

Sino-Ocean Land Holdings

3377.HK 3377 HK

EQUITY: PROPERTY

A double beneficiary

Raise FY15 sales target, while reduce financing cost further

We attended Sino Ocean's reverse roadshow in Shenzhen on 18 June. Below are the key takeaways.

Aggressive land acquisitions in Beijing and Shenzhen

Sino Ocean has acquired 8.3mn sqm land in T1 and top T2 cities (including 6 plots in Beijing, 2 plots in Shanghai, and 3 plots in Shenzhen) with a gross land premium of >CNY34bn (equivalent to ~70% of its sales) since 2014 to strengthen its landbank (63% in T1 and 32% in T2 by GAV, per our estimates). With the significant ASP pick-up in Shenzhen (secondary ASP up by 17.9% since end-2014, as per Centaline) and Beijing (due to the "Jing-Jin-Ji" concept), we believe the company is a double beneficiary to enjoy the physical market recovery.

Raise FY15 sales target to CNY42bn with larger Guangdong sales

Supported by its CNY73bn saleable resources, management raised its FY15 sales target to CNY42bn (vs. our forecast of CNY43.8bn) from CNY40bn, and expects Shenzhen and Zhongshan to contribute around CNY5-6bn sales this year. With more launches lined up for Shenzhen and Guangzhou in 2016, we forecast the Guangdong province to contribute ~CNY10bn of sales, boosting its sales to CNY52.6bn (+20% y-y) in FY16F, based on current landbank.

Financing cost improves to 6.4% with lengthened debt maturity profile

With the strong support of its major shareholder, China Life (2628 HK, NR), Sino Ocean issued two senior notes with 5-12 years tenor for a total of USD1.2bn at 4.45%-5.95% in Jan-15. This has reduced its average financing cost significantly to 6.4% from 7.08%, and lengthened its debt maturity profile.

Maintain Buy rating and raise TP to HKD6.06

We maintain our Buy rating, slightly raise FY15-16F earnings, and raise TP by 14% to HKD6.06, based on a 35% discount to end-FY15F NAV of HK9.32, after factoring in the recent new land acquisitions, improved credit, and our revised ASP growth assumptions for T1 cities (from 5% to 10%). The stock currently trades at 6.6x FY16F P/E (EPS: CNY64.84c).

Year-end 31 Dec	FY14		FY15F		FY16F		FY17F	
Currency (CNY)	Actual	Old	New	Old	New	Old	New	
Revenue (mn)	38,896	43,933	44,146	48,547	48,620	56,191	56,728	
Reported net profit (mn)	4,597	7,150	6,610	6,502	6,038	7,254	7,384	
Normalised net profit (mn)	3,566	4,098	4,122	4,828	4,872	5,831	5,951	
Normalised EPS	48.44c	54.79c	54.92c	64.55c	64.84c	77.96c	79.21c	
Norm. EPS growth (%)	-4.0	13.1	13.4	17.8	18.1	20.8	22.2	
Norm. P/E (x)	8.8	N/A	7.8	N/A	6.6	N/A	5.4	
EV/EBITDA (x)	9.1	N/A	6.0	N/A	3.6	N/A	1.0	
Price/book (x)	0.7	N/A	0.7	N/A	0.6	N/A	0.6	
Dividend yield (%)	4.5	N/A	5.1	N/A	6.1	N/A	7.4	
ROE (%)	11.4	15.5	14.5	12.9	12.1	13.1	13.5	
Net debt/equity (%)	68.0	25.1	31.0	net cash	net cash	net cash	net cash	

Source: Company data, Nomura estimates

Key company data: See page 2 for company data and detailed price/index chart

Global Markets Research

22 June 2015

Rating	Buy
Remains	
Target price	HKD 6.06
Increased from 5.33	
Closing price	HKD 5.33
19 June 2015	
Potential upside	+13.7%

Anchor themes

Amid consolidation, we see big developers maintaining ~10% y-y property sales growth in 2015F vs. flat growth for the broader sector. We believe that policy/credit will remain supportive and that balance sheets will improve with slower growth targets.

Nomura vs consensus

Our FY15F/FY16F core EPS are 6%/10% higher than consensus. Our target price implies a 14% upside potential.

