



Rating
Hold

Asia
China

Property
Property

Company
Guangzhou R&F

Reuters 2777.HK	Bloomberg 2777 HK	Exchange HKG	Ticker 2777
ADR Ticker GZUHY	ISIN US40066H1095		

Date
18 March 2015

Recommendation
Change

Price at 17 Mar 2015 (HKD)	8.06
Price target - 12mth (HKD)	8.13
52-week range (HKD)	11.66 - 7.80
HANG SENG INDEX	23,950

Downgrading to Hold; creditability needs to be rebuilt

Lowering TP to HK\$8.13 (from HK\$13.95); dividend support is gone

The absence of a final dividend (for the first time since listing in 2005), high net gearing (of 177%), and a sharp rise in completed but unsold inventory (to RMB17bn) in R&F's FY14 results came as negative surprises and were markedly different from management's plan - introduced after R&F announced its 1H14 results in Aug 2014. While we believe the removal of the FY14 dividend was due to management's considerations on debts covenants and credit rating, the current high net gearing will likely take a few years to fix (as happened for R&F in 2008-13), and before it is fixed, the resumption of dividends is uncertain, and the stock's usual dividend support will be removed.

FY14 core net profit down 34% YoY – worse than expected

For FY14, R&F's core net profit (for equity holders) was RMB3.85bn, down 34% YoY – worse than expected, due mainly to lower property revenue booking, lower margins, and higher interest costs. Total revenue was RMB34.7bn, down 4% YoY while total revenue from property sales was RMB31.7bn, down 6% YoY. Gross profit margin from property sales was 37.1% in FY14, down from 40.7% in FY13. While the declines in gross margins were higher than expected, R&F's gross margins remained high relative to the industry average. That said, in our view, the higher margins were driven by firmer pricing, which has led to higher completed but unsold inventory. At end-2014, the completed but unsold inventory of R&F had risen sharply to RMB17.2bn.

High net gearing (177% at end-2014) could take a few years to fix (like 2008)

Against market expectations, there was no dividend for FY14. Given that the projected contracted sales and projected delivery for FY15 are again back end-loaded, positive surprises are unlikely to come in 1H15. Also, unless R&F can significantly beat its full-year sales target of RMB60bn, or has a major asset disposal, net gearing is unlikely to fall meaningfully by end-2015.

Our new TP is based on a 50% discount to our NAV of HK\$16.25

We cut our est. NAV from HK\$23.24 to HK\$16.25 as we factor in the higher-than-expected net debts, financing costs, inventory from FY14 results, and we now assume 10-20% price cuts for R&F's development properties in 2015 (as opposed to 5% increases for projects in Tier-1 cities), as we believe that R&F needs to clear inventories with more aggressive pricing. When determining our target price, we are now applying a 50% NAV discount (up from 40% previously), given the higher-than-expected net gearing, which leads to higher financial risks for R&F. Key risks: unexpected economic and policy volatility.

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Key changes

Rating	Buy to Hold	↓	
Price target	13.95 to 8.13	↓	-41.7%
Sales (FYE)	43,870 to 37,091	↓	-15.5%
Op prof margin(FYE)	28.0 to 27.2	↓	-3.0%
Net profit(FYE)	7,775.9 to 4,413.8	↓	-43.2%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-8.8	-11.7	-15.3
HANG SENG INDEX	-3.4	6.0	11.5

Source: Deutsche Bank

Forecasts And Ratios

Year End Dec 31	2013A	2014A	2015E	2016E	2017E
Reported NPAT(CNYm)	7,633.9	5,220.6	4,413.8	4,809.2	5,111.7
DB EPS FD (CNY)	1.80	1.20	1.37	1.49	1.59
PER (x)	5.6	6.6	4.7	4.4	4.1
Yield (net) (%)	6.1	0.0	0.0	5.4	6.2

Source: Deutsche Bank estimates, company data

Deutsche Bank AG/Hong Kong

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Model updated: 17 March 2015

Running the numbers

Asia

China

Property

Guangzhou R&F

Reuters: 2777.HK

Bloomberg: 2777 HK

Hold

Price (17 Mar 15) HKD 8.06

Target Price HKD 8.13

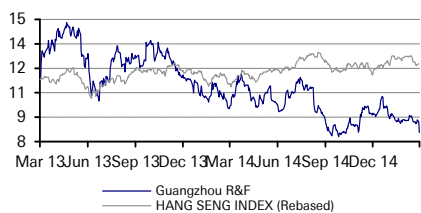
52 Week range HKD 7.80 - 11.66

Market Cap (m) HKDm 25,972
USDm 3,345

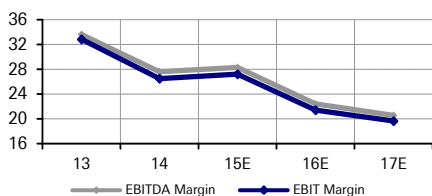
Company Profile

Guangzhou R&F Company Limited is engaged principally in the development and sale of residential properties. It also develops, sells and leases commercial and office space. In addition, the company provides property management and agency services. It was listed on the Hong Kong Stock Exchange in July 2005.

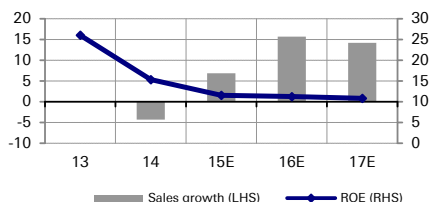
Price Performance



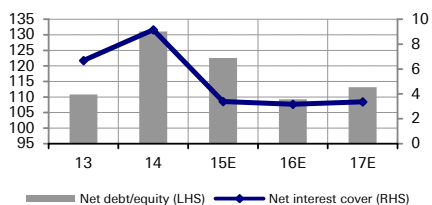
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2013	2014	2015E	2016E	2017E
DB EPS (CNY)	1.80	1.20	1.37	1.49	1.59
Reported EPS (CNY)	2.37	1.62	1.37	1.49	1.59
DPS (CNY)	0.62	0.00	0.00	0.35	0.40
BVPS (CNY)	10.0	11.2	12.5	14.0	15.3
Weighted average shares (m)	3,222	3,222	3,222	3,222	3,222
Average market cap (CNYm)	32,662	25,327	20,946	20,946	20,946
Enterprise value (CNYm)	66,477	68,448	65,296	57,022	54,443

