



**Key Data**

Average FY12E PE (x)	5.69
Average FY12E PB (x)	1.14

Source: Bloomberg, ABCI Securities

**HSCIPC performance (%)**

	Absolute	Relative*
1-mth	6.3	3.8
3-mth	10.3	4.5
6-mth	6.2	7.7

\*Relative to Hang Seng Index

Source: Bloomberg

**1 year relative price<sup>^</sup> performance**



<sup>^</sup>HSCIPC/HSCI

Source: Bloomberg

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**China Property Sector**

**Expecting lower policy risk due to stabilizing home prices**

**Price gain cooling down:** As expected, the trend toward ASP rebound did not sustain. Fewer cities registered new home price hike in Aug. Per NBSC survey released on Sep 18, 35 or 50.0% of cities in the statistic pool posted MoM rebound in Aug, the figure was 49 or 70.0% in Jul and in Jun was 25 or 35.7%. Among the cities posting MoM price gain, high tier cities took bigger proportion, Beijing +0.1%, Tianjin +0.3% and Guangzhou +0.1%.

**Expecting price to stabilize:** Per our channel chat, the property developers are regaining confidence on outlook and scaling back price discount offered. We believe the short term oversupply landscape (est. supply/demand ratio at 1.44x for 2012) and policy stance are constraining their pricing power. Hence, it is more likely that the price will generally stabilize while higher tier cities may see slight 2-5% rebound in Sep-Oct.

**Sector soft landing, decreasing policy risk:** Together with the growth rate for housing FAI rebound in Aug, the latest price figures suggest that the sector is soft landing. Policy risk remains but we believe the risk now is much lower than a year ago and further decreasing on stabilizing ASP trend.

**Key beneficiary of QE3:** Given the ample liquidity and hence inflation expectations fueled by QE3, the funds will keep seeking to preserve value, real estate sector is one of the top options. The sector has been outperformed the overall market. HSCIPC/HSCI (Hang Seng Property and Construction Index/ Hang Seng Composite Index), broke through the historical high of 1.0x. With the sector trading at forward PB level of 1.14x, against the 5-yr mean level of 2.2x, we believe its outperformance to sustain.

In terms of stock pick, Sunac(1918;BUY;TP HK\$4.86) remains at our top picks on its possible good margin protection and also strong pipeline schedule in strong season Sep-Oct.

**Risk:** Sharp shrinking demand on slowing down economy growth; Equity raising by listcos

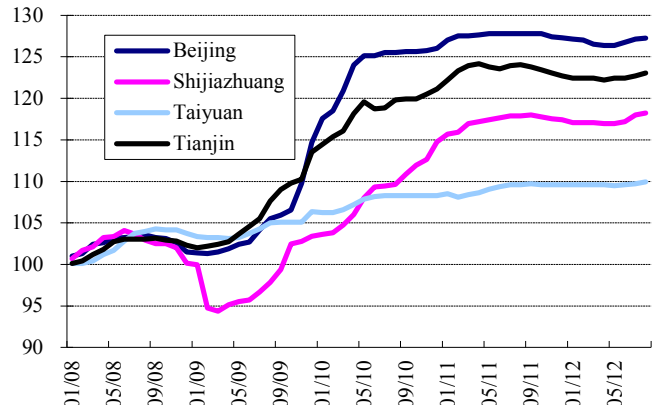
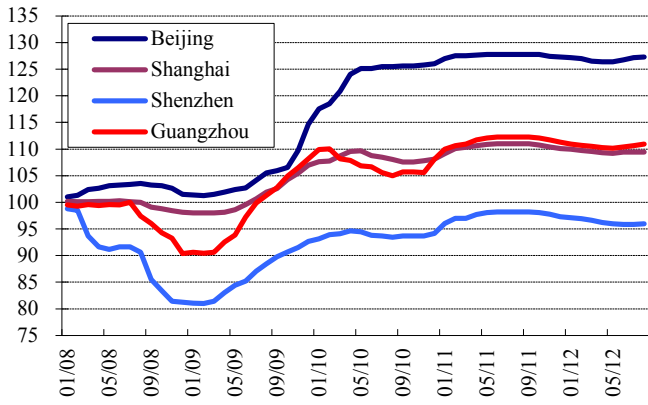
**Summary on selected companies in the sector**

