

Key Data

Share price (HK\$)	3.51
Target price(HK\$)	5.82
Upside potential	65.8
52Wk H/L(HK\$)	5.21/2.13
Issued shares (mn)	14,893
Market cap (HK\$m)	52,504
30-day avg vol (HK\$m)	493.4
Auditors	PwC
Major shareholder:	
Xu jiayin*	68.1

*The founder and Chairman of the group
Source: Company data & Bloomberg

Revenue composition in FY11 (%)

Property development:	97.7
Others	2.3

Source: Company data

Share performance (%)

	Absolute	Relative*
1-mth	(20.0)	(20.8)
3-mth	(22.9)	(21.0)
6-mth	(9.1)	(5.8)

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

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Evergrande (3333 HK) –Buy
Real Estate Development Industry

Short-term price weakness provides buying opportunity

Sales for Chinese developers are expected to be slightly weak in Jul-Aug, Evergrande may outperform but advantage is not obvious. Besides, interim results will be a trigger point, shifting market focus more on quality of sales. The volume player may see more margin squeezing on discount offered during the price war. Although surrounded by negative news flows, on stronger GFA delivered, margin improvement for 2H12 and brighter sales outlook for strong season, Sep-Oct, the fundamentals of Evergrande are recovering. Short-term price weakness provides buying opportunity on the stock.

July contracted sales weaken due to seasonal factor: Chinese property developers are expected to post 10-30% MoM drop for contracted sales in July. Hot weathers across the nation deter buyers' purchase. The situation may continue until Sep. By announcements, July sales for Vanke(000002 CH), R&F(2777 HK) and Sunac(1918 HK) dropped by 22%, 15% and 27% respectively compared to June. We estimate Evergrande's July sales to come in flat with Jun at Rmb8.2bn. The launch of mega-size Qidong project lent support on its performance in the month.

Focus shift to quality of sales: With reporting season approaching, we believe the market focus besides on quantity of sales, will increasing be on quality of sales. Most developers will report interim results late Aug. Part of contracted sales made in 2011 and all the inventory sales in 1H12 will be recognized in the interim.

Low margin players more sensitive to ASP change: As the cost of goods sold are relative stable, property developers' margin are more dependent on ASP change. The discount offered, in 2H11 and early this year are expected to squeeze margins and drag down bottom lines of developers' 1H12 results. Among our coverage, the volume player, Evergrand is expected to be more sensitive to the ASP change. We expect its gross margin for 1H12 to decline by 5.1bp to 30.0% against 35.1% for 1H11. Although we expect top line to grow by 0-5% YoY to Rmb32.1-33.7bn, squeezing margin will lead core net profit decline by 15-25% YoY to Rmb3.6-4.1bn.

Risk factors: Stronger-than-expected GFA deliver to cushion off the margin squeezing; high gearing; unfavorable government policy.

Forecast and Valuation

FY ended Dec 31	FY09A	FY10A	FY11A	FY12E	FY13E
Core net profit^ (Rmbmn)	492	5,510	8,610	10,535	12,210
YoY chg(%)	3.7	1021.0	56.3	22.4	15.9
Core EPS (Rmb)	0.033	0.365	0.565	0.704	0.816
BVPS(Rmb)	0.86	1.37	2.15	2.70	3.34
PE(x)	-	-	5.7	4.6	3.9
PB(x)	-	-	1.50	1.19	0.96
Dividend yield (%)	-	-	5.9	5.5	6.3
ROAE(%)	8.5	45.3	42.7	28.8	27.0

^Excluding revaluation G/L on investment property; @Rmb0.8121/HK\$

Source: Company data, Bloomberg, ABCI Securities estimates



Disclosures

Analyst Certification

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Li Hong-ying has financial interest in Evergrande Real Estate Group Limited as at 6 Aug 2012.

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