



### PROPERTY

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## Corporate Update

Private Circulation Only

# PAN HONG PROPERTY

(SGX Research Incentive Scheme)

**NEUTRAL**  
**Price**  
**Target**

**Maintain**  
**S\$0.185**  
**S\$0.25**

### Another Project Hits The Market

#### Stock Profile/Statistics

	PANH SP
Bloomberg Ticker	STI
STI	1,761.82
Issued Share Capital (m)	490.00
Market Cap (S\$m)	90.65
52 week H L Price (S\$)	0.805 0.08
Average Volume (3m) '000	65
YTD Returns (%)	-7.50
Net Gearing (X)	0.33
Altman Z-score	2.20
Beta	0.9
ROCE/WACC	0.71
P/B (X)	0.52

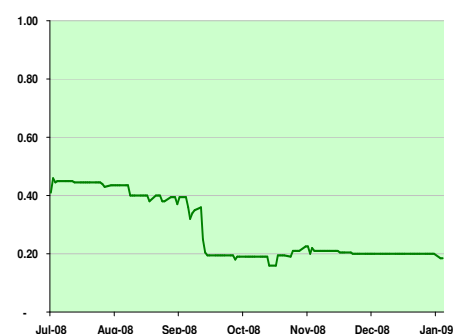
#### Major Shareholders

Extra Good Enterprises Ltd	58.78%
Hwa Hong Corporation Ltd	5.16%

#### Share Performance (%)

Month	Absolute	Relative
1m	-7.50	-6.77
3m	-2.63	14.59
6m	-54.88	-15.54
12m	-76.28	-31.03

#### 6-month Share Price



**Another project hits the market, but take-up reflects tepidity.** Pan Hong Property Group (Pan Hong) attained a take-up rate of 23.5% for Hangzhou Liyang Yuan (HLY), a 226-unit residential project which it launched at the turn of the year. A total of 53 units (making up ~6,400 sm in GFA) were transacted at an average selling price (ASP) of RMB9,500 psm, above our estimates of RMB9,000 psm and in line with management's expectations. Assuming a breakeven price of RMB5,600 psm, they would contribute 0.94¢ / share to NAV when completed and handed over in Sep 09. Pan Hong would also book in the proceeds as revenue upon the project's completion. Overall, this project accounts for 5.4% of our GAV. Buyers were mostly genuine owner-occupiers.

**But take-up reflects continued tepidity.** Pan Hong's additional entitlement to HLY's sales agency (25% of ASP above RMB9,500 psm, on top of regular commission and promotional fees) was not adequate to offset the continued tepidity within the Chinese property sector. We believe this could also be due to the targeted buyer profile for this project, which is more inclined towards the middle to upper-middle income group, rather than low-income urban families. From our view, if take-up does not improve, Pan Hong could be more open to lowering its initial ASP. Given the low acquisition cost of HLY, PBT margins should remain attractive at above 20% even if ASPs are slashed by 20% to RMB7,000 psm.

**Shanghai's further loosening bodes well for lower tier cities.** Following the State Council's litany of property stimulation measures, Shanghai has become the first city to further unscrew current rules, i.e. second homes can be purchased under similar preferential mortgage terms as first homes, no restrictions on family types in enjoying the terms and increase in the quantum of borrowings from the local housing fund. While we note that the first tier cities usually set the tone of policies and we believe these measures would filter down to lower tier cities in the near term, we are also wary of the difference in extent of the measures' implementation on each individual province and city. That said, we are expecting a recovery in China's home prices sometime in 3Q/4Q09.

**Maintain NEUTRAL with RNAV-pegged fair value of S\$0.25.** While keeping our overall estimated ASP for HLY, we have now factored in Pan Hong's new sales of 90 carpark lots in Nanchang Honggu Kaixuan Phase 1. As such, FY09's topline and PATMI increase by 7.9 – 8.8% to RMB83.6m (previously RMB76.8m) and RMB28.8m (previously RMB26.7m) respectively. FY10 estimates are unchanged. Our recommendation for Pan Hong remains a NEUTRAL at S\$0.25, 50% discount to base case RNAV of S\$0.49.

