



Rating
Sell

Asia
China

Property
Property

Company
Gemdale Corp

Reuters 600383.SS Bloomberg 600383 CH Exchange SHH Ticker 600383

Date
4 September 2017

Forecast Change

Price at 1 Sep 2017 (CNY)	11.66
Price target - 12mth (CNY)	10.06
52-week range (CNY)	14.70 - 10.55
HANG SENG INDEX	27,953

Low visibility for sustainable growth, Sell

Growth in sales not translating to bottom-line growth; maintaining Sell

We maintain Sell, raise FY17-19E earnings by 30-50%, and increase TP by 8% to RMB10.06 after factoring faster sales (lifting FY17/18E sales by 24%/75%), better margins (28-30%), new land acquisitions, and 1H results. We believe its current landbank (33msqm) is not enough to sustain sales growth and expect sales to start dropping from FY18E. In addition, we expect more JV projects (only 57% attributable saleable resources), leading to only 9% earnings CAGR in FY17-19E despite gross sales growth. Its slow growth does not justify the valuation. Gemdale trades at a 19% NAV discount and 8.3x FY18E PE (higher than Vanke-A with 7.1x PE and 19% NAV discount, but 30% earnings CAGR).

Unsustainable sales growth and more land acquisitions needed

In 1H17, Gemdale turned more aggressive in the land market, acquiring GFA of 4.45msqm of land, equivalent to 68% of its FY16 GFA sold. We estimate that its current gross landbank of 33msqm can support RMB141bn sales in FY17E (+36% yoy) but more land acquisition is required to sustain its sales in 2018E (estimated RMB135bn sales based on current landbank, -4% yoy).

Single-digit earnings growth due to increasing JV projects

Although we expect Gemdale to have 63%/36% sales growth in 2016/2017E, only 55%/42% is attributable. Hence, we expect earnings CAGR of only 9% in FY17-19E, despite gross margin expansion to 28-30% (vs. 25% in 2016).

High valuation vs. A-share peer

Gemdale is trading at a 19% NAV discount and 8.3x 2018E PE, which is higher than the peer average of a 40% NAV discount and 7.1x FY18E PE. Gemdale is delivering 9% earnings CAGR and 7-8% dividend yield for FY17-19E, while its A-share peer, Vanke-A, is trading at 7.1x 2018E PE, but delivering 30% earnings CAGR and 4-7% dividend yield.

Good results, margin improvement to be sustained

Gemdale reported stronger-than-expected 1H17 results: 1) revenue decreased by 1% yoy to RMB12.7bn; 2) gross margin improved by 8.7ppt to 28.7%; 3) together with the increased contribution from associates and JV, attributable profit was up 48% yoy and core net profit was up 51% yoy to RMB1.07bn; 4) gearing increased to 41% (28% at end-2016); and 5) no interim dividend was declared. Management guided that the improved margin (~30%) could be maintained for FY17/18E.

Valuation and risk (see p.3 for details)

Our revised target price of RMB10.06 is based on a 30% discount to revised NAV of RMB15.3/share. Currently, the ticker is trading at a 19% NAV discount, 8.3x FY18E P/E and 1.3x FY17E P/B. Upside risks: 1) better-than-expected sales and margin expansion; and 2) fast and good-quality land acquisitions.

Forecasts And Ratios

Year End Dec 31	2015A	2016A	2017E	2018E	2019E
Sales (CN¥m)	32,762.1	55,508.5	57,019.0	58,598.8	60,099.7
DB EPS growth (%)	-52.1	209.1	11.7	9.7	6.8
PER (x)	32.3	10.6	9.1	8.3	7.8
DPS (net) (CNY)	0.42	0.70	0.77	0.84	0.90
Yield (net) (%)	3.5	5.7	6.6	7.2	7.7

Source: Deutsche Bank estimates, company data

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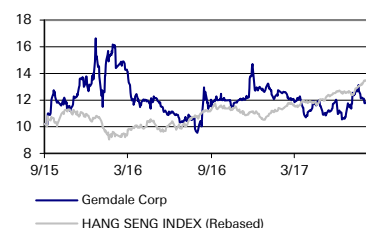
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Key changes

