

Company Report

Greentown China (3900 HK)

Transforming into a large SOE

■ Mr Shou Bainian resigned as CEO of Greentown. Mr CAO Zhounan is appointed as the new CEO (previously senior management) while Mr LI Qingan and Mr LIU Wensheng (both from China Communications Construction Group, CCCG) are appointed as new executive directors

■ We believe Greentown is transforming into a large SOE with huge development opportunities in the property assets restructuring within CCCG. We also like Greentown's high sensitivity to home sales rebound in major cities (accounting for 80% of its FY15E profits geographically)

Background

To recap, China Communications Construction Group increased its stake in Greentown to 28.9% from 24.3% in mid-May (bought from previous executive director, LUO Zhaoming). After the new appointment, CCCG currently has 4 representatives (previous 2) in the 13-person board.

Restructuring in progress

After the resignation of Shou, we believe that, as Mr Song mentioned in previous results briefing, he may resign in the near future. Shou and Song will gradually become passive shareholders who will not participate in daily operations. CCCG currently has two property arms, namely CCCC Real Estate (中交地产) and China Real Estate National Development Group (中房集团) (000736 CH). We believe that CCCG may inject property assets into Greentown or launch some project cooperation with these two property arms in the future. These may significantly enlarge Greentown's landbank portfolio and improve its growth prospect. Meanwhile, the transformation into a SOE will also lower the funding cost of Greentown to about 6-7% (currently at c.9%).

Deep valuation discount and new cooperation

We like its attractive 43% discount to end-FY15E NAV and the new development prospect. Looking ahead, we see catalysts like: (1) Song's step-down and CCCG's further control in the board and (2) faster property sales recovery in major cities to boost its contracted sales. Maintain BUY and TP at HKD12.

Financials (Pre-Sunac deal)

RMB mn	2012	2013	2014	2015E	2016E
Revenue	35,393	28,991	32,048	29,429	27,486
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)	3.6x	4.1x	8.1x	5.9x	5.6x
P/B	0.9x	0.8x	0.7x	0.7x	0.6x
Dividend yield	6.0%	5.3%	0.0%	3.4%	3.6%

Source: Company data, CMS (HK) estimates

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WHAT'S NEW

n/a

BUY

Previous

Price HK\$10.12

12-month Target Price (Potential upside) HK\$12.0 (+19%)

Previous HK\$12.0

Price Performance



Source: Capital IQ

%	1m	6m	12m
3900 HK	(8.99)	59.6	39.2
MSCI China Real Estate	(10.9)	16.0	27.7

Property

Hang Seng Index	26761
HSCEI	13186

Key Data

52-week range (HK\$)	6.25-11.58
Market cap (HK\$ mn)	22,478
Avg. daily volume (mn)	8.52
BVPS (HK\$) at 2014 y.e.	12.33

Shareholdings Structure

CCCG	28.9%
Wharf	24.3%
Management (Song and Shou)	18.5%
Free float	28.3%

Related Research

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

Greentown (3900 HK) – A high-beta play on easing home tightening measures, 31 Mar 2015

Greentown (3900 HK) – Overhang likely removed from disputes with Sunac, 02 June 2015

