

May 8, 2015

Sector Rating: Overweight

 Analyst: Kenneth Tung
 Tel: (852) 2147 8311
 Email: kennethtung@abci.com.hk

Key Data

Avg.15E P/E (x)	7.2
Avg.15E P/B (x)	0.9
Avg.15E Dividend Yield (%)	4.4

Source(s): ABCI Securities estimates

Sector performance (%)

	Absolute	Relative*
1-mth	27.47	16.66
3-mth	39.27	25.20
6-mth	42.64	24.44

* Relative to Hang Seng Index

Source(s): Bloomberg, ABCI Securities

1-Year Sector performance (%)



Source(s): Bloomberg, ABCI Securities

China Property Sector Mainland capital to drive sector re-rating

- ❖ Mainland capital should boost share performance of China property sector in Hong Kong
- ❖ Quality small/mid-cap developers, high-yield players, and companies with unique business models should outperform
- ❖ Expect more supportive policies to come in 2015
- ❖ Wanda (3699 HK) and Franshion (817 HK) are our top picks for the China property sector

Rising interest from mainland investors drives share price of HK-listed mainland property stocks. Rising daily turnover in Apr (+139% from HK\$ 85bn in 3M15 to HK\$ 203bn in Apr) shows increased interest from mainland investors in the Hong Kong stock market. Property sector, as one of the most familiar sectors for the mainland investors, rallied by 27.5% and outperformed HSI by 16.7ppt between Apr 2 and May 6. We expect further inflow of mainland capitals into the property sector through **1) reallocation of capital from the physical market to equity market.** Given the weakening performance observed in physical market (3M15 national property price fell 1.1%), property buyers may reallocate their capital to property-related investment in the equity market; **2) reallocation of capital from fixed-return trust products to stocks**, as driven by the buoyant stock market. Evergrande (3333 HK), which had issued a wide range of trust products in China, was the most traded property southbound stock in Mar under the SH-HK connect. We believe 3 kinds of property stock would outperform in the near term: **1) Quality small/mid- cap developers**, whose valuations are usually much lower in Hong Kong (5.8x 2015E P/E) than in China (14.5x 2015E P/E). Fundamentals (e.g. presales, profits) of HK-listed names are usually stronger than A-share peers; **2) High-yield players**, as it is rare for A-share developers to have a dividend yield higher than 4%; **3) Players with a unique business model**, such as Wanda (3699 HK) that generates a significant amount of rental income, and Franshion (817 HK) that secures landbank via primary land development.

More supportive policies to come. In Mar, the Chinese government announced 2 property-specific policies: 1) Reduction of down payment ratio for 2nd home to 40% from 50%; 2) Exemption of business tax for disposal of property purchased for more than 2 years. So far, the policies have been focusing on stimulating 2nd-home or upgraders' demand. We believe measures to increase 1st-home purchases (such as the discount mortgage policy) would be rolled out soon to foster property demand.

Wanda and Franshion are our top picks. Wanda and Franshion are our top picks for China property sector given their unique business models compared to A-share peers (e.g. high exposure in investment properties or primary land development projects). Wanda, which was ranked 1st by rental income and market cap and 3rd by presale in China, should overtake COLI to become the sector's new proxy after its listing in Dec 2014. Franshion also stands out among the small/mid- cap developers with its SOE background. After the recent rally, we believe upsides are limited for Evergrande (3333 HK) and COLI (688 HK), thus we downgrade these counters from Buy to **HOLD**.

Risk factors: 1) Aggressive price cut to clear inventories may hurt margins; 2) Litigation risks related to improper land acquisition.

Sector Valuation Summary (data as of May 6, 2015)

Company	Ticker	Rating	Price (HK\$)	TP (HK\$)	FY15E P/E(x)	FY16E P/E (x)	FY15E P/B (x)	FY16E P/B (x)	FY15E Yield (%)	FY16E Yield (%)
Franshion	817	BUY	3.12	4.50	8.2	6.5	0.8	0.7	4.0	5.1
Wanda	3699	BUY	64.00	88.00	9.5	7.1	1.4	1.2	3.1	4.2
CIFI	884	BUY	2.50	3.20	5.7	5.2	1.0	0.9	4.8	5.2
Sunac	1918	BUY	10.00	12.00	5.7	5.3	1.3	1.1	3.2	3.4
COLI	688	HOLD	29.45	29.50	9.9	7.0	1.4	1.3	2.0	2.8
Greentown	3900	HOLD	9.95	9.70	5.5	5.6	0.7	0.6	5.0	5.7
Evergrande	3333	HOLD	7.43	6.90	13.4	10.1	0.8	0.8	3.7	4.9

Source(s): Companies, ABCI Securities estimates



Contents

Share price rally continues	3
Consistent capital inflow to property sector	3
Selecting the right stocks	4
Bond market shows signs of improvement	6
More supportive policies to come soon	7
Wanda (3699 HK) and Franshion (817 HK) are our top large/small-cap picks.....	9
Wanda: A successful model not replicable by others; initiate BUY....	10
Franshion: SOE player with attractive valuations	10
Wanda (3699 HK).....	13
Franshion (817 HK)	29
Evergrande (3333 HK).....	29

Share price rally continues

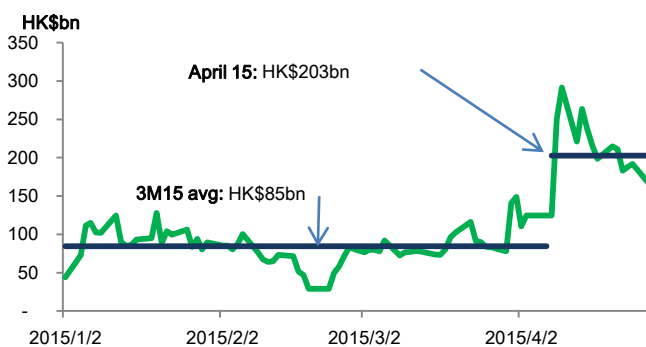
Consistent capital inflow to property sector

Rising daily turnover (ADT) in Apr (+139% from HK\$ 85bn in 3M15 to HK\$ 203bn in Apr) indicates growing interest from mainland to invest in Hong Kong's stock market. Property sector rallied by 27.5% and outperformed HSI by 16.7ppt between Apr 2 and May 6. As the equity market rebounds, we expect further capital inflow from mainland to the property sector via two channels:

1) Reallocation of capital from physical market to equity market. Given the lackluster performance in the physical market (national property price fell 1.1% in 3M15), property buyers may switch to allocate their capital to property-related investment in the equity market;

2) Reallocation of capital from fixed-return trust products to equity shares, as the recent uptick in stock market boosts sentiment. Evergrande, which issued a wide range of trust products in China, was the most traded property stock in southbound trading under the SH-HK stock connect in Mar. Evergrande's shares have surged 88% since Apr 8 despite the company's disappointing annual results. This could indicate risk appetite has increased and trust investors are entering the equity market. As of 4Q14, outstanding balance of real estate-related trust products was RMB 1,310bn, comparable to ~50% of aggregated market cap (HK\$ 3,454bn) of all property and construction stocks listed in HK as at Dec 2014.

Exhibit 1: Daily turnover of Hong Kong stock market



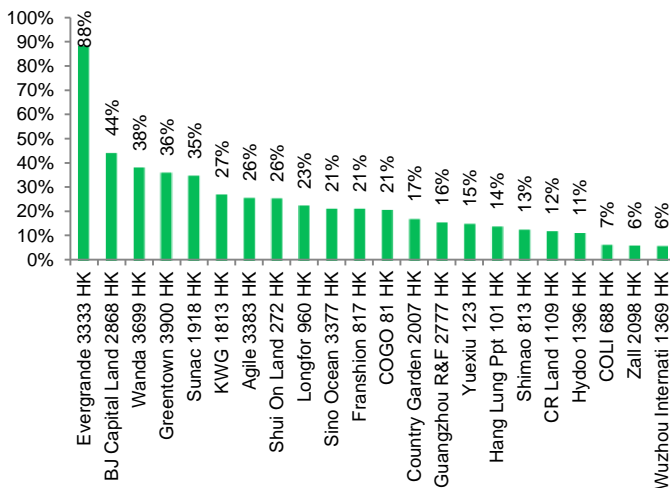
Source(s): Bloomberg, ABCI Securities

Exhibit 2: Property sector performance vs. HSI (Apr 2014=100)



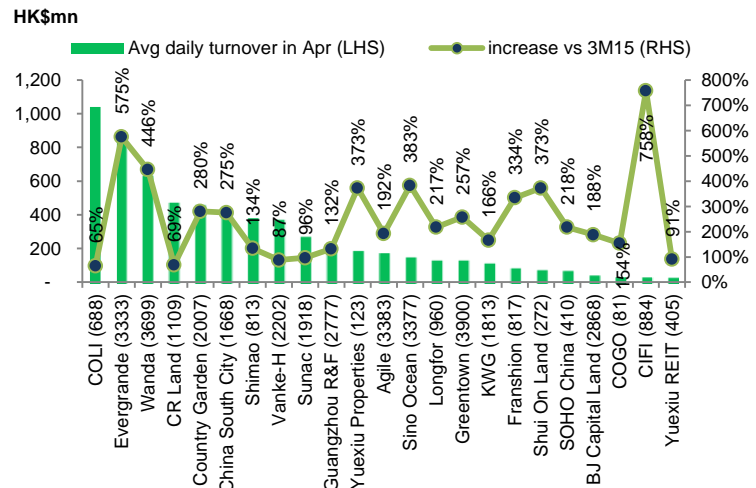
Source(s): Bloomberg, ABCI Securities

Exhibit 3: Share price performance between Apr 2-May 6



Source(s): Bloomberg, ABCI Securities

Exhibit 4: Daily turnover of mainland developers (% change)



Source(s): Bloomberg, ABCI Securities

Exhibit 5: Trust investment by sector in China

Sector	Total trust investment (RMB bn)			As % of total	
	2014	2013	YoY chg	2014	2013
Commercials	3,130	3,070	2.0%	24.0%	28.1%
Infrastructure	2,770	2,755	0.6%	21.2%	25.3%
Financial institution	2,270	1,309	73.4%	17.4%	12.0%
Securities	1,840	1,129	62.9%	14.1%	10.4%
Real Estates	1,310	1,094	19.7%	10.0%	10.0%
Others	1,720	1,552	10.8%	13.2%	14.2%
Total	13,040	10,910	19.5%	100.0%	100.0%

Source(s): China Trustee Association, ABCI Securities

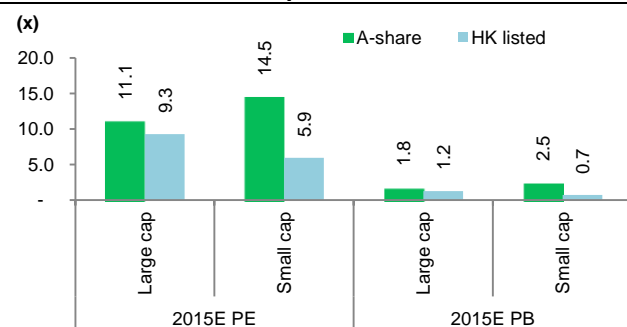
Selecting the right stocks

As capital from mainland to Hong Kong is increasing, we believe stocks that are deemed attractive by mainland investors would outperform. We have identified 3 types of developers that would appeal to the Chinese investors.

■ Small-cap developers of quality

A-share investors favor small-cap over the large-cap players, as share prices of the former usually exhibit higher volatility and could potentially result in lucrative capital gain in a market rally. In the A-share market, small-cap developers are trading at a 30% premium to large-cap peers by P/E and 39% by P/B. The situation is reversed in the Hong Kong market (38% discount to large-cap by P/E and 42% by P/B), where small developers are considered as riskier. We believe the valuation gap of small-cap HK-listed developers (60% discount to A-share small-cap peers by P/E) would present a great opportunity for mainland investors.

Besides, a number of smaller developers have chosen to be listed in the Hong Kong due to the lengthy IPO process in China, and hence the width of choices for small-cap mainland developers is wider in Hong Kong. For instance, among top 20 players by presales, only 7 are listed in A-share while 13 are listed in HK (of which 5 are small-mid cap). In general, HK-listed small-cap mainland developers have stronger fundamentals (such as presales, profit, margin, etc.) than their A-share counterparts.

Exhibit 6: Valuation comparison - A-share vs. HK-listed

Exhibit 7: Market cap vs. Presales

		Mkt cap HK\$bn	2014 Presales RMBbn	2014 Presales Rank
HK-listed				
Sino Ocean	3377 HK	46.4	36.0	18
Sunac	1918 HK	33.8	65.8	10
Guangzhou R&F	2777 HK	31.1	55.0	11
Agile	3383 HK	25.1	43.0	16
Yuexiu Properties	123 HK	23.4	22.1	30
A-share listed				
Xiamen C & D	600153 CH	49.4	14.0	60
Risesun	002146 CH	47.9	28.3	21
Youngor	600177 CH	45.5	11.7	68
Thaihot	000732 CH	39.0	20.1	39
Hangzhou Binjiang	002244 CH	23.0	9.6	78

*data at 6 May 2015

Source(s): Bloomberg, ABCI Securities estimates

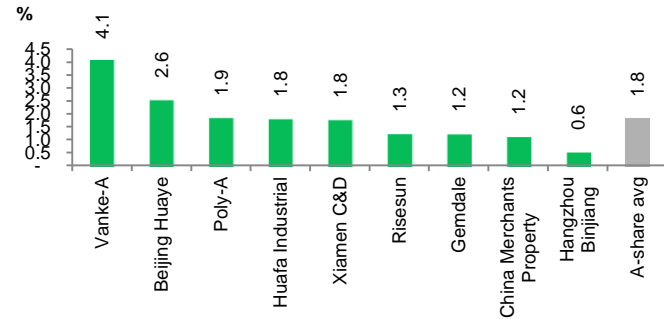
Red= top 20 players by presales; Data as at 6 May 2015

Source(s): Bloomberg, ABCI Securities

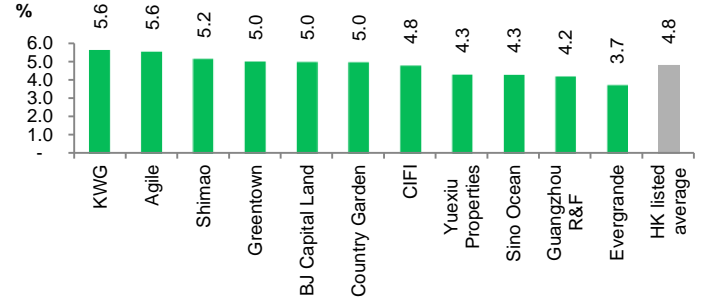
■ High-yield players

High-yield property players in the A-share market are rare. We believe Evergrande's strong share performance (+88% since Apr 8) after announcing a generous dividend indicates growing demand of yield investors. Yield rate of A-share developers is 1.8% on average, much lower than the 4.8% among HK-listed peers. Even after the recent rally, some HK-listed mainland developers such as Agile (3383 HK), KWG (1813 HK) and BJ Capital Land

(2868 HK), still offers a yield higher than 5.5%. These high-yield players should attract interest from trust product investors pursuing higher yields instead of capital gain.

Exhibit 8: 2015E Dividend yield of A-share developers


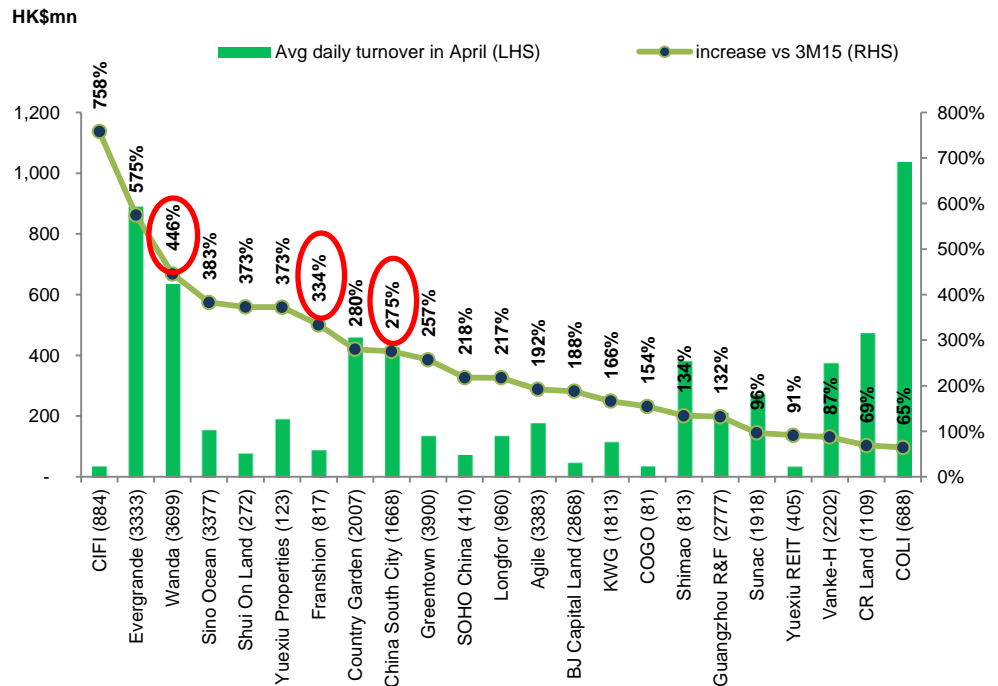
*data at 6 May 2015
 Source(s): Bloomberg, ABCI Securities estimates

Exhibit 9: 2015E Dividend yield of H share developers


*data at 6 May 2015
 Source(s): Bloomberg, ABCI Securities estimates

■ Unique business model

Developers with an unconventional business model, including those that engage in logistics (China South City, 1668 HK), primary land development (Franshion, 817 HK), or have high exposure in investment properties (Wanda, 3699 HK), may attract interest from mainland investors due to their scarcity in the A-share market. ADT rose 446% to HK\$ 636mn for Wanda, 280% to HK\$ 461mn for CSC and 334% to HK\$91mn for Franshion in April as compared to that in 3M15, indicating strong capital inflow to these counters.

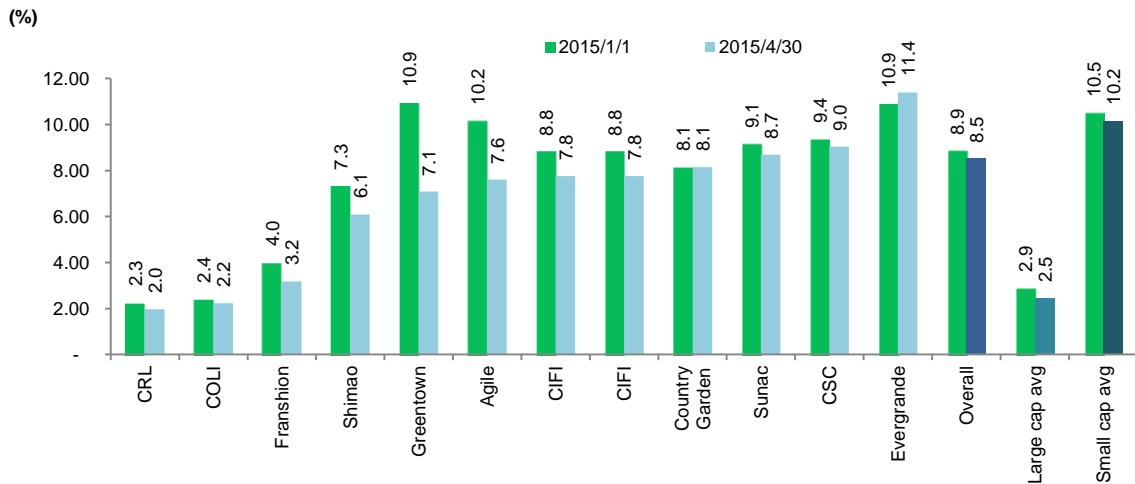
Exhibit 10: Increase in average daily turnover (3M15 vs. Apr)


Source(s): Bloomberg, ABCI Securities

Bond market shows signs of improvement

The bond market has rebounded recently along with the rising equity market. Average bond yield declined 33bps from 8.9% in Jan 2015 to 8.5% in Apr 2015. New bond issuance remained low in 1Q15, down 51% YoY to US\$ 4,480mn. The Chinese government continues to ease liquidity by slashing interest rate and RRR, and requirements for onshore borrowing have been loosened. We expect offshore bond market to weaken this year, but bond yield may decline further as the overall credit situation improves within the property sector.

