



Mar 10, 2016
Company Report
Rating: BUY
TP: HK\$ 2.40

Share price (HK\$) 1.74
Est. share price return 37.9%
Est. dividend yield 8.6%
Est. total return 46.5%

Previous Rating & TP BUY; HK\$2.20
Previous Report Date Nov 20, 2015

Analyst : Kenneth Tung
Tel: (852) 2147 8311
Email: kennethtung@abci.com.hk

Key Data

52Wk H/L(HK\$) 2.67/1.32
Issued shares (mn) 6,676
Market cap (HK\$ mn) 11,549
3-mth avg daily turnover (HK\$ mn) 10.44
Major shareholder(s) (%):
Lin's family 53.82

Source(s): Company, Bloomberg, ABCI Securities

FY15 Revenue breakdown (%)

Property development 93.5
Property management 6.3
Property investment 0.2

Source(s): Company, ABCI Securities

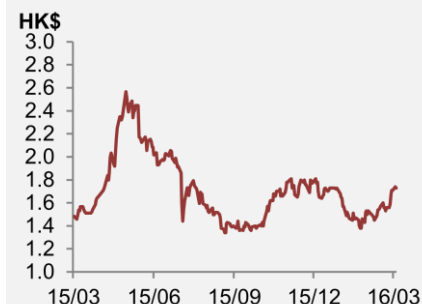
Share performance (%)

	Absolute	Relative*
1-mth	13.1	9.2
3-mth	1.8	10.6
6-mth	20.1	33.1

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

CIFI (884 HK)
Solid FY15 results

- 2015 core profit grew 14% YoY to RMB 2.2bn, in line with our estimate and consensus
- Adjusted gross margin fell 1.8ppt YoY to 24.1% due to intense pricing pressure during the market downturn in 2014
- 2016 sales target of RMB 36.5bn implies a 21% YoY growth.
- Average interest cost dropped 1.1ppt YoY to 7.2%; net gearing remained low at 59%
- Maintain **BUY** with revised TP of HK\$ 2.40 (from HK\$ 2.20) based on a 60% discount to NAV

Core profit increased 14% YoY to RMB 2,210mn. CIFI's FY15 core profit increased 14% YoY to RMB 2,210mn, 2% above consensus or 4% above our forecast. Gross margin declined 3.1ppt YoY to 22.7%, impacted by the accounting effect of fair value changes of certain projects due to the increased stakes. Excluding such effect, gross margin fell 1.8ppt YoY to 24.1%, mainly due to revenue booking of projects presold in 2014 when oversupply prevailed in the market. Net gearing remained stable at 59% despite the attributable land cost of RMB 13,122mn during the year (for an attributable GFA of 2.0mn sqm). The amount is equivalent to 43% of 2015 presales. The new share issuance in May (600mn shares at HK\$ 2.20) and high cash collection rate of 90% have helped CIFI maintain a healthy gearing level. CIFI announced a final DPS of HK\$ 11cents and together with the interim DPS of HK\$ 3cents announced, FY15 yield is high at 8.0%. Overall, we believe the market should be pleased with the double-digit profit growth and lower-than-peer net gearing.

2016 sales target of RMB 36.5bn. CIFI's presales grew 43% YoY to RMB 30.2bn in 2015, driven by 20% YoY growth in ASP and 19%YoY in GFA sold. The strong presales was mainly driven by tier-1 cities, which accounted for 39% of total presales. In 2016, CIFI targets to achieve RMB 36.5bn in presales, implying a 21% YoY growth. We think the target is achievable given the Group's historical growth rate of 47% CAGR in 2012-15. Also, presales remained strong in 2M16, up 146% YoY to RMB 5.01bn. By increasing percentage of upgraders product in sellable resources, management expects 2016 ASP to reach RMB18k/sqm.