Valuation Metrics

P/E (DB) (x)	5.6	6.6	4.7	4.4	4.1
P/E (Reported) (x)	4.3	4.9	4.7	4.4	4.1
P/BV (x)	0.90	0.68	0.52	0.46	0.43
FCF Yield (%)	nm	nm	nm	31.5	9.5
Dividend Yield (%)	6.1	0.0	0.0	5.4	6.2
EV/Sales (x)	1.8	2.0	1.8	1.3	1.1
EV/EBITDA (x)	5.5	7.1	6.2	5.9	5.4
EV/EBIT (x)	5.6	7.4	6.5	6.2	5.7

Income Statement (CNYm)

Sales revenue	36,271	34,705	37,091	42,909	49,006
Gross profit	14,657	12,698	13,530	13,127	14,088
EBITDA	12,192	9,582	10,497	9,615	10,076
Depreciation	281	388	408	428	449
Amortisation	0	0	0	0	0
EBIT	11,911	9,193	10,089	9,187	9,626
Net interest income/(expense)	-1,782	-1,004	-2,975	-2,897	-2,862
Associates/affiliates	306	145	1,676	1,678	1,709
Exceptionals/extraordinary	2,436	1,823	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0
Profit before tax	12,872	10,156	8,790	7,967	8,473
Income tax expense	5,226	3,650	3,045	1,826	2,030
Minorities	12	1,286	1,331	1,331	1,331
Other post-tax income/(expense)	0	0	0	0	0
Net profit	7,634	5,221	4,414	4,809	5,112
DB adjustments (including dilution)	-1,827	-1,367	0	0	0
DB Net profit	5,807	3,854	4,414	4,809	5,112

Cash Flow (CNYm)

Cash flow from operations	-9,759	-15,069	-2,904	6,596	1,997
Net Capex	-1,358	-1,317	0	0	0
Free cash flow	-11,117	-16,386	-2,904	6,596	1,997
Equity raised/(bought back)	0	0	0	0	0
Dividends paid	-2,008	-1,560	0	0	-1,128
Net inc/(dec) in borrowings	25,816	6,211	-2,748	-1,994	-1,493
Other investing/financing cash flows	-1,208	7,222	589	-6,409	-7,145
Net cash flow	11,483	-4,514	-5,064	-1,806	-7,769
Change in working capital	-17,687	-17,350	4,447	7,169	915

Balance Sheet (CNYm)

Cash and other liquid assets	24,344	19,830	14,766	12,960	5,191
Tangible fixed assets	6,567	7,496	7,088	6,660	6,211
Goodwill/intangible assets	1,996	2,176	2,176	2,176	2,176
Associates/investments	4,663	5,239	6,326	14,412	23,267
Other assets	102,777	137,099	143,345	143,581	148,058
Total assets	140,347	171,840	173,702	179,789	184,903
Interest bearing debt	61,448	67,659	64,911	62,917	61,424
Other liabilities	45,417	67,684	67,880	71,153	73,775
Total liabilities	106,865	135,343	132,791	134,069	135,199
Shareholders' equity	32,107	35,965	40,379	45,188	49,172
Minorities	1,375	532	532	532	532
Total shareholders' equity	33,482	36,497	40,911	45,720	49,704
Net debt	37,103	47,829	50,144	49,957	56,233

Key Company Metrics

Sales growth (%)	nm	-4.3	6.9	15.7	14.2
DB EPS growth (%)	na	-33.6	14.5	9.0	6.3
EBITDA Margin (%)	33.6	27.6	28.3	22.4	20.6
EBIT Margin (%)	32.8	26.5	27.2	21.4	19.6
Payout ratio (%)	26.2	0.0	0.0	23.5	25.2
ROE (%)	26.1	15.3	11.6	11.2	10.8
Capex/sales (%)	3.7	3.8	0.0	0.0	0.0
Capex/depreciation (x)	4.8	3.4	0.0	0.0	0.0
Net debt/equity (%)	110.8	131.0	122.6	109.3	113.1
Net interest cover (x)	6.7	9.2	3.4	3.2	3.4

Source: Company data, Deutsche Bank estimates

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Downgrading to Hold

Lowering TP to HK\$8.13; dividend support is gone

The absence of a final dividend (for the first time since listing in 2005), high net gearing (of 177%), and a sharp increase in completed but unsold inventory (to RMB17bn) in R&F's FY14 results came as negative surprises and were markedly different from management's plan introduced after R&F announced its 1H14 results in Aug 2014. While we believe that the removal of the FY14 dividend was due to management's considerations on debts covenants and credit rating, the current high net gearing will likely take a few years to fix (as happened for R&F during 2008-13), and before it is fixed, the resumption of dividends is uncertain, and the stock's usual dividend support would be gone.

FY14 results worse than expected

For FY14, R&F's core net profit (for equity holders) was RMB3.85bn, down 34% YoY – worse than expected due mainly to lower property revenue booking, lower margins, and higher interest costs. Total revenue was RMB34.7bn, down 4% YoY. Total revenue from property sales was RMB31.7bn, down 6% YoY, while recognized GFA of property sales was 3.16msm, up 16% YoY. Overall gross profit was RMB12.3bn, down 13% YoY.