TP	9.32 to 10.06	↑	7.9%
Sales (FYE)	43,456 to 57,019	↑	31.2%
Op prof margin(FYE)	18.3 to 21.3	↑	16.4%
Net profit(FYE)	4,503.7 to 6,083.2	↑	35.1%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-3.7	-3.1	1.4
HANG SENG INDEX	1.5	8.3	20.7

Source: Deutsche Bank



Model updated: 03 September 2017

Running the numbers

Asia

China

Property

Gemdale Corp

Reuters: 600383.SS

Bloomberg: 600383 CH

Sell

Price (1 Sep 17) CNY 11.66

Target Price CNY 10.06

52 Week range CNY 10.55 - 14.70

Market Cap (m) CNYm 52,629
USDm 8,002

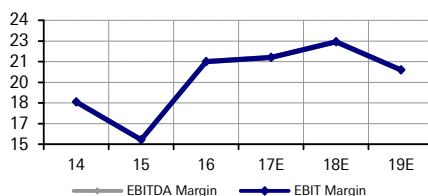
Company Profile

Gemdale was founded in 1988 and headquartered in Shenzhen, and started to operate the real estate business in 1993 and was listed in 2001. Currently, Gemdale has residential and commercial projects in 31 Chinese cities and 5 American cities, with attributable land bank of about 16mn sqm as of 1H16.

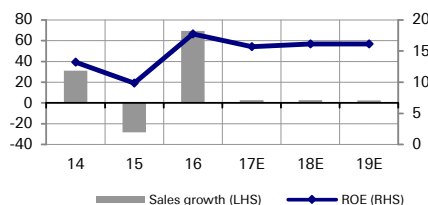
Price Performance



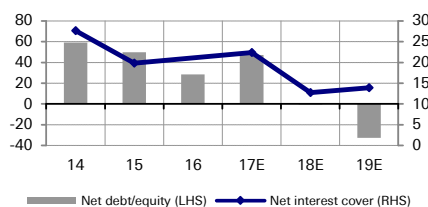
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2014	2015	2016	2017E	2018E	2019E
DB EPS (CNY)	0.77	0.37	1.15	1.28	1.40	1.50
Reported EPS (CNY)	0.89	0.71	1.40	1.35	1.48	1.59
DPS (CNY)	0.13	0.42	0.70	0.77	0.84	0.90
BVPS (CNY)	7.0	7.5	8.3	8.9	9.5	10.2
Weighted average shares (m)	4,491	4,500	4,514	4,514	4,514	4,514
Average market cap (CNYm)	35,925	53,870	55,001	52,629	52,629	52,629
Enterprise value (CNYm)	64,850	85,095	75,668	84,926	55,256	36,972

Valuation Metrics

P/E (DB) (x)	10.3	32.3	10.6	9.1	8.3	7.8
P/E (Reported) (x)	9.0	16.8	8.7	8.7	7.9	7.3
P/BV (x)	1.63	1.84	1.57	1.31	1.23	1.14
FCF Yield (%)	nm	15.0	30.5	nm	66.6	44.8
Dividend Yield (%)	1.6	3.5	5.7	6.6	7.2	7.7
EV/Sales (x)	1.4	2.6	1.4	1.5	0.9	0.6
EV/EBITDA (x)	7.9	16.9	6.5	7.0	4.2	3.0
EV/EBIT (x)	7.9	16.9	6.5	7.0	4.2	3.0

Income Statement (CNYm)

Sales revenue	45,636	32,762	55,509	57,019	58,599	60,100
Gross profit	10,615	7,520	14,075	16,536	17,658	16,881
EBITDA	8,246	5,025	11,658	12,145	13,146	12,253
Depreciation	0	0	0	0	0	0
Amortisation	0	0	0	0	0	0
EBIT	8,246	5,025	11,658	12,145	13,146	12,253
Net interest income(expense)	-298	-253	136	-543	-1,031	-880
Associates/affiliates	-167	797	1,472	1,691	2,897	3,274
Exceptionals/extraordinary	824	1,743	546	407	487	549
Other pre-tax income/(expense)	-32	80	92	0	0	0
Profit before tax	8,574	7,392	13,904	13,701	15,499	15,196
Income tax expense	3,610	2,549	5,328	6,222	7,220	6,763
Minorities	967	1,643	2,275	1,395	1,577	1,257
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	3,997	3,200	6,300	6,083	6,702	7,177
DB adjustments (including dilution)	-518	-1,532	-1,126	-305	-366	-412
DB Net profit	3,479	1,669	5,174	5,778	6,337	6,765

