



January 21, 2014
Company Report
Rating: BUY
TP: HK\$ 3.20

Share price (HK\$)	2.57
Est. share price return	24.5%
Est. dividend yield	3.9%
Est. total return	28.4%

Previous Rating & TP	NA
Previous Report Date	NA

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Key Data

52Wk H/L(HK\$)	2.71/1.86
Issued shares (mn)	4,030
Market cap	10,357
3-mth avg daily turnover (HK\$ mn)	9.5
Major shareholder(s) (%):	
Wong Choi Hing & family	59.10
Hony Capital	14.93

Source(s): Company, Bloomberg, ABCI Securities

FY12 Revenue breakdown (%)

Property development	100.0
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Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	20.4	19.4
3-mth	na	na
6-mth	na	na

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Hydoo (1396 HK)
High growth player in low tier cities

- The 2nd largest trade and logistic park developer in Tier 3 & 4 cities
- Exceptionally low land cost of RMB 279/sqm drives gross margin to 50% or higher, exceeding the sector average of ~30%
- With strong support from the local governments, trade and logistics developments face limited tightening risks as opposed to the residential sector.
- Initiate with BUY with TP at HK\$3.20 based on a 50% discount to FY14E NAV. We deem the valuation of 3.1x FY14E P/E and FY14E dividend yield at 6.4% as highly attractive

Hydoo's key differentiating factors. Hydoo is different from other PRC property developers in the following ways: **1) An exceptionally low land cost.** Hydoo's weighted average land cost was RMB 279/sqm by July 31, 2013, representing ~4% of its FY13E booked ASP of RMB 7,038/sqm (vs. the peer avg. of 10%-25% in our sample); **2) A lower tier city focus.** GDP per capita in tier 3/4 cities grew at 15.3% and 17.8% CAGRs in 2007-12, much faster than the 7.4% and 13.4% CAGRs in tier 1/2 cities. We believe such rapid economic growth would spur commercial property demand; **3) Customer segmentation to enhance ASP.** Hydoo differentiates operators (i.e. end-users) from investors. Operators are eligible to purchase properties in all phases, while investors may only purchase properties in Phase 2 and beyond. Most Hydoo's properties for sale in 1H13 were from Phase 1, thus Hydoo's overall ASP may go up on investors' demand in later phases; **4) Influx of new projects.** Master investment agreements for three projects (i.e. Wuzhou, Heze & Xingning projects) in FY12 and two projects (i.e. Lanzhou & Yantai) in 1H13 were stroke. The number of projects acquired during the period was higher than its major competitor, China South City (CSC, 1668HK); **5) Impressive presale.** 1H13 presale hit RMB 5.7bn, higher than CSC's 1H13 presale of six projects (Shenzhen, Nancheng, Naning, Xi'an, Harbin & Zhengzhou projects) that amounted to RMB 5bn.

Re-rating of the logistics sector. Following Tencent's strategic investment in China South City (1668 HK) on Jan 15, 2014, CSC's share price shot up by 102% to HK\$4.39 in three days, driving up its valuation from 3.4x to 7.0x FY15E P/E. We believe the market is starting to realize the potential of e-commerce as a force to propel logistic park development. Attractively valued at 3.1x FY14E P/E and as China's second largest logistic center developer, Hydoo could be another possible M&A target for e-commerce players seeking to expand their logistic network.

Initiate Hydoo with BUY, TP at HK\$3.20. We derived Hydoo's FY14E NAV (RMB20.1bn or HK\$6.38/share) based on the DCF methodology with a WACC of 10.1%. Our TP of HK\$3.2 is based on the average NAV discount of the listed commercial developers at 50%. We deem its current valuation of 3.1x FY14E P/E and FY14E dividend yield of 6.4% as highly attractive.

Risk factors: 1) Uncertain timing and size of government grants; 2) Overreliance on investors' demand; 3) More austerity measures in China's property market.

Results and Valuation

FY ended Dec 31	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue (RMB mn)	833	1,607	4,501	8,364	11,572
Chg (% YoY)	770.0	93.0	180.0	85.9	38.3
Core net profit (RMB mn)	216	284	1,290	2,570	3,547
Chg (% YoY)	1,100.0	31.5	354.2	99.2	38.1
Underlying EPS (RMB)	0.07	0.09	0.40	0.64	0.88
Chg (% YoY)	1,100.0	31.5	318.3	61.0	38.1
BVPS (RMB)	0.12	0.32	1.17	1.46	2.16
Chg (% YoY)	97.2	154.9	270.7	24.3	48.3
Underlying PE (x)	27.9	21.2	5.1	3.1	2.3
P/B (x)	16.2	6.3	1.7	1.4	0.9
ROE (%)	58.0	29.9	33.7	43.7	40.7
ROA (%)	7.2	5.5	11.4	14.9	16.2
DPS (RMB)	-	-	0.08	0.13	0.18
Dividend yield (%)	-	-	3.9	6.4	8.8
Net gearing (%)	42.4	76.2	Net Cash	Net Cash	Net Cash

*Net gearing=Net debt/Total Shareholders' equity

Source(s): Bloomberg, ABCI Securities estimates

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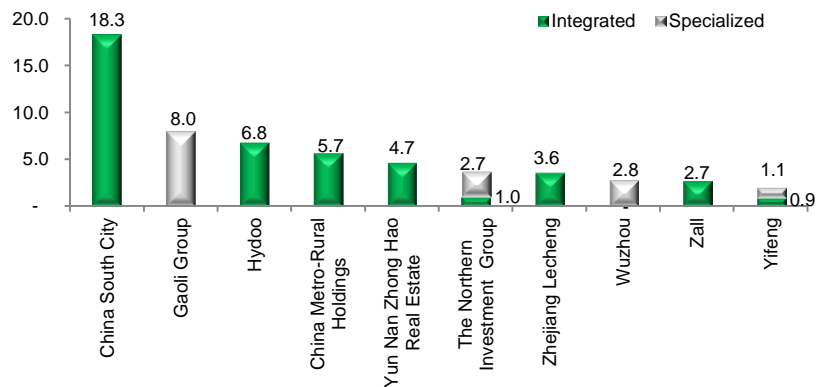
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Leading trade/logistics developer in tier 3/4 cities

Hydoo International Holding Limited (Hydoo) is the second largest integrated trade/logistics center developer in China in terms of the number of existing large-scale trade centers, according to Savills. Its geographic focus in tier 3/4 cities has enabled impressive growth in both revenue (FY10-12 CAGR: 310%) and underlying profit (FY10-12 CAGR: 297%).

As of Oct 2013, Hydoo's had 10 projects in 10 Chinese cities, which included Ganzhou, Heze, Jining, Lanzhou, Mianyang, Ningxiang, Wuzhou, Xingning, Yantai, and Yulin.

Exhibit 1: GFA of large-scale PRC trade/logistics developers (mn sqm)

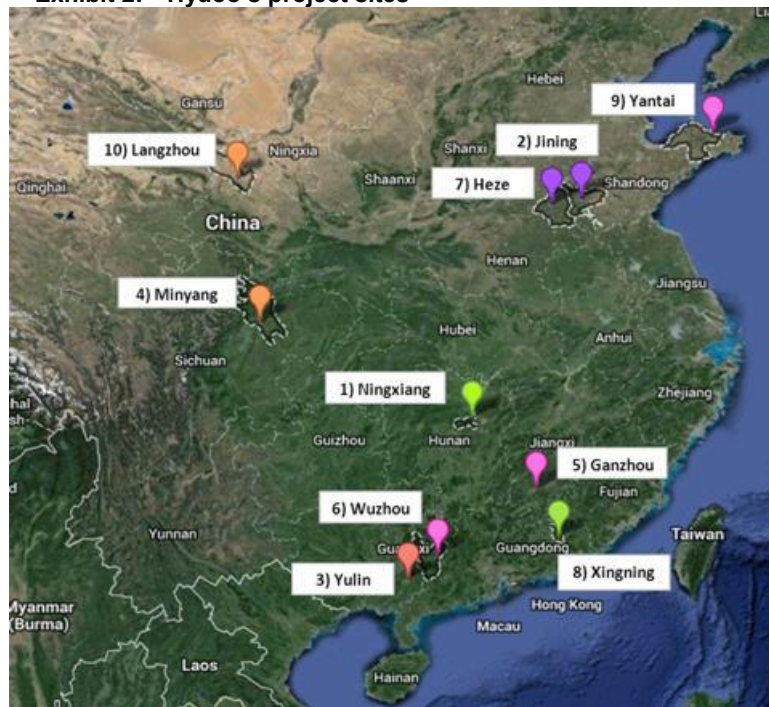


Note 1: Data as at July 2013

Note 2: Specialized centers sell only a single product type; integrated centers sell multiple product types

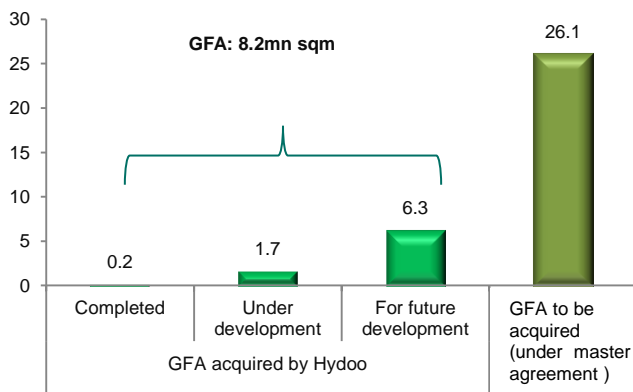
Source(s): Companies

Exhibit 2: Hydoo's project sites

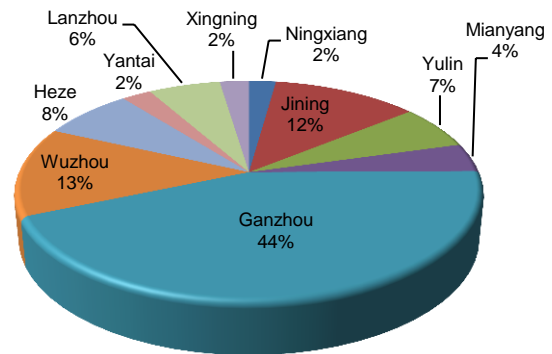


Note 1: Data as at Oct 2013

Source(s): Company, ABCI Securities

Exhibit 3: Breakdown of Hydoo's landbank by development stage (mn sqm)


Note 1: Data as at Oct 2013
 Source(s): Company, ABCI Securities

Exhibit 4: Breakdown of Hydoo's landbank by city (Total GFA: 8.2 mn sqm)


Note 1: Data as at Oct 2013
 Source(s): Company, ABCI Securities

Hydoo's product features

Hydoo's wholesale trading markets generally consist of numerous two- to three-story buildings, with each having a typical size of ~16-20 m by 40-80m. Each building is divided by a road of 10-20m wide. This design layout optimizes the amount of storefront area, allowing shoppers to move between stores and vehicles to move between units easily. Each building that forms a part of the wholesale trading markets is divided into 15-35 units with an average GFA of 70-140 sqm. The ground floor of each unit is generally used for product display while the upper levels can serve as offices or storages. Purchasers have the option of combining several adjoining units to form a larger unit.

Hydoo's projects are normally located in city outskirts near major highways connecting to city centers. E.g., Hydoo's Ganzhou project is located at ~10 km south of Ganzhou's city center. Highway 105, a major national highway, runs along the northern edge of the trade center while the center's southern edge is bounded by the Beijing-Jiulong Railway. The project is also situated directly across from the Ganzhou South Station and is 15 km away from the Ganzhou airport.

Exhibit 5: Location of Hydoo's Ganzhou project


Note 1: Data as at Oct 2013
 Source(s): Company

Exhibit 6: Layout of Hydoo's Ganzhou Project


Note 1: Data as at Oct 2013
 Source(s): Company

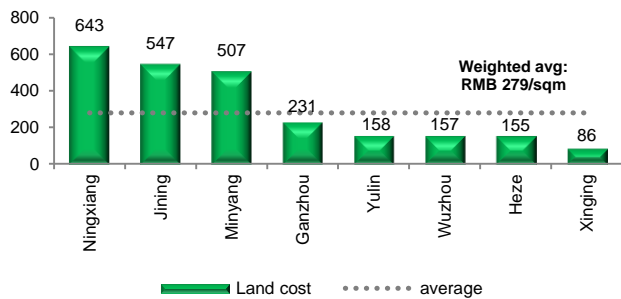
Hydoo's key differentiating factors

1) Lucrative business with low land cost

Hydoo's specialization in of trade/logistics center development enable a highly lucrative business in our view because of:

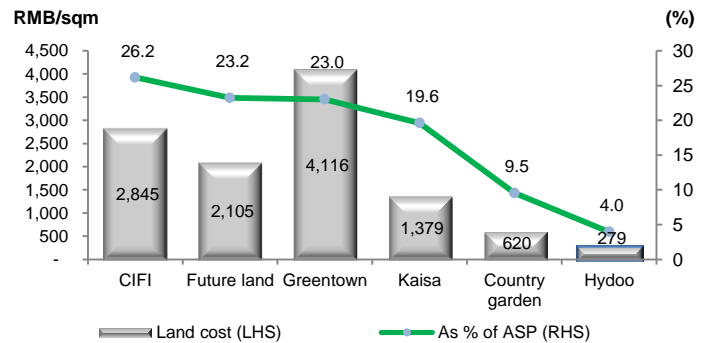
- **A low land cost.** As the local governments strongly encourage development of large-scale trade/logistics parks, Hydoo was able to secure project sites at very low costs. Weighted average land cost of Hydoo's landbank was only RMB 279/sqm by July 31, 2013, representing a mere 4% of its 2013E booked ASP of RMB 7,038/sqm, lower than the peer average of 10%-25% in our sample (See Exhibit 8). In terms of profitability, Hydoo achieved a net margin of 17.4% in 2012, higher than the sector average of 14.8% (See Exhibit 9).

Exhibit 7: Hydoo's land cost by city (RMB/sqm)



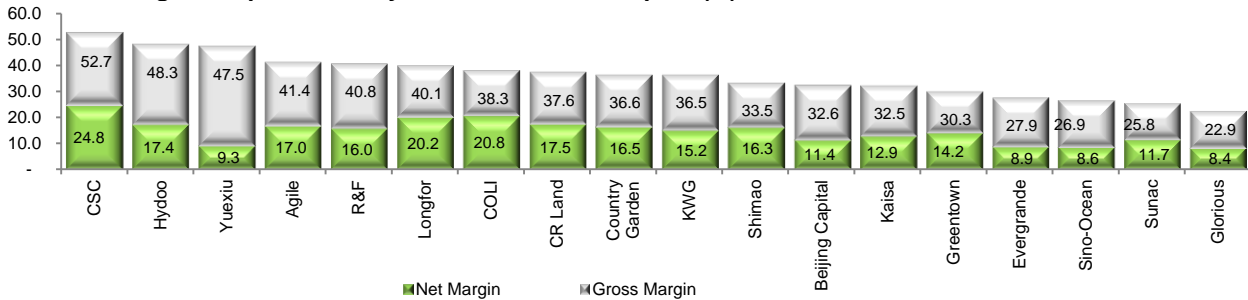
Note 1: Data as of July 2013
 Source(s): Company, ABCI Securities

Exhibit 8: FY12 land cost per sqm and % of ASP



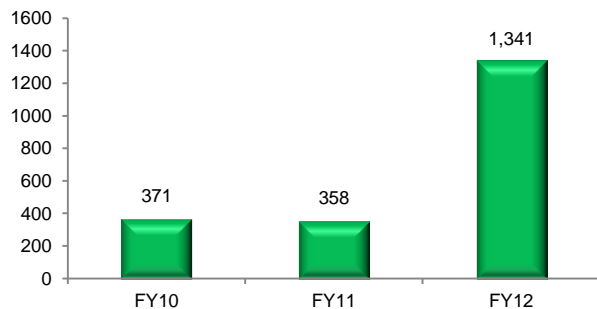
Source(s): Companies, ABCI Securities

Exhibit 9: 2012 Margin comparison of Hydoo and other developers (%)



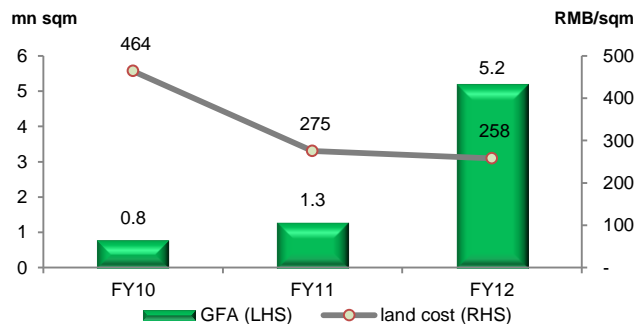
Source(s): Companies, ABCI Securities

Exhibit 10: Hydoo's land premium paid in FY10-12 (RMB mn)



Source(s): Company, ABCI Securities

Exhibit 11: Hydoo's GFA and land cost /sqm



Source(s): Company, ABCI Securities

- Phase 1 starts preselling a year after land acquisition.** Hydoo's projects are developed in multiple phases. E.g., a project with a GFA of 10 mn sqm is usually divided into smaller plots, with each plot being purchased and developed at different times. Hydoo usually starts the presale of Phase 1 about a year after negotiations for master investment agreement and land acquisition have been initiated. Construction features of Hydoo's trade centers are highly standardized, with most consisting of low-rise buildings at three-story high or below. It usually takes about six months for buildings under construction to reach the presale standard (as defined by completion of the building's rooftop). This relatively short construction cycle helps accelerate investment payback for the Group.

