



Rating  
**Buy**

Asia  
China

Property  
Property

Company  
**Sino Ocean**

Reuters 3377.HK	Bloomberg 3377 HK	Exchange HSI	Ticker 3377
ADR Ticker SIOLY	ISIN US8293471038		

Date  
30 March 2015

## Company Update

Price at 27 Mar 2015 (HKD)	4.73
Price target - 12mth (HKD)	6.85
52-week range (HKD)	5.02 - 3.87
HANG SENG INDEX	24,486

## US NDR takeaways

### Retaining Buy on further operational improvement ahead; target price HK\$6.85

We hosted a non-deal roadshow (NDR) in the US with Sino-Ocean's management last week. Management appears cautiously optimistic on the 2015 market outlook and believes the company is well positioned on the back of the adjustments in business strategies made two years ago. In particular, 95% of its landbank by GFA is now located in Tier-1/2 cities, following the exit of Tier-3 cities via disposals in 2014. Moreover, the contribution from investment properties has started to reach scale with rental revenue exceeding Rmb1bn in 2014. On the other hand, Sino-Ocean is now one of the most cost efficient developers in the industry on the back of strict cost controls.

### Tier-1/2 cities now make up 95% of landbank by GFA

In 2014, Sino-Ocean disposed 6.2mn sqm GFA of landbank and effectively exited all Tier-3 cities with the exception of Zhongshan, where the company has a solid track record. On the other hand, 20 new projects were acquired with an attributable GFA of 4.64mn sqm (30% of its landbank) in 2014 and up to the end of Feb-15. Following the adjustments, 95% of its landbank by GFA is now located in Tier-1/2 cities (Tier 1: 41%; Tier-2 54%). As of end-14, Sino-Ocean has an attributable landbank of 15.6mn sqm GFA at an average cost of Rmb3,300/sqm.

### Margins troughed and should see bigger improvement from 2016

While gross margin saw a 3.3ppt contraction to 21% in FY14, margin actually improved to 22.1% in 2H14 from the trough of 19.7% registered in 1H14. On the back of the aggressive land acquisitions during the soft land market in 2014, with the company replenishing close to 30% of its attributable landbank at low cost (many projects are acquired at close to the base reserve price on little competition), management is expecting a more material improvement in profit margins from 2016 as contributions from these newly-acquired projects start to kick-in.

### Attractive 52% NAV discount, 7x 15E P/E and 5% dividend yield

Our target price is based on 30% discount to our estimated NAV of HK\$9.79/sh. Our target discount reflects a marked operational turnaround and success in lowering its funding costs by altering the debt mix as well as strong support from the parent. We adopt NAV as our primary valuation metric, in line with peers under our coverage. Key risks are government policies and economic fluctuations.

#### Forecasts And Ratios

Year End Dec 31	2013A	2014A	2015E	2016E	2017E
Sales (CNYm)	31,099.0	38,896.0	43,465.8	48,428.1	53,812.9
EBITDA(CNYm)	6,121.8	6,344.5	7,623.9	9,108.1	10,796.4
Reported NPAT(CNYm)	4,074.7	4,597.3	4,366.0	5,087.2	5,881.7
DB EPS FD (CNY)	0.42	0.49	0.58	0.68	0.79
DB EPS growth (%)	-	17.5	19.0	16.5	15.6
PER (x)	9.3	7.0	6.5	5.6	4.8
DPS (net) (CNY)	0.23	0.24	0.24	0.25	0.26

Source: Deutsche Bank estimates, company data

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#### Price/price relative



Performance (%)	1m	3m	12m
Absolute	-2.3	10.5	19.7
HANG SENG INDEX	-1.4	4.9	12.1

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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Model updated: 27 March 2015

## Running the numbers

Asia

China

Property

## Sino Ocean

Reuters: 3377.HK

Bloomberg: 3377.HK

## Buy

Price (27 Mar 15) HKD 4.73

Target Price HKD 6.85

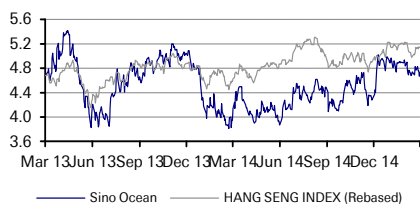
52 Week range HKD 3.87 - 5.02

Market Cap (m) HKDm 26,594  
USDm 3,430

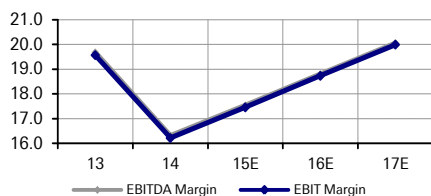
## Company Profile

Established in 1993, Sino-Ocean is a Beijing-based developer with extensive operations in the Pan-Bohai Rim area, focusing mainly on mid to high-end residential, office and retail developments. Following stake disposal by COSCO and Sinochem, China Life became Sino-Ocean's largest shareholder in Jan-10 with a 24.1% stake, followed by Nan Fung with 12.8%. Sino-Ocean was ranked 15th in China in terms of sales volume sold by value and 19th in terms of GFA sold in 1H11, according to CRIC.

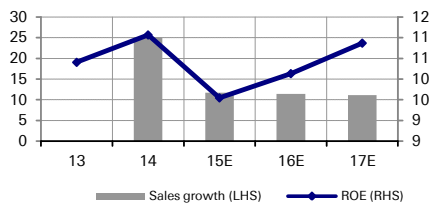
## Price Performance



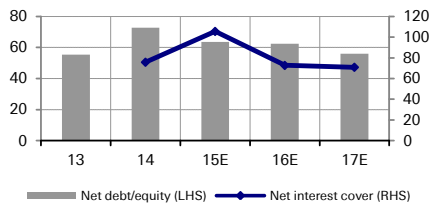
## Margin Trends



## Growth &amp; Profitability



## Solvency



Fiscal year end 31-Dec

2013 2014 2015E 2016E 2017E

## Financial Summary

DB EPS (CNY)	0.42	0.49	0.58	0.68	0.79
Reported EPS (CNY)	0.56	0.63	0.58	0.68	0.79
DPS (CNY)	0.23	0.24	0.24	0.25	0.26
BVPS (CNY)	5.5	5.9	6.7	7.1	7.7
Weighted average shares (m)	7,278	7,278	7,278	7,278	7,278
Average market cap (CNYm)	28,216	24,849	21,311	21,311	21,311
Enterprise value (CNYm)	53,333	52,417	49,056	51,549	51,497

