



**Key Data**

Share price (HK\$)	4.19
Target price(HK\$)	5.55
52Wk H/L(HK\$)	5.40/2.28
Issued shares (mn)	2893.2
Market cap (HK\$m)	12,151
30-day avg turnover (HK\$m)	29.26
Auditors	Ernst&Young
Major shareholder:	
Kong jianmin*	60.49

\*Founder and Chairman of the group

Source: Company data & Bloomberg

**Revenue composition in 1HFY12(%)**

Property development	97.4
Rental	1.1
Others	1.5

Source: Company data

**Share performance (%)**

	Absolute	Relative*
1-mth	2.2	(2.4)
3-mth	(13.8)	(19.2)
6-mth	(9.5)	(10.1)

Source: Bloomberg

\*Relative to Hang Seng Index

**1 year price performance**



Source: Bloomberg

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**KWG(1813HK) –Buy**

**Real Estate Development Industry**

**Limited impact from new curbing policy in Guangzhou**

**Guangzhou government is limiting pre-sales of highly-priced properties, aiming to curb new home prices in the strong sales season on statistics front. After confirmation with management, we expect this to yield limited impact on KWG. Maintain our BUY rating with TP HK\$5.55.**

**New policy in Guangzhou (GZ):** GZ government confirmed the rumor that they are limiting pre-sales volume of highly-priced properties. Local government believe that new home price in GZ is distorted by recent high transaction volume for highly-priced projects in the central district. The government don't have a definition on high prices and other execution details are yet to be announced either. We expect that new homes with ASP above Rmb30,000 should be under the pre-sale restriction.

**Temporary policy and unlikely to expand:** Unlike the Home Purchase Restriction, which is curbing demand, Selling Restriction is going to reduce short term supply, this will ultimately help to boost up price. We view this as temporary policy curbing price in the strong sales season and low possibility to spread out to other cities. Among the 4 top tier cities, GZ faces the largest pressure in curbing new home prices. Per data released by NBSC, GZ witnessed the strongest MoM rebound in new home price compared to Beijing, Shanghai and Shenzhen, at 0.2% in Jun, 0.2% in Jul and 0.3% in Aug.

**Limited impact on KWG:** Based in GZ, KWG has diversified geographically. By our estimation, in 2012 ~30% sales of the group are contributed by the city, with three projects on hot sale in the city, including Riviera, the Summit and Biological Island. Although, Riviera with part of units priced around Rmb40,000-50,000/sq.m. should be classified as highly-priced properties, it is a commercial property project. Per NBSC, transacted ASP of commercial projects will not be counted towards the residential statistics in the city. Thus, less focus will be put on such projects as the government is aiming to lower ASP on the statistics front.

**Convincing valuation:** The stock is trading at 4.51x 12E PE, or 2s.d. below mean, and with the est. dividend yield at 5.6%, we believe the valuation is attractive. We maintain our BUY rating with TP HK\$5.55, representing 40% discount to our revised NAV, 6.0x forward PE.

**Risk factors:** Better/worse-than-expected sales; further unfavorable government policy; negative monthly contracted sales growth rate.

**Forecast and Valuation**

FY ended Dec 31	FY09A	FY10A	FY11A	FY12E	FY13E
Revenue (Rmbmn)	4,267	7,466	10,123	11,471	10,818
YoY chg(%)	171.0	75.0	35.6	13.3	-5.7
Net income (Rmbmn)	720	1,282	2,104	2,192	2,159
YoY chg(%)	95.4	78.0	64.1	4.2	-1.5
PE(x)	-	-	5.32	4.51	4.58
PB(x)	-	-	0.73	0.66	0.59
Dividend yield (%)	-	-	6.5	5.6	5.5
ROAE(%)	7.2	11.6	14.8	15.4	13.6

Source: Company data, Bloomberg, ABCI Securities estimates

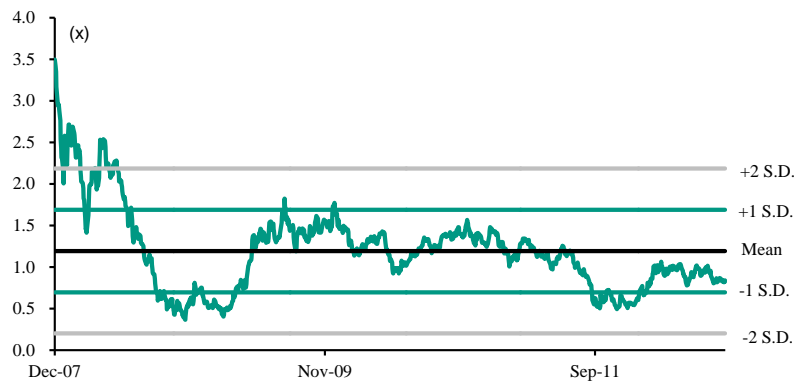


PE band chart of KWG



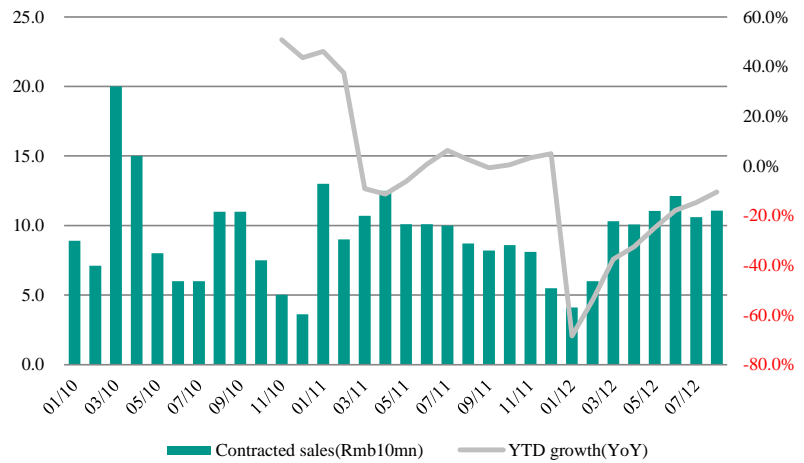
Source: Bloomberg and ABCI Securities

PB band chart of KWG



Source: Bloomberg and ABCI Securities

Monthly sales of KWG



Source: Company data and ABCI Securities



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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

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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