

SHENZHEN WORLD UNION PROPERTIES CONSULTANCY INC.

Security Analysis Report

30 October, 2017



復旦大學 管理学院
SCHOOL OF MANAGEMENT
FUDAN UNIVERSITY



Focusing on real estate services industry for 24 years, the company was the first domestic real estate integrated service provider to be listed in China A stock market.

INVESTMENT HIGHLIGHTS

- 1) The company focuses on the real estate services industry for 24 years, it is the first domestic real estate services company listed on A stock market. Recent years, benefited from the domestic real estate market, the company's maintaining tremendous revenue and profit.
- 2) Real estate industry is running into the second half, the industry is now changing from the development to management. Long-term rental apartment is the rising star of real estate rental market in recent years.
- 3) On the basis of traditional business, the company superimposed new business finance service and Internet +. The company's business segments are leveraging each other, not only improved the industrial chain, but also strengthened the collaboration between various businesses.

Estimated EPS in during period of year 2017-2019 is 0.48, 0.58, and 0.70. The whole sector is expected to record a CAGR of 33% in the next 3 years. The company will remain first in long-term rental apartment. **We derive 33 times valuation to EPS, initiate coverage with BUY rating, indicating 23.94% upside compared with current stock price, target price is set at RMB 15.84/sh.**

BUY

SHENZHEN WORLD UNION PROPERTIES
CONSULTANCY INC. [002285 CH Equity]

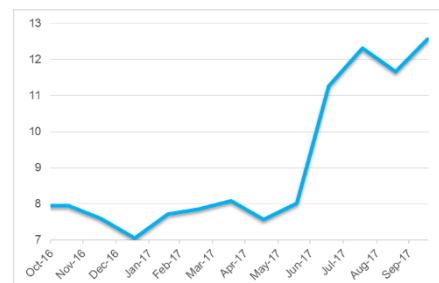
Price: RMB 12.78

Price Target: RMB 15.84

Price Target Potential: 23.94 %

Price Target Period: 1 Year

Price Performance



Market Overview

Exchange	SZSE
Sector	Real Estate
52 wk Price Range	6.88 - 13.22
3M Average Volume	1.4B
Market Cap	2B
Shares outstanding	1.7B
Enterprise Value	26.1B
P/E	36.81
EPS T12M	0.48

PINK Capital

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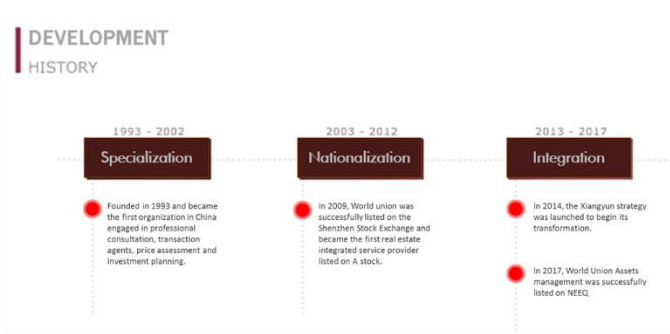
Leading Real Estate Service Provider in China

Introduction

World Union, founded in 1993 in Shenzhen, is the first domestic real estate integrated service provider to be listed in A stock. It has 71 branches that provide services for 19 countries around the world and 172 cities in China, and gradually forming a service chain covering transaction, operation, and investment.

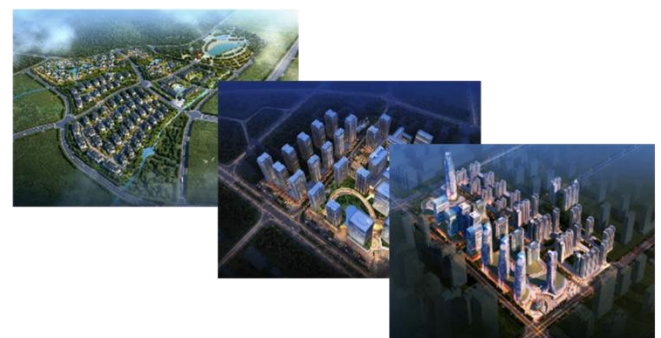
As a leading real estate integrated service provider, World Union has been ranked first for top 10 in China's real estate agency for many years. Its sales and planning capabilities rank first in the industry. In 2015, sales of top 10 real estate agency surged 30% and market share increased to 17.13%.

