



August 27, 2014
Company Report
Rating: BUY
TP: HK\$ 4.00

Share price (HK\$) 3.38
Est. share price return 18.3%
Est. dividend yield 7.2%
Est. total return 25.5%

Previous Rating & TP BUY; HK\$ 4.10
Previous Report Date Jul 17, 2014

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Key Data

52Wk H/L(HK\$)	4.08/2.73
Issued shares (mn)	16,047
Market cap (HK\$ mn)	49,834
3-mth avg daily turnover (HK\$ mn)	129.8
Major shareholder(s) (%): HUI Ka Yan	70.10

Source(s): Company, Bloomberg, ABCI Securities

FY13 Revenue breakdown (%)

Property development	98.5
Property investment	0.1
Property management	0.8
Others	0.6

Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	(2.6)	(5.1)
3-mth	14.2	4.8
6-mth	17.9	5.5

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Evergrande (3333 HK)

Growing presales, higher gearing; maintain BUY

- 1H14 core net profit jumped 39.3% YoY to RMB 6.49bn.
- Gross margin improved 1.3ppt to 28.3% in 1H14. Management expects gross margin to improve in 2H on higher ASP
- Net gearing surged from 70% in Dec 2013 to 90% in June 2014. Additional PCI of RMB 17.7bn may lead to higher coupon payments
- Maintain **BUY** with revised TP of HK\$ 4.00 (from HK\$4.10) based on an unchanged discount of 60% to FY14E NAV

Fast growth with better margins. 1H14 core profit surged 39.3% YoY to RMB 6.49bn, as booked revenue jumped 51% YoY while gross margin rose 1.3ppt YoY to 28.3%. Core net margin edged down 0.9ppt YoY to 10.2% in 1H14 on significant rises in advertising and marketing expenses for new mineral water business. Operating losses of non-property segment escalated to RMB 2.1bn in 1H14 from just RMB 659mn in 1H13. Management suggested marketing expenses should fall gradually by 2015 once its water business scales up. Besides, they are positive on gross margin outlook in 2H14, as presales ASP of RMB 7k/sqm in 1H14 is 11.8% above booked ASP of RMB 6.3k/sq. Evergrande also enforces product standardization, which leads to RMB659mn of construction cost saving in 1H14. On the presales front, Evergrande's 7M14 presales rose 52% to RMB 80.12bn, representing 72.8% of its RMB 110bn target. Overall, Evergrande's interim results are satisfactory.

Increased net gearing could be a concern. However, net gearing (including perpetual as equity) surged from 70% in Dec 2013 to 90% in June 2014 due to the land capex of RMB17.7bn for 4.7mn sqm of land. In particular, perpetual capital instrument (PCI), which is considered by some as debt, increased by RMB 17.58bn during the period. The surge in coupon payment for PCI reduced net profit attributable to shareholder by RMB 1.88bn in 1H14, and the full-year coupon payment could reach RMB 5.0bn based on our estimates (assuming a coupon rate of ~11%). However, there are advantages of onshore PCI, which includes the option to defer coupon payment, tax deductibility, and low refinancing risk. As investors in China become more familiar with PCI, Evergrande may be able to lower coupon rate in future borrowings.

Diversified into new non-property business. Beside water business, the Group will also foray into the agriculture and dairy businesses. Management believe such products could leverage on the brand name of Evergrande and expand their operational scales rapidly. Management also believe water business is likely to generate profit in 2015.

Maintain BUY on Evergrande with revised TP at HK\$4.00. We lower our FY14E core profit (attributable to shareholders) by 9% on increased PCI coupon payments. We revise down our TP to HK\$ 4.00 (from HK\$ 4.10) based on an unchanged 60% discount to NAV. While we are impressed by the Group's 1H14 margins and presales, its balance sheet looks stretched with the excessive use of PCI as a funding source. Nonetheless, the counter's valuation looks attractive with 4.9x 2014 P/E and a 7.2% yield. Maintain **BUY**.

