



Sector Report

China Residential Property

June 6, 2013

Sector rating: Overweight

Key data

Average 13E PE (x)	6.8
Average 13E PB (x)	1.1
Average 13E Dividend Yield (%)	3.8

Source: Company & Bloomberg

4M13 Contracted Sales

Developer	RMBb	YoY Chg
Vanke	56.0	46%
COLI	52.1*	37%
Poly-A	40.2	67%
Evergrande	25.0	52%
CR Land	23.2	105%
Country Garden	23.1	153%
Shimao	18.3	61%
Greentown	17.9	127%
Longfor	13.4	40%
R&F	12.4	30%
Sino-Ocean	11.5	96%
Gemdale	11.4	66%
Sunac	11.3	100%
Agile	9.9	16%
Kaisa	6.6	77%
Yuexiu	6.4	36%

* in HKD

Source: Companies data

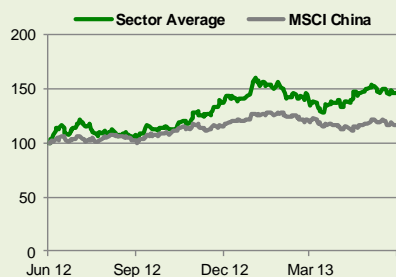
Sector performance (%)

	Absolute	Relative*
1-mth	3.2	1.1
3-mth	(6.7)	(10.0)
6-mth	(3.4)	(5.7)

*Relative to MSCI China

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst

Kenneth Tung

Tel: (852) 2147 8311

Email: kennethtung@abci.com.hk

Two key fundamental factors improving

China Property share price performance has always been influenced by two key factors- Policy and Contracted Sales. We see clearly these two factors on improving trend. On policy front, the recent “Five Policy Measures” are relatively mild with limited new measures to curb home price. Despite a -18% MoM contracted sales decline in April, we expect growth momentum to resume in 3Q-4Q on better buyers’ sentiment.

Policy relatively loose. The recent Five Policy Measures to cool property market look relatively mild in our view due to: 1) Property price growth target benchmarked with disposable income, which has a growth rate of 9-17%, based on urban household income over past 12 years; 2) Cities are allowed to implement their own specific measures accordingly. Apart from Beijing which forbids single person to buy a second home, other cities look mild without new concrete measures.

Better sales in second half. As a result of latest austerity measures in April, contracted sales of major developers retreated 18% MoM (but up 11% YoY) on average. We believe sales momentum should resume in second half (from a weak 2Q) as buying sentiment recovers gradually, and we expect no further new tightening measures for the rest of this year. In our view, keeping a loose property policy is essential to sustain China GDP growth, as deceleration being observed in 1Q13 (from 7.9% in 4Q12 to 7.7% in 1Q13).

Lower financing cost as bond market revives. Bond issuance for China developers has recovered substantially in 2013, with total proceeds of ~HKD103b in 5M13 alone (Full year 2012: HKD84b). We have witnessed bond yield trended down YTD for most developers, which lead to lower finance cost and faster land acquisition for listed players.

Greentown as our Top Pick. We prefer quality mid-cap plays with strong sales performance YTD, due to much cheaper valuation of 5.5x 2013E PE (vs 9.8x for large cap). Greentown is currently our Top Buy, mainly due to its solid improvement in financing and executing via its JV with Wharf and Sunac. For Kaisa, we also initiate with Buy as margin should improve on increasing urban redevelopment projects; we also recommend Buy for Sunac, given its strong execution skills in the past. In terms of large-cap developers, we prefer COLI given its industry leading margin.

Risk factors: Further tightening policy; Competition intensifying

Sector Valuation Summary

Companies	Ticker	Rating	Price (HK\$)	Target (HK\$)	Upside (%)	13E PER	13E PBV	13E yield
Greentown	3900 HK	Buy	13.94	19.00	36.3	4.4	0.9	4.9
Kaisa	1638 HK	Buy	2.15	2.80	30.2	4.3	0.6	-
Sunac	1918 HK	Buy	5.92	7.10	19.9	4.2	1.1	2.4
COLI	688 HK	Buy	22.85	26.00	13.8	9.6	1.8	2.1

* Data as at 5 Jun 2013

Source: Company, Bloomberg, ABCI Securities estimates



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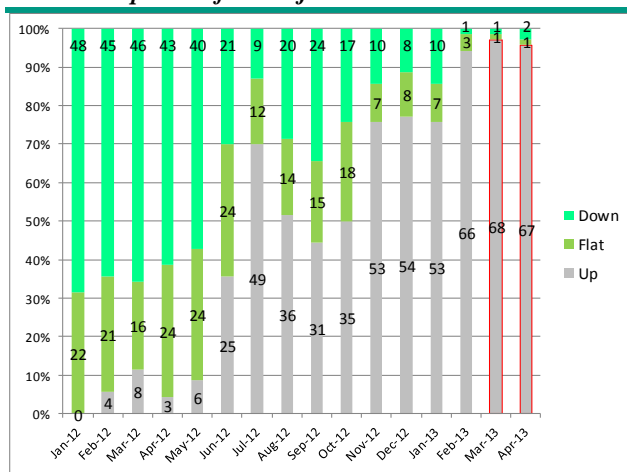
Our Policy read

Re-cap: Hot property market triggered new tightening

China property price has demonstrated noticeable upward trend since beginning of 2013, which have triggered new round of tightening measures- Five Policy Measures (国五条) in our view. In fact, we have seen heating-up property market being broad-based. According to National Bureau of Statistics (NBS), more than 90% of major cities in China registered MoM growth in February to April, a level unseen for past 2 years. In particular, we saw a stronger momentum for Tier-1 cities. For instance, Tier 1 Cities (Beijing, Shanghai, Guangzhou & Shenzhen) registered 9.1% & 6.2% growth for primary and secondary market respectively, compared to end of 2012. We believe strong end-user demand is the key driver for such overwhelming performance in 2013, rather than investment demand driven.

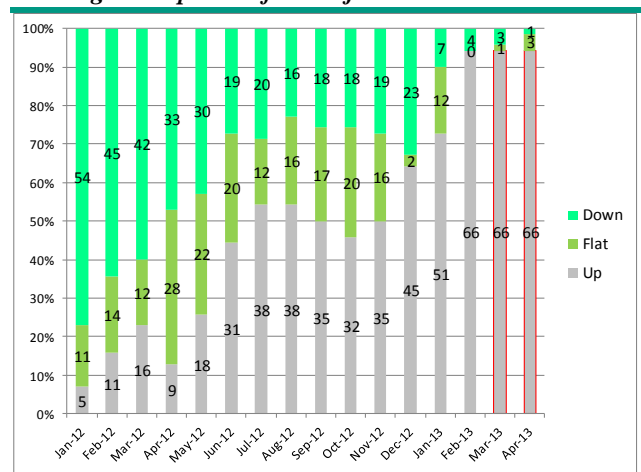
However, we have seen a moderation so far in April right after the city level implementation. For primary market, number of cities registering upward property price MoM was down from 68 (March) to 67, while secondary remained flat at 66. We believe the government will take several months to evaluate the effectiveness of the new measures. Hence the government will not be in rush to launch further measures

New home prices of 70 major cities



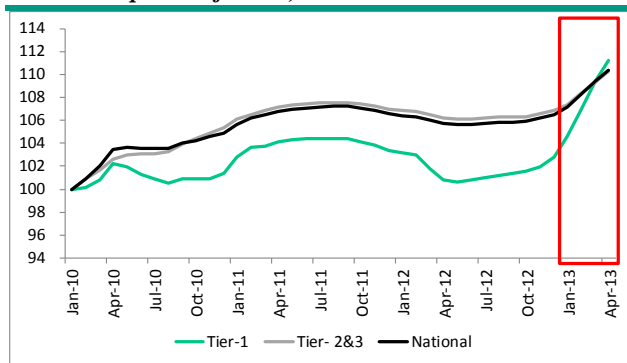
Source: NBS, ABCI Securities

Existing home prices of 70 major cities



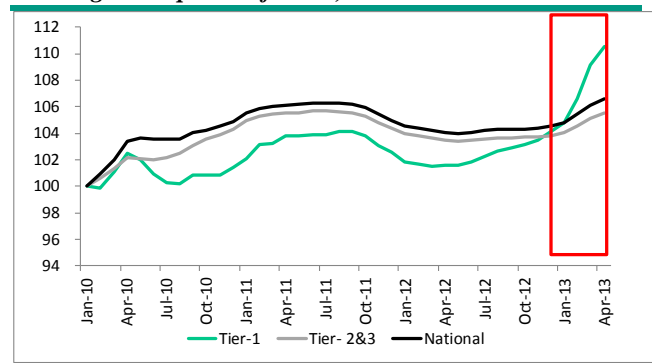
Source: NBS, ABCI Securities

New home prices of tier 1, 2 & 3 cities



Source: NBS, ABCI Securities

Existing home prices of tier 1, 2 & 3 cities



Source: NBS, ABCI Securities



Five Policy Measures looks relatively mild

Despite the fact that Home Purchase Restriction implemented has effectively curbed speculative demand since 2011, central government would not like to see property price to grow too fast, despite market largely user driven these days. As a result, central government issued following Five Policy Measures in early March as to avoid property market to overheat:

Five Policy Measures

Five-point statement	Principle	Description	Key measures at different cities
1 Price	Stablise property price	- Maintain a stable property price as general principle - Set property price target at city level	- Strictly implement 20% capital gain tax - Price benchmark set at city level - No pre-sales permit if developers do not accept pricing guidance - Beijing: Prohibit single person to purchase 2nd home
2 Purchase restriction	Reduce speculative home purchase	- Tighten credit for 2nd/3rd home purchase - Extend property tax trial cities	
3 Land supply	Increase supply	- 2013 land supply should be no less than past 5 year average	
4 Social housing	Accelerate social housing development	- Achieve 4.7m units of social housing completion & 6.3m units new construction start	
5 Market monitor	Increase monitoring	- Improving information system regarding presales status and pricing	

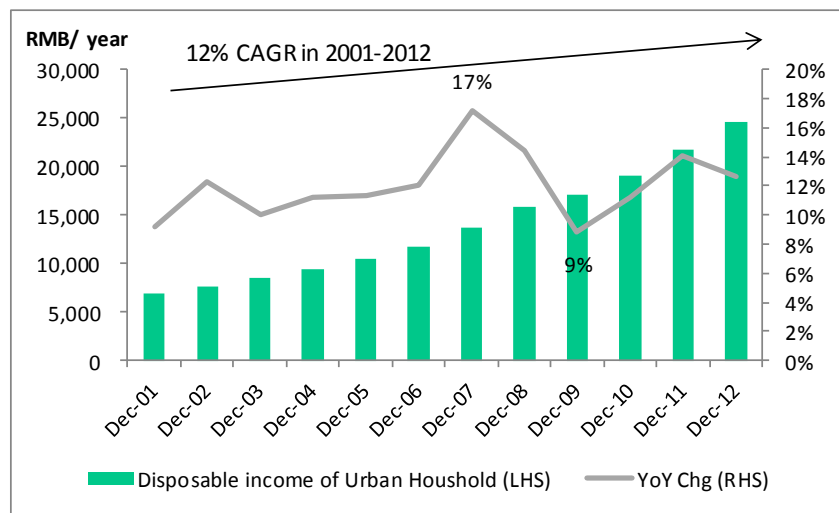
Source: State Council; ABCI Securities

In summary, we view Five Policy Measures to be a relatively mild one because:

- **A relatively loose price growth target benchmarked with disposable income**

Disposable income seems not to be a strict benchmark. According to NBS, disposable income of urban households registered an annual normal growth rate ranging from 9% to 17%, over past 12 years.

Annual Disposable Income of Urban Household



Source: NBS, ABCI Securities

- **Cities are allowed to implement their own measures**

In fact, we have seen measures announced by different cities vary from each other. For instance, Beijing implemented the toughest measure among first Tier cities, which included prohibiting single person to purchase 2nd unit. It is also the only city setting flat property price target, not benchmarking with disposable income. On the other hand, 2nd tier cities look relatively mild, without concrete new measures. A flexibility in city-level implementation indicated Central government cautious approach in property market.



City-level Implementation

Measures mentioned:	Price growth target		Tighten 2nd Home Mortgage	Presales restriction if seeking ASP hike	Further Home Purchase Restriction
	Flat vs 2012	Less than growth of disposable income			
Tier-1 Cities					
Beijing	✓		✓	✓	✓
Shanghai	✓		✓	✓	
Guangzhou			✓		
Shenzhen		✓	✓		
Tier-2 Cities					
Shenyang		✓			✓
Tianjin		✓	✓		
Hangzhou		✓			
Hefei		✓		✓	
Kunming		✓			
Kaikou		✓			
Yinchuan		✓			
Jinan		✓			
Qingdao		✓			
Ningbo		✓			
Nanjing		✓			

* Effective since Apr 2013

Source: ABCI Securities

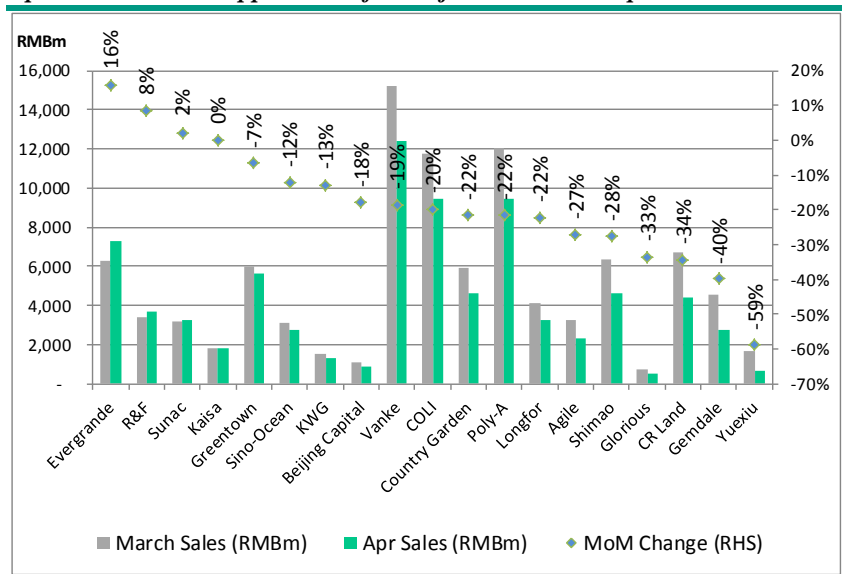


2H13 outlook: sales momentum should resume with no further tightening

Short-term pressure only

As a result of latest austerity measures in April, contracted sales of major developers retreated 18% MoM (but up 11% YoY) on average from very strong March. Government has successfully made home buyers stay cautious to some extent, upon implementation of new policies. Although May could be another disappointing month, we believe sales momentum should resume in second half (from a weak 2Q) as buying sentiment recovers gradually, assuming no further new tightening policy.

April 2013 Sales Dropped MoM for Major Listed Developers



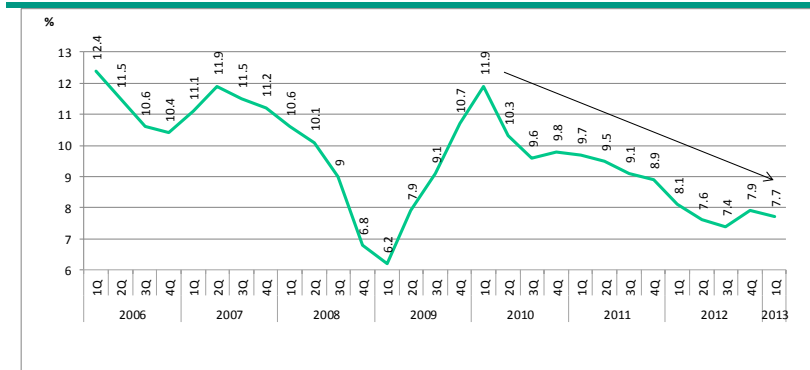
* Figures are for the month of Apr 2013 and Mar 2013

Source: Companies; ABC Securities

Slower the GDP, better the policy

In fact, we expect no further tightening should be required in 2H, as indicated from relatively loose property price benchmark. Further, amid slowing China GDP in 1Q13, a healthy property market is necessary to stabilize economic growth, given property sector represents significant portion of China GDP. Not only property FAI could speed up, but property price appreciation should create “wealth effect” to boost consumption further.

Slowing China Quarterly GDP trend)



Source: NBS



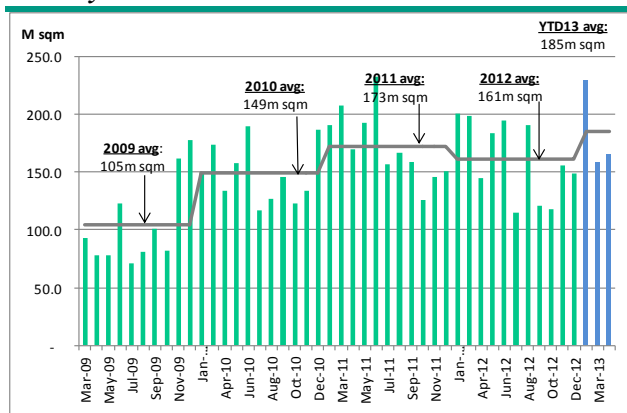
Forecast residential sales to grow +10-15% YoY in 2H; property price flat

Due to a relatively loose property policy, we expect residential property price to be flat in 2H, while residential sales amount should resume faster growth.

- Flat property price on healthy supply**

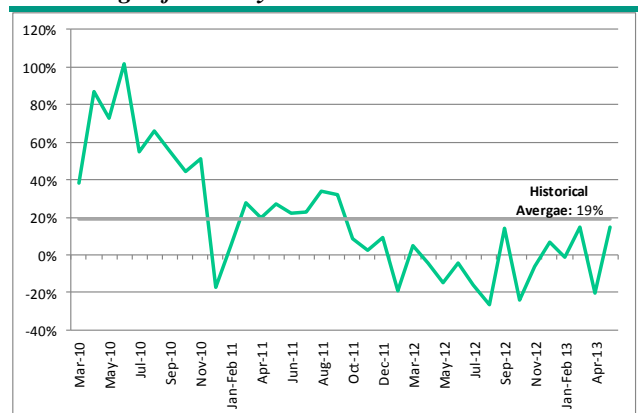
We expect property price to be flat for 2nd half, mainly due to healthy supply situation. New GFA starts tend to be good leading indicator for property supply in China. After a 7% YoY decline to 161m sqm in 2012, new GFA start seems to resume growth momentum in April (+15% YoY). However, growth rate still lags behind historical average of 19% YoY, indicating supply outlook remains relatively tight future supply.

Monthly new GFA starts



Source: NBS, ABCI Securities

YoY change of monthly new GFA starts

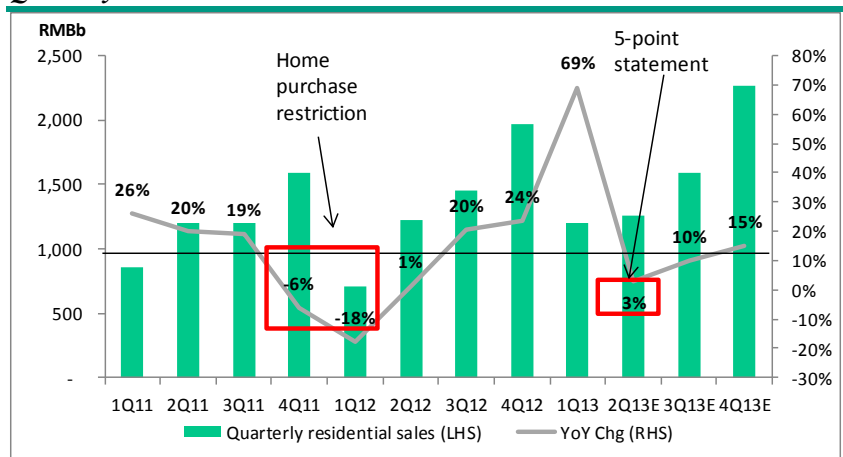


Source: NBS, ABCI Securities

- Sales to rebound in second half driven by volume**

We expect national residential sales to slow down to 3% YoY growth in 2Q13, but resume faster momentum to 10% in 3Q13, and 15% in 4Q13, mainly due to improving buyers' sentiment and more developers' new project launches.

Quarterly China Residential Sales



Source: NBS, ABCI Securities estimates



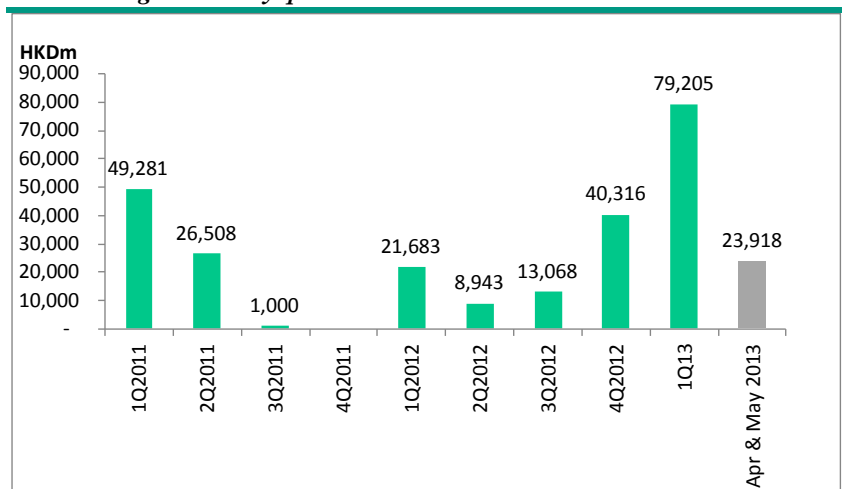
Active bond market: a key success factor for HK listed players

Being a capital intensive industry, ability to raise funds is crucial to a developer's success. In particular, funding for land acquisitions is tight in China. As offshore funding channels revive, we believe HK listed players will enjoy lower financing cost & longer maturity compared to private players.

Offshore bond market revives

As a result of global quantitative easing, bond issuance has recovered substantially for China developers- a total of HKD103b proceeds were raised in 5M13 alone, exceeding 2012 full year amount of HKD83b.

Bond raising amount by quarter

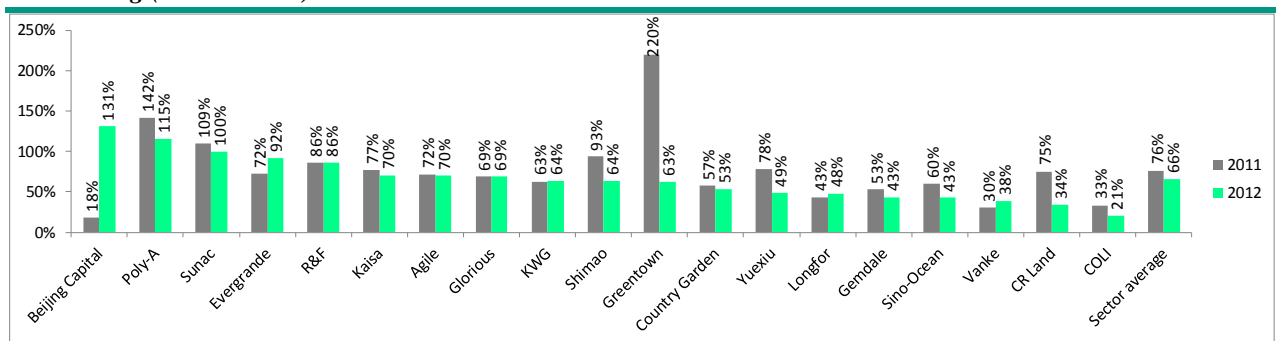


Source: Bloomberg; ABCI Securities

Bond yield for mid-cap players reduced substantially

Due to improving sales performance in 2012, net gearing of listed China property developers reduced by 10ppt on average to 66% at 2012-end. Bond market reacted positively on improving fundamentals of developers, with lower yield-to-maturity trading downwards. In particular, we saw stronger improvement in bond yield for mid-cap players. For instance, Greentown issued an 8.5% coupon bond in Jan 13 and now trades at 7.5% yield. Greentown's RMB2.5b 6.625% dim-sum bond also received overwhelming response (4x oversubscription).

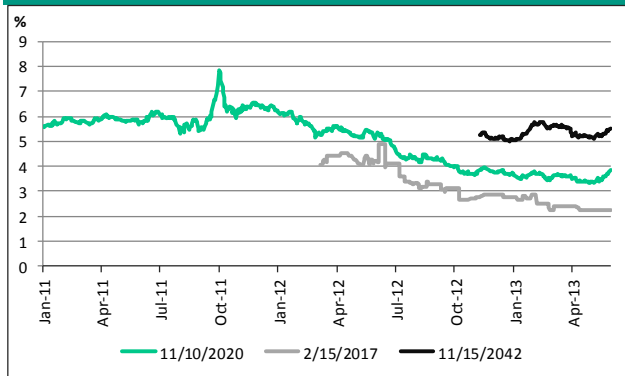
Net Gearing (2012 vs 2011)



Source: Companies data, ABCI Securities



Yield to maturity- COLI, SOE background



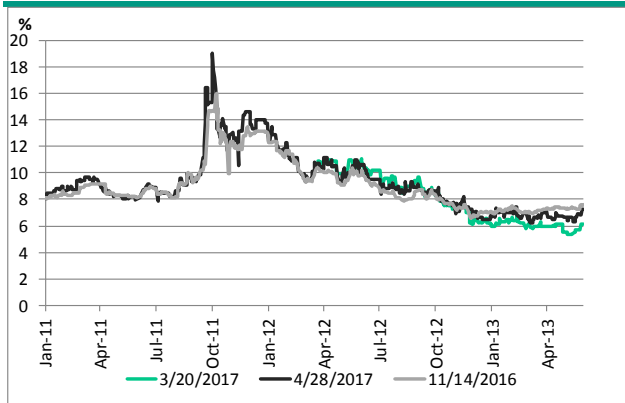
Source: Bloomberg, ABCI Securities

Yield to maturity- CR Land (SOE)



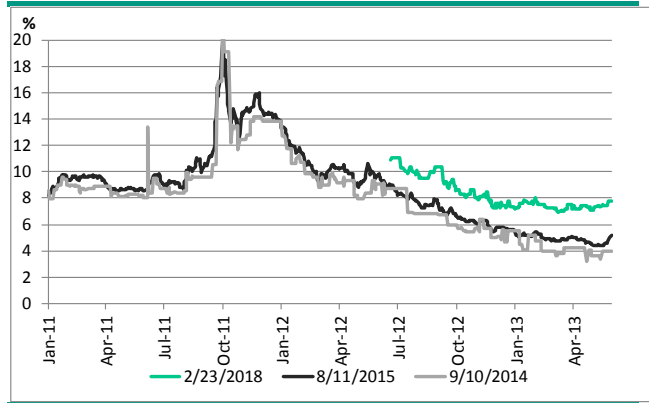
Source: Bloomberg, ABCI Securities

Yield to maturity- Agile (Long trading history)



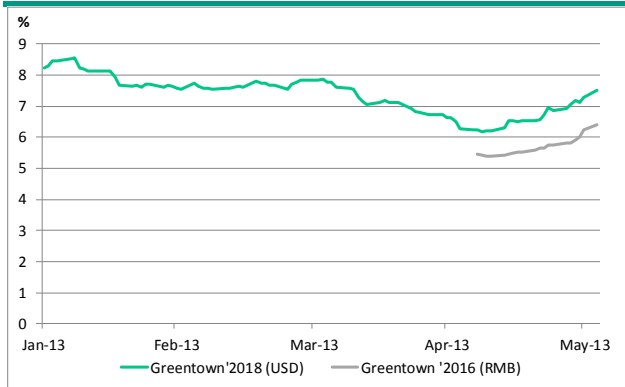
Source: Bloomberg, ABCI Securities

Yield to maturity- Country Garden (Long trading history)



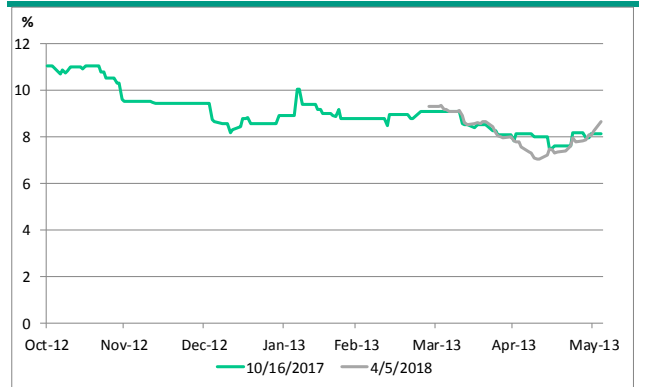
Source: Bloomberg, ABCI Securities

Yield to maturity- Greentown(mid-cap)



Source: Bloomberg, ABCI Securities

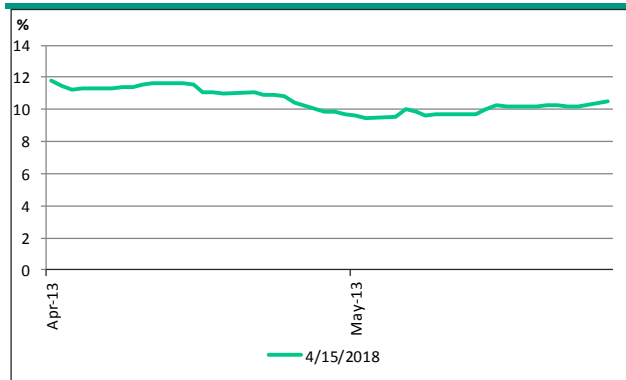
Yield to maturity- Sunac (mid-cap)