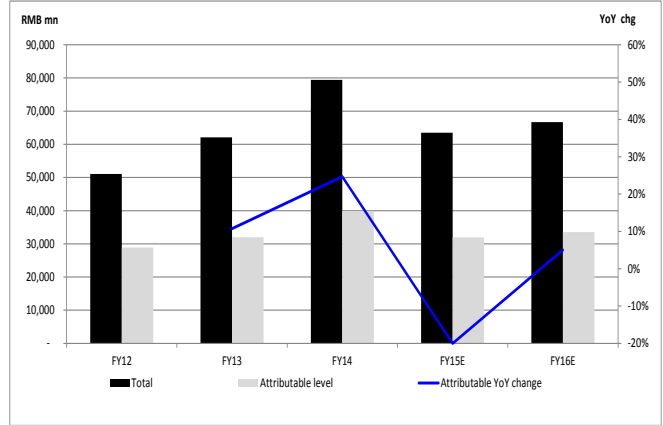
Focus charts

Figure 1: Discount to NAV Band



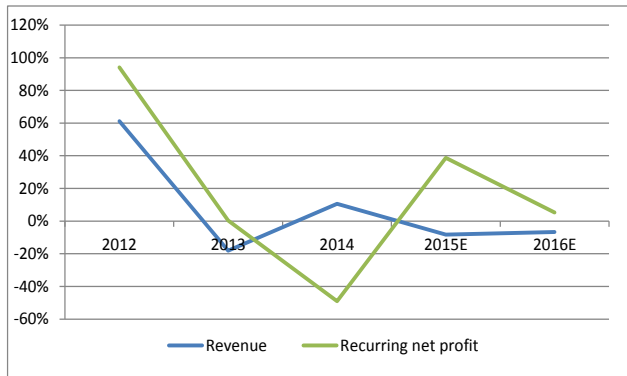
Source: Bloomberg, CMS (HK)

Figure 2: Contracted sales



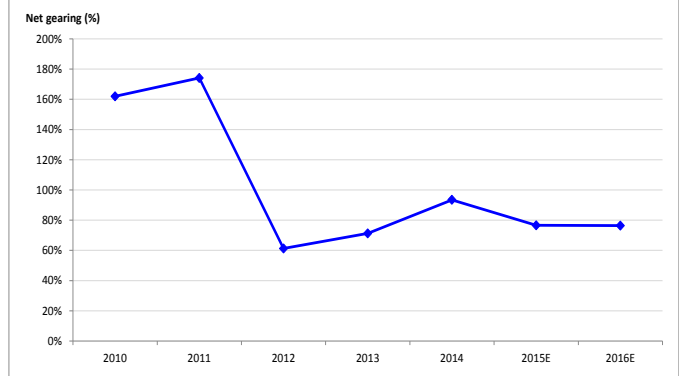
Source: Company data, CMS (HK)

Figure 3: Revenue and profit growth



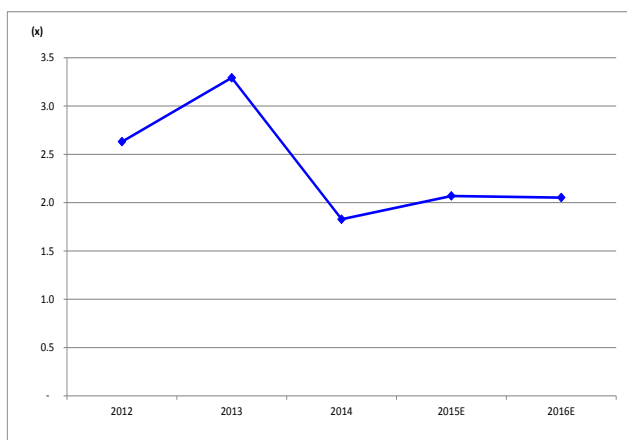
Source: Company data, CMS (HK)

Figure 4: Net gearing



Source: Company data, CMS (HK)

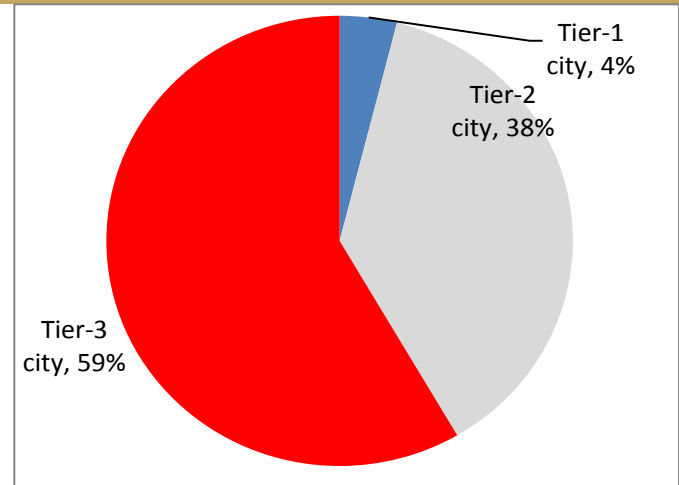
Figure 5: Interest coverage



Source: CMS (HK)