<b>FYE Mar (RMB m)</b>	<b>FY05*</b>	<b>FY06*</b>	<b>FY07*</b>	<b>FY08 / 09F**</b>	<b>FY10F</b>
Turnover	288.0	151.3	564.9	83.6	791.0
PATMI	59.3	49.4	184.9	28.8	245.0
% Chg YoY	-	-16.6%	273.9%	-84.4%	750.9%
EPS (RMB ¢)	16.5	12.6	38.4	5.9	50.0
DPS (RMB ¢)	0.0	1.2	1.9	0.3	5.0
Div Yield (%)	0.0%	1.5%	2.3%	0.4%	6.0%
ROE (%)	61.5%	9.0%	23.4%	3.5%	23.6%
ROA (%)	15.4%	6.7%	14.7%	1.9%	15.9%
P/E (x)	5.0	6.6	2.2	14.1	1.7
P/B (x)	3.1	0.7	0.5	0.5	0.4

*Source: Company, DMG estimates*

*\*FY ending Dec.*

*\*\* For 15-month period from Jan 08 to Mar 09. FY was changed from Dec to Mar wef 2008.*

**Statement of Profit & Loss (FY Ending Mar) (RMB m)**

	FY05*	FY06*	FY07*	FY08/ 09F**	FY10F
<b>Revenue</b>	<b>288.0</b>	<b>151.3</b>	<b>564.9</b>	<b>83.6</b>	<b>791.0</b>
COGS	(194.8)	(93.9)	(334.3)	(50.2)	(474.6)
<b>Gross Profit</b>	<b>93.2</b>	<b>57.4</b>	<b>230.6</b>	<b>33.5</b>	<b>316.4</b>
Other Operating Expenses / Income	(4.1)	(13.5)	16.5	1.5	10.3
<b>Operating Income from Continuing Operations</b>	<b>89.1</b>	<b>43.9</b>	<b>247.1</b>	<b>35.0</b>	<b>326.7</b>
Non-Operating Expenses / Income	(0.1)	(0.2)	(0.1)	0.0	0.0
<b>Adjusted EBITDA</b>	<b>89.0</b>	<b>43.7</b>	<b>247.0</b>	<b>35.0</b>	<b>326.7</b>
Depreciation & Amortization	(0.3)	(0.4)	(0.3)	(0.5)	(0.6)
<b>Operating Profit (EBIT) ex. Share of Profit of Asc / JCEs</b>	<b>88.7</b>	<b>43.3</b>	<b>246.7</b>	<b>34.5</b>	<b>326.1</b>
Share of Profits / (Losses) of Asc / JCEs	(0.2)	(0.1)	(0.3)	(0.3)	(0.3)
<b>Operating Profit (EBIT) incl. Share of Profit of Asc / JCEs</b>	<b>88.5</b>	<b>43.3</b>	<b>246.4</b>	<b>34.2</b>	<b>325.8</b>
Finance Costs	(0.9)	0.0	(1.4)	(2.2)	(1.9)
Interest Income	0.1	2.3	6.4	7.1	4.6
<b>Recurring (Pre-Tax) Income from Continuing Operations</b>	<b>87.7</b>	<b>45.6</b>	<b>251.4</b>	<b>39.1</b>	<b>328.5</b>
Fair Value Gains / (Losses)	0.0	21.5	33.6	0.0	0.0
<b>PBT</b>	<b>87.7</b>	<b>67.1</b>	<b>285.0</b>	<b>39.1</b>	<b>328.5</b>
Income Tax Expenses	(29.2)	(17.5)	(99.3)	(9.8)	(82.1)
<b>Net Profit After Tax (NPAT)</b>	<b>58.5</b>	<b>49.6</b>	<b>185.7</b>	<b>29.3</b>	<b>246.4</b>
Minority Interests	(0.8)	0.1	0.8	0.5	1.4
<b>PATMI</b>	<b>59.3</b>	<b>49.4</b>	<b>184.9</b>	<b>28.8</b>	<b>245.0</b>