Exhibit 11: Bond yield of the mainland developers



Source(s): Bloomberg, ABCI Securities

Exhibit 12: Property bond issuance by mainland developers

Issuer Name	Ticker	Code	Issue Date	Maturity Date	Currency	Amount Issued USDmn	Coupon %
Shimao	813 HK	SHIMAO	2/10/2015	2/10/2022	USD	1,100	8.375
Evergrande	3333 HK	EVERRE	2/17/2015	2/17/2020	USD	1,000	12
Sino-Ocean	3377 HK	SINOCE	2/4/2015	2/4/2020	USD	700	4.45
Sino-Ocean	3377 HK	SINOCE	2/4/2015	2/4/2027	USD	500	5.95
Times Property	1233 HK	TPHL	3/5/2015	3/5/2020	USD	280	11.45
Country Garden	2007 HK	COGARD	3/9/2015	3/9/2020	USD	900	7.5
1Q15 total						4,480	
1Q14 total						9,166	
YoY change						-51%	

Source(s): Bloomberg, ABCI Securities

More supportive policies to come soon

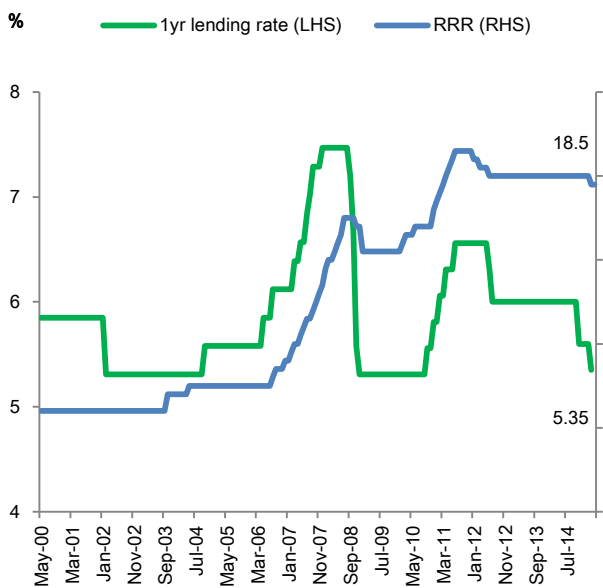
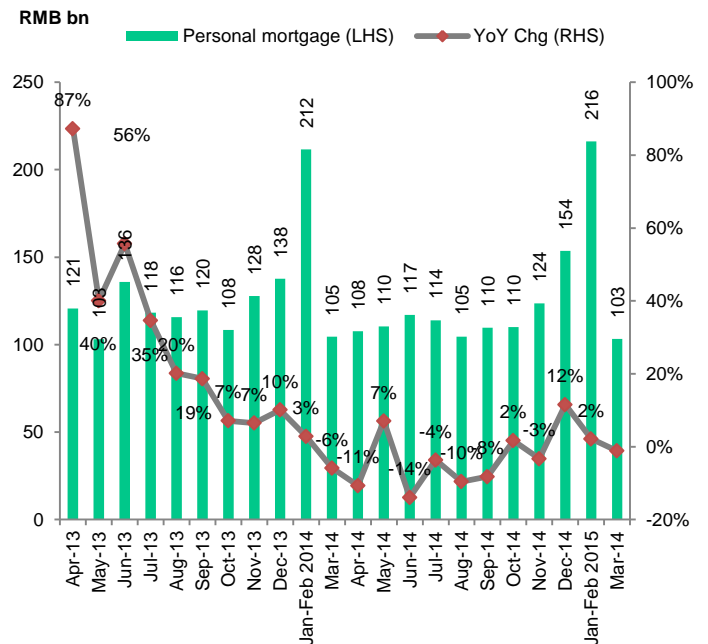
After the first rate cut of 40bps in Nov 2014, the benchmark lending rate was further lowered by 25bps on Feb 28 to 5.35%, while RRR was slashed by 50bps on Feb 4 and 100bps on Apr 19 to 18.5%. In Mar, China also introduced 2 property-specific policies to stimulate the property market:

1) Down payment ratio for 2nd home lowered to 40% from 50%. Previously, 2nd-home buyers can only enjoy lower down payment ratio if their 1st-home mortgages are fully repaid.

2) Properties purchased for more than 2 years will be exempted from business tax when disposed. Previously, the policy required a longer holding period of 5 years.

These measures are intended to strengthen investment demand in the property market; however, presales among major developers remained weak in 1Q15 and fell 13% YoY on average. Thus, we expect more favorable policies to be introduced in 2H15.

As home-purchase restriction is removed (except in tier-1 cities), we believe supportive measures would mainly focus on credit easing going forward. So far, most effort has been placed on stimulating 2nd-home or upgraders' demand. There is still room to revive momentum in the 1st-home buyer market through policies such as discounted mortgage. In fact, total mortgage, which fell 1% YoY in Mar, have not expanded despite the two RRR cuts this year. We believe more administrative measures would be implemented to encourage banks' lending in the near term.

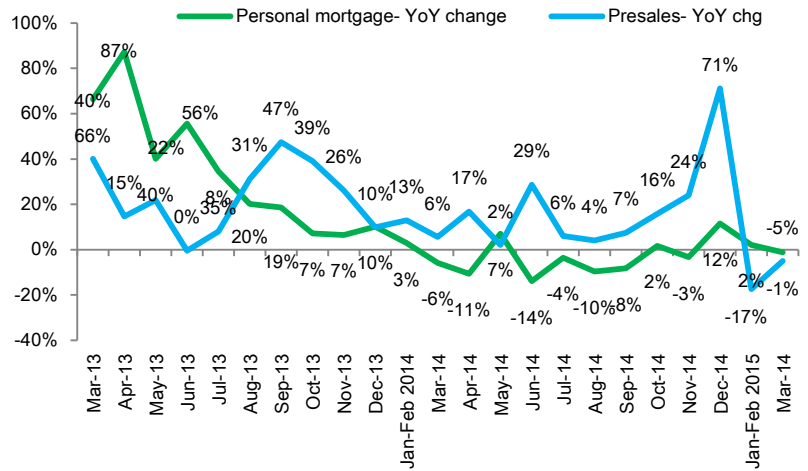
Exhibit 13: RRR and lending rate in China

Exhibit 14: Mortgage loan growth in China


Source(s): NBS, ABCI Securities

Source(s): NBS, ABCI Securities



Exhibit 15: Monthly sales performance and mortgage loan growth are highly correlated



Source(s): NBS, ABCI Securities

Exhibit 16: 3M15 presales and target completion ratios

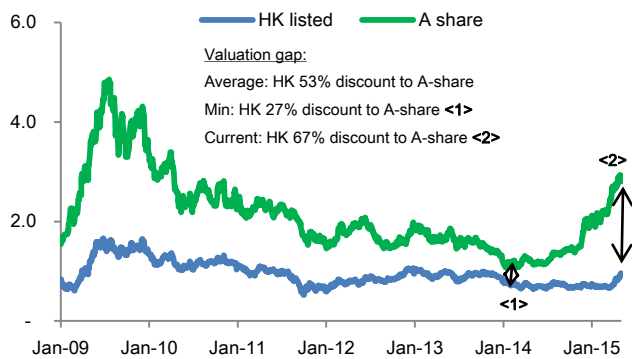
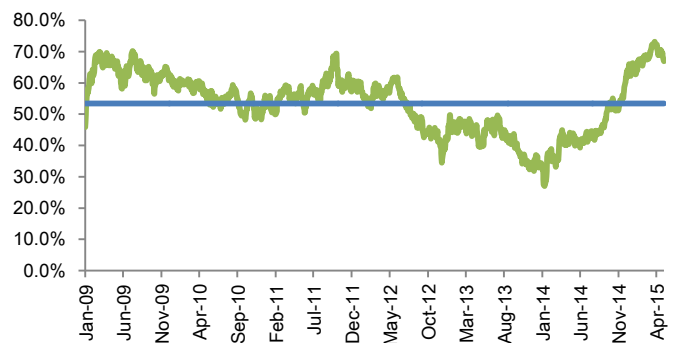
(RMBbn)	Mar-15	YoY	3M15	YoY	2015 Target	Achievement ratio	2014 Actual	2014 Target	Achievement ratio
1 Beijing Capital	3.9	156%	5.7	138%	25	23.1%	25	28	88.8%
2 CR Land	5.1	33%	15.3	60%	69	22.1%	69	70	98.9%
3 Sunac	3.5	-15%	10.9	17%	66	16.6%	66	65	101.3%
4 Sino-Ocean	2.0	-1%	5.7	12%	40	14.2%	40	40	100.4%
5 Greentown	5.6	6%	12.6	4%	79	15.9%	79	65	122.2%
6 Evergrande	13.7	31%	30.5	0%	132	23.2%	132	112	117.4%
7 COLI*	11.1	3%	32.5	-6%	140	23.2%	140	140	100.3%
8 Shimao	5.6	-7%	10.8	-9%	70	15.3%	70	80	87.8%
9 Yuexiu	1.4	15%	3.9	-11%	22	17.7%	22	22	100.1%
10 Gemdale	4.1	-4%	6.7	-14%	49	13.6%	49	60	81.7%
11 Vanke	14.7	2%	46.3	-15%	215	21.5%	215	200	107.6%
12 KWG	1.4	-19%	3.8	-20%	21	18.7%	21	21	97.7%
13 Longfor	3.0	-25%	7.3	-20%	49	14.9%	49	57	86.1%
14 Agile	2.9	-37%	7.6	-26%	44	17.2%	44	48	92.0%
15 CIFI	1.5	35%	3.7	-30%	22	16.8%	21	22	95.8%
16 Poly-A	7.5	-28%	19.5	-31%	137	14.3%	137	150	90.9%
17 Country Garden	6.3	-4%	17.7	-44%	129	13.8%	129	128	100.6%
18 R&F	3.9	-57%	8.0	-47%	54	14.8%	54	65	83.7%
Total	96.1	-5%	245.0	-13%	1, 378	99.1%	1,375	1,388	99.0%

* in HK\$

Source(s): Companies, ABCI Securities

Wanda (3699 HK) and Franshion (817 HK) are our top large/small-cap picks

As mainland capital continues to enter the Hong Kong stock market, we believe small/mid- cap developers should enjoy a re-rating due to significant valuation gap between share in Hong Kong and China. Despite the stock rally in Hong Kong since Mar, average P/B of HK-listed mainland developers (0.93x) is still 67% lower than its A-share peers (2.80x), given the rally in A share market has started since end-2014. Historically, the P/B discount between Hong Kong and A-share is 53% on average with 27% as the minimum. We believe the valuation gap would narrow and revert to the historical average of 53%.

Exhibit 17: Historical PB- A share vs. HK listed developers

Exhibit 18: PB discount- HK listed to A-share developers


Source(s): Bloomberg, ABCI Securities

 *calculated by PB of HK listed developers/ PB of A-share listed developer-1
 Source(s): Bloomberg, ABCI Securities

Hence, we lower our discount to NAV assumptions for Franshion, CIFI, (884 HK) Sunac (1918 HK), Evergrande and Greentown by 10-20ppt. We believe these valuations are not aggressive given that the average premium of 20% among the A-share developers. After the recent rally, however, we believe upsides are limited for Evergrande and COLI, thus we downgrade these counters from Buy to **HOLD**. Within the property sector, Wanda and Franshion are our top picks due to their unique business models (such high exposure in investment properties and primary land development.) among the A-Share property peers.

Wanda, which was ranked 1st by rental income and market cap and 3rd by presale in China, should overtake COLI to become sector's new proxy after its listing in Dec 2014 on HKEx. Franshion, with its SOE background, should stand out among the small/mid- cap developer.

Exhibit 19: Changes in TP in our China property coverage universe

Company	Ticker	Rating		NAV (HK\$)		Discount (%)		TP (HK\$)		
		Previous	Current	Previous	Current	Previous	Current	Previous	Current	Change (%)
Wanda	3699	NA	BUY	NA	146.60	NA	40%	NA	88.00	NA
Franshion	817	BUY	BUY	6.42	7.42	50%	40%	3.21	4.50	40.2%
COLI	688	BUY	HOLD	29.5	29.5	0%	0%	29.49	29.50	0.0%
CIFI	884	BUY	BUY	4.53	4.53	50%	30%	2.27	3.20	41.2%
Sunac	1918	BUY	BUY	24.06	24.06	60%	40%	9.60	14.40	50.0%
Evergrande	3333	BUY	HOLD	9.50	8.61	60%	30%	3.80	6.90	81.6%
Greentown	3900	HOLD	HOLD	17.00	12.18	50%	30%	8.50	9.70	14.1%
CSC	1668	BUY	BUY	9.11	9.11	50%	50%	4.60	4.60	0.0%
Kaisa	1638	Under review	Under review							

Source(s): Companies, ABCI Securities estimates



Wanda: A successful model not replicable by others; initiate BUY

- **Impressive rental track record.** Riding on fast-growing retail sales in China, Wanda's shopping malls experienced tremendous growth over the past few years. Driven by rising leasable floor area (30% CAGR over 2011-14) and growing rent rate (8% CAGR over 2011-14), rental income rose from RMB 3.8bn in 2011 to RMB10.3bn, implying a 40% CAGR over the period. With 107 operating shopping malls across 71 cities, Wanda is geographically diversified. In 3M15, rental income rose 33.1% YoY to RMB 3.3bn, in line with its full-year target growth of 30% YoY.
- **High margins from property sales.** Wanda's typical property, the Wanda Plaza, consists mainly of shopping centers for lease, and luxury hotels, offices, residential and ground-level shops for sales. GPM of residential properties is only 24%, which is in line with the sector average. However, GPMs of office and retail are high at 40% and 63% as their ASPs are around RMB 12k/sqm and RMB 27k/sqm. These lucrative sales elevate Wanda's overall GPM to 40% or higher, exceeding the peer average (2014: 29.5%). In 3M15, Wanda's presales rose 21% YoY to RMB 16.7bn, exceeding the sector average of -13% YoY.
- **Low financing costs.** Wanda's net gearing rose from 53% in Dec 2013 to 56% in Dec 2014 as the Company continues to expand. However, rising net gearing has not impaired the Company's ability to obtain low-cost debts, as Wanda can use its rent-generating investment properties as collaterals for bank borrowings. Average interest rate declined from 8.6% in 2013 to 7.9% in 2014, which was below the sector average.
- **Becoming the sector's new proxy; initiate BUY with TP HK\$ 88.00.** We assess the value of Wanda with the use of the discount-to-NAV method, one of the most common valuation metrics applied for developers in China. The DCF-derived NAV for Wanda was RMB 117.29/share, or HK\$ 146.60/share, based on a WACC of 11.5% for saleable properties and a 6.0% cap rate for investment properties. We apply a discount of 40%, which is similar to the average among commercial developers (40%), and our TP arrives at HK\$ 88.00. The counter is trading at 9.5x 2015E P/E or a 56% discount to 2015E NAV, which is highly undervalued in our view. For comparison, COLI, the 5th largest developer by presale (2014: HK\$140bn, 30% lower than Wanda), is now trading at 9.9x 2015E P/E and 0% discount to 2015E NAV; Hang Lung, the 2nd largest landlord in Hong Kong and China by rental income (2014: HK\$ 7.2bn, 44% lower than Wanda) is trading at 17.5x 2015E P/E and a 27% discount to 2015E NAV. Listed in Dec 2014, Wanda has exceeded COLI to become the largest HK-listed mainland developers by market cap. In our opinion, Investors favoring large-cap with leading exposure in China's real estate industry may prefer Wanda over COLI.

Franshion: SOE player with attractive valuations

- **Presales surged 170% YoY in Apr 2015.** As a result of various favorable policies (interest rate and RRR cuts, lower down payment ratio for 2nd-home purchase) in recent months, Franshion's presales rebounded 170% YoY to RMB2.3bn in Apr and 53% YoY to RMB 891mn in Mar, reversing the downtrend observed in Jan (-81%YoY) and Feb (-42% YoY). We expect sales momentum to accelerate further in 2H14. For 2015, Franshion announced a sales target of RMB 24.8bn (implying a 15% YoY growth), of which RMB 21.8bn would be coming from residential/commercial sales (+18%YoY) and RMB3bn from land sales, comparable to last year. The announced target growth is higher than the 10% average growth target among peers.



- **Franshion announced its long-term target by: (1) Achieving a presale of RMB80bn by 2019 (34%CAGR in 2015-19).** This will be achieved by a) developing its primary landbank instead of selling to any third parties. Together with the Nanjing primary development secured in Jan 2015, total landbank for primary development reached 21.4mn sqm; b) engaging in more JV projects. Since 2014, most of Franshion's new projects are JV in nature. Franshion decides that a 50-70% stake in new projects will be optimal. **(2) Rental revenue to reach HK\$ 5bn (vs. HK\$3.5bn from investment properties and hotels in 2014).** This could be achieved by the addition of 0.69mn sqm of investment properties under construction at present.
- **Quality landbank addition.** Franshion acquired several premium sites in 2014 during the market downturn. In particular, 3 out of the 7 sites acquired are located in tier-1 cities. Attributable land capex in 2014 amounted to RMB11.3bn (or 61% of total presales in the same year), and saleable resources for the Group should increase going forward. Franshion also acquired an 80% stake in a primary development project in Nanjing Jiangning Shangfang City center in Jan 2015. The site has an area of 3.8mn sqm; total estimated cost for the project is RMB 17bn (or ~RMB 4,500/sqm) and completion is expected to take place in 8 years. Located only 12 km away from downtown, this site will be Franshion's first project in shantytown renewal. ASP in the region is ~ RMB 11-15k/sqm at present.
- **SOE developers with attractive valuations; top BUY in the sector.** We factor in Franshion's latest land acquisitions and raise our 2015E-16E net profit by 20-30% to reflect better-than-expected presales. We also lift our FY15E NAV to HK\$ 7.42 (from HK\$ 6.64) and TP to HK\$ 4.50 (from HK\$ 3.30) based on a 40% discount to NAV. Franshion's valuations at 8.2x FY15E P/E and 58% discount to FY15E NAV are the lowest among SOE developers (COLI: 9.9x FY15E P/E, 0% discount to FY15E NAV; CR Land: 12.0x FY15E P/E, 5% discount to FY15E NAV).