## Valuation Metrics

P/E (DB) (x)	9.3	7.0	6.5	5.6	4.8
P/E (Reported) (x)	6.9	5.4	6.5	5.6	4.8
P/BV (x)	0.73	0.59	0.57	0.53	0.49
FCF Yield (%)	nm	nm	nm	2.1	13.4
Dividend Yield (%)	5.9	7.0	6.4	6.7	6.9
EV/Sales (x)	1.7	1.3	1.1	1.1	1.0
EV/EBITDA (x)	8.7	8.3	6.4	5.7	4.8
EV/EBIT (x)	8.8	8.3	6.5	5.7	4.8

## Income Statement (CNYm)

Sales revenue	31,099	38,896	43,466	48,428	53,813
Gross profit	7,582	8,202	9,754	11,433	13,379
EBITDA	6,122	6,344	7,624	9,108	10,796
Depreciation	35	35	35	35	35
Amortisation	0	0	0	0	0
EBIT	6,087	6,309	7,589	9,073	10,761
Net interest income/(expense)	13	-83	-72	-125	-152
Associates/affiliates	331	435	453	775	743
Exceptionals/extraordinaries	910	694	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0
Profit before tax	7,010	6,920	7,517	8,948	10,610
Income tax expense	2,680	2,749	2,807	3,626	4,324
Minorities	586	9	797	1,010	1,147
Other post-tax income/(expense)	0	0	0	0	0
Net profit	4,075	4,597	4,366	5,087	5,882
DB adjustments (including dilution)	-1,039	-1,031	0	0	0
DB Net profit	3,036	3,566	4,366	5,087	5,882

## Cash Flow (CNYm)

Cash flow from operations	6,244	3,633	5,265	4,274	4,320
Net Capex	-7,044	-7,468	-9,218	-3,705	-633
Free cash flow	-801	-3,834	-3,953	569	3,687
Equity raised/(bought back)	7,466	0	0	0	0
Dividends paid	-1,352	-329	-607	-1,437	-1,560
Net inc/(dec) in borrowings	0	0	0	0	0
Other investing/financing cash flows	-7,709	-3,920	4,560	-1,389	-1,672
Net cash flow	-2,396	-8,083	0	-2,258	456
Change in working capital	766	3,198	2,792	-2,421	-3,923

## Balance Sheet (CNYm)

Cash and other liquid assets	11,253	13,311	13,525	13,420	13,394
Tangible fixed assets	213	272	272	272	272
Goodwill/intangible assets	0	0	0	0	0
Associates/investments	2,312	6,083	6,536	7,311	8,054
Other assets	124,091	112,545	126,431	129,118	130,536
Total assets	137,869	132,212	146,765	150,122	152,257
Interest bearing debt	35,295	45,604	45,650	47,803	47,321
Other liabilities	59,129	42,225	50,525	47,179	44,372
Total liabilities	94,424	87,829	96,175	94,982	91,693
Shareholders' equity	40,058	43,024	48,434	51,974	56,250
Minorities	3,387	1,359	2,156	3,166	4,313
Total shareholders' equity	43,445	44,383	50,590	55,140	60,564
Net debt	24,042	32,293	32,125	34,383	33,927

## Key Company Metrics

Sales growth (%)	nm	25.1	11.7	11.4	11.1
DB EPS growth (%)	na	17.5	19.0	16.5	15.6
EBITDA Margin (%)	19.7	16.3	17.5	18.8	20.1
EBIT Margin (%)	19.6	16.2	17.5	18.7	20.0
Payout ratio (%)	41.1	38.0	40.6	36.2	32.5
ROE (%)	10.4	11.1	9.5	10.1	10.9
Capex/sales (%)	22.7	19.2	21.2	7.7	1.2
Capex/depreciation (x)	201.3	213.4	263.4	105.9	18.1
Net debt/equity (%)	55.3	72.8	63.5	62.4	56.0
Net interest cover (x)	nm	75.8	105.6	72.7	70.9

Source: Company data, Deutsche Bank estimates



# Investment Thesis

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## Outlook

We reiterate our Buy rating on Sino-Ocean following a solid FY14, with marked operational turnaround on strong support from its major shareholders. In particular, gross margin saw a rebound in 2H14, a marked contrast to most peers which saw further margin contraction. While gross margin is unlikely to see a strong recovery in the near future, as it takes time to digest the land bank acquired in cyclical peaks, we are more upbeat on the outlook for the company on the back of stronger support from the two major shareholders, China Life and Nan Fung Group.

In particular, they have provided full support to Sino-Ocean's credit rating and consequently, Sino-Ocean was able to issue two tranches of USD bonds in July-14 at coupon rates (5-year at 4.625%; 10-year at 6%) that are comparable to the industry leaders and state-owned developers. Following creditors' rating upgrade to investment grade in Jul-14, Sino-Ocean was able to issue USD bonds in Jan-15 at lower coupon rates of 4.45%/5.95% for 5-year/12-year bonds (some 5-18bps lower than previous issues in 2014), which should help to boost net margins ahead, in our view.

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## Valuation

Our target price is based on 30% discount to our estimated NAV of HK\$9.79/sh. Our target discount reflects a marked operational turnaround and success in lowering its funding costs by altering the debt mix as well as strong support from the parent. We adopt NAV as our primary valuation metric, in line with peers under our coverage.

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## Risks

- **Government policies targeting the property sector** - The government has introduced tightening policies/reinforcement of existing policies so as to avoid an overheating property market, which could adversely impact earnings and profitability for developers. And further tightening in policy could lead to a significant de-rating in the sector.

- **Exposure to cities with home purchase restrictions** - Sino-Ocean has over 80% of its landbank exposed to cities with home purchase restrictions. As a result, sales performances in these cities could be materially affected.

- **Concentration risk in geographic presence** - Sino-Ocean's landbank is concentrated in Pan-Bohai Rim, making it extremely vulnerable to the economic/sales performance in North-eastern China. A prolonged economic or residential market downturn in the region would hurt its financial performance disproportionately.



