Company report

FIG
Real Estate
Equity – China

HSBC Global Research

Guangzhou R&F (2777 HK)

Overweight

Target price (HKD)		10.55
Share price (HKD)		8.06
Forecast dividend yield (%)		7.1
Potential return (%)		38.0

Note: Potential return equals the percentage difference between the current share price and the target price, plus the forecast dividend yield

Dec	2014a	2015e	2016e
HSBC EPS	1.25	1.84	1.87
HSBC PE	5.2	3.5	3.4

Performance	1M	3M	12M
Absolute (%)	-8.8	-11.7	-15.3
Relative^ (%)	-7.5	-16.8	-42.2

Note: (V) = volatile (please see disclosure appendix)

18 March 2015

Derek Kwong*
Analyst
The Hongkong and Shanghai Banking Corporation Limited
+852 2996 6629
derekkwong@hsbc.com.hk

Michelle Kwok*
Analyst
The Hongkong and Shanghai Banking Corporation Limited
+852 2996 6918
michellekwok@hsbc.com.hk

Albert Tam*
Associate
The Hongkong and Shanghai Banking Corporation Limited
+852 2822 4395
albert.p.h.tam@hsbc.com.hk

OW: Earnings and dividend should be back on track

- **No dividend payment in FY14 is a shock for the market**
- **Earnings shortfall reflects lack of commercial sales contribution**
- **Maintain OW with a revised TP of HKD10.55 (from HKD10.70)**

No dividend payment a disappointment but not a liquidity issue. It is a surprise even for those with a bearish view on the company. It is significant in that the company has paid dividends even during the most turbulent market conditions in 2008. We believe this is not a liquidity or cashflow issue. Management stressed the desire to contain the growth of leverage originating from heavy investment commitments in FY13. In our view the lower than expected operating earnings, and constraints relating to offshore debt instruments may have contributed to this decision. We are forecasting dividend payments to resume from FY15e albeit at a lower than historic payout ratio.

Earnings miss a timing issue. Earnings were below our expectation and we believe this stemmed from the lower than expected commercial property sales contribution from the revenue level. Booked ASP was well below contracted sales ASP for the past three years, which could only be explained by the product mix. GPM at 35% was below our forecast of 37%, but showed improvement from 1H14 and likely to be ahead of industry average. We have only made minor adjustments to FY15/FY16e revenue and earnings as we believe GFA and ASP to be recognized will stage a meaningful rebound.

Balance sheet management will be the focus. There will be Rmb22bn that will require refinancing in FY15e, but investors will continue to monitor the game plan to reduce the perpetual securities that will see a step up in interest in FY16e. Management's priority will be to deal with the FY15e maturity, but have indicated they will at least partially resolve the perpetual securities to mitigate the uptick in interest cost in FY16e.

Maintain OW with a revised TP of HKD10.55. Our revised target price is based on 50% discount to forward NAV. The slight downward revision reflects the minor adjustment in NAV to HKD21.10 (from HKD21.30). We believe short term share price pressure will persist given the 'zero dividend' shock, but the earnings shortfall is predominantly a timing issue which should see a decent rebound in FY15e. We believe management is committed to steer the company back on course in FY15e, both in terms of earnings growth and resuming with dividend payments. Even with a scaled back payout ratio, prospective dividend yield will be an attractive 7.1% based on our forecast.

Index^	HSCEI
Index level	11,837
RIC	2777.HK
Bloomberg	2777 HK

Source: HSBC

Enterprise value (CNYm)	44,340
Free float (%)	96
Market cap (USDm)	1,140
Market cap (HKDm)	8,853

Source: HSBC

Financials & Valuation: Guangzhou R&F

Overweight

Financial statements

Year to	12/2014a	12/2015e	12/2016e	12/2017e
Profit & loss summary (RMBm)				
Property sales	31,651	43,536	50,015	58,930
Property investment & others	3,054	3,212	3,363	3,425
Cost of sales	(22,391)	(30,232)	(34,264)	(39,811)
Gross profit	12,314	16,516	19,115	22,544
Selling & Admin expenses	(3,117)	(3,545)	(4,522)	(5,274)
Other gains	180	0	0	0
Operating profit/EBIT	9,378	12,971	14,592	17,270
Net interest	(1,004)	(1,734)	(1,878)	(1,756)
Share of profit from asso.	145	1,845	1,021	546
PBT	10,156	13,082	13,736	16,060
Taxation	(3,650)	(5,771)	(5,503)	(6,332)
Minority interests	46	(56)	0	0
Net profit	6,552	7,254	8,232	9,728
Core profit (before the perpetual)	5,323	7,254	8,232	9,728
Core profit (after the perpetual)	3,992	5,936	6,036	7,532
Cash flow summary (RMBm)				
Cash flow from operations	(21,103)	8,238	(3,845)	3,368
Capex	(2,750)	(1,903)	0	0
Changes in investments	(2,979)	(1,597)	(163)	(168)
Dividends paid	(1,597)	0	(1,484)	(1,509)
Others	6,930	(2,285)	5,863	(2,260)
Net change in cash	(6,851)	1,449	370	(569)
Cash at the beginning	17,722	10,871	12,321	12,691
Cash at the end	13,490	12,321	12,691	12,121
Balance sheet summary (RMBm)				
Shareholders' funds	51,614	54,700	58,231	63,707
Long-term liabilities	45,554	42,089	51,189	48,385
Minority interests	532	588	588	588
Deferred items	3,450	3,778	4,139	4,535
Total capital employed	101,149	101,155	114,146	117,215
Fixed assets	25,543	26,338	25,111	23,880
Other assets	14,116	16,052	16,721	17,470
Current assets	132,181	140,208	148,269	147,018
Total assets	171,840	182,599	190,101	188,367

Ratio, growth and per share analysis

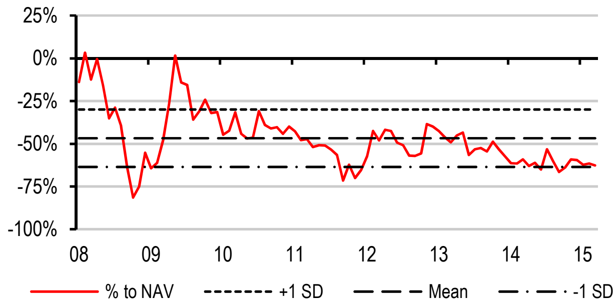
Year to	12/2014a	12/2015e	12/2016e	12/2017e
y-o-y % change				
Revenue	-4%	35%	14%	17%
Operating profit	-21%	37%	12%	18%
PBT	-21%	29%	5%	17%
Reported EPS	-14%	10%	13%	18%
HSBC EPS	-31%	48%	2%	25%
Ratios (%)				
ROIC ex-exceptional	4%	6%	5%	6%
ROAE ex-exceptional	9%	11%	11%	12%
ROAA ex-exceptionals	3%	3%	3%	4%
Operating margin	28%	28%	28%	28%
Core profit margin	12%	13%	11%	12%
Interest cover ex-exceptional (x)	7.9	6.8	7.2	8.9
Net debt/equity (incl.restircted cash)	92%	84%	87%	76%
Per share data (RMB)				
Reported EPS (fully diluted)	2.05	2.25	2.55	3.02
HSBC EPS (fully diluted, after perpetual)	1.25	1.84	1.87	2.34
DPS	0.00	0.46	0.47	0.58
BV	11.16	12.43	13.53	15.23

