



Company Report

Sunac (1918 HK) – Buy

Real Estate Development Industry

Raise 12-month target price to HK\$4.35 (previous HK\$2.95)

Key data

| | |
|--------------------------------|-------------|
| Share price (HK\$(2 Aug 2012)) | 3.23 |
| Target price (HK\$) | 4.35 |
| Upside potential (%) | 34.6 |
| 52Wk H/L(HK\$) | 3.75 / 1.17 |
| Issued shares (mn) | 3,002 |
| Market cap (HK\$mn) | 9,696 |
| 30-day avg vol (HK\$mn) | 16.73 |
| Major shareholders (%): | |
| Sun Hongbin | 51.85 |
| Bain Capital | 10.01 |
| China Diamond | 8.51 |

Source: Company, Bloomberg, ABCI Securities

Revenue composition in FY11 (%)

| | |
|----------------------|------|
| Property development | 98.4 |
| Rental income | 0.2 |
| Property management | 1.4 |

Source: Company

Share performance (%)

| | Absolute | Relative* |
|-------|----------|-----------|
| 1-mth | 0.9 | (1.0) |
| 3-mth | 29.8 | 39.1 |
| 6-mth | 55.7 | 59.7 |

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

Analyst

Report date: 3 Aug, 2012
 Vivian Li
 Tel: (852) 2147 8897
 Email: vivianli@abci.com.hk

Previous report
 Date: 2 Apr, 2012
 Rating: Buy

Growing big

Sunac, a niche developer in high-end property market, posted resilient sales growth for 1H12, denying the curbing measures on the sector. With est. Rmb22bn sales cash inflow, our worry on the group's liquidity risk is easing. The strategic entry to 1st-tier city, Shanghai by acquiring equity interest of projects from Greentown (3900 HK) fits well into its high-end positioning. This, together with demonstrated capability in product development and marketing, is set to open up more upside for the group.

Resilient sales growth in market downturn: The group recorded contracted sales of Rmb11.2bn, up 129.1% YoY for 1H12. Sunac is rewarding from its branding strategy in focused cities. We are turning more positive on its sales outlook. We expect its contract sales to fetch to Rmb24.0bn (up 35% YoY) for 2012, or exceeding its budget sales by 9.1%.

Liquidity concern eased: Based on the expected contract sales this year and the disclosed M&A, we estimate the group will have Rmb6.7bn cash for buffer before refinancing by the year end.

Strategic entry to Shanghai: Sunac takes advantages of some financial distressed developers to de-leverage their balance sheets to rolling out its expansion plan. We estimate its core EPS to grow by 19.0% YoY and 22.7% YoY for FY12 and FY13 respectively.

Valuation: Boosted by land acquisition and brighter sales outlook, we raise our 2012 NAV by 15% to HK\$7.24/share. Its core EPS for FY12 and FY13 are revised up by 7% and 10% to Rmb0.711 and Rmb0.872 respectively. Applying 5.0x forward PE and based on our revised core FY 12 EPS of Rmb0.711, we raise our TP of Sunac from HK\$2.95 to HK\$4.35. Maintain Buy rating.

Risk factors: Dilution effects on capital raising exercises; slower-than-expected sales progress in 2H12; high gearing; unfavorable government policy.

Forecast and valuation

| FY ended Dec 31 | FY09A | FY10A | FY11A | FY12E | FY13E |
|--------------------------|-------|-------|-------|-------|-------|
| Core net profit^ (Rmbmn) | 785 | 1,542 | 1,793 | 2,132 | 2,616 |
| YoY chg(%) | - | 96.4 | 16.3 | 18.9 | 22.7 |
| Core EPS (Rmb) | 0.349 | 0.514 | 0.597 | 0.711 | 0.872 |
| YoY chg(%) | 0.0 | 47.3 | 16.1 | 19.0 | 22.7 |
| BVPS(Rmb) | 0.6 | 1.6 | 2.4 | 3.0 | 3.7 |
| PE(x) | - | - | 4.4 | 3.7 | 3.0 |
| PB(x) | - | - | 1.1 | 0.9 | 0.7 |
| Dividend yield (%) | - | - | 3.2 | 3.0 | 4.0 |
| ROAE(%) | 60.2 | 51.1 | 40.2 | 26.7 | 25.9 |

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

Source: Company data, Bloomberg, ABCI Securities estimates



Resilient sales growth in market downturn

Encouraging performance for 1H12

Despite of the tough market in 1H12, the group recorded contracted sales of Rmb11.2bn, up 129.1% YoY. The growth rate was the strongest among 16 Chinese property developers in our peer group. Sunac is rewarding from brand building strategy in focused cities. This allows the group to stand out in market downturn, although its target high-end market is mostly hurt by curbing measures. Sunac achieved 51.0% of its full year budget sales by 1H12.

