



Company Report

Sunac (1918 HK) – Buy

Real Estate Development Industry

Raise 12-month target price to HK\$4.86 (previous HK\$4.35)

Key data

Share price (HK\$(2 Aug 2012))	3.42
Target price (HK\$)	4.86
Upside potential (%)	42.0
52Wk H/L(HK\$)	3.75 / 1.17
Issued shares (mn)	3,000
Market cap (HK\$mn)	10,277
30-day avg vol (HK\$mn)	16.73
Major shareholders (%):	
Sun Hongbin	51.85
Bain Capital	10.01
China Diamond	8.51

Source: Company, Bloomberg, ABCI Securities

Revenue composition in 1H12 (%)

Property development	97.7
Property management	2.1
Rental income	0.2

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	3.0	2.0
3-mth	39.6	31.4
6-mth	26.7	38.8

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

Analyst

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Previous report

Date: 3 Aug, 2012

Rating: Buy

Raise TP on better growth potential

Sunac posted encouraging set of 1H12 results and presented a brighter sales outlook. This, further demonstrated its well-run business model with focused strategy, clearly high end positioning and good execution. We apply 6.0x PE multiple, up from 5.0x to value the stock at HK\$4.86, on expectation that its growth should move to next stage out of low base. Maintain our BUY rating.

Beautiful 1H12 results, bucking the industry trend: On stronger GFA delivered, revenue for 1H12 grew robust 224.4% YoY to Rmb4.3bn. Core net profit was Rmb527mn (or EPS Rmb0.176), up 286.3% YoY growth. Owing to product mix change, GP margin narrowed 6.4ppt YoY to 42.3 % (or 32.0% including amortization for equity acquisition). We are of view that Sunac is on better position to protect margin thanks to its high-end target, est. GP margin range 30-32% for FY12-13, including amortization effect. Compared to end-12, cash strengthened 24.9% to Rmb4.8bn and net gearing eased 10.7ppt to 93.4%. Although expecting net gearing to maintain over 100% by end-12, the 0.9x contracted sales to interest-bearing-debt ratio for 1H12, evidenced its repayment capability.

Promising outlook in 2H12, growing in market downturn: 2012 budget sales were raised by 36% to Rmb30.0bn, representing 69.5% YoY growth. On strong salable resources, Rmb50.7bn, meeting target is not a tough job. Rmb2.0-4.0bn sales for the remaining year are expected.

Raise TP: Applying 6.0x forward PE and based on our revised core EPS of Rmb0.657 for FY12, we raise our TP from HK\$4.35 to HK\$4.86, representing 35.7% discount to NAV. Maintain Buy. We are using higher PE multiple 6.0x (previous 5.0x) as we believe more visible growth potential on clearly positioning and good execution deserves a re-rating.

Risk factors: Dilution effects on capital raising exercises; slower-than-expected sales progress in 2H12; high gearing; unfavorable government policy.

Forecast and valuation

FY ended Dec 31	FY09A	FY10A	FY11A	FY12E	FY13E
Core net profit^ (Rmbmn)	785	1,542	1,793	1,972	2,682
YoY chg(%)	-	96.4	16.3	10.0	36.0
Core EPS (Rmb)	0.349	0.514	0.597	0.657	0.894
YoY chg(%)	0.0	47.3	16.1	10.0	36.0
BVPS(Rmb)	0.6	1.6	2.4	2.9	3.7
PE(x)	-	-	4.7	4.2	2.9
PB(x)	-	-	1.2	0.9	0.7
Dividend yield (%)	-	-	3.2	3.0	3.7
ROAE(%)	60.2	51.1	40.2	24.9	26.9

@Rmb0.8121/HK\$

Source: Company data, Bloomberg, ABCI Securities estimates



Beautiful 1H12 results, bucking the industry trend

Strong growth as expected: On stronger GFA delivered, revenue for 1H12 grew robust 224.4% YoY to Rmb4.3bn. Delivered GFA climbed 215.5% YoY to 262K sq.m. with booked ASP rose 5.7% YoY to Rmb16,017/sq.m.. Delivery schedule is expected to highly skew to 2H12, as usual. For the whole year, we expect ~1.25mn sq.m. GFA to be delivered, or 69.5% YoY growth to achieve. 1H12 Core net profit came in at Rmb527mn (or EPS Rmb0.176), representing 286.3% YoY growth. This is one of the strongest bottom line growths among listing China developers so far.