Exhibit 20: Valuation table

China Property	Ticker	Rating	TP	Mkt cap	Share Price	Performance				Discount to NAV (%)	Valuation								
						3M	YTD	2014			P/E			Yield (%)			P/B		
											2014A	2015E	2016E	2014A	2015E	2016E	2014A	2015E	2016E
				(HKD bn)	(local ccy)	% Chg	% Chg	% Chg											
Residential:																			
1	Wanda	3699 HK	BUY	88.00	303	64.00	42	35	na	(56.34)	12.9	9.5	7.1	1.9	3.1	4.2	1.3	1.4	1.2
1	COLI	688 HK	HOLD	29.50	241	29.45	28	28	8	(0.15)	10.1	9.9	7.0	1.9	2.0	2.8	1.8	1.4	1.3
2	Vanke-H	2202 HK	NR		190	18.78	12	9	30	(2.44)	15.6	8.5	7.4	3.3	3.9	4.5	1.9	1.6	1.4
3	CR Land	1109 HK	NR		174	26.60	31	30	10	(5.17)	14.7	12.0	10.2	1.9	2.1	2.5	1.6	1.5	1.3
4	Evergrande	3333 HK	HOLD	6.90	109	7.43	127	137	24	(13.66)	37.4	13.4	10.1	7.2	3.7	4.9	0.8	0.8	0.8
5	Country Garden	2007 HK	NR		91	4.04	32	30	(28)	(40.41)	7.9	6.5	5.8	4.6	5.0	5.6	1.2	1.0	0.9
6	Longfor	960 HK	NR		81	13.88	38	39	(5)	(27.82)	9.8	8.4	7.4	2.6	2.6	2.9	1.3	1.2	1.0
7	Shimao	813 HK	NR		65	18.70	16	8	4	(43.10)	6.6	5.8	5.2	4.8	5.2	5.8	1.1	1.0	0.9
8	Sino Ocean	3377 HK	NR		46	6.18	27	40	(8)	(31.46)	10.4	9.3	8.1	3.8	4.3	4.8	0.9	0.8	0.8
9	Sunac	1918 HK	BUY	12.00	34	10.00	44	27	81	(58.65)	7.1	7.6	7.2	2.4	2.4	2.5	1.6	1.4	1.2
10	Guangzhou R&F	2777 HK	NR		31	9.66	10	2	(11)	(68.79)	7.0	4.5	4.0	0.0	4.2	5.9	0.7	0.5	0.5
11	Agile	3383 HK	NR		25	6.40	38	45	(43)	(63.59)	5.1	5.3	5.1	6.1	5.6	5.7	0.6	0.5	0.5
12	Yuexiu Properties	123 HK	NR		23	1.89	23	27	(13)	(57.53)	11.9	10.3	9.0	4.0	4.3	4.8	0.6	0.6	0.6
13	KWG	1813 HK	NR		23	7.79	57	47	33	(49.35)	6.7	5.7	4.8	5.3	5.6	6.6	0.9	0.8	0.7
14	Greentown	3900 HK	HOLD	9.70	22	9.95	49	29	(30)	(18.34)	9.3	5.5	5.6	0.0	5.0	5.7	0.7	0.7	0.6
15	CIFI	884 HK	BUY	3.20	15	2.50	61	71	68	(44.86)	6.2	5.7	5.2	4.4	4.8	5.2	1.2	1.0	0.9
16	BJ Capital Land	2868 HK	NR		14	6.87	82	149	22	24.91	8.9	5.8	4.4	4.5	5.0	5.6	1.2	na	na
17	COGO	81 HK	NR		11	4.94	25	25	(46)	(61.91)	9.1	5.5	4.5	1.0	1.5	1.9	0.9	0.8	0.7
HK Listed Avg						39	41	2	(38.20)		10.2	7.3	6.2	3.8	4.4	5.2	1.1	0.9	0.8
- Large cap (>HKD50b) avg						41	39	6	(23.64)		14.4	9.3	7.5	3.5	3.5	4.2	1.4	1.2	1.1
- Small-mid cap (<HKD50b) avg						38	42	0	(47.91)		7.4	5.9	5.2	3.9	5.0	5.9	0.9	0.7	0.6
1	Vanke-A	000002 CH	NR		190	13.56	12	(2)	56	(11.95)	13.5	7.4	6.4	3.7	4.1	4.8	1.7	1.4	1.2
2	Poly-A	600048 CH	NR		183	13.65	44	26	105	(21.55)	14.5	9.8	8.4	1.6	1.9	2.2	2.3	1.9	1.6
3	China Merchants Property	000024 CH	NR		94	31.96	25	21	96	(5.26)	19.3	15.1	13.0	1.0	1.2	1.3	2.6	2.3	2.1
4	Gemdale	600383 CH	NR		71	12.66	43	11	74	0.64	14.2	12.1	10.6	1.0	1.2	1.4	1.8	1.6	1.5
5	Xiamen C&D	600153 CH	NR		49	13.92	53	37	57	64.93	14.7	12.3	10.2	2.9	1.8	1.9	2.3	2.1	1.8
6	Risesun	002146 CH	NR		48	20.09	23	27	62	26.51	11.7	8.7	8.0	2.2	1.3	1.4	2.7	2.2	1.8
7	Beijing Huayue	600240 CH	NR		30	16.70	66	132	77	na	57.3	20.6	18.2	0.6	2.6	2.2	6.3	4.9	4.1
8	Hangzhou Binjiang	002244 CH	NR		23	13.58	84	69	16	0.82	22.2	12.1	12.7	0.5	0.6	0.7	2.2	1.9	1.7
9	Cinda Real Estates	600657 CH	NR		17	8.71	19	7	159	na	16.1	16.2	13.3	1.2	Na	Na	1.7	NA	NA
10	Huafa Industrial	600325 CH	NR		14	14.13	20	15	71	(1.81)	17.8	16.9	15.4	0.7	1.8	2.0	1.6	1.6	1.5
A-share Listed Avg						39	34	77	6.54		20.1	13.1	11.6	1.5	1.8	2.0	2.5	2.2	1.9
- Large cap (>HKD50b) avg						31	14	83	(9.53)		15.4	11.1	9.6	1.8	2.1	2.4	2.1	1.8	1.6
- Small-mid cap (<HKD50b) avg						44	48	74	22.61		23.3	14.5	13.0	1.3	1.6	1.6	2.8	2.5	2.2
Commercial:																			
1	SOHO China	410 HK	NR		30	5.74	5	5	(14)	(28.25)	13.8	26.2	24.9	5.4	5.2	5.3	0.6	0.6	0.6
2	HLP	101 HK	NR		114	25.35	13	19	(8)	(26.99)	11.3	17.5	18.3	3.0	3.1	3.1	0.9	0.8	0.8
3	China South City	1668 HK	BUY	4.60	26	3.26	39	(8)	67	(64.21)	8.3	7.5	5.4	4.3	5.8	7.4	1.1	1.2	1.1
4	Hui Xian REIT	87001 HK	NR		23	3.48	0	4	(3)	(20.46)	28.0	15.3	14.7	7.4	7.9	8.2	0.6	0.7	0.7
5	Franshion	817 HK	BUY	4.50	28	3.12	38	41	(14)	(57.94)	8.5	8.2	6.5	3.7	4.0	5.1	0.9	0.8	0.7
6	Shui On Land	272 HK	NR		20	2.50	42	37	(21)	(30.07)	na	43.5	15.0	2.4	2.2	2.9	0.4	0.4	0.4
8	Yuexiu REIT	405 HK	NR		12	4.36	6	16	11	na	38.4	24.4	22.9	6.8	7.2	7.5	0.7	0.8	0.8
9	Zall	2098 HK	NR		10	2.87	17	7	(2)	na	39.4	na	na	0.0	na	na	1.0	na	na
10	Wuzhou	1369 HK	NR		6	1.39	5	(5)	(21)	na	56.5	9.3	na	0.0	na	na	2.1	na	na
Commercial Avg						18	10	(1)	(43.13)		23.2	17.2	13.7	4.4	6.2	7.2	0.9	0.8	0.7
- Developers						31	18	5	(45.12)		20.3	16.4	12.0	3.7	5.8	7.0	1.0	0.8	0.7
- Landlords/REIT						9	(5)	(3)	(47.22)		33.2	19.9	18.8	7.1	7.5	7.8	0.7	0.7	0.7

* Data as at May 6, 2015

Source(s): Bloomberg, ABCI Securities estimates



May 8, 2015
Company Report
Rating: BUY
TP: HK\$ 88.00

Share price (HK\$) 64.00
Est. share price return 37.5%
Est. 14E dividend yield 3.1%
Est. total return 40.6%

Previous Rating & TP NA
Previous Report Date NA

Analyst: Kenneth Tung
Tel: (852) 2147 8311
Email: kennethtung@abci.com.hk

Key Data

52Wk H/L(HK\$)	68.0/43.8
Issued shares (mn)	4,474
Market cap	300,615
3-mth avg daily turnover (HK\$ mn)	212.6
Major shareholder(s) (%):	
WANG Jian Lin	50.5

Source(s): Company, Bloomberg, ABCI Securities

FY14 Revenue breakdown (%)

Property Development	99.2
Property Management	0.8

Source(s): Company, ABCI Securities

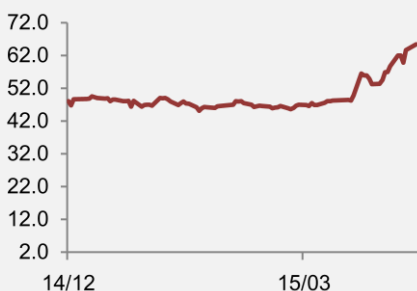
Share performance (%)

	Absolute	Relative*
1-mth	38.3	23.9
3-mth	39.1	21.7
6-mth	NA	NA

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Wanda (3699 HK)

A successful model not replicable by others; initiate BUY

- Wanda is the top commercial developer in China by GFA of investment properties. Rental income reached RMB 10.3bn rental income in 2014 and is targeted to rise 30% YoY in 2015
- Third largest developer by presale in 2014 (RMB 160bn); the Group expects presales growth to moderate from 27% YoY in 2014 to 5% YoY in 2015
- GPM at above 40% for 2012-14 despite declining margin across the sector
- Initiate Wanda with **BUY** with TP of HK\$ 88.00 based on a 40% discount to 2015E NAV

Impressive rental track record. Riding on fast-growing retail sales in China, Wanda's shopping malls experienced tremendous growth over the past few years. Driven by rising leasable floor area (30% CAGR over 2011-14) and growing rent rate (8% CAGR over 2011-14), rental income rose from RMB 3.8bn in 2011 to RMB10.3bn, implying a 40% CAGR over the period. With 107 operating shopping malls across 71 cities, Wanda is geographically diversified. In 3M15, rental income rose 33.1% YoY to RMB 3.3bn, in line with its full-year target growth of 30% YoY.

High margins from property sales. Wanda's typical property, the Wanda Plaza, consists mainly of shopping centers for lease, and luxury hotels, offices, residential and ground-level shops for sales. GPM of residential properties is only 24%, which is in line with the sector average. However, GPMs of office and retail are high at 40% and 63% as their ASPs are around RMB 12k/sqm and RMB 27k/sqm. These lucrative sales elevate Wanda's overall GPM to 40% or higher, exceeding the peer average (2014: 29.5%). In 3M15, Wanda's presales rose 21% YoY to RMB 16.7bn, exceeding the sector average of -13% YoY.

Low financing costs. Wanda's net gearing rose from 53% in Dec 2013 to 56% in Dec 2014 as the Group continues to expand. However, rising net gearing has not impaired the Group's ability to obtain low-cost debts, as Wanda can use its rent-generating investment properties as collaterals for bank borrowings. Average interest rate declined from 8.6% in 2013 to 7.9% in 2014, which was below the sector average.

Becoming the sector's new proxy; initiate BUY with TP HK\$ 88.00. We assess the value of Wanda with the use of the discount-to-NAV method, one of the most common valuation metrics applied for developers in China. The DCF-derived NAV for Wanda was RMB 117.29/share, or HK\$ 146.60/share, based on a WACC of 11.5% for saleable properties and a 6.0% cap rate for investment properties. We apply a discount of 40%, which is similar to the average among commercial developers (40%), and our TP arrives at HK\$ 88.00. The counter is trading at 9.5x 2015E P/E or a 56% discount to 2015E NAV, which is highly undervalued in our view. For comparison, COLI, the 5th largest developer by presale (2014: HK\$140bn, 30% lower than Wanda), is now trading at 9.9x 2015E P/E and 0% discount to 2015E NAV; Hang Lung, the 2nd largest landlord in Hong Kong and China by rental income (2014: HK\$ 7.2bn, 44% lower than Wanda) is trading at 17.5x 2015E P/E and a 27% discount to 2015E NAV. Listed in Dec 2014, Wanda has exceeded COLI to become the largest HK-listed mainland developers by market cap. In our opinion, Investors favoring large-cap with leading exposure in China's real estate industry may prefer Wanda over COLI.

Risk factors: 1) Rising online retailing in China; 2) Substantial government grant received; 3) Significant related-party transactions; 4) Rising litigation risks in sector.

Results and Valuation

FY ended Dec 31	2013A	2014A	2015E	2016E	2017E
Revenue (RMB mn)	86,774	107,871	133,038	168,763	185,429
Chg (% YoY)	46.8	24.3	23.3	26.9	9.9
Core net profit (RMB mn)	12,999	14,824	24,326	32,488	38,538
Chg (% YoY)	19.4	14.0	64.1	33.6	18.6
Underlying EPS (RMB)	3.48	3.97	5.37	7.18	8.51
Chg (% YoY)	19.5	14.0	35.3	33.6	18.6
BVPS (RMB)	29.0	40.9	37.5	42.5	48.5
Chg (% YoY)	26.4	41.1	(8.4)	13.4	14.0
Underlying PE (x)	14.7	12.9	9.5	7.1	6.0
PB (x)	1.8	1.3	1.4	1.2	1.1
ROE (%)	12.0	9.7	14.3	16.9	17.6
ROA (%)	3.0	2.6	3.8	4.7	5.3
DPS (RMB)	-	0.95	1.61	2.15	2.55
Dividend yield (%)	-	1.9	3.1	4.2	5.0
Net gearing (%)	53.3	56.9	59.1	53.5	88.6

*Net gearing=Net debt/Total Shareholders' equity

Source(s): Bloomberg, ABCI Securities estimates



Contents

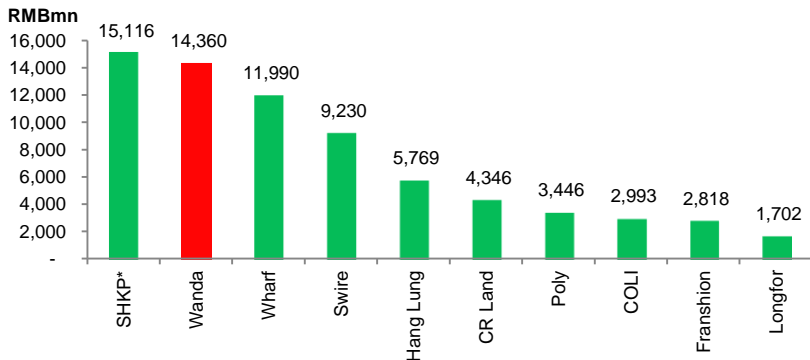
Property sales and rental as dual growth drivers	15
The 4 key strengths of Wanda	17
1. Fast-growing recurring rental income	17
2. Lucrative margins for commercial property sale.....	21
3. The well-recognized “Wanda” brand	22
4. Low-cost financing backed by investment properties	24
Comprehensive long-term expansion plan	26
1) O2O strategy to capture online retail opportunities	26
2) Asset-light expansion	26
3) Mega Tourism projects	26
Initiate BUY; TP HK\$88.00 at 40% discount to NAV	27
A cheaper alternative than COLI and Hang Lung	28

Property sales and rental as dual growth drivers

Dalian Wanda Commercial Properties (Wanda) is a leading developer in China that achieves the following ranking as of Dec 2014.

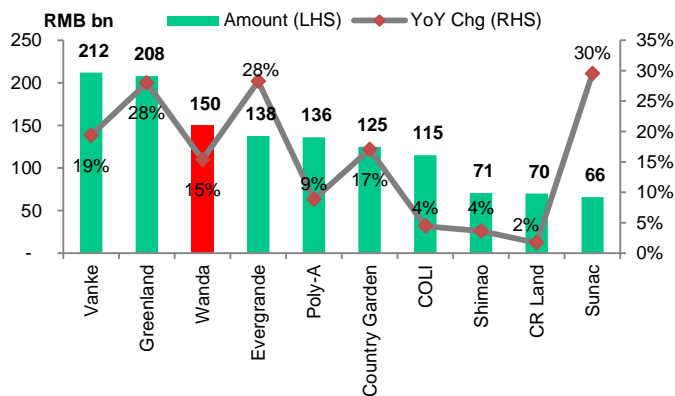
- No.1 commercial property developer, owner and operator in China by GFA held as investment properties;
- No. 2 by recurring revenue (from investment properties and hotels) among China/Hong Kong developers;
- No. 3 by presale in China;
- No. 2 by core profit among listed mainland developers after COLI

Exhibit 21: Top 10 HK/ China developers by recurring revenue from investment properties and hotels (2014)



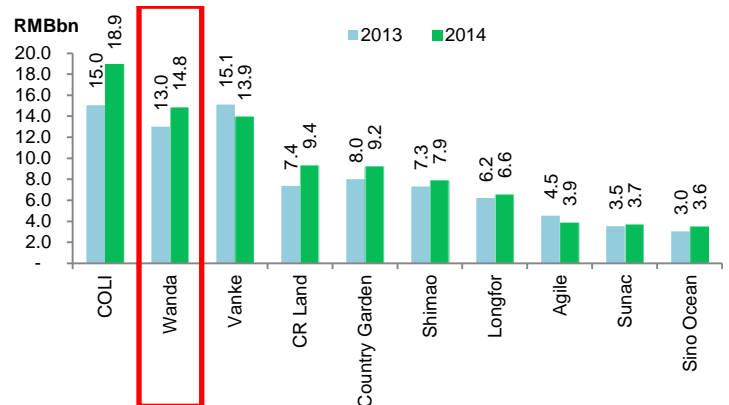
* June- end FY14 figures, including share of JVs
 Source(s): Companies, ABCI Securities

Exhibit 22: 2014 Presales ranking in China



*exclude overseas sales
 Source(s): CRIC, ABCI Securities

Exhibit 23: Core net profit comparison



Source(s): Companies, ABCI Securities

Wanda's flagship property, the Wanda Plaza, follows a successful model capable of achieving a fast asset turnover by selling office and residential space while generating a steady rental income from the shopping malls. Property sales and leasing have been the dual growth drivers for the past 3 years, expanding at 24% and 40% CAGRs in 2011-14. In our view, Wanda is one of the very few players in the market capable of expanding both its property sales (for faster cash payback) and rental revenue (for steady recurring earnings) simultaneously.

Exhibit 24: Revenue breakdown

RMB mn	2011	2012	2013	2014	CAGR	% of total
Property sales	45,505	50,573	74,981	91,748	24%	85.1%
Property leasing	3,769	5,843	7,707	10,352	40%	9.6%
Hotels	1,450	2,576	3,215	4,008	40%	3.7%
Others	48	99	871	1,763	232%	1.6%
Total	50,772	59,091	86,774	107,871	29%	100%

Source(s): Company, ABCI Securities



Exhibit 25: Shanghai Wujiao Wanda Plaza



Source(s): Company, ABCI Securities

Exhibit 26: Operating performance of Shanghai Wujiao Wanda Plaza

	2011	2012	2013	1H14
Occupancy (%)	100%	99%	100%	100%
Effective rent (RMB/sqm/mth)	136	149	157	163
Rental income (RMB mn)	301	324	344	177
YoY Chg (%)		8%	6%	

Source(s): Company, ABCI Securities

Exhibit 27: Wuhan Central Culture City



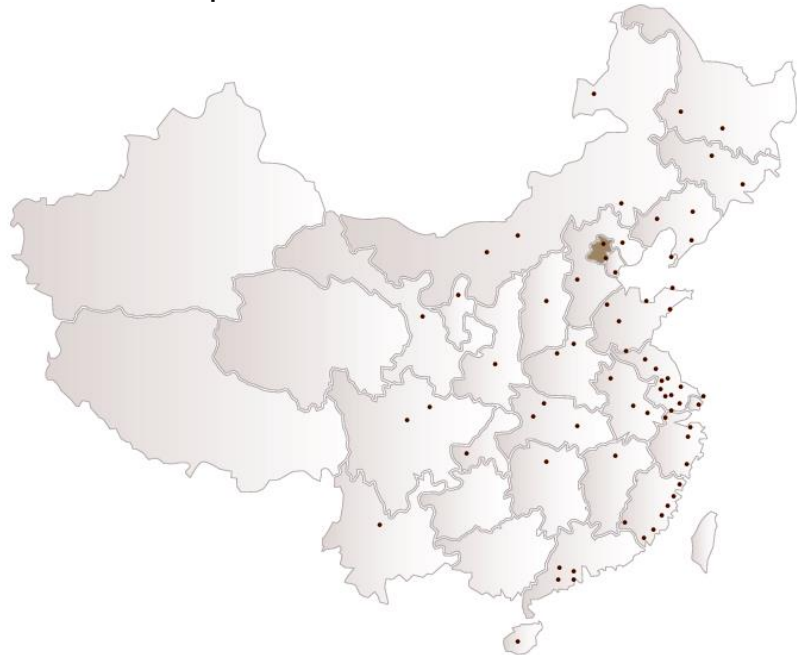
Source(s): Company, ABCI Securities

Exhibit 28: Operating performance of Wuhan Central Culture City

	2011	2012	2013	1H14
Occupancy				
- Chuhenhanjie Shopping center (%)	72%	80%	84%	84%
- Donghuanhanjie Shopping center (%)	NA	NA	100%	100%
Effective rent (RMB/sqm/mth)	80	78	89	70
Rental income (RMB mn)	18	72	113	71
YoY Chg (%)		307%	58%	

Source(s): Company, ABCI Securities

Exhibit 29: Wanda's portfolio in China



Source(s): Company, ABCI Securities

The 4 key strengths of Wanda

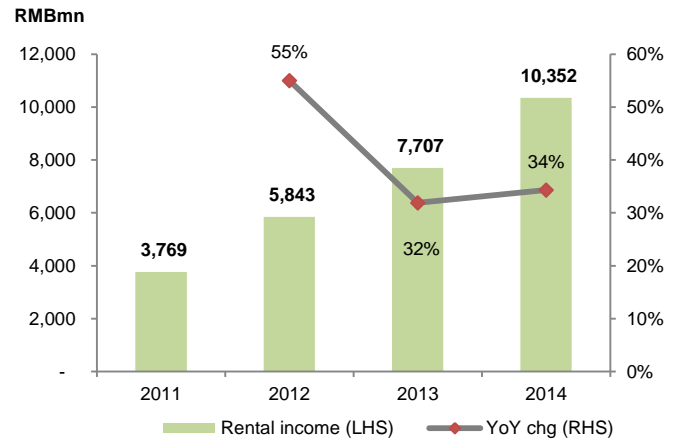
1. Fast-growing recurring rental income

Being the top developer by area of investment properties in China, Wanda generates most of its rental income through its 107 shopping malls totaling 11.49mn sqm within the Wanda Plazas across China. Wanda's rental income rose at a 40% CAGR during 2011-14 to RMB 10.3bn, mainly driven by rising leasable floor area (30% CAGR) and growing rent rate (8% CAGR). Occupancy of its shopping malls has been maintained at 98-99% level since 2011.

