

5 December 2014

POLY REAL ESTATE (600048.SH)

A-shares leading property company with an appeal of its assessed value

HONG KONG | PROPERTY | COMPANY RESULTS

Rating: Accumulate

- Poly Real Estate sticks to a "3+2+X" regional distribution strategy which is focused on first-tier and second-tier central cities. By the end of June, 2014, Poly Real Estate's total housing area of land reserve has exceeded 84 million square meters, which mainly distributed in five main economic zones in Pearl River Delta, Yangtze River Delta, Bohai Bay Rim area and the Middle West;
- From 2009 up to now, Poly Real Estate's property sale keeps growing rapidly, and its sales volume has grown from RMB 50,500 million in 2009 to an amount of expected over RMB 140,000 million in 2014, with a compound growth rate at 22.6%, which guarantees Poly Real Estate to be the No. 1 group in real estate companies of China;
- In 2014, Poly Real Estate basically remains rather rapid growth, especially from the beginning of the third quarter, the growth is significant. The sales volume and sales area of the former ten months of 2014 has added up to RMB 106900 million and 8.32 million square meters, with a growth rate at 6.1% and a reduction rate at 6% respectively. The fabulous sales data benefits from Q3's pre-selling and market rebound. From November to December is the tidal wave for sales promotion, and we predict that the Company's sales volume may hit a growth of double digits and may have a possible to exceed RMB 140,000 million in 2014.;
- The report of the third quarter shows, its business revenue and net profit amount to RMB 52,200 million and RMB 6,080 million, with a growth rate at 18% and 32% respectively, which is evidently rapider that that of the interim performance. We predict that the gross margin of 2014 will have a slight pick-up, that the Company will greet a tidal wave of settlement in the fourth quarter, and that the full-year performance is sure to perk up;
- Poly Real Estate's book cash amounts to RMB 35800 million, its interest-bearing debt amounts to RMB 129300 million in total, and the average cost is 6.48 percent of the benchmark floating. Its net debt ratio is 130%, rising by 12 points compared with the end of the first half of the year, which still remains relatively high level;
- The financial features of Poly Real Estate Group can be summarized as: it achieves rapid growth in its scale by means of relatively high financial leverage, and pays its matured debts and interests with abundant sale cash flow, thereby achieving its financial goals of high growth, turnover and ROE under huge scale of debts. We expect a slight decline in EBITDA/interest coverage ratio of the whole year in 2014 based on 2013, but it will still remain above 3 times.

Target Price (RMB)	8.80
Forecast Dividend (RMB)	0.29
Closing Price (RMB)	7.95
Potential Upside	14.0%

Company Description

Founded in 1992 and finished the transformation of the joint-stock system in 2002, the company began to implement the national strategy, strengthen the professional operation, and thus realize the continuous leap-forward development. By now, the company has formed the nationwide strategic layout by taking Guangzhou, Beijing and Shanghai as the center and covering 56 cities. Currently it owns 292 holding subsidiary companies and its business has been expanded to many related industries such as real estate development, building design, engineering construction, property management, sale agency, commercial conference and exhibition, hotel management, etc.

Company Data

Raw Beta (Past 2yrs weekly data)	1.39
Market Cap. (HKD mn)	85,320
Enterprise Value (HKD mn)	178,795
52 week range (HKD)	8.01-4.35



Major Shareholders

1. POLY SOUTHERN GROUP	42.50%
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Key Financial Summary

FY	FY13	FY14F	FY15F	FY16F
Revenue(RMB mn)	92,356	107,664	133,258	164,210
Net profit(RMB mn)	10,748	13,657	17,039	20,838
EPS, reported (RMB)	1.000	1.280	1.590	1.950
P/E (X), adj.	5.29	6.88	5.53	4.51
BVPS(RMB)	4.830	5.910	7.470	9.390
P/B (X)	1.10	1.49	1.18	0.94
DPS(RMB)	0.200	0.250	0.290	0.330
Dividend Yield	3.78%	2.84%	3.30%	3.75%