Contracted sales summary by major listed China developers

| | Name(ranked by MV) | -----1H12----- | | 2012 | 1H12 |
|--------|--------------------|-------------------|--------|-------------------|---------------------|
| | | Rmbbn | YoY | Target Rmbbn | Achieved/ target |
| 688 | China Overseas | 65.1 [^] | 24.7% | 80.0 [^] | 81.4% |
| 3333 | Evergrande | 35.0 | -17.2% | 80.0 | 43.8% |
| 960 | Longfor Properties | 17.5 | -4.4% | 39.0 | 44.8% |
| 2007 | Country Garden | 17.3 | -19.3% | 43.0 | 40.3% |
| 3383 | Agile Property | 14.1 | -10.4% | 31.0 | 45.4% |
| 813 | Shimao Property | 22.5 | 58.0% | 30.7 | 73.3% |
| 2777 | R&F Properties | 14.6 | 9.0% | 32.0 | 45.8% |
| 119 | Poly HK | 10.1 | 26.0% | 16.0 | 63.1% |
| 1813 | KWG | 5.4 | -17.5% | 12.0 | 44.7% |
| 1638 | Kaisa Group | 6.5 | 44.0% | 16.5 | 39.4% |
| 1918 | Sunac | 11.2 | 129.0% | 22.0 | 51.0% |
| 1777 | Fantasia | 3.4 | -1.4% | 7.2 | 46.6% |
| 1224 | C C Land | 2.8 | -13.2% | 6.8 | 41.4% |
| 000002 | Vanke A-share | 62.6 | -4.7% | - | - |
| 600048 | Poly A-share | 50.3 | 27.5% | - | - |
| 600383 | Gemdale A-share | 13.5 | 19.6% | - | - |
| | Average | | 15.6% | | 52.8% |
| | Max | | 129.0% | | 81.4% |
| | Min | | -19.3% | | 39.4% |

[^]contracted sales unit is HK\$bn

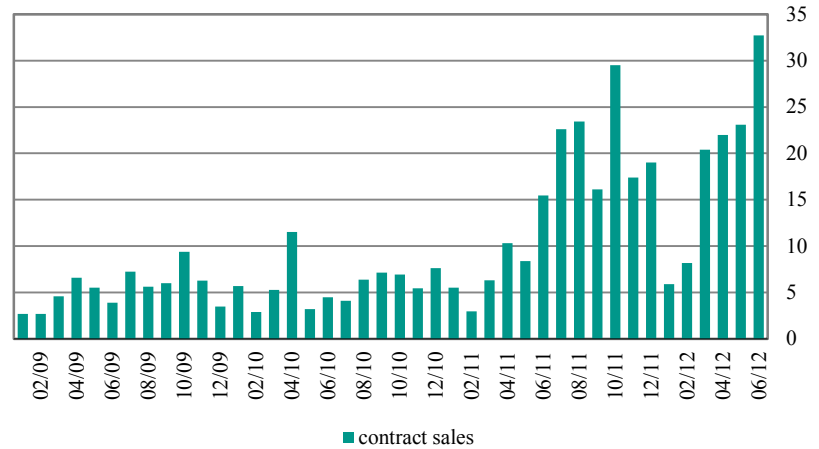
Source: Companies' announcements and ABCI Securities

Upbeat budget sales are expected for 2012

The consistently strong monthly sales, i.e. Rmb2.0-3.0bn, for 2H12 are expected. We expect the group to post Rmb24.0bn sales for 2012, implying 35.5% YoY growth for the year and surpassing its budget sales (Rmb22.0bn) by 9.1%. We raise our sales target by 15.3% from Rmb20.8bn made in April. The strong track record in market downturn and on the back of more salable resources after acquiring projects interest from Greentown allow us to be more positive on its sales outlook.



