

March 12, 2015

# Country Garden Holdings Company Limited

## Slower growth ahead as focus lies on deleveraging

Industry View	Stock Rating	Price Target
<b>Attractive</b>	<b>Overweight</b>	<b>HK\$5.09</b>

Management makes destocking and deleveraging a priority in 2015, dragging near-term contracted sales growth. We believe the deleveraging process is positive for the long-term outlook of the company, and view current valuations as attractive.

What's Changed?	From:	To:
<b>Country Garden Holdings Company Limited</b>		
Price Target	HK\$5.25	HK\$5.09
2015E EPS	0.62	0.57
2016E EPS	0.70	0.69
2017E EPS	NA	0.84

**2014 core net profit grew 15.5% YoY:** Country Garden reported its 2014 core net profit at RMB9.24bn (+15.5% YoY), largely in line with consensus' RMB9.5bn. Gross margins came in at 26% (2013: 30%), while net margins were at 11% (2013: 14%), slightly below our estimates. Net debt to equity declined to 54% at end-2014 (2013: 64%). We are lowering our 2015 and 2016 EPS estimates by 8% and 1%, respectively, to reflect the lower margins. We are also introducing our 2017 EPS estimate.

**Destocking and deleveraging a priority:** Management has made deleveraging its priority in 2015, as it thinks the operating environment is still very challenging. It has therefore set a 2015 contracted sales growth target of +5% YoY, slowing from +21.5% YoY in 2014. This should still be challenging, as we believe the developer will have to raise its sell-through rate to 61% in 2015 (2014: 55%). Recognized profit margins could remain under pressure in 2015, but should stabilize in 2016 onwards.

**Valuations attractive, offering ~6.2% dividend yield:** With the stock trading at a 56% discount to NAV and 4.2x 2015 P/E below the average 5.8x 2015E P/E of our coverage, we think the margin pressure and slower growth outlook are within market expectations. The stock offers an attractive 6.2% trailing dividend yield, especially compared to the 6.49-8.22% YTM of its high-yield bonds, in our view.

**Key downside risks:** RMB depreciation could result in a higher debt burden as half of its debt is foreign. Further ASP declines could put pressure on margins and NAV.

*With this note, Jacky Chan assumes lead coverage of the stock.*

MORGAN STANLEY ASIA LIMITED+

**Jacky Chan**

Jacky.K.Chan@morganstanley.com

+852 2848-5973

**John Lam, CFA**

John.Lam@morganstanley.com

+852 2848-5412

**Angus Chan, CFA**

Angus.Kon.Chan@morganstanley.com

+852 2848-5259

Country Garden Holdings Company Limited ( 2007.HK , 2007 HK )

China Property / China

<b>Stock Rating</b>	<b>Overweight</b>
<b>Industry View</b>	<b>Attractive</b>
Price target	HK\$5.09
Up/downside to price target (%)	71
Shr price, close (Mar 11, 2015)	HK\$2.98
52-Week Range	HK\$4.16-2.78
Sh out, dil, curr (mn)	18,537
Mkt cap, curr (mn)	Rmb44,568
EV, curr (mn)	Rmb92,368
Avg daily trading value (mn)	HK\$130.40

Fiscal Year Ending	12/14	12/15e	12/16e	12/17e
ModelWare EPS (Rmb)	0.45	0.57	0.69	0.84
Prior ModelWare EPS (Rmb)	0.49	0.62	0.70	-
Consensus EPS (Rmb)\$	0.52	0.56	0.64	-
EBITDA (Rmb mn)	16,853	20,652	24,688	28,010
ModelWare net inc (Rmb mn)	9,240	11,543	14,018	17,054
P/E	5.5	4.2	3.5	2.9
P/BV	0.9	0.7	0.6	0.5
Div yld (%)	5.9	7.1	8.6	10.5

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework  
 \$ = Consensus data is provided by Thomson Reuters Estimates  
 e = Morgan Stanley Research estimates

Morgan Stanley does and seeks to do business with companies covered in Morgan Stanley Research. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of Morgan Stanley Research. Investors should consider Morgan Stanley Research as only a single factor in making their investment decision.

**For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.**

+ = Analysts employed by non-U.S. affiliates are not registered with FINRA, may not be associated persons of the member and may not be subject to NASD/NYSE restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

Risk Reward

Risk-Reward Snapshot : Stock trading at attractive valuations



Source: ThomsonOne, Morgan Stanley Research

<b>Price Target</b>	<b>HK\$5.09</b>	Our price target is based on our base case scenario
<b>Bull</b>	<b>HK\$8.39</b>	<b>Further monetary easing to drive property prices higher:</b> Central government to announce further monetary stimulus aggressively, which drives investment demand and asset prices higher. Our bull case factors in 15% growth in property prices across the board over the next 12 months.
<b>Base</b>	<b>HK\$5.09</b>	<b>Sales and operating environment stabilizes:</b> The latest round of rate cuts supports a steady pickup in contracted sales and stabilized property trend. Our base case factors in flat YoY growth in property prices across the board over the next 12 months.
<b>Bear</b>	<b>HK\$1.39</b>	<b>Liquidity tightens, sales slow and inventory builds up:</b> Unexpected tightening in financial conditions and slower than expected sell-through rates pressure developers' balance sheets and cash flows, forcing developers to further soften their asking prices. Our bear case factors in a 20% property price decline over the next 12 months.

Investment Thesis

- We favor Country Garden’s mass market exposure, offering products with a lower ASP and requiring a smaller lump sum.
- The company has contained its inventory build-up better than peers
- The cut in 2015 new starts to 19 mn sqm and a slower, yet more sustainable asset expansion may help improve sell-through and asset-churn, which should underpin ROE and contain gearing.

Key Value Drivers

- Property demand in lower-tier cities.
- Property price increases, driving margin expansion.

Potential Catalysts

- Announcement of property-specific policy easing by the central government to support home purchases in lower-tier cities.
- Contract sales stronger than expected.

Risks to Achieving Price Target

- Weaker-than-expected demand in lower-tier cities
- Additional lower-tier cities announce home purchase restrictions or other tightening measures.
- Weaker economic growth in Guangdong province.
- Accumulated inventory unexpectedly rebounds, dragging on asset turnover and leverage.

