

## Evergrande Real Estate

A non-sustainable business model; downgrade to UW

Evergrande's result was a big miss mainly due to more losses from non-property business and higher tax payment. Despite very weak operating cash flow, the company still declared a big dividend payment, which resulted in a 14% dividend yield on its stock. Such result and payout was barely doable in 2014 and is not likely to continue in 2015 in our view. Moreover, Evergrande has channeled more capex to non-property businesses with higher operational risk that generate no OCF. With the increased financial and operating risk, together with a non-sustainable business model which results in very low earnings yield, we **downgrade the stock to Underweight**, with a Dec-2015 PT (based on 6.0x 2015-17E average P/E) of **HK\$2.4 per share**.

- **Non property businesses are seeing a big loss:** Evergrande has expanded into many non-property businesses, with the most costly one the bottled water business. As mentioned in our earlier analysis, the business has thin margins, but Evergrande has spent aggressively on capex, which resulted in a loss in the business. We expect the loss to be about Rmb3 bn, and due to the less effective tax credit system in China, that indeed has eaten up more than two-thirds of the earnings of the company.
- **A non-sustainable property development model:** In 2014, Evergrande spent Rmb131 bn capex (land, construction and corresponding financing cost), to generate Rmb111 bn cash from contracted sales. With a deteriorating sell-through rate year-by-year, Evergrande needs more sellable resources to generate the same amount of sales. Hence, we think Evergrande's business model is not sustainable. This can only be reversed if Evergrande is able to shrink its landbank or do massive asset disposal to lower the debt level.
- **Weak balance sheet:** Evergrande's balance sheet has further deteriorated. Net gearing after adjustment was 303%, and short-term debt is now 37% of total debt. Even worse, Evergrande has revalued its investment properties to Rmb23K psm, which is more than double that of our valuation. If Evergrande disposes of them at a discount, this could cause equity to decrease and would push gearing up.

### ▼ Underweight

Previous: Neutral

3333.HK, 3333 HK

Price: HK\$3.93

### ▼ Price Target: HK\$2.40

Previous: HK\$2.55

#### China

#### China Property

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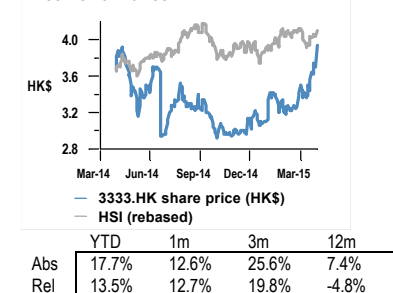
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#### Price Performance



#### Evergrande Real Estate (Reuters: 3333.HK, Bloomberg: 3333 HK)

Rmb in mn, year-end Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue (Rmb mn)	93,672	111,398	112,509	130,113	156,046
Net Profit (Rmb mn)	13,268	16,943	11,192	9,354	11,019
Core Profit (Rmb mn)	8,864	1,574	3,748	2,940	5,635
EPS (Rmb)	0.79	0.85	0.39	0.34	0.52
Core EPS (Rmb)	0.55	0.11	0.26	0.20	0.39
Core EPS growth (%)	38.1%	(80.8%)	140.9%	(21.6%)	91.7%
DPS (Rmb)	0.43	0.43	0.20	0.17	0.00
ROE	20.4%	3.2%	7.4%	5.7%	10.2%
P/E (Core)	5.7	29.5	12.3	15.6	8.2
P/BV (x)	0.9	0.9	0.9	0.9	0.8
BVPS (Rmb)	3.33	3.50	3.47	3.61	3.97
RNAV/Share			5.84	-	-
Dividend Yield	13.6%	13.6%	6.2%	5.3%	0.0%

Source: Company data, Bloomberg, J.P. Morgan estimates.

#### Company Data

Shares O/S (mn)	14,744
Market Cap (Rmb mn)	46,451
Market Cap (\$ mn)	7,473
Price (HK\$)	3.93
Date Of Price	30 Mar 15
Free Float(%)	31.9%
3M - Avg daily vol (mn)	31.30
3M - Avg daily val (HK\$ mn)	106.24
3M - Avg daily val (\$ mn)	13.7
HSI	2,485.12
Exchange Rate	7.75
Price Target End Date	31-Dec-15
Price Target (HK\$)	2.40

See page 16 for analyst certification and important disclosures, including non-US analyst disclosures.

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Table 1: Evergrande- valuation and financial summary

<b>Key catalyst for the stock price:</b>	<b>Upside risks to our view:</b>
• Property sales performance; performance of non-property businesses	Key upside risks include a sudden increase in demand in low-tier cities, loosening credit that brings down funding costs, and better-than-expected operation in the water business.

Key financial metrics	FY12A	FY13	FY14	FY15E
Revenues (LC)	65,261	93,672	111,398	112,509
Revenue growth (%)	5.4%	43.5%	18.9%	1.0%
EBITDA (LC)	12,543	20,135	18,000	23,494
EBITDA margin (%)	19.2%	21.5%	16.2%	20.9%
Tax rate (%)	26.5%	27.9%	26.8%	26.8%
Net profit (LC)	9,171	13,268	16,943	11,192
EPS (LC)	0.61	0.79	0.85	0.39
EPS growth (%)	-19.0%	28.7%	8.2%	-53.9%
DPS (LC)	0.14	0.43	0.43	0.20
BVPS (LC)	2.39	3.33	3.50	3.47
Operating cash flow (LC mn)	(5,574)	(38,871)	(68,950)	8,754
Free cash flow (LC mn)	(12,468)	(50,698)	(79,963)	(2,328)
Interest cover (X)	-228.98	-232.87	27.43	27.82
Net margin (%)	14.1%	14.2%	15.2%	9.9%
Sales/assets (X)	0.31	0.32	0.27	0.23
Debt/equity (%)	144.6%	137.1%	143.9%	156.2%
Net debt/equity (%)	84.2%	69.5%	90.9%	117.0%
ROE (%)	17.1%	20.4%	3.2%	7.4%
<b>Key model assumptions</b>	<b>FY15E</b>			
Residential ASP growth	-5-5%			
WACC	13.2%			

Source: J.P. Morgan estimates.

Sensitivity analysis	NAV	EPS
Sensitivity to	Dec-15	FY15E
5% chg in residential ASP	14%	5%
1% chg in WACC	4%	n/a

Source: J.P. Morgan estimates.

Comparative metrics

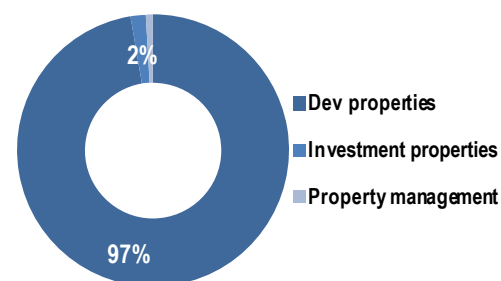
	CMP	Mkt Cap	P/E		NAV discount		P/BV		YTD
			LC	US\$m	FY15E	FY16E	Current	Forward	
Evergrande Real Estate	3.93	7,414	12.3	15.6	-33%	NA	0.9	0.9	25%
China Overseas Land Investment	26.00	27,405	8.3	7.4	-2%	-18%	1.4	1.2	13%
China Resources Land	22.20	18,696	11.3	10.4	-40%	-47%	1.2	1.1	9%
China Vanke - H shares	18.66	25,418	8.7	7.8	-13%	NA	1.6	1.4	8%
Franshion Properties	2.33	2,725	6.2	6.4	-51%	NA	0.5	0.5	5%
Sino-Ocean Land	4.80	4,641	7.1	6.1	-62%	NA	0.6	0.6	9%
Shui On Land	1.81	1,868	16.6	9.6	-67%	NA	0.3	0.3	-1%
Shimao Properties	16.68	7,469	5.7	5.3	-28%	-18%	0.8	0.8	-4%
Guangzhou R&F	8.01	3,328	3.9	3.3	-45%	-39%	0.5	0.5	-16%
Agile Property	5.00	2,526	4.5	4.5	-21%	NA!	0.4	0.4	13%
KWG Property	5.45	2,071	4.1	3.3	-53%	-57%	0.6	0.5	3%
Longfor Properties	10.80	8,090	6.9	6.6	-34%	-41%	1.0	0.9	8%
Country Garden	3.15	8,267	4.6	3.9	-22%	-14%	0.8	0.7	2%

Source: Bloomberg, Company data and J.P. Morgan estimates. Prices are as of March 30, 2015.

