May 7, 2014

Sector Rating: Overweight

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China Property Sector
Target the small, top tier city developers

- China's residential property sector corrected by 15% on average year to date due to three major overhangs- price cut, tightened liquidity and RMB depreciation
- Fundamentals still look good for major listed players- 3M14 presales rose 9% YoY while ASP edged up by 2%. Significant price cut may only occur in small, regional players suffering from cash flow issues
- Given the sector's inexpensive valuation (4.1x P/E and 7.0% yield for FY14E for major listed property players), we believe the potential risks have already been reflected in their share prices. We maintain our **Overweight** rating on China's property sector. Our top picks are Aoyuan (3883 HK), Sunac (1918 HK) and Kaisa (1638 HK)

Key Data

Avg.14E P/E (x)	4.1
Avg.14E P/B (x)	0.6
Avg.14E Dividend Yield (%)	7.0

Source(s): ABCI Securities estimates

Sector performance (%)

	Absolute	Relative*
1-mth	(9.5)	(7.4)
3-mth	(2.9)	(5.2)
6-mth	(12.9)	(7.6)

* Relative to Hang Seng Index
Source(s): Bloomberg, ABCI Securities

1-Year Sector performance

Source(s): Bloomberg, ABCI Securities

Price cut news did not show full picture. Share prices of China's proeprty sector lagged behind that of the market due to concerns on price cut, tightened liquidity and RMB depreciation. Investors' concern on price cut has been fueled by the media report of 10-20% price cut by developers. We argue that price cut apply mostly to regional developers in tier 2/3 cities plagued by oversupply issue. Major listed developers, in contrast, registered healthy growth in 1Q14 presales revenue (+9% YoY) and ASP (+2% YoY). Low inventory level in top tier cities also make price cut highly unlikely. In terms of liquidity, offshore USD bond issuance often serves as a good alternative to bank borrowings. Finally, depreciation of RMB is likely to be temporary in our view.

FY13 results showed small players are more defensive in margins. Due to rising land costs, developers' average gross margin fell 2.8 ppt YoY to 32.5%. Small developers (annual presales< RMB40bn), however, suffered only an average of 1.6ppt in margin erosion, compared to 4.1ppt among bigger counterparts. We believe aggressive landbanking by large developers is the reason for the substantial decline in margins

Inexpensive valuation reflected all potential risks are priced in. After this round of share price correction, valuation of the sector has turned attractive at 4.1x FY14E P/E with a FY14 yield of 7.0%. We believe the negatives have already been priced in. As a substantial portion of demand from first-time homebuyers were captured in 2013, we prefer small developers focusing on top tier cities and the ones with commercial or luxury property exposure. Our top picks are **Aoyuan** (3883 HK; BUY; TP HK$:2.40), a commercial loft apartment developer; **Sunac** (1918 HK; BUY; TP HK$ 7.10), a luxury home developer; **Kaisa** (1638 HK; BUY; HK$ 4.00), a redevelopment specialist

Risk factors: 1) Intensifying competition for land; 2) Aggressive price cut to clear inventories may hurt margins.

Sector Valuation Summary (data as of May 5, 2014)

Company	Ticker	Rating	Price (HK$)	TP (HK$)	FY13A P/E(x)	FY14E P/E (x)	FY13A P/B (x)	FY14E P/B (x)	FY13A Yield (%)	FY14E Yield (%)
Residential property										
Aoyuan	3883 HK	BUY	1.34	2.40	4.3	2.4	0.4	0.3	7.4	10.4
Sunac	1918 HK	BUY	3.83	7.10	2.9	2.3	0.7	0.6	6.2	7.8
Kaisa	1638 HK	BUY	2.39	4.00	4.2	3.0	0.6	0.5	7.8	9.3
Greentown	3900 HK	BUY	7.58	9.70	3.5	3.0	0.6	0.5	7.1	7.9
COLI	688 HK	HOLD	18.58	19.50	8.0	6.5	1.4	1.2	2.5	3.1
Commercial property										
Hydoo	1396 HK	BUY	3.05	4.30	5.6	4.3	1.8	1.7	5.2	6.7
CSC*	1668 HK	BUY	3.42	4.50	10.5	5.3	1.3	1.1	2.9	4.4
Franshion	817 HK	BUY	2.44	3.60	8.2	6.1	0.8	0.7	3.9	4.9

* CSC figures based on end- Mar 2014 and 2015 estimates
Source(s): Companies, ABCI Securities estimates

Contents

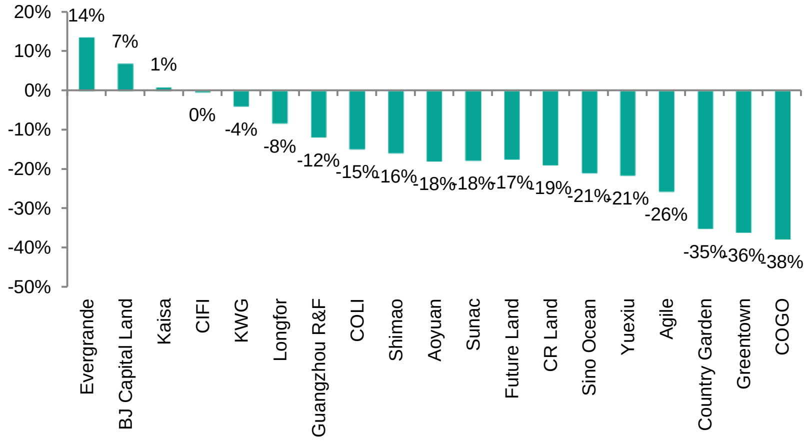
Three overhangs exaggerated

The first quarter of 2014 has been a trying period for the Chinese residential property counters with the average share price plunging 15% ytd, lagging behind the market by 9ppt. Three major overhangs that have been dragging down share performance include:

- Price cut
- Tightened liquidity
- RMB depreciation

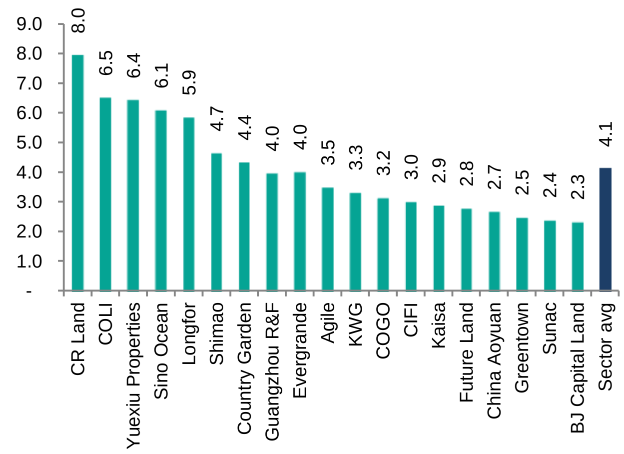
The sector is now trading at 4.1x FY14 P/E (compared to historical average of 5.7x during 2010-13), with dividend yield reaching 7.0% on average. We believe the low valuation has more than reflected the potential risks. Moreover, some concerns abovementioned may have been exaggerated by the media as demand or sales in the property market is not as lackluster as the news claim to be.

Exhibit 1: Year-to-date performance of the Chinese residential property shares has been poor



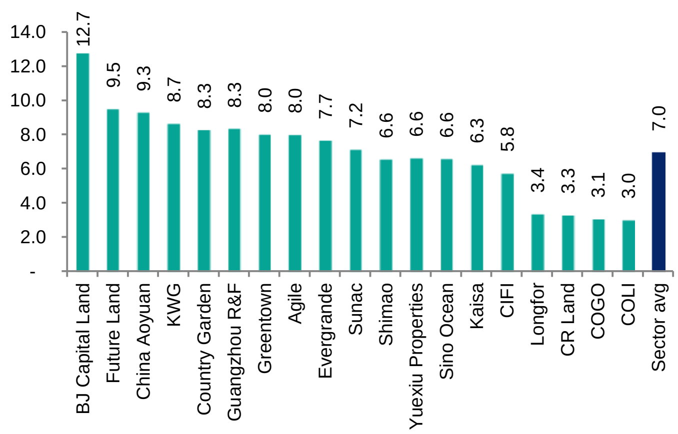
*Data as at May 5, 2014
Source(s): Bloomberg, ABCI Securities

Exhibit 2: FY14 P/E multiple of major Chinese residential developers (x)



* Data as at May 5, 2014
Source(s): Bloomberg, ABCI Securities

Exhibit 3: FY14 Dividend yield of major Chinese residential developers (%)



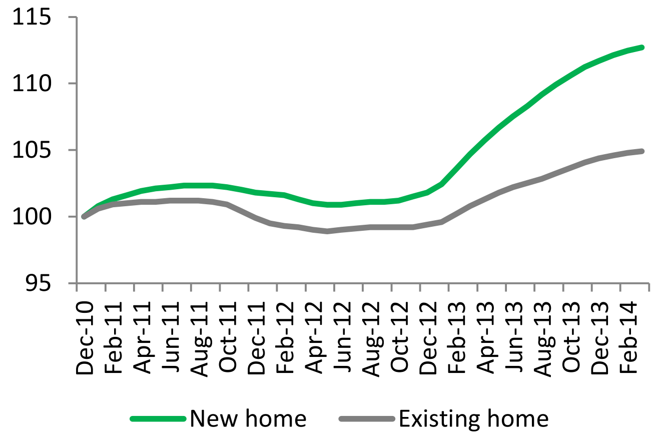
* Data as at May 5, 2014
Source(s): Blommberg, ABCI Securities

1. Price-cutting concern: Do all developers cut prices to accelerate sales?

Since Feb 2014, it has been widely reported by the media that developers are cutting prices to accelerate sales due to oversupply in China. Price cut has been reported to be the most severe in Hangzhou. Two regional developers, the Dexin Group and Guanghong Property, lowered ASP of their suburban projects (remote from city centre) by ~20% to RMB14k-16k/sqm; in March, Wharf, one of the most well-known and financially sound landloads in Hong Kong, also priced their city-centre luxury project at 10% below market expectation at RMB 40k/sqm, despite its high land cost of RMB25k/sqm.