# Expect further operational improvement ahead

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## Key takeaways from US NDR

We hosted a non-deal roadshow (NDR) in US with Sino-Ocean's management last week. Key topics discussed during the meetings were as follows:

1. In 2014, Sino-Ocean disposed 6.2mn sqm GFA of landbank and has effectively exited all Tier-3 cities with the exception of Zhongshan, where the company has a solid track record. On the other hand, 20 new projects were acquired with an attributable GFA of 4.64mn sqm (30% of its landbank) in 2014 and up to the end of Feb-15. Following the adjustments, 95% of its landbank by GFA is now located in Tier-1/2 cities (Tier 1: 41%; Tier-2 54%). As of end-14, Sino-Ocean has an attributable landbank of 15.6mn sqm GFA at an average cost of Rmb3,300/sqm.
2. In 2014, management believes it captured a good opportunity in landbanking as many projects were acquired at close to the base reserve price on little competition. However, it expects the good opportunity for land replenishment will end soon as the land market is expected to heat up on the back of improved market sentiment.
3. Management claimed that it learnt a good lesson from being too aggressive in landbanking during the last market peak in 2009/10 which weighed on the company's financial performance in 2011-13. Therefore, management plans to turn cautious in new project acquisitions in 2H15 if the land market really starts to heat up.
4. Sino-Ocean has a land capex budget of Rmb15bn in FY15. The key criterion in land acquisitions being: 1) only in cities where the company has a presence; 2) size of the project is no more than 300,000 sqm GFA and maximum of two phases; 3) market positioning of the project fits the expertise of the current project team; 4) minimum gross margin of no less than 25% or IRR of 30%.
5. If the land capex budget has not been fully utilized in new acquisitions, management claims the surplus may be allocated to the investment property portfolio.
6. The contribution from investment properties has started to reach scale with rental revenue exceeding Rmb1bn in 2014. Based on the current completed portfolio, rental income is expected to reach Rmb2.5bn in five years' time on improvement in occupancy levels and rental growth. Furthermore, by including contribution from investment properties still under construction, total rental revenue is expected to reach Rmb3.5bn.



7. Since the Seagull II IT system started to operate and enhance management efficiency from 2103, cost efficiency saw a material improvement. In particular, selling and marketing/administrative expenses accounted for just 2.2%/2.6% of revenue in FY14 vs. 3.4%/3% in FY12. Sino-Ocean is now one of the most cost efficient developers in the industry.
8. Management believes 2015 will be a better year as compared with 2014, and it sees a good chance for sales volume to register YoY growth. However, it believes overall sales volume in 2015 is unlikely to surpass the peak level achieved in 2013.
9. In terms of ASP outlook, management is expecting ASP growth in Tier-1 cities in 2015 on the back of strong demand and relatively little supply. There will be a mixed performance in Tier-2 cities, where ASP is likely to see some growth for cities with net population inflow and vice versa. In Tier-3/4 cities, ASP is likely to be under pressure on ample new supply.
10. As ASP is unlikely to repeat the high growth witnessed in the past decade, a focus on cost control is critical. In particular, Sino-Ocean looks to control the increase in headcount (however, compensation for staff will improve on retention), standardize products and achieve better matching between cost and products.
11. While the key focus will still be on first-time home-buyers market in FY15, management believes demand from upgraders will increase in a more material manner from 2016/17 onwards. New land acquisitions in 2015 will take this view into consideration.
12. Management believes M&A activities may slow ahead on the back of the tax reform (i.e. to replace business tax with value-added tax). While details of the tax reform are yet to be released, as the value-added tax is based upon appreciation in value, the potential tax on old projects will be considerably higher. Unless sellers are willing to adjust down their asking prices to take into account the tax increase, activity will slow materially.



# Financial analysis

Figure 1: Income Statement (Rmb mn)

For year ended Dec 31	2012A	2013A	2014A	2015	2016F	2017F
Sales of properties	26,053	28,146	35,243	39,187	43,456	47,352
Rental income	414	550	679	859	1,039	1,938
Property management	453	591	729	838	964	1,109
Others	1,738	1,812	2,245	2,582	2,969	3,414
<b>Revenue</b>	<b>28,658</b>	<b>31,099</b>	<b>38,896</b>	<b>43,466</b>	<b>48,428</b>	<b>53,813</b>
Cost of sales	(20,959)	(23,552)	(30,729)	(33,747)	(37,030)	(40,469)
<b>Gross Profit</b>	<b>7,699</b>	<b>7,547</b>	<b>8,167</b>	<b>9,719</b>	<b>11,398</b>	<b>13,344</b>
Gross interest expenses	2,946	2,585	3,164	3,150	3,298	3,265
Capitalized interest	(2,320)	(2,221)	(2,695)	(2,740)	(2,837)	(2,775)
Net interest expense/(income)	625	364	469	409	462	490
Interest income	209	376	386	338	337	338
Selling and marketing costs	(963)	(785)	(846)	(1,000)	(1,065)	(1,184)
Administrative expenses	(853)	(675)	(1,012)	(1,130)	(1,259)	(1,399)
SG&A	(1,608)	(1,084)	(1,472)	(1,792)	(1,988)	(2,245)
Revaluation gains	1,535	808	591	-	-	-
Other adjustments	(126)	102	103	-	-	-
<b>Profit from operations</b>	<b>6,876</b>	<b>7,010</b>	<b>6,920</b>	<b>7,517</b>	<b>8,948</b>	<b>10,610</b>
Associates	359	331	435	453	775	743
<b>Pre-tax profit</b>	<b>7,235</b>	<b>7,341</b>	<b>7,355</b>	<b>7,970</b>	<b>9,723</b>	<b>11,353</b>
Taxation	(3,248)	(2,680)	(2,749)	(2,807)	(3,626)	(4,324)
<b>Post-tax profit before MI</b>	<b>3,987</b>	<b>4,661</b>	<b>4,606</b>	<b>5,163</b>	<b>6,097</b>	<b>7,029</b>
Minority interests	(191)	(586)	(9)	(797)	(1,010)	(1,147)
<b>Net attributable profit</b>	<b>3,796</b>	<b>4,075</b>	<b>4,597</b>	<b>4,366</b>	<b>5,087</b>	<b>5,882</b>
Adjustment for non-recurring items	(1,291)	(1,039)	(1,031)	-	-	-
<b>Core net profit</b>	<b>2,505</b>	<b>3,036</b>	<b>3,566</b>	<b>4,366</b>	<b>5,087</b>	<b>5,882</b>
Fully diluted EPS (HK\$)	0.490	0.702	0.701	0.695	0.810	0.936
DPS (HK\$)	0.23	0.23	0.24	0.24	0.25	0.26

Source: Deutsche Bank estimates, company data



Figure 2: Balance Sheet (Rmb mn)

