



November 20, 2015

Sector Rating:  
Overweight

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Key Data

Avg.15E P/E (x)	6.3
Avg.15E P/B (x)	0.8
Avg.15E Dividend Yield (%)	5.1

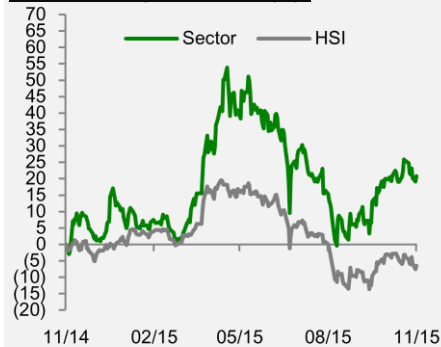
Source(s): ABCI Securities estimates

Sector performance (%)

	Absolute	Relative*
1-mth	0.82	3.55
3-mth	4.72	11.23
6-mth	(17.73)	1.87

\* Relative to Hang Seng Index  
Source(s): Bloomberg, ABCI Securities

1-Year Sector performance (%)



Source(s): Bloomberg, ABCI Securities

# China Property Sector Rise and shine in 2016

- ❖ Continuous policy support via rate cuts and sector-specific policies including mortgage relaxation
- ❖ Domestic corporate bond issuance should lower finance cost for the sector
- ❖ Expect property price to grow 5% in 2016E, while first-tier-tier cities may climb 10%
- ❖ Wanda (3699 HK) is our top pick for the China property sector; we also upgrade Evergrande (3333 HK) from Hold to BUY

**2015– A year of policy support.** Since Nov 2014, China has slashed interest rates six times, or 165bps in total, while RRR has been slashed from 20% to 17.5%. Declining interest rates lower the finance cost for highly-g geared developers and reduce the financial burden for mortgage buyers. The central government has also launched policies supportive to the property sector, boosting property demand through: **1) Increasing investment demand.** Except in tier-1 cities and Sanya, home-purchase restriction (HPR) was fully removed by end-2014; down payment ratio for second-home mortgage was lowered from 50% to 40% in Mar 2015; **2) Increasing demand in lower-tier cities where the inventory levels are high.** In Sep 2015, the down- payment ratio was reduced from 30% to 25% for cities without HPR. Approaching 2016, we believe more supportive policies would be launched, especially in lower-tier cities, until a sustainable recovery is observed in the economy. We expect property price to grow by 5% YoY on average across China in 2016E; for tier-1 cities, the growth would be higher at 10% YoY.

**Finance cost eases on active corporate bond issuance.** In 10M15, major developers in China have issued RMB 131.8bn in public domestic corporate bonds. The amount is higher than the total offshore USD bond aggregating to US\$ 8.3bn (or RMB 53bn) during the period. Major benefits of PRC domestic corporate bond over the overseas one include: **1) Lower interest rate.** The average coupon rate is only 4.93% for domestic corporate bonds, much lower than the 8.22% for the offshore ones; **2) No exchange rate risk;** **3) More freedom in proceed allocation.** Funds raised from domestic corporate bonds can be used for purposes such as construction, land acquisition, general working capital, etc. In contrary, proceeds from offshore bonds can only be used for land acquisition only.

**Wanda is our top pick; upgrade Evergrande to BUY.** We roll over our NAV estimate to 2016 and adjust our TP accordingly. For the property sector, we select **Wanda** as our top pick given its high exposure in lower-tier cities, which should benefit from recent policy relaxation. We also upgrade **Evergrande** from Hold to **BUY**, as the Group's finance cost should be reduced after the series of rate cut. We also like **Logan (3380 HK)** among the small-/mid-cap developers given its exposure in Shenzhen's property market that has been recovering substantially in 2015.

**Risk factors:** 1) Fierce land competition may lead to margin erosion; 2) Net gearing may surge on corporate bond issuance.

Sector Valuation Summary (data as of Nov 19, 2015)

Company	Ticker	Current Rating	Previous 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 (%)
Wanda	3699	BUY	BUY	49.00	78.10	10.9	8.0	1.1	1.0	2.8	3.8
Evergrande	3333	BUY	HOLD	6.39	8.30	9.4	5.6	0.7	0.7	5.3	9.0
Logan	3380	BUY	BUY	3.26	4.70	6.5	5.9	1.1	0.9	4.0	4.6
COLI	688	BUY	BUY	26.15	32.00	8.8	6.2	1.2	1.1	2.3	3.2
Jinmao	817	BUY	BUY	2.40	3.40	6.7	5.1	0.7	0.6	4.9	6.5
CIFI	884	BUY	BUY	1.77	2.20	4.4	4.0	0.7	0.7	6.8	7.3
Sunac	1918	BUY	BUY	5.23	9.40	4.8	3.7	0.8	0.6	3.8	4.9
Greentown	3900	HOLD	HOLD	7.67	6.60	4.3	4.4	0.5	0.5	6.3	7.1

Source(s): Companies, ABCI Securities estimates



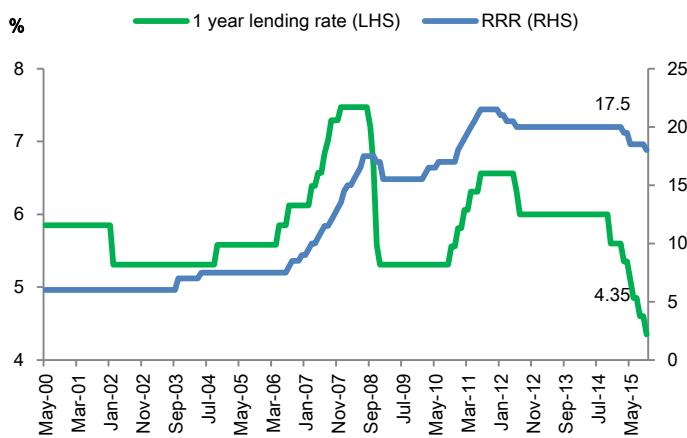
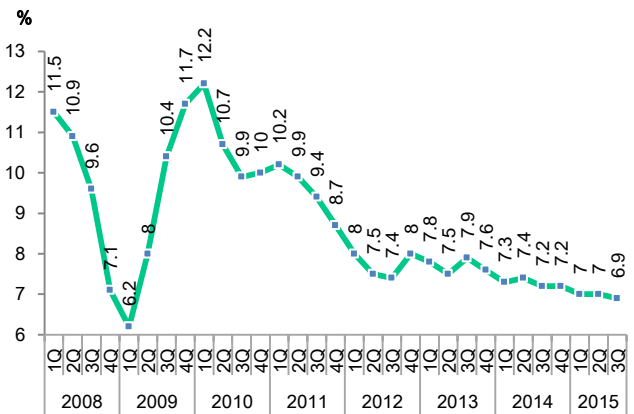
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## More supportive policies on the way

### 1. Further interest rate and RRR cuts

Recent economic data indicate China's growth is weakening. GDP slowed from 7.2% in 4Q14 to 7.0% in 1Q15 and 2Q15, and 6.9% in 3Q15. Since Nov 2014, China has slashed interest rates six times or by 165bps in total, while RRR has been reduced from 20% to 17.5%. Our economist expects both interest rate and RRR to fall further by end-2015E. The low interest rate environment, in our view is highly favorable to China's property market.

**Exhibit 1: RRR and lending rate in China**

**Exhibit 2: Slowing GDP in China**


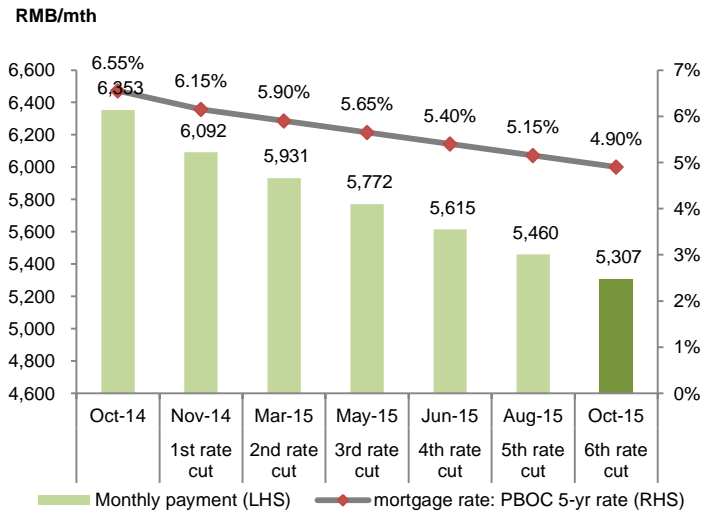
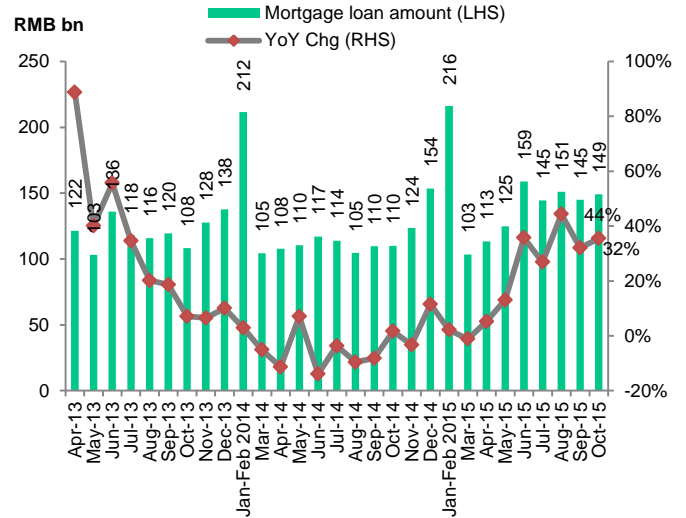
Source(s): NBS, ABCI Securities

Source(s): NBS, ABCI Securities

### 2. Favorable mortgage policy will continue

Aside from an accommodative monetary policy, the central government has also launched sector-specific policies to support the property market. In Mar 2015, China lowered the down payment ratio from 50% to 40% for second-home mortgage (previously the 40% down-payment ratio was only eligible for owners whose first-home mortgage was fully repaid). Properties purchased for more than 2 years will be exempted from business tax when disposed. These measures have stimulated investment demand when demand from first-home buyers started to wane. In Sep 2015, China also lowered the down-payment ratio from 30% to 25% for cities without HPR. We believe the policy is targeting at second-tier cities where inventory level is high and mortgage utilization is low. We expect the impacts should be more fully reflected in 2016 when the property market improves and banks are more willing to accept a higher loan-to-value ratio. In fact, mortgage loan growth has resumed momentum in Apr 2015.

Going forward, we believe the property market will be crucial in supporting China's economy. Hence, the government is likely to launch more supportive measures in 2016.

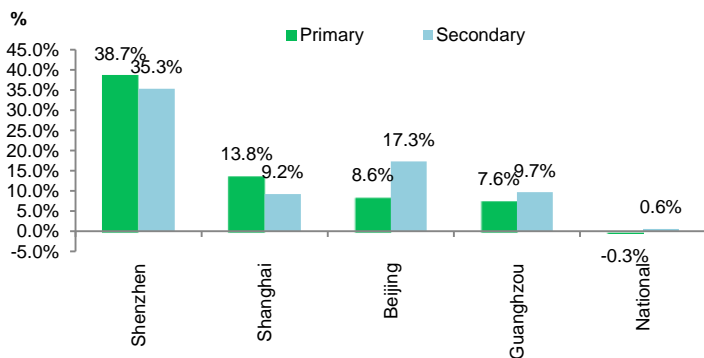
**Exhibit 3: Monthly mortgage payment after rate cuts**

**Exhibit 4: Mortgage loan growth in China**


\*Calculation based on RMB1mn mortgage loan with 30 year term  
 Source(s):rong360.com

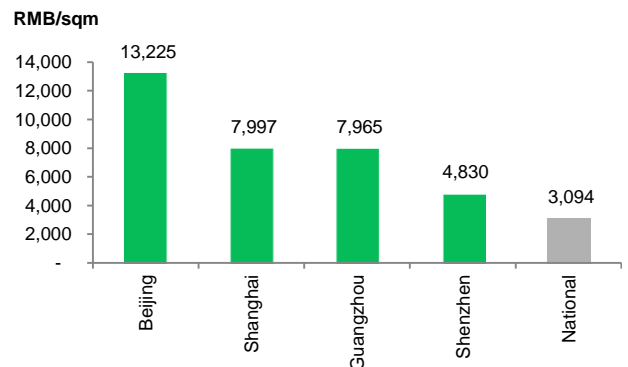
Source(s): NBS, ABCI Securities

### Players in tier-2 cities will be the key beneficiaries

In 10M15, new home price in tier-1 cities surged by 16.7% on average, outperforming the national average decline of 0.3%. We believe property price growth in tier-1 regions would slow in 2016 as home price exceeds the affordable level. Besides, land prices in tier-1 cities are rising in a much faster pace as developers have turned optimistic, which could result in margin erosion later on. Sunac, a major player in the tier-1 regions, has revealed plans to increase land acquisition in tier-2 cities. For 2016, we expect more supportive policies to be implemented in the lower-tier cities (e.g. a lower down-payment ratio). Wanda and Evergrande, with significant exposure in these regions, could become the major beneficiaries.