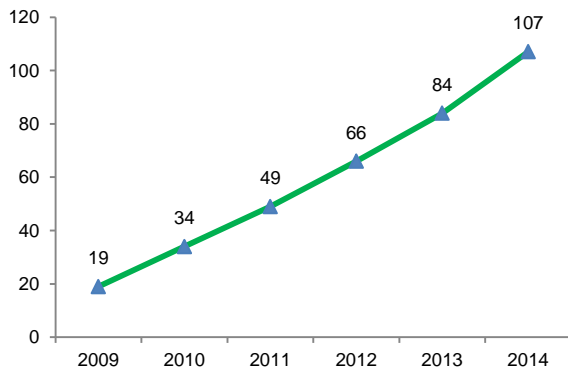
Exhibit 30: Wanda's landbank breakdown (as at Dec 2014)

	GFA mn sqm
Completed IP	17.71
Completed Hotels	19,165 rooms
Land reverses	75.9
-Sales of properties	60.3
-IP	9.1
-Hotels	1.8
-others	4.7

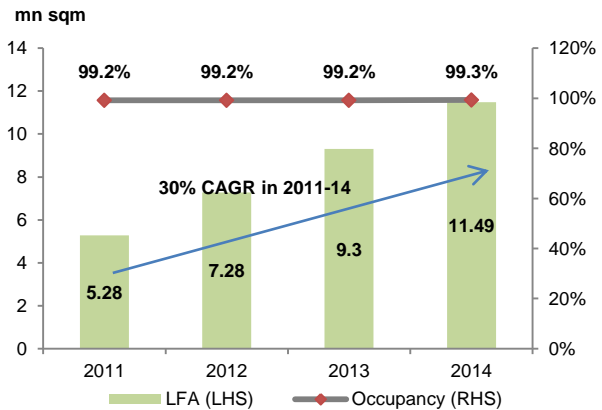
Source(s): Company, ABCI Securities

Exhibit 31: Wanda's rental revenue


Source(s): Company, ABCI Securities

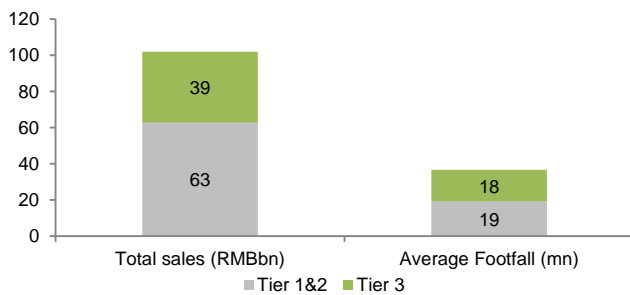
Exhibit 32: No. of Wanda Plaza


Source(s): Company, ABCI Securities

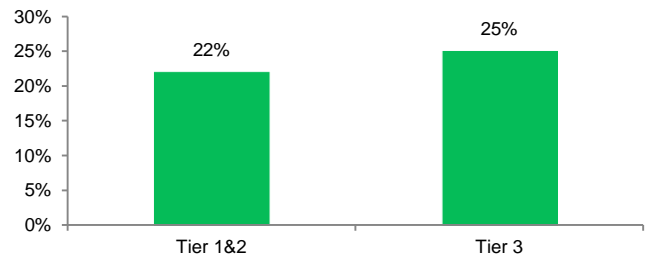
Exhibit 33: LFA of Wanda Plaza (shopping centre)


Source(s): Company, ABCI Securities

Impressive retail performance of the malls. Wanda's impressive growth in rental revenue is mainly driven by strong retail performance of the malls. In FY14, a total of RMB 102bn retails sales were generated through the Wanda Plazas while visitation reached 36.7mn, implying an annual average spending of RMB 2,800/person. Wanda has positioned itself to be a mall operator focusing on experience consumption—35.8% of its rental income was generated from F&B, movies, etc. that encouraged multiple spending per visit. Despite consumer market has slowed in China, retail sales of Wanda's malls operating for more than a year grew 22% YoY in tier 1/2 and 25% YoY in tier-3 cities.

Exhibit 34: Shopping mall operating statistics by city tier (FY14)


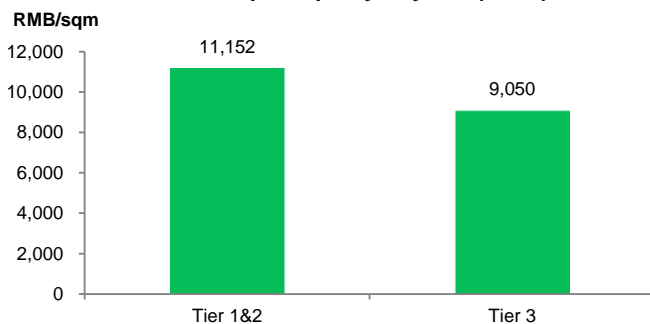
Source(s): Company, ABCI Securities

Exhibit 35: Retail sales of Wanda's mall operating for more than 12 months in FY14 (YoY change, %)


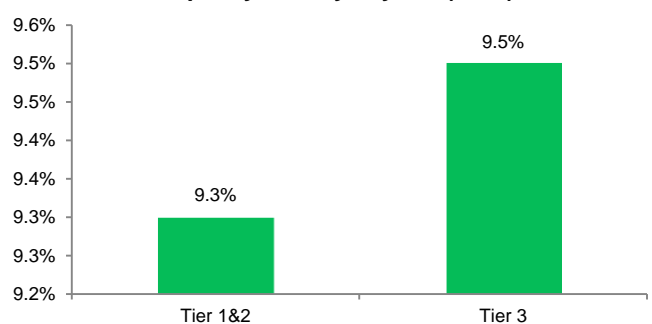
Source(s): Company, ABCI Securities

Malls in tier 3 cities perform well. In particular, retail performance of Wanda's malls in tier-3 cities, where retail demand tends to be weaker, is comparable to that in the tier-1/2 cities. Retail sales per sqm for malls in tier-3 cities (RMB 9,050/sqm) was only 19% lower than in tier-1/2 (RMB11,152/sqm) for 2014. Wanda Plaza is usually considered a landmark building in lower-tier cities, where other large shopping mall developers (e.g. SHKP, Hang Lung) have a limited exposure in. Hence, Wanda is better shielded from the recent slowdown in luxury consumption in tier-1 cities amid anti-corruption effort in China.

We also expect rent rate to rise further given the occupancy cost is low at 9.3-9.5%. Wanda is introducing the turnover rent (charging a fixed percentage of tenants' sales) into its malls and this should elevate the rent rate. Wanda's 3M15 rental income rose 33.1% YoY, in line with its 30% YoY growth target for the full year.

Exhibit 36: Retail sales per sqm by city tier (FY14)


Source(s): Company, ABCI Securities

Exhibit 37: Occupancy cost by city tier (2014)


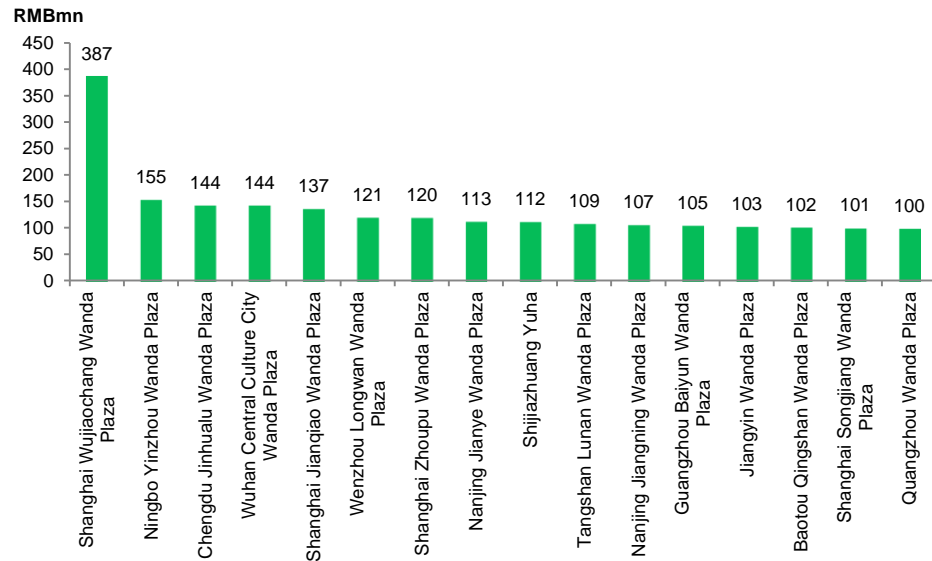
*Occupancy cost= (rental + mgt fees)/ total retail sales
 Source(s): Company, ABCI Securities

Is oversupply a concern? The Chinese property market has been affected by oversupply issue for the past year. Wanda's shopping malls, however, seem to remain relatively unaffected with occupancy reaching as high as 99% as at Dec 14. We attribute the success of Wanda's shopping malls to the following factors:

- 1) Multipurpose complex to generate higher traffic.** By building residential and office in close proximity to the mall, visitation to the mall increases on the cluster effect;
- 2) Geographical diversification.** Shanghai Wujiaochang Wanda Plaza is the Company's largest rental contributor which generated RMB387mn in rental income for 1H14. Only 16 out of the 100 projects generate a rental income exceeding RMB 100mn; aggregate rental income of the 16 highest income-generating properties represents 25% of total rental income. A geographically diversified portfolio would help avoid overconcentration risk;
- 3) Favorable tenant mix.** The Company's top 10 tenants account for more than 25% of total rental income. They are mostly large-scale department stores, cinema chains and supermarkets. Since these businesses usually cater for the mass market, they are generally more resilient against economic

downturn as compared to the luxury retailers.

Exhibit 38: Sixteen out of the Company's 100 projects have an annual passing rental income exceeding RMB 100mn (As at Jun 14)



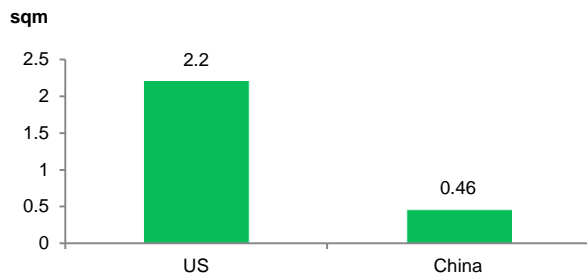
Source(s): Company, ABCI Securities

Exhibit 39: Tenant mix by rental revenue

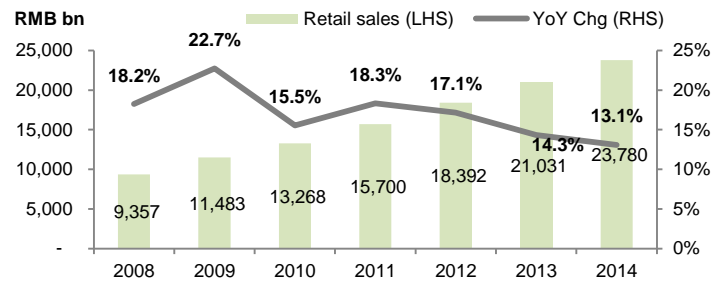
Rank	Tenant	Percentage of Property Rental Income for the Six Months ended June 30, 2014
1	Wanda Department Store	14.5%
2	Wanda Cinema	3.0%
3	An international supermarket retail chain operator	1.8%
4	A leading PRC supermarket chain operator	1.7%
5	A leading PRC supermarket chain operator	1.4%
6	A leading PRC domestic appliances chain operator	1.2%
7	Beijing Dagexing Group	1.0%
8	A leading Japanese supermarket chain operator	0.7%
9	A leading U.K. supermarket chain operator	0.6%
10	An international fashion apparel retailer	0.5%

Source(s): Company, ABCI Securities

Does online retailing present an imminent threat? Despite the rising significance of online retailing in China, we believe demand for shopping malls in China is still high. On the supply side, per capita shopping GFA is only 0.46 sqm in 2013, much lower than that in the U.S. Demand for retail space is likely to keep growing as retail sales expanded by 16% during 2009-14. Moreover, online penetration of retail sales is lower in tier 2/3 cities, where Wanda has a high exposure in, because of the less established logistics facilities and transportation. Thus, we believe the competition is limited at present.

Exhibit 40: Per capita shopping GFA in China and the U.S. (2013)


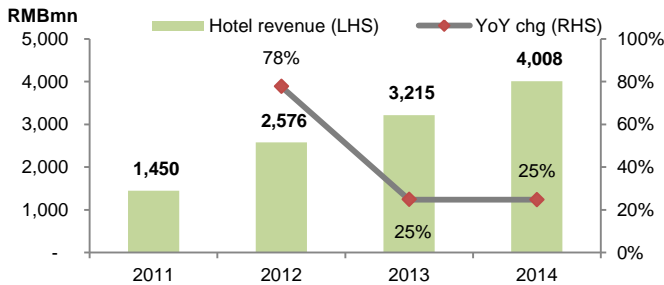
Source(s): Company, ABCI Securities

Exhibit 41: Retail sales growth in China


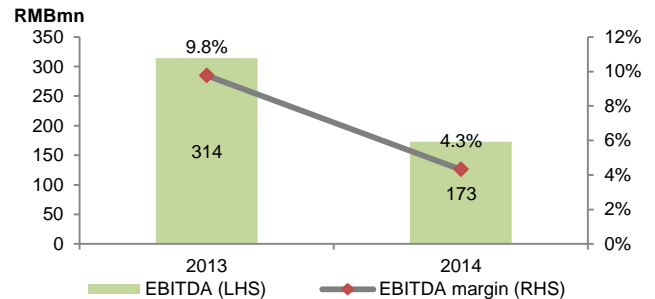
Source(s): NBS, ABCI Securities

A growing hotel portfolio. Apart from rental income generated from investment properties, Wanda's hotel operation also provides another stream of recurring revenue. Hotel revenue surged at a 40% CAGR to RMB 4.0bn during 2011-14. Wanda operated a total of 62 hotels with 19,165 rooms as of as of Dec 2014

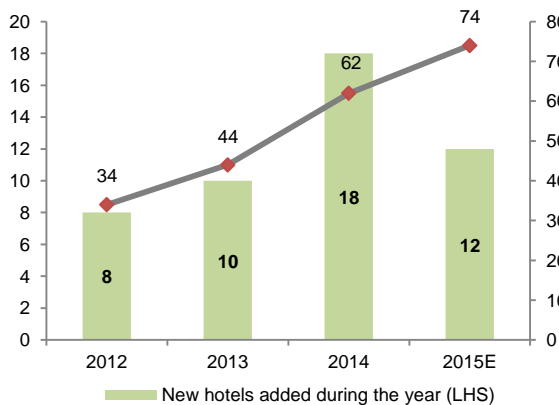
As Wanda opened 18 new hotels in 2014. EBITDA of the hotel segment declined 45% YoY to RMB 173mn.on increased pre-opening expenses. Operating costs also escalated as Wanda the no. of self-operated hotels increased and represented 38.6% of total revenue of the hotel segment in FY14 (18.0% in FY13). As a result, EBITDA margin shrank 5.5ppt YoY to 4.3%. However, hotels that commenced operations in the past 3 years showed improvement in terms profitability. E.g., losses of hotels opened in 2013 narrowed to RMB 7mn in 2014 from RMB 38mn in 2013. In 2015, twelve new hotels will commence operation and we expect the business margin to stabilize as more hotels enter the maturity stage.

Exhibit 42: Revenue of the hotel segment


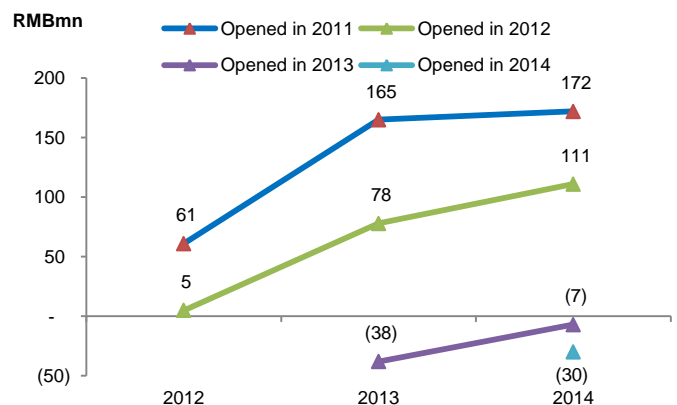
Source(s): Company, ABCI Securities

Exhibit 43: Hotels' EBITDA and EBITDA margins


Source(s): Company, ABCI Securities

Exhibit 44: No. of new hotels in 2012-15E


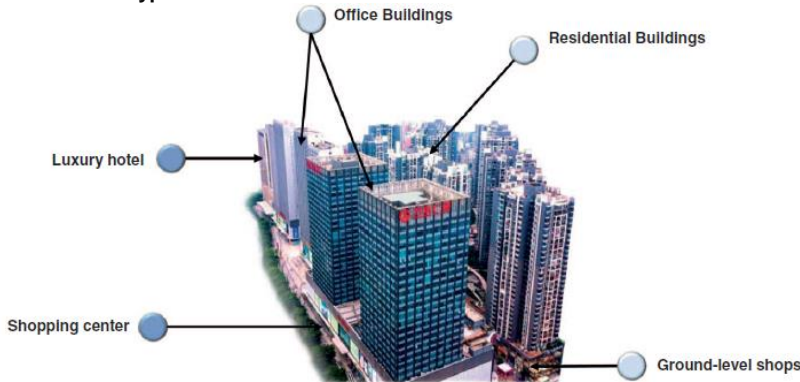
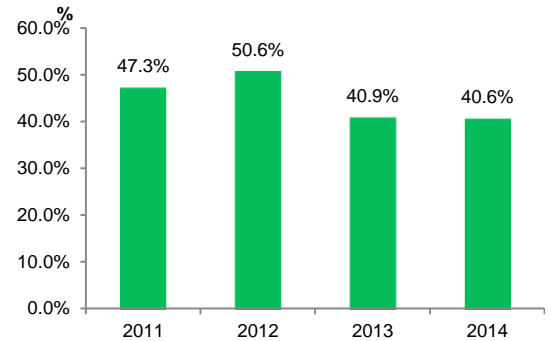
Source(s): Company, ABCI Securities estimates

Exhibit 45: Owners' profit of hotels commenced in 2011-14


Source(s): Company, ABCI Securities

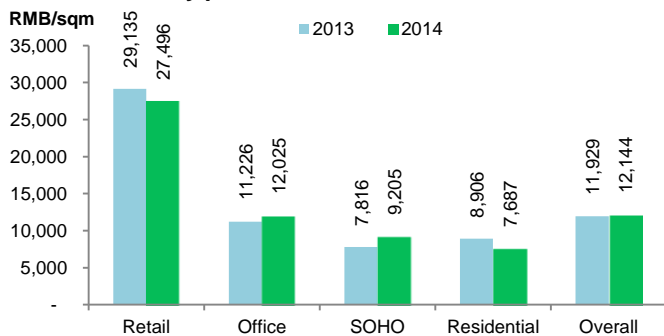
2. Lucrative margins for commercial property sale

Wanda's typical property, the Wanda Plaza, mainly consists of shopping centers, luxury hotels, office, residential and ground-level shops. While Wanda keeps the malls and hotels for lease, they sell the office, residential and ground-level shops for one-off gains. GPM of residential is at 24%, which is in line with sector average. However, office and retail GPMs are high at 40% and 64% due to their ASP of RMB 12k/sqm and RMB 27k/sqm. This elevates Wanda's overall gross margin to 40% or higher, exceeding the peer average of 29.5% in 2014. In fact, Wanda's overall gross margin was between 43% and 51% for the past few years despite the declining profit across sector on rising land cost.

