



August 27, 2014
Company Report
Rating: BUY
TP: HK\$ 7.80

Share price (HK\$) 6.17
Est. share price return 26.4%
Est. 14E dividend yield 5.2%
Est. total return 31.6%

Previous Rating & TP BUY; HK\$ 7.10
Previous Report Date Mar 27, 2014

Analyst: Kenneth Tung
Tel: (852) 2147 8311
Email: kennethtung@abci.com.hk

Key Data

52Wk H/L(HK\$)	6.83/3.44
Issued shares (mn)	3,320
Market cap	21,805
3-mth avg daily turnover (HK\$ mn)	123.88
Major shareholder(s) (%): SUN Hongbin	47.1

Source(s): Company, Bloomberg, ABCI Securities

FY13 Revenue breakdown (%)

Property Development	99.2
Property Management	0.8

Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	11.4	7.4
3-mth	66.8	53.2
6-mth	73.0	53.7

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Sunac (1918 HK)

Reduced net gearing presents positive surprise

- 1H14 core profit jumped 21% YoY to RMB1.0bn as gross margin improved 1.6ppt YoY to 22.4% in 1H14
- Net gearing, which reduced from 70% in Dec 13 to 67% in June 14, is the biggest positive surprise
- Maintain **BUY** with revised TP at HK\$ 7.80 based on a 60% discount (from 65%) to our end-14E NAV

Stellar 1H14 results. Core profit rose 21% YoY to RMB 1,023mn mainly on improved margins. The Group's gross margin increased 1.6ppt YoY to 22.4% in 1H14. If excluding Greentown's JV projects acquired in 2012 and fair value re-measurement, gross margin would be much higher at 38.4%. In 1H14, Sunac achieved RMB 29.8bn in presales, up 26% YoY - a growth much higher than the sector average increase of 13% YoY. In particular, Sunac was ranked no.1 by presales amount in Tianjin, Shanghai and Wuxi in 1H14. In 2H14, Sunac's saleable resources will reach RMB 80.2bn, enabling presales to grow further to fulfill its 2014 sales target of RMB 65bn.

Net gearing reduction - the biggest surprise. Net gearing (including MI) dropped from 70% in Dec 2013 to 67% in June 2014 despite the land capex of RMB7.3bn in 1H14. Apart from its impressive presale, active cash management in Sunac's JV projects has also helped improve gearing. As the share of JV projects relative to wholly-owned projects increased, Sunac ensured a healthy cash inflow to the Group through intercompany loans. As at June 2014, amount due to related companies increased by RMB 10bn HoH to RMB17.8bn, boosting cash balance at the Group level while avoiding idle cash in JV projects.

Synergy with Greentown to materialize soon. It is reported by various media that Sunac may require a general offer to take over Greentown, as SFC may deem Sunac's Chairman Mr Sun and Greentown's Chairman Mr Song as persons acting in concert for the 24% stake acquisition in Greentown by Sunac. Management denied such assertion and is confident that the deal will be completed soon. Mr Sun also commented that going forward, Greentown will focus on increasing its exposure in tier 1 cities to fully monetize its quality products while lessening its currently high involvement in tier 3 regions in Zhejiang.

Maintain BUY with revised TP of HK\$ 7.80. Factoring in the earnings contribution from the 24% stake in Greentown, we raise our in 2014E-15E core profit forecasts by 4%-9%. Our revised TP of HK\$ 7.80 (from HK\$ 7.10) is based on a 60% discount to NAV (from 65%), as policy risk reduces on recent relaxation of home purchase restriction. We are impressed by Sunac's reduced gearing as most investors think the Group's high asset turnover model will lead to heavy debts. With an improved financial leverage and fast presales, Sunac's valuation looks attractive with a 3.5x 2014P/E and 5.2% dividend yield. Maintain **BUY**.

