

SINGAPORE EQUITY

Investment Research

DMG & Partners
SECURITIES



PROPERTY

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Corporate Update

Private Circulation Only

PAN HONG PROPERTY

(SGX Research Incentive Scheme)

BUY
Price
Target

Upgrade
S\$0.345
S\$0.43

Rosier Times Ahead

Stock Profile/Statistics

	PANH SP
Bloomberg Ticker	STI
STI	2,380.07
Issued Share Capital (m)	490.00
Market Cap (S\$m)	169.05
52 week H L Price (S\$)	0.535 0.08
Average Volume (3m) '000	349
YTD Returns (%)	72.50
Net Gearing (X)	0.17
Altman Z-score	1.33
Beta	0.9
ROE/WACC	0.6
P/NAV (X)	1.2

Major Shareholders

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

Share Performance (%)

Month	Absolute	Relative
1m	115.63	91.68
3m	72.50	23.27
6m	68.29	27.48
12m	(25.81)	(0.36)

6-month Share Price



Results below expectations. For its latest quarter ending 31 Mar 09, Pan Hong Property Group (Pan Hong) posted a net loss of RMB 27.3m, vs. net losses of RMB 0.9m and RMB 3.6m for 1Q08 and 4Q08 respectively. As Pan Hong will be changing its financial year to end-Mar (end-Dec previously), its 15-month period saw net losses of RMB 37.0m, which fell under our PATMI expectations of RMB 28.8m. The weak performance was largely attributable to RMB 42.0m of impairment charges and revaluation losses, as well as a plunge in quantum of residential units sold from Nanchang Honggu Kaixuan (NHK) Phase 1.

But robust take-up suggests rosier times ahead. Within a quarter, Pan Hong's pre-sales surged 219.7% to RMB 503.6m as at 24 May 09. All its three existing projects in Nanchang, Huzhou and Hangzhou generated strong take-up, ranging from 48 – 95% (refer to Figure 1). More notably, we understand that the robust sales were attained without having its initial selling prices trimmed. The increased demand was underpinned by favourable government policies, better accessibility to mortgage financing, improved macroeconomic outlook and aggressive marketing by developers. Buyers were mostly owner-occupiers.

Upgrade to BUY at S\$0.43. The 17.5% YoY jump in Jan – Apr 09's sold GFA (to 176.25m sqm) implies that buyers are now back in the hunt for properties. On the ground, management is also seeing improved sentiments and healthy level of inquiries for its unlaunched projects. With 2.4m sqm of residential landbank remaining, we believe Pan Hong is well-positioned to benefit from the improved dynamics and strong real estate fundamentals within China's lower tier cities. In light of the improved buying sentiments and China's macroeconomic outlook, as well as Pan Hong's healthier balance sheet (net gearing of 0.17x, vs. SGX-listed peers' 0.43x), we are now applying a lower discount of 30% to its new base case end-FY09 RNAV of S\$0.62. Upgrade to BUY at S\$0.43.

FYE Mar (RMB m)	FY06*	FY07*	FY08 / 09F**	FY10F	FY11F
Turnover	151.3	564.9	39.9	803.2	674.6
PATMI	49.4	184.9	(37.0)	278.7	231.3
% Chg YoY	-16.6%	273.9%	-120.0%	-853.5%	-17.0%
EPS (RMB ¢)	12.6	38.4	(7.5)	56.9	47.2
DPS (RMB ¢)	1.2	1.9	0.0	5.7	9.4
Div Yield (%)	0.7%	1.2%	0.0%	3.5%	5.8%
ROE (%)	9.0%	23.4%	-5.0%	27.9%	19.5%
ROA (%)	6.7%	14.7%	-2.5%	18.7%	13.9%
P/E (x)	13.0	4.3	(21.7)	2.9	3.5
P/B (x)	1.4	1.0	1.1	0.8	0.7

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.

Other Highlights:

Strategy switch and outlook. Management plans to launch Phase 1 of Hua Cui Ting Yuan (HCT) somewhere in Jun 09, as well as begin constructing HCT Phase 2 and Yichun Project somewhere during FY10. To strengthen its brand equity and stand out amidst the increasingly competitive landscape, management is contemplating to apply HCT's townhouse/villa concept to its other suburban projects. Aside from product differentiation, we believe the concept also encompasses lower construction costs and shorter development-to-sales cycle.

