



March 27, 2014
 Equity Focus
 Rating: BUY
 TP: HK\$ 7.10

Share price (HK\$) 4.29
 Est. share price return 65.5%
 Est. 14E dividend yield 7.0%
 Est. total return 72.5%

Previous Rating & TP BUY; HK\$ 6.30
 Previous Report Date Nov 22, 2013

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Key Data

| | |
|--|-----------|
| 52Wk H/L(HK\$) | 6.55/3.56 |
| Issued shares (mn) | 3,320 |
| Market cap | 14,273 |
| 3-mth avg daily turnover (HK\$ mn) | 48.1 |
| Major shareholder(s) (%): SUN Hongbin | 47.1 |

Source(s): Company, Bloomberg, ABCI Securities

FY13 Revenue breakdown (%)

| | |
|----------------------|------|
| Property Development | 99.2 |
| Property Management | 0.8 |

Source(s): Company, ABCI Securities

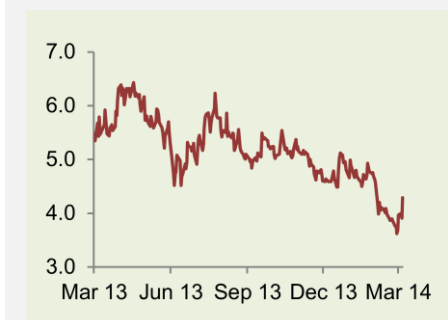
Share performance (%)

| | Absolute | Relative* |
|-------|----------|-----------|
| 1-mth | 2.1 | 4.5 |
| 3-mth | (7.5) | (2.1) |
| 6-mth | (14.0) | (8.8) |

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Sunac (1918 HK)

More reasons to BUY now as the air is clear

- FY13 core profit grew 28.8% YoY to RMB 3,523mn, 22% higher than our forecast. DPS of RMB 0.19 implies an attractive yield of 5.6%, while net gearing edged down to 93% from 100%
- Robust saleable resources should drive presale to RMB 65bn (+20% YoY); margin is likely to rebound as high-margined projects in Shanghai under Sunac-Greentown JV will be booked in 2014-15
- Maintain BUY with revised TP of HK\$ 7.10 based on a 65% discount to our end-2014E NAV of HK\$ 20.4/share

Better-than-expected FY13 results. Sunac's core net profit grew 28.8% YoY to RMB 3,523mn, beating our forecast by 22% on higher GFA delivery (+46% YoY) than expected. Gross margin narrowed by 2.6ppt YoY to 23.3% because 1) 20% of revenue came from Sunac-Greentown projects acquired in 2012, which had a 7% GP margin (1H13: 8.4%); 2) Fair value re-measurement of RMB 2,494mn (vs. RMB 1,723mn in FY12) inflated cost of sales. If excluding the two negative factors mentioned, gross margin would have been 37.2%. Major positive surprises include 1) FY13 net gearing, which fell from 100% to 93% in FY13, despite the 5.45mn sqm or RMB16.3bn of new sites acquired in FY13; 2) FY13 DPS of RMB 0.19, which implies an attractive yield of 5.6%.

A rosy growth outlook. After achieving an impressive presales growth of 54% YoY in 2013, Sunac set its 2014 target at RMB 65bn for 2014, which was conservative considering the 20% yoy growth implied. We believe Sunac is likely to beat its sales target. As its total landbank grew 54% YoY to 22.46 mn sqm (attributable landbank: +48% YoY to 13.99 mn sqm) by end-Dec 2013, saleable resources should increase 30% YoY to RMB 123.5bn in 2014. Besides, the new land acquired in 2013 are located in tier 1 (Beijing & Shanghai) or top tier 2 cities (e.g. Chongqing), where ASPs and sell-through are usually higher on tight supplies. For 2M14, Sunac's presale grew 9% YoY to RMB 5.2bn.

Margin may have bottomed out. FY13 gross margin was 23.3%, compared to 20.8% in 1H13. We believe gross margin is likely to rebound to 27%-28% as more high-margined projects in Shanghai (e.g. Dynasty on the Bund) under Sunac-Greentown JV will be booked in 2014-15.

