



## China Property Sector

### Key Data

Average FY12E PE (x)	6.10
Average FY12E PB (x)	1.25

Source: Bloomberg, ABCI Securities

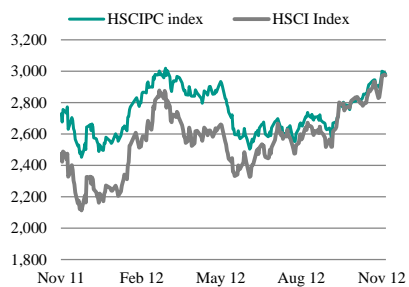
### HSCIPC performance (%)

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

\*Relative to Hang Seng Index

Source: Bloomberg

### 1 year price performance



Source: Bloomberg

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### Chasing high-beta stocks on better economy outlook

Three macro factors impacting the property industry are policy, interest rate trend and economic growth. The first two factors are showing stabilizing signs, while for the third one is moving to favorable direction, implied by indicators such as manufacturing and non-manufacturing PMI. On better growth outlook, we expect funds to continue to flow into high-beta stocks.

**Update in property policies:** Policies are rolling out frequently during the past few weeks, including i) Shanxi Government announced margin cap for residential projects in late October. ii) Around 20 local governments, including Wuhan, Jinan and Qinhuangdao etc. allow cross-city-use of home provided fund (HPF) to buy home. We see minimal impact of such policies, in preventing projects from being overpriced and bolstering volume. (For details please refer to second page). But these measures signal government stance as usual, which is unchanged in protecting genuine demand and refraining the expectation of surging home prices.

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

**GDP to hit bottom in 3Q12:** We believe 3Q12 GDP growth to trough in 2012, along with stabilizing FAI, retail sales and industrial production. Both the manufacturing and non-manufacturing PMI in China, the leading economic indicators, are also hinting the economic revival in October. (PMI at 50.2 in Oct against 49.8 in Sep while non-manufacturing PMI at 55.50 in Oct against 53.70 in Sep). China's GDP growth is expect to resume an upward trend 4Q12.

**Prefer high-beta stocks:** On better economic outlook, risk appetite of investors surge and investors can use high-beta stocks to improve their returns in a rallying market. Since early October, Evergrande(3333 HK; Beta 1.8) and KWG (1813 HK; Beta 1.7) has increased 13.4% and 11.4% respectively. The Low-beta stocks such as COLI (688 HK; Beta 1.3) and China Resources (1109 HK; Beta 1.3) has lagged behind, increasing at 4.3% and 4.5% respectively. A rotational play among China property developers has started with money flowing out of defensive themes to high-beta ones and we expect the trend will continue in short term.

### Valuation and sales comparison for China property developers

Company	Code	Price (HK\$)	ABCI Rec	TP (HK\$)	Disc/NAV	2012 P/E	2012 P/B	Beta
China Overseas	688	21.5	Review	-	-	9.8	2.25	1.3
Evergrande	3333	3.6	Buy	4.20	49%	4.5	1.24	1.8
KWG	1813	4.8	Buy	5.55	56%	4.8	0.81	1.7
Sunac	1918	4.2	Buy	4.86	48%	3.2	1.41	1.2
C C Land	1224	1.9	Hold	1.85	63%	6.8	0.37	1.6
Hopefluent	733	2.4	Buy	3.05	-	6.1	1.00	1.1

Source: Company data, Bloomberg, ABCI Securities

**Comments on recent fine-tuning policies**

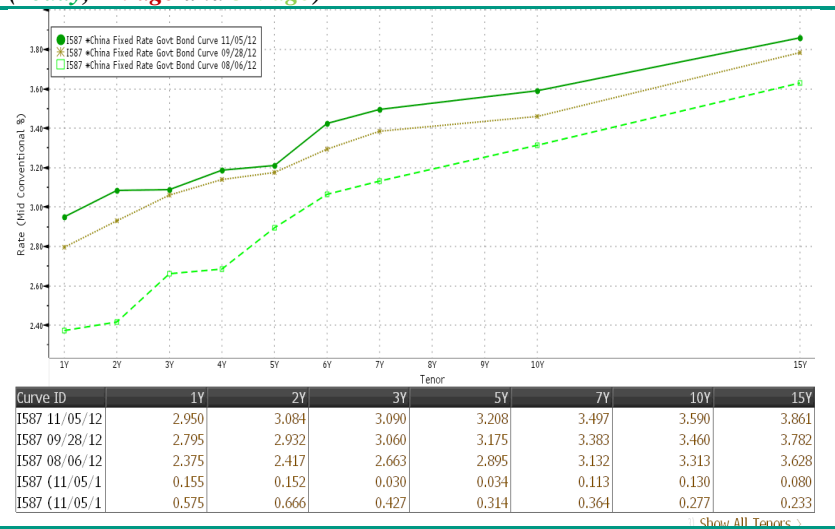
**i) Shanxi Government announced margin cap for residential projects in late Oct.**

Shanxi province will impose a 10% cap on net profit margin of residential projects while the cost of projects will be subject to property developers' estimation. We believe the developers have huge motivation and room to manipulate cost. Hence we render the impact of such measure is limited in preventing highly priced projects to launch.

**ii) Around 20 local governments, including Wuhan, Jinan and Qinhuangdao etc. allow cross-city-use of home provided fund (HPF).**

Per Soufang, the governments of 20 cities, including Wuhan, Jinan and Qinhuangdao, have recently allowed cross-city-use of HPF to purchase home. As the lending rate of HPF (4.5% p.a) is ~70% discount to comparable commercial loan (6.55% p.a), the measure is aiming to increase the purchasing power of home buyers and hence boost volume. Since the number of people eligible to the HPF is limited (~50% of buyers) and cities which engaged in the plan are mostly lower tier cities, therefore we believe the plan would only have a minimal impact on turnover.

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



Source: Bloomberg and ABCI Securities



## Disclosures

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

### Definition of equity rating

Rating	Definition
Buy	Stock return $\geq$ Market return rate
Hold	Market return - 6% $\leq$ Stock return < Market return rate
Sell	Stock return < Market return - 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Time horizon of share price target: 12-month

### Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

**Li Hong-ying Vivian, has financial interest in Evergrande Real Estate Group Limited as at 7 Nov 2012.**

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