KWG (1813) –HOLD

Target price at HK$5.65

Key Data

Price(26/4/2012)	HK$5.02
Price target	HK$5.65
Upside potential	12.6%
52Wk H/L(HK$)	6.24/2.28
Issued shares(mn)	2,893
Market Cap(HK$mn)	14,523
15-day avg vol(mn)	6.83
Auditors	Ernst&Young
Major shareholder:	
Kong jianmin*	60.49%

Source: Company data & Bloomberg

**The founder and Chairman of the group*

Report Date: 30 April, 2012

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As a proven up market property developer in seven selected 1st-2nd tier cities, such as Guangzhou, Chengdu and Shanghai, we expect that KWG's edges in high end market are hindered by the policy curb. EPS are expected to edge up 2.3%YoY to Rmb0.6542 in FY12 but down 21.2%YoY to Rmb0.5158 in FY13. We initiate with a HOLD rating on the stock and set 2012 target price at 7.0x 2012E PE or HK$5.65, representing 33.9% discount to our 2012NAV of HK$8.55/share.

Long term value play: The group is set to reward from the strong edges in high-end product development and strategically positioning in the selected high tier cities. In addition, its ample cash flow provides defensiveness and enables bargaining-hunting land acquisition, laying down a long term growth foundation.

Challenging in short term outlook: Its expertise in high-end market is hindered by home purchase restriction (HPR). Its land cost (accounting for 20% of ASP) will also constrain its flexibility in pricing strategy, which is crucial in market downturn. We expect that the group will underperform the market in 2012 sales, which is estimated at Rmb10.5bn, down 8.3%YoY or 12.5% below budget (Rmb12bn). EPS for FY12 and FY13 are expected to edge up 2.3%YoY but down 21.2%YoY to Rmb0.6542 and Rmb0.5158 respectively.

Risk factors: Economy hard landing or weaker than expected GDP growth could dampen demand; High residential price trigger another round of austerity measures; The GFA start, GFA under-construction and/or delivery are subject to high operating risk; Liquidity risk due to mid-cap and share price risk due to high volatility.

Results and forecast

	2011	2012E	2013E	2014E
Revenue(Rmbmn)	10,123	9,466	11,018	13,958
Chg(YoY)	35.6%	-6.5%	16.4%	26.7%
Net profit(Rmbmn)	2,104	1,901	1,499	1,204
Chg(YoY)	64.1%	-9.6%	-21.2%	-19.7%
Core net profit^ (Rmbmn)	1,859	1,901	1,499	1,204
Chg(YoY)	45.4%	2.2%	-21.2%	-19.7%
Core EPS (Rmb)	0.6398	0.6542	0.5158	0.4141
Chg(YoY)	44.8%	2.3%	-21.2%	-19.7%
BVPS(Rmb)	4.64	5.08	5.43	5.71
Chg(YoY)	15.9%	9.4%	6.9%	5.3%
DPS (Rmb)	0.22	0.16	0.13	0.10
Yield	5.4%	4.0%	3.2%	2.6%
PE(x)	6.4	6.2	7.9	9.8
PB(x)	0.88	0.80	0.75	0.71
ROAE	14.8%	13.5%	9.8%	7.4%

^Excluding revaluation G/L on investment property; @Rmb0.8121/HK$
Source: Company's announcements and ABCI Securities estimates

A proven up market player

KWG has a strong track record in the high end property development market, which has been convinced by its continuous high gross profit (GP) margin.

Over the past three years the group's ranking for GP margin has been in the top 3 among 16 China property developers in our peer group. During FY09-FY11, the group recorded GP margin at 37.9-44.2%, 4.1-9.6bp behind the highest. During the same time period, its GP margin was 5.5-9.3bp higher than the peer average.

GP margins comparison of peer group

Code	Name	FY09	FY10	FY11
688	China Overseas	31.6%	40.1%	44.9%
3333	Evergrande	34.0%	29.2%	33.3%
960	Longfor Properties	29.3%	33.8%	40.5%
2007	Country Garden	26.3%	32.4%	34.5%
3383	Agile Property	37.2%	45.8%	53.8%
813	Shimao Property	34.5%	36.6%	38.4%
2777	R&F Properties	31.6%	37.7%	41.7%
119	Poly HK	23.3%	40.9%	39.5%
1813	KWG	37.9%	41.5%	44.2%
1638	Kaisa Group	28.3%	38.8%	29.8%
1918	Sunac	28.3%	43.3%	33.6%
1777	Fantasia	42.0%	43.0%	42.8%
1224	C C Land	19.0%	16.8%	27.1%
000002	Vanke A-share	15.9%	22.0%	39.8%
600048	Poly A-share	22.7%	20.6%	37.2%
600383	Gemdale A-share	15.6%	20.3%	-
Simple average		**28.6%**	**33.9%**	**38.7%**
KWG ranking		**2**	**3**	**3**
Gap with the top one		**-4.1bp**	**-4.3bp**	**-9.6bp**
Gap with the average		**+9.3bp**	**+7.6bp**	**+5.5bp**

