

## Shimao Property (813 HK)

## Buy

|                     |       |
|---------------------|-------|
| Target price (HKD)  | 18.70 |
| Share price (HKD)   | 16.26 |
| Upside/Downside (%) | 11.7% |

| Dec                       | 2013 a | 2014 e | 2015 e |
|---------------------------|--------|--------|--------|
| HSBC EPS                  | 2.11   | 2.52   | 2.75   |
| HSBC PE                   | 6.1    | 5.2    | 4.7    |
| Performance               | 1M     | 3M     | 12M    |
| Absolute (%)              | -1.2   | -1.8   | 7.5    |
| Relative <sup>A</sup> (%) | 1.1    | -4.8   | -13.0  |

28 March 2015

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## Buy: Hangzhou “land king” gets sour reaction

- ▶ **Launch of long awaited “land king” has finally come, but initial ASP is 25% below guidance although there is no margin impact until 2017**
- ▶ **The project accounts for 3% of our GAV and hence the lower ASP has an insignificant impact to valuation**
- ▶ **We establish a Buy rating and set a fair value target price of HKD18.7 (unchanged)**

**“Land king” gets sour reaction.** The long awaited launch of the Huajiachi “land king” in Hangzhou has finally come, but the indicative ASP is far below expectations. According to Soufun, this project was launched at an initial price of RMB36,900/sqm, or c25% below Shimao’s initial guidance. Based on our calculation, this implies relatively a thin gross margin of just 22% versus +35% implied by the company’s previous suggested ASP. While this will certainly be a disappointment to the market, we do see potential upside as the sales price is for low-floor units, and is not necessarily indicative of achievable prices for the whole development. Also we believe the company is likely to be discounting early sales to kick start the development in our view. The project accounts for 3% of our GAV and hence the lower ASP has an insignificant impact on valuation.

**Fairly low-profile soft launch with relatively thin media coverage.** The launch of this project has had several rounds of delay since mid-2014 which we believe is reflective of a still challenging physical market backdrop. Given that the project has had a soft, low-profile launch since end-14 amid fairly thin media coverage, we feel that investors have yet to pick up on such news. In our view, questions on profitability will most likely be raised during the upcoming results analyst briefing next Tuesday.

**What this means to margin profile?** No margin impact until 2017 when the project is scheduled for completion and hand-over. Based on our margin sensitivity analysis, the gross margin would be 3-4ppt higher for every 5% increase in ASP. Assuming the weighted ASP for this project is 10% higher than the initial launch price as higher-floor units are likely to be sold at a higher price, we estimate a blended gross margin of 29%.

**We establish a Buy rating and set fair value target price of HKD18.7,** based on an unchanged target discount of 35% on our NAV estimate of HKD28.7. Despite a modest setback on a single project, we like Shimao on the basis that it is well balanced in terms of growth, margin and financial management among peers. Key catalyst hinges on the sales response of the Huajiachi project and strength of the FY 2014 results to be released next week. Downside risk is mainly lower-than-expected sales momentum this year.

|                    |         |
|--------------------|---------|
| Index <sup>A</sup> | HSCEI   |
| Index level        | 11,920  |
| RIC                | 0813.HK |
| Bloomberg          | 813 HK  |

Source: HSBC

|                         |        |
|-------------------------|--------|
| Enterprise value (CNYm) | 65235  |
| Free float (%)          | 36     |
| Market cap (USDm)       | 7,076  |
| Market cap (HKDm)       | 54,867 |

Source: HSBC

## Financials & Valuation: Shimao Property

Buy

### Financial statements

| Profit & loss summary (RMBm)        | 12/2013a | 12/2014e | 12/2015e | 12/2016e |
|-------------------------------------|----------|----------|----------|----------|
| Property sales revenue              | 39,503   | 53,541   | 62,246   | 72,564   |
| Property investment & other revenue | 1,999    | 2,410    | 2,827    | 3,029    |
| Cost of sales                       | (26,862) | (37,211) | (43,624) | (50,818) |
| Gross profit                        | 14,641   | 18,740   | 21,449   | 24,774   |
| Selling & admin expenses            | (4,181)  | (5,648)  | (6,592)  | (7,512)  |
| Other gains & misc                  | 845      | 746      | 1,320    | 1,651    |
| Operating profit/EBIT               | 11,305   | 13,838   | 16,177   | 18,913   |
| Net interest                        | (121)    | (161)    | (180)    | (181)    |
| Share of profit from associates     | 844      | 3,638    | 2,643    | 737      |
| PBT                                 | 13,059   | 17,316   | 18,640   | 19,468   |
| Taxation                            | (4,834)  | (6,787)  | (6,699)  | (5,955)  |
| Minority interests                  | (835)    | (1,796)  | (2,372)  | (3,017)  |
| Net profit                          | 7,390    | 8,732    | 9,569    | 10,496   |
| Core profit                         | 7,319    | 8,732    | 9,569    | 10,496   |