As of Dec 31	2012A	2013A	2014A	2015	2016F	2017F
<b>Non-current assets</b>	<b>10,751</b>	<b>12,711</b>	<b>24,350</b>	<b>33,198</b>	<b>36,188</b>	<b>36,328</b>
Investment properties	7,202	10,302	11,883	21,100	24,805	25,438
Property and equipment	9	213	272	272	272	272
Other assets	3,539	2,196	12,195	11,825	11,110	10,618
<b>Associates</b>	<b>2,143</b>	<b>2,312</b>	<b>6,083</b>	<b>6,536</b>	<b>7,311</b>	<b>8,054</b>
<b>Other investments</b>	<b>838</b>	<b>746</b>	<b>1,737</b>	<b>1,737</b>	<b>1,737</b>	<b>1,737</b>
<b>Current assets</b>	<b>114,573</b>	<b>122,100</b>	<b>100,041</b>	<b>105,294</b>	<b>104,886</b>	<b>106,137</b>
Properties under development	71,974	69,903	41,540	44,766	45,366	46,332
Inventories	9,092	12,080	17,214	20,271	20,368	20,270
Other inventories	79	99	82	84	93	97
Debtors & deposits/receivables/others	22,681	28,765	27,894	26,647	25,639	26,044
Bank balances & cash	10,747	11,253	13,311	13,525	13,420	13,394
<b>Current liabilities</b>	<b>(63,687)</b>	<b>(70,115)</b>	<b>(51,388)</b>	<b>(58,835)</b>	<b>(55,037)</b>	<b>(50,365)</b>
Bank loans and overdrafts	11,520	12,839	11,167	10,300	9,848	7,982
Forward sales deposits received	30,681	34,604	18,887	29,417	25,061	22,674
Creditors, deposits & accruals/others	16,191	17,987	17,762	16,517	17,434	16,682
Taxation	5,295	4,685	3,572	1,520	1,503	1,790
Proposed dividend	-	-	-	1,082	1,191	1,237
<b>Total assets less current liabilities</b>	<b>64,618</b>	<b>67,754</b>	<b>80,823</b>	<b>87,930</b>	<b>95,085</b>	<b>101,892</b>
<b>Non-current liabilities</b>	<b>20,873</b>	<b>22,456</b>	<b>34,451</b>	<b>35,351</b>	<b>37,955</b>	<b>39,339</b>
Long term bank loans	20,873	22,456	34,437	35,351	37,955	39,339
Others	-	-	13	-	-	-
<b>Deferred income tax</b>	<b>1,698</b>	<b>1,853</b>	<b>1,990</b>	<b>1,990</b>	<b>1,990</b>	<b>1,990</b>
Issued share capital	4,429	4,462	4,462	4,462	4,462	4,462
Share premium	24,809	24,071	24,723	27,255	27,255	27,255
Retained profits	8,780	11,359	14,172	17,050	20,590	24,866
Capital & other reserves	243	166	(333)	(333)	(333)	(333)
<b>Shareholders' funds</b>	<b>38,260</b>	<b>40,058</b>	<b>43,024</b>	<b>48,434</b>	<b>51,974</b>	<b>56,250</b>
Minority interests	3,786	3,387	1,359	2,156	3,166	4,313
<b>Total capital employed</b>	<b>64,618</b>	<b>67,754</b>	<b>80,823</b>	<b>87,930</b>	<b>95,085</b>	<b>101,892</b>

Source: Deutsche Bank estimates, company data



# Valuation

## Our estimated NAV for Sino Ocean is HK\$9.79/share

We adopt NAV as our primary valuation metric, in line with other residential focus peers under our coverage. We base our approach on sum-of-the-parts, where we use DCF for property developments for sale and a direct capitalization approach for investment properties. We generally assume flat ASPs for Tier-1 cities and ASP decline of 3-5% in Tier-3/4 cities in 2015. However, we have made project-specific adjustments streaming from product mix/phase differences. We have adopted a discount rate of 9.3%, which is in line with our estimated WACC. Our fully-diluted NAV estimate is at HK\$9.79/share.

Figure 3: NAV breakdown

	(Rmb mn)	(HK\$ mn)	(HK\$/share)	%
<b>Development property</b>				
Beijing	23,825	28,400	3.79	38.8%
Tianjin	5,265	6,276	0.84	8.6%
Dalian	21,287	25,375	3.39	34.6%
Qingdao	2,699	3,217	0.43	4.4%
Qinhuangdao	2,627	3,131	0.42	4.3%
Changchun	828	987	0.13	1.3%
Chongqing	786	937	0.13	1.3%
Chengdu	504	601	0.08	0.8%
Wuhan	403	480	0.06	0.7%
Hangzhou	4,875	5,811	0.78	7.9%
Shanghai	5,168	6,161	0.82	8.4%
Shenyang	144	171	0.02	0.2%
Haikou	233	278	0.04	0.4%
Sanya	127	152	0.02	0.2%
Huangshan	51	61	0.01	0.1%
Zhenjiang	379	452	0.06	0.6%
Fushun	485	578	0.08	0.8%
Shenzhen	4,600	5,483	0.73	7.5%
Zhongshan	2,621	3,125	0.42	4.3%
	<b>76,906</b>	<b>91,673</b>	<b>12.24</b>	<b>125.1%</b>
<b>Investment property</b>				
Retail	19,690	23,470	3.13	32.0%
Car Park	347	414	0.06	0.6%
Office	9,734	11,604	1.55	15.8%
Hotel	1,668	1,988	0.27	2.7%
	<b>31,439</b>	<b>37,476</b>	<b>5.00</b>	<b>51.1%</b>
<b>Gross asset value (GAV)</b>	<b>108,345</b>	<b>129,149</b>	<b>17.25</b>	<b>176.2%</b>
Net cash / (debt)	(32,125)	(38,293)	(5.11)	-52.3%
Outstanding land premium	(15,200)	(18,119)	(2.42)	-24.7%
Stake in Kee Shing (Holdings)	457	545	0.07	0.7%
<b>Net asset value (NAV) - fully diluted</b>	<b>61,478</b>	<b>73,282</b>	<b>9.79</b>	<b>100.0%</b>

