

China
Property Development

Ying Li International Real Estate
(YINGLI SP)

August 17, 2016

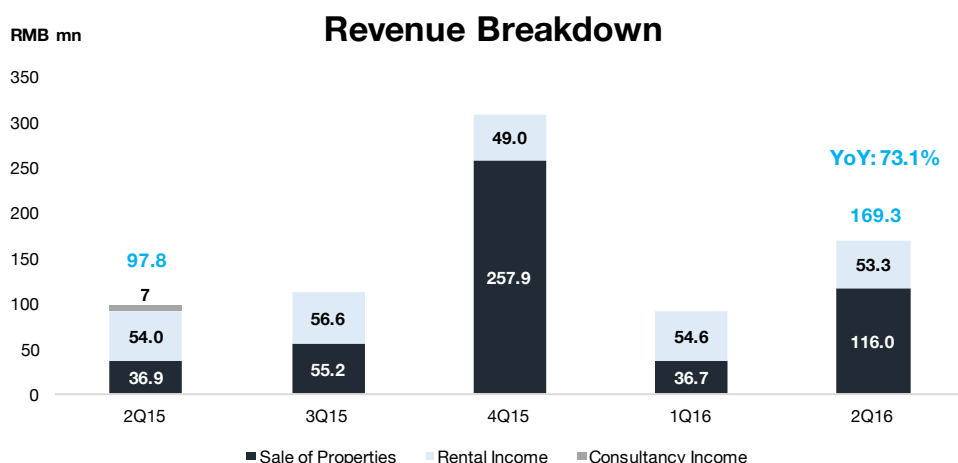
2Q16 Posts Higher Revenue but Lower Margins; Expect Rising Revenue Recognition

Ying Li reported 2Q16 revenues of RMB 169.3mn, 73.1% higher year-on-year. The increase is attributed to the Sale of Properties segment as its revenue rose to RMB 116.0mn from the continued handovers of residential units San Ya Wan's Phase 2A & 2B. On the other hand, revenue from the Rental Income segment decreased by 1.3% YoY to RMB 53.3mn as the Company provided initial rent-free periods to the new tenants at their malls & offices.

Market Cap (\$\$)	358.0m
Trailing P/E	12.6x
P/B	0.36x
Price (\$\$)	0.14
Avg. Volume (3m)	3.59m

*As of 14/08/2016

Revenue Shot up by 73.1% YoY on Sale of Properties



Ying Li 1-Year Stock Chart



<http://insyte.io>

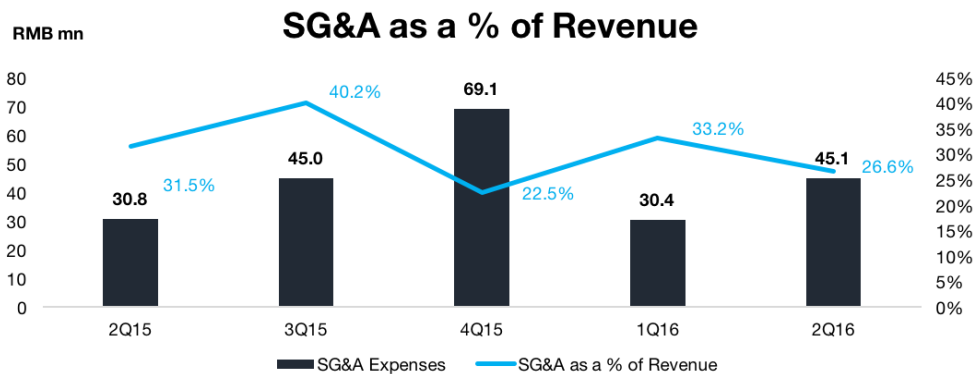
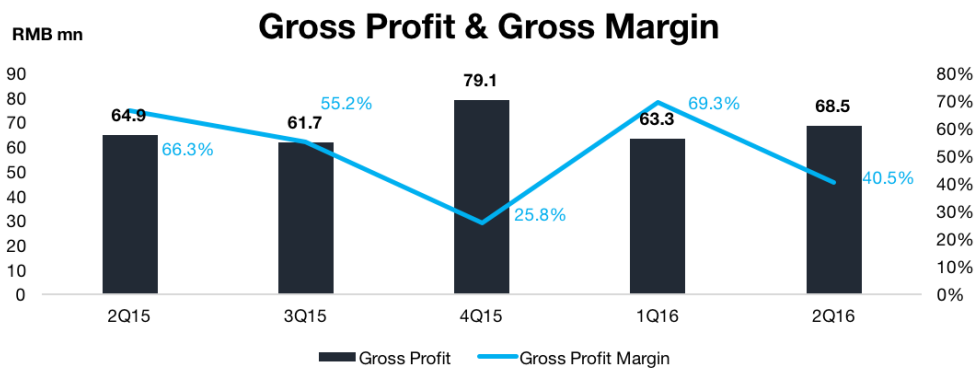
Source: Company Filings, Insyte

