



Company Report: Evergrande (03333 HK)

公司报告: 恒大地产 (03333 HK)

Van Liu 刘斐凡
(86755) 2397 6672
liufeifan@gtjas.com
12 December 2017

Improving Fundamental Prospects, Maintain "Buy"

改善的基本面展望, 维持“买入”

- **Contracted sales will be maintained at a tremendous scale due to sufficient saleable resources in wide geographic locations.** During Jan.-Nov. 2017, contracted sales amounted to RMB470.40 bn, increasing by 34.8% YoY, achieving its 2017 sales target. As at the end of 1H17, the Company had 719 projects in 223 cities. Total GFA amounted to 276 mn sq.m.
- **We expect profitability to recover.** The Company's unit land cost amounted to RMB1,658 per sq.m, 16.7% of ASP during Jan.-Nov. 2017. Gross margin is expected to remain at around 34.2% between 2017 and 2019. In addition, the Company will strive to decrease its net gearing ratio.
- **We think that the new performance targets should be achievable, hinting at improving fundamental prospects.** The net profit (after deducting non-recurring gains and losses) of Hengda Real Estate for 2017, 2018 and 2019 is not expected to be less than RMB24.3 bn, RMB50.0 bn and RMB55.0 bn, respectively.
- 1H17 underlying net profit beat expectations. As we revise up underlying net profit, we revise up target price from HK\$17.12 to HK\$29.60, which represents a 29% discount to the Company's revised 2017E NAV of HK\$41.70 per share, 12.7x underlying 2017 PER and 2.3x 2017 PBR. **We maintain "Buy". Risk:** lower-than-expected house sales, debt replacement missing and potential liquidity risk.
- 由于广阔地域下的充足可售资源, 合约销售将维持一个极大规模。在2017年1-11月, 合约销售达到人民币4,704.0亿元, 同比增长34.8%, 达成其2017年销售目标。在2017年上半年末, 公司在223个城市拥有719个项目。总建筑面积达到2.76亿平米。
- **我们预期盈利能力的恢复。**公司的单位土地成本达到人民币1,658元每平米, 为2017年1-11月合约销售均价的16.7%。其毛利率将在2017到2019年维持在34.2%左右。另外, 公司将致力于降低其净资产负债率。
- **我们认为新的表现承诺是可实现的, 预示着一个改善的基本面展望。**恒大地产的净利润(扣除非经常性损益)在2017年, 2018年及2019年分别应不少于人民币243亿元, 人民币500亿元及人民币550亿元。
- 2017年上半年核心净利高于我们预期。由于我们上调了核心净利, 我们将目标价从17.12港元上调至29.60港元, 相当于较41.70港元的2017年每股净资产有29%的折让, 也分别相当于12.7倍2017年核心市盈率和2.3倍2017年市净率。**我们维持“买入”。风险:** 低于预期的房屋销售, 未完成债务置换以及潜在的流动性风险。

Rating:

Buy

Maintained

评级:

买入 (维持)

6-18m TP 目标价:

HK\$29.60

Revised from 原目标价:

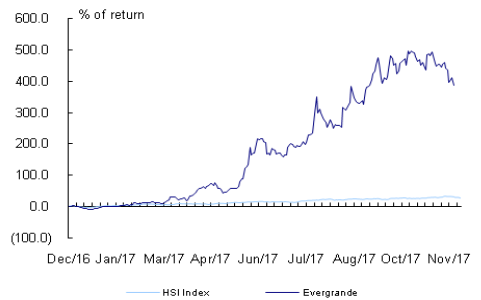
HK\$17.12

Share price 股价:

HK\$25.000

Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1个月	3个月	1年
Abs. % 绝对变动 %	(20.3)	0.4	365.5
Rel. % to HS Index 相对恒指变动 %	(19.7)	(3.2)	338.3
Avg. Share price(HK\$) 平均股价(港币)	27.5	28.6	15.7

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(Δ %)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2015A	133,130	10,460	0.713	(16.5)	29.4	3.478	6.0	0.380	1.8	20.5
2016A	211,444	5,091	0.372	(47.8)	60.2	3.233	6.9	0.000	0.0	10.7
2017F	327,070	22,636	1.629	337.9	13.0	10.752	2.0	0.811	3.8	23.4
2018F	441,728	35,223	2.535	55.6	8.4	12.476	1.7	1.263	5.9	21.8
2019F	537,141	45,602	3.282	29.5	6.5	14.496	1.5	1.637	7.7	24.3
Shares in issue (m) 总股数 (m)				13,162.9	Major shareholder 大股东					Hui Ka Yan 77.9%
Market cap. (HK\$ m) 市值 (HK\$ m)				329,072.0	Free float (%) 自由流通比率 (%)					22.1
3 month average vol. 3个月平均成交股数 ('000)				34,446.1	FY17 Net gearing (%) FY17 净负债/股东资金 (%)					157.7
52 Weeks high/low (HK\$) 52周高/低 (HK\$)				32.500 / 4.730	FY17 Est. NAV (HK\$) FY17 每股估值 (港元)					41.7

Source: the Company, Guotai Junan International.

Housing sales slowed, but healthy fundamentals remain. During Jan.-Oct. 2017, the YoY increase in commodity house sales decreased compared to that during Jan.-Sep. 2017. As a result of replenishment of inventories, land area sold still recorded strong growth. Despite slowing down, investment remained high in absolute terms. In addition, saleable areas extended downside momentum. Overall, we see a healthy property market.

