



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED



China Property Sector

Funding is Power: the Large gets Larger

Jan 28, 2019



China Property Sector

Funding is power: the large gets larger

- Mortgage rate and USD bond yield have shown early sign of stabilization since 2019.
- Major policy relaxation is unlikely because
 - new home price is still rising
- Contracted sales growth of listed PRC developers would slow from 30% YoY in 2018 to 10% in 2019E based on our estimates
- We prefer SOE players amid a tough financing environment. Our top picks are **COLI (688 HK)** and **Jinmao (817 HK)**
- Downgrade **Evergrande(3333 HK)** to **HOLD** from Buy on slowing contracted sales

The worst is over. According to rong360.com, first-home mortgage rate was down 0.03ppt MoM to 5.68% in Dec 2018, reversing the 23-month MoM growth streak. We believe declining mortgage rate is driven by RRR cuts as well as seasonal factors. In early 2019, bond yield pressure starts easing. Bond yields for Aoyuan (3883 HK), Agile (3383 HK), and Times (1233 HK) with 2021 maturity declined by 2.7-3ppt from the peak in Nov 2018 to 7.0-8.4% in Jan 2019.

Major policy relaxation unlikely. According to NBS, new home prices in 70 major cities increased 10.4% YoY on average in 2018 (2017: +5.7% YoY), of which tier-1,2 and 3 cities rose 2.8%, 10.7% and 11.1%, respectively. GFA pending for sales dropped 11% YoY to 524mn sqm as of Dec 2018. These data revealed that price growth in China's property market has not been curbed effectively; hence room for policy relaxation is limited.

Industry consolidation will be the sales growth driver for 2019. In FY18, contracted sales of major listed developers increased 30%YoY to RMB 4,807bn; developers achieved 104.3% on their sales targets on average. Due to the tightening measures, M&A activities have accelerated in the past three years, resulting in market consolidation. Aided by a lower borrowing cost and better ability to raise debts for land acquisition, the top 10 developers in China have taken up 26.9% of contracted sales in 2018 vs. 17.0% in 2015. Since financing remains tight for the property sector, developers with less financial prowess may have to dispose of their projects to cut debts. We believe larger developers with more solid financials will continue to gain market share despite the tightened credit conditions.

The large gets larger, COLI and Jinmao are our top picks. We maintain our **OVERWEIGHT** rating on the China property sector due to: **1) Strong earnings growth for 2019-20.** Since contracted sales in 2018 will be recognized in the P&L in 2019/20, developers' earning growth will continue. We estimate core net profit in 2018E-20E for property stocks under our coverage (excl. Evergrande) would grow by 37%, 27% and 24% respectively; **2) Attractive valuation.** The sector is now trading at 6.2x fwd. P/E with a 6.0% div. yield, similar to its historical average despite faster earnings growth ahead. The sector's P/E and dividend yield is more attractive than HSI's (10.4x 2019E P/E and 3.9% div. yield). The high dividend yield is an appeal to value investors in a volatile market. Our top picks for the sector are SOE players **COLI and Jinmao**, given their lower cost of debt, healthy balance sheet, and higher core net margins. We also downgrade Evergrande to **HOLD** from Buy due to its slowing contracted sales.

Sector Valuation Summary (Data as of Jan 25, 2019)

| Company | Ticker | Current Rating | Previous Rating | TP (HK\$) | FY18E P/E(x) | FY19E P/E (x) | FY18E P/B (x) | FY19E P/B (x) | FY18E Yield(%) | FY19E Yield(%) |
|------------|--------|----------------|-----------------|-----------|--------------|---------------|---------------|---------------|----------------|----------------|
| COLI | 688 | BUY | BUY | 35.80 | 7.9 | 6.5 | 1.1 | 0.9 | 3.4 | 4.2 |
| Jinmao | 817 | BUY | BUY | 5.50 | 8.4 | 6.1 | 1.1 | 1.0 | 4.8 | 6.5 |
| Aoyuan | 3883 | BUY | BUY | 7.40 | 5.5 | 3.6 | 1.1 | 0.9 | 5.5 | 8.3 |
| Times | 1233 | BUY | BUY | 13.30 | 4.2 | 3.5 | 0.8 | 0.7 | 7.1 | 8.7 |
| Logan | 3380 | BUY | BUY | 13.10 | 6.6 | 5.4 | 1.9 | 1.6 | 5.6 | 6.9 |
| Yuzhou | 1628 | BUY | BUY | 4.60 | 3.5 | 3.1 | 0.8 | 0.7 | 9.8 | 11.3 |
| Agile | 3383 | BUY | BUY | 15.90 | 4.2 | 3.6 | 0.8 | 0.7 | 9.3 | 10.9 |
| CIFI | 884 | BUY | BUY | 5.10 | 5.4 | 4.1 | 1.3 | 1.0 | 5.5 | 7.4 |
| Sunac | 1918 | BUY | SELL | 31.40 | 8.4 | 5.9 | 1.8 | 1.5 | 2.2 | 3.1 |
| Evergrande | 3333 | HOLD | BUY | 22.20 | 6.8 | 6.0 | 2.1 | 1.8 | 7.3 | 8.3 |

Source(s): Bloomberg, ABCI Securities estimates

Sector Report

Jan 28, 2019

OVERWEIGHT

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Key Data

| | |
|----------------------------|------|
| Avg.19E P/E (x) | 5.0 |
| Avg.19E P/B (x) | 0.98 |
| Avg.19E Dividend Yield (%) | 7.7 |

Source(s): Bloomberg, ABCI Securities

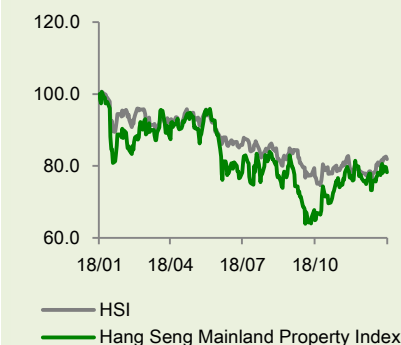
Sector Performance %

| | Absolute | Relative* |
|-------|----------|-----------|
| 1-mth | 2.21 | (2.45) |
| 3-mth | 18.94 | 13.50 |
| 6-mth | (3.77) | 2.20 |

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year sector performance



Source(s): Bloomberg, ABCI Securities

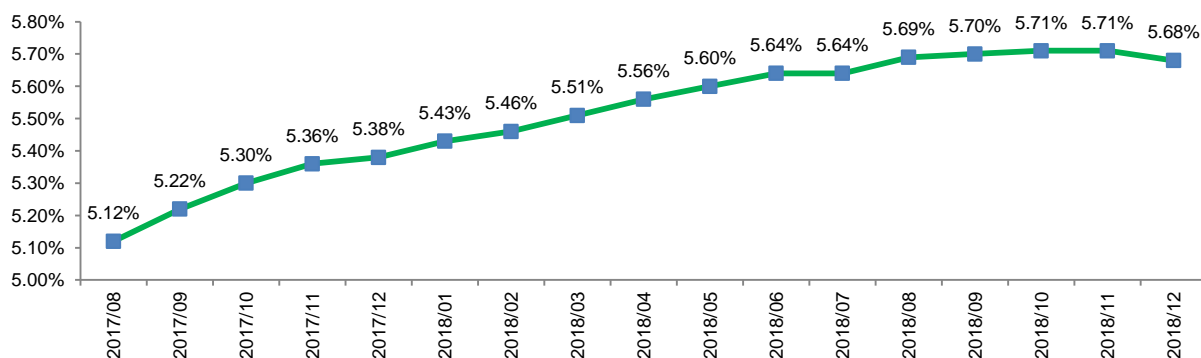


Mortgage rate began to fall

According to rong360.com, first-home mortgage rate declined by 0.03ppt MoM to 5.68% in Dec 2018, ending its 23-month MoM growth streak. We believe declining mortgage rate is driven by: **1) RRR cuts.** RRR was slashed four times in 2018, pumping up liquidity in the property sector. The two RRR cuts in Jan 2019 will provide further room for improvement in the next few months. **2) Seasonal factor.** Banks are more eager to lend at the year's start because unused loan quota remains high. Some of the banks would lower their home loan pricing to gain market share. **3) Tier-1 cities are the drivers.** Reduction in mortgage rate in Dec 2018 was largely driven by tier-1 cities since some banks cut the first-home mortgage rate from 1.1x to 1.05x PBOC rate. This reflects banks are more positive on tier-1 cities than tier-3/4 cities. Reduced monetary compensation for shantytown redevelopment may have impacted banks' confidence in lower-tier cities.

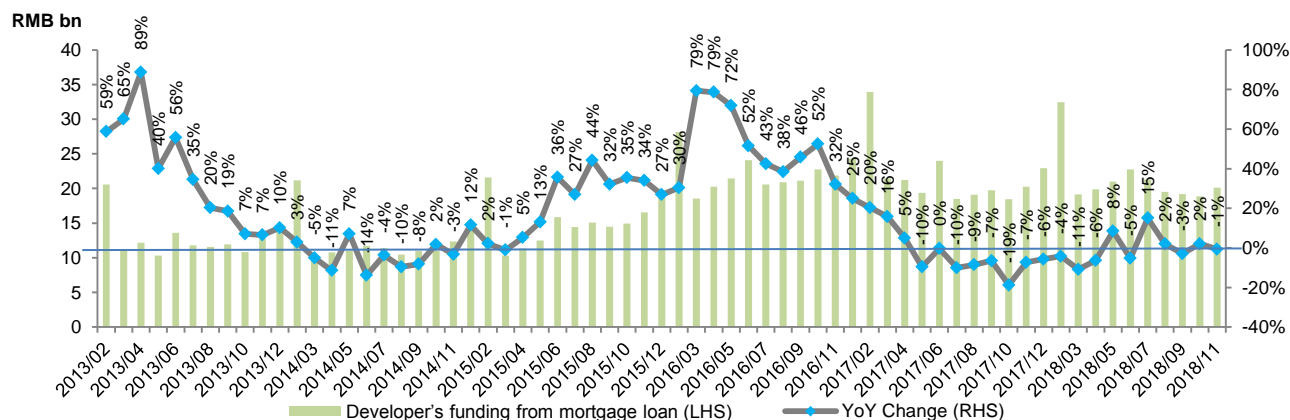
Overall, we believe mortgage rate would only decline moderately from 1.1x to around 1.0x PBOC rate in the next 12 months, based on our expectation for more RRR cuts in 2019. Declining mortgage rate should create additional property demand from first-home buyers. However it is unlikely to drop to the low in 2015-16 at 0.85x when banks were aggressively granting new mortgage loan. Developers' funds from mortgage loan increased 22% YoY in 2015 and 46% YoY in 2016; it declined by 2% YoY in 2017 and -1% YoY in 2018 after the implementation of mortgage restriction. With mortgage restriction firmly in place, mortgage rate is unlikely to drop significantly.

