

COMPANY NOTE

Target | Estimate Change

China | Property | China Property

6 May 2015

Jefferies

Sunac China Holdings Ltd (1918 HK) More to Get Settled Before Coming Back On Track; Maintain Hold

Key Takeaway

The increase in the equity interest for some JV projects with Greentown will enhance its NAV and earnings. However, risen gearing and the distortion of its land acquisition plan due to the association with Kaisa will cap its share performance. As a high beta play, Sunac stock movement will continue to be volatile. Subject to a fair valuation at 6.4x FY15E PE and 34% NAV disc, we maintain our Hold rating.

Framework agreement with Greentown: After a prolonged period of discussion, Sunac reached the agreement with Greentown (3900 HK, Hold) to settle the ownership of the JV projects among the two parties. Sunac will consolidate the interests of most JV projects except the disposal of its equity interests of Hangzhou First Class, Beijing Francais Demeure and Shanghai Bund House to Greentown. Tianjin National Game Village Project remains on a 49/51 structure between Sunac/Greentown. After the deal, Sunac would record a disposal gain of Rmb628mn but also recognize a net cash outflow of Rmb3.4bn.

NAV enhancement: The deal would strengthen Sunac's sales visibility with the projects situated in prime location of Tier 1 and the major Tier 2 cities. We raised our NAV est by 10% to HK\$15.1/share as a result of 1) the increase in the project equity interests, 2) revision of sales pace given the market recovery and 3) adjustment of our net debt forecast by taking into account the Rmb3.4bn cash outflow. Net gearing for FY15F is thus revised up from 66% to 82%.

Kaisa an overhang: Its involvement in Kaisa (1638 HK, NC) may continue to keep investors on the sideway since the condition of the deal became more complicated when the Kaisa Chairman returned. Overseas creditors rejected the proposal by Sunac for a deep haircut. Its acquisition of the four Shanghai projects was also suspended due to legal proceedings. Share performance will likely be capped with on-going uncertainties due to the concern of cash already paid and the distortion of its land acquisition plan.

Earnings revision: We revised up our FY15/16E core earnings by 11%/8% respectively due to asset disposal and rise in project equity interests.

Valuation/Risks

Our new TP of HK\$9.1/shr (fr. HK\$6.8) is based on a 40% (fr. 50%) disc to our NAV est. of HK\$15.1/shr (fr. HK\$13.6). We applied a narrowed discount on strong market recovery.

Catalyst: Improved clarity on Kaisa acquisitions. **Key risks:** poor sales, higher leverage & equity issue.

RMB	Prev.	2013A	Prev.	2014A	Prev.	2015E	Prev.	2016E
Rev. (MM)	--	30,837.0	--	25,072.0	27,593.0	26,858.0	28,363.0	29,834.0
Core Earnings (MM)	--	3,523	--	3,730	3,827	4,242	3,681	3,965
BV/Share	--	4.12	--	4.88	5.83	5.93	6.74	6.91
P/B		1.9x		1.6x		1.4x		1.2x
Dividend	--	0.19	--	0.19	0.20	0.22	0.19	0.20
Div. Yield		2.37%		2.37%		2.75%		2.50%
EPS								
FY Dec	--	1.05	--	1.10	1.13	1.25	1.09	1.17
FY P/E		7.6x		7.3x		6.4x		6.8x

HOLD

Price target HK\$9.10
(from HK\$6.80)
Price HK\$10.00

Bloomberg: 1918 HK
Reuters: 1918.HK

Financial Summary

Net Debt (MM): HK\$9,342.0

Market Data

52 Week Range: HK\$10.76 - HK\$3.44

Total Entprs. Value (MM): HK\$43,132.0

Market Cap. (MM): HK\$33,790.0

Shares Out. (MM): 3,379.0

Float (MM): 1,791.3

Avg. Daily Vol.: 22,824,480

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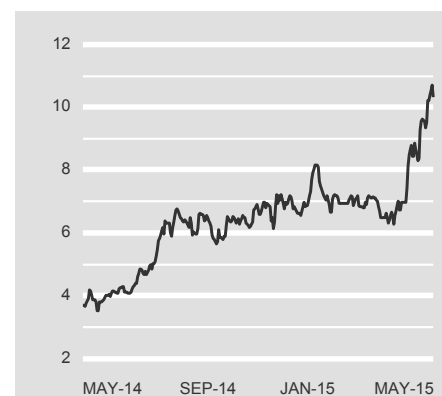
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Price Performance



Scenarios

Target Investment Thesis

- Achieves flat sales in 2015E
- Gross profit margin at 16%.
- No acquisition of Kaisa
- Buy with TP of HK\$9.1 price target based on a 40% discount to our NAV estimation.