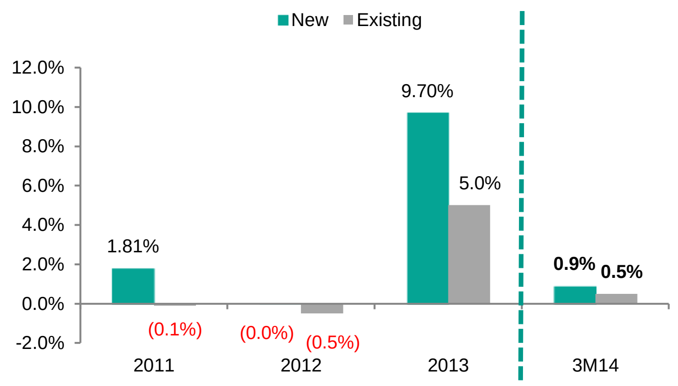
However, data from the National Bureau of Statistics suggested a completely different picture. In contrast to the media report, growth in national property price was moderated but not reversed. Price increases were 0.9% for new homes and 0.5% for existing homes in 3M14 (compared to 9.7% and 5.0% growth in 2013).

Exhibit 4: National home price- new home vs. existing home



Source(s): NBS, ABCI Securities

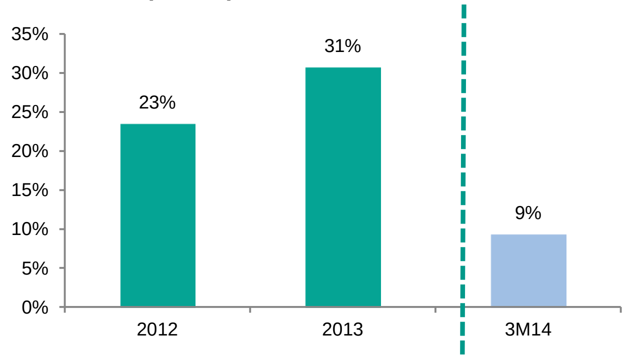
Exhibit 5: YoY change in national home price - new home vs existing home



Source(s): NBS, ABCI Securities

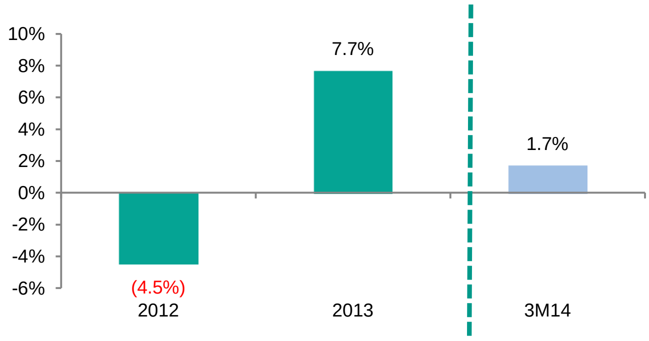
Besides, presales of major HK-listed mainland developers grew 9% YoY in 3M14 while ASP improves by 2% to RMB 11.0k/sqm on average. Price cut is likely to occur among small, unlisted mainland developers only. Further, inventory-to-sales ratio in tier 1 cities remains benign at 10 months or below, while inventory levels in several tier 2 cities, such as Hangzhou and Ningbo, were high at 27 and 58 months. Moreover, price growth has been consistent in tier 1 cities over the past three years (+35.1% between Jan 2011 and Mar 2014), which suggests that housing supply is still lagging behind demand in tier 1 cities where land resources are limited.

Exhibit 6: Presales growth among major developers in 2012- 3M14 (YoY %)



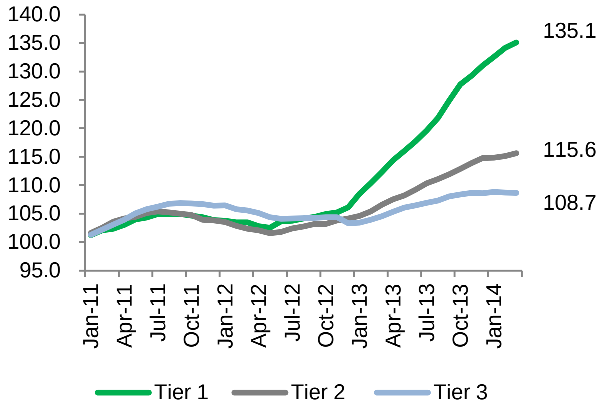
Source(s):Companies, ABCI Securities

Exhibit 7: ASP growth among major developers in 2012- 3M14 (YoY %)



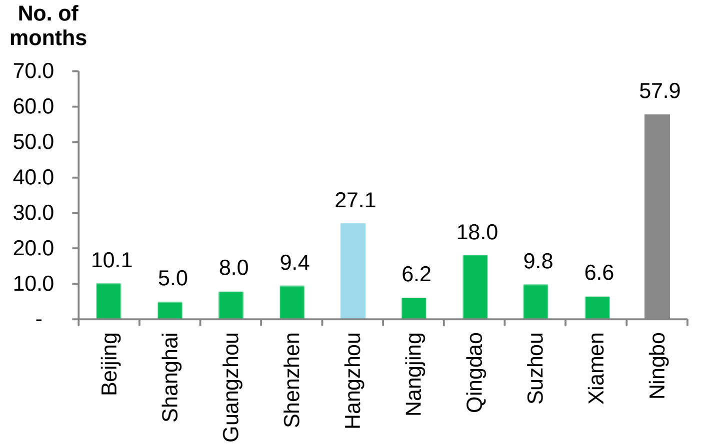
Source(s): Companies, ABCI Securities

Exhibit 8: Property price index by city tier



Source(s): Wind, ABCI Securities

Exhibit 9: Inventory level by city as at Mar 2014 (months)



Source(s): Wind, ABCI Securities

We believe that price cut by developers is unlikely to spread nationwide, but may only be limited to certain tier 2/3 cities and regional developers with cash flow problems.

2. Tightened liquidity concern: Are developers unable to obtain borrowings in China?

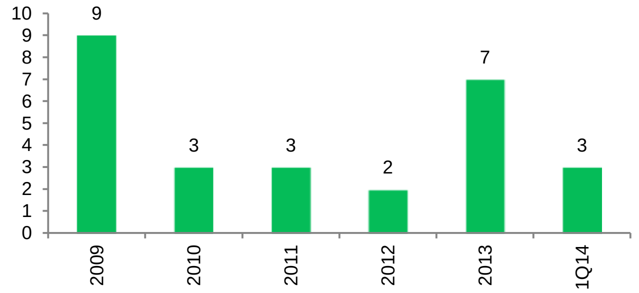
Since the start of 2014, there was news reporting that the Chinese banks may have stopped granting new loans to developers. The Industrial bank confirmed to have stopped the mezzanine financing (a kind of trust financing) for developers; while in March, the RMB 4bn default of the Zhejiang Xinrun Real Estate raised further concerns that the Chinese banks might tighten lending to the mainland developers.

However, In our view, onshore borrowings to developers have always been tight. For example, mid-to-large-sized mainland developers could only secure construction loans at 15%-20% premium to PBOC's rate for the past 2 years. Offshore borrowings (including IPO and bond issuance) has become a more efficient fundraising channel for HK-listed developers.

Fundraising activities have been heating up in 2013 and 1Q14. IPO proceeds raised in 2013 increased 143% YoY to HK$ 9.0bn. More importantly, the bond market, a much bigger fundraising channel (2013: HK$ 164bn proceeds raised) has also turned more active. Despite a limited financial track record, three out of 7 newly listed developers in 2013 can successfully issue bonds within 6 months after listing. Bond yields for developers (e.g. Country Garden, Shimao) with longer trading history has decreased to a reasonable level between 7.5%-8.5%, similar to the borrowing rate offered by the Chinese banks although the maturity period is much longer for bond issuance.

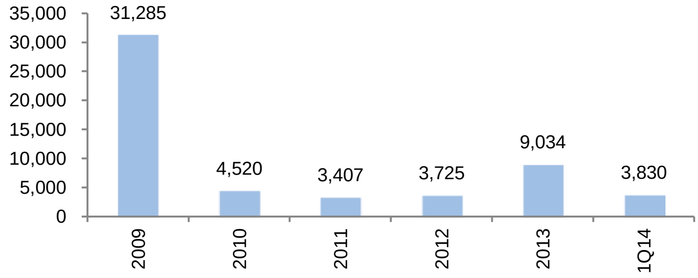
We believe an active offshore borrowing market has provided a good fundraising alternative for the HK-listed mainland developers; hence a tight onshore borrowing market should not be a big concern for the sector.

