



November 22, 2013  
Company Report  
Rating: BUY  
TP: HK\$ 3.30

Share price (HK\$) 2.54  
Est. share price return 29.92%  
Est. dividend yield 3.90%  
Est. total return 33.82%

Previous Rating & TP BUY; HK\$ 2.90  
Previous Report Date Jul 25, 2013

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**Key Data**

52Wk H/L(HK\$) 3.02/2.19  
Issued shares (mn) 9,161  
Market cap 23,911  
3-mth avg daily turnover (HK\$ mn) 13.4  
Major shareholder(s) (%):  
Sinochem Group 62.90  
Source(s): Company, Bloomberg, ABCI Securities

**FY12 Revenue breakdown (%)**

Property Development 62.9  
Property Leasing 6.4  
Hotels 11.7  
Land Development 15.4  
Others 3.6  
Source(s): Company, ABCI Securities

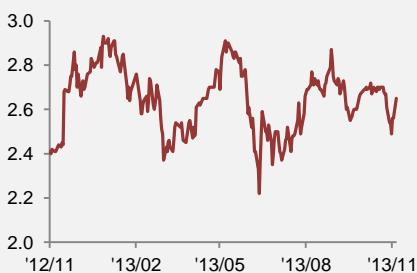
**Share performance (%)**

	Absolute	Relative*
1-mth	(3.0)	(4.3)
3-mth	(4.0)	(11.5)
6-mth	(8.7)	(9.9)

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

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



Source(s): Bloomberg, ABCI Securities

Franshion (817 HK)

Defensive and diversified; maintain BUY

- Franshion achieved RMB 6.1bn in land sales for 10M13 from the Meixi Lake primary land development project, beating its 2013 target of RMB 5bn. Further growth will be supported by recent acquisition of Meixi lake Phase 2 with a GFA of 12.7mn sqm
- Franshion's Nanjing International Centre will boost income in retail rental
- Raised earnings forecasts by 2.5%-5.7% for FY13-E15E on better-than-expected primary land sales.
- Maintain BUY with a revised TP of HK\$ 3.30 based on a 40% discount to our revised end-2014E NAV of HK\$ 5.57/share

**Scaling up primary land business.** Franshion has become an investor in Phase 2 of the Meixi Lake Project with a GFA of 12.7mn sqm. The land capex would be RMB17.4bn (70% of total investment cost), or RMB1,963/sqm (45% higher than Phase 1 that was acquired two years ago), and the amount will be paid in installments. We believe the acquisition will further strengthen Franshion's primary land development business. For 10M13, Franshion's primary land presale reached RMB 6.1bn, exceeding its original 2013 target of RMB 5bn by 22%.

**Ramping up its retail rental.** Being one of the most widely recognized office landlords in China, the Group also seeks to further expand its retail rental business. The Group acquired the Nanjing International Centre (NIC) in Feb 2013. The building will undergo major renovations that will increase its GFA by 100k sqm. The Group will also introduce a wide range of retailers as tenants. Before Franshion's acquisition, retail portion of NIC had an occupancy of 79% and a rent rate of RMB 2.6/sqm/day (vs. Franshion's Shanghai J-Life: RMB 14/sqm/day; Sanya J-Life: RMB 35/sqm/day). The estimated capex of such renovation will be ~RMB 300mn-400mn, but we expect the rent rate will increase by 53% to RMB 4.0/sqm/day once the renovation is completed by 2016, which implies a gross yield on cost of ~12%.

**Limited policy headwind, maintain BUY.** On the back of better-than-expected 10M13 presale, we raised our 2013E/14E/15E core profit estimates by 5.7%/5.6%/2.5%, respectively. We also roll over our NAV forecast to end-2014 and raise our TP by 13.7% to HK\$ 3.30 (from HK\$2.90 previously). Our TP is based on a 40% discount to end-2014 NAV (HK\$ 5.57/share), comparable to its trading at historical average discount of 38% since listing. Given the Group's significant exposure in commercial real estate, we believe it is less likely to be affected by the government's austerity measures on property sector. Maintain **BUY**.

