

# Shimao Property (813.HK)

## Review of 2012 Performance

Bloomberg | Reuters | POEMS

813.HK | 813.HK | 813.HK

Sector: Mainland Property

## Strategic Analysis

Rating : Buy Closing Price : 14.96 TP : 18.60

### Investment Overview

In 2012, Shimao Property had a confirmed sales volume of 28.6 billion Yuan, up 10% year on year. Because intensively selling out the remaining stock caused the decrease in the gross profit margin, the business profit went down by 9% to 10 billion Yuan during the operation, with a net profit of 5.76 billion Yuan. Except the fair value of the investment in properties, the core net profit stood at 4.4 billion Yuan, slightly down 4% year on year.

During the period, the average entry price decreased by 13% to 10,251 Yuan per square meter. Selling out the stock and increasing the real estate projects in the second and third-tier cities resulted in the decline in the average sales price. The number of entry projects exceeded 37, among which 11 projects in Changshu, Fuzhou, Xiamen, Hangzhou, Shanghai, Nanjing, Suzhou and Kunshan had more than 1 billion Yuan in the entry revenue.

The year of 2012 witnessed a remarkable sales volume of Shimao Property. The Company's total revenue stood at 46.1 billion Yuan, 50% higher than the annual sales target of 30.7 billion Yuan. The total sales area reached 4.09 million square meters with the average sale price of 11,277 Yuan per square meter. The outstanding sales achievements showed that the Company's sales strategy was rather active and the management responded to the market quickly.

In 2013, the company's contract sales target has been set to be 55 billion Yuan, up 20% from 2012. This reflects that the management of Shimao Property holds an optimistic attitude toward the market prospect and the sales volume. To achieve this goal, the Company shall set nearly 7.7 million square meters of properties for sale in 2013, among which 5.1 million square meters are newly offered.

As the remarkable sales volume in the fourth quarter of 2012 continues, the first quarter of 2013 will be quite likely to enjoy a potential sales volume. Benefiting from this as well as the sufficient supply, Shimao Property has achieved a sales volume of 13.7 billion Yuan in the first three months, accounting for 25% of the annual sales goal. The regulation policy made by the new government has been assumed weaker strength than expected, so there is reason to predict that in the second quarter, Shimao Property will be still actively promote the sales of new residential buildings, but with lower sales volume than in the first quarter. It is estimated that the sales volume in the first half of the year can reach approximately 25 billion Yuan.

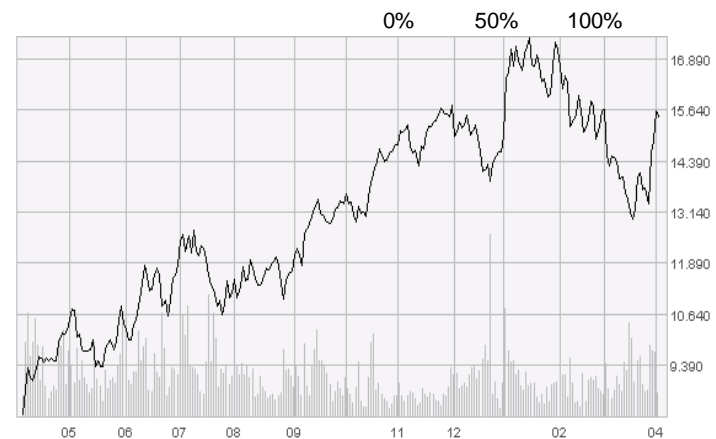


Phillip Securities (Hong Kong) Ltd  
Phillip Securities Research

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### Shimao Property

<b>Rating</b>	<b>1.00</b>	<b>Buy</b>
- Previous Rating	2.00	Accumulate
<b>Target Price (HKD)</b>	<b>18.6</b>	
- Previous Target Price (HKD)	12.6	
Closing Price (HKD)	14.96	
Expected Capital Gains (%)	24.3%	
Expected Dividend Yield (%)	5.0%	
<b>Expected Total Return (%)</b>	<b>29.3%</b>	
Raw Beta (Past 2yrs w weekly data)	1.45	
Market Cap. (HKD mn)	51,950	
Enterprise Value (HKD mn)	73,066	
52 w week range (HKD)	8.27-17.64	
Closing Price in 52 w week range		



### Key Financial Summary

FYE	10A	11A	12E	13E
Revenue (RMB mn)	21,789	26,031	28,652	33,600
Net Profit, adj. (RMB mn)	4,671	5,722	5,764	8,703
EPS, adj. (RMB)	1.32	1.62	1.660	2.510
P/E (X),adj.	6.87	3.32	7.05	5.93
BVPS (RMB)	7.530	10.100	11.780	12.660
P/B (X)	0.88	0.66	0.99	1.18
DPS (RMB)	0.330	0.325	0.550	0.750
Div. Yield (%)	3.64%	6.03%	4.70%	5.04%

