



January 29, 2014
 Company Report
 Rating: BUY
 TP: HK\$ 2.20

Share price (HK\$) 1.56
 Est. share price return 41.0%
 Est. dividend yield 4.1%
 Est. total return 45.1%

Previous Rating & TP NA
 Previous Report Date NA

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Key Data

52Wk H/L(HK\$)	1.86/1.27
Issued shares (mn)	2,783
Market cap (HK\$mn)	4,341
3-mth avg daily turnover (HK\$ mn)	2.4
Major shareholder(s) (%): Mr GUO Zi Wen	46.7

Source(s): Company, Bloomberg, ABCI Securities

FY12 Revenue breakdown (%)

Property development	98.0
Property investment	0.8
Others	1.2

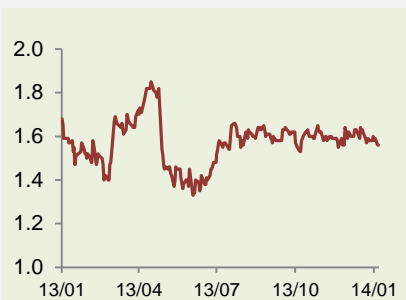
Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	(2.5)	3.2
3-mth	(1.3)	4.8
6-mth	0.6	0.6

*Relative to HSI
 Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Aoyuan (3883 HK)

A success story of strategic change; initiate BUY

- A fast-growing Guangdong player- presale surged 91% YoY to RMB 10bn in 2013 after adopting a fast asset turnover model
- Healthy balance sheet with net gearing at 47.1% as at Jun 2013- well below mid- and small- cap peer average of 77%
- Expect an impressive core profit CAGR of 123% in 2013-15E
- Lower policy risk as 40% of total presales are derived from commercial products
- Exciting growth rate yet depressed valuation at 72% discount to NAV; initiate BUY with TP at HK\$2.20 based on a 60% discount to FY14E NAV

Key strengths of China Aoyuan (CA): 1) Switch to fast asset turnover model proves successful - Since CA's adoption of a fast asset turnover model in 2013, presale surged by 91% YoY to RMB 10bn; **2) Rising commercials sales to drive margins.** As CA ramped up its commercial product sales (from 29% of total presales in 2010 to 35-36% in 2011-1H13) in the past few years, gross margin improved steadily from 26.9% in FY10 to 30.1% in FY12. Going forward, we expect gross margin to improve consistently (2013E: 30.2%, 2014E: 32.2%, 2015E: 34.0%) on increased sales of commercial products; **3) A healthy balance sheet.** Even with the strategic switch to a high asset turnover model since 2013, net gearing stayed healthy at 47.1% in 1H13, much lower than mid- and small-cap average of 77.3%. In Jan 2014, CA issued US\$ 300mn worth of 5-year USD bond with a coupon rate of 11.25%, much lower than the 13.875% coupon rate applied for its bond issued back in Nov 2012 and Jan 2013. This indicates market perception of CA's credit fundamentals has been improving.

2014 sector outlook: Prefer commercial over residential. Lower policy risks and the relatively lower number of commercial property stocks in the equity market made the commercial property sector a favorable one. With over ~40% of sales coming from non-residential projects, CA would be less affected by the less promising development in the residential property market.

Exciting growth prospect at depressed valuation; initiate CA with BUY. We derive CA's FY14E NAV (RMB11.3bn or HK\$5.49/share) based on the DCF method with a WACC of 13.6%. Our TP of HK\$2.20 is based on the average NAV discount of the mid- and small-cap developers at 60%. Given its above-average profit growth of 195% YoY for 2014E (vs. mid- and small- cap peer average ranging from 20-50%), we deem its current valuation of 2.9x P/E and 8% dividend yield in 2014E (assuming ~25% payout ratio) as highly attractive.

Risk factors: 1) Concentrated portfolio in Guangdong; 2) Policy risk; 3) Rising land cost may hurt margins.

Results and Valuation

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	3,022	3,943	5,614	9,960	13,630
Chg (% YoY)	23.7	30.5	42.4	77.4	36.8
Underlying Net Income (RMB mn) ¹	238	243	368	1,087	1,836
Chg (% YoY)	86.7	2.3	51.7	194.9	69.0
Underlying EPS (RMB)	0.09	0.09	0.14	0.42	0.70
Chg (% YoY)	86.7	2.1	51.7	194.9	69.0
BVPS (RMB)	2.4	2.7	2.8	3.1	3.6
Chg (% YoY)	3.9	12.7	4.0	11.4	17.9
Underlying PE (x)	13.4	13.1	8.6	2.9	1.7
P/B (x)	0.5	0.5	0.4	0.4	0.3
ROE (%)	3.9	3.5	5.1	13.5	19.3
ROA (%)	1.4	1.2	1.3	3.2	4.7
DPS(RMB)	0.05	0.31	0.05	0.10	0.15
Yield (%)	4.23	25.62	4.05	8.21	12.32
Net gearing ² (%)	13.1	25.6	64.3	35.2	1.2

¹Underlying net income = Net profit - revaluation gain of investment properties and one-off items

²Net gearing = Net debt / Shareholders' equity

Source(s): Bloomberg, ABCI Securities estimates



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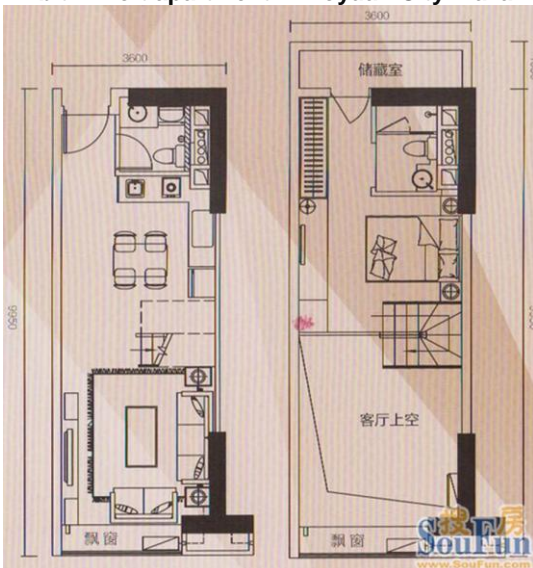
Niche Guangdong play

Listed in 2007, China Aoyuan (CA) is a Guangdong-based developer specializing in composite property that incorporates healthy living concepts of sports and health into residential communities. Over the last 12 months, CA has switched its operation to a fast asset turnover mode and accumulated 36 projects with a total land bank of 10.55 mn sqm as of Jun 2013. The Group's presale of RMB 10bn in 2013 hit record high and beat its revised sales target of RMB 8bn.

Among properties that CA develops, two major products- loft apartments and health plaza, differentiates from other mainstream properties in the following ways:

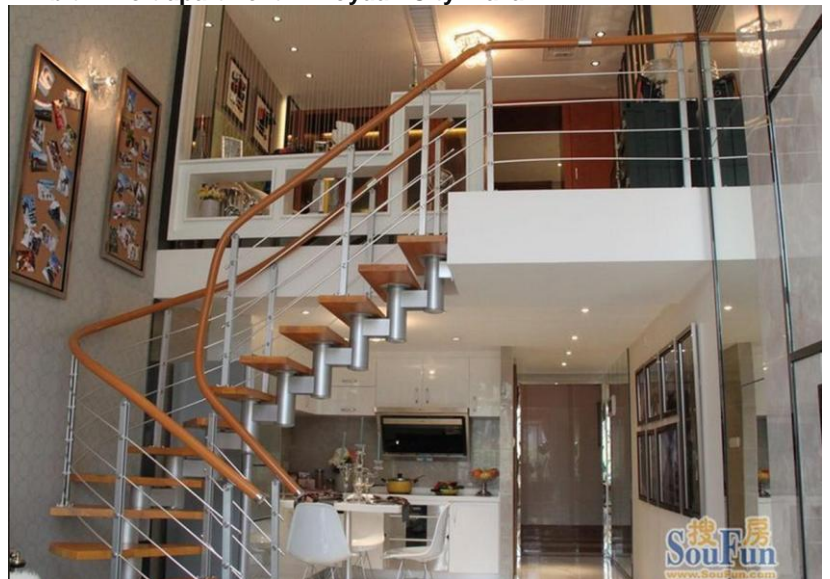
- **Loft apartments:** Given the loft buildings are designed for commercial use, CA's loft apartment has a floor height as high as 4.6 metre. As a result, a mezzanine floor free of land cost can be constructed within the apartment. Take Aoyuan City Landmark's one-bedroom unit as example, the 45 sqm unit has a gift area of 27.76 sqm, making the efficiency ratio of the loft apartment as high as 162%.
- **Health Plaza:** Such projects normally will involve part of the commercial space as health centres. Take Aoyuan Health Plaza as an example, the third to fifth floor of the commercial podium will be designated as specialised medical centre to provide high-end medical services complementing the nearby Panyu Central hospital.