Exhibit 1: Average interest rate of first-home loan in China (Aug 2017- Dec 2018)



Source(s): Rong360, ABCI Securities

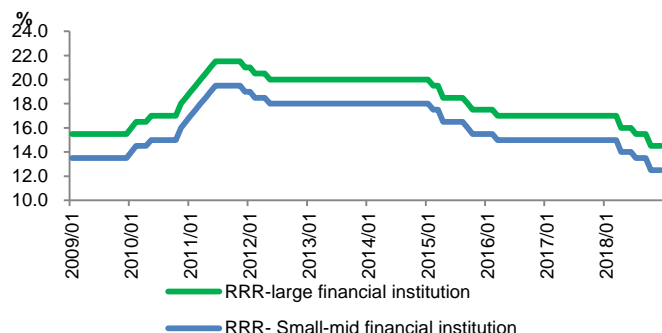
Exhibit 2: Developers' funds from mortgage loan



Source(s): NBS, ABCI Securities

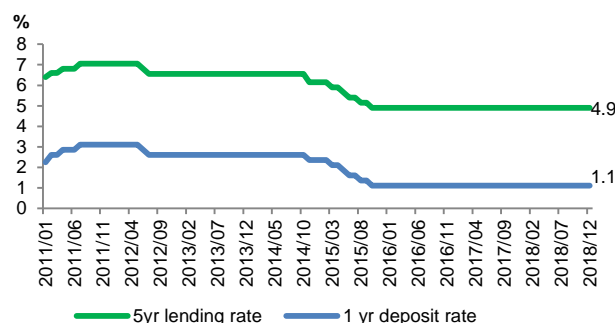


Exhibit 3: RRR cut



Source(s): PBOC, ABCI Securities

Exhibit 4: PBOC rate



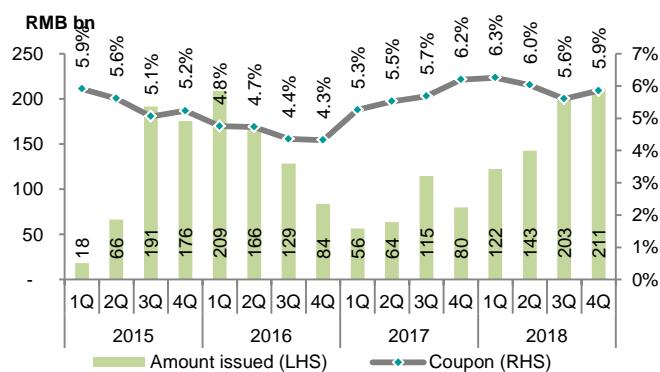
Source(s): PBOC, ABCI Securities

Bond yield may have peaked out

Bond-issuing costs for developers have increased noticeably in 4Q18. Onshore corporate bonds issued by developers increased 4% QoQ or 165% YoY to RMB 211bn, while average coupon rate rebounded 0.3ppt QoQ to 5.9% in 4Q18. For issuance of USD bonds, financing cost jumped 2.1ppt QoQ to 9.7% in 4Q18. Offshore issuance costs surged as bond investors anticipate a down cycle in the China property sector, given the slowed contracted sales in 4Q18 and price cut during the Golden Week (Oct 1-7) as reported by the media.

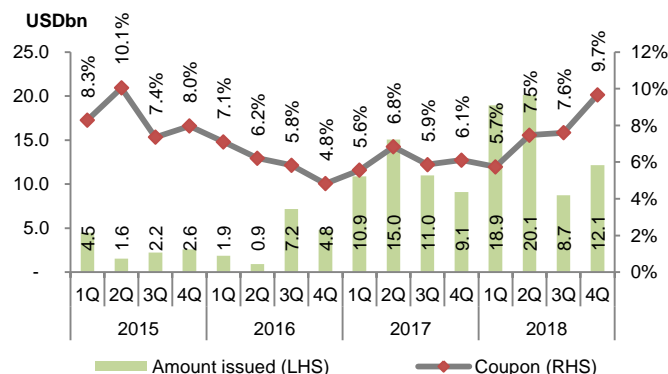
Bond issuance costs may have peaked in 4Q18 in our view. Entering 2019, bond yield pressure starts easing. Bond yields of Aoyuan (3883 HK), Agile (3383 HK) and Times (1233 HK) with 2021 maturity declined by 2.7-3ppt from peak in Nov 2018 to 7.0-8.4% in Jan 2019. The market expects a degree of policy loosening in the sector given that minor adjustments have been made in some cities. In Dec 2018, the holding period (2-3 years) required for property resale was removed in Heze city, Shandong. Nonetheless, based on recent data on property sales and new home prices, we believe the property market is far from entering a down cycle. Hence, any major relaxation on the home purchase restrictions is highly unlikely. However, developers' credit quality is likely to improve for 2019 as they slowed down their land acquisitions with a less aggressive sales target. For instance, Aoyuan only target to achieve contracted sales growth of 25-30%YoY for 2019, compared to 100%YoY growth in 2018. With a decelerating growth rate and less aggressive targets, developers will have less pressure to increase land acquisitions and hence better gearing.

Exhibit 5: China developers' onshore RMB bond issuance



Source(s): Bloomberg, ABCI Securities

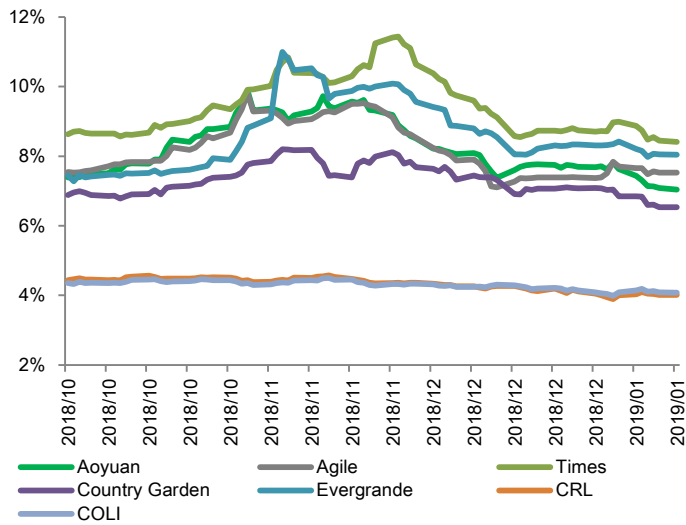
Exhibit 6: China developers' offshore USD bond issuance



Source(s): Bloomberg, ABCI Securities

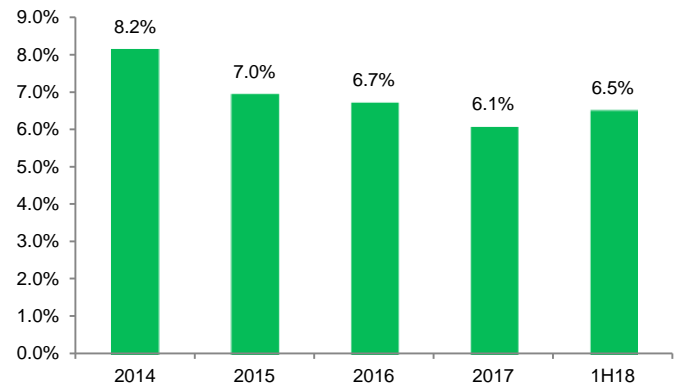


Exhibit 7: Bond yield of developers



Source(s): Bloomberg, ABCI Securities

Exhibit 8: Average borrowing cost of major listed developers



*Based on a sample of 20 developers

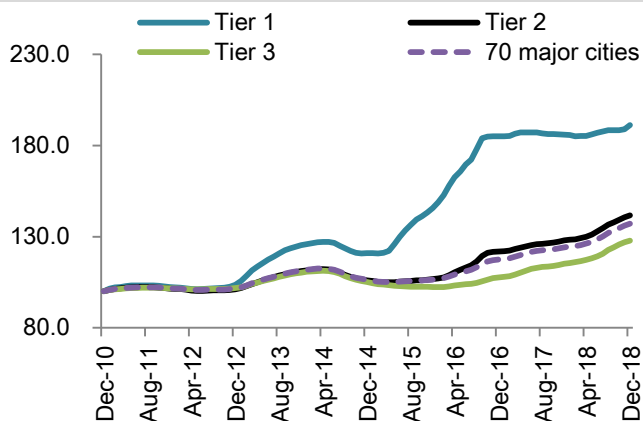
Source(s): Companies, ABCI Securities

Major policy relaxation unlikely

Statistics suggest property price is still trending up

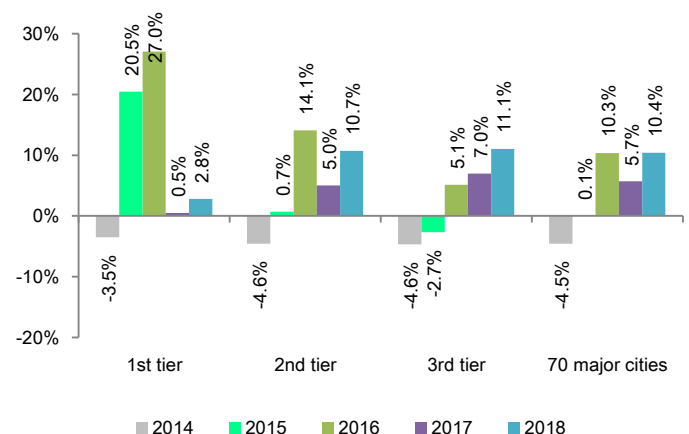
According to NBS, new home prices in 70 major cities increased 10.4% YoY in 2018 (2017: +5.7% YoY), of which tier-1, 2 and 3 cities rose 2.8%, 10.7% and 11.1%, respectively. GFA pending for sales, a proxy of inventory level among developers, has been declining since 2016; as of Dec 2018, the figure was down 11% YoY to 524mn sqm. These data support the view that property market in China is still in an uptrend, hence a major reversal of the existing austerity measures remains unlikely. Major relaxation on policy may spur investment demand, inflating property price further – a risk that we believe the government is unwilling to take.

