Company report

FIG
Real Estate
Equity – China

HSBC Global Research

Franshion Properties (817 HK)

Buy

Target price	(HKD)	2.80
Share price	(HKD)	2.09
Upside/Downside (%)		34

Dec	2014 a	2015 e	2016 e
HSBC EPS	0.39	0.45	0.53
HSBC PE	5.3	4.7	3.9

Performance	1M	3M	12M
Absolute (%)	-9.1	-6.3	-16.4
Relative^ (%)	-7.2	-9.5	-31.2

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Buy: Taking steps to regain lost glory on sales execution

- **Mild 2015 sales growth target of +15% looks achievable but long term plan appears fairly aggressive**
- **FY14 results in-line although net gearing has elevated**
- **We establish a Buy rating for the stock. Our fair value TP of HKD2.80 is set at 60% discount (-0.5SD) to our revised NAVe**

Emphasis to be a tier-1 developer. While most developers have taken a much more conservative approach in guiding growth expectations, Franshion rolled out a longer term business plan with a 2019 sales targets of RMB80bn. The ambitious sales target implies annual growth of >30% from 2015 which in our view is an indication that Franshion is keen to regain lost glory on execution amid last year's sales disappointment. Obviously, whether this could be achieved remains unclear and probably not a focus for investors at the moment. In 2015, the company is targeting relatively mild sales growth of 15% to RMB24.8bn. We believe this is achievable as half of this will be driven by Shanghai and Beijing, Franshion's home fort.

FY14 core net profit is in-line with HSBCe but beat consensus by 10%. FY14 core net profit of HKD3,610m is up 24% y-o-y. Total revenue came in 9% above our estimate, but this is being offset by lower-than-expected gross margin (39% versus 41% HSBCe) while higher-than-expected finance and administrative expense were other factors offsetting the difference in our revenue forecast. Reported net gearing increased 15ppt y-o-y to 56% and if we exclude minority interests, net gearing would be 91%. We believe Franshion needs to steer clear of new acquisitions for the time being to better control leverage.

Margin trends will be normalizing. While Franshion has historically enjoyed high gross margin of >40%, profitability will likely normalize in 2015+, reflective of product mix change and also booking of residential projects that were purchased at higher land cost. We note that core profit margins are affected by disproportionately higher deduction of minority interests as Franshion is engaged in numerous joint venture projects.

We establish a Buy rating and set fair value target price of HKD2.80, based on an unchanged target discount of 60% on our revised NAV estimate of HKD7.1 (versus 7.0). The stock looks attractive from the valuation perspective (at 71% discount to NAV). Key catalyst hinges on sales response of Daning Jinmao Palace which is expected to be launched next month. Downside risks include delay in new project launches and lower-than-expected sell-through which could lead to lower-than-expected contracted sales.