**Risk factors:** 1) Potential dilution by CB; 2) Depletion of high-quality commercial landbank

**Results and Valuation**

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (HK\$ mn)	6,592	17,176	20,087	29,373	37,278
Chg (% YoY)	3.8	160.6	17.0	46.2	26.9
Core net profit (HK\$ mn)	1,455	2,154	3,004	3,923	5,441
Chg (% YoY)	45.9	48.0	39.4	30.6	38.7
Underlying EPS (HK\$)	0.16	0.23	0.31	0.39	0.53
Chg (% YoY)	53.2	39.6	34.4	27.7	35.9
BVPS (HK\$)	2.32	2.58	2.81	3.12	3.55
Chg (% YoY)	14.5	11.5	8.8	11.0	13.9
Underlying PE (x)	15.5	11.1	8.3	6.5	4.8
PB (x)	1.1	1.0	0.9	0.8	0.7
ROE (%)	6.7	8.9	11.4	13.4	16.4
ROA (%)	2.1	2.6	3.1	3.6	4.6
DPS (HK\$)	0.04	0.07	0.10	0.12	0.16
Dividend yield (%)	1.6	2.8	3.9	4.7	6.3
Net gearing (%)	48.2	51.3	68.9	34.9	(15.8)

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

Source(s): Bloomberg, ABCI Securities estimates

## Meixi Lake Phase 2: Hot land market to drive primary land development profit

Franshion has become an investor the Meixi Lake Project Phase 2 that has a GFA of 12.7mn sqm. The land capex would be RMB17.4bn (70% of total investment cost), or RMB 1,963/sqm (45% higher than Phase 1 that was acquired two years ago), and it will be paid in installments. Due to higher land cost, gross margin will be lower for Phase 2 at 13% based on the current ASP of RMB 3,200/sqm.

Back in 2011, when Franshion announced its one-off investment of RMB 12.8bn in Meixi Lake, investors were concerned about the sudden surge in gearing and the Group's limited experience in primary land development. We believe Franshion primary land business has been a successful one, generating RMB 3bn-5bn in sales in 2011 and 2012. Furthermore, the payment for Phase 2 will be made in installments, easing the concerns of gearing surge.

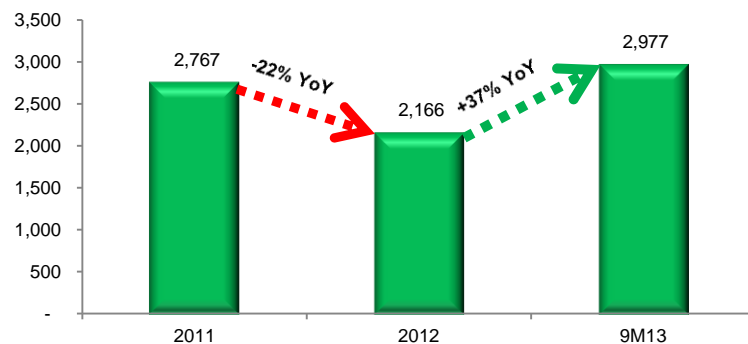
In fact, land price of Meixi Lake Phase 1 rebounded 37%YoY to RMB 2,977/sqm for 9M13. Franshion will start acquiring Phase 2 as the reserves in Phase 1 depleted. We expect gross margin of Phase 2 to reach 17% in FY15E based on an estimated ASP of RMB3,400/sqm pricing.

Exhibit 1: Meixi Lake development comparison

	Stake	Total investment cost	GFA	Average land cost	Profit sharing to government	Payment terms	Estimated Gross margin on current ASP (RMB3,200/sqm)
	(%)	RMB bn	mn sqm	RMB/sqm	(%)		(%)
Phase 1 (acquired in Jan 2011)	80%	12.8	9.45	1,354	8%	Upfront	42%
Phase 2 (acquired in Oct 2013)	70%	24.9	12.68	1,963	40%	By instalment	13%

