



Evergrande (3333 HK) Fully committed to deleveraging

- We expect adjusted net gearing to drop from 432% in 2016 to 175% in 2017E after the receipt of A share pre-IPO proceeds of RMB 70bn
- 1H17 presales soared 72%YoY to RMB 244bn; Evergrande's attributable presales of RMB 229bn in 1H17 was ranked 1st in China
- Full redemption of PCI would generate a cost saving as high as RMB 6.4bn for 2017E
- Maintain **BUY** and raise TP to HK\$ 18.20 (from HK\$ 7.80) based on a 30% discount to 2017E NAV

A-share pre-IPO proceeds - a strong boost to the balance sheet. In June 2017, Evergrande raised RMB39.5bn in the A-share pre-IPO fundraising of its spinoff, Hengda Real Estate (HRE). There are 13 investors, including SOE such as Shenzhen Investment (604 HK) that subscribes a 15.86% stake (post-issuance) in HRE. Together with the first-round fundraising, a total of RMB 70bn was raised for HRE. Evergrande's stake in HRE will be diluted to 73.88%. Besides, under the revised agreements, Evergrande's commitment to repurchase HRE (if listing does not occur by 2020) can be transferred to Chairman Mr. Hui. The pre-IPO fund raised can be treated as pure equity after this revision. We expect adjusted net gearing (perpetual as debt) will fall significantly from 432% in Dec 2016 to 175% in Dec 2017.

Impressive presales performance. In 1H17, Evergrande's presales soared 72% YoY to RMB 244bn while GFA and ASP rose 49% YoY and 16% YoY. Evergrande completed 54% of its RMB 450bn sales target. According to CRIC, Evergrande was ranked 3rd in total presales and 1st in attributable presale (RMB 229bn) as of June 2017 among developers in China. We expect Evergrande's presales to reach RMB 510bn in FY17E, beating its target by 13%

Earnings set to turn around in 2017 upon full redemption of PCI. Living up to its promise, Evergrande completed the full redemption of its RMB 113bn perpetual capital instrument (PCI) as of June 2017. The redemption occurred earlier than we had expected, thanks to the strong presales and pre-IPO proceeds. We estimate Evergrande would recognize ~RMB4.2bn of PCI's distribution in 1H17 and none in 2H17. This implies a cost saving as high as RMB 6.4bn for 2017E, compared to the RMB 10.6bn distribution in FY16. The market has previously viewed the PCI issuance in a negative light, mostly because it entails a higher coupon rate (~11.5% based on our estimate) and cannot be capitalized. We believe the full redemption would result to a noticeable increase in Evergrande's profitability.

Successful bond issuance reflected growing confidence of investors. In June 2017, Evergrande successfully issued US\$ 3.8bn of offshore senior note at a coupon rate of 6.25%- 8.75% and a maturity at 2021-25. The coupon rate is ~75bps lower than its notes issued in Mar despite the average maturity is 1 year longer in the latest batch. The lower coupon rate reflects growing confidence of bond investors toward the Group, which we believe is attributable to Evergrande's proactive capital restructuring through pre-IPO fundraising and repayment of high-cost PCI.

Results and Valuation

FY ended Dec 31	2015A	2016A	2017E	2018E	2019E
Revenue (RMB mn)	133,130	211,444	354,791	417,434	441,268
Chg (% YoY)	19.5	58.8	67.8	17.7	5.7
Core net profit (RMB mn)	1,992	3,045	19,196	24,412	29,208
Chg (% YoY)	(42.6)	52.9	530.5	27.2	19.6
Core EPS (RMB)	0.14	0.21	1.42	1.80	2.15
Chg (% YoY)	(41.3)	52.9	570.1	27.2	19.6
BVPS (RMB)	3.5	3.1	3.1	4.0	5.1
Chg (% YoY)	2.1	(13.3)	1.3	28.9	26.9
Core PE (x)	96.7	63.2	9.4	7.4	6.2
P/B (x)	3.8	4.4	4.3	3.3	2.6
ROE (%)	1.6	1.9	45.5	44.9	42.3
ROA (%)	0.3	0.2	1.3	1.5	1.7
DPS(RMB)	0.38	-	0.71	0.90	1.08
Yield (%)	2.8	-	5.3	6.7	8.1
Net gearing (%)	93.5	119.8	174.8	4.2	Net cash

