



May 8, 2015  
Company Report  
Rating: BUY  
TP: HK\$ 88.00

Share price (HK\$) 64.00  
Est. share price return 37.5%  
Est. 14E dividend yield 3.1%  
Est. total return 40.6%

Previous Rating & TP NA  
Previous Report Date NA

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**Key Data**

52Wk H/L(HK\$)	68.0/43.8
Issued shares (mn)	4,474
Market cap	300,615
3-mth avg daily turnover (HK\$ mn)	212.6
Major shareholder(s) (%):	
WANG Jian Lin	50.5

Source(s): Company, Bloomberg, ABCI Securities

**FY14 Revenue breakdown (%)**

Property Development	99.2
Property Management	0.8

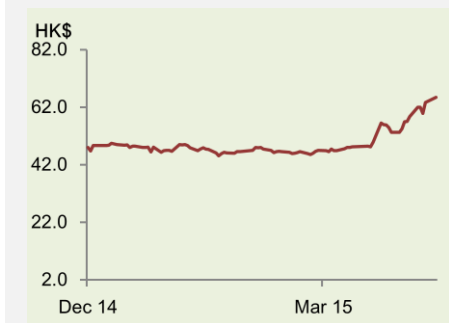
Source(s): Company, ABCI Securities

**Share performance (%)**

	Absolute	Relative*
1-mth	38.3	23.9
3-mth	39.1	21.7
6-mth	NA	NA

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

**1-Year stock performance (HK\$)**



# Wanda (3699 HK)

## A successful model not replicable by others; initiate BUY

- Wanda is the top commercial developer in China by GFA of investment properties. Rental income reached RMB 10.3bn rental income in 2014 and is targeted to rise 30% YoY in 2015
- Third largest developer by presale in 2014 (RMB 160bn); the Group expects presales growth to moderate from 27% YoY in 2014 to 5% YoY in 2015
- GPM at above 40% for 2012-14 despite declining margin across the sector
- Initiate Wanda with **BUY** with TP of HK\$ 88.00 based on a 40% discount to 2015E NAV

**Impressive rental track record.** Riding on fast-growing retail sales in China, Wanda's shopping malls experienced tremendous growth over the past few years. Driven by rising leasable floor area (30% CAGR over 2011-14) and growing rent rate (8% CAGR over 2011-14), rental income rose from RMB 3.8bn in 2011 to RMB10.3bn, implying a 40% CAGR over the period. With 107 operating shopping malls across 71 cities, Wanda is geographically diversified. In 3M15, rental income rose 33.1%YoY to RMB 3.3bn, in line with its full-year target growth of 30%.

**High margins from property sales.** Wanda's typical property, the Wanda Plaza, consists mainly of shopping centers for lease, and luxury hotels, offices, residential and ground-level shops for sales. GPM of residential properties is only 24%, which is in-line with the sector average. However, GPMs of office and retail are high at 40% and 63% as their ASPs are as high as RMB 12k/sqm and RMB 27k/sqm. These lucrative sales elevate Wanda's overall GPM to 40% or higher, exceeding the peer average (2014: 29.5%). In 3M15, Wanda's presales rose 21% YoY to RMB 16.7bn, outperforming the sector average of -13% YoY.

**Low financing costs.** Wanda's net gearing rose from 53% in Dec 2013 to 56% in Dec 2014 as the Group continued to expand. However, rising net gearing has not impaired the Group's ability to obtain low-cost debts, as Wanda can use its rental-income generating investment properties as collaterals in bank borrowings. Average interest rate declined from 8.6% in 2013 to 7.9% in 2014, which is below the sector average of 8-9%.

**Becoming the sector's new proxy; initiate BUY with TP at HK\$ 73.30.** We assess the value of Wanda with the use of the discount-to-NAV method, one of the most common valuation metrics applied for developers in China. We derive Wanda's NAV of (RMB 117.29/share or HK\$ 146.60/share) by the DCF model with a WACC of 11.5% for saleable properties and a 6.0% cap rate for investment properties. We apply a discount of 40%, which is similar to the average among commercial developers (40%), and derive our TP of HK\$ 88.00. The counter is trading at 9.5x 2015E P/E or a 56% discount to its 2015E NAV, which is highly undervalued in our view. For comparison, COLI, the 5<sup>th</sup> largest developer by presales (2014: HK\$140bn, 30% lower than Wanda), is now trading at 9.9x 2015E P/E and 0% discount to NAV; while Hang Lung, the 2<sup>nd</sup> largest landlord in Hong Kong and China by rental income (2014:HK\$ 7.2bn, 44% lower than Wanda) is trading at 17.5x 2015E P/E and a 27% discount). Listed in Dec 2014, Wanda's market cap has exceeded COLI to become the largest HK-listed mainland developers. Investors favoring large-cap with leading exposure in China's real estate industry may prefer Wanda over COLI.

**Risk factors:** 1) Rising online retailing in China; 2) Substantial government grant received; 3) Significant related-party transactions; 4) Rising litigation risks in sector.

**Results and Valuation**

FY ended Dec 31	2013A	2014A	2015E	2016E	2017E
Revenue (RMB mn)	86,774	107,871	133,038	168,763	185,429
Chg (% YoY)	46.8	24.3	23.3	26.9	9.9
Core net profit (RMB mn)	12,999	14,824	24,326	32,488	38,538
Chg (% YoY)	19.4	14.0	64.1	33.6	18.6
Underlying EPS (RMB)	3.48	3.97	5.37	7.18	8.51
Chg (% YoY)	19.5	14.0	35.3	33.6	18.6
BVPS (RMB)	29.0	40.9	37.5	42.5	48.5
Chg (% YoY)	26.4	41.1	(8.4)	13.4	14.0
Underlying PE (x)	14.7	12.9	9.5	7.1	6.0
PB (x)	1.8	1.3	1.4	1.2	1.1
ROE (%)	12.0	9.7	14.3	16.9	17.6
ROA (%)	3.0	2.6	3.8	4.7	5.3
DPS (RMB)	-	0.95	1.61	2.15	2.55
Dividend yield (%)	-	1.9	3.1	4.2	5.0
Net gearing (%)	53.3	56.9	59.1	53.5	88.6

\*Net gearing=Net debt/Total Shareholders' equity

Source(s): Bloomberg, ABCI Securities estimates



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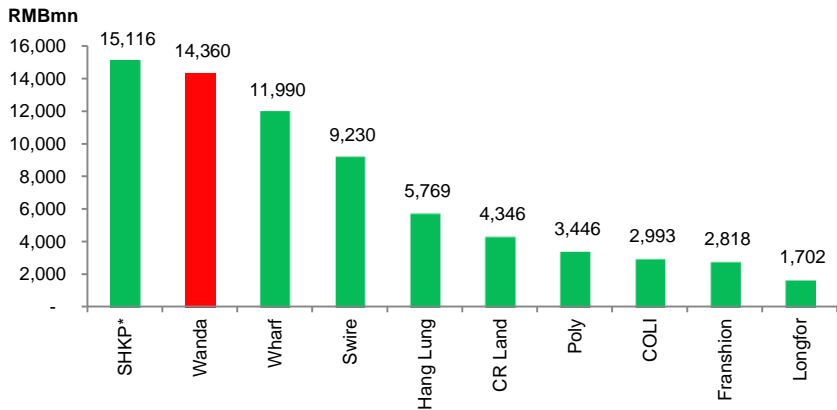
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## Property sales and rental as dual growth drivers

Dalian Wanda Commercial Properties (Wanda) is a leading developer in China which achieves the following ranking as of Dec 2014.

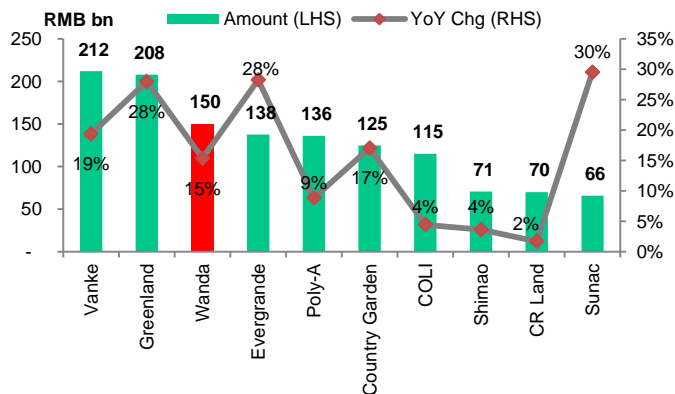
- No.1 commercial property developer, owner and operator in China by GFA held as investment properties.
- No. 2 by recurring revenue (from investment properties and hotels) among China/Hong Kong developers
- No. 3 by presale in China
- No. 2 by core profit among listed mainland developers after COLI

**Exhibit 1: Top 10 HK/ China developers by recurring revenue from investment properties and hotels (2014)**



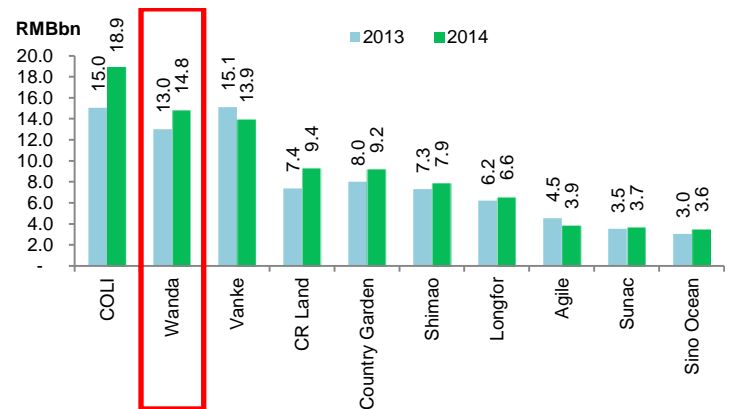
\* June-end FY14 figures, including share of JVs  
 Source(s): Companies, ABCI Securities

**Exhibit 2: 2014 Presales ranking in China**



\*exclude overseas sales  
 Source(s): CRIC

**Exhibit 3: Core net profit comparison**



Source(s): Companies, ABCI Securities

Wanda's flagship property, the Wanda Plaza, follows a successful model capable of generating a fast asset turnover by selling office and residential space while generating a steady rental income from the shopping mall. Property sales and leasing have been the dual growth drivers for the past 3 years, growing at 24% and 40% CAGR in 2011-14. In our view, Wanda is only one of the few players in the market capable of expanding both its property sales (for faster cash payback) and rental revenue (for steady recurring earnings) simultaneously.