### Cash flow summary (RMBm)

|                           |         |         |         |         |
|---------------------------|---------|---------|---------|---------|
| Cash flow from operations | (6,223) | 7,566   | 11,163  | 7,463   |
| Capex                     | (2,279) | (4,817) | (5,051) | (7,331) |
| New shares issued         | 0       | 0       | 0       | 0       |
| Dividends paid            | (1,549) | (2,196) | (2,620) | (2,871) |
| Net change in cash        | 2,309   | (4,088) | 498     | (3,328) |
| Cash at the beginning     | 15,894  | 18,203  | 14,114  | 14,612  |
| Cash at the end           | 18,203  | 14,114  | 14,612  | 11,284  |

### Balance sheet summary (RMBm)

|                        |         |         |         |         |
|------------------------|---------|---------|---------|---------|
| Shareholders' funds    | 41,742  | 44,640  | 48,947  | 55,836  |
| Long-term liabilities  | 37,554  | 33,018  | 25,939  | 19,394  |
| Minority interests     | 10,110  | 11,906  | 14,278  | 17,295  |
| Deferred items         | 3,985   | 3,985   | 3,985   | 3,985   |
| Total capital employed | 93,391  | 93,550  | 93,149  | 96,510  |
| Fixed assets           | 41,584  | 43,187  | 46,219  | 51,540  |
| Other assets           | 16,235  | 19,246  | 22,561  | 26,072  |
| Current assets         | 117,949 | 113,387 | 104,011 | 101,760 |
| Total assets           | 175,768 | 175,820 | 172,791 | 179,372 |

### Ratio, growth and per share analysis

| Year to | 12/2013a | 12/2014e | 12/2015e | 12/2016e |
|---------|----------|----------|----------|----------|
|---------|----------|----------|----------|----------|

### y-o-y % change

|                  |     |     |     |     |
|------------------|-----|-----|-----|-----|
| Revenue          | 45% | 35% | 16% | 16% |
| Operating profit | 47% | 22% | 16% | 17% |
| PBT              | 28% | 33% | 8%  | 4%  |
| Reported EPS     | 28% | 18% | 9%  | 10% |
| HSBC EPS         | 67% | 19% | 9%  | 10% |

### Ratios (%)

|   |     |     |     |     |
|---|-----|-----|-----|-----|
| ROIC ex-exceptional                     | 10% | 11% | 12% | 12% |
| ROAE ex-exceptional                     | 19% | 20% | 20% | 20% |
| ROAA ex-exceptional                     | 5%  | 5%  | 5%  | 6%  |
| Operating margin                        | 28% | 25% | 25% | 25% |
| Core profit margin                      | 18% | 16% | 15% | 14% |
| Interest cover ex-exceptional (x)       | 3.7 | 5.3 | 5.9 | 6.0 |
| Net debt/equity (incl. restricted cash) | 57% | 51% | 41% | 42% |

### Per-share data (RMB)

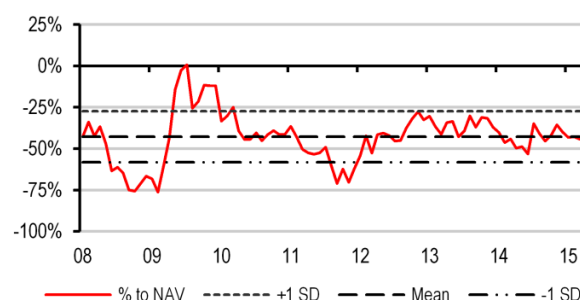
|                        |       |       |       |       |
|------------------------|-------|-------|-------|-------|
| Reported EPS (diluted) | 2.13  | 2.52  | 2.75  | 3.02  |
| HSBC EPS (diluted)     | 2.11  | 2.52  | 2.75  | 3.02  |
| DPS (HKD)              | 0.81  | 0.95  | 1.03  | 1.13  |
| BV (HKD)               | 14.52 | 16.05 | 17.60 | 20.08 |