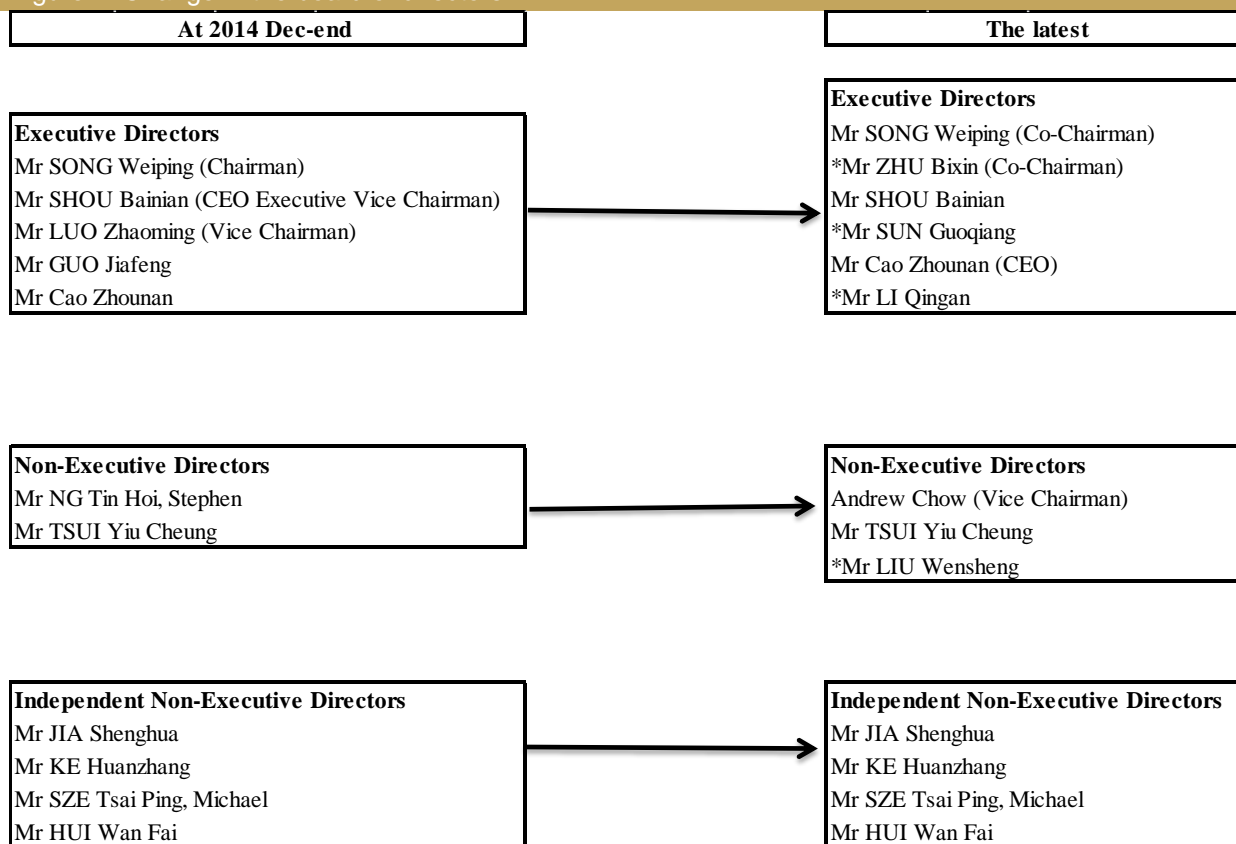
Note: Operating profit / total interest (including capitalized portion)

Figure 6: Greentown's landbank GFA at Dec-end 2014



Source: Company data, CMS (HK)

Figure 7: Change in the board of directors



Source: CMS (HK)

Note: * are the representatives from CCCG

Background of CCCG's property arms

China Real Estate National Development Group (中房集团) (000736 CH)

China Real Estate National Development Group (CRED) is a subsidiary under CCCG and one of the 16 central government enterprises allowed to engage in property development businesses. In 2010, SASAC merged it into CCCG. Currently, it has about 2.4mn sqm landbanks located at Changsha, Chongqing, Suzhou, and Dongguan.

Website: <http://www.cred.com/>

CCCC Real Estate (中交地产)

CCCC Real Estate was established in year 2011 with a registered capital of RMB5bn. It was a wholly owned subsidiary under CCCG. Currently, it has some property developments and construction in Tianjin, Nanning, Harbin and Xianyang (major exposure in Tier-3 cities). Based on market news, it has about 7.2mn sqm of landbanks.

Website: <http://www.cccrec.com/>

CCCG's own landbanks

Other than the above two property arms, CCCG may also have some property landbanks. However, no disclosure of its own landbanks is available.