Better GP margin protection: Gross profit margin was at 32.0%, or 42.3% excluding the amortization of revaluation gain in the amount of Rmb442mn for land equity acquisition.

On comparable basis, the 1H12 GP margin narrowed by 6.4ppt, although this was 3ppt below our expectation, Sunac is one of the best margin protectors among peers. The margin shrink is mainly resulted from product mix change instead of price cut. As widely recognized by the market, price is not a key determinant for high-end customers demand.

On this point, we believe Sunac is on better position to escape from serious GP margin erosion. Considering the above amortization effect, which may last into 2H12 and 2013, GP margin is estimated at range 30-32% for FY12-13.

For the half year ended 30/6(Rmbmn)	1H2011	1H2012	YoY Chg
Revenue	1,326	4,302	224.4%
Property development and investment	1,260	4,203	233.5%
Rental income	9	8	-7.9%
Property management service income	57	91	59.3%
Gross Profit	646	1,376	112.9%
SG&A	(194)	(375)	93.6%
Other unallocated income and corporate expenses	(96)	(195)	103.2%
EBIT	467	1,010	116.4%
Net Interest Income	(181)	11	-105.8%
Share of Associates & JV	(7)	(4)	-38.7%
Exceptional	181	-	-100.0%
Pre-tax Profit	460	1,016	120.7%
Taxation	(143)	(525)	266.6%
Minority interest	(2)	(5)	193.2%
Net Profit	319	527	65.5%
Core Net Profit	137	527	286.3%
Per share data			
FD EPS(Rmb)	0.106	0.176	65.4%
FD core EPS(Rmb)	0.046	0.176	286.2%
DPS(Rmb)	-	-	-

Source: company data

Improved gearing, strengthened cash position, easing financial concern: Compared to en-12, cash position strengthened 24.9% to Rmb4.8bn with total debt up 7.6% to Rmb12.5bn and hence net debt declined slight 1.1% to Rmb7.6bn. With a 4.0% increase in equity, net gearing eased 10.7ppt to 93.4%. Moving to 2H12, ~Rmb5bn of debt in Greentown JV will be consolidated into Sunac account as well as ~Rmb4.3bn cash outflow for this investment, net gearing of the group is expected to sustain above 100% by



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end-12. Nevertheless, the contracted sales to interest-bearing-debt ratio was at 0.9x for 1H12, the second highest among peers, only after COLI(688), this is evidencing its repayment capability and therefore easing market concern on liquidity. We forecast the ratio will further jump above 2.0x by end-12.

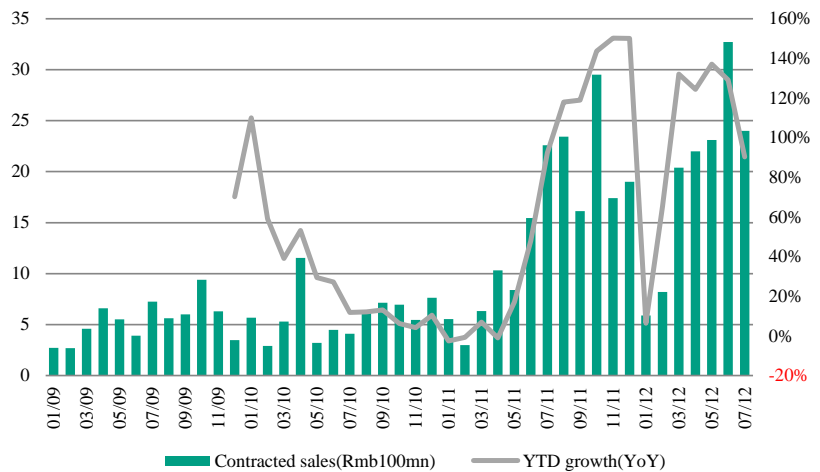
Promising outlook in 2H12, growing in market downturn

