



Rating  
**Buy**

Asia  
China

Property  
Property

Company  
**Greentown China**

Reuters 3900.HK    Bloomberg 3900 HK    Exchange HKG    Ticker 3900

Date  
30 March 2015

Forecast Change

|                            |             |
|----------------------------|-------------|
| Price at 30 Mar 2015 (HKD) | 6.75        |
| Price target - 12mth (HKD) | 9.40        |
| 52-week range (HKD)        | 9.99 - 6.34 |
| HANG SENG INDEX            | 24,486      |

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## Expect an operational turnaround ahead following introduction of CCCG

**Maintain Buy on introduction of CCCG as strategic shareholder; TP at HK\$9.4**

While the FY14 results were indeed disappointing, we believe this is irrelevant following the introduction of China Communications Construction Group (CCCG) as a strategic shareholder in Dec-14. In particular, we believe Greentown will be able to access a more favorable financing environment from the state-owned background of CCCG, which should help to boost profitability going forward with lower funding costs. Indeed, Greentown issued a US\$200m four-year senior note at an 8% coupon in Feb-15 at a lower coupon than the last issue in Jan-14, despite challenging conditions in the off-shore bond market following the collapse of Kaisa in Jan-15.

**Core profit -36% YoY to RMB3,379m, dragged by impairment/lower margins**

Greentown reported FY14 revenue +11% YoY to RMB32,049m, driven by a 17% YoY increase in delivery GFA to 1.94m sqm (1.65m in FY13). Gross margin saw a marked 4.9 percentage point compression to 25.4% but was mostly flat from 1H14. The contribution from associates fell by 74% YoY to just RMB408m, dragged by total a impairment of RMB620m. Excluding fair-value gains, impairment loss and other one-off items, core net profit was down 36% YoY to RMB3,379m. Meanwhile, core net margin fell to 10.5% in FY14 (18.2% in FY13). No final dividend was declared in 2014 (RMB0.43/share in 2013).

**Adjusted gearing rose to 126% by end-14, above industry average**

At end-14, Greentown had total gross debt of RMB35,815m (+17% YoY from RMB30,512m by end-13 but flat from mid-14) and cash of RMB9,084m (-19% YoY from RMB11,281m by end-13). Reported net gearing rose to 77% by end-14 from 60% year ago, but markedly declined from 131% registered at mid-year. However, if we adjust for perpetual securities from equity to debt, effective net gearing would have increased further to 93% or 126% ex-MI. Nevertheless, average funding cost saw a marked decline to 7.9% (from 8.7% in FY13). In FY14, the company acquired 11 new projects for a total consideration of RMB20.3bn, of which the premium attributable was RMB3bn.

**Target price based upon 50% discount to our NAV estimate of HK\$18.81/shr**

We base our target price upon on a 50% discount to our revised NAV estimate of HK\$18.81/share (HK\$22/share), which implies a 2015E PER of 4x. Our target discount is markedly higher than for industry leaders like COLI/Vanke (both at 10%), which we believe is appropriate given its business scale, operating history and leverage. Risks: economic fluctuations, housing demand.

### Forecasts And Ratios

| Year End Dec 31      | 2013A    | 2014A    | 2015E    | 2016E    | 2017E    |
|----------------------|----------|----------|----------|----------|----------|
| Sales (CNYm)         | 28,990.6 | 32,049.0 | 33,688.0 | 34,058.3 | 35,066.7 |
| EBITDA(CNYm)         | 6,669.7  | 5,604.2  | 6,221.5  | 5,632.9  | 6,063.7  |
| Reported NPAT(CNYm)  | 4,885.5  | 2,071.7  | 4,616.9  | 5,152.1  | 5,553.6  |
| Reported EPS FD(CNY) | 2.29     | 0.96     | 2.13     | 2.38     | 2.56     |
| DB EPS FD (CNY)      | 2.29     | 0.96     | 2.13     | 2.38     | 2.56     |
| PER (x)              | 5.0      | 7.2      | 2.5      | 2.3      | 2.1      |
| DPS (net) (CNY)      | 0.43     | 0.00     | 0.34     | 0.37     | 0.39     |

Source: Deutsche Bank estimates, company data

### Key changes

|                     |                    |   |        |
|---------------------|--------------------|---|--------|
| Price target        | 11.00 to 9.40      | ↓ | -14.5% |
| Sales (FYE)         | 36,457 to 33,688   | ↓ | -7.6%  |
| Op prof margin(FYE) | 18.2 to 18.5       | ↑ | 1.6%   |
| Net profit(FYE)     | 5,427.8 to 4,616.9 | ↓ | -14.9% |

Source: Deutsche Bank

### Price/price relative



| Performance (%) | 1m   | 3m   | 12m   |
|-----------------|------|------|-------|
| Absolute        | -1.5 | -9.6 | -14.6 |
| HANG SENG INDEX | -1.4 | 4.2  | 11.0  |

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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Model updated: 30 March 2015

Running the numbers

Asia

China

Property

Greentown China

Reuters: 3900.HK

Bloomberg: 3900 HK

Buy

Price (30 Mar 15) HKD 6.75

Target Price HKD 9.40

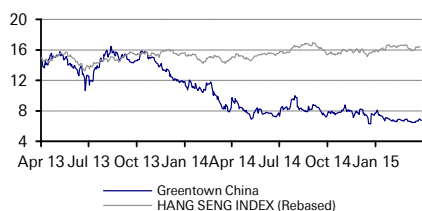
52 Week range HKD 6.34 - 9.99

Market Cap (m) HKDm 14,377  
USDm 1,854

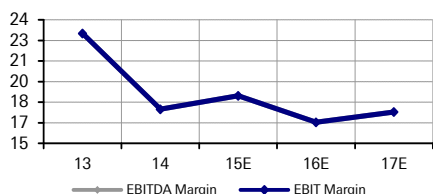
Company Profile

Greentown China Holdings Limited is engaged principally in the property development business in Zhejiang Province and also around the Bohai Rim Region in China.