GZ R&F: NAV breakdown

	(RMBm)	(HKD/sh)	% of GAV
Development properties			
Office/retail	7,341	2.8	5.7%
Residential	93,360	36.1	72.4%
Investment properties			
Office/retail	12,298	4.8	9.6%
Residential	639	0.2	0.5%
Hotel properties	15,251	5.9	11.9%
Net debt (excluding restricted cash)	(52,281)	(20.3)	
Outstanding land premium	(11,000)	(4.3)	
Oustanding LAT	(11,057)	(4.3)	
12m fwd NAV	**54,551**	**21.1**	**100.0%**

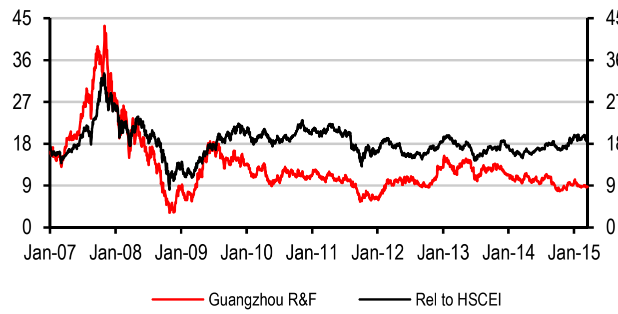
Source: HSBC estimates

NAV discount chart



Source: HSBC estimates

Price relative



Source: Datastream, HSBC estimates

Note: Price at close of 26 August 2014

Earnings and dividend should be back on track

- Earnings miss stems from lower commercial sales contribution; margin remains ahead of industry
- Zero dividend for the first time definitely a disappointment, but it could be a technical rather than cashflow issue
- Successful execution of inventory clearance could speed up earnings and dividend recovery

The scrapping of dividend payment is probably the most important aspect of the FY14 results, the first time in the company's listing history of almost 10 years, and it dwarfs the earnings miss in our view. In recent years, GZ R&F has become what investors will classify as a high dividend yield stock, albeit one with high leverage, but dividend payment had been steady through the volatile industry cycles. We do not believe the dividend cut is a reflection of a dire cashflow situation at present, but rather management weighing the opportunity cost of the dividend payment in view of still elevated incremental financing cost. We also believe that it may be related to constraints of its offshore debt instruments in view of the lower than expected earnings. Putting aside this disappointment, we believe management will focus their effort to resume the dividend payment in FY15, and possibly as early as the interim period of FY15e.

Refinancing some Rmb22bn that will come due this year will be a focus for management in FY15, with half of the outstanding balance being higher cost trust loans. Management has mentioned that they will actively explore the onshore corporate debt option which is at meaningfully lower cost. Inventory clearance will also be high on the agenda as the cumulative balance has increased by 57% to Rmb17bn (based on cost). We would like to hear more concrete plans from management over the course of the next 12 months on how the company intends to unwind (at least partially)the Rmb15bn+ of perpetual securities, as we have currently built in a large step up in interest payment from FY16e onwards in our forecast.

The share price has obviously taken a hit from the earnings and dividend disappointment, and that short term share price pressure may persist. Having said that we feel that management has stayed on top of the leverage issue and remains committed to steer the company back on track to lower net gearing, reduce its financing cost and pay dividends.

The FY14 earnings miss, is it just a timing issue?

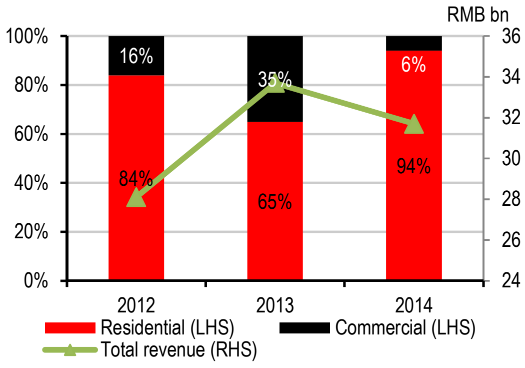
Guangzhou R&F reported core earnings of Rmb5.32bn, which was 16% below our forecast. Taking into account the perpetual security payment of Rmb1.3bn, the adjusted core earnings is Rmb3.99bn, which is 22% below our forecast. The earnings miss started from the revenue level in which the recognition of property sales revenue was down 6% y-o-y and 18% below our forecast. The difference stems from both lower GFA delivery but more importantly the lower ASP due to a change in product mix and type. The commercial property contribution to property development for sales revenue has dropped to 6% (vs.35% in FY13) and as such the blended ASP was roughly Rmb10,000/sqm, which is meaningfully lower than the prior year range of Rmb12-13,000/sqm. The large office en bloc sale that concluded in the early part of 2014 did not form part of the same year revenue, but instead will come in 2015e.

Property sales summary

Year	Revenue from property sales (RMB mn)	Recognized GFA (sqm)	ASP (RMB/sqm)
2012	28,057	2,152,100	13,000
2013	33,651	2,732,900	12,300
2014	31,651	3,161,900	10,000

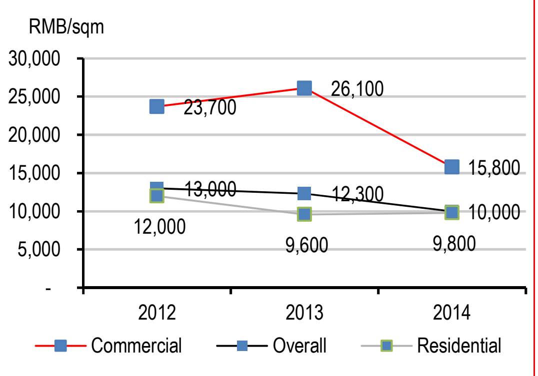
Source: Company data

Revenue mix



Source: Company data

Recognized ASP breakdown



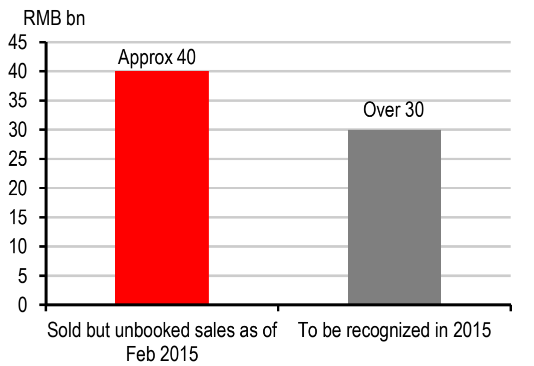
Source: Company data

On the margin front, GPM did slip from 39% in FY13 to 35% in FY14, but this is not really a significant erosion relative to what we have seen reported by other developers. It actually improved from the 33.9% reported in 1H14, but at the low end of the guidance range of 35-40% back in the interim period. SG&A has increased by 26% y-o-y, weigh down on earnings given the lower revenue, but as a percentage of contracted sales (+30% y-o-y) remained stable at 5.7%. The core net profit margin of 15% is in line with our forecast.

