

17 September 2012

Equity Focus

Key Data

Average FY12E PE (x)	5.40
Average FY12E PB (x)	1.08

Source: Bloomberg, ABCI Securities

HSCIPC performance (%)

	Absolute	Relative*
1-mth	(0.5)	1.1
3-mth	5.3	1.3
6-mth	(3.7)	3.5

*Relative to Hang Seng Index

Source: Bloomberg

1 year relative price[^] performance



[^]HSCIPC/HSCI

Source: Bloomberg

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China Property Sector

Investment activity pick up

Business confidence of property developers is recovering with housing FAI growth rebounding and large developers are keen to replenish land. Valuation of the sector will be supported on improving fundamentals.

Investment rebound: Per our channel chat, with ~6-12 months' inventory destocking and effort in tailoring products for end users, most of the property developers are regaining confidence on outlook and keen on land acquisition again. That is, investment activities are rebounding. YTD housing FAI grew at 15.6% YoY to Rmb4, 369bn in Aug, 0.2ppt higher than the growth rate in Jul. Yes, it is still far below ~30% growth that China property sector has become accustomed to, this is the first rebound since Nov 2010.

Volume growth continue to be major growth driver: The rebound of housing FAI suggests business confidence of property developers is recovering on one hand and the developers are able to secure sufficient funding source to kick start or continue their projects on the other hand. As sales volume is recovering, the hidden value of developers' assets is unlocking. Discounts of their share prices against NAVs should reduce accordingly..

Near term policy risk appears low: After the austerity measures to curb property speculation has been implemented for more than a year, the transactions in residential market are mainly dominated by generic end users. Policy risk remains but we believe the risk now is much lower than a year ago.

Sector continue outperform on improving fundamentals: HSCIPC/HSCI (Hang Seng Property and Construction Index/ Hang Seng Composite Index), which we use to track the relative performance of the China property sector, approached to historical high of 1.0. On improving fundamentals, the sector outperformed the overall market by 3.5% since Mar. The sector is now trading at 1.08x PB, against 5-yr avg 2.19x.

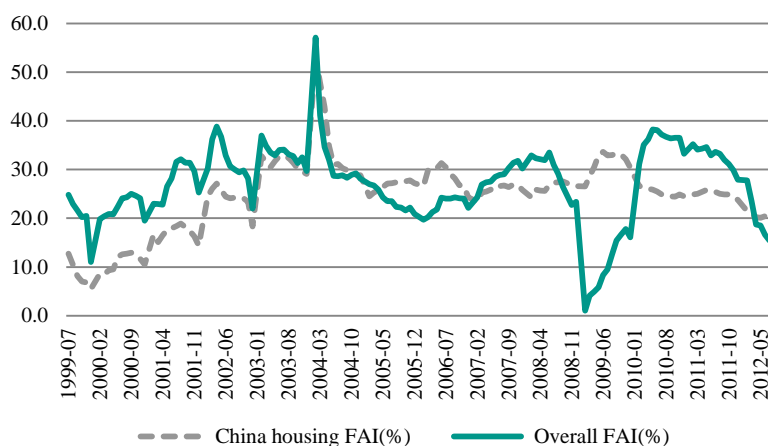
Among our coverage, Sunac(1918;BUY;TP HK\$4.86) is our top pick due to its impressive sales performance of its high end properties. Evergrande (3333) is another pick, its volume growth strategy is one of best investment merits among peers.

Summary on selected companies in the sector

Company		2012 P/E	Forward P/B	5-yr Avg PB
China Overseas	688	8.39	1.83	3.48
Evergrande	3333	3.63	1.11	2.57
Longfor	960	7.31	2.18	2.86
Country Garden	2007	5.82	1.38	3.15
Agile Property	3383	5.06	1.18	2.65
Shimao Property	813	6.65	1.34	2.00
R&F Properties	2777	4.95	1.12	3.70
Poly HK	119	5.87	0.56	1.48
KWG	1813	4.28	0.79	3.16
Kaisa Group	1638	2.50	0.52	1.15
Sunac	1918	2.90	1.17	0.96

Source: Company, Bloomberg, ABCI Securities

Exhibit 1: China FAI in real estate sector and overall FAI growth rate (accumulative figures)



Source: NBSC and ABCI Securities

Exhibit 2: Valuation comparison for China property developers

Company	Code	MV (HK\$mn)	1mth Chg.	YTD Chg.	Forward P/B	5-yr Avg PB
China Overseas	688	147,759	3.0%	51.9%	1.83	3.48
China Resources	1109	86,943	0.1%	41.0%	1.42	2.15
Evergrande	3333	48,203	-15.7%	-0.3%	1.11	2.57
Longfor	960	60,250	-5.5%	46.2%	2.18	2.86
Country Garden	2007	49,949	-8.4%	5.3%	1.38	3.15
Agile Property	3383	29,389	-10.2%	32.2%	1.18	2.65
Shimao Property	813	40,907	3.7%	102.7%	1.34	2.00
R&F Properties	2777	30,129	-9.4%	58.3%	1.12	3.70
Poly HK	119	15,011	-4.6%	32.6%	0.56	1.48
KWG	1813	12,614	-3.8%	72.9%	0.79	3.16
Kaisa Group	1638	6,966	-1.4%	8.2%	0.52	1.15
Sunac	1918	9,827	5.5%	141.6%	1.17	0.96
Fantasia	1777	3,957	-15.3%	17.6%	0.66	1.26
Beijing Capital	2868	4,901	-3.6%	49.7%	0.67	1.24
C C Land	1224	4,322	-2.3%	24.7%	0.31	1.08
Median					1.12	2.15
Average					1.08	2.19
+1.0SD					1.60	3.15
-1.0SD					0.57	1.24

Source: Bloomberg; ABCI Securities

Disclosures

I, Li Hongying, Vivian, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Definition of equity rating

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

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

Time horizon of share price target: 12-month

Definition of share price risk

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

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

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

Li Hong-ying Vivian, has financial interest in Evergrande Real Estate Group Limited as at 14 Sep 2012.

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