Figure 1: R&F – FY14 results at a glance

	2013	2014	YoY %
Revenue	36,271.3	34,705.4	-4.3%
Cost of sales	(22,036.3)	(22,391.4)	1.6%
Gross profit	14,235.0	12,314.0	-13.5%
Other gains – net	2,644.4	1,925.1	-27.2%
Selling and marketing costs	(626.1)	(896.1)	43.1%
Administrative expenses	(1,838.6)	(2,220.5)	20.8%
Other income	84.5	105.2	24.5%
Operating profit	14,499.2	11,227.7	-22.6%
Finance costs	(1,933.7)	(1,215.9)	-37.1%
Share of results of joint ventures	357.3	169.8	-52.5%
Share of results of associates	(50.9)	(25.2)	-50.5%
Profit before income tax	12,871.8	10,156.4	-21.1%
Income tax expenses	(5,226.2)	(3,650.0)	-30.2%
Profit for the year	7,645.6	6,506.4	-14.9%
Holders of perpetual capital instruments	-	1,331.3	N/A
Minority interests	11.8	(45.5)	-485.6%
Reported net profit	7,633.9	6,506.4	-14.8%
Reported EPS	2.39	1.63	-31.8%
Dividends	1,980.1	-	N/A
DPS	0.62	-	N/A

Source: Company

On margins, overall gross margin was 35.5% in FY14, down from 39.2% in FY13, while gross profit margin from sales of properties was 37.1% in FY14, down from 40.7% in FY13. While the declines in gross margins were higher than expected, R&F's gross margins have remained high relative to the



industry average. That said, in our view, the higher margins were driven by firmer pricing, which has led to higher completed but unsold inventory. At end-2014, the completed but unsold inventory of R&F had risen sharply to RMB17.2bn from RMB11bn at end-2013.

Figure 2: R&F – FY14 all-in-one

RMB mn	Value				YoY Change		
	FY11	FY12	FY13	FY14	FY12	FY13	FY14
Key Items							
Core Net Profit	4,394.2	5,007.3	5,806.7	3,992.0	14%	16%	-31%
Core EPS	1.367	1.568	1.802	1.248	15%	15%	-31%
Gross Margin	41.7%	42.2%	39.6%	35.50%	1%	-6%	-10%
Core Net Margin	16.1%	16.5%	16.0%	11.5%	3%	-3%	-28%
Reported Net Profit	4,841.7	5,502.0	7,633.9	5,220.6	14%	39%	-32%
Reported Net Margin	17.7%	18.1%	21.0%	15.0%	2%	16%	-29%
Net Gearing	85.9%	86.0%	115.6%	176.5%	0%	34%	-100%
DPS	0.60	0.60	0.62	0	0%	3%	-100%
Net Book Value Per Share	6.99	8.21	9.96	11.25	17%	21%	13%
P&L							
Total Revenue	27,370.1	30,365.1	36,271.3	34,705.4	11%	19%	-4%
Property Sales Revenue	25,390.2	28,057.4	33,651.2	31,651.0	11%	20%	-6%
Gross Rental Income	491.0	628.3	727.2	827.3	28%	16%	14%
EBIT							
Property Sales	4,511.0	5,331.6	6,120.9	5,449.4	18%	15%	-11%
Property Rental	166.2	247.9	284.0	347.4	49%	15%	22%
EBIT Margin							
Property Sales	18%	19%	18%	17%	7%	-4%	-5%
Property Rental	34%	39%	39%	42%	17%	-1%	8%
Expenses							
Selling & marketing expenses	471.8	454.0	626.1	896.1	-4%	38%	43%
Administrative expenses	1,452.5	1,522.4	1,838.6	2,220.5	5%	21%	21%
Selling & marketing expenses as a % of Total Revenue	2%	1%	2%	3%	-13%	15%	50%
Administrative expenses as a % of Total Revenue	5%	5%	5%	6%	-6%	1%	26%
SG&A as a % of Total Revenue	7%	7%	7%	9%	-7%	4%	32%
Accounting policy check							
Gross interest expenses	1,909.6	2,771.9	3,797.9	5,499.1	45%	37%	45%
Capitalized interests	770.5	1,270.3	1,864.2	4,886.3	65%	47%	162%
% of interests capitalized	40%	46%	49%	89%	14%	7%	81%
Capitalized interests as a % of core net profit	18%	25%	32%	122%	45%	27%	281%
Investment properties revaluation gains	435.7	659.7	2436.2	1,638.2	51%	269%	-33%
IP revaluation gains as a % of last-year-end investment properties value	6.8%	7.7%	26.4%	10.3%	14%	243%	-61%
Gross rental income as a % of latest investment properties value	5.7%	6.8%	4.6%	4.6%	19%	-33%	0%

Source: Company Deutsche Bank



Figure 3: R&F – Operational metrics

RMB mn	FY11	FY12	% YoY Growth	FY13	% YoY Growth	FY14	% YoY Growth
Property sales and rental							
Delivery GFA (sqm)	2,209,000	2,152,100	-3%	2,732,900	27%	3,161,900	16%
Delivery ASP (RMB psm)	11,494	13,037	13%	12,313	-6%	10,010	-19%
Rental income (RMB mn)	491	628	28%	727	16%	827	14%
IP leaseable area (sqm)	NA	NA	NA	390,000	NA	408,000	5%
New construction starts (sqm)	6,000,000	4,010,000	-33%	6,000,000	50%	8,830,000	47%
GFA under construction (sqm)	6,860,000	7,360,000	7%	10,042,000	36%	14,240,000	42%
New GFA acquired (sqm)	1,360,000	1,531,000	13%	20,859,000	1262%	2,317,000	-89%
Total acquisition cost (RMBmn)	4,865	4,024	-17%	43,397	978%	5,249	-88%
Average unit land cost (RMBpsm)	3,577	2,628	-27%	2,100	-20%	2,300	10%
Contracted sales (RMBmn)	30,040	32,200	7%	42,229	31%	54,402	29%
Contracted GFA (sqm)	2,264	2,876	27%	3,386	18%	4,084	21%
Contracted ASP (RMB psm)	13,270	11,197	-16%	12,473	11%	13,320	7%
Sell-through rate	48%	50%	NA	51%	NA	38%	NA
Saleable resources (RMBmn)	62,583	64,400	3%	82,500	28%	142,000	72%
Saleable resources (RMBmn) in 2H	NA	NA	NA	NA	NA	92,000	
Total gross debt (RMBmn)	28,379	35,632	26%	61,448	72%	67,659	10%
Total cash balance (Rmb mn)	9,026	12,862	42%	24,344	89%	19,830	-19%
Net gearing (%)	86%	86%	NA	116%	NA	176.5%	+60.5%-pts
Debt maturity:							
Less than 12 months	10,093	7,212	-29%	18,095	151%	22,134	22%
Between 1-2 years	6,250	16,076	157%	18,934	18%	17,736	-6%
Between 2-5 years	8,252	8,576	4%	17,195	101%	19,887	16%
More than 5 years	3,784	3,769	0%	7,224	92%	7,902	9%
Rmb as % of total debt	96%	93%	NA	86%	NA	82%	NA
USD as % of total debt	4%	7%	NA	14%	NA	18%	NA
Average borrowing interest rate	6.52%	8.11%	NA	8.15%	NA	8.22%	NA
Cashflow Analysis							
Inflow							
Sales proceeds	23,653	29,541	25%	33,000	12%	51,000	55%
Rental income	491	628	28%	2,620	317%	-	-NA
Outflow							
Land premium	(6,000)	(5,571)	-7%	(20,000)	259%	(22,000)	10%
Construction capex	(8,700)	(12,000)	38%	(14,700)	23%	(19,000)	29%
SG&A	(2,000)	(500)	-75%	(2,500)	400%	(4,000)	60%
Interest expenses	(1,840)	(2,000)	9%	(4,000)	100%	(6,500)	63%
Taxation	(5,000)	(4,500)	-10%	(6,853)	52%	(8,000)	17%
Others	(2,030)	(2,500)	23%	(1,900)	-24%	(1,700)	-11%

