

**Shui On Land Limited ----- Maintain OUTPERFORM**

**Better contracted sales in 2015 with more saleable resources**

EPS: ▼ TP: ◀▶

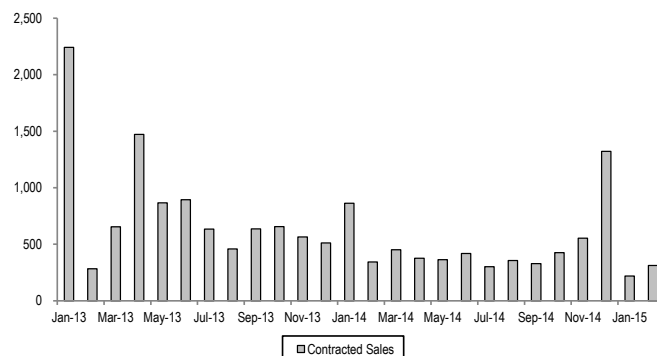
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- Shui On Land's February contracted sales were Rmb312 mn, +42% MoM and -9% YoY. YTD, contracted sales have been Rmb531 mn, at -56% YoY.
- We expect contracted sales in 2015 to recover from the 2014 bottom of Rmb9.75 bn, with abundant saleable resources. One of the key projects in 2015 is Shanghai RHXC Lot 2 and Lot 9. We expect its sales contribution to be about Rmb2-4 bn.
- Given the weaker-than-expected contracted sales in 2014, we turn more conservative on 2014 results. We expect revenue to register a mid-single digit growth of Rmb10.4 bn and expect gross margin to be at 31-32%. Core profit would be very thin due to the high finance cost. However, the weak profit booking merely reflects poor executions of project sales and construction completion during 2014 and before. Profit should rebound in FY16, with improving execution.
- We, therefore, trim our FY14E/FY15E EPS by 72%/92%, respectively, but raise FY16 EPS by 29%. Maintain OUTPERFORM. Investors should focus on the progress of the spin-off of CXTD this year.

Office Tower A3 will be another key contributor. However, sales of Lakeville Phase 4 (TPQ116) will be backend-loaded in 2015.

**Figure 1: Shui On Land—monthly contracted sales**



Source: Company data, Credit Suisse estimates.

**More conservative on 2014 results, due to lower-than-expected contracted sales**

We had highlighted in our note in November 2014 that similar to some other developers, Shui On Land would likely miss its 2014 full-year contracted sales target, due to the weak housing market prevailing since the beginning of the year. In 2014, Shui On Land concluded general contracted sales of Rmb6.107 bn (versus a target of Rmb8 bn) and en-bloc sales of Rmb3.643 bn (versus a target of Rmb5 bn).

Given the weaker-than-expected contracted sales, we turn more conservative on 2014 results. We expect revenue to register a mid-single digit growth of Rmb10.4 bn (versus consensus's Rmb10-12 bn) and expect gross margin to be at 31-32% (versus consensus's 30-32%). Core profit would be very thin, due to the high finance cost (including dividend paid to perpetual securities). In addition, we build in more conservative assumptions on booking schedule for 2015. We expect gearing to be at 80% by end 2014. We, therefore, trim our FY14/FY15E EPS by 72%/92%, respectively, but raise FY16 EPS by 29%.

**On the way to recovery**

However, the weak profit booking merely reflects poor executions of project sales and construction completion during 2014 and before. As we discussed in our initiation report [Unlocking the value is key](#) in September 2014, contracted sales will pick up in 2015 and 2016, with more saleable resources such as Lakeville Phase 4. Profit should rebound in FY16 with improving execution.

Shui On Land has been trying various means to speed up cash generation. For example, the company sold the car park space of Shanghai RHXC, valued at Rmb200 mn, in December 2014. Shui On Land is a restructuring play, with a potential for unlocking value. In the coming full-year results, investors should focus on the progress of the spin-off of CXTD and commercial properties' en-bloc sales this year.

