Asia Credit Research

OCBC Bank

China Property: Limited upside after strong rally

Monday, 18 April 2016

- China property HY (YTD total return: 4.2%) slightly underperformed the JACI index (YTD total return: 4.4%) in the USD space after having been the top performing sector for 2015. In contrast, Indonesia HY which was the worst performing sector in 2015 has been the standout this year, delivering 10.6% in total returns YTD.
- Going into 2Q2016, the China property sector still benefits from positive technicals with 1) continued onshore issuance (including panda bonds) shrinking offshore bond supply and 2) bid from onshore Chinese investors.
- What has changed however is the markedly negative shift in policy stance towards the tier 1 and large tier 2 cities since March 2016. Meanwhile the lower-tier cities continue to work through inventory problems and policy stance is expected to remain favourable to aid in easing the oversupply situation. The tightening in tier 1 and large tier 2 cities such as Shanghai and Shenzhen will moderate prices in these markets while the lower tier cities play catch-up.
- Sector valuations are currently rich due to positive technicals and in spite of the policy risk in the tier 1 and tier 2 cities. We therefore think it makes sense for investors to take profit on names with upper-tier city exposure and which have tightened considerably. We downgrade YLLGSP 6.2% '17 (tier 1 and tier 2 exposure) to Neutral from Overweight after the ~200bps tightening since 2H2015 while maintaining Overweights on CENCHI 6.5% '18s (lower tier city exposure) and VANKE 3.275% '17s (broad nationwide exposure).

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Continued recovery in physical markets in 1Q2016: The recovery in China's housing market continued into March 2016 with prices rising 1.9% m/m, the 10th straight month of sequential gains (see fig.1). Overall prices were up 7.41% y/y in March, led by Shenzhen (56% y/y, 3.6% m/m) and Shanghai (20.4% y/y, 5.1% m/m). The other tier 1 cities (Beijing and Guangzhou) and satellite cities benefitted from spill-over effects eg. Dongguan, Huizhou, Zhuhai and Zhongshan near Shenzhen, Kunshan near Shanghai, Baoding and Langfang near Beijing. Larger tier 2 cities such as Nanjing and Suzhou also recorded strong m/m increases. Meanwhile, the recovery which started in the Tier 1 cities post-1Q2015 (government started easing measures in 2H2014) is gathering steam and becoming more broad-based (see fig. 2).

Fig. 1: SouFun CREIS price index

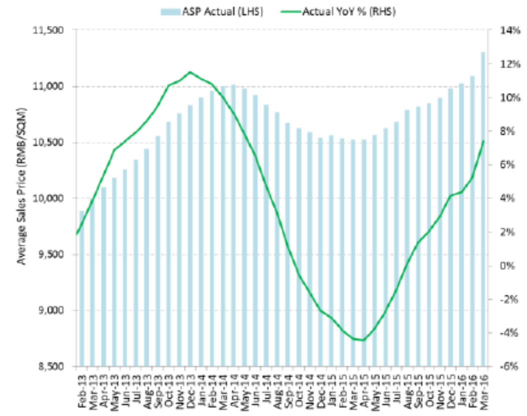
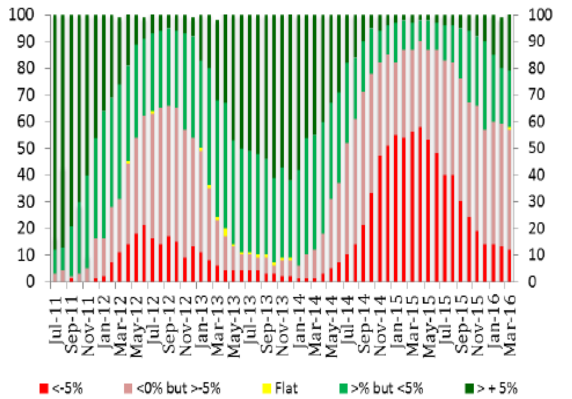


Fig 2: No. of cities with m/m price increases/decreases



Source: SouFun, Real Estate Foresight

Differentiated policies to promote a balanced recovery: Concerns were raised about overheated housing markets in some cities in China during the NPC. Post NPC, Shanghai, Shenzhen and other tier 2 cities which have seen strong price increases amid 6 interest rate cuts and nationwide loosening measures have tightened policies by raising downpayment requirements and clamping down on grey market financing of downpayments (see fig.3). These new measures are credit negative for property developers with material operations in these cities such as Yanlord (72.5% of 2015 revenue from Shanghai, Shenzhen, Suzhou, Nanjing and Wuhan) because of 1) the reduction in the number of eligible buyers and 2) increased capital outlays for eligible buyers. Nevertheless on a nationwide basis, policy stance towards the lower tier cities is expected to remain favourable as the government looks to promote a more balanced recovery across China's property market by fine tuning policy across different cities. For the broader economy, concerns over growth are abating as economic data and capital outflows stabilise and with the USDCNY benefitting from the pullback in USD strength. This potentially gives the PBOC some headroom for potential rate cuts. That said our China economist believes there is no urgent need for the PBOC to cut rates at this juncture as growth seems to be stabilising and forecasts 1 rate cut and 2 RRR cuts this year[1].