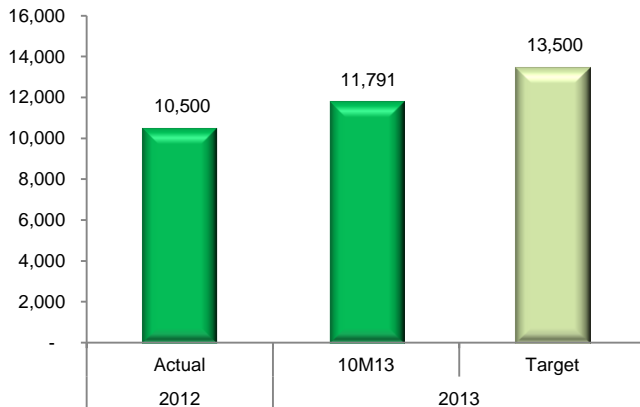
Source(s): Franshion, ABCI Securities

Exhibit 2: ASP of Meixi Lake Land Sales (RMB/sqm)

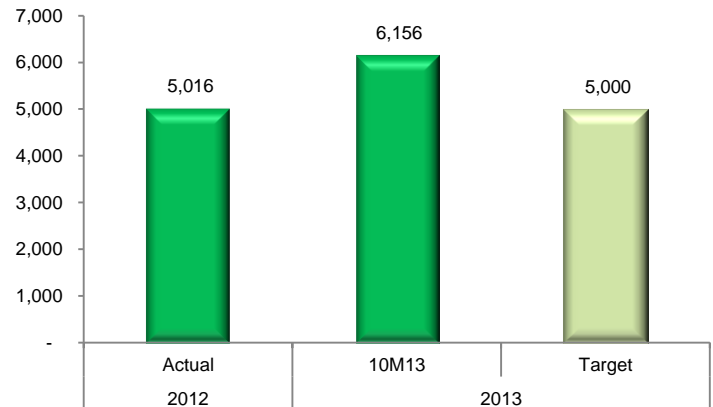


Source(s): Company, ABCI Securities

In fact, its primary land business has performed well in 10M13, registering RMB 6.1bn in presale, beating the original 2013 target of RMB 5bn. Franshion's residential/ office presales reached RMB11.8bn, achieving 87% of full-year target of RMB 13.5bn for this segment.

**Exhibit 3: Franshion's 10M13 presale (RMB mn)**


Source(s): Company, ABCI Securities

**Exhibit 4 : Franshion's 10M13 land sales (RMB mn)**


Source(s): Company, ABCI Securities

**Exhibit 5: Franshion- Monthly presale (RMB mn)**

	Amount RMB mn	GFA mn sqm	ASP RMB/sqm
Jan-13	1,292	0.0512	25,234
Feb-13	2,000	0.0320	62,500
Mar-13	648	0.0329	19,696
Apr-13	769	0.0490	15,694
May-13	1,413	0.0494	28,603
Jun-13	1,212	0.0478	25,356
Jul-13	1,325	0.0739	17,930
Aug-13	768	0.0272	28,267
Sep-13	1,520	0.0513	29,616
Oct-13	844	0.0530	15,925
<b>10M13</b>	<b>10,947</b>	<b>0.4150</b>	<b>26,398</b>

Source(s): Company, ABCI Securities

**Exhibit 6 : Franshion- Monthly land sales in Meixi Lake (RMB mn)**

	Amount RMB mn	GFA mn sqm	ASP RMB/sqm
Jan-13	1,600	0.62	2,572
Feb-13	1,009	0.34	3,001
Mar-13	-	-	NA
Apr-13	-	-	NA
May-13	63	0.04	1,602
Jun-13	-	-	NA
Jul-13	964	0.31	3,091
Aug-13	480	0.12	4,111
Sep-13	2,040	0.64	3,180
Oct-13	-	-	NA
<b>10M13</b>	<b>6,156</b>	<b>2.07</b>	<b>2,977</b>

Source(s): Company, ABCI Securities

## Retail revenue driver: Nanjing International Centre

In Oct, we visited Franshion's Nanjing International Centre (NIC), which was 51%-owned by the Group after its acquisition in Feb 2013 from a local developer. Situated at the heart of Zhongyang Road, Gulou District in Nanjing, Nanjing International Center faces Xuanwu Lake and comprises one ultra-high-rise Main Tower, North Tower, South Tower, and an eight-storey podium. Based on its prime location, we expect office rent could reach 4.0/sqm/day with a 95% occupancy rate. Currently, its residential units are selling at ~RMB 50k/sqm. However, retail portion have not been performing well. It has an occupancy rate of 79% and a rent rate of RMB2.6/sqm/day (vs. Franshion's Shanghai J-Life: RMB14/sqm/day; Sanya J-Life: RMB35/sqm/day).