Index^	HSCEI
Index level	11,969
RIC	0817.HK
Bloomberg	817 HK

Source: HSBC

Free float (%)	31
Market cap (USDm)	2,443
Market cap (HKDm)	18,953

Source: HSBC

HSBC

Financials & valuation Franshion Properties

Buy

Financial statements

Year to	12/2014a	12/2015e	12/2016e	12/2017e
Profit & loss summary (HKDm)				
Property dev revenue	25,545	29,493	38,316	42,840
Property inv revenue	1,398	1,883	1,907	1,951
Hotel income & others	2,604	2,869	2,949	2,967
Total cost of sales	(17,989)	(20,946)	(27,203)	(30,209)
Gross profit	11,559	13,299	15,969	17,549
Other income and gains	21	68	68	68
SG&A	(2,593)	(2,649)	(3,086)	(3,529)
Net interest expense	(854)	(729)	(800)	(1,071)
Share of profit from asso.	(33)	0	157	1,072
Non-operating profit/loss	2,440	215	0	0
PBT	10,540	10,204	12,308	14,088
Taxation	(3,884)	(3,656)	(5,229)	(6,442)
Minority interests	(1,360)	(2,506)	(2,230)	(2,326)
Net profit	5,296	4,042	4,850	5,320
Net impact of ppty rev reserve	(1,686)	0	0	0
Core Profit	3,610	4,042	4,850	5,320
Cash flow summary (HKDm)				
Cash flow from operations	(8,596)	6,045	4,178	701
Capex	(1,607)	(581)	(650)	(500)
Other investing activities	(8,665)	(1,707)	(2,063)	(1,540)
Dividends paid	(1,056)	(1,053)	(1,179)	(1,414)
Other financing activities	17,930	(2,980)	533	1,926
Net change in cash	(1,995)	(275)	818	(827)
Cash at the end	12,455	12,179	12,998	12,170
Balance sheet summary (HKDm)				
Shareholders' funds	37,650	40,649	44,321	48,227
Long-term liabilities	42,687	34,311	33,237	33,379
Minority interests	18,682	21,188	23,418	25,744
Deferred items	5,103	5,359	5,627	5,908
Total capital employed	104,123	101,508	106,603	113,258
Fixed assets	74,099	74,239	75,470	76,421
Other assets	8,269	10,498	13,242	16,376
Current assets	55,658	64,156	72,067	79,299
Total assets	138,026	148,893	160,778	172,097

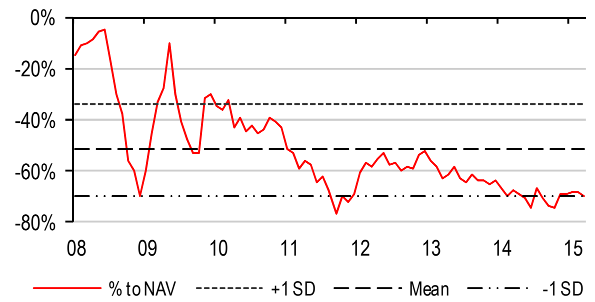
Ratio, growth and per share analysis

Year to	12/2014a	12/2015e	12/2016e	12/2017e
y-o-y % change				
Revenue	43%	16%	26%	11%
Operating profit	21%	19%	21%	9%
PBT	25%	-3%	21%	14%
Reported EPS	25%	-23%	20%	10%
HSBC EPS	24%	13%	20%	10%
Ratios (%)				
ROIC ex-exceptional	5%	6%	6%	6%
ROAE ex-exceptional	10%	10%	11%	11%
ROAA ex-exceptional	3%	3%	3%	3%
Operating margin	30%	31%	30%	29%
Core profit margin	12%	12%	11%	11%
Interest cover ex-exceptional (x)	4.6	5.3	6.0	6.5
Net debt/equity (incl-restricted cash)	87%	74%	67%	67%
Per share data (HKD)				
Reported EPS (fully diluted)	0.58	0.45	0.53	0.59
HSBC EPS (fully diluted)	0.39	0.45	0.53	0.59
DPS (HKD)	0.115	0.130	0.156	0.171
BV	4.15	4.48	4.89	5.32

Franshion: NAV breakdown

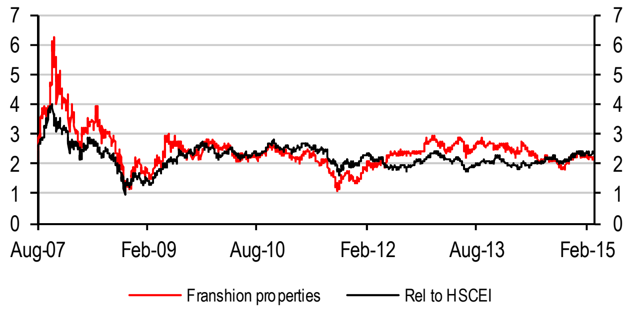
	(RMBm)	(HKD/sh)	% of GAV
Development properties			
Office/Retail	29,976	4.1	29%
Residential	48,462	6.7	48%
Investment properties			
Office/Retail/Hotel	23,185	3.2	23%
GAV	**101,623**	**14.0**	**100.0%**
Net debt (excluding restricted cash)	(30,158)	(4.2)	
Outstanding land premium	(12,000)	(1.7)	
Outstanding LAT	(7,923)	(1.1)	
12M fwd. NAV	**51,542**	**7.1**	