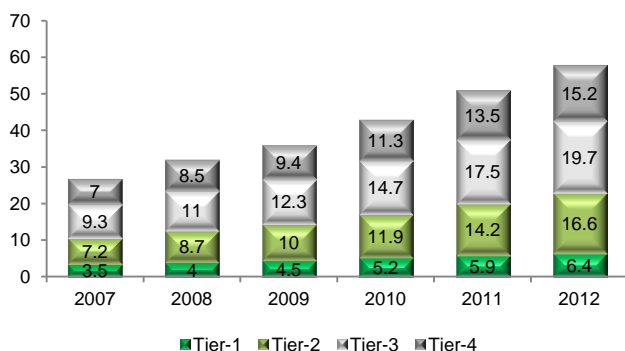
Exhibit 12: Developmental stages of Hydoo's projects


Source(s): Company, ABCI Securities

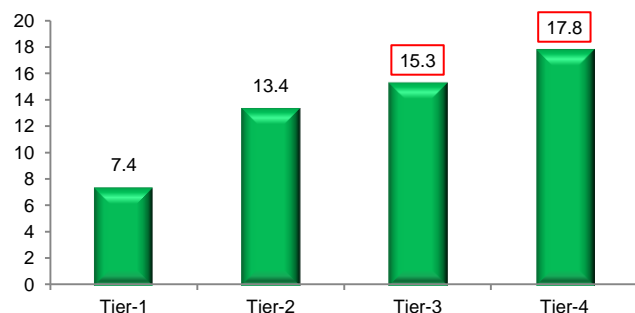
2) Strong demand in tier 3/4 cities

Most of Hydoo's projects are located in tier 3/4 cities where the long-term growth potential is high. Nominal GDP per capita in the tier 3/4 cities grew at 15.3% and 17.8% CAGRs in 2007-12, much higher than the 7.4% and 13.4% CAGRs seen in tier 1/2 cities. In 2012, tier 3/4 cities became a major contributor of China's economy, accounting for 60.2% of China's total nominal GDP for the year.

Apart from the higher economic growth, demand for trade/logistics properties will be greater in tier 3/4 cities, given that business activities in tier 1/2 cities usually gear towards the financial sector. Moreover, SMEs will account for a significant portion of the economy in tier 3/4 cities, where business in tier 1/2 cities are likely to be dominated by large corporates.

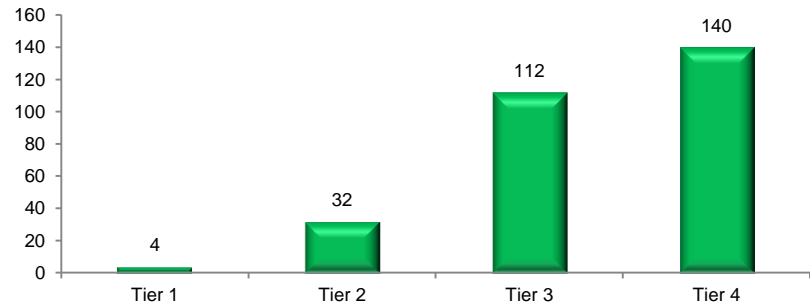
Exhibit 13: 2007-12 Nominal GDP by city tier in China (RMB tn)


Source(s): China's Cities Yearbook 2012

Exhibit 14: Nominal GDP per capita CAGR in 2007-12 (%)


Source(s): China's Cities Yearbook 2012

As of July 2013, Hydo entered into investment agreements for 10 projects, 9 of which are located in tier 3/4 cities. With a total of 112 tier 3 and 140 tier 4 cities in China, the room for future expansion is still ample.

Exhibit 15: No. of cities in China by tier


Note 1: Data as at Dec 2012
Source(s): Savills

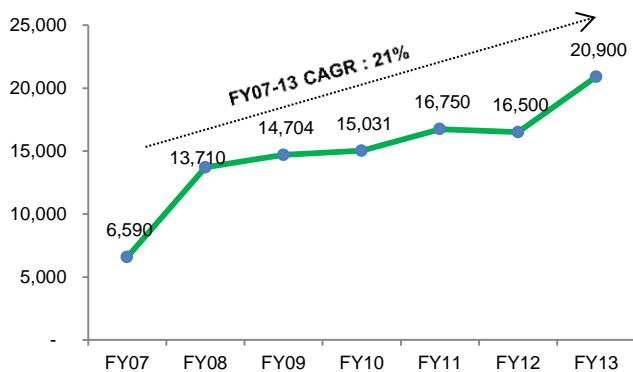
Exhibit 16: Definitions of different tier cities in China

Tier	No. of cities	Criteria
1	4	<ul style="list-style-type: none"> Cities specified by the Chinese Construction Bureau, including Beijing, Shanghai, Shenzhen, and Guangzhou
2	32	<ul style="list-style-type: none"> Not a tier 1 city One of China's 36 major cities as defined by the National Statistics Bureau, which are either provincial capitals, direct-controlled municipalities or among the six other major cities designated as municipalities with independent planning" (計劃單列市) by the PRC State Council
3	112	<ul style="list-style-type: none"> Not a tier 1/2 city A city at prefecture level or above Had a functional airport at the end of 2012
4	140	<ul style="list-style-type: none"> All other prefecture level cities

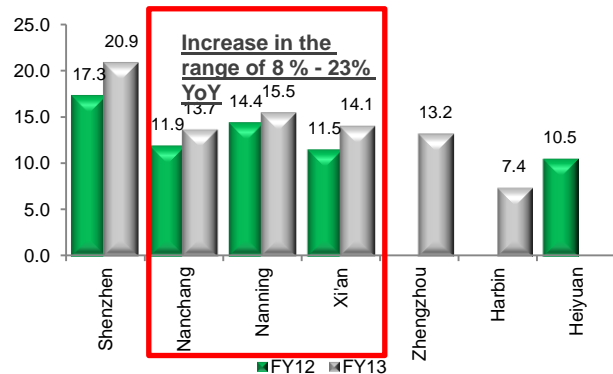
*Note 1: Data as at Dec 2012
Source(s): Savills

3) Pricing power to materialize

As most Hydo's projects are still in Phase 1 of development, the ASP trend is yet to be confirmed. Nonetheless, we believe pricing of China South City (CSC)'s projects may serve as a useful reference. ASP of CSC's Shenzhen project grew at a CAGR of 21% in FY07-13 to HK\$ 20,900/sqm. ASPs of CSC's projects in lower tier cities with a selling period of more than two years (such as Nanchang, Nanning and Xi'an projects) grew in the range of 8%-23% YoY in FY13 (See Exhibit 17&18). In general, ASPs of projects tend to increase over time.

Exhibit 17: ASP of CSC's Shenzhen trade center in FY07-13 (HKD/sqm)


Note 1: CSC's fiscal year ends in Mar
Source(s): China South City, ABCI Securities

Exhibit 18: ASP of CSC's trade center - FY12 vs. FY13 (RMB'000/sqm)


Note 1: CSC's fiscal year ends in Mar
Source(s): China South City, ABCI Securities

We believe Hydoo's unique selling strategy based on buyer segmentation would also help improve ASP. Hydoo classifies buyers into "operators" and "investors" based on their business certificates. Operators, which are mostly end-users, are eligible to purchase units in all phases, while investors may only purchase properties in Phase 2 and beyond. As Phase 1 consists mainly of end-users, occupancy and customer visitation usually reach healthy levels within one to two years (e.g. Ningxiang's occupancy reached 92.5% in Mar 2013, two years after its completion in 2011). Buyers of later phases would usually base their decision to purchase on the operating environment of Phase 1.

Although ASP of Phase 1 is usually lower as investors /speculators (i.e. investors) are exclude. Nonetheless, the addition of investors' demand to subsequent phases means that ASP could be elevated for later phases.

4) Highly capable of acquiring new projects

Hydoo's solid execution skill is mainly attributable to its experience in the trade/logistics center development. Hydoo's chairman, Mr. Wong Choi-hing, develop his first project in Ganzhou back in 1995. During 1995-2010, Mr. Wong and his family (i.e. the Wang family group) developed 19 trade/logistics centers across 7 provinces in China.

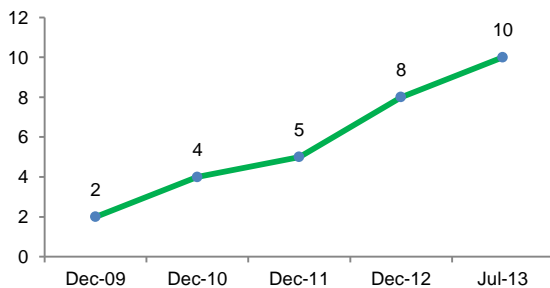
Exhibit 19: Hydoo's history

Year	Projects with master agreement signed	Other events
1995		Mr. Wong Choi Hing, Hydoo's chairman, commenced development of the first trade center in Ganzhou
2009	Ningxiang and Jining	
2010	Yulin and Minyang	
2011	Ganzhou	Hony Capital invested a total of US\$ 80mn
2012	Wuzhou, Heze and Xining	
2013	Yantai and Lanzhou	

Note 1: Data as of July 2013
Source(s): Company, ABCI Securities

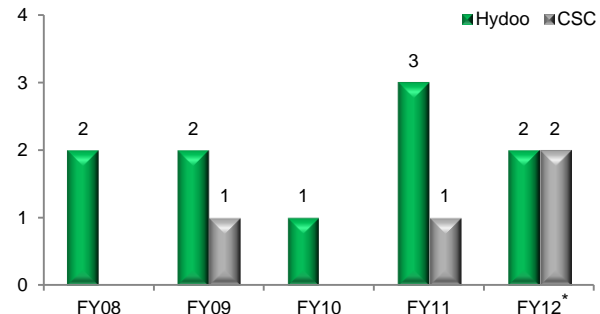
Hydoo's exceptional capability in securing new projects can also be seen in FY12 and 1H13. Hydoo stroke the master investment agreements for three projects (Wuzhou, Heze and Xingning) in FY12 and two projects (Lanzhou and Yantai) in 1H13. Between 2012 and July 2013, Hydoo acquired a total of five new projects while CSC secured three only. As of July 2013, Hydoo had 10 projects with master investment agreements established.

Exhibit 20: No. of Hydoo's projects in FY09-1H13



Source(s): Company, ABCI Securities

Exhibit 21: New project addition- Hydoo vs. CSC



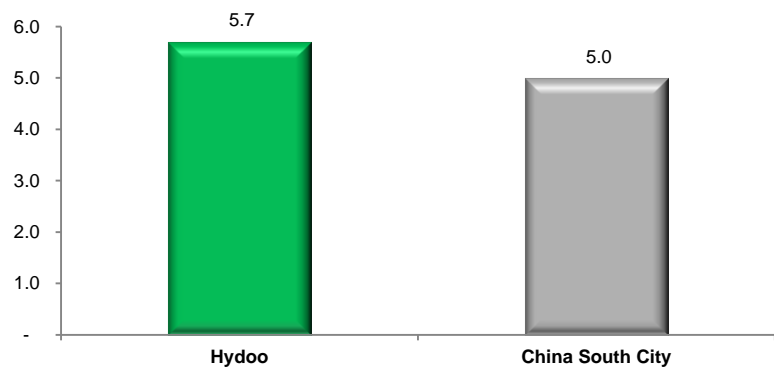
* CSC's FY12 project number was based on data as of Mar 31, 2013
Source(s): Companies, ABCI Securities

5) Impressive presale

Hydoo's 1H13 presale (with two projects launched for sale) was RMB 5.7bn in 1H13, higher than that of CSC (RMB 5.0 bn) with six projects (Shenzhen, Nancheng, Nanning, Xi'an, Harbin and Zhengzhou) launched for sale during the period. The new project launched in Wuzhou in mid-Dec also received positive responses from the market. We estimate the project to generate a presale of RMB1.5bn with an ASP of RMB6,000/sqm.

We expect 2H13 presale to reach RMB2.5bn (mainly from the Wuzhou and Mianyang projects). This would bring the FY13E presale to RMB 8.2bn, higher than its peer Wuzhou International (1369 HK)'s presale of RMB5.18bn for the same period.

Exhibit 22: 1H13 presales of Hydoo and CSC (RMB bn)



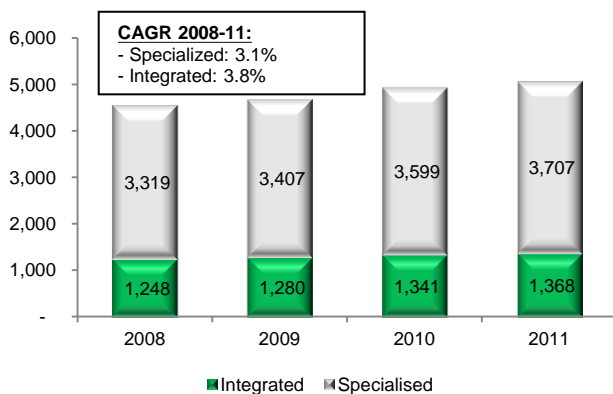
Source(s): Companies, ABCI Securities

Trade Centers in China

Market overview

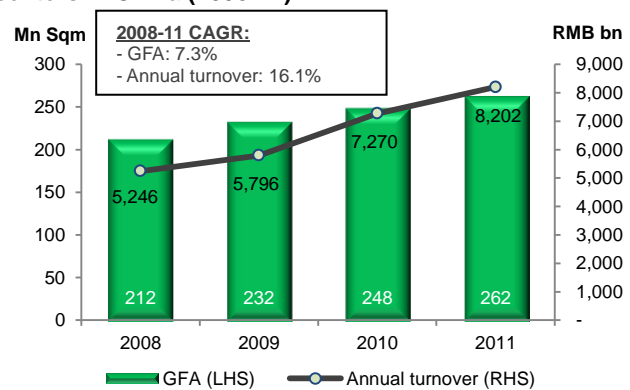
Trade centers in China are assembly markets where a large number of merchants or traders systematically congregate to display and sell their goods. Over 2008-11, trade center segment in China expanded rapidly. According to the 2011 Statistical Yearbook of Commodity Exchange Market, China had 5,075 trade centers (2008-11 CAGR: 3.6%) with a GFA of 262.3mn sqm (2008-11 CAGR: 7.3%) and an annual turnover of RMB 8,202bn (2008-11 CAGR: 16.1%) by Dec 2011.

The trade center segment in China is highly fragmented and can be classified as "integrated" or "specialized" depending on the variety of products sold. Many trade centers are small in scale and specialized in sale of a single product type such as agricultural, textiles, hardware, building materials and ceramics. In 2011, specialized market still represents the majority (80%) of the industry, of which the textile, clothing and shoes sector jointly formed the largest segment (17%).