Will it all come back in FY15?

The company reported approximately Rmb40bn of unbooked sales at the end of February 2015 and believes that over Rmb30bn of which will be recognized in FY15e. The sold and unbooked revenue has an ASP of close to Rmb13,000/sqm as there will be a larger component of commercial property contribution relative to the recognized revenue of FY14. This is consistent with the contracted ASP that we have seen between 2012-2014 in the range of Rmb11,500-13,400/sqm. Based on this statistics, we can deduce the lower than expected ASP of Rmb10,000/sqm recognized in FY14 is a result of product mix changes.

Sold but unbooked sales as of Feb 2015



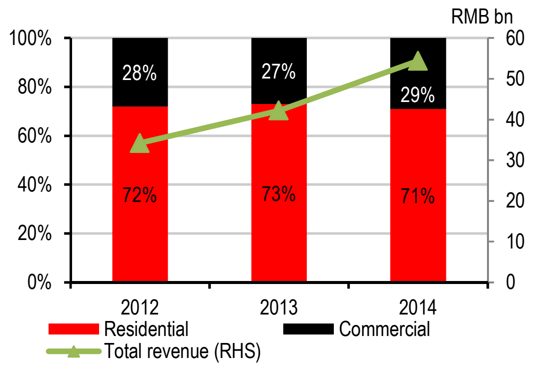
Source: Company data

Unbooked sales in terms of ASP and saleable GFA

ASP (RMB/sqm)		
Residential	10,700	11,300
Commercial	38,600	38,900
Saleable GFA (sqm)		
Residential	2,853,000	1,952,000
Commercial	234,000	232,000

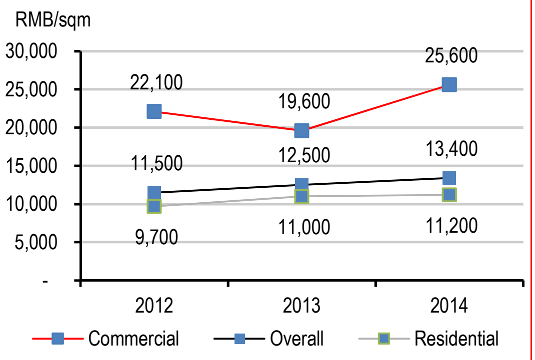
Source: Company data

Contracted sales mix



Source: Company data

Contracted sales ASP breakdown



Source: Company data

We are currently forecasting revenue growth of 35% y-o-y in FY15e, anchored by property development for sales that will increase by 38% y-o-y. Our revised property development for sales forecast is actually somewhat more conservative than the company's guidance, with GFA delivery of 3.7mn sqm (vs. 4.0mn sqm guidance) and an implied ASP of Rmb11,676/sqm. While we know that around Rmb30bn of our Rmb43.5bn of property development for sales revenue is already secured at an ASP of over Rmb13,000/sqm, we are also making the assumption that a large part of the remainder will come from inventory clearance which we expect some level of price discounting. Management has stressed that reducing the inventory balance will be a key initiative in FY15e.

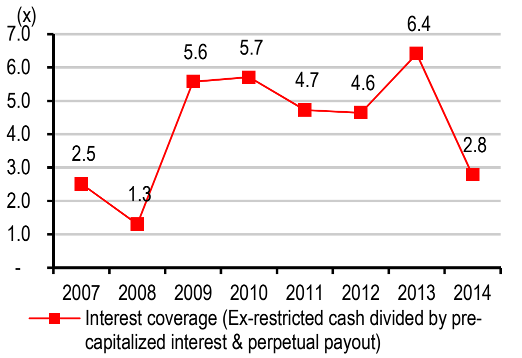
Management has guided for steady margin on both the GPM and NPM level for FY15e, and we agree in principle given that it will be boosted by the higher contribution of commercial property, offsetting potentially lower margin from the inventory clearance effort.

How should we read into the scrapping of dividends in FY14

In a nutshell, there is a disappointment whichever way one looks at it. It is significant in that this is the first time in its 10 year listing history that they have not paid a dividend, as that commitment had previously been rock solid even during the most turbulent physical market situation back in 2008. GZ R&F has been branded as a high dividend yield stock, and to go from high to zero would be a shock even to the most bearish among sell-side analyst. This all reflects back to the unfortunate timing of landbank expansion in 2013 just on the eve of a slowdown in primary sales in 2014, resulting in less than expected contracted sales while needing to take on higher cost financing through the onshore perpetual securities last year (~Rmb15bn).

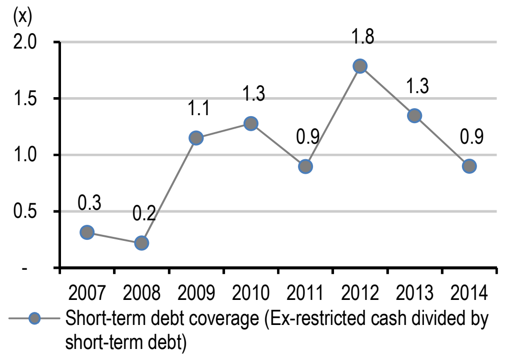
The obvious question is whether the company is in a more dire liquidity situation than any point in time of its post listing history. Actually, they are not. We looked at two metrics: cash (ex-restricted) coverage of short-term debts and cash interest coverage ratio. Cash (ex-restricted) coverage of short-term debts at 0.6x in FY14 is lower than 1.0x in the past two years, it remains ahead of the previous down cycles of FY08 and FY11. Cash (ex-restricted) interest coverage of 1.9x has deteriorated sharply as we include the Rmb1.3bn of additional outlay relating to the perpetual securities, it remains above that of FY08. The heavy burden of FY14 was Rmb22bn of land premium payment from the spending spree in FY13 and the corresponding scale up of construction capex.

