



HONG KONG

173 HK Neutral

Price (at 07:59, 04 Mar 2015 GMT) HK\$3.90

Valuation	HK\$	11.09
- DCF		
12-month target	HK\$	3.63
Upside/Downside	%	-6.9
12-month TSR	%	-3.1
Volatility Index		Medium
GICS sector		Real Estate
Market cap	HK\$m	10,869
Market cap	US\$m	1,402
Free float	%	19
30-day avg turnover	US\$m	0.8
Number shares on issue	m	2,787

Investment fundamentals

Year end 31 Dec		2013A	2014E	2015E	2016E
Revenue	m	7,288	2,754	3,732	10,050
EBIT	m	2,489	783	1,222	3,137
EBIT growth	%	nfmf	-68.5	56.1	156.7
Reported profit	m	1,647	757	813	2,249
Adjusted profit	m	1,473	677	813	2,249
EPS rep	¢	61.3	27.8	29.4	80.2
EPS rep growth	%	nfmf	-54.7	5.9	173.0
EPS adj	¢	54.9	24.8	29.3	80.2
EPS adj growth	%	nfmf	-54.8	18.1	173.6
PER rep	x	6.4	14.0	13.3	4.9
PER adj	x	7.1	15.7	13.3	4.9
Total DPS	¢	15.1	15.1	15.0	15.0
Total DPS growth	%	nfmf	0.2	-0.8	0.0
Total div yield	%	3.9	3.9	3.8	3.8
ROA	%	6.0	1.7	2.6	6.3
ROE	%	6.3	2.6	3.6	10.0
EV/EBITDA	x	7.7	20.5	15.6	6.0
Net debt/equity	%	13.7	39.9	33.0	-1.7
P/BV	x	0.4	0.5	0.5	0.5

173 HK rel HSI performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, March 2015
(all figures in HKD unless noted)

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5 March 2015

Macquarie Capital Securities Limited

K Wah International

Galaxy comes back to earth

Event

- We downgrade K Wah (KWAH) to Neutral from Outperform with a new PT of HK\$3.63/sh. Over the past 12 months, the share price of 3.8%-owned Galaxy Entertainment (27 HK, HK\$38.85, Underperform, TP: HK\$28.20) declined 50% (HSI up 8%) due to deteriorating GGR and visitation in Macau. Galaxy accounts for 58% of KWAH's valuation. Our gaming analyst sees Macau's GGR slowing further as China's high rollers suffer from the post credit bubble decline. We see potential for a further 30% drop in Galaxy's share price in the next 12 months, which will likely offset the upside potential from K Wah's 2015 ramp up of its property business.

Impact

- Galaxy comes back to earth.** Galaxy accounts for 58% of K Wah's valuation. The stub value of KWAH's property business (ex-attributable value of Galaxy) grew 20% to HK\$4.6bn while the attributable value of Galaxy dropped 50% to HK\$6.3bn over the last 12 months. Jan-Feb 2015 combined GGR in Macau came in at just MOP43bn, down 35% YoY from the historical record of MOP67bn set in 2014 but also the weakest Jan-Feb since 2011 (MOP38bn).
- Net gearing and capital allocation could be impacted.** While its fair value adjustment of listed securities (passive investments) should not affect net profit, net gearing is likely to be impacted due to an adjustment of reserves. We expect end-2014 shareholders' equity of HK\$23.6bn, down HK\$4bn from end-2013, and a further drop to HK\$21.5bn in FY15E on fair value adjustment of Galaxy shares. End-14E net gearing will likely rise 5ppt HoH to 43%. We expect KWAH to either expedite its property launches to hasten cash inflows or slow land purchases to maintain its group capital allocation target.
- Get ready for 2015 Hong Kong new launches.** 2015 should be the harvest year for KWAH's HK sales business. We expect it to launch two mass market projects, Twin Peaks (100% owned) and Corinthia By The Sea (40%), in Tseung Kwan O in 2015. We project HK contracted sales to grow from HK\$1.6bn in 2014 to HK\$4.0bn in 2015E, then to HK\$4.1bn in 2016E.

Earnings and target price revision

- We cut our TP by 30% to HK\$3.63 and reduce our NAV estimate by 6% to HK\$11.09. We lower our 2014-15E earnings forecasts by 19% and 23%, respectively, to HK\$0.7bn and HK\$0.8bn, to reflect slower sales assumption at Grand Summit and lower dividend income from Galaxy.

Price catalyst

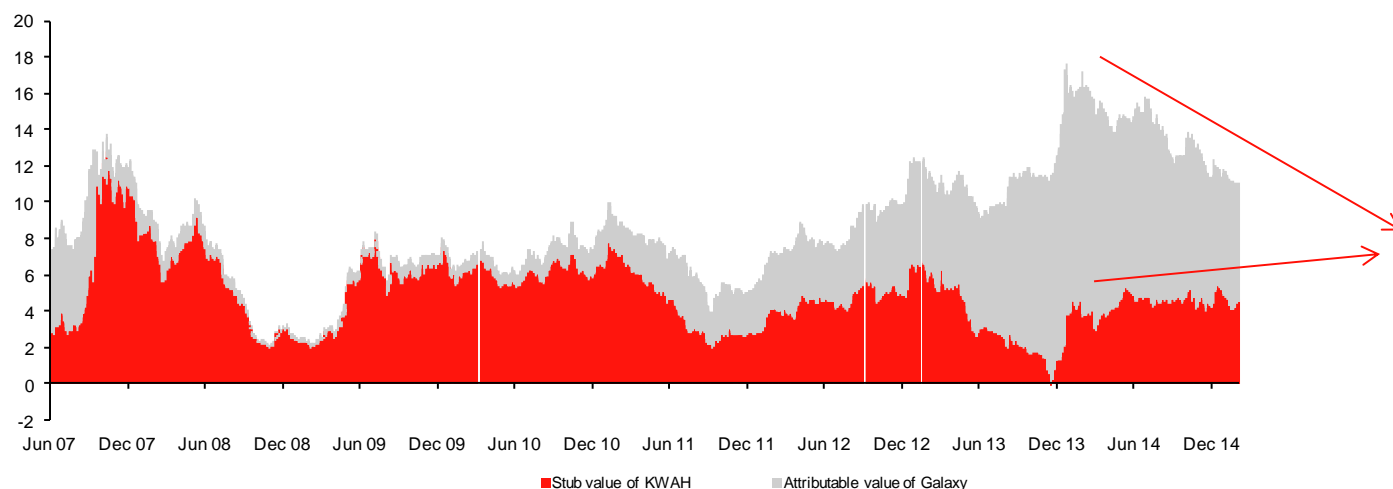
- 12-month price target: HK\$3.63 based on a DCF methodology.
- Catalyst: Stabilization of Galaxy's gaming business.

Action and recommendation

- Galaxy's share price fell 14% YTD vs 6% for KWAH, which trades at 13.3x FY15E PE, 0.5x P/BV and at a 65% NAV discount. Without fundamental improvement in Galaxy's gaming business, we view KWAH as unlikely to outperform as its share price is highly correlated to Galaxy's whose performance will likely overshadow KWAH's growing HK property business. Downgrade to Neutral.