**Exhibit 4: Revenue breakdown**

RMB mn	2011	2012	2013	2014	CAGR	% of total
Property sales	45,505	50,573	74,981	91,748	24%	85.1%
Property leasing	3,769	5,843	7,707	10,352	40%	9.6%
Hotels	1,450	2,576	3,215	4,008	40%	3.7%
Others	48	99	871	1,763	232%	1.6%
<b>Total</b>	<b>50,772</b>	<b>59,091</b>	<b>86,774</b>	<b>107,871</b>	<b>29%</b>	<b>100%</b>

Source(s): Company, ABCI Securities



Exhibit 5: Shanghai Wujiao Wanda Plaza



Source(s): Company, ABCI Securities

Exhibit 6: Operating performance of Shanghai Wujiao Wanda Plaza

	2011	2012	2013	1H14
Occupancy (%)	100%	99%	100%	100%
Effective rent (RMB/sqm/mth)	136	149	157	163
Rental income (RMB mn)	301	324	344	177
YoY Chg (%)		8%	6%	

Source(s): Company, ABCI Securities

Exhibit 7: Wuhan Central Culture City



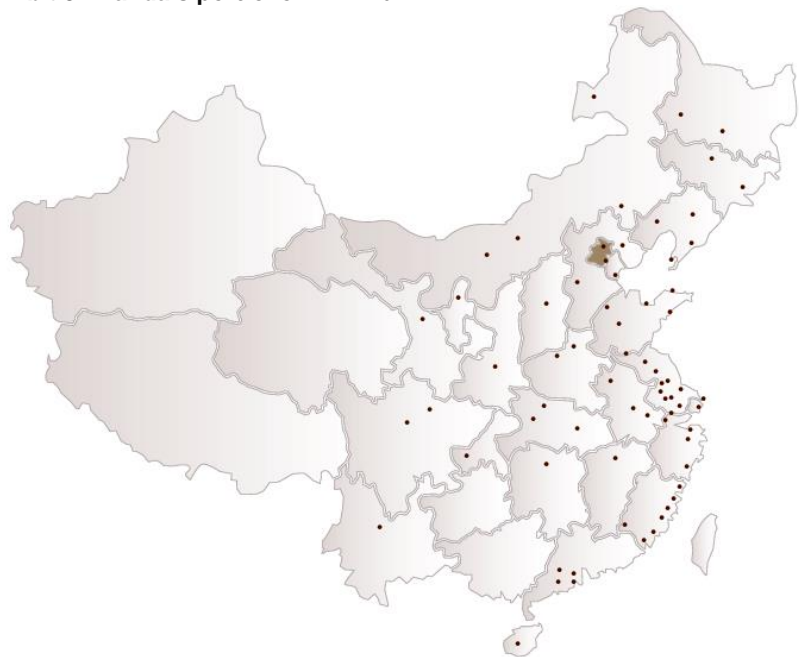
Source(s): Company, ABCI Securities

Exhibit 8: Operating performance of Wuhan Central Culture City

	2011	2012	2013	1H14
<b>Occupancy</b>				
- Chuhenhanjie Shopping center (%)	72%	80%	84%	84%
- Donghuanhanjie Shopping center (%)	NA	NA	100%	100%
Effective rent (RMB/sqm/mth)	80	78	89	70
Rental income (RMB mn)	18	72	113	71
YoY Chg (%)		307%	58%	

Source(s): Company, ABCI Securities

Exhibit 9: Wanda's portfolio in China



Source(s): Company, ABCI Securities

## The 4 key strengths of Wanda

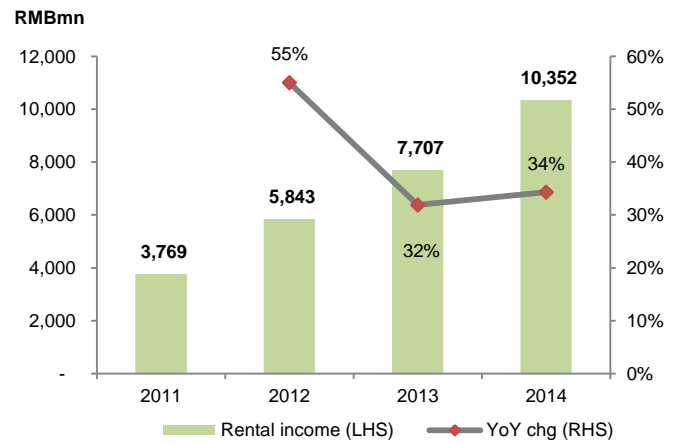
### 1. Fast-growing recurring rental income

Being the top developer by area of investment properties in China, Wanda generates most of its rental income through its 107 shopping malls totaling 11.49mn sqm within the Wanda Plazas across China. Wanda's rental income rose at a 40% CAGR during 2011-14 to RMB 10.3bn, mainly driven by rising leasable floor area (30% CAGR) and growing rent rate (8% CAGR). Occupancy of its shopping malls has been maintained at 98-99% level since 2011.

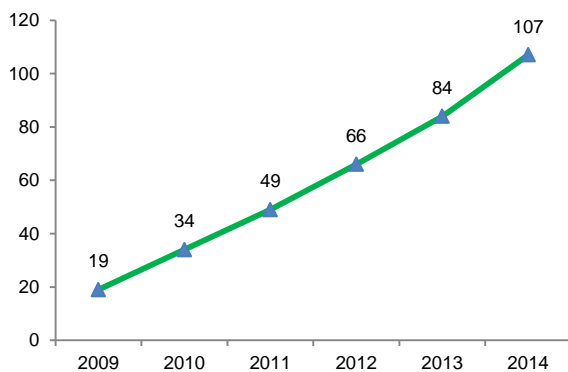
**Exhibit 10: Wanda's landbank breakdown (as at Dec 2014)**

	GFA mn sqm
<b>Completed IP</b>	<b>17.71</b>
<b>Completed Hotels</b>	<b>19,165 rooms</b>
<b>Land reverses</b>	<b>75.9</b>
-Sales of properties	60.3
-IP	9.1
-Hotels	1.8
-others	4.7

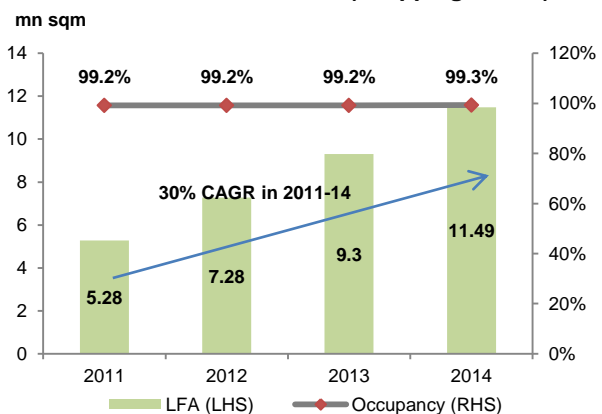
Source(s): Company, ABCI Securities

**Exhibit 11: Wanda's rental revenue**


Source(s): Company, ABCI Securities

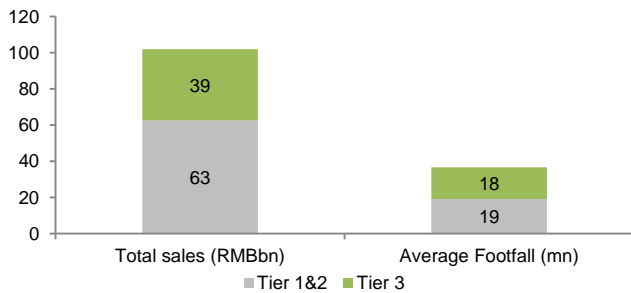
**Exhibit 12: No. of Wanda Plaza**


Source(s): Company, ABCI Securities

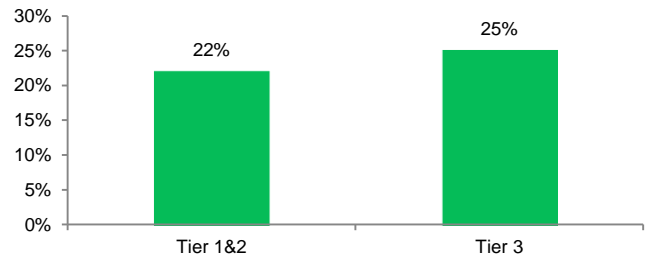
**Exhibit 13: LFA of Wanda Plaza (shopping centre)**


Source(s): Company, ABCI Securities

**Impressive retail performance of the malls.** Wanda's impressive growth in rental revenue is mainly driven by strong retail performance of the malls. In FY14, a total of RMB 102bn retails sales were generated through the Wanda Plazas while visitation reached 36.7mn. This implies an annual average spending of RMB 2,800/person. Wanda has positioned itself to be a mall operator focusing on experience consumption—35.8% of its rental income was generated from F&B, movies, etc. that encouraged multiple spending per visit. Despite consumer market has slowed in China, retail sales of Wanda's malls operating for more than a year grew 22% YoY in tier 1/2 and 25% YoY in tier-3 cities.

**Exhibit 14: Shopping mall operating statistics by city tier (FY14)**


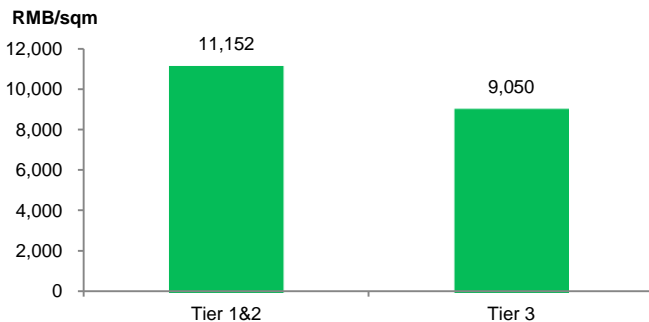
Source(s): Company, ABCI Securities

**Exhibit 15: Retail sales YoY change of Wanda's mall operating for more than 12 months (FY14)**


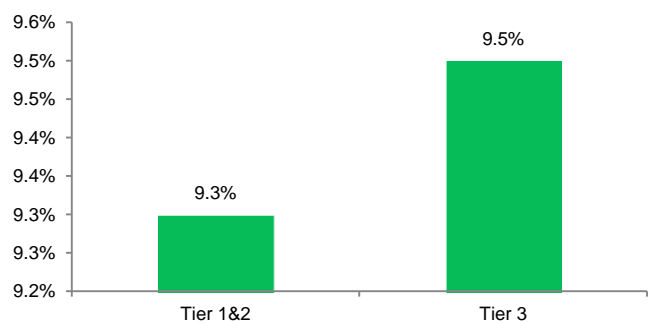
Source(s): Company, ABCI Securities

**Malls in tier 3 cities perform well.** In particular, retail performance of Wanda's malls in tier-3 cities, where retail demand tend to be much weaker, is comparable to that in the tier-1/2 cities. Retail sales per sqm for malls in tier-3 cities (RMB 9,050/sqm) was only 19% lower than tier-1/2 (RMB11,152/sqm) for 2014. Wanda Plaza is usually considered a landmark building in lower-tier cities, while other large shopping mall developers (e.g. SHKP, Hang Lung) have a limited exposure in those markets. Hence, Wanda is better shielded from the recent slowdown in luxury consumption in tier-1 cities amid anti-corruption effort in China.