Source: Bloomberg, ABCI Securities

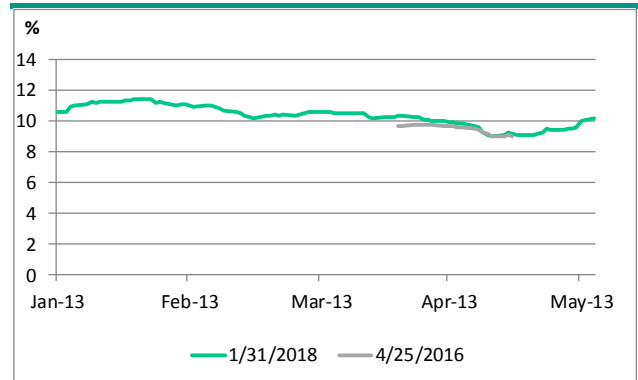


Yield to maturity- CIFI (2012 IPO)



Source: Bloomberg, ABCI Securities

Yield to maturity- Future Land (2012 IPO)



Source: Bloomberg, ABCI Securities

2013 Bond and Equity issuance

Company Name	Fundraising channel	Amount (HKDb)	Key Terms	
			Coupon rate (%)	Term (yr)
January				
Kaisa	USD Bond	3.9	10.25%	7
Country Garden	USD Bond	5.9	7.50%	10
Shimao	USD Bond	6.1	6.63%	7
Hopson	USD Bond	2.3	9.88%	5
Agile	Perpetual	5.5	8.25% in year 1-5, T-note rate + 7.463% afterwards	NA
Gold Wheel Tiandi	IPO	0.8	NA	NA
Fantasia	USD Bond	2.0	10.75%	7
Evergrande	Placement	4.4	Discount 6.5%	NA
Yuexiu	USD Bond	2.7	3.25%	5
Yuexiu	USD Bond	3.9	4.50%	10
R&F	USD Bond	6.2	8.75%	7
Sunac	Placement	2.0	Discount 6.8%	NA
CCRE	USD Bond	1.6	8.00%	7
Aoyuan	USD Bond	0.8	13.88%	5
China SCE	USD Bond	1.2	11.50%	5
Mingfa	USD Bond	0.1	13.25%	5
Longfor	USD Bond	3.9	6.75%	10
Greentown	USD Bond	3.1	8.50%	5
Powerlong	USD Bond	2.0	11.25%	5
Future Land	USD Bond	1.6	10.25%	5
Frasers	Placement	0.7	Discount 13.1%	NA
KWG	USD Bond	2.3	8.63%	7
Jan Total		62.8		
February				
NWCL	RMB Bond	3.7	5.50%	5
Glorious	USD Bond	2.0	13.25%	5
Feb Total		5.7		
March				
Glorious	USD Bond	1.2	13.25%	5
Vanke	USD Bond	6.2	2.63%	5
Kaisa	USD Bond	4.3	8.88%	5
Beijing Capital Land	USD Bond	0.3	8.38%	perpetual
Greentown	USD Bond	2.3	8.50%	5
Shui On land	right issue	3.7	for 3 @ HKD1.84	
Sunac	USD Bond	3.9	9.38%	5
Kaisa	RMB Bond	2.3	6.88%	3
Mar Total		24.2		
April				
Minmetals Land	USD Bond	1.8	5.50%	5
Minmetals Land	USD Bond	1.0	6.50%	10
Kaisa	RMB Bond	2.3	6.88%	3
Future Land	RMB Bond	1.9	9.75%	3
CIFI	USD Bond	2.2	12.25%	5
Apr Total		9.0		
May				
Greentown	RMB Bond	3.1	5.63%	3
Poly property	USD Bond	3.9	4.75%	5
Yanlord	RMB Bond	2.5	5.38%	3
Powerlong	RMB Bond	1.0	9.50%	3
Fantasia	RMB Bond	1.3	7.88%	3
Central China	USD Bond	3.1	6.50%	5
May total		14.9		

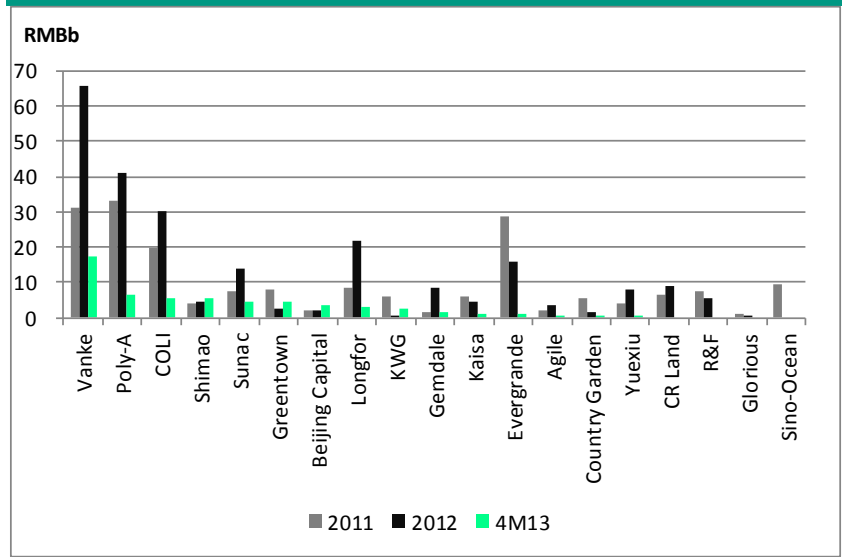
Source: Companies; ABCI Securities, Bloomberg



Land acquisition speeded up for mid-cap players

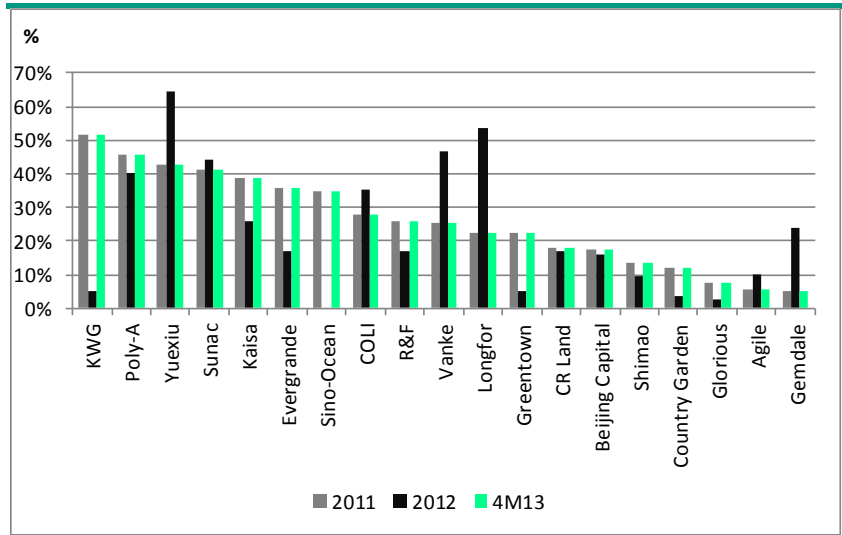
As several major mid-cap players successfully raised funding in bond market, some of them has become more aggressive approach in land acquisition. For instance, KWG/Yuexiu/ Sunac ranked No.1/ 3/ 4 in terms of land acquisition to sales ratio.

Land Acquisition Amount



Source: Companies, ABCI Securities

Land Acquisition to Sales Ratio



Source: Companies, ABCI Securities

Due to better fund raising channels and faster land acquisition, we see that listed players are increasing their market shares over last few years. In fact, major listed players in HK and China account for 20.1% of total property market currently. We see faster market share gain on improving offshore fund raising channels for land acquisition.

**農銀國際**

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Real Estate Industry**Estimated Market Share of Listed Developers**

		Contracted Sales (RMBb)					Mkt share (%)				
		2009	2010	2011	Jan-Apr		2009	2010	2011	2012	YTD
					2012	2013					2013
1	Vanke 000002 CH	63.4	108.2	122.2	141.2	56.0	1.7%	2.5%	2.5%	2.6%	3.3%
2	Poly-A 600048 CH	43.4	66.2	73.2	101.7	40.2	1.1%	1.5%	1.5%	1.9%	2.4%
3	Evergrande 3333 HK	30.3	50.4	80.4	92.3	25.0	0.8%	1.1%	1.7%	1.7%	1.5%
4	COLI 688 HK	47.8	67.1	70.3	89.8	41.7	1.3%	1.5%	1.4%	1.7%	2.5%
5	CR Land 1109 HK	25.1	22.3	35.9	52.2	23.2	0.7%	0.5%	0.7%	1.0%	1.4%
6	Greentown 3900 HK	51.3	54.1	34.5	51.0	17.9	1.3%	1.2%	0.7%	1.0%	1.1%
7	Country Garden 2007 HK	23.2	32.9	43.2	47.6	23.1	0.6%	0.7%	0.9%	0.9%	1.4%
8	Shimao 813 HK	22.5	30.5	30.7	46.1	18.3	0.6%	0.7%	0.6%	0.9%	1.1%
9	Longfor 960 HK	18.4	33.3	38.3	40.1	13.4	0.5%	0.8%	0.8%	0.8%	0.8%
10	Sunac 1918 HK	6.4	8.3	17.7	31.6	11.3	0.2%	0.2%	0.4%	0.6%	0.7%
11	Gemdale 600383 CH	21.0	28.8	31.0	34.1	11.4	0.6%	0.7%	0.6%	0.6%	0.7%
12	Agile 3383 HK	20.1	32.3	31.5	33.1	9.9	0.5%	0.7%	0.6%	0.6%	0.6%
13	R&F 2777 HK	16.0	32.2	29.7	32.2	12.4	0.4%	0.7%	0.6%	0.6%	0.7%
14	Sino-Ocean 3377 HK	14.3	21.6	27.0	31.1	11.5	0.4%	0.5%	0.6%	0.6%	0.7%
15	Yuexiu 123 HK	6.1	8.8	9.1	12.3	6.4	0.2%	0.2%	0.2%	0.2%	0.4%
16	Beijing Capital 2868 HK	10.6	12.5	11.0	13.3	3.3	0.3%	0.3%	0.2%	0.2%	0.2%
17	Kaisa 1638 HK	6.0	10.1	15.3	17.4	6.6	0.2%	0.2%	0.3%	0.3%	0.4%
18	KWG 1813 HK	7.6	11.0	11.4	12.2	5.3	0.2%	0.3%	0.2%	0.2%	0.3%
19	Glorious 845 HK	6.7	12.7	13.3	10.9	3.0	0.2%	0.3%	0.3%	0.2%	0.2%
Major listed developer		440	643	726	890	340	11.5%	14.6%	14.9%	16.7%	20.1%
National (New Home Sales)		3,816	4,395	4,862	5,347	1,694					

* YTD2013 figures are for Jan-Apr 2013

Source: Company, NBS, ABCI Securities

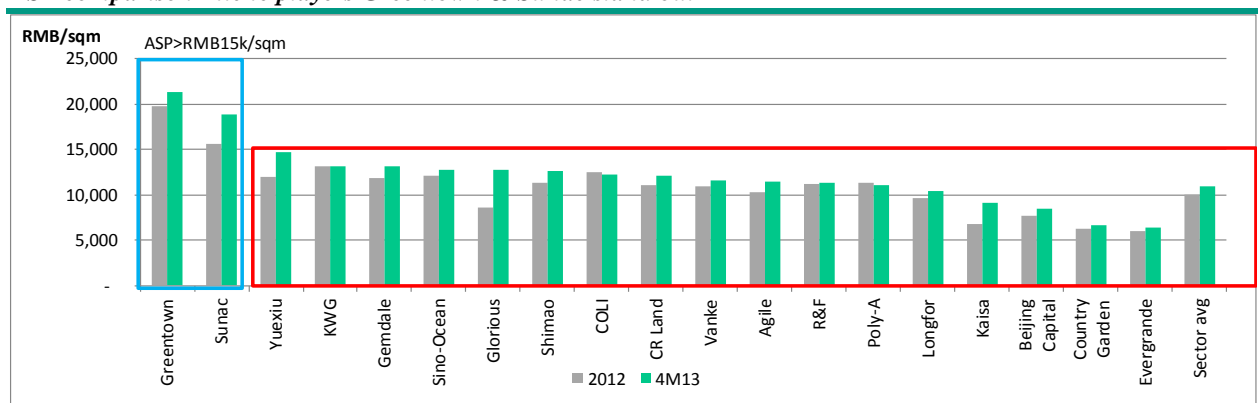


Low-end or Luxury? Buy cyclical when policy is mild

Low-end market is a crowded space

Since the implementation of Home Purchase Restriction in 2011, China property market has switched from investment demand driven to end-user driven. In particular, policies are more favorable to first home buyers, who can get favorable mortgage at 15% discount to PBOC benchmark lending rate in 2012. As a result, some developers have repositioned their products to capture the low-end market, with the exception for Greentown and China. With increasing competition within low-end market, we expect luxury players' sales to outperform in 2H13, assuming no further tightening policy.

ASP comparison- niche players Greentown & Sunac stand out

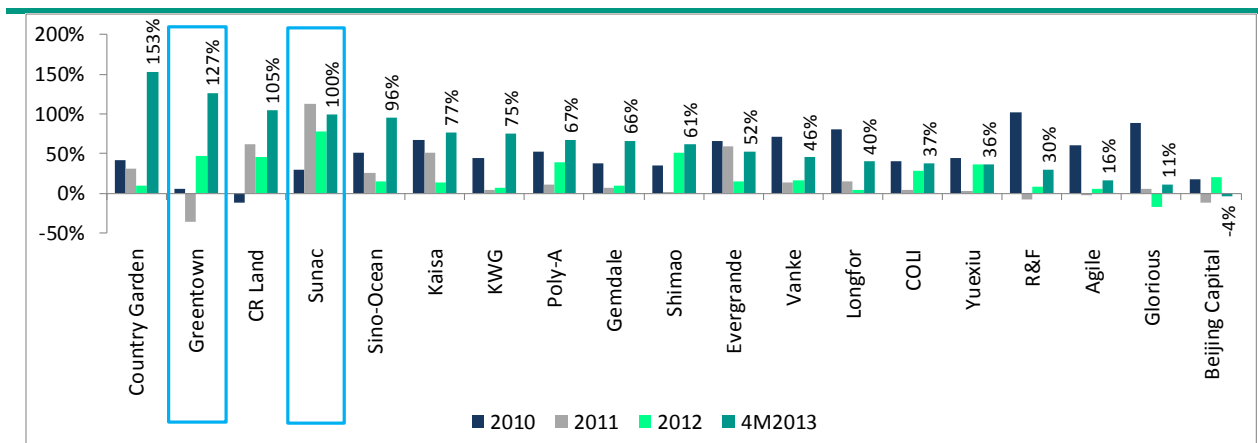


Source: Companies; ABCI Securities

Prefer luxury players to capture cyclical rebound

In fact, we have seen stronger sales performance for luxury players since beginning of year, enjoying a cyclical rebound. For instance, Greentown registered 127% YoY in 4M13 contracted sales, while Sunac's sales increased 100% YoY, ranked #2 and #4 among major listed developers. We expect upgrading demand starts to emerge as policy risks moderate.

Contracted Sales YoY Growth



Source: Companies; ABCI Securities



4M13 Sales Target Achievement Ratio Comparison

(RMBb)	2013 Achievement		2012 Achievement		2012	Exceed/ (below)		
	4M13	Target	ratio	4M12	Target	ratio	Actual	target by
Yuexiu	6.4	13.2	48.5%	4.7	10	47.0%	12	23.0%
COLI	52.0	100	52.0%	38.0	100	38.0%	90	-10.2%
CR Land	23.2	57	40.6%	11.3	40	28.3%	52	30.5%
Country Garden	23.1	62	37.2%	9.1	43	21.2%	48	10.7%
Vanke	56.0	160	35.0%	38.5	133	28.9%	141	6.2%
Greentown	17.9	55	32.5%	7.9	40	19.8%	51	27.4%
Poly-A	40.2	117	34.4%	24.0	80	30.0%	102	27.2%
KWG	5.3	16	33.4%	3.0	12	25.4%	12	1.7%
Sino-Ocean	11.5	35	32.7%	5.9	27	21.7%	31	15.2%
Kaisa	6.6	22	30.0%	3.7	16.5	22.6%	17	5.7%
R&F	12.4	42	29.5%	9.5	32	29.8%	32	0.6%
Longfor	13.4	46	29.2%	9.6	39	24.5%	40	2.9%
Shimao	18.3	63	29.1%	11.4	30.7	37.0%	46	50.3%
Gemdale	11.4	41	27.7%	6.9	32.5	21.1%	34	4.9%
Glorious	3.0	11	27.4%	2.7	13	20.9%	11	-15.8%
Sunac	11.3	45	25.1%	5.7	30	18.8%	32	5.2%
Evergrande	25.0	100	25.0%	16.5	80	20.6%	92	15.4%
Agile	9.9	42	23.5%	8.5	30	28.4%	33	10.2%
Beijing Capital	3.3	20	16.6%	3.5	12	28.8%	13	10.6%

Source: Companies, ABCI Securities

Prefer quality mid-cap names with low valuation

China property stocks enjoyed a strong share price rebound in 2012 as they reported strong monthly sales figures since second half last year. However share price rally lose steam year-to-date, as market worries further government tightening. Small-mid cap also underperformed large cap player on such policy risks concern.

As we argue policy on property will remain relatively loose to help China's economic growth, we expect rising sales figures in 2H13 to become share price catalyst of the sector. Quality mid-cap names, given lower valuation of 5.5x 2013E PE (vs 9.8x for large cap) and stronger sales performance, present great investment opportunities in our view.

Sector Valuation- Small-mid cap trades at much lower valuation than Large-cap players

China Property	Ticker	Rating	Mkt cap (HKD bn) (local ccy)	Share Price	Performance			Discount to 2013E NAV (%)	P/E			Yield (%)			P/B		
					1-Month % Chg	YTD % Chg	2012 Chg		2012A	2013E	2014E	2012A	2013E	2014E	2012A	2013E	2014E
Residential:																	
COLI	688 HK	BUY	186.7	22.85	-4.2%	-1%	76%	-12.3%	11.7	9.6	7.7	1.8	2.1	2.6	2.1	1.8	1.5
Greentown	3900 HK	BUY	30.0	13.94	-8.4%	-2%	320%	-56.6%	5.3	4.4	3.4	4.5	4.9	5.4	1.1	0.9	0.7
Sunac	1918 HK	BUY	19.6	5.92	-4.1%	-1%	277%	-62.6%	6.0	4.2	3.9	1.8	2.4	2.6	1.5	1.1	0.9
Kaisa	1638 HK	BUY	10.6	2.15	-11.2%	-10%	78%	-57.0%	6.3	4.3	2.8	-	-	-	0.7	0.6	0.5
CR Land	1109 HK	NR	138.1	23.70	0.9%	12%	70%	-15.2%	18.2	14.9	11.9	1.4	1.7	2.1	2.0	1.7	1.5
Country Garden	2007 HK	NR	80.4	4.41	0.0%	9%	39%	-27.7%	9.5	8.0	6.9	3.9	4.6	5.3	1.7	1.5	1.3
Longfor	960 HK	NR	71.7	13.20	-1.2%	-13%	77%	-37.0%	10.6	8.8	7.7	1.9	2.2	2.6	1.9	1.6	1.4
Shimao	813 HK	NR	58.2	16.76	-2.2%	15%	122%	-43.3%	8.1	7.7	6.5	3.2	4.0	4.6	1.3	1.1	1.0
Evergrande	3333 HK	NR	49.5	3.09	-3.4%	-27%	32%	-63.6%	4.1	4.7	4.1	-	5.7	6.4	1.0	0.8	0.7
Guangzhou R&F	2777 HK	NR	42.1	13.08	-8.5%	1%	109%	-48.9%	7.0	6.1	5.4	5.7	6.2	7.0	1.3	1.1	1.0
Agile	3383 HK	NR	32.2	9.35	-6.3%	-14%	56%	-58.9%	5.2	5.2	4.6	4.1	4.7	5.3	1.0	0.8	0.7
Sino Ocean	3377 HK	NR	26.7	4.55	-14.6%	-21%	64%	-51.3%	7.7	7.8	6.4	5.2	5.3	6.2	0.5	0.5	0.5
COGO	81 HK	NR	24.9	10.90	-11.1%	17%	47%	-21.4%	10.4	8.5	6.7	1.0	1.4	1.6	3.1	2.3	1.7
Yuexiu Properties	123 HK	NR	20.6	2.21	-5.2%	-10%	123%	-58.2%	15.8	7.2	6.1	2.9	5.1	6.2	0.7	0.7	0.6
KWG	1813 HK	NR	15.0	5.17	-7.0%	-11%	121%	-60.2%	6.3	5.1	4.2	3.6	4.9	5.4	0.8	0.7	0.6
Glorious	845 HK	NR	9.4	1.20	-3.2%	-18%	16%	na	11.0	5.0	4.1	-	1.6	2.2	0.4	0.4	0.3
BJ Capital Land	2868 HK	NR	6.4	3.11	5.8%	-3%	109%	na	6.1	4.0	3.1	7.6	8.5	11.2	0.9	0.5	0.5
HK Listed Avg					-4.9%	-5%	102%	-44.9%	8.8	6.8	5.6	2.9	3.8	4.5	1.3	1.1	0.9
- Large cap (>HKD50b) avg					-1.4%	4%	77%	-27.1%	11.6	9.8	8.1	2.4	2.9	3.5	1.8	1.6	1.3
- Small-mid cap (<HKD50b) avg					-6.4%	-8%	113%	-53.9%	7.6	5.5	4.6	3.0	4.2	5.0	1.1	0.9	0.7
Vanke	000002 CH	NR	165.8	11.83	4%	24%	30%	-22.2%	10.4	8.4	7.0	1.5	1.6	1.9	2.0	1.7	1.4
Poly-A	600048 CH	NR	109.8	12.15	1%	-11%	40%	-34.6%	10.3	8.0	6.4	1.9	2.4	3.1	2.0	1.7	1.4
China Merchants Property	000024 CH	NR	59.8	29.05	8%	-3%	69%	na	15.0	11.6	9.4	1.0	1.2	1.5	2.1	1.8	1.5
Gemdale	600383 CH	NR	43.5	7.69	6%	10%	46%	-6.1%	10.1	9.3	7.7	1.0	2.0	2.3	1.4	1.3	1.2
A-share Listed Avg					5%	5%	46%	-20.9%	11.5	9.3	7.6	1.4	1.8	2.2	1.9	1.6	1.4
Commercial:																	
SOHO China	410 HK	NR	32.4	6.58	-4%	6%	21%	-34.2%	8.3	8.0	11.7	4.7	4.8	4.6	0.9	0.8	0.8
Franshion	817 HK	NR	25.9	2.83	5%	1%	104%	-50.4%	7.7	8.8	7.5	2.5	2.7	3.4	0.9	0.9	0.8
Mingfa	846 HK	NR	14.7	2.41	1%	5%	0%	na	29.0	18.1	13.1	-	-	2.6	1.3	1.2	1.2
Renhe Commercial	1387 HK	NR	10.0	0.48	-4%	-41%	0%	-82.4%	9.0	11.0	6.0	-	-	-	0.4	0.4	0.3
Commercial Property Avg					-1%	-7%	31%	-55.7%	13.5	11.5	9.6	1.8	1.9	2.7	0.9	0.8	0.8

* The data in table is as at 5 Jun 2013

Source: Bloomberg ; ABCI Securities estimates



Is there oversupply risk for China Property stocks in equity market?

For past 18 months, we have seen a significant jump in M&A activities for A-share or private developer to acquire HK listed shell companies as their platforms for overseas fundraising, especially in USD bond market. For instance, largest A-share developer Vanke acquired Winsor Properties in 2012; while Greenland, major private developer owned by Shanghai government acquired SPG Land in 2013.

Investors start to worry whether increasing number of major china developers will lead to an oversupply for the sector in equity market. However we argue that those listed vehicles are still relatively small (in terms of market cap). Further, current HK listing rules forbid large scale asset injection into the vehicle within 2 years. Those stocks will take time and great investor relation effort to become core holdings among investor community.

Major A-share & private developers' HK listed vehicle

A-Share / Private developer			HK Listed Vehicle			
Company	Ticker	Mkt cap (HKDb)	Company	Ticker	Mkt cap (HKDb)	As % of parent
Vanke	000002 CH	166	Vanke Property Overseas (former Winsor Property)	1036 HK	3.9	2.3%
Gemdale	600383 CH	43	Gemdale Properties (former Frasers Property)	535 HK	9.6	22.2%
China Merchants Property	000024 CH	59	Tonic Industries	978 HK	3.5	6.0%
Dalian Wanda	Private	NA	Hengli Commercial	169 HK	10.9	NA
Greenland	Private	NA	SPG Land	337 HK	9.2	NA

* The data in table is as at 5 June 2013

Source: Bloomberg, ABCI Securities



Our 3 mid-cap picks

- **Greentown - Top mid-cap pick (BUY; TP HKD19.00, +36.3% Upside)**
 - **Reduced funding costs via Wharf-Greentown JV.** Since Wharf became a major shareholder in 2012, Greentown's capital structure has improved substantially, with net gearing came down from 216% in FY11 to 63% in FY12. Besides, Wharf provided guarantee to Greentown and hence cheaper offshore loan (~LIBOR+200%) could be raised for their Dalian JV project.
 - **Enhanced market share gain via Sunac-Greentown JV.** Sunac-Greentown increased their influence in Shanghai market by acquiring 4 sites with total GFA of 0.3m sqm in 2012. In 2013, Sunac-Greentown's JV surprised the market by acquiring an RMB9b mega-site (GFA:0.7m sqm) in Shanghai.
 - **Luxury brand at bargain price.** Despite Greentown's quality brand name and ability to charge ASP premium, Greentown is trading at much lower valuation than peers. Further, we expect Greentown will continue to be generous in dividend, as balance sheet & cashflow have improved.
- **Kaisa (BUY; TP HKD2.80, +30.2% Upside)**
 - **Lucrative redevelopment projects.** Kaisa's latest redevelopment project- Kaisa City Plaza has been a great success. The project achieved an ASP of RMB20k/sqm, implying 52% gross margin based on our estimates, vs Kaisa currently gross margin of 32.5% in 2012. We expect Kaisa's Gross margin will be on upward trend (from 32.5% in 2012A to 38.3% in 2015E) driven by increasing contributions from redevelopment projects
 - **Huge upside potential from redevelopment landbank.** Kaisa currently sits with 2.2m sqm site area of redevelopment projects in Shenzhen/ Dongguan/ Guangzhou/ Zhuhai, under negotiation with government. We estimate overall land cost (relocation plus land premium) of ~RMB3k/sqm, vs market value of RMB4k/sqm, implying a possible uplift (RMB5.5b) to Kaisa's 2013E NAV (RMB24.5b), upon full approval obtained from government.
- **Sunac (BUY; TP HKD7.10, +19.9% Upside)**
 - **Rising brand awareness from home buyers.** Sunac has improved its brand awareness among home buyers: 1) Upgrading product mix from low to high-end; 2) enhancing local market share. Sunac's contracted sales in Beijing rose 182% YoY to RMB10b in 2012; 3) Establishing JV with Greentown, a well-known luxury name in YRD area, to perform high profile land- acquisitions in Shanghai.
 - **Rising interests from bond & equity investors.** Sunac raised HK\$2bn capital (300mn new shares, @HK\$6.7) in Jan 2013; Sunac issued an USD500m USD bond in Mar 2013 at a coupon of 9.35% (vs 12.5% in Oct 2012); Sunac's average daily trading turnover in 2013 was up 7x compared to 2012. Rising awareness from bond/ equity investors should drive Sunac's valuation and narrow its deep discount to NAV in future.



Our one large-cap pick

- **COLI (BUY; TP HKD26.00, +13.8% Upside)**
 - **Likely to beat 2013 target again.** By Apr 2013, COLI achieved 52% of its sale target of HKD100b, which we believe to be conservative.
 - **Highest margin in the sector.** We expect COLI to maintain its industry leading gross margin of 38-40% and net margin of 20-23% in 2013-2015. Due to economy of scale and good cost control, COLI's margin has been consistently higher than peers.



Company Report

Greentown (3900 HK)

June 6, 2013

Rating: Buy

TP: HK\$19.00

Key data

Share price (HK\$)	13.94
Target price (HK\$)	19.00
Upside potential (%)	36.3
52Wk H/L(HK\$)	16.86/4.80
Issued shares (mn)	2,143
Market cap (HK\$m)	30,061
30-day avg vol (HK\$m)	68
Major shareholder (%)	
SONG Weiping	33.1
SHOU Bainian	23.5
Wharf	24.6

Source: Company & Bloomberg

Revenue breakdown by segment (2012) (%)

Property development	96.7
Hotels	0.8
Property investment	0.3
Others	2.2

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	(9.0)	(5.5)
3-mth	0.7	3.9
6-mth	7.9	8.9

*Relative to Hang Seng Index

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst

Kenneth Tung
Tel: (852) 2147 8311
Email: kennethtung@abci.com.hk

Previous report: N/A (Initiation)

Dual core drivers to boost growth

Despite being recognized as one of the leading luxury property developers in China, Greentown was weak in balance sheet and slow in sales in the past. However, ever since Greentown introduced two strategic JV partners in 2012- Wharf & Suanc, Greentown's financial management and sales execution are now showing great improvement. The two JV platforms have become "Dual-core" drivers for Greentown.

