



November 22, 2013  
Company Report  
Rating: BUY  
TP: HK\$ 6.30

Share price (HK\$) 5.15  
Est. share price return 22.33 %  
Est. dividend yield 2.20 %  
Est. total return 24.53 %

Previous Rating & TP BUY; HK\$ 7.10  
Previous Report Date June 6, 2013

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**Key Data**

52Wk H/L(HK\$)	7.26/4.15
Issued shares (mn)	3,315
Market cap	17,227
3-mth avg daily turnover (HK\$ mn)	79.9
Major shareholder(s) (%): SUN Hongbin	47.1
Source(s): Company, Bloomberg, ABCI Securities	

**FY12 Revenue breakdown (%)**

Property Development	99.2
Property Management	0.8
Source(s): Company, ABCI Securities	

**Share performance (%)**

	Absolute	Relative*
1-mth	(0.2)	(1.5)
3-mth	(4.2)	(11.7)
6-mth	(9.4)	(10.5)

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

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



Source(s): Bloomberg, ABCI Securities

Sunac (1918 HK)  
Big land appetite, Big returns

- Sunac's high-profile land acquisitions in Beijing and Tianjin raise concerns on possible margin erosion
- For 2013E-15E, we forecast gross margin to decline to 28%-29%, and presale/net profit to surge at 107%/26% CAGRs over the period
- Maintain Buy with revised TP of HK\$6.30 based on a 65% discount to our FY14E NAV of HK\$18.0/share

**Aggressive landbanking could hurt margin in future.** Sunac's high-profile acquisitions of "land kings" in Beijing and Tianjin have raised concerns about margin erosion. The Group acquired the Beijing Agricultural Exhibition site (农展馆) in Sep 2013 for RMB 4.3bn, or RMB 73k/sqm - the most expensive in Beijing history on a per sqm basis. Sunac's land acquisition in Tianjin totaling RMB 10bn in Sep 2013 also becomes the most expensive land transaction in Tianjin's history in lump sum. As Sunac's land cost increases dramatically, we cut our gross margin forecasts from the previous 32.7%-34.6%, to the current 28.4%-29.2% (below industry average of 30%) for FY13E-15E.

**Impressive presales performance justifies expensive land capex.** Sunac registered a strong presale of RMB 6.25bn in Oct 2013, up 74% YoY. For 10M13, Sunac accumulated total presales of RMB 38.9bn, up 70% YoY - a growth much higher than the peer average of 33%. Sunac's presales grew at 107% CAGR over 2010-12 on aggressive landbanking. Despite its lower-than-peer gross margin in FY14E-15E, fast revenue growth will drive up net profit (FY13E-15E CAGR: 26%). For 2014, we estimate Sunac's presales to reach RMB 67bn, up 29% YoY.

**Valuation still looks attractive, despite possible margin erosion.** We factor in the lower gross margins in FY13E-15E and cut our FY13E net profit forecasts by 20.3%. We raise FY14E/15E net profit by 9.6%/11.3%, based on the recent land acquisitions and increased GFA delivery in the future. We roll forward our NAV estimate to end-2014 to reach RMB14.2/share (or HK\$18.0/share). However, due to increased gearing and possible tightening risk, we raise our TP discount from 55% to 65% - the average trading discount of the counter during the tightening period in 2011/12, TP is lowered to HK\$ 6.30 (HK\$ 7.10 previously) as a result. Sunac is currently trading at 3.1x FY14E P/E and a 71% discount to 2014E NAV, as compared to small/mid cap peers trading at 4.4x 2014E PE and 62% discount to NAV on average. We believe the issue of margin erosion has been overdone especially given the Group's faster growth than peers. Maintain **BUY** on Sunac.

**Risk factors:** 1) Expensive new land acquisitions that may erode margins; 2) Slowing sales growth due to high base; 3) Further tightening measures on property sector