Exhibit 1: Loft apartment in Aoyuan City Plaza



Source(s): Soufun

Exhibit 2: Loft apartment in Aoyuan City Plaza



Source(s): Soufun

Exhibit 3: Aoyuan City Landmark

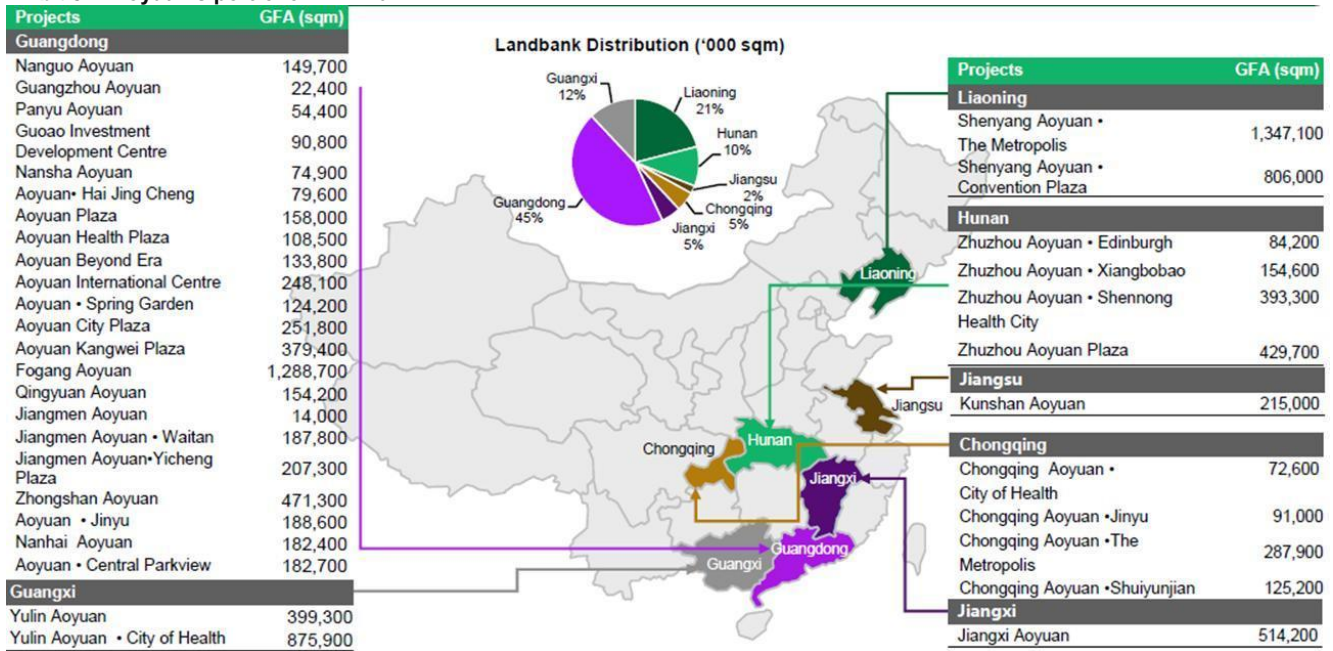


Source(s): Soufun

Exhibit 4: Aoyuan Health Plaza


Source(s): Soufun

As of June 2013, CA has 36 projects in 12 cities in China, including Guangzhou, Zengcheng, Qingyuan, Jiangmen, Zhongshan, Foshan, Ganzhou, Yulin, Chongqing, Shenyang, Kunshan and Zhuzhou. The Group has a total landbank of 10.55 mn sqm, with 16%/45% of GFA in Guangzhou/Guangdong province.

Exhibit 5: Aoyuan's portfolio in China


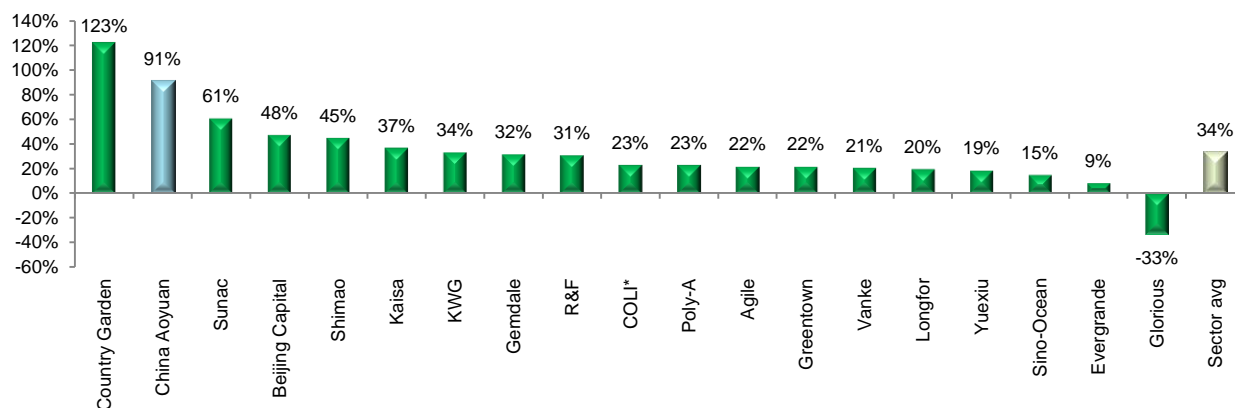
Source(s): Aoyuan, ABCI Securities

China Aoyuan's three key strengths

1. Fast asset turnover model proves to be a success

Since 2013, CA has switched from a relatively slow development strategy to one based on a high asset turnover model. The strategy change proved positive in the first year of implementation with 2013 presale surging 91% YoY to RMB 10bn- a growth rate faster than most of the HK-listed China property developers.

Exhibit 6: Presales growth in 2013 (YoY %)



Source(s): Companies, ABCI Securities

Exhibit 7: Major China developers' presales in 2013

(RMBb)	2013 Actual	YoY	2013 Target	Achievement ratio	2012 Actual	YoY
1 Vanke	170.8	21%	160	106.8%	141	16%
2 COLI*	138.5	23%	120	115.5%	112	28%
3 Poly-A	125.3	23%	117	107.1%	102	39%
4 Country Garden	106.0	123%	62	171.0%	48	10%
5 Evergrande	100.4	9%	100	100.4%	92	15%
6 Shimao	67.1	45%	63	106.5%	46	51%
7 CR Land	66.3	27%	57	116.3%	52	45%
8 Greentown	62.1	22%	55	112.9%	51	48%
9 Sunac	50.8	61%	45	112.9%	32	78%
10 Longfor	48.1	20%	46	104.6%	40	5%
11 Gemdale	45.0	32%	41	109.9%	34	10%
12 R&F	42.2	31%	42	100.5%	32	8%
13 Agile	40.3	22%	42	96.0%	33	5%
14 Sino-Ocean	35.8	15%	35	102.4%	31	15%
15 Kaisa	23.9	37%	22	108.7%	17	14%
16 Beijing Capital	19.6	48%	20	98.1%	13	20%
17 KWG	16.3	34%	16	101.9%	12	7%
18 Yuexiu	14.6	19%	13.2	110.9%	12	36%
19 China Aoyuan	10.0	91%	8.5	118.1%	5	5%
20 Glorious	7.3	-33%	11	66.4%	11	-18%
Total	1,151.7	29%	1076	107.1%	918	23%

Source(s): Companies, ABCI Securities

We attribute CA's strategic success to two major factors:

- **Targeting to the right customers in the right market.** In 2013, Aoyuan refocused its sales effort from tier 2 cities outside Guangdong to the Guangzhou market, where housing price grew more rapidly than other tier 2 cities. In 2013, four of the five bestselling projects are located in Guangzhou, compared to only one project in 2012. Besides, CA's loft products, which is priced at RMB 1mn or below and come with a free gift area of ~60%, attract a lot of first homebuyers in the Guangzhou market.

Targeting the right customers at the right market has brought CA better sales (+91% YoY) and ASP(+49%) in 2013.

Exhibit 8: Presales by projects (2012)

Project	City	Amount	GFA sold	ASP
		RMB mn	000sqm	RMB/sqm
Shenyang Aoyuan • Convention Plaza	Shenyang	644	125	5,140
Shenyang Aoyuan • The Metropolis	Shenyang	643	121	5,332
Zhongsan Aoyuan	Zhongsan	633	128	4,957
Aoyuan Health Plaza	Guangzhou	630	40	15,633
Chongqing Aoyuan • Jinyu	Chongqing	561	80	6,995
Nansha Aoyuan	Nansha	265	32	8,281
Kunshan Aoyuan	Kunshan	250	37	6,720
Zhongsan • Jinyu	Zhongsan	217	34	6,420
Jiangmen Aoyuan	Jiangmen	201	29	7,028
Yulin Aoyuan	Yulin	187	48	3,896
Aoyuan • Haijingcheng	Chongqing	158	19	8,187
Others		862	143	6,036
Total		5,251	836	6,283

Source(s): Company, ABCI Securities

Exhibit 9: Presales by projects (2013)

Project	City	Amount	GFA sold	ASP
		RMB mn	000sqm	RMB/sqm
Aoyuan City Plaza	Guangzhou	1,387	44	31,667
Aoyuan • Spring Garden	Guangzhou	1,273	94	13,600
Aoyuan Health Plaza	Guangzhou	839	63	13,339
The Metropolis	Chongqing	758	66	11,485
Aoyuan Beyond Era	Guangzhou	742	35	21,200
Shenyang Aoyuan • Convention Plaza	Shenyang	688	96	7,197
Zhuzhou Aoyuan • Shennong Health City	Zhuzhou	544	63	8,580
Jiangmen Aoyuan • Yicheng Plaza	Jiangmen	456	63	7,215
Zhongsan Aoyuan	Zhongsan	428	85	5,053
Shenyang Aoyuan • The Metropolis	Shenyang	419	66	6,348
Others		2,504	398	6,295
Total		10,038	1,072	9,364

Source(s): Company, ABCI Securities

- **Shortened development cycle:** A critical fundamental of fast asset turnover is short development cycle to ensure healthy cash flow as land capex increases significantly. In 2013, two projects acquired in 4Q12 and 1Q13, namely, the Aoyuan City Plaza and The Metropolis, launched for sales in July 13 and 1H13, implying an extremely fast lead time of 4-7 months from acquisition to presales. The land capex for the two projects were 80-143% covered (Presale-to-land capex ratio) in less than a year.

