

Country Garden Holdings

Ride with the gradual recovery; stay OW

Country Garden reported a solid set of results. Although margin disappointed, increase in delivery and overhead cost savings have helped maintain a high ROE of 18.4%. Even after factoring in a 2% decrease in gross margin in 15E-17E, 14-17E earnings CAGR is still at 14% by our estimates, thanks to the strong sales momentum. We think Country Garden will gradually re-rate on the back of improving sales in 2Q and 3Q2015, and potential credit rating upgrades could also be another catalyst for the stock. **Reiterate OW with Dec-2015 PT of HK\$3.90 per share.** We think the stock looks cheap at the current 4.5x 2015E P/E and at a 26% discount to NAV. At a 30% payout ratio, dividend yield was 6.3%. The company said they will start paying interim dividends going forward. Key takeaways from the briefing are [here](#).

- **Earnings in line with high ROE:** Country Garden's 2014 core net profit was Rmb9,269 mn, up 16% Y/Y and 1% below our estimate. Development margin (post-LAT) was 22.9% in 2H2014, down from 26.5% in 2013 and 26.2% in 1H2014. Despite the increase in PUD and land, Country Garden has stepped up in delivery, which resulted in high asset turnover. This resulted in a stable ROE of 18.4% in 2014, comparable to that of COLI and Vanke.
- **Margin squeeze somewhat expected:** The margin squeeze was due to lower ASP and higher land cost, which is somewhat expected upon the correction cycle in 2Q/3Q2014. Management expects margin to stabilize at the 20-22% level, versus 24% in 2014. With Rmb135 bn sold but unrecognized sales, and only about Rmb95-100 bn to be booked in 2015E, the sales lock-in for the coming two years is high and this helped offset the lower-margin guidance. We expect 14-17E earnings CAGR to be 14%.
- **Skepticism to gradually be removed:** There are three big challenges facing Country Garden. First being the margin, which should stabilize in 2015 in our view; second is the tier 3/4 exposure, which in reality about half of Country Garden's exposure is to tier 1/2 cities' demand, with more detailed analysis to follow; third is concerns about corporate governance, which should be gradually removed with debt pricing reverting back to the level two years ago, and noting that the company has achieved breakeven free cash flow in 2H2014. When these overhangs gradually are removed, we expect the stock to see a sustainable re-rate in the coming three to six months.

Overweight

2007.HK, 2007 HK

Price: HK\$2.98

▲ Price Target: HK\$3.90

Previous: HK\$3.70

China

Property

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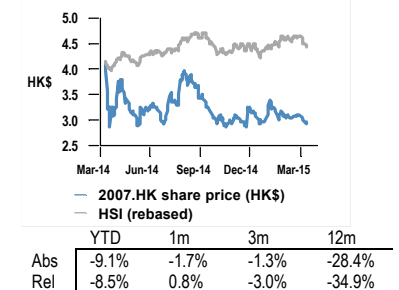
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Price Performance



Country Garden Holdings (Reuters: 2007.HK, Bloomberg: 2007 HK)

Rmb in mn, year-end Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue (Rmb mn)	62,682	84,549	100,813	123,700	130,655
Net Profit (Rmb mn)	8,514	10,229	10,515	12,186	13,845
EPS (Rmb)	0.47	0.53	0.52	0.60	0.68
DPS (Rmb)	0.17	0.15	0.15	0.18	0.20
Revenue growth (%)	49.6%	34.9%	19.2%	22.7%	5.6%
EPS growth (%)	22.5%	14.7%	(3.3%)	15.9%	13.6%
ROCE	9.4%	8.6%	9.0%	9.8%	9.9%
ROE	19.6%	17.9%	17.1%	18.0%	17.9%
P/E (x)	5.2	4.5	4.7	4.0	3.5
P/BV (x)	1.0	0.9	0.8	0.7	0.6
EV/EBITDA (x)	7.2	6.3	4.5	2.8	1.1
Dividend Yield	7.0%	6.1%	6.4%	7.5%	8.5%

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data

Shares O/S (mn)	20,352
Market Cap (Rmb mn)	48,931
Market Cap (\$ mn)	7,814
Price (HK\$)	2.98
Date Of Price	11 Mar 15
Free Float(%)	12.3%
3M - Avg daily vol (mn)	30.76
3M - Avg daily val (HK\$ mn)	96.29
3M - Avg daily val (\$ mn)	12.4
HSI	2,3717.97
Exchange Rate	7.76
Price Target End Date	31-Dec-15

See page 18 for analyst certification and important disclosures, including non-US analyst disclosures.

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Table 1: Country Garden- valuation and financial summary

Key catalysts for the stock price:	Downside risks to our view:
• Strong pipeline of saleable resources	• Key downside risks to our PT are a significant slowdown in sales in low-tier cities; substantial Rmb depreciation against USD.

Key financial metrics	FY12A	FY13A	FY14A	FY15E
Revenues (LC)	41,891	62,682	84,549	100,813
Revenue growth (%)	20.6%	49.6%	34.9%	19.2%
EBITDA (LC)	12,109	12,839	15,514	16,765
EBITDA margin (%)	28.9%	20.5%	18.3%	16.6%
Tax rate (%)	25.7%	26.2%	27.1%	25.0%
Net profit (LC)	6,853	8,514	10,229	10,515
EPS (LC)	0.38	0.47	0.53	0.52
EPS growth (%)	14.1%	22.5%	14.7%	-3.3%
DPS (LC)	0.14	0.17	0.16	0.10
BVPS (LC)	2.06	2.38	2.79	3.10
Operating cash flow (LC mn)	(2,483)	(5,809)	(6,180)	31,579
Free cash flow (LC mn)	(6,302)	(11,345)	(8,844)	28,935
Interest cover (X)	82.19	-44.16	-60.90	-82.65
Net margin (%)	16.4%	13.6%	12.1%	10.4%
Sales/assets (X)	0.34	0.37	0.36	0.35
Debt/equity (%)	92.5%	122.3%	97.8%	95.4%
Net debt/equity (%)	49.1%	64.3%	54.2%	17.0%
ROE (%)	20.3%	19.6%	17.9%	17.1%
Key model assumptions	FY15E			
Residential ASP growth	0-3%			
WACC	10.8%			

Source: J.P. Morgan estimates.

Sensitivity analysis	NAV	EPS
Sensitivity to	Dec-15	FY15E
5% chg in residential ASP	11%	8%
1% chg in WACC	0.2%	n/a

Source: J.P. Morgan estimates.

Comparative metrics

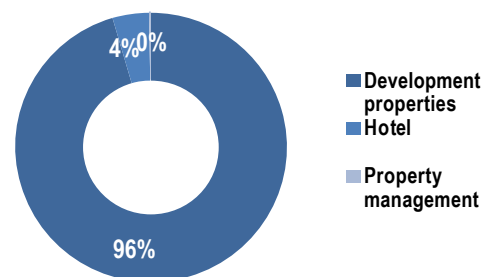
	CMP	Mkt Cap	P/E		NAV discount		P/BV		YTD
			LC	US\$m	FY15E	FY16E	Current	Forward	
Evergrande Real Estate	3.40	6,406	7.7	9.4	-42%	NA	0.7	0.7	8%
China Overseas Land Investment	22.00	23,159	7.4	7.1	-7%	-15%	1.2	1.1	-5%
China Resources Land	18.96	15,947	10.9	9.4	-50%	-52%	1.1	1.0	-7%
China Vanke - H shares	15.78	21,169	7.4	6.6	-27%	NA	1.4	1.2	-9%
Franshion Properties	2.20	2,569	5.9	6.1	-54%	NA	0.5	0.5	-1%
Sino-Ocean Land	4.69	4,529	7.0	6.0	-63%	-68%	0.6	0.6	6%
Shui On Land	1.68	1,731	15.5	9.0	-69%	NA	0.3	0.3	-8%
Shimao Properties	15.54	6,950	5.3	5.0	-33%	-24%	0.8	0.7	-10%
Guangzhou R&F	8.63	3,581	3.7	3.3	-57%	-47%	0.6	0.5	-9%
Agile Property	4.45	2,245	3.7	3.9	-53%	-49%	0.3	0.3	1%
KWG Property	4.68	1,776	3.5	2.9	-59%	-63%	0.5	0.5	-12%
Longfor Properties	9.75	7,294	6.7	6.1	-22%	-31%	0.9	0.8	-2%
Country Garden	2.98	7,811	4.7	4.0	-32%	-24%	0.8	0.7	-4%

Source: Bloomberg, Company data and J.P. Morgan estimates. Prices are as of 11 March 2015.

Valuation and price target basis

Our Dec-2015 price target is now HK\$3.90 per share (up from HK\$3.70), based on 6.0x 2015E P/E (up from 5.5x). The multiple we used is in line with most other mid-cap developers as we believe Country Garden's gearing is not high and sales growth is in line with its peers.