NAV discount chart



Source: Thomson Reuters Datastream , Company data, HSBC estimates

Price relative



x Source: Thomson Reuters Datastream, HSBC estimates Note: Price close of 26 March 2015…

Taking steps to regain lost glory on sales execution

- FY14 results is in-line with our forecast but beat consensus by 10%; elevated net gearing calls for more prudent acquisition strategy
- 2015 contracted sales growth target of 15% is relatively mild but the longer term plan appears quite aggressive
- Margin should be settling at a lower level due to product mix change and revenue recognition of higher land cost projects

Last year, our conviction call in Franshion didn't work out as we'd thought it would. We thought prospect of strong sales growth would see the stock win more investors' attention but it turned out that sales performance wasn't as strong as we had expected amid a challenging physical market backdrop. With the contracted sales run-rate tracking significantly behind schedule by mid-year, Franshion had to cut its sales target during the interim results season and was only able to grow sales by 2% y-o-y in 2014 versus its initial growth target of c30%. Leaving sales growth aside, we believe the lumpy sales schedule had continued to present another issue for the company which makes it more difficult to gauge sales progress month in month out.

In our view, this year's focus will most likely be on balance sheet management as we saw a fairly significant increase in net gearing in FY14. We would prefer Franshion to steer clear of buying new land so as to contain leverage. In the near term though, we believe the key catalyst is the sales response of Daning Jinmao Palace, a high land cost project in Shanghai that is scheduled for launch in April. While the company had introduced an ambitious 2019 sales target, reflective of its determination to regain lost glory on sales execution, this will not be a focus for investors at the moment, in our view. We believe a much more balanced strength in execution, profitability and financial management should be a much more important business strategy than pure sales growth.

In our view, current valuation is attractive as the stock is trading at 71% discount to our NAV estimate, while 2015e PER is merely at 4.7. Our fair value TP of HKD2.80 implies 34% upside to the current share price; therefore, we establish a Buy rating.

FY14 results – in-line with HSBCe but beat consensus by 10%

Franshion reported FY14 core net profit of HKD3,610m, in-line with our forecast but c10% above consensus estimate. Total revenue came in 9% above our estimate, but this is being offset by lower-than-expected gross margin (39% versus 41% HSBCe). Higher-than-expected finance cost and administrative expense were the other factors that have offset the difference in our revenue forecast and led to a fairly similar bottom-line.

The one thing that caught our attention was perhaps the gearing level. Reported net gearing increased 15ppt y-o-y to 56% and if we exclude minority interests, net gearing would be 91%. This is reflective of the company's appetite in the land market, contracted sales shortfall in 2014 and the back-end loaded sales which led to a lower cash collection rate.

Contracted sales – Taking steps to regain lost glory on execution

What does the 2019 sales target mean?

While most developers have taken a much more conservative approach in guiding growth expectations, Franshion rolled out a longer term business plan which targets to achieve contracted sales of RMB80bn by 2019. Such target implies annual sales growth of over 30% from 2015, assuming that Franshion meets this year's target of RMB24.8bn. While it is premature to judge whether this is an achievable target, it seems ambitious to us and one that requires prudent planning. In our view, the announcement of this plan is reflective of Franshion's keen determination to become a tier-1 property developer, but probably also an indication that it is trying to regain lost glory on execution amid last year's contracted sales disappointment.

