



Rating
Sell

Asia
China

Property
Property

Company
**Shanghai Shimao
Co Ltd**

Reuters 600823.SS Bloomberg 600823.CH Exchange SHH Ticker 600823

Date
28 August 2017

Results

Price at 28 Aug 2017 (CNY)	5.28
Price target - 12mth (CNY)	4.55
52-week range (CNY)	8.08 - 4.73
HANG SENG INDEX	27,848

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Maintain Sell for vague sales and profits growth outlook

Maintain Sell on vague sales growth and profit outlook

We maintain Sell on Shanghai Shimao with our target price adjusted up by 5% to RMB4.55 after factoring in faster sales, better margin and 1H17 results. Yet, despite a 59% yoy increase in revenue to RMB10.1bn and 11.6ppt gross margin expansion, core profit was declined by 14% yoy to RMB1.07bn, dragged by the low attributable profit and erosion of profit by LAT for high margin project. Due to the low land acquisition and poor execution track record, we remain cautious on its sales growth outlook and expect sale growth will likely slowdown to 16%/8% in FY18/19F (vs. +24% in 2017F). On valuation, its P/E and NAV discount are both higher than other quality large cap names.

Stronger-than-expected sales, but expecting slowdown ahead

Shanghai Shimao achieved stronger-than-expected sales with a 33% yoy increase in 1H17 to RMB10.0bn and GFA sold increased by 15% yoy to 530ksqm. The company achieved 59% of its full-year target. Yet, due to the poor track record on execution (contracted sales -16%/+33% in FY16/1H17 vs. peers +50%/+55%) and the limited land acquisition in 1H17, we expect sales growth will likely be slowed from +24% in 2017F to 16%/8% in 2018/19F.

LAT erodes gross margin expansion

The gross margin of Shanghai Shimao increased by 6.7ppt from end-2016 to 38.5% (due to the strong sales of two projects in Xiamen Jimei and Nanjing Yuhua), which is stronger than our expectation. Yet, the core net profit was down by 14% yoy. The 2.5x surge in LAT eroded gross margin improvement.

Disappointing results, strong sales not translating to earnings

Shanghai Shimao reported disappointing 1H17 results: 1) revenue jumped by 59% yoy to RMB10.1bn; 2) gross margin expanded by 11.6ppt to 38.5%; 3) due to the strong MI, attributable profit was flat at 1.4bn and core profit dropped by 14% yoy to RMB1.07bn and 4) gearing was down by 12ppt to 12%; no DVD was declared. As a result of the 2.8x yoy increase in minority interest, the attributable profit was flattish. Strong sales growth and double-digit margin expansion cannot translate to positive profit growth.

Valuation and risks

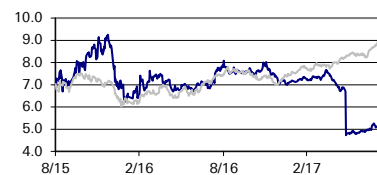
Our target price is based on a 35% discount to end-2017F NAV of RMB7.00. The stock now trades at 9.6x FY18F P/E and a 26% discount to NAV. Key risks include: 1) stronger-than-expected contracted sales, 2) better-than-expected rental growth and 3) faster-than-expected gross margin expansion.

Key changes

TP	4.32 to 4.55	↑	5.3%
Sales (FYE)	15,220 to 15,920	↑	4.6%
Op prof margin(FYE)	24.5 to 30.0	↑	22.7%
Net profit(FYE)	1,803.8 to 1,919.8	↑	6.4%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	4.1	10.0	-31.9
HANG SENG INDEX	3.2	8.6	21.6

Source: Deutsche Bank

Forecasts And Ratios

Year End Dec 31	2015A	2016A	2017E	2018E	2019E
Sales (CNYm)	15,616.4	13,708.0	15,920.2	17,718.0	18,980.0
DB EPS FD (CNY)	0.81	0.63	0.45	0.54	0.59
DB EPS growth (%)	-32.6	-22.4	-29.1	20.2	9.0
PER (x)	10.4	11.5	11.8	9.8	9.0
DPS (net) (CNY)	0.11	0.08	0.06	0.08	0.08
Yield (net) (%)	1.3	1.1	1.2	1.4	1.6

Source: Deutsche Bank estimates, company data

Deutsche Bank AG/Hong Kong

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Model updated: 28 August 2017