**Results and Valuation**

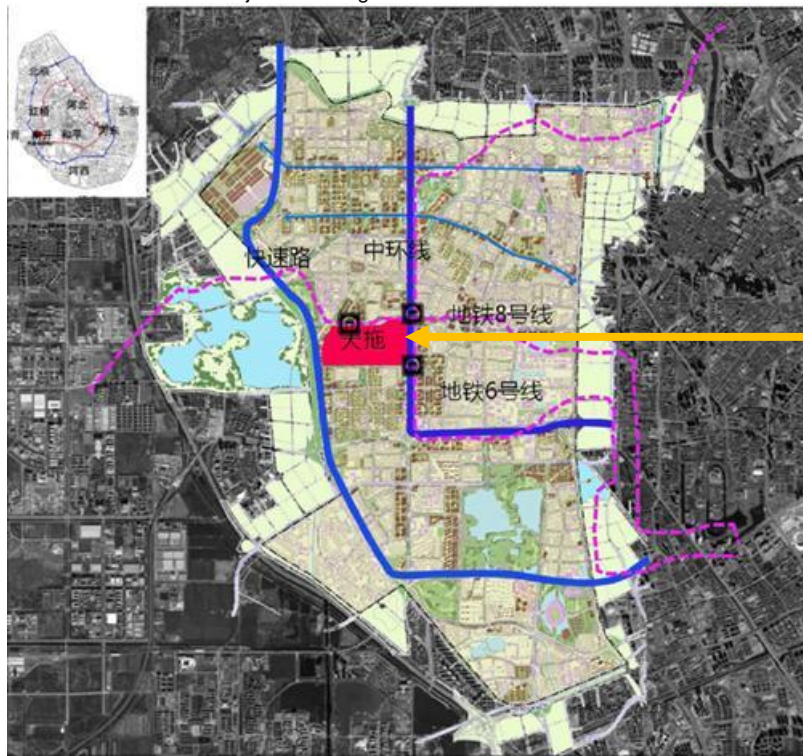
FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	10,604	20,843	27,716	41,210	44,071
Chg (% YoY)	59.4	96.6	33.0	48.7	6.9
Core net profit (RMB mn)	1,792	2,387	2,985	4,431	4,708
Chg (% YoY)	16.1	33.2	25.0	48.4	6.3
Underlying EPS (RMB)	0.59	0.79	0.90	1.34	1.42
Chg (% YoY)	16.1	33.2	13.7	48.4	6.3
BVPS (RMB)	2.34	3.15	4.16	5.36	6.64
Chg (% YoY)	51.2	34.6	32.1	28.9	23.8
Underlying PE (x)	6.8	5.1	4.5	3.0	2.9
PB (x)	1.7	1.3	1.0	0.8	0.6
ROE (%)	25.4	25.2	21.7	24.9	21.4
ROA (%)	5.3	3.4	3.0	4.1	4.2
DPS (RMB)	0.08	0.09	0.09	0.13	0.14
Dividend yield (%)	1.9	2.1	2.2	3.3	3.5
Net gearing (%)	109.3	99.7	131.2	(10.3)	(82.4)

\*Net gearing=Net debt/Total Shareholders' equity  
Source(s): Bloomberg, ABCI Securities estimates

**Exhibit 1: Sunac's Beijing Land King –Beijing Nong Zhan Guan Site**


Source(s): Company, ABCI Securities

- **GFA:** 59,000 sqm
- **Total land premium:** RMB4.32bn including, RMB2.1bn land premium plus RMB2.22bn (RMB73,100/sqm) for hospital construction
- **Usage:** Residential
- **Residential ASP in the neighborhood:** RMB80,000/sqm

**Exhibit 2: Sunac's Tianjin Land King- Tiantuo Site**


Source(s): Company, ABCI Securities

- **GFA:** 1.02mn sqm
- **Total land premium:** RMB10.32bn (RMB10,109/sqm)
- **Usage:** 44%- residential  
56%- Office & retail
- **Schedule:** Presale of Phase 1 starts in 3Q2014; 4Q19 full completion
- **ASP in the neighborhood:**
  - Residential: RMB28-30k/sqm
  - Office: RMB22k/sqm
  - Retail: RMB40-80k/sqm



Exhibit 3: Major forecast changes for Sunac

	Previous			Current			Change (%)		
	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E
Core net profit (RMB mn)	3,744	4,041	4,230	2,985	4,431	4,708	-20.3%	9.6%	11.3%
YoY chg (%)	56.8	7.9	4.7	25.0	48.4	6.3			
Contracted sales (RMB mn)	49,489	56,401	55,924	52,110	66,976	60,789	5.3%	18.8%	8.7%
YoY chg (%)	38.9	14.0	-0.8	46.2	28.5	-9.2			
GFA delivery (mn sqm)	1.57	1.53	1.35	1.54	2.13	2.25	-2.3%	39.0%	66.7%
Gross margin (%)	32.7%	34.0%	34.6%	28.4%	29.2%	28.5%	-4.3ppt	-4.8ppt	-6.7ppt

