



January 23, 2015

Sector Rating:
Overweight

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Key Data

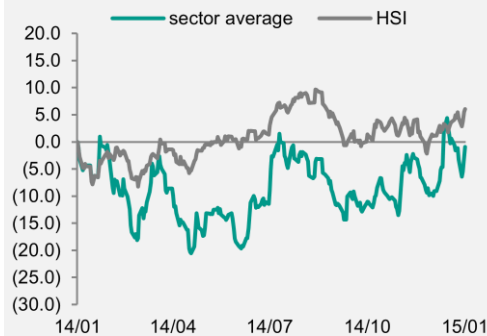
Avg.15E P/E (x)	4.7
Avg.15E P/B (x)	0.7
Avg.15E Dividend Yield (%)	6.6
Source(s): ABCI Securities estimates	

Sector performance (%)

	Absolute	Relative*
1-mth	9.46	4.88
3-mth	11.34	6.74
6-mth	1.78	0.38

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

1-Year Sector performance (%)



Source(s): Bloomberg, ABCI Securities

China Property Sector Prefer SOE players amid litigation crisis

- ❖ Bond yield of small/mid- cap developers rose 3.9ppt on average in Jan as litigation risk looms. SOE developers, whose finance cost is largely unaffected, may gain market share as private developers slow land acquisition
- ❖ Mortgage market improved sharply in Jan 2015. We expect additional interest rate or RRR cuts in 2015 to strengthen the property market further
- ❖ We prefer SOE players such as Franshion (817 HK) and COLI(688 HK), with the former as our sector top pick

Funding cost of small/mid-cap players impacted by rising litigation risks.

Following Agile (3383 HK) and Hydo (1396 HK), Kaisa (1638 HK) became the next small/mid-cap developer hit hard by litigation from the local governments. Litigation risk is increasingly perceived to be more of a sector-wide threat than a company-specific one, as reflected by the bond yield of small/mid- cap developers that jumped 3.9ppt from 9.5% in Dec 2014 to 13.4% in Jan 2015 on average. In contrast, bond yield of SOE developers remain largely unaffected. We expect small/mid-cap players to slow landbank expansion, with some reinvesting capital to overseas or other businesses to reduce litigation issues. We see this as a good opportunity for SOE players to increase its market share.

Expect more interest rate/RRR cuts in 2015.

Presales of major developers in Dec jumped 67%YoY on average, as buying sentiment was drummed up by PBOC's 40bps rate cut in Nov. The mortgage market improved further in Jan 2015. Major banks in most cities are now offering mortgage rate at a discount to PBOC rate (96% on average) as compared to a premium (102% on average) 3 months ago. We expect further interest rate and RRR cuts by PBOC in 2015.

Poor performers in 2014 may outperform on low base.

Players who registered single-digit growth in 2014, such as Poly-A (600048 CH), COLI (688 HK), Shima (813 HK), CR Land (1109 HK), and Longfor (960 HK), may have delayed their sales schedules for better ASP upon market recovery. We expect a stronger cyclical rebound for these companies in 2015.

Prefer SOE players; Franshion is our sector top pick.

We prefer SOE players like Franshion and COLI amid the intensified anti-corruption effort in China's property sector. We upgrade Franshion from Hold to **BUY** given its significant rebound in Dec sales and share buyback of HK\$207mn. Its valuations at 6.4x 2015E P/E (vs. COLI: 8.1x; CR Land: 9.3x) and 66% discount to NAV (vs. COLI: 15%; CR Land: 25%) are the lowest among the SOE developers. The company is our sector top pick. We also upgrade COLI from Hold to **BUY** on the expectation that its presales growth would escalate from 3% YoY in 2014 to ~20% YoY in 2015, which is in line with its historical growth of 20%-30% YoY in 2012-13.

Risk factors- Downside risks: 1) Aggressive price cut to clear inventories may hurt margins; 2) Litigation risks related to improper land acquisitions; 3) credit tightening or higher funding costs on non-SOE developers. Upside risk: more aggressive rate cut by PBOC.

Sector Valuation Summary (data as of Jan 22, 2015)

Company	Ticker	Rating	Price (HK\$)	TP (HK\$)	FY14E P/E(x)	FY15E P/E (x)	FY14E P/B (x)	FY15E P/B (x)	FY14E Yield (%)	FY15E Yield (%)
Franshion	817	BUY	2.29	3.30	7.1	6.4	0.7	0.6	4.5	5.1
COLI	688	BUY	24.15	28.30	9.0	8.1	1.5	1.3	2.2	2.5
CIFI	884	BUY	1.59	2.30	4.0	3.4	0.8	0.7	5.5	6.5
Aoyuan	3883	BUY	1.25	1.90	3.4	2.5	0.3	0.3	8.7	10.0
Sunac	1918	BUY	7.18	9.90	5.0	4.1	1.1	0.9	3.6	4.4
Evergrande	3333	BUY	3.27	3.80	4.9	3.3	0.4	0.4	7.1	10.6
Greentown	3900	HOLD	7.08	8.50	3.5	3.5	0.5	0.4	7.1	7.1
Kaisa	1638	Under review								

Source(s): Companies, ABCI Securities estimates



Contents

Rate cut may not benefit small developers on recent scandals	3
Rising bond yield after the Kaisa incident.....	3
Financing for SOE players remains unaffected	3
Private developers may turn cautious in landbanking; SOE to benefit from market share gain.....	4
More supportive policies to boost the property market	5
Expects more interest rate and RRR cuts in 2015	5
First tier cities should benefit more	6
Poor performers in 2014 may outperform on low bases	7
Prefer SOE developers: Franshion (817 HK) is our Top Buy	9
Franshion: land sales are set to revive	9
COLI: low base in 2014 may imply more saleable resources for 2015 ...	10
Disclosures	24

Rate cut may not benefit small developers on recent scandals

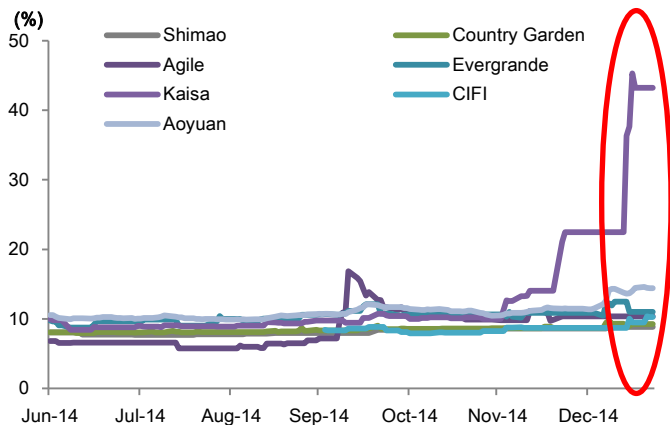
Rising bond yield after the Kaisa incident

Since PBOC announced the 40bps rate cut in Nov 2014, China property stocks have reacted positively, rising by 7% on average over the past 3 months. The bond market, however, presents a different scenario, especially after the outbreak of a series of management scandals among several small/mid-cap developers. In particular, after Kaisa's property sales had been banned in Shenzhen and its founder, Mr Kwok Ying-shing, had resigned as the chairman, the bond yield of small/mid-cap developers jumped 3.9ppt from 9.5% in Dec 2014 to 13.4% in Jan 2015. The market came to realize that potential litigation problems can trigger cross default events (i.e. borrower can call for early repayment upon change of management) and impact cash flow in daily operation (i.e. banning of property sales).

Diminished ability to raise fund offshore may begin to affect willingness of banks to approve construction loan onshore, which in turn could drive up the borrowing rate (1.1 -1.15x PBOC rate at present) and offset the effect of the latest rate cut.

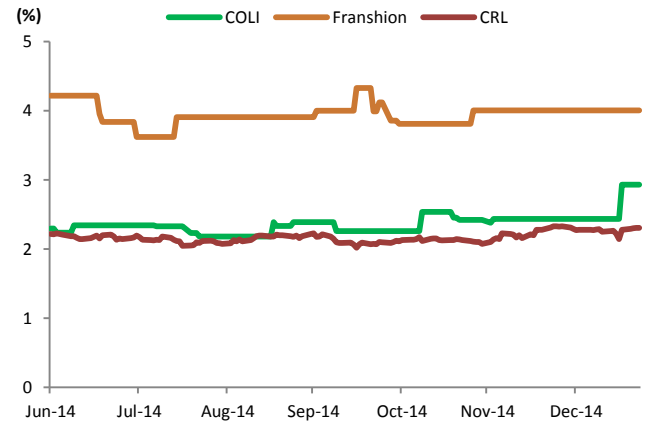
Bonds issued by SOE developers, however, seem to have turned into the refuge for China's property bond investors, as evidenced by its relatively stable bond yield over the past 6 months.

Exhibit 1: Bond yield of small/mid-cap developers



Source(s): Bloomberg, ABCI Securities

Exhibit 2: Bond yield of SOE developers



Source(s): Bloomberg, ABCI Securities

Financing for SOE players remains unaffected

In our view, rising litigation risks are perceived to be more of a sector-wide threat than a company-specific one. Share price of SOE developer, CR Land (1109 HK), only corrected by 4% the day after the Kaisa incident (chairman's resignation on Dec 3) and rebounded by 10% in a month. In contrast, Hydo (1396 HK), Agile (3383 HK) and Kaisa (1638 HK) fell by 9%-39% on average in the month following the resignation or loss of contact with management. Bond yield of CR Land also remained largely unchanged. In contrast, bond yields of Agile and Kaisa rose by 50bps and 30ppt after Kaisa's chairman resigning on Dec 3, 2014.