## Financial Summary

### Exhibit 1: Country Garden: Financial Summary

Balance Sheet						Income Statement					
	2013	2014	2015E	2016E	2017E		2013	2014	2015E	2016E	2017E
PPE & Inv. Prop	15,941	25,678	27,086	28,743	30,685	Property Sales	60,043	81,898	99,682	115,476	143,817
Land use rights	1,865	2,035	2,262	2,678	3,313	Hotel services	995	1,132	1,773	2,074	2,074
Property under dev.	40,080	44,639	53,561	54,458	55,803	Construction services	867	468	515	566	651
Other assets	2,140	3,064	3,331	4,218	5,134	Property mgt & others	820	1,051	1,156	1,271	1,399
Fixed Assets	60,026	75,415	86,241	90,097	94,935	Total Turnover	62,725	84,549	103,125	119,388	147,941
Land use rights	41,126	53,995	60,040	71,080	87,935	Sales of properties	19,577	21,968	26,233	30,191	33,246
Properties under dev.	26,347	51,999	57,199	62,919	69,211	Hotel service	(773)	(189)	(34)	(41)	(41)
Completed Inventory	18,920	23,203	27,630	26,367	27,807	Other businesses	207	277	287	316	353
Trade & other receivables	26,378	25,371	29,590	35,508	42,610	Gross Profit	19,012	22,055	26,485	30,466	33,558
Other current assets	6,762	10,835	11,542	14,100	16,995						
Restricted cash	7,770	8,453	8,213	7,375	6,886	Selling & marketing Exp.	(4,304)	(4,356)	(4,641)	(4,776)	(4,882)
Cash and cash equivalent	18,910	18,761	21,376	26,340	27,883	Admin expenses	(2,033)	(3,160)	(3,300)	(3,582)	(3,699)
Current Assets	146,214	192,617	215,590	243,688	279,326	Other income / Exp.	21	186	300	330	362
						Interest Income	803	255	262	270	278
Total Assets	206,239	268,032	301,831	333,785	374,262	Operating profit	13,499	14,980	19,107	22,708	25,617
ST bank loans and others	12,434	14,929	15,762	17,662	19,397	Finance costs	0	(450)	0	0	0
Presale deposits	63,418	91,792	99,096	104,676	114,985	Others	(26)	1,840	243	335	335
Trade & other payables	30,915	40,925	45,698	46,907	51,417	Profit before taxation	13,473	16,369	19,350	23,043	25,952
Income tax payable	8,137	8,976	10,215	11,641	12,824						
Other current liabilities	0	0	0	0	0	Income tax expenses	(4,625)	(5,757)	(6,902)	(8,138)	(8,459)
Current Liabilities	114,904	156,623	170,771	180,886	198,623	Minority Interests	(334)	(383)	(904)	(887)	(438)
						Net profit	8,514	10,229	11,543	14,018	17,054
LT bank loans and others	43,815	46,139	54,230	62,200	69,935	Underlying net profit	8,000	9,240	11,543	14,018	17,054
Deferred income tax liab.	1,509	2,827	2,827	2,827	2,827	Dividends	3,072	3,002	3,463	4,205	5,116
Minority interest	2,058	5,756	6,661	7,548	7,986						
Shareholder Equity	43,954	56,686	67,520	80,502	95,069	MW diluted EPS (RMB)	0.43	0.45	0.57	0.69	0.84
Total Liabilities & Equity	206,239	268,032	302,009	333,963	374,440	DPS (RMB)	0.17	0.15	0.17	0.21	0.25
Ratio Analysis						Cash Flow Statement					
	2013	2014	2015E	2016E	2017E		2013E	2014	2015E	2016E	2017E
NDER	64%	54%	54%	52%	53%	PBT	13,473	16,369	19,350	23,043	25,952
Underlying ROE	17%	15%	16%	16%	17%	Depreciation	610	1,207	1,481	1,814	2,216
Underlying ROA	4%	3%	4%	4%	5%	Other non-cash adj.	(851)	(4,121)	(570)	(646)	(637)
Development margin (Pre LAT)	33%	27%	26%	26%	23%	Changes in working Cap.	(15,255)	(12,127)	(16,276)	(16,333)	(20,193)
Gross margin (Pre-LAT)	30%	26%	26%	26%	21%	Tax & Interest paid	(6,095)	(3,764)	(4,174)	(5,520)	(6,412)
Gross margin (Post LAT)	28%	24%	23%	23%	12%	Cash from operating	(8,118)	(2,435)	(189)	2,358	926
Underlying net margin	13%	11%	11%	12%							
Asset turnover	30%	32%	34%	36%	40%	Disposal of PPE	(1,276)	(5,971)	(2,741)	(3,329)	(4,014)
Asset turnover (Contracted Sales)	49%	48%	44%	45%	3.94	CAPEX / prop add	0	0	0	0	0
Asset to Equity	4.69	4.73	4.47	4.15		Net increase in inv/	18	32	0	0	0
						Other investing act.	555	255	262	270	278
						Cash from investing act.	(703)	(5,685)	(2,478)	(3,059)	(3,735)
						Dividend paid	(3,074)	(3,002)	(3,463)	(4,205)	(5,116)
						Proceeds from borrowings	19,336	4,820	8,923	9,870	9,470
						Issue of shares	0	2,544	0	0	0
						Other Financing Activities	0	3,090	0	0	0
						Cash from financing act.	16,262	7,453	5,460	5,664	4,353

Source: Company data, Morgan Stanley Research (E) estimates

## Earnings Analysis

### Exhibit 2: Country Garden results analysis

(Rmb million)	2013	2014	% Change	Remark	Actual vs MS
Property Sales	60,043	81,898	36%	GFA Booked up 31.8%	5%
Hotel services	995	1,132	14%		-14%
Construction services	867	468	-46%	decrease in volume	-51%
Property management services	777	964	24%	increase in GFA under mgt	13%
Rental	43	87			
<b>Total Turnover</b>	<b>62,725</b>	<b>84,549</b>	<b>35%</b>		5%
Cost of Sales --					
<b>Total cost of sales</b>	<b>(43,713)</b>	<b>(62,494)</b>	<b>43%</b>		6%
Total cost of sales (Post-LAT)	(45,348)	(64,139)	41%		
<b>Gross profit</b>	<b>19,011</b>	<b>22,055</b>	<b>16%</b>	Gross Margin dropped 4.3 ppts	1%
Gross profit (Post-LAT)	17,377	20,410	17%		-2%
Other gains	21	186	766%		152%
Selling and marketing costs	(4,304)	(4,356)	1%	Decrease as % of Contracted Sales	-2%
Administrative expenses	(2,033)	(3,160)	55%	Increase as % of Contracted Sales	30%
Other expenses					
Interest Income	803	255	-68%	Inc FX Gain of RMB 512 mn in prior year	-15%
<b>Operating profit</b>	<b>13,499</b>	<b>14,980</b>	<b>11%</b>		-3%
Operating profit (Post-LAT)	11,864	13,335	12%		-7%
Finance costs	-	(450)		FX loss & Loss on early Redemption of notes	89%
Revaluation Gain	-	1,880			
Associates and JCE	(26)	(40)	55%		-115%
<b>Profit before taxation</b>	<b>13,473</b>	<b>16,369</b>	<b>21%</b>		6%
Income tax expenses	(2,990)	(4,112)	38%		14%
LAT	(1,635)	(1,645)	1%		51%
Minority Interests	(334)	(383)			
	-	(0)			
<b>Net Profit</b>	<b>8,514</b>	<b>10,229</b>	<b>20%</b>		
<b>Underlying Profit</b>	<b>8,000</b>	<b>9,240</b>	<b>16%</b>	Exclude Revaluation & Net FX change in fin. Act.	-8%
Underlying EPS	0.43	0.48	12%	Net Margin down 2 ppts	-2%
EPS(Rmb)	0.46	0.53	16%		8%
DPS (RMB)	0.17	0.15	-12%	Lower payout ratio to 32.5%	-14%
Weighted Average Diluted Shares O/S	18,537	19,139			
Weighted Average Basic Shares O/S	18,523	19,139			
<b>Margins</b>	<b>2013</b>	<b>2014</b>			
Gross Margin	30%	26%	-4%		
Gross Margin (Post LAT)	28%	24%			
Net Margin	14%	12%			
Underlying Net Margin	13%	11%			
	<b>2,013</b>	<b>2,014</b>			
Total Debt	56,249	61,069			
Cash	18,910	18,761			
Restricted cash	7,770	8,453			
Equity	43,954	56,686			
MI	2,058	5,756			
NDER	64.3%	54.2%			

Source: Company Data, Morgan Stanley Research

## What's Changed

We are lowering our 2015E and 2016E EPS by 8% and 1%, respectively, to reflect lower than expected profit margins. Our 2015-2016E gross margins are reduced to 25.7% and 25.5%, respectively, from 27.4% and 26.4% previously.