Fig. 3: Tightening measures in tier 1 and tier 2 cities

City	Measures
Shanghai	Downpayment for second homes raised to 50% to 70% (depending on location and size) from 40% previously. "Normal" homes subject to 50% downpayment are 1)within the Inner-Ring Road smaller than 140 sqm andcosting less than RMB4.5mn, or 2) Between Inner and Outer-Ring roads costing under RMB3.1mn, 3)outside Outer-Ring Road costing below RMB2.3mn. All other homes subject to 70% downpayments are "non-normal".
	Non-local residence permit holders required to make social security or tax payments for 5 consecutive years compared to previous requirement of 2 years
	Clamp-down on developers and property agents financing downpayments
	Increasing land supply for residential properties and increasing proportion of land to be used for mid-to-small flats
Shenzhen	Downpayment for second homes raised to 70% from 60% if there is an oustanding mortgage on the first home. Downpayment for second homes raised to 40% from 30% previously if first home loan is paid off.
	Non-local residence permit holders need to make social security payments for 3 years from previous requirement of 1 year
	Clamp-down on crowdfunding and developers and property agents financing downpayments
Nanjing	Downpayment requirements for second homes raised to 70% from 60%
	Increase residential land supply by 10%
	Require faster construction starts six months after site delivery
Hangzhou	Downpayment requirements for second homes raised to 70% from 60%
Suzhou	Increase in residential land supply and clamping down on land hoarding
	Controlling upward revisions in adjustments of prices within different batches of the same project: No increases in 3 months, 6% increase in 6 months and 12% in 12 months
	Clamp-down on P2P lending, leveraged property financing, crowdfunding, and down-payment financing
Wuhan	Tightened criteria for borrowing under housing provident fund loans including limiting maximum loan amount to RMB500,000 from RMB600,000 previously

Source: Moody's, various news agencies

Improvement in developer sentiment: Property developers took advantage of recovery in sentiment to clear inventory during 2015 with inventory falling to 7.8 months for 1st tier cities and 12.2 months for the broader market. Developers were also cautious in landbanking and investments in 2015 with land acquisitions down 31.7% y/y and real estate investment growth moderating to 2.5% y/y from levels over 10% prior to the 2014 downturn. That said, sentiment has turned around and filtered into better investment activity in 2016 from developers with real estate investment growth and land purchases (by area) bottoming out at the end of 2015. The decline in land acquisitions moderated to 19.4% y/y while real estate investment growth picked up to 4.8% in 2M2016.

Fig. 4: Inventory levels have come down

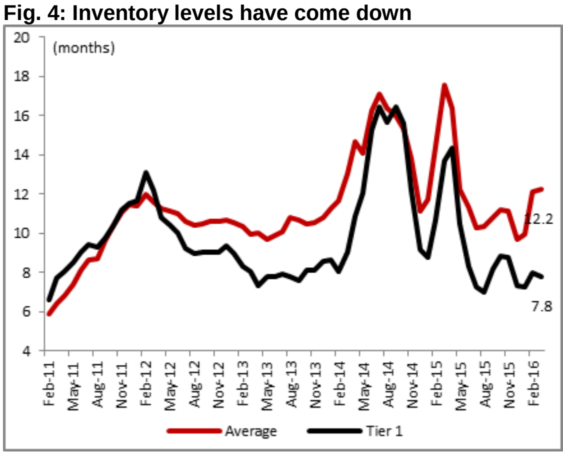
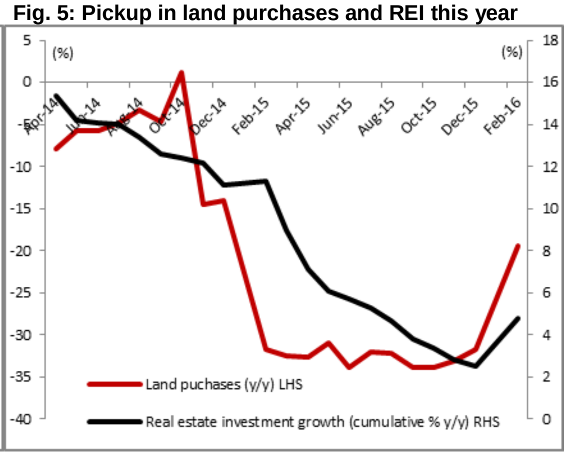


Fig. 5: Pickup in land purchases and REI this year



Source: Bloomberg, National Bureau of Statistics of China
1: OCBC Global Outlook 2016

Improvement in 2015 results: Our China property coverage universe (China Vanke, Central China Real Estate and Yanlord Land) generally reported 1) higher revenue (both ASP and volume driven) amid a recovery in the physical market, 2) lower margins as 2014 contracted sales made during the downturn were recognised in 2015 (margin deterioration more evident in credits with lower tier city exposure (Central China Real Estate) and 3) improvements in leverage ratios on high cash collections from contracted sales amid a recovery in sentiment in the property market. Similar trends were observed in the broader USD universe of China property credits.

Lower funding costs: China property developers issued RMB236bn (USD36.5bn) of onshore bonds in 2015 while offshore issuance was USD11.4bn. The panda bond market despite being at an early stage of development also offers an alternative channel for property developers to issue onshore bonds which are 1) not capped by the size of their onshore entities and 2) will not subject offshore bondholders to additional subordination as these are issued out of the offshore holding entity. The ability to tap alternative pools of capital onshore will improve liquidity profiles and average borrowing costs while reducing currency mismatches in view of increasing expectations of further RMB depreciation. So far, Country Garden, Powerlong Real Estate and Shimao Property have issued RMB13.5bn in panda bonds while Longfor Properties, Joy City Property and Agile Property said during their annual results briefing last month that they planned to issue panda bonds this year. In addition to lower coupon onshore bonds, the rate cuts have also lowered funding costs on loans and other forms of onshore financing. As a result, funding costs for developers under our coverage have shrunk with Vanke benefitting the most (average funding costs reduced to 6.2% in 2015 from 9.9%).