Running the numbers

Asia

China

Property

Shanghai Shimao Co Ltd

Reuters: 600823.SS Bloomberg: 600823 CH

Sell

Price (28 Aug 17) CNY 5.28

Target Price CNY 4.55

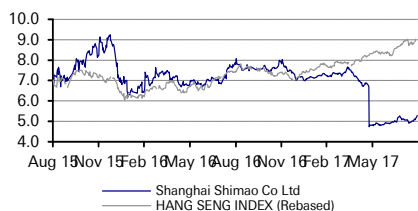
52 Week range CNY 4.73 - 8.08

Market Cap (m) CNYm 19,806
USDm 2,972

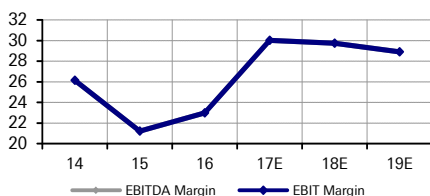
Company Profile

Shanghai Shimao is a subsidiary of HK-listed Shimao Property, and it mainly develops commercial properties in mainland China. Its portfolio includes assets in prime locations, including Shanghai, Shaoxing, Suzhou, Changshu, Kunshan, and Xuzhou. It also operates malls and engages selectively in the office market in a few cities, such as Xiamen.

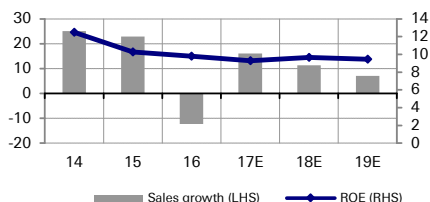
Price Performance



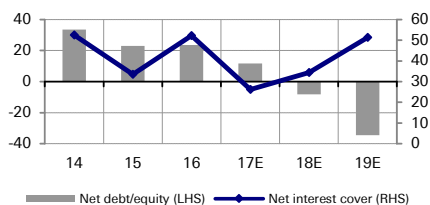
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2014	2015	2016	2017E	2018E	2019E
DB EPS (CNY)	1.21	0.81	0.63	0.45	0.54	0.59
Reported EPS (CNY)	1.61	1.06	0.79	0.51	0.58	0.62
DPS (CNY)	0.17	0.11	0.08	0.06	0.08	0.08
BVPS (CNY)	13.7	12.3	7.4	5.7	6.2	6.8
Weighted average shares (m)	1,172	1,914	2,679	3,751	3,751	3,751
Average market cap (CNYm)	5,262	16,201	19,361	19,806	19,806	19,806
Enterprise value (CNYm)	10,928	29,785	33,398	30,820	24,927	15,659

Valuation Metrics

P/E (DB) (x)	3.7	10.4	11.5	11.8	9.8	9.0
P/E (Reported) (x)	2.8	8.0	9.1	10.3	9.1	8.6
P/BV (x)	0.50	0.70	0.95	0.92	0.85	0.78
FCF Yield (%)	nm	nm	2.9	18.9	34.3	52.0
Dividend Yield (%)	3.8	1.3	1.1	1.2	1.4	1.6
EV/Sales (x)	0.9	1.9	2.4	1.9	1.4	0.8
EV/EBITDA (x)	3.3	9.0	10.6	6.5	4.7	2.9
EV/EBIT (x)	3.3	9.0	10.6	6.5	4.7	2.9

Income Statement (CNYm)

Sales revenue	12,701	15,616	13,708	15,920	17,718	18,980
Gross profit	4,526	4,661	4,366	6,035	6,755	7,081
EBITDA	3,319	3,315	3,151	4,777	5,267	5,487
Depreciation	0	0	0	0	0	0
Amortisation	0	0	0	0	0	0
EBIT	3,319	3,315	3,151	4,777	5,267	5,487
Net interest income/(expense)	-63	-99	-60	-183	-153	-107
Associates/affiliates	-8	-5	-98	-12	-3	35
Exceptionals/extraordinaries	283	496	577	324	205	148
Other pre-tax income/(expense)	494	913	1,031	0	0	0
Profit before tax	4,025	4,619	4,600	4,907	5,316	5,563
Income tax expense	1,417	1,716	1,862	2,495	2,521	2,528
Minorities	716	869	620	492	625	727
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,892	2,034	2,119	1,920	2,170	2,308
DB adjustments (including dilution)	-477	-477	-428	-243	-154	-111
DB Net profit	1,415	1,557	1,691	1,677	2,016	2,197

Cash Flow (CNYm)