Exhibit 10: Example of Aoyuan's projects launches within 12 months

Project	Location	Date of Land Acquisition	Land Capex	Date of Sales Launched	2013 Sales performance	% of land Capex recovered
			RMB mn		RMB mn	
Aoyuan City Plaza	Guangzhou	Dec-12	1,705	Jul-13	1,387	81%
The Metropolis	Chongqing	Feb-13	530	1H13	758	143%

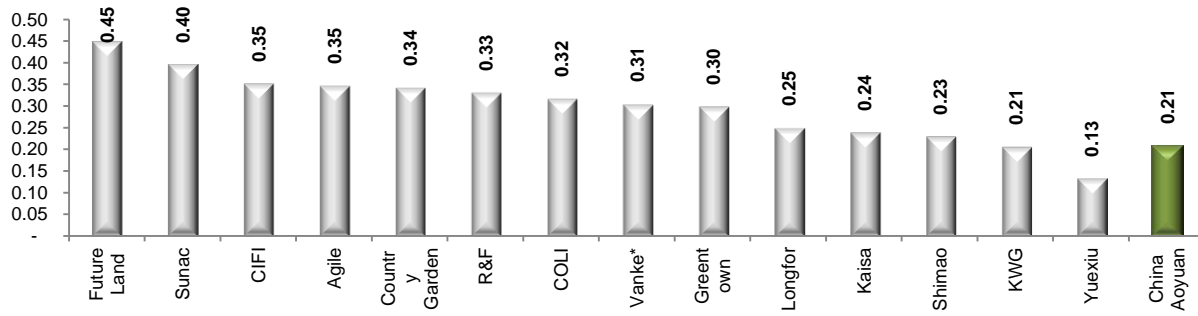
Source(s): Company, ABCI Securities

Going forward, we expect 2014E presale to hit RMB 14bn (+40% YoY), and RMB15.9bn (+13% YoY) in 2015E, given the active land acquisition (RMB 4,450mn, or 45% of presale) in 2013. Despite great improvement in 2013, we believe CA's asset turnover at 0.21 can go up further to the higher-end of the sector at 0.35-0.45x.

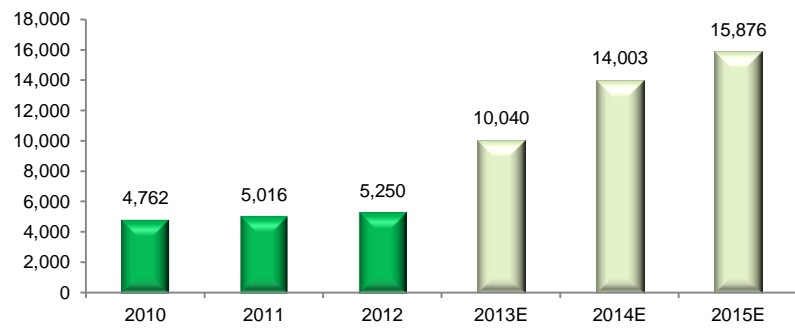
Exhibit 11: 2013 land acquisition

Project	City	Date	Stake	GFA	Consideration	Land cost per sqm
				'000 sqm		RMB/mn
1 Aoyuan Kangwei Plaza	Guangzhou	Jan-13	51%	379	601	1,584
2 Chongqing Aoyuan Shuiyunjian	Chongqing	Feb-13	100%	125	435	3,474
3 Aoyuan Central Park View	Foshan	Feb-13	100%	183	727	3,979
4 Jiangmen Aoyuan- Yicheng Plaza	Jiangmen	Mar-13	51%	207	198	955
5 Yangjiang Aoyuan	Yangjiang	Jul-13	80%	362	213	588
6 Chongqing Chayuan	Chongqing	Aug-13	100%	314	970	3,094
7 Luogang Aoyuan Plaza	Guangzhou	Aug-13	60%	300	1,306	4,353
8 Meizhou Aoyuan	Meizhou	Aug-13	100%	260	175	674
Total				2,130	4,678	2,197

Source(s): Company, ABCI Securities

Exhibit 12: Asset turnover ratio comparison (2012)


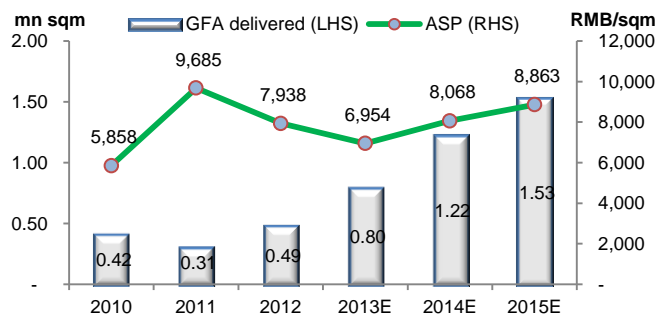
Source(s): Companies, ABCI Securities

Exhibit 13: China Aoyuan's presales forecast (RMB mn)


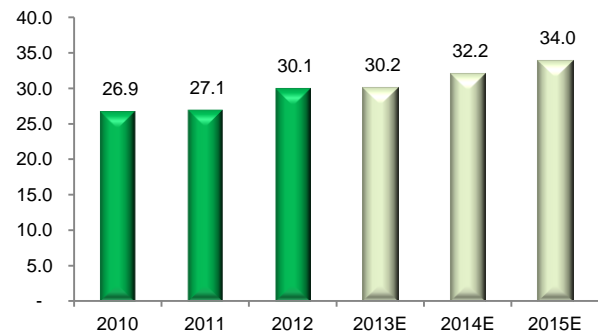
Source(s): Company, ABCI Securities estimates

2. Rising commercial sales to drive margin

Despite the Group's landbank has a reasonably low average land cost of ~RMB 970/sqm, CA's gross margin was only in the range of 27-30% (industry average: 30%). This is mainly due to CA's previous expansion into tier 2 cities outside the Guangdong province, where CA's brand was less recognized. Hence, its ASP and profitability was affected.

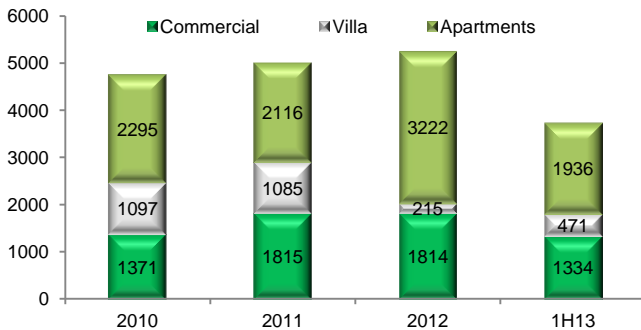
Exhibit 14: CA's GFA delivered and booked ASP


Source(s): Company, ABCI Securities

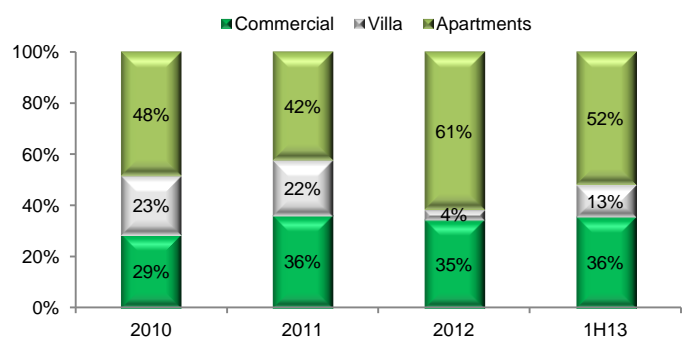
Exhibit 15: CA's gross margin


Source(s): Company, ABCI Securities estimates

However, CA's recent focus on Guangdong and ramp-up of commercial property sales (from 29% of total presales in 2010 to 35-36% in 2011-1H13), have boosted gross margin. In the long run, CA targets to achieve a 40:60 split between commercial and residential property sales. Going forward, we expect gross margin to improve consistently (2013E: 30.3%, 2014E: 31.3%, 2015E: 32.6%) as the product mix changes.

Exhibit 16: Presales by product (RMB mn)


Source(s): Company, ABCI Securities

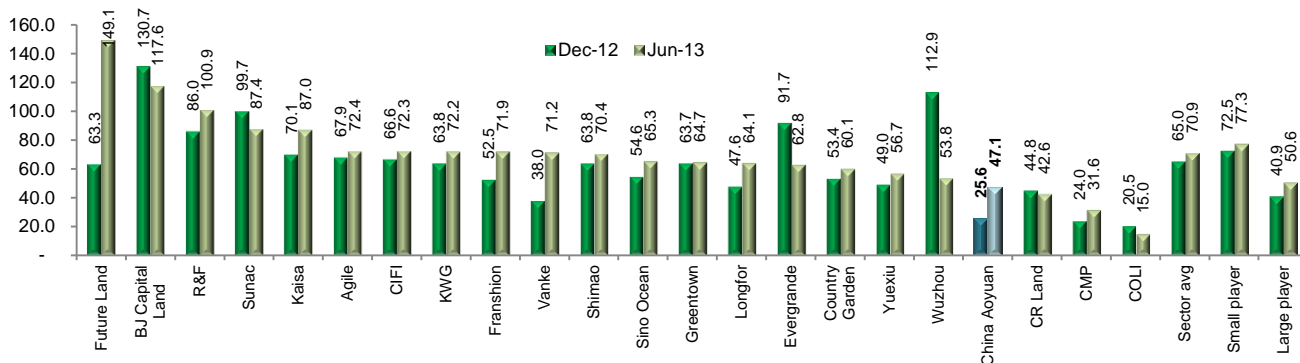
Exhibit 17: Presales by product (%)