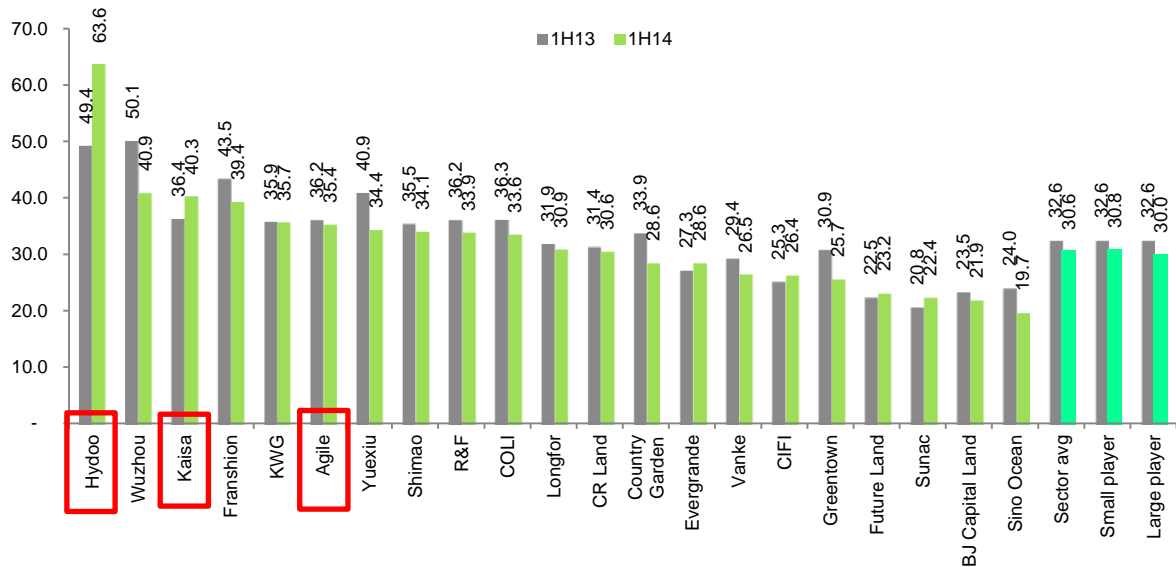
Exhibit 3: Share performance after outbreak of management scandals

Company	BBG	Event	Event date	Share price performance		
				1D	1M	2M
Hydoo	1396 HK	Unable to contact Chairman	18-Jul-14	-33.1%	-16.1%	-19.1%
Agile	3383 HK	Chairman's detention	13-Oct-14	-17.2%	-9.0%	-14.9%
CR Land	1109 HK	Chairman's resignation	9-Nov-14	-4.1%	10.4%	22.4%
Kaisa	1638 HK	Chairman's resignation	3-Dec-14	-12.5%	-39.2%	NA

Source(s): Companies, Bloomberg, ABCI Securities

Private developers may turn cautious in landbanking; SOE to benefit from market share gain

In our view, two major types of players are subject to higher litigation risks: **1) players with high exposure in tier 3/4 cities**, since they tend to obtain cheap land through less transparent means than open tendering/ auction; **2) high-margin players** whose costs of landbank are often well below market price. As litigation issues emerge as a major risk for small/mid-cap developers, we expect these companies to slow their landbanking paces, with some reinvesting their capital overseas or in non-property businesses. For instance, Evergrande (3333 HK) invested heavily in its bottled water business in 2014, while Country Garden (2007 HK) has started to acquire land in Malaysia since 2013. As small/mid-cap, non-SOE developers turn more cautious in expanding their domestic property business, we believe SOE players would take the opportunity to increase their market shares.

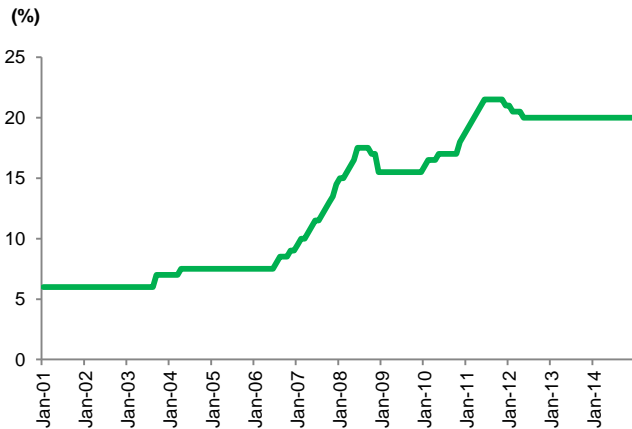
Exhibit 4: Gross margin comparison (1H14)


Source(s): Companies, ABCI Securities

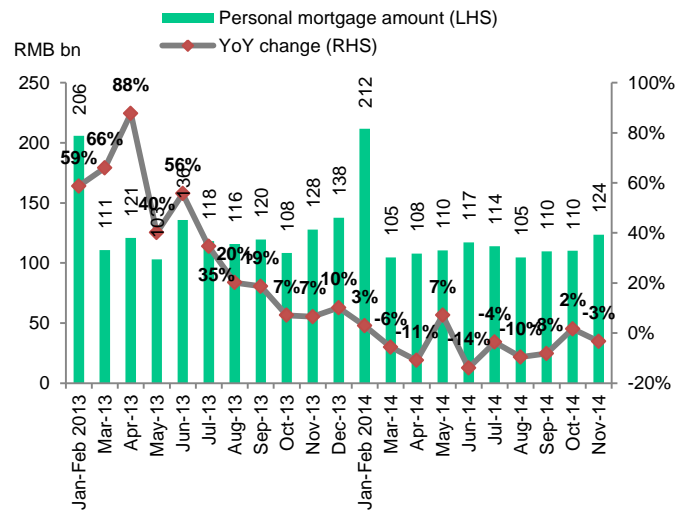
More supportive policies to boost property market

Expects more interest rate and RRR cuts in 2015

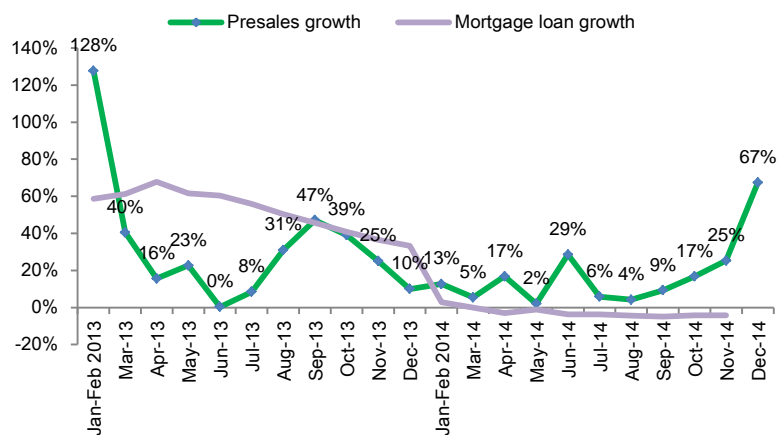
Dec presales showed PBOC's 40bps rate cut in Nov had been effective in boosting buying sentiment. Dec presales of 20 major developers jumped 67% YoY on average, the highest monthly growth in 2014. Nonetheless, mortgage approval in banks was relatively slow by end-year (as full-year loan target may have been met), and mortgage amount dropped 3% YoY in Nov. Given the strong, positive correlation of property sales and mortgage, banks may speed up mortgage processing in the beginning of the year to boost the property market further in 2015. We believe PBOC still has room for further interest rate and RRR cuts, especially since RRR has remained flat for almost 3 years. In our view, additional rate reduction could offer the potential for a positive surprise to the market in 2015.

Exhibit 5: RRR in China


Source(s): NBS, ABCI Securities

Exhibit 6: Mortgage loan growth in China


Source(s): NBS, ABCI Securities

Exhibit 7: Monthly sales performance and mortgage loan growth showed strong correlation


Source(s): Companies, NBS, ABCI Securities

First-tier cities to benefit more

The mortgage market improves in Jan 2015. Major banks in most cities are now offering mortgage rate at a discount to PBOC rate (average: 96% of PBOC rate on average), as compared to a premium (average: 102% of PBOC rate) 3 months ago, reflecting increased willingness among banks to loaning in the market. Coupled with the rate cut announced in Nov, effective mortgage rate for first home buyer dropped by almost 78bps in 3 months. Mortgage rate in the first-tier cities seems to have loosened the most at 92%-95% of PBOC rate as compared to 96%-103% in lower-tier cities, based on our statistics.

We expect players with high exposure in tier-1 regions to benefit more from a relaxed mortgage environment, since mortgage buyers represent 80%-90% of total buyers compared to 50%-60% in lower tier cities.

