

Optimistic prospect of Shanghai sales

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Industry: Local property

Phillip Securities Research Pte Ltd

3 January 2013

Rating: Buy | CP: HKD3.78 | TP: HKD4.56

Company Profile

K. Wah International Holdings Limited is an integrated property developer and investor. KWIH has a presence in HK, Shanghai, Guangzhou and Southeast Asia, property portfolio including residential, Grade "A" offices, hotels, serviced apartments and retail spaces. KWIH's JV projects in HK include Marinella, Providence Bay and The Coronation. KWIH's property development projects are mainly located in the first-tier China cities such as Shanghai and Guangzhou. In China, the coming projects are Shanghai The Place, Upstream Park and Grand Summit.

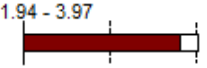
Interim results highlights

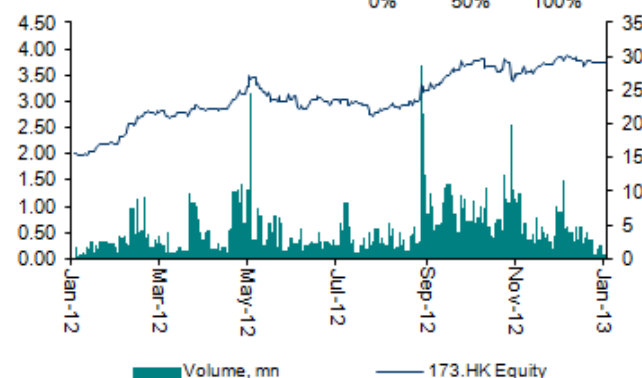
Interim results (HKD mn)	2011H1	2012H1	% Change
Sales of properties	731	2,664	264%
Rental income	133	137	3%
Share of profits/(losses) of Asso & JCE	2	1,600	79900%
Operating profit	387	2,824	630%
Increase/(decrease) in fair value of investment properties	48	116	142%
EPS (HK cents)	15.2	109.6	621%
DPS (HK cents)	2	5	150%
Net debt to shareholder's equity	24.4%	38.9%	

Source: Company report, PSR

The Group's sales of properties increased by 264% yoy to HKD2.66bn, mainly benefited from the sales recognition of Shanghai Westwood Phase III which boasts 1,113 units, GFA of 100,000 sqm. The average selling price was around RMB35,000 per sqm. The Group's rental income maintained stable growth, contributed to 4.8% only of the total revenue. Operating profit surged 630% to HKD2.8bn, mainly because of the sales recognition of over 90% units of Marinella, a HK luxury residential JV project which the Group holds 35% interest. Interim dividend rose 150% to HKD5 cents driven by the strong growth in Group's net profit. Net debt to shareholder's equity fell to 24.4%, reflecting the Group's healthy financial position. Fortunately, most of the HK luxury residential properties the Group invested like Marinella and The Coronation were sold before 27th Dec, the day HK government imposed BSD. Group's remaining HK luxury residential property is mainly Chantilly in Mid-levels. We expect Group's 2013-2014 revenue is mainly from Shanghai.

K WAH INTL HLDGS

Rating	1.00	Buy
- Previous Rating	N/A	Not Rated
Target Price (HKD)	4.56	
- Previous Target Price (HKD)	N/A	
Closing Price (HKD)	3.78	
Expected Capital Gains (%)	20.6%	
Expected Dividend Yield (%)	5.3%	
Expected Total Return (%)	25.9%	
Raw Beta (Past 2yrs weekly data)	N/A	
Market Cap. (HKD mn)	9,956	
Enterprise Value (HKD mn)	14,740	
3M Average Daily T/O (mn)	5.2	
52 week range (HKD)	1.94 - 3.97	
Closing Price in 52 week range		



Source: PSHK, Company report, Bloomberg

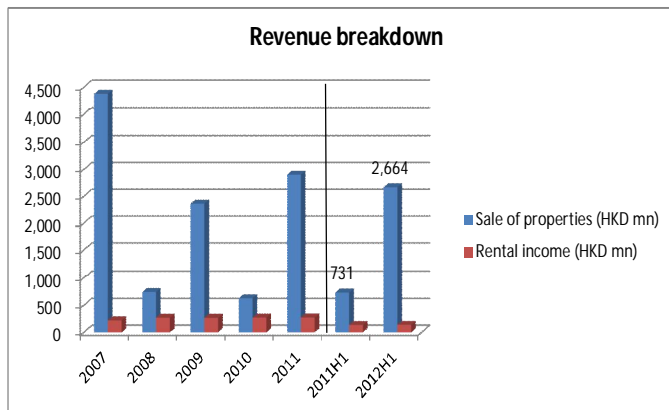
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Optimistic Shanghai sales of properties in 2013-2014