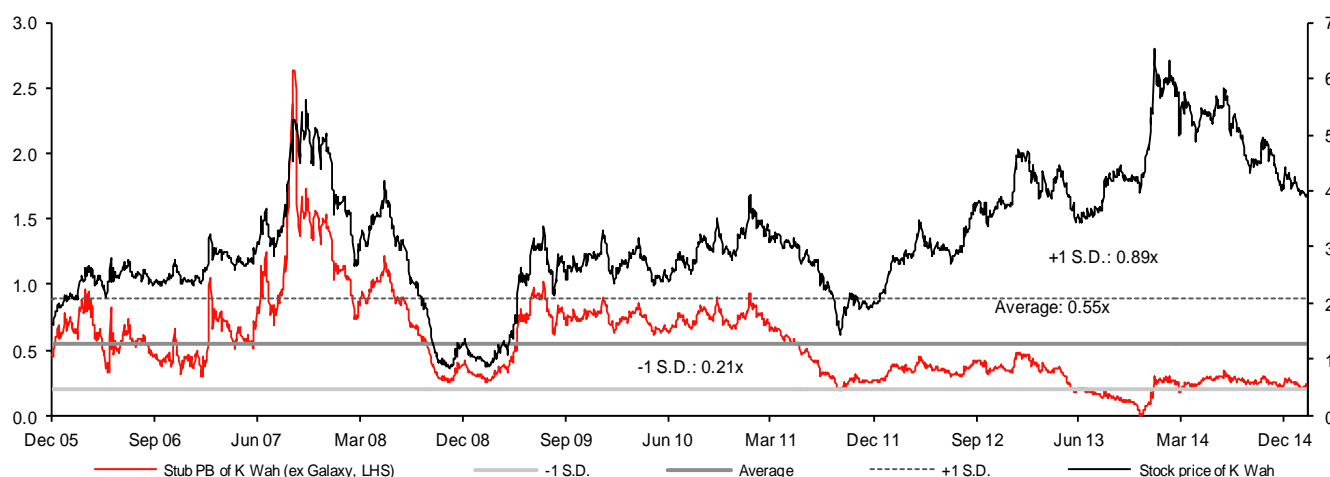
Analysis of the impact of Galaxy Entertainment on K Wah

Fig 1 Breakdown of KWAH's valuation by Galaxy and property business (HK\$bn)



Source: Bloomberg, Macquarie Research, March 2015

Fig 2 Stub PB of KWAH (excluding Galaxy, i.e property business), now trading at 0.22x PB (~ -1. S.D)



Source: Bloomberg, Macquarie Research, March 2015

Fig 3 Galaxy accounts for the bulk of K Wah's market cap

	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Jun-14	Dec-14	Latest
Market cap of Galaxy (HK\$m)	4,174	12,653	34,799	59,441	127,440	293,460	263,019	185,289	165,167
Attrib value of Galaxy (HK\$m)	171	519	1,427	2,318	4,970	11,445	10,075	7,093	6,313
Stake (%)	4.1%	4.1%	4.1%	3.9%	3.9%	3.9%	3.8%	3.8%	3.8%
Market cap of KWAH (HK\$m)	3,113	7,139	7,423	5,076	9,824	12,747	14,698	11,455	10,870
Stub value of KWAH (HK\$m)	2,942	6,621	5,996	2,758	4,854	1,302	4,623	4,362	4,557
Attrib of Galaxy / K Wah mkt cap	5%	7%	19%	46%	51%	90%	69%	62%	58%
BV of KWAH (HK\$m)	7,706	8,905	10,209	12,749	19,357	27,619	27,619	26,458	26,458
BV of Galaxy (HK\$m)	172	518	1,427	2,311	4,923	11,293	10,075	7,093	6,313
Stub BV of KWAH (HK\$m)	7,533	8,386	8,782	10,439	14,434	16,326	17,544	19,365	20,145
PB (x)	0.40	0.80	0.73	0.40	0.51	0.46	0.53	0.43	0.41
Stub PB (x)	0.39	0.79	0.68	0.26	0.34	0.08	0.26	0.23	0.23

Source: Bloomberg, Company data, Macquarie Research, March 2015

Negative outlook for Macau Gaming Industry

Our gaming analyst, Jamie Zhou, is negative on the prospects for sthe **Macau gaming industry**. Jan-Feb 2015 combined GGR in Macau came in at just MOP43bn, down 35% YoY from the historical record of MOP67bn set in 2014 but also the weakest Jan-Feb since 2011 (MOP38bn). More worrying is the sequential drop in GGR daily run-rate which showed a sharp downtrend. Visitation, particularly from Mainland China, has also pulled back from the 2H14 peak. January overall visitation was -2% YoY while China visitation came in at -1%, a trend which continued into CNY week. This might have been attributable to ongoing visa restrictions, border congestion and a weakening of regional currencies prompting leisure travellers from China to head elsewhere. For details please refer to Jamie's report, **Macau Gaming – You build it, Tuhaos may not come**, 5 March 2015.

We continue to see Macau's GGR **slowdown as structural** in nature with the high rollers' (VIP and premium mass alike) ultimate source of wealth, the Chinese SMEs, suffering from post credit bubble decline. The Macau industry remains expensive at 14x FY16E EBITDA; rich even compared with its historical average of 12x and the 2012 bear cycle average of 10.6x

We further reduce our Macau-wide GGR forecasts by -24%, +7% and +5% for FY15/16/17E, respectively, from -8%, +4%, and +3% previously. The bulk of our revision comes from the VIP segment where the sequential pace of decline appears more punishing. We continue to forecast structural decline in this segment by a low-teens percentage annually.

K Wah owns a 3.8% stake in Galaxy and Galaxy accounts for 56% of KWAH's market cap of HK\$10.9bn. Jamie Zhou today cut his TP for Galaxy (27 HK) by 15% from HK\$33.2/sh to HK\$28.2/sh, implying 28% TSR downside. His 2015-16E EBITDA estimates are lowered by 26% and 18% to HK\$9.2bn and HK\$9.7bn, respectively.

Fig 4 Reducing Macau-wide GGR growth forecasts

		Old forecasts			New forecasts			New forecast vs. old (%)		
		2015	2016	2017	2015	2016	2017	2015	2016	2017
Total GGR	US\$ mn	40,421	41,907	43,016	33,182	35,498	37,325	-18%	-15%	-13%
YoY		-8%	4%	3%	-24%	7%	5%			
VIP	US\$ mn	22,624	21,271	19,031	17,339	15,625	13,637	-23%	-27%	-28%
YoY		-14%	-6%	-11%	-34%	-10%	-13%			
Mass	US\$ mn	16,158	18,732	21,949	14,377	18,034	21,691	-11%	-4%	-1%
YoY		2%	16%	17%	-9%	25%	20%			
Slots	US\$ mn	1,638	1,903	2,036	1,466	1,840	1,997	-11%	-3%	-2%
YoY		-11%	16%	7%	-20%	25%	9%			

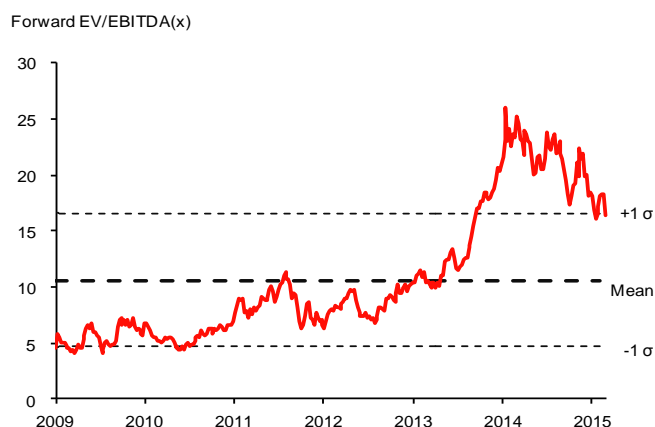
Source: Macquarie Research, March 2015

Fig 5 Change of Galaxy (27 HK) forecasts

	Currency	Old Forecasts			New Forecasts			% change		
		FY14	FY15	FY16	FY14	FY15	FY16	FY14	FY15	FY16
Revenue	HK\$ mn	72,450	74,094	75,461	72,187	59,423	61,521	0%	-20%	-18%
EBITDA	HK\$ mn	13,523	12,509	11,829	13,275	9,208	9,742	-2%	-26%	-18%
EPS	HK\$	2.54	2.09	1.67	2.48	1.34	1.15	-2%	-36%	-31%
DPS	HK\$	1.19	0.84	0.67	1.19	0.54	0.46	0%	-36%	-31%

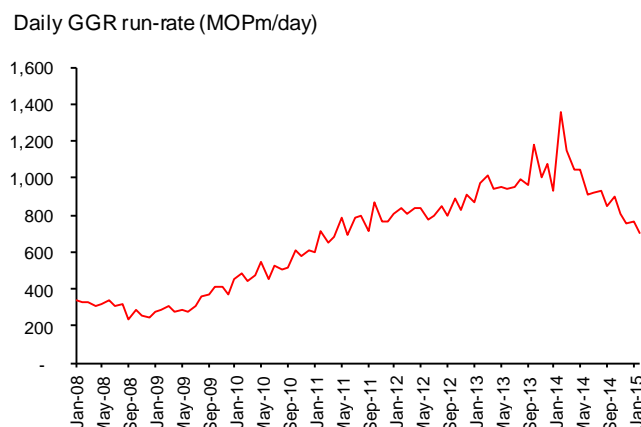
Source: Macquarie Research, March 2015

Fig 6 Galaxy Forward EV/EBITDA



Source: Bloomberg, Macquarie Research, March 2015

Fig 7 Daily GGR showing sharp downward trend



Source: LY.com, Macquarie Research, March 2015

What has changed?

