



November 21, 2013

Sector Rating:
Overweight

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Key Data

Avg.14E P/E (x)	5.5
Avg.14E P/B (x)	0.9
Avg.14E Dividend Yield (%)	5.0

Source(s): ABCI Securities estimates

2014E Presales

Company	RMB bn	YoY chg
CSC*	15.0	30%
Franshion*	24.0	36%
Kaisa	32.4	36%
Greentown	84.5	36%
Sunac	67.0	29%
COLI*	143.3	6%

* In HK\$

Source(s): Companies, ABCI Securities

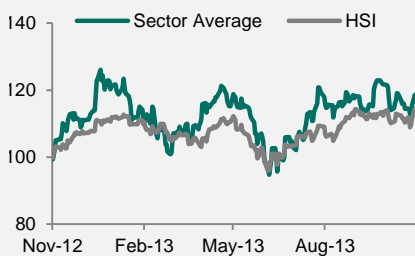
Sector performance (%)

	Absolute	Relative*
1-mth	(3.2)	(4.6)
3-mth	1.4	(2.1)
6-mth	1.7	5.8

* Relative to Hang Seng Index

Source(s): Bloomberg, ABCI Securities

1-Year Sector performance (%)



Source(s): Bloomberg

China Property Sector
 More Good than Bad

- Despite strong presales in Sep/Oct, China property sector underperformed over the past month (China Property sector: -3.2% vs. HSI: +1.4%) on renewed austerity concerns.
- Entering 2014, we believe two major risks - property tax and rising land cost, will suppress the sector's performance. Presales will grow 10% in 2014 compared to 35% in 2013.
- We believe the long-term fundamentals for China property sector remain intact with the support of urbanization and relaxation of one-child policy. Thus, we maintain our **Overweight** rating

2014 to be a less rosy year for the China property sector. With the national property price rising 8.6% and developers' presales surging 33% YoY in 10M13, the year of 2013 has been a prosperous one for the China property sector. Entering 2014, we expect two major risks will slow developers' sales: 1) reemergence of policy risks; 2) rising land cost in an overheating land market. Overall, we expect property price to stay flat in 2014, while presales growth among developers will moderate from 35% in 2013E to 10% in 2014E.

Property tax to be the major policy risk. We believe policy such as property tax is likely to be executed nationwide. Property tax has only been implemented in Shanghai and Chongqing so far, and is charged annually based on a relatively mild tax rate of 0.6% -1.2% based on the market value of specified property types (e.g. second home, villa or luxury apartment). However, if the long-rumored Hangzhou tax model (with maximum tax rate as high as 8% of transaction value) roll out in 2014, we believe property price will be effectively curbed.

Rising land cost is eroding margins. Land market shows signs of overheating with cities registering record-high prices. The land price has been partly driven up by developers' aggressive land acquisitions as both cash flow and optimism have been boosted by strong presales in Sep/Oct. The high land cost, however, will hurt margins in 2014-15.

Long-term fundamentals remain intact. We expect policies to accelerate urbanization, such as reform of the Hukou system (household registration), will drive up housing demand in urban regions. Recent announcement of the relaxation of the one-child policy will also be a significant boost to upgrade demand in the market. Thus, we maintain our **Overweight** rating on the sector.

Prefer commercial play with lower policy risks. We prefer commercial property players such as Franshion (817 HK) and China South City (1668 HK) for their lower policy risks, high pricing power and sufficient landbank. For the residential sector, we recommend small, high-growth players with sizeable landbank (GFA >20 mn sqm) such as Kaisa (1638 HK) and Greentown (3900 HK).

Risk factors: 1) Stronger-than-expected austerity measures on the property sector; 2) Overheating land market; 3) Aggressive price cut to clear inventories may erode margins.

Sector Valuation Summary (data as of Nov 20, 2013)

Company	Ticker	Rating	Price (HK\$)	TP (HK\$)	FY13E P/E(x)	FY14E P/E (x)	FY13E P/B (x)	FY14E P/B (x)	FY13E Yield (%)	FY14E Yield (%)
Commercial property										
CSC*	1668 HK	BUY	2.08	3.00	6.3	3.5	0.8	0.7	4.8	7.2
Franshion	817 HK	BUY	2.57	3.30	8.4	6.6	0.9	0.8	3.9	4.7
Residential property										
Kaisa	1638 HK	BUY	2.41	3.10	4.3	3.1	0.6	0.5	0.0	0.0
Greentown	3900 HK	BUY	13.46	17.60	4.7	4.2	1.0	0.9	5.2	5.7
Sunac	1918 HK	BUY	5.24	6.30	4.6	3.1	1.0	0.8	2.2	3.2
COLI	688 HK	HOLD	24.50	25.00	9.7	8.4	1.9	1.6	2.1	2.4

* CSC figures based on Mar-end 2014 and 2015 estimates

Source(s): Companies, ABCI Securities estimates



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Two major risks

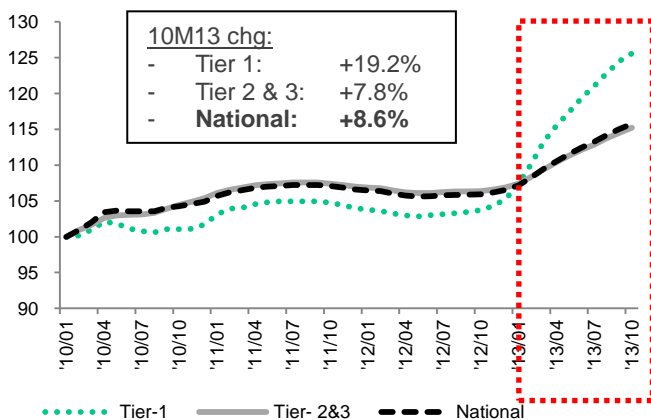
1. Policy risks: Property tax may be implemented in 2014

More austerity measures on real estate have been launched by the Chinese government by end-2013 to contain the rising property prices and to boost housing supply:

- In Oct, the Beijing government announced a total of seven new measures to (京七條) to increase supply of self-used residential units to 20k in 2013 and 50k in 2014. The ASP of these housing units will be fixed at a 30% discount to market price;
- Shenzhen, Shanghai & Guangzhou raised the down payment ratio for second home purchase from 60% to 70% during Oct -Nov 2013.

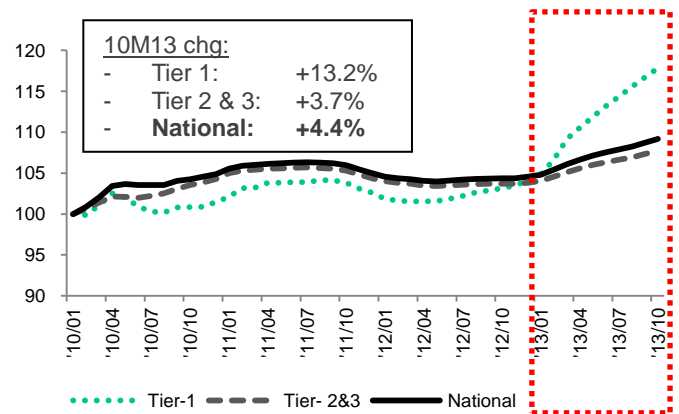
In 2014, we believe policy such as property tax is likely to be implemented nationwide. So far, property tax is only required for specified type of property (e.g. second home, villa or luxury apartment) in Shanghai and Chongqing. The annual tax rate is set at 0.6%-1.2% of the property's market value. However, if the Hangzhou tax model (refer to Exhibit 3) is applied across cities, we believe the property price would be effectively curbed as the tax rate could be high as high as 8 % of the transaction value.

Exhibit 1: NBS property prices for new home (Jan 2010=100)



Source(s): NBS, ABCI Securities

Exhibit 2: NBS property prices for existing home (Jan 2010=100)



Source(s): NSB, ABCI Securities

Exhibit 3: Property tax comparison

City	Model	Applicable to	Tax rate	Status
Shanghai	-Based on market value, -Charged annually	- Second home for local residents - All homes of non-local residents	- If GFA divided by number of living individual is less than 60sqm, tax is exempted; - Portion exceed 60 sqm will be charged at 0.6% of market value	Effective since 2011
Chongqing	-Based on market value, -Charged annually	- Villa; - luxury apartment with ASP doubling that of the city's average housing price - second home of non-local residents	- For villa and luxury apartment: a) 0.5% if market value is less than 3x the average housing price in Chongqing; 1% if within 3-4x; 1.2% if >4x b) GFA exemption of 180sqm for villa and 100sqm for luxury apartment - For non-local resident: 0.5%	Effective since 2011
Hangzhou and other cities	Based on transaction value	- Any additional homes of local/non-local residents	- 0% if below 60sqm per individual; 4% for portion exceeding 60sqm but below 140sqm; 8% for portion exceeding 140sqm	Unconfirmed news

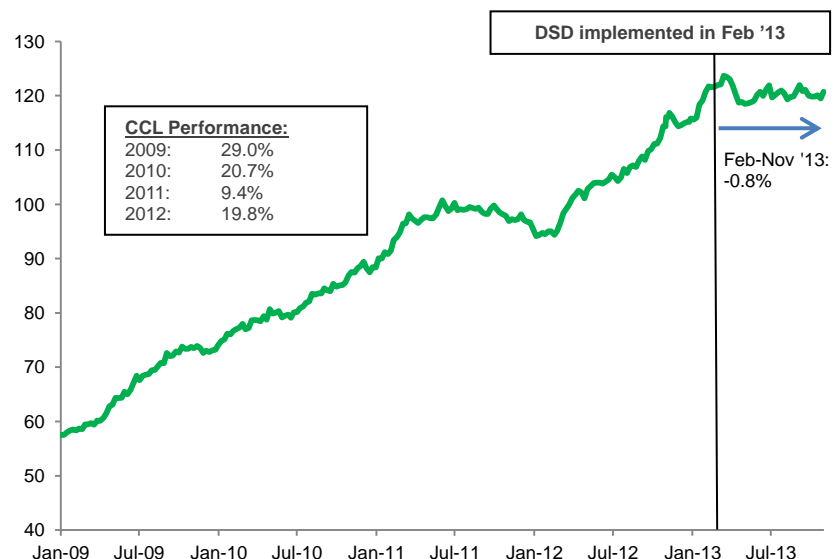
Source(s): Local government; ABCI Securities

In fact, the Hangzhou tax model is very similar to the stamp duties (BSD) and double stamp duties (DSD) levied on Hong Kong homebuyers that the tax is based on the transaction value of properties. Since the launch of DSD in Feb 2013, HK property price has remained flat. Between Feb and Oct 2013, property price grew 9.4% - much lower the 9.4% and 19.8% growth in 2011 and 2012. We therefore believe the Hangzhou tax model, which has a lower rate than the Hong Kong stamp duties, could effectively contain ASP in China without suppressing substantial amount of transaction volume.

Exhibit 4: HK's BSD and DSD

Type	Date effective	Tax structure														
Special Stamp Duties (SSD)	Nov-10	(i) 20% of consideration if the property has been held for six months or less; (ii) 15% if the property has been held for more than six months but for 12 months or less; and (iii) 10% if the property has been held for more than 12 months but for 36 months or less.														
Buyer Stamp Duties (BSD)	Oct-12	15% of consideration on all residential properties on non-HK Permanent Resident and corporates														
Double stamp Duties	Feb-13	Charge on all properties unless buyer is a HK Permanent Resident with no property ownership:														
		<table border="1"> <thead> <tr> <th>Consideration (HK\$ mn)</th> <th>Rate</th> </tr> </thead> <tbody> <tr> <td>Up to HK\$2m</td> <td>1.5%</td> </tr> <tr> <td>2-3m</td> <td>3.0%</td> </tr> <tr> <td>3-4m</td> <td>4.5%</td> </tr> <tr> <td>4-6m</td> <td>6.0%</td> </tr> <tr> <td>6-20m</td> <td>7.5%</td> </tr> <tr> <td>>20m</td> <td>8.5%</td> </tr> </tbody> </table>	Consideration (HK\$ mn)	Rate	Up to HK\$2m	1.5%	2-3m	3.0%	3-4m	4.5%	4-6m	6.0%	6-20m	7.5%	>20m	8.5%
Consideration (HK\$ mn)	Rate															
Up to HK\$2m	1.5%															
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4-6m	6.0%															
6-20m	7.5%															
>20m	8.5%															

Source(s): HK government; ABCI Securities

Exhibit 5: HK Property Price: Centaline City Leading Index


Source(s): Centaline; ABCI Securities

2. An Overheated Land market: Rising land cost to squeeze margin

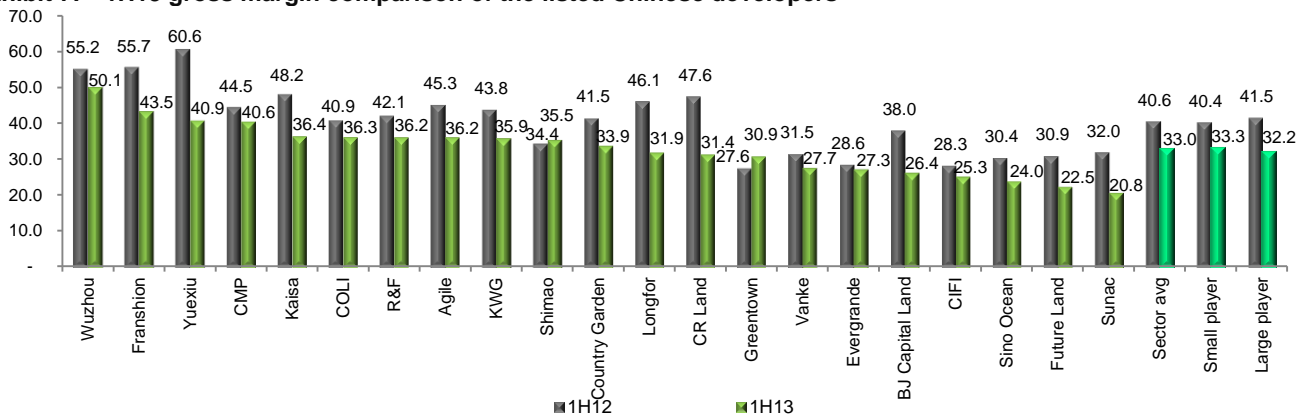
Land market shows signs of overheating with cities registering record-high prices. The land price has been partly driven up by developers' aggressive land acquisitions as both cash flow and optimism have been boosted by strong presales in Sep/Oct. The high land cost, however, will hurt margins in 2014-15.

Exhibit 6: Sites with the highest transaction prices in Jan-Oct 2013

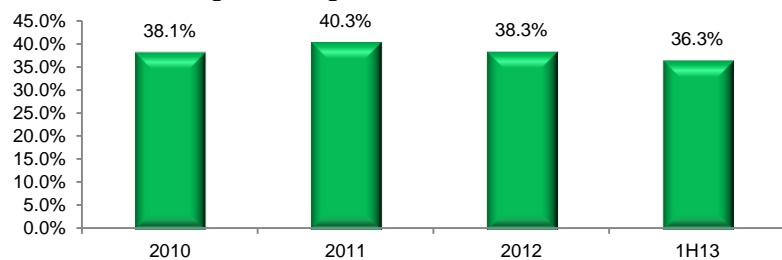
Site	Acquirer	Date	GFA mn sqm	Amount RMB mn	AV RMB/sqm
Shanghai					
Xu Jia Hui Centre	SHKP	Sep-13	0.58	21,770	37,277
Beijing					
Nong Zhan Guan (农展馆)	Sunac	Sep-13	0.06	4,320	73,100
Tianjin					
Tiantuo Project (天拖项目)	Sunac	Sep-13	1.02	10,320	10,109
Shenzhen					
Qianhai	Excellence group	Jul-13	0.45	7,180	15,956
Qianhai	Excellence group	Jul-13	0.32	5,188	16,213
Qianhai	CR Land	Aug-13	0.50	10,900	21,670

Source(s): Guandian, ABCI Securities

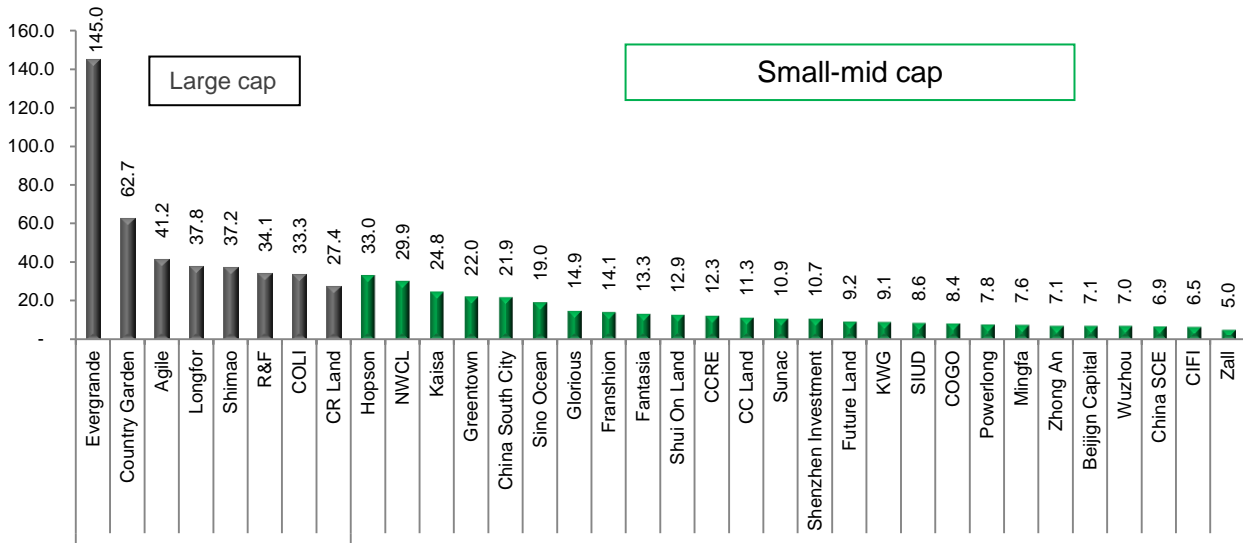
We have seen large players registering sharp declines in gross margin in 1H13 (e.g. Longfor: -14.2ppt YoY to 31.9%; CR Land: -16.2ppt YoY to 31.4%). To maintain its growth momentum with their already high bases and market shares in first and second tier cities, large players have to penetrate into new, lower tier cities where demand and profitability are usually lower. In fact, COLI, one of the most recognized high-margin players, has registered declining margins since 2011 as the Group expands into new cities. In contrary, smaller players with sizeable landbank, given their lower sales targets and urgency to replenish their landbanks, can select new projects with reasonable land cost and profitability. Among the small/mid cap developers, Greentown and Kaisa are the two with a relatively high level of land reserve and strong presale in 2013.

Exhibit 7: 1H13 gross margin comparison of the listed Chinese developers


Source(s): Companies, ABCI Securities

Exhibit 8: COLI's gross margin


Source(s): COLI, ABCI Securities

Exhibit 9: Attributable land bank (mn sqm)


* As at Jun 2013
 Source(s): Companies, ABCI Securities

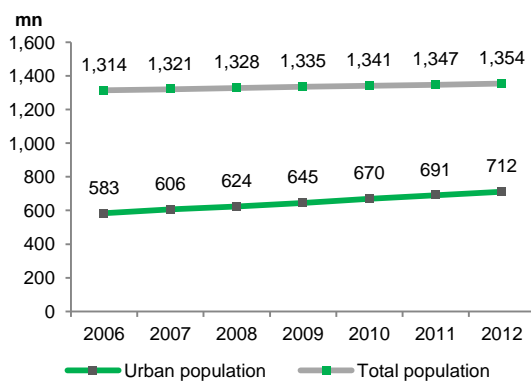
Long-term fundamentals remain intact

Despite the looming policy risk and an overheating land market, we expect accelerated urbanization and relaxation of the one-child policy would drive property demand in the long term.

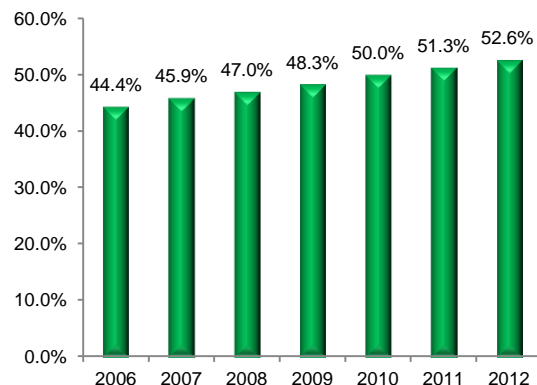
1. Accelerated urbanization on Hukou reform

The current “Hukou” system (i.e. household registration system) discourages rural residents to relocate to urban regions for better employment opportunities, as non-local residents are not entitled to most social benefits in cities. Hence, urbanization rate is still low at 52.6% in China, compared to over 75% in developed countries.

The market is expecting a “Hukou” reform in the near term. Based on the details released on the policy outlined in the Third Plenum in Nov 2013, the Hukou system will be partially relaxed in small and medium cities by allowing more non-local residents to attain permanent resident status more easily. More reform of the Hukou system is expected to accelerate urbanization, which we believe will fuel housing demand in the next few years.

Exhibit 10: China's total population vs. urban population


Source(s): NBS, ABCI Securities

Exhibit 11 : China Urbanisation rate (%)


Source(s): NBS, ABCI Securities

2. Relaxation of One-child policy

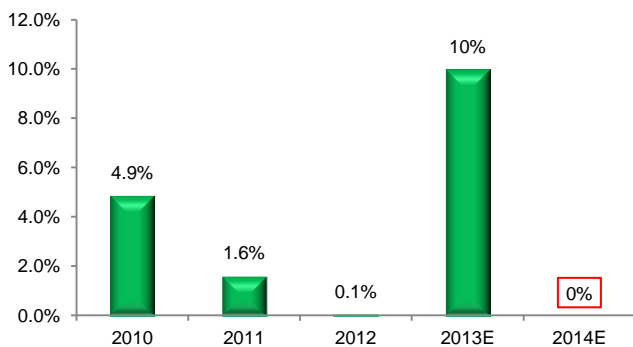
According to the policy details issued after the Third Plenum in Nov 2013, China plans to loosen its one-child policy (first implemented in 1980s), allowing couples to have two children if one of them is an only child. We believe the enlarged family size will create significant upgrade demand in the housing market.

2014 Outlook: Property price to remain flat; Presales grew 10% YoY on increased volume

We believe the long-term fundamentals of the China property sector remain solid despite the near-term risks of property tax imposition and overheating land market in 2014. We maintain our **Overweight** rating on the sector.

