



Evergrande (3333 HK) Deserve premium valuation

- The third round of capital increase to Hengda Real Estate (HRE) raised RMB 60bn; The three rounds of capital subscription raised a total of RMB 130bn
- Evergrande raised HRE's net profit forecasts in the performance undertaking to RMB 50bn (from 30.8bn) for 2018, RMB 55bn (from RMB 33.7bn) for 2019 and RMB 60bn for 2020
- Maintain **BUY** and raise TP to HK\$ 35.80 (from HK\$ 28.40) based on a 10% discount to 2018E NAV

Third round of capital increase raised RMB 60bn. In Nov 2017, Evergrande raised RMB 60bn from the third round of new share issuance of its property subsidiary, Hengda Real Estates (HRE), pending to be listed in the A-share market. A total of six investors subscribed 14.11% of HRE's enlarged capital, implying a pre-money valuation of RMB 365.19bn, 74% higher than the valuation of RMB 210bn after the second round of capital increase in June 2017. Among the six investors, Suning Electrical Appliance, one of the leading electrical appliance retailers, subscribed RMB 20bn for a 4.7% stake. Also, Evergrande raised HRE's net profit forecasts (after deducting non-recurring gains and losses) in the performance undertaking to RMB50bn (from RMB30.8bn) for 2018, RMB55bn (from RMB33.7bn) for 2019 and RMB60bn (previously unstated) for 2020, implying increased optimism over future profitability.

Net gearing to improve more and sooner than expected. During the interim results meeting, Evergrande announced the goal to slash net gearing to 140% by June 2018, 100% by June 2019 and 70% by June 2020 and beyond via: 1) a 5-10% annual reduction in land reserves until June 2020; 2) making the third tranche of strategic investment (RMB30-50bn) in HRE; 3) improving profitability further to increase equity base. Results of the third round of capital increase were higher than the RMB30-50bn guidance. We expect Evergrande's net gearing to come down to 55% by 2018E, two years ahead of schedule.

Deserves premium valuation; maintain BUY and raise TP to HK\$35.80. Evergrande's interim results surprised the market with its higher-than-peer gross margin. It tops the attributable presales in 9M17 and core profit rankings in 1H17. Its average daily turnover of HK\$1.1bn in the past 3 months is the highest in sector. With significant reduction in net gearing, we think Evergrande deserves a valuation towards the high-end range among peers. We roll forward our NAV forecast to 2018 and lower NAV to HK\$ 39.73/share (from HK\$40.61/share) mainly due to the dilution impact resulted from HRE's capital increase. However, TP is raised to HK\$ 35.80 (from HK\$ 28.4) due to a reduced NAV discount of 10% (from 30%). We believe the lower discount is justified given its remarkable presales, profitability, and trading liquidity. Maintain **BUY**.

Results and Valuation

FY ended Dec 31	2015A	2016A	2017E	2018E	2019E
Revenue (RMB mn)	133,130	211,444	381,088	456,641	499,378
Chg (% YoY)	19.5	58.8	80.2	19.8	9.4
Core net profit (RMB mn)	1,992	3,045	34,319	31,854	35,620
Chg (% YoY)	(42.6)	52.9	1,027.3	(7.2)	11.8
Core EPS (RMB)	0.14	0.21	2.53	2.35	2.63
Chg (% YoY)	(41.3)	52.9	1,098.0	(7.2)	11.8
BVPS (RMB)	3.5	3.1	4.9	6.1	7.4
Chg (% YoY)	2.1	(13.3)	60.7	23.8	21.5
Core PE (x)	191.0	124.9	10.4	11.2	10.0
P/B (x)	7.5	8.6	5.3	4.3	3.6
ROE (%)	1.6	1.9	51.3	38.5	35.4
ROA (%)	0.3	0.2	2.2	1.8	1.8
DPS(RMB)	0.38	-	-	1.17	1.31
Yield (%)	1.4	-	-	4.5	5.0
Net gearing (%)	93.5	119.8	97.4	55.4	45.2

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Nov 14, 2017

Rating: **BUY**

TP: **HK\$ 35.8**

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Share price (HK\$)	30.80
Est. share price return	16.2%
Est. dividend yield	0.0%
Est. total return	16.2%
Previous Rating & TP	BUY, HK\$28.40
Previous Report Date	Sep 5, 2017