2015 Contracted sales target growth of 15% looks relatively mild and achievable

Franshion is targeting to achieve relatively milder contracted sales growth of 15% in 2015 to RMB24.8bn, anchored by Beijing and Shanghai, the strong forts of the company. We believe this is reasonably achievable but point out that this year's target is still below last year's initial target of RMB30bn. In terms of the distribution of sales, Franshion indicated that the sales distribution in 2Q/3Q/4Q will be around 35%/35%/20%, respectively. Given the concentration in 2Q/3Q, one should not set expectations for March sales, while April would be a key month as the higher ASP projects in Beijing and Shanghai projects will be launched for sales.

Key project of focus – Daning Jinmao Palace in Shanghai

Daning Jinmao Palace (formerly known as Zhabei Daning Int'l Community Project) in Shanghai is a project of focus in the near term. This is a project that Franshion acquired in January 2014 for a high A.V. of RMB 47,609/sqm, hence dubbed the 'land king' of Shanghai at the time of acquisition. The project is scheduled for launch next month where we believe strong sales response could be a potential near-term catalyst. According to Guandian, this project had a soft launch earlier this month where more than 400 potential homebuyers completed subscriptions during the day. The latest expected ASP is reported to be RMB75,000/sqm while the first batch will include >200 units with unit size ranging from 95 sqm to 192 sqm.

2015 Saleable resources and sales target

Region	2014 Contracted sales (RMBbn)	2015 Saleable resources (RMBbn)	2015 sales target (RMBbn)	Proportion of sales target
Beijing	6.6	8.2	5.2	21%
Shanghai	3.3	11.0	6.5	26%
Guangzhou	0.4	1.5	1.3	5%
Yangtze River Delta region (excl. Shanghai)	2.7	6.2	3.8	15%
Lijiang	0.2	1.5	0.3	1%
Qingdao	1.0	1.8	1.1	4%
Chongqing	1.1	2.5	1.9	8%
Changsha	6.2	7.3	4.7	19%
Total	**21.5**	**40.0**	**24.8**	**100%**

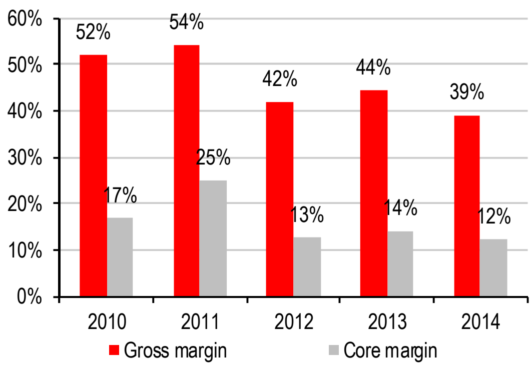
Source: Company data, HSBC

Margin trends to normalize

While Franshion has historically enjoyed high gross margin of 40-50%, profitability will likely normalize in 2015+, reflective of product mix change and also booking of several residential projects that were purchased at higher land cost such as Daning Jinmao Palace in Shanghai. In addition, contribution from Shanghai International Shipping Service Center, a high margin commercial project, will decline. This project's contribution to total property development revenue declined from 22.5% in 2013 to 7.1% in 2014, and is expected to further decline to low single digit by 2016 and 2017 as per our estimate. Our revised financial model now forecast gross margin of 39% in 2015 versus 40% previously. We expect gross margin to be 37% in both 2016 and 2017.

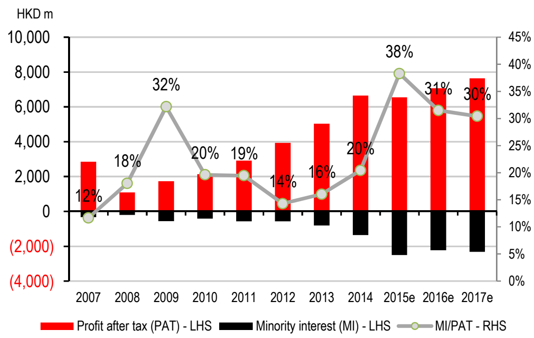
For core profit, we expect core net margin of 11.1-11.8 % during the forecast period. We note that the bottom line is affected by higher net interest expense as total borrowing increased as well as disproportionately higher deduction of minority interests as Franshion is engaged in numerous joint venture projects.