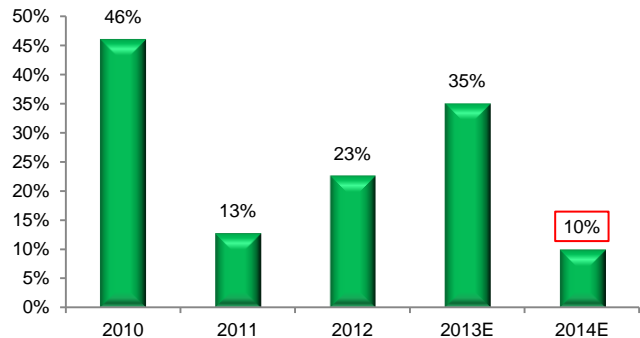
For 2014, we forecast property price to stay flat while presales growth among developers to slow to 10% from 35% in 2013E. Much of the growth will be driven by increased volume instead of higher ASP. The YoY slowdown in 2014 presale will be mainly caused by 1) possible austerity measures on property sector weakens buyers' sentiment; 2) most pent-up demand is released in 2013 when tightening measures eased, and 3) strong presale in 2013 that result in high-base effect

Exhibit 12: National property price growth (YoY %)



Source(s): NBS, ABCI Securities estimates

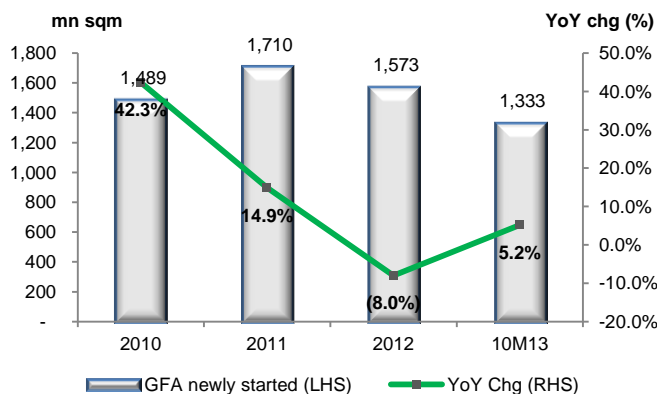
Exhibit 13 : Presales growth among major developers (YoY %)



Source(s): Companies, ABCI Securities estimates

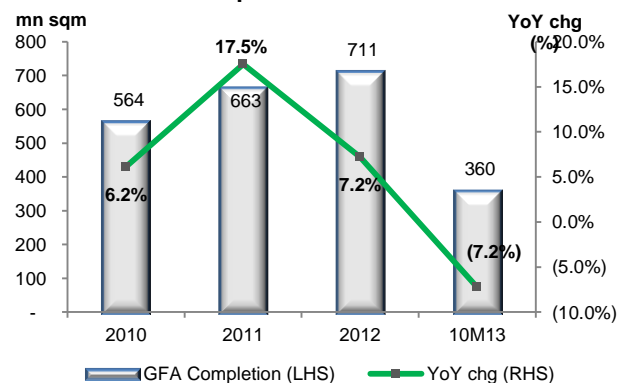
On the supply side, GFA completion remained low at 360mn sqm for 10M13, down 7% YoY. For the same period, GFA newly started only began to catch up and rose 5.2% to 1,333mn sqm. Nonetheless, we expect supply will be stable in 2014 and is unlikely to cause price competition when property market starts cooling.

Exhibit 14: GFA newly started in 2010-10M13



Source(s): NBS, ABCI Securities estimates

Exhibit 15 : GFA completion in 2010-10M13



Source(s): NBS, ABCI Securities estimates

Stock recommendation

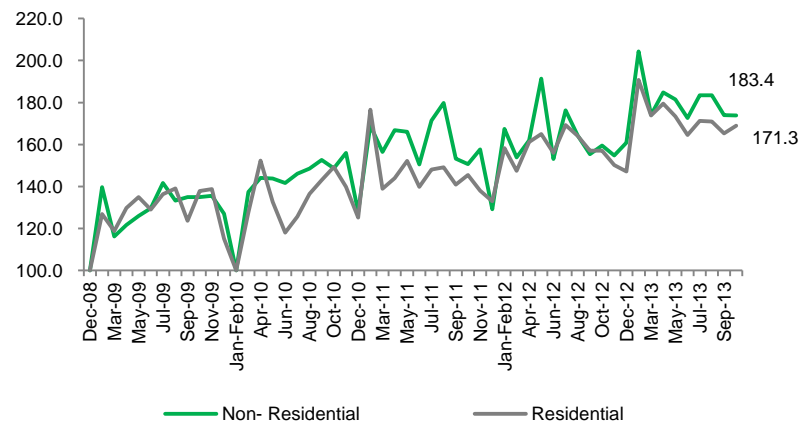
Prefer commercial over residential developers

We prefer commercial property players such as Franshion (817 HK) and China South City (1668 HK) because of:

1) Lower policy risk. Due to lack of policy interference, ASP of commercial properties has outperformed the residential. For instance, ASP of commercial properties was up 74% during 2009-Oct 2013, higher than the 69% increase for residential properties. This can be attributed to tightened residential pricing control by the government during the period. Based on history, we observe that commercial developers can exercise higher pricing power than the residential ones.

Exhibit 16: ASP of commercial properties vs. residential

Dec2008 = 100



Source(s): NBS; ABCI Securities

2) Less competition in the commercial property sector: Furthermore, there are many more residential players than commercial ones in the Hong Kong equity market. In 2009-Nov 2013, there were 22 China property IPOs in Hong Kong raising a total of HK\$ 48.8bn. Among which, eighteen were residential developers. Over time, the Hong Kong stock market has accumulated a large number of China residential property stocks, with many sharing similar business models. Thus, differentiation among the residential stocks was rather limited. On the other hand, there were only four IPOs from commercial developers during 2009-1H13. In general, we believe the commercial property sector is facing much less competition than the residential one in the equity market.



Exhibit 17: IPOs of developers in China (2009- Nov 2013)

	Listing date	Company	Stock code	Proceeds raised	Residential or Commercial?
				HK\$ mn	
1	12-Jul-13	Modern Land	1107 HK	596	Residential
2	13-Jun-13	Wuzhou	1369 HK	1,505	Commercial
3	16-Jan-13	Golden Wheel	1232 HK	760	Residential
4	31-Oct-13	Hydoo	1396 HK	1,652	Commercial
5	31-Oct-13	Jingrui	1862 HK	1,395	Residential
Up to Nov 2013				5,908	
1	29-Nov-12	Future Land	1030 HK	2,056	Residential
2	23-Nov-12	CIFI	884 HK	1,669	Residential
2012 total				3,725	
1	23-Mar-11	Top Spring	1623 HK	1,560	Residential
2	13-Jul-11	Zall	2098 HK	1,517	Commercial
3	22-Jul-11	Sino Harbour Property	1663 HK	330	Residential
2011 total				3,407	
1	5-Feb-10	China SCE Property	1996 HK	1,560	Residential
2	15-Jul-10	Tian Shan Development	2118 HK	350	Residential
3	7-Oct-10	Sunac	1918 HK	2,610	Residential
2010 total				4,520	
1	30-Sep-09	China South City	1668 HK	2,193	Commercial
2	2-Oct-09	Glorious Property	845 HK	1,035	Residential
3	14-Oct-09	Powerlong	1238 HK	2,990	Residential
4	2-Nov-09	Yuzhou	1628 HK	1,620	Residential
5	5-Nov-09	Evergrande	3333 HK	6,500	Residential
6	13-Nov-09	Mingfa	846 HK	2,151	Residential
7	19-Nov-09	Longfor	960 HK	8,131	Residential
8	25-Nov-09	Fantasia	1777 HK	3,215	Residential
9	9-Dec-09	Kaisa	1638 HK	3,450	Residential
2009 total				31,285	

	Number of IPO		HKD mn	Proceeds	
	No.	As % of total		As % of total	
Commercial	4	18.2%	6,868	14.1%	
Residential	18	81.8%	41,978	85.9%	
	22		48,846		

Source(s): HKEx; ABCI Securities

Avoid large residential players and small/mid cap developers with limited landbank

For the residential sector, we prefer small players with sizeable landbank (>20 mn sqm) to avoid overbidding in the overheating land market at present. Our top picks include Kaisa (1638 HK) and Greentown (3900 HK). We are less positive on Sunac, as its high-churn model means that frequent landbanking is required, and this may lead to sharp rises in land cost when competition in the land market intensifies. We are cautious on COLI and downgrade the counter from BUY to **HOLD** given its consistent decline in margins and slowing sales growth.

Exhibit 18: 10M13 presale of the listed Chinese developers

	(RMB bn)	Oct-13		10M2013		2013	Achievement ratio	2012		Exceed/ (below) target by
		YoY	YoY	YoY	Target	Actual		YoY		
1	Country Garden	15.0	134%	79.7	121%	62	128.5%	48	10%	10.7%
2	Sunac	6.3	74%	38.9	70%	45	86.3%	32	78%	5.2%
3	Kaisa	2.5	39%	19.3	50%	22	87.6%	17	14%	5.7%
4	Shimao	7.5	113%	55.6	42%	63	88.3%	46	51%	50.3%
5	CR Land	5.9	40%	56.6	35%	57	99.2%	52	45%	30.5%
6	KWG	1.5	18%	13.4	34%	16	83.9%	12	7%	1.7%
7	Greentown	7.5	29%	51.1	34%	55	92.9%	51	48%	27.4%
8	Gemdale	2.8	-23%	34.7	34%	41	84.7%	34	10%	4.9%
9	Vanke	17.4	27%	145.8	33%	160	91.2%	141	16%	6.2%
10	R&F	4.9	20%	34.4	30%	42	81.9%	32	8%	0.6%
11	Longfor	4.9	29%	40.2	26%	46	87.5%	40	5%	2.9%
12	Evergrande	16.6	17%	91.3	25%	100	91.3%	92	15%	15.4%
13	Agile	4.2	35%	29.7	24%	42	70.6%	33	5%	10.2%
14	Poly-A	12.1	57%	100.7	21%	117	86.1%	102	39%	27.2%
15	COLI*	9.8	14%	121.6	19%	120	101.3%	90	28%	-10.2%
16	Yuxiu	0.9	56%	13.4	15%	13.2	101.2%	12	36%	23.0%
17	Sino-Ocean	3.0	-14%	31.0	14%	35	88.6%	31	15%	15.2%
18	Beijing Capital	1.8	57%	11.5	13%	20	57.4%	13	20%	10.6%
19	Glorious	0.3	-66%	5.3	-46%	11	47.8%	11	-18%	-15.8%
Total		122.8	37%	948.7	33%	1067	88.9%	890	23%	11.2%

Source(s): Companies, ABCI Securities

Exhibit 19: Valuation of the China property sector

China Property	Ticker	Rating	Mkt Share cap Price	Performance			Discount to NAV (%)	Valuation													
				1M	3M	YTD		P/E			Yield (%)			P/B							
			(HKD bn)	(local ccy)	% Chg	% Chg	% Chg	(%)	2012A	2013E	2014E	2012A	2013E	2014E	2012A	2013E	2014E				
Residential:																					
1	COLI	688 HK	HOLD	200	24.50	1	4	6	(2.0)	12.5	9.7	8.4	1.7	2.1	2.4	2.3	1.9	1.6			
2	CR Land	1109 HK	NR	125	21.50	(5)	(3)	2	(23.0)	16.6	13.4	10.8	1.6	1.9	2.3	1.7	1.6	1.4			
3	Country Garden	2007 HK	NR	95	5.15	(7)	6	27	(15.6)	11.0	8.9	7.2	3.3	4.1	5.0	1.9	1.7	1.4			
4	Longfor	960 HK	NR	65	11.94	(10)	(10)	(21)	(43.0)	9.4	8.1	7.0	2.1	2.4	2.9	1.6	1.4	1.2			
5	Shimao	813 HK	NR	68	19.44	(3)	8	33	(34.3)	9.4	8.2	6.6	2.8	3.8	4.6	1.4	1.3	1.1			
6	Evergrande	3333 HK	NR	53	3.30	(8)	2	(22)	(61.2)	4.3	4.7	4.2	0.0	4.0	5.0	0.9	0.8	0.7			
7	Guangzhou R&F	2777 HK	NR	42	13.02	(3)	3	1	(49.1)	6.8	6.0	5.2	5.7	6.4	7.1	1.3	1.1	1.0			
8	Greentown	3900 HK	BUY	29	13.46	(14)	(12)	(5)	(69.3)	5.6	4.7	4.2	4.7	5.2	5.7	1.2	1.0	0.8			
9	Agile	3383 HK	NR	31	9.01	(3)	10	(17)	(60.4)	5.0	5.1	4.6	4.3	4.6	5.1	0.9	0.8	0.7			
10	Sino Ocean	3377 HK	NR	29	4.94	2	12	(15)	(46.9)	8.3	8.7	7.3	4.8	4.7	5.1	0.6	0.6	0.6			
11	COGO	81 HK	NR	20	8.90	(4)	(13)	(5)	(35.8)	8.5	7.2	5.8	1.2	1.6	2.0	2.1	1.9	1.4			
12	Yuexiu Properties	123 HK	NR	20	2.14	(1)	1	(13)	(59.5)	15.1	9.0	7.1	3.0	4.2	5.2	0.7	0.7	0.6			
13	Sunac	1918 HK	BUY	17	5.24	1	(5)	(13)	(70.9)	5.2	4.6	3.1	2.1	2.2	3.2	1.3	1.0	0.8			
14	KWG	1813 HK	NR	14	4.72	(6)	(6)	(19)	(63.7)	5.7	4.6	3.9	4.0	5.1	6.0	0.7	0.6	0.5			
15	Kaisa	1638 HK	BUY	12	2.41	(5)	12	0	(60.9)	7.0	4.3	3.1	0.0	0.0	0.0	0.7	0.6	0.5			
16	CIFI	884 HK	NR	10	1.63	7	0	16	(60.9)	8.1	5.2	3.8	3.1	4.2	5.5	1.0	0.9	0.8			
17	BJ Capital Land	2868 HK	NR	6	2.77	(1)	(2)	(14)	(67.6)	5.4	3.6	2.8	7.2	10.1	12.9	0.6	0.5	0.4			
18	Future Land	1030 HK	NR	5	0.91	(3)	(2)	(39)	(79.0)	4.6	4.4	3.4	6.8	7.0	9.1	0.7	0.6	0.6			
19	Modern Land*	1107 HK	NR	2	1.20	(16)	0	(19)	na	5.7	na	na	0.0	na	na	na	na	na			
HK Listed Avg									(4)	0.2	(6)	(50.2)	8.1	6.7	5.5	3.1	4.1	5.0	1.2	1.1	0.9
- Large cap (>HKD30b) avg									(5)	2	1	(36.1)	9.4	8.0	6.8	2.7	3.7	4.3	1.5	1.3	1.1
- Small-mid cap (<HKD30b) avg									(2)	(2)	(10)	(61.5)	7.3	5.6	4.4	3.7	4.4	5.5	1.0	0.8	0.7
1	Vanke	000002 CH	NR	130	10.28	(1)	(7)	(5)	(32.4)	8.0	6.5	5.3	2.0	2.2	2.7	1.5	1.3	1.1			
2	Poly-A	600048 CH	NR	84	10.66	(5)	(15)	(32)	(42.6)	7.8	6.1	4.8	2.5	3.2	4.1	1.4	1.3	1.0			
3	China Merchants Property	000024 CH	NR	48	26.80	(0)	(18)	(6)	na	14.6	9.0	7.1	1.1	1.6	2.0	1.5	1.4	1.2			
4	Gemdale	600383 CH	NR	35	7.20	5	(5)	(11)	(12.1)	8.2	7.7	6.4	1.3	1.6	1.8	1.2	1.1	0.9			
A-share Listed Avg									(0)	(11)	(13)	(29.0)	9.7	7.3	5.9	1.7	2.1	2.6	1.4	1.3	1.1
Commercial:																					
1	SOHO China	410 HK	NR	33	6.88	0	7	11	(31.2)	8.6	7.9	12.9	4.5	4.6	4.4	0.8	0.8	0.7			
2	Hui Xian REIT	87001 HK	NR	26	3.90	2	1	(6)	(9.7)	16.3	18.1	17.2	6.1	6.6	7.1	0.7	0.7	0.7			
3	Franshion	817 HK	BUY	24	2.57	(4)	(7)	(8)	(47.0)	11.3	8.4	6.6	2.7	3.9	4.7	1.0	0.9	0.8			
4	Shui On Land	272 HK	NR	20	2.50	(8)	1	(33)	(53.7)	60.0	12.9	10.7	2.4	3.2	3.1	0.4	0.4	0.4			
5	Yuexiu REIT	405 HK	NR	11	3.88	1	(2)	5	(21.0)	11.1	38.1	25.0	6.9	7.2	7.7	0.7	0.7	0.7			
6	China South City	1668 HK	BUY	13	2.08	(10)	0	78	(72.2)	7.1	6.3	3.5	4.8	4.8	7.2	0.8	0.8	0.7			
7	Zall	2098 HK	NR	11	3.08	1	9	(1)	na	13.8	na	na	1.9	na	na	1.7	na	na			
8	Wuzhou*	1369 HK	NR	6	1.23	(2)	(5)	1	na	17.3	4.8	3.3	0.0	4.2	6.0	1.9	0.2	0.2			
Commercial Avg									(2)	0	6	-39.1	18.2	13.8	11.3	3.7	4.9	5.7	1.0	0.6	0.6
- Developers									(6)	0	12	-51.0	21.7	8.9	8.4	3.6	4.1	4.9	0.8	0.7	0.7
- Landlords/REIT									2	(1)	(0)	-15.3	13.7	28.1	21.1	6.5	6.9	7.4	0.7	0.7	0.7

Note: Share price as at Nov 20, 2013

* Listed in 2013

** Fiscal year ended in Mar

Source(s): Bloomberg, ABCI Securities estimates

Exhibit 20: Key forecasts for CSC, Franshion, Kaisa, Greentown, Sunac and COLI

Company	Presales (RMB bn)			Gross margin			Net profit (RMB bn)		
	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E
CSC*	11.5	15.0	23.2	52.6%	58.0%	56.8%	2,172	3,908	5,131
YoY chg	40.6%	29.9%	54.8%	-3.2%	5.4%	-1.2%	22.2%	79.9%	31.3%
Franshion	17.6	24.0	36.2	53.4%	51.3%	51.9%	3,004	3,923	5,441
YoY chg	33.3%	36.2%	50.8%	11.5%	-2.2%	0.6%	39.4%	30.6%	38.7%
Kaisa	23.9	32.4	38.8	34.6%	35.5%	36.1%	2,420	3,430	4,925
YoY chg	37.6%	35.9%	19.6%	2.1%	0.9%	0.6%	60.9%	41.7%	43.6%
Greentown	62.1	84.5	128.4	34.9%	33.6%	31.8%	5,203	5,810	7,710
YoY chg	21.6%	36.2%	51.9%	4.6%	-1.3%	-1.8%	19.5%	11.7%	32.7%
Sunac	52.1	67.0	60.8	28.4%	29.2%	28.5%	2,985	4,431	4,708
YoY chg	46.2%	28.5%	-9.2%	2.6%	0.8%	-0.7%	25.0%	48.4%	6.3%
COLI*	135.2	143.3	148.2	36.9%	36.5%	35.4%	20,712	23,740	22,871
YoY chg	21.3%	5.9%	3.5%	-1.4%	-0.4%	-1.1%	29.8%	14.6%	-3.7%

* in HKD

Source(s): ABCI Securities estimates



Commercial Property picks

Top Pick: China South City (1668 HK; BUY; HK\$3.00) - Unique commercial player with high margins

- **Impressive 2Q sales:** CSC's 2Q (June- Sep) presale were up 234% YoY to HK\$3.57bn, driven by significant increase in GFA sold. ASPs of all products rose QoQ: integrated commercial properties (such as shopping malls) went up +16%; individual/detached commercial properties (such as street shops) rose 5% QoQ; offices went up by 3%, and residential products climbed 5% indicating the Group's improving pricing power.
- **Low-cost land channel:** As local governments remain supportive of trade and logistic park development in city outskirts, we believe CSC will continue to enjoy low land cost for future projects.
- **Our sector's top pick:** As commercial properties are less likely to be subjected to austerity policy in 2014, we believe CSC should enjoy solid pricing power with decent gross margin of 55%-60% range in 2014E-15E. CSC is our top pick for the China Property sector

Franshion (817 HK; BUY; HK\$3.30): Primary land development and commercial exposures to lessen risk

- **Scaling up primary land business:** Franshion achieved RMB6.1bn in sales for 10M13 in Meixi Lake primary land sales, exceeding its full-year target of RMB 5bn for the segment. Further growth will be supported by primary development Meixi Lake Project Phase 2 with a GFA of 12.7mn sqm
- **Ramping up retail rental:** The Group's Nanjing International Centre (NIC) will undergo major renovations that will increase its total GFA by 100k sqm with a wider range of retailers to be introduced. We estimate that rent rate will be up by 53% to RMB 4.0/sqm/day (from current rate of RMB 2.60/sqm/day) once the renovation is completed by 2016. The gross yield on cost will be ~12%.
- **Lower policy risk:** Given its significant exposure in commercial properties, we believe Franshion is more defensive against the government's tightening compared to residential players.

Residential Property picks

Kaisa (1638 HK; BUY; HK\$3.10): Robust presales and improving margins

- **Good progress in urban redevelopment:** Kaisa's Shenzhen projects for sales in 2013 achieve impressive performance. Kaisa City Plaza ranked no.1 in residential GFA sold for 10M13 in Shenzhen, while the recently launched Yuefeng Garden (佳兆业悦峰) achieved RMB 516mn in presale (222 units) in its initial launch. The estimated ASP was RMB 25,000/sqm.
- **Rising gross margin:** As contribution of redevelopment project increases, we expect Kaisa's higher-than-peer gross margin (for 1H13) will rise further from 34.6% in 2013E, to 35.5% in 2014E and 36.1% in 2015E.
- **Top pick for China residential sector:** As at June 2013, Kaisa has a landbank of 24.8mn sqm, which is more than sufficient for five years of development. In this way, the Group can better control its land cost since it would not need to acquire land at high cost in an overheated market. Its redevelopment pipeline would also allow the Group to acquire land at lower costs. Kaisa is our top pick for the China residential property sector.