Figure 1: Company Development



Source: Company Website

Figure 2: World Union's Projects

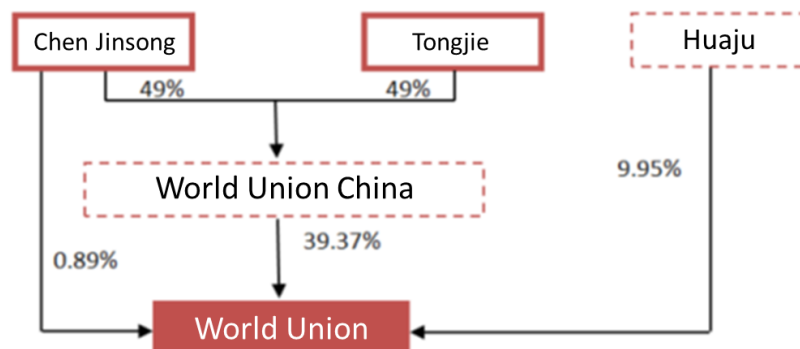


Source: Company Website

Key shareholders

Chen Jinsong and Tongjie, the ultimate controllers of the company, owns 39.47% of the total shares of the company with direct and indirect controlling form. In 2015, Soufun's wholly-owned subsidiary-Huaju privately subscribed the non-public offering shares, accounting for 9.95% of the company's share capital and became the second largest shareholder of the company.

Figure 3: Shareholder Structure

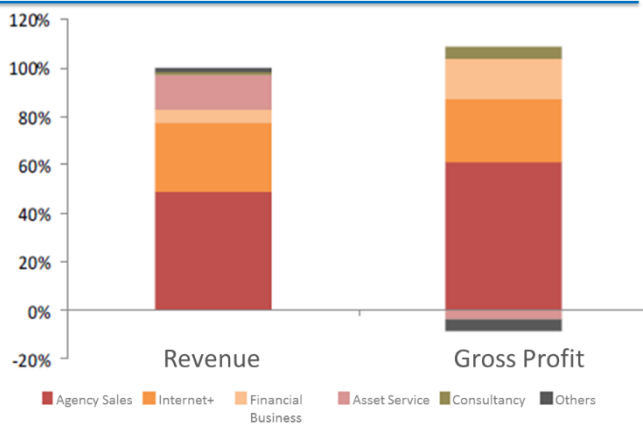


Source: Annual Report

Revenue Breakdown

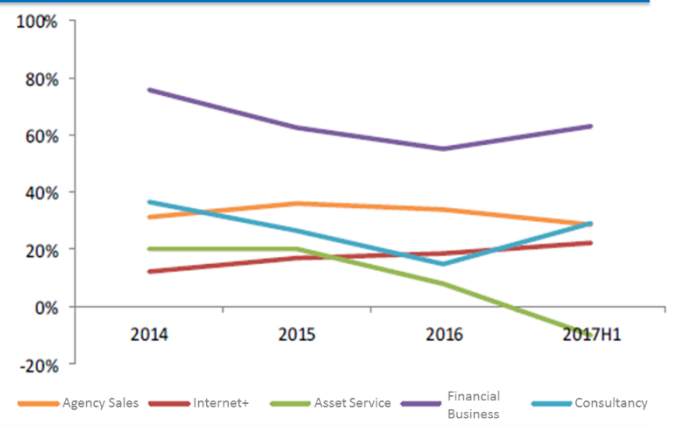
The main business of the company is focus on the integrated real estate services, and the major operating revenue and gross profit come from the sales of agency business. In 2017 H1, the business revenue is RMB 1.65 billion, an increase of 12.5% over the same period of previous year, accounting for 49% of revenue and 61% of gross profit. In recent years, with the diversification of the company's business, the proportion of agency sales declined correspondently which caused the revenue accounting for less than 50% for the first time. However, the internet+ business continued a rapid growth. In the first half of the year, revenue amounted to RMB 920 million, an increase of 61.3% over the same period of previous year. Its revenue increased from 2% to 28%. Its revenue increased from previous 2% in 2014 to 28% in 2017. Its gross profit was 200 million RMB, an increase of 319% over the same period of previous year. In addition, the company's financial business, apartment management business is accelerating expansion.