### Shimao: NAV breakdown

|                                 | (RMBm)        | (HKD/sh)    | % of total asset |
|---------------------------------|---------------|-------------|------------------|
| <b>Development properties</b>   |               |             |                  |
| Residential                     | 73,631        | 26.5        | 59.0%            |
| Office/retail                   | 21,080        | 7.6         | 16.9%            |
| <b>Investment properties</b>    |               |             |                  |
| Office/retail                   | 18,325        | 6.6         | 14.7%            |
| <b>Hotel properties</b>         |               |             |                  |
| Net debt (excl restricted cash) | (29,797)      | (10.7)      | 9.5%             |
| Outstanding land premium        | (8,000)       | (2.9)       |                  |
| Outstanding LAT                 | (7,191)       | (2.6)       |                  |
| <b>12-month fwd NAV</b>         | <b>79,879</b> | <b>28.7</b> | <b>100.0%</b>    |

Source: HSBC estimates

### NAV discount chart



Source: Company data, Thomson Reuters Datastream, HSBC estimates

### Price relative



Source: Thomson Reuters Datastream, HSBC estimates

Note: Priced at close of 26 March 2015

## Quick snap shot of Hangzhou Huajiachi project

The Huajiachi project (世茂天宸) in Hangzhou is a project that Shimao acquired in September 2013 for RMB3.7bn or RMB19,415/sqm in accommodation value (A.V.), representing a premium of 49% over the reserve price. Hence, dubbed the 'land king' of Hangzhou at the time of acquisition. Located in Jianggan District of Hangzhou, the project has a total planned GFA of 189,021 sqm and is zoned for both residential and commercial purposes where 2,000 sqm GFA of the project will be set aside for social housing units.

### Huajiachi project key facts

|                         |         |
|-------------------------|---------|
| Acquisition date        | Sept-13 |
| Total Land cost (RMB m) | 3,670   |
| Total GFA (sqm)         | 189,021 |

Source: Company data

### Huajiachi project margin analysis (based on initial launch price)

| Key parameters                                     |            | Remarks   |
|--|------------|---|
| Land cost (RMB/sqm)                                | 19,415     | => One of the highest market A.V. at the time of acquisition      |
| Construction cost (RMB/sqm)                        | 8,000      | => Based on company guidance                                      |
| Total (RMB/sqm)                                    | 27,415     |   |
| Initial launch price (RMB/sqm)                     | 36,900     | => Initial ASP as per Soufun, reflects price of lower-floor units |
| Initial launch price net of business tax (RMB/sqm) | 35,055     | => Business tax is 5% on sales price                              |
| <b>Gross margin</b>                                | <b>22%</b> |   |

Source: Company data, Soufun, HSBC estimates

## Margin sensitivity analysis on different price points

Based on our margin sensitivity analysis, the gross margin would be 3-4ppt higher for every 5% increase in ASP. Assuming the weighted ASP for this project is 10% higher than the initial launch price as higher-floor units are likely to be sold at a higher price, we estimate a blended gross margin of 29%.

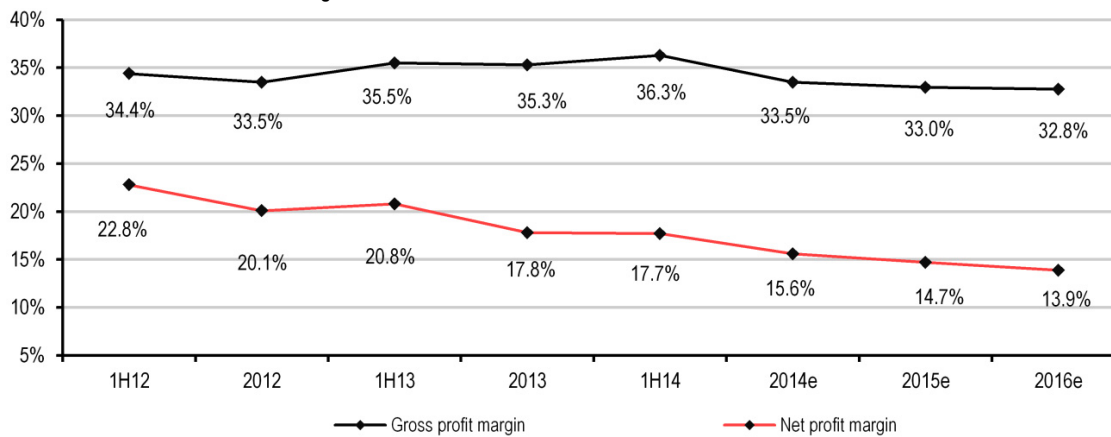
### Huajiachi project margin sensitivity analysis on different price points