Reduced funding costs via Wharf-Greentown JV. Since Wharf became a major shareholder in 2012, Greentown's capital structure has improved substantially, with net gearing came down from 216% in FY11 to 63% in FY12. Besides, Wharf provided guarantee to Greentown's bankers and hence cheaper offshore loan (~LIBOR+200%) could be raised for their Dalian JV project. More importantly, Greentown is now able to raise offshore bonds on its own feet. For instance, Greentown's RMB2.5b 6.625% dim-sum bond issuance in Apr 2013 was almost 4x oversubscribed.

Quicker asset churn and market share gain via Sunac-Greentown JV. Sunac-Greentown increased their influence in Shanghai market by acquiring 4 sites with total GFA of 0.3m sqm in 2012. In 2013, Sunac-Greentown's JV acquired an RMB8b landmark site (GFA:0.7m sqm) in Huangpu, Shanghai. Such sizeable land acquisition (~33%/53% of Greentown/Sunac's market cap) may not be secured any party alone, given their individual balance sheet is small.

Luxury brand at bargain price. We derived out TP of HKD19.00 based on 40% discount to NAV (in-line with historical average since 2006). Despite Greentown's quality brand name and ability to charge ASP premium, Greentown is trading at 4.4x FY13 PE, 35% below sector average (6.8x). Further, we expect Greentown will continue to be generous in dividend, as balance sheet/ cashflow improves. We expect Greentown's sales will continue to enjoy a cyclical rebound (4M12 contracted sales: RMB17.9b, +127% YoY), driving Greentown's share price performance.

Risk factors: 1) Short track record with JV partner and possible off-balance sheet financing; 2) Project execution capability not improve

Results and valuation

(FY ended Dec 31)	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue (RMB mn)	21,964	35,393	28,612	42,521	55,936
Y-Y Chg (%)	96.8	61.1	(19.2)	48.6	31.5
Underlying net profit (RMB mn)	2,491	4,354	5,170	6,777	8,471
Y-Y Chg (%)	100.1	74.8	18.7	31.1	25.0
Underlying EPS (RMB)	1.52	2.12	2.52	3.30	4.13
BVPS (RMB)	7.28	10.09	12.18	15.07	18.81
DPS (RMB)	0.11	0.50	0.55	0.60	0.65
Underlying PE (x)	7.3	5.3	4.4	3.4	2.7
PB (x)	1.5	1.1	0.9	0.7	0.6
Dividend yield (%)	1.0	4.5	4.9	5.4	5.8

Source: Company, ABCI Securities estimates



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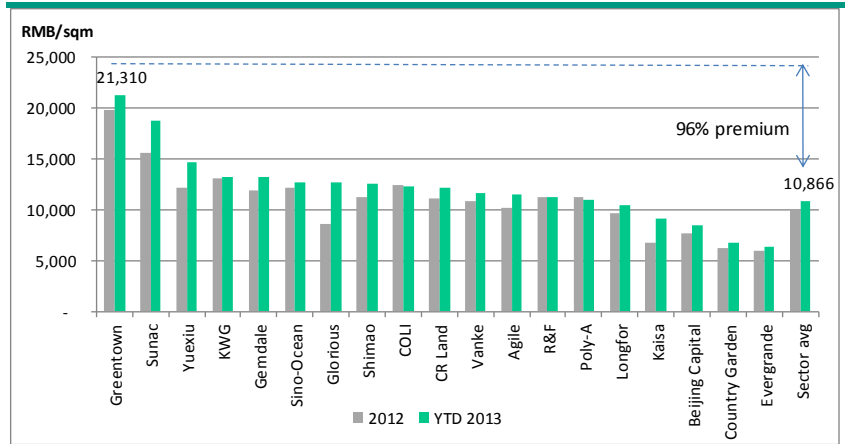


Quality brand name to capture upgrader's demand

100% ASP premium to sector average

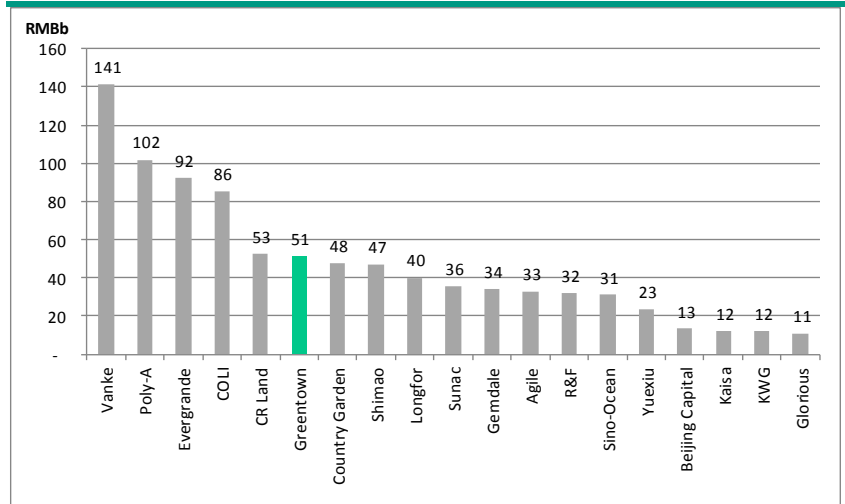
Perceived to be the best luxury home developer in China, Greentown ranked first in many customer surveys. For instance, Greentown ranked 1st in Property Services, Product Quality, Plan & Design, Sales Services, Corporate Image and Customer Loyalty, in a survey conducted by China Index Academy. In fact, Greentown's excellent product quality allows itself to charge a premium to peers. For 2012, Greentown achieved the highest ASP of RMB21k/sqm among peers, ~100% higher than sector average (RMB10.8k/sqm).

ASP Comparison (4M13)



*YTD 2013 figures are for Jan-Apr 2013
Source: Companies data

Contracted Sales Ranking (2012)



Source: Companies data



Hangzhou Taohuayuan
(ASP: RMB54,000/sqm)



Source: Greentown, ABCI Securities

Hangzhou Orchid Residence
(ASP: RMB51,000/sqm)



Source: Greentown, ABCI Securities

Hainan Clear Water Bay
(Serviced apartment ASP: RMB21,000/sqm)



Source: Greentown, ABCI Securities

Shanghai Rose Garden
(ASP: RMB70,000/sqm)

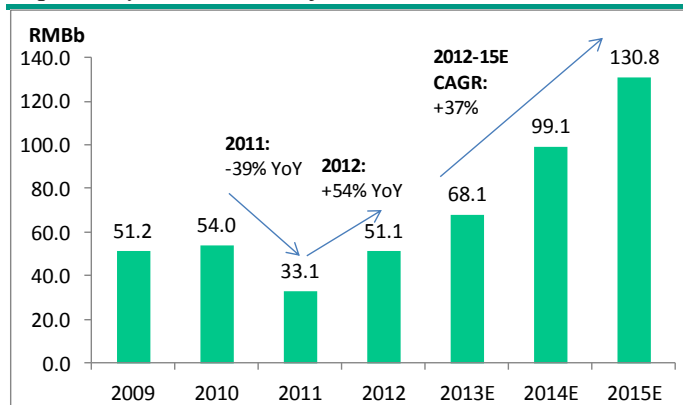


Source: Greentown, ABCI Securities

Expect cyclical rebound to continue

Despite many developers have been rushing into low-end market to capture first home buyers' demand, Greentown remained focus on luxury segment. Greentown contracted sales has been more sensitive to policy than peers, given its luxury exposure (e.g. dropped 39% YoY in 2011 upon HPR implementation; up 54% YoY upon 2012 recovery). On a relatively loose current policy in China, we believe pent-up demand from upgraders will re-emerge once again and drive Greentown's contracted sales at 37% CAGR next few years.

Expect a Cyclical Rebound for Greentown's Contracted Sales



Source: Greentown; ABCI Securities estimates



The 'Dual-core' drivers

Benefit of expanding using JV structure

One special feature about Greentown is that most of their projects have a JV structure with various stakes, which lead to some investors' concerns on transparency of financial statements, as gearing will not be consolidated. However, we believe there are significant operational advantages in a JV format in property development given:

- Reduced competition in land tendering and avoids two parties overbidding each other at high price
- Allowing smaller players to acquire attractive land site with high lump-sum amount, which could be unaffordable with one single player's balance sheet (e.g. Greentown/ Sunac jointly acquired a RMB8b site in Huangpu Shanghai in early 2013)

In fact, we like Greentown for its two JV platforms- Wharf-Greentown JV and Sunac-Greentown JV, mainly because of:

- **Reduction in finance cost** via Wharf- Greentown JV
- **Improved execution and market share gain** via Sunac-Greentown JV

Greentown's JV partner- Wharf and Sunac's background

Financial Info	Wharf	Sunac
	4 HK	1918 HK
Market cap (HKDb)	224.6	20.7
Total Assets	HKD369.0b	RMB70.9b
Underlying net profit	HKD11b	RMB2.4b
China contracted sales (RMBb)	15.0	35.6
Regional exposure in China	YRD and Western China	Bohai Region (Beijing, Tianjin)

* The data in table is as at 5 June 2013

Source: Bloomberg, ABCI Securities estimates

Wharf- Greentown JV – A platform for lower cost of financing

In June 2012, Greentown introduced Wharf as strategic investors via issuing HKD2.6b new shares (at HKD5.20) and HKD2.6b perpetual convertible bonds. Post-share issuance, Wharf became 2nd largest shareholders with 24.6% stake.

Since Wharf became a major shareholder in 2012, various measures have been taken to improve Greentown's capital structure and financial discipline:

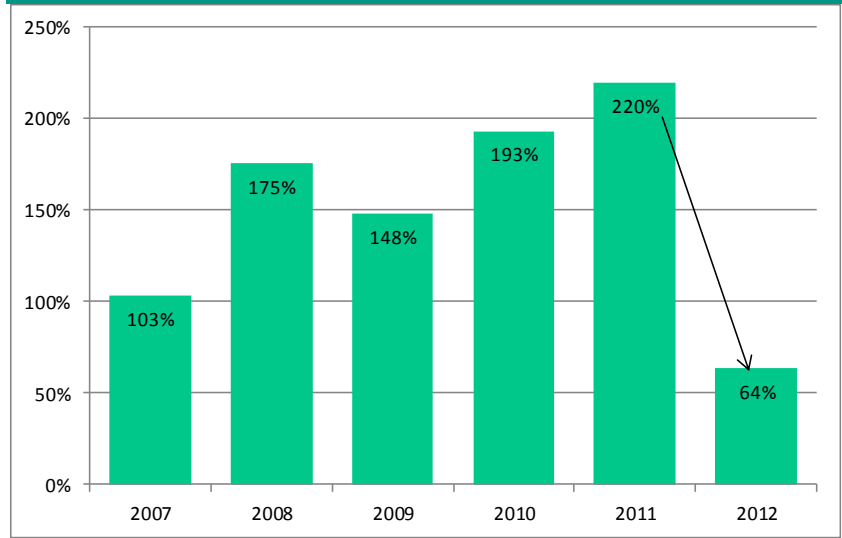
1. **Power in Greentown's investment committee:** Wharf currently has two seats (2 non-executive directors) in the board and one seat in the investment committee. Wharf has the power to refuse any land acquisitions when Greentown's net gearing exceeded 100%
2. **Wharf's guarantee to get cheap offshore borrowing:** For instance, Greentown & Wharf JV in Dalian was able to get offshore loan at around LIBOR + 2% with Wharf's guarantee, much cheaper than LIBOR + 5% if Greentown is to raise offshore loan alone.

With Wharf's aid to improve financial discipline, net gearing of Greentown reduce substantially from 220% in FY11 to 64% in FY12. More importantly, this restored confidence of bond investors, which enable Greentown to raise USD700m USD bond and RMB2.5b dim-sum bond in 2013 on its own. Demand for Greentown's bonds was evident from declining bond yield (from



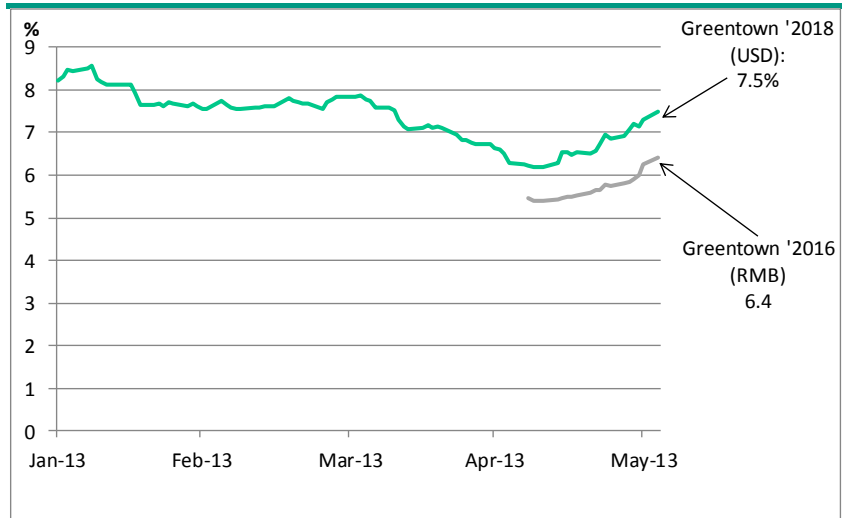
8.5% in Jan 13 to 7.5% currently) and ~4x over subscription of RMB2.5b 6.625% coupon dim-sum bond in May 2013. The yield of dim-sum bond is now trading at 6.4% yield to maturity, similar to current construction loan at 1x PBOC rate (6.3%), but with longer maturity.

Net gearing improvement



Source: Greentown, ABCI Securities

Yield to maturity of Greentown's bond



Source: Bloomberg, ABCIS

In terms of sales cooperation, Greentown and Wharf JV only acquired one site so far in Buxiu Lane, Dalian (GFA: 240k sqm ; AV: RMB8,450/sqm; 40:60 split between Greentown and Wharf). Going forward, in order to fully utilised Greentown's quality brand name, Wharf would like to introduce Greentown and Wharf JV structure in Guangzhou, which Greentown has no exposure.



Greentown- Sunac JV – A platform for quicker churn and market share gain

In June 2012, Greentown transferred 50% equity interest in below 9 projects to Sunac at RMB3.36b, with estimated valuation of 1x P/B. According to Greentown, Sunac's sales team demonstrated impressive execution skills, and improved sales performance of the transferred projects substantially in 2H2012.

Projects transferred to Sunac in Jun 2012

Project	Location	Sellable Floor	Stake	Attr. Sellable
		Area		
		'000 sqm	%	'000 sqm
1 Greentown Bund	Shanghai	160	51%	82
2 Yulan Garden	Shanghai	89	100%	89
3 Shanghai Rose Garden	Shanghai	138	50%	69
4 Suzhou Majestic Mansion	Suzhou	121	91%	109
5 Suzhou Rose Garden	Suzhou	120	67%	80
6 Wuxi Yulan Garden	Wuxi	393	85%	334
7 Wuxi Taihu Project	Wuxi	378	39%	147
8 Changzhou Yulan Square	Changzhou	1,014	37%	375
9 Tianjin Azure Coast	Tianjin	103	80%	82
Total		2,516		1,368

Source: Greentown, ABCI Securities

Sunac-Greentown JV further increase their significance in Shanghai market by acquiring 4 sites with total GFA of 0.3m sqm in 2012. In 2013, Sunac-Greentown's JV surprised the market by acquiring an RMB8b site in Shanghai at relatively attractive price of RMB12k/sqm, given its prime location in Shanghai. Such sizeable land acquisition (~37%/60% of Greentown/Sunac's market cap) may not be secured any party alone, given their individual balance sheet is still small.

Sunac-Greentown's land acquisition in Shanghai since 2012

Site	Location	GFA ('000 sqm)	Land premium (RMBm)	Price/sqm (RMB)	Shareholding			
Acquired in 2012								
Pudong New Area Tangzhen Xinshizhen Lot	Shanghai	109	1,644	15,055	Sunac-Greentown JV	49%	Gezhouba	51%
Pudong New Area Tangzhen Wujiefang Lot Lot	Shanghai	72	834	11,551	Sunac-Greentown JV	50%	Wharf	50%
Pudong Senlan Lot	Shanghai	120	2,124	17,685	Sunac-Greentown JV	49%	Poly	51%
		302	4,602	15,264				
Acquired in 2013								
Huangpu District	Shanghai	662	7,996	12,081	Sunac-Greentown JV	100%		
Hangzhou Golf Villa*	Hangzhou	519	2,400	4,628	Sunac-Greentown JV	50%	Wharf	50%

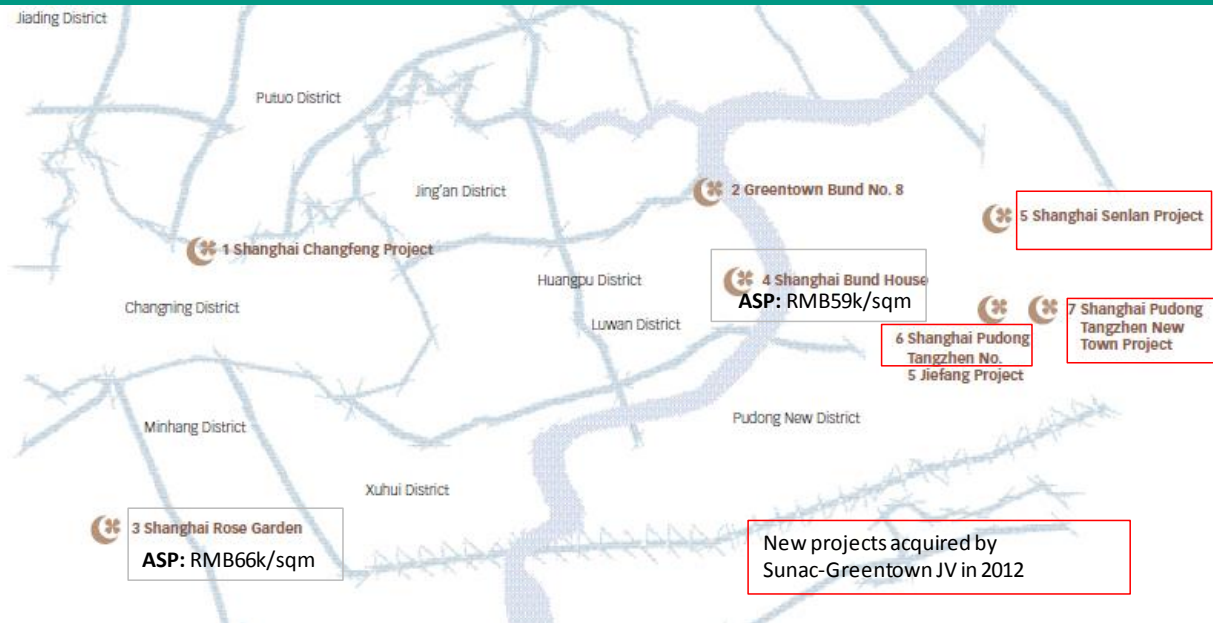
* Acquired by Sunac-Greentown at RMB1.2b for 50% stake from Jindu Real estate;

** Data up to Jun 2013

Source: ABCI Securities



Greentown's Shanghai projects



*Shanghai projects as at 2012-end
Source: Greentown ABCI Securities



Discounted Valuation for a Luxury Player

Attractive valuation vs peers

Greentown has been trading at deep discount of 4.4x 2013E PE, 35% below sector average (6.8x). We believe the major reason for such deep discount is investor's concerns of poor financial discipline and over leverage in the past, and complexity of JV structures. However, we believe investors' perception should improve given:

- Significant effort have been taken to lower gearing and cheap financing channel (USD bond and offshore loan backed by Wharf) is now well established
- JV platform will prove itself to be a sound strategy, by delivering strong sales growth in future

All in all, we believe Greentown looks very attractive at current valuation.

Peer's valuation

China Property	Ticker	Rating	Mkt cap (HKD bn) (local ccy)	Share Price	Performance			Discount to 2013E NAV (%)	P/E			Yield (%)			P/B		
					1-Month % Chg	YTD % Chg	2012 Chg		2012A	2013E	2014E	2012A	2013E	2014E	2012A	2013E	2014E
Residential :																	
1	COLI	BUY	186.7	22.85	-4.2%	-1%	76%	-12.3%	11.7	9.6	7.7	1.8	2.1	2.6	2.1	1.8	1.5
2	Greentown	BUY	30.0	13.94	-8.4%	-2%	320%	-56.6%	5.3	4.4	3.4	4.5	4.9	5.4	1.1	0.9	0.7
3	Sunac	BUY	19.6	5.92	-4.1%	-1%	277%	-62.6%	6.0	4.2	3.9	1.8	2.4	2.6	1.5	1.1	0.9
4	Kaisa	BUY	10.6	2.15	-11.2%	-10%	78%	-57.0%	6.3	4.3	2.8	-	-	-	0.7	0.6	0.5
5	CR Land	NR	138.1	23.70	0.9%	12%	70%	-15.2%	18.2	14.9	11.9	1.4	1.7	2.1	2.0	1.7	1.5
6	Country Garden	NR	80.4	4.41	0.0%	9%	39%	-27.7%	9.5	8.0	6.9	3.9	4.6	5.3	1.7	1.5	1.3
7	Longfor	NR	71.7	13.20	-1.2%	-13%	77%	-37.0%	10.6	8.8	7.7	1.9	2.2	2.6	1.9	1.6	1.4
8	Shimao	NR	58.2	16.76	-2.2%	15%	122%	-43.3%	8.1	7.7	6.5	3.2	4.0	4.6	1.3	1.1	1.0
9	Evergrande	NR	49.5	3.09	-3.4%	-27%	32%	-63.6%	4.1	4.7	4.1	-	5.7	6.4	1.0	0.8	0.7
10	Guangzhou R&F	NR	42.1	13.08	-8.5%	1%	109%	-48.9%	7.0	6.1	5.4	5.7	6.2	7.0	1.3	1.1	1.0
11	Agile	NR	32.2	9.35	-6.3%	-14%	56%	-58.9%	5.2	5.2	4.6	4.1	4.7	5.3	1.0	0.8	0.7
11	Sino Ocean	NR	26.7	4.55	-14.6%	-21%	64%	-51.3%	7.7	7.8	6.4	5.2	5.3	6.2	0.5	0.5	0.5
11	COGO	NR	24.9	10.90	-11.1%	17%	47%	-21.4%	10.4	8.5	6.7	1.0	1.4	1.6	3.1	2.3	1.7
11	Yuexiu Properties	NR	20.6	2.21	-5.2%	-10%	123%	-58.2%	15.8	7.2	6.1	2.9	5.1	6.2	0.7	0.7	0.6
11	KWG	NR	15.0	5.17	-7.0%	-11%	121%	-60.2%	6.3	5.1	4.2	3.6	4.9	5.4	0.8	0.7	0.6
11	Glorious	NR	9.4	1.20	-3.2%	-18%	16%	na	11.0	5.0	4.1	-	1.6	2.2	0.4	0.4	0.3
17	BJ Capital Land	NR	6.4	3.11	5.8%	-3%	109%	na	6.1	4.0	3.1	7.6	8.5	11.2	0.9	0.5	0.5
HK Listed Avg					-4.9%	-5%	102%	-44.9%	8.8	6.8	5.6	2.9	3.8	4.5	1.3	1.1	0.9
- Large cap (>HKD50b) avg					-1.4%	4%	77%	-27.1%	11.6	9.8	8.1	2.4	2.9	3.5	1.8	1.6	1.3
- Small-mid cap (<HKD50b) avg					-6.4%	-8%	113%	-53.9%	7.6	5.5	4.6	3.0	4.2	5.0	1.1	0.9	0.7
1	Vanke	NR	165.8	11.83	4%	24%	30%	-22.2%	10.4	8.4	7.0	1.5	1.6	1.9	2.0	1.7	1.4
2	Poly-A	NR	109.8	12.15	1%	-11%	40%	-34.6%	10.3	8.0	6.4	1.9	2.4	3.1	2.0	1.7	1.4
3	China Merchants Property	NR	59.8	29.05	8%	-3%	69%	na	15.0	11.6	9.4	1.0	1.2	1.5	2.1	1.8	1.5
4	Gemdale	NR	43.5	7.69	6%	10%	46%	-6.1%	10.1	9.3	7.7	1.0	2.0	2.3	1.4	1.3	1.2
A-share Listed Avg					5%	5%	46%	-20.9%	11.5	9.3	7.6	1.4	1.8	2.2	1.9	1.6	1.4
Commercial:																	
1	SOHO China	NR	32.4	6.58	-4%	6%	21%	-34.2%	8.3	8.0	11.7	4.7	4.8	4.6	0.9	0.8	0.8
2	Franshion	NR	25.9	2.83	5%	1%	104%	-50.4%	7.7	8.8	7.5	2.5	2.7	3.4	0.9	0.9	0.8
3	Mingfa	NR	14.7	2.41	1%	5%	0%	na	29.0	18.1	13.1	-	-	2.6	1.3	1.2	1.2
4	Renhe Commercial	NR	10.0	0.48	-4%	-41%	0%	-82.4%	9.0	11.0	6.0	-	-	-	0.4	0.4	0.3
Commercial Property Avg					-1%	-7%	31%	-55.7%	13.5	11.5	9.6	1.8	1.9	2.7	0.9	0.8	0.8

* The data in table is as at 5 June 2013

Source: Bloomberg; ABCI Securities estimates

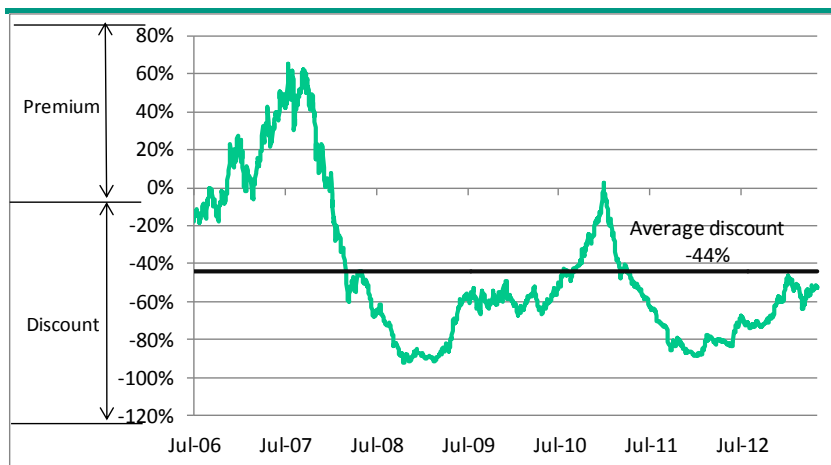
Initiate Greentown with a BUY, TP HKD19.00 based on 40% discount to NAV

We derive the Greentown's TP of HKD19.00 based on discount to NAV methodology, most widely used valuation methodology for China property



stocks in the market. We used DCF with WACC of 13.1% to value property development projects, as significant portion of cashflow occurs beyond next 1-2 years. Property development represents 97% of Gross Assets Value (GAV), with the rest coming from investment properties and hotels. We applied 40% discount (similar to historical average from 2009) to our NAV estimates of HKD32.00, to derive TP of HKD19.00 implying 6.0x 2013E PE or 1.2x 2013E PB. We also expect Greentown to offer attractive dividend on rising profitability. Currently Greentown is trading at 4.9%/5.4% dividend yield for 2013E/2014E respectively.

Greentown's Discount to NAV



Source: Companies, ABCI Securities

Greentown's Estimated 2013E NAV Breakdown

	Attr. GFA (M sqm)	Net assets value (RMB m)	% of total	Valuation Methodology	Implied value per sqm (RMB)
Property development					
Hangzhou	3.2	11,669	18%	DCF at WACC of 13.1%	3,633
Shanghai	0.8	8,353	13%		10,090
Zhoushan	3.2	7,455	11%		2,341
Qingdao	3.2	6,043	9%		1,902
Hainan	0.9	4,355	7%		5,096
Others cities	12.92	25,853	40%		2,001
Subtotal	24.2	63,729	98%		2,636
Investment Properties		1,042	2%	6% cap rate on net rental income	
Hotels		575	1%	5x EBITDA multiple	
Total 2013E GAV		65,345	100%		
Net debt & perpetual convertible securities		(17,338)	-27%		
Total 2013E NAV		48,006	73%		
No. of share outstanding		1,889			
NAV per share (RMB)		25.4			
Exchange rate (HKD/RMB)		1.26			
2013E NAV per share (HKD)		32.0			
Target discount (%)		40%			
Target Price (HKD)		19.00			
Current price (HKD)		13.94			
Upside		36%			
WACC		13.1%			
Cost of debt		8.5%			
Cost of Equity		20.0%			
Debt/ (Debt + Equity)		50%			

*Share price as at 5 Jun 2013

Source: Greentown, ABCI Securities estimates

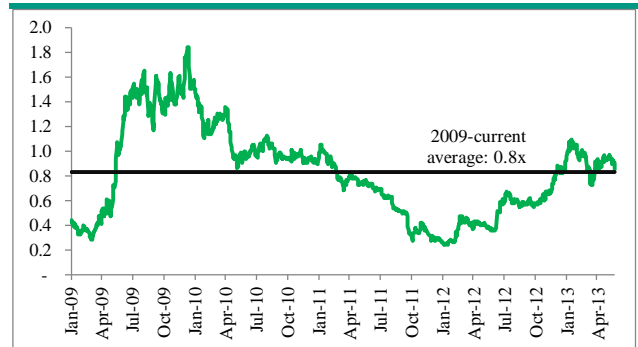


Forward PE Band Chart



Source: Greentown, ABCI Securities

Forward PB Band Chart



Source: Greentown, ABCI Securities

What are the risks?