Results and Valuation

FY ended Dec 31	2012A	2013A	2014E	2015E	2016E
Revenue (RMB mn)	65,261	93,672	136,670	175,585	195,788
Chg (% YoY)	5.4	43.5	45.9	28.5	11.5
Underlying Net Income (RMB mn) ¹	6,200	10,310	8,161	12,727	15,039
Chg (% YoY)	(21.2)	66.3	(20.8)	55.9	18.2
Underlying EPS (RMB)	0.41	0.64	0.55	0.86	1.02
Chg (% YoY)	(21.7)	55.3	(13.8)	55.9	18.2
BVPS (RMB)	2.6	4.6	6.3	6.9	7.5
Chg (% YoY)	16.3	79.7	37.5	8.9	9.7
Underlying PE (x)	6.5	4.2	4.9	3.1	2.7
P/B (x)	1.1	0.6	0.4	0.4	0.4
ROE (%)	16.2	14.0	8.8	12.6	13.5
ROA (%)	2.6	3.0	2.2	3.3	3.8
DPS(HK\$)	0.14	0.43	0.19	0.30	0.36
Yield (%)	5.2	15.9	7.2	11.2	13.2
Net gearing ² (%)	91.7	74.9	67.3	24.5	(16.4)

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

²Net gearing = Net debt/Total equity

Source(s): Bloomberg, ABCI Securities estimates

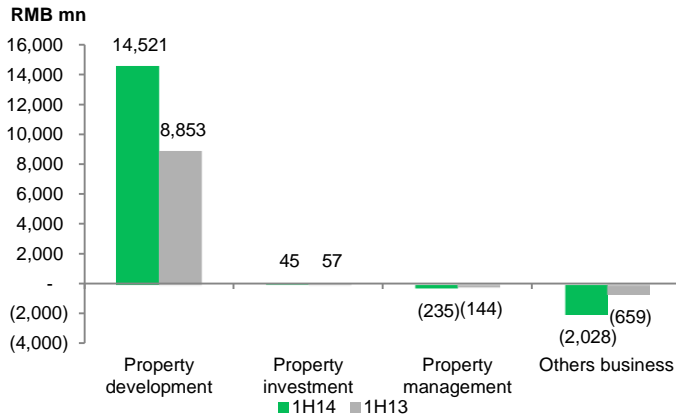


Exhibit 1: Evergrande's 1H14 results

P&L	1H14	1H13	YoY Chg	Operating statistics	1H14	1H13	YoY Chg
	RMB mn	RMB mn	(%)				
Turnover	63,337	41,952	51	Presales GFA (mn sqm)	9.8	6.6	47
Cost of Sales & direct operating costs	(45,242)	(30,500)	48	Presales ASP (RMB/sqm)	7,076	6,711	5
Gross Profit	18,095	11,452	58	Presales (RMB mn)	69,320	44,610	55
Gross Margin (%)	28.6	27.3	1.3	GFA Delivered (mn sqm)	9.8	6.9	42
Selling and distribution costs	(3,539)	(1,498)	136	Booked ASP (RMB/sqm)	6,329	5,980	6
Administrative expense	(2,698)	(2,087)	29	Property sales booked (RMB mn)	62,029	41,289	50
EBIT	11,858	7,867	51				
EBIT Margin (%)	18.7	18.8	(0.0)	Balance sheet	Jun 14	Dec 13	HoH %
					RMB mn	RMB mn	
Other income, gains and losses	514	425	21	Gross debt	151,781	108,817	39
Fair value gain of investment properties	4,408	2,891	52	Cash	64,034	53,653	19
Exchange gain/(losses)	(215)	137	na	Net debt	87,747	55,164	59
Share of profit from JCE/ Associates	0	0	0	Net gearing- PCI as equity (%)	90	70	20
Finance cost	(10)	(19)	(48)	Net gearing- PCI as debt (%)	248	148	100
Profit before tax	16,555	11,301	46				
Tax	(7,060)	(4,786)	48				
- LAT	(2,527)	(1,678)	51				
- Enterprise tax	(4,533)	(3,108)	46				
Profit after tax	9,495	6,515	46				
Minority Interest and perpetual capital instrument	(2,401)	(227)	956				
Net profit	7,094	6,287	13				
Core net profit	6,490	4,660	39				
Core net profit- post MI and perpetual	4,089	4,433	(8)				

Source(s): Company, ABCI Securities

Exhibit 2: Evergrande's EBIT by segment



Source(s): Company, ABCI Securities

Exhibit 3: Evergrande 1H14 and 2H14E cash flow guidance

RMB bn	1H14	2H14E
Presales	53	55
Land	(38)	(21)
Construction	(32)	(24)
Interest expenses	(6)	(8)
Tax, share buyback and others	(27)	(26)
Total cash outflow	(103)	(79)
Net operating cashflow	(50)	(24)
New borrowings	43	19
New perpetual raised	18	9
Net cashflow	10	4