Figure 4: Revenue and Gross Profit by Segment in 2017H1



Source: Bloomberg

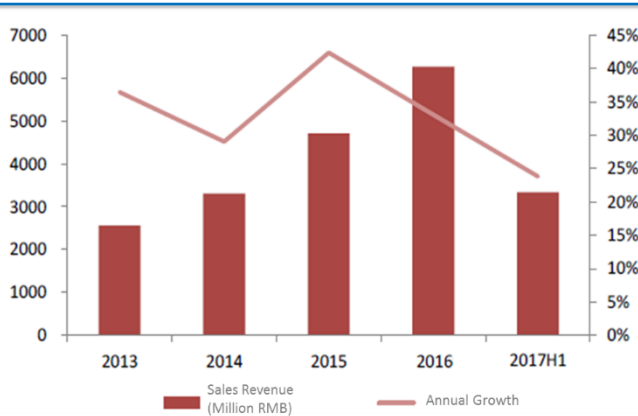
Figure 5: Gross Profit Rate from 2014 to 2017H1



Source: Bloomberg

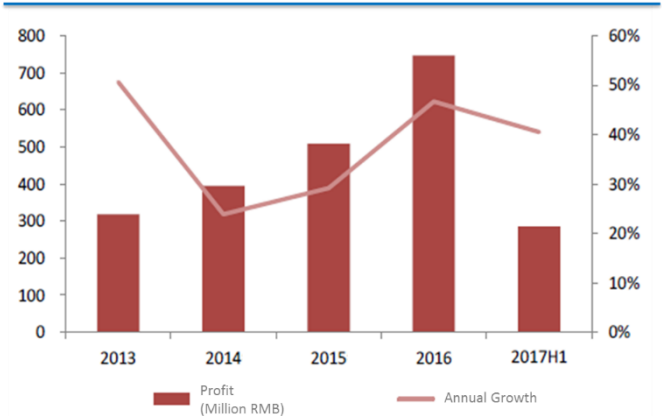
The company's sales revenue and net profit attributed to the parent company maintained a long-term rapid growth. From 2012 to 2016, sales revenue was growing by 35% while compound growth rate of net profit attributed to parent company was 37%. As Internet plus business developed rapidly and gradually formed in scale benefits, sales revenue displayed a year-on-year growth by 61% and gross margin increased to 22% in 2017 H1.

Figure 6: Sales Revenue and Annual Growth from 2013



Source: Bloomberg

Figure 7: Profit and Annual Growth from 2013



Source: Bloomberg

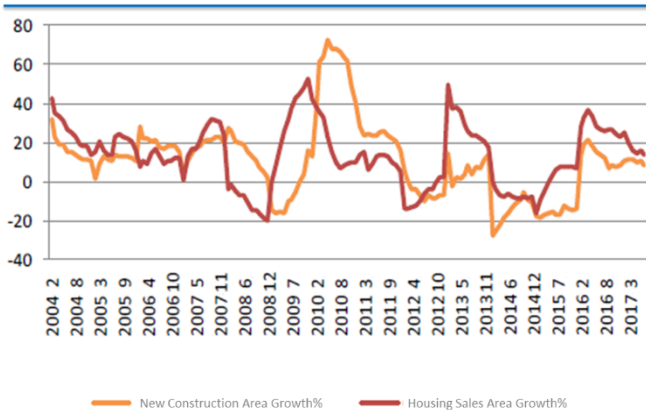
Inflection Point in Real Estate Industry

The real estate industry experienced a "golden era" of high growth and high returns before 2013 in China. The rapid growth of economy combined with the acceleration of personal needs made a bang-up real estate market in lots of cities. From 2004 to 2013, the sales volume of commercial residential buildings in China maintained an average annual growth rate of 15%. However, with the limited land supply and tightening macro-control, the incremental development is becoming increasingly difficult. In 2014, the saleable area of commercial residential buildings in China slid 7.6% from a year earlier, and sales growth faltered. From the national data, the growth rate of newly started buildings area from 2014 till now has always been lower than the growth rate of sales area, which indicates that there is a great possibility that the marketable resources will be gradually reduced in the future and the industry slowdown trend may continue.

In 2015, the real estate industry ushered in a new round of growth, which was driven by a series of policies such as lowering interest rates and cut the requirement reserve ratio (RRR), providing new provident fund and reducing the down-payment.

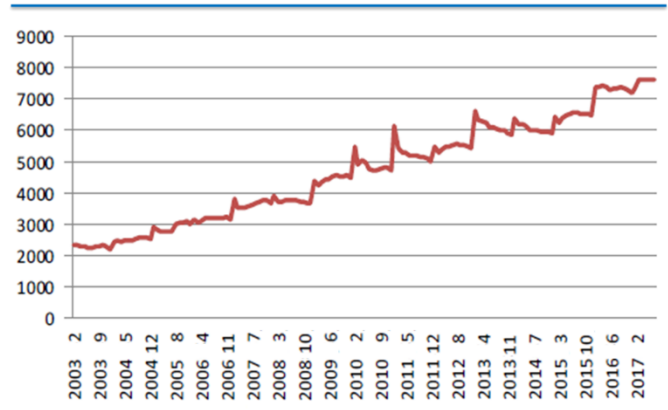
The housing prices of major cities have reached a high point and the rise in the first-tier cities was particularly striking. The average housing price rose from 28,000 yuan per square meter to 40,000 yuan per square meter or more in no more than two years, which means the price is up more than 40%. By the end of 2016, the average price of sample residential buildings in Beijing, Shanghai and Shenzhen was respectively 42,292 / 45,847 / 50,540 yuan per square meter, the price is up to 27%, 42% and 78% respectively in two years. In addition, according to previous analysis, we hold the opinion that the housing price is unlikely to trend down.

