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Ying Li International Real Estate Ltd

3Q16 results update
30 November 2016

Overweight

Current Price	**S$0.152**
Fair Value	S$0.375
Up / (downside)	146.7%

Stock Statistics

Market cap	S$388.7m
52-low	S$0.126
52-high	S$0.182
Avg daily vol	6,162,587
No of share	2557.0m
Free float	41%

Key Indicators

ROE 17F	3.9%
ROA 17F	2.0%
P/BK	0.38
Net gearing	0.86x

Major Shareholders

Fang Ming	36.0%
China Everbright	14.9%
Leap Forward	8.0%

Historical Chart

Source: Bloomberg

Liu Jinshu

(+65) 6236-6887
jinshu.liu@nracapital.com
www.nracapital.com

Still Deeply Undervalued

- **Waiting for est. RMB1.8 billion of pre-sales to be recognized.** Ying Li reported revenue of RMB251m in 3Q16 (RMB511.6m for 9M16 or 37% of our previous FY16 forecast). We estimate that Ying Li has about RMB1.8 billion of attributable pre-sales that will help to raise future profits. However, we revised FY16 revenue downwards to RMB1.03 billion, as the handover of units at the Ying Li International Hardware and Electrical Centre (IEC) may stretch across 4Q16 to FY17. According to unverified media reports, Ying Li has pre-sold about RMB1.3 billion of units at the IEC, of which we expect >RMB400m to be recognized in 4Q16.
- **Uneven gross margins at San Ya Wan Phase 2 (SYWP2) dragged on 3Q profitability.** The key issue in Ying Li's 3Q16 results was that it made gross margin of only 8.4% from the sale of properties. The variance is due to the different gross margins of the high-rise units, low-rise townhouses and retail shops at SYWP2. Since 4Q15, the bulk of property sale revenue was derived from SYWP2. Given the gross margin of 15.5% from the sale of properties during 4Q15 to 3Q16, we reduced the estimated gross margin for San Ya Wan Phase 2 from 25% to 15%. We also reduced the estimated gross margin of IEC to 15% in this update to be conservative. That said, pre-sales and sales at San Ya Wan Phase 2 was faster than expected in 9M16.
- **Accounting treatment of VAT reduced rental revenue.** While rental revenue fell by 7% from 2Q, retail occupancy rose from 88.6% to 93.0% at the end of 3Q. Office occupancy remained flat at 89.4%. The variance is mainly due to the conversion of business tax to VAT, where Ying Li will collect VAT from its tenants on behalf of the government. Whereas business tax was included in revenue and deducted as a cost of sales, VAT is not recorded as part of revenue. Hence, revenue fell but gross margin improved. That said, rental income growth was still slightly lower than expected and we have adjusted our forecasts to expect a slight drop in revenue in 2016.
- **Maintaining our high conviction Overweight rating.** As a result of the downwards revision to our forecasts, our valuation has been lowered to S$0.377 (rounded to S$0.375) or 59% discount from an **RNAV of S$0.921**. However, we maintain our high conviction over Ying Li and keep our rating at **Overweight (high return / low risk)**. Under an alternate zero-growth scenario, Ying Li's investment properties portfolio is still valued at S$0.126, meaning that only S$0.026 per share or S$66.1m of its development properties has been factored into its share price. Our model indicates that Ying Li's development properties have an after-discount net development value of about S$324m. Therefore, many of the risks associated with the China property market have already been factored into Ying Li's share price. Foreseeable catalysts include positive 4Q16 results. Longer term, Ying Li has multiple options to monetise its assets, e.g. sale of properties, etc.

Key Financial Data

(RMB m, FYE Dec)	2014	2015	2016F	2017F	2018F
Sales	1,030.5	616.8	1,029.7	1,075.9	2,112.5
Gross Profit	478.0	260.9	307.1	350.0	707.9
Net Profit	255.8	126.2	130.3	202.7	497.3
EPS (RMB, cents)	11.2	4.9	5.1	7.9	17.4
EPS growth (%)	18.6	(55.9)	3.2	55.6	119.4
PER (x)	6.6	14.9	14.4	9.3	4.2
NTA/share (RMB, cents)	195.6	196.5	201.6	209.6	185.2
DPS (RMB, cents)	0.0	0.0	0.0	0.0	0.0
Div Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company, NRA Capital forecasts