Notes: HK listing developers ranked by market cap
Source: companies' data and ABCI Securities

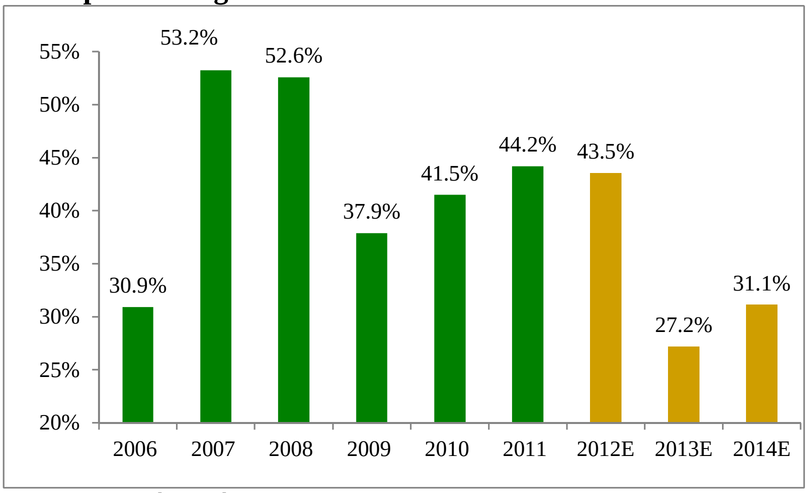
The high gross profit margin of a developer may come from cost edge in land lank or strong value added in product development.

We believe KWG is the latter as our land bank analysis indicated that its land cost/ASP ratio(20%) in the year end 2011 was the fourth highest among peers. To achieve relative high gross profit margin, the group needs to tighten control of non-land cost and/or add extra value to its products. We are of view that the quality product together with synergy among various components of the complex development which includes hotel, office and shopping mall has been enhancing KWG's pricing power.

Going forward, we expect to see a GP margin downtrend for the group as a significant ASP cut in 2012. The margin will restore above to 30% starting from 2013. The downward trend of GP margin is in line with the industry but we believe KWG will still the envy of the peers in terms of this matrix. We are expecting that KWG will mainly adjust product mix to compete mass market demand rather than purely ASP cut.

We project the GP margin of the group to be at 43.5%, 27.2% and 31.1% each for FY12, FY13 and FY14 respectively.

Gross profit margin of KWG



Source:company data and ABCI Securities

We prefer the product development capability and in turn a strong reputation KWG has built up in the high-end market. We believe the policy curb in the Chinese residential property market, which hurt the high end market most, will eventually deregulate. The developer with such an edge, which we believe is a real edge in the long term perspective, will stand out in the next round of competition.

Niche positioning in selected high tier cities

By the end of 2011, the group possessed attributable land bank (AGFA) at 9mn sqm in the seven strategically selected cities, Guangzhou(41.7%),Chengdu(16.5%),Suzhou(12.8%),Hainan(8.6%),Tianjin(8.3%),Shanghai(8.0%) and Beijing(4.0%). Among them, Guangzhou, Tianjin, Shanghai and Beijing are municipalities which are governed by the central government. Economies in Suzhou and Chengdu are boosted by fast-growing economy in Shanghai and Chongqing. For Hainan, its economy is supported by traveling business.

Geographical breakdown of the latest land bank

	AGFA K sqm.	% AGFA	AGAV Rmbmn	% AGAV
Guangzhou	3,747	41.7%	11,697	43.5%
Chengdu	1,484	16.5%	4,327	16.1%
Suzhou	1,152	12.8%	2,271	8.4%
Hainan	772	8.6%	1,925	7.2%
Tianjin	750	8.3%	1,164	4.3%
Shanghai	715	8.0%	4,456	16.6%
Beijing	362	4.0%	1,076	4.0%
Total	8,982	100.0%	26,915	100.0%

Source: company data and ABCI Securities

In terms of attributable gross asset value(AGAV), the projects in Guangzhou(43.5%), Shanghai(16.6%) and Chengdu(16.1%) accounted for 76.2% of total AGAV. We expect the strong residential housing demand from growing wealthy class and upgrade consumption in these cities will support the asset value of KWG.

