



Rating  
**Hold**

Company  
**Kaisa**

Date  
9 March 2015

Company Update

Asia  
China

Property  
Property

Reuters 1638.HK	Bloomberg 1638 HK	Exchange HSI	Ticker 1638
ADR Ticker KAISY	ISIN US48300T1025		

Price at 9 Mar 2015 (HKD)	1.58
Price target - 12mth (HKD)	1.80
52-week range (HKD)	3.20 - 1.50
HANG SENG INDEX	24,164

## Payoff for equity holders dependent on the success of Sunac's acquisition

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### Creditors' vote on debt proposal a key for Sunac's proposal to move forward

We believe payoff for Kaisa's equity holders is dependent on whether Sunac's takeover is successful. Otherwise, residual equity value will be zero in the absence of a debt haircut. In our view, the chance of the proposal going through is 50:50 given that creditors need to agree to the tough terms in the restructuring proposal. As the incremental benefit of accepting the terms is small, we see a risk that creditors may vote against the plan. Furthermore, resolving irregularities in business operations (another key condition of Sunac's proposal) is still uncertain given the current status of the company. There is no clarity on when restrictions on the Shenzhen projects will be lifted.

### Key changes

Price target      2.00 to 1.80 ↓      -10.0%

Source: Deutsche Bank

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	-15.5	-30.4	-43.0
HANG SENG INDEX	-1.5	2.9	6.6

Source: Deutsche Bank

### Proposed debt restructuring involves maturity extension and lower coupon

Kaisa's debt restructuring plan for offshore bond-holders is based upon five principles: 1) equitable treatment of all creditors representing their inter-creditor priority; 2) no impairment of any creditor's principal debt claim and repayment of that principal in full over time; 3) an initial cash interest holiday; 4) timely support and high participation from all creditors; and 5) a short timetable. The plan generally involves an extension of the maturity date by five years, an interest holiday in the first two years and a substantial reduction in coupon (by 2.9-7.7 percentage points). In our view, as creditors have already incurred a weighted average loss of 34% and the weighted average incremental benefit of accepting the plan is only 9%, we see a risk that creditors may vote against the proposal and thus stop Sunac moving forward.

### Financial position further deteriorated with just Rmb1,897mn cash as of 2 Mar

Kaisa's financial position has further deteriorated since the last update. In particular, its cash balance fell to Rmb1,897mn as of 2 Mar 2015, implying an 83% decline from the Rmb10,913mn last reported in mid-14. Moreover, some banks have suspended mortgage approvals for Kaisa's buyers and 22 projects were blocked for sale due to pre-litigation asset preservation (on top of 11 Shenzhen projects). Consequently, contracted sales in 2M15 fell 72% YoY to just Rmb658mn. As Kaisa no longer has a credit line, it is set to face serious liquidity issues if normal business operations are not resumed imminently.

### Target price of HK\$1.8 in line with Sunac's offer price

Our TP is in line with Sunac's general offer of HK\$1.8, which implies a 73% discount to our NAV estimate of HK\$6.67/shr. This is the largest discount adopted in our coverage universe, which we believe is appropriate as equity value is dependent on the success of Sunac's takeover proposal, which still faces uncertainties. Key risks: progress of takeover/status of restrictions.

### Forecasts And Ratios

Year End Dec 31	2012A	2013A	2014E	2015E	2016E
Sales (HKDm)	11,955.0	19,523.1	24,838.6	27,012.0	28,660.0
EBITDA(HKDm)	2,752.6	5,019.2	6,631.2	6,698.3	7,663.1
Reported NPAT(HKDm)	2,072.2	2,857.4	3,540.7	4,018.2	4,541.0
DB EPS FD (HKD)	0.31	0.42	0.64	0.72	0.81
PER (x)	5.2	5.3	2.5	2.2	2.0

Source: Deutsche Bank estimates, company data

Deutsche Bank AG/Hong Kong

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Model updated: 09 March 2015

## Running the numbers

Asia

China

Property

## Kaisa

Reuters: 1638.HK

Bloomberg: 1638 HK

## Hold

Price (9 Mar 15) HKD 1.58

Target Price HKD 1.80

52 Week range HKD 1.50 - 3.20

Market Cap (m) HKDm 7,751  
USDm 999

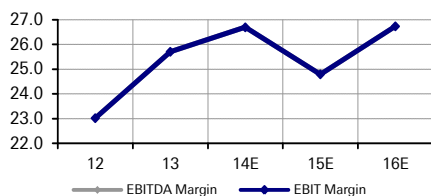
## Company Profile

Kaisa is a Shenzhen-based developer established in 1999 with a focus on large-scale residential developments, renovation of distressed property projects and urban redevelopments. The company has gradually emerged from being a Shenzhen developer into a national developer with exposure in the Bohai Rim, Yangtze River Delta, Pearl River Delta, and central and western regions.

