



Evergrande (3333 HK)

The most profitable developer in 1H17

- Evergrande's 1H17 core profit soared 250% YoY to RMB 27.3bn, ranking first in core profit among Chinese developers
- Evergrande aims to reduce net gearing to 70% by 2020 through a 5-10% annual reduction in land reserves, third tranche of strategic investment in Hengda Real Estates, and higher profitability
- Maintain **BUY** and raise TP to HK\$ 28.40 (from HK\$ 18.20) based on a 30% discount to 2017E NAV

A true market leader in scale, margin, and profitability. The no.1 player by 2016 presale (RMB 407bn, +102% YoY) and 1H17 attributable presale (RMB 229bn, +72% YoY), Evergrande was also the most profitable Chinese developer in 1H17. 1H17 core profit soared 250% YoY to RMB 27.3bn on rising revenue (+115% YoY) and significant gross margin (GM) improvement (+7.5ppt YoY to 35.8%). Given its mammoth size, Evergrande's GM at 35.8% was higher than other top developers such as Country Garden (2007 HK), Vanke (2202 HK) and COLI (688 HK), whose 1H17 GMs were 22.0%, 30.4% and 30.5%, respectively. Evergrande has significantly reduced its distribution for perpetual capital instrument (PCI) by fully redeeming its PCI by 1H17, hence core profit attributable to shareholders jumped 752% YoY to RMB 23bn, higher than that of COLI (1H17 core profit: HK\$16.8bn). We believe Evergrande's strategy of accumulating landbank at low cost has come to fruition. Its 276mn sqm of landbank has an average cost of RMB 1,658/sqm, equivalent to 17.5% of 1H17 presales ASP (RMB 9,455/sqm, +22% YoY), thus we expect its margin to be higher than that of its peers going forward.

Targeting to reduce net gearing to 70% by 2020. Reducing leverage is one of the Group's key objectives. Evergrande aims to reduce its net gearing ratio to 140% by June 2018, 100% by Jun 2019 and 70% by June 2020 and beyond. This goal will be achieved by: 1) a 5-10% annual reduction in land reserves until June 2020; 2) making the third tranche of strategic investment (RMB30-50bn) in Hengda Real Estates; 3) improving profitability further to increase equity base. Reduced gearing would reduce finance cost significantly and improve gross margin in the long run.

Maintain BUY and raise TP to HK\$ 28.40. Due to the better-than-expected GM in 1H17, we raise our 2017E/18E core profit forecasts by 94%/54% and revise up our 2017E NAV estimate to HK\$ 40.61/share (from HK\$ 25.99) and TP to HK\$ 28.40 (from HK\$ 18.20), still based on a 30% discount to NAV. Maintain **BUY**.

Risk factors: 1) The amount of charity and public donations by the Group may vary greatly from one year to another (FY16: RMB 1,608mn, +546% YoY); 2) Financial division may remain in loss.

Results and Valuation

FY ended Dec 31	2015A	2016A	2017E	2018E	2019E
Revenue (RMB mn)	133,130	211,444	381,114	452,119	490,804
Chg (% YoY)	19.5	58.8	80.2	18.6	8.6
Core net profit (RMB mn)	1,992	3,045	37,329	37,572	40,343
Chg (% YoY)	(42.6)	52.9	1,126.1	0.7	7.4
Core EPS (RMB)	0.14	0.21	2.75	2.77	2.98
Chg (% YoY)	(41.3)	52.9	1,203.0	0.7	7.4
BVPS (RMB)	3.5	3.1	5.2	6.5	8.0
Chg (% YoY)	2.1	(13.3)	68.0	26.9	22.7
Core PE (x)	136.6	89.3	6.9	6.8	6.3
P/B (x)	5.3	6.1	3.7	2.9	2.4
ROE (%)	1.6	1.9	53.4	42.4	37.1
ROA (%)	0.3	0.2	2.4	2.2	2.1
DPS(RMB)	0.38	-	-	1.39	1.49
Yield (%)	2.0	-	-	7.3	7.9
Net gearing (%)	93.5	119.8	111.2	105.7	96.8

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Sep 6, 2017

Rating: **BUY**

TP: **HK\$ 28.40**

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Share price (HK\$)	22.65
Est. share price return	25.4%
Est. dividend yield	0.0%
Est. total return	25.4%
Previous Rating & TP	BUY, HK\$18.20
Previous Report Date	July 13, 2017

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	26.55/4.73
Issued shares (mn)	13,694
Market cap (HK\$ mn)	299,365
3-mth avg daily turnover(HK\$ mn)	987.36
Major shareholder(s) (%)	
HUI Ka Yan	70.1%

