



Company Report

Kaisa Group (1638 HK)

June 6, 2013

Rating: Buy
TP: HK\$2.80

Key data

| | |
|-------------------------|-----------|
| Share price (HK\$) | 2.15 |
| Target price (HK\$) | 2.80 |
| Upside potential (%) | 30.2 |
| 52Wk H/L(HK\$) | 2.87/1.32 |
| Issued shares (mn) | 4,906 |
| Market cap (HK\$mn) | 10,564 |
| 30-day avg vol (HK\$mn) | 23 |
| Major shareholder (%) | |
| Kwok's Family | 62.4 |

Source: Company & Bloomberg

Revenue breakdown by segment (2012) (%)

| | |
|----------------------|------|
| Property development | 97.0 |
| Property investment | 1.4 |
| Property management | 1.1 |
| Others | 0.4 |

Source: Company

Share performance (%)

| | Absolute | Relative* |
|-------|----------|-----------|
| 1-mth | (13.7) | (10.3) |
| 3-mth | (8.9) | (6.0) |
| 6-mth | (2.3) | (1.4) |

*Relative to Hang Seng Index

Source: Bloomberg

1 year price performance



Source: Bloomberg

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Previous report: N/A (Initiation)

Driving Shenzhen's Urbanization

Kaisa finally came to a harvesting stage for their investment in urban redevelopment. Their first redevelopment project- Kaisa City Plaza has received overwhelming responses, generating gross margin in the excess of 50%. In fact, Shenzhen's land supply is rather limited - redevelopment will be one of key sources in future. As Shenzhen city redevelopment is to unlock hidden value of land resources, Kaisa is set to benefit from this trend.

Lucrative redevelopment projects. Kaisa's latest redevelopment project- Kaisa City Plaza has been a great success. The project achieved an ASP of RMB20k/sqm, implying 52% gross margin based on our estimates, vs Kaisa current gross margin of 32.5% in 2012. We expect Kaisa's gross margin will be on upward trend (from 32.5% in 2012A to 38.3% in 2015E) driven by increasing contributions from redevelopment projects.

Getting land below market price. Kaisa currently sits with 2.2m sqm site area of redevelopment projects in Shenzhen under Shenzhen Government Listing. We estimate overall land cost (relocation plus land premium) of ~RMB3k/sqm, vs market value of RMB4k/sqm, implying a possible uplift (RMB5.5b) to Kaisa's 2013E NAV (RMB22.5b), upon full approval obtained from government.

Fast churn model outside Shenzhen. Kaisa has been active in penetrating new cities leveraging a fast churn model. Despite selling at lower gross margin of ~25%, projects outside Shenzhen generate good cashflow, and should diversify risks from redevelopment projects, which have uncertain timing in getting approvals.

Buying Kaisa's margin improvement capability plus redevelopment upside. We derived our TP of HKD2.80 based on based on 45% discount to our estimated NAV of HKD5.15/share. Trading at 4.3x 2013E PE, we believe Kaisa's potentials are under-estimated. Initiate Kaisa with a Buy rating.

Risk factors: 1) Timing of redevelopment projects' approval could be uncertain; 2) no dividend record since listing; 3) diversifying to outside Greater Shenzhen areas may lead to higher overheads

Results and valuation

| (FY ended Dec 31) | FY11A | FY12A | FY13E | FY14E | FY15E |
|--------------------------------|--------|--------|--------|--------|--------|
| Revenue (RMB mn) | 10,835 | 11,955 | 18,979 | 24,579 | 26,304 |
| Y-Y Chg (%) | 39.7 | 10.3 | 58.8 | 29.5 | 7.0 |
| Underlying net profit (RMB mn) | 1,576 | 1,504 | 2,203 | 3,351 | 4,003 |
| Y-Y Chg (%) | 11.9 | (4.6) | 46.5 | 52.1 | 19.4 |
| Underlying EPS (RMB) | 0.28 | 0.27 | 0.40 | 0.61 | 0.72 |
| BVPS (RMB) | 2.15 | 2.60 | 3.00 | 3.60 | 4.33 |
| DPS (RMB) | - | - | - | - | - |
| Underlying PE (x) | 6.1 | 6.3 | 4.3 | 2.8 | 2.4 |
| PB (x) | 0.8 | 0.7 | 0.6 | 0.5 | 0.4 |
| Dividend yield (%) | - | - | - | - | - |

Source: Company, ABCI Securities estimates



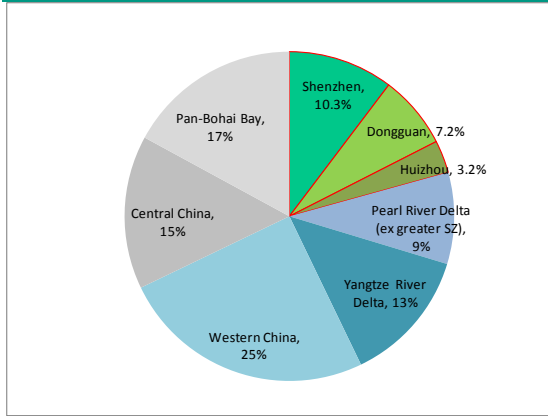
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A key player in Shenzhen

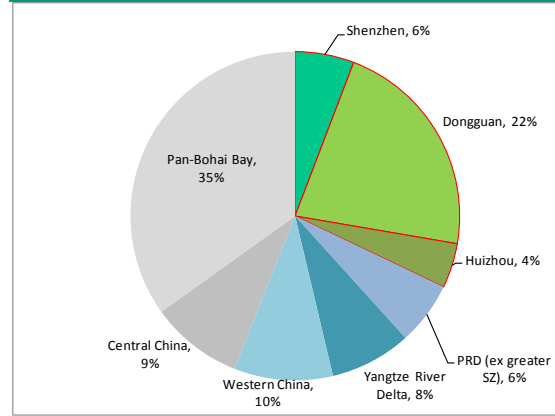
Established in 1999, Kaisa has been very active in Shenzhen property market. About 20.7% of Kaisa's 2012 contracted sales and 32% of land bank are located in Greater Shenzhen (Shenzhen/Dongguan/ Huizhou).

