

3 May 2018

Property | Real Estate

Greentown China Holdings

Sell (Maintained)

Still Awaiting a Recovery

Maintain SELL. Our HKD7.10 TP, offering a 35% downside, is based on an unchanged 65% discount to Greentown's end-FY18F ENAV of HKD20.30. Following an update with the company's officials, we hold our view that its limited contracted sales and earnings growth – due to its landbank scale and weak profit margins – are major overhanging factors on its share price. A meaningful recovery may happen only in FY19, at the earliest. We see NAV-accretive acquisitions as the upside risks and a catalyst for valuation upgrades.

Limited growth in the near term; yet to see recovery until FY19. Greentown China Holdings' (Greentown) small landbank and weak profit margins are our primary concerns, which hinder both its contracted sales and earnings growth outlook. We notice that the developer has accelerated its land acquisition pace since FY17, and the new launches would contribute c.73% of saleable resources in FY18. Greentown also adopted a project management approach to enrich its saleable resources.

However, we believe that the land acquisition scale is impeded by:

- The company's stretched gearing level (net gearing ratios of 75% and 78% in FY17 and FY18F respectively);
- Its strategy of focusing on Tier-1&2 cities, which may contribute c.68% of its saleable resources in FY18.

Thus, we keep our contracted sales forecast of CNY110bn (+6.6% YoY) for FY18, and expect a more meaningful sales growth to occur from FY19 onwards – when more acquired projects are launched for presales.

Margin recovery likely to occur only by FY19. Greentown managed to record a GPM of 19.1% only in FY17. Going forward, we expect the GPM to remain under pressure in FY18, given the booking of inventory clearance sales – especially for projects located in low-tier cities. Although the impact would likely dissipate from FY19 onwards, we still anticipate it to book a modest recovery in margins, given the higher land cost.

Maintain SELL, with a HKD7.10 TP. We leave our earnings forecasts and TP unchanged. Our current TP is based on a 65% discount to our end-FY18F ENAV of HKD20.30. We intend to maintain our valuations for now, as we see Greentown's business is on track – its contracted sales revenue rose 25% YoY and reached 25% of our full-year estimated target for 1Q18.

We view the following as upside risks for Greentown – more land acquisition opportunities emerging in Tier-1&2 cities (probably due to the pullback in property markets); more NAV-accretive acquisitions being completed; and the acceleration of revenue bookings. Currently, we still see its limited contracted sales and recurring earnings growth as major constraints on a valuation upgrade.

Target Price:	HKD7.10
Price:	HKD10.90
Market Cap:	USD3,010m
Bloomberg Ticker:	3900 HK

Share Data

Avg Daily Turnover (HKD/USD)	60.8m/7.68m
52-wk Price low/high (HKD)	6.98 - 13.7
Free Float (%)	36
Shares outstanding (m)	2,163
Estimated Return	-35%

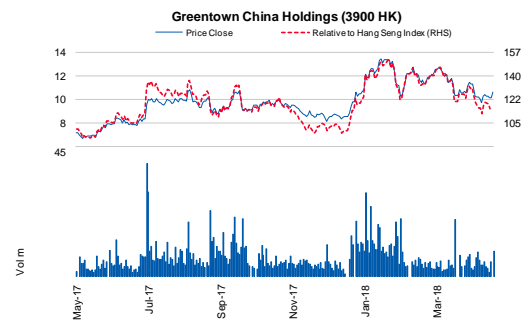
Shareholders (%)

CCCC	28.8
Wharf Group	24.9
Song Weiping	10.4

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	8.3	2.6	(19.3)	10.2	45.9
Relative	5.3	0.2	(13.8)	2.2	21.1

