



## Sunac (1918 HK) FY16 presale exceeded target

- Sunac acquired a 6.25% stake in Homelink at RMB 2.8bn
- Sunac achieved RMB 150.6bn in presales for FY16, up 121% YoY; better-than-expected presale may ease year-end net gearing and alleviate market concern
- Share placement to major shareholder in Sep 2016 reflected management's confidence
- Upgrade to **BUY** from HOLD with TP of HK\$9.50 (from HK\$5.10) based on a 65% discount to NAV

**Acquisition of a 6.25% stake in Homelink at RMB 2.8bn.** On Jan 9, 2017, Sunac announced to subscribe 6.25% new shares in Homelink (北京链家), one of the largest real estate agencies in China, at RMB 2.8bn. According to the announcement, Homelink's registered a net profit of RMB 809mn in FY15, implying a valuation of 55x historical P/E. Sunac will be entitled to appoint one director and Homelink will become an associate company. We believe the transaction will enhance Sunac's net profit by 1-2%, while future synergy may occur by integrating Sunac's own sales and marketing team with Homelink. Homelink has about 8000 branches in 28 cities and employs over 130,000 real estate agents. Amid the property tightening cycle, we believe developers will increase its reliance on real estate agents to boost sales performance.

**Presale in Dec 2016 reached record high, which should lower gearing.** Sunac's presale in Nov and Dec exceeded RMB 20bn each, with Dec's presale reached a record high of RMB 25.5bn, up 200% YoY. For 2016, Sunac's presale totaled RMB 150.6bn, up 121%YoY, well above its revised target of RMB 110bn, ranking 7<sup>th</sup> by sales amount in China. Sunac has been de-rated by market after its 2016 interim results that reported a net gearing of 85.1% (or 149% if perpetual instruments are considered as debts) as of June 16, as compared to 70.7% in Dec 2015. We believe the impressive presale in Nov and Dec would help lower its year-end net gearing substantially and hence, easing a major investors' concern. We forecast net gearing may fall to 42% (or 80% if consider perpetual instruments as debts) in Dec 2016 from 76% in Dec 2015. For 2017, the Group set a sales target of RMB210bn, implying a 39%YoY growth

**Share placement at premium to major shareholder in Sep reflects management's confidence.** In Sep 26, 2016, Sunac issued 453mn of new shares (11.7% of enlarged capital) at HK\$6.18 /share (a 7% premium to HK\$ 5.8/share last close) to its major shareholder Mr. Sun, and generated HK\$ 2.8bn of new proceeds in return. The new share issuance, we believe, reflects management confidence while lowering the Group's net gearing. In fact, share price rallied 19% since the share issuance (which generated a 13% return for Mr. Sun). Besides, stake increase by major shareholders at the end of year may imply a better-than-expected FY16 results and impressive presale in Nov and Dec concurs with such conjecture.

### Results and Valuation

FY ended Dec 31	2014A	2015A	2016E	2017E	2018E
Revenue (RMB mn)	25,072	23,011	56,522	91,775	115,719
Chg (% YoY)	(18.7)	(8.2)	145.6	62.4	26.1
Core net profit (RMB mn)	3,729	3,377	2,062	3,639	5,146
Chg (% YoY)	5.9	(9.4)	(38.9)	76.5	41.4
Core EPS (RMB)	1.12	1.02	0.53	0.94	1.33
Chg (% YoY)	5.9	(9.4)	(47.5)	76.5	41.4
BVPS (RMB)	4.93	5.73	6.01	6.78	7.88
Chg (% YoY)	20.2	16.2	4.8	12.9	16.1
Core PE (x)	5.5	6.1	11.7	6.6	4.7
P/B (x)	1.3	1.1	1.0	0.9	0.8
ROE (%)	22.8	17.8	6.8	10.8	13.6
ROA (%)	3.3	2.9	1.2	1.5	1.8
DPS(HK\$)	0.19	0.19	0.10	0.17	0.24
Yield (%)	3.0	3.1	1.5	2.7	3.8
Net gearing (%)	44.5	75.9	41.7	Net cash	Net cash