2012 Contracted Sales Breakdown



Source: Kaisa, ABCI Securities

Landbank Breakdown as at 2012-end



Source: Kaisa, ABCI Securities

Shenzhen Kaisa City Centre



Source: Kaisa, ABCI Securities

Shenzhen Kaisa Global Centre



Source: Kaisa, ABCI Securities

Shenzhen Kaisa Metropolitan Homeland



Source: Kaisa, ABCI Securities

Shenzhen Dapeng Project

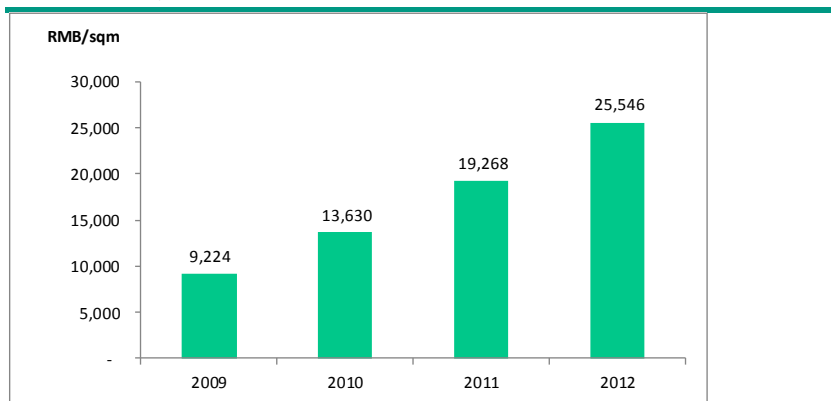


Source: Kaisa, ABCI Securities

Rising contribution from Shenzhen

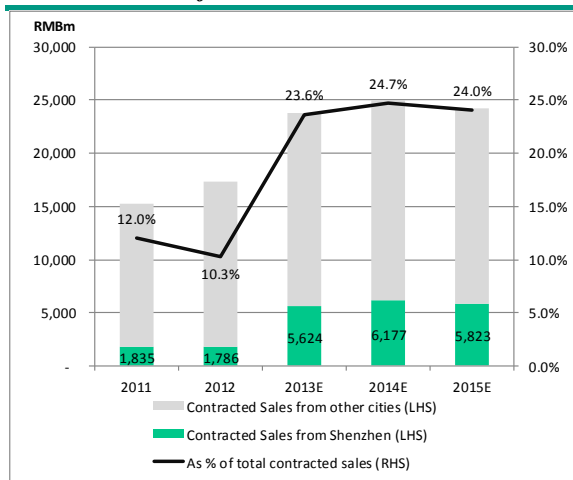
Kaisa has also been upgrading its product mix in Shenzhen for past few years. In fact, we have seen ASP of Kaisa's Shenzhen projects rose from RMB9,224/sqm in 2009 to RMB25,546/sqm in 2012, driven by increasing contribution from higher-end products. Going forward, we expect contracted sales contribution from Shenzhen alone to increase from 10% of total in 2012, to 24% level in 2013-15, on the back of higher portion of redevelopment projects in Shenzhen

Kaisa's Shenzhen ASP trend



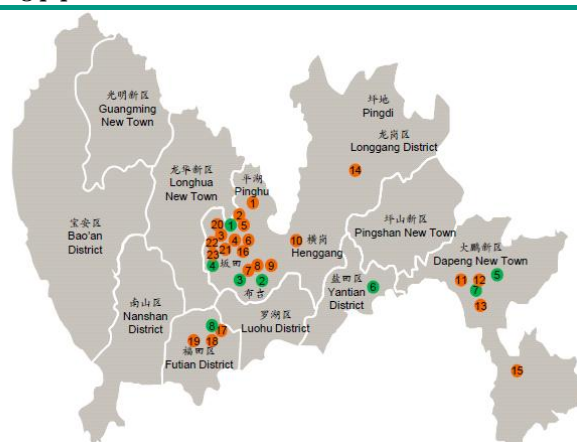
Source: Kaisa

Contracted Sales from Shenzhen



Source: Kaisa, ABCI Securities estimates

Strong pipeline in Shenzhen



* Launch schedule as at Mar 2013
Green: project launched/ to be launched soon;
Orange: redevelopment projects
Source: Kaisa, ABCI Securities

Qianhai Potential

In Apr 2013, Kaisa announced the formation of JV with Fulbright Overseas, a financial services firm owned by Chairman, to invest in Qianhai area in Shenzhen. Central government targets to develop the 14m sqm Qianhai site into a regional hub for financial services, logistics and information services. Although Kaisa currently doesn't hold any land in Qianhai, given Kaisa's expertise in Shenzhen's relevant town planning experience from redevelopment projects, we expect Kaisa to have good potential in Qianhai's opportunities in future.

An urban redevelopment specialist

Lucrative redevelopment model- Kaisa City Plaza a good example

The launch of Kaisa's first redevelopment project- Kaisa City Plaza, has been a great success. Debut in Dec 2012, Kaisa sold a total GFA of around 90k sqm out of 130k sqm launched in its first phase, implying a sell-through rate of 70%. The project achieved an ASP of ~RMB20k/sqm, implying 52% gross margin based on our estimates, significant higher than Kaisa's current gross margin of 32.5% in 2012.

Kaisa City Plaza- Margin Estimate

| | Per sq/m RMB | As % of sales |
|----------------------|-----------------|------------------|
| ASP | 20,000 | 100% |
| Relocation | 2,600 | 13% |
| Land premium | 1,000 | 5% |
| Construction | 5,000 | 25% |
| Finance cost | 700 | 4% |
| Others | 400 | 2% |
| Cost of sales | 9,700 | 49% |
| Gross profit | 10,300 | 52% |
| SG&A | 2,000 | 10% |
| LAT | 2,762 | 14% |
| Income tax | 1,385 | 7% |
| Net profit | 4,154 | 21% |

** Figures estimated by ABCI Securities based on company guidance*

Getting land at below market price- huge potential upside

Kaisa is currently sitting with 2.6m sqm (of which 1.5m sqm in Shenzhen) sqm landbank of redevelopment projects in Shenzhen, representing 14% of total landbank. Further, Kaisa currently has some 2.2m sqm site area of redevelopment projects under Shenzhen Government Listing (深圳市城市更新单元计划), with plot ratio to be determined. According to current redevelopment policy in Shenzhen, land premium will be charged depending on the plot ratio:

- **Plot ratio <2.5x:** free of market land premium
- **Plot ratio in between 2.5 to 4.5x:** 20% of market land premium
- **Plot ratio >4.5x:** 100% of market land premium.

Assuming a plot ratio of 2.5x, this could imply an extra GFA of 5.5m sqm in prime location, enhancing NAV by RMB5.5b, or 22% of total NAV. Currently, we only factored in redevelopment projects which obtained full approvals with plot ratio confirmed.



