

COMPANY NOTE

Target Change

China | Property | China Property

28 May 2015

Jefferies

Longfor Properties (960 HK) Re-rating Trend to Continue; Reiterate Buy

Key Takeaway

Longfor share re-rating is largely due to its timely adjustment in business model and prudent financial management despite high market volatility, in our view. We expect additional upside will be driven by: 1) upcoming increase in sales, 2) further reduction in funding cost to 6%, and 3) higher sales visibility and margin recovery through upgrading land bank. With such a high-quality credit profile, valuation is undemanding at 35% NAV disc/8.4x PE. Reit. Buy.

Sales pickup coming: Due to ongoing inventory clearance as a major contribution (mainly in Northern China and tier-3 cities in Eastern China), the company's sales declined 14% yoy to Rmb10.8bn as of April, locking in 20% of its full-year target. We expect its sales to pick up from June since four projects will be launched in May/June and another 13 new projects for the 2H, mainly in Beijing, Shanghai and Hangzhou. Driven by robust sentiment in these cities, we expect 75% of total units will be sold on the first day, and overall sell-through rate will improve to 58% from 52% in 2014.

Value-accretive land banking: YTD, Longfor has acquired 684k sqm GFA land for Rmb6.8bn in Beijing, Shanghai, Chongqing and Xiamen at AV of Rmb10k/sqm. We like its land banking strategy due to the focus on: 1) existing affluent cities to lower operational risk, 2) small/medium project size for easier asset churn, and 3) more JV formation to enhance return as a result of buying land at a cheaper price. We expect its sale margin will likely be over 30% (vs. 27% in FY2014) when new project sales are booked.

Superior financing capability: In April, Longfor secured a 4-year and 5-year term syndicate loan for HK\$4.6bn in total at 4.40-4.55% p.a. for RMB funding and Hibor +2.65/3.10 p.a. for USD loan. According to the company, the syndicate loan could save up to HK\$170mn interest cost, compared to issuing senior notes. Besides, Longfor also aims to raise corporate bond by end-15 with funding cost below 5%. Moreover, its borrowing cost will be reduced further when an investment grade rating is obtained if rental income could rise to Rmb2.5bn by 2017 to cover the interest expense.

Valuation/Risks

We raised our TP by 18% to HK\$14.5. Our TP is based on a 30% discount (from 40%) to our NAV est of HK\$20.7/sh (WACC: 9.5%). We applied a lowered NAV discount as we see continued improvement in: 1) land bank quality, 2) financial position, and 3) recurring income base. **Key risks:** weaker-than-expected presale and economic hard-landing.

RMB	Prev.	2013A	Prev.	2014A	Prev.	2015E	Prev.	2016E
Rev. (MM)	--	41,510.0	--	50,991.0	--	55,937.0	--	61,764.0
Core Earnings (MM)	--	6,228	--	6,610	--	6,766	--	6,924
BV/Share	--	6.80	--	8.75	--	9.73	--	10.70
P/B		1.5x		1.2x		1.1x		1.0x
Dividend	--	0.23	--	0.28	--	0.29	--	0.30
Div. Yield		2.21%		2.69%		2.79%		2.89%
EPS								
FY Dec	--	1.13	--	1.20	--	1.23	--	1.26
FY P/E		9.2x		8.7x		8.4x		8.2x