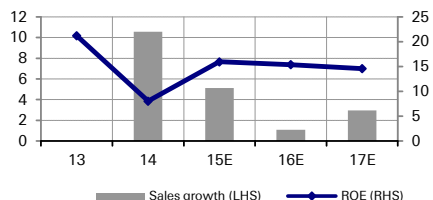
Price Performance



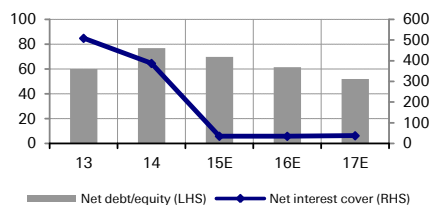
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

|                             | 2013   | 2014   | 2015E  | 2016E  | 2017E  |
|-----------------------------|--------|--------|--------|--------|--------|
| DB EPS (CNY)                | 2.29   | 0.96   | 2.13   | 2.38   | 2.56   |
| Reported EPS (CNY)          | 2.29   | 0.96   | 2.13   | 2.38   | 2.56   |
| DPS (CNY)                   | 0.43   | 0.00   | 0.34   | 0.37   | 0.39   |
| BVPS (CNY)                  | 11.7   | 12.3   | 14.4   | 16.5   | 18.7   |
| Weighted average shares (m) | 2,130  | 2,167  | 2,167  | 2,167  | 2,167  |
| Average market cap (CNYm)   | 24,201 | 14,821 | 11,521 | 11,521 | 11,521 |
| Enterprise value (CNYm)     | 38,255 | 38,822 | 35,799 | 32,860 | 29,084 |

Valuation Metrics

|                    | 2013 | 2014 | 2015E | 2016E | 2017E |
|--------------------|------|------|-------|-------|-------|
| P/E (DB) (x)       | 5.0  | 7.2  | 2.5   | 2.3   | 2.1   |
| P/E (Reported) (x) | 5.0  | 7.2  | 2.5   | 2.3   | 2.1   |
| P/BV (x)           | 0.80 | 0.50 | 0.37  | 0.33  | 0.29  |
| FCF Yield (%)      | nm   | nm   | nm    | 8.6   | 17.1  |
| Dividend Yield (%) | 3.8  | 0.0  | 6.3   | 6.8   | 7.3   |
| EV/Sales (x)       | 1.3  | 1.2  | 1.1   | 1.0   | 0.8   |
| EV/EBITDA (x)      | 5.7  | 6.9  | 5.8   | 5.8   | 4.8   |
| EV/EBIT (x)        | 5.7  | 6.9  | 5.8   | 5.8   | 4.8   |

Income Statement (CNYm)

|                                     | 2013   | 2014   | 2015E  | 2016E  | 2017E  |
|-------------------------------------|--------|--------|--------|--------|--------|
| Sales revenue                       | 28,991 | 32,049 | 33,688 | 34,058 | 35,067 |
| Gross profit                        | 8,775  | 8,133  | 8,651  | 8,740  | 9,271  |
| EBITDA                              | 6,670  | 5,604  | 6,222  | 5,633  | 6,064  |
| Depreciation                        | 0      | 0      | 0      | 0      | 0      |
| Amortisation                        | 0      | 0      | 0      | 0      | 0      |
| EBIT                                | 6,670  | 5,604  | 6,222  | 5,633  | 6,064  |
| Net interest income/(expense)       | -13    | -14    | -175   | -160   | -160   |
| Associates/affiliates               | 1,570  | 408    | 2,005  | 3,213  | 3,877  |
| Exceptionals/extraordinaries        | 919    | -69    | 0      | 0      | 0      |
| Other pre-tax income/(expense)      | 0      | 0      | 0      | 0      | 0      |
| Profit before tax                   | 9,146  | 5,928  | 8,051  | 8,686  | 9,781  |
| Income tax expense                  | 3,156  | 2,719  | 2,547  | 2,993  | 2,913  |
| Minorities                          | 1,105  | 1,138  | 887    | 541    | 1,314  |
| Other post-tax income/(expense)     | 0      | 0      | 0      | 0      | 0      |
| Net profit                          | 4,886  | 2,072  | 4,617  | 5,152  | 5,554  |
| DB adjustments (including dilution) | 0      | 0      | 0      | 0      | 0      |
| DB Net profit                       | 4,886  | 2,072  | 4,617  | 5,152  | 5,554  |

Cash Flow (CNYm)

|                                      | 2013   | 2014   | 2015E  | 2016E | 2017E |
|--------------------------------------|--------|--------|--------|-------|-------|
| Cash flow from operations            | -2,566 | -4,549 | -1,394 | 1,004 | 2,006 |
| Net Capex                            | 0      | 0      | 0      | 0     | 0     |
| Free cash flow                       | -2,566 | -4,549 | -1,394 | 1,004 | 2,006 |
| Equity raised/(bought back)          | 1      | 0      | 0      | 0     | 0     |
| Dividends paid                       | -916   | 0      | 0      | -739  | -793  |
| Net inc/(dec) in borrowings          | 580    | 5,270  | 705    | -62   | -250  |
| Other investing/financing cash flows | 7,423  | -1,681 | 0      | 0     | 0     |
| Net cash flow                        | 4,522  | -960   | -689   | 203   | 963   |
| Change in working capital            | -6,652 | -6,583 | -3,504 | -231  | 587   |

Balance Sheet (CNYm)

|                              | 2013    | 2014    | 2015E   | 2016E   | 2017E   |
|------------------------------|---------|---------|---------|---------|---------|
| Cash and other liquid assets | 11,281  | 9,084   | 8,395   | 8,598   | 9,562   |
| Tangible fixed assets        | 6,696   | 8,108   | 7,960   | 7,812   | 7,665   |
| Goodwill/intangible assets   | 665     | 662     | 662     | 662     | 662     |
| Associates/investments       | 12,241  | 10,921  | 12,926  | 16,139  | 20,017  |
| Other assets                 | 91,453  | 98,369  | 98,986  | 101,575 | 105,720 |
| Total assets                 | 122,336 | 127,144 | 128,930 | 134,787 | 143,625 |
| Interest bearing debt        | 30,512  | 35,815  | 36,521  | 36,459  | 36,209  |
| Other liabilities            | 59,813  | 56,483  | 52,060  | 53,025  | 56,038  |
| Total liabilities            | 90,325  | 92,299  | 88,581  | 89,484  | 92,247  |
| Shareholders' equity         | 24,947  | 26,655  | 31,271  | 35,685  | 40,445  |
| Minorities                   | 7,064   | 8,191   | 9,078   | 9,618   | 10,933  |
| Total shareholders' equity   | 32,011  | 34,845  | 40,349  | 45,303  | 51,378  |
| Net debt                     | 19,230  | 26,731  | 28,126  | 27,860  | 26,647  |

