

China World Trade Center (600007.SH)

A Premium Commercial Properties Operator

HONG KONG | PROPERTY | COMPANY UPDATE

6 October 2015

Company Profile

The main business of China World Trade Center is to operate China World Trade Offices, China World Mall and China World Hotel in the core business district of Beijing. It is the only A-share listed company which mainly focuses in the leasing and operation of commercial properties.

2015H1 Interim Result

In 2015H1, the reported revenue of China World Trade Center was RMB1.1 billion, representing an increase by 1.4% yoy. Its reported net profit rose by 7.6% yoy to RMB310 million and its EPS was RMB0.3, which was in line with expectation.

During the period, rental income from offices was up by 2.8% yoy to RMB550 million, while that from the shopping mall was down by 3% yoy to RMB227 million. Revenue from the hotel decreased mildly to RMB181 million. The increase in total revenue benefited from the rise in average rental rates of offices. The average rental rates of Phase 1, 2 and 3 increased by 3-7%. The occupancy rate was stable at 97.2%

The decrease in the rental income from the shopping mall was mainly affected by the refurbishment of the building, which resulted in a temporary halt of business activities in some areas during the refurbishment. It is believed that the macro economy has led to a slight decline in the revenue from the hotel and apartments. Overall speaking, the operation in the three main businesses remained stable.

Steady Progress of the New Project

China World Trade Center is holding three phases of properties, including offices, a shopping mall, a hotel and apartments, with a GFA of over 870,000 sq. m. Of its operating income, 50% was from leasing of offices, 21% was from leasing and operation of the shopping mall, 17% was from the hotel operation while the rest was from the leasing of apartments and others.

Phase 3B of World Trade Center and the reconstruction of the Exhibition Center become the focal points of the fundamental aspect of China World Trade Center. The GFA of Phase 3B of the World Trade Center is around 230,000 sq.m., with a total investment of RMB4.7 billion. The project is progressing steadily currently, with the core structure having reached the 52th floor. The overall project is expected to be completed by 2016.

Besides, the World Trade Exhibition Center and the reconstruction of the East Wing are also the positive drivers of its fundamental aspect. The new commercial complex, with a total GFA of over 70,000 sq. m. and a lettable floor area of over 30,000 sq. m., is expected to increase NAV and EPS by approximately 5%.

Accumulate (Update)

Closing Price: RMB 13.70

(Closing price as at 5 Oct, 2015)

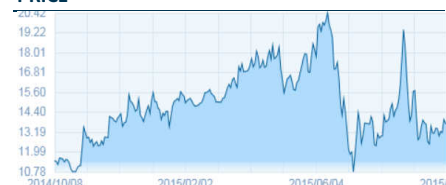
Target Price: RMB 15.50 (+ 13%)

O/S SHARES (MN) :	1,600
MARKET CAP (RMB MN) :	21,920
Ent. Value (RMB MN) :	24,780
52 - WK HI/LO (RMB) :	21.16/10.67

SHARE HOLDING PATTERN, %

PROMOTERS :	80.65
NON PROMOTER CORP. HOLDINGS :	4.03
PUBLIC & OTHERS :	15.32

PRICE



Source: Phillip Capital Research

KEY FINANCIALS

RMB Mn	FY13	FY14	FY15E	FY16E
Revenue	2,050	2,234	2,309	2,406
Net Profit	325	536	617	636
EPS	0.32	0.53	0.61	0.63
P/E (X)	32.00	28.47	25.41	24.60
BVPS	4.82	5.19	5.60	6.00
P/B (X)	2.12	2.91	2.77	2.58
DPS	0.17	0.20	0.23	0.24
Div. Yield	1.66%	1.33%	1.48%	1.55%

Source: Phillip Capital Research Est.

Research Analyst

Chen Geng

(+ 8621 51699400-107)

chengeng@phillip.com.cn

Solid Financial Conditions

In H1, the operating cost of China World Trade Center remained stable with falling financing cost. During the period, the operating cost was RMB520 million, which was similar to the same period of last year. And the financing cost of the company was down by 17.5% yoy to just RMB62 million, mainly benefiting from rate cuts by PBoC, the recall of RMB100 million long-term debt of the company and the increase in capitalized interests.

In Q2, the cash on hand of China World Trade Center was RMB670 million. Its debts reached RMB3.5 billion. Its net debt was RMB2.82 billion and its net gearing ratio was 53%. The net gearing ratio of the company has fallen from 93% by the end of 2010 to the current ratio of 53%, reflecting an improvement in its financial health.

The liquidity pressure will mainly emerge in 2015 and 2016. The total investment of World Trade Center Phase 3B will be RMB4.7 billion with close to 50% being already spent. The remaining capex will rely on operating cash flows and debt financing. We expect both the net debt and net gearing ratio of the company will increase in 2016.

Risks

Continued weakness in the economy
Falling rents

Valuation

With its high-quality portfolio of properties, ample operating cash flows and stable dividend payout, China World Trade Center is a leading A-share listed commercial properties operator. The opening of the World Trade Center Phase 3B, higher occupancy rates and an increase in the overall rents are short-term catalysts of the company. We recommend an "Accumulate" rating, with a 12-month target price of RMB15.5, which is equivalent to prospective 2015/2016 PE ratios of 25.4X and 24.6X. (Closing price as at 5 Oct, 2015)

Financials

FYE	FY12	FY13	FY14	FY15F	FY16F
Valuation Ratios					
P/E (X), adj.	28.84	32.00	28.47	25.41	24.60
P/B (X)	2.35	2.12	2.91	2.77	2.58
Dividend Yield (%)	1.46%	1.66%	1.33%	1.48%	1.55%
Per share data (RMB)					
EPS, reported	0.38	0.32	0.53	0.61	0.63
EPS, adj.	0.38	0.32	0.53	0.61	0.63
DPS	0.16	0.17	0.20	0.23	0.24
BVPS	4.66	4.82	5.19	5.60	6.00
Growth & Margins (%)					
Growth					
Revenue	17.93%	3.59%	8.98%	3.36%	4.20%
Operating profit	86.21%	14.40%	27.66%	11.25%	5.24%
Net Income, adj.	97.04%	-14.92%	64.92%	15.11%	3.08%
Margins					
Operating margin	24.91%	27.51%	32.23%	34.69%	35.04%
Net profit margin	19.30%	15.85%	23.99%	26.72%	26.43%
Key Ratios					
ROE (%)	8.41%	6.80%	10.60%	11.40%	10.90%
ROA (%)	4.21%	3.50%	5.60%	5.70%	4.90%
Net Debt/(Cash)	3,382	3,176	2,805	2,825	3,092
Net Gearing (X)	72.02%	65.35%	53.69%	53.01%	55.62%
Income Statement (RMB mn)					
Revenue	1,979	2,050	2,234	2,309	2,406
Operating profit	493	564	720	801	843
EBT	512	435	715	823	848
Tax	129	109	179	206	212
Tax rate	25.20%	25.06%	25.03%	25.03%	25.00%
Profit for the year	383	326	537	617	636
Minority interests	1	1	1	0	0
Net profit	382	325	536	617	636

Source: BLOOMBERG, CWTC and Phillip Securities
(Financial figures as at 5 October 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 ± 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

