

POLY REAL ESTATE (600048.SH)

Stable Profit Growth, Business Transformation in Progress

CHINA MAINLAND | PROPERTY | COMPANY UPDATE

1 September 2015

Summary

2015H1, the company reported a 24.55% yoy growth in revenue to RMB42.345 billion. Net profit attributable to shareholders grew by 29.5% yoy to RMB4.95 billion while core net profit increased by 32.6% yoy to RMB4.885 billion. Basic EPS was up by 27.78% yoy to RMB0.46.

During the reporting period, gross profit margin and net profit margin expanded by 2.52%-point and 1.61%-point to 36.3% and 13.94% respectively, which were higher than those achieved by industry leaders and industry average. The improvement in the company's profitability was mainly due to profit recognition of high-margin projects such as those in Guangzhou and Shanghai. The average contracted selling price grew by 1.56% from 2014 to RMB13,000 psm in H1.

In H1, Poly Real Estate reported contracted sales of RMB76 billion. Contracted GFA sold increased by 16.7% yoy to 5.85 million sq.m. Of which, the amount of contracted sales and subscription reached historical highs of RMB25.7 billion and RMB22.8 billion respectively. During the period, the market share of the company increased by 0.41%-point from 1.8% at end-2014 to 2.2%, which was just lower than that of Vanke, Evergrande and Greentown.

On the one hand, the pick-up in the sales growth of the company was due to a broad-based recovery of the property market. On the other hand, it also benefited from the strategy of clustering around "3+2+X" cities. In H1, the reported cumulative revenue from three core regions, namely the Pearl River Delta, Yangtze River Delta and Bohai Rim areas, was over RMB53 billion, accounting for over 70% of contracted sales. In terms of product mix, the company mainly focused in ordinary housing, which accounted for 84% of total GFA. Of which, 91% was from ordinary housing with unit size of 144 sq.m. or below. The company focuses its expansion in Tier 1 regions. By positioning itself in serving the market mainstream, the company has greatly enhanced its resistance to risks during business development.

As of June 2015, Poly Real Estate had RMB38.7 billion cash on hand, which was equivalent to 1.3x of its short-term debts. In addition to an estimated operating cash flow of RMB40 billion in the coming 12 months, Poly Real Estate will have sufficient liquidity to meet cash out flows from the maturity of its RMB29.2 billion short-term debts and committed land lease.

Buy (Update)

Closing Price: RMB 8.13

(Closing price as at 28 Aug 2015)

Target Price: RMB 15.60 (+92%)

O/S SHARES (MN) :	10,734
MARKET CAP (RMB MN) :	84,516
Ent. Value (RMB MN) :	186,682
52 - WK HI/LO (RMB) :	15.36/5.30

SHARE HOLDING PATTERN, %

PROMOTERS :	42.03
NON PROMOTER CORP. HOLDINGS :	10.54
PUBLIC & OTHERS :	47.53

PRICE



Source: Phillip Capital Research

KEY FINANCIALS

RMB Mn	FY13	FY14	FY15E	FY16E
Revenue	92,356	109,056	133,258	164,210
Net Profit	10,748	12,200	17,039	20,838
EPS	1.000	1.140	1.590	1.950
P/E (X)	5.29	9.49	9.81	8.00
BVPS	4.830	5.720	7.470	9.390
P/B (X)	1.10	1.89	2.09	1.66
DPS	0.200	0.220	0.290	0.330
Div. Yield	3.78%	2.03%	1.86%	2.12%

Source: Phillip Capital Research Est.

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

As of June 2015, the total debts of Poly Real Estate decreased from RMB126.2 billion at end-2014 to RMB122.6 billion. Continued strong contracted sales, faster cash collection from contracted sales and lower expenditure on land acquisitions attributed to the fall in the company's leverage ratio in H1. Benefiting from rate cuts in China and the issuance of onshore medium-term notes, the company's funding cost dropped from 6.5% at end 2014 to 5.68% at end-June.

The strong cash flows of Poly Real Estate provided strong liquidity support to its transformation in business model. While real estates continues to be Poly Real Estate's core business, it is actively seeking changes in profit mix. The 5P Strategy (namely old-age care real estate, whole-life-circle green buildings, community O2O, Poly Real Estate APP, and overseas real estate) is the main direction for its business transformation. We are optimistic that Poly Real Estate will achieve solid breakthroughs in its 5P Strategy, which will also become its new sources for profit growth, in the coming three years.

The interim result of Poly Real Estate was in line with expectations and its sales outperformed its peers. Besides, diversified funding channels, lower funding costs and strong cash flows are the key advantages of its business transformation. Against the background of a loosening government control in the property market in order to stimulate the macro economy, the valuation of Poly Real Estate becomes attractive. We maintain our "BUY" rating in Poly Real Estate, with a 12-month target price of RMB15.6, which is equivalent to prospective 2015/2016 P/E of 10x and 8x. (Closing price as at 28 Aug 2015)

Financials

FYE	FY12	FY13	FY14	FY15F	FY16F
Valuation Ratios					
P/E (X), adj.	10.82	5.29	9.49	9.81	8.00
P/B (X)	2.24	1.10	1.89	2.09	1.66
Dividend Yield (%)	1.75%	3.78%	2.03%	1.86%	2.12%
Per share data (RMB)					
EPS, reported	0.790	1.000	1.140	1.590	1.950
EPS, adj.	0.790	1.000	1.140	1.590	1.950
DPS	0.150	0.200	0.220	0.290	0.330
BVPS	3.820	4.830	5.720	7.470	9.390
Growth & Margins (%)					
Growth					
Revenue	46.50%	34.03%	18.08%	22.19%	23.23%
EBT	34.40%	19.94%	18.19%	35.76%	22.55%
Net Income, adj.	29.20%	26.03%	13.51%	39.66%	22.30%
Margins					
Gross profit margin	36.19%	32.16%	32.03%	34.52%	34.71%
Operating profit margin	21.33%	19.09%	19.20%	19.88%	19.69%
Net profit margin	12.38%	11.64%	11.19%	12.79%	12.69%
Key Ratios					
ROE (%)	19.90%	20.80%	19.93%	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	FY14	FY15F	FY16F
Revenue	68,906	92,356	109,056	133,258	164,210
Gross profit	24,937	29,702	34,933	46,001	56,997
Operating Profit	14,697	17,628	20,941	26,487	32,330
EBT	13,532	16,102	19,031	25,836	31,661
Tax	3,554	4,237	4,800	6,459	7,915
Tax rate	26.26%	26.31%	25.22%	25.00%	25.00%
Profit for the year	9,978	11,865	14,231	19,377	23,746
Minority interests	1,450	1,117	2,031	2,338	2,908
Net profit	8,528	10,748	12,200	17,039	20,838

Source: BLOOMBERG, Poly and Phillip Securities

(Financial figures as at 28 August 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

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

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

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

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

AUSTRALIA

PhillipCapital Australia
Level 12, 15 William Street,
Melbourne, Victoria 3000, Australia
Tel (613) 96188238
Fax (613) 92002272
Website: 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

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

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

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

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