Exhibit 8: Mortgage rate as a percentage of PBOC rate

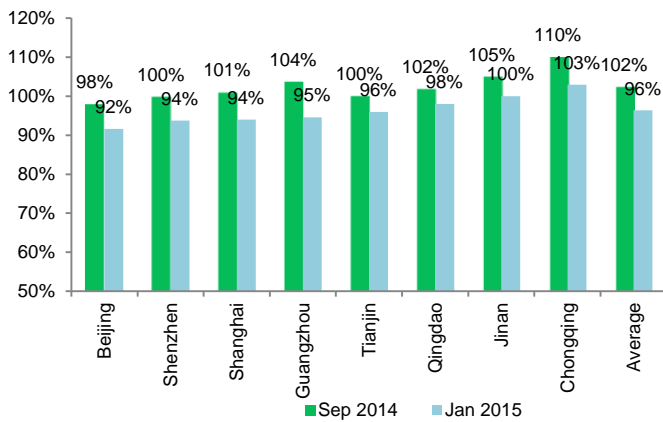
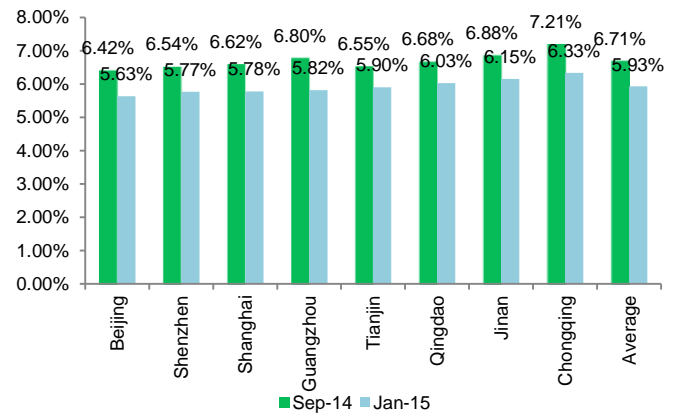


Exhibit 9: Average mortgage rate by city



Source(s): Rong360.com, ABCI Securities

Source(s): Rong360.com, ABCI Securities

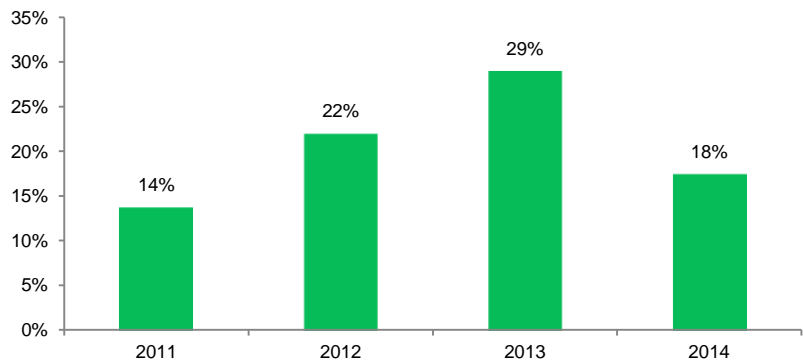
Poor performers in 2014 may outperform on low base

Buying sentiment turned around in Dec 2014 on rate cut. Presales of major developers rebounded 69% YoY for the month, boosting the full-year figure to increase by 18%YoY. As the government policy is likely to remain loose in 2015, we expect presales of underperforming developers with a low gearing to outperform.

During the down cycle in 2011 when home purchase restriction was implemented, low-g geared developers such as Shimao (813 HK) and Poly-A (600048 CH) were able to resist the pressure to clear inventories at discounted prices, partly because their debt repayment need was relatively low. When favorable mortgage policy for first-home buyer was launched later in 2012, these players enjoyed a cyclical rebound due the high volume of inventories available for sales.

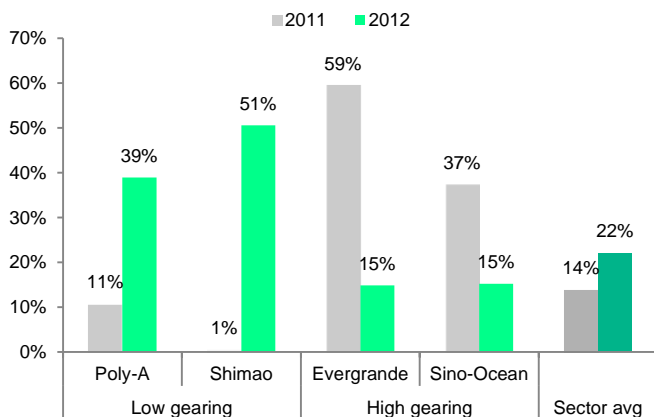
In our view, players who registered single-digit growth in 2014, such as Poly-A, COLI, Shimao, CR Land, and Longfor (960 HK), may have delayed its sales schedule for better ASP upon market recovery. Hence, we expect a stronger cyclical rebound for these companies in 2015.

Exhibit 10: Major developers' presales growth rate (YoY%)



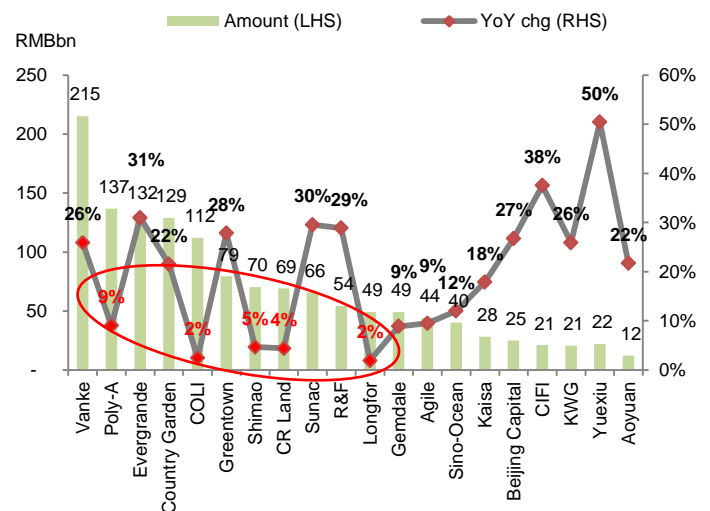
Source(s): Companies, ABCI Securities

Exhibit 11: Cyclical rebound among low-g geared developers upon policy relaxation in 2012



Source(s): Companies, ABCI Securities

Exhibit 12: 2014 presales and growth rate; underperformers may enjoy stronger cyclical rebound in 2015



Source(s): Companies, ABCI Securities



Exhibit 13: 2014 presales and target completion ratios

	(RMB bn)	Dec-14	YoY	2014 Actual	YoY	2014 Target	Achievement ratio
1	Yuexiu	1.8	222%	22.0	50%	22	100.1%
2	CIFI	1.5	35%	21.1	38%	22	95.8%
3	Evergrande	10.8	436%	131.5	31%	112	117.4%
4	Sunac	6.2	19%	65.8	30%	65	101.3%
5	R&F	4.1	-12%	54.4	29%	65	83.7%
6	Greentown	12.7	182%	79.4	28%	65	122.2%
7	Beijing Capital	4.8	-6%	24.9	27%	28	88.8%
8	Vanke	25.0	129%	215.1	26%	200	107.6%
9	KWG	1.9	35%	20.5	26%	21	97.7%
10	Aoyuan	1.5	-25%	12.2	22%	15	81.5%
11	Country Garden	24.9	167%	128.8	22%	128	100.6%
12	Kaisa	1.0	-63%	28.2	18%	30	94.0%
13	Sino-Ocean	5.1	122%	40.1	12%	40	100.4%
14	Agile	5.3	-18%	44.2	9%	48	92.0%
15	Poly-A	17.3	22%	136.7	9%	150	90.9%
16	Gemdale	11.6	92%	49.0	9%	60	81.7%
17	Shimao	6.2	7%	70.2	5%	80	87.8%
18	CR Land	9.0	130%	69.2	4%	70	98.9%
19	COLI*	6.8	1%	140.2	2%	140	100.1%
20	Longfor	5.5	65%	49.1	2%	57	86.1%
	Total	162.3	67%	1,374.8	18%	1418	99.0%

* in HK\$

Source(s): Companies, ABCI Securities

Prefer SOE developers; Franshion (817 HK) is our top pick

Amid the intensifying anti-corruption effort in China's property industry, we prefer SOE players because: 1) banks favor SOE borrowers after Kaisa's likeliness to default; 2) faster land acquisition, as small/mid- developers are likely to turn cautious in landbanking, especially for projects that involve resident relocation and extensive negotiation with local governments; 3) strong cyclical rebound in presales as project sales were deferred to 2015.

Among the small/mid-cap private developers, we prefer CIFI (884 HK) given its exposure in high-tier cities. Moreover, the majority of its land was acquired from open tendering, which implies lower litigation risk.

Exhibit 14: Changes in TP

Company	Ticker	Rating		NAV (HK\$)		Discount (%)		TP (HK\$)		Change (%)
		Previous	Current	Previous	Current	Previous	Current	Previous	Current	
Franshion	817	HOLD	BUY	5.78	6.64	60%	50%	2.30	3.30	43.5%
COLI	688	HOLD	BUY	23.70	28.30	0%	0%	23.70	28.30	19.4%
CIFI	884	BUY	BUY	5.81	5.81	60%	60%	2.30	2.30	0.0%
Aoyuan	3883	BUY	BUY	6.34	6.34	60%	60%	2.50	2.50	0.0%
Sunac	1918	BUY	BUY	24.19	24.19	60%	60%	9.70	9.70	0.0%
Evergrande	3333	BUY	BUY	9.62	9.62	60%	60%	3.80	3.80	0.0%
Greentown	3900	HOLD	HOLD	17.00	17.00	50%	50%	8.50	8.50	0.0%
Kaisa	1638	BUY	Under review							

Source(s): Companies, ABCI Securities estimates

Franshion: Land sales are set to revive

- Meaningful rebound in Dec.** In Dec 2014, Franshion achieved record sales of RMB 4.1bn, up 97% YoY. The Group also registered land sales of RMB 1,692mn at an ASP of RMB 2,616/sqm, 12% lower than RMB 2,977/sqm in FY13. For the full year, Franshion's property sales rose 27% YoY to RMB 18.5bn while land sales declined 54%YoY to RMB 3bn. Although the total property and land sales were below 80% of the reduced target (i.e. RMB 24bn, including RMB 6bn from land sales), we expect its presales to rebound on the low base 2014 and improved sentiment in the property market.
- Share buybacks of HK\$ 207mn in Nov and Dec.** Franshion purchased a total of 93.3mn shares (1% of total outstanding shares) in open market at HK\$ 207mn, or an average price of HK\$ 2.23/shr. Franshion's share buyback reflects the management's belief that the Group's shares are severely undervalued.
- SOE developer with the most attractive price; upgrade to BUY;.** Franshion's valuations at 6.4x FY15E P/E and 66% discount to FY15E NAV are the lowest among the SOE developers (COLI: 8.1x FY15E P/E, 15% discount to FY15E NAV; CR Land: 9.3x FY15E P/E, 25% discount to FY15E NAV). Our TP of HK\$ 3.30 is based on a 50% to NAV (from 60%), as we expect market SOE developers would be rewarded with higher valuations based on their lower litigation risk compared to the small/mid-cap, non-SOE players. Upgrade Franshion from **Hold** to **BUY**. The Group is our top pick for China property sector.



