nra capital

Ying Li International Real Estate Ltd

3Q15 results update
20 November 2015

Overweight

Current Price	**S$0.18**
Fair Value	S$0.550
Up / (downside)	205.6%

Stock Statistics

Market cap	S$457.7
52-low	S$0.119
52-high	S$0.285
Avg daily vol	3,368,920
No of share (m)	2,557.04
Free float	35.4%

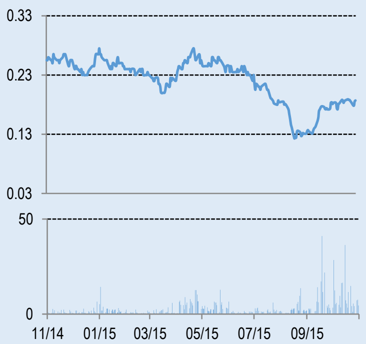
Key Indicators

ROE 17F	7.07%
ROA 17F	3.97%
P/BK	0.41
Net gearing	0.7x

Major Shareholders

Fang Ming	35.99%
China Everbright	14.90%
Zana Capital	10.44%

Historical Chart



Source: Bloomberg

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All Roads lead to Chongqing

- **New G2G project between Singapore and Chongqing puts focus on Ying Li.** In early November, the President of China, Xi Jinping, announced a pact to launch a third government-to-government project in Singapore and Chongqing. We believe that Ying Li (YL) stands to benefit from this arrangement, as such projects may potentially attract new businesses, e.g. legal firms, consultancies and investors, and raise demand for real estate, especially commercial and residential properties for third party developers like YL. At this moment there are few details on the government-to-government partnership, so we are unable to quantify the extent to which Chongqing can benefit from this project.

- **Mall repositioning continues to bear fruit.** The mall rebranding exercises have started to generate benefits for YL. 2Q15 rental revenue was revised from RMB61m to RMB54m due to the reclassification of about RMB7m to consultancy income. Nonetheless, rental revenue still increased qoq to RMB57m. The increase in rental income is in line with the expected rebalancing of the retail mall at YL IMIX Park Daping (YLIPD), with more growth to be expected as retail space gets taken up over FY16. The management has indicated that new shops have been signed on at better terms than what YL could have gotten on their own, likely due to the influence China Everbright Limited (CEL) has over retailers on their mall management side.

- **Immediate concerns are manageable, maintain Overweight.** 3Q15 revenue of RMB111.9m is 57.1% lower than 3Q14 because of lower revenue from sales of development properties. This is unsurprising given that the remaining development properties YL has available for sale are office units at YL International Plaza. 3Q15 net profit margin fell to 2.2% compared with 4.2% in 3Q14, mainly due to higher selling expenses in 3Q15 due to marketing costs associated with projects that are in the sales phase, such as San Ya Wan Phase 2 and IEC. Revenue will be recognized later during handover. YL's net gearing rose to 69.9% due to new financing requirements to service working capital obligations. This is in line with our expectation that FY15 would be a down year compared to the swathe of new projects being completed from FY16 onwards. We maintain our full year expectations and our fair value estimate of S$0.555.

- **Excess office space supply to moderate.** Surplus office space in Chongqing has caused net vacancies to remain at 39.6% a decrease of 0.5% points quarter on quarter. Office absorption rate decreased by 30.8%, while new office supply decreased by 44.5%. This seems to confirm our observation made in our initiating report whereby we posited that the pace of office construction seems to be slowing, and we should see office absorption rates begin to outpace new office supply.

- **Patience means profit.** We are not surprised by the muted performance of YL for 3Q15. The gradual increase in rental income is in line with our expectation that existing tenants are being gradually replaced as leases expire, with longer term benefits to accrue as stated above. The main thing to note is that the revenue for YL will come from the handing over of their projects in 2016 onwards, beginning with IEC Phase 1A and San Ya Wan Phase 2 (SYWP2). From then on, the phased completion of YL projects will allow revenue to be registered on a less lumpy scale and provide a smoother revenue profile. Pre-sales figures to be released by YL over 4Q15 and 1Q16 for SYWP2C, ICC Phase 1 and IEC Phase 1A will be the leading indicators by which we can project the future revenue for YL.