Exhibit 10:Total number of new IPOs of mainland developers in HKEx



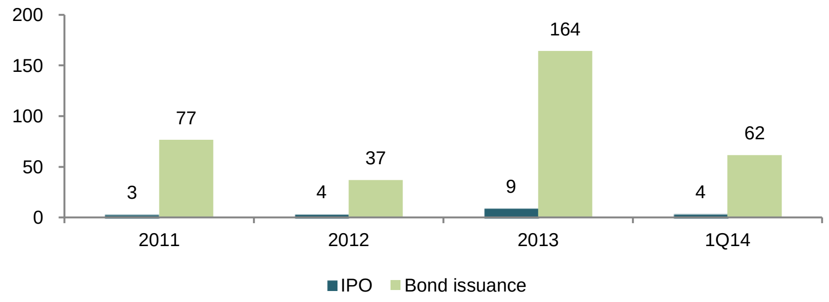
Source(s): HKEx, ABCI Securities

Exhibit 11: IPO proceeds raised in the new IPOs of mainland developers in HKEx (HK$ mn)



Source(s): HKEx, ABCI Securities

Exhibit 12: Bond proceeds vs IPO proceeds raised (HK$ bn)



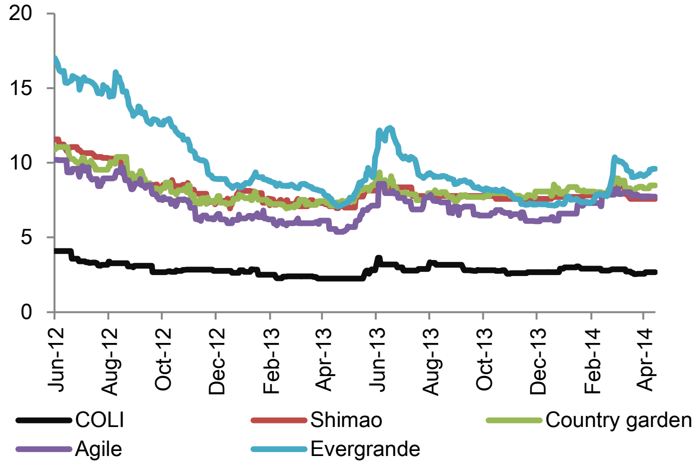
Source(s): Bloomberg; ABCI Securities

Exhibit 13: Bond issuance of newly listed mainland developers

Company	Equity Listing date	Equity HK$mn	Bond Issuance date	Bond HK$mn	Time between IPO and first bond issuance	Bond size vs IPO size
Modern Land	Jul-13	**596**	Jan-14	**1,386**	6 months	233%
Wuzhou	Jun-13	**1,505**	Sep-13	**780**	3 months	104%
			Jan-14	**780**		
Golden Wheel	Jan-13	**760**				
Hydoo	Oct-13	**1,652**				
Jingrui	Oct-13	**1,395**				
Times	Dec-13	**1,551**	Mar-14	**1,755**	3 months	113%
Logan	Dec-13	**1,575**				

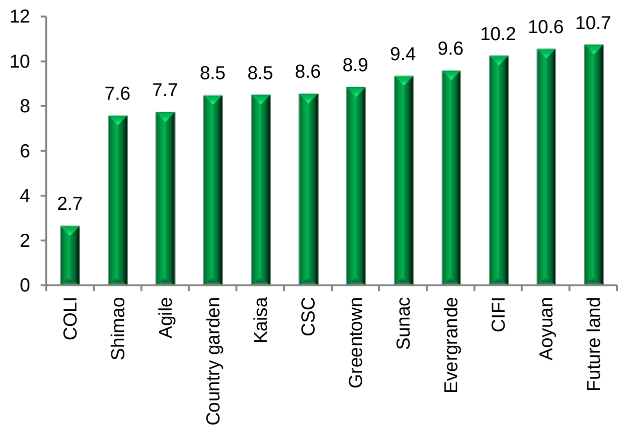
Source(s): Companies; ABCI Securities

Exhibit 14: Bond yields of major HK-listed mainland developers



Source(s):Bloomberg, ABCI Securities

Exhibit 15: Bond Yield comparison of major HK-listed mainland developers

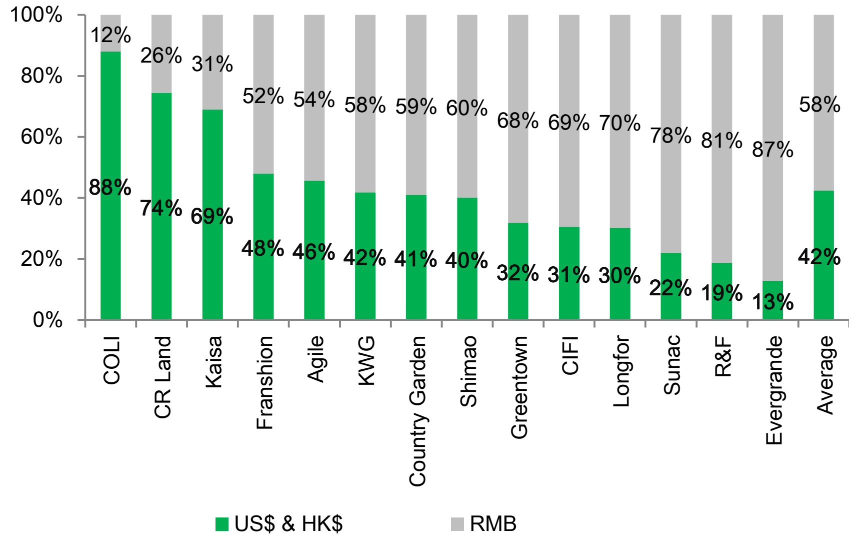


* Data as at 5 May 2014
Source(s): Bloomberg, ABCI Securities

3. Currency concerns: Will RMB depreciation hurt developers with high USD debts?

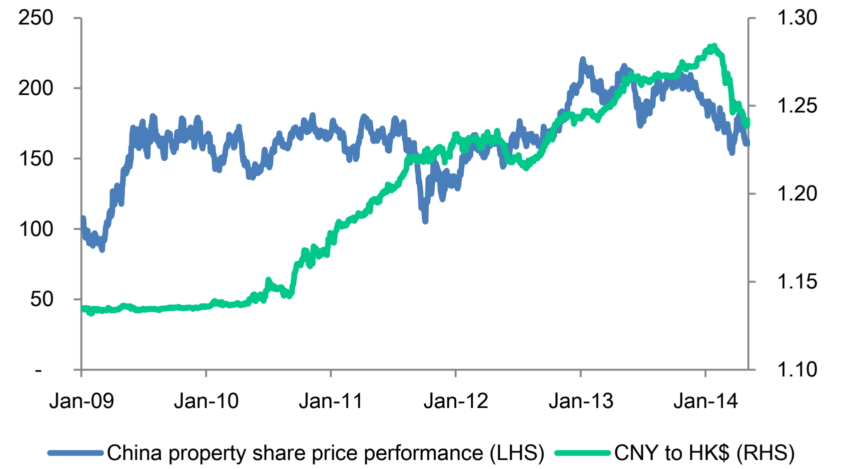
Offshore borrowings, a major fundraising channel for mainland developers, are usually denominated in USD or HKD. Recent RMB depreciation thus raises concerns on potential FX losses. Despite non-RMB borrowing accounted for 42% of total borrowings among the 15 HK listed mainland developers identified below (refer to Exhibit 16), higher USD normally only leads to unrealized losses on translation in accounting, given that most of the borrowings are bonds with maturity periods of 3-5 years. Much of the losses will be materialized upon repayment of borrowings.

Exhibit 16: Borrowing by currency



* Data as at Dec 2013
Source(s): Companies; ABCI Securities

Exhibit 17: Performance of mainland property stocks vs. CNY/HKD exchange rate (Jan 09- May 2014)



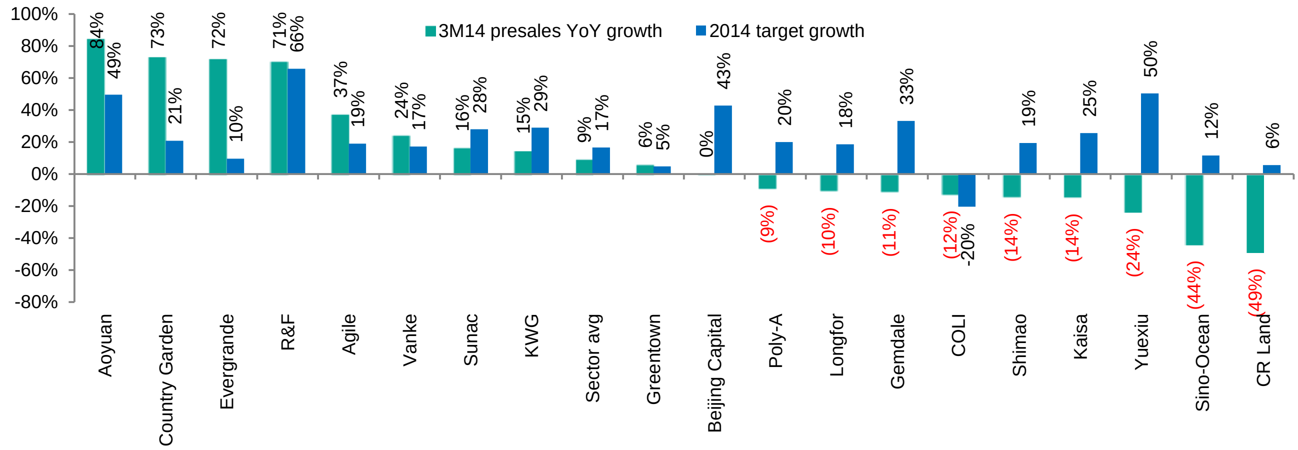
Source(s): Blommberg; ABCI Securities

We believe that impact of RMB depreciation will be a temporary one with no long-term impacts on developers' financials. Based on its track record in 2010-13 (which RMB appreciated by ~10%), our house view remains that RMB will appreciate gradually over an extended period of time (we expect +3.1% appreciation by end of 2014).

