



農銀國際

ABC INTERNATIONAL

ABC SECURITIES COMPANY LIMITED

China's Property Sector

The Big Bay Area Winners

May 17, 2017





China's Property Sector The Bay Big Area Winners

- Strong sales momentum for major developers would persist in 2H17 due to recovery in lower-tier cities, low interest rates, and market consolidation
- Margin improvement would continue in 2017-18 on the back of rising ASP
- Offshore USD bond issuance rose 126% QoQ in 1Q17, indicating ability to refinance offshore
- We prefer developers with high exposure in the Big Bay Area. Despite limited analyst coverage, Aoyuan is our top pick based on its strong presales growth and high dividend yield

Strong sales momentum would remain in 2H17. In 4M17, presales of the Chinese developers grew 72%YoY, completing 37% of their sales target on average. We believe sales momentum would persist in 2H17 due to 3 major factors: **1) Lack of tightening in lower-tier cities.** Property price in tier-3 cities grew 1.4% in 1Q17, higher than the 1.2%/0.8% growth in tier-2/1 cities. Better sales performance in lower-tier cities would compensate for the slower sales in high-tier ones; **2) Low interest rate environment.** Mortgage loan rate, which is priced based on PBOC rate, stayed at record low levels. Although discount rate has been reduced slightly from 15% to between 0% and 10% for most banks, mortgage rate is at least 70-120bps lower than the 2014 level. **3) Market consolidation.** Top 10 players account for 18.7% of 2016 presales revenue, up 1.7ppt YoY. Major listed developers are still growing with increasing market share.

Sustainable gross margin improvement. On the back of rising ASP, gross profit margin (GPM) of the Chinese developers rebounded from 26.0% in FY15, to 26.5% in FY16. Further presales ASP growth in 2016 means that GPM would go up in 2017-18.

Increasing offshore bond issuance. In 1Q17, the amount of onshore bond issued by developers declined 33% QoQ or 73% YoY to RMB 56bn while offshore USD bond issuance rose 126% QoQ or 484% YoY to US\$ 10.9bn. On a like-for-like basis, coupon rate for USD bond issuance declined in 1Q17. E.g., Times property's USD bond in Apr 2017 (mature in 2022) was 50bps lower than the one in Jan 2017 (mature in 2020) despite longer maturity in the former.

Our top picks: Aoyuan (3883 HK), Times (1233 HK), Logan (3380 HK) and SZI (604 HK). We maintain positive on China's property sector on healthy presales growth, improving margin, and ability to refinance offshore. Nonetheless, given the sector has rallied by 29.7% YTD, we believe current share price has priced in most of the positives. We expect limited catalysts ahead until interim results to be announced in Aug. Hence, we advise investors to select players with low valuation and high yield. Aoyuan, Times and Logan, our 3 Big Bay Area (BBA) picks, has a valuation below 6x 2017E P/E and a dividend yield higher than 6%. Aoyuan is our top pick base on its strong presales growth. The market may have underestimated its potential due to its underperforming share price YTD and limited analyst coverage.

Sector Valuation Summary (data as of May 16, 2017)

Company	Ticker	Current Rating	Previous Rating	TP (HK\$)	FY17A P/E(x)	FY18E P/E (x)	FY17A P/B (x)	FY18E P/B (x)	FY17A Yield(%)	FY18E Yield(%)
Aoyuan	3883	BUY	BUY	3.40	4.8	3.8	0.6	0.5	6.3	7.9
Times	1233	BUY	BUY	6.00	3.6	2.2	0.7	0.6	8.4	13.8
Logan	3380	BUY	BUY	5.00	5.7	4.3	1.0	0.9	6.1	8.2
SZI	604	BUY	BUY	3.80	8.2	5.9	0.8	0.7	6.1	8.5
Yuzhou	1628	BUY	BUY	3.90	5.0	4.0	1.0	0.9	7.1	8.7
CIFI	884	BUY	BUY	3.60	4.5	3.7	0.9	0.8	7.7	8.0
Jinmao	817	BUY	BUY	3.25	9.9	8.3	0.8	0.7	3.3	4.0
COLI	688	BUY	BUY	30.20	8.7	7.8	1.0	0.9	3.5	4.0
Evergrande	3333	BUY	BUY	7.70	11.8	5.7	2.3	1.9	4.2	8.7
Fantasia	1777	BUY	BUY	1.37	7.5	5.3	0.5	0.5	4.3	5.2
LVGEM	95	BUY	BUY	2.50	20.1	18.6	1.6	1.6	3.1	3.3
Greentown	3900	HOLD	HOLD	7.60	5.7	4.6	0.5	0.5	3.5	4.3
Sunac	1918	SELL	SELL	9.70	16.9	11.2	1.4	1.3	2.4	3.6

Source(s): Bloomberg, ABCI Securities estimates

Sector Report May 17, 2017 OVERWEIGHT

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Key Data

Avg.17E P/E (x)	6.8
Avg.17E P/B (x)	0.8
Avg.17E Dividend Yield (%)	5.5

Source(s): Bloomberg, ABCI Securities

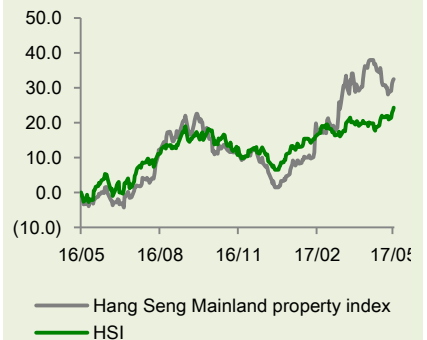
Sector Performance %

	Absolute	Relative*
1-mth	(2.35)	(6.12)
3-mth	20.36	12.52
6-mth	17.53	7.29

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year sector performance (HK\$)



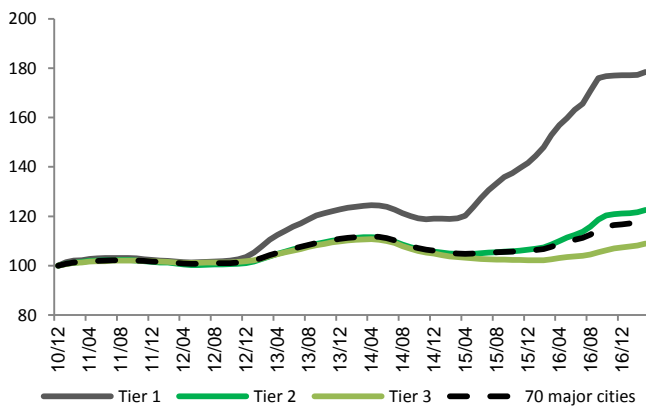
Source(s): Bloomberg, ABCI Securities

Is sales momentum sustainable in 2H17?

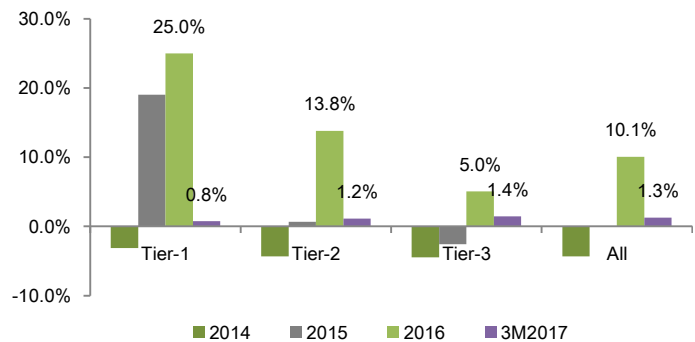
The China's property sector has been re-rated since the beginning of 2017 on the back of strong monthly sales as well as improved profitability and margins reflected in the FY16 results. We believe the above catalysts (increasing sales and margin) would remain in place due to the following factors:

Lack of tightening in lower-tier cities

In 2016, property market in lower-tier cities performed worse than that in the tier-1/2 regions due to high inventory level and oversupply concern. However, with the implementation of home purchase restriction (HPR) in major tier-1/2 cities, part of the investment demand has been redirected to the lower-tier ones. As reflected in NBS's statistics, property price in tier-3 cities grew 1.4% in 1Q17, outperforming the 1.2%/0.8% growth in tier-2/tier-1 cities. For developers with a balanced portfolio across different tier cities, better sales performance in lower-tier can compensate for slower sales in tier-1/2 regions.

Exhibit 1: NBS property price index (Dec 10= 100)


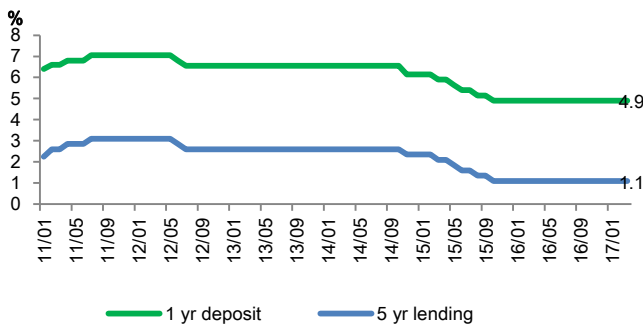
Source(s): NBS, ABCI Securities

Exhibit 2: NBS property price change


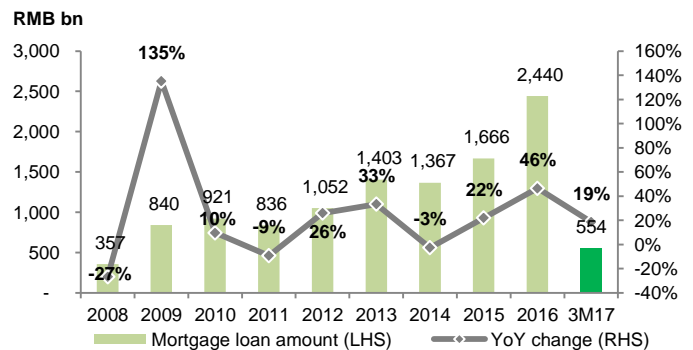
Source(s): NBS, ABCI Securities

Low interest rate environment

Despite the government's deleveraging policy, mortgage loan remains to be one of the core segments in the loan portfolio of banks. In 1Q17, mortgage loan grew 19% YoY to RMB 554bn. Mortgage loan rate, priced based on PBOC rate, stayed at record-low levels. Although discount rate has been reduced slightly from 15% to 0-10% for most banks, mortgage rate is at least 70-120bps lower than that in 2014.

Exhibit 3: Interest rate


Source(s): PBOC, ABCI Securities

Exhibit 4: Mortgage loan


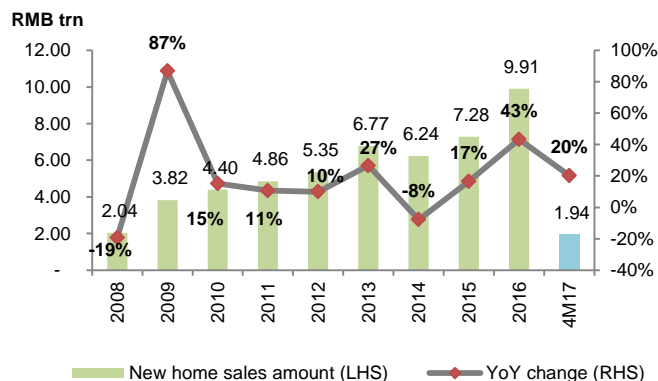
Source(s): PBOC, ABCI Securities



Market consolidation

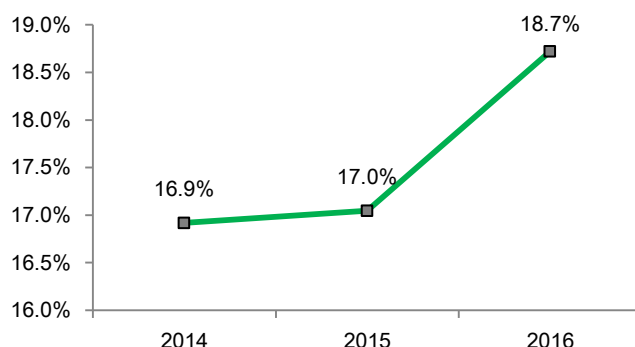
While new home sales may slow towards 2018, market shares of major listed developers are expanding. Top 10 players accounted for 18.7% of 2016 presales revenue, up 1.7ppt YoY. Due to rising land price and HPR in various cities, small developers with limited landbank and geographic footprint are particularly stressed. Meanwhile, major listed developers are increasing land acquisition via M&A. With a decreasing number of players in the market, the sizeable developers will benefit from a growing market share. In 4M17, presales of major HK-listed PRC developers grew 72% YoY, outpacing the 20%YoY growth in China's new homes sales.