Valuation and price target basis

Our Dec-2015 PT (based on 6.0x 2015-17E average P/E) of HK\$2.4 per share on the back of the increased financial and operation risk, together with a non-sustainable business model which results in very low earnings yield.

NAV breakdown (Dec-15E)



Source: Bloomberg, Company data and J.P. Morgan estimates.

JPMe vs. consensus, change in estimates

EPS	FY15E	FY16E
JPMe old	0.36	0.29
JPMe new	0.26	0.20
% chg	-28%	-31%
Consensus	0.65	0.67

Source: Bloomberg, Company data and J.P. Morgan estimates.

## 2014 final result review

### Result is a BIG MISS

Evergrande core net profit was Rmb1,574 mn in 2014, down 82% Y/Y, and was 76% lower than our estimate, which was already the lowest among consensus according to Bloomberg. The miss came from the following:

- (1) **Greater-than-expected loss on non-property businesses:** Advertisement costs increased by more than double to Rmb5 bn, of which we expect most of the increase was due to the bottled water business. This, together with other non-property business, has resulted in a LBIT of Rmb4.157 bn in 2014. Management was too optimistic on the turnaround in bottled water business.
- (2) **Abnormally high LAT:** LAT was 5.6% of revenue in 2014, or 7.5% in 2H2014. With respect to a 28.8% pre-LAT development margin, the tax rate is exceptionally high. We think this is mainly due to the land purchase in the secondary market, of which in most cases the land price is not tax-deductible.
- (3) **More creative funding method:** Apart from perpetual securities which gave rise to the Rmb4.3 bn distribution in 2014, Evergrande has also incurred Rmb952 mn in other financing cost, of which more than half should be incurred from Rmb5.6 bn trust financing with 8% p.a. yield.

### Weak balance sheet

Evergrande's balance sheet has further deteriorated. And the company has relied on the big revaluation gain to support the net gearing of the company. After adjusting for the perpetual and payable with interest and definite maturity, the net gearing for Evergrande was 303% by end-2014, up slightly from 287% by mid-2014. Evergrande is now carrying a total of Rmb118 bn of payable, and if the counterparty makes claims against Evergrande in case of default, Evergrande's adjusted gearing will be at 534%. Such a level poses an extremely high financial risk to Evergrande.

### Investment properties likely to see a write-down

Evergrande has revalued the investment properties portfolio to Rmb61.9 bn by end-2014. According to the company's announcement, the total GFA of the investment properties is 2.67 mn sqm, meaning the valuation is at Rmb23K psm. According to *Caixin*, the company has recently launched a nationwide discount programme to the retail and car park, and while they could generate cash flow to Evergrande, upon profit recognition these assets are likely subject to a write-down / impairment / loss on disposal in our view. This will then flow through to decrease in equity. The more Evergrande sells, the lower the equity will be.

### Short-term debt has seen no improvement in 2H2014

Evergrande has Rmb80 bn in short-term bank debt, which accounts for 37% of its total loans (including perp). Such amount is similar to that as of June-2014, meaning the company was not able to lengthen the maturity further. Given a better perception for investors in the on-shore market, we think Evergrande will go to the on-shore market to raise MTN / Corporate Bond when the window is open for them. With such a balance sheet and maturity profile, we think the company will explore all kinds of debt raising in 2015.

## Cash flow and leverage

### Cash flow to see a slight relief in 2015

Evergrande has significantly slowed down landbanking in 2014, resulting in lower land premium payment in 2015. With only Rmb9 bn land payment in 2015, it is rather easy for the company to achieve a positive free cash flow for the year. Theoretically, the balance sheet pressure should be less stretchy for them. However, as sell-through rate did not improve for Evergrande, with less new sellable resources the company is likely to see a decrease in contracted sales in 2016 onwards. If the company cannot improve the debt profile by then, the financial risk will increase further in our view.

Table 2: Evergrande – cash flow summary and estimates

	FY14	FY15E
Land costs (existing lands)	50,410	9,050
Land costs (new lands)		14,221
Construction costs	57,883	55,976
Interest costs	14,601	17,684
- SG&A	13,192	9,594
- Tax	16,733	16,518
- Dividend paid	10,604	11,717
Others - tax & div	40,529	37,829
<b>Cash outflow</b>	<b>163,423</b>	<b>134,760</b>
Contracted sales	131,510	142,166
Contracted sales cash receipt	115,798	123,687
Other income / cost	-2,411	131
<b>Cash inflow</b>	<b>113,386</b>	<b>123,817</b>
<b>Surplus/(shortfall)</b>	<b>-50,037</b>	<b>-10,943</b>

Source: Company data, J.P. Morgan estimates.

## NAV and earnings revisions

After updating for the latest land acquisition, sales, ASP, the new businesses and also the share buyback and the distribution to perpetual, we have revised our 2015E/2016E core EPS by -28%/-31% and introduce 2017E core EPS of Rmb0.39. NAV is now at HK\$5.84 per share.

Table 3: Evergrande Real Estate- earnings and NAV change

	FY15E	FY16E	FY17E
<b>Gross revenue (Rmb mn)</b>			
Old	112,251	129,965	NA
New	112,509	130,113	156,046
% change	0%	0%	NA
<b>Core net profit (Rmb mn)</b>			
Old	5,105	4,160	NA
New	3,748	2,940	5,635
% change	-27%	-29%	NA
<b>Core EPS (Rmb)</b>			
Old	0.36	0.29	NA
New	0.26	0.20	0.39
% change	-28%	-31%	NA
<b>NAV (HK\$ per share) Dec-2015</b>			
Old	5.88		
New	5.84		
% change	-1%		

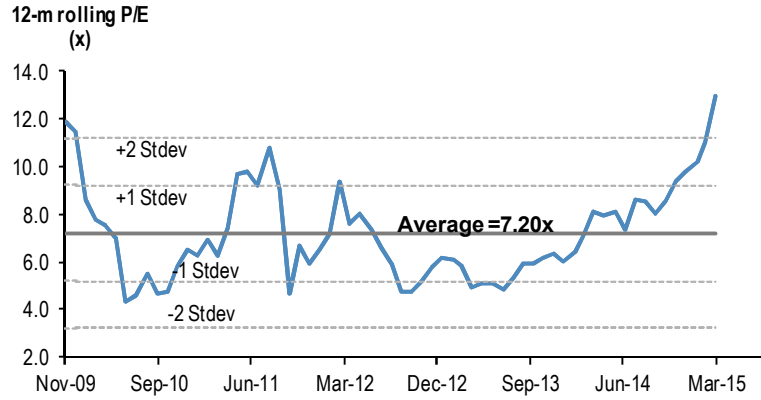
Source: J.P. Morgan estimates.

Table 4: Evergrande – detailed net asset value estimate

Methodology	Total GFA / rooms Sqm / units	Attr. GFA / rooms Sqm / units	Dec-2015 NAV				
			EV psm Rmb	Gross EV Rmb mn	EV per share Rmb	% of EV	
<b>Development Properties</b>							
Bohai Rim	Discounted cash flow	46,195,495	44,897,131	1,323	59,418	4.08	25%
Pearl River Delta	Discounted cash flow	16,380,334	15,389,914	1,214	18,685	1.28	8%
Yangtze River Delta	Discounted cash flow	26,457,193	23,879,972	1,899	45,348	3.11	19%
Central China	Discounted cash flow	18,846,251	17,733,392	1,517	26,896	1.85	11%
Western China	Discounted cash flow	26,211,710	24,015,644	1,190	28,585	1.96	12%
Others	Discounted cash flow	21,790,743	24,256,471	2,418	58,655	4.03	25%
Less: Outstanding land cost	As of end-2014E / 2015E				(6,620)	(0.45)	
		<b>155,881,726</b>	<b>150,172,525</b>	<b>1,538</b>	<b>230,967</b>	<b>15.85</b>	<b>97%</b>
<b>Investment Properties</b>							
Combined	Cap rate	978,415	978,415	0	1,710	0.12	1%
Hotels	Cap rate	616,028	606,527	4,288	2,600	0.18	1%
		<b>1,594,443</b>	<b>1,584,942</b>	<b>4,288</b>	<b>4,311</b>	<b>0.30</b>	<b>2%</b>
<b>Other businesses</b>							
Solar business	Market value and investment cost				1,228	0.08	1%
Bottled water business	10X Forward P/E				375	0.03	0%
Property management	10X Forward P/E				411	0.03	0%
					<b>2,014</b>	<b>0.14</b>	<b>1%</b>
<b>Total enterprise value (EV)</b>							
Less: net (debts) / cash (including perpetuals)							
<b>Net asset value</b>							
Number of shares outstanding (mn)							
<b>Net asset value per share (Rmb per share)</b>							
<b>Net asset value per share (HK\$ per share)</b>							
Share price as of 30-Mar-15							
<b>Prem / (disc) to NAV</b>							

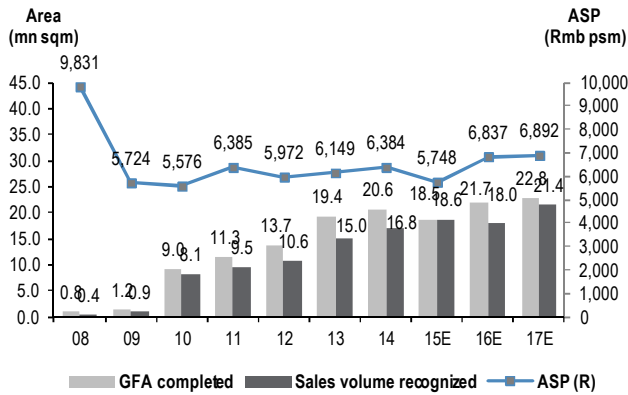
Source: Bloomberg, Company data, J.P. Morgan estimates.