Monthly contracted sales of Sunac



Source: Company data and ABCI Securities

Liquidity concern eased

In our report dated on 2 April, we estimate the group has Rmb3.7bn cash for buffer before refinancing which we believe is tight. The small cap developers have been suffering from lack of financial channels, particularly for the high leveraged ones, such as Sunac. The net debt/equity hovered to 104.1% as of end of 2011.

But through strong cash inflow from sales, we expect that Sunac will successfully fulfill its fund needs, not only survive but also allow it expand. We now estimate the group has Rmb6.7bn cash for buffer before refinancing by the year end.

2012E funding gap analysis

| | Apr estimation 2012E Rmbbn | Aug estimation 2012E Rmbbn |
|--|----------------------------------|----------------------------------|
| Cash balance in the beginning of year | 3.9 | 3.9 |
| Cash inflow from contract sales(80% cash collection ratio assumed for 2011-2012) | 18.0 | 22.0 |
| Loan repayment | -2.2 | -2.2 |
| Land premium repayment | 0.0 | -1.0 |
| Construction cost payment | -8.0 | -8.0 |
| SG&A+ Financial expense | -2.3 | -2.3 |
| Tax | -3.7 | -3.7 |
| JV partnership investment | -2.0 | -2.0 |
| Buffer before refinancing | 3.7 | 6.7 |

Source: ABCI Securities estimates

Strategic entry to Shanghai

According to the announcement made on 22 June, Sunac agreed to buy 50% interest in the equity of nine Greentown's projects, with attributable GFA at 1.0mn for effective consideration of Rmb5.9bn, or Rmb5,900/sq.m..

The deal enlarged its land bank. Small land reserve was used to be a weakness of Sunac, constraining its sales visibility. Post-acquisition, the total



Sunac China Holdings Ltd.

land reserve increased to 11.2mn sq.m. with attributable GFA up to 7.6mn sq.m., for 4-5 years of development by our estimation.

More importantly, the deal enables the group to enter Shanghai, which is strategically essential to Sunac as the group needs to open up other high-end cities, apart from Beijing and Tianjin, in order to implement its high-end markets strategy. The cooperation with Greentown, a well-known high-end but financially distressed developer, helps Sunac to leverage Greentown's local knowledge, reduce the operational risk and penetrate Shanghai at a bargaining.

Land bank of Sunac by end June

| City | GFA K sqm. | AGFA K sqm. | /AGFA |
|--------------|---------------|----------------|---------------|
| Tianjin | 2,407 | 2,084 | 27.5% |
| Wuxi | 2,926 | 2,001 | 26.4% |
| Chongqing | 1,818 | 1,768 | 23.3% |
| Beijing | 828 | 660 | 8.7% |
| Yixing | 735 | 375 | 4.9% |
| Changzhou | 1,447 | 268 | 3.5% |
| Shanghai | 617 | 231 | 3.0% |
| Suzhou | 436 | 207 | 2.7% |
| TOTAL | 11,214 | 7,592 | 100.0% |

Source: company data and ABCI Securities

Valuation

To factor in brighter sales outlook this year and 1.0mn attributable GFA acquisition from Greentown, we raise our 2012 NAV by 15% to HK\$7.24 with WACC at 13.7%. We revise up EPS for 2012 and 2013 accordingly by 7% and 10% to Rmb0.711 and Rmb0.872 respectively.

NAV valuation table

| Development properties in | -----Current NAV calculation----- | | | |
|-----------------------------------|-----------------------------------|--------|------------|------------|
| | Rmbmn | HK\$mn | HK\$/share | /total GAV |
| Tianjin | 10,194 | 12,552 | 4.18 | 28.6% |
| Beijing | 6,016 | 7,407 | 2.47 | 16.9% |
| Shanghai | 3,612 | 4,448 | 1.48 | 10.1% |
| Wuxi | 6,999 | 8,619 | 2.87 | 19.6% |
| Suzhou | 2,054 | 2,529 | 0.84 | 5.8% |
| Yixing | 2,367 | 2,914 | 0.97 | 6.6% |
| Changzhou | 563 | 694 | 0.23 | 1.6% |
| Chongqing | 3,715 | 4,575 | 1.52 | 10.4% |
| Sub-total | 35,520 | 43,738 | 14.58 | 99.5% |
| Investment properties | 179 | 220 | 0.07 | 0.5% |
| Total GAV | 35,698 | 43,958 | 14.65 | 100.0% |
| Net off-balance sheet cash/(debt) | (3,400) | | | |
| Net in-balance sheet cash/(debt) | (14,653) | | | |
| NAV(Rmbmn) | 17,645 | | | |
| NAV(HK\$mn) | 21,728 | | | |
| NAV/share(HK\$) | 7.24 | | | |
| Share price(HK\$) | 3.23 | | | |
| Premium/discount to NAV | -55.0% | | | |

Source: company data and ABCI Securities



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Sunac China Holdings Ltd.