Exhibit 5: New home sales



Source(s): NBS, ABCI Securities

Exhibit 6: Market share of top 10 developers by presale



Source(s): NBS, ABCI Securities

Exhibit 7: 4M17 presale of major HK-listed PRC developers

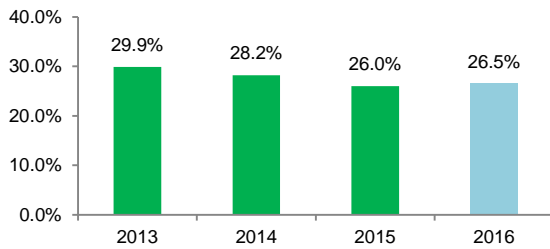
		4M17						2017	Achievement
		Amount	YoY	GFA	YoY	ASP	YoY	RMBbn	
		RMBbn	%	000 sqm	%	RMB/sqm	%		
1	Country garden	204.2	214%	22,560	172%	9,050	16%	400.0	51.0%
2	Longfor	60.0	200%	4,028	184%	14,901	6%	100.0	60.0%
3	Beijing Capital	14.7	97%	655	33%	22,443	48%	50.0	29.4%
4	Sunac	59.7	93%	3,248	121%	18,384	-13%	210.0	28.4%
5	Sino-Ocean	17.6	83%	823	26%	21,383	45%	60.0	29.3%
6	Vanke	192.2	73%	12,780	58%	15,036	10%	na	na
7	Yuzhou	14.0	73%	899	37%	15,614	26%	28.0	50.2%
8	CIFI	30.7	72%	1,633	59%	18,781	8%	65.0	47.2%
9	Evergrande	144.8	63%	14,979	48%	9,666	10%	450.0	32.2%
10	Agile	27.3	62%	2,128	25%	12,820	30%	60.0	45.5%
11	Logan	11.4	57%	730	31%	15,658	20%	34.5	33.1%
11	Shimao	26.8	56%	1,634	19%	16,395	31%	80.0	33.5%
12	Aoyuan	8.6	56%	769	12%	11,140	39%	33.3	25.7%
13	Jinmao	11.4	51%	524	43%	21,844	5%	51.0	22.5%
14	COLI*	76.2	46%	4,532	27%	16,824	15%	210.0	36.3%
15	KWG	9.8	34%	599	7%	16,436	25%	28.0	35.2%
16	Times	9.5	33%	697	-2%	13,617	36%	32.5	29.2%
17	Poly-A	83.6	28%	6,034	24%	13,858	3%	na	na
18	R&F	23.3	23%	1,786	10%	13,036	11%	73.0	31.9%
19	CR Land	41.0	18%	2,875	11%	14,267	6%	120.0	34.2%
20	Yuexiu	12.9	13%	795	-27%	16,184	55%	33.0	39.0%
21	SZI	7.6	-9%	332	-11%	23,014	3%	19.1	40.0%
22	Greentown	25.0	-8%	1,150	-15%	21,739	8%	112.5	22.2%
	Total	1,112.3	72%	86,188	59%	12,906	8%	2,250	37.2%

*in HK\$

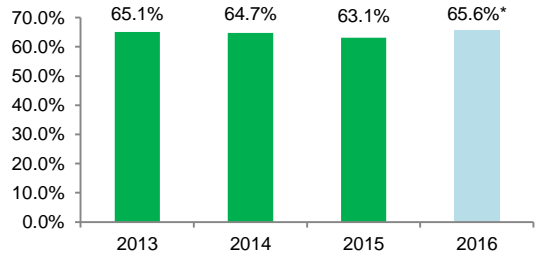
Source(s): Company, ABCI Securities

Sustainable improvement in GPM

On the back of rising ASP, GPM of the Chinese developers rebounded from 26.0% in FY15, to 26.5% in FY16. Given the presales ASP growth in 2016, we expect gross margin to increase in 2017-18. Average net gearing in FY16 increased 2.5ppt to 65.6%. Excluding Sunac (1918 HK) and Evergrande (3333 HK), the two outliers who increased their debt levels significantly in 2016, the figure fell 3.1ppt to 59.9%. We believe net gearing would retreat further in 2017 as developers become more cautious in land acquisition after resumption of HPR in 2016.

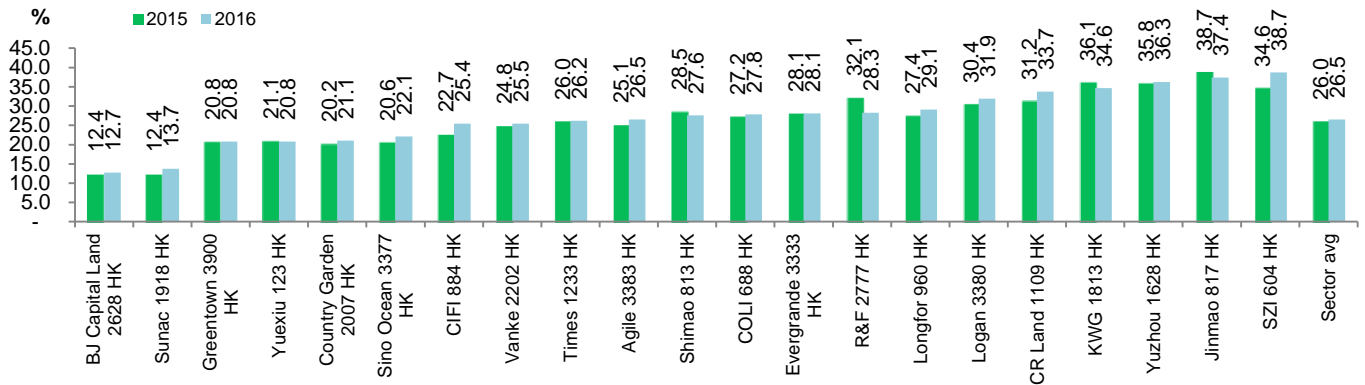
Exhibit 8: Gross margin trend among the HK-listed PRC developers


Source(s): Companies, ABCI Securities

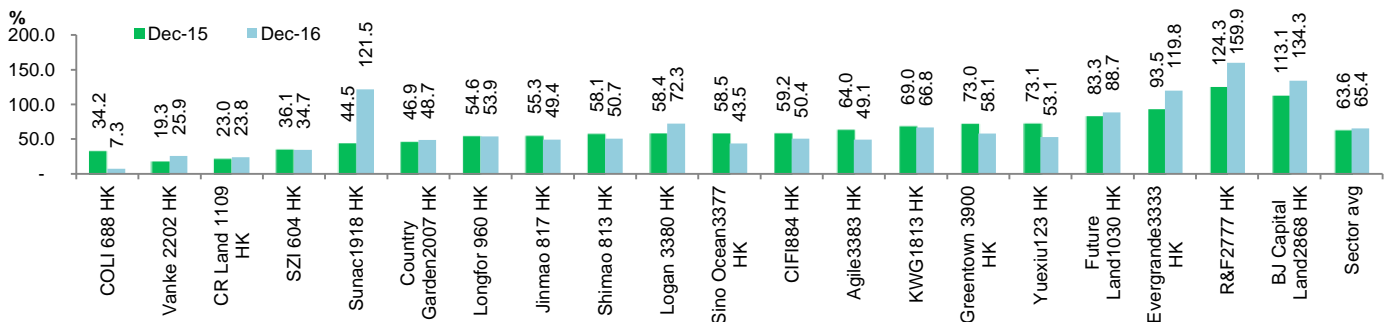
Exhibit 9: Net gearing trend of the HK-listed PRC developers


*59.9% if we exclude Sunac and Evergrande

Source(s): Companies, ABCI Securities

Exhibit 10: Gross margin of the HK-listed PRC developers


Source(s): Company, ABCI Securities

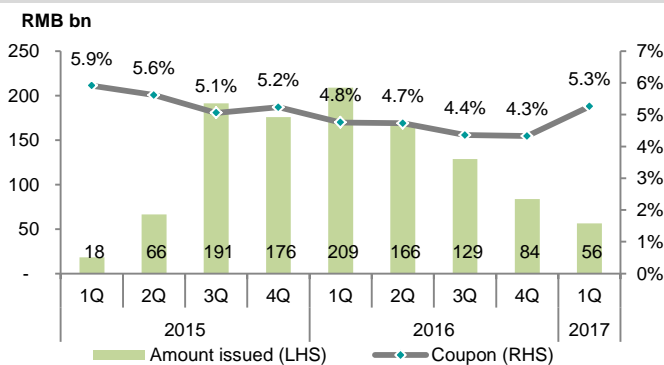
Exhibit 11: Net gearing of the HK-listed PRC developers


Source(s): Company, ABCI Securities

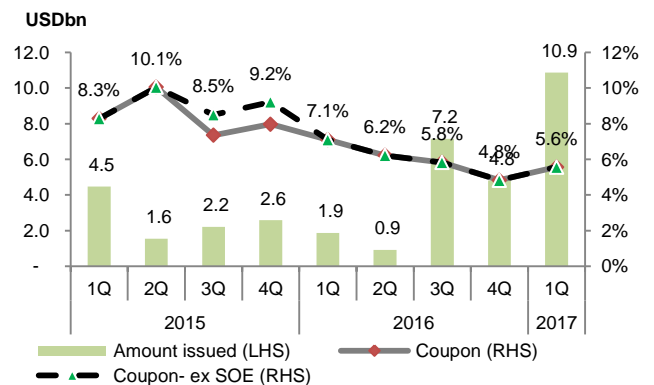
Increasing offshore bond issuance

As issuance of onshore corporate bond by the PRC developers has been suspended, developers that have fully utilized their onshore bond quota need to rely on USD bond offshore for funding. In 1Q17, onshore bond issuance by PRC developers (listed and unlisted) declined 33% QoQ or 73% YoY to RMB 56bn while offshore USD bond issuance rose 126% QoQ or 484% YoY to US\$ 10.9bn. Average coupon rate for onshore bond and offshore bond rose 1ppt to 5.3% and 80bps to 5.6% in 1Q17. However, the average coupon rate could be driven up by developers with lower credit rating (e.g. Evergrande's USD1 bn bond issued in Mar 2017 had a coupon rate as high as 9.5%). On a like-for-like basis, coupon rate for USD bond declined in 1Q17. Coupon rate of Times' USD bond issued in Apr 2017 (mature in 2022) was 50bps lower than that in Jan 2017 (mature in 2020) despite the longer maturity period in the former. We believe growing sales, improving margin, and declining net gearing among developers in FY16 have strengthened confidence of the credit rating agencies and bond investors.