Figure 8: Slow Growth of New Construction Area



Source: National Bureau of Statistics

Figure 9: Housing Sales Unit Price



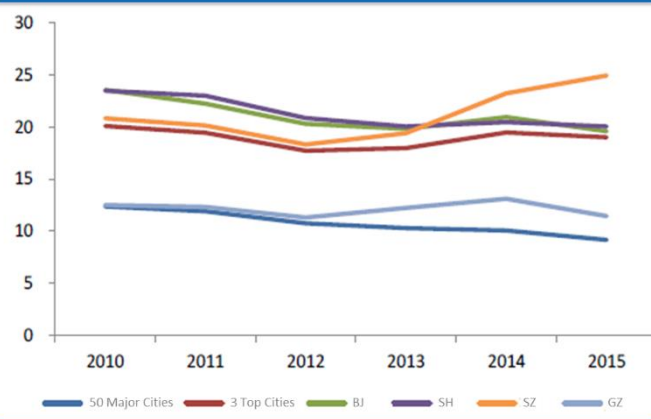
Source: National Bureau of Statistics

Compared with the continuous rise of housing price, the change of per capita disposable income is not significant. According to the housing price income ratio, we can find that the housing price income ratio of 50 large and medium-sized cities is about 10 times than those small-sized cities, and first-tier cities is almost 20 times than those small-sized cities. And among the first-tier cities like Beijing, Shanghai and Shenzhen are more than 20 times than those small-sized cities. In first-tier cities, the threshold for the first-time home buyers has been raised significantly.

As the largest influx of flowing population, three metropolitan areas have the highest concentrations of young people. The threshold for the first-time home buyers has been raised which open the market for house rental. Base on the data from the World Union, the homeownership rate is only 37% in first-tier cities of eastern China. Over 40% of the flowing population choose to rent house by themselves or share room with other people. The current low rents level is mainly due to the fact that the market for housing leasing is dominated by private rental, which lacks unified management and operation. As a result, the quality of rental housing is uneven and most of the rental housing is in a poor environment, for example, the indoor decoration is not good and facilities are not fully equipped.

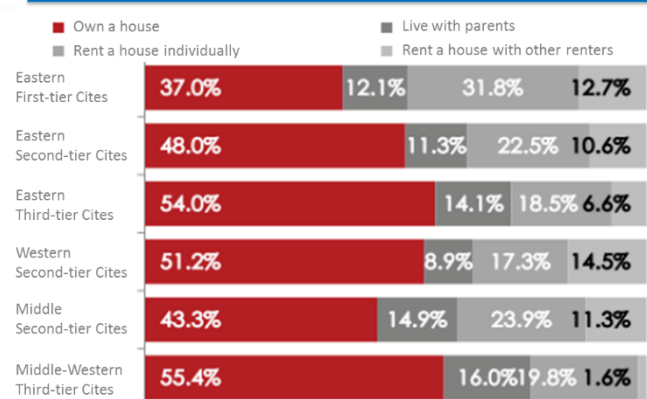
There is a greater room to increase rents in China as the development of China's rental market, the establishment of brand leasing companies, and the scale-up development and specialized rental services provided. According to the data from the Lianjia research institute, the scale of the rental market in China is 1.1 trillion yuan, the transaction volume of houses in China is about 15 trillion yuan, and the housing leasing only accounts for 7% of the total. The scale of rent in the United States today is about 500 billion US dollars, accounting for 50% of the US real estate transaction. Lianjia estimates that China's housing leasing market is about 1.6 trillion yuan in 2020, about 2.9 trillion yuan in 2025, and it will exceed 4 trillion yuan in 2030.

