



November 20, 2015
Company Report
Rating: BUY
TP: HK\$ 8.30

Share price (HK\$) 6.39
Est. share price return 29.9%
Est. dividend yield 5.3%
Est. total return 35.2%

Previous Rating & TP HOLD; HK\$ 6.90
Previous Report Date May 8, 2015

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Key Data

52Wk H/L(HK\$)	8.40/2.92
Issued shares (mn)	14,589
Market cap (HK\$ mn)	92,253
3-mth avg daily turnover (HK\$ mn)	490.1
Major shareholder(s) (%):	
HUI Ka Yan	70.10
Source(s): Company, Bloomberg, ABCI Securities	

FY14 Revenue breakdown (%)

Property development	96.5
Property investment	0.1
Property management	1.1
Others	2.3
Source(s): Company, ABCI Securities	

Share performance (%)

	Absolute	Relative*
1-mth	23.6	28.3
3-mth	34.0	37.3
6-mth	8.3	34.4

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Evergrande (3333 HK)

Major beneficiary of rate cut; Upgrade to BUY

- Rate cut and PRC corporate bond issuance should lower finance cost
- Significant exposure in lower tier cities will benefit from the lowered down-payment ratio decreasing from 30% to 25%
- Acquisition of Mass Mutual Tower in Hong Kong should not generate significant financial burden
- Raise our TP to HK\$ 8.30 (from HK\$6.90) based on a 40% discount to NAV (previous: 20%). Upgrade to **BUY** from Hold

Beneficiary of rate cut and increased PRC corporate bond issuance. Over 80% of Evergrande's debts are raised onshore and denominated in RMB. We expect the six rate cuts of 165bps since Nov 2014 and further reductions in 4Q15 and 2016 will reduce average interest cost. In June 2015, the Group successfully raised RMB 20bn in public PRC corporate bond; among which, RMB5 bn has a 5-year term with an interest rate of 5.38%; RMB6.8 bn has a 4-year at 5.30%; RMB 8.2 bn has a 7-year term at 6.98%. Zhongchengxin Securities Rating (中誠信證評), Dagong Global Rating (大公國際評級) and Lianhe Rating (聯合評級), the three authoritative rating agencies in China, all assigned an AAA credit rating (the highest rating) to the Group's bond. In Oct 2015, Evergrande issued another RMB 20bn of non-public corporate bond with a 5-year term and a 7.38-7.88% coupon rate. As investors in China are much more positive on the Group than those in overseas, the interest cost is much lower compared to the 5-year USD bond issued in Feb 2015 that had a 12.00% coupon and a total value of US\$1bn. In the future, we expect Evergrande to issue more public and non-public corporate bonds in China to replace the high-cost USD bonds and perpetual securities. Driven by rate cuts and change in debt instruments mix, we forecast gross finance cost to drop from RMB 14.6bn in FY14, to RMB14.4 bn in FY15E and RMB12.8 bn in FY16E, as average interest cost dropped from 11.1% in FY14 to 9.2% in FY15E and 8.2% in FY16E.

Reduced down-payment ratio on lower tier cities should boost presales. Over 90% of Evergrande's presales are contributed by lower tier cities without Home Purchase Restriction (HPR). After the down-payment ratio was lowered for cities without HPR announced in Sep, buying sentiment in lower tier cities improved. In 10M15, Evergrande's presales grew 44% YoY, outperforming the sector average of 14%. Given such strong performance, Evergrande lifted its FY15 presales target to RMB 180bn from RMB 150bn.

Upgrade to BUY from Hold with revised TP at HK\$ 8.30. We raise our core EPS forecasts by 26% in 2015F and 61% in 2016F, as we factor in (a) 1.15bn share repurchase (7.4% of total share) at HK\$5.47bn; (b) reduced perpetual coupon payment by replacing perpetual instrument by domestic corporate bond. We also raise our NAV estimate from HK\$8.61 to HK\$ 13.87 to reflect lower cost of debt and lower finance cost. We raised our TP to HK\$ 8.30 (from HK\$6.90) as we lift the NAV discount from 20% to 40% to align with the higher discount in the sector. Upgrade Evergrande to **BUY** from Hold.