Source, Bloomberg, Phillip Securities

Valuation Method

P/E

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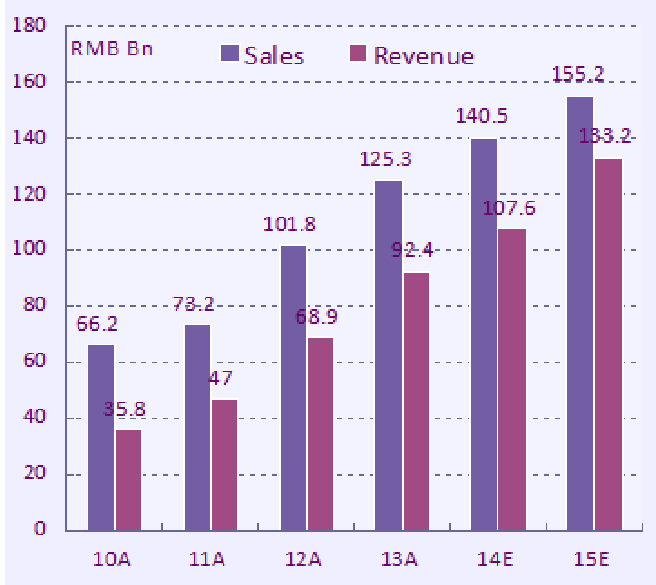
How we view this

Poly Real Estate Group is one of the most competitive Chinese real estate companies, which can be seen from its leading position in domestic residential market, strong recurring income and favorable financing channels. We think that Poly Real Estate Group has a better sales growth, stable gross margin and attractive valuation compared with the average value of the industry.

Investment Action

The rebound in Shanghai-Hong Kong Stock Connect and real estate, and the revaluation of the asset price of A shares will be a catalyst in its share prices. We give it a "Accumulate" rating, with a 12-month target price of RMB 8.8 yuan, which equals to 5.5x and 4.5x expected P/E ratio in 2014 and 2015.

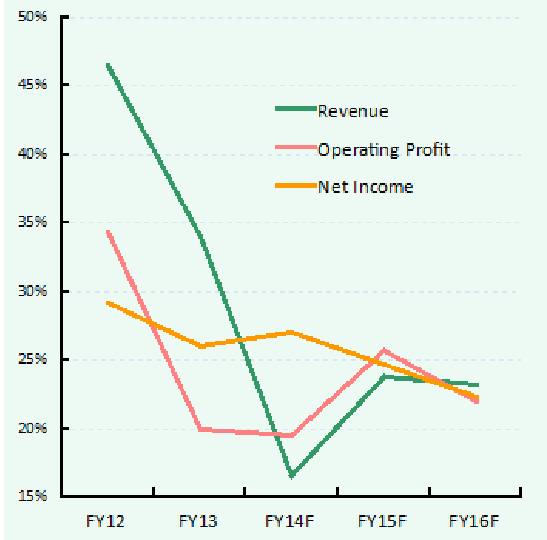
Figure1, View of sales and revenue



Source, Company report and Phillip Securities

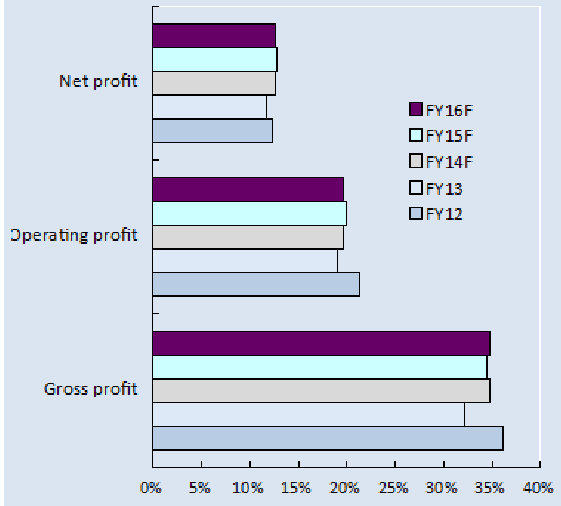
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Figure2, View of growth