Fundamentals are still solid

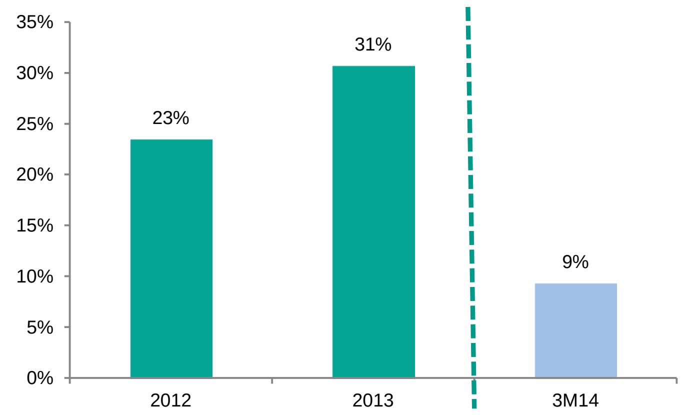
Despite the concern of oversupply persists, presales of major developers remained healthy in 3M14 (+9% YoY on average) with ASP having stayed firm to gain 2% YoY to 11k/sqm. The 9% YoY growth rate achieved in the first quarter, however was below the expected full-year increase of 17% YoY for 2014. We believe a weak seasonality (1Q is usually the low season) and the fact that most new projects are usually launched only in 2H of the year were the reasons for the slower growth. We expect performance to ramp up during the peak season in Sep-Oct. Overall, most developers set their sales targets based on lower sell-through rates than that of 2013. Among the major listed developers, Aoyuan has so far delivered the best 1Q14 presales performance (+84% YoY), and we believe the Group is well on track to achieve or even exceed its sales target.

Exhibit 18: 3M14 sales growth vs implied growth of 2014 sales target (YoY %)



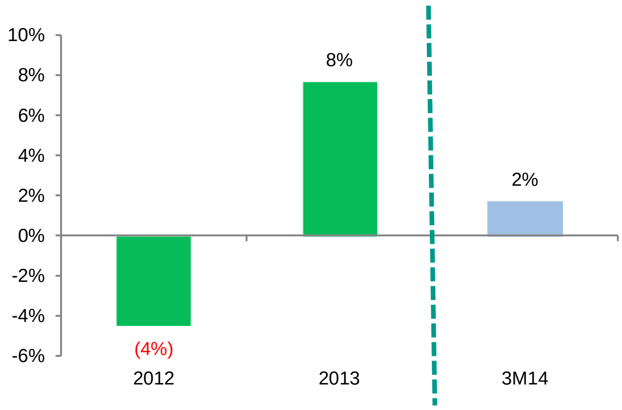
Source(s): Companies; ABCI Securities estimates

Exhibit 19: Major developers' presales - YoY change (%)



Source(s):Companies, ABCI Securities

Exhibit 20: Major developer's ASP- YoY change (%)



Source(s): Companies, ABCI Securities

After a fast-growing year in 2013 (+31% YoY in developers' presales), end-user demand (from first homebuyers and upgraders) had largely been absorbed in 2013 before favorable mortgage policy (15% discount to PBOC's rate for first homebuyer) was discontinued. Given signs of an overheating housing market have much receded (we believe the central government considers current market a healthy one), we expect the full-year presales growth to be 10% YoY while ASP would stay flat for 2014. We believe developers with commercial exposure, such as Aoyuan that specialized in loft apartments in Guangzhou (loft apartment is considered as commercial property), could attract additional investment demand. Indeed, Aoyuan's sales target implied a growth of +50% YoY, one of the highest in the Chinese property sector.

Exhibit 21: 2014 presales target

	(RMB bn)	2012 Actual	2013 Actual	2014 Target	YoY change *2013 vs. 2012*	YoY change *2014 vs. 2013*
1	Vanke	141	171	**200**	+21%	**+17%**
2	COLI*	112	139	**140**	+23%	**+1%**
3	Poly-A	102	125	**150**	+23%	**+20%**
4	Country Garden	48	106	**128**	+123%	**+21%**
5	Evergrande	92	100	**110**	+9%	**+10%**
6	Shimao	46	67	**80**	+45%	**+19%**
7	CR Land	52	66	**70**	+27%	**+6%**
8	Greentown	51	62	**65**	+22%	**+5%**
9	Sunac	32	51	**65**	+61%	**+28%**
10	Longfor	40	48	**57**	+20%	**+18%**
11	Gemdale	34	45	**60**	+32%	**+33%**
12	R&F	32	42	**70**	+31%	**+66%**
13	Agile	33	40	**48**	+22%	**+19%**
14	Sino-Ocean	31	36	**40**	+15%	**+12%**
15	Kaisa	17	24	**30**	+37%	**+25%**
16	Beijing Capital	13	20	**28**	+48%	**+43%**
17	KWG	12	16	**21**	+34%	**+29%**
18	Yuexiu	12	15	**22**	+19%	**+50%**
19	China Aoyuan	5	10	**15**	+91%	**+49%**
	Total	**885**	**1,156**	**1,348**	**+31%**	**+17%**

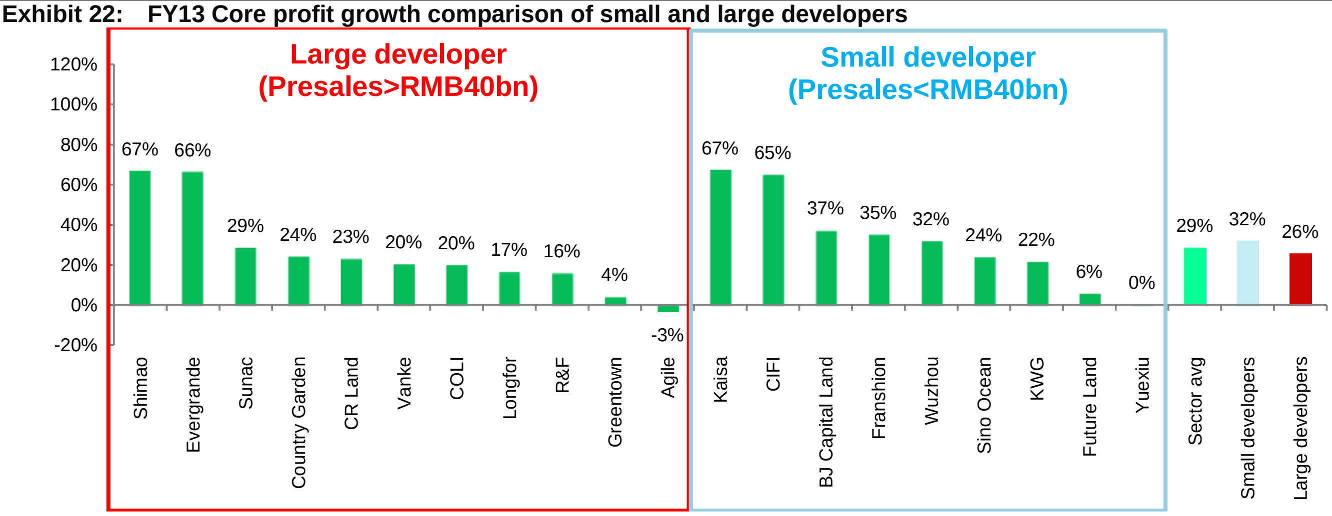
* in HK$
Source(s): Companies; ABCI Securities estimates

2013 results review: smaller is better

Despite the fact that FY13 results among the mainland developers were impressive (core profit +29%YoY), the trend of eroding margins raise doubts on future profitability and render any near-term re-rating of the sector difficult if not impossible. Due to rising land costs, average gross margin fell 2.8 ppt YoY to 32.5% in FY13. Overall, margin erosion was less significant among small developers (with presales under RMB 40bn in FY13). For big players who have already had significant market shares, they either have to (i) place higher bids to secure new projects in auctions; (ii) or enter the lower tier cities to maintain growth in presales. As a result, large players tend to suffer more as land prices appreciate.

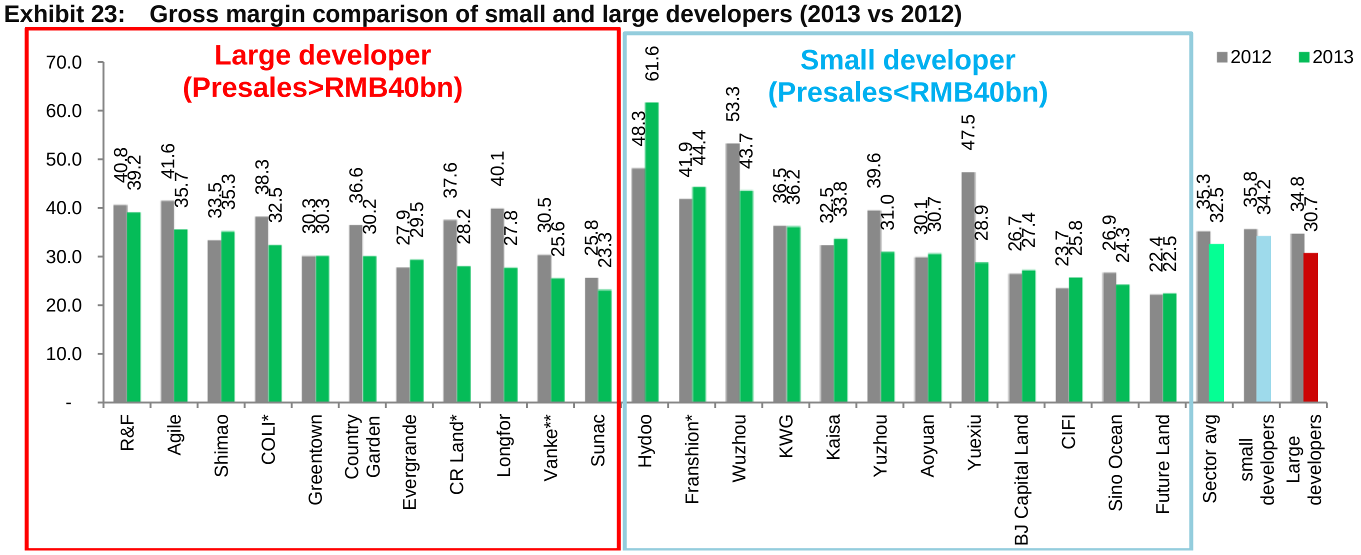
In contrast, core net margin improved among some smaller players (e.g. Hydoo, Franshion, Aoyuan).Their revenue growth (due to substantial increase in GFA completion) is often significant enough to generate SG&A expenses savings by tapping on the economies of scale.