Key Company Metrics

|                        | 2013  | 2014  | 2015E | 2016E | 2017E |
|------------------------|-------|-------|-------|-------|-------|
| Sales growth (%)       | nm    | 10.5  | 5.1   | 1.1   | 3.0   |
| DB EPS growth (%)      | na    | -58.3 | 122.9 | 11.6  | 7.8   |
| EBITDA Margin (%)      | 23.0  | 17.5  | 18.5  | 16.5  | 17.3  |
| EBIT Margin (%)        | 23.0  | 17.5  | 18.5  | 16.5  | 17.3  |
| Payout ratio (%)       | 18.7  | 0.0   | 16.0  | 15.4  | 15.4  |
| ROE (%)                | 21.2  | 8.0   | 15.9  | 15.4  | 14.6  |
| Capex/sales (%)        | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   |
| Capex/depreciation (x) | nm    | nm    | nm    | nm    | nm    |
| Net debt/equity (%)    | 60.1  | 76.7  | 69.7  | 61.5  | 51.9  |
| Net interest cover (x) | 508.3 | 387.0 | 35.5  | 35.1  | 37.8  |

Source: Company data, Deutsche Bank estimates

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# Investment thesis

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## Outlook

We maintain our Buy rating on Greentown with a target price of HK\$9.4. While Greentown had adjusted its business strategies that forgive high asset-turnover to focus on leveraging its premium brand in the high-end segment, such segment was severely affected by the mortgage tightening towards the upgrading market. Moreover, Greentown also has a legacy issue of having a sizeable inventory of larger units, and thus the sell-through rate has lagged those of its peers. These factors have together resulted in a longer-than-expected time for financial performance to turn around.

Following the introduction of China Communications Construction Group (CCCC) as a strategic shareholder in Dec-14, we believe Greentown will be able to access a more favorable financing environment from the state-owned background of CCCC, which should help to boost profitability going forward with lower funding cost. Indeed, Greentown issued a US\$200m four-year senior note at an 8% coupon in Feb-15, a lower coupon than the last issue in Jan-14, despite challenging conditions in the off-shore bond market following the collapse of Kaisa in Jan-15.

## Valuation

We base our target price upon on a 50% discount to our revised NAV estimate of HK\$18.81/share (HK\$22/share), which implies a 2015E PER of 4x. Our target discount is markedly higher than for industry leaders like COLI/Vanke (both at 10%) and CR Land (at 20%), which we believe is appropriate given its business scale, operating history and leverage. We adopt NAV as our primary valuation metric, in line with residential-focus peers under our coverage.

## Risks

- 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.
- Demand in high-end segment may weaken dramatically in economic slowdown – Greentown is mainly focused on the high-end residential segment, where demand could weaken substantially upon a dramatic economic slowdown. Such a slowdown could translate into a sharper deterioration in profitability than for those who are focusing on the mid-tier market segment.



# FY14 misses on lower margins & impairment

## Core net profit -36% YoY to RMB3,379m in FY14

Greentown reported FY14 revenue +11% YoY to RMB32,049m, driven by a 17% YoY increase in delivery GFA to 1.94m sqm (1.65m in FY13). Gross margin saw a marked 4.9 percentage point compression to 25.4% but was mostly flat from 1H14. The contribution from associates fell by 74% YoY to just RMB408m, dragged by total impairment of RMB620m. Excluding fair-value gains, impairment loss and other one-off items, core net profit fell 36% YoY to RMB3,379m. Meanwhile, core net margin was compressed to 10.5% in FY14 (18.2% in FY13). No final dividend was declared in 2014 (RMB0.43/share in 2013).

Figure 1: Income statement (RMBm)

| Year ended Dec 31                           | 2013          | 2014          | %           |
|---|---------------|---------------|-------------|
| Property sales                              | 27,460        | 30,111        | 10%         |
| Property rental income                      | 114           | 122           | 6%          |
| Hotel                                       | 310           | 440           | 42%         |
| Other business                              | 1,105         | 1,377         | 25%         |
| <b>Turnover</b>                             | <b>28,991</b> | <b>32,049</b> | <b>11%</b>  |
| Cost of sales                               | (20,215)      | (23,916)      | 18%         |
| <b>Gross profit</b>                         | <b>8,775</b>  | <b>8,133</b>  | <b>-7%</b>  |
| Other operating income                      | 235           | 299           | 27%         |
| Selling and administrative expenses         | (2,340)       | (2,827)       | 21%         |
| <b>Profits from operation</b>               | <b>6,670</b>  | <b>5,604</b>  | <b>-16%</b> |
| Interest income                             | 494           | 665           | 35%         |
| Gross interest expenses                     | (2,431)       | (3,125)       | 29%         |
| Capitalized interest                        | 1,925         | 2,445         | 27%         |
| Net finance cost                            | (507)         | (680)         | 34%         |
| Net interest income/expenses                | (13)          | (14)          | 10%         |
| Exceptional item                            | 919           | (69)          | -108%       |
| Share of results of associates & JCEs       | 1,570         | 408           | -74%        |
| <b>Pre-tax profit</b>                       | <b>9,146</b>  | <b>5,928</b>  | <b>-35%</b> |
| Taxation                                    | (3,156)       | (2,719)       | -14%        |
| <b>Net Profit</b>                           | <b>5,990</b>  | <b>3,210</b>  | <b>-46%</b> |
| Minority interests                          | (1,105)       | (1,138)       | 3%          |
| <b>Profit attributable for shareholders</b> | <b>4,886</b>  | <b>2,072</b>  | <b>-58%</b> |
| <b>Core profit</b>                          | <b>5,279</b>  | <b>3,379</b>  | <b>-36%</b> |
| Core EPS (RMB) – weighted average           | 2.48          | 1.56          |             |
| DPS (RMB)                                   | 0.43          | -             |             |

Source: Company; Deutsche Bank



### Adjusted gearing rose to 93% by end-14, above industry average

At end-14, Greentown had total gross debt of RMB35,815m (+17% YoY from RMB30,512m by end-13 but mostly flat from mid-14) and cash of RMB9,084m (-19% YoY from RMB11,281m by end-13). Reported net gearing rose to 77% by end-14 from 60% year ago, but markedly declined from 131% registered at mid-year. However, if we adjust for perpetual securities from equity to debt, effective net gearing would have increased further to 93% or 126% ex-MI. Nevertheless, average funding cost saw a marked decline to 7.9% (from 8.7% in FY13). In FY14, the company acquired 11 new projects for a total consideration of RMB20.3bn, of which the premium attributable was merely RMB3bn.