Source(s): ABCI Securities estimates

Exhibit 4: Sunac's FY14E NAV

	Attr. GFA (M sqm)	Net assets value (RMB m)	% of total	Valuation Methodology	Implied value per sqm (RMB)
<b>Property development</b>					
Tianjin	3.9	14,942	33%	DCF at WACC of 12.0%	3,834
Beijing	1.2	5,230	12%		4,412
Chongqing	3.8	3,322	7%		882
Wuxi	1.9	1,871	4%		972
Suzhou	0.2	2,058	5%		9,490
Shanghai	0.8	13,283	29%		16,261
Others	1.2	2,781	6%		2,368
<b>Subtotal</b>	<b>13.0</b>	<b>43,489</b>	<b>96%</b>		
<b>Property investment &amp; management</b>		1,697	4%	6.5% cap rate on 2014E net rental income	
<b>Total 2014E GAV</b>		<b>45,185</b>	<b>100%</b>		
2014E Net debt		1,825	4%		
<b>Total 2014E NAV</b>		<b>47,010</b>	<b>104%</b>		
No. of share outstanding (diluted)		3,315			
<b>NAV per share (RMB)</b>		<b>14.2</b>			
Ex rate		1.27			
<b>NAV per share (HKD)</b>		<b>18.0</b>			
Target discount (%)		65%			
<b>Target Price (HKD)</b>		<b>6.30</b>			
<b>WACC</b>					
Cost of debt		12.0%			
Cost of Equity		9.0%			
<b>Debt/ (Debt + Equity)</b>		<b>60%</b>			

Source(s): Company, ABCI Securities estimates



**Exhibit 5: Sunac's 1H13 results**

<b>Sunac's P&amp;L</b>	<b>1H13</b>	<b>1H12</b>	<b>YoY Chg</b>
	RMB mn	RMB mn	(%)
<b>Turnover</b>	<b>8,563</b>	<b>4,302</b>	<b>99.0</b>
Cost of Sales & direct operating costs	(6,784)	(2,927)	131.8
<b>Gross Profit</b>	<b>1,779</b>	<b>1,376</b>	<b>29.3</b>
<b>Gross Margin (%)</b>	<b>20.8</b>	<b>32.0</b>	<b>(11.2)</b>
Selling and distribution costs	(255)	(195)	30.5
Administrative expense	(206)	(180)	14.9
<b>EBIT</b>	<b>1,318</b>	<b>1,001</b>	<b>31.7</b>
<b>EBIT Margin (%)</b>	<b>15.4</b>	<b>23.3</b>	
Other income	60	22	170.5
Fair value gain of investment properties	0	0	na
Other exceptional items	94	32	na
Share of profit from JCE/ Associates	245	(4)	na
Finance cost	(288)	(3)	na
<b>Profit before tax</b>	<b>1,429</b>	<b>1,048</b>	<b>36.4</b>
<b>Tax</b>	<b>(545)</b>	<b>(525)</b>	<b>3.9</b>
- LAT	(233)	(354)	(34.3)
- Enterprise tax	(313)	(170)	83.3
<b>Profit after tax</b>	<b>884</b>	<b>523</b>	<b>69.0</b>
Minority Interest	(131)	5	(3,007.3)
<b>Net profit</b>	<b>752</b>	<b>527</b>	<b>42.7</b>
<b>Core net profit</b>	<b>845</b>	<b>607</b>	<b>39.2</b>
<b>Core net margin</b>	<b>9.9</b>	<b>14.1</b>	
<b>Operating statistics</b>			
Contracted GFA (mn sqm)	1.13	0.76	48.3
Contracted ASP (RMB/sqm)	20,890	16,420	27.2
<b>Contracted Sales (RMB mn)</b>	<b>23,614</b>	<b>12,516</b>	<b>88.7</b>
GFA Delivered (mn sqm)	0.30	0.26	15.4
Booked ASP (RMB/sqm)	27,938	16,017	74.4
<b>Property sales booked (RMB mn)</b>	<b>8,464</b>	<b>4,203</b>	<b>101.4</b>
<b>Balance sheet</b>			
	<b>Jun-13</b>	<b>Dec-12</b>	<b>HoH %</b>
	RMB mn	RMB mn	
Gross debt	24,828	21,725	14.3
Cash	14,495	12,263	18.2
<b>Net debt</b>	<b>10,332</b>	<b>9,462</b>	<b>9.2</b>
<b>Net gearing (%)</b>	<b>87.4</b>	<b>99.7</b>	<b>(12.3)</b>