We lower our price target and NAV estimates by 30% and 6%, respectively, due to the following changes in our assumptions:

- Lower valuation of Galaxy Entertainment (27 HK) with a more cautious outlook on the Macau gaming sector with Galaxy's target price today cut by 15% to HK\$28.20/sh (Underperform recommendation).
- Fair value of Galaxy reduced from HK\$11.3bn at end-2013 to HK\$6.9bn at end-2014E and to HK\$4.4bn at end-2015E on KWAH's balance sheet; and reduced dividend income from Galaxy
- Lower sales assumption for the Shanghai Grand Summit project with the project's ASP cut from Rmb100k to 98k psm.
- Increase in beta from 1.60 to 1.70, as the high volatility of the market value of its Galaxy Entertainment investment impacts the level of KWAH's net gearing.

Fig 8 Changes and versus consensus (HKD m)

	Price target HK\$	NAV HK\$	Revenue (HK\$m)		Underlying profits* (HK\$m)	
			2014F	2015F	2014F	2015F
New	3.63	11.09	2,754	3,732	677	813
Old	5.15	11.81	3,212	4,745	839	1,059
Difference (%)	-29.6%	-6.1%	-14.3%	-21.3%	-19.3%	-23.2%
Consensus			2,801	5,323	713	1,021
Difference (%)			-1.7%	-29.9%	-5.0%	-20.4%

* Adjusted for revaluation gains on investment properties and net of deferred tax.

Source: Bloomberg, Macquarie Research, March 2015

Valuation methodology

Our end-1H15 NAV estimate of HK\$11.09 includes HK\$9.62 of development properties for sale, HK\$2.99 of investment properties for lease and HK\$1.52 of net debt. Our new target price of HK\$3.63 is at a 67% discount to our end-1H15E NAV.

Our NAV estimate is the sum of GAV (gross asset value, before deducting net debt and other working capital) of individual projects plus net cash, net working capital and other investments of the whole company. Non-real estate assets and investments are stated at the latest reported book value. GAV is the sum of all projects' free cash flows (FCF) over the next ten years, as shown in the table below. We assume all rental assets will be disposed of in 2023, and there is no terminal value.

We assume property prices in Hong Kong continue to trend down with 5% downside in 2015. For mainland China, we assume property prices increase by 5% for the luxury segment in tier-one cities and 5-10% for the rest of tier-1/2 cities, respectively, in 2015, and rise another 5-10% in 2016. The discount rate we use is based on a risk-free rate of 2%, an equity risk premium of 5% and a historical beta of 1.02. For projects with negative total free cash flows, especially investment properties, we keep a floor value at the costs already incurred and carried on the book.

Our target price is an adjusted version of NAV. For our target price calculation, we factor in only the next three years of FCF derived from a bottom-up project launch projection but followed by FCF based on top-down company-wide volume and price growth or decline assumptions in the remaining seven years, without considering individual project performance. The three stages of FCF are: 1) near-term (91% of total GAV), based on the current land bank without factoring in any new acquisitions between 2014 and 2016; 2) medium-term (7% of total GAV), based on continuous replenishment to keep the land bank size unchanged over 2017-19; and 3) long-term (7% of total GAV) based on a gradually depleting land bank after 2019 without acquisitions. Our target price values non-real estate assets using P/E, P/B or EV/EBITDA multiples. A subjective forward beta of 1.70 is used for our target price instead of historical beta of 1.02 for NAV to account for higher management execution risks and future market volatilities affecting the valuation of assets.

NAV reflects the value of the land bank and tends to be higher than reported book value (HK9.74/sh at June 2014). In our view, the latter does not give sufficient credit or discount to the company's market positioning, growth aspirations and execution track record. We believe our target price captures all the above aspects and is heavily influenced by our judgment of management's quality, as reflected in our choice of beta and our medium-term assumptions for the company's overall volume, price and cost growth. A detailed valuation breakdown is shown in Fig 14.

Fig 9 Enterprise free cash flows

(in HKD billion) fiscal year	Near term 91% of GAV			Medium term 7% of GAV			Long term 1% of GAV			
	2014F	2015F	2016F	2017F	2018F	2019F	2020F	2021F	2022F	2023F
	Cash flows of development properties only (based on existing land bank, attributable basis unless specified)									
Contracted sales (Gross)	10.7	11.4	15.6	17.1	10.4	4.8	4.3	7.2	1.3	-
Cash sales	4.7	8.1	11.6	13.9	8.9	4.1	3.9	7.2	1.3	-
Land purchase	(5.6)	-	-	-	-	-	-	-	-	-
Construction capex	(2.2)	(2.8)	(2.7)	(1.8)	(1.2)	(1.1)	(1.5)	(1.3)	(0.8)	-
SGA outflows	(0.3)	(0.5)	(0.7)	(0.8)	(0.5)	(0.2)	(0.2)	(0.4)	(0.1)	-
Taxes and other outflows	(0.8)	(0.7)	(1.5)	(1.7)	(1.1)	(1.0)	(0.7)	(1.0)	(0.8)	(0.1)
#1 Free cash flows	(4.2)	4.1	6.8	9.6	6.0	1.7	1.5	4.4	(0.3)	(0.1)
Cash flows of investment properties only (attributable)										
Rental income of operating assets	0.3	0.3	0.4	0.5	0.6	0.7	0.7	0.7	0.7	0.7
Related expenses	(0.2)	(0.2)	(0.2)	(0.4)	(0.5)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Total capex	(0.7)	(0.7)	(0.6)	(0.3)	-	-	-	-	-	-
#2 Free cash flows	(0.5)	(0.5)	(0.5)	(0.1)	0.2	0.2	0.3	0.3	0.3	0.3
Attributable free cash flow (including both development properties and investment properties)										
	(4.8)	3.5	6.3	9.5	6.2	1.9	1.8	4.7	(0.1)	0.2
For valuation purposes of development properties: existing land bank + land bank replenishment during medium term (attributable)										
Cash sales	4.7	8.1	11.6	2.1	0.3	0.0	0.0	0.0	0.0	0.0
Total capex	8.9	4.0	4.9	1.4	0.2	0.0	0.0	0.0	0.0	0.0
#3 Free cash flows	(4.2)	4.1	6.8	0.7	0.1	0.0	0.0	0.0	0.0	0.0

Source: Macquarie Research, March 2015

Fig 10 Target price derivation

	HKD/share	
DCF for development properties	3.18	A / shares
GAV for investment properties	1.79	B / shares
Net cash	(3.16)	C / shares
Other assets	1.81	D / shares
Target price	3.63	(A+B+C+D) / shares
	HK\$ m	
Valuation breakdown	17,203	A + B
Total development properties (DCF)	8,870	A
Near term from 2014 to 2016	8,093	
Medium term from 2017 to 2019	656	
Long term beyond 2019	121	
Total investment properties (NAV)	8,333	B
Hotel	271	
Retail for Lease	2,720	
Office for Lease	2,950	
Residential for Lease	2,392	
Carparks	-	