COLI: Abundant saleable resources for 2015

- **Presales are set to rebound in 2015 on low base and enlarged landbank.** COLI achieved HK\$140.9bn of presales in 2014, up 2% YoY, as opposed to the peer average of 18% YoY. We think COLI's presales would rebound in 2015 to grow by ~20% YoY, in line with the Group's historical growth of 20%-30% YoY in 2012-13. Apart from its low base in 2014, COLI's active land acquisition amid the property downturn will significantly increase its saleable resources. COLI acquired a total GFA of 11.7 mn sqm at RMB 42.4bn in 2014, representing 38% of presales in the same year. Of which, land acquisition in the first-tier cities in Guangzhou and Beijing, where we expect strong recovery on recent rate cut, accounted for 40% of the total land cost.
- **Possible asset injection in 2015.** In 2014, COLI's parent company, CSCEC, has already entrusted its property business to COLI. We expect progress of asset injection to accelerate in 2015, following various SOE reforms and asset injections in SOEs such as CITIC (267HK) and CR Land. CR Land's share price rose 11% over last month after the announcement of asset injection, higher than the 5%-6% rise seen in its SOE peers during the same period.
- **Upgrade to BUY with revised TP at HK\$ 28.30.** As litigation risk emerges in the property sector, we expect market share of SOE developers to increase in 2015, while small/mid-cap private developer would turn cautious, ensuring their businesses are fully compliant with relevant laws and regulations. We revise our FY15E NAV to HK\$ 28.3/shr (HK\$ 24.4/shr) as we expect presales and ASP to increase on recent rate cut, and lift its TP to HK\$ 28.3 (previous: HK\$ 24.4) with no discount to NAV. We upgrade COLI from Hold to **BUY**. The company is our preferred large-cap SOE play in the sector.

Exhibit 15: Valuation table

China Property	Ticker	Rating	TP	Mkt cap	Share Price	Performance			Discount to NAV	Valuation									
						3M	YTD	2014		P/E			Yield (%)			P/B			
						(HKD bn)	(local ccy)	% Chg	% Chg	% Chg	(%)	2013A	2014E	2015E	2013A	2014E	2015E	2013A	2014E
Residential:																			
1	COLI	688 HK	BUY	28.30	197	24.15	12	5	8	(14.55)	10.4	9.0	8.1	1.9	2.2	2.5	1.8	1.5	1.3
2	Vanke-H	2202 HK	NR		188	17.86	NA	NA	NA	(7.09)	13.7	9.1	7.7	2.9	3.3	3.9	2.0	1.8	1.5
3	CR Land	1109 HK	NR		137	20.95	16	2	10	(25.31)	14.7	10.8	9.3	2.1	2.4	2.7	1.4	1.3	1.2
4	Country Garden	2007 HK	NR		64	3.15	7	2	(28)	(53.54)	6.0	4.8	4.4	6.6	7.3	8.1	1.0	0.9	0.8
5	Shimao	813 HK	NR		60	17.16	9	(1)	4	(47.79)	6.5	5.4	4.8	4.6	5.6	6.3	1.1	1.0	0.9
6	Longfor	960 HK	NR		61	10.56	22	6	(5)	(45.09)	7.9	6.6	5.9	2.7	3.0	3.4	1.2	1.1	0.9
7	Evergrande	3333 HK	BUY	3.80	48	3.27	10	4	24	(66.01)	4.1	4.9	3.3	16.4	7.1	10.6	0.6	0.4	0.4
8	Sino Ocean	3377 HK	NR		37	4.99	19	13	(8)	(44.66)	8.8	8.2	7.1	4.6	4.6	5.1	0.7	0.7	0.6
9	Guangzhou R&F	2777 HK	NR		29	9.10	13	(4)	(11)	(70.60)	4.1	4.5	3.9	8.5	7.1	7.9	0.7	0.6	0.5
10	Sunac	1918 HK	BUY	9.90	24	7.18	11	(9)	81	(70.31)	5.4	5.0	4.1	3.3	3.6	4.4	1.4	1.1	0.9
11	Yuexiu Properties	123 HK	NR		19	1.53	11	3	(13)	(65.62)	12.1	7.2	6.7	5.1	5.3	5.6	0.5	0.5	0.5
12	Aqile	3383 HK	NR		19	4.80	21	9	(43)	(72.70)	3.3	3.3	3.3	9.8	7.6	7.7	0.4	0.4	0.4
13	KWG	1813 HK	NR		15	5.12	(5)	(4)	33	(66.71)	5.2	4.1	3.5	7.1	7.4	8.6	0.7	0.6	0.5
14	Greentown	3900 HK	HOLD	8.50	15	7.08	(9)	(8)	(30)	(58.42)	3.2	3.5	3.5	7.6	7.1	7.1	0.5	0.5	0.4
15	Kaisa	1638 HK	Under review		8	1.59	(44)	0	(33)	(76.46)	2.8	2.2	2.1	9.4	10.0	13.1	0.4	0.4	0.3
16	CIFI	884 HK	BUY	2.30	10	1.59	13	3	1	(72.61)	5.1	4.0	3.4	4.4	5.5	6.5	0.9	0.8	0.7
17	COGO	81 HK	NR		10	4.18	1	6	(46)	(67.77)	3.4	3.9	3.4	2.6	2.5	2.8	0.8	0.7	0.6
18	BJ Capital Land	2868 HK	NR		7	3.52	29	20	22	(36.00)	5.0	3.7	2.9	7.8	8.2	8.2	0.7	na	na
19	China Aoyuan	3883 HK	BUY	1.90	3	1.25	3	2	(18)	(77.37)	4.0	3.4	2.5	8.0	8.7	10.0	0.4	0.3	0.3
HK Listed Avg							8	3	(3)	(54.66)	6.6	5.5	4.7	6.1	5.7	6.6	0.9	0.8	0.7
- Large cap (>HKD30b) avg							13	4	1	(38.01)	9.0	7.3	6.3	5.2	4.4	5.3	1.2	1.1	1.0
- Small-mid cap (<HKD30b) avg							4	2	(4)	(65.72)	5.0	4.1	3.7	6.6	6.4	7.2	0.7	0.6	0.5
1	Vanke-A	000002 CH	NR		188	13.58	48	(2)	56	(11.82)	12.4	8.3	7.0	3.0	3.3	3.9	1.9	1.6	1.4
2	Poly-A	600048 CH	NR		151	11.25	102	4	105	(35.34)	13.9	9.2	7.7	1.7	2.1	2.6	2.2	1.9	1.6
3	China Merchants Property	000024 CH	NR		79	26.42	108	0	96	(21.68)	18.7	13.5	11.5	1.2	1.4	1.7	2.4	2.2	1.9
4	Gemdale	600383 CH	NR		56	9.97	30	(13)	74	(20.75)	12.3	11.6	9.7	1.0	1.5	1.5	1.6	1.4	1.3
A-share Listed Avg							72	(3)	83	(22.40)	14.3	10.6	9.0	1.7	2.1	2.4	2.0	1.8	1.5
Commercial:																			
1	SOHO China	410 HK	NR		29	5.56	(3)	1	(14)	(30.50)	5.2	10.2	18.8	5.6	5.6	5.4	0.6	0.6	0.6
2	HLP	101 HK	NR		97	21.70	(6)	(0)	(8)	(37.50)	19.3	13.6	15.6	3.5	3.5	3.6	0.8	0.8	0.7
3	China South City	1668 HK	BUY	4.60	22	2.72	(25)	(23)	67	(70.14)	6.9	6.3	4.5	5.1	7.0	8.8	0.9	1.0	0.9
4	Hui Xian REIT	87001 HK	NR		23	3.45	4	(1)	(3)	(21.14)	24.7	15.3	14.7	7.1	7.2	7.5	0.6	0.7	0.7
5	Franshion	817 HK	BUY	3.30	21	2.29	24	3	(14)	(65.51)	7.7	7.1	6.4	4.1	4.5	5.1	0.7	0.7	0.6
6	Shui On Land	272 HK	NR		14	1.79	1	(2)	(21)	(49.93)	9.7	13.7	13.5	3.4	3.1	3.0	0.3	0.3	0.3
8	Yuexiu REIT	405 HK	NR		11	3.98	4	2	11	na	46.7	29.0	24.0	6.8	7.2	7.7	0.7	0.7	0.7
9	Zall	2098 HK	NR		9	2.53	(7)	(6)	(2)	na	25.6	na	na	0.0	na	na	1.0	na	na
10	Wuzhou	1369 HK	NR		7	1.40	(23)	(5)	15	na	14.8	7.6	5.2	2.5	2.9	4.5	2.1	na	na
Commercial Avg							(3)	(4)	3	(49.72)	16.4	11.7	11.6	4.9	6.2	7.0	0.9	0.7	0.6
- Developers							(1)	(5)	5	(54.02)	11.5	8.7	9.4	4.4	5.9	6.9	0.9	0.7	0.6
- Landlords/REIT							4	(6)	(3)	(47.25)	35.7	22.2	19.3	7.0	7.2	7.6	0.7	0.7	0.7