Figure 1: Cumulative House Sales Amount in China

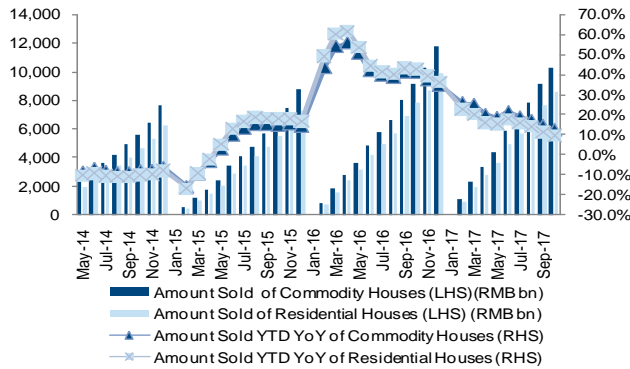
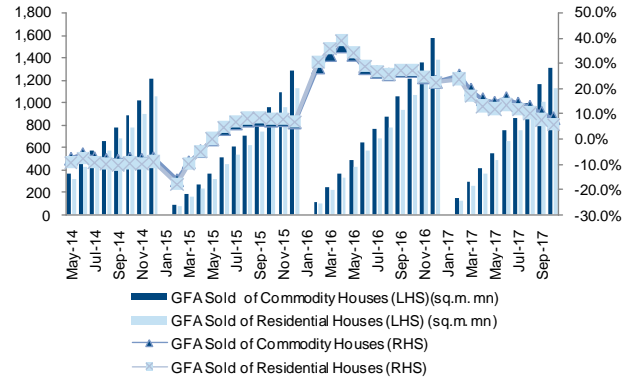


Figure 2: Cumulative House Sales GFA in China



Source: National Bureau of Statistics of China, Guotai Junan International.

Source: National Bureau of Statistics of China, Guotai Junan International.

The property sector is helping to stabilize China's economy; we think that policy tightening may continue. Currently, investment in real estate occupied a large proportion of GDP. With deep structural adjustments in China's economy, the proportion of real estate investments in GDP will decline; the property sector should not be the main economy engine for China. Nevertheless, the property sector will still play a critical role in the economy and could drive other sectors, such as steel, coal, machinery, cement, furniture, and household electrical appliances sectors, and so on. Therefore, we think that the property sector should act to stabilize China's economy. With economic recovery underway, we expect a sustainable tightening environment. Moreover, liquidity should slightly tighten. Costs of liabilities of banking systems have increased and will be at least maintained and ultimately spread to assets within banking systems. Therefore, we expect the weighted personal mortgage rate to increase, which will exert negative effects on housing sales. A contraction in demand could drive sales to slow down then cool down the property market. Nevertheless, we think that key factors of policy should be the stability and sustainability of the property market.

However, we think that commodity housing sales will only experience limited decline due to recovery in the global economy. Since Jun. 2000, the property market in China experienced five rounds of policy tightening. Commodity housing sales recorded YoY decrease during three separate periods, in 2008-2009, 2012 and 2014. Even the period 2005-2007, commodity housing sales still recorded strong growth within a tightening policy environment. Therefore, the macroeconomic environment could exert key effects on the China property market. The US has entered into an interest rate hike cycle; looking forward, the eurozone is likely to recover, evidenced by consecutive expansion of PMI. China's economy is likely to retain stable GDP growth at mid-to-high speed. As a result, there will not be a crash within China's property market. In addition, urbanization, stocking of housing and monetization of squatter settlement rebuilding will lead to sustainable housing demand in 2017-2020. Moreover, if the property market starts to slump, the policy and credit environment related to the property sector should ease again to stabilize the property market as per the last round of policy easing which started on 30 Sep. 2014.

Figure 3: China Commodity House Sales and GDP

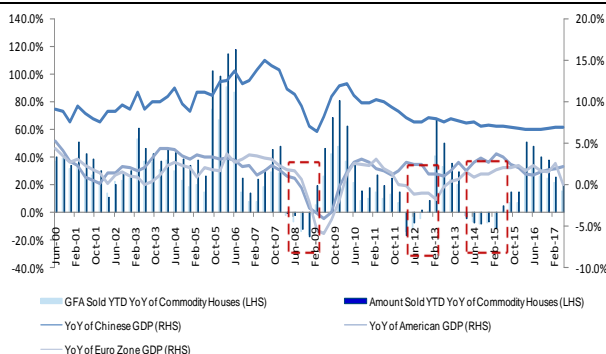
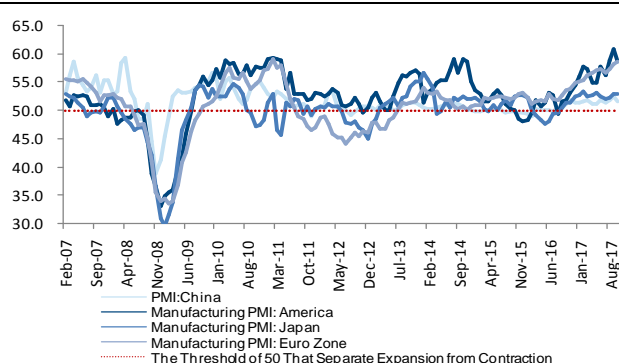


Figure 4: PMI of Major Economies

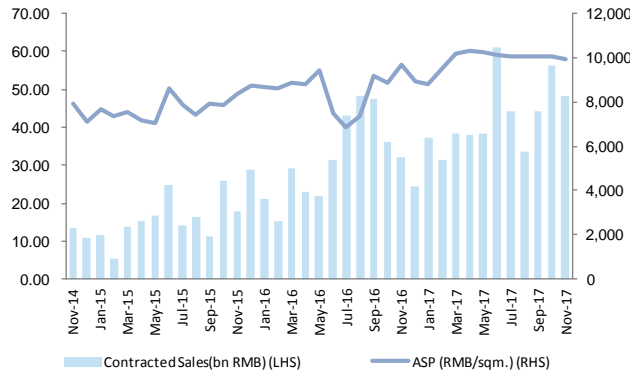


Source: National Bureau of Statistics of China, Guotai Junan International.