Gross and core margin trends



Source: Company data, HSBC

Disproportionately higher MI deduction affects core net margin



Source: Company data, HSBC estimates

Elevated net gearing – a need to steer clear of new acquisitions

FY14 reported net gearing increased 15ppt y-o-y to 56%. If we exclude minority interests, net gearing would be 91%. The significant increase came on the back of negative operating cash flow of RMB8.2bn recorded in 2014 while the net proceeds of cHKD3.0bn from the spin-off of Jinmao Investment were insufficient to cover the negative cash flow balance. The negative cash flow position was reflective of Franshion's appetite in the land market, contracted sales shortfall in 2014 and the back-end loaded sales in 2014 which led to a lower cash collection rate.

In 2015, we believe gearing level could be preserved at current level as we project positive operating cash flow of RMB4.7bn. However, this requires that Franshion steer clear of further land acquisition as the budgeted land payment of RMB4.2bn only captures committed payment, and not new acquisitions. However, we feel that the company's ambitious growth plans in the coming years means that it will likely remain an active participant in the land market. In our view, it is probably best practice to adopt a prudent land acquisition strategy by way of pegging potential spending on sales performance.

Cash flow analysis

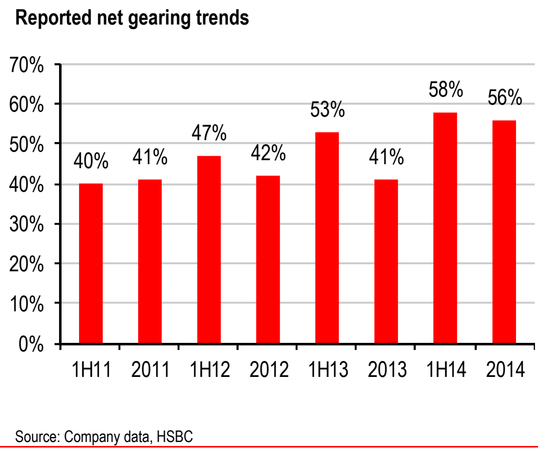
(RMB bn)	2015e	2014a	Remarks
Cash inflow from sales	25.3	16.5	2015e cash inflow from sales includes RMB10bn carry over from 2014 as last year's sales was backend loaded
Rental income from office	1.3	1.3	
Hotel income	2.0	1.8	
Total inflow	**28.6**	**19.6**	
Land payment	-4.2	-13.8	2015e reflects committed land payment
Construction cost	-10.0	-7.0	
SG&A	-2.0	-1.9	
Tax	-5.0	-3.0	2015e tax outflow is higher due to higher LAT provision
Interest expense	-2.7	-2.1	
Total outflow	**-23.9**	**-27.8**	
Net cash flow	**4.7**	**-8.2**	