Figure 1: Evergrande – 12 months forward rolling P/E



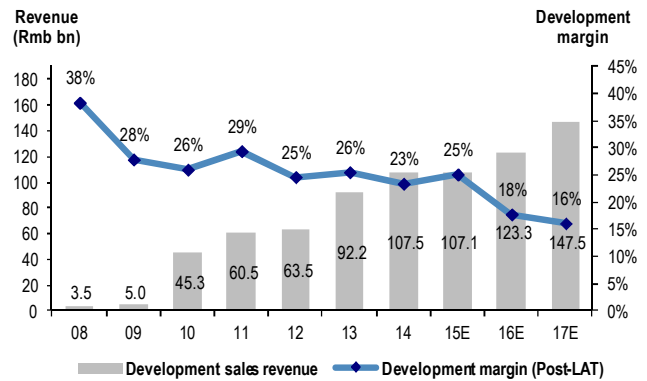
Source: Bloomberg, Company data, J.P. Morgan estimates.

Figure 2: Evergrande Real Estate historical ASP and GFA recognized



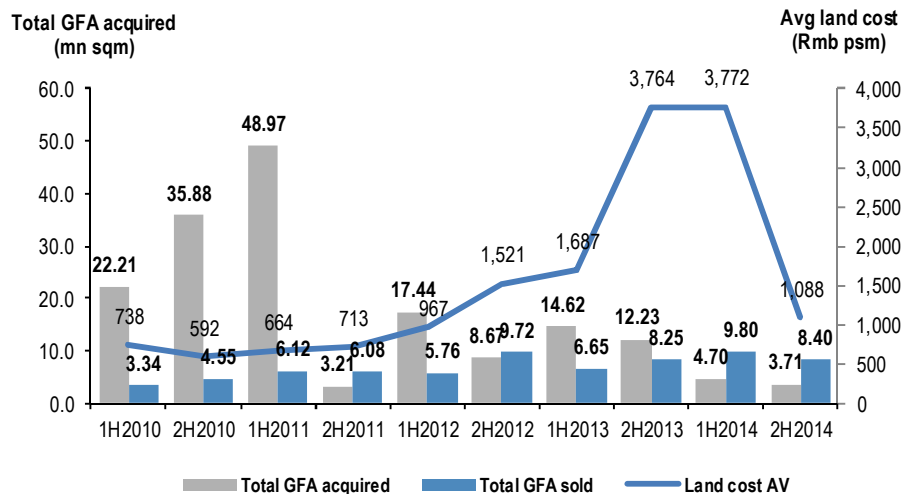
Source: Company data, J.P. Morgan.

Figure 3: Evergrande Real Estate historical development sales revenue and development margin (after LAT)



Source: Company data, J.P. Morgan.

Figure 4: Evergrande Real Estate historical land acquisition versus GFA sold, land cost time series



Source: Company data, J.P. Morgan.

Table 5: Evergrande Real Estate – Property development lock-in analysis

	GFA mn sqm	Value Rmb bn	ASP Rmb psm
<b>Total unrecognized as of 31-Dec-2014</b>	<b>9.00</b>	<b>63.00</b>	<b>7,000</b>
- Contracted sales in 2M2015	2.22	16.83	7,567
<b>Total unrecognized as of Feb-2015</b>	<b>11.22</b>	<b>79.83</b>	<b>7,112</b>
- to be recognized in 2015 (a)	6.73	47.90	7,112
<b>FY15E development revenue (b)</b>	<b>18.64</b>	<b>107.14</b>	<b>5,748</b>
<b>2015 revenue lock-in (a) / (b)</b>	<b>36%</b>	<b>45%</b>	
- to be recognized in 2016 (c)	1.59	10.57	6,666
<b>FY16E development revenue (d)</b>	<b>18.04</b>	<b>123.31</b>	<b>6,837</b>
<b>2016 revenue lock-in (c) / (d)</b>	<b>9%</b>	<b>9%</b>	
- to be recognized in 2017 (e)	0.68	4.53	6,666
<b>FY17E development revenue (f)</b>	<b>21.40</b>	<b>147.48</b>	<b>6,892</b>
<b>2017 revenue lock-in (e) / (f)</b>	<b>3%</b>	<b>3%</b>	

Source: Company data, J.P. Morgan estimates.

## Key takeaways from analyst briefing

Evergrande has hosted the post-result analyst briefing. Chairman Hui Ka Yan, CEO Xia Haijun, and CFO Parry Tse participated.

### Operations

- **2015 sales target:** Rmb150 bn with sellable resources GFA of 39 mn sqm, implying sell-through rate of 55% in 2015.
- **2015 sellable resources:** GFA of 39mn sqm (inventory of 11mn sqm and 28mn sqm of new launches/phases this year) and sellable resources value of Rmb273 bn based on estimated ASP of 7,000 psm. The split in 1H/2H is 40%/60%.
- **Policy outlook:** Management is positive on macro view and policy easing and that is why they set up the target with strong growth of 15% Y/Y. They believe that the favorable policy environment will be beneficial for developers with sufficient sellable resources and landbank.
- **Sold but unbooked sales:** 9mn sqm, implying the unbooked sales value of Rmb63 bn based on an estimated ASP of Rmb7,000 psm.
- **New business update:** four areas will be the focus 1) Bottled water 2) Grain & Oil 3) Dairy 4) Health. Management said that they will not enter other new industries or business soon in the next 3-5 years. Food&Beverage and health will be the main focus for Evergrande's new business currently. And the Company will have plans to spin-off these businesses after three years.
- **Bottled water:** recorded losses of Rmb2.37 bn in 2014 mainly due to the advertising and marketing costs. Management commented that they should see profit recorded from 2015. They have acquired additional two plants in 2014 and will utilize 75% of capacity for the first production plant soon and start the operation for the second plant from April/May 2015.
- **Succor business:** Management mentioned that it is more social responsibility for the succor business. But they are still confident that the succor school can operate well and develop many talents.
- **Dividend payout:** will maintain at the current level and attempt to distribute stable dividends as the normalized standard.
- **Other finance cost of Rmb953 mn:** Management said that was the finance cost which couldn't be capitalized due to the expansion of new business.
- **High amount of receivables >180 days:** Management said they have no plan to write down the receivables as the Company still has strong cash collection ability.
- **Increasing book value of investment properties:** Rmb62 bn as of end-2014, increased from Rmb36 bn as of end-2013. Management commented that because they have completed more projects and therefore more retail shops were delivered and recognized as investment properties.



## Financials

- **Gearing:** Management guided gearing to be <70% (Net debt/total equity, excluding perpetual securities). Management explained that Evergrande acquired many land lots in tier-1/2 cities last year and paid most of land premiums already. That is the main reason why the gearing ratio as of end-2014 was still high and not decreasing.
- **Debt breakdown:** project loan is about ~Rmb38 bn and trust loan is ~Rmb38 bn.
- **Perpetual securities:** about Rmb20 bn will enter the step-up period this year. The average cost is ~9.3% for perpetual bonds, and cost of ~13% from 3rd year and capped at ~16% from 5th year.
- **Fair value gain on financial-assets:** the financial assets are mainly A shares.
- **Cash collection:** Rmb110 bn in 2014, implying cash collection of 84% in 2014.
- **Outstanding land premium:** Rmb24.46 mn as of end-2014, of which, Rmb9 bn will be paid in 2015.

