

29 September 2014

Wanda Commercial Properties Group (169.HK)

The main assets of the parent company expected to be listed in HK

Rating: **Accumulate**

HONG KONG | MAINLAND PROPERTY | COMPANY RESULTS

- The mid-term performance of Wanda Commercial Properties indicates that in the first half of 2014, Wanda Commercial Properties has raked in about 88,700,000 HKD, a decrease of 92.26% on a year-on-year basis. Earnings from property sales, property leasing and property administration are respectively 26,700,000 HKD, 53,600,000 HKD, and 8,400,000 HKD. While the profits of the company shareholders are - 57800000 HKD. The figure for the same time last year was 0.204 billion HKD;
- There are two primary reasons behind the marked decrease in the company profits: first, the company gained 0.88 billion HKD in the first half of 2013 by selling the affiliated company. Second, 0.189 billion HKD shrank in the profits from selling the Fuzhou Property because of the cool-down of the Fuzhou real estate market in the first half of the year;
- In the end of June, the cash and the total balance of the company were around 2.8 billion HKD, with 61% and 35% of the cash and the total balance calculated by HKD and RMB. The 4% left was calculated by pound and dollar. Currently, the company is in the state of net cash;
- The convenience of financing is the very purpose of Wanda group's holding Hong Kong listed company. In the future, Wanda Commercial Properties will raise capitals through issuing foreign currency debentures and dim sum bonds, whose financing efficiency and cost enjoy a salient advantage than those in the mainland. While in terms of the business orientation, the company will focus on commercial property development in South China in a short term, at the same time, it will expand to foreign countries.

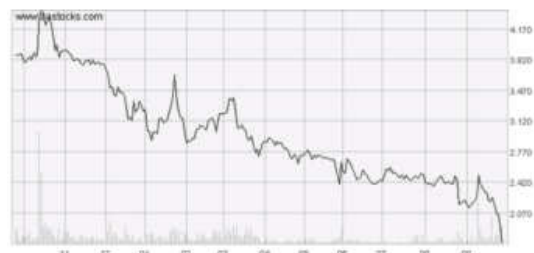
Target Price (HKD)	2.00
Forecast Dividend (HKD)	0.00
Closing Price (HKD)	1.73
Potential Upside	15.6%

Company Description

Wanda Commercial Properties (Group) Co., Limited is a commercial real estate investment and operations management company. The company went public on the Hong Kong Stock Exchange in June, 2002. In June, 2013, Dalian Wanda Commercial Properties Co., Ltd formally became its controlling shareholder.

Company Data

Raw Beta (Past 2yrs weekly data)	1.71
Market Cap. (HKD mn)	8,126
Enterprise Value (HKD mn)	8,064
52 week range (HKD)	1.72-4.65



Major Shareholders

1. Dalian Wanda Commercial Properties Co., Ltd	65.04%
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Valuation Method

P/E

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How we view this

We hold that the change of the company name has something to do with the news about the parent company's IPO in Hong Kong. The total assets of Wanda Commercial Properties parent company are around 500 billion. The scale of financing may well exceed 5 billion dollars, which suggests that Wanda is likely to become the biggest real estate company ever listed in Hong Kong. In the future, Wanda will have two financing platforms in Hong Kong stocks, one for the operation of domestic business, the other for overseas business. We hold that Wanda parent company or its main assets is more likely to go public in Hong Kong, which will become its major financing platform in the future. While Wanda Commercial Properties will be a supplementary part of its overseas business, which means that there will be no overt competition between these two sectors.

Key Financial Summary

FYE	12A	13A	14E	15E	16E
Revenue (RMB mn)	2,773	1,348	550	2,085	3,520
Net Profit, adj. (RMB mn)	232	191	41	369	875
EPS, adj. (RMB)	0.099	0.073	0.008	0.099	0.236
P/E (X), adj.	9.04	44.25	250.00	20.11	8.49
BVPS (RMB)	0.282	0.189	0.65	0.820	0.850
P/B (X)	3.17	17.09	3.08	2.44	2.35
DPS (RMB)	0.000	0.000	0.000	0.000	0.000
Div. Yield (%)	0.00%	0.00%	0.00%	0.00%	0.00%