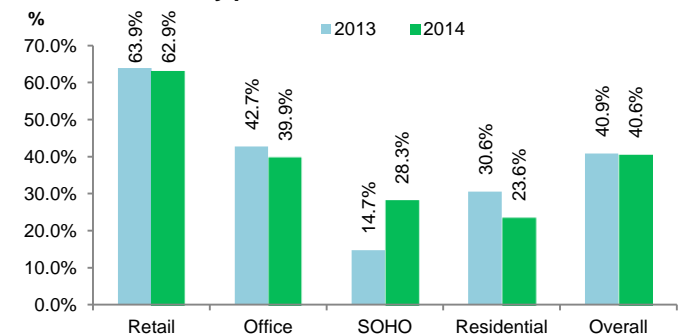
Exhibit 46: A typical Wanda Plaza

Exhibit 47: Wanda's overall GPM


Source(s): Company, ABCI Securities

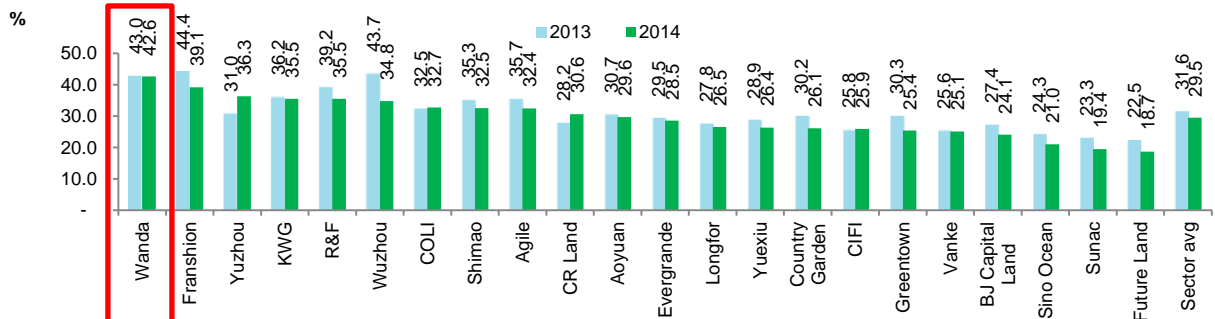
Source(s): Company, ABCI Securities

Exhibit 48: ASP by product in 2013 and 2014


Source(s): Company, ABCI Securities

Exhibit 49: GPM by product in 2013 and 2014


Source(s): Company, ABCI Securities

Exhibit 50: GPM comparison for 2014 among developers


Source(s): Companies, ABCI Securities

Wanda's presales grew at 21% CAGR during 2011-14 to RMB160bn. Sales of commercial properties (office and retail) remained as the key contributor, representing ~60% of total presales.

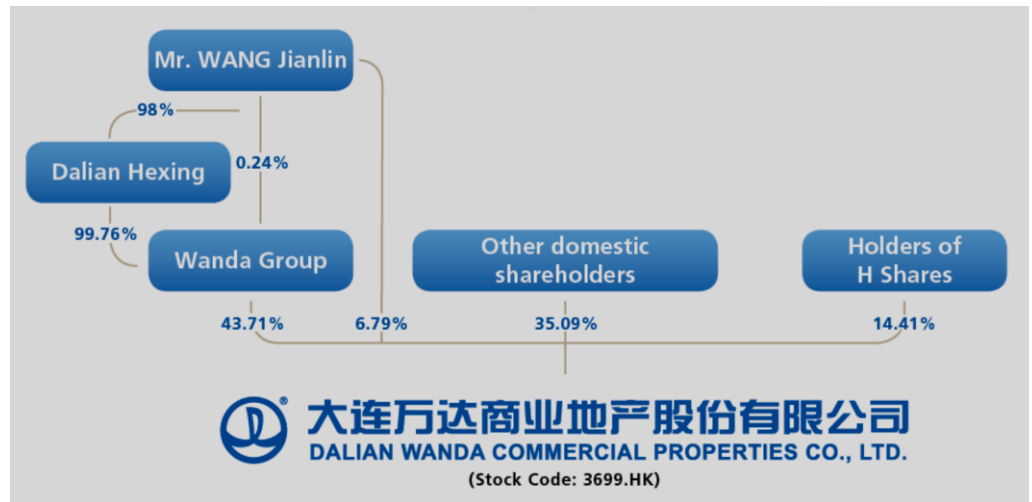
Exhibit 51: Wanda's presales breakdown


Source(s): Company, ABCI Securities

3. The well-recognized “Wanda” brand

Wanda is a well-recognized brand across different industries. Apart from property, Wanda's parent company (Wanda Group) operates cinema, karaoke, TV & films, and department stores, and is a dominant player in these industries. E.g., Wanda Cinema is one of the largest cinema chains in China with 1,247 screens, while AMC, its overseas cinema operation, represents 20% of the U.S. box office. In particular, cultural (e.g. cinema and film making) and department store divisions achieved a strong performance in 2014, with revenue going up by 32% YoY to RMB34.1bn and 65% YoY to RMB 25.6bn. Wanda's strong presence in media and consumer industries have helped enhance its brand value in the property market.

In fact, local governments, especially those in lower-tier cities, have encouraged Wanda to build it's the Wanda Plaza by offering government grant. In 2014, government grant reached RMB 1.2bn, representing 4% of EBIT (before fair value gain of investment properties). The government is willing to provide incentives (e.g. cash grant sites at prime locations, etc.) as they believe the Wanda Plaza, which is usually considered a landmark in the city center, will help improve the city's image.

Exhibit 52: Wanda's shareholder structure


Source(s): Company

Exhibit 53: Business of Wanda Group

Sector	Business	Operation
Cinema	Wanda Cinema	1247 screen in China
	AMC	5000 screens globally, 20% of US box office
Karaoke	Superstar	89 karaoke centers
TV & films	Wanda Media	
Department store	Wanda Department store	84 stores in China

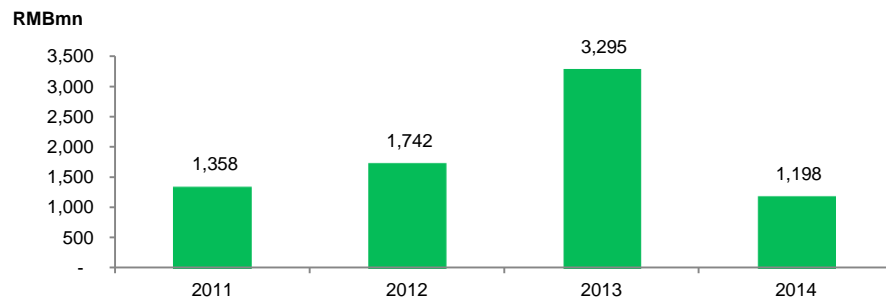
* Data as at Dec 2014

Source(s): Company, ABCI Securities

Exhibit 54: Revenue by division of Wanda Group in 2014

Division	Operating stats	RMB bn
Cultural	Revenue	34.14
	-Of which from AMC	16.39
Superstar	Revenue	0.77
Tourism	Revenue	7.51
Movie	Revenue	0.43
	Box office	1.49
Department store	Revenue	25.60

Source(s): Wanda Group, ABCI Securities

Exhibit 55: Wanda's government grant recognised in Other income


Source(s): Company, ABCI Securities

In future, Wanda will utilize its brand value further in the overseas property market by attracting Chinese outbound investors. Wanda currently has five ongoing overseas projects in Australia, Spain, the U.K. and the U.S.

Exhibit 56: Wanda's overseas business (Dec 2014)

Project	Country	GFA Sqm	Expected completion
One Nine Elms, London	UK	107,000	2018
Edificio Espana, Madrid	Spain	83,000	2019
Chicago, Illinois	US	NA	2020
LA, California	US	130,000	2020
Gold Coast	Australia	146,000	2018
Gold Coast	Australia	450,000	2022
Sydney	Australia	NA	NA

Source(s): Company, ABCI Securities

Wanda launched the London Wanda One Nine Elms project in Nov 2014 and received overwhelming responses. The project, which has two towers, comprises serviced residences for sale and a luxury hotel. Driven by strong overseas demand from Chinese buyers, Wanda achieved ~GBP 300mn in presales (~RMB 3.2bn), representing 2% of total presales in 2014. Based on its highly reputable brand, we believe Wanda will continue to capture overseas demand from Chinese buyers worldwide in the future.

Exhibit 57: Wanda's overseas projects

London

Madrid

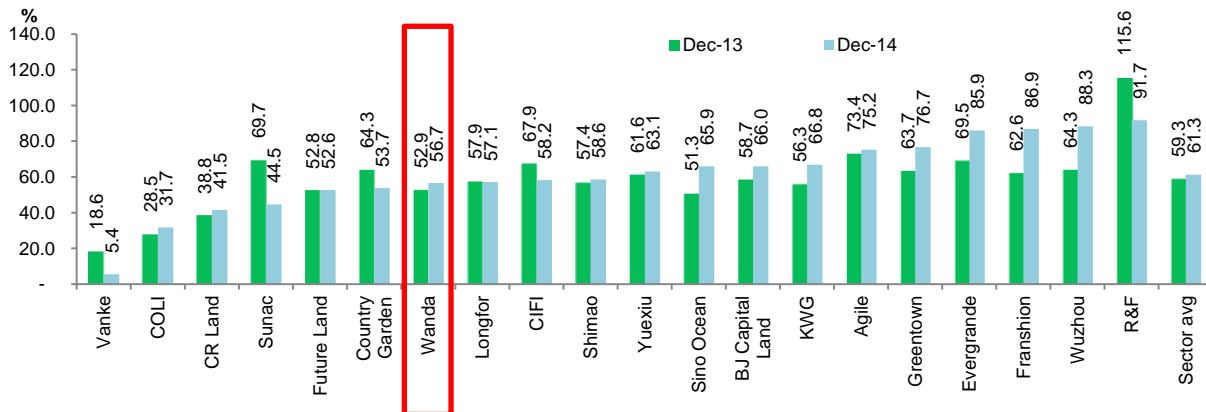
Chicago
Gold Coast
Los Angeles

Source(s): Company, ABCI Securities

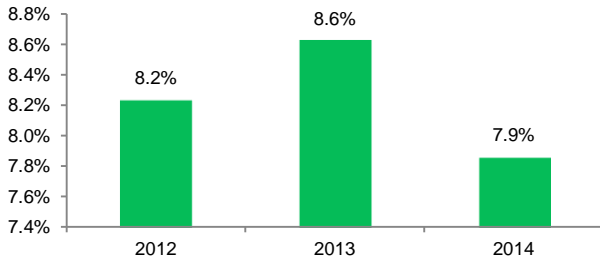
4. Low-cost financing backed by investment properties

Wanda's net gearing rose from 53% in Dec 2013 to 57% in Dec 2014 as the Company continued to expand. However, rising net gearing did not impair its ability to obtain low-cost debts. Average interest rate declined from 8.6% in 2013 to 7.9% in 2014, which was below the sector average as Wanda has been able to use its investment properties as collaterals for bank borrowings.

Besides, 24% of its debts are maturing in 2-5 years while 27% will mature after five years. With the recurring cash flow generated from Wanda's investment properties, the Company is often able to a longer loan term than most developers, which are usually subject to an average construction loan term of 2 years.

Exhibit 58: Net gearing comparison among developers (%)


Source(s): Company, ABCI Securities

Exhibit 59: Wanda's effective interest rate in 2012-14


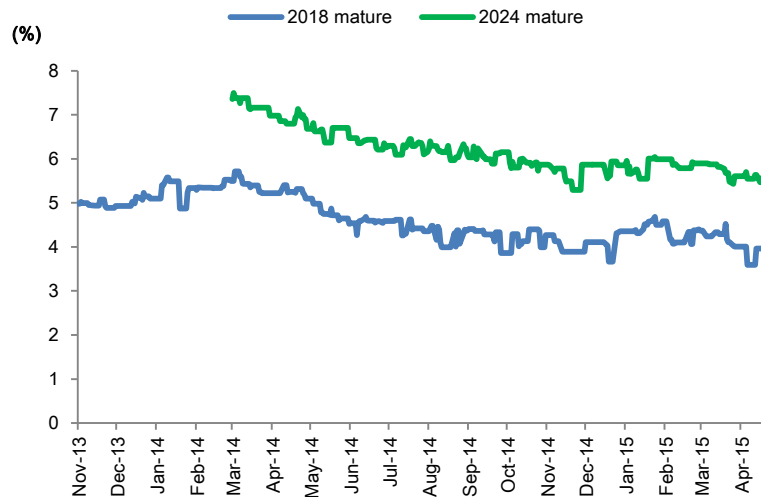
* Calculated by gross interest/ year-end average gross debt balance
 Source(s): Company, ABCI Securities

Exhibit 60: Maturity profile of gross debt as at Dec14

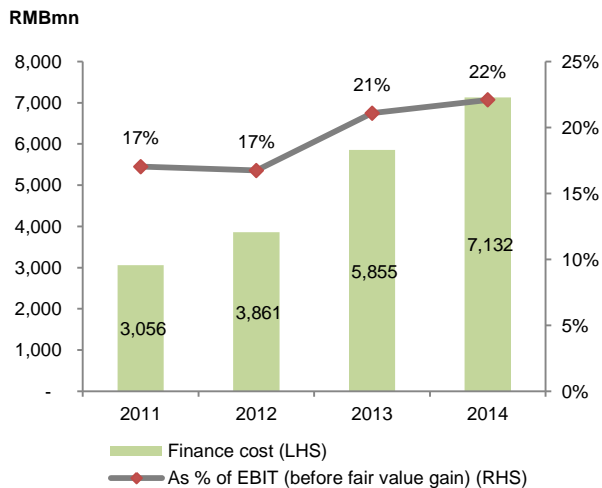
	RMBbn	%
Within 1 year	36.4	21%
1-2 year	48.3	28%
2-5 year	42.0	24%
Beyond 5 year	47.0	27%
Total	173.7	100%

Source(s): Company, ABCI Securities

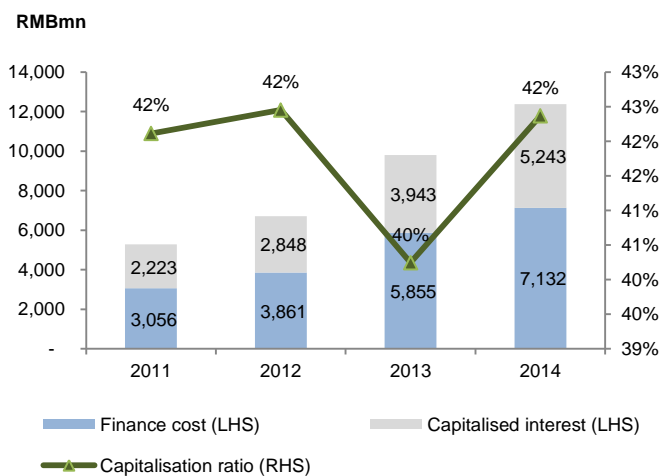
Wanda's low financing cost is also reflected by the yield of its Wanda's offshore USD bond. Yield of Wanda's bonds maturing in 2018 continues to decline from 5.0% in Nov 2013 to just 4.0% in May 2015. As Wanda increases its overseas fundraising activities, its finance cost may decline further from the current 7.9%. As of Oct 14, Fitch's credit rating for Wanda was BBB+. As Wanda capitalized only 42% of its gross finance cost in 2014, its finance cost recognised on the P&L was as high as RMB 7.1bn, or 22% of EBIT. Thus, reducing finance cost will have a positive effect on Wanda's core profit.

Exhibit 61: Wanda's bond yield


Source(s): Bloomberg

Exhibit 62: Booked finance cost as a percentage of EBIT (before fair-value gain of investment properties)


Source(s): Company, ABCI Securities

Exhibit 63: Capitalisation of finance cost


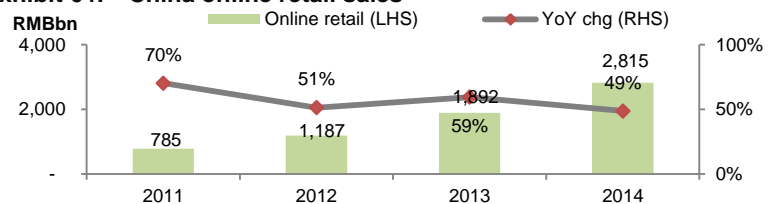
Source(s): Company, ABCI Securities

Comprehensive long-term expansion plan

1) O2O strategy to capture online retail opportunities

In 2014, Wanda moved forward to create a new internet platform with the rise of online retailing in China. The new entity is 70% owned by Wanda, while both Tencent and Baidu have a 15% stake. Wanda's O2O strategy will focus on improving consumption experience rather than offering discounts for retail products. For instance, the online platform under development may allow online booking for movie tickets and online F&B pre-ordering that allows sit-in customers to have their meals ready upon arrival. Besides, the parent company, Dalian Wanda Group (DWG), also made a strategic investment in KuaiQian Payment (快钱支付), the 4th largest online payment company by transaction amount in China in 2014. We believe all these would strengthen Wanda's O2O platform.

Exhibit 64: China online retail sales



Source(s): iResearch

2) Asset-light expansion

In Jan 2014, Wanda announced to establish a cooperative investment retail platform with Everbright Ashmore (Beijing) Real Estate Investment, Harvest Capital, Sichuan Trust, and KuaiQian Payment. According to the framework agreement, the abovementioned parties will invest RMB24bn in first tranche to develop 20 Wanda Plazas in 2015-16 while Wanda will be responsible for site selection, construction, use of trademark, tenant prospecting, operation and management of these plazas. Wanda will share the rental income generated from these plazas with these cooperating parties at a predetermined proportion under the agreement. We expect this asset-light expansion will help Wanda to lower net gearing, given that investment properties usually entail significant capital contribution and a long payback period.

3) Mega Tourism projects

As at Dec 31, 2014, the Company had 7 Wanda Cities under construction in Wuhan, Hefei, Harbin, Nanchang, Qingdao, Wuxi and Guangzhou. These Wanda Cities are regional tourist spots that provide entertainment and retail services. In FY14, the Han Show and Wuhan Wanda Movie Park located in the Wuhan Central Cultural District commenced operation officially:

- **Han Show-** With a total GFA of 86,000 sqm, the Han Show is a world-class stage show jointly created by Wanda Group and the Franco Dragone Entertainment Group. The show presents a modern performing art that combines multiple forms of performance, such as music, dancing, acrobatics, high diving, and stunt.
- **Wuhan Movie Park:** With a total GFA of 102,000 sqm, this indoor movie theme park is equipped with world-class facilities such as the world's first hard ball screen, 3D interactive shooting equipment, the soft pillar screen and 170-degree super screen.

Exhibit 65: The Han Show



Source(s): Company

Exhibit 66: Wuhan Movie Park



Source(s): Company

Initiate BUY; TP HK\$88.00 at 40% discount to NAV

We assess the value of Wanda based on the discount-to-NAV method, one of the most common valuation metrics used for developers in China:

- **Property developments:** We conduct a DCF analysis and apply a WACC of 11.5% to gauge the value of Wanda's projects for sale; total value of property development projects arrives at RMB 451bn.
- **Investment properties:** We apply a cap rate of 6% to Wanda's 2015E net rental income; the projects are valued at RMB169bn
- **Hotels:** Given that most of the Company's hotels are located in lower-tier cities, we adopt a multiple of 8x on Wanda's 2015E EBITDA and the segment's value arrives at RMB12.6bn

We subtract the 2015E net debt of RMB101bn from the combined gross asset value of RMB 632bn; our NAV-derived estimate is RMB531bn, or RMB 117.28/share (HK\$146.60/share).

To determine the TP of Wanda, we apply a 40% discount (China commercial property sector average) to our end-FY15E NAV; thus, we set our TP at HK\$ 88.00.

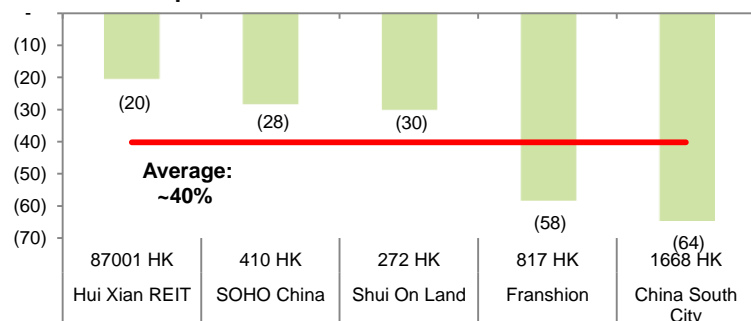
Exhibit 67: Wanda's 2015E NAV estimates

	Attr. GFA (M sqm)	Net assets value (RMB m)	% of total	Valuation Methodology	Implied value per sqm (RMB)
Property development					
Residential	52.6	141,158	22%	DCF at WACC of 11.5%	2,684
Retail	7.0	98,234	16%		13,967
Office and others	44.6	211,248	33%		4,735
Subtotal	104.2	450,640	71%		4,323
Investment Properties	17.7	169,022	27%	6.0% cap rate on 2015E net rental income 8x 2015E EBITDA	9,544
Hotels		12,644	2%		
Total 2015E GAV	121.9	632,307	100%		5,185
2015E Net cash/ (debt)		(101,350)	-16%		
Total 2015E NAV		530,957	84%		
No. of share outstanding (diluted)		4,527			
NAV per share (RMB)		117.28			
Ex rate		1.25			
NAV per share (HKD)		146.60			
Target discount (%)		40%			
Target Price (HKD)		88.00			

WACC	11.5%
Cost of debt	8.0%
Cost of Equity	18.0%
Debt/ (Debt + Equity)	54%

Source(s): Company; ABCI Securities estimates

Exhibit 68: Comparison of discount to 2015E NAV



Source(s): Bloomberg; ABCI Securities estimates

A cheaper alternative than COLI and Hang Lung

Wanda currently trades at 9.5x 2015E P/E and a 56% discount to NAV, which is attractive given its leading market position. Wanda's presales (2014: RMB 160bn) was 39% higher than COLI (RMB 115bn), while rental income (2014: RMB10.3bn) was 58% higher than Hang Lung (RMB 5.3bn). However Wanda's valuation, which represents a 56% discount to NAV, is much lower than that of Hang Lung (at 27% discount) and COLI (no discount). Hence, Wanda represents a cheaper alternative than the two well-recognized developers.

