July 22, 2014
Company Report
Rating: BUY
TP: HK$ 4.10

Share price (HK$)	3.34
Est. share price return	22.8%
Est. dividend yield	8.0%
Est. total return	30.8%
Previous Rating &TP	NA
Previous Report Date	NA

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Key Data

52Wk H/L(HK$)	3.35/2.35
Issued shares (mn)	16,047
Market cap (HK$ mn)	48,994
3-mth avg daily turnover (HK$ mn)	112.1
Major shareholder(s) (%):	
HUI Ka Yan	70.10

Source(s): Company, Bloomberg, ABCI Securities

FY13 Revenue breakdown (%)

Property development	98.5
Property investment	0.1
Property management	0.8
Others	0.6

Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	12.9	11.3
3-mth	7.8	3.1
6-mth	39.0	36.1

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

1-Year stock performance (HK$)

Source(s): Bloomberg, ABCI Securities

Evergrande (3333 HK)

A highly misunderstood market leader; initiate **BUY**

- 1H14 presales went up 55% to RMB 70bn, outperforming the average growth of 13% YoY in the sector. Evergrande was ranked 1st by GFA sold in 1H14
- Evergrande's stable bond prices refute the claims that the Group is over-leveraged
- We believe its non-core businesses (football team and water) would turn profitable in 2-3 years' time. Introduction of Alibaba's chairman, Jack Ma, as a strategic partner will help monetize Evergrande's football team
- Initiate **BUY** with TP at HK$ 4.10 based on a 60% discount to FY14E NAV

Well-diversified landbank to reduce concentration risk. Evergrande was ranked 1st in terms of GFA sold in 1H14. Its ASP remains competitive at ~RMB 7k/sqm, much lower than RMB 10-14k/sqm among major PRC developers. Well-recognized for selling houses at affordable prices, Evergrande should appeal to end users in lower tier cities. According to CRIC, Evergrande's 1H14 sell-through rate (65%) was ranked 2nd among the top 10 players. With its wide geographical coverage, the Group is unlikely to be overwhelmingly impacted by oversupply in some lower-tier cities.

Net gearing - a matter of calculation difference. In gauging the Group's financial leverage, some consider the perpetual capital instrument as debt instead of equity. In this way, the Group's current net gearing is elevated to 165%, as opposed to 75% based on our calculation. We believe our calculation is justified as Evergrande's bond prices have remained stable despite the increased leverage. In fact, Evergrande's bond yield (2018 mature) fell from 9.7% in early 2014 to 8.8% in July.

High dividend is sustainable. Evergrande's FY13 DPS of RMB 0.43 (payout ratio:67%) was higher than expected and implied a yield of 16.1% based on the current price. While a double-digit dividend yield is considered as unsustainable by most, we believe Evergrande would be able to maintain its above-average dividend distribution given the total absolute payout amount is equivalent to ~5% of its RMB 100bn presale in 2013.

Positive changes in non-core business. Alibaba's Chairman Jack Ma acquired a 50% stake in Evergrande's football team at RMB 1.2bn. Thus, operating losses related to this venture (estimated to be RMB 500mn) will be reduced by half . Also, we estimate its new bottled water business would achieve RMB 1.8bn in sales for 2014E.

Initiate Evergrande with BUY. We derive Evergrande's end-FY14E NAV (RMB 120.6bn or HK$ 10.2/share) based on the DCF valuation with a 10.8% WACC. Our TP of HK$ 4.10 is based on the average NAV discount of 60% among the mid- and small-cap developers. Based on Evergrande' s outstanding presales and market leading position, we deem its current valuation of 4.4x FY14E P/E with a FY14E dividend yield of 8.0% (assuming ~35% payout ratio) as highly attractive. Moreover, the Group's active share buyback will lend support to its share price. Thus, we initiate our coverage on Evergrande with a **BUY** rating.

Risk factors: 1) Aggressive land acquisition may expand presales but erode margins; 2) Oversupply in tier 3 cities where 56% of its land bank is located; 3) Tightening liquidity may affect financing.

Results and Valuation

FY ended Dec 31	2012A	2013A	2014E	2015E	2016E
Revenue (RMB mn)	65,261	93,672	124,369	159,972	179,186
Chg (%,YoY)	5.4	43.5	32.8	28.6	12.0
Underlying Net Income (RMB mn)[1]	6,200	10,310	9,015	12,897	15,296
Chg (%,YoY)	(21.2)	66.3	(12.6)	43.1	18.6
Underlying EPS (RMB)	0.41	0.64	0.61	0.87	1.04
Chg (%,YoY)	(21.7)	55.3	(4.8)	43.1	18.6
BVPS (RMB)	2.6	4.6	5.2	5.7	6.4
Chg (%,YoY)	16.3	79.7	12.8	11.0	11.7
Underlying PE (x)	6.5	4.2	4.4	3.1	2.6
P/B (x)	1.0	0.6	0.5	0.5	0.4
ROE (%)	16.2	14.0	11.8	15.2	16.2
ROA (%)	2.6	3.0	2.5	3.5	4.0
DPS(HK$)	0.14	0.43	0.21	0.31	0.36
Yield (%)	5.2	16.1	8.0	11.5	13.6
Net gearing[2] (%)	91.7	74.9	85.7	38.1	(5.2)

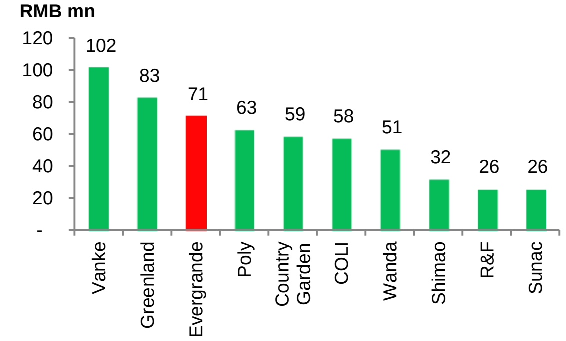
[1]Underlying net income =Net profit - revaluation gain of investment properties and one-off items
[2]Net gearing=Net debt/Shareholders' equity
Source(s): Bloomberg, ABCI Securities estimates

Contents

No.1 developer in China by GFA sold

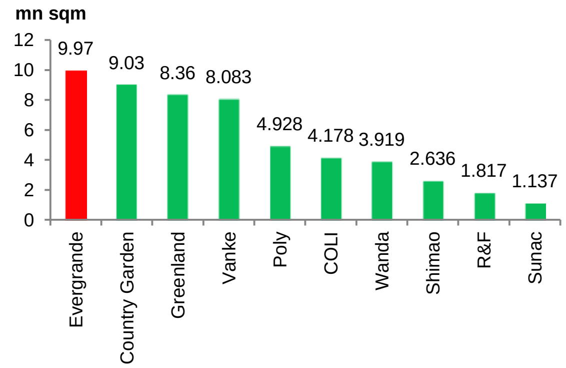
Headquartered in Guangzhou, Evergrande has expanded its geographical foot print across 147 cities in China. As of Dec 2013, Evergrande had 291 projects with a total GFA of 151mn sqm. According to CRIC, Evergrande was ranked 3rd by total presales amount and 1st in GFA sold. Assuming an average housing unit size of 90sqm, Evergrande was likely to have sold 100,000 units in 1H14, housing a population of more than 200,000-300,000 people. Such geographic and population coverage is exceptional among peers.

Exhibit 1: 1H14 presales ranking among major PRC developers (RMB mn)



Source(s): CRIC, ABCI Securities

Exhibit 2: 1H14 GFA sold ranking among major PRC developers (mn sqm)



Source(s): CRIC, ABCI Securities

Evergrande focuses mainly on the first-time homebuyer market, with most sites locating in suburb areas where land costs are lower. Construction cost of the Group is lower than peers via its highly standardized construction process. Hence, ASPs of its products are competitive. At the backdrop of a moderating property market, its low-priced products have received enthusiastic responses. In June, its 2 newly-launched projects in Hefei sold a total of RMB 3.2bn in a single month.

Evergrande has also diversified into the 1st tier cities since 2013. Despite the higher land costs in the top tier cities, turnover rates of the projects are high, partly because of the Group's execution prowess. An as example, the Beijing Evergrande City acquired in July 2013 has started pre-selling since May 2014.