Negatives are been priced in; maintain BUY with raised TP at HK\$ 7.10. Factoring in Sunac's recent land acquisitions and better-than- expected FY13 results, we raise our 2014E/15E core profit forecasts by 10%/12%. We also revise up our TP to HK\$ 7.10 (from HK\$ 6.30), based on a 65% discount to NAV (unchanged). The Group's latest earnings results should eradicate much of the apprehension over possible margin erosion and net gearing spike that have persisted over the past 6 months since Sunac's high-profile acquisitions of "land kings" in Beijing and Tianjin. In our view, the group's gross margin is set to rebound next year.

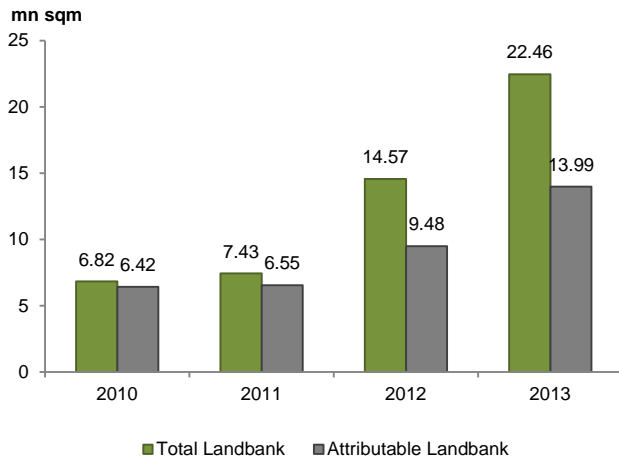
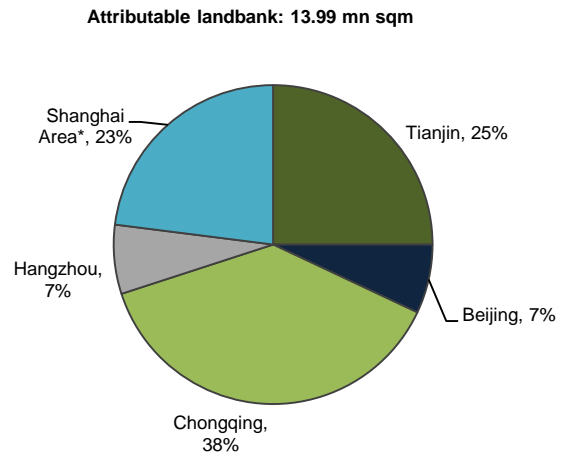
Risk factors: 1) Expensive new land acquisitions that may erode margins; 2) Slowing sales growth due to high base; 3) Further tightening measures on China's property sector.

Results and Valuation

| FY ended Dec 31 | 2012A | 2013A | 2014E | 2015E | 2016E |
|--------------------------|--------|--------|----------|----------|----------|
| Revenue (RMB mn) | 20,843 | 30,837 | 40,686 | 47,896 | 51,126 |
| Chg (% YoY) | 96.6 | 48.0 | 31.9 | 17.7 | 6.7 |
| Core net profit (RMB mn) | 2,736 | 3,523 | 4,430 | 4,740 | 4,753 |
| Chg (% YoY) | 52.7 | 28.8 | 25.8 | 7.0 | 0.3 |
| Underlying EPS (RMB) | 0.91 | 1.06 | 1.34 | 1.43 | 1.43 |
| Chg (% YoY) | 52.7 | 17.1 | 25.8 | 7.0 | 0.3 |
| BVPS (RMB) | 3.15 | 4.10 | 5.20 | 6.37 | 7.55 |
| Chg (% YoY) | 34.6 | 30.4 | 26.7 | 22.6 | 18.5 |
| Underlying PE (x) | 3.8 | 3.2 | 2.6 | 2.4 | 2.4 |
| PB (x) | 1.1 | 0.8 | 0.7 | 0.5 | 0.5 |
| ROE (%) | 28.8 | 25.9 | 25.7 | 22.4 | 19.0 |
| ROA (%) | 3.9 | 3.6 | 4.5 | 4.5 | 4.5 |
| DPS (RMB) | 0.09 | 0.19 | 0.24 | 0.26 | 0.26 |
| Dividend yield (%) | 2.5 | 5.6 | 7.0 | 7.5 | 7.5 |
| Net gearing (%) | 99.7 | 93.3 | Net cash | Net cash | Net cash |