Figure 10: Ratio of Housing Price/Income



Source: National Bureau of Statistics

Figure 11: Ratio of Housing Price/Income



Source: Company Website

World Union to Benefit from Strong Policy and High Demands

Promulgation of Policy by Government

By the end of 2016, the central government proposed that we should to meet the housing needs of new citizens as a key point and then establish a housing system which covers both buying and rent. In July of this year, nine ministries including the Ministry of Housing and Urban-Rural Development issued notice "to speed up the development of housing leasing market in large and medium-sized cities ". The notice clearly clarifies the same rights of purchase and rent. Subsequently, the Ministry of Land, Ministry of Housing and Urban jointly issued the "use of collective construction land for the construction of rental housing pilot program" to determine the pilot SH for collective construction land rental housing construction in 13 cities, which officially opened the era of rental.

The Matthew Effect

For many years in a row, World Union ranked in the first of "China's real estate planning agent Top 10 overall strength", sales and marketing capabilities and planning capabilities in the industry-leading. With the intensification of competition in the industry, the differentiation within the industry is gradually becoming clear. The leading companies with comprehensive strengths such as the World Bank can expect to benefit from the enhancement of concentration and the formation of a stronger and stronger industrial structure.

The expansion of the company's long-term rent apartment will form a new entrance, which can be expanded up to the interior indoor decoration business and also can be extended down to all kinds of value-added services such as travel, social networking and catering as well as financial products and services like rent installment. In the future, with the expansion of the size of the company's listings, it will gradually open up a new profit-making entrance. The income scale and profitability of apartment business are expected to increase gradually.

Long-term rent apartment business has three distinct advantages: 1) strong access to obtain housing resources; 2) business closed-circle to reduce costs; 3) strong management and operational capability and a strong sense of service awareness.

Strong Layout to Fit High Demands

World Union Hongpu is the company's rental apartment platform, the target market is the youth rental market. At the time of June 30, 2017, World Union Hongpu accessed into 27 cities with a total floor space of over 40,000, set foot into the first and second tier cities in China. In the first half of 2017, the long-term rent apartment business achieved a total revenue of 67.67 million with an increase of nearly 5 times over the same period of previous year.

More than 70% of the World Union Hongpu's housing source is from the entire building, the remaining housing source comes from its surrounding scattered housings. Starting from the sales agent, the World Union ranked the first in the industry. It has a built-in advantage in urban layout, service team, tenant matching and To B service. It has an optimal opportunity for developing long-term rental apartments.

Other Catalysts? – Financial Service and Internet +

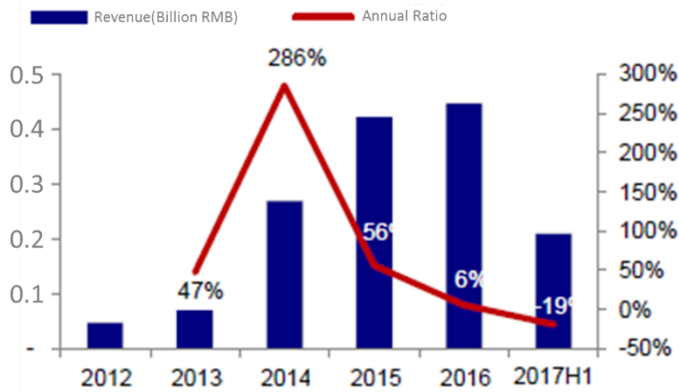
Financial Service

The company focuses on the real estate service industry for 24 years. Based on the continuous expansion of the traditional business and the real trading scene, the company overlay the innovative service of finance and internet + based on its understanding of the industry development and customer needs.

Since 2013, the Company started to launch its financial business. At present, the company effectively integrates over 200 industry channels and actively enters the stock market through the partnership strategy. The loan balance of financial business in 2017 H1 doubled over the same period of the previous year, covering the multi-product of the entire chain of real estate transactions.

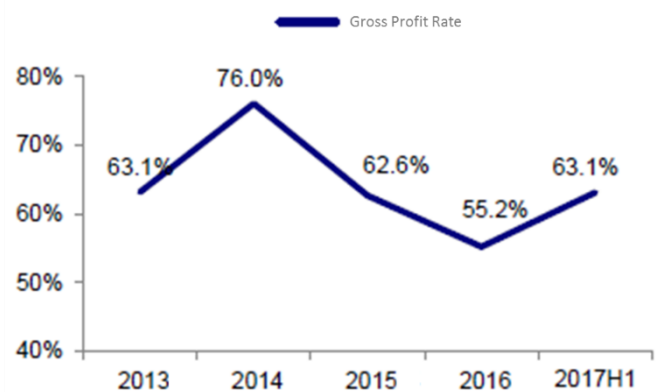
At the time of the first half of 2017, the company's financial revenue in 2014 to 2016 was 270 / 420 / 450 million respectively. CAGR achieved to 85.6% over the past three years.

