



January 7, 2015
Company Report
Rating: BUY
TP: HK\$ 9.70

Share price (HK\$) 7.63
Est. share price return 27.1%
Est. 14E dividend yield 3.3%
Est. total return 30.4%

Previous Rating & TP BUY; HK\$ 9.80
Previous Report Date Oct 16, 2014

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Key Data

52Wk H/L(HK\$) 8.65/3.34
Issued shares (mn) 3,320
Market cap 27,353
3-mth avg daily turnover (HK\$ mn) 102.98
Major shareholder(s) (%):
SUN Hongbin 47.1

Source(s): Company, Bloomberg, ABCI Securities

FY13 Revenue breakdown (%)

Property Development 99.2
Property Management 0.8

Source(s): Company, ABCI Securities

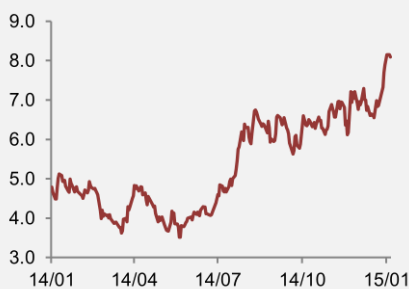
Share performance (%)

	Absolute	Relative*
1-mth	16.6	19.1
3-mth	26.6	25.4
6-mth	72.5	72.9

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Sunac (1918 HK)

Dispute cast uncertainties but growth still solid; maintain BUY

- Greentown claims that Sunac's proposal to acquire the Sunac-Greentown JV is not legally valid while Sunac disagrees
- HK\$6bn cash received after termination of a 24% stake acquisition in Greentown allows Sunac to expand its landbank; reallocating management resources back to the company would ensure better growth in 2015
- Maintain **BUY** with revised TP at HK\$ 9.70 (from HK\$ 9.80) based on a 60% discount to our end-15E NAV

The dispute with Greentown continues. On Dec 31, 2014, Sunac announced that it would spend RMB 15.5bn to acquire the Sunac-Greentown JV, which is considered to be the most profitable operation of Greentown with ~3.3mn sqm of landbank in major tier-1/2 cities (e.g. Shanghai, Suzhou and Wuxi etc). In 11M14, the Sunac-Greentown JV generated presales of RMB 15.3bn in Shanghai alone – the highest in the city and represented 23% of Greentown's total presales in 2014. Greentown, however, surprised the market by announcing on Jan 5, 2015 that Sunac's proposal to acquire the JV is not legally valid. Despite undated documents were signed by representatives of the JV, Greentown claimed the documents will only take effect upon approvals of its board. Sunac rebutted the next day by asserting that the agreements were properly authorized and constituted legal and binding obligations. While it is hard to assess the full impact of the legal dispute at present, we believe operation of the lucrative Sunac-Greentown JV is likely to be negatively affected in 2015.

The dispute between the two companies started on Dec 19, 2014, when Sunac announced the company would terminate its acquisition of a 24% stake (acquisition total: HK\$ 6bn) in Greentown due to significant differences in business strategy between the two. During 2H14, Sunac encountered great difficulties in persuading Greentown to adopt a more profit-oriented and sales-driven strategy. Greentown is known for its pursuit of high quality, which often leads to construction cost overrun and low margins (gross margin of 25.7% in 1H14 vs. sector avg. of 30%).

Focus on own company. We believe Sunac's management has contributed much to Greentown, as presales growth in the latter rebounded from -2% YoY in 1H14 to 16% YoY in 11M14, beating its full year target of RMB 65bn. Meanwhile, Sunac's presales rose 31% YoY in FY14 to RMB 66bn, the growth is much slower than 46% YoY in 2013 and 86% YoY in 2012. With the HK\$ 6bn of cash refunded after the withdrawal of stake acquisition in Greentown, Sunac can focus on its own projects and streamline its operation. We expect Sunac presales to grow 23% YoY to RMB 82bn without factoring in the potential acquisition of Sunac-Greentown JV. (continue next page)

