

FIG
Real Estate
Equity – China

Neutral

Target price (HKD)	1.83
Share price (HKD)	1.75
Forecast dividend yield (%)	0.9
Potential return (%)	5.5

Note: Potential return equals the percentage difference between the current share price and the target price, plus the forecast dividend yield

Performance	1M	3M	12M
Absolute (%)	(0.6)	(7.4)	(15.9)
Relative ^A (%)	1.1	(7.4)	(35.9)

Index ^A	HSCEI
RIC	0272.HK
Bloomberg	272 HK
Market cap (USDm)	1,795
Market cap (HKDm)	14,003
Enterprise value (CNYm)	39,854
Free float (%)	32

Note: (V) = volatile (please see disclosure appendix)

5 March 2015

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Shui On Land Limited (272 HK)

N: No excitement till 4Q, barring stronger-than-expected en-bloc deals

- ▶ **Combined Jan-Feb sales is down 56% y-o-y due to a lack of Shanghai project sales**
- ▶ **Sales pipeline is back-end loaded in 4Q; key priority is to make a bigger push in en-bloc sales**
- ▶ **We remain Neutral with a target price of HKD1.83**

Shui On Land achieved contracted sales of RMB312m in February, up 42% m-o-m but down 9% y-o-y. Stripping out the CNY effect, combined sales in the first two months of the year is down 56% y-o-y. The decline is attributable to a lack of Shanghai project sales thus far this year which also explains the 43% y-o-y decline in ASP during the same period. The weak YTD sales are in line with expectations.

No excitement till 4Q when the Shanghai project pipeline commence pre-sale. SOL is planning to launch Rainbow City (RHXC) and Taipingqiao (TPQ) in 4Q with aggregate saleable resources of RMB6bn. These are key flagship projects of the company that have achieved fairly strong sales response in the past. Specifically, RHXC had achieved sell-through rate of 100% in the past, while TPQ is a luxury project that outshines in terms of profitability with expected GP margin of c50%.

A need to make a bigger push in en-bloc transactions. Given that the company can't do much to boost its saleable resources in the coming months, it will need to make a bigger push in selling its commercial projects. Not only will this help recapitalize the balance sheet (reported net gearing stood at 75% as of June-14) but it will also help keep investors warm about the company's strategic focus in offloading non-core assets. We believe more pricing flexibility should help the company better secure these transactions and better manage cash flow amid expectation of slow residential sales during the first three quarters of the year.

Maintain Neutral rating with unchanged target price of HKD1.83. Our TP is based on a target discount of 75% (1 SD below mean) to our NAVE of HKD7.3. With expectations set very low after two years of disappointing operational performance, it is not difficult for SOL to surprise on the upside operationally. While full year sales performance could improve from 2014 amid higher Shanghai saleable resources, momentum won't pick up until 4Q and hence no excitement for the stock in the next few months, barring stronger-than-expected en-bloc sales. Key upside risk includes significantly stronger-than-expected sales, while downside risks include persistently weak sales and continual increase in financial leverage.

Financials & valuation

Shui On Land

Neutral

Financial statements

Year to	12/2013a	12/2014e	12/2015e	12/2016e
Profit & loss summary (RMBm)				
Property sales revenue	8,361	9,687	10,380	11,666
Property investment & other revenue	1,467	1,675	1,712	1,818
Cost of sales	(6,673)	(6,879)	(7,698)	(8,600)
Gross profit	3,155	4,484	4,394	4,884
SG&A	(1,266)	(1,496)	(1,744)	(1,924)
Other income and gains	163	114	125	138
Operating profit/EBIT	2,052	3,102	2,776	3,098
Net interest expense	(219)	(694)	(539)	(539)
Share of profit from asso.	(178)	126	2,313	3,086
Non operating profit/loss	3,122	0	0	0
PBT	4,777	2,534	4,550	5,645
Taxation	(2,072)	(963)	(3,129)	(3,946)
Minority interests	(580)	(537)	(553)	(728)
Net profit	2,125	1,033	867	971
Core Profit	869	1,033	867	971
Less distribution to perpetual security	(314)	(538)	(570)	(570)
Adj. core profit	555	495	297	401

Cash flow summary (RMBm)

Cash flow from operations	(4,224)	3,664	2,595	3,751
Capex	(5,093)	(6,173)	(4,836)	(3,000)
Other investing activities	4,165	(262)	2,231	(289)
New shares issued	3,015	185	0	0
Dividends paid	(386)	(407)	(183)	(149)
Other financing activities	1,407	13,836	193	225
Net change in cash	(1,116)	10,844	(1)	537
Cash at the beginning	6,287	5,172	16,015	16,014
Cash at the end	5,172	16,015	16,014	16,552

Balance sheet summary (RMBm)

Shareholders' funds	39,249	42,617	42,731	42,982
Long-term liabilities	28,776	37,489	37,571	37,571
Minority interests	2,925	3,371	3,924	4,652
Deferred items	8,423	9,258	10,218	11,325
Total capital employed	79,373	92,734	94,443	96,530
Fixed assets	53,850	62,619	68,061	74,176
Other assets	7,044	7,442	10,042	13,429
Current assets	37,708	44,797	39,854	34,094
Total assets	98,602	114,858	117,957	121,700

Ratio, growth and per share analysis

Year to	12/2013a	12/2014e	12/2015e	12/2016e
y-o-y % change				
Revenue	104%	16%	6%	12%
Operating profit	63%	40%	-5%	11%
PBT	28%	-47%	80%	24%
Reported EPS	-24%	-74%	-40%	35%
HSBC EPS	158%	-16%	-40%	35%

