China SCE Property (1966.HK)
Make an effort in the Economic Zone on the Western Side of the Taiwan Straits

Bloomberg | Reuters | POEMS
Sector: Mainland Property

Strategic Analysis
Rating: Accumulate  Closing Price: 1.94  Target Price: 2.15

Company profile
China SCE Property Holdings Limited was listed on the Hong Kong Stock Exchange in February 2010, while main businesses are real estate development and property investment. The Company centers on the Economic Zone on the Western Side of the Taiwan Straits as development priority, and gradually shifts development business to Bohai Rim and Pearl River Delta. At the end of June 2012, China SCE Property held RMB7.98 million m² land reserve, 64% of which was located in the Economic Zone on the Western Side of the Taiwan Straits. The Company is dedicated to becoming an influential medium-sized real estate enterprise in the Economic Zone on the Western Side of the Taiwan Straits with sound development strategy.

Investment overview
The Economic Zone on the Western Side of the Taiwan Straits, belonging to Fujian province, is the base camp of China SCE Property, and will be the Company’s main business revenue source for a long time. As of the end of June 2012, China SCE Property held RMB7.98 million m² land reserve, 64% of which was located in the Economic Zone on the Western Side of the Taiwan Straits. Currently, the Company’s main on-sale and under-construction projects are located in three cities in Fujian – Quanzhou, Xiamen and Zhangzhou. We expect over 80% of China SCE Property’s contractual sales will come from the Economic Zone on the Western Side of the Taiwan Straits where the said three cities are located, while Bohai Rim will contribute limited sales.

China SCE Property’s Fujian projects are mainly comprehensive properties such as Fortune Center, Gold Coast and Sunshine Town, while other projects outside Fujian are mainly housing properties. In 2009-2012 China SCE Property’s yearly contractual sales increased from RMB3.2 billion to RMB5.5 billion, at a composite growth of 19.8%, a solid growth. Looking forward to the company sale situation in 2013, we believe with industrial recovery, steady demand and increasing on-sale projects, the Company’s contractual sales are expected to rise to RMB7.5-8 billion in 2013.

Key Financial Summary

<table>
<thead>
<tr>
<th>FYE</th>
<th>10A</th>
<th>11A</th>
<th>12E</th>
<th>13E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (RMB mn)</td>
<td>4,131</td>
<td>3,770</td>
<td>4,720</td>
<td>5,030</td>
</tr>
<tr>
<td>Net Profit, adj. (RMB mn)</td>
<td>946</td>
<td>716</td>
<td>1,019</td>
<td>1,112</td>
</tr>
<tr>
<td>EPS, adj. (RMB)</td>
<td>0.34</td>
<td>0.25</td>
<td>0.36</td>
<td>0.39</td>
</tr>
<tr>
<td>P/E (X), adj.</td>
<td>4.94</td>
<td>4.96</td>
<td>4.25</td>
<td>4.41</td>
</tr>
<tr>
<td>BVPS (RMB)</td>
<td>1.290</td>
<td>1.510</td>
<td>1.870</td>
<td>2.230</td>
</tr>
<tr>
<td>P/B (X)</td>
<td>1.30</td>
<td>0.82</td>
<td>0.82</td>
<td>0.77</td>
</tr>
<tr>
<td>DPS (RMB)</td>
<td>0.08</td>
<td>0.03</td>
<td>0.03</td>
<td>0.04</td>
</tr>
<tr>
<td>Div. Yield (%)</td>
<td>4.76%</td>
<td>2.42%</td>
<td>1.96%</td>
<td>2.33%</td>
</tr>
</tbody>
</table>

Source: Bloomberg, SCE
*All multiples & yields based on current market price

Valuation Method
P/E

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As China SCE Property’s development size maintains expansion, but sale cash flow cannot cover capital expenditure, the Company’s net debt size has continued to grow as shown in the figure since 2010. Meanwhile, the Company’s cash status has not shown sign of positive improvement, and its capital expenditure has remained rising. We believe China SCE Property needs to more rapidly develop new projects to improve the cash flow at the same time as active financing. It is predicted that China SCE Property’s sales cash flow will rise to some RMB8 billion in 2013, with debt size under effective control.