Source(s): Bloomberg, ABCI Securities estimates

## Company Report

Jan 11, 2017

Rating: **BUY**

TP: **HK\$ 9.50**

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Share price (HK\$)	6.99
Est. share price return	35.9%
Est. dividend yield	1.6%
Est. total return	37.5%
Previous Rating & TP	HOLD, HK\$5.1
Previous Report Date	Nov 3, 2016

Source(s): Bloomberg, ABCI Securities

### Key Data

52Wk H/L(HK\$)	7.04/4.34
Issued shares (mn)	3,857
Market cap (HK\$ mn)	26,784
3-mth avg daily turnover(HK\$ mn)	87.73
Major shareholder(s) (%)	
SUN Hongbin	53.22%

Source(s): Bloomberg, ABCI Securities

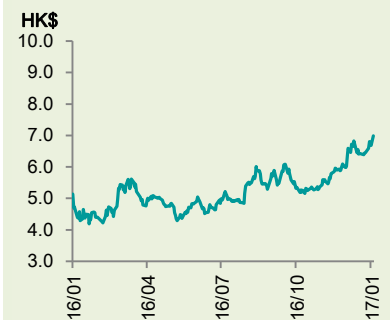
### Sector Performance

	Absolute	Relative*
1-mth	5.3	5.8
3-mth	31.7	36.0
6-mth	35.0	26.5

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

### 1-Year sector performance(HK\$)



Source(s): Bloomberg, ABCI Securities

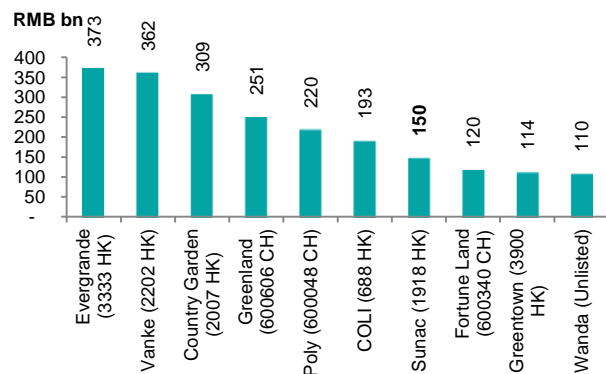
**Upgrade to BUY from HOLD with revised TP of HK\$ 9.50.** Due to better-than-expected presales performance in 2016, we raise Sunac's 2017E NAV forecast to HK\$ 27.2/share from HK\$ 14.6/share. We also raise our TP to HK\$ 9.5 (from HK\$ 5.2) based on an unchanged discount of 65% to NAV. Over the past 12 months, Sunac has shifted its focus to project acquisition (e.g. asset from Legend Holdings) from firm-wide acquisitions that usually involve complicated structures (e.g. Greentown and Kaisa). We believe such strategic shift has boosted presale in 2016 by redirecting the Group's effort to developing its core business from the time-consuming, deal-related affairs (e.g. deal diligence and regulatory approval).

