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HD **Corporate: Chinese developer Chiwayland heads Down Under as business back home gets tougher**

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Qian Jianrong wasted no time getting down to business after shares in his company made their trading debut in Singapore on Aug 6. Following a jam-packed day of interacting with shareholders, business associates and officials from the Singapore Exchange, the co-founder of Chiwayland International took off the next morning to Brisbane, where the Shanghai-based property developer had just set up a joint venture, one that marks its maiden foray outside China.

In business since 2002, Chiwayland has been eyeing opportunities overseas for about a year now. Having made a name for itself in China's Yangtze River Delta region, which encompasses major cities such as Shanghai, Suzhou and Wuxi, it now sees fit to take its first step abroad.

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"We just do not want to put all our eggs in one basket," Qian, 48, Chiwayland's executive chairman, tells The Edge Singapore. The need to diversify has probably never been more acute for the company than now, with China's housing market increasingly under stress.

A slew of government measures to rein in runaway property prices and a broad slowdown in the world's second-largest economy have given Chinese developers nothing but gloom in recent times. Shanghai-based Shui On Land, for one, said this past week that its bottom line for 1H2014 might shrink by about 25% y-o-y. Its results are due end-August.

'Attractive' returns

While it might seem counterintuitive for Chiwayland to head Down Under given that China's economic slowdown is also taking a toll on Australia, a key supplier of natural resources to the Chinese in recent years, Qian is hopeful of prospects in Brisbane. "We think the returns from Australia will be quite attractive." He has in mind an internal rate of return of 25% to 30%.

Through an equal joint venture with Australian developer Property Solutions, Chiwayland will work on three residential projects, costing a total of A$160 million ($185 million). The developments are slated to be completed between 4Q2015 and 2Q2017, and are expected to yield a total gross floor area of 32,000 sq m. The projects are targeted at buyers from China, among others.

Chiwayland, which came to market in Singapore through a $399-million reverse takeover of R H Energy, will bankroll its share of the project cost using internal funds and debt. As at Dec 31 last year, it had RMB383 million ($78 million) in cash on its balance sheet.

Besides Brisbane, Qian is also eyeing opportunities in Sydney, which he expects Chiwayland to penetrate later this year. "In Sydney, we are still seeing projects being fully sold within a day of their launch. This shows buyers' appetite is still there," he says.

"I don't think the property market in Australia is going to be saturated by developments, whether from local or foreign developers, any time soon. In Sydney and Brisbane, the supply of homes has not caught up with demand in recent years. I think there is room for supply to catch up. Based on our own studies, this catch-up process will take at least five years. So, the current situation is actually quite healthy, from a developer's point of view."

Holding steady in China

Chiwayland may also venture into London and markets in the US, Qian says, although its immediate priority is Australia. In the meantime, the company is not slowing down in China, where it has yet to cut its selling prices despite the tougher environment.

As it is, bank lending in China has fallen substantially as the housing market weakens, reducing demand for loans. According to new official data, Chinese banks issued RMB385.2 billion in loans last month, down from RMB1.08 trillion in June.

"The property market in China is still a viable one," Qian maintains. "Over the past six months, China's housing market has been rebalancing because of various cooling measures put in place by the government, such that prices in certain areas have come down.

"But in the last month or so, Beijing started to ease certain restrictions. In the past, each family could buy only one unit or two. Now, this restriction has been lifted in many cities, although it still remains in tier-one cities like Beijing and Shanghai."

Despite the jitters developers are facing, Qian takes comfort in the longer-term outlook. "China is undergoing a rapid economic transformation. Every year, the number of people moving from rural areas to cities is huge and they need to buy homes. The current supply of new homes is still far less than demand."

In the meantime, as a way to grow its top line, Chiwayland continues to work on what is known in China as fixed-price housing development. In this market, it develops public homes and sells them at prices determined by the government. For its fixed-price homes in Suzhou, any units not sold within a year or two of the project's completion will be bought by the local government.

But while this business segment gives some stability to Chiwayland's revenue, profit margins tend to be lower than those for other commercial projects. The group's overall gross margins grew from 19.2% in 2011 to 25.1% in 2012, but fell to 12.2% last year. The decline, despite an increase in revenue last year, was mainly a result of an absence of contributions from higher-margin developments.

Besides residential developments, Chiwayland also works on office and commercial properties, and even educational institutions. In fact, it was years of working in the education industry in China that gave Qian and a few of his friends the idea to jointly pursue a business in developing schools. That eventually led to the founding of Chiwayland in 2002. It was only two years later that the company took on its first residential development project.

Despite its 12-year track record, the group will need to do more to convince investors of its merits. As part of the reverse takeover, it carried out a compliance placement of shares at 60 cents apiece to meet SGX's shareholding spread and distribution requirements. The stock has yet to close above that price though. It ended at 43.5 cents on its first day of trading and slipped to as low as 37.5 cents over the following sessions.

As far as Qian is concerned, however, the pullback matters little. "What's more important is the business of the company. I am more concerned about making sure we do our job well. I am not too bothered by any short-term weakness in our share price." Sinway Investment, a vehicle he controls, is the biggest shareholder of Chiwayland, with a stake of 80%.

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