We use forward P/E to set target price for Sunac. PE multiple method is better to capture short term earnings growth momentum. And we believe the method is justified for the developer with sustainable delivery schedule.

Applying 5.0x forward PE and based on our revised core EPS of Rmb0.711 for FY2012, we raise our TP of Sunac from HK\$2.95 to HK\$4.35. Maintain our Buy rating.



Financial forecast

Consolidated income statements

| For the year ended 31/12 | | | | | |
|-----------------------------|--------------|--------------|---------------|---------------|---------------|
| (Rmbmn) | 2009 | 2010 | 2011 | 2012E | 2013E |
| Revenue | 4,795 | 6,654 | 10,604 | 19,171 | 24,772 |
| Property development | 4,777 | 6,594 | 10,433 | 19,000 | 24,601 |
| Rental | 18 | 19 | 18 | 18 | 18 |
| Property management service | - | 41 | 153 | 153 | 153 |
| Gross Profit | 1,359 | 2,878 | 3,566 | 6,778 | 7,491 |
| SG&A | (182) | (265) | (615) | (1,048) | (1,277) |
| Other unallocated items | (68) | (109) | (314) | (524) | (638) |
| EBIT | 1,206 | 2,636 | 2,962 | 5,730 | 6,214 |
| Net Interest Income | (108) | (168) | (183) | (264) | (154) |
| Share of Associates & JV | 188 | 129 | (10) | (105) | 380 |
| Exceptional | 57 | - | 760 | - | - |
| Pre-tax Profit | 1,342 | 2,597 | 3,528 | 5,361 | 6,441 |
| Taxation | (471) | (1,056) | (1,145) | (3,181) | (3,410) |
| Minority interest | 46 | (1) | 27 | 49 | 415 |
| Net Profit | 825 | 1,542 | 2,356 | 2,132 | 2,616 |
| Core Net Profit | 785 | 1,542 | 1,793 | 2,132 | 2,616 |
| FD EPS(Rmb) | 0.367 | 0.514 | 0.785 | 0.711 | 0.872 |
| Chg(% YoY) | | 40.1 | 52.6 | -9.4 | 22.7 |
| FD core EPS(Rmb) | 0.349 | 0.514 | 0.597 | 0.711 | 0.872 |
| Chg(% YoY) | | 47.3 | 16.1 | 19.0 | 22.7 |
| PE(x) | - | - | 4.4 | 3.7 | 3.0 |
| Target price/EPS(x) | - | - | 5.9 | 5.0 | 4.1 |
| DPS(Rmb) | - | - | 0.085 | 0.079 | 0.107 |
| Dividend yield (%) | - | - | 3.2 | 3.0 | 4.0 |

Source: company data and ABCI Securities estimates

**農銀國際**

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Sunac China Holdings Ltd.**Consolidated balance sheets**