Source: Company, Deutsche Bank



Figure 4: R&F – FY14 Segment information (RMB mn)

	Property development			Property investment			Hotel operations			All other segments			Group		
	2013	2014	YoY%	2013	2014	YoY%	2013	2014	YoY%	2013	2014	YoY%	2013	2014	YoY%
Segment revenue	33,651	31,651	-6%	780	880	13%	957	1,138	19%	1,146	1,359	19%	36,534	35,027	-4%
Inter-segment revenue	-	-	N/A	(53)	(53)	0%	(56)	(29)	-48%	(153)	(240)	57%	(262)	(321)	23%
Revenue from external customers	33,651	31,651	-6%	727	827	14%	901	1,109	23%	992	1,119	13%	36,271	34,705	-4%
Profit/(loss) for the year	6,121	5,449	-11%	2,111	1,576	-25%	(249)	(140)	-44%	(338)	(379)	12%	7,646	6,506	-15%
Finance costs	(1,363)	(698)	-49%	(176)	(155)	-12%	(264)	(231)	-13%	(131)	(131)	0%	(1,934)	(1,215)	-37%
Share of results of joint ventures	357	170	-52%	-	-	N/A	-	-	N/A	-	-	N/A	357	170	-52%
Share of results of associates	(51)	(25)	-51%	-	-	N/A	-	-	N/A	0	(1)	N/A	(51)	(25)	-51%
Income tax expenses	(4,675)	(3,286)	-30%	(704)	(525)	-25%	83	47	-43%	70	115	64%	(5,226)	(3,650)	-30%
Depreciation and amortisation	(148)	(233)	57%	-	-	N/A	(152)	(177)	16%	(33)	(63)	91%	(332)	(473)	42%
Goodwill disposed for sale of properties	(9)	(3)	-67%	-	-	N/A	-	-	N/A	-	-	N/A	(9)	(3)	-67%
Allowance for impairment losses	(9)	(10)	11%	-	-	N/A	(0)	(0)	N/A	(1)	6	-700%	(9)	(10)	11%
Fair value gain on investment properties – net of tax	-	-	N/A	1,827	1,229	-33%	-	-	N/A	-	-	N/A	1,827	1,229	-33%
Segment assets	115,052	143,398	25%	15,888	18,048	14%	5,273	6,086	33%	634	846	33%	136,848	168,377	23%
Segment assets includes:															
- Interests in joint ventures	4,259	4,618	8%	-	-	N/A	-	-	N/A	-	-	N/A	4,259	4,618	8%
- Interests in associates	71	35	-51%	-	-	N/A	-	-	N/A	52	51	-2%	123	86	-30%
Segment liabilities	31,491	37,778	20%	-	-	N/A	122	308	152%	543	582	7%	32,156	38,668	20%

Source: Company



Figure 5: R&F – Projects under development

Location	Number of projects	Approximate total GFA (sqm)	Approximate saleable area (sqm)
Guangzhou	12	1,636,000	1,184,000
Beijing and vicinity	7	1,562,000	1,218,000
Tianjin	6	1,467,000	1,026,000
Taiyuan	4	1,336,000	960,000
Huizhou	3	1,183,000	920,000
Harbin	2	912,000	755,000
Shanghai and vicinity	3	732,000	385,000
Chongqing	3	616,000	479,000
Meizhou	1	586,000	496,000
Hangzhou	2	509,000	351,000
Hainan	5	495,000	475,000
Wuxi	2	396,000	262,000
Fuzhou	2	356,000	252,000
Chengdu	1	316,000	222,000
Nanjing	2	296,000	197,000
Baotou	1	274,000	205,000
Foshan	1	170,000	125,000
Shenyang	2	159,000	146,000
Guiyang	1	143,000	131,000
Xian	2	143,000	108,000
Zhuhai	1	135,000	100,000
Datong	1	90,000	45,000
Changsha and vicinity	1	57,000	30,000
Johor Bahru, Malaysia	1	666,000	365,000
Total	66	14,235,000	10,437,000

Source: Company, Deutsche Bank

Figure 6: R&F – Latest landbank

Location	Approximate total GFA (sqm)	Approximate saleable area (sqm)
Development Properties		
Guangzhou	2,699,000	2,495,000
Beijing and vicinity	2,636,000	1,924,000
Tianjin	4,779,000	4,161,000
Shanghai and vicinity	531,000	519,000
Hangzhou	399,000	358,000
Chongqing	4,790,000	4,754,000
Hainan	3,415,000	3,299,000
Huizhou	2,978,000	2,978,000
Taiyuan	2,013,000	1,988,000
Harbin	1,326,000	1,326,000
Nanjing	531,000	435,000
Wuxi	866,000	863,000
Baotou	1,464,000	1,464,000
Fuzhou	554,000	554,000
Xian	414,000	406,000
Foshan	228,000	228,000
Chengdu	649,000	378,000
Guiyang	188,000	188,000