Earnings refined. For Pan Hong's projects in Huzhou and Hangzhou, we have tweaked our revenue recognition schedule to reflect the positive take-up, as well as 100% achieved sales by end-FY10. Inventory clearing time period for NHK Phase 2 has been shortened to two years (three years previously). To account for the recent easing price downtrend, we have also adjusted downwards our price decline for the subsequent six months (from -8.0% to -5.0%), but maintained our previous assumption of a price recovery beginning 1Q10 (+18.0% for three consecutive years). FY10F EPS thus increases by 13.7% to RMB 56.9 ¢. FY11 projections have now been introduced.

Figure 1: Snapshot of Three Recent Pre-Sale Launches

Residential Project	Nanchang Honggu	Huzhou Liyang	Hangzhou
Project	Kaixuan Phase 2	Jingyuan Phase 2	Liyang Yuan
Pre-Sales Launch Date	Jul 08	Dec 08	Jan 09
Completion Date	1Q 2010	3Q or 4Q 2009	4Q 2009
Total Units Released	649	150	226
Total Units in Project	1,003	150	226
Units Pre-Sold	310	131	215
GFA Pre-Sold (sqm)	38,984	13,789	23,509
Take-Up Rate (%)	48%	87%	95%
Average Selling Price (RMB per sqm)	5,000	5,100	10,100
Accumulated Pre-Sales Value (RMB m)	195	70	238

Source: Company

Figure 2: Peer Comparison Table – Trading Performances

	Current	52- Wk	52- Wk	Market		Prem /		Net Change in Share Price			
	Price	Low	High	Cap	NAV	(Disc)	P/B	1- mth	3- mth	6- mth	12- mth
	(\$)	(\$)	(\$)	(\$m)	(\$)	(%)	(X)				
Chinese Developers											
China Yuanbang Property Hldgs*	0.18	0.07	0.27	113.4	0.17	7.6%	1.08	125.0	28.6	80.0	(28.0)
Sunshine Hldgs	0.04	0.01	0.16	39.1	0.12	-67.7%	0.32	100.0	33.3	60.0	(75.8)
Yanlord Land Grp	2.32	0.50	2.32	4,215.0	1.09	112.0%	2.12	61.1	226.8	286.7	7.4
Pan Hong Property Grp**	0.345	0.08	0.54	169.1	0.30	16.0%	1.16	115.6	72.5	68.3	(25.8)
CentraLand	0.33	0.25	0.52	608.9	0.15	116.2%	2.16	(1.5)	(31.3)	(31.3)	(31.3)
China New Town Dvlpmt Co.	0.08	0.03	0.22	214.9	0.21	-62.8%	0.37	60.0	128.6	166.7	(61.0)
Ying Li Int'l Real Estate	0.31	0.06	0.55	552.5	0.15	101.7%	2.02	5.1	0.0	0.0	(48.3)
Total Average				5,912.8	2.20	31.9%	1.32	66.5	65.5	90.1	(37.5)

* FY ending Jun

** FY ending Mar

Remaining companies have FY ending Dec

Share prices all quoted in S\$

Source: Bloomberg and Company

Figure 3: Peer Comparison Table – Balance Sheet Profile

	ST	LT	Total	Total	Total	Cash	Debt /	Net	Debt /	Cash /
	Debt	Debt	Debt	Equity	Assets		Equity	Gearing	Assets	ST Debt
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(X)	(X)	(X)	(X)
Chinese Developers										
China Yuanbang Property Hldgs*	13	75	88	147	390	52	0.60	0.25	0.23	3.88
Sunshine Hldgs	220	8	228	139	497	23	1.65	1.48	0.46	0.10
Yanlord Land Grp	270	1,438	1,708	2,701	5,498	682	0.63	0.38	0.31	2.52
Pan Hong Property Grp**	52	22	74	159	320	48	0.47	0.17	0.23	0.92
CentraLand	9	15	23	282	392	108	0.08	(0.30)	0.06	12.70
China New Town Dvlpmt Co.	259	112	371	431	1,341	15	0.86	0.82	0.28	0.06
Ying Li Int'l Real Estate	23	52	75	279	444	19	0.27	0.20	0.17	0.82
Total Average	846	1,721	2,567	4,136	8,881	947	0.65	0.43	0.25	3.00

