


PROPERTY

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Corporate Update

Private Circulation Only

PAN HONG PROPERTY
 (SGX Research Incentive Scheme)

NEUTRAL
Price
Target **Maintain**
\$0.20
\$0.25

A Modest But Reasonable Take-Up in Huzhou
Stock Profile/Statistics

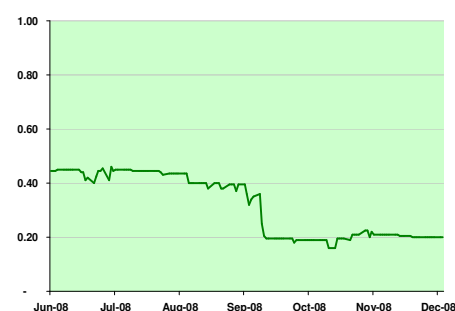
	PANH SP
Bloomberg Ticker	1,782.09
STI	490.00
Issued Share Capital (m)	98.00
Market Cap (S\$m)	0.875 0.08
52 week H L Price (S\$)	127
Average Volume (3m) '000	-76.19
YTD Returns (%)	0.33
Net Gearing (X)	2.19
Altman Z-score	0.9
Beta	0.69
ROCE/WACC	0.57
P/B (X)	

Major Shareholders

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

Share Performance (%)

Month	Absolute	Relative
1m	-4.76	-6.61
3m	-37.50	-11.16
6m	-55.06	-13.91
12m	-77.14	-30.73

6-month Share Price


Modest take-up in newly-launched project in Huzhou. Pan Hong Property Group (Pan Hong) attained a modest take-up rate of 41% for Huzhou Liyang Jingyuan (HLJ) Phase 2, a 150-unit residential project which it launched two weeks ago. A total of 61 units (making up ~7,000 sm in GFA) were transacted at an average selling price (ASP) of RMB4,950 psm, which was slightly under our estimates of RMB5,000 psm. Assuming a breakeven price of RMB3,000 psm, they would contribute 0.41¢ / share to NAV when completed and handed over in 2Q09. Pan Hong would also book in the proceeds as revenue upon the project's completion. Overall, this project accounts for 5.9% of our RNAV.

Location and track record still count. Despite the weakening sentiments surrounding China's real estate sector and deteriorating operating environment for property developers, Pan Hong was able to sell close to half of the project within a short period of time from the launch date. We view this positively, and attribute it to a confluence of factors, including Pan Hong's proven track record in Huzhou (having completed 7 projects here), the buyers' genuine owner-occupier profile, as well as the project's quality and good location. Additionally, we understand that Phase 1 of the project was sold at ASP of RMB3,377 psm back in 2005, which equates to 31.8% less than the latest average transacted price.

Plans for office and commercial spaces still in the works. Aside from a residential component (GFA of ~17,000 sm), HLJ Phase 2 also consists of an office tower (GFA of ~11,000 sm) and commercial spaces (GFA of ~5,000 sm), both of which would be completed in 1Q10. Plans have not been finalized as to rent or sell the latter components. While Pan Hong should be able to reap reasonable one-off profits from selling these components, we feel that it should rent them out instead, with the main objective of reducing the lumpiness of its revenue model.

More positive government policies eked out, but impact needs time. Of late, there has been a slew of government policies aimed at bolstering the role of the financial sector in supporting economic growth, e.g. reform of capital markets, as well as increasing of currency and loan supply. At the same time, the Chinese government could be implementing more sector-specific policies in the near term, e.g. trimming of property deed tax, business tax and income tax levied on primary and secondary property transactions. While the government's increasing ardour in its introduction of expansionary policies are positive, we would like to stress that implementation is the key here. Judging from the size of the country and historical lead time of policies meted out, it could take a longer than expected time for the intended impact of the policies to filter down to each of the different provinces and cities.