List of Kaisa's Redevelopment Projects

| NO. | Project | Location | Site Area (sq.m.) |
|---|---|-----------|-------------------|
| 1 ⁽¹⁾ | Pinghu Town Project | Shenzhen | 1,000,000 |
| 2 ⁽¹⁾ | Dapeng Project | Shenzhen | 76,300 |
| 3 ⁽¹⁾ | Henggang Anliang Village 5 Project | Shenzhen | 166,000 |
| 4 ⁽¹⁾ | Henggang Anliang Village 6 Project | Shenzhen | 204,000 |
| 5 ⁽¹⁾ | Henggang Anliang Village 7 Project | Shenzhen | 180,000 |
| 6 ⁽¹⁾ | Henggang Anliang Village 8 Project | Shenzhen | 327,000 |
| 7 ⁽¹⁾ | Nanmendun Project | Shenzhen | 100,324 |
| 8 ⁽¹⁾ | Dapeng No.2 Industrial Zone Project | Shenzhen | 139,672 |
| 9 ⁽²⁾ | Yantian sancun , Sicun and Xisanxia Cun | Shenzhen | 266,000 |
| 10 | Nan'ao Xu Town Project | Shenzhen | 400,000 |
| 11 | Dafen Project | Shenzhen | 210,000 |
| 12 | Buji Mumianwan Project | Shenzhen | 230,000 |
| 13 | Xiaxuecun Project | Shenzhen | 90,000 |
| 14 | Gangtou Xiangjiaotang Project | Shenzhen | 250,000 |
| 15 | Tonghe Project | Guangzhou | 53,500 |
| 16 | Lianbian Village Project | Guangzhou | 2,600,000 |
| 17 | Fenggang Project | Dongguan | 177,342 |
| 18 | Xiabumiao & Nanhua Village Project | Shenzhen | 162,200 |
| 19 | Nanyuan Village Project | Shenzhen | 8,531 |
| 20 | Xiaoping Village Project | Guangzhou | 1,200,000 |
| 21 | Huawei Science and Technology GX03 Project | Shenzhen | 200,000 |
| 22 | Dapeng Jiuxu Project | Shenzhen | 670,000 |
| 23 | Shangxue Niuguling Project | Shenzhen | 100,000 |
| 24 | Longcheng Industrial Zone Project | Shenzhen | 67,119 |
| 25 ⁽¹⁾ | Yagang Village | Guangzhou | 799,600 |
| 26 | Shixi Village | Guangzhou | 400,000 |
| 27 | Huawei Science and Technology ZDY09 Project | Shenzhen | 188,000 |
| 28 | Gangtou Bantian Hepinggang Project | Shenzhen | 215,000 |
| 29 | Gangtou Bantian Zhongxinwei Project | Shenzhen | 82,000 |
| 30 | Gangtou Bantian Matishan Project | Shenzhen | 198,000 |
| 31 | Gangtou Bantian Xinweizai Project | Shenzhen | 115,100 |
| 32 | Futian Project | Shenzhen | 29,447 |
| | Sub-total | | 10,905,135 |
| Contractual agreements -- Project Transfer or Cooperative ⁽¹⁾ | | | |
| 33 | Longgang Nan'ao Longbeitou Project | Shenzhen | 26,667 |
| | Sub-total | | 26,667 |
| Landbank | | | |
| 34 | Shenzhen Kaisa Global Center | Shenzhen | 14,411 |
| 35 | Shenzhen Kaisa City Plaza | Shenzhen | 179,642 |
| 36 | Zhuhai Lake View Waldorf Garden | Zhuhai | 164,354 |
| 37 | Dongguan Le Grand Bleu | Dongguan | 239,061 |
| | Sub-total | | 597,468 |
| Others | | | |
| 38 ⁽¹⁾ | Golden Bay Resort | Shenzhen | 34,728 |
| | Sub-total | | 34,728 |
| | Total | | 11,563,998 |

(1) Projects included in government listing for redevelopment; (2) Acquired by auction

* Data in table is as at Mar 2013

Source: Kaisa, ABCI Securities

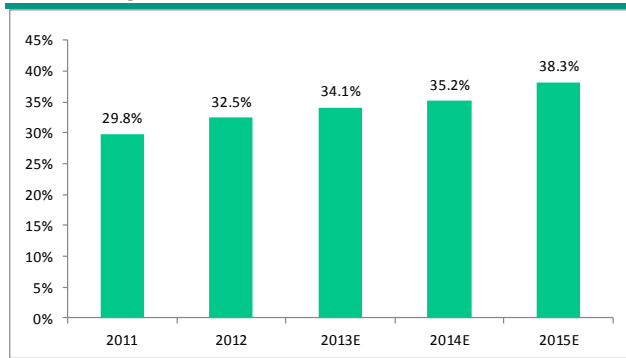
Kaisa's Potential Extra Land Bank from Redevelopment Projects

| | Bull case | Remarks | |
|---|---------------|---------------|---|
| Plot ratio (x) | 2.5 | 4.5 | |
| Site area (m sqm) | 2.2 | 2.2 | |
| GFA (m sqm) | 5.5 | 9.9 | |
| GFA occupied by existing resident (m sqm) | 2.2 | 2.2 | Normally have 1x plot ratio for old village |
| Compensation price per sqm (RMB/sqm) | 7,500 | 7,500 | Mainly represent 1x plot ratio granted residence |
| Relocation cost (RMBm) | 16,500 | 16,500 | |
| GFA subjected to land premium (m sqm) | - | 4.4 | Plot ratio of 2.5x aboved subjected to land premium |
| Market price of land (RMB/ sqm) | 4,000 | 4,000 | Land cost- Futian: RMB3,000-5,000/sqm; Longgang: RMB1,000-2,000/sqm |
| Valuation allowance (%) | 0% | 20% | |
| Land premium (RMBm) | - | 3,520 | 20% of market land cost (RMB4,000) |
| Total land cost (RMBm) | 16,500 | 20,020 | |
| Land cost per sqm (RMB/sqm) | 3,000 | 2,022 | |
| Market value of land (RMBm) | 22,000 | 39,600 | |
| Market value per sqm (RMB/sqm) | 4,000 | 4,000 | |
| NAV enhancement (RMBm) | 5,500 | 19,580 | |
| NAV enhancement (%) | 24% | 87% | |

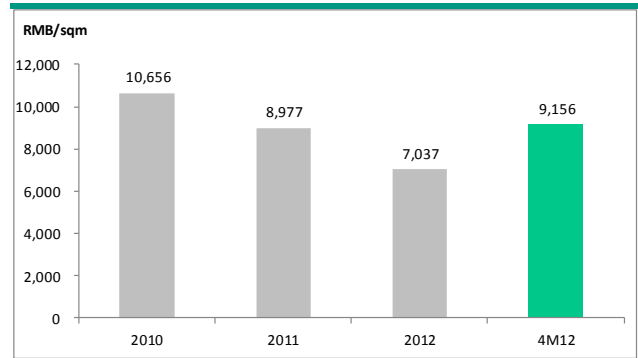
Source: Kaisa, ABCI Securities estimates

Sweet gross profit margin on redevelopment projects

Given redevelopment project has a high gross margin of 50% on average (vs Kaisa's 2012 gross margin of 30% at group level), increasing contribution from redevelopment projects will drive Kaisa's overall margin as a whole. Given rising land and construction cost among real estate industry, Kaisa's margin improvement trend in future makes it stands out against peers.