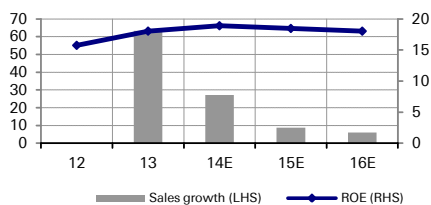
## Price Performance



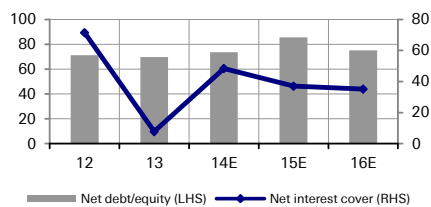
## Margin Trends



## Growth &amp; Profitability



## Solvency

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Fiscal year end 31-Dec

2012 2013 2014E 2015E 2016E

## Financial Summary

DB EPS (HKD)	0.31	0.42	0.64	0.72	0.81
Reported EPS (HKD)	0.42	0.58	0.64	0.72	0.81
DPS (HKD)	0.00	0.15	0.18	0.21	0.23
BVPS (HKD)	2.9	3.5	4.1	4.8	5.5
Weighted average shares (m)	4,905	4,905	4,905	4,905	4,905
Average market cap (HKDm)	7,836	11,099	7,751	7,751	7,751
Enterprise value (HKDm)	19,265	30,754	23,914	29,892	31,382

## Valuation Metrics

P/E (DB) (x)	5.2	5.3	2.5	2.2	2.0
P/E (Reported) (x)	3.8	3.9	2.5	2.2	2.0
P/BV (x)	0.82	0.71	0.39	0.33	0.29
FCF Yield (%)	nm	nm	nm	nm	6.3
Dividend Yield (%)	0.0	6.6	11.5	13.1	14.8
EV/Sales (x)	1.6	1.6	1.0	1.1	1.1
EV/EBITDA (x)	7.0	6.1	3.6	4.5	4.1
EV/EBIT (x)	7.0	6.1	3.6	4.5	4.1

## Income Statement (HKDm)

Sales revenue	11,955	19,523	24,839	27,012	28,660
Gross profit	3,885	6,600	8,662	8,958	9,840
EBITDA	2,753	5,019	6,631	6,698	7,663
Depreciation	0	0	0	0	0
Amortisation	0	0	0	0	0
EBIT	2,753	5,019	6,631	6,698	7,663
Net interest income/(expense)	-39	-643	-137	-181	-218
Associates/affiliates	0	0	0	0	0
Exceptionals/extraordinaries	501	729	0	0	0
Other pre-tax income/(expense)	55	51	0	0	0
Profit before tax	3,269	5,156	6,494	6,517	7,445
Income tax expense	1,153	2,293	2,181	2,106	2,166
Minorities	44	5	773	393	738
Other post-tax income/(expense)	0	0	0	0	0
Net profit	2,072	2,857	3,541	4,018	4,541
DB adjustments (including dilution)	-556	-780	0	0	0
DB Net profit	1,516	2,077	3,541	4,018	4,541

## Cash Flow (HKDm)

Cash flow from operations	1,885	2,341	-1,389	145	7,381
Net Capex	-2,899	-2,899	-1,022	-4,857	-6,895
Free cash flow	-1,013	-558	-2,411	-4,712	486
Equity raised/(bought back)	0	0	0	0	0
Dividends paid	0	0	-708	-237	-832
Net inc/(dec) in borrowings	7,539	8,580	7,695	1,318	2,339
Other investing/financing cash flows	-72	-3,853	2,932	-1,140	-1,077
Net cash flow	6,454	4,169	7,508	-4,771	916
Change in working capital	251	251	-6,496	-5,013	1,669

## Balance Sheet (HKDm)

Cash and other liquid assets	4,683	7,030	7,780	3,513	5,099
Tangible fixed assets	308	580	580	580	580
Goodwill/intangible assets	0	0	0	0	0
Associates/investments	0	0	0	0	0
Other assets	52,962	80,199	74,667	86,200	94,602
Total assets	57,953	87,808	83,027	90,292	100,281
Interest bearing debt	15,408	22,225	23,162	24,480	26,819
Other liabilities	27,491	43,825	38,953	41,294	44,572
Total liabilities	42,899	66,050	62,116	65,773	71,392
Shareholders' equity	14,350	17,298	20,130	23,345	26,977
Minorities	704	4,461	781	1,174	1,912
Total shareholders' equity	15,054	21,758	20,911	24,519	28,889
Net debt	10,725	15,195	15,382	20,967	21,720