Source(s): Bloomberg, ABCI Securities estimates

Company Report

July 13, 2017

Rating: **BUY**

TP: **HK\$ 18.20**

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Share price (HK\$)	15.36
Est. share price return	18.5%
Est. dividend yield	5.3%
Est. total return	23.8%
Previous Rating & TP	BUY, HK\$7.80
Previous Report Date	Mar 29, 2017

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	17.66/4.73
Issued shares (mn)	13,694
Market cap (HK\$ mn)	201,119
3-mth avg daily turnover(HK\$ mn)	994.93
Major shareholder(s) (%)	
HUI Ka Yan	70.1%

Source(s): Bloomberg, ABCI Securities

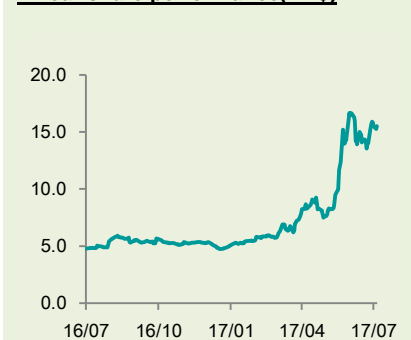
Share Performance

	Absolute	Relative*
1-mth	(5.7)	(6.9)
3-mth	85.5	72.8
6-mth	194.3	159.1

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year share performance(HK\$)



Source(s): Bloomberg, ABCI Securities

Disposal of Vanke's stake to raise RMB 29.2bn. On June 9, 2017, Evergrande disposed 1.55bn of Vanke's A-share (000002 CH) at RMB 29.2bn, or RMB 18.80/share, representing a 10% discount to the last close price. The purchaser, Shenzhen Metro, will increase its stake in Vanke from 15.31% to 29.38% and become the largest shareholder in Vanke after the transaction. The Group acquired Vanke at ~ RMB 36.27bn; thus, a disposal loss of RMB7.07bn will be recognized in P&L.

Maintain BUY and raise TP to HK\$ 18.20. With the Group's better-than-expected presales performance, full redemption of PCI, and reduced finance cost, we raise our 2017E/2018E core profit (excluding one-off disposal loss in Vanke) forecasts by 121%/36%. Our 2017E NAV estimate increases to HK\$ 25.99/share (from HK\$ 19.44). Applying a lower discount to NAV of 30% (from 60%) due to the improved capital structure, we derive a TP of HK\$ 18.20 (from HK\$ 7.80). Maintain **BUY**.

Risk factors: 1) The amount of charity and public donations by the Group may vary greatly from one year to another (FY16: RMB 1,608mn, +546% YoY); 2) Financial division may remain in loss.

Exhibit 1: List of HRE's pre-IPO investors

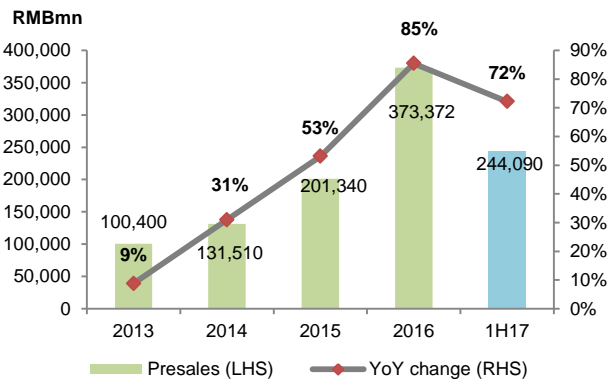
Company	Amount RMBbn	% of enlarged	Background
First round			
1 CITIC Juheng	5.0	2.19%	engaged in investment in industrial enterprises
2 Guangtian	5.0	2.19%	engaged in the assets management
3 Huajian	5.0	2.19%	engage in investment in industrial enterprises
4 Zhongrong	3.0	1.32%	engage in investment in industrial enterprises
5 Shandong Highway	3.0	1.32%	engage in assets management
6 Ruican Investment	3.0	1.32%	engage in the venture capital
7 Meitou	3.0	1.32%	engage in venture capital
8 Guangdong Weimei	3.0	1.32%	engage in industrial investment
1st round total	30.0	13.17%	
Second round			
1 Maanshan Maowen	5.5	2.05%	Subsidiary of SZI (604 HK)
2 Shenzhen Baoxin	5.0	1.87%	Controlled by controlling shareholder of Baoying Group (002047 SZ)
3 Jiangxi Huada Property	5.0	1.87%	engaged in property development
4 Shenzhen Qixiang	5.0	1.87%	engaged in investment of industrial enterprises
5 Shenzhen Jiancheng	3.5	1.31%	engaged in establishment of industrial enterprises
6 Suzhou Industrial Park Ruican	3.5	2.43%	engaged in venture capital business
7 Ningbo Minyin Jintou	3.0	1.12%	engaged in investment management
8 Jiaxing Yumin	2.0	0.75%	engaged in investment management
9 Weifang Golden Orange	2.0	0.75%	engaged in industrial projects investment
10 Jiayu Vehicle Accessories	2.0	0.75%	engaged in trading of vehicles
11 Shenzhen Zhongyi	1.0	0.37%	engaged in investment in industrial enterprises
12 Shanghai Haoren Property Management	1.0	0.37%	engaged in property management
13 Qingdao Yonghe Jinfeng	1.0	0.37%	engaged in investments in manufacturing industry
2nd round total	39.5	15.86%	