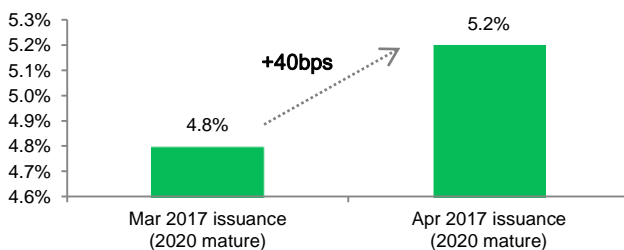
Due to the depreciating RMB and continuous capital outflow, the government is likely to encourage the use of offshore USD bonds to refinance the onshore bonds. We believe the amount of USD bond issued would rise in 2017. With slower land acquisitions due to suspended issuance of onshore corporate bond, net gearing of the PRC developers should decline by end- 2017

Exhibit 12: Onshore RMB bond issuance by quarter


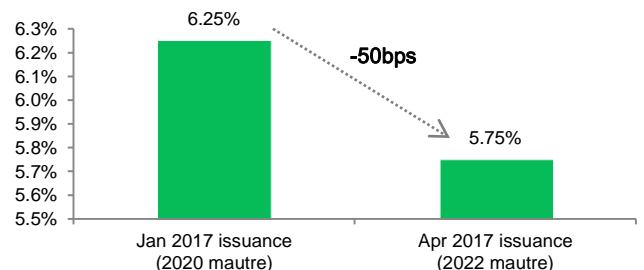
Source(s): Bloomberg, ABCI Securities

Exhibit 13: Offshore USD bond issuance by quarter


Source(s): Bloomberg, ABCI Securities

Exhibit 14: Onshore bond issuance by Wanda (unlisted)


Source(s): Bloomberg, ABCI Securities

Exhibit 15: Offshore bond issuance by Times (1233 HK)


Source(s): Bloomberg, ABCI Securities



The Big Bay Area story

The Guangdong-HK-Macau Big Bay Area (BBA), specifically mentioned in Premier Li Keqiang's annual work report in Mar 2017, is one of the key strategic regions that China seeks to develop. The concept of BBA dates back to 2011 when it was proposed in a study called "The Action Plan for the Bay Area of the Pearl River Estuary". The BBA will be led by 9 mainland cities (Shenzhen, Guangzhou, Foshan, Zhuhai, Dongguan, Huizhou, Zhongshan, Jiangmen, Zhaoqing) and two SARs (Hong Kong and Macau), which will be developed into world-class metropolitan cities comparable to New York, Los Angeles and Tokyo in terms of size, population and GDP. During the meeting between Guangdong governor Ma Xingrui and HK Chief Executive Leung Chun-ying, Ma stressed that transportation upgrades and technology innovation will be one of the key focuses in the BBA development. In our view, these initiatives will stimulate population inflow on better transportation network and job opportunities, which in turn will increase housing demand. We are positive on developers with high exposure in BBA such as Aoyuan, Times, Logan and SZI.

Exhibit 16: Guangdong-HK-Macau Big Bay Area



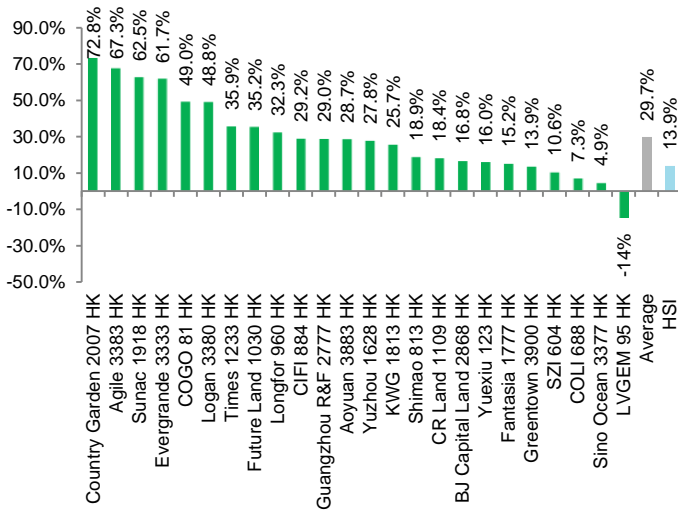
Source(s): Company, ABCI Securities

Our Top Picks: Aoyuan, Times, Logan and SZI

We maintain positive on China's property sector due to the healthy presales growth, improving margin, and developers' ability to refinance offshore. Current share price has priced in most of these positives given the sector has rallied by 29.7% YTD. With limited catalysts ahead until interim results announced in Aug, we suggest investor to select players with a low valuation and a high yield. Aoyuan, Times and Logan, our three BBA picks, have a 2017 P/E less than 6x and a 2017E dividend yield higher than 6%. Aoyuan is our top pick base on its strong presales growth. We believe the market may have underestimated its potential due to its underperforming share price YTD and limited analyst coverage.

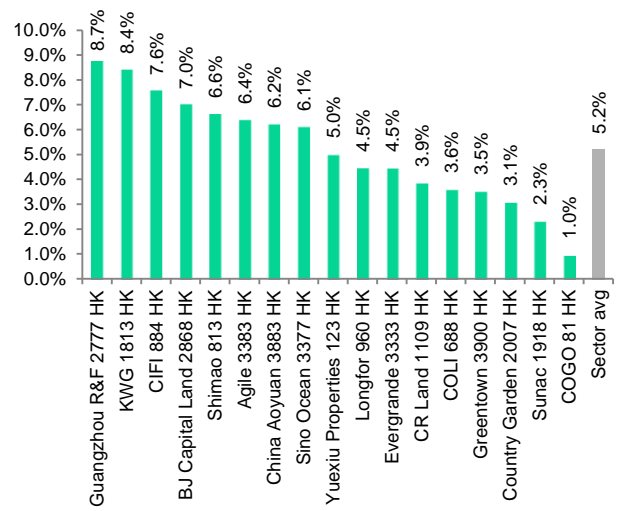


Exhibit 17: YTD Share price performance of HK-listed PRC developers



Source(s): Bloomberg, ABCI Securities

Exhibit 18: FY17 dividend yield of HK-listed PRC developers



Source(s): Bloomberg, ABCI Securities

Exhibit 19: Valuation of China's property sector

China Property	Ticker	Rating	TP	Mkt	Share	Performance			Discount	Valuation									
				cap	Price	3M	YTD	2015	to NAV	P/E			Yield (%)			P/B			
				(HKD bn)	(local ccy)	% Chg	% Chg	% Chg	(%)	2016A	2017E	2018E	2016A	2017E	2018E	2016A	2017E	2018E	
Residential:																			
1	COLI	688 HK	BUY	30.20	244.9	22.35	(8)	9	(22)	(40.84)	9.0	8.7	7.8	3.4	3.5	4.0	1.0	1.0	0.9
2	Vanke-H	2202 HK	NR		236.8	19.30	(2)	9	30	(13.06)	9.9	7.5	6.5	4.6	5.6	6.4	1.7	1.5	1.3
3	CR Land	1109 HK	NR		146.9	21.20	(0)	22	(20)	(40.52)	9.1	7.7	6.6	3.3	3.8	4.3	1.3	1.1	1.0
4	Country Garden	2007 HK	NR		161.8	7.58	40	75	43	(28.49)	12.0	10.1	8.1	2.6	3.1	3.8	2.1	1.7	1.5
5	Evergrande	3333 HK	BUY	7.70	107.7	8.25	41	71	(23)	(57.05)	34.7	11.8	5.7	0.0	4.2	8.7	2.4	2.3	1.9
6	Longfor	960 HK	NR		78.4	13.38	10	36	(11)	(49.01)	9.0	7.4	6.4	3.9	4.4	5.1	1.1	1.0	0.9
7	Sunac	1918 HK	SELL	9.70	40.3	10.36	41	61	13	(57.09)	23.2	16.9	11.2	2.8	2.4	3.6	1.5	1.4	1.3
8	Guangzhou R&F	2777 HK	NR		39.6	12.28	13	31	12	(47.34)	5.4	4.8	4.3	9.2	8.6	9.1	0.8	0.7	0.7
9	Shimao	813 HK	NR		41.1	12.12	8	20	(21)	(58.92)	5.8	5.4	4.7	6.2	6.5	7.4	0.7	0.6	0.6
10	SZI	604 HK	BUY	3.80	26.2	3.43	3	10	(9)	(63.75)	9.7	8.2	5.9	6.4	6.1	8.5	0.8	0.8	0.7
11	Sino Ocean	3377 HK	NR		28.2	3.75	(0)	8	(27)	(64.45)	9.4	6.8	5.8	5.3	5.9	6.7	0.6	0.5	0.5
12	Logan	3380 HK	BUY	5.00	23.4	4.25	31	45	17	(66.06)	6.9	5.7	4.3	5.9	6.1	8.2	1.1	1.0	0.9
13	Agile	3383 HK	NR		24.3	6.21	40	57	1	(53.97)	7.9	5.9	5.2	3.2	6.9	7.6	0.6	0.5	0.5
14	CIFI	884 HK	BUY	3.60	18.1	2.66	6	27	30	(70.37)	5.5	4.5	3.7	6.4	7.7	8.0	1.0	0.9	0.8
15	KWG	1813 HK	NR		16.8	5.49	7	25	(18)	(73.86)	4.9	4.3	3.9	8.2	8.5	9.4	0.6	0.6	0.5
16	Yuexiu Properties	123 HK	NR		15.4	1.24	(1)	17	(17)	(51.94)	13.7	8.6	7.4	5.2	5.0	5.8	0.4	0.4	0.4
17	Greentown	3900 HK	HOLD	7.60	15.7	7.26	4	16	(18)	(61.59)	11.5	5.7	4.6	1.9	3.5	4.3	0.6	0.5	0.5
18	Yuzhou	1628 HK	BUY	3.90	13.5	3.53	32	31	39	(63.62)	5.9	5.0	4.0	6.2	7.1	8.7	1.1	1.0	0.9
19	BJ Capital Land	2868 HK	NR		10.2	3.37	(5)	16	(11)	(38.73)	9.9	5.3	3.8	6.7	7.0	9.2	0.5	0.6	0.5
20	LVGEM	95 HK	BUY	2.50	9.5	2.02	(6)	(15)	(1)	(68.11)	24.2	20.1	18.6	2.5	3.1	3.3	1.6	1.6	1.6
21	Aoyuan	3883 HK	BUY	3.40	6.1	2.28	22	28	16	(73.29)	5.6	4.8	3.8	7.4	6.3	7.9	0.6	0.6	0.5
22	Fantasia	1777 HK	BUY	1.37	6.6	1.15	15	16	13	(66.31)	9.2	7.5	5.3	4.3	4.3	5.2	0.5	0.5	0.5
23	Times Property	1233 HK	BUY	6.00	8.1	4.73	11	25	49	(68.45)	4.2	3.6	2.2	7.5	8.4	13.8	0.8	0.7	0.6
24	COGO	81 HK	NR		8.4	3.70	31	46	(23)	na	9.4	5.3	4.4	0.5	1.0	1.3	0.8	0.7	0.6
HK Listed Avg							13	29	1	(53.92)	9.0	6.8	5.5	5.0	5.5	6.7	0.9	0.8	0.7
- Large cap (>HKD30b), ex Evergrande							13	34	(2)	(41.90)	10.4	8.6	7.0	4.5	4.7	5.5	1.3	1.1	1.0
- Small-mid cap (<HKD30b), ex LVGEM							13	26	2	(61.92)	8.1	5.8	4.6	5.4	6.0	7.5	0.7	0.7	0.6
Commercial:																			
1	SOHO China	410 HK	NR		23	4.33	5	13	20	(45.88)	na	49.1	39.9	0.0	5.7	6.0	0.6	0.6	0.6
2	HLP	101 HK	NR		87	19.42	(1)	18	(2)	(45.60)	13.8	16.2	17.9	3.8	3.9	3.9	0.7	0.7	0.7
3	China South City	1668 HK	HOLD	1.60	12	1.49	(11)	(8)	(5)	(53.56)	11.4	7.7	5.8	2.9	4.3	5.7	0.4	0.4	0.4
4	Hui Xian REIT	87001 HK	NR		19	3.10	(1)	(1)	3	na	22.8	15.9	15.5	8.0	8.7	8.7	0.6	0.7	0.7
5	Jinmao	817 HK	BUY	3.25	25	2.33	(4)	11	(18)	(71.36)	12.8	9.9	8.3	3.9	3.3	4.0	0.9	0.8	0.7
6	Shui On Land	272 HK	NR		14	1.73	1	4	(20)	(76.93)	6.9	7.1	6.0	2.9	2.9	2.9	0.3	0.3	0.3
7	Yuexiu REIT	405 HK	NR		14	4.62	0	13	5	na	29.7	25.4	22.3	6.9	6.5	6.6	0.9	0.9	1.0
Commercial Avg							(2)	7	(3)	(58.67)	16.2	18.7	16.5	4.1	5.0	5.4	0.6	0.6	0.6

Source(s): Bloomberg, ABCI Securities estimates



Aoyuan (3883 HK)

A quality Guangdong play

- One of the key beneficiaries under the Big Bay Area (BBA) plan due to high landbank and presales exposures in Guangdong province
- Aoyuan's overseas projects generate steady presales and higher net margins than projects in China
- 4M17 presales surged 56% YoY to RMB 8.57bn, representing 26% of full-year sales target of RMB 33.3bn
- Maintain **BUY** with revised TP of HK\$ 3.40 based on an unchanged NAV discount at 60%

High exposure in the Guangdong-HK-Macau Bay area. In Mar 2017, Premier Mr. Li proposed the development of Guangdong-Hong Kong-Macau Big Bay Area (BBA), the 4th largest costal economic zone following the New York Bay Area, Los Angeles Bay Area and Tokyo Bay Area. Aoyuan has projects located in 7 of the 11 key cities in BBA, including Guangzhou, Shenzhen, Foshan, Zhuhai, Zhongshan, Huizhou and Jiangmen. About 45% of the Group's landbank and 48% of its presales in 2016 were from Guangdong. These projects would benefit from the government's initiatives to boost economic growth in the BBA.