Source: Deutsche Bank estimates

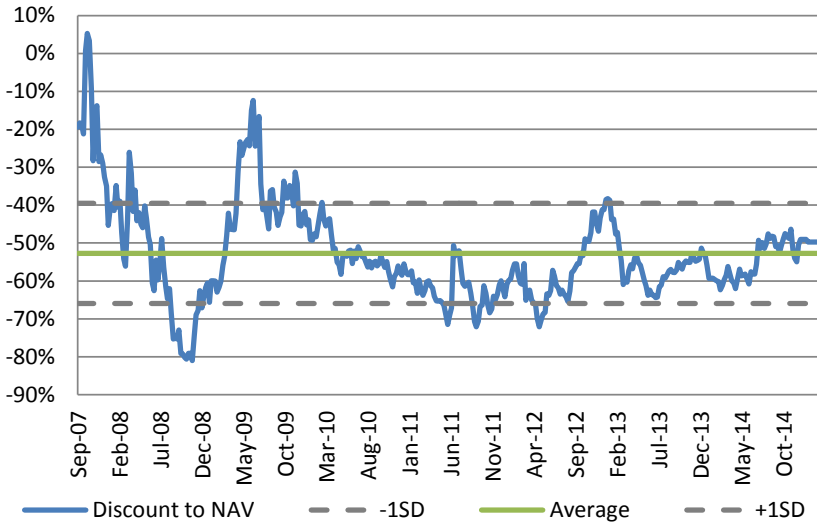




**Our target price of HK\$6.85 is based on 30% discount to our estimated NAV**

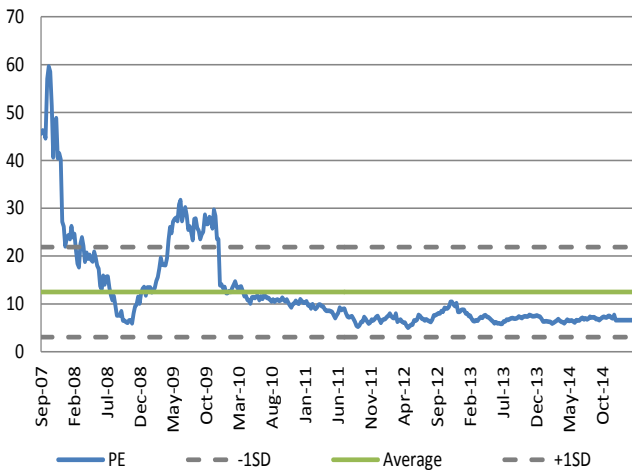
Our target price of HK\$6.85 is based upon a discount of 30% to our revised estimated NAV of HK\$9.79/share (HK\$9.66/share). Our target discount reflects a marked operational turnaround and success in lowering its funding costs by altering the debt mix as well as strong support from parent. We adopt NAV as our primary valuation metric, in line with peers under our coverage. At the current share price, Sino-Ocean trades at a 52% discount to our estimated NAV and 7x 2015E earnings.

Figure 4: Historical discount to NAV



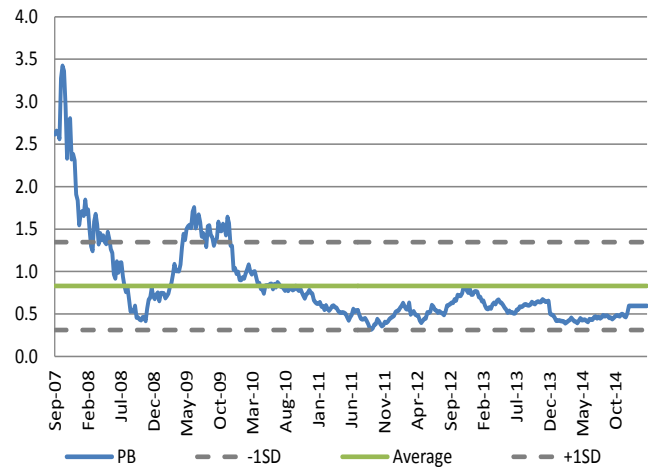
Source: Bloomberg Finance LP; Deutsche Bank