Resilient sales year to Jul, stronger pipelines for remaining year: As of end-Jul, Sunac achieved Rmb13.6bn contracted sales or Rmb14.6bn including subscription sales. The group achieved 62.0% of Rmb22bn full year target, made in Apr. The high completion rate outperformed. Meanwhile they registered strongest growth of 90.3% YoY for contracted sales among peers.

Given strong sales momentum coupled with newly added in salable resources by JV with Greentown, upbeat target sales came in, but stronger than expected. 2012 budget sales were raised by 36% to Rmb30.0bn, if the target was achieved, the implied YoY growth could reach 69.5%. 45.0% of new target was achieved by Jul.

By management, with 2.49mn sq.m GFA commence construction for 2H12(0.65mn sq.m. for 1H12), the total saleable resources could reach Rmb50.7bn. To meet the full year target, Rmb16.4bn sales need to achieve, implying a conservative sell-through rate 32.4%. A consistently but stronger monthly sales, i.e.Rmb2.0-4.0bn are expected for the remaining year.

Exhibit 1: Monthly contracted sales of Sunac



Source: Company data and ABCI

Update on JV project with Greentown, synergy to be seen: The JV projects, which were acquired in end-Jun, contributed Rmb500 sales in Jul and the amount is estimated to be at Rmb800mn in Aug with ASP raised by 15-20% compared with prior the acquisition.

Greentown enjoys the best reputation in high-end and high-quality product development. The cooperation will further enhance Sunac's positioning. Sunac's rich experience and demonstrated capability in execution will add in strong value as well. By management, through product repositioning they can achieve avg. 12% net profit for the existing 9 projects under JV. A minimal 15% net margin is required for future acquisition through the JV.



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We estimate these 9 projects will bring in ~Rmb35.0bn attributable sales for Sunac in the upcoming 5 years, improving its earnings visibility. The AGAV of these 9 projects are estimated to be at Rmb89.3bn, representing 23.9% of 2012 GAV.

Exhibit 2: GAV valuation on the 9 projects under JV with Greentown

Project name		AGAV Rmbmn	/total GAV
上海黄浦湾	Shanghai Bund House	1821.0	4.9%
上海玉兰花园	Shanghai Yulan Garden	731.2	2.0%
上海玫瑰园	Suzhou Majestic Mansion	1919.5	5.1%
天津蓝色海岸	Tianjin Azure Coast	162.6	0.4%
苏州御园	Suzhou Majestic Mansion	1919.5	5.1%
苏州玫瑰园	Suzhou Rose Garden	1032.8	2.8%
无锡玉兰花园	Wuxi Yulan Garden	448.6	1.2%
无锡太湖项目	Wuxi Taihu Project	333.3	0.9%
常州玉兰广场	Changzhou Yulan Square	563.4	1.5%
Total		8,931.8	23.9%

Source: Company data and ABCI Securities

Still keen on land replenishment: Through the talk in analyst meeting on 29 Aug, we feel that management are still eyeing on aggressive land acquisition. They bought 10 pieces of land with attributable GFA 1.3mn sq.m. for 1H12, with gross land reserve reaching 10.9mn sq.m. and AGFA to 7.6mn sq.m.. In view of its high asset turnover, the current land bank is estimated to be digested within ~4 years, lower than the industry avg. of 5-6 years. Besides, current market should present more bargaining hunting opportunities.

In terms of land bank strategy, the management reiterated their focused strategy, that is focusing on well-selected regions, including Beijing, Tianjin, Shanghai and Chongqing and on prime locations.

