



February 9, 2015  
Company Report  
Rating: BUY  
TP: HK\$ 9.70

Share price (HK\$) 6.94  
Est. share price return 39.8%  
Est. 14E dividend yield 3.7%  
Est. total return 43.5%

Previous Rating & TP BUY; HK\$ 9.70  
Previous Report Date Jan 7, 2015

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**Key Data**

52Wk H/L(HK\$) 8.65/3.44  
Issued shares (mn) 3,320  
Market cap 27,353  
3-mth avg daily turnover (HK\$ mn) 119.27  
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

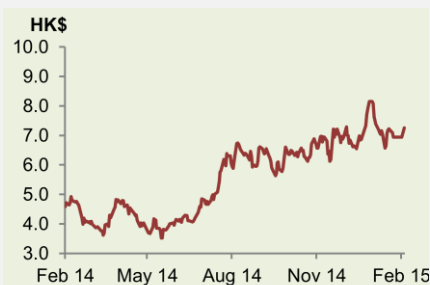
**Share performance (%)**

	Absolute	Relative*
1-mth	(1.8)	(4.4)
3-mth	4.2	0.9
6-mth	8.0	8.3

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

**1-Year stock performance (HK\$)**



Source(s): Bloomberg, ABCI Securities

Sunac (1918 HK)  
Conditional acquisition of Kaisa

- Sunac confirmed to acquire 49% stake in Kasia (1638 HK) conditionally at HK\$1.80 for HK\$4.5bn
- A cash offer will also be made to acquire: (i) 21% of remaining stake at HK\$1.9bn; (ii) other share options and CB at HK\$1.2bn
- Effectively grant Sunac an option to buy Kaisa at 0.5x PB or 3.5x PE when Kaisa business is back to normal. We estimate Sunac's NAV will increase by 24% while total presales will jump from RMB65bn to RMB90bn level, assuming the deal proceeds
- However we think there is only 50% chance that the deal will go through as conditions are tough to meet
- Maintain **BUY** with TP at HK\$ 9.70 based on a 60% discount to NAV

**Risk and reward justified for the HK\$7.2bn Kaisa deal.** Sunac released an official announcement on Friday regarding the Kaisa acquisition. Kaisa will **conditionally** acquire 49.25% stake from ex-chairman Mr Kwok at HK\$1.80 (or HK\$4,553mn in total). Conditions are: **a) Successfully debt restructuring.** The defaulted debt should receive creditor's waiver and existing debt is restructured and refinanced; **b) Other debt covenant waivers.** The debt covenants normally deem changes in major shareholders as credit default. Kaisa is required to get waiver as well; **c) Free from legal actions.** All existing disputes and court applications are resolved; **d) All irregularities of business operation resolved.** **e) Sunac's shareholders' approval** in general meeting. We think Sunac set out above terms to protect itself against significant legal risks associated with the deal. These terms are challenging for Kaisa to achieve and we think there is only 50% chance the deal will go through. However, should the conditions be met, this transaction will be of great value to Sunac. The deal, in our view, effectively granted Sunac an option to buy Kaisa when the company is back to normal situation. The deal will be terminated by 31 July 2015 if conditions are not met.

Beside, Sunac will make a cash offer to the remaining shareholders. However, Sinolife (29.9% stake) confirmed that they will not accept. Together with the other share options and CB that Sunac needs to make an offer, Sunac is required to pay another HK\$3,152mn for the transaction.

**24% NAV enhancement assuming all conditions are satisfied.** We estimate net gearing to surge immediately from current 52% level (with Greentown refund received) to 150% level, as Kaisa's net debt will be consolidated to Sunac balance sheet. However, we think such gearing level is justified for purchasing such quality assets at depressed pricing. We estimate Kasia should have an NAV of RMB30bn at its normal operation and the 70% stake acquired (net of HK\$7.2bn consideration paid) should enhance Sunac's NAV by 24%. Also Sunac can enter into the long desired Southern China market and become a true national player. (continue next page)