Upside Scenario

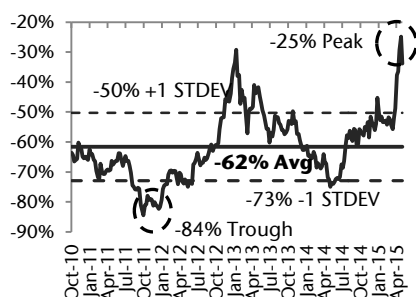
- Achieve significant sales growth in 2015E
- ASP hike with improved margin
- Financial position improves substantially
- Value added acquisitions
- Bull case TP of HK\$11.3 based on a 25% discount to our NAV estimation.

Downside Scenario

- Slower presales in 2015 and miss sales target
- Severe policy tightening
- Financial position deteriorates due to unjustified acquisition
- Aggressive ASP cut
- Bear case TP of HK\$6.8 based on a 55% discount to our NAV estimation.

Long Term Analysis

Discount to NAV



Source: Bloomberg, Jefferies

Long Term Financial Model Drivers

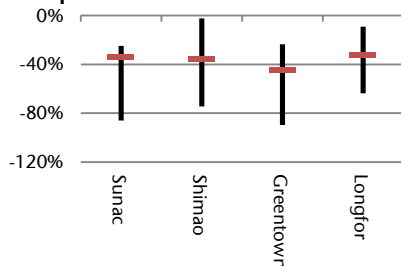
LT Earnings CAGR (2013-16E)	4%
LT Book Value CAGR (2013-16E)	19%

Other Considerations

- The increase in the equity interest for some JV projects with Greentown will enhance its NAV and earnings. However, risen gearing and the distortion of its land acquisition plan due to the association with Kaisa will cap its share performance.

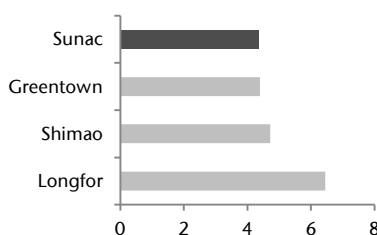
Peer Group

Group Discount to NAV



Source: Jefferies

2015 forward P/E



Source: Jefferies

Recommendation / Price Target

Ticker	Rec.	PT*
1918 HK	Hold	9.1
813 HK	Hold	15.9
3900 HK	Hold	9.0
960 HK	Buy	12.3

* Trading currency

Catalysts

- Higher-than-expected presales and ASP
- Increase in market share and gross margin
- Successful debt restructuring and reduction in finance cost

Company Description

Founded in 2003 and listed in 2010, Sunac China started its residential business in Tianjin and gradually expanded 8 cities. With a unique business model and targeting mid/high end customers only, Sunac managed to achieve Rmb51bn sales in 2013, ranked 11 nationally.

Framework agreement with Greentown

After a prolonged period of discussion, Sunac reached the agreement with Greentown (3900 HK, Hold) to settle the ownership of the JV projects among the two parties. Sunac will consolidate the interests of most JV projects except the disposal of its equity interests of Hangzhou First Class, Beijing Francais Demeure and Shanghai Bund House to Greentown. Tianjin National Game Village Project remains on a 49/51 structure between Sunac/Greentown. After the deal, Sunac would record a disposal gain of Rmb628mn but also recognize a net cash outflow of Rmb3.4bn.

