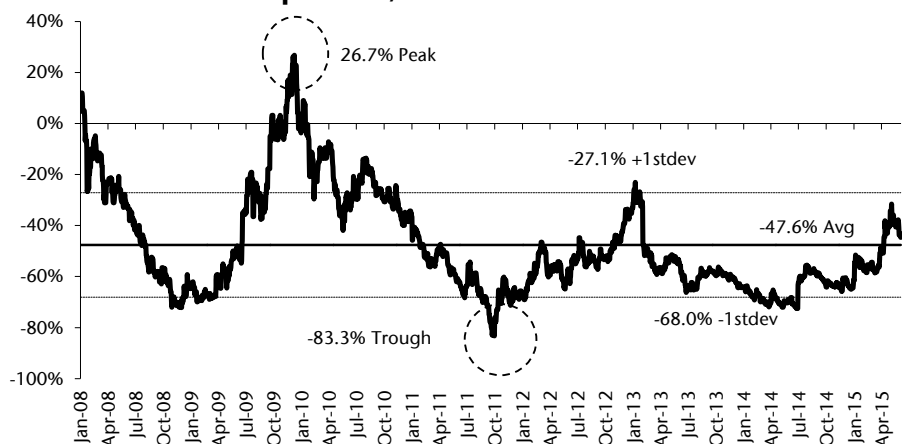
Poly Property has traded at an average -48% discount to NAV since 2008, ranging from a premium of 26.7% to a discount of -83.3%. Our new PT of HK\$4.1/shr (from HK\$3.4) is based on a 50% discount (from 55%) to our new NAV est. of HK\$8.2/shr (from HK\$7.6); narrowed discount is mainly due to accelerated SOE reform. Catalysts: successful restructure & better sales; Risks: poor sales & gearing hike.

Exhibit 3: NAV Breakdown

WACC (9.7%)	NAV (HK\$ mn)	NAV/share (HK\$)
Development property	50,993	14.0
Investment property	13,045	3.6
Net cash/(debt)	-34,115	-9.4
Net asset value	29,923	8.2

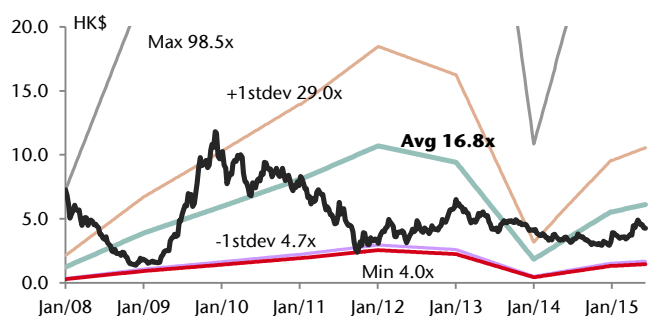
Source: Jefferies estimates

Exhibit 4: Historical NAV premium/discount



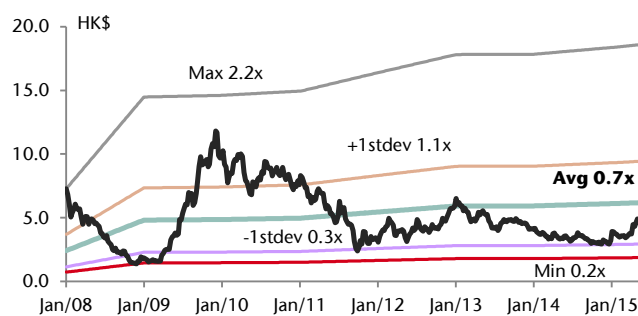
Source: Jefferies, Bloomberg as of Jun 4, 2015