Interest coverage ratio



Source: Company data

Short-term debt coverage ratio



Source: Company data

Cash flow summary provided by management

Cash Flow (RMB bn)	2014	2015e
Contracted sales target	54	60
Contracted sales cash collection	**40**	**51**
Construction	(21)	(18)
Land Premium (existing)	(22)	(8)
Interest expense	(7)	(7)
Taxes & Fees	(7)	(8)
SG&A and others	(4)	(4)
Net cash inflow/(outflow)	**(21)**	**6**

Source: Company data

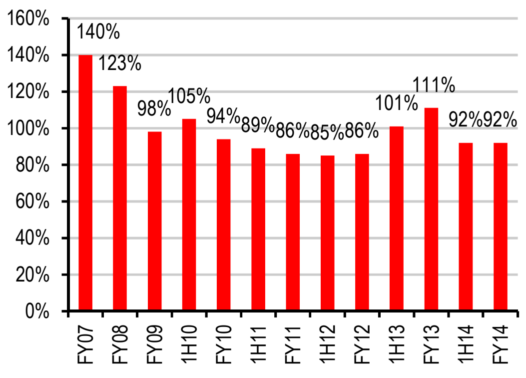
Management's explanation for scrapping the dividend is to our understanding, their desire to remain flexible and competitive when it comes to new funding options, and in particular in view of the refinancing needs in FY15/16e of their trust loans and perpetual securities. From their perspective, the cut in dividend will help contain the absolute increase in gross debt and net gearing. The additional funding cost based on its present financial situation is high, and they see it as an opportunity cost of maintaining the dividend payment. At the same time, we believe they understand how much it has disappointed minority shareholders, and was trying hard to explain this away as an one-off incident and that future dividend payment will resume. We also believe the no dividend consideration could be related to potential constraint they have with their offshore debt instruments, with the lower than expected operating profit from the decline in revenue in booking and some GPM pressure.

We have continued to forecast a dividend payment from FY15e onwards but we have trimmed the payout ratio to 25% of core earnings after the payment related to perpetual securities as a prudent measure. Based on the current share price, this represents a dividend yield of 7.2%.

Leverage control and the game plan for the perpetual securities

We estimate that the net gearing level in year-end FY14 at 133%, which is stable from the interim period. The gross debt level is higher but mitigated by the increase in shareholders' equity base. The higher leverage was evident from the time of the interim reporting (including the issuance of ~Rmb15bn perpetual securities) and it is a result of the increased land premium commitment (Rmb22bn in FY14) and slower than expected contracted sales given the sluggish market. Based on our current financial forecast, we do expect that net gearing will gradually reduce, as the company is through with most of the land payment commitment dating back to FY13 and assuming that they will not take on much new land acquisitions.

Net gearing (reported by the company)



Source: Company data

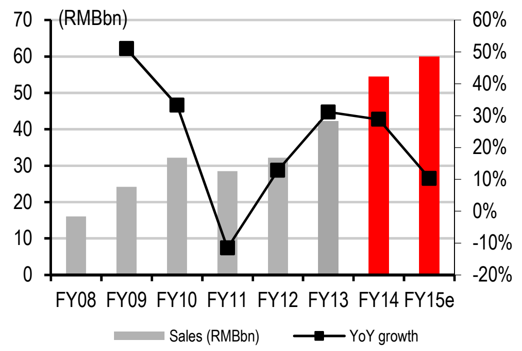
There is quite a large portion of debt that will come due in FY15, around Rmb22bn. Half of this commitment are construction loans which we expect there will not be much issue given its project tied and will be paid down with ongoing contracted sales. The other half are mostly trust loans on higher interest cost.
The repayment schedule in FY15 will be more skewed towards 2H (62%) and we believe much of it will come down to contracted sales and especially inventory clearance, as well as the potential issue of onshore corporate debts. Management indicated that they will file an application for corporate debt issuance (which has become available for developers from 2 weeks ago) and hope to be able to raise around Rmb6bn.

The most important question on the debt financing side is perhaps the company's plan on refinancing in view of the significant step-up in interest cost from FY16. The Rmb15bn perpetual securities issued last year, carry an average interest cost of ~9.5%, but that coupon will step up to the 15% level if not repaid by FY16. We have accounted for the step-up in interest cost which will see the related interest payment rise from the current Rmb1.3bn per annum level to over Rmb2bn by FY16, in our financial forecast of the company. Management has indicated that the priority at present is to take care of the short-term debts due in FY15, but they are fully aware of the need to control the magnitude of the step-up in interest cost next year. It is their intent to at least partially repay the perpetual securities in FY16 so that the company will not be hit by the full impact of the step-up in coupon.

Looking to grow contracted sales by 10%

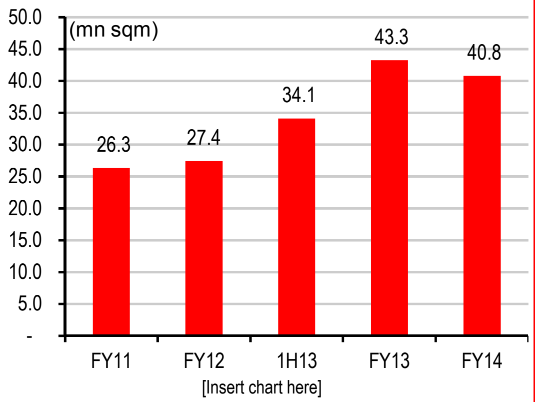
The official contracted sales target announced was Rmb60bn, which represents just over 10% y-o-y growth. This is largely in-line with the guidance provided by developers since 4Q14. For Guangzhou R&F, Rmb60bn was the revised contracted sales forecast (original FY14 forecast was Rmb70bn). The breakdown of the sales will be Rmb18bn in 1H15 (30% of total), and Rmb42bn in 2H15 (70%) which will coincide with the timing of their new project launches. For the first two months in 2015, the company has achieved contracted sales of RMB4.13bn, down 31% y-o-y, representing 23% of the 1H target. The slow start to the year is consistent with other developers. Management has indicated there are some positive signs of sales picking up somewhat from March to the level of over Rmb100mn per day. In order to hit the 1H target of Rmb18bn, the company will need to do around Rmb3.5bn per month from March to June.

Contracted sales



Source: Company data, HSBC estimates

R&F Landbank (Total GFA)



Source: Company data

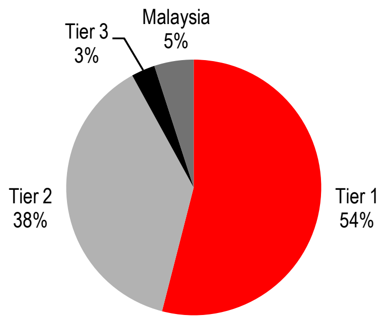
The sellable resources in FY15 will be Rmb113bn, which will require the company to achieve a sell-through rate of above 50%, versus the sell-through of below 40% in FY14. This is actually below that of the previous year initially set at Rmb142bn. This may have reflected some cutback and slowdown in construction in order to balance sellable resources with the state of the market and also its leverage position. Within the Rmb113bn sellable resources for FY15 will be 12 new projects (vs. 16 in FY14) and a total of 62 projects. The geographical split of the sellable resources is 49% in tier-1 cities and 44% in tier-2 cities, of which 72% will be residential projects. As with prior years, the bulk of the new project launches will be in 2H.