Figure 5: Historical P/E band



Source: Bloomberg Finance LP; Deutsche Bank

Figure 6: Historical P/B band



Source: Bloomberg Finance LP; Deutsche Bank



## Taking a look at valuations

Figure 7: China property – valuation table

Company	Ticker	DB Rating	Trade Ccy	Report Ccy	Mkt Cap USDm	12M Daily T/O USDm	27 Mar	Target	Implied	Est.	NAV	EPS			PE(x)		
							Price	Price	Upside	NAV	Disc	14E	15E	16E	14E	15E	16E
<b>Covered</b>																	
CSCEC	601668 CH	Buy	CNY	CNY	34,842	309.88	7.22	8.46	17%	11.3	-36%	0.85	0.97	1.12	8.5	7.4	6.4
Wanda	3699 HK	Buy	HKD	CNY	27,384	24.70	46.90	65.00	39%	92.9	-49%	3.31	3.98	4.78	11.4	9.4	7.9
COLI	688 HK	Buy	HKD	HKD	26,302	69.90	24.95	28.98	16%	32.2	-23%	3.39	3.36	3.88	7.4	7.4	6.4
China Vanke - A	000002 CH	Buy	CNY	CNY	23,849	238.79	13.35	14.87	11%	17.5	-24%	1.50	1.82	2.20	8.9	7.3	6.1
China Vanke - H	2202 HK	Buy	HKD	CNY	23,849	25.68	17.80	19.10	7%	22.5	-21%	1.50	1.82	2.20	9.5	7.8	6.5
Poly - A	600048 CH	Buy	CNY	CNY	18,596	226.65	10.77	7.61	-29%	9.5	13%	1.13	1.22	1.44	9.5	8.8	7.5
CR Land	1109 HK	Buy	HKD	HKD	18,446	31.86	21.90	26.50	21%	34.6	-37%	2.02	2.33	2.43	10.8	9.4	9.0
China Merchants Prop	000024 CH	Buy	CNY	CNY	10,109	131.74	30.40	16.42	-46%	23.5	30%	2.04	2.30	2.78	14.9	13.2	10.9
GLP	GLP SP	Buy	SGD	USD	9,138	25.08	2.59	3.10	20%	2.4	6%	0.06	0.05	0.07	33.0	34.8	28.7
Country Garden	2007 HK	Sell	HKD	CNY	8,058	16.04	3.07	2.60	-15%	4.3	-29%	0.48	0.56	0.62	5.1	4.4	4.0
Longfor	960 HK	Buy	HKD	CNY	7,882	4.40	10.52	15.60	48%	19.4	-46%	1.25	1.35	1.48	6.7	6.2	5.7
Gemdale	600383 CH	Sell	CNY	CNY	7,702	61.31	10.66	7.50	-30%	10.8	-1%	0.78	0.86	0.90	13.7	12.4	11.8
Shimao	813 HK	Sell	HKD	CNY	7,282	23.63	16.26	13.37	-18%	22.3	-27%	2.64	2.88	3.23	4.9	4.5	4.0
Evergrande	3333 HK	Sell	HKD	CNY	6,981	14.71	3.70	2.48	-33%	5.0	-25%	0.72	0.73	0.75	4.1	4.1	3.9
CSCI	3311 HK	Buy	HKD	HKD	5,299	8.89	10.24	14.74	44%	15.4	-34%	0.88	1.05	1.31	11.7	9.7	7.8
Sino-Ocean	3377 HK	Buy	HKD	CNY	4,574	2.73	4.73	6.85	45%	9.8	-52%	0.49	0.58	0.68	7.7	6.5	5.6
R&F	2777 HK	Hold	HKD	CNY	3,250	11.37	7.82	8.13	4%	16.3	-52%	1.20	1.37	1.49	5.2	4.6	4.2
Sunac	1918 HK	Hold	HKD	CNY	2,858	14.01	6.55	7.35	12%	13.3	-51%	1.13	1.70	1.68	4.6	3.1	3.1
Franshion	817 HK	Buy	HKD	HKD	2,608	2.37	2.23	3.92	76%	5.5	-60%	0.33	0.39	0.47	6.7	5.7	4.7
Agile	3383 HK	Sell	HKD	CNY	2,405	9.49	4.76	3.55	-25%	13.2	-64%	1.12	0.96	0.96	3.4	4.0	4.0
Yuexiu	123 HK	Sell	HKD	CNY	2,383	5.31	1.49	1.23	-17%	2.5	-39%	0.12	0.12	0.13	10.2	9.8	9.2
KWG	1813 HK	Buy	HKD	CNY	2,010	5.44	5.29	6.68	26%	11.1	-52%	1.12	1.35	1.44	3.8	3.1	2.9
Greentown	3900 HK	Buy	HKD	CNY	1,943	8.16	6.97	11.00	58%	22.0	-68%	2.19	2.55	2.82	2.6	2.2	2.0
Yanlord	YLLG SP	Sell	SGD	CNY	1,364	0.66	0.96	0.80	-17%	1.6	-40%	0.25	0.34	0.37	17.2	12.7	11.7
CIFI	884 HK	Buy	HKD	CNY	1,290	0.56	1.66	2.53	52%	4.6	-64%	0.34	0.46	0.61	3.9	2.9	2.2
COGO	81 HK	Buy	HKD	HKD	1,063	2.80	3.61	8.19	127%	11.7	-69%	1.04	1.11	1.60	3.5	3.2	2.3
Kaisa	1638 HK	Hold	HKD	CNY	1,053	4.06	1.59	1.80	13%	6.7	-76%	0.64	0.72	0.81	2.0	1.8	1.6
E-House	EJ US	Buy	USD	USD	734	16.40	5.20	18.20	250%	0.0	NA	0.73	0.91	1.09	7.1	5.7	4.8
Central China	832 HK	Buy	HKD	CNY	581	0.26	1.85	3.36	82%	5.6	-67%	0.52	0.65	0.82	2.9	2.3	1.8
<b>Not Rated</b>																	
NWCL	917 HK	NR	HKD	HKD	5,478	1.98	4.89	NA	NA	NA	NA	0.45	0.42	0.43	10.9	11.6	11.4
SOHO China	410 HK	NR	HKD	CNY	3,514	3.11	5.24	NA	NA	NA	NA	0.42	0.17	0.18	10.0	24.4	22.8
Hui Xian REIT	87001 HK	NR	CNY	CNY	2,887	1.99	3.37	NA	NA	NA	NA	0.22	0.23	0.24	15.3	14.7	13.9
Shui On	272 HK	NR	HKD	CNY	1,785	1.88	1.73	NA	NA	NA	NA	0.08	0.05	0.14	17.1	25.7	9.8
Poly Property	119 HK	NR	HKD	HKD	1,771	7.15	3.75	NA	NA	NA	NA	0.53	0.59	0.65	7.1	6.4	5.8
Hopson	754 HK	NR	HKD	HKD	1,595	0.75	5.51	NA	NA	NA	NA	0.56	0.37	0.52	9.8	14.9	10.6
BJ North Star	588 HK	NR	HKD	CNY	1,107	0.81	2.55	NA	NA	NA	NA	0.30	0.28	0.32	6.8	7.3	6.4
Glorious	845 HK	NR	HKD	CNY	1,055	0.76	1.05	NA	NA	NA	NA	0.14	0.19	0.17	5.9	4.4	5.0
Yuzhou	1628 HK	NR	HKD	CNY	860	0.94	1.93	NA	NA	NA	NA	0.46	0.51	0.64	3.4	3.0	2.4
Greenland Hong Kong	337 HK	NR	HKD	CNY	768	1.36	4.70	NA	NA	NA	NA	0.11	0.27	0.42	35.9	14.0	9.1
Fantasia	1777 HK	NR	HKD	CNY	668	0.91	0.90	NA	NA	NA	NA	0.18	0.19	0.23	4.0	3.8	3.2
Powerlong	1238 HK	NR	HKD	CNY	644	0.41	1.25	NA	NA	NA	NA	0.27	0.53	1.08	3.7	1.9	0.9
BC Land	2868 HK	NR	HKD	CNY	592	1.04	4.50	NA	NA	NA	NA	0.76	0.95	1.25	4.7	3.8	2.9
Aoyuan	3883 HK	NR	HKD	CNY	478	0.25	1.33	NA	NA	NA	NA	0.31	0.38	0.49	3.4	2.8	2.2
C C Land	1224 HK	NR	HKD	HKD	471	0.42	1.41	NA	NA	NA	NA		0.26	0.24	NA	5.4	5.9
Minmetals	230 HK	NR	HKD	HKD	383	0.26	0.89	NA	NA	NA	NA	0.20	0.24		4.5	3.7	NA
Far East Global	830 HK	NR	HKD	HKD	342	0.28	1.23	NA	NA	NA	NA	0.09			13.7	NA	NA
<b>Overall average</b>											<b>-38%</b>				<b>8.8</b>	<b>8.1</b>	<b>6.8</b>

Source: Deutsche Bank estimates, Company data, Bloomberg Finance LP Consensus estimates for companies NR



Figure 8: China property – valuation table (cont.)

