

## Pan Hong Property Group

**29 May 09**

### Results Release

#### Revival in Chinese Property Market

**Pick up in Sales:** Pan Hong recently updated the market about sales of its current residential development projects. As at 24 May 09, total sales more than tripled to RMB 503.6m, up from RMB 157.5m on 9 Feb 09.

**Brief Sales Overview:** As at 24 May 09, sales of Hangzhou Liyang Yuan residential and Huzhou Liyang Jingyuan Phase 2 projects jumped to 95% and 87% respectively, up from 31% and 51%, since 9 Feb 09 respectively. During this same period, sales of units at Nanchang Honggu Phase 2 increased sharply from 56 units to 310 units, which works out to be 31% of the total project.

**Forward Plans:** Due to the pickup in sales, the group increased the number of Nanchang residential units on the market to 649, from the initial 270 units released during its first launch phase. The group is now actively preparing the launch of Hua Cui Ting project in Huzhou city to be around or after Jun 09.

**Land Bank:** In addition to the four current projects, Pan Hong has ownership interests, ranging between 50% and 100%, in various land parcels with a total GFA of 2.4m sqm. This huge land bank represents interesting growth potential ahead.

**FY09 Numbers:** Despite the additional 3-month it had in its FY09 fiscal calendar year ended Mar-09 versus the 12-month FY07 fiscal year, Pan Hong registered a loss of RMB 37.0m in FY09 versus the mentioned RMB 185.7m profit in FY07. Revenue shrank by 92.9% to RMB 39.9m from RMB 564.9m.

This was mainly due to lesser number of properties handed over to buyers over that period. Furthermore, in FY09, the group wrote down RMB19.8m of properties held for sales, registered a net fair value loss for investment properties of RMB16.2m and a fair value gain of RMB1.1m of financial assets. There were no such write-downs in FY07 which also had fair value gain of RMB26.1m.

### Buy (Upgraded)

**Target Price** **\$S0.48**  
**Current Price** **\$S0.30**

#### Report Snapshot

Due to the financial accounting policies in China, FY09 results were disastrous. However, investors should look behind the numbers and realize Pan Hong has been able to step up its sales leveraging on the turn-around in the property market in China. Its share price has rallied and is now hovering at book value, but still has great price appreciation potential as a result of its projects on hand and its land-banks.

#### Financial Highlights

(Y/E Dec/Mar) *	FY07	FY09	FY10F
<b>Revenue (RMBm)</b>	564.9	39.9	995.5
<b>Gross Profit</b>	230.6	16.7	433.0
<b>Earnings</b>	184.9	-37.0	284.0
<b>EPS (Scts)</b>	38.4	-7.6	58.0

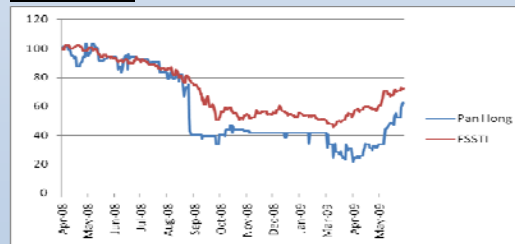
\*FY07 year end in Dec. FY09 and FY10 year end in Mar  
 Source: Bloomberg, SIAS Research

#### Key ratios (FY10F)

<b>PER</b>	2.43
<b>P/BV</b>	0.73
<b>ROE (%)</b>	34.8
<b>Net gearing</b>	Cash
<b>Current ratio</b>	3.5x

Source: Bloomberg, SIAS Research

#### Price Chart



**52wks High-Low** **\$S0.535/0.08**  
**Number of Shares** **490.0m**  
**Market Capitalization** **\$S147.0m**

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As a result of the loss, NAV dropped to RMB 1.52 per share from RMB 1.61 per share. Cash flow from operation was also a negative RMB165.0m compared with RMB 87.1m in FY07.

**Looking Behind the Numbers:** Despite the weak FY09 results, investors should look behind the numbers. The reported loss over a 15-month period, following a RMB 185.7m profit in FY07, should not mask the future potential of Pan Hong; which is recently seeing revived sales figures.

Unlike Singapore, where property developers recognize revenue using the percentage of completion methodology, revenue in China is recognized only after transfer of units to the buyers. Therefore, FY09 results do not include any sales of projects currently under construction. Revenue from the recent sales pickup will be recognized in its FY10 results.