Results and Valuation

FY ended Dec 31	2013A	2014A	2015E	2016E	2017E
Revenue (RMB mn)	93,672	111,398	173,527	203,981	203,848
Chg (% YoY)	43.5	18.9	55.8	17.5	(0.1)
Underlying Net Income (RMB mn) ¹	7,703	2,340	8,067	13,644	18,803
Chg (% YoY)	24.2	(69.6)	244.7	69.1	37.8
Underlying EPS (RMB)	0.48	0.16	0.56	0.95	1.30
Chg (% YoY)	16.1	(66.9)	252.6	69.1	37.8
BVPS (RMB)	4.6	7.1	7.4	7.2	7.2
Chg (% YoY)	79.7	53.7	5.6	(3.0)	(0.6)
Underlying PE (x)	11.0	33.1	9.4	5.6	4.0
P/B (x)	1.1	0.7	0.7	0.7	0.7
ROE (%)	10.5	2.3	7.5	13.1	18.2
ROA (%)	2.2	0.5	1.7	2.8	3.8
DPS(HK\$)	0.43	0.43	0.28	0.47	0.65
Yield (%)	8.2	8.2	5.3	9.0	12.4
Net gearing ² (%)	69.5	85.9	57.8	36.9	4.1

¹ Underlying net income = Net profit - revaluation gain of investment properties and one-off items

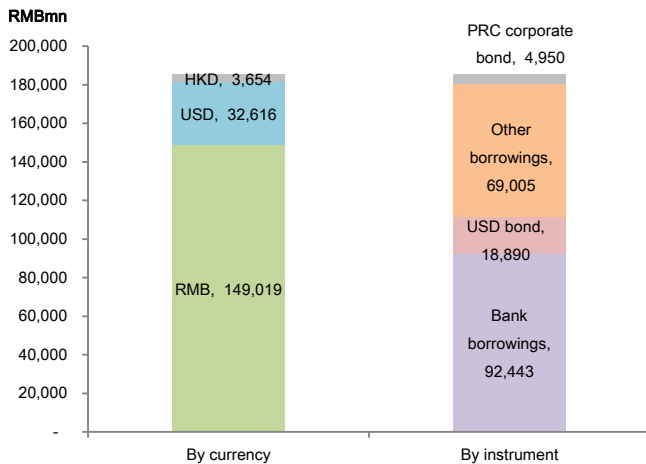
² Net gearing = Net debt / Total equity

Source(s): Bloomberg, ABCI Securities estimates

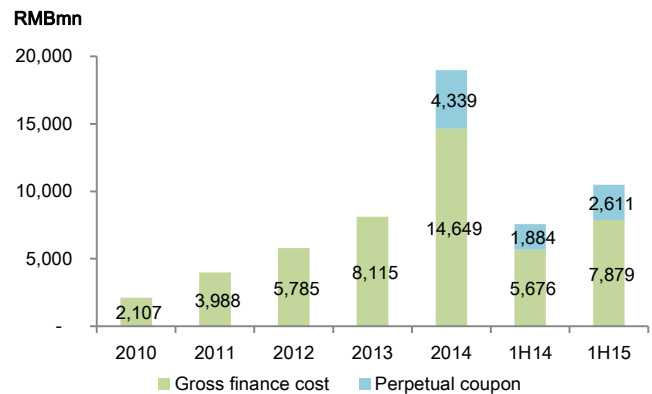
Acquisition of HK office building at HK\$12.5bn from Chinese Estates.

The Mass Mutual Tower in Wanchai to be acquired has a total GFA of 345,299sq ft. (32,091sqm) and generates HK\$ 171mn in revenue and HK\$ 105mn in core profit in 2014. This translates to a valuation of HK\$ 36,200/sqft or gross rental yield of 1.36%. While the valuation leans toward the high side in our view, the payment terms are rather lenient, requiring the Group to pay HK\$ 5bn upfront while the remaining consideration will be paid in six annual installments of HK\$1.2bn. Although the market in general deems Evergrande's heavy investment in non-core business as undesirable, the Group's share price surged 33% over the past month, as its core property sales business registered impressive performance YTD.