**Exhibit 5: Property price in tier-1 cities (10M15)**


Source(s): NBS, ABCI Securities

**Exhibit 6: Average land acquisition cost in tier-1 cities (10M15)**


Source(s): NBS, ABCI Securities

## Bond market: from offshore to onshore

### An active corporate bond market for developers

A lower interest rate can stimulate demand from property buyers and lessen the financial burden of highly geared property developers. In particular, we expect developers with a high percentage of onshore debt to benefit most from the reduced interest rates.

Domestic corporate bond issuance has become a major source of financing channel. In 10M15, major developers in China have issued a total of RMB 131.8bn in public domestic corporate bonds, exceeding the offshore USD bonds aggregating US\$ 8.3bn (or RMB53bn) during the period, based on our estimates. There are three major benefits of issuing PRC domestic corporate bonds over the offshore ones: **1) Lower interest rate.** The average coupon is only 4.90% for domestic bonds, much lower than the 8.22% for offshore ones; **2) No exchange rate risk.** Apart from the potential FX gain and loss arising from the USD-denominated instruments, we believe it could take longer than expected for funds to be transferred to China due to the foreign exchange control in place. In general, proceeds raised will be injected into mainland subsidiaries as equities, hence the interest cost will not be tax-deductible; **3) Freedom of proceed allocation.** Proceeds raised from domestic corporate bonds can be used for any stated purposes, e.g. construction, land acquisition, general working capital etc. In contrary, offshore bond proceeds can only be used for land acquisition

**Exhibit 7: USD bonds issued by major PRC developers (10M15)**

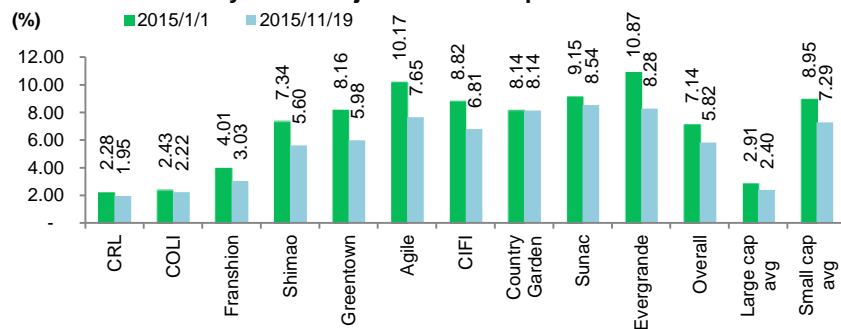
Developer	Issue date	Amount	Coupon	Maturity date
		USDmn	(%)	
Agile Property Holdings Ltd	5/21/2015	500	9	5/21/2020
Central China Real Estate Ltd	4/23/2015	300	8.75	1/23/2021
China Overseas Land International Cayman Ltd	7/15/2015	657	1.75	7/15/2019
China SCE Property Holdings Ltd	7/2/2015	350	10	7/2/2020
CIFI Holdings Group Co Ltd	6/5/2015	400	7.75	6/5/2020
Country Garden Holdings Co Ltd	3/9/2015	900	7.5	3/9/2020
Evergrande Real Estate Group Ltd	2/17/2015	1,000	12	2/17/2020
Fantasia Holdings Group Co Ltd	6/1/2015	200	11.5	6/1/2018
Greenland Global Investment Ltd	9/16/2015	300	4.3	9/16/2017
Greentown China Holdings Ltd	8/11/2015	500	5.875	8/11/2020
Jingrui Holdings Ltd	4/30/2015	150	13.25	4/30/2018
Oceanwide Holdings International 2015 Co Ltd	8/11/2015	400	9.625	8/11/2020
Shimao Property Holdings Ltd	2/10/2015	1,100	8.375	2/10/2022
Sino-Ocean Land Treasure Finance II Ltd	2/4/2015	700	4.45	2/4/2020
Sino-Ocean Land Treasure Finance II Ltd	2/4/2015	500	5.95	2/4/2027
Times Property Holdings Ltd	3/5/2015	280	11.45	3/5/2020
<b>Total/ average</b>		<b>8,237</b>	<b>8.22</b>	
			<b>Max</b>	<b>13.25</b>
			<b>Min</b>	<b>1.75</b>

Source(s): Bloomberg, ABCI Securities

**Exhibit 8: PRC corporate bonds issued by major PRC developers (10M15)**

Issuer	Issue date	Amount (RMBmn)	Coupon (%)	Maturity
Beijing Capital Development Co Ltd	6/3/2015	4,000	4.80	6/3/2022
Beijing Capital Land Ltd	5/27/2015	3,000	4.58	5/27/2020
China Fortune Land Develoal Properties Co Ltd	10/20/2015	4,000	5.10	10/20/2022
China South International Industrial Materials City Shenzhen Co Ltd	4/13/2015	1,500	7.00	4/13/2021
China South International Industrial Materials City Shenzhen Co Ltd	4/13/2015	1,500	7.00	4/13/2021
China South International Industrial Materials City Shenzhen Co Ltd	9/9/2015	2,100	4.30	9/9/2016
China Vanke Co Ltd	9/25/2015	5,000	3.50	9/25/2020
Chongqing Longhu Development Co Ltd (Longfor)	7/27/2015	2,000	3.93	7/27/2020
Chongqing Longhu Development Co Ltd (Longfor)	7/27/2015	2,000	4.20	7/27/2022
Chongqing Longhu Development Co Ltd (Longfor)	7/7/2015	2,000	4.60	7/7/2020
COFCO Property Group Co Ltd	8/17/2015	2,000	4.40	8/17/2020
Dalian Wanda Commercial Properties Co Ltd	10/14/2015	5,000	3.93	10/14/2022
Dalian Wanda Commercial Properties Co Ltd	8/27/2015	5,000	4.09	8/27/2020
Evergrande Real Estate Group Ltd	6/19/2015	5,000	5.38	6/19/2020
Evergrande Real Estate Group Ltd	7/8/2015	6,800	5.30	7/8/2019
Evergrande Real Estate Group Ltd	7/8/2015	8,200	6.98	7/8/2022
Financial Street Holdings Co Ltd	8/20/2015	4,000	3.84	8/20/2021
Financial Street Holdings Co Ltd	8/20/2015	1,000	4.20	8/20/2025
Financial Street Holdings Co Ltd	8/31/2015	4,000	4.24	8/31/2022
Gemdale Corp	10/15/2015	3,000	4.18	10/15/2022
Gemdale Corp	10/29/2015	1,000	3.98	10/29/2020
Gemdale Corp	10/29/2015	1,000	3.98	10/29/2020
Greenland Holding Group Co Ltd	2/11/2015	2,000	5.40	2/11/2017
Greentown Real Estate Group Co Ltd	8/27/2015	3,000	4.70	8/27/2020
Greentown Real Estate Group Co Ltd	9/16/2015	2,000	4.40	9/16/2020
Greentown Real Estate Group Co Ltd	9/16/2015	2,000	5.16	9/16/2022
Guangzhou R&F Properties Co Ltd	7/13/2015	6,500	4.95	7/13/2020
Guangzhou Times Property Group Co.Ltd	7/10/2015	2,000	6.75	7/10/2020
Jinke Properties Group Co Ltd	8/28/2015	2,000	6.40	8/28/2020
Macrolink Real Estate Co Ltd	10/12/2015	1,000	5.90	10/12/2018
Oceanwide Holdings Co Ltd	10/14/2015	3,200	6.90	10/14/2020
RiseSun Real Estate Development Co Ltd	6/24/2015	1,800	5.78	6/24/2020
RiseSun Real Estate Development Co Ltd	7/28/2015	1,900	5.10	7/28/2019
RiseSun Real Estate Development Co Ltd	7/28/2015	2,200	5.30	7/28/2020
Shanghai Industrial Development Co Ltd	3/23/2015	1,000	4.92	3/23/2020
Shanghai Lujiazui Finance & Trade Zone Development Co Ltd	6/12/2015	1,200	3.68	6/12/2016
Shanghai Shimao Co Ltd	1/27/2015	2,000	5.55	1/27/2016
Shanghai Shimao Co Ltd	4/23/2015	2,000	4.65	4/23/2016
Shenzhen Youkai Investment Consulting Co Ltd (Logan)	8/19/2015	4,000	5.00	8/19/2020
Shenzhen Youkai Investment Consulting Co Ltd (Logan)	8/27/2015	1,000	4.77	8/27/2019
Sino Ocean Land Ltd	10/19/2015	3,000	4.76	10/19/2025
Sino Ocean Land Ltd	10/19/2015	2,000	3.85	10/19/2021
Sino Ocean Land Ltd	8/19/2015	1,500	5.00	8/19/2025
Sino Ocean Land Ltd	8/19/2015	2,000	3.78	8/19/2020
Sino Ocean Land Ltd	8/19/2015	1,500	4.15	8/19/2022
Tianjin Sunac Zhidi Co Ltd (Sunac)	8/14/2015	2,500	5.70	8/14/2020
Tianjin Sunac Zhidi Co Ltd (Sunac)	8/14/2015	2,500	4.50	8/14/2020
Tianjin Sunac Zhidi Co Ltd (Sunac)	9/1/2015	1,000	4.48	9/1/2020
Zhejiang China Commodities City Group Co Ltd	10/12/2015	500	3.00	12/11/2015
Zhongtian Urban Development Group Co Ltd	10/15/2015	1,400	7.00	10/15/2020
<b>Total/ Average</b>		<b>131,800</b>	<b>4.90</b>	
		<b>Max</b>	<b>7.00</b>	
		<b>Min</b>	<b>3.00</b>	

Source(s): Bloomberg, ABCI Securities

**Exhibit 9: USD bond yield of major PRC developers**


\* Data as at 19 Nov 2015

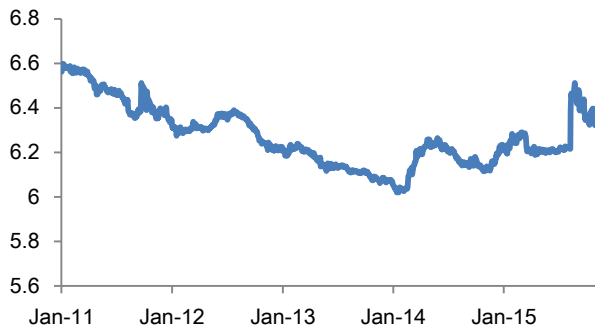
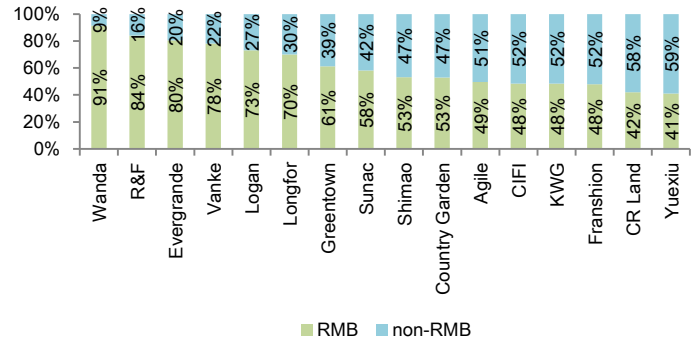
Source(s): Bloomberg, ABCI Securities

### Corporate bond: from public to non-public

According to the current regulations, the value of public domestic corporate bonds issued can be no higher than 40% of a company's net asset value. Recently, several developers (e.g. Sunshine 100, Evergrande) have raised capital via the non-public corporate bond channels and hence are not subject to such requirement. However coupon rate tends to be slightly higher in the non-public channels as these bonds can only be issued to qualified investors such as banks, insurance company, and financial institutions.

### Favor players with a high proportion of onshore debt

We believe the emerging popularity of domestic corporate bond is positive for the property sector, as it could partially remove the concerns over the high interest costs entailed in the USD bonds issued by developers. High finance costs often lead to cash flow problem, especially for the non-SOE developers. We believe Logan, Vanke, GZ R&F, and Wanda to enjoy the most from the issuance of domestic corporate bonds given their high exposure to onshore debts. Besides, they are likely to suffer less from mark-to-market FX loss due to the 2% RMB depreciation YTD.