In addition, its home city, Guangzhou will still be the major market in the short term. With a 17 years history in Guangzhou property market, the polished name and strong local knowledge, we expect the high concentration in Guangzhou market will afford great visibility for earnings when the group is on the way to grow into a national player. In terms of GFA delivery, the contribution from Guangzhou is estimated to be 49% and 47% of total booked GFA each for FY12 and FY13 respectively.

As stated by the management, a strategic development framework has been formed, with Guangzhou and Hainan as its hub for South China, Suzhou and Shanghai for East China, Chengdu for South-west China as well as Beijing and Tianjin for the Bohai Rim region. With gradual penetration and brand building in each of these hubs we believe KWG is on well way to roll over is national geographical expansion map.

Differentiation in quality investment property (IP) portfolios

KWG differentiates itself by hotel operation and property investment from pure property developers. Revenue stream of IP is characterized by stable cash inflow, defying the economic downturn and providing strong cushion against policy risk in the residential segment. Many property developers showed interest in those business segments, but most of them are not capable to run them due to lacking of management expertise. KWG is the exception.

Existing portfolio of investment properties

Project Name	Location	Stake %	AGFA Ksqm.	Description	Commence operation
International Finance Place	Guangzhou	100	61	Grade A+ office building	2007
Four Points by Sheraton Hotel	Guangzhou	100	35	4-star business hotel	2009
Sheraton Resort Hotel	Guangzhou	100	25	The internationally renowned five-star resort hotel in Guangzhou	2011
W Hotel/W serviced apartments	Guangzhou	100	80	The first W hotel in mainland China	2012

Source:company data and ABCI Securities

International Finance Place (IFP), the most expensive office in Guangzhou, is the choice of renowned domestic financial institutions and multinational corporations. Our site visit on Mar 9 showed a bustling but orderly scene in IFP. Since completion in 2007, the occupancy rate maintained above 80% and fetched to 99% in the year-end 2011 according to the management. The spot rent rate for IFP is around Rmb220/sqm/month in the year-end 2011, up 22% from Rmb180/sqm/month in 2007 when the operation commenced. Given a nearly full occupancy rate and around 3-year long contract with tenants lowering down short term growth potential of rent, we are not expecting a strong growth of rent turnover. The rent turnover of IFP is projected to be at Rmb147mn, Rmb149mn and Rmb156mn each in FY12, FY13 and FY14 respectively.

In terms of hotel portfolio, we project an Rmb84mn, Rmb91mn and Rmb98mn for revenue each in FY12, FY13 and FY14 respectively with the operation smoothing progressively.

In terms of net profit contribution, the hotel operation and other investment properties accounted for about 10-12% of total net profit of the group in FY12-FY14, adding stability to the income base given its recurring nature.

With a target to achieve 20% net profit contribution from IP portfolio, couple of IP development pipelines is on schedule over next five years. We think the timing and development pace are an important factor as the construction of IP is set to tie up a lot of financial resources of the group.

Pipeline of investment properties

Project Name	Location	Description	Commence operation
St.Regis	Hainan	A luxury hotel with unblocked ocean view	2013
Suzhou Apex	Suzhou	A mid to high end destination shopping center	2014
Cosmos W Hotel	Chengdu	Five-star hotel in the CBD of Chengdu's Tian Fu New Town	2014
Pudong Project	Shanghai	Two office buildings with a prime view of the Huangpu River	2015

Source:company data and ABCI Securities

Growth potential from joint-venture (JV) partnership

Starting in 2010, KWG has been inclined to acquire lands in JV shareholding structure with renowned developers such as Sun Hung Kai Properties (16) and Guangzhou R&F Properties (2777).

Land acquisitions through JV partnership since 2010

Project Name	City	Stake %	Use	AGFA Ksqm.	Land cost* Rmbmn	A.V. Rmb/sqm.	Remark
Foshan site1	Foshan	20	Res	242	692	2,858	JV with SHKP
Foshan site2	Foshan	20	Res	310	941	3,034	JV with SHKP
Xian Shui Gu Town Project	Tianjin	25	Res	753	1,763	2,342	JV with R&F, Agile and Shimao
Putuo Site	Shanghai	50	Res	150	1,350	9,000	JV with Greenland
California Place/California Square	Shanghai	35	Mixed	95	1,184	12,531	JV with R&F
Panchenggang Site	Chengdu	50	Mixed	450	1,890	4,200	JV with HongKong Land
California Place/California Square	Shanghai	15	Mixed	41	507	12,523	JV with R&F
Sub-Total				**2,041**	**8,327**	**4,079**	

**Attributalbe part*
Source:company data and ABCI Securities

During the period 2010-2011, KWG acquired 14 land sites among which 6 were acquired via JV structure. The increased cooperation with other big names brings in tremendous opportunities for KWG. It enables KWG access to large scale project, which could be too risky if entered alone and it also allows KWG to leverage on the partner's local expertise.