Maintain NEUTRAL with RNAV-pegged fair value of S\$0.25. Since our initiation report, Pan Hong's share price has remained flat. Given its residential-centric business model, Pan Hong is not spared from the current weakening sentiments, sales volumes and take-up rates that are plaguing the property sector across China, including the lower-tier cities which Pan Hong is exposed to. Any available catalyst would have to rely on the rate at which the government's various policies hit the ground running, coupled with a global recovery in real estate sentiments. On the bright side, Pan Hong does have a relatively strong balance sheet - current net gearing ratio of 0.33x and cash position of RMB111.9m. In light of the above, we maintain our NEUTRAL call for the stock with a target price of S\$0.25.

FYE Mar (RMB m)	FY05*	FY06*	FY07*	FY08 / 09F**	FY10F
Turnover	288.0	151.3	564.9	76.8	791.0
PATMI	59.3	49.4	184.9	26.7	245.0
% Chg YoY	-	-16.6%	273.9%	-85.6%	818.1%
EPS (RMB ¢)	16.5	12.6	38.4	5.4	50.0
DPS (RMB ¢)	0.0	1.2	1.9	0.3	5.0
Div Yield (%)	0.0%	1.4%	2.1%	0.3%	5.6%
ROE (%)	61.5%	9.0%	23.4%	3.3%	23.6%
ROA (%)	15.4%	6.7%	14.7%	1.8%	15.9%
P/E (x)	5.4	7.1	2.3	16.5	1.8
P/B (x)	3.3	0.8	0.6	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
Revenue	288.0	151.3	564.9	76.8	791.0
COGS	(194.8)	(93.9)	(334.3)	(46.1)	(474.6)
Gross Profit	93.2	57.4	230.6	30.7	316.4
Other Operating Expenses / Income	(4.1)	(13.5)	16.5	1.4	10.3
Operating Income from Continuing Operations	89.1	43.9	247.1	32.2	326.7
Non-Operating Expenses / Income	(0.1)	(0.2)	(0.1)	0.0	0.0
Adjusted EBITDA	89.0	43.7	247.0	32.2	326.7
Depreciation & Amortization	(0.3)	(0.4)	(0.3)	(0.5)	(0.6)
Operating Profit (EBIT) ex. Share of Profit of Asc / JCEs	88.7	43.3	246.7	31.7	326.1
Share of Profits / (Losses) of Asc / JCEs	(0.2)	(0.1)	(0.3)	(0.3)	(0.3)
Operating Profit (EBIT) incl. Share of Profit of Asc / JCEs	88.5	43.3	246.4	31.4	325.9
Finance Costs	(0.9)	0.0	(1.4)	(2.2)	(1.9)
Interest Income	0.1	2.3	6.4	7.1	4.1
Recurring (Pre-Tax) Income from Continuing Operations	87.7	45.6	251.4	36.2	328.0
Fair Value Gains / (Losses)	0.0	21.5	33.6	0.0	0.0
PBT	87.7	67.1	285.0	36.2	328.0
Income Tax Expenses	(29.2)	(17.5)	(99.3)	(9.1)	(82.0)
Net Profit After Tax (NPAT)	58.5	49.6	185.7	27.2	246.0
Minority Interests	(0.8)	0.1	0.8	0.5	1.0
PATMI	59.3	49.4	184.9	26.7	245.0