Saleable resources and sell through rate

Year	Saleable resources (RMBbn)	Sold (RMBbn)	Actual/Required sell through
2012	65	32	49%
2013	75	*40	53%
2014	142	54	38%
2015	113	60	53%

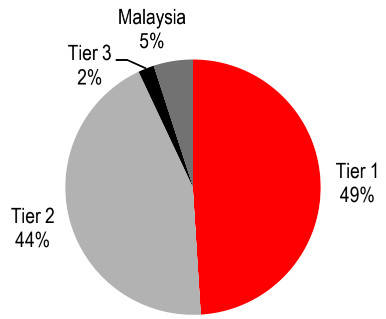
Source: Company data, *Excluding RMB2bn from JV

2015 Sales target breakdown by city tier



Source: Company data

2015 Saleable resources breakdown by city tier



Source: Company data

Inventory clearance will be a key initiative of the company in FY15 and especially so in 1H15. The completed properties held for sale has increased by 57% y-o-y to Rmb17.2bn in FY14, and this is a result of the increased scale of sellable resources and decline in sell-through rate amid the challenging market conditions. Close to half of the completed inventory, to our understanding, comprises of projects in the company's key strong forts and affluent cities like Guangzhou, Beijing, Tianjin and Shanghai. The company has confidence that with some promotion activities and price cuts, lowering the level of these completed projects should not be too difficult. There are two main incentives in starting this inventory clearance effort sooner rather than later. Firstly, the high carrying cost, as these projects could bring in total proceeds of over Rmb20bn and significantly improve the financial position of the company. Secondly, the completed projects could immediately have a positive P&L impact which will give investors much more confidence in the strong earnings growth to come through in FY15, and more importantly, quickly get back on track to paying a dividend.

The current landbank of the company stands at 40.8mn sqm and represent a small decline from FY14. Land acquisition has slowed down drastically in FY14 in view of the hefty commitment from prior years and also the state of the balance sheet net gearing. The company has indicated that they have committed to five projects in Melbourne and Brisbane in Australia. This had not been too well received by investors, as the large Johor project was selling at a slower than expected pace. Management though highlighted that they have only committed to 10% of the land cost thus far, and the Australian dollar has been falling, so the remaining commitment has shrunk somewhat in Rmb terms.

HSBC

What's changed?

The company announced the FY15 contracted sales target at RMB60bn, which is largely in line with our previous forecast and we remain the contracted sales forecast unchanged. We adjusted the booking schedule slightly and revised down the gross margin in FY15e/16e to 35.3%/35.8% from the previous 37.2%/37.1% given the lower-than-expected gross margin reported in FY14. We revised down FY16e EPS by 3.0% to RMB1.87 (after perpetual deduction) while FY15e EPS remains largely unchanged at RMB1.84.

We introduce FY17e forecast EPS of RMB2.34 after accounting for the FY14 results: Forward NAV is revised down from RMB21.30 to RMB21.10 per share, attributable to increased net debt and outstanding land premium.

Valuation and risks

Our target price is revised down to HKD10.55 from HKD10.70, based on a discount of 50% to our revised forward NAV of HKD21.1. The drop in target price reflects solely the downward revision of NAV (see NAV breakdown on pg 2). The target discount is based on a 0.5 standard deviation below the historical mean. Under our research model, for stocks with a volatility indicator, the Neutral band is 5 percentage points above and below the hurdle rate for China stocks of 9.0%. Our target price of HKD10.55 implies a potential return of 38.0% (including a forecasted dividend yield of 7.1%), above the Neutral band of our model; therefore, we are reiterating our OW rating on the stock. Potential return equals the percentage difference between the current share price and the target price, including the forecast dividend yield when included.

Downside risks include (1) sales execution with respect to its commercial projects, (2) lower-than-expected residential contracted sales, and (3) over-spending on new land bank acquisitions given its relatively high leverage

FY14 results review

R&F core earnings after accounting for perpetual interest was down 31% y-o-y to RMB3.99bn, some 22% below our forecast. The miss started from the revenue line in which recognized revenue was down 6% y-o-y and 18% below our expectation. Margin preservation was decent with GPM at 35.5% and NPM (core pre-perpetual) at 15.3%. The lower ASP is due to product mix changes with the absence of high ASP commercial properties bookings in FY14 (In 2013, Guangzhou's R&F Yingtong Plaza and R&F Yingkai Plaza with ASP of RMB41,370/sqm together accounted for 24% of the turnover).

R&F mentioned six out of seven significant projects (projects with turnover > RMB1bn) recorded y-o-y increase in ASP. In FY14, the sales in Beijing/Guangzhou/Tianjin account for 27%/16%/11% of the total sales bookings. (FY13: 20%/34%/13%). For the first time Wuxi, Hangzhou, Harbin and Shenyang had recorded the delivery of properties in FY14, accounting for 12% of the total turnover.

Hotel revenue was up 23% to RMB1,109m. R&F acquired an eighth hotel for its hotel portfolio – The Intercontinental Huizhou Resort. It is the only resort hotel in its portfolio.

Interest cost up slightly. Gross interest expenses increased by 52% due mainly to increased debt level to RMB67.7bn in FY14 from RMB61.4bn in last year and increased in the average interest cost. The weighted average cost of financing, rose from 8.15% in FY13 to 8.22% (8.49% if included perpetual as debt) in FY14. Bank borrowing rates up slightly to 6.66% in FY13 to 6.76% in FY14. The interest capitalisation rate increased to 49% in FY13 from 84% in FY14.

SG&A expenses ratio down. Selling and administrative expenses as a percentage of contracted sales was flat y-o-y at 5.7%.

Higher net gearing level. The reported net gearing (including restricted cash) was 92% in FY14, compared to 111% in FY13 and 92% in 1H14. The total debt increased to RMB68.4bn in FY14 from RMB61.4bn in FY13, while at the same time cash (including restricted cash) dropped to RMB19.8bn from RMB24.3bn.