*Net gearing=Net debt/Total Shareholders' equity

Source(s): Bloomberg, ABCI Securities estimates

Exhibit 1: Sunac's landbank growth 2010-13

Exhibit 2 : Attributable landbank by cities (Dec 2013)


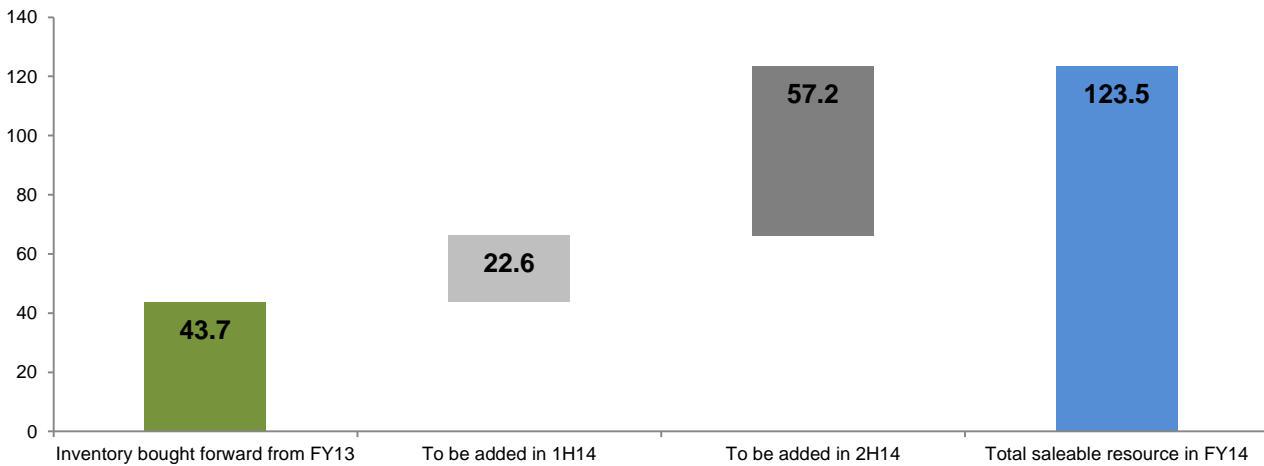
* Shanghai area includes Shanghai, Wuxi, Suzhou and Changzhou
 Source(s): Company, ABCI Securities

Source(s): Company, ABCI Securities

Exhibit 3: 2013 land acquisition

| City | No. of projects | Total landbank | Attributable landbank | Considerations to be paid by Sunac |
|--------------|-----------------|----------------|-----------------------|------------------------------------|
| | | mn sqm | mn sqm | |
| Beijing | 3 | 1.08 | 0.46 | 2,084 |
| Tianjin | 4 | 2.45 | 1.40 | 3,984 |
| Shanghai | 3 | 1.17 | 0.58 | 4,785 |
| Chongqing | 5 | 3.86 | 2.61 | 2,853 |
| Hangzhou | 4 | 1.02 | 0.40 | 2,575 |
| Total | 19 | 9.58 | 5.45 | 16,281 |

Source(s): Company, ABCI Securities

Exhibit 4: 2014E saleable resources guidance (RMB bn)