Cash flow from operations	80	16	1,181	3,707	7,086	10,531
Net Capex	-1,699	-3,962	-629	42	-286	-229
Free cash flow	-1,619	-3,946	552	3,749	6,801	10,303
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-954	-876	-1,801	-235	-282	-308
Net inc/(dec) in borrowings	-100	392	732	3,800	0	0
Other investing/financing cash flows	2,382	5,070	1,804	-245	20	-68
Net cash flow	-291	640	1,287	7,069	6,539	9,928
Change in working capital	5,339	-2,370	-423	1,296	4,211	7,416

Balance Sheet (CNYm)

Cash and other liquid assets	5,190	7,171	8,452	15,520	22,060	31,987
Tangible fixed assets	18,232	25,198	27,201	27,078	27,283	27,431
Goodwill/intangible assets	179	171	503	503	503	503
Associates/investments	5,003	3,373	2,979	2,932	2,893	2,892
Other assets	30,298	43,727	40,816	37,566	32,192	24,373
Total assets	58,901	79,640	79,950	83,599	84,931	87,187
Interest bearing debt	11,901	14,735	15,456	19,256	19,256	19,256
Other liabilities	26,964	31,999	34,678	32,643	31,480	31,077
Total liabilities	38,865	46,734	50,134	51,899	50,736	50,333
Shareholders' equity	16,078	23,513	19,805	21,490	23,377	25,377
Minorities	3,957	9,393	10,011	10,210	10,818	11,476
Total shareholders' equity	20,035	32,905	29,815	31,700	34,195	36,853
Net debt	6,712	7,564	7,005	3,736	-2,803	-12,731

Key Company Metrics

Sales growth (%)	25.1	23.0	-12.2	16.1	11.3	7.1
DB EPS growth (%)	3.8	-32.6	-22.4	-29.1	20.2	9.0
EBITDA Margin (%)	26.1	21.2	23.0	30.0	29.7	28.9
EBIT Margin (%)	26.1	21.2	23.0	30.0	29.7	28.9
Payout ratio (%)	10.5	10.3	10.1	12.2	13.0	13.3
ROE (%)	12.5	10.3	9.8	9.3	9.7	9.5
Capex/sales (%)	13.4	25.4	4.6	0.0	1.6	1.2
Capex/depreciation (x)	nm	nm	nm	nm	nm	nm
Net debt/equity (%)	33.5	23.0	23.5	11.8	-8.2	-34.5
Net interest cover (x)	52.4	33.5	52.2	26.1	34.4	51.4

Source: Company data, Deutsche Bank estimates



Investment Thesis

Outlook

We maintain Sell on Shanghai Shimao. Its strong increase in revenue and gross margin expansion in 1H17 has not translated to core profit growth, dragged by the low attributable profit and erosion of profit by LAT for high margin project. Due to the low land acquisition and poor execution track record, we remain cautious on its sales growth outlook and expect the sale growth will likely slowdown to 16%/8% in FY18/19F (vs. +24% in 2017F).

Valuation

Our end-FY17F NAV estimate of CNY7.00/share incorporates CNY6.50 from development properties, CNY1.50 from investment properties, and -CNY1.00 from net debt. Our NAV estimate, which values the existing land bank and properties, is based on a sum-of-the-parts methodology: 1) we use DCF to value the company's development properties with WACC of 10.2% (we applied risk-free rate of 3.0%, beta of 1.8, risk premium of 6.0% and cost of debt at 5.83%) and 2) we use a cap-rate approach (between 5% and 9%) to value investment properties. In our model, we assume full prepayment of land appreciation tax.

In terms of property price assumptions, we assume prices in tier-1 and tier-2 cities will likely drop 5% in 2017F and remain flat thereafter. In tier-3 cities, we assume 3% property price growth in 2017F and flat thereafter.

Our target price is based on a 35% discount to our NAV estimate of CNY7.00/share. The rationale for such target discount is based on eight key measures of the companies we covered. Our target price implies 8.5x FY18F P/E (EPS: CNY0.54) and 0.8x FY17F P/B. The benchmark index for the stock is MSCI China. (Please refer to p.20-21 of our sector report "*The party is not over; Buy quality small-caps after correction*" for details in valuation methodology).

Risks

Macro risks: Policy loosening, leading to strong market recovery, and significant improvement in credit environment. These should all result in a better-than-expected physical market that developers could benefit from.

Company-specific risks: 1) higher-than-expected sales due to improving sentiment in the retail market and service apartment investment in T1 cities and 2) a much higher gross margin with significant ASP increase in 2016.



