

Shenzhen Investment (604.HK)

2015 Final Sales Reached RMB 16bn

HONG KONG | PROPERTY | COMPANY UPDATE

4 February 2016

YoY Sales Growth of 116% in 2015

The contracted sales amounted to RMB694 million in December 2015, a MoM increase of 66.8% and a YoY decrease of 37%. The contracted sales area reached approximately 30,204 square meters, a MoM drop of 14.3% and a YoY decline of 49.5%. So far, the sales of Shenzhen Investment in 2015 rose by 116% to RMB16 billion, significantly exceeding the sales target of RMB11 billion. The total contracted sales area witnessed a YoY growth of 49% to 950,000 square meters with the average price per square meter reaching about RMB16,857.

Increase of NAV via Acquisition of Parent Company

Shenzhen Investment acquired 95% equity interest in Shenzhen Luohu District project of the controlling shareholder Shum Yip Holdings at the expense of RMB1.914 billion (about HK\$2.264 billion), including RMB1.132 billion in cash and issuance of RMB1.132 billion in acceptance bill payment.

The concerning project is currently named "Shum Yip Dong Ling" and will be developed into a large-scale complex project. The project is divided into two parcels, covering 48,434 square meters and 6,750 square meters land areas and 344,000 square meters and 57,000 square meters floor areas respectively. The project at the two parcels is expected to be completed in 2017 and 2018 respectively.

According to our estimates, the accommodation value is less than RMB5,000 per square meter. Compared with the average sales price per square meter of over RMB40,000 in Shenzhen, we are convinced that this acquisition is cost-effective. Also, the acquisition can effectively enhance the land reserve and NAV of Shenzhen Investment and starts to make continuous contribution to the company from 2017.

Continuous Exit from Projects in Third- and Fourth-tier Cities

In late January, Shenzhen Investment issued an announcement that its subsidiary entered into an agreement with the local government of Heyuan, Guangdong Province. The agreement was to return the undeveloped land of Seine-et-Marne Bay in Heyuan to the local government. In accordance with the agreement, the local government recovered about 620,000 square meters of undeveloped land. After such land was sold in the way of "bidding invitation, auction and listing", about RMB699 million of land premium was returned to Shenzhen Investment.

We believe that the exit from the undeveloped land in Heyuan mirrors the Shenzhen Investment's strategy of exiting from third- and fourth-tier cities and focusing on Shenzhen, optimizes the structure of land reserve, revitalizes inefficient assets and exerts positive effect on the balance sheet.

Accumulate (Update)

Closing Price: HKD 2.89

(Closing price as at 2 Feb, 2016)

Target Price: HKD3.30 (+14%)

O/S SHARES (MN) :	7,384
MARKET CAP (HKD MN) :	21,340
Ent. Value (HKD MN) :	34,456
52 - WK HI/LO (HKD) :	4.66/2.18

SHARE HOLDING PATTERN, %

PROMOTERS :	60.68
NON PROMOTER CORP. HOLDINGS :	4.67
PUBLIC & OTHERS :	34.65

PRICE



Source: Phillip Capital Research

KEY FINANCIALS

HKD Mn	FY13	FY14	FY15E	FY16E
Revenue	9,778	13,827	15,265	16,872
Net Profit	2,738	3,131	3,456	3,998
EPS	0.59	0.54	0.47	0.54
P/E (X)	4.43	3.86	7.05	6.10
BVPS	4.71	4.58	4.13	4.36
P/B (X)	0.55	0.45	0.80	0.76
DPS	0.19	0.16	0.15	0.16
Div. Yield	7.28%	7.73%	4.55%	4.85%

Source: Phillip Capital Research Est.

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Active Financing Activities in 2015

Shenzhen Investment was active in the capital markets in 2015. In June, Shenzhen Investment announced the placing of 670 million shares at HK\$4.13 per share to 6 investors, thus financing HK\$2,767 billion. We expect that as at the end of 2015 the company's debts will be around RMB31 billion, maintain the same level as the debts as at the end of June. And the net debts are expected to drop to RMB13 billion and the net debt to equity ratio to 36% so that the financial security is constantly consolidated.