Source(s): Company, ABCI Securities

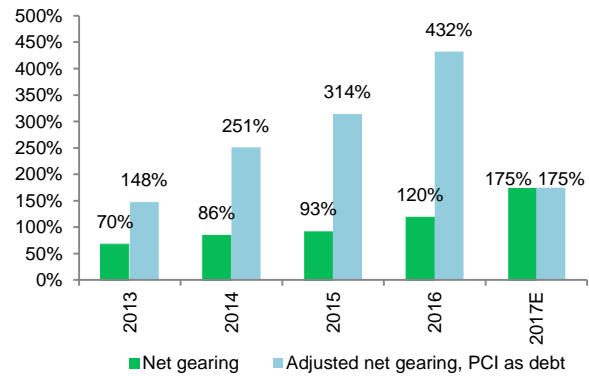
Exhibit 2: Performance undertaking of the investment agreement after revision

- Net profit of Hengda Real Estate for 2017, 2018 and 2019 shall not be less than RMB24.3 bn, RMB30.8 bn and RMB33.7 bn, respectively
- Hengda Real Estate will distribute at least 68% of its net profit
- If the proposed reorganization is not completed by Jan 31, 2020, Evergrande can request Mr. Hui Ka Yan to repurchase the shares from investors

Source(s): Company, ABCI Securities

Exhibit 3: Evergrande's presales (2013-1H17)


Source(s): Company, ABCI Securities

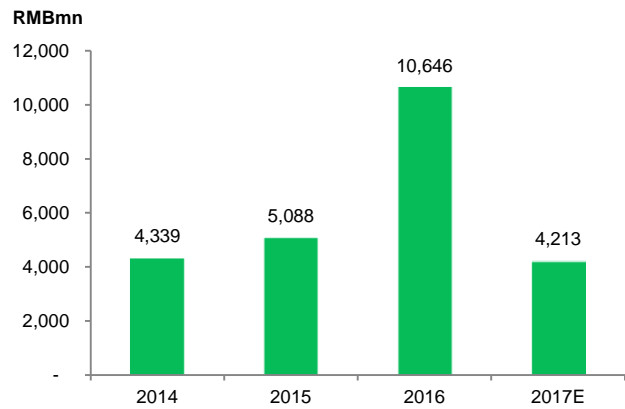
Exhibit 4: Evergrande's net gearing


Source(s): Company, ABCI Securities estimates

Exhibit 5: Evergrande's USD bond issuances

Issuance date	Maturity	Coupon %	Amount USDmn
Jun-17	2021	6.25%	500
	2023	7.50%	1,000
	2025	8.75%	2,300
Mar-17	2020	7.00%	500
	2022	8.25%	1,000
	2024	9.50%	1,000
Jan-16	2019	8.00%	700
Feb-15	2020	12.00%	1,000