Cash Flow (CNYm)

Cash flow from operations	-839	8,540	17,706	-6,271	35,627	24,240
Net Capex	-469	-453	-921	-498	-578	-640
Free cash flow	-1,308	8,088	16,785	-6,769	35,049	23,600
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-3,919	-3,597	-4,582	-3,467	-3,802	-4,059
Net inc/(dec) in borrowings	5,617	-2,165	-3,710	6,830	0	0
Other investing/financing cash flows	-884	-4,228	-1,928	-1,565	-4,147	420
Net cash flow	-494	-1,902	6,565	-4,971	27,100	19,961
Change in working capital	-6,825	4,605	10,587	-13,840	27,258	15,715

Balance Sheet (CNYm)

Cash and other liquid assets	17,034	15,001	21,565	16,594	43,695	63,655
Tangible fixed assets	11,572	13,689	15,969	16,376	16,863	17,412
Goodwill/intangible assets	0	0	39	39	39	39
Associates/investments	4,036	6,506	10,076	11,592	13,324	11,520
Other assets	92,026	104,150	105,986	109,473	87,650	56,159
Total assets	124,667	139,346	153,634	154,073	161,570	148,786
Interest bearing debt	40,959	38,716	36,634	43,464	43,464	43,464
Other liabilities	43,189	53,015	63,896	53,543	58,978	43,203
Total liabilities	84,148	91,730	100,530	97,007	102,442	86,667
Shareholders' equity	31,484	33,599	37,431	40,047	42,948	46,065
Minorities	9,035	14,017	15,673	17,019	16,181	16,054
Total shareholders' equity	40,519	47,616	53,104	57,066	59,128	62,119
Net debt	23,925	23,714	15,069	26,870	-230	-20,191

Key Company Metrics

Sales growth (%)	31.0	-28.2	69.4	2.7	2.8	2.6
DB EPS growth (%)	60.1	-52.1	209.1	11.7	9.7	6.8
EBITDA Margin (%)	18.1	15.3	21.0	21.3	22.4	20.4
EBIT Margin (%)	18.1	15.3	21.0	21.3	22.4	20.4
Payout ratio (%)	14.6	59.1	50.1	57.0	56.7	56.6
ROE (%)	13.2	9.8	17.7	15.7	16.2	16.1
Capex/sales (%)	1.0	1.4	1.7	0.9	1.0	1.1
Capex/depreciation (x)	nm	nm	nm	nm	nm	nm
Net debt/equity (%)	59.0	49.8	28.4	47.1	-0.4	-32.5
Net interest cover (x)	27.6	19.8	nm	22.3	12.7	13.9

Source: Company data, Deutsche Bank estimates

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Investment Thesis

Outlook

We maintain Sell, raise FY17-19E earnings by 30-50%, and adjust our target price up by 8% to RMB10.06 on factoring faster sales (lifting FY17/18E sales by 24%/75%), better gross margins (28-30%), new land acquisitions, and 1H results. We believe its current landbank (33msqm) is not enough to sustain sales growth and expect sales to start dropping from FY18E. Also, we expect more JV projects (only 57% attributable saleable resources), leading to only 9% earnings CAGR in FY17-19E despite gross sales growth. Its slow growth does not justify the valuation. Gemdale trades at a 19% NAV discount and 8.3x FY18E PE (higher than Vanke-A with 7.1x PE and 19% NAV discount, but 30% earnings CAGR). Sell.

Valuation

Our end-FY17E NAV estimate of RMB14.37/share comprises RMB18.28/share of development properties, RMB2.04/share of investment properties, and RMB3.61/share of net cash. Our NAV estimate values existing landbank and properties based on sum-of-the-parts methodology: 1) we use DCF to value the company's development properties, with a WACC of 9.7% (we applied risk-free rate of 3.0%, beta of 1.7, risk premium of 6.0%, and cost of debt at 4.48%); and 2) we use a cap-rate approach (cap rate 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 will drop 5% in T1 and T2 cities in 2017E and remain flat thereafter. For T3 cities, we assume 3% property price growth in 2017E and prices to remain flat thereafter.