Source(s): Company, ABCI Securities estimates



Exhibit 4: Evergrande's FY14E NAV

	Attr. GFA (M sqm)	Net assets value (RMB m)	% of total	Valuation Methodology	Implied value per sqm (RMB)
Property development					
Guangdong	14.8	17,040	8%		1,148
Liaoning	13.2	13,321	6%		1,007
Jiangsu	12.9	13,211	6%		1,022
Hebei	11.7	13,105	6%	DCF at	1,116
Shandong	10.8	12,137	6%	WACC of	1,125
Anhui	10.0	9,648	5%	11.1%	969
Henan	7.7	8,189	4%		1,065
Hunan	5.4	5,636	3%		1,052
Others	64.2	92,848	45%		1,446
Subtotal	150.8	185,135	89%		1,228
Investment Properties		18,019	9%	0.5x Book value	
Football business		1,200	1%	50% stake sold to Jack Ma at RMB1.2bn	
Huaxia Bank		3,098	1%	Mkt value of 4.5% stake	
Water business		-	0%		
Total 2014E GAV		207,452	100%		
2014E Net debt		(46,206)	-22%		
Perpetual capital instrument		(42,604)	-21%		
Total 2014E NAV		118,643	57%		
No. of share outstanding (diluted)		14,742			
NAV per share (RMB)		8.05			
Ex rate		1.25			
NAV per share (HKD)		10.06			
Target discount (%)		60%			
Target Price (HKD)		4.00			
WACC					
Cost of debt		10.0%			
Cost of equity		15.0%			
Debt/ (Debt + Equity)		52%			

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2012-2016E)

FY Ended Dec 31 (RMB mn)	2012A	2013A	2014E	2015E	2016E
Revenue	65,261	93,672	136,670	175,585	195,788
Cost of sales	(47,050)	(66,023)	(98,497)	(125,147)	(138,016)
Gross Profit	18,210	27,649	38,173	50,438	57,772
SG&A expenses	(6,783)	(9,462)	(14,188)	(17,587)	(19,081)
EBIT	11,428	18,187	23,985	32,851	38,691
Finance cost	(54)	(34)	(46)	(43)	(43)
Share of profit of associates	0	0	0	0	0
Other income/ (expenses)	631	699	1,078	1,342	1,557
Fair value gain of investment properties	0	0	0	0	0
Disposal/one-off items	4,485	6,545	0	0	0
Profit before tax	16,490	25,396	25,017	34,150	40,204
Tax	(7,308)	(11,687)	(11,919)	(15,935)	(18,779)
Profit after tax	9,182	13,709	13,098	18,215	21,425
Minority interest	(11)	(1,097)	(4,937)	(5,488)	(6,386)
Reported net profit	9,171	12,612	8,161	12,727	15,039
<i>Less: exceptional items</i>	<i>(2,971)</i>	<i>(2,302)</i>	<i>0</i>	<i>(0)</i>	<i>0</i>
Underlying net profit	6,200	10,310	8,161	12,727	15,039
Per share					
Underlying EPS (RMB)	0.41	0.64	0.55	0.86	1.02
DPS (RMB)	0.14	0.43	0.19	0.30	0.36
Payout ratio (%)	34%	67%	35%	35%	35%
BVPS (RMB)	2.55	4.59	6.31	6.87	7.53
Growth %					
Revenue	5.4%	43.5%	45.9%	28.5%	11.5%
Gross Profit	-11.6%	51.8%	38.1%	32.1%	14.5%
EBIT	-23.5%	59.1%	31.9%	37.0%	17.8%
Underlying net profit	-21.2%	66.3%	-20.8%	55.9%	18.2%
Margin %					
Gross margin	27.9%	29.5%	27.9%	28.7%	29.5%
Gross margin (post-LAT)	24.5%	24.7%	23.8%	24.5%	25.0%
EBIT margin	17.5%	19.4%	17.5%	18.7%	19.8%
Core net margin	8.9%	9.4%	9.6%	10.4%	10.9%
Key assumptions					
Presales (RMB mn)	92,320	100,400	137,772	182,180	200,694
GFA sold (m sqm)	15.49	14.89	19.57	25.29	27.30
ASP (RMB/sqm)	5,962	6,741	7,041	7,203	7,353
Booked Sales (RMB)	63,507	92,235	133,851	172,670	192,792
GFA delivered (m sqm)	10.64	14.96	19.24	24.16	26.39
Booked ASP (RMB/sqm)	5,972	6,166	6,956	7,148	7,306