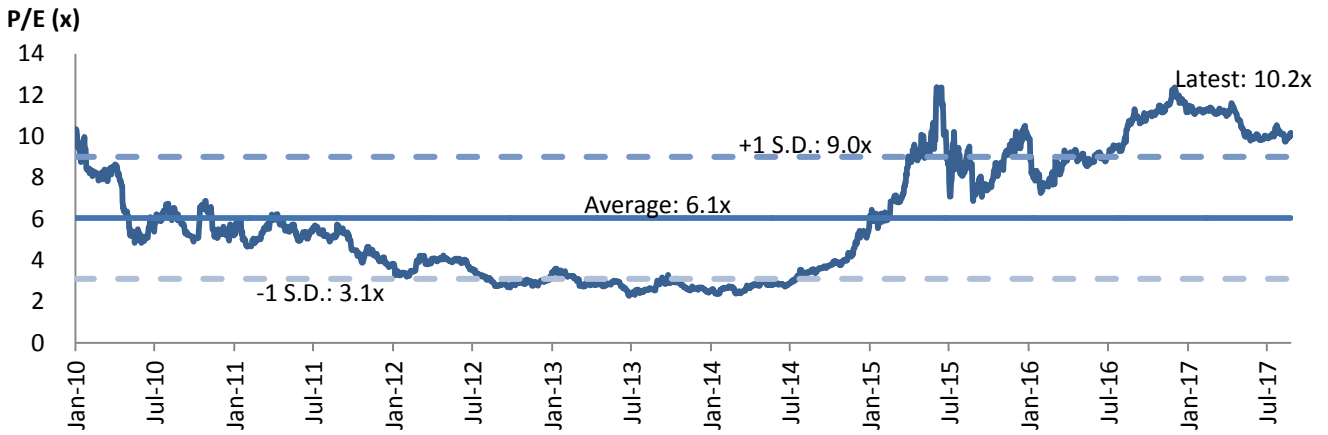
Figure 1: Shanghai Shimao – Summary of 1H17 results

(RMB mn)	1H17	1H16	y-y %
Revenue	10,093	6,367	59%
Cost of sales	(6,206)	(4,655)	33%
Gross profit	3,888	1,712	127%
SG&A	(530)	(480)	10%
Other operating income/expenses	17	(14)	n/a
Operating profit	3,374	1,218	177%
Net finance income	(92)	(46)	102%
Share of results of associates and JCE	(13)	(89)	-86%
Other non-operating income/expenses	50	1,083	-95%
Pre-tax exceptional items	400	244	64%
Profit before tax	3,719	2,410	54%
Income tax	(1,334)	(761)	75%
Profit before minority interests	2,385	1,649	45%
Minority interests	988	257	284%
Reported net profit	1,397	1,391	0%
Core profits	1,065	1,244	-14%
Gross margin	38.5%	26.9%	11.6%
Core profits margin	10.6%	19.5%	-9.0%
Net gearing *	12%	23%	-12%

Note: * Net gearing for 2016 is as at end-2016.
 Source: Company data, Deutsche Bank