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (CNYm)	28,976	41,953	50,517	57,874	67,221
Reported net profit (CNYm)	1,917	2,190	2,431	2,723	3,222
Recurring net profit (CNYm)	1,958	2,854	2,431	2,723	3,222
Recurring net profit growth (%)	89.5	45.8	(14.8)	12.0	18.3
Recurring EPS (CNY)	0.91	1.32	1.07	1.14	1.29
DPS (CNY)	0.12	0.20	0.17	0.19	0.22
Recurring P/E (x)	9.72	6.68	8.23	7.71	6.85
P/B (x)	0.77	0.72	0.63	0.59	0.54
Dividend Yield (%)	1.4	2.3	1.9	2.1	2.5
Return on average equity (%)	7.9	8.6	8.6	8.7	9.5
Return on average assets (%)	1.2	1.1	1.0	1.2	1.4
Net debt to equity (%)	84.4	75.3	77.6	76.4	73.3
Our vs consensus EPS (adjusted) (%)			11.3	11.1	25.2

Source: Company data, RHB

Analysts

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Financial Exhibits

Financial model updated on : 2018-03-29.

Asia	Financial summary	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Hong Kong	Recurring EPS (CNY)	0.91	1.32	1.07	1.14	1.29
Property	EPS (CNY)	0.89	1.01	1.07	1.14	1.29
Greentown China Holdings	DPS (CNY)	0.12	0.20	0.17	0.19	0.22
Bloomberg 3900 HK	BVPS (CNY)	11.4	12.2	14.0	15.0	16.3
Sell	Weighted avg adjusted shares (m)	2,163	2,164	2,273	2,386	2,505
Valuation basis	Valuation metrics	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
65% discount to end-FY18F ENAV of HKD20.30	Recurring P/E (x)	9.72	6.68	8.23	7.71	6.85
Key drivers	P/E (x)	9.93	8.70	8.23	7.71	6.85
Increasing exposure in Tier-1&2 cities	P/B (x)	0.77	0.72	0.63	0.59	0.54
Key risks	FCF Yield (%)	18.3	17.6	12.3	(12.4)	(8.9)
i. Slow sell-through rates;	Dividend Yield (%)	1.4	2.3	1.9	2.1	2.5
ii. Mounting net gearing levels	EV/EBITDA (x)	21.6	12.8	11.2	9.3	8.5
	EV/EBIT (x)	26.2	14.1	12.2	9.8	9.0
Company Profile	Income statement (CNYm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Greentown China is a well-known property developer in Hangzhou and the Zhejiang region. Riding on the widespread recognition of its <i>Greentown</i> brand, the company has established a strong foothold in the Yangtze River Delta region, and also has a presence in other regions in China as well.	Total turnover	28,976	41,953	50,517	57,874	67,221
	Gross profit	6,022	8,076	9,651	11,852	13,713
	EBITDA	2,200	3,986	4,896	6,511	7,645
	Depreciation and amortisation	(386)	(387)	(388)	(388)	(389)
	Operating profit	1,814	3,599	4,509	6,122	7,256
	Net interest	(276)	(990)	(337)	(737)	(777)
	Income from associates & JVs	1,918	550	2,215	2,327	2,445
	Exceptional income - net	292	3,232	222	229	236
	Pre-tax profit	3,748	6,391	6,608	7,941	9,159
	Taxation	(1,526)	(3,720)	(3,436)	(4,407)	(5,037)
	Minority interests	(305)	(481)	(741)	(811)	(900)
	Recurring net profit	1,958	2,854	2,431	2,723	3,222
	Cash flow (CNYm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
	Change in working capital	13,048	7,109	14,110	9,513	10,133
	Cash flow from operations	7,878	7,757	6,854	1,786	2,434
	Capex	(4,400)	(4,400)	(4,400)	(4,400)	(4,400)
	Cash flow from investing activities	(1,927)	(1,865)	(1,789)	(1,623)	(1,608)
	Dividends paid	0	(260)	(433)	(365)	(408)
	Cash flow from financing activities	1,847	1,500	1,196	1,230	1,142
	Cash at beginning of period	14,880	22,678	30,070	36,332	37,724
	Net change in cash	7,798	7,392	6,262	1,392	1,968
	Ending balance cash	22,678	30,070	36,332	37,724	39,692
	Balance sheet (CNYm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
	Total cash and equivalents	24,971	35,977	42,239	43,631	45,600
	Tangible fixed assets	6,547	7,713	7,945	8,183	8,428
	Intangible assets	769	769	769	769	769
	Total investments	12,146	12,391	11,645	11,972	12,417
	Total other assets	2,650	4,660	4,660	4,660	4,660
	Total assets	169,796	235,828	227,423	230,753	228,470
	Short-term debt	10,037	17,685	18,685	19,685	20,685
	Total long-term debt	43,396	47,034	54,315	56,315	58,315
	Other liabilities	4,745	7,016	7,016	7,016	7,016
	Total liabilities	136,068	197,638	187,764	188,374	182,903
	Shareholders' equity	24,690	26,479	30,134	32,449	35,187
	Minority interests	9,037	11,712	9,525	9,930	10,380
	Total equity	33,728	38,190	39,659	42,379	45,567
	Net debt	28,462	28,741	30,761	32,369	33,400
	Total liabilities & equity	169,796	235,828	227,423	230,753	228,470
	Key metrics	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
	Revenue growth (%)	11.2	44.8	20.4	14.6	16.2
	Recurrent EPS growth (%)	89.5	45.7	(18.9)	6.7	12.7
	Gross margin (%)	20.8	19.2	19.1	20.5	20.4
	Operating EBITDA margin (%)	7.6	9.5	9.7	11.2	11.4
	Net profit margin (%)	6.6	5.2	4.8	4.7	4.8
	Dividend payout ratio (%)	13.5	19.8	15.0	15.0	15.0
	Capex/sales (%)	15.2	10.5	8.7	7.6	6.5
	Interest cover (x)	1.75	2.44	2.54	3.06	3.48

