



Sunac (1918 HK)

Limited upside; downgrade to SELL

- FY16 core profit dropped 55% YoY to RMB 1,532mn on higher finance cost and lower profit from JV/associates.
- Net gearing jumped 44ppt YoY to 122% in Dec 2016, or up 132ppt YoY to 208% if perpetual is included as debt
- 2017 presales target of RMB 210bn implies a 39% YoY growth
- Downgrade to **SELL** with revised TP of HK\$ 9.70 (from HK\$ 9.50), based on a 60% discount to NAV

Disappointing FY16 results. Sunac's FY16 core profit (excluding gains on disposal and impairments) dropped 55% YoY to RMB 1,532mn, 26% lower than our forecast. The profit decline is mainly caused by 1) higher finance cost on higher debt balance (+170%YoY); 2) reduced contribution from JV and associates as projects were in early stage of development. Gross margin improved 1.3ppt YoY to 13.7% despite a 29% YoY jump in booked ASP to RMB16k/sqm, which may reflect the Group's high land cost driven by aggressive expansion. After the HK\$ 2.8bn new share placement at HK\$6.18/share to Chairman in Sep 2016, net gearing still jumped 46ppt YoY to 122% in Dec 2016, or up 132ppt YoY to 208% if perpetual was considered as debt. The sharp rise in gearing is mainly caused by a landbank that increased by 168%YoY to 72.9mn sqm (or 49.7mn sqm on attributable basis) as at Dec 2016. Management commented net gearing is likely to decline in 2017 as presales rise while land acquisition slows. With the tightening corporate bond issuance onshore and rising interest rate offshore, we believe another round of new share placement is likely.

Expect saleable resources to reach RMB 410bn in FY17. In FY16, Sunac's presales rose 121% YoY to RMB 151bn. Based on an estimated saleable resources of RMB 410bn (of which RMB180bn are new projects) and a sell-through rate of 51%, Sunac targets to achieve RMB 210bn in presales for FY17, implying a 39%YoY growth. Based on a landbank of 72.9mn sqm, the Group estimates total saleable resources to be RMB 1,200bn, which will be sufficient for sales for the next few years. Regarding the RMB15bn investment in Leshi, the Group is expecting return in a 3-5 year horizon. Sunac has already appointed a director and three finance managers to oversee financial management.

Downgrade to SELL and raise TP to HK\$ 9.70. We factor in a higher-than-expected net debt balance and lower our 2017E NAV estimate to HK\$ 24.1/share (from HK\$ 27.2). However we raise our TP to HK\$ 9.70 (from HK\$ 9.50), based on a 60% discount to NAV (from 65%) since the sector's valuation has been rising in general. As Sunac's share price has rallied 62% YTD, we believe strong presales outlook has already been priced in while impact of potential policy on gearing may be underestimated. Downgrade to **SELL** from BUY.

Risk factors: 1) Further policy tightening in tier-1/2 cities; 2) Expensive land acquisition may erode margins; 3) Placement risk

Results and Valuation

FY ended Dec 31	2015A	2016A	2017E	2018E	2019E
Revenue (RMB mn)	23,011	35,343	99,308	156,028	184,437
Chg (% YoY)	(8.2)	53.6	181.0	57.1	18.2
Core net profit (RMB mn)	3,377	1,532	2,101	3,175	3,587
Chg (% YoY)	(9.4)	(54.6)	37.1	51.1	13.0
Core EPS (RMB)	1.02	0.40	0.54	0.82	0.93
Chg (% YoY)	(9.4)	(61.0)	37.1	51.1	13.0
BVPS (RMB)	5.73	6.03	6.36	6.85	7.41
Chg (% YoY)	16.2	5.2	5.4	7.8	8.1
Core PE (x)	8.9	22.9	16.7	11.1	9.8
P/B (x)	1.6	1.5	1.4	1.3	1.2
ROE (%)	17.8	4.6	6.0	8.6	9.2
ROA (%)	2.9	0.5	0.6	0.7	0.9
DPS(RMB)	0.19	0.26	0.22	0.33	0.37
Yield (%)	2.1	2.8	2.4	3.6	4.1
Net gearing (%)	75.9	121.5	194.5	Net cash	Net cash

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Mar 29, 2017

Rating: SELL

TP: HK\$ 9.70

Analyst : Kenneth Tung

Tel: (852) 2147 8311

kennethtung@abci.com.hk

Share price (HK\$)	10.2
Est. share price return	(4.9%)
Est. dividend yield	2.4%
Est. total return	(2.5%)
Previous Rating & TP	BUY, HK\$9.50
Previous Report Date	Jan 11, 2017