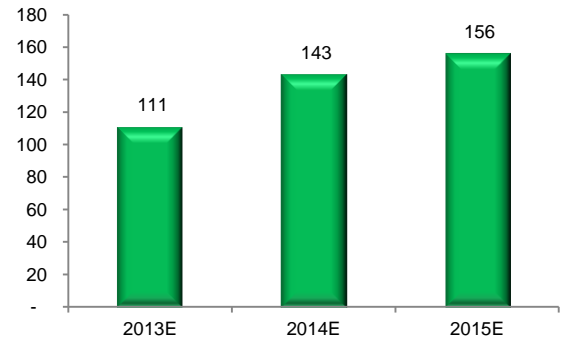
Franshion plans to renovate the building (estimated capex: RMB 300-400mn) to increase the building's GFA by 100k sqm and introduce a wider range of retailers as tenants. We expect such investment will boost rent rate by 53% to RMB 4.0/sqm/day once the renovation is completed by 2016, implying a gross yield of ~12% on cost (cost is calculated by summing the acquisition cost of RMB 9,400/sqm and renovation cost of RMB 2,600/sqm), as opposed to the 7%-8% yield for most investment properties in China.

**Exhibit 7: Nanjing International Centre- Operating statistics**

Statistics			
GFA breakdown ('000sqm)			
<b>Phase 1 (completed)</b>	<b>189.5</b>	Property valuation (RMB mn)	2,510
- Office	53.8	Consideration paid (RMB mn)	816
- Retail	86.0	Stake acquired	51.0%
- Hotel	32.5		
- Residential	17.2		
<b>Phase 2 (Under development)</b>	<b>196.0</b>		
- Office	72.2		
- Retail	48.5		
- Hotel	23.5		
- Residential	51.8		
<b>Total</b>	<b>385.5</b>		

\* as at Jun 2013

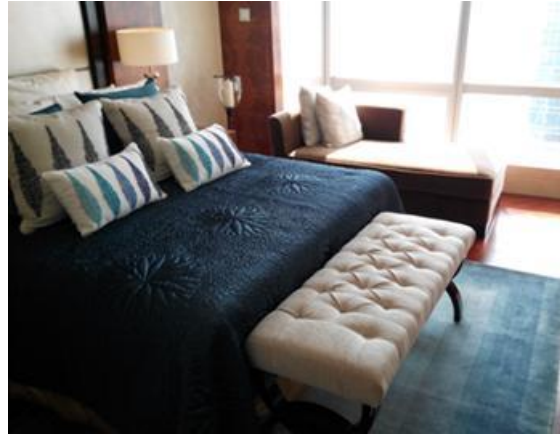
Source(s): Company, ABCI Securities

**Exhibit 8 : NIC's rental revenue forecast (HK\$m)**


Source(s): Company, ABCI Securities estimates

**Exhibit 9: Retail mall of NIC**


Source(s): Company

**Exhibit 10 : Serviced apartment of NIC**


Source(s): Company

**Exhibit 11: NIC Phase 1 & 2**


Source(s): Company

**Exhibit 12 : Window view of NIC's serviced apartment**


Source(s): Company



### Limited policy headwinds; maintain BUY

On the back of better-than-expected 10M13 presale, we raise our 2013E/14E/15E core profit forecasts by 5.7%/5.6%/2.5%, respectively. We also roll over our NAV estimate to end-2014 and raise our TP by 13.7% to HK\$ 3.30 (from HK\$ 2.90 previously). Our TP is based on a 40% discount to FY14E NAV (HK\$ 5.62), comparable to the stock's trading at the historical average discount of 38% since its listing. Franshion is currently trading at 6.9x 2014E P/E, reflecting a 52% discount to end-FY14E NAV.