Shenyang	263,000	249,000
Zhuhai	100,000	100,000
Nanning	166,000	166,000
Changsha and vicinity	3,299,000	3,299,000
Datong	1,877,000	1,877,000
Meizhou	2,070,000	2,070,000
Melbourne, Australia	298,000	298,000
Brisbane, Australia	178,000	178,000
Johor Bahru, Malaysia	3,500,000	3,500,000
Investment Properties	730,000	713,000
Total	42,941,000	40,768,000

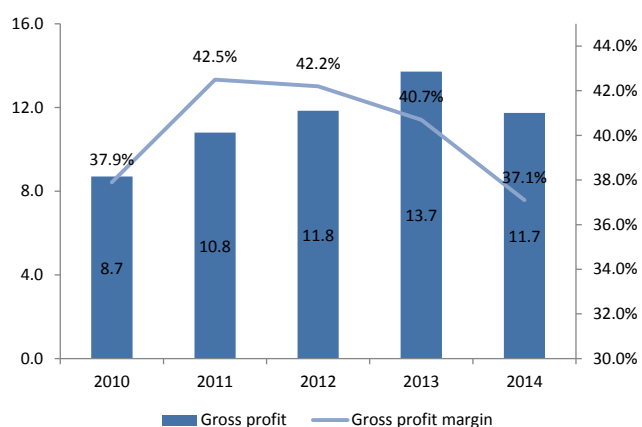
Source: Company

Figure 7: R&F – Investment properties portfolio

Investment properties	Location	Description	Approximate total GFA (sqm)
Guangzhou			
The Ritz-Carlton, Guangzhou*	Pearl River New Town J2-7	5-star hotel, 351 rooms and 91 serviced apartments	104,000
Grand Hyatt, Guangzhou*	Pearl River New Town F1-2	5-star hotel, 375 rooms	115,000
R&F Center*	Pearl River New Town J1-4	55-storey Office building	163,000
Holiday Inn Airport Guangzhou*	R&F Jingang City	4-star hotel, 350 rooms	38,000
Park Hyatt, Guangzhou	Pearl River New Town J1-1	5-star hotel, 176 rooms	66,000
Conrad, Guangzhou#	Pearl River New Town Liede Village	5-star hotel, 350 rooms	39,000
R&F Haizhu City*	R&F Tianyu Center	Shopping mall	50,000
Beijing			
Renaissance Beijing Capital Hotel*	Beijing R&F City	5-star hotel, 540 rooms	120,000
R&F Center*	Beijing R&F City	Office building	60,000
Viva Beijing R&F Plaza*	Beijing R&F City	Shopping mall	111,000
Holiday Inn Express Temple of Heaven Beijing*	R&F Xinran Court/Plaza	4-star hotel, 321 rooms	22,000
Tianjin			
Marriott Hotel Tianjin	Tianjin R&F City	5-star hotel, 400 rooms	58,000
Tianjin R&F City Commercial Complex*	Tianjin R&F City	Shopping mall	43,000
Huizhou			
Renaissance Huizhou Hotel*	Ligang Center	5-star hotel, 342 rooms	54,000
Hilton Huizhou Longme Resort	Longmen R&F Hotspring Valley	5-star hotel, 350 rooms	45,000
InterContinental Huizhou Resort*	No.1 Wenquan Dadao, Hengli Town	5-star hotel, 200 rooms, 21 villas	52,000
Chongqing			
Hyatt Regency Chongqing*	Jiangbei District	5-star hotel, 321 rooms	46,000
R&F Ocean Plaza (Commercial)*	Chongqing R&F Ocean Plaza	Shopping mall	73,000
Holiday Inn University City Chongqing	Chongqing R&F City	4-star hotel, 390 rooms	68,000
Chengdu			
R&F Panda Tianhui Mall*	Chengdu Panda City	Shopping Mall	255,000
Ritz-Carlton Chengdu*	Chengdu Panda City	5-star hotel, 353 rooms	57,000
Hainan			
Doubletree Resort by Hilton, Haikou – Chengmai	R&F Mangrove Bay	5-star hotel, 300 rooms	38,000
Lingshui R&F Bay Shore Marriott & Yacht Club	Hainan R&F Bay Shore	5-star hotel, 300 rooms	76,000
R&F Ocean Park	Lingshui County	Hotel, travel & commercial	200,000
Xian			
R&F Holiday Inn Xian	Xian R&F City	4-star hotel, 380 rooms	50,000
Harbin			
Ritz-Carlton Harbin	Harbin R&F City	5-star hotel, 350 rooms	67,000

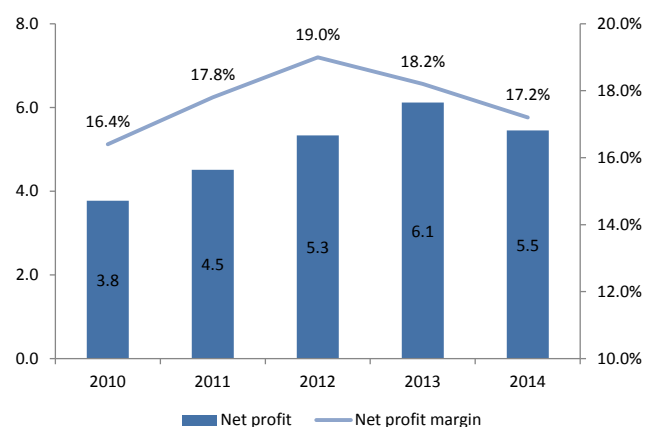


Figure 9: R&F- Gross profit and net margins (RMB bn)



Source: Company

Figure 10: R&F- Net profit and net margins (RMB bn)



Source: Company

High net gearing (177% at end-2014) could take a few years to fix (like 2008); also RMB22bn of debt expiring within 1 year

Against market expectations, there was no dividend for FY14. Given that the projected contracted sales and projected delivery for FY15 are again backend-loaded, positive surprises are unlikely to come in 1H15. Also, unless R&F can significantly beat its full-year sales target of RMB60bn or had a major asset disposal, net gearing is unlikely to fall meaningfully by end-2015.