BUY

Price target HK\$14.50
(from HK\$12.30)
Price HK\$13.00

Bloomberg: 960 HK
Reuters: 0960.HK

Financial Summary

Net Debt (MM): Rmb28,705

Market Data

52 Week Range: HK\$15.00 - HK\$8.46

Total Entprs. Value (MM): HK\$102,923.4

Market Cap. (MM): HK\$67,016.3

Shares Out. (MM): 5,155.1

Float (MM): 1,181.1

Avg. Daily Vol.: 8,214,764

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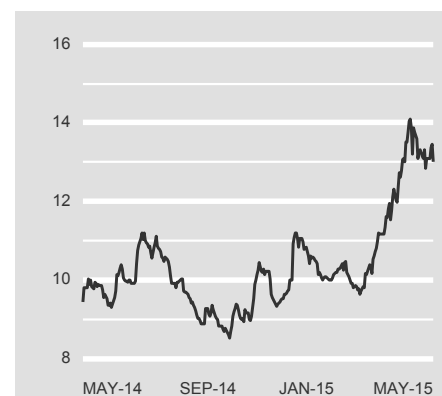
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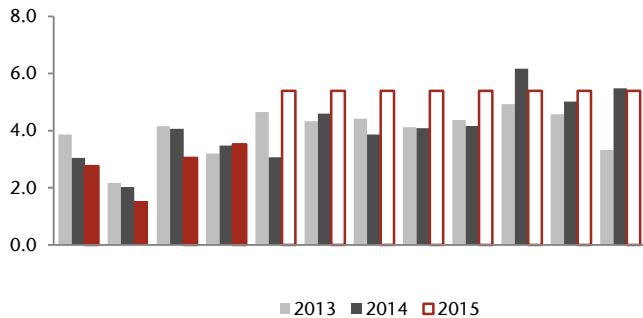
Price Performance



Sales to pick up

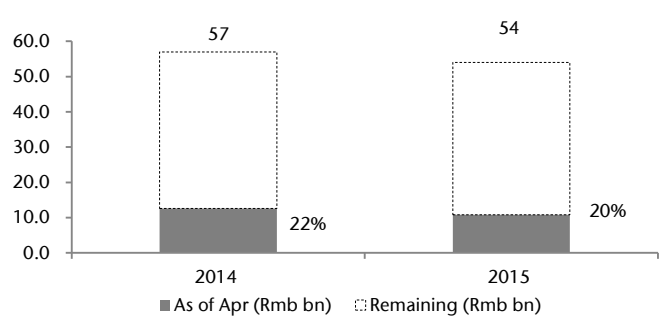
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Exhibit 1: Monthly Presales (Rmb bn)



Source: Company data, Jefferies

Exhibit 2: Presales locked-in comparison



Source: Company data, Jefferies

Valuation

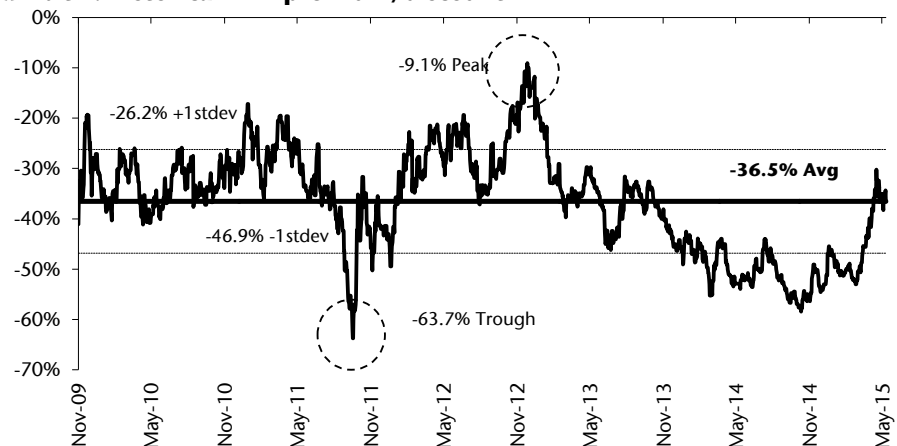
Longfor has traded at an average 36% discount to NAV since 2008, ranging from a 9% to 64% discount. We narrowed down the NAV discount from 40% to 30%, and raised our TP to HK\$14.5/sh (prev: HK\$12.3/sh) on our 2015 NAV est of HK\$20.7/sh (WACC: 9.5%).

