

17 October 2014

Agile Property (3383.HK)

Significant Increase in Financial Risk

HONG KONG | PROPERTY | COMPANY RESULTS

Rating: Neutral

- Since September 30, 2014, Chen Zhuolin, Chairman of Agile Property, has been under residential surveillance and controlled by the Kunming People's Procuratorate. We are convinced that this incident will undermine the Company's operation and financing capabilities, and bring more uncertainty to the Company's further development.

As of the end of this June, the Company's short-term debt has amounted to RMB14.6 billion, while its current cash reserve in banks was only RMB13.9 billion. The poor collection of payment in property sales and tight bank credit policy pose a tough challenge for the short-term solvency of Agile Property. When industry prosperity in recession, rights issue at a discount becomes a major method for a company to obtain funds with high efficiency but low cost, yet it's only used for urgent financial crisis. We expect that, in the coming fourth quarter, Agile Property will get cash by substantial promotion campaigns and project transfer to ensure its short-term financial security.

How we view this

The greatest pressure in short term is from the refinancing risk from the \$475 million bridge loan due in December, 2014. On the morning of October 16, Agile Property released an financing announcement to raise fund totaling HKD1.65 billion on the basis of one rights share for every eight existing shares, thus to replace the previous financing package totaling HKD2.8 billion on the basis of one rights share for every eight existing shares, which was suddenly terminated in early October. The sudden termination of financing is directly related to Chen's residential surveillance by the Yunnan Procuratorate. After the incident of Chen, Agile Property released a new financing announcement in a short period of time, and the amount of financing has decreased dramatically by 40%. This reflects that the Company's financing need is urgent, and that payment collection in real estate sales is awkward.

Another financial risk that might be triggered by Chen's incident is that Agile Property may fall in a default situation over the control rights of the unexpired bank loans and bonds. Chen has been a major leader and participant in Agile Property's strategic decision-making and operations. This event will force the Agile Property management to change the modification terms on the internal control rights, thus they have no choice but to accept higher financing costs and more stringent repayment conditions. Overall, Chen's incident will make Agile Property's business and financial condition much worse: the company's management will have to face more difficulties and challenges, and the Company's reputation and the investors' confidence also need more time to recover.

Over the past few months, even though frequent markdown measures were taken, Agile Property's sales were still unsatisfactory. This is related to the sluggish market in the whole. However, it's more concerned with Agile Property' product positioning and regional layout. In the current weak macroeconomic environment, sales of leisure products, which are with greater demand elasticity, are fairly risky. In the next few months, the Company will unavoidably continue its markdown promotion strategy, the gross margins will continue to decline, and residential property sales are hardly to be optimistic, therefore the annual sales target of RMB48 billion may force the Company to sell its hotels and its commercial real estates.

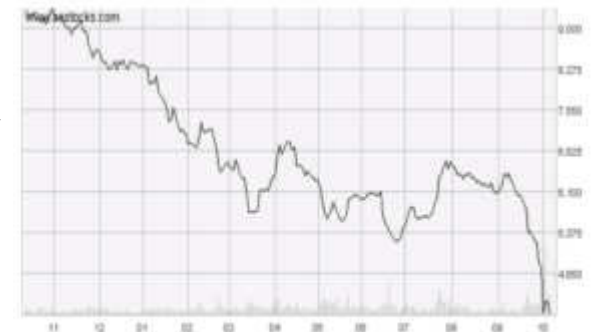
Target Price (HKD)	3.80
Forecast Dividend (HKD)	0.25
Closing Price (HKD)	3.96
Potential Upside	2.53%

Company Description

Agile Property Holdings Limited (Stock Code: 3383) is one of the leading integrated developers in Mainland China. Agile thrives on its core business of integrated residential community development and operations, with commercial property investments, hotel development and operations, and property management services.

Company Data

Raw Beta (Past 2yrs weekly data)	1.202
Market Cap. (HKD Mn)	13,788
Ent. Value (HKD Mn)	46,496
52 week range (HKD)	3.30-9.53



Major Shareholders	(%)
1. TOP COAST INVESTMENT	62.63

Valuation Method

P/E

Analyst

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Investment Action

We believe that Agile Property is likely to raise enough funds to pay short-term debts, but the financing prospects may deteriorate with high cost, which would bring negative impact on the Company's business. As to the annual sales target, we believe it can be hardly achieved. Overall, we will give Agile Property a "Neutral" appraisal, and the target price for the next 12 months is HKD3.8.

Key Financial Summary

FYE	<u>11A</u>	<u>12A</u>	<u>13A</u>	<u>14E</u>	<u>15E</u>
Revenue (RMB mn)	22,945	29,891	35,436	41,905	49,306
Net Profit, adj. (RMB mn)	5,234	5,000	4,827	4,660	5,188
EPS, adj. (RMB)	1.184	1.450	1.400	1.074	1.119
P/E (X),adj.	4.6	5.3	4.4	2.8	2.7
BVPS (RMB)	6.28	7.43	8.52	8.61	8.52
P/B (X)	0.87	1.04	0.72	0.35	0.35
DPS (RMB)	0.280	0.384	0.475	0.200	0.200
Div. Yield (%)	5.10%	4.97%	7.74%	6.67%	6.67%