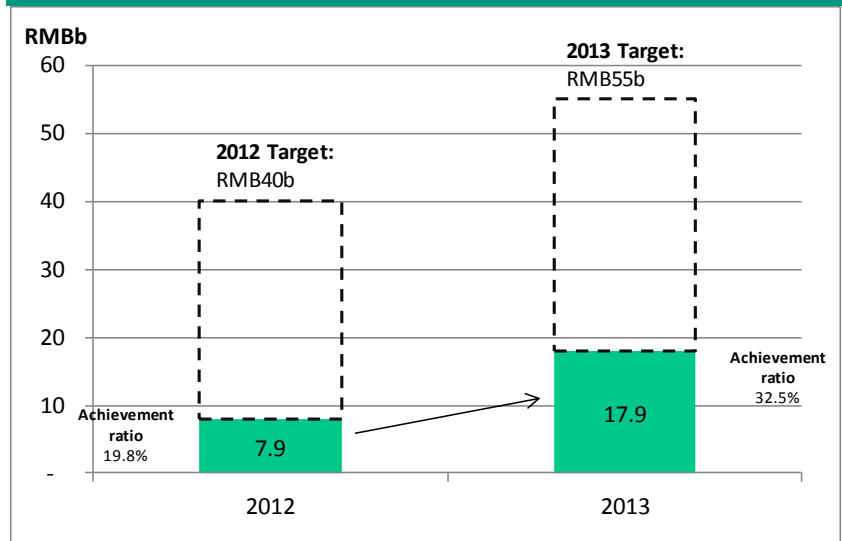
- **Short track record with JV partners:** Despite land acquisitions of Greentown's JV have speed up, we are yet to seen sales performance of those new projects. However, given strong execution capabilities of Sunac and Wharf, we are not too concern about short history since the alliance formed.
- **Possible off balance sheet financing:** In the past, Greentown ran its operation in a highly leverage manner, which lead to liquidity concerns in early 2012. It is not impossible that Greentown remains highly leveraged at JV project level, which is not consolidated in to its balance sheet. Having said that, under close monitor of Wharf in board level, it is unlikely that Greentown will return to poor financial discipline.



Key financials at a glance Contracted Sales Performance

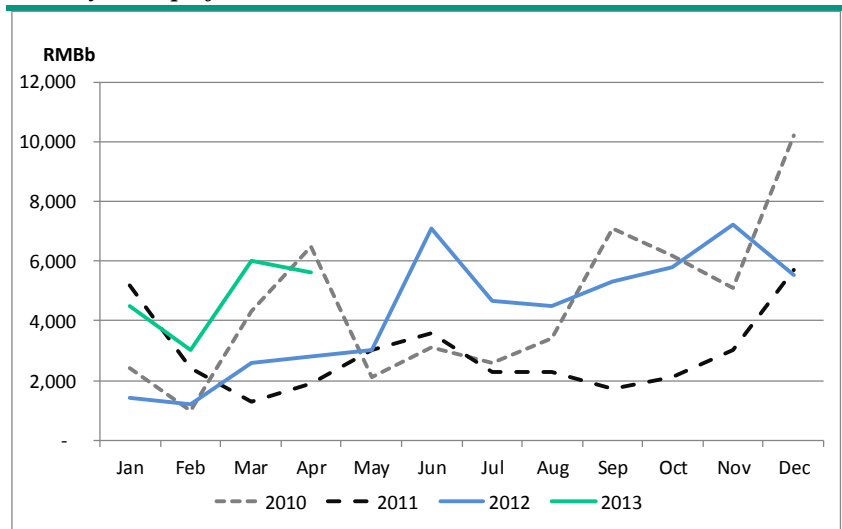
Greentown registered very strong contracted sales of RMB17.9b in 4M13, up 127% YoY or 32.5% of its RMB55b full year target. Apart from the synergies bought by the two JV platforms, being luxury forecast, we expect Greentown sales to enjoy cyclical rebound. Assuming a steady property market in next 3 years, we expect Greentown sales to exceed RMB100n by 2015, on growing saleable resources.

Jan-April Contracted sales and Achievement ratio



* Figures are for 4M13;
Source: Greentown, ABCI Securities

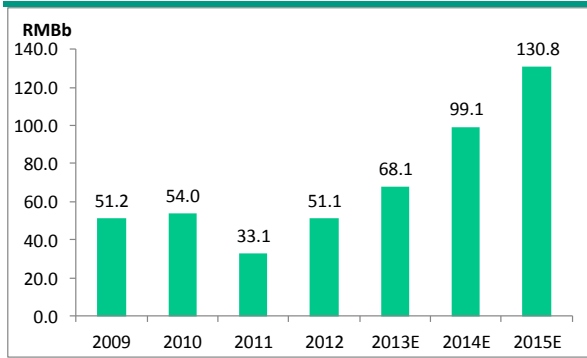
Monthly Sales performance



Source: Greentown, ABCI Securities

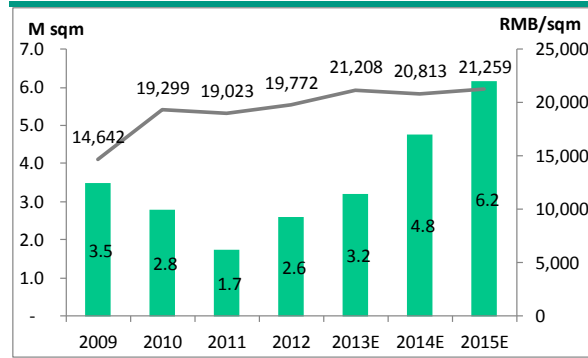


Contracted Sales



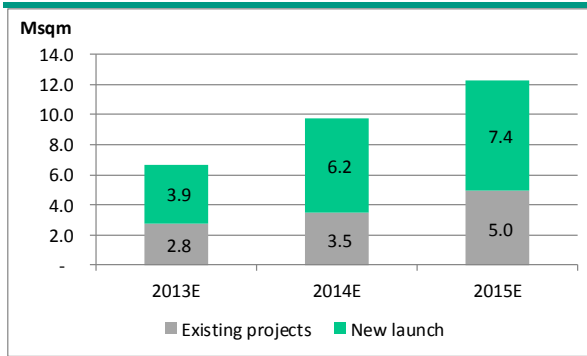
Source: Greentown, ABCIS estimates

GFA sold and ASP



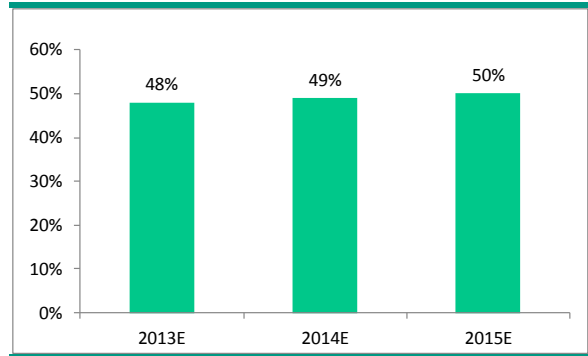
Source: Greentown, ABCIS estimates

Saleable resources



Source: ABCIS estimates

Sell-through rate

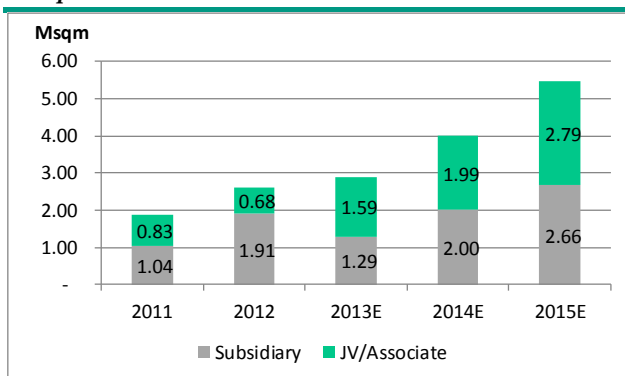


Source: ABCIS estimates

Completion schedule

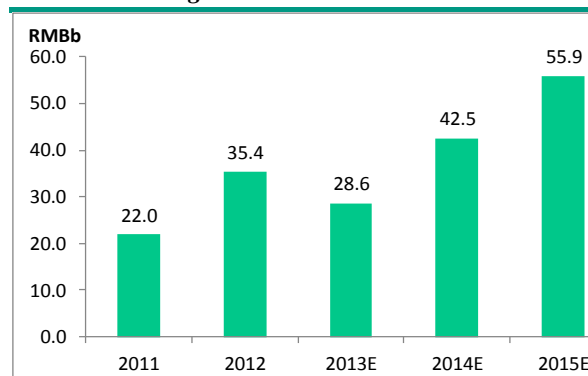
As the two JV platforms are becoming key sales driver for Greentown, we expect proportion of GFA booked by JV/ Associate to increase from 26% (0.68 msqm) in 2012 to 50-55% in 2013-2015. Revenue booked in 2013 is estimated to be lower than 2012, as JV's sale will not be consolidated, yet profits will be reported below the line (under share of profits & loss from jointly controlled entity). Overall we expect core net profit to grow at 28% CAGR in 2013-15F.

Completion Schedule



Source: Greentown, ABCIS estimates

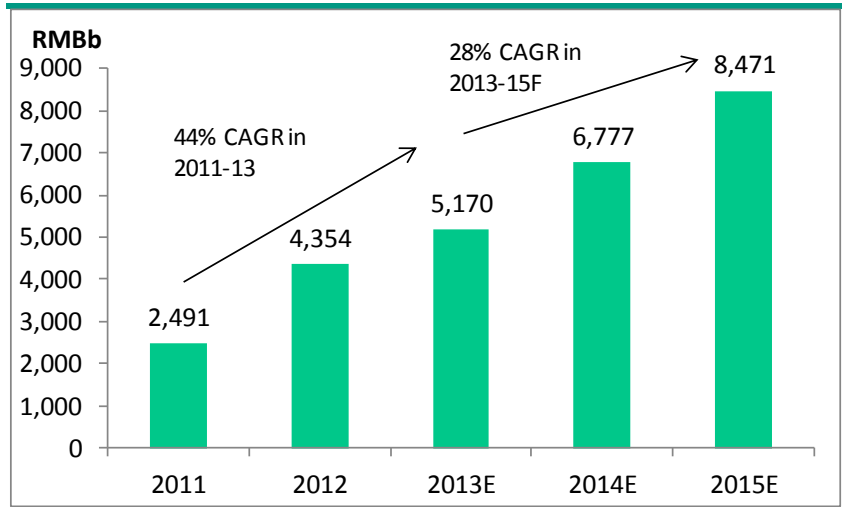
Revenue booking



Source: Greentown, ABCIS estimates



Underlying net Profit



Source: ABCI Securities estimates

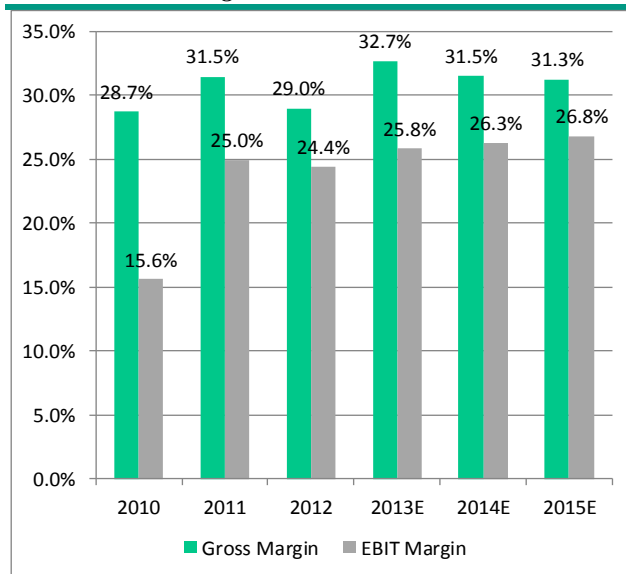
Margin Outlook

We expect gross margin to rebound to 30%+ level in 2013-2015 from 29% in 2012, as we assume ASP rising moderate at 0-2% next few years. Greentown mentioned it will further enhance its margin via following construction cost saving measures:

- Using centralized purchase for construction materials, instead of local projects' independent purchase (when scale was still small)
- Using lower cost construction materials in 2nd/3rd tier cities (where ASP is lower), as opposed to equal standard to 1st tier cities previously

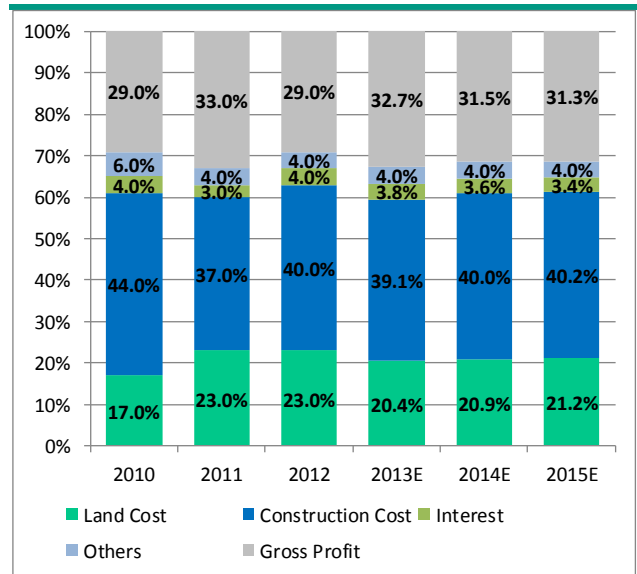
In fact, we see lots of room for improvement as Greentown's construction cost is ~RMB7,000/sqm, vs industry of RMB3,000-4,000/sqm

Gross & EBIT Margin



Source: Company, ABCIS estimates

Cost breakdown



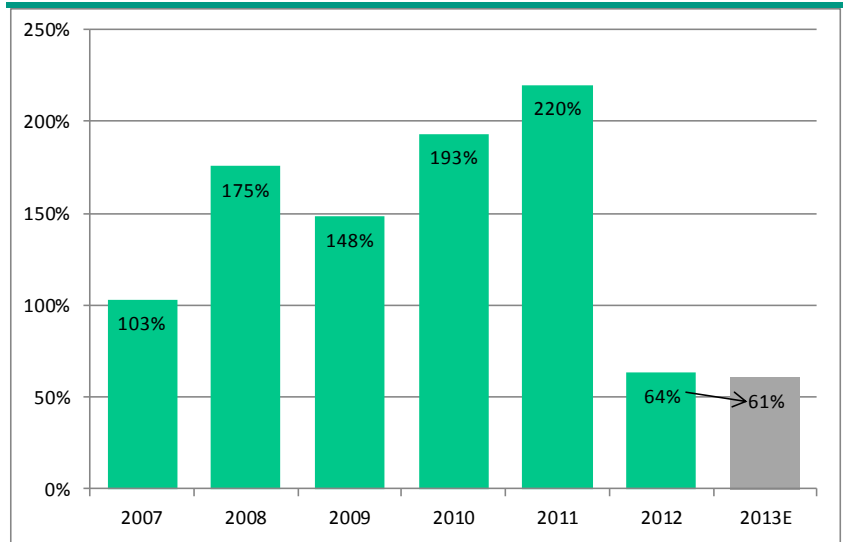
Source: Company, ABCIS estimates



Gearing forecast

We expect net gearing to reduce further from 64% in 2012 to 61% by end of 2013, on the back of positive cash inflow in 2013. Gearing could rise further if Greentown speeds up pace of land acquisition.

Net Gearing



Source: Greentown, ABC Securities estimates



Income statement forecast

Dec-end (RMBm)	2011A	2012A	2013E	2014E	2015E
Revenue	21,964	35,393	28,612	42,521	55,936
Cost of sales	(14,555)	(24,679)	(18,882)	(28,773)	(38,154)
Gross Profit	7,408	10,714	9,730	13,748	17,782
SG&A expenses	(1,920)	(2,069)	(2,338)	(2,568)	(2,783)
EBIT	5,488	8,645	7,392	11,181	14,999
Finance cost	(416)	(564)	(385)	(321)	(283)
Share of profit of associates	833	513	1,895	1,573	1,180
Other income/ (expenses)	683	1,001	1,477	1,789	2,221
Fair value gain of investment properties	0	0	0	0	0
Disposal/one-off items	112	663	0	0	0
Profit before tax	6,701	10,257	10,379	14,221	18,118
Tax	(2,583)	(4,204)	(4,116)	(5,721)	(7,312)
Profit after tax	4,118	6,053	6,263	8,501	10,805
Minority interest	(1,543)	(1,202)	(1,093)	(1,724)	(2,334)
Reported net profit	2,575	4,851	5,170	6,777	8,471
Less: exceptional items	(84)	(497)	0	0	0
Underlying net profit	2,491	4,354	5,170	6,777	8,471
Per share					
Underlying EPS (RMB)	1.52	2.12	2.52	3.30	4.13
DPS (RMB)	0.11	0.50	0.55	0.60	0.65
Payout ratio (%)	7%	24%	22%	18%	16%
BVPS (RMB)	7.28	10.09	12.18	15.07	18.81
Growth %					
Revenue	96.8%	61.1%	-19.2%	48.6%	31.5%
Gross Profit	117.8%	44.6%	-9.2%	41.3%	29.3%
EBIT	214.8%	57.5%	-14.5%	51.3%	34.2%
Underlying net profit	100.1%	74.8%	18.7%	31.1%	25.0%
Margin %					
Gross margin	33.7%	30.3%	34.0%	32.3%	31.8%
Gross margin (post-LAT)	26.2%	24.4%	26.9%	25.5%	25.2%
EBIT margin	25.0%	24.4%	25.8%	26.3%	26.8%
Core net margin	14.6%	14.2%	15.3%	16.3%	17.2%
Key assumptions					
Contracted Sales (RMBm)	33,100	51,071	68,140	99,109	130,823
GFA sold (m sqm)	1.74	2.58	3.21	4.76	6.15
ASP (RMB/sqm)	19,023	19,772	21,208	20,813	21,259
Booked Sales (RMB)	21,071	34,214	27,387	41,257	54,643
GFA delivered (m sqm)	1.04	1.91	1.29	2.00	2.66
Booked ASP (RMB/sqm)	20,319	17,894	21,170	20,622	20,516
Land acquisition (RMBm)	11,100	12,100	4,510	-	-
GFA acquired (m sqm)	6.8	2.1	0.4	-	-
Land cost (RMB/sqm)	1,632	5,762	12,450	-	-
Land acquisition to Contracted sales (%)	33.5%	23.7%	6.6%	-	-
Land bank GFA (m sqm)	16.3	24.2	24.2	22.2	19.5

Source: Company, ABCI Securities estimates



Balance sheet forecast

Dec-end (RMBm)	2011A	2012A	2013E	2014E	2015E
Current assets	115,214	93,334	94,128	103,227	107,890
Cash	3,615	6,164	4,385	15,579	28,397
Restricted cash	2,269	1,734	1,734	1,734	1,734
Trade & other receivables	5,180	4,713	4,713	4,713	4,713
Property under development	70,628	50,543	53,116	51,021	42,865
Other current assets	33,522	30,180	30,180	30,180	30,180
Non-current assets	12,762	14,373	21,191	23,262	24,931
Property, plant & equipment	2,861	3,675	3,989	4,287	4,575
Investment properties	1,730	1,731	1,731	1,731	1,731
Investment in Associate and JCE	6,927	7,577	14,082	15,854	17,235
Other non-current assets	1,244	1,390	1,390	1,390	1,390
Total Assets	127,977	107,707	115,320	126,490	132,821
Current Liabilities	92,858	73,562	76,178	80,208	77,189
Short term borrowings	16,146	15,256	15,256	15,256	10,256
Trade & other payables	13,238	15,959	15,959	15,959	15,959
Pre-sales deposits	45,759	28,848	31,464	35,494	37,475
Other current liabilities	17,715	13,500	13,500	13,500	13,500
Non-current liabilities	17,475	6,657	6,657	6,657	6,657
Long term borrowings	16,048	6,118	6,118	6,118	6,118
Other payables	992	0	0	0	0
Other non-current liabilities	435	539	539	539	539
Total Liabilities	110,333	80,219	82,835	86,865	83,846
Net Assets	17,643	27,488	32,485	39,625	48,975
Shareholders Equity	11,940	19,058	23,011	28,477	35,543
Perpetual Convertible Securities	0	2,084	2,084	2,084	2,084
Minority Interest	5,703	6,346	7,389	9,063	11,348
Total Equity	17,643	27,488	32,485	39,625	48,975
Key ratio					
Gross debt (RMBm)	32,194	21,373	21,373	21,373	16,373
Net debt (RMBm)	26,311	13,475	15,254	4,060	(13,758)
Net gearing (%)	220%	64%	61%	13%	-37%
Contracted sales/ Total assets (x)	0.26	0.47	0.59	0.78	0.98

Source: Company, ABCI Securities estimates



Cashflow forecast

Dec-end (RMBm)	2011A	2012A	2013E	2014E	2015E
EBITDA	5,641	8,814	7,579	11,382	15,211
Change in Working Capital	(4,085)	(3,006)	2,222	7,941	11,741
Tax payment	(1,680)	(1,109)	(4,117)	(5,722)	(7,313)
Operating Cashflow	(125)	4,700	5,684	13,602	19,639
Purchase of PP&E	(569)	(1,078)	(500)	(500)	(500)
Addition of Investment Properties	6	5	-	-	-
Investment in Associate/ JCE	(249)	(50)	(4,510)	(100)	(100)
Proceeds from Disposals	-	7,603	-	-	-
Others	(2,690)	231	1,377	1,690	2,122
Investing Cashflow	(3,502)	6,712	(3,632)	1,090	1,522
Debt raised	14,958	11,483	10,000	10,000	10,000
Debt repaid	(16,290)	(18,695)	(10,000)	(10,000)	(15,000)
Interest expenses	(2,821)	(3,586)	(2,536)	(2,113)	(1,863)
Equity raised	-	2,075	-	-	-
Convertible securities raised	-	2,084	-	-	-
Dividend to shareholders	(589)	(164)	(1,216)	(1,311)	(1,405)
Others	(424)	(2,060)	(50)	(50)	(50)
Financing Cashflow	(5,166)	(8,863)	(3,802)	(3,474)	(8,318)
Net cash inflow/ (outflow)	(8,793)	2,548	(1,751)	11,217	12,843
Cash- beginning	12,408	3,615	6,164	4,413	15,631
Cash- year-end	3,615	6,164	4,413	15,631	28,473

Source: Company, ABCI Securities estimates

Company Report

Kaisa Group (1638 HK) June 6, 2013

Rating: Buy
TP: HK\$2.80

Key data

Share price (HK\$)	2.15
Target price (HK\$)	2.80
Upside potential (%)	30.2
52Wk H/L(HK\$)	2.87/1.32
Issued shares (mn)	4,906
Market cap (HK\$mn)	10,564
30-day avg vol (HK\$mn)	23
Major shareholder (%)	
Kwok's Family	62.4

Source: Company & Bloomberg

Revenue breakdown by segment (2012) (%)

Property development	97.0
Property investment	1.4
Property management	1.1
Others	0.4

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	(13.7)	(10.3)
3-mth	(8.9)	(6.0)
6-mth	(2.3)	(1.4)

*Relative to Hang Seng Index

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst

Kenneth Tung
Tel: (852) 2147 8311
Email: kennethtung@abci.com.hk

Previous report: N/A (Initiation)

Driving Shenzhen's Urbanization

Kaisa finally came to a harvesting stage for their investment in urban redevelopment. Their first redevelopment project- Kaisa City Plaza has received overwhelming responses, generating gross margin in the excess of 50%. In fact, Shenzhen's land supply is rather limited - redevelopment will be one of key sources in future. As Shenzhen city redevelopment is to unlock hidden value of land resources, Kaisa is set to benefit from this trend.

Lucrative redevelopment projects. Kaisa's latest redevelopment project- Kaisa City Plaza has been a great success. The project achieved an ASP of RMB20k/sqm, implying 52% gross margin based on our estimates, vs Kaisa currently gross margin of 32.5% in 2012. We expect Kaisa's gross margin will be on upward trend (from 32.5% in 2012A to 38.3% in 2015E) driven by increasing contributions from redevelopment projects.

Getting land below market price. Kaisa currently sits with 2.2m sqm site area of redevelopment projects in Shenzhen under Shenzhen Government Listing. We estimate overall land cost (relocation plus land premium) of ~RMB3k/sqm, vs market value of RMB4k/sqm, implying a possible uplift (RMB5.5b) to Kaisa's 2013E NAV (RMB24.5b), upon full approval obtained from government.

Fast churn model outside Shenzhen. Kaisa has been active in penetrating new cities leveraging a fast churn model. Despite selling at lower gross margin of ~25%, projects outside Shenzhen generate good cashflow, and should diversify risks from redevelopment projects, which have uncertain timing in getting approvals.

Buying Kaisa's margin improvement capability plus redevelopment upside. We derived our TP of HKD2.80 based on based on 45% discount to our estimated NAV of HKD5.15/share. Trading at 4.3x 2013E PE, we believe Kaisa's potentials are under-estimated. Initiate Kaisa with a Buy rating.

Risk factors: 1) Timing of redevelopment projects' approval could be uncertain; 2) no dividend record since listing; 3) diversifying to outside Greater Shenzhen areas may lead to higher overheads

Results and valuation

(FY ended Dec 31)	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue (RMB mn)	10,835	11,955	18,979	24,579	26,304
Y-Y Chg (%)	39.7	10.3	58.8	29.5	7.0
Underlying net profit (RMB mn)	1,576	1,504	2,203	3,351	4,003
Y-Y Chg (%)	11.9	(4.6)	46.5	52.1	19.4
Underlying EPS (RMB)	0.28	0.27	0.40	0.61	0.72
BVPS (RMB)	2.15	2.60	3.00	3.60	4.33
DPS (RMB)	-	-	-	-	-
Underlying PE (x)	6.1	6.3	4.3	2.8	2.4
PB (x)	0.8	0.7	0.6	0.5	0.4
Dividend yield (%)	-	-	-	-	-

Source: Company, ABCI Securities estimates



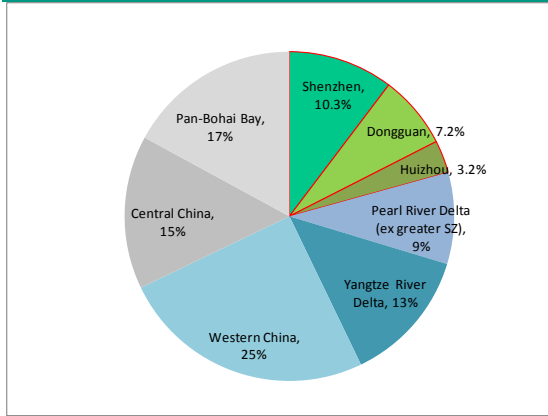
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Expect exciting 35% earnings CAGR in 2013-15E	46
Initiate Kaisa with a BUY, TP HKD2.80 based on 45% discount to NAV	47
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A key player in Shenzhen

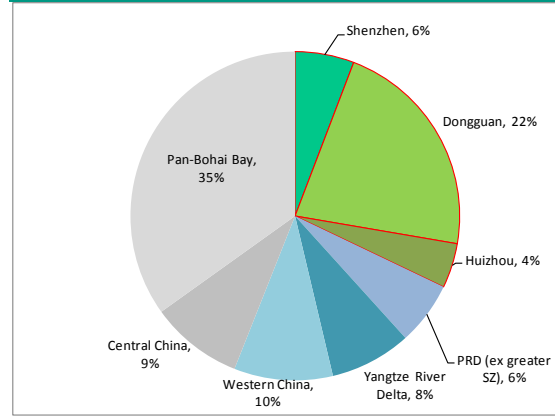
Established in 1999, Kaisa has been very active in Shenzhen property market. About 20.7% of Kaisa's 2012 contracted sales and 32% of land bank are located in Greater Shenzhen (Shenzhen/Dongguan/ Huizhou).