Consistent improvement in finance cost and debt structure. Weighted average interest cost declined 1.1ppt YoY to 7.2% as CIFI has raised various low-cost domestic corporate bonds since 2H15. In Oct-Nov 2015, CIFI issued RMB4bn of onshore public bond at 4.95% (3+2 maturity) and 5.96% (5-year maturity); In Jan 2016, CIFI raised another RMB 1bn of onshore private bond at 4.99% (1+1 maturity). The Group repaid some of the higher-cost offshore debts ahead of maturity, including the US\$156mn syndicated loan and repurchased US\$40.8mn of USD bonds due 2018. Besides, currency risk is further reduced as the percentage of offshore debts declined from 52% in June 2015 to 43% in Dec 2015. CIFI registered an exchange loss of RMB 302mn for FY15, nonetheless we expect such loss to narrow in the future. (Continue next page)

Results and Valuation

FY ended Dec 31	2014A	2015A	2016E	2017E	2018E
Revenue (RMB mn)	16,179	18,231	25,773	22,467	21,003
Chg (% YoY)	35.9	12.7	41.4	(12.8)	(6.5)
Underlying Net Income (RMB mn) ¹	1,939	2,210	2,631	2,792	3,289
Chg (% YoY)	27.6	14.0	19.0	6.1	17.8
Underlying EPS (RMB)	0.32	0.35	0.40	0.42	0.50
Chg (% YoY)	27.6	7.7	14.5	6.1	17.8
BVPS (RMB)	1.69	2.01	2.18	2.44	2.77
Chg (% YoY)	18.5	18.8	8.5	12.0	13.4
Underlying PE (x)	4.6	4.3	3.7	3.5	3.0
P/B (x)	0.9	0.7	0.7	0.6	0.5
ROE (%)	19.0	17.2	18.2	17.2	17.9
ROA (%)	4.5	3.3	3.8	3.8	4.2
DPS(HK\$)	0.11	0.14	0.15	0.16	0.17
Yield (%)	6.3	8.0	8.6	9.2	9.8
Net gearing ² (%)	58.2	59.2	55.1	Net cash	Net cash

¹Underlying net income = Net profit - revaluation gain of investment properties and one-off items

²Net gearing = Net debt/Total equity

Source(s): Bloomberg, ABCI Securities estimates



Management expects interest cost to decline further to 6.3% in 2016, mainly due to the proposed early redemption of 2018 due USD bond in Apr 2016, which carries a high interest cost of 12.25%.

Maintain BUY and raise TP at HK\$ 2.40. We factor in the value of the latest land acquisitions and raise our 2016E NAV forecast by 8% to HK\$ 5.88/share (from HK\$5.45). We also lift our TP to HK\$2.40 (from HK\$ 2.20) based on an unchanged NAV discount of 60%. Given its attractive valuation at 3.7x 2016E P/E with a FY16E yield of 8.7%, we believe this fast-growing developer is still undervalued by the market. Maintain **BUY**.

Risk factors: 1) Expensive land acquisition may expand presales scale but erode margins; 2) Low daily turnover of the CIFI's shares; 3) Foreign exchange risk.

Exhibit 1: CIFI's 2015 results

P&L	FY15	FY14	YoY Chg
	RMBmn	RMBmn	(%)
Turnover	18,231	16,179	12.7
Cost of Sales & direct operating costs	(14,087)	(11,993)	17.5
Gross Profit	4,144	4,187	(1.0)
Gross margin (%)	22.7	25.9	(3.1ppt)
Selling and distribution costs	(371)	(319)	16.1
Administrative expense	(607)	(529)	14.7
EBIT	3,165	3,338	(5.2)
EBIT margin (%)	17.4	20.6	(3.3ppt)
Other income	321	103	211.5
Fair Value gains on IP and exchange losses	348	389	na
Share of profit from JCE/ Associates	173	(119)	(245.4)
Finance cost	(203)	(386)	(47.5)
Profit before tax	3,805	3,325	14.4
Tax	(1,334)	(1,325)	0.7
- LAT	(318)	(473)	(32.8)
- Enterprise tax	(1,016)	(613)	65.8
Profit after tax	2,471	2,000	23.6
Minority Interest	(375)	(138)	171.1
Net profit	2,095	1,861	12.6
Core net profit	2,210	1,939	14.0
Core net margin	12.1	12.0	+0.1ppt