HSBC

FY14 results review

(RMB mn)	2013A	2014A	HSBC estimates 2014E	y-o-y%	FY14 actual vs HSBC estimates
Turnover					
Property development	33,651	31,651	38,693	-6%	-18%
Property investment	727	827	689	14%	20%
Hotel	901	1,109	1,256	23%	-12%
Other segments	992	1,119	1,042	13%	7%
Total Turnover	**36,271**	**34,705**	**41,680**	**-4%**	**-17%**
Cost of sales	(22,036)	(22,391)	(25,976)	2%	-14%
Gross Profit	**14,235**	**12,314**	**15,703**	**-13%**	**-22%**
Fair value gain on IP	2,436	1,638	0	-33%	-
Interest income and dividend from fin assets	152	212	177	40%	19%
Other gains	57	180	0	219%	-
Selling and marketing costs	(626)	(896)	(811)	43%	11%
Adminstrative expenses	(1,839)	(2,221)	(2,524)	21%	-12%
Others expenses/ income	85	0	0	-100%	-
Profit from operating activities	**14,499**	**11,228**	**12,546**	**-23%**	**-11%**
Finance cost	(1,934)	(1,216)	(1,083)	-37%	12%
Share of results of associates & JCE	306	144.58	992.67	-52.8%	-85.4%
Profit before taxation	12,872	10,156	12,456	-21%	-18%
Taxation	**(5,226)**	**(3,650)**	**(5,871)**	**-30%**	**-38%**
Current income tax	(2,588)	(2,446)	(2,195)		
Deferred income tax	(290)	79	0		
LAT	(2,348)	(1,283)	(3,676)		
Minority Interests	(12)	46	(225)	N/A	N/A
Net Profit	**7,634**	**6,552**	**6,360**	**-14%**	**3%**
	-41%				
Revaluation gain on IP, net of tax	(1,814)	(1,229)	0	-32%	-
Core Profit (before perpetual capital instruments)	**5,820**	**5,323**	**6,360**	**-9%**	**-16%**
Perpetual Capital Instruments Holders		(1,331)	(1,226)		
Core Profit (after perpetual capital instruments)	**5,820**	**3,992**	**5,134**	**-31%**	**-22%**
Reported EPS (RMB)	2.39	2.05	1.97	-14%	4%
Core EPS (RMB)	**1.82**	**1.25**	**1.59**	**-31%**	**-22%**
DPS (RMB)	**0.62**	**0.00**	**0.54**	**-100%**	**-100%**
Payout ratio	34%	0%	34%	-34%	-34%
Weighted number of shares	3,194	3,198		0	
Contract sales (RMBm)	42,230	54,420	54,420	0	-
Liquidity	**YE2013**	**YE2014**			
Long-term borrowings	43,353	45,554		5%	
Short-term borrowings	18,095	22,105		22%	
Cash (ex-restricted cash)	17,722	13,490		-24%	
Cash (incl-restricted cash)	24,344	19,830		-19%	
Net Debt (ex-restricted cash)	43,726	54,168		24%	
Net Debt (incl-restricted cash)	37,103	47,829		29%	
Shareholder's equity (ex-perpetual)	32,107	35,965		12%	
Perpetual capital instruments	1,000	15,648		N/A	
Net gearing (ex-restricted cash)	136%	151%		14.4	
Net gearing (incl-restricted cash)	116%	133%		17.4	
Net gearing reported	111%	92%		(19.0)	
Net gearing with perpetual	139%	176%		37.2	
Margins					
SG&A to contract sales ratio	5.8%	5.7%	6.1%	-0.1	-0.4
Gross margin	39%	35%	38%	-3.8	-2.2
PBT margin	35%	29%	30%	-6.2	-0.6
Reported NP margin	21%	19%	15%	-2.2	3.6
Underlying NP margin	16.0%	15.3%	15.3%	-0.7	0.1

Source: Company data, HSBC estimates

Disclosure appendix

Analyst Certification

The following analyst(s), economist(s), and/or strategist(s) who is(are) primarily responsible for this report, certifies(y) that the opinion(s) on the subject security(ies) or issuer(s) and/or any other views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Derek Kwong, Michelle Kwok and Albert Tam

Important disclosures

Equities: Stock ratings and basis for financial analysis

HSBC believes that investors utilise various disciplines and investment horizons when making investment decisions, which depend largely on individual circumstances such as the investor's existing holdings, risk tolerance and other considerations. Given these differences, HSBC has two principal aims in its equity research: 1) to identify long-term investment opportunities based on particular themes or ideas that may affect the future earnings or cash flows of companies on a 12 month time horizon; and 2) from time to time to identify short-term investment opportunities that are derived from fundamental, quantitative, technical or event-driven techniques on a 0-3 month time horizon and which may differ from our long-term investment rating. HSBC has assigned ratings for its long-term investment opportunities as described below.

This report addresses only the long-term investment opportunities of the companies referred to in the report. As and when HSBC publishes a short-term trading idea the stocks to which these relate are identified on the website at www.hsbcnet.com/research. Details of these short-term investment opportunities can be found under the Reports section of this website.

HSBC believes 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. Different securities firms use a variety of ratings terms as well as different rating systems to describe their recommendations. Investors should carefully read the definitions of the ratings used in each research report. In addition, because research reports contain more complete information concerning the analysts' views, investors should carefully read the entire research report and should not infer its contents from the rating. In any case, ratings should not be used or relied on in isolation as investment advice.

Rating definitions for long-term investment opportunities

Stock ratings

HSBC assigns ratings to its stocks in this sector on the following basis:

For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The price target for a stock represents the value the analyst expects the stock to reach over our performance horizon. The performance horizon is 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, must exceed the required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock must be expected to underperform its required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands are classified as Neutral.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation of coverage, change of volatility status or change in price target). Notwithstanding this, and although ratings are subject to ongoing management review, expected returns will be permitted to move outside the bands as a result of normal share price fluctuations without necessarily triggering a rating change.

*A stock will be classified as volatile if its historical volatility has exceeded 40%, if the stock has been listed for less than 12 months (unless it is in an industry or sector where volatility is low) or if the analyst expects significant volatility. However, stocks which we do not consider volatile may in fact also behave in such a way. Historical volatility is defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility has to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

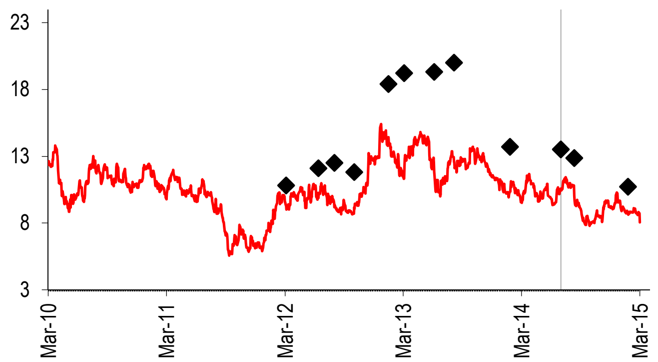
Rating distribution for long-term investment opportunities

As of 17 March 2015, the distribution of all ratings published is as follows:

Overweight (Buy)	41%	(30% of these provided with Investment Banking Services)
Neutral (Hold)	39%	(28% of these provided with Investment Banking Services)
Underweight (Sell)	20%	(20% of these provided with Investment Banking Services)