We also expect rent rate to rise further, given the occupancy cost is only 9.3-9.5%. Wanda is introducing the turnover rent (charging a fixed percentage of tenants' sales) into its malls and this should raise the rent rate. Wanda's 3M15 rental income rose 33.1% YoY, which is in line with its 30% YoY growth target for the full year.

**Exhibit 16: Retail sales per sqm by city tier (FY14)**


Source(s): Company, ABCI Securities

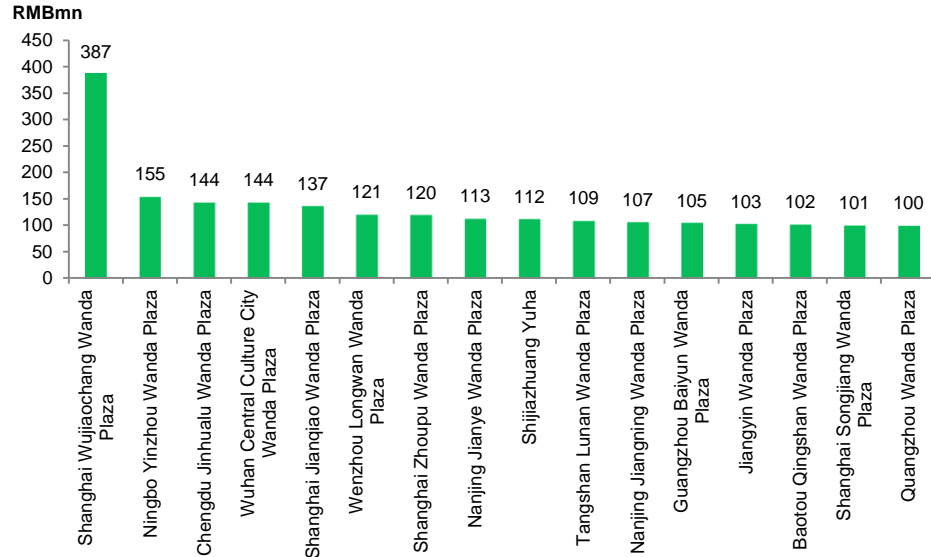
**Exhibit 17: Occupancy cost by city tier**

 \*Occupancy cost= (rental + mgt fees)/ total retail sales  
 Source(s): Company, ABCI Securities

**Is oversupply a concern?** Despite the Chinese property market has been affected by oversupply issue for the past year, Wanda's shopping mall seems to be unaffected with occupancy reaching as high as 99% as at Dec 14. We attribute the success of Wanda's shopping malls to the following three factors:

- 1) Multipurpose complex to generate higher traffic.** By building residential and office in close proximity to the mall, visitation to the mall increases on the cluster effect;
- 2) Geographical diversification.** Shanghai Wujiachang Wanda Plaza is the Group's largest rental contributor which generated RMB387mn in rental income in 1H14; only 16 out of the 100 projects generate a rental income exceeding RMB 100mn. Aggregate rental income of the 16 highest income-generating properties represents 25% of total rental income. A well geographically diversified portfolio would help avoid overconcentration risk in any particular regions;

**3) Favorable tenant mix.** The Group's top 10 tenants account for more than 25% of total rental income. They are mostly large-scale department stores, cinema chains and supermarkets. Since these businesses usually cater for the mass market, they are generally more resilient against economic downturn as compared to the luxury retailers.

**Exhibit 18: Sixteen out of the Group's 100 projects have an annual passing rental income exceeding RMB 100mn (As at Jun 14)**



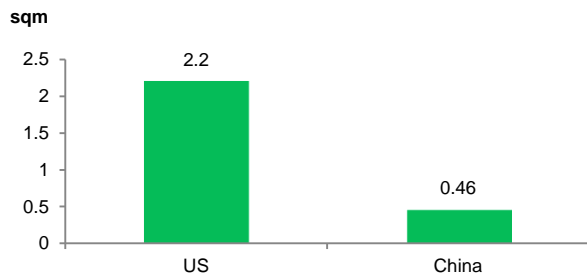
Source(s): Company, ABCI Securities

**Exhibit 19: Tenant mix by rental revenue**

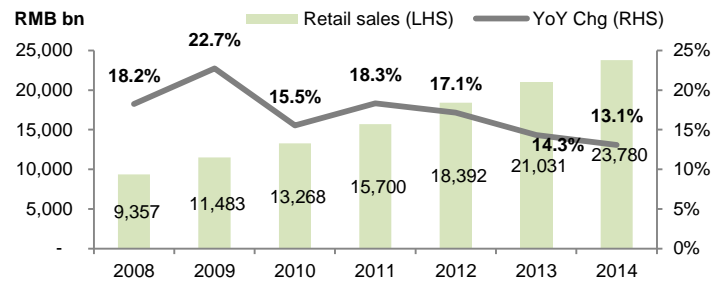
Rank	Tenant	Percentage of Property Rental Income for the Six Months ended June 30, 2014
1	Wanda Department Store	14.5%
2	Wanda Cinema	3.0%
3	An international supermarket retail chain operator	1.8%
4	A leading PRC supermarket chain operator	1.7%
5	A leading PRC supermarket chain operator	1.4%
6	A leading PRC domestic appliances chain operator	1.2%
7	Beijing Dagexing Group	1.0%
8	A leading Japanese supermarket chain operator	0.7%
9	A leading U.K. supermarket chain operator	0.6%
10	An international fashion apparel retailer	0.5%

Source(s): Company, ABCI Securities

**Does online retailing present an imminent threat?** Despite the rising significance of online retailing in China, we believe China shopping malls still have room for growth. On the supply side, per capita shopping GFA is only 0.46 sqm in 2013, much lower than that in the U.S. Demand for retail space is likely to keep growing as retail sales expanded by 16% during 2009-14. Moreover, online penetration of retail sales is lower in tier 2/3 cities, where Wanda has a high exposure in, because of the less established logistics facilities and transportation. Thus, we believe the competition is limited at present.

**Exhibit 20: Per capita shopping GFA in China and the U.S. (2013)**


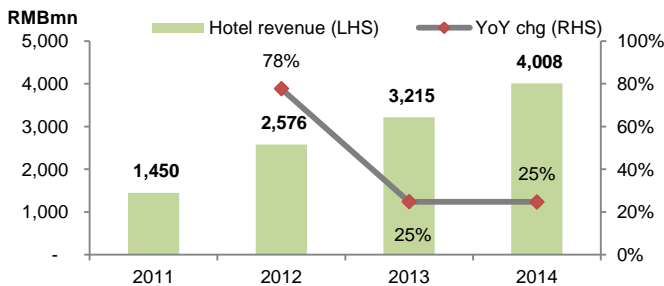
Source(s): Company, ABCI Securities

**Exhibit 21: Retail sales growth in China**


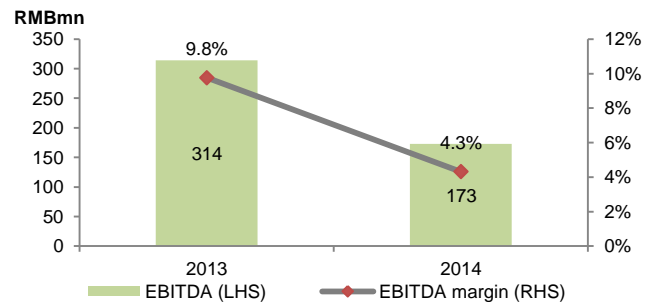
Source(s): NBS, ABCI Securities

**Growing hotel portfolio.** Apart from rental income generated from investment properties, Wanda's hotel operation also provides another stream of recurring revenue. Hotel revenue surged at a 40% CAGR to RMB 4.0bn during 2011-14. Wanda operated a total of 62 hotels with 19,165 rooms.

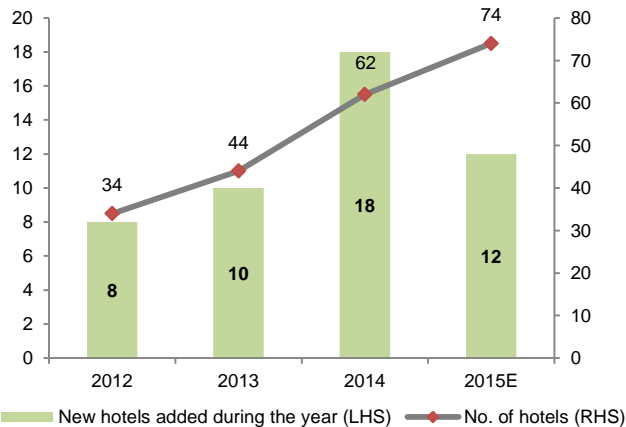
As Wanda opened 18 new hotels in 2014. EBITDA of the hotel segment fell on increased pre-opening expenses and declined 45% YoY to RMB 173mn. Operating costs also escalated as Wanda increased the no. of self-operated hotels, which contributed to 38.6% of total revenue from hotels, as opposed to 18.0% the year before. As a result, EBITDA margin shrank 5.5ppt YoY to 4.3%. However, new hotels opened in the past 3 years showed improvement in terms of profitability. E.g., losses of hotels opened in 2013 narrowed to RMB7mn in 2014 from RMB38mn in 2013. In 2015, Wanda will open 12 new hotels, and we expect margin to stabilize as more hotels enter the maturity stage.