Our forward NAV estimate has been cut by 3% to HK\$6.8 a share from HK\$7 previously, bringing our price target down 3% to HK\$5.09 from HK\$5.25 as we maintain an unchanged target discount to NAV at 25% when deriving our target price. For more details, please refer to the Valuation and Risk section.

**Exhibit 3:** Country Garden: What's Changed?

CG	Prior	New	% Change
Forward NAV	7.0	6.8	-3.2%
Target Discount	-25%	-25%	0.0%
Target Price	5.25	5.09	-3.0%
EPS 15E	0.62	0.57	-8.4%
EPS 16E	0.70	0.69	-1.4%
EPS 17E	NA	0.84	
Net Profit (mn) 15E	12,599	11,543	-8.4%
Net Profit (mn) 16E	14,215	14,018	-1.4%
Net Profit (mn) 17E	NA	17,054	
Turnover (mn) 15E	103,483	103,125	-0.3%
Turnover (mn) 16E	119,990	119,388	-0.5%
Turnover (mn) 17E	NA	147,941	

Source: Morgan Stanley Research (E) estimates

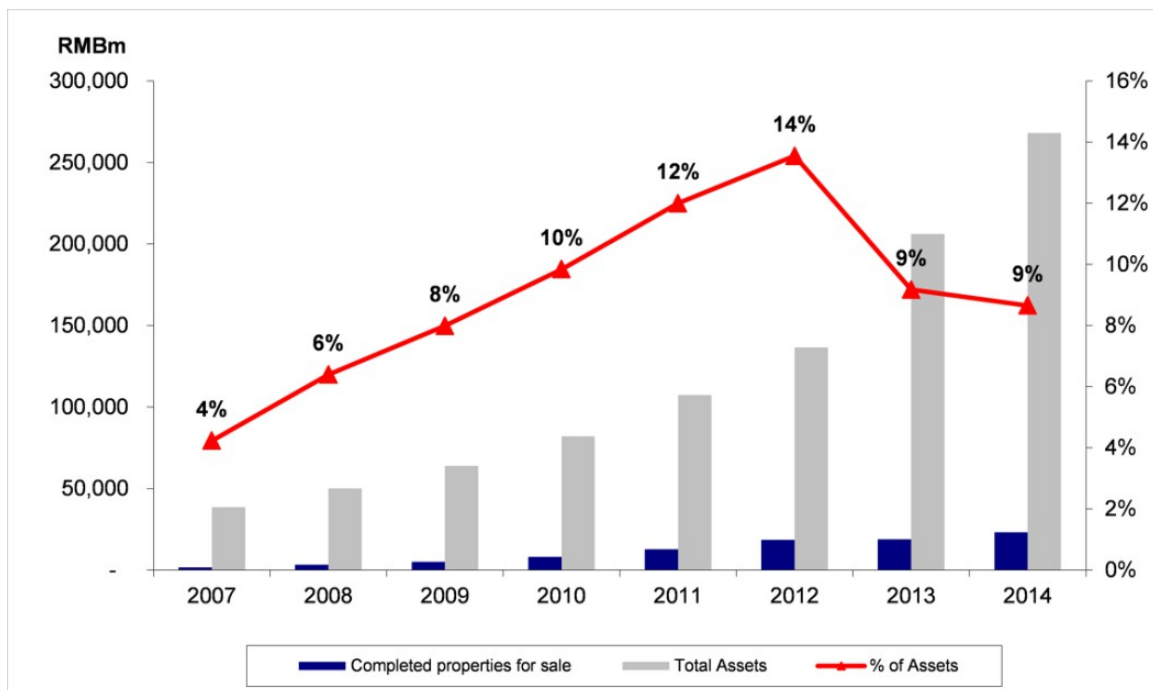
## Company Analysis

**Deleveraging and destocking:** The company's NDER ratio improved to 54% in 2014 from 64% in 2013, while its completed inventory as a percentage of total assets remained steady at 9%. Given a tough operating environment, Country Garden's strategy is shifting from a high growth to a low growth stage. For 2015, it is guiding for 5% contract sales growth, vs. a 40% CAGR in 2010-2014, and a 14% decline in new starts to 19mn sqm.

**Cash flow budget in 2015:** In addition, the company is guiding for positive cash flow in 2015, with cash inflow of Rmb140bn from sales and cash collection from receivables, and cash outflow of Rmb130bn (of which Rmb20bn is land, construction capex is Rmb73bn, tax is Rmb18bn, interest is Rmb5bn, SG&A and other is Rmb11bn).

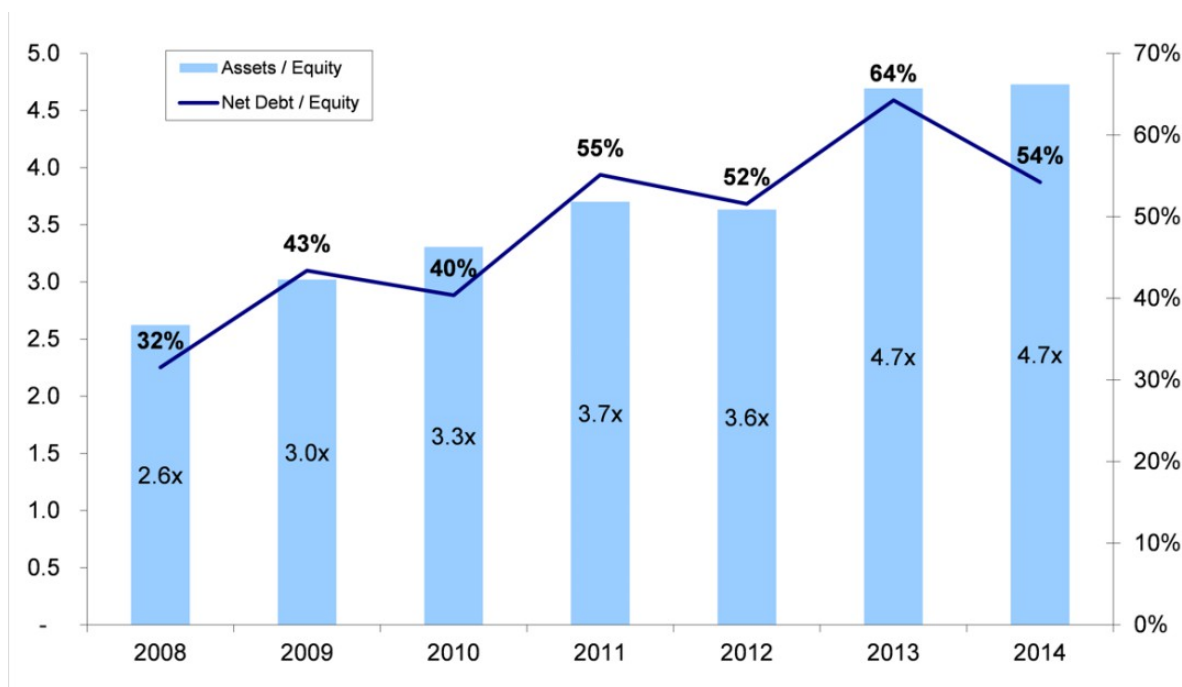
**Margin may continue to be under pressure:** However, due to a tough market in 2014, management guided for booked gross margin to be under pressure in 2015, although it expects it to stabilize afterwards.