Figure 2: Balance sheet (RMBm)

| As of Dec 31                                 | 2013           | 2014           |
|--|----------------|----------------|
| <b>Fixed assets</b>                          | <b>19,660</b>  | <b>19,700</b>  |
| Property, plant and equipment                | 4,864          | 6,216          |
| Investment property                          | 1,832          | 1,892          |
| Interests in associates and JV               | 11,864         | 10,533         |
| Available-for-sale investments               | 377            | 389            |
| Others                                       | 50             | -              |
| Prepaid lease payment                        | 665            | 662            |
| Rental paid in advance                       | 9              | 9              |
| <b>Deferred tax assets</b>                   | <b>1,053</b>   | <b>1,116</b>   |
| <b>Current assets</b>                        | <b>101,622</b> | <b>106,328</b> |
| Properties for development                   | 6,280          | 5,750          |
| Properties under development                 | 38,968         | 41,312         |
| Completed properties for sale                | 13,063         | 15,651         |
| Inventories                                  | 102            | 123            |
| Other receivables, deposits & prepayments    | 4,381          | 5,215          |
| Amount due from related parties              | 24,981         | 27,157         |
| Prepaid income taxes                         | 1,304          | 1,056          |
| Prepaid other taxes                          | 1,263          | 980            |
| Pledged bank deposits                        | 595            | 1,351          |
| Bank balances and cash                       | 10,686         | 7,734          |
| <b>Current liabilities</b>                   | <b>65,127</b>  | <b>67,775</b>  |
| Account payables                             | 17,911         | 19,381         |
| Pre-sale deposits                            | 23,428         | 20,116         |
| Amounts due to related parties               | 10,775         | 9,850          |
| Income and other taxes payable               | 6,995          | 6,260          |
| Bank & other borrowings                      | 6,018          | 12,167         |
| <b>Total assets less current liabilities</b> | <b>57,208</b>  | <b>59,369</b>  |
| <b>Long term liabilities</b>                 | <b>25,197</b>  | <b>24,523</b>  |
| Bank and other borrowings                    | 15,935         | 15,056         |
| Cross currency swaps                         | -              | 71             |
| Senior notes                                 | 8,558          | 8,592          |
| Deferred tax liabilities                     | 704            | 804            |
| <b>Minority interests</b>                    | <b>7,064</b>   | <b>8,191</b>   |
| <b>Perpetual securities</b>                  | <b>-</b>       | <b>3,015</b>   |
| <b>Shareholders' funds</b>                   | <b>24,947</b>  | <b>26,655</b>  |
| <b>Total capital employed</b>                | <b>57,208</b>  | <b>59,369</b>  |

Source: Company; Deutsche Bank



Figure 3: Greentown – Financial Highlights

| RMBm/RMB   | Value    |          |          |          | YoY Change |      |       |
|--|----------|----------|----------|----------|------------|------|-------|
|  | FY11     | FY12     | FY13     | FY14     | FY12       | FY13 | FY14  |
| <b>Key items</b>                                     |          |          |          |          |            |      |       |
| Core net profit                                      | 2,490.9  | 4,257    | 5,279    | 3,379    | 71%        | 24%  | -36%  |
| Core EPS   | 1.52     | 2.25     | 2.48     | 1.56     | 48%        | 10%  | -37%  |
| Gross margin   | 33.7%    | 30.3%    | 30.3%    | 25.4%    | -10%       | 0%   | -16%  |
| Core net margin                                      | 11.3%    | 12.0%    | 15.3%    | 10.5%    | 6%         | 27%  | -31%  |
| Reported net profit                                  | 4,117.9  | 6,053.1  | 5,990.2  | 3,210    | 47%        | -1%  | -46%  |
| Reported net margin                                  | 18.7%    | 17.1%    | 20.7%    | 10.0%    | -9%        | 21%  | -52%  |
| Net gearing  | 220%     | 63.7%    | 77.1%    | 100.3%   | -71%       | 21%  | 30%   |
| DPS  | 0.10     | 0.50     | 0.43     | 0        | 400%       | -14% | -100% |
| Net book value per share                             | 7.28     | 9.93     | 11.71    | 12.30    | 36%        | 18%  | 5%    |
| <b>P&amp;L</b>                                       |          |          |          |          |            |      |       |
| Total revenue  | 21,963.7 | 35,392.5 | 28,990.6 | 32,049.0 | 61%        | -18% | 11%   |
| Property sales revenue                               | 21,071.1 | 34,214.4 | 27,460.4 | 30,110.7 | 62%        | -20% | 10%   |
| Gross rental income                                  | 90.1     | 112.2    | 114.4    | 121.7    | 25%        | 2%   | 6%    |
| <b>Expenses</b>                                      |          |          |          |          |            |      |       |
| Selling & marketing expenses                         | 599.9    | 665.2    | 848.8    | 992.0    | 11%        | 28%  | 17%   |
| Administrative expenses                              | 1,320.0  | 1,403.9  | 1,491.6  | 1,835.5  | 6%         | 6%   | 23%   |
| Selling & marketing expenses as a % of total revenue | 3%       | 2%       | 3%       | 3%       | -31%       | 56%  | 6%    |
| Administrative expenses as a % of total revenue      | 6%       | 4%       | 5%       | 6%       | -34%       | 30%  | 11%   |
| SG&A as a % of total revenue                         | 9%       | 6%       | 8%       | 9%       | -33%       | 38%  | 9%    |
| <b>Accounting policy check</b>                       |          |          |          |          |            |      |       |
| Gross interest expenses                              | 3,552.6  | 3,480.6  | 2,431.4  | 3,124.5  | -2%        | -30% | 29%   |
| Capitalized interests                                | 3,136.9  | 2,916.5  | 1,924.6  | 2,444.8  | -7%        | -34% | 27%   |
| % of interests capitalized                           | 88%      | 84%      | 79%      | 78%      | -5%        | -6%  | -1%   |
| Capitalized interests as a % of core net profit      | 126%     | 69%      | 36%      | 72%      | -46%       | -47% | 98%   |

