

# GREENTOWN CHINA (3900.HK)

## Facing challenge but with hopeful future

HONG KONG | PROPERTY | COMPANY UPDATE

15 January 2015

### Sales hit target as planned

In December, the sales volume of Greentown(GT) China was RMB 13.8 billion Yuan with the total sales area of 630 thousand square meters. GT China sold 3618 suites with the average sales price of 22,031 Yuan/square meter. In 2014, the total sales area of Group was 3.91 million square meters and the contract sales volume was 79.4 billion Yuan. GT had accomplished the annual sales target of 127% set at the beginning of the year. The accumulated sales volume of four quarters was 39.5 billion Yuan which accounted for 49.7% of annual sales volume. Thus the strong sales of four quarters played a vital role in reaching the sales target.

### Selling of Shanghai asset has uncertainty

Sunac bids 15.5 billion Yuan for Shanghai Sunac GT Holding, including the equity book value of 11.3 billion Yuan and outstanding debt of 4.2 billion Yuan, corresponding to 12.1 times 2015 P/E ratio and 2.2 times PB. And compared with NAV, it has a 18% discount. To be frank, this is an offer with the valuation being not low at all, which reflects that Sunac intends to obtain the leading position of Yangtze River Delta Region steadily by getting the company. On the other hand, although there is the support of Wharf Holdings and China Communications Construction Group, Song Weiping would not easily sell its assets of the best quality. Therefore, we estimate that it will be difficult for both parties to solve the issue of bidding for Shanghai Sunac GT Holding in a short term. The selling of assets has a rather high uncertainty.

### Balance sheet will be rebuilt

The debt crisis of Kaisa has negative influences on real estate stock in Hong Kong and also leads to the fluctuation of bond price listed overseas. The total amount of the three bonds issued by Green City China (Two are of the dollar bonds and one is of RMB bond) is up to 10.8 billion HKD, with the due dates during the period of 2016-2019. Currently, the yield to maturity (YTM) is 8.6%-9.0%, and the current market prices are 97-99. The recent Kaisa event also caused the fluctuation of the three bonds of Green City. Recently, with the relief of the market panic mood, the bonds price also rose significantly. We think that the domestic real estate stocks will face three kinds of stress - the refinement of the industry prosperity, the real estate debt and political factors. The private real estate companies with the higher debt ratio should make consolidation of the balance sheet in advance.

We expect that at the end of 2014, the net debt of GT China will exceed 30 billion, and the net debt ratio could be about 85%. The cashability of the property assets in the future and the company's refinancing ability are related to the important measures for GT to stabilize the balance sheet. As the two largest shareholders of GT China, Kowloon Club and CCCG Ltd. will make use of the strong capital strength and the financing ability to promote the reconstruction of Green City's balance sheet.

### Buy (Update)

Closing Price: HKD 7.34

Target Price: HKD 10.00 (+36%)

O/S SHARES (MN) :	2,161
MARKET CAP (HKD MN) :	15,861
Ent. Value (HKD MN) :	18,720
52 - WK HI/LO (HKD) :	12.00-6.25

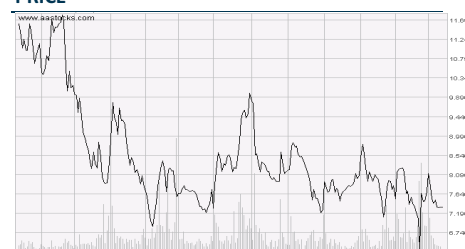
#### SHARE HOLDING PATTERN, %

PROMOTERS :	66.80
NON PROMOTER CORP. HOLDINGS :	10.40
PUBLIC & OTHERS :	22.80

#### PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	-0.13	-5.53	-36.72
REL TO HSI	-5.06	-9.96	-41.34

#### PRICE



Source: Phillip Capital Research

#### KEY FINANCIALS

RMB Mn	FY12	FY13	FY14E	FY15E
Revenue	35,393	28,991	34,648	36,681
Net Profit	4,851	4,886	5,210	5,408
EPS	2.57	2.18	2.41	2.50
P/E (X)	4.52	4.34	3.32	3.20
BVPS	9.76	11.83	12.28	12.51
P/B (X)	1.16	0.80	0.65	0.64
DPS	0.50	0.43	0.50	0.55
Div. Yield	4.40%	4.54%	6.25%	6.88%

Source: Phillip Capital Research Est.