Results and Valuation

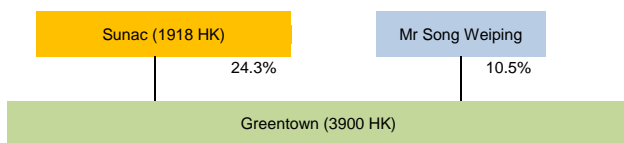
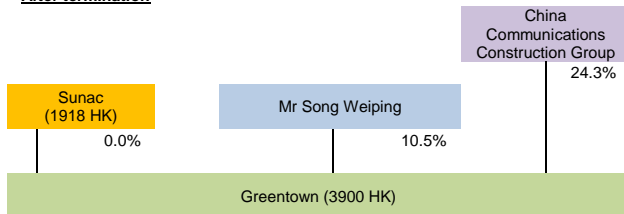
FY ended Dec 31	2012A	2013A	2014E	2015E	2016E
Revenue (RMB mn)	20,843	30,837	41,259	50,488	57,501
Chg (% YoY)	96.6	48.0	33.8	22.4	13.9
Core net profit (RMB mn)	2,736	3,523	3,762	4,667	4,986
Chg (% YoY)	52.7	28.8	6.8	24.1	6.8
Underlying EPS (RMB)	0.91	1.06	1.13	1.41	1.50
Chg (% YoY)	52.7	17.1	6.8	24.1	6.8
BVPS (RMB)	3.15	4.10	5.03	6.19	7.42
Chg (% YoY)	34.6	30.4	22.7	22.9	19.9
Underlying PE (x)	6.7	5.7	5.4	4.3	4.1
PB (x)	1.9	1.5	1.2	1.0	0.8
ROE (%)	28.8	25.9	22.5	22.7	20.3
ROA (%)	3.9	3.6	3.8	4.4	4.5
DPS (RMB)	0.09	0.19	0.20	0.25	0.27
Dividend yield (%)	1.4	3.1	3.3	4.1	4.4
Net gearing (%)	78.9	69.7	28.9	Net cash	Net cash

*Net gearing=Net debt/Total Shareholders' equity

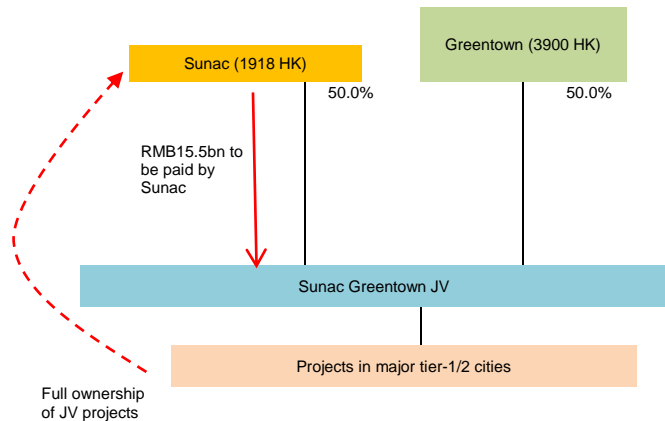
Source(s): Bloomberg, ABCI Securities estimates

Maintain BUY with revised TP of HK\$ 9.70. We lower our 2014E-15E core profit forecasts by 5%-21% to exclude contribution from Greentown upon termination of the stake acquisition. We also lower our NAV forecast and TP to HK\$ 9.70 (from HK\$ 9.80) based on unchanged discount of 60% to FY 15E NAV. In 2014, Sunac's share price surged 81%, compared to the sector's average decline of 3%. Its current valuation, standing at 4.3x FY15E P/E and 68% discount to FY15E NAV, is attractive. Sunac demonstrated the fastest presales growth of 31% among China's top 10 developers in 2014, while its valuation still remains at the low-end among these top players. **Maintain BUY.**