Table 6: Evergrande –2014 annual result summary

	2H13	1H14	2H14	%H/H	%Y/Y	2014	JPM 2014E	%Y/Y
Property sales	50,945.7	62,028.6	45,421.5	-27%	-11%	107,450.1	105,848.8	16%
Property rental and hotel	55.8	61.0	83.1	36%	49%	144.1	377.8	14%
Property management	467.6	465.0	793.9	71%	70%	1,258.9	1,034.0	70%
Property construction and others	250.4	782.1	1,763.0	125%	604%	2,545.1	2,577.3	347%
<b>Gross Turnover</b>	<b>51,719.5</b>	<b>63,336.7</b>	<b>48,061.4</b>	<b>-24%</b>	<b>-7%</b>	<b>111,398.1</b>	<b>109,838.0</b>	<b>19%</b>
Selling and marketing expenses	(2,812.2)	(3,539.2)	(5,614.3)	59%	100%	(9,153.5)	(7,270.3)	112%
Administrative expenses	(2,228.8)	(1,939.5)	(2,098.9)	8%	-6%	(4,038.4)	(3,879.0)	16%
<b>Total SG&amp;A</b>	<b>(5,041.0)</b>	<b>(5,478.7)</b>	<b>(7,713.2)</b>	<b>41%</b>	<b>53%</b>	<b>(13,192.0)</b>	<b>(11,149.3)</b>	<b>70%</b>
Property Sales	10,661.6	14,521.2	7,163.2	-51%	-33%	21,684.4	23,863.3	11%
Property rental and hotel	(160.5)	298.0	129.2	-57%	-180%	427.2	268.1	420%
Property management	86.1	(234.7)	279.9	-219%	225%	45.2	(87.9)	-178%
Mineral water	0.0	(1,200.0)	(800.0)	-33%	NM	(2,000.0)	(1,500.0)	NM
Property construction and others	228.9	(828.4)	(1,328.8)	60%	-680%	(2,157.2)	(600.0)	401%
<b>EBIT</b>	<b>10,816.2</b>	<b>12,556.2</b>	<b>5,443.4</b>	<b>-57%</b>	<b>-50%</b>	<b>17,999.6</b>	<b>21,943.4</b>	<b>-6%</b>
Interest expenses	(14.8)	(10.0)	(958.2)	NM	NM	(968.1)	(55.3)	NM
<b>Profit before tax</b>	<b>10,921.9</b>	<b>12,546.2</b>	<b>4,797.3</b>	<b>-62%</b>	<b>-56%</b>	<b>17,343.5</b>	<b>22,052.0</b>	<b>-10%</b>
Income tax	(2,976.2)	(3,431.0)	(1,680.3)	-51%	-44%	(5,111.3)	(6,160.2)	-5%
LAT (adjusted for income tax impact)	(2,193.7)	(2,527.4)	(3,188.2)	26%	45%	(5,715.6)	(4,479.0)	48%
Distribution to perpetual	(656.6)	(1,883.9)	(2,454.9)	30%	274%	(4,338.8)	(3,856.2)	561%
Minority Interest	(163.3)	(517.4)	(555.8)	7%	240%	(1,073.3)	(1,066.9)	144%
<b>Core net profit</b>	<b>4,932.0</b>	<b>4,186.5</b>	<b>(3,081.9)</b>	<b>-174%</b>	<b>-162%</b>	<b>1,574.6</b>	<b>6,489.7</b>	<b>-88%</b>
Revaluation gain / (loss) - after tax	1,193.4	3,306.1	3,738.6	13%	213%	7,044.7	4,306.1	110%
Exceptional items	249.1	(399.0)	4,853.8	-1316%	1848%	4,454.8	2,877.7	NM
<b>Reported net profit</b>	<b>6,374.5</b>	<b>7,093.6</b>	<b>5,510.5</b>	<b>-22%</b>	<b>-14%</b>	<b>12,604.1</b>	<b>13,673.5</b>	<b>0%</b>
DPS (Rmb)	0.430	0.000	0.430	NM	0%	0.430	0.288	0%
EPS (Rmb)	0.399	0.486	0.369	-24%	-7%	0.854	0.941	8%
<b>Core EPS (Rmb)</b>	<b>0.309</b>	<b>0.287</b>	<b>(0.207)</b>	<b>-172%</b>	<b>-167%</b>	<b>0.075</b>	<b>0.446</b>	<b>-87%</b>
<b>Margins</b>								
Gross development margin (pre LAT)	29.3%	28.8%	28.7%	-0.1%	-0.6%	28.8%	28.7%	-1.0%
<b>Gross development margin (post LAT)</b>	<b>25.0%</b>	<b>24.8%</b>	<b>21.7%</b>	<b>-3.1%</b>	<b>-3.3%</b>	<b>23.5%</b>	<b>24.4%</b>	<b>-2.1%</b>
EBIT margin	20.9%	19.8%	11.3%	-8.5%	-9.6%	16.2%	20.0%	-4.2%
Operating margin	21.1%	19.8%	10.0%	-9.8%	-11.1%	15.6%	20.1%	-4.9%
<b>Core net margin</b>	<b>9.9%</b>	<b>7.4%</b>	<b>-5.3%</b>	<b>-12.7%</b>	<b>-15.1%</b>	<b>2.0%</b>	<b>6.9%</b>	<b>-8.0%</b>
SG&A % sales	-9.7%	-8.7%	-16.0%	-7.4%	-6.3%	-11.8%	-6.5%	-3.5%
Effective tax rate	-27.2%	-27.3%	-35.0%	-7.7%	-7.8%	-29.5%	-27.9%	-1.5%
LAT % sales	-4.6%	-4.3%	-7.5%	-3.1%	-2.9%	-5.6%	-4.5%	-1.2%
<b>Financial</b>								
Net debt / (cash)	80,187.7	132,230.8	155,038.7	17%	93%	155,038.7	140,795.1	93%
Shareholders' equity	48,589.8	46,025.5	51,119.8	11%	5%	51,119.8	51,341.1	5%
<b>Net gearing</b>	<b>165.0%</b>	<b>287.3%</b>	<b>303.3%</b>	<b>16.0%</b>	<b>138.3%</b>	<b>303.3%</b>	<b>274.2%</b>	<b>138.3%</b>
<b>Development properties</b>								
Revenue from property sales	50,945.7	62,028.6	45,421.5	-27%	-11%	107,450.1	105,848.8	16%
Cost of properties	(33,199.3)	(40,727.4)	(29,883.8)	-27%	-10%	(70,611.2)	(69,684.8)	18%
<b>Gross development profit</b>	<b>17,746.3</b>	<b>21,301.2</b>	<b>15,537.7</b>	<b>-27%</b>	<b>-12%</b>	<b>36,838.9</b>	<b>36,164.0</b>	<b>13%</b>
GFA recognized (sqm)	8,095,000	9,800,000	7,030,000	-28%	-13%	16,830,000	16,909,342	12%
<b>Gross revenue psm (Rmb)</b>	<b>6,293</b>	<b>6,329</b>	<b>6,461</b>	<b>2%</b>	<b>3%</b>	<b>6,384</b>	<b>6,260</b>	<b>4%</b>
<b>Total cost psm (including business tax)</b>	<b>(4,468)</b>	<b>(4,524)</b>	<b>(4,644)</b>	<b>3%</b>	<b>4%</b>	<b>(4,565)</b>	<b>(4,465)</b>	<b>5%</b>

Source: Company data, J.P. Morgan.