Source(s): Bloomberg, ABCI Securities

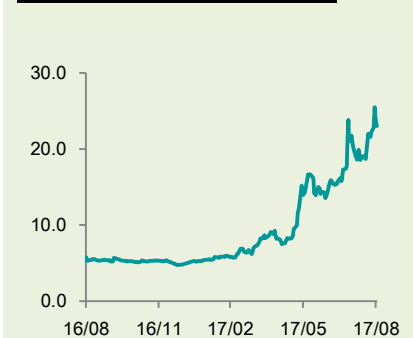
Share Performance

	Absolute	Relative*
1-mth	17.4	16.7
3-mth	36.9	28.3
6-mth	297.2	237.9

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year share performance(HK\$)

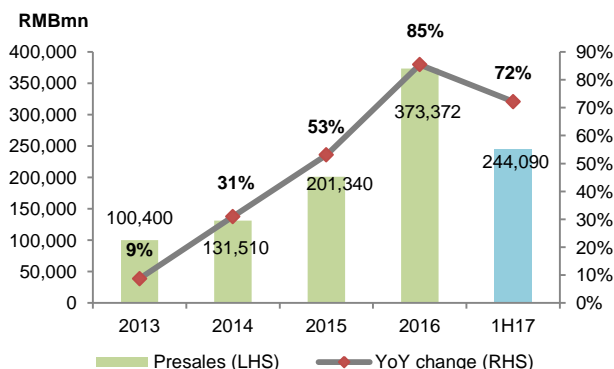


Source(s): Bloomberg, ABCI Securities

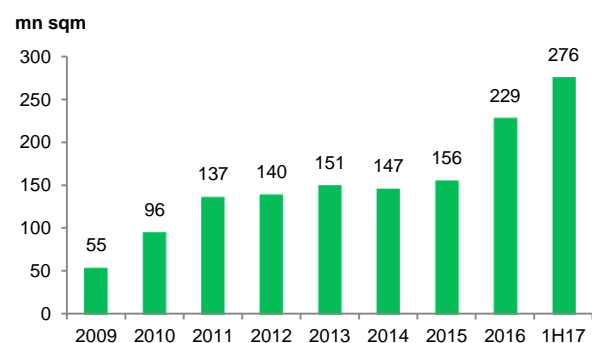
Exhibit 1: Evergrande's 1H17 results

P&L	1H17	1H16	YoY Chg	Operating statistics			YoY Chg
	RMBmn	RMBmn	(%)	1H17	1H16		
Turnover	187,981	87,498	115	Presales GFA (mn sqm)	24.8	16.6	49
Cost of Sales & direct operating costs	(120,677)	(62,728)	92	Presales ASP (RMB/sqm)	9,862	8,538	16
Gross Profit	67,304	24,770	172	Presales Sales (RMBmn)	244,085	141,780	72
Gross Margin (%)	35.8	28.3	+7.5ppt	GFA Delivered (mn sqm)	19.4	10.8	80
Selling and distribution costs	(7,824)	(8,029)	(3)	Booked ASP (RMB/sqm)	9,455	7,754	22
Administrative expense	(7,481)	(5,284)	42	Property sales booked (RMBmn)	183,364	83,740	119
EBIT	51,999	11,457	354	Segment EBIT			
EBIT Margin (%)	27.7	13.1	+14.6ppt	Property development	54,476	13,977	290
Other income, gains and losses	2,520	1,875	34	Property investment	370	212	75
Fair value gain of investment properties	6,001	3,283	83	Property management	131	99	32
Gain on financial assets at fair value	(266)	(425)	na	Others business	(126)	(1,027)	(88)
Exchange gain/(losses)	4	(1,572)	na	Total	54,851	13,261	314
Disposal loss on stakes in Vanke	(7,023)	0	na	Balance sheet	Jun 17	Dec 16	HoH %
Share of profit from JCE/ Associates	263	(71)	0		RMBmn	RMBmn	
Finance cost	(5,155)	(210)	2,355	Gross debt	673,494	535,070	26
Profit before tax	48,343	14,337	237	Cash	269,934	304,329	(11)
Tax	(25,216)	(7,210)	250	Net debt	403,560	230,741	75
- LAT	(10,967)	(3,159)	247	Perpetual capital instruments	0	112,944	(100)
- Enterprise tax	(13,876)	(4,157)	24	Total Equity (excl. perpetual)	168,171	79,588	111
- Deferred tax	(373)	106	(452)	Net gearing- PCI as equity (%)	240%	120%	+120ppt
Profit after tax	23,127	7,127	224	Net gearing- PCI as debt (%)	240%	432%	-192ppt
MI and perpetual capital instrument	(4,293)	(5,110)	(16)	Major P&L items	1H17	1H16	YoY Chg
Net profit	18,834	2,017	834	Gross finance cost	25,399	13,549	87
Core net profit	27,300	7,810	250	Donation	1,434	1,124	28
Core net profit- post MI and perpetual	23,007	2,700	752				