Greentown (3900 HK; BUY; HK\$17.60): Improved gearing despite looming risk

- **Balance sheet significantly improved in 2013.** By raising low-cost offshore debts in 2013, Greentown's gross finance cost decreased 54%YoY to RMB 994mn in 1H13. Despite its land acquisition has slowed in 2013 (compared to small/mid cap peers such as Sunac), we believe Greentown is in no hurry to replenish its land bank (attributable GFA: 21.96 mn sqm). Having learnt the lesson of overleveraging resulted from aggressive land acquisition in 2009-10, we believe Greentown will adopt the strategy of actively expanding its landbank only when the market is cooling.
- **Shanghai projects achieved impressed ASP.** Greentown launched several new projects in Shanghai. Presale of the Francais Demeure project (land acquired in Oct 2013 via Sunac Greentown and Poly JV) hit RMB 830mn at RMB 50,500/sqm in Oct.; Greentown's Dynasty on the Bund achieved RMB 618mn sales at RMB 73,192/sqm in Sep.
- **Reputable luxury brand name.** We believe Greentown's reputable brand, together with its quality sites in Shanghai, we expect the Group's presale in 2014 would have an overall ASP of ~RMB 22k/sqm and gross margin of ~33.5% in its. However, high exposure in the luxury property segment may subject the Group to higher policy risk.

Sunac (1918 HK; BUY; TP: HK\$6.30): Margin erosion overdone

- **Expect margin erosion:** We expect Sunac's gross margin to be lower than 30% in FY13E-15E because of surging land cost on recent acquisitions at record-high prices.
- **No signs of a slowdown:** However, Sunac's aggressive landbanking enables its presale to achieve a growth (10M13: +70% YoY vs. 33% for sector average) above the sector average. We estimate its core profit to grow at 26% CAGR over FY13E-15E.
- **Attractive P/E and NAV valuations:** Sunac currently is trading at 3.1x FY14E P/E and 71% discount to NAV, much lower than small/mid cap peer trading at 4.4x 2014E P/E and 62% NAV discount. We believe the concern on possible margin erosion is overdone, especially considering Sunac's faster-than-peer presale growth.

COLI (688 HK; HOLD; TP: HK\$25.00): From leader to mediocre

- **Margin is trending down.** COLI's 3Q13 revenue was up 31.3% YoY to HK\$ 22.1bn while operating profit grew only by 2.5% YoY to HK\$ 6.3bn. This implies that COLI's 3Q13 EBIT margin decreased further to 28.7% from 34.8% in 1H13 and 36.2% in FY12. We believe the consistent margin erosion is caused by COLI's aggressive sales target (HK\$ 120bn for 2013) of double-digit YoY growth despite its high base. To maintain such growth momentum, COLI penetrates into lower-tier cities where demand and profitability are lower.
- **Less exciting growth than peers.** For 10M13, COLI achieved HK\$ 122bn in presale, implying a growth of 19% YoY, lower than the sector average of 33% YoY. Based on its thinning margin and slower sales growth, we downgrade COLI to **HOLD** from **BUY**.



November 21, 2013
Company Report
Rating: BUY
TP: HK\$ 3.00

Share price (HK\$) 2.08
Est. share price return 44.2%
Est. dividend yield 4.8%
Est. total return 49.0%

Previous Rating & TP BUY; HK\$ 2.40
Previous Report Date June 12, 2013

Analyst: Kenneth Tung
Tel: (852) 2147 8311
Email: kennethtung@abci.com.hk

Key Data

52Wk H/L(HK\$) 2.67/1.14
Issued shares (mn) 6,054
Market cap 12,980
3-mth avg daily turnover (HK\$ mn) 26.6
Major shareholder(s) (%):
Cheng Chung Hing 40.35
Source(s): Company, Bloomberg, ABCI Securities

FY12 Revenue breakdown (%)

Property development 95.9
Property investment 2.9
Property management 0.6
Hotels 0.2
Others 0.5
Source(s): Company, ABCI Securities

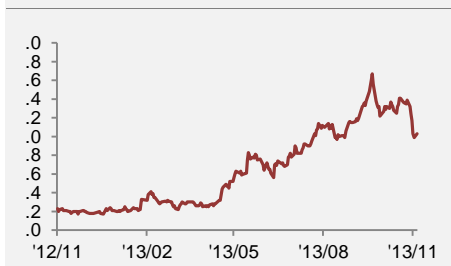
Share performance (%)

	Absolute	Relative*
1-mth	(9.5)	(10.7)
3-mth	(0.9)	(8.6)
6-mth	28.8	27.2

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

China South City (1668 HK)

Top Pick: Unique commercial player with high margins

- Impressive 2Q13 presale of HK\$3.57mn, up 234% YoY
- Limited impact from possible tightening policy due to commercial property exposure
- Able to secure low-cost land with government support; expect gross margin of 55%-60% range for 2014E-15E
- Maintain Buy with revised TP of HK\$3.00 (from HK\$ 2.40) based on 60% discount to NAV. Top Pick in China property sector

Impressive 2Q13 presale. China South City (CSC) registered impressive presale in 2Q (Jun- Sep) of HK\$3.57bn, up 234% YoY, driven by significant increase in GFA sold. Despite overall ASP dropped 14% YoY, mainly due to changes in geographical mix as Shenzhen's contribution decreased, we notice ASP of all products rose QoQ. ASPs of commercial properties such as trade centre (shopping mall type) went up 16% QoQ, detached trade centre (i.e. separate commercial spaces) was up 5% QoQ, and office was up 3% QoQ. ASP of residential products was also up 5% QoQ, indicating the Group's improving pricing power. As CSC enter the conventional peak season in 3Q/4Q (Oct-Mar), we expect its presale to improve further.

Limited impact from policy. As commercial properties are rarely targets of the government's tightening policies, we believe CSC would enjoy solid pricing power with decent gross margins of 55%-60% in 2014E-15E.

Unique business model secures low-cost land supply. As local governments remain supportive of trade and logistics park development in city outskirts, we believe CSC will continue to enjoy low land cost when they acquire sites in the future. CSC's specialization in trade and logistics park development would protect itself from the rising land cost.

Maintain BUY with revised TP of HK\$3.00. On the back of strong 2Q13 presale, we raise our FY14E/15E presales forecasts to HK\$ 11.5bn/HK\$ 15.0bn from HK\$ 11.1bn/HK\$ 13.1bn. We also raise our earnings estimates by 6.7%-21.5% for FY14E-16E on better-than-expected sales performance. We roll over our NAV estimate to end-FY14 (HK\$ 7.48/share) and raise our TP to HK\$ 3.00 (from HK\$ 2.40) based on a 60% discount to NAV. Maintain **BUY** on CSC.

Risk factors: 1) Tightening policy on commercial property sector; 2) High level of unsold inventories may slow cash flow; 3) Dilution effects of CB conversion

Results and Valuation

FY ended Mar 31	FY12A	FY13A	FY14E	FY15E	FY16E
Revenue (HKD mn)	3,671	7,488	10,743	15,513	20,285
Chg (% YoY)	64.3	104.0	43.5	44.4	30.8
Core net profit (HKD mn)	923	1,776	2,172	3,908	5,131
Chg (% YoY)	70.1	92.5	22.2	79.9	31.3
Underlying EPS (HKD)	0.15	0.29	0.33	0.59	0.77
Chg (% YoY)	69.8	91.6	12.4	77.3	31.3
BVPS (HKD)	2.16	2.63	2.75	3.18	3.74
Chg (% YoY)	22.7	21.7	4.5	15.6	17.7
Underlying PE (x)	13.5	7.1	6.3	3.5	2.7
P/B (x)	0.96	0.79	0.76	0.65	0.56
ROE (%)	7.1	11.2	11.9	18.5	20.6
ROA (%)	3.0	4.2	4.3	6.7	7.8
DPS (HKD)	0.08	0.10	0.10	0.15	0.20
Dividend yield (%)	3.6	4.8	4.8	7.2	9.6
Net gearing (%)	21.5	32.0	45.4	48.7	13.9

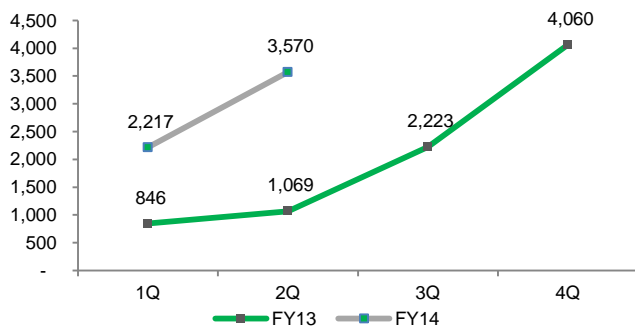
*Net gearing=Net debt/Total Shareholders' equity

Source(s): Bloomberg, ABCI Securities estimates

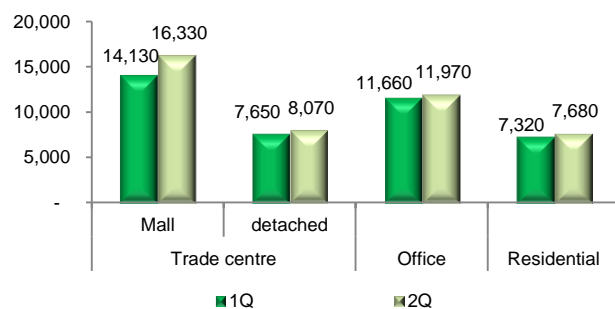
Presales went up 234% YoY in 2Q13

China South City (CSC) registered impressive presale of HK\$ 3.57bn, up 234% YoY, driven by significant increase in GFA sold. Despite overall ASP drop 14% YoY due to changes in geographical mix in which contribution from Shenzhen decreased, we notice ASP of all types of products rose QoQ, including trade centre-shopping mall type (+16% QoQ), trade centre-detached type (+5% QoQ), office (+3% QoQ), and residential products (+5% QoQ), indicating the Group's improving pricing power.

According to *HFhouse* (合肥房地产交易网), more than 7,000 of the 8,000 units launched by CSC in Hefei in Nov were sold within the first week of sale. As CSC enters the peak season in 3Q/4Q, we expect presale to rise further.

Exhibit 21: CSC's quarterly presale (HK\$ mn)


Source(s): Company, ABCI Securities

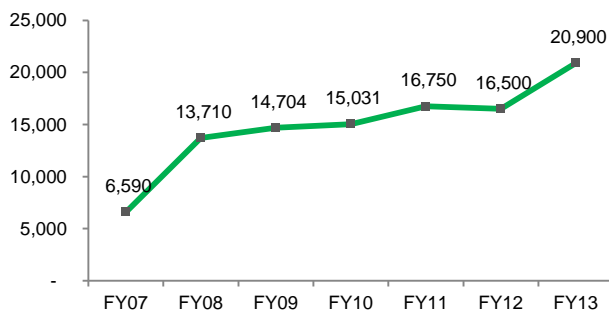
Exhibit 22: CSC's ASP: 1Q vs. 2Q14 (HK\$/sqm)


Source(s): Company, ABCI Securities

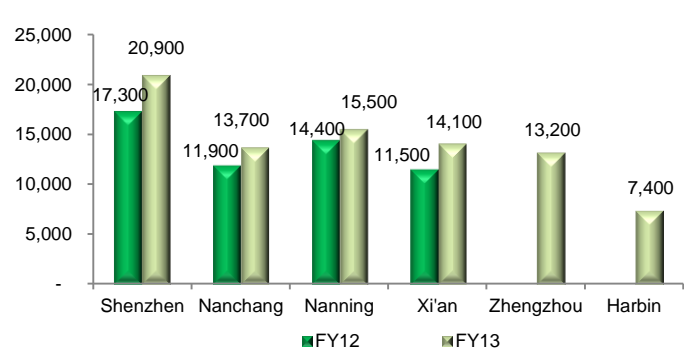
Limited impact from potential policy tightening and rising land cost

As commercial properties are less likely to be subjected to austerity measures on property sector, we believe the Group would enjoy solid pricing power with decent gross margins of 55%-60% in 2014E/15E.

In fact, the Group has demonstrated a solid record of price growth. E.g. ASP of CSC Shenzhen grew at 21% CAGR over FY07-13 from HK\$ 6,590/sqm to HK\$ 20,900/sqm. Other projects also registered ASP hikes of 8%-23% YoY in FY13.

Exhibit 23: CSC's Shenzhen ASP (HK\$/sqm)


Source(s): Company, ABCI Securities

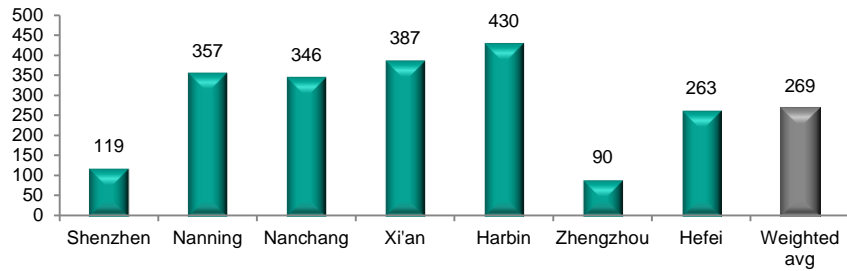
Exhibit 24: ASP by project: FY13 vs. FY12 (HK\$/sqm)


Source(s): Company, ABCI Securities



Unique business model guarantees low-cost land supply. CSC's business model shields itself from rising land cost. As local governments remain supportive of trade and logistics park development in the city outskirts, we believe CSC will continue to enjoy low land cost in the future. In addition, its existing landbank with a GFA of 20mn sqm should be more than sufficient for seven to eight years of development. Average land cost of CSC's landbank is as low as RMB 269/sqm, representing 3% of ASP only.

Exhibit 25: CSC's land cost by project as at Mar 2013 (RMB/sqm)



Source(s): Company; ABCI Securities

Exhibit 26: CSC's landbank as at Mar 2013

Project (m sqm)	Completed Properties		Under Development	For Future Development Estimated	Total planned GFA Estimated	GFA of Land acquired		GFA To be acquired	
	Sold	Unsold				%			
Shenzhen	0.6	1.2	-	0.8	2.6	2.6	100%	-	0%
Nanchang	0.6	0.2	0.3	3.2	4.3	4.3	100%	-	0%
Nanning	0.1	0.3	1.0	3.5	4.9	2.5	51%	2.4	49%
Xi'an	0.2	0.4	0.3	16.6	17.5	2.0	12%	15.5	88%
Harbin	0.0	0.0	0.7	11.3	12.0	2.2	19%	9.8	81%
Zhengzhou	0.0	0.0	1.5	10.5	12.0	4.2	35%	7.8	65%
Hefei	0.0	0.0	-	12.0	12.0	3.9	33%	8.1	67%
Total	1.4	2.1	3.8	57.9	65.3	21.8	33%	43.5	67%

Source(s): Company; ABCI Securities

Strategic acquisition of HOBA furnishing

On July 29 2013, CSC announced the acquisition of HOBA furnishing - an established furniture retailer that operates nine furnishing centres across six cities in China. CSC will acquire 75% of HOBA's new shares at RMB 522mn (or HK\$ 656.47mn). As HOBA has become CSC's subsidiary, the consideration for the acquisition will be consolidated at the Group level. We believe this strategic acquisition will widen CSC's customer base to include the medium chain operators aside from the SME ones. If CSC is able to turn around HOBA's business (HOBA incurred a loss of RMB 1.8mn in FY12) by introducing the stores into the Group's trade centers (which can boost visitation and lower rent), other mid-scale space intensive operators (e.g. car dealers, textile makers) may consider setting up stores at CSC's properties.

Exhibit 27: CSC's convertible bonds issued in Apr 2013

CB's details	
CB holder	PAG
Principle	HK\$975mn
Maturity	2018
Coupon rate	6.5%
Exercise Price	HK\$1.52
Dilution impact	10.4% of existing no. of shares

Source(s): Company

Raise TP to HK\$ 3.00; reiterate BUY

On the back of strong 2Q13 presale, we raise our FY14E/15E presales forecasts to HK\$11.5bn /HK\$15.0bn (from HK\$11.1bn/HK\$13.1bn). We also raise our earnings estimates by 6.7%-21.5% for FYE14-16E on better-than-expected sales performance. We assume CSC's CB will be fully converted in FY14E, given the current share price (HK\$ 2.08) is well above the exercise price of HK\$1.59/share. This should reduce CSC's financing cost and gearing but its outstanding shares will increase at the same time. We roll over our NAV estimate to end-FY14 (HK\$ 7.48) and raise our TP to HK\$ 3.00 (from HK\$ 2.40) based on a 60% discount to NAV. Maintain **BUY** on CSC.



Exhibit 28: Major forecast changes for CSC

	Previous			Current			Change (%)		
	FY14E	FY15E	FY16E	FY14E	FY15E	FY16E	FY14E	FY15E	FY16E
Core net profit (RMB mn)	2,020	3,662	4,224	2,172	3,908	5,131	7.5%	6.7%	21.5%
YoY chg (%)	13.7	81.3	15.4	22.2	79.9	31.3			
Contracted sales (RMB mn)	11,113	13,123	20,102	11,533	14,979	23,188	3.8%	14.1%	15.4%
YoY chg (%)	35.4	18.1	53.2	40.6	29.9	54.8			
GFA delivery (mn sqm)	0.98	1.18	1.53	1.03	1.34	1.81	4.5%	13.6%	18.7%
Gross margin (%)	52.4%	59.9%	57.4%	52.6%	58.0%	56.8%	+0.2ppt	-1.8ppt	-0.6ppt

Source(s): ABCI Securities estimates

Exhibit 29: CSC FY15E NAV forecast

	Attr. GFA (mn sqm)	Net assets value (HKD m)	% of total	Valuation Methodology	Implied value per sqm (HKD)
Property development					
Shenzhen	2.2	10,052	17%	DCF at WACC of 10.4%	4,667
Nanning	2.7	6,890	11%		2,572
Nanchang	3.7	10,958	18%		2,998
Xi'an	1.1	2,364	4%		2,191
Harbin	2.2	3,530	6%		1,582
Others	8.2	22,006	37%		2,698
Subtotal	20.0	55,801	93%		2,797
Investment Properties & Others		4,279	7%	5% cap rate on FY15E net rental income	
Total FY15E GAV		60,080	100%		
FY15E Net debt		(10,289)	-17%		
Total FY15E NAV		49,791	83%		
No. of share outstanding		6,652			
NAV per share (HKD)		7.48			
Target discount (%)		60%			
Target Price (HKD)		3.00			

WACC	10.4%
Cost of debt	8.0%
Cost of Equity	15.0%
Debt/ (Debt + Equity)	52%

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2012A-2016E)

FY Ended Mar 31 (HK\$ mn)	2012A	2013A	2014E	2015E	2016E
Revenue	3,671	7,488	10,743	15,513	20,285
Cost of sales	(1,435)	(3,311)	(5,090)	(6,510)	(8,763)
Gross Profit	2,236	4,177	5,653	9,004	11,522
SG&A expenses	(538)	(826)	(974)	(1,202)	(1,516)
EBIT	1,698	3,351	4,680	7,801	10,006
Finance cost	(59)	(133)	(196)	(252)	(252)
Share of profit of associates	1	1	-	-	-
Other income/ (expenses)	22	52	115	151	225
Fair value gain of investment properties	1,118	1,251	-	-	-
Disposal/one-off items	525	(49)	-	-	-
Profit before tax	3,306	4,473	4,599	7,700	9,979
Tax	(1,258)	(1,606)	(2,093)	(3,529)	(4,475)
Profit after tax	2,048	2,867	2,506	4,171	5,504
Minority interest	23	(117)	(334)	(264)	(373)
Reported net profit	2,071	2,750	2,172	3,908	5,131
Less: exceptional items	(1,148)	(973)	-	-	-
Underlying net profit	923	1,776	2,172	3,908	5,131
Per share					
Underlying EPS (RMB)	0.15	0.29	0.33	0.59	0.77
DPS (RMB)	0.08	0.10	0.10	0.15	0.20
Payout ratio (%)	49%	34%	30%	26%	26%
BVPS (RMB)	2.16	2.63	2.75	3.18	3.74
Growth %					
Revenue	64.3%	104.0%	43.5%	44.4%	30.8%
Gross Profit	67.7%	86.8%	35.4%	59.3%	28.0%
EBIT	67.6%	97.4%	39.7%	66.7%	28.3%
Underlying net profit	70.1%	92.5%	22.2%	79.9%	31.3%
Margin %					
Gross margin	60.9%	55.8%	52.6%	58.0%	56.8%
Gross margin (post-LAT)	51.4%	48.2%	41.4%	44.8%	44.5%
EBIT margin	46.3%	44.8%	43.6%	50.3%	49.3%
Core net margin	22.2%	26.2%	23.3%	26.9%	27.1%
Key assumptions					
Contracted Sales (RMB mn)	6,207	8,205	11,533	14,979	23,188
GFA sold (m sqm)	0.59	0.71	1.08	1.39	2.12
ASP (RMB/sqm)	10,487	11,573	10,639	10,763	10,930
Booked Sales (RMB)	3,011	6,899	10,369	15,066	19,769
GFA delivered (mn sqm)	0.25	0.66	1.03	1.34	1.81
Booked ASP (RMB/sqm)	11,986	10,409	10,090	11,257	10,894

Source: Company, ABCI Securities estimates



Consolidated balance sheet (2012A-2016E)

As of Mar 31 (HK\$ mn)	2012A	2013A	2014E	2015E	2016E
Current assets	13,245	18,428	20,195	23,214	30,044
Bank balances and cash	3,832	6,778	8,546	11,564	18,394
Trade receivables	526	937	937	937	937
Properties held for sale	7,908	9,953	9,953	9,953	9,953
Other current assets	979	760	760	760	760
Non-current assets	17,421	23,917	30,900	35,522	35,363
Properties under development	2,878	2,382	9,180	13,829	13,700
Property, plant and equipment	196	601	742	715	685
Investment properties	13,637	19,426	19,426	19,426	19,426
Investment in Associate and JCE	1	6	6	6	6
Other non-current assets	709	1,502	1,546	1,546	1,546
Total Assets	30,666	42,345	51,095	58,736	65,407
Current Liabilities	10,895	15,374	21,207	25,775	28,374
Short term borrowings	2,740	4,418	9,418	14,418	14,418
Trade and other payables	3,067	4,373	4,373	4,373	4,373
Pre-sale deposits	3,463	3,793	4,625	4,193	6,792
Other current liabilities	1,624	2,790	2,790	2,790	2,790
Non-current liabilities	6,777	10,928	10,928	10,928	10,928
Long term borrowings	3,878	7,435	7,435	7,435	7,435
Other payables	53	-	-	-	-
Other non-current liabilities	2,845	3,493	3,493	3,493	3,493
Total Liabilities	17,671	26,302	32,134	36,703	39,302
Net Assets	12,995	16,043	18,961	22,033	26,105
Shareholders' Equity	12,939	15,853	18,283	21,141	24,891
Minority Interest	57	190	678	892	1,214
Total Equity	12,995	16,043	18,961	22,033	26,105
Key ratio:					
Gross debt (RMB mn)	6,618	11,853	16,853	21,853	21,853
Net debt (RMB mn)	2,786	5,076	8,308	10,289	3,460
Net gearing (%)	22%	32%	45%	49%	14%
Contracted sales/ Total assets (x)	0.20	0.19	0.23	0.26	0.35