* FY ending Jun

** FY ending Mar

Remaining companies have FY ending Dec

Share prices all quoted in S\$

Source: Bloomberg and Company

Figure 4: Financials

Statement of Profit & Loss (FY Ending Mar) (RMB m)					
	FY06*	FY07*	FY08/ 09F**	FY10F	FY11F
Revenue	151.3	564.9	39.9	803.2	674.6
COGS	(93.9)	(334.3)	(23.2)	(441.8)	(371.0)
Gross Profit	57.4	230.6	16.7	361.4	303.6
Other Operating Expenses / Income	(13.5)	16.5	(19.9)	10.4	8.8
Operating Income from Continuing Operations	43.9	247.1	(3.2)	371.8	312.4
Non-Operating Expenses / Income	(0.2)	(0.1)	2.1	0.0	0.0
Adjusted EBITDA	43.7	247.0	(1.1)	371.8	312.4
Depreciation & Amortization	(0.4)	(0.3)	(1.3)	(0.5)	(0.5)
Operating Profit (EBIT) ex. Share of Profit of Asc / JCEs	43.3	246.7	(2.5)	371.3	311.9
Share of Profits / (Losses) of Asc / JCEs	(0.1)	(0.3)	(0.9)	(0.9)	(0.9)
Operating Profit (EBIT) incl. Share of Profit of Asc / JCEs	43.3	246.4	(3.3)	370.5	311.0
Finance Costs	0.0	(1.4)	(6.9)	(2.9)	(2.8)
Interest Income	2.3	6.4	10.8	5.3	2.9
Recurring (Pre-Tax) Income from Continuing Operations	45.6	251.4	0.5	372.9	311.1
Impairments, Provisions & Other Exceptionals	0.0	0.0	(25.8)	0.0	0.0
Fair Value Gains / (Losses)	21.5	33.6	(16.2)	0.0	0.0
PBT	67.1	285.0	(41.5)	372.9	311.1
Income Tax Expenses	(17.5)	(99.3)	4.3	(93.2)	(77.8)
Net Profit After Tax (NPAT)	49.6	185.7	(37.2)	279.7	233.3
Minority Interests	0.1	0.8	(0.2)	1.0	2.0
PATMI	49.4	184.9	(37.0)	278.7	231.3
Profitability Ratios					
	FY06*	FY07*	FY08/ 09F**	FY10F	FY11F
YoY Change In Revenue	-47.5%	273.4%	-92.9%	1915.2%	-16.0%
YoY Change In Net Profit	-16.6%	273.9%	-120.0%	-853.5%	-17.0%
Gross Margin	37.9%	40.8%	41.9%	45.0%	45.0%
Operating Income Margin	29.0%	43.7%	-8.0%	46.3%	46.3%
EBITDA Margin	28.9%	43.7%	-2.8%	46.3%	46.3%
Core EBIT	28.7%	43.7%	-6.2%	46.2%	46.2%
EBIT	28.6%	43.6%	-8.3%	46.1%	46.1%
Recurring Income Margin	30.1%	44.5%	1.3%	46.4%	46.1%
PBT Margin	44.3%	50.5%	-104.1%	46.4%	46.1%
NPAT Margin	32.8%	32.9%	-93.4%	34.8%	34.6%
PATMI Margin	32.7%	32.7%	-92.8%	34.7%	34.3%
ROE	9.0%	23.4%	-5.0%	27.9%	19.5%
ROA	6.7%	14.7%	-2.5%	18.7%	13.9%
Balance Sheet (FY Ending Mar) (RMB m)					
	FY06*	FY07*	FY08/ 09F**	FY10F	FY11F
P, P & E	4.7	8.3	8.2	8.7	9.2
Investment Properties	35.3	81.0	67.2	67.2	67.2
Goodwill	6.0	6.0	0.0	0.0	0.0
Assoc. / JCEs / Subsidiaries	0.0	49.7	91.1	91.1	91.1
Other Non-Current Assets	30.0	69.2	17.4	17.4	17.4
Total Non-Current Assets	76.1	214.3	183.9	184.4	184.8
Properties Held Under Development & For Sale	334.2	530.9	845.2	831.6	997.9
Accounts Receivables	51.2	57.0	13.4	80.3	67.5
Deposits Paid, Prepayments & Other Receivables	52.3	200.5	209.4	199.0	189.0
Cash & Cash Equivalents	221.4	243.9	120.4	65.2	96.2
Other Current Assets	0.0	13.3	128.5	128.5	128.5
Total Current Assets	659.0	1,045.6	1,316.9	1,304.5	1,479.1
Trade & Other Payables	32.9	163.4	307.8	52.1	51.6
Current Debt	0.0	105.6	244.6	256.8	269.7
Other Current Liabilities	20.8	109.1	92.0	92.0	92.0
Total Current Liabilities	53.6	378.2	644.4	401.0	413.3
Long Term Debt	110.0	66.1	105.1	84.1	58.9
Other Non-Current Liabilities	23.5	26.3	6.1	6.1	6.1
Total Non-Current Liabilities	133.5	92.4	111.2	90.2	64.9
Share Capital & Reserves					
Share Capital	408.9	451.2	451.2	451.2	451.2
Reserves	106.4	277.3	233.3	484.1	669.2
Shareholders' Equity	515.3	728.5	684.6	935.4	1,120.4
Minority Interests	32.7	60.8	60.5	62.4	65.3
Total Equity	548.0	789.3	745.1	997.8	1,185.7
Leverage Ratios					
	FY06*	FY07*	FY08/ 09F**	FY10F	FY11F
Debt to Equity Ratio (x)	0.2	0.2	0.5	0.3	0.3
Net Gearing (x)	(0.2)	(0.1)	0.3	0.3	0.2
Current Ratio (x)	12.3	2.8	2.0	3.3	3.6
NAV per Share (RMB)	1.1	1.6	1.5	2.0	2.4