NAV breakdown (Dec-15E)



Source: Bloomberg, Company data and J.P. Morgan estimates.

JPM vs. consensus, change in estimates

EPS	FY15E	FY16E
JPM old	0.552	0.640
JPM new	0.517	0.599
% chg	-6%	-6%
Consensus	0.57	0.65

Source: Bloomberg, Company data and J.P. Morgan estimates.

A gradual recovery path

Country Garden announced a set of satisfactory results. Margin has retreated due to higher development cost, offset by more delivery. Balance sheet quality has deteriorated due to aggressive accounting treatment, but overall is still in good shape, with adjusted net gearing sitting at 65.2%, and the company was able to achieve breakeven free cash flow in 2H2014. The result itself may not be sufficient to remove all investors' concerns on the name, but should be at least an interim comforter in our view.

We reiterate our Overweight rating on the name as we believe the gradual improvement in sales, together with a clear earnings growth outlook, should help the stock to re-rate. Country Garden is cheap at 4.5x 2015E P/E, a 26% discount to NAV and is generating 6.3% dividend yield on 2014, or 6.6% yield on 2015E DPS. The debt market has already given them back the confidence they used to have and the debt is trading at the same level as two years ago; we believe it is not too soon for equity investors to resume their confidence again in this name.

Lower margin, but high ROE

Despite the margin squeeze, Country Garden was able to achieve an ROE of 18.4% in 2014, thanks to the high asset turnover and improvement in capital structure and savings on overhead costs. Such ROE makes it on par with high-quality peers such as Vanke and COLI. We sense that the strategy implemented by Country Garden is getting more similar to Vanke 2-3 years ago: (1) focusing on ROE but not scale; (2) introducing a partnership programme; (3) potential downside to finance costs; (4) having clear control of operations and financials.

We believe Country Garden will be able to maintain such a high ROE given their fast asset turnover. Moreover, compared to Vanke, Country Garden also has more room to improve its capital structure, which could push up the ROE further.

Reiterate Overweight

Re-rating to come with more evidences of well being

We believe the market has too much built-in perceptions and skepticism on Country Garden. Although not all of them can be addressed in this set of results, we believe with gradual improvement in sales in 2Q and 3Q2015, together with continued improvement in the balance sheet and potential credit rating improvements, the stock could gradually re-rate to be on par with other mid-cap developers. **Our Dec-2015 price target of HK\$3.90 per share** is based on a 6.0x 2015E P/E. Such P/E is on par with other mid-cap developer and is about 1 standard deviation below the historical P/E.

Challenge 1: Margin squeeze

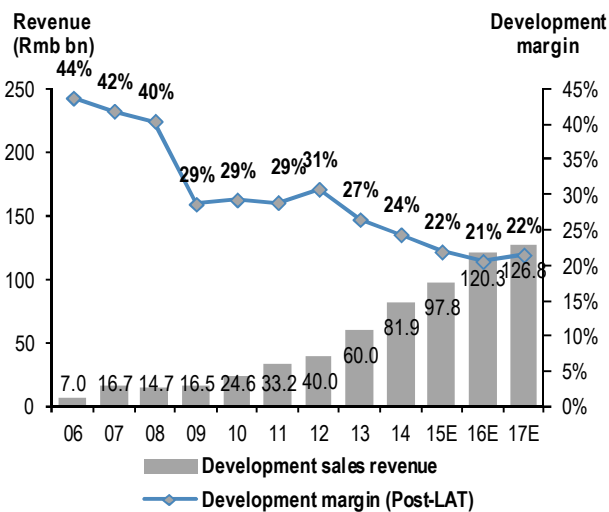
The biggest concern the market has on Country Garden is margin squeeze. The company reported further decrease in development margin in 2H2014, from 24.9% in 2H14 and 26.2% in 1H14 to 22.9% post-LAT in 2H14. Management expects margin in 2015 to be at 20-22% and will stabilize thereafter. Such margin is at the low end in the industry, and is in line with what Vanke achieved in 2013 and 1H2014. Margin squeeze is inevitable when asset turnover increases, and since two years ago when Country Garden decided to expand the scale, such margin squeeze is somewhat expected by the market.

We have already factored in the margin squeeze in our model, and the key question follows: **“Will there be further downside risk to margin?”**

The margin squeeze mainly comes from cost hikes and discount offered. In term of cost hikes, land cost has peaked in 2013, and the recognized land cost is already at the cost of land acquisition (Rmb855 psm in 2014, versus A.V. of Rmb853 psm); hence, we believe land cost should have plateaued.

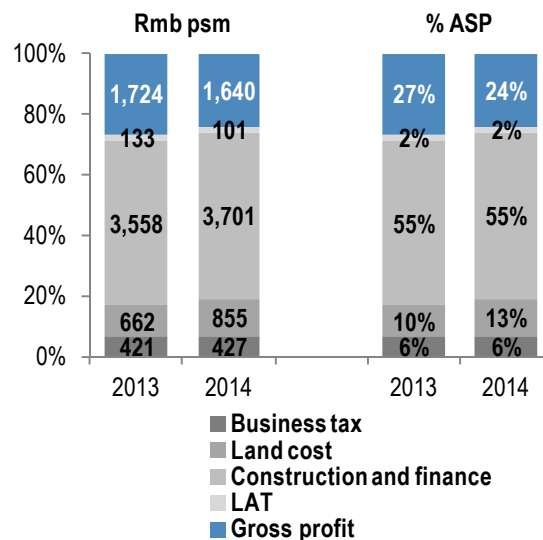
For construction cost, the main reason for the increase is the expansion of scale back in 2013, when Country Garden aggressively entered into new cities. Back then Country Garden exchanged faster construction with higher cost. With the scale expansion done, we believe Country Garden can focus more on cost control and the upcoming cost should also remain stable. And on the ASP side, Country Garden’s ASP achieved has been quite stable at Rmb6,650 to Rmb6,700 psm range over the past two years. Considering all these, we believe the margin beyond 2015 should remain broadly stable, and **market concerns on margin should gradually be removed over the next 6-12 months.**

Figure 1: Country Garden development margin trend and recognition time series



Source: Company data, J.P. Morgan estimates.

Figure 2: Country Garden development cost breakdown



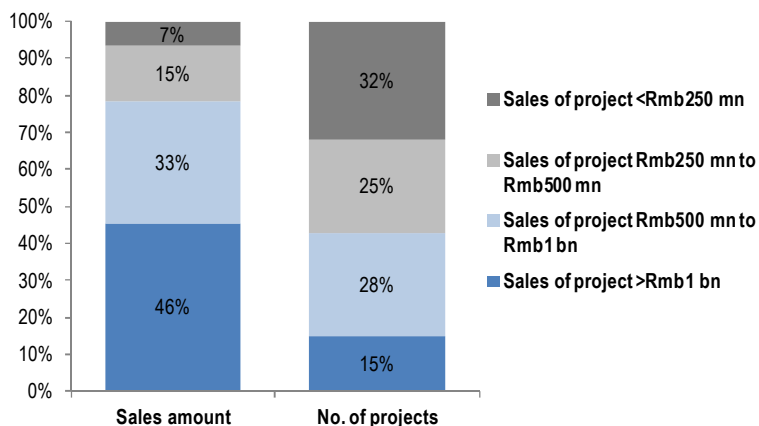
Source: Company data, J.P. Morgan estimates.

Challenge 2: High exposure to tier 3/4 cities?

A general perception of Country Garden is that the company is highly exposed to tier 3/4 cities, of which are mostly oversupplied, and hence the sales outlook for Country Garden will be bad. It is true that Country Garden has certain exposure to these low-tier cities, but indeed about **half of the demand they face are those who reside and work in tier 1/2 cities**. In 2014, 15% of projects contributed to 46% of sales at Country Garden, and on average they sold Rmb1.8 bn per project. Such large scale of sales are from projects located at peripheral counties of tier 1/2 cities and although geographically they are tier 3/4, they are indeed tapping demand from tier 1/2. Some examples are as below:

- Jurong Country Garden 句容碧桂园 → Nanjing (40 km)
- Huidong Ten Miles Beach 碧桂园十里银滩 → Shenzhen (90 km)
- Gaochun Country Garden 高淳碧桂园 → Nanjing / Wuhu (102 km)
- Huaxi Country Garden 花溪碧桂园 → Guiyang (50 km)
- Nan'an Country Garden 南安碧桂园 → Quanzhou (42 km) / Xiamen (60 km)
- Liu'an Country Garden 六安碧桂园 → Hefei (80 km)
- Hainan Golden Beach 碧桂园金沙滩 → Haikou (78 km)

Figure 3: Country Garden sales breakdown by scale



Source: Company data, CREIS, J.P. Morgan.