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	10.5/4.42
Issued shares (mn)	3,314
Market cap (HK\$ mn)	39,895
3-mth avg daily turnover(HK\$ mn)	158.35
Major shareholder(s) (%)	
SUN Hongbin	54.47%

Source(s): Bloomberg, ABCI Securities

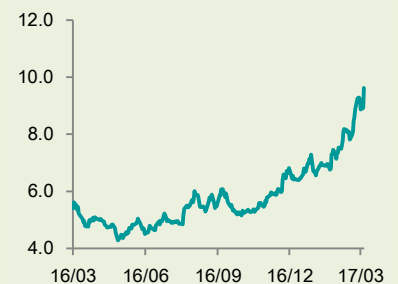
Share Performance

	Absolute	Relative*
1-mth	26.4	24.7
3-mth	61.8	44.9
6-mth	74.4	69.2

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year share performance(HK\$)



Source(s): Bloomberg, ABCI Securities



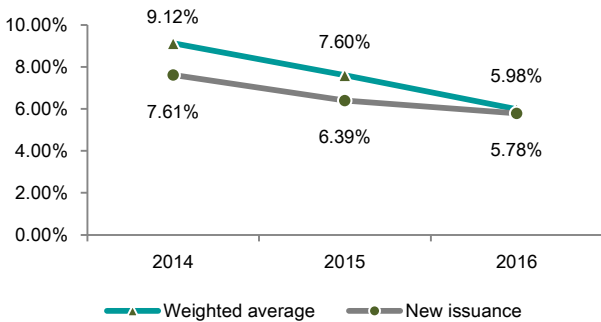
Exhibit 1: Sunac's FY16 results

P&L	FY16	FY15	YoY
	RMB mn	RMB mn	(%)
Turnover	35,343	23,011	53.6
Cost of Sales	(30,495)	(20,154)	51.3
Gross Profit	4,848	2,857	69.7
Gross Margin (%)	13.7	12.4	+1.3ppt
Selling and distribution costs	(916)	(661)	38.6
Administrative expense	(733)	(703)	4.3
EBIT	3,199	1,493	114.2
EBIT Margin (%)	9.1	6.5	+2.6ppt
Other income	1,584	1,353	17.1
Fair Value gains on IP and others	1,262	1,745	na
Share of profit from JCE/ Assoc.	836	1,693	(50.6)
Finance cost	(2,472)	(1,720)	43.7
Profit before tax	4,409	4,564	(3.4)
Tax	(1,470)	(955)	53.9
- LAT	(704)	354	(298.9)
- Enterprise tax	(767)	(1,290)	(40.6)
Profit after tax	2,938	3,608	(18.6)
Minority Interest	(460)	(311)	48.1
Net profit	2,478	3,298	(24.8)
Core net profit	1,532	3,377	(54.6)
Core net margin	4.3	14.7	-10.4ppt

Operating statistics	FY16	FY15	YoY
			%
Contracted GFA (mn sqm)	7.58	3.28	130.9
Contracted ASP (RMB/sqm)	19,867	20,777	(4.4)
Contracted Sales (RMB mn)	150,630	68,210	120.8
GFA Delivered (mn sqm)	2.16	1.81	19.4
Booked ASP (RMB/sqm)	16,006	12,430	28.8
Booked sales (RMB mn)	34,597	22,510	53.7
Balance sheet	Dec-16	Dec-15	YoY
	RMB mn	RMB mn	
Gross debt	112,844	41,799	170.0
Cash	69,813	27,058	158.0
Net debt	43,031	14,740	191.9
Net gearing (%)	121.5%	75.9%	+45.6ppt
Net gearing (%) - perpetual	208.2%	75.9%	+132.3ppt

Source(s): Company, ABCI Securities

Exhibit 2: Sunac's cost of debt



Source(s): Company, ABCI Securities

Exhibit 3: Sunac's landbank by region (Dec 2016)

	Total		Attributable	
	mn sqm	%	mn sqm	%
Beijing region (Beijing, Jinan, Qingdao, Taiyuan)	12.44	17%	8.44	17%
North China region (including Tianjin, Xian and Zhengzhou)	11.96	16%	7.49	15%
Shanghai region (including Shanghai, Suzhou, Nanjing and Wuxi)	10.98	15%	7.69	15%
Southwestern China Region (including Chongqing, Chengdu, Nanning and Kunming)	15.34	21%	10.70	22%
Southeastern China region (including Hangzhou, Hefei, Ningbo and Xiamen)	8.04	11%	4.95	10%
Guangzhou-Shenzhen region (including Shenzhen, Guangzhou, Foshan, Dongguan and Huizhou)	6.84	9%	5.15	10%
Central China region (including Wuhan, Changsha and Nanchang)	5.52	8%	4.35	9%
Hainan region (including Sanya, Wanning and Qionghai)	1.79	2%	0.95	2%
Total	72.91	100%	49.73	100%