Our target price is based on a discount to the NAV estimate. The rationale for this target discount is based on eight key measures of the companies we cover (product quality, landbank quality, scale, leverage, growth prospect, profitability, financing advantage, and execution). Comparing Gemdale to peers in terms of operating and financial performance, we apply a 30% discount to NAV. Our target price implies 9.4x FY17E P/E (EPS: RMB0.99) and 1.1x FY17E P/B. The benchmark index for the stock is MSCI China.

Risks

Macro risks: Government property tightening measures might be stricter than expected, which could result in volatile moves in housing transaction volumes, housing prices, land prices, and financing available to developers and homebuyers. The unexpected economic fluctuations in the Chinese economy also add risks to the sector. In addition, potential RMB depreciation may result in FX loss for developers with offshore financing.

Company-specific risks: Key risks for Gemdale include: 1) better-than-expected sales and margin expansion; and 2) quality land acquisitions in 2017 to fuel its growth.



Figure 1: Summary of NAV breakdown

NAV breakdown (share price currency)		2017E
Development properties		82,528
Residential		82,378
Retail		150
Office		-
Hotel		-
Investment properties		9,211
Residential		280
Retail		765
Office		8,166
Hotel		-
GAV		91,739
Net debt		(26,870)
Adjustment for perpetuals		-
NAV		64,869
Number of shares - basic (mn)		4,514
NAV per share		14.37
Discount to NAV		30%
Target price		10.06

Source: Company data, Deutsche Bank estimates

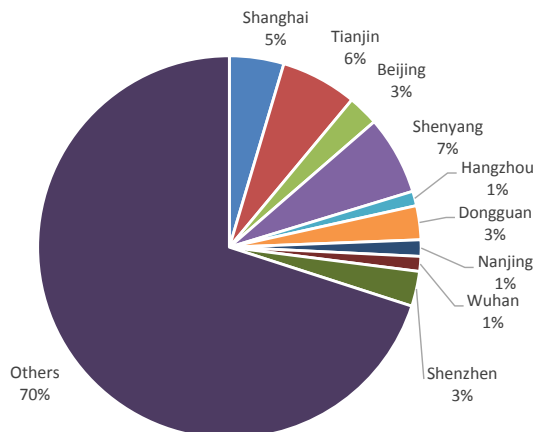
Figure 2: Gemdale – Summary of 1H17 results

(RMB mn)	1H17	1H16	y-y %
Revenue	12,711	14,087	-10%
Cost of sales	(9,066)	(11,271)	-20%
Gross profit	3,645	2,816	29%
SG&A	(1,514)	(1,009)	50%
Other operating income/expenses	(22)	30	n/a
Operating profit	2,109	1,836	15%
Net finance income	99	(4)	na
Share of results of associates and JCE	491	132	271%
Other non-operating income/expenses	57	54	5%
Profit before tax	2,756	2,019	37%
Income tax	(1,062)	(729)	46%
Profit before minority interests	1,694	1,290	31%
Minority interests	542	512	6%
Reported net profit	1,152	778	48%
Core profits	1,072	711	51%
Gross margin	28.7%	20.0%	8.7%
Core profits margin	8.4%	5.0%	3.4%
Net gearing *	41%	28%	12%

