May 16, 2014
Equity Focus
Rating: BUY
TP: HK$ 7.10

| | |
|---|---|
| Share price (HK$) | 4.13 |
| Est. share price return | 71.9% |
| Est. 14E dividend yield | 7.3% |
| Est. total return | 79.2% |
| Previous Rating &TP | BUY; HK$ 7.10 |
| Previous Report Date | Mar 27, 2014 |

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**Key Data**

| | |
|---|---|
| 52Wk H/L(HK$) | 6.35/3.56 |
| Issued shares (mn) | 3,320 |
| Market cap | 13,743 |
| 3-mth avg daily turnover (HK$ mn) | 48.1 |
| Major shareholder(s) (%): | |
| SUN Hongbin | 47.1 |

Source(s): Company, Bloomberg, ABCI Securities

**FY13 Revenue breakdown (%)**

| | |
|---|---|
| Property Development | 99.2 |
| Property Management | 0.8 |

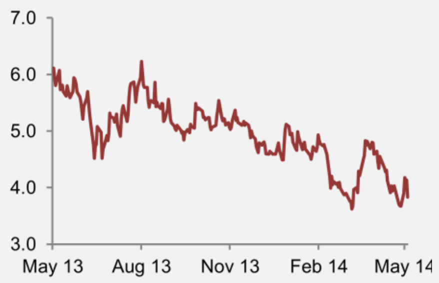
Source(s): Company, ABCI Securities

**Share performance (%)**

| | Absolute | Relative* |
|---|---|---|
| 1-mth | (11.8) | (11.3) |
| 3-mth | (19.9) | (20.8) |
| 6-mth | (26.1) | (24.6) |

*Relative to HSI
Source(s): Bloomberg, ABCI Securities

**1-Year stock performance (HK$)**




Source(s): Bloomberg, ABCI Securities

# Sunac (1918 HK)

## Stake purchase in Greentown may prove positive

- Sunac announced on May 15, 2014 that it is in talk with Greentown's major shareholders to acquire a stake of 30% or below in the latter.
- The acquisition offers 3 main benefits to Sunac, including 1) landbank expansion at lower costs, 2) accelerated development of the Sunac-Greentown JV platform, and 3) immediate boost to earnings
- Maintain **BUY** with revised TP at HK$ 7.10, based on a 65% discount to our end-14E NAV of HK$ 20.4/share

**Potential acquisition of Greentown's stakes.** Sunac announced on May 15 that it is currently in talks with Greentown's Chairman Mr. Song, his spouse Mrs Song, and CEO Mr. Shou for potential acquisition of a stake of 30% or below in Greentown. No formal offer and agreement have been established so far. According to the media, Sunac is likely to acquire ~24% stakes in total, on par with the rights held by the 2nd largest shareholder, Wharf.

**Three main benefits of the acquisition.** We believe the acquisition will offer 3 main benefits to Sunac if the transaction is concluded at a premium of 30% or below to the market price: **1) landbank expansion at lower costs.** Assuming a 24% stake is acquired, Suanc's attributable landbank would expand by 5mn sqm (Greentown's attributable landbank as at Dec 2013: 21.5mn sqm), or 35% of its existing landbank at 13.99mn sqm. As land price remains high in China, we believe acquiring a deeply discounted company (Greentown's discount to 14E NAV: 68%) represents a cheaper way to increase landbank; **2) accelerated development of the Sunac-Greentown JV platform.** Cooperation between Sunac and Greentown has increased since the former acquired a 50% stake in 9 of Greentown's projects in Shanghai and YRD area in June 2012. In 2013, the Sunac-Greentown JV acquired 3 projects in Shanghai and was ranked 3rd in Shanghai by presale (RMB 11.4bn). If Sunac becomes the largest shareholder of Greentown, business of the Sunac-Greentown JV will expand further. We believe Sunac, with its exceptional execution capability, would help raise Greentown's sell-through rate from 40% to 50%-a level comparable to that of Sunac; **3) immediate boost to earnings.** After the 24% acquisition, Greentown will be classified as an associate of Sunac. Based on equity accounting, Sunac could book a profit of ~RMB 1bn (Greentown's core profit in 2013: RMB 4.4bn).