Exhibit 3: Hefei Evergrande Central Plaza (合肥恒大中央广场)

Source(s): Soufun

Exhibit 4: Floor plan of Hefei Evergrande Central Plaza (合肥恒大中央广场)

Source(s): Soufun

Exhibit 5: Evergrande City Beijing (北京恒大城)

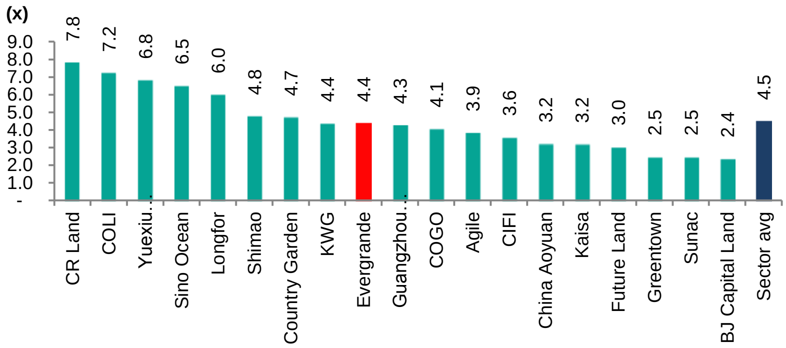
Source(s): Company

Exhibit 6: Evergrande Royal Scenic Bay Beijing(北京恒大御景湾)

Source(s): Soufun

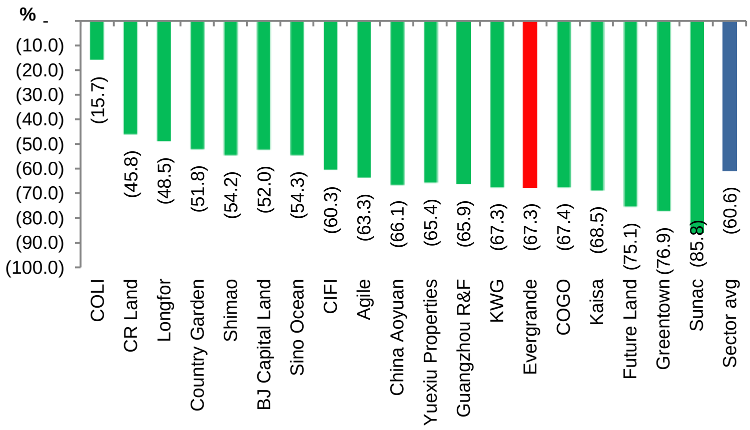
Despite Evergrande's market leadership, the counter's valuation has been below the sector average by P/E and discount to NAV, mainly because of several misconceptions in the market concerning its 1) Exposure in low-tier cities, which is regarded as risky under the current sentiment in the property market; 2) undisciplined financial management, which leads to high gearing; 3) Unsustainable dividend policy; 4) Cash burning non-core business.

Exhibit 7: 2014 P/E comparison of PRC developers (x)



Source(s): Bloomberg, ABCI Securities estimates

Exhibit 8: Discount-to-NAV comparison of PRC developers (%)



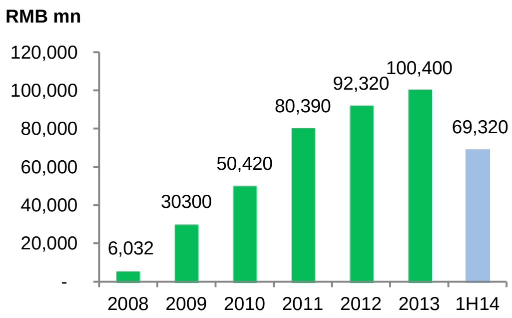
Source(s): Bloomberg, ABCI Securities estimates

Debunking the 4 major misconceptions

Misconception 1: Evergrande exposure in lower-tier cities will pose risks to its 2014 presales

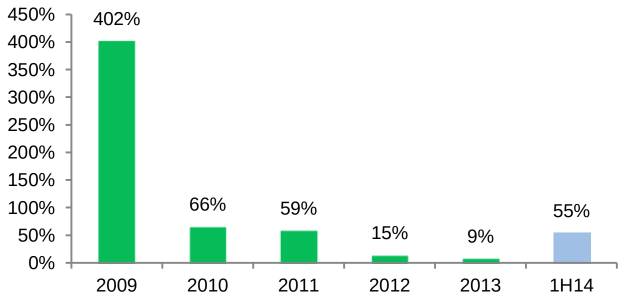
Impressive 1H14 presales figures refuted the claim. Evergrande once again picked up its momentum in 2014 after the sales slowdown in 2012 and 2013. The Group registered an impressive presale of RMB 69.3bn in 1H14, up 55% YoY - much higher than sector average of 13% YoY.

Exhibit 9: Evergrande's presales



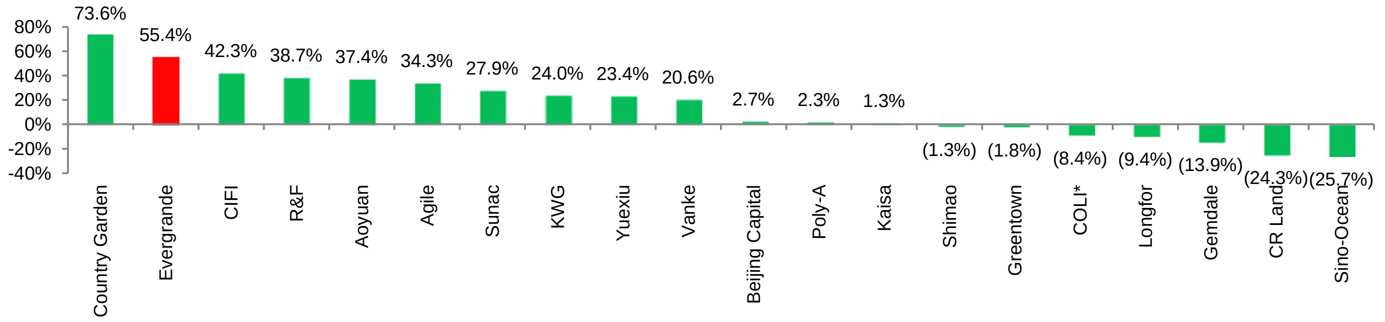
Source(s): Company, ABCI Securities

Exhibit 10: Evergrande's presales by growth (YoY %)



Source(s): Company, ABCI Securities

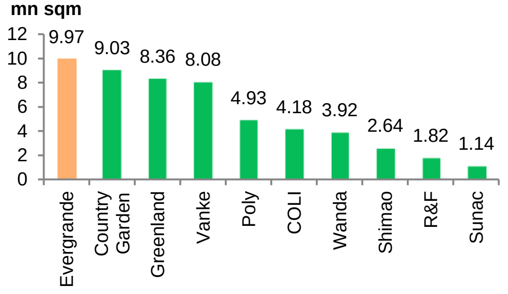
Exhibit 11: 1H14 presales growth comparison of PRC developers



Source(s): Company, ABCI Securities

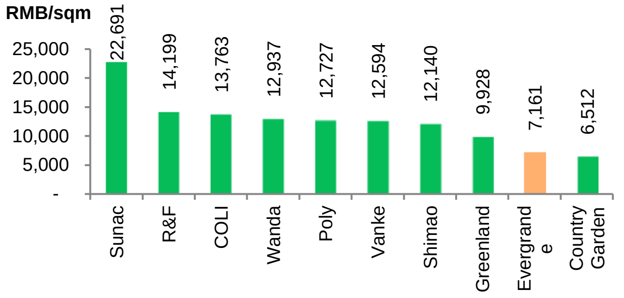
We believe Evergrande's pricing strategy would benefit from the "trade-down" effect. Evergrande ranked first in terms of GFA sold in 1H14. Its ASP has remained competitive at ~RMB 7k/sqm, much lower than RMB10-14k/sqm among major players. As property prices have started correcting in 2014, end users with urgent housing needs (e.g. married couples) may prefer to acquire units with lower purchase prices to reduce the mark-to-market losses. Being a well-recognized developer of economical housing, Evergrande's products should appeal to end users in low-tier cities who usually have a lower affordability. According to CRIC, Evergrande's 1H14 sell-through rate (65%) was ranked 2nd among the top 10 players.