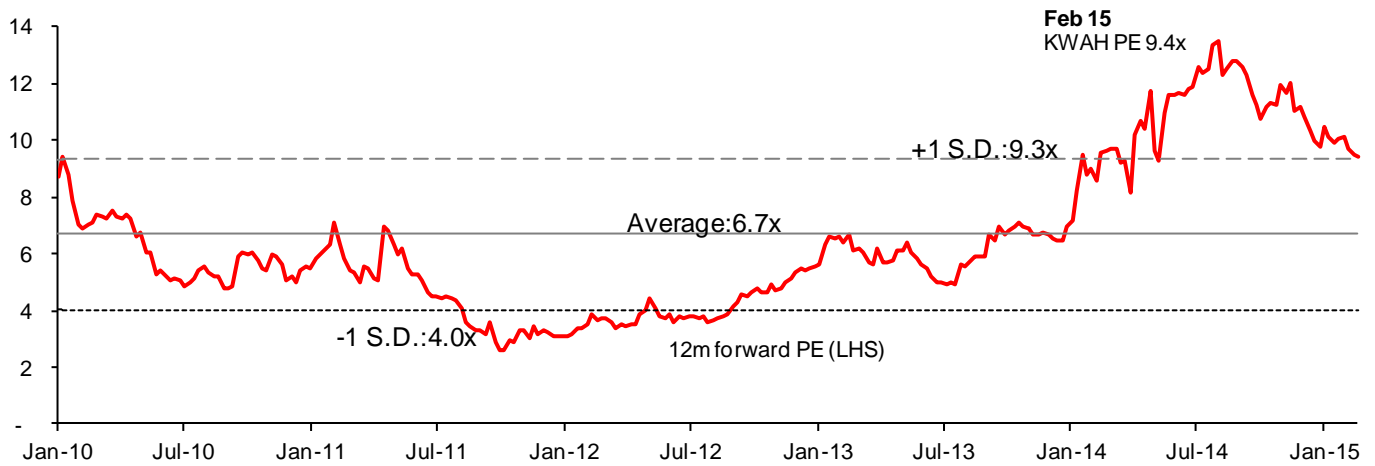
Source: Macquarie Research, March 2015

Fig 11 NAV derivation

	HKD/share	
NAV/share	11.09	E / shares
	HK\$ m	
NAV	30,919	E = F + X + Y + Z
Total gross asset value	35,144	F = G + H
Net cash	(8,813)	X
Net working capital	(292)	Y
Other investments	4,880	Z
Total development properties	26,811	G
Residential	26,720	
Retail for Sale	91	
Office for Sale	-	
Total investment properties	8,333	H
Hotel	271	
Residential for Lease	2,392	
Retail for Lease	2,720	
Office for Lease	2,950	
Carparks	-	
No. of outstanding shares	2,787	

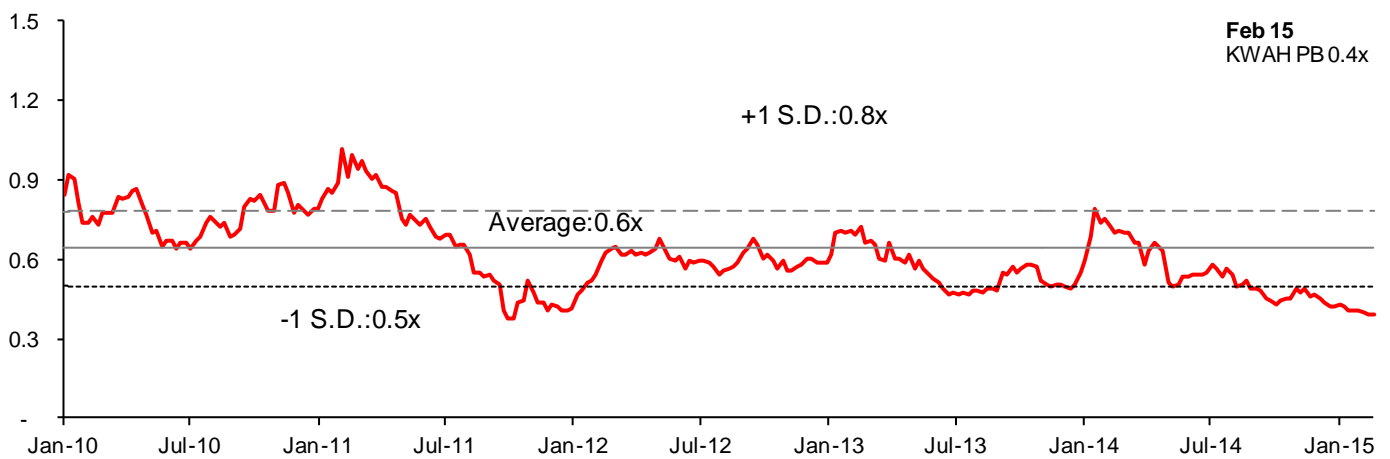
Source: Macquarie Research, March 2015

Fig 12 Consensus 12mth forward PER for KWAH



Source: Datastream, Macquarie Research, March 2015

Fig 13 P/BV for KWAH



Source: Datastream, Macquarie Research, March 2015

Key assumptions and sensitivity analysis

Fig 14 Key price and rental assumptions

Residential price growth	China – Tier-one cities			China – Tier-two cities			Hong Kong		
	2015F	2016F	Cap rate	2015F	2016F	Cap rate	2015F	2016F	Cap rate
Villas	5%	5%		5%	5%		0%	0%	
Luxury	5%	5%		5%	5%		0%	0%	
Above average	10%	10%		10%	10%		-5%	0%	
Mass market	10%	10%		5%	10%		-5%	0%	
Remote	5%	5%		5%	5%		-5%	0%	
Office rental growth									
Top Grade A	0%	0%	6.0%	0%	0%	9.0%	6%	5%	4.0%
Grade A	0%	0%	8.0%	0%	0%	10.0%	5%	5%	3.5%
Grade B	0%	0%	10.0%	0%	0%	11.0%	5%	5%	5.5%
Retail rental growth									
Mall	0%	0%	7.0%	0%	0%	8.0%	4%	3%	4.5%
Street	0%	0%	8.0%	0%	0%	9.0%	4%	3%	3.5%
Auxiliary	0%	0%	9.0%	0%	0%	10.0%	2%	1%	5.5%
Hotel rental growth									
5-star	0%	0%	8.0%	0%	0%	9.0%	0%	0%	6.5%
4-star	0%	0%	9.0%	0%	0%	10.0%	0%	0%	7.5%
3-star	0%	0%	10.0%	0%	0%	11.0%	0%	0%	8.5%

Source: Macquarie Research, March 2015

Fig 15 Scenario analysis

	Worst	Worse	Better	Best	Base
Results					
NAV (HKD/share)	7.8	8.9	11.8	12.3	11.09
Implied value (HKD /share)	1.92	2.37	3.98	4.31	3.63
FY15E net gearing (%)	46%	44%	34%	32%	36%
Revenue (HKD bn)					
2015E	3.0	3.1	3.8	4.0	3.7
2016E	7.9	8.2	10.4	10.7	10.1
Earnings (HKD bn)					
2015E	0.3	0.4	0.9	1.0	0.8
2016E	0.6	0.9	2.7	3.0	2.2
Free Cash Flows (HKD bn)					
2015E	2.6	2.8	4.4	4.7	4.1
2016E	4.7	5.1	7.0	7.0	6.8
Price					
2015 Variance	-10%	-10%	5%	5%	n/a
2016 Growth	-5%	5%	5%	0%	n/a
Volume					
2015 Variance	-5%	0%	0%	0%	-
2016 Variance	0%	0%	0%	0%	-