Risk factors: 1) Expensive new land acquisitions may erode margins; 2) High net gearing on costly acquisitions; 3) Post-M&A risks

Results and Valuation

FY ended Dec 31	2012A	2013A	2014E	2015E	2016E
Revenue (RMB mn)	20,843	30,837	40,686	47,374	50,319
Chg (% YoY)	96.6	48.0	31.9	16.4	6.2
Core net profit (RMB mn)	2,736	3,523	4,734	4,907	4,529
Chg (% YoY)	52.7	28.8	34.4	3.7	(7.7)
Underlying EPS (RMB)	0.91	1.06	1.43	1.48	1.37
Chg (% YoY)	52.7	17.1	34.4	3.7	(7.7)
BVPS (RMB)	3.15	4.10	5.28	6.49	7.61
Chg (% YoY)	34.6	30.4	28.5	23.0	17.3
Underlying PE (x)	5.4	4.6	3.5	3.3	3.6
PB (x)	1.6	1.2	0.9	0.8	0.6
ROE (%)	28.8	25.9	27.1	22.8	18.0
ROA (%)	3.9	3.6	4.8	4.7	4.3
DPS (RMB)	0.09	0.19	0.26	0.27	0.25
Dividend yield (%)	1.8	3.9	5.2	5.4	5.0
Net gearing (%)	78.9	69.7	4.0	Net cash	Net cash

*Net gearing=Net debt/Total Shareholders' equity

Source(s): Bloomberg, ABCI Securities estimates

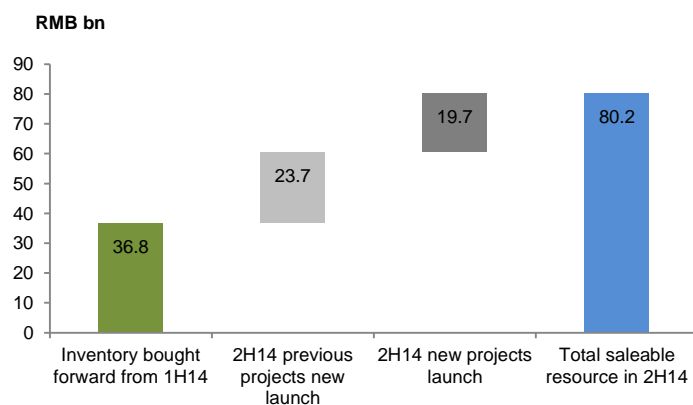


Exhibit 1: Sunac's 1H14 results

Sunac's P&L	1H14	1H13	YoY Chg	Operating statistics	1H14	1H13	YoY Chg
	RMB mn	RMB mn	(%)	Presales GFA (mn sqm)	1.34	1.13	18.5
Turnover	9,067	8,563	5.9	Presales ASP (RMB/sqm)	22,240	20,890	6.5
Cost of Sales & direct operating costs	(7,033)	(6,784)	3.7	Presales (RMB mn)	29,802	23,614	26.2
Gross Profit	2,034	1,779	14.3	GFA Delivered (mn sqm)	0.52	0.30	71.4
Gross Margin (%)	22.4	20.8	1.6ppt	Booked ASP (RMB/sqm)	17,193	27,938	(38.5)
Selling and distribution costs	(267)	(255)	4.6	Property sales booked (RMB mn)	8,927	8,464	5.5
Administrative expense	(278)	(206)	34.9				
EBIT	1,488	1,318	13.0	Balance sheet	Jun-14	Dec-13	HoH %
EBIT Margin (%)	16.4	15.4	1.0ppt		RMB mn	RMB mn	
Other income	227	60	279.8	Gross debt	35,627	28,706	24.1
Fair value gain of investment properties	0	0	NA	Cash	22,985	16,009	43.6
Other exceptional items	0	94	(100.0)	Net debt	12,642	12,698	(0.4)
Share of profit from JCE/ Associates	281	245	14.8	Net gearing- Ex MI (%)	87.5	93.3	(6.2)
Finance cost	(510)	(288)	77.0	Net gearing- Include MI (%)	66.7	69.7	(4.3)
Profit before tax	1,487	1,429	4.1				
Tax	(790)	(545)	44.8				
- LAT	(480)	(233)	106.2				
- Enterprise tax	(309)	(313)	(1.0)				
Profit after tax	698	884	(21.0)				
Minority Interest	115	(131)	(187.5)				
Net profit	813	752	8.0				
Core net profit	1,023	845	21.1				
Core net margin	11.3	9.9					