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

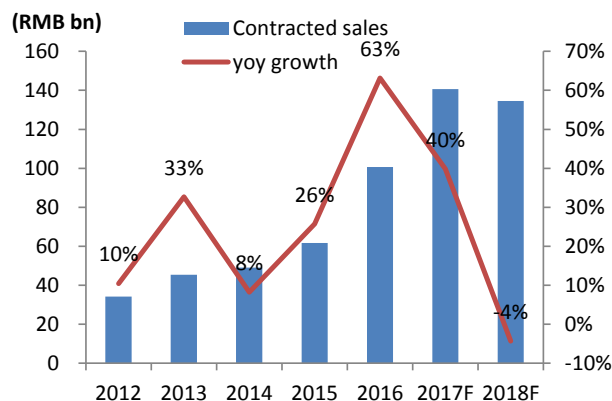


Figure 3: Landbank breakdown by GAV



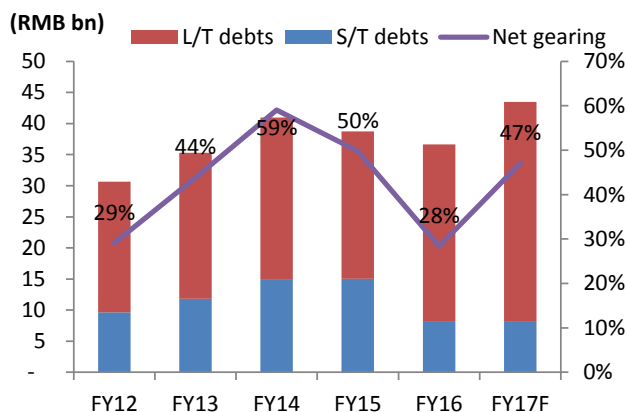
Source: Company data, Deutsche Bank

Figure 4: Contracted sales



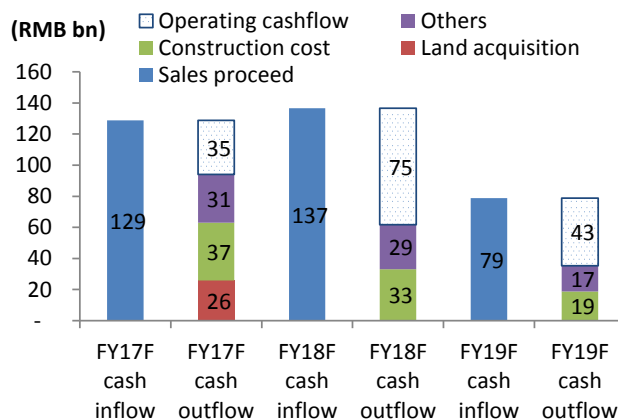
Source: Company data, Deutsche Bank estimates

Figure 5: Breakdown of borrowings



Source: Company data, Deutsche Bank estimates

Figure 6: Operating cash flow (on gross basis)



Source: Company data, Deutsche Bank estimates

Figure 7: Changes in key forecasts

(RMB mn)	Previous			Current			Change		
	FY17F	FY18F	FY19F	FY17F	FY18F	FY19F	FY17F	FY18F	FY19F
Revenue	43,456	38,241	35,417	57,019	58,599	60,100	31.2%	53.2%	69.7%
Core profits	4,456	4,647	4,506	5,778	6,337	6,765	29.7%	36.4%	50.1%
Gross margin	25.4%	25.3%	25.2%	29.0%	30.1%	28.1%	3.6%	4.9%	2.9%

Source: Company data, Deutsche Bank estimates



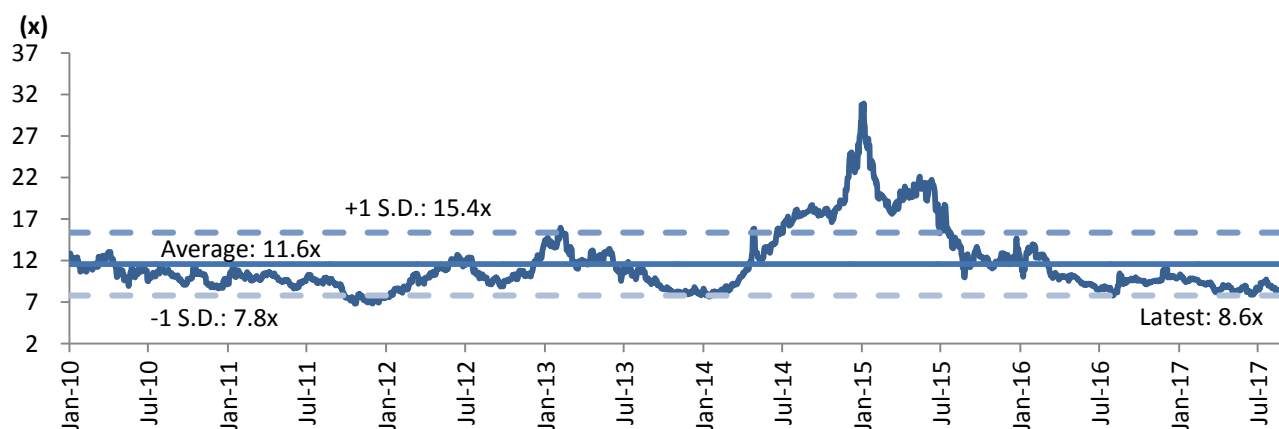
Figure 8: Summary of valuation and ratings