* Data as at Jan 22, 2015

Source(s): Bloomberg, ABCI Securities estimates



January 23, 2015
Company Report
Rating: BUY
TP: HK\$ 3.30

Share price (HK\$) 2.29
Est. share price return 44.1%
Est. dividend yield 4.5%
Est. total return 48.6%

Previous Rating & TP HOLD; HK\$ 2.30
Previous Report Date Aug 20, 2014

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

Key Data

52Wk H/L(HK\$) 2.76/1.79
Issued shares (mn) 9,162
Market cap (HK\$ mn) 21,038
3-mth avg daily turnover (HK\$ mn) 22.2
Major shareholder(s) (%):
Sinochem Group 62.90

Source(s): Company, Bloomberg, ABCI Securities

FY13 Revenue breakdown (%)

Property Development 46.9
Property Leasing 6.0
Hotels 9.9
Land Development 34.6
Others 2.6

Source(s): Company, ABCI Securities

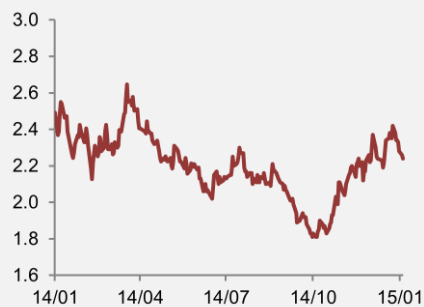
Share performance (%)

	Absolute	Relative*
1-mth	3.1	(1.7)
3-mth	22.1	16.2
6-mth	3.1	1.7

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Franshion (817 HK)

SOE play at bargain price; top BUY of the sector

- Presales rebounded 97% YoY to RMB4.1bn in Dec; we expect strong sales momentum to continue in 2015 on low base and land market recovery
- Share buyback of HK\$207mn (1% of total outstanding shares) reflects management's confidence in the company
- Upgrade to **BUY** from Hold with a revised TP of HK\$ 3.30 (from HK\$ 2.30) based on a 50% (from 60%) discount to FY15E NAV

Meaningful rebound in December. In Dec 2014, Franshion achieved record sales of RMB 4.1bn, up 97%YoY. The Group also registered land sales of RMB 1,692mn with an ASP of RMB 2,616/sqm, 12% lower than RMB 2,977/sqm in FY13. For the full year, Franshion's property sales rose 27% YoY to RMB 18.5bn while land sales declined 54%YoY to RMB 3bn. Although the total sales were below 80% of the reduced target (i.e. RMB 24bn, including RMB 6bn from land sales), we expect its 2015 presales to rebound on the low base 2014 and improved sentiment in the property market. In particular, we believe Franshion has deferred its land sales to 2015 to avoid oversupply in the market and stabilize land price (Franshion's ASP for land sales dropped 3% YoY only to RMB 2,879/sqm in 2014). We expect ASP for its Meixi Lake land parcels to rise by 10% YoY upon market recovery in 2015.

Share buyback of HK\$ 207mn in Nov and Dec. Franshion purchased a total of 93.3mn shares (1% of its total outstanding shares) in the open market at HK\$207mn, or HK\$2.23/share on average in the last 2 months of 2014. We think the buyback reflects the management's belief that the Group's shares are severely undervalued.

SOE developer with the most attractive price; upgrade to BUY. Franshion's valuations at 6.4x FY15E P/E and 66% discount to FY15E NAV are the lowest among the SOE developers (COLI: 8.1x FY15E P/E, 15% discount to FY15E NAV; CR Land: 9.3x FY15E P/E, 25% discount to FY15E NAV). We adjust our FY15E NAV forecast up to HK\$ 6.64 (from HK\$ 5.78) on stronger-than-expected sales momentum observed in Dec. Our TP of HK\$3.30 is based on 50% to NAV (from 60%), as we expect SOE developers would be rewarded with higher valuations based on their lower litigation risk than the small/mid-cap, non-SOE developers. Upgrade Franshion from Hold to **BUY**. The Group is our top pick for China property sector.

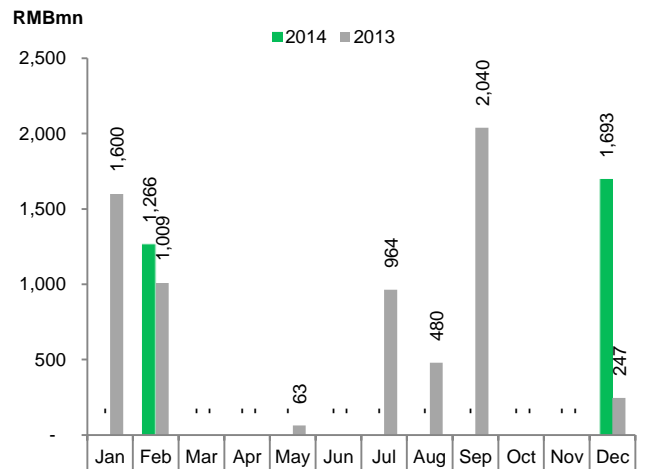
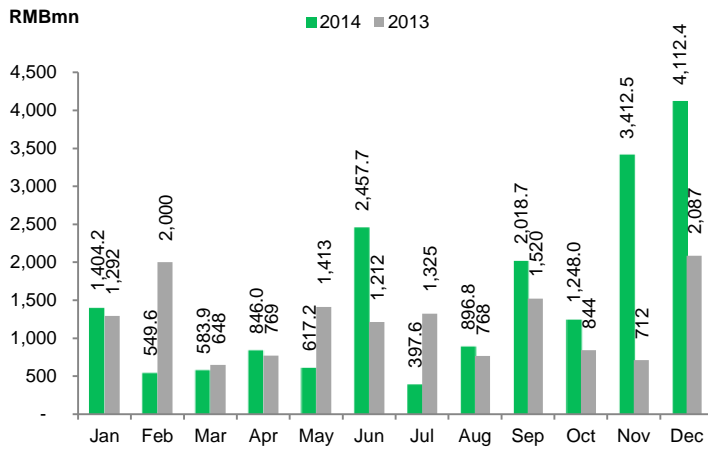
Risk factors: 1) Rising litigation risks across sector; 2) Further slowdown in land sales.

Results and Valuation

FY ended Dec 31	2012A	2013A	2014E	2015E	2016E
Revenue (HK\$ mn)	17,176	20,719	33,966	35,063	39,451
Chg (% YoY)	160.6	20.6	63.9	3.2	12.5
Core net profit (HK\$ mn)	2,154	2,910	3,131	3,532	4,714
Chg (% YoY)	48.0	35.1	7.6	12.8	33.5
Core EPS (HK\$)	0.23	0.30	0.32	0.36	0.47
Chg (% YoY)	39.6	30.7	7.8	11.6	30.8
BVPS (HK\$)	2.58	3.07	3.32	3.59	3.95
Chg (% YoY)	11.5	18.8	8.2	8.2	10.1
Core PE (x)	10.0	7.7	7.1	6.4	4.9
PB (x)	0.9	0.7	0.7	0.6	0.6
ROE (%)	8.9	10.0	10.1	10.6	12.8
ROA (%)	2.6	2.4	2.5	2.7	3.5
DPS (HK\$)	0.07	0.10	0.10	0.12	0.16
Dividend yield (%)	3.1	4.1	4.5	5.1	6.8
Net gearing (%)	51.3	62.6	72.3	36.4	4.8

*Net gearing=Net debt/Total equity

Source(s): Bloomberg, ABCI Securities estimates

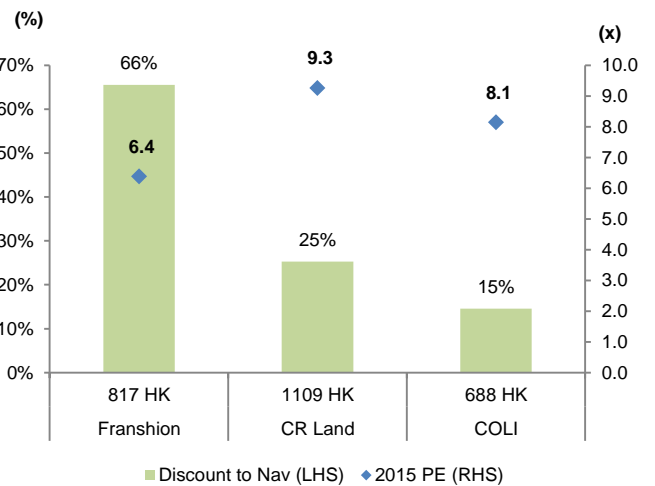
Exhibit 16: Franshion's presales performance (residential and commercial) in 2013-July 2014
Exhibit 17: Franshion's land sales in 2013-July 2014


Source(s): Company; ABCI Securities

Source(s): Company; ABCI Securities

Exhibit 18: Franshion's share buyback in 2014
Exhibit 19: Franshion's valuation compared to other SOE developers