**Risk factors:** 1) Margin erosion on surging land cost; 2) Increasing use of perpetual instruments.

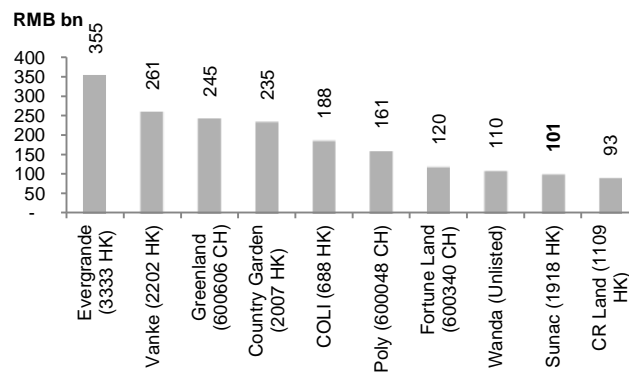
**Exhibit 1: Sunac's 2017E NAV**

	Attr. GFA (M sqm)	Net assets value (RMB m)	% of total	Valuation Method	Implied value per sqm (RMB)
<b>Property development</b>					
Tianjin	6.0	8,153	11%		1,359
Beijing	2.5	3,127	4%		1,263
Chongqing	9.0	3,849	5%	DCF at WACC of 13.7%	428
Wuxi	3.2	2,362	3%		736
Shanghai	3.4	7,399	10%		2,187
Others	13.7	40,868	53%		2,990
<b>Subtotal</b>	<b>37.7</b>	<b>65,757</b>	<b>85%</b>		<b>1,743</b>
<b>Property investment &amp; management</b>		4,592	6%	6.5% cap rate on 2016E net rental income	
<b>Investment in Jinke Properties / Homelink</b>		6,800	9%	Market value/ Historical cost	
<b>Total 2017E GAV</b>		<b>77,149</b>	<b>100%</b>		
2017E Net cash/ (debt)		24,154	31%		
2017E Perpetual instrument		(7,500)	-10%		
<b>Total 2017E NAV</b>		<b>93,803</b>	<b>122%</b>		
No. of share outstanding (diluted)		3,857			
<b>NAV per share (RMB)</b>		<b>24.3</b>			
Ex rate		1.12			
<b>NAV per share (HKD)</b>		<b>27.2</b>			
Target discount (%)		65%			
<b>Target Price (HKD)</b>		<b>9.50</b>			
<b>WACC</b>	<b>13.7%</b>				
Cost of debt	8.0%				
Cost of Equity	30.0%				
<b>Debt/ (Debt + Equity)</b>	<b>68%</b>				