Gross Margin driver


Source: Kaisa, ABCI Securities estimates

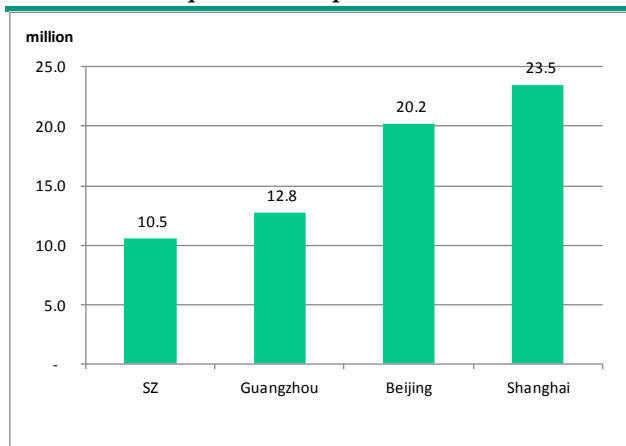
Blended ASP Trend


Source: Kaisa, ABCI Securities

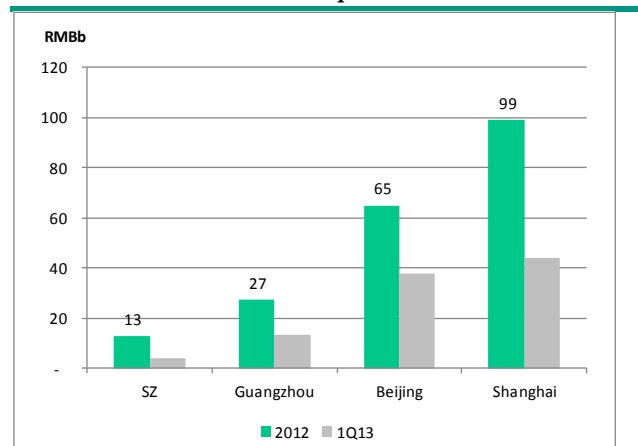
Business model fits urban redevelopment

In fact, urban redevelopment is essential for Shenzhen in order to solve housing problem. In particular, Shenzhen's land supply is very tight given limited space in the city. For instance, Shenzhen's population is around half of Beijing/ Shanghai, but land sales is only 13% of Shanghai or 20% of Beijing; while it has similar population to Guangzhou, land sales were half of of Guangzhou. These indicated Shenzhen's under supply situation, and extra land resource from redevelopment is crucial.

In fact, Kaisa's redevelopment model helps to speed up urbanization in Shenzhen. There are many old villages occupying core area in Shenzhen without efficient use of land (e.g. plot ratio <1). Further, as the village collectively owned the land, individual households have no strata title. Kaisa's granting GFA as compensation to resident allow them to realize their assets. Kaisa's redevelopment model brings not only decent profit to itself, but also benefits to the city and local residents.

Tier-1 Cities- Population comparison


Source: NBS

Tier-1 Cities- Land Sales comparisons


Source: NBS; Shenzhen Statistics Department

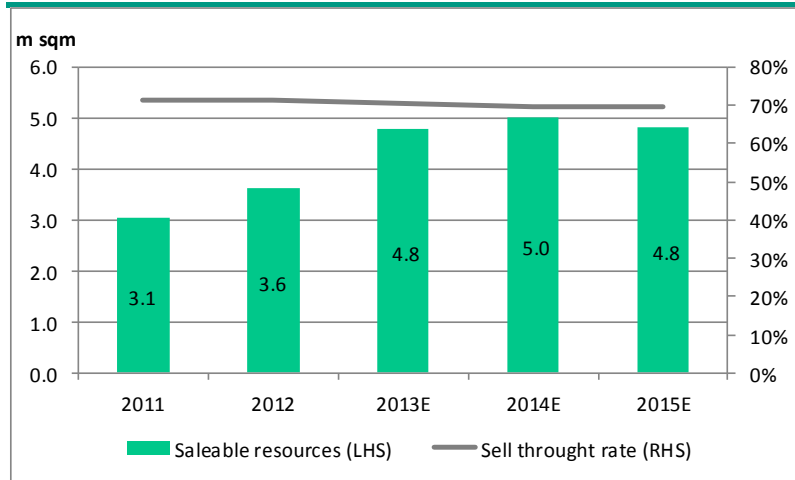


Fast churn model outside Shenzhen

As Shenzhen market's land supply remains tight, Kaisa needs to find investment opportunities outside the region to maintain a fast growing pace. In 2012, Kaisa entered 3 new cities, namely Chongqing, Dalian & Dadong.

While Kaisa's Shenzhen projects are seeking for high margin, their projects in 2nd/3rd tier cities are aiming at faster assets churn. Normally they look for lower gross margin (~25%) for projects outside Shenzhen to achieve faster sales. As a result, Kaisa's overall sell through rate remained high at 70%, compared to ~50% for other mid-cap name such as Greentown & Sunac.

Saleable resources & Sell through rate



Source: Kaisa, ABCI Securities estimates

Geographic coverage

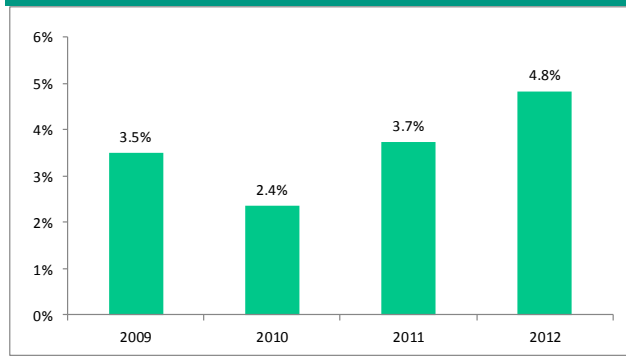


* Geographic coverage as at 2012 end
Source: Kaisa, ABCI Securities



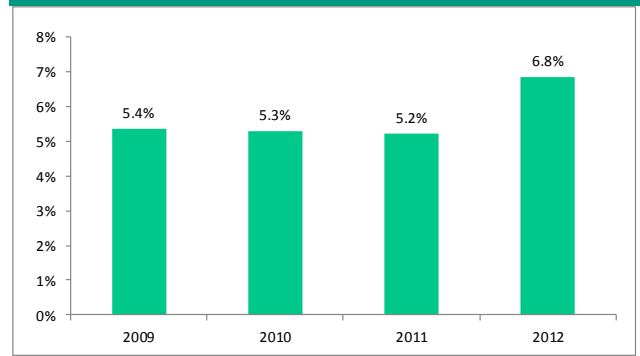
However, due to fast geographic expansion, SG&A expenses also escalated quickly from 8.9% of revenue in 2009 to 11.6% in 2012. We expect the ratio to come down in future as Kaisa's economy of scale appears.