Date	No of share mn	avg price HK\$	amount HK\$mn
21-Nov-14	3.0	2.10	6.3
25-Nov-14	5.0	2.15	10.7
26-Nov-14	6.0	2.18	13.1
28-Nov-14	2.0	2.19	4.4
01-Dec-14	4.0	2.16	8.6
02-Dec-14	8.9	2.20	19.5
03-Dec-14	3.0	2.23	6.7
04-Dec-14	1.5	2.26	3.4
08-Dec-14	2.0	2.22	4.4
10-Dec-14	4.0	2.16	8.7
11-Dec-14	2.0	2.16	4.3
12-Dec-14	2.0	2.21	4.4
15-Dec-14	5.0	2.24	11.2
16-Dec-14	10.0	2.22	22.2
17-Dec-14	10.0	2.22	22.2
18-Dec-14	13.0	2.28	29.7
19-Dec-14	11.9	2.32	27.7
Total	93.3	2.23	207.6



Source(s): HKex; ABCI Securities

Source(s): Bloomberg; ABCI Securities estimates



Exhibit 20: Franshion's FY15E NAV

	Attr. GFA (mn sqm)	Net assets value (HKD mn)	% of total	Valuation Methodology	Implied value per sqm (HKD)
Property development					
Beijing	0.8	8,450	11%	DCF at WACC of 9.6%	10,031
Shanghai	0.6	13,699	17%		22,860
Changsha	1.5	2,540	3%		1,730
Suzhou	0.3	1,835	2%		6,699
Chongqing	1.1	7,510	9%		6,569
Others	2.6	11,741	15%		4,511
Subtotal	5.8	45,775	58%		7,910
Primary Land Development	4.1	14,731	19%	Mkt value	3,628
Investment Properties	0.5	11,096	14%	8.5% cap rate on net rental income	
Hotels		7,664	10%	Market value of stake in Jinmao investment (6139 HK)	
Total 2015E GAV		79,266	100%		
2015E Net debt (including Perpetual convertible securities)		(18,441)	-23%		
Total 2015E NAV		60,825	77%		
No. of share outstanding		9,161			
NAV per share (HKD)		6.64			
Target discount (%)		50%			
Target Price (HKD)		3.30			
WACC	9.6%				
Cost of debt	6.5%				
Cost of Equity	15.0%				
Debt/ (Debt + Equity)	53%				

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2012A-2016E)

FY Ended Dec 31 (HK\$ mn)	2012A	2013A	2014E	2015E	2016E
Revenue	17,176	20,719	33,966	35,063	39,451
Cost of sales	(9,977)	(11,519)	(20,155)	(19,664)	(21,120)
Gross Profit	7,199	9,200	13,811	15,400	18,331
SG&A expenses	(1,407)	(1,785)	(2,045)	(2,590)	(2,912)
EBIT	5,792	7,415	11,765	12,810	15,419
Finance cost	(986)	(1,325)	(1,650)	(1,758)	(1,758)
Share of profit of associates	2	2	0	0	446
Other income/ (expenses)	284	524	299	421	658
Fair value gain of investment properties	1,626	1,831	0	0	0
Disposal/one-off items	5	0	0	0	0
Profit before tax	6,723	8,448	10,414	11,473	14,765
Tax	(2,783)	(3,393)	(4,895)	(5,470)	(6,903)
Profit after tax	3,940	5,055	5,520	6,003	7,862
Minority interest	(563)	(807)	(2,389)	(2,471)	(3,148)
Reported net profit	3,378	4,247	3,131	3,532	4,714
Less: exceptional items	(1,223)	(1,337)	0	(0)	(0)
Underlying net profit	2,154	2,910	3,131	3,532	4,714
Per share					
Underlying EPS (HK\$)	0.23	0.30	0.32	0.36	0.47
DPS (HK\$)	0.07	0.10	0.10	0.12	0.16
Payout ratio (%)	31%	32%	32%	33%	33%
BVPS (HK\$)	2.58	3.07	3.32	3.59	3.95
Growth %					
Revenue	160.6%	20.6%	63.9%	3.2%	12.5%
Gross Profit	101.4%	27.8%	50.1%	11.5%	19.0%
EBIT	139.7%	28.0%	58.7%	8.9%	20.4%
Underlying net profit	48.0%	35.1%	7.6%	12.8%	33.5%
Margin %					
Gross margin	41.9%	44.4%	40.7%	43.9%	46.5%
Gross margin (post-LAT)	19.3%	15.0%	20.8%	20.6%	21.9%
EBIT margin	33.7%	35.8%	34.6%	36.5%	39.1%
Core net margin	15.8%	17.8%	16.3%	17.1%	18.8%
Key assumptions					
Presales (HK\$m)	13,230	18,384	23,181	33,190	35,493
GFA sold (m sqm)	0.31	0.57	0.96	0.96	0.84
ASP (HK\$/sqm)	43,009	32,087	24,033	34,419	42,504
Booked Sales (HK\$)	10,796	9,708	26,450	25,060	27,760
GFA delivered (m sqm)	0.46	0.22	0.88	0.77	0.73
Booked ASP (HK\$/sqm)	23,328	44,144	30,123	32,347	37,839

Source: Company, ABCI Securities estimates



Consolidated balance sheet (2012A-2016E)

As of Dec 31 (HK\$ mn)	2012A	2013A	2014E	2015E	2016E
Current assets	38,199	46,720	45,470	57,097	67,362
Cash	12,888	14,490	14,818	26,650	38,520
Restricted cash	576	303	303	303	303
Trade & other receivables	2,003	4,202	4,202	4,202	4,202
Properties under development	10,384	10,714	10,714	10,714	10,714
Properties held for sale	3,078	5,915	5,915	5,915	5,915
Land under development	6,696	5,163	3,585	3,379	1,774
Other current assets	12,348	17,011	15,433	15,228	13,623
Non-current assets	44,303	74,123	81,141	76,089	66,914
Property, plant & equipment	6,956	7,495	8,026	8,548	9,063
Properties under development	13,047	33,318	39,806	36,231	26,095
Land under development	5,408	4,549	4,549	2,549	2,549
Investment properties	16,575	22,018	22,018	22,018	22,018
Investment in Associate and JCE	39	42	42	42	488
Other non-current assets	2,279	6,700	6,700	6,700	6,700
Total Assets	82,502	120,843	126,611	133,186	134,276
Current Liabilities	25,726	39,604	36,531	38,525	33,529
Short term borrowings	8,952	6,139	11,139	11,139	11,139
Trade & other payables	6,233	9,504	9,504	9,504	9,504
Pre-sales deposits	8,235	16,749	8,677	10,670	5,674
Other current liabilities	2,306	7,212	7,212	7,212	7,212
Non-current liabilities	22,273	34,020	34,020	34,020	34,020
Long term borrowings	19,323	29,667	29,667	29,667	29,667
Other payables	-	-	-	-	-
Other non-current liabilities	2,950	4,353	4,353	4,353	4,353
Total Liabilities	47,999	73,624	70,551	72,545	67,548
Net Assets	34,503	47,219	56,060	60,641	66,727
Shareholders Equity	24,290	28,974	30,957	33,430	36,730
Perpetual Convertible Securities	4,588	4,588	4,588	4,588	4,588
Minority Interest	5,625	13,658	20,514	22,623	25,409
Total Equity	34,503	47,219	56,060	60,641	66,727
Key ratio					
Gross debt (HK\$m)	28,275	35,806	40,806	40,806	40,806
Net debt (HK\$m)	14,811	21,013	25,685	13,853	1,982
Net gearing (%)	51%	63%	72%	36%	5%
Presales/ Total assets (x)	0.16	0.15	0.18	0.25	0.26

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2012A-2016E)

FY ended Dec 31 (HK\$ mn)	2012A	2013A	2014E	2015E	2016E
EBITDA	6,022	7,684	12,042	13,095	15,713
Change in Working Capital	(4,186)	(10,505)	(12,142)	8,668	7,639
Tax payment	(1,137)	(2,365)	(4,895)	(5,470)	(6,903)
Operating Cash flow	699	(5,186)	(4,994)	16,293	16,449
Purchase of PP&E	(310)	(808)	(808)	(808)	(808)
Addition of Investment Properties	(20)	0	0	0	0
Investment in Associate/ JCE	0	0	0	0	0
Proceeds from Disposals	0	0	0	0	0
Others	(968)	32	299	421	658
Investing Cash flow	(1,298)	(776)	(509)	(387)	(150)
Debt raised	16,488	25,961	10,000	10,000	10,000
Debt repaid	(13,369)	(21,339)	(5,000)	(10,000)	(10,000)
Interest expenses	(949)	(1,947)	(2,490)	(2,652)	(2,652)
Equity raised	0	0	0	0	0
Convertible securities coupon payments	(317)	(317)	(312)	(312)	(312)
Dividend to shareholders	(366)	(641)	(939)	(1,060)	(1,414)
Others	(222)	5,848	4,572	(50)	(50)
Financing Cash flow	1,264	7,564	5,831	(4,074)	(4,429)
Net cash inflow/ (outflow)	665	1,602	328	11,832	11,870
Cash- beginning	12,224	12,888	14,490	14,818	26,650
Cash- year-end	12,888	14,490	14,818	26,650	38,520

Source(s): Company, ABCI Securities estimates



January 23, 2015
Company Report
Rating: BUY
TP: HK\$ 28.30

Share price (HK\$)	24.15
Est. share price return	17.2%
Est. dividend yield	2.2%
Est. total return	17.2%

Previous Rating & TP	HOLD; HK\$ 23.70
Previous Report Date	Oct 16, 2014

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

Key Data

52Wk H/L(HK\$)	26.7/17
Issued shares (mn)	8,173
Market cap	197,400
3-mth avg daily turnover (HK\$ mn)	560.7
Major shareholder(s) (%):	
China State Construction	53.18
Engineering Corporation	
Source(s): Company, Bloomberg, ABCI Securities	