Putting together the pieces: Offshore bonds both in the USD and SGD space have tightened considerably since the start of 2015 as a result of the 1) favourable policy environment, 2) positive technicals, and 3) recovery in sentiment. Valuations as a result look a little stretched just when the government looks to cool overheated property markets in the top-tier cities. We therefore think it makes sense for investors to take profit on names with upper-tier city exposure and which have tightened considerably. We downgrade YLLGSP 6.2% '17 to Neutral from Overweight after the ~200bps tightening since 2H2015 while maintaining Overweights on CENCHI 6.5% '18s and VANKE 3.275% '17s.

Fig. 6: SGD bond have tightened ~200bps

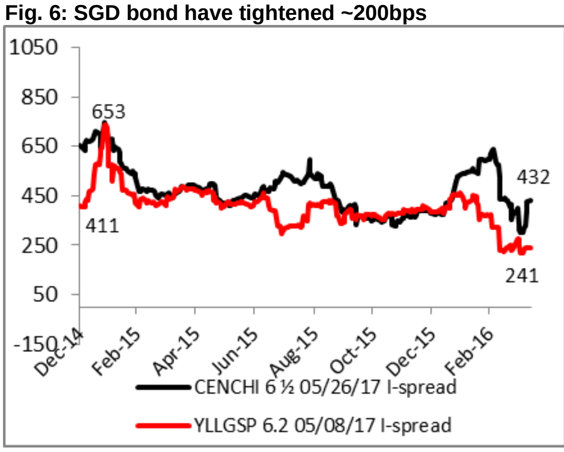
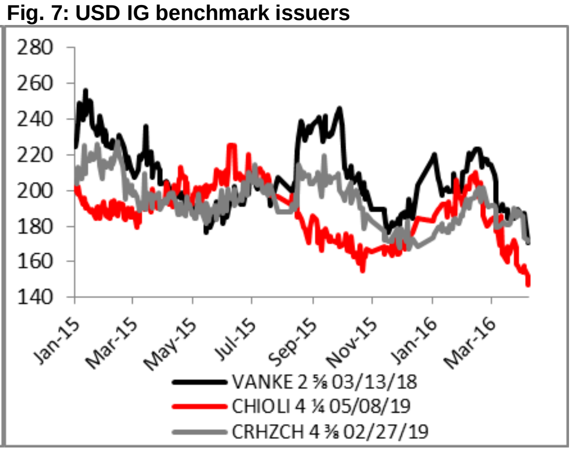


Fig. 7: USD IG benchmark issuers



Source: Bloomberg

Fig. 8: USD BB benchmark issuers

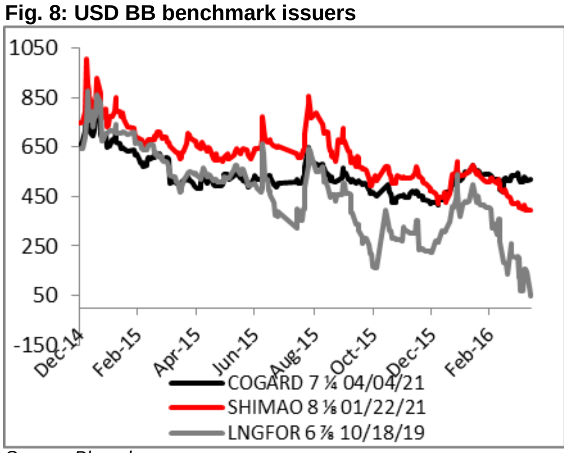
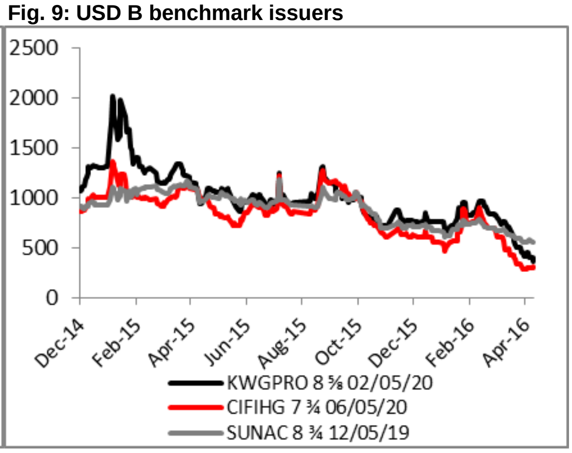


Fig. 9: USD B benchmark issuers



Source: Bloomberg

China Vanke Ltd

Solid 2015 results: China Vanke Co. Ltd (Vanke) reported 2015 results with revenue up 33.6% y/y to RMB184.32bn on the back of 23.1% increase in GFA completions to 21.27mn sqm and the recovery in the property market. Gross profit margins decreased to 24.8% from 25.1% previously due to 1) recognition of sales contracted during the property downturn in 2014 and 2) rising land costs. EBITDA however was up 37.6% y/y to RMB36.7bn as the company remained disciplined on distribution costs and administrative expenses (selling and administrative expenses fell to 4.4% of revenue from 5.8% in 2014). Property services although still contributing a relatively small portion of revenue (1.5%), exhibited the fastest growth (49.4% y/y). Vanke had RMB215.1bn in unbooked contracted sales as of end-2015, which will underpin revenue visibility for 2016.

Onshore bonds, lower funding costs: Vanke issued RMB5bn and RMB3bn of onshore 5-year notes at 3.5% and 3.78%, respectively during 2015. The onshore issuance and 1.65% cut in onshore benchmark rates brought average funding costs down to 6.2% from 7.7% in 2014. Panda bond issuance via offshore holding company could also be possible with HY peers Shimao, Country Garden and Powerlong having already issued RMB13.5bn of panda bonds and Longfor and Agile reportedly planning panda issuances. The ability to tap the onshore/panda bond market will continue to reduce funding costs while improving liquidity profiles of property developers and allowing them to term out their debt maturity profiles.