Exhibit 69: Wanda vs its peers

1) <u>Financial data (2014)</u>	Wanda RMB mn	Large cap developer (Resi/Commercial)		Commercial developer			
		COLI (688)	CR Land (1109)	Hang Lung (101)	SOHO (410)	Franshion (817)	Shui On (272)
		HK\$ mn	HK\$ mn	HK\$ mn	RMB mn	HK\$ mn	RMB mn
Total revenue	107,871	119,997	88,381	17,030	6,098	29,548	10,249
- Property sales	91,748	116,254	80,482	9,814	5,674	21,895	8,543
- Rental	10,352	1,185	4,627	7,216	424	1,399	1,578
- Others	5,771	2,558	3,273	0	0	6,254	128
Gross Profit	45,926	39,238	27,044	13,008	3,078	11,559	4,349
<i>Gross Margin</i>	42.6%	32.7%	30.6%	76.4%	50.5%	39.1%	42.4%
Core Profit	14,824	23,830	11,802	10,022	1,778	3,610	318
<i>Core net margin</i>	13.7%	19.9%	13.4%	58.8%	29.2%	12.2%	3.1%
Presales	160,100	140,900	69,220	9,814	NA	23,108	6,107
Net gearing	57%	32%	41%	-3%	19%	58%	34%

2) <u>Valuation</u>	Wanda	Large cap developer(Resi/Commercial)		Commercial developer			
		COLI (688)	CR Land (1109)	Hang Lung (101)	SOHO (410)	Franshion (817)	Shui On (272)
		HK\$ bn	HK\$ bn	HK\$ bn	HK\$ bn	HK\$ bn	HK\$ bn
Mkt cap (HK\$ bn)	303	241	174	114	30	28	20
NAV (HK\$ bn)	676	242	186	157	42	68	30
Discount to NAV	-56%	0%	-5%	-27%	-28%	-58%	-30%
2015E PE*	9.5	9.9	12.0	17.5	26.2	8.2	43.5
2015E PB	1.4	1.4	1.5	0.8	0.6	0.8	0.4

*data as at 6 May 2015

Source(s): Bloomberg; ABCI Securities estimates

Exhibit 70: Valuation of Hong Kong-listed and PRC-listed developers

China Property	Ticker	Rating	TP	Mkt cap	Share Price	Performance			Discount to NAV	Valuation									
						3M	YTD	2014		P/E		Yield (%)			P/B				
				(HKD bn)	(local ccy)	% Chg	% Chg	% Chg	(%)	2014A	2015E	2016E	2014A	2015E	2016E	2014A	2015E	2016E	
Residential:																			
1	Wanda	3699 HK	BUY	88.00	303	64.00	42	35	na	(56.34)	12.9	9.5	7.1	1.9	3.1	4.2	1.3	1.4	1.2
1	COLI	688 HK	HOLD	29.50	241	29.45	28	28	8	(0.15)	10.1	9.9	7.0	1.9	2.0	2.8	1.8	1.4	1.3
2	Vanke-H	2202 HK	NR		190	18.78	12	9	30	(2.44)	15.6	8.5	7.4	3.3	3.9	4.5	1.9	1.6	1.4
3	CR Land	1109 HK	NR		174	26.60	31	30	10	(5.17)	14.7	12.0	10.2	1.9	2.1	2.5	1.6	1.5	1.3
4	Evergrande	3333 HK	HOLD	6.90	109	7.43	127	137	24	(13.66)	37.4	13.4	10.1	7.2	3.7	4.9	0.8	0.8	0.8
5	Country Garden	2007 HK	NR		91	4.04	32	30	(28)	(40.41)	7.9	6.5	5.8	4.6	5.0	5.6	1.2	1.0	0.9
6	Longfor	960 HK	NR		81	13.88	38	39	(5)	(27.82)	9.8	8.4	7.4	2.6	2.6	2.9	1.3	1.2	1.0
7	Shimao	813 HK	NR		65	18.70	16	8	4	(43.10)	6.6	5.8	5.2	4.8	5.2	5.8	1.1	1.0	0.9
8	Sino Ocean	3377 HK	NR		46	6.18	27	40	(8)	(31.46)	10.4	9.3	8.1	3.8	4.3	4.8	0.9	0.8	0.8
9	Sunac	1918 HK	BUY	12.00	34	10.00	44	27	81	(58.65)	7.1	7.6	7.2	2.4	2.4	2.5	1.6	1.4	1.2
10	Guangzhou R&F	2777 HK	NR		31	9.66	10	2	(11)	(68.79)	7.0	4.5	4.0	0.0	4.2	5.9	0.7	0.5	0.5
11	Agile	3383 HK	NR		25	6.40	38	45	(43)	(63.59)	5.1	5.3	5.1	6.1	5.6	5.7	0.6	0.5	0.5
12	Yuexiu Properties	123 HK	NR		23	1.89	23	27	(13)	(57.53)	11.9	10.3	9.0	4.0	4.3	4.8	0.6	0.6	0.6
13	KWG	1813 HK	NR		23	7.79	57	47	33	(49.35)	6.7	5.7	4.8	5.3	5.6	6.6	0.9	0.8	0.7
14	Greentown	3900 HK	HOLD	9.70	22	9.95	49	29	(30)	(18.34)	9.3	5.5	5.6	0.0	5.0	5.7	0.7	0.7	0.6
15	CIFI	884 HK	BUY	3.20	15	2.50	61	71	68	(44.86)	6.2	5.7	5.2	4.4	4.8	5.2	1.2	1.0	0.9
16	BJ Capital Land	2868 HK	NR		14	6.87	82	149	22	24.91	8.9	5.8	4.4	4.5	5.0	5.6	1.2	na	na
17	COGO	81 HK	NR		11	4.94	25	25	(46)	(61.91)	9.1	5.5	4.5	1.0	1.5	1.9	0.9	0.8	0.7
HK Listed Avg							39	41	2	(38.20)	10.2	7.3	6.2	3.8	4.4	5.2	1.1	0.9	0.8
- Large cap (>HKD50b) avg							41	39	6	(23.64)	14.4	9.3	7.5	3.5	3.5	4.2	1.4	1.2	1.1
- Small-mid cap (<HKD50b) avg							38	42	0	(47.91)	7.4	5.9	5.2	3.9	5.0	5.9	0.9	0.7	0.6
1	Vanke-A	000002 CH	NR		190	13.56	12	(2)	56	(11.95)	13.5	7.4	6.4	3.7	4.1	4.8	1.7	1.4	1.2
2	Poly-A	600048 CH	NR		183	13.65	44	26	105	(21.55)	14.5	9.8	8.4	1.6	1.9	2.2	2.3	1.9	1.6
3	China Merchants Property	000024 CH	NR		94	31.96	25	21	96	(5.26)	19.3	15.1	13.0	1.0	1.2	1.3	2.6	2.3	2.1
4	Gemdale	600383 CH	NR		71	12.66	43	11	74	0.64	14.2	12.1	10.6	1.0	1.2	1.4	1.8	1.6	1.5
5	Xiamen C&D	600153 CH	NR		49	13.92	53	37	57	64.93	14.7	12.3	10.2	2.9	1.8	1.9	2.3	2.1	1.8
6	Risesun	002146 CH	NR		48	20.09	23	27	62	26.51	11.7	8.7	8.0	2.2	1.3	1.4	2.7	2.2	1.8
7	Beijing Huaye	600240 CH	NR		30	16.70	66	132	77	na	57.3	20.6	18.2	0.6	2.6	2.2	6.3	4.9	4.1
8	Hangzhou Binjiang	002244 CH	NR		23	13.58	84	69	16	0.82	22.2	12.1	12.7	0.5	0.6	0.7	2.2	1.9	1.7
9	Cinda Real Estates	600657 CH	NR		17	8.71	19	7	159	na	16.1	16.2	13.3	1.2	Na	Na	1.7	NA	NA
10	Huafa Industrial	600325 CH	NR		14	14.13	20	15	71	(1.81)	17.8	16.9	15.4	0.7	1.8	2.0	1.6	1.6	1.5
A-share Listed Avg							39	34	77	6.54	20.1	13.1	11.6	1.5	1.8	2.0	2.5	2.2	1.9
- Large cap (>HKD50b) avg							31	14	83	(9.53)	15.4	11.1	9.6	1.8	2.1	2.4	2.1	1.8	1.6
- Small-mid cap (<HKD50b) avg							44	48	74	22.61	23.3	14.5	13.0	1.3	1.6	1.6	2.8	2.5	2.2
Commercial:																			
1	SOHO China	410 HK	NR		30	5.74	5	5	(14)	(28.25)	13.8	26.2	24.9	5.4	5.2	5.3	0.6	0.6	0.6
2	HLP	101 HK	NR		114	25.35	13	19	(8)	(26.99)	11.3	17.5	18.3	3.0	3.1	3.1	0.9	0.8	0.8
3	China South City	1668 HK	BUY	4.60	26	3.26	39	(8)	67	(64.21)	8.3	7.5	5.4	4.3	5.8	7.4	1.1	1.2	1.1
4	Hui Xian REIT	87001 HK	NR		23	3.48	0	4	(3)	(20.46)	28.0	15.3	14.7	7.4	7.9	8.2	0.6	0.7	0.7
5	Franshion	817 HK	BUY	4.50	28	3.12	38	41	(14)	(57.94)	8.5	8.2	6.5	3.7	4.0	5.1	0.9	0.8	0.7
6	Shui On Land	272 HK	NR		20	2.50	42	37	(21)	(30.07)	na	43.5	15.0	2.4	2.2	2.9	0.4	0.4	0.4
8	Yuexiu REIT	405 HK	NR		12	4.36	6	16	11	na	38.4	24.4	22.9	6.8	7.2	7.5	0.7	0.8	0.8
9	Zall	2098 HK	NR		10	2.87	17	7	(2)	na	39.4	na	na	0.0	na	na	1.0	na	na
10	Wuzhou	1369 HK	NR		6	1.39	5	(5)	(21)	na	56.5	9.3	na	0.0	na	na	2.1	na	na
Commercial Avg							18	10	(1)	(43.13)	23.2	17.2	13.7	4.4	6.2	7.2	0.9	0.8	0.7
- Developers							31	18	5	(45.12)	20.3	16.4	12.0	3.7	5.8	7.0	1.0	0.8	0.7
- Landlords/REIT							9	(5)	(3)	(47.22)	33.2	19.9	18.8	7.1	7.5	7.8	0.7	0.7	0.7

* Share price as at May 6, 2015

Source(s): Bloomberg, ABCI Securities estimates



Risk factors

- **Rise of online retailing in China.** Online retailing has been growing fast, from RMB 785bn in 2011 to RMB 2,815bn in 2014, representing a 53% CAGR over the period and 11.8% of total China's retail sales in 2014. Wanda's physical mall will inevitably be impacted by the evolving habit of shoppers in China. Nonetheless, key tenants of Wanda Plazas (e.g. IMAX cinema, numerous F&B clients) focus mainly on experience consumption that cannot be easily offered by online retailers.
- **Substantial government grant received.** In 2013, Wanda recognized a total of RMB 3,295mn in government grant, representing 8.8% of GP or 10.3% of EBIT. We expect government grant to decline in future as lower-tier cities become less willing to offer incentives. In 2014, government grant registered a 64% YoY decline to RMB 1,198mn.
- **Significant related-party transaction.** Revenue derived from sister companies, Wanda department stores and Wanda Cinema, is high at 17.5% of total rental income. Wanda may have limited pricing power on these rental spaces as they are controlled by the same major shareholders.
- **Rising litigation risks in sector.** The recent management scandals in Kaisa and Agile rose market concerns over rising litigation risk in China property sector. Players focusing on lower-tier cities are of greater risk due to the less transparent land acquisition procedures.



Consolidated income statement (2012A-2017E)

FY Ended Dec 31 (RMB mn)	2012A	2013A	2014A	2015E	2016E	2017E
Revenue	59,091	86,774	107,871	133,038	168,763	185,429
Cost of sales	(28,807)	(49,438)	(61,945)	(68,636)	(87,849)	(91,488)
Gross Profit	30,284	37,336	45,926	64,403	80,914	93,941
SG&A expenses	(7,219)	(9,565)	(13,653)	(15,221)	(18,074)	(17,948)
EBIT	23,065	27,771	32,273	49,182	62,840	75,993
Finance cost	(3,861)	(5,855)	(7,132)	(7,822)	(7,301)	(8,108)
Share of profit of associates	0	(9)	(2)	0	0	0
Other income/ (expenses)	2,162	4,142	3,206	1,824	1,580	1,247
Fair value gain of investment properties	21,898	15,443	13,455	0	0	0
Disposal/one-off items	0	0	0	0	0	0
Profit before tax	43,264	41,492	41,800	43,184	57,119	69,132
Tax	(15,443)	(16,610)	(16,699)	(18,858)	(24,631)	(30,594)
Profit after tax	27,821	24,882	25,101	24,326	32,488	38,538
Minority interest & Perpetual coupons	(511)	(301)	(262)	0	0	0
Reported net profit	27,310	24,581	24,839	24,326	32,488	38,538
Less: exceptional items	(16,424)	(11,582)	(10,015)	0	0	0
Underlying net profit	10,887	12,999	14,824	24,326	32,488	38,538
Per share						
Underlying EPS (RMB)	2.91	3.48	3.97	5.37	7.18	8.51
DPS (RMB)	-	-	0.95	1.61	2.15	2.55
Payout ratio (%)	0%	0%	24%	30%	30%	30%
BVPS (RMB)	22.95	29.01	40.94	37.51	42.54	48.50
Growth %						
Revenue	16.4%	46.8%	24.3%	23.3%	26.9%	9.9%
Gross Profit	24.6%	23.3%	23.0%	40.2%	25.6%	16.1%
EBIT	28.6%	20.4%	16.2%	52.4%	27.8%	20.9%
Underlying net profit	17.2%	19.4%	14.0%	64.1%	33.6%	18.6%
Margin %						
Gross margin	51.2%	43.0%	42.6%	48.4%	47.9%	50.7%
Gross margin (post-LAT)	39.3%	31.3%	32.6%	31.1%	31.2%	32.7%
EBIT margin	39.0%	32.0%	29.9%	37.0%	37.2%	41.0%
Core net margin	19.3%	15.3%	13.9%	18.3%	19.3%	20.8%
Key assumptions						
Contracted Sales (RMBm)	101,200	126,400	160,100	181,246	247,730	235,759
GFA sold (m sqm)	7.39	10.59	11.89	13.60	17.07	15.81
ASP (RMB/sqm)	13,700	11,941	13,470	13,323	14,509	14,915
Booked Sales (RMB)	50,573	74,981	91,748	112,465	144,717	159,236
GFA delivered (m sqm)	3.48	6.28	8.69	10.64	11.39	10.65
Booked ASP (RMB/sqm)	14,541	11,932	10,558	10,572	12,709	14,955

Source: Company, ABCI Securities estimates



Consolidated balance sheet (2012A-2017E)

As of Dec 31 (RMB mn)	2012A	2013A	2014A	2015E	2016E	2017E
Current assets	149,003	196,302	261,472	295,441	319,492	339,144
Cash	48,585	69,525	86,303	72,887	70,354	17,966
Restricted cash	2,131	4,139	6,732	6,732	6,732	6,732
Trade & other receivables	333	280	848	848	848	848
Property under development	76,378	100,474	145,192	192,577	219,161	291,202
Other current assets	21,576	21,884	22,397	22,397	22,397	22,397
Non-current assets	186,109	234,742	302,822	346,827	365,831	387,404
Property, plant & equipment	18,246	25,955	35,147	38,361	41,575	44,789
Investment properties	159,074	198,539	248,101	288,892	304,682	323,041
Investment in Associate and JCE	11	125	485	485	485	485
Other non-current assets	8,778	10,123	19,089	19,089	19,089	19,089
Total Assets	335,112	431,044	564,294	642,268	685,324	726,549
Current Liabilities	157,129	180,277	235,461	296,407	316,721	330,969
Short term borrowings	21,872	21,466	36,859	36,859	36,859	76,859
Trade & other payables	25,662	34,628	53,743	53,743	53,743	53,743
Pre-sales deposits	94,070	104,273	129,397	190,343	210,658	184,905
Other current assets	15,525	19,910	15,462	15,462	15,462	15,462
Non-current liabilities	90,632	136,895	173,687	173,687	173,687	173,687
Long term borrowings	71,547	112,916	144,505	144,505	144,505	144,505
Other payables	0	0	0	0	0	0
Other non-current assets	19,085	23,979	29,182	29,182	29,182	29,182
Total Liabilities	247,761	317,172	409,148	470,094	490,408	504,656
Net Assets	87,351	113,872	155,146	172,174	194,915	221,892
Shareholders' Equity	85,727	108,286	152,814	169,842	192,583	219,560
Minority Interest	1,624	5,586	2,332	2,332	2,332	2,332
Total Equity	87,351	113,872	155,146	172,174	194,915	221,892
Key ratio						
Gross debt (RMB mn)	93,419	134,382	181,364	181,364	181,364	221,364
Net debt (RMB mn)	42,703	60,718	88,329	101,745	104,278	196,666
Net gearing (%)	49%	53%	57%	59%	53%	89%

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2012A-2017E)

FY Ended Dec 31 (RMB mn)	2012A	2013A	2014A	2015E	2016E	2017E
EBITDA	23,946	28,825	33,806	51,175	64,833	77,986
Change in Working Capital	622	(8,531)	291	19,312	(903)	(91,832)
Tax payment	(11,559)	(11,680)	(16,205)	(18,858)	(24,631)	(30,594)
Operating Cash flow	13,009	8,614	17,892	51,629	39,298	(44,440)
Purchase of PP&E	(3,255)	(5,207)	(5,207)	(5,207)	(5,207)	(5,207)
Addition of Investment Properties	(19,550)	(14,953)	(29,810)	(40,791)	(15,791)	(18,359)
Others	(1,369)	(1,888)	3,206	1,824	1,580	1,247
Investing Cash flow	(24,174)	(22,048)	(31,811)	(44,174)	(19,418)	(22,319)
Debt raised	57,470	84,359	58,860	50,000	50,000	50,000
Debt repaid	(33,848)	(40,304)	(37,300)	(50,000)	(50,000)	(10,000)
Interest expenses	(6,043)	(10,504)	(12,375)	(13,573)	(12,668)	(14,068)
Equity raised	0	0	25,058	0	0	0
Dividend to shareholders	(1,967)	(1,999)	(3,546)	(7,298)	(9,746)	(11,562)
Others	90	2,822	0	0	0	0
Financing Cash flow	15,702	34,374	30,697	(20,870)	(22,414)	14,371
Net cash inflow/ (outflow)	4,537	20,940	16,778	(13,416)	(2,534)	(52,388)
Cash- beginning	44,048	48,585	69,525	86,303	72,887	70,354
Cash- year-end	48,585	69,525	86,303	72,887	70,354	17,966

Source(s): Company, ABCI Securities estimates



May 8, 2015
Company Report
Rating: BUY
TP: HK\$ 4.50

Share price (HK\$) 3.12
Est. share price return 44.2%
Est. dividend yield 4.0%
Est. total return 48.2%

Previous Rating & TP BUY; HK\$ 3.30
Previous Report Date Jan 23, 2015

Analyst: Kenneth Tung
Tel: (852) 2147 8311
Email: kennethtung@abci.com.hk

Key Data

52Wk H/L(HK\$)	3.34/1.79
Issued shares (mn)	9,068
Market cap (HK\$ mn)	28,656
3-mth avg daily turnover (HK\$ mn)	40.14
Major shareholder(s) (%): Sinochem Group	62.90

Source(s): Company, Bloomberg, ABCI Securities

FY14 Revenue breakdown (%)

Property Development	46.9
Property Leasing	6.0
Hotels	9.9
Land Development	34.6
Others	2.6

Source(s): Company, ABCI Securities

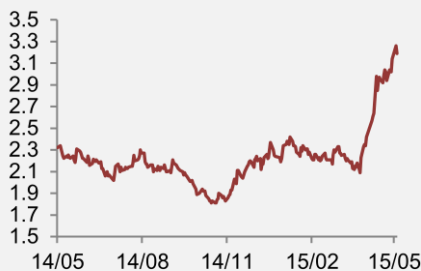
Share performance (%)

	Absolute	Relative*
1-mth	30.6	17.8
3-mth	39.8	23.6
6-mth	67.2	41.4

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Franshion (817 HK)

Attractively valued SOE player; top BUY in sector

- Presales in Apr jumped 170% YoY to RMB 2.3bn following favorable policies launched in recent months.
- Three out of 7 sites acquired in 2014 are located in tier-1 cities; attributable land capex of RMB 11.3bn in 2014 should increase saleable resources for 2015.
- Maintain BUY with a revised TP of HK\$ 4.50 (from HK\$ 3.30) based on a 40% (from 50%) discount to FY15E NAV

Presales surged 170% YoY in Apr 2015. As a result of various favorable policies (rate and RRR cuts, lower down payment ratio for 2nd-home purchase) in recent months, Franshion's presales rebounded 170% YoY to RMB2.3bn and 53% YoY to RMB 891mn in Mar, reversing the downtrend observed in Jan (-81%YoY) and Feb (-42% YoY). We expect sales momentum to accelerate further in 2H14. For 2015, Franshion announced a sales target of RMB 24.8bn (implying a 15% YoY growth) for 2015, of which RMB 21.8bn would be coming from residential/commercial sales (+18%YoY) and RMB3bn from land sales (unchanged YoY). The announced target growth is higher than the 10% average growth target among peers.

