



## China Property Sector - Overweight

### Key Data

Average FY13E PE (x)	7.21
Average FY13E PB (x)	1.43

Source: Bloomberg, ABCI Securities

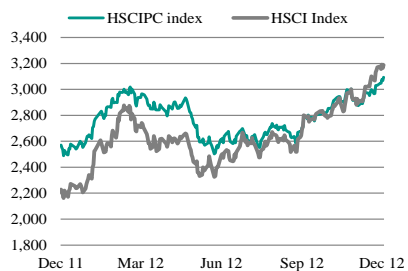
### HSCIPC performance (%)

	Absolute	Relative*
1-mth	5.2	4.0
3-mth	24.4	7.4
6-mth	31.2	9.2

\*Relative to Hang Seng Index

Source: Bloomberg

### 1 year price performance



Source: Bloomberg

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### Valuation holding up on strong fundamentals

All the sixteen property developers in our statistics pool announced the November sales results, fifteen of which grew robustly on YoY basis. Year-to-month (Jan-Nov) sales of four developers exceeded the full-year target. Nine of them saw MoM ASP rebound in November. For the upcoming first quarter, a traditional weak sales season, performance is expected to maintain strong due to low base effect. Amid the cash-flow relieve for developers, they will have less incentive to offer deep discount to lure home buyers. As such, valuation of the property sector will be holding up well at around 5-yr mean PE level of 7.06x.

**Strong November:** Sixteen property developers in our comparable group announced November sales. Except for R&F (2777 HK), other fifteen developers registered robust YoY sales growth ranging from 6% to 851%.

**Robust cumulative sales:** All sixteen developers registered positive YoY growth for the cumulative sales, ranging from 1% to 72%. Six developers have already exceeded budget while other ten locked in 95.0% of full-year target in average. Shimao (813 HK) led with the run-rate at 120.8% while Agile was most behind at 87.3%.

**Expecting ASP up 5% in 2013 in top tier cities:** Nine property developers saw ASP rebounded on MoM ranging from 2.0% to 19.7%. As the property developers have achieved their full-year targets with diminishing cash flow risk, they are regaining bargaining power against buyers. However, for the current China's property market, we expect government stance is still a dominant factor and we do not expect to see nationwide price rebound in 2013. For the projects in the core area of top cities, ASP may see 5% YoY increase in light of their scarcity by nature.

**Valuation holding up on strong first quarter in 2013:** Moving to the first quarter next year, the traditional weak sales season, sales performance is expected to maintain flourish due to low base in 2012 as the sector was overshadowed by policy uncertainty during Q1 2012. Given the cash-flow relieve for property developers in 2H 12, developers will have less incentive to offer deep discount to lure home buyers in Q1 2013. Property sector outperformed the Hang Seng Index by 4.0% in a month and the PE valuation reverted above 5-yr mean level at 7.06x. We expect the valuation to be holding up well on strong fundamentals.

### Valuation and sales comparison for China property developers

Company	Code	Price (HK\$)	ABCI Rec	2012 P/E	2012 P/B	2013 P/E
China Overseas	688	22.7	Review	11.8	2.25	10.2
Evergrande	3333	4.1	Buy	5.6	1.24	5.3
KWG	1813	5.6	Buy	6.3	0.81	5.6
Sunac	1918	5.2	Buy	4.5	1.41	3.9
C C Land	1224	2.5	Hold	12.1	0.37	9.2
Hopefluent	733	2.8	Buy	8.4	1.00	7.3

Source: Company data, Bloomberg, ABCI Securities

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*Exhibit : Sales comparison for China property developers*

		11/2012			1-11/2012		2012	2012
		Rmb100mn	YOY	MoM	Rmb100mn	YoY	Target Rmb100mn	% Achieved
688	China Overseas	52.2	50%	-41%	1,059	30%	1,000	105.9%
3333	Evergrande	118	851%	-17%	846	7%	800	105.8%
960	Longfor Properties	39	6%	3%	359	1%	390	91.9%
2007	Country Garden	61	144%	-5%	421	7%	430	97.9%
3383	Agile Property	32	6%	4%	271	-3%	310	87.3%
813	Shimao Property	31	75%	-14%	423	49%	350	120.8%
2777	R&F Properties	28	-2%	-33%	292	11%	320	91.2%
119	Poly HK	18	50%	-14%	211	48%	160	131.9%
1813	KWG	12	43%	-8%	112	3%	120	93.2%
1638	Kaisa Group	22	76%	22%	149	11%	165	90.3%
1918	Sunac	41	134%	13%	272	72%	300	90.8%
1777	Fantasia	10	112%	29%	72	11%	72	99.6%
1224	C C Land	9	205%	15%	67	28%	68	99.1%
000002	Vanke A-share	171	107%	25%	1,272	10%	-	-
600048	Poly A-share	87	77%	13%	920	36%	-	-
600383	Gemdale A-share	39	24%	6%	299	17%	-	-

*Source: Company data and 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 14 Dec 2012.**

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