Exhibit 5: PE Band



Source: Jefferies, Bloomberg as of Jun 4, 2015

Exhibit 6: PB Band



Source: Jefferies, Bloomberg as of Jun 4, 2015

Exhibit 7: Valuation Table

Company	Ticker	Price*	Mkt Cap	Rating	Price	Upside	NAV*	Disc	PE			PB			DY		
			US\$ mn		Tgt*	/Down		/prem.	2013	2014	2015E	2013	2014	2015E	2013	2014	2015E
COLI	688 HK	28.35	36,060	Buy	33.8	19%	33.8	-16%	12.2	9.7	9.6	2.1	1.7	1.4	1.7	1.9	2.1
CR Land	1109 HK	25.35	22,664	Buy	29.0	14%	30.5	-17%	15.6	12.5	12.4	1.7	1.5	1.3	1.7	2.0	2.0
Vanke H	2202 HK	19.94	26,886	Buy	20.6	3%	24.2	-18%	11.6	11.2	9.8	2.3	2.0	1.8	2.6	3.1	3.6
Average of large developers						12%		-17%	13.2	11.1	10.6	2.0	1.8	1.5	2.0	2.3	2.5
Longfor	960 HK	12.66	9,515	Buy	14.5	15%	20.7	-39%	9.0	8.4	8.2	1.5	1.2	1.0	2.3	2.8	2.9
Sino Ocean	3377 HK	5.40	5,240	Buy	6.6	22%	10.9	-50%	8.6	9.0	11.1	0.7	0.8	0.8	4.3	4.4	4.4
Evergrande	3333 HK	5.07	10,215	Hold	3.6	-29%	8.9	-43%	6.9	7.1	6.6	1.3	1.2	1.1	10.6	10.6	5.9
CGH	2007 HK	3.60	10,490	Hold	3.3	-8%	6.6	-45%	6.1	6.0	6.4	1.2	1.0	0.9	5.9	5.1	6.3
Greentown	3900 HK	11.10	3,095	Hold	9.0	-19%	17.9	-38%	4.3	11.1	7.9	0.8	0.8	0.8	4.8	0.0	2.5
Shimao	813 HK	16.72	7,490	Hold	15.9	-5%	29.0	-42%	6.3	5.9	6.1	1.1	1.0	0.9	4.8	5.4	5.2
Sunac	1918 HK	9.08	3,980	Hold	9.1	0%	15.1	-40%	6.9	6.6	5.8	1.8	1.5	1.2	2.6	2.6	3.0
R&F	2777 HK	9.66	4,015	U/P	8.1	-16%	18.0	-46%	4.2	6.3	5.6	0.7	0.7	0.6	8.0	0.0	0.0
Agile	3383 HK	6.04	3,052	U/P	3.9	-35%	13.1	-54%	3.8	4.4	5.8	0.6	0.5	0.5	7.9	6.6	5.0
Average of medium developers						-8%		-44%	6.2	7.2	7.1	1.1	1.0	0.9	5.7	4.2	3.9
CIFI	884 HK	2.13	1,859	Buy	2.7	27%	4.7	-55%	6.5	5.3	4.7	1.2	1.0	0.8	3.3	5.2	6.1
COGO	81 HK	4.19	1,234	Buy	7.6	81%	12.7	-67%	3.8	4.6	4.5	0.8	0.7	0.6	2.6	2.1	2.1
Franshion	817 HK	3.06	3,581	Buy	2.6	-15%	4.8	-36%	11.3	9.3	9.6	1.0	0.8	0.8	3.1	3.9	3.6
KWG	1813 HK	7.90	3,004	Buy	8.5	8%	14.1	-44%	7.8	7.2	6.7	1.0	0.9	0.8	4.6	5.2	5.5
SZI	604 HK	4.57	3,956	Buy	4.9	7%	7.5	-39%	12.0	16.3	13.4	0.8	0.9	1.0	4.2	3.5	3.7
Soho	410 HK	5.24	3,515	Hold	5.5	5%	7.8	-33%	5.1	12.3	26.2	0.6	0.6	0.6	6.0	6.0	3.8
Hopson	754 HK	8.25	2,386	Hold	7.5	-9%	24.9	-67%	7.4	9.2	15.9	0.3	0.3	0.3	0.0	0.0	0.0
Poly PPT	119 HK	4.21	1,988	Hold	4.1	-3%	8.2	-49%	7.5	38.3	12.8	0.5	0.5	0.5	5.3	1.8	2.4
Powerlong	1238 HK	1.99	1,026	Hold	1.2	-40%	3.1	-36%	6.4	5.9	5.5	0.4	0.4	0.3	0.0	3.1	3.8
Renhe	1387 HK	0.94	3,847	U/P	0.4	-57%	0.7	34%	N/A	N/A	N/A	0.8	0.7	N/A	0.0	0.0	0.0
Yanlord	YLLG SP	1.18	1,711	U/P	0.87	-26%	1.9	-39%	9.2	12.1	11.1	0.6	0.6	0.5	1.1	1.1	1.1
Average of niche developers						-3%		-40%	8.0	12.0	9.4	0.7	0.7	0.6	2.4	2.6	2.8
HK listed average						-2%		-38%	7.8	9.8	9.3	1.1	0.9	0.9	3.9	3.4	3.4
Vanke A	000002 CH	14.99	26,886	Buy	16.5	10%	19.4	-23%	10.9	10.5	9.3	2.1	1.9	1.7	2.7	3.3	3.8
CMP A	000024 CH	31.96	12,157	Hold	21.0	-34%	26.2	22%	19.6	19.4	19.5	3.1	2.6	2.4	1.0	1.0	1.0
Gemdale	600383 CH	14.65	10,612	U/P	7.1	-52%	11.8	24%	27.6	26.2	21.9	2.3	2.1	2.0	1.1	1.2	1.2
China Listed Average						-25%		8%	19.4	18.7	16.9	2.5	2.2	2.0	1.6	1.8	2.0
Overall Average						-5%		-33%	9.2	11.0	10.3	1.2	1.1	1.0	3.5	3.2	3.1