| As of 31/12(Rmbmn) | 2009 | 2010 | 2011 | 2012E | 2013E |
|---|--------------|---------------|---------------|---------------|---------------|
| PP&E | 9 | 18 | 28 | 22 | 18 |
| Investment properties | 584 | 584 | 552 | 552 | 552 |
| Investment in JV and associate | 640 | 638 | 1,421 | 6,816 | 8,196 |
| Others | 337 | 537 | 749 | 743 | 737 |
| Fixed Assets | 1,569 | 1,776 | 2,749 | 8,133 | 9,503 |
| Properties under development | 4,495 | 8,032 | 19,999 | 17,771 | 9,471 |
| Completed properties held for sale | 1,313 | 1,010 | 5,651 | 5,022 | 2,676 |
| Trade and other receivables and prepayments | 295 | 682 | 1,345 | 1,487 | 549 |
| Bank balances & cash | 1,936 | 4,249 | 3,867 | 5,613 | 16,222 |
| Other current assets | 109 | 0 | - | - | - |
| Current Assets | 8,148 | 13,973 | 30,863 | 29,892 | 28,919 |
| Total Assets | 9,717 | 15,749 | 33,612 | 38,025 | 38,422 |
| Short term loan | 677 | 1,068 | 2,254 | 7,005 | 6,399 |
| Trade and other payables | 2,188 | 2,447 | 5,213 | 5,022 | 6,349 |
| Accruals | 2,456 | 1,422 | 5,840 | 5,848 | 7,603 |
| Other current liabilities | 207 | 1,181 | 1,321 | 1,321 | 1,321 |
| Current Liabilities | 5,528 | 6,118 | 14,628 | 19,196 | 21,672 |
| Long term loans | 1,994 | 4,625 | 9,321 | 7,221 | 2,430 |
| Other long term liabilities | 323 | 343 | 2,258 | 2,258 | 2,258 |
| Long Term Liabilities | 2,318 | 4,968 | 11,579 | 9,479 | 4,688 |
| Total Liabilities | 7,846 | 11,086 | 26,207 | 28,675 | 26,360 |
| Minority interests | 500 | - | 355 | 403 | 819 |
| Shareholders' funds | 1,371 | 4,664 | 7,051 | 8,947 | 11,243 |
| Total Equity | 1,871 | 4,664 | 7,406 | 9,351 | 12,062 |
| Net Debt | 2,671 | 5,693 | 11,575 | 14,225 | 8,829 |
| ST debt/total debt (%) | 25.3 | 18.8 | 19.5 | 49.2 | 72.5 |
| Net debt/equity (%) | 39.3 | 31.0 | 104.1 | 92.1 | -61.3 |
| BVPS(Rmb) | 0.6 | 1.6 | 2.4 | 3.0 | 3.7 |
| P/B(x) | - | - | 1.1 | 0.9 | 0.7 |
| Target price/BVPS(x) | - | - | 1.5 | 1.2 | 0.9 |

Source: company data and ABCI Securities estimates

**農銀國際**

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Sunac China Holdings Ltd.**Consolidated cash flow statements**

| For the year ended 31/12(Rmbmn) | 2009 | 2010 | 2011 | 2012E | 2013E |
|--|--------------|----------------|----------------|----------------|---------------|
| EBITDA | 1,230 | 2,664 | 2,977 | 5,742 | 6,225 |
| Net interest paid | (164) | (348) | (913) | (1,402) | (860) |
| Tax paid | (210) | (328) | (1,246) | (3,181) | (3,410) |
| Chg in WC | (671) | (3,922) | (4,462) | 3,671 | 15,370 |
| Others | 169 | 767 | - | 1 | 2 |
| Operating cash flow | (1,765) | (2,877) | 4,831 | 17,326 | 11,772 |
| Acquisition | (182) | (1,457) | (5,500) | (1,000) | (500) |
| Capex | (13) | (14) | - | - | - |
| Divesture | 3 | 1 | - | - | - |
| Others | 1 | (10) | - | - | - |
| Investing cash flow | (192) | (1,479) | (5,500) | (1,000) | (500) |
| Chg in net debt | 3,021 | 3,178 | 2,651 | (5,397) | (4,904) |
| Common stock issuance/repurchase | 2,254 | - | - | - | - |
| Dividend paid(common&pref) | (191) | - | (236) | (320) | (392) |
| Others | (594) | (17) | - | - | - |
| Cash flow from financing | 4,490 | 3,161 | 2,415 | (5,716) | (5,297) |
| Chg in cash flow | 2,534 | (1,195) | 1,746 | 10,609 | 5,975 |
| Cash and cash equivalents at beginning of year | 639 | 1,424 | 3,958 | 2,763 | 4,509 |
| Cash&equivalents at end of year | 1,424 | 3,958 | 2,763 | 4,509 | 15,118 |

Source: company data and ABCI Securities estimates



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Sunac China Holdings Ltd.

Disclosures

I, Li Hong-ying, 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. 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.

ABCI Securities Company Limited and/or its member companies (“ABCI”) may pursue financial interests to the companies mentioned in the report.”

Disclaimer

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2012 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

**Office address: ABCI Securities Company Limited, 13/F Fairmont House,
8 Cotton Tree Drive, Central, Hong Kong.**

Tel: (852) 2868 2183