Company	Ticker	EPS growth %			BVPS			PB(x)			DPS			Dividends yield %			Net gearing %		
		14E	15E	16E	14E	15E	16E	14E	15E	16E	14E	15E	16E	14E	15E	16E	14E	15E	16E
<b>Covered</b>																			
CSCEC	601668 CH	18	17	19	4.6	5.3	6.2	1.5	1.3	1.1	0.2	0.2	0.2	2.3	2.7	3.2	53.2	49.1	38.9
Wanda	3699 HK	40	20	20	34.7	37.9	41.7	1.1	1.0	0.9	1.1	0.8	1.0	3.0	2.1	2.5	41.6	40.4	38.6
COLI	688 HK	19	16	15	16.0	18.7	21.8	1.4	1.2	1.0	0.5	0.6	0.6	2.3	2.4	2.5	35.6	18.7	3.1
China Vanke – A	000002 CH	9	22	21	8.3	9.7	11.4	1.6	1.4	1.2	0.4	0.5	0.5	3.2	3.4	3.5	42.1	34.1	18.7
China Vanke – H	2202 HK	9	22	21	8.3	9.7	11.4	1.7	1.5	1.3	0.4	0.5	0.5	3.0	3.1	3.3	42.1	34.1	18.7
Poly – A	600048 CH	13	8	17	5.7	6.7	7.9	1.9	1.6	1.4	0.2	0.3	0.3	2.2	2.3	2.4	93.9	66.7	53.5
CR Land	1109 HK	19	19	5	16.0	18.0	19.9	1.3	1.2	1.1	0.5	0.5	0.5	2.2	2.3	2.5	69.0	30.8	21.3
China Merchants Prop	000024 CH	25	13	21	12.0	13.9	16.1	2.4	2.0	1.8	0.4	0.5	0.6	0.4	0.5	0.5	27.3	7.4	-3.4
GLP	GLP SP	(18)	(5)	21	1.8	1.8	1.9	1.0	1.0	1.0	0.0	0.0	0.0	2.4	2.4	2.4	21.0	8.2	23.1
Country Garden	2007 HK	5	16	11	3.0	3.4	3.8	0.8	0.7	0.6	0.1	0.2	0.2	6.1	7.0	7.9	67.8	61.7	60.2
Longfor	960 HK	6	8	10	8.8	9.9	11.1	0.9	0.8	0.8	0.3	0.3	0.3	3.4	3.5	3.8	53.2	42.7	32.9
Gemdale	600383 CH	11	11	19	6.9	7.4	8.0	1.5	1.4	1.3	0.1	0.1	0.1	1.2	1.1	1.2	58.2	56.3	51.3
Shimao	813 HK	25	9	12	17.9	20.5	20.5	0.7	0.6	0.6	0.8	0.9	0.9	5.1	5.4	5.7	88.7	76.1	89.0
Evergrande	3333 HK	2	2	3	3.8	4.3	4.9	0.8	0.7	0.6	0.3	0.3	0.3	8.9	9.4	9.8	87.3	76.0	79.5
CSCI	3311 HK	26	20	24	5.0	5.7	6.8	2.2	1.9	1.6	0.3	0.3	0.3	2.4	2.4	2.4	32.5	26.7	17.6
Sino-Ocean	3377 HK	17	19	17	5.9	6.7	7.1	0.7	0.6	0.5	0.2	0.2	0.3	6.2	6.3	6.5	65.9	57.6	56.9
R&F	2777 HK	(34)	15	9	11.2	12.5	14.0	0.6	0.5	0.4	-	-	0.4	0.0	0.0	5.6	176.5	162.9	145.2
Sunac	1918 HK	19	51	(2)	5.1	6.6	8.1	1.1	0.8	0.7	0.2	0.2	0.2	3.7	4.1	4.3	104.7	70.5	77.2
Franshion	817 HK	20	23	17	3.9	4.3	4.7	0.6	0.5	0.5	0.1	0.1	0.1	4.6	5.0	5.5	51.0	30.0	5.6
Yuexiu	123 HK	(5)	4	7	2.3	2.4	2.5	0.5	0.5	0.5	0.1	0.1	0.1	5.2	5.9	6.0	65.6	76.0	77.1
Agile	3383 HK	(2)	4	1	10.6	11.5	12.5	0.3	0.3	0.3	0.4	0.4	0.4	12.0	12.1	12.0	68.1	69.6	69.0
Greentown	3900 HK	(4)	16	11	13.9	16.1	18.5	0.4	0.3	0.3	0.4	0.4	0.4	7.4	7.6	8.1	74.8	73.8	66.1
KWG	1813 HK	40	20	7	7.0	8.1	9.3	0.6	0.5	0.4	0.3	0.3	0.3	6.5	6.8	7.0	61.8	39.4	25.1
Yanlord	YLLG SP	(50)	36	9	9.8	10.1	10.4	0.4	0.4	0.4	0.0	0.0	0.0	0.3	0.3	0.3	45.0	62.4	64.7
CIFI	884 HK	30	37	31	1.7	2.1	2.6	0.8	0.6	0.5	0.1	0.1	0.1	5.2	7.1	9.3	55.9	58.6	48.0
Kaisa	1638 HK	50	13	12	4.1	4.8	5.5	0.3	0.3	0.2	0.2	0.2	0.2	13.8	15.6	17.6	73.6	85.6	69.5
COGO	81 HK	(15)	7	44	5.9	6.9	8.4	0.6	0.5	0.4	0.1	0.1	0.1	2.4	3.0	3.0	61.7	58.0	54.1
E-House	EJ US	30	24	19	5.9	6.4	7.0	0.9	0.8	0.7	0.2	0.2	0.2	3.9	3.9	3.9	-58.4	-55.6	-50.1
Central China	832 HK	25	26	26	2.8	3.3	3.9	0.5	0.5	0.4	0.2	0.2	0.2	10.1	13.1	15.7	41.7	38.0	32.2
<b>Not Rated</b>																			
NWCL	917 HK	32	(7)	2	6.7	7.0	7.3	0.7	0.7	0.7	0.1	0.1	0.1	1.4	1.1	1.2	37.3	48.4	51.0
SOHO China	410 HK	(41)	(59)	7	7.5	7.8	7.9	0.5	0.5	0.5	0.3	0.2	0.2	6.3	5.8	5.9	16.8	32.4	36.3
Hui Xian REIT	87001 HK	5	5	6	5.3	5.1	5.1	0.6	0.7	0.7	0.2	0.3	0.3	7.4	7.8	8.5	1.2	6.2	7.9
Shui On	272 HK	(2)	(33)	161	5.4	5.4	5.6	0.3	0.3	0.2	0.0	0.0	0.1	3.0	3.3	4.5	82.9	96.6	101.7
Poly Property	119 HK	(28)	12	11	8.8	9.2	9.7	0.4	0.4	0.4	0.2	0.2	0.2	4.8	4.6	5.0	106.8	106.1	95.3
Hopson	754 HK	(53)	(34)	41				NA	NA	NA	-	-	-	0.0	0.0	0.0	NA	NA	NA
BJ North Star	588 HK	7	(7)	14		5.0	5.3	NA	0.4	0.4		0.1	0.1	NA	2.8	2.8	NA	NA	NA
Glorious	845 HK	14	29	(12)				NA	NA	NA	-	-		0.0	0.0	NA	NA	NA	NA
Yuzhou	1628 HK	42	29	26	2.4	2.7	3.2	0.6	0.6	0.5	0.1	0.1	0.2	7.6	9.3	11.0	88.6	111.6	-4.2
Greenland Hong Kong	337 HK	(53)	157	54	2.1	2.3	2.8	1.9	1.7	1.4	0.0	0.1	0.1	1.0	1.3	1.3	NA	NA	NA
Fantasia	1777 HK	(14)	6	18	1.7	2.0	2.2	0.4	0.4	0.3	0.0	0.0	0.1	5.1	6.6	7.1	91.3	97.7	106.8
Powerlong	1238 HK	1	96	104				NA	NA	NA	0.1	0.1	0.1	5.3	6.6	9.6	NA	NA	NA
BC Land	2868 HK	31	24	32		5.7	6.4	NA	0.6	0.5	0.2	0.3	0.3	6.7	7.7	8.3	NA	234.1	248.4
Aoyuan	3883 HK	121	23	29	2.9	3.2	3.6	0.4	0.3	0.3	0.1	0.1	0.1	5.6	8.8	11.2	77.2	85.9	83.6
C C Land	1224 HK	NA	NA	NA	5.7	6.1	6.4	0.2	0.2	0.2	0.1	0.1	0.1	7.5	7.5	7.5	NA	NA	NA
Minmetals	230 HK	(11)	20	NA				NA	NA	NA				NA	NA	NA	NA	NA	NA
Far East Global	830 HK	80	44	385	0.6	0.7	0.8	2.0	1.7	1.5				NA	NA	NA	-3.9	-7.9	-16.6
<b>Overall average</b>		<b>10</b>	<b>18</b>	<b>30</b>				<b>0.9</b>	<b>0.8</b>	<b>0.7</b>				<b>4.4</b>	<b>4.9</b>	<b>5.6</b>	<b>57.9</b>	<b>58.1</b>	<b>51.1</b>