Source: Bloomberg, Agile

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

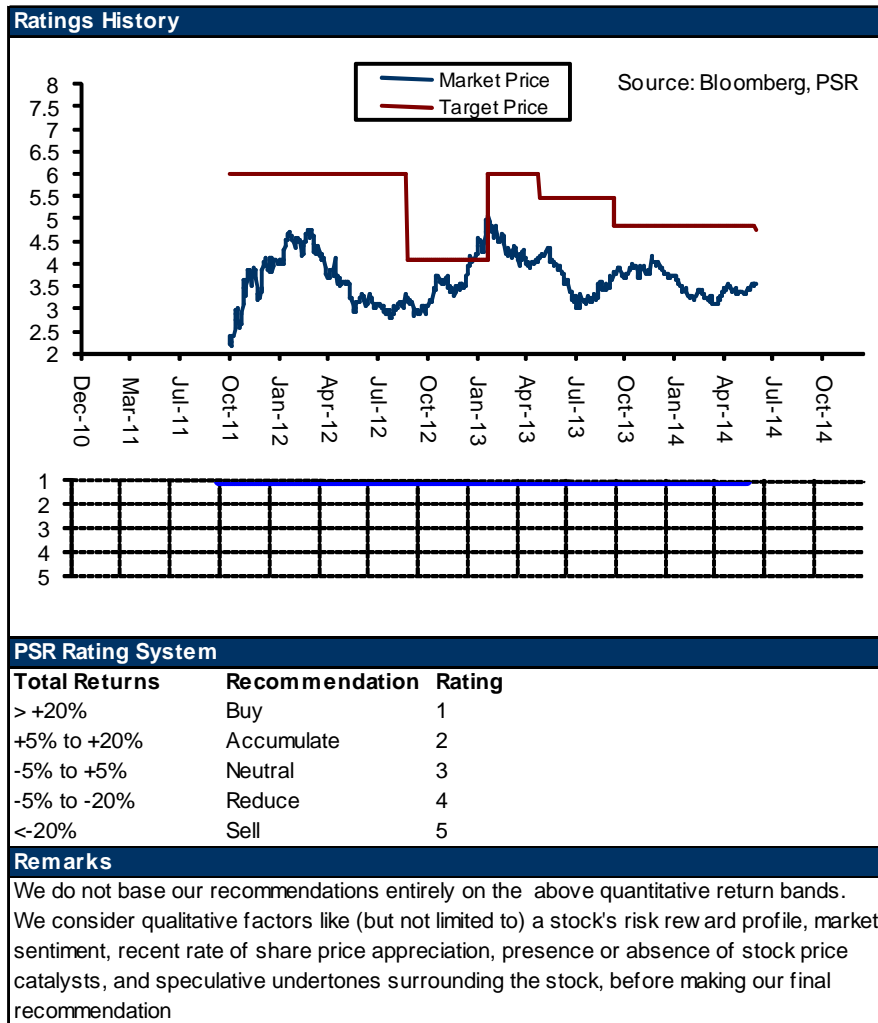
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FYE	FY09	FY10	FY11	FY12	FY13	FY14F	FY15F
Valuation Ratios							
P/E (X), adj.	17.9	5.4	4.6	5.3	4.4	2.8	2.7
P/B (X)	2.36	1.70	0.87	1.04	0.72	0.35	0.35
EV/EBITDA (X), adj.	11.82	6.23	3.65	5.12	6.16	5.69	5.56
Dividend Yield (%)	1.73%	2.73%	5.10%	4.97%	7.74%	6.67%	6.67%
Per share data (RMB)							
EPS, reported	0.518	1.707	1.184	1.450	1.400	1.074	1.119
EPS, adj.	0.518	1.707	1.184	1.450	1.400	1.074	1.119
DPS	0.160	0.250	0.280	0.384	0.475	0.200	0.200
BVPS	3.93	5.38	6.28	7.43	8.52	8.61	8.52
Growth & Margins (%)							
Growth							
Revenue	42.94%	53.93%	11.82%	30.27%	18.55%	18.26%	17.66%
Operating profit	49.46%	189.30%	-0.78%	-2.00%	-4.64%	9.66%	13.61%
EBT	11.21%	201.23%	5.34%	-9.39%	1.72%	-0.49%	12.37%
Net Income, adj.	-65.88%	220.43%	-12.42%	-4.47%	-3.46%	-3.47%	11.35%
Margins							
Gross profit margin	37.16%	45.76%	53.84%	41.60%	35.60%	31.23%	29.16%
Operating profit margin	27.91%	52.46%	46.55%	35.02%	28.17%	26.12%	25.22%
Net profit margin	13.99%	29.12%	22.81%	16.73%	13.62%	11.12%	10.52%
Key Ratios							
ROE (%)	13.18%	31.73%	18.85%	19.52%	16.44%	12.48%	13.13%
ROA (%)	4.71%	10.88%	5.41%	5.50%	4.21%	3.79%	3.62%
Net Debt/(Cash)	7,708	14,276	20,175	21,266	32,708	30,981	32,916
Net Gearing (X)	51.14%	49.60%	72.28%	76.19%	89.45%	87.69%	92.27%
Income Statement (RMB mn)							
Revenue	13,331	20,520	22,945	29,891	35,436	41,905	49,306
Cost of sales	(8,377)	(11,131)	(10,590)	(17,456)	(22,822)	(28,818)	(34,928)
Gross profit	4,954	9,389	12,354	12,435	12,614	13,087	14,378
Operating profit	3,721	10,765	10,681	10,467	9,981	10,946	12,435
EBT	3,663	11,034	11,623	10,532	10,713	10,661	11,980
Tax	(1,661)	(4,615)	(6,390)	(5,385)	(4,850)	(5,331)	(6,110)
Tax rate	45.35%	41.83%	54.98%	51.13%	45.27%	50.00%	51.00%
Profit for the year	2,002	6,419	5,234	5,147	5,862	5,331	5,870
Minority interests	(137)	(443)	(1,128)	(146)	(693)	(671)	(682)
Net profit	1,865	5,976	5,234	5,000	4,827	4,660	5,188
Source: BLOOMBERG, Agile and Phillip Securities							

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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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