



China Property Sector - Overweight

Key Data

Average FY13E PE (x)	6.12
Average FY13E PB (x)	1.07

Source: Bloomberg, ABCI Securities

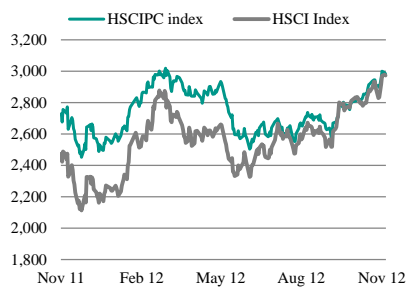
HSCIPC performance (%)

	Absolute	Relative*
1-mth	4.9	0.4
3-mth	13.2	3.5
6-mth	17.4	9.6

*Relative to Hang Seng Index

Source: Bloomberg

1 year price performance



Source: Bloomberg

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Reviving supply and demand dynamic

With decline in supply and stronger release for suppressed demand, we forecast the S/D ratio to drop to 1.13x in 2013, approaching to mid-cycle level. Yes, we are expecting a reviving S&D dynamic for the sector. Funds will chase high-beta stocks first, and then move onto the potential sales winners in 2013.

Supply shrinkage: We forecast the overall residential supply to drop by 10.0% YoY to 1,252mn sq.m. for 2013. The decline of housing start in 2012 is the major reason causing the supply shrinkage next year. Our major assumptions made in our forecast include i) GFA start in 2012 to drop 12.0% YoY to 1,285mn sq.m.. For Jan-Oct, per NBSC, the statistics was at 1,083mn sq.m., down 12.7% YoY. ii) Existing inventory to cumulate to 107mn sq.m. as of the year-end 2012.

Neutral-to-positive policy: We witnessed a stabilizing sign for the sector policy along with ASP holding back. The government stance is generally believed to remain intact at least till 1H13, which is to protect genuine demand and continue to refrain the expectation of surging home prices. With the newly elected government coming into settlement, we expect the long-awaited property tax, might be spread among hot cities in 2H13 and will finally replace the home purchase restriction (HPR). From then on, the property sector will enter an era of free competition. Compared to 2010-2012, when policy overhanging the sector, the stabilizing policy and potential withdrawal of HPR will provide a neutral-to-positive policy environment for the property developers.

Stabilizing interest rate trend: Chances for further rate cuts in 2013 are slim as implied by the yield curve of China fixed rate government bond. For the 1-yr term bond, the YTM was 2.375% three months ago, while it increased by 0.420ppt to 2.795% one month ago and further rose by 0.155ppt to 2.950% on Nov 6. Compared to 3.00% 1-yr deposit rate, markets expect that interest rate trend is moving toward stable in 2013.

Improving economic fundamentals: We believe 3Q12 GDP growth to trough in 2012, along with recovering FAI, retail sales and industrial production in Oct. Both the manufacturing and non-manufacturing PMI in China, the leading economic indicators, are also hinting the economic revival in October. (PMI at 50.2 in Oct against 49.8 in Sep while non-manufacturing PMI at 55.50 in Oct against 53.70 in Sep). China's economic fundamentals are expected to continue to improve in 2013.

Stronger release of genuine demand: In the down cycle of 2012, China still witnessed a resilient genuine demand, which is estimated to remain at similar level with 2011, at 965mn sq.m.. For Jan-Oct, based on NBSC, the new home sales was at 701mn sq.m., down 1.2% YoY. Moving to 2013, supported by improving policy environment, stabilizing monetary cycle and promising economic outlook, we are expecting to see a stronger release in suppressed demand. By our estimation, new home sold will cumulate to 1,110mn sq.m., increasing 15.0% YoY.