Exhibit 3: Valuation

WACC (9.5%)	NAV (HK\$ mn)	NAV/share (HK\$)
Development property	125,741	23.2
Investment property	24,159	4.4
Net cash/(debt)	-37,486	-6.9
Net asset value	112,414	20.7

Source: Jefferies, company data

Exhibit 4: Historical NAV premium/discount



Source: Jefferies, Bloomberg as of May 28, 2015

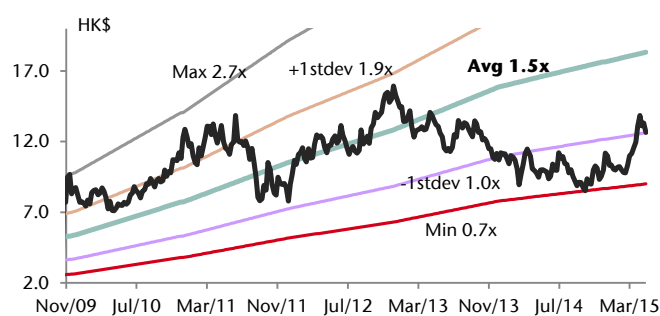
960 HK

Target Change

28 May 2015

Exhibit 5: PE Band

Source: Jefferies, Bloomberg as of May 28, 2015

Exhibit 6: PB Band

Source: Jefferies, Bloomberg as of May 28, 2015

Exhibit 7: Valuation Table

Company	Ticker	Price*	Mkt Cap	Rating	Tgt Price	Upside /Down	NAV*	Disc /prem.	PE			PB			DY		
									2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E
COLI	688 HK	28.75	36,562	Buy	33.8	18%	33.8	-15%	12.4	9.9	9.8	2.1	1.8	1.4	1.6	1.9	2.1
CR Land	1109 HK	25.00	22,347	Buy	29.0	16%	30.5	-18%	15.4	12.4	12.3	1.7	1.5	1.3	1.8	2.0	2.0
Vanke H	2202 HK	20.60	25,983	Buy	20.6	0%	24.2	-15%	12.0	11.5	10.2	2.4	2.1	1.8	2.5	3.0	3.5
Average of large developers						11%		-16%	13.3	11.3	10.7	2.1	1.8	1.5	2.0	2.3	2.5
Longfor	960 HK	13.00	9,756	Buy	14.5	12%	20.7	-37%	9.2	8.7	8.5	1.5	1.2	1.1	2.2	2.7	2.8
Sino Ocean	3377 HK	5.64	5,472	Buy	6.6	17%	10.9	-48%	9.0	9.4	11.6	0.7	0.8	0.8	4.1	4.3	4.3
Evergrande	3333 HK	6.91	13,179	Hold	3.6	-48%	8.9	-22%	9.4	9.7	9.1	1.8	1.6	1.4	7.8	7.8	4.3
CGH	2007 HK	3.66	10,662	Hold	3.3	-10%	6.6	-45%	6.2	6.1	6.5	1.2	1.0	1.0	5.8	5.0	6.1
Greentown	3900 HK	11.04	3,077	Hold	9.0	-18%	17.9	-38%	4.3	11.0	7.9	0.8	0.8	0.7	4.9	0.0	2.5
Shimao	813 HK	17.06	7,640	Hold	15.9	-7%	29.0	-41%	6.5	6.0	6.2	1.1	1.0	0.9	4.7	5.3	5.1
Sunac	1918 HK	9.20	4,031	Hold	9.1	-1%	15.1	-39%	7.0	6.7	5.9	1.8	1.5	1.2	2.6	2.6	3.0