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

	FY06*	FY07*	FY08/ 09F**	FY10F	FY11F
Profit Before Tax	67.1	285.0	(41.5)	372.9	311.1
Depreciation & Amortization	0.4	0.3	1.3	0.5	0.5
Income / (Loss) from Assoc. & JCEs	0.1	0.3	0.9	0.9	0.9
Net Interest	(2.3)	(5.0)	(3.8)	(2.4)	(0.1)
Other Non-Cash Items	(21.5)	(25.1)	42.1	0.0	0.0
Change in WC	(73.1)	(158.9)	(154.0)	(298.6)	(144.0)
Taxes Paid	(13.3)	(9.5)	(10.0)	(87.9)	(74.9)
Net Operating Cash Flow	(42.7)	87.1	(165.0)	(14.7)	93.5
Capex (net)	(0.5)	(4.0)	(2.2)	(1.0)	(1.0)
Increase in Assoc. & JCEs	(2.1)	(52.2)	0.0	0.0	0.0
Other Investing CF	(26.8)	(20.7)	(49.1)	0.0	0.0
Net Investing Cash Flow	(29.3)	(76.9)	(51.3)	(1.0)	(1.0)
Share Issuance	189.8	42.4	0.0	0.0	0.0
Debt Finance	92.7	61.7	178.0	(8.8)	(12.4)
Dividends Paid	0.0	(6.4)	(9.2)	(27.9)	(46.3)
Other Financing Cash Flow	(6.2)	(77.3)	16.2	(2.9)	(2.8)
Net Financing Cash Flow	276.3	20.4	185.1	(39.6)	(61.4)
Net Cash Flow	204.2	30.6	(31.3)	(55.2)	31.1
Cash Flow (Beginning)	15.2	221.4	243.9	216.0	160.8
Exchange Rate Changes	1.9	(8.0)	3.4	0.0	0.0
Cash Flow (End)	221.4	243.9	216.0	160.8	191.8

Interim Statements of Profit & Loss (RMB m)