Exhibit 9: Property price Index by city tier



Source(s): PBOC, ABCI Securities

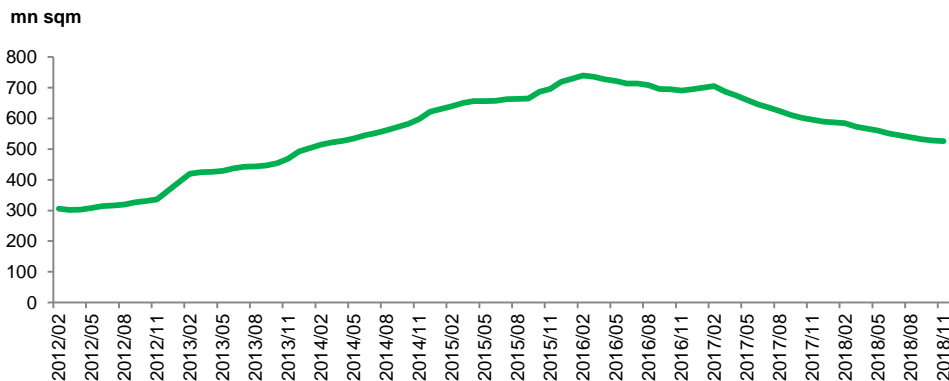
Exhibit 10: Property price change by city tier



Source(s): NBS, ABCI Securities



Exhibit 11: GFA pending for sales

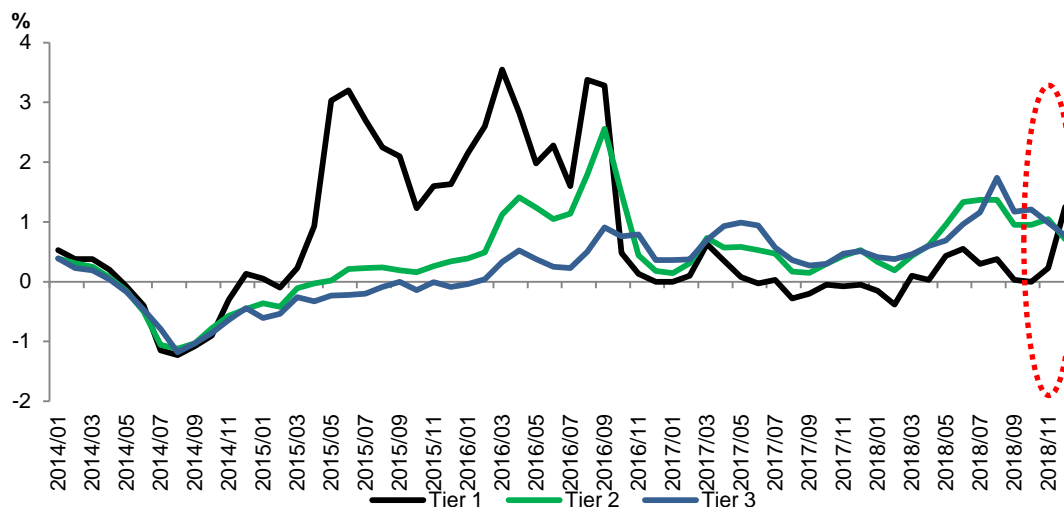


Source(s): NBS, ABCI Securities

Property price in tier-3/4 cities may be pressured in 2019

PBOC's Pledged Supplemental Lending (PSL) is the main source of monetary compensation for China's shantytown redevelopment projects. As a result of RRR cuts, balance sheet of PBOC may shrink. Hence, money released from PSL to these projects may slow, affecting the housing demand from displaced residents. In July 2018, the Ministry of Housing and Urban-Rural Development (MOHURD) said policy on monetary compensation of shantytown redevelopment will be adjusted for cities with rising property price and insufficient inventories. More specifically, the option of direct monetary compensation for displaced residents will be cancelled for cities with surging property prices; instead, replacement homes will be given. The slowdown in shantytown redevelopment may adversely affect the real estate market in tier-3/4 cities. Based on NBS, property price in tier-3 cities has already slowed since Aug 2018 (Dec 2018: +0.77% MoM, vs +1.74% MoM in Aug 2018). According to 21jingji.com, 2019 Shanty town targets for Shanxi, Henan and Sichun declined by 74%YoY, 70%YoY and 41%YoY to 32.6k units, 150k units and 150k units respectively. In contrast, MoM growth of new home price in tier-1 cities accelerated in Dec 2018, indicating liquidity from lower-tier cities is shifting to tier-1 regions.

Exhibit 12: MoM new home price change by city tier



Source(s): NBS, ABCI Securities



Industry consolidation – the sales growth driver for 2019

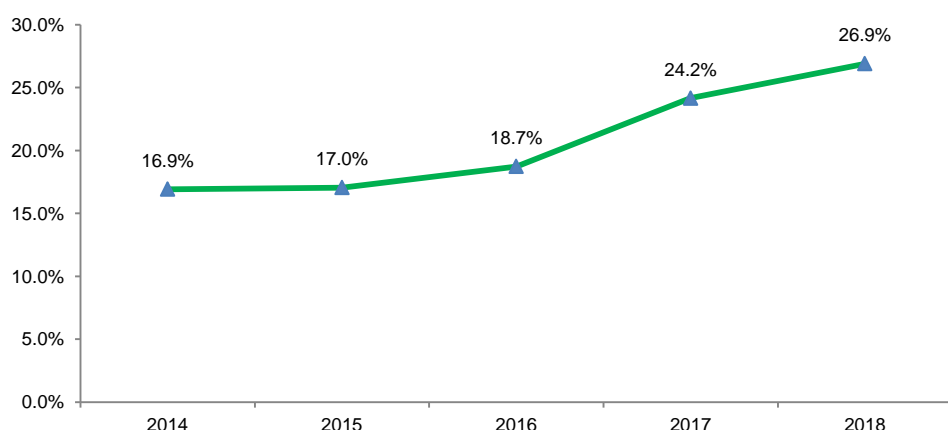
In Dec 2018, contracted sales in 23 major listed developers increased 31% YoY to RMB 484bn on average, as GFA sold increased 27% YoY to 33.9mn sqm and ASP rose 3% YoY to RMB 14,274/sqm. For FY18, contracted sales of major listed developers were up 30% YoY to RMB 4,807bn; on average, these developers achieved 104.3% on their sales targets. We believe faster sales growth in Dec was mainly attributable to:

1) Window dressing at year end. By launching more new projects to boost sales in Dec, developers could report higher cash level and lower net gearing figure at year end. These figures will be reflected in their FY18 results to be announced in Mar 2019; The improvement of financial position will help to enhance credit status and to lower borrowing cost subsequently.

2) Last attempt to complete sales target. Contracted sales of developers such as SZI (604 HK), Agile (3383 HK) and Yuzhou (1628 HK) grew 931% YoY, 62% YoY and 54% YoY in Dec, making their last attempt to complete their sales targets. However, they still missed their full-year targets by 6.7-17.7%, reflecting tightening measures in Shenzhen, Hainan, and Xiamen remain effectively in place. We believe the 20-30% YoY growth in contracted sales among listed developers may not recur in 2019.

Over the past three years, M&A activities have ramped up on the back of tightening policies, accelerating consolidation in the sector. With lower borrowing costs and better ability to raise debt for land acquisition, the top 10 players in China have taken up an increasingly larger market share in terms of contracted sales (17.0% in 2015 to 26.9% in 2018). As financing environment of the property sector remains tight, developers with less financial prowess may have to dispose of their projects to cut debt. We believe larger developers with healthy balance sheets will continue to gain market share. SOE players, whose average borrowing costs are lower than peers, will benefit from market consolidation. In 2019, we expect new homes sales to be flat as firm regulatory controls remain in place. However, we believe listed players, with better access to offshore bond and equity markets, would continue to gain market share and achieve a 10%YoY growth in contracted sales in 2019.

Exhibit 13: Market share of top 10 HK-listed PRC developers



Source(s): CRIC, NBS, ABCI Securities



Exhibit 14:2018 contracted sales of listed major PRC developers

| 2018 | | | | | | | 2018 | Sales target |
|--------------------|----------------|------------|----------------|------------|---------------|-----------|--------------|---------------|
| | Amount | YoY | GFA | YoY | ASP | YoY | Target | Achievement |
| | RMBbn | % | 000 sqm | % | RMB/sqm | % | RMBbn | ratio |
| 1 Jinmao | 124.9 | 115% | 4,504 | 88% | 27,742 | 15% | 120 | 104.1% |
| 2 Aoyuan | 91.3 | 100% | 8,863 | 98% | 10,300 | 1% | 73 | 125.0% |
| 3 Shimao | 176.1 | 75% | 10,687 | 76% | 16,482 | -1% | 140 | 125.8% |
| 4 KWG | 65.5 | 72% | 3,966 | 79% | 16,516 | -4% | 65 | 100.8% |
| 5 Logan | 71.8 | 65% | 4,401 | 81% | 16,314 | -9% | 70 | 102.6% |
| 6 R&F | 131.1 | 60% | 10,180 | 61% | 12,873 | -1% | 130 | 100.8% |
| 7 Sino-Ocean | 109.5 | 53% | 5,168 | 39% | 21,189 | 10% | 100 | 109.5% |
| 8 CIFI | 152.0 | 46% | 9,569 | 52% | 15,884 | -4% | 140 | 108.6% |
| 9 Times | 60.6 | 46% | 3,733 | 45% | 16,232 | 0% | 55 | 110.2% |
| 10 SZI | 16.5 | 42% | 571 | 1% | 28,792 | 40% | 20 | 82.3% |
| 11 Yuexiu | 57.8 | 41% | 2,769 | 25% | 20,869 | 13% | 55 | 105.1% |
| 12 Yuzhou | 56.0 | 39% | 3,695 | 55% | 15,157 | -10% | 60 | 93.3% |
| 13 CR Land | 210.9 | 39% | 11,989 | 25% | 17,587 | 11% | 183 | 115.2% |
| 14 Country garden | 728.7 | 32% | 77,307 | 27% | 9,426 | 4% | na | na |
| 15 Poly-A | 404.8 | 31% | 27,661 | 23% | 14,635 | 6% | na | na |
| 16 COLI* | 301.2 | 30% | 15,935 | 10% | 18,905 | 18% | 290 | 103.9% |
| 17 Longfor | 200.6 | 29% | 12,363 | 22% | 16,229 | 6% | 200 | 100.3% |
| 18 Sunac | 460.8 | 27% | 30,562 | 39% | 15,079 | -8% | 450 | 102.4% |
| 19 Beijing Capital | 70.7 | 26% | 3,063 | 20% | 23,066 | 6% | 75 | 94.2% |
| 20 Vanke | 607.0 | 15% | 40,378 | 12% | 15,032 | 2% | na | na |
| 21 Agile | 102.7 | 14% | 7,977 | 8% | 12,871 | 6% | 110 | 93.3% |
| 22 Evergrande | 551.3 | 10% | 52,435 | 4% | 10,515 | 6% | 550 | 100.2% |
| 23 Greentown | 101.2 | -2% | 3,980 | -10% | 25,427 | 9% | 110 | 92.0% |
| Total | 4,807.2 | 30% | 351,756 | 25% | 13,666 | 4% | 2,940 | 104.3% |

*in HK\$

Source(s): Company, CRIC, ABCI Securities



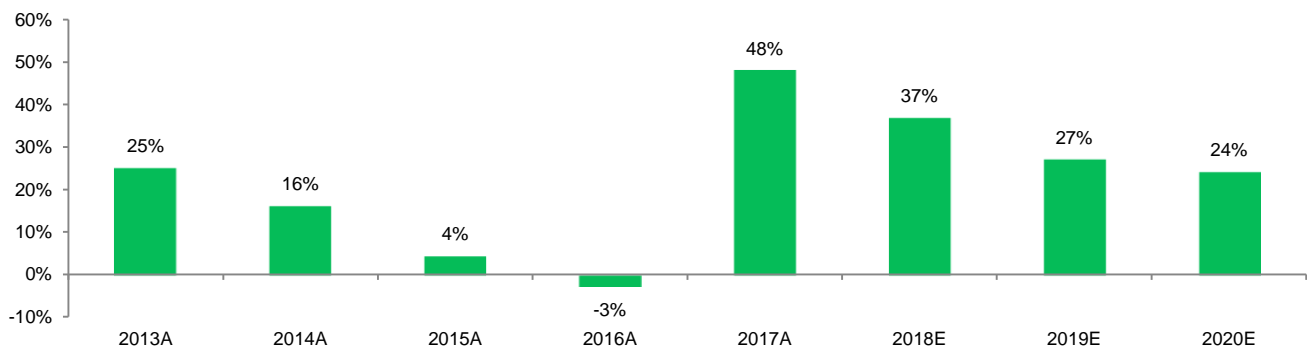
The large gets larger; COLI (688 HK) and Jinmao (817 HK) are our top picks

While chances of policy relaxation are remote, larger listed players will continue to benefit from market consolidation. We maintain positive on the China property sector due to: **1) impressive earnings growth in 2019-20**, given the strong contracted sales in 2018 that will be recognized to P&L in 2019-20. We estimate core net profit in 2018, 2019 and 2020 for property stocks under our coverage (excl. Evergrande) would grow by 37%, 27% and 24%, respectively. **2) Attractive valuation.** The sector is now trading at 6.2x fwd P/E with a 6.0% div. yield, similar to its historical average despite faster earnings growth ahead. The sector's P/E and dividend yield are more attractive than HSI's (10.4x 2019E P/E and 3.9% div. yield). The high dividend yield is an appeal to value investors in a volatile market.