Exhibit 12: Top 10 developers- 1H14 GFA sold (mn sqm)



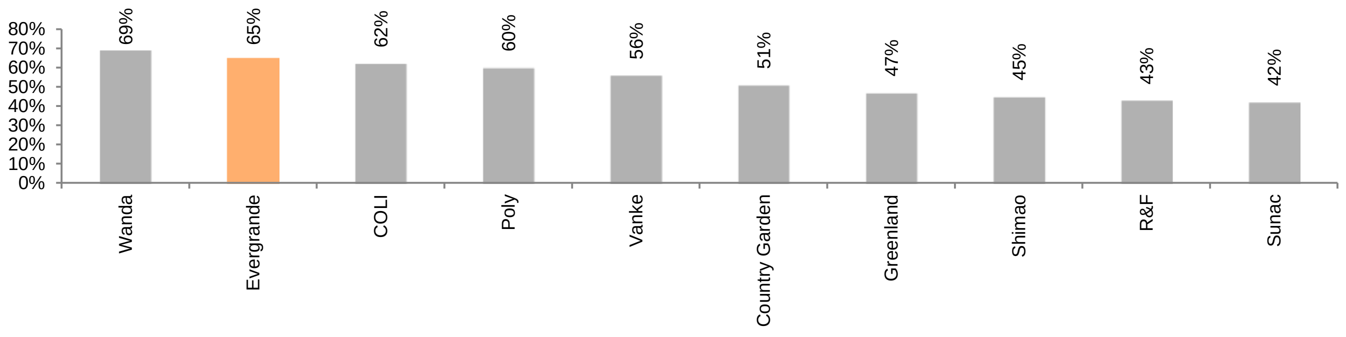
Source(s): CRIC, ABCI Securities

Exhibit 13: Top 10 developers- 1H14 ASP (RMB/sqm)



Source(s): CRIC, ABCI Securities

Exhibit 14: Top 10 developers - 1H14 sell-through rate

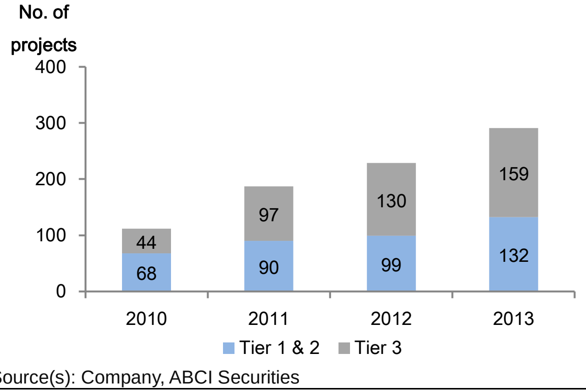


Source(s): CRIC, ABCI Securities

Also, not every lower-tier city is suffering from oversupply concern at the moment, e.g., the inventory level of Nanjing (a tier 2 city) was low at 6 months, compared to 8-10 months among tier 1 cities by end-1Q14. Evergrande also acquired 2 sites in Nanjing back in 2013, among the 66 projects acquired during the same year. As of Dec 2013, Evergrande had 132 projects locating in tier 3 cities and 159 projects in tier 1/2 cities. The Group's **diversified geographical coverage lowers its concentration risk**. In contrast, Greentown, a developer with high exposure in the Hangzhou market, saw fallen sales in 1H14 (-2% YoY).

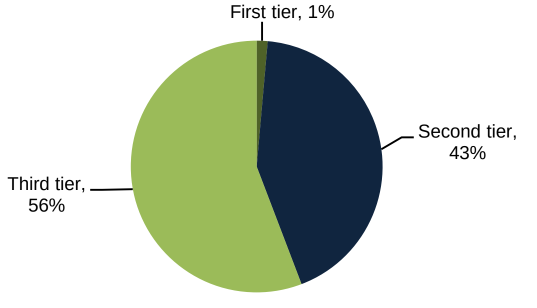
Moreover, **loosening home purchase restriction** as reported by the media also has helped improve buying sentiment in the tier 3 cities, driving up the Group's presales in 1H14.

Exhibit 15: Geographical distribution of Evegrande's projects by tier



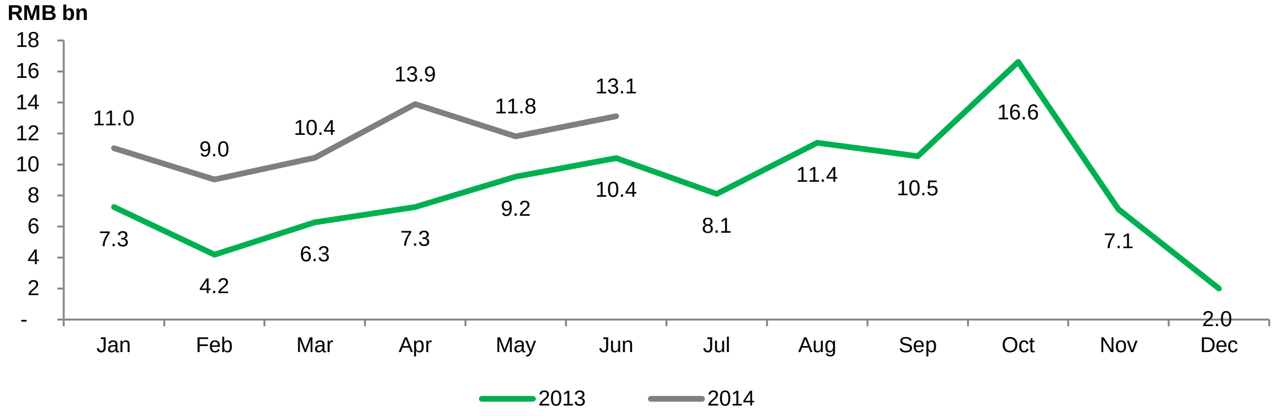
Source(s): Company, ABCI Securities

Exhibit 16: Evegrande's presales amount by tier (2013)



Source(s): Company, ABCI Securities

Exhibit 17: Evergrande's monthly presales in 2012-6M14



Source(s): Company, ABCI Securities

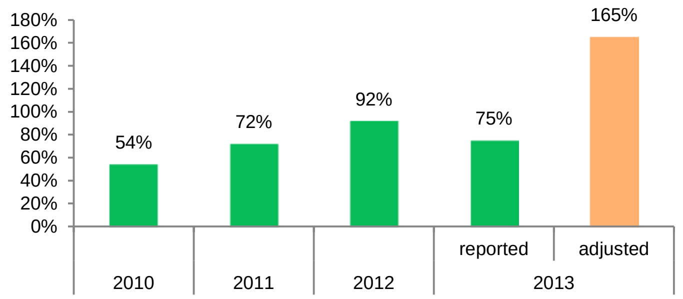
Misconception 2: Evergrande is over-leveraged due to aggressive land banking

Current net gearing can be much lower depending on the accounting treatment. Concerns over the Group's financial leverage have been raised following its issuance of perpetual capital instrument totaling RMB 25bn in 2013. In view of the duration of its maturity, perpetual instrument should be considered as quasi-equity instead of a conventional debt as it has no maturity date (the instrument is essentially preference shares) although the repayment is based on a fixed coupon rate which, according to the management, is ~10% (with a step-up feature starting from Year 2 and to be capped at 15-16% in Year 5), but the payment can be deferred if certain criteria are met. If we consider the instrument as equity, Evergrande's current net gearing is only at 75%.

Some suggest the instrument should be treated as debts to reflect the true gearing of the Group, given the coupon rate is comparable to trust loan financing while denominated in RMB. If the instrument is treated as debts, Evergrande's net gearing would have more than doubled to 165%, which we believe to be misleading as **Evergrande's bond prices have been stable.** In fact, Evergrande's bond yield (maturing in 2018) had been improving gradually from 9.7% in early 2014 to 8.8% in July.