Share price and rating changes for long-term investment opportunities

Guangzhou R&F (2777.HK) Share Price performance HKD Vs HSBC rating history



Source: HSBC

Recommendation & price target history

From	To	Date
Overweight (V)	Overweight	16 July 2014
Target Price	**Value**	**Date**
Price 1	10.80	20 March 2012
Price 2	12.10	28 June 2012
Price 3	12.50	16 August 2012
Price 4	11.80	17 October 2012
Price 5	18.40	30 January 2013
Price 6	19.20	20 March 2013
Price 7	19.30	20 June 2013
Price 8	20.00	21 August 2013
Price 9	13.70	09 February 2014
Price 10	13.50	16 July 2014
Price 11	12.85	27 August 2014
Price 12	10.70	09 February 2015

Source: HSBC

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
GUANGZHOU R&F	2777.HK	8.06	17-Mar-2015	2, 5, 6, 7

Source: HSBC

1 HSBC has managed or co-managed a public offering of securities for this company within the past 12 months.
2 HSBC expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
3 At the time of publication of this report, HSBC Securities (USA) Inc. is a Market Maker in securities issued by this company.
4 As of 28 February 2015 HSBC beneficially owned 1% or more of a class of common equity securities of this company.
5 As of 31 January 2015, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of investment banking services.
6 As of 31 January 2015, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of non-investment banking securities-related services.
7 As of 31 January 2015, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of non-securities services.
8 A covering analyst/s has received compensation from this company in the past 12 months.
9 A covering analyst/s or a member of his/her household has a financial interest in the securities of this company, as detailed below.
10 A covering analyst/s or a member of his/her household is an officer, director or supervisory board member of this company, as detailed below.
11 At the time of publication of this report, HSBC is a non-US Market Maker in securities issued by this company and/or in securities in respect of this company

HSBC and its affiliates will from time to time sell to and buy from customers the securities/instruments (including derivatives) of companies covered in HSBC Research on a principal or agency basis.

Analysts, economists, and strategists are paid in part by reference to the profitability of HSBC which includes investment banking revenues.

Whether, or in what time frame, an update of this analysis will be published is not determined in advance.

For disclosures in respect of any company mentioned in this report, please see the most recently published report on that company available at www.hsbcnet.com/research.

Additional disclosures

1 This report is dated as at 18 March 2015.
2 All market data included in this report are dated as at close 17 March 2015, unless otherwise indicated in the report.
3 HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.

HSBC

Disclaimer

** Legal entities as at 30 May 2014*
'UAE' HSBC Bank Middle East Limited, Dubai; 'HK' The Hongkong and Shanghai Banking Corporation Limited, Hong Kong; 'TW' HSBC Securities (Taiwan) Corporation Limited; 'CA' HSBC Bank Canada, Toronto; HSBC Bank, Paris Branch; HSBC France; 'DE' HSBC Trinkaus & Burkhardt AG, Düsseldorf; 000 HSBC Bank (RR), Moscow; 'IN' HSBC Securities and Capital Markets (India) Private Limited, Mumbai; 'JP' HSBC Securities (Japan) Limited, Tokyo; 'EG' HSBC Securities Egypt SAE, Cairo; 'CN' HSBC Investment Bank Asia Limited, Beijing Representative Office; The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Branch; HSBC Securities (South Africa) (Pty) Ltd, Johannesburg; HSBC Bank plc, London, Madrid, Milan, Stockholm, Tel Aviv; 'US' HSBC Securities (USA) Inc, New York; HSBC Yatirim Menkul Degerler AS, Istanbul; HSBC México, SA, Institución de Banca Múltiple, Grupo Financiero HSBC; HSBC Bank Brasil SA – Banco Múltiplo; HSBC Bank Australia Limited; HSBC Bank Argentina SA; HSBC Saudi Arabia Limited; The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch incorporated in Hong Kong SAR; The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch

Issuer of report
The Hongkong and Shanghai Banking Corporation Limited
Level 19, 1 Queen's Road Central
Hong Kong SAR
Telephone: +852 2843 9111
Fax: +852 2596 0200
Website: www.research.hsbc.com

This document has been issued by The Hongkong and Shanghai Banking Corporation Limited ("HSBC") in the conduct of its Hong Kong regulated business for the information of its institutional and professional investor (as defined by Securities and Future Ordinance (Chapter 571)) customers; it is not intended for and should not be distributed to retail customers in Hong Kong. The Hongkong and Shanghai Banking Corporation Limited is regulated by the Hong Kong Monetary Authority. All enquires by recipients in Hong Kong must be directed to your HSBC contact in Hong Kong. If it is received by a customer of an affiliate of HSBC, its provision to the recipient is subject to the terms of business in place between the recipient and such affiliate. This document is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. HSBC has based this document on information obtained from sources it believes to be reliable but which it has not independently verified; HSBC makes no guarantee, representation or warranty and accepts no responsibility or liability as to its accuracy or completeness. Expressions of opinion are those of the Research Division of HSBC only and are subject to change without notice. HSBC and its affiliates and/or their officers, directors and employees may have positions in any securities mentioned in this document (or in any related investment) and may from time to time add to or dispose of any such securities (or investment). HSBC and its affiliates may act as market maker or have assumed an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis and may also perform or seek to perform investment banking or underwriting services for or relating to those companies.

HSBC Securities (USA) Inc. accepts responsibility for the content of this research report prepared by its non-US foreign affiliate. All U.S. persons receiving and/or accessing this report and wishing to effect transactions in any security discussed herein should do so with HSBC Securities (USA) Inc. in the United States and not with its non-US foreign affiliate, the issuer of this report.

In the UK this report may only be distributed to persons of a kind described in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. The protections afforded by the UK regulatory regime are available only to those dealing with a representative of HSBC Bank plc in the UK. In Singapore, this publication is distributed by The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch for the general information of institutional investors or other persons specified in Sections 274 and 304 of the Securities and Futures Act (Chapter 289) ("SFA") and accredited investors and other persons in accordance with the conditions specified in Sections 275 and 305 of the SFA. This publication is not a prospectus as defined in the SFA. It may not be further distributed in whole or in part for any purpose. The Hongkong and Shanghai Banking Corporation Limited Singapore Branch is regulated by the Monetary Authority of Singapore. Recipients in Singapore should contact a "Hongkong and Shanghai Banking Corporation Limited, Singapore Branch" representative in respect of any matters arising from, or in connection with this report. In Australia, this publication has been distributed by The Hongkong and Shanghai Banking Corporation Limited (ABN 65 117 925 970, AFSL 301737) for the general information of its "wholesale" customers (as defined in the Corporations Act 2001). Where distributed to retail customers, this research is distributed by HSBC Bank Australia Limited (AFSL No. 232595). These respective entities make no representations that the products or services mentioned in this document are available to persons in Australia or are necessarily suitable for any particular person or appropriate in accordance with local law. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient. This publication is distributed in New Zealand by The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch incorporated in Hong Kong SAR.