Solid overseas expansion. Aoyuan's overseas projects have been generating satisfactory presales since its entrance to Sydney in 2015. The One30 Hyde Park (OHP) project acquired in 2015 generated presales of RMB 1,022mn in 2015 and RMB 639mn in 2016. The Maison 188 (M188) project debuted in 2016 achieved RMB 217mn in presales. As of Dec 2016, 90% and 80% of OHP and M188 were presold. The overseas projects have a high ASP of RMB 60-120k/sqm. Their gross profit margins (GPM) at 26-29% are similar to projects in China. However, with the absence of LAT, net margins of these overseas projects are likely to be higher at ~13%, compared to 8-10% for the domestic projects. At present, Aoyuan's overseas projects focus mainly on local buyers that account for 75% of presales. With HPR in place in major tier-1/2 cities in China and a depreciating RMB, Chinese appetite for overseas property investment is set to increase. In Mar 2017, Aoyuan expanded its footprint to Vancouver's CBD by acquiring a 90% stake in a residential project (GFA: 5,600sqm) at CAD 30.6mn (RMB 161mn).

Impressive 4M17 sales; maintain BUY with revised TP of HK\$3.40. Aoyuan's 4M17 presales surged 56%YoY to RMB 8,570mn. GFA sold increased 12% YoY to 0.77mn sqm while presales ASP jumped 39%YoY to RMB 11,140/sqm. As of Apr 2017, 26% of its 2017 sales target (RMB 33.3bn) was completed. Factoring in the latest land acquisition and better-than-expected presales in 4M17, we raise our NAV estimate to HK\$ 8.44/ share (from HK\$ 4.41/share) and TP to HK\$ 3.40 (from HK\$ 1.80) based on a 60% discount to NAV (unchanged). Maintain **BUY**.

Risk factors: 1) Rising land cost in tier-1 cities; 2) FX risk in overseas projects; 3) Rising SG&A cost for establishment of overseas operation.

Results and Valuation

FY ended Dec 31	2015A	2016A	2017E	2018E	2019E
Revenue (RMB mn)	9,572	11,827	16,017	17,928	21,397
Chg (% YoY)	37.2	23.6	35.4	11.9	19.3
Core net profit (RMB mn)	778	1,003	1,177	1,487	1,824
Chg (% YoY)	5.7	28.9	17.4	26.3	22.7
Core EPS (RMB)	0.28	0.36	0.42	0.53	0.66
Chg (% YoY)	5.7	28.9	17.4	26.3	22.7
BVPS (RMB)	3.0	3.2	3.5	3.9	4.3
Chg (% YoY)	6.8	8.2	9.2	10.7	11.8
Core PE (x)	7.3	5.6	4.8	3.8	3.1
P/B (x)	0.7	0.6	0.6	0.5	
ROE (%)	9.4	11.2	12.1	13.8	15.1
ROA (%)	1.6	1.5	1.4	1.4	1.6
DPS(RMB)	0.11	0.15	0.13	0.16	0.20
Yield (%)	5.2	7.4	6.3	7.9	9.7
Net gearing (%)	62.7	58.9	19.3	Net cash	Net cash

Source(s): Bloomberg, ABCI Securities estimates

Company Report

May 17, 2017

Rating: **BUY**

TP: HK\$ 3.40

Analyst : Kenneth Tung

Tel: (852) 2147 8311

kennethtung@abci.com.hk

Share price (HK\$)	2.28
Est. share price return	49.1%
Est. dividend yield	6.3%
Est. total return	55.4%
Previous Rating & TP	BUY, HK\$1.80
Previous Report Date	Mar 15, 2015

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	2.47/1.49
Issued shares (mn)	2,672
Market cap (HK\$ mn)	6,091
3-mth avg daily turnover(HK\$ mn)	11.25
Major shareholder(s) (%)	
Mr. Guo Zi Wen	54.11%

Source(s): Company, ABCI Securities

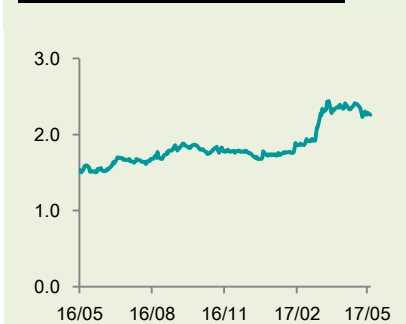
Sector Performance

	Absolute	Relative*
1-mth	(5.4)	(9.4)
3-mth	21.3	14.9
6-mth	26.7	11.7

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year sector performance(HK\$)

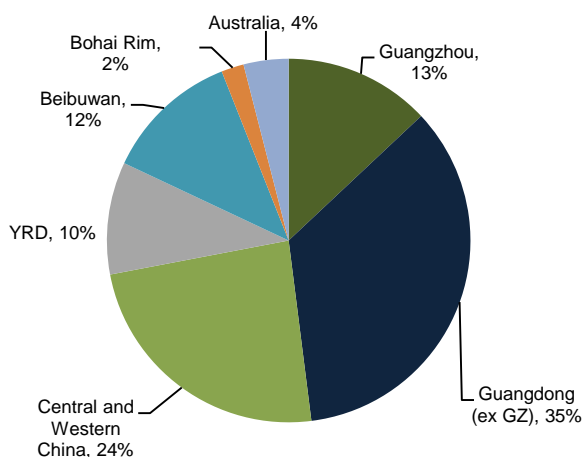


Source(s): Bloomberg, ABCI Securities

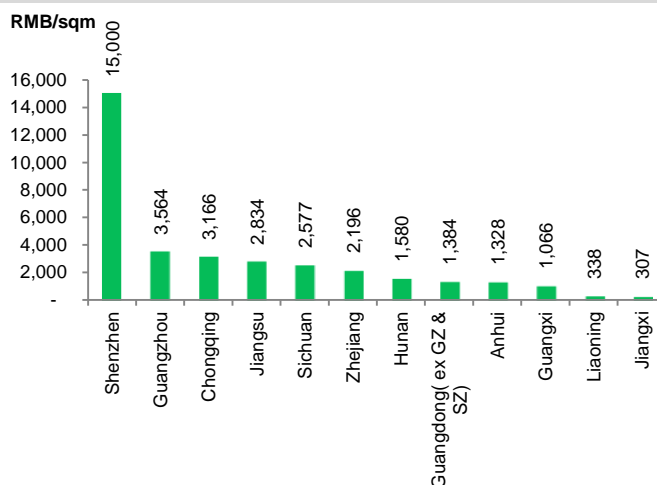
High exposure in the Guangdong-HK-Macau Bay area

Guangdong province has always been Aoyuan's key focus, accounting for 45% of landbank and 48% of presales in 2016. The Group's top 2 projects by presale in 2016, Foshan Aoyuan Prime Palace (RMB1.9bn, 7.4% of total presales) and Zhuhai Aoyuan Plaza (RMB1.78bn, 7.0% of total presales), are also located in the province. Aoyuan's 2017 presales target of RMB 33.3bn implies a 33%YoY growth based on RMB 54bn of saleable resources and a 62% sell-through rate. In 4M17, presales surged 56% YoY to RMB 8.57bn as GFA and ASP jumped 12%/39%, completing 26% of its sales target. Stripping out the effect of changes in geographic mix, we estimate overall ASP to rise moderately by 3-5%YoY amid policy tightening.

Headquartered in Guangzhou, Aoyuan is in a better position to acquire quality sites through M&A or urban renewal sites in the region than the national players. In particular, 11 out of the 17 new projects of Aoyuan were acquired through M&A in 2016. With details of BBA development are likely to be released later in 2017, Aoyuan will benefit from the growing housing demand in Guangdong province on favorable policy.

Exhibit 1: Aoyuan's presales breakdown (2016)


Source(s): Company, ABCI Securities

Exhibit 2: Aoyuan's land cost by region (Dec 2016)


Source(s): Company, ABCI Securities

Exhibit 3: Landbank by city (Dec 2016)

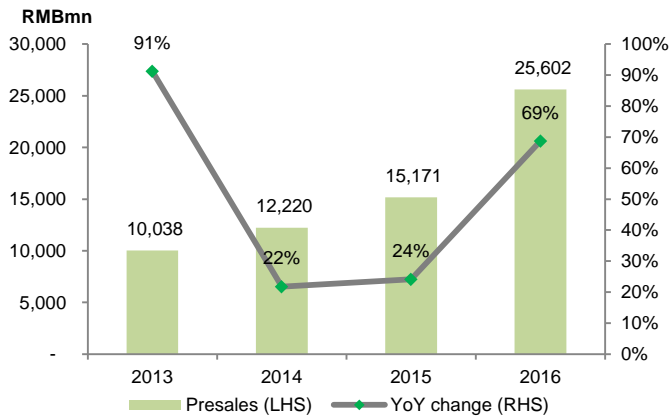
Region	City	'000sqm	%	Region	City	'000sqm	%
Tier 1 cities	Guangzhou	1.82	26.6%	Central and Western China	Chongqing	1.01	14.8%
	Shenzhen	0.22	3.2%		Chengdu	0.58	8.5%
Guangdong	Zhuhai	0.27	4.0%		Changsha	0.15	2.2%
	Foshan	0.64	9.4%		Zhuzhou	0.70	10.2%
	Zhongshan	0.18	2.7%		Gangzhou	0.34	5.0%
	Huizhou	0.34	5.0%	Kunshan	0.0773	1.1%	
	Jiangmen	0.12	1.8%	YRD Region	Yangzhou	0.04	0.5%
	Yangjiang	0.31	4.6%	Jiaxing	0.20	3.0%	
	Meizhou	0.74	10.9%	Ningbo	0.24	3.5%	
Qingyuan	0.49	7.1%	Bengbu	0.67	9.8%		
Yingde	0.76	11.1%	Beibuwan	Nanning	0.77	11.3%	
Yunfu	0.26	3.7%		Yulin	1.45	21.3%	
Shaoguan	0.68	10.0%	Bohai Rim	Shenyang	1.57	23.1%	
			Australia	Sydney	0.04	0.6%	
			Total		6.81		

Source(s): Company, ABCI Securities



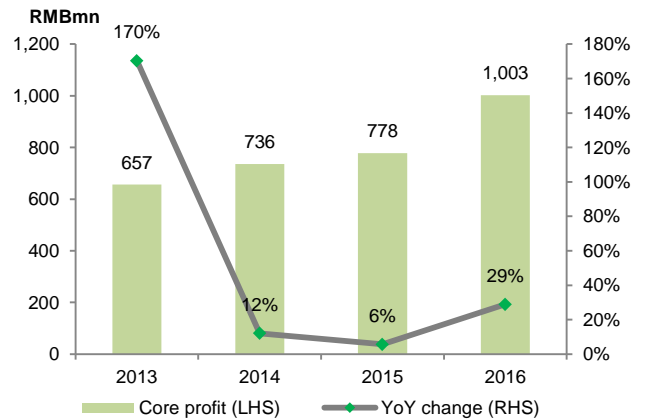
In the past 3 years, Aoyuan has placed more emphasis on tier-1/2 cities. The Group acquired a Shenzhen site in 2016 at RMB 2,287mn (GFA: 218ksqm; land cost: RMB 15k/sqm) and a Beijing site in 2017 at RMB 658mn (GFA: 16ksqm; land cost: RMB 41k/sqm) via M&A. This strategy enabled rapid growth in presales and core profit, which surged 37% and 15% CAGRs in 2013-16.