Source(s): Company, ABCI Securities



Exhibit 4: Sunac's 2017E NAV

	Attr. GFA (mn sqm)	Net assets value (RMB mn)	% of total	Valuation Method	Implied value per sqm (RMB)
Property development					
Tianjin	6.0	9,256	5%		1,543
Beijing	2.5	3,521	2%		1,422
Chongqing	9.0	4,771	3%	DCF with WACC of 9.4%	531
Wuxi	3.2	2,781	2%		866
Shanghai	3.4	8,373	5%		2,475
Others	44.7	120,420	69%		2,692
Subtotal	68.8	149,123	85%		
Property investment & management		1,282	1%	6.5% cap rate on 2017E net rental & mgt fee	
Investment in Leshi		15,041	9%	Historical cost	
Investment in Homelink		2,800	2%	Historical cost	
Investment in Jinke Properties		6,976	4%	Market value	
Total 2017E GAV		175,222	100%		
2017E Net cash/ (debt)		(81,336)	-46%		
2017E Perpetual instrument		(10,609)	-6%		
Total 2017E NAV		83,277	48%		
No. of share outstanding (diluted)		3,857			
NAV per share (RMB)		21.6			
Ex rate		1.12			
NAV per share (HKD)		24.1			
Target discount (%)		60%			
Target Price (HKD)		9.70			
WACC					
Cost of debt		9.4%			
Cost of equity		5.8%			
Debt/ (Debt + Equity)		20.0%			
		68%			

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2014A-2019E)

FY Ended Dec 31 (RMB mn)	2014A	2015A	2016A	2017E	2018E	2019E
Revenue	25,072	23,011	35,343	99,308	156,028	184,437
Cost of sales	(20,197)	(20,154)	(30,495)	(82,362)	(134,009)	(164,442)
Gross Profit	4,875	2,857	4,848	16,946	22,019	19,994
SG&A expenses	(1,378)	(1,364)	(1,649)	(2,506)	(3,288)	(2,171)
EBIT	3,497	1,493	3,199	14,441	18,731	17,823
Finance cost	(1,267)	(1,720)	(2,472)	(3,691)	(3,131)	(1,851)
Share of profit of associates	2,181	1,693	836	1,433	892	385
Other income/ (expenses)	908	1,353	1,584	2,356	2,369	2,455
Fair value gain of investment properties	-	-	-	-	-	-
Disposal/one-off items	(417)	1,745	1,262	-	-	-
Profit before tax	4,902	4,564	4,409	14,538	18,861	18,813
Tax	(1,669)	(955)	(1,470)	(6,936)	(8,294)	(7,574)
Profit after tax	3,233	3,608	2,938	7,603	10,567	11,238
Minority interest	(11)	(311)	(157)	(4,547)	(6,437)	(6,696)
Perpetual coupon distribution	-	-	(303)	(955)	(955)	(955)
Reported net profit	3,222	3,298	2,478	2,101	3,175	3,587
Less: exceptional items	507	79	(946)	-	0	-
Underlying net profit	3,729	3,377	1,532	2,101	3,175	3,587
Per share						
Underlying EPS (RMB)	1.12	1.02	0.40	0.54	0.82	0.93
DPS (RMB)	0.19	0.19	0.26	0.22	0.33	0.37
Payout ratio (%)	17%	19%	65%	40%	40%	40%
BVPS (RMB)	4.93	5.73	6.03	6.36	6.85	7.41
Growth %						
Revenue	-18.7%	-8.2%	53.6%	181.0%	57.1%	18.2%
Gross Profit	-32.1%	-41.4%	69.7%	249.5%	29.9%	-9.2%
EBIT	-42.1%	-57.3%	114.2%	351.4%	29.7%	-4.8%
Underlying net profit	5.9%	-9.4%	-54.6%	37.1%	51.1%	13.0%
Margin %						
Gross margin	19.4%	12.4%	13.7%	17.1%	14.1%	10.8%
Gross margin (post-LAT)	16.3%	14.3%	12.0%	12.7%	11.1%	8.8%
EBIT margin	13.9%	6.5%	9.1%	14.5%	12.0%	9.7%
Core net margin	5.4%	2.6%	2.4%	5.3%	5.6%	5.4%
Key assumptions						
Contracted Sales (RMB mn)	65,800	68,210	150,630	221,777	287,620	179,786
GFA sold (mn sqm)	3.10	3.50	7.58	12.14	16.24	11.28
ASP (RMB/sqm)	21,246	19,477	19,867	18,276	17,708	15,932
Booked Sales (RMB mn)	24,719	22,511	34,611	98,539	155,221	183,589
GFA delivered (mn sqm)	1.65	1.85	2.16	5.26	8.62	10.67
Booked ASP (RMB/sqm)	15,009	12,148	16,013	18,732	18,010	17,204