## Key Company Metrics

Sales growth (%)	nm	63.3	27.2	8.8	6.1
DB EPS growth (%)	na	37.0	50.3	12.8	12.3
EBITDA Margin (%)	23.0	25.7	26.7	24.8	26.7
EBIT Margin (%)	23.0	25.7	26.7	24.8	26.7
Payout ratio (%)	0.0	25.8	25.2	25.2	25.2
ROE (%)	15.8	18.1	18.9	18.5	18.0
Capex/sales (%)	24.2	14.8	4.1	18.0	24.1
Capex/depreciation (x)	nm	nm	nm	nm	nm
Net debt/equity (%)	71.2	69.8	73.6	85.5	75.2
Net interest cover (x)	71.5	7.8	48.4	37.0	35.2

Source: Company data, Deutsche Bank estimates



# Investment thesis

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## Outlook

On 6 Feb 2015 Sunac announced that it would acquire 49.3% of Kaisa and subsequently made a cash general offer at HK\$1.8/shr. In our view, given that the proposed takeover is conditional, there are still plenty of uncertainties surrounding the transaction as Kaisa's operations have been severely disrupted over the past two months. In our view, considerable time will be needed for Kaisa to get its operations back to normal.

On top of all its Shenzhen projects being restricted, other imminent issues that Kaisa needs to resolve include 1) creditors demanding immediate repayment of Rmb28bn (vs cash balance of just Rmb1.9bn by Mar-15); 2) total liabilities of Rmb65bn as of end-14, much higher than previously reported; 3) court proceedings/arbitration with JV partners/creditors; 4) all projects in Shenzhen are still being blocked/restricted and the timing of resumption remains unknown. As the resolution of irregularities in business operations is one of the conditions of the proposal, we see a risk of this condition not being satisfied due to the complexity of the issues involved.

## Valuation

Our TP is in-line with Sunac's general offer of HK\$1.8, which implies a 73% discount to our NAV estimate of HK\$6.67/shr. This is the largest discount adopted in our coverage universe, which we believe is appropriate as equity value is dependent on the success of Sunac's takeover proposal, which still faces uncertainties. Key risks: progress of takeover/status of restrictions.

## Risks

- Status of the restrictions – All of Kaisa's Shenzhen projects are currently restricted by various degrees and the timing of when the restrictions will be removed is uncertain. Removal of the restrictions would be positive for Kaisa in terms of contracted sales contribution and revenue recognition/margin expansion potential. However, Kaisa could face more downside if restrictions spread to other cities outside Shenzhen.
- Success of Sunac's takeover proposal – Sunac's takeover offer is conditional upon creditors agreeing on debt restructuring and the irregularities in Kaisa's business operations being resolved. In our view, the chance of the proposal going through is 50:50 given that creditors need to agree to the tough terms in the restructuring proposal. As the incremental benefit of accepting the terms is small, we see a risk that creditors may vote against the plan. Furthermore, there is no clarity on when restrictions on the Shenzhen projects will be lifted.
- Urban redevelopment projects - Kaisa has experience with urban redevelopment projects, but these projects tend to face more uncertainties in terms of timing and resettlement cost, which may have a material impact on Kaisa's financial performance. However, successful execution of these projects would help lift the overall profitability of the company.



# Equity value depends on the success of Sunac's takeover proposal

## Approval of debt restructuring needed to move forward

Kaisa announced a debt restructuring plan for onshore creditors on 2 Mar 2015, based on the key principle of fair and equal treatment of all creditors with full consideration given to their respective debt positions, security coverage and priority in liquidation. In particular, 1) there will be no reduction in the principal debt claim and this will be paid in full to all creditors over time; 2) there will be a reduction in interest (but no less than 70% of the base rate published by the PBOC); and 3) there will be an extension of tenor for debt with a remaining tenor of 3-6 years.

Following that, it announced a debt restructuring plan for offshore bondholders on 8 Mar 2015. The plan is based upon five principles: 1) equitable treatment of all creditors representing their inter-creditor priority; 2) no impairment of any creditor's principal debt claim and repayment of that principal in full over time; 3) an initial cash interest holiday; 4) timely support and high participation from all creditors; and 5) a short timetable. The plan generally involves an extension of the maturity date by five years, an interest holiday in the first two years and a substantial reduction in coupon (by 2.9-7.7 percentage points).