Exhibit 4: Aoyuan's presales



Source(s): Company, ABCI Securities

Exhibit 5: Aoyuan's core profit



Source(s): Company, ABCI Securities

Solid overseas execution

Aoyuan's overseas business started with its acquisition of One30 Hyde Park (OHP) project in Sydney through a JV with a local developer, Ecove, in 2015 (in which Aoyuan holds a 70% stake). With the local experience from Ecove and distribution network in China from Aoyuan, the OHP project generated RMB 1,022mn in presales in 2015 and RMB 639mn in 2016. The Maison 188 (M188) project debuted in 2016 achieved RMB 217mn in presales. As of Dec 2016, 90% and 80% of OHP and M188 were presold. The overseas projects have a high ASP of RMB 60-120k/sqm while their GPM at 26-29% are similar to the domestic ones. With the absence of LAT, however, overseas net margin is likely to be higher at ~13%, compared to 8-10% in China.

However, cash cycle of overseas projects is different from that of China. In the former, land premium can be funded by bank borrowing. Aoyuan obtained loans from Commonwealth Bank of Australia (CBA) amounting to 50% of land cost for OHP a month after its acquisition. Regarding to presales, 10% of the presales will be received as deposit upon contract signing, with the remaining to be received upon completion in 2018. In Mar 2017, Aoyuan expanded its footprint to Vancouver's CBD by acquiring a 90% stake in a residential project (GFA: 5,600sqm) at CAD 30.6mn (RMB 161mn). The development cycle in Canada is very similar to that of Sydney. For now, Aoyuan's overseas products mainly focus on local buyers, which account for 75% of presales at present. Nonetheless, with HPR in place in major tier-1/2 cities in China and a depreciating RMB, Chinese appetite for overseas property is set to increase.

Exhibit 6: Aoyuan's overseas projects

Project	City	Land premium	GFA	Land cost	Stake
		RMBmn	000sqm	RMB/sqm	%
One30 Hyde Park	Sydney	593	37.0	16,024	70%
188 Maroubra	Sydney	86	5.8	14,897	100%
Altessa 999 Gordon	Sydney	212	12.8	16,570	100%
Turrumurra	Sydney	92	6.7	13,769	100%
Granville Street	Vancouver	161	5.6	28,750	90%
Total		1,145	68	16,858	

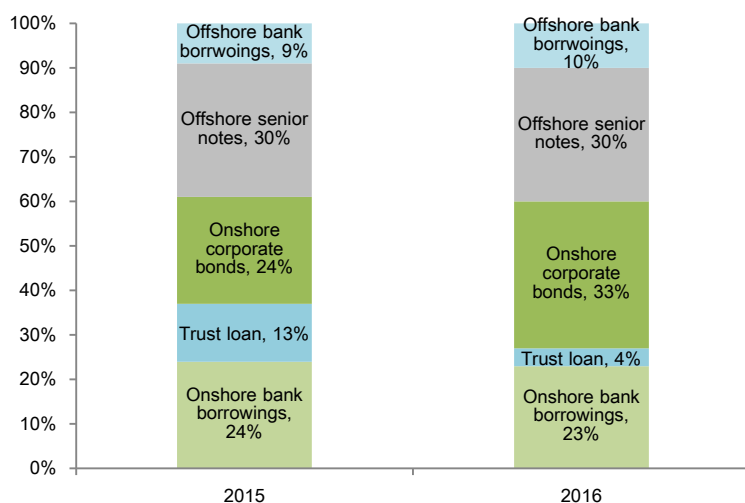
Source(s): Company, ABCI Securities

Improving credit profile

Despite its rapid expansion pace, Aoyuan remains disciplined in borrowing and maintains a healthy cash flow. In 2016, Aoyuan's net gearing declined 3.9ppt to 58.9% while cash collection rose 8ppt to 90%. In Dec 2016, Fitch Ratings upgraded Aoyuan's bonds from B+ to BB-. Average borrowing cost also trended down by 1.4ppt YoY to 8.1% in 2016.

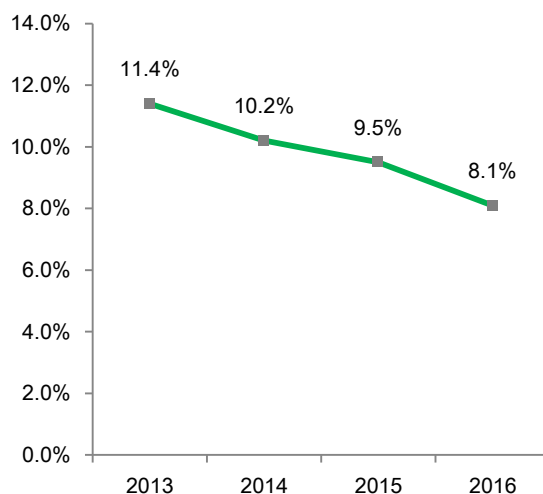
Aoyuan has been able to conduct low-cost funding. Its USD 250mn senior notes due 2019 issued in Apr 2016 had a coupon rate of 6.525% and was oversubscribed by 8.8 times; another USD 250mn due 2020 was issued in Jan 2017 had a coupon rate of 6.35% and was oversubscribed by 8 times. In July 2016, Aoyuan secured a \$200mn syndicated loan at a borrowing cost below 5% per annum for OHP. Going forward, with the redemption of the US\$ 300mn senior notes (11.25% coupon) in Feb 2017, average borrowing cost will decline further. In 2016, about 50% of offshore debts are hedged by capped forward arrangement (with no upfront cost).

Exhibit 7: Aoyuan's debt breakdown



Source(s): Company, ABCI Securities

Exhibit 8: Aoyuan's average borrowing cost



Source(s): Company, ABCI Securities



2016 results recap:

- Strong earnings growth. Core profit rose 29% YoY to RMB 1,003mn, driven by the 24% YoY increase in revenue while GPM was stable at 27.7%. Aoyuan's core profit growth outperformed the sector average of 14%YoY.
- GPM is likely to improve in 2017. Despite a 23% YoY decline in booked ASP to RMB 6,994/sqm, GPM remained stable. GPM in 2017 will improve due to the booking of projects with higher presale ASP in 2016(2016 presales ASP: + 6.9% YoY).
- Average finance cost to drop. Due to impressive presale in 2016, Aoyuan's net gearing decreased 3.9ppt YoY to 58.9%. Average finance cost also fell 1.4ppt YoY to 8.1% in 2016 as the Group redeemed the high-cost USD senior notes due in Nov 2017, Mar 2018, and Jan 2019.

Exhibit 9: Aoyuan's FY16 results

P&L	FY16	FY15	YoY
	RMB mn	RMB mn	(%)
Turnover	11,827	9,572	23.6
Cost of Sales	(8,550)	(6,926)	23.4
Gross Profit	3,277	2,646	23.8
GPM (%)	27.7	27.6	+0.1ppt
Selling and distribution costs	(592)	(489)	21.2
Administrative expense	(489)	(402)	21.8
EBIT	2,195	1,756	25.0
EBIT Margin (%)	18.6	18.3	+0.2ppt
Other income	242	147	64.8
Fair Value gains on IP and others	(163)	45	(458.2)
Share of profit from JCE/ Assoc.	(32)	28	NA
Finance cost	(157)	(91)	72.1
Profit before tax	2,085	1,884	10.6
Tax	(1,078)	(977)	10.4
- LAT	(794)	(372)	113.4
- Enterprise tax	(285)	(605)	(52.9)
Profit after tax	1,006	907	10.9
Minority Interest	(126)	(95)	NA
Net profit	881	812	8.4
Core net profit	1,003	778	28.9
Core net margin	8.5%	8.1%	+0.4ppt

Operating statistics	FY16	FY15	YoY
			%
GFA Delivered (mn sqm)	1.61	1.02	57.9
Booked ASP (RMB/sqm)	6,994	9,130	(23.4)
Booked sales (RMB mn)	11,240	9,295	20.9
Contracted GFA (mn sqm)	2.98	1.89	57.9
Contracted ASP (RMB/sqm)	8,589	8,035	6.9
Contracted Sales (RMB mn)	25,602	15,171	68.8
Balance sheet	Dec-16	Dec-15	YoY
	RMB mn	RMB mn	
Gross debt	19,568	16,298	20.1
Cash	10,956	9,036	21.3
Net debt	8,611	7,262	18.6
Net gearing (%)	58.9	62.7	-3.9ppt

Source(s): Company, ABCI Securities



Impressive 4M17 sales performance; maintain BUY

Aoyuan's 4M17 presales surged 56%YoY to RMB 8,570mn, driven by the 12% YoY increase in GFA sold to 0.77mn sqm and presales ASP that jumped 39%YoY to RMB 11,140/sqm. As of Apr 2017, Aoyuan completed 26% of its 2017 sales target (RMB 33.3bn). Factoring in the latest land acquisition and better-than-expected presales, we raise our NAV estimate to HK\$ 8.44/share (from HK\$ 4.41/share) and TP to HK\$ 3.40 (from HK\$ 1.80) based on an unchanged NAV discount of 60%. Maintain **BUY**.