Source: Company, Deutsche Bank



Figure 4: Greentown – Operational Highlights

| RMBm                                   | FY11       | FY12       | % YoY Growth | FY13       | % YoY Growth | FY14       | % YoY Growth |
|--|------------|------------|--------------|------------|--------------|------------|--------------|
| <b>Operational metrics</b>             |            |            |              |            |              |            |              |
| <b>Property sales and rental</b>       |            |            |              |            |              |            |              |
| Delivery GFA (sqm)                     | 1,037,720  | 2,583,241  | 149%         | 1,653,830  | -36%         | 1,936,916  | 17%          |
| Delivery ASP (RMB psm)                 | 21,071     | 19,770     | -6%          | 16,604     | -16%         | 15,546     | -6%          |
| Rental income (RMBm)                   | 90         | 112        | 25%          | 114        | 2%           | 122        | 6%           |
| <b>New construction starts (sqm)</b>   |            |            |              |            |              |            |              |
| New construction starts (sqm)          | 6,391,000  | 4,690,000  | -27%         | 6,185,000  | 32%          | 5,873,000  | -5%          |
| GFA under construction (sqm)           | 16,010,000 | 16,570,000 | 3%           | 20,200,000 | 22%          | 19,785,000 | -2%          |
| New GFA acquired (sqm)                 | 6,805,533  | 2,103,600  | -69%         | 3,356,000  | 60%          | 4,340,000  | 29%          |
| Total acquisition cost (RMBm)          | 11,068     | 11,975     | 8%           | 24,300     | 103%         | 20,300     | -16%         |
| Average unit land cost (RMBpsm)        | 1,625      | 5,693      | 250%         | 6,689      | 17%          | 4,677      | -30%         |
| <b>Contracted sales (RMBm)</b>         |            |            |              |            |              |            |              |
| Contracted sales (RMBm)                | 35,300     | 54,600     | 55%          | 62,100     | 14%          | 79,400     | 28%          |
| Contracted GFA (sqm)                   | 1,750,000  | 2,830,000  | 62%          | 3,090,000  | 9%           | 3,910,000  | 27%          |
| Contracted ASP (RMB psm)               | 19,987     | 19,891     | 0%           | 20,115     | 1%           | 20,264     | 1%           |
| Sell-through rate                      | 52%        | 50%        | NA           | 42%        | NA           | 46%        | NA           |
| <b>Saleable resources (RMBm)</b>       |            |            |              |            |              |            |              |
| Saleable resources (RMBm)              | 68,000     | 110,000    | 62%          | 150,000    | 36%          | 172,000    | 15%          |
| <b>Total gross debt (RMBm)</b>         |            |            |              |            |              |            |              |
| Total gross debt (RMBm)                | 32,112     | 21,373     | -33%         | 30,512     | 43%          | 35,815     | 17%          |
| <b>Total cash balance (RMBm)</b>       |            |            |              |            |              |            |              |
| Total cash balance (RMBm)              | 5,844      | 7,898      | 35%          | 11,281     | 43%          | 9,084      | -19%         |
| <b>Net gearing (%)</b>                 |            |            |              |            |              |            |              |
| Net gearing (%)                        | 220%       | 63.7%      | NA           | 77.1%      | NA           | 100.3%     | NA           |
| <b>Debt maturity:</b>                  |            |            |              |            |              |            |              |
| Less than 12 months                    | 16,363     | 15,255     | -7%          | 6,018      | -61%         | 12,167     | 102%         |
| Between 1-2 years                      | 13,552     | 3,274      | -76%         | 8,417      | 157%         | 12,355     | 47%          |
| More than 2 years                      | 2,497      | 2,844      | 14%          | 16,077     | 465%         | 11,293     | -30%         |
| <b>RMB as % of total debt</b>          |            |            |              |            |              |            |              |
| RMB as % of total debt                 | 85.08%     | 88.16%     | NA           | 64.20%     | NA           | 59.30%     | NA           |
| <b>USD as % of total debt</b>          |            |            |              |            |              |            |              |
| USD as % of total debt                 | 14.92%     | 11.84%     | NA           | 35.80%     | NA           | 40.70%     | NA           |
| <b>Average borrowing interest rate</b> |            |            |              |            |              |            |              |
| Average borrowing interest rate        | 10.70%     | 8.90%      | NA           | 8.70%      | NA           | 7.90%      | NA           |
| <b>Cashflow Analysis</b>               |            |            |              |            |              |            |              |
| <b>Inflow</b>                          |            |            |              |            |              |            |              |
| Sales proceeds                         | 26,480     | 40,800     | 54%          | 22,900     | -44%         | 28,900     | 26%          |
| Rental income                          | 90         | 110        | 22%          | NA         | NA           | NA         | NA           |
| <b>Outflow</b>                         |            |            |              |            |              |            |              |
| Land premium                           | (11,100)   | (3,300)    | -70%         | (13,800)   | 318%         | (7,600)    | -45%         |
| Construction capex                     | (19,300)   | (19,300)   | 0%           | (16,700)   | -13%         | (17,000)   | 2%           |
| SG&A                                   | (1,900)    | (2,800)    | 47%          | (1,500)    | -46%         | (2,200)    | 47%          |
| Interest expenses                      | (2,800)    | (4,000)    | 43%          | (2,200)    | -45%         | (2,300)    | 5%           |
| Taxation                               | (1,700)    | (2,100)    | 24%          | (4,600)    | 119%         | (5,000)    | 9%           |
| Others                                 | (600)      | (400)      | -33%         | (1,100)    | 175%         | (1,000)    | -9%          |

Source: Company, Deutsche Bank



# Financial analysis

## Cutting earnings estimates by 14-15% in FY15-16

We lower our earnings estimates by 14-15% in FY15-16 to take into account lower profit margins being reported in FY14 and latest management guidance. Given management's desire to accelerate the destocking of inventory, we believe gross margins are likely to stay soft at the mid-20s level in FY15-16. In particular, we expect gross margin of around 26% (vs. 25% in FY14), in line with peers. Nevertheless, we expect a modest improvement in net margins on the back of higher contribution from associates (FY14 was impacted by one-off impairments). Specifically, we expect net margin to improve to 14% in FY15 (from 11% in FY14) and further to 15% and 16% in FY16/17, respectively.