Exhibit 23: No. of trade center by type in China (2008-11)


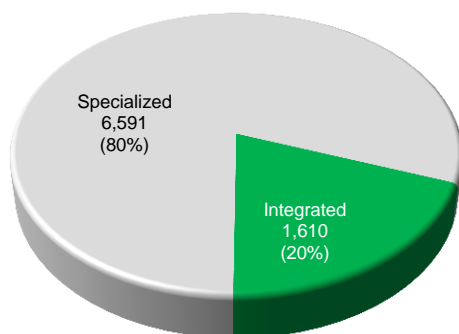
Note 1: Only trade centers with an annual turnover higher than RMB 100mn were included

Source(s): Statistical Yearbook of Commodity Exchange Market, 2012

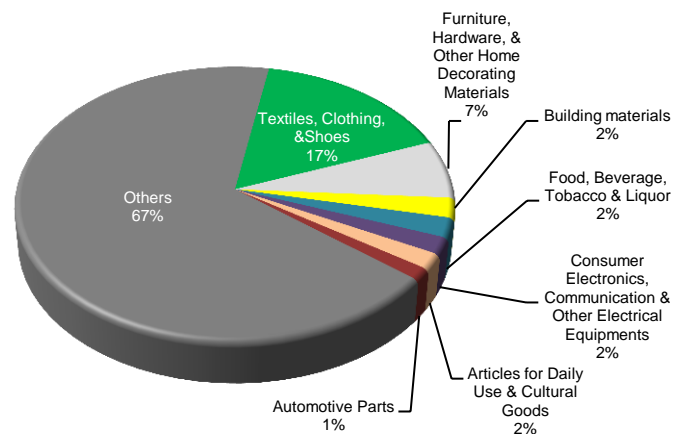
Exhibit 24: Total GFA and annual turnover of trade centers in China (2008-11)


Note 1: Only trade centers with an annual turnover higher than RMB 100mn were included

Source(s): Statistical Yearbook of Commodity Exchange Market, 2012

Exhibit 25: Annual turnover of China's integrated and specialized trade centers in 2011 (RMB bn)


Source(s): Statistical Yearbook of Commodity Exchange Market, 2012

Exhibit 26: Specialized trade centers in China by sector in 2011 (%)


Source(s): Statistical Yearbook of Commodity Exchange Market, 2012

Two key drivers of trade/logistics center

1. Government-led urbanization process

Development of the large-scale trade centers are led by local governments as a process to relocate SME-oriented trade centers in prime locations to city outskirts. As urbanization takes place, the local governments would reassign the prime sites for residential and office uses, as well as easing the traffic congestion caused by the transport-intensive trade/logistics industries.

Exhibit 27: China's urbanization rate in 2006-12

	2006	2007	2008	2009	2010	2011	2012	2006-12 CAGR (%)
Urban Population (mn)	583	606	624	645	670	691	712	3.4
Population (mn)	1,314	1,321	1,328	1,335	1,341	1,347	1,354	0.5
Urbanization rate (%)	44.4	45.9	47.0	48.3	50.0	51.3	52.6	

Source(s): NBS

Development of trade/logistics center is beneficial to the local governments, SMEs and developers. SMEs usually could enjoy lower rents of the off-center locations; the large-scale center would also generate higher buyer traffic esp. after reaching a critical mass and becoming a one-stop purchasing center. Moreover, project developers usually can secure land at very low costs with the support of local governments.

Exhibit 28: A winning solution for all

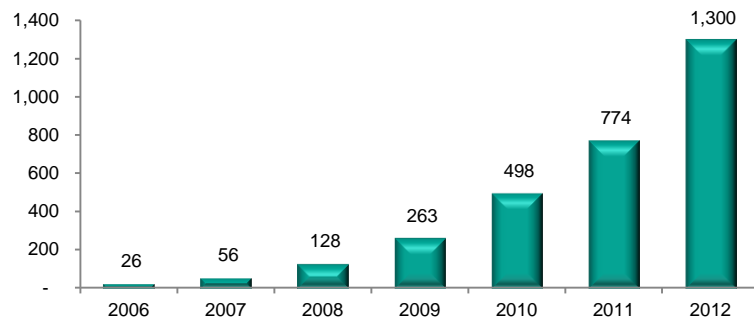
SMEs	Government	Developer
<u>Incentives from local governments</u> - Relocation compensation from local governments <u>Benefits of large-scale trade/logistics centers</u> - Lower rent - Increased traffic as the centers reach a critical mass	<u>Benefits of relocation</u> - Easing traffic in city centers - Land sales from prime sites previously occupied by trade/logistics centers	<u>Incentives from local governments</u> - Lower land costs

Source(s): ABCI Securities

2. Rising e-commerce activities

Growing online retail sales in China have reduced the physical presence of retail stores in prime locations. Relocation of retail shops could be the next key demand driver for trade/logistics centers and services in the near future. Hydoo's trade/logistics parks can offer SME retailers with limited means to enjoy efficient storage and logistics services in its off-center locations at lower costs.

While China's online retail sales have grown almost 50 times from RMB 26bn in 2006 to RMB 1,300bn in 2012, or 6.2% of total China's retail sales in 2012. The figure was much lower than the U.S. where 65% of retail sales were generated online., according to iResearch Group. Thus, online retailing in China still has ample room for expansion.

Exhibit 29: China's online retail sales in 2006-12 (RMB bn)


Source(s): iResearch Consulting Group, Ministry of Commerce

Market analysis of cities with Hydoo's projects

With other new trade centers also opening for sale in 2013, Hydoo's projects in Ningxiang and Wuzhou scheduled to be completed in 2013 could face stiffer competition. Nonetheless, we believe the competition is at best indirect because the competing projects are mostly specialized centers while Hydoo's centers are solely the integrated ones.

Exhibit 30: Selected city-level analysis

	City	Population (mn)	GDP per capita (RMB)	Trade Center		GFA (Mn sqm)	Completion	Developer	Type	
				Rank	Name					
1	Ningxiang	1.4	53,175	1	Ningxiang Trade Center	1.20	NA	Hydoo	Integrated	
				2	Hunan Xiang Zhong Nan Steel Materials Logistic Center	0.36	Phase 1: 2013		Hunan Xiang Zhong Nan Steel Logistic Company	Specialized
2	Jining	8.5	39,165	1	Jinning Trade Center	3.30	NA	Hydoo	Integrated	
				2	Mei Heng Guo Ji Qi Che Bo Lan Cheng	2.16	2012		Shandong Mei Heng Group	Specialized
				3	Yifeng Times Square	0.60	2012		Shanghai Yifeng Group	Specialized
3	Yulin	5.6	20,153	1	Yuline Trade Center	2.00	NA	Hydoo	Integrated	
				2	Yin Feng International Traditional Chinese Medicine Port	0.74	2008		Yin Feng Group	Specialized
				3	Hong Jin Nong Fu Shi Pin Pi Fa Shi Chang	0.42	2010		Wang On Group and Yulin Shi Chang Kai Fa Fu Wu Zhong Xin	Specialized
4	Minyang	4.6	29,017	1	Minyang Trade Center	0.98	NA	Hydoo	Integrated	
				2	Zhongrunhengda International Commercial Mall	0.30	Completed		Sichuan Zhong Run Yuan Bang Investment Co.	Integrated
				3	Mianzhou Mei Jia Ju Zhuang Shi Cheng	0.05	Completed		Mian Zhou Mei	Specialized
				4	Hua Yuan Deng Shi Cheng	0.01	2005		Tiantai Group	Specialized
5	Ganzhou	9.3	16,277	1	Ganzhou Trade Center	3.60	NA	Hydoo	Integrated	
				2	Jian Cai Da Shi Chang	0.15	2003		Gannan Jian Cai Da Shi Chang Development	Specialized
				3	Gannan Mao Yi Guang Chang	0.15	1997		Excluded Howard Projects	Integrated
				4	Ganzhou Shang Mao Cheng	0.09	2011		Ganzhou Gan Sheng Real Estate Development	Integrated
6	Wuzhou	2.9	28,832	1	Wuzhou Trade Center	2.00	NA	Hydoo	Integrated	
				2	Zhong Heng Guo Ji Yi Yao Shang Mao Wu Liu Yuan	2.00	2013		Guang Xi Wu Zhou Zhong Heng Group	Specialized
				3	Liang Guang Wholesale Market	0.13	2000		Guang Xi Bei Hai Qi Zhu Real Estate Development	Integrated
				4	Wu Zhou Bao Shi Cheng	0.04	2009		Wu Zhou Bao Shi Yuan Development	Specialized

* As at July 2013

Source(s): Company, ABCI Securities

Site visit to Hydoo's Ganzhou projects

Key observations from our visit to Hydoo's project site and existing trade markets in Ganzhou in May 2013 include:

- **Existing trade/logistics markets are crowded out:** The existing trade/logistics markets in Ganzhou have narrow roadways that make traffic difficult. Also, occupants occupying space outside their stores for merchandise display, spurring concerns of theft and fire safety.

Exhibit 31: Old trade market in Ganzhou's city center



Source(s): ABCI Securities

Exhibit 32: Old trade market in Ganzhou's city center



Source(s): ABCI Securities

- **Huge lineup for new unit purchase:** Hydoo's new Ganzhou project attracted a huge number of buyers before its official launch. The buyers were mostly operators with the required business certificates.

Exhibit 33: Long queue outside the sales office of Hydoo's Ganzhou project



Source(s): ABCI Securities

Exhibit 34: Potential buyers touring at the show units



Source(s): ABCI Securities

Advantages of commercial property developers

Overall, we believe the commercial property counters are more defensive than their residential counterparts because of:

1. **Lower policy headwinds.** Compared to the residential sector, commercial property sector are subjected to much less purchase restrictions. The government sees rising commercial property price as less conducive to the formation of asset bubbles and therefore, less of a threat to a stable economic growth.
2. **A growing number of residential property stocks.** The number of China residential property stocks has increased dramatically since 2009. Only four commercial property stocks (including Hydoo), however, have been listed on the Hong Kong stock exchange for the same period.

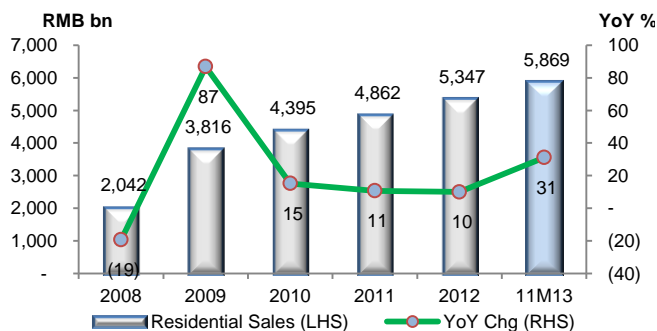
1. Lower Policy Headwinds

ASP growth: Commercial beats residential

As a result of the Home Purchase Restrictions (HPR), sales growth in residential segment has been lagging behind the commercial one during 2009-1H13. However, as the PRC government has rolled out favorable mortgage policy for first-time homebuyers (with a 15% discount to PBOC rate) since early 2012, residential sales rebounded strongly in 2012 (Residential: +10% YoY; Commercial: +5% YoY) and 11M13 (Residential: +31% YoY; Commercial: +29% YoY).

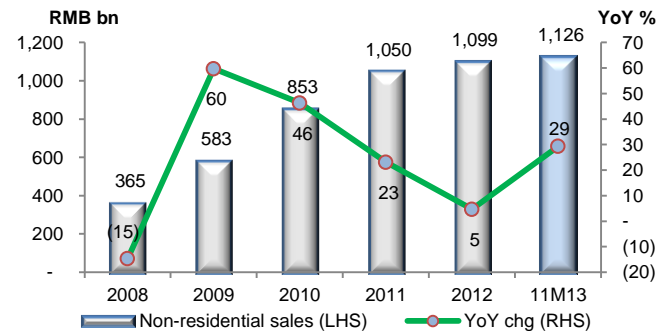
ASP of commercial properties, however, has demonstrated stronger growth than residential ASP for most of the period since 2009. This can be attributed to the government's stringent pricing control on residential properties during the period. In general, commercial developers have been able to exercise more pricing power than their residential peers.

Exhibit 35: China's first-hand residential sales in 2008-11M13

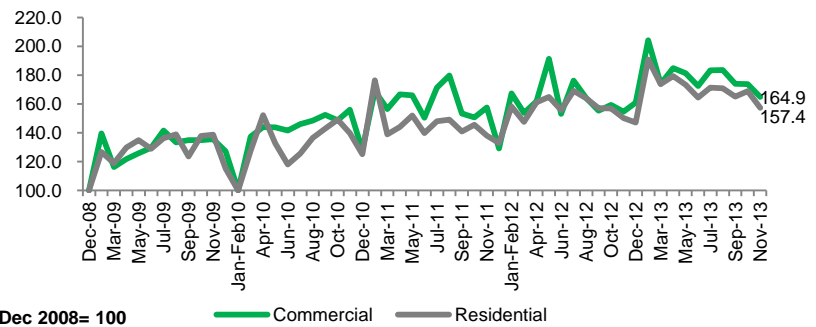


Source(s): NBS, ABCI Securities

Exhibit 7: China's first-hand commercial property sales in 2008-11M13



Source(s): NBS, ABCI Securities

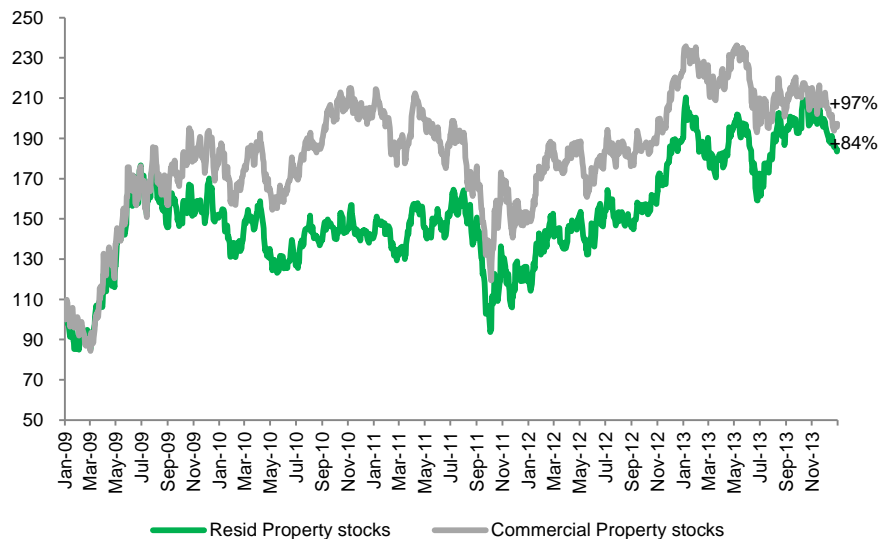
Exhibit 37: ASP of commercial property grew stronger than the residential one in Dec 2008 - Nov 2013


Source(s): NBS; ABCI Securities

Share price growth: Commercial beats residential

On the equity front, commercial property stocks have outperformed the residential ones since 2009. On average, commercial property stocks (as of Dec 2013) are 97% higher than its Jan 2009 level, outperforming residential stocks (which grew by 84% during the same period) by 13ppt. The performance gap was the widest in 2010 when purchase restrictions in the residential market took place.

In our view, policy risk has a bigger impact on stock market than the physical one. Rumors of tightening recur, reducing investors' interest in residential stocks from time to time.

Exhibit 38: Equity performance of residential stocks vs. commercial stocks (Jan 2009 - Dec 2013)


Note 1: Residential market cap reflected the aggregate market caps of COLI (688 HK), Country Garden (2007 HK), and Agile (3383HK)

Note 2: Commercial market cap reflected the aggregate market caps of CR Land (1109 HK), Hang Lung (101 HK), Soho China (410 HK), and Fransion (817 HK)

Source(s): Bloomberg; ABCI Securities

2. Too many residential players in the market

Between 2009-2013, there were 24 China property IPOs in Hong Kong, raising a total of HK\$ 52.0bn. Among which, twenty of the IPOs were residential developers. Over time, 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.

The large number of China residential stocks could stiffen competition for funds in the equity market and drag down valuations of the residential property counters, as reflected by the valuations of real estate IPOs that took place in 2013. IPO shares of residential developer Modern Land (1107 HK) was valued at 4.8x FY12 P/E and 0.98x FY12 P/B, much lower than sector's average valuation of 7.9x FY12 P/E when the counter was listed in July 2013. The overcrowding situation is augmented when A-share developers raise funds via asset injection to Hong Kong-listed shell companies (e.g. Vanke Overseas (1036 HK) by Vanke (000002 CH), Gemdale Properties (535 HK) by Gemdale (600383 CH) and Tonic Industries (978 HK) by China Merchants Property (000024 CH).

On the other hand, there were only four commercial developer IPOs during 2009-2013. Moreover, these developers were mostly niche developers with different geographic exposure and development specialty. In general, we believe that competition in the commercial property sector is much less than the residential one in the equity market.

