



March 24, 2015
Company Report
Rating: BUY
TP: HK\$ 9.60

Share price (HK\$) 6.66
Est. share price return 44.1%
Est. 14E dividend yield 3.6%
Est. total return 47.7%

Previous Rating & TP BUY; HK\$ 9.70
Previous Report Date Feb 9, 2015

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Key Data

52Wk H/L(HK\$)	8.65/3.44
Issued shares (mn)	3,320
Market cap	21,927
3-mth avg daily turnover (HK\$ mn)	121.19
Major shareholder(s) (%):	
SUN Hongbin	47.1

Source(s): Company, Bloomberg, ABCI Securities

FY14 Revenue breakdown (%)

Property Development	98.6
Property Management	1.4

Source(s): Company, ABCI Securities

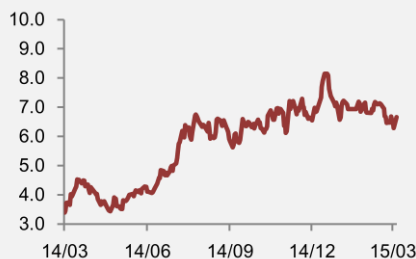
Share performance (%)

	Absolute	Relative*
1-mth	(4.8)	(3.1)
3-mth	(5.4)	(9.4)
6-mth	13.5	10.9

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Sunac (1918 HK)

Profitability as main focus; maintain BUY

- Sunac's core profit rose 6% YoY to RMB 3.7bn
- Weak margin of 19.4% (-3.8ppt YoY) disappoints but reduced net gearing (-25.2ppt YoY to 44.5%) presents an upside surprise
- Sunac only expects a 10% growth in attributable presales for 2015, much slower than the expansion at 32% CAGR in 2011-14; profitability takes over scale to become the Group's prime focus
- Kaisa's financial problem is worse than expected; Sunac's management emphasized the Group would not engage in transactions that may impair shareholders' interest
- Maintain **BUY** on Sunac with TP at HK\$ 9.60 based on a 60% discount to end-15E NAV

Core profit rose 6% YoY to RMB 3.7bn. Sunac announced its FY14 results. Accordingly, core profit rose 6% YoY to RMB 3,729mn, in line with our forecast of RMB 3.7bn but was 11% below consensus. The divergence was mainly due to: i) the impairment provision of RMB 505mn for several projects whose ASPs are closed to the breakeven level; ii) lower finance cost capitalization (from 76% in 2013 to 58% in 2014), which resulted in a 118% YoY increase in finance cost as certain portion of the offshore debt could not be capitalized into the JV projects.

Downside surprise: Gross margin (before provision) dropped 3.8ppt YoY to 19.4%. Management explained that excluding the fair value re-measurement and the low-margined Greentown project, Sunac's gross margin was healthy at 30.7%. Besides, the more profitable projects are classified at the JV level and hence were not consolidated. In FY14, share of profit from JV and associate reached RMB 2.2bn, representing ~60% of core profit.

Upside surprise: Net gearing improved 25.2ppt YoY to just 44.5%. Its FY14 net gearing at 44.5% is one of the lowest among the top 10 non-SOE listed developers. Apart from the cash refund of HK\$ 6bn upon termination of the Greentown acquisition at end-2014, the increasing number of JV projects also helped reduce the Group's gearing. Even if we include the off-balance sheet JV debt of RMB30bn to the Group's total debt (RMB 34bn), the sales-to-total debt ratio would still remain below 1.