Exhibit 1: Deal details of Sunac Greentown Investment Holdings

Project Details	City	Interest*	Equity Consideration	Debt Consideration	Total Consideration	Total sellable GFA
		%	Rmb mn	Rmb mn	Rmb mn	k sqm
Shanghai Bund House (黃浦灣)	Shanghai	51%	1,970	272	2,243	226
Shanghai Fuyuan Binjiang Project (富源濱江)	Shanghai	49%	50	902	952	114
Shanghai Magnolia Garden Serious (玉蘭系列)	Shanghai	100%	1,189	-661	528	361
Shanghai Hongkou Project (上海虹口地塊)	Shanghai	51%	209	-217	-8	52
Shanghai Gucun Project (上海顧村地塊)	Shanghai	51%	104	672	776	150
Francais Demeure (上海御園)	Shanghai	49%	1,370	-1,162	208	154
Caobaolu Project (漕寶路項目)	Shanghai	50%	227	249	476	82
Shanghai Central Garden (上海香溢花城)	Shanghai	60%	277	777	1,054	481
Magnolia Garden (玉蘭花園)	Wuxi	91%	3	-110	-106	544
Magnolia West Project (花園西地塊)	Wuxi	39%	7	35	42	518
Fairy Land (蘇州桃花源)	Suzhou	57%	4	2,161	2,165	127
Land Plot G58 (G58 地塊)	Suzhou	100%	N/A	N/A	N/A	115
Magnolia Sqaure (玉蘭廣場)	Changzhou	97%	54	10	65	1,319
Azure Coast (天津藍色海岸)	Tianjin	80%	24	364	388	192
Suzhou Ronglv Investment Limited	Suzhou	100%	10	174	184	N/A
Dynasty on the Bund & Majestic Mansion	Shanghai	100%	5,677	725	6,402	757
Total consideration			11,176	4,190	15,366	5,190

Source: Jefferies, company data, *total interest held by Sunac & Greentown JV company

Exhibit 2: Additional projects to be acquired by Sunac

	City	% to be acquired	Conside-ration	Unsold area
		%	Rmb mn	k sqm
Shanghai Rose Garden (玫瑰園) & Central Garden (香溢花城)	Shanghai	50%	561	244
Melodious Manor (西溪融莊)	Hangzhou	25%	168	17
Total			729	261

Source: Jefferies, company data

Exhibit 3: Projects to be disposed to Greentown

	City	% to be disposed	Conside-ration	Unsold area	Gain/Loss
		%	Rmb mn	k sqm	Rmb mn
Hangzhou First Class (之江一號)*	Hangzhou	25%	780	317	-160
Beijing Xinye Wanfa (北京御園)	Beijing	45%	1,062	N/A	172
Shanghai Bund House (黃浦灣)*	Shanghai	51%	1,970	147	615
Total			3,812	465	628

Source: Jefferies, company data

Valuation

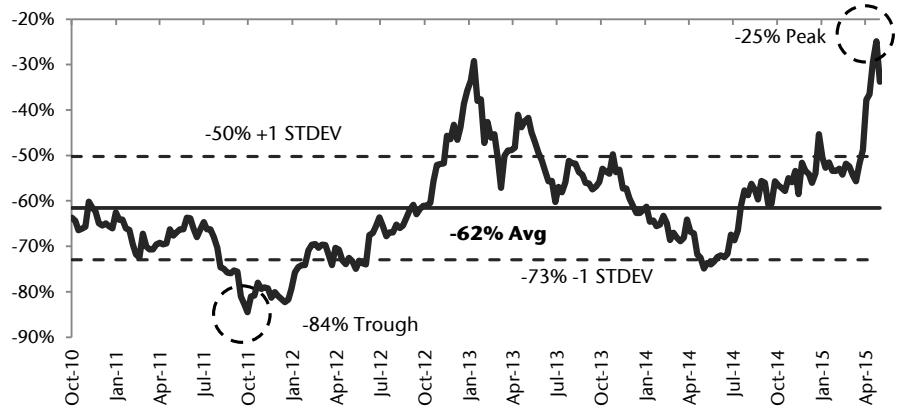
Sunac is trading at a 34% discount to NAV, vs. its historical average of a 62% discount since it was listed, and +1st deviation of 50% discount. Our new TP of HK\$9.1/shr (fr. HK\$6.8) is based on a 40% (fr. 50%) disc to our NAV est. of HK\$15.1/shr (fr. HK\$13.6). We applied a narrowed discount on strong market recovery. Catalyst: Improved clarity on Kaisa acquisitions. Key risks: poor sales, higher leverage & equity issue.