We hold that China SCE Property has comparability with Yuzhou Property which is also a Fujian developer, so Yuzhou Property’s valuation has some reference. Based on our estimation on China SCE Property’s future performance, the Company’s net margin will reach RMB1.02 billion and RMB1.11 billion in 2012 and 2013 respectively, EPS RMB0.36 and RMB0.39, equivalent to HK$0.45 and HK$0.49. We grant China SCE Property “accumulate” rating, while 12-month target price is HK$2.15, equivalent to 4.4-time P/E expected for 2013.
### Valuation Ratios

<table>
<thead>
<tr>
<th>FYE</th>
<th>FY09</th>
<th>FY10</th>
<th>FY11</th>
<th>FY12F</th>
<th>FY13F</th>
</tr>
</thead>
<tbody>
<tr>
<td>PE (X), adj.</td>
<td>n.a.</td>
<td>4.94</td>
<td>4.96</td>
<td>4.25</td>
<td>4.41</td>
</tr>
<tr>
<td>PB (X)</td>
<td>n.a.</td>
<td>1.30</td>
<td>0.82</td>
<td>0.82</td>
<td>0.77</td>
</tr>
<tr>
<td>EV/EBITDA (X), adj.</td>
<td>n.a.</td>
<td>5.61</td>
<td>6.53</td>
<td>6.48</td>
<td>6.22</td>
</tr>
<tr>
<td>Dividend Yield (%)</td>
<td>n.a.</td>
<td>4.76%</td>
<td>2.42%</td>
<td>1.96%</td>
<td>2.33%</td>
</tr>
</tbody>
</table>

### Per share data (RMB)

| EPS, reported | 0.18  | 0.34  | 0.25  | 0.36  | 0.39  |
| EPS, adj.     | 0.18  | 0.34  | 0.25  | 0.36  | 0.39  |
| DPS           | 0.00  | 0.08  | 0.03  | 0.03  | 0.04  |
| BVPS          | n.a.  | 1.290 | 1.510 | 1.870 | 2.230 |

### Growth & Margins (%)

#### Growth

| Revenue   | 77.03% | 604.95% | -8.74% | 25.20% | 6.57% |
| Operating profit | 50.54% | 720.37% | -7.07% | 26.56% | 4.91% |
| EBT       | 124.00% | 182.26% | -3.86% | 39.44% | 8.60% |
| Net Income, adj. | 122.00% | 153.62% | -24.31% | 42.32% | 9.16% |

#### Margins

| Gross profit margin | 50.00% | 38.59% | 40.90% | 39.51% | 41.15% |
| Operating margin    | 27.65% | 32.17% | 32.76% | 33.11% | 32.60% |
| Net profit margin   | 63.85% | 22.90% | 18.99% | 21.59% | 22.11% |

### Key Ratios

| ROE (%) | n.a.  | 26.36% | 16.56% | 19.25% | 17.49% |
| ROA (%) | 5.31% | 9.81%  | 5.53%  | 5.16%  | 6.33%  |
| Net Debt/(Cash) | 1.619 | 1.460  | 3.192  | 4.670  | 4.780  |
| Net Gearing (X)  | 70.00% | 31.17% | 53.95% | 72.20% | 67.52% |

### Income Statement (RMB mn)

| Revenue   | 586   | 4,131 | 3,770 | 4,720 | 5,030 |
| Cost of sales | (293) | (2,537)| (2,228)| (2,855)| (2,960)|
| Gross profit | 293   | 1,594 | 1,542 | 1,865 | 2,070 |
| Operating profit | 162   | 1,329 | 1,235 | 1,563 | 1,640 |
| EBT         | 541   | 1,527 | 1,468 | 2,047 | 2,223 |
| Tax         | (179) | (591) | (591) | (747) | (834) |
| Tax rate    | 33.09% | 38.70% | 40.26% | 36.49% | 37.50% |
| Profit for the year | 362   | 936   | 877   | 1,300 | 1,389 |
| Minority interests | 11    | 10    | (161) | (281) | (277) |
| Net profit  | 373   | 946   | 716   | 1,019 | 1,112 |

Source: BLOOMBERG, SCE and Phillip Securities
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