Source(s): Company, ABCI Securities

Exhibit 6: Evergrande's PCI distribution


Source(s): Company, ABCI Securities estimates



Exhibit 7: Evergrande's 2017E NAV

	Attr. GFA (mn sqm)	Net assets value (RMB mn)	% of total	Valuation Methodology	Implied value (RMB/sqm)
Henda Real Estates (73.88% stake)	257	402,600	74%	DCF at WACC of 10.3%	1,567
Investment properties & others		132,115	24%	1x PB	
Football business		1,200	0%	50% stake sold to Jack Ma at RMB1.2bn	
Financial investment		5,871	1%	Market value of Shengjing Bank	
Total 2017E GAV		541,785	100%		
2017E Net debt		(235,309)	-43%		
Perpetual capital instrument		-	0%		
Total 2017E NAV		306,476	57%		
No. of share outstanding (diluted)		13,561			
NAV per share (RMB)		22.60			
Ex rate		1.15			
NAV per share (HKD)		25.99			
Target discount (%)		30%			
Target Price (HKD)		18.20			
WACC	10.3%				
Cost of Debt	8.2%				
Cost of Equity	20.0%				
Debt/ (Debt + Equity)	70%				

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2014A-2019E)

FY Ended Dec 31 (RMB mn)	2014A	2015A	2016A	2017E	2018E	2019E
Revenue	111,398	133,130	211,444	354,791	417,434	441,268
Cost of sales	(79,615)	(95,717)	(152,022)	(266,195)	(308,890)	(328,388)
Gross Profit	31,784	37,413	59,422	88,596	108,544	112,879
SG&A expenses	(14,588)	(20,541)	(28,244)	(37,662)	(38,152)	(38,783)
EBIT	17,195	16,872	31,178	50,933	70,391	74,096
Finance cost	(1,015)	(807)	(6,392)	(7,524)	(6,479)	(5,434)
Share of profit of associates	(104)	(392)	(203)	1,364	1,515	1,515
Other income/ (expenses)	1,431	2,262	4,937	5,357	6,662	9,288
Fair value gain of investment properties	9,393	12,859	356	0	0	0
Disposal/one-off items	4,292	651	6,986	(7,073)	0	0
Profit before tax	31,191	31,445	36,862	43,058	72,089	79,465
Tax	(13,175)	(14,105)	(19,245)	(24,790)	(37,203)	(39,483)
Profit after tax	18,016	17,340	17,617	18,268	34,886	39,982
Minority interest	(1,073)	(1,797)	(2,745)	(596)	(10,474)	(10,774)
Perpetual coupon distribution	(4,339)	(5,083)	(9,781)	(3,781)	0	0
Reported net profit	12,604	10,460	5,091	13,891	24,412	29,208
Less: exceptional items	(9,134)	(8,469)	(2,047)	5,305	0	0
Underlying net profit	3,470	1,992	3,045	19,196	24,412	29,208
Per share						
Underlying EPS (RMB)	0.24	0.14	0.21	1.42	1.80	2.15
DPS (RMB)	0.43	0.38	-	0.71	0.90	1.08
Payout ratio (%)	183%	275%	0%	50%	50%	50%
BVPS (RMB)	7.05	8.79	10.91	3.11	4.01	5.09
Growth %						
Revenue	18.9%	19.5%	58.8%	67.8%	17.7%	5.7%
Gross Profit	15.0%	17.7%	58.8%	49.1%	22.5%	4.0%
EBIT	-5.5%	-1.9%	84.8%	63.4%	38.2%	5.3%
Underlying net profit	-54.9%	-42.6%	52.9%	530.5%	27.2%	19.6%
Margin %						
Gross margin	28.5%	28.1%	28.1%	25.0%	26.0%	25.6%
Gross margin (post-LAT)	25.6%	26.1%	25.0%	21.4%	22.4%	22.4%
EBIT margin	15.4%	12.7%	14.7%	14.4%	16.9%	16.8%
Core net margin	7.1%	5.7%	5.8%	6.3%	8.0%	8.7%
Key assumptions						
Contracted Sales (RMB mn)	131,510	201,340	373,372	509,642	516,743	525,886
GFA sold (mn sqm)	18.20	25.51	44.69	60.98	61.88	64.38
ASP (RMB/sqm)	7,228	7,892	8,355	8,358	8,350	8,168
Booked Sales (RMB mn)	107,450	126,449	203,890	345,561	406,068	427,170
GFA delivered (mn sqm)	16.84	17.24	25.57	41.85	48.91	51.87
Booked ASP (RMB/sqm)	6,382	7,334	7,975	8,256	8,302	8,235

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2014A-2019E)

