



Rating
Hold

Asia
China

Property
Property

Company
Sunac Alert

Reuters
1918.HK

Bloomberg
1918 HK

Exchange
HSI

Ticker
1918

Date
24 March 2015

Results

Price at 23 Mar 2015 (HKD)	6.66
Price target - 12mth (HKD)	7.35
52-week range (HKD)	8.15 - 3.52
HANG SENG INDEX	24,375

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FY14 core net profit growth fell to 5.9%, margin disappointed

Sunac has just reported its FY14 results, the following are the key highlights

- 1) Core net profit was RMB3,729.7mn in FY14, up only 5.9% YoY - the slowest growth since listing, reaffirming our view that the high-growth period for Sunac has already ended.
- 2) Reported net profit was RMB3,222.1mn, up only 1.4% YoY - again the slowest growth since listing.
- 3) Group's revenue was RMB25,072mn, down 18.7% YoY due to lower GFA booked on the group level.
- 4) Gross margin in FY14 was 17.3% - lower than 23.3% in FY13. In our view, both levels were low given Sunac's focus on prime-location, high-end, high-quality projects in Tier-1 and big Tier-2 cities.
- 5) One of the reasons for the further declines in gross margin was the increase in provision for projects totalling RMB505.8mn, for projects including Sunac Royal Garden, Suzhou Majestic Mansion, Comphorwood Mansion, Sunac Glorious Mansion.
- 6) As a reference, the RMB505.8mn provision mentioned above was equivalent to 2.05% of FY14 recognized property development and investment revenue. Hence, taking out this provision, Sunac's gross margin would be about 19.3% - still low in our view.
- 7) Advanced proceeds from customers fell to RMB12,270.8mn at end-2014, down from RMB13,647.1mn at end-2013 - reflecting lower earnings visibility at the group level in our view.
- 7) Gross interest expenses were 18% YoY to RMB3,035.96mn. Interest capitalization ratio was 59% - reasonable in our view.
- 8) With the cancellation of the stake purchase of Greentown, cash on hand at end-2014 was RMB25,041.4mn, up 56% YoY.
- 9) Reported net gearing (net debt/shareholders' equity) at end-2014 was 57.1%
- 10) A final DPS of RMB0.19 was declared for FY14, down from RMB0.191 in FY13

More details to follow after analyst meeting at 9am March 24 HK time.

Stock data

Market cap (HKDm)	19,980
Market cap (USDm)	2,575
Shares outstanding (m)	3,000.0
Major shareholders	Sun Hongbin (51.85%)
Free float (%)	25
Avg daily value traded (USDm)	16.9

Source: Deutsche Bank

Key data

FYE 12/31	2013A	2014E	2015E
Sales (CNYm)	30,837	33,670	41,186
Net Profit (CNYm)	3,178.4	3,800.3	5,728.2
DB EPS (CNY)	0.95	1.13	1.70
PER (x)	4.6	4.7	3.1
Yield (net)	4.4	3.8	4.1

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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