Figure 5: Summary of earnings revisions

|                   | FY15e        |              |               | FY16e        |              |               | FY17e        |
|-------------------|--------------|--------------|---------------|--------------|--------------|---------------|--------------|
|                   | New          | Old          | %             | New          | Old          | %             | New          |
| Revenue           | 33,688       | 36,457       | -7.6%         | 34,058       | 33,268       | 2.4%          | 35,067       |
| Pre-tax profit    | 8,051        | 9,697        | -17.0%        | 8,686        | 10,704       | -18.9%        | 9,781        |
| <b>Net profit</b> | <b>4,617</b> | <b>5,428</b> | <b>-14.9%</b> | <b>5,152</b> | <b>6,011</b> | <b>-14.3%</b> | <b>5,554</b> |
| EPS               | 2.17         | 2.55         | -14.9%        | 2.42         | 2.82         | -14.3%        | 2.61         |
| DPS               | 0.35         | 0.41         | -14.9%        | 0.37         | 0.43         | -14.3%        | 0.40         |
| Gross margin      | 25.7%        | 25.6%        |               | 25.7%        | 26.5%        |               | 26.4%        |
| Net margin        | 13.7%        | 14.9%        |               | 15.1%        | 18.1%        |               | 15.8%        |

Source: Deutsche Bank estimates

Meanwhile, we expect core net profit to grow by 37% YoY to RMB4,617m in FY15 and 12% YoY to RMB5,152m in FY16. We also introduce FY17E earnings at RMB5,554m, implying YoY growth of 8%.





Figure 6: Income statement (RMBm)

| Year ended Dec 31                                 | 2012          | 2013          | 2014          | 2015E         | 2016E         | 2017E         |
|---|---------------|---------------|---------------|---------------|---------------|---------------|
| Property sales                                    | 34,214        | 27,460        | 30,111        | 31,716        | 32,048        | 33,017        |
| Property rental income                            | 112           | 114           | 122           | 134           | 147           | 162           |
| Hotel   | 310           | 310           | 440           | 462           | 485           | 509           |
| Other business                                    | 756           | 1,105         | 1,377         | 1,377         | 1,377         | 1,377         |
| <b>Turnover</b>                                   | <b>35,393</b> | <b>28,991</b> | <b>32,049</b> | <b>33,688</b> | <b>34,058</b> | <b>35,067</b> |
| Cost of sales                                     | (24,679)      | (20,215)      | (23,916)      | (25,037)      | (25,319)      | (25,795)      |
| <b>Gross profit</b>                               | <b>10,714</b> | <b>8,775</b>  | <b>8,133</b>  | <b>8,651</b>  | <b>8,740</b>  | <b>9,271</b>  |
| Other operating income                            | 300           | 235           | 299           | 299           | 299           | 299           |
| Selling and administrative expenses               | (2,069)       | (2,340)       | (2,827)       | (2,729)       | (3,406)       | (3,507)       |
| <b>Profits from operation</b>                     | <b>8,945</b>  | <b>6,670</b>  | <b>5,604</b>  | <b>6,222</b>  | <b>5,633</b>  | <b>6,064</b>  |
| Interest income                                   | 700           | 494           | 665           | 393           | 373           | 373           |
| Gross interest expenses                           | (3,481)       | (2,431)       | (3,125)       | (2,841)       | (2,965)       | (2,965)       |
| Capitalized interest                              | 2,917         | 1,925         | 2,445         | 2,272         | 2,431         | 2,431         |
| Net finance cost                                  | (564)         | (507)         | (680)         | (568)         | (534)         | (534)         |
| Net interest income/expenses                      | 136           | (13)          | (14)          | (175)         | (160)         | (160)         |
| Exceptional item                                  | 663           | 919           | (69)          | -             | -             | -             |
| Share of results of associates & JCEs             | 513           | 1,570         | 408           | 2,005         | 3,213         | 3,877         |
| <b>Pre-tax profit</b>                             | <b>10,257</b> | <b>9,146</b>  | <b>5,928</b>  | <b>8,051</b>  | <b>8,686</b>  | <b>9,781</b>  |
| Taxation  | (4,204)       | (3,156)       | (2,719)       | (2,547)       | (2,993)       | (2,913)       |
| <b>Profit after-tax before minority interests</b> | <b>6,053</b>  | <b>5,990</b>  | <b>3,210</b>  | <b>5,504</b>  | <b>5,693</b>  | <b>6,868</b>  |
| <b>Net Profit</b>                                 | <b>6,053</b>  | <b>5,990</b>  | <b>3,210</b>  | <b>5,504</b>  | <b>5,693</b>  | <b>6,868</b>  |
| Minority interests                                | (1,202)       | (1,105)       | (1,138)       | (887)         | (541)         | (1,314)       |
| <b>Profit attributable for shareholders</b>       | <b>4,851</b>  | <b>4,886</b>  | <b>2,072</b>  | <b>4,617</b>  | <b>5,152</b>  | <b>5,554</b>  |
| <b>Core profit</b>                                | <b>4,257</b>  | <b>5,279</b>  | <b>3,379</b>  | <b>4,617</b>  | <b>5,152</b>  | <b>5,554</b>  |
| Core EPS (RMB)                                    | 2.25          | 2.48          | 1.59          | 2.13          | 2.38          | 2.56          |
| DPS (RMB)   | 0.50          | 0.43          | -             | 0.34          | 0.37          | 0.39          |