In Japan, this publication has been distributed by HSBC Securities (Japan) Limited. It may not be further distributed in whole or in part for any purpose. In Korea, this publication is distributed by The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch ("HBAP SLS") for the general information of professional investors specified in Article 9 of the Financial Investment Services and Capital Markets Act ("FSCMA"). This publication is not a prospectus as defined in the FSCMA. It may not be further distributed in whole or in part for any purpose. HBAP SLS is regulated by the Financial Services Commission and the Financial Supervisory Service of Korea.

In Canada, this document has been distributed by HSBC Bank Canada and/or its affiliates. Where this document contains market updates/overviews, or similar materials (collectively deemed "Commentary" in Canada although other affiliate jurisdictions may term "Commentary" as either "macro-research" or "research"), the Commentary is not an offer to sell, or a solicitation of an offer to sell or subscribe for, any financial product or instrument (including, without limitation, any currencies, securities, commodities or other financial instruments).

HSBC

Global Financial Institution Group Research Team

Carlo Digrandi
Global Head of Financial Institutions Research
+44 20 7991 6843 carlo.digrandi@hsbcib.com

Banks

Europe

Robin Down
Analyst, Global Sector Head, Banks
+44 20 7991 6926 robin.down@hsbcib.com

Peter Toeman
+44 20 7991 6791 peter.toeman@hsbcib.com

Iason Kepaptsoglou
+44 20 7991 6722 iason.kepaptsoglou@hsbcib.com

Lorraine Quoirez
+331 5652 4312 lorraine.quoirez@hsbcib.com

Nitin Arora
+44 20 7991 6844 nitin2.arora@hsbcib.com

Johannes Thormann
Global Head of Exchanges
+49 211 910 3017 johannes.thormann@hsbc.de

CEEMEA

Andrzej Nowaczek
+44 20 7991 6709 andrzej.nowaczek@hsbcib.com

Aybek Islamov
+971 44 236 921 aybek.islamov@hsbcib.com

Vikram Viswanathan
+971 4 423 6931 vikramviswanathan@hsbc.com

Tamer Sengun
+90 212 376 46 15 tamersengun@hsbc.com.tr

Henry Hall
+27 11 676 4476 henry.hall@za.hsbc.com

Latin America Financials

Carlos Gomez-Lopez, CFA
+1 212 525 5253 carlos.gomezlopez@us.hsbc.com

Asia

Michael Chang
+852 2996 6555 michaelpchang@hsbc.com.hk

York Pun
+852 2822 4396 yorkkypun@hsbc.com.hk

Michael Chu
+852 2996 6926 michaelwschu@hsbc.com.hk

Alice Li
+852 2822 2981 alicezli@hsbc.com.hk

Anthony Lam
+852 2822 4202 anthony.t.y.lam@hsbc.com.hk

Sinyoung Park
+822 3706 8770 sinyoungpark@kr.hsbc.com

Sachin Sheth
+91 22 2268 1224 sachinsheth@hsbc.co.in

Tejas Mehta
+91 22 2268 1243 tejasmehta@hsbc.co.in

Kar Weng Loo
+65 6658 0621 karwengloo@hsbc.com.sg

Xiushi Cai
+65 6658 0617 xiushicai@hsbc.com.sg

Jane Liu
+8862 6631 2869 jane.l.liu@hsbc.com.tw

Insurance

Europe

Kailesh Mistry
Analyst, Head of European Insurance
+44 20 7991 6756 kailesh.mistry@hsbcib.com

Dhruv Gahlaut
+44 207 991 6728 dhruv.gahlaut@hsbcib.com

Steven Haywood
+44 207 991 3184 steven.haywood@hsbcib.com

Thomas Fossard
+33 1 56 52 43 40 thomas.fossard@hsbc.com

Abilash P T
+44 207 9914475 abilash.p.t@hsbc.com

Asia

James Garner
Analyst, Head of Asian Insurance
+852 2822 4321 james.e.garner@hsbc.com.hk

Jianwei Yang
+852 2914 9575 jianwei.yang@hsbc.com.hk

Bolun Tang
+852 2822 2895 bo.lun.tang@hsbc.com.hk

Sinyoung Park
+822 3706 8770 sinyoungpark@kr.hsbc.com

Real Estate

Europe

Stephen Bramley-Jackson
Head of Real Estate, Europe
+44 20 7992 3102 stephen.bramley-jackson@hsbcib.com

Thomas Martin
+49 211 910 3276 thomas.martin@hsbc.de

Stéphanie Dossmann
+33 1 56 52 43 01 stephanie.dossmann@hsbc.com

Asia

Derek Kwong
Head of Real Estate Equity Research, Asia
+852 2996 6629 derekkwong@hsbc.com.hk

Jenny Lai
Head of Research, Taiwan
+8862 6631 2860 jennylai@hsbc.com.tw

Ashutosh Narkar
+91 22 2268 1474 ashutoshnarkar@hsbc.co.in

Puneet Gulati
+91 22 2268 1235 puneetgulati@hsbc.co.in

Michelle Kwok
+852 2996 6918 michellekwok@hsbc.com.hk

Perveen Wong
+852 2996 6571 perveenwong@hsbc.com.hk

Pratik Burman Ray
+65 6658 0611 pratikray@hsbc.com.sg

Frank Lee
+852 3941 7008 frankcclee@hsbc.com.hk

Albert Tam
+852 2822 4395 albert.p.h.tam@hsbc.com.hk

CEEMEA

Levent Bayar
+90 212 376 46 17 leventbayar@hsbc.com.tr

LatAm

Jonathan Brandt
+1 212 525 4499 jonathan.l.brandt@us.hsbc.com

Ivan Enriquez
+52 55 5721 2397 ivan.enriquez@hsbc.com.mx

Fred Mendes
+55 11 3847 5436 frederico.p.mendes@hsbc.com.br

Credit Research

Banks and Insurance

Asia

Dilip Shahani
Analyst, Head of Global Research, Asia-Pacific
+852 2822 4520 dilipshahani@hsbc.com.hk

Devendran Mahendran
Sovereigns and Financial Institutions
+852 2822 4521 devendran@hsbc.com.hk

Specialist Sales

Nigel Grinyer
+44 20 7991 5386 nigel.grinyer@hsbcib.com

Martin Williams
+44 20 7991 5381 martin.williams@hsbcib.com

Juergen Werner
+49 211 910 4461 juergen.werner@hsbc.de

Matthew Robertson
+44 20 7991 5077 matthew.robertson@hsbcib.com