From scale to profitability. Sunac was the 10th largest player by presales in China last year. Nonetheless, profitability, instead of scale, will be the Group's focus going forward. In 2015, Sunac aims to achieve a 10% YoY growth in attributable presales (2014: RMB 39.5bn), while its gross presales would remain stable at RMB 66bn. To achieve a faster profit growth, the company will focus on **1) increasing its stakes in existing projects.** Sunac will host a shareholders' meeting at end-Mar to approve the acquisition of Sunac-Greentown JV. Upon completion, the Greentown's stakes in 16 JV projects will be transferred to Sunac; **2) Margin enhancement.** As its balance sheet improves, the Group can improve its margins through lower finance cost. Average cost of debt dropped from 10.0% in FY13 to 9.1% in FY14. (Continue next page)

Results and Valuation

FY ended Dec 31	2013A	2014A	2015E	2016E	2017E
Revenue (RMB mn)	30,837	25,072	41,244	48,509	51,254
Chg (% YoY)	48.0	(18.7)	64.5	17.6	5.7
Core net profit (RMB mn)	3,523	3,729	3,497	3,691	3,594
Chg (% YoY)	28.8	5.9	(6.2)	5.5	(2.6)
Underlying EPS (RMB)	1.06	1.12	1.05	1.11	1.08
Chg (% YoY)	17.1	5.9	(6.2)	5.5	(2.6)
BVPS (RMB)	4.10	4.93	5.80	6.71	7.60
Chg (% YoY)	30.4	20.2	17.5	15.7	13.2
Underlying PE (x)	5.0	4.7	5.1	4.8	4.9
PB (x)	1.3	1.1	0.9	0.8	0.7
ROE (%)	25.9	22.8	18.2	16.6	14.3
ROA (%)	3.6	3.3	2.8	2.5	2.1
DPS (RMB)	0.19	0.19	0.19	0.20	0.20
Dividend yield (%)	3.6	3.6	3.6	3.8	3.7
Net gearing (%)	69.7	44.5	Net cash	Net cash	Net cash

*Net gearing=Net debt/Total Shareholders' equity

Source(s): Bloomberg, ABCI Securities estimates

Kaisa's financial problem is far more serious than expected. Sunac's Chairman comments that although acquisition of Kaisa would allow the Group to expand into the Pearl River Delta market, the financial problem of Kaisa is far more serious than expected. The RMB 65bn debt disclosed by Kaisa is far too high given the company can generate only RMB 28bn in presales annually. He believes Kaisa is unlikely to continue operation unless lenders (bondholders and banks) accept a 50% cut on the principal to reduce debt level. While Sunac will increase its M&A effort in the future, the Group will remain selective and avoid transactions that may impair the shareholders' interest. Sunac reiterates that the Group has only obtained an option to acquire Kaisa and have the right to withdraw without incurring any losses.

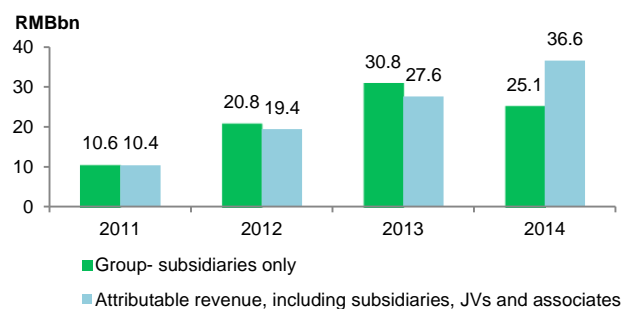
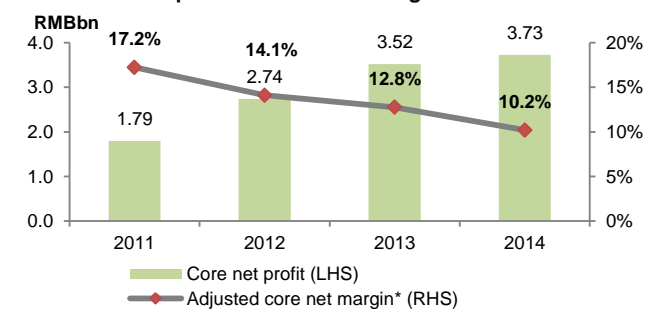
Maintain BUY with lowered TP at HK\$ 9.60. We exclude the potential acquisition of Kaisa into our earnings forecasts as the outcome is still highly uncertain at present. Our end-2015E NAV is revised down slightly to HK\$ 24.1 (from HK\$24.2) to factor in the weaker margins and sales growth. We maintain **BUY** with TP lowered to HK\$ 9.60 (from HK\$9.70) based on an unchanged discount to NAV at 60%. Although Sunac's presales guidance may disappoint investors, we think a slower organic growth will strengthen its balance sheet and hence the ability to capture potential M&A opportunities.