Source(s): Company, ABCI Securities

Exhibit 2: 2H14E saleable resources guidance



Source(s): Company, ABCI Securities estimates

Exhibit 3: Sunac's 1H14 cashflow

RMB bn	1H14
Presales	
- Group	10
- JV	7
Total cash inflow	17
Land	7.3
Construction	5
SG&A	0.8
Interest expenses	1.5
Tax	2.5
Total cash outflow	17.1
Net cashflow	(0)

Source(s): Company, ABCI Securities



Exhibit 4: Sunac's FY14E NAV

	Attr. GFA (M sqm)	Net assets value (RMB m)	% of total	Valuation Methodology	Implied value per sqm (RMB)
Property development					
Tianjin	4.0	14,687	28%	DCF at WACC of 12.4%	3,658
Beijing	1.4	7,064	14%		5,026
Chongqing	5.1	4,856	9%		948
Wuxi	1.9	1,144	2%		594
Suzhou	0.2	1,782	3%		8,219
Shanghai	0.9	12,478	24%		14,238
Others	1.4	3,558	7%		2,524
Subtotal	15.0	45,569	88%		3,043
Greentown		4,170	8%	market value of 24% stake in Greentown	
Property investment & management		2,163	4%	6.5% cap rate on 2014E net rental income	
Total 2014E GAV		51,902	100%		
2014E Net debt		(963)	-2%		
Total 2014E NAV		50,939	98%		
No. of share outstanding (diluted)		3,315			
NAV per share (RMB)		15.4			
Ex rate		1.27			
NAV per share (HKD)		19.5			
Target discount (%)		60%			
Target Price (HKD)		7.80			
WACC					
Cost of debt		12.4%			
Cost of equity		9.0%			
Debt/ (Debt + Equity)		58%			

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	47,374	50,319
Cost of sales	(15,460)	(23,660)	(28,911)	(35,255)	(39,583)
Gross Profit	5,382	7,177	11,775	12,119	10,736
SG&A expenses	(884)	(1,136)	(1,327)	(1,466)	(1,458)
EBIT	4,498	6,041	10,448	10,653	9,278
Finance cost	(113)	(580)	(236)	(170)	(130)
Share of profit of associates	(39)	72	1,481	2,111	2,365
Other income/ (expenses)	45	75	194	320	498
Fair value gain of investment properties	-	-	-	-	-
Disposal/one-off items	293	77	-	-	-
Profit before tax	4,685	5,684	11,887	12,914	12,011
Tax	(2,070)	(2,191)	(5,144)	(5,495)	(5,038)
Profit after tax	2,615	3,494	6,743	7,418	6,974
Minority interest	(7)	(315)	(2,008)	(2,511)	(2,445)
Reported net profit	2,607	3,178	4,734	4,907	4,529
Less: exceptional items	129	344	-	-	0
Underlying net profit	2,736	3,523	4,734	4,907	4,529
Per share					
Underlying EPS (RMB)	0.91	1.06	1.43	1.48	1.37
DPS (RMB)	0.09	0.19	0.26	0.27	0.25
Payout ratio (%)	10%	18%	18%	18%	18%
BVPS (RMB)	3.15	4.10	5.28	6.49	7.61
Growth %					
Revenue	96.6%	48.0%	31.9%	16.4%	6.2%
Gross Profit	50.9%	33.3%	64.1%	2.9%	-11.4%
EBIT	52.4%	34.3%	73.0%	2.0%	-12.9%
Underlying net profit	52.7%	28.8%	34.4%	3.7%	-7.7%
Margin %					
Gross margin	25.8%	23.3%	28.9%	25.6%	21.3%
Gross margin (post-LAT)	20.6%	20.5%	22.0%	19.3%	16.0%
EBIT margin	21.6%	19.6%	25.7%	22.5%	18.4%
Core net margin	11.7%	10.9%	12.9%	11.2%	9.2%
Key assumptions					
Presales (RMB mn)	35,635	52,110	64,917	73,087	68,478
GFA sold (mn sqm)	2.00	2.54	3.05	3.90	3.78
ASP (RMB/sqm)	17,830	20,520	21,272	18,737	18,131
Booked Sales (RMB mn)	20,671	30,596	40,426	47,102	50,033
GFA delivered (mn sqm)	1.19	1.75	2.11	2.55	2.95
Booked ASP (RMB/sqm)	17,327	17,530	19,179	18,471	16,970