Figure 1: Summary of the debt restructuring plan for offshore bond-holders

Issue	Amount	Original Maturity	Extended Maturity	Original Coupon	Coupon Post-Restructuring	Total New Coupon Post-Restructuring <sup>^</sup>	Difference in Annual Coupon
2015 CB	RMB1.5bn	Dec-15	Dec-20	8.00%	2.70%	3.20%	4.80%
2016 Notes	RMB1.8bn	Apr-16	Apr-21	6.88%	3.10%	3.60%	3.28%
2017 Notes	US\$250mn	Sep-17	Sep-22	12.88%	4.70%	5.20%	7.68%
2018 Notes	US\$800mn	Mar-18	Mar-23	8.88%	5.20%	5.70%	3.18%
2019 Notes	US\$400mn	Jun-19	Jun-24	9.00%	6.40%	6.90%	2.10%
2020 Notes	US\$500mn	Jan-20	Jan-25	10.25%	6.90%	7.40%	2.85%

Source: Company; Deutsche Bank

<sup>^</sup> Additional coupon of 50bps if >50% holders of existing High-Yield notes and 66% of 2015 CB sign restructuring support agreement

Figure 2: Present value analysis of the restructuring plan

Issue	Amount	PV of the restructuring plan	Loss*	Latest bond price	Loss*
2015 CB	RMB1.5bn	80.27	-20%	49.50	-51%
2016 Notes	RMB1.8bn	58.27	-42%	88.50	-12%
2017 Notes	US\$250mn	76.13	-24%	68.00	-32%
2018 Notes	US\$800mn	80.21	-20%	60.00	-40%
2019 Notes	US\$400mn	73.96	-26%	63.00	-37%
2020 Notes	US\$500mn	76.14	-24%	72.69	-27%
<b>Weighted average loss</b>			<b>-25%</b>		<b>-34%</b>

Source: Bloomberg Finance LP; Deutsche Bank estimates

\* Compare with Par Value



In our view, as creditors have already incurred a weighted average loss of 34% and the weighted average incremental benefit of accepting the plan is only 9% (realized over a much longer term of 6-10 years), we see a risk that creditors may vote against the proposal and hence stop Sunac from moving forward.

#### More business disruptions; financial position deteriorates further

Kaisa has experienced more business disruptions and its financial position has further deteriorated since the last update:

- 1) Its cash balance fell to Rmb1,897mn as of 2 Mar 2015, implying an 83% decline from the Rmb10,913mn last reported in mid-14. Of this, Rmb1,331mn is restricted cash, implying the unrestricted cash balance was only Rmb566mn as of 2 Mar 2015.
- 2) Some banks have suspended mortgage approvals for Kaisa's buyers.
- 3) 22 projects were blocked for sale due to pre-litigation asset preservation (on top of the 11 Shenzhen projects subject to restrictions of various degrees).
- 4) More than 170 employees have resigned, including the Vice Chairman, CEO and CFO.
- 5) It has 80 pending cases of litigation and arbitration with onshore creditors, including 63 applications in relation to the preservation of assets being filed with the relevant PRC courts and 21 civil rulings being entered by PRC courts amounting to Rmb12.8bn.
- 6) Certain banks have frozen various deposits of Rmb370mn pending the resolution of existing defaults.
- 7) It has received notices from creditors (including project partners) demanding the immediate repayment of approximately Rmb28bn.
- 8) Contracted sales in 2M15 fell 72% YoY to just Rmb658mn.
- 9) As it no longer has any credit line available, the company is set to face serious liquidity issues if normal business operations are not resumed imminently.
- 10) Total interest bearing debt stood at Rmb65bn as of end-14 (much higher than the last reported number of Rmb29bn as of mid-14). The surge was due to 1) requests for refunds of advance proceeds received from customers and other payables, refundable pre-sale deposits from independent third-parties and those who have requested a refund of their deposits with interest; 2) trust funds associated with non-controlling interests; and 3) an increase in borrowings during the period.
- 11) Liquidity is expected to remain tight in 2015/16. The company plans to sell certain assets once the sales blockages and asset freezes are lifted.



- 12) According to Deloitte Touche Tohmatsu, the estimated recoveries to off-shore creditors in a liquidation are expected to be Rmb980mn or a recovery rate of just 2.4%;
- 13) Offshore bondholders are required the Restructuring Support Agreement by Mar 20, 2015 as to support the implementation of the debt restructuring plan. If holders of more than 50% by value of existing High-yield notes and more than 66% by value of the Convertible Bonds execute the Restructuring Support Agreement by Mar 20, all holders of the existing High-yield bonds and Convertible Bonds will receive an additional 50bps on their restructured debt instruments



# Residual value for equity holders is still uncertain

## Gross debt of Rmb65bn is higher than our GAV estimate

On Feb 16, Kaisa held an initial meeting with onshore creditors and the feedbacks were reportedly positive. In our view, given Kaisa's actual debt level of Rmb65bn is indeed higher than our GAV estimate of Rmb54bn, the residual value left for equity holders will be dependent on rather Sunac's takeover proposal is successful (hence, the company can resume as a going concern) as there is no debt haircut in the current restructuring proposal.

