



**Key data**

Share price (HK\$)	4.65
Target price(HK\$)	5.55
52Wk H/L(HK\$)	5.40/2.28
Issued shares (mn)	2,893.2
Market cap (HK\$m)	13,453.1
30-day avg turnover (HK\$m)	35.37
Auditors	Ernst&Young
Major shareholder:	
Kong jianmin*	60.49

\*Founder and Chairman of the group  
Source: Company data & Bloomberg

**Revenue composition in 1HFY12(%)**

Property development	97.4
Rental	1.1
Others	1.5

Source: Company data

**Share performance (%)**

	Absolute	Relative*
1-mth	8.1	4.8
3-mth	8.1	(0.5)
6-mth	(9.4)	(11.1)

Source: Bloomberg

\*Relative to Hang Seng Index

**1 year price performance**



Source: Bloomberg

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Previous report: Dated on 28 Sep

**KWG(1813HK) –Buy**

**Real Estate Development Industry**

**An outperformer in Q4**

**On stronger sales resources, we expect sales of KWG to catch up with peers in Q4. Also, land acquisition pace is expected to speed up. Lastly, on better economy outlook, capital is likely to continue to chase for high Beta property developers, such as KWG. Hence we expect the stock could be an outperformer in terms of both fundamental and shares price in Q4. Maintain our BUY rating with TP HK\$5.55.**

**Stabilizing policy in Guangzhou (GZ):** The selling restriction in GZ didn't spread out and only targeted for high-price residential properties, as expected. (For details please refer to report issued on 28 Sep). Projects of KWG in GZ are under good operation and sales momentum in the city are well maintained, with Summit and Riviera registering ~Rmb336.4mn sales in Sep, accounting for 27% of total sales of the group during the month.

**Sales catching up:** In order to accomplish its sales target Rmb12bn, which is 73.1% achieved as of Sep, the group aims for stronger sales in Q4. Another new project, Biological Island is expected to launch in GZ before the end of the year, per management. ~Rmb1.0-1.3bn monthly sales for Oct-Dec will be achieved by our estimation. The surging sales momentum starting in Sep is against industry, and could serve as a positive catalyst for the group in the short term. The group recorded Rmb1.3bn sales in Sep, up 52.0% YoY or 13.0% MoM, bringing in the YTD sales to Rmb8.3bn sales. But the YTD sales were still down 5% YoY, in contrast to 13% YoY surge for the industry.

**Turning aggressive on land acquisition:** Three pieces of land in Shanghai and Suzhou were purchased per recent announcement. The total att. GFA was at 336K sq.m. or 3.8% of current land bank with consideration at Rmb1.2bn. We estimated the avg. land cost at Rmb3,469/sq.m. and after-LAT GP margin ranging 30-37%. Such purchase pace fell behind peers and we expect more positive news flow in terms of land acquisitions from the group.

**Risk appetite increasing:** We witnessed a rotation play among China property developers starting in early Oct, with money flowing out of defensive themes to high Beta ones. COLI (688 HK; Beta 1.3) dropped 06% and China Recourses(1109 HK; Beta 1.3) eased 0.5% while Poly(119 HK; Beta 1.7) rose 9.4% and KWG (Beta 1.7) rose 8.7% since 3 Oct. On better economy outlook, we render such capital flow to continue in the short term.

**Risk factors:** Better/worse-than-expected sales; further unfavorable government policy; negative monthly contracted sales growth rate.

**Forecast and Valuation**

FY ended Dec 31	FY09A	FY10A	FY11A	FY12E	FY13E
Revenue (Rmbmn)	4,267	7,466	10,123	11,471	10,818
YoY chg(%)	171.0	75.0	35.6	13.3	-5.7
Net income (Rmbmn)	720	1,282	2,104	2,192	2,159
YoY chg(%)	95.4	78.0	64.1	4.2	-1.5
PE(x)	-	-	5.90	5.01	5.08
PB(x)	-	-	0.81	0.73	0.66
Dividend yield (%)	-	-	5.8	5.0	4.9
ROAE(%)	7.2	11.6	14.8	15.4	13.6

Source: Company data, Bloomberg, ABCI Securities estimates



PE band chart of KWG



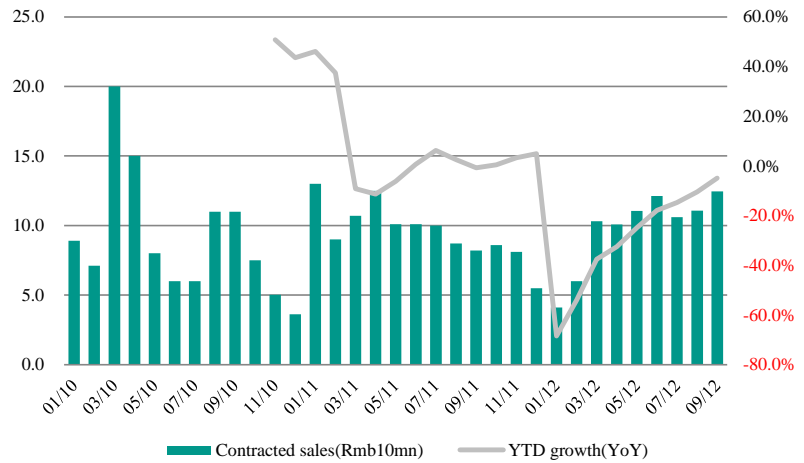
Source: Bloomberg and ABCI Securities

PB band chart of KWG



Source: Bloomberg and ABCI Securities

Monthly sales of KWG



Source: Company data and ABCI Securities

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### Definition of equity rating

Rating	Definition
Buy	Stock return $\geq$ Market return rate
Hold	Market return - 6% $\leq$ Stock return < Market return rate
Sell	Stock return < Market return - 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Time horizon of share price target: 12-month

### Definition of share price risk

Rating	Definition
Very high	$2.6 \leq 180$ day volatility/180 day benchmark index volatility
High	$1.5 \leq 180$ day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq 180$ day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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