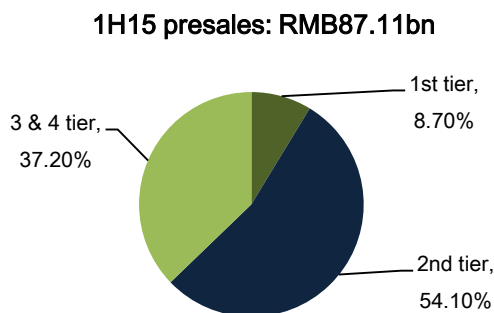
Downside risks: 1) Gearing to surge on frequent issuance of corporate bonds; 2) Loss in non-property consumer business may widen on the weakening economy.

Exhibit 1: Debt structure (Jun 2015)


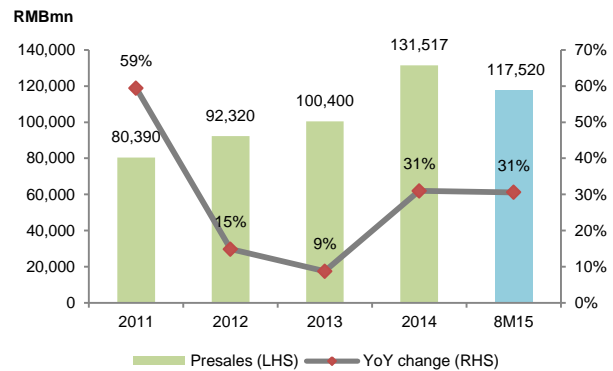
Source(s): Company, ABCI Securities

Exhibit 2: Gross finance cost and perpetual coupon payments


Source(s): Company, ABCI Securities

Exhibit 3: Presales by city tier (1H15)


Source(s): Company, ABCI Securities

Exhibit 4: Evergrande's presales


Source(s): Company, ABCI Securities



Exhibit 5: Evergrande's 1H15 results

<u>P&L</u>	1H15	1H14	YoY Chg	<u>Operating statistics</u>	1H15	1H14	YoY Chg
	RMB mn	RMB mn	(%)				
Turnover	77,743	63,337	23	Presales GFA (mn sqm)	11.4	9.8	16
Cost of Sales & direct operating costs	(55,673)	(45,242)	23	Presales ASP (RMB/sqm)	7,656	7,076	8
Gross Profit	22,070	18,095	22	Presales Sales (RMB mn)	87,110	69,320	26
Gross Margin (%)	28.4	28.6	(0.2)	GFA Delivered (mn sqm)	10.8	9.8	10
Selling and distribution costs	(5,300)	(3,539)	50	Booked ASP (RMB/sqm)	7,004	6,329	11
Administrative expense	(3,516)	(2,698)	30	Property sales booked (RMB/sqm)	75,370	62,029	22
EBIT	13,254	11,858	12	Segment EBIT			
EBIT Margin (%)	17.0	18.7	(1.7)	Property development	15,829	14,521	9
Other income, gains and losses	1,217	514	137	Property investment	69	45	53
Fair value gain of investment properties	5,534	4,408	26	Property management	(132)	(235)	(44)
Gain on financial assets at fair value	2,481	0	na	Others business	(1,488)	(2,028)	(27)
Exchange gain/(losses)	27	(215)	na	Total	14,278	12,303	16
Share of profit from JCE/ Associates	39	0	0	Balance sheet	Jun 15	Dec 14	HoH %
Finance cost	(634)	(10)	6,265		RMB mn	RMB mn	
Profit before tax	21,918	16,555	32	Gross debt	185,288	156,065	19
Tax	(8,632)	(7,060)	22	Cash	81,569	59,498	37
- LAT	(3,002)	(2,527)	19	Net debt	103,720	96,566	7
- Enterprise tax	(3,898)	(4,102)	24	Net gearing- PCI as equity (%)	86	86	(0)
- Deferred tax	(1,732)	(431)	302	Net gearing- PCI as debt (%)	228	251	(23)
Profit after tax	13,286	9,495	40				
Minority Interest and perpetual capital instrument	(3,860)	(2,401)	61				
Net profit	9,426	7,094	33				
Core net profit	10,160	6,490	57				

