

# COUNTRY GARDEN (2007.HK)

## New institutional shareholder, China Ping An, will brought positive effect on the Company's future

HONG KONG | PROPERTY | COMPANY UPDATE

13 April 2015

### Summary

On April 1<sup>st</sup>, China Ping An Group subscribed for 2.24 billion shares of Country Garden's new share at the price of HK \$ 2.816 per share. The subscription price is 10.03% less than HK \$ 3.13, the closing price of the day before. The subscription shares account for about 10.99% of the current issued capital stock of the company, and account for about 9.90% of the issued capital stock after the expansion of subscription. The lock-up period is one year. The net capital raised is about HK \$ 6.295 billion, which would be used for the development of the company and the general operation capital.

The company would cooperate with Ping An Group on many aspects including real estate marketing, financial investment and community service, as well as project development and so on. Based on the abundant financial experiences of Ping An Group and the stock resources of more than 200 communities together with more than 300 thousand users which belong to Country Garden, the cooperation of both sides is hopeful to achieve synergistic win-win. We believe that: After the cooperation, the company's sales ability, the ability of getting land and the management ability would be promoted; the development of digging the value of stock users is hopeful to be accelerated; both sides are able to perfect the community industry chain and achieve the resources integration platform covering users' lifecycle.

The shareholder structure would be improved, and the balance sheet would be repaired persistently. After Ping An becomes a shareholder, the proportion controlled by the family would decline (the share ratio of Yang Huiyan, the major shareholder, would decline from 59.5% to 53.6%), and the marketization degree would rise up. Along with the growth of the equity, we forecast that the net liability rate in 2015 will fall off from 50% to 40%, and the company will speed up to achieve the investment-grade rating, which conforms to the logic we have recommended before.

Meanwhile, the financed HKD 6.295 billion will speed up the diversification of company's business expansion such as insurance and pension for the aged. In the Silver Age of the industry, while the growth rate of housing business has decreased, the new business of our company will turn into the new growth point, along with the synergy effect with Ping An Group.

In 1Q2015 Country Garden achieved contracted sales of RMB 17.7bn, dropping 44% yoy, GFA sold was 2.78mn sq.m., down 43% yoy. In March the company's contracted sales were 6.27bn, up 13.6% mom, slightly declining by 3.5% yoy. As to full-year sales target of 135bn, the company had just only completed 13% of all in Q1.

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.

We are optimistic about the company's subsequent continued improvement of the balance sheet and the synergy effect in the light of its partnership with Ping An Group. We promote its 12m TP to HKD3.80, 5.4x and 4.7x expected P/E ratio, to reflect positive effect of the new cooperation with Ping An and loosening policies news. We maintain Country Garden "Accumulate" rating. (Closing price as at 9 April 2015)

### Accumulate (Update)

Closing Price: HKD 3.46

(Closing price as at 9 April 2015)

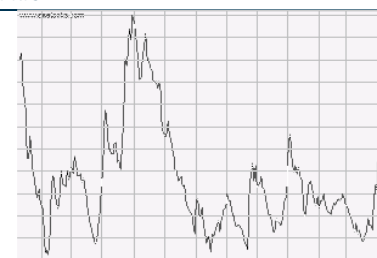
**Target Price: HKD 3.80 (+9.80%)**

O/S SHARES (MN) :	20,352
MARKET CAP (HKD MN) :	70,417
Ent. Value (HKD MN) :	106,656
52 - WK HI/LO (RMB) :	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	5.40	4.72
BVPS	2.35	2.79	3.16	3.61
P/B (X)	1.43	0.89	0.97	0.84
DPS	0.17	0.18	0.19	0.22
Div. Yield	5.04%	7.26%	6.23%	7.21%

Source: Phillip Capital Research Est.