Exhibit 41: IPO list of PRC property developers

	Listing date	Company	Stock code	Proceed raised	Residential or Commercial?
				HKD mn	
1	16-Jan-13	Golden Wheel	1232 HK	760	Residential
2	12-Jul-13	Modern Land	1107 HK	596	Residential
3	13-Jun-13	Wuzhou	1369 HK	1,505	Commercial
4	31-Oct-13	Hydoo	1396 HK	1,652	Commercial
5	31-Oct-13	Jingrui	1862 HK	1,395	Residential
6	11-Dec-13	Times	1233 HK	1,551	Residential
7	20-Dec-13	Logan	3380 HK	1,575	Residential
	2013 total			9,034	
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	
	(2009- 2013)	Number of IPO		Proceeds	
		No.	As % of total	HKDm	As % of total
	Commercial	4	16.7%	6,868	13.2%
	Residential	20	83.3%	45,104	86.8%
		24		51,971	

Source(s): HKEx, ABCI Securities

Peer Comparison

Currently, there are four HK-listed developers specializing in trade/logistics center development. They are: Hydoo Int'l (1396 HK), China South City (CSC, 1668 HK), Zall Development Group (2098 HK) and Wuzhou Int'l (1369 HK).

Exhibit 42: Key operating & financial metrics of Hydoo and its peers

	Hydoo (as of July 2013) 1396 HK	CSC (as of Mar 2013) 1668 HK	Zall (as of Dec 2012) 2098 HK	Wuzhou Int'l (as of Feb 2013) 1369 HK
Ticker				
Scale*				
Attributable Land bank size (mn sqm)	7.5	20.0	4.9	6.5
No. of project (with land title)	8	7	8	25
City coverage	(excluding Lanzhou/ Yantai, in which only the master investment agreements were signed) 8 Ningxiang, Jining, Yulin, Minyang, Ganzhou, Wuzhou, Heze, Xingning	7 Shenzhen, Nanning, Nanchang, Xi'an, Harbin, Zhengzhou, Hefei	3 Wuhan, Changsha, Shenyang	20 Wuxi, Meicun, Yangjian, Nantong, Yancheng, Huaian etc.
Integrated/ Specialized?	Integrated	Integrated	Integrated	Specialized/ Integrated
Growth				
Revenue CAGR in 2010-12 (%)	310%	83.1%	39.1%	60.4%
Earnings CAGR in 2010-12 (%)	297%	81.0%	95.0%	35.1%
Profitability				
2012 Underlying net profit (RMB mn)	284	1,410	628	321
2012 Gross Margin (%)	48.3%	55.8%	72.7%	53.3%
2012 Net Margin (%)	17.7%	23.7%	42.1%	14.2%
Leverage				
2012 Net gearing (%)	76.2%	32.0%	37.6%	112.9%

*Note 1: Hydoo's data as of July 13; CSC's data as of Mar 2013; Zall's data as of Dec 2012; Wuzhou Int'l's data as of Feb 2013

Source(s): Companies

Zall and Wuzhou Int'l present no substantial threats

Despite having a similar business model, financial performances of Zall and Wuzhou Int'l lagged behind Hydoo in the past three years because of slow geographic expansion and the lack of economies of scale.

Exhibit 43: Financials performance of trade/logistics center developers in China (FY10-12)

	Hydoo 1396 HK			China South City 1668 HK			Zall 2098 HK			Wuzhou Int'l 1369 HK		
	FY10 RMB mn	FY11 RMB mn Dec	FY12 RMB mn	FY11 HK\$ mn	FY12 HK\$ mn Mar	FY13 HK\$ mn	FY10 RMB mn	FY11 RMB mn Dec	FY12 RMB mn	FY10 RMB mn	FY11 RMB mn Dec	FY12 RMB mn
P&L												
Revenue	96	833	1,607	2,234	3,671	7,488	770	2,454	1,490	876	1,516	2,253
YoY %		770%	93%		64%	104%		219%	(39%)		73%	49%
Gross Profit	77	434	776	1,333	2,236	4,177	357	1,739	1,083	390	739	1,201
YoY %		461%	79%		68%	87%		388%	(38%)		90%	62%
Gross Margin	80.8%	52.1%	48.3%	59.7%	60.9%	55.8%	46.3%	70.9%	72.7%	44.5%	48.8%	53.3%
Underlying Profit	18	216	284	542	923	1,776	165	1,003	628	176	203	321
YoY %		1100%	31%		70%	93%		507%	(37%)		16%	58%
Underlying Net Margin	18.8%	25.9%	17.7%	24.3%	25.1%	23.7%	21.5%	40.9%	42.1%	20.1%	13.4%	14.2%
BS												
Net gearing (%)	Net cash	42%	76%	15%	22%	32%	1%	10%	38%	18%	75%	113%

Source(s): Companies

Zall's revenue stalls on slow geographic expansion

Zall's FY12 booked sales dropped 39% YoY (Hydoo: +93% YoY) to RMB 1.5bn. Despite Zall had a higher gross margin of 73% due to the low land cost of its North Hankou project, sales momentum gradually declined as Zall failed to secure new projects in other cities. As of Dec 2012, Zall's projects covered only three cities - Wuhan, Changsha and Shenyang, whereas the number of Hydoo's projects increased from six in FY11 to eight in FY12. In our view, slow geographic expansion (as city-level demand depleted) is the major reason of Zall's sales decline.

Thin margin for Wuzhou Int'l on the lack of scale

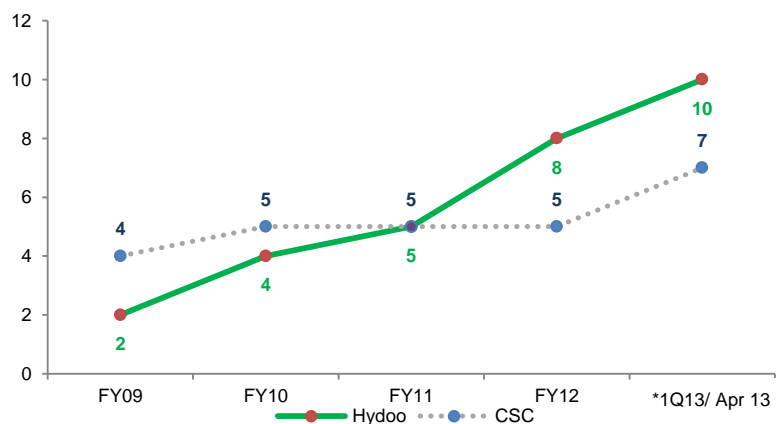
Despite a healthy revenue growth, Wuzhou Int'l only achieved a net margin of 13%-14% (Hydoo: 17%-26%) in FY11-12, partly because of its lack of economies of scale. Wuzhou Int'l has 25 projects across 20 cities (as of Feb 2013), and the average size of each project is 260k sqm, compared to 800k sqm for Hydoo. Since each project entails an overhead cost, the smaller the project, the higher the overhead cost per sqm. Also, projects in diverse locations also tend to incur higher costs than those in close proximity since resource sharing is less probable in the former case. Indeed, SG&A expenses of Wuzhou Int'l represented 22.4% of its total revenue in 2012, higher than the 15.5% for Hydoo.

CSC - the one and only comparable competitor

On the other hand, we believe CSC is a comparable competitor of Hydoo. CSC has the largest landbank, presale and profits among the four major players. More importantly, CSC has been able to sustain a strong earnings growth (81% CAGR in FY11-13) with high margins (in the range of 20%-26% in FY11-13), based on its fast geographic expansion and scale benefits.

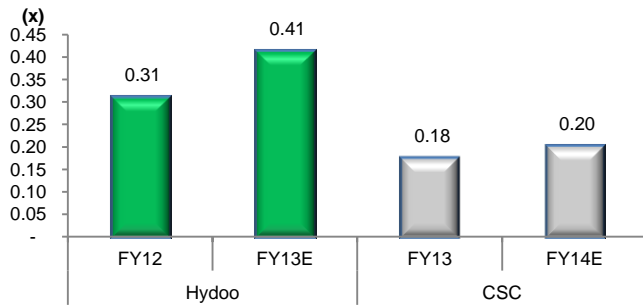
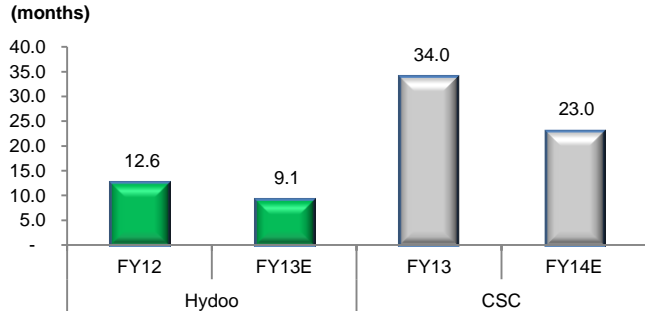
As of 2012, CSC was still the top player among the four trade/logistics developers in terms of profit, presale, and landbank size. Nonetheless, we estimate Hydoo's presale will be comparable to that of CSC in 2013. While CSC held around 50% of its GFA as investment properties and sell the rest across a time span of four to five years for price appreciation, Hydoo sells the majority of its properties within the first three years. As such, we forecast Hydoo's FY13E asset turnover (0.43x) and inventory turnover days (9.1 months) will be higher than that of CSC (asset turnover: 0.20x ; inventory days: 23 months). We also forecast Hydoo's presale to reach RMB 8.2bn in FY13E, similar to CSC's FY14E presales target of HK\$ 11.0bn (or RMB 8.7 bn).

Exhibit 44: No. of projects undertaken by Hydoo (as of Mar 2013) and CSC(as of Apr 2013)



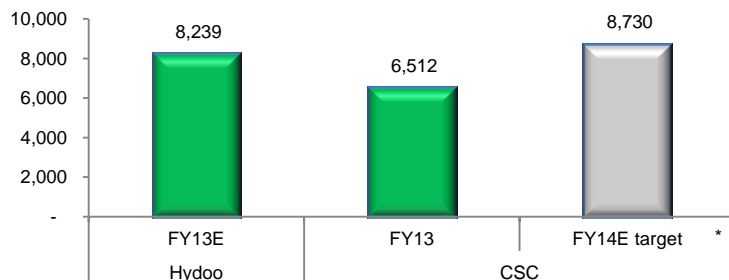
Source(s): Companies

In the long run, we also believe tier 3/4 cities have stronger growth potential. Hydoo's addressable market (a total of 252 tier 3/4 cities) is bigger than CSC's (a total of 36 tier 1/2 cities). In terms of project quantity, Hydoo also expanded more quickly than CSC in FY09-13. Assuming that CSC is not penetrating into the tier 3/4 cities, this difference in project acquisition pace may continue to widen.

Exhibit 45: Asset turnover of Hydoo and CSC (x)

Exhibit 46: Inventory turnover days of Hydoo and CSC (months)


Note 1: Assets turnover= Booked sales/ total assets
Source(s): Companies; ABCI Securities estimates

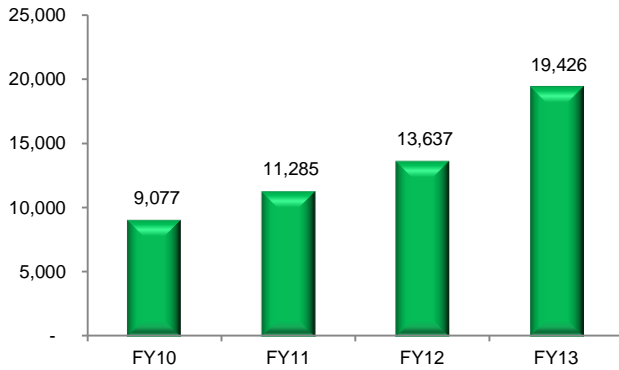
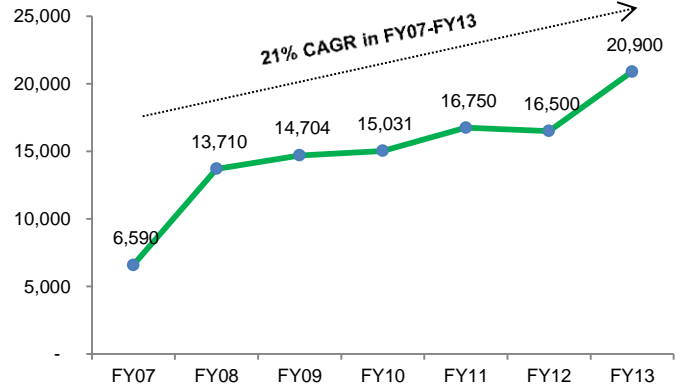
*Note 1: Inventory turnover days (no of months)= 12 x Completed properties held for sales/ Cost of property sold
Source(s): Companies; ABCI Securities estimates

Exhibit 47: Presale of Hydoo and CSC (RMB mn)


* CSC's FY14E target represents company's own presales forecast
Source(s): Companies; ABCI Securities estimates

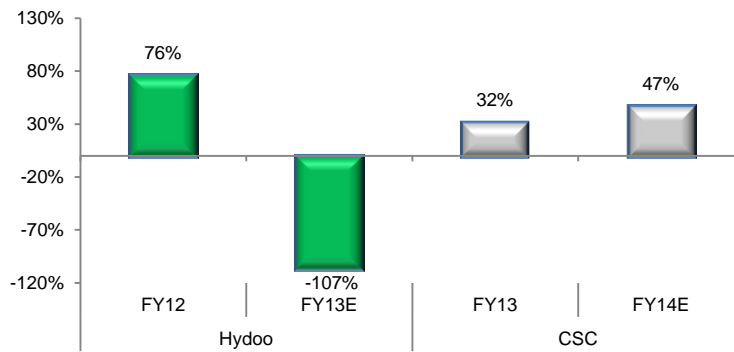
CSC's price appreciation model: High-margin, high-gearing

On the other hand, CSC's margin would be the highest among peers based on its sales strategy (selling properties in slower paces to gain on price appreciation over time). For its investment properties, CSC will enjoy revaluation gain based on the mark-to-market accounting policy (assuming market price goes up). Downside of the strategy is that gearing may be driven up by increased borrowings as capital is locked up by inventories and investment properties.

Exhibit 48: Value of CSC's investment property (HK\$ mn)

Exhibit 49: ASP of CSC's Shenzhen project (RMB/sqm)


Note 1: CSC's fiscal year ends in Mar
 Source(s): China South City; ABCI Securities

Note 1: CSC's fiscal year ends in Mar
 Source(s): China South City; ABCI Securities

Exhibit 50: Net gearing of Hydoo & CSC* (%)


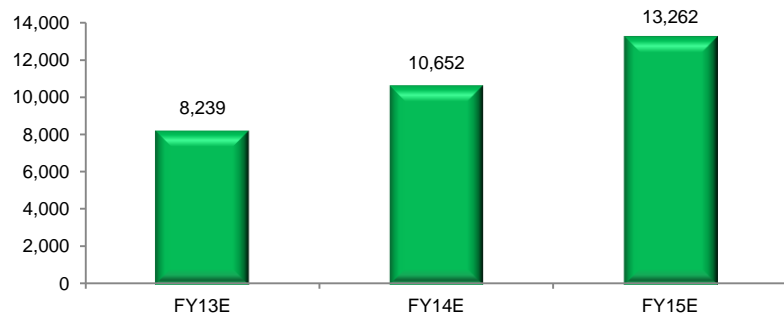
Note 1: Net gearing was calculated by dividing net debt by total equity
 Note 2: CSC's fiscal year ends in Mar
 Source(s): Companies, ABCI Securities estimates

Financial Analysis

Quantum leap in FY13E presales

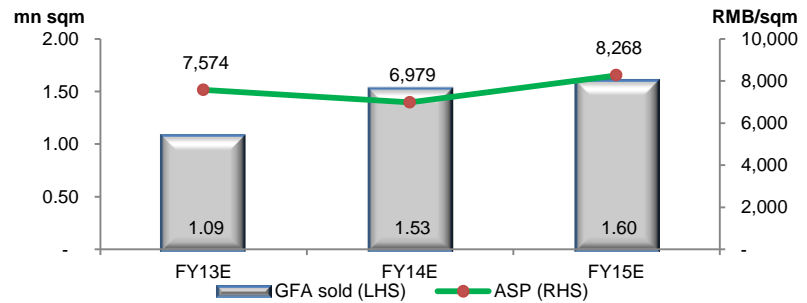
We expect Hydoo's presale to reach RMB 8.2bn in FY13E, driven by the launch of Ganzhou project in 1H13, as opposed to recognized sales of RMB1.60bn in 2012. As of June 2013, Hydoo achieved RMB 5.7bn in presale, representing 70% of our full-year forecast (RMB 8.2bn). We expect new launches in Minyang, Jining and Wuzhou would contribute to the remaining 30% of our forecast in 2H13. Based only on its existing projects, Hydoo's presales in FY14E/15E would be RMB 10.7bn/RMB 13.3bn.