**Exhibit 4:** Completed inventory remain steady as % of asset level



Source: Company data, Morgan Stanley Research



**Exhibit 5:** Country Garden net gearing improved to 54% in 2014 from 64% in 2013


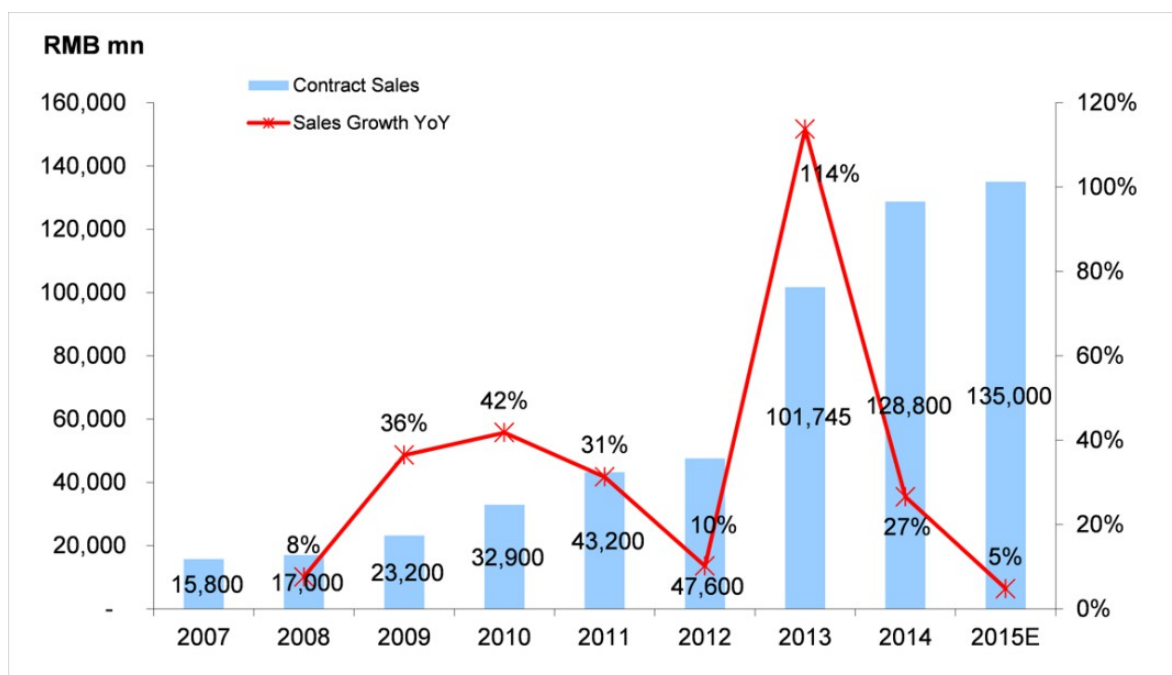
Source: Company data, Morgan Stanley Research

**Exhibit 6:** Country Garden management expects to generate positive cash flow in 2015

Country Garden cash flow	2014	2015 guidance
Property sales	105.8	140.0
Cash inflow from other segment and other operations	2.2	
Construction payments	(62.9)	(76.0)
Land acquisition	(21.0)	(20.0)
Interests paid	(4.7)	(5.0)
Salary payments and welfare	(9.5)	(11.0)
Taxes	(13.5)	(18.0)
<b>Net cash flows in operating activities</b>	<b>(3.7)</b>	<b>10.0</b>

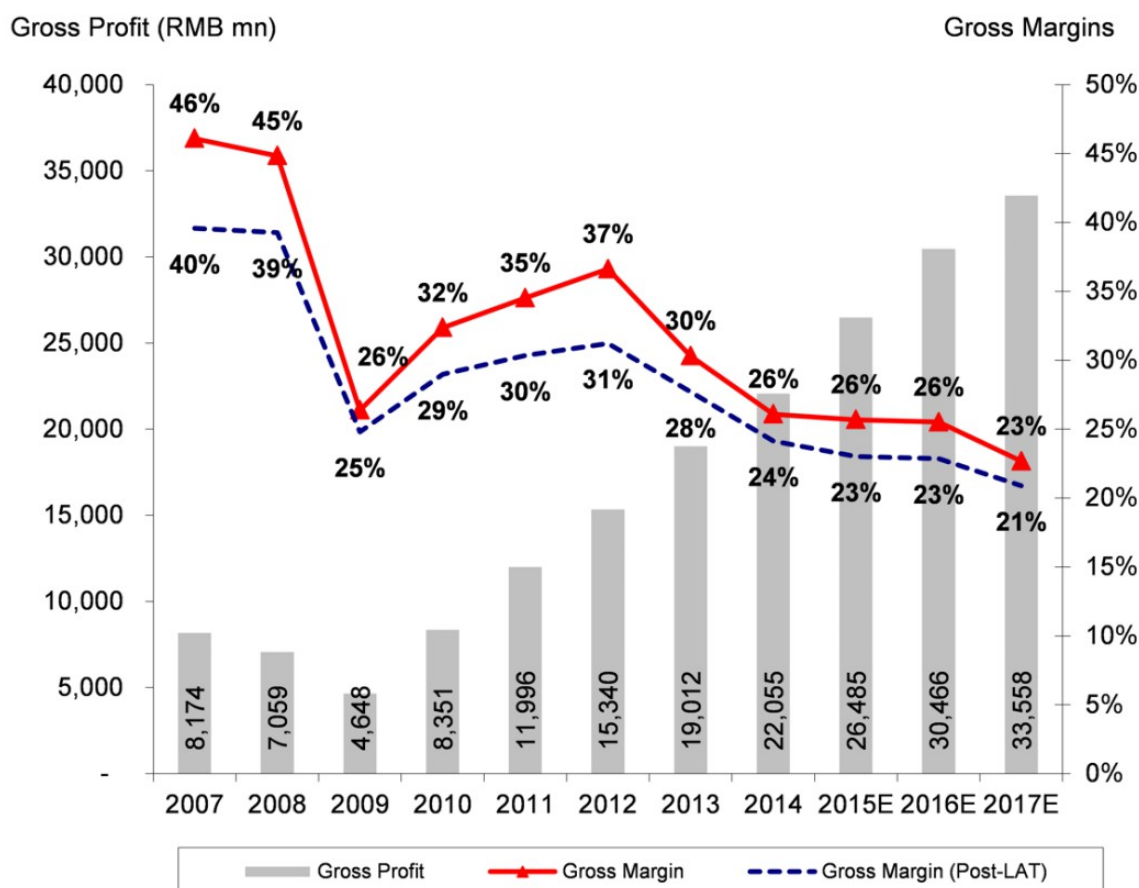
Source: Company data, Morgan Stanley Research