Source: Deutsche Bank estimates



Figure 7: Balance sheet (RMBm)

| As of Dec 31                                 | 2012          | 2013           | 2014           | 2015E          | 2016E          | 2017E          |
|--|---------------|----------------|----------------|----------------|----------------|----------------|
| <b>Fixed assets</b>                          | <b>13,591</b> | <b>19,660</b>  | <b>19,700</b>  | <b>21,557</b>  | <b>24,623</b>  | <b>28,352</b>  |
| Property, plant and equipment                | 3,675         | 4,864          | 6,216          | 6,068          | 5,921          | 5,773          |
| Investment property                          | 1,731         | 1,832          | 1,892          | 1,892          | 1,892          | 1,892          |
| Interests in associates and JV               | 7,577         | 11,864         | 10,533         | 12,538         | 15,751         | 19,628         |
| Available-for-sale investments               | 347           | 377            | 389            | 389            | 389            | 389            |
| Others                                       | -             | 50             | -              | -              | -              | -              |
| Prepaid lease payment                        | 255           | 665            | 662            | 662            | 662            | 662            |
| Rental paid in advance                       | 7             | 9              | 9              | 9              | 9              | 9              |
| <b>Deferred tax assets</b>                   | <b>782</b>    | <b>1,053</b>   | <b>1,116</b>   | <b>1,116</b>   | <b>1,116</b>   | <b>1,116</b>   |
| <b>Current assets</b>                        | <b>93,334</b> | <b>101,622</b> | <b>106,328</b> | <b>106,257</b> | <b>109,048</b> | <b>114,158</b> |
| Properties for development                   | 6,021         | 6,280          | 5,750          | 8,020          | 7,664          | 7,790          |
| Properties under development                 | 43,136        | 38,968         | 41,312         | 45,981         | 47,163         | 50,079         |
| Completed properties for sale                | 7,330         | 13,063         | 15,651         | 10,184         | 10,196         | 9,721          |
| Inventories                                  | 76            | 102            | 123            | 105            | 104            | 98             |
| Other receivables, deposits & prepayments    | 4,713         | 4,381          | 5,215          | 4,379          | 6,130          | 7,715          |
| Amount due from related parties              | 21,619        | 24,981         | 27,157         | 27,157         | 27,157         | 27,157         |
| Prepaid income taxes                         | 1,076         | 1,304          | 1,056          | 1,056          | 1,056          | 1,056          |
| Prepaid other taxes                          | 1,465         | 1,263          | 980            | 980            | 980            | 980            |
| Pledged bank deposits                        | 1,734         | 595            | 1,351          | 1,351          | 1,351          | 1,351          |
| Bank balances and cash                       | 6,164         | 10,686         | 7,734          | 7,044          | 7,248          | 8,211          |
| <b>Current liabilities</b>                   | <b>73,562</b> | <b>65,127</b>  | <b>67,775</b>  | <b>58,995</b>  | <b>58,399</b>  | <b>60,162</b>  |
| Account payables                             | 15,959        | 17,911         | 19,381         | 13,475         | 14,645         | 13,325         |
| Pre-sale deposits                            | 28,848        | 23,428         | 20,116         | 20,863         | 19,620         | 23,241         |
| Amounts due to related parties               | 7,125         | 10,775         | 9,850          | 9,850          | 9,850          | 9,850          |
| Income and other taxes payable               | 6,375         | 6,995          | 6,260          | 6,461          | 6,679          | 6,923          |
| LAT payable                                  | -             | -              | -              | 534            | 1,356          | 1,824          |
| Bank & other borrowings                      | 15,256        | 6,018          | 12,167         | 7,811          | 6,249          | 4,999          |
| <b>Total assets less current liabilities</b> | <b>34,145</b> | <b>57,208</b>  | <b>59,369</b>  | <b>69,934</b>  | <b>76,388</b>  | <b>83,463</b>  |
| <b>Long term liabilities</b>                 | <b>6,657</b>  | <b>25,197</b>  | <b>24,523</b>  | <b>29,585</b>  | <b>31,085</b>  | <b>32,085</b>  |
| Bank and other borrowings                    | 6,118         | 15,935         | 15,056         | 20,118         | 21,618         | 22,618         |
| Cross currency swaps                         | -             | -              | 71             | 71             | 71             | 71             |
| Senior notes                                 | -             | 8,558          | 8,592          | 8,592          | 8,592          | 8,592          |
| Deferred tax liabilities                     | 539           | 704            | 804            | 804            | 804            | 804            |
| <b>Minority interests</b>                    | <b>6,346</b>  | <b>7,064</b>   | <b>8,191</b>   | <b>9,078</b>   | <b>9,618</b>   | <b>10,933</b>  |
| Issued share capital                         | 207           | 209            | 209            | 209            | 209            | 209            |
| Share premium                                | 6,300         | 6,300          | 6,300          | 6,300          | 6,300          | 6,300          |
| Retained profits                             | 14,635        | 18,439         | 17,132         | 21,010         | 25,368         | 30,067         |
| Proposed final dividends                     | -             | -              | -              | 739            | 793            | 855            |
| <b>Shareholders' funds</b>                   | <b>21,142</b> | <b>24,947</b>  | <b>26,655</b>  | <b>31,271</b>  | <b>35,685</b>  | <b>40,445</b>  |
| <b>Perpetual securities</b>                  | <b>-</b>      | <b>-</b>       | <b>3,015</b>   | <b>3,015</b>   | <b>3,015</b>   | <b>3,015</b>   |
| <b>Total capital employed</b>                | <b>34,145</b> | <b>57,208</b>  | <b>59,369</b>  | <b>69,934</b>  | <b>76,388</b>  | <b>83,463</b>  |

Source: Deutsche Bank estimates



# Valuation

## Our revised NAV estimate is HK\$18.81/share

We adopt NAV as our primary valuation metric, in line with residential-focus peers under our coverage. We base our approach on sum-of-the-parts analysis, where we use DCF for property developments for sale and direct capitalization approach for investment properties. We generally assume ASP to remain flat YoY in 2015, but we do make project specific adjustments streaming from product mix/phase differences. We have adopted a discount rate of 12.8%, which is in line with our estimated WACC. Our revised fully-diluted NAV estimate is at HK\$18.81/share, taking into account lower profit margins.