Exhibit 51: Hydoo's presales in FY13-15E (RMB mn)



Source(s): ABCI Securities estimates

Exhibit 52: Hydoo's GFA sold and ASP in FY13E-15E

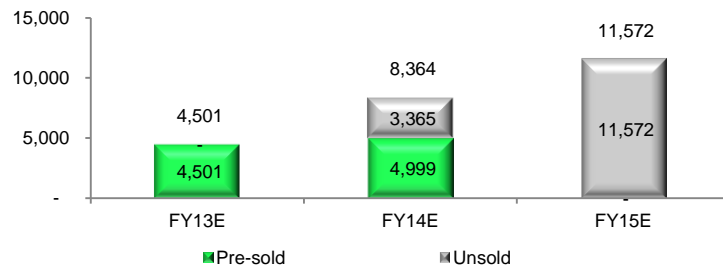


Source(s): ABCI Securities estimates

FY13E booked revenue has been fully locked-in

As at June 2013, we believe Hydoo's FY13E revenue (RMB 4.5bn) has been fully locked in as presale should hit RMB8.3bn for FY13E by end-Dec. With the recent launch of Wuzhou project, we estimate that 60% of Hydoo's FY14E booked revenue (RMB 8.4bn) has already been secured.

Exhibit 53: Hydoo's revenue booking forecasts



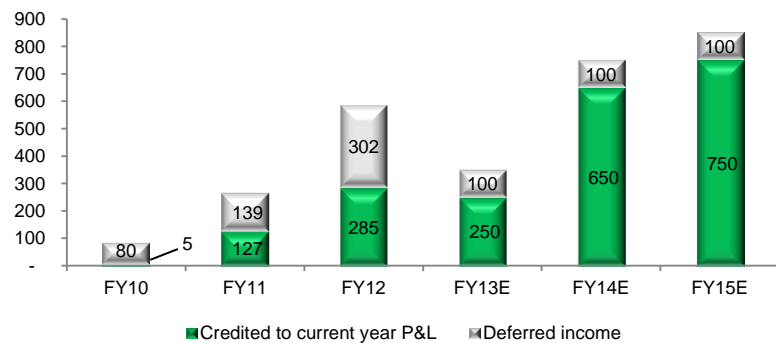
Source(s): ABCI Securities estimates

Profit margins to rise further

A major element that affects Hydoo's margins is the recognition of government grant in the Group's P&L. It is common for the local governments to provide monetary support in the form of subsidies to trade center developers in China. Government grant is initially recognized as deferred income on the balance sheet. The amount is transferred to the P&L to offset the cost of sales when the properties are sold. In FY12, Hydoo recognized RMB 285mn of government grant in its P&L while receiving RMB 587mn of proceeds that year.

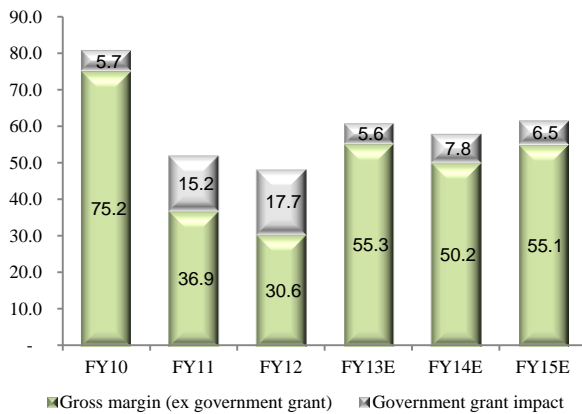
Timing and size of government grant, however, are highly uncertain. Excluding government grant, we estimate Hydoo's gross margin would be in the range of 50.2%-55.3% in FY13E-15E (vs. 30.6%-36.9% in FY11-12) on higher ASPs. Its net margin would vary between 24.5% and 26.6% in FY13E-15E, similar to that of CSC (22%-27%).

Exhibit 54: Government grant received by Hydoo in FY10-15E (RMB mn)



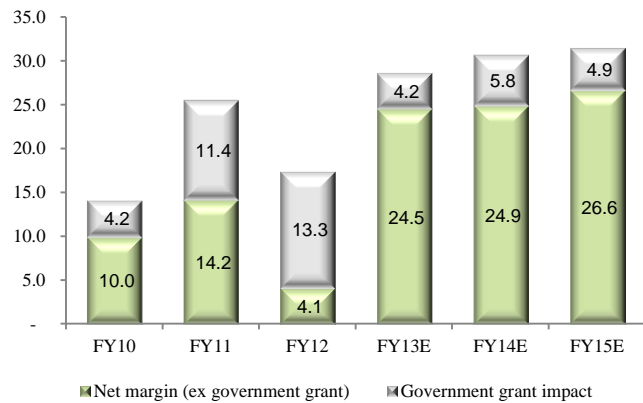
Source(s): Company, ABCI Securities estimates

Exhibit 55: Hydoo's gross margin in FY10-15E (%)



Source(s): Company, ABCI Securities estimates

Exhibit 56 : Hydoo's net margin in FY10-15E (%)

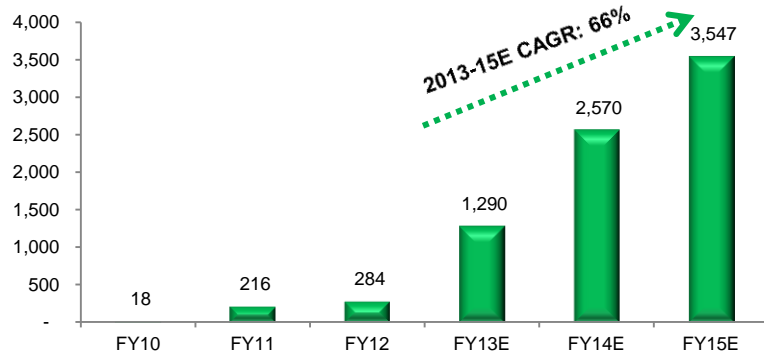


Source(s): Company, ABCI Securities estimates

FY13E-15E core net profit to grow at 66% CAGR

We forecast Hydoo's core net profit (i.e. reported net profit excluding after-tax revaluation gain and one-off items) to surge 354% YoY to RMB 1,290mn in FY13E, driven by delivery of five projects with an aggregate GFA of 639k sqm (vs. 356k sqm in FY12) and improved margins. For FY14E/15E, higher GFA completion and economies of scale will drive Hydoo's core profits to RMB 2.6bn (+99%YoY) in FY14E and RMB 3.5bn (+38%YoY) in FY15E.

Exhibit 57: Hydoo's core net profit* (RMB mn)



* Core net profit was calculated by excluding after-tax revaluation gain and one-off items from reported net profit

Source(s): Company, ABCI Securities estimates

Exhibit 58: GFA delivered by project ('000 sqm)

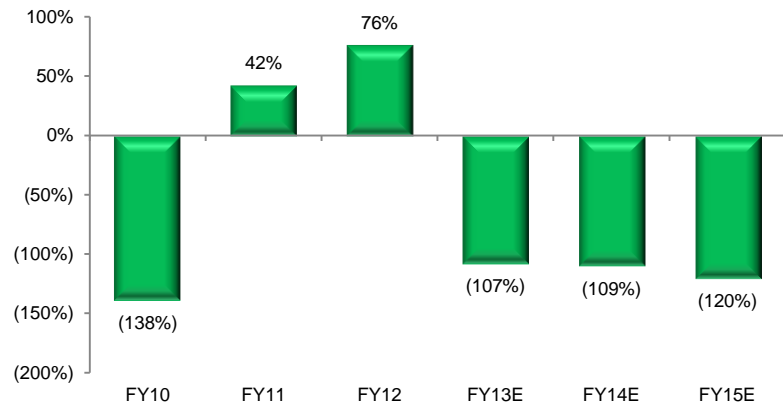
	FY10	FY11	FY12	FY13E	FY14E	FY15E
1 Ningxiang	-	214	45	11	97	-
2 Jining	-	-	211	51	86	136
3 Yulin	-	-	62	100	35	232
4 Minyang	-	-	-	186	47	73
5 Ganzhou	-	-	-	291	481	401
6 Wuzhou	-	-	-	-	434	184
7 Heze	-	-	-	-	-	334
8 Xingning	-	-	-	-	-	195
9 Lanzhou	-	-	-	-	-	-
10 Yantai	-	-	-	-	-	-
11 Other properties	17	8	38	-	-	-
Total	17	222	356	639	1,180	1,555

Source(s): Company, ABCI Securities estimates

Maintaining a net cash position in FY13E-15E

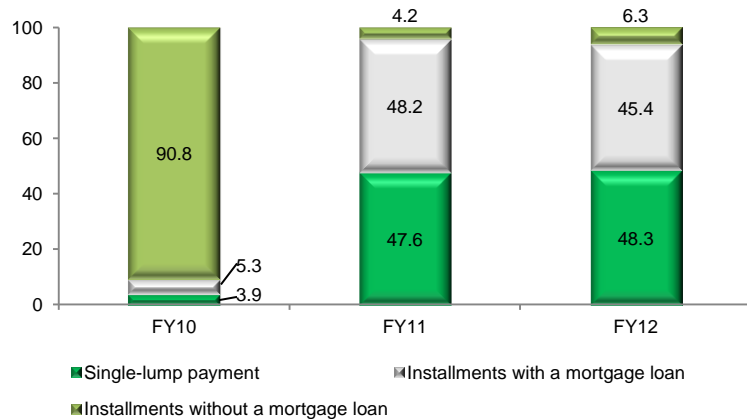
Assuming no land acquisition for new projects will take place and sales inflow remains health, Hydoo would stay in a net cash position in FY13E-15E. Given the total ASP of smaller units (e.g. ~40 sqm) is ~RMB 300k, we estimate most buyers would adopt the one-off cash payment scheme instead of mortgage payment and this would enable a fast cash collection cycle for Hydoo.

Exhibit 59: Hydoo's net gearing/(cash) in FY10-15E



Source(s): Company, ABCI Securities estimates

Exhibit 60: Buyers' payment methods in FY10-12 (%)



Source(s): Company, ABCI Securities



2014E NAV: RMB 20.1bn

Exhibit 61: FY14E NAV estimates (Base case)

	Attr. GFA (Mn sqm)	Net assets value (RMB m)	% of total	Implied value per sqm (RMB)	Valuation Methodology
Property development					
Ningxiang	0.2	269	2%	1,691	DCF at WACC of 10.1%
Jining	0.7	1,568	11%	2,257	
Yulin	0.5	560	4%	1,160	
Minyang	0.3	313	2%	1,002	
Ganzhou	3.1	5,753	42%	1,862	
Wuzhou	0.9	2,192	16%	2,436	
Others (Heze, Xingning, Yantai & Lanzhou etc.)	1.4	3,016	22%	2,171	
Total 2014E GAV	7.0	13,672	100%	1,945	
2014E Net Cash (debt)		6,412	47%		
Total 2014E NAV (RMB mn)		20,084	147%		
No. of share outstanding (diluted)		4,030			
NAV per share (RMB)		4.98			
Ex rate		1.28			
NAV per share (HKD)		6.38			
Target discount (%)		50%			
Target Price (HKD)		3.20			
WACC					
WACC	10.1%				
Cost of debt	7.0%				
Cost of Equity	12.0%				
Debt/ (Debt + Equity)	28.6%				

Source(s): Company, ABCI Securities estimates

We value Hydoo based on the discount-to-NAV (Net Asset Value) method, one of the most common valuation metrics used by developers in China. We conduct a DCF analysis and apply a WACC of 10.1% to estimate the value of individual projects, and subtract the estimated net debt by end-FY14E to derive the NAV of the company.

We estimate that Hydoo's 2014E NAV to be RMB 20.1bn in our base case, implying that Hydoo's landbank is valued at RMB 1,945/sqm, which is 12% lower than China South City (RMB 2,202/sqm)'s. Despite Hydoo's landbank is located in Tier 3/4 cities where ASP are usually lower, government grant often help raise the profitability.

Exhibit 66: FY14E implied value of Hydoo's landbank on per sqm basis (RMB/sqm)

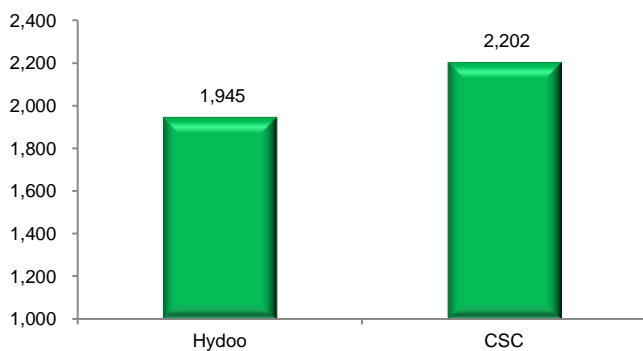
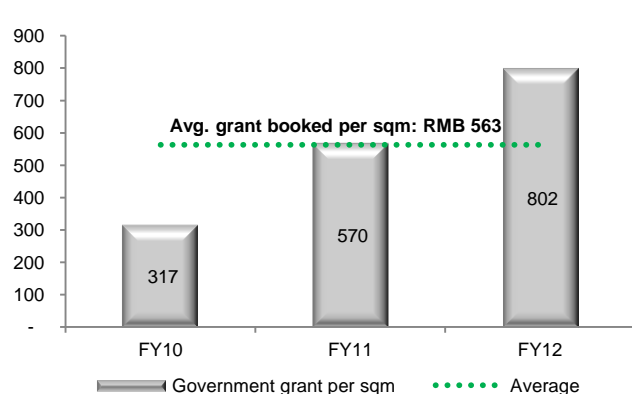


Exhibit 67: Amount of government grant booked by Hydoo in FY10-12 (RMB/sqm)



Source(s): Company, ABCI Securities estimates

Source(s): Company, ABCI Securities

Potential upside from additional landbank may enhance NAV by 7%

As of July 2013, Hydoo had yet to acquire a total GFA of 27.2 mn sqm based on the master investment agreements. We believe Hydoo is in no rush to acquire additional land for its existing projects, as most of them are still at their early phases (Phase 1/2). With continuous government support, we believe Hydoo would be able to acquire the sites at attractive prices in the future. According to our estimates, Hydoo's NAV will increase by RMB 1.0bn for every 1.0mn sqm of land acquired. Assuming Hydoo would replenish the same amount of land that it would presell for 2014E (GFA: 1.4mn sqm), its NAV will go up by RMB1.4bn, which is 7% higher than our 2014E NAV forecast.

Exhibit 64: Sites to be acquired by Hydoo based on master investment agreements

Trade Center	Date of Master Agreement	Estimated site area (mn sqm)	Estimated GFA (mn sqm)	Stake (%)
Ningxiang	2009	1.0	0.8	100
Jining	2009	1.0	1.8	100
Yulin	2010	0.7	1.4	100
Mianyang	2010	0.7	0.7	100
Wuzhou	2012	0.7	0.9	100
Heze	2012	7.6	11.4	100
Xingning	2012	1.2	1.8	80
Lanzhou	1H13	4.0	6.0	100
Yantai	1H13	1.3	2.4	100
Total		18.2	27.2	

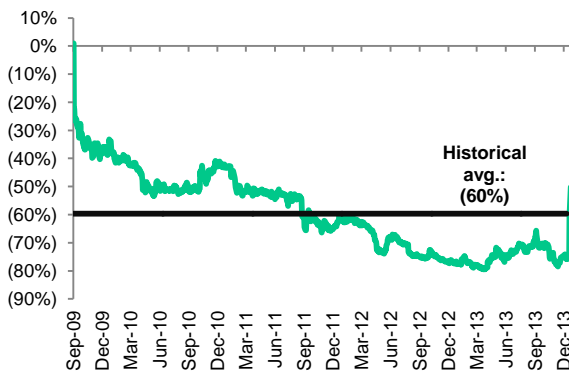
Source(s): Company, ABCI Securities

Initiate Hydoo with BUY with TP at HK\$3.2

Hydoo's major peer, CSC, has been trading at depressed valuations (historical average discount since listing: ~60%), which we believe to be a result of a lack of understanding of its business model by investors. In our view, trade/logistics segment is gathering more market attention than before because of its 1) double-digit earnings growth per year; 2) listings of trade/logistics center developers. E.g. Zall was listed in 2011 and Wuzhou Int'l was listed in 2013.