**Exhibit 22: Revenue of the hotel segment**


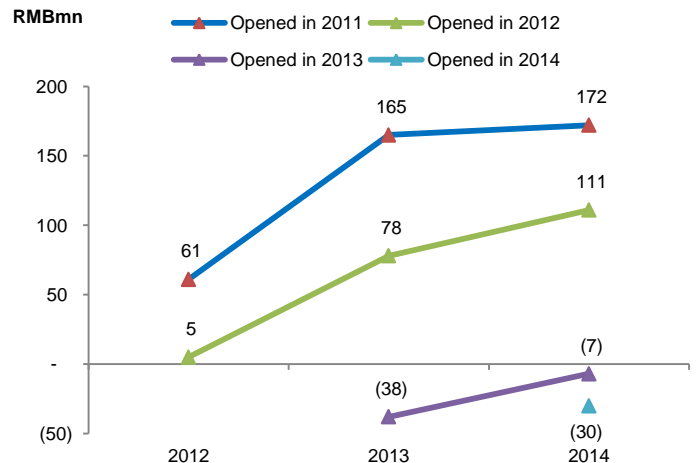
Source(s): Company, ABCI Securities

**Exhibit 23: Hotels' EBITDA and EBITDA margins**


Source(s): Company, ABCI Securities

**Exhibit 24: No. of new hotels added (2012-15E)**


Source(s): Company, ABCI Securities estimates

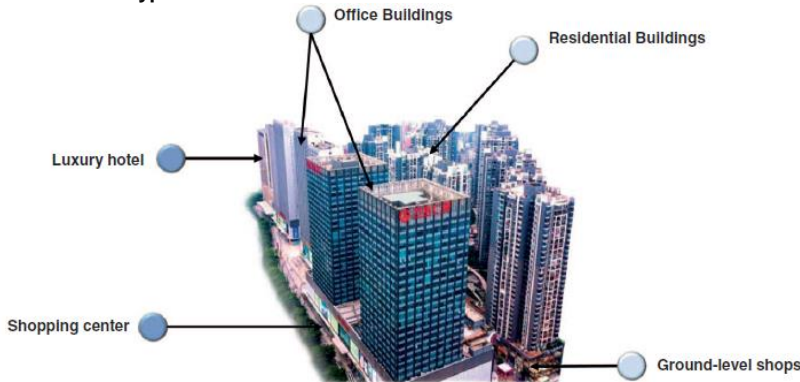
**Exhibit 25: Owners' profit of hotels commenced in 2011-14**


Source(s): Company, ABCI Securities

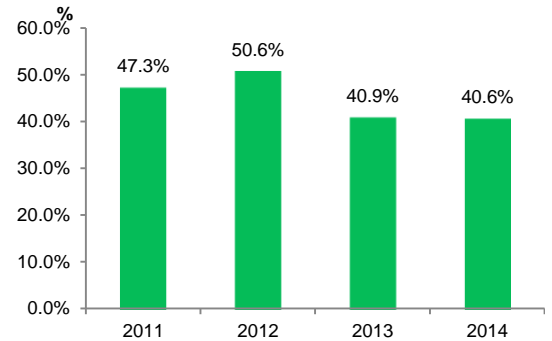


## 2. Lucrative margins for commercial property sale

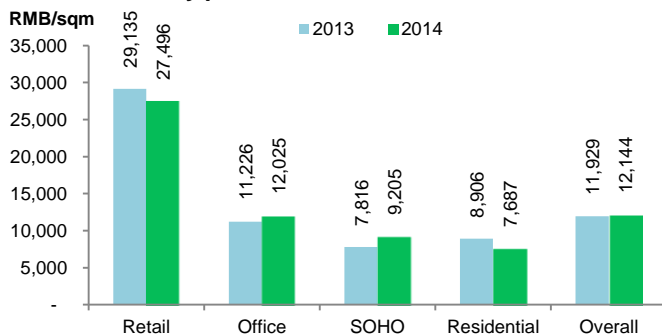
Wanda's typical property, the Wanda Plaza, mainly consists of shopping centers, luxury hotels, office, residential and ground-level shops. While Wanda keeps the malls and hotels for lease, they sell the office, residential and ground-level shops for one-off gains. GPM of residential is at 24%, which is in line with sector average. However, office and retail GPMs are high at 40% and 64% due to their ASP of RMB 12k/sqm and RMB 27k/sqm. This elevates Wanda's overall gross margin to 40% or higher, exceeding the peer average of 29.5% in 2014. In fact, Wanda's overall gross margin was between 43% and 51% level for the past few years despite the declining profit across sector due to the rising land cost.

**Exhibit 26: A typical Wanda Plaza**


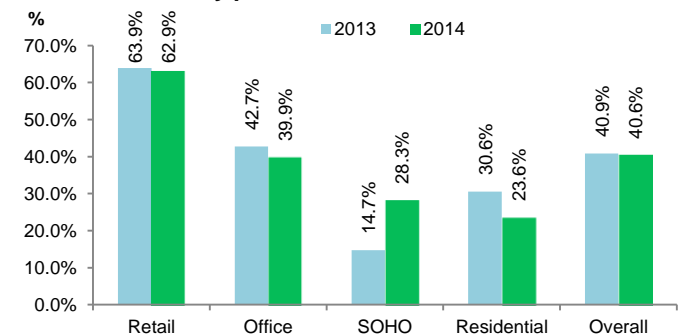
Source(s): Company, ABCI Securities

**Exhibit 27: Wanda's overall GPM**


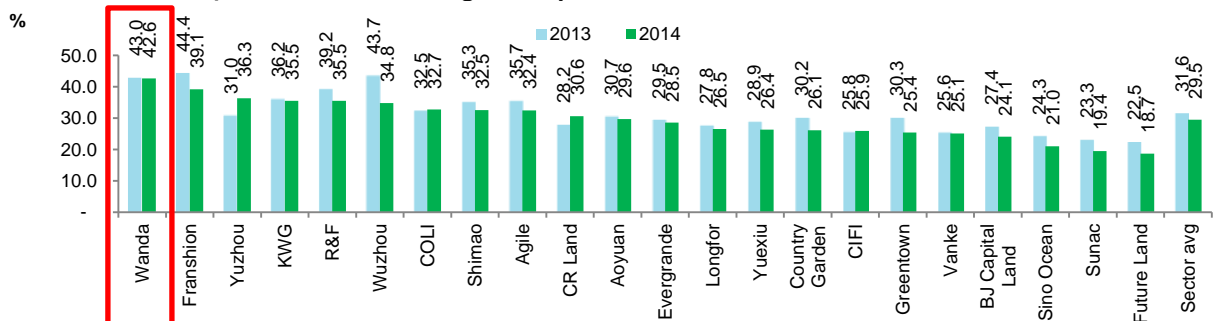
Source(s): Company, ABCI Securities

**Exhibit 28: ASP by product in 2013 and 2014**


Source(s): Company, ABCI Securities

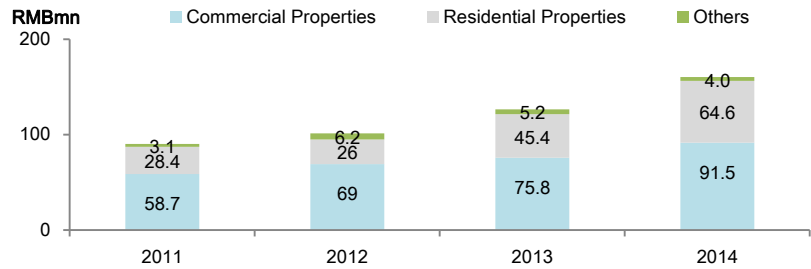
**Exhibit 29: GPM by product in 2013 and 2014**


Source(s): Company, ABCI Securities

**Exhibit 30: GPM comparison for 2014 among developers**


Source(s): Companies, ABCI Securities

Wanda's presales grew at 21% CAGR during 2011-14 to RMB160bn in 2014. Sales of commercial properties (office and retail) remained as the key contributor, representing ~60% of total presales.

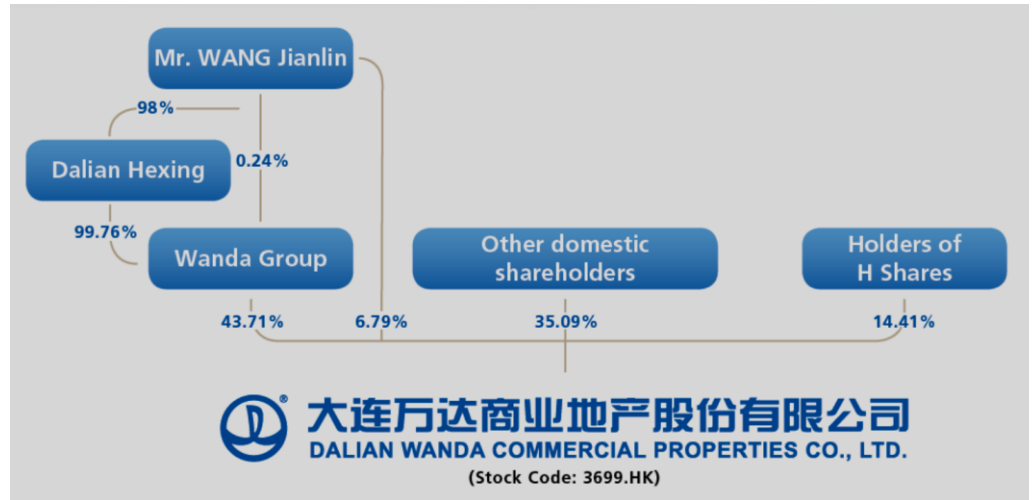
**Exhibit 31: Wanda's presales breakdown**


Source(s): Company, ABCI Securities

### 3. The well-recognized “Wanda” brand

Wanda is a well-recognized brand across different industries. Apart from property, Wanda's parent company (Wanda Group) operates cinema, karaoke, TV & films, and department stores, and is a dominant player in these industries. E.g., Wanda Cinema is one of the largest cinema chains in China with 1,247 screens, while AMC, its overseas cinema operation, represents 20% of the U.S. box office. In particular, cultural (e.g. cinema and film making) and department store divisions achieved a strong performance in 2014, with revenue going up by 32% YoY to RMB34.1bn and 65% YoY to RMB 25.6bn. Wanda's strong presence in media and consumer industries have helped enhance its brand value in the property market.

In fact, local governments, especially those in lower-tier cities, encouraged Wanda to build it's the Wanda Plaza by offering government grant. In 2014, government grant reached RMB 1.2bn, representing 4% of EBIT (before fair value gain of investment properties). The government is willing to provide incentives (e.g. cash grant, sites at prime locations etc) as they believe Wanda Plaza, which is usually considered a landmark in the city center, will help improve the city's image.