**Exhibit 10: RMB vs. USD**

**Exhibit 11: % of debt in FX (Jun 2015)**


Source(s): Bloomberg

Source(s): Companies, ABCI Securities

**Exhibit 12: Exchange rate sensitivity**

	Gross debt as at Jun 2015			% of non-RMB debt	Exchange rate impact on P&L		as % of core profit
	Non-RMB RMBmn	RMB RMBmn	Total RMBmn		1% appreciation in USD P&L impact	2015E core profit RMBmn	
Yuexiu Properties	18,836	13,090	31,926	59%	(188)	1,890	-10.0%
Franshion*	25,295	23,349	48,644	52%	(253)	3,829	-6.6%
Agile	21,510	21,056	42,566	51%	(215)	3,368	-6.4%
CIFI	9,956	9,347	19,303	52%	(100)	2,119	-4.7%
Greentown	15,506	24,458	39,965	39%	(155)	3,437	-4.5%
Evergrande	36,270	149,019	185,288	20%	(363)	8,067	-4.5%
Sunac	13,058	18,115	31,173	42%	(131)	3,005	-4.3%
KWG	12,783	11,968	24,751	52%	(128)	3,089	-4.1%
Shimao	31,402	35,713	67,114	47%	(314)	8,286	-3.8%
CR Land*	53,531	38,764	92,295	58%	(535)	14,742	-3.6%
Country Garden	30,387	34,181	64,568	47%	(304)	10,205	-3.0%
COLI*	83,546	20,109	103,655	81%	(835)	27,279	-3.1%
Guangzhou R&F	12,009	62,757	74,767	16%	(120)	5,493	-2.2%
Longfor	14,834	34,612	49,446	30%	(148)	7,284	-2.0%
Logan	4,134	11,178	15,312	27%	(41)	2,070	-2.0%
Vanke-H	16,775	59,930	76,705	22%	(168)	16,547	-1.0%
Wanda	15,124	159,115	174,239	9%	(151)	16,801	-0.9%

\* in HK\$

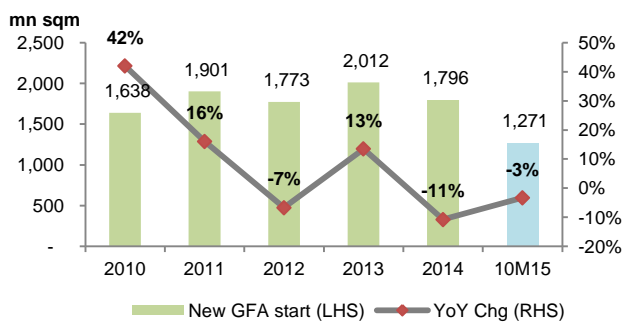
Source(s): Companies, ABCI Securities

## Property price to rise 5% in 2016E

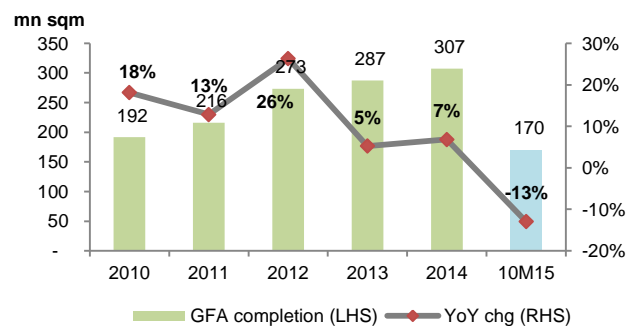
### Healthy demand-supply situation

Oversupply has emerged since early 2014 when property inventories built up and developers had to slash prices to promote sales. However, the situation has gradually changed over 2015. In 10M15, GFA completion dropped 13% YoY to 170mn sqm while new construction starts- an indicator of new supply in the longer term, dropped by 3%YoY to 1,271mn sqm after the 11% YoY decline in 2014.

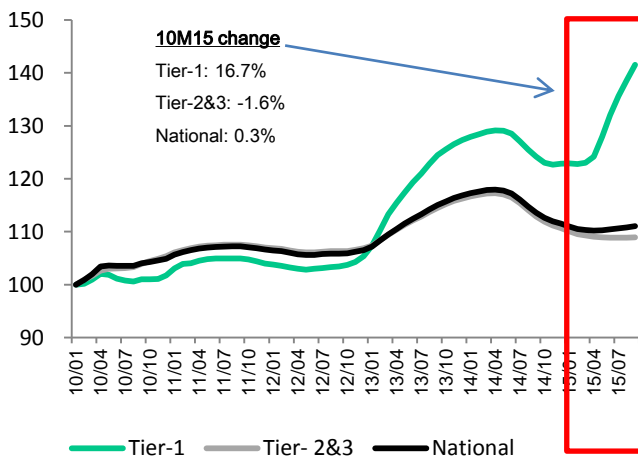
As demand and supply returns to equilibrium, property prices for 70 major Chinese cities resumed growth in July; the number of cities registering a MoM price growth outnumbered those recording a drop. For 2016E, we expect property price to grow by 5% YoY on average in China ; tier-1 cities would record a 10% increase YoY.

**Exhibit 13: New construction starts**


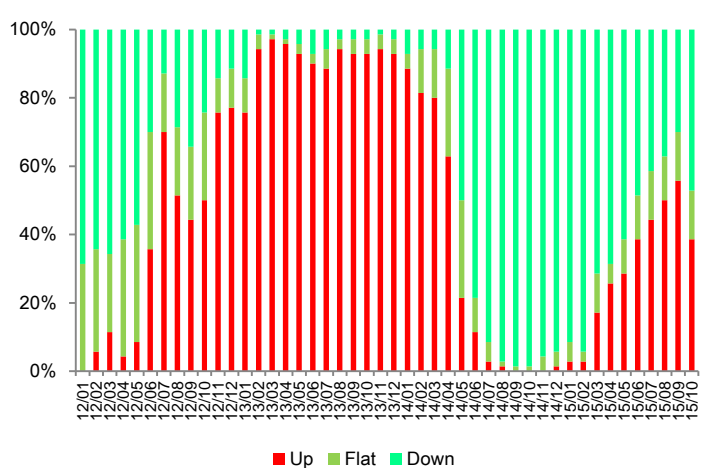
Source(s): NBS, ABCI Securities

**Exhibit 14: GFA completion**


Source(s): NBS, ABCI Securities

**Exhibit 15: National property price trend (new home)**


Source(s): NBS, ABCI Securities

**Exhibit 16: Property price change (new home) in 70 major cities**


Source(s): NBS, ABCI Securities





Exhibit 17: 10M15 presales for major PRC developers

	(RMBb)	Oct-15	YoY	10M15	YoY	2015 Target	Achievement ratio
1	Evergrande	25.8	185%	154.5	44%	180	85.9%
2	CR Land	8.5	-2%	72.0	36%	78	92.4%
3	CIFI	1.5	35%	21.3	27%	25	85.3%
4	Beijing Capital	3.0	20%	21.0	25%	35	60.1%
5	Vanke	23.7	7%	204.1	19%	245	83.3%
6	COLI*	14.4	11%	137.0	17%	180	76.6%
7	Poly-A	11.4	-24%	121.2	13%	150	80.6%
8	Yuexiu	2.4	-4%	20.1	13%	25	80.9%
9	Country Garden	15.9	46%	100.5	9%	135	74.4%
10	Longfor	6.2	1%	41.7	8%	54	77.2%
11	Agile	4.1	-20%	33.7	0%	45	74.8%
12	Sunac	8.1	-1%	52.1	-1%	66	78.9%
13	KWG	1.9	2%	15.8	-5%	23	70.3%
14	Shimao	7.1	5%	53.9	-6%	72	74.9%
15	Sino-Ocean	5.6	-21%	27.6	-9%	42	65.8%
16	Greentown	5.6	-57%	51.0	-13%	87	58.4%
17	R&F	5.4	9%	39.3	-14%	55	71.4%
<b>Total</b>		<b>150.9</b>	<b>11%</b>	<b>1,167.9</b>	<b>14%</b>	<b>1,497</b>	<b>78.0%</b>

\* in HK\$

Source(s): Companies, ABCI Securities

## Wanda (3699 HK) remains our top pick; BUY Evergrande (3333 HK) and Logan (3380 HK)

Approaching the end of 2015, we roll over our NAV estimate to 2016 and adjust our TP accordingly. Within the property sector, we choose **Wanda** as our top pick given its high exposure in lower-tier cities benefiting from recent policy relaxation. We also upgrade **Evergrande** from Hold to **BUY** as its finance costs are likely to fall on multiple rate cuts. We also like **Logan** among small-/mid-cap names given its high exposure in the rising market in booming Shenzhen.

Exhibit 18: TP changes 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	BUY	<b>BUY</b>	150.8	<b>156.14</b>	50%	<b>50%</b>	75.40	<b>78.10</b>	3.6%
Evergrande	3333	HOLD	<b>BUY</b>	8.61	<b>13.87</b>	20%	<b>40%</b>	6.90	<b>8.30</b>	17.4%
Logan	3380	BUY	<b>BUY</b>	9.19	<b>9.32</b>	50%	<b>50%</b>	4.60	<b>4.70</b>	2.2%
Jinmao	817	BUY	<b>BUY</b>	7.13	<b>8.48</b>	60%	<b>60%</b>	2.90	<b>3.40</b>	17.2%
COLI	688	BUY	<b>BUY</b>	29.5	<b>32.00</b>	0%	<b>0%</b>	29.50	<b>32.00</b>	8.5%
CIFI	884	BUY	<b>BUY</b>	4.77	<b>5.45</b>	60%	<b>60%</b>	1.90	<b>2.20</b>	15.8%
Sunac	1918	BUY	<b>BUY</b>	21.63	<b>26.84</b>	60%	<b>65%</b>	8.70	<b>9.40</b>	8.0%
Greentown	3900	HOLD	<b>HOLD</b>	12.18	<b>16.62</b>	20%	<b>50%</b>	9.70	<b>6.60</b>	-32.0%

Source(s): Companies, ABCI Securities estimates

### Wanda (3699 HK): favorable exposure in lower-tier cities

- Favorable policies in lower-tier cities help boost presales.** Wanda's presales grew 2.0% YoY to RMB 109.8bn in 10M15, below the sector average increase of 14% YoY. We believe the slower growth can be attributed to its high exposure in third-tier cities accounting for 68% of 1H15 presales. Following the reduction of down-payment ratio (from 30% to 25%) for non-HPR cities announced in Sep 2015, we expect property market in lower-tier cities to become active.
- Rate cuts reduce finance cost.** About 91% of Wanda's debts were raised onshore and linked to PBOC rate. Following multiple rate cuts in China, Wanda's average cost of debt dropped from 7.51% in FY14 to 6.96% in 1H15. Potential rate cuts in China will reduce interest expense for onshore borrowing. Moreover, as China's corporate bond market turns active, Wanda's finance cost can be lowered by replacing trust loans (21% of total debt) with domestic corporate bonds. Wanda raised RMB 10bn through the 5-year medium-term note with a 4.6% coupon rate on Aug 3, 2015 and another RMB 5bn through the 5-year corporate with a 4.09% coupon on Aug 28, 2015. As net finance cost represented close to 20% of Wanda's EBIT in 2014, a lower interest cost will have an immediate impact on its net profit.
- Fast growth in rental income.** In 10M15, rental income grew 32.1% YoY to RMB 11.6bn. Shopping malls in the Wanda Plazas registered foot traffic of 1,319mn visitors in Jan-Oct 2015, up 27.7% YoY growth. We expect Wanda to open 21 new plazas in 2H15 (vs. 5 in 1H14), which should boost rental income growth in 2H15 and 2016.
- Maintain BUY with revised TP of HK\$ 78.10.** We raise our NAV forecast from HK\$ 150.8/share to HK\$ 156.14/share after rolling forward our NAV estimate to 2016. We lift our TP to HK\$78.10 (from HK\$75.40), still based on a 50% discount to 2016E NAV. Wanda, being the key beneficiary of rate cuts and policy relaxation, remains our top pick. Its shopping mall operation, which has remained solid amid the slowing economy, reflects its prowess in the commercial property realm. Maintain **BUY**.