Source: Bloomberg, Shimao

\*All multiples & yields based on current market price

### Valuation Method

P/E

Research Analyst

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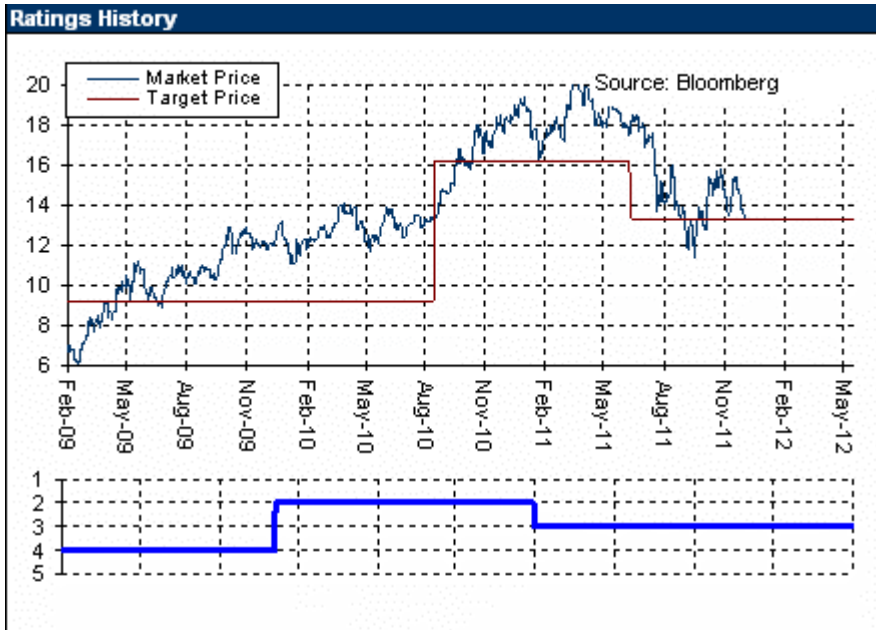
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In 2012, Shimao Property had sufficient cash flow, which dramatically improved its financial status. Benefiting from the increase in the cash flow and the decline of short-term debt, the Company's net liability ratio declined from 81.7% at the end of 2011 to 55.9% at the end of 2012, down 25.8%. Meanwhile, the suspension of the high-interest financing reduced the costs, making the interest cost decline from 7.9% in 2011 to 7.7%. Moreover, at the end of 2012, the debt maturity structure was optimized through 670 million US dollars of syndicated loans and 0.8 billion US dollars of senior notes.

Shimao Property has set a sales target of 55 billion Yuan newly, marking its initiation into large-scaled real estate enterprises, which in turn helps improve the valuation. The Company has made active preparations in the central and eastern regions to promote sales, achieving impressive results. The residential buildings, commercial real estate, hotel and property investment, these four kinds of business have achieved good cash flow with sound financial status. We are optimistic about our performance in 2013 and confident that our sales volume will be on the rise. We have given Shimao Property "buy" ratings, with the 12-month target price of HK\$18.6, which is 6 times as much as PE in 2013.

FYE	FY09	FY10	FY11	FY12F	FY13F
<b>Valuation Ratios</b>					
P/E (X), adj.	10.77	6.87	3.32	7.05	5.93
P/B (X)	1.01	0.88	0.66	0.99	1.18
EV/EBITDA (X), adj.	12.9	8.84	6.53	6.77	5.92
Dividend Yield (%)	2.64%	3.64%	6.03%	4.70%	5.04%
<b>Per share data (RMB)</b>					
EPS, reported	1.02	1.32	1.62	1.660	2.510
EPS, adj.	1.02	1.32	1.62	1.660	2.510
DPS	0.290	0.330	0.325	0.550	0.750
BVPS	6.590	7.530	10.100	11.780	12.660
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	136.68%	27.93%	19.47%	10.07%	17.27%
Operating profit	125.74%	54.87%	18.53%	-8.86%	27.81%
EBT	46.03%	50.09%	25.45%	-5.45%	15.77%
Net Income, adj.	33.05%	33.04%	22.50%	0.73%	50.99%
<b>Margins</b>					
Gross profit margin	34.53%	36.61%	38.42%	33.53%	35.50%
Operating profit margin	35.22%	42.63%	42.30%	35.02%	38.17%
Net profit margin	20.61%	21.44%	21.98%	20.12%	25.90%
<b>Key Ratios</b>					
ROE (%)	15.48%	17.53%	16.04%	14.09%	19.83%
ROA (%)	6.21%	5.76%	5.13%	4.40%	5.73%
Net Debt/(Cash)	13,607	21,932	30,310	22,896	21,770
Net Gearing (X)	53.3%	73.2%	81.7%	55.9%	56.3%
<b>Income Statement (RMB mn)</b>					
Revenue	17,032	21,789	26,031	28,652	33,600
Cost of sales	(11,149)	(13,812)	(16,031)	(19,046)	(21,672)
Gross profit	5,882	7,977	10,000	9,606	11,928
Operating profit	5,998	9,289	11,010	10,035	12,826
EBT	5,710	8,570	10,751	10,165	11,768
Tax	(2,107)	(3,079)	(4,302)	(3,581)	(3,907)
Tax rate	36.90%	35.93%	40.01%	35.22%	40.00%
Profit for the year	3,602	5,491	6,449	6,584	7,861
Minority interests	91	819	726	819	842
Net profit	3,511	4,671	5,722	5,764	8,703

Source: BLOOMBERG, Shimao and Phillip Securities



**PSR Rating System**

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
<-20%	Sell	5

**Remarks**

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm$ 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation.

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