FY13 Revenue breakdown (%)

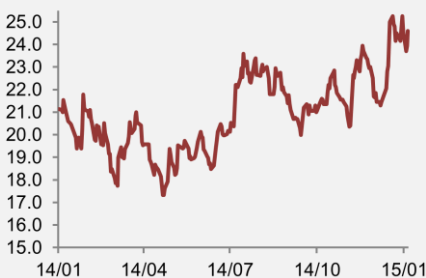
Property Development	95.3
Property Investment	1.0
Others	3.6
Source(s): Company, ABCI Securities	

Share performance (%)

	Absolute	Relative*
1-mth	15.5	10.1
3-mth	15.2	9.7
6-mth	10.8	9.3

*Relative to HSI
Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

COLI (688 HK)
All set to soar in 2015

- We expect presales growth to resume to 20% YoY in 2015 on low base (2% YoY growth in 2014) and enlarged landbank (land acquired in 2014: 11.7mn sqm)
- Asset injection is likely to occur in 2015, helping the Group to strengthen its landbank and reduce internal competition
- Upgrade to BUY from Hold with revised TP of HK\$ 28.30 (from HK\$ 23.70) based on no discounts to NAV

Presales set to rebound in 2015 on low base and enlarged landbank. COLI achieved HK\$ 140.9bn of presales in 2014, up 2% YoY and sold a total GFA of 9.4mn sqm (+2% YoY) at an ASP of HK\$ 15k/sqm (unchanged YoY) in 2014. The Group's deliberate effort in upholding its ASP and maintaining profitability level could be reason of its tepid growth at 2% YoY in 2014, slower than the peer average of 18% YoY. In 2015, we expect COLI's presales momentum to rebound and growth would return to the 20% level, which is in line with its historical growth rate of 20%-30% in 2012-13. Apart from the low base in 2014, COLI's active land acquisition during the property downturn will significantly increase its saleable resources. The Group acquired a total GFA of 11.7 mn sqm at RMB 42.4bn in 2014, representing 38% of presales of the same year. By cost, 40% of the acquisition takes place in first-tier cities in Guangzhou and Beijing, where we expect strong recovery on recent rate cut. We believe COLI's cyclical land purchase will allow it to outperform as the property sector recovers.

Asset injection likely to occur in 2015. In 2014, COLI's parent company, CSCEC, entrusted its property business to COLI. Pursuant to the Entrusted Agreement, CSCEC agreed to entrust COLI to provide management services to its 24 project companies (estimated to have an aggregate landbank of 10mn sqm) for a term of 3 years at a fee of not more than HK\$ 100mn per annum. We expect progress of asset injection to speed up in 2015, following various SOE reforms and asset injections in SOEs such as CITIC (267 HK) and CR Land (1109 HK). CR Land's share price rose 11% after announcing its asset injection, outperforming the 5%-6% rise seen in its SOE peers. We believe asset injection will be positive to COLI by strengthening its landbank and reducing internal competition.

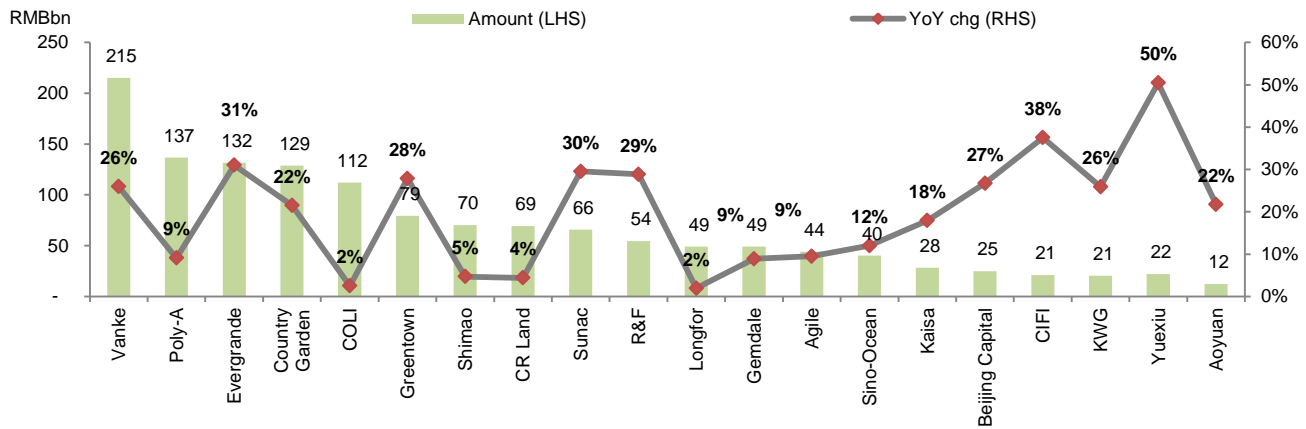
Upgrade to BUY with revised TP at HK\$28.30; upgrade to BUY with TP revised to HK\$ 28.30. As litigation risk emerges among non-SOE developers, we expect market share of SOE developers to increase in 2015, while small/mid-cap private developer would turn cautious to ensure their businesses are fully compliant with relevant laws and regulations. We revise our FY15E NAV to HK\$ 28.3/shr (HK\$ 24.4/shr) on the expectation that presales and ASP would increase on recent rate cut. We lift its TP to HK\$ 28.3 (previous: HK\$ 24.4) with no discounts to NAV. We upgrade COLI from **HOLD** to **BUY**. COLI is our preferred large-cap SOE play in the sector.

Risk factors: 1) Rising litigation risk across the sector; 2) Asset injection at premiums to market value.

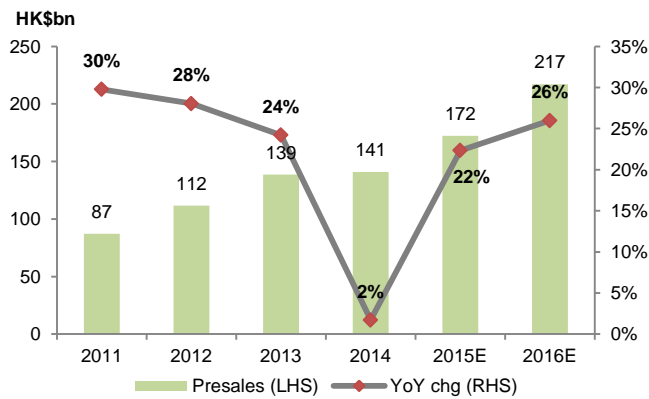
Results and Valuation

FY ended Dec 31	2012A	2013A	2014E	2015E	2016E
Revenue (HK\$ mn)	64,581	82,469	128,657	137,622	172,564
Chg (% YoY)	25.8	27.7	56.0	7.0	25.4
Core net profit (HK\$ mn)	15,800	18,960	21,959	24,241	32,840
Chg (% YoY)	25.9	20.0	15.8	10.4	35.5
Underlying EPS (HK\$)	1.93	2.32	2.69	2.97	4.02
Chg (% YoY)	25.9	20.0	15.8	10.4	35.5
BVPS (HK\$)	10.68	13.46	15.61	17.98	21.19
Chg (% YoY)	21.8	26.0	16.0	15.2	17.9
Underlying PE (x)	12.5	10.4	9.0	8.1	6.0
PB (x)	2.3	1.8	1.5	1.3	1.1
ROE (%)	18.1	17.2	17.2	16.5	19.0
ROA (%)	6.9	6.4	6.9	7.6	10.7
DPS (HK\$)	0.41	0.47	0.54	0.59	0.80
Dividend yield (%)	1.7	1.9	2.2	2.5	3.3
Net gearing (%)	20.5	28.5	20.8	24.4	(16.3)

*Net gearing=Net debt/Total Shareholders' equity
Source(s): Bloomberg, ABCI Securities estimates

Exhibit 21: Presales growth in 2014 among PRC developers


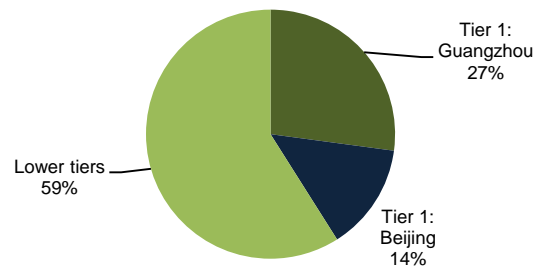
Source(s): Companies, ABCI Securities

Exhibit 22: COLI's presales in 2011-2016E (HK\$ bn)


Source(s): Company, ABCI Securities estimates

Exhibit 23: COLI's land acquisition (2014)