Source(s): Company, ABCI Securities



**Consolidated income statement (2011A-2015E)**

<b>FY Ended Dec 31 (RMB mn)</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
<b>Revenue</b>	<b>10,604</b>	<b>20,843</b>	<b>27,716</b>	<b>41,210</b>	<b>44,071</b>
Cost of sales	(7,038)	(15,460)	(19,831)	(29,174)	(31,515)
<b>Gross Profit</b>	<b>3,566</b>	<b>5,382</b>	<b>7,885</b>	<b>12,036</b>	<b>12,555</b>
SG&A expenses	(615)	(884)	(1,180)	(1,433)	(1,375)
<b>EBIT</b>	<b>2,951</b>	<b>4,498</b>	<b>6,705</b>	<b>10,603</b>	<b>11,181</b>
Finance cost	(202)	(113)	(242)	(241)	(214)
Share of profit of associates	(10)	(39)	512	1,076	1,442
Other income/ (expenses)	37	45	105	186	367
Fair value gain of investment properties	0	0	0	0	0
Disposal/one-off items	752	293	0	0	0
<b>Profit before tax</b>	<b>3,528</b>	<b>4,685</b>	<b>7,079</b>	<b>11,624</b>	<b>12,776</b>
Tax	(1,145)	(2,070)	(3,089)	(5,134)	(5,561)
<b>Profit after tax</b>	<b>2,383</b>	<b>2,615</b>	<b>3,991</b>	<b>6,491</b>	<b>7,215</b>
Minority interest	(27)	(7)	(1,005)	(2,060)	(2,506)
<b>Reported net profit</b>	<b>2,356</b>	<b>2,607</b>	<b>2,985</b>	<b>4,431</b>	<b>4,708</b>
<i>Less: exceptional items</i>	<i>(564)</i>	<i>(220)</i>	<i>0</i>	<i>0</i>	<i>0</i>
<b>Underlying net profit</b>	<b>1,792</b>	<b>2,387</b>	<b>2,985</b>	<b>4,431</b>	<b>4,708</b>
<b>Per share</b>					
Underlying EPS (RMB)	0.59	0.79	0.90	1.34	1.42
DPS (RMB)	0.08	0.09	0.09	0.13	0.14
Payout ratio (%)	13%	11%	10%	10%	10%
BVPS (RMB)	2.34	3.15	4.16	5.36	6.64
<b>Growth %</b>					
Revenue	59.4%	96.6%	33.0%	48.7%	6.9%
Gross Profit	23.9%	50.9%	46.5%	52.6%	4.3%
EBIT	12.9%	52.4%	49.1%	58.1%	5.4%
Underlying net profit	16.1%	33.2%	25.0%	48.4%	6.3%
<b>Margin %</b>					
Gross margin	33.6%	25.8%	28.4%	29.2%	28.5%
Gross margin (post-LAT)	30.0%	20.6%	22.3%	22.1%	21.4%
EBIT margin	27.8%	21.6%	24.2%	25.7%	25.4%
Core net margin	17.2%	11.7%	12.5%	13.1%	13.1%
<b>Key assumptions</b>					
Contracted Sales (RMB mn)	19,209	35,635	52,110	66,976	60,789
GFA sold (m sqm)	1.19	2.00	2.54	3.11	2.86
ASP (RMB/sqm)	16,092	17,830	20,520	21,509	21,271
Booked Sales (RMB)	10,451	20,671	27,528	41,006	43,857
GFA delivered (m sqm)	0.74	1.19	1.54	2.13	2.25
Booked ASP (RMB/sqm)	14,136	17,327	17,928	19,256	19,461
Land acquisition (RMB mn)	7,267	13,916	3,107	-	-
GFA acquired (m sqm)	2.1	6.5	0.4	-	-
Land cost (RMB/sqm)	3,434	2,136	8,584	-	-
Land acquisition to Contracted sales (%)	37.8%	39.1%	6.0%	-	-
Land bank GFA (m sqm)	12.1	13.0	13.0	10.9	8.6