Given the Group's significant exposure in commercial property sector, we believe it is less likely to be affected by the government's austerity measures that usually target at the residential sector. Together with Franshion's success in primary land development (9M13 revenue: RMB6.2bn, +24% higher than 2012 full-year revenue), we believe it should stand out among other SOE developers such as COLI and CR Land based on its diversified and defensive income streams. Maintain **BUY**.

Exhibit 13: Major forecast changes for Franshion

	Previous			Current			Change (%)		
	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E
<b>GFA delivery (mn sqm)</b>									
- Residential	0.29	0.66	0.87	0.26	0.65	0.95	-8.6%	-2.4%	9.5%
YoY chg (%)	-38%	132%	31%	-43%	148%	47%			
- Meixi Lake land sales	0.93	0.88	0.70	1.55	1.38	1.04	67.5%	56.3%	47.2%
YoY chg (%)	-7%	-5%	-20%	55%	-11%	-25%			
<b>Contracted sales (RMB mn)</b>									
- Residential	14,096	18,709	29,084	13,993	19,060	28,749	-0.7%	1.9%	-1.2%
YoY chg (%)	34%	33%	55%	33%	36%	51%			
- Meixi Lake land sales	5,000	5,225	4,389	6,156	6,433	7,123	23.1%	23.1%	62.3%
YoY chg (%)	0%	4%	-16%	23%	4%	11%			
<b>Core net profit (HK\$ mn)</b>									
- Residential	2,841	3,715	5,308	3,004	3,923	5,441	5.7%	5.6%	2.5%
YoY chg (%)	32%	31%	43%	39%	31%	39%			

Source(s): ABCI Securities estimates



Exhibit 14: Franshion's FY14E NAV

	Attr. GFA (M sqm)	Net assets value (HK\$ mn)	% of total	Valuation Methodology	Implied value per sqm (HK\$)
<b>Property development</b>					
Beijing	0.8	12,444	18%	DCF at WACC of 9.6%	14,773
Shanghai	0.4	5,836	9%		16,596
Changsha	1.5	4,341	6%		2,956
Suzhou	0.3	2,395	4%		8,744
Chongqing	0.5	2,003	3%		4,000
Others	1.8	5,734	9%		3,274
<b>Subtotal</b>	<b>4.7</b>	<b>32,753</b>	<b>49%</b>		<b>6,987</b>
<b>Primary Land Development</b>	<b>4.1</b>	<b>15,478</b>	<b>23%</b>	<b>Mkt value</b>	<b>3,751</b>
<b>Investment Properties</b>	<b>0.5</b>	<b>14,837</b>	<b>22%</b>	<b>6% cap rate on net rental income</b>	
<b>Hotels</b>		<b>4,377</b>	<b>6%</b>	<b>5x EBITDA multiple</b>	
<b>Total 2014E GAV</b>		<b>67,444</b>	<b>100%</b>		
2014E Net debt (including Perpetual convertible securities)					
		(16,371)	-24%		
<b>Total 2014E NAV</b>		<b>51,073</b>	<b>76%</b>		
No. of share outstanding		9,161			
<b>NAV per share (HK\$)</b>		<b>5.57</b>			
Target discount (%)		40%			
<b>Target Price (HK\$)</b>		<b>3.30</b>			
<b>WACC</b>					
Cost of debt		6.5%			
Cost of Equity		15.0%			
<b>Debt/ (Debt + Equity)</b>		<b>53%</b>			