**Forecast:** We believe construction of the projects will be completed by end of their fiscal FY10 calendar which is in Mar 2010. Assuming all units at Huzhou Liyang and Hangzhou Liyang, 30% of units at Hua Cui Ting and 80% of units at Nanchang Honggu are sold and transferred to the buyers by FY10 end, FY10 revenue will work out to RMB 995.5m.

**Recommendation:** In calculating our RNAV, we took into consideration the latest NAV per share of RMB1.52 and updated average selling prices of its properties as well as an exchange rate of 1\$ = RMB 4.694.

The RNAV, including residential space and assuming office space is sold, works out to S\$0.688. RNAV excluding office space would work out to be \$0.35. The RNAV calculation considers only current projects and ignore potential surplus from land-banks.

In our previous update report, we highlighted concerns over Panhong's cash flows and slow sales at Nanchang but also mentioned that we would re-rate the company upon improvement in sales of at Nanchang. Our concerns have been answered and we are re-rating the company.

Applying a 30% discount to the RNAV of S\$0.688, derived from the surplus from all their current projects, will value Pan Hong at S\$0.48. Upgrade to **Buy. (Johnny Kwon).**

### Financial Table and Ratios

(Y/E – Mar as from FY09)	FY06*	FY07*	FY09#	FY10F
<b>Profit &amp; Loss (RMB m)</b>				
Turnover	151.3	564.9	39.9	995.5
Gross Profit	57.4	230.6	16.7	433.0
Earnings	49.4	184.9	-37.0	284.0
Earnings per share (RMB cts)	12.6	38.4	-7.6	58.0
<b>Balance Sheet (RMB m)</b>				
Current Assets	659.0	1045.6	1316.9	1281.8
Long Term Assets	76.1	238.6	183.9	192.9
Current Liabilities	53.6	378.2	644.4	364.4
Long Term Liabilities	133.5	92.4	111.2	101.2
Shareholder Equity	515.3	728.5	684.6	948.5
<b>Cash Flow (RMB m)</b>				
Operating Cash Flow	-42.7	87.1	-165.0	318.8
Investing Cash Flow	-29.3	-76.9	-51.3	-51.3
Financing Cash Flow	276.3	20.4	185.1	-160.0
<b>Financial Ratios</b>				
Revenue Growth (%)	-47.5	273.4	-92.9	2397.5
Gross Profit Growth (%)	-38.5	302.0	-92.8	2492.3
Earnings Growth (%)	-16.6	273.9	-120.0	-867.8
Gross Margin (%)	37.9	40.8	41.9	43.5
Net Margin (%)	32.6	32.7	-92.8	28.5
Current Ratio (x)	12.3	2.8	2.0	3.5
Book value per share (RMB)	1.14	1.61	1.53	1.94
Net Gearing (%)	Net Cash	Net Cash	12.0	Net Cash
Return on Equity (%)	16.2	29.7	-5.2	34.8
Return on Asset (%)	8.8	18.3	-2.7	19.1
<b>Valuations</b>				
PER (x)	11.22	3.77	-18.65	2.43
Price to book (x)	1.31	0.87	0.92	0.73

\*FY06 and FY07 have Dec as year end; #FY09F is 15-month long with Mar 09 as year end; FY10 year end is in Mar 2010

Source: Company, SIAS Research

### About the Company

Pan Hong Property Group Limited is a niche property developer that focuses primarily on developing high quality residential and commercial properties in the second and third-tier cities in the PRC. Backed by over 20 years of experience in the PRC's property development industry, Pan Hong has established its presence in Hangzhou and Huzhou cities in Zhejiang Province, and Nanchang city in Jiangxi Province. Besides these cities, the Group also owns land reserves in Fuzhou, Yichun and Leping cities in Jiangxi Province, and Jiangmen city in Guangdong Province, for property development. As a testament to the quality of Pan Hong's property developments, the Group has received several awards for its current project in Nanchang – Nanchang Honggu Kaixuan. In 2007, the Group was conferred the '4th Annual Nanchang City Best Property Award', 'Most Popular Property in Nanchang', as well as accolades such as 'Reputable Brand of the Year in Jiangxi' and 'Professional Property Developer of International Standard'.

### Price and Volume Chart



Source: Bloomberg

## SGX Research Incentive Scheme

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