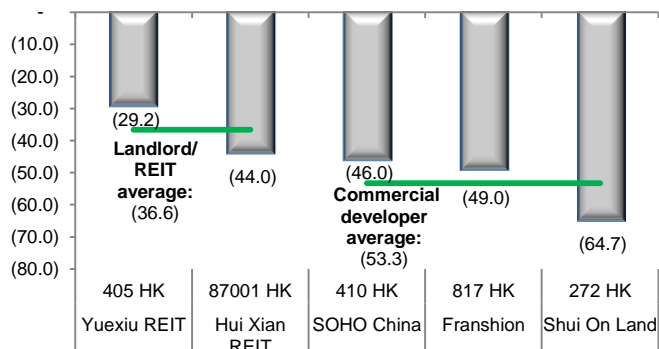
To gauge Hydoo's TP, we apply a NAV discount of 50%, which is the average of HK-listed China commercial developers. The discount applied is lower than that of CSC because we believe Hydoo deserves a higher valuation based on its solid net cash position post-IPO (30% of market cap) and strong earnings growth. Our TP of HK\$3.20 is based on 50% discount to our NAV estimates at HK\$6.38/share.

Exhibit 66: CSC's discount to NAV (%)



Source(s): Bloomberg; ABCI Securities

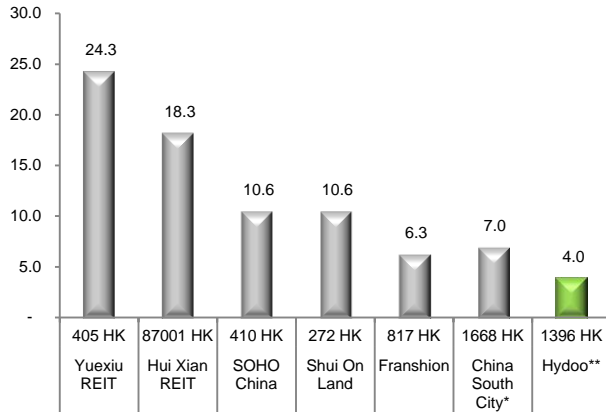
Exhibit 67: Average discount to FY14E NAV (%) for PRC commercial developers



Source(s): Bloomberg; ABCI Securities estimates

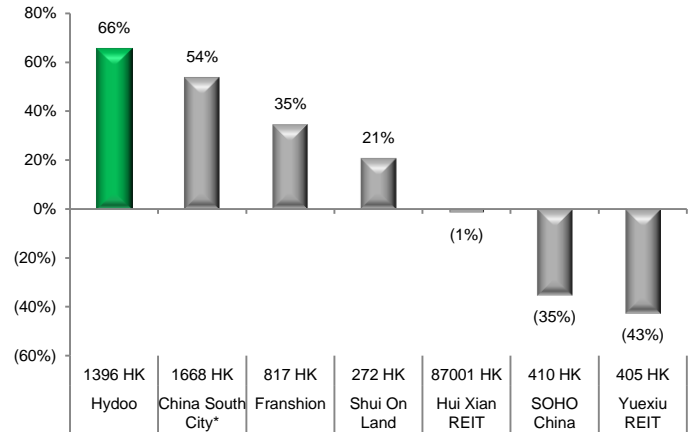
Peer valuation

Our TP of HK\$3.20 represents 4.0x of Hydoo's FY14E earnings, lower than the sector's average valuation of 7.8x FY14E P/E among the PRC commercial developers in China (See Exhibit 68), despite Hydoo's earnings is expected to grow at 66% CAGR in FY13E-15E, a pace faster than most of its peers (see Exhibit 69). Also, due to its strong earnings growth, we expect Hydoo's dividend yield to reach 6.4% in FY14E based on a payout ratio of 20%. Hydoo's current valuation is overly depressed in our view

Exhibit 68: Commercial developers' FY14E P/E(x)


*China South City data was based on FY15E estimates; its fiscal year ends in Mar

** Implied FY14E PE at Hydoo's TP of HK\$ 3.20
 Source(s): Bloomberg, ABCI Securities estimates

Exhibit 69: FY13E-15E net profit CAGR (%)


*Data for China South City was based on FY14E-16E estimates; its fiscal year ends in Mar

Source(s): Bloomberg, ABCI Securities estimates

Exhibit 70: Valuation of Hong Kong-listed and PRC-listed developers

China Property	Ticker	Rating	Mkt cap	Share Price	Performance			Discount to NAV	Valuation									
					1M	3M	2013		P/E			Yield (%)			P/B			
					(HKD bn)	(local ccy)	% Chg	% Chg	% Chg	(%)	2012A	2013E	2014E	2012A	2013E	2014E	2012A	2013E
Residential:																		
1	COLI	688 HK	HOLD	176	21.60	(3)	(11)	(6)	(13.6)	11.1	8.5	7.4	1.9	2.3	2.7	2.0	1.7	1.4
2	CR Land	1109 HK	NR	111	18.92	(1)	(16)	(9)	(36.9)	14.6	12.2	9.7	1.8	2.1	2.6	1.5	1.4	1.3
3	Country Garden	2007 HK	NR	81	4.35	(10)	(20)	15	(45.2)	9.0	7.6	6.0	4.1	4.8	6.0	1.6	1.4	1.2
4	Longfor	960 HK	NR	60	11.04	2	(17)	(29)	(69.4)	8.5	7.5	6.4	2.3	2.6	3.1	1.4	1.3	1.1
5	Shimao	813 HK	NR	61	17.52	0	(12)	22	(48.3)	8.2	7.5	5.8	3.2	4.1	5.2	1.3	1.2	1.0
6	Evergrande	3333 HK	NR	44	2.75	(6)	(24)	(30)	(63.8)	3.5	4.0	3.4	0.0	5.1	6.0	0.7	0.7	0.6
7	Guangzhou R&F	2777 HK	NR	34	10.30	(9)	(23)	(12)	(65.5)	5.3	4.8	4.1	7.5	7.9	8.9	1.0	0.9	0.8
8	Greentown	3900 HK	BUY	24	10.98	(8)	(30)	(17)	(75.0)	4.5	3.8	3.4	5.8	6.4	7.0	1.0	0.8	0.7
9	Agile	3383 HK	NR	25	7.35	(12)	(20)	(24)	(64.5)	4.0	4.3	3.8	5.4	5.7	6.3	0.7	0.6	0.5
10	Sino Ocean	3377 HK	NR	36	4.84	(2)	(1)	(12)	(49.8)	7.9	8.5	7.1	5.0	4.9	5.3	0.6	0.6	0.6
11	COGO	81 HK	NR	15	6.62	(11)	(29)	(21)	(54.8)	6.3	5.5	4.3	1.7	2.3	2.7	1.6	1.4	1.1
12	Yuexiu Properties	123 HK	NR	16	1.74	(6)	(20)	(22)	(65.5)	11.9	8.0	6.2	3.8	4.8	5.9	0.5	0.5	0.5
13	Sunac	1918 HK	BUY	16	4.69	2	(10)	(23)	(74.0)	4.6	4.1	2.7	2.4	2.5	3.6	1.2	0.9	0.7
14	KWG	1813 HK	NR	12	4.11	(2)	(19)	(26)	(72.7)	4.8	4.0	3.3	4.7	5.8	6.8	0.6	0.5	0.5
15	Kaisa	1638 HK	BUY	11	2.26	4	(9)	4	(63.4)	6.5	4.0	2.8	0.0	0.0	0.0	0.7	0.6	0.5
16	CIFI	884 HK	NR	10	1.65	9	0	18	(62.5)	8.2	4.8	3.5	3.0	3.4	4.5	1.0	0.9	0.7
17	BJ Capital Land	2868 HK	NR	5	2.65	2	(5)	(18)	(69.0)	5.0	3.4	2.6	7.7	10.7	13.4	0.5	0.5	0.4
18	Future Land	1030 HK	NR	5	0.88	(4)	(6)	(38)	(79.9)	4.3	4.4	3.5	7.3	7.3	9.5	0.7	0.6	0.5
19	Modern Land	1107 HK	NR	2	1.30	8	0	(13)	na	6.2	na	na	0.0	na	na	na	na	na
HK Listed Avg						(2)	(14.4)	(13)	(59.7)	7.1	5.9	4.8	3.6	4.6	5.5	1.0	0.9	0.8
Commercial:																		
1	SOHO China	410 HK	NR	33	6.23	(7)	(9)	7	(46.0)	7.5	6.9	10.6	5.1	5.1	5.0	0.8	0.7	0.7
2	China South City**	1668 HK	BUY	28	4.39	111	93	88	(55.2)	14.9	13.5	7.0	2.3	2.3	3.4	1.7	1.6	1.4
3	Hui Xian REIT	87001 HK	NR	25	3.81	(1)	(1)	(7)	(44.0)	15.4	19.2	18.3	6.5	6.5	7.0	0.7	0.7	0.7
4	Franshion	817 HK	BUY	23	2.47	(8)	(9)	(3)	(49.0)	10.8	8.0	6.3	2.8	4.0	4.9	1.0	0.9	0.8
5	Shui On Land	272 HK	NR	19	2.38	1	(12)	(37)	(64.7)	55.5	15.6	10.6	2.6	2.6	2.7	0.4	0.4	0.4
6	Yuexiu REIT	405 HK	NR	10	3.68	(2)	(4)	3	(29.2)	10.2	35.9	24.3	7.5	7.7	8.2	0.6	0.6	0.6
7	Hydo	1396 HK	BUY	10	2.57	16	na	na	(59.7)	21.2	5.1	3.1	0.0	3.9	6.4	6.3	1.7	1.4
8	Zall	2098 HK	NR	9	2.51	(7)	(17)	(12)	na	10.9	na	na	2.4	na	na	1.4	na	na
9	Wuzhou	1369 HK	NR	6	1.29	7	4	6	na	17.6	5.0	3.5	0.0	4.1	5.8	2.0	0.2	0.2
Commercial Avg						12	6	6	(49.7)	18.2	13.6	10.5	3.3	4.5	5.4	1.6	0.9	0.8
- Developers						24	16	14	(53.7)	22.2	11.0	8.6	3.2	3.5	4.0	1.0	0.9	0.8
- Landlords/REIT						(1)	(2)	(2)	(36.6)	12.8	27.5	21.3	7.0	7.1	7.6	0.7	0.7	0.7

* Share price as at Jan 20, 2014

** 2013 & 2014 figures represent Mar-end FY14 & FY15 figures respectively

Source(s): Bloomberg, ABCI Securities estimates



Risk factors

- **Uncertain timing and amount of government grant:** Hydoo received large sums of government grant in the past. For FY11/FY12, the amounts were RMB 127mn/ RMB 285mn, representing 29%/37% of gross profit for the corresponding year. However, as we expect Hydoo's sales and GFA completion will increase steadily starting from 2013 o, government grant will represent only 9%-14% of total gross profit in FY13E-15E.
- **ASP may fluctuate on investor demand:** Investors usually represent the majority of commercial property buyers, as end-users in general prefer to rent in a bid to free up capital. During a property market downturn, investors may choose to cash out by selling the properties at substantial discount in the second-hand market and this could potentially drag down Hydoo's sales and ASP. However, Hydoo's strategy to sell Phase 1 of their projects to operators (end-users) means that prices will be more stable (at least in Phase 1) as end-users are less likely to sell their units for profits in general. Moreover, ASP in Phase 1 is usually served as a benchmark for prices in subsequent phases and this would help support prices if a downturn occurs.
- **Further property tightening measures:** As commercial property price has been rising for the past few years, it is possible that the government may impose purchase restriction on commercial property to avoid asset bubbles. However, given that growth of the Chinese economy has been slowing in 2013, the government is unlikely to implement significant tightening measures in the property market that may further suppress GDP growth.
- **Earnings fluctuation:** Profit booking of property developer is highly dependent on completion schedule of projects. In 1H13, Hydoo suffered a loss of RMB193 mn, as completion tends to be concentrated in 2H of the year. Although we forecast Hydoo's GFA completion could rise in 2H to reach our 2013E estimate at 0.64mn sqm, possible delays could occur and this may negatively affect revenue booked in 2013E.



Financial Statements

Consolidated income statement (2011A-2015E)

FY Ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Revenue	833	1,607	4,501	8,364	11,572
Cost of sales	(399)	(831)	(1,762)	(3,516)	(4,443)
Gross Profit	434	776	2,738	4,848	7,129
SG&A expenses	(133)	(257)	(380)	(540)	(697)
EBIT	301	520	2,358	4,308	6,432
Finance cost	(32)	(73)	0	0	0
Share of profit of associates	(3)	(3)	0	0	0
Other income/ (expenses)	4	3	14	34	54
Change in fair value of embedded derivatives	19	(292)	0	0	0
Disposal/one-off items	(0)	307	0	0	0
Profit before tax	289	460	2,372	4,343	6,486
Tax	(60)	(245)	(1,082)	(1,773)	(2,844)
Profit after tax	229	215	1,290	2,570	3,642
Minority interest	0	2	0	0	(95)
Reported net profit	229	217	1,290	2,570	3,547
Less: exceptional items	(13)	67	0	0	0
Core net profit	216	284	1,290	2,570	3,547
Growth %					
Revenue	770.0%	93.0%	180.0%	85.9%	38.3%
Gross Profit	460.7%	78.9%	252.8%	77.0%	47.1%
EBIT	1150.9%	72.6%	353.8%	82.7%	49.3%
Underlying net profit	1100.0%	31.5%	354.2%	99.2%	38.1%
Margin %					
Gross margin	52.1%	48.3%	60.8%	58.0%	61.6%
Gross margin (post-LAT)	46.6%	44.5%	43.5%	44.3%	45.8%
EBIT margin	36.2%	32.3%	52.4%	51.5%	55.6%
Core net margin	25.6%	17.4%	28.7%	30.7%	31.5%
Key assumptions					
Presales (RMB mn)	NA	NA	8,239	10,652	13,262
GFA sold (mn sqm)	NA	NA	1.09	1.53	1.60
ASP (RMB/sqm)	NA	NA	7,574	6,979	8,268
Booked Sales (RMB)	833	1,607	4,500	8,360	11,559
GFA delivered (mn sqm)	0.22	0.36	0.64	1.18	1.56
Booked ASP (RMB/sqm)	3,750	4,517	7,038	7,085	7,432
Land acquisition (RMB mn)	358	1,341	1,400	-	-
GFA acquired (mn sqm)	1.3	5.2	3.0	-	-
Land cost (RMB/sqm)	275	258	467	-	-

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2011A-2015E)

As of Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Current assets	2,869	4,955	11,024	16,960	21,684
Cash	437	584	4,922	8,739	12,789
Pledged bank deposits	20	22	22	22	22
Trade and other receivables	422	949	949	949	949
Inventories	1,899	3,304	5,035	7,154	7,827
Other current assets	91	96	96	96	96
Non-current assets	113	188	244	255	267
Property, plant & equipment	23	46	57	69	81
Investment properties	0	0	0	0	0
Investment in Associate and JCE	23	0	0	0	0
Other non-current assets	67	142	186	186	186
Total Assets	2,982	5,143	11,268	17,215	21,951
Current Liabilities	2,053	3,150	7,089	10,981	12,784
Short term borrowings	60	689	789	2,289	2,289
Trade and other payables	618	962	962	962	962
Pre-sale deposits	1,102	751	4,490	6,782	8,485
Other current liabilities	273	748	848	948	1,048
Non-current liabilities	556	937	356	356	356
Long term borrowings	43	60	60	60	60
Redeemable preference share	512	581	0	0	0
Other non-current liabilities	1	296	296	296	296
Total Liabilities	2,609	4,087	7,445	11,337	13,140
Net Assets	373	1,056	3,823	5,878	8,811
Shareholders Equity	373	950	3,823	5,878	8,716
Minority Interest	0	106	0	0	95
Total Equity	373	1,056	3,823	5,878	8,811
Key ratio					
Gross debt (RMB mn)	615	1,330	849	2,349	2,349
Net debt (RMB mn)	158	724	(4,096)	(6,412)	(10,463)
Net gearing (%)	42%	76%	-107%	-109%	-120%
Presales/ Total assets (x)	NA	NA	0.73	0.62	0.60