Source(s): Company, ABCI Securities estimates



**Exhibit 15: Franshion's 1H13 results**

P&L	1H13	1H12	YoY Chg
	HK\$ mn	HK\$ mn	(%)
<b>Turnover</b>	<b>11,132</b>	<b>3,618</b>	<b>207.6</b>
Property sales	4,478	1,677	167.0
Primary land development	4,707	76	6,110.0
Property leasing	629	547	14.9
Hotel	1,042	1,063	(2.0)
Others	276	255	8.2
Cost of Sales & direct operating costs	(6,295)	(1,604)	292.4
<b>Gross Profit</b>	<b>4,837</b>	<b>2,014</b>	<b>140.2</b>
<b>Gross Margin (%)</b>	<b>43.5</b>	<b>55.7</b>	<b>(12.2)</b>
Selling and distribution costs	(208)	(120)	72.8
Administrative expense	(499)	(431)	15.7
<b>EBIT</b>	<b>4,130</b>	<b>1,463</b>	<b>182.4</b>
<b>EBIT Margin (%)</b>	<b>37.1</b>	<b>40.4</b>	
Other income, gains and losses	145	164	(11.7)
Fair value gain of investment properties	587	1,348	(56.5)
Other exceptional items	142	(1)	na
Share of profit from JCE/ Associates	1	1	(3.2)
Finance cost	(603)	(487)	23.8
<b>Profit before tax</b>	<b>4,403</b>	<b>2,489</b>	<b>76.9</b>
<b>Tax</b>	<b>(1,718)</b>	<b>(681)</b>	<b>152.5</b>
- LAT	(681)	(156)	336.1
- Enterprise tax	(1,037)	(524)	97.8
<b>Profit after tax</b>	<b>2,685</b>	<b>1,808</b>	<b>48.5</b>
Minority Interest	(450)	(205)	120.0
<b>Net profit</b>	<b>2,235</b>	<b>1,603</b>	<b>39.4</b>
<b>Underlying net profit</b>	<b>1,827</b>	<b>593</b>	<b>208.4</b>
<b>Operating statistics</b>	<b>1H13</b>	<b>1H12</b>	<b>YoY Chg</b>
GFA Delivered (mn sqm)	63.5	34.5	84.0
Booked ASP (HK\$/sqm)	70,471	48,564	45.1
<b>Property sales booked (HK\$/sqm)</b>	<b>4,478</b>	<b>1,677</b>	<b>167.0</b>
<b>Gross margin by segment</b>	<b>1H13</b>	<b>1H12</b>	<b>YoY Chg (ppt)</b>
Property development (Property sales + Land development)	40%	49%	-9ppt
Property leasing	90%	92%	-2ppt
Hotel	53%	56%	-3ppt
<b>Balance sheet</b>	<b>Jun-13</b>	<b>Dec-12</b>	<b>HoH %</b>
	HK\$ mn	HK\$ mn	
Gross debt	31,809	28,275	12.5
Cash	9,511	13,109	(27.4)
<b>Net debt</b>	<b>22,298</b>	<b>15,166</b>	<b>47.0</b>
<b>Net gearing (%)</b>	<b>71.9</b>	<b>52.5</b>	<b>19.4</b>

Source(s): Company, ABCI Securities



Consolidated income statement (2011A-2015E)