**Exhibit 7:** Country Garden sees contract sales growing 5% in 2015



Source: Company data, Morgan Stanley Research. E = company guidance

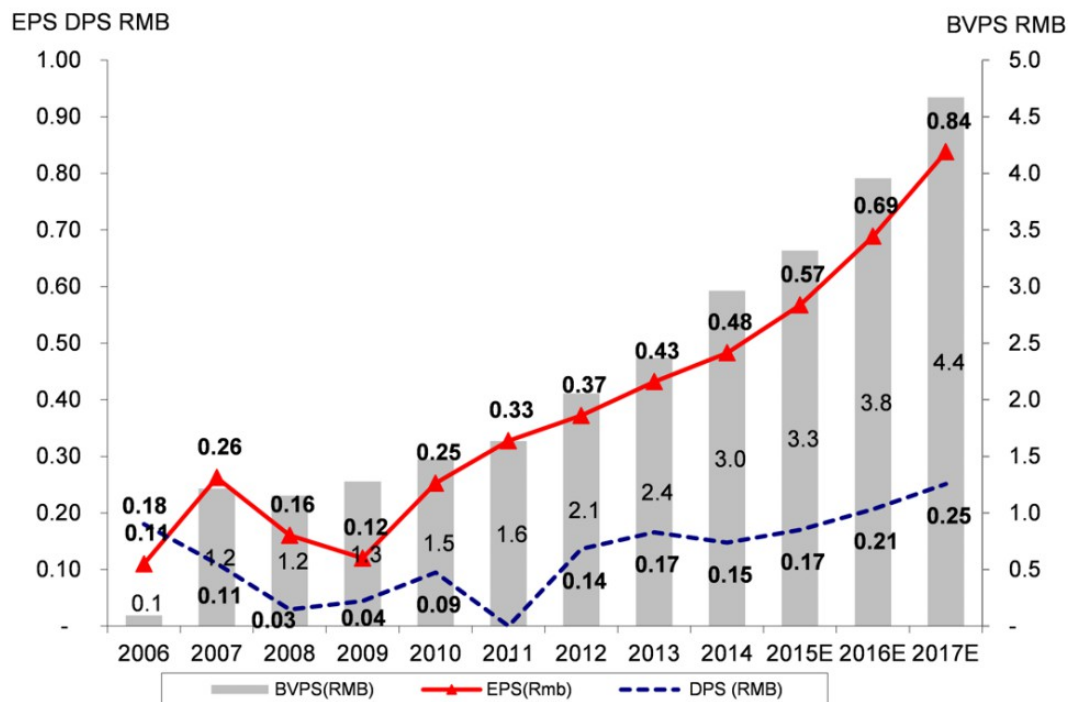
**Exhibit 8:** Country Garden gross margin expected to decline in 2015-16E



Source: Company data, Morgan Stanley Research. E = Morgan Stanley Research estimates



**Exhibit 9:** Country Garden's 2010-2014 BVPS and EPS recorded CAGRs of 17% and 20%, respectively



Source: Company data, Morgan Stanley Research. E = Morgan Stanley Research estimates

## Valuation and Risk

**Our price target valuation methodology** is based on a target discount of 25% to NAV (unchanged). Our NAV consists of DCF of all existing projects based on the company's landbank. We use NAV as our primary valuation methodology as it captures the value of all existing projects, and profitability and return profiles of individual projects can vary much. Our target discount of 25% reflects our qualitative rankings on a scorecard that includes market cap, execution record, geographic exposure, management track record and financial leverage. We assume flat ASP in the next 12 months in our base case scenario. (For further details, see ["China Property - Upgrade to Attractive, Upside Hinges on ASP & Inventory"](#) published Dec. 16, 2014.)

**Exhibit 10:** Scorecard: Determining the base case target discount to NAV

Name	Mkt Cap	SOE Prem	Execution Record	Geog. Exposure	Mgt. Track Record	Liquidity Risk	Financial Leverage	Total Score	New Target Dis (Prem.)
Vanke A	5	4	4	5	5	4	5	32	20%
COLI	5	5	4	5	5	4	4	32	20%
CRL	5	5	4	5	2	5	5	31	20%
CG	5	1	4	3	3	1	4	21	25%
Longfor	4	1	3	3	4	3	2	20	30%
Shimao	4	1	2	4	3	2	3	19	35%
SOHO	3	1	2	2	3	3	4	18	35%
Yuexiu Prop.	2	4	1	2	2	3	3	17	50%
KWG	2	1	3	2	4	2	3	17	50%
COGO	1	4	2	1	3	3	2	16	55%
GZ R&F	3	1	1	3	2	3	2	15	55%
SOL	3	3	2	2	1	1	3	15	60%
Poly Prop.	2	5	1	1	1	2	1	13	65%
CCRE	1	1	2	1	3	3	2	13	65%
Yida China	1	1	2	2	2	2	2	12	65%

Source: Morgan Stanley Research estimates. In this scorecard, we assess each company's project diversification (geographic exposure), interest coverage, assets/equity and NDER (Financial Leverage and liquidity risk), ownership structure (SOE premium), and other qualitative assessments of each company (e.g., operational track record) to rank the developers to derive our base case target discount to NAV.

### Key upside risks to our price target:

Stronger-than-expected property sales volume and ASP.

Property price increases would drive profit margins and, hence, NAV expansion, and likely trigger a re-rating.

### Key downside risks to our price target:

Capitulation in property prices due to unexpected liquidity tightening, dragging down margins.

Weaker-than-expected property demand.

Government reverses policy easing trend.

**Exhibit 11:** China Property valuation comparables

11-Mar-15 Stock	Rating	Share Price	Mkt Cap US\$m	T/O US\$m Avg Daily	PE14E	PE 15E	PE 16E	Fwd NAV/ Shares	Disc to Fwd NAV	Trailing Div Yield	Trailing PTBV	Trailing NDER
Vanke A	OW	11.93	18,480	155.6	6.9	5.9	4.7	19.3	-38%	3.4	1.7	36%
Shimao	OW	15.54	6,954	23.5	4.9	3.8	3.4	41.5	-63%	7.0	1.0	58%
CG	OW	2.98	7,815	17.2	5.3	4.2	3.5	6.8	-56%	6.0	0.9	54%
Yuexiu REIT	OW	4.23	1,535	1.8	46.8	27.3	24.3	NA	N/A	7.1	0.7	54%
KWG	OW	4.68	1,777	4.8	3.8	3.3	2.9	16.5	-72%	7.6	0.6	70%
Longfor	OW	9.75	7,298	4.5	6.3	5.7	4.8	18.0	-46%	2.9	1.1	66%
GZ R&F	OW	8.63	3,583	10.8	4.1	3.5	3.3	31.3	-72%	7.1	0.7	92%
CRL	OW	18.96	15,956	27.9	9.8	9.1	6.2	32.5	-42%	2.4	1.4	55%
Yuexiu Prop.	EW	1.43	2,285	5.2	7.7	7.8	7.0	3.8	-62%	5.1	0.5	63%
COLI	EW	22.00	23,172	69.6	8.0	6.3	5.6	32.5	-32%	2.2	1.5	37%
CCRE	EW	1.87	587	0.3	3.3	2.8	2.4	6.4	-71%	5.6	0.6	39%
Yida China	EW	2.50	831	0.2	5.1	4.3	3.5	7.8	-68%	-	0.6	159%
Vanke H	EW	15.78	2,674	16.4	7.3	6.2	5.0	24.2	-35%	3.2	1.8	36%
COGO	EW	3.90	1,147	3.2	4.0	3.4	3.0	10.2	-62%	2.5	0.7	67%
Agile	UW	4.45	2,246	9.7	3.7	3.9	4.5	11.8	-62%	10.4	0.5	82%
SOHO	UW	5.10	3,417	3.3	12.0	25.8	27.1	8.5	-40%	6.0	0.5	19%
Poly Prop.	UW	3.45	1,628	6.1	6.9	6.8	6.0	8.9	-61%	6.3	0.4	106%
MS coverage					6.8	5.8	4.9		-49%	4.0	1.0	70%