Figure 1: Results Review

	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	Remarks
Sale of properties	49.14	36.86	55.21	257.89	36.73	115.99	201.63	Mainly from the handover of San Ya Wan Phase 2 units from 4Q15 onwards. The handover of retail and residential units
Gross profit	11.05	13.18	15.23	38.34	17.38	22.31	16.98	can lead to margin differences. Margin was substantially lower in 3Q16 due to the handover of high-rise units as opposed to
Gross margin	22.5%	35.8%	27.6%	14.9%	47.3%	19.2%	8.4%	the mainly low rise townhouse units that make up San Ya Wan Phase 2. 4Q16 revenue to be largely derived from the handover of units at new project IEC.
Rental income	51.09	54.00	56.64	49.04	54.58	53.30	49.39	
Gross profit	44.12	44.76	46.47	40.80	45.92	46.23	43.30	
Gross margin	86.4%	82.9%	82.0%	83.2%	84.1%	86.7%	87.7%	
Revenue	100.23	97.82	111.85	306.93	91.32	169.29	251.02	
Gross profit	55.17	64.90	61.69	79.15	63.30	68.54	60.28	
Operating expenses	-32.52	-25.18	-28.80	-53.28	-16.50	-28.81	-37.70	Higher quarter-on-quarter due to marketing activities for ICC
Operating profit	22.65	39.72	32.90	25.87	46.80	39.72	22.58	
Fair value gains	0.00	0.00	0.00	159.87	0.00	0.00	0.00	
EBIT	22.65	39.72	32.90	185.74	46.80	39.72	22.58	
Finance costs	-22.02	-25.31	-29.61	-22.86	-21.54	-25.31	-24.27	
PBT	0.63	14.41	3.29	162.88	25.25	14.41	-1.69	
Tax	-1.64	-3.97	-0.89	-42.75	-6.34	-6.11	-0.59	
PATMI	-0.46	8.88	2.92	116.32	16.79	5.00	0.01	

Source: NRA Capital, Company

Phase 1 of IEC to raise profitability in 4Q16. While Ying Li's barely broke even in 3Q16, we reiterate that the bulk of 2016 profits and revenue will likely come in 4Q16 when the company hands over completed units at IEC. In our updated forecasts, we expect Ying Li to make RMB475m of revenue from the sale of properties in 4Q16. On a full year basis, we project revenue and PATMI of RMB1,030m and RMB130.3m respectively, including an estimated RMB139m of fair value gains arising from the revaluation of Ying Li's existing investments, including its 15.1% stake in Future Beijing (see workings in subsequent Figures).

Left with last sub-phase of SYWP2. SYWP2A, 2B and 2C are 93.6%, 78.8% and 65.2% sold respectively. Pre-sales and sales recognized amount to about RMB710m as of 3Q16, of which about RMB100m to RMB150m will be recognized as revenue in the future. All in, we expect another RMB500m of revenue from SYWP2 over the next two years.

SYWP2 gross margin was reduced by previously recognized fair value gains. SYWP2's gross margin appears to be about 15% based on the gross margin of sales of properties from 4Q15 to 3Q16. SYWP2 was developed on land that was classified as investment properties and carried at fair value in 2010 and 2011. In 2012, the land was reclassified as development properties.

In 2010, RMB108.6m of land was reclassified as investment properties. Subsequently, RMB295.3m of land was reclassified as development properties. The difference implies that RMB186.7m of gains from SYWP2 have been previously recognized. If Ying Li had carried the SYWP2 land at cost all along, the RMB186.7m in gains will be recognized today and lead to a higher gross margin of 32% (15% estimated gross margin + previously recognized fair value gains of RMB186.7m divided by estimated GDV of RMB 1.13billion).

Figure 2: Balance Sheet Summary

RMB m	30-Sep-16	RMB m	30-Sep-16
Investment properties	4,388.6	Trade payables	711.7
Investment in Future Beijing	602.0	Advance payment from customers	509.2
Other non-current assets	83.5	Other current liabilities	341.0
Total non-current assets	**5,074.1**	**Total non-debt current liabilites**	**1,561.8**
Development properties	5,240.8	**Total non-debt non-current liabilities**	**518.9**
Trade receivables	136.8	Current borrowings	2,097.0
Deposit for land acquisition/tender	495.1	Non-current borrowings	2,674.4
Other receivables	392.8	Cash	521.3
Total non-cash current assets	**6,265.5**	**Net debt**	**4,250.2**

Ying Li has been relying on working capital to fund operations, including deposits for future projects.

Source: NRA Capital, Company

To recognize some fair value gains at year end, especially from early Phases of Future Beijing which has sold well and is in advanced stages of construction.

Sale and handover at older projects, comprising of est. RMB500m of units at SYWP2, RMB425m of units at the Ying Li International Plaza (YLIP) and RMB1.3 billion of pre-sold units at new project IEC to help repay liabilities and streamline balance sheet, thus reducing discount to RNAV.