Source: Company data, RHB

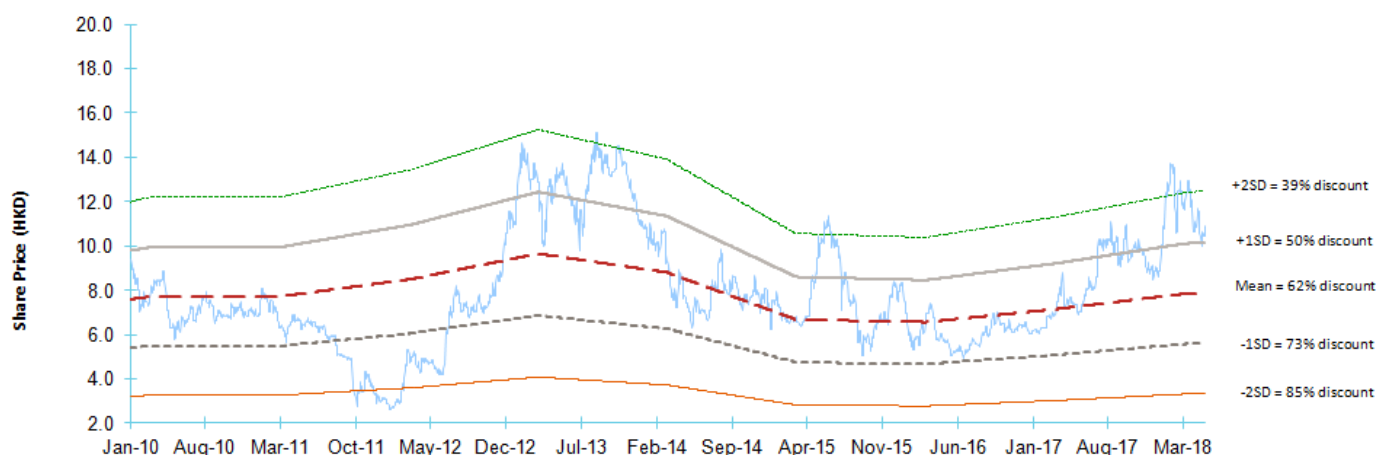
Valuation And Recommendation

Figure 1: Greentown's end-FY18F ENAV

Details	Total HKDm	HKD/share	% of Total
Land bank and properties under development	67,390	31.2	153%
Hotel properties and other fixed assets	10,010	4.6	23%
Investment properties	3,423	1.6	8%
Net debts as of end-FY18F	(36,913)	(17.1)	-84%
Total	43,910	20.3	100%