We roll forward our NAV forecast to 2019E and raise our NAV forecast for our covered stocks by 8%. However, we apply a higher discount to NAV (from 40% to 50% on average) into our model to reflect slowing contracted sales momentum and higher cost of debt expected for 2019; hence, our TP is adjusted down by 13% on average for our covered stocks.

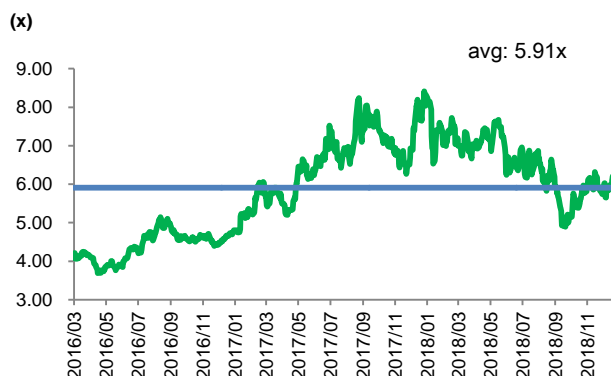
Our top picks for the sector are SOE players **COLI** and **Jinmao**, given their lower cost of debt, healthy balance sheet, and higher core net margins. We also downgrade **Evergrande (3333 HK)** to **HOLD** from Buy due to its slowing contracted sales.

Exhibit 15: 2018E-20E core profit growth for property stocks under our coverage



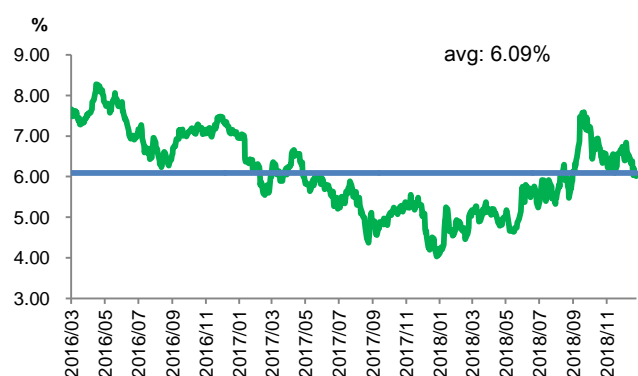
* Based on 9 developers under our coverage; Evergrande was excluded due to its volatile earnings in 2015-17 caused by coupon payments to perpetual capital instruments
Source(s): Bloomberg, ABCI Securities estimates

Exhibit 16: Historical fwd P/E for the China property sector



Source(s): Bloomberg, ABCI Securities

Exhibit 17: Historical fwd yield for the China property sector



Source(s): Bloomberg, ABCI Securities



Exhibit 18: TP changes in our coverage universe

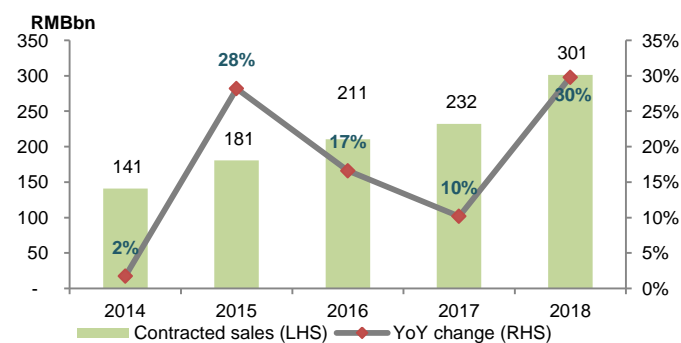
| Company | Ticker | Rating | | 2019E NAV (HK\$) | | Discount (%) | | TP (HK\$) | | |
|------------|--------|----------|---------|------------------|---------|--------------|---------|-----------|---------|------------|
| | | Previous | Current | Previous | Current | Previous | Current | Previous | Current | Change (%) |
| COLI | 688 | BUY | BUY | 43.56 | 51.17 | 20% | 30% | 34.90 | 35.80 | 2.6% |
| Jinmao | 817 | BUY | BUY | 10.73 | 13.71 | 40% | 60% | 6.40 | 5.50 | -14.1% |
| Aoyuan | 3883 | BUY | BUY | 17.95 | 18.61 | 50% | 60% | 9.00 | 7.40 | -17.8% |
| Times | 1233 | BUY | BUY | 30.37 | 33.22 | 60% | 60% | 12.10 | 13.30 | 9.9% |
| Logan | 3380 | BUY | BUY | 14.67 | 21.80 | 40% | 40% | 8.80 | 13.10 | 48.9% |
| Yuzhou | 1628 | BUY | BUY | 15.45 | 11.40 | 50% | 60% | 7.70 | 4.60 | -40.3% |
| CIFI | 884 | BUY | BUY | 11.89 | 12.64 | 50% | 60% | 5.90 | 5.10 | -13.6% |
| Agile | 3383 | BUY | BUY | 45.14 | 39.69 | 50% | 60% | 22.60 | 15.90 | -29.6% |
| Sunac | 1918 | BUY | BUY | 60.30 | 78.57 | 30% | 60% | 42.20 | 31.40 | -25.6% |
| Evergrande | 3333 | BUY | HOLD | 39.73 | 31.75 | 10% | 30% | 35.80 | 22.20 | -38.0% |

Source(s): Company, ABCI Securities estimates

COLI (688 HK; BUY; TP: HK\$35.80): Growing contracted sales

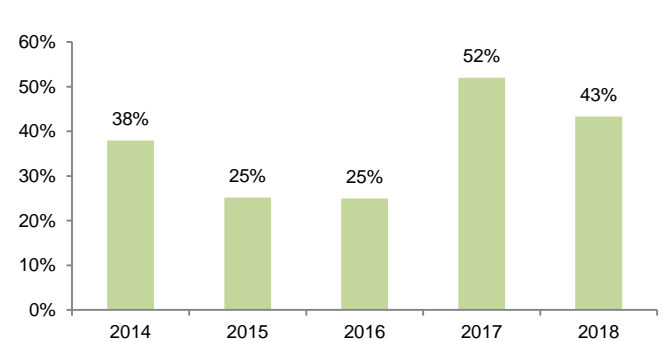
- **Sales growth accelerated:** COLI's 2018 contracted sales jumped 30% YoY (2017: +10% YoY; 2016: +17% YoY) to HK\$ 301bn since GFA jumped 10% YoY to 15.93mn sqm and ASP rose 18%YoY to HK\$ 18.9k/sqm. During 2016-17, COLI expended major efforts in integrating properties acquired from the CITIC group. We believe the restructuring has now been completed and the Group would resume a faster contracted sales growth from 2018 onwards.
- **Abundant saleable resources will enable fast growth in 2019:** In 2018, COLI acquired a total GFA of 22.6mn sqm for RMB 110bn (~RMB 4,858/sqm). The land capex represent 41% of contracted sales in 2018, higher than 2014-17 average of 35%. The average land cost of RMB 4,858/sqm also translates to 29% of contracted ASP in 2018, which should ensure a healthy gross margin of 30-35% based on our estimates.
- **Reiterate BUY; TP at HK\$35.80.** The top 3 listed developers (Vanke [2202 HK], Evergrande and COLI) by market cap are trading at similar 2019 P/E of 6.2-6.5x; COLI is only trading at 0.91x 2019E P/B (vs. 1.48x for Vanke and 1.88x for Evergrande). As COLI has already resumed faster contracted sales growth of 30%YoY in 2018 (vs. 10%YoY for Evergrande and 15% YoY for Vanke), we believe the valuation discount is unjustifiable. We adjust up our NAV forecast for COLI to HK\$ 51.17/share (from HK\$ 43.56/share) and raise NAV discount to 30% (from 20%) to reflect sector risk; as a result, TP increases to HK\$ 35.80 (from HK\$ 34.90). COLI is our top large-cap pick for the sector.

Exhibit 19: COLI's contracted sales



Source(s): Company, ABCI Securities

Exhibit 20: COLI's land capex-to-contracted sales ratio



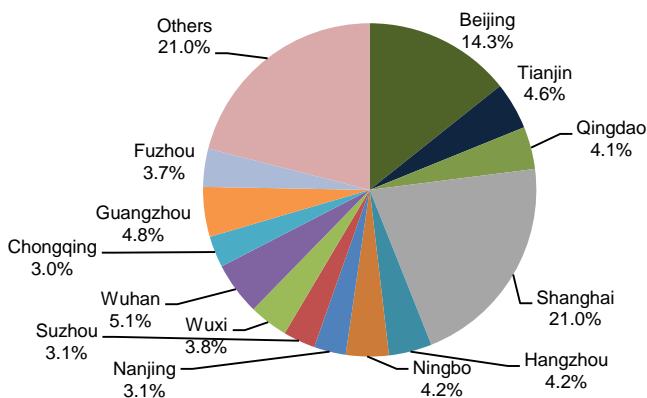
Source(s): Company, ABCI Securities



Jinmao (817 HK; BUY; TP: HK\$5.50): Fastest-growing SOE player

- **One of the fastest growing players in 2018:** In 2018, Jinmao's contracted sales (excluding land sales) jumped 115% YoY to RMB 124.9bn, much faster than the peer average of 30% YoY. We believe such increase was driven by **1) expanding saleable resources.** Jinmao acquired 5.4mn sqm of new sites for RMB 46.7bn (attributable: RMB22.5bn) in 1H18. We estimate 2018 land capex could reach RMB 70bn, implying a land capex-to-sales ratio of 56%; **2) high exposure to higher tier cities.** Out of the total saleable resource of RMB169bn for 2018, tier-1 cities accounted for 40%. As we expect sales growth in tier 3/4 cities to slow in 2019 due to tightened funding on shantytown redevelopment, investment demand may return to higher-tier cities. Jinmao is set to benefit from such geographic shift in housing demand. It targets to achieve RMB 200bn in contracted sales by 2020, which is highly probable based on existing saleable resources and favorable geographic exposure.
- **Primary land development provides an alternative channel to acquire land resources:** As of June 2018, Jinmao has a primary development landbank of 17.6mn sqm (vs. 32.8mn sqm for secondary development). Upon completion of official tendering process, these primary projects can turn into high-margin land sales or become the Group's low-cost secondary landbank. The Group has signed six new city operation projects agreements in 1H18, which may also be incorporated into the landbank in the future.
- **Reiterate BUY; TP at HK\$5.50.** We raise our NAV forecast to HK\$13.71/share (from HK\$ 10.73/share) but raise NAV discount to 60% (from 40%). Hence, TP is lowered to HK\$ 5.50 (from HK\$ 6.40) to reflect sector risk. Given the fast growth in contracted sales and low-cost landbank, Jinmao is our top small/mid-cap pick for the sector.