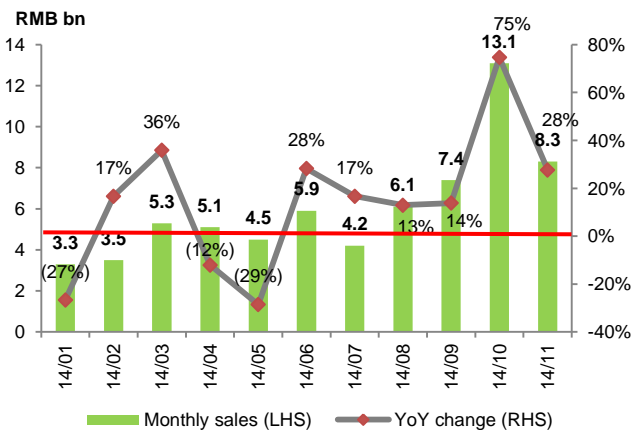
Risk factors: 1) Expensive new land acquisitions may erode margins; 2) dispute on Sunac-Greentown JV may have negative business and financial implications.

Exhibit 1: Termination of 24% stake acquisition in Greentown on 19 Dec 2014
Before termination

After termination


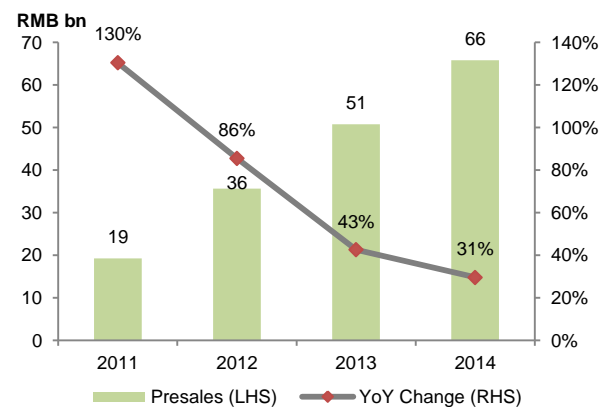
Source(s): Company, ABCI Securities

Exhibit 2: The proposed Sunac Greentown JV acquisition on 31 Dec 2014


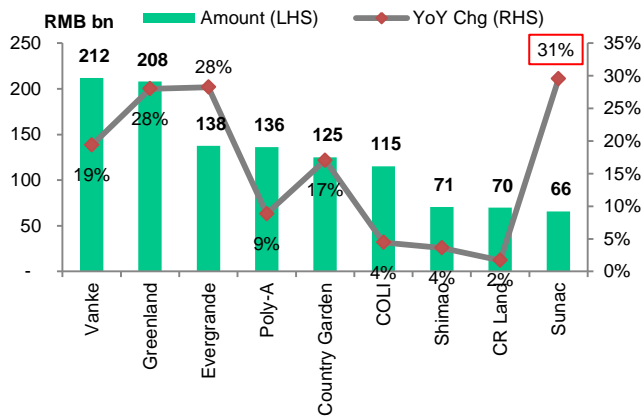
Source(s): Company, ABCI Securities

Exhibit 3: Greentown's monthly presales rebounded in 2H14 after Sunac's involvement with the company


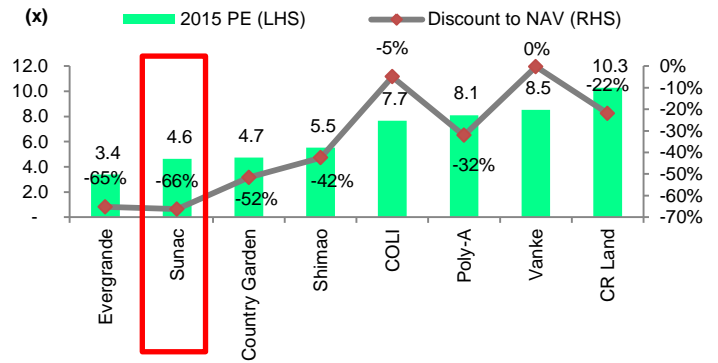
Source(s): Company, ABCI Securities

Exhibit 4: Sunac's presales (2011-14)