Selling expenses as % of revenue



Source: Kaisa, ABCI Securities

G&A expenses as % of revenue



Source: Kaisa, ABCI Securities

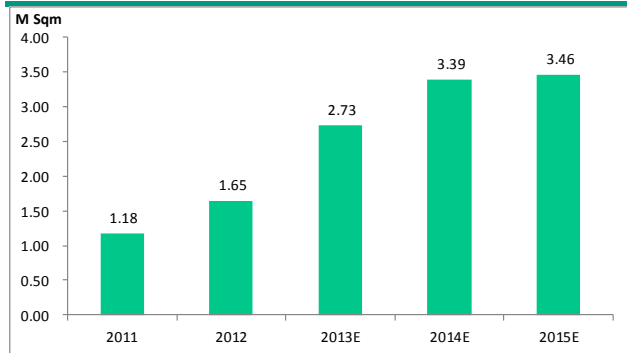


Margin improvement to drive share price

Expect exciting 35% earnings CAGR in 2013-15E

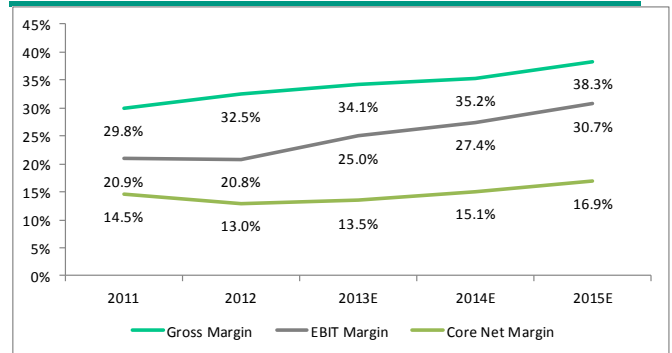
We estimated Kaisa’s underlying profit (ex-revaluation) to deliver 35% CAGR growth in 2013-2015E, on the back of growing completion as well as margin improvement as proportion of redevelopment projects increased.

GFA completion



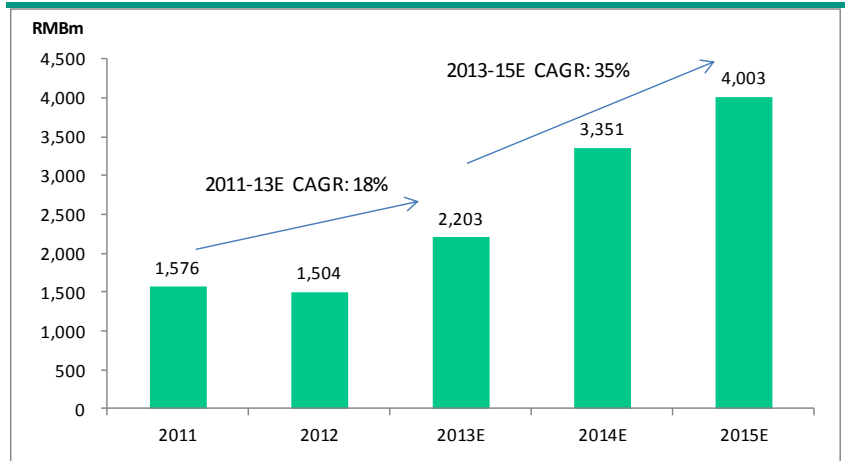
Source: Kaisa, ABCI Securities estimates

Gross/ EBIT/ Net margin



Source: Kaisa, ABCI Securities estimates

Kaisa Underlying Profit



Source: Kaisa, ABCI Securities estimates

However Kaisa’s valuation remains depressed despite exciting growth story. We believe market will turn more positive on the stock as Kaisa delivers good monthly sales figures as well as strong earnings growth in future.