**Profitability Ratios**

	FY05*	FY06*	FY07*	FY08/ 09F**	FY10F
YoY Change In Revenue	-	-47.5%	273.4%	-85.2%	845.7%
YoY Change In Net Profit	-	-16.6%	273.9%	-84.4%	750.9%
Gross Margin	32.4%	37.9%	40.8%	40.0%	40.0%
Operating Income from Continuing Operations Margin	30.9%	29.0%	43.7%	41.8%	41.3%
EBITDA Margin	30.9%	28.9%	43.7%	41.8%	41.3%
EBIT ex. Share of Profit of Asc / JCEs Margin	30.8%	28.7%	43.7%	41.2%	41.2%
EBIT incl. Share of Profit of Asc / JCEs Margin	30.7%	28.6%	43.6%	40.9%	41.2%
Recurring Income Margin	30.5%	30.1%	44.5%	46.7%	41.5%
PBT Margin	30.5%	44.3%	50.5%	46.7%	41.5%
NPAT Margin	20.3%	32.8%	32.9%	35.0%	31.1%
PATMI Margin	20.6%	32.7%	32.7%	34.4%	31.0%
Interest Income as a % of Previous Year's Cash	-	15.1%	2.9%	2.9%	2.9%
ROE	61.5%	9.0%	23.4%	3.5%	23.6%
ROA	15.4%	6.7%	14.7%	1.9%	15.9%

**Balance Sheet (FY Ending Mar) (RMB m)**

	FY05*	FY06*	FY07*	FY08/ 09F**	FY10F
P, P & E	2	5	8	9	10
Investment Properties	0	35	81	81	81
Goodwill	0	6	6	6	6
Assoc. / JCEs / Subsidiaries	22	0	50	73	73
Other Non-Current Assets	0	30	69	68	68
<b>Total Non-Current Assets</b>	<b>24</b>	<b>76</b>	<b>214</b>	<b>238</b>	<b>238</b>
Properties Held Under Development & For Sale	299	334	531	794	780
Accounts Receivables	18	51	57	29	79
Deposits Paid, Prepayments & Other Receivables	4	52	200	135	129
Cash & Cash Equivalents	15	221	244	158	190
Other Current Assets	25	0	13	124	124
<b>Total Current Assets</b>	<b>361</b>	<b>659</b>	<b>1,046</b>	<b>1,240</b>	<b>1,301</b>
Trade & Other Payables	54	33	163	226	107
Current Debt	22	0	106	116	110
Other Current Liabilities	19	21	109	109	109
<b>Total Current Liabilities</b>	<b>95</b>	<b>54</b>	<b>378</b>	<b>451</b>	<b>327</b>
Long Term Debt	0	110	66	183	147
Other Non-Current Liabilities	194	24	26	26	26
<b>Total Non-Current Liabilities</b>	<b>194</b>	<b>134</b>	<b>92</b>	<b>210</b>	<b>173</b>
<b>Share Capital &amp; Reserves</b>					
Share Capital	219	409	451	451	451
Reserves	(158)	106	277	305	525
<b>Shareholders' Equity</b>	<b>61</b>	<b>515</b>	<b>729</b>	<b>756</b>	<b>976</b>
Minority Interests	35	33	61	62	63
<b>Total Equity</b>	<b>96</b>	<b>548</b>	<b>789</b>	<b>817</b>	<b>1,040</b>

**Leverage Ratios**

	FY05*	FY06*	FY07*	FY08/ 09F**	FY10F
Debt to Equity Ratio (x)	2.24	0.23	0.24	0.39	0.26
Net Gearing (x)	2.08	(0.17)	(0.07)	0.19	0.08
Current Ratio (x)	3.81	12.29	2.77	2.75	3.98
NAV per Share (RMB)	0.27	1.14	1.61	1.67	2.12