Key Financial Data (RMBm, FYE Dec)	**2013**	**2014**	**2015F**	**2016F**	**2017F**
Sales	638.8	1,030.5	797.9	1,426.7	2,374.2
Gross Profit	251.3	478.0	359.3	454.2	746.6
Net Profit	205.7	254.0	118.2	157.4	388.7
EPS (RMB, cents)	9.5	11.1	4.6	6.1	15.0
EPS growth (%)	(45.6)	17.2	(58.5)	32.6	145.8
PER (x)	9.1	7.8	18.7	14.1	5.7
NTA/share (RMB, cents)	156.6	195.6	199.6	205.2	219.6

Source: Company, NRA Capital forecasts

Journey to the West: China-Singapore Government-to-Government Project in Chongqing

The announcement of Chongqing as the location of the next government-to-government collaborative effort between Singapore and China is formally known as the 'China-Singapore (Chongqing) Demonstration Initiative on Strategic Connectivity'. We find the following points salient and worthy of further consideration.

- **Project focus.** The stated focus will be on financial services, aviation, transport and logistics, and information and communications technology, high value industries that have a large number of white collar professionals and engineers in the employee mix.

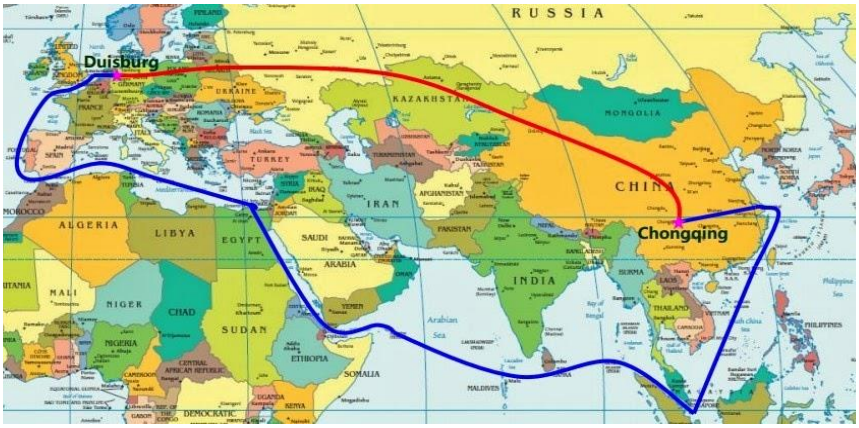
- **Riding the Chongqing wave.** Chongqing comes across as a natural springboard for the development of inland and western China due to its various advantages.

    1) The continuing development of a land transportation network between Europe and Asia that started with the Yu'Xin'Ou (渝新欧) Railway in Chongqing and is being expanded upon, through the Maritime Silk Road initiative that will draw more resources into China.

    2) The Chinese central government's plan to develop inland China as a means of diverting economic concentration away from the overcrowded coastal cities.

    3) The natural exploitation of Chongqing's geographical and economic advantages, namely its access to deepwater river transportation and role as a hub for development of Western China.

One Belt One Road



Source: Internet website

- **Leader waiting in the wings.** An interesting point of note is that Sun Zhengcai, the Chongqing Party chief, has been touted as one of the leading candidates for the next leadership of China. Grounds for this speculation are primarily from the fact that Sun Zhengcai is one of the two Politburo Standing Committee members named at the 18th Party Congress in 2012 who were born after 1960, with the other being Hu Chunhua of Guangdong. While the development of Chongqing and the rise of Sun Zhengcai may be independent variables, we posit that having Chongqing as a success story is in the interest of any member of the Politburo. Tacit support by multiple levels of Chinese government will certainly be a great boon in improving the performance of Chongqing.

The lack of details on what exactly will happen in Chongqing as a result of the joint partnership between Singapore and China makes it difficult to predict how YL is anticipated to directly benefit from the current arrangement. Nevertheless, we find it reasonable to anticipate the following:

- **Special project opportunities.** The Chongqing government has been active in using regulatory changes to guide the development of industry and property. Special parks such as the IEC are indicative of the opportunities that can be unlocked as a result of changes in government policy. We view YL as being well placed to take advantage of new opportunities as they come up.

- **Faster take-up of office spaces.** The increase in new businesses in Chongqing will accelerate the take-up of slack office capacity, as well as enhance the value of scarce office space in the core Jiefangbei area. Given that YL ICC is one of the few developments with office space coming up in Jiefangbei before 2020, we find YL to be well positioned to take advantage of this.

- **Accelerated economic development.** The specifics of the investment are thus far unknown, but we find it reasonable for economic growth to accelerate in Chongqing. The focus on Chongqing will increasingly attract migrants to the region, boosting demand for residential property and retail offerings.