FY Ended Dec 31 (HK\$ mn)	2011A	2012A	2013E	2014E	2015E
<b>Revenue</b>	<b>6,592</b>	<b>17,176</b>	<b>20,087</b>	<b>29,373</b>	<b>37,278</b>
Cost of sales	(3,017)	(9,977)	(9,351)	(14,312)	(17,927)
<b>Gross Profit</b>	<b>3,575</b>	<b>7,199</b>	<b>10,736</b>	<b>15,061</b>	<b>19,351</b>
SG&A expenses	(1,158)	(1,407)	(1,671)	(2,144)	(2,777)
<b>EBIT</b>	<b>2,417</b>	<b>5,792</b>	<b>9,065</b>	<b>12,917</b>	<b>16,574</b>
Finance cost	(859)	(986)	(1,100)	(1,279)	(1,368)
Share of profit of associates	4	2	-	-	-
Other income/ (expenses)	213	284	214	288	531
Fair value gain of investment properties	931	1,626	-	-	-
Disposal/one-off items	1,392	5	-	-	-
<b>Profit before tax</b>	<b>4,097</b>	<b>6,723</b>	<b>8,178</b>	<b>11,926</b>	<b>15,736</b>
Tax	(1,187)	(2,783)	(3,854)	(5,430)	(7,654)
<b>Profit after tax</b>	<b>2,911</b>	<b>3,940</b>	<b>4,325</b>	<b>6,496</b>	<b>8,082</b>
Minority interest	(566)	(563)	(1,321)	(2,574)	(2,640)
<b>Reported net profit</b>	<b>2,344</b>	<b>3,378</b>	<b>3,004</b>	<b>3,923</b>	<b>5,441</b>
Less: exceptional items	(889)	(1,223)	-	-	-
<b>Underlying net profit</b>	<b>1,455</b>	<b>2,154</b>	<b>3,004</b>	<b>3,923</b>	<b>5,441</b>
<b>Per share</b>					
Underlying EPS (HK\$)	0.16	0.23	0.31	0.39	0.53
DPS (HK\$)	0.04	0.07	0.10	0.12	0.16
Payout ratio (%)	24%	31%	33%	31%	30%
BVPS (HK\$)	2.32	2.58	2.81	3.12	3.55
<b>Growth %</b>					
Revenue	3.8%	160.6%	17.0%	46.2%	26.9%
Gross Profit	8.2%	101.4%	49.1%	40.3%	28.5%
EBIT	0.9%	139.7%	56.5%	42.5%	28.3%
Underlying net profit	45.9%	48.0%	39.4%	30.6%	38.7%
<b>Margin %</b>					
Gross margin	54.2%	41.9%	53.4%	51.3%	51.9%
Gross margin (post-LAT)	8.7%	19.3%	20.6%	23.7%	26.5%
EBIT margin	36.7%	33.7%	45.1%	44.0%	44.5%
Core net margin	17.7%	15.8%	21.5%	22.1%	21.7%
<b>Key assumptions</b>					
Contracted Sales (HK\$ mn)		13,230	17,631	24,015	36,224
GFA sold (m sqm)		0.31	0.51	0.95	1.11
ASP (HK\$/sqm)		43,009	34,647	25,299	32,702
Booked Sales (HK\$)		10,796	10,755	19,581	28,196
GFA delivered (m sqm)		0.46	0.26	0.65	0.95
Booked ASP (HK\$/sqm)		23,328	41,054	30,185	29,669

Source: Company, ABCI Securities estimates





Consolidated balance sheet (2011A-2015E)

As of Dec 31 (HK\$ mn)	2011A	2012A	2013E	2014E	2015E
<b>Current assets</b>	<b>24,968</b>	<b>38,199</b>	<b>34,033</b>	<b>46,233</b>	<b>62,504</b>
Cash	12,224	12,888	11,370	25,916	43,682
Restricted cash	368	576	576	576	576
Trade & other receivables	105	2,003	2,003	2,003	2,003
Properties under development	7,030	10,384	10,384	10,384	10,384
Properties held for sale	840	3,078	3,078	3,078	3,078
Land under development	2,623	6,696	4,049	1,702	207
Other current assets	5,240	12,348	9,701	7,354	5,859
<b>Non-current assets</b>	<b>44,803</b>	<b>44,303</b>	<b>62,105</b>	<b>61,317</b>	<b>54,875</b>
Property, plant & equipment	6,891	6,956	7,018	7,073	7,121
Properties under development	11,844	13,047	30,787	29,944	23,454
Land under development	9,223	5,408	5,408	5,408	5,408
Investment properties	14,890	16,575	16,575	16,575	16,575
Investment in Associate and JCE	36	39	39	39	39
Other non-current assets	1,919	2,279	2,279	2,279	2,279
<b>Total Assets</b>	<b>69,771</b>	<b>82,502</b>	<b>96,138</b>	<b>107,550</b>	<b>117,379</b>
<b>Current Liabilities</b>	<b>17,610</b>	<b>25,726</b>	<b>35,691</b>	<b>42,068</b>	<b>45,644</b>
Short term borrowings	6,028	8,952	13,952	18,952	18,952
Trade & other payables	5,349	6,233	6,233	6,233	6,233
Pre-sales deposits	5,229	8,235	13,201	14,578	18,153
Other current liabilities	1,005	2,306	2,306	2,306	2,306
<b>Non-current liabilities</b>	<b>21,613</b>	<b>22,273</b>	<b>22,273</b>	<b>22,273</b>	<b>22,273</b>
Long term borrowings	19,171	19,323	19,323	19,323	19,323
Other payables	-	-	-	-	-
Other non-current liabilities	2,442	2,950	2,950	2,950	2,950
<b>Total Liabilities</b>	<b>39,224</b>	<b>47,999</b>	<b>57,965</b>	<b>64,342</b>	<b>67,917</b>
<b>Net Assets</b>	<b>30,547</b>	<b>34,503</b>	<b>38,173</b>	<b>43,208</b>	<b>49,462</b>
<b>Shareholders' Equity</b>	<b>21,583</b>	<b>24,290</b>	<b>26,377</b>	<b>29,201</b>	<b>33,176</b>
Perpetual Convertible Securities	4,588	4,588	4,588	4,588	4,588
Minority Interest	4,377	5,625	7,208	9,419	11,698
<b>Total Equity</b>	<b>30,547</b>	<b>34,503</b>	<b>38,173</b>	<b>43,208</b>	<b>49,462</b>
<b>Key ratio</b>					
Gross debt (HK\$ mn)	25,199	28,275	33,275	38,275	38,275
Net debt (HK\$ mn)	12,607	14,811	21,330	11,783	(5,983)
Net gearing (%)	48%	51%	69%	35%	-16%
Contracted sales/ Total assets (x)	-	0.16	0.18	0.22	0.31