**Results and Valuation**

FY ended Dec 31	2012A	2013A	2014E	2015E	2016E
Revenue (RMB mn)	20,843	30,837	41,259	50,488	57,501
Chg (% YoY)	96.6	48.0	33.8	22.4	13.9
Core net profit (RMB mn)	2,736	3,523	3,762	4,667	4,986
Chg (% YoY)	52.7	28.8	6.8	24.1	6.8
Underlying EPS (RMB)	0.91	1.06	1.13	1.41	1.50
Chg (% YoY)	52.7	17.1	6.8	24.1	6.8
BVPS (RMB)	3.15	4.10	5.03	6.19	7.42
Chg (% YoY)	34.6	30.4	22.7	22.9	19.9
Underlying PE (x)	6.1	5.2	4.9	3.9	3.5
PB (x)	1.8	1.4	1.1	0.9	0.7
ROE (%)	28.8	25.9	22.4	22.8	21.0
ROA (%)	3.9	3.6	3.8	4.3	4.6
DPS (RMB)	0.09	0.19	0.20	0.25	0.28
Dividend yield (%)	1.6	3.4	3.7	4.6	5.1
Net gearing (%)	78.9	69.7	28.9	Net cash	Net cash

\*Net gearing=Net debt/Total Shareholders' equity

Source(s): Bloomberg, ABCI Securities estimates



**Maintain BUY with unadjusted TP HK\$9.70.** As the outcome of the deal is uncertain at the moment, we will not adjust our earnings forecast at this stage. We maintain BUY with TP HK\$9.70, still based on 60% discount to NAV. The worst case for Sunac in this deal is that they lose the time value of money for the HK\$4.5bn acquisition costs; while the best outcome is that Sunac obtained attractive well-functioning Shenzhen operation at very distressed pricing.

**Risk factors:** 1) Integration risks post acquisition of Kaisa; 2) dispute on Sunac-Greentown JV may have negative business and financial implications; 3) Possible equity fundraising to ease gearing

Exhibit 1: Valuation of Kaisa acquisition		Exhibit 2 : Cash offer (Feb 2015)	
Acquisition price (HK\$)	1.80	<b>Total consideration (HK\$m)</b>	<b>7,706</b>
Total consideration (HK\$m)	7,706	- From ex-Chairman	4,553
Proforma net debt of Kaisa (RMBmn)	14,813	- Minority Shareholder (excluding Sinolife)	1,923
		- Share option and CB	1,230
<b>2013 Kaisa's core profit (RMBmn)</b>	<b>2,516</b>	Stake acquired	70%
Core PE (x)	3.5		
<b>1H14 Book value (RMBmn)</b>	<b>18,284</b>		
Core PB (x)	0.48		
<b>1H14 Land bank (mn sqm)</b>	<b>23.6</b>		
EV per sqm (RMB/sqm)	1,001		

\* based on announcement on 6 Feb 2015  
Source(s): Company, ABCI Securities

Exhibit 3: Sunac's net gearing change post acquisition			Exhibit 4 : Proforma financials				
	Net debt	Net gearing		Sunac	Kaisa	Proforma	Chg
	RMBmn	%		<a>	<b>	<a+bx70%>	(%)
<b>Before acquisition</b>	<b>12,424</b>	<b>52%</b>	2014 Presales (RMBmn)	<b>65,800</b>	28,200	<b>85,540</b>	<b>30%</b>
Shanghai asset acquisition	2,370	10%	2013 Core profit (RMBmn)	<b>3,523</b>	2,516	<b>5,284</b>	<b>50%</b>
Stake acquisition and Cash offer	6,165	26%	1H14 Land bank (mn sqm)	<b>21.9</b>	23.6	<b>38.4</b>	<b>75%</b>
Proforma net debt of Kaisa to consolidate	14,813	62%					
<b>Post acquisition</b>	<b>35,772</b>	<b>151%</b>					

	RMBmn	
<b>Sunac's NAV pre acquisition (RMBmn)</b>	<b>61,536</b>	<A>
Kaisa's NAV at normal condition (RMBmn)	29,854	<B>
Stake	70%	<C>
<b>Share of NAV acquired (RMBmn)</b>	<b>20,916</b>	<D=BxC>
Less: Payment of stake (RMBmn)	6,165	<E>
<b>NAV enhancement (RMBmn)</b>	<b>14,751</b>	<F=D-E>
% Change	24%	<F/A>

Source(s): Company, ABCI Securities estimates

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**Exhibit 5: Sunac's FY15E NAV**