Exhibit 21: 2018 annual saleable resources by city (RMB169bn)



Source(s): Company, ABCI Securities

Exhibit 22: City operation projects signed by Jinmao in 1H18

| Project | Size |
|--|----------------------|
| Suzhou Zhangjiagang High-tech Zone | GFA: 4.5mn sqm |
| Ningbo Fenghua Ningnan New City | Site area: 3.65sq km |
| Guangzhou Life Science City | Site area: 5.5sq km |
| Qingdao Jimo International City | GFA: 1.13mn sqm |
| Qingdao West Coast New District | GFA: 3.67mn sqm |
| Innovative Science & Technology City | |
| Sanya Nanfan Science & Technology City | Site area: 5,000mu |

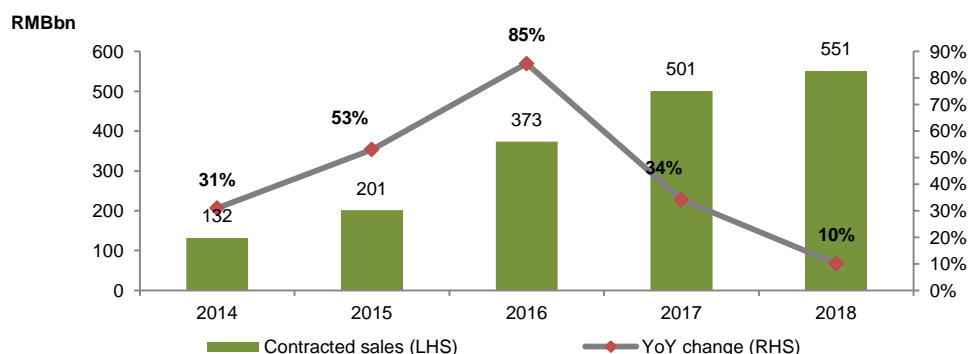
Source(s): Company, ABCI Securities



Evergrande (3333 HK; HOLD; TP: HK\$22.20): Slowing sales; new energy vehicles could be a drag

- **Slowing contracted sales:** Evergrande's FY19 sales target of RMB 600bn implies a growth of 9.1% YoY, slowing from 85%YoY in 2016, 34%YoY in 2017, and 10% in 2018.
- **Considerable spending on new energy vehicle business:** On 15 Jan 2019, Evergrande Health (708 HK), a listed subsidiary of Evergrande, acquired a 51% stake in National Electric Vehicle Sweden (NEVS) for US\$ 930mn from a consortium comprising of Tianjin Binhai Hi-tech Industrial Development Area (owned by Tianjin government) and State Research Information Technology Co., Ltd (owned by State Council Development Research Centre and China Unicom). On 24 Jan 2019, Evergrande Health also announced to acquire 58% stake in Shanghai CENAT, a power battery company to complement its new energy vehicle business. Legal disputes between Evergrande Health and Faraday Future were settled in Dec 2018, but market's concern over Evergrande's investment in new energy vehicle lingers. New energy vehicles business is still in the nascent stage of development and requires huge capex for facility construction, which may result in significant operating losses. This could potentially be a significant drag to Evergrande's financials in coming years.
- **Downgrade Evergrande from Buy to HOLD.** We downgrade Evergrande from Buy to **HOLD** on the back of slower sales and potential drag by new energy vehicle business. TP is lowered to HK\$ 22.20 (from HK\$ 35.80) as we raise our NAV discount from 10% to 30% base on the slower asset turnover rate expected.

Exhibit 23: Evergrande's contracted sales



Source(s): Company, ABCI Securities

Exhibit 24: Evergrande's investment in auto industry

| Date | Entity | business | Amount | Stakes acquired | Remarks |
|--------|------------------------------------|--------------------------|------------|-----------------|--|
| Dec-18 | Farady Future* (Revised agreement) | New energy vehicles | US\$ 200mn | 32% | Previous agreement in June 2018 to provide additional capital contribution of US\$ 1.2bn by 2020 was cancelled |
| Sep-18 | Guanghui Group | Auto distribution | RMB6.68bn | 23.87% | Evergrande (3333 HK) will provide additional capital of RMB 7.8bn and its stake will increase to 40.964% |
| Jan-19 | NEVS* | New energy vehicles | USD930mn | 51% | Headquarter based in Sweden |
| Jan-19 | Shanghai CENAT New Energy * | Pouch type power battery | RMB1,060mn | 58.07% | Stake disposed by Shenzhen Clou Electronics (002121 CH) |

* Investment via Evergrande Health (708 HK)

Source(s): Company, ABCI Securities



Exhibit 25: Valuation of the China property sector

| China Property | Ticker | Rating | TP | Mkt | Share | Performance | | | Discount | Valuation | | | | | | | | | |
|---------------------------|-------------------|---------|------|-------|--------|-------------|-------|-------|----------|-----------|-------|-------|-----------|-------|-------|-------|-------|-------|------|
| | | | | cap | Price | 3M | YTD | 2015 | to NAV | P/E | | | Yield (%) | | | P/B | | | |
| | | | | (HK\$ | (local | % Chg | % Chg | % Chg | (%) | 2017A | 2018E | 2019E | 2017A | 2018E | 2019E | 2017A | 2018E | 2019E | |
| | | | | bn) | ccy) | | | | | | | | | | | | | | |
| Residential: | | | | | | | | | | | | | | | | | | | |
| 1 | Evergrande | 3333 HK | HOLD | 22.20 | 314.8 | 23.90 | 25 | (11) | 458 | (24.71) | 8.96 | 6.83 | 6.01 | 0.00 | 7.32 | 8.32 | 2.42 | 2.06 | 1.76 |
| 2 | Vanke-H | 2202 HK | NR | | 336.7 | 29.80 | 26 | (4) | 30 | 29.37 | 10.72 | 8.17 | 6.84 | 3.52 | 4.47 | 5.24 | 2.10 | 1.81 | 1.54 |
| 3 | COLI | 688 HK | BUY | 35.80 | 312.3 | 28.20 | 19 | 12 | 26 | (44.89) | 9.52 | 7.94 | 6.46 | 2.84 | 3.40 | 4.18 | 1.16 | 1.05 | 0.94 |
| 4 | Country Garden | 2007 HK | NR | | 223.0 | 10.28 | 23 | (31) | 253 | (49.63) | 7.74 | 5.55 | 4.32 | 4.54 | 6.14 | 7.88 | 1.83 | 1.49 | 1.13 |
| 5 | CR Land | 1109 HK | NR | | 204.5 | 29.30 | 13 | 27 | 36 | (17.79) | 9.14 | 8.03 | 6.86 | 3.34 | 4.21 | 4.95 | 1.42 | 1.28 | 1.13 |
| 6 | Sunac | 1918 HK | BUY | 31.40 | 123.0 | 27.80 | 33 | (14) | 414 | (64.62) | 19.90 | 8.44 | 5.90 | 2.10 | 2.15 | 3.08 | 2.17 | 1.84 | 1.47 |
| 7 | Longfor | 960 HK | NR | | 136.4 | 22.80 | 26 | 16 | 109 | (13.11) | 11.96 | 8.98 | 7.14 | 3.44 | 4.53 | 5.65 | 1.59 | 1.46 | 1.28 |
| 8 | Guangzhou R&F | 2777 HK | NR | | 46.6 | 14.30 | 18 | (19) | 105 | (38.68) | 5.26 | 3.87 | 3.18 | 8.98 | 10.34 | 12.47 | 0.62 | 0.59 | 0.53 |
| 9 | Shimao | 813 HK | NR | | 66.2 | 19.90 | 26 | 17 | 77 | (32.54) | 8.18 | 6.24 | 4.87 | 4.97 | 6.12 | 7.78 | 1.00 | 0.88 | 0.78 |
| 10 | Logan | 3380 HK | BUY | 13.10 | 56.8 | 10.12 | 44 | 25 | 198 | (53.59) | 10.41 | 6.61 | 5.35 | 4.05 | 5.62 | 6.95 | 2.30 | 1.90 | 1.58 |
| 11 | Jinmao | 817 HK | BUY | 5.50 | 43.7 | 3.74 | 11 | 9 | 75 | (72.73) | 10.60 | 8.41 | 6.12 | 7.00 | 4.77 | 6.55 | 1.22 | 1.12 | 1.01 |
| 12 | Agile | 3383 HK | BUY | 15.90 | 38.0 | 9.60 | 7 | (19) | 229 | (75.82) | 5.63 | 4.22 | 3.59 | 9.38 | 9.30 | 10.93 | 0.89 | 0.80 | 0.71 |
| 13 | Sino Ocean | 3377 HK | NR | | 28.4 | 3.72 | 24 | (31) | 66 | (64.74) | 6.05 | 4.87 | 4.13 | 8.30 | 8.51 | 10.29 | 0.49 | 0.46 | 0.43 |
| 14 | CIFI | 884 HK | BUY | 5.10 | 35.9 | 4.59 | 42 | (3) | 138 | (63.68) | 7.01 | 5.44 | 4.07 | 5.01 | 5.51 | 7.36 | 1.37 | 1.26 | 1.03 |
| 15 | KWGG | 1813 HK | NR | | 24.4 | 7.62 | 31 | (17) | 132 | (54.10) | 5.92 | 4.51 | 3.60 | 6.28 | 7.96 | 9.79 | 0.73 | 0.64 | 0.57 |
| 16 | Yuexiu Properties | 123 HK | NR | | 19.5 | 1.56 | 27 | 7 | 45 | (39.53) | 9.03 | 6.41 | 5.87 | 5.69 | 5.87 | 6.76 | 0.51 | 0.49 | 0.47 |
| 17 | Yuzhou | 1628 HK | BUY | 4.60 | 18.0 | 3.71 | 36 | (11) | 66 | (67.46) | 4.28 | 3.54 | 3.06 | 7.58 | 9.78 | 11.33 | 0.87 | 0.79 | 0.68 |
| 18 | Times Property | 1233 HK | BUY | 13.30 | 17.5 | 9.53 | 47 | 24 | 118 | (71.32) | 5.91 | 4.20 | 3.47 | 5.07 | 7.14 | 8.66 | 0.96 | 0.83 | 0.71 |
| 19 | Aoyuan | 3883 HK | BUY | 7.40 | 15.3 | 5.59 | 26 | 30 | 158 | (69.96) | 7.06 | 5.46 | 3.60 | 5.22 | 5.49 | 8.34 | 1.31 | 1.12 | 0.92 |
| HK Listed Avg | | | | | | | 26 | 0 | 144 | (46.82) | 8.59 | 6.20 | 4.97 | 5.12 | 6.24 | 7.71 | 1.31 | 1.15 | 0.98 |
| - Large cap (>HKD50b) | | | | | | | 23 | (1) | 168 | (28.51) | 10.15 | 7.12 | 5.73 | 3.75 | 5.41 | 6.62 | 1.59 | 1.38 | 1.17 |
| - Small-mid cap (<HKD50b) | | | | | | | 29 | 1 | 122 | (63.29) | 7.19 | 5.37 | 4.29 | 6.36 | 6.99 | 8.70 | 1.06 | 0.94 | 0.81 |

Source(s): Bloomberg, ABCI Securities estimates



Risk factors

- **Increasing number of China property IPOs in HK:** In 2018, six Chinese developers were listed in HK, raising a total of HK\$ 11.3bn. Five or more developers have filed with HKEx for listing approval. Since most sizeable PRC developers have already been listed, the upcoming IPOs are likely to be small players with weaker financials that may lower the overall valuation of the sector.