Exhibit 22: FY13 Core profit growth comparison of small and large developers



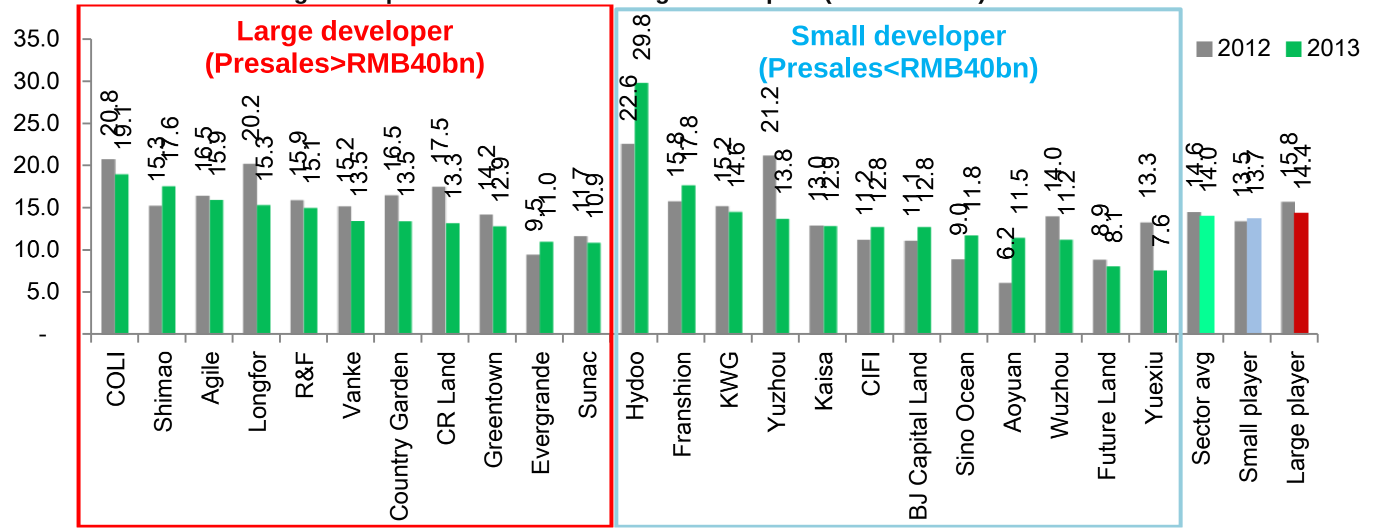
Source(s): Companies; ABCI Securities

Exhibit 23: Gross margin comparison of small and large developers (2013 vs 2012)



Source(s): Companies; ABCI Securities

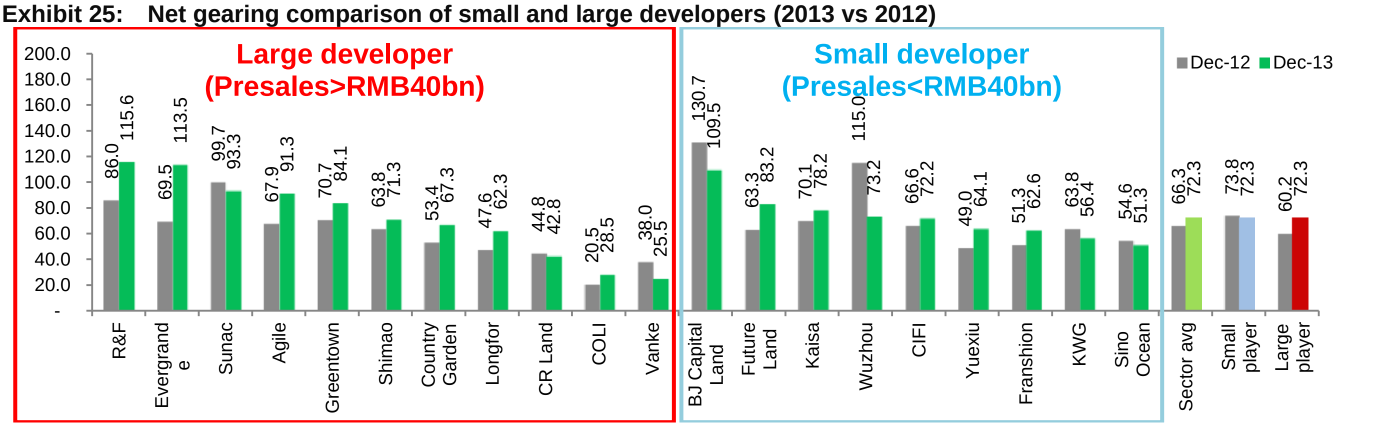
Exhibit 24: Core net margin comparison of small and large developers (2013 vs 2012)



Source(s): Companies; ABCI Securities

On net gearing side, both small and large players remain a reasonable level of ~72%. To conclude, small players clearly outperformed many big names in this set of FY13 results. We believe smaller players have better chances to protect its margin in 2014.

Exhibit 25: Net gearing comparison of small and large developers (2013 vs 2012)



Source(s):Companies; ABCI Securities

Stock picks: Aoyuan, Sunac and Kaisa

We prefer small-mid cap developers (presales< HK$40bn) over the bigger ones on their faster growth and less severe margin erosion induced by rising land costs. In terms of product mix, we prefer residential developers with (1) higher exposure in tier 1 cities given the limited land supply in these regions; (2) low exposure to first homebuyer (i.e. those focus on commercial or luxury property segments) as overall housing demand slowed. Among small developers, we also prefer those with :

- Inexpensive valuation: 3-4x 2014 PE; 5% above dividend yield
- Reasonable growth: FY14 presales growth to exceed 20%
- Stable or improving margins