Franshion announced its long-term target by 1) achieving a presale of RMB80bn by 2019 (34%CAGR in 2015-19). This will be achieved by a) developing its primary landbank instead of selling to third parties. Together with the Nanjing primary development secured in Jan 2015, total landbank for primary development reached 21.4mn sqm; b) engaging in more JV projects. Since 2014, most of Franshion's new projects are JV in nature. Franshion decides that a 50-70% stake in new projects will be optimal. **2) Rental revenue to reach HK\$ 5bn (vs. HK\$3.5bn from investment properties and hotels in 2014).** This could be achieved by the addition of 0.69mn sqm of investment properties under construction at present.

Quality landbank addition. Franshion acquired several premium sites in 2014 during the market downturn. In particular, 3 out of 7 sites acquired are located in tier-1 cities. Franshion attributable land capex of RMB11.3bn in 2014 (or 61% of total presales in 2014) should allow for more saleable resources for the Group going forward. Franshion also acquired an 80% stake in a primary development project in Nanjing Jiangning Shangfang City center in Jan 2015 with an area of 3.8mn sqm. Total estimated cost for the project is RMB 17bn (or ~RMB 4,500/sqm) and completion is expected to take place in 8 years. Located 12 km away from downtown, this site will be Franshion's first project in shantytown renewal. ASP in the region is around RMB 11-15k/sqm at present. With a cost of debt of 5.4% in 2014 (down from 5.6% in 2013), this SOE player is set to outperform via accelerated expansion of presales and landbank. In contrary, private developers that suffered from tight cash flow and refinancing issues in the past year will likely remain cautious in acquiring land. (Continue next page)

Results and Valuation

FY ended Dec 31	2013A	2014A	2015E	2016E	2017E
Revenue (HK\$ mn)	20,719	29,548	31,204	37,406	41,713
Chg (% YoY)	20.6	42.6	5.6	19.9	11.5
Core net profit (HK\$ mn)	2,910	3,610	3,751	4,819	5,565
Chg (% YoY)	35.1	24.0	3.9	28.5	15.5
Core EPS (HK\$)	0.30	0.37	0.38	0.48	0.55
Chg (% YoY)	30.7	22.8	3.6	26.3	14.6
BVPS (HK\$)	3.07	3.53	3.82	4.19	4.62
Chg (% YoY)	18.8	15.1	8.2	9.7	10.2
Core PE (x)	10.5	8.5	8.2	6.5	5.7
PB (x)	1.0	0.9	0.8	0.7	0.7
ROE (%)	10.0	10.9	10.5	12.3	13.0
ROA (%)	2.4	2.6	2.7	3.3	3.4
DPS (HK\$)	0.10	0.12	0.12	0.16	0.18
Dividend yield (%)	3.0	3.7	4.0	5.1	5.9
Net gearing (%)	44.5	58.1	55.4	40.2	11.5

*Net gearing=Net debt/Total equity

Source(s): Bloomberg, ABCI Securities estimates



FY14 results review. Franshion's FY14 core profit rose 24% YoY to HK\$ 3.6bn. Although Franshion missed its 2014 presales target, margin was better than expected. Blended gross margin remained high at 39% in 2014 (vs. 44% in 2013). Gross margin for land development improves from 36 to 46%, which offset the 11ppt gross margin drop in residential sales (from 45% to 34%) as market competition intensified. In particular, we believe Franshion has deferred its land sales to 2015 to avoid oversupply in the market and stabilize land price. Franshion's rental income also increased 12%YoY to HK\$ 1.4bn, producing a steady cash inflow for the group. Net gearing remains healthy at 56% as at Dec 14, although higher than 41% a year ago. DPS of HK\$0.115, implying a 5% dividend yield on current share price.

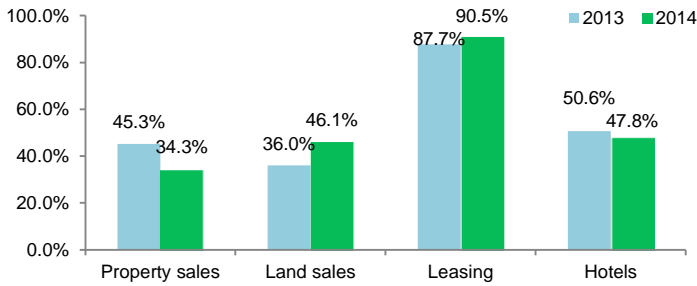
SOE developers with attractive valuations—top BUY in the sector. We factor in Franshion's latest land acquisitions and raise our 2015E-16E net profit by 20-30% to reflect better-than-expected presales. We also lift our FY15E NAV to HK\$ 7.42 (from HK\$6.64) and TP to HK\$ 4.50 (from HK\$ 3.30) based on a 40% discount to NAV. Franshion's valuations at 8.2x FY15E P/E and a 58% discount to FY15E NAV are the lowest among SOE developers (COLI: 9.9x FY15E P/E, 0% discount to FY15E NAV; CR Land: 12.0x FY15E P/E, 5% discount to FY15E NAV).

Risk factors: 1) Rising litigation risks across sector; 2) Further slowdown in land sales.

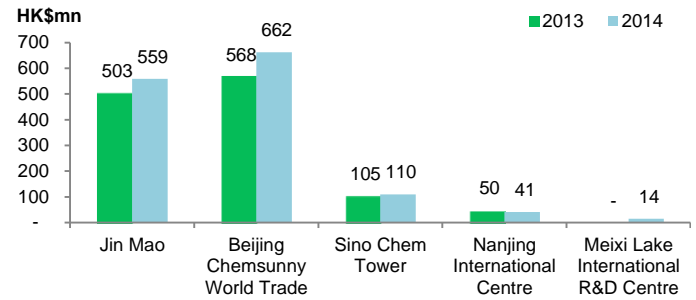
Exhibit 71: Franshion's FY14 results

P&L	2014	2013	YoY Chg	Operating statistics	2014	2013	YoY Chg
	HK\$m	HK\$m	(%)				
Turnover	29,548	20,719	43	Contracted GFA ('000 sqm)	0.88	0.57	54
Property sales	21,895	9,708	126	Contracted ASP (RMB/sqm)	20,924	25,466	(18)
Primary land development	3,650	7,160	(49)	Presales (RMBmn)	18,487	14,591	27
Property leasing	1,399	1,249	12	n			
Hotel	2,127	2,061	3	GFA Delivered (mn sqm)	0.88	0.22	299
Others	478	541	(12)	Booked ASP (HK\$/sqm)	24,936	44,144	(44)
				Property sales booked (HK\$m)	21,895	9,708	126
Cost of Sales & direct operating costs	(17,989)	(11,519)	56	Land sold (mn sqm)	0.99	2.59	(62)
Gross Profit	11,559	9,200	26	Booked ASP (HK\$/sqm)	3,684	2,768	33
Gross Margin (%)	39.1	44.4	-4.1ppt	Land sales (HK\$m)	3,650	7,160	(49)
Selling and distribution costs	(915)	(624)	47	Gross margin by segment	2014	2013	YoY Chg
Administrative expense	(1,679)	(1,162)	45				(ppt)
EBIT	8,965	7,415	21	Property sales	48.0%	48.0%	+13ppt
EBIT Margin (%)	30.3	35.8	-5.1ppt	Land development	31.0%	31.0%	+13ppt
Other income, gains and losses	546	524	4	Property leasing	90.0%	90.0%	-
Fair value gain of investment properties	2,310	1,831	26	Hotel	53.0%	53.0%	-1ppt
Other exceptional items	0	0	NA				
Share of profit from JCE/ Associates	(33)	2	(1,528)	Balance sheet	Dec 14	Dec 13	HoH %
Finance cost	(1,222)	(1,325)	(8)		HK\$m	HKDmn	
Profit before tax	10,566	8,448	25	Gross debt	46,759	35,806	31
Tax	(3,884)	(3,393)	14	Cash	14,053	14,793	(5)
				Net debt	32,707	21,013	56
				Net gearing- include perpetual instrument (%)	58.1	44.5	+25.5ppt
- LAT	(1,094)	(1,286)	(15)				
- Enterprise tax	(2,790)	(2,107)	32				
Profit after tax	6,682	5,055	32				
Minority Interest	(1,360)	(807)	68				
Net profit	5,322	4,247	25				
Underlying net profit	3,610	2,910	24				

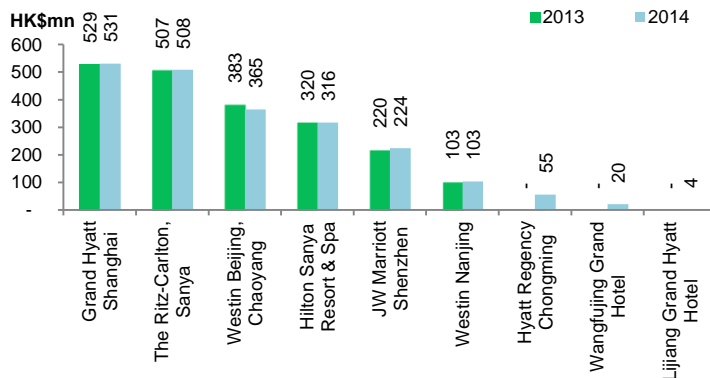
Source(s): Company, ABCI Securities

Exhibit 72: Franshion's GPM breakdown by division


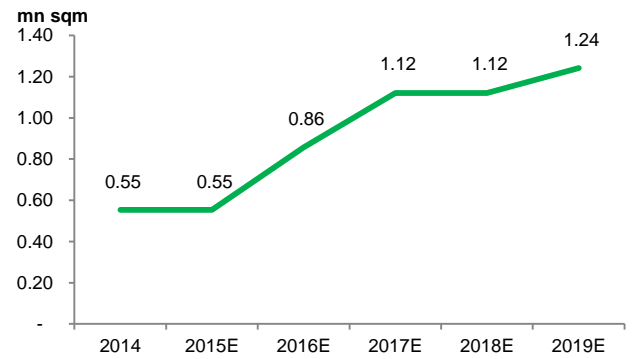
Source(s): Company; ABCI Securities

Exhibit 73: Rental revenue breakdown


Source(s): Company; ABCI Securities

Exhibit 74: Hotel revenue breakdown


Source(s): Company; ABCI Securities

Exhibit 75: GFA of Franshion's completed investment properties


Source(s): Company; ABCI Securities

Exhibit 76: Franshion's land acquisition

Month	City	GFA mn sqm	Land premium RMB mn	AV RMB/sqm	stake %
Jan-15	Qingdao	0.481	754	1,569	100%
Dec-14	Changsha	0.191	297	1,553	100%
Dec-14	Changsha	0.499	1,396	2,800	100%
Oct-14	Chongqing	0.826	2,135	2,586	40%
Sep-14	Guangzhou	0.314	3,242	10,314	50%
Feb-14	Beijing	0.559	6,000	10,735	25.5%-50%
Jan-14	Shanghai	0.289	10,100	34,924	36%
Jan-14	Hangzhou	0.242	2,370	9,781	85%
Total		3.401	26,294	7,731	

Source(s): Company; ABCI Securities



Exhibit 77: Franshion's FY15E NAV

	Attr. GFA (mn sqm)	Net assets value (HKD mn)	% of total	Valuation Method	Implied value per sqm (HKD)
Property development					
Beijing	0.8	9,171	9%	DCF at WACC of 9.2%	10,887
Shanghai	0.5	15,884	15%		32,984
Changsha	2.1	6,198	6%		2,954
Suzhou	0.3	2,013	2%		7,347
Chongqing	1.5	9,053	9%		6,146
Others	6.7	32,420	31%		4,851
Subtotal	10.4	74,738	70%		7,201
Primary Land Development	4.1	14,733	14%	Mkt value	3,629
Investment Properties	0.5	9,463	9%	8.5% cap rate on net rental income	
Hotels		7,172	7%	Market value of stake in Jinmao investment (6139 HK)	
Total 2015E GAV		106,106	100%		
2015E Net debt (including Perpetual convertible securities)		(38,146)	-36%		
Total 2015E NAV		67,960	64%		
No. of share outstanding		9,161			
NAV per share (HKD)		7.42			
Target discount (%)		40%			
Target Price (HKD)		4.50			
WACC	9.2%				
Cost of debt	6.0%				
Cost of Equity	15.0%				
Debt/ (Debt + Equity)	55%				

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2013A-2017E)

FY Ended Dec 31 (HK\$ mn)	2013A	2014A	2015E	2016E	2017E
Revenue	20,719	29,548	31,204	37,406	41,713
Cost of sales	(11,519)	(17,989)	(16,888)	(19,779)	(22,221)
Gross Profit	9,200	11,559	14,316	17,627	19,492
SG&A expenses	(1,785)	(2,593)	(3,008)	(3,516)	(4,427)
EBIT	7,415	8,965	11,308	14,111	15,064
Finance cost	(1,325)	(1,222)	(1,333)	(1,333)	(1,333)
Share of profit of associates	2	(33)	0	423	1,310
Other income/ (expenses)	524	546	525	261	411
Fair value gain of investment properties	1,831	2,310	0	0	0
Disposal/one-off items	0	(26)	0	0	0
Profit before tax	8,448	10,540	10,500	13,462	15,452
Tax	(3,393)	(3,884)	(4,772)	(5,913)	(6,609)
Profit after tax	5,055	6,656	5,728	7,549	8,843
Minority interest	(807)	(1,360)	(1,977)	(2,730)	(3,278)
Reported net profit	4,247	5,296	3,751	4,819	5,565
Less: exceptional items	(1,337)	(1,686)	0	0	0
Underlying net profit	2,910	3,610	3,751	4,819	5,565
Per share					
Underlying EPS (HK\$)	0.30	0.37	0.38	0.48	0.55
DPS (HK\$)	0.10	0.12	0.12	0.16	0.18
Payout ratio (%)	32%	31%	33%	33%	34%
BVPS (HK\$)	3.07	3.53	3.82	4.19	4.62
Growth %					
Revenue	20.6%	42.6%	5.6%	19.9%	11.5%
Gross Profit	27.8%	25.6%	23.9%	23.1%	10.6%
EBIT	28.0%	20.9%	26.1%	24.8%	6.8%
Underlying net profit	35.1%	24.0%	3.9%	28.5%	15.5%
Margin %					
Gross margin	44.4%	39.1%	45.9%	47.1%	46.7%
Gross margin (post-LAT)	15.0%	21.7%	22.4%	21.6%	21.4%
EBIT margin	35.8%	30.3%	36.2%	37.7%	36.1%
Core net margin	17.8%	16.8%	18.4%	19.1%	18.1%
Key assumptions					
Contracted Sales (HK\$m)	18,384	23,108	26,445	34,888	57,663
GFA sold (m sqm)	0.57	0.88	0.89	0.92	1.91
ASP (HK\$/sqm)	32,087	26,155	29,724	37,885	30,223
Booked Sales (HK\$)	9,708	21,895	22,592	24,762	27,788
GFA delivered (m sqm)	0.22	0.88	0.74	0.75	0.94
Booked ASP (HK\$/sqm)	44,144	24,936	30,489	33,165	29,644

Source: Company, ABCI Securities estimates



Consolidated balance sheet (2013A-2017E)

As of Dec 31 (HK\$ mn)	2013A	2014A	2015E	2016E	2017E
Current assets	46,720	55,658	55,755	60,619	76,806
Cash	14,490	12,455	11,603	18,486	36,755
Restricted cash	303	1,598	1,598	1,598	1,598
Trade & other receivables	4,202	3,593	3,593	3,593	3,593
Properties under development	10,714	18,319	18,319	18,319	18,319
Properties held for sale	5,915	7,619	7,619	7,619	7,619
Land under development	5,163	3,400	4,349	2,330	248
Other current assets	17,011	19,693	20,642	18,623	16,541
Non-current assets	74,123	82,367	85,411	85,521	84,622
Property, plant & equipment	7,495	12,423	12,910	13,388	13,855
Properties under development	33,318	27,759	33,316	32,526	29,850
Land under development	4,549	9,560	6,560	6,560	6,560
Investment properties	22,018	24,356	24,356	24,356	24,356
Investment in Associate and JCE	42	1,861	1,861	2,284	3,593
Other non-current assets	6,700	6,408	6,408	6,408	6,408
Total Assets	120,843	138,026	141,166	146,140	161,428
Current Liabilities	39,604	33,903	32,801	32,034	40,511
Short term borrowings	6,139	4,072	4,072	4,072	4,072
Trade & other payables	9,504	13,629	13,629	13,629	13,629
Pre-sales deposits	16,749	9,610	8,508	7,741	16,217
Other current liabilities	7,212	6,592	6,592	6,592	6,592
Non-current liabilities	34,020	47,790	47,790	47,790	47,790
Long term borrowings	29,667	42,687	42,687	42,687	42,687
Other payables	-	-	-	-	-
Other non-current liabilities	4,353	5,103	5,103	5,103	5,103
Total Liabilities	73,624	81,693	80,591	79,825	88,301
Net Assets	47,219	56,333	60,574	66,316	73,128
Shareholders' Equity	28,974	33,062	35,688	39,061	42,957
Perpetual Convertible Securities	4,588	4,588	4,588	4,588	4,588
Minority Interest	13,658	18,682	20,297	22,666	25,582
Total Equity	47,219	56,333	60,573	66,315	73,127
Key ratio					
Gross debt (HK\$m)	35,806	46,759	46,759	46,759	46,759
Net debt (HK\$m)	21,013	32,707	33,558	26,675	8,406
Net gearing (%)	45%	58%	55%	40%	11%
Contracted sales/ Total assets (x)	0.15	0.17	0.19	0.24	0.36

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2013A-2017E)

FY ended Dec 31 (HK\$ mn)	2013A	2014A	2015E	2016E	2017E
EBITDA	7,684	9,277	11,628	14,441	15,405
Change in Working Capital	(10,505)	2,491	(3,134)	3,514	14,707
Tax payment	(2,365)	(3,884)	(4,772)	(5,913)	(6,609)
Operating Cash flow	(5,186)	7,884	3,723	12,043	23,503
Purchase of PP&E	(808)	(808)	(808)	(808)	(808)
Addition of Investment Properties	0	0	0	0	0
Investment in Associate/ JCE	0	0	0	0	0
Proceeds from Disposals	0	0	0	0	0
Others	32	546	525	261	411
Investing Cash flow	(776)	(262)	(283)	(547)	(397)
Debt raised	25,961	10,000	10,000	10,000	10,000
Debt repaid	(21,339)	(20,397)	(10,000)	(10,000)	(10,000)
Interest expenses	(1,947)	(2,477)	(2,806)	(2,806)	(2,806)
Equity raised	0	0	0	0	0
Convertible securities coupon payments	(317)	(312)	(312)	(312)	(312)
Dividend to shareholders	(641)	(1,043)	(1,125)	(1,446)	(1,670)
Others	5,848	4,573	(50)	(50)	(50)
Financing Cash flow	7,564	(9,655)	(4,293)	(4,613)	(4,837)
Net cash inflow/ (outflow)	1,602	(2,034)	(853)	6,883	18,269
Cash- beginning	12,888	14,490	12,456	11,603	18,486
Cash- year-end	14,490	12,456	11,603	18,486	36,755