Source(s): Company, ABCI Securities estimates

**Exhibit 2: Top 10 Chinese developers by total presale**


Source(s): CRIC, ABCI Securities

**Exhibit 3: Top 10 Chinese developers by attributable presale**


Source(s): CRIC, ABCI Securities



**Consolidated income statement (2013A-2018E)**

<b>FY Ended Dec 31 (RMB mn)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015A</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>
<b>Revenue</b>	<b>30,837</b>	<b>25,072</b>	<b>23,011</b>	<b>56,522</b>	<b>91,775</b>	<b>115,719</b>
Cost of sales	(23,660)	(20,197)	(20,154)	(43,704)	(71,621)	(91,523)
<b>Gross Profit</b>	<b>7,177</b>	<b>4,875</b>	<b>2,857</b>	<b>12,818</b>	<b>20,154</b>	<b>24,196</b>
SG&A expenses	(1,136)	(1,378)	(1,436)	(3,105)	(3,947)	(3,273)
<b>EBIT</b>	<b>6,041</b>	<b>3,497</b>	<b>1,421</b>	<b>9,713</b>	<b>16,207</b>	<b>20,923</b>
Finance cost	(580)	(1,267)	(1,720)	(2,246)	(2,726)	(3,206)
Share of profit of associates	72	2,181	1,693	1,725	1,832	1,263
Other income/ (expenses)	75	908	1,124	789	907	1,171
Fair value gain of investment	-	-	-	-	-	-
Disposal/one-off items	77	(417)	2,046	-	-	-
<b>Profit before tax</b>	<b>5,684</b>	<b>4,902</b>	<b>4,564</b>	<b>9,981</b>	<b>16,219</b>	<b>20,150</b>
Tax	(2,191)	(1,669)	(955)	(5,010)	(7,465)	(8,812)
<b>Profit after tax</b>	<b>3,494</b>	<b>3,233</b>	<b>3,608</b>	<b>4,971</b>	<b>8,755</b>	<b>11,339</b>
Minority interest	(315)	(11)	(311)	(2,585)	(4,441)	(5,518)
Perpetual coupon payment	-	-	-	(324)	(675)	(675)
<b>Reported net profit</b>	<b>3,178</b>	<b>3,222</b>	<b>3,298</b>	<b>2,062</b>	<b>3,639</b>	<b>5,146</b>
Less: exceptional items	344	507	79	-	-	-
<b>Core net profit</b>	<b>3,523</b>	<b>3,729</b>	<b>3,377</b>	<b>2,062</b>	<b>3,639</b>	<b>5,146</b>
<b>Per share</b>						
Core EPS (RMB)	1.06	1.12	1.02	0.53	0.94	1.33
DPS (RMB)	0.19	0.19	0.19	0.10	0.17	0.24
Payout ratio (%)	18%	17%	19%	18%	18%	18%
BVPS (RMB)	4.10	4.93	5.73	6.01	6.78	7.88
<b>Growth %</b>						
Revenue	48.0%	-18.7%	-8.2%	145.6%	62.4%	26.1%
Gross Profit	33.3%	-32.1%	-41.4%	348.6%	57.2%	20.1%
EBIT	34.3%	-42.1%	-59.4%	583.4%	66.9%	29.1%
Underlying net profit	28.8%	5.9%	-9.4%	-38.9%	76.5%	41.4%
<b>Margin %</b>						
Gross margin	23.3%	19.4%	12.4%	22.7%	22.0%	20.9%
Gross margin (post-LAT)	20.5%	16.3%	14.3%	16.9%	17.1%	16.6%
EBIT margin	19.6%	13.9%	6.2%	17.2%	17.7%	18.1%
Core net margin	10.9%	5.4%	1.7%	5.2%	6.8%	8.1%
<b>Key assumptions</b>						
Contracted Sales (RMB mn)	51,981	65,800	68,210	150,630	186,425	154,641
GFA sold (mn sqm)	2.53	3.10	3.50	7.58	9.90	8.19
ASP (RMB/sqm)	20,519	21,246	19,477	19,867	18,827	18,888
Booked Sales (RMB mn)	30,596	24,719	22,511	55,997	91,224	115,140
GFA delivered (mn sqm)	1.75	1.65	1.85	2.88	4.80	6.17
Booked ASP (RMB/sqm)	17,530	15,009	12,148	19,451	19,021	18,670

