

Ying Li International Real Estate

Company Site Visit

SINGAPORE | PROPERTY DEVELOPMENT | NON-RATED NOTE

- Development projects on track and registering reasonably strong interests
- On-boarding of China Everbright seen as a turning point for Ying Li (YL)
- Beijing Tongzhou project marks YL's foray into a tier one city
- Gradual shift in revenue composition but balance sheet may need more time to recover
- FY15 earnings expected to remain weak until pre-sale units are handed over in 1Q16

Development projects on track to completion and registering reasonably strong interests

- **International Hardware and Electrical Centre (IEC)** – Although pre-sales has not commenced, the built-to-order development project has garnered registered interest representing as much as 26.5% of total gross floor area. We are of the view that the project will continue to attract more interests from other buyers, given the Chongqing government's intention to decentralise more than 180 medium and large enterprises out of the main central business district, as well as being able to leverage on the network formed through a strategic alliance between Ying Li and Chongqing Hardware & Electrical Industry Association Alliance, to reach out for more buyers.
- The gross development value (GDV) of the project excluding carpark space is estimated to be RMB5 billion and occupies a total gross floor area (GFA) of 1.32 million square metres (sqm), with a total of three main phases, Phase 1A, 1B, 2 and 3. We expect gross margin from Phase 1A sales to be around 15 percent.

Photographs of actual IEC construction site and showroom



Source: Phillip Securities Research (Singapore)

12 October 2015

Non-rated

LAST DONE PRICE	SGD 0.183
FORECAST DIV	N/A
TARGET PRICE	N/A
TOTAL RETURN	N/A

COMPANY DATA

O/S SHARES (MN) :	2,557
MARKET CAP (USD mn / SGD mn) :	334 / 468
52 - WK HI/LO (SGD) :	0.29 / 0.12
3M Average Daily T/O (mn) :	4.83

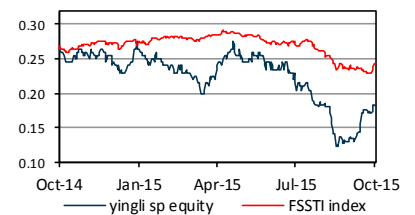
MAJOR SHAREHOLDERS (%)

MING FANG	36.0%
EVERBRIGHT HERO	14.9%
LEAP FORWARD HLDGS	10.4%

PRICE PERFORMANCE (%)

	1M TH	3 M TH	1YR
COMPANY	34.1	(6.8)	(31.7)
STI RETURN	2.2	(9.0)	(5.6)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

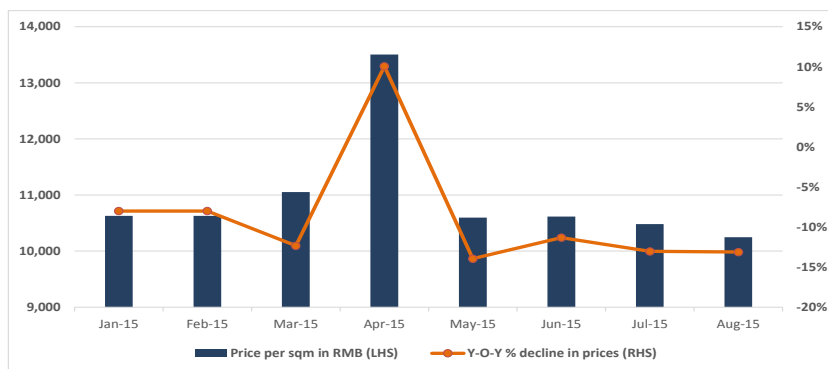
Y / E Mar	FY 12	FY 13	FY 14
Revenue (RMB mn)	585.2	638.8	1030.5
Gross Profit (RMB mn)	256.8	251.3	478.0
PATMI (RMB mn)	377.2	205.7	254.0
P/NAV (x)	129	121	0.59

Source: Company Data, PSR est.

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- Ying Li International Commercial Centre (YL ICC)** – Phase one of the mixed development project comprises retail units and carpark space which is likely to be retained by YL as investment properties. In addition, Phase 1 also includes SOHO units, together with the retail mall and carpark space are on track to be completed by 2017, while the remaining retail and office units in Phase 2 are expected to be completed later in 2019. The project site resides on the largest land parcel closest to the iconic Jiefangbei Pedestrian Street, which is equivalent to the Raffles Place CBD district in Singapore.
- The project’s estimated GDV is RMB3.9 billion excluding the retail mall and carpark space and comes with a GFA of 300,000 sqm. Pre-sales of SOHO units will begin in late 4Q15. We expect take up rate to be weak since prices of overall Chongqing office developments have continued to trend down since hitting a high of RMB12,606 per sqm in March 2014.