Source(s): Company, ABCI Securities

Exhibit 5: Top 10 developers by 2014 presales amount


Source(s): CRIC, ABCI Securities estimates

Exhibit 6 : Valuations of Sunac and top developers by 2015 P/E and discount to NAV


Source(s): Bloomberg, ABCI Securities estimates

Exhibit 7: Sunac's FY15E NAV

	Attr. GFA (mn sqm)	Net assets value (RMB mn)	% of total	Valuation Methodology	Implied value per sqm (RMB)
Property development					
Tianjin	4.0	12,664	28%	DCF at WACC of 12.2%	3,155
Beijing	1.4	6,361	14%		4,445
Chongqing	5.7	5,228	12%		921
Wuxi	1.9	1,117	2%		580
Suzhou	0.2	1,260	3%		5,811
Shanghai	1.0	11,217	25%		11,641
Others	1.7	5,053	11%		2,958
Subtotal	15.9	42,900	95%		
Property investment & management		2,163	5%	6.5% cap rate on 2014E net rental income	
Total 2015E GAV		45,064	100%		
2015E Net Cash/ (debt)		19,079	42%		
Total 2015E NAV		64,143	142%		
No. of share outstanding (diluted)		3,315			
NAV per share (RMB)		19.3			
Ex rate		1.25			
NAV per share (HKD)		24.2			
Target discount (%)		60%			
Target Price (HKD)		9.70			
WACC					
WACC	12.2%				
Cost of Debt	9.0%				
Cost of Equity	20.0%				
Debt/ (Debt + Equity)	59%				

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2012A-2016E)

FY Ended Dec 31 (RMB mn)	2012A	2013A	2014E	2015E	2016E
Revenue	20,843	30,837	41,259	50,488	57,501
Cost of sales	(15,460)	(23,660)	(29,330)	(36,651)	(42,620)
Gross Profit	5,382	7,177	11,928	13,837	14,881
SG&A expenses	(884)	(1,136)	(1,482)	(1,715)	(1,770)
EBIT	4,498	6,041	10,447	12,123	13,111
Finance cost	(113)	(580)	(236)	(170)	(130)
Share of profit of associates	(39)	72	1,092	1,436	1,553
Other income/ (expenses)	45	75	33	109	195
Fair value gain of investment properties	-	-	-	-	-
Disposal/one-off items	293	77	-	-	-
Profit before tax	4,685	5,684	11,336	13,498	14,729
Tax	(2,070)	(2,191)	(5,036)	(5,961)	(6,400)
Profit after tax	2,615	3,494	6,300	7,537	8,329
Minority interest	(7)	(315)	(2,537)	(2,870)	(3,344)
Reported net profit	2,607	3,178	3,762	4,667	4,986
Less: exceptional items	129	344	-	-	-
Underlying net profit	2,736	3,523	3,762	4,667	4,986
Per share					
Underlying EPS (RMB)	0.91	1.06	1.13	1.41	1.50
DPS (RMB)	0.09	0.19	0.20	0.25	0.27
Payout ratio (%)	10%	18%	18%	18%	18%
BVPS (RMB)	3.15	4.10	5.03	6.19	7.42
Growth %					
Revenue	96.6%	48.0%	33.8%	22.4%	13.9%
Gross Profit	50.9%	33.3%	66.2%	16.0%	7.5%
EBIT	52.4%	34.3%	72.9%	16.0%	8.1%
Underlying net profit	52.7%	28.8%	6.8%	24.1%	6.8%
Margin %					
Gross margin	25.8%	23.3%	28.9%	27.4%	25.9%
Gross margin (post-LAT)	20.6%	20.5%	21.9%	20.7%	19.7%
EBIT margin	21.6%	19.6%	25.3%	24.0%	22.8%
Core net margin	11.7%	10.9%	12.6%	12.1%	11.8%
Key assumptions					
Presales (RMB mn)	35,635	52,055	66,646	81,798	81,633
GFA sold (mn sqm)	2.00	2.54	3.14	4.04	4.20
ASP (RMB/sqm)	17,830	20,520	21,222	20,225	19,420
Booked Sales (RMB mn)	20,671	30,596	40,999	50,216	57,215
GFA delivered (mn sqm)	1.19	1.75	2.14	2.65	3.17
Booked ASP (RMB/sqm)	17,327	17,530	19,183	18,982	18,069