Based on its DPS in 2013, Evergrande's current dividend yield is now at 16%. Perpetual bond with a 10% coupon rate is a cheaper funding alternative compared to raising new equity. Also, as compared to off-shore USD bond, the onshore perpetual bond is tax deductible (USD bond proceeds have to be injected to mainland projects as equity). **The effective post-tax interest rate is 9.6% (i.e. 16% x 60%) in most cases** if we take into account of the 40% effective tax rate (enterprise tax plus LAT), which is reasonable given that no principal repayment is required.

Exhibit 18: Evergrande's net gearing



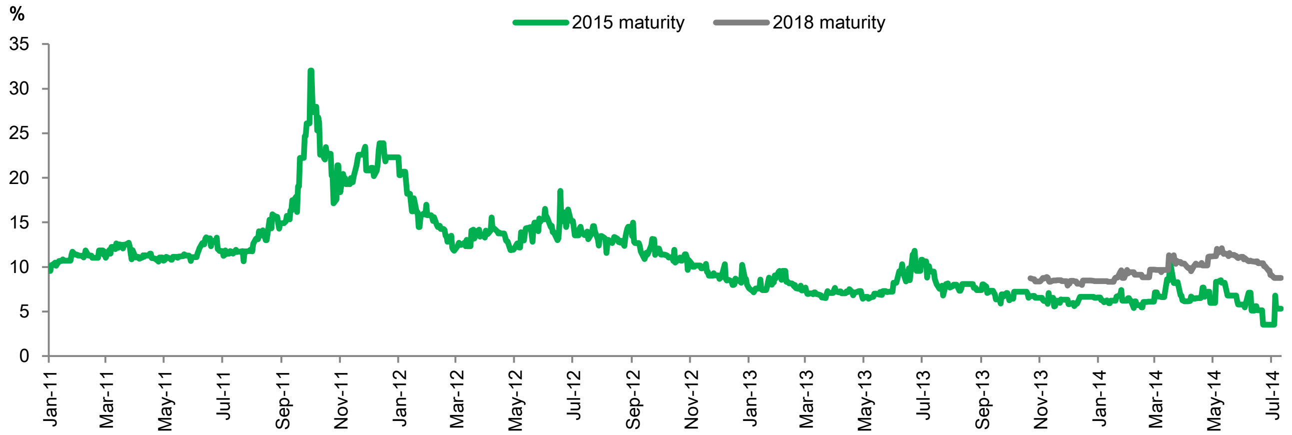
Source(s): Company, ABCI Securities

Exhibit 19: Adjusted 2013 net gearing calculation by some analysts

	RMB mn	
Reported net debt as at 2013	55,164	<A>
Add: Perpetual Capital Securities	25,024	<B>
Adjusted net debt	**80,188**	<C=A+B>
Reported shareholder's equity	73,614	<D>
less: Perpetual Capital instrument	(25,024)	<E>
Adjusted equity	**48,590**	<F=D+E>
Reported net gearing	**74.9%**	**<A/D>**
Adjusted net gearing	**165.0%**	**<C/F>**

Source(s): Bloomberg, ABCI Securities

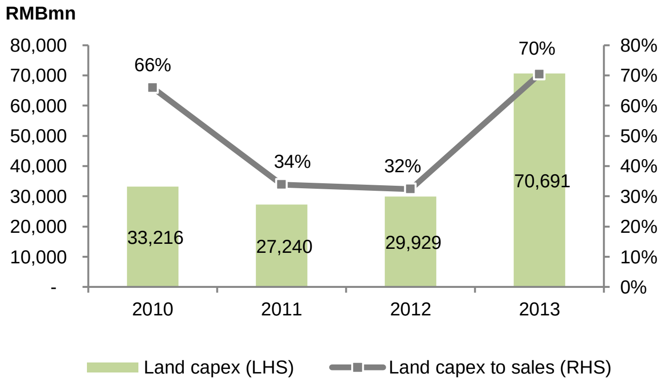
Exhibit 20: Evergrande's bond yield



Source(s): Bloomberg, ABCI Securities

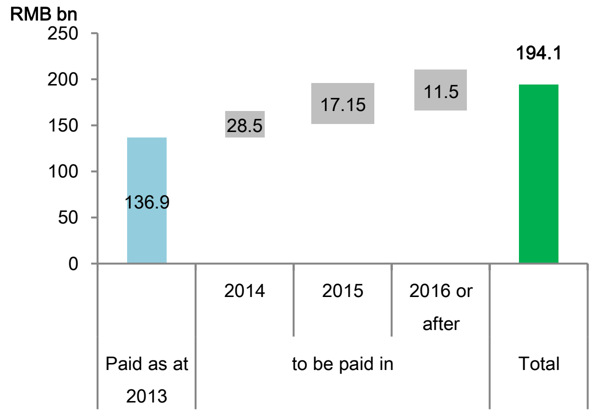
Paying land premium by installment to ease cash flow. Although Evergrande spent RMB 71bn on land acquisition in 2013, we believe its cash flow would not be overstressed. Unlike major tier-1 city developers, whose land premium has to be fully paid with 12 months upon a successful bid, Evergrande has adopted a deferred payment plan. Based on data in Dec 2013, about RMB 28.5bn, RMB 17.15bn and RMB 11.5bn will be paid in 2014, 2015 and 2016, respectively. Moreover, its aggressive land acquisition seems to pay off, as demonstrated by its impressive 1H14 sales figures which went up by 55% yoy.

Exhibit 21: Evergrande's land capex and land-capex-to-presale ratio



Source(s): Company, ABCI Securities

Exhibit 22: Evergrande's land capex payment schedule as at Dec 2013 (RMB bn)



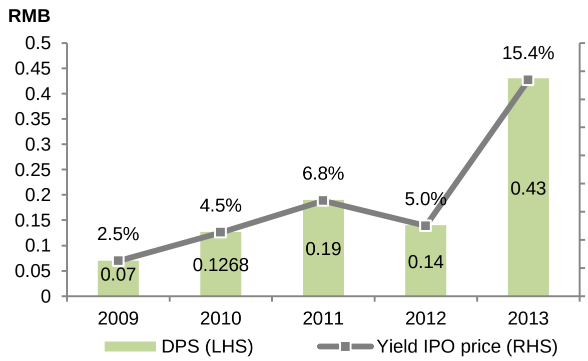
Source(s): Company, ABCI Securities

Misconception 3: Unsustainable dividend policy

Evergrande surprised the market by paying a dividend of RMB 0.43/share for FY13, implying a yield of 16% based on its current share price. A double-digit dividend yield is usually regarded as unsustainable by most. Nonetheless, we believe management is likely to maintain its above-average dividend distribution in the future. Excluding FY13, the Group's dividend yield was at 4.5%-6.8% in 2010-12 based on its IPO price, which was rather high compared to peers. Besides, Evergrande has the ability to maintain such high dividend given its high presale revenue, e.g., total absolute payout amount for FY13 was equivalent to only about 5% of its RMB100bn presale in the same year. We forecast a DPS of RMB 0.21 for FY14, which implies a yield of 8.0%, making it one of the China property stocks with the highest yield.

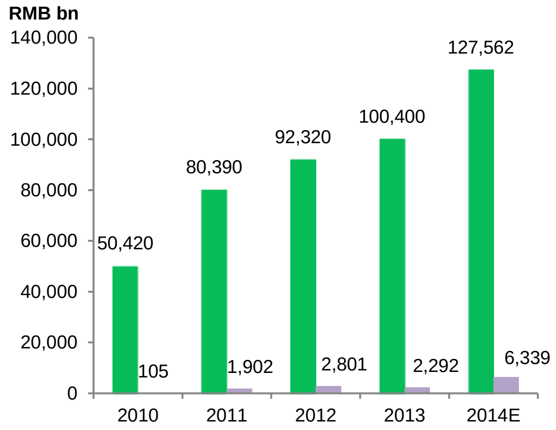
Year to date, Evergrande has spent HK$5.4bn (1.63bn shares at HK$ 3.31 on average, representing 10.2% of outstanding shares) to repurchase its shares in the open market. Apart from supporting the share price, reducing the number of shares would also help boost DPS.