Source(s): Company, ABCI Securities

3. Healthy balance sheet

CA has adopted a disciplined approach in financial management and maintain its gearing at reasonable levels. Even with the strategic change to high asset turnover in 2013, net gearing was still healthy at 47.1% in 1H13, much lower than mid- and small- cap average of 77.3%

Exhibit 18: Net gearing comparison of developers (%)



Source(s): Company, ABCI Securities

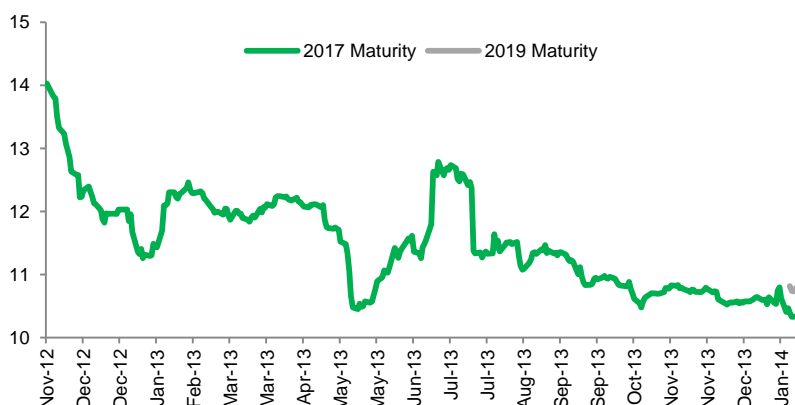
Out of its RMB 6.5bn debt as at June 2013, only about 18% is short-term debt with a maturity of less than a year. Average effective interest rate is only 10%. In Jan 2014, CA also raised US\$ 300mn in 5-year USD bond with a 11.25% coupon rate, much lower than 13.875% coupon rate applied to the bond issued back in Nov 2012 and Jan 2013. This indicates market perception of CA's credit fundamentals are improving. We expect net gearing to come down steadily to 35% in 2014E and 1% for 2015E as presale growth is higher than that of the CAPEX.

Exhibit 19: Debt structure (June 2013)

By instruments	Within 1 year	1-2 year	2-5 year	>5 year	Total
Bank and other loans	1,201	2,222	1,368	348	5,138
Senior note	-	-	1,387	-	1,387
Total	1,201	2,222	2,755	348	6,526
As % of Total	18.4%	34.1%	42.2%	5.3%	100%

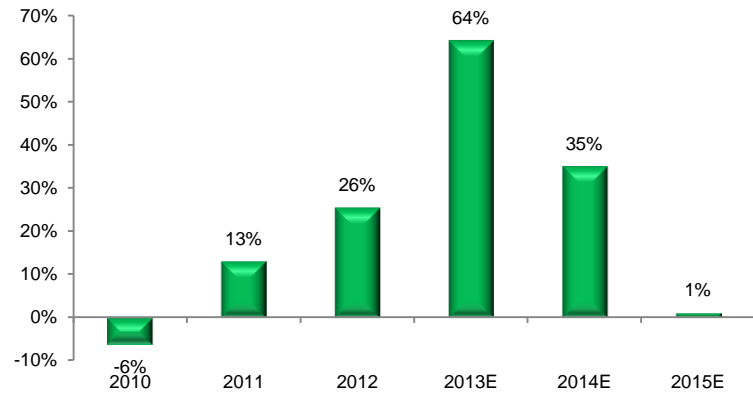
Source(s): Company, ABCI Securities

Exhibit 20: CA's bond yield



Source(s): Bloomberg, ABCI Securities

Exhibit 21: Net gearing trend



Source(s): Company, ABCI Securities estimates

2014 property sector outlook: Prefer commercial over residential

Two major risks

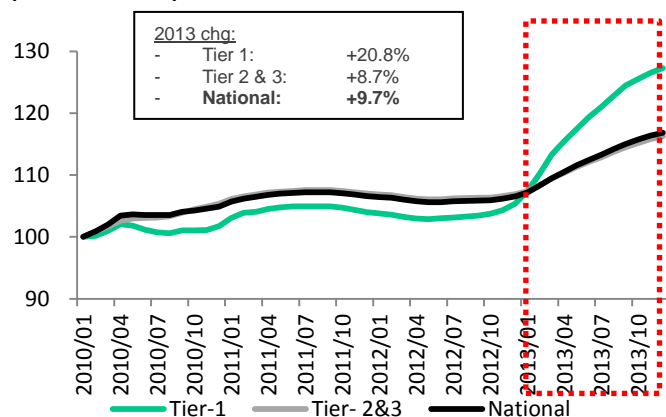
For 2014, two major risks will affect PRC developers' performance:

1. Policy risks: Property tax may be implemented in 2014

More austerity measures on real estate have been launched by the Chinese government by end-2013 to contain the rising property prices and boost housing supply:

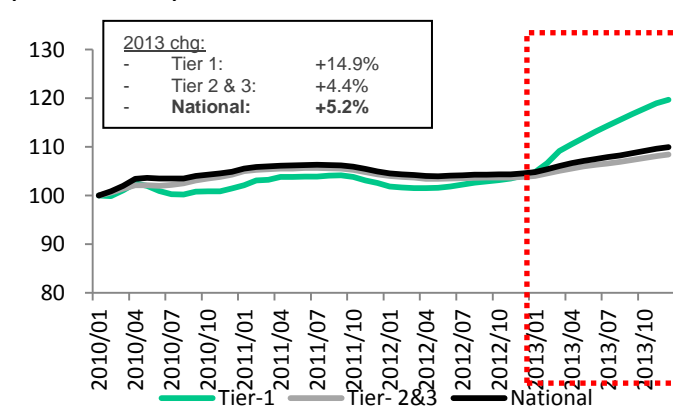
- In Oct, the Beijing government announced a total of seven new measures to (京七條) to increase supply of self-used residential units to 20k in 2013 and 50k in 2014. The ASP of these housing units will be fixed at a 30% discount to market price;
- Shenzhen, Shanghai & Guangzhou raised the down payment ratio for second home purchase from 60% to 70% during Oct -Nov 2013.

Exhibit 22: NBS property prices for new home (Jan 2010=100)



Source(s): NBS, ABCI Securities

Exhibit 23 : NBS property prices for existing home (Jan 2010=100)



Source(s): NSB, ABCI Securities

Exhibit 24: Property tax comparison

City	Model	Applicable to	Tax rate	Status
Shanghai	-Based on market value, -Charged annually	- Second home for local residents - All homes of non-local residents	- If GFA divided by number of living individual is less than 60sqm, tax is exempted; - Portion exceeding 60 sqm will be charged at 0.6% of market value	Effective since 2011
Chongqing	-Based on market value, -Charged annually	- Villa; - luxury apartment with ASP doubling that of the city's average housing price - second home of non-local residents	- For villa and luxury apartment: a) 0.5% if market value is less than 3x the average housing price in Chongqing; 1% if within 3-4x; 1.2% if >4x b) GFA exemption of 180sqm for villa and 100sqm for luxury apartment - For non-local resident: 0.5%	Effective since 2011
Hangzhou and other cities	Based on transaction value	- Any additional homes of local/non-local residents	- 0% if below 60sqm per individual; 4% for portion exceeding 60sqm but below 140sqm; 8% for portion exceeding 140sqm	Unconfirmed news

Source(s): Local government; ABCI Securities

In 2014, we believe policy such as property tax is likely to be implemented nationwide. So far, property tax is applicable to specified type of property (e.g. second home, villa or luxury apartment) in Shanghai and Chongqing. The annual tax rate is set at 0.6%-1.2% of the property's market value. However, if the Hangzhou tax model (refer to Exhibit 3) is applied across cities, we believe the property price would be effectively curbed as the tax rate could be as high as 8 % of the transaction value.

2. An Overheated Land market: Rising land cost to squeeze margin

Land market shows signs of overheating with cities registering record-high prices. The land price has been partly driven up by developers' aggressive land acquisitions as both cash flow and optimism have been boosted by strong presales in Sep/Oct 2013. The high land costs, however, will hurt margins in 2014-15.