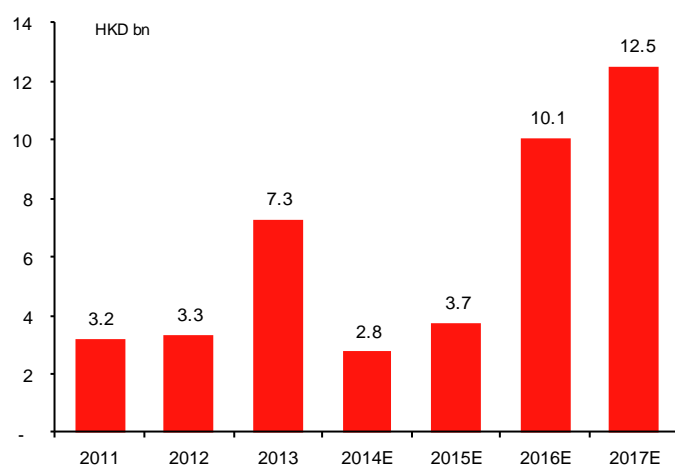
Source: Macquarie Research, March 2015

Fig 16 Financial summary (HKD m)

Summary	2013	2014F	2015F	2016F	2017F
Revenue	7,288	2,754	3,732	10,050	12,497
Cost of sales	(4,142)	(1,382)	(1,905)	(6,277)	(8,693)
Gross profit	3,147	1,372	1,828	3,773	3,803
Adjusted net profit	1,473	677	813	2,249	1,983
Gross margin	43%	50%	49%	38%	30%
Underlying profit margin	20%	26%	22%	22%	17%
Financial stability					
Net gearing	14%	43%	36%	-2%	-39%
Interest coverage	4.8	1.5	1.8	4.6	4.7
Associates/Net profit	9%	28%	8%	14%	7%
SGA/Revenue	9%	24%	18%	7%	6%
Tax/Pre-tax income	45%	40%	43%	40%	37%
Net operating cash flow	(2,863)	(6,209)	3,189	7,012	10,893
Net investing cash flow	3,021	4,702	1,918	1,352	233
Net financing cash flow	(1,849)	387	(2,721)	(221)	(1,724)

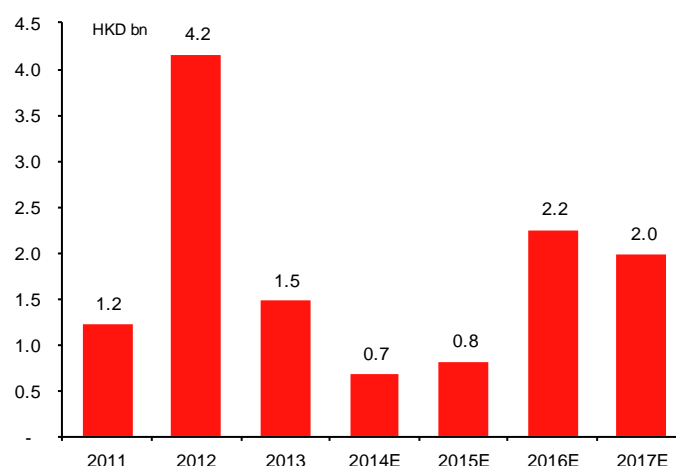
Source: Company data, Macquarie Research, March 2015

Fig 17 KWAH revenue growth, FY11–17E



Source: Company data, Macquarie Research, March 2015

Fig 18 KWAH adjusted earnings growth, FY11–17E

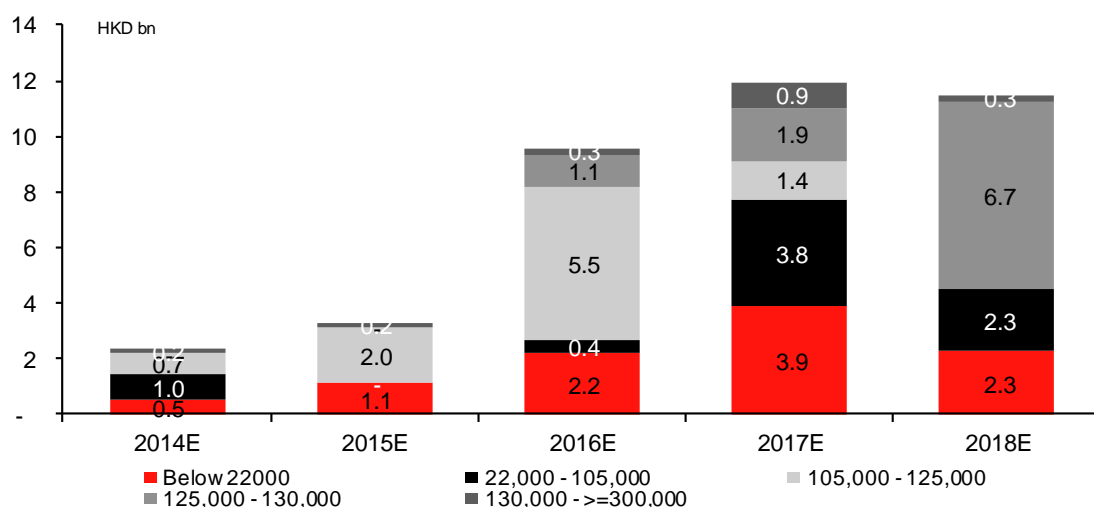


Source: Company data, Macquarie Research, March 2015

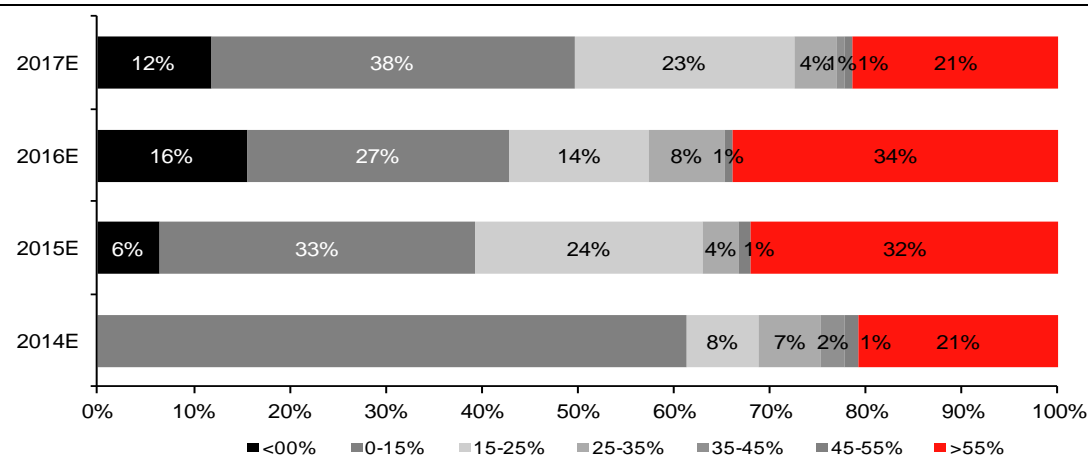
Fig 19 Property-related revenue breakdown and contributions of associates (HKD m)

Revenue	2014E	2015E	2016E	Share of associates	2014E	2015E	2016E
Residential for Sale	2,355	3,322	9,598	Residential for Sale	190	68	309
Retail for Sale	-	-	-	Retail for Sale	-	-	-
Office for Sale	-	-	-	Office for Sale	-	-	-
Development properties	2,355	3,322	9,598	Development properties	190	68	309
Hotel	79	79	79	Hotel	-	-	-
Residential for Lease	-	-	20	Residential for Lease	-	-	-
Retail for Lease	79	85	100	Retail for Lease	0	1	2
Office for Lease	240	247	253	Office for Lease	-	-	-
Investment properties	398	411	452	Investment properties	0	1	2
Car parks	-	-	-	Car parks	-	-	-
Total	2,754	3,732	10,050	Total	190	69	311
China and others	2,493	3,468	7,014	China and others	-	-	-
Hong Kong	261	265	3,036	Hong Kong	190	69	311
Total	2,754	3,732	10,050	Total	190	69	311

Source: Company data, Macquarie Research, March 2015

Fig 20 Revenue breakdown of development projects by ASP (HKD psm)