Source: 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	83,476	87,399	86,610
Cash	8,394	13,414	20,148	38,576	55,832
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	32,754	14,709
Other current assets	5,752	12,261	12,261	12,261	12,261
Non-current assets	6,103	9,765	16,169	16,887	17,656
Property, plant & equipment	49	65	61	58	54
Investment properties	571	252	252	252	252
Investment in Associate and JCE	4,205	7,909	14,317	15,039	15,812
Other non-current assets	1,279	1,539	1,539	1,539	1,539
Total Assets	70,934	97,355	99,646	104,286	104,267
Current Liabilities	44,294	51,789	58,238	56,392	50,263
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	18,250	17,121
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	73,747	67,617
Net Assets	11,994	18,211	24,053	30,539	36,649
Shareholders Equity	9,489	13,605	17,489	21,514	25,228
Minority Interest	2,505	4,606	6,564	9,026	11,421
Total Equity	11,994	18,211	24,053	30,539	36,649
Key ratio					
Gross debt (RMB mn)	21,725	28,706	23,706	18,706	13,706
Net debt (RMB mn)	9,462	12,698	963	(22,464)	(44,720)
Net gearing (%)	79%	70%	4%	-74%	-122%
Contracted sales/ Total assets (x)	50%	54%	65%	70%	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	10,677	9,302
Change in Working Capital	6,684	5,049	14,420	19,186	18,082
Tax payment	(1,688)	(2,790)	(5,144)	(5,495)	(5,038)
Operating Cashflow	9,509	8,324	19,747	24,368	22,347
Purchase of PP&E	(22)	(27)	(20)	(20)	(20)
Addition of Investment Properties	(2,473)	(9,567)	-	-	-
Others	(2,764)	(5,473)	(4,733)	1,708	2,090
Investing Cashflow	(5,260)	(15,067)	(4,753)	1,688	2,070
Debt raised	16,396	26,215	10,000	10,000	10,000
Debt repaid	(12,639)	(18,243)	(15,000)	(15,000)	(15,000)
Interest expenses	(1,817)	(2,500)	(2,359)	(1,697)	(1,297)
Equity raised	24	1,628	-	-	-
Dividend to shareholders	(236)	(261)	(851)	(882)	(814)
Others	(345)	4,924	(50)	(50)	(50)
Financing Cashflow	1,381	11,763	(8,260)	(7,629)	(7,161)
Net cash inflow/ (outflow)	5,631	5,020	6,734	18,427	17,256
Cash- beginning	2,763	8,394	13,414	20,148	38,576
Cash- year-end	8,394	13,414	20,148	38,576	55,832

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.

Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates may pursue financial interests to the companies mentioned in the 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

Market return: 5-year average market return rate from 2009-2013

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.

Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not



including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2014 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

**Office address: ABCI Securities Company Limited, 13/F Fairmont House,
8 Cotton Tree Drive, Central, Hong Kong.**

Tel: (852) 2868 2183