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2011A-2015E)

FY ended Mar 31 (HK\$ mn)	2012A	2013A	2014E	2015E	2016E
EBITDA	1,721	3,378	4,710	7,838	10,047
Change in Working Capital	(2,468)	(554)	(4,857)	(3,652)	4,156
Tax payment	(160)	(200)	(2,093)	(3,529)	(4,475)
Operating Cashflow	(907)	2,624	(2,240)	658	9,728
Purchase of PP&E	(11)	(10)	(10)	(10)	(10)
Addition of Investment Properties	0	0	0	0	0
Investment in Associate/ JCE	11	0	0	0	0
Proceeds from Disposals	286	0	0	0	0
Others	(20)	0	115	151	225
Investing Cash flow	265	(10)	105	141	215
Debt raised	2,172	2,000	10,000	10,000	10,000
Debt repaid	(1,588)	(500)	(5,000)	(5,000)	(10,000)
Interest expenses	(522)	(719)	(1,305)	(1,681)	(1,681)
Equity raised	0	0	0	0	0
Convertible securities raised	0	0	975	0	0
Dividend to shareholders	(150)	(449)	(717)	(1,049)	(1,382)
Others	7	0	(50)	(50)	(50)
Financing Cash flow	(81)	332	3,903	2,220	(3,113)
Net cash inflow/ (outflow)	(722)	2,946	1,768	3,018	6,830
Cash- beginning	4,554	3,832	6,778	8,546	11,564
Cash- year-end	3,832	6,778	8,546	11,564	18,394

Source(s): Company, ABCI Securities estimates



November 21, 2013
Company Report
Rating: BUY
TP: HK\$ 3.30

Share price (HK\$)	2.57
Est. share price return	28.40%
Est. dividend yield	3.90%
Est. total return	32.30%

Previous Rating & TP	BUY; HK\$ 2.90
Previous Report Date	Jul 25, 2013

Analyst: Kenneth Tung
Tel: (852) 2147 8311
Email: kennethtung@abci.com.hk

Key Data

52Wk H/L(HK\$)	3.02/2.19
Issued shares (mn)	9,161
Market cap	23,911
3-mth avg daily turnover (HK\$ mn)	13.4
Major shareholder(s) (%):	
Sinochem Group	62.90

Source(s): Company, Bloomberg, ABCI Securities

FY12 Revenue breakdown (%)

Property Development	62.9
Property Leasing	6.4
Hotels	11.7
Land Development	15.4
Others	3.6

Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	(3.0)	(4.3)
3-mth	(4.0)	(11.5)
6-mth	(8.7)	(9.9)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Franshion (817 HK)
Defensive and diversified; maintain BUY

- Franshion achieved RMB 6.1bn in land sales for 10M13 from the Meixi Lake primary land development project, beating its 2013 target of RMB 5bn. Further growth will be supported by recent acquisition of Meixi lake Phase 2 with a GFA of 12.7mn sqm
- Franshion's Nanjing International Centre will boost income in retail rental
- Raised earnings forecasts by 2.5%-5.7% for FY13-E15E on better-than-expected primary land sales.
- Maintain BUY with a revised TP of HK\$ 3.30 based on a 40% discount to our revised end-2014E NAV of HK\$ 5.57/share

Scaling up primary land business. Franshion has become an investor in Phase 2 of the Meixi Lake Project with a GFA of 12.7mn sqm. The land capex would be RMB17.4bn (70% of total investment cost), or RMB1,963/sqm (45% higher than Phase 1 that was acquired two years ago), and the amount will be paid in installments. We believe the acquisition will further strengthen Franshion's primary land development business. For 10M13, Franshion's primary land presale reached RMB 6.1bn, exceeding its original 2013 target of RMB 5bn by 22%.

Ramping up its retail rental. Being one of the most widely recognized office landlords in China, the Group also seeks to further expand its retail rental business. The Group acquired the Nanjing International Centre (NIC) in Feb 2013. The building will undergo major renovations that will increase its GFA by 100k sqm. The Group will also introduce a wide range of retailers as tenants. Before Franshion's acquisition, retail portion of NIC had an occupancy of 79% and a rent rate of RMB 2.6/sqm/day (vs. Franshion's Shanghai J-Life: RMB 14/sqm/day; Sanya J-Life: RMB 35/sqm/day). The estimated capex of such renovation will be ~RMB 300mn-400mn, but we expect the rent rate will increase by 53% to RMB 4.0/sqm/day once the renovation is completed by 2016, which implies a gross yield on cost of ~12%.

Limited policy headwind, maintain BUY. On the back of better-than-expected 10M13 presale, we raised our 2013E/14E/15E core profit estimates by 5.7%/5.6%/2.5%, respectively. We also roll over our NAV forecast to end-2014 and raise our TP by 13.7% to HK\$ 3.30 (from HK\$2.90 previously). Our TP is based on a 40% discount to end-2014 NAV (HK\$ 5.57/share), comparable to its trading at historical average discount of 38% since listing. Given the Group's significant exposure in commercial real estate, we believe it is less likely to be affected by the government's austerity measures on property sector. Maintain **BUY**.

Risk factors: 1) Potential dilution by CB; 2) Depletion of high-quality commercial landbank

Results and Valuation

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (HK\$ mn)	6,592	17,176	20,087	29,373	37,278
Chg (% YoY)	3.8	160.6	17.0	46.2	26.9
Core net profit (HK\$ mn)	1,455	2,154	3,004	3,923	5,441
Chg (% YoY)	45.9	48.0	39.4	30.6	38.7
Underlying EPS (HK\$)	0.16	0.23	0.31	0.39	0.53
Chg (% YoY)	53.2	39.6	34.4	27.7	35.9
BVPS (HK\$)	2.32	2.58	2.81	3.12	3.55
Chg (% YoY)	14.5	11.5	8.8	11.0	13.9
Underlying PE (x)	15.7	11.3	8.4	6.6	4.8
PB (x)	1.1	1.0	0.9	0.8	0.7
ROE (%)	6.7	8.9	11.4	13.4	16.4
ROA (%)	2.1	2.6	3.1	3.6	4.6
DPS (HK\$)	0.04	0.07	0.10	0.12	0.16
Dividend yield (%)	1.6	2.7	3.9	4.7	6.2
Net gearing (%)	48.2	51.3	68.9	34.9	(15.8)

*Net gearing=Net debt/Total Shareholders' equity

Source(s): Bloomberg, ABCI Securities estimates

Meixi Lake Phase 2: Hot land market to drive primary land development profit

Franshion has become an investor the Meixi Lake Project Phase 2 that has a GFA of 12.7mn sqm. The land capex would be RMB17.4bn (70% of total investment cost), or RMB 1,963/sqm (45% higher than Phase 1 that was acquired two years ago), and it will be paid in installments. Due to higher land cost, gross margin will be lower for Phase 2 at 13% based on the current ASP of RMB 3,200/sqm.

Back in 2011, when Franshion announced its one-off investment of RMB 12.8bn in Meixi Lake, investors were concerned about the sudden surge in gearing and the Group's limited experience in primary land development. We believe Franshion primary land business has been a successful one, generating RMB 3bn-5bn in sales in 2011 and 2012. Furthermore, the payment for Phase 2 will be made in installments, easing the concerns of gearing surge.

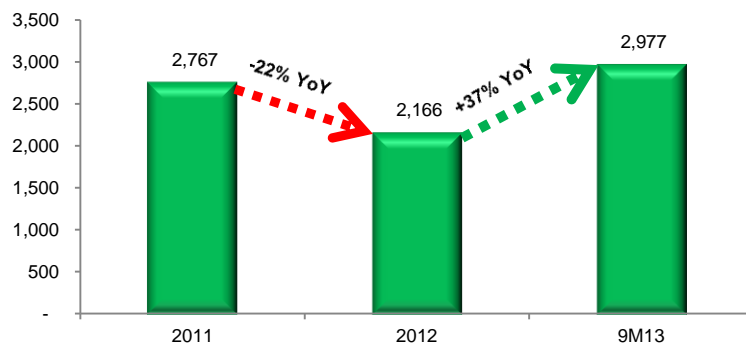
In fact, land price of Meixi Lake Phase 1 rebounded 37%YoY to RMB 2,977/sqm for 9M13. Franshion will start acquiring Phase 2 as the reserves in Phase 1 depleted. We expect gross margin of Phase 2 to reach 17% in FY15E based on an estimated ASP of RMB3,400/sqm pricing.

Exhibit 30: Meixi Lake development comparison

	Stake	Total investment cost	GFA	Average land cost	Profit sharing to government	Payment terms	Estimated Gross margin on current ASP (RMB3,200/sqm)
	(%)	RMB bn	mn sqm	RMB/sqm	(%)		(%)
Phase 1 (acquired in Jan 2011)	80%	12.8	9.45	1,354	8%	Upfront	42%
Phase 2 (acquired in Oct 2013)	70%	24.9	12.68	1,963	40%	By instalment	13%

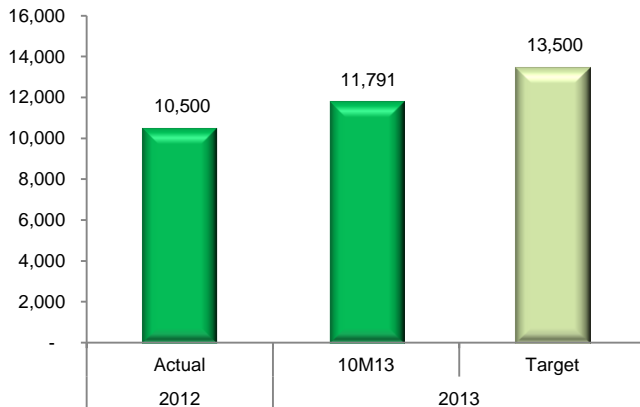
Source(s): Franshion, ABCI Securities

Exhibit 31: ASP of Meixi Lake Land Sales (RMB/sqm)

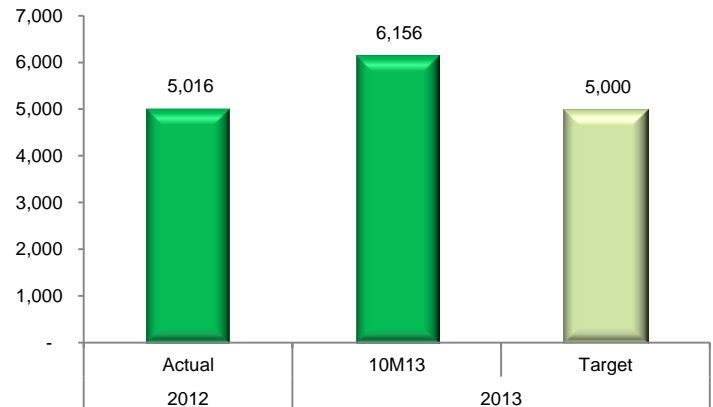


Source(s): Company, ABCI Securities

In fact, its primary land business has performed well in 10M13, registering RMB 6.1bn in presale, beating the original 2013 target of RMB 5bn. Franshion's residential/ office presales reached RMB11.8bn, achieving 87% of full-year target of RMB 13.5bn for this segment.

Exhibit 32: Franshion's 10M13 presale (RMB mn)


Source(s): Company, ABCI Securities

Exhibit 33 : Franshion's 10M13 land sales (RMB mn)


Source(s): Company, ABCI Securities

Exhibit 34: Franshion- Monthly presale (RMB mn)

	Amount RMB mn	GFA mn sqm	ASP RMB/sqm
Jan-13	1,292	0.0512	25,234
Feb-13	2,000	0.0320	62,500
Mar-13	648	0.0329	19,696
Apr-13	769	0.0490	15,694
May-13	1,413	0.0494	28,603
Jun-13	1,212	0.0478	25,356
Jul-13	1,325	0.0739	17,930
Aug-13	768	0.0272	28,267
Sep-13	1,520	0.0513	29,616
Oct-13	844	0.0530	15,925
10M13	10,947	0.4150	26,398

Source(s): Company, ABCI Securities

Exhibit 35 : Franshion- Monthly land sales in Meixi Lake (RMB mn)

	Amount RMB mn	GFA mn sqm	ASP RMB/sqm
Jan-13	1,600	0.62	2,572
Feb-13	1,009	0.34	3,001
Mar-13	-	-	NA
Apr-13	-	-	NA
May-13	63	0.04	1,602
Jun-13	-	-	NA
Jul-13	964	0.31	3,091
Aug-13	480	0.12	4,111
Sep-13	2,040	0.64	3,180
Oct-13	-	-	NA
10M13	6,156	2.07	2,977

Source(s): Company, ABCI Securities

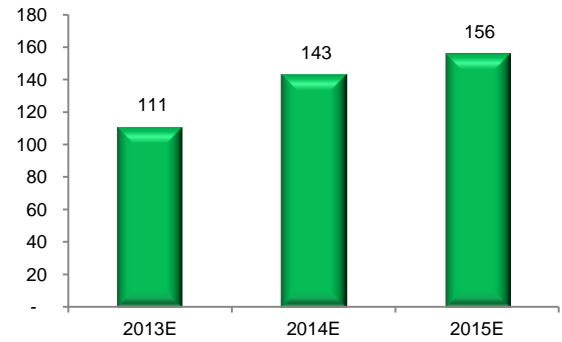
Retail revenue driver: Nanjing International Centre

In Oct, we visited Franshion's Nanjing International Centre (NIC), which was 51%-owned by the Group after its acquisition in Feb 2013 from a local developer. Situated at the heart of Zhongyang Road, Gulou District in Nanjing, Nanjing International Center faces Xuanwu Lake and comprises one ultra-high-rise Main Tower, North Tower, South Tower, and an eight-storey podium. Based on its prime location, we expect office rent could reach 4.0/sqm/day with a 95% occupancy rate. Currently, its residential units are selling at ~RMB 50k/sqm. However, retail portion have not been performing well. It has an occupancy rate of 79% and a rent rate of RMB2.6/sqm/day (vs. Franshion's Shanghai J-Life: RMB14/sqm/day; Sanya J-Life: RMB35/sqm/day).

Franshion plans to renovate the building (estimated capex: RMB 300-400mn) to increase the building's GFA by 100k sqm and introduce a wider range of retailers as tenants. We expect such investment will boost rent rate by 53% to RMB 4.0/sqm/day once the renovation is completed by 2016, implying a gross yield of ~12% on cost (cost is calculated by summing the acquisition cost of RMB 9,400/sqm and renovation cost of RMB 2,600/sqm), as opposed to the 7%-8% yield for most investment properties in China.

Exhibit 36: Nanjing International Centre- Operating statistics

Statistics			
GFA breakdown ('000sqm)			
Phase 1 (completed)	189.5	Property valuation (RMB mn)	2,510
- Office	53.8	Consideration paid (RMB mn)	816
- Retail	86.0	Stake acquired	51.0%
- Hotel	32.5		
- Residential	17.2		
Phase 2 (Under development)	196.0		
- Office	72.2		
- Retail	48.5		
- Hotel	23.5		
- Residential	51.8		
Total	385.5		

Exhibit 37 : NIC's rental revenue forecast


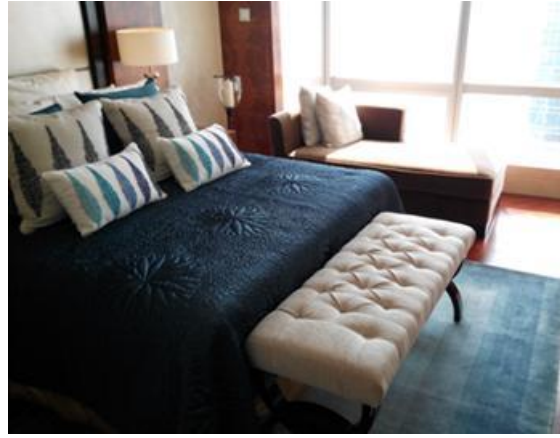
* as at Jun 2013

Source(s): Company, ABCI Securities

Source(s): Company, ABCI Securities

Exhibit 38: Retail mall of NIC


Source(s): Company

Exhibit 39 : Serviced apartment of NIC


Source(s): Company

Exhibit 40: NIC Phase 1 & 2


Source(s): Company

Exhibit 41 : Window view of NIC's serviced apartment


Source(s): Company



Limited policy headwinds; maintain BUY

On the back of better-than-expected 10M13 presale, we raise our 2013E/14E/15E core profit forecasts by 5.7%/5.6%/2.5%, respectively. We also roll over our NAV estimate to end-2014 and raise our TP by 13.7% to HK\$ 3.30 (from HK\$ 2.90 previously). Our TP is based on a 40% discount to FY14E NAV (HK\$ 5.62), comparable to the stock's trading at the historical average discount of 38% since its listing. Franshion is currently trading at 6.9x 2014E P/E, reflecting a 52% discount to end-FY14E NAV.

Given the Group's significant exposure in commercial property sector, we believe it is less likely to be affected by the government's austerity measures that usually target at the residential sector. Together with Franshion's success in primary land development (9M13 revenue: RMB6.2bn, +24% higher than 2012 full-year revenue), we believe it should stand out among other SOE developers such as COLI and CR Land based on its diversified and defensive income streams. Maintain **BUY**.

Exhibit 42: Major forecast changes for Franshion

	Previous			Current			Change (%)		
	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E
GFA delivery (mn sqm)									
- Residential	0.29	0.66	0.87	0.26	0.65	0.95	-8.6%	-2.4%	9.5%
YoY chg (%)	-38%	132%	31%	-43%	148%	47%			
- Meixi Lake land sales	0.93	0.88	0.70	1.55	1.38	1.04	67.5%	56.3%	47.2%
YoY chg (%)	-7%	-5%	-20%	55%	-11%	-25%			
Contracted sales (RMB mn)									
- Residential	14,096	18,709	29,084	13,993	19,060	28,749	-0.7%	1.9%	-1.2%
YoY chg (%)	34%	33%	55%	33%	36%	51%			
- Meixi Lake land sales	5,000	5,225	4,389	6,156	6,433	7,123	23.1%	23.1%	62.3%
YoY chg (%)	0%	4%	-16%	23%	4%	11%			
Core net profit (HK\$ mn)									
- Residential	2,841	3,715	5,308	3,004	3,923	5,441	5.7%	5.6%	2.5%
YoY chg (%)	32%	31%	43%	39%	31%	39%			

Source(s): ABCI Securities estimates



Exhibit 43: Franshion's FY14E NAV

	Attr. GFA (M sqm)	Net assets value (HK\$ mn)	% of total	Valuation Methodology	Implied value per sqm (HK\$)
Property development					
Beijing	0.8	12,444	18%	DCF at WACC of 9.6%	14,773
Shanghai	0.4	5,836	9%		16,596
Changsha	1.5	4,341	6%		2,956
Suzhou	0.3	2,395	4%		8,744
Chongqing	0.5	2,003	3%		4,000
Others	1.8	5,734	9%		3,274
Subtotal	4.7	32,753	49%		6,987
Primary Land Development	4.1	15,478	23%	Mkt value	3,751
Investment Properties	0.5	14,837	22%	6% cap rate on net rental income	
Hotels		4,377	6%	5x EBITDA multiple	
Total 2014E GAV		67,444	100%		
2014E Net debt (including Perpetual convertible securities)					
		(16,371)	-24%		
Total 2014E NAV		51,073	76%		
No. of share outstanding		9,161			
NAV per share (HK\$)		5.57			
Target discount (%)		40%			
Target Price (HK\$)		3.30			
WACC					
Cost of debt		6.5%			
Cost of Equity		15.0%			
Debt/ (Debt + Equity)		53%			

Source(s): Company, ABCI Securities estimates



Exhibit 44: Franshion's 1H13 results

P&L	1H13	1H12	YoY Chg
	HK\$ mn	HK\$ mn	(%)
Turnover	11,132	3,618	207.6
Property sales	4,478	1,677	167.0
Primary land development	4,707	76	6,110.0
Property leasing	629	547	14.9
Hotel	1,042	1,063	(2.0)
Others	276	255	8.2
Cost of Sales & direct operating costs	(6,295)	(1,604)	292.4
Gross Profit	4,837	2,014	140.2
Gross Margin (%)	43.5	55.7	(12.2)
Selling and distribution costs	(208)	(120)	72.8
Administrative expense	(499)	(431)	15.7
EBIT	4,130	1,463	182.4
EBIT Margin (%)	37.1	40.4	
Other income, gains and losses	145	164	(11.7)
Fair value gain of investment properties	587	1,348	(56.5)
Other exceptional items	142	(1)	na
Share of profit from JCE/ Associates	1	1	(3.2)
Finance cost	(603)	(487)	23.8
Profit before tax	4,403	2,489	76.9
Tax	(1,718)	(681)	152.5
- LAT	(681)	(156)	336.1
- Enterprise tax	(1,037)	(524)	97.8
Profit after tax	2,685	1,808	48.5
Minority Interest	(450)	(205)	120.0
Net profit	2,235	1,603	39.4
Underlying net profit	1,827	593	208.4
Operating statistics	1H13	1H12	YoY Chg
GFA Delivered (mn sqm)	63.5	34.5	84.0
Booked ASP (HK\$/sqm)	70,471	48,564	45.1
Property sales booked (HK\$/sqm)	4,478	1,677	167.0
Gross margin by segment	1H13	1H12	YoY Chg (ppt)
Property development (Property sales + Land development)	40%	49%	-9ppt
Property leasing	90%	92%	-2ppt
Hotel	53%	56%	-3ppt
Balance sheet	Jun-13	Dec-12	HoH %
	HK\$ mn	HK\$ mn	
Gross debt	31,809	28,275	12.5
Cash	9,511	13,109	(27.4)
Net debt	22,298	15,166	47.0
Net gearing (%)	71.9	52.5	19.4

Source(s): Company, ABCI Securities



Consolidated income statement (2011A-2015E)