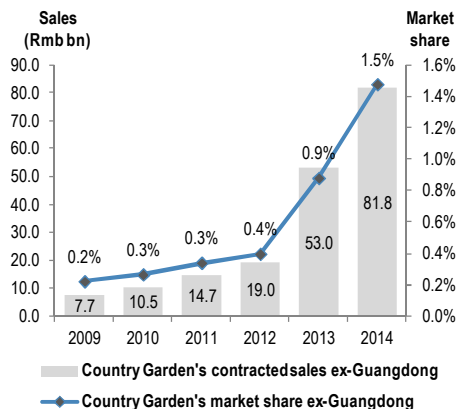
Comparing to Evergrande, which is more of an “authentic” tier 3/4 cities developer (>90%), Country Garden average sales per project is 60% higher; versus COGO tier-3 cities exposure, Country Garden sell 19% more. This offers another illustration of the difference in mix for Country Garden versus other tier 3/4 cities developers.

Table 2: Sales comparison between Evergrande and COGO

	No. of projects in 2014	2014 contracted sales (Rmb mn)	Avg. annual sales (Rmb mn)	Versus Country Garden
Evergrande	292	131,510	450.4	-26%
COGO (ex Hefei & Beijing)	23	11,777	512.0	-16%
Country Garden	211	128,786	610.4	

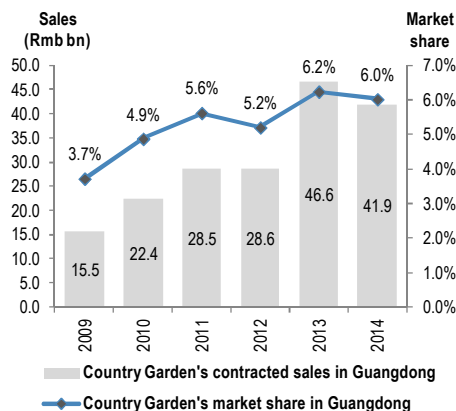
Source: Company data, CREIS, J.P. Morgan.

Figure 4: Country Garden market share outside Guangdong Province



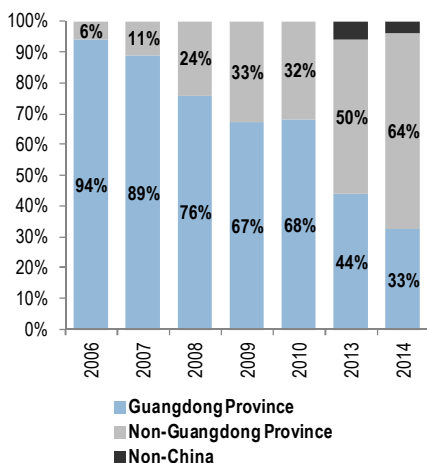
Source: Company data, CREIS, J.P. Morgan.

Figure 5: Country Garden market share in Guangdong Province



Source: Company data, CREIS, J.P. Morgan.

Figure 6: Country Garden contracted sales geographical breakdown



Source: Company data, J.P. Morgan.

Strong brand and good strategy in Guangdong Province

Moreover, Country Garden also possesses a strong franchise in Guangdong Province, with a consistent 6% market share in the Province. This is the result of a mature strategy in the area. With one large-scale project (0.5-1.0 mn sqm) every 50-75 km, Country Garden is able to cover the entire demand of this affluent province without the projects cannibalizing one another.

Figure 7: Location of Country Garden projects in Guangdong Province (>Rmb1 bn sales in 2014)



Source: Company data, CREIS, J.P. Morgan.

Improving brand outside Guangdong Province

Country Garden has spent a lot of resources in expanding outside Guangdong Province since 2008, but in the earlier years it overlapped with the financial crisis, which resulted in over-expansion and sluggish sales growth in 2009. After years of adjustment in strategy, Country Garden has seen a sharp increase in market share in non-Guangdong Province in China (from 0.4% in 2012, to 1.5% in 2014). Among all, Country Garden has done particularly well in Gansu (8.1% market share, due to Lanzhou Country Garden); Anhui (4.1% market share), Hubei (3.6% market share) and Hunan (3.4% market share). A common criteria among these cities is that competition among branded, listed developers is relatively low.

Table 3: Market share in China breakdown by Province (ex-Guangdong)

	CG sales Rmb mn	Overall sales Rmb mn	Market share
Gansu	4,169	51,347	8.1%
Anhui	10,928	269,180	4.1%
Hubei	9,136	254,376	3.6%
Hunan	6,280	185,858	3.4%
Guizhou	2,718	100,001	2.7%
Jiangsu	15,155	596,960	2.5%
Others	28,314	4,085,854	0.7%
China total	118,614	6,239,600	1.9%

Source: Company data, CREIS, J.P. Morgan.

Challenge 3: Corporate Governance concerns

Country Garden's share price tumbled from HK\$4.5 to HK\$2.8 after its former CFO resigned from the company in 2Q2014. This has triggered concerns among investors about the corporate governance of the company, and about its balance sheet and earnings. Since then, there have been two rounds of results announcements, and we do not see many abnormalities in them.

While skepticism post the CFO change may still exist, the impact should gradually fade in our view. First, since the new financial team came on board, led by the new CFO Wu Jianbin, the company has done two rounds of bond issuance at similar rate as two years back, and also a pretty decent right-issuance, which is not hurting minority shareholders. Second, the company has set a very clear limitation on overseas investment (capped at 10%), and is sticking to it; Third, the company has seen a broadly breakeven free cash flow in 2H2014 and is willing to make the vow to achieve a cash flow breakeven scenario in 2015. We believe all these, when they gradually materialize throughout 2015, will help remove such concerns among investors.

Scrapping of scrip dividend

For the first time Country Garden has scrapped the option to receive scrip dividend for the final dividend payment. Chairman Yeung and CFO Wu explained that the chairman already has >60% stake in the company, and he thinks it is justified for him not to receive shares as a dividend payment. Moreover, management also viewed that in case the chairman wants to increase his stake in the company, purchasing in the secondary market would deliver a clearer supportive signal to the market than taking scrip dividend. Management also said that they will start paying interim dividends in 2015.

2014 annual result review

Lower margin offset by more delivery

Country Garden reported core net profit of Rmb9,269.5 mn for 2014, up 16% Y/Y and was 1% below our estimate. Core EPS was Rmb0.484, up 10% Y/Y (due to right issuance and script dividend). Final DPS is Rmb0.148 per share, implying a 6.2% yield. The result was in line with lower margin but more delivery.

Higher development cost but lower overhead costs

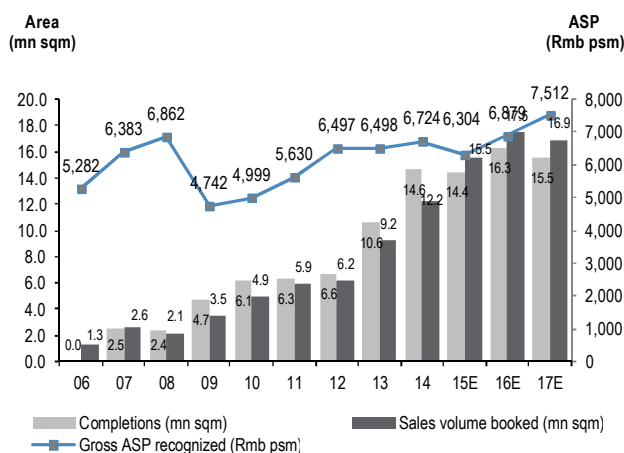
Hotel, property management and construction businesses have all reported loss on the operating profit level, and management explains that is due to lack of third party transaction, which we think is more an allocation issue to help support earnings at the property development segment. This resulted in about Rmb300 mn pre-tax earnings miss versus our original estimate.

Gross margin retreated to 22.5% (post-LAT) in 2H2014, down from 26.2% in 1H14 and 26.5% in 2013. This is mainly due to an increase in land costs recognized. That said, SG&A turned out to be lower than expected, at only 5.8% of contracted sales, down from 6.0% in 2013.

Aggressive balance sheet

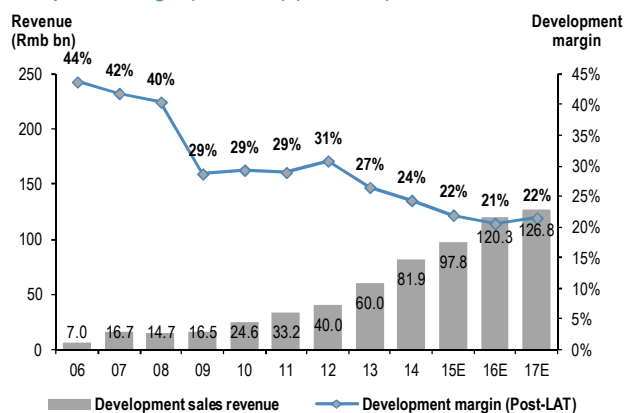
For the balance sheet, continuing with the exercise during 1H2014, Country Garden has ended up getting Rmb1.4 bn post-tax revaluation gain in 2014, at the same aggressive <2% passing yield. As credit agencies do not adjust the equity for the revaluation gain, we believe such an act will pave the way for a potential credit rating upgrade of the company. Inventory level also increased but the overall sellable resources brought forward have remained the same at about Rmb100 bn.