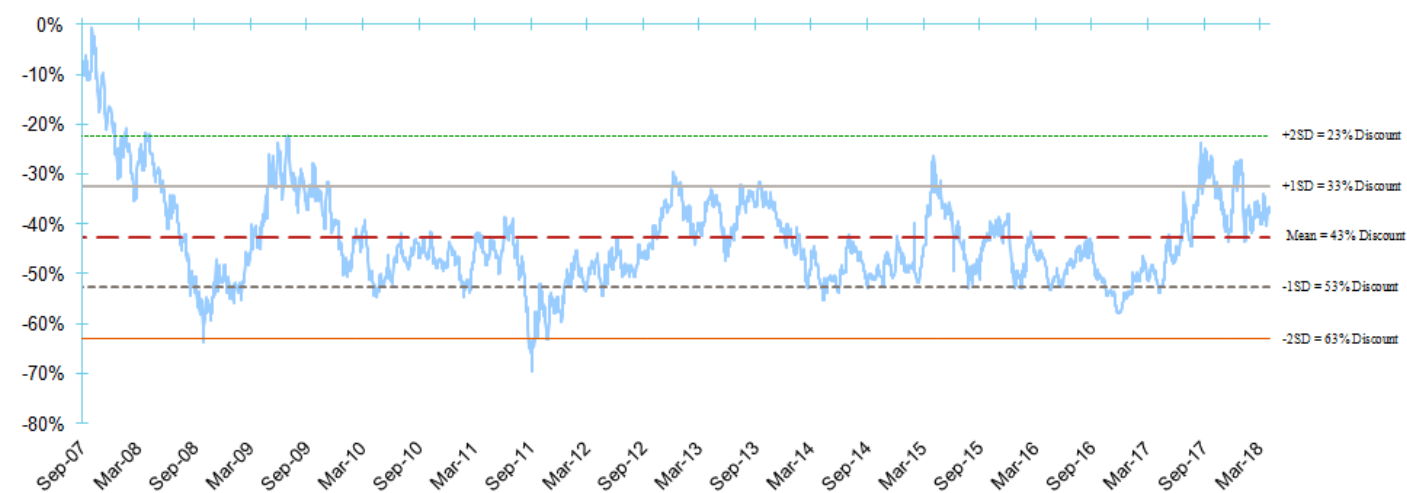
Source: RHB

Figure 2: Greentown's 5-year rolling forward ENAV band



Source: RHB

Figure 3: China property sector's past 10 years' ENAV discount bands



Source: RHB

Peer Comparison

Figure 4: Peer comparison I

Company	Stock code	*Price (HKD)	Mkt cap (USDm)	3-mth avg t/o (USDm)	RHB/Cons NAV (HKD)	Discount to NAV (%)	P/E		EPS YoY change		3-yr EPS CAGR (%)	P/BV		Div yield		
							FY18F (x)	FY19F (x)	FY18F (%)	FY19F (%)		FY18F (x)	FY19F (x)	FY18F (%)	FY19F (%)	
Large peer average							28.1	8.1	6.4	19.6	26.8	22.1	1.8	1.5	4.7	5.4
China Vanke	2202 HK	31.50	47,603	38.7	33.34	5.5	8.0	6.6	24.9	22.4	19.4	1.8	1.5	4.6	5.6	
**Country Garden	2007 HK	16.40	45,415	128.1	25.80	36.4	8.4	6.3	35.6	34.6	30.5	2.3	1.8	4.0	5.2	
**Evergrande	3333 HK	25.80	43,311	74.0	42.20	38.9	7.1	5.9	-3.3	21.1	12.6	2.1	1.7	8.2	7.6	
**China Overseas	688 HK	26.50	36,987	69.2	43.00	38.4	7.2	6.1	18.4	17.8	17.3	1.0	0.9	3.5	4.2	
**CR Land	1109 HK	30.00	26,488	59.5	42.00	28.6	8.5	7.2	27.3	17.8	20.4	1.3	1.1	4.0	4.7	
**Sunac	1918 HK	35.00	19,625	90.3	41.30	15.3	9.7	6.0	4.7	61.8	38.7	2.4	1.9	2.3	3.5	
**Longfor	960 HK	23.40	17,636	18.1	35.10	33.3	8.8	7.0	27.3	26.0	25.4	1.4	1.2	4.4	5.6	
Mid-and-small peer average							36.6	8.1	6.6	26.0	21.2	19.8	0.8	0.7	5.1	6.3
**Shimao	813 HK	21.70	9,363	21.1	40.00	45.8	6.5	5.3	32.3	23.0	27.0	0.9	0.8	6.0	7.3	
**Agile	3383 HK	15.82	7,894	19.9	34.00	53.5	6.8	5.5	21.3	24.0	22.6	1.1	1.0	6.8	8.3	
Guangzhou R&F	2777 HK	18.94	7,775	21.5	20.86	9.2	4.9	4.0	32.1	22.6	25.6	0.8	0.7	8.2	10.0	