**Rising gearing overridden by huge strategic benefits.** Net gearing may rise from 93% in Dec 2013 to 118% if the stakes are acquired at market price. The acquisition total (HK$4.2bn if priced at 0% premium) is roughly the same as the price of Sunac's 60k sqm Nongzhanguan land site in Beijing (RMB 4.3bn) and it will offer huge strategic benefits to the Group.

**Maintain BUY with TP at HK$ 7.10.** As details of the transaction such as the pricing and amount of stakes acquired have not been disclosed yet, we are unable to gauge the exact financial impact on Sunac. Nonetheless, we believe this acquisition would be positive if it is priced reasonably (premium at or below 30%). Maintain **BUY** with TP HK$7.10 based on a 65% discount to end-2014E NAV (calculation excludes acquisition).

**Risk factors:** 1) Expensive new land acquisitions that may erode margins; 2) Rising net gearing on expensive acquisition; 3) oversupply in tier 2/3 cities; 4) Post-M&A risks

**Results and Valuation**

| FY ended Dec 31 | 2012A | 2013A | 2014E | 2015E | 2016E |
|---|---|---|---|---|---|
| Revenue (RMB mn) | 20,843 | 30,837 | 40,686 | 47,896 | 51,126 |
| *Chg (% YoY)* | 96.6 | 48.0 | 31.9 | 17.7 | 6.7 |
| Core net profit (RMB mn) | 2,736 | 3,523 | 4,430 | 4,740 | 4,753 |
| *Chg (% YoY)* | 52.7 | 28.8 | 25.8 | 7.0 | 0.3 |
| Underlying EPS (RMB) | 0.91 | 1.06 | 1.34 | 1.43 | 1.43 |
| *Chg (% YoY)* | 52.7 | 17.1 | 25.8 | 7.0 | 0.3 |
| BVPS (RMB) | 3.15 | 4.10 | 5.20 | 6.37 | 7.55 |
| *Chg (% YoY)* | 34.6 | 30.4 | 26.7 | 22.6 | 18.5 |
| Underlying PE (x) | 3.6 | 3.1 | 2.5 | 2.3 | 2.3 |
| PB (x) | 1.0 | 0.8 | 0.6 | 0.5 | 0.4 |
| ROE (%) | 28.8 | 25.9 | 25.7 | 22.4 | 19.0 |
| ROA (%) | 3.9 | 3.6 | 4.5 | 4.5 | 4.5 |
| DPS (RMB) | 0.09 | 0.19 | 0.24 | 0.26 | 0.26 |
| Dividend yield (%) | 2.6 | 5.8 | 7.3 | 7.8 | 7.8 |
| Net gearing (%) | 99.7 | 93.3 | Net cash | Net cash | Net cash |

*Net gearing=Net debt/Total Shareholders' equity
Source(s): Bloomberg, ABCI Securities estimates

**Exhibit 1: Greentown's shareholding structure as at Dec 2013**

| Shareholder | no. of share (mn) | % |
|---|---|---|
| **Song Wei Ping** | 542 | 25.1% |
| **Wharf** | 525 | 24.3% |
| **Shou Bainian** | 385 | 17.9% |
| **Others** | 706 | 32.7% |
| Total shares | **2,159** | **100.0%** |