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## Valuation

No matter who is the winner, both Green City's equity dispute and the rivalry with Shanghai Sunac GT Holding had the negative influences on GT China, and also did harm to the valuation of the company. In the future, GT China will face many challenges, including the sales, financing and competition pattern. But what can be sure of is that GT China will remain the major role in Chinese real estate, and the joint power of Kowloon Club and CCCG Ltd. will drive GT China to complete the integration of strategy and product, and to form the new competitive advantage. The current price is attractive, and some catalysts including good news from selling and rebuilding will boost the share price upwards. We give GT China "Buy" rating, with the target price of 10 HKD in the next 12 months, which is equivalent to 3.2 times the forward P/E of 2015.

## Financials

FYE	FY09	FY10	FY11	FY12	FY13	FY14F	FY15F
<b>Valuation Ratios</b>							
P/E (X), adj.	14.12	7.18	1.71	4.42	4.34	3.32	3.20
P/B (X)	1.54	1.07	0.37	1.16	0.80	0.65	0.64
EV/EBITDA (X), adj.	27.90	19.12	8.87	9.21	9.81	6.74	7.79
Dividend Yield (%)	3.87%	8.09%	3.73%	4.40%	4.54%	6.25%	6.88%
<b>Per share data (RMB)</b>							
EPS, reported	0.64	0.93	1.57	2.57	2.18	2.41	2.50
EPS, adj.	0.64	0.93	1.57	2.57	2.18	2.41	2.50
DPS	0.35	0.54	0.1	0.5	0.43	0.50	0.55
BVPS	5.85	6.23	7.28	9.76	11.83	12.28	12.51
<b>Growth &amp; Margins (%)</b>							
<b>Growth</b>							
Revenue	31.53%	27.89%	96.78%	61.15%	-18.09%	19.51%	5.87%
Operating profit	3.08%	77.32%	157.98%	40.09%	-22.85%	16.88%	4.45%
EBT	15.20%	91.08%	123.33%	53.09%	-10.83%	14.79%	5.06%
Net Income, adj.	87.33%	51.38%	68.08%	88.39%	0.72%	6.63%	3.81%
<b>Margins</b>							
Gross profit margin	26.49%	30.47%	33.73%	30.27%	30.27%	28.29%	29.12%
EBIT margin	15.46%	21.43%	28.10%	28.98%	31.55%	30.30%	30.07%
Net profit margin	11.60%	13.73%	11.72%	13.71%	16.85%	15.04%	14.74%
<b>Key Ratios</b>							
ROE (%)	11.36%	15.47%	23.26%	26.33%	18.43%	19.64%	20.02%
ROA (%)	1.71%	1.53%	2.03%	4.50%	3.99%	3.61%	3.59%
Net Debt/(Cash)	15,455	21,639	40,770	13,476	19,230	21,560	20,799
Net Gearing (X)	124%	149%	231%	64%	77%	73%	70%
<b>Income Statement (RMB mn)</b>							
Revenue	8,727	11,161	21,963	35,393	28,991	34,648	36,681
Cost of sales	-6,415	-7,759	-14,555	-24,680	-20,216	-24,846	-25,999
Gross profit	2,312	3,401	7,408	10,713	8,775	9,802	10,682
Operating profit	1,349	2,392	6,171	8,645	6,670	7,796	8,143
EBT	1,570	3,000	6,700	10,257	9,146	10,498	11,030
Tax	-478	-1,085	-2,583	-4,204	-3,156	-4,027	-4,247
Tax rate	30.45%	36.17%	38.55%	40.99%	34.51%	38.36%	38.50%
Profit for the year	1,092	1,916	4,118	6,053	5,990	6,471	6,783
Minority interests	-80	-384	-1,543	-1,202	-1,104	-1,261	-1,375
Net profit	1,012	1,532	2,575	4,851	4,886	5,210	5,408

Source: BLOOMBERG, Greentown 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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