As of Dec 31 (RMB mn)	2014A	2015A	2016A	2017E	2018E	2019E
Current assets	383,650	612,344	1,113,635	1,311,604	1,444,292	1,567,756
Cash	29,847	103,090	198,420	193,852	422,493	644,737
Restricted cash	29,651	60,932	105,909	105,909	105,909	105,909
Trade & other receivables	16,027	21,708	76,434	76,434	76,434	76,434
Property under development	246,476	383,728	658,627	861,165	765,210	666,431
Other current assets	61,649	42,886	74,245	74,245	74,245	74,245
Non-current assets	90,812	144,691	237,233	200,440	200,034	199,588
Property, plant & equipment	15,504	16,720	20,833	19,199	17,565	15,931
Investment properties	61,857	97,146	132,045	132,115	132,185	132,255
Investment in Associate and JCE	1,062	8,580	24,374	25,418	26,576	27,694
Other non-current assets	12,389	22,245	59,981	23,708	23,708	23,708
Total Assets	474,462	757,035	1,350,868	1,512,044	1,644,325	1,767,344
Current Liabilities	268,237	456,681	733,394	952,456	1,062,107	1,159,798
Short-term borrowings	79,663	158,744	202,906	202,906	202,906	202,906
Trade & other payables	123,673	191,309	299,905	298,880	297,856	296,831
Pre-sales deposits	47,348	83,061	194,961	415,047	525,723	624,439
Other current liabilities	17,553	23,567	35,622	35,622	35,622	35,622
Non-current liabilities	93,847	158,212	424,942	424,942	424,942	424,942
Long-term borrowings	76,401	138,162	332,164	332,164	332,164	332,164
Other payables	0	0	0	0	0	0
Other non-current liabilities	17,446	20,050	92,778	92,778	92,778	92,778
Total Liabilities	362,084	614,893	1,158,336	1,377,398	1,487,049	1,584,740
Net Assets	112,378	142,142	192,532	134,647	157,277	182,604
Shareholders' Equity	51,120	60,613	53,847	42,185	54,391	68,995
Perpetual capital instrument	52,852	66,130	103,337	0	0	0
Minority Interest	8,406	15,399	35,348	92,462	102,886	113,609
Total Equity	112,378	142,142	192,532	134,647	157,277	182,604
Key ratio						
Gross debt (RMB mn)	156,065	296,906	535,070	535,070	535,070	535,070
Net debt (RMB mn)	96,566	132,884	230,741	235,309	6,668	(215,576)
Net gearing (%)	86%	93%	120%	175%	4%	-118%
Contracted sales/ Total assets (x)	0.28	0.27	0.28	0.34	0.31	0.30

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2014A-2019E)

FY ended Dec 31 (RMB mn)	2014A	2015A	2016A	2017E	2018E	2019E
EBITDA	18,332	18,326	32,812	52,567	72,025	75,730
Change in Working Capital	(52,024)	(25,704)	(169,385)	47,526	232,301	218,861
Tax payment	(13,175)	(14,105)	(19,245)	(24,790)	(37,203)	(39,483)
Operating cash flow	(46,868)	(21,483)	(155,818)	75,303	267,123	255,107
Purchase of PP&E	(1,532)	(10,246)	(70)	(70)	(70)	(70)
Others	(1,869)	12,905	(18,242)	34,877	7,019	9,684
Investing cash flow	(3,402)	2,659	(18,312)	34,807	6,949	9,614
Debt raised	52,794	115,470	317,887	5,000	5,000	5,000
Debt repaid	(5,000)	(641)	(5,000)	(5,000)	(5,000)	(5,000)
Interest expenses	(14,649)	(21,102)	(32,731)	(38,525)	(33,174)	(27,824)
Equity raised	0	(658)	0	(6,349)	0	0
Dividend to shareholders	(6,339)	(5,476)	0	(9,598)	(12,206)	(14,604)
Perpetual securities raised/(repaid)	13,241	(5,083)	(10,646)	(117,757)	0	0
Others	(50)	9,557	(50)	56,950	(50)	(50)
Financing cash flow	39,997	92,067	269,460	(114,678)	(45,430)	(42,478)
Net cash inflow/ (outflow)	(10,272)	73,243	95,330	(4,568)	228,642	222,244
Cash- beginning	40,118	29,847	103,090	198,420	193,852	422,493
Cash- year-end	29,847	103,090	198,420	193,852	422,493	644,737

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

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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