Company	Code	Price (HK\$)	YTD Chg.	2012 P/E	Forward P/B	5-yr Avg PB
China Overseas	688	19.6	50.9%	8.94	1.94	3.48
China Resources	1109	17.0	36.2%	12.00	1.48	2.15
Evergrande	3333	3.2	0.6%	3.96	1.22	2.57
Longfor Properties	960	12.9	46.9%	8.25	2.45	2.86
Country Garden	2007	2.9	3.8%	6.08	1.45	3.15
Agile Property	3383	9.2	32.3%	5.46	1.28	2.65
Shimao Property	813	13.1	97.0%	6.92	1.36	2.00
R&F Properties	2777	9.3	51.5%	5.03	1.14	3.70
Poly HK	119	4.2	25.8%	6.06	0.57	1.48
KWG	1813	4.6	73.7%	4.63	0.86	3.16
Sunac	1918	3.8	133.5%	2.85	1.15	0.96
Fantasia	1777	0.8	11.8%	3.07	0.63	1.26
C C Land	1224	1.7	22.5%	6.10	0.32	1.08

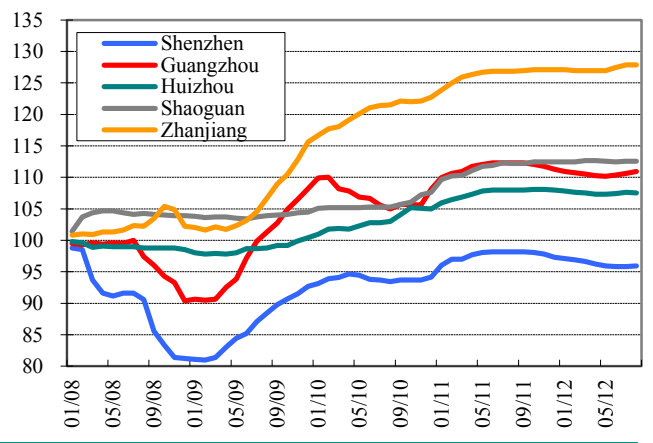
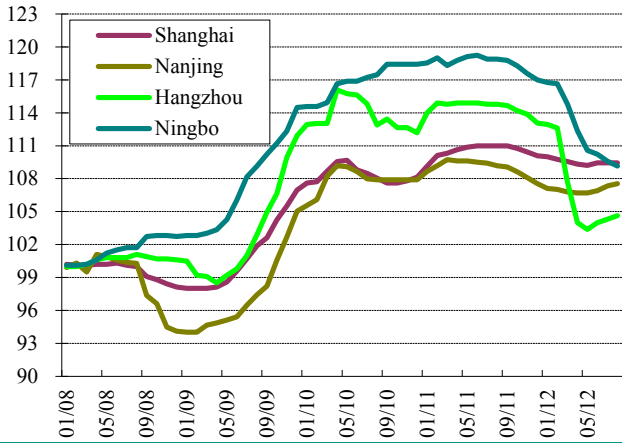
Source: Bloomberg



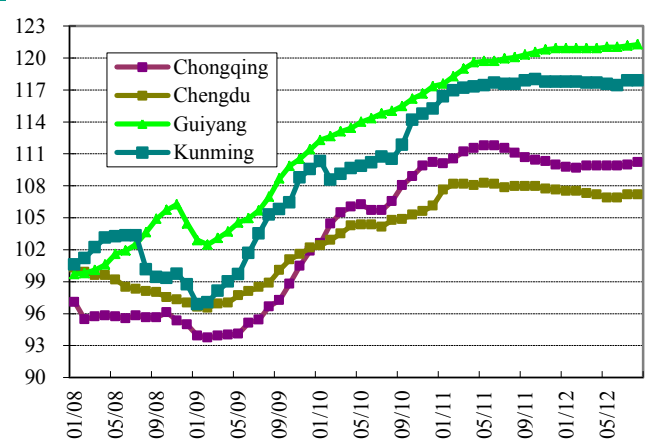
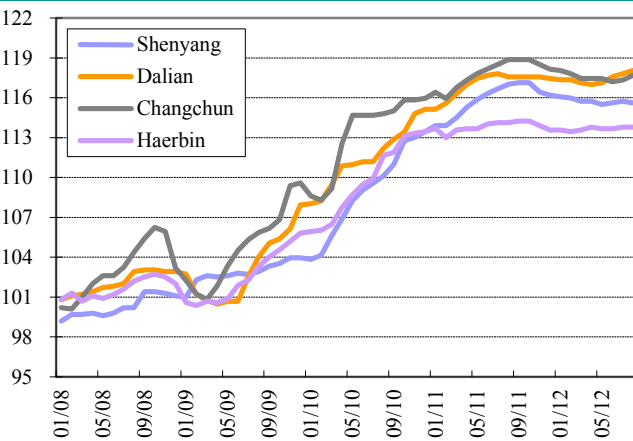
Exhibit 1: New home price index in major cities (12/2007 = 100)