Many HK investments that the Group participated were already sold and had recognized sales in 2012. The completion of new residential takes about 2.5 years. We expect the focus of Group's 2013-2014 results will be placed on Shanghai. Shanghai The Place, Upstream Park and Grand Summit with total GFA of 4.4mn sq ft will be the main source of revenue. Shanghai Westwood Phase III recorded good sales, which sold most of the units till now and the sales were recognized in 2012H1 with average selling price of RMB35,000 per sqm. Shanghai Upstream Park has had warm response in the first launch of 266 units in July. The second launch of 110 units in Sep, 2012 recorded 80% sold out in a single day, with average selling price around RMB16,000 per sqm, reflecting strong housing demand. So, we are optimistic about the prospects of the Group's Shanghai projects.

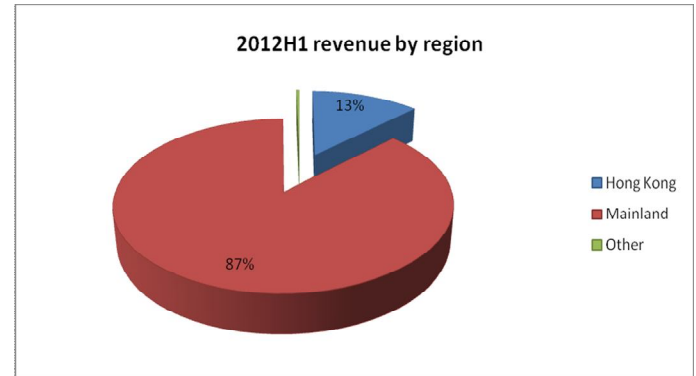
Aggressive land replenishment in HK targeting middle class demand

Since Aug, 2012, the Group aggressively bid for lands in HK. For joint venture investment with Sino Land (083.HK), the Group has replenished sites at Tseung Kwan O Area 66C2 and West Rail Long Ping Station (North) for HKD2.29bn and HKD1.71bn with interest of 40% and 60% respectively. In addition, the Group has replenished a site at Tseung Kwan O Area 66D1 for HKD1.17bn. Total GFA of the 3 sites are approximately 1.3m sq ft, providing around 1,730 units. For the past, the Group mostly sell luxury properties, such as Marinella and Mid-Level properties with price per sq ft more than HKD20,000. But for the NT lands acquired in 1H2012, the selling price after completion of construction is estimated at around HKD8,000-10,000. Obviously, the Group's strategy changed and we are positive to this change. Since HK government launched BSD to dampen mainland buyers' demand, transaction of HK luxury residential dropped sharply. However, current residential market is user-demand driven and thus we believe middle class demand is still strong in the coming 2-3 years. We expect flat prices have no significant downside potential. The change in strategy to target middle class demand is reasonable. We think the recent land replenishments in HK are positive to the Group and can provide inventory to meet future market demand.



Source: Company report, PSR

Above 90% of the Group's revenue is from property development. But for property development projects, it takes at least 2-3 years from land replenishment to sales recognition, so the revenue volatility is large. Although we forecasted the Group's 2013 revenue is unlikely to be as brilliant as 2012's, we still expect impressive performance in the coming 3-4 years as the Group has certain quality landbank and pipeline in HK and mainland.



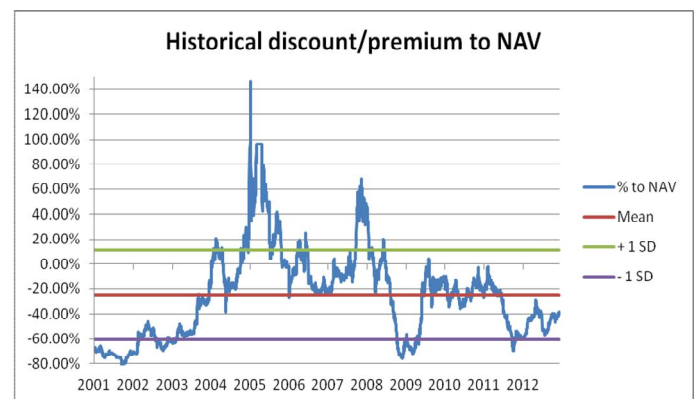
Source: Company report, PSR

The major revenue is from mainland especially Shanghai. Sales of joint venture investment in HK such as Marinella were recognized as share of profits of jointly controlled entities.

