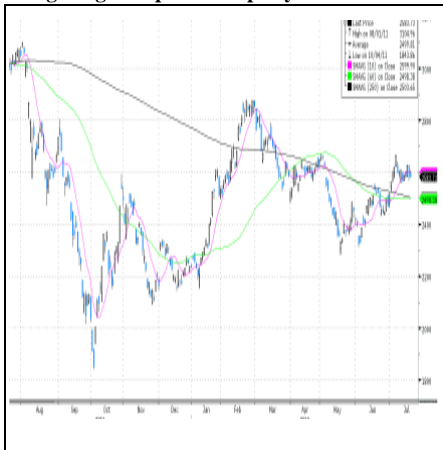


Event

The National Bureau of Statistics of China (NBSC) released residential property prices in 70 medium and large-sized cities

Report Date: 19 Jul 2012

Hang Seng Composite Property Index



	1mth Chg.	YTD Chg.
HSCI	-0.6%	3.9%
HSCIPC Index	2.4%	15.4%
Relative chg.	3.0%	11.6%

Source :Bloomberg

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Related Reports:

Over-supply improvement on track issued on 16 July 2012

June Sales Performance of China Developers issued on 13 July 2012

New home prices edging up

Indicated by NBSC survey, more and more cities registered recovery of new home prices last two months. In June, 35.7% of cities in the statistic pool registered MoM increase in new home prices, growing from 8.6% in May. The improved market sentiment backed by momentary loosening cycle enhanced pricing power of property developers. Considering hawkish government stance in curbing ASP and short term over-supply, we don't expect a broad-based or huge ASP rebound, however, the earlier than expected price recovery confirmed our major fundamental view on the sector, genuine demand are strong, cash flow risk of property developers is easing and their pricing power is strengthening.

In our valuation of China property stocks we forecast new home prices to decline by 15-20% YoY in 1st-2nd cities and 5-10% YoY in 3rd-4th cities in 2012, which should have factored in most of negative factors. On likely stable policy, strong volume and improved pricing power, the systematic risk of the sector is alleviating. We maintain positive view on the sector as a whole and our top picks concentrate on high gearing players, such as Evergrande (3333), R&F Properties(2777), Poly HK(119) and Sunac(1918)..

ASP edging up...: The NBSC survey indicates more and more cities registered recovery of new home prices last two months. Among 70 cities in the pool, 25 or 35.7% posted MoM rebound in June ASP with the figure jumping from 6 or 8.6% in May. Also, 24 cities or 34.3% of them saw stable ASP and 21 or 30.0% of them posted MoM decline during the month.

In the sales data released earlier by listing property developers, a similar trend was observed. By our estimation, 56.3% of developers registered MoM rebound in ASP in June, against 50.0% in May and 33.3% in Apr.

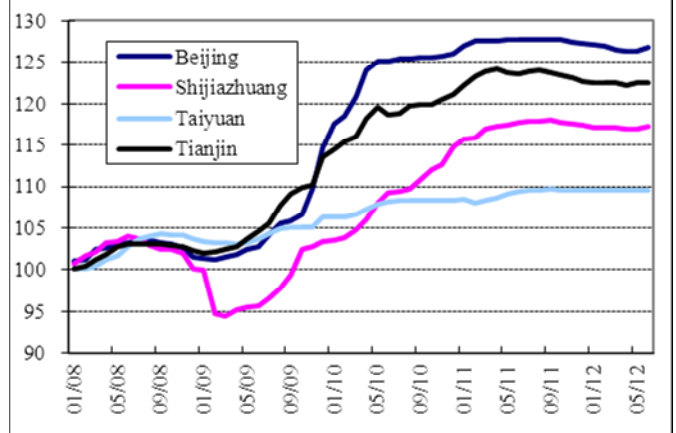
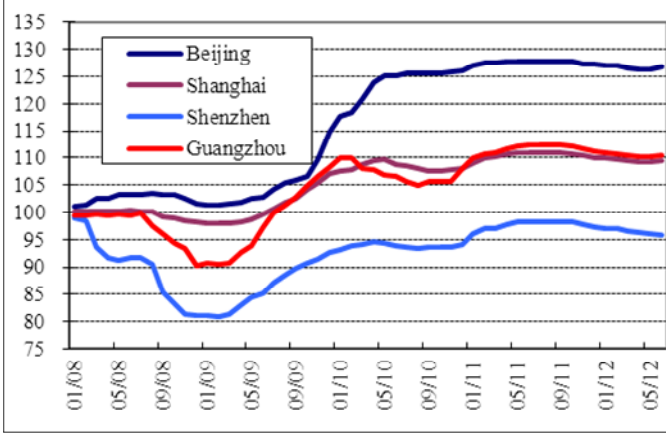
... but upside capped by policy stance and short term oversupply: Premier Wen kept reiterating government determination in curbing ASP with the latest comments coming in on 7 July. Developers know clearly that a huge ASP spike will not be tolerated by central government and also, the short term oversupply will not allow them to do so (for details please refer to report issued on 16 July). Our channel chat indicated that developers in June were still going for speeding up asset turnover by de-stocking and fetching more cash, but some of them scaled back the previous discount, ~3-5%, which caused a MoM ASP rebound.