Source: National Bureau of Statistics of China, Guotai Junan International.

We expect contracted sales to maintain a tremendous scale due to sufficient saleable resources in wide geographic locations. During Jan.-Nov. 2017, contracted sales amounted to RMB470.40 bn, increasing by 34.8% YoY, achieving its 2017 sales target. The Company's saleable resources fully covered all city tiers. But the policy tightening was only targeted towards cities with overheating property markets, especially with higher-tier cities, and policies still support housing sales in lower-tier cities with high amounts of stock. Therefore, the Company's contracted sales are likely to be supported by its sufficient resources in wide geographic locations. In addition, the Company's quality brand and competitive ASP should support its contracted sales as well.

Figure 5: Evergrande's Sales Records



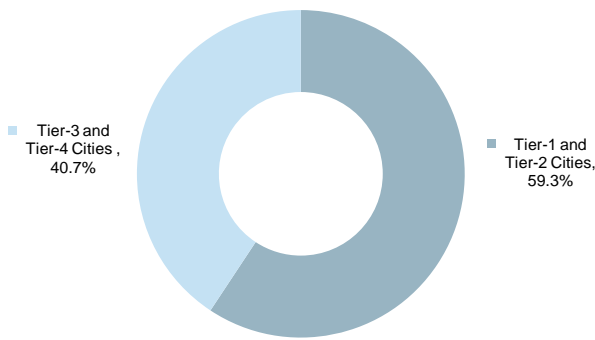
Source: the Company.

The Company completed its layout on segment diversification. Evergrande will continue to focus on financial, health care and cultural tourism as services business segments. Evergrande Finance Group provides integrated diversified financial services. It holds 17.28% equity interest in Shengjing Bank. During 1H17, the original premium income of Evergrande Life amounted to RMB15.5 bn, up by 462% YoY, representing 72% of total premium income. Premium income from new insurance policies amounted to RMB2.89 bn, an increase of 56 times YoY. The Evergrande Finance Group's internet finance business had registered users in hdfax.com exceeding 17.10 mn. Evergrande Tourism Group focuses on its flagship product "Evergrande Fairyland", with 8 cultural tourism projects in Ocean Flower Island, Qidong, Changsha, Guiyang, Kaifeng, Zhenjiang, Suzhou and Cangzhou. The GFA for tourism was 26.64 mn sq.m. During 1H17, the contracted sales from cultural tourism projects amounted to RMB13.99 bn. Evergrande Health Group is engaged in operations including new high-end international hospitals and community healthcare services. With the gradual development of these diversified businesses, we expect other income to maintain fast growth and estimate other income to increase from RMB4.959 bn in 2016 to RMB13.059 bn in 2019, or at a CAGR of 38.1% in 2016-2019.

The Company will slow down its pace of land replenishment activities to enhance its balance sheet. In 1H17, the Company acquired 152 parcels of land with a total GFA of 67.6 mn sq.m., up 59.7% YoY. The average land cost amounted to RMB2,039 per sq.m. 59.3% of all newly acquired projects were in tier-1 and tier-2 cities. The Company also has 33 projects in Shenzhen with a planned GFA of 20.9 mn sq.m. Saleable GFA amounted to 11.71 mn sq.m. Saleable resources in Shenzhen will amount to RMB656.0 bn in the future. However, to enhance its balance sheet, the Company will decrease its land replenishment initiatives. Meanwhile, the Company will adopt cost-effective methods for land replenishment, such as M&As and co-development.

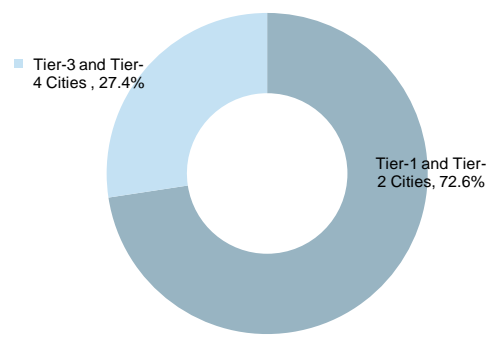
Enormous scale of land banks with proper unit land costs support the Company's contracted sales with stable gross margins. As at the end of 1H17, the Company had 719 projects in 223 cities. Total GFA amounted to 276 mn sq.m., up 48.4% YoY. Its unit land cost amounted to RMB1,658 per sq.m., 16.7% of ASP during Jan.-Nov. 2017. We estimate gross margins to remain at around 34.2% in 2017-2019.

Figure 6: Evergrande's Land Bank Replenishment Breakdown by Original Value During 1H17



Source: the Company.

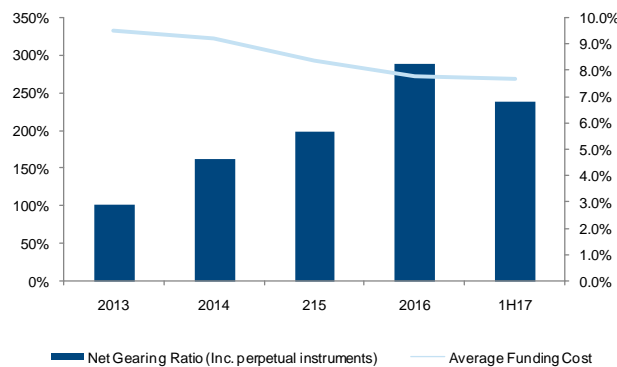
Figure 7: Evergrande's Land Bank Breakdown by Original Value at the end of 1H17



Source: the Company.