Figure 3: Summary and Status of Key Projects

Projects	Remarks
Ying Li International Plaza – Office ("YLIP")	Completed project. Slow sales have been a drag on ROI. Currently 50% to 60% sold, with some sales likely in 2016.
San Ya Wan Phase 2 ("SYWP2")	Long development cycle has dragged on ROI. Achieved RMB223m of sales in 9M16. To be substantially sold in 2017.
Ying Li International Hardware and Electrical Centre ("IEC")	Pending handover of Phase 1 units in 4Q16. Media report pre-sales of RMB1.3 billion. Completion and handover will allow investment in subsequent phases.
Ying Li International Commercial Centre ("ICC")	Launched in 3Q16. High end SOHO, office and retail development. Pending pre-sales data.
Beijing Tongzhou ("Future Beijing")	15.1% owned by Ying Li. SOHO Towers 1 and 2 are 100% and 94% sold respectively and have pre-sales of RMB1.87 billion or about RMB282m attributable to Ying Li. No revenue impact, but can recognize fair value gains year-to-year with cash proceeds from investment on completion and handover.
Summary	IEC and Future Beijing are progressing in line with expectations. The development and sales cycle of YLIP, San Ya Wan Phase 2 and ICC have dragged on for years due to the challenging property market in 2014/2015. Fortunately, sales at San Ya Wan Phase 2 have improved. Any sale or effort to monetize them will enhance value. We expect revenue recognition from these projects until 2021 (five years).

Source: Company, NRA Capital

Figure 4: Development GDV/NDV Estimates

	GFA (sqm)	Adj. GFA (sqm)	ASP (RMB /sqm)	GDV (RMB m)	Adj. GDV (RMB m)	Net Margin^^	Updated NDV (RMB m)	Previous NDV (RMB m)
YLIP - Office	78,695	39,348*	12,000	472	472	18.8%	88.53	88.53
San Ya Wan Phase 2 ("Lion City Garden")	290,000	225,040**	5,000	1,125	835^	3.8%	31.32	93.96
Ying Li IEC	1,320,000	1,280,400***	3,500	4,481	4,481	3.8%	168.05	336.11
Ying Li International Commercial Centre	297,000	230,000****	20,000	4,600	4,600	18.8%	862.50	690.00
Beijing Tongzhou	750,000	113,250*****	35,000	3,964	3,964	18.8%	743.20	743.20
				Total	14,353	13.2%	1,893.61	1,951.80

*Assume that about 50% of the Ying Li International Plaza has already been sold and recognized as revenue. **Based on 77.6% stake. ***Based on 97% stake. ****Exclude 67,000 sq. m. assumed mall component. *****Based on 15.1% stake in Tongzhou. ^Exclude RMB 290m of revenue recognized in 2015.^^ Based on gross margin of 15% to 35% less 10% of revenue as operating expenses and 25% tax rate. *Source: NRA Capital*

For SYWP2, we lowered the gross margin from 20% previously to 15%. Consequently, the net development value of this project has been revised lower by RMB67m (or 0.5 cents per share of updated RNAV of S$0.912) to RMB27.1m. We also subjectively lowered the gross margin for IEC to 15%, offset by estimated higher gross margin of 35% for ICC. We reckon that the gross margin of ICC should closer to that of Beijing Tongzhou given their positioning. The changes to IEC and ICC reduced portfolio NDV by RMB 4.44m.

Ying Li International Real Estate Ltd

Figure 5: Updated Revenue Recognition Forecasts

Percentage of GDV recognized	2016	2017	2018	2019	2020	2021	Total	Remarks
Ying Li International Plaza - Office	10%	10%	20%	20%	20%	20%	100%	Prev assume 5%/10%/25%/30%/30% in 2016/17/18/19/20. Given higher occupancy in 2016, assume faster 2016 sales with more even sales from 2017 to 2021.
San Ya Wan Phase 2 ("Lion City Garden")	40%	40%	20%	0%	0%	0%	100%	Prev assume 40%/30%/30% in 2016, 2017 and 2018. Presales in 9M16 was RMB223m from RMB487m as of 31 Dec to RMB710m on 30 Sep. Given the faster pace of sales and lower ASP, we assume full handover by 2018.
Ying Li IEC	10%	10%	15%	20%	25%	20%	100%	Prev assume 18%/22%/30%/30% in 2016/17/18/19. Given no handover in 3Q, we assume sales to 2020.
Ying Li International Commercial Centre	0%	0%	20%	30%	30%	20%	100%	Prev assume 10%/20%/30%/30%/10% from 2017-2021. Given lack of pre-sales information, decide to defer revenue to 2018.
Beijing Tongzhou	10%	15%	15%	20%	20%	20%	100%	Prev assume 20%/year from 2017 to 2021. Given pace of construction and sales in 9M16, assume progressive recognition of fair value gains from 2016 onwards.

Revenue	2016	2017	2018	2019	2020	2021	GDV	Remarks
YLIP - Office	47.2	47.2	94.4	94.4	94.4	94.4	472.2	
San Ya Wan Phase 2	334.1	334.1	167.0	0.0	0.0	0.0	835.2	
Ying Li IEC	448.1	448.1	672.2	896.3	1,120.4	896.3	4,481.4	
Ying Li ICC	0.0	0.0	920.0	1,380	1,380.0	920.0	4,600.0	Beijing's sales not recognized as revenue due to 15.1% stake only. Only fair value gains in the interim and cash proceeds on completion.
Revenue	**829.4**	**829.4**	**1,854**	**2,371**	**2,594.8**	**1,911**	**10,389**	
Beijing Tongzhou	396.4	594.6	594.6	792.8	792.8	792.8	3,963.8	