Exhibit 4: NAV breakdown

WACC (10.9%)	NAV (HK\$ mn)	NAV/share (HK\$)
Development property	74,197	22.1
Investment property	1,559	0.5
Net cash/(debt)	-25,224	-7.5
Net asset value	50,531	15.1

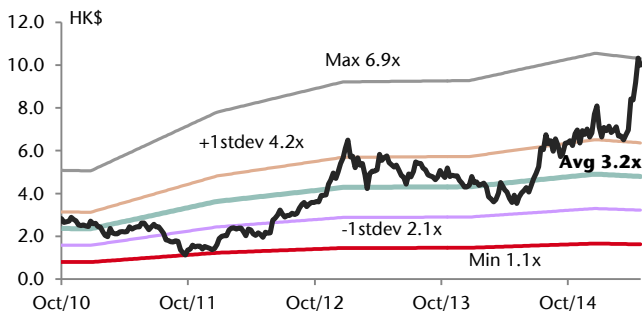
Source: Jefferies estimates

Exhibit 5: Historical NAV premium/discount



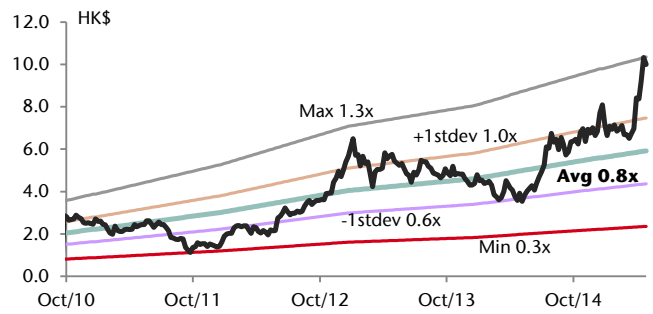
Source: Jefferies, Bloomberg as of May 6, 2015