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
EBITDA	305	528	2,367	4,317	6,440
Change in Working Capital	(582)	(1,447)	2,188	401	1,317
Tax payment	(143)	(168)	(1,082)	(1,773)	(2,844)
Operating Cash Flow	(420)	(1,088)	3,473	2,944	4,914
Purchase of PP&E	(20)	(27)	(20)	(20)	(20)
Addition of Investment Properties	-	-	-	-	-
Others	(17)	222	14	34	54
Investing Cash Flow	(37)	194	(6)	14	34
Debt raised	602	691	700	1,500	-
Debt repaid	(12)	(45)	(600)	-	-
Interest expenses	(4)	(60)	(80)	(128)	(188)
Equity raised	(37)	194	1,321	-	-
Dividend to shareholders	-	-	(319)	(514)	(709)
Others	71	264	(150)	-	-
Financing Cash Flow	620	1,044	871	858	(897)
Exchange rate change	(11)	(4)	-	-	-
Net cash inflow/ (outflow)	151	147	4,338	3,817	4,051
Cash- beginning	286	437	584	4,922	8,739
Cash- year-end	437	584	4,922	8,739	12,789

Source(s): Company, ABCI Securities estimates

Appendix I – Company background

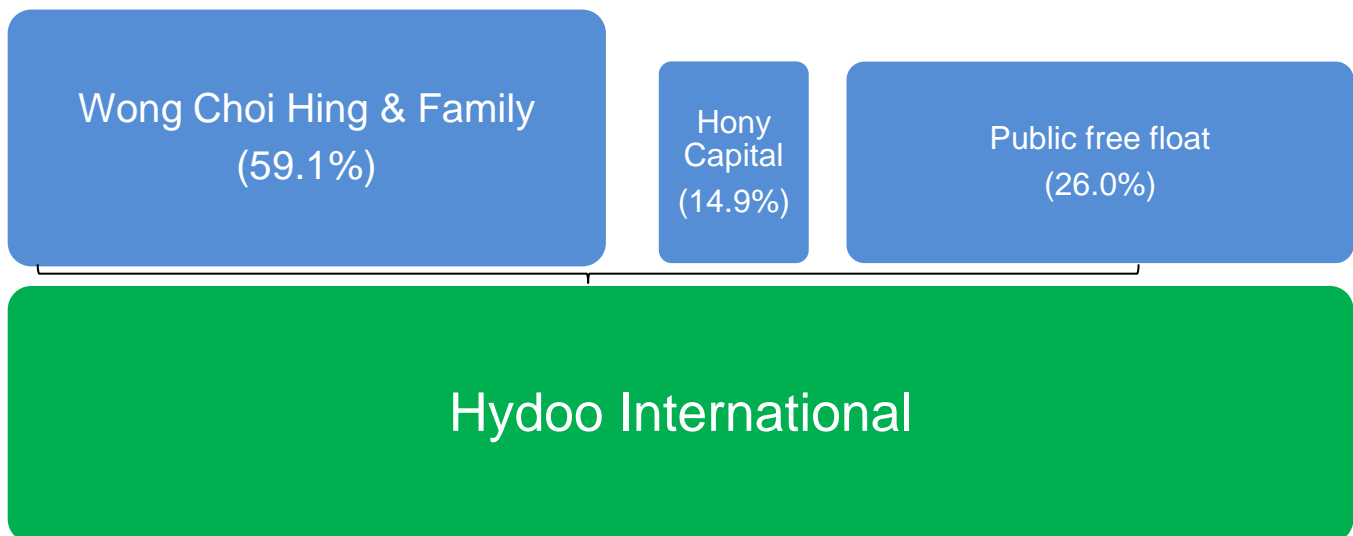
Company History

Hydoo's origin can be traced back to 1995, when Mr. Wong Choi-hing, chairman, executive director and chief executive officer of the group, together with his siblings and their families (collectively known as the "Wang Family Group"), first commenced the development of trade center projects in the PRC. Such projects were developed under the business name "Howard" ("豪德") and were held by various project companies established under the PRC laws. Since 1995 and until 2010, the Wang Family Group had developed 19 trade center projects ("Howard Projects") in 7 provinces in China. The chairman has therefore accumulated approximately 18 years of experience in the trade center development industry.

In Oct 2010, an agreement was reached in respect of the allocation of interests in the Howard Projects (the "Family Allocation"). Under the Family Allocation, two trade center projects, namely the Ningxiang Trade Center and Jining Trade Center, were allocated to the Ultimate Controlling Shareholders, which subsequently formed part of the Hydoo. Allocation of Ningxiang Trade Center and Jining Trade Center into Hydoo was determined mainly taking into account that: (i) they were the only two projects for which all the directors and key senior management positions were taken up by Hydoo's Ultimate Controlling Shareholders since the respective establishment date of their project companies and up to immediately prior to the Family Allocation, and (ii) at the time of the Family Allocation, both projects were in the early development stage for Phase I whereas all the other Howard Projects were either completed or had at least completed Phase I of their development.

The Excluded Howard Projects have been and will continue to be operated independently from Hydoo in terms of financial, operation and management. In light of these, Hydoo and the Other Wang Family Members are and will continue to be two independent groups in the business of trade center development in the PRC.

Exhibit 71: Hydoo's Shareholding structure post IPO



Source(s): Company, ABCI Securities



Exhibit 72: Hydoo's background information

Directors

Executive directors

Wong Choi-hing

Huang De-hong

Non-executive directors

Yuan Bing

Independent non-executive directors

Yang Xian-zu

Wang Lian-zhou

Lam, Chi-yuen, Nelson

Auditor

KPMG

Head Office

30/F Block A

East Pacific International Center

7888 Shennan Boulevard

Futian District

Shenzhen PRC

Company Secretaries

Ms Mok, Mun-lan, Linda

Authorized representatives

Mr Wong Choi-hing

Ms Mok, Mun-lan, Linda

Source(s): Company, ABCI Securities

Appendix II – Management team

Exhibit 74: Management Profile- Board of Director

Name	Position	Responsibilities	Background
Executive director			
1 Wong Choi-hing	chairman, CEO & Executive Director	Formulation of the overall development and strategic plans of our Group as well as overseeing project planning, business and operations management	Mr Wong has approximately 18 years of experience in the trade center development and operations industry. Mr Wong has been the director of Hydo HK since Jan 2002, and the chairman and president of Hydo HK since Oct 2002, and the supervisor of Jining Hydo Logistics Center Development Company Limited since Feb 2010. From 1995 to 2010, Mr Wong together with his siblings and their family have developed 19 trade center projects in seven provinces in China.
2 Huang De-hong	Executive Director	Day to day management of the business	Mr Huang has seven years of experience in the trade center development and operations industry. He has been the director of Ningxiang Hydo Guangcai Trade Center Development Company Limited since July 2009, the general manager of Ningxiang Hydo Guangcai Trade Center Development Company Limited since Dec 2010, and the director and general manager of Wuzhou Hydo Commercial and Trade Center Development Company Limited since Apr 2012. He was also the deputy general manager of Ningxiang Hydo Guangcai Trade Center Development Company Limited from July 2009 to Dec 2010. From Jan 2006 to June 2009, he served as the executive deputy general manager of Shuozhou Howard Trade Center Development Company Limited (湖州豪德貿易廣場開發有限公司), and was responsible for assisting the general manager with the company's operations and management. Mr Huang graduated from Sun Yat-sen University with a diploma in law in June 1998. Mr Huang is the nephew of Mr Wong Choi-hing, the executive director, chairman and chief executive officer of Hydo.
Non-executive director			
3 Yuan Bing	Non-executive Director	Providing strategic advice and guidance on the business and operations	Mr Yuan has more than ten years of experience in the investment banking industry and has extensive knowledge in corporate financing, listings and mergers and acquisitions transactions. Mr Yuan joined Hony Capital in Apr 2009 and has served as managing director of the investment department of its Hong Kong office since Jan 2010. Currently, he is also a director of Top Amuse and a non-executive and non-independent director and member of audit and compensation committees of Biosensors International Group, Ltd., a company listed on the Singapore Stock Exchange. Prior to joining Hony Capital, Mr Yuan served as managing director of the direct investment department of Morgan Stanley Asia Limited from Oct 2006 to 2009. Before that, Mr Yuan served as managing director of the PRC enterprises corporate financing department of Morgan Stanley Asia Limited from Apr 2004 to June 2006. Mr Yuan also served as the vice president of Credit Suisse First Boston (Hong Kong) Limited from Sep 2001 to Mar 2004. Mr Yuan received a bachelor of arts degree in English from Nanjing University in July 1990. He also obtained a master's degree in international relations in June 1993 and a juris doctorate's degree in June 1998 from Yale University.
4 Yang Xian-zuu	Independent Non-executive Director	Providing strategic advice and guidance on the business and operations	Mr Yang has more than 30 years of experience in telecommunications industry. Currently, he serves as an independent non-executive director of several companies listed on the Stock Exchange, namely, Dongfeng Motor Group Company Limited, China Wireless Technologies Limited and CITIC Telecom International Holdings Limited (stock code: 489, 2369 and 1883, respectively). He is also an independent director of 263 Network Ltd (二六三網路通信股份有限公司), a company listed on the Shenzhen Stock Exchange. Since 2003, he has served as a member of the 10th National Committee of CPPCC, an external director of Baosteel Group Corporation (寶鋼集團有限公司) and China Electronics Corporation (中國電子資訊產業集團公司) successively. From 1999 to 2003, he served as the chairman of China United Telecommunications Corporation Limited (中國聯合通信股份有限公司) (a company listed on Shanghai stock exchange) and from 2000 to 2003, he served as the chairman of China Unicom (Hong Kong) Limited (a company listed on New York Stock Exchange and Stock Exchange). Prior to that, he successively served as the deputy minister of the Ministry of Post and Telecommunications and the Ministry of Information Industry. He also served as the director of Henan Administration for Post and Telecommunications from 1986 to 1990 and the deputy director of Hubei Administration for Post and Telecommunications from 1983 to 1986.
5 Wang Lian-zhou	Independent Non-executive Director	Providing strategic advice and guidance on the business and operations	Mr Wang serves as an independent director of Beijing Tongrentang Co. Ltd (北京同仁堂股份有限公司, 600085 SH), Hwabao Trust Co. Ltd. (華寶信託有限責任公司), Great Wall Fund Management Co. Ltd., Heaven-Sent Capital Management Group Co. Ltd. (矽谷天堂資產管理集團), and the director of the editorial committee of Securities Investment Fund Yearbook. He also acted as an independent director of China Asset Management Co., Ltd and the independent supervisor of Baoying Fund Management Co. Ltd., and the president of the Trust and Fund Institution of the People's University of China. He previously worked at finance and economy committee of National People's Congress ("NPC Finance and Economy Committee") and was responsible for coordination the work between the NPC Finance and Economy Committee and the relevant departments of the PRC central government and to launch the legislation on economic matters. He successively served as the vice chief and the chief of the finance group of the NPC Finance and Economy Committee office, the deputy director of the office and economic law office, bureau-level inspector of research institute. He also served as the group leader in drafting the Securities Law, Trust Law, and Investment Fund Law of China, consistently dedicating to the construction of legal system for capital market.

Source(s): Company

Exhibit 8: Management Profile- Board of Director (Cont'd)

6 Lam, Chi-yuen, Nelson	Independent Non-executive Director	Providing strategic advice and guidance on the business and operations	He has extensive experience in professional accountancy in Hong Kong, in particular in advising and speaking on issues relating to International and Hong Kong financial reporting standards in Hong Kong and other Asian cities. Currently, he is the sole proprietor of Nelson and Company, Certified Public Accountants which has been in operation since Feb 2005. He has been appointed as a non-official non-executive director of the Urban Renewal Authority Board of Hong Kong SAR since May 2013. He has been the independent non-executive director of China Resources Cement Holdings Limited, a company listed in Stock Exchange (1313 HK), since Aug 2008. Mr Lam is a practicing fellow member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants and a member of several professional bodies in Australia, the USA and the United Kingdom, including CPA Australia, the American Institute of Certified Public Accountants and the Institute of Chartered Accountants of England and Wales. He is also a CFA charter holder and a fellow member of the Hong Kong Institute of Directors. Mr Lam is currently the president of the Society of Chinese Accountants and Auditors. Mr Lam received a bachelor of business administration degree in accounting from the Hong Kong Baptist University (formerly known as Hong Kong Baptist College) in Jan 1992, a master of business administration degree from The Hong Kong University of Science and Technology in Nov 1998 and a master of science degree from The Chinese University of Hong Kong in Nov 2001.
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Senior management

1 Wu Bo	Vice president and chief financial officer	Overall financial affairs	Prior to joining our Group, Mr Wu had been involved in the establishment of several startup companies from Aug 2005 to Nov 2011, which included Myetong.com (online stores search engine), Caton Oversee (research and development of streaming media device), Hinora.com (touch screen module production) and Vodino.com (interactive system development). From May 2004 to Aug 2005, Mr Wu acted as the vice president and chief operating officer of China Finance Online Co., Ltd. (a company listed on NASDAQ). Before returning to China, from Sep 1998 to Sep 2001, Mr Wu worked at Dun & Bradstreet Corporation during which he was rotated in Moody's Investor Services and two other companies. In May 2000, he was promoted to the director of global corporate development of Dun & Bradstreet Corporation.
2 Huang Wen-bin	Vice president,	Sales and marketing management	Mr Huang has 18 years of experience in sales and marketing. Prior to joining our Group, Mr Huang was the vice general manager of Hong Kong Howard Group Company Limited from Feb 2005 to Nov 2011, and was principally in charge of the sales and marketing of trade center projects. Mr Huang was also the deputy general manager of the Jining Hydo Logistics Center Development Company Limited from May 2010 to Nov 2011, and was responsible for sales and marketing of the Jining Trade Center. Concurrently, Mr Huang served as deputy general manager of China South City Xi'an Company Limited (西安華南城有限公司) in charge of marketing from Jan 2010 to Oct 2011, and was responsible for sales and marketing management. Mr Huang served as the deputy general manager of Jingdezhen Howard Trade Center Development Company Limited (景德鎮豪德貿易廣場開發有限公司) from Jan 2001 to June 2005. He also acted as the deputy general manager/general manager of Jiangxi Howard Group Bioengineering Industrial Co., Ltd (江西 豪德集團生物工程實業有限公司) from Nov 1998 to Dec 2000 and the deputy general manager of Ganzhou Lifa Metal Products Company Limited (贛州利發金屬製品有限公司) from Mar 1994 to Nov 1998.
3 Zhao Yan-de	Vice president,	Overall construction management	Mr Zhao has more than ten years of experience in construction management. Prior to joining our Group, he was also the deputy general manager of Jining Hydo Logistics Center Development Company Limited from Feb 2010 to Nov 2011 and was responsible for construction management of the Jining Trade Center. Concurrently, Mr Zhao acted as the deputy general manager of construction in China South City Xi'an Company Limited (西安華南城有限公司) from Oct 2009 to Oct 2010, and was responsible for managing the construction of the entire project. From Nov 2008 to Oct 2009, Mr Zhao acted as the deputy general manager of construction in Jingdezhen Howard Trade Center Development Company Limited (景德鎮豪德貿易廣場開發有限公司), and was responsible for managing the construction of the entire project. From May 2006 to Nov 2008, Mr Zhao worked for Shenzhen China Overseas Construction Limited (深圳中海建築工程有限公司), and was responsible for managing the construction of the Futian Shangri-La Hotel, Kerry Plaza and Zhuhai Silver Bay projects. From July 2000 to May 2006, Mr Zhao worked for China State Construction International Holdings Ltd., and was responsible for managing the reconstruction of Kowloon Hospital, the 101 Area project and other projects. Mr Zhao received a bachelor's degree in construction management from Chongqing University in July 2000, and a master of science degree in project management from the Hong Kong Polytechnic University in Dec 2007.