Source(s): Company, ABCI Securities estimates

Exhibit 5: Sunac's FY13 results

| P&L | FY13 | FY12 | YoY Chg | Operating statistics | FY13 | FY12 | YoY Chg |
|--|----------------|----------------|-----------------|---------------------------------------|---------------|---------------|----------------|
| | RMB mn | RMB mn | (%) | | | | % |
| Turnover | 30,837 | 20,843 | 48.0 | Presales GFA (mn sqm) | 2.54 | 2.00 | 27.1 |
| Cost of Sales & direct operating costs | (23,660) | (15,460) | 53.0 | Presales ASP (RMB/sqm) | 20,520 | 17,830 | 15.1 |
| Gross Profit | 7,177 | 5,382 | 33.3 | Presales (RMB mn) | 52,110 | 35,635 | 46.2 |
| Gross Margin (%) | 23.3 | 25.8 | (2.6ppt) | GFA Delivered (mn sqm) | 1.75 | 1.19 | 46.3 |
| Selling and distribution costs | (615) | (530) | 16.1 | Booked ASP (RMB/sqm) | 17,530 | 17,327 | 1.2 |
| Administrative expense | (520) | (355) | 46.7 | Property sales booked (RMB mn) | 30,596 | 20,671 | 48.0 |
| EBIT | 6,041 | 4,498 | 34.3 | Balance sheet | Dec-13 | Dec-12 | YoY chg |
| EBIT Margin (%) | 19.6 | 21.6 | (2.0ppt) | | RMB | RMB | ppt |
| Other income | 75 | 45 | 65.6 | | mn | mn | |
| Fair Value gains on IP and other exceptional items | 77 | 293 | na | Gross debt | 28,706 | 21,725 | 32.1 |
| Share of profit from JCE/ Associates | 72 | (39) | (286.2) | Cash | 16,009 | 12,263 | 30.5 |
| Finance cost | (580) | (113) | 413.1 | Net debt | 12,698 | 9,462 | 34.2 |
| Profit before tax | 5,684 | 4,685 | 21.3 | Net gearing (%) | 93% | 100% | (7ppt) |
| Tax | (2,191) | (2,070) | 5.8 | | | | |
| - LAT | (901) | (1,132) | (20.5) | | | | |
| - Enterprise tax | (1,290) | (938) | 37.6 | | | | |
| Profit after tax | 3,494 | 2,615 | 33.6 | | | | |
| Minority Interest | (315) | (7) | 4,139.6 | | | | |
| Net profit | 3,178 | 2,607 | 21.9 | | | | |
| Core net profit | 3,523 | 2,736 | 28.8 | | | | |
| Core net margin | 11.4 | 13.1 | (1.7ppt) | | | | |

Source(s): Companies, ABCI Securities

Exhibit 6: Sunac's FY14E NAV

| | Attr. GFA (Mn sqm) | Net assets value (RMB mn) | % of total | Valuation Method | Implied value per sqm (RMB) |
|---|-----------------------|------------------------------|-------------|--|--------------------------------|
| Property development | | | | | |
| Tianjin | 3.9 | 14,865 | 31% | DCF at WACC of 12.3% | 3,815 |
| Beijing | 1.3 | 7,115 | 15% | | 5,273 |
| Chongqing | 5.1 | 6,004 | 12% | | 1,187 |
| Wuxi | 1.9 | 1,505 | 3% | | 782 |
| Suzhou | 0.2 | 1,940 | 4% | | 8,944 |
| Shanghai | 0.8 | 12,429 | 26% | | 15,216 |
| Others | 1.2 | 2,553 | 5% | | 2,174 |
| Subtotal | 14.4 | 46,412 | 96% | | 3,214 |
| Property investment & management | | 2,163 | 4% | 6.5% cap rate on 2014E net rental income | |
| Total 2014E GAV | | 48,575 | 100% | | |
| 2014E Net debt | | 4,686 | 10% | | |
| Total 2014E NAV | | 53,261 | 110% | | |
| No. of share outstanding (diluted) | | 3,315 | | | |
| NAV per share (RMB) | | 16.1 | | | |
| Ex rate | | 1.27 | | | |
| NAV per share (HK\$) | | 20.4 | | | |
| Target discount (%) | | 65% | | | |
| Target Price (HK\$) | | 7.10 | | | |

| | |
|------------------------------|--------------|
| WACC | 12.3% |
| Cost of Debt | 9.0% |
| Cost of Equity | 20.0% |
| Debt/ (Debt + Equity) | 58% |