Robust growth in contracted sales: Contracted sales were up 20.7% y/y to RMB261.5bn as contracted GFA increased 14.3% y/y to 20.67mn sqm. Nationwide market share improved to 3.00% with Vanke outperforming broader nationwide sales which were up 16.6% y/y to RMB7.28trn. 93% of sales were mass market units below 144sqm which will continue to support Vanke’s fast asset turnover model (2015 asset turnover of 0.33x) . Momentum continued in 2M2016 with contracted sales increasing 32% y/y to RMB41.6bn.

Disciplined landbanking: Vanke returned to the land market in 2015 as the property market recovered. Land acquisitions in 2015 totalled 15.8mn sqm at an average cost of RMB4,941 per sqm for a total of RMB78.1bn or 30% of contracted sales. This compared to 5.91mn sqm at RMB4,372 per sqm for a total of RMB25.84bn or 12% of contracted sales in 2014. We believe the company will maintain its disciplined approach to land acquisitions in the face of rising land costs.

Shenzhen Metro Group MOU: In response to the unsolicited stake buildup by Baoneng Group (26.7% of A shares), Vanke entered into a non-binding MOU with Shenzhen Metro Group Co. Ltd to acquire property assets above various subway stations for between RMB40-60bn. The consideration for the partial or entire equity interests will be settled with the issuance of new shares to Shenzhen Metro, effectively diluting and fending off unwanted interest from the Baoneng Group. This transaction if it goes through will be credit positive as 1) Shenzhen Metro is 100% owned by Shenzhen SASAC, 2) potential scope for further collaborations/asset injections further down the road, and 3) asset purchase seems to be substantially equity funded at this juncture.

Low leverage and strong liquidity: Cash decreased to RMB51.75bn as of end-2015 from relatively high levels of RMB62.72bn in 2014. This was still sufficient to cover short term debt of RMB26.6bn by ~2x. Net gearing was 19.3%, increasing from a historical low of 5.4% as of end-2014 but still considerably below the average for China property developers. Leverage ratios continued to improve with gross debt/EBITDA improving to 2.1x from 2.6x in 2014. EBITDA interest coverage improved to 7.7x from 3.9x on strong EBITDA generation while gross interest expense was down 42% y/y to RMB4.85bn on lower funding costs.

China Vanke Co Ltd

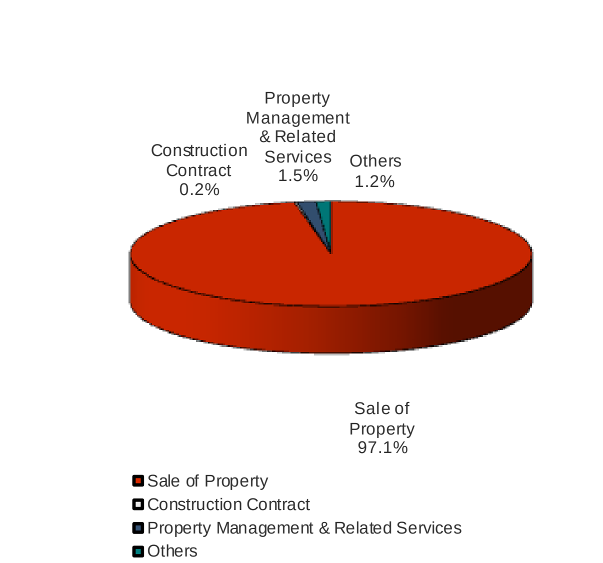
Table 1: Summary Financials

Year Ended 31st Dec	FY2013	FY2014	FY2015
Income Statement (RMB'mn)			
Revenue	127,454	137,994	184,318
EBITDA	27,865	26,676	37,416
EBIT	27,686	26,127	36,700
Gross interest expense	6,575	6,835	4,853
Profit Before Tax	27,847	29,987	40,517
Net profit	15,119	15,745	18,119
Balance Sheet (RMB'mn)			
Cash and bank deposits	43,004	62,715	51,748
Total assets	479,475	508,640	611,492
Gross debt	76,706	68,981	79,491
Net debt	33,702	6,266	27,743
Shareholders' equity	105,439	115,894	136,310
Total capitalization	182,145	184,875	215,801
Net capitalization	139,141	122,160	164,053
Cash Flow (RMB'mn)			
Funds from operations (FFO)	15,298	16,294	18,835
CFO	1,924	41,725	24,272
Capex	2,439	1,831	-
Acquisitions	5,038	2,612	-
Disposals	938	5,746	-
Dividends	8,755	10,997	-
Free Cash Flow (FCF)	-516	39,894	24,272
* FCF Adjusted	-13,371	32,031	24,272
Key Ratios			
EBITDA margin (%)	21.9	19.3	20.3
Net margin (%)	11.9	11.4	9.8
Gross debt to EBITDA (x)	2.8	2.6	2.1
Net debt to EBITDA (x)	1.2	0.2	0.7
Gross Debt to Equity (x)	0.73	0.60	0.58
Net Debt to Equity (x)	0.32	0.05	0.20
Gross debt/total capitalisation (%)	42.1	37.3	36.8
Net debt/net capitalisation (%)	24.2	5.1	16.9
Cash/current borrowings (x)	1.3	2.7	1.9
EBITDA/Total Interest (x)	4.2	3.9	7.7