We understand that the cooperation may prolong the decision making process and therefore slow down asset turnover. However, our on site visit on The Riviera(JV with SHKP and R&F)eased our concern. The first phase of the project was launched in Dec 2011 with ASP at Rmb53,000/sqm, almost the highest in the region. The first phase is scheduled to deliver in Dec 2013.

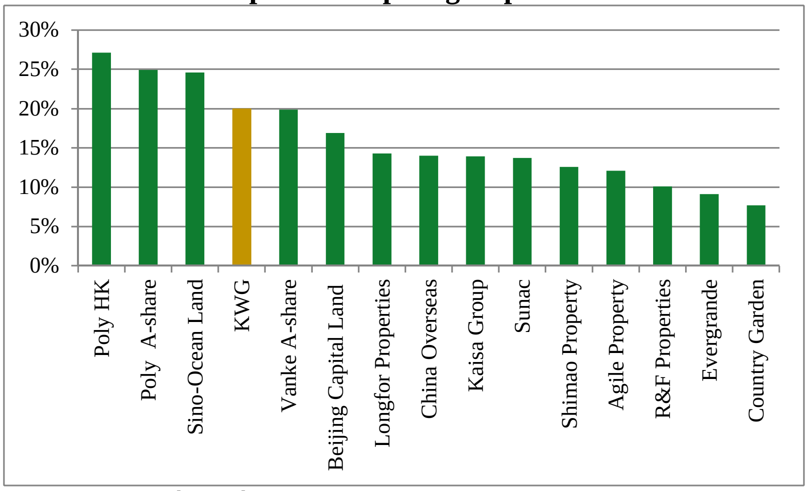
We are of view that such cooperation will speed up KWG's expansion map and enable it to become a true national developer.

Disadvantage in land cost but seeing improvement

Quality land bank with demanding land cost

The 20 property projects, including new launch in 2012 on hand are around 50% in the prime location of 1st-2nd tier cities with average development land cost Rmb2,799/sqm. We estimated the average land cost account for 20.0% of estimated ASP, ranking the 4th among the 15 China property developers. The peer average was at 16.1% as of year end 2011.

Land cost/ASP comparison of peer group



Source:companies' data and ABCI Securities

We expect that the high-priced land plots acquisition in 2007 just after listing inflated KWG's land cost. That is, the ratio cannot truly reflect the latest cost performance ratio of land bank, which has been improving since 2010.

Improving land cost/ASP ratio

Cultivated by the painful land acquisition experience in 2007, which stretched their financial ratios, triggered immediate impairment loss on book value and squeezed margin during the financial crisis, the management has put a disciplined mentality for land bank acquisition into practice. We see improving in land cost/ASP ratio starting from 2010.

With average land cost of Rmb4,375/sqm for the land sites acquired in 2010, we estimated the average land cost account for 18.9% of estimated ASP . With average land cost of Rmb3.502/sqm for the land parcels acquired in 2011, we estimated the average land cost account for 17.0% of estimated ASP.

With a disciplined landbank strategy maintaining and the high priced land inventory consumed over time, we expect KWG's land cost should become competitive in future.

Land acquisition summary in 2010

Project Name	City	Stake %	AGFA Ksqm.	Land cost* Rmbmn	A.V. Rmb/sqm.
Foshan site1	Foshan	20	242	692	2,858
Foshan site2	Foshan	20	310	941	3,034
Xian Shui Gu Town Project	Tianjin	25	753	1,763	2,342
Pudong New District Lot 14-1	Shanghai	100	78	1,151	14,719
Putuo Site	Shanghai	50	150	1,350	9,000
Jiading E06 Project	Shanghai	100	111	602	5,448
California Place/California Square	Shanghai	35	95	1,184	12,531
Panchenggang Site	Chengdu	50	450	1,890	4,200
Sub-Total			**2,188**	**9,573**	**4,375**