Figure 12: Revenue in Financial Service



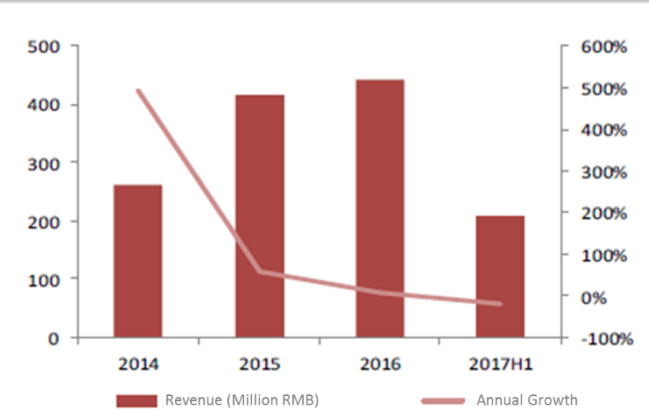
Source: Annual Report

Figure 13: Gross Profit Rate in Financial Service



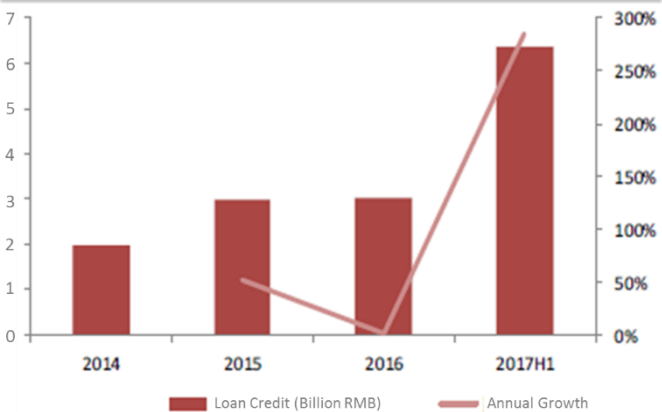
Source: Annual Report

Figure 14: Microloans Revenue in Financial Service



Source: Annual Report

Figure 15: Loan Credit in Microloans

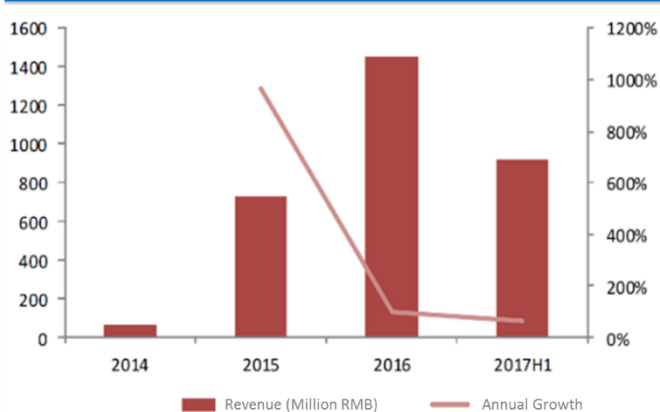


Source: Annual Report

Internet +

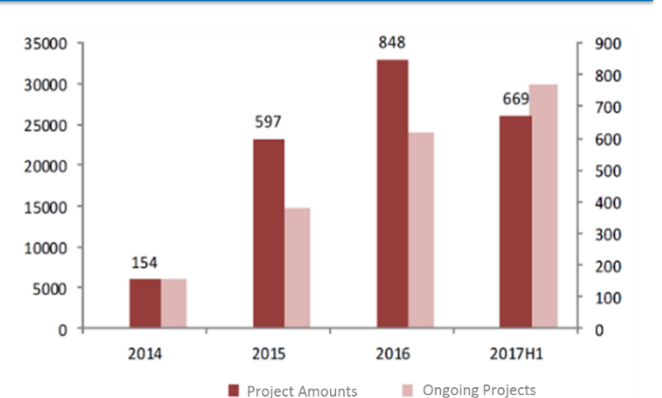
The Internet plus services already entered into 105 cities with over 1,000 projects and connected with over 700 developers, developed more than 50,000 medium-sized stores, recruited more than 500,000 brokers and developed more than 100,000 housing purchase customers. In the first half of 2017, we achieved market share ranked in top 3 in 23 large and medium-sized cities in China. Balance of loans had reached to 3.3 billion, which is an increase of 105.2% over the same period of last year. This year's lending concentrated in the second quarter, so we can expect a better performance on the second half year.