Source: Datastream, Company data, Morgan Stanley Research (E) estimates

## Disclosure Section

The information and opinions in Morgan Stanley Research were prepared or are disseminated by Morgan Stanley Asia Limited (which accepts the responsibility for its contents) and/or Morgan Stanley Asia (Singapore) Pte. (Registration number 199206298Z) and/or Morgan Stanley Asia (Singapore) Securities Pte Ltd (Registration number 200008434H), regulated by the Monetary Authority of Singapore (which accepts legal responsibility for its contents and should be contacted with respect to any matters arising from, or in connection with, Morgan Stanley Research), and/or Morgan Stanley Taiwan Limited and/or Morgan Stanley & Co International plc, Seoul Branch, and/or Morgan Stanley Australia Limited (A.B.N. 67 003 734 576, holder of Australian financial services license No. 233742, which accepts responsibility for its contents), and/or Morgan Stanley Wealth Management Australia Pty Ltd (A.B.N. 19 009 145 555, holder of Australian financial services license No. 240813, which accepts responsibility for its contents), and/or Morgan Stanley India Company Private Limited, and/or PT Morgan Stanley Asia Indonesia and their affiliates (collectively, "Morgan Stanley").

For important disclosures, stock price charts and equity rating histories regarding companies that are the subject of this report, please see the Morgan Stanley Research Disclosure Website at [www.morganstanley.com/researchdisclosures](http://www.morganstanley.com/researchdisclosures), or contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY, 10036 USA.

For valuation methodology and risks associated with any price targets referenced in this research report, please contact the Client Support Team as follows: US/Canada +1 800 303-2495; Hong Kong +852 2848-5999; Latin America +1 718 754-5444 (U.S.); London +44 (0)20-7425-8169; Singapore +65 6834-6860; Sydney +61 (0)2-9770-1505; Tokyo +81 (0)3-6836-9000. Alternatively you may contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY 10036 USA.

### Analyst Certification

The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report:

Angus Chan, Jacky Chan, John Lam.

Unless otherwise stated, the individuals listed on the cover page of this report are research analysts.

### Global Research Conflict Management Policy

Morgan Stanley Research has been published in accordance with our conflict management policy, which is available at [www.morganstanley.com/institutional/research/conflictpolicies](http://www.morganstanley.com/institutional/research/conflictpolicies).

### Important US Regulatory Disclosures on Subject Companies

As of February 27, 2015, Morgan Stanley beneficially owned 1% or more of a class of common equity securities of the following companies covered in Morgan Stanley Research: China Overseas Grand Oceans Group, Guangzhou R&F Properties.

Within the last 12 months, Morgan Stanley managed or co-managed a public offering (or 144A offering) of securities of Central China Real Estate Ltd, KWG Property Holding Limited, Longfor Properties, Shimao Property, Yida China.

Within the last 12 months, Morgan Stanley has received compensation for investment banking services from Agile Property, Central China Real Estate Ltd, Longfor Properties, Shimao Property, Sino Ocean Land.

In the next 3 months, Morgan Stanley expects to receive or intends to seek compensation for investment banking services from Agile Property, Central China Real Estate Ltd, China Overseas Land & Inv., China Resources Land, China Vanke Co., Ltd., **Country Garden Holdings Company Limited**, KWG Property Holding Limited, Longfor Properties, Shimao Property, Sino Ocean Land, SOHO China, Yuexiu Property, Yuexiu Real Estate Investment Trust.

Within the last 12 months, Morgan Stanley has received compensation for products and services other than investment banking services from Agile Property, China Overseas Grand Oceans Group, KWG Property Holding Limited, Shimao Property, Sino Ocean Land, SOHO China.

Within the last 12 months, Morgan Stanley has provided or is providing investment banking services to, or has an investment banking client relationship with, the following company: Agile Property, Central China Real Estate Ltd, China Overseas Land & Inv., China Resources Land, China Vanke Co., Ltd., **Country Garden Holdings Company Limited**, KWG Property Holding Limited, Longfor Properties, Shimao Property, Sino Ocean Land, SOHO China, Yida China, Yuexiu Property, Yuexiu Real Estate Investment Trust.

Within the last 12 months, Morgan Stanley has either provided or is providing non-investment banking, securities-related services to and/or in the past has entered into an agreement to provide services or has a client relationship with the following company: Agile Property, China Overseas Grand Oceans Group, KWG Property Holding Limited, Shimao Property, Sino Ocean Land, SOHO China.

The equity research analysts or strategists principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and overall investment banking revenues.

Morgan Stanley and its affiliates do business that relates to companies/instruments covered in Morgan Stanley Research, including market making, providing liquidity and specialized trading, risk arbitrage and other proprietary trading, fund management, commercial banking, extension of credit, investment services and investment banking. Morgan Stanley sells to and buys from customers the securities/instruments of companies covered in Morgan Stanley Research on a principal basis. Morgan Stanley may have a position in the debt of the Company or instruments discussed in this report. Certain disclosures listed above are also for compliance with applicable regulations in non-US jurisdictions.

### STOCK RATINGS

Morgan Stanley uses a relative rating system using terms such as Overweight, Equal-weight, Not-Rated or Underweight (see definitions below). Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold and sell. Investors should carefully read the definitions of all ratings used in Morgan Stanley Research. In addition, since Morgan Stanley Research contains more complete information concerning the analyst's views, investors should carefully read Morgan Stanley Research, in its entirety, and not infer the contents from the rating alone. In any case, ratings (or research) should not be used or relied upon as investment advice. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations.

### Global Stock Ratings Distribution

(as of February 28, 2015)

For disclosure purposes only (in accordance with NASD and NYSE requirements), we include the category headings of Buy, Hold, and Sell alongside our ratings of Overweight, Equal-weight, Not-Rated and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold, and sell but represent recommended relative weightings (see definitions below). To satisfy regulatory requirements, we correspond Overweight, our most positive stock rating, with a buy recommendation; we correspond Equal-weight and Not-Rated to hold and Underweight to sell recommendations, respectively.

