**POLY REAL ESTATE (600048.SH)**

“5P” Strategy focuses on all-directional transition

**CHINA MAINLAND | PROPERTY | COMPANY UPDATE**

**Summary**

On 16th April, Poly Real Estate officially released 5P Strategy, concentrating on five aspects which are old-age care real estate, whole-life-circle green buildings, community O2O, Poly Real Estate APP, and overseas real estate. Being the most full-fledged real estate colossus within the industrial chain, Poly Real Estate operates comprehensive property assets including residences development, commercial property development and operation, real estate funds, old-age care real estate, tourism real estate, overseas operation, etc. The 5P Strategy is the most distinctive strategy for real estate transition in China real estate industry, which will have a profound influence on the whole industry’s profit-gaining modes, growing modes, and evaluation.

The 5P Strategy contains rich connotations including service, environmental protection, community operation, value exploration of current customers, brand output, etc. Poly Real Estate is making future planning for the huge real estate company with a brand new thinking. We hold a positive attitude toward the “5P” Strategy. In the short term, we may face challenges from capital expenditure and resource integration. However, it cannot be denied that the company will continuously benefit from the “5P” Strategy over coming ten to twenty years.

According to the sales data, the area of houses whose sales contracts were signed in March reached 639,000 sq meters and the amount of contracts reached RMB7.49 billion, up 8.6% and down 27.8% yoy respectively, and up 72.4% and 58.8% mom respectively. Sales in March basically met expectations. From Jan. to Mar. of 2015, the company accumulatively achieved a contracted area of 1.582 million square meters, and the contracted amount of 195.1 hundred million yuan, down 27.4% and 30.5% yoy respectively. In March, sales of negative growth is mainly due to changes in the sales structure. Low sales projects are relatively high, resulting in the company’s average sale price in March at 11,715 yuan/square meters, down 33% yoy. That the sales areas rose by 8.6% indicates that sales situation of the company gets improved.

In addition, the company meanwhile announced that the net profit growth of 2015Q1 is expected to increase by 50% or so, on this account, it is estimated that the company’s 2015Q1 will be recorded at a net profit of about 12.2 hundred million yuan, which has exceeded our expectations. The company expects that Q1 results are greatly increased mainly because of the increase of settlement amount in current period, and the settlement of the projects with higher gross margin in current period is relatively high. We predict that the full-year net profit growth of the company will exceed more than 20%.

The traditional business of Poly Real Estate can maintain a rapid growth rate, and meanwhile its new strategy comes into being and is gradually implemented. We think the company will once again show its clear strategy and strong execution in the field of innovation, and promote all businesses to grow rapidly. We give Poly Real Estate “Accumulate” rating, 12mTP at RMB 15.6, equaling to 9.8x and 8x expected P/E ratio in 2015/2016. (Closing price as at 17 April 2015)
## Financials

### Valuation Ratios

<table>
<thead>
<tr>
<th>FYE</th>
<th>FY12</th>
<th>FY13</th>
<th>FY14</th>
<th>FY15F</th>
<th>FY16F</th>
</tr>
</thead>
<tbody>
<tr>
<td>P/E (X), adj.</td>
<td>10.82</td>
<td>5.29</td>
<td>9.49</td>
<td>9.81</td>
<td>8.00</td>
</tr>
<tr>
<td>P/B (X)</td>
<td>2.24</td>
<td>1.10</td>
<td>1.89</td>
<td>2.09</td>
<td>1.66</td>
</tr>
<tr>
<td>Dividend Yield (%)</td>
<td>1.75%</td>
<td>3.78%</td>
<td>2.03%</td>
<td>1.86%</td>
<td>2.12%</td>
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</tbody>
</table>

### Per share data (RMB)

<table>
<thead>
<tr>
<th></th>
<th>FY12</th>
<th>FY13</th>
<th>FY14</th>
<th>FY15F</th>
<th>FY16F</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS, reported</td>
<td>0.790</td>
<td>1.000</td>
<td>1.140</td>
<td>1.590</td>
<td>1.950</td>
</tr>
<tr>
<td>EPS, adj.</td>
<td>0.790</td>
<td>1.000</td>
<td>1.140</td>
<td>1.590</td>
<td>1.950</td>
</tr>
<tr>
<td>DPS</td>
<td>0.150</td>
<td>0.200</td>
<td>0.220</td>
<td>0.290</td>
<td>0.330</td>
</tr>
<tr>
<td>BVPS</td>
<td>3.820</td>
<td>4.830</td>
<td>5.720</td>
<td>7.470</td>
<td>9.390</td>
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</tbody>
</table>