Ratios (%)

ROIC ex-exceptional	1%	1%	1%	1%
ROAE ex-exceptional	2%	3%	2%	2%
ROAA ex-exceptional	1%	1%	1%	1%
Operating margin	23%	28%	25%	25%
Core profit margin	9%	9%	7%	7%
Core margin (after perp. dist.)	6%	4%	2%	3%
Interest cover ex-exceptional (x)	1.7	1.0	1.4	1.6
Net debt/equity (incl. restricted cash)	59%	62%	62%	59%

Per share data (RMB)

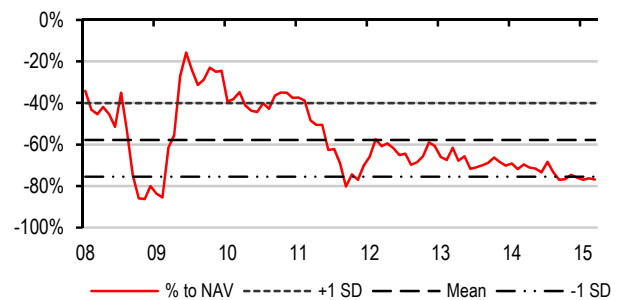
Reported EPS (diluted)	0.24	0.06	0.04	0.05
HSBC EPS (diluted)	0.07	0.06	0.04	0.05
DPS (HKD)	0.06	0.03	0.02	0.02
BV	4.91	5.33	5.34	5.37

SOL: NAV breakdown

	(RMBm)	(HKD/sh)	% of GAV
Development properties			
Residential	42,948	6.7	49.1%
Investment properties			
Office/Retail	41,205	6.4	47.1%
Others	3,331	0.5	3.8%
GAV	87,483	13.7	100.0%
Net debt (excluding restricted cash)	(28,820)	(4.5)	
Perpetual capital security	(6,188)	(1.0)	
Outstanding land premium	(1,000)	(0.2)	
Outstanding LAT	(2,689)	(0.4)	
Potential CB conversion	2,720		
12-mo fwd NAV	51,506	7.3	

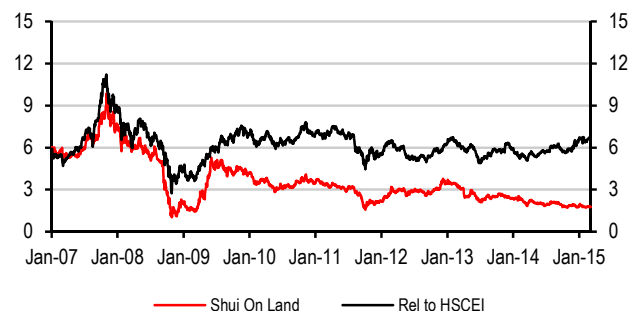
Source: HSBC estimates

NAV discount chart



Source: Company data, Thomson Reuters Datastream, HSBC estimates

Price relative



Source: Thomson Reuters Datastream, HSBC estimates

Note: Priced at close of 5 March 2015

Disclosure appendix

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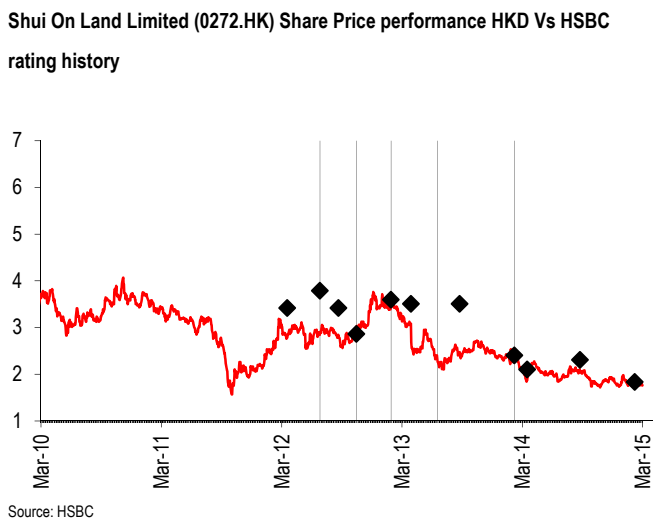
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Neutral (Hold)	39%	(28% of these provided with Investment Banking Services)
Underweight (Sell)	19%	(20% of these provided with Investment Banking Services)

Share price and rating changes for long-term investment opportunities



Recommendation & price target history

From	To	Date
Overweight	Overweight (V)	28 June 2012
Overweight (V)	Neutral (V)	17 October 2012
Neutral (V)	Neutral	30 January 2013
Neutral	Overweight	20 June 2013
Overweight	Neutral	09 February 2014
Target Price	Value	Date
Price 1	3.41	21 March 2012
Price 2	3.78	28 June 2012
Price 3	3.41	24 August 2012
Price 4	2.86	17 October 2012
Price 5	3.59	30 January 2013
Price 6	3.50	01 April 2013
Price 7	3.50	27 August 2013
Price 8	2.40	09 February 2014
Price 9	2.10	20 March 2014
Price 10	2.30	27 August 2014
Price 11	1.83	09 February 2015

Source: HSBC

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
SHUI ON LAND LIMITED	0272.HK	1.76	04-Mar-2015	4, 6

Source: HSBC

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