Source: Bloomberg, Wanda

*All multiples & yields based on historical price and current market price

Investment Action

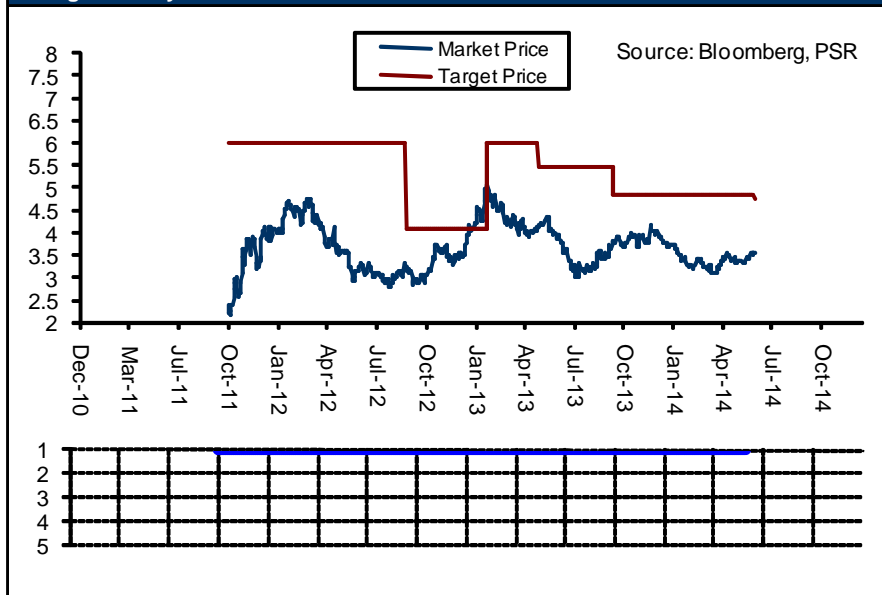
We hold that from 2014 to 2015 Wanda Commercial Properties will be in the state of consistent capital input and restricted cash flow. Hengli Town will remain its primary source of earnings for these two years. Equity expansion potentially brought by continued financing will have a continued dilution effect on earnings per share. In our opinion, the company is more worth being financed than being invested, and the company has restricted view on its business position and future development visibility in the short and medium term. We decide to maintain "Accumulate" rating for Wanda Commercial Properties, whose 12 months' target price is 2 HKD, 15.6% higher than the present price.

Wanda Commercial PPT (169.HK)
29 September 2014

FYE	FY12	FY13	FY14F	FY15F	FY16F
Valuation Ratios					
P/E (X), adj.	9.04	44.25	250.00	20.11	8.49
P/B (X)	3.17	17.09	3.08	2.44	2.35
EV/EBITDA (X), adj.	6.29	22.92	13.60	6.35	5.22
Dividend Yield (%)	0.00%	0.00%	0.00%	0.00%	0.00%
Per share data (HKD)					
EPS, reported	0.099	0.073	0.008	0.099	0.236
EPS, adj.	0.039	0.030	0.008	0.000	0.000
DPS	0.000	0.000	0.000	0.000	0.000
BVPS	0.282	0.189	0.65	0.820	0.850
Growth & Margins (%)					
Growth					
Revenue	n.a.	-51.39%	-59.20%	279.09%	68.82%
EBT	n.a.	-26.13%	-74.59%	487.80%	96.54%
Net Income, adj.	n.a.	-17.67%	-78.53%	800.83%	136.93%
Margins					
Gross profit margin	13.63%	43.99%	34.73%	40.72%	44.38%
EBIT margin	28.02%	42.58%	22.36%	34.68%	40.37%
Net profit margin	8.37%	14.17%	7.45%	17.71%	24.86%
Key Ratios					
ROE (%)	35.11%	38.62%	1.23%	27.73%	34.47%
ROA (%)	3.76%	3.96%	0.48%	6.35%	6.81%
Net Debt/(Cash)	1,032	1,639	net cash	820	1,230
Net Gearing (X)	156.00%	303.00%	net cash	71.00%	82.00%
Income Statement (HKD mn)					
	FY12	FY13	FY14F	FY15F	FY16F
Revenue	2,773	1,348	550	2,085	3,520
Gross profit	378	593	193	855	1,338
EBIT	777	574	191	849	1,562
EBT	613	484	123	723	1,421
Tax	(370)	(250)	(41)	(304)	(469)
Tax rate	60.36%	51.65%	33.33%	42.00%	33.00%
Profit for the year	243	234	82	419	952
Minority interests	11	43	41	50	77
Net profit	232	191	41	369	875

Source: BLOOMBERG, WCPG and Phillip Securities

Ratings History



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

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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