R&F	2777 HK	9.48	3,940	U/P	8.1	-15%	18.0	-47%	4.2	6.2	5.5	0.7	0.7	0.6	8.2	0.0	0.0
Agile	3383 HK	6.25	3,157	U/P	3.9	-38%	13.1	-52%	3.9	4.5	6.0	0.6	0.5	0.5	7.6	6.4	4.8
Average of medium developers						-12%		-41%	6.6	7.6	7.5	1.1	1.0	0.9	5.3	3.8	3.7
CIFI	884 HK	2.10	1,797	Buy	2.7	29%	4.7	-55%	6.4	5.3	4.7	1.1	1.0	0.8	3.3	5.2	6.2
COGO	81 HK	4.38	1,289	Buy	7.6	74%	12.7	-66%	4.0	4.8	4.7	0.9	0.7	0.6	2.5	2.1	2.1
Franshion	817 HK	2.95	3,451	Buy	2.6	-12%	4.8	-39%	10.9	8.9	9.2	0.9	0.8	0.8	3.2	4.1	3.7
KWG	1813 HK	7.56	2,874	Buy	6.5	-14%	11.8	-36%	7.5	6.9	6.4	1.0	0.9	0.8	4.8	5.5	5.8
SZI	604 HK	4.18	3,617	Buy	4.9	17%	7.5	-44%	11.0	14.9	12.3	0.8	0.8	0.9	4.5	3.8	4.1
Soho	410 HK	5.42	3,635	Hold	5.5	1%	7.8	-31%	5.3	12.8	27.1	0.6	0.6	0.6	5.8	5.8	3.7
Hopson	754 HK	8.52	2,466	Hold	7.5	-12%	24.9	-66%	7.6	9.5	16.4	0.3	0.3	0.3	0.0	0.0	0.0
Poly Property	119 HK	4.50	2,125	Hold	3.4	-24%	7.6	-41%	8.0	40.9	15.0	0.6	0.6	0.5	5.0	1.7	1.8
Powerlong	1238 HK	1.95	1,005	Hold	1.2	-38%	3.1	-37%	6.2	5.8	5.4	0.4	0.3	0.3	0.0	3.2	3.8
Renhe	1387 HK	0.70	2,864	U/P	0.4	-43%	0.7	0%	N/A	N/A	N/A	0.6	0.6	N/A	0.0	0.0	0.0
Yanlord	YLLG SP	1.19	1,716	U/P	0.87	-27%	1.9	-39%	9.3	12.1	11.1	0.6	0.6	0.5	1.1	1.1	1.1
Average of niche developers						-5%		-42%	7.9	12.1	9.5	0.7	0.7	0.6	2.4	2.7	2.9
HK listed average						-4%		-38%	7.9	10.1	9.5	1.1	1.0	0.9	3.8	3.3	3.3
Vanke A	000002 CH	14.35	25,983	Buy	16.5	15%	19.4	-26%	10.5	10.0	8.9	2.1	1.8	1.6	2.9	3.5	4.0
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	13.27	9,607	U/P	7.1	-46%	11.8	12%	25.0	23.7	19.8	2.0	1.9	1.8	1.2	1.3	1.3
China Listed Average						-22%		3%	18.4	17.7	16.1	2.4	2.1	1.9	1.7	1.9	2.1
Overall Average						-7%		-33%	9.2	11.1	10.4	1.2	1.1	1.0	3.4	3.0	3.0