Figure 8: NAV breakdown

|  | NAV (HK\$m)   | NAV (HK\$/Share) | % of NAV      |
|--|---------------|------------------|---------------|
| <b>Development properties</b>          |               |                  |               |
| Residential                            | 62,553        | 28.86            | 153.4%        |
| Retail                                 | 3,166         | 1.46             | 7.8%          |
| Commercial                             | 6,037         | 2.79             | 14.8%         |
| Hotel                                  | 3,544         | 1.63             | 8.7%          |
| <i>Subtotal development properties</i> | <i>75,300</i> | <i>34.74</i>     | <i>184.7%</i> |
| <b>Other assets</b>                    |               |                  |               |
| Fixed assets                           | 2,861         | 1.32             | 7.0%          |
| Property management                    | -             | -                | -%            |
| <i>Subtotal other assets</i>           | <i>2,861</i>  | <i>1.32</i>      | <i>7.0%</i>   |
| <b>Gross asset value (GAV)</b>         | <b>78,161</b> | <b>36.06</b>     | <b>191.7%</b> |
| Net cash/(debt)                        | (26,731)      | (12.33)          | -65.6%        |
| Potential LAT liabilities              | (10,661)      | (4.92)           | -26.1%        |
| <b>Fully-diluted NAV</b>               | <b>40,769</b> | <b>18.81</b>     | <b>100.0%</b> |

Source: Deutsche Bank estimates

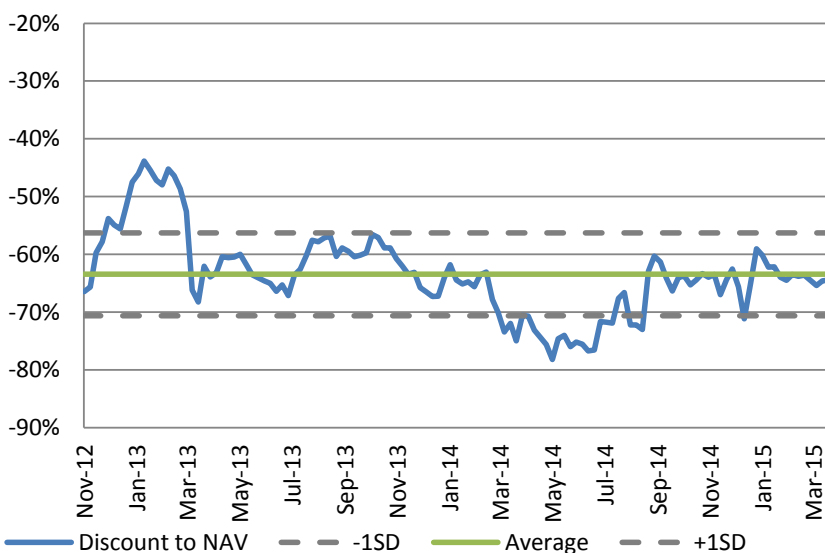


**We base our HK\$9.4 target price on 50% discount to our estimated NAV**

We base our HK\$9.4 target price upon a discount of 50% to our estimated NAV of HK\$18.81/share (HK\$22/share). Our target discount is markedly higher than for industry leaders like COLI/Vanke (both at 10%) and CR Land (at 20%), which we believe is appropriate given its business scale, operating history and leverage. As a cross-check, our target price implies a 2015E PER of 3x, which we believe the longer-than-expected time for financial performance to turnaround has already been priced-in.

At the current share price, Greentown is trading at a 65% discount to our estimated NAV and 3x 2015E earnings. Both measures are at a discount to industry average at 38% discount to NAV and 8x 2015E earnings.

**Figure 9: Historical discount to NAV**



Source: Deutsche Bank; Bloomberg Finance LP

**Figure 10: Historical P/E band**



Source: Deutsche Bank; Bloomberg Finance LP

**Figure 11: Historical P/B band**



Source: Deutsche Bank; Bloomberg Finance LP



Figure 12: China property – valuation table

| Company                | Ticker    | DB Rating | Trade Ccy | Report Ccy | Mkt Cap USDm | 12M Daily T/O USDm | 27 Mar |              |                | Est. NAV |             | EPS  |      |            | PE(x)      |            |      |
|------------------------|-----------|-----------|-----------|------------|--------------|--------------------|--------|--------------|----------------|----------|-------------|------|------|------------|------------|------------|------|
|                        |           |           |           |            |              |                    | Price  | Target Price | Implied 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  |
| CSCL                   | 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   | 9.40         | 35%            | 18.8     | -65%        | 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 13: 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 will 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 cash-tightening measures. Therefore, any unexpected fluctuations in the Chinese economy will 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 purchase restrictions

Greentown has about 65% of its landbank located in cities where purchase restrictions are being imposed. As a result, sales performances in these cities could be materially affected.

### Demand in high-end segment may weaken dramatically in economic slowdown

Greentown is mainly focused on the high-end residential segment, which demand could weaken substantially upon a dramatic economy slowdown. Such slow down could translate into a sharp deterioration in profitability than those who are focusing on the mid-tier market segment.



# Appendix 1

## Important Disclosures

Additional information available upon request

### Disclosure checklist

| Company         | Ticker  | Recent price*        | Disclosure |
|-----------------|---------|----------------------|------------|
| Greentown China | 3900.HK | 6.77 (HKD) 30 Mar 15 | 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.

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### Historical recommendations and target price: Greentown China (3900.HK)

(as of 3/30/2015)



#### 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. | 26/08/2013: | Buy, Target Price Change HKD22.40 | 3. | 26/08/2014: | Buy, Target Price Change HKD11.00 |
| 2. | 24/03/2014: | Buy, Target Price Change HKD19.10 |    |             |                                   |





### 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 projected 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.

**Hold:** We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Notes:

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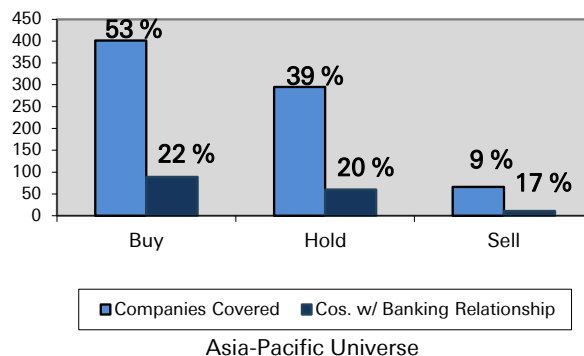
2. Ratings definitions prior to 27 January, 2007 were:

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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