Exhibit 26: China developers IPO

| Stock code | Developers | listing date | Proceeds raised HK\$mn |
|--------------|---|--------------|---------------------------|
| 3699 | Everbright Grand China Assets Limited | 16-Jan-18 | 156 |
| 6158 | Zhenro Properties Group Limited | 16-Jan-18 | 4,481 |
| 1996 | Redsun Properties Group Limited | 12-July-18 | 2,098 |
| 6111 | DaFa Properties Group Limited | 11-Oct-18 | 957 |
| 3990 | Midea Real Estate Holding Limited | 11-Oct-18 | 3,240 |
| 3616 | Ever Reach Group (Holdings) Company Limited | 12-Nov-18 | 372 |
| Total | | | 11,303 |

Source(s): HKEX, ABCI Securities

- **Refinancing risks:** In 4Q18, coupon rate for offshore bond issuance surged 2.1ppt QoQ to 9.7%. With slowing contracted sales and tightening measures in place, bond yield may rebound after the recent correction.
- **FX risks:** FX risk exposure increases with issuance of USD bonds. FX volatilities are intensified by the development of Sino-US trade spats. In 2018, RMB depreciated by 5.2%. If RMB depreciates further, developers may suffer from unrealized FX losses as their USD debts are marked to market.
- **The tightening of Shanty town redevelopment may significantly impact the property market on a prolong basis.** Tightening of momentary compensation on Shanty town redevelopment was just commenced in 2H18 and the negative impact on developers' contracted sales may only become noticeable in 1H19. The decline in revenue and profit may only be reflected in 2020-21 when the pre-sold properties are booked in to P&L upon delivery to home buyers. Market may feel uncertain about the prolong impact of shanty town and price in a higher risk premium in the developers' valuation.
- **High land capex-to- contracted sales ratio for faster growth may not be sustainable.** With large land capex spent, developers are able to maintain fast contracted sales growth in the upcoming years with an expanding landbank. However, we observed that many developers have a land capex-to contracted sales ratio higher than their core net profit margins, implying internal profits generated from property development are not sufficient to finance their land capex. Such large amount of land capex may not be sustainable without external debt and equity raising. In our earnings model, we have not factored in future land capex due to uncertain timing and amount, hence net gearing ratios for our cover stocks are expected to improve. Such assumption may not be correct.



China Overseas Land & Investment Limited (688 HK)

Consolidated income statement (2016A-2020E)

| FY Ended Dec 31 (HK\$ mn) | 2016A | 2017A | 2018E | 2019E | 2020E |
|--|-----------|-----------|-----------|-----------|-----------|
| Revenue | 164,069 | 166,045 | 179,071 | 211,759 | 243,069 |
| Cost of sales | (118,425) | (111,345) | (113,415) | (130,152) | (149,018) |
| Gross Profit | 45,643 | 54,700 | 65,656 | 81,608 | 94,051 |
| SG&A expenses | (6,551) | (5,798) | (7,237) | (8,443) | (9,926) |
| EBIT | 39,092 | 48,902 | 58,419 | 73,164 | 84,125 |
| Finance cost | (2,056) | (1,394) | (1,540) | (1,549) | (1,549) |
| Share of profit of associates | 1,252 | 1,938 | 1,134 | 864 | 861 |
| Other income/ (expenses) | 3,062 | 2,891 | 647 | 755 | 847 |
| Fair value gain of investment properties | 5,820 | 5,946 | 0 | 0 | 0 |
| Disposal/one-off items | 9,932 | 5,136 | 0 | 0 | 0 |
| Profit before tax | 57,102 | 63,419 | 58,660 | 73,234 | 84,284 |
| Tax | (18,711) | (21,277) | (18,591) | (23,951) | (27,357) |
| Profit after tax | 38,391 | 42,142 | 40,069 | 49,283 | 56,927 |
| Minority interest | (1,370) | (1,375) | (1,140) | (1,475) | (1,580) |
| Reported net profit | 37,021 | 40,767 | 38,929 | 47,808 | 55,347 |
| Less: exceptional items | (11,814) | (8,312) | 0 | 0 | 0 |
| Core net profit | 25,207 | 32,455 | 38,929 | 47,808 | 55,347 |
| Per share | | | | | |
| Core EPS (HK\$) | 2.49 | 2.96 | 3.55 | 4.36 | 5.05 |
| DPS (HK\$) | 0.77 | 0.80 | 0.96 | 1.18 | 1.36 |
| Payout ratio (%) | 31% | 27% | 27% | 27% | 27% |
| BVPS (HK\$) | 21.93 | 24.25 | 26.84 | 30.03 | 33.72 |
| Growth % | | | | | |
| Revenue | 10.8% | 1.2% | 7.8% | 18.3% | 14.8% |
| Gross Profit | 7.9% | 19.8% | 20.0% | 24.3% | 15.2% |
| EBIT | 2.6% | 25.1% | 19.5% | 25.2% | 15.0% |
| Core net profit | -8.5% | 28.8% | 19.9% | 22.8% | 15.8% |
| Margin % | | | | | |
| Gross margin | 27.8% | 32.9% | 36.7% | 38.5% | 38.7% |
| Gross margin (post-LAT) | 23.7% | 27.9% | 34.6% | 35.8% | 36.0% |
| EBIT margin | 23.8% | 29.5% | 32.6% | 34.6% | 34.6% |
| Core net margin | 15.4% | 19.2% | 21.7% | 22.9% | 23.1% |
| Key assumptions | | | | | |
| Contracted Sales (HK\$ mn) | 210,648 | 232,070 | 301,240 | 331,967 | 398,560 |
| GFA sold (mn sqm) | 13.04 | 14.46 | 15.93 | 18.76 | 23.11 |
| ASP (HK\$/sqm) | 16,149 | 16,049 | 18,905 | 17,696 | 17,246 |
| Booked Sales (HK\$ mn) | 159,891 | 162,140 | 174,798 | 207,064 | 237,888 |
| GFA delivered (mn sqm) | 9.36 | 9.44 | 9.64 | 10.88 | 13.31 |
| Booked ASP (HK\$/sqm) | 17,082 | 17,175 | 18,142 | 19,030 | 17,871 |

Source(s): Company, ABCI Securities estimates



China Overseas Land & Investment Limited (688 HK)

Consolidated balance sheet (2016A-2020E)

| As of Dec 31 (HK\$ mn) | 2016A | 2017A | 2018E | 2019E | 2020E |
|------------------------------------|---------|---------|---------|-----------|-----------|
| Current assets | 474,913 | 501,791 | 671,851 | 809,889 | 980,865 |
| Cash | 157,162 | 104,051 | 74,688 | 295,393 | 567,902 |
| Restricted cash | - | - | - | - | - |
| Trade & other receivables | 11,341 | 14,301 | 14,301 | 14,301 | 14,301 |
| Property under development | 269,321 | 359,848 | 559,271 | 476,604 | 375,070 |
| Other current assets | 37,089 | 23,592 | 23,592 | 23,592 | 23,592 |
| Non-current assets | 96,376 | 143,614 | 146,213 | 148,541 | 150,866 |
| Property, plant & equipment | 3,887 | 3,898 | 3,962 | 4,026 | 4,091 |
| Investment properties | 67,093 | 97,377 | 98,877 | 100,377 | 101,877 |
| Investment in Associate and JCE | 16,039 | 20,637 | 21,671 | 22,435 | 23,196 |
| Other non-current assets | 9,357 | 21,702 | 21,702 | 21,702 | 21,702 |
| Total Assets | 571,289 | 645,405 | 818,064 | 958,430 | 1,131,731 |
| Current Liabilities | 199,604 | 206,543 | 321,119 | 425,163 | 556,534 |
| Short-term borrowings | 40,286 | 30,424 | 30,424 | 30,424 | 30,424 |
| Trade & other payables | 44,815 | 51,826 | 51,826 | 51,826 | 51,826 |
| Pre-sales deposits | 82,256 | 77,857 | 192,434 | 296,478 | 427,849 |
| Other current liabilities | 32,247 | 46,435 | 46,435 | 46,435 | 46,435 |
| Non-current liabilities | 144,261 | 165,319 | 165,319 | 165,319 | 165,319 |
| Long-term borrowings | 133,534 | 147,815 | 147,815 | 147,815 | 147,815 |
| Other payables | 870 | 3,800 | 3,800 | 3,800 | 3,800 |
| Other non-current liabilities | 9,857 | 13,704 | 13,704 | 13,704 | 13,704 |
| Total Liabilities | 343,866 | 371,861 | 486,438 | 590,482 | 721,853 |
| Net Assets | 227,423 | 273,543 | 331,626 | 367,948 | 409,878 |
| Shareholders' Equity | 222,248 | 265,694 | 294,110 | 329,007 | 369,406 |
| Perpetual capital instrument | - | - | - | - | - |
| Minority Interest | 5,175 | 7,849 | 37,517 | 38,941 | 40,472 |
| Total Equity | 227,423 | 273,543 | 331,626 | 367,948 | 409,878 |
| Key ratio | | | | | |
| Gross debt (HK\$ mn) | 173,821 | 178,238 | 178,238 | 178,238 | 178,238 |
| Net debt (HK\$ mn) | 16,659 | 74,188 | 103,550 | (117,154) | (389,664) |
| Net gearing (%) | 7.3% | 27.1% | 31.2% | -31.8% | -95.1% |
| Contracted sales/ Total assets (x) | 0.37 | 0.36 | 0.37 | 0.35 | 0.35 |

Source(s): Company, ABCI Securities estimates



China Overseas Land & Investment Limited (688 HK)