Exhibit 6: PE Band



Source: Jefferies, Bloomberg as of May 6, 2015

Exhibit 7: PB Band



Source: Jefferies, Bloomberg as of May 6, 2015

Exhibit 8: Valuation Table

Company	Ticker	Price*	Mkt Cap	Rating	Tgt Price	Upside /Down	NAV*	Disc /prem.	PE			PB			DY		
									2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E
			US\$ mn														
COLI	688 HK	29.45	31,053	Buy	33.8	15%	33.8	-13%	12.7	10.1	10.0	2.2	1.8	1.5	1.6	1.9	2.0
CR Land	1109 HK	26.60	22,410	Buy	24.6	-8%	27.3	-3%	16.4	13.2	13.0	1.8	1.6	1.5	1.7	1.9	1.9
Vanke H	2202 HK	18.78	24,454	Buy	20.6	10%	24.2	-22%	11.0	10.5	9.3	2.2	1.9	1.7	2.7	3.3	3.8
Average of large developers						6%		-13%	13.4	11.3	10.8	2.1	1.8	1.5	2.0	2.4	2.6
Longfor	960 HK	13.88	10,404	Buy	12.3	-11%	20.5	-32%	9.8	9.2	9.0	1.6	1.3	1.1	2.1	2.5	2.6
Sino Ocean	3377 HK	6.18	5,984	Buy	5.3	-14%	10.6	-42%	9.9	10.3	14.1	0.8	0.9	0.9	3.7	3.9	3.9
Evergrande	3333 HK	7.43	14,121	Hold	3.6	-52%	8.9	-17%	10.1	10.4	9.7	2.0	1.7	1.6	7.2	7.2	4.0
CGH	2007 HK	4.04	11,772	Hold	3.3	-18%	6.6	-39%	6.9	6.7	7.2	1.3	1.1	1.1	5.3	4.6	5.6
Greentown	3900 HK	9.95	2,774	Hold	9.0	-10%	17.9	-44%	3.9	9.9	7.1	0.7	0.7	0.7	5.4	0.0	2.8
Shimao	813 HK	18.70	8,377	Hold	15.9	-15%	29.0	-35%	7.1	6.6	6.8	1.2	1.1	1.0	4.3	4.8	4.6
Sunac	1918 HK	10.00	4,366	Hold	9.1	-9%	15.1	-34%	7.6	7.3	6.4	1.9	1.6	1.3	2.4	2.4	2.8
R&F	2777 HK	9.66	4,016	U/P	6.9	-29%	17.3	-44%	4.2	6.3	6.0	0.7	0.7	0.6	8.0	0.0	0.0
Agile	3383 HK	6.40	3,234	U/P	3.9	-39%	13.1	-51%	4.0	4.7	6.2	0.6	0.5	0.6	7.4	6.3	4.7
Average of medium developers						-22%		-38%	7.1	7.9	8.1	1.2	1.1	1.0	5.1	3.5	3.4
CIFI	884 HK	2.50	1,944	Buy	2.7	8%	4.7	-47%	7.7	6.2	5.3	1.4	1.2	1.0	2.8	4.4	5.2
COGO	81 HK	4.94	1,454	Buy	7.6	54%	12.7	-61%	4.5	5.4	5.3	1.0	0.8	0.7	2.2	1.8	1.8
Franshion	817 HK	3.12	3,650	Buy	2.6	-17%	4.8	-35%	11.6	9.5	9.8	1.0	0.9	0.8	3.0	3.8	3.5
KWG	1813 HK	7.79	2,962	Buy	6.5	-17%	11.8	-34%	7.7	7.1	6.6	1.0	0.9	0.8	4.7	5.3	5.6
SZI	604 HK	4.02	3,479	Buy	4.9	22%	7.5	-46%	10.6	14.4	11.8	0.7	0.8	0.8	4.7	4.0	4.2
Soho	410 HK	5.74	3,850	Hold	5.5	-4%	7.8	-26%	5.6	13.5	28.7	0.6	0.6	0.6	5.4	5.4	3.5
Hopson	754 HK	9.07	2,625	Hold	7.5	-17%	24.9	-64%	8.1	10.1	17.4	0.3	0.4	0.4	0.0	0.0	0.0
Poly Property	119 HK	4.79	2,263	Hold	3.4	-29%	7.6	-37%	8.6	43.5	16.0	0.6	0.6	0.6	4.7	1.6	1.7
Powerlong	1238 HK	1.76	908	Hold	1.2	-32%	3.1	-43%	5.6	5.2	4.9	0.3	0.3	0.3	0.0	3.6	4.3
Renhe	1387 HK	0.43	1,760	U/P	0.4	-7%	0.7	-39%	N/A	N/A	N/A	0.4	0.3	N/A	0.0	0.0	0.0
Yanlord	YLLG SP	1.19	1,748	U/P	0.87	-27%	1.9	-39%	9.4	12.4	11.3	0.6	0.6	0.5	1.1	1.1	1.1
Average of niche developers						-6%		-44%	8.2	12.6	9.8	0.7	0.7	0.7	2.3	2.6	2.7
HK listed average						-10%		-37%	8.3	10.5	10.0	1.1	1.0	0.9	3.6	3.1	3.1
Vanke A	000002 CH	13.56	24,454	Buy	16.5	22%	19.4	-30%	9.9	9.5	8.4	1.9	1.7	1.5	3.0	3.7	4.2
CMP A	000024 CH	31.96	12,154	Hold	21.0	-34%	26.2	22%	19.6	19.4	19.5	3.1	2.6	2.4	1.0	1.0	1.0
Gemdale	600383 CH	12.66	9,173	U/P	7.1	-44%	11.8	7%	23.9	22.6	18.9	1.9	1.8	1.7	1.3	1.3	1.3
China Listed Average						-19%		0%	17.8	17.2	15.6	2.3	2.1	1.9	1.8	2.0	2.2
Overall Average						-12%		-33%	9.4	11.4	10.7	1.2	1.1	1.0	3.3	2.9	2.9