China Jinmao	817 HK	4.51	6,651	24.0	5.23	13.8	8.4	6.5	18.9	29.4	29.6	1.1	1.0	4.8	6.0	
**CIFI	884 HK	6.19	6,036	28.1	10.40	40.5	6.8	5.3	27.5	29.2	27.5	1.4	1.2	5.2	6.7	
Sino-Ocean	3377 HK	5.61	5,422	8.0	6.80	17.5	6.9	5.8	22.7	19.7	23.0	0.7	0.6	6.3	7.5	
**KWG	1813 HK	10.98	4,413	18.8	22.30	50.8	5.9	4.5	54.6	30.7	35.8	0.9	0.8	5.8	7.6	
Shenzhen Inv	604 HK	3.21	3,295	4.6	8.50	62.2	8.5	7.3	-27.1	17.3	-6.1	0.6	0.5	5.7	6.4	
Kaisa	1638 HK	4.20	3,244	7.5	5.60	25.0	3.5	2.5	118.6	N/A	N/A	1.1	N/A	N/A	1.6	
**Greentown	3900 HK	10.90	3,010	8.8	20.30	46.3	8.9	8.0	28.6	11.1	15.8	0.7	0.6	2.2	2.4	
Yuexiu Property	123 HK	1.78	2,812	8.4	1.86	4.3	7.1	5.8	7.1	22.7	16.2	0.5	0.5	5.5	6.9	
SOHO China	410 HK	4.05	2,683	5.0	7.30	44.5	37.7	29.3	N/A	28.7	N/A	0.5	0.5	4.0	4.6	
Hopson	754 HK	8.43	2,390	1.6	13.08	35.6	13.4	13.2	N/A	1.6	N/A	N/A	N/A	2.3	2.3	
Shui On Land	272 HK	2.13	2,188	8.8	5.90	63.9	9.1	8.3	-20.4	9.5	0.2	0.3	0.3	2.8	2.7	
**CSC	1668 HK	1.74	1,775	4.8	6.30	72.4	8.4	7.3	N/A	14.5	21.5	0.5	0.5	2.9	3.9	
Poly HK	119 HK	3.71	1,731	5.8	7.00	47.0	6.7	6.9	51.4	-2.5	N/A	0.5	0.5	4.0	3.8	
**COGO	81 HK	3.61	1,574	6.1	6.60	45.3	5.5	4.2	39.5	30.6	26.6	0.6	0.5	1.5	2.0	
Fantasia	1777 HK	1.56	1,145	2.4	2.60	40.0	5.3	4.1	20.0	29.2	24.9	0.6	0.4	3.2	5.8	
Sector average							30.1	8.1	6.4	21.1	25.4	21.6	1.6	1.3	4.8	5.6