Consolidated cash flow statement (2016A-2020E)

| FY ended Dec 31 (HK\$ mn) | 2016A | 2017A | 2018E | 2019E | 2020E |
|-----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| EBITDA | 39,144 | 48,954 | 58,471 | 73,217 | 84,178 |
| Change in Working Capital | 36,433 | (78,375) | (78,107) | 193,494 | 239,688 |
| Tax payment | (15,038) | (12,617) | (18,591) | (23,951) | (27,357) |
| Operating cash flow | 60,540 | (42,037) | (38,226) | 242,759 | 296,508 |
| Purchase of PP&E | (895) | (63) | (117) | (117) | (117) |
| Addition of Investment Properties | (2,378) | (4,568) | (1,500) | (1,500) | (1,500) |
| Others | 18,387 | (3,449) | 747 | 855 | 947 |
| Investing cash flow | 15,114 | (8,079) | (870) | (762) | (669) |
| Debt raised | 37,030 | 50,200 | 10,000 | 10,000 | 10,000 |
| Debt repaid | (60,259) | (48,898) | (10,000) | (10,000) | (10,000) |
| Interest expenses | (8,730) | (7,372) | (8,280) | (8,332) | (8,332) |
| Equity raised | 0 | 0 | 0 | 0 | 0 |
| Dividend to shareholders | (7,878) | (8,436) | (10,513) | (12,911) | (14,947) |
| Others | 18,900 | 11,512 | 28,527 | (50) | (50) |
| Financing cash flow | (20,938) | (2,994) | 9,733 | (21,293) | (23,329) |
| Net cash inflow/ (outflow) | 54,716 | (53,111) | (29,363) | 220,705 | 272,510 |
| Cash- beginning | 102,446 | 157,162 | 104,051 | 74,688 | 295,393 |
| Cash- year-end | 157,162 | 104,051 | 74,688 | 295,393 | 567,902 |

Source(s): Company, ABCI Securities estimates



Jinmao (817 HK)

Consolidated income statement (2016A-2020E)

| FY Ended Dec 31 (RMB mn) | 2016A | 2017A | 2018E | 2019E | 2020E |
|---|----------|----------|----------|----------|----------|
| Revenue | 27,304 | 31,075 | 39,237 | 74,836 | 95,879 |
| Cost of sales | (17,099) | (21,034) | (23,658) | (54,637) | (72,257) |
| Gross Profit | 10,205 | 10,041 | 15,579 | 20,199 | 23,621 |
| SG&A expenses | (2,366) | (3,120) | (5,285) | (6,241) | (6,448) |
| EBIT | 7,838 | 6,920 | 10,294 | 13,958 | 17,174 |
| Finance cost | (729) | (1,692) | (1,091) | (1,106) | (1,122) |
| Share of profit of associates | (72) | 63 | 3,470 | 3,350 | 2,641 |
| Other income/ (expenses) | 710 | 1,056 | 899 | 1,024 | 2,450 |
| Fair value gain of investment properties | 729 | 96 | 0 | 0 | 0 |
| Disposal gains | 0 | 2,561 | 0 | 0 | 0 |
| Other one-off items | (186) | (179) | 0 | 0 | 0 |
| Profit before tax | 8,291 | 8,825 | 13,571 | 17,225 | 21,143 |
| Tax | (3,717) | (3,675) | (5,597) | (5,740) | (6,723) |
| Profit after tax | 4,574 | 5,150 | 7,974 | 11,485 | 14,421 |
| Minority interest | (2,038) | (1,172) | (2,817) | (4,399) | (5,334) |
| Reported net profit | 2,535 | 3,978 | 5,157 | 7,086 | 9,087 |
| Less: Fair value gain of investment properties, net of related tax effect and minority interest | (466) | (73) | 0 | 0 | 0 |
| Core net profit* | 2,069 | 3,905 | 5,157 | 7,086 | 9,087 |
| Per share | | | | | |
| Core EPS (RMB) | 0.21 | 0.35 | 0.44 | 0.61 | 0.78 |
| DPS (HK\$)** | 0.09 | 0.26 | 0.18 | 0.24 | 0.31 |
| Payout ratio (%) | 43% | 74% | 40% | 40% | 40% |
| BVPS (RMB) | 2.72 | 3.08 | 3.34 | 3.70 | 4.17 |
| Growth % | | | | | |
| Revenue | 53.6% | 13.8% | 26.3% | 90.7% | 28.1% |
| Gross Profit | 48.5% | -1.6% | 55.2% | 29.7% | 16.9% |
| EBIT | 61.7% | -11.7% | 48.7% | 35.6% | 23.0% |
| Core net profit | -10.4% | 88.7% | 32.1% | 37.4% | 28.2% |
| Margin % | | | | | |
| Gross margin | 37.4% | 32.3% | 39.7% | 27.0% | 24.6% |
| Gross margin (post-LAT) | 18.6% | 11.8% | 22.2% | 14.3% | 14.4% |
| EBIT margin | 28.7% | 22.3% | 26.2% | 18.7% | 17.9% |
| Core net margin | 15.5% | 10.4% | 11.5% | 10.9% | 12.3% |
| Key assumptions | | | | | |
| Contracted Sales- property development (RMB mn) | 37,464 | 58,010 | 125,196 | 148,515 | 160,798 |
| GFA sold (mn sqm) | 1.47 | 2.42 | 4.51 | 5.35 | 6.99 |
| ASP (RMB/sqm) | 25,435 | 24,004 | 27,760 | 27,768 | 23,001 |
| Contracted Sales- Land (RMB mn) | 11,052 | 11,310 | 3,060 | 11,340 | 11,784 |
| GFA sold (mn sqm) | 0.96 | 1.09 | 0.50 | 1.36 | 1.36 |
| ASP (RMB/sqm) | 11,534 | 10,406 | 6,091 | 8,343 | 8,670 |
| Booked Property Sales (RMB mn) | 21,456 | 21,967 | 32,715 | 62,423 | 83,005 |
| GFA delivered (mn sqm) | 0.85 | 1.16 | 1.43 | 3.20 | 4.40 |
| Booked ASP (RMB/sqm) | 25,165 | 18,996 | 22,827 | 19,530 | 18,847 |
| Booked Land Sales (RMB mn) | 2,137 | 4,902 | 2,228 | 7,673 | 7,920 |
| GFA delivered (mn sqm) | 0.19 | 0.78 | 0.40 | 1.26 | 1.26 |
| Booked ASP (RMB/sqm) | 11,400 | 6,253 | 5,543 | 6,093 | 6,290 |

* Core net profit= Net profit attributable to ordinary shareholders- fair value gains on investment properties, net of related tax effect and minority interest

** 2017 figures included special dividend of HK\$ 8.17

Source(s): Company, ABCI Securities estimates



Jinmao (817 HK)

Consolidated balance sheet (2016A-2020E)

| As of Dec 31 (RMB mn) | 2016A | 2017A | 2018E | 2019E | 2020E |
|---------------------------------|---------|---------|---------|---------|----------|
| Current assets | 86,283 | 117,278 | 116,354 | 155,193 | 256,257 |
| Cash | 18,046 | 19,407 | 18,028 | 58,227 | 160,653 |
| Restricted cash | 2,328 | 3,235 | 3,235 | 3,235 | 3,235 |
| Trade & other receivables | 6,446 | 920 | 920 | 920 | 920 |
| Property under development | 15,990 | 24,650 | 24,650 | 24,650 | 24,650 |
| Property held for sales | 11,153 | 11,772 | 11,772 | 11,772 | 11,772 |
| Land under development | 5,521 | 6,877 | 7,332 | 5,971 | 4,610 |
| Other current assets | 26,798 | 50,417 | 50,417 | 50,417 | 50,417 |
| Non-current assets | 80,621 | 104,767 | 160,728 | 141,902 | 95,342 |
| Property, plant & equipment | 10,812 | 10,839 | 10,854 | 10,870 | 10,885 |
| Properties under development | 26,930 | 41,884 | 92,360 | 68,170 | 16,953 |
| Land under development | 11,705 | 8,998 | 8,998 | 8,998 | 8,998 |
| Investment properties | 22,029 | 27,812 | 29,812 | 31,812 | 33,812 |
| Investment in Associate and JCE | 5,376 | 6,838 | 10,307 | 13,657 | 16,298 |
| Other non-current assets | 3,769 | 8,395 | 8,395 | 8,395 | 8,395 |
| Total Assets | 166,904 | 222,044 | 277,082 | 297,095 | 351,599 |
| Current Liabilities | 71,382 | 107,074 | 154,342 | 166,511 | 211,036 |
| Short-term borrowings | 12,944 | 27,827 | 28,827 | 29,827 | 30,827 |
| Trade & other payables | 15,689 | 27,962 | 27,962 | 27,962 | 27,962 |
| Pre-sales deposits | 28,279 | 38,929 | 85,196 | 96,366 | 139,891 |
| Other current liabilities | 14,470 | 12,356 | 12,356 | 12,356 | 12,356 |
| Non-current liabilities | 39,778 | 48,527 | 48,527 | 48,527 | 48,527 |
| Long-term borrowings | 34,981 | 43,505 | 43,505 | 43,505 | 43,505 |
| Other payables | - | - | - | - | - |
| Other non-current liabilities | 4,797 | 5,022 | 5,022 | 5,022 | 5,022 |
| Total Liabilities | 111,160 | 155,601 | 202,868 | 215,037 | 259,563 |
| Net Assets | 55,744 | 66,444 | 74,214 | 82,058 | 92,037 |
| Shareholders' Equity | 28,988 | 32,852 | 38,612 | 42,863 | 48,315 |
| Perpetual capital securities | 7,894 | 14,802 | 14,802 | 14,802 | 14,802 |
| Minority Interest | 18,862 | 18,790 | 20,801 | 24,393 | 28,920 |
| Total Equity | 55,744 | 66,444 | 74,214 | 82,058 | 92,037 |
| Key ratio | | | | | |
| Gross debt (RMB mn) | 47,925 | 71,331 | 72,331 | 73,331 | 74,331 |
| Net debt (RMB mn) | 27,551 | 48,690 | 51,069 | 11,869 | (89,557) |
| Net gearing (%) | 49.4% | 73.3% | 68.8% | 14.5% | -97.3% |

Source(s): Company, ABCI Securities estimates



Jinmao (817 HK)