FY Ended Dec 31 (HK\$ mn)	2011A	2012A	2013E	2014E	2015E
Revenue	6,592	17,176	20,087	29,373	37,278
Cost of sales	(3,017)	(9,977)	(9,351)	(14,312)	(17,927)
Gross Profit	3,575	7,199	10,736	15,061	19,351
SG&A expenses	(1,158)	(1,407)	(1,671)	(2,144)	(2,777)
EBIT	2,417	5,792	9,065	12,917	16,574
Finance cost	(859)	(986)	(1,100)	(1,279)	(1,368)
Share of profit of associates	4	2	-	-	-
Other income/ (expenses)	213	284	214	288	531
Fair value gain of investment properties	931	1,626	-	-	-
Disposal/one-off items	1,392	5	-	-	-
Profit before tax	4,097	6,723	8,178	11,926	15,736
Tax	(1,187)	(2,783)	(3,854)	(5,430)	(7,654)
Profit after tax	2,911	3,940	4,325	6,496	8,082
Minority interest	(566)	(563)	(1,321)	(2,574)	(2,640)
Reported net profit	2,344	3,378	3,004	3,923	5,441
Less: exceptional items	(889)	(1,223)	-	-	-
Underlying net profit	1,455	2,154	3,004	3,923	5,441
Per share					
Underlying EPS (HK\$)	0.16	0.23	0.31	0.39	0.53
DPS (HK\$)	0.04	0.07	0.10	0.12	0.16
Payout ratio (%)	24%	31%	33%	31%	30%
BVPS (HK\$)	2.32	2.58	2.81	3.12	3.55
Growth %					
Revenue	3.8%	160.6%	17.0%	46.2%	26.9%
Gross Profit	8.2%	101.4%	49.1%	40.3%	28.5%
EBIT	0.9%	139.7%	56.5%	42.5%	28.3%
Underlying net profit	45.9%	48.0%	39.4%	30.6%	38.7%
Margin %					
Gross margin	54.2%	41.9%	53.4%	51.3%	51.9%
Gross margin (post-LAT)	8.7%	19.3%	20.6%	23.7%	26.5%
EBIT margin	36.7%	33.7%	45.1%	44.0%	44.5%
Core net margin	17.7%	15.8%	21.5%	22.1%	21.7%
Key assumptions					
Contracted Sales (HK\$ mn)		13,230	17,631	24,015	36,224
GFA sold (m sqm)		0.31	0.51	0.95	1.11
ASP (HK\$/sqm)		43,009	34,647	25,299	32,702
Booked Sales (HK\$)		10,796	10,755	19,581	28,196
GFA delivered (m sqm)		0.46	0.26	0.65	0.95
Booked ASP (HK\$/sqm)		23,328	41,054	30,185	29,669

Source: Company, ABCI Securities estimates



Consolidated balance sheet (2011A-2015E)

As of Dec 31 (HK\$ mn)	2011A	2012A	2013E	2014E	2015E
Current assets	24,968	38,199	34,033	46,233	62,504
Cash	12,224	12,888	11,370	25,916	43,682
Restricted cash	368	576	576	576	576
Trade & other receivables	105	2,003	2,003	2,003	2,003
Properties under development	7,030	10,384	10,384	10,384	10,384
Properties held for sale	840	3,078	3,078	3,078	3,078
Land under development	2,623	6,696	4,049	1,702	207
Other current assets	5,240	12,348	9,701	7,354	5,859
Non-current assets	44,803	44,303	62,105	61,317	54,875
Property, plant & equipment	6,891	6,956	7,018	7,073	7,121
Properties under development	11,844	13,047	30,787	29,944	23,454
Land under development	9,223	5,408	5,408	5,408	5,408
Investment properties	14,890	16,575	16,575	16,575	16,575
Investment in Associate and JCE	36	39	39	39	39
Other non-current assets	1,919	2,279	2,279	2,279	2,279
Total Assets	69,771	82,502	96,138	107,550	117,379
Current Liabilities	17,610	25,726	35,691	42,068	45,644
Short term borrowings	6,028	8,952	13,952	18,952	18,952
Trade & other payables	5,349	6,233	6,233	6,233	6,233
Pre-sales deposits	5,229	8,235	13,201	14,578	18,153
Other current liabilities	1,005	2,306	2,306	2,306	2,306
Non-current liabilities	21,613	22,273	22,273	22,273	22,273
Long term borrowings	19,171	19,323	19,323	19,323	19,323
Other payables	-	-	-	-	-
Other non-current liabilities	2,442	2,950	2,950	2,950	2,950
Total Liabilities	39,224	47,999	57,965	64,342	67,917
Net Assets	30,547	34,503	38,173	43,208	49,462
Shareholders' Equity	21,583	24,290	26,377	29,201	33,176
Perpetual Convertible Securities	4,588	4,588	4,588	4,588	4,588
Minority Interest	4,377	5,625	7,208	9,419	11,698
Total Equity	30,547	34,503	38,173	43,208	49,462
Key ratio					
Gross debt (HK\$ mn)	25,199	28,275	33,275	38,275	38,275
Net debt (HK\$ mn)	12,607	14,811	21,330	11,783	(5,983)
Net gearing (%)	48%	51%	69%	35%	-16%
Contracted sales/ Total assets (x)	-	0.16	0.18	0.22	0.31

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31 (HK\$ mn)	2011A	2012A	2013E	2014E	2015E
EBITDA	2,641	6,022	9,303	13,162	16,826
Change in Working Capital	(8,642)	(4,186)	(9,227)	5,614	12,679
Tax payment	(1,110)	(1,137)	(3,854)	(5,430)	(7,654)
Operating Cash Flow	(7,111)	699	(3,778)	13,345	21,851
Purchase of PP&E	(207)	(310)	(300)	(300)	(300)
Addition of Investment Properties	(7)	(20)	0	0	0
Investment in Associate/ JCE	0	0	0	0	0
Proceeds from Disposals	0	0	0	0	0
Others	3,488	(968)	214	288	531
Investing Cash Flow	3,274	(1,298)	(86)	(12)	231
Debt raised	30,470	16,488	10,000	10,000	10,000
Debt repaid	(24,338)	(13,369)	(5,000)	(5,000)	(10,000)
Interest expenses	(787)	(949)	(2,000)	(2,325)	(2,488)
Equity raised	0	0	0	0	0
Convertible securities raised	(317)	(317)	(312)	(312)	(312)
Dividend to shareholders	(229)	(366)	(916)	(1,099)	(1,466)
Others	33	(222)	574	(50)	(50)
Financing Cash Flow	4,831	1,264	2,345	1,213	(4,316)
Net cash inflow/ (outflow)	994	665	(1,519)	14,547	17,766
Cash- beginning	11,230	12,224	12,888	11,370	25,916
Cash- year-end	12,224	12,888	11,370	25,916	43,682

Source(s): Company, ABCI Securities estimates



November 21, 2013
 Company Report
 Rating: BUY
 TP: HK\$ 3.10

Share price (HK\$) 2.41
 Est. share price return 28.6%
 Est. dividend yield -
 Est. total return 28.6%

Previous Rating & TP HK\$2.80, BUY
 Previous Report Date June 6, 2013

Analyst: Kenneth Tung
 Tel: (852) 2147 8311
 Email: kennethtung@abci.com.hk

Key Data

52Wk H/L(HK\$)	2.87/1.5
Issued shares (mn)	4,906
Market cap	11,826
3-mth avg daily turnover (HK\$ mn)	30.2
Major shareholder(s) (%): Kwok's Family	62.4

Source(s): Company, Bloomberg, ABCI Securities

FY12 Revenue breakdown (%)

Property development	97.1
Property investment	1.4
Property management	1.1
Others	0.4

Source(s): Company, ABCI Securities

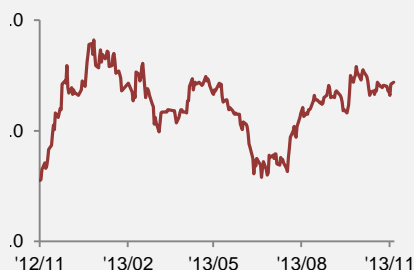
Share performance (%)

	Absolute	Relative*
1-mth	(5.1)	(6.4)
3-mth	9.6	1.1
6-mth	0.0	(1.2)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Kaisa (1638 HK)
 Residential top pick with robust sales and margins

- Kaisa City Plaza ranked no.1 in housing GFA sold in Shenzhen for 10M13, while Yuefeng Garden achieved RMB 516mn (or 222 units) in first-day sale
- Kaisa's redevelopment pipeline offer cheap ways of land acquisition. Existing landbank of 24.8mn sqm is also more than sufficient for five years of development
- Raised earnings forecasts by 2.3%-23.0% for FY13E-15E on higher-than-expected 2H13 completion
- Maintain **BUY** with revised TP of HK\$ 3.10, based on a 50% discount to our end-2014E NAV

Good progress in urban redevelopment. Given Kaisa's solid experience in urban redevelopment, the Group has recently secured two new redevelopment projects (with MOUs signed) in Longhua district in Shenzhen, where Kaisa has no prior exposure to. Kaisa's Shenzhen projects currently for sale achieved encouraging results. Kaisa City Plaza ranked No.1 in residential GFA sold in Shenzhen for 10M13; while the recently launched Yuefeng Garden (佳兆业悦峰) achieved RMB 516mn in presale (222 units) during its initial launch on Oct 31 with an estimated ASP of RMB 25,000/sqm. As contribution from redevelopment project increases, we expect Kaisa's higher-than-peer gross margin (for 1H13) will rise further from 34.6% in FY13E to 35.5% in FY14E and 36.1% in FY15E, respectively.

Sufficient landbank to support sales growth. As at June 2013, Kaisa has a landbank of 24.8mn sqm, which is sufficient for development in the next five years. Kaisa is in no urgency to aggregate land in 2H13—especially given the overheating land market at present. Moreover, its redevelopment pipeline allows a cheaper way of landbanking.

Top pick in residential sector. As we factor in the new project acquired in 10M13 and the better-than-expected 2H13 completion guidance, we raise our FY13E/14E/15E core profit forecasts in by 9.9%/2.3%/23.0%, respectively. We also roll over our valuation to end-FY14E and raise our TP to HK\$ 3.10 (from HK\$2.80 previously). Our TP is based on a 50% discount (from previous 45%) to end-2014E NAV (HK\$5.62/share) and is comparable to average NAV discount during the tightening period in 2011-12. Given the strong presales and positive margin outlook, Kaisa is our top residential pick. Maintain **BUY**.

Risk factors : 1) Timing of redevelopment project approvals are uncertain; 2) No dividend record since listing.

Results and Valuation

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	10,835	11,955	20,089	25,544	32,957
Chg (% YoY)	39.7	10.3	68.0	27.2	29.0
Core Net Income (RMB mn) ¹	1,576	1,504	2,420	3,430	4,925
Chg (% YoY)	11.9	(4.6)	60.9	41.7	43.6
Underlying EPS (RMB)	0.28	0.27	0.44	0.62	0.89
Chg (% YoY)	(0.7)	(4.2)	60.9	41.7	43.6
BVPS (RMB)	2.2	2.6	3.0	3.7	4.5
Chg (% YoY)	6.1	20.7	16.9	20.5	24.4
Underlying PE (x)	6.7	7.0	4.3	3.1	2.1
P/B (x)	0.9	0.7	0.6	0.5	0.4
ROE (%)	13.2	10.5	14.4	17.0	19.6
ROA (%)	3.8	2.6	3.8	4.6	5.8
DPS(RMB)	-	-	-	-	-
Yield (%)	-	-	-	-	-
Net gearing (%) ²	76.7	70.1	90.5	23.2	(48.0)

¹Core net income = Net profit - revaluation gain of investment properties and one-off items

²Net gearing = Net debt / Shareholders' equity

Source(s): Bloomberg, ABCI Securities estimates

Replicating redevelopment success in Zhuhai

Given its solid experience in urban redevelopment, Kaisa recently secured two new redevelopment projects (with MOUs signed) in Longhua district of Shenzhen where Kaisa has no prior exposure to. Kaisa's Shenzhen projects for sale have achieved encouraging results. The Kaisa City Plaza ranked No.1 in Shenzhen for residential GFA sold in 10M13. The recently launched Yuefeng Garden (佳兆业悦峰) also achieved RMB 516mn in presale (222 units) on its initial launch on Oct 31 with an estimated ASP of RMB 25,000/sqm.

Exhibit 45: Kaisa's Shenzhen Yuefeng Garden



Source(s): Soufun, ABCI Securities

Exhibit 46 : Kaisa's Shenzhen Yuefeng Garden



Source(s): Soufun, ABCI Securities

In Sep 2013, Kaisa launched its first redevelopment project outside Shenzhen, the Lake View Waldorf Garden (佳兆业水岸华都) in Zhuhai. We expect this project to achieve a gross margin of 45%, slightly less than the 50% usually expected from Kaisa's redevelopment project in Shenzhen because of the lower ASP for the non-Shenzhen redevelopment project (ASP of Lake View Waldorf Garden: RMB18k/sqm vs. ASP of Shenzhen redevelopment projects: RMB20-25k/sqm).

Exhibit 47: Kaisa's Lake View Waldorf Garden



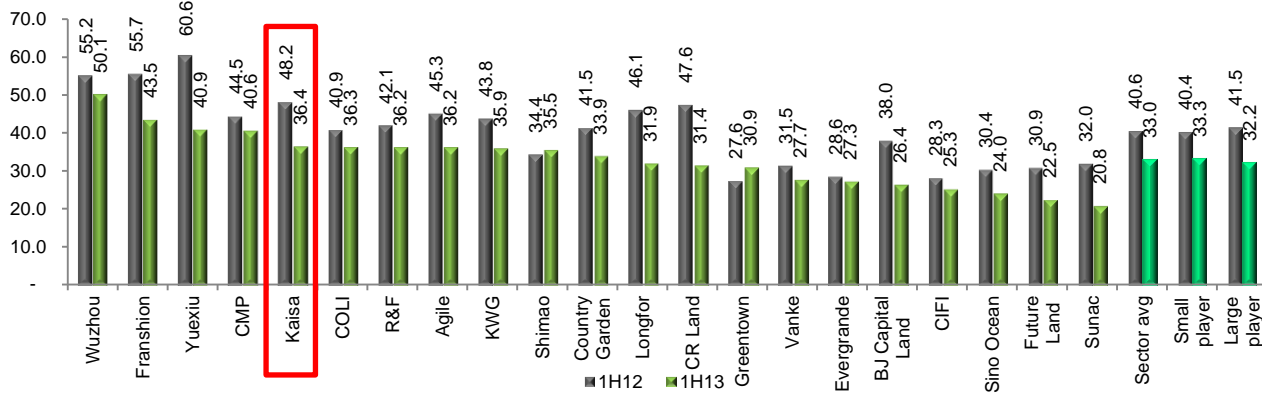
Source(s): Soufun, ABCI Securities

Exhibit 48 : Kaisa's Lake View Waldorf Garden

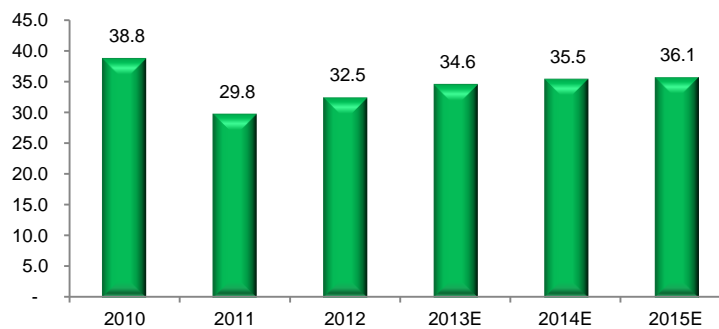


Source(s): Soufun, ABCI Securities

As contribution from redevelopment projects increases, we expect Kaisa's gross margin will rise further from 34.6% in FY13E to 35.5% in FY14E, and 36.1% in FY15E. In fact, Kaisa's overall gross margin is one of the highest among peers. Growing margin will clearly differentiate Kaisa from small/mid cap players that often demonstrate fast-growing presale at the expense of shrinking margins.

Exhibit 49: 1H13 gross margin comparison


Source(s): Company, ABCI Securities

Exhibit 50: Kaisa's gross margins (%)


Source(s): Company, ABCI Securities Estimates

Sufficient landbank for fast sales growth

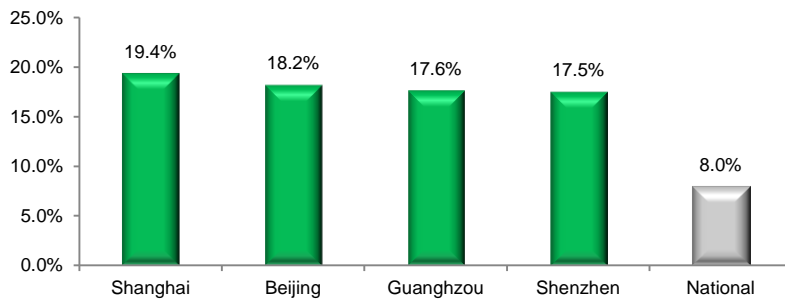
Apart from Shenzhen, Kaisa has also increased its exposure in first tier cities in 1H13 by acquiring two sites in Guangzhou and two others in Shanghai. The aggregate land capex was RMB 4,698mn (54% of 1H13 land capex). We believe increasing exposure in top tier cities will enhance both ASP and margins, as new home prices in these cities grew faster than the national average price for 10M13.

As at June 2013, Kaisa has a landbank of 24.8mn sqm, which is sufficient for development in the next five years. Its redevelopment pipeline also offers a cheaper way of landbanking. Thus, Kaisa is in no urgency to acquire land aggressively for replenishment in 2H13.

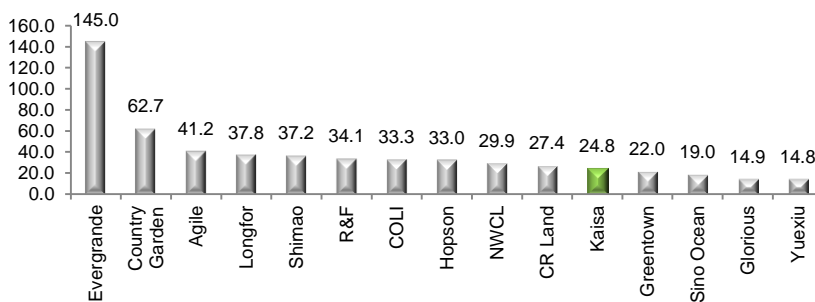
Exhibit 51: Kaisa's land acquisition in 1H13

Date	Location	Stake (%)	No of sites	Attributable GFA ('000 sqm)	Land cost (RMB/sqm)	Consideration RMB mn	Type
Feb-13	Hangzhou	100%	1	73.2	6,367	466	Residential
Feb-13	Qingdao	100%	3	273.4	1,356	371	Residential
Feb-13	Nanchong	100%	1	156.3	1,956	306	Residential
Mar-13	Dongguan	100%	1	84.8	5,309	450	Residential
Apr-13	Chengdu	100%	1	143.5	3,550	510	Residential
Apr-13	Wuhan	100%	1	116.3	3,774	439	Residential
May-13	Guangzhou	100%	1	73.0	25,597	1,868	Residential
May-13	Shenzhen	11.5%	1	16.3	24,837	405	Commercial
May-13	Shanghai	100%	1	49.9	30,163	1,505	Commercial
May-13	Hangzhou	100%	1	142.9	7,068	1,010	Residential
May-13	Guangzhou	100%	1	35.5	22,512	799	Residential
Jun-13	Shanghai	100%	1	82.7	6,355	526	Residential
Total			14	1,247.8	6,935	8,653	

Source(s): Company, ABCI Securities

Exhibit 52: Changes in new home property price in tier 1 cities (Sep 2013 vs Dec 2012) (%)


Source(s): NBS, ABCI Securities

Exhibit 53: Landbank comparison among the listed Chinese developers (mn sqm)


Note: landbank as at Jun 2013

Source(s): Companies, ABCI Securities



Raise earnings and TP; Top pick in residential sector

Kaisa delivered a GFA of 1.0 mn sqm and achieved a core profit of RMB 1,093m (+195% YoY) in 1H13. With the management guiding that completion target in 2H13 would reach 2.47mn sqm, our previous full-year delivery estimate of 2.7 mn sqm now appears overly conservative. As a result, we raise our delivery estimate by 5.2% to 2.88mn sqm and 2013E core profit by 9.7% to RMB 2,416mn.

As we factor in new sites acquired in 10M13 and better-than-expected 2H13 completion, we raise our core profit forecasts in FY13E/14E/15E by 9.9%/2.3%/23.0%, respectively.

We also roll over our NAV estimate to end-2014 and raise our TP to HK\$ 3.10 (from HK\$ 2.80 previously). Our TP is based on a 50% discount (from the previous 45%) to 2014E NAV (HK\$5.62), which is comparable to the counter's trading at a similar historical average discount in 2011/12 when tightening measures were in place. Kaisa is currently trading at 3.0x 2014E P/E, representing a 61% discount to FY14E NAV. Given its strong presale and margin outlooks, Kaisa is our top pick for the China residential property sector. Maintain **BUY**.

We currently assume Kaisa to maintain its 0% dividend policy for the next few years, as the Group is still at the expansion stage where heavy land capex is required. However, we believe it is possible that it will start distributing dividends as soon as its total land reserves reach a level where aggressive landbanking becomes unnecessary.