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2012A-2016E)

| FY Ended Dec 31 (RMB mn) | 2012A | 2013A | 2014E | 2015E | 2016E |
|--|---------------|---------------|---------------|---------------|---------------|
| Revenue | 20,843 | 30,837 | 40,686 | 47,896 | 51,126 |
| Cost of sales | (15,460) | (23,660) | (28,911) | (34,728) | (37,810) |
| Gross Profit | 5,382 | 7,177 | 11,775 | 13,167 | 13,316 |
| SG&A expenses | (884) | (1,136) | (1,327) | (1,494) | (1,461) |
| EBIT | 4,498 | 6,041 | 10,448 | 11,673 | 11,855 |
| Finance cost | (113) | (580) | (236) | (170) | (130) |
| Share of profit of associates | (39) | 72 | 1,047 | 1,362 | 1,326 |
| Other income/ (expenses) | 45 | 75 | 222 | 381 | 564 |
| Fair value gain of investment properties | - | - | - | - | - |
| Disposal/one-off items | 293 | 77 | - | - | - |
| Profit before tax | 4,685 | 5,684 | 11,481 | 13,246 | 13,616 |
| Tax | (2,070) | (2,191) | (5,043) | (5,785) | (5,870) |
| Profit after tax | 2,615 | 3,494 | 6,438 | 7,462 | 7,747 |
| Minority interest | (7) | (315) | (2,008) | (2,721) | (2,993) |
| Reported net profit | 2,607 | 3,178 | 4,430 | 4,740 | 4,753 |
| Less: exceptional items | 129 | 344 | (0) | 0 | 0 |
| Underlying net profit | 2,736 | 3,523 | 4,430 | 4,740 | 4,753 |
| Per share | | | | | |
| Underlying EPS (RMB) | 0.91 | 1.06 | 1.34 | 1.43 | 1.43 |
| DPS (RMB) | 0.09 | 0.19 | 0.24 | 0.26 | 0.26 |
| Payout ratio (%) | 10% | 18% | 18% | 18% | 18% |
| BVPS (RMB) | 3.15 | 4.10 | 5.20 | 6.37 | 7.55 |
| Growth % | | | | | |
| Revenue | 96.6% | 48.0% | 31.9% | 17.7% | 6.7% |
| Gross Profit | 50.9% | 33.3% | 64.1% | 11.8% | 1.1% |
| EBIT | 52.4% | 34.3% | 73.0% | 11.7% | 1.6% |
| Underlying net profit | 52.7% | 28.8% | 25.8% | 7.0% | 0.3% |
| Margin % | | | | | |
| Gross margin | 25.8% | 23.3% | 28.9% | 27.5% | 26.0% |
| Gross margin (post-LAT) | 20.6% | 20.5% | 22.0% | 20.7% | 19.7% |
| EBIT margin | 21.6% | 19.6% | 25.7% | 24.4% | 23.2% |
| Core net margin | 11.7% | 10.9% | 13.3% | 12.7% | 12.6% |
| Key assumptions | | | | | |
| Presale (RMB mn) | 35,635 | 52,110 | 64,917 | 75,497 | 68,766 |
| GFA sold (mn sqm) | 2.00 | 2.54 | 3.05 | 3.75 | 3.56 |
| ASP (RMB/sqm) | 17,830 | 20,520 | 21,272 | 20,129 | 19,320 |
| Booked Sales (RMB mn) | 20,671 | 30,596 | 40,426 | 47,623 | 50,840 |
| GFA delivered (mn sqm) | 1.19 | 1.75 | 2.11 | 2.51 | 2.81 |
| Booked ASP (RMB/sqm) | 17,327 | 17,530 | 19,179 | 19,009 | 18,101 |

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2012A-2016E)