Source: Company, OCBC estimates

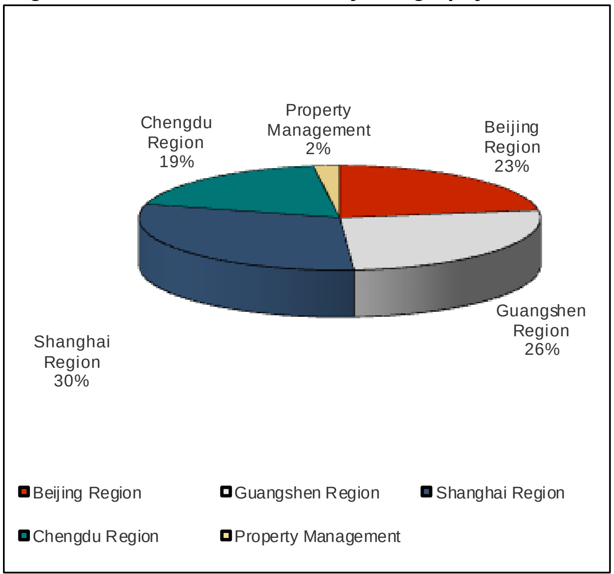
** FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Segment - FY2015



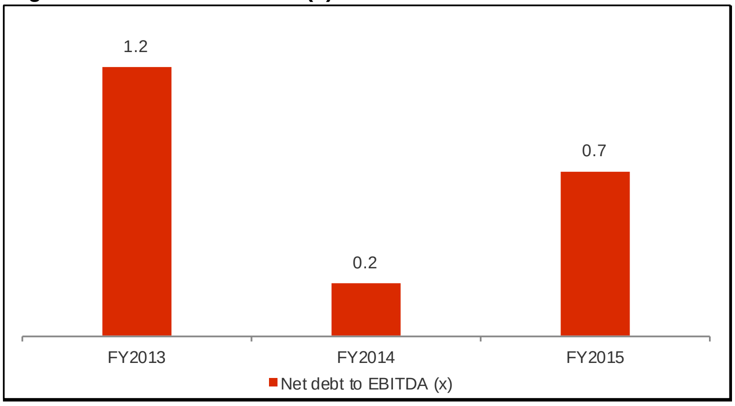
Source: Company

Figure 2: Revenue breakdown by Geography - FY2015



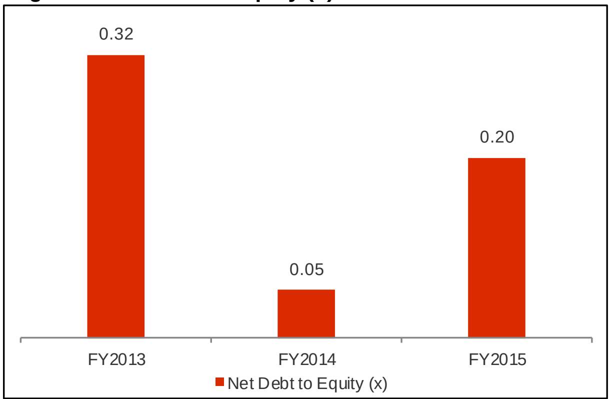
Source: Company

Figure 3: Net Debt / EBITDA (x)



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Yanlord Land Group Ltd

Strong 2015 Results: Yanlord Land reported FY2015 results with revenue up 41.3% y/y to RMB16.58bn mainly due to 1) a 39.6% y/y increase in delivered GFA to 590,170 sqm from the delivery of 5 new projects (2014:3 new projects); and 2) recognised ASP up 2.1% y/y to RMB27,303 per sqm. EBITDA was up 32.8% y/y to RMB3.5bn even as margins compressed to (GPM from 29.2% to 27.5%, EBITDA margins from 22.8% to 21.2%) due to the change in product mix and rising land costs.

Record contracted sales: Full-year contracted sales were up 127% y/y to RMB28.9bn on the back of a recovery in market sentiment in the 1st and 2nd tier cities. Orderbook pending revenue recognition was RMB22.1bn, underpinning revenue visibility for 2016. In 2016, management guided RMB27bn in contracted sales from RMB50bn of saleable resources (54% sell-through rate), down 6.5% y/y which is fair given the high base last year. In 2M2016, the company has racked up RMB5.6bn in contracted sales so far (20.7% of target).

Land acquisitions to pick up: Landbank dwindled to 4.07mn sqm as of 31 Dec 2015 from 4.87mn sqm in 2014 and 5.14mn sqm in 2013 as Yanlord remained cautious in landbanking (2015: 136,732 sqm GFA in Nantong for RMB186mn, 2014:171,200 sqm GFA in Suzhou for RMB1.35bn) in the face of rising land costs. The company recognised the need for land replenishment and has since acquired a 333,280 sqm GFA site in the Longgang District in Shenzhen for RMB1.59bn in January 2016 and 2 parcels in Tianjin with GFA of 262,100 sqm for RMB1.97bn which we estimate brings Yanlord's land resources back up to 4.67mn sqm.

Improving asset turnover: Yanlord has embarked on initiatives to improve the company's asset churn (eg. Launching a project 1 year after land acquisition) and has used this fast asset turnover model in Nanjing, Suzhou and Shanghai. This is already bearing fruit with asset turnover improving to 0.23x in 2015 from 0.19x in 2013 and 0.18x in 2014 although this is still below sector average of ~0.3x.

Onshore bonds unlikely but panda bonds an alternative: Yanlord has mandated Zhongshan Securities to lead manage a possible panda bond issuance of up to RMB10bn. The company is currently awaiting approval from authorities. We believe size will come in around the RMB2bn region to take out the CNH2bn in 5.375% dim sum bonds maturing in May 2016. Management previously explored traditional onshore bond issuance through its 2 onshore subsidiaries but both entities just met minimum requirements of RMB3.5bn in capital and with the limit on issuance of 40% of capital, Yanlord will only be able to raise RMB1.4bn.

