

CCRE (832.HK)

Indistinctive performance in 1H2013

Bloomberg | Reuters | POEMS

832.HK | 832.HK | 832.HK

Sector: Mainland Property

Strategic Analysis

Rating : Buy Closing Price : 2.34 TP : 3.00

Summary

In the first half of 2013, CCRE's operating revenue and net profits respectively amounted to RMB 3.05 billion and RMB 0.357 billion, up 0.8% and 7.5% from the corresponding period a year earlier. Meanwhile, the company's booked sales revenue basically maintained unchanged as compared to the same period of last year, and it increased slightly from RMB 3.015 billion in the first half of 2012 to RMB 3.017 billion in the same period of 2013, with rental receipts and hotel operating revenue respectively touching RMB 11 million and RMB 22 million.

Due to increase of the average sales price, the company's gross profit margin hit 36.3% in the first half of 2013, an increase of 0.5 percentage points from the corresponding period of last year. In addition, CCRE redeemed senior debt in advance and incurred more interest expenses, leading to its financing cost's increase by 280% (to RMB 440 million). In the first half of 2013, the company's net profit rate attained 13.1%, up 1.6% from the same period of last year, which should be mostly attributed to reduction of its land income tax.

Over the first 7 months of 2013, CCRE realized sales revenue of RMB 7 billion in property, representing a year-on-year increase of 18% and making up 55.5% of its whole-year sales goal (RMB 12.6 billion), and such a property sales revenue was moderate as compared to other listed real estate companies. In the second half year, the company is set to launch into the market property of up to 1.24 million square meters and newly build 24 projects. Based on 50% of sales rate, the company is estimated to sell property area of 600,000 square meters at the fewest, with newly-launched projects worth more than RMB 3.5 billion. Therefore, it is foreseeable that the company can complete its sales goal of RMB 12.6 billion.



Phillip Securities (Hong Kong) Ltd
Phillip Securities Research

28 Aug, 2013

CCRE

Rating	1.00	Buy
- Previous Rating	1.00	Buy
Target Price (HKD)	3	
- Previous Target Price (HKD)	3.5	
Closing Price (HKD)	2.34	
Expected Capital Gains (%)	28.2%	
Expected Dividend Yield (%)	5.6%	
Expected Total Return (%)	33.8%	
Raw Beta (Past 2yrs weekly data)	1.14	
Market Cap. (HKD mn)	5,695	
Enterprise Value (HKD mn)	8,109	
52 week range (HKD)	1.76-3.31	
Closing Price in 52 week range		

0% 50% 100%



Key Financial Summary

FYE	11A	12A	13E	14E
Revenue (RMB mn)	6,638	6,346	9,250	11,230
Net Profit, adj. (RMB mn)	668	823	1,068	1,550
EPS, adj. (RMB)	0.298	0.339	0.440	0.637
P/E (X), adj.	4.22	6.46	5.46	3.77
BVPS (RMB)	1.911	2.310	2.740	3.020
P/B (X)	0.66	0.95	0.88	0.79
DPS (RMB)	0.080	0.100	0.132	0.191
Div. Yield (%)	6.36%	4.57%	5.50%	7.96%

Source: Bloomberg, CCRE

*All multiples & yields based on current market price

Valuation Method

P/E

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On the whole, CCRE's medium-term performance is indistinctive and lacks eye-catching points. As for its overall sales strategy, the company still fixes eyes on Zhengzhou market and further develops third-tier cities like Kaifeng, Xinxiang, Jiaozuo, and Zhumadian, etc., in addition to making inroads into prefecture-level cities on a gradual basis. We do think the company has adopted a pragmatic strategy that is tailored to the market of Henan Province. However, the company failed to meet our anticipation in terms of further regional development, and quantity of new projects in third-tier cities should be increased to a large extent. Compared to Henan Province's overall sales growth rate (50.1%) in the commercial residential building sector, the company's sales growth rate however reached 18%, lagging far behind the province's average level. In this context, the company needs to achieve more remarkable sales growth rate, in efforts to seize two-digit market shares in Henan Province.