Source: Bloomberg as of Jun 4, 2015, Jefferies, *Trading currency

Exhibit 8: Summary of Financials

Income statement					
HKD mn	2012	2013	2014	2015E	2016E
Revenues	20,695	28,625	28,509	31,878	33,598
COGS	(14,408)	(21,919)	(22,862)	(25,832)	(27,286)
Gross Profit	6,287	6,706	5,647	6,046	6,312
SG&A	(1,833)	(1,700)	(2,323)	(2,128)	(2,031)
EBIT	4,454	5,007	3,323	3,917	4,281
Interest expense	(418)	(778)	(893)	(834)	(766)
Associates	4	25	(88)	(20)	(28)
Other gains/adjustments	541	1,208	969	0	0
PBT	4,581	5,462	3,311	3,063	3,488
Tax	(1,538)	(2,221)	(2,027)	(1,413)	(1,555)
Minority	(413)	(526)	(354)	(431)	(437)
Net profit	2,630	2,715	929	1,219	1,495
Net profit (core)	2,304	2,048	403	1,219	1,495
Shares outstanding (weighted)	3,608	3,634	3,646	3,646	3,646
EPS (core)	0.64	0.56	0.11	0.33	0.41
DPS	0.22	0.22	0.08	0.10	0.12

Balance sheet					
HKD mn	2012	2013	2014	2015E	2016E
Investment properties	7,085	8,522	10,053	10,053	10,053
Others	4,016	4,447	3,366	3,366	3,366
Associates	104	963	1,095	1,095	1,095
Total fixed assets	11,205	13,932	14,514	14,514	14,514
Property under development	63,530	53,394	57,433	61,770	66,409
Completed properties for sale	13,373	20,544	27,248	25,885	24,591
Debtors & deposits	2,880	3,908	4,086	4,569	4,816
Bank balances & cash	14,308	14,826	16,237	15,823	13,602
Others	2,440	4,219	9,885	9,885	9,885
Total assets	107,736	110,823	129,403	132,447	133,817
Current liabilities	50,267	50,334	61,012	67,986	62,551
Long term debt	25,869	26,565	32,333	27,115	32,435
Other long term liabilities	593	228	608	608	608
Deferred income tax	960	1,094	1,351	1,351	1,351
Long term liabilities	27,422	27,887	34,292	29,074	34,394
Minority Interests	2,975	2,985	3,338	3,769	4,206
Shareholders' funds	27,073	29,617	29,762	30,618	31,668
Total liabilities and equity	107,736	110,823	128,404	131,448	132,819