Bbg/RIC	272 HK / 0272.HK	Price (05 Mar 15, HK\$)	1.75		
Rating (prev. rating)	O (O)	TP (prev. TP HK\$)	2.70 (2.70)		
Shares outstanding (mn)	8,001.73	Est. pot. % chg. to TP	54		
Daily trad vol - 6m avg (mn)	6.85	2-wk range (HK\$)	2.27 - 1.72		
Daily trad val - 6m avg (US\$ mn)	1.6	Mkt cap (HK\$/US\$ mn)	14,003.0 / 1,805.5		
Free float (%)	42.8	Performance	1M 3M 12M		
Major shareholders	Mr. Vincent Lo	Absolute (%)	— (7.4) (15.9)		
		Relative (%)	0.0 (10.4) (30.0)		
<b>Year</b>	<b>12/12A</b>	<b>12/13A</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>
Revenue (Rmb mn)	4,821	9,828	10,437	6,705	11,186
EBITDA (Rmb mn)	1,397	2,491	2,765	1,786	4,719
Net profit (Rmb mn)	220	1,183	238	45	2,128
EPS (Rmb)	0.03	0.16	0.03	0.01	0.26
- Change from prev. EPS (%)	n.a.	n.a.	(72)	(92)	29
- Consensus EPS (Rmb)	n.a.	n.a.	0.09	0.09	0.18
EPS growth (%)	(88.4)	402.2	(81.2)	(81.1)	4,638.3
P/E (x)	45.7	9.1	48.3	256.0	5.4
Dividend yield (%)	3.4	3.6	3.5	3.5	3.5
EV/EBITDA (x)	28.0	15.6	18.2	30.2	12.1
P/B (x)	0.3	0.3	0.3	0.3	0.3
ROE (%)	0.7	3.5	0.7	0.1	5.8
Net debt(cash)/equity (%)	74.5	65.6	85.9	93.2	94.5

Note 1: ORD/ADR=50.00. Note 2: Shui On Land is a property company in China and focuses on developing large-scale, mixed-use city-core communities and integrated residential development projects.

[Click here](#) for detailed financials

**Better contracted sales in 2015, with more saleable resources**

Shui On Land announced its February contracted sales figures on 5 March. Its February sales were Rmb312 mn, +42% MoM and -9% YoY. Volume was 15,600 sq m, +9% MoM and -3% YoY. ASP was Rmb20,000 per sq m, +3% MoM and -3% YoY. YTD, contracted sales have been Rmb531 mn, -56% YoY. Volume was 29,900 mn sq m at -23% YoY. ASP was Rmb17,800 per sq m.

We expect contracted sales in 2015 to recover from the 2014 bottom of Rmb9.75 bn, with abundant saleable resources. In 2015, one of the key projects is Shanghai RHXC Lot 2 and Lot 9. We expect its sales contribution to be about Rmb2-4 bn. On the other hand, Wuhan Tiandi

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**Companies Mentioned** (Price as of 05-Mar-2015)

**Shui On Land Limited** (0272.HK, HK\$1.75, OUTPERFORM, TP HK\$2.7)

**Disclosure Appendix**

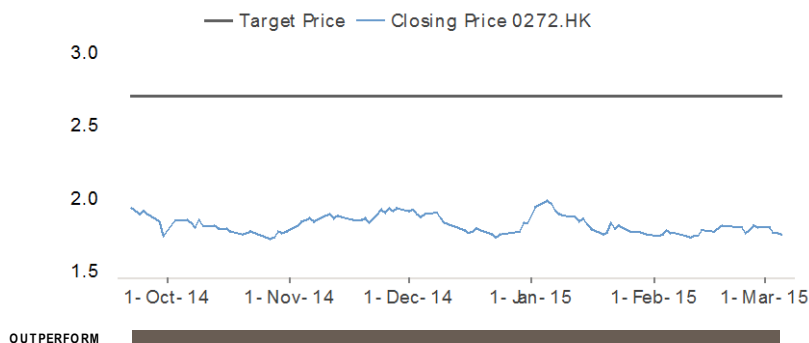
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**3-Year Price and Rating History for Shui On Land Limited (0272.HK)**

0272.HK	Closing Price	Target Price	
Date	(HK\$)	(HK\$)	Rating
22-Sep-14	1.93	2.70	O*

\* Asterisk signifies initiation or assumption of coverage.



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Underperform/Sell*	15%	(43% banking clients)
Restricted	3%	

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**Method:** Our target price of HK\$2.7 for Shui On Land is based on 45% discount to its 12-month net asset value (NAV), inline with other small cap developers under our coverage.

**Risk:** Risks to our target price of HK\$2.7 for Shui On Land are: (1) demand conditions: if demand in China slows down, its earnings and growth should be negatively affected; (2) changes in the company's financial conditions; and (3) other macro changes.

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