Figure 3: Analysis on residual equity value of Kaisa

Total Gross Debt (Rmb mn)	Debt Haircut	Cash @ Mar 2, 2015* (Rmb mn)	Net debt (post haircut) (Rmb mn)	GAV (Rmb mn)#	Residual equity value (Rmb mn)	Residual equity value per share (HK\$/shr)
65,009	0%	1,897	63,112	42,946	(20,166)	(4.56)

Source: Deutsche Bank estimates  
 Cash inclusive of Restricted cash, short-term bank deposits and unrestricted cash  
 # Already deducted for outstanding land premium not paid

### Kaisa's actual debt levels much higher than previously reported

Kaisa has total liabilities of Rmb65bn as of end-14, of which onshore debt stood at Rmb48bn and offshore debt at Rmb17bn. The latest debt reported is much higher than the Rmb29bn being reported as of mid-14. Kaisa's financial status based on a preliminary review of the financial information is as follows:

#### Interest bearing debts of Kaisa

(a) total interest-bearing debts of Kaisa due to onshore and offshore lenders as at 31 Dec 2014 amounted to RMB65,008.56 mn (HK\$82,407.2 mn);

(b) total interest-bearing debts of Kaisa due to onshore lenders as at 31 Dec 2014 amounted to approximately RMB47,970.68 mn (HK\$60,809.4 mn), comprising (i) debts of RMB12,417.68 mn (HK\$15,741.1 mn) due to banks and (ii) debts of RMB35,553.0 mn (HK\$45,068.3 mn) due to non-bank financial institutions;

(c) total interest-bearing debts of Kaisa due to offshore lenders as at 31 Dec 2014 amounted to RMB17,037.88 mn (HK\$21,597.8 mn);

**Total outstanding debts and the accrued interest of Kaisa** - Kaisa's total outstanding principal amount of debts and the accrued interest that will become due and repayable before the end of 2015 under the terms of the relevant loan agreements will fall between RMB34.1 bn (HK\$43.2 bn) and RMB35.5 bn (HK\$45.0 bn) (depending on the adjustment of the timing for repayment); if the blockages and restrictions on the property projects of Kaisa are not lifted or otherwise resolved in a short period of time, Kaisa's cash flow will be adversely affected to maintain its operations; and



# Take-over proposal is still highly uncertain

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## Proposal is subject to satisfaction of numerous conditions

Sunac announced on Feb 6, 2015 to acquire 49.3% of Kaisa and subsequently made a cash general offer at HK\$1.8/shr (73% discount to our NAV of HK\$6.67/share). The proposal is conditional upon:

- 1) Debt defaults are resolved through consent or waivers by creditors;
- 2) Part or all of the existing debts to be restructured and refinanced and no event or potential event of default under exiting debts;
- 3) All potential breaches of terms of existing debt to be waived by relevant creditors, so the transaction will not breach or potentially breach any terms of existing debt;
- 4) All existing disputes and court applications are resolved through settlement and other means, and the resolutions are satisfactory to Sunac;
- 5) All irregularities of business operations are resolved, and the resolutions are satisfactory to Sunac; and
- 6) Obtained approval from shareholders of Sunac for the share purchase and offer.

In our view, considerable time is needed for Kaisa to restore its operations back to normal. On top of all Shenzhen projects being restricted, other imminent issues Kaisa needs to resolve include:

- 7) **Interest payment under the 2013 Notes** - Reference is made to the announcement of the Company dated 12 January 2015 in relation to the non-payment by the Company of interest in amount of US\$23 million (equivalent to approximately HK\$178.34 million) under the 2013 Notes which was due on 8 January 2015. The Company announced that it has remedied the nonpayment by making the interest payment prior to 7 February 2015.
- 8) **Bank balances** - As at 31 January 2015, a total credit balance of bank accounts of Kaisa of approximately RMB550 million (HK\$695.50 million) was frozen by the relevant banks and a total credit balance of RMB725.56 million (HK\$917.50 million) has been transferred by the relevant banks for setting off the loans due to these banks.
- 9) **Demand notices for payment against Kaisa** - As at 31 January 2015, Kaisa received notices from its creditors (including project partners) demanding for immediate repayment of RMB28 bn (HK\$35.41 bn). This amount includes:





(a) the total principal and interest of the loans due and payable by Kaisa representing RMB992.89 mn (HK\$1,255.55 mn) referred to in No. 4;

(b) the total credit balance of RMB725.56 mn (HK\$917.50 mn) that has been transferred by the relevant banks for setting off the loans due to these banks;

(c) the total amount involved in the eight civil rulings of RMB2,678 mn (HK\$3,386 mn) referred to No.5;

(d) the total amount involved in the court cases of RMB1,628,353,556.19 (HK\$2,059.12 mn) referred to in No.6;

(e) the amount involved in the arbitration proceedings representing RMB1,200 mn (HK\$1,517.45 mn) referred to in No.7.