Research Analyst  
**Chen Geng**  
 (+ 8621 51699400-107)  
 chengeng@phillip.com.cn

## Financials

FYE	FY10	FY11	FY12	FY13	FY14	FY15F	FY16F
<b>Valuation Ratios</b>							
P/E (X), adj.	8.46	6.47	8.23	7.33	4.68	5.40	4.72
P/B (X)	1.49	1.29	1.52	1.43	0.89	0.97	0.84
Dividend Yield (%)	4.25%	5.62%	4.48%	5.04%	7.26%	6.23%	7.21%
<b>Per share data (RMB)</b>							
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
BV/PS	1.42	1.65	2.06	2.35	2.79	3.16	3.61
<b>Growth &amp; Margins (%)</b>							
<b>Growth</b>							
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%
<b>Margins</b>							
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%
<b>Key Ratios</b>							
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%
<b>Income Statement (RMB mn)</b>							
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

(Financial figures as at 9 April 2015)

**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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**Contact Information (Regional Member Companies)****SINGAPORE**

**Phillip Securities Pte Ltd**  
Raffles City Tower  
250, North Bridge Road #06-00  
Singapore 179101  
Tel : (65) 6533 6001  
Fax : (65) 6535 6631  
Website: [www.poems.com.sg](http://www.poems.com.sg)

**HONG KONG**

**Phillip Securities (HK) Ltd**  
Exchange Participant of the Stock Exchange of Hong Kong  
11/F United Centre 95 Queensway  
Hong Kong  
Tel (852) 22776600  
Fax (852) 28685307  
Websites: [www.phillip.com.hk](http://www.phillip.com.hk)

**INDONESIA**

**PT Phillip Securities Indonesia**  
ANZ Tower Level 23B,  
Jl Jend Sudirman Kav 33A  
Jakarta 10220 – Indonesia  
Tel (62-21) 57900800  
Fax (62-21) 57900809  
Website: [www.phillip.co.id](http://www.phillip.co.id)

**THAILAND**

**Phillip Securities (Thailand) Public Co. Ltd**  
15th Floor, Vorawat Building,  
849 Silom Road, Silom, Bangrak,  
Bangkok 10500 Thailand  
Tel (66-2) 6351700 / 22680999  
Fax (66-2) 22680921  
Website [www.phillip.co.th](http://www.phillip.co.th)

**UNITED KINGDOM**

**King & Shaxson Capital Limited**  
6th Floor, Candlewick House,  
120 Cannon Street,  
London, EC4N 6AS  
Tel (44-20) 7426 5950  
Fax (44-20) 7626 1757  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**AUSTRALIA**

**PhillipCapital Australia**  
Level 12, 15 William Street,  
Melbourne, Victoria 3000, Australia  
Tel (613) 96188238  
Fax (613) 92002272  
Website: [www.phillipcapital.com.au](http://www.phillipcapital.com.au)

**MALAYSIA**

**Phillip Capital Management Sdn Bhd**  
B-3-6 Block B Level 3 Megan Avenue II,  
No. 12, Jalan Yap Kwan Seng, 50450  
Kuala Lumpur  
Tel (603) 21628841  
Fax (603) 21665099  
Website: [www.poems.com.my](http://www.poems.com.my)

**JAPAN**

**PhillipCapital Japan K.K.**  
Nagata-cho Bldg.,  
8F, 2-4-3 Nagata-cho,  
Chiyoda-ku, Tokyo 100-0014  
Tel (81-3) 35953631  
Fax (81-3) 35953630  
Website: [www.phillip.co.jp](http://www.phillip.co.jp)

**CHINA**

**Phillip Financial Advisory (Shanghai) Co. Ltd**  
No 436 Hengfeng Road,  
Greentech Unit 604,  
Postal code 200070  
Tel (86-21) 51699400  
Fax (86-21) 63532643  
Website: [www.phillip.com.cn](http://www.phillip.com.cn)

**FRANCE**

**King & Shaxson Capital Limited**  
3rd Floor, 35 Rue de la Bienfaisance 75008  
Paris France  
Tel (33-1) 45633100  
Fax (33-1) 45636017  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**UNITED STATES**

**Phillip Futures Inc**  
141 W Jackson Blvd Ste 3050  
The Chicago Board of Trade Building  
Chicago, IL 60604 USA  
Tel +1.312.356.9000  
Fax +1.312.356.9005