Results comparison

FYE Dec (RMB m)	3Q15	3Q14	yoy %	2Q15	qoq %	prev	Comments
Revenue	111.9	260.7	*(57)*	97.8	*14*	107.7	In line
Operating costs	(94.4)	(208.0)	*(55)*	(62.6)	*51*	(71.9)	Higher than expected due to higher selling costs
EBITDA	17.5	52.7	*(67)*	35.2	*(50)*	35.8	Lower than expected due to higher selling costs
EBITDA margin (%)	*15.6*	*20.2*		*36.0*		*33.2*	
Depn & amort.	1.9	1.2	*59*	0.9	*108*	1.9	In line
EBIT	19.4	53.9	*(64)*	36.2	*(46)*	37.7	Lower than expected due to higher selling costs
Interest expense	(29.6)	(27.3)	*9*	(27.8)	*6*	(29.1)	In line
Interest & invt inc	13.5	1.9	*623*	4.2	*224*	4.2	Higher than expected due to higher cash balances
Associates' contrib	0.0	0.0	*0*	0.0	*0*	0.0	
Exceptionals	0.0	0.0	*nm*	0.0	*nm*	0.0	
Pretax profit	3.3	28.5	*(88)*	12.5	*(74)*	12.8	Lower than expected due to higher selling costs
Tax	(0.9)	(17.7)	*(95)*	(4.0)	*(78)*	(0.9)	
Tax rate (%)	26.9	62.0		31.7		6.9	
Minority interests	(0.5)	(0.2)	*139*	(0.3)	*53*	(0.5)	
Net profit	**1.9**	**10.6**	*(82)*	**8.2**	*(77)*	**11.4**	Lower than expected due to higher selling costs

Source: NRA Capital estimates

Ying Li International Real Estate

Profit & Loss (RMB m, FYE Dec)	2013	2014	2015F	2016F	2017F	2018F	2019F
Revenue	638.8	1,030.5	797.9	1,426.7	2,374.2	2,964.9	3,102.4
Operating expenses	(477.6)	(692.4)	(576.0)	(1,144.1)	(1,930.2)	(2,371.0)	(2,470.9)
EBITDA	161.3	338.1	221.9	282.6	444.0	594.0	631.5
Depreciation & amortisation	(7.4)	(4.9)	(4.5)	(3.9)	(4.1)	(4.1)	(4.2)
EBIT	153.8	333.2	217.4	278.7	439.9	589.8	627.3
Net interest & invt income	158.6	22.9	(51.3)	(57.0)	98.7	226.4	209.4
Associates' contribution	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional items	(20.2)	0.0	0.0	0.0	0.0	0.0	0.0
Pretax profit	**292.3**	**356.0**	**166.1**	**221.7**	**538.5**	**816.2**	**836.7**
Tax	(87.1)	(102.4)	(44.9)	(59.9)	(145.4)	(220.4)	(225.9)
Minority interests	0.5	0.4	(3.1)	(4.4)	(4.4)	(3.7)	(1.3)
Net profit	**205.7**	**254.0**	**118.2**	**157.4**	**388.7**	**592.1**	**609.5**
Shares at year-end (m)	2,169.0	2,557.0	2,569.2	2,581.4	2,593.5	3,210.5	3,222.6

Balance Sheet (RMB m, as at Dec)	2013	2014	2015F	2016F	2017F	2018F	2019F
Fixed assets	8.7	60.1	58.1	62.2	62.0	62.9	61.7
Investments	3,837.7	4,468.5	4,566.9	4,606.9	5,828.7	6,012.6	6,067.1
Other long-term assets	15.2	26.9	26.9	26.9	26.9	26.9	26.9
Total non-current assets	**3,861.6**	**4,555.4**	**4,651.8**	**4,696.0**	**5,917.6**	**6,102.4**	**6,155.8**
Cash and equivalents	727.1	965.1	1,079.9	1,267.2	988.9	949.0	2,140.3
Development properties	3,241.9	3,701.9	3,794.5	3,358.0	2,226.7	1,792.7	1,279.1
Trade debtors	177.2	319.1	262.3	469.1	780.5	974.8	1,020.0
Other current assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total current assets	**4,146.3**	**4,986.1**	**5,136.8**	**5,094.3**	**3,996.2**	**3,716.5**	**4,439.4**
Trade creditors	1,107.1	541.4	420.6	932.5	1,560.6	1,905.7	1,985.4
Short-term borrowings	1,988.5	1,715.8	1,517.0	1,071.7	691.4	254.7	279.5
Other current liabilities	95.6	160.8	160.8	160.8	160.8	160.8	160.8
Total current liabilities	**3,191.2**	**2,418.0**	**2,098.4**	**2,165.0**	**2,412.8**	**2,321.2**	**2,425.7**
Long-term borrowings	814.4	1,428.7	1,854.1	1,607.5	1,037.1	382.0	419.3
Other long-term liabilities	550.5	639.7	649.6	659.6	702.5	748.5	762.2
Total long-term liabilities	**1,364.9**	**2,068.4**	**2,503.7**	**2,267.1**	**1,739.6**	**1,130.6**	**1,181.4**
Shareholders' funds	**3,396.8**	**5,000.6**	**5,128.8**	**5,296.2**	**5,694.9**	**6,297.0**	**6,916.4**
Minority interests	55.0	54.6	57.7	62.1	66.5	70.2	71.6
NTA/share (RMB)	1.57	1.96	2.00	2.05	2.20	1.96	2.15
Total Assets	**8,007.9**	**9,541.5**	**9,788.6**	**9,790.3**	**9,913.8**	**9,819.0**	**10,595.2**
Total Liabilities + S'holders' funds	**8,007.9**	**9,541.5**	**9,788.6**	**9,790.3**	**9,913.8**	**9,819.0**	**10,595.2**