Source: Deutsche Bank estimates, Company data, Bloomberg Finance LP Consensus estimates for companies NR



# Investment risks

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## Macro risks

### Unexpected economic fluctuations in the Chinese economy

In our view, any weaker-than-expected performance of 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 property 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.

### Further government tightening policies targeted at the property sector

The government has repeatedly emphasized its desire to avoid an overheated property market. Introduction of new tightening policies/reinforcement of existing policies could adversely impact earnings and profitability for developers.

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## Company-specific risks

### Exposure in cities with home purchase restrictions

Over 80% of Sino Ocean's landbank is exposed to cities with home purchase restrictions. As a result, sales performances in these cities could be materially affected.

### Concentration risk in geographic presence

Sino Ocean's landbank is concentrated in the Pan-Bohai Rim, making it extremely vulnerable to the economic/sales performance in North-eastern China. A prolonged economic or residential market downturn in the region would hurt its financial performance disproportionately.



# Appendix 1

## Important Disclosures

Additional information available upon request

### Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Sino Ocean	3377.HK	4.73 (HKD) 27 Mar 15	1,7,14

\*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.

## Important Disclosures Required by U.S. Regulators

Disclosures marked with an asterisk may also be required by at least one jurisdiction in addition to the United States. See Important Disclosures Required by Non-US Regulators and Explanatory Notes.

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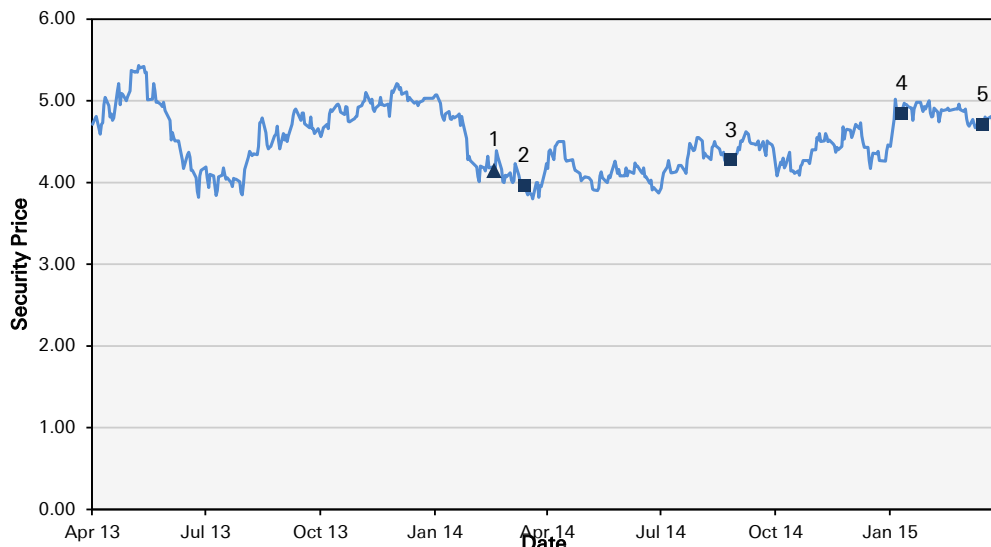
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**Historical recommendations and target price: Sino Ocean (3377.HK)**  
 (as of 3/27/2015)



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. 18/02/2014:	Upgrade to Buy, Target Price Change HKD6.80	4. 11/01/2015:	Buy, Target Price Change HKD6.77
2. 14/03/2014:	Buy, Target Price Change HKD6.38	5. 17/03/2015:	Buy, Target Price Change HKD6.85
3. 27/08/2014:	Buy, Target Price Change HKD6.07		

**Equity rating key**

**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 pro-jected dividend yield ) , we recommend that investors buy the stock.

**Sell:** Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

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Notes:

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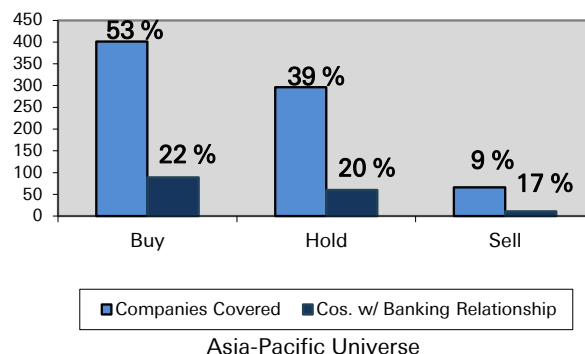
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Buy: Expected total return (including dividends) of 10% or more over a 12-month period

Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period

Sell: Expected total return (including dividends) of -10% or worse over a 12-month period

**Equity rating dispersion and banking relationships**





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