Cash flow statement					
HKD mn	2012	2013	2014	2015E	2016E
PBT ex. Exceptionals	4,581	5,462	3,311	3,063	3,488
Change in working cap.	1,980	1,188	(3,311)	4,167	1,897
Others	(5,576)	(6,894)	(4,905)	(5,156)	(4,488)
CF from operations	986	(245)	(4,905)	2,075	897
Investment properties	154	(377)	(1)	0	0
Others	(623)	(915)	(5,193)	0	0
CF from investing	(469)	(1,292)	(5,194)	0	0
Free cash flow	517	(1,537)	(10,100)	2,075	897
Free cash flow per share	0.14	(0.42)	(2.77)	0.57	0.25
Equity financing	0	172	14	0	0
Debt financing	1,285	1,498	11,571	(2,125)	(2,671)
Others	211	385	(75)	(364)	(446)
CF from financing	1,496	2,055	11,511	(2,489)	(3,117)
Increase in cash and cash equivalents	2,012	518	1,411	(414)	(2,221)
Beginning cash	12,296	14,308	14,826	16,237	15,823
Ending cash	14,308	14,826	16,237	15,823	13,602

Ratio Analysis (%)					
	2012	2013	2014	2015E	2016E
Gross Margin	30%	23%	20%	19%	19%
Operating margin	22%	17%	12%	12%	13%
Net profit margin	11%	7%	1%	4%	4%
Sales growth	47%	38%	0%	12%	5%
EBIT growth	9%	12%	-34%	18%	9%
Net profit growth	33%	-11%	-80%	202%	23%
EPS growth	33%	-12%	-80%	202%	23%
BVPS	7.50	8.15	8.16	8.40	8.69
Interest coverage (x)	2.1	2.5	1.8	1.7	1.9
Net debt to total capital	44%	44%	52%	53%	47%
Net debt to equity (restricted cash)	85%	81%	108%	99%	94%
Sales/assets	20%	26%	24%	24%	25%
Assets/equity	398%	374%	435%	433%	423%
ROA	2%	2%	0%	1%	1%
ROE	9%	7%	1%	4%	5%
ROCE	4%	3%	1%	2%	2%

Source: Company data, Jefferies

Company Description

Poly Property develops, invests in, and manages properties in China. The Company develops mid- to high-end residential and commercial projects in first-tier and second-tier provincial capitals in Central and Southwestern China.

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Buy - Describes securities that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

Hold - Describes securities that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 10% within a 12-month period.

Underperform - Describes securities that we expect to provide a total return (price appreciation plus yield) of minus 10% or less within a 12-month period.

The expected total return (price appreciation plus yield) for Buy rated securities with an average security price consistently below \$10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated securities with an average security price consistently below \$10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated securities with an average security price consistently below \$10, the expected total return (price appreciation plus yield) is minus 20% or less within a 12-month period.

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NC - Not covered. Jefferies does not cover this company.