Source: Bloomberg as of May 6, 2015, Jefferies, *Trading currency

Exhibit 9: Summary of Financials

Income statement					
Rmb mn	2012	2013	2014	2015E	2016E
Revenues	20,843	30,837	25,072	26,858	29,834
COGS	(15,460)	(23,660)	(20,730)	(22,542)	(24,916)
Gross Profit	5,382	7,177	4,342	4,316	4,918
SG&A	(884)	(1,136)	(1,378)	(1,476)	(1,640)
EBIT	4,513	5,978	2,844	3,348	3,159
Interest expense	(84)	(580)	(1,267)	(1,354)	(1,534)
JV/Associates	(39)	72	3,202	3,330	3,397
Other gains/adjustments	294	140	0	0	0
PBT	4,684	5,684	4,902	5,529	5,238
Tax	(2,070)	(2,191)	(1,669)	(1,245)	(1,232)
Minority	(7)	(315)	(11)	(43)	(40)
Net profit	2,607	3,178	3,222	4,242	3,965
Net profit (core)	2,736	3,523	3,730	4,242	3,965
Shares outstanding (weighted)	3,005	3,302	3,350	3,350	3,350
EPS (core)	0.90	1.05	1.10	1.25	1.17
DPS	0.08	0.19	0.19	0.22	0.20
Balance sheet					
Rmb mn	2012	2013	2014	2015E	2016E
Investment properties	656	252	239	239	239
Others	1,243	1,604	1,663	1,663	1,663
Associates	4,205	7,909	12,994	12,994	12,994
Total fixed assets	6,103	9,765	14,895	14,895	14,895
Property under development	37,698	40,695	35,701	46,417	53,069
Completed properties for sale	8,704	17,412	13,682	13,409	13,543
Debtors & deposits	416	1,214	2,475	2,651	2,945
Bank balances & cash	12,263	16,009	25,041	18,285	19,277
Others	5,752	12,261	20,568	20,568	20,568
Total assets	70,934	97,355	112,362	116,225	124,296
Current liabilities	44,294	51,789	64,949	58,942	54,657
Long term debt	9,942	20,872	20,544	26,861	35,896
Other long term liabilities	167	0	0	0	0
Deferred income tax	4,537	6,483	5,887	5,887	5,887
Long term liabilities	14,646	27,355	26,431	32,748	41,782
Minority Interests	2,505	4,606	4,630	4,673	4,713
Shareholders' funds	9,489	13,605	16,353	19,863	23,145
Total liabilities and equity	70,934	97,355	112,362	116,225	124,296

Source: Company data, Jefferies estimates

Cash flow statement					
Rmb mn	2012	2013	2014	2015E	2016E
PBT ex. Exceptionals	4,684	5,684	4,902	5,529	5,238
Change in working cap.	6,610	4,813	16,285	(6,035)	(6,214)
Others	(3,603)	(4,674)	(7,384)	(6,200)	(4,546)
CF from operations	7,692	5,824	13,803	(6,706)	(5,523)
Investment properties	(94)	(24)	(777)	0	0
Others	(5,165)	(15,044)	(8,107)	(3,400)	0
CF from investing	(5,260)	(15,067)	(8,885)	(3,400)	0
Free cash flow	2,432	(9,244)	4,918	(10,106)	(5,523)
Free cash flow per share	0.81	(2.80)	1.47	(3.02)	(1.65)
Equity financing	24	1,628	126	0	0
Debt financing	3,757	7,972	6,172	4,080	7,198
Others	(582)	4,663	(3,973)	(731)	(684)
CF from financing	3,198	14,264	2,325	3,349	6,515
Increase in cash and cash equivalents	5,631	5,020	7,243	(6,757)	992
Beginning cash	2,763	8,394	13,414	20,657	13,900
Ending cash (ex.restricted cash)	8,394	13,414	20,657	13,900	14,892

Ratio Analysis (%)					
	2012	2013	2014	2015E	2016E
Gross Margin	26%	23%	17%	16%	16%
Operating margin	22%	19%	11%	12%	11%
Net profit margin	13%	11%	15%	16%	13%
Sales growth	97%	48%	-19%	7%	11%
EBIT growth	52%	32%	-52%	18%	-6%
Net profit growth	52%	29%	6%	14%	-7%
EPS growth	50%	16%	5%	14%	-7%
BVPS	3.16	4.12	4.88	5.93	6.91
Interest coverage (x)	3.6	3.2	2.6	2.6	2.4
Net debt to total capital	36%	28%	20%	35%	38%
Net debt to equity	79%	70%	45%	82%	95%
Sales/assets	40%	37%	24%	23%	25%
Assets/equity	748%	716%	687%	585%	537%
ROA	4%	4%	4%	4%	3%
ROE	33%	31%	25%	23%	18%
ROCE	12%	10%	8%	8%	6%

Company Description

Sunac China Holdings Ltd. Is a real estate development company.