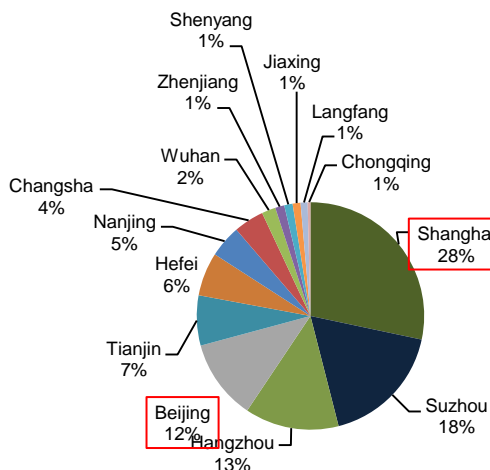
Operating statistics	FY15	FY14	YoY Chg
			%
Contracted GFA (mn sqm)	2.06	1.73	18.6
Contracted ASP (RMB/sqm)	14,700	12,236	20.1
Contracted sales (RMB mn)	30,223	21,205	42.5
GFA delivered (mn sqm)	1.32	1.42	(6.6)
Booked ASP (RMB/sqm)	12,875	11,048	16.5
Property sales booked (RMB mn)	17,047	15,654	8.9

Balance sheet	Dec-15	Dec-14	YoY chg
	RMB mn	RMB mn	ppt
Gross debt	23,955	13,861	72.8
Cash	14,905	7,124	109.2
Net debt	9,050	6,737	34.3
Net gearing (%)	59%	58%	+1ppt

Source(s): Company, ABCI Securities

Exhibit 2: CIFI's 2015 presales by city

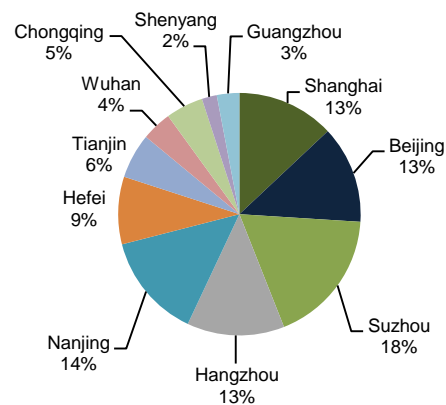
CIFI's 2015 presales: RMB30.21bn, +43%YoY



Source(s): Company, ABCI Securities

Exhibit 3: CIFI's 2015 land acquisition by city

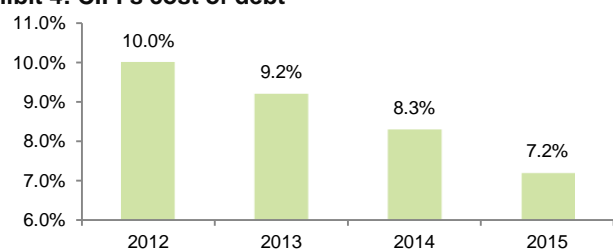
2015 attributable land acquisition: RMB13.1bn, 2015 attributable GFA: 2.0mn sqm



Source(s): Company, ABCI Securities



Exhibit 4: CIFI's cost of debt



Source(s): Company, ABCI Securities

Exhibit 5: CIFI's Cash flow guidance

	FY15	FY16E
	RMBbn	RMBbn
Land acquisition	(12.7)	(10.0)
Construction capex	(6.5)	(7.5)
Tax	(2.4)	(2.8)
Interest	(1.6)	(1.6)
SG&A	(1.0)	(1.1)
Cash outflow	(24.2)	(23.0)

Source(s): Company, ABCI Securities estimates

Exhibit 6: CIFI's FY16E NAV

	Attr. GFA (M sqm)	Net asset value (RMB m)	% of total	Valuation Method	Implied value per sqm (RMB)
Property development					
Shanghai	1.4	8,716	20%	DCF at WACC of 10.4%	6,096
Suzhou	1.5	6,177	14%		4,135
Hangzhou	0.8	4,313	10%		5,340
Beijing	0.6	4,303	10%		7,746
Tianjin	1.3	3,117	7%		2,348
Chongqing	1.4	3,627	8%		2,683
Others	4.6	11,884	28%		2,587
Subtotal	11.6	42,137	98%		3,645
Property investment & management		738	2%	6.0% cap rate on 2016E net rental income	
Total 2016E GAV		42,874	100%		
2016E Net debt		(9,851)	-23%		
Total 2016E NAV		33,024	77%		
No. of share outstanding (diluted)		6,627			
NAV per share (RMB)		4.98			
Ex rate		1.18			
NAV per share (HKD)		5.88			
Target discount (%)		60%			
Target Price (HKD)		2.40			