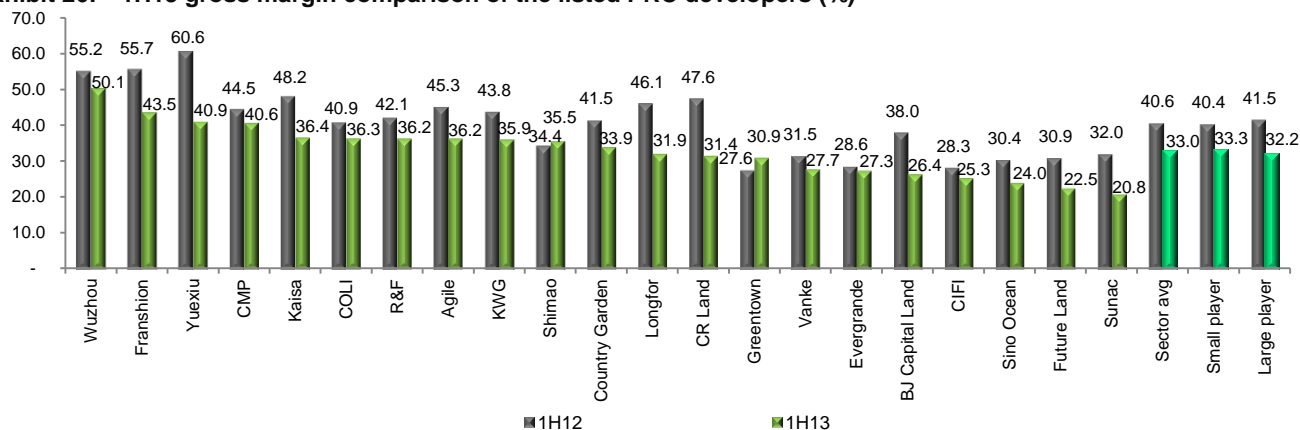
Exhibit 25: Sites with the highest transaction prices in Jan-Oct 2013

Site	Acquirer	Date	GFA mn sqm	Amount RMB mn	AV RMB/sqm
Shanghai					
Xu Jia Hui Centre	SHKP	Sep-13	0.58	21,770	37,277
Beijing					
Nong Zhan Guan (农展馆)	Sunac	Sep-13	0.06	4,320	73,100
Tianjin					
Tiantuo Project (天拖项目)	Sunac	Sep-13	1.02	10,320	10,109
Shenzhen					
Qianhai	Excellence group	Jul-13	0.45	7,180	15,956
Qianhai	Excellence group	Jul-13	0.32	5,188	16,213
Qianhai	CR Land	Aug-13	0.50	10,900	21,670
Qianhai	Silverstein Properties	Jan-14	0.48	13,410	28,113

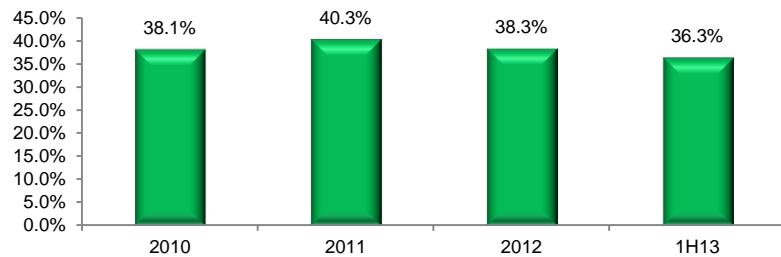
Source(s): Guandian, ABCI Securities

We have seen large players registering sharp declines in gross margin in 1H13 (e.g. Longfor: -14.2ppt YoY to 31.9%; CR Land: -16.2ppt YoY to 31.4%). To maintain its growth momentum with their already high bases and market shares in first and second tier cities, large players have to make foray into new, lower tier cities where demand and profitability are usually lower. In fact, COLI, one of the most recognized high-margin players, has registered declining margins since 2011 as it expanded into new cities. In contrary, smaller players with sizeable landbank, given their lower sales targets and less urgency to replenish their landbanks, can select new projects with reasonable land cost and profitability.

Exhibit 26: 1H13 gross margin comparison of the listed PRC developers (%)



Source(s): Companies, ABCI Securities

Exhibit 27: COLI's gross margin


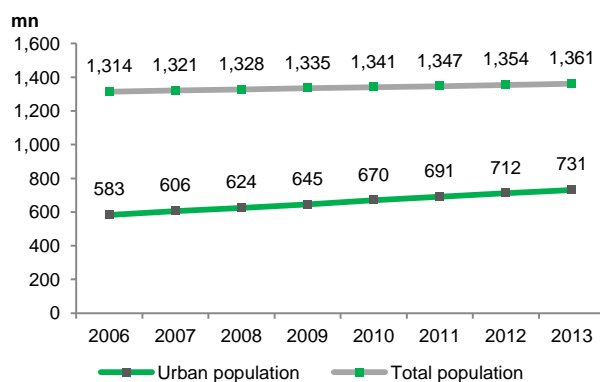
Source(s): COLI, ABCI Securities

Long-term fundamentals remain intact

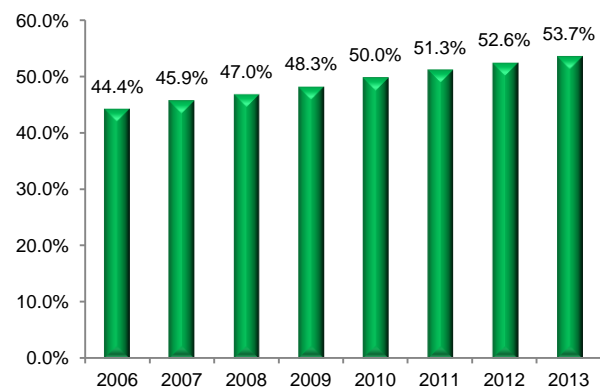
Despite the looming policy risk and an overheating land market, we expect accelerated urbanization and relaxation of the one-child policy would drive property demand in the long term.

- Accelerated urbanization on Hukou reform:** The current “Hukou” system (i.e. household registration system) discourages rural residents to relocate to urban regions even the latter offers better employment opportunities, as non-local residents are not entitled to most social benefits in cities. Hence, urbanization rate is still low at 53.7% in China, compared to over 75% in developed countries.

The market is expecting a “Hukou” reform in the near term. Based on the details released on the policy outlined in the Third Plenum in Nov 2013, the Hukou system will be partially relaxed in small and medium cities by allowing more non-local residents to obtain the permanent resident status more easily. Reform of the Hukou system is expected to accelerate urbanization, which we believe will fuel housing demand in the next few years.

Exhibit 28: China's total population vs. urban population


Source(s): NBS, ABCI Securities

Exhibit 29 : China Urbanisation rate (%)


Source(s): NBS, ABCI Securities

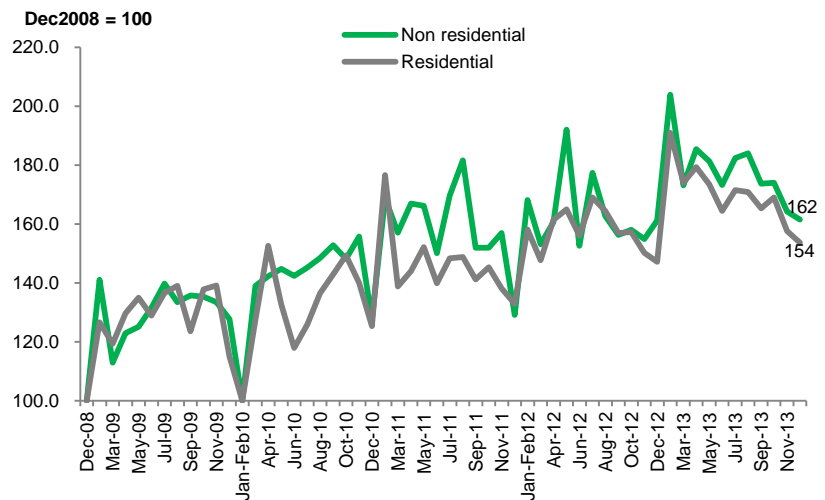
- Relaxation of One-child policy:** According to the policy details issued after the Third Plenum in Nov 2013, China plans to loosen its one-child policy (first implemented in 1980s), allowing couples to have two children if one of them is an only child. We believe the enlarged family size will create significant upgrade demand in the housing market.

Prefer commercial over residential developers

As results of two major risks mentioned above, we preferred developers with stronger commercial property exposure.

1) Lower policy risk. Due to lack of policy interference, ASP of commercial properties has outperformed the residential ones. E.g., ASP of commercial properties was up 62% during 2009- 2013, higher than the 54% increase for residential properties. This can be attributed to tightened residential pricing control by the government during the period. Based on history, we observe that commercial developers can exercise higher pricing power than the residential counterparts.

Exhibit 30: ASP of commercial properties vs. residential



Source(s): NBS; ABCI Securities

2) Less competition in the commercial property sector: Furthermore, there are many more listed residential players than commercial ones in the Hong Kong equity market. In 2009-2013, there were 24 China property IPOs in Hong Kong raising a total of HK\$ 52.0bn. Among which, twenty were residential developers. Over time, the Hong Kong stock market has accumulated a large number of China residential property stocks, with many sharing similar business models. Thus, differentiation among the residential stocks was rather limited. On the other hand, there were only four IPOs from commercial developers during 2009-2013. In general, we believe the commercial property sector is facing much less competition than the residential sector in the equity market.



Exhibit 31: IPOs of developers in China (2009- 2013)

	Listing date	Company	Stock code	Proceed raised	Residential / Commercial
				HKDm	
1	16-Jan-13	Golden Wheel	1232 HK	760	Residential
2	13-Jun-13	Wuzhou	1369 HK	1,505	Commercial
3	12-Jul-13	Modern Land	1107 HK	596	Residential
4	31-Oct-13	Hydoo	1396 HK	1,652	Commercial
5	31-Oct-13	Jingrui	1862 HK	1,395	Residential
6	11-Dec-13	Times	1233 HK	1,551	Residential
7	20-Dec-13	Logan	3380 HK	1,575	Residential
		2013 total		9,034	
1	29-Nov-12	Future Land	1030 HK	2,056	Residential
2	23-Nov-12	CIFI	884 HK	1,669	Residential
		2012 total		3,725	
1	23-Mar-11	Top Spring	1623 HK	1,560	Residential
2	13-Jul-11	Zall	2098 HK	1,517	Commercial
3	22-Jul-11	Sino Harbour Property	1663 HK	330	Residential
		2011 total		3,407	
1	5-Feb-10	China SCE Property	1996 HK	1,560	Residential
2	15-Jul-10	Tian Shan Development	2118 HK	350	Residential
3	7-Oct-13	Sunac	1918 HK	2,610	Residential
		2010 total		4,520	
1	30-Sep-09	China South City	1668 HK	2,193	Commercial
2	2-Oct-09	Glorious Property	845 HK	1,035	Residential
3	14-Oct-09	Powerlong	1238 HK	2,990	Residential
4	2-Nov-09	Yuzhou	1628 HK	1,620	Residential
5	5-Nov-09	Evergrande	3333 HK	6,500	Residential
6	13-Nov-09	Mingfa	846 HK	2,151	Residential
7	19-Nov-09	Longfor	960 HK	8,131	Residential
8	25-Nov-09	Fantasia	1777 HK	3,215	Residential
9	9-Dec-09	Kaisa	1638 HK	3,450	Residential
		2009 total		31,285	