Source(s): Company

Exhibit 74: Management profile- Board of Director (Cont'd)

4	Chen Zhong-min	Vice president,	Overall project plan and architectural design management	Mr Chen has more than ten years of experience in city planning, architectural design, commercial real estate development and operations management. Prior to joining our Group, Mr Chen acted as the chief planner of Hong Kong Howard Group Company Limited from Apr 2007 to Nov 2011, and was responsible for site selection, design and planning of all the projects of the group. Concurrently, Mr Chen acted as the executive deputy general manager of Jining Hydo Logistics Center Development Company Limited from Feb 2010 to Nov 2011 and was responsible for the daily management of the company and the design of Jining Trade Center. From Apr 2006 to Apr 2007, he was the general manager of Shenzhen Minghao Investment Company Limited (深圳市銘豪投資公司), and was responsible for the property development and operations of the project companies, especially Muyang project. From Aug 2002 to Feb 2006, he successively served as the deputy general manager of Quanying Weiye (Beijing) Investment Management Company Limited (全贏偉業(北京)投資管理有限公司), the general manager of Henan Luohe Quanying Weiye Estate Company Limited (河南漯河全贏偉業置業有限公司) and the deputy general manager, executive deputy general manager and general manager of Henan Pingdingshan Trade Center Development Company Limited (河南平頂山貿易廣場開發有限公司), and was responsible for the project development. Mr Chen was the director and architect of the design department of Jiangxi Ganzhou Architecture Design Institute, the director of Ganzhou City Planning and Survey Design Institute, the director of Ganzhou City Planning Bureau, a member of the Management Committee of China Association of City Planning and vice president of the Jiangxi Association of City Planning. Mr Chen was granted the title of senior engineer in city planning by the professional title reform leading group (職稱改革領導小組) of Jiangxi province in Sep 1997. Mr Chen graduated from Jiangxi Normal University (江西師範大學) with a diploma in arts in Feb 1977.
5	Zhou Zhi-yuan	Vice president	Construction and cost management	Mr Zhou has nine years of experience in construction management. From Dec 2010 to Dec 2012, he served as the general manager of the planning and construction management department of Kaisa Group Holdings Ltd. (佳兆業集團控股有限公司), responsible for the project development, planning and operation and the construction management of the group. During the same period, he concurrently served as the general manager of Taijian Construction Engineering Co., Ltd. (泰建建築工程有限公司) under the group. He also served as the deputy general manager of Liyu Construction Design Company (麗雨建築設計公司) under the group, responsible for decoration, landscape design and management from June 2012 to Dec 2012. From Mar 2010 to Nov 2010, he served as the deputy general manager of Changsha Kaifu Wanda Plaza Investment Company Limited (長沙開福萬達廣場投資有限公司), in charge of the construction work. From July 2007 to Feb 2010, he successively served as the chief of general housing management center and project general manager of Dongguan Vanke Real Estate Co., Ltd (東莞萬科房地產有限公司), and was responsible for its project development and construction management. From July 2004 to July 2007, he served as the construction manager of Guangdong Century City Group Company Limited (廣東世紀城集團有限公司), in charge of its project development and construction management. Mr Zhou received a bachelor of science degree in water conservancy and hydropower engineering construction from Tsinghua University in July 1995.
6	Wang Xian-gu	Director	Project Development	Mr Wang has more than 15 years of experience in project development of trade centers. From Jan 2010 to Nov 2010, Mr Wang served as the manager of project development department of Hydo HK and was responsible for the project development of the company. From Aug 1995 to Nov 2010, he was the manager of project development department of Hong Kong Howard Group Company Limited, and was responsible for the project development. He has been awarded the title of the outstanding entrepreneur with social responsibility of Weifang city in Dec 2010.
7	Ma Yi	Assistant to president	Strategic Planning and Project Operations	Prior to joining our Group, Mr Ma also acted as the assistant-to-president and director of the commerce department of Diamond Park Creative Design (Shenzhen) Co., Ltd (寶鑽園創意設計(深圳)有限公司). From July 2007 to Aug 2009, Mr Ma acted as the marketing director of China South International Industrial Materials City (Shenzhen) Co. Ltd (華南國際工業原料城(深圳)有限公司), a wholly-owned subsidiary of China South City Holdings Limited. Mr Ma also worked in Guangzhou International Commodity Exhibition & Trade Center Company Limited (廣州國際商品展貿城股份有限公司) and Lionda Holdings (Group) Co., Ltd (a company listed on Shenzhen stock exchange).

Source(s): Company

Appendix III- Recent performance PRC Property IPOs

Exhibit 75: PRC property IPOs in HKEx since 2012

Listing date	Company	Ticker	Proceed Raised	IPO Price	Current Price	Performance Since IPO
23-Nov-12	CIFI	884 HK	HKDm 1,669	HKD 1.33	% 1.65	% 24.1
29-Nov-12	Future Land	1030 HK	2,056	1.45	0.88	(39.3)
16-Jan-13	Gold Wheel	1232 HK	756	1.68	0.90	(46.4)
12-Jul-13	Wuzhou	1369 HK	1,392	1.22	1.29	5.7
13-Jun-13	Modern Land	1107 HK	545	1.49	1.30	(12.8)
31-Oct-13	Hydo	1396 HK	1,652	2.15	2.57	19.5
31-Oct-13	Jingrui	1862 HK	1,395	4.45	4.09	(8.1)
11-Dec-13	Times	1233 HK	1,551	3.6	3.33	(7.5)
20-Dec-13	Logan	3380 HK	1,575	2.1	2.25	7.1

* Share price as at Jan 20, 2014
 Source(s): Bloomberg

Exhibit 76: Share performance CIFI (884 HK)'s since listing (HK\$)

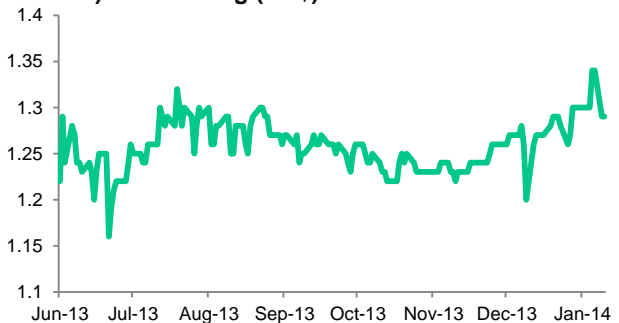

Note 1: Share price as at Jan 20, 2014
 Source(s): Bloomberg, ABCI Securities

Exhibit 77: Share performance of Future Land (1030 HK) since listing (HK\$)


Note 1: Share price as at Jan 20, 2014
 Source(s): Bloomberg, ABCI Securities

Exhibit 78: Share performance of Golden Wheel (1232 HK) since listing (HK\$)


Note 1: Share price as at Jan 20, 2014
 Source(s): Bloomberg, ABCI Securities

Exhibit 79: Share performance of Wuzhou International (1369 HK) since listing (HK\$)


Note 1: Share price as at Jan 20, 2014
 Source(s): Bloomberg, ABCI Securities

Appendix IV- 2013 Presale of major developers

Exhibit 80: 11M13 Presales of major developers

	(RMBb)	Dec-13	YoY	2013	YoY	2013 Target	Achievement ratio	2012 Actual	YoY	Exceed/ (below) target by
1	Country Garden	9.3	69%	106.0	123%	62	171.0%	48	10%	10.7%
2	Sunac	5.2	12%	50.8	61%	45	112.9%	32	78%	5.2%
3	Shimao	5.7	51%	67.1	45%	63	106.5%	46	51%	50.3%
4	Kaisa	2.8	16%	23.9	37%	22	108.7%	17	14%	5.7%
5	KWG	1.4	41%	16.3	34%	16	101.9%	12	7%	1.7%
6	Beijing Capital	5.1	127%	19.6	48%	20	98.1%	13	20%	10.6%
7	Gemdale	6.0	44%	45.0	32%	41	109.9%	34	10%	4.9%
8	R&F	4.7	57%	42.2	31%	42	100.5%	32	8%	0.6%
9	Greentown	4.5	-19%	62.1	22%	55	112.9%	51	48%	27.4%
10	Vanke	11.0	-22%	170.8	21%	160	106.8%	141	16%	6.2%
11	Agile	6.4	7%	40.3	22%	42	96.0%	33	5%	10.2%
12	Longfor	3.3	-22%	48.1	20%	46	104.6%	40	5%	2.9%
13	COLI*	6.8	17%	138.3	22%	120	115.3%	112	28%	12.3%
14	Poly-A	14.2	46%	125.3	23%	117	107.1%	102	39%	27.2%
15	Yuexiu	0.6	21%	14.6	19%	13.2	110.9%	12	36%	23.0%
16	Evergrande	2.0	-74%	100.4	9%	100	100.4%	92	15%	15.4%
17	Sino-Ocean	2.3	28%	35.8	15%	35	102.4%	31	15%	15.2%
18	Glorious	0.9	50%	7.3	-33%	11	66.4%	11	-18%	-15.8%
Total		90.9	11%	1,114.2	29%	1010	110.3%	861	23%	13.1%

* In HKD

Source(s): Companies, ABCI Securities

Appendix V- 1H13 results of major developers

Exhibit 81: 1H13 results highlight

RMB mn	Revenue			Gross Profit			Gross margin (%)			Core Net profit			Core Net Margin (%)			Net gearing (%)		
	1H12	1H13	YoY	1H12	1H13	YoY	1H12	1H13	YoY	1H12	1H13	YoY	1H12	1H13	YoY	Dec-12	June-13	YoY
1 COLI*	25,282	32,188	27%	10,350	11,677	13%	40.9	36.3	(4.7)	6,360	8,060	27%	25.2	25.0	(0.1)	20.5	15.0	(5.6)
2 Evergrande	37,041	41,952	13%	10,598	11,452	8%	28.6	27.3	(1.3)	3,800	4,660	23%	10.3	11.1	0.8	91.7	62.8	(28.9)
3 Vanke**	30,723	41,390	35%	9,685	11,452	18%	31.5	27.7	(3.9)	3,802	4,614	21%	12.4	11.1	(1.2)	38.0	71.2	33.2
4 Country Garden	16,767	26,944	61%	6,959	9,131	31%	41.5	33.9	(7.6)	3,003	4,130	38%	17.9	15.3	(2.6)	53.4	60.1	6.7
5 Shimao	13,687	16,677	22%	4,712	5,924	26%	34.4	35.5	1.1	1,864	2,995	61%	13.6	18.0	4.3	63.8	70.4	6.6
6 Longfor	14,552	15,231	5%	6,709	4,866	-27%	46.1	31.9	(14.2)	3,350	2,740	-18%	23.0	18.0	(5.0)	47.6	64.1	16.5
7 CMP**	10,081	16,134	60%	4,489	6,544	46%	44.5	40.6	(4.0)	1,221	2,551	109%	12.1	15.8	3.7	24.0	31.6	7.6
8 Agile	11,848	15,216	28%	5,364	5,511	3%	45.3	36.2	(9.1)	2,038	2,000	-2%	17.2	13.1	(4.1)	67.9	72.4	4.6
9 Franshion*	3,618	11,132	208%	2,014	4,837	140%	55.7	43.5	(12.2)	593	1,827	208%	16.4	16.4	0.0	52.5	71.9	19.4
10 CR Land*	7,919	15,775	99%	3,766	4,961	32%	47.6	31.4	(16.1)	1,304	1,697	30%	16.5	10.8	(5.7)	44.8	42.6	(2.2)
11 Greentown	12,601	10,214	-19%	3,475	3,158	-9%	27.6	30.9	3.3	1,355	1,630	20%	10.8	16.0	5.2	63.7	64.7	0.9
12 R&F	8,440	10,191	21%	3,552	3,691	4%	42.1	36.2	(5.9)	871	1,127	29%	10.3	11.1	0.7	86.0	100.9	14.9
13 Kaisa	2,300	7,016	205%	1,109	2,555	131%	48.2	36.4	(11.8)	370	1,093	195%	16.1	15.6	(0.5)	70.1	87.0	17.0
14 Yuexiu	4,264	6,059	42%	2,584	2,480	-4%	60.6	40.9	(19.7)	959	1,034	8%	22.5	17.1	(5.4)	49.0	56.7	7.7
15 KWG	4,622	4,645	0%	2,025	1,667	-18%	43.8	35.9	(7.9)	780	1,001	28%	16.9	21.6	4.7	63.8	72.2	8.5
16 Sunac	4,302	8,563	99%	1,376	1,779	29%	32.0	20.8	(11.2)	607	845	39%	14.1	9.9	(4.2)	99.7	87.4	(12.3)
17 Sino Ocean	6,759	9,098	35%	2,058	2,187	6%	30.4	24.0	(6.4)	853	705	-17%	12.6	7.7	(4.9)	54.6	65.3	10.7
18 CIFI	2,001	4,829	141%	567	1,220	115%	28.3	25.3	(3.1)	119	577	385%	5.9	11.9	6.0	66.6	72.3	5.8
19 BJ Capital Land	3,485	4,890	40%	1,325	1,290	-3%	38.0	26.4	(11.6)	539	436	-19%	15.5	8.9	(6.6)	130.7	117.6	(13.2)
20 Wuzhou	1,474	1,839	25%	814	922	13%	55.2	50.1	(5.1)	298	171	-43%	20.2	9.3	(10.9)	112.9	53.8	(59.2)
21 Future Land	3,747	5,026	34%	1,159	1,131	-2%	30.9	22.5	(8.4)	151	85	-44%	4.0	1.7	(2.3)	63.3	149.1	85.8
Total	225,514	305,007	35%	84,690	98,435	16%	37.6	32.3	(5.3)	34,239	43,976	28%	15.2	14.4	(0.8)	65.0	70.9	5.9

* In HK\$ mn

** Pre-LAT gross margin

Source(s): Companies, ABCI Securities

Appendix VI- Hydoo's 1H13 results

Exhibit 82: Hydoo's 1H13 results

Income statement	1H13	1H12	YoY Chg
	RMB mn	RMB mn	(%)
Turnover	190	640	(70.4)
Cost of Sales & direct operating costs	(97)	(341)	(71.7)
Gross Profit	93	299	(68.9)
Gross Margin (%)	49.0	46.7	+2.3ppt
Selling and distribution costs	(44)	(31)	40.7
Administrative expense	(150)	(74)	102.4
EBIT	(101)	193	(152.4)
EBIT Margin (%)	(53.4)	30.2	N/A
Other income, gains and losses	9	1	1,050.6
Disposal gain	0	0	N/A
Change in fair value of embedded derivative on redeemable convertible preference shares	(49)	(180)	N/A
Share of profit from JCE/ Associates	0	(3)	(100.0)
Finance cost	(40)	(34)	18.5
Profit before tax	(182)	(23)	704.2
Tax	(12)	(66)	(82.4)
- LAT	(11)	(18)	(35.8)
- Enterprise tax	(0)	(48)	(99.5)
Profit after tax	(193)	(89)	118.2
Minority Interest	0	0	17.2
Net profit	(193)	(88)	118.6
Adjusted net profit	(144)	91	na

Key balance sheet items	June-13	Dec-12	HoH %
	RMB mn	RMB mn	
Presales deposits	4,006	751	433.4
Gross debt	1,405	749	87.6
Cash	2,588	607	326.5
Net debt	(1,183)	142	na
Net gearing (%)	(158.9)	13.5	na

Balance sheet	June-13	Dec-12
Property, plant & equipment	48	46
Intangible assets & goodwill	3	0
Other non-current financial assets	22	20
Deferred tax assets	247	122
Non-current assets	320	188
Inventories	5,247	3,304
Current tax assets	163	95
Trade and other receivables	537	949
Amount due from related parties	0	1
Restricted cash	23	22
Available-for-sale investment	200	0
Cash and cash equivalents	2,365	584
Current assets	8,535	4,955
Total assets	8,855	5,143
Trade and other payables	5,191	1,713
Bank loans and other borrowings	86	689
Current tax liabilities	296	226
Amount due to related parties	0	1
Deferred income	886	521
Current liabilities	6,459	3,150
Bank loans	711	60
Deferred income	5	3
Redeemable convertible preference shares	608	581
Embedded derivative liabilities on Redeemable convertible preference shares	336	293
Non-Current liabilities	1,660	937
Total liabilities	8,120	4,087
Net assets	735	1,056
Shareholders' equity	732	950
Minority interest	12	106
Total equity	744	1,056

Source(s): Company, ABCI Securities

Disclosures

Analyst Certification

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return - 6% \leq Stock return < Market return rate
Sell	Stock return < Market return - 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2009-2013

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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