Peer's valuation

| China Property | Ticker | Rating | Mkt cap (HKD bn) (local ccy) | Share Price | Performance | | | Discount to 2013E NAV (%) | P/E | | | Yield (%) | | | P/B | | | |
|---|--------------------------|-----------|---------------------------------|-------------|---------------|--------------|------------|---------------------------|---------------|-------------|-------------|------------|------------|------------|------------|------------|------------|------------|
| | | | | | 1-Month % Chg | YTD % Chg | 2012 Chg | | 2012A | 2013E | 2014E | 2012A | 2013E | 2014E | 2012A | 2013E | 2014E | |
| Residential : | | | | | | | | | | | | | | | | | | |
| 1 | COLI | 688 HK | BUY | 186.7 | 22.85 | -4.2% | -1% | 76% | -12.3% | 11.7 | 9.6 | 7.7 | 1.8 | 2.1 | 2.6 | 2.1 | 1.8 | 1.5 |
| 2 | Greentown | 3900 HK | BUY | 30.0 | 13.94 | -8.4% | -2% | 320% | -56.6% | 5.3 | 4.4 | 3.4 | 4.5 | 4.9 | 5.4 | 1.1 | 0.9 | 0.7 |
| 3 | Sunac | 1918 HK | BUY | 19.6 | 5.92 | -4.1% | -1% | 277% | -62.6% | 6.0 | 4.2 | 3.9 | 1.8 | 2.4 | 2.6 | 1.5 | 1.1 | 0.9 |
| 4 | Kaisa | 1638 HK | BUY | 10.6 | 2.15 | -11.2% | -10% | 78% | -57.0% | 6.3 | 4.3 | 2.8 | - | - | - | 0.7 | 0.6 | 0.5 |
| 5 | CR Land | 1109 HK | NR | 138.1 | 23.70 | 0.9% | 12% | 70% | -15.2% | 18.2 | 14.9 | 11.9 | 1.4 | 1.7 | 2.1 | 2.0 | 1.7 | 1.5 |
| 6 | Country Garden | 2007 HK | NR | 80.4 | 4.41 | 0.0% | 9% | 39% | -27.7% | 9.5 | 8.0 | 6.9 | 3.9 | 4.6 | 5.3 | 1.7 | 1.5 | 1.3 |
| 7 | Longfor | 960 HK | NR | 71.7 | 13.20 | -1.2% | -13% | 77% | -37.0% | 10.6 | 8.8 | 7.7 | 1.9 | 2.2 | 2.6 | 1.9 | 1.6 | 1.4 |
| 8 | Shimao | 813 HK | NR | 58.2 | 16.76 | -2.2% | 15% | 122% | -43.3% | 8.1 | 7.7 | 6.5 | 3.2 | 4.0 | 4.6 | 1.3 | 1.1 | 1.0 |
| 9 | Evergrande | 3333 HK | NR | 49.5 | 3.09 | -3.4% | -27% | 32% | -63.6% | 4.1 | 4.7 | 4.1 | - | 5.7 | 6.4 | 1.0 | 0.8 | 0.7 |
| 10 | Guangzhou R&F | 2777 HK | NR | 42.1 | 13.08 | -8.5% | 1% | 109% | -48.9% | 7.0 | 6.1 | 5.4 | 5.7 | 6.2 | 7.0 | 1.3 | 1.1 | 1.0 |
| 11 | Agile | 3383 HK | NR | 32.2 | 9.35 | -6.3% | -14% | 56% | -58.9% | 5.2 | 5.2 | 4.6 | 4.1 | 4.7 | 5.3 | 1.0 | 0.8 | 0.7 |
| 11 | Sino Ocean | 3377 HK | NR | 26.7 | 4.55 | -14.6% | -21% | 64% | -51.3% | 7.7 | 7.8 | 6.4 | 5.2 | 5.3 | 6.2 | 0.5 | 0.5 | 0.5 |
| 11 | COGO | 81 HK | NR | 24.9 | 10.90 | -11.1% | 17% | 47% | -21.4% | 10.4 | 8.5 | 6.7 | 1.0 | 1.4 | 1.6 | 3.1 | 2.3 | 1.7 |
| 11 | Yuexiu Properties | 123 HK | NR | 20.6 | 2.21 | -5.2% | -10% | 123% | -58.2% | 15.8 | 7.2 | 6.1 | 2.9 | 5.1 | 6.2 | 0.7 | 0.7 | 0.6 |
| 11 | KWG | 1813 HK | NR | 15.0 | 5.17 | -7.0% | -11% | 121% | -60.2% | 6.3 | 5.1 | 4.2 | 3.6 | 4.9 | 5.4 | 0.8 | 0.7 | 0.6 |
| 11 | Glorious | 845 HK | NR | 9.4 | 1.20 | -3.2% | -18% | 16% | na | 11.0 | 5.0 | 4.1 | - | 1.6 | 2.2 | 0.4 | 0.4 | 0.3 |
| 17 | BJ Capital Land | 2868 HK | NR | 6.4 | 3.11 | 5.8% | -3% | 109% | na | 6.1 | 4.0 | 3.1 | 7.6 | 8.5 | 11.2 | 0.9 | 0.5 | 0.5 |
| HK Listed Avg | | | | | | -4.9% | -5% | 102% | -44.9% | 8.8 | 6.8 | 5.6 | 2.9 | 3.8 | 4.5 | 1.3 | 1.1 | 0.9 |
| - Large cap (>HKD50b) avg | | | | | | -1.4% | 4% | 77% | -27.1% | 11.6 | 9.8 | 8.1 | 2.4 | 2.9 | 3.5 | 1.8 | 1.6 | 1.3 |
| - Small-mid cap (<HKD50b) avg | | | | | | -6.4% | -8% | 113% | -53.9% | 7.6 | 5.5 | 4.6 | 3.0 | 4.2 | 5.0 | 1.1 | 0.9 | 0.7 |
| 1 | Vanke | 000002 CH | NR | 165.8 | 11.83 | 4% | 24% | 30% | -22.2% | 10.4 | 8.4 | 7.0 | 1.5 | 1.6 | 1.9 | 2.0 | 1.7 | 1.4 |
| 2 | Poly-A | 600048 CH | NR | 109.8 | 12.15 | 1% | -11% | 40% | -34.6% | 10.3 | 8.0 | 6.4 | 1.9 | 2.4 | 3.1 | 2.0 | 1.7 | 1.4 |
| 3 | China Merchants Property | 000024 CH | NR | 59.8 | 29.05 | 8% | -3% | 69% | na | 15.0 | 11.6 | 9.4 | 1.0 | 1.2 | 1.5 | 2.1 | 1.8 | 1.5 |
| 4 | Gemdale | 600383 CH | NR | 43.5 | 7.69 | 6% | 10% | 46% | -6.1% | 10.1 | 9.3 | 7.7 | 1.0 | 2.0 | 2.3 | 1.4 | 1.3 | 1.2 |
| A-share Listed Avg | | | | | | 5% | 5% | 46% | -20.9% | 11.5 | 9.3 | 7.6 | 1.4 | 1.8 | 2.2 | 1.9 | 1.6 | 1.4 |
| Commercial: | | | | | | | | | | | | | | | | | | |
| 1 | SOHO China | 410 HK | NR | 32.4 | 6.58 | -4% | 6% | 21% | -34.2% | 8.3 | 8.0 | 11.7 | 4.7 | 4.8 | 4.6 | 0.9 | 0.8 | 0.8 |
| 2 | Franshion | 817 HK | NR | 25.9 | 2.83 | 5% | 1% | 104% | -50.4% | 7.7 | 8.8 | 7.5 | 2.5 | 2.7 | 3.4 | 0.9 | 0.9 | 0.8 |
| 3 | Mingfa | 846 HK | NR | 14.7 | 2.41 | 1% | 5% | 0% | na | 29.0 | 18.1 | 13.1 | - | - | 2.6 | 1.3 | 1.2 | 1.2 |
| 4 | Renhe Commercial | 1387 HK | NR | 10.0 | 0.48 | -4% | -41% | 0% | -82.4% | 9.0 | 11.0 | 6.0 | - | - | - | 0.4 | 0.4 | 0.3 |
| Commercial Property Avg | | | | | | -1% | -7% | 31% | -55.7% | 13.5 | 11.5 | 9.6 | 1.8 | 1.9 | 2.7 | 0.9 | 0.8 | 0.8 |

* The data in table is as at 5 June 2013

Source: Bloomberg; ABCI Securities estimates

Initiate Kaisa with a BUY, TP HKD2.80 based on 45% discount to NAV

We derived the Kaisa's TP of HKD2.80 based on 45% discount to our estimated NAV of HKD5.15/share. We used DCF with WACC of 13.3% to value property development project as significant portion of cashflow occurs beyond next 1-2 years. Property development represents 95% of Gross Assets Value (GAV), with the rest coming from investment properties (which we valued by 6.0% capitalization rate). We applied 45% discount (similar to historical average of 48% since listing) to our NAV estimates of HKD5.15, to derive TP of HKD2.80, implying 5.6x 2013E PE or 0.7x 2013E PB.