Source: Macquarie Research, March 2015

Fig 21 Breakdown of contracted sales by gross margin (%) – forecasts

Source: Macquarie Research, March 2015

Fig 22 Breakdown of property sales and GFA completion

In reported currency, fiscal year	2014E	2015E	2016E	2017E	2018E
Development and investment properties, gross, before sharing (000 sqm)					
GFA Completed	214	103	330	445	191
For sales (development properties)	194	99	263	290	191
For rent (investment properties)	20	4	67	154	-
Development properties, gross, before sharing (000 sqm)					
GFA sold by contract	217	223	311	274	145
GFA inventory	178	139	102	55	39
Attributable GFA sold by contract, after sharing (000 sqm)	174	188	277	255	142
Development properties of subsidiaries, after sharing					
GFA Booked (000 sqm)	85	114	249	319	204
Previous years' inventory sold this year	45	25	41	30	13
Pre-sold last year, completed this year	20	40	160	195	134
Sold and completed this year	20	50	47	93	57
Revenue (m)	2,355	3,322	9,598	11,938	11,505
Previous year's inventory sold this year	1,153	2,295	2,421	2,522	1,751
Pre-sold last year, completed this year	375	410	4,344	5,194	6,820
Sold and completed this year	827	617	2,832	4,221	2,934
Gross contracted sales, including 100% associates, before sharing (m, reported currency)					
Total amount	10,699	11,423	15,624	17,141	10,421
Consolidated amount of subsidiaries after sharing	3,299	6,855	10,881	13,919	8,323
Breakdown of booked sales (Rmb/sqm)					
Average selling price, after sharing	22,263	23,371	30,873	29,979	45,115
Average construction cost, after sharing	8,495	7,493	10,364	8,633	12,630
Average land cost, after sharing	10,647	5,646	10,620	10,023	21,109

Source: Macquarie Research, March 2015

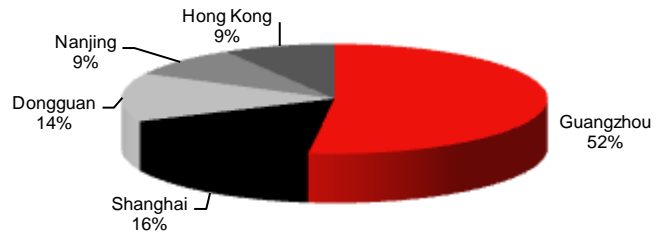
Fig 23 End-14E land bank breakdown by city

	000 sqm	% of total
Guangzhou	787	52%
Shanghai	247	16%
Dongguan	217	14%
Nanjing	135	9%
Hong Kong	129	9%
Others	-	0%
Total	1,514	100%

The company has projects spread over 5 cities. In terms of GFA, Guangzhou has the largest land bank, accounting for 52% of total GFA, followed by Shanghai, Dongguan, Nanjing and Hong Kong. Tier-one cities, including HK and Macau, contribute 77% of GFA while tier-two cities account for 10%.

Source: Company data, Macquarie Research, March 2015

Fig 24 End-14E land bank breakdown by city



Source: Company data, Macquarie Research, March 2015

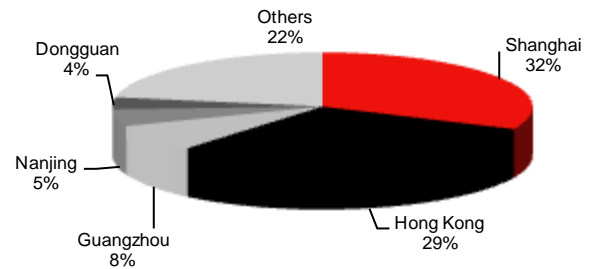
Fig 25 End-FY14E GAV breakdown by city

	HKD m	% of total
Shanghai	11,456	32%
Hong Kong	10,518	29%
Guangzhou	2,894	8%
Nanjing	1,816	5%
Dongguan	1,286	4%
Others	8,012	22%
Total	35,981	100%

We estimate end-14 GAV of Shanghai accounts for 32% of the value, followed by Hong Kong, Guangzhou, Nanjing and Dongguan. Tier-one cities, including HK and Macau, contribute 65% of value while tier-two and tier-three cities account for 6% and 26%.

Source: Company data, Macquarie Research, March 2015

Fig 26 End-14E GAV breakdown by city



Source: Company data, Macquarie Research, March 2015

Fig 27 KERR property development exposure by city

	BJ	SH	GZ	Tier-1 cities SZ	HK	Singapore+ Macau	Tier-2 cities	Tier-3 cities	Others	Total
Revenue – 2014E	0%	65%	8%	0%	6%	0%	0%	0%	20%	100%
Revenue - 2015E	0%	55%	30%	0%	5%	0%	0%	0%	11%	100%
Revenue - 2016E	0%	44%	11%	0%	29%	0%	0%	11%	5%	100%
GAV - 2014E	0%	32%	8%	0%	29%	0%	5%	4%	22%	100%
GAV - 2015E	0%	29%	8%	0%	27%	0%	6%	4%	25%	100%
GFA – 2014E	0%	16%	52%	0%	9%	0%	9%	14%	0%	100%
GFA – 2015E	0%	17%	53%	0%	7%	0%	10%	13%	0%	100%

Source: Company data, Macquarie Research, March 2015

Fig 28 Major revenue contribution by development properties in coming years (HKDm)

Revenue	City	2014E	2015E	2016E	2017E	2018E
Upstream Park	Shanghai	780	41	0	0	0
Grand Summit	Shanghai	516	2,008	2,624	1,884	753
The Palace	Shanghai	499	0	1,378	1,418	0
Chantilly	Mid-Levels	171	171	274	287	287
J Metropolis	Guangzhou	164	0	927	1,002	0
Jiahua Plaza	Guangzhou	0	1,027	122	0	0
Le Palais	Guangzhou	67	74	82	82	0
Shilong Xihu project	Dongguan	0	0	1,082	1,165	632
Westwood	Shanghai	0	0	0	0	0
Maigao Qiao G68 project	Nanjing	0	0	0	1,634	1,634
Twin Peaks	Tseung Kwan O	0	0	2,660	0	0
Windemere	Shanghai	0	0	450	270	180
The Summit	Jiangmen	158	0	0	0	0
Weifang Village Street project	Shanghai	0	0	0	0	0
Jinqiao Pudong project	Shanghai	0	0	0	0	1,547
Long Ping West Rail project	Yuen Long	0	0	0	3,563	531
2 Grampian Road	Kowloon Tong	0	0	0	632	0
Providence Bay	Tai Po	0	0	0	0	0
Mayfair by the Sea I	Tai Po	0	0	0	0	0
Providence Peak	Tai Po	0	0	0	0	0
Area1I Site 2 project	Kai Tak	0	0	0	0	5,940
Corinthia By The Sea	Tseung Kwan O	0	0	0	0	0
The Coronation	Olympian Station	0	0	0	0	0
The Coronation	Olympian Station	0	0	0	0	0
30 Po Shan Road	Mid-Levels	0	0	0	0	0
Others		-	-	-	-	-
Total		2,355	3,322	9,598	11,938	11,505

Source: Company data, Macquarie Research, March 2015

Fig 29 Major gross contracted sales contribution in coming years (HKDm)

Contracted sale		2014E	2015E	2016E	2017E	2018E
Mayfair by the Sea I	Tai Po	5,695	881	881	537	149
Marinella	Aberdeen	982	491	327	344	344
Grand Summit	Shanghai	910	2,229	2,311	1,994	798
J Metropolis	Guangzhou	751	404	637	424	728
Providence Peak	Tai Po	723	687	264	277	277
Corinthia By The Sea	Tseung Kwan O	0	3,209	1,070	0	0
Twin Peaks	Tseung Kwan O	0	1,995	665	0	0
Providence Bay	Tai Po	0	904	1,052	1,421	155
The Palace	Shanghai	529	858	1,501	601	1,802
Jiahua Plaza	Guangzhou	470	617	130	0	0
Long Ping West Rail project	Yuen Long	0	0	3,192	1,117	0
Shilong Xihu project	Dongguan	214	561	1,234	816	223
Maigao Qiao G68 project	Nanjing	0	0	1,211	1,730	519
Windemere	Shanghai	0	0	476	286	190
2 Grampian Road	Kowloon Tong	0	0	372	260	0
Area1I Site 2 project	Kai Tak	0	0	0	4,158	1,782
Jinqiao Pudong project	Shanghai	0	0	0	1,229	410
Chantilly	Mid-Levels	171	171	274	287	287
Le Palais	Guangzhou	71	78	86	86	0
Upstream Park	Shanghai	380	44	0	0	0
30 Po Shan Road	Mid-Levels	0	0	0	0	1,144
Weifang Village Street project	Shanghai	0	0	0	0	1,054
Westwood	Shanghai	0	0	0	0	0
The Summit	Jiangmen	167	0	0	0	0
The Coronation	Olympian Station	0	0	0	0	0
Others		-	-	-	-	-
Total		11,063	13,131	15,683	15,568	9,862