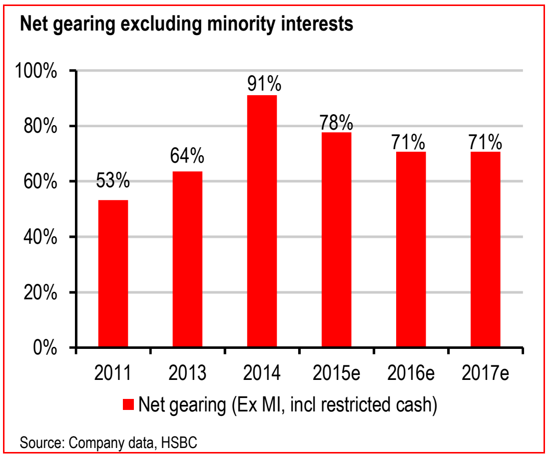
Source: Company data, HSBC estimate

Newly acquired landbank in 2014 and 2015

Location	Acquisition date	Stake	Total GFA (sqm)	Attr. GFA (sqm)	Total land premium (RMBm)	A.V.(RMB/sqm)*	Sales launch
Qingdao	Jan-15	100%	480,626	480,626	754	1,569	2015
Changsha	Dec-14	100%	191,264	191,264	297	1,553	2015
Changsha	Dec-14	100%	498,605	498,605	1,396	2,800	2015
Chongqing	Oct-14	39.96% (1)	825,666	329,936	2,135	2,586	2015
Guangzhou	Sep-14	50%	314,321	157,161	3,242	10,314	2016
Beijing	Feb-14	25.5% & 50% (2)	558,922	215,949	6,000	10,735	2015
Shanghai	Jan-14	36%	289,200	104,112	10,100	34,924	2015
Hangzhou	Jan-14	85%	242,300	205,955	2,370	9,781	2014
Total			**3,400,904**	**2,183,597**	**26,294**	**7,731**	

Source: Company data * on total GFA
(1) As at the date of this report, the Company, Dingxin Changcheng and Ping An Real Estate are entitled to 39.96%, 32.808% and 27.232% interests in Chongqing Konggang Project respectively.
(2) The Company acquired X87 and X91 in Beijing Yizhuang District in Feb 2014. Currently, the Company holds 25.5% interest in land parcel X87 (GFA: 259,234 square metres) and 50% interest in land parcel X91 (GFA:299,688 square metres).
(3) In Jan 2015, the Company acquired 80% equity control of Phase I of Nanjing Shangfang Primary Development Project for an estimated cost of RMB17.0bn with total GFA of 3.798mn sq.m. The Company plans to complete development of the property within eight years





What's changed? EPS, NAV and TP

We tweak our FY15 and FY16 EPS estimate by 3.6% and 6.1%, respectively, to reflect slightly lower margins and changes in our project booking schedule and. We introduce our 2017 EPS estimate at HKD0.59, which represents growth of 10% y-o-y. Note that we have increased our 2015 contracted sales forecast from RMB22bn to RMB25bn, but this will not impact our earnings forecast until later years as the incremental sales generated are from projects scheduled for completion in 2017.

We establish a Buy rating for the stock and set a fair value target price of HKD2.80 based on an unchanged target discount of 60% (-0.5SD). Our NAV has been revised up by 1.4% from HKD7.0 to HKD7.1 mainly to reflect the newly acquired landbank, the updates in outstanding land premium and net debt position as at end-14. Note that our original assumption on ASP growth in 2014 and WACC have remained unchanged.

Catalysts and risks

Key potential catalyst and upside risks include much stronger-than-expected contracted sales and rent growth momentum. Downside risks include delay in new project launches and lower-than-expected sell-through which could lead to lower-than-expected contracted sales.

FY14 results review

Franshion recorded FY14 core profit of HKD3,610m, up 24% y-o-y, in-line with our estimate but 10% above the consensus estimate. DPS of HKD11.5 cents was declared, representing an increase of 21% y-o-y, based on largely the same payout ratio of 29% (vs. FY13's 30%). Overall gross margin decreased to 39%, down 5ppts from FY13, while gross margin of property development was down 5ppts to 36% vs. FY13. Net core profit margin was down 2ppt y-o- y to 12%.

Strong revenue growth from property development segment: Property sales revenue increased by 51% to HKD25,545m and accounted for approximately 86% of the total revenue. Key revenue contribution was driven by these projects: Beijing Asian Olympics Jin Mao Yue/Beijing Wangjing Jin Mao Palace, Beijing Guangqu Jin Mao Palace, Qingdao Jin Mao Bay, Shanghai International Shipping Service Center and Changsha Meixi Lake.

Strong rental income growth: Rental income grew 12% y-o-y to HKD1,399m driven by strong positive rental reversion in the office portfolio. Hotel revenue recorded more moderate growth of just 3% y-o-y as the industry is still challenged by new supply in the market.