Exhibit 26: Valuation table

	China Property	Ticker	Rating	TP	Mkt cap	Share Price	Performance 3M	Performance YTD	Performance 2013	Discount to NAV	Valuation P/E 2013A	P/E 2014E	P/E 2015E	Yield (%) 2013A	Yield (%) 2014E	Yield (%) 2015E	P/B 2013A	P/B 2014E	P/B 2015E
					(HKD bn)	(local ccy)	% Chg	% Chg	% Chg	(%)	2013A	2014E	2015E	2013A	2014E	2015E	2013A	2014E	2015E
	Residential :																		
1	COLI	688 HK	HOLD	19.50	152	18.58	(9)	(15)	(4)	(23.80)	8.0	6.5	5.7	2.5	3.1	3.5	1.4	1.2	1.0
2	CR Land	1109 HK	NR		91	15.60	(13)	(19)	(8)	(48.00)	9.8	8.0	6.4	2.8	3.3	3.9	1.1	1.0	0.8
3	Country Garden	2007 HK	NR		56	3.04	(29)	(35)	20	(61.68)	5.3	4.4	3.5	6.9	8.3	10.2	1.0	0.9	0.7
4	Shimao	813 HK	NR		52	15.00	(9)	(16)	26	(55.75)	5.7	4.7	3.8	6.7	6.6	7.9	1.0	0.9	0.7
5	Longfor	960 HK	NR		54	9.94	(5)	(8)	(27)	(72.43)	7.0	5.9	5.0	2.9	3.4	4.0	1.2	1.0	0.8
6	Evergrande	3333 HK	NR		49	3.36	6	14	(27)	(55.79)	3.8	4.0	3.6	20.1	7.7	8.4	0.9	0.6	0.6
7	Guangzhou R&F	2777 HK	NR		32	10.00	(2)	(12)	(7)	(66.52)	4.5	4.0	3.4	7.7	8.3	9.5	0.8	0.7	0.6
8	Sino Ocean	3377 HK	NR		29	4.03	(4)	(21)	(8)	(58.17)	7.0	6.1	5.5	5.7	6.6	7.5	0.6	0.5	0.5
9	Agile	3383 HK	NR		22	6.19	(11)	(26)	(20)	(70.14)	3.8	3.5	3.1	7.6	8.0	8.9	0.6	0.5	0.4
10	Greentown	3900 HK	BUY	9.70	16	7.58	(30)	(36)	(12)	(68.82)	3.5	3.0	2.6	7.1	7.9	8.7	0.6	0.5	0.4
11	Sunac	1918 HK	BUY	7.10	13	3.83	(19)	(18)	(21)	(81.23)	2.9	2.3	2.2	6.2	7.8	8.4	0.7	0.6	0.5
12	Yuexiu Properties	123 HK	NR		14	1.50	(6)	(21)	(18)	(70.30)	9.0	6.4	5.1	5.5	6.6	7.9	0.5	0.4	0.4
13	COGO	81 HK	NR		11	4.61	(27)	(38)	(20)	(68.50)	3.8	3.2	2.6	2.4	3.1	3.7	0.9	0.7	0.6
14	KWG	1813 HK	NR		12	4.13	4	(4)	(23)	(72.56)	4.1	3.3	2.7	8.7	8.7	10.6	0.5	0.5	0.4
15	Kaisa	1638 HK	BUY	4.00	12	2.39	0	1	4	(70.13)	4.2	3.0	2.3	7.8	9.3	14.6	0.6	0.5	0.4
16	CIFI	884 HK	NR		9	1.45	0	(0)	12	(67.05)	7.2	3.0	2.5	4.8	5.8	8.3	0.8	0.6	0.5
17	BJ Capital Land	2868 HK	NR		5	2.57	(7)	7	(12)	(69.98)	3.7	2.3	2.2	10.7	12.7	13.4	0.5	0.4	0.3
18	Future Land	1030 HK	NR		4	0.76	(10)	(17)	(35)	(82.62)	3.6	2.8	2.3	8.2	9.5	10.6	0.5	0.4	0.3
19	China Aoyuan	3883 HK	BUY	2.40	4	1.34	(12)	(18)	35	(77.76)	4.3	2.4	1.4	7.4	10.4	17.8	0.4	0.3	0.3
	HK Listed Avg						**(9)**	**(15)**	**(8)**	**(65.33)**	**5.3**	**4.1**	**3.5**	**6.9**	**7.2**	**8.8**	**0.8**	**0.6**	**0.6**
	- Large cap (>HKD30b) avg						**(9)**	**(13)**	**(4)**	**(54.85)**	**6.3**	**5.3**	**4.5**	**7.1**	**5.8**	**6.8**	**1.1**	**0.9**	**0.8**
	- Small-mid cap (<HKD30b) avg						**(10)**	**(16)**	**(14)**	**(70.86)**	**4.8**	**3.5**	**3.0**	**6.8**	**7.8**	**9.3**	**0.6**	**0.5**	**0.4**
1	Vanke	000002 CH	NR		110	10.28	5	(4)	(15)	(34.66)	7.3	4.5	3.8	5.3	5.4	6.5	1.1	0.9	0.8
2	Poly-A	600048 CH	NR		65	10.66	(7)	(11)	(38)	(42.99)	6.0	3.8	3.2	4.0	4.7	5.9	1.0	0.8	0.6
3	China Merchants Property	000024 CH	NR		33	26.80	(14)	(23)	(30)	na	7.9	5.1	4.2	3.0	3.9	4.8	1.0	0.9	0.7
4	Gemdale	600383 CH	NR		44	7.20	30	21	(4)	(36.00)	9.9	8.2	6.7	1.0	1.9	2.1	1.2	1.1	1.0
	A-share Listed Avg						**4**	**(4)**	**(22)**	**(37.89)**	**7.8**	**5.4**	**4.5**	**3.3**	**4.0**	**4.8**	**1.1**	**0.9**	**0.8**
	Commercial:																		
1	SOHO China	410 HK	NR		33	6.18	1	(7)	13	(46.42)	5.9	12.2	19.5	5.0	5.0	4.8	0.7	0.7	0.6
2	China South City	1668 HK	BUY	4.50	24	3.42	(2)	55	97	(65.07)	10.5	5.3	4.0	2.9	4.4	5.8	1.3	1.1	0.9
3	Hui Xian REIT	87001 HK	NR		22	3.39	(8)	(9)	(1)	(50.15)	23.9	15.2	13.9	7.2	7.8	8.1	0.6	0.6	0.6
4	Franshion	817 HK	BUY	3.60	22	2.44	1	(10)	(1)	(49.67)	8.2	6.1	4.4	3.9	4.9	6.6	0.8	0.7	0.6
5	Shui On Land	272 HK	NR		16	2.03	(14)	(15)	(30)	(69.93)	11.0	11.6	9.2	3.0	3.9	3.7	0.4	0.3	0.3
6	Hydoo	1396 HK	BUY	4.30	12	3.05	2	37	na	(52.19)	5.6	4.3	3.5	5.2	6.7	8.3	1.8	1.7	1.3
7	Yuexiu REIT	405 HK	NR		10	3.66	0	1	9	na	42.8	29.7	24.5	7.4	7.7	8.1	0.6	0.7	0.7
8	Zall	2098 HK	NR		9	2.70	13	(1)	(10)	na	27.4	na	na	0.0	na	na	1.2	na	na
9	Wuzhou	1369 HK	NR		6	1.39	0	8	14	na	14.8	8.0	5.6	0.0	3.0	4.3	2.1	na	na
	Commercial Avg						**(1)**	**6**	**11**	**(55.57)**	**16.7**	**11.5**	**10.6**	**3.9**	**5.4**	**6.2**	**1.1**	**0.8**	**0.7**
	- Developers						**(3)**	**6**	**20**	**(57.77)**	**11.9**	**7.9**	**7.7**	**2.9**	**4.7**	**5.6**	**1.2**	**0.9**	**0.7**
	- Landlords/REIT						**(3)**	**14**	**(1)**	**(51.17)**	**33.4**	**22.4**	**19.2**	**7.3**	**7.7**	**8.1**	**0.6**	**0.7**	**0.7**

* Data as at May 5, 2014
Source(s): Bloomberg, ABCI Securities estimates

While trade and logistics players (CSC and Hydoo) also demonstrate strong earnings ability and was relatively unaffected by overhang in the residential property sector, the counters offer limited upside after the recent rally (up 37-55% YTD) on the e-commerce concept.

Thus, our latest stock picks for the sector include Aoyuan (3883 HK), Sunac(1918 HK) and Kaisa (1638 HK) based on their strategic focuses on commercial, luxury and redevelopment segments, respectively:

Aoyuan (3883 HK; BUY; HK$ 2.40): King of the commercial loft apartment

- **3M14 presales soared 84% YoY:** During 3M14, Aoyuan presales rose 84% YoY to RMB 2.1bn, driven by 10% YoY growth in GFA and 68% leap in ASP. Commercial property accounted for 58% of total presales, driving Aoyuan's overall ASP to RMB 10,187/sqm for 3M14.

- **Commercial use loft apartments attract strong demand:** Aoyuan's impressive growth in presales indicates strong demand for commercial proeprties in Guangzhou. We believe Aoyuan's loft apartments (which is categorized as commercial property) are extremely competitive as a product because: (i) each apartment has an efficiency ratio of 160% as the mezzanine floor is a complimentary area; (ii) each unit is priced only at around RMB 1mn (~50sqm at RMB 20k/sqm), which is highly affordable to middle-class family; (iii) not subjected to home purchase restriction, in this way the apartments attract investment demand as well.

- **Margins are likely to rise further:** Given a rising ASP, we expect gross margin to rise further to 32.5% in FY14E from 30.7% in FY13. Driven by higher presales (FY14 target: RMB 15bn, +49% YoY) and margins, we estimate FY14E core profit to surge 78% to RMB 1,169mn. Assuming a steady payout ratio of ~25%, Aoyuan will generate a dividend yield of 10% for FY14 based on the current price. Maintain **BUY** with TP at HK$ 2.40, based on a 60% discount to FY14E NAV.

Sunac (1918 HK; BUY; HK$ 7.10): Top tier products in top tier regions

- **FY13 results eliminated gearing concerns.** Despite various costly acquisitions last year for the "land king" plots, Sunac's net gearing dropped from 100% to 93% in FY13 on healthy inflow of cash generated by fast-growing presales (+61% to RMB 51bn). In 3M14, presales growth remains healthy at 16% YoY. We believe the market's concern about Sunac's gearing would gradually subside.

- **Focus on luxury segment in top tier cities, Sunac is unlikely to be plagued by oversupply.** In 2013, Sunac exceeded Greentown to rank top in presales ASP, as most of its projects focus on luxury properties tier 1 and selected top tier 2 cities. In 2013, Sunac also ranked first in Beijing, Tianjin and Wuxi, second in Chongqing and third in Shanghai through projects by the Sunac-Greentown JV platform, in terms of total presales. We believe such strategy will help Sunac to exercise pricing power given a dominant market share while supply (especially luxury segment) is limited in those cities.

- **Bottoming margin:** Although Sunac's gross margin contracted by 2.6ppt YoY to 23.3% for FY13, we believe the Group's margin have already bottomed out at 20.8% in 1H13. We believe projects in Shanghai with higher margins are likely to raise its gross margin up to 27-28% in FY14. Maintain **BUY** with TP at HK$ 7.10 based on a 65% discount to FY14E NAV.

Kaisa (1638 HK; BUY; HK$ 4.00): A redevelopment specialist

- **Urban redevelopment to drive margin:** Kaisa ranked top in Shenzhen for presales, according to ShenzhenHome. In particular, two redevelopment projects in Shenzhen estimated to have a gross margin of 50% are the major drivers for Kaisa's impressive performance. As Kaisa's redevelopment pipeline ramps up, we expect the Group's gross margin to improve consistently from 33.8% in FY13, to 36.8% in FY14 and 38.7% in FY15, as opposed to falling trend across industry.
- **Targeting RMB30bn in presales for FY14:** Kaisa targets to achieve RMB 30bn in presales for FY14, implying a faster–than-industry growth of 25% YoY. Despite a slower 1Q14 (presales dropped -14% YoY to RMB4.1bn), we believe performance is likely to catch up in 2H14 with more new projects being launched for sale. Maintain **BUY** with TP HK$ 4.00 based on a 50% discount to FY14E NAV

Consolidated income statement (2012A-2016E)