**Exhibit 32: Wanda's shareholder structure**


Source(s): Company

**Exhibit 33: Business of Wanda Group**

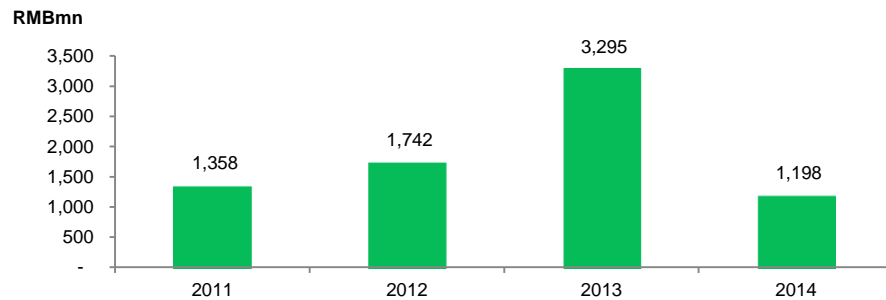
Sector	Business	Operation
<b>Cinema</b>	Wanda Cinema	1247 screen in China
	AMC	5000 screens globally, 20% of US box office
<b>Karaoke</b>	Superstar	89 karaoke centres
<b>TV &amp; films</b>	Wanda Media	
<b>Department store</b>	Wanda Department store	84 stores in China

\* Data as at Dec 2014  
 Source(s): Company, ABCI Securities

**Exhibit 34: Revenue by division of Wanda group in 2014**

Division	Operating stats	RMB bn
<b>Cultural</b>	Revenue	34.14
	-Of which from AMC	16.39
<b>Superstar</b>	Revenue	0.77
<b>Tourism</b>	Revenue	7.51
<b>Movie</b>	Revenue	0.43
	Box office	1.49
<b>Department store</b>	Revenue	25.60

Source(s): Wanda Group, ABCI Securities

**Exhibit 35: Wanda's government grant recognised in Other income**


Source(s): Company, ABCI Securities

In future, Wanda will utilize its brand value further in the overseas property market by attracting Chinese outbound investors. Wanda currently has five ongoing overseas projects in Australia, Spain, the U.K. and the U.S.

**Exhibit 36: Wanda's overseas business (Dec 2014)**

Project	Country	GFA Sqm	Expected completion
One Nine Elms, London	UK	107,000	2018
Edificio Espana, Madrid	Spain	83,000	2019
Chicago, Illinois	US	NA	2020
LA, California	US	130,000	2020
Gold Coast	Australia	146,000	2018
Gold Coast	Australia	450,000	2022
Sydney	Australia	NA	NA

Source(s): Company, ABCI Securities

Wanda launched the London Wanda One Nine Elms project in Nov 2014 and received overwhelming response. The project consists of two towers, providing serviced residences for sales and luxury hotels. Driven by strong overseas demand from Chinese buyers, Wanda achieved ~GBP 300mn in presales (~RMB 3.2bn), representing 2% of total presales in 2014. Based on its highly reputable brand, we believe Wanda will continue to capitalize overseas demand from Chinese buyers in other countries in the future.

**Exhibit 37: Wanda's overseas projects**



London



Gold Coast  
**Gold Coast**



Madrid



**Los Angeles**



Chicago

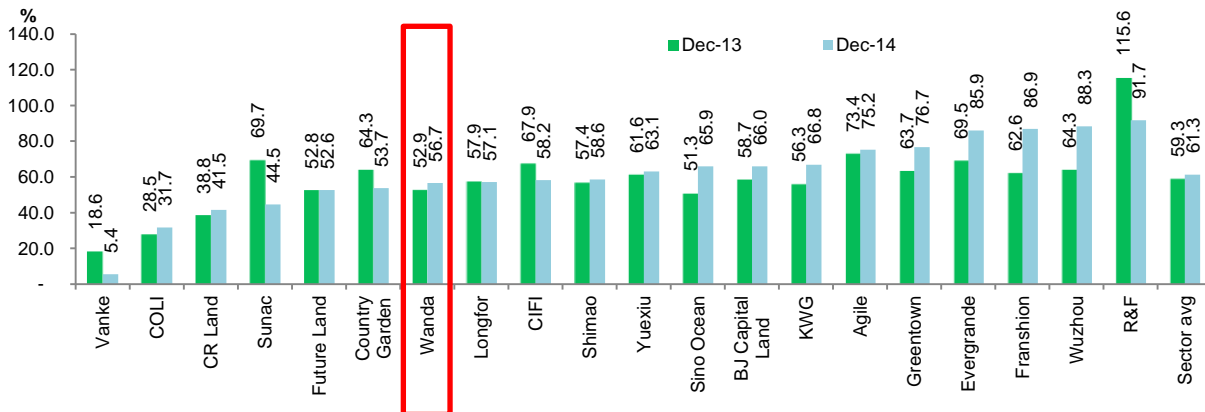
Source(s): Company, ABCI Securities

#### 4. Low-cost financing backed by investment properties

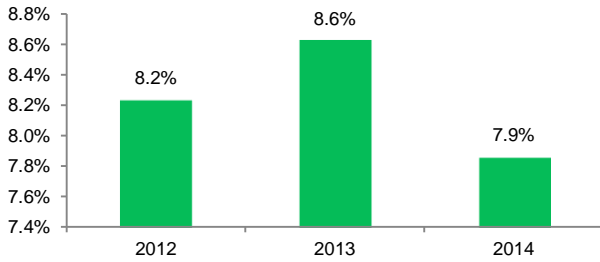
Wanda's net gearing rose from 53% in Dec 2013 to 57% in Dec 2014 as the Group continued to expand. However, rising net gearing did not impair its ability to obtain low-cost debts. Average interest rate declined from 8.6% in 2013 to 7.9% in 2014, which was below sector average, as Wanda has been able to use its investment properties as collaterals for its bank borrowings.

Besides, 24% of its debts are maturing in 2-5 years while 27% will mature after five years. With the recurring cashflow generated regularly from Wanda's investment properties, the Group is often able to obtain bank loans with duration longer than the average construction loan term of 2 years among peers.

**Exhibit 38: Wanda's net gearing comparison among developers (%)**



Source(s): Company, ABCI Securities

**Exhibit 39: Wanda's effective interest rate in 2012-14**


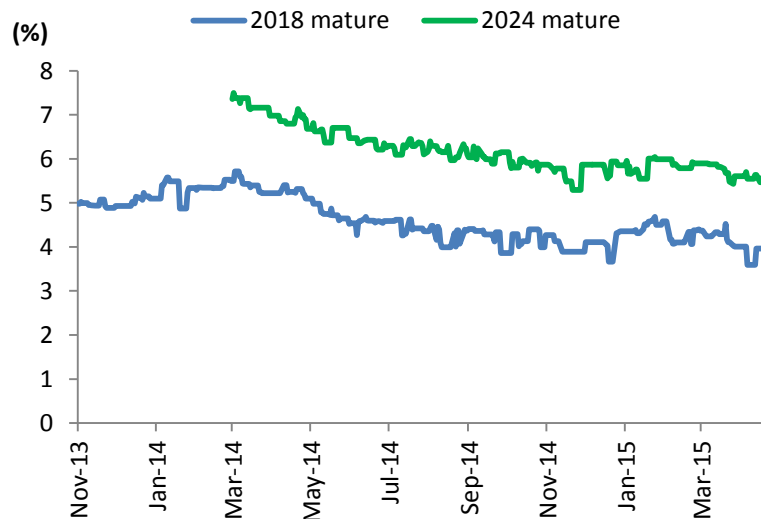
\* Calculated by gross interest/ year-end average gross debt balance  
 Source(s): Company, ABCI Securities

**Exhibit 40: Maturity profile of gross debt as at Dec14**

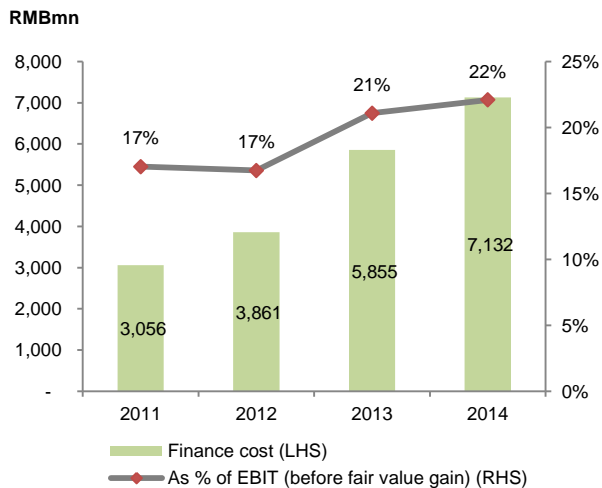
	RMBbn	%
Within 1 year	36.4	21%
1-2 year	48.3	28%
2-5 year	42.0	24%
Beyond 5 year	47.0	27%
<b>Total</b>	<b>173.7</b>	<b>100%</b>

Source(s): Company, ABCI Securities

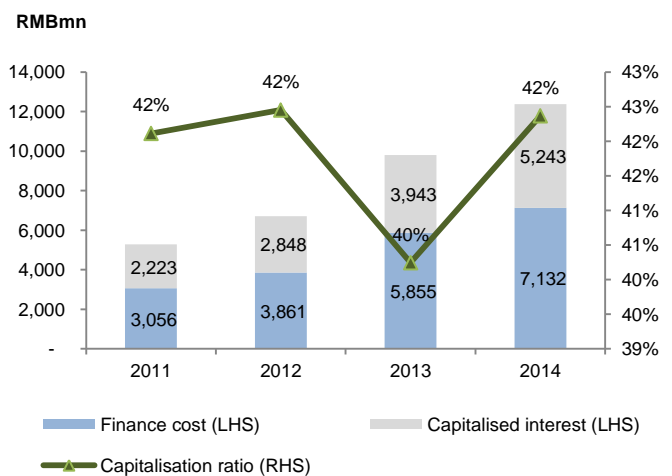
Wanda's low financing cost is also reflected in Wanda's offshore USD bond yield. Yield of its bonds maturing in 2018 continues to decline from its initial 5.0% in Nov 2013, to just 4.0% in May 2015. As Wanda increases its overseas fundraising activities, its finance cost may decline further from the current 7.9%. In Oct 14, Fitch's credit rating for Wanda was BBB+. As Wanda only capitalized 42% of its gross finance cost, its finance cost recognised on the P&L was as high as RMB 7.1bn in 2014, or 22% of EBIT. Thus, reducing finance cost will have a positive effect on Wanda's core profit.