Source(s): Company, ABCI Securities estimates

WACC	10.4%
Cost of debt	9.4%
Cost of equity	15.0%
Debt/ (Debt + Equity)	58%



Consolidated income statement (2013A-2018E)

FY Ended Dec 31 (RMB mn)	2013A	2014A	2015A	2016E	2017E	2018E
Revenue	11,909	16,179	18,231	25,773	22,467	21,003
Cost of sales	(8,841)	(11,993)	(14,087)	(19,405)	(16,817)	(14,940)
Gross Profit	3,069	4,187	4,144	6,368	5,650	6,064
SG&A expenses	(822)	(849)	(978)	(1,169)	(1,210)	(1,302)
EBIT	2,246	3,338	3,165	5,199	4,441	4,762
Finance cost	(188)	(386)	(203)	(200)	(216)	(232)
Share of profit of associates	(14)	(119)	173	953	1,430	1,721
Other income/ (expenses)	75	103	321	155	221	342
Fair value gain of investment properties	757	245	-	-	-	-
Disposal/one-off items	100	143	348	-	-	-
Profit before tax	2,975	3,325	3,805	6,107	5,876	6,593
Tax	(934)	(1,325)	(1,334)	(2,466)	(2,172)	(2,399)
Profit after tax	2,041	2,000	2,471	3,641	3,704	4,194
Minority interest	(147)	(138)	(375)	(1,010)	(912)	(904)
Reported net profit	1,894	1,861	2,095	2,631	2,792	3,289
<i>Less: exceptional items</i>	<i>(375)</i>	<i>78</i>	<i>115</i>	<i>-</i>	<i>-</i>	<i>-</i>
Underlying net profit	1,519	1,939	2,210	2,631	2,792	3,289
Per share						
Underlying EPS (RMB)	0.25	0.32	0.35	0.40	0.42	0.50
DPS (RMB)	0.07	0.11	0.14	0.15	0.16	0.17
Payout ratio (%)	28%	34%	40%	38%	38%	34%
BVPS (RMB)	1.43	1.69	2.01	2.18	2.44	2.77
Growth %						
Revenue	46.2%	35.9%	12.7%	41.4%	-12.8%	-6.5%
Gross Profit	59.3%	36.4%	-1.0%	53.7%	-11.3%	7.3%
EBIT	63.2%	48.6%	-5.2%	64.2%	-14.6%	7.2%
Underlying net profit	64.9%	27.6%	14.0%	19.0%	6.1%	17.8%
Margin %						
Gross margin	25.8%	25.9%	22.7%	24.7%	25.1%	28.9%
Gross margin (post-LAT)	23.7%	23.7%	22.4%	19.4%	19.8%	22.6%
EBIT margin	18.9%	20.6%	17.4%	20.2%	19.8%	22.7%
Core net margin	11.9%	11.3%	11.2%	10.4%	10.1%	11.8%
Key assumptions						
Contracted Sales (RMB mn)	15,319	21,205	30,223	38,590	41,883	46,649
GFA sold (mn sqm)	1.43	1.73	2.06	2.30	2.09	2.10
ASP (RMB/sqm)	10,725	12,236	14,700	16,752	20,075	22,225
Booked Sales (RMB mn)	11,579	15,654	17,047	24,529	21,159	19,628
GFA delivered (mn sqm)	1.24	1.42	1.32	1.71	1.34	1.05
Booked ASP (RMB/sqm)	9,346	11,048	12,875	14,360	15,761	18,744

Source: Company, ABCI Securities estimates



Consolidated balance sheet (2013A-2018E)