Table 7: Evergrande – detailed earnings model, December 31 fiscal year-ends, 2007–17E (Rmb mn)

	2007	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E
<b>Gross turnover breakdown</b>											
Property sales	3,014.8	3,495.1	5,042.9	45,340.0	60,474.4	63,507.3	92,234.9	107,450.1	107,139.6	123,314.3	147,483.9
Property rental and hotel	28.6	25.8	37.6	51.2	83.9	99.0	125.9	144.1	396.8	416.6	440.0
Property management	66.9	78.7	79.5	132.2	463.3	506.7	742.0	1,258.9	1,663.7	2,081.4	2,530.6
Property construction and others	56.4	7.3	562.7	278.0	896.6	1,147.9	568.9	2,545.1	3,308.6	4,301.2	5,591.6
<b>Gross Turnover</b>	<b>3,166.7</b>	<b>3,606.8</b>	<b>5,722.7</b>	<b>45,801.4</b>	<b>61,918.2</b>	<b>65,260.8</b>	<b>93,671.8</b>	<b>111,398.1</b>	<b>112,508.8</b>	<b>130,113.5</b>	<b>156,046.0</b>
Cost of sales	(1,743.3)	(1,911.5)	(3,439.8)	(29,889.0)	(37,761.7)	(43,300.1)	(60,672.9)	(73,239.0)	(73,315.4)	(96,402.8)	(118,028.9)
<b>Gross Profit</b>	<b>1,221.4</b>	<b>1,482.4</b>	<b>1,946.4</b>	<b>13,369.2</b>	<b>20,607.6</b>	<b>18,210.4</b>	<b>27,648.8</b>	<b>31,783.6</b>	<b>33,088.1</b>	<b>26,662.0</b>	<b>29,574.4</b>
Selling and marketing expenses	(220.7)	(665.3)	(1,075.1)	(1,574.3)	(2,720.8)	(3,017.7)	(4,309.7)	(9,153.5)	(5,320.2)	(6,153.2)	(7,380.2)
Administrative expenses	(470.6)	(545.3)	(745.0)	(1,384.3)	(2,161.2)	(2,600.7)	(3,472.5)	(4,038.4)	(4,273.9)	(1,787.6)	616.6
<b>EBIT breakdown</b>											
Property Sales	535.5	223.7	163.1	10,452.7	16,232.1	12,823.1	19,514.3	21,684.4	22,896.1	16,848.1	20,501.4
Property rental and hotel	34.8	32.1	36.2	56.5	108.3	94.0	82.1	427.2	274.7	302.1	332.4
Property management	(13.5)	(25.0)	(113.0)	(147.0)	9.2	68.4	(57.9)	45.2	59.8	74.8	90.9
Property construction and others	(41.4)	28.7	16.3	237.9	(659.3)	(1,030.7)	(430.4)	(1,057.2)	(600.0)	(600.0)	(600.0)
<b>EBIT</b>	<b>515.4</b>	<b>259.5</b>	<b>102.5</b>	<b>10,600.1</b>	<b>15,690.3</b>	<b>11,954.9</b>	<b>19,108.1</b>	<b>17,999.6</b>	<b>21,880.5</b>	<b>16,674.9</b>	<b>20,374.6</b>
Interest income	27.9	34.5	36.1	-	-	108.4	120.4	312.0	328.1	223.5	237.7
Interest expenses	(155.5)	(15.4)	(8.1)	-	-	(53.7)	(33.9)	(968.1)	(1,172.8)	(1,243.8)	(1,433.1)
<b>Operating profit</b>	<b>387.8</b>	<b>278.6</b>	<b>130.5</b>	<b>10,600.1</b>	<b>15,690.3</b>	<b>12,009.7</b>	<b>19,194.6</b>	<b>17,343.5</b>	<b>21,036.1</b>	<b>15,654.7</b>	<b>19,179.2</b>
Income tax	(444.3)	(273.4)	(159.1)	(3,234.5)	(3,536.7)	(3,181.1)	(5,362.0)	(4,641.6)	(5,629.9)	(4,189.7)	(5,132.9)
LAT (adjusted for income tax impact)	(133.8)	(249.4)	(143.9)	(1,995.8)	(4,052.5)	(2,812.0)	(3,871.5)	(5,715.6)	(4,782.5)	(3,143.5)	(3,957.0)
Distribution to perpetual	-	-	-	-	-	-	(656.6)	(4,338.8)	(5,443.8)	(4,413.8)	(3,383.8)
Minority Interest	2.4	(107.7)	(70.4)	(435.9)	(402.9)	(11.1)	(440.7)	(1,073.3)	(1,431.6)	(967.7)	(1,070.1)
<b>Core net profit</b>	<b>(187.9)</b>	<b>(351.9)</b>	<b>(242.9)</b>	<b>4,933.8</b>	<b>7,698.1</b>	<b>6,005.6</b>	<b>8,863.8</b>	<b>1,574.2</b>	<b>3,748.3</b>	<b>2,940.0</b>	<b>5,635.4</b>
Revaluation gain / (loss) - after tax	492.8	58.1	631.9	2,513.1	3,177.0	3,144.6	3,361.4	6,575.0	2,000.0	2,000.0	2,000.0
<b>Underlying net profit</b>	<b>304.9</b>	<b>(293.9)</b>	<b>389.1</b>	<b>7,447.0</b>	<b>10,875.1</b>	<b>9,150.2</b>	<b>12,225.2</b>	<b>8,149.3</b>	<b>5,748.3</b>	<b>4,940.0</b>	<b>7,635.4</b>
Exceptional items	776.6	818.6	657.4	141.8	448.6	20.6	386.6	4,454.8	-	-	-
<b>Reported net profit</b>	<b>1,081.5</b>	<b>524.8</b>	<b>1,046.4</b>	<b>7,588.8</b>	<b>11,323.7</b>	<b>9,170.8</b>	<b>12,611.8</b>	<b>12,604.1</b>	<b>5,748.3</b>	<b>4,940.0</b>	<b>7,635.4</b>
Fully diluted EPS (Rmb)	NA	0.04	0.07	0.50	0.74	0.60	0.78	0.85	0.39	0.34	0.52
Core EPS (Rmb)	NA	(0.03)	(0.02)	0.33	0.51	0.40	0.55	0.11	0.26	0.20	0.39
Total DPS (Rmb)	NA	0.01	0.07	0.13	0.19	0.14	0.43	0.43	0.20	0.17	0.26
Payout ratio	NA	-36%	-432%	39%	37%	38%	71%	398%	76%	84%	67%
<b>Exceptional items</b>											
Disposal gain / (loss)	760.4	474.5	-	-	-	-	-	-	-	-	-
Exchange gain / (loss)	274.3	201.9	4.4	271.8	448.6	20.6	386.6	(47.1)	-	-	-
Reversal / (Provision) for financial guarantees	-	(66.0)	265.2	-	-	-	-	-	-	-	-
Fair value change of financial assets	(562.7)	-	-	-	-	-	-	3,758.1	-	-	-
Others	304.6	208.2	387.8	(130.0)	-	-	-	743.8	-	-	-
<b>Total</b>	<b>776.6</b>	<b>818.6</b>	<b>657.4</b>	<b>141.8</b>	<b>448.6</b>	<b>20.6</b>	<b>386.6</b>	<b>4,454.8</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Margin</b>											
Gross margin	38.6%	41.1%	34.0%	29.2%	33.3%	27.9%	29.5%	28.5%	29.4%	20.5%	19.0%
Pre-LAT development margin	41.7%	45.5%	30.8%	30.5%	36.2%	29.1%	29.8%	28.8%	29.7%	20.4%	18.9%
<b>Post-LAT development margin</b>	<b>37.2%</b>	<b>38.4%</b>	<b>27.9%</b>	<b>26.1%</b>	<b>29.5%</b>	<b>24.7%</b>	<b>25.6%</b>	<b>23.5%</b>	<b>25.2%</b>	<b>17.8%</b>	<b>16.2%</b>
EBIT margin	16.3%	7.2%	1.8%	23.1%	25.3%	18.3%	20.4%	16.2%	19.4%	12.8%	13.1%
Operating margin	12.2%	7.7%	2.3%	23.1%	25.3%	18.4%	20.5%	15.6%	18.7%	12.0%	12.3%
LAT % sales	-4.7%	-7.6%	-3.0%	-4.7%	-7.1%	-4.7%	-4.5%	-5.6%	-4.7%	-2.7%	-2.8%
<b>Net Margin (after MI)</b>	<b>-5.9%</b>	<b>-9.8%</b>	<b>-4.2%</b>	<b>10.8%</b>	<b>12.4%</b>	<b>9.2%</b>	<b>9.5%</b>	<b>1.4%</b>	<b>3.3%</b>	<b>2.3%</b>	<b>3.6%</b>
<b>YoY growth (%)</b>											
Net Turnover	58.3%	14.5%	58.7%	703.1%	34.9%	5.4%	43.6%	18.9%	1.3%	15.7%	19.9%
EBIT	50.7%	-49.7%	-60.5%	10237.2%	48.0%	-23.8%	59.8%	-5.8%	21.6%	-23.8%	22.2%
<b>Core net profit</b>	<b>-286.3%</b>	<b>87.3%</b>	<b>-31.0%</b>	<b>-2131.5%</b>	<b>56.0%</b>	<b>-22.0%</b>	<b>47.6%</b>	<b>-82.2%</b>	<b>138.1%</b>	<b>-21.6%</b>	<b>91.7%</b>
Reported net profit	232.3%	-51.5%	99.4%	625.2%	49.2%	-19.0%	37.5%	-0.1%	-54.4%	-14.1%	54.6%
<b>Development properties</b>											
Contracted sales for the period (sqm)	318,251	1,135,394	5,637,000	7,887,000	12,199,000	15,474,000	14,894,000	18,198,000	20,315,200	21,052,853	20,625,606
GFA completed (sqm)	NA	NA	1,190,000	8,988,000	11,342,000	13,739,000	19,382,000	20,630,000	18,524,213	21,684,919	22,785,645
GFA recognized (sqm)	247,990	355,529	881,000	8,131,459	9,471,000	10,635,000	15,000,000	16,830,000	18,638,854	18,037,519	21,398,052
Y/Y%	NA	43%	148%	823%	16%	12%	41%	12%	11%	-3%	19%
<b>Gross revenue psm (Rmb)</b>	<b>12,157</b>	<b>9,831</b>	<b>5,724</b>	<b>5,576</b>	<b>6,385</b>	<b>5,972</b>	<b>6,149</b>	<b>6,384</b>	<b>5,748</b>	<b>6,837</b>	<b>6,892</b>
Y/Y%	NA	-19%	-42%	-3%	15%	-6%	3%	4%	-10%	19%	1%
<b>Contracted sales (Rmb mn)</b>	<b>3,241</b>	<b>6,032</b>	<b>30,299</b>	<b>50,424</b>	<b>80,380</b>	<b>92,250</b>	<b>100,397</b>	<b>131,510</b>	<b>142,166</b>	<b>150,050</b>	<b>143,548</b>
Y/Y%	96%	86%	402%	66%	59%	15%	9%	31%	8%	6%	-4%
<b>Contracted sales (sqm) - (incl JV and associates)</b>	<b>318,251</b>	<b>1,135,394</b>	<b>5,637,000</b>	<b>7,887,000</b>	<b>12,199,000</b>	<b>15,474,000</b>	<b>14,894,000</b>	<b>18,198,000</b>	<b>20,315,200</b>	<b>21,052,853</b>	<b>20,625,606</b>
Y/Y%	28%	257%	396%	40%	55%	27%	-4%	22%	12%	4%	-2%
<b>Average Selling Price (Rmb psm)</b>	<b>10,183</b>	<b>5,313</b>	<b>5,375</b>	<b>6,393</b>	<b>6,589</b>	<b>5,962</b>	<b>6,741</b>	<b>7,227</b>	<b>6,998</b>	<b>7,127</b>	<b>6,960</b>
Y/Y%	53%	-48%	1%	19%	3%	-10%	13%	7%	-3%	2%	-2%