Risk

Slow sales;
Growing debts.

Valuation

Shenzhen Investment is projected to outperform its competitors in the differentiated real estate market. We believe that the industrial position of Shenzhen will significantly improve during the transition period of China, that the wealth effect will continue to be reflected on the property market of Shenzhen, and that Shenzhen Investment will be the major beneficiary. Therefore, we rate Shenzhen Investment Limited as "Accumulate". The 12-month target price stands at HK\$3.3, equivalent to 6X of 2015/2016 expected PE and represents a discount of 36% to NAV per share. (Closing price as at 2 Feb, 2016)

Financials

FYE	FY09	FY10	FY11	FY12	FY13	FY14	FY15F	FY16F
Valuation Ratios								
P/E (X), adj.	11.00	7.32	3.23	4.47	4.43	3.86	7.05	6.10
P/B (X)	0.94	0.71	0.32	0.56	0.55	0.45	0.80	0.76
Dividend Yield (%)	3.64%	5.17%	10.79%	6.79%	7.28%	7.73%	4.55%	4.85%
Per share data (HKD)								
EPS, reported	0.30	0.37	0.43	0.59	0.59	0.54	0.47	0.54
EPS, adj.	0.30	0.37	0.43	0.59	0.59	0.54	0.47	0.54
DPS	0.12	0.14	0.15	0.18	0.19	0.16	0.15	0.16
BVPS	3.51	3.81	4.29	4.71	4.71	4.58	4.13	4.36
Growth & Margins (%)								
Growth								
Revenue	32.01%	20.70%	12.60%	13.54%	17.64%	41.41%	10.40%	10.53%
Operating profit	28.43%	30.39%	13.62%	62.44%	48.44%	22.62%	-0.69%	16.39%
Net Income, adj.	9.09%	34.11%	14.87%	41.66%	26.99%	14.35%	10.38%	15.67%
Margins								
Gross profit margin	33.36%	36.04%	36.44%	36.04%	36.84%	29.46%	36.90%	36.80%
Operating margin	22.05%	23.82%	24.04%	34.40%	43.40%	37.64%	33.86%	35.65%
Net profit margin	18.34%	20.38%	20.79%	25.94%	28.00%	22.64%	22.64%	23.69%
Key Ratios								
ROE (%)	8.55%	9.71%	10.02%	13.03%	12.77%	11.22%	11.56%	12.20%
ROA (%)	3.36%	4.08%	4.04%	4.50%	4.17%	3.65%	4.20%	4.38%
Net Debt/(Cash)	4,511	6,247	10,974	15,306	21,733	23,530	13,124	18,623
Net Gearing (X)	33.63%	42.50%	64.51%	87.22%	85.77%	71.19%	36.00%	55.62%
Income Statement (HKD mn)								
Revenue	5,387	6,502	7,321	8,312	9,778	13,827	15,265	16,872
Cost of sales	(3,590)	(4,159)	(4,653)	(5,317)	(6,177)	(9,754)	(9,632)	(10,663)
Gross profit	1,797	2,343	2,668	2,996	3,602	4,073	5,633	6,209
Operating profit	1,188	1,549	1,760	2,859	4,244	5,204	5,168	6,015
EBT	1,686	2,441	2,892	3,691	5,077	5,853	6,187	7,085
Tax	(551)	(864)	(1,077)	(1,130)	(1,976)	(2,348)	(2,351)	(2,692)
Tax rate	32.68%	35.40%	37.24%	30.62%	38.92%	40.12%	38.00%	38.00%
Profit for the year	1,135	1,577	1,815	2,560	3,111	3,505	3,836	4,393
Minority interests	147	252	293	404	373	374	380	395
Net profit	988	1,325	1,522	2,156	2,738	3,131	3,456	3,998

Source: BLOOMBERG, SZI and Phillip Securities

(Financial figures as at 2 February 2016)

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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