The Company will strive to decrease its net gearing ratio, which will lead to a profitability promotion and balance sheet enhancement. The weighted average funding cost in 1H17 decreased by 0.1 ppts to 7.7%, comparing to that in 2016. Costs of borrowing and perpetual instruments dramatically squeezed the Company's profit in 2016. In 2017, with sufficient cash on hand, capital increasing from strategic investors and projected increase in net profit, the Company will extend its deleveraging process, thus, promoting the Company's profitability. The Company has transferred its strategy from "scale development" to "scale + efficiency development". We expect stable contracted sales, increase in profitability and scale reduction of land reserves. Therefore, the net gearing ratio will gradually decrease to a healthy level during 2017-2019.

Figure 8: Evergrande's Average Funding Cost and Net Gearing Ratio



Source: the Company.

Evergrande's capital increase can be a catalyst for its valuation and improve its financial position. Evergrande announced that on 6 November 2017, Kailong Real Estate and Hengda Real Estate (both being subsidiaries of the Company), together with Mr. Hui Ka Yan (the controlling shareholder of the Company), entered into the third round of investment agreements with the third round of investors, pursuant to which, the third round of investors have agreed to subscribe RMB60.0 bn in new capital in Hengda Real Estate based on a pre-capital increase consideration for Hengda Real Estate of RMB365.19 bn, representing approximately 14.11% of the enlarged equity of Hengda Real Estate. Upon completion of the third round of capital increase, investors will have subscribed for new capital in Hengda Real Estate reaching an aggregated amount of RMB130.0 bn, in return for an aggregate amount of approximately 36.54% of the enlarged equity interest of Hengda Real Estate. Kailong Real Estate will own approximately 63.46% of the equity interest in Hengda Real Estate and Hengda Real Estate will remain as a subsidiary of the Company. We estimate the Company's total interests in Hengda Real Estate to amount to approximately RMB269.9 bn. The Company will also receive RMB60.0 bn from the third round of investors. The market value of Evergrande amounted to HK\$329.1 bn as at 11 Dec. 2017. Therefore, we think the Company's valuation is still low. Moreover, new increasing capital could decrease the Company's debt scale, improve its capital structure and help promote profitability.

We think that this new performance undertaking should be achievable with the Company's tremendous scale of contracted sales and profitability improvement, hinting at improving fundamental prospects. The Company has revised up performance undertaking. Specifically, net profit (after deducting non-recurring gains and losses) of Hengda Real Estate for 2017, 2018 and 2019 is not expected to be less than RMB24.3 bn, RMB50.0 bn and RMB55.0 bn, respectively (the net profit (after deducting non-recurring gains and losses) of Hengda Real Estate for 2017, 2018 and 2019 in the previous performance undertaking is not expected to be less than RMB24.3 bn, RMB30.8 bn and RMB33.7 bn, respectively).

1H17 underlying net profit beat our expectation. Top line increased by 114.8% YoY to RMB187,981 mn in 1H17 due to strong contracted sales growth and more GFA delivered. Gross profit amounted to RMB67,304 mn, up 171.7% YoY. Given less financial costs and net profit attributed to perpetual capital instruments, net profit soared 833.8% YoY to RMB18,834 mn, which beat our expectation. Moreover underlying net profit dramatically jumped by 12.24 times YoY to RMB23,518 mn, which also beat our expectation. The Company recorded improving gross margin with a gain of 7.5 ppts YoY. Underlying net profit margin increased 10.5 ppts YoY to 12.5%. Net gearing ratio sharply fell 49.9 ppts YoY riding on net profit soaring and capital increase from strategic investors during 1H17.

Table 1: Comparison of the Company's Income Statement in 1H16 and 1H17

RMB mn	1H16	1H17	Change
Total revenue	87,498	187,981	114.8%
Gross profit	24,770	67,304	171.7%
GPM	28.3%	35.8%	7.5 ppts
NP (Inc. after-tax fair value gains on IP and exchange losses)	2,017	18,834	833.8%
NP (Ex. after-tax fair value gains on IP and exchange losses)	1,776	23,518	1224.0%
NPM (Inc. after-tax fair value gains on IP and exchange losses)	2.3%	10.0%	7.7 ppts
NPM (Ex. after-tax fair value gains on IP and exchange losses)	2.0%	12.5%	10.5 ppts
DPS (RMB cent)	0.0	0.0	n.a.
Underlying EPS (RMB cent)	14.5	140.0	865.5%
ROE	3.7%	24.7%	21.0 ppts

Source: the Company, Guotai Junan International.

Table 2: Comparison of the Company's Balance Sheet in 2016 and 1H17

RMB mn	2016	1H17	Change
Cash and cash equivalents	304,329	269,934	-11.3%
Total asset	1,350,868	1,492,975	10.5%
Stocks of properties	658,627	797,425	21.1%
Advanced proceeds received from customers	194,961	198,163	1.6%
Trade and other payables	299,905	345,907	15.3%
Total debt (inc. perpetual capital securities)	651,078	662,375	1.7%
Shareholders' equity	44,240	101,059	128.4%
Net gearing ratio	289.9%	240.0%	-49.9 ppts

Source: the Company, Guotai Junan International.