As of Dec 31 (RMB mn)	2013A	2014A	2015A	2016E	2017E	2018E
Current assets	29,829	30,052	53,489	54,926	58,179	64,123
Cash	7,061	7,094	14,874	16,073	27,994	40,377
Restricted cash	100	30	32	32	32	32
Trade & other receivables	3,370	5,017	8,305	8,305	8,305	8,305
Property under development	16,996	15,223	27,085	27,323	18,654	12,216
Other current assets	2,302	2,688	3,194	3,194	3,194	3,194
Non-current assets	9,277	13,487	13,963	14,255	14,643	15,089
Property, plant & equipment	47	48	49	50	52	54
Investment properties	4,650	5,206	5,842	5,842	5,842	5,842
Investment in Associate and JCE	4,299	7,907	7,698	7,989	8,375	8,819
Other non-current assets	281	325	374	374	374	374
Total Assets	39,106	43,539	67,452	69,181	72,822	79,212
Current Liabilities	18,632	20,111	29,733	28,866	29,912	33,285
Short term borrowings	3,017	3,035	2,794	4,794	6,794	8,794
Trade & other payables	6,330	10,110	14,214	14,214	14,214	14,214
Pre-sales deposits	8,068	5,016	10,396	7,529	6,575	7,948
Other current assets	1,218	1,950	2,329	2,329	2,329	2,329
Non-current liabilities	11,318	11,845	22,435	22,435	22,435	22,435
Long term borrowings	10,357	10,825	21,161	21,161	21,161	21,161
Other payables	-	-	-	-	-	-
Other non-current assets	961	1,019	1,274	1,274	1,274	1,274
Total Liabilities	29,951	31,956	52,169	51,301	52,347	55,720
Net Assets	9,155	11,583	15,283	17,880	20,474	23,491
Shareholders' equity	8,611	10,205	12,827	14,464	16,195	18,358
Perpetual capital instrument	-	586	-	-	-	-
Minority Interest	544	792	2,456	3,417	4,279	5,133
Total Equity	9,155	11,583	15,283	17,880	20,474	23,491
Key ratio						
Gross debt (RMB mn)	13,374	13,861	23,955	25,955	27,955	29,955
Net debt (RMB mn)	6,213	6,737	9,050	9,851	(71)	(10,453)
Net gearing (%)	68%	58%	59%	55%	0%	-44%
Contracted sales/ Total assets (x)	39%	49%	45%	56%	58%	59%

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2013A-2018E)

As of Dec 31 (RMB mn)	2013A	2014A	2015A	2016E	2017E	2018E
EBITDA	2,259	3,352	3,184	5,217	4,459	4,780
Change in Working Capital	1,545	2,035	(3,783)	(1,309)	9,656	9,896
Tax payment	(817)	(1,325)	(1,334)	(2,466)	(2,172)	(2,399)
Operating Cash flow	2,988	4,062	(1,934)	1,442	11,943	12,276
Purchase of PP&E	(17)	(20)	(20)	(20)	(20)	(20)
Addition of Investment Properties	35	-	-	-	-	-
Others	(4,233)	(3,135)	(6,456)	817	1,265	1,619
Investing Cash flow	(4,214)	(3,155)	(6,476)	797	1,245	1,599
Debt raised	11,288	10,000	20,000	10,000	10,000	10,000
Debt repaid	(6,825)	(9,508)	(5,423)	(8,000)	(8,000)	(8,000)
Interest expenses	(1,065)	(1,436)	(1,774)	(1,996)	(2,156)	(2,316)
Equity raised	308	-	1,056	-	-	-
Dividend to shareholders	(185)	(663)	(893)	(994)	(1,060)	(1,127)
Others	175	732	3,224	(50)	(50)	(50)
Financing Cash flow	3,696	(874)	16,190	(1,040)	(1,267)	(1,493)
Net cash inflow/ (outflow)	2,470	33	7,780	1,199	11,922	12,382
Cash- beginning	4,591	7,061	7,094	14,874	16,073	27,994
Cash- year-end	7,061	7,094	14,874	16,073	27,994	40,377

Source(s): Company, ABCI Securities estimates



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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return - 6% \leq Stock return < Market return rate
Sell	Stock return < Market return - 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2009-2013

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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**Office address: ABCI Securities Company Limited, 13/F Fairmont House,
8 Cotton Tree Drive, Central, Hong Kong.
Tel: (852) 2868 2183**