STOCK RATING CATEGORY	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)		
	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY
Overweight/Buy	1161	35%	321	41%	28%
Equal-weight/Hold	1459	44%	370	47%	25%
Not-Rated/Hold	101	3%	10	1%	10%
Underweight/Sell	609	18%	88	11%	14%
<b>TOTAL</b>	<b>3,330</b>		<b>789</b>		

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

### Analyst Stock Ratings

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

### Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

### Stock Price, Price Target and Rating History (See Rating Definitions)

Country Garden Holdings Company Limited (2007.HK) - As of 3/11/15 in HKD  
Industry : China Property



Price Target History: 2/29/12 : 4.14; 3/2/12 : 4.05; 10/21/12 : 4.04; 3/10/13 : 4.83; 8/7/13 : 4.93; 10/25/13 : 6.11; 4/15/14 : 4.63; 12/17/14 : 5.25

Source: Morgan Stanley Research Date Format: MM/DD/YY Price Target -- No Price Target Assigned (NA)  
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —  
 Stock and Industry Ratings (abbreviations below) appear as + Stock Rating/Industry View  
 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)  
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

Effective January 13, 2014, the stocks covered by Morgan Stanley Asia Pacific will be rated relative to the analyst's industry (or industry team's) coverage.

Effective January 13, 2014, the industry view benchmarks for Morgan Stanley Asia Pacific are as follows: relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

## Important Disclosures for Morgan Stanley Smith Barney LLC Customers

Important disclosures regarding the relationship between the companies that are the subject of Morgan Stanley Research and Morgan Stanley Smith Barney LLC or Morgan Stanley or any of their affiliates, are available on the Morgan Stanley Wealth Management disclosure website at [www.morganstanley.com/online/researchdisclosures](http://www.morganstanley.com/online/researchdisclosures). For Morgan Stanley specific disclosures, you may refer to [www.morganstanley.com/researchdisclosures](http://www.morganstanley.com/researchdisclosures).

Each Morgan Stanley Equity Research report is reviewed and approved on behalf of Morgan Stanley Smith Barney LLC. This review and approval is conducted by the same person who reviews the Equity Research report on behalf of Morgan Stanley. This could create a conflict of interest.

## Other Important Disclosures

Morgan Stanley & Co. International PLC and its affiliates have a significant financial interest in the debt securities of Agile Property, Central China Real Estate Ltd, **Country Garden Holdings Company Limited**, KWG Property Holding Limited.

Morgan Stanley is not acting as a municipal advisor and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Morgan Stanley produces an equity research product called a "Tactical Idea." Views contained in a "Tactical Idea" on a particular stock may be contrary to the recommendations or views expressed in research on the same stock. This may be the result of differing time horizons, methodologies, market events, or other factors. For all research available on a particular stock, please contact your sales representative or go to Matrix at <http://www.morganstanley.com/matrix>.

Morgan Stanley Research is provided to our clients through our proprietary research portal on Matrix and also distributed electronically by Morgan Stanley to clients. Certain, but not all, Morgan Stanley Research products are also made available to clients through third-party vendors or redistributed to clients through alternate electronic means as a convenience. For access to all available Morgan Stanley Research, please contact your sales representative or go to Matrix at <http://www.morganstanley.com/matrix>.

Any access and/or use of Morgan Stanley Research is subject to Morgan Stanley's Terms of Use (<http://www.morganstanley.com/terms.html>). By accessing and/or using Morgan Stanley Research, you are indicating that you have read and agree to be bound by our Terms of Use (<http://www.morganstanley.com/terms.html>). In addition you consent to Morgan Stanley processing your personal data and using cookies in accordance with our Privacy Policy and our Global Cookies Policy ([http://www.morganstanley.com/privacy\\_pledge.html](http://www.morganstanley.com/privacy_pledge.html)), including for the purposes of setting your preferences and to collect readership data so that we can deliver better and more personalized service and products to you. To find out more information about how Morgan Stanley processes personal data, how we use cookies and how to reject cookies see our Privacy Policy and our Global Cookies Policy ([http://www.morganstanley.com/privacy\\_pledge.html](http://www.morganstanley.com/privacy_pledge.html)).

If you do not agree to our Terms of Use and/or if you do not wish to provide your consent to Morgan Stanley processing your personal data or using cookies please do not access our research.

Morgan Stanley Research does not provide individually tailored investment advice. Morgan Stanley Research has been prepared without regard to the circumstances and objectives of those who receive it. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of an investment or strategy will depend on an investor's circumstances and objectives. The securities, instruments, or strategies discussed in Morgan Stanley Research may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them. Morgan Stanley Research is not an offer to buy or sell or the solicitation of an offer to buy or sell any security/instrument or to participate in any particular trading strategy. The value of and income from your investments may vary because of changes in interest rates, foreign exchange rates, default rates, prepayment rates, securities/instruments prices, market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in securities/instruments transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. If provided, and unless otherwise stated, the closing price on the cover page is that of the primary exchange for the subject company's securities/instruments.

The fixed income research analysts, strategists or economists principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality, accuracy and value of research, firm profitability or revenues (which include fixed income trading and capital markets profitability or revenues), client feedback and competitive factors. Fixed Income Research analysts', strategists' or economists' compensation is not linked to investment banking or capital markets transactions performed by Morgan Stanley or the profitability or revenues of particular trading desks.

The "Important US Regulatory Disclosures on Subject Companies" section in Morgan Stanley Research lists all companies mentioned where Morgan Stanley owns 1% or more of a class of common equity securities of the companies. For all other companies mentioned in Morgan Stanley Research, Morgan Stanley may have an investment of less than 1% in securities/instruments or derivatives of securities/instruments of companies and may trade them in ways different from those discussed in Morgan Stanley Research. Employees of Morgan Stanley not involved in the preparation of Morgan Stanley Research may have investments in securities/instruments or derivatives of securities/instruments of companies mentioned and may trade them in ways different from those discussed in Morgan Stanley Research. Derivatives may be issued by Morgan Stanley or associated persons.

With the exception of information regarding Morgan Stanley, Morgan Stanley Research is based on public information. Morgan Stanley makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. We have no obligation to tell you when opinions or information in Morgan Stanley Research change apart from when we intend to discontinue equity research coverage of a subject company. Facts and views presented in Morgan Stanley Research have not been reviewed by, and may not reflect information known to, professionals in other Morgan Stanley business areas, including investment banking personnel.

Morgan Stanley Research personnel may participate in company events such as site visits and are generally prohibited from accepting payment by the company of associated expenses unless pre-approved by authorized members of Research management.

Morgan Stanley may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report. To our readers in Taiwan: Information on securities/instruments that trade in Taiwan is distributed by Morgan Stanley Taiwan Limited ("MSTL"). Such information is for your reference only. The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. Morgan Stanley Research may not be distributed to the public media or quoted or used by the public media without the express written consent of Morgan Stanley. Information on securities/instruments that do not trade in Taiwan is for informational purposes only and is not to be construed as a recommendation or a solicitation to trade in such securities/instruments. MSTL may not execute transactions for clients in these securities/instruments. To our readers in Hong Kong: Information is distributed in Hong Kong by and on behalf of, and is attributable to, Morgan Stanley Asia Limited as part of its regulated activities in Hong Kong. If you have any queries concerning Morgan Stanley Research, please contact our Hong Kong sales representatives.