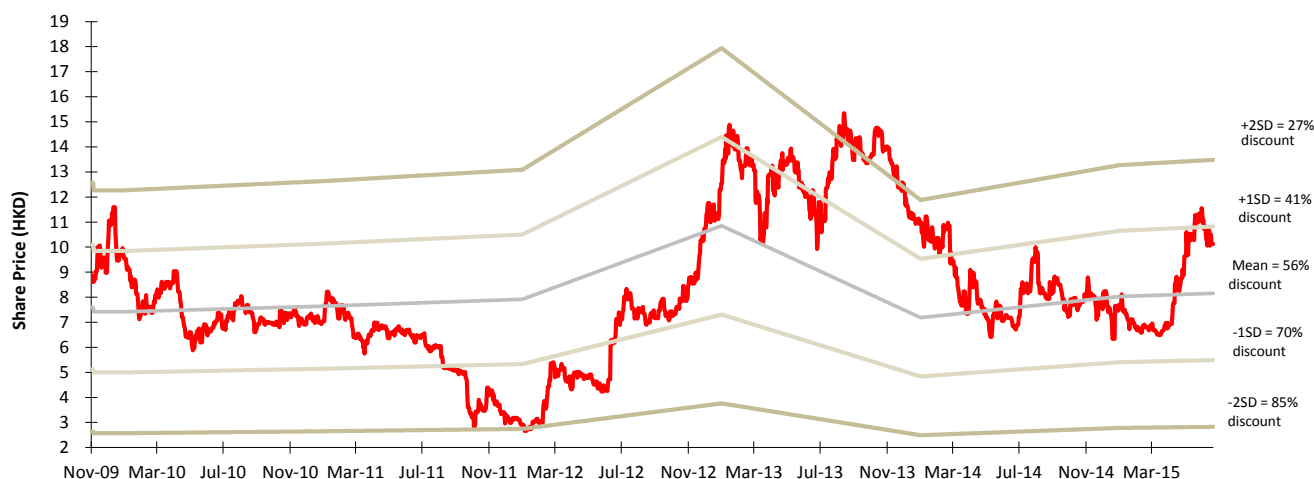
Sector's valuation

Figure 8: Peer comparison: valuation (Based on closing prices as of 19 Jun 2015)