Despite the increase in revenue, 2Q16's gross profit only rose by 5.6% YoY to RMB 68.5mn due to lower margin residential handovers from units at San Ya Wan Phase 2A & 2B. This is in contrast with 2Q15's handovers which were mostly comprised of higher margin office units from Ying Li International Plaza.

Ying Li's quarterly SG&A expenses also went up during 2Q16 to RMB 45.1mn, 46.4% higher YoY, as the firm increased promotional activities to boost foot traffic at their malls and incurred expenses in preparation for an event launch for an upcoming project. Despite this, we note that SG&A Expense as a % of Revenue remains in-check at 26.6% - the 2nd lowest in five quarters.

Lastly, net profit attributable to shareholders, excluding translation losses, came in at RMB 5.0mn, which led a diluted EPS of RMB 0.002. This is in comparison to 2Q15's net profit of RMB 8.9mn, which led to a diluted EPS of RMB 0.003. The lower net profit this quarter is attributable to the Company's lower gross margins, higher SG&A expenses, and higher income taxes due to increased taxable profits from the Sale of Properties segment.

Gross Margins Lower on Residential Handovers as SG&A as a % of Revenue Remained In-Check at 26.6%

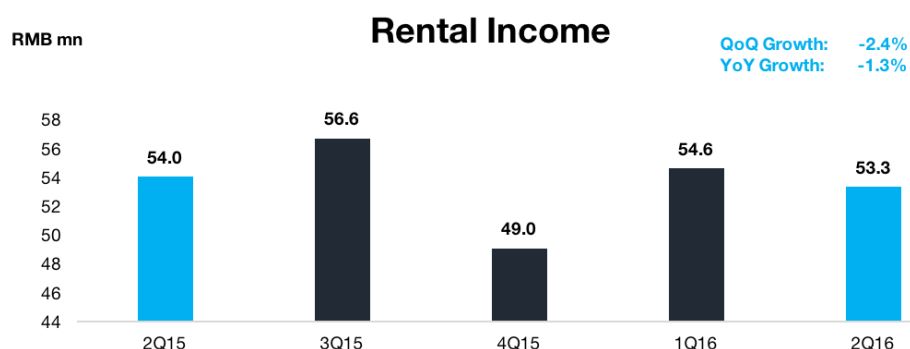


Source: Company Filings, Insyte

2Q16 posted lower rental incomes as Ying Li provided initial rent-free periods to new tenants. Ying Li's 2Q16 rental income was RMB 53.3mn – representing a 2.4% decline from 1Q16's RMB 54.6mn, and a 1.3% decrease from 2Q15's RMB 54.0mn. The decrease was caused by select tenants not renewing their leases, and initial rent-free periods provided to the Company's new tenants at their malls & offices.