**Attributalbe part*
Source:company data and ABCI Securities

Land acquisition summary in 2011

Project Name	City	Stake %	AGFA Ksqm.	Land cost* Rmbmn	A.V. Rmb/sqm
California Place/California Square	Shanghai	15	41	507	12,523
Shanghai Sapphire(Jiading D-07)	Shanghai	100	158	269	1,700
Shanghai Emerald(Jiading Chengbei)	Shanghai	100	154	957	6,214
Yinshan Lake Project	Suzhou	100	160	800	5,000
Chong Wen Men	Beijing	100	16	710	43,712
Moon Bay Project	Hainan	100	479	494	1,031
Biological Island	Guangzhou	100	115	196	1,700
Sub-Total			**1,123**	**3,932**	**3,502**

**Attributalbe part*
Source:company data and ABCI Securities

Earnings outlook

Better positioned in 2012 for sales but still challenging

The 2011 sales was hard hit as the high-end product focus and 1st-2nd tier cities geographical coverage placed the group more susceptible to HPR. Its 2011 contracted sales came in at Rmb11.5bn, edging up 5%YoY but missing the guidance of Rmb15.0bn by 24.6%.

For 2012, KWG is aiming to implement following two major strategies to tackle with the market downturn.

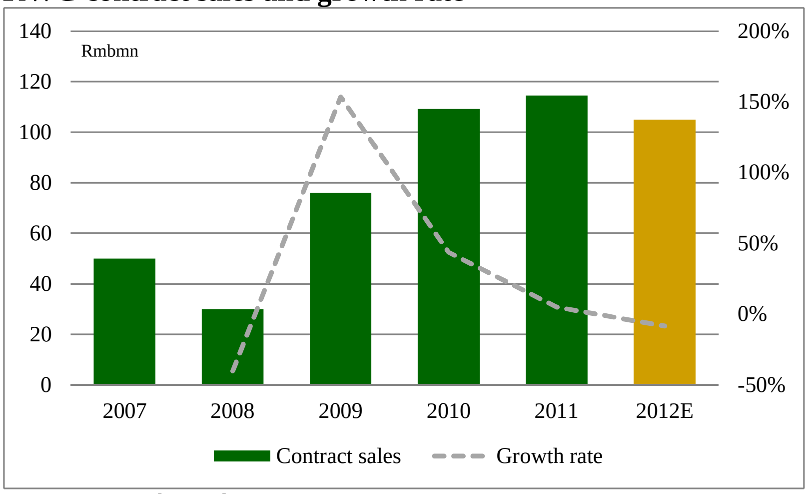
- Adjust product portfolio, including introducing more building small-sized units, bare-shell units and commercial use products (accounting for 40% of 2012 sellable resources, vs. 39% for 2011)
- Conducting flexible pricing strategy to boost up demand, which the management were reluctant to do in 2011

The adjusted development plan is catered to fit mass market demand on one hand, while on the other hand the price cuts is set to help to protect volume partly, which are quite necessary in the market downturn .

We are concerned that KWG's edges, expertise in high-end market is hindered on such product strategy and the un-defensive land cost may also constrain its flexibility for pricing strategy.

We expect that the group is hard to achieve its sales target Rmb12bn in 2012. For the first three months, the group achieved contract sales of Rmb2.0bn, accounting for 17.0% of full year target.

KWG contract sales and growth rate



Source:company data and ABCI Securities

Assuming that the ASP down 10-15%YoY in project basis, we estimate the group to register sales Rmb10.5bn, down 8.3%YoY or

12.5% below budget in 2012.The contract ASP will be up 25.3%YoY to Rmb15,541/sqm in 2012 mainly due to geographical and product mix change. The 2012 GFA sold is expected to drop by 29.0%YoY to 657K sqm.

78% of FY2012 delivery target locked in

According to the management, KWG had pre-sales Rmb8.3bn carried forward at Dec 2011, within which we expect Rmb6.6bn to be booked in FY2012. Together with the sales achieved YTD, we estimate KWG has around Rmb7.0bn sold but unbooked revenue, representing 78% of FY2012E revenue from property development. We are of view that the high lock in ratio offers strong earnings visibility for the group this year.

Revenue lock in ratio estimation

	Rmbbn
Unrecognized contract sales to be booked FY2012	6.6
YTD contract sales achieved(up to 31 Mar 2012) in FY2012	2.0
Estimated YTD contract sales to be booked in FY2012	0.4
Total YTD bookable contract sales	7.0
FY2012E delivery revenue	9.0
Lock-in ratio	78%

Source:company data and ABCI Securities

Ample cash flow provides defensiveness and enables bargaining-hunting land acquisition

Despite disappointed sales in 2011, the group carefully managed its balance sheet. Its net gearing ratio (net debt/equity) of 61.8% was roughly at the average level of comparable peers, 60%. The management targets to maintain leverage below 65% for all the time. This means it can gear up a bit if necessary.