2013 Dec NAV Estimate

Item	HKD mn	HKD per share	% of GAV
Investment properties	4,671	1.8	18.0%
HK development properties	7,680	3.0	29.6%
Shanghai development properties	5,820	2.3	22.4%
Other projects	2,845	1.1	10.9%
3.9% holding on Galaxy Entertainment (27.HK)	4,970	1.9	19.1%
Total gross asset value	25,986	10.1	100.0%
Net debt	-6,525	-2.5	
Net Asset Value	19,461	7.6	

Source: Company report, PSR



Source: Company report, PSR, Bloomberg

Valuation

We give KWIH "Buy" rating with target price of HKD4.56. Current KWIH share price's discount to NAV is around 40%. With plenty of Shanghai projects launched in 2013 and optimistic rigid demand in Shanghai, we expect good sales performance in 2013 and HKD7.6 as the Group's NAV at Dec 2013. But due to high revenue volatility, we only give 40% discount to NAV at Dec 2013, which is the long-term historical average and get the target price of HKD4.56.

Major risks

- China government launches housing policy to dampen flat prices
- China economy deteriorated, affecting residents' demand for home ownership
- Substantial drop in flat prices

Financial Status

	FY11	FY12E	FY13E	FY14E
Per share data				
EPS (HKD cents)	50.08	129.92	65.77	82.61
DPS (HKD cents)	10.00	15.00	20.00	22.00
BVPS (HKD)	5.00	6.93	7.64	8.43
Growth & Margins (%)				
Growth				
Revenue	256.7%	44.9%	-17.0%	27.4%
EBIT	330.5%	146.8%	-49.5%	25.3%
Margins				
Gross profit margin	67.9%	66.5%	67.2%	66.7%
EBT margin	56.7%	97.7%	58.8%	57.9%
Net Profit Margin	40.0%	72.3%	44.1%	43.5%
Key Ratios				
ROE (%)	11.1%	21.9%	9.0%	10.3%
ROA (%)	5.0%	11.5%	5.3%	6.2%
Net debt to equity	43%	21%	22%	18%
Income Statement (HKD mn)				
	FY11	FY12E	FY13E	FY14E
Sale of properties revenue	2,908	4,339	3,523	4,559
Property investment & other revenue	288	292	321	340
Revenue	3,196	4,631	3,844	4,899
COGs	(1,027)	(1,552)	(1,260)	(1,630)
Gross profit	2,169	3,079	2,584	3,269
Other revenue/(expenses)	53	54	23	30
Administrative expenses	(343)	(370)	(389)	(408)
Share of profits/(losses) of Asso & JCE	(50)	1,680	90	0
Operating profit	1,829	4,443	2,308	2,891
Finance expense	(38)	(44)	(48)	(52)
Increase/(decrease) in fair value of investment propertie	22	126	0	0
EBT	1,813	4,525	2,260	2,839
Taxation	(535)	(1,177)	(565)	(710)
Net Profit	1,278	3,348	1,695	2,129
EPS (HKD cents)	50.08	129.92	65.77	82.61
Balance Sheet (HKD mn)				
	FY11	FY12E	FY13E	FY14E
PPE	605	620	635	700
Investment properties	4,555	4,681	4,681	4,681
Associates & JVs	3,986	2,315	3,720	3,842
Investments	2,310	4,970	4,970	4,970
Others	164	178	178	178
Total non-current assets	11,620	12,764	14,184	14,371
Inventories	11,156	10,971	12,937	15,255
Accounts Receivables	213	612	260	272
Cash	3,070	3,866	3,218	3,645
Others	1,502	2,402	2,402	2,402
Total current assets	15,941	17,851	18,817	21,574
Total Assets	27,561	30,615	33,001	35,945
Short term loans	3,111	4,288	4,288	4,288
Accounts Payables	3,363	1,272	1,672	2,390
Others	982	1,296	1,296	1,296
Total current liabilities	7,456	6,856	7,256	7,974
Long term loans	5,448	3,326	3,326	3,326
Others	912	1,029	1,029	1,029
Total non-current liabilities	6,360	4,355	4,355	4,355
Non-controlling interest	996	1,545	1,703	1,881
Shareholder Equity	12,749	17,859	19,687	21,735

Source: Company report, PSR

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