Apart from (a) to (e) above, the remaining amount of approximately RMB20.78 bn (HK\$26.28 bn) represents the demand arising from the daily operations of Kaisa. Kaisa has engaged PRC legal counsel to advise on these demand notices and the possible action that Kaisa can take to protect its interest.

- 10) **Outstanding loans of Kaisa** - As at 31 January 2015, the principal amount of loans of Kaisa and the accrued interest due and repayable stood at RMB992.89mn (HK\$1,255.55 mn); and the loans of Kaisa in the principal amount of HK\$21.44 bn (RMB16.95 bn) might become due and repayable pursuant to the terms of agreements.
- 11) **Preservation of assets applications under onshore loans** - Kaisa noted that as at 31 January 2015, a total of 60 applications in relation to the preservations of the assets of Kaisa under onshore loans have been filed by Kaisa's creditors with PRC courts.

As at 31 January 2015, Kaisa received a total of eight civil rulings from PRC courts in relation to the preservation of assets of Kaisa under onshore loans which amounted to RMB2,678 mn (HK\$3,386 mn). Kaisa has engaged PRC legal counsel to advise on these eight civil rulings in order to protect the interests of Kaisa. For the other 52 applications, as at 31 January 2015, Kaisa did not receive the relevant rulings from PRC courts in connection with any of those 52 applications.

- 12) **Regarding the two court proceedings** - Guangdong Kaisa Property Development (a subsidiary of Kaisa) and certain other members of Kaisa, were alleged that failing to repurchase from it the 49% interest in 佛山市順德區理想城房地產投資有限公司 (Foshan Shunde Ideal City Real Estate Investment Co., Ltd.) for the consideration of RMB381,423,178.08 (HK\$482.33mn) and pay a daily penalty together with the relevant costs.

A court judgment was issued against 上海贏灣兆業房地產有限公司 (Shanghai Yingwan Zhaoye Property Development Co. Ltd.) ("Shanghai Yingwan Zhaoye"), a 51% subsidiary of Kaisa, in relation to a case filed by its creditor to freeze and seize the credit of balance of



RMB1,246,930,378.11 (HK\$1,576.80mn) and the interest accrued. The case is related to the alleged breach of a loan agreement entered into between Shanghai Yingwan Zhaoye and the creditor.

For both of the cases, Kaisa, and certain other members of the group have filed an objection that the cases should be transferred to a court having jurisdiction as the amount involved in such cases have exceeded the jurisdiction of the relevant PRC court that has issued the notices.

- 13) **Arbitration** - Referring to the announcement made on 6 Jan 2015, Kaisa has recently received arbitration notices. The Project Partners have applied for arbitration, which demands Kaisa to refund the fees of RMB1,200 mn (HK\$1,517.45 mn) paid by the Project Partners under and pay a daily penalty and the relevant costs for the arbitration proceedings. Kaisa intends to resolve the case with the Project Partners through amicable negotiation. Kaisa has engaged PRC legal counsel to advise on the arbitration to protect the interests of Kaisa.
- 14) **Withdrawal of court proceedings** - Referring to the announcement made on 16 Jan 2015 in relation to the case involving Kaisa Shenzhen and Shenzhen Buji Branch of Bank of China Limited (中國銀行股份有限公司深圳布吉支行). The case has been withdrawn by the bank.
- 15) **Status of the Group's property projects** - Referring to the announcements dated 4 Decr 2014 and 21 Dec 2014 respectively and as at 31 Jan 2015, Kaisa is not aware of any further blockages or restrictions imposed by the relevant PRC authorities on any property projects of Kaisa. The company is in communication with the relevant PRC authorities. However, the company has not received any verbal or written notification regarding the reasons of the current blockages and restrictions as of the announcement date.
- 16) **Proposed appointment of financial advisor** - As the announced on 28 Jan 2015, Kaisa proposed to appoint Houlihan Lokey (China) Limited as the financial advisor. The terms and conditions are under negotiation and are expected to be finalized within a short period of time.