Source: NRA Capital

Figure 6: Net Profit Assumptions, Revised

Net profit	2016	2017	2018	2019	2020	2021	NDV
Ying Li International Plaza - Office	8.85	8.85	17.71	17.71	17.71	17.71	88.53
San Ya Wan Phase 2 ("Lion City Garden")	12.53	12.53	6.26	0.00	0.00	0.00	31.32
Ying Li Int. Hardware and Electrical	16.81	16.81	25.21	33.61	42.01	33.61	168.1
Ying Li International Commercial Centre	0.00	0.00	172.5	258.8	258.8	172.5	862.5
Beijing Tongzhou	74.32	111.5	111.5	148.6	148.6	148.6	743.2
Total net profit	112.5	149.7	333.2	458.7	467.1	372.5	**1894**

Summary Forecasts	2016	2017	2018	2019	2020
Property + rental revenue	1030	1076	2112	2655	2908
Gross profit	307	350	708	900	959
Gain from Beijing Tongzhou	74.3	111.5	111.5	148.6	148.6
FV gain from investment properties	0.00	0.00	131.25	131.25	0.00
Profit before tax	184.5	283.7	686.4	888.8	821.8
PBT, less FV gains and Beijing	**110.2**	**172.2**	**443.6**	**608.9**	**673.1**
Growth	466%	56.3%	158%	37.3%	10.5%

Source: NRA Capital

Anticipated operating profit growth is still very high due to completion and sale of long outstanding projects.

Total net development revised lower mainly due to San Ya Wan Phase 2.

Figure 7: Net Profit Assumptions (As of May 2016)

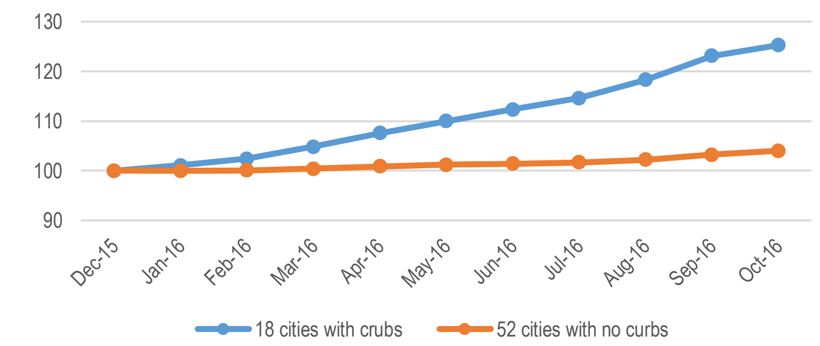
Net profit	2016	2017	2018	2019	2020	2021	NDV
Ying Li International Plaza - Office	4.43	8.85	22.13	26.56	26.56	0.00	88.53
San Ya Wan Phase 2 ("Lion City Garden")	37.58	28.19	28.19	0.00	0.00	0.00	93.96
Ying Li Int. Hardware and Electrical	60.50	73.94	100.8	100.8	0.00	0.00	336.1
Ying Li International Commercial Centre	0.00	69.00	138.0	207.0	207.0	69.00	690.0
Beijing Tongzhou	0.00	148.6	148.6	148.6	148.6	148.6	743.2
Total net profit	**102.5**	**328.6**	**437.7**	**483.0**	**382.2**	**217.6**	**1,952**

Summary Forecasts	2016	2017	2018	2019	2020
Property + rental revenue	1396	2048	2968	3235	1927
Gross profit	450	673	933	1045	807
Gain from Beijing Tongzhou	0	148.6	148.6	148.6	148.6
FV gain from investment properties	0	131.25	131.25	0	0
Profit before tax	219.3	686.7	884.5	869.3	785.7
PBT, less FV gains and Beijing	**219.3**	**406.8**	**604.6**	**720.7**	**637.1**
Growth	1026%	85.5%	48.6%	19.2%	-11.6%

Source: NRA Capital

Curbs were only implemented at selected cities. During the end of September and the first two weeks of October, at least 22 Chinese cities have imposed property purchase curbs.[1] We obtained the prices indices of newly constructed residential buildings for 18 of the 22 cities as published by National Bureau of Statistics of China (NBS) and found that prices at these 18 cities grew at an average rate of 23.4% during 9M16. In contrast, prices in the remaining 52 of 70 major cities tracked by the NBS rose at an average rate of 3.2% during the same period. In five cities, prices were lower than in December last year. The contrasting situation illustrates why curbs were resumed only at certain cities.