	1Q08	YoY Chg	5Q08	QoQ Chg	4Q08
Residential	11.6	-76.2%	2.8	-34.3%	4.2
Commercial & Others	0.2	-75.0%	0.0	-65.8%	0.1
Revenue	11.7	-76.2%	2.8	-35.1%	4.3
COGS	(6.5)	-62.0%	(2.5)	0.2%	(2.5)
Gross Profit	5.2	-94.1%	0.3	-83.3%	1.8
Other Operating Income / (Expenses)					
Other Income & Gains	2.6	236.1%	8.6	61.7%	5.3
Selling Expenses	(1.1)	100.4%	(2.3)	138.8%	(0.9)
Administrative Expenses	(5.1)	-41.8%	(3.0)	-14.5%	(3.5)
Other Operating Expenses	0.0	-	(42.0)	-	(0.0)
Add Back: Depreciation & Amortization	0.1	929.5%	1.1	1732.2%	0.1
Add Back: Other Non-Operating Items	(2.3)	-	38.6	-	(4.1)
Operating Income from Continuing Operations	(0.7)	-286.4%	1.3	-197.9%	(1.4)
Non-Operating Expenses / Income					
Profits / (Losses) from Sale or Acquisition of Subsidiary or Associate	0.0	-	(0.0)	-	(0.0)
Foreign Exchange Gains / (Losses)	(0.0)	-	0.0	-	(0.1)
Marked-to-Market Gains / (Losses) from Financial Instruments	1.2	167.7%	3.3	-	(3.2)
Adjusted EBITDA	0.5	807.9%	4.6	-	(4.7)
Depreciation & Amortization	(0.1)	929.5%	(1.1)	1732.2%	(0.1)
Operating Profit (EBIT) excl. Share of Profit of Asc/JVs	0.4	776.1%	3.5	-	(4.7)
Share of Profit / (Loss) of Associates or JVs	(0.3)	-	1.3	-	(1.7)
Operating Profit (EBIT) incl. Share of Profit of Asc/JVs	0.1	3600.0%	4.8	-	(6.4)
Finance Costs	(0.6)	318.6%	(2.5)	82.2%	(1.4)
Interest Income	1.1	195.4%	3.3	-21.4%	4.2
Recurring (Pre-Tax) Income from Continuing Operations	0.7	763.8%	5.6	-	(3.5)
Impairments & Provisions	0.0	-	(25.8)	-	0.0
Negative / (Positive) Goodwill	0.0	-	0.0	-	0.0
Fair Value Gains / (Losses) of Investment Properties	0.0	-	(16.2)	-	0.0
Other Exceptionals	0.0	-	0.0	-	0.0
PBT	0.7	-	(36.4)	924.9%	(3.5)
Taxation	(1.6)	-	8.9	-	(0.1)
Net Profit After Tax (NPAT) ex. EO	(1.0)	2705.8%	(27.5)	654.2%	(3.6)
EO	0.0	-	0.0	-	0.0
Net Profit After Tax (NPAT) incl. EO	(1.0)	2705.8%	(27.5)	654.2%	(3.6)
Minority Interests	(0.1)	44.6%	(0.1)	57.9%	(0.1)
PATMI	(0.9)	2952.3%	(27.3)	666.9%	(3.6)

*FY ending Dec.

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

Figure 5: RNAV Derivation Table

	Capital Value (RMB m)	Share Value (RMB)	Gross Asset Value (%)
RESIDENTIAL			
<i>Projects under Development</i>			
Jiangxi Province	261	0.53	12.0%
Zhejiang Province	399	0.82	18.5%
<i>Landbank</i>			
Jiangxi Province	676	1.38	31.2%
Zhejiang Province	122	0.25	5.7%
Guangdong Province	33	0.07	1.5%
Sub-Total	1,492	3.04	68.9%
COMMERCIAL			
<i>Investment Properties</i>	87	0.18	4.0%
<i>Projects under Development</i>	95	0.19	4.4%
Sub-Total	183	0.37	8.4%
OTHER ASSETS			
Trade & Other Receivables	223	0.45	10.3%
Cash	225	0.46	10.4%
Other ST Assets	23	0.05	1.1%
Other LT Assets	19	0.04	0.9%
Sub-Total	490	1.00	22.6%
GROSS ASSET VALUE	2,165	4.42	100.0%
Less: Total Liabilities	(756)	(1.54)	
Minorities	(61)	(0.12)	
RNAV (RMB)	1,348	2.75	
RNAV @ RMB-SGD = 0.2238 (S\$)	302	0.62	
RNAV @ 30% Discount (S\$)	211	0.43	

Source: Company and DMG Estimates

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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