Source: Company data, Macquarie Research, March 2015

Fig 30 Summary of development properties (HKDm) – 2014

Development properties	City	Own (%)	GFA*	Sales	Time of Delivery	Cost^ of		Current Price^ margin	GFA sold year-end	During the year Revenue	Asso	Projected Attributable free cash flows										Disc Rate	Gross asset value							
						Land	Const.					2014	2015	2016	2017	2018	2019	2020	2021	2022	2014		2015	2016						
2014																														
Mayfair by the Sea I (TPTL 201, 539 apartments)	Tai Po/HK	15%	55	Jun 14	Sep 14	7,937	3,832	12,500	6%	75%	-	(17)	509	86	84	44	0	-	-	-	-	-	-	-	6.3%	198	122	43		
Marinella P2	Aberdeen/HK	35%	5	Jun 14	Jun 12	9,723	4,065	50,000	72%	40%	-	189	259	99	71	81	80	(10)	-	-	-	-	-	-	6.3%	287	203	142		
Providence Peak (TPTL 188, 537 apartments)	Tai Po/HK	25%	79	Jun 12	Jul 12	3,902	3,484	8,500	13%	90%	-	8	135	128	(1)	-	-	-	-	-	-	-	-	-	6.3%	123	(1)	-		
Upstream Park (嘉怡水岸, 266 units) P4	Shanghai	100%	26	Sep 13	Sep 14	4,150	5,000	19,600	53%	100%	574	-	35	(16)	-	-	-	-	-	-	-	-	-	-	7.1%	(16)	-	-		
Grand Summit (嘉天匯 Residential, 156 units T5-7) P1a	Shanghai	100%	17	Sep 14	Sep 14	18,000	12,000	98,000	69%	45%	516	-	358	638	131	(84)	-	-	-	-	-	-	-	-	7.1%	664	51	(81)		
The Palace (嘉御庭 T1-3)	Shanghai	100%	24	Oct 11	Mar 13	18,000	9,000	81,000	67%	100%	309	-	117	(54)	-	-	-	-	-	-	-	-	-	-	7.1%	(53)	-	-		
The Palace (嘉御庭 T5-6)	Shanghai	100%	9	Mar 13	Sep 13	18,000	9,000	90,500	70%	100%	190	-	(11)	(38)	-	-	-	-	-	-	-	-	-	-	7.1%	(36)	-	-		
Chantilly (嘉柏薈, 18 units)	Mid-Levels/HK	100%	5	Jun 14	Sep 10	5,307	4,065	33,800	72%	10%	171	-	129	114	191	192	191	191	191	191	(25)	-	-	6.3%	870	807	661			
J Metropolis (嘉匯城, 6 tower; 564 units) P1	Guangzhou	100%	73	Oct 12	Sep 13	1,000	5,500	9,500	32%	100%	164	-	123	1	-	-	-	-	-	-	-	-	-	-	7.1%	1	-	-		
The Summit (嘉峰匯, 327 units/3 towers)	Jiangmen	100%	35	Nov 13	Sep 13	1,000	4,500	8,500	35%	100%	158	-	109	(5)	-	-	-	-	-	-	-	-	-	-	7.1%	(5)	-	-		
Mayfair by the Sea I (TPTL 201, 7 villas)	Tai Po/HK	15%	2	Jun 14	Sep 14	7,937	3,832	30,000	61%	20%	-	10	12	14	15	15	15	(2)	-	-	-	-	-	-	6.3%	52	40	27		
Upstream Park (嘉怡水岸, 79 units) P5	Shanghai	100%	8	Sep 14	Sep 14	4,150	5,000	15,500	41%	75%	113	-	72	24	(2)	-	-	-	-	-	-	-	-	-	7.1%	21	(2)	-		
Le Palais (嘉爵園)	Guangzhou	100%	48	Jul 11	Mar 12	4,333	4,500	12,000	26%	70%	67	-	49	53	59	59	(1)	-	-	-	-	-	-	-	7.1%	153	109	56		
Upstream Park (嘉怡水岸, 520 units) P2	Shanghai	100%	46	Sep 12	Sep 13	4,150	5,000	19,600	53%	100%	54	-	11	(4)	-	-	-	-	-	-	-	-	-	-	7.1%	(4)	-	-		
Upstream Park (嘉怡水岸, 180 units + 79 retail units) P1	Shanghai	100%	34	Jul 12	Sep 13	4,150	5,000	19,600	53%	100%	40	-	8	(3)	-	-	-	-	-	-	-	-	-	-	7.1%	(3)	-	-		
Others											-	-																		
Sub-total											2,355	190																		

Source: Company data, Macquarie Research, March 2015; *Refers to '000 sqm. ^ China: Rmb/sqm. HK: HK\$/sqft/ # reported currency mn

Fig 31 Summary of development properties (HKDm) – 2015

Development properties	City	Own (%)	GFA* Sales	Time of Delivery	Cost^ of		Current	GFA sold	During the year			Projected Attributable free cash flows							Disc	Gross asset value																										
					Land	Const.	Price^ margin		year-end	Revenue	Asso	2014	2015	2016	2017	2018	2019	2020	2021	2022	Rate	2014	2015	2016																						
2015																																														
Grand Summit (嘉天匯 Residential, 156 units T5-7) P1a	Shanghai	100%	17 Sep 14	Sep 14	18,000	12,000	98,000	69%	45%	1,006	-	358	638	131	(84)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
Grand Summit (嘉天匯 Residential, 156 units T5-7) P1b	Shanghai	100%	17 Sep 14	Sep 14	18,000	12,000	98,000	69%	0%	1,003	-	(19)	734	571	(210)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Providence Bay (TPTL 186, 475 apartments) P2	Tai Po/HK	15%	29 Jun 15	Jul 12	5,395	3,484	10,000	11%	0%	-	(3)	-	102	102	143	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Mayfair by the Sea I (TPTL 201, 539 apartments)	Tai Po/HK	15%	55 Jun 14	Sep 14	7,937	3,832	12,500	6%	75%	-	(2)	509	86	84	44	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Providence Peak (TPTL 188, 537 apartments)	Tai Po/HK	25%	79 Jun 12	Jul 12	3,902	3,484	8,500	13%	90%	-	7	135	128	(1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Jiahua Plaza (Residential) P2a	Guangzhou	100%	50 Sep 14	Sep 15	1,000	5,500	9,500	32%	80%	561	-	189	(20)	(1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
Marinella P2	Aberdeen/HK	35%	5 Jun 14	Jun 12	9,723	4,065	50,000	72%	40%	-	94	259	99	71	81	80	(10)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Jiahua Plaza (Residential) P2b	Guangzhou	100%	50 Sep 15	Sep 15	1,000	5,500	9,500	32%	0%	466	-	(136)	240	82	(2)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Chantilly (嘉峪齋, 18 units)	Mid-Levels/HK	100%	5 Jun 14	Sep 10	5,307	4,065	33,800	72%	10%	171	-	129	114	191	192	191	191	191	(25)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Mayfair by the Sea I (TPTL 201, 7 villas)	Tai Po/HK	15%	2 Jun 14	Sep 14	7,937	3,832	30,000	61%	20%	-	9	12	14	15	15	15	(2)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Le Palais (嘉爵園)	Guangzhou	100%	48 Jul 11	Mar 12	4,333	4,500	12,000	26%	70%	74	-	49	53	59	59	(1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Upstream Park (嘉怡水岸, 79 units) P5	Shanghai	100%	8 Sep 14	Sep 14	4,150	5,000	15,500	41%	75%	41	-	72	24	(2)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Others										-	(39)																																			
Sub-total										3,322	68																																			