2012 Contracted Sales Breakdown



Source: Kaisa, ABCI Securities

Landbank Breakdown as at 2012-end



Source: Kaisa, ABCI Securities

Shenzhen Kaisa City Centre



Source: Kaisa, ABCI Securities

Shenzhen Kaisa Global Centre



Source: Kaisa, ABCI Securities

Shenzhen Kaisa Metropolitan Homeland



Source: Kaisa, ABCI Securities

Shenzhen Dapeng Project

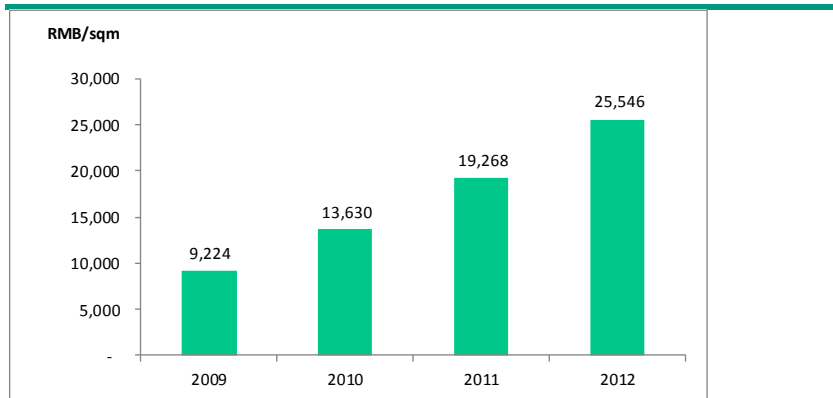


Source: Kaisa, ABCI Securities

Rising contribution from Shenzhen

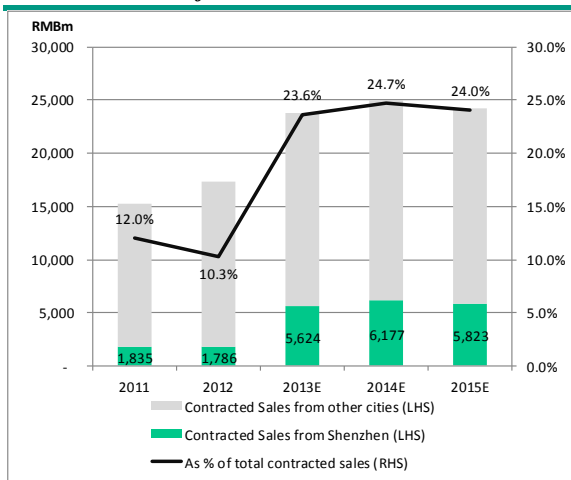
Kaisa has also been upgrading its product mix in Shenzhen for past few years. In fact, we have seen ASP of Kaisa's Shenzhen projects rose from RMB9,224/sqm in 2009 to RMB25,546/sqm in 2012, driven by increasing contribution from higher-end products. Going forward, we expect contracted sales contribution from Shenzhen alone to increase from 10% of total in 2012, to 24% level in 2013-15, on the back of higher portion of redevelopment projects in Shenzhen

Kaisa's Shenzhen ASP trend



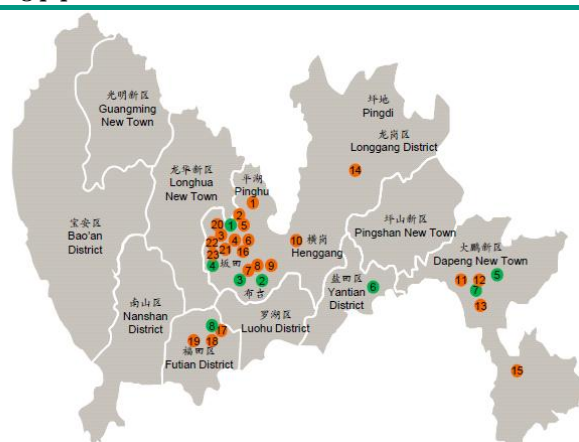
Source: Kaisa

Contracted Sales from Shenzhen



Source: Kaisa, ABCI Securities estimates

Strong pipeline in Shenzhen



* Launch schedule as at Mar 2013
Green: project launched/ to be launched soon;
Orange: redevelopment projects
Source: Kaisa, ABCI Securities

Qianhai Potential

In Apr 2013, Kaisa announced the formation of JV with Fulbright Overseas, a financial services firm owned by Chairman, to invest in Qianhai area in Shenzhen. Central government targets to develop the 14m sqm Qianhai site into a regional hub for financial services, logistics and information services. Although Kaisa currently doesn't hold any land in Qianhai, given Kaisa's expertise in Shenzhen's relevant town planning experience from redevelopment projects, we expect Kaisa to have good potential in Qianhai's opportunities in future.

An urban redevelopment specialist

Lucrative redevelopment model- Kaisa City Plaza a good example

The launch of Kaisa's first redevelopment project- Kaisa City Plaza, has been a great success. Debut in Dec 2012, Kaisa sold a total GFA of around 90k sqm out of 130k sqm launched in its first phase, implying a sell-through rate of 70%. The project achieved an ASP of ~RMB20k/sqm, implying 52% gross margin based on our estimates, significant higher than Kaisa's current gross margin of 32.5% in 2012.

Kaisa City Plaza- Margin Estimate

	Per sq/m	As %
	RMB	of sales
ASP	20,000	100%
Relocation	2,600	13%
Land premium	1,000	5%
Construction	5,000	25%
Finance cost	700	4%
Others	400	2%
Cost of sales	9,700	49%
Gross profit	10,300	52%
SG&A	2,000	10%
LAT	2,762	14%
Income tax	1,385	7%
Net profit	4,154	21%

** Figures estimated by ABCI Securities based on company guidance*

Getting land at below market price- huge potential upside

Kaisa is currently sitting with 2.6m sqm (of which 1.5m sqm in Shenzhen) sqm landbank of redevelopment projects in Shenzhen, representing 14% of total landbank. Further, Kaisa currently has some 2.2m sqm site area of redevelopment projects under Shenzhen Government Listing (深圳市城市更新单元计划), with plot ratio to be determined. According to current redevelopment policy in Shenzhen, land premium will be charged depending on the plot ratio:

- **Plot ratio <2.5x:** free of market land premium
- **Plot ratio in between 2.5 to 4.5x:** 20% of market land premium
- **Plot ratio >4.5x:** 100% of market land premium.

Assuming a plot ratio of 2.5x, this could imply an extra GFA of 5.5m sqm in prime location, enhancing NAV by RMB5.5b, or 22% of total NAV. Currently, we only factored in redevelopment projects which obtained full approvals with plot ratio confirmed.

List of Kaisa's Redevelopment Projects

NO.	Project	Location	Site Area (sq.m.)
1 ⁽¹⁾	Pinghu Town Project	Shenzhen	1,000,000
2 ⁽¹⁾	Dapeng Project	Shenzhen	76,300
3 ⁽¹⁾	Henggang Anliang Village 5 Project	Shenzhen	166,000
4 ⁽¹⁾	Henggang Anliang Village 6 Project	Shenzhen	204,000
5 ⁽¹⁾	Henggang Anliang Village 7 Project	Shenzhen	180,000
6 ⁽¹⁾	Henggang Anliang Village 8 Project	Shenzhen	327,000
7 ⁽¹⁾	Nanmendun Project	Shenzhen	100,324
8 ⁽¹⁾	Dapeng No.2 Industrial Zone Project	Shenzhen	139,672
9 ⁽²⁾	Yantian sancun , Sicun and Xisanxia Cun	Shenzhen	266,000
10	Nan'ao Xu Town Project	Shenzhen	400,000
11	Dafen Project	Shenzhen	210,000
12	Buji Mumianwan Project	Shenzhen	230,000
13	Xiaxuecun Project	Shenzhen	90,000
14	Gangtou Xiangjiaotang Project	Shenzhen	250,000
15	Tonghe Project	Guangzhou	53,500
16	Lianbian Village Project	Guangzhou	2,600,000
17	Fenggang Project	Dongguan	177,342
18	Xiabumiao & Nanhua Village Project	Shenzhen	162,200
19	Nanyuan Village Project	Shenzhen	8,531
20	Xiaoping Village Project	Guangzhou	1,200,000
21	Huawei Science and Technology GX03 Project	Shenzhen	200,000
22	Dapeng Jiuxu Project	Shenzhen	670,000
23	Shangxue Niuguling Project	Shenzhen	100,000
24	Longcheng Industrial Zone Project	Shenzhen	67,119
25 ⁽¹⁾	Yagang Village	Guangzhou	799,600
26	Shixi Village	Guangzhou	400,000
27	Huawei Science and Technology ZDY09 Project	Shenzhen	188,000
28	Gangtou Bantian Hepinggang Project	Shenzhen	215,000
29	Gangtou Bantian Zhongxinwei Project	Shenzhen	82,000
30	Gangtou Bantian Matishan Project	Shenzhen	198,000
31	Gangtou Bantian Xinweizai Project	Shenzhen	115,100
32	Futian Project	Shenzhen	29,447
	Sub-total		10,905,135
Contractual agreements -- Project Transfer or Cooperative ⁽¹⁾			
33	Longgang Nan'ao Longbeitou Project	Shenzhen	26,667
	Sub-total		26,667
Landbank			
34	Shenzhen Kaisa Global Center	Shenzhen	14,411
35	Shenzhen Kaisa City Plaza	Shenzhen	179,642
36	Zhuhai Lake View Waldorf Garden	Zhuhai	164,354
37	Dongguan Le Grand Bleu	Dongguan	239,061
	Sub-total		597,468
Others			
38 ⁽¹⁾	Golden Bay Resort	Shenzhen	34,728
	Sub-total		34,728
	Total		11,563,998

(1) Projects included in government listing for redevelopment; (2) Acquired by auction

* Data in table is as at Mar 2013

Source: Kaisa, ABCI Securities

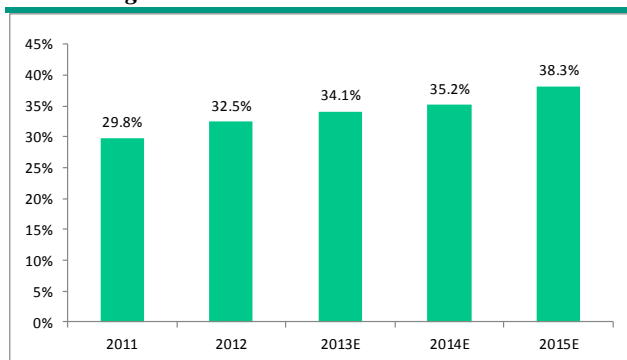
Kaisa's Potential Extra Land Bank from Redevelopment Projects

	Bull case	Remarks
Plot ratio (x)	2.5	4.5
Site area (m sqm)	2.2	2.2
GFA (m sqm)	5.5	9.9
GFA occupied by existing resident (m sqm)	2.2	2.2 Normally have 1x plot ratio for old village
Compensation price per sqm (RMB/sqm)	7,500	7,500 Mainly represent 1x plot ratio granted residence
Relocation cost (RMBm)	16,500	16,500
GFA subjected to land premium (m sqm)	-	4.4 Plot ratio of 2.5x aboved subjected to land premium
Market price of land (RMB/ sqm)	4,000	4,000 Land cost- Futian: RMB3,000-5,000/sqm; Longgang: RMB1,000-2,000/sqm
Valuation allowance (%)	0%	20%
Land premium (RMBm)	-	3,520 20% of market land cost (RMB4,000)
Total land cost (RMBm)	16,500	20,020
Land cost per sqm (RMB/sqm)	3,000	2,022
Market value of land (RMBm)	22,000	39,600
Market value per sqm (RMB/sqm)	4,000	4,000
NAV enhancement (RMBm)	5,500	19,580
NAV enhancement (%)	24%	87%

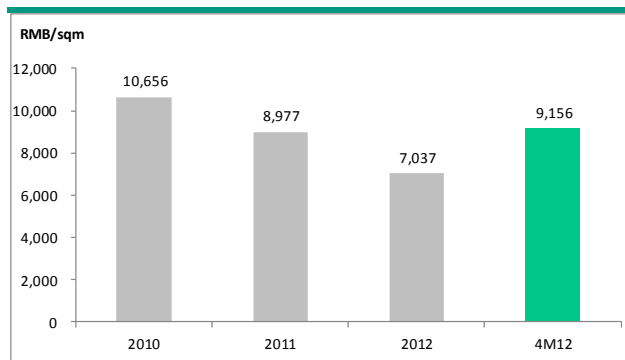
Source: Kaisa, ABCI Securities estimates

Sweet gross profit margin on redevelopment projects

Given redevelopment project has a high gross margin of 50% on average (vs Kaisa's 2012 gross margin of 30% at group level), increasing contribution from redevelopment projects will drive Kaisa's overall margin as a whole. Given rising land and construction cost among real estate industry, Kaisa's margin improvement trend in future makes it stands out against peers.

Gross Margin driver


Source: Kaisa, ABCI Securities estimates

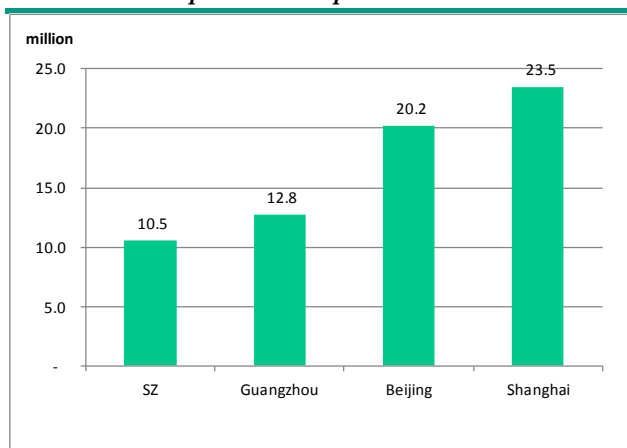
Blended ASP Trend


Source: Kaisa, ABCI Securities

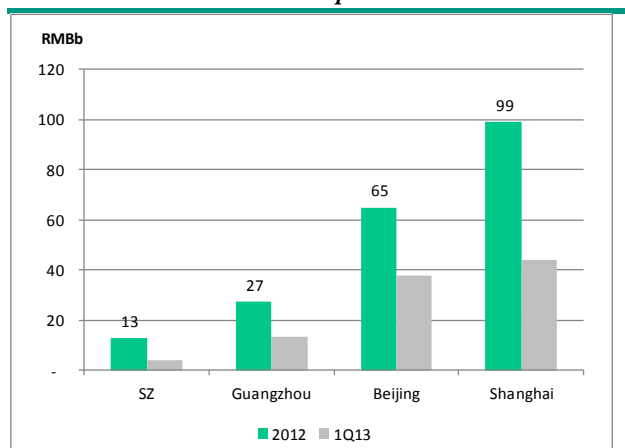
Business model fits urban redevelopment

In fact, urban redevelopment is essential for Shenzhen in order to solve housing problem. In particular, Shenzhen's land supply is very tight given limited space in the city. For instance, Shenzhen's population is around half of Beijing/ Shanghai, but land sales is only 13% of Shanghai or 20% of Beijing; while it has similar population to Guangzhou, land sales were half of of Guangzhou. These indicated Shenzhen's under supply situation, and extra land resource from redevelopment is crucial.

In fact, Kaisa's redevelopment model helps to speed up urbanization in Shenzhen. There are many old villages occupying core area in Shenzhen without efficient use of land (e.g. plot ratio <1). Further, as the village collectively owned the land, individual households have no strata title. Kaisa's granting GFA as compensation to resident allow them to realize their assets. Kaisa's redevelopment model brings not only decent profit to itself, but also benefits to the city and local residents.

Tier-1 Cities- Population comparison


Source: NBS

Tier-1 Cities- Land Sales comparisons


Source: NBS; Shenzhen Statistics Department

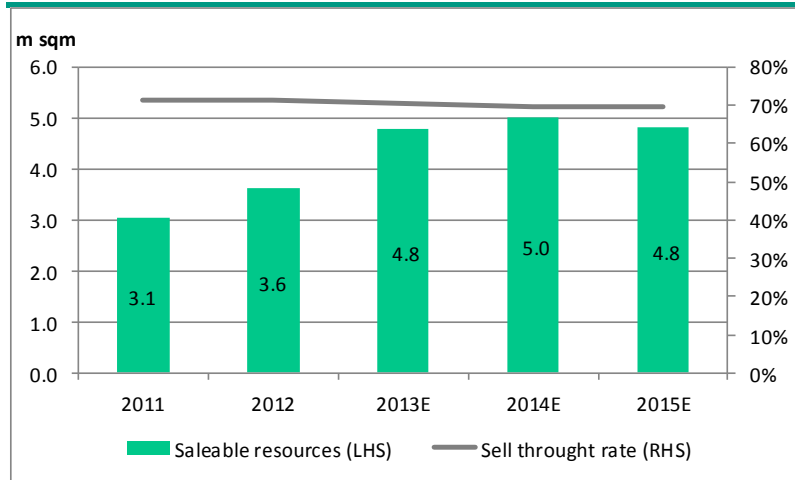


Fast churn model outside Shenzhen

As Shenzhen market's land supply remains tight, Kaisa needs to find investment opportunities outside the region to maintain a fast growing pace. In 2012, Kaisa entered 3 new cities, namely Chongqing, Dalian & Dadong.

While Kaisa's Shenzhen projects are seeking for high margin, their projects in 2nd/3rd tier cities are aiming at faster assets churn. Normally they look for lower gross margin (~25%) for projects outside Shenzhen to achieve faster sales. As a result, Kaisa's overall sell through rate remained high at 70%, compared to ~50% for other mid-cap name such as Greentown & Sunac.

Saleable resources & Sell through rate



Source: Kaisa, ABCI Securities estimates

Geographic coverage

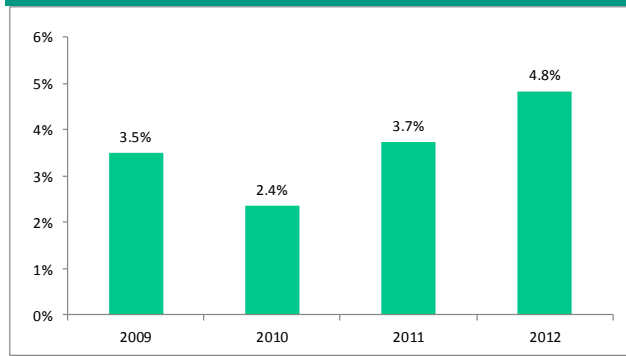


* Geographic coverage as at 2012 end
Source: Kaisa, ABCI Securities



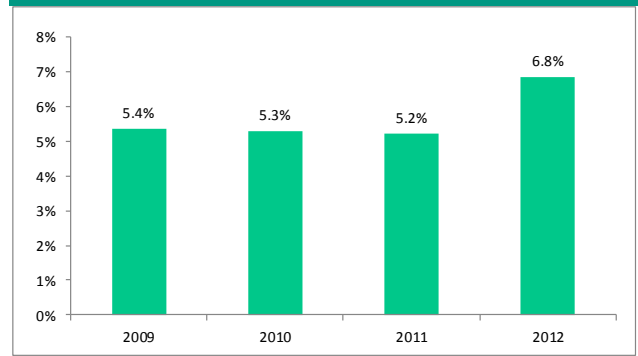
However, due to fast geographic expansion, SG&A expenses also escalated quickly from 8.9% of revenue in 2009 to 11.6% in 2012. We expect the ratio to come down in future as Kaisa's economy of scale appears.

Selling expenses as % of revenue



Source: Kaisa, ABCI Securities

G&A expenses as % of revenue



Source: Kaisa, ABCI Securities

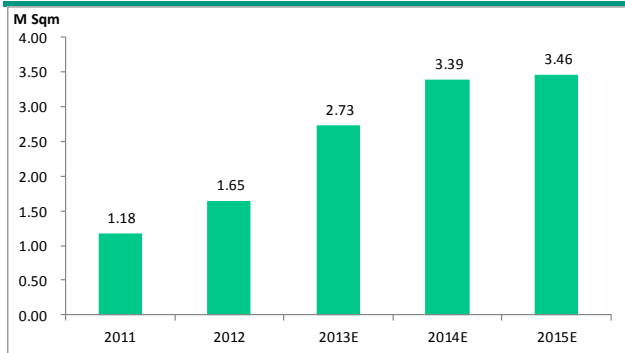


Margin improvement to drive share price

Expect exciting 35% earnings CAGR in 2013-15E

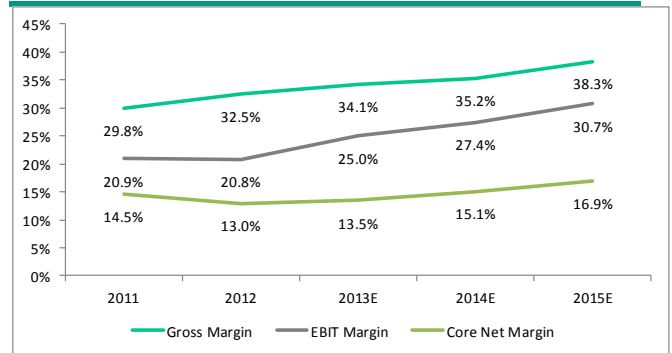
We estimated Kaisa’s underlying profit (ex-revaluation) to deliver 35% CAGR growth in 2013-2015E, on the back of growing completion as well as margin improvement as proportion of redevelopment projects increased.

GFA completion



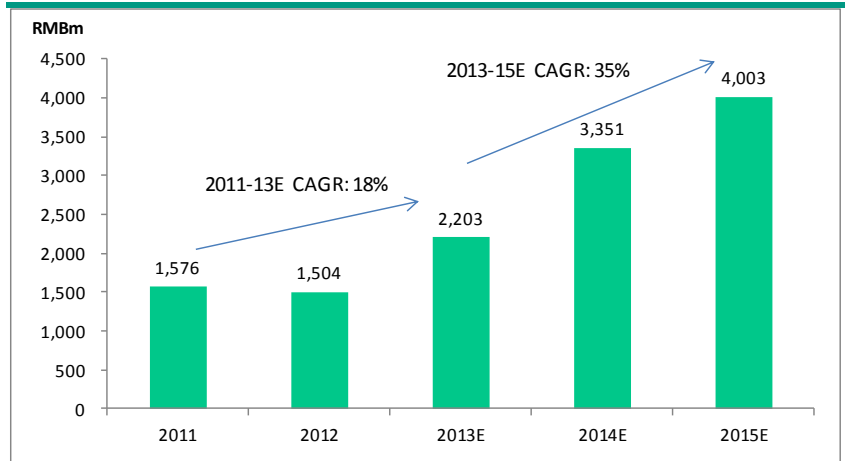
Source: Kaisa, ABCI Securities estimates

Gross/ EBIT/ Net margin



Source: Kaisa, ABCI Securities estimates

Kaisa Underlying Profit



Source: Kaisa, ABCI Securities estimates

However Kaisa’s valuation remains depressed despite exciting growth story. We believe market will turn more positive on the stock as Kaisa delivers good monthly sales figures as well as strong earnings growth in future.



Peer's valuation

China Property	Ticker	Rating	Mkt cap (HKD bn) (local ccy)	Share Price (local ccy)	Performance			Discount to 2013E NAV (%)	P/E			Yield (%)			P/B				
					1-Month % Chg	YTD % Chg	2012 Chg		2012A	2013E	2014E	2012A	2013E	2014E	2012A	2013E	2014E		
Residential :																			
1	COLI	688 HK	BUY	186.7	22.85	-4.2%	-1%	76%	-12.3%	11.7	9.6	7.7	1.8	2.1	2.6	2.1	1.8	1.5	
2	Greentown	3900 HK	BUY	30.0	13.94	-8.4%	-2%	320%	-56.6%	5.3	4.4	3.4	4.5	4.9	5.4	1.1	0.9	0.7	
3	Sunac	1918 HK	BUY	19.6	5.92	-4.1%	-1%	277%	-62.6%	6.0	4.2	3.9	1.8	2.4	2.6	1.5	1.1	0.9	
4	Kaisa	1638 HK	BUY	10.6	2.15	-11.2%	-10%	78%	-57.0%	6.3	4.3	2.8	-	-	-	0.7	0.6	0.5	
5	CR Land	1109 HK	NR	138.1	23.70	0.9%	12%	70%	-15.2%	18.2	14.9	11.9	1.4	1.7	2.1	2.0	1.7	1.5	
6	Country Garden	2007 HK	NR	80.4	4.41	0.0%	9%	39%	-27.7%	9.5	8.0	6.9	3.9	4.6	5.3	1.7	1.5	1.3	
7	Longfor	960 HK	NR	71.7	13.20	-1.2%	-13%	77%	-37.0%	10.6	8.8	7.7	1.9	2.2	2.6	1.9	1.6	1.4	
8	Shimao	813 HK	NR	58.2	16.76	-2.2%	15%	122%	-43.3%	8.1	7.7	6.5	3.2	4.0	4.6	1.3	1.1	1.0	
9	Evergrande	3333 HK	NR	49.5	3.09	-3.4%	-27%	32%	-63.6%	4.1	4.7	4.1	-	5.7	6.4	1.0	0.8	0.7	
10	Guangzhou R&F	2777 HK	NR	42.1	13.08	-8.5%	1%	109%	-48.9%	7.0	6.1	5.4	5.7	6.2	7.0	1.3	1.1	1.0	
11	Agile	3383 HK	NR	32.2	9.35	-6.3%	-14%	56%	-58.9%	5.2	5.2	4.6	4.1	4.7	5.3	1.0	0.8	0.7	
11	Sino Ocean	3377 HK	NR	26.7	4.55	-14.6%	-21%	64%	-51.3%	7.7	7.8	6.4	5.2	5.3	6.2	0.5	0.5	0.5	
11	COGO	81 HK	NR	24.9	10.90	-11.1%	17%	47%	-21.4%	10.4	8.5	6.7	1.0	1.4	1.6	3.1	2.3	1.7	
11	Yuexiu Properties	123 HK	NR	20.6	2.21	-5.2%	-10%	123%	-58.2%	15.8	7.2	6.1	2.9	5.1	6.2	0.7	0.7	0.6	
11	KWG	1813 HK	NR	15.0	5.17	-7.0%	-11%	121%	-60.2%	6.3	5.1	4.2	3.6	4.9	5.4	0.8	0.7	0.6	
11	Glorious	845 HK	NR	9.4	1.20	-3.2%	-18%	16%	na	11.0	5.0	4.1	-	1.6	2.2	0.4	0.4	0.3	
17	BJ Capital Land	2868 HK	NR	6.4	3.11	5.8%	-3%	109%	na	6.1	4.0	3.1	7.6	8.5	11.2	0.9	0.5	0.5	
HK Listed Avg							-4.9%	-5%	102%	-44.9%	8.8	6.8	5.6	2.9	3.8	4.5	1.3	1.1	0.9
- Large cap (>HKD50b) avg							-1.4%	4%	77%	-27.1%	11.6	9.8	8.1	2.4	2.9	3.5	1.8	1.6	1.3
- Small-mid cap (<HKD50b) avg							-6.4%	-8%	113%	-53.9%	7.6	5.5	4.6	3.0	4.2	5.0	1.1	0.9	0.7
1	Vanke	000002 CH	NR	165.8	11.83	4%	24%	30%	-22.2%	10.4	8.4	7.0	1.5	1.6	1.9	2.0	1.7	1.4	
2	Poly-A	600048 CH	NR	109.8	12.15	1%	-11%	40%	-34.6%	10.3	8.0	6.4	1.9	2.4	3.1	2.0	1.7	1.4	
3	China Merchants Property	000024 CH	NR	59.8	29.05	8%	-3%	69%	na	15.0	11.6	9.4	1.0	1.2	1.5	2.1	1.8	1.5	
4	Gemdale	600383 CH	NR	43.5	7.69	6%	10%	46%	-6.1%	10.1	9.3	7.7	1.0	2.0	2.3	1.4	1.3	1.2	
A-share Listed Avg							5%	5%	46%	-20.9%	11.5	9.3	7.6	1.4	1.8	2.2	1.9	1.6	1.4
Commercial:																			
1	SOHO China	410 HK	NR	32.4	6.58	-4%	6%	21%	-34.2%	8.3	8.0	11.7	4.7	4.8	4.6	0.9	0.8	0.8	
2	Franshion	817 HK	NR	25.9	2.83	5%	1%	104%	-50.4%	7.7	8.8	7.5	2.5	2.7	3.4	0.9	0.9	0.8	
3	Mingfa	846 HK	NR	14.7	2.41	1%	5%	0%	na	29.0	18.1	13.1	-	-	2.6	1.3	1.2	1.2	
4	Renhe Commercial	1387 HK	NR	10.0	0.48	-4%	-41%	0%	-82.4%	9.0	11.0	6.0	-	-	-	0.4	0.4	0.3	
Commercial Property Avg							-1%	-7%	31%	-55.7%	13.5	11.5	9.6	1.8	1.9	2.7	0.9	0.8	0.8

* The data in table is as at 5 June 2013

Source: Bloomberg; ABCI Securities estimates

Initiate Kaisa with a BUY, TP HKD2.80 based on 45% discount to NAV

We derived the Kaisa's TP of HKD2.80 based on 45% discount to our estimated NAV of HKD5.15/share. We used DCF with WACC of 13.3% to value property development project as significant portion of cashflow occurs beyond next 1-2 years. Property development represents 95% of Gross Assets Value (GAV), with the rest coming from investment properties (which we valued by 6.0% capitalization rate). We applied 45% discount (similar to historical average of 48% since listing) to our NAV estimates of HKD5.15, to derive TP of HKD2.80, implying 5.6x 2013E PE or 0.7x 2013E PB.



Discount to NAV



Source: Kaisa, ABCI Securities

2013E NAV Breakdown

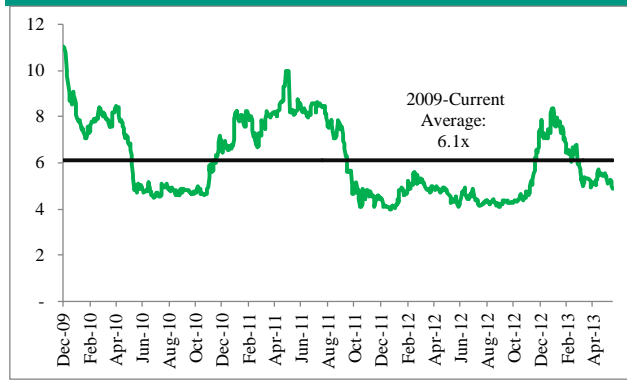
	Attr. GFA (M sqm)	Net assets value (RMB m)	% of total	Valuation Methodology	Implied value per sqm (HKD)
Property development					
Shenzhen	1.1	5,624	19%	DCF at WACC of 13.3%	4,900
Dongguan	1.0	1,178	4%		1,209
Huizhou	5.2	7,071	24%		1,357
Anshan	2.4	1,912	7%		809
Yingkou	2.0	1,585	5%		810
Changsha	1.5	1,517	5%		1,040
Huludao	1.7	1,408	5%		810
Others	7.1	7,264	25%		1,021
Subtotal	22.0	27,560	95%		1,255
Investment Properties		1,554	5%	6.0% cap rate on 2013E net rental	
Total 2013E GAV		29,114	100%		
2013E Net debt		(6,517)	-22%		
Total 2013E NAV		22,597	78%		
No. of share outstanding (diluted)		5,526			
NAV per share (RMB)		4.1			
Ex rate		1.26			
NAV per share (HKD)		5.15			
Target discount (%)		45%			
Target Price (HKD)		2.80			
Current price (HKD)		2.15			
Upside		30%			
WACC		13.3%			
Cost of debt		11.0%			
Cost of Equity		18.0%			
Debt/ (Debt + Equity)		48%			

* Share price as at 5 Jun 2013

Source: Kaisa, ABCI Securities estimates



Historical forward PE



Source: Kaisa, ABCI Securities

Historical forward PB



Source: Kaisa, ABCI Securities



What are the risks?