Source: Bloomberg as of May 28, 2015, Jefferies, *Trading currency

Exhibit 8: Summary of Financials

Income statement (Rmb mn)						Cash flow statement					
Rmb mn	2012	2013	2014	2015E	2016E	Rmb mn	2012	2013	2014E	2015E	2016E
Revenues	27,893	41,510	50,991	55,937	61,764	PBT ex. Exceptionals	11,302	13,219	13,627	12,246	13,132
COGS	(16,710)	(29,972)	(37,475)	(41,312)	(45,972)	Change in working cap.	(10,180)	(8,368)	472	76	(1,806)
Gross Profit	11,183	11,538	13,516	14,625	15,792	Others	(5,897)	(9,406)	(8,647)	(7,481)	(8,372)
SG&A	(1,561)	(1,972)	(2,363)	(2,592)	(2,862)	CF from operations	(4,775)	(4,555)	5,452	4,841	2,953
EBIT	9,653	10,229	11,249	12,129	13,027	Investment properties	(1,534)	(2,230)	(7,512)	(4,528)	(5,580)
Interest expense	(48)	(39)	(289)	(306)	(326)	Others	165	(761)	(1,683)	0	0
Associates	248	321	276	276	276	CF from investing	(1,369)	(2,991)	(9,196)	(4,528)	(5,580)
Other gains/adjustments	1,448	2,709	2,390	148	155	Free cash flow	(6,144)	(7,546)	(3,744)	313	(2,627)
PBT	11,302	13,219	13,627	12,246	13,132	Free cash flow per share	(1.17)	(1.39)	(0.69)	0.06	(0.48)
Tax	(4,436)	(4,583)	(4,876)	(4,728)	(5,438)	Equity financing	2,554	36	0	0	0
Minority	(564)	(599)	(397)	(752)	(769)	Debt financing	8,807	5,134	10,038	(1,405)	7,808
Net profit	6,301	8,037	8,354	6,766	6,924	Others	(953)	(1,607)	(1,899)	(1,597)	(1,634)
Net profit (core)	5,400	6,228	6,610	6,766	6,924	CF from financing	10,407	3,562	8,139	(3,002)	6,174
Shares outstanding (weighted)	5,238	5,437	5,458	5,441	5,441	Increase in cash and cash equivalents	4,263	(3,984)	4,395	(2,689)	3,548
EPS (core)	1.02	1.13	1.20	1.23	1.26	Beginning cash	14,121	18,384	14,399	18,794	16,105
DPS	0.20	0.23	0.28	0.29	0.30	Ending cash (ex. Restricted cash)	18,384	14,399	18,794	16,105	19,653
Balance sheet						Ratio Analysis (%)					
Rmb mn	2012	2013	2014	2015E	2016E		2012	2013	2014E	2015E	2016E
Investment properties	18,383	23,813	33,362	37,890	43,470	Gross Margin	40%	28%	27%	26%	26%
Others	17,154	18,512	21,554	21,554	21,554	Operating margin	35%	25%	22%	22%	21%
Associates	2,068	3,101	3,304	3,304	3,304	Net profit margin	19%	15%	13%	12%	11%
Total fixed assets	37,606	45,426	58,219	62,748	68,328	Sales growth	16%	49%	23%	10%	10%
Property under development	57,727	65,368	68,091	79,439	91,144	EBIT growth	14%	6%	10%	8%	7%
Completed properties for sale	4,477	10,963	10,266	10,779	10,671	Net profit growth	21%	15%	6%	2%	2%
Debtors & deposits	4,098	4,343	5,668	5,594	4,941	EPS growth	18%	11%	6%	3%	2%
Bank balances & cash	18,384	14,399	18,794	16,105	19,653	BVPS	5.71	6.80	8.75	9.73	10.70
Others	3,135	3,672	7,118	7,189	7,274	Interest coverage (x)	6.5	6.0	5.5	4.8	4.8
Total assets	125,426	144,172	168,156	181,853	202,011	Net debt to total capital	23%	32%	31%	31%	30%
Current liabilities	62,575	72,587	74,362	83,954	89,397	Net debt to equity	44%	58%	57%	53%	55%
Long term debt	27,728	28,636	39,769	37,953	46,608	Sales/assets	25%	31%	33%	32%	32%
Other long term liabilities	114	215	2	2	2	Assets/equity	419%	390%	352%	344%	347%
Deferred income tax	2,432	2,959	3,751	3,751	3,751	ROA	5%	5%	4%	4%	4%
Long term liabilities	30,274	31,810	43,522	41,706	50,361	ROE	21%	19%	16%	13%	12%
Minority Interests	2,668	2,792	2,508	3,260	4,029	ROCE	10%	9%	8%	7%	7%
Shareholders' funds	29,909	36,984	47,764	52,933	58,223						
Total liabilities and equity	125,426	144,172	168,156	181,854	202,011						

Source: Company data, Jefferies

Company Description

Longfor Properties operates in the property development, property investment and property management businesses in China.

Analyst Certification:

I, Venant Chiang, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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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