	Attr. GFA (mn sqm)	Net assets value (RMB mn)	% of total	Valuation Methodology	Implied value per sqm (RMB)
<b>Property development</b>					
Tianjin	4.0	12,664	28%	DCF at WACC of 12.2%	3,155
Beijing	1.4	6,361	14%		4,445
Chongqing	5.7	5,228	12%		921
Wuxi	1.9	1,117	2%		580
Suzhou	0.2	1,260	3%		5,811
Shanghai	1.0	11,217	25%		11,641
Others	1.7	5,053	11%		2,958
<b>Subtotal</b>	<b>15.9</b>	<b>42,900</b>	<b>95%</b>		<b>2,692</b>
<b>Property investment &amp; management</b>		2,163	5%	6.5% cap rate on 2015E net rental income	
<b>Total 2015E GAV</b>		<b>45,064</b>	<b>100%</b>		
2015E Net Cash/ (debt)		19,079	42%		
<b>Total 2015E NAV</b>		<b>64,143</b>	<b>142%</b>		
No. of share outstanding (diluted)		3,315			
<b>NAV per share (RMB)</b>		<b>19.3</b>			
Ex rate		1.25			
<b>NAV per share (HKD)</b>		<b>24.2</b>			
Target discount (%)		60%			
<b>Target Price (HKD)</b>		<b>9.70</b>			
<b>WACC</b>	<b>12.2%</b>				
Cost of Debt	9.0%				
Cost of Equity	20.0%				
<b>Debt/ ( Debt + Equity)</b>	<b>59%</b>				

Source(s): Company, ABCI Securities estimates



**Consolidated income statement (2012A-2016E)**

<b>FY Ended Dec 31 (RMB mn)</b>	<b>2012A</b>	<b>2013A</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>
<b>Revenue</b>	<b>20,843</b>	<b>30,837</b>	<b>41,259</b>	<b>50,488</b>	<b>57,501</b>
Cost of sales	(15,460)	(23,660)	(29,330)	(36,651)	(42,620)
<b>Gross Profit</b>	<b>5,382</b>	<b>7,177</b>	<b>11,928</b>	<b>13,837</b>	<b>14,881</b>
SG&A expenses	(884)	(1,136)	(1,482)	(1,715)	(1,770)
<b>EBIT</b>	<b>4,498</b>	<b>6,041</b>	<b>10,447</b>	<b>12,123</b>	<b>13,111</b>
Finance cost	(113)	(580)	(236)	(170)	(130)
Share of profit of associates	(39)	72	1,092	1,436	1,553
Other income/ (expenses)	45	75	33	109	195
Fair value gain of investment properties	-	-	-	-	-
Disposal/one-off items	293	77	-	-	-
<b>Profit before tax</b>	<b>4,685</b>	<b>5,684</b>	<b>11,336</b>	<b>13,498</b>	<b>14,729</b>
Tax	(2,070)	(2,191)	(5,036)	(5,961)	(6,400)
<b>Profit after tax</b>	<b>2,615</b>	<b>3,494</b>	<b>6,300</b>	<b>7,537</b>	<b>8,329</b>
Minority interest	(7)	(315)	(2,537)	(2,870)	(3,344)
<b>Reported net profit</b>	<b>2,607</b>	<b>3,178</b>	<b>3,762</b>	<b>4,667</b>	<b>4,986</b>
Less: exceptional items	129	344	-	-	-
<b>Underlying net profit</b>	<b>2,736</b>	<b>3,523</b>	<b>3,762</b>	<b>4,667</b>	<b>4,986</b>
<b>Per share</b>					
Underlying EPS (RMB)	0.91	1.06	1.13	1.41	1.50
DPS (RMB)	0.09	0.19	0.20	0.25	0.27
Payout ratio (%)	10%	18%	18%	18%	18%
BVPS (RMB)	3.15	4.10	5.03	6.19	7.42
<b>Growth %</b>					
Revenue	96.6%	48.0%	33.8%	22.4%	13.9%
Gross Profit	50.9%	33.3%	66.2%	16.0%	7.5%
EBIT	52.4%	34.3%	72.9%	16.0%	8.1%
Underlying net profit	52.7%	28.8%	6.8%	24.1%	6.8%
<b>Margin %</b>					
Gross margin	25.8%	23.3%	28.9%	27.4%	25.9%
Gross margin (post-LAT)	20.6%	20.5%	21.9%	20.7%	19.7%
EBIT margin	21.6%	19.6%	25.3%	24.0%	22.8%
Core net margin	11.7%	10.9%	12.6%	12.1%	11.8%
<b>Key assumptions</b>					
Presales (RMB mn)	35,635	52,055	66,646	81,798	81,633
GFA sold (mn sqm)	2.00	2.54	3.14	4.04	4.20
ASP (RMB/sqm)	17,830	20,520	21,222	20,225	19,420
Booked Sales (RMB mn)	20,671	30,596	40,999	50,216	57,215
GFA delivered (mn sqm)	1.19	1.75	2.14	2.65	3.17
Booked ASP (RMB/sqm)	17,327	17,530	19,183	18,982	18,069