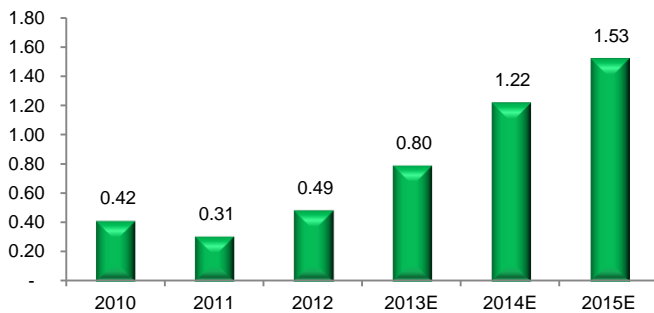
(2009- 2013)	Number of IPO		Proceeds	
	No.	As % of total	HKDm	As % of total
Commercial	4	16.7%	6,868	13.2%
Residential	20	83.3%	45,104	86.8%
	24		51,971	

Source(s): HKEx; ABCI Securities

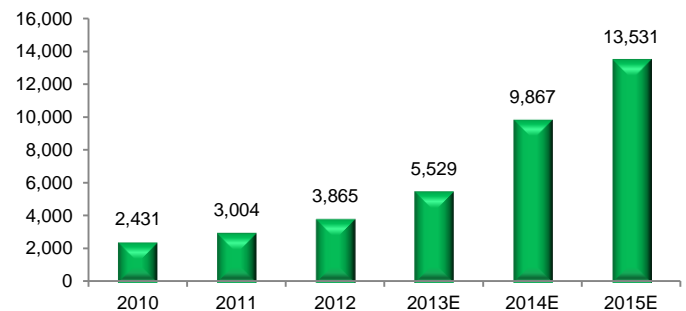
Financial Analysis

Fast core profit growth at 123% CAGR in 2013-15E

As CA has begun to adopt a fast asset turnover model since 2013, we expect CA's revenue and profit to experience robust growth in the next three years. We forecast CA's GFA delivery will rise at 39% CAGR from 0.80mn sqm in 2013E to 1.53mn sqm in 2015E, while booked sales will increase at 56% CAGR from RMB 5.5bn in 2013E to RMB13.5bn in 2015E. So far, we estimated about 50% and 25% of the sales has been locked-in for 2014E and 2015E respectively.

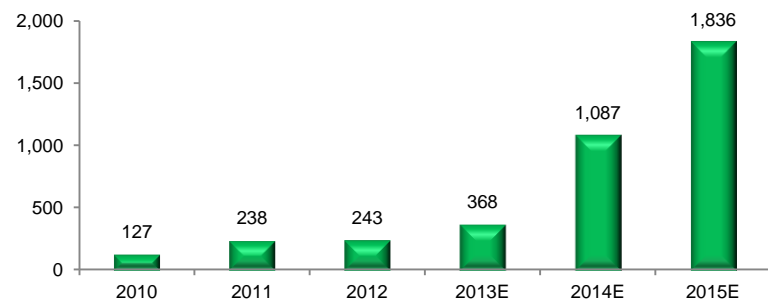
Exhibit 32: CA's GFA delivery (mn sqm)


Source(s): Company, ABCI Securities estimates

Exhibit 33 : CA's booked sales (RMB mn)


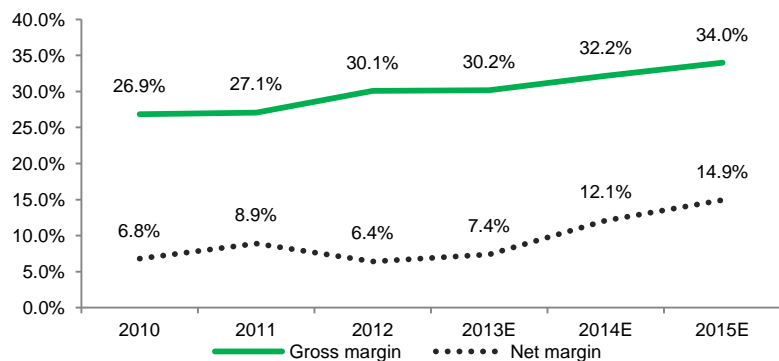
Source(s): Company, ABCI Securities estimates

As both gross margins continue to expand on increased proportion of commercial properties in the sales mix, we forecast core profit will jump 195% YoY to RMB 1.1bn in 2014E and 69% YoY to RMB 1.8bn in 2015E.

Exhibit 34: CA's core net profit (RMB mn)


* Core net profit is calculated by excluding after-tax revaluation gain and one-off items from reported net profit

Source(s): Company, ABCI Securities estimates

Exhibit 35: Gross and Net margins


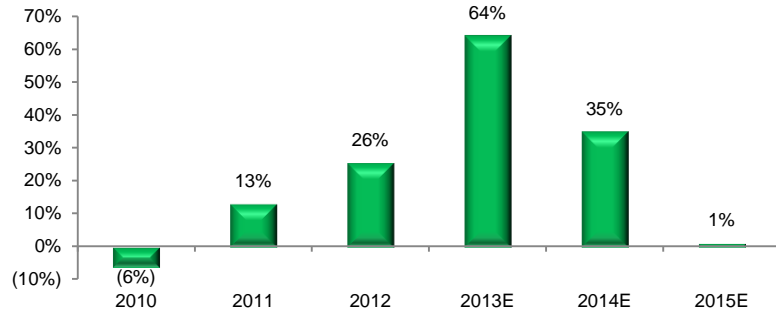
Source(s): Company, ABCI Securities estimates



Gearing to decline after 2013

As 2013 is the first year of the adoption of fast asset turnover model, net gearing is expected to rise to 60% level due to increased land capex. However, as presales grow faster than land spending, we expect net gearing to come down steadily to 35% in 2014E and 1% in 2015E.

Exhibit 36: CA's net gearing in FY10-15E



Source(s): Company, ABCI Securities estimates

Exhibit 37: CA's 1H13 results

P&L	1H13	1H12	YoY Chg	Operating statistics	1H13	1H12	YoY Chg
	RMB mn	RMB mn	(%)				
Turnover	2,150	1,685	27.6	Booked GFA (mn sqm)	0.31	0.16	94.8
Cost of Sales & direct operating costs	(1,485)	(1,159)	28.1	Booked ASP (RMB/sqm)	6,849	10,621	(35.5)
Gross Profit	665	525	26.6	Booked Sales (RMB mn)	2,093	1,667	25.6
Gross Margin (%)	30.9	31.2	(0.3)				
Selling and distribution costs	(43)	(58)	(25.7)	Contracted GFA (mn sqm)	0.47	0.34	36.1
Administrative expense	(110)	(130)	(15.0)	Contracted ASP (RMB/sqm)	8,026	6,745	19.0
EBIT	512	338	51.6	Presales (RMB mn)	3,741	2,309	62.0
EBIT Margin (%)	23.8	20.0					
Other income, gains and losses	32	65	(51.4)	Balance sheet	Jun-13	Dec-12	HoH %
Fair value gain of investment properties	52	141	(63.0)		RMB	RMB	
Share of profit from JCE/ Associates	0	(7)	(100.0)		mn	mn	
Finance cost	(12)	(8)	47.6	Gross debt	6,526	4,923	32.6
Profit before tax	583	528	10.5	Cash	3,413	3,143	8.6
Tax	(222)	(245)	(9.5)	Net debt	3,113	1,779	74.9
- LAT	(17)	(32)	(47.3)	Net gearing (%)	47.1	25.6	21.5
- Enterprise tax	(205)	(213)	(3.7)				
Profit after tax	361	283	27.8				
Minority Interest	(13)	1	(1,506.8)				
Net profit	348	284	22.8				
Underlying net profit	309	178	73.6				

Source(s): Companies, ABCI Securities



Initiate CA with BUY; TP at HK\$2.20

Exhibit 38: FY14E NAV estimates

	Attr. GFA (M sqm)	Net assets value (RMB m)	% of total	Valuation Methodology	Implied value per sqm (RMB)
Property development					
Guangzhou	1.6	5,283	37%	DCF at WACC of 13.6%	3,273
Zengcheng	0.2	235	2%		1,212
Qingyuan	1.4	1,605	11%		1,113
Jiangmen	0.2	167	1%		823
Zhongshan	0.7	296	2%		449
Foshan	0.4	255	2%		698
Ganzhou	0.5	560	4%		1,088
Chongqing	0.6	537	4%		931
Shenyang	2.2	1,704	12%		791
Others	4.7	3,243	23%		691
Subtotal	9.7	13,884	98%		1,433
Investment Properties		281	2%	6.0% cap rate on 2013E net rental income	
Total 2014E GAV		14,165	100%		
2014E Net debt		(2,833)	-21%		
Total 2014E NAV		11,332	79%		
No. of share outstanding (diluted)		2,616			
NAV per share (RMB)		4.33			
Ex rate		1.27			
NAV per share (HKD)		5.49			
Target discount (%)		60%			
Target Price (HKD)		2.20			

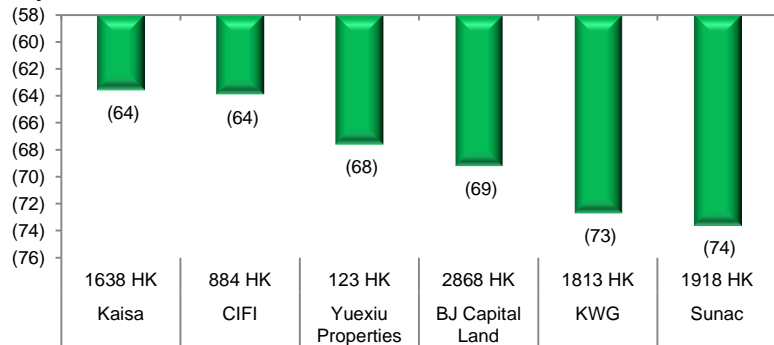
WACC	13.6%
Cost of debt	11.0%
Cost of Equity	20.0%
Debt/ (Debt + Equity)	55%

Source(s): Company, ABCI Securities estimates

We value CA based on the discount-to-NAV method, one of the most common valuation metrics used by developers in China:

- **Property developments:** We conduct a DCF analysis and apply a WACC of 13.6% to estimate the value of individual projects. We estimate the total value of property development projects to be RMB 13.1bn.
- **Investment properties:** We applied a cap rate of 6.0% of 2014E net rental income to derive our value of RMB 281mn.