Chongqing office property prices and year-on-year (YOY) performance



Source: CEIC, Phillip Securities Research (Singapore)

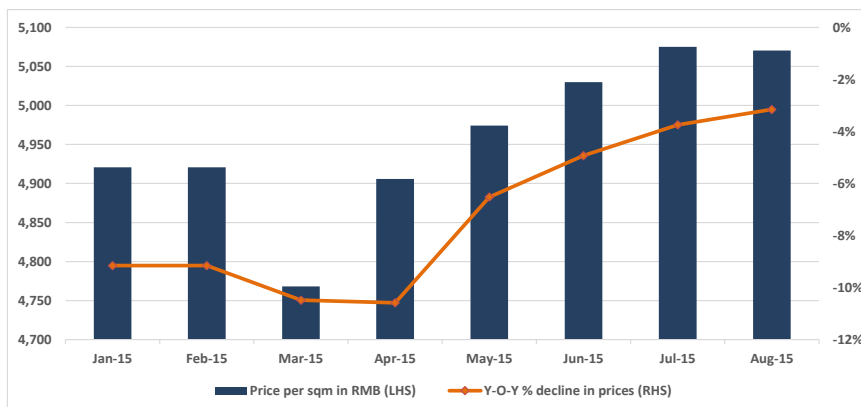
Photographs of actual ICC construction site and artist impression of Chongqing Financial Street



Source: Company

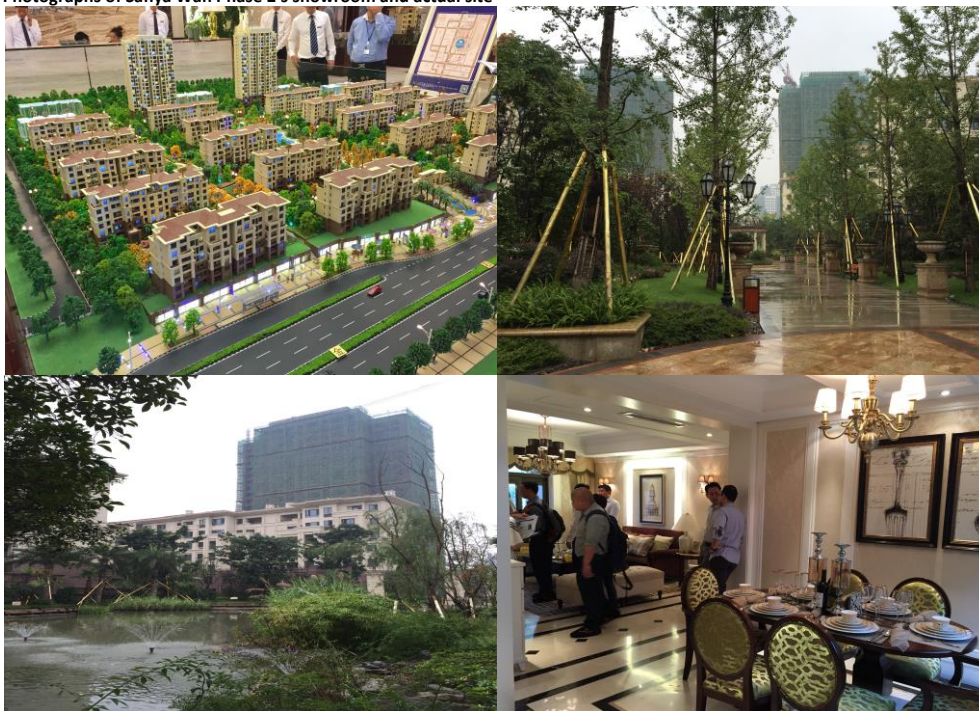
- **Sanya Wan Phase 2** – While we note that there was a slowdown in Chongqing’s residential real estate prices, however, prices seemed to have recovered and stayed resilient at the RMB5,000 per sqm level. Moreover, the performance registered in Phase 2A and 2B was encouraging, with sales level coming in at 78 percent and 58 percent respectively. On top of the recovering residential real estate market largely driven by favourable government policies to encourage home purchase, we view that the well-connected location of the development project, (directly in front of the currently constructing metro line 10 station, and within close proximity to metro line 3 station and other lifestyle amenities) may also have explained the strong take up rate.
- The project’s estimated GDV is RMB1.2 billion excluding carparks, with a GFA of 275,000 sqm. We estimate gross margin of Phase 2A and 2B (blended basis) to be in the 20 percent territory.

Chongqing residential property prices and year-on-year (YOY) performance



Source: CEIC, Phillip Securities Research (Singapore)

Photographs of Sanya Wan Phase 2’s showroom and actual site



Source: Phillip Securities Research (Singapore)

On-boarding of China Everbright seen as a turning point for YL

- **Re-branding of existing retail assets provide a boost to recurring rental income.** After coming on-board with a 14.9 percent stake in YL through a private placement, China Everbright Hero (CEH), subsidiary of the state-owned enterprise, China Everbright Limited (CEL), began to rebrand and enhance YL’s retail assets by performing major adjustments to existing tenant profiles.
- **Greater accessibility and flexibility to funding sources.** CEL’s state links also improves YL’s accessibility to more funding sources for the company which is vital for YL to take on larger scale development projects such as Future Beijing in Tongzhou, Beijing. Management expects the current weight average cost of debt of 7.31% to decline as YL refinances its existing bank loans.
- **Facilitates YL’s expansion into tier one and other tier two cities.** The Future Beijing development project is a testament of CEH’s access to developments beyond Chongqing which YL is able to leverage on, although there are currently no indications of other tier two cities which YL intends to expand into.

