



## China Property Sector - Overweight

### Key Data

|                      |      |
|----------------------|------|
| Average FY13E PE (x) | 7.09 |
| Average FY13E PB (x) | 1.22 |

Source: Bloomberg, ABCI Securities

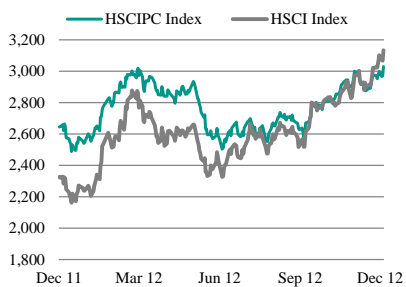
### HSCIPC performance (%)

|       | Absolute | Relative* |
|-------|----------|-----------|
| 1-mth | 5.2      | 4.0       |
| 3-mth | 24.4     | 7.4       |
| 6-mth | 31.2     | 9.2       |

\*Relative to Hang Seng Index

Source: Bloomberg

### 1 year price performance



Source: Bloomberg

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### Valuation holding up on strong fundamentals

Four property developers announced the November sales results, which grew robustly on YoY basis. Year-to-date (Jan-Nov) sales of three developers exceeded the full-year target. All of them saw MoM ASP rebound in November. For the upcoming first quarter, a traditional weak sales season, performance is expected to maintain strong due to low base effect. Amid the cash-flow relieve for developers, sales quality may see improvement as they shift their focus to enhance margin. As such, valuation of the property sector will be holding up well at 5-yr mean PE level of 7.06x.

**Strong November:** Four property developers, Vanke (000002 A), Evergrande(3333 HK), Shimao(813 HK) and Sunac(1918 HK) announced November sales. All of them registered robust YoY growth ranging from 75% to 851%. In our view, stable policy tone from the 18th congress and ample project pipelines further stimulate release of pend-up demand.

**Robust cumulative sales:** All four developers registered positive YoY growth for the cumulative sales, ranging from 7% to 70%. Except for Sunac, which locked in 90.8% of revised full-year target, other three developers have already exceeded budget by 5.8% to 20.8%.

**ASP reversing but stable outlook:** One similarity of the developers' Nov sales was that ASP rebounded on MoM basis ranging from 4.2% to 12.7%. As the property developers have achieved their full-year target with diminishing cash flow risk, they are regaining bargaining power against buyers. However, for the current China's property market, we expect government stance is still a dominant factor and we do not expect to see nationwide price rebound in 2013. For the projects in the core area of top cities, ASP may see 5% YoY increase in light of their scarcity by nature.

**Valuation holding up on strong first quarter in 2013:** Moving to the first quarter, the traditional weak sales season, sales performance is expected to maintain flourish due to low base effect as the sector was overshadowed by policy uncertainty during the same period last year. In addition, given the cash-flow relieve for property developers, sales quality may see improvement as they shift their focus to enhance margin. Property sector outperformed the Hand Seng Index by 1.2% during last month and the PE valuation reverted to 5-yr mean level at 7.06x. We expect the valuation will be holding up well on strong fundamentals.

### Valuation and sales comparison for China property developers

| Company        | Code | Price (HK\$) | ABCI Rec | 2012 P/E | 2012 P/B | 2013 P/E |
|----------------|------|--------------|----------|----------|----------|----------|
| China Overseas | 688  | 22.7         | Review   | 11.8     | 2.25     | 10.2     |
| Evergrande     | 3333 | 4.1          | Buy      | 5.6      | 1.24     | 5.3      |
| KWG            | 1813 | 5.6          | Buy      | 6.3      | 0.81     | 5.6      |
| Sunac          | 1918 | 5.2          | Buy      | 4.5      | 1.41     | 3.9      |
| C C Land       | 1224 | 2.5          | Hold     | 12.1     | 0.37     | 9.2      |
| Hopefluent     | 733  | 2.8          | Buy      | 8.4      | 1.00     | 7.3      |

Source: Company data, Bloomberg, ABCI Securities



*Exhibit : sales comparison for China property developers*

|        |                 | 11/2012  |      |      | 1-11/2012 |     | 2012               | 2012          |
|--------|-----------------|----------|------|------|-----------|-----|--------------------|---------------|
|        |                 | Rmb100mn | YOY  | MoM  | Rmb100mn  | YoY | Target<br>Rmb100mn | %<br>Achieved |
| 3333   | Evergrande      | 118      | 851% | -17% | 846       | 7%  | 800                | 105.8%        |
| 813    | Shimao Property | 31       | 75%  | -14% | 423       | 49% | 350                | 120.8%        |
| 1918   | Sunac           | 41       | 134% | 13%  | 269       | 70% | 300                | 90.8%         |
| 000002 | Vanke A-share   | 171      | 107% | 25%  | 1,272     | 10% | 1200               | 106.0%        |

Source: Company data and ABCI Securities



## Disclosures

I, Li Hongying, Vivian, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

### 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

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.

**Li Hong-ying Vivian, has financial interest in Evergrande Real Estate Group Limited as at 6 Dec 2012.**

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