Research analysts

China Property

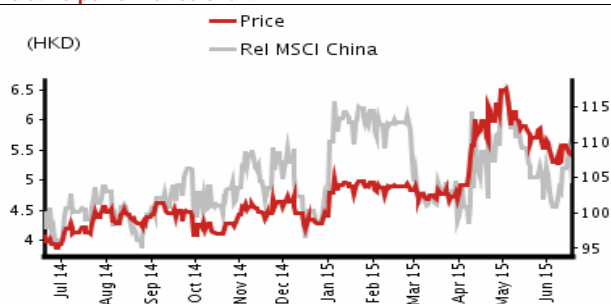
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Key data on Sino-Ocean Land Holdings

Relative performance chart



Source: Thomson Reuters, Nomura research

Notes:

Performance

(%)	1M	3M	12M		
Absolute (HKD)	-7.9	11.0	31.3	M cap (USDm)	5,174.0
Absolute (USD)	-7.9	11.1	31.3	Free float (%)	50.0
Rel to MSCI China	-4.8	-1.9	2.3	3-mth ADT (USDm)	12.4

Income statement (CNYmn)

Year-end 31 Dec	FY13	FY14	FY15F	FY16F	FY17F
Investment properties	550	679	1,549	1,885	2,299
Property development	28,146	35,243	40,240	44,259	51,830
Hotels/serviced apartments					
Other Revenue	2,403	2,974	2,357	2,475	2,599
Revenue	31,099	38,896	44,146	48,620	56,728
EBIT contributions					
Investment properties	550	679	1,549	1,885	2,299
Property development	4,594	4,514	6,316	7,201	9,235
Hotels/serviced apartments					
Other income	2,610	3,149	2,532	2,650	2,774
Management expenses	-1,460	-1,858	-2,207	-2,431	-2,836
EBITDA	6,294	6,484	8,190	9,305	11,471
Dep and amort					
EBIT	6,294	6,484	8,190	9,305	11,471
Net interest expense	-92	-155	-154	245	-141
Associates & JCEs	331	435	81	82	277
Other income	0	0	0	0	0
Earnings before tax	6,533	6,764	8,116	9,632	11,608
Income tax	-2,478	-2,601	-3,262	-3,995	-4,556
Net profit after tax	4,055	4,163	4,854	5,637	7,051
Minority interests	-586	-9	-731	-765	-1,100
Other items	-433	-588	0	0	0
Preferred dividends					
Normalised NPAT	3,036	3,566	4,122	4,872	5,951
Extraordinary items	1,039	1,031	2,488	1,166	1,433
Reported NPAT	4,075	4,597	6,610	6,038	7,384
Dividends	-1,246	-1,425	-1,649	-1,949	-2,380
Transfer to reserves	2,829	3,172	4,961	4,089	5,003

Valuations and ratios

Reported P/E (x)	6.3	6.8	4.8	5.3	4.3
Normalised P/E (x)	8.4	8.8	7.8	6.6	5.4
FD normalised P/E (x)	8.4	8.8	7.8	6.6	5.4
Dividend yield (%)	4.0	4.5	5.1	6.1	7.4
Price/cashflow (x)	58.4	na	1.5	1.5	1.2
Price/book (x)	0.8	0.7	0.7	0.6	0.6
EV/EBITDA (x)	8.3	9.1	6.0	3.6	1.0
EV/EBIT (x)	8.3	9.1	6.0	3.6	1.0
EBIT margin (%)	20.2	16.7	18.6	19.1	20.2
Effective tax rate (%)	37.9	38.5	40.2	41.5	39.3
Dividend payout (%)	30.6	31.0	24.9	32.3	32.2
ROA (pretax %)	5.7	5.8	7.2	8.6	12.2

Source: Company data, Nomura estimates

Cashflow statement (CNYmn)

Year-end 31 Dec	FY13	FY14	FY15F	FY16F	FY17F
EBITDA	6,294	6,484	8,190	9,305	11,471
Change in working capital	-2,515	5,291	3,403	11,284	16,264
Other operating cashflow	-3,339	-18,103	9,663	639	-604
Cashflow from operations	439	-6,327	21,255	21,228	27,131
Capital expenditure					
Free cashflow	439	-6,327	21,255	21,228	27,131
Reduction in investments	-52	-161	-4,699	-755	-453
Net acquisitions	95	-1,588	-299	-302	-440
Dec in other LT assets					
Inc in other LT liabilities					
Adjustments	602	1,104	-1,285	-1,542	-1,850
CF after investing acts	1,084	-6,972	14,972	18,629	24,387
Cash dividends	-865	-835	-1,649	-1,949	-2,380
Equity issue	5,006	86	166	0	0
Debt issue	-3,841	10,473	7,404	0	0
Convertible debt issue					
Others	-1,482	-2,465	874	8	389
CF from financial acts	-1,181	7,258	6,795	-1,941	-1,991
Net cashflow	-97	286	21,767	16,688	22,396
Beginning cash	16,147	16,050	16,336	38,104	54,792
Ending cash	16,050	16,336	38,104	54,792	77,188
Ending net debt	19,245	29,268	14,904	-1,784	-24,180