Net gearing comparison of peer group

Code	Name	FY09	FY10	FY11
688	China Overseas	-0.5%	6.0%	33.2%
3333	Evergrande	-1.5%	52.5%	67.5%
960	Longfor Properties	18.6%	40.1%	39.2%
2007	Country Garden	43.4%	40.4%	61.4%
3383	Agile Property	39.5%	49.6%	52.6%
813	Shimao Property	51.1%	67.9%	81.6%
2777	R&F Properties	97.0%	93.4%	85.1%
119	Poly HK	2.2%	57.8%	93.2%
1813	KWG	48.4%	47.7%	61.8%
1638	Kaisa Group	32.2%	30.6%	76.6%
1918	Sunac	39.3%	31.0%	104.1%
1777	Fantasia	-10.9%	62.5%	56.7%
1224	C C Land	-4.0%	-2.1%	3.4%
000002	Vanke A-share	3.3%	-10.5%	-8.4%
600048	Poly A-share	19.8%	88.5%	90.9%
600383	Gemdale A-share	59.4%	17.9%	-

Notes: HK listing developers ranked by market cap

Source: companies' data and ABCI Securities

With a retained land premium and construction capex, we are expecting the group to generate positive free cash flow in the next three years.

Key cash flow items

Rmbmn	2011	2012E	2013E	2014E
Contract sales inflow	10,825	8,500	10,826	16,470
Land premium	(3,900)	(1,037)	(900)	-
Construction cost	(3,600)	(4,000)	(5,800)	(5,800)
Interest payment	(1,356)	(1,131)	(823)	(692)
Others-tax&div	(1,339)	(2,190)	(1,639)	(2,401)
Cash outflow	(10,195)	(8,359)	(9,163)	(8,893)
Free cash flow	**630**	**141**	**1,663**	**7,577**

Source: company data and ABCI Securities

We expect that the positive cash flow will further lower down its risk profile and increase its defensiveness. The net gearing is estimated to come down to 41.2% in year end 2012.

During the talk with the management, they felt comfortable with the 9.0mn sqm. AGFA(for 5-6 years development) land bank and was not keen to expand scale in the short term. However, in our view, the ample cash flow together with healthy gearing makes KWG ready to do bargaining-hunting land acquisition.

Valuation

NAV calculation

KWG trades at a 41.3% discount to our estimated 2012E NAV(WACC at 11.3%) of HK$8.55/share.

NAV valuation table

	Current NAV calculation			
Development properties	**Rmbmn**	**HK$mn**	**HK$/share**	**% GAV**
Guangzhou	8,738	10,759	3.70	32.5%
Chengdu	4,327	5,328	1.83	16.1%
Suzhou	2,271	2,796	0.96	8.4%
Hainan	1,925	2,370	0.82	7.2%
Tianjin	1,164	1,434	0.49	4.3%
Shanghai	4,456	5,487	1.89	16.6%
Beijing	1,076	1,325	0.46	4.0%
Sub-total	**23,956**	**29,499**	**10.15**	**89.0%**
Investment properties	**1,993**	**2,454**	**0.84**	**7.4%**
Hotels	**966**	**1,190**	**0.41**	**3.6%**
Total GAV	26,915	33,143	11.40	100%
Net cash/(debt)	(6,830)			
NAV	20,086			
NAV/share(Rmb)	6.94			
NAV/share(HK$)	8.55			
Share price(HK$)	5.02			
Premium/discount to NAV	-41.3%			

Source: company data and ABCI Securities

The key assumption we adopt in our NAV calculations for KWG are as followings.

Key assumption for NAV valuation

	2012E	2013E	2012E ASP
General ASP assumptions for 1st-2nd tier cities	Down 15-20%YoY	0%	Rmb/sqm
For KWG			
Guangzhou	Down 10%	0%	14,388
Chengdu	Down 15%	0%	13,923
Suzhou	Down 15%	0%	14,159
Hainan	Down 15%	0%	21,250
Tianjin	Down 15%	0%	8,000
Shanghai	Down 15%	0%	18,293
Beijing	Down 15%	0%	11,900
Construction cost	Up 5%	Up 2%	

Source: ABCI Securities

In comparing to other property developers, the group is less willing to offer deep discount in order to boost up demand and hence we expect ASP to be down 10-15%YoY for its projects in the seven cities, against 15-20% YoY industry average.

