

Pan Hong Property Group

24 Jul 2009
Company Update

Property Developer with Strategy

Selling like Chinese Hotcakes: On 24 May 09, we reported that Pan Hong had achieved strong sales at the back of strong demand for its properties in Hangzhou, Huzhou and Nanchang (see reported dated 28 May 09). On 20 Jul 09, Pan Hong reported a further increase in pre-sales by 34.7% to RMB678.4 between 24 May 09 and 15 Jul 09.

Successful Tactical Maneuvers During the Challenging Period: Management explained that their success stemmed from their ability make quick strategic decisions – a factor that many big property companies lack. Management elaborated that in early 2008, they decided to stop the construction of 2 projects in view that the high commodities prices were taking a toll on their construction cost. Then, in mid 2008, they decided to go against the market trend of lowering prices to dump inventories. Instead, they kept their listed price constant but gave sweeteners to home buyers. In late 2008, they saw demand for residential properties returning and therefore decided to speed up construction to take advantage of the situation. Their results today are proof that their tactical maneuvers have not been wrong so far.

Three Important Tenets: In their last management retreat, Pan Hong's management decided to reflect on lessons learnt from the crisis. They concluded three important strategies for the company ahead:

1. *Focus on home buyers rather than investors and speculators.* To achieve this, Pan Hong will continue to develop residential properties in the city areas and not in the suburbs. Management has observed that developments focused on this market segment tend to have lower price volatility. Furthermore, prices tend to stay high even in challenging periods because of the home owner base. Home owners generally do not make sale and

Buy

Intrinsic Value **S\$0.59**
Current Price **S\$0.41**

Report Snapshot

Pan Hong's project has been selling well since the beginning of the year. From the strategies employed by the management, we believe that the firm is well managed. We also believe that the new storage site purchased by Pan Hong will add value to the firm if managed well.

Financial Highlights

(Y/E Dec/Mar) *	FY07	FY09F	FY10F
Revenue (RMBm)	564.9	40.1	995.5
Gross Profit	230.6	17.4	433.0
Earnings	184.9	-14.4	248.0
EPS (RMB cts)	38.4	-2.0	58.0

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

Key ratios (FY10F)

PER	3.34
P/BV	1.17x
ROE	-34.8%
Net gearing	Cash
Current ratio	3.5x

Source: Bloomberg, SIAS Research

Price Chart



52wks High-Low **S\$0.445/0.08**
Number of Shares **490.0m**
Market Capitalization **S\$200.9m**

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purchase decisions solely on price movements.

2. *Concentrate on second and third tier cities* – management have observed that property prices in these cities tend to have lower price volatility compared to first tier cities such as Shanghai and Shenzhen. This accentuates that the company's original strategy was not wrong.
3. *Enhance its brand* – Management felt that a strong brand will help encourage home buyers to choose Pan Hong's development over other developments. This is one reason why Pan Hong decided not to lower prices when other developers were lowering prices to dump their inventories. Pan Hong wanted to assure their customers that the value of Pan Hong's properties will not fall. The strategy has worked so far.

New Land Purchased May Add to Investment Income or Profits: Pan Hong also announced in Jul 09 that it was acquiring an oil and gas storage site at Dushan Port in Pinghu City. The bear site cost the company RMB47.5m. Pan Hong is currently studying the feasibility of working with a partner to build and operate the storage site. However, they have not decided whether to develop or to sell it. Based on the valuation of adjacent land parcels, this site could potentially fetch a price that is double the purchased price.

Recommendation: In our last report, we calculated Pan Hong's RNAV at S\$0.688 per share and valued its shares at a 30% discount of RNAV. We believe that Pan Hong's land bank of 2.4m sqm may be sold at higher prices in the coming years as demand continues to improve due to government stimulus packages. We are therefore reducing our discount on RNAV from 30% to 15%, valuing the company at S\$0.59. Maintain **Buy**. (Roger Tan).

Financial Table and Ratios

(Y/E – Mar as from FY09)	FY06*	FY07*	FY09#	FY10F
Profit & Loss (RMB m)				
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
Balance Sheet (RMB m)				
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
Cash Flow (RMB m)				
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
Net cash increase/(decrease)	204.2	30.6	-31.3	107.5
Cash at year end	221.4	243.9	120.4	220.9
Cash and equivalent at year end	221.4	256.7	225.5	335.9
Financial Ratios				
Revenue Growth (%)	-47.48	273.41	-92.94	2397.51
Gross Profit Growth (%)	-38.45	302.01	-92.76	2492.25
Earnings Growth (%)	-16.62	273.90	-120.01	-867.77
Gross Margin (%)	37.92	40.82	41.91	43.50
Net Margin (%)	32.68	32.73	-92.79	28.52
Current Ratio (x)	12.29	2.77	2.04	3.52
Book value per share (RMB)	1.14	1.61	1.53	1.94
Net Gearing (%)	Net Cash	Net Cash	12.00	Net Cash
Return on Equity (%)	16.16	29.72	-5.23	34.78
Return on Asset (%)	8.82	18.31	-2.66	19.09
Valuations				
PER (x)	11.22	3.77	-18.65	3.34
Price to book (x)	1.31	0.87	0.92	1.17
Dividend Yield (%)	0.01	0.01	0.00	0.02

*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

Company Update

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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