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	32.50/4.73
Issued shares (mn)	13,694
Market cap (HK\$ mn)	403,832
3-mth avg daily turnover(HK\$ mn)	1,126.27
Major shareholder(s) (%)	
HUI Ka Yan	70.1%

Source(s): Bloomberg, ABCI Securities

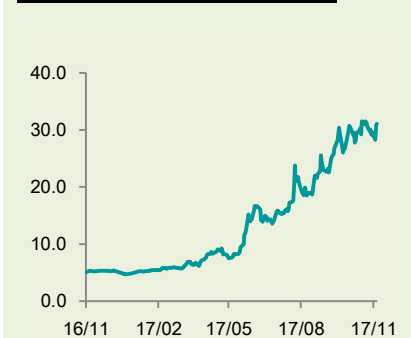
Share Performance

	Absolute	Relative*
1-mth	4.2	2.0
3-mth	65.9	53.2
6-mth	270.0	219.4

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year share performance(HK\$)



Source(s): Bloomberg, ABCI Securities



Risk factors: 1) The amount of charity and public donations by the Group may vary greatly from one year to another (FY16: RMB 1,434mn, +28% YoY); 2) Financial division may remain in loss.

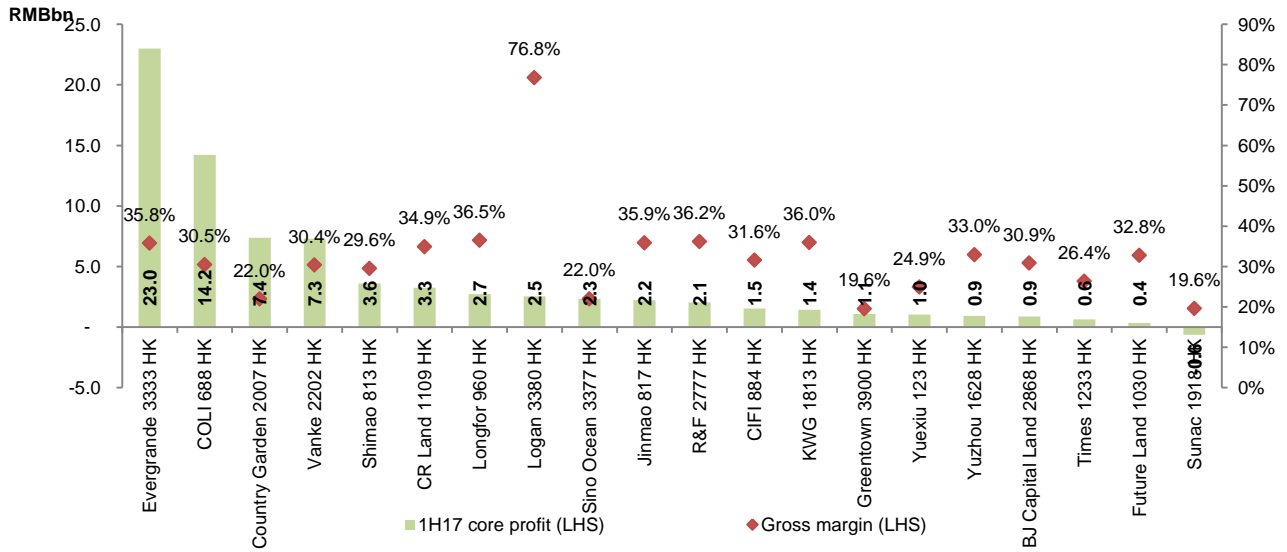
Exhibit 1: HRE's investors in the three rounds of capital increase