Profitability Ratios

	FY05*	FY06*	FY07*	FY08/ 09F**	FY10F
YoY Change In Revenue	-	-47.5%	273.4%	-86.4%	929.4%
YoY Change In Net Profit	-	-16.6%	273.9%	-85.6%	818.1%
Gross Margin	32.4%	37.9%	40.8%	40.0%	40.0%
Operating Income from Continuing Operations Margin	30.9%	29.0%	43.7%	41.9%	41.3%
EBITDA Margin	30.9%	28.9%	43.7%	41.9%	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%	40.8%	41.2%
Recurring Income Margin	30.5%	30.1%	44.5%	47.2%	41.5%
PBT Margin	30.5%	44.3%	50.5%	47.2%	41.5%
NPAT Margin	20.3%	32.8%	32.9%	35.4%	31.1%
PATMI Margin	20.6%	32.7%	32.7%	34.7%	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%	3.3%	23.6%
ROA	15.4%	6.7%	14.7%	1.8%	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
Total Non-Current Assets	24	76	214	238	238
Properties Held Under Development & For Sale	299	334	531	794	780
Accounts Receivables	18	51	57	27	79
Deposits Paid, Prepayments & Other Receivables	4	52	200	135	129
Cash & Cash Equivalents	15	221	244	141	187
Other Current Assets	25	0	13	124	124
Total Current Assets	361	659	1,046	1,221	1,299
Trade & Other Payables	54	33	163	209	107
Current Debt	22	0	106	116	110
Other Current Liabilities	19	21	109	109	109
Total Current Liabilities	95	54	378	434	327
Long Term Debt	0	110	66	183	147
Other Non-Current Liabilities	194	24	26	26	26
Total Non-Current Liabilities	194	134	92	210	173
Share Capital & Reserves					
Share Capital	219	409	451	451	451
Reserves	(158)	106	277	303	523
Shareholders' Equity	61	515	729	754	974
Minority Interests	35	33	61	62	63
Total Equity	96	548	789	815	1,037

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)	0.22	0.08
Current Ratio (x)	3.81	12.29	2.77	2.81	3.97
NAV per Share (RMB)	0.27	1.14	1.61	1.66	2.12

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

	FY05*	FY06*	FY07*	FY08/ 09F**	FY10F
Profit Before Tax	88	67	285	36	328
Depreciation/Amortization	0	0	0	0	1
Income / (Loss) from Assoc. & JCEs	0	0	0	0	0
Net Interest	1	(2)	(5)	(5)	(2)
Other Non-Cash Items	0	(22)	(25)	0	0
Change in WC	(213)	(73)	(159)	(124)	(133)
Taxes Paid	(7)	(13)	(10)	(2)	(78)
Net Operating Cash Flow	(131)	(43)	87	(94)	116
Capex (net)	(1)	(0)	(4)	(2)	(1)
Increase in Assoc. & JCEs	(19)	(31)	(65)	(24)	0
Other Investing CF	0	2	(8)	1	0
Net Investing Cash Flow	(19)	(29)	(77)	(24)	(1)
Share Issuance	0	190	42	0	0
Debt Finance	125	93	62	128	(42)
Dividends Paid	0	0	(6)	(1)	(25)
Other Financing Cash Flow	18	(6)	(77)	(111)	(2)
Net Financing Cash Flow	143	276	20	15	(69)
Net Cash Flow	(8)	204	31	(103)	46
Cash Flow (Beginning)	20	15	221	244	141
Exchange Rate Changes	3	2	(8)	0	0
Cash Flow (End)	15	221	244	141	187

*FY ending Dec.

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

RNAV Derivation Table	Capital Value (RMB m)	Share Value (RMB m)	Gross Asset Value (%)
RESIDENTIAL			
<i>Projects under Development</i>			
Jiangxi Province	228	0.46	13.2%
Zhejiang Province	361	0.74	20.9%
<i>Landbank</i>			
Jiangxi Province	252	0.51	14.6%
Zhejiang Province	121	0.25	7.0%
Guangdong Province	29	0.06	1.7%
Sub-Total	990	2.02	57.4%
COMMERCIAL			
<i>Investment Properties</i>	137	0.28	7.9%
<i>Projects under Development</i>	129	0.26	7.5%
Sub-Total	267	0.54	15.4%
OTHER ASSETS			
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%
Sub-Total	470	0.96	27.2%
GROSS ASSET VALUE	1,726	3.52	100.0%
Less: Total Liabilities	(578)	(1.18)	
Minorities	(61)	(0.12)	
RNAV (RMB)	1,088	2.22	
RNAV @ RMB-SGD = 0.2238 (S\$)	243	0.50	
RNAV @ 50% Discount (S\$)	122	0.25	
No. of Outstanding Shares	490,000,000		

Appendix

Figure 1: Artist Impression of Huzhou Liyang Jingyuan Phase 2 (湖州丽阳景苑第二期)



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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