- **Timing of redevelopment remains uncertain:** redevelopment projects should lead to decent gross margin; however timing of approval grant and relocation process could take longer than expected. Kaisa is also building land bank outside Shenzhen using fast churn model to diversify such timing risk.
- **No dividend record since listing:** as Kaisa is still at fast growing stage, expansion is still their focus at the moment. Dividend payment will be unlikely in near future.
- **Increasing SG&A expenses ratio may hurt margin:** Kaisa registered higher overheads as they entered into more new markets. However, we expect the ratio to come down in future as Kaisa's economy of scale appears.



Income statement forecast

Dec-end (RMBm)	2011A	2012A	2013E	2014E	2015E
Revenue	10,835	11,955	18,979	24,579	26,304
Cost of sales	(7,601)	(8,070)	(12,498)	(15,921)	(16,240)
Gross Profit	3,234	3,885	6,481	8,658	10,063
SG&A expenses	(970)	(1,397)	(1,745)	(1,914)	(1,988)
EBIT	2,264	2,489	4,736	6,744	8,076
Finance cost	(69)	(39)	(40)	(33)	(29)
Share of profit of associates	(1)	(0)	0	0	0
Other income/ (expenses)	198	62	71	127	211
Fair value gain of investment properties	0	0	0	0	0
Disposal/one-off items	433	757	0	0	0
Profit before tax	2,825	3,269	4,768	6,839	8,257
Tax	(926)	(1,153)	(2,215)	(3,139)	(3,805)
Profit after tax	1,899	2,116	2,553	3,700	4,453
Minority interest	2	(44)	(350)	(349)	(450)
Reported net profit	1,901	2,072	2,203	3,351	4,003
<i>Less: exceptional items</i>	<i>(325)</i>	<i>(568)</i>	<i>0</i>	<i>0</i>	<i>0</i>
Underlying net profit	1,576	1,504	2,203	3,351	4,003
Per share					
Underlying EPS (RMB)	0.28	0.27	0.40	0.61	0.72
DPS (RMB)	-	-	-	-	-
Payout ratio (%)	0%	0%	0%	0%	0%
BVPS (RMB)	2.15	2.60	3.00	3.60	4.33
Growth %					
Revenue	39.7%	10.3%	58.8%	29.5%	7.0%
Gross Profit	7.4%	20.2%	66.8%	33.6%	16.2%
EBIT	-6.3%	9.9%	90.3%	42.4%	19.7%
Underlying net profit	11.9%	-4.6%	46.5%	52.1%	19.4%
Margin %					
Gross margin	29.8%	32.5%	34.1%	35.2%	38.3%
Gross margin (post-LAT)	28.0%	31.6%	27.5%	27.9%	29.9%
EBIT margin	20.9%	20.8%	25.0%	27.4%	30.7%
Core net margin	14.5%	13.0%	13.5%	15.1%	16.9%
Key assumptions					
Contracted Sales (RMBm)	15,289	17,341	23,812	25,773	26,431
GFA sold (m sqm)	2.18	2.58	3.36	3.49	3.34
ASP (RMB/sqm)	7,022	6,730	7,078	7,376	7,906
Booked Sales (RMB)	10,576	11,598	18,635	24,204	25,905
GFA delivered (m sqm)	1.18	1.65	2.73	3.39	3.46
Booked ASP (RMB/sqm)	8,977	7,037	6,816	7,139	7,478
Land acquisition (RMBm)	5,950	4,520	2,032	-	-
GFA acquired (m sqm)	4.9	2.4	0.7	-	-
Land cost (RMB/sqm)	1,209	1,858	2,719	-	-
Land acquisition to Contracted sales (%)	38.9%	26.1%	8.5%	-	-
Land bank GFA (m sqm)	23.7	23.9	21.9	18.5	15.1

Source: Company, ABCI Securities estimates



Balance sheet forecast

Dec-end (RMBm)	2011A	2012A	2013E	2014E	2015E
Current assets	34,756	49,836	55,693	59,992	64,261
Cash	3,945	4,683	8,221	15,930	24,879
Restricted cash	541	670	670	670	670
Trade & other receivables	3,697	5,843	5,843	5,843	5,843
Property under development	23,502	34,840	37,159	33,749	29,069
Other current assets	3,070	3,801	3,801	3,801	3,801
Non-current assets	6,949	8,117	8,645	9,173	9,701
Property, plant & equipment	149	308	336	364	392
Investment properties	6,375	7,540	8,040	8,540	9,040
Investment in Associate and JCE	299	0	0	0	0
Other non-current assets	126	269	269	269	269
Total Assets	41,705	57,953	64,338	69,165	73,962
Current Liabilities	17,099	29,439	33,322	34,498	34,893
Short term borrowings	2,067	3,150	3,150	3,150	3,150
Trade & other payables	6,797	7,112	7,112	7,112	7,112
Pre-sales deposits	7,242	17,244	21,127	22,304	22,698
Other current assets	993	1,933	1,933	1,933	1,933
Non-current liabilities	12,657	13,460	13,460	13,460	13,460
Long term borrowings	11,577	12,257	12,257	12,257	12,257
Other payables	0	0	0	0	0
Other non-current assets	1,079	1,202	1,202	1,202	1,202
Total Liabilities	29,755	42,898	46,781	47,958	48,353
Net Assets	11,949	15,054	17,557	21,207	25,610
Shareholders Equity	11,942	14,350	16,553	19,904	23,907
Minority Interest	8	704	1,004	1,303	1,703
Total Equity	11,949	15,054	17,557	21,207	25,610
Key ratio					
Gross debt (RMBm)	13,644	15,408	15,408	15,408	15,408
Net debt (RMBm)	9,699	10,725	7,187	(522)	(9,471)
Net gearing (%)	81%	75%	43%	-3%	-40%
Contracted sales/ Total assets (x)	0.37	0.30	0.37	0.37	0.36

Source: Company, ABCI Securities estimates



Cashflow forecast

Dec-end (RMBm)	2011A	2012A	2013E	2014E	2015E
EBITDA	2,294	2,531	4,778	6,786	8,118
Change in Working Capital	(4,505)	(882)	3,219	5,941	6,278
Tax payment	(743)	(906)	(2,215)	(3,139)	(3,805)
Operating Cashflow	(2,954)	743	5,782	9,588	10,591
Purchase of PP&E	(70)	(73)	(70)	(70)	(70)
Addition of Investment Properties	(473)	(531)	(500)	(500)	(500)
Others	(1,464)	(553)	71	127	211
Investing Cashflow	(2,007)	(1,157)	(499)	(443)	(359)
Debt raised	9,345	5,216	5,000	5,000	5,000
Debt repaid	(3,634)	(3,533)	(5,000)	(5,000)	(5,000)
Interest expenses	(1,096)	(1,468)	(1,695)	(1,387)	(1,233)
Equity raised	(2,007)	(1,157)	(499)	(443)	(359)
Dividend to shareholders	-	-	-	-	-
Others	1,959	2,094	449	393	309
Financing Cashflow	4,567	1,151	(1,745)	(1,437)	(1,283)
Net cash inflow/ (outflow)	(394)	737	3,538	7,709	8,949
Cash- beginning	4,340	3,945	4,683	8,221	15,930
Cash- year-end	3,945	4,682	8,221	15,930	24,879

Source: Company, ABCI Securities estimates



Company Report

Sunac (1918 HK)

June 6, 2013

Rating: Buy
TP: HK\$7.10

Key data

Share price (HK\$)	5.92
Target price (HK\$)	7.10
Upside potential (%)	19.9
52Wk H/L(HK\$)	7.26/2.14
Issued shares (mn)	3,015
Market cap (HK\$mn)	19,641
30-day avg vol (HK\$mn)	102
Major shareholder (%)	
SUN Hongbin	47.1

Source: Company & Bloomberg

Revenue breakdown by segment (2012) (%)

Property development	99.2
Property management	0.8

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	(6.9)	(3.4)
3-mth	7.6	11.1
6-mth	13.4	14.4

*Relative to Hang Seng Index

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst

Kenneth Tung
Tel: (852) 2147 8311
Email: kennethtung@abci.com.hk

Previous report: N/A (Initiation)

Market leader in the making

Despite short listing history, Sunac's track record was truly impressive- Contracted Sales was five-fold in four years; ASP rose from RMB9k/sqm in 2009 to RMB18k/sqm in 2012; Share price was up 68% since IPO. Consistent improvement in product mix, credit strength and share price performance should convince bond/equity investors that Sunac will be next Top-tier player.

Rising brand awareness from home buyers. Sunac has improved its brand awareness among home buyers: 1) upgrading product mix from low to high-end: Sunac's ASP rose from RMB9k/sqm in 2009 to RMB17.8k/sqm in 2012; 2) enhancing local market share: Sunac was focused in delivering growth at city-level. In particular, Sunac's contracted sales in Beijing rose 182% YoY to RMB10b in 2012; 3) Establishing JV with Greentown, a well-known luxury name in YRD area, to perform high profile land- acquisitions in Shanghai. The above efforts have led to better brand recognition for Sunac. In fact, Sunac's contracted sales were more than five-fold over last 4 years.

Rising interests from bond & equity investors. Sunac issued an USD500m USD bond in Mar 2013 at a coupon of 9.35% (vs 12.5% in Oct 2012; Sunac's average daily trading turnover in 2013 was up 7x compared to 2012. Rising awareness from bond/ equity investors should drive Sunac's valuation and narrow its deep discount to NAV in future.

Strong fundamentals yet cheap valuation. Despite supreme fundamentals comparable to large cap players, Sunac currently trades at a depressed valuation of 5.0x 2013PE, comparable to small-cap only.

Initiate with Buy rating at TP HKD7.10. Given short listing history and high exposure to Beijing (which subject to tight policy control), we conservatively applied 55% discount to our NAV estimates of HKD15.80, to derive TP of HKD7.10 (20% upside), implying 5.0x 2013E PE or 1.3x 2013E PB. We believe consistently strong sales performance (5M13: RMB15.5b, +94% YoY) will be re-rating catalyst for Sunac's share price.

Risk factors: 1) More exposed to policy risks given significant sales from Beijing, city with tightest property price control in China; 2) Overly aggressive in land acquisition could lead to margin erosion

Results and valuation

(FY ended Dec 31)	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue (RMB mn)	10,604	20,843	25,470	24,707	21,568
Y-Y Chg (%)	59.4	96.6	22.2	(3.0)	(12.7)
Underlying net profit (RMB mn)	1,792	2,387	3,744	4,041	4,230
Y-Y Chg (%)	16.1	33.2	56.8	7.9	4.7
Underlying EPS (RMB)	0.59	0.79	1.13	1.22	1.28
BVPS (RMB)	2.34	3.15	4.36	5.46	6.61
DPS (RMB)	0.08	0.09	0.11	0.12	0.13
Underlying PE (x)	8.0	6.0	4.2	3.9	3.7
PB (x)	2.0	1.5	1.1	0.9	0.7
Dividend yield (%)	1.7	1.8	2.4	2.6	2.7

Source: Company, ABCI Securities estimates



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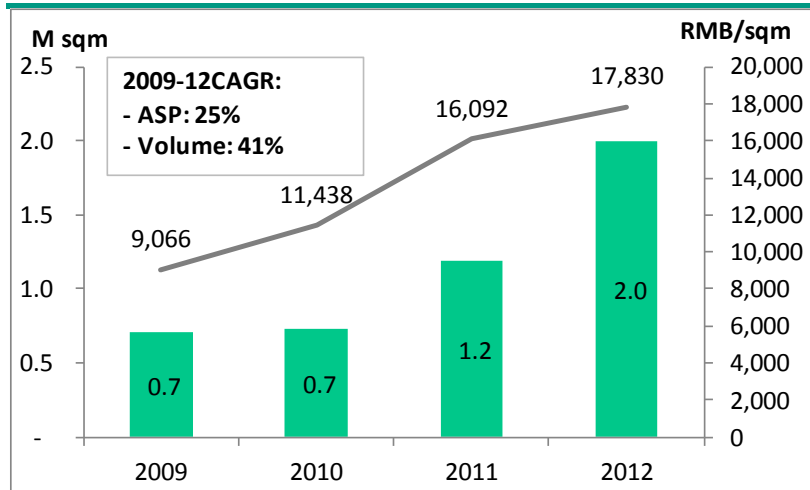
Rising attention from home buyers

Listed in Oct 2010, Sunac has gradually increase market awareness in different ways. For example, Sunac upgraded its product mix low-end (2009 ASP: RMB9k/sqm) to high-end (2012 ASP: RMB18k/sqm), growing contracted sales amount more than five-fold in 4 years, and expanding its geographic coverage to new market in Shanghai etc. As a result, share price of Sunac was now HKD5.92, 70% higher compare IPO price of HKD3.48 in 2010. We attribute such impressive performance for management’s strong execution capability.

Focus on premium product lead to rising brand awareness

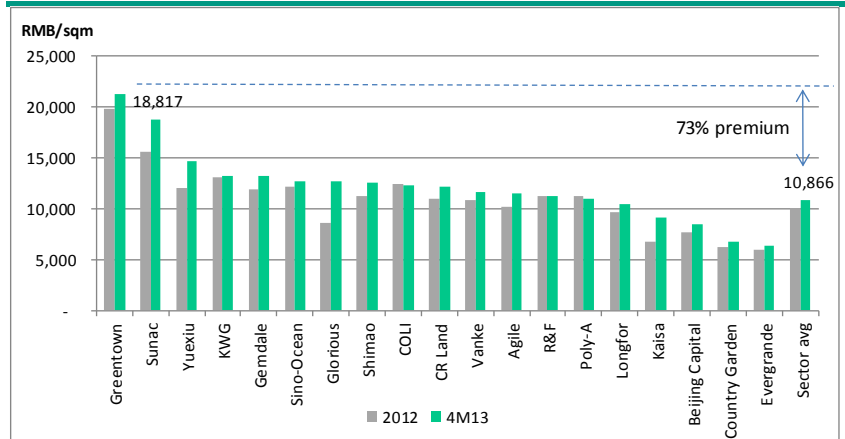
In the past few years, Sunac has put increasing focus on high-end product. As the product mix shifted to luxury segment, Sunac’s ASP grew by 25% CAGR from RMB9k/sqm in 2009 to RMB17.8k/sqm in 2012, while volume growth momentum maintained (2009-12 CAGR: 41%). Over past 1-2 years, Sunac has developed several luxury projects and received excellent response. For example, Beijing Sunac West Chateau captured RMB5.6b sales alone in 2012 (~16% of 2012 contracted sales) with ASP RMB44k/sqm. This has helped Sunac to establish a luxury brand image in the region.

ASP and Volume- both on rising trend



Source: Sunac

ASP Comparison



Source: Companies data

Sunac West Chateau (Beijing)
(ASP: RMB44,000/sqm)



Source: Sunac, ABCI Securities

Jinmao Palace, Jinmao Residence (Beijing)
(ASP: RMB32,000/sqm)



Source: Sunac, ABCI Securities

Sunac PL Du Pantheon (Tianjin)
(ASP: RMB27,000/sqm)



Source: Greentown, ABCI Securities

Sunac Magnetic Capital (Tianjin)
(ASP: RMB20,500/sqm)

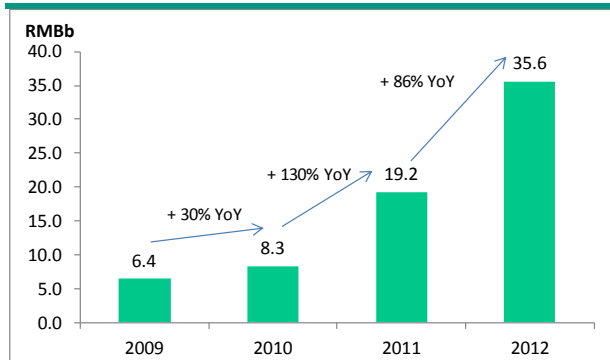


Source: Sunac, ABCI Securities

Good quality sales growth- rising market share at city level

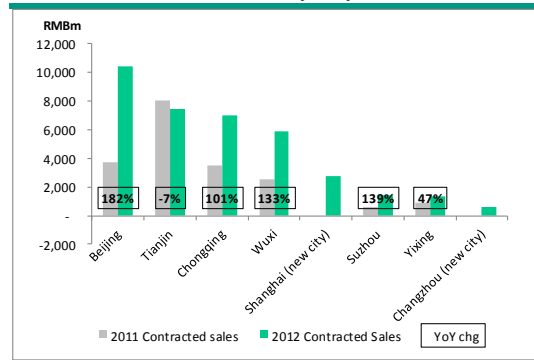
Sunac also demonstrates supreme execution capability by growing its contracted sales more than five-fold from RMB6.4b in 2009 to RMB35.6b in 2012. Further, we view that sales growth is of good quality, given it is mainly driven by faster sales at city level, not just by expanding number of new cities coverage (which could drag down margin due to higher overheads).

Contracted Sales (2009-12)



Source: Sunac, ABCI Securities

Sunac's contracted sales by city

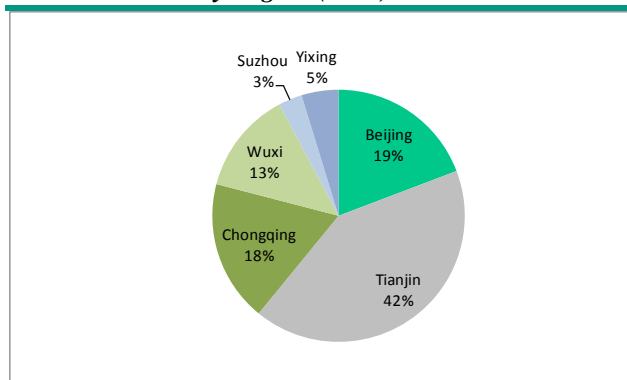


Source: Sunac, ABCI Securities

Successful penetration strategy on Beijing/Chongqing, with Shanghai the next target

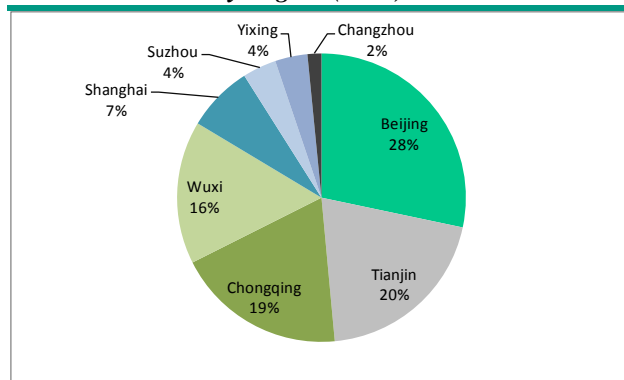
Having strong foothold in Tianjin as headquarters, Sunac was selective in entering new market. Sunac has successfully penetrated into two new cities - Beijing & Chongqing, which accounted for a total 47% of 2012 sales, vs 37% in 2011.

Contracted Sales by Region (2011)



Source: Sunac, ABCI Securities

Contracted Sales by Region (2012)



Source: Sunac, ABCI Securities

In 2012, Sunac entered Shanghai via setting up JV platform with Greentown, one of the major players in YRD area. Despite the fact that Shanghai is a competitive market, we expect Sunac to repeat successful story in penetrating Beijing and Chengdu, given Sunac's strong execution skills and Greentown's quality brand name in region. With the acquisitions of high-profile Shanghai projects (e.g. large lump-sum RMB8b land acquisition in Huangpu district), this will again enhance Sunac-Greentown's brand awareness in Shanghai.

Projects Transferred to Sunac from Greentown

Project	Location	Sellable Floor		Attr. Sellable Floor Area '000 sqm
		Area '000 sqm	Stake %	
1 Greentown Bund	Shanghai	160	51%	82
2 Yulan Garden	Shanghai	89	100%	89
3 Shanghai Rose Garden	Shanghai	138	50%	69
4 Suzhou Majestic Mansion	Suzhou	121	91%	109
5 Suzhou Rose Garden	Suzhou	120	67%	80
6 Wuxi Yulan Garden	Wuxi	393	85%	334
7 Wuxi Taihu Project	Wuxi	378	39%	147
8 Changzhou Yulan Square	Changzhou	1,014	37%	375
9 Tianjin Azure Coast	Tianjin	103	80%	82
		2,516		1,368

* Transferred to Sunac in Jun 2012

Source: Sunac, ABCI Securities



Sunac-Greentown's land acquisition in Shanghai since 2012

Site	Location	GFA ('000 sqm)	Land premium (RMBm)	Price/sqm (RMB)	Shareholding				
Acquired in 2012									
Pudong New Area Tangzhen Xinshizhen Lot	Shanghai	109	1,644	15,055	Sunac-Greentown JV	49%	Gezhouba	51%	
Pudong New Area Tangzhen Wujiefang Lot Lot	Shanghai	72	834	11,551	Sunac-Greentown JV	50%	Wharf	50%	
Pudong Senlan Lot	Shanghai	120	2,124	17,685	Sunac-Greentown JV	49%	Poly	49%	
		302	4,602	15,264					
Acquired in 2013									
Huangpu District	Shanghai	662	7,996	12,081	Sunac-Greentown JV	100%			
Hangzhou Golf Villa*	Hangzhou	519	2,400	4,628	Sunac-Greentown JV	50%	Wharf	50%	

* Acquired by Sunac-Greentown at RMB1.2b for 50% stake from Jindu Real estate in Jun 2013

** Data up to Jun 2013

Source: Sunac, Greentown, ABCI Securities



Rising attention from bond investors

Sunac raised a total of HKD5.9b of proceeds via USD500m USD bond issuance and HKD2b equity offering in Q1 2013. Sunac has become more well received by bond investors, as indicated in Mar 2013 bond issuance- Achieving a lower coupon rate of 9.35%, vs 12.50% in Oct 2012.

Overall, we expect Sunac’s effective interest rate to trend down from 11.0% in 2012 to 8.0% in 2015.

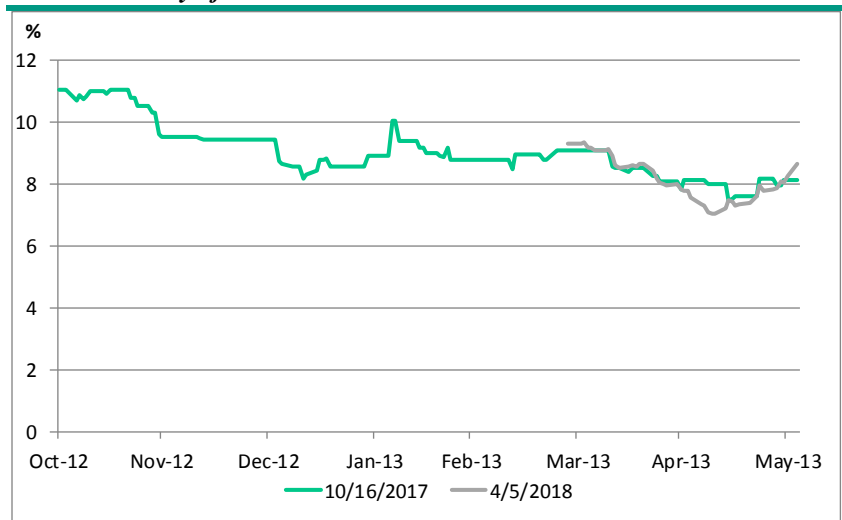
2012-2013 Bond/ Equity Raising

Month	Bond/ Equity raised	Amount HKDm
Oct-12	5- year USD400m bond, 12.50% coupon	3,120
	2012- total	3,120
Jan-13	300 million new share offering @ HKD6.7	2,010
Mar-13	5- year USD500m bond, 9.375% coupon	3,900
	YTD 2013 - total	5,910

*YTD figures is up to Jun 2013

Source: Sunac, ABCI Securities

Yield to maturity of Sunac’s Bond on Downward Trend



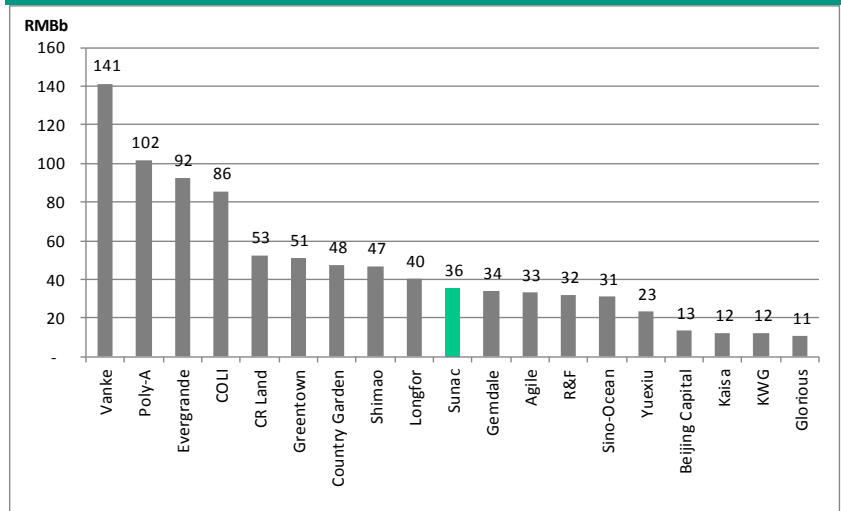
Source: Bloomberg, ABCI Securities



Rising attention from equity investors

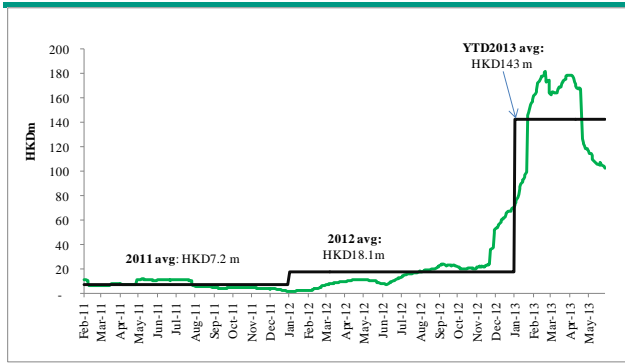
With short listing history of less than 3 years, Sunac has also overtaken several well-known developers with longer trading history (e.g. Agile, R&F) in terms of contracted sales. Strong execution capability has raised investor’s attention since early 2012 and made Sunac to become one of the most active trading mid-cap stocks.

