

Pan Hong Property Group Limited

09 Sep 09

Update Review

Killing Two Birds With a Stone

On 07 Sep 2009, Pan Hong announced a renounceable non-underwritten warrants issue where one free warrant will be given for every three existing shares held. The exercise price of the warrant is S\$0.66, a slight premium to its closing price of S\$0.64 on 4 Sep 2009. A maximum proceed of S\$114.0m will be raised if all the warrants are exercised.

Earlier on, Pan Hong raised S\$11.76m from a share placement issue of 23.8m new shares at S\$0.50 per share.

The share placement came in the appropriate time as the China authority tightens the lending activities in China, especially on the property segment. This move is crucial for the nation to keep local asset prices in control and avoid speculative buying. The warrant gives the investors a form of sweetener in terms of time value. More cash can be raised should the investors decide to convert it into shares.

Figure 1: Peer Comparison

Company	Debt/Equity	P/B	Gross Margin
Centraland	8.37%	2.27	62.9%
Yanlord	80.26%	2.45	55.6%
China New Town	55.32%	0.72	34.6%
China YuanBang	143.24%	1.22	-27.0%
Average	71.80%	166.5%	31.5%
Pan Hong	51.83%	2.13	44.2%

Source: Company, SIAS Research

In terms of leverage ratio, Pan Hong is currently at a comfortable level of 52% Debt/Equity. We expect the company to return to a net cash position for FY10F, following the sale of some of its properties which will increase the cash level and lower debt borrowing. The additional funding provides the company with the flexibility of expanding or lowering its current debt level. It may also be used to develop the site near Dushan Port.

BUY

Target Price **S\$0.67**
Prev Closing Price **S\$0.605**

Report Snapshot

Pan Hong announced a renounceable non-underwritten warrants issue where one free warrant will be given for every three existing shares held.

Financial Highlights

(Y/E Mar - RMB'mn)	FY07	FY09	FY10F
Revenue	564.9	40.1	995.5
Gross Profit	230.6	17.4	433.0
Net Profit	184.9	-14.4	248.0
EPS (RMB cts)	38.4	-2.0	40.8

Source: Company, SIAS Research

Key ratios (FY10F)

PER	6.96
P/BV	1.48
ROA	15.9%
ROE	25.5%
Net Debt to Equity	Net Cash
Current ratio	3.67

Source: SIAS Research

Indexed Price Chart

Pan Hong (White)
FSTRE Index (Green)



Source: Bloomberg

52wks High-Low **S\$0.675/S\$0.08**
Number of Shares **513.8 m**
Market Capitalization **S\$310.9 m**

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Pan Hong's current RNAV is S\$0.67, with cash constituting S\$0.13 per share (on undiluted basis). The warrant provides investors with time value and allows Pan Hong to raise more cash when investors convert into shares.

With the possibility of Pan Hong's land bank being sold at a higher price, financial flexibility and growth potential, we price Pan Hong at its RNAV value of S\$0.67, maintaining our **BUY** call.

Figure 2: Financial Figures and Ratios			
Year End Dec	FY07	FY09	FY10F
Profit & Loss (\$m)			
Turnover	564.857	39.9	995.5
Gross Profit	230.587	16.7	433.0
Earnings	184.856	-37.0	284.0
Earnings per share (RMB cts)	37.33	-7.6	40.8
Balance Sheet (RMB m)			
Current Assets	1045.633	1316.9	1337.1
Long Term Assets	238.582	183.9	192.9
Current Liabilities	378.15	644.4	364.4
Long Term Liabilities	92.429	111.2	101.2
Shareholder Equity	728.543	684.6	1003.8
Cash Flow (RMB m)			
Operating Cash Flow	87.11	-165.0	318.8
Investing Cash Flow	-76.871	-51.3	-51.3
Financing Cash Flow	20.357	185.1	-104.7
Net cash increase/(decrease)	30.596	-31.3	162.8
Cash at year end	243.906	120.4	276.2
Cash and equivalent at year end	256.711	225.5	391.2
Financial Ratios			
Revenue Growth (%)	273.41%	-92.94%	2397.51%
Gross Profit Growth (%)	302.01%	-92.76%	2492.25%
Earnings Growth (%)	273.90%	-120.01%	-867.77%
Gross Margin (%)	40.82%	41.91%	43.50%
Net Margin (%)	32.73%	-92.79%	28.52%
Current Ratio (x)	2.77	2.04	3.67
Book value per share (RMB)	1.61	1.53	1.92
Dividend per share (RMB cts)	1.87	0.00	2.87
Net Gearing (%)	Net Cash	12.00	Net Cash
Return on Equity (%)	29.72%	-5.23%	25.53%
Return on Asset (%)	18.31%	-2.66%	15.92%
Valuations			
PER (x)	7.61	-37.61	6.96
Price to book (x)	1.76	1.86	1.48
Dividend Yield (%)	0.66	0.00	1.01

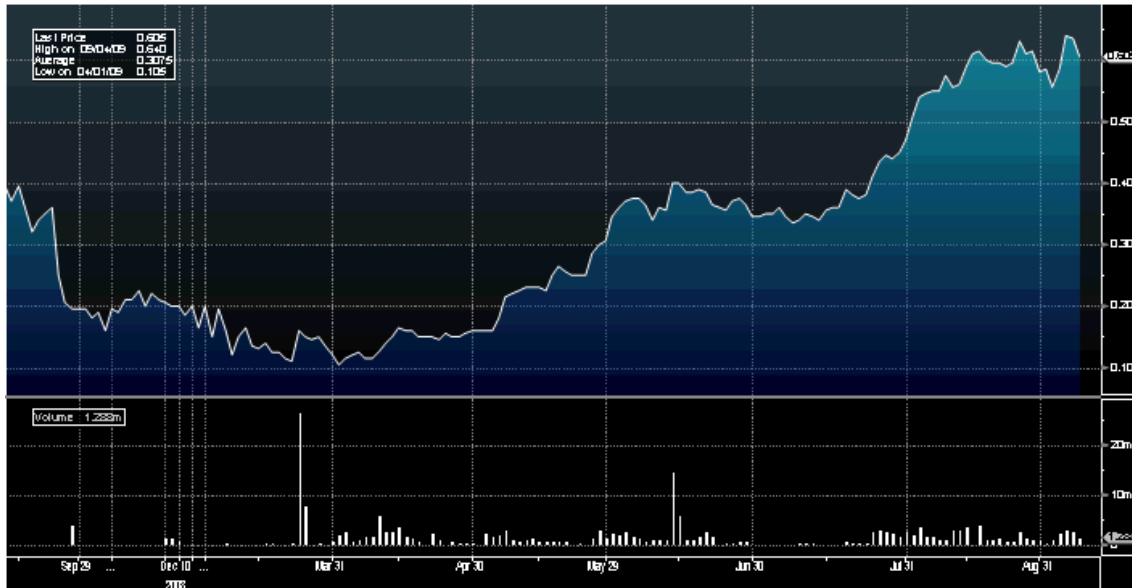
FY07 have Dec as year end; #FY09F is 15-month long with Mar 09 as year end; FY10 year end is in Mar 2010

Source: 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





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SGX Research Incentive Scheme

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