| ASP (RMB/sqm) at +5% increments | Implied gross margin |
|---------------------------------|----------------------|
| 35,055*                         | 22%                  |
| 36,808                          | 26%                  |
| 38,648                          | 29%                  |
| 40,581                          | 32%                  |
| 42,610                          | 36%                  |
| 44,740                          | 39%                  |
| 46,977                          | 42%                  |
| 49,326                          | 44%                  |

Source: HSBC estimates

\* Represents initial launch price (net of business tax) based on Soufun

Shimao – historical and forecast margin level



Source: Company data, HSBC estimate

# Disclosure appendix

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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).

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## Rating distribution for long-term investment opportunities

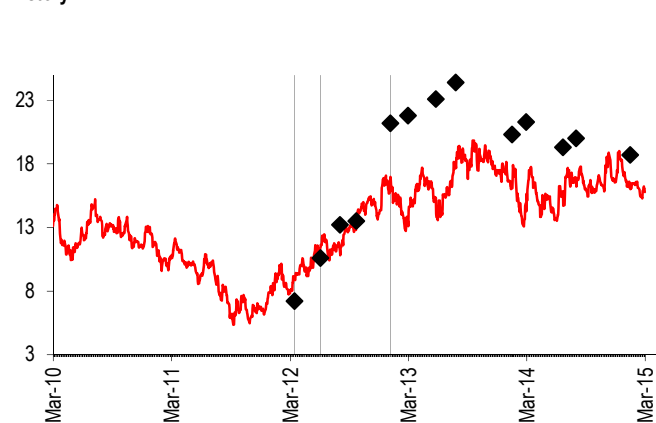
As of 27 March 2015, the distribution of all ratings published is as follows:

|      |     |  |
|------|-----|--|
| Buy  | 41% | (29% of these provided with Investment Banking Services) |
| Hold | 39% | (28% of these provided with Investment Banking Services) |
| Sell | 20% | (20% of these provided with Investment Banking Services) |

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## Share price and rating changes for long-term investment opportunities

Shimao Property (0813.HK) Share Price performance HKD Vs HSBC rating history



Source: HSBC

Recommendation & price target history

| From            | To              | Date             |
|-----------------|-----------------|------------------|
| Neutral (V)     | Underweight (V) | 09 April 2012    |
| Underweight (V) | Neutral (V)     | 28 June 2012     |
| Neutral (V)     | Overweight (V)  | 30 January 2013  |
| Target Price    | Value           | Date             |
| Price 1         | 7.20            | 09 April 2012    |
| Price 2         | 10.60           | 28 June 2012     |
| Price 3         | 13.20           | 27 August 2012   |
| Price 4         | 13.50           | 17 October 2012  |
| Price 5         | 21.20           | 30 January 2013  |
| Price 6         | 21.80           | 26 March 2013    |
| Price 7         | 23.10           | 20 June 2013     |
| Price 8         | 24.40           | 20 August 2013   |
| Price 9         | 20.30           | 09 February 2014 |
| Price 10        | 21.30           | 25 March 2014    |
| Price 11        | 19.30           | 16 July 2014     |
| Price 12        | 20.00           | 26 August 2014   |
| Price 13        | 18.70           | 09 February 2015 |

Source: HSBC

## HSBC & Analyst disclosures

### Disclosure checklist

| Company         | Ticker  | Recent price | Price Date  | Disclosure    |
|-----------------|---------|--------------|-------------|---------------|
| SHIMAO PROPERTY | 0813.HK | 15.80        | 26-Mar-2015 | 1, 4, 5, 6, 7 |

Source: HSBC

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