Company	Ticker	Price	Mkt cap (USDm)	3-mth avg t/o (USDm)	NAV (HKD)	Discount to NAV (%)	FY14 P/E (x)	FY15 P/E (x)	FY16 P/E (x)	FY14 yield (%)	FY15 yield (%)	FY14 P/B (x)	FY15 P/B (x)	Net gearing FY14 (%)	Net gearing FY15 (%)
Large peer average						22.6	10.7	8.3	7.2	4.3	3.4	1.4	1.2	71.3	71.1
China Overseas	688 HK	27.45	34,919	113.9	30.5	10.0	9.4	7.8	6.6	2.0	2.6	1.7	1.4	31.7	29.3
CR Land	1109 HK	24.70	22,085	80.5	33.0	25.2	12.2	11.5	8.8	2.0	1.7	1.8	1.3	42.7	33.6
Country Garden	2007 HK	3.39	9,879	35.2	4.7	28.2	5.5	5.6	4.3	5.4	5.3	1.0	0.9	62.2	62.3
Evergrande	3333 HK	4.59	9,261	121.7	5.3	13.4	19.6	8.5	8.5	11.7	2.9	1.0	1.0	251.0	288.2
Longfor	960 HK	12.04	9,050	13.6	14.6	17.5	8.0	6.2	6.6	2.9	3.1	1.1	1.0	57.1	59.4
Shimao Property	813 HK	15.48	6,935	33.0	31.6	51.0	5.9	5.4	4.8	5.8	5.6	0.9	0.8	58.6	56.5
Wanda Comm-H	3699 HK	65.70	38,373	61.8	n.a.	n.a.	14.7	12.4	9.8	0.9	2.3	1.5	1.4	60.4	30.2
China Vanke-H	2202 HK	19.08	24,485	35.4	22.0	13.3	10.7	9.2	7.9	3.2	3.8	1.9	1.7	6.3	9.1
Mid-and-small peer average						45.7	10.4	11.6	8.1	3.2	3.7	0.8	0.7	72.6	70.9
Agile Property	3383 HK	5.22	2,638	15.5	14.4	63.8	3.7	3.9	3.8	7.6	6.5	0.5	0.4	96.6	79.8
COGO	81 HK	3.91	1,151	3.9	8.0	51.1	7.2	7.9	3.9	1.3	1.3	0.8	0.7	77.0	68.1
CIFI Holdings	884 HK	2.07	1,807	7.2	4.0	48.3	5.1	5.2	4.3	5.3	4.6	1.0	0.9	66.6	65.7
Franshion Ppt	817 HK	3.03	4,171	8.4	4.5	32.7	7.7	8.1	7.3	3.1	3.7	0.8	0.7	60.9	58.2
Greentown China	3900 HK	10.12	2,822	13.7	17.5	42.2	8.1	5.8	5.5	0.0	3.4	0.7	0.7	93.4	76.6
KWG Property	1813 HK	6.60	2,510	11.9	16.3	59.5	6.0	5.2	4.5	6.3	6.7	0.7	0.7	66.8	68.5
Poly Property	119 HK	3.83	1,809	17.2	8.1	52.7	10.0	11.5	9.3	2.0	2.2	0.5	0.4	97.0	101.4
Shenzhen Investment	604 HK	3.90	3,714	26.7	6.0	35.0	7.3	8.8	7.8	3.9	4.4	0.9	0.7	77.8	N/A
Sino Ocean	3377 HK	5.33	5,174	12.4	8.0	33.4	8.8	8.1	7.2	4.5	4.9	0.7	0.7	76.0	58.1
SOHO China	410 HK	5.09	3,414	6.8	8.6	40.8	12.0	24.3	22.9	6.2	5.9	0.5	0.5	20.3	30.1
Sunac	1918 HK	9.10	3,990	26.4	12.4	26.6	6.5	4.1	4.8	2.6	4.9	1.5	1.1	44.5	67.4
Gemdale	535 HK	0.56	1,094	3.8	n.a.	n.a.	11.2	N/A	N/A	1.8	N/A	0.9	N/A	1.4	N/A
BJ North Star	588 HK	3.54	3,789	4.3	n.a.	n.a.	17.7	11.1	9.5	2.1	2.1	0.6	0.8	74.6	N/A
Yuexiu Property	123 HK	1.68	2,688	15.0	3.5	52.0	9.1	9.4	8.1	4.3	4.7	0.6	0.5	63.0	67.6
Average						38.4	10.5	10.5	7.8	3.5	3.6	1.0	0.9	72.2	71.0

Source: CMS (HK), Bloomberg

Figure 9: Greentown's discount to NAV Band



Source: CMS (HK), Bloomberg

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	8,829	8,246
Properties under development & land prepaid	49,156	45,248	47,062	62,303	73,623
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	(2,950)	3,742	5,044
Profit before tax	10,257	9,147	5,928	6,619	6,977
Working capital chg	(2,694)	1,059	(2,962)	4,671	6,273
Tax paid	(1,109)	(2,641)	(2,720)	(2,946)	(2,867)
Interest paid	(3,586)	(2,448)	(3,045)	(3,359)	(3,584)
Other operating cashflow	(1,275)	(1,398)	(151)	(1,244)	(1,755)
Investing cashflow	6,232	(9,220)	(2,607)	(550)	(6,200)
Fixed assets additions	(1,078)	(1,768)	(1,424)	(600)	(600)
Land and investment property capex	(479)	(5,559)	0	(6,000)	(6,000)
Subsidiary acquisitions / disposals	7,720	0	0	0	0
(Inc) dec in JCEs / Asso.	437	(3,104)	395	5,650	0
Other investing cashflow	(368)	1,211	(1,578)	400	400
Financing cashflow	(5,276)	10,040	2,605	2,559	1,878
Dividend paid	(351)	(1,397)	(1,465)	0	(595)
Issuances of equity shares	2,076	89	0	0	0
Increase/decrease in loans	(10,011)	9,233	6,876	3,000	3,000
Paid / repaid from sister companies	0	2,337	(562)	0	0
Other financing cashflow	3,010	(222)	(2,244)	(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

Profit & Loss Statement

RMB mn	2012	2013	2014	2015E	2016E
Revenue	35,393	28,991	32,048	29,429	27,486
Cost of goods sold	(24,679)	(20,215)	(23,916)	(21,398)	(19,469)
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)	(5,557)	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

Source: Company data, CMS (HK) estimates

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

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