	Company	Amount RMBbn	% of enlarged capital	Background
First round				
1	CITIC Juheng	5.0	2.19%	Engage in investment in industrial enterprises
2	Guangtian	5.0	2.19%	Engage in the assets management
3	Huajian	5.0	2.19%	Engage in investment in industrial enterprises
4	Zhongrong	3.0	1.32%	Engage in investment in industrial enterprises
5	Shandong Highway	3.0	1.32%	Engage in assets management
6	Ruican Investment	3.0	1.32%	Engage in the venture capital
7	Meitou	3.0	1.32%	Engage in venture capital
8	Guangdong Weimei	3.0	1.32%	Engage in industrial investment
	1st round total	30.0	13.17%	
Second round				
1	Maanshan Maowen	5.5	2.05%	Subsidiary of SZI (604 HK)
2	Shenzhen Baoxin	5.0	1.87%	Controlled by controlling shareholder of Baoying Group (002047)
3	Jiangxi Huada Property	5.0	1.87%	Engage in property development
4	Shenzhen Qixiang	5.0	1.87%	Engage in investment of industrial enterprises
5	Shenzhen Jiancheng	3.5	1.31%	Engage in establishment of industrial enterprises
6	Suzhou Industrial Park Ruican	3.5	2.43%	Engage in venture capital business
7	Ningbo Minyin Jintou	3.0	1.12%	Engage in investment management
8	Jiaxing Yumin	2.0	0.75%	Engage in investment management
9	Weifang Golden Orange	2.0	0.75%	Engage in industrial projects investment
10	Jiayu Vehicle Accessories	2.0	0.75%	Engage in trading of vehicles
11	Shenzhen Zhongyi	1.0	0.37%	Engage in investment in industrial enterprises
12	Shanghai Haoren Property Management	1.0	0.37%	Engage in property management
13	Qingdao Yonghe Jinfeng	1.0	0.37%	Engage in investments in manufacturing industry
	2nd round total	39.5	15.86%	
Third round				
1	Shandong Highway	20.0	4.70%	Engage in assets management
2	Suning Electrical	20.0	4.70%	Engage in retail, real estates and other industries
3	Shenzhen Amer	5.0	1.18%	Engage in production and sales of new material
4	Jiayu	5.0	1.18%	Engage in trading of vehicles
5	Guangzhou Yehoo	5.0	1.18%	Engage in investment management
6	Ding Xiang Sichuan	5.0	1.18%	Engage in equity investment
	3rd round total	60.0	14.11%	

Source(s): Company, ABCI Securities

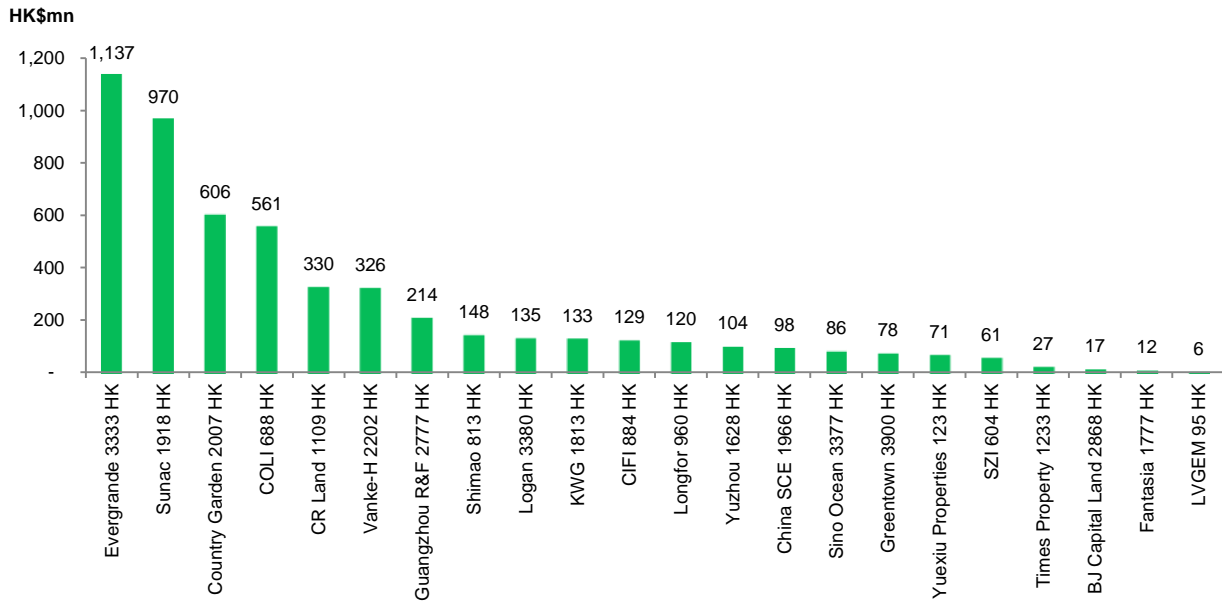


Exhibit 2: 1H17 core profit by developer



Source(s): Company, ABCI Securities

Exhibit 3: Three-month average daily turnover (Nov 2017)