Source: Company, ABCI Securities estimates



**Consolidated balance sheet (2012A-2016E)**

<b>As of Dec 31 (RMB mn)</b>	<b>2012A</b>	<b>2013A</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>
<b>Current assets</b>	<b>64,832</b>	<b>87,590</b>	<b>88,811</b>	<b>94,860</b>	<b>97,461</b>
Cash	8,394	13,414	14,227	35,191	56,902
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	58,514	43,599	24,489
Other current assets	5,752	12,261	12,261	12,261	12,261
<b>Non-current assets</b>	<b>6,103</b>	<b>9,765</b>	<b>11,280</b>	<b>11,863</b>	<b>12,470</b>
Property, plant & equipment	49	65	61	58	54
Investment properties	571	252	252	252	252
Investment in Associate and JCE	4,205	7,909	9,427	10,014	10,625
Other non-current assets	1,279	1,539	1,539	1,539	1,539
<b>Total Assets</b>	<b>70,934</b>	<b>97,355</b>	<b>100,090</b>	<b>106,723</b>	<b>109,931</b>
<b>Current Liabilities</b>	<b>44,294</b>	<b>51,789</b>	<b>58,951</b>	<b>58,936</b>	<b>54,760</b>
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	15,809	20,794	21,618
Other current assets	10,250	17,905	17,905	17,905	17,905
<b>Non-current liabilities</b>	<b>14,646</b>	<b>27,355</b>	<b>17,355</b>	<b>17,355</b>	<b>17,355</b>
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
<b>Total Liabilities</b>	<b>58,940</b>	<b>79,144</b>	<b>76,306</b>	<b>76,290</b>	<b>72,115</b>
<b>Net Assets</b>	<b>11,994</b>	<b>18,211</b>	<b>23,785</b>	<b>30,433</b>	<b>37,816</b>
<b>Shareholders' Equity</b>	<b>9,489</b>	<b>13,605</b>	<b>16,691</b>	<b>20,520</b>	<b>24,609</b>
Minority Interest	2,505	4,606	7,093	9,913	13,207
<b>Total Equity</b>	<b>11,994</b>	<b>18,211</b>	<b>23,785</b>	<b>30,433</b>	<b>37,816</b>
<b>Key ratio</b>					
Gross debt (RMB mn)	21,725	28,706	23,706	18,706	13,706
Net debt (RMB mn)	9,462	12,698	6,885	(19,079)	(45,791)
Net gearing (%)	79%	70%	29%	-63%	-121%
Presale/ Total assets (x)	50%	53%	67%	77%	74%

Source(s): Company, ABCI Securities estimates



**Consolidated cash flow statement (2012A-2016E)**

<b>FY ended Dec 31 (RMB mn)</b>	<b>2012A</b>	<b>2013A</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>
EBITDA	4,513	6,065	10,470	12,147	13,134
Change in Working Capital	6,684	5,049	3,877	21,426	21,102
Tax payment	(1,688)	(2,790)	(5,036)	(5,961)	(6,400)
<b>Operating Cash flow</b>	<b>9,509</b>	<b>8,324</b>	<b>9,311</b>	<b>27,611</b>	<b>27,837</b>
Purchase of PP&E	(22)	(27)	(20)	(20)	(20)
Addition of Investment Properties	(2,473)	(9,567)	-	-	-
Others	(2,764)	(5,473)	(393)	958	1,137
<b>Investing Cash flow</b>	<b>(5,260)</b>	<b>(15,067)</b>	<b>(413)</b>	<b>938</b>	<b>1,117</b>
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)	(676)	(839)	(896)
Others	(345)	4,924	(50)	(50)	(50)
<b>Financing Cash flow</b>	<b>1,381</b>	<b>11,763</b>	<b>(8,085)</b>	<b>(7,585)</b>	<b>(7,243)</b>
<b>Net cash inflow/ (outflow)</b>	<b>5,631</b>	<b>5,020</b>	<b>813</b>	<b>20,964</b>	<b>21,711</b>
Cash- beginning	2,763	8,394	13,414	14,227	35,191
<b>Cash- year-end</b>	<b>8,394</b>	<b>13,414</b>	<b>14,227</b>	<b>35,191</b>	<b>56,902</b>

Source(s): Company, ABCI Securities estimates

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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 from 2010-2014

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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