As a reference, according to the projections of R&F, even if it achieves its full-year sales target of RMB60bn for 2015, and if it does not acquire new landbank, its projected net cashflow would be only RMB4bn. Given the high amount of net debts at end-2014, this net cashflow (and the expected retained earnings for FY15) are unlikely to result in a quick and significant improvement in the net gearing of R&F. On our estimates, R&F's net gearing would fall to about 163% at end-2015 and 145% in at end-2016.

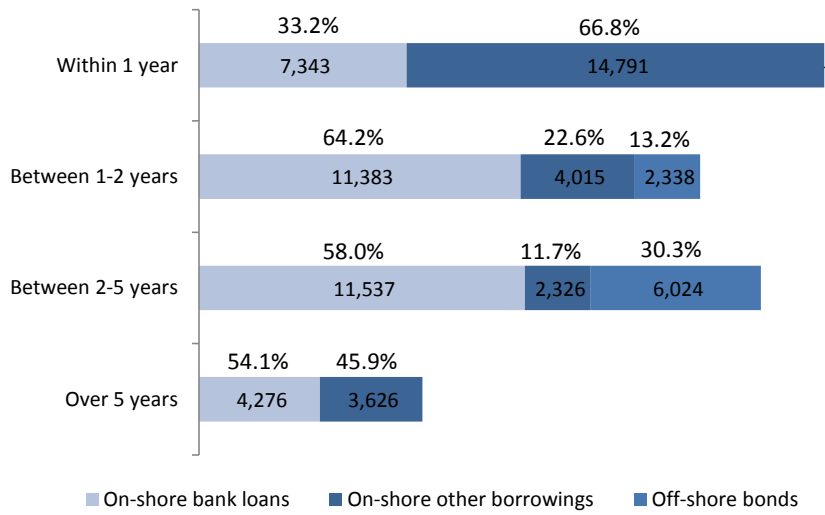
Figure 11: R&F - 2015 Projected Cash Flow

2015 Projected Cash Flow	RMB Billion
Contracted Sales Target	60
Cash Received From Contracted Sales	51
Total Cash Outflow	(47)
1. Construction	(20)
2. Land Premium (existing)	(8)
3. Interest Expense	(7)
4. Taxes & Fees	(8)
5. SG&A and Others	(4)
Projected net cash flow	4

Source: Company, Deutsche Bank

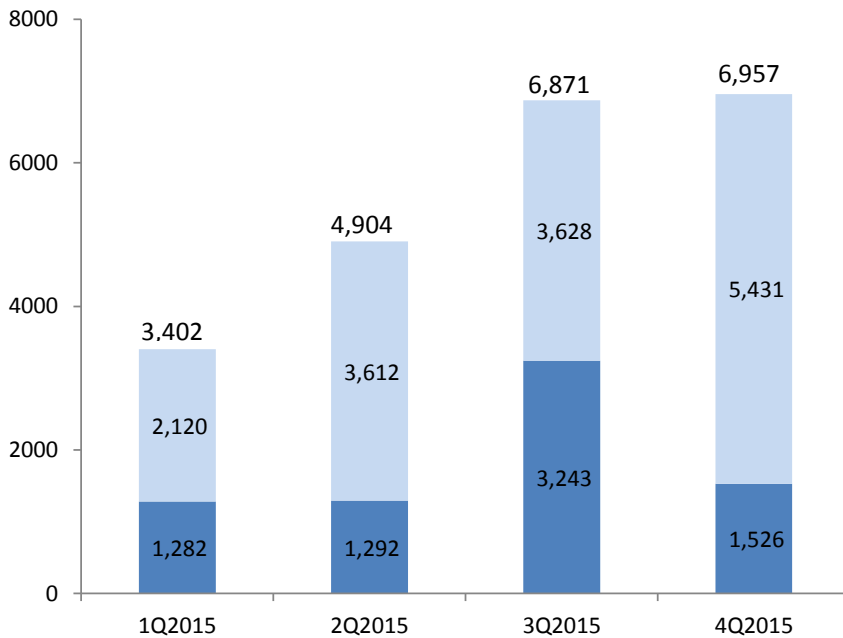


Figure 12: R&F – Debt maturity profile



Source: Company

Figure 13: R&F – Debt repayment in 2015 by quarter



Source: Company



Financial analysis

NAV and earnings revisions

We have factored in the information (including higher-than-expected net debts, higher financing costs, higher-than-expected inventory) from the worse-than-expected FY14 results of R&F in our model. And with the unexpected sharp increases in completed but unsold inventory, we have now assumed 10-20% price reductions for R&F's development properties in 2015 (as opposed to 5% increases for projects in Tier-1 cities) as we believe that R&F needs to clear inventories with more aggressive pricing strategy. With these, we have lowered our estimated NAV for R&F from HK\$23.24 to HK\$16.25. When determining our target price, we are now applying a 50% NAV discount (up from 40% previously) given the higher-than-expected net gearing, which led to higher financial risks for R&F, and hence we have cut our target price from HK\$13.95 to HK\$8.13. For the same reasons, we have also cut our estimated earnings for 2015 and 2016 by 43% and 44%, respectively.