NAV and earnings estimation revisions and valuation

To factor in the latest GP margin trend, brighter sales outlook and update development schedule, we revise our FY2012/13E core EPS by -8%/+9% to Rmb0.657/0.951. We raise our 2012 NAV by 4.4% to HK\$7.56 with WACC at 13.7%. The stock was trading at 4.2/2.9x 2012/13E PE and 54.7% discount to our revised NAV.

Applying 6.0x forward PE and based on our revised core EPS of Rmb0.657 for FY12, we raise our TP from HK\$4.35 to HK\$4.86, representing 35.7% discount to our revised NAV. Maintain our Buy rating. We raise our PE multiple to 6.0x from previous 5.0x, and this is also higher than that for most other small-mid-cap developers, as its strong results and brighter sales outlook make us more positive on its growth potential. The group is capable to unlock the huge hidden value in balance sheet and do NAV-enhancement acquisition in the market downturn. The major overhang for the investment market should be potential equity financing with the stock substantially standing above IPO price of HK\$3.48.

Exhibit 4: Our revisions to revenue and earnings forecasts

Our revisions to revenue and earnings forecasts	New forecast		Old forecast		Difference		
	FY ended Dec 31 (Rmbmn)	2012E	2013E	2012E	2013E	2012E	2013E
Revenue		19,171	24,772	19,171	24,772	0%	0%
Gross profit		6,074	7,491	6,778	7,491	-10%	0%
Core net profit		1,972	2,682	2,132	2,616	-8%	3%
FD EPS (Rmb/share)		0.657	0.894	0.711	0.872	-8%	3%
Gross profit margin		31.7%	30.2%	35.4%	30.2%	(3.7)	-
Core net profit margin		10.3%	10.8%	11.1%	10.6%	(0.8)	0.3

Source: ABCI Securities

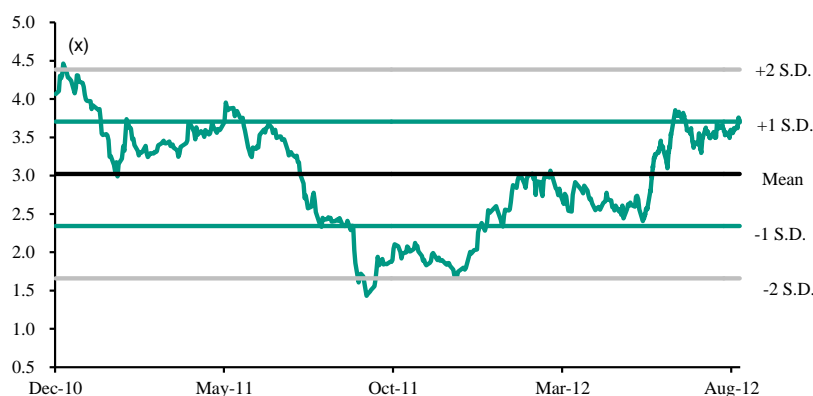
Exhibit 5: Our revisions against consensus

Our revisions to revenue and earnings forecasts	New forecast		Consensus*		Difference		
	FY ended Dec 31 (Rmbmn)	2012E	2013E	2012E	2013E	2012E	2013E
Revenue		19,171	24,772	17,624	21,464	9%	15%
Gross profit		6,074	7,491	6,339	7,544	-4%	-1%
Core net profit		1,972	2,682	2,738	3,266	-28%	-18%
FD EPS (Rmb/share)		0.657	0.894	0.912	1.088	-28%	-18%
Gross profit margin		31.7%	30.2%	36.0%	35.1%	(4.3)	(4.9)
Core net profit margin		10.3%	10.8%	15.5%	15.2%	(5.3)	(4.4)