Balance sheet (CNYmn)

As at 31 Dec	FY13	FY14	FY15F	FY16F	FY17F
Cash & equivalents	16,050	16,336	38,104	54,792	77,188
Properties held for sale	94,383	67,469	66,613	55,717	33,407
Accounts receivable	3,587	4,457	5,348	6,418	7,702
Other current assets	8,081	11,779	13,396	15,318	17,604
Total current assets	122,100	100,041	123,461	132,244	135,900
Investment properties	10,302	11,883	16,581	17,336	17,790
Other fixed assets (net)	213	272	353	405	421
Associates	2,312	6,083	6,141	6,194	6,379
Other LT assets	2,941	13,932	4,960	3,670	3,509
Total assets	137,869	132,212	151,497	159,849	163,999
Short-term debt	12,839	11,167	11,167	11,167	11,167
Accounts payable	14,073	11,060	13,272	15,926	19,112
Other current liabilities	43,202	29,162	32,005	32,729	27,067
Total current liabilities	70,115	51,388	56,444	59,822	57,346
Long-term debt	22,456	34,437	41,841	41,841	41,841
Convertible debt					
Other LT liabilities	1,853	2,003	2,401	2,879	3,452
Total liabilities	94,424	87,829	100,686	104,542	102,639
Minority interest	3,387	1,359	2,660	3,067	4,117
Preferred stock					
Shareholders' Equity	37,525	40,491	45,618	49,707	54,711
Other equity and reserves	2,533	2,533	2,533	2,533	2,533
Total shareholders' equity	40,058	43,024	48,151	52,240	57,243
Total equity & liabilities	137,869	132,212	151,497	159,849	163,999

Leverage

Interest cover	68.42	41.75	53.18	na	81.25
Gross debt/prop assets (%)	25.6	34.5	35.0	33.2	32.3
Net debt/EBITDA (x)	3.1	4.5	1.8	net cash	net cash
Net debt/equity (%)	48.0	68.0	31.0	net cash	net cash
Revenue	8.5	25.1	13.5	10.1	16.7
EBITDA	7.5	3.0	26.3	13.6	23.3
EBIT	7.5	3.0	26.3	13.6	23.3
Normalised EPS	15.1	-4.0	13.4	18.1	22.2
Normalised FDEPS	15.1	-4.0	13.4	18.1	22.2

Dupont decomposition

Net margin (%)	13.1	11.8	15.0	12.4	13.0
Asset utilisation (x)	0.2	0.3	0.3	0.3	0.3
ROA (%)	3.0	3.5	4.4	3.8	4.5
Leverage (Assets/Equity x)	3.7	3.3	3.3	3.2	3.0
ROE (%)	10.86	11.35	14.49	12.15	13.50

Per share

Reported EPS (CNY)	67.74c	62.44c	88.06c	80.36c	98.28c
Norm EPS (CNY)	50.47c	48.44c	54.92c	64.84c	79.21c
FD norm EPS (CNY)	50.47c	48.44c	54.92c	64.84c	79.21c
BVPS (CNY)	5.52	5.76	6.41	6.95	7.62
DPS (CNY)	0.17	0.19	0.22	0.26	0.32

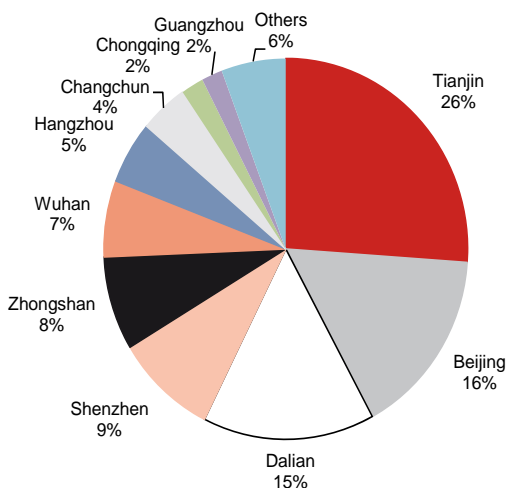
Source: Company data, Nomura estimates

Fig. 1: GAV and NAV per share

Gross asset value (HKD mn)	92,996	% of GAV
Total development properties	63,071	68%
Residential	58,934	63%
Office	4,138	4%
Total investment properties	29,925	32%
Residential	2,825	3%
Retail	13,013	14%
Office	12,804	14%
Hotel	1,283	1%
Gross asset value	92,996	
Net debt	(18,630)	
Adjustments for associates & perpetual debt	(4,428)	
Net asset value	69,938	
Total outstanding number of shares (mn)	7,506	
NAV/share (per stock currency)	9.32	