Figure 16: Revenue in Internet +



Source: Annual Report

Figure 17: Project Non-closed



Source: Annual Report

Earning Forecast

In the most conservative situation, we still expect World Union's will have a tremendous growth during period of year 2017-2019 under the assumption that:

- 1) Annual growth of sales revenue is mainly coming from real estate business and Internet + business. The expected annual growth of real estate business during period of year 2017-2019 will be 26.9%, 10.0%, 9.8%.
- 2) Because of new business model, Internet + business will enter rapid growth period. The expected annual growth of Internet + during period of year 2017-2019 will be 53.0%, 49.6%, 46.3%.
- 3) The expected amount of long-term rental apartments during period of year 2017-2019 will be 50,000, 100,000 and 150,000. Average monthly rent will be 700 yuan.
- 4) Income tax rate during period of year 2017-2019 will be 30%, 28%, 28%.

Figure 17: Estimated Revenue till 2019

Estimated Revenue in Segment					
	2015A	2016A	2017E	2018E	2019E
Real Estate Sales					
Sales Revenue (Million RMB)	2,726.7	3,508.7	4,451.6	4,896.8	5,375.3
Annual Growth	25.9%	28.7%	26.9%	10.0%	9.8%
Gross Profit Rate	36.1%	33.7%	34.0%	34.0%	34.0%
Asset Service					
Sales Revenue (Million RMB)	434.1	503.0	904.1	1,349.1	1,795.5
Annual Growth	41.6%	15.9%	79.7%	49.2%	33.1%
Gross Profit Rate	20.2%	8.0%	5.0%	8.0%	12.0%
Internet +					
Sales Revenue (Million RMB)	728.5	1,454.1	2,224.8	3,327.7	4,867.4
Annual Growth	965.3%	99.6%	53.0%	49.6%	46.3%
Gross Profit Rate	16.8%	19.3%	20.0%	20.0%	20.0%
Financial Service					
Sales Revenue (Million RMB)	421.7	446.9	448.5	489.2	585.8
Annual Growth	56.5%	6.0%	0.4%	9.1%	19.7%
Gross Profit Rate	62.6%	55.2%	55.0%	55.0%	55.0%
Others					
Sales Revenue (Million RMB)	393.2	357.2	350.0	350.0	350.0
Annual Growth	-18.8%	-9.2%	-2.0%	0.0%	0.0%
Gross Profit Rate	17.3%	-1.6%	0.0%	0.0%	0.0%
Total	4,704.1	6,269.9	8,378.9	10,412.8	12,974.1
Annual Growth Rate	42.8%	33.3%	33.6%	24.3%	24.6%
Consolidated Gross Profit Rate	32.4%	27.8%	26.9%	26.0%	25.7%

Source: Annual Report, Pink Capital

Trading at Discount Compared with Peers

Compare to the downstream players, World Union is also trading at a discount compared with downstream peers.

Figure 18: Valuations of Comparables

Company	Symbol	Price		EPS			PE			
		2017/10/30	2016A	2017E	2018E	2019E	2016A	2017E	2018E	2019E
JIABAO	600622.SH	20.09	0.44	0.56	0.73	0.92	46	36	27	22
GUANGB	300058.SZ	7.25	0.32	0.34	0.45	0.55	23	21	16	13
SH GANG	300226.SZ	36.82	0.47	0.42	0.82	1.38	78	89	45	27
GUANGL	002410.SZ	20.04	0.95	0.49	0.63	0.80	21	41	32	25
CAISHENG	1778.HK	4.74	0.19	0.26	0.34	0.40	25	18	14	12
	MAX						78	89	45	27
	MIN						21	18	14	12
	AVG						39	41	27	20
	AD AVG						31	33	25	20

Source: Bloomberg, Pink Capital

Estimated EPS in during period of year 2017-2019 is 0.48, 0.58, and 0.70. The whole sector is expected to record a CAGR of 33% in the next 3 years. The company will remain first in long-term rental apartment. We derive 33 times valuation to EPS, indicating 23.94% upside compared with current stock price

Risks

1. The development of long-term rental business will be affected if the rental policy is lower than expectation.
2. The poor expansion of long-term rental apartment market may result in long-term losses.
3. The agency business and e-commerce business will be affected by the sharp decline in the real estate market.
4. The development of financial business will be affected if monetary policy is tightened hardly.

PERFORMANCE STOCK PICKS

Along with portfolio flagship stock WORLD UNION, we recommend to buy

- China Merchants Bank Co., Limited
- JIANGSU HENGRUI MEDICINE CO., LTD.
- BOE Technology Group Co., Ltd.
- Jilin Liyuan Precision Manufacturing Co., Ltd.