According to management, the shift towards a more family-centric mall will allow them to capitalize on Chongqing's rapidly growing middle class, and will also aid the mall in becoming more resilient during the current economic slowdown. As we are seeing now, the firm is replacing some of their old tenants as they build up more entertainment zones such as their new "Snow World" indoor theme park. We expect rental incomes and occupancy levels to stabilize and then rise once this transitory period completes.

Rental Income to Stabilize Then Rise After Transition



Source: Company Filings, Insyte

2Q16 is only the beginning; expect rising revenue recognition in coming years. Importantly, the company's revenue recognition is expected to rise substantially going forward as more project handovers commence in 2016, and then continue in 2017 as shown by our estimated handover timeline below.

Revenue Recognition Should Rise in 2016 & 2017 As Handovers Commence

	1Q16	2Q16	3Q16	4Q16	2017
Future Beijing Phase 1 (SOHO Block)	Presale	Presale	Presale	Presale	Handover
San Ya Wan Phase 2A	Handover	Handover	Handover	Handover	-
San Ya Wan Phase 2B	Presale	Handover	Handover	Handover	-
San Ya Wan Phase 2C	Presale	Presale	Handover	Handover	Handover
San Ya Wan Phase 2D	-	-	-	Presale	Handover
IEC Phase 1A	Presale	Presale	Presale	Handover	Handover
IEC Phase 1B*	-	-	-	-	Presale
IEC Phase 2	-	-	-	Presale	Handover
IEC Phase 3*	-	-	-	-	Presale
ICC Phase 1	-	-	Presale	Presale	Handover
ICC Phase 2*	-	-	-	-	Presale

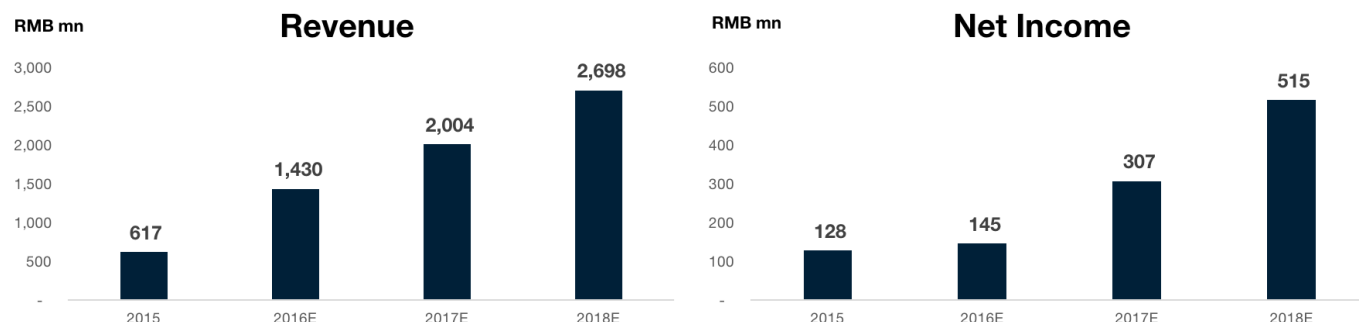
*Tentative presale targets

Source: Insyte Estimates

Should handovers progress as per the timetable above then both revenue and net income should rise substantially through 2017. Assuming the above timetable for handovers, as well as a 30% blended gross margin for the company, then revenue has the potential to rise by more than 324% from 2015 to 2017. Net income has the potential to rise by more than 240% from 2015 to 2017. This scenario is shown in the charts below.

Hence Ying Li's recently reported numbers are not fully reflective of the project portfolio underway given the required accounting treatment Ying Li must use for booking income from these projects.