WACC derivation

Risk free rate	1.4%
Equity risk premium	12.0%
Beta	1.3
Cost of Equity	16.9%
Cost of debt	10.0%^
Effective tax rate	25%
Long-term debt to capital ratio	60%
WACC	11.3%

^weighted average of banking debt and senior notes
Source: Bloomberg and ABCI Securities

P/E multiple

We use forward P/E to set this year target price for KWG as we believe a P/E multiple is justified for the developer with high land bank turnover and hence sustainable delivery schedule.

Based on 7.0x 2012 PE, we derived our target price for KWG at HK$5.65. In view of 12.6% upside, we initiate with HOLD rating on the stock. Our 7.0x 2012 PE is higher than other mid-sized China developers which are averaged at 6.5x. We expect this is justified by KWG's quality land bank, strong brand identity and quality products.

Company	Code	4/26 PX (HK$)	MV (HK$mn)	2011 P/E	2012 P/E	P/B
China Overseas	688	16.50	137,462	9.2	9.3	2.0
China Resources	1109	14.92	87,065	10.1	12.7	1.4
Evergrande	3333	4.50	66,871	4.8	5.4	1.7
Longfor Properties	960	12.26	63,613	8.1	9.3	2.3
Country Garden	2007	3.35	58,558	7.8	7.4	1.6
Agile Property	3383	9.99	34,977	6.9	6.5	1.3
Shimao Property	813	10.20	35,593	5.1	6.7	0.9
R&F Properties	2777	10.18	33,384	5.6	5.7	1.2
Poly HK	119	4.00	14,650	5.3	6.6	0.6
KWG	1813	5.02	14,523	5.7	5.8	0.9
Kaisa Group	1638	1.60	8,045	3.4	3.7	0.5
Sunac	1918	2.35	7,200	2.5	2.4	0.8
Fantasia	1777	0.88	4,634	3.1	3.7	0.6
Beijing Capital	2868	2.39	4,407	3.7	3.1	0.6
C C Land	1224	1.61	4,197	16.2	7.3	0.3

Source: company data and ABCI Securities

Sensitivity analysis

	Pessimistic case ASP down 20-25%	Base case ASP down 10-15%	Optimistic case ASP down 0-5%
2012E NAV(HK$/share)	6.46	8.55	10.60
Chg.	-24%	-	+24%
2012E net income(Rmbmn)	1826	1,901	1976
Chg.	-4%	-	4%
2012E EPS(Rmb/share)	0.6283	0.6542	0.6799
Chg.	-4%	-	4%
Target P/E Multiple	5.0x	7.0x	9.0x
Target Price	3.87	5.65	6.70x
Chg.	-32%	-	19%

Source: company data and ABCI Securities

Risk factors

Economy risk

An economy hard landing or any weaker than expected GDP growth in China could dampen the purchasing power of home buyers and fast frozen the demand. Moreover a stronger than expected pick up in CPI will also lead to sharp surge in interest rate, affecting housing demand and increase the interest burden of the group.

Policy risk

High residential price may trigger another round of austerity measures on property sector. This could further damp sentiment in the housing market and negatively impact our sales and earnings forecast for KWG.

On the positive side, a larger than expected credit loosening may boost up volume rebound significantly and positively impact our sales and earnings forecast for KWG.

Operating risk

The GFA start, GFA under-construction and/or delivery are subject to high operating risk, causing the sales and earnings forecast missing our expectation.

Liquidity risk

Characterized by mid-cap property developer (market cap at HK$14.5bn), KWG is subject to liquidity risk. The average daily trading volume was at 6.8mn or HK$33.4mn in value terms over the past 15 trading days.

Share price risk

15-days volatility of the stock was 38.2%, or 2.4x of 15-days volatility of HSI of 15.8%, indicating a higher-than-market share price risk.

When compared to 15-days volatility of HSCIPC(Hang Seng Property and Construction) 16.8%, an index tracking major China property developers, 15-days volatility of the stock was also at 1.3x larger, indicating a higher-than-sector share price risk.