Source(s): Bloomberg, ABCI Securities



Exhibit 4: Evergrande's 2018E NAV

	Attr. GFA (mn sqm)	Net assets value (RMB mn)	% of total	Valuation Methodology	Implied value (RMB/sqm)
Hengda Real Estates (63.46% stake) - property developments	176	511,578	85%	DCF at WACC of 6.8%	2,918
Hengda Real Estates (63.46% stake)- Investment properties		83,840	14%	1x PB	
Football business		1,200	0%	50% stake sold to Jack Ma at RMB1.2bn	
Financial investment		5,721	1%	Market value of Shengjing Bank	
Total 2018E GAV		602,340	100%		
2018E Net debt		(145,763)	-24%		
Perpetual capital instrument		-	0%		
Total 2018E NAV		456,577	76%		
No. of share outstanding (diluted)		13,561			
NAV per share (RMB)		33.67			
Ex rate		1.18			
NAV per share (HKD)		39.73			
Target discount (%)		10%			
Target Price (HKD)		35.80			
WACC	6.8%				
Cost of Debt	8.2%				
Cost of Equity	10.0%				
Debt/ (Debt + Equity)	70%				

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2014A-2019E)

FY Ended Dec 31 (RMB mn)	2014A	2015A	2016A	2017E	2018E	2019E
Revenue	111,398	133,130	211,444	381,088	456,641	499,378
Cost of sales	(79,615)	(95,717)	(152,022)	(251,279)	(297,629)	(324,460)
Gross Profit	31,784	37,413	59,422	129,809	159,012	174,917
SG&A expenses	(14,588)	(20,541)	(28,244)	(36,850)	(43,662)	(50,763)
EBIT	17,195	16,872	31,178	92,959	115,350	124,155
Finance cost	(1,015)	(807)	(6,392)	(5,382)	(4,298)	(3,394)
Share of profit of associates	(104)	(392)	(203)	1,364	1,515	1,515
Other income/ (expenses)	1,431	2,262	4,937	6,157	6,269	6,501
Fair value gain of investment properties	9,393	12,859	356	0	0	0
Disposal/one-off items	4,292	651	6,986	(7,073)	0	0
Profit before tax	31,191	31,445	36,862	88,025	118,835	128,776
Tax	(13,175)	(14,105)	(19,245)	(49,493)	(64,238)	(69,459)
Profit after tax	18,016	17,340	17,617	38,532	54,597	59,317
Minority interest	(1,073)	(1,797)	(2,745)	(5,736)	(22,743)	(23,697)
Perpetual coupon distribution	(4,339)	(5,083)	(9,781)	(3,781)	0	0
Reported net profit	12,604	10,460	5,091	29,015	31,854	35,620
Less: exceptional items	(9,134)	(8,469)	(2,047)	5,305	0	0
Underlying net profit	3,470	1,992	3,045	34,319	31,854	35,620
Per share						
Underlying EPS (RMB)	0.24	0.14	0.21	2.53	2.35	2.63
DPS (RMB)	0.43	0.38	-	-	1.17	1.31
Payout ratio (%)	183%	275%	0%	0%	50%	50%
BVPS (RMB)	3.47	3.54	3.07	4.93	6.11	7.42
Growth %						
Revenue	18.9%	19.5%	58.8%	80.2%	19.8%	9.4%
Gross Profit	15.0%	17.7%	58.8%	118.5%	22.5%	10.0%
EBIT	-5.5%	-1.9%	84.8%	198.2%	24.1%	7.6%
Underlying net profit	-54.9%	-42.6%	52.9%	1027.3%	-7.2%	11.8%
Margin %						
Gross margin	28.5%	28.1%	28.1%	34.1%	34.8%	35.0%
Gross margin (post-LAT)	25.6%	26.1%	25.0%	27.4%	28.1%	28.5%
EBIT margin	15.4%	12.7%	14.7%	24.4%	25.3%	24.9%
Core net margin	7.1%	5.7%	5.8%	11.1%	11.6%	11.6%
Key assumptions						
Contracted Sales (RMB mn)	131,510	201,340	406,667	554,073	614,409	720,383
GFA sold (mn sqm)	18.20	25.51	44.68	60.98	66.20	78.55
ASP (RMB/sqm)	7,228	7,892	9,102	9,087	9,281	9,171
Booked Sales (RMB mn)	107,450	126,449	203,890	371,858	445,275	485,280
GFA delivered (mn sqm)	16.84	17.24	25.57	41.84	49.36	53.94
Booked ASP (RMB/sqm)	6,382	7,334	7,975	8,888	9,022	8,997

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2014A-2019E)