Note: *Prices are as at 2 May 2018

**Under RHB's coverage

Source: RHB, Bloomberg

Figure 5: Peer comparison II

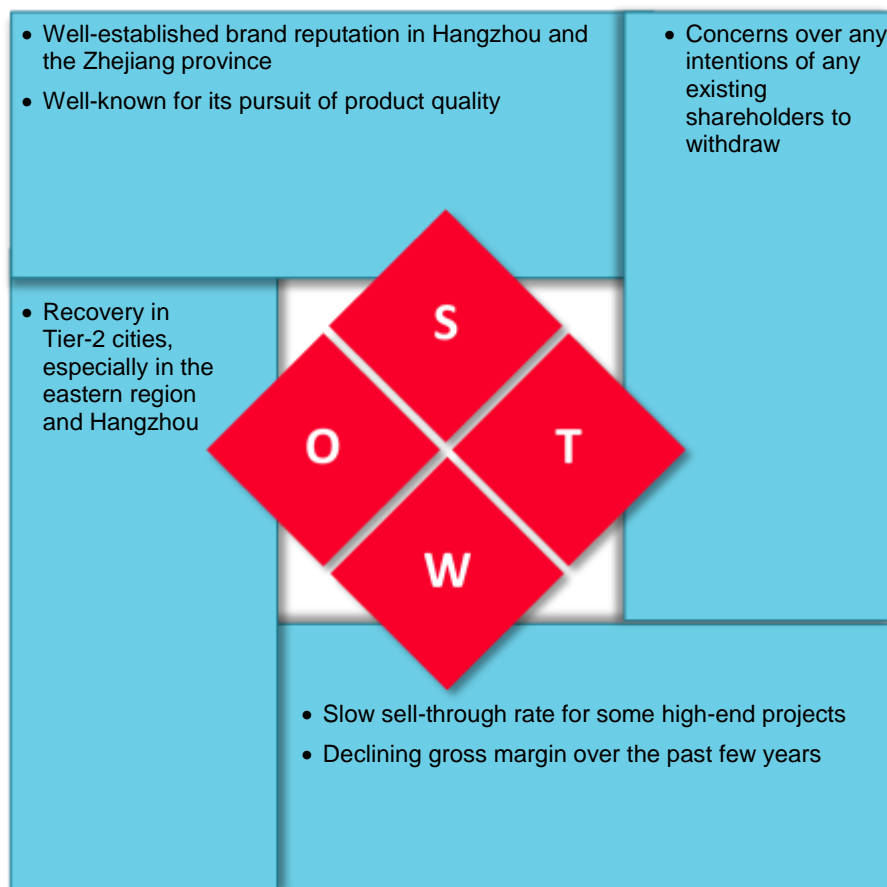
Company	Stock	Mkt cap	Revenue		Net profit		Gross margin	Net margin		Net gearing		ROE		Share price change	
	code		FY17	FY18F	FY17	FY18F	FY17	FY17	FY18F	FY17	FY18F	FY17	FY18F	1-mth	YTD
		(USDm)	(USDm)	(USDm)	(USDm)	(USDm)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Large peer average							31.8	15.8	12.4	96.3	14.6	24.5	22.6	1.3	10.0
China Vanke	2202 HK	47,603	37,322	49,311	4,411	5,478	32.3	11.8	11.1	14.1	N/A	22.8	22.9	-12.0	1.0
Country Garden	2007 HK	45,415	35,680	55,107	4,098	5,351	25.9	11.5	9.7	55.0	0.0	31.8	29.4	1.5	10.1
Evergrande	3333 HK	43,311	48,908	69,822	3,832	6,118	36.1	7.8	8.8	237.8	N/A	30.7	33.7	4.5	-4.3
China Overseas	688 HK	36,987	20,889	27,308	5,193	5,176	33.4	24.9	19.0	27.1	12.7	16.7	14.5	-2.8	5.4
CR Land	1109 HK	26,488	15,107	19,002	2,932	3,102	40.3	19.4	16.3	43.1	23.7	17.7	16.3	5.1	30.4
Sunac	1918 HK	19,625	10,359	22,196	1,837	1,897	20.7	17.7	8.5	249.1	N/A	32.8	24.0	15.5	8.2
Longfor	960 HK	17,636	11,334	15,126	1,981	1,989	33.9	17.5	13.1	47.8	21.9	19.0	17.4	-2.5	19.5
Mid-and-small peer average							33.3	32.2	12.7	83.4	41.4	14.3	12.4	-2.2	10.3
Shimao	813 HK	9,363	11,074	13,365	1,233	1,444	30.4	11.1	10.8	61.1	56.3	14.2	14.7	-2.3	27.6
Agile	3383 HK	7,894	8,115	10,012	1,022	1,150	40.1	12.6	11.5	93.8	10.6	16.8	17.2	-2.5	33.4
Guangzhou R&F	2777 HK	7,775	9,321	12,293	3,354	1,577	35.4	36.0	12.8	188.8	78.7	40.2	15.7	-3.3	7.5
China Jinmao	817 HK	6,651	4,887	6,659	625	756	32.3	12.8	11.4	69.1	53.8	12.9	13.2	0.9	31.1
CIFI	884 HK	6,036	5,004	6,356	759	872	27.1	15.2	13.7	49.4	N/A	26.9	22.3	-9.6	31.4