Financial statement

Consolidated income statements forecast

For the year ended 31/12(Rmbmn)	2011	2012E	2013E	2014E
Property development	9,816	9,127	10,659	13,573
Property investment	139	147	149	156
Hotel operation	70	84	91	98
Property management	98	108	119	131
Total Turnover	**10,123**	**9,466**	**11,018**	**13,958**
Property development	-	3,878	2,743	4,073
Property investment	-	146	147	155
Hotel operation	-	42	45	49
Property management	-	54	59	65
SG&A	(764)	(504)	(887)	(994)
Other unallocated income and corporate expenses	43	-	-	-
EBIT	**3,751**	**3,615**	**2,108**	**3,349**
Share of Associates & JV	(17)	(56)	664	(32)
Exceptionals	326	-	-	-
Pretax Profit	**3,980**	**3,489**	**2,739**	**3,303**
Taxation	(1,876)	(1,594)	(1,231)	(2,087)
Minority Interest	1	(7)	8	13
Net Profit	**2,104**	**1,901**	**1,499**	**1,204**
Core Net Profit	**1,859**	**1,901**	**1,499**	**1,204**
FD EPS(Rmb)	0.7238	0.6542	0.5158	0.4141
Chg	63.4%	-9.6%	-21.2%	-19.7%
FD Core EPS(Rmb)	0.6398	0.6542	0.5158	0.4141
Chg	44.8%	2.3%	-21.2%	-19.7%
PE	6.4	6.2	7.9	9.8
Target Price/EPS	7.2	7.0	8.9	11.1
DPS(Rmb)	0.22	0.16	0.13	0.10
Dividend Yield	5.4%	4.0%	3.2%	2.6%

Source: company data and ABCI Securities

Consolidated balance sheets forecast

As of 31/12(Rmbmn)	2,011	2012E	2013E	2014E
PP&E	1,779	1,731	1,685	1,640
Investment properties	4,234	4,234	4,234	4,234
Associates and JV	8,508	8,452	9,116	9,084
Deferred tax assets	882	882	882	882
Other non-current assets	1,060	1,042	1,021	1,000
Fixed assets	**16,463**	**16,342**	**16,938**	**16,840**
Properties under development	17,934	18,853	18,067	14,924
Completed properties held for sale	3,023	3,178	3,045	2,515
Trade receivables	61	68	71	86
Bank balances & cash	5,373	7,414	11,981	19,476
Other current assets	1,733	1,733	1,733	1,733
Current Assets	**28,123**	**31,246**	**34,897**	**38,734**
Total Asset	**44,586**	**47,588**	**51,835**	**55,574**
Short term loan	3,410	3,655	1,554	1,554
Trade payable	2,935	3,221	3,916	5,167
Other payables and accruals	7,684	9,551	15,726	18,927
Other current liabilities	4,962	4,962	4,962	4,962
Current liabilities	**18,991**	**21,389**	**26,158**	**30,610**
Long term loans	10,425	9,770	8,216	6,662
Other long-term liabilities	1,478	1,478	1,478	1,478
Long term liabilities	**11,903**	**11,248**	**9,694**	**8,140**
Total Liabilities	**30,893**	**32,637**	**35,852**	**38,750**
Minority interests	202	195	204	217
Shareholders' funds	13,491	14,756	15,779	16,608
Total Equity	**13,693**	**14,951**	**15,983**	**16,825**
BVPS(Rmb)	4.64	5.08	5.43	5.71
P/B	0.88	0.80	0.75	0.71
Target Price/BVPS	0.99	0.90	0.85	0.80

Source: company data and ABCI Securities

Consolidated cash flow statements forecast

As of 31/12(Rmbmn)	2011	2012E	2013E	2014E
EBIT	4,059	3,560	2,772	3,316
D&A	37	65	68	66
Chg in WC	(997)	2,082	8,520	8,728
Other items	(302)	56	(664)	32
Cash flow from operations	2,797	5,762	10,696	12,142
Net interest	(1,310)	(1,081)	(768)	(631)
Tax paid	(1,021)	(1,594)	(1,231)	(2,087)
Net cash flows from operating activities	**466**	**3,087**	**8,696**	**9,424**
Net cash flows used in investing activities^	**(1,657)**	**-**	**-**	**-**
Equity raised/(repaid)	-	-	-	-
Net interest bearing loan	1,384	(410)	(3,655)	(1,554)
Dividend paid	(318)	(636)	(475)	(375)
Other items	(1,098)	-	-	-
Net cash flows from/(used in) financing activities	**(32)**	**(1,046)**	**(4,130)**	**(1,929)**
Beginning cash	5,276	4,025	6,066	10,632
FX effects	(28)	-	-	-
Ending Cash	**4,025**	**6,066**	**10,632**	**18,127**
Net Debt	8,461	6,011	(2,211)	(11,260)
SD/TD	24.6%	27.2%	15.9%	18.9%
Net Gearing	61.8%	40.2%	-13.8%	-66.9%
OCF/Share	0.16	1.06	2.99	3.24

^We assume the purchase and disposal/(purchase)of PP&E , investments in associates and jointly-controlled entities at zero
Source: company data and ABCI Securities

Disclosures

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