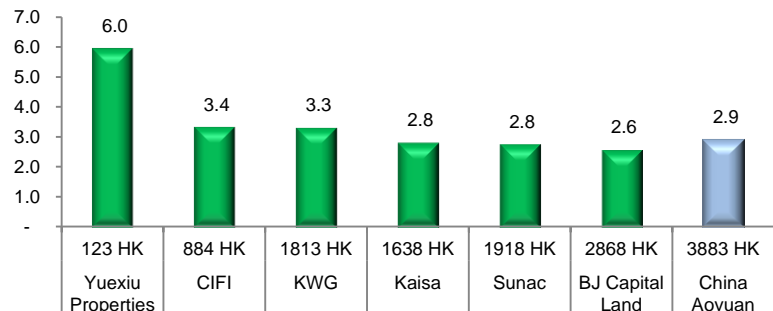
We subtract the gross asset value of RMB13.9bn by our 2014E net debt estimate (RMB2,616mn) to derive our NAV forecast of RMB11,332mn (or HK\$5.49/share). To derive our equity value of CA, we apply a discount of 60% (vs. mid- and small-cap average of 68%) to our NAV to derive our TP of HK\$2.20.

Exhibit 39: Average discount to FY14E NAV (%) for small/mid cap China developers


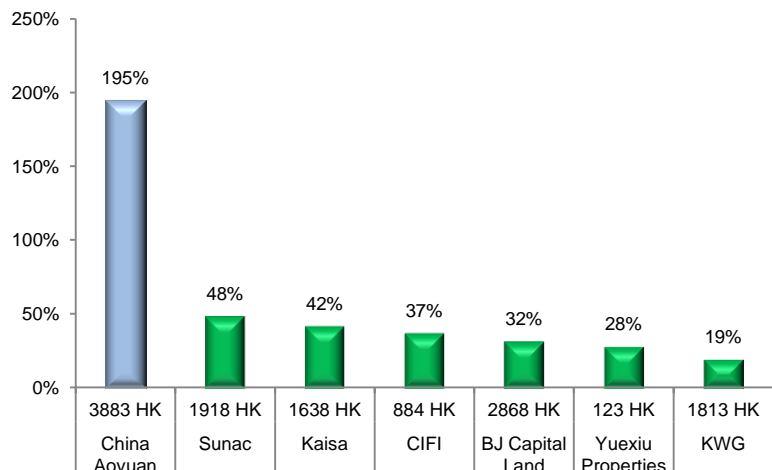
Source(s): Bloomberg, ABCI Securities estimates

Valuation looks attractive with above-average growth

Our TP of HK\$2.20 represents 4.2x of CA's FY14E PE, which is slightly higher than average valuation of 3.7x FY14E P/E among the small/mid-cap developers in China. As we expect CA's earnings will grow by 195% YoY in FY14E, a pace faster than its peers at 20-50%, we believe CA deserve a higher valuation than its current one at 2.9x FY14E. Besides, assuming 25% payout ratio of 25-30% payout on core profit over past few years), CA's FY14E dividend is as high as ~8%. Based on the Company's positive outlook and attractive valuation, we decide to initiate CA with a BUY rating with TP at HK\$ 2.20.

Exhibit 40: Small/mid cap PRC developers' FY14E P/E


Source(s): Bloomberg, ABCI Securities estimates

Exhibit 41: Estimated YoY growth of small/mid cap PRC developers' core profit in FY14E (%)


Source(s): Bloomberg, ABCI Securities estimates



Exhibit 42: Valuation of Hong Kong-listed and PRC-listed developers

China Property	Ticker	Rating	Mkt cap	Share Price	Performance			Discount to NAV	Valuation									
					1M	3M	2013		P/E			Yield (%)			P/B			
					(HKD bn)	(local ccy)	% Chg	% Chg	% Chg	(%)	2012A	2013E	2014E	2012A	2013E	2014E	2012A	2013E
Residential:																		
1	COLI	688 HK	HOLD	172	21.05	(3)	(10)	(6)	(15.8)	10.8	8.3	7.2	1.9	2.4	2.8	2.0	1.7	1.4
2	CR Land	1109 HK	NR	107	18.28	(5)	(14)	(9)	(39.1)	14.1	11.7	9.3	1.8	2.2	2.7	1.4	1.4	1.2
3	Country Garden	2007 HK	NR	79	4.26	(11)	(15)	15	(46.3)	8.8	7.3	5.8	4.2	4.9	6.2	1.5	1.4	1.2
4	Shimao	813 HK	NR	59	17.02	(4)	(4)	22	(49.8)	8.0	7.1	5.5	3.3	4.3	5.4	1.2	1.1	1.0
5	Longfor	960 HK	NR	58	10.60	(5)	(16)	(29)	(70.6)	8.1	7.3	6.1	2.4	2.7	3.3	1.4	1.2	1.1
6	Evergrande	3333 HK	NR	48	3.02	3	(7)	(30)	(60.3)	3.8	4.4	3.6	0.0	4.6	5.5	0.8	0.7	0.6
7	Guangzhou R&F	2777 HK	NR	33	10.20	(10)	(21)	(12)	(65.8)	5.2	4.6	4.0	7.5	8.1	9.1	1.0	0.8	0.7
8	Sino Ocean	3377 HK	NR	31	4.32	(14)	(10)	(12)	(55.2)	7.0	7.5	6.3	5.6	5.5	5.9	0.5	0.6	0.5
9	Agile	3383 HK	NR	25	7.22	(14)	(21)	(24)	(65.2)	3.9	4.1	3.7	5.5	5.8	6.5	0.7	0.6	0.5
10	Greentown	3900 HK	BUY	23	10.84	(9)	(27)	(17)	(74.6)	4.5	3.8	3.4	14.8	16.3	17.8	1.0	0.8	0.7
11	Sunac	1918 HK	BUY	16	4.77	4	(6)	(23)	(73.5)	4.7	4.1	2.8	1.8	1.8	2.7	1.2	0.9	0.7
12	Yuexiu Properties	123 HK	NR	15	1.64	(13)	(23)	(22)	(67.5)	11.3	7.6	6.0	4.1	5.0	6.1	0.5	0.5	0.5
13	COGO	81 HK	NR	14	6.32	(15)	(29)	(21)	(56.8)	6.0	5.2	4.1	1.7	2.4	2.9	1.5	1.3	1.0
14	KWG	1813 HK	NR	12	4.12	0	(16)	(26)	(72.6)	4.8	4.0	3.3	4.7	5.8	6.8	0.6	0.5	0.5
15	Kaisa	1638 HK	BUY	11	2.25	0	(5)	4	(63.5)	6.5	4.0	2.8	0.0	0.0	0.0	0.7	0.6	0.5
16	CIFI	884 HK	NR	10	1.59	(1)	0	14	(63.9)	7.9	4.6	3.4	3.1	3.6	4.7	1.0	0.8	0.7
17	BJ Capital Land	2868 HK	NR	5	2.64	0	(4)	(18)	(69.2)	5.0	3.4	2.6	7.8	10.7	13.4	0.5	0.5	0.4
18	Future Land	1030 HK	NR	5	0.86	(8)	(2)	(38)	(80.3)	4.2	4.3	3.4	7.4	7.5	9.7	0.7	0.6	0.5
19	China Aoyuan	3883 HK	BUY	4	1.56	(3)	2	12	(71.6)	13.1	8.6	2.9	25.6	4.0	8.2	0.5	0.4	0.4
HK Listed Avg						(6)	(12.0)	(12)	(61.1)	7.2	5.9	4.5	5.4	5.1	6.3	1.0	0.9	0.7
- Large cap (>HKD30b) avg						(6)	(12)	(8)	(50.4)	8.2	7.3	6.0	3.3	4.3	5.1	1.2	1.1	1.0
- Small-mid cap (<HKD30b) avg						(6)	(13)	(17)	(68.7)	5.9	4.5	3.5	5.1	5.9	7.0	0.8	0.7	0.6
1	Vanke	000002 CH	NR	112	10.28	(5)	(12)	(16)	(34.7)	6.5	5.4	4.5	2.4	2.6	3.2	1.3	1.1	0.9
2	Poly-A	600048 CH	NR	74	10.66	(1)	(13)	(39)	(43.0)	6.6	5.4	4.3	3.0	3.3	4.1	1.3	1.1	0.9
3	China Merchants Property	000024 CH	NR	40	26.80	(7)	(19)	(30)	na	9.5	7.4	5.8	1.6	1.9	2.4	1.2	1.2	1.0
4	Gemdale	600383 CH	NR	35	7.20	(1)	6	(5)	(36.0)	7.8	7.2	6.1	1.3	1.8	1.8	1.1	1.0	0.9
A-share Listed Avg						(4)	(10)	(23)	(37.9)	7.6	6.4	5.2	2.1	2.4	2.8	1.2	1.1	0.9
Commercial:																		
1	SOHO China	410 HK	NR	32	6.13	(9)	(7)	7	(46.8)	7.4	6.7	10.1	5.2	5.2	5.0	0.7	0.7	0.7
2	China South City	1668 HK	BUY	27	3.94	81	75	88	(59.8)	13.4	12.1	6.3	2.5	2.5	3.8	1.5	1.5	1.2
3	Hui Xian REIT	87001 HK	NR	25	3.76	(2)	(3)	(7)	(44.7)	15.2	18.8	18.3	6.5	6.6	7.0	0.7	0.7	0.7
4	Franshion	817 HK	BUY	24	2.57	(2)	(4)	(3)	(47.0)	11.3	8.4	6.6	2.7	3.9	4.7	1.0	0.9	0.8
5	Shui On Land	272 HK	NR	18	2.28	(5)	(11)	(37)	(66.2)	53.1	14.9	10.1	2.8	2.9	3.0	0.4	0.4	0.4
6	Hydoo	1396 HK	BUY	12	3.10	38	na	na	(51.4)	25.6	6.1	3.8	0.0	2.8	4.5	7.6	2.1	1.7
7	Yuexiu REIT	405 HK	NR	10	3.63	(4)	(5)	3	na	10.1	36.3	24.0	7.6	7.7	8.3	0.6	0.6	0.6
8	Zall	2098 HK	NR	8	2.35	(13)	(22)	(12)	na	10.2	na	na	2.6	na	na	1.3	na	na
9	Wuzhou	1369 HK	NR	6	1.37	8	12	12	na	18.7	5.3	3.7	0.0	3.8	5.4	2.1	0.2	0.2
Commercial Avg						10	4	6	(52.7)	18.3	13.6	10.3	3.3	4.4	5.2	1.8	0.9	0.8
- Developers						16	13	14	(55.0)	21.3	10.5	8.3	3.3	3.6	4.1	0.9	0.9	0.8
- Landlords/REIT						18	(3)	(7)	(48.1)	20.4	12.5	11.1	3.3	4.7	5.7	4.2	1.4	1.2