As of Dec 31 (RMB mn)	2014A	2015A	2016A	2017E	2018E	2019E
Current assets	383,650	612,344	1,113,635	1,379,595	1,561,731	1,812,712
Cash	29,847	103,090	198,420	165,579	213,398	196,537
Restricted cash	29,651	60,932	105,909	105,909	105,909	105,909
Trade & other receivables	16,027	21,708	76,434	76,434	76,434	76,434
Property under development	246,476	383,728	658,627	957,427	1,091,744	1,359,587
Other current assets	61,649	42,886	74,245	74,245	74,245	74,245
Non-current assets	90,812	144,691	237,233	200,440	200,034	199,588
Property, plant & equipment	15,504	16,720	20,833	19,199	17,565	15,931
Investment properties	61,857	97,146	132,045	132,115	132,185	132,255
Investment in Associate and JCE	1,062	8,580	24,374	25,418	26,576	27,694
Other non-current assets	12,389	22,245	59,981	23,708	23,708	23,708
Total Assets	474,462	757,035	1,350,868	1,580,035	1,761,764	2,012,300
Current Liabilities	268,237	456,681	733,394	930,585	1,073,694	1,282,773
Short-term borrowings	79,663	158,744	202,906	157,906	132,906	107,906
Trade & other payables	123,673	191,309	299,905	298,880	297,856	296,831
Pre-sales deposits	47,348	83,061	194,961	438,176	607,310	842,414
Other current liabilities	17,553	23,567	35,622	35,622	35,622	35,622
Non-current liabilities	93,847	158,212	424,942	424,942	424,942	424,942
Long-term borrowings	76,401	138,162	332,164	332,164	332,164	332,164
Other payables	0	0	0	0	0	0
Other non-current liabilities	17,446	20,050	92,778	92,778	92,778	92,778
Total Liabilities	362,084	614,893	1,158,336	1,355,527	1,498,636	1,707,715
Net Assets	112,378	142,142	192,532	224,508	263,128	304,585
Shareholders' Equity	51,120	60,613	53,847	66,906	82,833	100,643
Perpetual capital instrument	52,852	66,130	103,337	0	0	0
Minority Interest	8,406	15,399	35,348	157,602	180,295	203,942
Total Equity	112,378	142,142	192,532	224,508	263,128	304,585
Key ratio						
Gross debt (RMB mn)	156,065	296,906	535,070	490,070	465,070	440,070
Net debt (RMB mn)	96,566	132,884	230,741	218,582	145,763	137,624
Net gearing (%)	86%	93%	120%	97%	55%	45%
Contracted sales/ Total assets (x)	0.28	0.27	0.30	0.35	0.35	0.36

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2014A-2019E)

FY ended Dec 31 (RMB mn)	2014A	2015A	2016A	2017E	2018E	2019E
EBITDA	18,332	18,326	32,812	94,593	116,984	125,789
Change in Working Capital	(52,024)	(25,704)	(169,385)	(26,112)	58,149	(14,530)
Tax payment	(13,175)	(14,105)	(19,245)	(49,493)	(64,238)	(69,459)
Operating cash flow	(46,868)	(21,483)	(155,818)	18,988	110,894	41,799
Purchase of PP&E	(1,532)	(10,246)	(70)	(70)	(70)	(70)
Others	(1,869)	12,905	(18,242)	35,677	6,626	6,897
Investing cash flow	(3,402)	2,659	(18,312)	35,607	6,556	6,827
Debt raised	52,794	115,470	317,887	5,000	5,000	5,000
Debt repaid	(5,000)	(641)	(5,000)	(50,000)	(30,000)	(30,000)
Interest expenses	(14,649)	(21,102)	(32,731)	(35,880)	(28,654)	(22,629)
Equity raised	0	(658)	0	(6,349)	0	0
Dividend to shareholders	(6,339)	(5,476)	0	0	(15,927)	(17,810)
Perpetual securities raised/(repaid)	13,241	(5,083)	(10,646)	(117,157)	0	0
Others	(50)	9,557	(50)	116,950	(50)	(50)
Financing cash flow	39,997	92,067	269,460	(87,435)	(69,631)	(65,489)
Net cash inflow/ (outflow)	(10,272)	73,243	95,330	(32,841)	47,819	(16,862)
Cash- beginning	40,118	29,847	103,090	198,420	165,579	213,398
Cash- year-end	29,847	103,090	198,420	165,579	213,398	196,537

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

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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