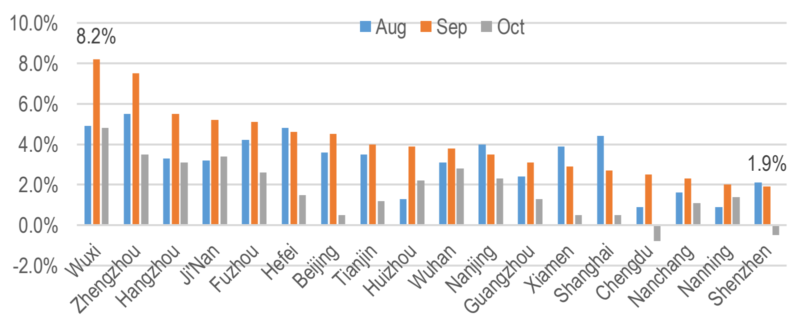
Figure 8: Average Indexed Change in Price Indices of Newly Constructed Residential Properties (December 2015=100)



Source: www.stats.gov.cn, NRA Capital

Stable prices in Oct imply less pressure for other cities to follow suit. The good news is that property price inflation has moderated at the affected cities with prices growing by 1.7% on average during October for the 18 cities. Prices also moderated in the remaining 52 cities, growing by 0.8% in October. In Chongqing, prices grew by 0.6% in October, following growth of 1% in September. Rhetoric from officials also point out that the curbs have had an impact on prices. [2]

Figure 9: Change in Price Indices of Newly Constructed Residential Properties, Month-on-Month (18 Cities with Curbs)



Source: www.stats.gov.cn, NRA Capital

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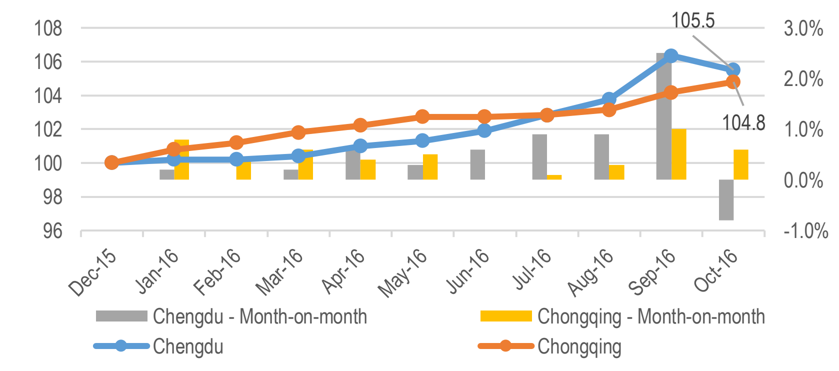
[1] “22 城楼市调控重启!业内:长春调控可能性不大” http://news.focus.cn/cc/2016-10-10/11180537.html

[2] “国家统计局城市司高级统计师刘建伟解读近期房价数据” http://www.stats.gov.cn/tjsj/sjjd/201610/t20161021_1412286.html

A tale of two cities. We were initially concerned if Chongqing will follow Chengdu in implementing curbs in selected districts where overall price growth was a mere 6.4% in 9M16 versus 4.2% in Chongqing. According to reports, the relatively soft prices in Chongqing have been due to adequate land reserves and supply, the implementation of property tax and public rental housing.[3] The Chongqing government has reportedly built 40m square metres of public housing projects, equivalent to about 22% of its available land.[4] Based on the reported price growth in October, this risk is now diminished. Moreover, any curbs will likely be implemented only in selected districts as overall prices in Chongqing remain lower than that of other cities.

Figure 10: Average Indexed Change in Price Indices of Newly Constructed Residential Properties (December 2015=100)



Source: www.stats.gov.cn, NRA Capital

To the contrary, bargain hunters have been reported to be heading to Chongqing. Due to the low prices, Chongqing appears to be benefiting from the curbs as reports have surfaced that buyers from other provinces are heading to Chongqing for bargains.[5] Some anecdotal accounts even talk about individual buyers taking up tens of units at one go. In fact, Chongqing has been receiving interest from other provinces over the last few months, with higher interest after curbs were imposed in other cities. Local studies suggest that enquires from other provinces accounted for about one third of calls in September, up from 18% in July.[6] Based on the reported price growth in October of only 0.6% in Chongqing, we reckon that there likely have been increased volume in Chongqing, but some of these accounts of massive sales probably have been exaggerated.

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[3] “黄奇帆会对重庆炒房团进行“绞杀”吗?” http://cj.sina.com.cn/article/detail/2381596945/80098?cre=financepagepc&mod=f&loc=3&r=9&doct=0&rfunc=100

[4] “Chongqing’s property curbs provide insights for local govts: experts” http://www.globaltimes.cn/content/1009283.shtml

[5] “成都限购后重庆楼市火爆：售楼处现场写借条买房” http://news.xinhuanet.com/politics/2016-10/10/c_129315660.htm

[6] “是"炒作"还是"真上涨"？独家揭秘重庆炒房团实情” http://news.focus.cn/cq/2016-09-22/11154055.html

Moderating FY16 and FY17 forecasts given 2Q and 3Q results. Given the revised revenue recognition schedule from property development projects and the slower rental income growth, FY16/17/18/19 revenue has been reduced from RMB1.4/2.0/3.0/3.2 billion to RMB1.03/1.07/2.1/2.65 billion. FY20 revenue is in turn raised from RMB1.9 billion to RMB2.9 billion. As a result of these adjustments, our valuation of Ying Li has dropped to S$0.370 per share. However, we lowered the cost of capital for the development business from 8.34% (cost of debt=7.65%) to 6.42% (cost of debt=2%). This change revised our valuation to S$0.377 (rounded to S$0.375).

