



Key Data

| | |
|--------------------|-----------|
| Price(18/5/2012) | HK\$3.66 |
| Price target | HK\$5.82 |
| Upside potential | 59.0% |
| 52Wk H/L(HK\$) | 6.27/2.13 |
| Issued shares(mn) | 14,927 |
| Market Cap(HK\$m) | 54,632.8 |
| 15-day avg vol(mn) | 83.8 |
| Auditors | PwC |
| Major shareholder: | |
| Xu jiyin* | 68.1% |

Source: Company data & Bloomberg

*The founder and Chairman of the group

Results and forecast

| FY ended 31/12 | 2011A | 2012E | 2013E |
|-----------------------------|--------|--------|--------|
| Revenue(Rmbmn) | 61,918 | 76,788 | 96,232 |
| Chg(YoY) | 35.2% | 24.0% | 25.3% |
| Core net profit^ (Rmbmn) | 8,610 | 10,535 | 12,210 |
| Chg(YoY) | 56.3% | 22.4% | 15.9% |
| Core EPS (Rmb/share) | 0.57 | 0.71 | 0.82 |
| PE(x) | 5.3 | 4.2 | 3.6 |
| DPS (HK\$) | 0.2340 | 0.2166 | 0.2510 |
| Yield | 6.4% | 5.9% | 6.9% |
| NBV/share(Rmb) | 2.15 | 2.71 | 3.35 |
| Chg(YoY) | 57.0% | 26.2% | 23.7% |
| PB(x) | 1.39 | 1.10 | 0.89 |

^Excluding revaluation G/L on investment property;

@Rmb0.8121/HK\$

Source: Companies' announcements and ABCI Securities estimates

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Evergrande(3333) -Maintain BUY

Key takeaways from investors meeting on May 18

We maintain our POSITIVE view on Evergrande. The risk profile of the group is improving and the valuation will therefore be enhanced in longer term. Although the sales outlook on Shanghai Qidong project remains an overhang, the short term sales momentum regains. The counter is trading at 62.3% discount to 2012NAV of HK\$9.7 or at est FY12PE of 4.2x and PB of 1.1x. The PB valuation is approaching to 0.83x, the lowest level since listing. We expect the stock to find strong support at HK\$3.29, representing 1.0x PB. Based on 40% of NAV(HK\$9.7), our target price is at HK\$5.82. We maintain our BUY rating on the stock.

Risk profile improving: With the group deliberately slowing down the land acquisition pace and targeting to maintain net gearing below 60%, the risk profile of the group will improve. Investors are therefore gaining more confidence on the group based on our talk.

- The group's land bank is expected to stabilize at 137mn sq.m. in end-2012, at the same level as in end-2011 and a huge land premium capex is not expected. A slowdown of scale expansion could reduce its operational risk in our view.
- Going forward, the management targets a gearing ratio below 60%. We expect it to be achievable as management now purses a stable growth (target a 10-20% YoY growth in major operating indicators). We estimate the end-2012 net gearing at 57.8%.

We expect the improved risk profile will reduce the WACC (we using 12.7% currently) and therefore enhance its valuation in longer term. Our sensitivity analysis shows that for 1ppt change in WACC, valuation will change by 2.5-4.4%.

Targeting gross profit margin at 30-35% for FY12-13: Investors are concerned with the margin erosion. We are of view that the cost edges in land (land/ASP at 9.3%) and economies of scale will translate to sustainable margin for the group. We estimate the GP margin for FY12-13 to be at 30.8-32.3 % (vs 33.3% for FY11). The group intends to achieve GP margin of 30-35% for FY12-13.

Sales momentum regains: After a 3-5% price cut on project level in April, the group will keep the price stable in the short term and look for possibility to raise ASP in 2H12. Even without any further ASP cut in May, management expects to see encouraging sales. We expect the management's confidence comes from 6-10 new projects launch and steady pick up in demand in lower tier cities. Our channel check with Hopefluent(733) and R&F(2777) both indicated that the residential demand didn't slow down as markets were concerned. We expect the contacted sales for May to come in at Rmb9.5bn(22.1% YoY or 16.0% MoM), close to the record high of Rmb9.8bn.



Evergrande Real Estate Group

View on Shanghai Qidong project becoming conservative: The management's view on the sales outlook for the mega size project Qidong(GFA ~7mn or 5% of total land reserve) is becoming conservative. As we have mentioned that due to non-first-home buyers target and a brand new nature, demand for the project is hard to gauge at current stage. The group sets annual contracted sales budget at Rmb80.0bn for 2012. In our base case scenario, the contracted sales amount is estimated at Rmb81.9bn up 1.9% YoY and 2.3% higher than the group target. We build in 5% YoY ASP decrease or ASP at Rmb6,261/sqm for 2012 sales. As the Qidong project is not included into the sales budget, the upcoming launch of this project will swing upward of the annual contracted sales of the group .The presales for the project are scheduled in mid-June.

PB valuation approaching to bottom: The counter is trading at 62.3% discount to 2012NAV of HK\$9.7 or at est FY12PE of 4.2x and PB of 1.1x. The PB valuation is approaching to 0.83x, the lowest level since listing. We expect the stock to find strong support at HK\$3.29, representing 1.0x PB. Based on 40% of NAV(HK\$9.7), our target price is at HK\$5.82. We maintain our BUY rating on the stock.

| | 2H09 | 1H10 | 2H10 | 1H11 | 2H11 |
|------------------------|-------------|-------------|-------------|-------------|-------------|
| Price high(HK\$) | 4.85 | 4.34 | 4.22 | 5.90 | 6.27 |
| Price low(HK\$) | 3.50 | 1.83 | 2.16 | 3.25 | 2.17 |
| Ending NBV/share(Rmb) | 0.86 | 1.01 | 1.37 | 1.84 | 2.15 |
| Ending NBV/share(HK\$) | 0.98 | 1.16 | 1.65 | 2.24 | 2.62 |
| P/B high | 4.96 | 3.74 | 2.56 | 2.63 | 2.40 |
| P/B low | 3.58 | 1.58 | 1.31 | 1.45 | 0.83 |

Source: Bloomberg and ABCI Securities



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Disclosures

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Disclosures of Interests

Li Hong-ying has financial interest in Evergrande Real Estate Group Limited as at 21 May 2012.

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