

Haichang HLDG (2255.HK)

Records Steady Growth of Existing Projects and Smooth Progress of New Projects

Hong Kong | Real Estate | Company report

22 JULY 2016

Buy

CMP: HKD 1.57
(Closing price as at 20 July 2016)
TARGET: HKD 2.30 (46.5%)

COMPANY DATA

O/S SHARES (MN) :	4,000
MARKET CAP (HKDMN) :	6,280
52 - WK HI/LO (HKD):	1.84 / 1.21

SHARE HOLDING PATTERN , %

Haichang Group Co. Ltd.	47.1
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Steady Income of Theme Parks, Improved Revenue Structure

In 2015, the eight theme parks brought about revenue of RMB1.296 billion with a year-on-year increase of 11.7%, accounting for 91.5% of the total revenue, mainly due to the growth of ticket sales and non-ticket revenue. Revenue from ticket sales reached RMB1.05 billion with a year-on-year increase of 11.3%. Admission attendance and ticket attendance were 12.31 million and 9.47 million, respectively, representing year-on-year increases of 7% and 8%, respectively. Non-ticket revenue reached RMB247 million with a year-on-year increase of 13.8%, accounting for 19.0% of contribution to the revenue of the park, which was more than last year. It is expected that the continuous and steady growth of admission attendance and continuous optimization of revenue structure will maintain the double-digit growth of revenue of theme parks.

The number of passenger and ticket passengers of Haichang ('0000)



Source: Company report, Phillip Securities (HK) Research

Improved Profitability, Surged Net Profit

Haichang in 2015 recorded revenue of RMB1.417 billion, a year-on-year decrease of 7.5% mainly due to the decrease of 67.4% in revenue of its property development segment. However, the gross profit surged to RMB787 million, up by 16.8% on a year-on-year basis. EBITDA reached RMB667 million with a year-on-year growth of 20.4%, while the net profit rocketed to RMB250 million, up by 18.2% Y-o-Y. It was mainly due to several reasons. First, the cost control of the company became more and more effective. Besides, the decrease of property sales led to the corresponding decrease of sales cost and significant increase of gross profit margin by 11.5% to 55.5%. Second, financial costs and period expenditure recorded a Y-o-Y decrease of 20.3% and 6.66%, respectively, which drove the increase of net profit margin by 3.8% to 17.6%.

PRICE PERFORMANCE , %

	1-Month	3-Month	1-Year
Haichang HLDG	-5.99	-3.68	-1.26
HSI	-11.86	-4.88	13.05

PRICE VS. HSI



Source: Phillip Securities (HK) Research

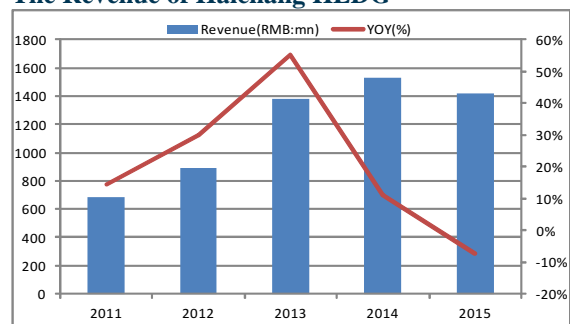
KEY FINANCIALS

RMB mn	FY14	FY15	FY16E	FY17E
Revenue	1,531	1,417	1,726	1,968
Net Profit	192	231	270	323
P/E, x	36.5	31.5	27.1	22.6
EPS, HKD	0.05	0.058	0.067	0.081
P/B, x	2.0	1.9	1.7	1.6
BVPS, HKD	0.89	0.96	1.07	1.15
ROE, %	5.2	5.8	6.3	7.1

Source: Company reports, Phillip Securities Est.