**Exhibit 41: Wanda's bond yield**


Source(s): Bloomberg

**Exhibit 42: Booked finance cost as a percentage of EBIT (before fair-value gain of investment properties)**


Source(s): Company, ABCI Securities

**Exhibit 43: Capitalisation of finance cost**


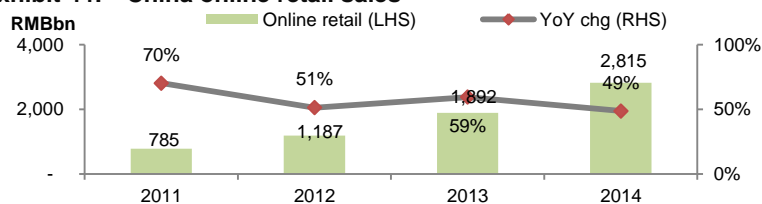
Source(s): Company, ABCI Securities

## Comprehensive long-term expansion plan

### 1) O2O strategy to capture online retail opportunities

In 2014, Wanda moved forward to create a new internet platform with the rise of online retailing in China. The new entity is 70% owned by Wanda, while both Tencent and Baidu have a 15% stake. Wanda's O2O strategy will focus on improving consumption experience rather than offering discounts for retail products. For instance, the online platform under development may allow online booking for movie tickets and online F&B pre-ordering that allows sit-in customers to have their meals ready upon arrival. Besides, the parent company, Dalian Wanda Group (DWG), also made a strategic investment in KuaiQian Payment (快钱支付), the 4<sup>th</sup> largest online payment company by transaction amount in China in 2014. We believe all these would strengthen Wanda's O2O platform.

**Exhibit 44: China online retail sales**



Source(s): iResearch

### 2) Asset-light expansion

In Jan 2014, Wanda announced to establish a cooperative investment retail platform with Everbright Ashmore (Beijing) Real Estate Investment, Harvest Capital, Sichuan Trust, and KuaiQian Payment. According to the framework agreement, the abovementioned parties will invest RMB24bn in first tranche to develop 20 Wanda Plazas in 2015-16, while Wanda will be responsible for site selection, construction, use of trademark, tenant prospecting, operation and management of these plazas. Wanda will share the rental income generated from these plazas with these cooperating parties at a predetermined proportion under the agreement. We expect this asset-light expansion will help Wanda to lower net gearing, given that investment properties usually entail significant capital contribution and a long payback period.

### 3) Mega Tourism projects

As at Dec 31, 2014, the Group had 7 Wanda Cities under construction in Wuhan, Hefei, Harbin, Nanchang, Qingdao, Wuxi and Guangzhou. These Wanda Cities are regional tourist spots that provides entertainment and retail services. In FY14, the Han Show and Wuhan Wanda Movie Park located in the Wuhan Central Cultural District commenced operation officially:

- **Han Show-** With a total GFA of 86,000 sqm, the Han Show is a world-class stage show jointly created by Wanda Group and the Franco Dragone Entertainment Group. The show presents a modern performing art that combines multiple forms of performance, such as music, dancing, acrobatics, high diving, and stunt.
- **Wuhan Movie Park:** With a total GFA of 102,000 sqm, this indoor movie theme park is equipped with world-class facilities such as the world's first hard ball screen, 3D interactive shooting equipment, the soft pillar screen and 170-degree super screen.

**Exhibit 45: The Han Show**



Source(s): Company

**Exhibit 46: Wuhan Movie Park**



Source(s): Company

## Initiate BUY; TP HK\$88.00 at 40% discount to NAV

We assess the value of Wanda based on the discount-to-NAV method, one of the most common valuation metrics used for developers in China:

- **Property developments:** We conduct a DCF analysis and apply a WACC of 11.5% to gauge the value of Wanda's projects for sales; total value of property development projects arrives at RMB 451bn.
- **Investment properties:** We apply a cap rate of 6% to Wanda's 2015E net rental income. We arrive at a valuation of RMB169bn
- **Hotels:** Given that most of the Group's hotels are located in lower-tier cities, we adopt a multiple of 8x on Wanda's 2015E EBITDA and the segment's value arrives at RMB12.6bn

We subtract the 2015E net debt of RMB101bn from the combined gross asset value of RMB 632bn; our NAV-derived estimate is RMB531bn, or RMB 117.28/share (HK\$146.60/share).

To determine the TP of Wanda, we apply a 40% discount (China commercial property sector average) to our end-FY15E NAV; thus, we set our TP at HK\$ 88.00.

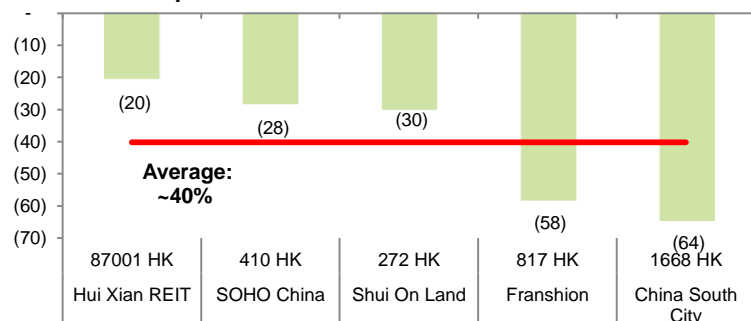
### Exhibit 47: Wanda's 2015E NAV estimates

	Attr. GFA (M sqm)	Net assets value (RMB m)	% of total	Valuation Methodology	Implied value per sqm (RMB)
<b>Property development</b>					
Residential	52.6	141,158	22%	DCF at WACC of 11.5%	2,684
Retail	7.0	98,234	16%		13,967
Office and others	44.6	211,248	33%		4,735
<b>Subtotal</b>	<b>104.2</b>	<b>450,640</b>	<b>71%</b>		<b>4,323</b>
Investment Properties	17.7	169,022	27%	6.0% cap rate on 2015E net rental income 8x 2015E EBITDA	9,544
Hotels		12,644	2%		
<b>Total 2015E GAV</b>	<b>121.9</b>	<b>632,307</b>	<b>100%</b>		<b>5,185</b>
2015E Net cash/ (debt)		(101,350)	-16%		
<b>Total 2015E NAV</b>		<b>530,957</b>	<b>84%</b>		
No. of share outstanding (diluted)		4,527			
<b>NAV per share (RMB)</b>		<b>117.28</b>			
Ex rate		1.25			
<b>NAV per share (HKD)</b>		<b>146.60</b>			
Target discount (%)		40%			
<b>Target Price (HKD)</b>		<b>88.00</b>			

<b>WACC</b>	<b>11.5%</b>
Cost of debt	8.0%
Cost of Equity	18.0%
<b>Debt/ (Debt + Equity)</b>	<b>54%</b>

Source(s): Company; ABCI Securities estimates

### Exhibit 48: Comparison of discount to 2015E NAV



Source(s): Bloomberg; ABCI Securities estimates



## A cheaper alternative than COLI and Hang Lung

Wanda currently trades at 9.5x 2015E PE and a 56% discount to NAV, which is attractive given its leading market position. Wanda's presales (2014: RMB 160bn) was 39% higher than COLI (RMB 115bn), while rental income (2014: RMB10.3bn) was 58% higher than Hanglung (RMB 5.3bn). However Wanda's valuation which represents a 56% discount to NAV is much lower than the 0% discount for COLI and 27% discount for Hang Lung. Hence, Wanda represents a cheaper alternative than the two well-recognized developers.

### Exhibit 49: Wanda vs its peers

	Wanda	Large cap developer (Resi/Commercial )		Commercial developer			
		COLI ( 688 )	CR Land ( 1109 )	Hanglung (101)	SOHO (410)	Franshion (817)	Shui On (272)
1) <u>Financial data ( 2014 )</u>	RMB mn	HK\$ mn	HK\$ mn	HK\$ mn	RMB mn	HK\$ mn	RMB mn
<b>Total revenue</b>	<b>107,871</b>	<b>119,997</b>	<b>88,381</b>	<b>17,030</b>	<b>6,098</b>	<b>29,548</b>	<b>10,249</b>
- Property sales	91,748	116,254	80,482	9,814	5,674	21,895	8,543
- Rental	10,352	1,185	4,627	7,216	424	1,399	1,578
- Others	5,771	2,558	3,273	0	0	6,254	128
<b>Gross Profit</b>	<b>45,926</b>	<b>39,238</b>	<b>27,044</b>	<b>13,008</b>	<b>3,078</b>	<b>11,559</b>	<b>4,349</b>
<i>Gross Margin</i>	42.6%	32.7%	30.6%	76.4%	50.5%	39.1%	42.4%
<b>Core Profit</b>	<b>14,824</b>	<b>23,830</b>	<b>11,802</b>	<b>10,022</b>	<b>1,778</b>	<b>3,610</b>	<b>318</b>
<i>Core net margin</i>	13.7%	19.9%	13.4%	58.8%	29.2%	12.2%	3.1%
<b>Presales</b>	<b>160,100</b>	<b>140,900</b>	<b>69,220</b>	<b>9,814</b>	<b>NA</b>	<b>23,108</b>	<b>6,107</b>
<b>Net gearing</b>	<b>57%</b>	<b>32%</b>	<b>41%</b>	<b>-3%</b>	<b>19%</b>	<b>58%</b>	<b>34%</b>

	Wanda	Large cap developer(Resi/Commercial )		Commercial developer			
		COLI ( 688 )	CR Land ( 1109 )	Hanglung (101)	SOHO (410)	Franshion (817)	Shui On (272)
2) <u>Valuation</u>							
Mkt cap (HK\$ bn)	303	241	174	114	30	28	20
NAV ( HK\$ bn )	676	242	186	157	42	68	30
<b><i>Discount to NAV</i></b>	<b>-56%</b>	<b>0%</b>	<b>-5%</b>	<b>-27%</b>	<b>-28%</b>	<b>-58%</b>	<b>-30%</b>
2015E PE*	9.5	9.9	12.0	17.5	26.2	8.2	43.5
2015E PB	1.4	1.4	1.5	0.8	0.6	0.8	0.4