| As of Dec 31 (RMB mn) | 2012A | 2013A | 2014E | 2015E | 2016E |
|---------------------------------|---------------|---------------|---------------|----------------|----------------|
| Current assets | 64,832 | 87,590 | 89,126 | 93,867 | 93,445 |
| Cash | 8,394 | 13,414 | 25,797 | 45,214 | 62,458 |
| Restricted cash | 3,869 | 2,595 | 2,595 | 2,595 | 2,595 |
| Trade & other receivables | 416 | 1,214 | 1,214 | 1,214 | 1,214 |
| Property under development | 46,401 | 58,106 | 47,258 | 32,583 | 14,918 |
| Other current assets | 5,752 | 12,261 | 12,261 | 12,261 | 12,261 |
| Non-current assets | 6,103 | 9,765 | 10,270 | 10,839 | 11,400 |
| Property, plant & equipment | 49 | 65 | 61 | 58 | 54 |
| Investment properties | 571 | 252 | 252 | 252 | 252 |
| Investment in Associate and JCE | 4,205 | 7,909 | 8,418 | 8,991 | 9,556 |
| Other non-current assets | 1,279 | 1,539 | 1,539 | 1,539 | 1,539 |
| Total Assets | 70,934 | 97,355 | 99,396 | 104,706 | 104,845 |
| Current Liabilities | 44,294 | 51,789 | 58,238 | 56,988 | 50,285 |
| Short term borrowings | 11,783 | 7,835 | 12,835 | 7,835 | 2,835 |
| Trade & other payables | 7,116 | 12,402 | 12,402 | 12,402 | 12,402 |
| Pre-sales deposits | 15,146 | 13,647 | 15,096 | 18,846 | 17,144 |
| Other current assets | 10,250 | 17,905 | 17,905 | 17,905 | 17,905 |
| Non-current liabilities | 14,646 | 27,355 | 17,355 | 17,355 | 17,355 |
| Long term borrowings | 9,942 | 20,872 | 10,872 | 10,872 | 10,872 |
| Other payables | - | - | - | - | - |
| Other non-current assets | 4,704 | 6,483 | 6,483 | 6,483 | 6,483 |
| Total Liabilities | 58,940 | 79,144 | 75,593 | 74,343 | 67,640 |
| Net Assets | 11,994 | 18,211 | 23,803 | 30,363 | 37,205 |
| Shareholders Equity | 9,489 | 13,605 | 17,239 | 21,127 | 25,026 |
| Minority Interest | 2,505 | 4,606 | 6,564 | 9,236 | 12,179 |
| Total Equity | 11,994 | 18,211 | 23,803 | 30,363 | 37,205 |
| Key ratio | | | | | |
| Gross debt (RMB mn) | 21,725 | 28,706 | 23,706 | 18,706 | 13,706 |
| Net debt (RMB mn) | 9,462 | 12,698 | (4,686) | (29,102) | (51,346) |
| Net gearing (%) | 100% | 93% | Net cash | Net cash | Net cash |
| Presale/ Total assets (x) | 50% | 54% | 65% | 72% | 66% |

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2012A-2016E)

| FY ended Dec 31 (RMB mn) | 2012A | 2013A | 2014E | 2015E | 2016E |
|-----------------------------------|----------------|----------------|----------------|----------------|----------------|
| EBITDA | 4,513 | 6,065 | 10,472 | 11,697 | 11,879 |
| Change in Working Capital | 6,684 | (4,165) | 14,420 | 19,952 | 17,130 |
| Tax payment | (1,688) | (2,191) | (5,043) | (5,785) | (5,870) |
| Operating cash flow | 9,509 | (290) | 19,849 | 25,864 | 23,139 |
| Purchase of PP&E | (22) | (20) | (20) | (20) | (20) |
| Addition of Investment Properties | (2,473) | - | - | - | - |
| Others | (2,764) | (5,111) | 759 | 1,170 | 1,325 |
| Investing cash flow | (5,260) | (5,131) | 739 | 1,150 | 1,305 |
| Debt raised | 16,396 | 10,000 | 10,000 | 10,000 | 10,000 |
| Debt repaid | (12,639) | (5,422) | (15,000) | (15,000) | (15,000) |
| Interest expenses | (1,817) | (2,569) | (2,359) | (1,697) | (1,297) |
| Equity raised | 24 | 1,608 | - | - | - |
| Dividend to shareholders | (236) | (633) | (796) | (852) | (854) |
| Others | (345) | 7,457 | (50) | (50) | (50) |
| Financing cash flow | 1,381 | 10,441 | (8,205) | (7,599) | (7,201) |
| Net cash inflow/ (outflow) | 5,631 | 5,020 | 12,383 | 19,416 | 17,244 |
| Cash- beginning | 2,763 | 8,394 | 13,414 | 25,797 | 45,214 |
| Cash- year-end | 8,394 | 13,414 | 25,797 | 45,214 | 62,458 |

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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