Exhibit 54: Changes in major forecasts for Kaisa

	Previous			Current			Change (%)		
	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E
Core net profit (RMB mn)	2,203	3,351	4,003	2,420	3,430	4,925	9.9%	2.3%	23.0%
YoY chg (%)	46.5	52.1	19.4	60.9	41.7	43.6			
Contracted sales (RMB mn)	23,812	25,773	26,431	23,866	32,434	38,807	0.2%	25.8%	46.8%
YoY chg (%)	37.3	8.2	2.6	37.6	35.9	19.6			
GFA delivery (mn sqm)	2.73	3.39	3.46	2.88	3.36	3.85	5.2%	(1.0%)	11.1%
Gross margin (%)	34.1%	35.2%	38.3%	34.6%	35.5%	36.1%	1.4ppt	0.8ppt	(5.7ppt)

Source(s): ABCI Securities estimates



Exhibit 55: Kaisa's FY14E NAV

	Attr. GFA (mn sqm)	Net assets value (RMB mn)	% of total	Valuation Methodology	Implied value per sqm (RMB)
Property development					
Shenzhen	1.1	4,133	13%		3,601
Dongguan	1.1	1,224	4%		1,155
Huizhou	5.2	5,320	17%		1,021
Anshan	2.4	1,469	5%		622
Yingkou	2.0	1,216	4%	DCF at WACC of 14.9%	621
Changsha	1.5	1,168	4%		801
Huludao	1.7	1,080	3%		621
Guangzhou	0.1	1,630	5%		12,379
Hangzhou	0.6	2,684	8%		4,767
Others	8.1	10,143	32%		1,257
Subtotal	23.0	30,068	95%		1,307
Investment Properties		1,526	5%	6.0% cap rate on 2013E net rental income	
Total 2014E GAV		31,594	100%		
2014E Net debt		(4,685)	(15%)		
Total 2014E NAV		26,909	85%		
No. of share outstanding (diluted)		5,526			
NAV per share (RMB)		4.87			
Ex rate		1.27			
NAV per share (HK\$)		6.17			
Target discount (%)		50%			
Target Price (HK\$)		3.10			
WACC	14.9%				
Cost of debt	11.0%				
Cost of Equity	20.0%				
Debt/ (Debt + Equity)	43%				

Source(s): Company, ABCI Securities estimates



Exhibit 56: Kaisa's 1H13 results

P&L	1H13	1H12	YoY Chg
	RMB mn	RMB mn	(%)
Turnover	7,016	2,300	205.0
Cost of Sales & direct operating costs	(4,461)	(1,192)	274.3
Gross Profit	2,555	1,109	130.5
Gross Margin (%)	36.4	48.2	(11.8)
Selling and distribution costs	(357)	(232)	53.7
Administrative expense	(406)	(283)	43.7
EBIT	1,793	594	201.9
EBIT Margin (%)	25.6	25.8	
Other income, gains and losses	2	17	(88.5)
Fair value gain of investment properties	364	424	(14.1)
Other exceptional items	(361)	4	na
Share of profit from JCE/ Associates	0	(0)	(100.0)
Finance cost	(33)	(25)	34.6
Profit before tax	1,764	1,014	74.0
Tax	(760)	(341)	123.1
- LAT	(17)	(32)	(47.3)
- Enterprise tax	(743)	(308)	140.9
Profit after tax	1,004	674	49.1
Minority Interest	20	1	1,607.4
Net profit	1,025	675	51.8
Underlying net profit	1,093	370	195.1
Operating statistics			
Contracted GFA (mn sqm)	1.19	1.10	8.3
Contracted ASP (RMB/sqm)	9,253	5,871	57.6
Contracted Sales (RMB mn)	11,022	6,459	70.7
GFA Delivered (mn sqm)	1.00	0.28	251.9
Booked ASP (RMB/sqm)	6,854	7,605	(9.9)
Property sales booked (RMB/sqm)	6,834	2,155	217.1
Balance sheet			
	Jun-13	Dec-12	HoH %
	RMB mn	RMB mn	
Gross debt	19,600	15,408	27.2
Cash	6,175	5,352	15.4
Net debt	13,425	10,055	33.5
Net gearing (%)	87.0	70.1	17.0

Source(s): Company, ABCI Securities



Consolidated income statement (2011A-2015E)

FY Ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Revenue	10,835	11,955	20,089	25,544	32,957
Cost of sales	(7,601)	(8,070)	(13,130)	(16,475)	(21,065)
Gross Profit	3,234	3,885	6,959	9,069	11,892
SG&A expenses	(970)	(1,397)	(1,746)	(2,070)	(2,313)
EBIT	2,264	2,489	5,213	6,999	9,579
Finance cost	(69)	(39)	(40)	(33)	(29)
Share of profit of associates	(1)	(0)	0	0	0
Other income/ (expenses)	198	62	28	55	191
Fair value gain of investment properties	0	0	0	0	0
Disposal/one-off items	433	757	0	0	0
Profit before tax	2,825	3,269	5,201	7,021	9,741
Tax	(926)	(1,153)	(2,406)	(3,249)	(4,387)
Profit after tax	1,899	2,116	2,795	3,772	5,354
Minority interest	2	(44)	(374)	(342)	(429)
Reported net profit	1,901	2,072	2,420	3,430	4,925
<i>Less: exceptional items</i>	<i>(325)</i>	<i>(568)</i>	<i>0</i>	<i>0</i>	<i>0</i>
Underlying net profit	1,576	1,504	2,420	3,430	4,925
Per share					
Underlying EPS (RMB)	0.28	0.27	0.44	0.62	0.89
DPS (RMB)	-	-	-	-	-
Payout ratio (%)	0%	0%	0%	0%	0%
BVPS (RMB)	2.15	2.60	3.03	3.66	4.55
Growth %					
Revenue	39.7%	10.3%	68.0%	27.2%	29.0%
Gross Profit	7.4%	20.2%	79.1%	30.3%	31.1%
EBIT	-6.3%	9.9%	109.4%	34.3%	36.9%
Underlying net profit	11.9%	-4.6%	60.9%	41.7%	43.6%
Margin %					
Gross margin	29.8%	32.5%	34.6%	35.5%	36.1%
Gross margin (post-LAT)	28.0%	31.6%	27.8%	28.1%	28.5%
EBIT margin	20.9%	20.8%	25.9%	27.4%	29.1%
Core net margin	14.5%	13.0%	13.9%	14.8%	16.2%
Key assumptions					
Presales (RMB mn)	15,289	17,341	23,866	32,434	38,807
GFA sold (m sqm)	2.18	2.58	3.31	3.86	4.22
ASP (RMB/sqm)	7,022	6,730	7,221	8,404	9,187
Booked Sales (RMB)	10,576	11,598	19,762	25,187	32,578
GFA delivered (m sqm)	1.18	1.65	2.88	3.36	3.85
Booked ASP (RMB/sqm)	8,977	7,037	6,871	7,501	8,461
Land acquisition (RMB mn)	5,950	4,520	10,089	-	-
GFA acquired (m sqm)	4.9	2.4	2.0	-	-
Land cost (RMB/sqm)	1,209	1,858	4,938	-	-
Land acquisition to Contracted sales (%)	38.9%	26.1%	42.3%	-	-
Land bank GFA (m sqm)	23.7	23.9	23.1	19.7	15.9

Source: Company, ABCI Securities estimates



Consolidated balance sheet (2011A-2015E)

As of Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Current assets	34,756	49,836	55,763	64,918	74,967
Cash	3,945	4,683	(437)	10,053	26,787
Restricted cash	541	670	670	670	670
Trade & other receivables	3,697	5,843	5,843	5,843	5,843
Property under development	23,502	34,840	45,887	44,552	37,867
Other current assets	3,070	3,801	3,801	3,801	3,801
Non-current assets	6,949	8,117	8,645	9,173	9,701
Property, plant & equipment	149	308	336	364	392
Investment properties	6,375	7,540	8,040	8,540	9,040
Investment in Associate and JCE	299	0	0	0	0
Other non-current assets	126	269	269	269	269
Total Assets	41,705	57,953	64,408	74,091	84,668
Current Liabilities	17,099	29,439	33,149	39,111	44,384
Short term borrowings	2,067	3,150	3,150	3,150	3,150
Trade & other payables	6,797	7,112	7,112	7,112	7,112
Pre-sales deposits	7,242	17,244	20,954	26,916	32,189
Other current assets	993	1,933	1,933	1,933	1,933
Non-current liabilities	12,657	13,460	13,460	13,460	13,460
Long term borrowings	11,577	12,257	12,257	12,257	12,257
Other payables	0	0	0	0	0
Other non-current assets	1,079	1,202	1,202	1,202	1,202
Total Liabilities	29,755	42,898	46,609	52,570	57,843
Net Assets	11,949	15,054	17,799	21,521	26,825
Shareholders' Equity	11,942	14,350	16,771	20,200	25,125
Minority Interest	8	704	1,028	1,321	1,699
Total Equity	11,949	15,054	17,799	21,521	26,825
Key ratio					
Gross debt (RMB mn)	13,644	15,408	15,408	15,408	15,408
Net debt (RMB mn)	9,158	10,055	15,175	4,685	(12,049)
Net gearing (%)	77%	70%	90%	23%	-48%
Contracted sales/ Total assets (x)	0.37	0.30	0.37	0.44	0.46

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
EBITDA	2,294	2,531	5,254	7,041	9,621
Change in Working Capital	(4,505)	(882)	(5,681)	8,650	13,162
Tax payment	(743)	(906)	(2,406)	(3,249)	(4,387)
Operating Cash flow	(2,954)	743	(2,833)	12,442	18,396
Purchase of PP&E	(70)	(73)	(70)	(70)	(70)
Addition of Investment Properties	(473)	(531)	(500)	(500)	(500)
Others	(1,464)	(553)	28	55	191
Investing Cash flow	(2,007)	(1,157)	(542)	(515)	(379)
Debt raised	9,345	5,216	5,000	5,000	5,000
Debt repaid	(3,634)	(3,533)	(5,000)	(5,000)	(5,000)
Interest expenses	(1,096)	(1,468)	(1,695)	(1,387)	(1,233)
Equity raised	(2,007)	(1,157)	(542)	(515)	(379)
Dividend to shareholders	-	-	-	-	-
Others	1,959	2,094	492	465	329
Financing Cash flow	4,567	1,151	(1,745)	(1,437)	(1,283)
Net cash inflow/ (outflow)	(394)	737	(5,120)	10,490	16,734
Cash- beginning	4,340	3,945	4,683	(437)	10,053
Cash- year-end	3,945	4,682	(437)	10,053	26,787

Source(s): Company, ABCI Securities estimates



November 21, 2013
Company Report
Rating: BUY
TP: HK\$ 17.60

Share price (HK\$) 13.46
Est. share price return 30.76 %
Est. dividend yield 5.20 %
Est. total return 35.96 %

Previous Rating & TP BUY; HK\$ 19.00
Previous Report Date Aug 26, 2013

Analyst : Kenneth Tung
Tel: (852) 2147 8311
Email: kennethtung@abci.com.hk

Key Data

52Wk H/L(HK\$)	16.76/8.988
Issued shares (mn)	2,154
Market cap	31,253
3-mth avg daily turnover (HK\$ mn)	49.4
Major shareholder(s) (%):	
SONG Wei Ping	33.1
SOU Bainian	23.5
Wharf	24.6

Source(s): Company, Bloomberg, ABCI Securities

FY12 Revenue breakdown (%)

Property Development	96.7
Property Investment	0.3
Property Management	0.8
Others	2.2

Source(s): Company, ABCI Securities

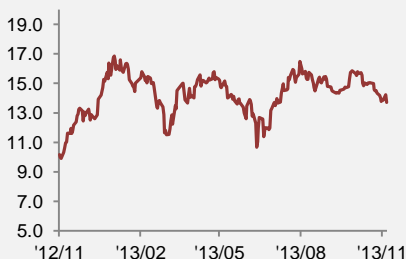
Share performance (%)

	Absolute	Relative*
1-mth	(12.5)	(13.7)
3-mth	(10.2)	(17.2)
6-mth	(7.7)	(8.8)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Greentown (3900 HK)

Gearing improving but risk looming; maintain BUY

- Greentown's gross finance cost dropped significantly from RMB 2.1bn in 1H12 to RMB 994mn in 1H13
- Shanghai projects registered impressive ASP growth in 2H13, and we expect the Group to enjoy premium pricing in 2014E on its strong brand
- We lower earnings forecasts by 9.0%/14.3% for FY14E/15E to price in slower sales on possible tightening policy
- Maintain BUY with revised TP of HK\$ 17.60 based on a 60% discount to our revised end-2014E NAV of HK\$ 43.9/share

Balance sheet improved in 2013. By raising low-cost offshore debts, Greentown gross finance cost decreased 54%YoY from RMB2.1bn in 1H12 to RMB 994mn in 1H13. We believe Greentown is in no urgency to acquire land in 2H13 based on its current landbank that has a GFA of 21.96 mn sqm (GFA delivered in FY11/12: 1.9mn sqm /1.0mn sqm). Having learnt its lesson of overleveraging in 2009-10, we believe Greentown will adopt a more cyclical landbanking strategy by aggregating land parcels actively in market downturn and avoid purchasing in an overheated market. We expect Greentown will continue to form JV with other companies to develop new projects in order to reduce financial risks and keep gearing low through off-balance sheet financing.

Shanghai projects achieved impressed ASP. Greentown launched several new projects in Shanghai in 2H13. The Francais Demeure project (land acquired in Oct 2013 via Sunac Greentown and Poly JV) achieved total presale of RMB 830mn at RMB 50,500/sqm in 10M13, while Greentown's Dynasty on the Bund achieved RMB618mn in presale at RMB 73,192/sqm in Sep. We believe Greentown's strong brand should generate a decent overall ASP (RMB 22k/sqm) and gross margin (33.5%) for 2014 presale.

Maintain Buy with TP revised down to HK\$17.60. We factor in Greentown's recent land acquisitions and slower sales on possible tightening policy, and cut our earnings forecasts by 9.0%/14.3% for 2014E/15E. We also roll forward and raise our FY14E NAV to RMB 34.6/share (or HK\$ 43.9/share) based on the quality landbank accumulated in Shanghai during the year. However, we lower our TP to HK\$ 17.60 (from HK\$ 19.00), as we raise our TP's discount to NAV from 40% to 60% to account for the higher policy risks in 2014, especially since Greentown has a high exposure in luxury residential segment.

Risk factors: 1) High cost of new sites acquired; 2) Slowing sales growth due to high base; 3) Further tightening measures on property sector.

Results and Valuation

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	21,964	35,393	25,855	29,779	40,043
Chg (% YoY)	96.8	61.1	(26.9)	15.2	34.5
Core net profit (RMB mn)	2,491	4,354	5,203	5,810	7,710
Chg (% YoY)	100.1	74.8	19.5	11.7	32.7
Underlying EPS (RMB)	1.52	1.89	2.25	2.51	3.33
Chg (% YoY)	99.9	24.3	19.0	11.7	32.7
BVPS (RMB)	7.28	8.89	10.64	12.66	15.50
Chg (% YoY)	16.9	22.1	19.6	19.0	22.5
Underlying PE (x)	7.0	5.6	4.7	4.2	3.2
PB (x)	1.5	1.2	1.0	0.8	0.7
ROE (%)	20.9	20.6	20.8	19.8	21.7
ROA (%)	1.9	4.0	4.4	4.4	5.3
DPS (RMB)	0.11	0.50	0.55	0.60	0.65
Dividend yield (%)	1.0	4.7	5.2	5.7	6.1
Net gearing (%)	219.7	63.7	74.6	47.2	(2.5)

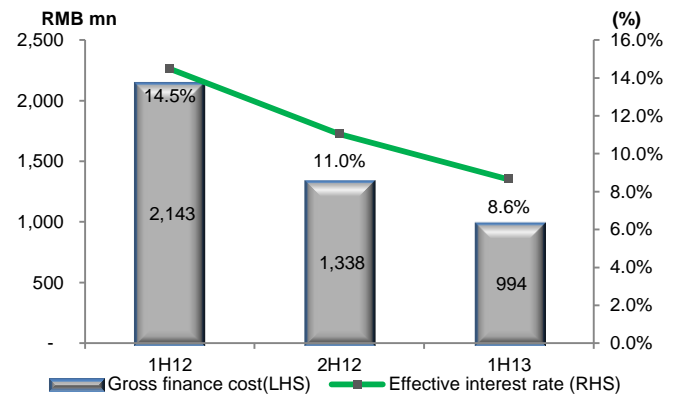
*Net gearing=Net debt/Total Shareholders' equity

Source(s): Bloomberg, ABCI Securities estimates

Exhibit 57: Greentown's debt financing in 2013

Date	Term	Currency	Size	Rate
Bond issuance			USD mn	(%)
28-Jan-13	5- year	USD	400	8.500
26-Mar-13	5- year	USD	300	7.864
6-May-13	3- year	RMB	400	4.625
Total			1,100	6.917
Off-shore bank loan				
23-Jul-13	3- year	USD	400	LIBOR+3.88%
25-Jul-13	3- year	USD	100	LIBOR+4%
Total			500	LIBOR+3.904%

Exhibit 58 : Greentown's finance cost and effective interest rate



Source(s): Company, ABCI Securities

Source(s): Company, ABCI Securities

Exhibit 59: Greentown's land acquisition in 9M13

Projects	Total consideration	Total GFA	Land cost per sqm	stake	Attributable	
	RMB mn	mn sqm	RMB/sqm	(%)	Consideration RMB mn	GFA mn sqm
Project in Hangzhou, Zhejiang province(杭州西溪融庄)	645	0.12	5,244	25%	161	0.03
Project in Hangzhou, Zhejiang province(杭州之江壹号)	2,398	0.53	4,562	25%	599	0.13
Project in Hangzhou, Zhejiang province(杭州杭州地铁武林置业)	3,000	0.24	12,295	45%	1,350	0.11
Project in Ningbo, Zhejiang province(宁波余姚三宗地块)	1,600	0.37	4,290	47%	752	0.18
Project in Shanghai(上海盛世江)	7,996	0.67	11,864	50%	3,998	0.34
Project in Shanghai(上海提篮桥地块)	1,044	0.04	26,832	50%	522	0.02
Project in Shanghai(上海香溢花城)	2,082	0.28	7,555	25%	510	0.07
Total	18,764	2.25	8,325	42%	7,893	0.87

Source(s): Companies, ABCI Securities

Exhibit 60: Major forecast changes for Greentown

	Previous			Current			Change (%)		
	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E
Core net profit (RMB mn)	5,173	6,780	8,475	5,203	5,810	7,710	0.6%	-14.3%	-9.0%
YoY chg (%)	18.8	31.1	25.0	19.5	11.7	32.7			
Contracted sales (RMB mn)	68,140	99,109	130,823	62,093	84,542	128,382	-8.9%	-14.7%	-1.9%
YoY chg (%)	33.4	45.4	32.0	21.6	36.2	51.9			
GFA delivery (mn sqm)	1.29	2.00	2.66	1.14	1.36	1.90	-12.1%	-32.2%	-28.8%
Gross margin (%)	34.0%	32.3%	31.8%	34.9%	33.6%	31.8%	+0.9ppt	+1.2ppt	-0.2ppt

Source(s): ABCI Securities estimates



Exhibit 61: Greentown's FY14E NAV

	Attr. GFA (mn sqm)	Net assets value (RMB mn)	% of total	Valuation Methodology	Implied value per sqm (RMB)
Property development					
Hangzhou	3.5	16,042	18%	DCF at WACC of 10.4%	4,604
Shanghai	0.9	12,639	14%		14,207
Zhoushan	3.2	9,550	11%		2,999
Qingdao	3.2	7,388	8%		2,325
Hainan	0.9	5,159	6%		6,036
Others cities	13.1	37,816	42%		2,888
Subtotal	24.7	88,592	98%		3,589
Investment Properties		1,146	1%	6% cap rate on net rental income	
Hotels		621	1%	5x EBITDA multiple	
Total GAV		90,359	100%		
2014E Net debt & perpetual convertible securities		(15,933)	-18%		
Total NAV		74,426	82%		
No. of share outstanding		2,153			
NAV per share (RMB)		34.6			
Exchange rate (HK\$/RMB)		1.27			
NAV per share (HK\$)		43.9			
Target discount (%)		60%			
Target Price (HK\$)		17.60			
WACC	10.4%				
Cost of debt	8.0%				
Cost of Equity	15.0%				
Debt/ (Debt + Equity)	51%				

Source(s): Company, ABCI Securities estimates



Exhibit 62: Greentown's 1H13 results

P&L	1H13	1H12	YoY Chg
	RMB mn	RMB mn	(%)
Turnover	10,214	12,601	(18.9)
Cost of Sales & direct operating costs	(7,056)	(9,125)	(22.7)
Gross Profit	3,158	3,475	(9.1)
Gross Margin (%)	30.9	27.6	3.3
Selling and distribution costs	(338)	(245)	38.0
Administrative expense	(668)	(600)	11.5
EBIT	2,152	2,631	(18.2)
EBIT Margin (%)	21.1	20.9	
Other income	377	506	(25.4)
Fair value gain of investment properties	0	0	na
Other exceptional items	671	557	na
Share of profit from JCE/ Associates	685	258	165.1
Finance cost	(266)	(272)	(2.4)
Profit before tax	3,620	3,680	(1.6)
Tax	(1,164)	(1,420)	(18.0)
- LAT	(472)	(731)	(35.5)
- Enterprise tax	(692)	(689)	0.5
Profit after tax	2,456	2,260	8.7
Minority Interest	(601)	(449)	33.9
Net profit	1,855	1,811	2.4
Core net profit	1,620	1,355	19.6
Core net margin	15.9	10.8	
Operating statistics			
Contracted GFA (mn sqm)	1.44	0.95	51.9
Contracted ASP (RMB/sqm)	20,395	18,744	8.8
Contracted Sales (RMB mn)	29,428	17,800	65.3
GFA Delivered- Subsidiary + JV (mn sqm)	1.17	0.99	17.4
Booked ASP- Subsidiary + JV (RMB/sqm)	19,582	14,600	34.1
Property sales booked- Subsidiary + JV (RMB mn)	22,817	14,488	57.5
Balance sheet			
	Jun-13	Dec-12	HoH %
	RMB mn	RMB mn	
Gross debt	24,652	21,373	15.3
Cash	10,392	7,898	31.6
Net debt	14,261	13,475	5.8
Net gearing (%)	64.7	63.7	0.9

Source(s): Company, ABCI Securities



Consolidated income statement (2011A-2015E)