Exhibit 23: Evergrande's DPS record and implied yield on IPO price



Source(s): Company, ABCI Securities

Exhibit 24: Evergrande's dividend vs presales (RMB bn)



Source(s): Company, ABCI Securities estimates

Misconception 4: Non-property business is a burden

Introduction of Alibaba's chairman, Jack Ma, as a strategic investor would help reduce loss and monetize the football team. Evergrande's non-property business is always seen as a drag to the Group. The Group started investing in the football team since 2010 by acquiring the Guangzhou Football Club at RMB 100m. The Group's SG&A expenses have been escalating from RMB 3.2bn (6.3% of presales) in 2010 to RMB 9.5bn (9.4% of presales) in 2013, which is even higher than Vanke's RMB6.9bn which ranked top in home sales in China by revenue.

Evergrande's non-property business, however, has shown significant breakthroughs in 2014 with Alibaba's Chairman, Jack Ma, acquiring a 50% stake in the football team at RMB1.2bn. The team's operating losses (estimated to be RMB 500mn for FY14E) will be reduced by half immediately due to the stake sale. In addition, introduction of the internet giant as a strategic investor could help monetize Evergrande's football team by increasing its advertising income. Currently, the team generates ~RMB 300mn in advertising revenue per year, with only a limited proportion coming from advertising commercial products or broadcasting rights. We believe introduction of the internet mogul could help expand the team's exposure in the online advertising domain.

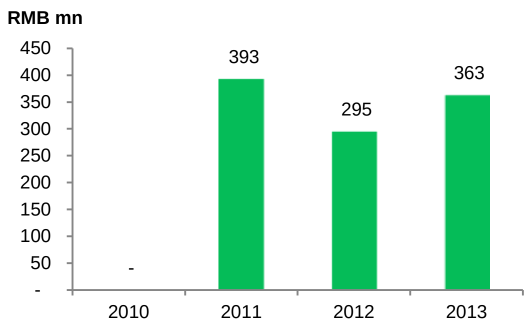
Besides, Evergrande starts to monetize the football team by introducing the new business in bottled water. Evergrande's bottled water business, under the brand Evergrande Spring ("恒大冰泉"), secured RMB 5.8bn worth of order since 130 days since its launch in Nov 2013. The Group's targets to attain RMB 30 bn in sales from its bottled water business by 2017. We expect the venture to generate RMB 1.8bn in sales (based on ~800mn units sold and ASP of RMB 2.2 per bottle) for FY14E. In addition, we expect an operating loss of RMB 800mn for 2014E due to significant marketing expenses in its first year of operation. We believe Evergrande's SG&A expense-to-sales ratio would peak at 10.5% in 2014 and reduce gradually in 2015E-16E.

Exhibit 25: List of non-property business (as of July 2014)

Business	Background
Football	- Evergrande acquired the Guangzhou Football Club at RMB100mn in 2010. The team was renamed as Guangzhou Evergrande football team subsequently. In July 2014, a 50% stake was sold to Alibaba's chairman, Jack Ma, at RMB1.2bn
Water	- Commenced bottled water business under the brand Evergrande Spring right after Evergrande football team obtained the AFC championship in Nov 2013, - Aims to achieve RMB 30bn in sales by 2017 - Obtained RMB 5.8bn of orders in 130 days since the product launched in Nov 2013
Huaxia bank	- Acquired a 4.5% stake at RMB 3.3bn

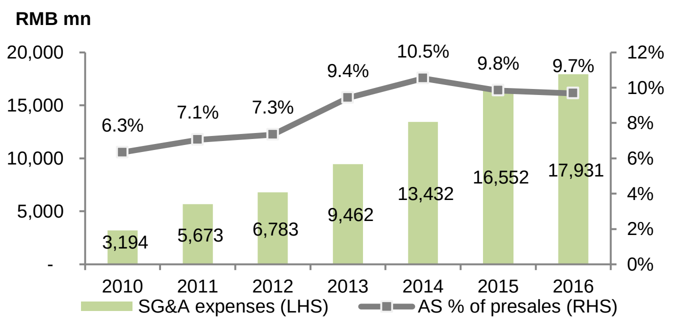
Source(s): Company, ABCI Securities

Exhibit 26: Advertising revenue from football business



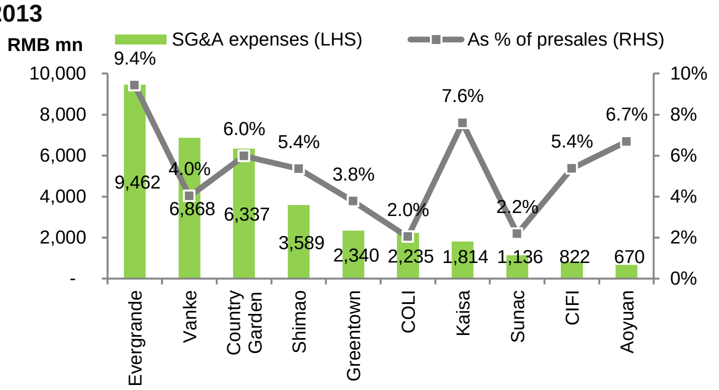
Source(s): Company, ABCI Securities

Exhibit 27: SG&A expenses and as a percentage of presales



Source(s): Company; ABCI Securities estimates

Exhibit 28: SG&A expenses comparison among developers in 2013



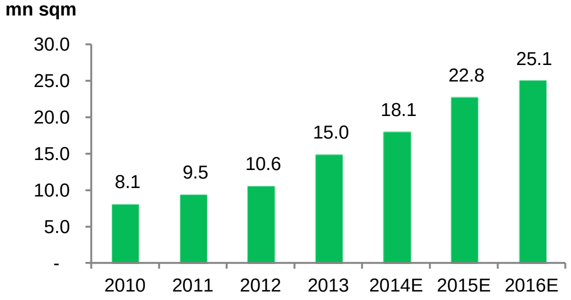
Source(s): Company, ABCI Securities

Financial Analysis

Fast core profit growth at 26% CAGR in 2014E-16E

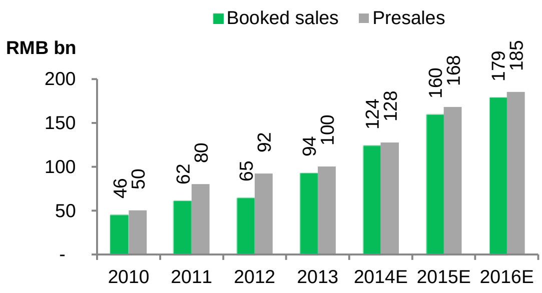
Since the Group expanded its landbank to grow saleable resources in 2013, we expect its presales and booked revenue to experience robust growth in the next 3 years. We forecast Evergrande's GFA delivery would rise at 18% CAGR from 18.1 mn sqm in 2014E to 25.1 mn sqm in 2016E, while booked sales would rise at 20% CAGR from RMB 124 bn in 2014E to RMB 179bn in 2016E.

Exhibit 29: Evergrande's GFA delivery in 2010-16E



Source(s): Company, ABCI Securities estimates

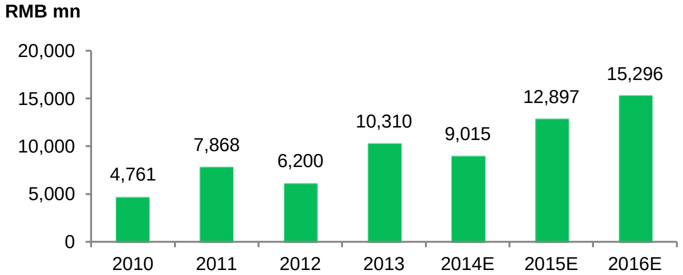
Exhibit 30: Evergrande's booked sales in 2010-16E



Source(s): Company, ABCI Securities estimates

We expect gross and net margins to dip temporarily in 2014 due to the high land cost of the projects in Beijing. Besides, distribution to perpetual capital instrument issued in 2H13.would rise 319% YoY from RMB 657mn in 2013 to RMB 2.8bn in 2014, due to the full-year impact. Core profit would drop 13% YoY to RMB 9.0bn in 2014E but rebound in 2015E-16E on growing revenue.