Policy drag: The tightening measures in the top tier cities (Shanghai, Shenzhen, Suzhou, Nanjing and Wuhan) could dampen Yanlord's contracted sales performance in 2016. In 2015, these cities contributed 72.5% to 2015 revenue, while representing 46.7% of projects under development and 67.8% of landbank for future development.

Improved liquidity and leverage: Cash increased to RMB17.5bn from RMB6.6bn due to strong collections from contracted sales. This was sufficient to cover short term debt of RMB5.84bn by 3x. Gross debt decreased by RMB1.5bn to RMB18.3bn putting the company in a net debt position of just RMB744.7mn. Gearing improved to 2.4% from 31% and 60% from 67% on a net and gross basis, respectively. Gross debt/EBITDA improved from 7.40x to 5.21x while EBITDA interest coverage improved to 2.70x from 1.80x on the reduction in debt and increase in EBITDA. Average funding costs improved slightly to 7.1% from 7.5% in 2014 and this should continue to improve in 2016.

Yanlord Land Group Ltd

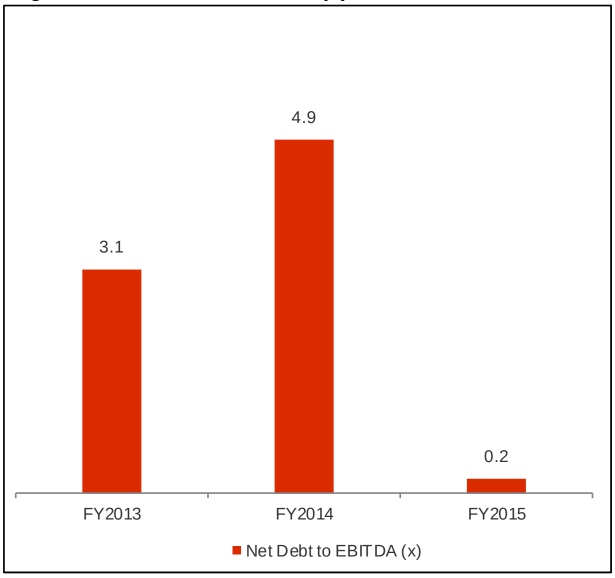
Table 1: Summary Financials

Year Ended 31st Dec	FY2013	FY2014	FY2015
Income Statement (RMB'mn)			
Revenue	11,280	11,733	16,581
EBITDA	3,260	2,676	3,507
EBIT	3,225	2,645	3,472
Gross interest expense	1,197	1,490	207
Profit Before Tax	3,738	3,598	4,317
Net profit	1,474	1,359	1,469
Balance Sheet (RMB'mn)			
Cash and bank deposits	7,112	6,620	17,517
Total assets	61,439	67,327	79,898
Gross debt	17,310	19,806	18,262
Net debt	10,198	13,186	745
Shareholders' equity	27,858	29,373	30,534
Total capitalization	45,168	49,179	48,796
Net capitalization	38,056	42,559	31,279
Cash Flow (RMB'mn)			
Funds from operations (FFO)	1,509	1,390	1,504
CFO	2,219	-89	15,214
Capex	240	479	718
Acquisitions	177	0	0
Disposals	29	12	51
Dividends	807	721	769
Free Cash Flow (FCF)	1,979	-568	14,496
* FCF Adjusted	1,024	-1,277	13,777
Key Ratios			
EBITDA margin (%)	28.9	22.8	21.2
Net margin (%)	13.1	11.6	8.9
Gross debt to EBITDA (x)	5.3	7.4	5.2
Net debt to EBITDA (x)	3.1	4.9	0.2
Gross Debt to Equity (x)	0.62	0.67	0.60
Net Debt to Equity (x)	0.37	0.45	0.02
Gross debt/total capitalisation (%)	38.3	40.3	37.4
Net debt/net capitalisation (%)	26.8	31.0	2.4
Cash/current borrowings (x)	2.0	3.2	3.0
EBITDA/Total Interest (x)	2.7	1.8	17.0

Source: Company, OCBC estimates

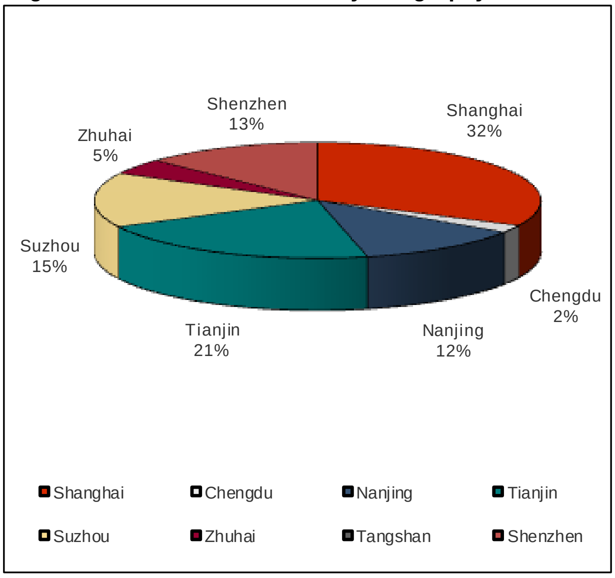
* *FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Net Debt to EBITDA (x)