In this update, we applied a higher cost of capital to the investment properties, but a lower cost of capital to development properties. This is because Ying Li capitalises its interest cost for development projects which reduces reported gross margins. The effective interest cost each quarter is about 2% per annum. Hence, we apply a lower cost of debt for the development business to avoid double counting.

Depreciation of RMB also dragged on valuation. The RMB has also depreciated against the SGD since our last update from RMB4.75:SGD1.00 to RMB4.83:SGD1.00, which reduced our valuation by another 0.5 cent.

Figure 11: List of Investment Properties (Unchanged)

	End 2015	End 2014	Change	%
Future International	82,227	82,227	0	0.0%
Ying Li Intenational Plaza	133,246	98,565	34,680	35.2%
Ying Li International Financial Centre	91,345	72,552	18,792	25.9%
Others	36,526	36,570	-44	-0.1%
Total (square metres)	**343,345**	**289,916**	**53,429**	**18.4%**
Total investment properties (RMB m)	**4,391.52**	**4263.786**	**127.73**	**3.0%**

Source: NRA Capital

We are mindful that Ying Li has sold some investment properties during 2016. Given that the reversal out of investment properties is only about RMB6.3m or less than 1% of a portfolio of book value RMB4.39 billion, the list of investment properties used in our valuation (Figure 10) should still be valid.

Figure 12: Valuation of Investment Properties (Updated)

Investment property	2015	2016F	2017F	2018F	2019F	2020F
Portolio GFA ('000 sqm)	343.34	343.34	410.34	410.34	410.34	410.34
Average rental (RMB/sqm/month)	51.16	48.60	50.06	52.56	57.82	63.60
Rate of rental increase		-5.0%	3.0%	5.0%	10.0%	10.0%
Total revenue	210.8	200.2	246.5	258.8	284.7	313.2
Gross margin	84.8%	86.5%	87.7%	87.7%	87.7%	87.7%
Net rental income	178.64	173.20	216.17	226.98	249.67	274.64
Tax rate	25%	25%	25%	25%	25%	25%
After tax rental income	133.98	129.90	162.13	170.23	187.26	205.98
Perpetual component						3,314.52
Discount [(1+r)^years]		1.00	1.08	1.17	1.27	1.38
PV of after tax net rental income		129.90	149.65	145.04	147.26	149.52
PV of perpetual component						2,405.94
PV of investment properties	**3,127.30**					
Implied Yield	**4.28%**	**4.15%**	**5.18%**	**5.44%**	**5.99%**	**6.59%**

Based on 2% terminal growth rate and cost of capital of 8.34%

Source: NRA Capital

Rental rate growth has been revised lower, but gross margin has been revised higher, in line with the change in tax structure. We also rolled forward the discount factor as we are now heading into 2017.

Figure 13: Valuation of Investment Properties (As of May 2016)

Investment property	2015	2016F	2017F	2018F	2019F	2020F
Portolio GFA ('000 sqm)	343.34	343.34	410.34	410.34	410.34	410.34
Average rental (RMB/sqm/month)	51.16	56.27	61.90	68.09	74.90	82.39
Rate of rental increase		10.0%	10.0%	10.0%	10.0%	10.0%
Total revenue	210.8	231.8	304.8	335.3	368.8	405.7
Gross margin	84.8%	84.8%	84.8%	84.8%	84.8%	84.8%
Net rental income	178.64	196.51	258.34	284.17	312.59	343.85
Tax rate	25%	25%	25%	25%	25%	25%
After tax rental income	133.98	147.38	193.75	213.13	234.44	257.89
Perpetual component						4,149.75
Discount [(1+r)^years]		1.08	1.17	1.27	1.38	1.49
PV of after tax net rental income		136.04	165.08	167.61	170.18	172.79
PV of perpetual component						2,780.37
PV of investment properties	**3,592.05**					
Implied Yield	**3.73%**	**4.10%**	**5.39%**	**5.93%**	**6.53%**	**7.18%**