Source: Company data, J.P. Morgan estimates.

Table 8: Evergrande – detailed balance sheet model, December 31 fiscal year-ends, 2007 –17E (Rmb mn)

	2007	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E
<b>Current assets</b>											
Properties under development / land dev rights	9,801.1	17,159.6	35,439.5	49,133.6	91,380.4	133,293.6	160,543.7	210,793.2	237,000.4	248,972.8	253,654.1
Properties held for sales	987.0	2,774.6	3,045.7	6,213.1	8,434.5	15,158.8	24,288.8	35,682.4	39,077.5	48,749.2	52,377.8
Receivables and prepayments	4,845.4	3,590.4	5,318.9	16,092.1	25,062.5	25,656.3	49,143.8	63,895.0	63,895.0	63,895.0	63,895.0
Tax recoverable	-	31.8	257.9	205.3	439.5	1,245.3	1,748.7	2,253.0	2,253.0	2,253.0	2,253.0
Pledged bank deposits	1,725.8	1,167.9	7,044.8	7,595.7	8,122.4	7,399.3	13,535.0	29,651.4	29,651.4	29,651.4	29,651.4
Cash and cash equivalents	1,640.9	749.7	7,333.2	12,356.3	20,081.9	17,790.3	40,118.5	29,846.8	10,880.6	13,453.0	20,036.3
<b>Total current assets</b>	<b>19,000.2</b>	<b>25,474.0</b>	<b>58,440.1</b>	<b>91,596.0</b>	<b>153,521.2</b>	<b>200,543.6</b>	<b>289,378.4</b>	<b>383,650.1</b>	<b>394,286.2</b>	<b>418,502.7</b>	<b>433,395.9</b>
<b>Non-current assets</b>											
Investment properties	1,571.5	1,741.4	3,130.8	10,116.6	18,918.6	24,941.6	36,038.7	61,856.7	64,623.4	67,390.1	70,156.7
PP&E and goodwill	218.0	450.1	395.8	1,314.5	5,140.0	9,006.2	11,817.3	16,358.5	20,744.9	24,698.8	28,262.6
Land use rights	470.8	250.9	279.5	760.9	445.8	2,347.1	2,796.5	3,388.0	3,388.0	3,388.0	3,388.0
Deferred taxation assets	123.9	324.4	522.2	340.2	648.6	1,039.8	1,290.8	2,447.4	2,447.4	2,447.4	2,447.4
Receivables	-	281.8	303.0	324.2	349.3	1,112.2	2,626.4	5,221.4	5,221.4	5,221.4	5,221.4
<b>Total non-current assets</b>	<b>2,384.2</b>	<b>3,048.6</b>	<b>4,631.2</b>	<b>12,856.5</b>	<b>25,502.2</b>	<b>38,446.9</b>	<b>58,769.8</b>	<b>90,812.0</b>	<b>97,965.1</b>	<b>104,685.6</b>	<b>111,016.1</b>
<b>Total assets</b>	<b>21,384.4</b>	<b>28,522.6</b>	<b>63,071.3</b>	<b>104,452.5</b>	<b>179,023.4</b>	<b>238,990.6</b>	<b>348,148.2</b>	<b>474,462.1</b>	<b>492,251.4</b>	<b>523,188.3</b>	<b>544,412.0</b>
<b>Current liabilities</b>											
Payables and accruals	4,194.1	4,469.2	9,799.8	21,780.8	49,196.1	77,788.4	99,895.4	118,052.8	128,052.8	138,052.8	148,052.8
Receipt in advance from customers	1,763.5	3,503.3	24,306.1	24,081.4	31,614.0	44,833.5	39,000.4	47,347.9	63,895.3	72,472.3	56,782.5
Taxation payable	561.3	877.8	1,031.9	4,567.5	8,764.9	8,725.2	13,505.6	17,552.8	17,552.8	17,552.8	17,552.8
Bank borrowings	646.2	6,213.8	6,359.7	7,000.1	10,228.0	19,030.7	35,796.1	79,663.3	81,353.3	90,000.0	110,000.0
Other liabilities	-	197.4	-	-	-	-	-	-	-	-	-
<b>Total current liabilities</b>	<b>7,165.1</b>	<b>15,261.5</b>	<b>41,497.6</b>	<b>57,429.9</b>	<b>99,802.9</b>	<b>150,377.8</b>	<b>188,197.5</b>	<b>262,616.8</b>	<b>290,854.2</b>	<b>318,077.8</b>	<b>332,388.1</b>
<b>Non-current liabilities</b>											
Bank borrowings	8,915.5	4,226.4	7,816.0	24,160.0	41,498.7	41,243.1	73,021.3	82,021.4	80,000.0	90,000.0	100,000.0
Convertible preferred shares and embeded deriva	3,970.4	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	482.1	451.5	600.5	2,165.1	3,591.0	4,939.8	6,716.3	10,270.8	10,937.5	11,604.1	12,270.8
<b>Total non-current liabilities</b>	<b>13,368.0</b>	<b>4,677.9</b>	<b>8,416.5</b>	<b>26,325.2</b>	<b>45,089.7</b>	<b>46,921.4</b>	<b>80,608.1</b>	<b>99,467.3</b>	<b>98,112.6</b>	<b>108,779.2</b>	<b>119,445.9</b>
<b>Equity attrib to equity holders of the parent</b>											
Issued capital	125.0	209.3	1,044.1	1,044.1	1,037.2	1,043.3	1,109.7	1,020.7	1,020.7	1,020.7	1,020.7
Share premium	-	6,000.6	7,958.0	7,853.0	5,423.5	2,902.0	4,227.5	-	-	-	-
Retained profit	1,153.1	1,662.1	2,640.4	9,524.5	19,897.4	27,771.9	35,046.6	40,268.9	41,156.2	41,637.4	43,472.5
Reserves	(640.5)	389.8	1,219.4	1,544.6	5,601.6	6,546.5	4,232.3	5,848.8	7,848.8	9,848.8	11,848.8
Proposed dividend	-	-	-	-	-	-	3,973.7	3,981.3	569.1	166.8	1,508.3
<b>Shareholders' equity</b>	<b>637.7</b>	<b>8,261.9</b>	<b>12,861.8</b>	<b>19,966.2</b>	<b>31,959.7</b>	<b>38,263.7</b>	<b>48,589.8</b>	<b>51,119.8</b>	<b>50,594.8</b>	<b>52,673.7</b>	<b>57,850.4</b>
Perpetual capital instrument	-	-	-	-	-	-	25,023.8	52,852.2	42,852.2	32,852.2	22,852.2
Minority interests	213.6	321.3	295.3	731.2	2,171.0	3,427.6	5,729.1	8,406.0	9,837.7	10,805.3	11,875.4
<b>Total equity</b>	<b>851.3</b>	<b>8,583.1</b>	<b>13,157.1</b>	<b>20,697.4</b>	<b>34,130.8</b>	<b>41,691.3</b>	<b>79,342.6</b>	<b>112,378.0</b>	<b>103,284.6</b>	<b>96,331.3</b>	<b>92,578.0</b>
<b>Total liabilities and shareholders equity</b>	<b>21,384.4</b>	<b>28,522.6</b>	<b>63,071.3</b>	<b>104,452.5</b>	<b>179,023.4</b>	<b>238,990.6</b>	<b>348,148.2</b>	<b>474,462.1</b>	<b>492,251.4</b>	<b>523,188.3</b>	<b>544,412.0</b>
Net debt / (cash)	10,165.4	8,522.6	(202.3)	11,208.2	23,522.4	35,084.3	55,163.9	102,186.5	120,821.3	136,895.6	160,312.3
<b>Net debt / equity (if perp is debt)</b>	<b>1594.1%</b>	<b>103.2%</b>	<b>-1.6%</b>	<b>56.1%</b>	<b>73.6%</b>	<b>91.7%</b>	<b>165.0%</b>	<b>303.3%</b>	<b>351.6%</b>	<b>377.2%</b>	<b>391.6%</b>
<b>Net debt / equity</b>	<b>1594.1%</b>	<b>103.2%</b>	<b>-1.6%</b>	<b>56.1%</b>	<b>73.6%</b>	<b>91.7%</b>	<b>113.5%</b>	<b>199.9%</b>	<b>266.9%</b>	<b>314.9%</b>	<b>352.1%</b>
<b>Book value per share (Rmb)</b>	<b>NA</b>	<b>0.60</b>	<b>0.86</b>	<b>1.33</b>	<b>2.15</b>	<b>2.39</b>	<b>3.33</b>	<b>3.50</b>	<b>3.47</b>	<b>3.61</b>	<b>3.97</b>