We revise up underlying profit estimations. Total revenue in 1H17 was higher than our previous assumption. We expect that Evergrande's contracted sales will remain within a tremendous scale due to sufficient saleable resources in wide geographic locations. Therefore, we revise up 2017F, 2018F and 2019F total revenue by 13.6%, 25.6% and 41.7% to RMB327,070 mn, RMB441,728 mn and RMB537,141 mn, respectively. With a quality land bank and proper unit land cost, we expect stable gross margins in 2017-2019. As the gross margin in 1H17 was higher than our previous assumption, we revise up gross margin. Replacement of high-yield debts and repayment of perpetual capital instruments will significantly promote the Company's profitability. Overall, we dramatically revise up 2017F, 2018F and 2019F underlying net profit by 68.9%, 47.3% and 78.3% to RMB27,482 mn, RMB32,799 mn and RMB42,881 mn, respectively. As the net gearing ratio in 1H17 was higher than our previous assumptions, we revise up net gearing ratio in 2017F and 2018F by 31.2 ppts and 12.8 ppts, respectively. Nevertheless, we still expect that net gearing ratios will gradually decrease to a healthy level during 2017-2019. We revise down net gearing ratio in 2019F by 9.7 ppts.

Table 3: Revisions to 2017-2019 Profit Estimations

RMB mn	New estimation			Old estimation			Change		
	2017F	2018F	2019F	2017F	2018F	2019F	2017F	2018F	2019F
Total revenue	327,070	441,728	537,141	288,015	351,712	379,098	13.6%	25.6%	41.7%
Gross profit	112,839	150,263	184,546	82,084	98,835	107,596	37.5%	52.0%	71.5%
Operating profit	86,848	128,944	160,716	65,148	77,956	83,299	33.3%	65.4%	92.9%
Net profit	22,636	35,223	45,602	17,786	24,666	27,009	27.3%	42.8%	68.8%
Underlying profit	27,482	32,799	42,881	16,267	22,263	24,045	68.9%	47.3%	78.3%
Gross margin	34.5%	34.0%	34.4%	28.5%	28.1%	28.4%	6.0 ppts	5.9 ppts	6.0 ppts
Operating profit margin	26.6%	29.2%	29.9%	22.6%	22.2%	22.0%	3.9 ppts	7.0 ppts	7.9 ppts
Net profit margin	6.9%	8.0%	8.5%	6.2%	7.0%	7.1%	0.7 ppts	1.0 ppts	1.4 ppts
Underlying net profit margin	8.4%	7.4%	8.0%	5.6%	6.3%	6.3%	2.8 ppts	1.1 ppts	1.6 ppts
ROE	23.4%	21.8%	24.3%	21.5%	19.1%	18.7%	1.9 ppts	2.7 ppts	5.6 ppts
ROCE	16.5%	20.5%	25.5%	14.9%	17.1%	17.7%	1.6 ppts	3.4 ppts	7.7 ppts
ROA	5.5%	7.5%	8.6%	4.4%	4.9%	5.1%	1.1 ppts	2.6 ppts	3.6 ppts
Net gearing ratio	157.7%	116.8%	84.6%	126.5%	104.1%	94.3%	31.2 ppts	12.8 ppts	-9.7 ppts

Source: Guotai Junan International.

Maintain "Buy". The Company has changed its strategy from "scale development" to "scale + efficiency development". Contracted sales should remain at a tremendous scale. The Company also optimized its diversified business distribution. Quality land bank with proper unit land cost stabilized gross margin. In addition, increasing capital can be a catalyst for its valuation and improve its financial position. Net gearing ratio is likely to gradually decrease to a healthy level. We think that these positive factors still lead to a low NAV discount for Evergrande. Overall, as we revise up underlying net profit, we revise up target price from HK\$17.12 to HK\$29.60, which represents a 29% discount to the Company's revised 2017E NAV of HK\$41.70 per share, 12.7x underlying 2017 PER and 2.3x 2017 PBR. We maintain Evergrande's investment rating as "Buy". Key risk factors include: lower-than-expected house sales, missing debt replacement and potential liquidity risk.

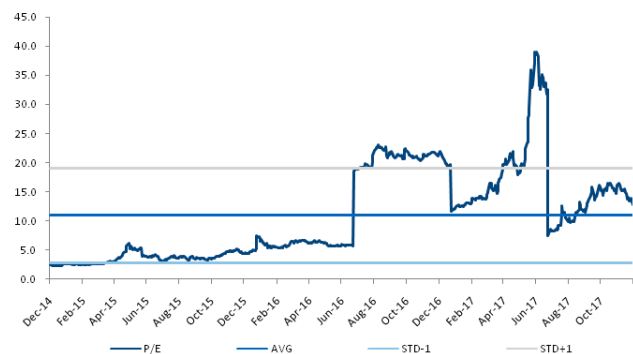
Table 4: Breakdown of Evergrande's 2017 NAV

			NAV/share		
	(RMB m)	(HK\$ m)	(HK\$)	% of NAV	% of GAV
Development Properties	577,005	678,830	50.46	121.0%	79.9%
Investment Property	145,250	170,882	12.70	30.5%	20.1%
Gross Asset Value	722,255	849,711	63.16	151.5%	100.0%
(Net Debt)/ Net Cash	-245,453	-288,769	-21.47	-51.5%	
NAV	476,801	560,943	41.70	100.0%	
NAV/Share	35.44	41.70			

Source: the Company, Guotai Junan International.