Company	Ticker	Mkt Cap (USD mn)	01 Sep	Target Price	Up/down- side	Rating	P/E			PB		NAV	NAV	Net	Dividend yield	
			Latest Price				FY17F	FY18F	FY19F	FY16	FY17F		discount	gearing	FY16	FY17F
Agile	3383 HK	4,736	9.37	9.40	0%	Hold	7.1	6.2	5.5	0.9	0.8	18.80	-50%	71%	5.7%	6.4%
China Jinmao	817 HK	4,752	3.45	3.81	10%	Buy	8.5	7.1	5.9	1.1	1.0	6.35	-46%	74%	7.1%	5.6%
China SCE	1966 HK	1,692	3.83	4.41	15%	Buy	6.4	4.4	3.8	1.3	1.2	8.02	-52%	95%	4.7%	6.8%
CIFI	884 HK	4,116	4.25	4.82	13%	Buy	6.9	5.6	4.4	1.6	1.4	6.89	-38%	50%	4.8%	6.2%
COLI	688 HK	38,241	27.05	30.63	13%	Buy	8.2	7.2	6.5	1.3	1.2	34.03	-21%	7%	3.3%	3.7%
Country Garden	2007 HK	29,794	10.82	11.53	7%	Buy	11.9	8.1	5.7	2.9	2.4	17.75	-39%	49%	2.9%	3.7%
CR Land	1109 HK	21,911	24.50	27.11	11%	Buy	9.1	7.8	6.7	1.5	1.3	33.89	-28%	24%	3.3%	3.9%
Evergrande	3333 HK	38,967	23.00	17.87	-22%	Hold	8.2	7.3	6.6	6.1	3.6	29.07	-21%	432%	0.0%	4.8%
Future Land	1030 HK	2,336	3.20	3.28	2%	Buy	6.1	4.8	4.1	1.7	1.4	6.56	-51%	89%	4.6%	5.9%
Gemdale	600383 CH	7,908	11.66	10.06	-14%	Sell	9.1	8.3	7.8	1.4	1.3	14.37	-19%	28%	6.6%	7.2%
Greentown	3900 HK	2,564	9.18	9.13	-1%	Hold	7.9	7.2	6.5	0.7	0.6	16.61	-45%	84%	1.7%	1.8%
GZ R&F	2777 HK	7,384	17.76	19.69	11%	Buy	6.2	5.0	4.0	1.1	1.0	30.29	-41%	174%	7.3%	9.0%
Joy City	207 HK	2,424	1.32	1.41	7%	Hold	16.8	13.3	10.0	0.7	0.6	2.35	-44%	36%	3.0%	3.8%
KWG	1813 HK	2,956	7.26	8.51	17%	Buy	5.6	4.4	3.3	0.8	0.7	15.47	-53%	67%	6.1%	8.0%
Logan	3380 HK	5,156	7.27	8.42	16%	Buy	8.1	6.2	4.8	1.8	1.5	12.03	-40%	71%	4.9%	5.6%
Longfor	960 HK	14,086	18.54	21.02	13%	Buy	9.8	8.0	6.5	1.5	1.3	28.02	-34%	54%	3.6%	4.4%
SH Shimao	600823 CH	3,061	5.43	4.55	-16%	Sell	12.1	10.1	9.3	0.7	0.9	7.00	-22%	23%	1.2%	1.4%
Shimao	813 HK	7,010	16.04	16.63	4%	Buy	6.5	5.4	4.5	0.9	0.8	27.71	-42%	59%	5.1%	6.1%
Sino-Ocean	3377 HK	5,006	5.16	5.27	2%	Buy	8.8	6.9	5.6	0.8	0.7	8.11	-36%	44%	6.3%	7.6%
Sunac	1918 HK	12,157	22.80	27.07	19%	Buy	18.8	7.6	4.6	3.2	1.9	49.21	-54%	208%	2.1%	5.2%
Vanke - A	000002 CH	38,133	22.88	25.51	11%	Hold	9.3	7.1	5.8	2.2	1.9	28.35	-19%	26%	4.3%	5.6%
Vanke - H	2202 HK	38,133	23.15	29.65	28%	Buy	8.1	6.2	5.1	1.9	1.7	32.94	-30%	26%	5.0%	6.4%
Median							8.2	7.1	5.6	1.4	1.2		-39%	56%	4.6%	5.6%