Company Name	Bloomberg Symbol	GICS Sector
China Merchants Bank Co., Limited	600036 CH Equity	Bank
JIANGSU HENGRUI MEDICINE CO., LTD.	600276 CH Equity	Pharmaceutical
BOE Technology Group Co., Ltd.	000725 CH Equity	Industrials
Jilin Liyuan Precision Manufacturing Co., Ltd.	002501 CH Equity	Nonferrous Metal



HENG RUI PHARMACEUTICALS



BUY

China Merchants Bank Co.,

JIANGSU HENGRUI MEDICINE CO., LTD.

BOE Technology Group Co., Ltd.

Jilin Liyuan Precision Manufacturing Co., Ltd.

PINK Capital

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SHENZHEN World Union Properties Consultancy Inc. [002285 CH Equity]

World Union is the first domestic real estate integrated service provider to be listed in A stock, focusing on real estate services industry for 24 years. The main business includes sales agents, Internet +, and financial services.

Benefiting from the rising domestic real estate market, World Union's sales revenue and net margin maintained a long-term rapid growth. From 2012 to 2016, sales revenue was growing by 35% annually while compound growth rate of net profit belonging to parent company was 37% by annually.

As Internet plus business developed rapidly and gradually formed in scale benefits, sales revenue displayed a year-on-year growth by 61% and gross margin increased to 22% in 2017 H1.

China Merchants Bank Co., Limited [600036 CH Equity]

China Merchants Bank (China Merchants Bank) is the first corporate owned commercial bank in China. It was founded in April 8 1987, established by Hong Kong China Merchants Group Limited. China Merchants Bank is the sixth largest bank in mainland China.

As of September in 2017, China Merchants Bank's total assets was over 6 trillion RMB, increased by 3.82% compared with previous year. Customer deposits amounted to over 3 trillion RMB, increased by 4.53% compared with previous year. In 2017H1, net profit belonging to the parent company was 58 billion RMB, an increase of 12.78%.

JIANGSU HENGRUI MEDICINE CO., LTD. [600276 CH Equity]

Jiangsu Hengrui Medicine Co., Ltd., established in 1970 and headquartered in Lianyungang, Jiangsu Province, is not only the front-runner in China's innovative medicine, but also a well-known R&D center of antineoplastic and surgical medicine in China.

Hengrui subdivides the target market continuously and have improved the company's distribution network gradually. Now three levels of distribution system-multi-provinces, provinces and local offices have been successfully established in China, which forms a sales network all over the country. Oncology products and contrast media products manufactured by Hengrui come out in front of in the domestic market share, and surgical anesthetic drugs occupies the largest market share in China.

Meanwhile, via positive "going out" strategy, Hengrui makes cooperation with some global generics companies such as Sandoz and Sagent and have successfully launched the drug product in Europe, US, Japan and some other emerged markets.

BOE Technology Group Co., Ltd. [000725 CH Equity]

BOE Technology Group Co., Ltd., founded in April 1993, is a supplier of internet of things technologies, products and services. BOE's three core businesses are Display Device, Smart System and Healthcare Service. BOE's products are widely used in a broad spectrum of applications such as mobile phone,

tablet, notebook, monitor, TV, vehicle display, digital information display, healthcare, finance, and wearable devices.

At present, BOE has 7 production lines in operation, including a Gen 5 TFT-LCD line and a Gen 8.5 TFT-LCD line in Beijing, a Gen 4.5 TFT-LCD line in Chengdu, a Gen 6 TFT-LCD line and a Gen 8.5 TFT-LCD line in Hefei, a Gen 5.5 AMOLED line in Ordos, and a Gen 8.5 TFT-LCD line in Chongqing. There is another Gen 6 AMOLED line in Chengdu, a Gen 8.5 TFT-LCD line under construction in Fuzhou and the world's highest generation line Hefei Gen 10.5 TFT-LCD line under construction.

BOE has manufacturing bases located in Beijing, Chongqing, Chengdu of Sichuan Province, Hefei of Anhui Province, Ordos of Inner Mongolia Autonomous Region, Gu'an of Hebei Province, Suzhou of Jiangsu Province and Xiamen of Fujian Province. BOE also boasts a global marketing and service network, which covers the world's major areas including Europe, America and Asia.

Jilin Liyuan Precision Manufacturing Co., Ltd. [002501 CH Equity]

Jilin Liyuan Precision Manufacturing Co., Ltd. was established in 2000. Liyuan covers an area of 400000 square meters with a construction area of 300000 square meters. Liyuan has altogether 1500 employees, 150 of them are medium or senior management and technical staff.

In 2017 H1, the company achieved sales income of 1 billion RMB, increase by 29.21% compared with previous year. Net profit was 313 million RMB, representing a growth of 13.58% compared with previous year.