Based on 2% terminal growth rate and cost of capital of 8.34%

Source: NRA Capital

Figure 14: Valuation

Development property		
Net Development Value (RMB m)	1,894	From figure 6
Discount	-17.4%	6.42% cost of capital
A) Discounted NDV (RMB m)	1,565.2	
B) **Investment properties (RMB m)**	3,127.3	From figure 12
C) Less book value of inv. prop. (RMB m)	-4,388.6	
D) Less book value of Beijing (RMB m)	-602	
E) Add book value of com. equity (RMB)	4,948.6	**SGD m**
Valuation (RMB m / SGD m – 4.83 FX rate)	**4,650.4**	**962.9**
No of shares (m)	2557.04	2557.04
Valuation per share (RMB / SGD)	1.819	**0.377**
Reconciliation to RNAV		
GDV of development properties (RMB m)	14,353	From figure 4
Investment properties (RMB m)	3,127	From figure 12
Non-property assets	1,630	As of 30 Sep 2016
Total liabilities	-6,852	
Perpetual securities	-879.0	
RNAV	**11,378.2**	Sum of above
Valuation	4,650.4	As per above
Implied discount from RNAV	**59.1%**	

Source: NRA Capital

Figure 15: Cost of Capital Estimates

	2013	2014	2015
Borrowings (RMB m)	2,802.83	3,144.49	5,085.65
Total equity (RMB m)	3,451.63	5,056.72	5,082.79
Debt / Total Capital	44.8%	38.3%	50.0%
Weighted average interest rate (from annual report)	6.42%	6.88%	7.65%
Average Debt / Capital	45.38%		
	Investment Properties	**Development Properties**	
Current cost of debt	**7.65%**	**2%**	
Risk Free rate	1.50%	1.50%	
Beta	1.2	1.2	
Expected market risk premium	7.50%	7.50%	
Cost of equity	10.50%	10.50%	
Tax rate	25%	25%	
Cost of capital - WACC	**8.34%**	**6.42%**	

Source: NRA Capital

We reiterate that Ying Li remains highly undervalued with a RNAV of RMB11.4 billion or approximately S$0.921 per share. We are not concerned about the leverage of Ying Li, assuming that its substantial shareholder China Everbright will provide financial support if necessary.

The risk of Ying Li lies more with its financing costs rather than any risk of default. China Everbright also owns S$185m of perpetual convertible securities in Ying Li. Redemption is at the option of Ying Li and not China Everbright and distribution owing to China Everbright can be deferred at the sole discretion of Ying Li. Hence, these securities are considered as equity – no refinancing risk.

The distribution for the first five years is 8.75%/year from October 2014 to October 2017 and 9.5%/year to October 2019. We estimate total distribution of about RMB455m after adjusting for some compounding over owed distribution. Assuming conversion of the securities into ordinary shares by October 2019 and payment of the distribution in cash in October 2019, our revised valuation of Ying Li is still S$0.277 per share.

Figure 16: Scenario Analysis

Valuation	4650.4	from Figure 13
Less distribution to China Everbright	-455.0	Est. quantum for 1st five years
Revised valuation	4195.4	RMB m
Current no of shares	2557.0	m shares
Add conversion of shares	581.8	Based on S$128m/ S$0.318
Revised no of shares	3138.8	m shares
Revised value per share	1.337	RMB
Revised value per share	0.277	S$
Cumulative PATMI FY14 to FY19F	1,859.7	RMB m
Less estimated distribution	-455	RMB m
Adjusted cumulative PATMI	1,404.7	RMB m

Source: NRA Capital

The larger risk is if the securities are not converted by October 2019, leading to a reset of distribution to 14.5% + five-year US treasury rate per annum. This will trigger a reset of cost of equity to 16.3% from 10.5% currently.

Ying Li International Real Estate Ltd

Profit & Loss (RMB m, FYE Dec)	2014	2015	2016F	2017F	2018F	2019F	2020F
Revenue	1,030.5	616.8	1,029.7	1,075.9	2,112.5	2,655.4	2,907.9
Operating expenses	(692.4)	(540.4)	(797.3)	(800.3)	(1,581.2)	(1,983.4)	(2,199.6)
EBITDA	338.1	76.5	232.4	275.6	531.3	672.0	708.3
Depreciation & amortisation	(4.9)	(9.8)	(8.3)	(8.5)	(8.7)	(8.9)	(9.1)
EBIT	333.2	66.7	224.1	267.1	522.5	663.1	699.3
Net interest & invt income	25.2	110.7	(39.6)	16.6	163.8	225.7	122.5
Associates' contribution	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional items	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pretax profit	**358.3**	**177.4**	**184.5**	**283.7**	**686.4**	**888.8**	**821.8**
Tax	(103.0)	(48.8)	(49.8)	(76.6)	(185.3)	(240.0)	(221.9)
Minority interests	0.4	(2.4)	(4.4)	(4.4)	(3.7)	(1.3)	(1.2)
Net profit	**255.8**	**126.2**	**130.3**	**202.7**	**497.3**	**647.5**	**598.7**
Shares at year-end (m)	2,557.0	2,557.0	2,557.0	2,557.0	3,161.9	3,161.9	3,161.9