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31 (HK\$ mn)	2011A	2012A	2013E	2014E	2015E
EBITDA	2,641	6,022	9,303	13,162	16,826
Change in Working Capital	(8,642)	(4,186)	(9,227)	5,614	12,679
Tax payment	(1,110)	(1,137)	(3,854)	(5,430)	(7,654)
<b>Operating Cash Flow</b>	<b>(7,111)</b>	<b>699</b>	<b>(3,778)</b>	<b>13,345</b>	<b>21,851</b>
Purchase of PP&E	(207)	(310)	(300)	(300)	(300)
Addition of Investment Properties	(7)	(20)	0	0	0
Investment in Associate/ JCE	0	0	0	0	0
Proceeds from Disposals	0	0	0	0	0
Others	3,488	(968)	214	288	531
<b>Investing Cash Flow</b>	<b>3,274</b>	<b>(1,298)</b>	<b>(86)</b>	<b>(12)</b>	<b>231</b>
Debt raised	30,470	16,488	10,000	10,000	10,000
Debt repaid	(24,338)	(13,369)	(5,000)	(5,000)	(10,000)
Interest expenses	(787)	(949)	(2,000)	(2,325)	(2,488)
Equity raised	0	0	0	0	0
Convertible securities raised	(317)	(317)	(312)	(312)	(312)
Dividend to shareholders	(229)	(366)	(916)	(1,099)	(1,466)
Others	33	(222)	574	(50)	(50)
<b>Financing Cash Flow</b>	<b>4,831</b>	<b>1,264</b>	<b>2,345</b>	<b>1,213</b>	<b>(4,316)</b>
<b>Net cash inflow/ (outflow)</b>	<b>994</b>	<b>665</b>	<b>(1,519)</b>	<b>14,547</b>	<b>17,766</b>
Cash- beginning	11,230	12,224	12,888	11,370	25,916
<b>Cash- year-end</b>	<b>12,224</b>	<b>12,888</b>	<b>11,370</b>	<b>25,916</b>	<b>43,682</b>

Source(s): Company, ABCI Securities estimates

## Disclosures

### Analyst Certification

I, Tung Yiu Kei Kenneth, 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.

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### Definition of equity rating

Rating	Definition
Buy	Stock return $\geq$ Market return rate
Hold	Market return - 6% $\leq$ Stock return < Market return rate
Sell	Stock return < Market return - 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2007-2011

Time horizon of share price target: 12-month

### Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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