* Share price as at Jan 28, 2014

Source(s): Bloomberg; ABCI Securities estimates



Risk factors

- **Concentrated portfolio.** About 45% of CA's portfolio is located in the Guangdong province. CA's sales performance is highly subjected to economic development and demand/supply situation in the region.
- **Further property tightening measures.** As commercial property price has been rising for the past few years, it is possible that the government may impose purchase restriction on commercial property sector to avoid asset bubbles. However we expect the tightening focus in 2014 (e.g. property tax) will remain mostly on the residential sector.
- **Rising land cost may hurt margin.** Given CA's fast asset turnover model, the Group has to replenish its landbank even in an overheated land market. CA's gross margin could be at risk on rising land cost.
- **Net gearing surged in 2013.** Net gearing ratio is expected to climb to 64% by Dec 2013 from 26% as at Dec 2012, or 47% as at June 2013. Although we expect net gearing to decline in 2014E-15E, unexpected events such as addition of new projects, delays in obtaining presales permits and poorer-than-expected sales etc. may drive up gearing, which will in turn affect cost of debt and subsequent affect our valuation estimates.
- **Yield investor may prefer its bonds** over its equity shares at current market valuation, given that its bond yield is as high as ~11%, vs dividend yield of ~8% only.



Consolidated income statement (2011A-2015E)

FY Ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Revenue	3,022	3,943	5,614	9,960	13,630
Cost of sales	(2,205)	(2,757)	(3,920)	(6,755)	(8,999)
Gross Profit	818	1,187	1,694	3,205	4,631
SG&A expenses	(413)	(607)	(826)	(1,010)	(1,087)
EBIT	405	580	868	2,195	3,544
Finance cost	(26)	(66)	(104)	(116)	(114)
Share of profit of associates	(22)	(7)	0	0	0
Other income/ (expenses)	162	102	74	114	179
Fair value gain of investment properties	0	0	0	0	0
Disposal/one-off items	261	916	52	0	0
Profit before tax	779	1,525	891	2,193	3,609
Tax	(336)	(593)	(437)	(991)	(1,575)
Profit after tax	443	933	454	1,203	2,034
Minority interest	(10)	(2)	(46)	(116)	(198)
Reported net profit	433	930	408	1,087	1,836
Less: exceptional items	(196)	(687)	(39)	0	0
Underlying net profit	238	243	368	1,087	1,836
Per share					
Underlying EPS (RMB)	0.09	0.09	0.14	0.42	0.70
DPS (RMB)	0.05	0.31	0.05	0.10	0.15
Payout ratio (%)	57%	336%	35%	24%	21%
BVPS (RMB)	2.36	2.66	2.76	3.08	3.63
Growth %					
Revenue	23.7%	30.5%	42.4%	77.4%	36.8%
Gross Profit	24.7%	45.1%	42.8%	89.2%	44.5%
EBIT	9.9%	43.3%	49.7%	152.8%	61.4%
Underlying net profit	86.7%	2.3%	51.7%	194.9%	69.0%
Margin %					
Gross margin	27.1%	30.1%	30.2%	32.2%	34.0%
Gross margin (post-LAT)	18.2%	24.9%	25.5%	26.5%	27.6%
EBIT margin	13.4%	14.7%	15.5%	22.0%	26.0%
Core net margin	8.9%	6.4%	7.4%	12.1%	14.9%
Key assumptions					
Presales (RMB mn)	5,016	5,250	10,040	14,413	16,340
GFA sold (m sqm)	0.55	0.84	1.07	1.62	1.73
ASP (RMB/sqm)	9,118	6,281	9,366	8,909	9,459
Booked Sales (RMB)	3,004	3,865	5,529	9,867	13,531
GFA delivered (m sqm)	0.31	0.49	0.80	1.22	1.53
Booked ASP (RMB/sqm)	9,685	7,938	6,954	8,068	8,863

Source: Company, ABCI Securities estimates



Consolidated balance sheet (2011A-2015E)

As of Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Current assets	12,922	16,684	23,078	28,745	33,028
Cash	877	2,381	3,509	6,327	10,051
Restricted cash	2,946	762	762	762	762
Trade & other receivables	611	735	735	735	735
Property under development	8,336	11,548	16,814	19,663	20,222
Other current assets	152	1,257	1,257	1,257	1,257
Non-current assets	3,992	4,129	4,721	5,260	5,800
Property, plant & equipment	492	376	415	455	494
Investment properties	1,383	1,949	2,502	3,002	3,502
Investment in Associate and JCE	507	0	0	0	0
Other non-current assets	1,611	1,804	1,804	1,804	1,804
Total Assets	16,914	20,813	27,799	34,005	38,828
Current Liabilities	8,519	10,105	16,816	22,131	25,362
Short term borrowings	2,616	1,675	5,675	6,675	7,675
Trade & other payables	1,409	2,299	2,299	2,299	2,299
Pre-sales deposits	3,289	4,244	6,955	11,271	13,501
Other current assets	1,206	1,887	1,887	1,887	1,887
Non-current liabilities	2,166	3,605	3,605	3,605	3,605
Long term borrowings	2,016	3,248	3,248	3,248	3,248
Other payables	0	0	0	0	0
Other non-current assets	151	356	356	356	356
Total Liabilities	10,686	13,709	20,420	25,736	28,967
Net Assets	6,229	7,104	7,378	8,269	9,861
Shareholders Equity	6,159	6,951	7,230	8,055	9,499
Minority Interest	70	152	148	214	362
Total Equity	6,229	7,104	7,378	8,269	9,861
Key ratio					
Gross debt (RMB mn)	4,632	4,923	8,923	9,923	10,923
Net debt (RMB mn)	808	1,779	4,651	2,833	110
Net gearing (%)	13%	26%	64%	35%	1%
Presales/ Total assets (x)	0.30	0.25	0.36	0.42	0.42

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
EBITDA	436	610	899	2,226	3,575
Change in Working Capital	(50)	(2,862)	(1,897)	2,199	2,391
Tax payment	(646)	(770)	(437)	(991)	(1,575)
Operating Cashflow	(261)	(3,021)	(1,435)	3,434	4,391
Purchase of PP&E	(75)	(25)	(70)	(70)	(70)
Addition of Investment Properties	(177)	(394)	(500)	(500)	(500)
Proceeds from disposal/ (acquisition)	(2,072)	4,902	74	114	179
Investing Cashflow	(2,324)	4,483	(496)	(456)	(391)
Debt raised	3,559	4,695	5,000	5,000	5,000
Debt repaid	(2,288)	(4,544)	(1,000)	(4,000)	(4,000)
Interest expenses	-	-	(762)	(848)	(834)
Equity raised	-	-	-	-	-
Dividend to shareholders	(86)	(135)	(129)	(262)	(392)
Others	74	26	(50)	(50)	(50)
Financing Cashflow	1,258	42	3,060	(160)	(276)
Net cash inflow/ (outflow)	(1,326)	1,504	1,128	2,818	3,723
Cash- beginning	2,203	877	2,381	3,509	6,327
Cash- year-end	877	2,381	3,509	6,327	10,051

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 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.

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