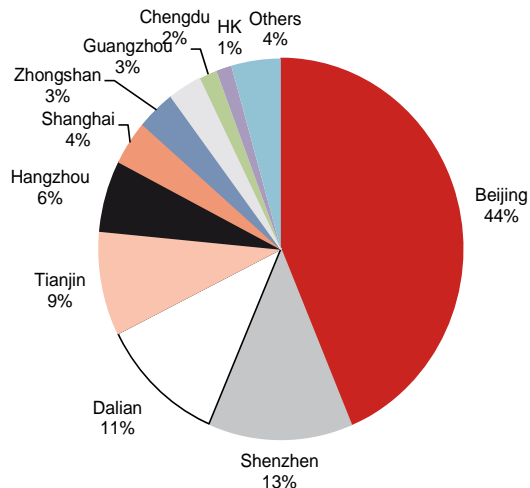
Source: Company data, Nomura estimates

Fig. 2: Landbank breakdown by GFA (FY15F)



Source: Company data, Nomura estimates

Fig. 3: Landbank breakdown by GAV (FY15F)



Source: Company data, Nomura estimates

Appendix A-1

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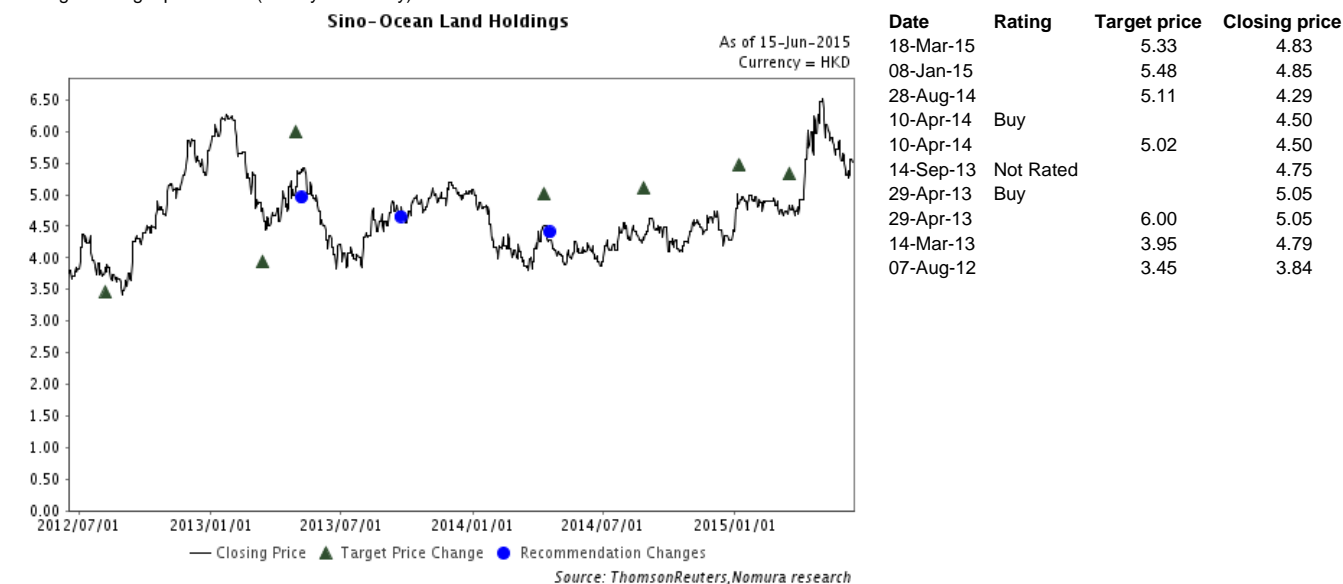
Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Sino-Ocean Land Holdings	3377 HK	HKD 5.33	19-Jun-2015	Buy	N/A	

Sino-Ocean Land Holdings (3377 HK)

HKD 5.33 (19-Jun-2015) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our TP of HKD6.06 is based on a 35% discount to end-2015F NAV of HKD9.32. The benchmark index for this stock is MSCI China.

Risks that may impede the achievement of the target price Key risks to our TP include lower than expected margins and sales, and too aggressive land acquisitions at high price premiums.

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