Source(s): Company, ABCI Securities

**Exhibit 2: 2013 Presales ranking**

| | Company | Presales | | | GFA sold | | | ASP | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 2013 | 2012 | YoY | 2013 | 2012 | YoY | 2013 | 2012 | YoY |
| | | RMBbn | RMBbn | % | mn sqm | mn sqm | % | RMB/sqm | RMB/sqm | % |
| 1 | Vanke (000002 CH) | 174 | 142 | 23% | 15 | 13 | 17% | 11,472 | 10,917 | 5% |
| 2 | Greenland (Unlisted) | 163 | 108 | 51% | 17 | 12 | 41% | 9,791 | 9,136 | 7% |
| 3 | Wanda (Unlisted) | 130 | 91 | 44% | 11 | 7 | 43% | 12,292 | 12,251 | 0% |
| 4 | Poly (600048 CH) | 125 | 102 | 23% | 11 | 9 | 20% | 11,568 | 11,336 | 2% |
| 5 | COLI (688 HK) | 117 | 94 | 25% | 10 | 7 | 33% | 11,798 | 12,522 | -6% |
| 6 | Country Garden (2007 HK) | 110 | 48 | 131% | 17 | 8 | 116% | 6,642 | 6,217 | 7% |
| 7 | Evergrande (3333 HK) | 108 | 92 | 17% | 16 | 15 | 4% | 6,745 | 6,009 | 12% |
| 8 | CR Land (1109 HK) | 68 | 50 | 36% | 6 | 5 | 26% | 11,572 | 10,707 | 8% |
| 9 | Shimao (813 HK) | 67 | 46 | 46% | 6 | 4 | 36% | 12,020 | 11,200 | 7% |
| **10** | **Greentown* (3900 HK)** | **55** | **51** | **9%** | **3** | **3** | **9%** | **19,617** | **19,615** | **0%** |
| **11** | **Sunac (1918 HK)** | **51** | **36** | **43%** | **2** | **2** | **18%** | **21,556** | **17,800** | **21%** |
| 12 | Longfor (960 HK) | 49 | 40 | 23% | 4 | 4 | 19% | 11,224 | 10,828 | 4% |

* Excluing presales from Sunac-Greentown JV
Source(s):CRIC, ABCI Securities

**Exhibit 3: Sunac's FY14E NAV**

| | Attr. GFA (Mn sqm) | Net assets value (RMB mn) | % of total | Valuation Method | Implied value per sqm (RMB) |
|---|---|---|---|---|---|
| **Property development** | | | | | |
| Tianjin | 3.9 | 14,865 | 31% | DCF at WACC of 12.3% | 3,815 |
| Beijing | 1.3 | 7,115 | 15% | | 5,273 |
| Chongqing | 5.1 | 6,004 | 12% | | 1,187 |
| Wuxi | 1.9 | 1,505 | 3% | | 782 |
| Suzhou | 0.2 | 1,940 | 4% | | 8,944 |
| Shanghai | 0.8 | 12,429 | 26% | | 15,216 |
| Others | 1.2 | 2,553 | 5% | | 2,174 |
| **Subtotal** | **14.4** | **46,412** | **96%** | | **3,214** |
| **Property investment & management** | | 2,163 | 4% | 6.5% cap rate on 2014E net rental income | |
| **Total 2014E GAV** | | **48,575** | **100%** | | |
| 2014E Net debt | | 4,686 | 10% | | |
| **Total 2014E NAV** | | **53,261** | **110%** | | |
| No. of share outstanding (diluted) | | 3,315 | | | |
| **NAV per share (RMB)** | | **16.1** | | | |
| Ex rate | | 1.27 | | | |
| **NAV per share (HK$)** | | **20.4** | | | |
| Target discount (%) | | 65% | | | |
| **Target Price (HK$)** | | **7.10** | | | |

| | |
|---|---|
| **WACC** | **12.3%** |
| Cost of Debt | 9.0% |
| Cost of Equity | 20.0% |
| **Debt/ ( Debt + Equity)** | **58%** |