Consolidated cash flow statement (2016A-2020E)

| FY ended Dec 31 (RMB mn) | 2016A | 2017A | 2018E | 2019E | 2020E |
|-----------------------------------|----------------|-----------------|----------------|----------------|----------------|
| EBITDA | 8,172 | 7,281 | 10,654 | 14,319 | 17,534 |
| Change in Working Capital | (6,849) | (28,651) | (2,129) | 39,291 | 98,709 |
| Tax payment | (2,911) | (4,451) | (5,597) | (5,740) | (6,723) |
| Operating cash flow | (1,587) | (25,822) | 2,928 | 47,870 | 109,521 |
| Purchase of PP&E | (523) | (376) | (376) | (376) | (376) |
| Addition of Investment Properties | (20) | (3,707) | (2,000) | (2,000) | (2,000) |
| Investment in Associate/ JCE | (2,505) | (1,912) | 0 | 0 | 0 |
| Others | 3,182 | (8,396) | 899 | 1,024 | 2,450 |
| Investing cash flow | 134 | (14,390) | (1,477) | (1,352) | 74 |
| Debt raised | 41,557 | 57,625 | 11,000 | 11,000 | 11,000 |
| Debt repaid | (33,851) | (32,448) | (10,000) | (10,000) | (10,000) |
| Interest expenses | (2,511) | (3,245) | (3,626) | (3,677) | (3,727) |
| Equity raised | 0 | 0 | 2,665 | 0 | 0 |
| Perpetual securities coupon | (247) | (468) | (757) | (757) | (757) |
| Dividend to shareholders | (722) | (1,586) | (2,063) | (2,834) | (3,635) |
| Others | 4,275 | 21,694 | (50) | (50) | (50) |
| Financing cash flow | 8,502 | 41,573 | (2,830) | (6,318) | (7,169) |
| Net cash inflow/ (outflow) | 7,049 | 1,361 | (1,379) | 40,200 | 102,426 |
| Cash- beginning | 10,997 | 18,046 | 19,407 | 18,028 | 58,227 |
| Cash- year-end | 18,046 | 19,407 | 18,028 | 58,227 | 160,653 |

Source(s): Company, ABCI Securities estimates



Evergrande (3333 HK)

Consolidated income statement (2016A-2020E)

| FY Ended Dec 31 (RMB mn) | 2016A | 2017A | 2018E | 2019E | 2020E |
|--|-----------|-----------|-----------|-----------|-----------|
| Revenue | 211,444 | 311,022 | 528,080 | 595,589 | 639,480 |
| Cost of sales | (152,022) | (198,760) | (324,506) | (364,662) | (397,745) |
| Gross Profit | 59,422 | 112,262 | 203,575 | 230,927 | 241,735 |
| SG&A expenses | (28,244) | (35,055) | (39,797) | (43,860) | (46,093) |
| EBIT | 31,178 | 77,207 | 163,778 | 187,066 | 195,642 |
| Finance cost | (6,392) | (8,927) | (5,150) | (4,168) | (3,677) |
| Share of profit of associates | (203) | 1,402 | 1,515 | 1,515 | 1,515 |
| Other income/ (expenses) | 4,937 | 5,547 | 5,656 | 4,780 | 4,278 |
| Fair value gain of investment properties | 356 | 9,523 | 0 | 0 | 0 |
| Disposal/one-off items | 6,986 | (7,279) | 0 | 0 | 0 |
| Profit before tax | 36,862 | 77,473 | 165,799 | 189,193 | 197,757 |
| Tax | (19,245) | (40,424) | (91,606) | (104,619) | (108,941) |
| Profit after tax | 17,617 | 37,049 | 74,194 | 84,574 | 88,817 |
| Minority interest | (2,745) | (8,896) | (33,551) | (38,390) | (40,689) |
| Perpetual coupon distribution | (9,781) | (3,781) | 0 | 0 | 0 |
| Reported net profit | 5,091 | 24,372 | 40,643 | 46,184 | 48,128 |
| Less: exceptional items | (2,047) | 6,628 | 0 | 0 | 0 |
| Core net profit | 3,045 | 31,000 | 40,643 | 46,184 | 48,128 |
| Per share | | | | | |
| Core EPS (RMB) | 0.21 | 2.29 | 3.00 | 3.41 | 3.55 |
| DPS (RMB) | - | - | 1.50 | 1.70 | 1.77 |
| Payout ratio (%) | 0% | 0% | 50% | 50% | 50% |
| BVPS (RMB) | 3.07 | 8.46 | 9.96 | 11.66 | 13.44 |
| Growth % | | | | | |
| Revenue | 58.8% | 47.1% | 69.8% | 12.8% | 7.4% |
| Gross Profit | 58.8% | 88.9% | 81.3% | 13.4% | 4.7% |
| EBIT | 84.8% | 147.6% | 112.1% | 14.2% | 4.6% |
| Core net profit | 52.9% | 918.2% | 31.1% | 13.6% | 4.2% |
| Margin % | | | | | |
| Gross margin | 28.1% | 36.1% | 38.5% | 38.8% | 37.8% |
| Gross margin (post-LAT) | 25.0% | 30.9% | 29.6% | 29.7% | 29.2% |
| EBIT margin | 14.7% | 24.8% | 31.0% | 31.4% | 30.6% |
| Core net margin | 5.8% | 10.9% | 13.8% | 13.9% | 13.7% |
| Key assumptions | | | | | |
| Contracted Sales (RMB mn) | 373,358 | 500,950 | 551,340 | 611,991 | 645,315 |
| GFA sold (mn sqm) | 44.69 | 50.30 | 52.43 | 59.57 | 60.51 |
| ASP (RMB/sqm) | 8,354 | 9,959 | 10,515 | 10,274 | 10,665 |
| Booked Sales (RMB mn) | 203,890 | 302,384 | 517,719 | 583,050 | 624,180 |
| GFA delivered (mn sqm) | 25.57 | 46.81 | 50.26 | 57.06 | 59.06 |
| Booked ASP (RMB/sqm) | 7,975 | 6,460 | 10,300 | 10,219 | 10,568 |

Source(s): Company, ABCI Securities estimates



Evergrande (3333 HK)

Consolidated balance sheet (2016A-2020E)

| As of Dec 31 (RMB mn) | 2016A | 2017A | 2018E | 2019E | 2020E |
|------------------------------------|-----------|-----------|-----------|-----------|-----------|
| Current assets | 1,113,635 | 1,522,947 | 1,515,132 | 1,609,285 | 1,744,904 |
| Cash | 198,420 | 152,008 | 85,685 | 35,131 | 18,773 |
| Restricted cash | 105,909 | 135,714 | 135,714 | 135,714 | 135,714 |
| Trade & other receivables | 76,434 | 120,782 | 120,782 | 120,782 | 120,782 |
| Property under development | 658,627 | 953,521 | 1,012,029 | 1,156,737 | 1,308,713 |
| Other current assets | 74,245 | 160,922 | 160,922 | 160,922 | 160,922 |
| Non-current assets | 237,233 | 238,805 | 238,039 | 237,233 | 236,427 |
| Property, plant & equipment | 20,833 | 32,898 | 30,904 | 28,910 | 26,916 |
| Investment properties | 132,045 | 151,950 | 152,020 | 152,090 | 152,160 |
| Investment in Associate and JCE | 24,374 | 30,376 | 31,534 | 32,652 | 33,770 |
| Other non-current assets | 59,981 | 23,581 | 23,581 | 23,581 | 23,581 |
| Total Assets | 1,350,868 | 1,761,752 | 1,753,171 | 1,846,518 | 1,981,332 |
| Current Liabilities | 733,394 | 1,084,855 | 1,022,451 | 1,054,367 | 1,124,478 |
| Short-term borrowings | 202,906 | 356,381 | 261,381 | 265,381 | 315,381 |
| Trade & other payables | 299,905 | 399,459 | 398,434 | 397,410 | 396,385 |
| Pre-sales deposits | 194,961 | 267,555 | 301,176 | 330,117 | 351,252 |
| Other current liabilities | 35,622 | 61,460 | 61,460 | 61,460 | 61,460 |
| Non-current liabilities | 424,942 | 434,689 | 434,689 | 434,689 | 434,689 |
| Long-term borrowings | 332,164 | 376,244 | 376,244 | 376,244 | 376,244 |
| Other payables | 0 | 0 | 0 | 0 | 0 |
| Other non-current liabilities | 92,778 | 58,445 | 58,445 | 58,445 | 58,445 |
| Total Liabilities | 1,158,336 | 1,519,544 | 1,457,140 | 1,489,056 | 1,559,167 |
| Net Assets | 192,532 | 242,208 | 296,030 | 357,462 | 422,165 |
| Shareholders' Equity | 53,847 | 114,772 | 135,093 | 158,185 | 182,249 |
| Perpetual capital instrument | 103,337 | 0 | 0 | 0 | 0 |
| Minority Interest | 35,348 | 127,436 | 160,937 | 199,277 | 239,915 |
| Total Equity | 192,532 | 242,208 | 296,030 | 357,462 | 422,165 |
| Key ratio | | | | | |
| Gross debt (RMB mn) | 535,070 | 732,625 | 637,625 | 641,625 | 691,625 |
| Net debt (RMB mn) | 230,741 | 444,903 | 416,226 | 470,780 | 537,138 |
| Net gearing (%) | 120% | 184% | 141% | 132% | 127% |
| Contracted sales/ Total assets (x) | 0.28 | 0.28 | 0.31 | 0.33 | 0.33 |

Source(s): Company, ABCI Securities estimates



Evergrande (3333 HK)

Consolidated cash flow statement (2016A-2020E)

| FY ended Dec 31 (RMB mn) | 2016A | 2017A | 2018E | 2019E | 2020E |
|---------------------------------------|------------------|-----------------|------------------|-----------------|-----------------|
| EBITDA | 32,812 | 79,201 | 165,772 | 189,060 | 197,636 |
| Change in Working Capital | (47,440) | (159,103) | 20,435 | (79,281) | (98,770) |
| Tax payment | (13,106) | (16,999) | (91,606) | (104,619) | (108,941) |
| Operating cash flow | (27,734) | (96,901) | 94,601 | 5,161 | (10,075) |
| Purchase of PP&E | (15,927) | (14,369) | (70) | (70) | (70) |
| Others | (103,632) | (33,113) | 6,013 | 5,176 | 4,674 |
| Investing cash flow | (119,559) | (47,482) | 5,943 | 5,106 | 4,604 |
| Debt raised | 429,836 | 524,625 | 5,000 | 5,000 | 50,000 |
| Debt repaid | (241,592) | (331,416) | (100,000) | (1,000) | 0 |
| Interest expenses | (30,876) | (54,072) | (51,496) | (41,680) | (36,773) |
| Equity raised | 0 | 0 | 0 | 0 | 0 |
| Proceed from non-controlling interest | (5,481) | (241) | (20,321) | (23,092) | (24,064) |
| Dividend to shareholders | 16,882 | 119,192 | 0 | 0 | 0 |
| Perpetual securities raised/(repaid) | 28,237 | (113,667) | 0 | 0 | 0 |
| Others | 45,617 | (46,450) | (50) | (50) | (50) |
| Financing cash flow | 242,623 | 97,971 | (166,867) | (60,822) | (10,887) |
| Net cash inflow/ (outflow) | 95,330 | (46,412) | (66,323) | (50,555) | (16,357) |
| Cash- beginning | 103,090 | 198,420 | 152,008 | 85,685 | 35,131 |
| Cash- year-end | 198,420 | 152,008 | 85,685 | 35,131 | 18,773 |

Source(s): Company, ABCI Securities estimates



Disclosures

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Definition of equity rating

| Rating | Definition |
|--------|---|
| Buy | Stock return \geq Market return rate (10%) |
| Hold | - Market return (-10%) \leq Stock return $<$ Market return rate (10%) |
| Sell | Stock return $<$ - Market return (-10%) |

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2005 (HSI total return index 2005-17 CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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