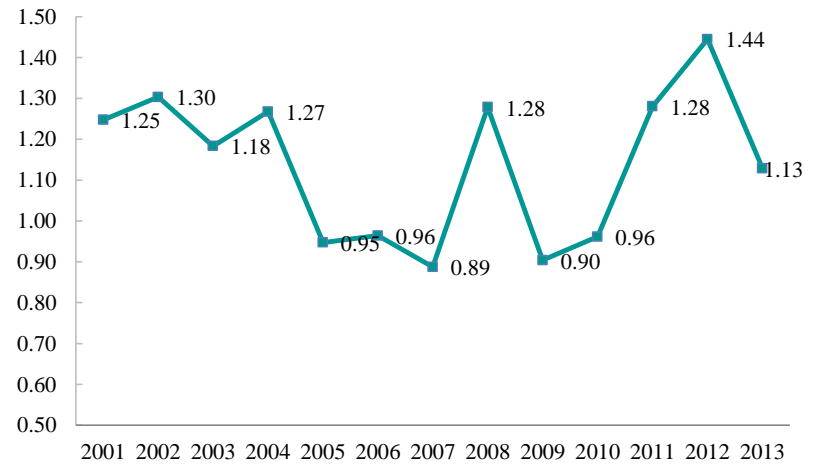
Stock picks: Based on above forecast, the S/D ratio is estimated at 1.13x in 2013, backing to mid-cycle level. Hence, we conclude our analysis that the S&D dynamic for the property sector, is reviving. In the Q412 and early 2013, we render funds will flow into the high-beta stocks, such as Evergrande(3333;BUY) and KWG(1813;BUY). Afterwards, we expect focus to move to potential sales winners. On broader recovery of the sector, disadvantages brought from difference in geographical exposure will fade in 2013. We expect the developers with strong brand, positioning and execution to differentiate. On this front, we favor Sunac(1918;BUY).

Valuation and sales comparison for China property developers

Company	Code	Price (HK\$)	ABCI Rec	TP (HK\$)	Disc/NAV	2013 P/E	2013 P/B	Beta
China Overseas	688	21.5	Review	-	-	9.8	1.76	1.3
Evergrande	3333	3.6	Buy	5.82	49%	4.5	1.21	1.8
KWG	1813	4.8	Buy	5.55	56%	4.8	0.76	1.7
Sunac	1918	4.2	Buy	4.86	48%	3.2	0.99	1.2
C C Land	1224	1.9	Hold	1.85	63%	6.8	0.34	1.6
Hopefluent	733	2.4	Buy	3.05	-	6.1	0.80	1.1

Source: Company data, Bloomberg, ABCI Securities

Supply/demand ratio



Note: Our assumptions on potential supply estimation,

-GFA start will enter into pre-sale period in one year time

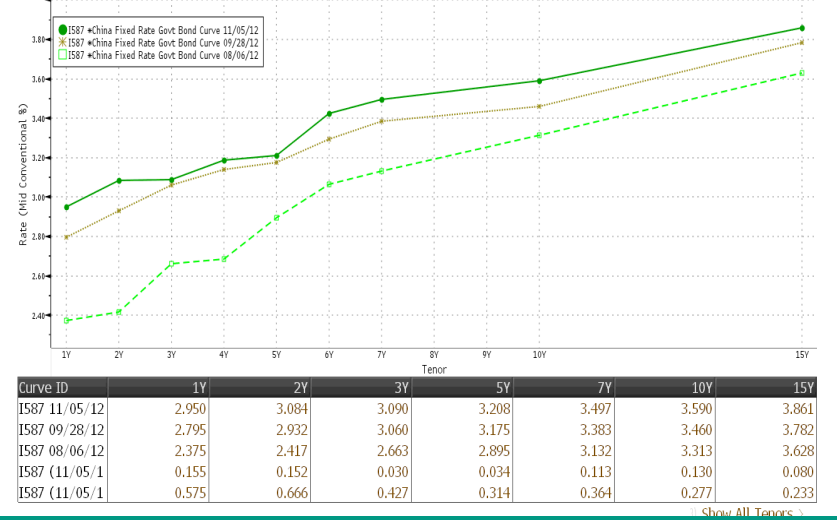
- Around 90% of GFA completion has been sold out, leaving 10% unsold resources

-Aggregate supply = GFA start last year adjusted for sellable ratio(90%) +10% GFA completion in current year adjusted

Source: Bloomberg and ABCI Securities



**Yield curve of China fixed rate government bond
(Today, 1m ago and 3m ago)**



Source: Bloomberg and ABCI Securities



Disclosures

I, Li Hongying, Vivian, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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.

Li Hong-ying Vivian, has financial interest in Evergrande Real Estate Group Limited as at 20 Nov 2012.

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