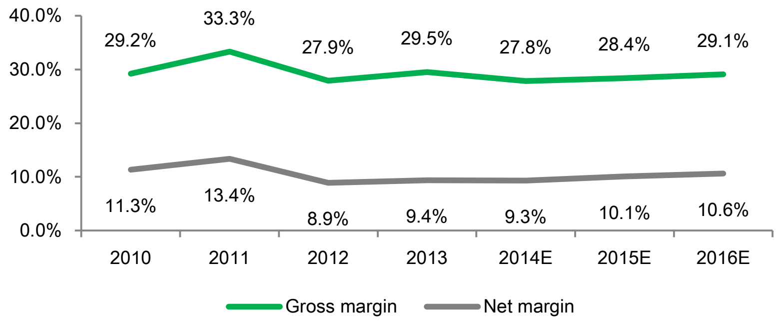
Exhibit 31: Evergrande's core net profit in 2010-16E



* Core net profit is calculated by excluding after-tax revaluation gain and one-off items from reported net profit

Source(s): Company, ABCI Securities estimates

Exhibit 32: Evergrande's gross and net margins in 2010-16E

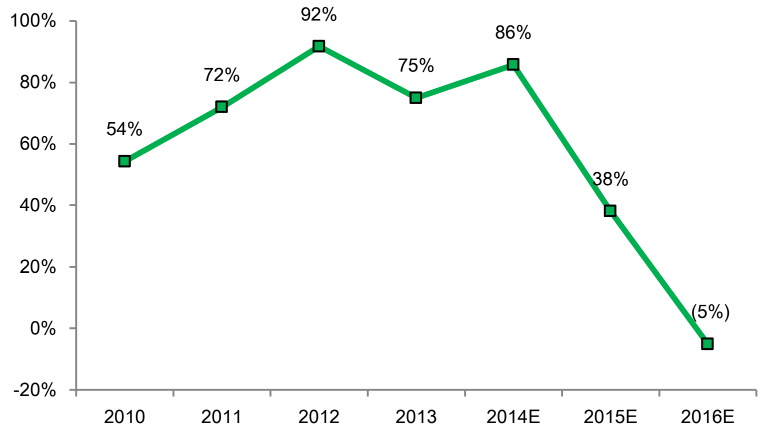


Source(s): Company, ABCI Securities estimates

Gearing to peak in 2014

We expect Evergrande's reported net gearing to rise to 86% by end- 2014E on land capex budgeted at RMB 38bn (outstanding and new land premium) and a construction cost of RMB 50bn. However, as presales would increase while land capex would decline from the peak level of RMB 70bn in 2013, we expect net gearing to come down to 38% in 2015E.

Exhibit 33: Evergrande's net gearing in 2010-16E



Source(s): Company, ABCI Securities estimates

Initiate Evergrande with BUY with TP at HK$4.10

Exhibit 34: Evergrande's end- FY14E NAV estimates

	Attr. GFA (M sqm)	Net assets value (RMB mn)	% of total	Valuation Methodology	Implied value per sqm (RMB)
Property development					
Guangdong	14.8	16,751	9%	DCF at WACC of 10.8%	1,128
Liaoning	13.2	13,112	7%		992
Jiangsu	12.9	13,002	7%		1,006
Hebei	11.7	12,886	7%		1,098
Shangdong	10.8	11,934	6%		1,106
Anhui	10.0	9,500	5%		954
Henan	7.7	8,056	4%		1,047
Hunan	5.4	5,545	3%		1,035
Others	64.2	75,989	40%		1,183
Subtotal	**150.8**	**166,774**	**88%**		**1,106**
Investment Properties		18,019	10%	0.5x Book value	
Football business		1,200	1%	50% stake sold to Jack Ma at RMB 1.2bn	
Huaxia Bank		3,098	2%	Mkt value of 4.5% stake	
Bottled water business		-	0%		
Total 2014E GAV		**189,091**	**100%**		
2014E Net debt		(43,442)	-23%		
Perpetual capital instrument		(25,024)	-13%		
Total 2014E NAV		**120,626**	**64%**		
No. of share outstanding (diluted)		14,742			
NAV per share (RMB)		**8.18**			
Ex rate		1.25			
NAV per share (HKD)		**10.23**			
Target discount (%)		60%			
Target Price (HKD)		**4.10**			

WACC	**10.8%**
Cost of debt	10.0%
Cost of Equity	15.0%
Debt/ (Debt + Equity)	**56%**

Source(s): Company, ABCI Securities estimates

We assess the value of Evergrande's stocks based on the discount-to-NAV method, one of the most common valuation metrics used for developers in China:

- **Property developments:** We conduct a DCF analysis and apply a WACC of 10.8% to gauge the value of Evergrande's projects; total value of property development projects arrives at RMB 166.7bn.
- **Investment properties:** We apply a multiple of 0.5 to Evergrande's IP book value (RMB 36.0bn) on the balance sheet as of Dec 2014.
- **Football business** is valued at RMB 1.2bn based on the latest transaction price of RMB 1.2bn for the 50% stake.
- The 4.5% stake in **Huxian Bank** is based on current market value of RMB 3.1bn.
- We exclude the **bottled water business** in our valuation given its limited track record.

We subtract the gross asset value of RMB 189.1bn by our 2014E net debt estimate (RMB 43.4bn) and perpetual capital instrument (RMB 25bn) to derive our end-FY14E NAV of RMB 120.6bn (or HK$10.23/share). To derive the TP of Evergrande, we apply a 60% discount (China property sector average) to our end-FY14E NAV to arrive at HK$ 4.10.

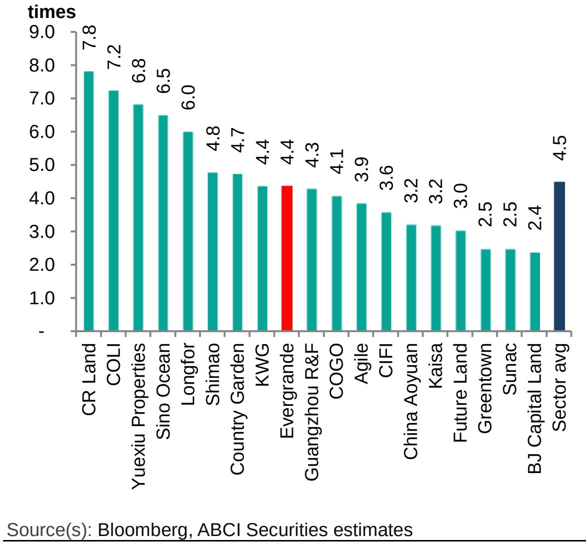
Exhibit 35: Average discount to FY14E NAV (%) among PRC developers

Source(s): Bloomberg, ABCI Securities estimates

Attractive valuation with strong growth prospects

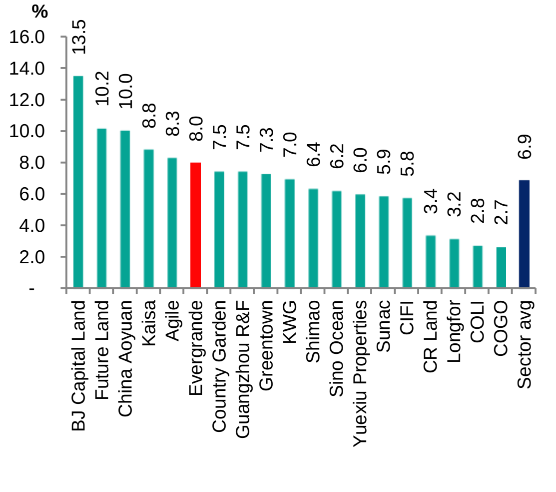
Our TP of HK$4.10 represents 5.2x FY14E P/E, which is still lower than the average P/E of 5.7x among large-cap PRC developers. Given impressive presales track record and ability to raise debts at low cost, we believe Evergrande deserves a higher valuation than its current one at 4.4x FY14E P/E. Assuming a 35% payout ratio (with reference to the Group's 34%-40% payout on core profit for 2010-12), Evergrande's FY14E dividend yield would be as high as ~8.0%. Based on the Company's positive outlook and attractive valuation, we initiate our coverage on Evergrande with a **BUY** rating with TP at HK$ 4.10.