Source(s): Company, ABCI Securities estimates

**Consolidated income statement (2012A-2016E)**

| FY Ended Dec 31 (RMB mn) | 2012A | 2013A | 2014E | 2015E | 2016E |
|---|---|---|---|---|---|
| **Revenue** | **20,843** | **30,837** | **40,686** | **47,896** | **51,126** |
| Cost of sales | (15,460) | (23,660) | (28,911) | (34,728) | (37,810) |
| **Gross Profit** | **5,382** | **7,177** | **11,775** | **13,167** | **13,316** |
| SG&A expenses | (884) | (1,136) | (1,327) | (1,494) | (1,461) |
| **EBIT** | **4,498** | **6,041** | **10,448** | **11,673** | **11,855** |
| Finance cost | (113) | (580) | (236) | (170) | (130) |
| Share of profit of associates | (39) | 72 | 1,047 | 1,362 | 1,326 |
| Other income/ (expenses) | 45 | 75 | 222 | 381 | 564 |
| Fair value gain of investment properties | - | - | - | - | - |
| Disposal/one-off items | 293 | 77 | - | - | - |
| **Profit before tax** | **4,685** | **5,684** | **11,481** | **13,246** | **13,616** |
| Tax | (2,070) | (2,191) | (5,043) | (5,785) | (5,870) |
| **Profit after tax** | **2,615** | **3,494** | **6,438** | **7,462** | **7,747** |
| Minority interest | (7) | (315) | (2,008) | (2,721) | (2,993) |
| **Reported net profit** | **2,607** | **3,178** | **4,430** | **4,740** | **4,753** |
| *Less: exceptional items* | *129* | *344* | *(0)* | *0* | *0* |
| **Underlying net profit** | **2,736** | **3,523** | **4,430** | **4,740** | **4,753** |
| | | | | | |
| **Per share** | | | | | |
| Underlying EPS (RMB) | 0.91 | 1.06 | 1.34 | 1.43 | 1.43 |
| DPS (RMB) | 0.09 | 0.19 | 0.24 | 0.26 | 0.26 |
| Payout ratio (%) | 10% | 18% | 18% | 18% | 18% |
| BVPS (RMB) | 3.15 | 4.10 | 5.20 | 6.37 | 7.55 |
| | | | | | |
| **Growth %** | | | | | |
| Revenue | 96.6% | 48.0% | 31.9% | 17.7% | 6.7% |
| Gross Profit | 50.9% | 33.3% | 64.1% | 11.8% | 1.1% |
| EBIT | 52.4% | 34.3% | 73.0% | 11.7% | 1.6% |
| Underlying net profit | 52.7% | 28.8% | 25.8% | 7.0% | 0.3% |
| | | | | | |
| **Margin %** | | | | | |
| Gross margin | 25.8% | 23.3% | 28.9% | 27.5% | 26.0% |
| Gross margin (post-LAT) | 20.6% | 20.5% | 22.0% | 20.7% | 19.7% |
| EBIT margin | 21.6% | 19.6% | 25.7% | 24.4% | 23.2% |
| Core net margin | 11.7% | 10.9% | 13.3% | 12.7% | 12.6% |
| | | | | | |
| **Key assumptions** | | | | | |
| Presale (RMB mn) | 35,635 | 52,110 | 64,917 | 75,497 | 68,766 |
| GFA sold (mn sqm) | 2.00 | 2.54 | 3.05 | 3.75 | 3.56 |
| ASP (RMB/sqm) | 17,830 | 20,520 | 21,272 | 20,129 | 19,320 |
| | | | | | |
| Booked Sales (RMB mn) | 20,671 | 30,596 | 40,426 | 47,623 | 50,840 |
| GFA delivered (mn sqm) | 1.19 | 1.75 | 2.11 | 2.51 | 2.81 |
| Booked ASP (RMB/sqm) | 17,327 | 17,530 | 19,179 | 19,009 | 18,101 |