Risk factors: 1) Integration risks related to acquisition of Kaisa; 2) Dispute on Sunac-Greentown JV may have negative business and financial implications.

Exhibit 1: Sunac's FY14 results

P&L	FY14	FY13	YoY Chg	Operating statistics	FY14	FY13	YoY Chg
	RMBm	RMBm	(%)				%
Turnover	25,072	30,837	(18.7)	Contracted GFA (mn sqm)	3.10	2.54	22.1
Cost of Sales & direct operating costs	(20,197)	(23,660)	(14.6)	Contracted ASP (RMB/sqm)	21,246	20,520	3.5
Gross Profit	4,875	7,177	(32.1)	Contracted Sales (RMB mn)	65,800	52,055	26.4
Gross Margin (%)	19.4	23.3	(3.8)	GFA Delivered (mn sqm)	1.65	1.75	(5.6)
Selling and distribution costs	(697)	(615)	13.3	Booked ASP (RMB/sqm)	15,009	17,530	(14.4)
Administrative expense	(681)	(520)	30.9	Property sales booked (RMB mn)	24,719	30,596	(19.2)
EBIT	3,497	6,041	(42.1)				
EBIT Margin (%)	13.9	19.6	(5.6)	Balance sheet	Dec-14	Dec-13	YoY chg
Other income	908	75	1,118.1		RMB mn	RMB mn	ppt
Fair Value gains on IP and other exceptional items	(417)	77	na	Gross debt	34,384	28,706	19.8
Share of profit from JCE/ Associates	2,181	72	2,919.9	Cash	25,041	16,009	56.4
Finance cost	(1,267)	(580)	118.4	Net debt	9,342	12,698	(26.4)
Profit before tax	4,902	5,684	(13.8)	Net gearing (%)	45%	70%	-25.2ppt
Tax	(1,669)	(2,191)	(23.8)				
- LAT	(836)	(901)	(7.2)				
- Enterprise tax	(834)	(1,290)	(35.4)				
Profit after tax	3,233	3,494	(7.5)				
Minority Interest	(11)	(315)	(96.7)				
Net profit	3,222	3,178	1.4				
Core net profit	3,729	3,523	5.9				
Core net margin	14.9	11.4					

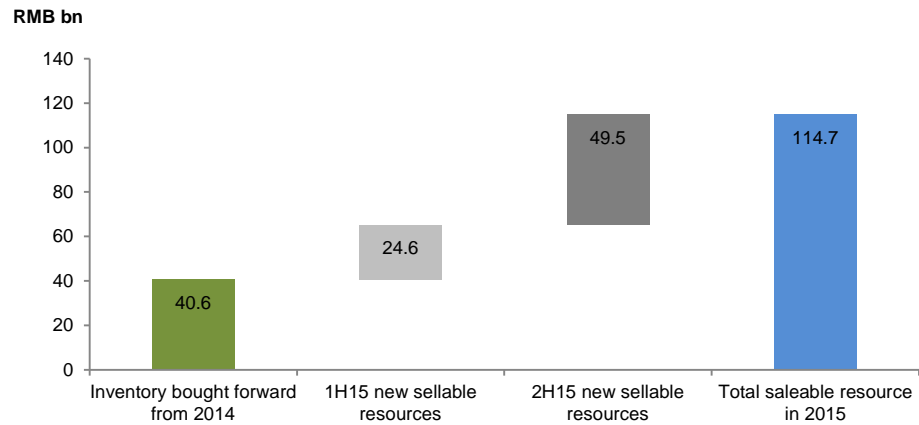
Source(s): Company, ABCI Securities

Exhibit 2: Attributable booked revenue

Exhibit 3: Core profit and core net margin

 * Calculated by core profit/ attributable revenue
 Source(s): Company, ABCI Securities