## Evergrande (3333 HK): Major beneficiary of rate cuts and policy relaxation; upgrade to BUY

- **Beneficiary of rate cut and increased PRC corporate bond issuance.** Over 80% of Evergrande's debts are raised onshore and denominated in RMB. We expect the six rate cuts of 165bps since Nov 2014 and further reductions in 4Q15 and 2016 will reduce average interest cost. In June 2015, the Group successfully raised RMB 20bn in public PRC corporate bond; among which, RMB5 bn has a 5-year term with an interest rate of 5.38%; RMB6.8 bn has a 4-year at 5.30%; RMB 8.2 bn has a 7-year term at 6.98%. Zhongchengxin Securities Rating (中誠信證評), Dagong Global Rating (大公國際評級) and Lianhe Rating (聯合評級), the three authoritative rating agencies in China, all assigned an AAA credit rating (the highest rating) to the Group's bond. In Oct 2015, Evergrande issued another RMB 20bn of non-public corporate bond with a 5-year term and a 7.38-7.88% coupon rate. As investors in China are much more positive on the Group than those in overseas, the interest cost is much lower compared to the 5-year USD bond issued in Feb 2015 that had a 12.00% coupon and a total value of US\$1bn. In the future, we expect Evergrande to issue more public and non-public corporate bonds in China to replace the high-cost USD bonds and perpetual securities. Driven by rate cuts and change in debt instruments mix, we forecast gross finance cost to drop from RMB 14.6bn in FY14, to RMB14.4 bn in FY15E and RMB12.8 bn in FY16E, as average interest cost dropped from 11.1% in FY14 to 9.2% in FY15E and 8.2% in FY16E.
- **Reduced down-payment ratio on lower tier cities should boost presales.** Over 90% of Evergrande's presales are contributed by lower tier cities without Home Purchase Restriction (HPR). After the down-payment ratio was lowered for cities without HPR announced in Sep, buying sentiment in lower tier cities improved. In 10M15, Evergrande's presales grew 44% YoY, outperforming the sector average of 14%. Given such strong performance, Evergrande lifted its FY15 presales target to RMB 180bn from RMB 150bn.
- **Upgrade to BUY from Hold with revised TP at HK\$ 8.30.** We raise our core EPS forecasts by 26% in 2015F and 61% in 2016F, as we factor in (a) 1.15bn share repurchase (7.4% of total share) at HK\$5.47bn; (b) reduced perpetual coupon payment by replacing perpetual instrument by domestic corporate bond. We also raise our NAV estimate from HK\$8.61 to HK\$ 13.87 to reflect lower cost of debt and lower finance cost. We raised our TP to HK\$ 8.30 (from HK\$6.90) as we lift the NAV discount from 20% to 40% to align with the higher discount in the sector. Upgrade Evergrande to **BUY** from Hold.

## Logan (3380 HK): Growing portfolio in Shenzhen

- **10M15 presales jumped 51.5% YoY to RMB 16.02bn; newly launched Shenzhen Acesite Mansion project achieved an ASP of RMB55,000/sqm.** Logan's presales jumped 37.5% YoY to RMB2.77bn in Oct. ASP reached RMB 12,533/sqm in Sep, 86% higher than RMB 6,755/sqm in 1H15. Moving into 4Q15, we expect solid recovery in presales and ASP on the launch of Shenzhen Acesite Mansion (九龍堡). According to NBS, Shenzhen's new home price surged 38.7% during Jan-Oct 2015, much faster than 13.8%/8.6%/7.6% in Shanghai/ Beijing/ Guangzhou. We expect Logan to attain its RMB 18bn presales target given the city's undersupply situation. Premium site next to Hongshan metro station in Shenzhen.

**Premium site next to Hongshan metro station in Shenzhen.** In Sep 2015, Logan acquired a site with a GFA of 0.808mn sqm next to the Hongshan metro station for RMB 11.25bn, or RMB 13,920/sqm. The site will be developed into apartments, office and ancillary facilities for



commercial use. The project will be one train stop away from the Shenzhen North Railway Station, 15 min away from Futian's CBD, and 28mins from West Kowloon Station in Hong Kong upon the completion of the Guangzhou-Shenzhen-Hong Kong High Speed Rail Link. Given the high land premium, we believe Logan will align with a JV partner. We currently assume Logan to hold a 51% stake in the project, and net gearing should stay at a healthy level of 80% by end-2015.

**Maintain BUY with revised TP of HK\$4.70.** We factor in the recent land acquisition and raise our 2016E NAV estimate to HK\$ 9.32/share (from HK\$9.19). We raise our TP to HK\$ 4.70 (from HK\$ 4.60), still based on 50% discount to NAV. Following the acquisition of the Hongshan site, projects in Shenzhen (property development and investment properties) now account for 75% of total GAV. Rising property market in Shenzhen is set to benefit the Group. Maintain **BUY**.

**Exhibit 19: Valuation table**

China Property	Ticker	Rating	TP	Mkt cap	Share Price	Performance				Discount to NAV	Valuation								
						3M	YTD	2014			P/E			Yield (%)			P/B		
						% Chg	% Chg	% Chg	(%)		2014A	2015E	2016E	2014A	2015E	2016E	2014A	2015E	2016E
				(HKD bn)	(local ccy)														
<b>Residential :</b>																			
1	Wanda	3699 HK	BUY	78.10	221.8	49.00	(10)	1	na	(68.62)	10.2	10.9	8.0	2.4	2.8	3.8	1.0	1.1	1.0
2	COLI	688 HK	BUY	32.00	257.9	26.15	15	17	8	(18.27)	9.0	8.8	6.2	2.1	2.3	3.2	1.6	1.2	1.1
3	Vanke-H	2202 HK	NR		196.4	19.00	6	14	30	(20.72)	16.2	9.7	8.2	3.2	3.6	4.2	1.9	1.7	1.5
4	CR Land	1109 HK	NR		148.7	21.45	12	7	10	(38.91)	12.6	10.1	8.9	2.3	2.5	2.9	1.3	1.1	1.0
5	Evergrande	3333 HK	BUY	8.30	92.8	6.39	32	128	24	(53.94)	33.1	9.4	5.6	8.2	5.3	9.0	0.7	0.7	0.7
6	Country Garden	2007 HK	NR		68.0	3.01	3	5	(28)	(48.95)	6.1	5.4	4.9	6.0	5.7	6.4	0.9	0.8	0.7
7	Longfor	960 HK	NR		65.0	11.16	9	15	(5)	(37.15)	8.1	7.2	6.5	3.1	3.2	3.5	1.1	1.0	0.9
8	Shimao	813 HK	NR		45.9	13.22	8	(19)	4	(52.15)	4.8	4.5	4.1	6.6	6.7	7.3	0.8	0.7	0.6
9	Sino Ocean	3377 HK	NR		34.6	4.61	1	10	(8)	(52.47)	8.0	7.5	6.7	5.0	5.3	5.9	0.6	0.6	0.6
10	Sunac	1918 HK	BUY	9.40	17.8	5.23	(12)	(32)	81	(78.38)	3.8	4.8	3.7	4.4	3.8	4.9	0.9	0.8	0.6
11	Guangzhou R&F	2777 HK	NR		28.1	8.71	19	(3)	(11)	(50.69)	6.5	4.1	3.7	0.0	7.5	8.1	0.6	0.5	0.5
12	Agile	3383 HK	NR		16.9	4.32	4	2	(43)	(61.23)	3.5	4.1	3.9	8.8	6.4	7.0	0.4	0.4	0.3
13	Yuexiu Properties	123 HK	NR		16.7	1.35	(2)	(6)	(13)	(55.74)	8.8	7.3	6.5	5.4	5.1	6.6	0.5	0.5	0.4
14	KWG	1813 HK	NR		17.1	5.70	14	13	33	(66.87)	5.1	4.5	3.8	7.0	7.4	8.5	0.7	0.6	0.6
15	Greentown	3900 HK	HOLD	6.60	16.6	7.67	6	(0)	(30)	(53.86)	7.4	4.3	4.4	0.0	6.3	7.1	0.6	0.5	0.5
16	Logan	3380 HK	BUY	4.70	16.3	3.26	(2)	40	7	(65.01)	7.6	6.5	5.9	3.4	4.0	4.6	1.2	1.1	0.9
17	CIFI	884 HK	BUY	2.20	11.8	1.77	16	24	(2)	(67.50)	4.5	4.4	4.0	6.2	6.8	7.3	0.9	0.7	0.7
18	BJ Capital Land	2868 HK	NR		11.3	3.74	7	36	22	(32.00)	7.3	4.0	3.2	8.1	7.6	8.6	0.7	na	na
19	COGO	81 HK	NR		6.0	2.62	(10)	(33)	(46)	(71.65)	4.8	4.0	3.2	1.9	2.3	2.7	0.5	0.4	0.4
<b>HK Listed Avg</b>							<b>6</b>	<b>13</b>	<b>1</b>	<b>(49.98)</b>	<b>8.6</b>	<b>6.3</b>	<b>5.2</b>	<b>4.5</b>	<b>5.1</b>	<b>6.0</b>	<b>0.9</b>	<b>0.8</b>	<b>0.7</b>
<b>- Large cap (&gt;HKD50b) avg</b>							<b>10</b>	<b>27</b>	<b>7</b>	<b>(40.94)</b>	<b>13.6</b>	<b>8.8</b>	<b>6.9</b>	<b>3.9</b>	<b>3.6</b>	<b>4.7</b>	<b>1.2</b>	<b>1.1</b>	<b>1.0</b>
<b>- Small-mid cap (&lt;HKD50b) avg</b>							<b>4</b>	<b>6</b>	<b>(2)</b>	<b>(54.85)</b>	<b>5.9</b>	<b>4.9</b>	<b>4.3</b>	<b>4.8</b>	<b>5.8</b>	<b>6.7</b>	<b>0.7</b>	<b>0.6</b>	<b>0.5</b>
<b>Commercial:</b>																			
1	SOHO China	410 HK	NR		17	3.32	(17)	(30)	(14)	(58.50)	8.2	19.4	19.8	9.1	6.7	4.6	0.4	0.3	0.3
2	HLP	101 HK	NR		86	19.02	0	(10)	(8)	(45.22)	8.5	14.0	14.2	4.0	4.1	4.1	0.6	0.6	0.6
3	China South City	1668 HK	BUY	4.60	15	1.85	(23)	(44)	67	(65.28)	4.7	4.3	3.1	7.6	10.3	13.0	0.6	0.7	0.6
4	Hui Xian REIT	87001 HK	NR		22	3.31	0	3	(3)	(24.34)	26.9	14.4	13.6	7.6	8.3	8.8	0.6	0.6	0.6
5	Jinmao	817 HK	BUY	3.40	26	2.40	7	13	(14)	(71.88)	7.5	6.7	5.1	4.3	4.9	6.5	0.7	0.7	0.6
6	Shui On Land	272 HK	NR		18	2.25	25	27	(21)	(37.06)	na	7.2	13.6	2.6	2.5	2.5	0.4	0.3	0.3
7	Yuexiu REIT	405 HK	NR		12	4.09	(4)	13	11	na	37.3	23.4	21.3	7.0	7.7	8.0	0.7	0.7	0.8
<b>Commercial Avg</b>							<b>1</b>	<b>(9)</b>	<b>3</b>	<b>(55.14)</b>	<b>13.6</b>	<b>11.4</b>	<b>11.5</b>	<b>7.5</b>	<b>8.4</b>	<b>9.5</b>	<b>0.6</b>	<b>0.6</b>	<b>0.5</b>
<b>- Developers</b>							<b>(2)</b>	<b>(9)</b>	<b>5</b>	<b>(58.18)</b>	<b>6.8</b>	<b>9.4</b>	<b>10.4</b>	<b>5.9</b>	<b>6.1</b>	<b>6.7</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>
<b>- Landlords/REIT</b>							<b>8</b>	<b>(21)</b>	<b>(3)</b>	<b>(54.02)</b>	<b>32.1</b>	<b>18.9</b>	<b>17.5</b>	<b>7.3</b>	<b>8.0</b>	<b>8.4</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>

\* Data as at Nov 19, 2015

Source(s): Bloomberg, ABCI Securities estimates



November 20, 2015  
Company Report  
Rating: BUY  
TP: HK\$ 78.10

Share price (HK\$) 49.35  
Est. share price return 57.1%  
Est. 15E dividend yield 2.8%  
Est. total return 59.9%

Previous Rating & TP BUY, HK\$75.40  
Previous Report Date August 28, 2015

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

**Key Data**

52Wk H/L(HK\$)	78.0/42.3
Issued shares (mn)	4,474
Market cap	222,066
3-mth avg daily turnover (HK\$ mn)	143.4
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

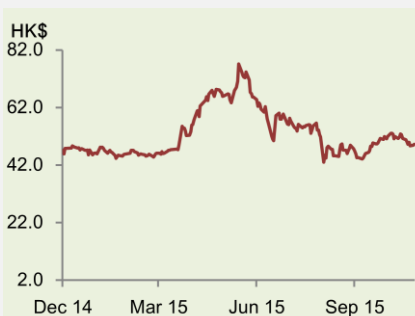
**Share performance (%)**

	Absolute	Relative*
1-mth	(3.7)	0.0
3-mth	(6.7)	(4.5)
6-mth	(27.0)	(9.3)

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

**1-Year stock performance (HK\$)**



Source(s): Bloomberg, ABCI Securities

# Wanda (3699 HK)

## Lower-tier cites to boost growth; maintain BUY

- Reduced down-payment ratio for non-HPR cities should support better presales in tier 2&3 cities
- Rate cut should generate significant saving in finance cost saving and this will be reflected immediately in this year's P&L
- In 10M15, rental income surged 32.1%YoY to RMB11.6bn; presales grew 2.0%YoY to RMB109.8bn
- Maintain **BUY** with TP of HK\$ 78.10 (from HK\$ 75.40) based on a 50% discount to FY15E NAV.

**Favorable policies in lower-tier cities help boost presales.** Wanda's presales grew 2.0% YoY to RMB 109.8bn in 10M15, below the sector average growth of 14% YoY. The slower growth can be attributed to its high exposure in third-tier cities accounting for 68% of 1H15 presales. Following the reduction of down-payment ratio (from 30% to 25%) for non-HPR cities announced in Sep 2015, we expect property market in lower-tier cities will turn more active.