Figure 8: Country Garden ASP and GFA recognized (2006-17E)



Source: Company data, J.P. Morgan.

Figure 9: Country Garden development sales revenue and development margin (after LAT) (2006-17E)



Source: Company data, J.P. Morgan.

Table 4: Country Garden – 2014 annual results summary

	2H13	1H14	2H14	% H/H	% Y/Y	2014	JPM estimates	% Y/Y	vs JPM
Property sales	34,304.8	37,007.6	44,890.3	21%	31%	81,897.9	76,577.9	36%	7%
Property Investment	0.0	45.7	41.0	-10%	NM	86.7	91.4	NM	NM
Hotel operations	566.9	413.1	719.2	74%	27%	1,132.3	1,099.8	14%	3%
Property management	451.8	486.2	477.9	-2%	6%	964.1	994.9	24%	-3%
Property construction and others	413.9	416.5	51.4	-88%	-88%	467.9	606.8	-46%	-23%
Gross Turnover	35,737.4	38,368.9	46,179.9	20%	29%	84,548.8	79,370.7	35%	7%
Selling and marketing expenses	(2,774.3)	(1,788.3)	(2,568.0)	44%	-7%	(4,356.3)	(5,449.7)	1%	-20%
Administrative expenses	(1,155.5)	(1,376.0)	(1,784.0)	30%	54%	(3,159.9)	(2,902.0)	55%	9%
Property Sales	5,849.1	7,834.0	7,193.4	-8%	23%	15,027.4	15,424.8	20%	-3%
Property Investment	0.0	34.3	(8.1)	-124%	NM	26.1	68.6	NM	-62%
Hotel operations	(42.8)	(131.4)	(104.4)	-21%	144%	(235.9)	(92.0)	140%	156%
Property management	1.5	31.9	(121.4)	NM	NM	(89.5)	13.8	NM	NM
Property construction and others	123.1	70.9	(74.2)	NM	NM	(3.3)	142.7	NM	NM
EBIT	5,930.9	7,839.7	6,885.2	-12%	16%	14,724.9	15,558.0	16%	-5%
Interest income	140.1	136.8	117.9	-14%	-16%	254.7	276.2	-12%	-8%
Interest expenses	0.0	0.0	0.0	NM	NM	0.0	0.0	NM	NM
Operating profit	6,071.0	7,976.5	7,003.2	-12%	15%	14,979.7	15,834.3	15%	-5%
Share of associates / JCEs (mainly AGC)	2.5	(13.3)	(27.0)	104%	NM	(40.3)	182.3	55%	NM
Profit before tax	6,073.5	7,963.3	6,976.1	-12%	15%	14,939.4	16,016.5	15%	-7%
Income tax	(1,497.6)	(2,178.7)	(1,874.9)	-14%	25%	(4,053.6)	(4,144.4)	19%	-2%
LAT (adjusted for income tax impact)	(358.7)	(675.8)	(557.9)	-17%	56%	(1,233.6)	(1,806.5)	1%	-32%
Distribution to perpetual	0.0	(35.3)	(211.8)	NM	NM	(247.1)	(247.1)	NM	0%
Minority Interest	(283.3)	(140.3)	4.6	-103%	-102%	(135.7)	(468.3)	-59%	-71%
Core net profit	3,933.9	4,933.3	4,336.2	-12%	10%	9,269.5	9,350.2	16%	-1%
Exceptional items	264.0	(442.3)	(8.0)	-98%	-103%	(450.3)	(295.0)	NM	NM
Reported net profit	4,197.9	5,423.2	4,805.9	-11%	14%	10,229.2	10,234.5	20%	0%
DPS (Rmb)	0.168	0.000	0.148	OM	NN	0.148	0.191	-12%	-23%
EPS (Rmb)	0.229	0.299	0.251	-16%	10%	0.534	0.525	15%	2%
Core EPS (Rmb)	0.214	0.272	0.227	-17%	6%	0.484	0.491	10%	-1%
Net gearing	67.3%	67.1%	59.7%	-7.4%	-7.6%	59.7%	61.6%	-7.6%	-1.9%
Margins									
Gross development margin (post LAT)	24.9%	26.2%	22.9%	-3.3%	-2.0%	24.4%	26.5%	-2.1%	-2.1%
EBIT margin	16.6%	20.4%	14.9%	-5.5%	-1.7%	17.4%	19.6%	-2.8%	-2.2%
Core net margin	11.0%	12.9%	9.4%	-3.5%	-1.6%	11.0%	11.9%	-1.8%	-0.9%
SG&A % sales	-11.0%	-8.2%	-9.4%	-1.2%	1.6%	-8.9%	-10.5%	1.2%	1.6%
LAT % sales	-1.0%	-1.8%	-1.2%	0.6%	-0.2%	-1.5%	-2.4%	0.5%	0.9%
Development properties									
GFA recognized (sqm) (excl AGC)	5,382,916	5,351,238	6,827,845	28%	27%	12,179,083	12,172,839	32%	0%
Gross Revenue psm (Rmb)	6,373	6,916	6,575	-5%	3%	6,724	6,291	3%	7%
Contracted sales (Rmb mn) - (incl JV and associates)	72,350	58,420	70,370	20%	-3%	128,790	128,790	22%	NM
Contracted sales (sqm)	10,860,000	8,793,000	10,487,000	19%	-3%	19,280,000	19,280,000	21%	NM
ASP (Rmb psm)	6,662	6,644	6,710	1%	1%	6,680	6,680	0%	NM

Source: Company data, J.P. Morgan estimates.

Table 5: Country Garden – Key cash flow items, 2014–16E

Rmb mn

	1H14	2H14	FY14	FY15E	FY16E
Land costs	15,000	5,980	20,980	20,000	23,116
Construction costs	38,410	38,583	76,993	77,678	88,444
Tax payment	4,160	9,380	13,540	10,247	12,726
Interest	2,207	2,672	4,879	4,511	4,394
Others - div and others	5,432	3,586	9,018	10,053	9,564
Cash outflow	65,209	60,202	125,410	122,489	138,244
Contracted sales	72,350	56,440	128,790	136,272	152,510
Cash receipt from contracted sales	56,082	54,190	110,272	119,806	134,632
Other income / cost	972	601	1,573	1,553	1,459
Cash inflow	57,054	54,791	111,845	121,359	136,091
Surplus/(shortfall)	(8,155)	(5,411)	(13,565)	(1,130)	(2,153)
Free cash flow	(3,516)	(769)	(4,285)	(2,526)	(2,348)
Net gearing	67.3%	65.2%	65.2%	57.6%	53.6%
Net debt	33,085	33,855	33,855	36,381	38,729

Source: Company data, J.P. Morgan estimates.

NAV and earnings revisions

After factoring in latest delivery schedule and cost schedule, we revise our 2014E/15E/16E core EPS by -6%/-6%/-2%. We have also revised our Dec-2015 NAV estimates by -7% to factor in lower-margin guidance by the company.

Table 6: Country Garden - earnings and NAV change

	FY15E	FY16E	FY17E
Gross revenue (Rmb mn)			
Old	106,704	119,743	131,756
New	100,813	123,700	130,655
% change	-6%	3%	-1%
Core net profit (Rmb mn)			
Old	11,339	13,380	14,850
New	10,515	12,186	13,845
% change	-7%	-9%	-7%
Core EPS (Rmb)			
Old	0.552	0.640	0.696
New	0.517	0.599	0.680
% change	-6%	-6%	-2%
NAV (HK\$ per share)	Dec-2015		
Old	4.36		
New	4.05		
% change	-7%		

Source: J.P. Morgan estimates.