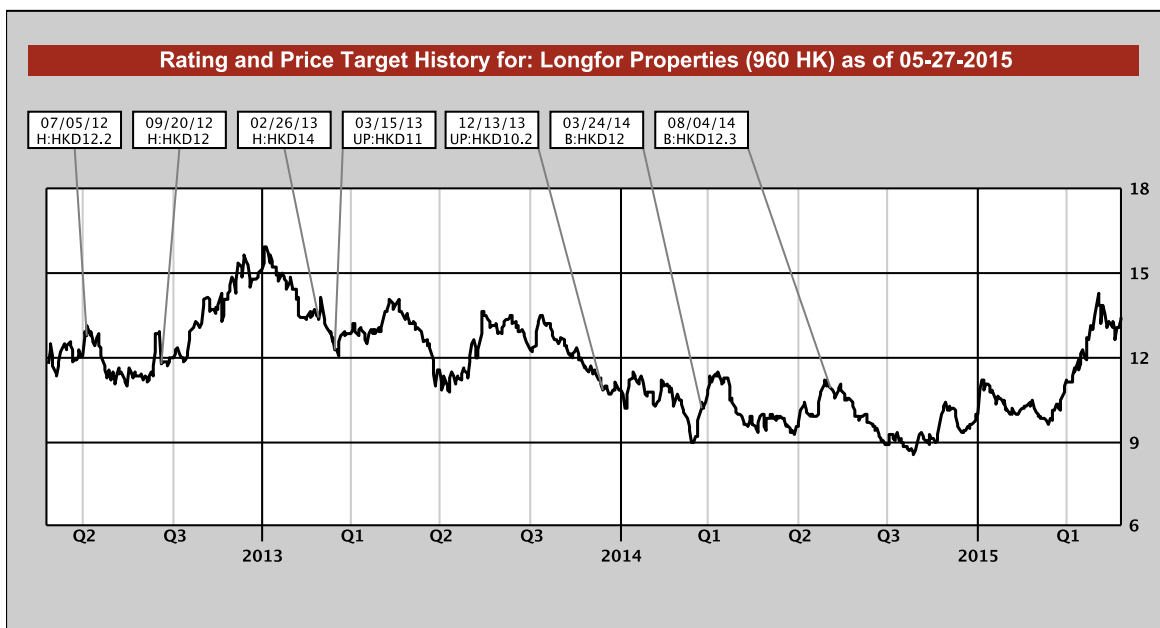
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Other Companies Mentioned in This Report

- Agile Property Holdings Ltd. (3383 HK: HK\$6.25, UNDERPERFORM)
- China Merchants Property - A (000024 CH: NA, HOLD)
- China Overseas Grand Oceans (81 HK: HK\$4.38, BUY)
- China Overseas Land & Investment (688 HK: HK\$28.75, BUY)
- China Resources Land Ltd. (1109 HK: HK\$25.00, BUY)
- China Vanke Co. Ltd. - A (000002 CH: CNY14.35, BUY)
- China Vanke Co. Ltd. - H (2202 HK: HK\$20.60, BUY)
- CIFI Holdings Co. Ltd. (884 HK: HK\$2.10, BUY)
- Country Garden Holdings Co. (2007 HK: HK\$3.66, HOLD)
- Evergrande Real Estate Group (3333 HK: HK\$6.91, HOLD)
- Franshion Properties (817 HK: HK\$2.95, BUY)
- Gemdale Corp. - A (600383 CH: CNY13.27, UNDERPERFORM)
- Greentown China Holdings (3900 HK: HK\$11.04, HOLD)
- Guangzhou R&F Properties - H (2777 HK: HK\$9.48, UNDERPERFORM)
- Hopson Development Holdings (754 HK: HK\$8.52, HOLD)
- KWG Property Holdings (1813 HK: HK\$7.56, BUY)
- Poly Property (119 HK: HK\$4.50, HOLD)
- Powerlong Real Estate Holdings Ltd. (1238 HK: HK\$1.95, HOLD)
- Renhe Commercial Holdings (1387 HK: HK\$0.70, UNDERPERFORM)
- Shenzhen Investment Ltd. (604 HK: HK\$4.18, BUY)
- Shimao Property Holdings Ltd. (813 HK: HK\$17.06, HOLD)
- Sino-Ocean Land Holdings (3377 HK: HK\$5.64, BUY)
- Soho China Ltd. (410 HK: HK\$5.42, HOLD)
- Sunac China Holdings Ltd (1918 HK: HK\$9.20, HOLD)
- Yanlord Land Group Ltd. (YLLG SP: SGD1.19, UNDERPERFORM)



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Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY	1066	51.27%	290	27.20%
HOLD	846	40.69%	162	19.15%
UNDERPERFORM	167	8.03%	13	7.78%

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