*before 1H results release

Source: Bloomberg and ABCI Securities

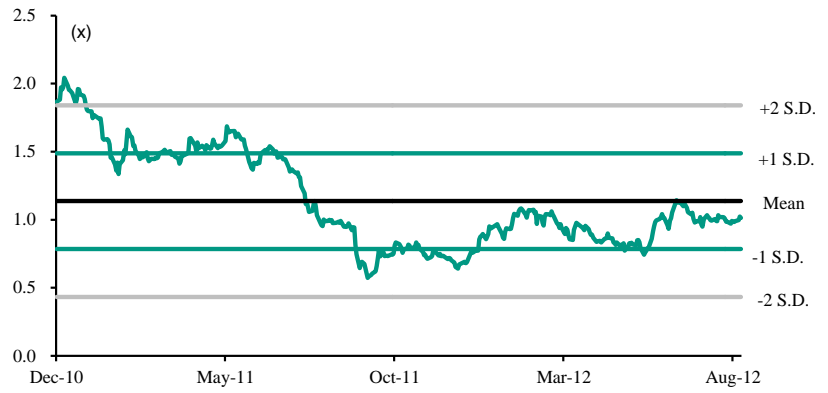
Exhibit 6: 12-mth forward rolling PE





Source: Bloomberg and ABCI Securities

Exhibit 7: 12-mth forward rolling PB



Source: Bloomberg and ABCI Securities



Financial forecast

Consolidated income statements

For the year ended 31/12(Rmbmn)	2009	2010	2011	2012E	2013E
Revenue	4,795	6,654	10,604	19,171	24,772
Property development and investment	4,777	6,594	10,433	19,000	24,601
Rental income	18	19	18	18	18
Property management service income	-	41	153	153	153
Gross Profit	1,359	2,878	3,566	6,074	7,491
SG&A	(182)	(265)	(615)	(700)	(1,277)
Other unallocated income and corporate expenses	(68)	(109)	(314)	(365)	(638)
EBIT	1,206	2,636	2,962	5,374	6,214
Net Interest Income	(108)	(168)	(183)	(122)	(66)
Share of Associates & JV	188	129	(10)	(105)	380
Exceptionals	57	-	760	-	-
Pre-tax Profit	1,342	2,597	3,528	5,148	6,529
Taxation	(471)	(1,056)	(1,145)	(3,127)	(3,432)
Minority interest	46	(1)	27	49	415
Net Profit	825	1,542	2,356	1,972	2,682
Core Net Profit	785	1,542	1,793	1,972	2,682
FD EPS(Rmb)	0.367	0.514	0.785	0.657	0.894
FD core EPS(Rmb)	0.349	0.514	0.597	0.657	0.894
PE(x)	-	-	4.7	4.2	2.9
Target price/EPS(x)	-	-	6.6	6.0	4.4
DPS(Rmb)	-	-	0.085	0.079	0.099
Dividend yield	-	-	3.2%	3.0%	3.7%

Source: company data and ABCI Securities estimates

Financial ratio analysis

As of 31/12(Rmbmn)	2009	2010	2011	2012E	2013E
Revenue composition	99.6%	99.1%	98.4%	99.1%	99.3%
Property development:	0.0%	0.6%	1.4%	0.8%	0.6%
Property management service income	0.4%	0.3%	0.2%	0.1%	0.1%
Rental income					
Profitability	28.4%	43.6%	34.1%	31.8%	30.4%
Development GP Margin	25.7%	40.0%	28.1%	28.1%	25.1%
EBITDA Margin	25.1%	39.6%	27.9%	28.0%	25.1%
EBIT Margin	28.0%	39.0%	33.3%	26.9%	26.4%
EBT Margin	17.2%	23.2%	22.2%	10.3%	10.8%
Net profit margin	16.4%	23.2%	16.9%	10.3%	10.8%
Core net profit margin	9.0%	12.1%	9.7%	5.7%	8.2%
ROAA	60.2%	51.1%	40.2%	24.9%	26.9%
ROAE					
Efficiency ratio	49.3%	52.3%	43.0%	53.6%	65.8%
Asset turnover					
Liquidity	1.47	2.28	2.14	1.54	1.34
Current ratio	19.3%	29.6%	22.0%	24.3%	32.0%
Equity/ Assets	39.3%	31.0%	104.1%	84.3%	-61.2%
Net Debt/ Total Equity	39.3%	31.0%	104.1%	100.6%	-48.6%