Figure 14: R&F - Income Statement (RMB mn)

For Year Ended Dec 31	2012	2013	2014	2015E	2016E	2017E
Property development	28,057	33,651	31,651	33,701	39,023	44,585
Rental income	628	727	827	868	911	930
Construction services income	849	992	1,119	1,191	1,379	1,576
Hotels	830	901	1,109	1,330	1,596	1,916
Total Revenue	30,365	36,271	34,705	37,091	42,909	49,006
Property development	12,154	13,666	11,654	12,440	11,924	12,777
Rental income	512	509	579	608	637	651
Hotels	219	180	222	266	319	383
Construction services	116	136	55	58	68	77
Unallocated Costs	(180)	(115)	(200)	(250)	(250)	(250)
Gross Profit	12,821	14,376	12,310	13,123	12,699	13,639
SG&A	2,401	2,465	3,117	3,033	3,512	4,013
EBIT	10,420	11,911	9,193	10,089	9,187	9,626
Net financing cost	(1,353)	(1,782)	(1,004)	(2,975)	(2,897)	(2,862)
Share results of associates	316	306	145	1,676	1,678	1,709
Exceptional item	660	2,436	1,823	-	-	-
PBT	10,042	12,872	10,156	8,790	7,967	8,473
Taxation	(4,382)	(5,226)	(3,650)	(3,045)	(1,826)	(2,030)
Minority interests	(157)	(12)	46	-	-	-
Reported Net profit	5,502	7,634	5,221	4,414	4,809	5,112
Core Net Profit	5,007	5,807	3,854	4,414	4,809	5,112

Source: Company, Deutsche Bank Estimates



Figure 15: R&F – Balance Sheet (RMB mn)

As at Dec 31	2012	2013	2014	2015E	2016E	2017E
Properties under development for sale	39,427	56,111	81,328	90,451	89,416	91,926
Completed Properties held for sale	7,964	10,993	17,222	15,962	15,779	16,222
Trade and other receivables	7,609	13,163	10,891	9,273	10,727	12,252
Cash and bank balances	12,862	24,344	19,830	14,766	12,960	5,191
Other current assets	1,620	1,954	2,911	2,911	2,911	2,911
Total current assets	69,483	106,565	132,181	133,363	131,793	128,501
Properties and equipment	5,489	6,567	7,496	7,088	6,660	6,211
Investment properties	13,347	15,888	18,048	18,048	18,048	18,048
Trade and other receivables	1,624	1,450	3,773	3,773	3,773	3,773
Associates and JE	3,975	4,382	4,704	5,791	13,877	22,732
Other non-current assets	4,669	5,495	5,639	5,639	5,639	5,639
Total non-current assets	29,104	33,782	39,659	40,339	47,997	56,402
Total assets	98,587	140,347	171,840	173,702	179,789	184,903
Short-term bank loans	7,212	18,095	22,105	21,079	20,463	20,072
Accruals and other payables	20,179	27,453	29,360	19,431	18,807	21,430
Other current liabilities	13,165	13,778	19,226	29,350	33,247	33,247
Total current liabilities	40,557	59,327	70,691	69,861	72,517	74,749
Bank loans	28,420	43,353	45,554	43,831	42,454	41,351
Other non-current liabilities	2,781	4,186	19,099	19,099	19,099	19,099
Total non-current liabilities	31,201	47,538	64,652	62,930	61,552	60,450
Total liabilities	71,757	106,865	135,343	132,791	134,069	135,199
Minority interests	364	1,375	532	532	532	532
Total net assets	26,466	32,107	35,965	40,379	45,188	49,172
Shareholders' funds	26,466	32,107	35,965	40,379	45,188	49,172

Source: Company, Deutsche Bank Estimates



Valuation

Our estimated NAV for R&F is HK\$16.25/share

Our estimated NAV for R&F is calculated by using a sum-of-the-parts methodology. We apply DCF to estimate the value of the company's development projects by taking the estimated cash inflows from property sales minus the outstanding costs, including any outstanding land costs, construction costs, related income taxes and the LAT for each of the development projects. With respect to the investment properties' valuation, we use the income capitalization approach, taking the estimated rental revenues of the investment properties divided by the estimated capitalization (cap) rates. For different types of properties in different locations, our estimated rents and cap rates differ. In arriving at the NAV for the company, we take the aggregate estimated value for the previously mentioned business segments and then add the company's net cash position or subtract its net debt position. Specifically, our estimated NAV of HK\$16.25/ share incorporates the following assumptions:

- 1) ASP declines of 10-20% in 2015;
- 2) Full payment of the LAT (estimated according to the LAT formula),
- 3) WACC of 10.32% (up from 9.93% previously), and
- 4) Cap rates of 10-12% for investment properties (up from 7-8% previously).

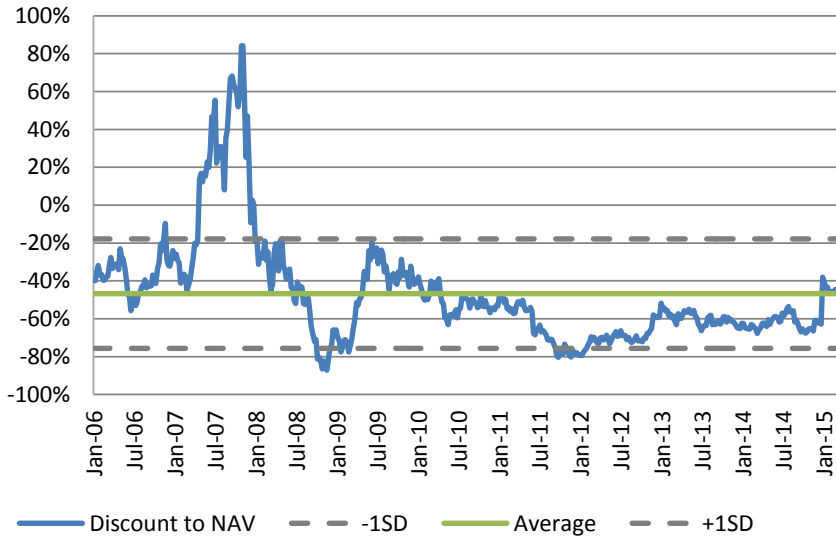
Figure 16: R&F – Estimated NAV

	HK\$m	HK\$/Share	% of NAV	% of GAV
Property Development				
Residential	101,207	31.41	193.2%	78.7%
Office	2,932	0.91	5.6%	2.3%
	104,140	32.32	198.8%	81.0%
Property Investment				
Retail	12,525	3.89	23.9%	9.7%
Office	4,489	1.39	8.6%	3.5%
Hotels	9,148	2.84	17.5%	7.1%
	26,162	8.12	49.9%	20.4%
LAT Paybles	(1,751)	(0.54)	-3.3%	-1.4%
Gross Asset Value	128,551	39.89	245.4%	100.0%
Net Debt	(76,173)	(23.64)	-145.4%	-59.3%
NAV	52,378	16.25	100.0%	40.7%