Source(s): Company, ABCI Securities

Exhibit 2: Evergrande's presales (2013-1H17)


Source(s): Company, ABCI Securities

Exhibit 3: Evergrande's landbank


Source(s): Company, ABCI Securities



Exhibit 4: Evergrande's 2017E NAV

	Attr. GFA (mn sqm)	Net assets value (RMB mn)	% of total	Valuation Methodology	Implied value (RMB/sqm)
Hengda Real Estates (73.88% stake) - property developments	183	535,544	84%	DCF at WACC of 6.8%	1,519
Henda Real Estates (73.88% stake)- Investment properties		97,607	15%	1x PB	
Football business		1,200	0%	50% stake sold to Jack Ma at RMB1.2bn	
Financial investment		5,626	1%	Market value of Shengjing Bank	
Total 2017E GAV		639,977	100%		
2017E Net debt		(181,025)	-28%		
Perpetual capital instrument		-	0%		
Total 2017E NAV		458,952	72%		
No. of share outstanding (diluted)		13,561			
NAV per share (RMB)		33.84			
Ex rate		1.20			
NAV per share (HKD)		40.61			
Target discount (%)		30%			
Target Price (HKD)		28.40			
WACC	6.8%				
Cost of Debt	8.2%				
Cost of Equity	10.0%				
Debt/ (Debt + Equity)	70%				

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2014A-2019E)

FY Ended Dec 31 (RMB mn)	2014A	2015A	2016A	2017E	2018E	2019E
Revenue	111,398	133,130	211,444	381,114	452,119	490,804
Cost of sales	(79,615)	(95,717)	(152,022)	(251,297)	(294,441)	(318,506)
Gross Profit	31,784	37,413	59,422	129,817	157,678	172,298
SG&A expenses	(14,588)	(20,541)	(28,244)	(36,850)	(40,768)	(48,988)
EBIT	17,195	16,872	31,178	92,967	116,910	123,310
Finance cost	(1,015)	(807)	(6,392)	(7,348)	(6,025)	(4,799)
Share of profit of associates	(104)	(392)	(203)	1,364	1,515	1,515
Other income/ (expenses)	1,431	2,262	4,937	5,527	5,360	4,799
Fair value gain of investment properties	9,393	12,859	356	0	0	0
Disposal/one-off items	4,292	651	6,986	(7,073)	0	0
Profit before tax	31,191	31,445	36,862	85,438	117,760	124,825
Tax	(13,175)	(14,105)	(19,245)	(48,569)	(63,701)	(67,736)
Profit after tax	18,016	17,340	17,617	36,868	54,059	57,089
Minority interest	(1,073)	(1,797)	(2,745)	(1,063)	(16,487)	(16,745)
Perpetual coupon distribution	(4,339)	(5,083)	(9,781)	(3,781)	0	0
Reported net profit	12,604	10,460	5,091	32,025	37,572	40,343
Less: exceptional items	(9,134)	(8,469)	(2,047)	5,305	0	0
Underlying net profit	3,470	1,992	3,045	37,329	37,572	40,343
Per share						
Underlying EPS (RMB)	0.24	0.14	0.21	2.75	2.77	2.98
DPS (RMB)	0.43	0.38	-	-	1.39	1.49
Payout ratio (%)	183%	275%	0%	0%	50%	50%
BVPS (RMB)	3.47	3.54	3.07	5.16	6.54	8.03
Growth %						
Revenue	18.9%	19.5%	58.8%	80.2%	18.6%	8.6%
Gross Profit	15.0%	17.7%	58.8%	118.5%	21.5%	9.3%
EBIT	-5.5%	-1.9%	84.8%	198.2%	25.8%	5.5%
Underlying net profit	-54.9%	-42.6%	52.9%	1126.1%	0.7%	7.4%
Margin %						
Gross margin	28.5%	28.1%	28.1%	34.1%	34.9%	35.1%
Gross margin (post-LAT)	25.6%	26.1%	25.0%	27.4%	28.1%	28.6%
EBIT margin	15.4%	12.7%	14.7%	24.4%	25.9%	25.1%
Core net margin	7.1%	5.7%	5.8%	10.7%	11.6%	11.3%
Key assumptions						
Contracted Sales (RMB mn)	131,510	201,340	406,684	554,078	571,210	693,888
GFA sold (mn sqm)	18.20	25.51	44.68	60.98	61.88	75.90
ASP (RMB/sqm)	7,228	7,892	9,102	9,087	9,231	9,142
Booked Sales (RMB mn)	107,450	126,449	203,890	371,884	440,753	476,706
GFA delivered (mn sqm)	16.84	17.24	25.57	41.84	48.90	53.08
Booked ASP (RMB/sqm)	6,382	7,334	7,975	8,888	9,013	8,981