Source(s): Company, ABCI Securities

Exhibit 6: Evergrande's FY16E NAV

	Attr. GFA (mn sqm)	Net assets value (RMB mn)	% of total	Valuation Methodology	Implied value per sqm (RMB)
Property development					
Guangdong	14.8	14,108	6%		950
Liaoning	13.2	11,200	5%		847
Jiangsu	12.9	11,088	4%		858
Hebei	11.7	10,884	4%	DCF at WACC of 11.0%	927
Shangdong	10.8	10,071	4%		934
Anhui	10.0	8,152	3%		818
Henan	7.7	6,839	3%		889
Hunan	5.4	4,713	2%		880
Others	64.2	97,711	39%		1,522
Subtotal	150.8	174,768	70%		1,159
Investment Properties		72,103	29%		1x Book value
Football business		1,200	0%		50% stake sold to Jack Ma at RMB1.2bn
Consumer and O2O business		-	0%		
Total 2016E GAV		248,070	100%		
2016E Net debt		(41,341)	-17%		
Perpetual capital instrument		(42,852)	-17%		
Total 2016E NAV		163,877	66%		
No. of share outstanding (diluted)		14,411			
NAV per share (RMB)		11.37			
Ex rate		1.22			
NAV per share (HKD)		13.87			
Target discount (%)		40%			
Target Price (HKD)		8.30			
WACC	9.8%				
Cost of Debt	8.2%				
Cost of Equity	15.0%				
Debt/ (Debt + Equity)	59%				

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2013A-2017E)

FY Ended Dec 31 (RMB mn)	2013A	2014A	2015E	2016E	2017E
Revenue	93,672	111,398	173,527	203,981	203,848
Cost of sales	(66,023)	(79,615)	(122,452)	(139,600)	(131,446)
Gross Profit	27,649	31,784	51,075	64,380	72,403
SG&A expenses	(9,462)	(14,588)	(20,685)	(24,362)	(23,813)
EBIT	18,187	17,195	30,391	40,018	48,589
Finance cost	(34)	(1,015)	(995)	(887)	(779)
Share of profit of associates	0	(104)	0	0	0
Other income/ (expenses)	699	1,431	1,065	1,185	1,280
Fair value gain of investment properties	0	0	0	0	0
Disposal/one-off items	6,545	13,685	0	0	0
Profit before tax	25,396	31,191	30,460	40,316	49,091
Tax	(11,687)	(13,175)	(15,728)	(20,875)	(25,576)
Profit after tax	13,709	18,016	14,732	19,442	23,515
Minority interest	(1,097)	(5,412)	(6,665)	(5,798)	(4,712)
Reported net profit	12,612	12,604	8,067	13,644	18,803
<i>Less: exceptional items</i>	<i>(4,908)</i>	<i>(10,264)</i>	<i>0</i>	<i>0</i>	<i>(0)</i>
Underlying net profit	7,703	2,340	8,067	13,644	18,803
Per share					
Underlying EPS (RMB)	0.48	0.16	0.56	0.95	1.30
DPS (RMB)	0.43	0.43	0.28	0.47	0.65
Payout ratio (%)	90%	271%	50%	50%	50%
BVPS (RMB)	4.59	7.05	7.45	7.23	7.19
Growth %					
Revenue	43.5%	18.9%	55.8%	17.5%	-0.1%
Gross Profit	51.8%	15.0%	60.7%	26.0%	12.5%
EBIT	59.1%	-5.5%	76.7%	31.7%	21.4%
Underlying net profit	24.2%	-69.6%	244.7%	69.1%	37.8%
Margin %					
Gross margin	29.5%	28.5%	29.4%	31.6%	35.5%
Gross margin (post-LAT)	24.7%	25.6%	25.6%	27.2%	30.2%
EBIT margin	19.4%	15.4%	17.5%	19.6%	23.8%
Core net margin	9.4%	7.1%	8.5%	9.5%	11.5%
Key assumptions					
Contracted Sales (RMB mn)	100,400	131,517	175,252	204,934	196,947
GFA sold (mn sqm)	14.89	18.20	24.31	26.95	23.65
ASP (RMB/sqm)	6,741	7,227	7,209	7,604	8,327
Booked Sales (RMB mn)	92,235	107,450	166,388	195,456	193,566
GFA delivered (mn sqm)	14.96	18.10	23.23	25.96	23.72
Booked ASP (RMB/sqm)	6,166	5,935	7,164	7,529	8,162