Source, Company report and Phillip Securities

Figure3, View of profitability



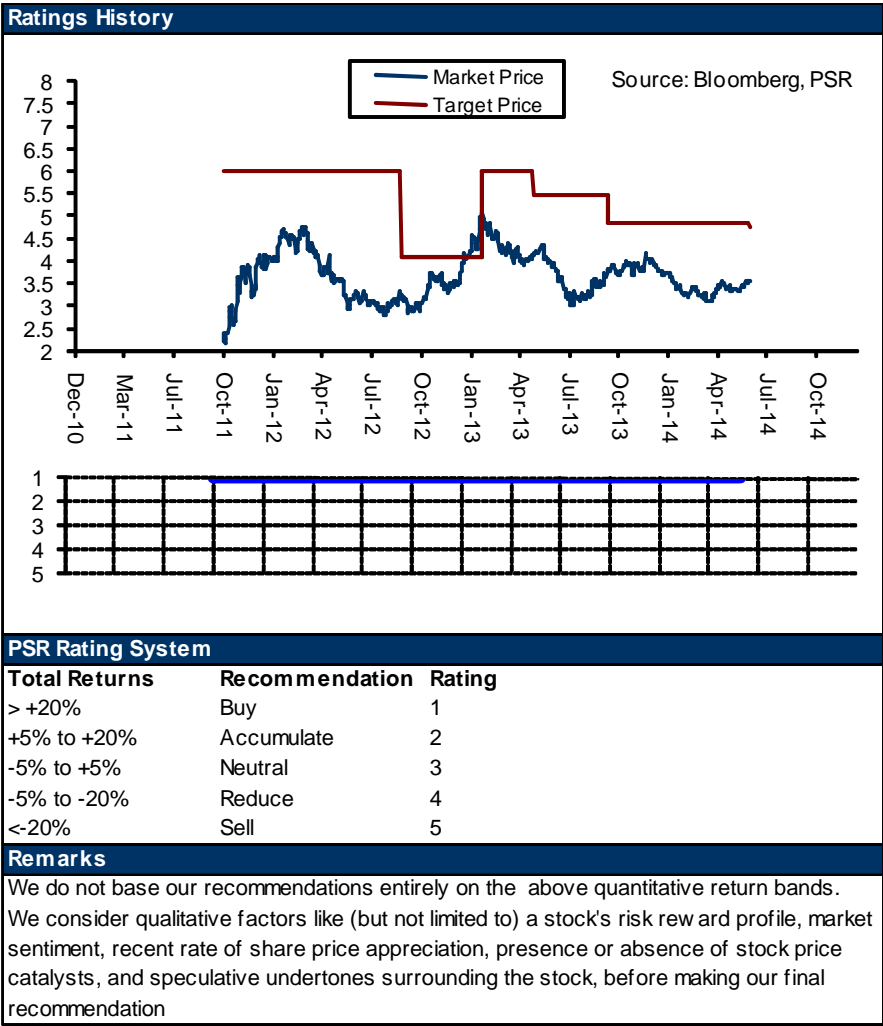
Source, Company report and Phillip Securities

POLY REAL ESTATE

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FYE	FY12	FY13	FY14F	FY15F	FY16F
Valuation Ratios					
P/E (X), adj.	10.82	5.29	6.88	5.53	4.51
P/B (X)	2.24	1.10	1.49	1.18	0.94
EV/EBITDA (X), adj.	11.16	8.48	9.09	7.55	6.81
Dividend Yield (%)	1.75%	3.78%	2.84%	3.30%	3.75%
Per share data (RMB)					
EPS, reported	0.790	1.000	1.280	1.590	1.950
EPS, adj.	0.790	1.000	1.280	1.590	1.950
DPS	0.150	0.200	0.250	0.290	0.330
BVPS	3.820	4.830	5.910	7.470	9.390
Growth & Margins (%)					
Growth					
Revenue	46.50%	34.03%	16.57%	23.77%	23.23%
EBT	34.40%	19.94%	19.55%	25.69%	22.06%
Net Income, adj.	29.20%	26.03%	27.07%	24.76%	22.30%
Margins					
Gross profit margin	36.19%	32.16%	34.69%	34.52%	34.71%
Operating profit margin	21.33%	19.09%	19.57%	19.88%	19.69%
Net profit margin	12.38%	11.64%	12.68%	12.79%	12.69%
Key Ratios					
ROE (%)	19.90%	20.80%	21.80%	22.30%	22.40%
ROA (%)	3.50%	4.00%	4.40%	4.80%	5.10%
Net Debt/(Cash)	48,850	65,333	93,475	102,150	11,099
Net Gearing (X)	89.18%	94.50%	130.20%	125.10%	102.60%
Income Statement (RMB mn)					
	FY12	FY13	FY14F	FY15F	FY16F
Revenue	68,906	92,356	107,664	133,258	164,210
Gross profit	24,937	29,702	37,349	46,001	56,997
Operating Profit	14,697	17,628	21,074	26,487	32,330
EBT	13,532	16,102	20,436	25,836	31,661
Tax	3,554	4,237	4,905	6,459	7,915
Tax rate	26.26%	26.31%	24.00%	25.00%	25.00%
Profit for the year	9,978	11,865	15,531	19,377	23,746
Minority interests	1,450	1,117	1,874	2,338	2,908
Net profit	8,528	10,748	13,657	17,039	20,838

Source: BLOOMBERG, Poly 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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