On YoY basis, 41 or 58.6% of 70 cities in the NBSC's survey posted an ASP decline with the largest drop at 9.5% YoY in June. Also, 14 cities or 20.0% of them posted flat ASP and 15 or 21.4% of them posted YoY surge with the largest gain at 1.1% YoY.

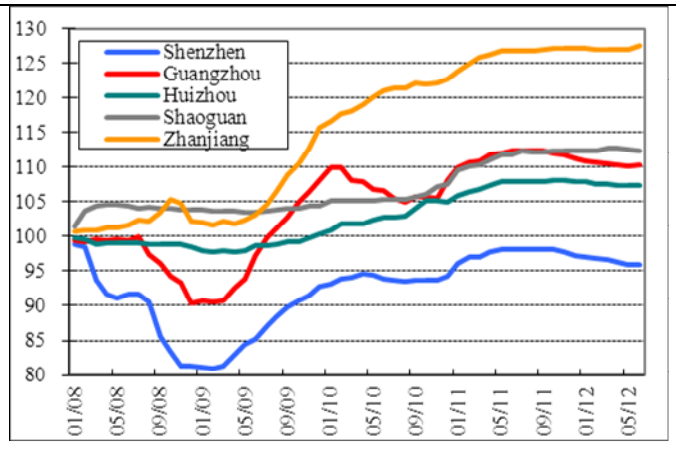
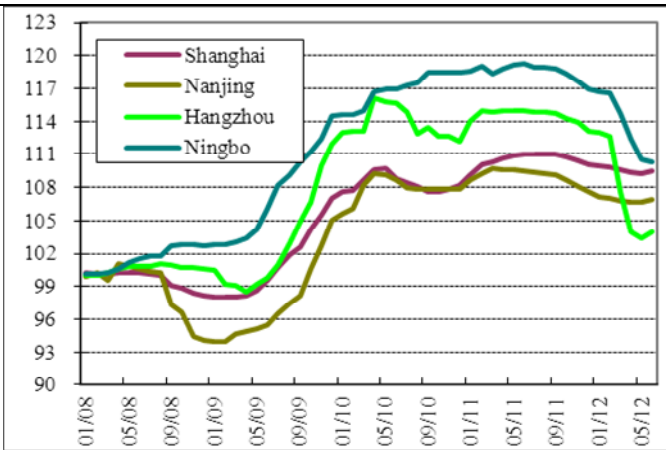
With supply (GFA start + inventory) continue to go down and on the back of further rebound in new home sales, pricing power of property developers should continue to improve.