Exhibit 10: Aoyuan's 2017E NAV

	Attr. GFA (mn sqm)	Net assets value (RMB mn)	% of total	Valuation Method	Implied value per sqm (RMB)
Property development					
Guangzhou	1.8	3,484	14%	DCF with WACC of 13.0%	1,969
Shenzhen	0.2	1,869	8%		12,260
Zhuhai	0.3	600	2%		2,381
Foshan	0.6	886	4%		1,386
Zhongshan	0.7	973	4%		1,381
Qingyuan	1.4	951	4%		659
Chongqing	1.8	2,806	12%		1,600
Others	8.2	12,340	51%		1,499
Subtotal	11.0	23,909	99%		2,165
Investment Properties		361	1%	6.0% cap rate on 2017E net rental	
Total 2017E GAV		24,270	100%		
2017E Net cash/ (debt)		(3,300)	-14%		
Total 2017E NAV		20,970	86%		
No. of share outstanding (diluted)		2,784			
NAV per share (RMB)		7.53			
Ex rate		1.12			
NAV per share (HKD)		8.44			
Target discount (%)		60%			
Target Price (HKD)		3.40			
WACC					
Cost of debt		10.0%			
Cost of equity		20.0%			
Debt/ (Debt + Equity)		56%			

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2014A-2019E)

FY Ended Dec 31 (RMB mn)	2014A	2015A	2016A	2017E	2018E	2019E
Revenue	6,976	9,572	11,827	16,017	17,928	21,397
Cost of sales	(4,909)	(6,926)	(8,550)	(11,365)	(12,711)	(15,668)
Gross Profit	2,067	2,646	3,277	4,652	5,217	5,729
SG&A expenses	(770)	(890)	(1,082)	(1,359)	(1,479)	(1,435)
EBIT	1,297	1,756	2,195	3,293	3,738	4,294
Finance cost	(65)	(91)	(157)	(361)	(379)	(397)
Share of profit of associates	9	28	(32)	-	-	-
Other income/ (expenses)	110	147	242	92	130	181
Fair value gain of investment properties	98	-	-	-	-	-
Disposal/one-off items	-	45	(162)	-	-	-
Profit before tax	1,449	1,884	2,085	3,024	3,488	4,078
Tax	(666)	(977)	(1,078)	(1,462)	(1,676)	(1,797)
Profit after tax	783	907	1,007	1,562	1,812	2,281
Minority interest	26	(95)	(126)	(385)	(326)	(457)
Reported net profit	809	812	881	1,177	1,487	1,824
Less: exceptional items	(73)	(34)	122	(0)	0	0
Underlying net profit	736	778	1,003	1,177	1,487	1,824
Per share						
Underlying EPS (RMB)	0.26	0.28	0.36	0.42	0.53	0.66
DPS (RMB)	0.09	0.11	0.15	0.13	0.16	0.20
Payout ratio (%)	33%	38%	42%	30%	30%	30%
BVPS (RMB)	2.77	2.96	3.20	3.50	3.87	4.33
Growth %						
Revenue	21.8%	37.2%	23.6%	35.4%	11.9%	19.3%
Gross Profit	17.6%	28.0%	23.8%	42.0%	12.1%	9.8%
EBIT	19.2%	35.3%	25.0%	50.0%	13.5%	14.9%
Underlying net profit	12.1%	5.7%	28.9%	17.4%	26.3%	22.7%
Margin %						
Gross profit margin	29.6%	27.6%	27.7%	29.0%	29.1%	26.8%
GPM (post-LAT)	24.7%	24.5%	21.5%	24.1%	24.0%	22.7%
EBIT margin	18.6%	18.3%	18.6%	20.6%	20.8%	20.1%
Core net margin	10.0%	8.8%	9.8%	9.8%	10.1%	10.7%
Key assumptions						
Contracted Sales (RMB mn)	12,220	15,171	25,602	34,329	34,633	26,857
GFA sold (mn sqm)	1.33	1.89	2.98	3.90	3.85	2.78
ASP (RMB/sqm)	9,162	8,035	8,589	8,811	8,998	9,652
Booked Sales (RMB mn)	6,803	9,295	11,240	15,382	17,239	20,652
GFA delivered (mn sqm)	0.91	1.02	1.61	1.71	1.90	2.16
Booked ASP (RMB/sqm)	7,441	9,130	6,994	8,979	9,076	9,581

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2014A-2019E)

As of Dec 31 (RMB mn)	2014A	2015A	2016A	2017E	2018E	2019E
Current assets	33,150	43,198	59,830	75,238	97,810	107,757
Cash	4,852	7,769	10,471	17,031	35,700	51,320
Restricted cash	1,065	1,267	486	486	486	486
Trade & other receivables	1,849	1,753	3,604	3,604	3,604	3,604
Property under development	24,947	31,792	43,487	52,335	56,237	50,565
Other current assets	437	617	1,782	1,782	1,782	1,782
Non-current assets	3,636	5,629	6,589	7,109	7,619	8,117
Property, plant & equipment	501	494	506	526	536	534
Investment properties	2,728	4,505	5,425	5,925	6,425	6,925
Investment in Associate and JCE	63	217	164	164	164	164
Other non-current assets	344	413	494	494	494	494
Total Assets	36,786	48,827	66,418	82,098	105,180	115,624
Current Liabilities	20,378	22,770	36,143	50,912	72,677	81,438
Short term borrowings	4,464	2,570	4,506	5,506	6,506	7,506
Trade & other payables	3,501	5,348	6,795	6,795	6,795	6,795
Pre-sales deposits	8,772	9,823	20,524	34,293	55,059	62,819
Other current assets	3,641	5,028	4,318	4,318	4,318	4,318
Non-current liabilities	7,374	14,481	15,645	15,645	15,645	15,645
Long term borrowings	7,033	13,727	15,062	15,062	15,062	15,062
Other payables	0	0	0	0	0	0
Other non-current assets	341	754	583	583	583	583
Total Liabilities	27,752	37,251	51,787	66,556	88,322	97,082
Net Assets	9,034	11,576	14,631	15,790	17,107	18,791
Shareholders' Equity	7,719	8,243	8,918	9,742	10,782	12,059
Minority Interest	1,315	3,333	5,713	6,048	6,324	6,731
Total Equity	9,034	11,576	14,631	15,790	17,106	18,790
Key ratio						
Gross debt (RMB mn)	11,497	16,298	19,568	20,568	21,568	22,568
Net debt (RMB mn)	5,580	7,262	8,611	3,300	(14,369)	(28,988)
Net gearing (%)	62%	63%	59%	21%	-84%	-154%
Contracted sales/ Total assets (x)	0.33	0.31	0.39	0.42	0.33	0.23

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2014A-2019E)

FY ended Dec 31 (RMB mn)	2014A	2015A	2016A	2017E	2018E	2019E
EBITDA	1,323	1,790	2,237	3,343	3,798	4,366
Change in Working Capital	244	(1,544)	(709)	6,366	18,380	15,022
Tax payment	(666)	(977)	(1,167)	(1,462)	(1,676)	(1,797)
Operating cash flow	901	(731)	361	8,246	20,502	17,591
Purchase of PP&E	(70)	(70)	(70)	(70)	(70)	(70)
Addition of Investment Properties	(500)	(500)	(500)	(500)	(500)	(500)
Others	110	(53)	242	92	130	181
Investing cash flow	(460)	(623)	(328)	(478)	(440)	(389)
Debt raised	4,979	6,781	8,959	5,000	5,000	5,000
Debt repaid	(2,812)	(1,000)	(4,000)	(4,000)	(4,000)	(4,000)
Interest expenses	(1,276)	(1,393)	(1,771)	(1,806)	(1,896)	(1,986)
Equity raised	0	0	0	0	0	0
Dividend to shareholders	(242)	(295)	(418)	(353)	(446)	(547)
Others	950	128	(50)	(50)	(50)	(50)
Financing cash flow	1,600	4,221	2,720	(1,209)	(1,392)	(1,583)
Net cash inflow/ (outflow)	2,040	2,867	2,752	6,559	18,669	15,619
Cash- beginning	2,812	4,852	7,719	10,471	16,782	35,452
Cash- year-end	4,852	7,719	10,471	16,782	35,452	51,070

Source(s): Company, ABCI Securities estimates



SZI (604 HK)

First mover in the Big Bay Area

- The development of Big Bay Area should benefit SZI given its high exposure in Shenzhen (34% of landbank) and Huizhou (15% of landbank)
- SZI's gross margin (GPM) grew 4.1ppt YoY to 38.7% in 2016; Shenzhen projects had a GPM of 49.9%
- Driven by strong corporate demand for office, SZI's presales jumped 32%YoY to RMB 6.9bn in 1Q17.
- Maintain **BUY** with revised TP of HK\$ 3.80 based on an unchanged NAV discount at 60%

Benefiting from the Big Bay Area (BBA) development. As of Dec 2016, SZI has a total landbank of 7.86mn sqm, of which 34% was located in Shenzhen and 15% in Huizhou. We believe the BBA development should benefit this Shenzhen-oriented SOE more than its peers without an SOE background. Backed by its parent company Shumyip Group, SZI has managed to secure cheap land resources since 2013. In Dec 2016, SZI acquired a project in Qianhai, which is touted as Shenzhen's next CBD, from its sister company SZ International (152 HK). Qianhai will be one of the core centers of BBA.

Solid margin improvement. In 2016, SZI's gross profit margin (GPM) increased 4.1ppt YoY to 38.7%, of which GPM of its property development business rose 6.7ppt YoY to 41.3%. Projects in Shenzhen had the highest GPM at 49.9%, followed by 36.1% in other tier-1 regions, 31.8% for tier-2 and 11.0% for tier-3/4 areas. We believe margins should improve further in 2017 on increased contribution from SZ and turnaround in lower-tier cities.

Office sales are not impacted by home purchase restriction (HPR). SZI generated significant amount of presales from offices. As non-residential products are not subjected to HPR, SZI's presale has remained strong so far in 2017. In 1Q17, SZI's presale grew 32% YoY to RMB 6.9bn, driven by a 27% YoY ASP hike and 4% YoY increase in GFA. In particular, SZI completed an en bloc sale of the office tower in Tanglang project at RMB 5bn in Feb 2017, reflecting robust corporate demand for office space.

Maintain BUY with revised TP of HK\$3.80. For 2017, SZI set a presales target of RMB19.1bn (+0% YoY compared to 2016 presale) despite increased saleable resources of RMB 31bn (+7% YoY). This may indicate SZI's prudent view on Shenzhen market as a result of recent policy tightening. We factor in the lower-than-expected presales target and cut our NAV forecast to HK\$ 9.46 (from HK\$10.13). We reduce our TP to HK\$3.80 (from HK\$4.10), still based on an unchanged 60% discount to NAV. While SZI's presales growth is likely to be slower than peers, the Group differentiates itself from peers by its high margins and steady profit growth. Maintain **BUY**.

Risk factors: 1) Rising land cost in tier-1 cities; 2) Further policy tightening in SZ; 3) Delays in asset injections from parents; 4) Execution risks in urban redevelopment projects

Results and Valuation

FY ended Dec 31	2015A	2016A	2017E	2018E	2019E
Revenue (HK\$ mn)	18,428	21,354	23,706	27,545	28,752
Chg (% YoY)	33.3	15.9	11.0	16.2	4.4
Core net profit (HK\$ mn)	2,159	2,615	3,106	4,281	5,297
Chg (% YoY)	32.9	21.1	18.8	37.8	23.8
Core EPS (HK\$)	0.29	0.35	0.42	0.58	0.72
Chg (% YoY)	5.1	21.1	18.8	37.8	23.8
BVPS (HK\$)	4.59	4.33	4.54	4.83	5.19
Chg (% YoY)	(9.6)	(5.7)	4.9	6.4	7.4
Core PE (x)	11.7	9.7	8.2	5.9	4.8
P/B (x)	0.7	0.8	0.8	0.7	0.7
ROE (%)	6.5	8.0	9.0	11.7	13.5
ROA (%)	2.4	2.7	3.2	4.1	5.1
DPS(HK\$)	0.16	0.22	0.21	0.29	0.36
Yield (%)	4.7	6.4	6.1	8.5	10.5
Net gearing (%)	21.2	21.2	6.1	66.9	Net cash

Source(s): Bloomberg, ABCI Securities estimates

Company Report

May 17, 2017

Rating: BUY

TP: HK\$ 3.80

Analyst : Kenneth Tung

Tel: (852) 2147 8311

kennethtung@abci.com.hk

Share price (HK\$)	3.43
Est. share price return	10.8%
Est. dividend yield	6.1%
Est. total return	16.9%
Previous Rating & TP	BUY, HK\$4.10
Previous Report Date	Nov 3, 2016

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	3.92/2.91
Issued shares (mn)	7,649
Market cap (HK\$ mn)	25,856
3-mth avg daily turnover(HK\$ mn)	50.5
Major shareholder(s) (%)	
Shum Yip Holdings	61.23%

Source(s): Company, ABCI Securities

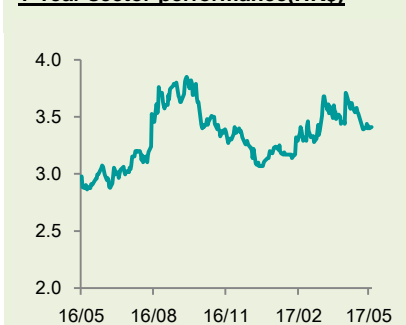
Sector Performance

	Absolute	Relative*
1-mth	(8.6)	(12.5)
3-mth	0.0	5.3
6-mth	2.7	(9.4)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year sector performance(HK\$)



Source(s): Bloomberg, ABCI Securities



Quality landbank in Shenzhen to be injected

As of Dec 2016, SZI has a total landbank of 7.86mn sqm, of which 34% was located in Shenzhen and 15% in Huizhou. We believe development of the BBA would benefit this Shenzhen-oriented SOE more than its peers without an SOE background. Backed by its parent company, Shumyip Group, SZI has been able to secure cheap land resources since 2013. The Upperhills project acquired in 2013 at RMB11k/sqm had a presales ASP as high as RMB60k/sqm in 2016. The Qianhai project recently acquired from its sister company, SZ International (152 HK), in Dec 2016 entail strong potential. Qianhai is touted as Shenzhen's next CBD and we believe it will be one of the core centers for BBA. In addition, SZ International still has an abundant land inventory in Qianhai that can potentially be injected into SZI upon conversion to residential/ office from logistic use.