FY Ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Revenue	21,964	35,393	25,855	29,779	40,043
Cost of sales	(14,555)	(24,679)	(16,829)	(19,767)	(27,306)
Gross Profit	7,408	10,714	9,026	10,012	12,738
SG&A expenses	(1,920)	(2,069)	(2,338)	(2,568)	(2,783)
EBIT	5,488	8,645	6,688	7,444	9,954
Finance cost	(416)	(564)	(315)	(324)	(294)
Share of profit of associates	833	513	2,845	3,100	3,939
Other income/ (expenses)	683	1,001	947	1,202	1,453
Fair value gain of investment properties	0	0	0	0	0
Disposal/one-off items	112	663	0	0	0
Profit before tax	6,701	10,257	10,165	11,422	15,053
Tax	(2,583)	(4,204)	(3,972)	(4,433)	(5,730)
Profit after tax	4,118	6,053	6,193	6,989	9,322
Minority interest	(1,543)	(1,202)	(990)	(1,179)	(1,612)
Reported net profit	2,575	4,851	5,203	5,810	7,710
Less: exceptional items	(84)	(497)	0	(0)	0
Underlying net profit	2,491	4,354	5,203	5,810	7,710
Per share					
Underlying EPS (RMB)	1.52	1.89	2.25	2.51	3.33
DPS (RMB)	0.11	0.50	0.55	0.60	0.65
Payout ratio (%)	7%	26%	24%	24%	20%
BVPS (RMB)	7.28	8.89	10.64	12.66	15.50
Growth %					
Revenue	96.8%	61.1%	-26.9%	15.2%	34.5%
Gross Profit	117.8%	44.6%	-15.8%	10.9%	27.2%
EBIT	214.8%	57.5%	-22.6%	11.3%	33.7%
Underlying net profit	100.1%	74.8%	19.5%	11.7%	32.7%
Margin %					
Gross margin	33.7%	30.3%	34.9%	33.6%	31.8%
Gross margin (post-LAT)	26.2%	24.4%	27.5%	26.6%	25.3%
EBIT margin	25.0%	24.4%	25.9%	25.0%	24.9%
Core net margin	14.6%	14.2%	12.9%	13.1%	13.4%
Key assumptions					
Contracted Sales (RMB mn)	33,100	51,071	62,093	84,542	128,382
GFA sold (m sqm)	1.74	2.58	2.68	3.72	5.83
ASP (RMB/sqm)	19,023	19,772	23,137	22,707	22,011
Booked Sales (RMB)	21,071	34,214	24,630	28,514	38,750
GFA delivered (m sqm)	1.04	1.91	1.14	1.36	1.90
Booked ASP (RMB/sqm)	20,319	17,894	21,653	21,022	20,422
Land acquisition (RMB mn)	11,100	12,100	7,893	-	-
GFA acquired (m sqm)	6.8	2.1	0.3	-	-
Land cost (RMB/sqm)	1,632	5,762	23,420	-	-
Land acquisition to Contracted sales (%)	33.5%	23.7%	12.7%	-	-

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2011A-2015E)

As of Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Current assets	115,214	93,334	97,408	108,799	120,864
Cash	3,615	6,164	6,006	10,791	20,517
Restricted cash	2,269	1,734	1,734	1,734	1,734
Trade & other receivables	5,180	4,713	4,713	4,713	4,713
Property under development	70,628	50,543	54,775	61,381	63,720
Other current assets	33,522	30,180	30,180	30,180	30,180
Non-current assets	12,762	14,373	20,981	22,199	23,575
Property, plant & equipment	2,861	3,675	3,989	4,287	4,575
Investment properties	1,730	1,731	1,731	1,731	1,731
Investment in Associate and JCE	6,927	7,577	13,871	14,791	15,879
Other non-current assets	1,244	1,390	1,390	1,390	1,390
Total Assets	127,977	107,707	118,388	130,998	144,439
Current Liabilities	92,858	73,562	79,462	86,601	92,346
Short term borrowings	16,146	15,256	20,256	20,256	15,256
Trade & other payables	13,238	15,959	15,959	15,959	15,959
Pre-sales deposits	45,759	28,848	29,748	36,887	47,632
Other current liabilities	17,715	13,500	13,500	13,500	13,500
Non-current liabilities	17,475	6,657	6,657	6,657	6,657
Long term borrowings	16,048	6,118	6,118	6,118	6,118
Other payables	992	0	0	0	0
Other non-current liabilities	435	539	539	539	539
Total Liabilities	110,333	80,219	86,118	93,258	99,003
Net Assets	17,643	27,488	32,270	37,741	45,437
Shareholders' Equity	11,940	19,058	22,899	27,241	33,375
Perpetual Convertible Securities	0	2,084	2,084	2,084	2,084
Minority Interest	5,703	6,346	7,286	8,415	9,977
Total Equity	17,643	27,488	32,270	37,741	45,437
Key ratio					
Gross debt (RMB mn)	32,194	21,373	26,373	26,373	21,373
Net debt (RMB mn)	26,311	13,475	18,633	13,848	(878)
Net gearing (%)	220%	64%	75%	47%	-2%
Contracted sales/ Total assets (x)	0.26	0.47	0.52	0.65	0.89

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
EBITDA	5,641	8,814	6,875	7,646	10,166
Change in Working Capital	(4,085)	(3,006)	(1,547)	2,371	10,070
Tax payment	(1,680)	(1,109)	(3,972)	(4,433)	(5,730)
Operating Cash flow	(125)	4,700	1,356	5,584	14,505
Purchase of PP&E	(569)	(1,078)	(500)	(500)	(500)
Addition of Investment Properties	6	5	-	-	-
Investment in Associate/ JCE	(249)	(50)	(5,525)	(100)	(100)
Proceeds from Disposals	-	7,603	-	-	-
Others	(2,690)	231	3,023	3,483	4,404
Investing Cash flow	(3,502)	6,712	(3,002)	2,883	3,804
Debt raised	14,958	11,483	15,000	10,000	10,000
Debt repaid	(16,290)	(18,695)	(10,000)	(10,000)	(15,000)
Interest expenses	(2,821)	(3,586)	(2,101)	(2,163)	(1,958)
Equity raised	-	2,075	-	-	-
Convertible securities raised	-	2,084	-	-	-
Dividend to shareholders	(589)	(164)	(1,361)	(1,469)	(1,576)
Others	(424)	(2,060)	(50)	(50)	(50)
Financing Cash flow	(5,166)	(8,863)	1,488	(3,681)	(8,584)
Net cash inflow/ (outflow)	(8,793)	2,548	(158)	4,785	9,726
Cash- beginning	12,408	3,615	6,164	6,006	10,791
Cash- year-end	3,615	6,164	6,006	10,791	20,517

Source(s): Company, ABCI Securities estimates



November 21, 2013
 Equity Focus
 Rating: BUY
 TP: HK\$ 6.30

Share price (HK\$) 5.24
 Est. share price return 20.23 %
 Est. dividend yield 2.20 %
 Est. total return 22.43 %

Previous Rating & TP BUY; HK\$ 7.10
 Previous Report Date June 6, 2013

Analyst: Kenneth Tung
 Tel: (852) 2147 8311
 Email: kennethtung@abci.com.hk

Key Data

52Wk H/L(HK\$)	7.26/4.15
Issued shares (mn)	3,315
Market cap	17,227
3-mth avg daily turnover (HK\$ mn)	79.9
Major shareholder(s) (%): SUN Hongbin	47.1
Source(s): Company, Bloomberg, ABCI Securities	

FY12 Revenue breakdown (%)

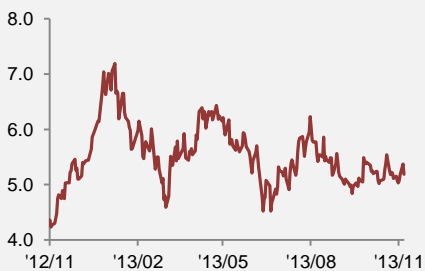
Property Development	99.2
Property Management	0.8
Source(s): Company, ABCI Securities	

Share performance (%)

	Absolute	Relative*
1-mth	(0.2)	(1.5)
3-mth	(4.2)	(11.7)
6-mth	(9.4)	(10.5)

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

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Sunac (1918 HK)
 Big land appetite, Big returns

- Sunac's high-profile land acquisitions in Beijing and Tianjin raise concerns on possible margin erosion
- For 2013E-15E, we forecast gross margin to decline to 28%-29%, and presale/net profit to surge at 107%/26% CAGRs over the period
- Maintain Buy with revised TP of HK\$6.30 based on a 65% discount to our FY14E NAV of HK\$18.0/share

Aggressive landbanking could hurt margin in future. Sunac's high-profile acquisitions of "land kings" in Beijing and Tianjin have raised concerns about margin erosion. The Group acquired the Beijing Agricultural Exhibition site (农展馆) in Sep 2013 for RMB 4.3bn, or RMB 73k/sqm - the most expensive in Beijing history on a per sqm basis. Sunac's land acquisition in Tianjin totaling RMB 10bn in Sep 2013 also becomes the most expensive land transaction in Tianjin's history in lump sum. As Sunac's land cost increases dramatically, we cut our gross margin forecasts from the previous 32.7%-34.6%, to the current 28.4%-29.2% (below industry average of 30%) for FY13E-15E.

Impressive presales performance justifies expensive land capex. Sunac registered a strong presale of RMB 6.25bn in Oct 2013, up 74% YoY. For 10M13, Sunac accumulated total presales of RMB 38.9bn, up 70% YoY - a growth much higher than the peer average of 33%. Sunac's presales grew at 107% CAGR over 2010-12 on aggressive landbanking. Despite its lower-than-peer gross margin in FY14E-15E, fast revenue growth will drive up net profit (FY13E-15E CAGR: 26%). For 2014, we estimate Sunac's presales to reach RMB 67bn, up 29% YoY.

Valuation still looks attractive, despite possible margin erosion. We factor in the lower gross margins in FY13E-15E and cut our FY13E net profit forecasts by 20.3%. We raise FY14E/15E net profit by 9.6%/11.3%, based on the recent land acquisitions and increased GFA delivery in the future. We roll forward our NAV estimate to end-2014 to reach RMB14.2/share (or HK\$18.0/share). However, due to increased gearing and possible tightening risk, we raise our TP discount from 55% to 65% - the average trading discount of the counter during the tightening period in 2011/12, TP is lowered to HK\$ 6.30 (HK\$ 7.10 previously) as a result. Sunac is currently trading at 3.1x FY14E P/E and a 71% discount to 2014E NAV, as compared to small/mid cap peers trading at 4.4x 2014E PE and 62% discount to NAV on average. We believe the issue of margin erosion has been overdone especially given the Group's faster growth than peers. Maintain **BUY** on Sunac.

Risk factors: 1) Expensive new land acquisitions that may erode margins; 2) Slowing sales growth due to high base; 3) Further tightening measures on property sector

Results and Valuation

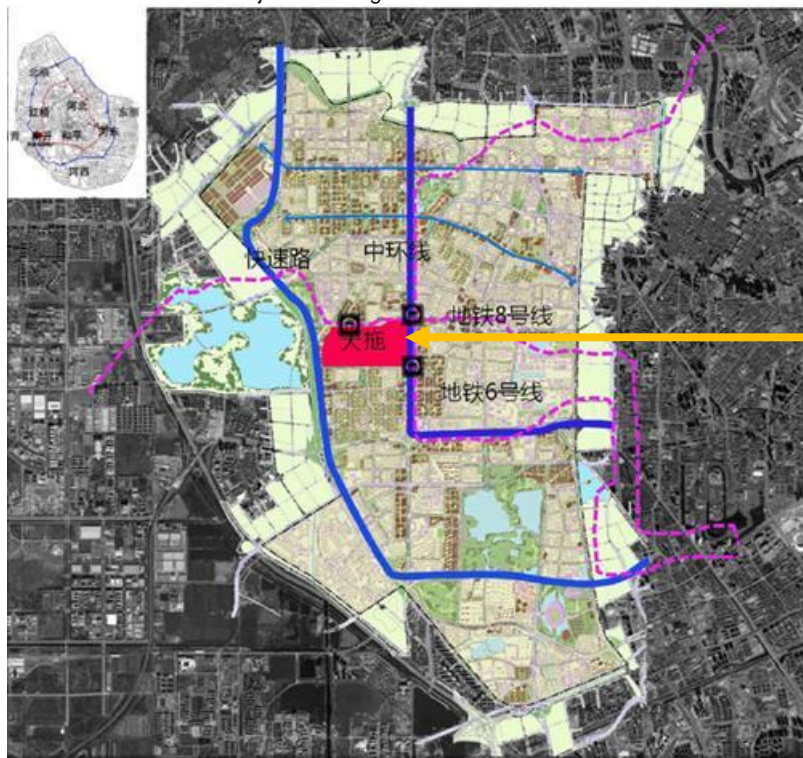
FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	10,604	20,843	27,716	41,210	44,071
Chg (% YoY)	59.4	96.6	33.0	48.7	6.9
Core net profit (RMB mn)	1,792	2,387	2,985	4,431	4,708
Chg (% YoY)	16.1	33.2	25.0	48.4	6.3
Underlying EPS (RMB)	0.59	0.79	0.90	1.34	1.42
Chg (% YoY)	16.1	33.2	13.7	48.4	6.3
BVPS (RMB)	2.34	3.15	4.16	5.36	6.64
Chg (% YoY)	51.2	34.6	32.1	28.9	23.8
Underlying PE (x)	7.0	5.2	4.6	3.1	2.9
PB (x)	1.8	1.3	1.0	0.8	0.6
ROE (%)	25.4	25.2	21.7	24.9	21.4
ROA (%)	5.3	3.4	3.0	4.1	4.2
DPS (RMB)	0.08	0.09	0.09	0.13	0.14
Dividend yield (%)	1.9	2.1	2.2	3.2	3.4
Net gearing (%)	109.3	99.7	131.2	(10.3)	(82.4)

*Net gearing=Net debt/Total Shareholders' equity
 Source(s): Bloomberg, ABCI Securities estimates

Exhibit 63: Sunac's Beijing Land King –Beijing Nong Zhan Guan Site


Source(s): Company, ABCI Securities

- **GFA:** 59,000 sqm
- **Total land premium:** RMB4.32bn including, RMB2.1bn land premium plus RMB2.22bn (RMB73,100/sqm) for hospital construction
- **Usage:** Residential
- **Residential ASP in the neighborhood:** RMB80,000/sqm

Exhibit 64: Sunac's Tianjin Land King- Tiantuo Site


Source(s): Company, ABCI Securities

- **GFA:** 1.02mn sqm
- **Total land premium:** RMB10.32bn (RMB10,109/sqm)
- **Usage:** 44%- residential
56%- Office & retail
- **Schedule:** Presale of Phase 1 starts in 3Q2014; 4Q19 full completion
- **ASP in the neighborhood:**
Residential: RMB28-30k/sqm
Office: RMB22k/sqm
Retail: RMB40-80k/sqm



Exhibit 65: Major forecast changes for Sunac

	Previous			Current			Change (%)		
	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E
Core net profit (RMB mn)	3,744	4,041	4,230	2,985	4,431	4,708	-20.3%	9.6%	11.3%
YoY chg (%)	56.8	7.9	4.7	25.0	48.4	6.3			
Contracted sales (RMB mn)	49,489	56,401	55,924	52,110	66,976	60,789	5.3%	18.8%	8.7%
YoY chg (%)	38.9	14.0	-0.8	46.2	28.5	-9.2			
GFA delivery (mn sqm)	1.57	1.53	1.35	1.54	2.13	2.25	-2.3%	39.0%	66.7%
Gross margin (%)	32.7%	34.0%	34.6%	28.4%	29.2%	28.5%	-4.3ppt	-4.8ppt	-6.7ppt

Source(s): ABCI Securities estimates

Exhibit 66: Sunac's FY14E NAV

	Attr. GFA (M sqm)	Net assets value (RMB m)	% of total	Valuation Methodology	Implied value per sqm (RMB)
Property development					
Tianjin	3.9	14,942	33%	DCF at WACC of 12.0%	3,834
Beijing	1.2	5,230	12%		4,412
Chongqing	3.8	3,322	7%		882
Wuxi	1.9	1,871	4%		972
Suzhou	0.2	2,058	5%		9,490
Shanghai	0.8	13,283	29%		16,261
Others	1.2	2,781	6%		2,368
Subtotal	13.0	43,489	96%		
Property investment & management		1,697	4%	6.5% cap rate on 2014E net rental income	
Total 2014E GAV		45,185	100%		
2014E Net debt		1,825	4%		
Total 2014E NAV		47,010	104%		
No. of share outstanding (diluted)		3,315			
NAV per share (RMB)		14.2			
Ex rate		1.27			
NAV per share (HKD)		18.0			
Target discount (%)		65%			
Target Price (HKD)		6.30			
WACC	12.0%				
Cost of debt	9.0%				
Cost of Equity	20.0%				
Debt/ (Debt + Equity)	60%				

Source(s): Company, ABCI Securities estimates



Exhibit 67: Sunac's 1H13 results

Sunac's P&L	1H13	1H12	YoY Chg
	RMB mn	RMB mn	(%)
Turnover	8,563	4,302	99.0
Cost of Sales & direct operating costs	(6,784)	(2,927)	131.8
Gross Profit	1,779	1,376	29.3
Gross Margin (%)	20.8	32.0	(11.2)
Selling and distribution costs	(255)	(195)	30.5
Administrative expense	(206)	(180)	14.9
EBIT	1,318	1,001	31.7
EBIT Margin (%)	15.4	23.3	
Other income	60	22	170.5
Fair value gain of investment properties	0	0	na
Other exceptional items	94	32	na
Share of profit from JCE/ Associates	245	(4)	na
Finance cost	(288)	(3)	na
Profit before tax	1,429	1,048	36.4
Tax	(545)	(525)	3.9
- LAT	(233)	(354)	(34.3)
- Enterprise tax	(313)	(170)	83.3
Profit after tax	884	523	69.0
Minority Interest	(131)	5	(3,007.3)
Net profit	752	527	42.7
Core net profit	845	607	39.2
Core net margin	9.9	14.1	
Operating statistics			
Contracted GFA (mn sqm)	1.13	0.76	48.3
Contracted ASP (RMB/sqm)	20,890	16,420	27.2
Contracted Sales (RMB mn)	23,614	12,516	88.7
GFA Delivered (mn sqm)	0.30	0.26	15.4
Booked ASP (RMB/sqm)	27,938	16,017	74.4
Property sales booked (RMB mn)	8,464	4,203	101.4
Balance sheet			
	Jun-13	Dec-12	HoH %
	RMB mn	RMB mn	
Gross debt	24,828	21,725	14.3
Cash	14,495	12,263	18.2
Net debt	10,332	9,462	9.2
Net gearing (%)	87.4	99.7	(12.3)

Source(s): Company, ABCI Securities



Consolidated income statement (2011A-2015E)

FY Ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Revenue	10,604	20,843	27,716	41,210	44,071
Cost of sales	(7,038)	(15,460)	(19,831)	(29,174)	(31,515)
Gross Profit	3,566	5,382	7,885	12,036	12,555
SG&A expenses	(615)	(884)	(1,180)	(1,433)	(1,375)
EBIT	2,951	4,498	6,705	10,603	11,181
Finance cost	(202)	(113)	(242)	(241)	(214)
Share of profit of associates	(10)	(39)	512	1,076	1,442
Other income/ (expenses)	37	45	105	186	367
Fair value gain of investment properties	0	0	0	0	0
Disposal/one-off items	752	293	0	0	0
Profit before tax	3,528	4,685	7,079	11,624	12,776
Tax	(1,145)	(2,070)	(3,089)	(5,134)	(5,561)
Profit after tax	2,383	2,615	3,991	6,491	7,215
Minority interest	(27)	(7)	(1,005)	(2,060)	(2,506)
Reported net profit	2,356	2,607	2,985	4,431	4,708
Less: exceptional items	(564)	(220)	0	0	0
Underlying net profit	1,792	2,387	2,985	4,431	4,708
Per share					
Underlying EPS (RMB)	0.59	0.79	0.90	1.34	1.42
DPS (RMB)	0.08	0.09	0.09	0.13	0.14
Payout ratio (%)	13%	11%	10%	10%	10%
BVPS (RMB)	2.34	3.15	4.16	5.36	6.64
Growth %					
Revenue	59.4%	96.6%	33.0%	48.7%	6.9%
Gross Profit	23.9%	50.9%	46.5%	52.6%	4.3%
EBIT	12.9%	52.4%	49.1%	58.1%	5.4%
Underlying net profit	16.1%	33.2%	25.0%	48.4%	6.3%
Margin %					
Gross margin	33.6%	25.8%	28.4%	29.2%	28.5%
Gross margin (post-LAT)	30.0%	20.6%	22.3%	22.1%	21.4%
EBIT margin	27.8%	21.6%	24.2%	25.7%	25.4%
Core net margin	17.2%	11.7%	12.5%	13.1%	13.1%
Key assumptions					
Contracted Sales (RMB mn)	19,209	35,635	52,110	66,976	60,789
GFA sold (m sqm)	1.19	2.00	2.54	3.11	2.86
ASP (RMB/sqm)	16,092	17,830	20,520	21,509	21,271
Booked Sales (RMB)	10,451	20,671	27,528	41,006	43,857
GFA delivered (m sqm)	0.74	1.19	1.54	2.13	2.25
Booked ASP (RMB/sqm)	14,136	17,327	17,928	19,256	19,461
Land acquisition (RMB mn)	7,267	13,916	3,107	-	-
GFA acquired (m sqm)	2.1	6.5	0.4	-	-
Land cost (RMB/sqm)	3,434	2,136	8,584	-	-
Land acquisition to Contracted sales (%)	37.8%	39.1%	6.0%	-	-
Land bank GFA (m sqm)	12.1	13.0	13.0	10.9	8.6

Source: Company, ABCI Securities estimates



Consolidated balance sheet (2011A-2015E)

As of Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Current assets	31,304	64,832	89,149	98,364	102,597
Cash	2,763	8,394	4,771	24,681	40,993
Restricted cash	1,104	3,869	3,869	3,869	3,869
Trade & other receivables	451	416	416	416	416
Property under development	25,651	46,401	74,342	63,646	51,568
Other current assets	1,335	5,752	5,752	5,752	5,752
Non-current assets	2,308	6,103	9,518	10,038	10,631
Property, plant & equipment	28	49	54	59	64
Investment properties	552	571	571	571	571
Investment in Associate and JCE	980	4,205	7,614	8,130	8,718
Other non-current assets	749	1,279	1,279	1,279	1,279
Total Assets	33,613	70,934	98,667	108,402	113,229
Current Liabilities	14,628	44,294	60,438	64,175	62,308
Short term borrowings	2,254	11,783	16,783	16,783	16,783
Trade & other payables	3,810	7,116	7,116	7,116	7,116
Pre-sales deposits	5,840	15,146	26,290	30,027	28,160
Other current assets	2,724	10,250	10,250	10,250	10,250
Non-current liabilities	11,579	14,646	14,646	14,646	14,646
Long term borrowings	9,321	9,942	9,942	9,942	9,942
Other payables	0	0	0	0	0
Other non-current assets	2,258	4,704	4,704	4,704	4,704
Total Liabilities	26,207	58,940	75,084	78,821	76,954
Net Assets	7,406	11,994	23,583	29,580	36,274
Shareholders' Equity	7,051	9,489	13,784	17,772	22,009
Minority Interest	355	2,505	9,799	11,809	14,265
Total Equity	7,406	11,994	23,583	29,580	36,274
Key ratio					
Gross debt (RMB mn)	11,575	21,725	26,725	26,725	26,725
Net debt (RMB mn)	7,707	9,462	18,085	(1,825)	(18,136)
Net gearing (%)	109%	100%	131%	-10%	-82%
Contracted sales/ Total assets (x)	0.57	0.50	0.53	0.62	0.54