Source: Company, ABCI Securities estimates



Consolidated balance sheet (2012A-2016E)

As of Dec 31 (RMB mn)	2012A	2013A	2014E	2015E	2016E
Current assets	200,544	289,378	306,515	320,929	337,998
Cash	17,790	40,118	32,671	70,501	113,454
Restricted cash	7,399	13,535	13,535	13,535	13,535
Trade & other receivables	5,785	9,512	9,512	9,512	9,512
Property under development	148,452	184,833	209,417	186,001	160,117
Other current assets	21,117	41,381	41,381	41,381	41,381
Non-current assets	38,447	58,770	61,010	59,837	58,541
Property, plant & equipment	8,559	11,378	10,318	9,145	7,849
Investment properties	24,942	36,039	36,039	36,039	36,039
Investment in Associate and JCE	0	0	0	0	0
Other non-current assets	4,946	11,353	14,653	14,653	14,653
Total Assets	238,991	348,148	367,525	380,766	396,538
Current Liabilities	150,378	188,198	188,381	193,450	199,501
Short term borrowings	19,031	35,796	35,796	35,796	35,796
Trade & other payables	77,788	99,895	99,895	99,895	99,895
Pre-sales deposits	44,833	39,000	39,184	44,253	50,304
Other current assets	8,725	13,506	13,506	13,506	13,506
Non-current liabilities	46,921	80,608	80,608	80,608	80,608
Long term borrowings	41,243	73,021	73,021	73,021	73,021
Other payables	0	0	0	0	0
Other non-current assets	5,678	7,587	7,587	7,587	7,587
Total Liabilities	197,299	268,806	268,989	274,059	280,109
Net Assets	41,691	79,343	98,536	106,708	116,429
Shareholders Equity	38,264	73,614	93,016	101,288	111,064
Minority Interest	3,428	5,729	5,520	5,420	5,365
Total Equity	41,691	79,343	98,536	106,708	116,429
Key ratio					
Gross debt (RMB mn)	60,274	108,817	108,817	108,817	108,817
Net debt (RMB mn)	35,084	55,164	62,612	24,782	(18,171)
Net gearing (%)	92%	75%	67%	24%	-16%
Presales/ Total assets (x)	0.39	0.29	0.37	0.48	0.51

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2012A-2016E)

FY ended Dec 31 (RMB mn)	2012A	2013A	2014E	2015E	2016E
EBITDA	12,017	19,214	25,115	34,093	40,058
Change in Working Capital	(5,064)	(44,409)	(13,564)	38,780	42,229
Tax payment	(6,897)	(5,850)	(11,919)	(15,935)	(18,779)
Operating Cashflow	55	(31,045)	(369)	56,938	63,508
Addition of PP&E and IP	(6,867)	(11,782)	(70)	(70)	(70)
Others	(944)	(1,353)	(2,222)	1,342	1,557
Investing Cashflow	(7,810)	(13,134)	(2,292)	1,272	1,487
Debt raised	26,808	74,368	5,000	5,000	5,000
Debt repaid	(17,721)	(25,463)	(5,000)	(5,000)	(5,000)
Interest expenses	(5,629)	(7,827)	(10,882)	(10,338)	(10,338)
Equity raised	0	3,526	0	0	0
Dividend to shareholders	(2,801)	(2,292)	(6,339)	(4,454)	(5,264)
Perpetual securities raised	0	24,367	12,484	(5,538)	(6,391)
Others	4,805	(174)	(50)	(50)	(50)
Financing Cashflow	5,463	66,506	(4,787)	(20,380)	(22,042)
Net cash inflow/ (outflow)	(2,293)	22,327	(7,448)	37,830	42,953
Cash- beginning	20,082	17,789	40,118	32,671	70,501
Cash- year-end	17,789	40,116	32,671	70,501	113,454

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 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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