Exhibit 4: SZI's landbank by cities (Dec 2016)

Province	City	GFA (mn sqm)	%
Guangdong	Shenzhen	2.65	34%
	Huizhou	1.15	15%
	Shunde	0.13	2%
	Shanshui	0.65	8%
Jiangsu	Changzhou	0.13	2%
	Taizhou	0.75	10%
Anhui	Hefei Chaohu	0.09	1%
	Ma'anshan	0.84	11%
Hubei	Wuhan	0.95	12%
Hunan	Changsha	0.32	4%
Sichuan	Chengdu	0.15	2%
Xinjiang	Kashi	0.06	1%
Total		7.86	100%

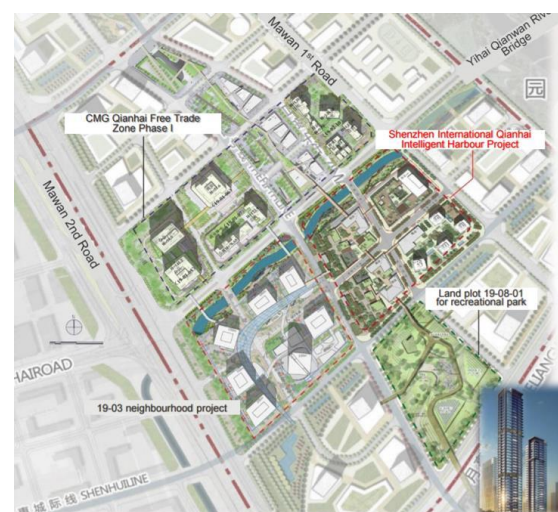
Source(s): Company, ABCI Securities

Exhibit 2: Landbank injection from parent group

Date	Project	Estimated GFA	Stake	Land cost
		000 sqm	%	RMB/sqm
Dec-16	SZ International's Qianhai project- 1st phase	53	50%	42,344
Dec-15	Huangbeiling, Luohu District, Shenzhen	250	95%	16,480
May-14	Shumyip Zhongcheng project	385	100%	20,877
Jan-13	Upperhills	789	100%	11,370

Source(s): Company, ABCI Securities

Exhibit 3: 1st phase of Qianhai 19-06-06 project by SZ International



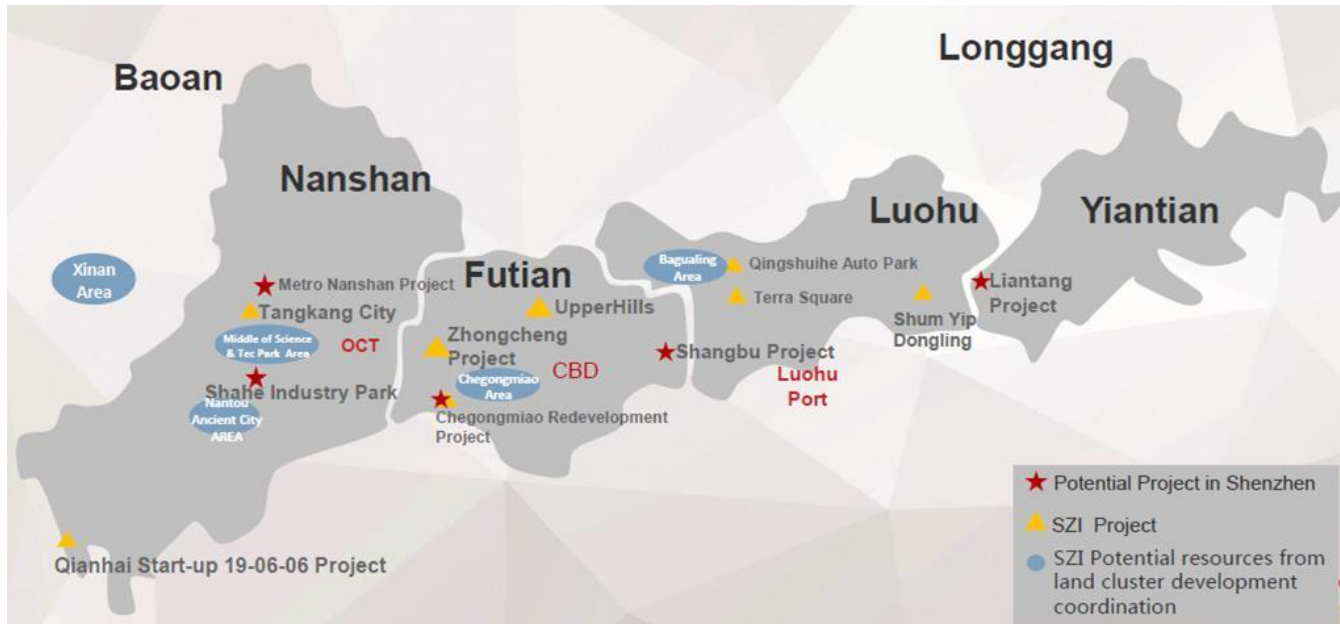
Source(s): Company, ABCI Securities

Source(s): Company, ABCI Securities



SZI can also leverage on its SOE status to obtain sites owned by other non-property SOEs. E.g., Shumyip Group reached a strategic cooperation agreement with Shenzhen Metro group for joint development of potential projects in Futian, Nanshan, Luohu and Longhua New district. Other potential cooperation partners include Shenzhen Metro, Shenzhen Bus and Shenzhen Press Group. We estimate land acquired by Shumyip Group and its projects co-developed with JV partners could add another 3-4mn sqm to SZI's landbank in Shenzhen upon injection.

Exhibit 4: SZI's existing and potential projects in Shenzhen (Dec 2016)



Source(s): Company, ABCI Securities

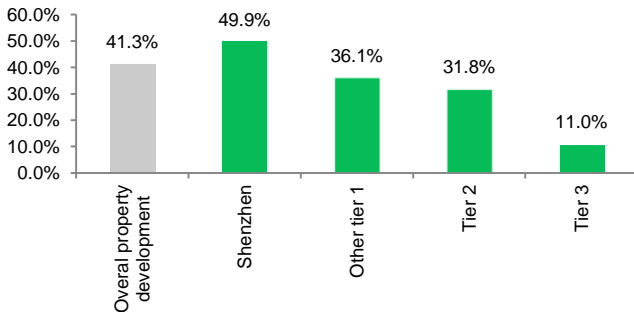
Together with its parent, SZI played the key coordination role in redevelopment projects in Bagualing, Chegongmiao, middle region of Science and Technology Park, Xinan district, and Nantou ancient city. These projects have a total site area of 10 sqkm and would mature over time.

Solid margin improvement

In 2016, SZI's GPM increased 4.1ppt YoY to 38.7%, of which GPM of property development business rose 6.7ppt YoY to 41.3%. Projects in Shenzhen had the highest GPM at 49.9%, followed by 36.1% in other tier-1 region, 31.8% for tier-2 and 11.0% for tier-3/4 areas. We believe margins should improve further in 2017 due to: **1) Increased contribution from SZ:** SZ accounts for 77% of total presales and 72% of booked sales in 2016; **2) Turnaround in lower-tier cities:** In 2016, SZI wrote off RMB 857mn as impairment for its projects in tier-3/4 cities. Given the reduced book value, we think GPM for these projects should improve in 2017. Besides, ASPs of these projects are also improving as a result of HPR in higher-tier cities. E.g., ASP of the project in Ma'anshan rose from RMB 5,500/sqm in 2016 to RMB 7,000/sqm in recently in 2017, according to Fang.com.

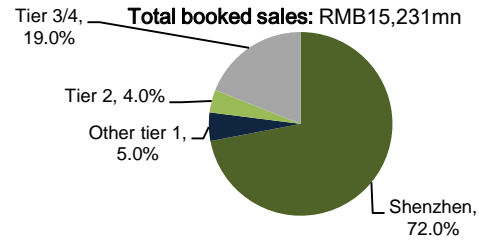


Exhibit 5: SZI's GPM by city (2016)



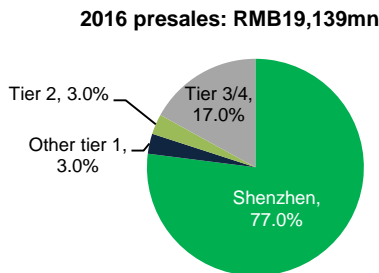
Source(s): Company, ABCI Securities

Exhibit 6: SZI's booked sales breakdown (2016)



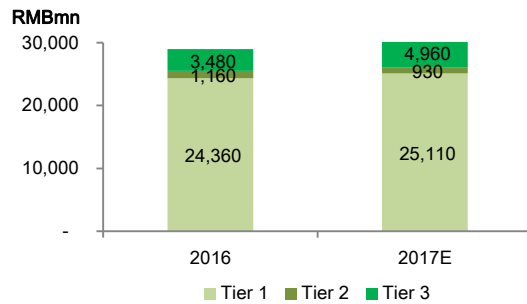
Source(s): Company, ABCI Securities

Exhibit 7: SZI's presale by city (2016)



Source(s): Company, ABCI Securities

Exhibit 8: SZI's saleable resources by city

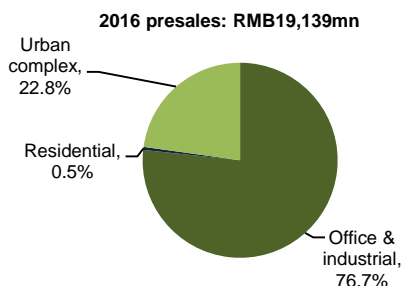


Source(s): Company, ABCI Securities estimates

Office products are not impacted by HPR

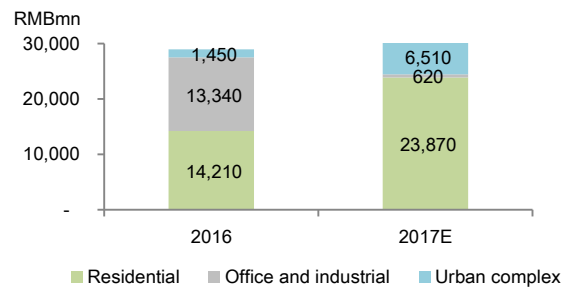
SZI generated a significant amount of presales from office space. As non-residential products are not subjected to HPR, SZI's presale has remained robust so far in 2017. In 1Q17, SZI's presale grew 32%YoY to RMB 6.9bn, driven by 27% YoY ASP hike and 4% YoY increase in GFA. In Feb 2017, SZI completed an en bloc sales of the office tower in Tanglang project at RMB5bn, indicating robust demand for office space by corporates. In 2016, SZI's office had a GPM of 48%, compared to 39% at the group level. Since office products have limited LAT deduction, LAT increased 65% YoY to HK\$ 3.2bn. In 2017E, residential products are expected to take up 77% of saleable resources (2016: 49%). Growth in LAT expenses should moderate in 2018.