Source(s): Company, ABCI Securities



Exhibit 4: Sunac's saleable resources (2015E)



Source(s): Company, ABCI Securities estimates

Exhibit 5: Sunac's FY15E NAV

	Attr. GFA (M sqm)	Net assets value (RMB m)	% of total	Valuation Method	Implied value per sqm (RMB)
Property development					
Tianjin	4.0	13,818	26%	DCF at WACC of 11.3%	3,442
Beijing	1.4	6,744	13%		4,712
Chongqing	5.7	6,353	12%		1,119
Wuxi	1.9	951	2%		494
Suzhou	0.2	1,293	2%		5,963
Shanghai	1.3	15,334	29%		12,029
Others	1.7	6,115	11%		3,580
Subtotal	16.2	50,608	94%		
Property investment & management		3,085	6%	6.5% cap rate on 2015E net rental income	
Total 2015E GAV		53,693	100%		
2015E Net cash/ (debt)		10,115	19%		
Total 2015E NAV		63,808	119%		
No. of share outstanding (diluted)		3,315			
NAV per share (RMB)		19.2			
Ex rate		1.25			
NAV per share (HKD)		24.1			
Target discount (%)		60%			
Target Price (HKD)		9.60			
WACC 11.3%					
Cost of Debt		9.6%			
Cost of Equity		20.0%			
Debt/ (Debt + Equity)		68%			

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2013A-2017E)

FY Ended Dec 31 (RMB mn)	2013A	2014A	2015E	2016E	2017E
Revenue	30,837	25,072	41,244	48,509	51,254
Cost of sales	(23,660)	(20,197)	(31,375)	(37,181)	(39,427)
Gross Profit	7,177	4,875	9,869	11,328	11,827
SG&A expenses	(1,136)	(1,378)	(1,500)	(1,597)	(1,584)
EBIT	6,041	3,497	8,369	9,730	10,244
Finance cost	(580)	(1,267)	(255)	(275)	(355)
Share of profit of associates	72	2,181	1,527	1,513	1,333
Other income/ (expenses)	75	908	1,146	1,243	1,361
Fair value gain of investment properties	-	-	-	-	-
Disposal/one-off items	77	(417)	-	-	-
Profit before tax	5,684	4,902	10,788	12,211	12,583
Tax	(2,191)	(1,669)	(4,927)	(5,594)	(5,757)
Profit after tax	3,494	3,233	5,861	6,617	6,826
Minority interest	(315)	(11)	(2,364)	(2,926)	(3,232)
Reported net profit	3,178	3,222	3,497	3,691	3,594
Less: exceptional items	344	507	-	0	-
Underlying net profit	3,523	3,729	3,497	3,691	3,594
Per share					
Underlying EPS (RMB)	1.06	1.12	1.05	1.11	1.08
DPS (RMB)	0.19	0.19	0.19	0.20	0.20
Payout ratio (%)	18%	17%	18%	18%	18%
BVPS (RMB)	4.10	4.93	5.80	6.71	7.60
Growth %					
Revenue	48.0%	-18.7%	64.5%	17.6%	5.7%
Gross Profit	33.3%	-32.1%	102.4%	14.8%	4.4%
EBIT	34.3%	-42.1%	139.3%	16.3%	5.3%
Underlying net profit	28.8%	5.9%	-6.2%	5.5%	-2.6%
Margin %					
Gross margin	23.3%	19.4%	23.9%	23.4%	23.1%
Gross margin (post-LAT)	20.5%	16.3%	16.9%	16.5%	16.4%
EBIT margin	19.6%	13.9%	20.3%	20.1%	20.0%
Core net margin	10.9%	5.4%	10.5%	10.5%	10.7%
Key assumptions					
Contracted Sales (RMB mn)	52,055	65,800	76,625	80,661	73,168
GFA sold (mn sqm)	2.54	3.10	3.79	4.14	3.81
ASP (RMB/sqm)	20,520	21,246	20,198	19,483	19,205
Booked Sales (RMB mn)	30,596	24,719	40,874	48,120	50,846
GFA delivered (mn sqm)	1.75	1.65	2.17	2.63	2.83
Booked ASP (RMB/sqm)	17,530	15,009	18,798	18,277	17,937