Source: Company, ABCI Securities estimates



Consolidated balance sheet (2013A-2017E)

As of Dec 31 (RMB mn)	2013A	2014A	2015E	2016E	2017E
Current assets	289,378	383,650	388,337	391,636	395,323
Cash	40,118	29,847	59,715	85,072	121,812
Restricted cash	13,535	29,651	29,651	29,651	29,651
Trade & other receivables	9,512	16,027	16,027	16,027	16,027
Property under development	184,833	246,476	232,244	210,186	177,133
Other current assets	41,381	61,649	50,699	50,699	50,699
Non-current assets	58,770	90,812	99,808	98,503	97,060
Property, plant & equipment	11,378	15,504	14,254	12,879	11,367
Investment properties	36,039	61,857	72,103	72,173	72,243
Investment in Associate and JCE	0	1,062	1,062	1,062	1,062
Other non-current assets	11,353	12,389	12,389	12,389	12,389
Total Assets	348,148	474,462	488,145	490,139	492,383
Current Liabilities	188,198	268,237	278,875	284,360	287,515
Short term borrowings	35,796	79,663	79,663	79,663	79,663
Trade & other payables	99,895	123,673	129,820	128,796	127,771
Pre-sales deposits	39,000	47,348	51,838	58,348	62,528
Other current assets	13,506	17,553	17,553	17,553	17,553
Non-current liabilities	80,608	93,847	93,847	93,847	93,847
Long term borrowings	73,021	76,401	76,401	76,401	76,401
Other payables	0	0	0	0	0
Other non-current assets	7,587	17,446	17,446	17,446	17,446
Total Liabilities	268,806	362,084	372,722	378,207	381,362
Net Assets	79,343	112,378	115,423	111,932	111,021
Shareholders' Equity	73,614	103,972	107,348	104,170	103,571
Minority Interest	5,729	8,406	8,075	7,762	7,449
Total Equity	79,343	112,378	115,423	111,932	111,021
Key ratio					
Gross debt (RMB mn)	108,817	156,065	156,065	156,065	156,065
Net debt (RMB mn)	55,164	96,566	66,698	41,341	4,601
Net gearing (%)	70%	86%	58%	37%	4%
Contracted sales/ Total assets (x)	0.29	0.28	0.36	0.42	0.40

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2012A-2016E)

FY ended Dec 31 (RMB mn)	2013A	2014A	2015E	2016E	2017E
EBITDA	19,214	18,332	31,641	41,393	50,102
Change in Working Capital	(44,409)	(52,024)	38,232	39,453	46,666
Tax payment	(5,850)	(13,178)	(15,728)	(20,875)	(25,576)
Operating Cash flow	(31,045)	(46,871)	54,144	59,972	71,193
Addition of PP&E and IP	(11,782)	(1,532)	(10,246)	(70)	(70)
Others	(1,353)	(1,869)	12,015	1,185	1,280
Investing Cash flow	(13,134)	(3,402)	1,769	1,115	1,210
Debt raised	74,368	52,797	5,000	5,000	5,000
Debt repaid	(25,463)	(5,000)	(5,000)	(5,000)	(5,000)
Interest expenses	(7,827)	(14,649)	(14,358)	(12,797)	(11,237)
Equity raised	3,526	0	(658)	0	0
Dividend to shareholders	(2,292)	(6,339)	(4,033)	(6,822)	(9,402)
Perpetual securities raised	24,367	13,241	(6,946)	(16,060)	(14,975)
Others	(174)	(50)	(50)	(50)	(50)
Financing Cash flow	66,506	40,001	(26,045)	(35,730)	(35,663)
Net cash inflow/ (outflow)	22,327	(10,272)	29,868	25,357	36,740
Cash- beginning	17,789	40,118	29,847	59,715	85,072
Cash- Year end	40,116	29,847	59,715	85,072	121,812

Source(s): Company, ABCI Securities estimates



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Definition of equity rating

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

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

Market return: 5-year average market return rate from 2009-2013

Time horizon of share price target: 12-month

Definition of share price risk

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

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

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

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