Figure 9: Evergrande's 3-Year Historical P/B


Source: Bloomberg, Guotai Junan International.

Figure 10: Evergrande's 3-Year Historical P/E


Source: Bloomberg, Guotai Junan International.

Table 5: Peers Comparison

Company	Stock Code	Mkt Cap (HK\$ m)	Last Price HK\$	PE			PB			D/Y%	ROE	EVEBIT
				2017F	2018F	2019F	2017F	2018F	2019F			
HK listed large developers with major revenue from mainland												
China Overseas Land & Invest	00688 HK	264,044.5	24.100	7.3	6.4	5.6	1.0	0.9	0.8	3.6	15.4	5.5
Evergrande Real Estate Group	03333 HK	329,072.0	25.000	9.1	7.3	6.4	3.0	2.4	2.0	2.9	41.4	8.4
China Resources Land Ltd	01109 HK	151,441.0	21.850	8.0	6.8	6.0	1.2	1.0	0.9	3.6	15.6	6.0
Bbmg Corporation-H	02009 HK	66,698.9	3.570	9.7	7.2	6.6	0.7	0.6	0.6	1.7	7.2	12.5
Country Garden Holdings Co	02007 HK	273,405.5	12.840	13.0	9.2	6.6	2.8	2.3	1.8	2.5	22.8	8.8
Longfor Properties	00960 HK	109,255.4	18.520	9.4	7.6	6.4	1.3	1.2	1.0	3.8	15.1	9.1
Agile Property Holdings Ltd	03383 HK	45,046.0	11.500	8.3	7.0	5.9	0.9	0.9	0.8	5.2	11.4	5.3
Soho China Ltd	00410 HK	22,565.9	4.340	63.4	58.4	40.9	0.6	0.6	0.6	6.4	1.2	28.6
Shimao Property Holdings Ltd	00813 HK	53,040.8	15.660	6.2	5.2	4.5	0.8	0.7	0.6	5.7	12.5	8.4
Guangzhou R&F Properties - H	02777 HK	52,653.5	16.340	5.5	4.5	4.0	0.9	0.8	0.7	7.7	16.7	8.0
Sino-Ocean Land Holdings	03377 HK	37,652.7	4.980	8.2	6.6	5.7	0.7	0.6	0.6	5.2	8.4	7.7
Franshion Properties	00817 HK	35,869.6	3.360	8.4	6.7	5.4	0.9	0.8	0.7	6.1	11.6	9.2
Shui On Land Ltd	00272 HK	17,412.4	2.160	8.1	8.2	6.9	0.3	0.3	0.3	2.6	4.4	7.7
Kwg Property Holding Ltd	01813 HK	26,156.2	8.290	6.0	4.9	3.9	0.8	0.7	0.6	6.1	14.1	13.3
Yuexiu Property Co Ltd	00123 HK	17,361.8	1.400	8.2	7.0	5.9	0.5	0.4	0.4	5.1	5.4	9.2
Shenzhen Investment Ltd	00604 HK	26,027.7	3.230	7.2	6.4	5.7	0.7	0.6	0.6	6.5	10.1	3.9
Hopson Development Holdings	00754 HK	16,402.4	7.370	11.3	10.7	10.5	n.a.	n.a.	n.a.	2.7	n.a.	n.a.
Beijing North Star Co Ltd-H	00588 HK	19,412.7	2.730	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Yuzhou Properties Co	01628 HK	16,112.3	3.850	4.8	3.7	3.0	0.9	0.8	0.7	7.5	21.3	4.0
Greentown China Holdings	03900 HK	19,185.6	8.860	8.4	7.8	7.2	0.6	0.6	0.5	2.1	6.8	15.8
China South City	01668 HK	16,096.2	2.010	10.6	9.7	8.5	0.5	0.5	0.5	4.0	n.a.	16.2
Kaisa Group Holdings Ltd	01638 HK	24,354.4	4.030	16.7	7.5	4.1	n.a.	n.a.	n.a.	-	6.1	n.a.
China Vanke Co Ltd-H	02202 HK	380,898.4	28.500	9.9	8.2	6.8	2.0	1.7	1.5	4.2	21.5	7.0
Median				8.4	7.1	6.0	0.8	0.7	0.6	4.1	12.1	8.4
Simple Average				11.3	9.4	7.6	1.1	0.9	0.8	4.3	13.5	9.7
Weighted Average				9.8	7.9	6.5	1.7	1.4	1.2	3.7	20.2	7.8
HK listed mid-small developers with major revenue from mainland												
China Overseas Grand Oceans	00081 HK	7,074.9	4.070	5.8	5.2	4.0	0.8	0.7	0.6	1.0	14.0	4.2
Poly Property Group Co Ltd	00119 HK	15,561.5	4.250	21.8	9.9	10.1	0.6	0.6	0.5	0.9	3.6	14.1
Sh Ind Urban	00563 HK	8,756.0	1.820	16.5	15.2	14.0	0.7	0.7	0.6	2.0	4.7	n.a.
Modern Land China Co Ltd	01107 HK	4,289.5	1.550	4.2	3.7	2.9	0.8	0.8	0.6	6.3	19.3	n.a.
Powerlong Real Estate Holdin	01238 HK	13,910.6	3.480	4.7	4.3	3.6	0.5	0.4	0.4	6.1	13.1	n.a.
China Aoyuan Property Group	03883 HK	10,973.9	4.100	5.9	4.1	3.2	0.9	0.8	0.7	6.5	15.3	6.4
C C Land Holdings Ltd	01224 HK	6,017.6	1.550	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Fantasia Holdings Group Co	01777 HK	5,992.5	1.040	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.7	n.a.	n.a.
Yuexiu Real Estate Investmen	00405 HK	15,095.2	5.120	15.0	20.7	13.6	1.0	1.0	1.0	6.4	5.3	22.3
Central China Real Estate	00832 HK	8,840.5	3.610	6.6	5.2	4.8	1.0	0.9	0.8	4.6	15.8	4.4
China Sce Property Holdings	01966 HK	12,198.0	3.190	5.4	3.8	3.0	1.0	0.8	0.7	5.7	19.3	7.8
Top Spring International Hld	03688 HK	4,784.0	3.930	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Beijing Capital Land Ltd-H	02868 HK	11,839.3	3.910	5.9	4.2	n.a.	0.6	0.6	n.a.	6.6	19.3	9.2
Zhong An Real Estate Ltd	00672 HK	5,661.5	0.970	12.6	9.7	7.5	0.4	0.4	n.a.	n.a.	4.0	n.a.
Glorious Property Holdings	00845 HK	5,454.9	0.700	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Median				5.9	5.2	4.4	0.8	0.7	0.6	5.7	14.0	7.8
Simple Average				9.5	7.8	6.7	0.7	0.7	0.7	4.7	12.1	9.8
Weighted Average				8.5	7.0	5.4	0.6	0.6	0.5	4.0	9.8	6.6