Source: Company, ABCI Securities estimates



Consolidated balance sheet (2013A-2017E)

As of Dec 31 (RMB mn)	2013A	2014A	2015E	2016E	2017E
Current assets	87,590	97,467	108,245	132,466	151,601
Cash	13,414	20,657	35,115	68,879	94,325
Restricted cash	2,595	4,384	4,384	4,384	4,384
Trade & other receivables	1,214	2,475	2,475	2,475	2,475
Property under development	58,106	49,383	45,704	36,160	29,849
Other current assets	12,261	20,568	20,568	20,568	20,568
Non-current assets	9,765	14,895	15,496	16,094	16,656
Property, plant & equipment	65	62	57	52	48
Investment properties	252	239	239	239	239
Investment in Associate and JCE	7,909	12,049	12,654	13,257	13,823
Other non-current assets	1,539	2,546	2,546	2,546	2,546
Total Assets	97,355	112,362	123,742	148,560	168,257
Current Liabilities	51,789	64,949	71,515	90,430	103,998
Short term borrowings	7,835	13,840	8,840	18,840	28,840
Trade & other payables	12,402	11,616	11,616	11,616	11,616
Pre-sales deposits	13,647	12,271	23,837	32,752	36,320
Other current assets	17,905	27,223	27,223	27,223	27,223
Non-current liabilities	27,355	26,431	26,431	26,431	26,431
Long term borrowings	20,872	20,544	20,544	20,544	20,544
Other payables	-	-	-	-	-
Other non-current assets	6,483	5,887	5,887	5,887	5,887
Total Liabilities	79,144	91,380	97,945	116,861	130,429
Net Assets	18,211	20,983	25,796	31,699	37,828
Shareholders Equity	13,605	16,353	19,221	22,247	25,194
Minority Interest	4,606	4,630	7,519	10,394	13,576
Total Equity	18,211	20,983	26,739	32,642	38,771
Key ratio					
Gross debt (RMB mn)	28,706	34,384	29,384	39,384	49,384
Net debt (RMB mn)	12,698	9,342	(10,115)	(33,879)	(49,325)
Net gearing (%)	70%	45%	-38%	-104%	-127%
Contracted sales/ Total assets (x)	53%	59%	62%	54%	43%

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2013A-2017E)

FY ended Dec 31 (RMB mn)	2013A	2014A	2015E	2016E	2017E
EBITDA	6,065	3,522	8,394	9,755	10,268
Change in Working Capital	5,049	6,227	17,540	20,935	13,075
Tax payment	(2,790)	(1,852)	(4,927)	(5,594)	(5,757)
Operating Cashflow	8,324	7,897	21,008	25,096	17,586
Purchase of PP&E	(27)	(20)	(20)	(20)	(20)
Addition of Investment Properties	(9,567)	-	-	-	-
Others	(5,473)	1,353	2,068	2,153	2,128
Investing Cashflow	(15,067)	1,333	2,048	2,133	2,108
Debt raised	26,215	10,000	10,000	10,000	10,000
Debt repaid	(18,243)	(9,214)	(15,000)	-	-
Interest expenses	(2,500)	(3,036)	(2,551)	(2,751)	(3,551)
Equity raised	1,628	-	-	-	-
Dividend to shareholders	(261)	(630)	(629)	(664)	(647)
Others	4,924	(50)	525	(50)	(50)
Financing Cashflow	11,763	(2,930)	(7,655)	6,535	5,752
Net cash inflow/ (outflow)	5,020	6,300	15,401	33,764	25,446
Cash- beginning	8,394	13,414	19,714	35,115	68,879
Cash- year-end	13,414	19,714	35,115	68,879	94,325

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 2010-2014

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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