Source: company data and ABCI Securities estimates

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Sunac China Holdings Ltd.**Consolidated balance sheets**

As of 31/12(Rmbmn)	2009	2010	2011	2012E	2013E
PP&E	9	18	28	22	18
Investment properties	584	584	552	552	552
Investment in JV and associate	640	638	980	7,875	9,255
Others	337	537	749	743	737
Fixed Assets	1,569	1,776	2,308	9,192	10,562
Properties under development	4,495	8,032	19,999	17,334	9,102
Completed properties held for sale	1,313	1,010	5,651	4,898	2,572
Trade and other receivables and prepayments	295	682	1,345	1,487	549
Bank balances & cash	1,936	4,249	3,867	4,977	14,662
Other current assets	109	0	441	-	-
Current Assets	8,148	13,973	31,304	28,695	26,886
Total Assets	9,717	15,749	33,612	37,887	37,448
Short term loan	677	1,068	2,254	7,005	6,399
Trade and other payables	2,188	2,447	5,213	5,486	5,886
Accruals	2,456	1,422	5,840	5,848	7,603
Other current liabilities	207	1,181	1,321	1,321	1,321
Current Liabilities	5,528	6,118	14,628	19,659	21,209
Long term loans	1,994	4,625	9,321	7,221	2,430
Other long term liabilities	323	343	2,258	2,258	2,258
Long Term Liabilities	2,318	4,968	11,579	9,479	4,688
Total Liabilities	7,846	11,086	26,207	29,138	25,897
Minority interests	500	-	355	403	819
Shareholders' funds	1,371	4,664	7,051	8,787	11,173
Total Equity	1,871	4,664	7,406	9,191	11,992
Net Debt	2,671	5,693	11,575	14,225	8,829
ST debt/total debt	25.3%	18.8%	19.5%	49.2%	72.5%
Net debt/equity	39.3%	31.0%	104.1%	100.6%	-48.6%
BVPS(Rmb)	0.6	1.6	2.4	2.9	3.7
P/B(x)	-	-	1.2	0.9	0.7
Target price/BVPS(x)	-	-	1.7	1.3	1.1

Source: company data and ABCI Securities estimates

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Sunac China Holdings Ltd.**Consolidated cash flow statements**

As of 31/12(Rmbmm)	2009	2010	2011	2012E	2013E
EBITDA	1,230	2,664	2,977	5,386	6,225
Net interest paid	(164)	(348)	(913)	(1,402)	(860)
Tax paid	(210)	(328)	(1,246)	(3,127)	(3,432)
Chg in WC	(671)	(3,922)	(4,462)	4,838	14,444
Others	169	767	-	1	2
Operating cash flow	(1,765)	(2,877)	5,695	16,377	12,688
Acquisition	(182)	(1,457)	(7,000)	(1,000)	(500)
Capex	(13)	(14)	-	-	-
Divesture	3	1	-	-	-
Others	1	(10)	-	-	-
Investing cash flow	(192)	(1,479)	(7,000)	(1,000)	(500)
Chg in net debt	3,021	3,178	2,651	(5,397)	(4,904)
Common stock issuance/repurchase	2,254	-	-	-	-
Dividend paid(common&pref)	(191)	-	(236)	(296)	(402)
Others	(594)	(17)	-	-	-
Cash flow from financing	4,490	3,161	2,415	(5,692)	(5,307)
Chg in cash flow	2,534	(1,195)	1,110	9,685	6,882
Cash and cash equivalents at beginning of year	639	1,424	3,958	2,763	3,873
Cash and cash equivalents at end of year	1,424	3,958	2,763	3,873	13,558

Source: company data and ABCI Securities estimates



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