



Evergrande(3333) -Maintain BUY

Key Data

Industry	Properties&Construction
Price(21/6/2012)	HK\$3.97
Price target	HK\$5.82
Upside potential	59.0%
52Wk H/L(HK\$)	6.27/2.13
Issued shares(mn)	14,958
Market Cap(HK\$m)	59,383.3
15-day avg vol(mn)	120.4
Auditors	PwC
Major shareholder:	
Xu jiayin*	68.1%

Source: Company data&Bloomberg

*The founder and Chairman of the group

Key takeaways from conference call on 21 June

We attended the conference call held by Evergrande on allegations in Citron's report. Mr.Xu, the chairman denied all the allegations in Citron's report. We expect the share price to be volatile in the short term until more detailed clarification from the management or 1H12 results is out (late Aug). It's trading volume rallied to 940mn, or 5 times larger than 15 day average (ie 154mn). However, fundamentally, we are positive on the stock and maintain our BUY rating on the stock. Based on reported financial statement, which was audited by PwC and combining the 1H12 sales progress, we estimate the group will have ~Rmb20.0bn cash in the balance sheet at the end of 30, June with net gearing at 65%.

Citron Research is a private investigation agency, which is famous for its attacking on Chinese stocks. It usually has had a short position already and then publishes the negative investment reports. From March 2010 to the present, he issued 9 reports, almost each have caused the crash or even delisted of Chinese stocks, including in China Valves Technology (Nasdaq: CVVT), China Media Express(Nasdaq: CCME), Sky-mobi (Nasdaq: MOBI), and China-Biotics(Nasdaq: CHBT), and Longtop Financial Technologies (NYSE: LFT),etc.

Evergrande became the target of Citron Research on Thursday (21 June 2012), saying that Evergrande is essentially an insolvent company that has consistently presented fraudulent information to the investing public. Evergrande dropped as much as 19.6% and closed with a decline of 11.4%.

Evergrande posted a clarification announcement on the HKex website on 12:48 noon and held a conference call on 1:30pm after three hours of the issue. Mr.Xu, the chairman attended the call. The chairman denied all the allegations in Citron's report. Given they haven't read the long report in depth so far, further clarification announcement will be made by the group in due course some time later.

Key takeaways from the call are as follows.

- The group denied that it gives guaranteed returns/share buyback commitment to the minority investors in its JV projects. They denied that they have any off-balance sheet liability.
- The management reiterated confidence on the achievement of full year sales target (Rmb80bn) and guided a promising sales prospects starting from June. They implied that they may record MoM increase in monthly sales from June. The management highlighted its healthy cash position.
- Management will go to HK to meet investors soon after conference call.

Our views are as follows.

- We have checked that the group doesn't have JV below 50% interest. Thus the group need to consolidate the financial reports of all the JVs and should not have off-balance sheet liability incurred by JV.

Results and Forecast

FY ended 31/12	2011A	2012E	2013E
Revenue(Rmbmn)	61,918	76,788	96,232
Chg(YoY)	35.2%	24.0%	25.3%
Core net profit^ (Rmbmn)	8,610	10,535	12,210
Chg(YoY)	56.3%	22.4%	15.9%
Core EPS (Rmb/share)	0.57	0.71	0.82
PE(x)	5.3	4.2	3.6
DPS (HK\$)	0.2340	0.2166	0.2510
Yield	6.4%	5.9%	6.9%
NBV/share(Rmb)	2.15	2.71	3.35
Chg(YoY)	57.0%	26.2%	23.7%
PB(x)	1.39	1.10	0.89

^Excluding revaluation G/L on investment property;
Rmb0.8121/HK\$

Source: Companies' announcements and ABCI Securities estimates

Report Date: 21 June, 2012

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- As we have mentioned, its sales regained (for details please refer to report issued on 21 May). The group reported May’s contracted sales at Rmb10.4bn, its first single month over the milestone of Rmb10bn. We expect the momentum to continue on the back of new projects launched and pickup in demand in lower tier cities. The group achieved Rmb26.8bn contracted sales for the first 5 months.
- Assuming 80% cash collection ratio, we estimate sales this year bring in Rmb21.4bn cash for the group. Based on reported financial statement, which was audited by PwC, the group had cash Rmb28,204mn with net debt/equity ratio at 67.5% as of the end of 2011. Taking into land premium payment, construction and other major cash outflow, we estimate the group will have ~Rmb20.0bn cash in the balance sheet at the end of 30, June with net gearing at 65%.
- The counter is trading at 59.1% discount to 2012NAV of HK\$9.7 or at est FY12PE of 4.6x and PB of 1.2x. The PB valuation is approaching to 0.83x, the lowest level since listing. We expect the stock to find strong support at HK\$3.29, representing 1.0x PB. Based on 40% of NAV(HK\$9.7), our target price is at HK\$5.82. **We are fundamentally positive on the stock and maintain our BUY rating on the stock.**

	2H09	1H10	2H10	1H11	2H11
Price high(HK\$)	4.85	4.34	4.22	5.90	6.27
Price low(HK\$)	3.50	1.83	2.16	3.25	2.17
Ending NBV/share(Rmb)	0.86	1.01	1.37	1.84	2.15
Ending NBV/share(HK\$)	0.98	1.16	1.65	2.24	2.62
P/B high	4.96	3.74	2.56	2.63	2.40
P/B low	3.58	1.58	1.31	1.45	0.83

Source: Bloomberg and ABCI Securities



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Disclosures

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Disclosures of Interests

Li Hong-ying has financial interest in Evergrande Real Estate Group Limited as at 22 June 2012.

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