### Growth & Margins (%)

#### Growth

<table>
<thead>
<tr>
<th></th>
<th>FY12</th>
<th>FY13</th>
<th>FY14</th>
<th>FY15F</th>
<th>FY16F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>46.50%</td>
<td>34.03%</td>
<td>18.08%</td>
<td>22.19%</td>
<td>23.23%</td>
</tr>
<tr>
<td>EBIT</td>
<td>34.40%</td>
<td>19.94%</td>
<td>18.19%</td>
<td>35.76%</td>
<td>22.55%</td>
</tr>
<tr>
<td>Net Income, adj.</td>
<td>29.20%</td>
<td>26.03%</td>
<td>13.51%</td>
<td>39.66%</td>
<td>22.30%</td>
</tr>
</tbody>
</table>

#### Margins

<table>
<thead>
<tr>
<th></th>
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<th>FY14</th>
<th>FY15F</th>
<th>FY16F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross profit margin</td>
<td>36.19%</td>
<td>32.16%</td>
<td>32.03%</td>
<td>34.52%</td>
<td>34.71%</td>
</tr>
<tr>
<td>Operating profit margin</td>
<td>21.33%</td>
<td>19.09%</td>
<td>19.20%</td>
<td>19.88%</td>
<td>19.69%</td>
</tr>
<tr>
<td>Net profit margin</td>
<td>12.38%</td>
<td>11.64%</td>
<td>11.19%</td>
<td>12.79%</td>
<td>12.69%</td>
</tr>
</tbody>
</table>

#### Key Ratios

<table>
<thead>
<tr>
<th></th>
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<th>FY14</th>
<th>FY15F</th>
<th>FY16F</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROE (%)</td>
<td>19.90%</td>
<td>20.80%</td>
<td>19.93%</td>
<td>22.30%</td>
<td>22.40%</td>
</tr>
<tr>
<td>ROA (%)</td>
<td>3.50%</td>
<td>4.00%</td>
<td>4.40%</td>
<td>4.80%</td>
<td>5.10%</td>
</tr>
<tr>
<td>Net Debt/(Cash)</td>
<td>48,850</td>
<td>65,333</td>
<td>93,475</td>
<td>102,150</td>
<td>11,099</td>
</tr>
<tr>
<td>Net Gearing (X)</td>
<td>89.18%</td>
<td>94.50%</td>
<td>130.20%</td>
<td>125.10%</td>
<td>102.60%</td>
</tr>
</tbody>
</table>

### Income Statement (RMB mn)

<table>
<thead>
<tr>
<th></th>
<th>FY12</th>
<th>FY13</th>
<th>FY14F</th>
<th>FY15F</th>
<th>FY16F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>68,906</td>
<td>92,356</td>
<td>109,056</td>
<td>133,258</td>
<td>164,210</td>
</tr>
<tr>
<td>Gross profit</td>
<td>24,937</td>
<td>29,702</td>
<td>34,933</td>
<td>46,001</td>
<td>56,997</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>14,697</td>
<td>17,628</td>
<td>20,941</td>
<td>26,487</td>
<td>32,330</td>
</tr>
<tr>
<td>EBIT</td>
<td>13,532</td>
<td>16,102</td>
<td>19,031</td>
<td>25,836</td>
<td>31,661</td>
</tr>
<tr>
<td>Tax</td>
<td>3,554</td>
<td>4,237</td>
<td>4,800</td>
<td>6,499</td>
<td>7,915</td>
</tr>
<tr>
<td>Tax rate</td>
<td>26.26%</td>
<td>26.31%</td>
<td>25.22%</td>
<td>25.00%</td>
<td>25.00%</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>9,978</td>
<td>11,865</td>
<td>14,231</td>
<td>19,377</td>
<td>23,746</td>
</tr>
<tr>
<td>Minority interests</td>
<td>1,450</td>
<td>1,117</td>
<td>2,031</td>
<td>2,338</td>
<td>2,908</td>
</tr>
<tr>
<td>Net profit</td>
<td>8,528</td>
<td>10,748</td>
<td>12,200</td>
<td>17,039</td>
<td>20,838</td>
</tr>
</tbody>
</table>

Source: BLOOMBERG, Poly and Phillip Securities

(Financial figures as at 17 April 2015)
**PHILLIP RESEARCH STOCK SELECTION SYSTEMS**

<table>
<thead>
<tr>
<th>Total Return</th>
<th>Recommendation</th>
<th>Rating</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>+20%</td>
<td>Buy</td>
<td>1</td>
<td>&gt;20% upside from the current price</td>
</tr>
<tr>
<td>+5% to +20%</td>
<td>Accumulate</td>
<td>2</td>
<td>+5% to +20% upside from the current price</td>
</tr>
<tr>
<td>-5% to +5%</td>
<td>Neutral</td>
<td>3</td>
<td>Trade within ± 5% from the current price</td>
</tr>
<tr>
<td>-5% to -20%</td>
<td>Reduce</td>
<td>4</td>
<td>-5% to -20% downside from the current price</td>
</tr>
<tr>
<td>&lt;20%</td>
<td>Sell</td>
<td>5</td>
<td>&gt;20% downside from the current price</td>
</tr>
</tbody>
</table>

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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