Source: Company

Figure 2: Revenue breakdown by Geography - FY2015



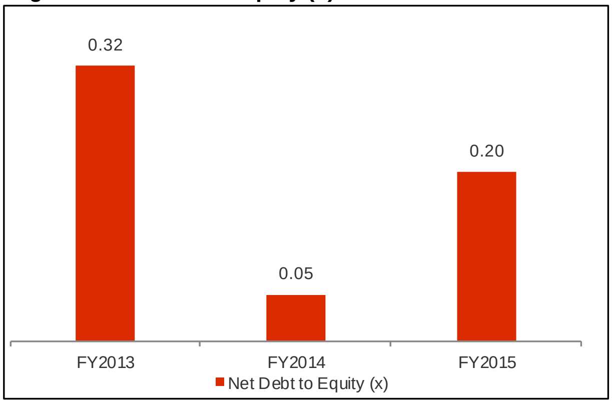
Source: Company

Figure 3: Debt Maturity Profile

Amounts in SGD'mn	As at 31/12/2015	% of debt
Amount repayable in one year or less, or on demand		
Secured	3238.6	17.6%
Unsecured	2725.9	14.8%
	5964.5	**32.4%**
Amount repayable after a year		
Secured	3980.7	21.6%
Unsecured	8442.5	45.9%
	12423.3	**67.6%**
Total	**18387.8**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

Central China Real Estate

2015 Results: Central China Real Estate Ltd (CENCHI) reported full-year 2015 results with revenue up 36.1% y/y to RMB12.56bn mainly due to 1) an increase in recognised ASP to RMB5,408 per sqm (change of product mix and more sales from Zhengzhou), and 2) an increase in sold area from the company's strategy of accelerated inventory clearance. Attributable revenue from the JCE which was not included was RMB1.93bn, up about 159% y/y. However, inventory clearance also resulted in sharp margin compression (gross profit margins fell to 22.2% from 33.6%) and EBITDA fell 21% y/y to RMB1.67bn.

Contracted sales: Contracted sales in 2015 were up 1.2% y/y to RMB15.7bn, missing targets of RMB17.5bn. This was due to delays in getting permits for sales in two Zhengzhou projects. ASPs were down 19.2% y/y to RMB5,764 per sqm due to the company's destocking strategy, which we believe caps any recovery in margins this year when these sales are recognised. Nevertheless, The company has made a positive start to the year for contracted sales with 2M2016 contracted sales up 66.8% y/y to RMB779mn, mainly due to a 48.9% y/y increase in GFA sold to 132,319 sqm. ASPs for 2M2016 were up 12% y/y to RMB5,888 per sqm. The company has set a 2016 contracted sales target of RMB18bn from RMB32bn in saleable resources implying a sell-through rate of 56%.

Onshore bonds to reduce funding costs : CENCHI fixed the coupon for its RMB1bn (over-allotment option of RMB2bn) 5NP3 onshore bond at 6% coming in at the slightly wide end of the 5-6.5% range that was indicated. That said, this still represents a substantial reduction in funding costs compared to the offshore market (8.75% from a USD300mn offshore bond done in April last year and 10.75% from its SGD 2016s maturing this month). The ability to tap alternative pools of capital onshore will improve the company's liquidity profile and lower the company's average borrowing costs. The onshore issuance will also reduce currency mismatches in view of increasing expectations of further RMB depreciation.

Disciplined land acquisitions despite slight capex increase: Land acquisitions remained disciplined at RMB2.2bn (18.63mn sqm in GFA) down 55.4% y/y and representing only 14% of 2015 contracted sales. Land acquisition budget for 2016 at RMB2.5bn remained in line with 2015 while the company budgeted a 5.1% increase in capex to RMB6.1bn due to 1) 27% y/y increase in construction starts to 2.58mn sqm and 2) plans to launch 2.73mn sqm in GFA, up 10% y/y. Completions will decrease 28.4% to 2.08mn sqm.

Diversification into asset-light management projects: CENCHI continues to make good progress in its nascent push towards asset light model projects where the company manages construction projects in exchange for royalty and performance fees. The tenor of the contracts is usually between 24-48 months. CENCHI entered into 3 such contracts in 2015, receiving RMB9mn in royalties and expects to receive a further RMB150mn upon completion and sales of the 3 projects. So far in 2016, CENCHI entered into a further 7 of such asset light projects and total royalties expected from these 10 projects will be RMB500mn. Management expects a further 25-30 of such projects in 2016 which should be positive for margins going forward although contribution should remain small.

S&P downgrade priced in: S&P downgraded CENCHI from BB- to B+ post the release of the company's 2015 annual results. The downgrade should not have come as a surprise having been on negative outlook since 2015 and the deterioration in gross profit margins from 33.6% to 22.2%. Main concerns were the decrease in profitability from pricing pressure in lower tier cities and the company's high geographic concentration to lower-tier cities. We think that at current levels, the downgrade has been more than adequately priced in with the USD CENCHI curve trading wider than most single B names.

Strong liquidity profile and improvement in leverage: Cash increased to RMB8.7bn from RMB6.5bn, mainly on strong contracted sales receipts (RMB16.1bn) and offshore bond issuance (RMB1.85bn) which covered RMB6.2bn in capex, RMB2.2bn in land payments and RMB2.3bn in taxes in 2015. Cash levels comfortably covers RMB1.7bn in short term debt by 3.4x. Furthermore, the company has undrawn banking facilities of RMB57.6bn. Net debt/EBITDA improved from 2.1x to 2.0x mainly due to high cash levels, gross debt/EBITDA increased to 6.4x from 4.5x previously. EBITDA interest coverage deteriorated to 1.8x from 2.5x. Net gearing improved from 64% to 45%.