As resolution of irregularities of business operations is one of the conditions of the proposal, we see a risk of this condition not being satisfied due to the complexity of the issues involved.



# Valuation

Our NAV estimate is HK\$6.67/share

Figure 4: NAV breakdown

	(Rmb mn)	(HK\$ mn)	(HK\$/share)	%
<b>Development property</b>				
Shenzhen	2,282	2,875	0.59	8.8%
Guangzhou	3,342	4,211	0.86	12.9%
Foshan	1,781	2,245	0.46	6.9%
Dongguan	2,292	2,888	0.59	8.8%
Huizhou	4,779	6,022	1.23	18.4%
Zhuhai	1,521	1,916	0.39	5.9%
Chengdu	2,606	3,284	0.67	10.0%
Chongqing	176	222	0.05	0.7%
Nanchong	976	1,230	0.25	3.8%
Shenyang	2,099	2,644	0.54	8.1%
Yingkou	2,406	3,032	0.62	9.3%
Anshan	1,728	2,178	0.44	6.7%
Changsha	1,199	1,511	0.31	4.6%
Jiangyin	1,240	1,562	0.32	4.8%
Shanghai	4,637	5,843	1.19	17.9%
Benxi	651	820	0.17	2.5%
Panjin	390	492	0.10	1.5%
Weifang	264	333	0.07	1.0%
Wuhan	1,364	1,719	0.35	5.3%
Changzhou	619	780	0.16	2.4%
Qingdao	488	615	0.13	1.9%
Liaoyang	510	643	0.13	2.0%
Dandong	582	734	0.15	2.2%
Dalian	223	282	0.06	0.9%
Huludao	2,061	2,596	0.53	7.9%
Taizhou	299	377	0.08	1.2%
Zhuzhou	282	355	0.07	1.1%
Hangzhou	3,513	4,427	0.90	13.5%
	<b>44,311</b>	<b>55,836</b>	<b>11.38</b>	<b>170.7%</b>
<b>Investment property</b>				
Retail	8,236	10,378	2.12	31.7%
Car Park	91	115	0.02	0.4%
Office	989	1,246	0.25	3.8%
Hotel	379	477	0.10	1.5%
	<b>9,695</b>	<b>12,217</b>	<b>2.49</b>	<b>37.4%</b>
Gross asset value (GAV)	54,006	68,052	13.87	208.1%
Net cash / (debt)	(13,519)	(17,035)	(3.47)	-52.1%
Outstanding land premium	(11,060)	(13,937)	(2.84)	-42.6%
<b>Net asset value (NAV) - fully diluted</b>	<b>29,427</b>	<b>37,081</b>	<b>6.67</b>	<b>100.0%</b>

Source: Deutsche Bank estimates



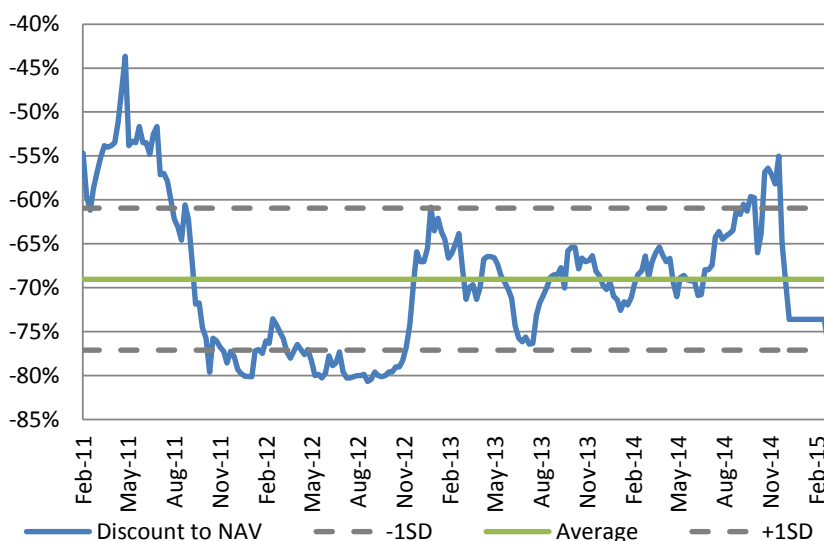
We adopt NAV as our primary valuation metric, in line with residential-focus peers under our coverage. Our approach is based on sum-of-the-parts, where we use DCF for property developments for sale and direct capitalization approach for investment properties. We generally assume ASP to stay flat in 2015. However, we made project specific adjustments streaming from product mix/phase differences. We have adopted a discount rate of 12.7%, which is in line with our estimated WACC. Our fully-diluted NAV estimate is at HK\$6.67/share, by excluding contribution from all Shenzhen projects as these projects are subject to various degrees of restrictions and timing of when the restrictions can be removed is uncertain.

