

COUNTRY GARDEN (2007.HK)

Stable operation and sustainable development

HONG KONG | PROPERTY | COMPANY UPDATE

18 March 2015

Summary

In 2014, the total revenue of Country Garden was up 35% yoy to RMB 84.6 billion Yuan, and the net profits attributable to the shareholders were up 20% yoy to 10.2 billion Yuan, out of which the core net profits were up 15.5% to 9.24 billion Yuan. In general, the revenue increase conformed to the expectation, but the core profit margin was slightly lower than expected, which was mainly due to the gross margin declining exceeded the expectation. In that period, the gross margin was 26.1%, 1.2% lower than our expectation 27.3%.

Country Garden recorded a contract sales volume of about RMB 128.8 billion Yuan in 2014, up 21.5% yoy, and the contract sales area was 19.28 million m², up 21% yoy. Cash payment of the sales was 105.8 billion Yuan, which was the first time achieving cash payment of over 100 billion Yuan. In 2014, the company totally had 77 new projects for sale, most of which located in the zones outside Guangdong Province. Country Garden's sales volume from the projects in first and second tier cities and that from the projects in third and fourth tier cities each took 50%.

In 2014, the balance sheet of Country Garden was consolidated, and the company's financial leverage and financing costs all dropped to different degrees. By the end of 2014, the company's net debt ratio was 59.7%, dropping by 7.6 pts compared to that at the end of 2013. In 2014, the weighted cost of capital was 8.16%, dropping 38 basis points compared to that of 2013.

Last year, the company's financing bright points include: 2 times of successively issuing senior notes with 800 million dollars for financing; the biggest syndicated loan of real estate company of domestic capital in the issuing year; financing 4.5 billion HKD which was directly good for optimizing capital structure and lowering financing cost. We think that the performance of Country Garden concerning the balance sheet is satisfying and actively outlook the positive effects on the company's operation.

In 2015, Country Garden will actively promote the project partner system. In respect as forceful follow-up investment, its design is more compulsory compared to that of Vanke and will greatly activate the motive of staff on the project level. We believe that partnership is positive in terms of improving efficiency and performance of the program. Large real estate enterprises like Vanke and Country Garden can be benefited. However, the regime will also require higher cost for management and coordination, especially at the beginning of the implementation.

The data on sales and balance sheet of 2014 of Country Garden have given us some surprise. Efforts management made on sales and financing were worth praising. Country Garden was the standard choice of private real estate enterprise among domestic funded real estate stocks in Hong Kong. We predict that with gradual loose of liquidity and approaching of peak season, share price of Country Garden will be catalyzed. But we think that it will have limited increase in terms of evaluation. In our prediction, 2015 of Country Garden will be its limitedly improved 2014. Its main points will be the promotion of partnership on sales, avoiding continuous decrease of profit ratio of sales and keeping balance sheet stable. We grant Country Garden the grade of "Accumulate" with 3.3 HKD target price for 12 months which equals to 4.6 times and 4.0 times of expected price earnings ratio of 2015/2016.

Accumulate (Update)

Closing Price: HKD 2.90

Target Price: HKD 3.30 (+13.80%)

O/S SHARES (MN) :	20,352
MARKET CAP (HKD MN) :	59,020
Ent. Value (HKD MN) :	101,321
52 - WK HI/LO (HKD) :	4.00/2.78

SHARE HOLDING PATTERN, %

PROMOTERS :	64.40
NON PROMOTER CORP. HOLDINGS :	11.62
PUBLIC & OTHERS :	23.98

PRICE



Source: Phillip Capital Research

KEY FINANCIALS

RMB Mn	FY13	FY14E	FY15E	FY16E
Revenue	62,682	84,549	103,352	115,270
Net Profit	8,514	10,229	11,488	13,162
EPS	0.46	0.53	0.56	0.65
P/E (X)	7.33	4.68	4.68	4.08
BVPS	2.35	2.79	3.16	3.61
P/B (X)	1.43	0.89	0.84	0.73
DPS	0.17	0.18	0.19	0.22
Div. Yield	5.04%	7.26%	7.20%	8.33%

Source: Phillip Capital Research Est.

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Financials

FYE	FY10	FY11	FY12	FY13	FY14	FY15F	FY16F
Valuation Ratios							
P/E (X), adj.	8.46	6.47	8.23	7.33	4.68	4.68	4.08
P/B (X)	1.49	1.29	1.52	1.43	0.89	0.84	0.73
Dividend Yield (%)	4.25%	5.62%	4.48%	5.04%	7.26%	7.20%	8.33%
Per share data (RMB)							
EPS, reported	0.25	0.33	0.38	0.46	0.53	0.56	0.65
EPS, adj.	0.25	0.33	0.38	0.46	0.53	0.56	0.65
DPS	0.09	0.12	0.14	0.17	0.18	0.19	0.22
BVPS	1.42	1.65	2.06	2.35	2.79	3.16	3.61
Growth & Margins (%)							
Growth							
Revenue	n.a.	34.66%	20.55%	49.63%	34.89%	22.24%	11.53%
Operating profit	n.a.	38.25%	-87.85%	13.76%	30.28%	18.40%	11.67%
EBT	n.a.	42.97%	20.14%	16.74%	21.49%	18.27%	10.96%
Net Income, adj.	n.a.	35.47%	17.87%	24.26%	20.14%	12.31%	14.57%
Margins							
Gross profit margin	32.36%	34.52%	36.62%	30.26%	26.09%	26.57%	24.82%
Operating margin	26.76%	27.47%	2.77%	20.25%	19.56%	18.95%	18.97%
Net profit margin	16.63%	16.73%	16.36%	13.58%	12.10%	11.12%	11.42%
Key Ratios							
ROE (%)	17.61%	20.00%	18.45%	19.57%	20.33%	20.36%	17.91%
ROA (%)	5.88%	6.14%	5.62%	4.97%	4.31%	4.71%	4.72%
Net Debt/(Cash)	15,023	21,221	25,103	37,339	42,308	42,589	43,677
Net Gearing (X)	59.11%	70.58%	64.56%	67.30%	59.70%	60.56%	60.21%
Income Statement (RMB mn)							
Revenue	25,804	34,748	41,890	62,682	84,549	103,352	115,270
Cost of sales	(17,453)	(22,752)	(26,551)	(43,713)	(62,494)	(75,895)	(86,660)
Gross profit	8,351	11,995	15,339	18,969	22,055	27,458	28,610
Operating profit	6,904	9,545	11,160	12,696	16,540	19,584	21,869
EBT	6,719	9,606	11,541	13,473	16,369	19,359	21,480
Tax	(2,401)	(3,768)	(4,657)	(4,625)	(5,757)	(7,190)	(7,840)
Tax rate	35.73%	39.23%	40.35%	34.33%	35.17%	37.14%	36.50%
Profit for the year	4,318	5,838	6,884	8,848	10,611	12,169	13,640
Minority interests	27	25	32	334	383	681	478
Net profit	4,291	5,813	6,852	8,514	10,229	11,488	13,162

Source: BLOOMBERG, Country Garden 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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