Source: Company data, Macquarie Research, March 2015; *Refers to '000 sqm. ^ China: Rmb/sqm. HK: HK\$/sqft/ # reported currency mn

K Wah International (173 HK, Neutral, Target Price: HK\$3.63)

Interim Results		1H/14A	2H/14E	1H/15E	2H/15E	Profit & Loss					
						2013A	2014E	2015E	2016E		
Net Property Income	m	198	200	205	205	m	364	398	411	452	
Development Income	m	552	1,804	1,147	2,174	m	6,924	2,355	3,322	9,598	
Other Revenue	m	0	0	0	0	m	0	0	0	0	
Total Revenue	m	750	2,004	1,353	2,380	m	7,288	2,754	3,732	10,050	
Management Fees	m	0	0	0	0	m	0	0	0	0	
Other Expenses	m	0	0	0	0	m	0	0	0	0	
EBITDA	m	242	588	535	734	m	2,536	830	1,269	3,184	
Dep & Amortisation	m	23	24	23	24	m	47	47	47	47	
EBIT	m	219	564	512	710	m	2,489	783	1,222	3,137	
Net Interest Income	m	31	-53	-42	-42	m	5	-22	-84	-24	
Associates	m	78	112	54	15	m	140	190	69	311	
Exceptionals	m	102	0	0	0	m	224	102	0	0	
Other Pre-Tax Income	m	-17	159	15	208	m	147	142	223	117	
Pre-Tax Profit	m	413	781	539	891	m	3,004	1,195	1,430	3,541	
Tax Expense	m	-169	-237	-247	-337	m	-1,302	-406	-584	-1,294	
Net Profit	m	244	545	292	554	m	1,702	789	846	2,247	
Minority Interests	m	-30	-2	-16	-16	m	-55	-32	-33	3	
Reported Earnings	m	214	543	275	537	m	1,647	757	813	2,249	
Adjusted Earnings	m	129	548	275	537	m	1,473	677	813	2,249	
EPS (rep)	¢	7.8	19.9	10.0	19.3	¢	61.3	27.8	29.4	80.2	
EPS (adj)	¢	4.7	20.1	10.0	19.3	¢	54.9	24.8	29.3	80.2	
EPS Growth yoy (adj)	%	-85.0	-14.4	112.0	-4.0	%	nmf	-54.8	18.1	173.6	
						x	6.4	14.0	13.3	4.9	
						x	7.1	15.7	13.3	4.9	
EBITDA Margins	%	32.3	29.3	39.5	30.8	¢	15.1	15.1	15.0	15.0	
EBIT Margins	%	29.2	28.1	37.9	29.8	%	3.9	3.9	3.8	3.8	
Earnings Split	%	19.0	81.0	33.9	66.1	m	2,712	2,787	2,787	2,787	
Revenue Growth	%	-77.3	-49.7	80.4	18.8	m	2,685	2,726	2,765	2,803	
EBIT Growth	%	-86.7	-33.2	133.6	25.9						
Profit & Loss Ratios		2013A	2014E	2015E	2016E	Cashflow Analysis					
Revenue Growth	%	nmf	-62.2	35.5	169.3	EBITDA	m	2,536	830	1,269	3,184
EBITDA Growth	%	nmf	-67.3	52.9	150.9	Tax Paid	m	769	284	450	1,146
EBIT Growth	%	nmf	-68.5	56.1	156.7	Chg in Working Capital	m	-5,691	-7,025	2,004	2,897
EBITDA Margins	%	34.8	30.1	34.0	31.7	Net Interest Paid	m	-477	-488	-602	-526
EBIT Margins	%	34.1	28.4	32.7	31.2	Other	m	0	190	69	311
Net Profit Margins	%	20.2	24.6	21.8	22.4	Operating Cashflow	m	-2,863	-6,209	3,189	7,012
Payout Ratio	%	27.5	60.9	51.1	18.7	Acquisitions	m	1,110	4,749	1,965	1,399
EV/EBITDA	x	7.7	20.5	15.6	6.0	Capex	m	0	0	0	0
EV/EBIT	x	7.9	21.5	16.2	6.1	Asset Sales	m	-2	-47	-47	-47
						Other	m	1,913	0	0	0
Balance Sheet Ratios						Investing Cashflow	m	3,021	4,702	1,918	1,352
ROE	%	6.3	2.6	3.6	10.0	Dividend (Ordinary)	m	-202	-406	-418	-418
ROA	%	6.0	1.7	2.6	6.3	Equity Raised	m	25	-4,350	-2,500	0
ROIC	%	5.7	1.6	2.0	6.4	Debt Movements	m	-1,997	5,000	0	0
Net Debt/Equity	%	13.7	39.9	33.0	-1.7	Other	m	402	142	197	197
Interest Cover	x	nmf	35.2	14.6	130.5	Financing Cashflow	m	-1,773	387	-2,721	-221
Price/Book	x	0.4	0.5	0.5	0.5	Net Chg in Cash/Debt	m	-1,615	-1,120	2,386	8,142
Book Value per Share		10.2	8.5	7.7	8.4	Free Cashflow	m	-2,863	-6,209	3,189	7,012
						Balance Sheet					
						2013A	2014E	2015E	2016E		
						Cash	m	5,624	4,504	6,890	15,032
						Receivables	m	1,413	1,745	1,745	1,745
						Inventories	m	15,932	22,894	24,259	21,369
						Investments	m	5,153	5,298	6,028	5,933
						Fixed Assets	m	595	595	595	595
						Intangibles	m	0	0	0	0
						Other Assets	m	15,932	11,038	8,342	7,038
						Total Assets	m	44,650	46,074	47,859	51,713
						Payables	m	3,639	4,454	7,802	8,773
						Short Term Debt	m	2,620	1,620	1,620	1,620
						Long Term Debt	m	6,978	12,978	12,978	12,978
						Provisions	m	2,318	1,752	2,064	2,922
						Other Liabilities	m	0	0	0	0
						Total Liabilities	m	15,556	20,804	24,465	26,294
						Shareholders' Funds	m	27,619	23,620	21,515	23,346
						Minority Interests	m	1,475	1,650	1,879	2,073
						Total S/H Equity	m	29,094	25,269	23,394	25,419
						Total Liab & S/H Funds	m	44,650	46,074	47,859	51,713

All figures in HKD unless noted.

Source: Company data, Macquarie Research, March 2015

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand

Outperform – return >3% in excess of benchmark return
Neutral – return within 3% of benchmark return
Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe

Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South - South Africa

Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell) – return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high-highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low-medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 December 2014

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	51.80%	58.06%	45.07%	44.42%	60.54%	46.81%	(for US coverage by MCUSA, 5.29% of stocks followed are investment banking clients)
Neutral	31.80%	27.37%	30.99%	50.10%	35.37%	33.51%	(for US coverage by MCUSA, 3.08% of stocks followed are investment banking clients)
Underperform	16.39%	14.57%	23.94%	5.48%	4.08%	19.68%	(for US coverage by MCUSA, 0.44% of stocks followed are investment banking clients)

173 HK vs HSI, & rec history



(all figures in HKD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, March 2015

12-month target price methodology

173 HK: HK\$3.63 based on a DCF methodology

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Date	Stock Code (BBG code)	Recommendation	Target Price
04-Dec-2014	173 HK	Outperform	HK\$5.15
26-Aug-2014	173 HK	Outperform	HK\$6.31
22-Jul-2014	173 HK	Outperform	HK\$6.39

Target price risk disclosures:

173 HK: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

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