Cash Flow (RMB m, FYE Dec)	2013	2014	2015F	2016F	2017F	2018F	2019F
Pretax profit	292.3	356.0	166.1	221.7	538.5	816.2	836.7
Depreciation & non-cash adjustments	(128.8)	(38.9)	(25.2)	(26.2)	(157.6)	(169.8)	(40.3)
Working capital changes	(316.1)	(1,172.4)	(156.9)	741.6	398.0	584.8	548.1
Cash tax paid	(121.4)	(73.4)	(34.9)	(49.8)	(102.5)	(174.4)	(212.3)
Cash flow from operations	**(274.0)**	**(928.6)**	**(50.9)**	**887.3**	**676.4**	**1,056.8**	**1,132.2**
Capex	(1.5)	(20.8)	(2.0)	(8.0)	(4.0)	(5.0)	(3.0)
Net investments & sale of FA	2.0	(492.2)	(59.0)	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow from investing	**0.5**	**(513.0)**	**(61.0)**	**(8.0)**	**(4.0)**	**(5.0)**	**(3.0)**
Debt raised/(repaid)	280.6	341.7	226.7	(692.0)	(950.7)	(1,091.7)	62.1
Equity raised/(repaid)	0.0	1,360.6	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	(38.9)	(22.6)	0.0	0.0	0.0	0.0	0.0
Cash flow from financing	**241.7**	**1,679.6**	**226.7**	**(692.0)**	**(950.7)**	**(1,091.7)**	**62.1**
Change in cash	**(31.8)**	**238.0**	**114.8**	**187.2**	**(278.3)**	**(39.9)**	**1,191.3**
Change in net cash/(debt)	**(312.5)**	**(103.7)**	**(111.9)**	**879.3**	**672.4**	**1,051.8**	**1,129.2**
Ending net cash/(debt)	**(2,075.7)**	**(2,179.4)**	**(2,291.2)**	**(1,412.0)**	**(739.5)**	**312.3**	**1,441.5**

KEY RATIOS (FYE Dec)	2013	2014	2015F	2016F	2017F	2018F	2019F
Revenue growth (%)	9.2	61.3	(22.6)	78.8	66.4	24.9	4.6
EBITDA growth (%)	5.8	109.7	(34.4)	27.3	57.1	33.8	6.3
Pretax margins (%)	45.8	34.6	20.8	15.5	22.7	27.5	27.0
Net profit margins (%)	32.2	24.7	14.8	11.0	16.4	20.0	19.6
Effective tax rates (%)	29.8	28.8	27.0	27.0	27.0	27.0	27.0
Net dividend payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ROE (%)	6.3	6.0	2.3	3.0	7.1	9.9	9.2
Free cash flow yield (%)	(12.5)	(66.0)	(5.1)	40.2	30.8	48.1	51.7