\*data as at 6 May 2015

Source(s): Bloomberg; ABCI Securities estimates



**Exhibit 50: Valuation of Hong Kong-listed and PRC-listed developers**

China Property	Ticker	Rating	TP	Mkt cap	Share Price	Performance			Discount to NAV	Valuation									
						3M	YTD	2014		P/E		Yield (%)			P/B				
				(HKD bn)	(local ccy)	% Chg	% Chg	% Chg	(%)	2014A	2015E	2016E	2014A	2015E	2016E	2014A	2015E	2016E	
<b>Residential:</b>																			
1	Wanda	3699 HK	BUY	88.00	303	64.00	42	35	na	(56.34)	12.9	9.5	7.1	1.9	3.1	4.2	1.3	1.4	1.2
1	COLI	688 HK	HOLD	29.50	241	29.45	28	28	8	(0.15)	10.1	9.9	7.0	1.9	2.0	2.8	1.8	1.4	1.3
2	Vanke-H	2202 HK	NR		190	18.78	12	9	30	(2.44)	15.6	8.5	7.4	3.3	3.9	4.5	1.9	1.6	1.4
3	CR Land	1109 HK	NR		174	26.60	31	30	10	(5.17)	14.7	12.0	10.2	1.9	2.1	2.5	1.6	1.5	1.3
4	Evergrande	3333 HK	HOLD	6.90	109	7.43	127	137	24	(13.66)	37.4	13.4	10.1	7.2	3.7	4.9	0.8	0.8	0.8
5	Country Garden	2007 HK	NR		91	4.04	32	30	(28)	(40.41)	7.9	6.5	5.8	4.6	5.0	5.6	1.2	1.0	0.9
6	Longfor	960 HK	NR		81	13.88	38	39	(5)	(27.82)	9.8	8.4	7.4	2.6	2.6	2.9	1.3	1.2	1.0
7	Shimao	813 HK	NR		65	18.70	16	8	4	(43.10)	6.6	5.8	5.2	4.8	5.2	5.8	1.1	1.0	0.9
8	Sino Ocean	3377 HK	NR		46	6.18	27	40	(8)	(31.46)	10.4	9.3	8.1	3.8	4.3	4.8	0.9	0.8	0.8
9	Sunac	1918 HK	BUY	12.00	34	10.00	44	27	81	(58.65)	7.1	7.6	7.2	2.4	2.4	2.5	1.6	1.4	1.2
10	Guangzhou R&F	2777 HK	NR		31	9.66	10	2	(11)	(68.79)	7.0	4.5	4.0	0.0	4.2	5.9	0.7	0.5	0.5
11	Agile	3383 HK	NR		25	6.40	38	45	(43)	(63.59)	5.1	5.3	5.1	6.1	5.6	5.7	0.6	0.5	0.5
12	Yuexiu Properties	123 HK	NR		23	1.89	23	27	(13)	(57.53)	11.9	10.3	9.0	4.0	4.3	4.8	0.6	0.6	0.6
13	KWG	1813 HK	NR		23	7.79	57	47	33	(49.35)	6.7	5.7	4.8	5.3	5.6	6.6	0.9	0.8	0.7
14	Greentown	3900 HK	HOLD	9.70	22	9.95	49	29	(30)	(18.34)	9.3	5.5	5.6	0.0	5.0	5.7	0.7	0.7	0.6
15	CIFI	884 HK	BUY	3.20	15	2.50	61	71	68	(44.86)	6.2	5.7	5.2	4.4	4.8	5.2	1.2	1.0	0.9
16	BJ Capital Land	2868 HK	NR		14	6.87	82	149	22	24.91	8.9	5.8	4.4	4.5	5.0	5.6	1.2	na	na
17	COGO	81 HK	NR		11	4.94	25	25	(46)	(61.91)	9.1	5.5	4.5	1.0	1.5	1.9	0.9	0.8	0.7
<b>HK Listed Avg</b>							<b>39</b>	<b>41</b>	<b>2</b>	<b>(38.20)</b>	<b>10.2</b>	<b>7.3</b>	<b>6.2</b>	<b>3.8</b>	<b>4.4</b>	<b>5.2</b>	<b>1.1</b>	<b>0.9</b>	<b>0.8</b>
- Large cap (>HKD50b) avg							<b>41</b>	<b>39</b>	<b>6</b>	<b>(23.64)</b>	<b>14.4</b>	<b>9.3</b>	<b>7.5</b>	<b>3.5</b>	<b>3.5</b>	<b>4.2</b>	<b>1.4</b>	<b>1.2</b>	<b>1.1</b>
- Small-mid cap (<HKD50b) avg							<b>38</b>	<b>42</b>	<b>0</b>	<b>(47.91)</b>	<b>7.4</b>	<b>5.9</b>	<b>5.2</b>	<b>3.9</b>	<b>5.0</b>	<b>5.9</b>	<b>0.9</b>	<b>0.7</b>	<b>0.6</b>
1	Vanke-A	000002 CH	NR		190	13.56	12	(2)	56	(11.95)	13.5	7.4	6.4	3.7	4.1	4.8	1.7	1.4	1.2
2	Poly-A	600048 CH	NR		183	13.65	44	26	105	(21.55)	14.5	9.8	8.4	1.6	1.9	2.2	2.3	1.9	1.6
3	China Merchants Property	000024 CH	NR		94	31.96	25	21	96	(5.26)	19.3	15.1	13.0	1.0	1.2	1.3	2.6	2.3	2.1
4	Gemdale	600383 CH	NR		71	12.66	43	11	74	0.64	14.2	12.1	10.6	1.0	1.2	1.4	1.8	1.6	1.5
5	Xiamen C&D	600153 CH	NR		49	13.92	53	37	57	64.93	14.7	12.3	10.2	2.9	1.8	1.9	2.3	2.1	1.8
6	Risesun	002146 CH	NR		48	20.09	23	27	62	26.51	11.7	8.7	8.0	2.2	1.3	1.4	2.7	2.2	1.8
7	Beijing Huaye	600240 CH	NR		30	16.70	66	132	77	na	57.3	20.6	18.2	0.6	2.6	2.2	6.3	4.9	4.1
8	Hangzhou Binjiang	002244 CH	NR		23	13.58	84	69	16	0.82	22.2	12.1	12.7	0.5	0.6	0.7	2.2	1.9	1.7
9	Cinda Real Estates	600657 CH	NR		17	8.71	19	7	159	na	16.1	16.2	13.3	1.2	Na	Na	1.7	NA	NA
10	Huafa Industrial	600325 CH	NR		14	14.13	20	15	71	(1.81)	17.8	16.9	15.4	0.7	1.8	2.0	1.6	1.6	1.5
<b>A-share Listed Avg</b>							<b>39</b>	<b>34</b>	<b>77</b>	<b>6.54</b>	<b>20.1</b>	<b>13.1</b>	<b>11.6</b>	<b>1.5</b>	<b>1.8</b>	<b>2.0</b>	<b>2.5</b>	<b>2.2</b>	<b>1.9</b>
- Large cap (>HKD50b) avg							<b>31</b>	<b>14</b>	<b>83</b>	<b>(9.53)</b>	<b>15.4</b>	<b>11.1</b>	<b>9.6</b>	<b>1.8</b>	<b>2.1</b>	<b>2.4</b>	<b>2.1</b>	<b>1.8</b>	<b>1.6</b>
- Small-mid cap (<HKD50b) avg							<b>44</b>	<b>48</b>	<b>74</b>	<b>22.61</b>	<b>23.3</b>	<b>14.5</b>	<b>13.0</b>	<b>1.3</b>	<b>1.6</b>	<b>1.6</b>	<b>2.8</b>	<b>2.5</b>	<b>2.2</b>
<b>Commercial:</b>																			
1	SOHO China	410 HK	NR		30	5.74	5	5	(14)	(28.25)	13.8	26.2	24.9	5.4	5.2	5.3	0.6	0.6	0.6
2	HLP	101 HK	NR		114	25.35	13	19	(8)	(26.99)	11.3	17.5	18.3	3.0	3.1	3.1	0.9	0.8	0.8
3	China South City	1668 HK	BUY	4.60	26	3.26	39	(8)	67	(64.21)	8.3	7.5	5.4	4.3	5.8	7.4	1.1	1.2	1.1
4	Hui Xian REIT	87001 HK	NR		23	3.48	0	4	(3)	(20.46)	28.0	15.3	14.7	7.4	7.9	8.2	0.6	0.7	0.7
5	Franshion	817 HK	BUY	4.50	28	3.12	38	41	(14)	(57.94)	8.5	8.2	6.5	3.7	4.0	5.1	0.9	0.8	0.7
6	Shui On Land	272 HK	NR		20	2.50	42	37	(21)	(30.07)	na	43.5	15.0	2.4	2.2	2.9	0.4	0.4	0.4
8	Yuexiu REIT	405 HK	NR		12	4.36	6	16	11	na	38.4	24.4	22.9	6.8	7.2	7.5	0.7	0.8	0.8
9	Zall	2098 HK	NR		10	2.87	17	7	(2)	na	39.4	na	na	0.0	na	na	1.0	na	na
10	Wuzhou	1369 HK	NR		6	1.39	5	(5)	(21)	na	56.5	9.3	na	0.0	na	na	2.1	na	na
<b>Commercial Avg</b>							<b>18</b>	<b>10</b>	<b>(1)</b>	<b>(43.13)</b>	<b>23.2</b>	<b>17.2</b>	<b>13.7</b>	<b>4.4</b>	<b>6.2</b>	<b>7.2</b>	<b>0.9</b>	<b>0.8</b>	<b>0.7</b>
- Developers							<b>31</b>	<b>18</b>	<b>5</b>	<b>(45.12)</b>	<b>20.3</b>	<b>16.4</b>	<b>12.0</b>	<b>3.7</b>	<b>5.8</b>	<b>7.0</b>	<b>1.0</b>	<b>0.8</b>	<b>0.7</b>
- Landlords/REIT							<b>9</b>	<b>(5)</b>	<b>(3)</b>	<b>(47.22)</b>	<b>33.2</b>	<b>19.9</b>	<b>18.8</b>	<b>7.1</b>	<b>7.5</b>	<b>7.8</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>

\* Share price as at May 6, 2015

Source(s): Bloomberg, ABCI Securities estimates



## Risk factors

- **Rise of online retailing in China.** Online retailing has been growing fast, from RMB 785bn in 2011 to RMB 2,815bn in 2014, representing a 53% CAGR over the period and 11.8% of total China's retail sales in 2014. Wanda's physical mall will inevitably be impacted by the changing shopping habit of consumers in China. Nonetheless, key tenants of a certain Wanda Plaza (e.g. IMAX cinema, numerous F&B clients) focus mainly on experience consumption that cannot be easily offered by online retailers.
- **Substantial government grant received.** In 2013, Wanda recognized a total of RMB 3,295mn in government grant, representing 8.8% of GP or 10.3% of EBIT. We expect government grant to decline in future as lower-tier cities becomes less willing to offer incentives. In 2014, government grant registered a 64% YoY decline to RMB1,198mn.
- **Significant related-party transaction.** Revenue derived from sister companies, Wanda department stores and Wanda Cinema, is high at 17.5% of total rental income. Wanda may have limited pricing power on these rental spaces as they are controlled by the same major shareholders.
- **Rising litigation risks in sector.** The recent management scandals in Kaisa and Agile rose market concerns over rising litigation risk in China property sector. Players focusing on lower-tier cities are of greater risk given the less transparent land acquisition process.