Exhibit 36: China property sector- FY14 P/E



Source(s): Bloomberg, ABCI Securities estimates

Exhibit 37 : China property sector- FY14 yield



Source(s): Bloomberg, ABCI Securities estimates

Exhibit 38: Valuation of Hong Kong-listed and PRC-listed developers

	China Property	Ticker	Rating	TP	Mkt cap	Share Price	Performance			Discount to NAV	Valuation								
							3M	YTD	2013		P/E			Yield (%)			P/B		
					(HKD bn)	(local ccy)	% Chg	% Chg	% Chg	(%)	2013A	2014E	2015E	2013A	2014E	2015E	2013A	2014E	2015E
	Residential :																		
1	COLI	688 HK	HOLD	19.50	170	20.55	4	(4)	(4)	(15.72)	8.9	7.2	6.3	2.3	2.8	3.2	1.5	1.3	1.1
2	CR Land	1109 HK	NR		89	15.20	(7)	(19)	(8)	(45.81)	9.5	7.8	6.4	2.9	3.4	4.0	1.0	0.9	0.8
3	Country Garden	2007 HK	NR		62	3.27	(2)	(25)	20	(51.77)	5.9	4.7	4.0	6.4	7.5	8.7	1.1	0.9	0.8
4	Shimao	813 HK	NR		53	15.04	(9)	(11)	26	(54.24)	5.7	4.8	4.0	6.7	6.4	7.4	1.0	0.9	0.8
5	Longfor	960 HK	NR		54	9.90	(9)	(6)	(27)	(48.52)	7.0	6.0	5.2	2.9	3.2	3.8	1.2	1.0	0.8
6	Evergrande	3333 HK	BUY	4.10	49	3.34	(9)	32	(27)	(67.34)	4.2	4.4	3.1	16.1	8.0	11.4	0.6	0.5	0.5
7	Guangzhou R&F	2777 HK	NR		34	10.54	(3)	(1)	(7)	(65.95)	4.7	4.3	3.7	7.3	7.5	8.6	0.9	0.7	0.6
8	Sino Ocean	3377 HK	NR		31	4.12	(2)	(16)	(8)	(54.31)	7.3	6.5	5.7	5.6	6.2	7.0	0.6	0.5	0.5
9	Agile	3383 HK	NR		20	5.76	(10)	(27)	(20)	(67.24)	3.6	3.5	3.2	8.2	8.3	9.0	0.5	0.5	0.4
10	Greentown	3900 HK	BUY	9.70	18	8.23	(1)	(25)	(12)	(66.14)	3.7	3.2	2.8	6.5	7.3	8.0	0.6	0.5	0.5
11	Sunac	1918 HK	BUY	7.10	17	5.08	17	17	(21)	(75.10)	3.8	3.0	2.8	4.7	5.9	6.3	1.0	0.8	0.6
12	Yuexiu Properties	123 HK	NR		14	1.54	(1)	(18)	(18)	(65.39)	9.2	6.8	5.4	5.4	6.0	7.2	0.5	0.5	0.4
13	COGO	81 HK	NR		12	5.15	(2)	(29)	(20)	(60.29)	4.2	3.6	3.0	2.1	2.7	3.1	1.0	0.8	0.7
14	KWG	1813 HK	NR		15	5.02	14	26	(23)	(67.36)	5.0	4.1	3.5	7.2	7.0	8.3	0.7	0.6	0.5
15	Kaisa	1638 HK	BUY	4.00	13	2.52	(2)	7	4	(68.50)	4.4	3.2	2.4	7.4	8.8	13.9	0.6	0.6	0.5
16	CIFI	884 HK	BUY	1.60	9	1.50	(1)	(4)	15	(63.33)	4.8	3.9	3.5	4.7	5.8	6.4	0.8	0.7	0.6
17	BJ Capital Land	2868 HK	NR		5	2.64	(6)	10	(12)	(52.00)	3.7	2.4	2.2	10.4	13.5	13.8	0.5	0.4	0.3
18	Future Land	1030 HK	NR		4	0.71	(14)	(16)	(35)	(85.80)	3.4	2.5	2.2	8.8	10.2	11.1	0.5	0.3	0.3
19	China Aoyuan	3883 HK	BUY	2.40	4	1.39	7	(8)	35	(76.93)	4.4	2.5	1.4	7.2	10.0	17.2	0.4	0.4	0.3
	HK Listed Avg						**(2)**	**(6)**	**(7)**	**(60.62)**	**5.4**	**4.4**	**3.7**	**6.5**	**6.9**	**8.3**	**0.8**	**0.7**	**0.6**
	- Large cap (>HKD30b) avg						**(5)**	**(6)**	**(4)**	**(50.46)**	**6.6**	**5.7**	**4.8**	**6.3**	**5.6**	**6.8**	**1.0**	**0.9**	**0.7**
	- Small-mid cap (<HKD30b) avg						**(1)**	**(6)**	**(14)**	**(67.12)**	**4.6**	**3.6**	**3.1**	**6.5**	**7.5**	**8.7**	**0.7**	**0.6**	**0.5**
1	Vanke	000002 CH	NR		129	8.94	15	17	(15)	(41.95)	8.5	5.3	4.5	4.6	4.6	5.5	1.3	1.1	0.9
2	Poly-A	600048 CH	NR		76	5.71	11	8	(38)	(67.18)	7.0	4.5	3.7	3.4	4.4	5.1	1.2	0.9	0.8
3	China Merchants Property	000024 CH	NR		36	11.66	0	(13)	(30)	(65.43)	8.6	5.1	4.1	2.8	2.9	3.7	1.1	1.0	0.8
4	Gemdale	600383 CH	NR		50	9.02	10	37	(4)	(28.30)	11.1	9.3	7.7	1.0	1.8	1.8	1.4	1.3	1.1
	A-share Listed Avg						**9**	**12**	**(22)**	**(50.72)**	**8.8**	**6.1**	**5.0**	**2.9**	**3.4**	**4.0**	**1.2**	**1.1**	**0.9**
	Commercial:																		
1	SOHO China	410 HK	NR		32	6.15	(2)	(5)	13	(23.13)	5.8	12.4	19.6	5.1	5.0	4.8	0.7	0.7	0.6
2	China South City	1668 HK	BUY	4.50	30	3.91	10	78	97	(58.16)	12.0	6.0	4.6	2.6	3.8	5.1	1.4	1.2	1.0
3	Hui Xian REIT	87001 HK	NR		23	3.56	4	(5)	(1)	(18.63)	25.0	14.9	14.1	6.9	7.5	7.9	0.7	0.7	0.7
4	Franshion	817 HK	BUY	3.60	20	2.15	(14)	(17)	(1)	(55.65)	7.2	5.4	3.8	4.4	5.6	7.4	0.7	0.6	0.6
5	Shui On Land	272 HK	NR		16	1.95	(7)	(16)	(30)	(45.45)	10.7	11.3	9.6	3.2	4.1	3.7	0.3	0.3	0.3
6	Yuexiu REIT	405 HK	NR		11	3.83	4	5	9	na	44.9	31.1	25.7	7.1	7.4	7.8	0.7	0.7	0.7
7	Zall	2098 HK	NR		10	2.76	2	1	(10)	na	27.9	na	na	0.0	na	na	1.2	na	na
8	Wuzhou	1369 HK	NR		8	1.66	13	32	36	na	17.5	9.0	6.2	2.1	2.8	4.5	2.5	na	na
	Commercial Avg						**(5)**	**5**	**14**	**(46.04)**	**17.1**	**11.5**	**10.7**	**4.8**	**6.5**	**7.5**	**1.0**	**0.7**	**0.7**
	- Developers						**(3)**	**10**	**20**	**(45.60)**	***12.0***	***7.7***	***7.6***	***4.2***	***6.2***	***7.4***	***1.1***	***0.7***	***0.6***
	- Landlords/REIT						**(24)**	**(14)**	**(1)**	**(46.93)**	***35.0***	***23.0***	***19.9***	***7.0***	***7.4***	***7.8***	***0.7***	***0.7***	***0.7***

* Share price as at Jul 21, 2014

Source(s): Bloomberg, ABCI Securities estimates

Risk factors

- **Aggressive land acquisition may expand presales but erode margins.** As Evergrande entered 3 tier 1 cities in 2013 by acquiring sites at high prices., some of these projects may have lower margins. In terms of total landbank, however, projects in tier-1 cities weigh much less than those in tier- 2/3 cities. Thus, low margins in projects in top-tier regions are unlikely to drag down the Group's overall gross margin.