Source: Company, ABCI Securities estimates



**Consolidated balance sheet (2011A-2015E)**

<b>As of Dec 31 (RMB mn)</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
<b>Current assets</b>	<b>31,304</b>	<b>64,832</b>	<b>89,149</b>	<b>98,364</b>	<b>102,597</b>
Cash	2,763	8,394	4,771	24,681	40,993
Restricted cash	1,104	3,869	3,869	3,869	3,869
Trade & other receivables	451	416	416	416	416
Property under development	25,651	46,401	74,342	63,646	51,568
Other current assets	1,335	5,752	5,752	5,752	5,752
<b>Non-current assets</b>	<b>2,308</b>	<b>6,103</b>	<b>9,518</b>	<b>10,038</b>	<b>10,631</b>
Property, plant & equipment	28	49	54	59	64
Investment properties	552	571	571	571	571
Investment in Associate and JCE	980	4,205	7,614	8,130	8,718
Other non-current assets	749	1,279	1,279	1,279	1,279
<b>Total Assets</b>	<b>33,613</b>	<b>70,934</b>	<b>98,667</b>	<b>108,402</b>	<b>113,229</b>
<b>Current Liabilities</b>	<b>14,628</b>	<b>44,294</b>	<b>60,438</b>	<b>64,175</b>	<b>62,308</b>
Short term borrowings	2,254	11,783	16,783	16,783	16,783
Trade & other payables	3,810	7,116	7,116	7,116	7,116
Pre-sales deposits	5,840	15,146	26,290	30,027	28,160
Other current assets	2,724	10,250	10,250	10,250	10,250
<b>Non-current liabilities</b>	<b>11,579</b>	<b>14,646</b>	<b>14,646</b>	<b>14,646</b>	<b>14,646</b>
Long term borrowings	9,321	9,942	9,942	9,942	9,942
Other payables	0	0	0	0	0
Other non-current assets	2,258	4,704	4,704	4,704	4,704
<b>Total Liabilities</b>	<b>26,207</b>	<b>58,940</b>	<b>75,084</b>	<b>78,821</b>	<b>76,954</b>
<b>Net Assets</b>	<b>7,406</b>	<b>11,994</b>	<b>23,583</b>	<b>29,580</b>	<b>36,274</b>
<b>Shareholders' Equity</b>	<b>7,051</b>	<b>9,489</b>	<b>13,784</b>	<b>17,772</b>	<b>22,009</b>
Minority Interest	355	2,505	9,799	11,809	14,265
<b>Total Equity</b>	<b>7,406</b>	<b>11,994</b>	<b>23,583</b>	<b>29,580</b>	<b>36,274</b>
<b>Key ratio</b>					
Gross debt (RMB mn)	11,575	21,725	26,725	26,725	26,725
Net debt (RMB mn)	7,707	9,462	18,085	(1,825)	(18,136)
Net gearing (%)	109%	100%	131%	-10%	-82%
Contracted sales/ Total assets (x)	0.57	0.50	0.53	0.62	0.54

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
EBITDA	2,965	4,513	6,719	10,618	11,196
Change in Working Capital	(4,394)	6,684	(14,617)	16,598	12,136
Tax payment	(1,246)	(1,688)	(3,089)	(5,134)	(5,561)
<b>Operating Cash flow</b>	<b>(2,675)</b>	<b>9,509</b>	<b>(10,986)</b>	<b>22,082</b>	<b>17,770</b>
Purchase of PP&E	(13)	(22)	(20)	(20)	(20)
Addition of Investment Properties	(378)	(2,473)	-	-	-
Others	(1,088)	(2,764)	(2,793)	747	1,221
<b>Investing Cash flow</b>	<b>(1,479)</b>	<b>(5,260)</b>	<b>(2,813)</b>	<b>727</b>	<b>1,201</b>
Debt raised	6,198	16,396	10,000	10,000	10,000
Debt repaid	(3,020)	(12,639)	(5,000)	(10,000)	(10,000)
Interest expenses	(202)	(1,817)	(2,423)	(2,405)	(2,138)
Equity raised	(1,479)	(5,260)	(2,813)	727	1,201
Dividend to shareholders	-	(236)	(299)	(443)	(471)
Others	1,462	4,938	10,710	(777)	(1,251)
<b>Financing Cash flow</b>	<b>2,959</b>	<b>1,381</b>	<b>10,176</b>	<b>(2,898)</b>	<b>(2,659)</b>
<b>Net cash inflow/ (outflow)</b>	<b>(1,195)</b>	<b>5,631</b>	<b>(3,623)</b>	<b>19,910</b>	<b>16,312</b>
Cash- beginning	3,958	2,763	8,394	4,771	24,681
<b>Cash- year-end</b>	<b>2,763</b>	<b>8,394</b>	<b>4,771</b>	<b>24,681</b>	<b>40,993</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 2007-2011

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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