Source: NBSC and ABCI Securities



Source: NBSC and ABCI Securities



Source: NBSC and ABCI Securities



**Exhibit 2: Contracted sales summary by major listed China developers**

		8/2012			1-8/2012		2012	2012
		Rmb100mn	YOY	MoM	Rmb100mn	YoY	Target	%
688	China Overseas^	80.0	80%	-21%	832.0	29%	100.0	83.2%
3333	Evergrande	71.8	-21%	-13%	504.6	-16%	80.0	63.1%
960	Longfor Properties	35.8	12%	17%	241.1	0%	39.0	61.8%
2007	Country Garden	37.0	-37%	-22%	257.9	-13%	43.0	60.0%
3383	Agile Property	22.0	5%	4%	183.8	3%	31.0	59.3%
813	Shimao Property	40.4	20%	-1%	305.6	46%	35.0	87.3%
2777	R&F Properties	28.2	40%	19%	198.3	7%	32.0	62.0%
119	Poly HK	23.0	68%	-15%	151.0	39%	16.0	94.4%
1813	KWG	11.1	28%	4%	75.3	-10%	12.0	62.7%
1638	Kaisa Group*	15.0	-25%	0%	94.0	13%	16.5	57.0%
1918	Sunac	26.1	11%	9%	162.4	71%	22.0	54.1%
1777	Fantasia	7.1	6%	6%	47.3	1%	7.2	65.7%
1224	C C Land	6.5	184%	13%	40.3	6%	6.8	59.3%
000002	Vanke A-share	113.5	8%	9%	842.9	-0%	120	70.2%
600048	Poly A-share	84.8	41%	-7%	678.7	34%	900*	75.4%
600383	Gemdale A-share	22.3	0%	-13%	182.6	14%	400	45.7%
<b>Total</b>		<b>624.4</b>	<b>10.4%</b>	<b>-4.9%</b>	<b>4,797.8</b>	<b>10.4%</b>	<b>698.5</b>	<b>68.7%</b>
Average			26.3%	-0.7%		14.0%		66.3%
>0			13.0	8.0		12.0		
<0			81.3%	50.0%		75.0%		

^contracted sales unit is HK\$bn ; \*ACBI estimation\*forecast by ABCI Securities

Source: Companies' announcements and ABCI Securities

**Exhibit 3: Valuation comparison for China property developers**

Company	Code	Price (HK\$)	MV (HK\$m)	1mth Chg.	YTD Chg.	2012 P/E	Forward P/B	5-yr Avg PB
China Overseas	688	19.6	159,854	8.3%	50.9%	8.94	1.94	3.48
China Resources	1109	17.0	99,064	13.9%	36.2%	12.00	1.48	2.15
Evergrande	3333	3.2	48,503	0.6%	0.6%	3.96	1.22	2.57
Longfor Properties	960	12.9	66,658	10.6%	46.9%	8.25	2.45	2.86
Country Garden	2007	2.9	52,501	5.1%	3.8%	6.08	1.45	3.15
Agile Property	3383	9.2	31,769	0.1%	32.3%	5.46	1.28	2.65
Shimao Property	813	13.1	45,352	10.9%	97.0%	6.92	1.36	2.00
R&F Properties	2777	9.3	29,968	-0.5%	51.5%	5.03	1.14	3.70
Poly HK	119	4.2	15,300	1.9%	25.8%	6.06	0.57	1.48
KWG	1813	4.6	13,164	4.4%	73.7%	4.63	0.86	3.16
Kaisa Group	1638	1.4	7,064	1.4%	7.5%	2.79	0.54	1.15
Sunac	1918	3.8	11,313	15.0%	133.5%	2.85	1.15	0.96
Fantasia	1777	0.8	3,957	5.6%	11.8%	3.07	0.63	1.26
Beijing Capital	2868	2.2	4,571	-6.7%	45.1%	3.23	0.71	1.24
C C Land	1224	1.7	4,373	1.2%	22.5%	6.10	0.32	1.08
Median						5.46	1.15	2.15
Average						5.69	1.14	2.19
+1.0SD						8.27	1.71	3.15
-1.0SD						3.12	0.57	1.24

Source: Bloomberg; ABCI Securities



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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

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.

**Li Hong-ying Vivian, has financial interest in Evergrande Real Estate Group Limited as at 18 Sep 2012.**

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