Sino-Ocean	3377 HK	5,422	7,208	8,168	804	778	24.5	11.2	9.5	66.5	26.6	11.1	10.0	-1.4	4.1
KWG	1813 HK	4,413	1,815	2,558	569	715	34.8	31.4	28.0	72.4	38.5	14.0	15.6	2.6	20.3
Shenzhen Inv	604 HK	3,295	1,306	2,383	631	381	34.6	48.3	16.0	22.0	N/A	13.3	7.1	-3.6	-0.9
Kaisa	1638 HK	3,244	5,155	10,825	517	1,348	27.3	10.0	12.5	252.3	N/A	20.5	38.5	-4.8	-4.8
Greentown	3900 HK	3,010	6,597	6,771	344	325	19.2	5.2	4.8	59.1	51.4	6.5	6.6	2.6	8.3
Yuexiu Property	123 HK	2,812	3,742	4,243	355	388	25.7	9.5	9.2	72.9	45.0	7.2	7.4	-3.8	21.9
SOHO China	410 HK	2,683	309	309	744	78	74.0	241.2	25.2	51.4	N/A	14.1	1.5	-1.5	-11.4
Hopson	754 HK	2,390	1,761	N/A	738	N/A	36.8	41.9	N/A	71.9	N/A	9.8	N/A	-5.9	10.1
Shui On Land	272 HK	2,188	2,901	2,670	353	243	42.6	12.2	9.1	55.1	N/A	4.4	4.1	0.0	-1.4
CSC	1668 HK	1,775	999	1,262	551	228	44.8	55.1	18.1	78.2	N/A	16.0	10.5	-1.7	-15.1
Poly HK	119 HK	1,731	4,039	4,809	314	285	20.6	7.8	5.9	72.1	N/A	9.3	7.1	-3.9	-8.8
COGO	81 HK	1,574	2,583	3,327	162	242	20.1	6.3	7.3	77.6	11.3	10.6	11.4	-5.0	-13.4
Fantasia	1777 HK	1,145	1,538	2,148	182	215	29.6	11.8	10.0	87.1	N/A	9.8	7.5	2.6	45.8
Average							32.9	27.6	12.6	87.0	33.1	17.2	15.4	-1.2	10.2

Note: *Prices are as at 2 May 2018

**Under RHB's coverage

Source: RHB, Bloomberg

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2018-04-03	Sell	7.1	11.1
2017-08-29	Sell	6.8	9.1
2017-03-27	Sell	6.5	7.9
2016-08-30	Neutral	6.0	6.3
2016-04-05	Neutral	6.0	6.0
2015-09-01	Neutral	6.1	5.8
2015-03-30	Neutral	6.9	6.8
2014-08-26	Neutral	7.3	8.6
2014-03-25	Neutral	9.1	8.0
2013-12-19	Buy	15.2	12.1

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated: Stock is not within regular research coverage

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