Source: Company, ABCI Securities estimates



Consolidated balance sheet (2012A-2016E)

As of Dec 31 (RMB mn)	2012A	2013A	2014E	2015E	2016E
Current assets	64,832	87,590	88,811	94,860	97,461
Cash	8,394	13,414	14,227	35,191	56,902
Restricted cash	3,869	2,595	2,595	2,595	2,595
Trade & other receivables	416	1,214	1,214	1,214	1,214
Property under development	46,401	58,106	58,514	43,599	24,489
Other current assets	5,752	12,261	12,261	12,261	12,261
Non-current assets	6,103	9,765	11,280	11,863	12,470
Property, plant & equipment	49	65	61	58	54
Investment properties	571	252	252	252	252
Investment in Associate and JCE	4,205	7,909	9,427	10,014	10,625
Other non-current assets	1,279	1,539	1,539	1,539	1,539
Total Assets	70,934	97,355	100,090	106,723	109,931
Current Liabilities	44,294	51,789	58,951	58,936	54,760
Short term borrowings	11,783	7,835	12,835	7,835	2,835
Trade & other payables	7,116	12,402	12,402	12,402	12,402
Pre-sales deposits	15,146	13,647	15,809	20,794	21,618
Other current assets	10,250	17,905	17,905	17,905	17,905
Non-current liabilities	14,646	27,355	17,355	17,355	17,355
Long term borrowings	9,942	20,872	10,872	10,872	10,872
Other payables	-	-	-	-	-
Other non-current assets	4,704	6,483	6,483	6,483	6,483
Total Liabilities	58,940	79,144	76,306	76,290	72,115
Net Assets	11,994	18,211	23,785	30,433	37,816
Shareholders' Equity	9,489	13,605	16,691	20,520	24,609
Minority Interest	2,505	4,606	7,093	9,913	13,207
Total Equity	11,994	18,211	23,785	30,433	37,816
Key ratio					
Gross debt (RMB mn)	21,725	28,706	23,706	18,706	13,706
Net debt (RMB mn)	9,462	12,698	6,885	(19,079)	(45,791)
Net gearing (%)	79%	70%	29%	-63%	-121%
Presale/ Total assets (x)	50%	53%	67%	77%	74%

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2012A-2016E)

FY ended Dec 31 (RMB mn)	2012A	2013A	2014E	2015E	2016E
EBITDA	4,513	6,065	10,470	12,147	13,134
Change in Working Capital	6,684	5,049	3,877	21,426	21,102
Tax payment	(1,688)	(2,790)	(5,036)	(5,961)	(6,400)
Operating Cash flow	9,509	8,324	9,311	27,611	27,837
Purchase of PP&E	(22)	(27)	(20)	(20)	(20)
Addition of Investment Properties	(2,473)	(9,567)	-	-	-
Others	(2,764)	(5,473)	(393)	958	1,137
Investing Cash flow	(5,260)	(15,067)	(413)	938	1,117
Debt raised	16,396	26,215	10,000	10,000	10,000
Debt repaid	(12,639)	(18,243)	(15,000)	(15,000)	(15,000)
Interest expenses	(1,817)	(2,500)	(2,359)	(1,697)	(1,297)
Equity raised	24	1,628	-	-	-
Dividend to shareholders	(236)	(261)	(676)	(839)	(896)
Others	(345)	4,924	(50)	(50)	(50)
Financing Cash flow	1,381	11,763	(8,085)	(7,585)	(7,243)
Net cash inflow/ (outflow)	5,631	5,020	813	20,964	21,711
Cash- beginning	2,763	8,394	13,414	14,227	35,191
Cash- year-end	8,394	13,414	14,227	35,191	56,902

Source(s): 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 2010-2014

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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