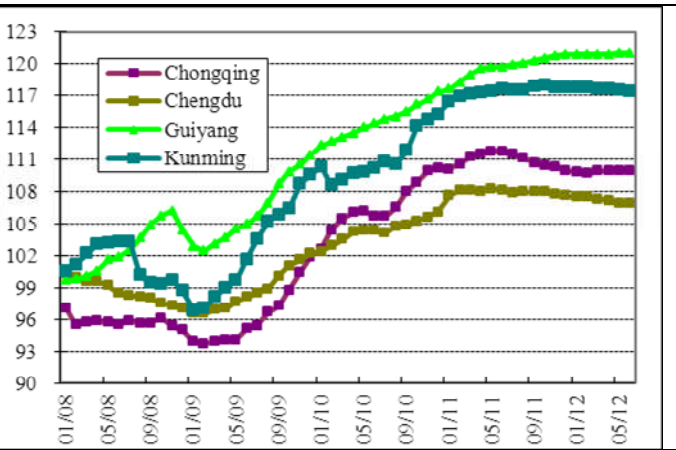
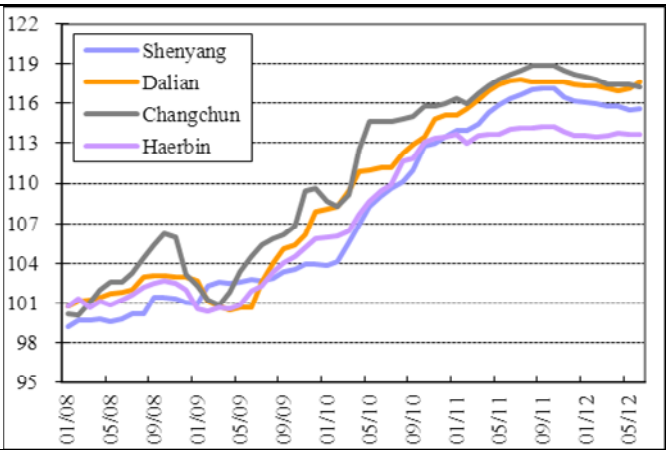
New home price index in major cities (12/2007 = 100)



Source: NBSC and ABCI Securities



Source: NBSC and ABCI Securities



Source: NBSC and ABCI Securities



China Residential Property Sector

Brighter outlook in 2H12: Hang Seng Composite Property Index (HSCIPC) rose 15.4% against the market index, Hang Seng Composite (HSCI) up 3.9% year to date. Despite the outperformance YTD, we are still positive on the sector in 2H12 as the systematic risk of the sector is alleviating on likely stable policy, strong volume and improved pricing power.

Concern on equity raising may re-occur should the sector re-rating continues. Nevertheless, in contrast to 1H12, the funding should not be considered as for lowering gearing but mainly for land purchases, which we believe is another signal confirming the industry recovery. On lower systematic risk, our top picks concentrate on high gearing players, such as Evergrande (3333), R&F Properties(2777), Poly HK(119) and Sunac(1918).

Valuation comparison for China property developers

Company	Code	Price (HK\$)	MV (HK\$mn)	1mth Chg.	YTD Chg.	2012 P/E	Forward P/B	5-yr Avg PB	Net D/Equity
China Overseas	688	17.56	143,509	-0.2%	35.3%	8.07	1.78	1.83	33.2%
China Resources	1109	14.90	86,827	-5.1%	19.4%	10.73	1.29	1.30	56.7%
Evergrande	3333	3.82	57,141	-15.9%	18.6%	4.27	1.17	1.30	67.5%
Longfor Properties	960	12.34	63,763	-0.5%	40.5%	7.84	1.92	1.77	39.2%
Country Garden	2007	2.99	54,507	-5.7%	7.8%	6.27	1.26	1.24	61.4%
Agile Property	3383	10.24	35,322	0.4%	47.1%	5.98	1.16	1.08	52.6%
Shimao Property	813	11.36	39,448	-3.6%	71.3%	6.36	0.99	0.95	81.6%
R&F Properties	2777	10.32	33,255	-4.4%	68.1%	5.51	1.07	1.12	85.1%
Poly HK	119	4.36	15,733	1.4%	29.4%	5.74	0.60	0.91	93.2%
KWG	1813	4.53	13,106	-7.9%	72.9%	4.63	0.71	0.81	61.8%
Kaisa Group	1638	1.44	7,064	-8.3%	7.5%	2.68	0.47	0.92	76.6%
Sunac	1918	3.10	9,305	0.6%	92.5%	2.42	0.73	0.61	104.1%
Fantasia	1777	0.85	4,426	-5.6%	25.0%	3.22	0.55	0.74	56.7%
Beijing Capital	2868	2.47	5,086	8.3%	61.4%	3.51	0.56	0.61	-13.3%
C C Land	1224	1.71	4,425	-9.5%	24.0%	6.00	0.32	0.51	3.4%
Median						5.74	0.99	0.95	-
Average						5.55	0.97	1.05	57.3%
+1.0SD						7.79	1.44	1.44	-
-1.0SD						3.31	0.50	0.65	-

Source: Bloomberg; ABCI Securities



農銀國際

ABC INTERNATIONAL

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China Residential Property Sector

Disclosures

I, Li Hong-ying, Vivian, 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, Li Hong-ying, Vivian, have financial interest in Evergrande Real Estate Group Limited (3333) as at 20 July 2012.

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