FY Ended Dec 31 (RMB mn)	2012A	2013A	2014E	2015E	2016E
Revenue	**3,943**	**5,729**	**10,499**	**14,980**	**16,519**
Cost of sales	(2,757)	(3,971)	(7,086)	(9,873)	(10,690)
Gross Profit	**1,187**	**1,759**	**3,414**	**5,107**	**5,828**
SG&A expenses	(607)	(670)	(967)	(1,082)	(1,145)
EBIT	**580**	**1,088**	**2,447**	**4,025**	**4,683**
Finance cost	(66)	(44)	(165)	(165)	(162)
Share of profit of associates	(7)	(0)	-	-	-
Other income/ (expenses)	102	115	63	91	117
Fair value gain of investment properties	-	-	-	-	-
Disposal/one-off items	916	106	-	-	-
Profit before tax	**1,525**	**1,265**	**2,344**	**3,951**	**4,638**
Tax	(593)	(513)	(1,052)	(1,723)	(2,021)
Profit after tax	**933**	**752**	**1,292**	**2,228**	**2,617**
Minority interest	(2)	(16)	(123)	(219)	(266)
Reported net profit	**930**	**736**	**1,169**	**2,008**	**2,352**
Less: exceptional items	*(687)*	*(79)*	-	-	-
Underlying net profit	**243**	**657**	**1,169**	**2,008**	**2,352**
Per share					
Underlying EPS (RMB)	0.09	0.25	0.45	0.77	0.90
DPS (RMB)	0.31	0.08	0.11	0.19	0.22
Payout ratio (%)	336%	32%	25%	25%	25%
BVPS (RMB)	2.66	2.76	3.10	3.67	4.35
Growth %					
Revenue	30.5%	45.3%	83.3%	42.7%	10.3%
Gross Profit	45.1%	48.2%	94.1%	49.6%	14.1%
EBIT	43.3%	87.7%	124.8%	64.5%	16.3%
Underlying net profit	2.3%	170.3%	78.0%	71.8%	17.1%
Margin %					
Gross margin	30.1%	30.7%	32.5%	34.1%	35.3%
Gross margin (post-LAT)	24.9%	28.0%	27.0%	27.8%	28.6%
EBIT margin	14.7%	19.0%	23.3%	26.9%	28.3%
Core net margin	6.4%	11.7%	12.3%	14.9%	15.8%
Key assumptions					
Presale(RMB mn)	5,250	10,038	16,377	17,409	16,297
GFA sold (mn sqm)	0.84	1.07	1.89	1.89	1.83
ASP (RMB/sqm)	6,281	9,364	8,668	9,230	8,891
Booked Sales (RMB)	3,865	5,600	10,358	14,829	16,357
GFA delivered (mn sqm)	0.49	0.82	1.29	1.71	1.82
Booked ASP (RMB/sqm)	7,938	6,866	8,023	8,677	8,988

Source: Company, ABCI Securities estimates

Consolidated balance sheet (2012A-2016E)

As of Dec 31 (RMB mn)	2012A	2013A	2014E	2015E	2016E
Current assets	**16,684**	**26,781**	**34,278**	**38,739**	**41,400**
Cash	2,381	2,812	7,586	12,145	16,515
Restricted cash	762	1,899	1,899	1,899	1,899
Trade & other receivables	735	1,064	1,064	1,064	1,064
Property under development	11,548	19,437	22,160	22,063	20,353
Other current assets	1,257	1,569	1,569	1,569	1,569
Non-current assets	**4,129**	**3,150**	**3,687**	**4,223**	**4,759**
Property, plant & equipment	376	415	451	488	524
Investment properties	1,949	2,419	2,919	3,419	3,919
Investment in Associate and JCE	0	5	5	5	5
Other non-current assets	1,804	311	311	311	311
Total Assets	**20,813**	**29,932**	**37,964**	**42,961**	**46,159**
Current Liabilities	**10,105**	**14,963**	**21,981**	**25,303**	**26,521**
Short term borrowings	1,675	2,411	3,411	4,411	5,411
Trade & other payables	2,299	2,953	2,953	2,953	2,953
Pre-sales deposits	4,244	6,463	12,481	14,803	15,021
Other current assets	1,887	3,136	3,136	3,136	3,136
Non-current liabilities	**3,605**	**7,444**	**7,444**	**7,444**	**7,444**
Long term borrowings	3,248	7,113	7,113	7,113	7,113
Other payables	0	0	0	0	0
Other non-current assets	356	332	332	332	332
Total Liabilities	**13,709**	**22,408**	**29,426**	**32,747**	**33,965**
Net Assets	**7,104**	**7,524**	**8,538**	**10,214**	**12,194**
Shareholders Equity	**6,951**	**7,219**	**8,096**	**9,602**	**11,366**
Minority Interest	152	305	378	548	763
Total Equity	**7,104**	**7,524**	**8,474**	**10,150**	**12,129**
Key ratio					
Gross debt (RMB mn)	4,923	9,524	10,524	11,524	12,524
Net debt (RMB mn)	1,779	4,812	1,039	(2,520)	(5,890)
Net gearing (%)	26%	67%	13%	-26%	-52%
Presale/Total assets (x)	0.25	0.34	0.43	0.41	0.35

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2012A-2016E)

FY ended Dec 31 (RMB mn)	2012A	2013A	2014E	2015E	2016E
EBITDA	610	1,122	2,481	4,059	4,717
Change in Working Capital	(2,862)	(4,740)	4,232	3,356	2,847
Tax payment	(770)	(461)	(1,052)	(1,723)	(2,021)
Operating Cashflow	**(3,021)**	**(4,078)**	**5,661**	**5,693**	**5,543**
Purchase of PP&E	(25)	(70)	(70)	(70)	(70)
Addition of Investment Properties	(394)	(500)	(500)	(500)	(500)
Proceeds from disposal/ (acquisition)	4,902	115	63	91	117
Investing Cashflow	**4,483**	**(455)**	**(507)**	**(479)**	**(453)**
Debt raised	4,695	7,137	5,000	5,000	5,000
Debt repaid	(4,544)	(1,000)	(4,000)	(4,000)	(4,000)
Interest expenses	-	(848)	(1,103)	(1,102)	(1,082)
Equity raised	-	-	-	-	-
Dividend to shareholders	(135)	(209)	(292)	(502)	(588)
Others	26	(50)	(50)	(50)	(50)
Financing Cashflow	**42**	**5,029**	**(445)**	**(654)**	**(720)**
Net cash inflow/ (outflow)	**1,504**	**496**	**4,709**	**4,559**	**4,370**
Cash- beginning	877	2,381	2,877	7,586	12,145
Cash- year-end	**2,381**	**2,877**	**7,586**	**12,145**	**16,515**

Source(s): Company, ABCI Securities estimates

Consolidated income statement (2012A-2016E)

FY Ended Dec 31 (RMB mn)	2012A	2013A	2014E	2015E	2016E
Revenue	**20,843**	**30,837**	**40,686**	**47,896**	**51,126**
Cost of sales	(15,460)	(23,660)	(28,911)	(34,728)	(37,810)
Gross Profit	**5,382**	**7,177**	**11,775**	**13,167**	**13,316**
SG&A expenses	(884)	(1,136)	(1,327)	(1,494)	(1,461)
EBIT	**4,498**	**6,041**	**10,448**	**11,673**	**11,855**
Finance cost	(113)	(580)	(236)	(170)	(130)
Share of profit of associates	(39)	72	1,047	1,362	1,326
Other income/ (expenses)	45	75	222	381	564
Fair value gain of investment properties	-	-	-	-	-
Disposal/one-off items	293	77	-	-	-
Profit before tax	**4,685**	**5,684**	**11,481**	**13,246**	**13,616**
Tax	(2,070)	(2,191)	(5,043)	(5,785)	(5,870)
Profit after tax	**2,615**	**3,494**	**6,438**	**7,462**	**7,747**
Minority interest	(7)	(315)	(2,008)	(2,721)	(2,993)
Reported net profit	**2,607**	**3,178**	**4,430**	**4,740**	**4,753**
Less: exceptional items	*129*	*344*	*(0)*	*0*	*0*
Underlying net profit	**2,736**	**3,523**	**4,430**	**4,740**	**4,753**
Per share					
Underlying EPS (RMB)	0.91	1.06	1.34	1.43	1.43
DPS (RMB)	0.09	0.19	0.24	0.26	0.26
Payout ratio (%)	10%	18%	18%	18%	18%
BVPS (RMB)	3.15	4.10	5.20	6.37	7.55
Growth %					
Revenue	96.6%	48.0%	31.9%	17.7%	6.7%
Gross Profit	50.9%	33.3%	64.1%	11.8%	1.1%
EBIT	52.4%	34.3%	73.0%	11.7%	1.6%
Underlying net profit	52.7%	28.8%	25.8%	7.0%	0.3%
Margin %					
Gross margin	25.8%	23.3%	28.9%	27.5%	26.0%
Gross margin (post-LAT)	20.6%	20.5%	22.0%	20.7%	19.7%
EBIT margin	21.6%	19.6%	25.7%	24.4%	23.2%
Core net margin	11.7%	10.9%	13.3%	12.7%	12.6%
Key assumptions					
Presale (RMB mn)	35,635	52,110	64,917	75,497	68,766
GFA sold (mn sqm)	2.00	2.54	3.05	3.75	3.56
ASP (RMB/sqm)	17,830	20,520	21,272	20,129	19,320
Booked Sales (RMB mn)	20,671	30,596	40,426	47,623	50,840
GFA delivered (mn sqm)	1.19	1.75	2.11	2.51	2.81
Booked ASP (RMB/sqm)	17,327	17,530	19,179	19,009	18,101

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2012A-2016E)

As of Dec 31 (RMB mn)	2012A	2013A	2014E	2015E	2016E
Current assets	**64,832**	**87,590**	**89,126**	**93,867**	**93,445**
Cash	8,394	13,414	25,797	45,214	62,458
Restricted cash	3,869	2,595	2,595	2,595	2,595
Trade & other receivables	416	1,214	1,214	1,214	1,214
Property under development	46,401	58,106	47,258	32,583	14,918
Other current assets	5,752	12,261	12,261	12,261	12,261
Non-current assets	**6,103**	**9,765**	**10,270**	**10,839**	**11,400**
Property, plant & equipment	49	65	61	58	54
Investment properties	571	252	252	252	252
Investment in Associate and JCE	4,205	7,909	8,418	8,991	9,556
Other non-current assets	1,279	1,539	1,539	1,539	1,539
Total Assets	**70,934**	**97,355**	**99,396**	**104,706**	**104,845**
Current Liabilities	**44,294**	**51,789**	**58,238**	**56,988**	**50,285**
Short term borrowings	11,783	7,835	12,835	7,835	2,835
Trade & other payables	7,116	12,402	12,402	12,402	12,402
Pre-sales deposits	15,146	13,647	15,096	18,846	17,144
Other current assets	10,250	17,905	17,905	17,905	17,905
Non-current liabilities	**14,646**	**27,355**	**17,355**	**17,355**	**17,355**
Long term borrowings	9,942	20,872	10,872	10,872	10,872
Other payables	-	-	-	-	-
Other non-current assets	4,704	6,483	6,483	6,483	6,483
Total Liabilities	**58,940**	**79,144**	**75,593**	**74,343**	**67,640**
Net Assets	**11,994**	**18,211**	**23,803**	**30,363**	**37,205**
Shareholders Equity	**9,489**	**13,605**	**17,239**	**21,127**	**25,026**
Minority Interest	2,505	4,606	6,564	9,236	12,179
Total Equity	**11,994**	**18,211**	**23,803**	**30,363**	**37,205**
Key ratio					
Gross debt (RMB mn)	21,725	28,706	23,706	18,706	13,706
Net debt (RMB mn)	9,462	12,698	(4,686)	(29,102)	(51,346)
Net gearing (%)	100%	93%	Net cash	Net cash	Net cash
Presale/ Total assets (x)	50%	54%	65%	72%	66%

