Evergrande(3333) -Maintain BUY

Increasing FY2012 earnings visibility, upward revision of NAV

Key Data

Price(28/3/2012)	HK$4.22
Price target	HK$5.82
Upside potential	37.9%
52Wk H/L(HK$)	6.27/2.13
Issued shares(mn)	14,918
Market Cap(HK$mn)	62,952.9
15-day avg vol(mn)	51.6
Auditors	PwC
Major shareholder:	
Xu jiayin*	68.1%

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

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Core net profit up 56.3%YoY: Revenue increased by 35.2%YoY to Rmb61.9bn on the back of 16.0%YoY surge in GFA delivered and 14.6%YoY hike in ASP booked. Net profit increased by 46.9%YoY to Rmb11.8bn with FD EPS at Rmb0.68. Core net profit (excluding revaluation G/L on investment property but including interest income) surged by 56.3%YoY to Rmb8.6bn (or Rmb0.57/share) but 4.4% below our estimation. A final dividend of Rmb0.19/share is declared.

Margin expanded but further upside limited for FY12: Gross profit margin and core net profit margin expanded 4.1ppt and 1.9ppt to 33.3% and 13.9% for FY2011 respectively, backed by a 14%YoY booked ASP surge. As ASP recognized in FY2011 is close to ASP of unbooked revenue (est. Rmb6,450/sqm.), further upside on this front may be slight. Growth in revenue in FY2012 (+24.0%) will be mainly driven by volume (GFA booked up +24.7%YoY) according to our estimation.

55.7% of FY2012 delivery target locked in: We expect Evergrande to have Rmb47bn sold but unrecognized sales as of Feb 2012, of which about Rmb42bn will be delivered in 2012. Revenue lock-in is about 55.7% for FY2012 and 5.2% for FY2013. Earnings visibility for FY2012 is increasing.

Gearing eased but short cash flow looks tight: Net debt/equity ratio eased to 67.5% at the end of 2011, against 75.4% as of Jun 30, 2011. The gearing came slightly below our forecast of 70.0% but we noticed that the trade payable within 90 days soared by 137.8%YoY to Rmb30.2bn. With 20.1bn cash(or 28.2bn combing with the restricted cash) on hand and Rmb16.0bn cash from last year sales on the way, the short term liquidity could be solved internally but still indicated a tight cash flow condition in the short term.

In a longer term, management targets a gearing ratio below 60%. We expect it to be achievable as management now purses a stable growth (target a 10-20%YoY growth in major operating indicators).

Land bank scale expected to be stable and cost edge maintains: The group grew its land bank by acquiring 40.8mn sqm of new lands, majority of them was acquired in 1H FY2011 with only 1.5mn acquired in 2H FY2011. 75 new projects were added in 2011 at average land cost of Rmb667/sqm. As of year-end 2012, the group owned 136.8mn sqm. attributable land bank, up 42.5%YoY from 96mn as of end 2010. Although the amount of land reserve is huge, the largest among China developers, the total average land cost maintains at low level of Rmb616/sqm. Based on the contacted ASP achieved in 2011(Rmb6,591/sqm), the land cost represents 9.3% of the ASP, lower than the 20% of industry average.

Management indicates future land acquisition will match with GFA delivered. In other words, the group's land bank may stabilize at 137mn and a huge land premium capex is not expected.

We are happy to see that management deliberately slow down the land acquisitions. Its land bank covered 103 cities (96.8% in lower tier cities) across China with 187 projects on sale in 2011. A further scale expansion could bring in additional operational risk. Although the group has demonstrated a capability in construction, sale and management the large diversified portfolio across China, the track record is still short.

Management reiterating confidence on 2012 sales target and seeing possibility in ASP surge: Management are still very confident on the 2012 sales target (Rmb80.0bn). We expect the sales to be strong supportive by a surge in salable resources. In year-end 2011, the group has 36.5mn GFA under-construction and we estimated the total salable resources to reach 26.0mn with 60-80 new projects to be launched for 2012.

On the back of sales strategy, management expects that the contract ASP this year may surge by 3%YoY, which we believe is against industry trend. We are still conservative in its ASP trend. In our financial model, we factored a 5%YoY decrease in ASP for 2012 (Rmb6,261/sqm). We expect the group to achieve contracted sales of Rmb81.9bn this year.

The key project highlight this year is the Qidong project, which is expected to launch in June and we estimated its gross margin to be above 50% with ASP at Rmb18,000/sqm. If the projects prove successful, the group has upside ASP risk this year.

Valuation and risks

After we have fine-tuned the project launch and delivery schedule, the revised NAV/share is at Rmb7.85(HK$9.7), 3% higher than our previous Rmb7.65.

We raise the 12mth target price rises to HK$5.82(2012PE 6.7x;2.2x PB), representing 40% discount to our revised NAV(HK$9.7).

We maintain our BUY rating on the stock. Key downside risk to our price target includes missing contracted sales target and project delivery schedule.

Results and forecast

	2010A	2011A	2012E	2013E
Revenue(Rmbmn)	45,801	61,918	76,788	96,232
Chg(YoY)	-	35.2%	24.0%	25.3%
Core net profit^ (Rmbmn)	5,510	8,610	10,535	12,210
Chg(YoY)	-	56.3%	22.4%	15.9%
Core EPS (Rmb/share)	0.36	0.57	0.71	0.82
PE(x)	9.4	6.1	4.9	4.2
DPS (HK$)	0.16	0.23	0.22	0.25
Yield	-	5.5%	5.1%	5.9%
NBV/share(Rmb)	1.37	2.15	2.71	3.35
Chg(YoY)	59.5%	57.0%	26.2%	23.7%
PB(x)	2.51	1.60	1.27	1.02

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

Source: Companies' announcements and ABCI Securities estimates

Disclosures

I, Li Hong-ying, Vivian , 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.

Disclosures of Interests

Li Hong-ying has financial interest in Evergrande Real Estate Group Limited as at 29 March 2012.

Disclaimer

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