**Rate cuts reduce finance cost.** About 91% of Wanda's debt was raised onshore and PBOC rate-linked. Following multiple rate cuts in China, Wanda's average cost of debt dropped from 7.51% in FY14 to 6.96% in 1H15. Potential further rate cut in China will reduce interest expenses for onshore borrowing. Moreover, as China's corporate bond market turns active, Wanda's finance cost can be lowered by replacing trust loans (21% of total debt) with domestic corporate bonds. Wanda raised RMB 10bn through the 5-year medium-term note with a 4.6% coupon rate on Aug 3, 2015, and another RMB 5bn through the 5-year corporate bond with a 4.09% coupon rate on Aug 28, 2015. As net finance cost represented close to 20% of Wanda's EBIT in 2014, a lower interest cost will have an immediate impact on its net profit.

**Fast growth in rental income.** In 10M15, rental income grew 32.1% YoY to RMB 11.6bn. Shopping malls in the Wanda Plazas registered a foot traffic of 1,319mn visitors in 10M15, up 27.7% YoY. We expect Wanda to open 21 new plazas in 2H15 (vs. 5 in 1H14), which should boost rental income in 2H15 and 2016.

**Maintain BUY with revised TP of HK\$ 78.10.** We raise our NAV forecast from HK\$ 150.8/share to HK\$ 156.14/share as we roll forward our NAV estimate to 2016. We lift our TP to HK\$78.10 (from HK\$75.40), still base on a 50% discount to 2016E NAV. Wanda, being the key beneficiary of rate cut and policy relaxation, remains our top pick. Its shopping mall operation has stayed solid despite the slowing economy, which reflects its prowess in the commercial property realm. Maintain **BUY**.

**Risk factors:** 1) oversupply of shopping malls in China; 2) Competition from online retailing

**Results and Valuation**

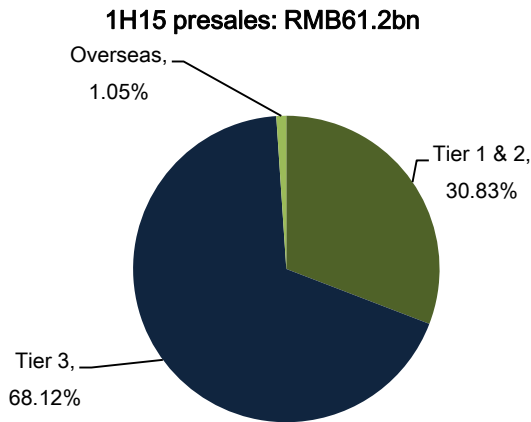
FY ended Dec 31	2013A	2014A	2015E	2016E	2017E
Revenue (RMB mn)	86,774	107,871	113,226	142,734	165,854
Chg (% YoY)	46.8	24.3	5.0	26.1	16.2
Core net profit (RMB mn)	12,999	14,824	16,801	22,972	29,850
Chg (% YoY)	19.4	14.0	13.3	36.7	29.9
Underlying EPS (RMB)	3.48	3.97	3.71	5.07	6.59
Chg (% YoY)	19.5	14.0	(6.6)	36.7	29.9
BVPS (RMB)	29.0	40.9	36.4	39.9	44.5
Chg (% YoY)	26.4	41.1	(11.2)	9.8	11.6
Underlying PE (x)	11.6	10.2	10.9	8.0	6.1
PB (x)	1.4	1.0	1.1	1.0	0.9
ROE (%)	12.0	9.7	10.2	12.7	14.8
ROA (%)	3.0	2.6	2.6	3.2	3.9
DPS (RMB)	-	0.95	1.11	1.52	1.98
Dividend yield (%)	-	2.4	2.8	3.8	4.9
Net gearing (%)	53.3	56.9	59.2	53.1	90.9

\*Net gearing=Net debt/Total Shareholders' equity

Source(s): Bloomberg, ABCI Securities estimates

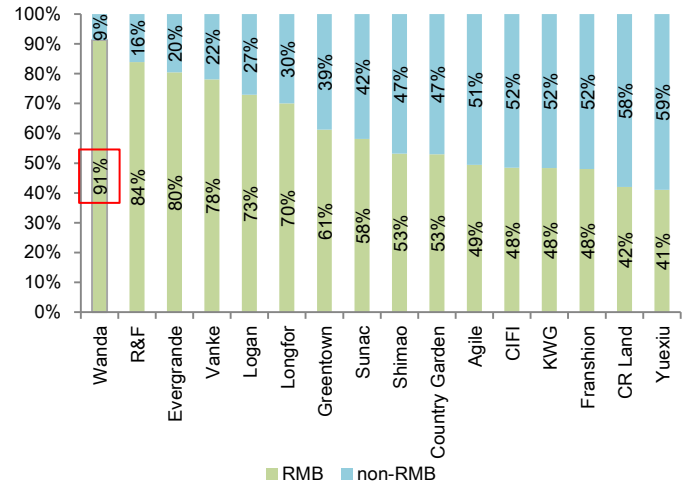


Exhibit 20: 1H15 presales by tiers of cities



Source(s): Company, ABCI Securities

Exhibit 21: Onshore debt as % of total debt (Jun 15)



Source(s): Company, ABCI Securities

Exhibit 22: Wanda's 2016E NAV estimates

	Attr. GFA (M sqm)	Net assets value (RMB m)	% of total	Valuation Methodology	Implied value per sqm (RMB)
<b>Property development</b>					
Residential	52.6	93,904	14%	DCF at WACC of 11.5%	1,786
Retail	7.0	124,742	18%		17,735
Office and others	44.6	233,136	34%		5,226
<b>Subtotal</b>	<b>104.2</b>	<b>451,782</b>	<b>67%</b>		<b>4,334</b>
Investment Properties	17.7	209,746	31%	6.0% cap rate on 2016E net rental income	11,843
Hotels		14,592	2%	8x 2016E EBITDA	
<b>Total 2016E GAV</b>	<b>121.9</b>	<b>676,121</b>	<b>100%</b>		<b>5,544</b>
2016E Net cash/ (debt)		(96,689)	-14%		
<b>Total 2016E NAV</b>		<b>579,432</b>	<b>86%</b>		
No. of share outstanding (diluted)		4,527			
<b>NAV per share (RMB)</b>		<b>127.98</b>			
Ex rate		1.22			
<b>NAV per share (HKD)</b>		<b>156.14</b>			
Target discount (%)		50%			
<b>Target Price (HKD)</b>		<b>78.10</b>			

<b>WACC</b>	<b>11.1%</b>
Cost of debt	7.0%
Cost of Equity	18.0%
<b>Debt/ (Debt + Equity)</b>	<b>54%</b>

Source(s): Company; ABCI Securities estimates



**Consolidated income statement (2012A-2017E)**

<b>FY Ended Dec 31 (RMB mn)</b>	<b>2012A</b>	<b>2013A</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>
<b>Revenue</b>	<b>59,091</b>	<b>86,774</b>	<b>107,871</b>	<b>113,226</b>	<b>142,734</b>	<b>165,854</b>
Cost of sales	(28,807)	(49,438)	(61,945)	(57,022)	(72,744)	(82,199)
<b>Gross Profit</b>	<b>30,284</b>	<b>37,336</b>	<b>45,926</b>	<b>56,204</b>	<b>69,989</b>	<b>83,655</b>
SG&A expenses	(7,219)	(9,565)	(13,653)	(18,961)	(22,520)	(22,397)
<b>EBIT</b>	<b>23,065</b>	<b>27,771</b>	<b>32,273</b>	<b>37,243</b>	<b>47,469</b>	<b>61,259</b>
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	1,834	1,613	1,308
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
<b>Profit before tax</b>	<b>43,264</b>	<b>41,492</b>	<b>41,800</b>	<b>31,254</b>	<b>41,782</b>	<b>54,459</b>
Tax	(15,443)	(16,610)	(16,699)	(14,454)	(18,810)	(24,609)
<b>Profit after tax</b>	<b>27,821</b>	<b>24,882</b>	<b>25,101</b>	<b>16,801</b>	<b>22,972</b>	<b>29,850</b>
Minority interest & Perpetual coupons	(511)	(301)	(262)	0	0	0
<b>Reported net profit</b>	<b>27,310</b>	<b>24,581</b>	<b>24,839</b>	<b>16,801</b>	<b>22,972</b>	<b>29,850</b>
<i>Less: exceptional items</i>	<i>(16,424)</i>	<i>(11,582)</i>	<i>(10,015)</i>	<i>(0)</i>	<i>(0)</i>	<i>0</i>
<b>Underlying net profit</b>	<b>10,887</b>	<b>12,999</b>	<b>14,824</b>	<b>16,801</b>	<b>22,972</b>	<b>29,850</b>
<b>Per share</b>						
Underlying EPS (RMB)	2.91	3.48	3.97	3.71	5.07	6.59
DPS (RMB)	-	-	0.95	1.11	1.52	1.98
Payout ratio (%)	0%	0%	24%	30%	30%	30%
BVPS (RMB)	22.95	29.01	40.94	36.35	39.90	44.52
<b>Growth %</b>						
Revenue	16.4%	46.8%	24.3%	5.0%	26.1%	16.2%
Gross Profit	24.6%	23.3%	23.0%	22.4%	24.5%	19.5%
EBIT	28.6%	20.4%	16.2%	15.4%	27.5%	29.0%
Underlying net profit	17.2%	19.4%	14.0%	13.3%	36.7%	29.9%
<b>Margin %</b>						
Gross margin	51.2%	43.0%	42.6%	49.6%	49.0%	50.4%
Gross margin (post-LAT)	39.3%	31.3%	32.6%	31.0%	31.0%	32.2%
EBIT margin	39.0%	32.0%	29.9%	32.9%	33.3%	36.9%
Core net margin	19.3%	15.3%	13.9%	14.8%	16.1%	18.0%
<b>Key assumptions</b>						
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	92,653	118,688	139,661
GFA delivered (m sqm)	3.48	6.28	7.17	8.89	10.15	10.29
Booked ASP (RMB/sqm)	14,541	11,932	12,791	10,418	11,698	13,573

Source: Company, ABCI Securities estimates





**Consolidated balance sheet (2012A-2017E)**

<b>As of Dec 31 (RMB mn)</b>	<b>2012A</b>	<b>2013A</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>
<b>Current assets</b>	<b>149,003</b>	<b>196,302</b>	<b>261,472</b>	<b>309,986</b>	<b>353,405</b>	<b>386,550</b>
Cash	48,585	69,525	86,303	75,819	77,548	29,364
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	204,191	245,880	327,209
Other current assets	21,576	21,884	22,397	22,397	22,397	22,397
<b>Non-current assets</b>	<b>186,109</b>	<b>234,742</b>	<b>302,822</b>	<b>346,827</b>	<b>365,831</b>	<b>387,404</b>
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
<b>Total Assets</b>	<b>335,112</b>	<b>431,044</b>	<b>564,294</b>	<b>656,813</b>	<b>719,237</b>	<b>773,955</b>
<b>Current Liabilities</b>	<b>157,129</b>	<b>180,277</b>	<b>235,461</b>	<b>316,219</b>	<b>362,563</b>	<b>396,386</b>
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	210,156	256,500	250,322
Other current assets	15,525	19,910	15,462	15,462	15,462	15,462
<b>Non-current liabilities</b>	<b>90,632</b>	<b>136,895</b>	<b>173,687</b>	<b>173,687</b>	<b>173,687</b>	<b>173,687</b>
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
<b>Total Liabilities</b>	<b>247,761</b>	<b>317,172</b>	<b>409,148</b>	<b>489,906</b>	<b>536,250</b>	<b>570,073</b>
<b>Net Assets</b>	<b>87,351</b>	<b>113,872</b>	<b>155,146</b>	<b>166,906</b>	<b>182,987</b>	<b>203,882</b>
<b>Shareholders Equity</b>	<b>85,727</b>	<b>108,286</b>	<b>152,814</b>	<b>164,574</b>	<b>180,655</b>	<b>201,550</b>
Minority Interest	1,624	5,586	2,332	2,332	2,332	2,332
<b>Total Equity</b>	<b>87,351</b>	<b>113,872</b>	<b>155,146</b>	<b>166,906</b>	<b>182,987</b>	<b>203,882</b>
<b>Key ratio</b>						
Gross debt (RMBm)	93,419	134,382	181,364	181,364	181,364	221,364
Net debt (RMBm)	42,703	60,718	88,329	98,813	97,084	185,268
Net gearing (%)	49%	53%	57%	59%	53%	91%

