

China Property Sector

Cold sales in hot season

We visited Shijiazhuang and Tianjin property market on Oct 3-5. We saw few customers in sales offices of Evergrande(3333), Beijing Capital(2868) and Sino-Ocean (3377). Following an unexcited Sep sales, Oct sales are not optimistic. Inventory risk for developers is surging. This will cap the upside of ASP but downside is also low on improving liquidity. Favor Sunac(1918;BUY;TP HK\$4.86), targeting upgraders, we expect it is the most likely one to outperform in sales.

Mixed sales performance in Sep: Except for Sunac +84%YoY or +13%MoM and Shimao(813) +43%YoY or +27%MoM, Sep sales released by developers so far are not encouraging, with Evergrande -11%YoY or +13%MoM, Vanke -4%YoY or +6%MoM and Poly A +15%YoY or -9%MoM. The genuine demand, which is not very sensitive to seasonal factor compared to investors, may serve as the major reason for the weak performance. Meanwhile, interest rate stimulus effect, what those buyers are most sensitive to, is fading. It is reported that banks are increasing mortgage rate to 0.9-1.0x PBOC benchmark rate from 0.7-0.8x.

Expect weaker sales in Oct: Per our site visit during the Golden week Oct 3-5, we observed that footfall to sales offices were quiet. Moreover, the toll-incentive policy during the period withdrew part of the crowd from the property market. Oct sales of listing developers may drop avg. 5%MoM.

Slow-moving inventory risk: As developers have prepared strong pipelines for the peak season, lower-than-expected sales may pile up their inventory again. Supply/demand ratio may resurge to 1.23x toward 2013 per our estimation (previous forecast 1.03x); although this is lower than 1.44x in 2012, it exceeds 10-year avg.1.06x.

Stabilizing ASP, dropping policy risk: During the visit, we didn't see a material discount (above 5%) offered by the above mentioned developers. Unlike 1H12, developers have less motivation to do so on eased liquidity risk. We expect 70% of developers in our coverage group could achieve positive free cash flow for 2H12. On the other hand, the expected resurge inventory level together with strong policy stance will cap the upside of ASP. As such, we expect to see a stabilizing ASP and hence dropping policy risk.

Top pick: Targeting upgrade buyers, Sunac is expected to continue to outperform in sales. Its Sep Sales came in at Rmb3.0bn. Oct sales may reach Rmb4.0bn, +36%YoY or +35%MoM. The group this week issued US\$400mn bond at yield 12.5%, due in 2017. Aggressive land acquisitions in upcoming 6 months are expected, this could be serve as another catalyst.

Key Data

| | |
|----------------------|------|
| Average FY12E PE (x) | 5.56 |
| Average FY12E PB (x) | 1.10 |

Source: Bloomberg, ABCI Securities

HSCIPC performance (%)

| | Absolute | Relative* |
|-------|----------|-----------|
| 1-mth | 6.4 | 0.9 |
| 3-mth | 9.1 | (0.8) |
| 6-mth | 9.6 | 5.5 |

*Relative to Hang Seng Index

Source: Bloomberg

1 year relative price^ performance



^HSCIPC/HSCI

Source: Bloomberg

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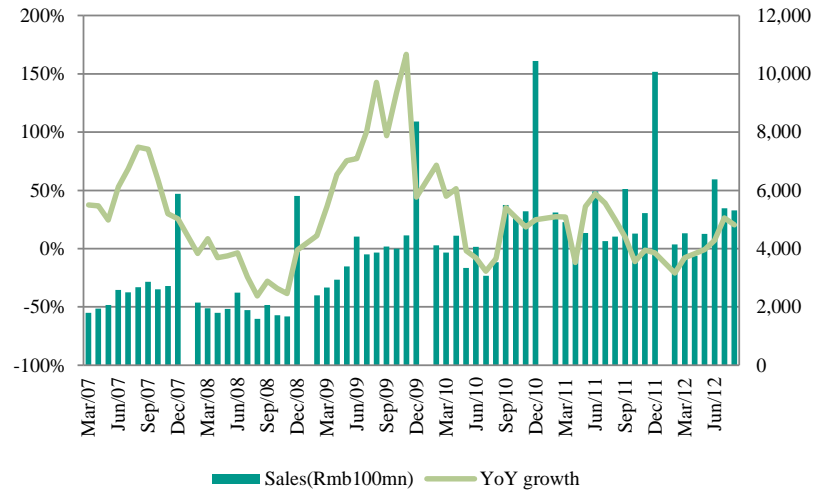
Valuation and sales comparison for China property developers

| Company | Code | Price (HK\$) | ABCI Rec | TP (HK\$) | Disc/NAV | 2012 P/E | 2012 P/B |
|----------------|------|--------------|----------|-----------|----------|----------|----------|
| China Overseas | 688 | 19.0 | Review | - | - | 8.7 | 1.89 |
| Evergrande | 3333 | 3.1 | Buy | 4.20 | 49% | 3.9 | 1.17 |
| KWG | 1813 | 4.1 | Buy | 5.55 | 56% | 4.2 | 0.79 |
| Sunac | 1918 | 3.9 | Buy | 4.86 | 48% | 4.0 | 1.19 |
| C C Land | 1224 | 1.7 | Hold | 1.85 | 63% | 6.1 | 0.32 |
| Hopefluent | 733 | 2.1 | Review | - | - | 5.4 | 0.82 |

Source: Company data, Bloomberg, ABCI Securities



Exhibit 1: China property sector monthly sales



Source: NBSC and ABCI Securities

Exhibit 2: Valuation and sales comparison for China property developers

| | | 9/2012 | | | 1-9/2012 | | 2012 | 2012 |
|--------|-----------------|--------|------|-----|----------|------|--------|--------|
| | | Rmbbn | YOY | MoM | Rmbbn | YoY | Target | % |
| 688 | China Overseas^ | 8.6 | 31% | 8% | 91.8 | 29% | 10.0 | 91.8% |
| 3333 | Evergrande | 8.1 | -11% | 13% | 58.6 | -15% | 8.0 | 73.2% |
| 813 | Shimao Property | 5.1 | 43% | 27% | 35.7 | 46% | 3.5 | 102.0% |
| 1918 | Sunac | 3.0 | 84% | 13% | 19.2 | 73% | 2.2 | 64.0% |
| 1777 | Fantasia | 0.7 | -11% | -1% | 5.4 | -1% | 0.7 | 75.5% |
| 000002 | Vanke A-share | 12.0 | -4% | 6% | 96.3 | -1% | 12.0 | 80.3% |
| 600048 | Poly A-share | 7.8 | 15% | -9% | 75.6 | 32% | 90.0 | 84.0% |

^units in HK\$

Source: Company data and ABCI Securities

Disclosures

I, Li Hongying, 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.

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

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.

Li Hong-ying Vivian, has financial interest in Evergrande Real Estate Group Limited as at 11 Oct 2012.

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