Slight decreased in finance costs due to higher capitalisation rate: Finance cost decreased 8% y-o-y to HKD1,222m, helped by higher interest capitalization rate which increased from 34% in FY13 to 52% in FY14. Total borrowing actually increased by 31% y-o-y to HKD46,759 (net of pledged deposits) Average interest cost decreased from 5.6% in 2013 to 5.4% in 2014.

SG&A cost under control: SG&A expense as a percentage of contracted sales declined from 12% in FY13 to 10% in FY14. Selling and marketing expense increased by 47% y-o-y to HKD915m, mainly due to the opening expenses of Hyatt Regency Chongming, Renaissance Beijing Wangfujing, Grand Hyatt Lijiang and Lijiang J-Life.

Reported net gearing level edged up15ppts: Reported net gearing increased to 56 % in 2014 (versus 41% in 2013), due to 31% y-o-y increase in total borrowing while cash declined 14% y-o-y. As at end-14, Franshion has cash on hand of HKD12.5bn.

FY14 results review

(HKDm)	2013	2014	y-o-y%	Remarks
Turnover				
Property Development	16,868	25,545	51%	Driven by higher recognized ASP as booked volume declined 40% y-o-y
Property Investment	1,249	1,398	12%	Driven by positive rental reversion of the office portfolio
Hotel income	2,061	2,127	3%	
Others	541	478	-12%	
Total Turnover	**20,719**	**29,548**	**43%**	
Cost of sales	(11,519)	(17,989)	56%	
Gross profit	**9,200**	**11,559**	**26%**	
Other income and gains	518	389	-25%	
Selling and marketing expenses	(624)	(915)	47%	Due to now hotel pre-opening expenses
Administrative expenses	(1,162)	(1,679)	45%	
Other expenses and losses	(20)	153	-853%	
Finance costs	(1,325)	(1,222)	-8%	Lower finance cost helped by higher interest capitalization rate which increased from 34% in FY13 to 52% in FY14 as total borrowing increased
Fair value gains	1,837	2,286	24%	
Share of profits of joint ventures	2	(33)	-1528%	
Profit before taxation	**8,428**	**10,540**	**25%**	
Income tax (ex LAT)	(2,107)	(2,790)	32%	
LAT	(1,286)	(1,094)	-15%	
Less: Minority Interests	(807)	(1,360)	68%	
Net Profit	**4,227**	**5,296**	**25%**	
Less: revaluation gain on IP, net of tax	(1,317)	(1,686)	28%	
Core Profit	**2,910**	**3,610**	**24%**	
Reported EPS (HKD)	**0.461**	**0.579**	**25%**	
Core EPS (HKD)	**0.318**	**0.394**	**24%**	
DPS (HKD)	**0.095**	**0.115**	**21%**	
Payout ratio	30%	29%		
Weighted number of shares	**9,161**	**9,154**		
Contract sales (HKDm)	14,591	21,503		
Liquidity	**YE2013**	**YE2014**	**y-o-y%/ ppt change**	
Long-term borrowings	29,667	42,687	44%	
Short-term borrowings	6,139	4,072	-34%	
Total borrowings	35,806	46,759	31%	
Cash (ex-restricted cash)	14,490	12,455	-14%	
Cash (incl-restricted cash)	14,925	12,461	-17%	
Net Debt (ex-restricted cash)	21,316	34,305	61%	
Net Debt (incl-restricted cash)	20,881	34,298	64%	
Shareholder's equity (ex MI)	33,562	37,650	12%	
Minority interest	13,658	18,682		
Perpetual convertible securities	4,588	4,588		
Net gearing (ex-restricted cash)	64%	91%	28	
Net gearing (incl-restricted cash)	62%	91%	29	
Net gearing (reported)	41%	56%	15	
Margins	**YE2013**	**YE2014**		
SG&A to contract sales ratio	12%	10%	(3)	
SG&A to turnover ratio	9%	9%	0	
Gross margin	44%	39%	(5)	
NP margin	20%	18%	(2)	
Core profit margin	14%	12%	(2)	
LAT to Property sales revenue	8%	4%	(3)	

Source: Company data, HSBC estimates
Note: Net gearing (reported) includes restricted cash, PCS and ex-MI in the calculation.