Source(s): Company, ABCI Securities estimates

May 8, 2015
Company Report
Rating: HOLD
TP: HK\$ 6.90

Share price (HK\$) 7.43
Est. share price return (7.1%)
Est. dividend yield 3.7%
Est. total return (3.4%)

Previous Rating & TP BUY; HK\$ 3.80
Previous Report Date Jan 23, 2015

Analyst : Kenneth Tung
Tel: (852) 2147 8311
Email: kennethtung@abci.com.hk

Key Data

52Wk H/L(HK\$) 8.40/2.89
Issued shares (mn) 14,589
Market cap (HK\$ mn) 111,965
3-mth avg daily turnover (HK\$ mn) 392.6
Major shareholder(s) (%):
HUI Ka Yan 70.10

Source(s): Company, Bloomberg, ABCI Securities

FY14 Revenue breakdown (%)

Property development 96.5
Property investment 0.1
Property management 1.1
Others 2.3

Source(s): Company, ABCI Securities

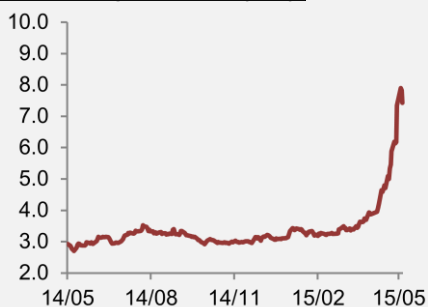
Share performance (%)

	Absolute	Relative*
1-mth	96.4	77.2
3-mth	132.3	105.4
6-mth	154.8	115.6

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Evergrande (3333 HK)

Perpetual distribution to be a potential burden; downgrade to HOLD

- Evergrande's net gearing rose from 70% in Dec 2013 to 86% in Dec 2014, ; adjusted net gearing (perpetual instrument categorized as debt) rose 103ppt YoY to 251%
- Perpetual coupon payment reached RMB 4.3bn in FY14 and would increase further on rising coupon terms
- New consumer business incurred a loss of RMB 3.1bn in FY14
- Downgrade to **HOLD** from Buy with revised TP HK\$ 6.90 based on a 20% (from 60%) discount to NAV

Perpetual instruments to become a burden. As of Dec 2014, Evergrande's perpetual instrument rose 11% YoY to RMB 52.9bn. Although perpetual instrument can be treated as equity based on the current accounting rules, it is not uncommon for investors to consider fixed coupon instrument as debt. Evergrande's net gearing rose from 70% in Dec 13 to 86% in Dec 14, but the adjusted net gearing (perpetual instrument treated as debt) rose 103ppt YoY to 251%. Besides, perpetual instruments usually involve step-up clauses which entail higher coupon terms. We estimate perpetual coupon payment would increase from RMB 4.3bn in FY14 to RMB 6.9bn in FY15E. On the other hand, Evergrande's gross finance cost hit RMB 14.6bn (+81% YoY) in FY14. We forecast total recurring cash outflow to lenders and bond/instrument holders to exceed RMB 20bn by 2015E.

Generous dividend payout may not be sustainable. Evergrande announced a DPS of RMB 0.43/share for FY14; total dividend distribution would amount to RMB 6.3bn. This implies a payout ratio of 50% on core profit (profit after tax excluding revaluation gains of investment properties) of RMB12bn. However, if the adjustments for (a) accounting revaluation gains on its A share investment; (b) disposal of a 50% stake in football business; (c) distribution to perpetual instruments and minority interest are accounted for, cash profit attributable to company's shareholders will amount to only RMB 2.3bn, much lower than the total dividend distribution of RMB 6.3bn. We think Evergrande's dividend payout is unsustainable in the long run.

New consumer business—still a cash burner. Evergrande has entered various new businesses in 2014; the Group will focus on 4 main consumer-related products/services in 2015:

- **Spring water:** This is one of the first consumer products launched by Evergrande; so far, RMB 5.54bn has been invested. The division generated RMB 1.09bn in sales and incurred a loss of RMB 2.37bn in 2014, mostly due to advertising and marketing expenses. In 2015, production capacity is expected to increase from 2.2mn tons to 4.0mn tons.
- **Grain and oil:** Evergrande entered into the grain & oil business in Aug 2014 and invested RMB570 during the year. The Group acquired 7 processing factories with an annual capacity of 150k ton for rice and 50k ton for edible oil. (Continue next page)

Results and Valuation

FY ended Dec 31	2013A	2014A	2015	2016E	2017E
Revenue (RMB mn)	93,672	111,398	157,862	188,842	190,736
Chg (% YoY)	43.5	18.9	41.7	19.6	1.0
Underlying Net Income (RMB mn) ¹	7,703	2,340	6,532	8,675	10,489
Chg (% YoY)	24.2	(69.6)	179.1	32.8	20.9
Underlying EPS (RMB)	0.48	0.16	0.44	0.59	0.71
Chg (% YoY)	16.1	(66.9)	179.1	32.8	20.9
BVPS (RMB)	4.6	7.1	7.3	7.6	7.9
Chg (% YoY)	79.7	53.7	3.1	4.0	4.7
Underlying PE (x)	12.4	37.4	13.4	10.1	8.4
P/B (x)	1.3	0.8	0.8	0.8	0.8
ROE (%)	10.5	2.3	6.1	7.8	9.0
ROA (%)	2.2	0.5	1.4	1.8	2.1
DPS(HK\$)	0.43	0.43	0.22	0.29	0.36
Yield (%)	7.2	7.2	3.7	4.9	6.0
Net gearing ² (%)	69.5	85.9	76.8	56.3	25.7

¹Underlying net income =Net profit - revaluation gain of investment properties and one-off items

²Net gearing=Net debt/Total equity

Source(s): Bloomberg, ABCI Securities estimates

- **Dairy:** Evergrande acquired Cowala Dairy in New Zealand in 2014 with an annual production capacity of 30k-ton for formula milk powder. *(continue next page)*
- **Health:** The group purchased a 74.99% stake in New Media (708 HK) at HK\$ 950mn. The acquired company will change its name to “Evergrande Health Industry Group Limited” to become the Group’s listed platform in health business.

Evergrande’s Other business registered a loss of RMB3.1bn in 2014. Although the Group believes these businesses will turn profitable in 2015, we remain cautious and only expect the loss to narrow to RMB 2bn, as consumer sector has seen slower same-store-sales and profit decline since last year.

Favored by mainland investors. Evergrande’s share price rose 88% between April 8 and May 6 and 127% in the past 3 months (Feb-May). Apart from its attractive dividend payout, we believe the rising interest in southbound stocks under the HK-SH connect could be another driver. In Mar 2015, Evergrande was the 5th most traded southbound stock on the HK-SH connect platform. Besides, many mainland investors are familiar with Evergrande’s trust products. With a dividend yield of 7.2% (or a yield of 13.5% before rally in April), the Group’s shares has a similar appeal as its trust products for the mainland investors. We expect Evergrande’s share price to remain resilient if trading in HK-SH connect continues to expand.

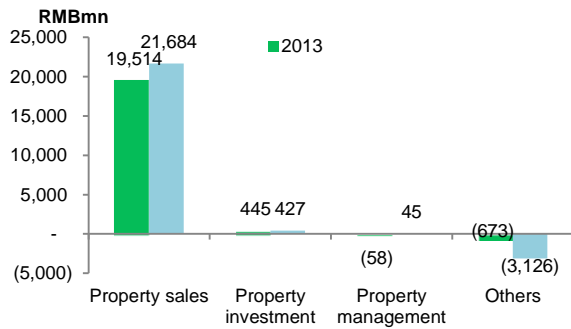
Downgrade to HOLD from Buy with revised TP at HK\$6.90. We lower our 2015E-16E core EPS forecasts by 40-50% to factor in higher distribution to perpetual instrument. We also adjust down our NAV estimate from HK\$9.5 to HK\$ 8.61. However, we lift our TP to HK\$ 6.90 (from HK\$3.80) as we reduce the NAV discount from 60% to 20%, based on the reasoning that valuation may rise on the increasing inflow of southbound capital. We think the counter’s upside is limited after the recent rally and its fundamentals are deteriorating. Thus, we downgrade Evergrande to **HOLD** from Buy.

Downside risks: 1) Rising litigation risks across sector; 2) Major shareholders may sell shares to take profit after recent rally. **Upside risks:** 1) Stronger-than-expected presales performance; 2) Continuation of high dividend payout.

Exhibit 78: Evergrande’s FY14 results

P&L	FY14	FY13	YoY Chg	Operating statistics	FY14	FY13	YoY Chg
	RMB mn	RMB mn	(%)				
Turnover	111,398	93,672	19	Presales GFA (mn sqm)	18.2	14.9	22
Cost of Sales & direct operating costs	(79,615)	(66,023)	21	Presales ASP (RMB/sqm)	7,227	6,741	7
Gross Profit	31,784	27,649	15	Presales amount (RMB mn)	131,517	100,400	31
Gross Margin (%)	28.5	29.5	(1.0)	GFA Delivered (mn sqm)	18.1	15.0	21
Selling and distribution costs	(9,154)	(4,310)	112	Booked ASP (RMB/sqm)	5,935	6,166	(4)
Administrative expense	(5,435)	(5,152)	5	Property sales booked (RMBmn)	107,450	41,289	160
EBIT	17,195	18,187	(5)	Balance sheet	Dec 14	Dec 13	HoH %
EBIT Margin (%)	15.4	19.4	(4.0)		RMB mn	RMB mn	
Other income, gains and losses	1,431	699	105	Gross debt	156,065	108,817	43
Fair value gain of investment properties	9,393	5,815	62	Cash	59,498	53,653	11
Other one-off items	4,292	729	na	Net debt	96,566	55,164	75
Share of profit from JCE/ Associates	(104)	0	0	Net gearing- PCI as equity (%)	86	70	16
Finance cost	(1,015)	(34)	2,892	Net gearing- PCI as debt (%)	251	148	103
Profit before tax	31,191	25,396	23				
Tax	(13,175)	(11,687)	13				
- LAT	(4,223)	(4,872)	(13)				
- Enterprise tax	(8,952)	(6,816)	31				
Profit after tax	18,016	13,709	31				
Minority Interest and perpetual capital instrument	(5,412)	(1,097)	393				
Net profit	12,604	12,612	(0)				
Core net profit	12,000	10,300	17				
Core net profit- post MI, perpetual and disposals	2,340	7,703	(70)				

Source(s): Company, ABCI Securities

Exhibit 79: Evergrande's EBIT by segment


Source(s): Company, ABCI Securities

Exhibit 80 : 2015E guidance for Consumer business

	Total	2014 actual		2015 guidance	
		Investment	Sales	Profit/ (loss)	Sales
	RMBmn	RMBmn	RMBmn	RMBmn	RMBmn
Spring water	5,540	1,090	(2,370)	4,000	make profit
Grain & oil	570	NA	NA	2,500	make profit
Dairy	310	73	7	500	make profit
Health	HK\$950mn	NA	NA	NA	NA

Source(s): Company, ABCI Securities estimates

Exhibit 81: The 10 most traded southbound HK-SH connect counters (Mar 2015)

Rank	Stock Code	Stock Name	Buy Trades (HK\$ mn)	Sell Trades (HK\$ mn)	Turnover (Buy & Sell) (HK\$ mn)
1	566 HK	Haneng	2,670	2,288	4,958
2	1186 HK	China Railway Construction	608	340	948
3	6837 HK	Haitong Securities	587	307	894
4	2883 HK	China Oilfield	552	305	857
5	3333 HK	Evergrande	519	188	708
6	390 HK	China Railway	391	263	654
7	700 HK	Tencent	425	205	630
8	1336 HK	NCI	315	286	601
9	3800 HK	GCL-Poly Energy	482	113	595
10	2727 HK	SH Electric	373	200	573

Source(s):HKEx, ABCI Securities

Exhibit 82: Evergrande's FY15E NAV

	Attr. GFA (mn sqm)	Net assets value (RMB mn)	% of total	Valuation Method	Implied value per sqm (RMB)
Property development					
Guangdong	14.8	14,108	6%	DCF at WACC of 11.0%	950
Liaoning	13.2	11,200	5%		847
Jiangsu	12.9	11,088	5%		858
Hebei	11.7	10,884	4%		927
Shangdong	10.8	10,071	4%		934
Anhui	10.0	8,152	3%		818
Henan	7.7	6,839	3%		889
Hunan	5.4	4,713	2%		880
Others	64.2	97,042	40%		1,511
Subtotal	150.8	174,099	72%		
Investment Properties		61,857	25%		1x Book value
Football business		1,200	0%		50% stake sold to Jack Ma at RMB1.2bn
Huaxia Bank		5,728	2%		Mkt value of 4.5% stake
Water business		-	0%		
Total 2015E GAV		242,884	100%		
2015E Net debt		(88,541)	-36%		
Perpetual capital instrument		(52,852)	-22%		
Total 2015E NAV		101,491	42%		
No. of share outstanding (diluted)		14,742			
NAV per share (RMB)		6.88			
Ex rate		1.25			
NAV per share (HKD)		8.61			
Target discount (%)		20%			
Target Price (HKD)		6.90			
WACC		11.0%			
Cost of Debt		11.1%			
Cost of Equity		15.0%			
Debt/ (Debt + Equity)		59%			

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2013A-2017E)

FY Ended Dec 31 (RMB mn)	2013A	2014A	2015E	2016E	2017E
Revenue	93,672	111,398	157,862	188,842	190,736
Cost of sales	(66,023)	(79,615)	(111,286)	(131,866)	(128,114)
Gross Profit	27,649	31,784	46,576	56,976	62,622
SG&A expenses	(9,462)	(14,588)	(19,062)	(22,975)	(22,696)
EBIT	18,187	17,195	27,515	34,001	39,927
Finance cost	(34)	(1,015)	(1,168)	(1,136)	(1,136)
Share of profit of associates	0	(104)	0	0	0
Other income/ (expenses)	699	1,431	1,032	1,113	1,199
Fair value gain of investment properties	0	0	0	0	0
Disposal/one-off items	6,545	13,685	0	0	0
Profit before tax	25,396	31,191	27,378	33,978	39,990
Tax	(11,687)	(13,175)	(14,181)	(17,562)	(20,704)
Profit after tax	13,709	18,016	13,197	16,415	19,286
Minority interest	(1,097)	(5,412)	(6,665)	(7,740)	(8,797)
Reported net profit	12,612	12,604	6,532	8,675	10,489
<i>Less: exceptional items</i>	<i>(4,908)</i>	<i>(10,264)</i>	<i>0</i>	<i>0</i>	<i>0</i>
Underlying net profit	7,703	2,340	6,532	8,675	10,489
Per share					
Underlying EPS (RMB)	0.48	0.16	0.44	0.59	0.71
DPS (RMB)	0.43	0.43	0.22	0.29	0.36
Payout ratio (%)	90%	271%	50%	50%	50%
BVPS (RMB)	4.59	7.05	7.27	7.57	7.92
Growth %					
Revenue	43.5%	18.9%	41.7%	19.6%	1.0%
Gross Profit	51.8%	15.0%	46.5%	22.3%	9.9%
EBIT	59.1%	-5.5%	60.0%	23.6%	17.4%
Underlying net profit	24.2%	-69.6%	179.1%	32.8%	20.9%
Margin %					
Gross margin	29.5%	28.5%	29.5%	30.2%	32.8%
Gross margin (post-LAT)	24.7%	25.6%	25.8%	26.4%	28.5%
EBIT margin	19.4%	15.4%	17.4%	18.0%	20.9%
Core net margin	9.4%	7.1%	8.4%	8.7%	10.1%
Key assumptions					
Contracted Sales (RMB mn)	100,400	131,517	156,379	188,805	183,954
GFA sold (m sqm)	14.89	18.20	21.69	25.57	23.43
ASP (RMB/sqm)	6,741	7,227	7,209	7,384	7,853
Booked Sales (RMB mn)	92,235	107,450	150,723	180,465	180,609
GFA delivered (mn sqm)	14.96	18.10	21.05	24.59	23.30
Booked ASP (RMB/sqm)	6,166	5,935	7,159	7,339	7,752

Source: Company, ABCI Securities estimates



Consolidated balance sheet (2013A-2017E)

As of Dec 31 (RMB mn)	2013A	2014A	2015E	2016E	2017E
Current assets	289,378	383,650	390,934	401,361	411,566
Cash	40,118	29,847	37,873	59,282	94,415
Restricted cash	13,535	29,651	29,651	29,651	29,651
Trade & other receivables	9,512	16,027	16,027	16,027	16,027
Property under development	184,833	246,476	245,734	234,751	209,823
Other current assets	41,381	61,649	61,649	61,649	61,649
Non-current assets	58,770	90,812	89,632	88,327	86,884
Property, plant & equipment	11,378	15,504	14,324	13,019	11,577
Investment properties	36,039	61,857	61,857	61,857	61,857
Investment in Associate and JCE	0	1,062	1,062	1,062	1,062
Other non-current assets	11,353	12,389	12,389	12,389	12,389
Total Assets	348,148	474,462	480,566	489,688	498,450
Current Liabilities	188,198	268,237	271,406	276,504	280,334
Short term borrowings	35,796	79,663	79,663	79,663	79,663
Trade & other payables	99,895	123,673	123,673	123,673	123,673
Pre-sales deposits	39,000	47,348	50,517	55,615	59,445
Other current assets	13,506	17,553	17,553	17,553	17,553
Non-current liabilities	80,608	93,847	93,847	93,847	93,847
Long term borrowings	73,021	76,401	76,401	76,401	76,401
Other payables	0	0	0	0	0
Other non-current assets	7,587	17,446	17,446	17,446	17,446
Total Liabilities	268,806	362,084	365,253	370,351	374,181
Net Assets	79,343	112,378	115,313	119,337	124,269
Shareholders' Equity	73,614	103,972	107,238	111,575	116,820
Minority Interest	5,729	8,406	8,075	7,762	7,449
Total Equity	79,343	112,378	115,313	119,337	124,269
Key ratio					
Gross debt (RMB mn)	108,817	156,065	156,065	156,065	156,065
Net debt (RMB mn)	55,164	96,566	88,541	67,131	31,998
Net gearing (%)	70%	86%	77%	56%	26%
Contracted sales/ Total assets (x)	0.29	0.28	0.33	0.39	0.37

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2012A-2016E)

FY ended Dec 31 (RMB mn)	2013A	2014A	2015E	2016E	2017E
EBITDA	19,214	18,332	28,765	35,376	41,439
Change in Working Capital	(44,409)	(52,024)	19,598	31,331	44,010
Tax payment	(5,850)	(13,178)	(14,181)	(17,562)	(20,704)
Operating Cash flow	(31,045)	(46,871)	34,181	49,144	64,745
Addition of PP&E and IP	(11,782)	(1,532)	(70)	(70)	(70)
Others	(1,353)	(1,869)	1,032	1,113	1,199
Investing Cash flow	(13,134)	(3,402)	962	1,043	1,129
Debt raised	74,368	52,797	5,000	5,000	5,000
Debt repaid	(25,463)	(5,000)	(5,000)	(5,000)	(5,000)
Interest expenses	(7,827)	(14,649)	(16,855)	(16,387)	(16,387)
Equity raised	3,526	0	0	0	0
Dividend to shareholders	(2,292)	(6,339)	(3,266)	(4,337)	(5,244)
Perpetual securities raised	24,367	13,241	(6,946)	(8,003)	(9,060)
Others	(174)	(50)	(50)	(50)	(50)
Financing Cash flow	66,506	40,001	(27,117)	(28,777)	(30,741)
Net cash inflow/ (outflow)	22,327	(10,272)	8,026	21,410	35,133
Cash- beginning	17,789	40,118	29,847	37,873	59,282
Cash- year-end	40,116	29,847	37,873	59,282	94,415

Source(s): Company, ABCI Securities estimates

Disclosures

Analyst Certification

I, Kenneth Tung, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

Disclosures of Interests

ABC Securities Company Limited and/or its affiliates, within the past 12 months, have investment banking relationship with one or more of the companies mentioned in the report.

Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return - 6% \leq Stock return < Market return rate
Sell	Stock return < Market return - 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2009-2013

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq 180$ day volatility/180 day benchmark index volatility
High	$1.5 \leq 180$ day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq 180$ day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities

Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2015 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

**Office address: ABCI Securities Company Limited, 13/F Fairmont House,
8 Cotton Tree Drive, Central, Hong Kong.**

Tel: (852) 2868 2183