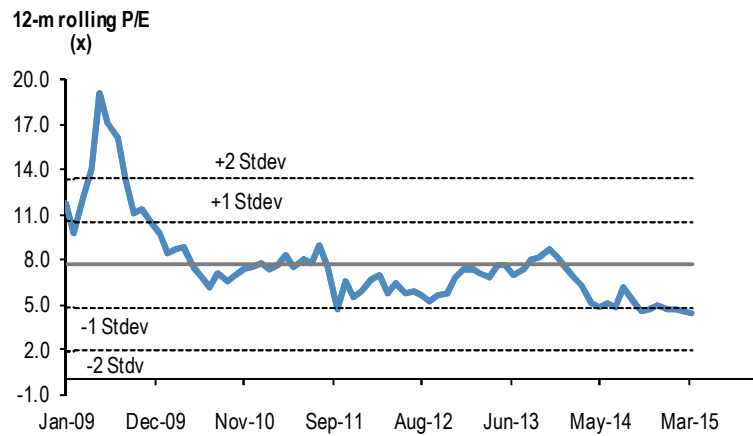
Table 7: Country Garden – revenue lock-in analysis 2015–2017E

	GFA mn sqm	Value Rmb bn	ASP Rmb psm
Total unrecognized as of 31-Dec-2014	20.81	134.54	6,466
Contracted sales in 2M2015	1.78	11.46	6,438
Total unrecognized as of 28-Feb-2015	22.59	146.00	6,464
- to be recognized in 2015 (a)	11.74	73.00	6,216
FY15E total delivery (b)	15.51	97.76	6,304
2015 revenue lock-in (a) / (b)	76%	75%	
- to be recognized in 2016 (c)	7.59	51.83	6,830
FY16E total delivery (d)	17.48	120.26	6,879
2016 revenue lock-in (c) / (d)	43%	43%	
- to be recognized in 2017 (e)	3.25	21.17	6,509
FY17E total delivery (f)	16.88	126.82	7,512
2017 revenue lock-in (e) / (f)	19%	17%	

Source: Company data, J.P. Morgan estimates.

Figure 10: Country Garden – 12 months forward rolling P/E

12-m rolling P/E (x)



Source: Bloomberg, Company data, J.P. Morgan estimates.

Table 8: Country Garden – detailed net asset value estimate

Methodology	Attributable unsold as of end-2014 GFA / rooms Sqm / units	Dec-2015 NAV				Attributable unsold as of end-2014 GFA / rooms Sqm / units	Dec-2016 NAV				
		EV psm Rmb	Gross EV Rmb mn	EV per share Rmb	% of EV		EV psm Rmb	Gross EV Rmb mn	EV per share Rmb	% of EV	
Development Properties											
Bohai Rim	Discounted cash flow	4,559,105	876	3,994	0.20	4%	4,559,105	814	3,712	0.18	4%
Pearl River Delta	Discounted cash flow	16,168,726	1,775	28,700	1.41	31%	16,168,726	1,650	26,676	1.31	29%
Yangtze River Delta	Discounted cash flow	13,798,764	646	8,918	0.44	10%	13,798,764	601	8,289	0.41	9%
Western China	Discounted cash flow	3,816,822	288	1,100	0.05	1%	3,816,822	268	1,023	0.05	1%
Central China	Discounted cash flow	11,762,613	739	8,689	0.43	9%	11,762,613	687	8,076	0.40	9%
Inner Mongolia	Discounted cash flow	2,655,065	1,058	2,809	0.14	3%	2,655,065	983	2,611	0.13	3%
Others	Discounted cash flow	30,965,738	1,449	44,882	2.21	49%	30,965,738	1,347	41,716	2.05	45%
Less: Outstanding land cost	As of end-2014E			(5,000)	(0.25)				(4,647)	(0.23)	
	Effective landbank	82,669,565					82,669,565				
		83,726,833	1,124	94,092	4.62	102%	83,726,833	1,045	87,455	4.30	95%
Investment Properties											
Hotels	Cap rate	1,821,399	2,352	4,284	0.21	5%	1,821,399	2,587	4,713	0.23	5%
		1,821,399	2,352	4,284	0.21	5%	1,821,399	2,587	4,713	0.23	5%
Other businesses											
Property management and others	10X Forward P/E			227	0.01	0%			250	0.01	0%
				227	0.01	0%			250	0.01	0%
Total enterprise value (EV)			98,603	4.84	107%			92,417	4.54	100%	
Less: net (debts) / cash			(33,855)	(1.66)				(33,855)	(1.66)		
Net asset value			64,748	3.18				58,563	2.88		
Number of shares outstanding (mn)			20,352					20,352			
Net asset value per share (Rmb per share)			3.18					2.88			
Net asset value per share (HK\$ per share)			4.05					3.66			
Share price as of 11-Mar-15			2.98					2.98			
Prem / (disc) to NAV			-26%					-19%			

Source: Company data, J.P. Morgan estimates.

Table 9: Country Garden – detailed earnings model, December 31 fiscal year-ends, 2007–17E (Rmb mn)