Source: Company, NRA Capital forecasts

Ying Li International Real Estate

Ying Li's projects and NRA's RNAV

Project	Description	ASP est. (RMB/sqm)	Est. GFA for sale (sqm)	GDV (RMB m)	Est Project margin***	NDV (RMB m)
San Ya Wan Phase 2	Residential/retail	5,500	275,000	1,512.5	7.5%	113.4
Ying Li International Hardware and Electrical Centre	Commercial	3,500	1,300,000	4,550.0	5.4%	247.4
Ying Li International Commercial Centre*	Office/SOHO	21,000	133,333	2,800.0	7.5%	210.0
Ying Li International Plaza	Office	12,000	78,695	944.3	8.7%	81.7
Future Beijing, Beijing Tongzhou**	Office/residential	27,000	90,000	2,430.0	15.0%	364.5
Total NDV						**1,017.1**
Present value	Discount	25.1%	****			**761.4**
+ PV of investment properties	See table below					3,989.7
+ PV of Future Beijing, Beijing Tongzhou mall						244.4
- book value of investment properties						-3,968.6
-book value of Future Beijing investment, AFS securities						
+Book value of equity						4,955.3
Net valuation						**6,440.3**
Shares outstanding						2,557.0
Fair value (RMB)						2.519
RMB SGD rate						4.570
Value per share (S$)					**0.551**	**≈ 0.55**

*1/3 of overall GFA of 300,000 sqm allocated to mall and carparks, excluded from above development GFA

**1/4 of overall GFA of 750,000 sqm allocated to mall and carparks, excluded from above development GFA.

** remaining GFA x 15% to account for YL's proportionate stake in this project

***Project margin = gross margin - 15% of rev as operating expenses * (1- tax rate of 25%)

****Discount based on cost of capital of 7.95%

Source: NRA Capital

Est. revenue recognition schedule

Percentage sold per year	2H 2015	2016	2017	2018	2019	2020
San Ya Wan Phase 2	18%	26%	26%	22%	8%	
Ying Li International Hardware and Electrical Centre		15%	25%	30%	30%	
Ying Li International Commercial Centre			15%	30%	40%	15%
Future Beijing, Beijing Tongzhou				20%	40%	40%
Ying Li International Plaza	23%	10.0%	10.0%	5.0%	10.0%	

*YLIP is already partially sold. Development revenue = percentage sold x GFA above x ASP above

** BJTZ revenue is not consolidated with that of YL. We assume net profit from BJTZ as other income.

Source: NRA Capital

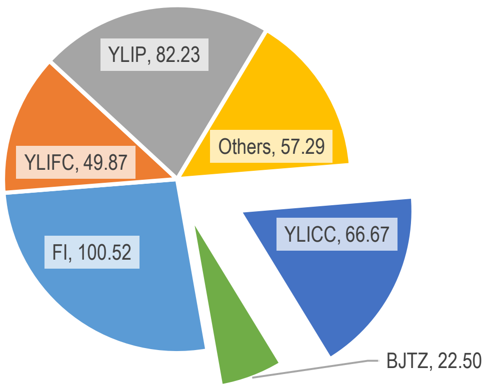
Ying Li International Real Estate

PV of investment properties

Investment property	2014	2015F	2016F	2017F	2018F	2019F	Terminal
Portfolio GFA ('000 sqm)	289.9	289.9	289.9	356.57	356.57	356.57	356.57
Occupancy	81.9%	92.6%	97.0%	92.0%	96.5%	98.0%	98.0%
Leased GFA (sqm)	237.42	268.35	281.20	327.87	344.26	349.44	349.44
Average rental (RMB, 000)	0.75	0.83	0.91	1.00	1.10	1.16	1.18
Rate of rental increase		10%	10%	10%	10%	5%	2%
Total revenue (RMB, m)	179.0	222.5	256.5	329.0	380.0	405.0	413.1
Gross margin	86.0%	86.0%	86.0%	86.0%	86.0%	86.0%	86.0%
Net rental income	153.8	191.3	220.5	282.8	326.6	348.1	355.1
Tax rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
After tax rental income	115.4	143.5	165.4	212.1	245.0	261.1	266.3
						Terminal	4458.6
Discount [(1+r)^years]		1.04	1.12	1.21	1.31	1.41	1.41
PV		138.1	147.4	175.1	187.3	184.9	3157.1
PV of investment properties	**3989.7**	→ Feeds back to RNAV table above					

*Assumes addition of ICC mall in 2017, Cost of capital r = 9.49%
** The valuation of the BJTZ mall is done using similar approach, with first year contribution in 2018 up to terminal growth after 2020.
Source: NRA Capital

GFA assumptions of investment properties ('000 sqm)



* The YLICC and BJTZ mall GFA are based on NRA estimates
**YLIP+YLIFC+FI+Others =289,900 sqm
***Others pertain to other investment properties owned by YL
Source: NRA Capital