Discount to NAV



Source: Kaisa, ABCI Securities

2013E NAV Breakdown

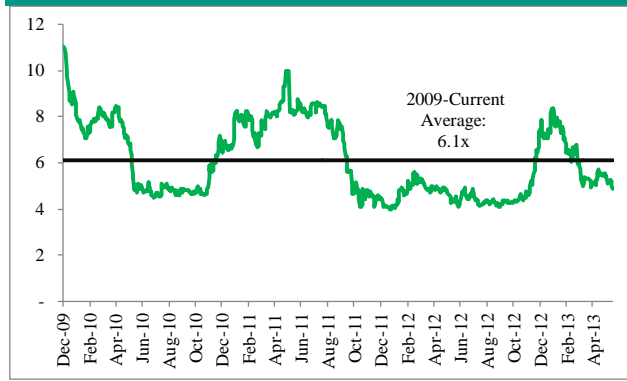
| | Attr. GFA (M sqm) | Net assets value (RMB m) | % of total | Valuation Methodology | Implied value per sqm (HKD) |
|------------------------------------|----------------------|-----------------------------|-------------|-----------------------------------|--------------------------------|
| Property development | | | | | |
| Shenzhen | 1.1 | 5,624 | 19% | DCF at WACC of 13.3% | 4,900 |
| Dongguan | 1.0 | 1,178 | 4% | | 1,209 |
| Huizhou | 5.2 | 7,071 | 24% | | 1,357 |
| Anshan | 2.4 | 1,912 | 7% | | 809 |
| Yingkou | 2.0 | 1,585 | 5% | | 810 |
| Changsha | 1.5 | 1,517 | 5% | | 1,040 |
| Huludao | 1.7 | 1,408 | 5% | | 810 |
| Others | 7.1 | 7,264 | 25% | | 1,021 |
| Subtotal | 22.0 | 27,560 | 95% | | 1,255 |
| Investment Properties | | 1,554 | 5% | 6.0% cap rate on 2013E net rental | |
| Total 2013E GAV | | 29,114 | 100% | | |
| 2013E Net debt | | (6,517) | -22% | | |
| Total 2013E NAV | | 22,597 | 78% | | |
| No. of share outstanding (diluted) | | 5,526 | | | |
| NAV per share (RMB) | | 4.1 | | | |
| Ex rate | | 1.26 | | | |
| NAV per share (HKD) | | 5.15 | | | |
| Target discount (%) | | 45% | | | |
| Target Price (HKD) | | 2.80 | | | |
| Current price (HKD) | | 2.15 | | | |
| Upside | | 30% | | | |
| WACC | | 13.3% | | | |
| Cost of debt | | 11.0% | | | |
| Cost of Equity | | 18.0% | | | |
| Debt/ (Debt + Equity) | | 48% | | | |

* Share price as at 5 Jun 2013

Source: Kaisa, ABCI Securities estimates



Historical forward PE



Source: Kaisa, ABCI Securities

Historical forward PB



Source: Kaisa, ABCI Securities



What are the risks?

- **Timing of redevelopment remains uncertain:** redevelopment projects should lead to decent gross margin; however timing of approval grant and relocation process could take longer than expected. Kaisa is also building land bank outside Shenzhen using fast churn model to diversify such timing risk.
- **No dividend record since listing:** as Kaisa is still at fast growing stage, expansion is still their focus at the moment. Dividend payment will be unlikely in near future.
- **Increasing SG&A expenses ratio may hurt margin:** Kaisa registered higher overheads as they entered into more new markets. However, we expect the ratio to come down in future as Kaisa's economy of scale appears.



Income statement forecast

| Dec-end (RMBm) | 2011A | 2012A | 2013E | 2014E | 2015E |
|--|---------------|---------------|---------------|---------------|---------------|
| Revenue | 10,835 | 11,955 | 18,979 | 24,579 | 26,304 |
| Cost of sales | (7,601) | (8,070) | (12,498) | (15,921) | (16,240) |
| Gross Profit | 3,234 | 3,885 | 6,481 | 8,658 | 10,063 |
| SG&A expenses | (970) | (1,397) | (1,745) | (1,914) | (1,988) |
| EBIT | 2,264 | 2,489 | 4,736 | 6,744 | 8,076 |
| Finance cost | (69) | (39) | (40) | (33) | (29) |
| Share of profit of associates | (1) | (0) | 0 | 0 | 0 |
| Other income/ (expenses) | 198 | 62 | 71 | 127 | 211 |
| Fair value gain of investment properties | 0 | 0 | 0 | 0 | 0 |
| Disposal/one-off items | 433 | 757 | 0 | 0 | 0 |
| Profit before tax | 2,825 | 3,269 | 4,768 | 6,839 | 8,257 |
| Tax | (926) | (1,153) | (2,215) | (3,139) | (3,805) |
| Profit after tax | 1,899 | 2,116 | 2,553 | 3,700 | 4,453 |
| Minority interest | 2 | (44) | (350) | (349) | (450) |
| Reported net profit | 1,901 | 2,072 | 2,203 | 3,351 | 4,003 |
| <i>Less: exceptional items</i> | <i>(325)</i> | <i>(568)</i> | <i>0</i> | <i>0</i> | <i>0</i> |
| Underlying net profit | 1,576 | 1,504 | 2,203 | 3,351 | 4,003 |
| <u>Per share</u> | | | | | |
| Underlying EPS (RMB) | 0.28 | 0.27 | 0.40 | 0.61 | 0.72 |
| DPS (RMB) | - | - | - | - | - |
| Payout ratio (%) | 0% | 0% | 0% | 0% | 0% |
| BVPS (RMB) | 2.15 | 2.60 | 3.00 | 3.60 | 4.33 |
| <u>Growth %</u> | | | | | |
| Revenue | 39.7% | 10.3% | 58.8% | 29.5% | 7.0% |
| Gross Profit | 7.4% | 20.2% | 66.8% | 33.6% | 16.2% |
| EBIT | -6.3% | 9.9% | 90.3% | 42.4% | 19.7% |
| Underlying net profit | 11.9% | -4.6% | 46.5% | 52.1% | 19.4% |
| <u>Margin %</u> | | | | | |
| Gross margin | 29.8% | 32.5% | 34.1% | 35.2% | 38.3% |
| Gross margin (post-LAT) | 28.0% | 31.6% | 27.5% | 27.9% | 29.9% |
| EBIT margin | 20.9% | 20.8% | 25.0% | 27.4% | 30.7% |
| Core net margin | 14.5% | 13.0% | 13.5% | 15.1% | 16.9% |
| <u>Key assumptions</u> | | | | | |
| Contracted Sales (RMBm) | 15,289 | 17,341 | 23,812 | 25,773 | 26,431 |
| GFA sold (m sqm) | 2.18 | 2.58 | 3.36 | 3.49 | 3.34 |
| ASP (RMB/sqm) | 7,022 | 6,730 | 7,078 | 7,376 | 7,906 |
| Booked Sales (RMB) | 10,576 | 11,598 | 18,635 | 24,204 | 25,905 |
| GFA delivered (m sqm) | 1.18 | 1.65 | 2.73 | 3.39 | 3.46 |
| Booked ASP (RMB/sqm) | 8,977 | 7,037 | 6,816 | 7,139 | 7,478 |
| Land acquisition (RMBm) | 5,950 | 4,520 | 2,032 | - | - |
| GFA acquired (m sqm) | 4.9 | 2.4 | 0.7 | - | - |
| Land cost (RMB/sqm) | 1,209 | 1,858 | 2,719 | - | - |
| Land acquisition to Contracted sales (%) | 38.9% | 26.1% | 8.5% | - | - |
| Land bank GFA (m sqm) | 23.7 | 23.9 | 21.9 | 18.5 | 15.1 |