Revenue & NPAT Should Rise Substantially as Projects Handover



Source: Insyte Estimates

Ying Li International Financials 2Q16

RESULTS SUMMARY (RMB mn)	2Q15	3Q15	4Q15	1Q16	2Q16	YoY	2015	2H16 as % of 2015
Total Revenue	97.8	111.9	306.9	91.3	169.3	73%	607.9	43%
COGS	(32.9)	(50.2)	(227.8)	(28.0)	(100.8)	206%	(338.9)	38%
Gross Profit (overall)	64.9	61.7	79.1	63.3	68.5	6%	269.0	49%
SG&A	(30.8)	(45.0)	(69.1)	(30.4)	(45.1)	46%	(175.3)	43%
Other Operating Income (Expense)	6.3	16.2	175.7	13.9	16.3	160%	212.0	14%
EBIT	40.3	32.9	185.7	46.8	39.7	-2%	305.8	28%
Depreciation & Amortization (Add back)	0.8	1.8	4.4	1.9	1.6	99%	8.9	39%
EBITDA	41.3	33.9	190.2	48.7	41.32	0%	314.1	29%
Interest Expense	(27.8)	(29.6)	(22.9)	(21.5)	(25.3)	-9%	(101.8)	
Interest Income	0.0	0.0	0.0	0.0	0.0	NA	0.0	
Net Financial Income (Expense)	(27.8)	(29.6)	(22.9)	(21.5)	(25.3)	-9%	(101.8)	46%
Foreign Exchange Gains (Loss)	0.0	0.0	0.0	0.0	0.0	NA	0.0	NA
Other Non-Operating Income (Expense)	0.0	0.0	0.0	0.0	0.0	NA	0.0	NA
Earnings From Associates	0.0	0.0	0.0	0.0	0.0	NA	0.0	NA
Profit Before Income Tax & Extraordinary Items	12.5	3.3	162.9	25.3	14.4	15%	203.9	19%
Income Tax	(4.0)	(0.9)	(42.8)	(6.3)	(6.1)	54%	(53.9)	23%
Post-Tax Extraordinary Items & One Offs	2.5	7.4	(5.4)	(20.1)	(17.8)	-817%	(15.5)	244%
Net Profit	11.0	9.8	114.8	(1.1)	(9.5)	-186%	134.5	-8%
Minority Interest	0.3	0.5	(3.8)	(2.1)	(3.3)	NA	(5.1)	107%
Net Profit Available to Shareholders	11.4	10.3	111.0	(3.3)	(12.8)	-212%	129.4	-12%
Net Income Ex-Extraordinary Available to Shareholders	8.9	2.9	116.3	16.8	5.0	-44%	144.9	15%
Average Shares Outstanding	2,557	2,557	2,557	2,557	2,557	0%	2,557	
Average Shares Outstanding, Fully Diluted	3,201	3,201	3,151	2,557	2,557	-20%	2,557	
EPS - Weighted Average (Adjusted for Splits)	0.0033	0.0009	0.0434	(0.0013)	0.0020	NA	0.0464	2%
EPS - Fully Diluted & Weighted Average (Adjusted for Splits)	0.0027	(0.0000)	0.0352	(0.0013)	0.0020	NA	0.0366	2%
MARGINS SUMMARY	2Q15	3Q15	4Q15	1Q16	2Q16			
Gross Margin	66%	55%	26%	69%	40%			
EBIT Margin	41%	29%	61%	51%	23%			
EBITDA Margin	42%	30%	62%	53%	24%			
Net Profit Margin	12%	9%	36%	-4%	-8%			
BALANCE SHEET HIGHLIGHTS	2Q15	3Q15	4Q15	1Q16	2Q16			
Cash & Marketable Securities	1.31	1.37	1.32	1.06	0.82			
Short Term Debt	(2.16)	(2.58)	(2.82)	(2.46)	(2.06)			
Long Term Debt	(2.30)	(2.27)	(2.26)	(2.28)	(2.73)			
Net Cash (Debt) Position	(3.15)	(3.49)	(3.76)	(3.67)	(3.97)			

Source: Company Filings, Insyte

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