Source: Company data, J.P. Morgan estimates.

## Investment Thesis, Valuation and Risks

### Evergrande Real Estate *(Underweight; Price Target: HK\$2.40)*

#### **Investment Thesis**

Evergrande's result was a big miss, mainly due to more losses from non-property business and higher tax payment. Despite very weak operating cash flow, the company still declared a big dividend payment, which resulted in 14% dividend yield on its stock. Such result and payout is barely doable in 2014 and is not likely to continue in 2015E. Moreover, Evergrande has channeled more capex to non-property businesses with higher operational risk that generate no OCF. With the increased financial and operation risk, together with a non-sustainable business model which results in a very low earnings yield, we downgrade the stock to Underweight.

#### **Valuation**

Our Dec-15 PT of HK\$2.40 is based on a 6.0x 2015-17E avg P/E. Our target multiple is among the lowest in the sector, given the corporate governance risk and high gearing.

#### **Risks to Rating and Price Target**

Key upside risks include a sudden increase in demand in low-tier cities, loosening credit that brings down funding costs, and better-than-expected operation in the water business.

## Evergrande Real Estate: Summary of Financials

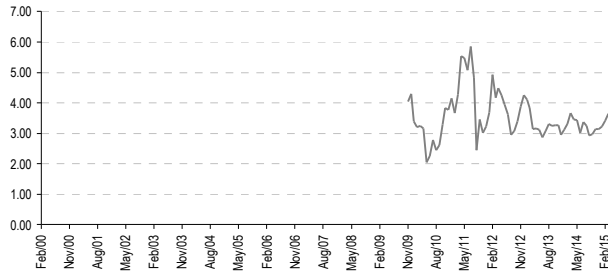
Income Statement					Cash flow statement				
Rmb in millions, year end Dec	FY14	FY15E	FY16E	FY17E	Rmb in millions, year end Dec	FY14	FY15E	FY16E	FY17E
Revenues	111,398	112,509	130,113	156,046	EBIT	18,000	21,880	16,675	20,375
% change Y/Y	18.9%	1.0%	15.6%	19.9%	Depr. & amortization	0	1,614	2,046	2,436
EBIT	18,000	21,880	16,675	20,375	Change in working capital	(56,638)	16,752	24,020	9,710
% change Y/Y	(5.8%)	21.6%	(23.8%)	22.2%	Others	(30,312)	(31,492)	(35,764)	(34,333)
EBIT Margin	16.2%	19.4%	12.8%	13.1%	Cash flow from operations	(68,950)	8,754	6,977	(1,812)
Net Interest	(656)	(844)	(1,020)	(1,195)	Capex	(6,000)	(6,000)	(6,000)	(6,000)
Earnings before tax	17,343	21,036	15,655	19,179	Disposal/(purchase)	(5,278)	(5,509)	(5,509)	(5,509)
% change Y/Y	(9.6%)	21.3%	(25.6%)	22.5%	Net Interest	(14,289)	(17,356)	(18,536)	(21,376)
Tax	(10,357)	(10,412)	(7,333)	(9,090)	Free cash flow	(79,963)	(2,328)	(3,990)	(12,692)
as % of EBT	59.7%	49.5%	46.8%	47.4%	Equity raised/(repaid)	(4,316)	0	0	0
Net income (reported)	16,943	11,192	9,354	11,019	Debt raised/(repaid)	80,696	(10,331)	8,647	20,000
% change Y/Y	27.7%	(33.9%)	(16.4%)	17.8%	Other	-	-	-	-
Core net profit	1,574	3,748	2,940	5,635	Dividends paid	(6,266)	(6,273)	(2,861)	(2,459)
% change Y/Y	(82.2%)	138.1%	(21.6%)	91.7%	Beginning cash	40,118	29,847	10,881	13,453
Shares outstanding	14,589	14,589	14,589	14,589	Ending cash	30,316	10,816	12,358	17,911
EPS (reported) (Rmb)	0.85	0.39	0.34	0.52	DPS (Rmb)	0.43	0.20	0.17	0.00
% change Y/Y	8.2%	(53.9%)	(14.1%)	54.6%					
DPS	0.43	0.20	0.17	0.00					
% change Y/Y	0.0%	(54.4%)	(14.1%)	(100.0%)					
Balance sheet					Ratio Analysis				
Rmb in millions, year end Dec	FY14	FY15E	FY16E	FY17E	% , year end Dec	FY14	FY15E	FY16E	FY17E
Cash and cash equivalents	59,498	40,532	43,104	49,688	EBIT margin	16.2%	19.4%	12.8%	13.1%
Accounts receivable	63,895	63,895	63,895	63,895	Net margin	11.3%	5.1%	3.8%	4.9%
Inventories	-	-	-	-	SG&A/Sales	11.8%	8.5%	6.1%	4.3%
Others	260,257	289,859	311,503	319,813	Sales per share growth	28.7%	2.2%	15.6%	19.9%
Current assets	383,650	394,286	418,503	433,396	Sales growth	18.9%	1.0%	15.6%	19.9%
LT investments	74,454	77,220	79,987	82,754	Net profit growth	(0.1%)	(54.4%)	(14.1%)	54.6%
Net fixed assets	16,358	20,745	24,699	28,263	EPS growth	8.2%	(53.9%)	(14.1%)	54.6%
Total Assets	474,462	492,251	523,188	544,412	Interest coverage (x)	27.4	27.8	18.3	19.1
Liabilities					Net debt to total capital	47.6%	53.9%	58.7%	63.4%
ST loans	79,663	81,353	90,000	110,000	Net debt to equity	90.9%	117.0%	142.1%	173.2%
Payables	135,606	145,606	155,606	165,606	Sales/assets	0.3	0.2	0.3	0.3
Others	47,348	63,895	72,472	56,783	Assets/equity	8.3	9.5	9.8	9.7
Total current liabilities	262,617	290,854	318,078	332,388	ROE	3.2%	7.4%	5.7%	10.2%
Long-term debt	82,021	80,000	90,000	100,000	ROCE	3.9%	5.2%	4.0%	4.3%
Other liabilities	17,446	18,113	18,779	19,446					
Total Liabilities	362,084	388,967	426,857	451,834					
Shareholder's equity	51,120	50,595	52,674	57,850					
BVPS	3.50	3.47	3.61	3.97					

Source: Company reports and J.P. Morgan estimates.