Certain information in Morgan Stanley Research was sourced by employees of the Shanghai Representative Office of Morgan Stanley Asia Limited for the use of Morgan Stanley Asia Limited.

Morgan Stanley is not incorporated under PRC law and the research in relation to this report is conducted outside the PRC. Morgan Stanley Research does not constitute an offer to sell or the solicitation of an offer to buy any securities in the PRC. PRC investors shall have the relevant qualifications to invest in such securities and shall be responsible for obtaining all relevant approvals, licenses, verifications and/or registrations from the relevant governmental authorities themselves.

Morgan Stanley Research is disseminated in Brazil by Morgan Stanley C.T.V.M. S.A.; in Japan by Morgan Stanley MUFG Securities Co., Ltd. and, for Commodities related research reports only, Morgan Stanley Capital Group Japan Co., Ltd; in Hong Kong by Morgan Stanley Asia Limited (which accepts responsibility for its contents) and by Bank Morgan Stanley AG, Hong Kong Branch; in Singapore by Morgan Stanley Asia (Singapore) Pte. (Registration number 199206298Z) and/or Morgan Stanley Asia (Singapore) Securities Pte Ltd (Registration number 200008434H), regulated by the Monetary Authority of Singapore (which accepts legal responsibility for its contents and should be contacted with respect to any matters arising from, or in connection with, Morgan Stanley Research) and by Bank Morgan Stanley AG, Singapore Branch (Registration number T11FC0207F); in Australia to "wholesale clients"



within the meaning of the Australian Corporations Act by Morgan Stanley Australia Limited A.B.N. 67 003 734 576, holder of Australian financial services license No. 233742, which accepts responsibility for its contents; in Australia to "wholesale clients" and "retail clients" within the meaning of the Australian Corporations Act by Morgan Stanley Wealth Management Australia Pty Ltd (A.B.N. 19 009 145 555, holder of Australian financial services license No. 240813, which accepts responsibility for its contents; in Korea by Morgan Stanley & Co International plc, Seoul Branch; in India by Morgan Stanley India Company Private Limited; in Indonesia by PT Morgan Stanley Asia Indonesia; in Canada by Morgan Stanley Canada Limited, which has approved of and takes responsibility for its contents in Canada; in Germany by Morgan Stanley Bank AG, Frankfurt am Main and Morgan Stanley Private Wealth Management Limited, Niederlassung Deutschland, regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin); in Spain by Morgan Stanley, S.V., S.A., a Morgan Stanley group company, which is supervised by the Spanish Securities Markets Commission (CNMV) and states that Morgan Stanley Research has been written and distributed in accordance with the rules of conduct applicable to financial research as established under Spanish regulations; in the US by Morgan Stanley & Co. LLC, which accepts responsibility for its contents. Morgan Stanley & Co. International plc, authorized by the Prudential Regulatory Authority and regulated by the Financial Conduct Authority and the Prudential Regulatory Authority, disseminates in the UK research that it has prepared, and approves solely for the purposes of section 21 of the Financial Services and Markets Act 2000, research which has been prepared by any of its affiliates. Morgan Stanley Private Wealth Management Limited, authorized and regulated by the Financial Conduct Authority, also disseminates Morgan Stanley Research in the UK. Private UK investors should obtain the advice of their Morgan Stanley & Co. International plc or Morgan Stanley Private Wealth Management representative about the investments concerned. RMB Morgan Stanley (Proprietary) Limited is a member of the JSE Limited and regulated by the Financial Services Board in South Africa. RMB Morgan Stanley (Proprietary) Limited is a joint venture owned equally by Morgan Stanley International Holdings Inc. and RMB Investment Advisory (Proprietary) Limited, which is wholly owned by FirstRand Limited. Morgan Stanley Hong Kong Securities Limited is the liquidity provider/market maker for securities of China Overseas Land & Inv., China Resources Land listed on the Stock Exchange of Hong Kong Limited. An updated list can be found on HKEx website: <http://www.hkex.com.hk>.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (DIFC Branch), regulated by the Dubai Financial Services Authority (the DFSA), and is directed at Professional Clients only, as defined by the DFSA. The financial products or financial services to which this research relates will only be made available to a customer who we are satisfied meets the regulatory criteria to be a Professional Client. The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (QFC Branch), regulated by the Qatar Financial Centre Regulatory Authority (the QFCRA), and is directed at business customers and market counterparties only and is not intended for Retail Customers as defined by the QFCRA.

As required by the Capital Markets Board of Turkey, investment information, comments and recommendations stated here, are not within the scope of investment advisory activity. Investment advisory service is provided exclusively to persons based on their risk and income preferences by the authorized firms. Comments and recommendations stated here are general in nature. These opinions may not fit to your financial status, risk and return preferences. For this reason, to make an investment decision by relying solely to this information stated here may not bring about outcomes that fit your expectations. The trademarks and service marks contained in Morgan Stanley Research are the property of their respective owners. Third-party data providers make no warranties or representations relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages relating to such data. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and S&P. Morgan Stanley Research or portions of it may not be reprinted, sold or redistributed without the written consent of Morgan Stanley.

Morgan Stanley Research, or any portion thereof may not be reprinted, sold or redistributed without the written consent of Morgan Stanley.

#### INDUSTRY COVERAGE: China Property

COMPANY (TICKER)	RATING (AS OF)	PRICE* (03/11/2015)
<b>Chan, Jacky</b>		
Agile Property (3383.HK)	U (10/15/2014)	HK\$4.45
Central China Real Estate Ltd (0832.HK)	E (10/25/2013)	HK\$1.87
China Overseas Grand Oceans Group (0081.HK)	E (12/17/2014)	HK\$3.90
China Overseas Land & Inv. (0688.HK)	E (11/23/2011)	HK\$22.00
China Resources Land (1109.HK)	O (12/17/2014)	HK\$18.96
China Vanke Co., Ltd. (000002.SZ)	O (04/11/2012)	Rmb11.93
China Vanke Co., Ltd. (2202.HK)	E (08/19/2014)	HK\$15.78
Country Garden Holdings Company Limited (2007.HK)	O (11/23/2011)	HK\$2.98
Guangzhou R&F Properties (2777.HK)	O (12/17/2014)	HK\$8.63
KWG Property Holding Limited (1813.HK)	O (10/21/2012)	HK\$4.68
Longfor Properties (0960.HK)	O (10/21/2012)	HK\$9.75
Poly Property Group (0119.HK)	U (03/10/2013)	HK\$3.45
Shimao Property (0813.HK)	O (10/21/2012)	HK\$15.54
Sino Ocean Land (3377.HK)	U (04/11/2012)	HK\$4.69
SOHO China (0410.HK)	U (01/09/2014)	HK\$5.10
Yida China (3639.HK)	E (08/03/2014)	HK\$2.50
Yuexiu Property (0123.HK)	E (04/15/2014)	HK\$1.43
Yuexiu Real Estate Investment Trust (0405.HK)	O (03/14/2013)	HK\$4.23

Stock Ratings are subject to change. Please see latest research for each company.

\* Historical prices are not split adjusted.