Source(s): Company, ABCI Securities estimates

**Consolidated balance sheet (2012A-2016E)**

| As of Dec 31 (RMB mn) | 2012A | 2013A | 2014E | 2015E | 2016E |
|---|---|---|---|---|---|
| **Current assets** | **64,832** | **87,590** | **89,126** | **93,867** | **93,445** |
| Cash | 8,394 | 13,414 | 25,797 | 45,214 | 62,458 |
| Restricted cash | 3,869 | 2,595 | 2,595 | 2,595 | 2,595 |
| Trade & other receivables | 416 | 1,214 | 1,214 | 1,214 | 1,214 |
| Property under development | 46,401 | 58,106 | 47,258 | 32,583 | 14,918 |
| Other current assets | 5,752 | 12,261 | 12,261 | 12,261 | 12,261 |
| | | | | | |
| **Non-current assets** | **6,103** | **9,765** | **10,270** | **10,839** | **11,400** |
| Property, plant & equipment | 49 | 65 | 61 | 58 | 54 |
| Investment properties | 571 | 252 | 252 | 252 | 252 |
| Investment in Associate and JCE | 4,205 | 7,909 | 8,418 | 8,991 | 9,556 |
| Other non-current assets | 1,279 | 1,539 | 1,539 | 1,539 | 1,539 |
| | | | | | |
| **Total Assets** | **70,934** | **97,355** | **99,396** | **104,706** | **104,845** |
| | | | | | |
| **Current Liabilities** | **44,294** | **51,789** | **58,238** | **56,988** | **50,285** |
| Short term borrowings | 11,783 | 7,835 | 12,835 | 7,835 | 2,835 |
| Trade & other payables | 7,116 | 12,402 | 12,402 | 12,402 | 12,402 |
| Pre-sales deposits | 15,146 | 13,647 | 15,096 | 18,846 | 17,144 |
| Other current assets | 10,250 | 17,905 | 17,905 | 17,905 | 17,905 |
| | | | | | |
| **Non-current liabilities** | **14,646** | **27,355** | **17,355** | **17,355** | **17,355** |
| Long term borrowings | 9,942 | 20,872 | 10,872 | 10,872 | 10,872 |
| Other payables | - | - | - | - | - |
| Other non-current assets | 4,704 | 6,483 | 6,483 | 6,483 | 6,483 |
| | | | | | |
| **Total Liabilities** | **58,940** | **79,144** | **75,593** | **74,343** | **67,640** |
| | | | | | |
| **Net Assets** | **11,994** | **18,211** | **23,803** | **30,363** | **37,205** |
| | | | | | |
| **Shareholders Equity** | **9,489** | **13,605** | **17,239** | **21,127** | **25,026** |
| Minority Interest | 2,505 | 4,606 | 6,564 | 9,236 | 12,179 |
| **Total Equity** | **11,994** | **18,211** | **23,803** | **30,363** | **37,205** |
| | | | | | |
| **Key ratio** | | | | | |
| Gross debt (RMB mn) | 21,725 | 28,706 | 23,706 | 18,706 | 13,706 |
| Net debt (RMB mn) | 9,462 | 12,698 | (4,686) | (29,102) | (51,346) |
| Net gearing (%) | 100% | 93% | Net cash | Net cash | Net cash |
| Presale/ Total assets (x) | 50% | 54% | 65% | 72% | 66% |

Source(s): Company, ABCI Securities estimates

**Consolidated cash flow statement (2012A-2016E)**

| FY ended Dec 31 (RMB mn) | 2012A | 2013A | 2014E | 2015E | 2016E |
|---|---|---|---|---|---|
| EBITDA | 4,513 | 6,065 | 10,472 | 11,697 | 11,879 |
| Change in Working Capital | 6,684 | (4,165) | 14,420 | 19,952 | 17,130 |
| Tax payment | (1,688) | (2,191) | (5,043) | (5,785) | (5,870) |
| **Operating cash flow** | **9,509** | **(290)** | **19,849** | **25,864** | **23,139** |
| | | | | | |
| Purchase of PP&E | (22) | (20) | (20) | (20) | (20) |
| Addition of Investment Properties | (2,473) | - | - | - | - |
| Others | (2,764) | (5,111) | 759 | 1,170 | 1,325 |
| **Investing cash flow** | **(5,260)** | **(5,131)** | **739** | **1,150** | **1,305** |
| | | | | | |
| Debt raised | 16,396 | 10,000 | 10,000 | 10,000 | 10,000 |
| Debt repaid | (12,639) | (5,422) | (15,000) | (15,000) | (15,000) |
| Interest expenses | (1,817) | (2,569) | (2,359) | (1,697) | (1,297) |
| Equity raised | 24 | 1,608 | - | - | - |
| Dividend to shareholders | (236) | (633) | (796) | (852) | (854) |
| Others | (345) | 7,457 | (50) | (50) | (50) |
| **Financing cash flow** | **1,381** | **10,441** | **(8,205)** | **(7,599)** | **(7,201)** |
| | | | | | |
| **Net cash inflow/ (outflow)** | **5,631** | **5,020** | **12,383** | **19,416** | **17,244** |
| | | | | | |
| Cash- beginning | 2,763 | 8,394 | 13,414 | 25,797 | 45,214 |
| **Cash- year-end** | **8,394** | **13,414** | **25,797** | **45,214** | **62,458** |

Source(s): Company, ABCI Securities estimates

# Disclosures

**Analyst Certification**

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**Definition of equity rating**

| Rating | Definition |
|---|---|
| Buy | Stock return ≥ Market return rate |
| Hold | Market return – 6% ≤ 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 ≤180 day volatility/180 day benchmark index volatility |
| High | 1.5 ≤ 180 day volatility/180 day benchmark index volatility < 2.6 |
| Medium | 1.0 ≤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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