Total land capex in 2014: RMB 42.4bn



Source(s): Company, ABCI Securities

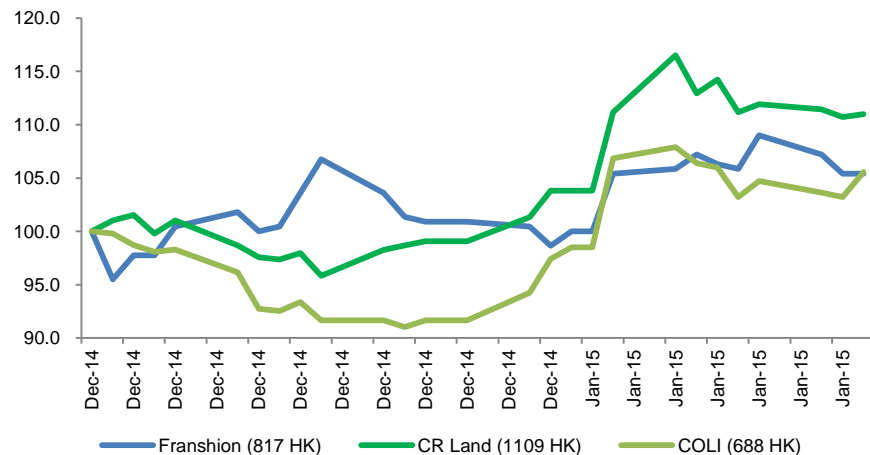
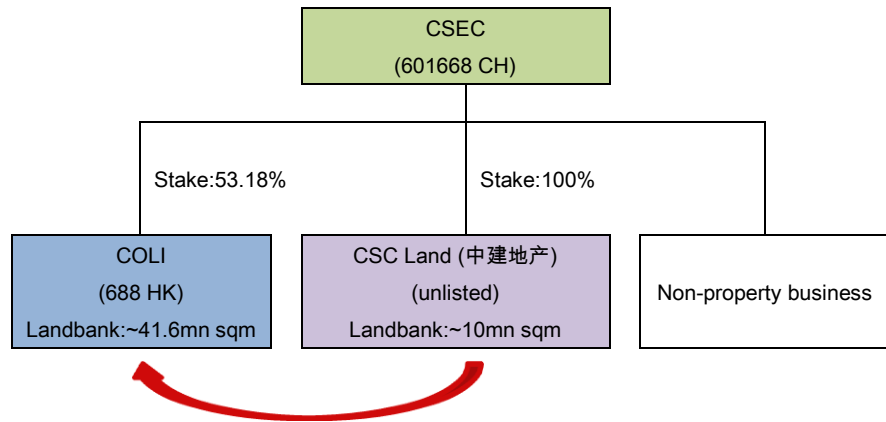
Exhibit 24: CR Land's share price performance after the announcement of asset injection (Dec 8, 2014=100)




Exhibit 25: Potential asset injection to COLI



Source(s): Company, ABCI Securities

Exhibit 26: COLI's FY15E NAV

	Attr. GFA (mn sqm)	Net asset value (HKD mn)	% of total	Valuation Methodology	Implied value per sqm (HK\$)
Property development					
Hua Nan	8.6	54,176	20%	DCF at WACC of 7.3%	6,316
Hua Dong	9.3	54,725	21%		5,882
Hua Bei	5.3	17,090	6%		3,245
Northern	10.6	57,741	22%		5,457
Western	6.5	44,709	17%		6,914
HK & Macau	0.28	13,260	5%		46,837
Subtotal	40.5	241,701	91%		5,971
Investment Properties		25,108	9%	5.0% cap rate on 2014E net rental income	
Total 2015E GAV		266,809	100%		
2015E Net debt		(35,830)	-13%		
Total 2015E NAV		230,979	87%		
No. of share outstanding		8,173			
NAV per share (HK\$)		28.3			
Target Premium/ (discount) (%)		0%			
Target Price (HK\$)		28.30			
WACC					
WACC	7.3%				
Cost of debt	3.5%				
Cost of Equity	10.0%				
Debt/ (Debt + Equity)	36%				

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2012A-2016E)

FY Ended Dec 31 (HK\$ mn)	2012A	2013A	2014E	2015E	2016E
Revenue	64,581	82,469	128,657	137,622	172,564
Cost of sales	(39,855)	(55,647)	(85,085)	(93,971)	(118,070)
Gross Profit	24,725	26,822	43,572	43,651	54,494
SG&A expenses	(2,037)	(2,817)	(2,914)	(3,246)	(3,698)
EBIT	22,689	24,005	40,657	40,406	50,795
Finance cost	(286)	(290)	(419)	(440)	(440)
Share of profit of associates	2,637	3,773	750	854	957
Other income/ (expenses)	696	904	526	498	826
Fair value gain of investment properties	3,651	3,438	0	0	0
Disposal/one-off items	35	1,458	0	0	0
Profit before tax	29,422	33,289	41,514	41,318	52,139
Tax	(10,590)	(10,110)	(17,052)	(15,271)	(17,656)
Profit after tax	18,832	23,179	24,461	26,047	34,483
Minority interest	(110)	(135)	(2,503)	(1,806)	(1,643)
Reported net profit	18,722	23,044	21,959	24,241	32,840
<i>Less: exceptional items</i>	<i>(2,922)</i>	<i>(4,084)</i>	<i>0</i>	<i>0</i>	<i>0</i>
Underlying net profit	15,800	18,960	21,959	24,241	32,840
Per share					
Underlying EPS (HKD)	1.93	2.32	2.69	2.97	4.02
DPS (HKD)	0.41	0.47	0.54	0.59	0.80
Payout ratio (%)	21%	20%	20%	20%	20%
BVPS (HKD)	10.68	13.46	15.61	17.98	21.19
Growth %					
Revenue	25.8%	27.7%	56.0%	7.0%	25.4%
Gross Profit	19.6%	8.5%	62.4%	0.2%	24.8%
EBIT	20.8%	5.8%	69.4%	-0.6%	25.7%
Underlying net profit	25.9%	20.0%	15.8%	10.4%	35.5%
Margin %					
Gross margin	38.3%	32.5%	33.9%	31.7%	31.6%
Gross margin (post-LAT)	32.1%	28.9%	27.9%	27.9%	28.9%
EBIT margin	35.1%	29.1%	31.6%	29.4%	29.4%
Core net margin	20.8%	19.1%	18.4%	18.3%	19.4%
Key assumptions					
Presales (HKDm)	111,520	138,520	140,900	172,389	217,186
GFA sold (m sqm)	7.29	9.23	9.63	11.57	13.55
ASP (HKD/sqm)	15,295	15,008	14,633	14,903	16,033
Booked Sales (HKD)	61,407	78,615	124,331	132,740	167,043
GFA delivered (m sqm)	4.18	5.40	7.16	5.03	4.29
Booked ASP (HKD/sqm)	14,691	14,558	17,363	26,414	38,965

Source: Company, ABCI Securities estimates



Consolidated balance sheet (2012A-2016E)

As of Dec 31 (HK\$ mn)	2012A	2013A	2014E	2015E	2016E
Current assets	180,268	241,216	259,979	257,069	243,497
Cash	40,880	41,411	46,182	36,869	100,847
Trade & other receivables	2,599	2,431	2,431	2,431	2,431
Property under development	111,752	164,362	178,354	184,757	107,207
Other current assets	25,036	33,012	33,012	33,012	33,012
Non-current assets	49,557	55,307	57,521	59,840	62,262
Property, plant & equipment	976	1,371	1,436	1,500	1,564
Investment properties	23,657	32,532	34,032	35,532	37,032
Investment in Associate and JCE	17,192	15,930	16,581	17,335	18,192
Other non-current assets	7,732	5,473	5,473	5,473	5,473
Total Assets	229,825	296,522	317,500	316,909	305,758
Current Liabilities	83,975	110,928	111,886	90,146	51,131
Short term borrowings	5,546	3,303	3,303	3,303	3,303
Trade & other payables	16,917	21,523	21,523	21,523	21,523
Pre-sales deposits	40,506	61,414	62,373	40,633	1,617
Other current assets	21,007	24,687	24,687	24,687	24,687
Non-current liabilities	58,292	74,544	74,544	74,544	74,544
Long term borrowings	53,243	69,397	69,397	69,397	69,397
Other payables	2,018	582	582	582	582
Other non-current assets	3,031	4,566	4,566	4,566	4,566
Total Liabilities	142,268	185,472	186,430	164,690	125,675
Net Assets	87,557	111,050	131,070	152,219	180,084
Shareholders Equity	87,244	109,971	127,538	146,930	173,202
Minority Interest	313	1,080	3,532	5,289	6,881
Total Equity	87,557	111,050	131,070	152,219	180,084
Key ratio					
Gross debt (HKDm)	58,789	72,700	72,700	72,700	72,700
Net debt (HKDm)	17,908	31,288	26,517	35,830	(28,148)
Net gearing (%)	20.5%	28.5%	20.8%	24.4%	-16.3%
Presales/ Total assets (x)	0.49	0.47	0.44	0.54	0.71

Source: Company, ABCI Securities estimates



Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31 (HK\$ mn)	2012A	2013A	2014E	2015E	2016E
EBITDA	22,741	24,057	40,710	40,458	50,848
Change in Working Capital	(7,539)	(27,854)	(10,711)	(25,704)	40,975
Tax payment	(8,153)	(10,110)	(17,052)	(15,271)	(17,656)
Operating Cashflow	7,050	(13,907)	12,947	(516)	74,167
Purchase of PP&E	(117)	(117)	(117)	(117)	(117)
Addition of Investment Properties	(1,587)	(1,500)	(1,500)	(1,500)	(1,500)
Others	3,209	1,004	626	598	926
Investing Cashflow	1,506	(612)	(991)	(1,019)	(691)
Debt raised	16,048	31,248	10,000	10,000	10,000
Debt repaid	(11,003)	(10,000)	(10,000)	(10,000)	(10,000)
Interest expenses	(1,745)	(2,307)	(2,742)	(2,880)	(2,880)
Equity raised	0	0	0	0	0
Dividend to shareholders	(3,024)	(3,841)	(4,392)	(4,848)	(6,568)
Others	12,869	(50)	(50)	(50)	(50)
Financing Cashflow	13,146	15,050	(7,184)	(7,778)	(9,498)
Net cash inflow/ (outflow)	21,701	531	4,771	(9,313)	63,978
Cash- beginning	19,179	40,880	41,411	46,182	36,869
Cash- year-end	40,880	41,411	46,182	36,869	100,847

Source: Company, ABCI Securities estimates

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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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