Source: Bloomberg Finance LP, Company data, Deutsche Bank estimates

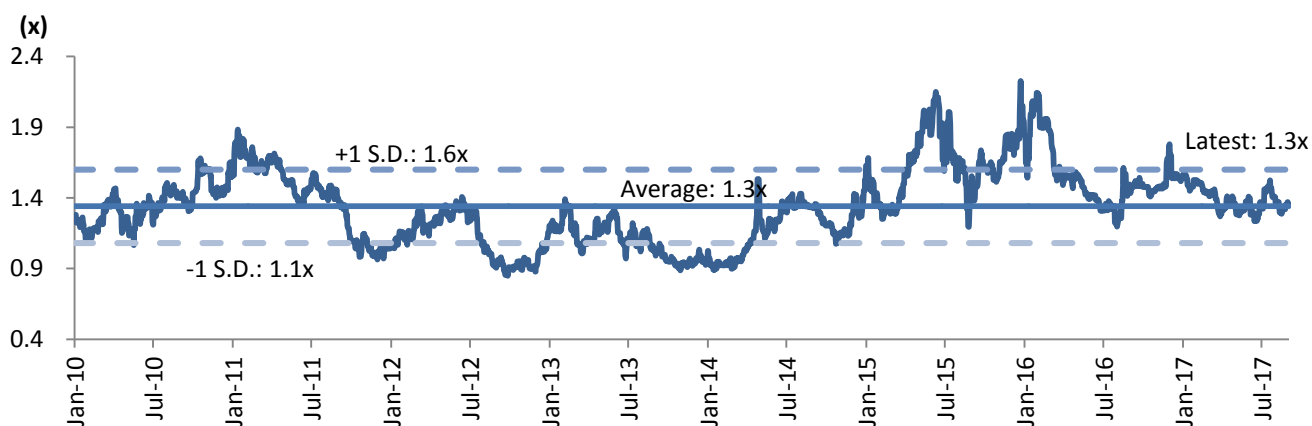


Figure 9: Gemdale: 12-month forward P/E chart



Source: Bloomberg Finance LP, Company data, Deutsche Bank

Figure 10: Gemdale: Price-to-book value chart



Source: Bloomberg Finance LP, Company data, Deutsche Bank



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Gemdale Corp	600383.SS	11.66 (CNY) 1 Sep 17	14

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Historical recommendations and target price: Gemdale Corp (600383.SS) (as of 9/1/2017)



Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure as of September 9, 2002

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1. 20/01/2016:	Sell, Target Price Change CNY8.60 Jason Ching	3. 03/04/2017:	Sell, Target Price Change CNY9.32 Foo Leung
2. 20/03/2017:	Sell, Target Price Change CNY9.90 Jeffrey Gao		

Equity rating key

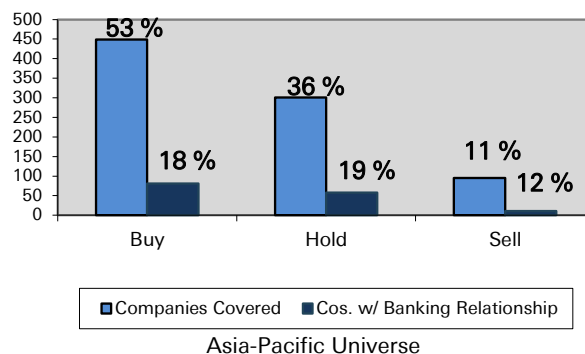
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Equity rating dispersion and banking relationships





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