Source(s): Company, ABCI Securities estimates



**Consolidated cash flow statement (2012A-2017E)**

<b>FY Ended Dec 31 (RMB mn)</b>	<b>2012A</b>	<b>2013A</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>
EBITDA	23,946	28,825	33,806	39,236	49,462	63,252
Change in Working Capital	622	(8,531)	291	27,510	10,021	(81,546)
Tax payment	(11,559)	(11,680)	(16,205)	(14,454)	(18,810)	(24,609)
<b>Operating Cash flow</b>	<b>13,009</b>	<b>8,614</b>	<b>17,892</b>	<b>52,293</b>	<b>40,674</b>	<b>(42,903)</b>
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	1,834	1,613	1,308
<b>Investing Cash flow</b>	<b>(24,174)</b>	<b>(22,048)</b>	<b>(31,811)</b>	<b>(44,164)</b>	<b>(19,384)</b>	<b>(22,258)</b>
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)	(5,040)	(6,891)	(8,955)
Others	90	2,822	0	0	0	(0)
<b>Financing Cash flow</b>	<b>15,702</b>	<b>34,374</b>	<b>30,697</b>	<b>(18,613)</b>	<b>(19,559)</b>	<b>16,977</b>
<b>Net cash inflow/ (outflow)</b>	<b>4,537</b>	<b>20,940</b>	<b>16,778</b>	<b>(10,484)</b>	<b>1,730</b>	<b>(48,184)</b>
Cash- beginning	44,048	48,585	69,525	86,303	75,819	77,548
<b>Cash- year-end</b>	<b>48,585</b>	<b>69,525</b>	<b>86,303</b>	<b>75,819</b>	<b>77,548</b>	<b>29,364</b>

Source(s): Company, ABCI Securities estimates



November 20, 2015  
Company Report  
Rating: BUY  
TP: HK\$ 8.30

Share price (HK\$) 6.39  
Est. share price return 29.9%  
Est. dividend yield 5.3%  
Est. total return 35.2%

Previous Rating & TP HOLD; HK\$ 6.90  
Previous Report Date May 8, 2015

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

**Key Data**

52Wk H/L(HK\$)	8.40/2.92
Issued shares (mn)	14,589
Market cap (HK\$ mn)	92,253
3-mth avg daily turnover (HK\$ mn)	490.1
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	23.6	28.3
3-mth	34.0	37.3
6-mth	8.3	34.4

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

**1-Year stock performance (HK\$)**



Source(s): Bloomberg, ABCI Securities

**Evergrande (3333 HK)**

Major beneficiary of rate cut; Upgrade to BUY

- Rate cut and PRC corporate bond issuance should lower finance cost
- Significant exposure in lower tier cities will benefit from the lowered down-payment ratio, which decreased from 30% to 25%
- Acquisition of Mass Mutual Tower in Hong Kong should not generate significant financial burden
- Raise our TP to HK\$ 8.30 (from HK\$6.90) based on a 40% discount to NAV (previous: 20%). Upgrade to **BUY** from Hold

**Beneficiary of rate cut and increased PRC corporate bond issuance.** Over 80% of Evergrande's debts are raised onshore and denominated in RMB. We expect the six rate cuts of 165bps since Nov 2014 and further reductions in 4Q15 and 2016 will reduce average interest cost. In June 2015, the Group successfully raised RMB 20bn in public PRC corporate bond; among which, RMB5 bn has a 5-year term with an interest rate of 5.38%; RMB6.8 bn has a 4-year at 5.30%; RMB 8.2 bn has a 7-year term at 6.98%. Zhongchengxin Securities Rating (中誠信證評), Dagong Global Rating (大公國際評級) and Lianhe Rating (聯合評級), the three authoritative rating agencies in China, all assigned an AAA credit rating (the highest rating) to the Group's bond. In Oct 2015, Evergrande issued another RMB 20bn of non-public corporate bond with a 5-year term and a 7.38-7.88% coupon rate. As investors in China are much more positive on the Group than those in overseas, the interest cost is much lower compared to the 5-year USD bond issued in Feb 2015 that had a 12.00% coupon and a total value of US\$1bn. In the future, we expect Evergrande to issue more public and non-public corporate bonds in China to replace the high-cost USD bonds and perpetual securities. Driven by rate cuts and change in debt instruments mix, we forecast gross finance cost to drop from RMB 14.6bn in FY14, to RMB14.4 bn in FY15E and RMB12.8 bn in FY16E, as average interest cost dropped from 11.1% in FY14 to 9.2% in FY15E and 8.2% in FY16E.

**Reduced down-payment ratio on lower tier cities should boost presales.** Over 90% of Evergrande's presales are contributed by lower tier cities without Home Purchase Restriction (HPR). After the down-payment ratio was lowered for cities without HPR announced in Sep, buying sentiment in lower tier cities improved. In 10M15, Evergrande's presales grew 44% YoY, outperforming the sector average of 14%. Given such strong performance, Evergrande lifted its FY15 presales target to RMB 180bn from RMB 150bn.

**Upgrade to BUY from Hold with revised TP at HK\$ 8.30.** We raise our core EPS forecasts by 26% in 2015F and 61% in 2016F, as we factor in (a) 1.15bn share repurchase (7.4% of total share) at HK\$5.47bn; (b) reduced perpetual coupon payment by replacing perpetual instrument by domestic corporate bond. We also raise our NAV estimate from HK\$8.61 to HK\$ 13.87 to reflect lower cost of debt and lower finance cost. We raised our TP to HK\$ 8.30 (from HK\$6.90) as we lift the NAV discount from 20% to 40% to align with the higher discount in the sector. Upgrade Evergrande to **BUY** from Hold.

**Results and Valuation**

FY ended Dec 31	2013A	2014A	2015E	2016E	2017E
Revenue (RMB mn)	93,672	111,398	173,527	203,981	203,848
Chg (% YoY)	43.5	18.9	55.8	17.5	(0.1)
Underlying Net Income (RMB mn) <sup>1</sup>	7,703	2,340	8,067	13,644	18,803
Chg (% YoY)	24.2	(69.6)	244.7	69.1	37.8
Underlying EPS (RMB)	0.48	0.16	0.56	0.95	1.30
Chg (% YoY)	16.1	(66.9)	252.6	69.1	37.8
BVPS (RMB)	4.6	7.1	7.4	7.2	7.2
Chg (% YoY)	79.7	53.7	5.6	(3.0)	(0.6)
Underlying PE (x)	11.0	33.1	9.4	5.6	4.0
P/B (x)	1.1	0.7	0.7	0.7	0.7
ROE (%)	10.5	2.3	7.5	13.1	18.2
ROA (%)	2.2	0.5	1.7	2.8	3.8
DPS(HK\$)	0.43	0.43	0.28	0.47	0.65
Yield (%)	8.2	8.2	5.3	9.0	12.4
Net gearing <sup>2</sup> (%)	69.5	85.9	57.8	36.9	4.1

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

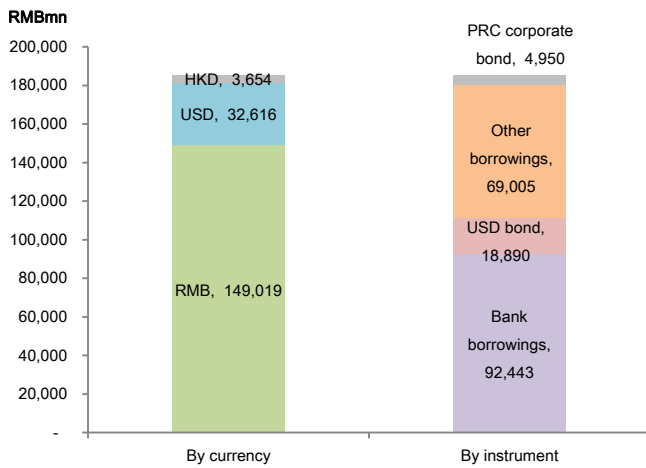
<sup>2</sup> Net gearing = Net debt/Total equity

Source(s): Bloomberg, ABCI Securities estimates

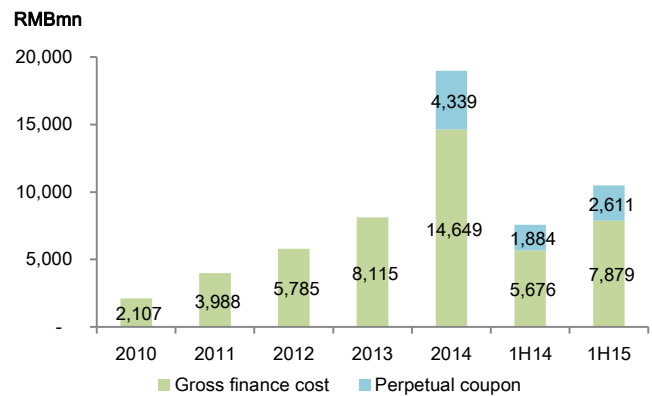
**Acquisition of HK office building at HK\$12.5bn from Chinese Estates.**

The Mass Mutual Tower in Wanchai to be acquired has a total GFA of 345,299sq ft. (32,091sqm) and generates HK\$ 171mn in revenue and HK\$ 105mn in core profit in 2014. This translates to a valuation of HK\$ 36,200/sqft or gross rental yield of 1.36%. While the valuation leans toward the high side in our view, the payment terms are rather lenient, requiring the Group to pay HK\$ 5bn upfront while the remaining consideration will be paid in six annual installments of HK\$1.2bn. Although the market in general deems Evergrande's heavy investment in non-core business as undesirable, the Group's share price surged 33% over the past month, as its core property sales business registered impressive performance YTD.

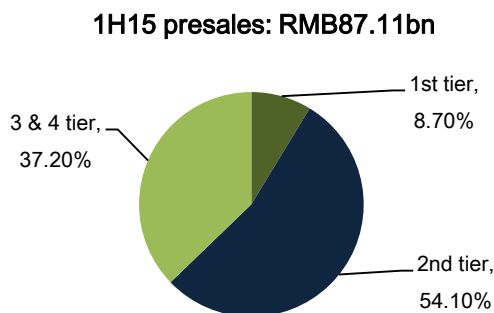
**Downside risks:** 1) Gearing to surge on frequent issuance of corporate bonds; 2) Loss in non-property consumer business may widen on the weakening economy.

**Exhibit 23: Debt structure (Jun 2015)**


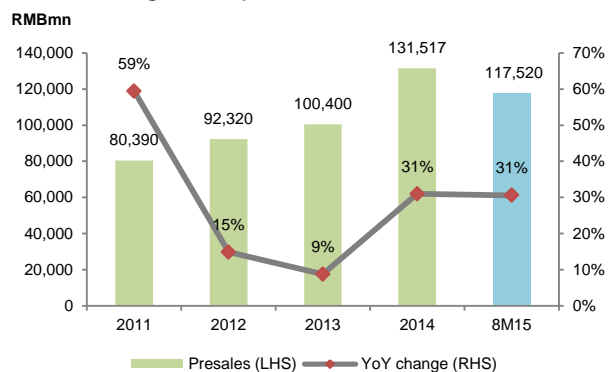
Source(s): Company, ABCI Securities

**Exhibit 24 : Gross finance cost and perpetual coupon payments**


Source(s): Company, ABCI Securities

**Exhibit 25: Presales by city tier (1H15)**


Source(s): Company, ABCI Securities

**Exhibit 26 : Evergrande's presales**


Source(s): Company, ABCI Securities



**Exhibit 27: Evergrande's 1H15 results**

P&L	1H15	1H14	YoY	Operating statistics	1H15	1H14	YoY
	RMB mn	RMB mn	Chg (%)		1H15	1H14	Chg (%)
<b>Turnover</b>	<b>77,743</b>	<b>63,337</b>	<b>23</b>	Presales GFA (mn sqm)	11.4	9.8	16
Cost of Sales & direct operating costs	(55,673)	(45,242)	23	Presales ASP (RMB/sqm)	7,656	7,076	8
<b>Gross Profit</b>	<b>22,070</b>	<b>18,095</b>	<b>22</b>	<b>Presales Sales (RMB mn)</b>	<b>87,110</b>	<b>69,320</b>	<b>26</b>
<b>Gross Margin (%)</b>	<b>28.4</b>	<b>28.6</b>	<b>(0.2)</b>	GFA Delivered (mn sqm)	10.8	9.8	10
Selling and distribution costs	(5,300)	(3,539)	50	Booked ASP (RMB/sqm)	7,004	6,329	11
Administrative expense	(3,516)	(2,698)	30	<b>Property sales booked (RMB/sqm)</b>	<b>75,370</b>	<b>62,029</b>	<b>22</b>
<b>EBIT</b>	<b>13,254</b>	<b>11,858</b>	<b>12</b>	<b>Segment EBIT</b>			
<b>EBIT Margin (%)</b>	<b>17.0</b>	<b>18.7</b>	<b>(1.7)</b>	Property development	15,829	14,521	9
Other income, gains and losses	1,217	514	137	Property investment	69	45	53
Fair value gain of investment properties	5,534	4,408	26	Property management	(132)	(235)	(44)
Gain on financial assets at fair value	2,481	0	na	Others business	(1,488)	(2,028)	(27)
Exchange gain/(losses)	27	(215)	na	<b>Total</b>	<b>14,278</b>	<b>12,303</b>	<b>16</b>
Share of profit from JCE/ Associates	39	0	0				
Finance cost	(634)	(10)	6,265	<b>Balance sheet</b>	<b>Jun 15</b>	<b>Dec 14</b>	<b>HoH %</b>
<b>Profit before tax</b>	<b>21,918</b>	<b>16,555</b>	<b>32</b>		<b>RMB mn</b>	<b>RMB mn</b>	
<b>Tax</b>	<b>(8,632)</b>	<b>(7,060)</b>	<b>22</b>	Gross debt	185,288	156,065	19
- LAT	(3,002)	(2,527)	19	Cash	81,569	59,498	37
- Enterprise tax	(3,898)	(4,102)	24	<b>Net debt</b>	<b>103,720</b>	<b>96,566</b>	<b>7</b>
- Deferred tax	(1,732)	(431)	302	<b>Net gearing- PCI as equity (%)</b>	<b>86</b>	<b>86</b>	<b>(0)</b>
				<b>Net gearing- PCI as debt (%)</b>	<b>228</b>	<b>251</b>	<b>(23)</b>
<b>Profit after tax</b>	<b>13,286</b>	<b>9,495</b>	<b>40</b>				
Minority Interest and perpetual capital instrument	(3,860)	(2,401)	61				
<b>Net profit</b>	<b>9,426</b>	<b>7,094</b>	<b>33</b>				
<b>Core net profit</b>	<b>10,160</b>	<b>6,490</b>	<b>57</b>				