- **Oversupply in tier 3 cities where 56% of its landbank is located.** Despite its increasing exposure in top tier cities, 56% of the Group's landbank is located in tier 3 cities that are currently pressured by oversupply and fierce price competition.

- **Tightening liquidity may affect financing.** Bankruptcies of several small, local developers have raised liquidity concerns in the sector. Nonetheless, Evergrande's well-established offshore fundraising channels should help reduce the impact of tightening credit in China. Apart from the 8.75% coupon USD 1bn bond raised in 2013, the Group has also secured offshore bilateral loans of ~USD 1bn with a 6% all-in interest cost (including commission fees and other expenses).

- **Share price is distorted by share repurchase program in the short term.** The company's share repurchase program represents a significant portion of daily turnover, which greatly drives up buying demand for Evergrande's share in the market. If the Group stops repurchasing its shares, share price may fall in the short term on reduced demand.

Consolidated income statement (20112-2016E)

FY Ended Dec 31 (RMB mn)	2012A	2013A	2014E	2015E	2016E
Revenue	**65,261**	**93,672**	**124,369**	**159,972**	**179,186**
Cost of sales	(47,050)	(66,023)	(89,739)	(114,547)	(127,082)
Gross Profit	**18,210**	**27,649**	**34,629**	**45,426**	**52,103**
SG&A expenses	(6,783)	(9,462)	(13,432)	(16,552)	(17,931)
EBIT	**11,428**	**18,187**	**21,197**	**28,874**	**34,173**
Finance cost	(54)	(34)	(46)	(43)	(43)
Share of profit of associates	0	0	0	0	0
Other income/ (expenses)	631	699	1,074	1,326	1,525
Fair value gain of investment properties	0	0	0	0	0
Disposal/one-off items	4,485	6,545	0	0	0
Profit before tax	**16,490**	**25,396**	**22,225**	**30,157**	**35,655**
Tax	(7,308)	(11,687)	(10,617)	(14,057)	(16,610)
Profit after tax	**9,182**	**13,709**	**11,609**	**16,100**	**19,045**
Minority interest	(11)	(1,097)	(2,593)	(3,203)	(3,749)
Reported net profit	**9,171**	**12,612**	**9,015**	**12,897**	**15,296**
Less: exceptional items	*(2,971)*	*(2,302)*	*0*	*0*	*0*
Underlying net profit	**6,200**	**10,310**	**9,015**	**12,897**	**15,296**
Per share					
Underlying EPS (RMB)	0.41	0.64	0.61	0.87	1.04
DPS (RMB)	0.14	0.43	0.21	0.31	0.36
Payout ratio (%)	34%	67%	35%	35%	35%
BVPS (RMB)	2.55	4.59	5.17	5.74	6.42
Growth %					
Revenue	5.4%	43.5%	32.8%	28.6%	12.0%
Gross Profit	-11.6%	51.8%	25.2%	31.2%	14.7%
EBIT	-23.5%	59.1%	16.6%	36.2%	18.4%
Underlying net profit	-21.2%	66.3%	-12.6%	43.1%	18.6%
Margin %					
Gross margin	27.9%	29.5%	27.8%	28.4%	29.1%
Gross margin (post-LAT)	24.5%	24.7%	23.8%	24.4%	24.8%
EBIT margin	17.5%	19.4%	17.0%	18.0%	19.1%
Core net margin	8.9%	9.4%	9.3%	10.1%	10.6%
Key assumptions					
Presales (RMB mn)	92,320	100,400	127,562	168,189	185,146
GFA sold (m sqm)	15.49	14.89	18.82	24.26	26.17
ASP (RMB/sqm)	5,962	6,741	6,779	6,931	7,074
Booked Sales (RMB)	63,507	92,235	121,549	157,058	176,189
GFA delivered (m sqm)	10.64	14.96	18.05	22.79	25.05
Booked ASP (RMB/sqm)	5,972	6,166	6,733	6,890	7,032

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2012A-2016E)

As of Dec 31 (RMB mn)	2012A	2013A	2014E	2015E	2016E
Current assets	**200,544**	**289,378**	**292,901**	**309,425**	**327,872**
Cash	17,790	40,118	29,907	63,007	100,163
Restricted cash	7,399	13,535	13,535	13,535	13,535
Trade & other receivables	5,785	9,512	9,512	9,512	9,512
Property under development	148,452	184,833	198,567	181,991	163,281
Other current assets	21,117	41,381	41,381	41,381	41,381
Non-current assets	**38,447**	**58,770**	**61,010**	**59,837**	**58,541**
Property, plant & equipment	8,559	11,378	10,318	9,145	7,849
Investment properties	24,942	36,039	36,039	36,039	36,039
Investment in Associate and JCE	0	0	0	0	0
Other non-current assets	4,946	11,353	14,653	14,653	14,653
Total Assets	**238,991**	**348,148**	**353,911**	**369,263**	**386,412**
Current Liabilities	**150,378**	**188,198**	**191,493**	**198,562**	**205,824**
Short term borrowings	19,031	35,796	35,796	35,796	35,796
Trade & other payables	77,788	99,895	99,895	99,895	99,895
Pre-sales deposits	44,833	39,000	42,296	49,365	56,627
Other current assets	8,725	13,506	13,506	13,506	13,506
Non-current liabilities	**46,921**	**80,608**	**80,608**	**80,608**	**80,608**
Long term borrowings	41,243	73,021	73,021	73,021	73,021
Other payables	0	0	0	0	0
Other non-current assets	5,678	7,587	7,587	7,587	7,587
Total Liabilities	**197,299**	**268,806**	**272,102**	**279,170**	**286,432**
Net Assets	**41,691**	**79,343**	**81,810**	**90,093**	**99,980**
Shareholders Equity*	**38,264**	**73,614**	**76,290**	**84,673**	**94,615**
Minority Interest	3,428	5,729	5,520	5,420	5,365
Total Equity	**41,691**	**79,343**	**81,810**	**90,093**	**99,980**
Key ratio					
Gross debt (RMB mn)	60,274	108,817	108,817	108,817	108,817
Net debt (RMB mn)	35,084	55,164	65,376	32,275	(4,881)
Net gearing (%)	92%	75%	86%	38%	-5%
Presales/ Total assets (x)	0.39	0.29	0.36	0.46	0.48

* Including RMB25bn perpetual capital instrument from 2013-16E
Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2012A-2016E)

FY ended Dec 31 (RMB mn)	2012A	2013A	2014E	2015E	2016E
EBITDA	12,017	19,214	22,327	30,116	35,539
Change in Working Capital	(5,064)	(44,409)	398	33,939	36,266
Tax payment	(6,897)	(5,850)	(10,617)	(14,057)	(16,610)
Operating Cash flow	**55**	**(31,045)**	**12,108**	**49,999**	**55,196**
Addition of PP&E and IP	(6,867)	(11,782)	(70)	(70)	(70)
Others	(944)	(1,353)	(2,226)	1,326	1,525
Investing Cash flow	**(7,810)**	**(13,134)**	**(2,296)**	**1,256**	**1,455**
Debt raised	26,808	74,368	5,000	5,000	5,000
Debt repaid	(17,721)	(25,463)	(5,000)	(5,000)	(5,000)
Interest expenses	(5,629)	(7,827)	(10,882)	(10,338)	(10,338)
Equity raised	0	3,526	0	0	0
Dividend to shareholders	(2,801)	(2,292)	(6,339)	(4,514)	(5,354)
Perpetual securities raised	0	24,367	(2,753)	(3,253)	(3,754)
Others	4,805	(174)	(50)	(50)	(50)
Financing Cash flow	**5,463**	**66,506**	**(20,023)**	**(18,155)**	**(19,495)**
Net cash inflow/ (outflow)	**(2,293)**	**22,327**	**(10,212)**	**33,100**	**37,156**
Cash- beginning	20,082	17,789	40,118	29,907	63,007
Cash- year-end	**17,789**	**40,116**	**29,907**	**63,007**	**100,163**

Source(s): Company, ABCI Securities estimates

Disclosures

Analyst Certification

I, Tung Yiu Kei, Kenneth, 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. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

Disclosures of Interests

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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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