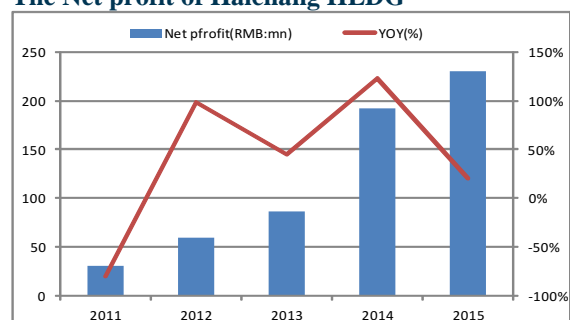
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The Revenue of Haichang HLDG



Source: Bloomberg, Phillip Securities (HK) Research

The Net profit of Haichang HLDG



Source: Bloomberg, Phillip Securities (HK) Research

Remarkable Achievements of Asset-light Businesses with Promising Future

The company upheld the mode of integration of asset-light and asset-heavy business models. Many asset-light businesses were properly carried out with positive initial results. It had entered into four service agreements on management business with total worth of over RMB140 million. The independently developed interactive and technological entertainment projects for children had been implemented one by one which were expected to be quickly promoted across the country. IP-related creativity and content creation capabilities continued to improve. Completed self-developed IP-related marine-themed 4D movies and picture book series will be completed within the year, which were expected to create new revenue.

Smooth Progress of New Projects Driving Future Performance

The construction of Shanghai Haichang Polar Ocean Park, located in Pudong, Shanghai, was commenced in December 2015 and expected to be completed in 2017. The park will open in 2018. Thanks to the synergistic and agglomeration effects of surrounding tourist projects, the annual tourists were estimated to reach 6 million when the project enters into mature operation, bringing about considerable future income of the investment. With "Maritime Silk Road" as its theme, Sanya Haichang Dream World was planned to be constructed in 2016 and open in 2019. The new projects had significant regional advantages and rich product forms that would drive the fast growth of future performance of the company.

Valuation

Based on the robust growth of revenue from existing projects, smooth progress of new projects, and promising future profitability, we expect that earnings per share in 2016/2017 will be RMB 0.067/RMB 0.081, respectively. By valuating the sum of the parts, businesses of the park would be 9 X EV/EBITDA in 2016. Discount of property asset segment would be 50%. Target price is set at HKD2.30, with a rating of Buy. (Closing price as at 20 July 2016)

Peer comparison

Stock code	Market value (CNY: hundred million)	Price of stock (CNY)	PE	PB	EV/EBITDA
000069.SZ	567	6.91	12.00	1.48	8.75
300144.SZ	352	24.21	48.24	6.07	34.02
600054.SH	107	16.55	36.45	4.07	16.61
601888.SH	447	45.76	28.70	3.76	16.06
000796.SZ	156	19.43	72.97	9.41	42.49
Average				4.96	23.59

Risk Warnings

Ticket attendance, ticket price increase, and the progress and revenue of new projects were not as good as expectations.

Financials

FYE	FY13	FY14	FY15	FY16E	FY17E
Valuation Ratios					
Price Earnings(P/E)	63.0	36.5	31.5	27.1	22.6
Price to Book(P/B)	5.2	2.0	1.9	1.7	1.6
Per share data(RMB)					
EPS,Adjusted	0.029	0.050	0.058	0.067	0.081
Book Value Per Share	0.35	0.89	0.96	1.07	1.15
Dividends Per Share	-	-	-	-	-
Growth & Margins(%)					
Growth					
Revenue	55.0%	11.1%	-7.5%	21.8%	14.1%
Operating income	15.3%	22.0%	16.6%	8.6%	19.6%
Net profit	44.4%	123.0%	20.1%	17.0%	19.8%
Margins					
Gross profit margin	42.8%	44.0%	55.5%	54.0%	53.0%
Operating profit margin	30.6%	33.6%	42.4%	37.8%	39.6%
Net income margin	6.2%	12.5%	16.3%	15.6%	16.4%
Key Ratios					
ROE(%)	5.18%	5.15%	5.77%	6.33%	7.05%
ROA(%)	1.08%	2.31%	2.75%	3.16%	3.58%
Income Statement(RMB mn)					
Revenue	1,378	1,531	1,417	1,726	1,968
- Cost of Goods Sold	789	858	630	794	925
Gross Income	589	674	786	932	1,043
- Operating Expenses	302	441	432	430	463
Operating Income	422	515	600	652	780
- Net Non-Operating Losses (Gains)	-150	-33	-31	-30	-30
Pretax Income	217	375	463	527	613
- Income Tax Expense	89	164	213	237	270
Net profit	86	192	231	270	323

Source: Company, Phillip Securities (HK) Research Estimates
(Financial figures as at 20 July 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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