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
EBITDA	2,965	4,513	6,719	10,618	11,196
Change in Working Capital	(4,394)	6,684	(14,617)	16,598	12,136
Tax payment	(1,246)	(1,688)	(3,089)	(5,134)	(5,561)
Operating Cash flow	(2,675)	9,509	(10,986)	22,082	17,770
Purchase of PP&E	(13)	(22)	(20)	(20)	(20)
Addition of Investment Properties	(378)	(2,473)	-	-	-
Others	(1,088)	(2,764)	(2,793)	747	1,221
Investing Cash flow	(1,479)	(5,260)	(2,813)	727	1,201
Debt raised	6,198	16,396	10,000	10,000	10,000
Debt repaid	(3,020)	(12,639)	(5,000)	(10,000)	(10,000)
Interest expenses	(202)	(1,817)	(2,423)	(2,405)	(2,138)
Equity raised	(1,479)	(5,260)	(2,813)	727	1,201
Dividend to shareholders	-	(236)	(299)	(443)	(471)
Others	1,462	4,938	10,710	(777)	(1,251)
Financing Cash flow	2,959	1,381	10,176	(2,898)	(2,659)
Net cash inflow/ (outflow)	(1,195)	5,631	(3,623)	19,910	16,312
Cash- beginning	3,958	2,763	8,394	4,771	24,681
Cash- year-end	2,763	8,394	4,771	24,681	40,993

Source(s): Company, ABCI Securities estimates



November 21, 2013
Company Report
Rating: HOLD
TP: HK\$ 25.00

Share price (HK\$) 24.50
Est. share price return 2.04 %
Est. dividend yield 2.10 %
Est. total return 4.14 %

Previous Rating & TP BUY; HK\$ 26.00
Previous Report Date Aug 6, 2013

Analyst : Kenneth Tung
Tel: (852) 2147 8311
Email: kennethtung@abci.com.hk

Key Data

52Wk H/L(HK\$)	25.18/17.52
Issued shares (mn)	8,173
Market cap	192,056
3-mth avg daily turnover (HK\$ mn)	477.1
Major shareholder(s) (%): China State Construction Engineering Corporation	53.18
Source(s): Company, Bloomberg, ABCI Securities	

FY12 Revenue breakdown (%)

Property Development	95.1
Property Investment	0.9
Others	4.0
Source(s): Company, ABCI Securities	

Share performance (%)

	Absolute	Relative*
1-mth	(1.0)	(2.4)
3-mth	3.9	(4.2)
6-mth	0.2	(1.0)

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

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

COLI (688 HK)
From leader to mediocre

- Expect margin to fall further from 38.3% in 2012 to 36.9%/ 36.5% in FY13E/14E
- COLI's 10M13 presales grew 19%YoY , lower than peer average of 33%
- Asset injection from parent company is likely to be NAV accretive but a concrete timetable is yet to be confirmed
- Downgrade to **HOLD** from BUY on falling profitability. We derive our TP of HK\$25.00 based on no discount to NAV

Margin is trending down. COLI's 3Q revenue was up 31.3% YoY to HK\$ 22.1bn while operating profit grew only 2.5% YoY to HK\$ 6.3bn. This implies that COLI's 3Q13 EBIT margin decreased further to 28.7% from 34.8% in 1H13 and 36.2% in FY12. COLI used to trade at premium to peers on high margins- which we believe may not be sustainable in the future. In our view, its consistent decline in margin is mainly caused by COLI's aggressive sales target (HK\$ 120bn for 2013) to achieve double-digit growth despite its high base. To maintain such growth, COLI has to penetrate into new, lower-tier cities where demand and profitability could be lower to ensure sufficient project pipeline.

Less exciting growth than peers. For 10M13, COLI achieved HK\$ 122bn in presales, up 19% YoY and were lower than the average growth among peers at 33% YoY. In terms of growth, small/mid cap players have performed better than their larger counterparts this year so far given the former's lower base.

Asset injection could be a near-term upside catalyst. We believe asset injection from CSCEC (601668 CH) could begin as soon as 1H14E. Given the size of CSCEC's sizeable landbank, the injected sites could have a GFA reaching 10mn sqm (27% of COLI's existing landbank of 36.5mn sqm). We believe COLI would acquire the assets by stages. If the Group is able to secure the assets at discounted rates, the injection could be an upside catalyst for COLI's NAV and margins.

Downgrade to HOLD on thinning margins. We lower our earnings forecasts by 1.9% and 7.6% for FY14E and FY15E to factor in the latest land acquisitions and geographic expansion that may result in lower gross margins. We forecast COLI could achieve HK\$ 143bn in presales for 2014E, given that land capex was high as HK\$ 29bn in 9M13. We expect gross margin to edge down from 36.9% in FY13E to 36.5% in FY14E due to its penetration into lower-tier cities with lower ASPs. We also roll over our NAV estimate to end-2014, and cut our TP by 3.8% to HK\$ 25.00 (previous TP: HK\$ 26.00) based on its undiscounted NAV. Downgrade COLI to **HOLD** from BUY.

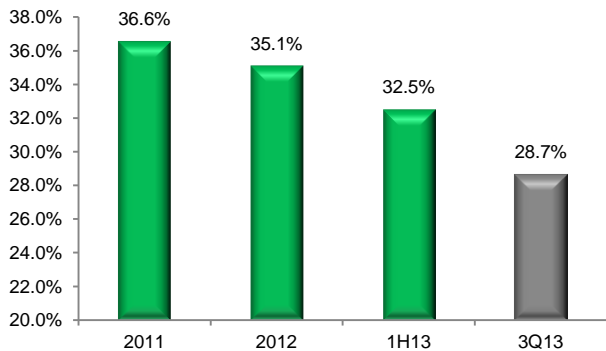
Risk factors: 1) Higher/lower ASP than expected; 2) Asset injection at discount/premium to market value; 3) Further tightening measures on property sector.

Results and Valuation

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (HK\$ mn)	51,332	64,581	112,847	127,882	123,682
Chg (% YoY)	10.0	25.8	74.7	13.3	(3.3)
Core net profit (HK\$ mn)	12,548	15,958	20,712	23,740	22,871
Chg (% YoY)	33.4	27.2	29.8	14.6	(3.7)
Underlying EPS (HK\$)	1.54	1.95	2.53	2.90	2.80
Chg (% YoY)	33.4	27.2	29.8	14.6	(3.7)
BVPS (HK\$)	8.76	10.68	12.70	15.03	17.27
Chg (% YoY)	30.8	21.8	19.0	18.3	14.9
Underlying PE (x)	16.0	12.5	9.7	8.4	8.8
PB (x)	2.8	2.3	1.9	1.6	1.4
ROE (%)	17.5	18.3	20.0	19.3	16.2
ROA (%)	7.1	6.9	7.3	8.1	8.0
DPS (HK\$)	0.33	0.41	0.51	0.58	0.56
Dividend yield (%)	1.3	1.7	2.1	2.4	2.3
Net gearing (%)	32.7	20.5	(34.6)	(37.4)	(59.0)

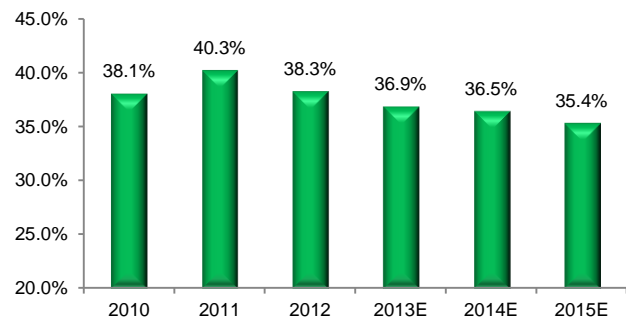
*Net gearing=Net debt/Total Shareholders' equity
Source(s): Bloomberg, ABCI Securities estimates

Exhibit 68: COLI's EBIT Margin (2011-3Q13)



Source(s): Company, ABCI Securities

Exhibit 69 : COLI's gross margin (2010-15E)



Source(s): Company, ABCI Securities estimates

Exhibit 70: 10M13 presales of the listed Chinese developers

(RMB bn)	Oct-13		10M2013		2013 Target	Achievement ratio	2012 Actual		Exceed/ (below) target by
	YoY	YoY	YoY	YoY			YoY	YoY	
1 Country Garden	15.0	134%	79.7	121%	62	128.5%	48	10%	10.7%
2 Sunac	6.3	74%	38.9	70%	45	86.3%	32	78%	5.2%
3 Kaisa	2.5	39%	19.3	50%	22	87.6%	17	14%	5.7%
4 Shimao	7.5	113%	55.6	42%	63	88.3%	46	51%	50.3%
5 CR Land	5.9	40%	56.6	35%	57	99.2%	52	45%	30.5%
6 KWG	1.5	18%	13.4	34%	16	83.9%	12	7%	1.7%
7 Greentown	7.5	29%	51.1	34%	55	92.9%	51	48%	27.4%
8 Gemdale	2.8	-23%	34.7	34%	41	84.7%	34	10%	4.9%
9 Vanke	17.4	27%	145.8	33%	160	91.2%	141	16%	6.2%
10 R&F	4.9	20%	34.4	30%	42	81.9%	32	8%	0.6%
11 Longfor	4.9	29%	40.2	26%	46	87.5%	40	5%	2.9%
12 Evergrande	16.6	17%	91.3	25%	100	91.3%	92	15%	15.4%
13 Agile	4.2	35%	29.7	24%	42	70.6%	33	5%	10.2%
14 Poly-A	12.1	57%	100.7	21%	117	86.1%	102	39%	27.2%
15 COLI*	9.8	14%	121.6	19%	120	101.3%	90	28%	-10.2%
16 Yuexiu	0.9	56%	13.4	15%	13.2	101.2%	12	36%	23.0%
17 Sino-Ocean	3.0	-14%	31.0	14%	35	88.6%	31	15%	15.2%
18 Beijing Capital	1.8	57%	11.5	13%	20	57.4%	13	20%	10.6%
19 Glorious	0.3	-66%	5.3	-46%	11	47.8%	11	-18%	-15.8%
Total	122.8	37%	948.7	33%	1,067	88.9%	890	23%	11.2%

* In HK\$

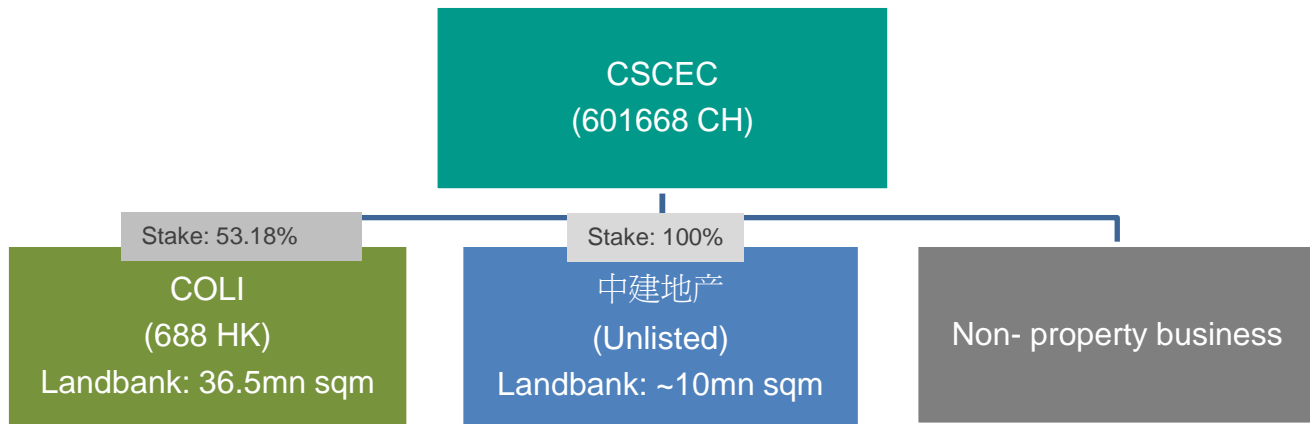
Source(s): Companies, ABCI Securities

Pros & Cons of asset injection

- ✓ Increase COLI's landbank and reduce the need to purchase land at high prices
- ✓ Boost presale in near term, as some projects may have met the presales requirement
- ✓ Avoid internal competition among sister companies in the property sector
- ✗ Assets are unlikely to be injected at big discounts as CSCEC (601668 CH) is also a listed companies, and asset disposal below market price will be unfavorable to its minority shareholders of CSCEC



Exhibit 71: Group chart and land bank as at 30 Jun 2013



Source(s): ABCI Securities

Exhibit 72: Forecast changes for COLI

	Previous			Current			Change (%)		
	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E
Core net profit (RMB mn)	19,390	24,389	25,089	20,712	23,740	22,871	6.8%	-2.7%	-8.8%
<i>YoY chg (%)</i>	21.5	25.8	2.9	29.8	14.6	-3.7			
Contracted sales (RMB mn)	120,135	138,034	125,514	135,234	143,257	148,220	12.6%	3.8%	18.1%
<i>YoY chg (%)</i>	7.7	14.9	-9.1	21.3	5.9	3.5			
GFA delivered (mn sqm)	6.41	6.62	5.93	6.80	7.00	6.15	6.0%	5.7%	3.7%
Gross margin (%)	37.1%	37.9%	38.8%	36.9%	36.5%	35.4%	-0.17ppt	-1.4ppt	-3.4ppt

Source(s): ABCI Securities estimates



Exhibit 73: COLI's FY14E NAV

	Attr. GFA (M sqm)	Net assets value		Valuation Methodology	Implied value per sqm (HKD)
		(HKD m)	% of total		
Property development					
Hua Nan	9.1	38,662	24%	DCF at WACC of 7.6%	4,271
Hua Dong	8.8	38,180	24%		4,339
Hua Bei	4.1	9,153	6%		2,223
Northern	10.9	34,849	22%		3,189
Western	7.0	21,448	14%		3,053
HK & Macau	0.21	534	0%		2,566
Subtotal	40.1	142,826	90%		3,559
Investment Properties		15,677	10%	5.0% cap rate on 2014E net rental income	
Total 2014E GAV		158,503	100%		
2014E Net debt		45,884	29%		
Total 2014E NAV		204,387	129%		
No. of share outstanding		8,173			
NAV per share (HKD)		25.0			
Target Premium/ (discount) (%)		0%			
Target Price (HKD)		25.00			
WACC	7.6%				
Cost of debt	3.5%				
Cost of Equity	10.0%				
Debt/ (Debt + Equity)	32%				

Source(s): Company, ABCI Securities estimates

Exhibit 74: COLI's 1H13 results

P&L	1H13	1H12	YoY Chg
	HK\$ mn		(%)
Turnover	32,188	25,282	27.3
Cost of Sales & direct operating costs	(20,512)	(14,932)	37.4
Gross Profit	11,677	10,350	12.8
Gross Margin (%)	36.3	40.9	(4.7)
Selling and distribution costs	(450)	(358)	25.4
Administrative expense	(754)	(597)	26.2
EBIT	10,474	9,395	11.5
EBIT Margin (%)	32.5	37.2	
Other income, gains and losses	736	263	179.4
Fair value gain of investment properties	1,964	2,567	(23.5)
Other exceptional items	1,458	0	na
Share of profit from JCE/ Associates	1,629	562	189.9
Finance cost	(151)	(112)	35.4
Profit before tax	16,109	12,676	27.1
Tax	(5,009)	(4,254)	17.8
- LAT	(1,901)	(1,825)	4.2
- Enterprise tax	(3,107)	(2,428)	28.0
Profit after tax	11,100	8,422	31.8
Minority Interest	(68)	(37)	81.0
Net profit	11,033	8,385	31.6
Underlying net profit	8,060	6,360	26.7
Balance sheet	Jun-13	Dec-12	HoH %
Gross debt	66,401	58,789	12.9
Cash	51,742	40,880	26.6
Net debt	14,659	17,908	(18.1)
Net gearing (%)	15.0	20.5	(5.6)

Source(s): Company, ABCI Securities



Consolidated income statement (2011A-2015E)

FY Ended Dec 31 (HK\$ mn)	2011A	2012A	2013E	2014E	2015E
Revenue	51,332	64,581	112,847	127,882	123,682
Cost of sales	(30,660)	(39,855)	(71,224)	(81,229)	(79,942)
Gross Profit	20,672	24,725	41,623	46,654	43,741
SG&A expenses	(1,897)	(2,037)	(2,376)	(2,543)	(2,607)
EBIT	18,775	22,689	39,246	44,111	41,134
Finance cost	(591)	(286)	(332)	(356)	(356)
Share of profit of associates	922	2,637	698	867	1,022
Other income/ (expenses)	771	696	1,017	1,196	1,480
Fair value gain of investment properties	3,020	3,651	-	-	-
Disposal/one-off items	868	35	-	-	-
Profit before tax	23,765	29,422	40,630	45,817	43,280
Tax	(8,207)	(10,590)	(17,360)	(19,341)	(17,979)
Profit after tax	15,558	18,832	23,270	26,476	25,302
Minority interest	(94)	(110)	(2,558)	(2,736)	(2,431)
Reported net profit	15,464	18,722	20,712	23,740	22,871
Less: exceptional items	(2,916)	(2,765)	-	-	-
Underlying net profit	12,548	15,958	20,712	23,740	22,871
Per share					
Underlying EPS (HKD)	1.54	1.95	2.53	2.90	2.80
DPS (HKD)	0.33	0.41	0.51	0.58	0.56
Payout ratio (%)	21%	21%	20%	20%	20%
BVPS (HKD)	8.76	10.68	12.70	15.03	17.27
Growth %					
Revenue	10.0%	25.8%	74.7%	13.3%	-3.3%
Gross Profit	16.3%	19.6%	68.3%	12.1%	-6.2%
EBIT	18.3%	20.8%	73.0%	12.4%	-6.7%
Underlying net profit	33.4%	27.2%	29.8%	14.6%	-3.7%
Margin %					
Gross margin	40.3%	38.3%	36.9%	36.5%	35.4%
Gross margin (post-LAT)	34.0%	32.1%	29.3%	29.2%	28.7%
EBIT margin	36.6%	35.1%	34.8%	34.5%	33.3%
Core net margin	22.8%	20.8%	20.0%	20.0%	19.6%
Key assumptions					
Contracted Sales (HK\$m)	87,090	111,520	135,234	143,257	148,220
GFA sold (m sqm)	5.58	7.29	8.64	9.27	9.87
ASP (HKD/sqm)	15,602	15,295	15,651	15,449	15,018
Booked Sales (HKD)	49,432	61,407	109,268	123,873	119,166
GFA delivered (m sqm)	2.94	4.18	6.80	7.00	6.15
Booked ASP (HKD/sqm)	16,814	14,691	16,070	17,690	19,374
Land acquisition (HK\$m)	24,161	35,639	29,395	32,000	-
GFA acquired (m sqm)	10.6	10.3	5.0	5.0	-
Land cost (HKD/sqm)	2,287	3,453	5,846	6,400	-
Land acquisition to Contracted sales (%)	27.7%	32.0%	21.7%	22.3%	-

Source: Company, ABCI Securities estimates



Consolidated balance sheet (2011A-2015E)

As of Dec 31 (HK\$ mn)	2011A	2012A	2013E	2014E	2015E
Current assets	127,984	180,268	233,108	239,253	230,709
Cash	19,179	40,880	94,686	104,672	142,045
Trade & other receivables	1,850	2,599	2,599	2,599	2,599
Property under development	97,472	111,752	110,786	106,946	61,029
Other current assets	9,483	25,036	25,036	25,036	25,036
Non-current assets	47,991	49,557	51,720	54,051	56,537
Property, plant & equipment	338	976	1,040	1,105	1,169
Investment properties	17,765	23,657	25,157	26,657	28,157
Investment in Associate and JCE	16,009	17,192	17,791	18,557	19,480
Other non-current assets	13,879	7,732	7,732	7,732	7,732
Total Assets	175,975	229,825	284,828	293,304	287,246
Current Liabilities	67,929	83,975	119,901	106,699	79,963
Short term borrowings	9,820	5,546	5,546	5,546	5,546
Trade & other payables	16,378	16,917	16,917	16,917	16,917
Pre-sales deposits	24,480	40,506	76,432	63,230	36,494
Other current assets	17,250	21,007	21,007	21,007	21,007
Non-current liabilities	36,156	58,292	58,292	58,292	58,292
Long term borrowings	32,803	53,243	53,243	53,243	53,243
Other payables	1,055	2,018	2,018	2,018	2,018
Other non-current assets	2,298	3,031	3,031	3,031	3,031
Total Liabilities	104,085	142,268	178,193	164,991	138,256
Net Assets	71,890	87,557	106,634	128,312	148,990
Shareholders' Equity	71,617	87,244	103,814	122,806	141,102
Minority Interest	273	313	2,820	5,507	7,888
Total Equity	71,890	87,557	106,634	128,312	148,990
Key ratio					
Gross debt ()	42,624	58,789	58,789	58,789	58,789
Net debt ()	23,444	17,908	(35,898)	(45,884)	(83,256)
Net gearing (%)	32.7%	20.5%	-34.6%	-37.4%	-59.0%
Contracted sales/ Total assets (x)	0.49	0.49	0.47	0.49	0.52

Source: Company, ABCI Securities estimates



Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31 (HK\$ mn)	2011A	2012A	2013E	2014E	2015E
EBITDA	18,819	22,741	39,299	44,163	41,187
Change in Working Capital	(20,853)	(7,539)	38,728	(7,388)	21,154
Tax payment	(5,963)	(8,153)	(17,360)	(19,341)	(17,979)
Operating Cash flow	(7,998)	7,050	60,667	17,434	44,362
Purchase of PP&E	(143)	(117)	(117)	(117)	(117)
Addition of Investment Properties	(1,422)	(1,587)	(1,500)	(1,500)	(1,500)
Others	(3,888)	3,209	1,117	1,296	1,580
Investing Cash flow	(5,453)	1,506	(500)	(321)	(37)
Debt raised	9,450	16,048	10,000	10,000	10,000
Debt repaid	(8,694)	(11,003)	(10,000)	(10,000)	(10,000)
Interest expenses	(1,361)	(1,745)	(2,169)	(2,329)	(2,329)
Equity raised	-	-	-	-	-
Dividend to shareholders	(2,452)	(3,024)	(4,142)	(4,748)	(4,574)
Others	2,776	12,869	(50)	(50)	(50)
Financing Cash flow	(282)	13,146	(6,361)	(7,127)	(6,953)
Net cash inflow/ (outflow)	(13,733)	21,701	53,806	9,986	37,372
Cash- beginning	32,912	19,179	40,880	94,686	104,672
Cash- year-end	19,179	40,880	94,686	104,672	142,045

Source: Company, ABCI Securities estimates

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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 from 2007-2011

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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