Analyst Certification:

I, Venant Chiang, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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Other Companies Mentioned in This Report

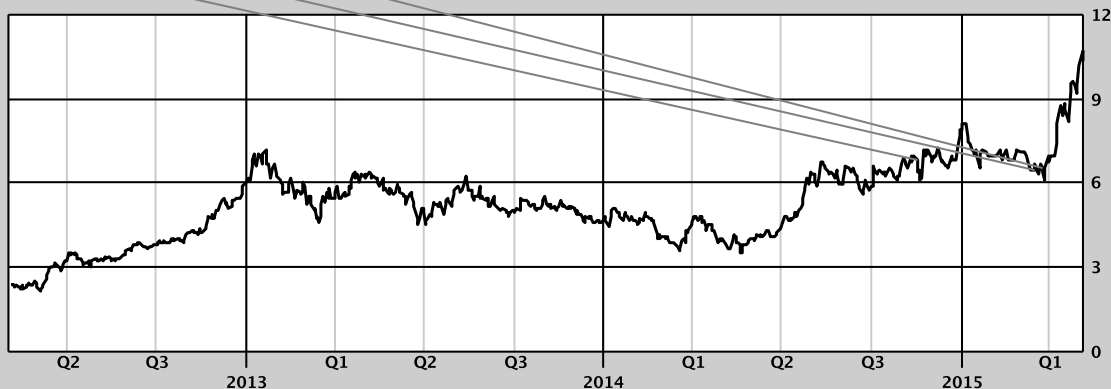
- Agile Property Holdings Ltd. (3383 HK: HK\$6.40, UNDERPERFORM)
- China Merchants Property - A (000024 CH: CNY31.96, HOLD)
- China Overseas Grand Oceans (81 HK: HK\$4.94, BUY)
- China Overseas Land & Investment (688 HK: HK\$29.45, BUY)
- China Resources Land Ltd. (1109 HK: HK\$26.60, BUY)
- China Vanke Co. Ltd. - A (000002 CH: CNY13.56, BUY)
- China Vanke Co. Ltd. - H (2202 HK: HK\$18.78, BUY)
- CIFI Holdings Co. Ltd. (884 HK: HK\$2.50, BUY)
- Country Garden Holdings Co. (2007 HK: HK\$4.04, HOLD)
- Evergrande Real Estate Group (3333 HK: HK\$7.43, HOLD)
- Franshion Properties (817 HK: HK\$3.12, BUY)
- Gemdale Corp. - A (600383 CH: CNY12.66, UNDERPERFORM)
- Greentown China Holdings (3900 HK: HK\$9.95, HOLD)
- Guangzhou R&F Properties - H (2777 HK: HK\$9.66, UNDERPERFORM)
- Hopson Development Holdings (754 HK: HK\$9.07, HOLD)
- KWG Property Holdings (1813 HK: HK\$7.79, BUY)
- Longfor Properties (960 HK: HK\$13.88, BUY)
- Poly Property (119 HK: HK\$4.79, HOLD)
- Powerlong Real Estate Holdings Ltd. (1238 HK: HK\$1.76, HOLD)
- Renhe Commercial Holdings (1387 HK: HK\$0.43, UNDERPERFORM)
- Shenzhen Investment Ltd. (604 HK: HK\$4.02, BUY)
- Shimao Property Holdings Ltd. (813 HK: HK\$18.70, HOLD)
- Sino-Ocean Land Holdings (3377 HK: HK\$6.18, BUY)
- Soho China Ltd. (410 HK: HK\$5.74, HOLD)
- Sunac China Holdings Ltd (1918 HK: HK\$10.00, HOLD)
- Yanlord Land Group Ltd. (YLLG SP: SGD1.19, UNDERPERFORM)

Rating and Price Target History for: Sunac China Holdings Ltd (1918 HK) as of 05-05-2015

11/17/14
I:B:HKD8.1

03/16/15
H:HKD7.1

03/24/15
H:HKD6.8



Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY	1064	51.23%	287	26.97%
HOLD	842	40.54%	160	19.00%
UNDERPERFORM	171	8.23%	11	6.43%

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