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2012A-2016E)

FY ended Dec 31 (RMB mn)	2012A	2013A	2014E	2015E	2016E
EBITDA	4,513	6,065	10,472	11,697	11,879
Change in Working Capital	6,684	(4,165)	14,420	19,952	17,130
Tax payment	(1,688)	(2,191)	(5,043)	(5,785)	(5,870)
Operating cash flow	**9,509**	**(290)**	**19,849**	**25,864**	**23,139**
Purchase of PP&E	(22)	(20)	(20)	(20)	(20)
Addition of Investment Properties	(2,473)	-	-	-	-
Others	(2,764)	(5,111)	759	1,170	1,325
Investing cash flow	**(5,260)**	**(5,131)**	**739**	**1,150**	**1,305**
Debt raised	16,396	10,000	10,000	10,000	10,000
Debt repaid	(12,639)	(5,422)	(15,000)	(15,000)	(15,000)
Interest expenses	(1,817)	(2,569)	(2,359)	(1,697)	(1,297)
Equity raised	24	1,608	-	-	-
Dividend to shareholders	(236)	(633)	(796)	(852)	(854)
Others	(345)	7,457	(50)	(50)	(50)
Financing cash flow	**1,381**	**10,441**	**(8,205)**	**(7,599)**	**(7,201)**
Net cash inflow/ (outflow)	**5,631**	**5,020**	**12,383**	**19,416**	**17,244**
Cash- beginning	2,763	8,394	13,414	25,797	45,214
Cash- year-end	**8,394**	**13,414**	**25,797**	**45,214**	**62,458**

Source(s): Company, ABCI Securities estimates

Consolidated income statement (2012A-2016E)

FY Ended Dec 31 (RMB mn)	2012A	2013A	2014E	2015E	2016E
Revenue	**11,955**	**19,523**	**26,181**	**31,030**	**33,611**
Cost of sales	(8,070)	(12,923)	(16,549)	(19,021)	(20,250)
Gross Profit	**3,885**	**6,599**	**9,632**	**12,010**	**13,361**
SG&A expenses	(1,397)	(1,814)	(2,064)	(2,216)	(2,271)
EBIT	**2,489**	**4,785**	**7,568**	**9,793**	**11,090**
Finance cost	(39)	(122)	(47)	(42)	(42)
Share of profit of associates	(0)	0	0	0	0
Other income/ (expenses)	62	38	127	211	296
Fair value gain of investment properties	0	0	0	0	0
Disposal/one-off items	757	455	0	0	0
Profit before tax	**3,269**	**5,155**	**7,648**	**9,963**	**11,344**
Tax	(1,153)	(2,293)	(3,716)	(4,837)	(5,537)
Profit after tax	**2,116**	**2,862**	**3,933**	**5,126**	**5,807**
Minority interest	(44)	(5)	(435)	(551)	(533)
Reported net profit	**2,072**	**2,857**	**3,498**	**4,575**	**5,274**
Less: exceptional items	*(568)*	*(341)*	*0*	*0*	*(0)*
Underlying net profit	**1,504**	**2,516**	**3,498**	**4,575**	**5,274**
Per share					
Underlying EPS (RMB)	0.27	0.46	0.63	0.83	0.95
DPS (RMB)	-	0.15	0.18	0.28	0.32
Payout ratio (%)	0%	33%	28%	34%	34%
BVPS (RMB)	2.60	3.13	3.63	4.30	5.01
Growth %					
Revenue	10.3%	63.3%	34.1%	18.5%	8.3%
Gross Profit	20.2%	69.8%	45.9%	24.7%	11.3%
EBIT	9.9%	92.3%	58.1%	29.4%	13.2%
Underlying net profit	-4.6%	67.3%	39.0%	30.8%	15.3%
Margin %					
Gross margin	32.5%	33.8%	36.8%	38.7%	39.8%
Gross margin (post-LAT)	31.6%	32.2%	28.1%	29.1%	29.5%
EBIT margin	20.8%	24.5%	28.9%	31.6%	33.0%
Core net margin	13.0%	12.9%	15.0%	16.5%	17.3%
Key assumptions					
Presale (RMB mn)	17,341	23,921	30,591	33,665	33,836
GFA sold (m sqm)	2.58	2.45	3.06	3.37	3.52
ASP (RMB/sqm)	6,730	9,764	10,003	9,975	9,624
Booked Sales (RMB)	11,598	19,090	25,714	30,538	33,091
GFA delivered (m sqm)	1.65	2.56	2.76	3.09	3.36
Booked ASP (RMB/sqm)	7,037	7,451	9,314	9,871	9,846

Source: Company, ABCI Securities estimates

Consolidated balance sheet (2012A-2016E)

As of Dec 31 (RMB mn)	2012A	2013A	2014E	2015E	2016E
Current assets	**49,836**	**77,270**	**83,900**	**90,270**	**94,878**
Cash	4,683	6,766	14,780	23,620	31,618
Restricted cash	670	1,940	1,940	1,940	1,940
Trade & other receivables	5,843	12,986	12,986	12,986	12,986
Property under development	34,840	51,304	49,919	47,450	44,059
Other current assets	3,801	4,275	4,275	4,275	4,275
Non-current assets	**8,117**	**10,538**	**11,034**	**11,530**	**12,026**
Property, plant & equipment	308	580	576	572	568
Investment properties	7,540	9,595	10,095	10,595	11,095
Investment in Associate and JCE	0	0	0	0	0
Other non-current assets	269	363	363	363	363
Total Assets	**57,953**	**87,808**	**94,933**	**101,800**	**106,904**
Current Liabilities	**29,439**	**46,549**	**50,527**	**53,193**	**53,913**
Short term borrowings	3,150	4,024	4,024	4,024	4,024
Trade & other payables	7,112	9,998	9,998	9,998	9,998
Pre-sales deposits	17,244	29,639	33,618	36,284	37,003
Other current assets	1,933	2,888	2,888	2,888	2,888
Non-current liabilities	**13,460**	**19,501**	**19,501**	**19,501**	**19,501**
Long term borrowings	12,257	18,201	18,201	18,201	18,201
Other non-current assets	1,202	1,300	1,300	1,300	1,300
Total Liabilities	**42,898**	**66,050**	**70,029**	**72,694**	**73,414**
Net Assets	**15,054**	**21,758**	**24,905**	**29,106**	**33,490**
Shareholders' Equity	**14,350**	**17,298**	**20,060**	**23,760**	**27,662**
Minority Interest	704	4,461	4,845	5,346	5,829
Total Equity	**15,054**	**21,758**	**24,905**	**29,106**	**33,490**
Key ratio					
Gross debt (RMB mn)	15,408	22,225	22,225	22,225	22,225
Net debt (RMB mn)	10,055	13,519	5,505	(3,335)	(11,334)
Net gearing (%)	70%	78%	27%	Net cash	Net cash
Presale/ Total assets (x)	0.30	0.27	0.32	0.33	0.32

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2012A-2016E)

FY Ended Dec 31 (RMB mn)	2012A	2013A	2014E	2015E	2016E
EBITDA	2,531	4,859	7,642	9,867	11,164
Change in Working Capital	(882)	(7,459)	7,317	6,872	5,847
Tax payment	(906)	(2,293)	(3,716)	(4,837)	(5,537)
Operating Cashflow	**743**	**(4,893)**	**11,243**	**11,901**	**11,473**
Purchase of PP&E	(73)	(70)	(70)	(70)	(70)
Addition of Investment Properties	(531)	(500)	(500)	(500)	(500)
Others	(553)	38	127	211	296
Investing Cashflow	**(1,157)**	**(532)**	**(443)**	**(359)**	**(274)**
Debt raised	5,216	9,628	5,000	5,000	5,000
Debt repaid	(3,533)	-	(5,000)	(5,000)	(5,000)
Interest expenses	(1,468)	(2,070)	(2,000)	(1,778)	(1,778)
Equity raised	(1,157)	(532)	(443)	(359)	(274)
Dividend to shareholders	-	-	(736)	(874)	(1,373)
Others	2,094	482	393	309	224
Financing Cashflow	**1,151**	**7,509**	**(2,786)**	**(2,702)**	**(3,200)**
Net cash inflow/ (outflow)	**737**	**2,083**	**8,014**	**8,840**	**7,998**
Cash- beginning	3,945	4,683	6,766	14,780	23,620
Cash- year-end	**4,682**	**6,766**	**14,780**	**23,620**	**31,618**

Source(s): Company, ABCI Securities estimates

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Definition of equity rating

Rating	Definition
Buy	Stock return ≥ Market return rate
Hold	Market return – 6% ≤ 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 ≤180 day volatility/180 day benchmark index volatility
High	1.5 ≤ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	1.0 ≤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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