Source(s): Company, ABCI Securities

**Exhibit 28: Evergrande's FY16E NAV**

	Attr. GFA (mn sqm)	Net assets value (RMB mn)	% of total	Valuation Methodology	Implied value per sqm (RMB)
<b>Property development</b>					
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	4%		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	97,711	39%		1,522
<b>Subtotal</b>	<b>150.8</b>	<b>174,768</b>	<b>70%</b>		
Investment Properties		72,103	29%		1x Book value
Football business		1,200	0%		50% stake sold to Jack Ma at RMB1.2bn
Consumer and O2O business		-	0%		
<b>Total 2016E GAV</b>		<b>248,070</b>	<b>100%</b>		
2016E Net debt		(41,341)	-17%		
Perpetual capital instrument		(42,852)	-17%		
<b>Total 2016E NAV</b>		<b>163,877</b>	<b>66%</b>		
No. of share outstanding (diluted)		14,411			
<b>NAV per share (RMB)</b>		<b>11.37</b>			
Ex rate		1.22			
<b>NAV per share (HKD)</b>		<b>13.87</b>			
Target discount (%)		40%			
<b>Target Price (HKD)</b>		<b>8.30</b>			
<b>WACC</b>	<b>9.8%</b>				
Cost of Debt	8.2%				
Cost of Equity	15.0%				
<b>Debt/ (Debt + Equity)</b>	<b>59%</b>				

Source(s): Company, ABCI Securities estimates



**Consolidated income statement (2013A-2017E)**

<b>FY Ended Dec 31 (RMB mn)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>
<b>Revenue</b>	<b>93,672</b>	<b>111,398</b>	<b>173,527</b>	<b>203,981</b>	<b>203,848</b>
Cost of sales	(66,023)	(79,615)	(122,452)	(139,600)	(131,446)
<b>Gross Profit</b>	<b>27,649</b>	<b>31,784</b>	<b>51,075</b>	<b>64,380</b>	<b>72,403</b>
SG&A expenses	(9,462)	(14,588)	(20,685)	(24,362)	(23,813)
<b>EBIT</b>	<b>18,187</b>	<b>17,195</b>	<b>30,391</b>	<b>40,018</b>	<b>48,589</b>
Finance cost	(34)	(1,015)	(995)	(887)	(779)
Share of profit of associates	0	(104)	0	0	0
Other income/ (expenses)	699	1,431	1,065	1,185	1,280
Fair value gain of investment properties	0	0	0	0	0
Disposal/one-off items	6,545	13,685	0	0	0
<b>Profit before tax</b>	<b>25,396</b>	<b>31,191</b>	<b>30,460</b>	<b>40,316</b>	<b>49,091</b>
Tax	(11,687)	(13,175)	(15,728)	(20,875)	(25,576)
<b>Profit after tax</b>	<b>13,709</b>	<b>18,016</b>	<b>14,732</b>	<b>19,442</b>	<b>23,515</b>
Minority interest	(1,097)	(5,412)	(6,665)	(5,798)	(4,712)
<b>Reported net profit</b>	<b>12,612</b>	<b>12,604</b>	<b>8,067</b>	<b>13,644</b>	<b>18,803</b>
<i>Less: exceptional items</i>	<i>(4,908)</i>	<i>(10,264)</i>	<i>0</i>	<i>0</i>	<i>(0)</i>
<b>Underlying net profit</b>	<b>7,703</b>	<b>2,340</b>	<b>8,067</b>	<b>13,644</b>	<b>18,803</b>
<b>Per share</b>					
Underlying EPS (RMB)	0.48	0.16	0.56	0.95	1.30
DPS (RMB)	0.43	0.43	0.28	0.47	0.65
Payout ratio (%)	90%	271%	50%	50%	50%
BVPS (RMB)	4.59	7.05	7.45	7.23	7.19
<b>Growth %</b>					
Revenue	43.5%	18.9%	55.8%	17.5%	-0.1%
Gross Profit	51.8%	15.0%	60.7%	26.0%	12.5%
EBIT	59.1%	-5.5%	76.7%	31.7%	21.4%
Underlying net profit	24.2%	-69.6%	244.7%	69.1%	37.8%
<b>Margin %</b>					
Gross margin	29.5%	28.5%	29.4%	31.6%	35.5%
Gross margin (post-LAT)	24.7%	25.6%	25.6%	27.2%	30.2%
EBIT margin	19.4%	15.4%	17.5%	19.6%	23.8%
Core net margin	9.4%	7.1%	8.5%	9.5%	11.5%
<b>Key assumptions</b>					
Contracted Sales (RMB mn)	100,400	131,517	175,252	204,934	196,947
GFA sold (mn sqm)	14.89	18.20	24.31	26.95	23.65
ASP (RMB/sqm)	6,741	7,227	7,209	7,604	8,327
Booked Sales (RMB mn)	92,235	107,450	166,388	195,456	193,566
GFA delivered (mn sqm)	14.96	18.10	23.23	25.96	23.72
Booked ASP (RMB/sqm)	6,166	5,935	7,164	7,529	8,162

Source: Company, ABCI Securities estimates



**Consolidated balance sheet (2013A-2017E)**

<b>As of Dec 31 (RMB mn)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>
<b>Current assets</b>	<b>289,378</b>	<b>383,650</b>	<b>388,337</b>	<b>391,636</b>	<b>395,323</b>
Cash	40,118	29,847	59,715	85,072	121,812
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	232,244	210,186	177,133
Other current assets	41,381	61,649	50,699	50,699	50,699
<b>Non-current assets</b>	<b>58,770</b>	<b>90,812</b>	<b>99,808</b>	<b>98,503</b>	<b>97,060</b>
Property, plant & equipment	11,378	15,504	14,254	12,879	11,367
Investment properties	36,039	61,857	72,103	72,173	72,243
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
<b>Total Assets</b>	<b>348,148</b>	<b>474,462</b>	<b>488,145</b>	<b>490,139</b>	<b>492,383</b>
<b>Current Liabilities</b>	<b>188,198</b>	<b>268,237</b>	<b>278,875</b>	<b>284,360</b>	<b>287,515</b>
Short term borrowings	35,796	79,663	79,663	79,663	79,663
Trade & other payables	99,895	123,673	129,820	128,796	127,771
Pre-sales deposits	39,000	47,348	51,838	58,348	62,528
Other current assets	13,506	17,553	17,553	17,553	17,553
<b>Non-current liabilities</b>	<b>80,608</b>	<b>93,847</b>	<b>93,847</b>	<b>93,847</b>	<b>93,847</b>
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
<b>Total Liabilities</b>	<b>268,806</b>	<b>362,084</b>	<b>372,722</b>	<b>378,207</b>	<b>381,362</b>
<b>Net Assets</b>	<b>79,343</b>	<b>112,378</b>	<b>115,423</b>	<b>111,932</b>	<b>111,021</b>
<b>Shareholders' Equity</b>	<b>73,614</b>	<b>103,972</b>	<b>107,348</b>	<b>104,170</b>	<b>103,571</b>
Minority Interest	5,729	8,406	8,075	7,762	7,449
<b>Total Equity</b>	<b>79,343</b>	<b>112,378</b>	<b>115,423</b>	<b>111,932</b>	<b>111,021</b>
<b>Key ratio</b>					
Gross debt (RMB mn)	108,817	156,065	156,065	156,065	156,065
Net debt (RMB mn)	55,164	96,566	66,698	41,341	4,601
Net gearing (%)	70%	86%	58%	37%	4%
Contracted sales/ Total assets (x)	0.29	0.28	0.36	0.42	0.40

Source(s): Company, ABCI Securities estimates



**Consolidated cash flow statement (2012A-2016E)**

<b>FY ended Dec 31 (RMB mn)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>
EBITDA	19,214	18,332	31,641	41,393	50,102
Change in Working Capital	(44,409)	(52,024)	38,232	39,453	46,666
Tax payment	(5,850)	(13,178)	(15,728)	(20,875)	(25,576)
<b>Operating Cash flow</b>	<b>(31,045)</b>	<b>(46,871)</b>	<b>54,144</b>	<b>59,972</b>	<b>71,193</b>
Addition of PP&E and IP	(11,782)	(1,532)	(10,246)	(70)	(70)
Others	(1,353)	(1,869)	12,015	1,185	1,280
<b>Investing Cash flow</b>	<b>(13,134)</b>	<b>(3,402)</b>	<b>1,769</b>	<b>1,115</b>	<b>1,210</b>
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)	(14,358)	(12,797)	(11,237)
Equity raised	3,526	0	(658)	0	0
Dividend to shareholders	(2,292)	(6,339)	(4,033)	(6,822)	(9,402)
Perpetual securities raised	24,367	13,241	(6,946)	(16,060)	(14,975)
Others	(174)	(50)	(50)	(50)	(50)
<b>Financing Cash flow</b>	<b>66,506</b>	<b>40,001</b>	<b>(26,045)</b>	<b>(35,730)</b>	<b>(35,663)</b>
<b>Net cash inflow/ (outflow)</b>	<b>22,327</b>	<b>(10,272)</b>	<b>29,868</b>	<b>25,357</b>	<b>36,740</b>
Cash- beginning	17,789	40,118	29,847	59,715	85,072
<b>Cash- Year end</b>	<b>40,116</b>	<b>29,847</b>	<b>59,715</b>	<b>85,072</b>	<b>121,812</b>

Source(s): Company, ABCI Securities estimates





November 20, 2015  
Company Report  
Rating: BUY  
TP: HK\$ 4.70

Share price (HK\$) 3.26  
Est. share price return 44.2%  
Est. dividend yield 4.0%  
Est. total return 48.2%

Previous Rating & TP HK\$4.60, BUY  
Previous Report Date Aug 31, 2015

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

**Key Data**

52Wk H/L(HK\$)	3.70/2.30
Issued shares (mn)	5,000
Market cap (HK\$ mn)	16,150
3-mth avg daily turnover (HK\$ mn)	5.13
Major shareholder(s) (%):	
Mr. Ji Haipeng	85.26

Source(s): Company, Bloomberg, ABCI Securities

**FY14 Revenue breakdown (%)**

Property development	97.7
Construction	1.8
Property investment	0.4

Source(s): Company, ABCI Securities

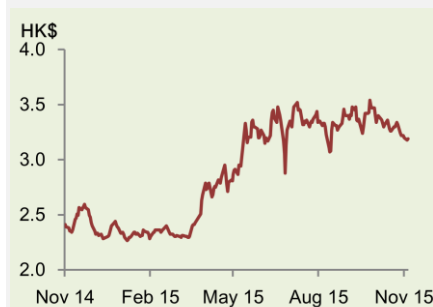
**Share performance (%)**

	Absolute	Relative*
1-mth	(4.2)	(0.5)
3-mth	(2.1)	0.2
6-mth	9.4	35.8

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

**1-Year stock performance (HK\$)**



Source(s): Bloomberg, ABCI Securities

Logan (3380 HK)  
BUY on growing portfolio in Shenzhen

- 10M15 presales rose 51.5%YoY to RMB16.02bn
- Acquired a premium site with GFA of 0.808mn sqm near Hongshan Metro station at RMB11.25bn, or RMB13,920/sqm
- Shenzhen should account for 75% of total GAV, after this significant acquisition
- Maintain BUY with revised TP of HK\$4.70 (from HK\$4.60), still based on a 50% discount to NAV

**10M15 presales jumped 51.5% YoY to RMB 16.02bn; newly launched Shenzhen Acesite Mansion project achieved ASP of RMB55,000/sqm.**

Logan's presales jumped 37.5% YoY to RMB2.77bn in Oct. ASP reached RMB 12,533/sqm in Sep, 86% higher than RMB 6,755/sqm in 1H15. Moving into 4Q15, we expect solid recovery in presales and ASP on the launch of Shenzhen Acesite Mansion (九龍堡). According to NBS, Shenzhen's new home price surged 38.7% during Jan-Oct 2015, much faster than 13.8%/8.6%/7.6% in Shanghai/ Beijing/ Guangzhou. We expect Logan to attain its RMB 18bn presales target given the city's undersupply situation.