	2007	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E
Gross turnover breakdown											
Property sales	16,666.9	14,736.5	16,544.9	24,637.8	33,194.0	40,012.0	60,043.3	81,897.9	97,761.0	120,264.9	126,815.8
Hotel operations	215.3	274.5	314.3	472.2	801.7	972.4	994.5	1,132.3	1,302.1	1,432.4	1,575.6
Property management	221.7	293.3	349.3	405.7	511.7	592.3	777.1	964.1	1,195.6	1,448.0	1,709.1
Property construction and others	631.1	408.5	377.2	288.7	240.9	314.3	866.9	467.9	467.9	467.9	467.9
Gross Turnover	17,735.0	15,712.8	17,585.7	25,804.4	34,748.3	41,891.0	62,681.9	84,548.8	100,813.3	123,699.8	130,655.0
Business tax and levies	(1,112.8)	(1,112.8)	(1,035.9)	(1,618.4)	(2,193.2)	(2,656.1)	(4,004.8)	(5,401.9)	(5,520.5)	(6,777.4)	(7,157.9)
Cost of sales	(8,236.0)	(7,246.2)	(11,494.0)	(15,528.6)	(20,251.7)	(23,474.6)	(39,565.6)	(56,302.5)	(71,477.0)	(89,449.7)	(93,571.0)
Gross Profit	8,386.2	7,353.8	5,055.8	8,657.5	12,303.4	15,760.3	19,111.5	22,844.4	23,815.8	27,472.7	29,926.1
Selling and marketing expenses	(310.8)	(528.9)	(324.6)	(621.5)	(1,128.4)	(2,186.1)	(4,303.8)	(4,356.3)	(4,186.1)	(4,641.7)	(4,641.4)
Administrative expenses	(933.2)	(1,046.0)	(855.6)	(833.2)	(1,319.5)	(1,568.3)	(2,033.3)	(3,159.9)	(2,864.9)	(2,785.7)	(3,174.0)
EBIT breakdown											
Property Sales	6,864.7	5,501.1	3,453.2	6,907.4	9,527.5	11,667.9	12,571.9	15,027.4	15,972.5	19,177.1	21,151.6
Hotel operations	(44.1)	(101.9)	(77.9)	(91.3)	(35.1)	(57.3)	(98.1)	(235.9)	(237.7)	(307.8)	(371.6)
Property management	17.9	21.8	95.5	86.7	69.6	47.8	18.2	(89.5)	22.7	27.5	32.5
Property construction and others	126.2	81.7	45.3	34.6	28.9	30.1	203.9	(3.3)	-	-	-
EBIT	6,964.7	5,501.6	3,516.1	6,937.4	9,590.9	11,688.5	12,698.9	14,724.9	15,786.4	18,928.4	20,847.3
Interest income	425.4	74.8	70.5	76.6	101.3	132.4	290.7	254.7	202.8	214.6	197.9
Interest expenses	(283.6)	(832.3)	(721.4)	(473.4)	(659.3)	(279.7)	-	-	-	-	-
Operating profit	7,106.5	4,745.0	2,865.3	6,540.6	9,032.9	11,541.1	12,986.6	14,979.7	15,989.2	19,143.0	21,045.2
Share of associates / JCEs (mainly AGC)	-	-	-	(48.1)	120.9	(93.7)	(25.9)	(40.3)	336.1	72.9	82.8
Profit before tax	7,106.5	4,745.0	2,865.3	6,492.6	9,153.8	11,447.4	12,960.6	14,939.4	16,325.3	19,215.9	21,128.0
Income tax	(1,831.7)	(1,189.4)	(925.9)	(1,747.0)	(2,682.1)	(2,961.4)	(3,399.1)	(4,053.6)	(3,997.3)	(4,785.8)	(5,261.3)
LAT (adjusted for income tax impact)	(775.4)	(656.9)	(206.5)	(655.0)	(1,086.5)	(1,695.9)	(1,226.1)	(1,233.6)	(729.5)	(1,162.9)	(1,205.7)
Distribution to perpetual	-	-	-	-	-	-	(247.1)	(35.3)	-	-	-
Minority Interest	(67.8)	(36.8)	(45.9)	(27.2)	(25.0)	(31.9)	(333.9)	(135.7)	(1,048.6)	(1,081.7)	(816.3)
Core net profit	4,431.5	2,861.9	1,686.9	4,063.4	5,360.3	6,758.2	8,001.6	9,269.5	10,514.6	12,185.6	13,844.7
Revaluation gain / (loss) - after tax	-	-	-	-	-	-	-	1,410.0	-	-	-
Underlying net profit	4,431.5	2,861.9	1,686.9	4,063.4	5,360.3	6,758.2	8,001.6	10,679.5	10,514.6	12,185.6	13,844.7
Exceptional items	(295.6)	(1,483.7)	392.9	227.2	452.9	94.5	512.5	(450.3)	-	-	-
Reported net profit	4,135.9	1,378.2	2,079.8	4,290.6	5,813.2	6,852.7	8,514.1	10,229.2	10,514.6	12,185.6	13,844.7
Fully diluted EPS (Rmb)	0.27	0.08	0.13	0.26	0.33	0.38	0.47	0.53	0.52	0.60	0.68
Fully diluted core EPS (Rmb)	0.29	0.18	0.10	0.25	0.31	0.38	0.44	0.48	0.52	0.60	0.68
Total DPS (Rmb)	0.10	0.03	0.05	0.10	0.13	0.14	0.17	0.15	0.15	0.18	0.20
Payout ratio	38%	36%	36%	37%	37%	37%	36%	29%	30%	30%	30%
Exceptional items											
Disposal gain / (loss)	-	(0.7)	142.5	-	-	-	-	-	-	-	-
Exchange gain / (loss)	(295.6)	(241.5)	(1.1)	110.1	438.0	20.9	512.5	(260.8)	-	-	-
Reversal / (Provision) for financial guarantees	-	-	-	-	-	-	-	(189.5)	-	-	-
Fair value change of financial assets	-	(1,241.5)	251.4	55.2	15.2	73.6	-	-	-	-	-
Others	-	-	-	61.9	(0.2)	-	-	-	-	-	-
Total	(295.6)	(1,483.7)	392.9	227.2	452.9	94.5	512.5	(450.3)	-	-	-
Margin											
Gross margin, on gross revenue	47.3%	46.8%	28.7%	33.6%	35.4%	37.6%	30.5%	27.0%	23.6%	22.2%	22.9%
Gross margin (after LAT), on gross revenue	40.3%	39.1%	24.9%	29.0%	30.4%	31.2%	27.7%	24.1%	21.7%	20.1%	20.7%
Pre-LAT development margin	46.5%	44.9%	30.0%	32.0%	32.2%	35.1%	28.6%	25.9%	22.7%	21.6%	22.5%
Post-LAT development margin	41.9%	40.4%	28.7%	29.3%	28.9%	30.8%	26.5%	24.4%	22.0%	20.6%	21.5%
EBIT margin	41.9%	37.7%	21.2%	28.7%	29.5%	29.8%	21.6%	18.6%	16.6%	16.2%	16.9%
Operating margin	40.1%	30.2%	16.3%	25.3%	26.0%	27.6%	20.7%	17.7%	15.9%	15.5%	16.1%
Effective tax rate	-25.8%	-25.1%	-32.3%	-26.7%	-29.7%	-25.7%	-26.2%	-27.1%	-25.0%	-25.0%	-25.0%
Net Margin (after MI)	25.0%	18.2%	9.6%	15.9%	15.1%	16.4%	12.8%	11.0%	10.1%	9.8%	10.5%
YoY growth (%)											
Gross Turnover	123.3%	-11.4%	11.9%	46.7%	34.7%	20.6%	49.6%	34.9%	19.2%	22.7%	5.6%
EBIT	189.1%	-21.0%	-36.1%	97.3%	38.2%	21.9%	8.6%	16.0%	7.2%	19.9%	10.1%
Core net profit	196.8%	-35.4%	-41.1%	140.9%	31.9%	26.1%	18.4%	15.8%	13.4%	15.9%	13.6%
Reported net profit	172.2%	-66.7%	50.9%	106.3%	35.5%	17.9%	24.2%	20.1%	2.8%	15.9%	13.6%
Development properties											
GFA recognized (sqm) (excl AGC)	2,611,315	2,147,592	3,488,784	4,928,607	5,895,762	6,158,231	9,239,765	12,179,083	15,507,206	17,482,510	16,881,895
Y/Y%	98%	-18%	62%	41%	20%	4%	50%	32%	27%	13%	-3%
Gross Revenue psm (Rmb)	6,383	6,862	4,742	4,999	5,630	6,497	6,498	6,724	6,304	6,879	7,512
Y/Y%	21%	8%	-31%	5%	13%	15%	0%	3%	-6%	9%	9%
Contracted sales (Rmb mn) - (incl JV and associates)	15,825	17,576	23,200	32,910	43,200	47,600	106,000	128,790	136,272	152,510	170,986
Y/Y%	44%	11%	32%	42%	31%	10%	123%	22%	6%	12%	12%
Contracted sales (sqm) - (incl JV and associates)	2,488,599	3,392,857	4,750,000	6,000,000	6,870,000	7,640,000	15,930,000	19,280,000	20,446,506	21,179,358	21,858,324
Y/Y%	20%	36%	40%	26%	15%	11%	109%	21%	6%	4%	3%
Average Selling Price (Rmb psm)	6,359	5,180	4,884	5,485	6,288	6,230	6,654	6,680	6,665	7,201	7,822
Y/Y%	20%	-19%	-6%	12%	15%	-1%	7%	0%	0%	8%	9%

Source: Company data, J.P. Morgan estimates.

Table 10: Country Garden – detailed balance sheet model, December 31 fiscal year-ends, 2007-17E (Rmb mn)