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2014A-2019E)

As of Dec 31 (RMB mn)	2014A	2015A	2016A	2017E	2018E	2019E
Current assets	383,650	612,344	1,113,635	1,337,913	1,477,975	1,706,445
Cash	29,847	103,090	198,420	223,136	169,724	126,857
Restricted cash	29,651	60,932	105,909	105,909	105,909	105,909
Trade & other receivables	16,027	21,708	76,434	76,434	76,434	76,434
Property under development	246,476	383,728	658,627	858,189	1,051,663	1,323,001
Other current assets	61,649	42,886	74,245	74,245	74,245	74,245
Non-current assets	90,812	144,691	237,233	200,440	200,034	199,588
Property, plant & equipment	15,504	16,720	20,833	19,199	17,565	15,931
Investment properties	61,857	97,146	132,045	132,115	132,185	132,255
Investment in Associate and JCE	1,062	8,580	24,374	25,418	26,576	27,694
Other non-current assets	12,389	22,245	59,981	23,708	23,708	23,708
Total Assets	474,462	757,035	1,350,868	1,538,353	1,678,009	1,906,033
Current Liabilities	268,237	456,681	733,394	950,566	1,054,999	1,246,156
Short-term borrowings	79,663	158,744	202,906	177,906	152,906	127,906
Trade & other payables	123,673	191,309	299,905	298,880	297,856	296,831
Pre-sales deposits	47,348	83,061	194,961	438,158	568,615	785,797
Other current liabilities	17,553	23,567	35,622	35,622	35,622	35,622
Non-current liabilities	93,847	158,212	424,942	424,942	424,942	424,942
Long-term borrowings	76,401	138,162	332,164	332,164	332,164	332,164
Other payables	0	0	0	0	0	0
Other non-current liabilities	17,446	20,050	92,778	92,778	92,778	92,778
Total Liabilities	362,084	614,893	1,158,336	1,375,508	1,479,941	1,671,098
Net Assets	112,378	142,142	192,532	162,845	198,068	234,935
Shareholders' Equity	51,120	60,613	53,847	69,916	88,702	108,874
Perpetual capital instrument	52,852	66,130	103,337	0	0	0
Minority Interest	8,406	15,399	35,348	92,929	109,366	126,061
Total Equity	112,378	142,142	192,532	162,845	198,068	234,935
Key ratio						
Gross debt (RMB mn)	156,065	296,906	535,070	510,070	485,070	460,070
Net debt (RMB mn)	96,566	132,884	230,741	181,025	209,437	227,304
Net gearing (%)	86%	93%	120%	111%	106%	97%
Contracted sales/ Total assets (x)	0.28	0.27	0.30	0.36	0.34	0.36

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2014A-2019E)

FY ended Dec 31 (RMB mn)	2014A	2015A	2016A	2017E	2018E	2019E
EBITDA	18,332	18,326	32,812	94,601	118,544	124,944
Change in Working Capital	(52,024)	(25,704)	(169,385)	72,888	(39,216)	(35,406)
Tax payment	(13,175)	(14,105)	(19,245)	(48,569)	(63,701)	(67,736)
Operating cash flow	(46,868)	(21,483)	(155,818)	118,919	15,627	21,802
Purchase of PP&E	(1,532)	(10,246)	(70)	(70)	(70)	(70)
Others	(1,869)	12,905	(18,242)	35,047	5,717	5,196
Investing cash flow	(3,402)	2,659	(18,312)	34,977	5,647	5,126
Debt raised	52,794	115,470	317,887	5,000	5,000	5,000
Debt repaid	(5,000)	(641)	(5,000)	(30,000)	(30,000)	(30,000)
Interest expenses	(14,649)	(21,102)	(32,731)	(37,625)	(30,849)	(24,574)
Equity raised	0	(658)	0	(6,349)	0	0
Dividend to shareholders	(6,339)	(5,476)	0	0	(18,786)	(20,172)
Perpetual securities raised/(repaid)	13,241	(5,083)	(10,646)	(117,157)	0	0
Others	(50)	9,557	(50)	56,950	(50)	(50)
Financing cash flow	39,997	92,067	269,460	(129,181)	(74,686)	(69,795)
Net cash inflow/ (outflow)	(10,272)	73,243	95,330	24,716	(53,412)	(42,868)
Cash- beginning	40,118	29,847	103,090	198,420	223,136	169,724
Cash- year-end	29,847	103,090	198,420	223,136	169,724	126,857

Source(s): Company, ABCI Securities estimates

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return $- 6\% \leq$ Stock return $<$ Market return rate
Sell	Stock return $<$ Market return $- 6\%$

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate

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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