Source: the Company, Guotai Junan International.

Financial Statements and Ratios

Income Statement					
Year end 31 Dec (RMB m)	2015A	2016A	2017F	2018F	2019F
Total Revenue	133,130	211,444	327,070	441,728	537,141
- Sales of Properties	126,449	203,890	315,982	426,885	518,275
- Other Income	6,681	7,554	11,088	14,843	18,866
Cost of Sales	(95,717)	(152,022)	(214,231)	(291,465)	(352,594)
Gross Profit	37,413	59,422	112,839	150,263	184,546
- Change in Fair Value of IPs	12,859	5,124	7,327	8,060	8,866
- SG&A	(19,464)	(25,581)	(28,178)	(31,122)	(34,907)
- Other Gains, Net	1,508	9,260	(5,140)	1,743	2,210
Operating Profit	32,316	48,225	86,848	128,944	160,716
- Others	2,123	(62)	263	260	258
- Finance income/(costs), net	(2,994)	(11,301)	(10,833)	(12,031)	(12,365)
Profit before Tax	31,445	36,862	76,278	117,173	148,609
Income Tax	(14,105)	(19,245)	(40,608)	(61,670)	(76,749)
Profit after Tax	17,340	17,617	35,670	55,504	71,860
Non-controlling Interest	(6,880)	(12,526)	(13,034)	(20,281)	(26,258)
Shareholders' Profit / Loss	10,460	5,091	22,636	35,223	45,602
Adjusted Net Profit	7,128	5,061	27,482	32,799	42,881
Basic EPS	0.713	0.372	1.629	2.535	3.282
Underlying EPS (RMB)	0.479	0.364	1.978	2.361	3.087

Cash Flow Statement					
Year end 31 Dec (RMB m)	2015A	2016A	2017F	2018F	2019F
Operating Activities					
Profit before Taxation	17,340	17,617	35,670	55,504	71,860
Income Tax Expenses	14,105	19,245	40,608	61,670	76,749
D&A	1,454	1,964	3,015	3,317	3,648
Others	(13,408)	(3,924)	482	1,016	613
Changes in Working Capital:	(17,600)	(49,530)	(196,686)	12,824	10,109
Net Cash from Operations	1,891	(14,628)	(116,910)	134,330	162,980
Tax Paid	(6,065)	(13,106)	(24,365)	(37,002)	(46,049)
Interest Paid	(19,575)	(30,876)	(40,234)	(57,487)	(58,577)
Cash from Operating Activities	(23,749)	(58,610)	(181,509)	39,842	58,354
Investing Activities					
Additions to PPE and IPs	(15,518)	(15,927)	(17,371)	(15,025)	(16,487)
Other Investing Cash Flow	2,965	(103,632)	10,550	(616)	(4,895)
Cash from Investing Activities	(12,553)	(119,559)	(6,821)	(15,641)	(21,382)
Financing Activities					
Debt Raised/(Repaid)	130,107	201,595	127,305	33,119	20,865
Dividends Paid	(6,952)	(5,481)	0	(11,264)	(17,545)
Repayment of Perpetuity	44,322	59,754	(112,944)	0	0
Other Financing Cash Flow	(58,031)	17,211	143,961	34,410	26,758
Cash from Financing Activities	109,446	273,079	158,322	56,265	30,077
Net Changes in Cash	73,144	94,910	(30,008)	80,466	67,049
Cash at Beg of Year	29,847	103,090	198,420	168,622	249,193
Exchange Losses	99	420	210	105	53
Cash at End of Year	103,090	198,420	168,622	249,193	316,294