**Our target price of HK\$1.8 is in-line with Sunac’s offer price**

Our target price is in-line with Sunac’s general offer of HK\$1.8, which also implies a 73% discount to our NAV estimate of HK\$6.67/shr. This is the largest discount adopted in our coverage universe, which we believe is appropriate as equity value is dependent on the success of Sunac’s takeover proposal, where there are still uncertainties.

At current share price, Kaisa is trading at 76% discount to our estimated NAV and just 2x 2014e earnings, both measures are at a steep discount to industry average. While we see valuation of Kaisa is attractive following the recent sell-off (even by totally excluding its Shenzhen projects), payoff for Kaisa’s equity holders would be dependent on rather Sunac’s takeover is successful. Otherwise, residual equity value will be zero in the absence of debt haircut. In our view, the chance of the proposal going through is 50:50 given creditors need to agree on the tough terms in the restructuring proposal. Furthermore, resolving irregularities of business operations is still uncertain (another key condition of Sunac’s proposal) based on the current status of the company. There is no clarity on when restrictions on the Shenzhen projects will be lifted.

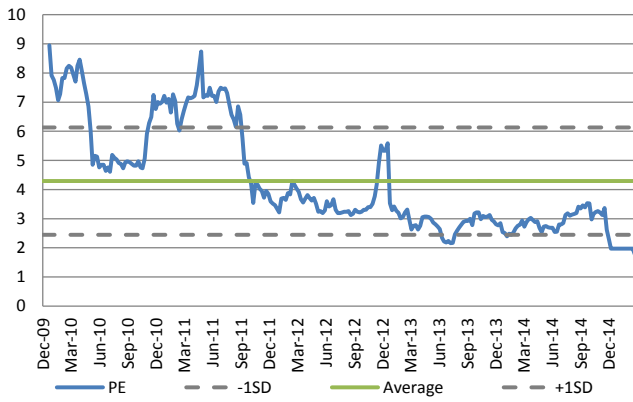
Figure 5: Historical discount to NAV



Source: Bloomberg Finance LP; Deutsche Bank estimates

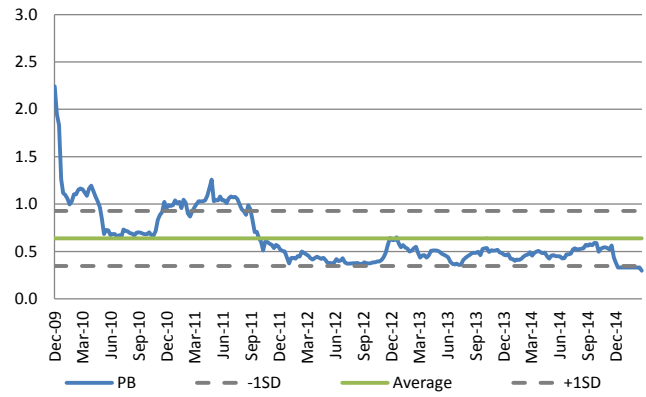


Figure 6: Historical P/E band



Source: Bloomberg Finance LP; Deutsche Bank estimates

Figure 7: Historical P/B band



Source: Bloomberg Finance LP; Deutsche Bank estimates



# Appendix 1

## Important Disclosures

Additional information available upon request

### Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Kaisa	1638.HK	1.58 (HKD) 9 Mar 15	NA

\*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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### Historical recommendations and target price: Kaisa (1638.HK)

(as of 3/9/2015)



1.	15/08/2013:	Buy, Target Price Change HKD4.15	3.	22/12/2014:	Downgrade to Hold, Target Price Change HKD2.00
2.	20/02/2014:	Buy, Target Price Change HKD4.68			



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**Buy:** Based on a current 12-month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

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**Hold:** We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Notes:

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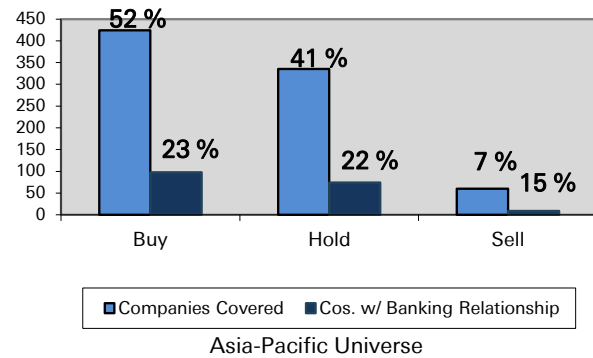
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