**Statement of Cash Flow (FY Ending Mar) (RMB m)**

	FY05*	FY06*	FY07*	FY08/ 09F**	FY10F
<b>Profit Before Tax</b>	<b>88</b>	<b>67</b>	<b>285</b>	<b>39</b>	<b>329</b>
Depreciation/Amortization	0	0	0	0	1
Income / (Loss) from Assoc. & JCEs	0	0	0	0	0
Net Interest	1	(2)	(5)	(5)	(3)
Other Non-Cash Items	0	(22)	(25)	0	0
Change in WC	(213)	(73)	(159)	(109)	(148)
Taxes Paid	(7)	(13)	(10)	(3)	(78)
<b>Net Operating Cash Flow</b>	<b>(131)</b>	<b>(43)</b>	<b>87</b>	<b>(77)</b>	<b>101</b>
Capex (net)	(1)	(0)	(4)	(2)	(1)
Increase in Assoc. & JCEs	(19)	(31)	(65)	(24)	0
Other Investing CF	0	2	(8)	1	0
<b>Net Investing Cash Flow</b>	<b>(19)</b>	<b>(29)</b>	<b>(77)</b>	<b>(24)</b>	<b>(1)</b>
Share Issuance	0	190	42	0	0
Debt Finance	125	93	62	128	(42)
Dividends Paid	0	0	(6)	(1)	(24)
Other Financing Cash Flow	18	(6)	(77)	(111)	(2)
<b>Net Financing Cash Flow</b>	<b>143</b>	<b>276</b>	<b>20</b>	<b>15</b>	<b>(69)</b>
<b>Net Cash Flow</b>	<b>(8)</b>	<b>204</b>	<b>31</b>	<b>(86)</b>	<b>31</b>
<b>Cash Flow (Beginning)</b>	<b>20</b>	<b>15</b>	<b>221</b>	<b>244</b>	<b>158</b>
Exchange Rate Changes	3	2	(8)	0	0
<b>Cash Flow (End)</b>	<b>15</b>	<b>221</b>	<b>244</b>	<b>158</b>	<b>190</b>

\*FY ending Dec.

\*\*For 15-month period from Jan 08 to Mar 09. FY was changed from Dec to Mar wef 2008.

<b>RNAV Derivation Table</b>	<b>Capital Value (RMB m)</b>	<b>Share Value (RMB m)</b>	<b>Gross Asset Value (%)</b>
<b>RESIDENTIAL</b>			
<i>Projects under Development</i>			
Jiangxi Province	228	0.46	13.3%
Zhejiang Province	290	0.59	16.9%
<i>Landbank</i>			
Jiangxi Province	252	0.51	14.7%
Zhejiang Province	121	0.25	7.0%
Guangdong Province	29	0.06	1.7%
<b>Sub-Total</b>	<b>919</b>	<b>1.87</b>	<b>53.6%</b>
<b>COMMERCIAL</b>			
<i>Investment Properties</i>	137	0.28	8.0%
<i>Projects under Development</i>	190	0.39	11.1%
<b>Sub-Total</b>	<b>327</b>	<b>0.67</b>	<b>19.1%</b>
<b>OTHER ASSETS</b>			
Trade & Other Receivables	155	0.32	9.0%
Cash	112	0.23	6.5%
Other ST Assets	133	0.27	7.7%
Other LT Assets	71	0.14	4.1%
<b>Sub-Total</b>	<b>470</b>	<b>0.96</b>	<b>27.4%</b>
<b>GROSS ASSET VALUE</b>	<b>1,715</b>	<b>3.50</b>	<b>100.0%</b>
<b>Less: Total Liabilities</b>	<b>(578)</b>	<b>(1.18)</b>	
<b>Minorities</b>	<b>(61)</b>	<b>(0.12)</b>	
<b>RNAV (RMB)</b>	<b>1,077</b>	<b>2.20</b>	
<b>RNAV @ RMB-SGD = 0.2238 (S\$)</b>	<b>241</b>	<b>0.49</b>	
<b>RNAV @ 50% Discount (S\$)</b>	<b>120</b>	<b>0.25</b>	
<b>No. of Outstanding Shares</b>	490,000,000		

## Appendix

Figure 1: Artist Impression of Hangzhou Liyang Yuan (杭州丽阳苑)



Source: Company

**DMG & Partners Research Guide to Investment Ratings****Buy:** Share price may exceed 10% over the next 12 months**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months**Take Profit:** Target price has been attained. Look to accumulate at lower levels**Sell:** Share price may fall by more than 10% over the next 12 months**Not Rated:** Stock is not within regular research coverage

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