Source: Deutsche Bank

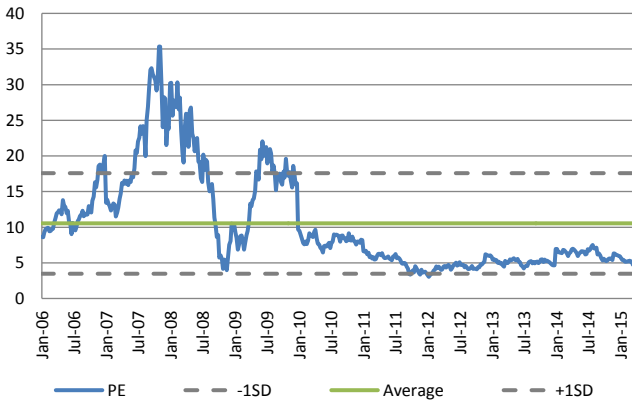


Figure 17: Historical discount to NAV



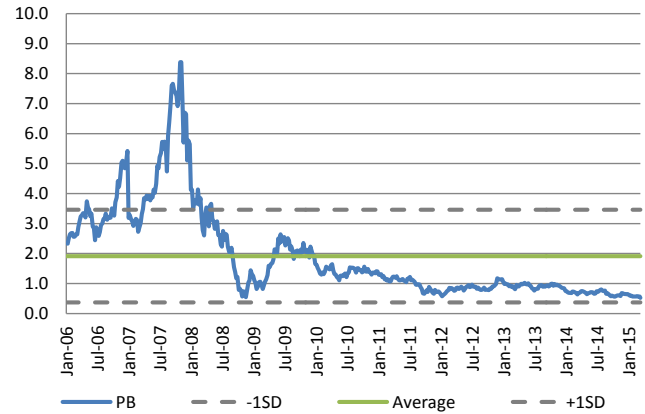
Source: Bloomberg Finance LP; Deutsche Bank

Figure 18: Historical P/E



Source: Bloomberg Finance LP; Deutsche Bank

Figure 19: Historical P/B



Source: Bloomberg Finance LP; Deutsche Bank



Investment risks

Macro risks

Government property tightening measures might be stricter than expected

The China property market is not only dependent on economic conditions and the demand-and-supply balance, but also on government policies. At times when the government is tightening its fiscal and monetary policies, especially via administrative measures, there could be volatile moves in housing transaction volumes, housing prices, land prices, and financing available to developers and homebuyers. With this in mind, if the government property market tightening measures are stricter than expected, we could see weaker-than-expected sales and price performance for the property businesses of Chinese property companies, including R&F.

Unexpected economic fluctuations in the Chinese economy

In our view, any weaker-than-expected performance in the Chinese economy would likely result in weaker housing demand, hence affecting Chinese developers' property sales. On the other hand, any overly strong growth in the Chinese economy could raise concerns about overheating and attract tightening measures. Therefore, any unexpected fluctuations in the Chinese economy would likely affect demand and supply in the China property market and the business of China property companies such as R&F.

Upside:

Stronger-than-expected Chinese economy

Currently, the slowdown in the economic growth in China is affecting housing demand, especially after the sharp increases in property prices in 2013. In our view, any stronger-than-expected performance in the Chinese economy would likely result in stronger housing demand, hence positively affecting Chinese developers' property sales and the business of China property companies such as R&F.

Company-specific risks

Restricted ability to raise new equity and bond financing

As R&F is an H-share company, any new equity financing and fixed income financing, both inside and outside China, would require the approval from the relevant regulatory bodies in China, like CSRC or CBRC. Currently, as the central government is tightening on the property market, such approval for fundraising by a property developer like R&F is unlikely to be granted. Therefore, the ability of R&F to raise new equity and bond financing is being restricted, which could potentially affect its financing when a crisis event takes place.

Upside:

Potential share buybacks and other related activities

Any potential share buybacks by R&F or stake increase by the controlling shareholder of R&F could lead to positive share price momentum on the stock. At the same time, any significant asset disposal that lead to significant cash inflow and reduce net gearing would also present upside catalysts for the stock.



Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Guangzhou R&F	2777.HK	8.05 (HKD) 17 Mar 15	6

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

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Historical recommendations and target price: Guangzhou R&F (2777.HK)
 (as of 3/17/2015)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9, 2002

1.	20/03/2013:	Buy, Target Price Change HKD17.16	5.	03/07/2014:	Buy, Target Price Change HKD14.68
2.	05/05/2013:	Buy, Target Price Change HKD17.38	6.	26/08/2014:	Buy, Target Price Change HKD13.50
3.	21/08/2013:	Buy, Target Price Change HKD18.55	7.	30/11/2014:	Buy, Target Price Change HKD13.95
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Buy: Based on a current 12-month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

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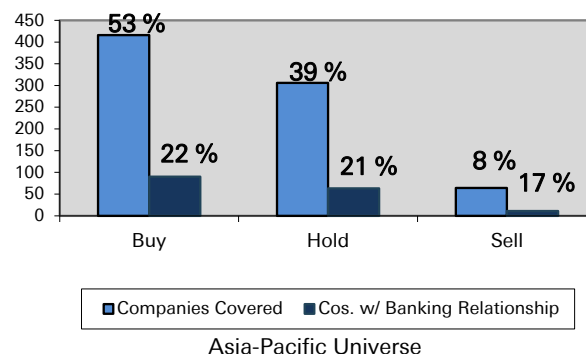
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