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	97,467	93,725	252,698	314,996	379,240	353,790
Cash	20,657	22,687	52,086	18,781	58,666	61,949
Restricted cash	4,384	4,371	17,727	17,727	17,727	17,727
Trade & other receivables	2,475	970	8,416	8,416	8,416	8,416
Property under development	49,383	49,870	130,621	226,224	250,584	221,851
Other current assets	20,568	15,826	43,847	43,847	43,847	43,847
Non-current assets	14,895	21,784	40,485	60,428	60,899	61,267
Property, plant & equipment	62	69	547	539	531	523
Investment properties	239	-	656	656	656	656
Investment in Associate and JCE	12,049	15,261	34,553	54,504	54,982	55,359
Other non-current assets	2,546	6,455	4,730	4,730	4,730	4,730
Total Assets	112,362	115,509	293,183	375,424	440,138	415,058
Current Liabilities	64,949	64,495	168,594	244,425	300,847	266,968
Short-term borrowings	13,840	14,584	32,644	37,644	(2,356)	(42,356)
Trade & other payables	11,616	10,944	41,413	41,413	41,413	41,413
Pre-sales deposits	12,271	13,420	34,376	105,208	201,630	207,750
Other current liabilities	27,223	25,546	60,160	60,160	60,160	60,160
Non-current liabilities	26,431	31,594	89,178	89,178	89,178	89,178
Long-term borrowings	20,544	27,214	80,200	80,200	80,200	80,200
Other payables	-	-	-	-	-	-
Other non-current liabilities	5,887	4,379	8,978	8,978	8,978	8,978
Total Liabilities	91,380	96,089	257,772	333,603	390,025	356,146
Net Assets	20,983	19,420	35,411	41,821	50,113	58,912
Shareholders' Equity	16,353	19,005	23,269	24,530	26,435	28,588
Perpetual capital instrument	-	-	9,957	10,609	10,609	10,609
Minority Interest	4,630	415	2,185	6,682	13,069	19,715
Total Equity	20,983	19,420	35,411	41,821	50,113	58,912
Key ratio						
Gross debt (RMB mn)	34,384	41,799	112,844	117,844	77,844	37,844
Net debt (RMB mn)	9,342	14,740	43,031	81,336	1,451	(41,832)
Net gearing (%)	45%	76%	122%	194%	3%	-71%
Contracted sales/ Total assets (x)	59%	59%	51%	59%	65%	43%

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	3,522	1,521	3,227	14,468	18,759	17,851
Change in Working Capital	6,227	4,204	(43,290)	(19,235)	76,759	37,630
Tax payment	(1,669)	(955)	(1,470)	(6,936)	(8,294)	(7,574)
Operating cash flow	8,080	4,770	(41,534)	(11,702)	87,224	47,907
Purchase of PP&E	(20)	(20)	(20)	(20)	(20)	(20)
Addition of Investment Properties	-	-	-	-	-	-
Others	1,353	6,319	(1,847)	(16,162)	2,782	2,463
Investing cash flow	1,333	6,299	(1,867)	(16,182)	2,762	2,443
Debt raised	10,760	9,057	74,017	10,000	10,000	10,000
Debt repaid	(9,214)	(15,000)	(5,000)	(5,000)	(50,000)	(50,000)
Interest expenses	(3,036)	(2,948)	(4,479)	(9,228)	(7,828)	(4,628)
Equity raised	-	-	2,478	-	-	-
Dividend to shareholders	(630)	(643)	(991)	(840)	(1,270)	(1,435)
Others	(50)	495	6,775	(353)	(1,005)	(1,005)
Financing cash flow	(2,170)	(9,039)	72,800	(5,421)	(50,102)	(47,067)
Net cash inflow/ (outflow)	7,243	2,030	29,399	(33,305)	39,885	3,283
Cash- beginning	13,414	20,657	22,687	52,086	18,781	58,666
Cash- year-end	20,657	22,687	52,086	18,781	58,666	61,949

Source(s): Company, ABCI Securities estimates

Disclosures

Analyst Certification

I, Kenneth Tung, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates may pursue financial interests to the companies mentioned in the report.

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.

Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2017 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.

Tel: (852) 2868 2183