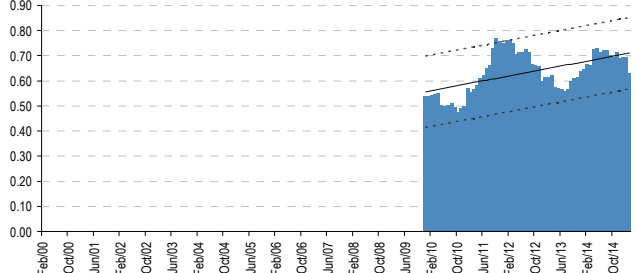
**JPM Q-Profile**  
**Evergrande Real Estate Group Ltd. (CHINA / Financials)**  
 As Of: 27-Mar-2015

**Global Equity Quantitative Analysis**

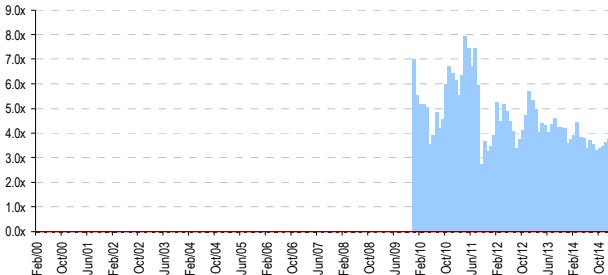
**Local Share Price** **Current: 3.65**



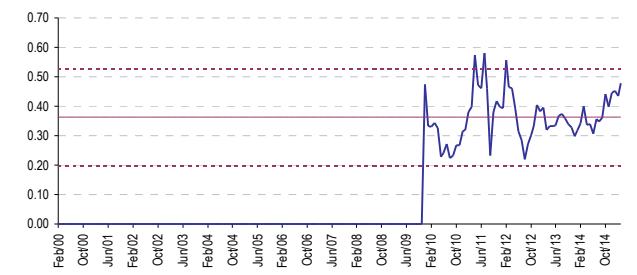
**12 Mth Forward EPS** **Current: 0.63**



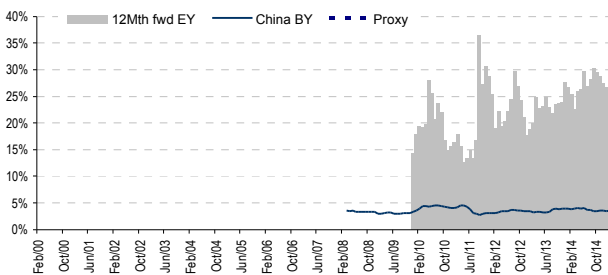
**PE (1Yr Forward)** **Current: 4.6x**



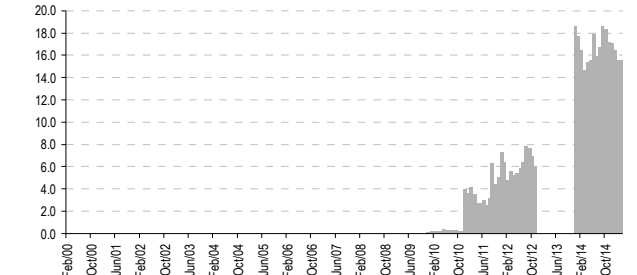
**P/E Relative to China Index** **Current: 0.48**



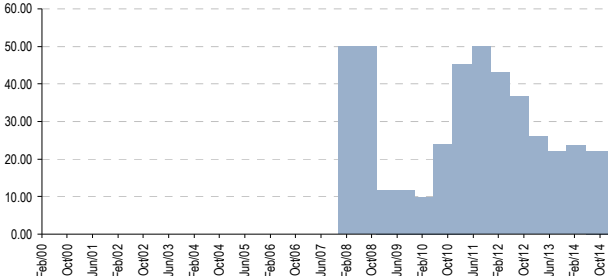
**Earnings Yield (& Local Bond Yield)** **Current: 22%**



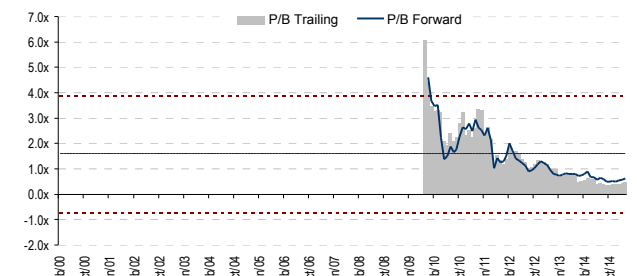
**Dividend Yield (Trailing)** **Current: 15.55**



**ROE (Trailing)** **Current: 22.17**



**Price/Book (Value)** **Current: 0.5x**



**Summary**

<b>Evergrande Real Estate Group Ltd.</b>		<b>TICKER 3333 HK</b>		<b>As Of: 27-Mar-15</b>							
<b>CHINA</b>				<b>Local Price: 3.65</b>							
<b>Financials</b>				<b>EPS: 0.63</b>							
	<b>Latest</b>	<b>Min</b>	<b>Max</b>	<b>Median</b>	<b>Average</b>	<b>2 S.D.+</b>	<b>2 S.D. -</b>	<b>% to Min</b>	<b>% to Max</b>	<b>% to Med</b>	<b>% to Avg</b>
12mth Forward PE	4.62x										
P/BV (Trailing)	0.48	0.38	6.11	1.29	1.60	3.90	-0.70	-21%	1184%	171%	236%
Dividend Yield (Trailing)	15.55x	0.00	18.63	3.96	6.03	19.29	-7.23	-100%	20%	-75%	-61%
ROE (Trailing)	22.17	9.91	50.00	24.01	30.09	58.73	1.46	-55%	126%	8%	36%

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, JPMorgan Quantitative & Derivative Strategy

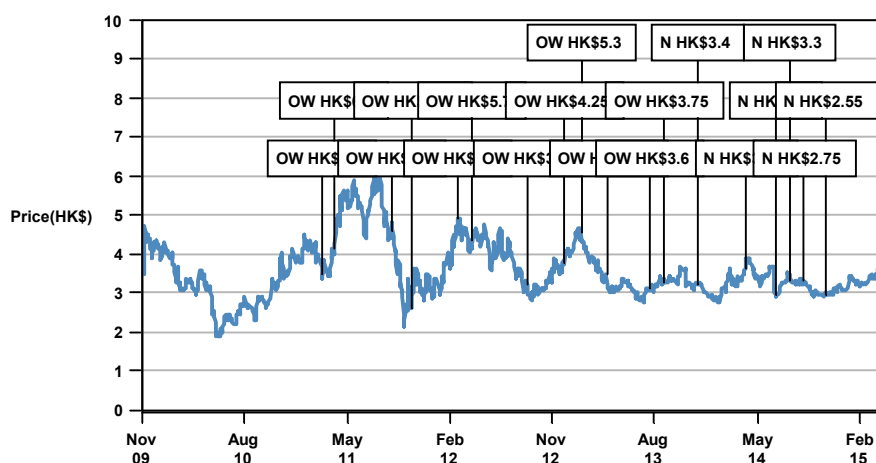
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Evergrande Real Estate (3333.HK, 3333 HK) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.  
 Initiated coverage Feb 24, 2011.

Date	Rating	Share Price (HK\$)	Price Target (HK\$)
24-Feb-11	OW	3.51	5.80
30-Mar-11	OW	4.17	6.10
31-Aug-11	OW	4.62	6.50
25-Oct-11	OW	2.60	4.95
23-Feb-12	OW	4.91	5.90
29-Mar-12	OW	4.35	5.70
29-Aug-12	OW	3.21	3.90
30-Nov-12	OW	3.79	4.25
17-Jan-13	OW	4.56	5.30
27-Mar-13	OW	3.49	4.25
22-Jul-13	OW	3.11	3.60
27-Aug-13	OW	3.30	3.75
27-Nov-13	N	3.25	3.40
01-Apr-14	N	3.66	3.25
22-Jun-14	N	2.95	2.70
31-Jul-14	N	3.34	3.30
05-Sep-14	N	3.34	2.75
30-Oct-14	N	2.98	2.55



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J.P. Morgan Global Equity Research Coverage	45%	43%	12%
IB clients*	56%	49%	33%
JPMS Equity Research Coverage	45%	48%	7%
IB clients*	75%	67%	52%

\*Percentage of investment banking clients in each rating category.

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