Source: Company, ABCI Securities estimates



Balance sheet forecast

| Dec-end (RMBm) | 2011A | 2012A | 2013E | 2014E | 2015E |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Current assets | 34,756 | 49,836 | 55,693 | 59,992 | 64,261 |
| Cash | 3,945 | 4,683 | 8,221 | 15,930 | 24,879 |
| Restricted cash | 541 | 670 | 670 | 670 | 670 |
| Trade & other receivables | 3,697 | 5,843 | 5,843 | 5,843 | 5,843 |
| Property under development | 23,502 | 34,840 | 37,159 | 33,749 | 29,069 |
| Other current assets | 3,070 | 3,801 | 3,801 | 3,801 | 3,801 |
| Non-current assets | 6,949 | 8,117 | 8,645 | 9,173 | 9,701 |
| Property, plant & equipment | 149 | 308 | 336 | 364 | 392 |
| Investment properties | 6,375 | 7,540 | 8,040 | 8,540 | 9,040 |
| Investment in Associate and JCE | 299 | 0 | 0 | 0 | 0 |
| Other non-current assets | 126 | 269 | 269 | 269 | 269 |
| Total Assets | 41,705 | 57,953 | 64,338 | 69,165 | 73,962 |
| Current Liabilities | 17,099 | 29,439 | 33,322 | 34,498 | 34,893 |
| Short term borrowings | 2,067 | 3,150 | 3,150 | 3,150 | 3,150 |
| Trade & other payables | 6,797 | 7,112 | 7,112 | 7,112 | 7,112 |
| Pre-sales deposits | 7,242 | 17,244 | 21,127 | 22,304 | 22,698 |
| Other current assets | 993 | 1,933 | 1,933 | 1,933 | 1,933 |
| Non-current liabilities | 12,657 | 13,460 | 13,460 | 13,460 | 13,460 |
| Long term borrowings | 11,577 | 12,257 | 12,257 | 12,257 | 12,257 |
| Other payables | 0 | 0 | 0 | 0 | 0 |
| Other non-current assets | 1,079 | 1,202 | 1,202 | 1,202 | 1,202 |
| Total Liabilities | 29,755 | 42,898 | 46,781 | 47,958 | 48,353 |
| Net Assets | 11,949 | 15,054 | 17,557 | 21,207 | 25,610 |
| Shareholders Equity | 11,942 | 14,350 | 16,553 | 19,904 | 23,907 |
| Minority Interest | 8 | 704 | 1,004 | 1,303 | 1,703 |
| Total Equity | 11,949 | 15,054 | 17,557 | 21,207 | 25,610 |
| Key ratio | | | | | |
| Gross debt (RMBm) | 13,644 | 15,408 | 15,408 | 15,408 | 15,408 |
| Net debt (RMBm) | 9,699 | 10,725 | 7,187 | (522) | (9,471) |
| Net gearing (%) | 81% | 75% | 43% | -3% | -40% |
| Contracted sales/ Total assets (x) | 0.37 | 0.30 | 0.37 | 0.37 | 0.36 |

Source: Company, ABCI Securities estimates



Cashflow forecast

| Dec-end (RMBm) | 2011A | 2012A | 2013E | 2014E | 2015E |
|-----------------------------------|----------------|----------------|----------------|----------------|----------------|
| EBITDA | 2,294 | 2,531 | 4,778 | 6,786 | 8,118 |
| Change in Working Capital | (4,505) | (882) | 3,219 | 5,941 | 6,278 |
| Tax payment | (743) | (906) | (2,215) | (3,139) | (3,805) |
| Operating Cashflow | (2,954) | 743 | 5,782 | 9,588 | 10,591 |
| Purchase of PP&E | (70) | (73) | (70) | (70) | (70) |
| Addition of Investment Properties | (473) | (531) | (500) | (500) | (500) |
| Others | (1,464) | (553) | 71 | 127 | 211 |
| Investing Cashflow | (2,007) | (1,157) | (499) | (443) | (359) |
| Debt raised | 9,345 | 5,216 | 5,000 | 5,000 | 5,000 |
| Debt repaid | (3,634) | (3,533) | (5,000) | (5,000) | (5,000) |
| Interest expenses | (1,096) | (1,468) | (1,695) | (1,387) | (1,233) |
| Equity raised | (2,007) | (1,157) | (499) | (443) | (359) |
| Dividend to shareholders | - | - | - | - | - |
| Others | 1,959 | 2,094 | 449 | 393 | 309 |
| Financing Cashflow | 4,567 | 1,151 | (1,745) | (1,437) | (1,283) |
| Net cash inflow/ (outflow) | (394) | 737 | 3,538 | 7,709 | 8,949 |
| Cash- beginning | 4,340 | 3,945 | 4,683 | 8,221 | 15,930 |
| Cash- year-end | 3,945 | 4,682 | 8,221 | 15,930 | 24,879 |

Source: Company, ABCI Securities estimates



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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 2007-2011

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.

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