	2007	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E
Current assets											
Properties under development / land devrights	7,296.7	20,756.6	20,247.1	23,761.4	28,370.0	39,155.4	67,473.8	105,994.0	118,690.0	129,133.4	141,100.8
Properties held for sales	1,636.4	3,534.7	5,107.7	8,079.4	12,876.3	18,497.2	18,919.8	23,203.2	19,282.4	14,636.0	9,260.1
Inventories	102.8	154.3	329.4	206.0	248.8	347.5	572.9	2,095.1	2,095.1	2,095.1	2,095.1
Tax recoverable	749.7	974.9	1,509.9	2,388.5	3,305.1	3,927.1	6,189.2	8,739.7	8,739.7	8,739.7	8,739.7
Receivables	5,262.9	3,338.6	7,058.5	12,372.8	12,535.5	17,123.9	26,378.4	25,370.9	24,102.4	22,897.2	21,752.4
Restricted cash	1,013.5	2,728.1	3,815.3	4,758.8	4,649.0	5,050.9	7,769.9	8,453.5	8,453.5	8,453.5	8,453.5
Cash and cash equivalents	8,483.4	3,006.5	4,608.7	5,094.3	7,744.4	11,809.0	18,909.7	18,760.6	44,009.0	67,948.8	103,478.5
Total current assets	24,545.5	34,493.7	42,676.6	56,661.1	69,729.2	95,911.2	146,213.7	192,617.0	225,372.1	253,903.7	294,880.2
Non-current assets											
Investment properties	-	148.9	141.2	133.6	126.0	118.3	112.3	7,035.6	7,135.6	7,235.6	7,335.6
PP&E	1,621.7	2,842.0	3,878.4	5,552.5	8,055.3	11,613.9	15,828.3	18,642.5	20,164.1	21,547.2	22,783.6
Intangible assets	4.1	13.3	13.4	18.5	18.5	22.6	43.5	29.2	29.2	29.2	29.2
Land use rights	8,196.1	974.9	1,102.0	1,096.0	1,326.1	1,390.2	1,865.1	2,034.5	2,034.5	2,034.5	2,034.5
Property under development	3,690.6	10,704.7	13,195.3	17,398.6	26,551.4	25,700.5	40,080.1	44,638.7	46,870.6	49,214.1	51,674.8
Associates / JCEs	-	-	-	83.8	204.8	114.4	56.8	34.5	34.5	34.5	34.5
Deferred taxation assets	556.1	1,038.4	892.9	1,137.2	1,299.3	1,449.3	1,800.0	2,770.1	2,493.1	2,493.1	2,493.1
Available-for-sale financial assets	20.0	30.0	-	-	-	-	206.3	208.7	208.7	208.7	208.7
Other assets	-	-	2,040.0	-	-	201.7	33.3	21.4	-	-	-
Total non-current assets	14,088.5	15,752.2	21,263.2	25,420.2	37,581.3	40,611.0	60,025.7	75,415.2	78,970.3	82,796.9	86,594.1
Total assets	38,634.0	50,245.9	63,939.8	82,081.2	107,310.4	136,522.1	206,239.4	268,032.2	304,342.3	336,700.6	381,474.2
Current liabilities											
Payables and accruals	2,619.8	5,485.7	6,563.2	9,077.2	12,810.3	19,030.3	30,914.6	40,925.0	47,063.7	51,770.1	56,947.1
Receipt in advance from customers	7,168.7	9,113.6	14,039.7	21,729.6	27,865.0	33,353.6	63,418.0	91,792.5	113,837.7	128,205.1	153,624.7
Taxation payable	2,287.9	2,709.6	2,545.0	4,023.4	5,707.5	7,227.2	8,137.5	8,976.1	9,873.7	9,873.7	9,873.7
Bank borrowings and senior notes	2,764.4	2,823.1	3,250.7	5,184.5	6,469.0	8,152.3	12,434.2	14,929.4	12,390.7	12,390.7	12,390.7
Convertible bond and embedded securities	-	-	-	2,316.0	919.8	943.9	-	-	-	-	-
Total current liabilities	14,840.7	20,131.9	26,398.6	42,330.8	53,771.6	68,707.3	114,904.3	156,623.0	183,165.9	202,239.6	232,836.2
Non-current liabilities											
Bank borrowings and senior notes	4,227.4	5,003.3	10,240.4	13,552.6	21,612.7	27,816.5	43,814.5	46,139.3	51,452.8	54,624.3	57,795.8
Convertible bond and embedded securities	-	5,260.0	5,268.6	-	884.1	-	-	-	-	-	-
Deferred government grants	-	-	107.8	107.8	189.5	189.5	239.5	239.5	239.5	239.5	239.5
Deferred tax liabilities	166.8	339.2	383.4	671.9	785.2	924.4	1,269.9	2,588.0	2,588.0	2,588.0	2,588.0
Total non-current liabilities	4,394.2	10,602.5	16,000.3	14,332.3	23,471.6	28,930.4	45,324.0	48,966.8	54,280.3	57,451.8	60,623.2
Equity attrib to equity holders of the parent											
Issued capital	1,636.0	1,636.0	1,645.1	1,669.9	1,669.9	1,823.0	1,875.8	2,270.2	2,270.2	2,270.2	2,270.2
Share premium	13,353.6	13,050.6	13,280.5	13,722.2	13,712.3	17,545.8	18,293.3	21,991.8	21,991.8	21,991.8	21,991.8
Retained profit	2,332.4	3,194.5	4,410.9	6,831.5	10,076.7	13,779.1	18,484.8	25,178.8	32,539.2	41,069.3	50,760.7
Reserves	278.8	859.7	1,093.2	993.0	1,367.9	1,902.0	2,194.1	4,243.4	4,243.4	4,243.4	4,243.4
Proposed dividend	1,557.5	490.8	740.3	1,604.8	2,163.5	2,527.3	3,105.8	3,001.9	2,136.7	2,637.9	3,135.6
Shareholders' equity	19,158.3	19,231.6	21,170.1	24,821.4	28,990.2	37,577.1	43,953.6	56,686.2	63,181.4	72,212.7	82,401.9
Perpetual securities	-	-	-	-	-	-	-	3,090.0	-	-	-
Minority interests	240.9	279.9	370.9	596.7	1,077.0	1,307.3	2,057.5	2,666.2	3,714.8	4,796.5	5,612.9
Total equity	19,399.1	19,511.5	21,540.9	25,418.1	30,067.3	38,884.4	46,011.2	62,442.4	66,896.2	77,009.2	88,014.7
Total liabilities and shareholders equity	38,634.0	50,245.9	63,939.8	82,081.2	107,310.4	136,522.1	206,239.4	268,032.2	304,342.3	336,700.6	381,474.2
Net debt to equity	-13.1%	38.2%	48.8%	45.1%	60.3%	53.4%	67.3%	65.2%	57.6%	53.6%	36.7%
Total debt / total assets	18.1%	26.0%	29.3%	25.6%	27.8%	27.0%	27.3%	22.8%	29.2%	34.2%	37.3%
Book value per share (Rmb)	1.17	1.18	1.29	1.49	1.74	2.06	2.38	2.79	3.10	3.55	4.05

Source: Company data, J.P. Morgan estimates.

Investment Thesis, Valuation and Risks

Country Garden Holdings (*Overweight; Price Target: HK\$3.90*)

Investment Thesis

We think market confidence in Country Garden should improve gradually with improvement in sales and consistent earnings growth of the company. Debt holders have already restored their confidence in the company with the bond price trading close to the level two years ago, and we believe equity holders will soon regain confidence in the company too. We expect Country Garden to see a 14% earnings CAGR in 2014-17E even after factoring in a further 2% decrease in margin. Moreover, due to high asset turnover and effective capital allocation, Country Garden's ROE is maintained at high-teens, close to Vanke and COLI.

We reiterate our Overweight rating on Country Garden. Our Dec-2015 price target is now HK\$3.90 per share (up from HK\$3.70), based on 6.0x 2015E P/E (up from 5.5x). The multiple we use is in line with most other mid-cap developers as we believe Country Garden's gearing is not high and sales growth is in line with its peers.

Risks to Rating and Price Target

Key downside risks to our PT are a significant slowdown in sales in low-tier cities; substantial Rmb depreciation against USD.

Country Garden Holdings: Summary of Financials

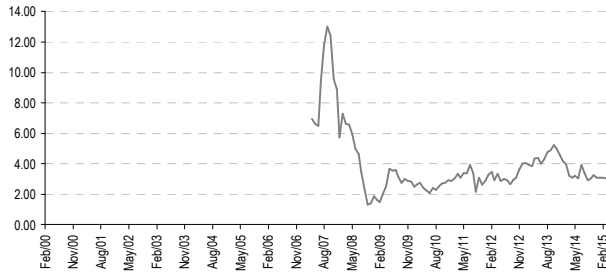
Income Statement					Cash flow statement				
Rmb in millions, year end Dec	FY14	FY15E	FY16E	FY17E	Rmb in millions, year end Dec	FY14	FY15E	FY16E	FY17E
Revenues	84,549	100,813	123,700	130,655	EBIT	14,725	15,786	18,928	20,847
% change Y/Y	34.9%	19.2%	22.7%	5.6%	Depr. & amortization	789	978	1,117	1,264
EBIT	14,725	15,786	18,928	20,847	Change in working capital	(6,238)	18,038	11,786	21,931
% change Y/Y	16.0%	7.2%	19.9%	10.1%	Others	(15,456)	(3,223)	(5,696)	(5,809)
EBIT Margin	17.4%	15.7%	15.3%	16.0%	Cash flow from operations	(6,180)	31,579	26,135	38,233
Net Interest	255	203	215	198	Capex	(2,500)	(2,500)	(2,500)	(2,500)
Earnings before tax	14,939	16,325	19,216	21,128	Disposal/(purchase)	0	0	0	0
% change Y/Y	15.3%	9.3%	17.7%	10.0%	Net Interest	255	203	215	198
Tax	(5,287)	(4,727)	(5,949)	(6,467)	Free cash flow	(8,844)	28,935	23,487	35,596
as % of EBT	35.4%	29.0%	31.0%	30.6%	Equity raised/(repaid)	7,183	(3,090)	0	0
Net income (reported)	10,229	10,515	12,186	13,845	Debt raised/(repaid)	4,820	2,775	3,171	3,171
% change Y/Y	20.1%	2.8%	15.9%	13.6%	Other	0	0	0	0
Core net profit	9,269	10,515	12,186	13,845	Dividends paid	(3,353)	(4,055)	(3,154)	(3,656)
% change Y/Y	15.8%	13.4%	15.9%	13.6%	Beginning cash	18,910	18,761	44,009	67,949
Shares outstanding	19,139	20,352	20,352	20,352	Ending cash	18,761	44,009	67,949	103,479
EPS (reported) (Rmb)	0.53	0.52	0.60	0.68	DPS (Rmb)	0.15	0.15	0.18	0.20
% change Y/Y	14.7%	(3.3%)	15.9%	13.6%					
DPS	0.15	0.15	0.18	0.20					
% change Y/Y	(12.4%)	5.1%	15.9%	13.6%					
Balance sheet					Ratio Analysis				
Rmb in millions, year end Dec	FY14	FY15E	FY16E	FY17E	%, year end Dec	FY14	FY15E	FY16E	FY17E
Cash and cash equivalents	27,214	52,462	76,402	111,932	EBIT margin	17.4%	15.7%	15.3%	16.0%
Accounts receivable	25,371	24,102	22,897	21,752	Net margin	12.1%	10.4%	9.9%	10.6%
Inventories	2,095	2,095	2,095	2,095	SG&A/Sales	8.9%	7.0%	6.0%	6.0%
Others	137,937	146,712	152,509	159,101	Sales per share growth	28.7%	12.1%	22.7%	5.6%
Current assets	192,617	225,372	253,904	294,880	Sales growth	34.9%	19.2%	22.7%	5.6%
LT investments	56,773	58,806	61,250	63,810	Net profit growth	20.1%	2.8%	15.9%	13.6%
Net fixed assets	18,643	20,164	21,547	22,784	EPS growth	14.7%	(3.3%)	15.9%	13.6%
Total Assets	268,032	304,342	336,701	381,474	Interest coverage (x)	NM	NM	NM	NM
Liabilities					Net debt to total capital	35.2%	14.5%	(13.9%)	(90.2%)
ST loans	14,929	12,391	12,391	12,391	Net debt to equity	54.2%	17.0%	(12.2%)	(47.4%)
Payables	49,901	56,937	61,644	66,821	Sales/assets	0.4	0.4	0.4	0.4
Others	91,792	113,838	128,205	153,625	Assets/equity	4.6	4.7	4.7	4.6
Total current liabilities	156,623	183,166	202,240	232,836	ROE	17.9%	17.1%	18.0%	17.9%
Long-term debt	46,139	51,453	54,624	57,796	ROCE	8.6%	9.0%	9.8%	9.9%
Other liabilities	2,588	2,588	2,588	2,588					
Total Liabilities	205,590	237,446	259,691	293,459					
Shareholder's equity	59,776	63,181	72,213	82,402					
BVPS	2.79	3.10	3.55	4.05					

Source: Company reports and J.P. Morgan estimates.

