

Key Data

Average FY12E PE (x)	5.59
Average FY12E PB (x)	1.12

Source: Bloomberg, ABCI Securities

HSCIPC performance (%)

	Absolute	Relative*
1-mth	9.1	3.6
3-mth	11.8	4.3
6-mth	11.4	9.9

*Relative to Hang Seng Index

Source: Bloomberg

1 year relative price[^] performance



[^]HSCIPC/HSCI

Source: Bloomberg

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China Property Sector

Sep sales may be unexcited, dropping policy risk

Our channel chat indicated contracted sales for Sep are not encouraging. The monthly sales figures of listing developers due in the upcoming two weeks may fail to excite market. But a slow-moving inventory is expected to lower policy risk. Favor Sunac(1918;BUY;TP HK\$4.86), targeting upgraders, we expect it is the most likely one to outperform in sales.

Sep sales preview: Per our channel chat with developers such as Sunac(1918 HK), Evergrande(3333 HK), C C Land(1224 HK) and KWG(1813 HK), contracted sales in Sep, came in at 0-15% higher than Aug, this is not an encouraging performance in our view. For the sector we have expected sales in Sep to reach Rmb600-634bn, edging up 0-5% YoY but rebounding 15-20% MoM. We expect that the interest rate cut stimulus in Jun-Jul is fading in Aug-Sep. The contracted sales growth in traditional peak season (Sep-Oct) may be lower than expected. It is reported that banks are increasing mortgage rate to 0.9-1.0x PBOC benchmark rate from 0.7-0.8x. Favorable mortgage loan is traditionally one of the most crucial external factors that affect willingness of mass market users to buy.

Slow-moving inventory risk: As developers have prepared strong pipelines for the peak season, worse-than-expected sales may pile up their inventory again. We expect supply/demand ratio to drop to 1.03x for 2013. Should the sales in Oct continue to be discouraging, the ratio may jump to 1.23x toward 2013. Although this is lower than 1.44x in 2012, it is higher than 10-year avg.1.06x.

Dropping policy risk: Guangzhou government confirmed the rumor that they are limiting pre-sales volume of highly-priced properties. We view this as temporary policy. Local government believes that new home prices statistics in GZ are distorted by recent high transaction volume for highly-priced projects in the central district. We are of view that the short term policy risk for the sector is low given oversupply environment.

Top pick: In terms of specific stock, Sunac remains at our top picks. Targeting upgrade buyers, which with better purchasing power, the group is expected to continue to outperform in sales. Sales in Sep are estimated at Rmb3.0bn, +15% MoM and to reach Rmb4.0bn in Oct, +33% MoM.

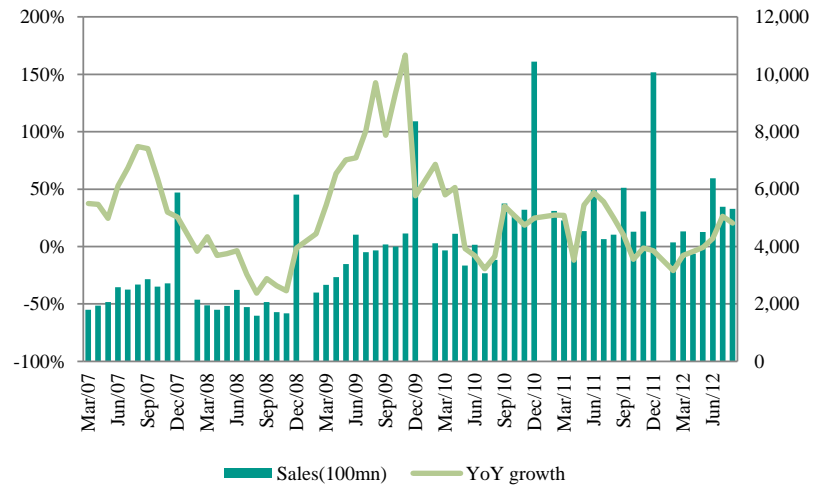
Valuation and sales comparison for China property developers

Company	Code	Price (HK\$)	Jan-Aug sales (Rmb100mn)	YTD Chg.	YTD /target	2012 P/E	2012 P/B
China Overseas	688	19.7	832.0	29%	83.2%	9.01	1.96
Evergrande	3333	3.1	241.1	0%	61.8%	3.81	1.16
Longfor Properties	960	12.0	257.9	-13%	60.0%	7.72	2.22
Country Garden	2007	3.0	183.8	3%	59.3%	6.31	1.51
Agile Property	3383	8.7	305.6	46%	87.3%	5.16	1.21
Shimao Property	813	13.3	198.3	7%	62.0%	7.03	1.38
R&F Properties	2777	8.9	151.0	39%	94.4%	4.83	1.09
Poly HK	119	4.2	75.3	-10%	62.7%	5.88	0.57
KWG	1813	4.3	94.0	13%	57.0%	4.35	0.82
Kaisa Group	1638	1.4	162.4	71%	54.1%	2.80	0.52
Sunac	1918	3.8	47.3	1%	65.7%	2.90	1.16
Fantasia	1777	0.8	832.0	29%	83.2%	2.90	0.63
C C Land	1224	1.7	241.1	0%	61.8%	5.99	0.32

Source: Company data, Bloomberg, ABCI Securities



Exhibit 1: China property sector monthly sales



Source: NBSC and ABCI Securities



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

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

Li Hong-ying Vivian, has financial interest in Evergrande Real Estate Group Limited as at 3 Oct 2012.

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