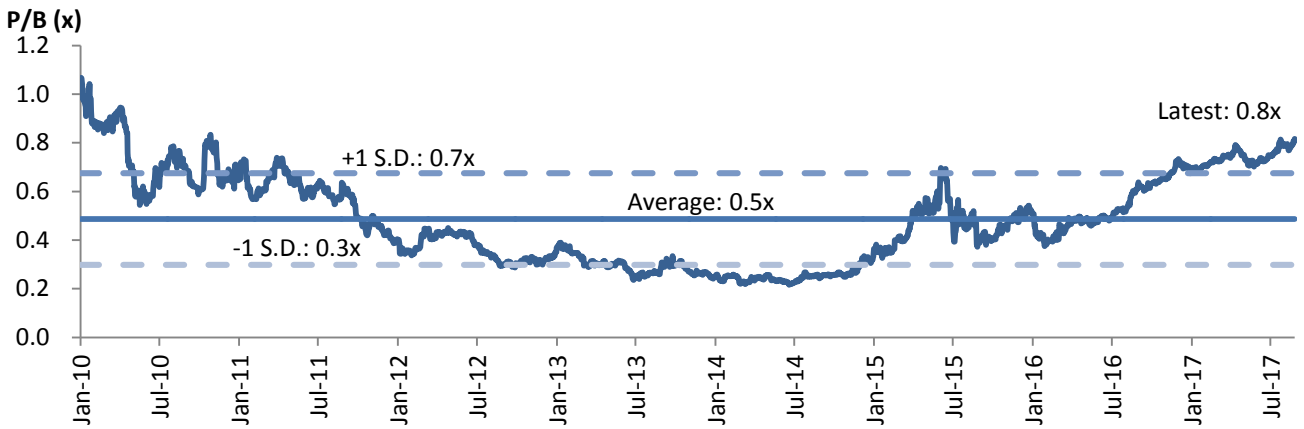


Figure 2: Shanghai Shimao: 12-month forward P/E chart



Source: Bloomberg, Company data, Deutsche Bank

Figure 3: Shanghai Shimao: Price-to-book value chart



Source: Bloomberg, Company data, Deutsche Bank



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Shanghai Shimao Co Ltd	600823.SS	5.28 (CNY) 28 Aug 17	NA

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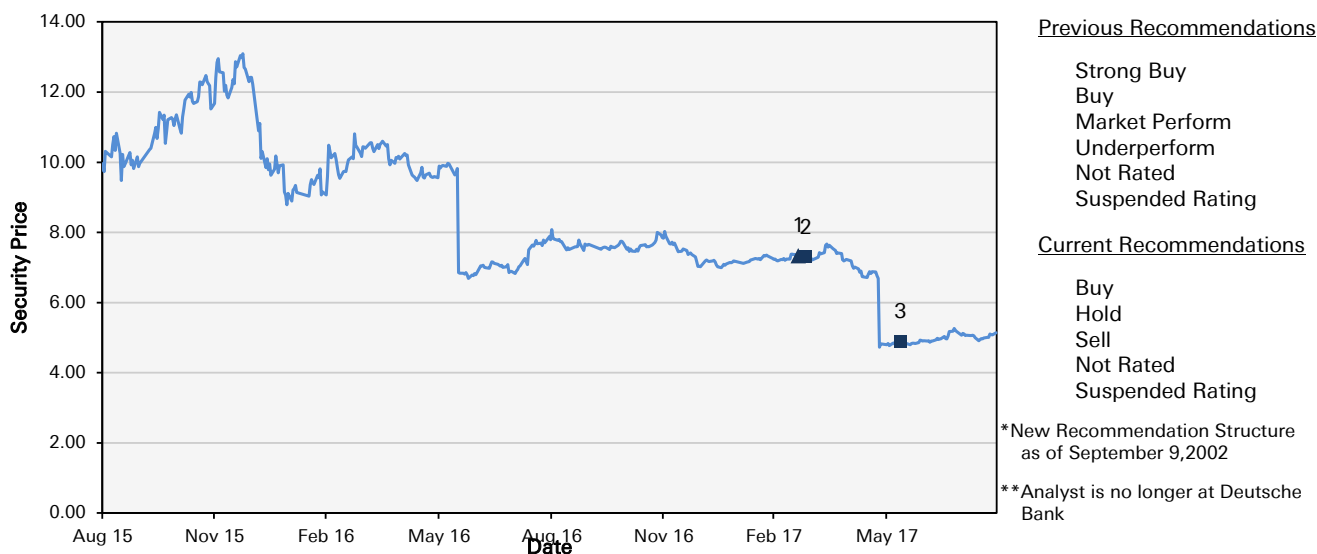
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Historical recommendations and target price: Shanghai Shimao Co Ltd (600823.SS)

(as of 8/28/2017)



1. 20/03/2017:	Upgrade to Sell, Target Price Change CNY6.01 Jeffrey Gao	3. 11/06/2017:	Sell, Target Price Change CNY4.32 Jeffrey Gao
2. 26/03/2017:	Sell, Target Price Change CNY6.33 Jeffrey Gao		



Equity rating key

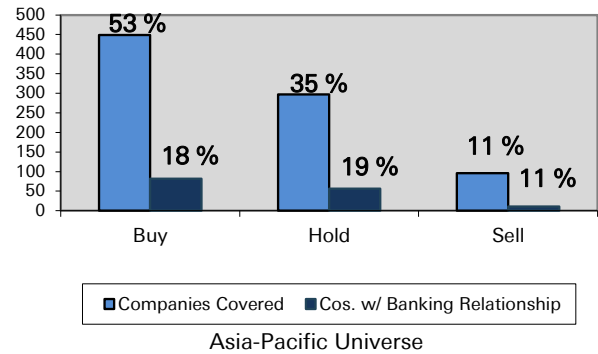
Buy: Based on a current 12-month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors Buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors Sell the stock

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Equity rating dispersion and banking relationships





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