Exhibit 9: SZI's presales by product (2016)



Source(s): Company, ABCI Securities

Exhibit 10: SZI's sellable resources by product



Source(s): Company, ABCI Securities estimates



Exhibit 11:SZI's FY16 results

P&L	FY16	FY15	YoY
	HK\$ mn	HK\$ mn	(%)
Turnover	21,354	18,428	15.9
Cost of Sales	(13,083)	(12,054)	8.5
Gross Profit	8,271	6,374	29.7
GPM (%)	38.7	34.6	+4.1ppt
Selling and distribution costs	(362)	(483)	(25.0)
Administrative expense	(1,750)	(1,038)	68.6
EBIT	6,158	4,854	26.9
EBIT Margin (%)	28.8	26.3	+2.5ppt
Other income	298	589	(49.3)
Fair Value gains on IP and others	1,860	1,515	na
Other exceptional items	(328)	(346)	na
Share of profit from JCE/ Assoc.	1,143	608	88.0
Finance cost	(838)	(708)	18.3
Profit before tax	8,293	6,511	27.4
Tax	(4,822)	(3,423)	40.9
- LAT	(3,191)	(1,937)	64.7
- Enterprise tax	(1,631)	(1,486)	9.8
Profit after tax	3,471	3,087	12.4
Minority Interest	(300)	(218)	37.5
Net profit	3,171	2,869	10.5
Core net profit	2,615	2,159	21.1
Core net margin	12.2	11.7	+0.5ppt

Operating statistics	FY16	FY15	YoY
			%
GFA Delivered (mn sqm)	0.90	0.95	(5.5)
Booked ASP (HK\$/sqm)	21,372	16,856	26.8
Booked sales (HK\$ mn)	19,139	15,972	19.8
Contracted GFA (mn sqm)	0.92	0.80	14.7
Contracted ASP (HK\$/sqm)	16,513	15,180	8.8
Contracted Sales (HK\$ mn)	15,231	12,205	24.8
Balance sheet	Dec-16	Dec-15	YoY
	HK\$ mn	HK\$ mn	
Gross debt	24,631	26,664	(7.6)
Cash	12,064	13,819	(12.7)
Net debt	12,568	12,845	(2.2)
Net gearing (%)	34.7%	36.1%	-1.4ppt
Net gearing- ex related party loan (%)	21.2%	21.2%	0.0ppt
Revenue breakdown	FY16	FY15	YoY
Property development	17,808	15,057	18.3
Property investment	765	789	(3.1)
Sales of industrial goods	298	431	(30.8)
Property management	1,557	1,369	13.7
Others	926	782	18.5
Total	21,354	18,428	15.9

Source(s): Company, ABCI Securities



Maintain BUY with revised TP of HK\$3.80.

In 2017, SZI expects a sales target of RMB19.1bn (+0% YoY) despite increase in saleable resources (+7%YoY) to RMB31bn. This may indicate SZI's prudent view on Shenzhen market as a recent of policy tightening. We factor in this slower sales target and cut our NAV forecast to HK\$9.46 (from HK\$10.13). We reduce our TP to HK\$3.80 (from HK\$4.10), still based on an unchanged 60% discount to NAV. While SZI's presale is likely to be slower than peers, the Group differentiates itself from peers with its high margin and steady profit growth. Maintain **BUY**.

Exhibit 6: SZI's 2017E NAV

	Attr. GFA (mn sqm)	Net assets value (RMB mn)	% of total	Valuation Method	Implied value per sqm (RMB)
Property development					
Shenzhen	2.2	43,462	56%		5,918
Huizhou	1.7	2,547	3%		2,393
Shunde	0.4	1,158	2%	DCF with WACC of 8.9%	2,031
Wuhan	0.7	1,619	2%		385,144
Changsha	0.4	400	1%		
Others	2.3	6,310	8%		578
Subtotal	7.3	55,496	72%		4,359
Investment properties					
Investment properties	1.1	19,102	25%	6.0% cap rate on 2017E net rental	
Roadking (1098 HK)		2,312	3%	Market value	
Coastal Greenland (1124 HK)		144	0%	Market value	
Total 2017E GAV		77,054	100%		
2017E Net cash/ (debt)		(7,179)	-9%		
Total 2017E NAV		69,876	91%		
No. of share outstanding (diluted)		7,384			
NAV per share (HKD)		9.46			
Target discount (%)		60%			
Target Price (HKD)		3.80			
WACC					
WACC		8.9%			
Cost of debt		4.5%			
Cost of equity		15.0%			
Debt/ (Debt + Equity)		53%			

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2014A-2019E)

FY Ended Dec 31 (HK\$ mn)	2014A	2015A	2016A	2017E	2018E	2019E
Revenue	13,827	18,428	21,354	23,706	27,545	28,752
Cost of sales	(9,754)	(12,054)	(13,083)	(14,716)	(15,879)	(15,240)
Gross Profit	4,073	6,374	8,271	8,990	11,666	13,512
SG&A expenses	(1,626)	(1,521)	(2,113)	(2,613)	(2,959)	(2,841)
EBIT	2,447	4,854	6,158	6,378	8,707	10,671
Finance cost	(743)	(708)	(838)	(737)	(722)	(707)
Share of profit of associates	697	608	1,143	562	638	756
Other income/ (expenses)	907	589	298	219	236	294
Fair value gain of investment properties	1,609	1,515	1,860	0	0	0
Disposal/one-off items	935	(346)	(328)	0	0	0
Profit before tax	5,853	6,511	8,293	6,422	8,859	11,014
Tax	(2,349)	(3,423)	(4,822)	(3,198)	(4,295)	(5,268)
Profit after tax	3,504	3,087	3,471	3,224	4,564	5,746
Minority interest	(375)	(218)	(300)	(118)	(283)	(449)
Reported net profit	3,129	2,869	3,171	3,106	4,281	5,297
Less: exceptional items	(1,505)	(710)	(556)	0	0	0
Underlying net profit	1,624	2,159	2,615	3,106	4,281	5,297
Per share						
Underlying EPS (HK\$)	0.28	0.29	0.35	0.42	0.58	0.72
DPS (HK\$)	0.16	0.16	0.22	0.21	0.29	0.36
Payout ratio (%)	58%	55%	62%	50%	50%	50%
BVPS (HK\$)	5.07	4.59	4.33	4.54	4.83	5.19
Growth %						
Revenue	41.4%	33.3%	15.9%	11.0%	16.2%	4.4%
Gross Profit	13.1%	56.5%	29.7%	8.7%	29.8%	15.8%
EBIT	0.9%	98.3%	26.9%	3.6%	36.5%	22.5%
Underlying net profit	-9.1%	32.9%	21.1%	18.8%	37.8%	23.8%
Margin %						
GPM	29.5%	34.6%	38.7%	37.9%	42.4%	47.0%
GPM (post-LAT)	14.5%	17.8%	19.5%	23.4%	25.2%	26.8%
EBIT margin	17.7%	26.3%	28.8%	26.9%	31.6%	37.1%
Core net margin	6.5%	8.7%	5.5%	11.2%	14.3%	17.4%
Key assumptions						
Contracted Sales (HK\$ mn)	8,994	19,166	21,436	22,841	30,910	23,632
GFA sold (mn sqm)	0.63	0.95	0.90	1.21	1.15	0.81
ASP (HK\$/sqm)	14,173	20,227	23,937	18,803	26,820	29,323
Booked Sales (HK\$ mn)	10,938	15,057	16,470	19,758	22,922	23,627
GFA delivered (mn sqm)	0.76	0.80	0.80	0.92	0.97	0.83
Booked ASP (HK\$/sqm)	14,443	18,728	20,471	21,591	23,515	28,379

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2014A-2019E)

As of Dec 31 (HK\$ mn)	2014A	2015A	2016A	2017E	2018E	2019E
Current assets	59,686	55,498	56,984	58,134	62,787	61,951
Cash	8,375	9,708	9,860	14,748	26,892	35,773
Restricted cash	1,282	4,111	2,204	2,204	2,204	2,204
Trade & other receivables	715	528	323	323	323	323
Properties under development	30,795	30,312	35,292	31,554	24,063	14,346
Properties held for sale	14,708	9,032	7,515	7,515	7,515	7,515
Inventories	136	99	93	93	93	93
Other current assets	18,519	10,840	9,306	9,306	9,306	9,306
Non-current assets	34,819	35,587	39,562	40,054	40,616	41,292
Property, plant & equipment	3,421	4,144	3,844	3,775	3,700	3,619
Properties under development	-	-	-	-	-	-
Investment properties	20,019	20,908	22,807	22,807	22,807	22,807
Investment in Associate and JCE	8,039	6,875	7,296	7,858	8,495	9,252
Other non-current assets	3,341	3,659	5,614	5,614	5,614	5,614
Total Assets	94,505	91,085	96,546	98,188	103,403	103,243
Current Liabilities	34,843	30,677	36,306	36,327	39,169	35,961
Short term borrowings	12,057	5,274	5,288	4,788	4,288	3,788
Trade & other payables	10,525	6,568	9,236	9,236	9,236	9,236
Pre-sales deposits	3,765	8,366	8,905	9,426	12,768	10,061
Other current assets	8,496	10,469	12,877	12,877	12,877	12,877
Non-current liabilities	26,888	24,839	24,019	24,019	24,019	24,019
Long term borrowings	17,342	16,101	14,469	14,469	14,469	14,469
Other payables	1,736	1,315	752	752	752	752
Other non-current assets	7,811	7,423	8,798	8,798	8,798	8,798
Total Liabilities	61,731	55,516	60,325	60,346	63,188	59,980
Net Assets	32,774	35,569	36,221	37,842	40,215	43,263
Shareholders' Equity	30,496	33,326	32,811	34,364	36,504	39,153
Minority Interest	2,278	2,243	3,410	3,478	3,711	4,110
Total Equity	32,774	35,569	36,221	37,842	40,215	43,263
Key ratio						
Gross debt (HK\$ mn)	29,399	21,375	19,757	19,257	18,757	18,257
Net debt (HK\$ mn)	19,741	7,556	7,694	2,305	(10,339)	(19,720)
Net gearing (%)	60%	21%	21%	6%	-26%	-46%
Contracted sales/ Total assets (x)	0.10	0.21	0.22	0.23	0.30	0.23

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2014A-2019E)

FY ended Dec 31 (HK\$ mn)	2014A	2015A	2016A	2017E	2018E	2019E
EBITDA	2,596	5,009	6,339	6,564	8,899	10,868
Change in Working Capital	112	10,253	2,643	4,632	11,197	7,366
Tax payment	(1,074)	(3,423)	(4,822)	(3,198)	(4,295)	(5,268)
Operating cash flow	1,634	11,839	4,160	7,998	15,801	12,966
Purchase of PP&E	(117)	(117)	(117)	(117)	(117)	(117)
Addition of Investment Properties	(359)	0	0	0	0	0
Investment in Associate/ JCE	(1,520)	0	0	0	0	0
Others	(435)	589	298	219	236	294
Investing cash flow	(2,431)	472	182	103	119	178
Debt raised	20,780	5,000	8,745	10,000	10,000	10,000
Debt repaid	(15,382)	(16,179)	(10,000)	(10,500)	(10,500)	(10,500)
Interest expenses	(1,850)	(1,385)	(1,261)	(1,109)	(1,086)	(1,063)
Equity raised	0	0	0	0	0	0
Dividend to shareholders	(324)	(1,132)	(1,624)	(1,553)	(2,140)	(2,649)
Others	(702)	2,717	(50)	(50)	(50)	(50)
Financing cash flow	2,527	(10,979)	(4,190)	(3,212)	(3,776)	(4,262)
Net cash inflow/ (outflow)	1,730	1,333	151	4,889	12,144	8,881
Cash- beginning	6,645	8,375	9,708	9,860	14,748	26,892
Cash- year-end	8,375	9,708	9,860	14,748	26,892	35,773

Source(s): Company, ABCI Securities estimates



Disclosures

Analyst Certification

I, Tung Yiu Kei Kenneth, 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. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

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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

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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