Balance Sheet					
Year end 31 Dec (RMB m)	2015A	2016A	2017F	2018F	2019F
PPE	16,720	20,833	25,000	25,500	26,010
Land Use Rights	3,625	5,401	5,671	5,955	6,252
Investment Property	97,146	132,045	145,250	159,774	175,752
Other Non-current Assets	27,200	78,954	42,828	35,094	34,626
Total Non-current Assets	144,691	237,233	218,748	226,322	242,640
Cash & Cash Equivalents	103,090	198,420	168,622	249,193	316,294
Properties under Development	329,610	577,851	753,920	801,755	823,460
Completed Properties	54,118	80,776	96,931	94,993	93,093
Restricted Cash	60,932	105,909	106,968	108,038	109,118
Trade and Other Receivables	21,708	76,434	118,231	135,727	156,791
Other Current Assets	42,886	74,245	106,436	112,114	118,101
Total Current Assets	612,344	1,113,635	1,351,109	1,501,818	1,616,857
Total Assets	757,035	1,350,868	1,569,857	1,728,141	1,859,497
Advanced Proceeds Received	83,061	194,961	250,730	324,068	372,433
Trade and Other Payables	191,309	299,905	308,902	315,080	321,382
Bank Borrowings	158,744	202,906	263,778	276,967	285,276
Other Current Liabilities	23,567	35,622	36,334	37,061	37,802
Total Current Liabilities	456,681	733,394	859,745	953,176	1,016,893
Long-term Borrowings	138,162	332,164	398,597	418,527	431,082
Deferred Income Tax Liabilities	17,569	38,424	49,951	51,450	52,993
Other Long-term Liabilities	2,481	54,354	16,306	15,491	14,716
Total Non-current Liabilities	158,212	424,942	464,854	485,467	498,792
Total Liabilities	614,893	1,158,336	1,324,599	1,438,643	1,515,685
Total Shareholders' Equity	51,006	44,240	149,374	173,333	201,390
Minority Interest	91,136	148,292	95,884	116,165	142,423
Total Equity	142,142	192,532	245,258	289,497	343,812

Financial Ratios					
	2015A	2016A	2017F	2018F	2019F
Revenue Growth (%)	19.5	58.8	54.7	35.1	21.6
Gross Profit Growth (%)	17.7	58.8	89.9	33.2	22.8
Reported Net Profit Growth (%)	-17.0	-51.3	344.6	55.6	29.5
Underlying Net Profit Growth (%)	-22.6	-29.0	443.0	19.3	30.7
Gross Margin (%)	28.1	28.1	34.5	34.0	34.4
Operating Profit Margin (%)	24.3	22.8	26.6	29.2	29.9
Adjusted Net Margin (%)	5.4	2.4	8.4	7.4	8.0
ROE (%)	20.5	10.7	23.4	21.8	24.3
ROCE (%)	13.4	13.8	16.5	20.5	25.5
ROA (%)	4.3	3.6	5.5	7.5	8.6
Net Gearing Ratio	200.1	289.9	157.7	116.8	84.6
Debt to Equity Ratio	582.1	1,209.5	443.4	401.2	355.7
Underlying P/E (x)	43.7	61.5	10.7	9.0	6.9
P/E (Basic) (x)	29.4	60.2	13.0	8.4	6.5
P/E (Diluted) (x)	29.8	61.1	13.0	8.4	6.5
P/B (x)	6.0	6.9	2.0	1.7	1.5
Dividend Yield (%)	1.8	0.0	3.8	5.9	7.7

Source: the Company, Guotai Junan International.

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

DISCLOSURE OF INTERESTS

- (1) The Analysts and their associates do not serve as an officer of the issuer mentioned in this Research Report.
- (2) The Analysts and their associates do not have any financial interests in relation to the issuer mentioned in this Research Report.
- (3) Except for GUOTAI JUNAN INTERNATIONAL (01788 HK), BINHAI INVESTMENT (02886 HK), GFI MSCI A I (03156 HK), CAM SCSMALLCAP (03157 HK), LINK HOLDINGS (08237 HK), GFI MSCI A I-R (CNY) (83156 HK), Guotai Junan and its group companies do not hold equal to or more than 1% of the market capitalization of the issuer mentioned in this Research Report.
- (4) Guotai Junan and its group companies have had investment banking relationships with the issuer mentioned in this Research Report within the preceding 12 months.
- (5) Guotai Junan and its group companies are not making a market in the securities in respect of the issuer mentioned in this Research Report.
- (6) Guotai Junan and its group companies have not employed an individual serving as an officer of the issuer mentioned in this Research Report. There is no officer of the issuer mentioned in this Research Report associated with Guotai Junan and its group companies.

DISCLAIMER

This Research Report does not constitute an invitation or offer to acquire, purchase or subscribe for securities by Guotai Junan Securities (Hong Kong) Limited ("Guotai Junan"). Guotai Junan and its group companies may do business that relates to companies covered in research reports, including investment banking, investment services, etc. (for example, the placing agent, lead manager, sponsor, underwriter or invest proprietarily).

Any opinions expressed in this report may differ or be contrary to opinions or investment strategies expressed orally or in written form by sales persons, dealers and other professional executives of Guotai Junan group of companies. Any opinions expressed in this report may differ or be contrary to opinions or investment decisions made by the asset management and investment banking groups of Guotai Junan.

Though best effort has been made to ensure the accuracy of the information and data contained in this Research Report, Guotai Junan does not guarantee the accuracy and completeness of the information and data herein. This Research Report may contain some forward-looking estimates and forecasts derived from the assumptions of the future political and economic conditions with inherently unpredictable and mutable situation, so uncertainty may contain. Investors should understand and comprehend the investment objectives and its related risks, and where necessary consult their own financial advisers prior to any investment decision.

This Research Report is not directed at, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any jurisdiction where such distribution, publication, availability or use would be contrary to applicable law or regulation or which would subject Guotai Junan and its group companies to any registration or licensing requirement within such jurisdiction.

© 2017 Guotai Junan Securities (Hong Kong) Limited. All Rights Reserved.
 27/F., Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.
 Tel.: (852) 2509-9118 Fax: (852) 2509-7793
 Website: www.gtja.com.hk