**Consolidated income statement (2012A-2017E)**

<b>FY Ended Dec 31 (RMB mn)</b>	<b>2012A</b>	<b>2013A</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>
<b>Revenue</b>	<b>59,091</b>	<b>86,774</b>	<b>107,871</b>	<b>133,038</b>	<b>168,763</b>	<b>185,429</b>
Cost of sales	(28,807)	(49,438)	(61,945)	(68,636)	(87,849)	(91,488)
<b>Gross Profit</b>	<b>30,284</b>	<b>37,336</b>	<b>45,926</b>	<b>64,403</b>	<b>80,914</b>	<b>93,941</b>
SG&A expenses	(7,219)	(9,565)	(13,653)	(15,221)	(18,074)	(17,948)
<b>EBIT</b>	<b>23,065</b>	<b>27,771</b>	<b>32,273</b>	<b>49,182</b>	<b>62,840</b>	<b>75,993</b>
Finance cost	(3,861)	(5,855)	(7,132)	(7,822)	(7,301)	(8,108)
Share of profit of associates	0	(9)	(2)	0	0	0
Other income/ (expenses)	2,162	4,142	3,206	1,824	1,580	1,247
Fair value gain of investment properties	21,898	15,443	13,455	0	0	0
Disposal/one-off items	0	0	0	0	0	0
<b>Profit before tax</b>	<b>43,264</b>	<b>41,492</b>	<b>41,800</b>	<b>43,184</b>	<b>57,119</b>	<b>69,132</b>
Tax	(15,443)	(16,610)	(16,699)	(18,858)	(24,631)	(30,594)
<b>Profit after tax</b>	<b>27,821</b>	<b>24,882</b>	<b>25,101</b>	<b>24,326</b>	<b>32,488</b>	<b>38,538</b>
Minority interest & Perpetual coupons	(511)	(301)	(262)	0	0	0
<b>Reported net profit</b>	<b>27,310</b>	<b>24,581</b>	<b>24,839</b>	<b>24,326</b>	<b>32,488</b>	<b>38,538</b>
<i>Less: exceptional items</i>	<i>(16,424)</i>	<i>(11,582)</i>	<i>(10,015)</i>	<i>0</i>	<i>0</i>	<i>0</i>
<b>Underlying net profit</b>	<b>10,887</b>	<b>12,999</b>	<b>14,824</b>	<b>24,326</b>	<b>32,488</b>	<b>38,538</b>
<b>Per share</b>						
Underlying EPS (RMB)	2.91	3.48	3.97	5.37	7.18	8.51
DPS (RMB)	-	-	0.95	1.61	2.15	2.55
Payout ratio (%)	0%	0%	24%	30%	30%	30%
BVPS (RMB)	22.95	29.01	40.94	37.51	42.54	48.50
<b>Growth %</b>						
Revenue	16.4%	46.8%	24.3%	23.3%	26.9%	9.9%
Gross Profit	24.6%	23.3%	23.0%	40.2%	25.6%	16.1%
EBIT	28.6%	20.4%	16.2%	52.4%	27.8%	20.9%
Underlying net profit	17.2%	19.4%	14.0%	64.1%	33.6%	18.6%
<b>Margin %</b>						
Gross margin	51.2%	43.0%	42.6%	48.4%	47.9%	50.7%
Gross margin (post-LAT)	39.3%	31.3%	32.6%	31.1%	31.2%	32.7%
EBIT margin	39.0%	32.0%	29.9%	37.0%	37.2%	41.0%
Core net margin	19.3%	15.3%	13.9%	18.3%	19.3%	20.8%
<b>Key assumptions</b>						
Contracted Sales (RMBm)	101,200	126,400	160,100	181,246	247,730	235,759
GFA sold (m sqm)	7.39	10.59	11.89	13.60	17.07	15.81
ASP (RMB/sqm)	13,700	11,941	13,470	13,323	14,509	14,915
Booked Sales (RMB)	50,573	74,981	91,748	112,465	144,717	159,236
GFA delivered (m sqm)	3.48	6.28	8.69	10.64	11.39	10.65
Booked ASP (RMB/sqm)	14,541	11,932	10,558	10,572	12,709	14,955

Source: Company, ABCI Securities estimates



**Consolidated balance sheet (2012A-2017E)**

<b>As of Dec 31 (RMB mn)</b>	<b>2012A</b>	<b>2013A</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>
<b>Current assets</b>	<b>149,003</b>	<b>196,302</b>	<b>261,472</b>	<b>295,441</b>	<b>319,492</b>	<b>339,144</b>
Cash	48,585	69,525	86,303	72,887	70,354	17,966
Restricted cash	2,131	4,139	6,732	6,732	6,732	6,732
Trade & other receivables	333	280	848	848	848	848
Property under development	76,378	100,474	145,192	192,577	219,161	291,202
Other current assets	21,576	21,884	22,397	22,397	22,397	22,397
<b>Non-current assets</b>	<b>186,109</b>	<b>234,742</b>	<b>302,822</b>	<b>346,827</b>	<b>365,831</b>	<b>387,404</b>
Property, plant & equipment	18,246	25,955	35,147	38,361	41,575	44,789
Investment properties	159,074	198,539	248,101	288,892	304,682	323,041
Investment in Associate and JCE	11	125	485	485	485	485
Other non-current assets	8,778	10,123	19,089	19,089	19,089	19,089
<b>Total Assets</b>	<b>335,112</b>	<b>431,044</b>	<b>564,294</b>	<b>642,268</b>	<b>685,324</b>	<b>726,549</b>
<b>Current Liabilities</b>	<b>157,129</b>	<b>180,277</b>	<b>235,461</b>	<b>296,407</b>	<b>316,721</b>	<b>330,969</b>
Short term borrowings	21,872	21,466	36,859	36,859	36,859	76,859
Trade & other payables	25,662	34,628	53,743	53,743	53,743	53,743
Pre-sales deposits	94,070	104,273	129,397	190,343	210,658	184,905
Other current assets	15,525	19,910	15,462	15,462	15,462	15,462
<b>Non-current liabilities</b>	<b>90,632</b>	<b>136,895</b>	<b>173,687</b>	<b>173,687</b>	<b>173,687</b>	<b>173,687</b>
Long term borrowings	71,547	112,916	144,505	144,505	144,505	144,505
Other payables	0	0	0	0	0	0
Other non-current assets	19,085	23,979	29,182	29,182	29,182	29,182
<b>Total Liabilities</b>	<b>247,761</b>	<b>317,172</b>	<b>409,148</b>	<b>470,094</b>	<b>490,408</b>	<b>504,656</b>
<b>Net Assets</b>	<b>87,351</b>	<b>113,872</b>	<b>155,146</b>	<b>172,174</b>	<b>194,915</b>	<b>221,892</b>
<b>Shareholders Equity</b>	<b>85,727</b>	<b>108,286</b>	<b>152,814</b>	<b>169,842</b>	<b>192,583</b>	<b>219,560</b>
Minority Interest	1,624	5,586	2,332	2,332	2,332	2,332
<b>Total Equity</b>	<b>87,351</b>	<b>113,872</b>	<b>155,146</b>	<b>172,174</b>	<b>194,915</b>	<b>221,892</b>
<b>Key ratio</b>						
Gross debt (RMBm)	93,419	134,382	181,364	181,364	181,364	221,364
Net debt (RMBm)	42,703	60,718	88,329	101,745	104,278	196,666
Net gearing (%)	49%	53%	57%	59%	53%	89%

Source(s): Company, ABCI Securities estimates



**Consolidated cash flow statement (2012A-2017E)**

<b>FY Ended Dec 31 (RMB mn)</b>	<b>2012A</b>	<b>2013A</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>
EBITDA	23,946	28,825	33,806	51,175	64,833	77,986
Change in Working Capital	622	(8,531)	291	19,312	(903)	(91,832)
Tax payment	(11,559)	(11,680)	(16,205)	(18,858)	(24,631)	(30,594)
<b>Operating Cashflow</b>	<b>13,009</b>	<b>8,614</b>	<b>17,892</b>	<b>51,629</b>	<b>39,298</b>	<b>(44,440)</b>
Purchase of PP&E	(3,255)	(5,207)	(5,207)	(5,207)	(5,207)	(5,207)
Addition of Investment Properties	(19,550)	(14,953)	(29,810)	(40,791)	(15,791)	(18,359)
Others	(1,369)	(1,888)	3,206	1,824	1,580	1,247
<b>Investing Cashflow</b>	<b>(24,174)</b>	<b>(22,048)</b>	<b>(31,811)</b>	<b>(44,174)</b>	<b>(19,418)</b>	<b>(22,319)</b>
Debt raised	57,470	84,359	58,860	50,000	50,000	50,000
Debt repaid	(33,848)	(40,304)	(37,300)	(50,000)	(50,000)	(10,000)
Interest expenses	(6,043)	(10,504)	(12,375)	(13,573)	(12,668)	(14,068)
Equity raised	0	0	25,058	0	0	0
Dividend to shareholders	(1,967)	(1,999)	(3,546)	(7,298)	(9,746)	(11,562)
Others	90	2,822	0	0	0	0
<b>Financing Cashflow</b>	<b>15,702</b>	<b>34,374</b>	<b>30,697</b>	<b>(20,870)</b>	<b>(22,414)</b>	<b>14,371</b>
<b>Net cash inflow/ (outflow)</b>	<b>4,537</b>	<b>20,940</b>	<b>16,778</b>	<b>(13,416)</b>	<b>(2,534)</b>	<b>(52,388)</b>
Cash- beginning	44,048	48,585	69,525	86,303	72,887	70,354
<b>Cash- year-end</b>	<b>48,585</b>	<b>69,525</b>	<b>86,303</b>	<b>72,887</b>	<b>70,354</b>	<b>17,966</b>

Source(s): Company, ABCI Securities estimates

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### Definition of equity rating

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

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

Market return: 5-year average market return rate from 2010-2014

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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