In the first half of 2013, CCRE, backed by the favorable financing environment, made an active adjustment to its debt structure. As at the end of June, the company's total debts touched RMB 8.17 billion, up 24% from the end of last year. In addition, the company's cash flow went up by 32%, hitting RMB 5.22 billion, and its net debts ascended slightly to reach RMB 2.95 billion, with net debt-equity ratio attaining 49.6%, up 4.9 percentage points from the end of last year.

By the end of June, the company's land reserves had exceeded 17 million square meters, with land cost averaging RMB 717/square meter. Since the whole-year budget for land purchase is RMB 4.7 billion, the company still has land-purchasing budget of RMB 2.4 billion after spending of RMB 2.3 billion in the first half year.

According to our estimation and calculation, CCRE's NAV per share is HK\$ 6.2. In view of the company's NAV estimated value, as well as the future growth rate and valuation level, we adjust downwards the company's 12-month price target to HK\$ 3, equivalent to prospective P/E ratio of 5.5 times in 2013 and 3.8 times in 2014. To sum up, we grant the company "buy" rating.

FYE	FY09	FY10	FY11	FY12	FY13F	FY14F
Valuation Ratios						
P/E (X), adj.	8.09	6.50	4.22	6.46	5.46	3.77
P/B (X)	1.08	1.04	0.66	0.95	0.88	0.79
EV/EBITDA (X), adj.	7.14	5.15	3.46	4.76	4.51	4.10
Dividend Yield (%)	3.67%	4.53%	6.36%	4.57%	5.50%	7.96%
Per share data (RMB)						
EPS, reported	0.202	0.272	0.298	0.339	0.440	0.637
EPS, adj.	0.202	0.272	0.298	0.339	0.440	0.637
DPS	0.06	0.08	0.080	0.100	0.132	0.191
BVPS	1.520	1.700	1.911	2.310	2.740	3.020
Growth & Margins (%)						
Growth						
Revenue	-15.10%	64.82%	46.99%	-4.40%	45.76%	21.41%
EBIT profit	-31.66%	70.06%	80.34%	-19.21%	33.99%	26.35%
EBT	-33.55%	68.20%	66.03%	1.54%	19.28%	30.84%
Net Income, adj.	-37.96%	34.57%	22.57%	23.20%	29.77%	45.09%
Margins						
Gross profit margin	34.74%	34.21%	38.78%	35.39%	35.00%	36.37%
EBIT margin	26.20%	27.04%	33.17%	28.03%	25.77%	26.82%
Net profit margin	14.78%	12.07%	10.06%	12.97%	11.55%	13.80%
Key Ratios						
ROE (%)	13.29%	16.00%	15.59%	14.68%	16.05%	21.09%
ROA (%)	4.66%	4.26%	5.09%	4.38%	5.71%	6.31%
Net Debt/(Cash)	692	1,154	1,399	2,890	3,330	3,820
Net Gearing (X)	20.86%	29.32%	27.75%	51.40%	64.50%	67.68%
Income Statement (RMB mn)						
Revenue	2,740	4,516	6,638	6,346	9,250	11,230
Cost of sales	-1,788	-2,970	-4,063	-4,100	-6,013	-7,146
Gross profit	952	1,545	2,574	2,246	3,238	4,084
EBIT	718	1,221	2,202	1,779	2,384	3,012
EBT	651	1,095	1,818	1,846	2,202	2,881
Tax	-223	-515	-1,075	-977	-1,101	-1,296
Tax rate	34.25%	47.03%	59.13%	52.93%	50.00%	45.00%
Profit for the year	428	580	742	870	1,101	1,585
Minority interests	23	35	75	47	33	35
Net profit	405	545	668	823	1,068	1,550

Source: BLOOMBERG, CCRE and Phillip Securities

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

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

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