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: Michelle Kwok, Derek Kwong and Albert Tam

Important disclosures

Equities: Stock ratings and basis for financial analysis

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From 23rd March 2015 HSBC has assigned ratings on the following basis:

The target price is based on the analyst's assessment of the stock's actual current value, although we expect it to take six to 12 months for the market price to reflect this. When the target price is more than 20% above the current share price, the stock will be classified as a Buy; when it is between 5% and 20% above the current share price, the stock may be classified as a Buy or a Hold; when it is between 5% below and 5% above the current share price, the stock will be classified as a Hold; when it is between 5% and 20% below the current share price, the stock may be classified as a Hold or a Reduce; and when it is more than 20% below the current share price, the stock will be classified as a Reduce.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation or resumption of coverage, change in target price or estimates).

Upside/Downside is the percentage difference between the target price and the share price.

Prior to this date, HSBC's rating structure was applied 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 target price for a stock represented the value the analyst expected the stock to reach over our performance horizon. The performance horizon was 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, had to exceed the required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock was expected to underperform its required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands were classified as Neutral.

*A stock was classified as volatile if its historical volatility had exceeded 40%, if the stock had been listed for less than 12 months (unless it was in an industry or sector where volatility is low) or if the analyst expected significant volatility. However, stocks which we did not consider volatile may in fact also have behaved in such a way. Historical volatility was 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 had 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

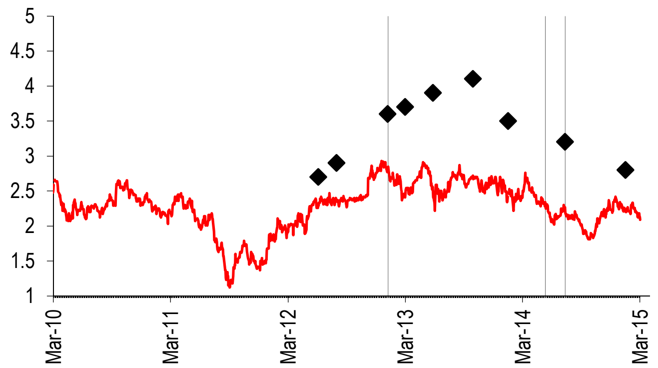
As of 26 March 2015, the distribution of all ratings published is as follows:

Buy	41%	(30% of these provided with Investment Banking Services)
Hold	39%	(27% of these provided with Investment Banking Services)
Sell	20%	(20% of these provided with Investment Banking Services)

For the purposes of the distribution above the following mapping structure is used during the transition from the previous to current rating models: under our previous model, Overweight = Buy, Neutral = Hold and Underweight = Sell; under our current model Buy = Buy, Hold = Hold and Reduce = Sell. For rating definitions under both models, please see "Stock ratings and basis for financial analysis" above.

Share price and rating changes for long-term investment opportunities

Franshion Properties (0817.HK) Share Price performance HKD Vs HSBC rating history



Source: HSBC

Recommendation & price target history

From	To	Date
Overweight (V)	Overweight	30 January 2013
Overweight	Restricted	04 June 2014
Restricted	Overweight	05 August 2014
Target Price	**Value**	**Date**
Price 1	2.70	28 June 2012
Price 2	2.90	23 August 2012
Price 3	3.60	30 January 2013
Price 4	3.70	25 March 2013
Price 5	3.90	20 June 2013
Price 6	4.10	22 October 2013
Price 7	3.50	09 February 2014
Price 8	Restricted	04 June 2014
Price 9	3.20	05 August 2014
Price 10	2.80	09 February 2015

Source: HSBC

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
FRANSHION PROPERTIES	0817.HK	2.09	26-Mar-2015	4, 6

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.
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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.
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2 All market data included in this report are dated as at close 25 March 2015, unless otherwise indicated in the report.
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