Central China Real Estate Ltd

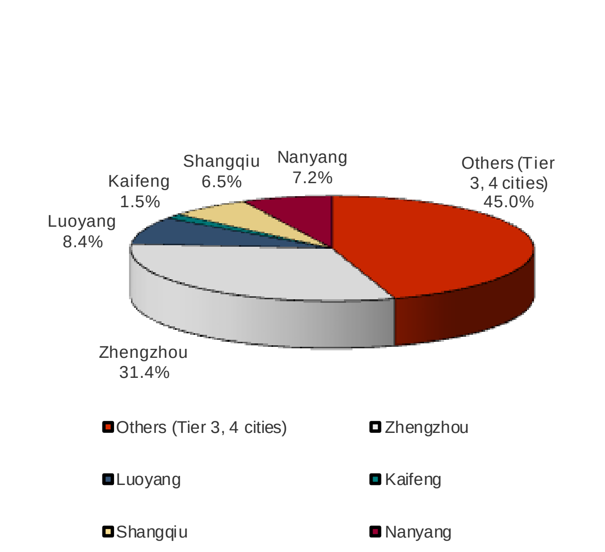
Table 1: Summary Financials

Year Ended 31st Dec	FY2013	FY2014	FY2015
Income Statement (RMB'mn)			
Revenue	6,951.1	9,228.8	12,562.7
EBITDA	1,595.9	2,134.8	1,667.0
EBIT	1,519.7	1,986.6	1,506.6
Gross interest expense	1,055.2	837.7	916.6
Profit Before Tax	1,939.4	1,956.8	1,741.3
Net profit	1,025.9	883.3	801.3
Balance Sheet (RMB'mn)			
Cash and bank deposits	4,812.6	5,018.5	7,422.4
Total assets	31,517.4	37,350.1	39,758.0
Gross debt	8,182.7	9,557.0	10,696.4
Net debt	3,370.1	4,538.5	3,274.0
Shareholders' equity	6,699.8	7,066.9	7,317.5
Total capitalization	14,882.5	16,623.9	18,013.9
Net capitalization	10,070.0	11,605.4	10,591.5
Cash Flow (RMB'mn)			
Funds from operations (FFO)	1,102.1	1,031.5	961.8
CFO	245.6	657.6	697.5
Capex	779.9	1,186.6	-
Acquisitions	384.4	953.9	-
Disposals	312.1	297.1	-
Dividends	326.0	311.5	-
Free Cash Flow (FCF)	-534.3	-529.0	697.5
* FCF Adjusted	-932.5	-1,497.4	697.5
Key Ratios			
EBITDA margin (%)	23.0	23.1	13.3
Net margin (%)	14.8	9.6	6.4
Gross debt to EBITDA (x)	5.1	4.5	6.4
Net debt to EBITDA (x)	2.1	2.1	2.0
Gross Debt to Equity (x)	1.22	1.35	1.46
Net Debt to Equity (x)	0.50	0.64	0.45
Gross debt/total capitalisation (%)	55.0	57.5	59.4
Net debt/net capitalisation (%)	33.5	39.1	30.9
Cash/current borrowings (x)	2.1	3.6	2.9
EBITDA/Total Interest (x)	1.5	2.5	1.8

Source: Company, OCBC estimates

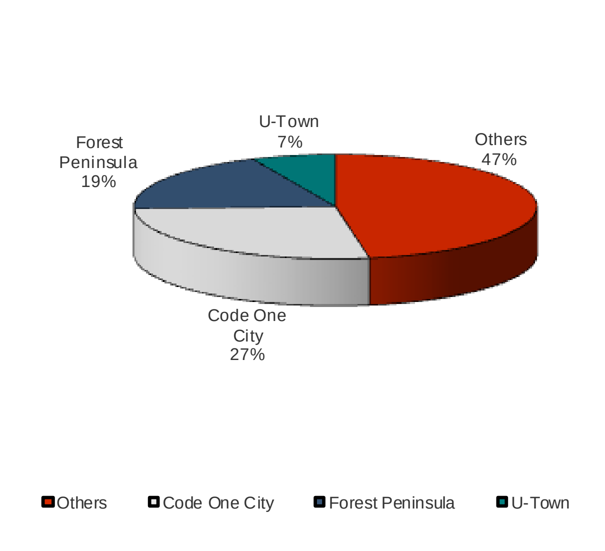
* *FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Geography - FY2015



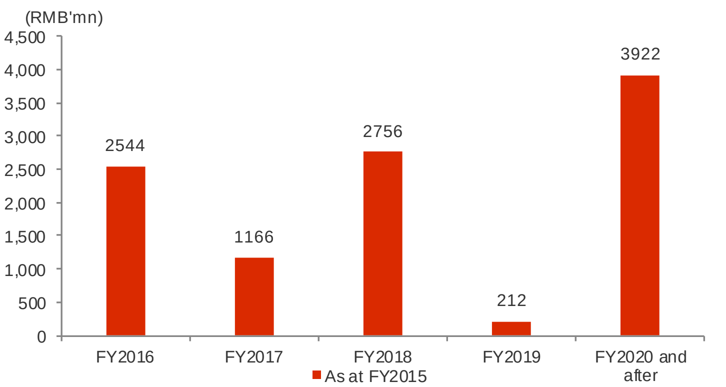
Source: Company

Figure 2: Revenue breakdown by Product - FY2015



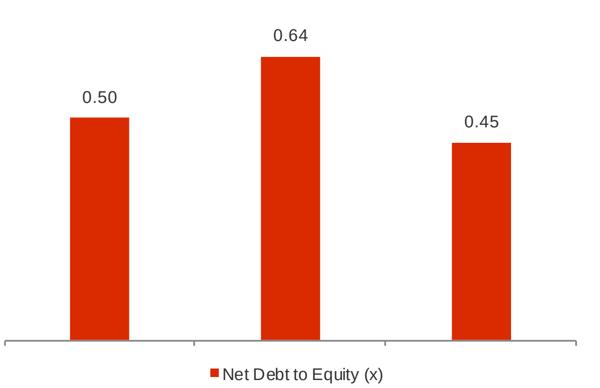
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

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