Balance Sheet (RMB m, as at Dec)	2014	2015	2016F	2017F	2018F	2019F	2020F
Fixed assets	60.1	60.6	62.3	63.8	65.0	66.1	67.1
Investments	4,763.8	4,993.5	4,993.5	6,043.5	6,174.8	6,306.0	6,306.0
Other long-term assets	26.9	22.8	22.8	22.8	22.8	22.8	22.8
Total non-current assets	**4,850.7**	**5,077.0**	**5,078.7**	**6,130.1**	**6,262.6**	**6,395.0**	**6,395.9**
Cash and equivalents	965.1	1,322.7	949.9	246.9	507.8	673.1	1,581.3
Development properties	3,408.6	4,651.3	4,439.0	3,366.3	2,932.3	2,418.7	2,332.3
Trade debtors	319.1	872.5	338.7	353.9	694.7	873.2	956.2
Other current assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total current assets	**4,692.9**	**6,846.6**	**5,727.6**	**3,967.2**	**4,134.8**	**3,965.0**	**4,869.9**
Trade creditors	541.4	1,033.2	692.9	696.1	1,346.9	1,683.1	1,869.1
Short-term borrowings	1,715.8	2,822.4	1,669.6	1,301.9	948.1	526.0	574.0
Other current liabilities	160.8	172.8	172.8	172.8	172.8	172.8	172.8
Total current liabilities	**2,418.0**	**4,028.5**	**2,535.3**	**2,170.8**	**2,467.8**	**2,381.9**	**2,615.9**
Long-term borrowings	1,428.7	2,263.2	2,504.4	1,952.9	1,422.2	788.9	860.9
Other long-term liabilities	640.2	549.0	549.0	549.0	581.8	614.6	614.6
Total long-term liabilities	**2,068.9**	**2,812.2**	**3,053.4**	**2,501.9**	**2,004.0**	**1,403.6**	**1,475.6**
Shareholders' funds	**5,002.2**	**5,025.8**	**5,156.1**	**5,358.8**	**5,856.1**	**6,503.6**	**7,102.3**
Minority interests	54.6	57.0	61.4	65.8	69.6	70.9	72.1
NTA/share (RMB)	1.96	1.97	2.02	2.10	1.85	2.06	2.25
Total Assets	**9,543.6**	**11,923.5**	**10,806.2**	**10,097.3**	**10,397.4**	**10,360.0**	**11,265.8**
Total Liabilities + S'holders' funds	**9,543.6**	**11,923.5**	**10,806.2**	**10,097.3**	**10,397.4**	**10,360.0**	**11,265.8**

Cash Flow (RMB m, FYE Dec)	2014	2015	2016F	2017F	2018F	2019F	2020F
Pretax profit	358.3	177.4	184.5	283.7	686.4	888.8	821.8
Depreciation & non-cash adjustments	(41.2)	(93.0)	8.3	8.5	(122.5)	(122.3)	9.1
Working capital changes	(1,172.4)	(1,542.4)	405.9	10.6	744.0	671.4	189.3
Cash tax paid	(73.4)	(11.1)	(49.8)	(76.6)	(152.5)	(207.2)	(221.9)
Cash flow from operations	**(928.6)**	**(1,469.1)**	**548.9**	**226.2**	**1,155.4**	**1,230.7**	**798.3**
Capex	(13.7)	(8.8)	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)
Net investments & sale of FA	(500.0)	(59.0)	0.0	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	**(513.7)**	**(67.8)**	**(10.0)**	**(10.0)**	**(10.0)**	**(10.0)**	**(10.0)**
Debt raised/(repaid)	341.7	1,941.2	(911.7)	(919.2)	(884.5)	(1,055.4)	120.0
Equity raised/(repaid)	1,360.6	0.0	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	1,114.0	(424.9)	(0.0)	(0.0)	0.0	(0.0)	0.0
Cash flow from financing	**1,455.7**	**1,516.2**	**(911.7)**	**(919.2)**	**(884.5)**	**(1,055.4)**	**120.0**
Change in cash	**13.4**	**(20.7)**	**(372.8)**	**(703.0)**	**260.9**	**165.3**	**908.3**
Change in net cash/(debt)	**(328.3)**	**(1,961.8)**	**538.9**	**216.2**	**1,145.4**	**1,220.7**	**788.3**
Ending net cash/(debt)	**(2,795.1)**	**(4,756.9)**	**(4,218.1)**	**(4,001.8)**	**(2,856.5)**	**(1,635.8)**	**(847.5)**

KEY RATIOS (FYE Dec)	2014	2015	2016F	2017F	2018F	2019F	2020F
Revenue growth (%)	61.3	(40.1)	66.9	4.5	96.3	25.7	9.5
EBITDA growth (%)	109.7	(77.4)	203.9	18.6	92.8	26.5	5.4
Pretax margins (%)	34.8	28.8	17.9	26.4	32.5	33.5	28.3
Net profit margins (%)	24.8	20.5	12.7	18.8	23.5	24.4	20.6
Effective tax rates (%)	28.7	27.5	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 (%)	6.1	2.5	2.6	3.9	8.9	10.5	8.8
Free cash flow yield (%)	(76.8)	(81.9)	28.7	11.5	61.0	65.0	42.0

Source: Company, NRA Capital forecasts