2012 Contracted Sales Comparison



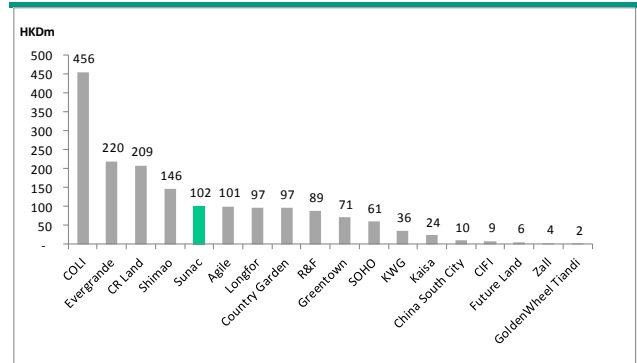
Source: Companies data, ABCI Securities

Sunac’s 3-Month Average Daily Trading Turnover



Source: Bloomberg, ABCI Securities

3-Month Average Daily Trading Turnover Comparison



* March- May 2013 average

Source: Bloomberg, ABCI Securities



Peer's valuation

China Property	Ticker	Rating	Mkt cap (HKD bn) (local ccy)	Share Price (local ccy)	Performance			Discount to 2013E NAV (%)	P/E			Yield (%)			P/B				
					1-Month % Chg	YTD % Chg	2012 Chg		2012A	2013E	2014E	2012A	2013E	2014E	2012A	2013E	2014E		
Residential:																			
1	COLI	688 HK	BUY	186.7	22.85	-4.2%	-1%	76%	-12.3%	11.7	9.6	7.7	1.8	2.1	2.6	2.1	1.8	1.5	
2	Greentown	3900 HK	BUY	30.0	13.94	-8.4%	-2%	320%	-56.6%	5.3	4.4	3.4	4.5	4.9	5.4	1.1	0.9	0.7	
3	Sunac	1918 HK	BUY	19.6	5.92	-4.1%	-1%	277%	-62.6%	6.0	4.2	3.9	1.8	2.4	2.6	1.5	1.1	0.9	
4	Kaisa	1638 HK	BUY	10.6	2.15	-11.2%	-10%	78%	-57.0%	6.3	4.3	2.8	-	-	-	0.7	0.6	0.5	
5	CR Land	1109 HK	NR	138.1	23.70	0.9%	12%	70%	-15.2%	18.2	14.9	11.9	1.4	1.7	2.1	2.0	1.7	1.5	
6	Country Garden	2007 HK	NR	80.4	4.41	0.0%	9%	39%	-27.7%	9.5	8.0	6.9	3.9	4.6	5.3	1.7	1.5	1.3	
7	Longfor	960 HK	NR	71.7	13.20	-1.2%	-13%	77%	-37.0%	10.6	8.8	7.7	1.9	2.2	2.6	1.9	1.6	1.4	
8	Shimao	813 HK	NR	58.2	16.76	-2.2%	15%	122%	-43.3%	8.1	7.7	6.5	3.2	4.0	4.6	1.3	1.1	1.0	
9	Evergrande	3333 HK	NR	49.5	3.09	-3.4%	-27%	32%	-63.6%	4.1	4.7	4.1	-	5.7	6.4	1.0	0.8	0.7	
10	Guangzhou R&F	2777 HK	NR	42.1	13.08	-8.5%	1%	109%	-48.9%	7.0	6.1	5.4	5.7	6.2	7.0	1.3	1.1	1.0	
11	Agile	3383 HK	NR	32.2	9.35	-6.3%	-14%	56%	-58.9%	5.2	5.2	4.6	4.1	4.7	5.3	1.0	0.8	0.7	
11	Sino Ocean	3377 HK	NR	26.7	4.55	-14.6%	-21%	64%	-51.3%	7.7	7.8	6.4	5.2	5.3	6.2	0.5	0.5	0.5	
11	COGO	81 HK	NR	24.9	10.90	-11.1%	17%	47%	-21.4%	10.4	8.5	6.7	1.0	1.4	1.6	3.1	2.3	1.7	
11	Yuexiu Properties	123 HK	NR	20.6	2.21	-5.2%	-10%	123%	-58.2%	15.8	7.2	6.1	2.9	5.1	6.2	0.7	0.7	0.6	
11	KWG	1813 HK	NR	15.0	5.17	-7.0%	-11%	121%	-60.2%	6.3	5.1	4.2	3.6	4.9	5.4	0.8	0.7	0.6	
11	Glorious	845 HK	NR	9.4	1.20	-3.2%	-18%	16%	na	11.0	5.0	4.1	-	1.6	2.2	0.4	0.4	0.3	
17	BJ Capital Land	2868 HK	NR	6.4	3.11	5.8%	-3%	109%	na	6.1	4.0	3.1	7.6	8.5	11.2	0.9	0.5	0.5	
HK Listed Avg							-4.9%	-5%	102%	-44.9%	8.8	6.8	5.6	2.9	3.8	4.5	1.3	1.1	0.9
- Large cap (>HKD50b) avg							-1.4%	4%	77%	-27.1%	11.6	9.8	8.1	2.4	2.9	3.5	1.8	1.6	1.3
- Small-mid cap (<HKD50b) avg							-6.4%	-8%	113%	-53.9%	7.6	5.5	4.6	3.0	4.2	5.0	1.1	0.9	0.7
1	Vanke	000002 CH	NR	165.8	11.83	4%	24%	30%	-22.2%	10.4	8.4	7.0	1.5	1.6	1.9	2.0	1.7	1.4	
2	Poly-A	600048 CH	NR	109.8	12.15	1%	-11%	40%	-34.6%	10.3	8.0	6.4	1.9	2.4	3.1	2.0	1.7	1.4	
3	China Merchants Property	000024 CH	NR	59.8	29.05	8%	-3%	69%	na	15.0	11.6	9.4	1.0	1.2	1.5	2.1	1.8	1.5	
4	Gemdale	600383 CH	NR	43.5	7.69	6%	10%	46%	-6.1%	10.1	9.3	7.7	1.0	2.0	2.3	1.4	1.3	1.2	
A-share Listed Avg							5%	5%	46%	-20.9%	11.5	9.3	7.6	1.4	1.8	2.2	1.9	1.6	1.4
Commercial:																			
1	SOHO China	410 HK	NR	32.4	6.58	-4%	6%	21%	-34.2%	8.3	8.0	11.7	4.7	4.8	4.6	0.9	0.8	0.8	
2	Franshion	817 HK	NR	25.9	2.83	5%	1%	104%	-50.4%	7.7	8.8	7.5	2.5	2.7	3.4	0.9	0.9	0.8	
3	Mingfa	846 HK	NR	14.7	2.41	1%	5%	0%	na	29.0	18.1	13.1	-	-	2.6	1.3	1.2	1.2	
4	Renhe Commercial	1387 HK	NR	10.0	0.48	-4%	-41%	0%	-82.4%	9.0	11.0	6.0	-	-	-	0.4	0.4	0.3	
Commercial Property Avg							-1%	-7%	31%	-55.7%	13.5	11.5	9.6	1.8	1.9	2.7	0.9	0.8	0.8

* The data in table is as at 5 June 2013

Source: Bloomberg; ABCI Securities estimates

Initiate Sunac with a BUY, TP HKD7.10 based on 55% discount to NAV

We derived the Sunac's TP of HKD7.10 based on 55% discount to our estimated NAV of HKD15.8/share. We used DCF with WACC of 13.3% to value property development project as significant portion of cashflow occurs beyond next 1-2 years. Given short listing history and high exposure to Beijing (which subject to tight policy control), we conservatively applied 55% discount (highest discount across our sector coverage) to our NAV estimates of HKD15.80, to derive TP of HKD7.10, implying 5.0x 2013E PE or 1.3x 2013E PB. Our target discount to NAV (55%) is lower than historical average of 64%, as we expect discount could narrow in future, as Sunac continues to deliver strong sales growth.



Sunac's Discount to NAV



* Figures up to Jun 2013

Source: Sunac, ABCI Securities

Sunac's NAV Breakdown

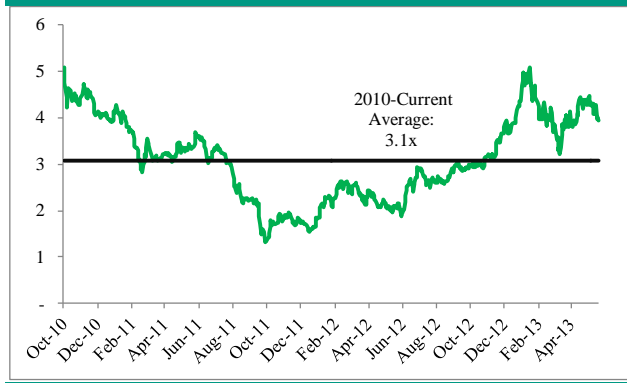
	Attr. GFA (M sqm)	Net assets value (RMB m)	% of total	Valuation Methodology	Implied value per sqm (RMB)
Property development					
Tianjin	2.7	11,904	28%	DCF at WACC of 13.3%	4,333
Beijing	1.0	5,091	12%		5,312
Chongqing	2.8	4,531	11%		1,628
Wuxi	1.9	3,683	9%		1,913
Suzhou	0.2	3,039	7%		14,013
Shanghai	0.7	11,059	26%		16,190
Others	0.8	1,293	3%		1,669
Subtotal	10.1	40,599	96%		
Property investment & management		1,571	4%	6.5% cap rate on 2013E net rental	
Total 2013E GAV		42,170	100%		
2013E Net debt		(577)	-1%		
Total 2013E NAV		41,593	99%		
No. of share outstanding (diluted)		3,315			
NAV per share (RMB)		12.5			
Ex rate		1.26			
NAV per share (HKD)		15.8			
Target discount (%)		55%			
Target Price (HKD)		7.10			
Current price (HKD)		5.92			
Upside		20%			
WACC					
Cost of debt		10.0%			
Cost of Equity		20.0%			
Debt/ (Debt + Equity)		54%			

* Share price as at 5 Jun 2013

Source: Sunac, ABCI Securities estimates

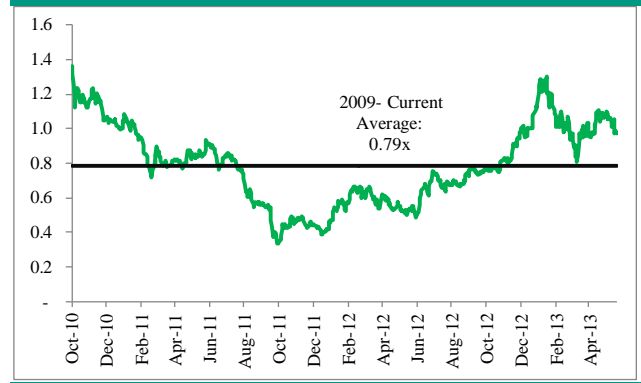


Forward PE Band Chart



Source: Sunac, ABCI Securities

Forward PB Band Chart



Source: Sunac, ABCI Securities



What are the risks?

- **High exposure to Beijing:** about 28% of Sunac's contracted sales is generated from Beijing. We have seen toughest policy measures for the city in latest round of tightening. However, as Sunac diversifying its geographical mix towards YRD, we believe policy risks could be reduced in future.
- **Margin erosion due to aggressive land acquisition price:** We have seen gross margin erosion from 33.6% in FY11, to 25.8% in FY12. It is possible that Sunac may sacrifice margin for faster top line growth in future. As a result, we prefer Greentown over Sunac given more stable margin yet achieving fast topline growth



Income statement forecast

Dec-end (RMBm)	2011A	2012A	2013E	2014E	2015E
Revenue	10,604	20,843	25,470	24,707	21,568
Cost of sales	(7,038)	(15,460)	(17,132)	(16,308)	(14,099)
Gross Profit	3,566	5,382	8,338	8,398	7,468
SG&A expenses	(615)	(884)	(1,141)	(1,210)	(1,282)
EBIT	2,951	4,498	7,197	7,189	6,186
Finance cost	(202)	(113)	(192)	(151)	(134)
Share of profit of associates	(10)	(39)	334	606	1,594
Other income/ (expenses)	37	45	142	210	292
Fair value gain of investment properties	0	0	0	0	0
Disposal/one-off items	752	293	0	0	0
Profit before tax	3,528	4,685	7,481	7,855	7,939
Tax	(1,145)	(2,070)	(3,276)	(3,358)	(3,189)
Profit after tax	2,383	2,615	4,205	4,497	4,750
Minority interest	(27)	(7)	(460)	(455)	(519)
Reported net profit	2,356	2,607	3,744	4,041	4,230
Less: exceptional items	(564)	(220)	0	0	0
Underlying net profit	1,792	2,387	3,744	4,041	4,230
Per share					
Underlying EPS (RMB)	0.59	0.79	1.13	1.22	1.28
DPS (RMB)	0.08	0.09	0.11	0.12	0.13
Payout ratio (%)	13%	11%	10%	10%	10%
BVPS (RMB)	2.34	3.15	4.36	5.46	6.61
Growth %					
Revenue	59.4%	96.6%	22.2%	-3.0%	-12.7%
Gross Profit	23.9%	50.9%	54.9%	0.7%	-11.1%
EBIT	12.9%	52.4%	60.0%	-0.1%	-13.9%
Underlying net profit	16.1%	33.2%	56.8%	7.9%	4.7%
Margin %					
Gross margin	33.6%	25.8%	32.7%	34.0%	34.6%
Gross margin (post-LAT)	30.0%	20.6%	25.6%	26.7%	27.5%
EBIT margin	27.8%	21.6%	28.3%	29.1%	28.7%
Core net margin	17.2%	11.7%	15.2%	15.7%	14.6%
Key assumptions					
Contracted Sales (RMBm)	19,209	35,635	49,489	56,401	55,924
GFA sold (m sqm)	1.19	2.00	2.49	2.71	2.48
ASP (RMB/sqm)	16,092	17,830	19,849	20,844	22,587
Booked Sales (RMB)	10,451	20,671	25,282	24,503	21,354
GFA delivered (m sqm)	0.74	1.19	1.57	1.53	1.35
Booked ASP (RMB/sqm)	14,136	17,327	16,080	15,992	15,793
Land acquisition (RMBm)	7,267	13,916	4,510	-	-
GFA acquired (m sqm)	2.1	6.5	0.4	-	-
Land cost (RMB/sqm)	3,434	2,136	12,457	-	-
Land acquisition to Contracted sales (%)	37.8%	39.1%	9.1%	-	-
Land bank GFA (m sqm)	9.2	10.1	10.1	8.6	7.2

Source: Company, ABCI Securities estimates



Balance sheet forecast

Dec-end (RMBm)	2011A	2012A	2013E	2014E	2015E
Current assets	31,304	64,832	60,892	64,475	65,838
Cash	2,763	8,394	12,279	22,040	28,645
Restricted cash	1,104	3,869	3,869	3,869	3,869
Trade & other receivables	451	416	416	416	416
Property under development	25,651	46,401	38,577	32,400	27,157
Other current assets	1,335	5,752	5,752	5,752	5,752
Non-current assets	2,308	6,103	11,052	11,863	13,662
Property, plant & equipment	28	49	54	59	64
Investment properties	552	571	571	571	571
Investment in Associate and JCE	980	4,205	9,149	9,955	11,749
Other non-current assets	749	1,279	1,279	1,279	1,279
Total Assets	33,613	70,934	71,944	76,338	79,501
Current Liabilities	14,628	44,294	39,916	40,267	39,153
Short term borrowings	2,254	11,783	6,783	6,783	6,783
Trade & other payables	3,810	7,116	7,116	7,116	7,116
Pre-sales deposits	5,840	15,146	15,768	16,119	15,005
Other current assets	2,724	10,250	10,250	10,250	10,250
Non-current liabilities	11,579	14,646	14,646	14,646	14,646
Long term borrowings	9,321	9,942	9,942	9,942	9,942
Other payables	0	0	0	0	0
Other non-current assets	2,258	4,704	4,704	4,704	4,704
Total Liabilities	26,207	58,940	54,562	54,914	53,799
Net Assets	7,406	11,994	17,382	21,425	25,701
Shareholders Equity	7,051	9,489	14,467	18,104	21,911
Minority Interest	355	2,505	2,916	3,321	3,790
Total Equity	7,406	11,994	17,382	21,425	25,701
Key ratio					
Gross debt (RMBm)	11,575	21,725	16,725	16,725	16,725
Net debt (RMBm)	7,707	9,462	577	(9,183)	(15,789)
Net gearing (%)	109%	100%	4%	-51%	-72%
Contracted sales/ Total assets (x)	0.57	0.50	0.69	0.74	0.70

Source: Company, ABCI Securities estimates



Cashflow forecast

Dec-end (RMBm)	2011A	2012A	2013E	2014E	2015E
EBITDA	2,965	4,513	7,212	7,204	6,201
Change in Working Capital	(4,394)	6,684	10,176	7,884	5,333
Tax payment	(1,246)	(1,688)	(3,276)	(3,358)	(3,189)
Operating Cashflow	(2,675)	9,509	14,112	11,729	8,345
Purchase of PP&E	(13)	(22)	(20)	(20)	(20)
Addition of Investment Properties	(378)	(2,473)	-	-	-
Others	(1,088)	(2,764)	(4,467)	10	92
Investing Cashflow	(1,479)	(5,260)	(4,487)	(10)	72
Debt raised	6,198	16,396	10,000	10,000	10,000
Debt repaid	(3,020)	(12,639)	(15,000)	(10,000)	(10,000)
Interest expenses	(202)	(1,817)	(1,923)	(1,505)	(1,338)
Equity raised	(1,479)	(5,260)	(4,487)	(10)	72
Dividend to shareholders	-	(236)	(374)	(404)	(423)
Others	1,462	4,938	6,045	(40)	(122)
Financing Cashflow	2,959	1,381	(5,739)	(1,959)	(1,811)
Net cash inflow/ (outflow)	(1,195)	5,631	3,885	9,760	6,606
Cash- beginning	3,958	2,763	8,394	12,279	22,040
Cash- year-end	2,763	8,394	12,279	22,040	28,645

Source: Company, ABCI Securities estimates

Company Report

COLI (688 HK)

June 6, 2013

Rating: Buy
TP: HK\$26.00

Key data

Share price (HK\$)	22.85
Target price (HK\$)	26.00
Upside potential (%)	13.8
52Wk H/L(HK\$)	25.60/15.22
Issued shares (mn)	8,173
Market cap (HK\$mn)	186,744
30-day avg vol (HK\$mn)	470
Major shareholder (%)	
China State Construction Engineering Corporation	53.18

Source: Company & Bloomberg

Revenue breakdown by segment (2012) (%)

Property development	95.1
Property investment	0.9
Others	4.0

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	(5.4)	(1.8)
3-mth	3.9	7.2
6-mth	0.9	1.8

*Relative to Hang Seng Index

Source: Bloomberg

1 year price performance



Source: Bloomberg

Analyst

Kenneth Tung
Tel: (852) 2147 8311
Email: kennethtung@abci.com.hk

Previous report: N/A (Initiation)

Unrivaled market leader

When COLI announced a flattish 2013 sales target early this year, market started to concern whether COLI reached a “too big to grow” stage. However, COLI proved the statement incorrect by its impressive Jan- Apr 2013 sales performance of HKD52b, +37% YoY, or 52% of its sales target. More importantly, we expect COLI’s industry leading net margin (21%) is likely to be maintained, well ahead of industry average of 14% only.

Likely to beat 2013 target again. By Apr 2013, COLI achieved 52% of its sale target of HKD100b, which we believe to be conservative. Despite a possible slowdown in sales figures in May on latest policy, we expect new projects launches, concentrated mainly in Jun, Sep & Oct, to drive sales further in 2H2013. In fact, COLI has a good track record of beating its sales target

Highest margin in the sector. We expect COLI to maintain its industry leading gross margin of 38-40% and net margin of 20-23% in 2013-2015. Due to economy of scale and good cost control, COLI’s margin has been consistently higher than peers.

Deserve a market leadership premium. Despite trading to the high-end of sector at 10x 2013 PE, we believe COLI deserves trading at premium given good track record, high margin and market leadership position.

Initiate COLI with BUY. We derive the COLI’s TP of HKD26.00 based on 0% discount to NAV, with 14% upside. We used DCF with WACC of 7.3% to value property development, while 5% cap rate for investment properties. Market has been concerned about possibility of COLI’s slowdown due to high base, but we argue COLI’s represent only ~2.5% of market share and still have rooms to grow.

Risk factors: 1) Further tightening from government; 2) Overly aggressive in land acquisition at expensive price could lead to margin erosion; 3) Revenue and core profit growth may slow down in FY15.

Results and valuation

(FY ended Dec 31)	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue (HKD mn)	51,332	64,581	107,428	124,417	119,923
Y-Y Chg (%)	10.0	25.8	66.3	15.8	(3.6)
Underlying net profit (HKD mn)	12,548	15,958	19,390	24,389	25,089
Y-Y Chg (%)	33.4	27.2	21.5	25.8	2.9
Underlying EPS (HKD)	1.54	1.95	2.37	2.98	3.07
BVPS (HKD)	8.76	10.68	12.57	14.96	17.42
DPS (HKD)	0.33	0.41	0.47	0.60	0.61
PE (x)	14.9	11.7	9.6	7.7	7.4
PB (x)	2.6	2.1	1.8	1.5	1.3
Dividend yield (%)	1.4	1.8	2.1	2.6	2.7

Source: Company, ABCI Securities estimates



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A proxy for China property sector

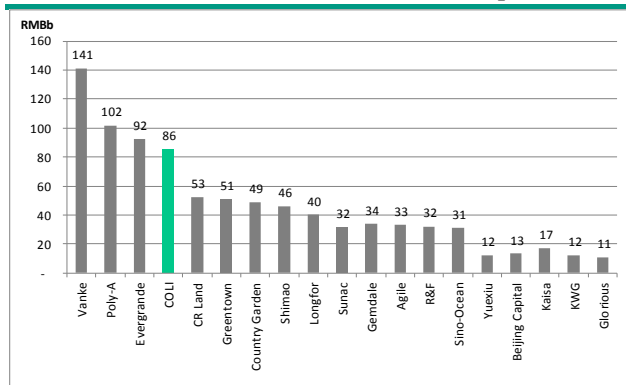
Listed in 1992, China Overseas Land & Investment (COLI) has always been recognized as the market leader in the China property sector. Key features of COLI are:

- **A national player:** COLI's operation spans over different regions in China. COLI invests mainly in 1st/2nd tier cities, while its 38% associate COGO (81 HK) covers 3rd/4th tier cities in China.
- **SOE background:** SOE status allows COLI to get borrowing from major banks (domestic/offshore) at low interest rate. COLI is also rated BBB+ by Fitch.
- **A proxy for China property sector:** Ranked fifth in contracted sales and first in market cap within sector, COLI is the most actively traded HK listed China property stocks, with average daily trading turnover of HKD460m.

We initiate COLI with a BUY rating based on 2 key reasons:

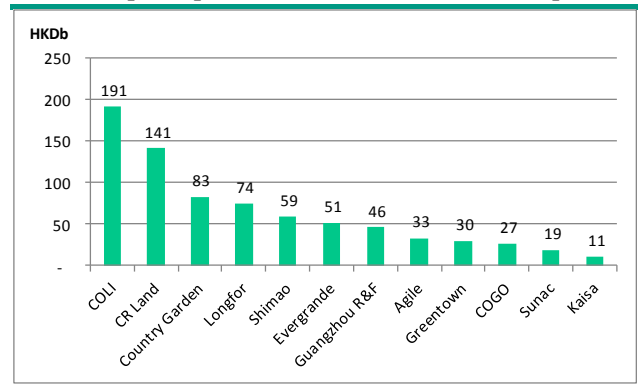
- **Likely to beat its conservative sales target:** Market has been disappointed by its flattish annual sales target of HKD100b announced in Mar 2013. However, given strong Jan-Apr 2013 sale performance, we forecast COLI's 2013 sales could reach HKD120b.
- **Highest margin in the sector:** We expect COLI to maintain its industry leading gross margin of 38-40% in 2013-2015, due to economy of scale and cost control.

2012 Contracted Sales - Listed China Developers



Source: COLI, ABCI Securities

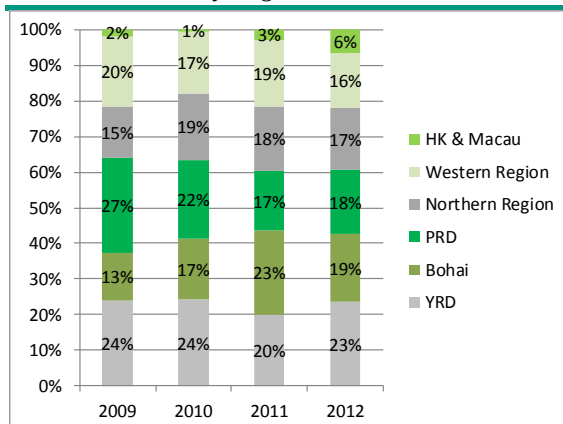
Market Cap comparison - HK listed China Developers



* Data as at 5 Jun 2013

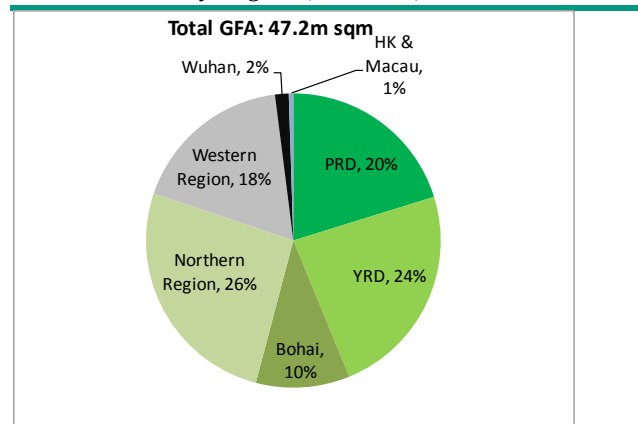
Source: COLI, ABCI Securities

Contracted Sales by Region



Source: COLI, ABCI Securities

Total landbank by Region (2012-end)



* Including COGO's landbank

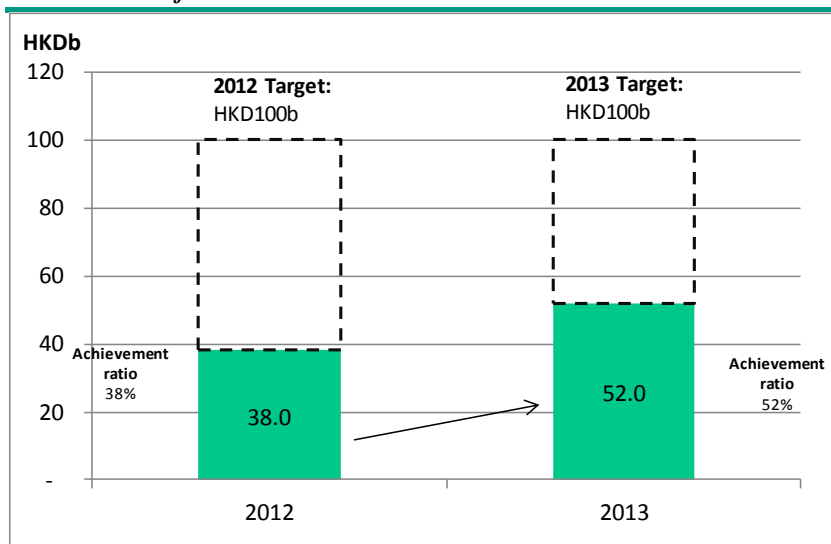
Source: COLI, ABCI Securities

Impressive Jan-Apr'13 sales performance

2013 Sales target looks conservative

COLI's contracted sales grew significantly by 37% YoY to HKD52b in Jan-Apr 13, despite already large base. COLI so far achieved 52% of its sale target of HKD100b, which we believe to be conservative. Despite a possible slowdown in sales figures in May on latest policy, we expect new projects launches, concentrated mainly in Jun, Sep & Oct, to drive sales further in 2H2013.

4M13 sales Performance

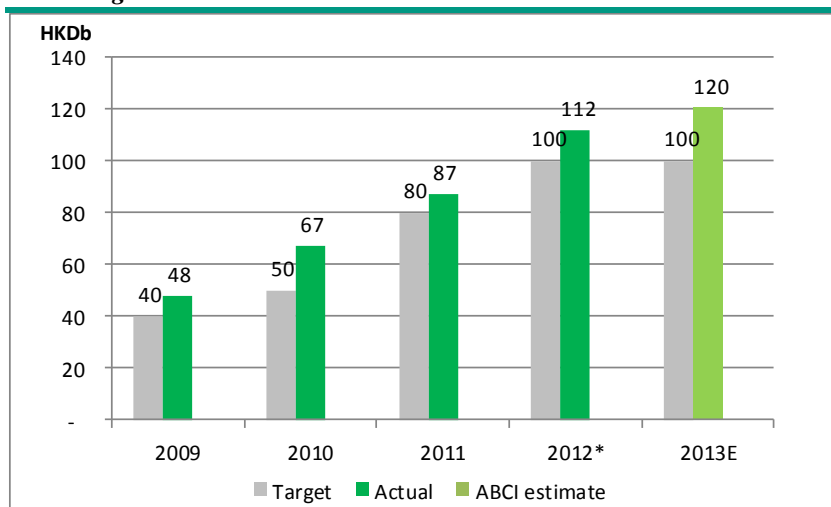


Source: COLI, ABCI Securities

Good track record of beating its target

In fact, COLI has a good track record of beating its sales target set in beginning of year, when visibility for full year still low. In August 2012, COLI revised upward its 2012 sales target to HKD100b from HKD80b. We expect COLI to achieve HKD120b contracted sales in 2013, +8% YoY.

Sales Target vs Actual



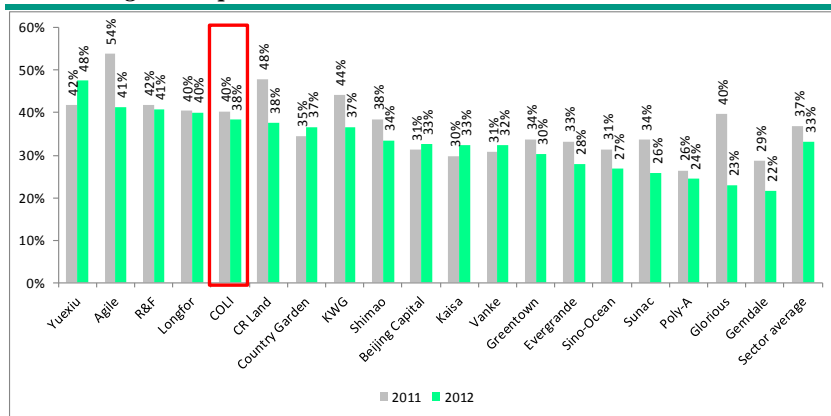
* Initial 2012 sales target was HKD80b, but revised upward to HKD100b in 2H12

Source: COLI, ABCI Securities estimates

Best-in-class margin

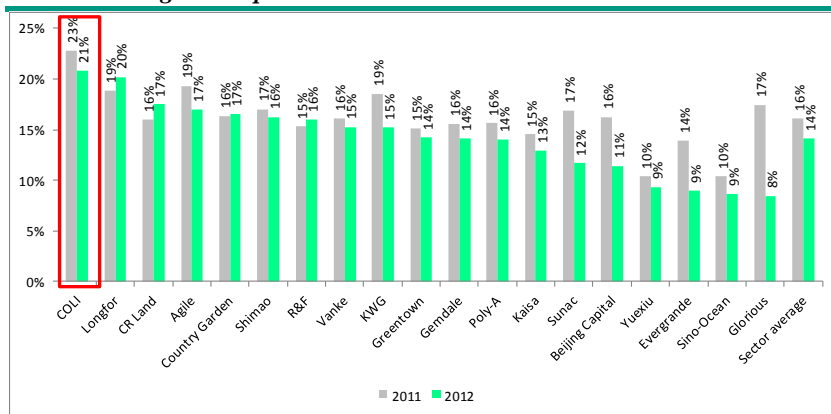
Despite fast growing topline in the past, COLI didn't sacrifice margin for volume. COLI's gross margin of 38-40% level was consistently higher than sector average past two years, while its core net margin (21-23%) was the highest among the industry.