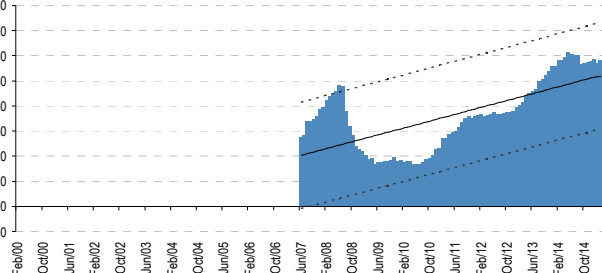
JPM Q-Profile
Country Garden Holdings Co. Ltd. (CHINA / Financials)
 As Of: 06-Mar-2015

Global Equity Quantitative Analysis

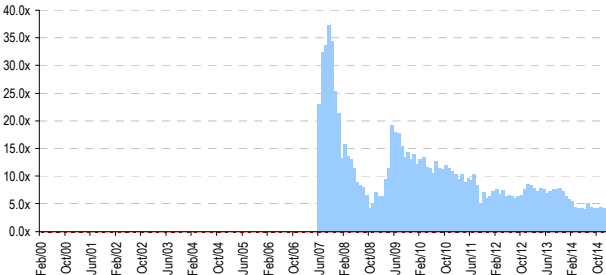
Local Share Price **Current: 3.03**



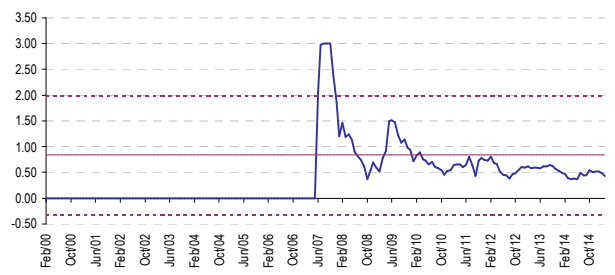
12 Mth Forward EPS **Current: 0.58**



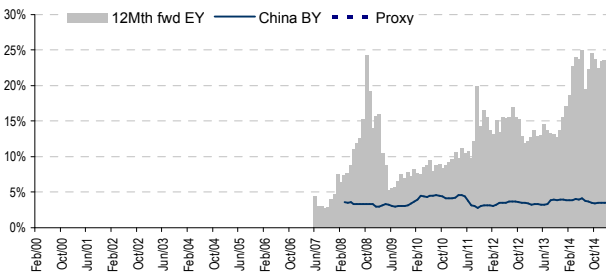
PE (1Yr Forward) **Current: 4.2x**



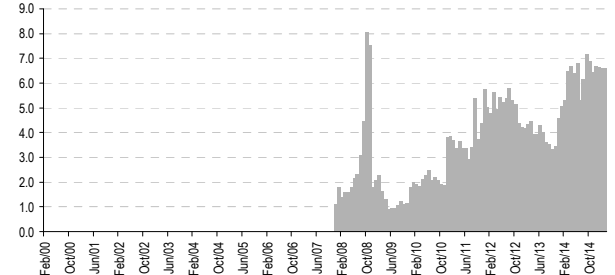
P/E Relative to China Index **Current: 0.43**



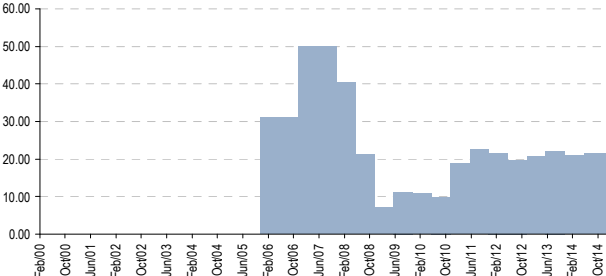
Earnings Yield (& Local Bond Yield) **Current: 24%**



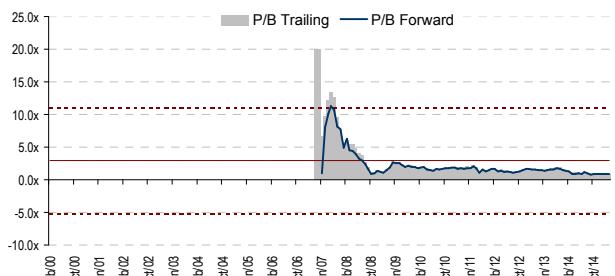
Dividend Yield (Trailing) **Current: 6.62**



ROE (Trailing) **Current: 21.50**



Price/Book (Value) **Current: 0.9x**



Summary

Country Garden Holdings Co. Ltd.		TICKER		2007 HK		As Of:		6-Mar-15			
CHINA						Local Price:		3.03			
Financials						EPS:		0.58			
	Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max	% to Med	% to Avg
12mth Forward PE	4.20x										
P/BV (Trailing)	0.93	0.88	25.00	1.72	2.97	11.11	-5.17	-5%	2587%	85%	219%
Dividend Yield (Trailing)	6.62x	0.00	8.05	3.50	3.47	7.68	-0.74	-100%	22%	-47%	-48%
ROE (Trailing)	21.50	7.18	50.00	21.50	23.84	47.69	-0.02	-67%	133%	0%	11%

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, JPMorgan Quantitative & Derivative Strategy

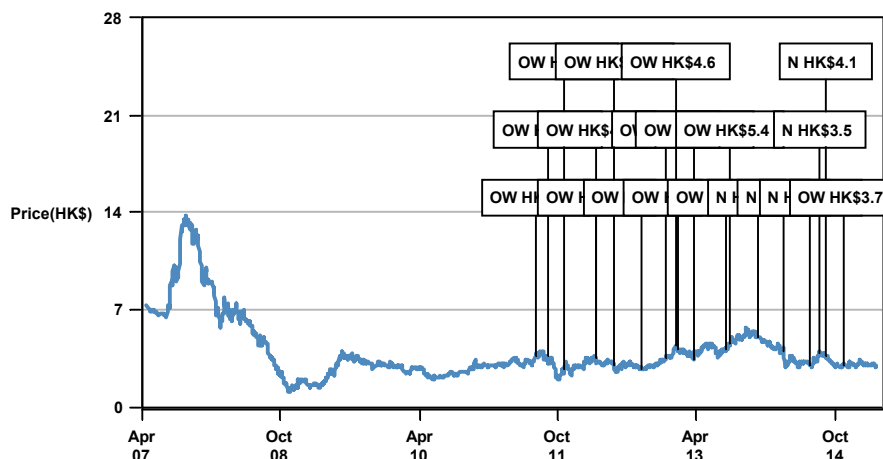
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Country Garden Holdings (2007.HK, 2007 HK) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jul 01, 2011.

Date	Rating	Share Price (HK\$)	Price Target (HK\$)
01-Jul-11	OW	3.73	4.20
17-Aug-11	OW	3.75	4.60
25-Oct-11	OW	2.68	3.90
23-Feb-12	OW	3.66	4.25
29-Feb-12	OW	3.54	4.15
08-May-12	OW	2.98	3.75
24-Aug-12	OW	2.79	3.55
30-Nov-12	OW	3.57	3.90
04-Jan-13	OW	4.38	4.60
17-Jan-13	OW	4.14	4.80
20-Mar-13	OW	3.50	4.75
22-Jul-13	OW	4.12	5.25
07-Aug-13	OW	4.58	5.40
27-Nov-13	N	5.06	5.45
13-Mar-14	N	3.98	4.90
22-Jun-14	N	3.01	2.85
31-Jul-14	N	3.86	3.50
20-Aug-14	N	3.73	4.10
30-Oct-14	OW	3.02	3.70

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IB clients*	75%	67%	52%

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