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Jefferies Franchise Picks

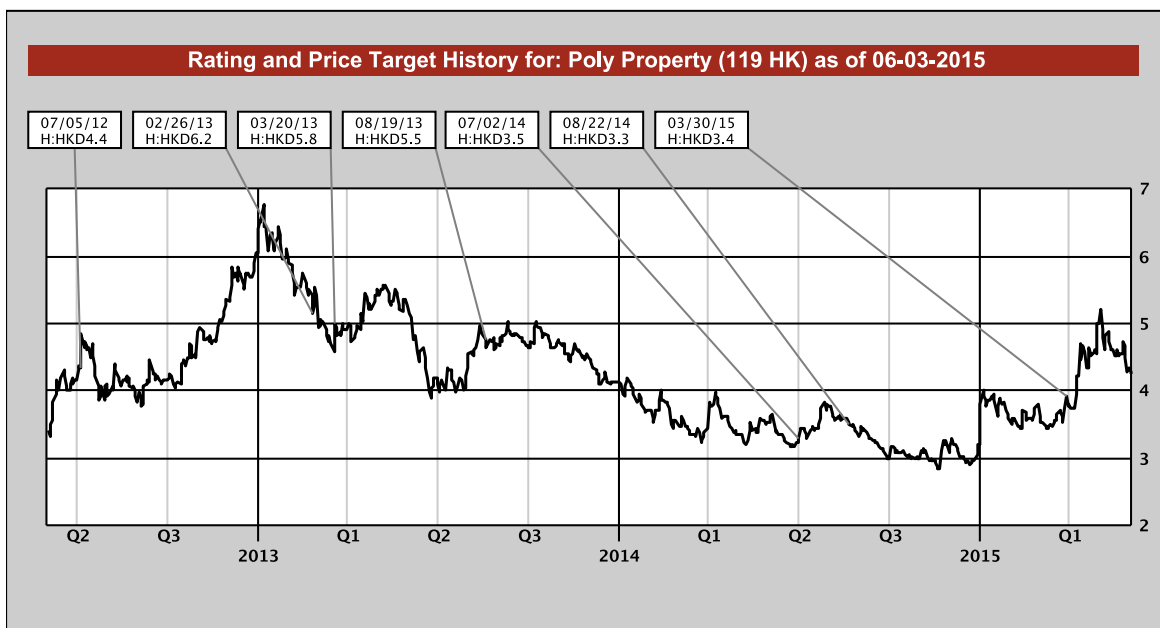
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Other Companies Mentioned in This Report

- Agile Property Holdings Ltd. (3383 HK: HK\$6.04, UNDERPERFORM)
- China Merchants Property - A (000024 CH: NA, HOLD)
- China Overseas Grand Oceans (81 HK: HK\$4.19, BUY)
- China Overseas Land & Investment (688 HK: HK\$28.35, BUY)
- China Resources Land Ltd. (1109 HK: HK\$25.35, BUY)
- China Vanke Co. Ltd. - A (000002 CH: CNY14.99, BUY)
- China Vanke Co. Ltd. - H (2202 HK: HK\$19.94, BUY)
- CIFI Holdings Co. Ltd. (884 HK: HK\$2.13, BUY)
- Country Garden Holdings Co. (2007 HK: HK\$3.60, HOLD)
- Evergrande Real Estate Group (3333 HK: HK\$5.07, HOLD)
- Franshion Properties (817 HK: HK\$3.06, BUY)
- Gemdale Corp. - A (600383 CH: CNY14.65, UNDERPERFORM)
- Greentown China Holdings (3900 HK: HK\$11.10, HOLD)
- Guangzhou R&F Properties - H (2777 HK: HK\$9.66, UNDERPERFORM)
- Hopson Development Holdings (754 HK: HK\$8.25, HOLD)
- KWG Property Holdings (1813 HK: HK\$7.90, BUY)
- Longfor Properties (960 HK: HK\$12.66, BUY)
- Powerlong Real Estate Holdings Ltd. (1238 HK: HK\$1.99, HOLD)
- Renhe Commercial Holdings (1387 HK: HK\$0.94, UNDERPERFORM)
- Shenzhen Investment Ltd. (604 HK: HK\$4.57, BUY)
- Shimao Property Holdings Ltd. (813 HK: HK\$16.72, HOLD)
- Sino-Ocean Land Holdings (3377 HK: HK\$5.40, BUY)
- Soho China Ltd. (410 HK: HK\$5.24, HOLD)
- Sunac China Holdings Ltd (1918 HK: HK\$9.08, HOLD)
- Yanlord Land Group Ltd. (YLLG SP: SGD1.18, UNDERPERFORM)



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Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY	1070	51.52%	295	27.57%
HOLD	840	40.44%	161	19.17%
UNDERPERFORM	167	8.04%	13	7.78%

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