Gross Margin Comparison



Source: Companies, ABCI Securities

Core Net Margin Comparison



Source: Companies, ABCI Securities

COLI vs Vanke

One of the reasons for industry leading margin is COLI's economy of scale. However, such competitive advantage has not been seen by Vanke (000002 CH), largest China developer in terms of contracted sales. Main reasons are:

- **Longer landbank life as buffer:** As COLI has a longer land bank life of ~8 year, it is of no urgency to refill land bank when land market heated up; in the contrary, Vanke would be at risk of land bank depletion and cannot sustain the annual sales of RMB100b+, if land acquisition is suspended.
- **Lower financing cost:** COLI utilized its SOE identity more efficiently to raise cheap offshore borrowing (effective interest rate: 4.0% in 2012), while Vanke, an A-share listed company, was only able to raise USD bond very recently in March 2013. Vanke has a much higher effective interest rate of 9.5% in 2012

Key Financials- Vanke vs COLI

	COLI		Vanke		Diff.	
	2011 HKDm	2012 HKDm	2011 RMBm	2012 RMBm	2011 %	2012 %
Revenue	51,332	64,581	67,709	96,860		
Gross Profit	20,672	24,725	24,460	31,406		
<i>Gross Margin (%)</i>	40.3%	38.3%	36.1%	32.4%	4.1%	5.9%
EBIT	18,775	22,689	20,098	26,547		
<i>EBIT Margin (%)</i>	36.6%	35.1%	29.7%	27.4%	6.9%	7.7%
Underlying Net Profit	12,548	15,958	11,600	15,662		
<i>Net Margin (%)</i>	24.4%	24.7%	17.1%	16.2%	7.3%	8.5%
Contracted Sales (RMBm)	89,216	96,108	122,170	141,220		
GFA (m sqm)	5.6	7.3	10.8	13.0		
ASP (RMB/ sqm)	15,983	13,181	11,294	10,900		
Total land bank Size (m sqm)	43.0	47.2	32.8	39.5		
GFA completed (m sqm)	5.2	6.3	6.6	9.8		
<i>Landbank life (year)</i>	8.2	7.5	5.0	4.0		
GFA acquired (m sqm)	10.6	10.3	9.2	15.9		
Gross finance cost	1,474	1,868	4,208	5,782		
<i>Effective interest rate (%)</i>	3.8%	4.0%	8.6%	9.5%		

Source: COLI, Vanke, ABCI Securities

COLI or COGO?

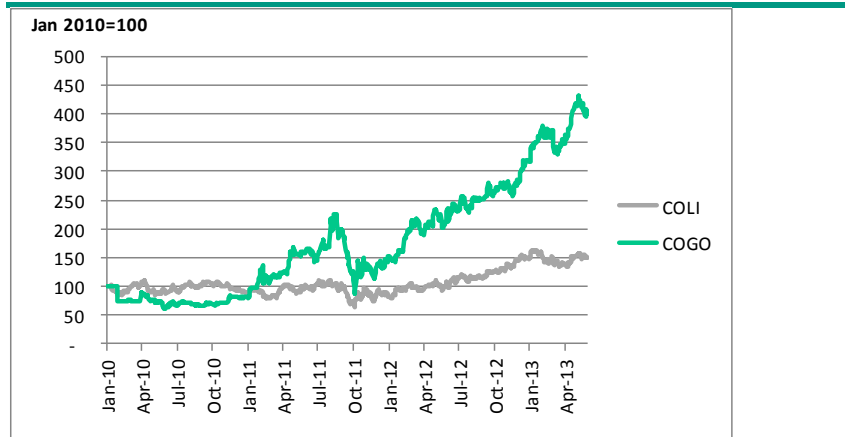
Shareholding structure



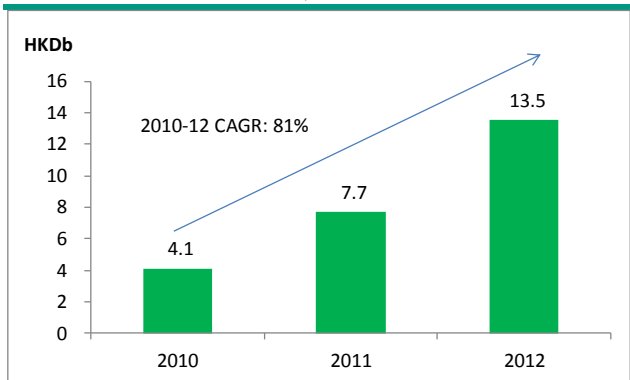
Source: COLI

In the year 2009, when land market was extremely overheated, COLI announced acquisition of China Overseas Grand Oceans (COGO) (81 HK), formerly called Shell Electric, as a cheaper alternative of land banking. Since then, COGO (now 38% owned by COLI) has become the COLI's listed property development platform for 3rd/4th –tier cities. As indicated from COGO's share price performance, investors have been more positive on the stock than COLI, due to faster contracted sales growth from a small base.

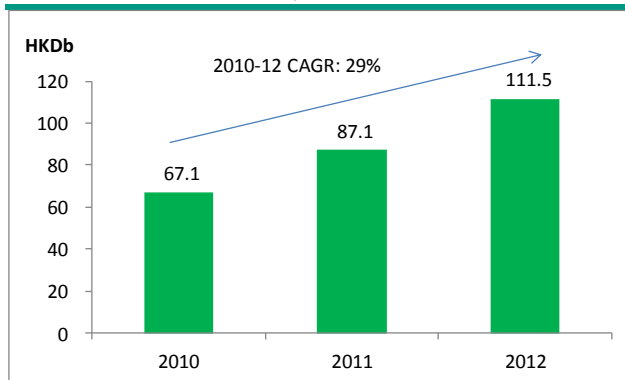
Share Price Performance- COLI vs COGO



Source: Bloomberg

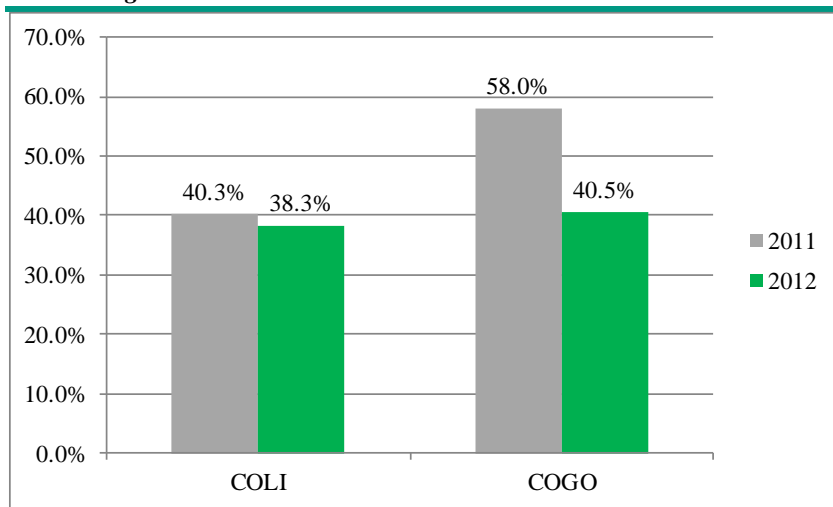
COGO's Contracted Sales (2010-2012)


Source: COGO, ABCI Securities

COLI's Contracted Sales (2010-2012)


Source: COLI, ABCI Securities

However, situation may reverse as COGO's base becoming bigger and unable to offer such impressive growth in past. Further, management commented that 1st/2nd tier cities have better sale performance so far in 2013. Going forward, COGO gross margin may also come down to 35-40% from 58% in 2011 & 40% in 2012, as cheap legacy land bank depleted. COGO outperformance could reverse later in 2013.

Gross Margin- COLI vs COGO


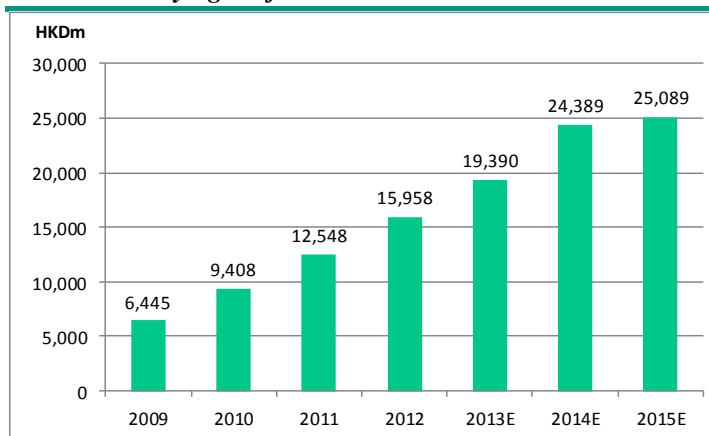
Source: COLI, COGO, ABCI Securities



Deserve market leadership premium Yet to see slowing down trend

Market has been concerned about possibility of COLI's slowdown in sales given already high base, especially when COLI announced a flattish sales target in March 2013. We argue COLI's sales represent only 2.5% of market share and there are still many cities remain uncovered. We assume COLI can achieve 8m sqm GFA land acquisition guidance in 2013, and provides a stronger sales growth in 2014E. Overall, we estimated COLI's underlying net profit (ex-revaluation) to deliver 14% CAGR growth in 2013-2015E.

COLI's Underlying Profit



Source: Companies, ABCI Securities estimates

Despite trading to the high-end of sector at 9.6x 2013 PE, we believe COLI deserves trading at premium given good track record, high margin and market leadership position.

Estimated Market Share

	Contracted Sales (RMBb)					Mkt share (%)				
	2009	2010	2011	2012	Jan-Apr 2013	2009	2010	2011	2012	YTD 2013
1 Vanke	63.4	108.2	122.2	141.2	56.0	1.7%	2.5%	2.5%	2.6%	3.3%
2 Poly-A	43.4	66.2	73.2	101.7	40.2	1.1%	1.5%	1.5%	1.9%	2.4%
3 Evergrande	30.3	50.4	80.4	92.3	25.0	0.8%	1.1%	1.7%	1.7%	1.5%
4 COLI	47.8	67.1	70.3	89.8	41.7	1.3%	1.5%	1.4%	1.7%	2.5%
5 CR Land	25.1	22.3	35.9	52.2	23.2	0.7%	0.5%	0.7%	1.0%	1.4%
6 Greentown	51.3	54.1	34.5	51.0	17.9	1.3%	1.2%	0.7%	1.0%	1.1%
7 Country Garden	23.2	32.9	43.2	47.6	23.1	0.6%	0.7%	0.9%	0.9%	1.4%
8 Shimao	22.5	30.5	30.7	46.1	18.3	0.6%	0.7%	0.6%	0.9%	1.1%
9 Longfor	18.4	33.3	38.3	40.1	13.4	0.5%	0.8%	0.8%	0.8%	0.8%
10 Sunac	6.4	8.3	17.7	31.6	11.3	0.2%	0.2%	0.4%	0.6%	0.7%
11 Gemdale	21.0	28.8	31.0	34.1	11.4	0.6%	0.7%	0.6%	0.6%	0.7%
12 Agile	20.1	32.3	31.5	33.1	9.9	0.5%	0.7%	0.6%	0.6%	0.6%
13 R&F	16.0	32.2	29.7	32.2	12.4	0.4%	0.7%	0.6%	0.6%	0.7%
14 Sino-Ocean	14.3	21.6	27.0	31.1	11.5	0.4%	0.5%	0.6%	0.6%	0.7%
15 Yuexiu	6.1	8.8	9.1	12.3	6.4	0.2%	0.2%	0.2%	0.2%	0.4%
16 Beijing Capital	10.6	12.5	11.0	13.3	3.3	0.3%	0.3%	0.2%	0.2%	0.2%
17 Kaisa	6.0	10.1	15.3	17.4	6.6	0.2%	0.2%	0.3%	0.3%	0.4%
18 KWG	7.6	11.0	11.4	12.2	5.3	0.2%	0.3%	0.2%	0.2%	0.3%
19 Glorious	6.7	12.7	13.3	10.9	3.0	0.2%	0.3%	0.3%	0.2%	0.2%
Major listed developer	440	643	726	890	340	11.5%	14.6%	14.9%	16.7%	20.1%
National	3,816	4,395	4,862	5,347	1,694					

* YTD figures are for Jan- Apr 2013

Source: Companies, NBS, ABCI Securities



Peer's valuation

China Property	Ticker	Rating	Mkt cap (HKD bn) (local ccy)	Share Price	Performance			Discount to 2013E NAV (%)	P/E			Yield (%)			P/B		
					1-Month % Chg	YTD % Chg	2012 Chg		2012A	2013E	2014E	2012A	2013E	2014E	2012A	2013E	2014E
Residential :																	
1	COLI	BUY	186.7	22.85	-4.2%	-1%	76%	-12.3%	11.7	9.6	7.7	1.8	2.1	2.6	2.1	1.8	1.5
2	Greentown	BUY	30.0	13.94	-8.4%	-2%	320%	-56.6%	5.3	4.4	3.4	4.5	4.9	5.4	1.1	0.9	0.7
3	Sunac	BUY	19.6	5.92	-4.1%	-1%	277%	-62.6%	6.0	4.2	3.9	1.8	2.4	2.6	1.5	1.1	0.9
4	Kaisa	BUY	10.6	2.15	-11.2%	-10%	78%	-57.0%	6.3	4.3	2.8	-	-	-	0.7	0.6	0.5
5	CR Land	NR	138.1	23.70	0.9%	12%	70%	-15.2%	18.2	14.9	11.9	1.4	1.7	2.1	2.0	1.7	1.5
6	Country Garden	NR	80.4	4.41	0.0%	9%	39%	-27.7%	9.5	8.0	6.9	3.9	4.6	5.3	1.7	1.5	1.3
7	Longfor	NR	71.7	13.20	-1.2%	-13%	77%	-37.0%	10.6	8.8	7.7	1.9	2.2	2.6	1.9	1.6	1.4
8	Shimao	NR	58.2	16.76	-2.2%	15%	122%	-43.3%	8.1	7.7	6.5	3.2	4.0	4.6	1.3	1.1	1.0
9	Evergrande	NR	49.5	3.09	-3.4%	-27%	32%	-63.6%	4.1	4.7	4.1	-	5.7	6.4	1.0	0.8	0.7
10	Guangzhou R&F	NR	42.1	13.08	-8.5%	1%	109%	-48.9%	7.0	6.1	5.4	5.7	6.2	7.0	1.3	1.1	1.0
11	Agile	NR	32.2	9.35	-6.3%	-14%	56%	-58.9%	5.2	5.2	4.6	4.1	4.7	5.3	1.0	0.8	0.7
11	Sino Ocean	NR	26.7	4.55	-14.6%	-21%	64%	-51.3%	7.7	7.8	6.4	5.2	5.3	6.2	0.5	0.5	0.5
11	COGO	NR	24.9	10.90	-11.1%	17%	47%	-21.4%	10.4	8.5	6.7	1.0	1.4	1.6	3.1	2.3	1.7
11	Yuexiu Properties	NR	20.6	2.21	-5.2%	-10%	123%	-58.2%	15.8	7.2	6.1	2.9	5.1	6.2	0.7	0.7	0.6
11	KWG	NR	15.0	5.17	-7.0%	-11%	121%	-60.2%	6.3	5.1	4.2	3.6	4.9	5.4	0.8	0.7	0.6
11	Glorious	NR	9.4	1.20	-3.2%	-18%	16%	na	11.0	5.0	4.1	-	1.6	2.2	0.4	0.4	0.3
17	BJ Capital Land	NR	6.4	3.11	5.8%	-3%	109%	na	6.1	4.0	3.1	7.6	8.5	11.2	0.9	0.5	0.5
HK Listed Avg					-4.9%	-5%	102%	-44.9%	8.8	6.8	5.6	2.9	3.8	4.5	1.3	1.1	0.9
- Large cap (>HKD50b) avg					-1.4%	4%	77%	-27.1%	11.6	9.8	8.1	2.4	2.9	3.5	1.8	1.6	1.3
- Small-mid cap (<HKD50b) avg					-6.4%	-8%	113%	-53.9%	7.6	5.5	4.6	3.0	4.2	5.0	1.1	0.9	0.7
1	Vanke	NR	165.8	11.83	4%	24%	30%	-22.2%	10.4	8.4	7.0	1.5	1.6	1.9	2.0	1.7	1.4
2	Poly-A	NR	109.8	12.15	1%	-11%	40%	-34.6%	10.3	8.0	6.4	1.9	2.4	3.1	2.0	1.7	1.4
3	China Merchants Property	NR	59.8	29.05	8%	-3%	69%	na	15.0	11.6	9.4	1.0	1.2	1.5	2.1	1.8	1.5
4	Gemdale	NR	43.5	7.69	6%	10%	46%	-6.1%	10.1	9.3	7.7	1.0	2.0	2.3	1.4	1.3	1.2
A-share Listed Avg					5%	5%	46%	-20.9%	11.5	9.3	7.6	1.4	1.8	2.2	1.9	1.6	1.4
Commercial:																	
1	SOHO China	NR	32.4	6.58	-4%	6%	21%	-34.2%	8.3	8.0	11.7	4.7	4.8	4.6	0.9	0.8	0.8
2	Franshion	NR	25.9	2.83	5%	1%	104%	-50.4%	7.7	8.8	7.5	2.5	2.7	3.4	0.9	0.9	0.8
3	Mingfa	NR	14.7	2.41	1%	5%	0%	na	29.0	18.1	13.1	-	-	2.6	1.3	1.2	1.2
4	Renhe Commercial	NR	10.0	0.48	-4%	-41%	0%	-82.4%	9.0	11.0	6.0	-	-	-	0.4	0.4	0.3
Commercial Property Avg					-1%	-7%	31%	-55.7%	13.5	11.5	9.6	1.8	1.9	2.7	0.9	0.8	0.8

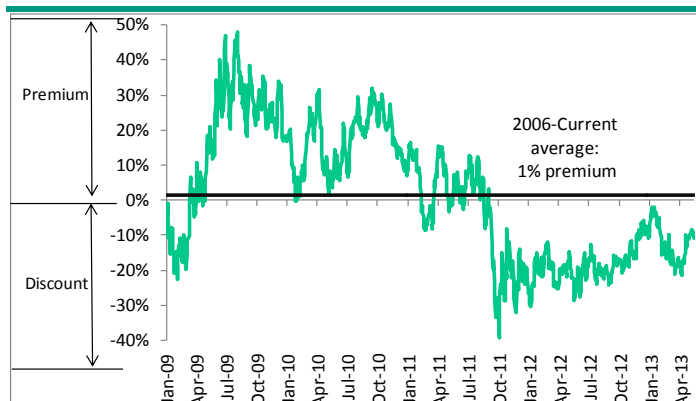
* The data in table is as at 5 June 2013
Source: Bloomberg; ABCI Securities estimates

Initiate COLI with a BUY, TP HKD26.00 based on 0% discount to NAV

We derive the COLI's TP of HKD26.00 based on 0% discount to NAV. We used DCF with WACC of 7.3% to value property development project as significant portion of cashflow occurs beyond next 1-2 years. Property development represents 94% of Gross Assets Value (GAV), with the rest coming from investment properties (which we value at 5% cap rate on net rental income). We applied 0% discount (in line with historical average in 2009-current) to our NAV forecast, to derive TP of HKD26.00, implying 6.1x 2013E PE or 1.2x 2013E PB



Discount to NAV



Source: COLI, ABCI Securities

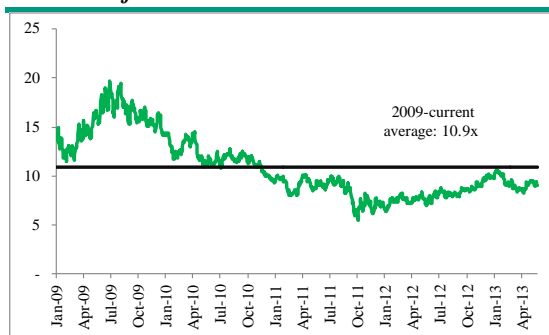
COLI's 2013E NAV breakdown

	Attr. GFA (M sqm)	Net assets value (HKD m)	% of total	Valuation Methodology	Implied value per sqm (HKD)
Property development					
Hua Nan	9.7	53,076	25%	DCF at WACC of 7.3%	5,459
Hua Dong	9.4	50,046	23%		5,296
Hua Bei	4.4	16,739	8%		3,785
Northern	11.7	47,848	22%		4,076
Western	7.5	28,762	13%		3,811
HK & Macau	0.22	3,847	2%		17,215
Subtotal	43.1	200,317	94%		4,647
Investment Properties		12,842	6%	5.0% cap rate on 2013E net rental	
Total 2013E GAV		213,159	100%		
2013E Net debt		(280)	0%		
Total 2013E NAV		212,879	100%		
No. of share outstanding		8,173			
NAV per share (HKD)		26.0			
Target Premium/ (discount) (%)		0%			
Target Price (HKD)		26.00			
Current price (HKD)		22.85			
Upside		14%			
WACC		7.3%			
Cost of debt		3.5%			
Cost of Equity		10.0%			
Debt/ (Debt + Equity)		36%			

* Share price as at 5 Jun 2013

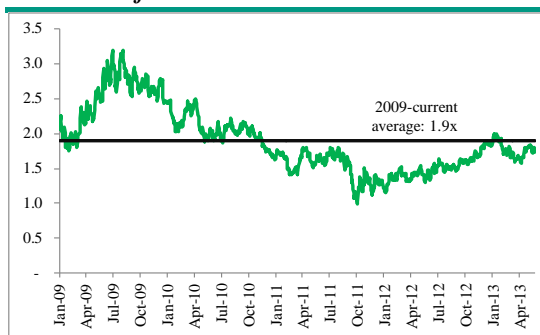
Source: COLI, ABCI Securities estimates

Historical forward PE



Source: COLI, ABCI Securities

Historical forward PB



Source: COLI, ABCI Securities



What are the risks?

- **Unable to replenish landbank on a timely manner:** Given COLI's contracted sales have already exceeded HKD100b, land acquisitions have to be done on timely manner to sustain such huge topline. COLI tends to be conservative in land bidding price, hence it is possible COLI could be lack of saleable resources if its landbank deplete. Having said that, current landbank life of ~7 years should provide sufficient buffer.
- **Earnings growth may slow on high base:** Despite we expect underlying profit growth to maintain above 20% in 2013 & 2014. We do see high base risk to emerge in 2015, as we forecast profit growth should decelerate to 3% only. Nevertheless, we still believe COLI's market share position and industry leading margin to remain.

Income statement forecast

Dec-end (HKDm)	2011A	2012A	2013E	2014E	2015E
Revenue	51,332	64,581	107,428	124,417	119,923
Cost of sales	(30,660)	(39,855)	(67,624)	(77,267)	(73,417)
Gross Profit	20,672	24,725	39,804	47,149	46,506
SG&A expenses	(1,897)	(2,037)	(2,376)	(2,543)	(2,607)
EBIT	18,775	22,689	37,427	44,606	43,900
Finance cost	(591)	(286)	(332)	(356)	(356)
Share of profit of associates	922	2,637	351	528	535
Other income/ (expenses)	771	696	938	1,519	2,335
Fair value gain of investment properties	3,020	3,651	-	-	-
Disposal/one-off items	868	35	-	-	-
Profit before tax	23,765	29,422	38,385	46,297	46,413
Tax	(8,207)	(10,590)	(16,547)	(19,266)	(18,900)
Profit after tax	15,558	18,832	21,838	27,031	27,513
Minority interest	(94)	(110)	(2,448)	(2,642)	(2,424)
Reported net profit	15,464	18,722	19,390	24,389	25,089
<i>Less: exceptional items</i>	<i>(2,916)</i>	<i>(2,765)</i>	-	-	-
Underlying net profit	12,548	15,958	19,390	24,389	25,089
Per share					
Underlying EPS (HKD)	1.54	1.95	2.37	2.98	3.07
DPS (HKD)	0.33	0.41	0.47	0.60	0.61
Payout ratio (%)	21%	21%	20%	20%	20%
BVPS (HKD)	8.76	10.68	12.57	14.96	17.42
Growth %					
Revenue	10.0%	25.8%	66.3%	15.8%	-3.6%
Gross Profit	16.3%	19.6%	61.0%	18.5%	-1.4%
EBIT	18.3%	20.8%	65.0%	19.2%	-1.6%
Underlying net profit	33.4%	27.2%	21.5%	25.8%	2.9%
Margin %					
Gross margin	40.3%	38.3%	37.1%	37.9%	38.8%
Gross margin (post-LAT)	34.0%	32.1%	29.4%	30.6%	31.9%
EBIT margin	36.6%	35.1%	34.8%	35.9%	36.6%
Core net margin	22.8%	20.8%	20.0%	21.3%	22.5%
Key assumptions					
Contracted Sales (HKDm)	87,090	111,520	120,135	138,034	125,514
GFA sold (m sqm)	5.58	7.29	7.70	8.63	8.12
ASP (HKD/sqm)	15,602	15,295	15,611	15,989	15,449
Booked Sales (HKD)	49,432	61,407	103,849	120,407	115,407
GFA delivered (m sqm)	2.94	4.18	6.41	6.62	5.93
Booked ASP (HKD/sqm)	16,814	14,691	16,195	18,175	19,461
Land acquisition (HKDm)	24,161	35,639	28,000	-	-
GFA acquired (m sqm)	10.6	10.3	8.0	-	-
Land cost (HKD/sqm)	2,287	3,453	3,500	-	-
Land acquisition to Contracted sales (%)	27.7%	32.0%	23.3%	-	-
Land bank GFA (m sqm)	43.0	47.2	48.7	42.1	36.2
Attributable Land bank GFA (m sqm)	37.4	42.0	43.4	37.5	32.2

Source: Company, ABCI Securities estimates

China Overseas Land & Investment

Balance sheet forecast

Dec-end (HKDm)	2011A	2012A	2013E	2014E	2015E
Current assets	127,984	180,268	199,135	211,189	214,286
Cash	19,179	40,880	58,508	102,442	144,932
Trade & other receivables	1,850	2,599	2,599	2,599	2,599
Property under development	97,472	111,752	112,991	81,111	41,720
Other current assets	9,483	25,036	25,036	25,036	25,036
Non-current assets	47,991	49,557	51,373	53,365	55,364
Property, plant & equipment	338	976	1,040	1,105	1,169
Investment properties	17,765	23,657	25,157	26,657	28,157
Investment in Associate and JCE	16,009	17,192	17,444	17,872	18,307
Other non-current assets	13,879	7,732	7,732	7,732	7,732
Total Assets	175,975	229,825	250,507	264,554	269,651
Current Liabilities	67,929	83,975	86,748	78,692	61,343
Short term borrowings	9,820	5,546	5,546	5,546	5,546
Trade & other payables	16,378	16,917	16,917	16,917	16,917
Pre-sales deposits	24,480	40,506	43,279	35,222	17,874
Other current assets	17,250	21,007	21,007	21,007	21,007
Non-current liabilities	36,156	58,292	58,292	58,292	58,292
Long term borrowings	32,803	53,243	53,243	53,243	53,243
Other payables	1,055	2,018	2,018	2,018	2,018
Other non-current assets	2,298	3,031	3,031	3,031	3,031
Total Liabilities	104,085	142,268	145,041	136,984	119,635
Net Assets	71,890	87,557	105,467	127,570	150,015
Shareholders Equity	71,617	87,244	102,756	122,267	142,339
Minority Interest	273	313	2,711	5,302	7,676
Total Equity	71,890	87,557	105,467	127,570	150,015
Key ratio					
Gross debt (HKDm)	42,624	58,789	58,789	58,789	58,789
Net debt (HKDm)	23,444	17,908	280	(43,654)	(86,143)
Net gearing (%)	33%	21%	0%	-36%	-61%
Contracted sales/ Total assets (x)	0.49	0.49	0.48	0.52	0.47

Source: Company, ABCI Securities estimates



China Overseas Land & Investment

Cashflow forecast

Dec-end (HKDm)	2011A	2012A	2013E	2014E	2015E
EBITDA	18,819	22,741	37,480	44,659	43,952
Change in Working Capital	(20,853)	(7,539)	3,371	25,796	24,016
Tax payment	(5,963)	(8,153)	(16,547)	(19,266)	(18,900)
Operating Cashflow	(7,998)	7,050	24,304	51,188	49,068
Purchase of PP&E	(143)	(117)	(117)	(117)	(117)
Addition of Investment Properties	(1,422)	(1,587)	(1,500)	(1,500)	(1,500)
Others	(3,888)	3,209	1,038	1,619	2,435
Investing Cashflow	(5,453)	1,506	(579)	2	818
Debt raised	9,450	16,048	10,000	10,000	10,000
Debt repaid	(8,694)	(11,003)	(10,000)	(10,000)	(10,000)
Interest expenses	(1,361)	(1,745)	(2,169)	(2,329)	(2,329)
Equity raised	-	-	-	-	-
Dividend to shareholders	(2,452)	(3,024)	(3,878)	(4,878)	(5,018)
Others	2,776	12,869	(50)	(50)	(50)
Financing Cashflow	(282)	13,146	(6,097)	(7,257)	(7,397)
Net cash inflow/ (outflow)	(13,733)	21,701	17,628	43,934	42,489
Cash- beginning	32,912	19,179	40,880	58,508	102,442
Cash- year-end	19,179	40,880	58,508	102,442	144,932

Source: Company, ABCI Securities estimates



Disclosures

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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 2007-2011

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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Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.

Tel: (852) 2868 2183