Source(s): Company, ABCI Securities estimates



**Consolidated balance sheet (2013A-2018E)**

As of Dec 31 (RMB mn)	2013A	2014A	2015A	2016E	2017E	2018E
<b>Current assets</b>	<b>87,590</b>	<b>97,467</b>	<b>93,725</b>	<b>152,161</b>	<b>209,056</b>	<b>252,719</b>
Cash	13,414	20,657	22,687	33,562	81,582	165,559
Restricted cash	2,595	4,384	4,371	4,371	4,371	4,371
Trade & other receivables	1,214	2,475	970	970	970	970
Property under development	58,106	49,383	49,870	97,431	106,307	65,993
Other current assets	12,261	20,568	15,826	15,826	15,826	15,826
<b>Non-current assets</b>	<b>9,765</b>	<b>14,895</b>	<b>21,784</b>	<b>26,221</b>	<b>29,680</b>	<b>30,224</b>
Property, plant & equipment	65	62	69	61	53	45
Investment properties	252	239	-	-	-	-
Investment in Associate and JCE	7,909	12,049	15,261	19,706	23,172	23,725
Other non-current assets	1,539	2,546	6,455	6,455	6,455	6,455
<b>Total Assets</b>	<b>97,355</b>	<b>112,362</b>	<b>115,509</b>	<b>178,382</b>	<b>238,736</b>	<b>282,944</b>
<b>Current Liabilities</b>	<b>51,789</b>	<b>64,949</b>	<b>64,495</b>	<b>113,516</b>	<b>166,144</b>	<b>200,665</b>
Short term borrowings	7,835	13,840	14,584	24,584	34,584	44,584
Trade & other payables	12,402	11,616	10,944	10,944	10,944	10,944
Pre-sales deposits	13,647	12,271	13,420	52,441	95,069	119,590
Other current assets	17,905	27,223	25,546	25,546	25,546	25,546
<b>Non-current liabilities</b>	<b>27,355</b>	<b>26,431</b>	<b>31,594</b>	<b>31,594</b>	<b>31,594</b>	<b>31,594</b>
Long term borrowings	20,872	20,544	27,214	27,214	27,214	27,214
Other payables	-	-	-	-	-	-
Other non-current assets	6,483	5,887	4,379	4,379	4,379	4,379
<b>Total Liabilities</b>	<b>79,144</b>	<b>91,380</b>	<b>96,089</b>	<b>145,110</b>	<b>197,737</b>	<b>232,258</b>
<b>Net Assets</b>	<b>18,211</b>	<b>20,983</b>	<b>19,420</b>	<b>33,273</b>	<b>40,998</b>	<b>50,686</b>
<b>Shareholders' Equity</b>	<b>13,605</b>	<b>16,353</b>	<b>19,005</b>	<b>23,174</b>	<b>26,158</b>	<b>30,377</b>
Perpetual capital instrument	-	-	-	7,149	7,500	7,500
Minority Interest	4,606	4,630	415	2,949	7,340	12,808
<b>Total Equity</b>	<b>18,211</b>	<b>20,983</b>	<b>19,420</b>	<b>33,273</b>	<b>40,998</b>	<b>50,686</b>
<b>Key ratio</b>						
Gross debt (RMB mn)	28,706	34,384	41,799	51,799	61,799	71,799
Net debt (RMB mn)	12,698	9,342	14,740	13,865	(24,154)	(98,132)
Net gearing (%)	70%	45%	76%	42%	(59%)	(194%)
Contracted sales/ Total assets (x)	53%	59%	59%	84%	78%	55%

Source(s): Company, ABCI Securities estimates

**Consolidated cash flow statement (2013A-2018E)**

<b>FY ended Dec 31 (RMB mn)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015A</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>
EBITDA	6,065	3,522	1,449	9,741	16,235	20,951
Change in Working Capital	5,049	6,227	4,204	(7,043)	35,570	66,972
Tax payment	(2,790)	(1,669)	(955)	(5,010)	(7,465)	(8,812)
<b>Operating Cash flow</b>	<b>8,324</b>	<b>8,080</b>	<b>4,698</b>	<b>(2,312)</b>	<b>44,340</b>	<b>79,112</b>
Purchase of PP&E	(27)	(20)	(20)	(20)	(20)	(20)
Addition of Investment Properties	(9,567)	-	-	-	-	-
Others	(5,473)	1,353	6,091	(1,931)	(728)	1,881
<b>Investing Cash flow</b>	<b>(15,067)</b>	<b>1,333</b>	<b>6,071</b>	<b>(1,951)</b>	<b>(748)</b>	<b>1,861</b>
Debt raised	26,215	10,760	9,358	10,000	10,000	10,000
Debt repaid	(18,243)	(9,214)	(15,000)	-	-	-
Interest expenses	(2,500)	(3,036)	(2,948)	(3,744)	(4,544)	(5,344)
Equity raised	1,628	-	-	2,478	-	-
Dividend to shareholders	(261)	(630)	(643)	(371)	(655)	(926)
Others	4,924	(50)	495	6,775	(374)	(725)
<b>Financing Cash flow</b>	<b>11,763</b>	<b>(2,170)</b>	<b>(8,739)</b>	<b>15,138</b>	<b>4,427</b>	<b>3,005</b>
<b>Net cash inflow/ (outflow)</b>	<b>5,020</b>	<b>7,243</b>	<b>2,030</b>	<b>10,875</b>	<b>48,019</b>	<b>83,978</b>
Cash- beginning	8,394	13,414	20,657	22,687	33,562	81,582
<b>Cash- year-end</b>	<b>13,414</b>	<b>20,657</b>	<b>22,687</b>	<b>33,562</b>	<b>81,582</b>	<b>165,559</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

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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