Photographs of YL’s malls after rebranding to IMIX



Source: Phillip Securities Research (Singapore)

Beijing Tongzhou project marks YL’s foray into a tier one city

- **A forceful push to relocate and integrate municipal government.** Located in the South-eastern section of Beijing, Tongzhou is a satellite city aimed to be established into a new centre to house the municipal government of Beijing, Hebei and Tianjin. The concept named “Jing-Jin-Ji”, forms part of the central government’s blueprint to urbanise China. While there is no stated timeline, however, the eventual plan is for the megacity to be home for a population of 130 million people that is comparable to the size of Kansas.

- **Beijing Tongzhou project marks YL's foray into a tier one city.** YL made an investment of RMB559 million into Future Beijing, which is YL's first project out of Chongqing and marks its maiden venture into a tier one city. Future Beijing is an integrated development consisting of residential, office and retail units. Sales of Phase one consisting mainly of residential units is expected to begin in late 4Q15 at an estimated average selling price of RMB32,000 to 35,000 per sqm according to transacted prices of other nearby developments.
- **Strategic location of project site.** The Future Beijing development is located directly above the interchange station of Line 6 and R1 (extension of the current Line 1 in Beijing), where Line 6 is currently in operation and is approximately 14km or a 20 minutes train ride from Beijing's CBD. The project is in close proximity to other commercial developments such as Universal Studios and International Healthcare/Wellness city, and certain government entities which have not been disclosed yet.
- **Current stake in Future Beijing is small but expected to increase.** The initial investment of RMB559 million made by the company, represents an effective equity stake of 15.1% in the project. The other investors in the project include CEL, IDG Capital Partners and Huaye Capital. Like other development projects, we believe YL will retain the retail asset and carpark after the other phases of the project are sold.

Photographs of Future Beijing's showroom and construction site



Source: Phillip Securities Research (Singapore)

Gradual shift in revenue composition but balance sheet may need more time to recover

- **Rental revenue continues to grow although sales of development projects still hold the lion share of revenue composition.** Rental revenue has grown at a CAGR of 41.2 percent for the past five years where this was mainly attributable to the retail malls and carparks that the company has retained. Although the proportion of rental revenue from these retail assets are currently small, however, it should help to smoothen the overall revenue for YL going forward.

- **Increased leverage to fund the construction of multiple projects.** We note that YL's net debt to equity has steadily increased to 62.9 percent as at 1H15. The increase in leverage was stemmed mainly from the construction of existing development projects. However, interest coverage ratio (based on last 12 months) continues to remain healthy at 5.8X. However, we expect to see further improvements as revenue stabilises and is subsequently recognised from the handing over of units from 4Q15 to 2019.

FY15 earnings expected to remain weak until more sold units are handed over in 2016

- **Significant discount to book value.** We expect FY15 earnings to remain weak until more revenue from the units sold in 2015 are completed and subsequently recognised in 2016. Valuations currently appear fair when compared to peers, however, most Chinese developers are trading at a historical low P/B.
- **Dividend distribution under review by management.** Management stated that they are reviewing the possibility of instating the payment of dividends and will provide updates as they become available.

Comparison with other Chinese real estate developers

Company Name	Market Cap (RMB'mn)	P/B (x)	P/E (x)	Dividend Yield (%)	Net Gearing (%)
Yuexiu Ppty Co	16,758.2	0.5	7.0	4	79.9
Yanlord Land Grp	8,979.6	0.5	7.1	1.3	39.4
Ying Li Int'l Real Estate	2,080.8	0.47	9.9	N.A.	62.9
China YuanBang Ppty Hldgs	71.8	0.09	N.A.	N.A.	131.9
Chiwayland Int'l	129.8	0.21	N.A.	N.A.	287.1

Source: Bloomberg, Phillip Securities Research (Singapore)

Historical P/B (x) of other Chinese developers

Company Name	2008	2009	2010	2011	2012	2013	2014	Current
Yuexiu Ppty Co	0.37	1.14	1.03	0.42	0.83	0.57	0.51	0.47
Yanlord Land Grp	0.08	1.78	1.28	0.61	0.93	0.64	0.50	0.47
Ying Li Int'l Real Estate	2.14	3.07	1.93	0.95	1.29	1.21	0.59	0.51
China YuanBang Ppty Hldgs	1.34	0.77	0.65	0.75	0.37	0.72	0.60	0.09
Chiwayland Int'l	0.84	1.29	1.21	0.63	0.91	0.69	0.99	0.21

Source: Bloomberg, Phillip Securities Research (Singapore)

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