**Premium site next to Hongshan metro station in Shenzhen.**

In Sep 2015, Logan acquired a site with a GFA of 0.808mn sqm next to the Hongshan metro station for RMB 11.25bn, or RMB 13,920/sqm. The site will be developed into apartments, office and ancillary facilities for commercial use. The project will be one train stop away from the Shenzhen North Railway Station, 15 min away from Futian's CBD, and 28mins from West Kowloon Station in Hong Kong upon the completion of the Guangzhou-Shenzhen-Hong Kong High Speed Rail Link. Given the high land premium, we believe Logan will align with a JV partner. We currently assume Logan to hold a 51% stake in the project, and net gearing should stay at a healthy level of 80% by end-2015.

**Maintain BUY with revised TP of HK\$4.70.**

We factor in the recent land acquisition and raise our 2016E NAV estimate to HK\$ 9.32/share (from HK\$9.19). We raise our TP to HK\$ 4.70 (from HK\$ 4.60), still based on 50% discount to NAV. Following the acquisition of the Hongshan site, projects in Shenzhen (property development and investment properties) now account for 75% of total GAV. Rising property market in Shenzhen is set to benefit the Group. Maintain BUY.

**Results and Valuation**

FY ended Dec 31	2013A	2014A	2015E	2016E	2017E
Revenue (RMB mn)	11,119	12,498	14,465	16,257	19,259
Chg (% YoY)	68.8	12.4	15.7	12.4	18.5
Underlying Net Income (RMB mn) <sup>1</sup>	2,045	1,760	2,070	2,263	2,787
Chg (% YoY)	75.3	(13.9)	17.6	9.3	23.2
Underlying EPS (RMB)	0.41	0.35	0.41	0.45	0.56
Chg (% YoY)	49.0	(13.9)	17.6	9.3	23.2
BVPS (RMB)	1.5	2.2	2.5	2.8	3.2
Chg (% YoY)	52.3	52.8	12.7	12.0	12.6
Underlying PE (x)	6.6	7.6	6.5	5.9	4.8
P/B (x)	1.8	1.2	1.1	0.9	0.8
ROE (%)	27.9	15.7	16.4	16.0	17.5
ROA (%)	7.4	3.9	3.7	3.2	2.8
DPS(HK\$)	0.11	0.11	0.13	0.15	0.20
Yield (%)	3.37	3.37	3.99	4.60	6.13
Net gearing <sup>2</sup> (%)	60.9	65.7	88.2	70.9	Net cash

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

<sup>2</sup>Net gearing=Net debt/Total equity

Source(s): Bloomberg, ABCI Securities estimates



**Exhibit 29: Logan's 2016E NAV estimate**

	Attr. GFA (mn sqm)	Net assets value (RMB mn)	% of total	Valuation Methodology	Implied value per sqm (RMB)
<b>Property development</b>					
Shenzhen	0.7	26,288	61%		39,118
Huizhou	4.1	4,069	9%	DCF with WACC of 7.2%	986
Shantou	1.4	718	2%		503
Foshan	1.0	926	2%		929
Others	6.5	11,006	26%		1,698
<b>Subtotal</b>	<b>13.7</b>	<b>43,008</b>	<b>86%</b>		<b>3,138</b>
Investment Properties		7,027	14%	1.5x Book value	
<b>Total 2016E GAV</b>		<b>50,035</b>	<b>100%</b>		
2016E Net debt		(11,854)	-24%		
<b>Total 2016E NAV</b>		<b>38,180</b>	<b>76%</b>		
No. of share outstanding (diluted)		5,000			
<b>NAV per share (RMB)</b>		<b>7.64</b>			
Ex rate		1.22			
<b>NAV per share (HKD)</b>		<b>9.32</b>			
Target discount (%)		50%			
<b>Target Price (HKD)</b>		<b>4.70</b>			
<b>WACC</b>	<b>7.2%</b>				
Cost of debt	6.5%				
Cost of Equity	10.0%				
<b>Debt/ (Debt + Equity)</b>	<b>55%</b>				

Source(s): Company, ABCI Securities estimates



**Consolidated income statement (2013A-2017E)**

<b>FY Ended Dec 31 (RMB mn)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>
<b>Revenue</b>	<b>11,119</b>	<b>12,498</b>	<b>14,465</b>	<b>16,257</b>	<b>19,259</b>
Cost of sales	(7,004)	(8,694)	(9,444)	(9,917)	(10,820)
<b>Gross Profit</b>	<b>4,116</b>	<b>3,804</b>	<b>5,021</b>	<b>6,340</b>	<b>8,439</b>
SG&A expenses	(729)	(940)	(1,202)	(1,691)	(2,357)
<b>EBIT</b>	<b>3,387</b>	<b>2,864</b>	<b>3,819</b>	<b>4,648</b>	<b>6,082</b>
Finance cost	(103)	(94)	(117)	(103)	(109)
Share of profit of associates	0	0	0	0	0
Other income/ (expenses)	28	85	60	60	205
Fair value gain of investment properties	0	0	0	0	0
Disposal/one-off items	(3)	862	0	0	0
<b>Profit before tax</b>	<b>3,309</b>	<b>3,718</b>	<b>3,763</b>	<b>4,605</b>	<b>6,178</b>
Tax	(1,252)	(1,297)	(1,534)	(1,931)	(2,648)
<b>Profit after tax</b>	<b>2,056</b>	<b>2,421</b>	<b>2,229</b>	<b>2,674</b>	<b>3,530</b>
Minority interest	(32)	(73)	(159)	(411)	(743)
<b>Reported net profit</b>	<b>2,024</b>	<b>2,348</b>	<b>2,070</b>	<b>2,263</b>	<b>2,787</b>
Less: exceptional items	21	(588)	0	0	0
<b>Underlying net profit</b>	<b>2,045</b>	<b>1,760</b>	<b>2,070</b>	<b>2,263</b>	<b>2,787</b>
<b>Per share</b>					
Underlying EPS (RMB)	0.41	0.35	0.41	0.45	0.56
DPS (RMB)	0.11	0.11	0.13	0.15	0.20
Payout ratio (%)	27%	31%	31%	33%	36%
BVPS (RMB)	1.47	2.24	2.53	2.83	3.19
<b>Growth %</b>					
Revenue	68.8%	12.4%	15.7%	12.4%	18.5%
Gross Profit	60.8%	-7.6%	32.0%	26.3%	33.1%
EBIT	63.3%	-15.4%	33.3%	21.7%	30.8%
Underlying net profit	75.3%	-13.9%	17.6%	9.3%	23.2%
<b>Margin %</b>					
Gross margin	37.0%	30.4%	34.7%	39.0%	43.8%
Gross margin (post-LAT)	34.2%	27.5%	29.9%	33.3%	36.9%
EBIT margin	30.5%	22.9%	26.4%	28.6%	31.6%
Core net margin	18.5%	14.2%	15.4%	16.4%	18.3%
<b>Key assumptions</b>					
Contracted Sales (RMBm)	13,208	13,350	17,751	27,351	45,115
GFA sold (m sqm)	1.64	1.82	2.03	2.55	3.15
ASP (RMB/sqm)	8,043	7,347	8,752	10,741	14,315
Booked Sales (RMB)	10,385	12,215	14,161	15,931	18,908
GFA delivered (m sqm)	1.24	1.74	1.78	1.71	1.64
Booked ASP (RMB/sqm)	8,376	7,022	7,939	9,327	11,508

Source: Company, ABCI Securities estimates



**Consolidated balance sheet (2013A-2017E)**

<b>As of Dec 31 (RMB mn)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>
<b>Current assets</b>	<b>23,624</b>	<b>39,226</b>	<b>50,076</b>	<b>64,270</b>	<b>93,857</b>
Cash	3,827	5,576	3,228	5,473	33,667
Restricted cash	678	1,938	1,938	1,938	1,938
Trade & other receivables	1,316	2,502	2,502	2,502	2,502
Property under development	17,686	27,875	41,074	53,023	54,416
Other current assets	117	1,334	1,334	1,334	1,334
<b>Non-current assets</b>	<b>4,187</b>	<b>5,610</b>	<b>5,710</b>	<b>5,811</b>	<b>5,911</b>
Property, plant & equipment	97	122	123	123	124
Investment properties	3,793	4,685	4,785	4,885	4,985
Investment in Associate and JCE	0	0	0	0	0
Other non-current assets	297	803	803	803	803
<b>Total Assets</b>	<b>27,812</b>	<b>44,836</b>	<b>55,786</b>	<b>70,081</b>	<b>99,769</b>
<b>Current Liabilities</b>	<b>13,635</b>	<b>17,827</b>	<b>27,250</b>	<b>39,670</b>	<b>66,877</b>
Short term borrowings	2,754	3,824	5,824	6,824	7,824
Trade & other payables	3,382	3,486	3,486	3,486	3,486
Pre-sales deposits	6,347	8,356	15,779	27,199	53,406
Other current assets	1,152	2,160	2,160	2,160	2,160
<b>Non-current liabilities</b>	<b>6,827</b>	<b>13,691</b>	<b>13,691</b>	<b>13,691</b>	<b>13,691</b>
Long term borrowings	6,228	12,441	12,441	12,441	12,441
Other payables	0	0	0	0	0
Other non-current assets	599	1,251	1,251	1,251	1,251
<b>Total Liabilities</b>	<b>20,462</b>	<b>31,519</b>	<b>40,941</b>	<b>53,361</b>	<b>80,568</b>
<b>Net Assets</b>	<b>7,350</b>	<b>13,317</b>	<b>14,846</b>	<b>16,720</b>	<b>19,200</b>
<b>Shareholders Equity</b>	<b>7,336</b>	<b>11,210</b>	<b>12,629</b>	<b>14,142</b>	<b>15,929</b>
Minority Interest	14	2,107	2,216	2,578	3,271
<b>Total Equity</b>	<b>7,350</b>	<b>13,317</b>	<b>14,846</b>	<b>16,720</b>	<b>19,200</b>
<b>Key ratio</b>					
Gross debt (RMBm)	8,983	16,265	18,265	19,265	20,265
Net debt (RMBm)	4,477	8,751	13,099	11,854	(15,340)
Net gearing (%)	61%	66%	88%	71%	-80%
Contracted sales/ Total assets (x)	0.47	0.30	0.32	0.39	0.45

Source(s): Company, ABCI Securities estimates



**Consolidated cash flow statement (2013A-2017E)**

<b>FY ended Dec 31 (RMB mn)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>
EBITDA	3,403	2,884	3,838	4,668	6,101
Change in Working Capital	(3,053)	(9,806)	(4,512)	588	25,990
Tax payment	(1,252)	(1,297)	(1,534)	(1,931)	(2,648)
<b>Operating Cashflow</b>	<b>(902)</b>	<b>(8,220)</b>	<b>(2,207)</b>	<b>3,325</b>	<b>29,444</b>
Purchase of PP&E	(20)	(20)	(20)	(20)	(20)
Addition of Investment Properties	(100)	(100)	(100)	(100)	(100)
Others	28	85	60	60	205
<b>Investing Cashflow</b>	<b>(92)</b>	<b>(35)</b>	<b>(60)</b>	<b>(60)</b>	<b>85</b>
Debt raised	3,615	11,613	2,000	5,000	5,000
Debt repaid	(841)	0	0	(4,000)	(4,000)
Interest expenses	(1,107)	(1,010)	(1,381)	(1,220)	(1,285)
Equity raised	(92)	(35)	(60)	(60)	85
Dividend to shareholders	(550)	(550)	(650)	(750)	(1,000)
Others	1,260	(15)	10	10	(135)
<b>Financing Cashflow</b>	<b>2,285</b>	<b>10,003</b>	<b>(81)</b>	<b>(1,020)</b>	<b>(1,335)</b>
<b>Net cash inflow/ (outflow)</b>	<b>1,291</b>	<b>1,749</b>	<b>(2,348)</b>	<b>2,245</b>	<b>28,194</b>
Cash- beginning	2,537	3,827	5,576	3,228	5,473
<b>Cash- year-end</b>	<b>3,827</b>	<b>5,576</b>	<b>3,228</b>	<b>5,473</b>	<b>33,667</b>

Source(s): Company, ABCI Securities estimates

## Disclosures

### Analyst Certification

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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 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.

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