

8 March 2018

Hold
Downgraded

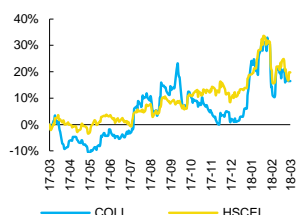
销售提速存压力，下调评级至中性

中国海外发展 (688 HK)

Market Data: March, 7

Closing Price (HK\$)	27.30
Price Target (HK\$)	28.80
HSCEI	12,180
HSCCI	4,391
52-week High/Low (HK\$)	32.20/21.50
Market Cap (USD Mn)	38,178
Market Cap (HK\$ Mn)	299,099
Shares Outstanding (Mn)	10,956
Exchange Rate (RMB-HK\$)	1.24

Price Performance Chart:



Source: Bloomberg

Analyst

Kris Li
A0230511040076 ARG379
lihong@swsresearch.com

Related Reports

"China Overseas Land & Investment LTD (688 HK)—Blueprint for success, Oct23, 2017

"China Overseas Land & Investment LTD (688 HK)—Appraisal value, Aug22, 2017

"China Overseas Land & Investment LTD (688 HK)—Cautious growth, Apr24, 2017

The company does not hold any equities or derivatives of the listed company mentioned in this report ("target"), but then we shall provide financial advisory services subject to the relevant laws and regulations. Any affiliates of the company may hold equities of the target, which may exceed 1 percent of issued shares subject to the relevant laws and regulations. The company may also provide investment banking services to the target. The Company fulfills its duty of disclosure within its sphere of knowledge. The clients may contact compliance@swsresearch.com for relevant disclosure materials or log into www.swsresearch.com under disclosure column for further information. The clients shall have a comprehensive understanding of the disclosure and disclaimer upon the last page.

Financial summary and valuation

	2015	2016	2017E	2018E	2019E
Revenue (HK\$m)	169,562	164,069	199,651	224,476	261,610
YOY (%)	22%	-3%	22%	12%	17%
Underlying Net income (HK\$m)	28,894	31,371	35,235	40,246	47,691
YOY (%)	26%	9%	12%	14%	18%
Net income (HK\$m)	34,643	37,021	40,035	42,646	50,091
EPS (HK\$)	3.75	3.64	3.65	3.89	4.57
Core EPS (HK\$)	3.13	3.08	3.22	3.67	4.35
ROE (%)	17.8%	10.8%	14.8%	14.9%	15.6%
Net Gearing (%)	-2.3%	8.3%	16%	15%	15%
Dividend Yield (%)	2.4%	2.8%	2.9%	3.4%	4.0%
P/E (x)	8.7	8.9	8.5	7.4	6.3
P/B (x)	1.4	1.3	1.2	1.0	0.9

Core EPS is calculated as if all non-recurring items are excluded. P/E is calculated as closing price divided by each year's core EPS.

大型国有内地开发商中国海外发展 2018 年前两月的合约销售增速仍偏弱，此外我们预计即将披露的 2017 年业绩增速亦将逊于同业。公司仍具备防御性，但其销售增长在当前更为严峻的市场环境中可能无法显著改善。我们将公司目标价微调至 28.8 港元，并将评级从增持下调至中性。

中海外于 2017 年全年实现合约销售金额 2320 亿港元（同比仅增 10%），销售面积 1450 万平方米（同比增长 11%），合约销售均价为 16045 港元/平米（同比下降 1%）。公司的销售规模增速在板块中位居第二低，相比同期板块平均增速超过 50%。相应地，公司在中国房企销售排行百强榜的名次从 2016 年的第六位回落一位至 2017 年的第七位。受益于 2017 年积极买地，我们预计公司 2018 年全年销售目标同比增速为 20%，该目标增速与其他民营开发商披露的 30-40% 目标增速相比仍较为温和。进入 2018 年，公司 1 月公告合约销售金额 260 亿港元（同比增长 30%），2 月销售额预计达 170 亿港元（同比增长 14%），增速持续落后于大多数同业。

在过去两年中，公司将扩充土储的重点放在收并购上，并于 2015 年和 2016 年相继完成母公司的资产注入和收购中信资产。在 2017 年，公司加快了在公开市场拿地的节奏，相应的土地支出从 2015 年的 350 亿元、2016 年的 410 亿元大幅飙升至 2017 年的 950 亿元。截至 2017 年末，我们估算公司总权益土地储备面积达 5300 万平方米，可以支撑未来 3-4 年的开发，平均土地成本为 5075 元/平米，占目前销售均价约 38%。从城市分布来看，其中 14% 位于一线城市，77% 位于二线城市，仅余下 9% 位于三线城市。

管理层的变动可能是导致中海外增速稍显疲弱的一个原因。在前任主席兼行政总裁郝建民于 2016 年末辞职后，颜建国继 3 年前离职中海外并入职龙湖地产（960:HK）后，于 2017 年初重新回归中海外并担任行政总裁，并于 2017 年 6 月获选为主席。市场将中海外随后在土地市场上拿地更为积极的表现归功于此次新上任的主席，但公司管理团队可能仍需要时间重整旗鼓。

考虑到 2017 年销售疲弱，我们将公司 2017-2018 年每股核心净利预测分别下调 3.1% 和 3.3% 至 3.22 港元（同比增长 4%）和 3.67 港元（同比增长 14%），并维持 2019 年每股核心净利预测为 4.35 港元（同比增长 18%）。我们将公司每股净资产值从 33.7 港元上调至 36.0 港元，主要考虑到近期新增的土地储备，但其价值可能将在 2019 后才开始体现。公司目前估值为 8.5 倍 17 年 PE，7.4 倍 18 年 PE，1.2 倍 17 年 PB 和 1.0 倍 18 年 PB，每股净资产值折价 24%。我们看好公司稳健的资产负债表以及优质的土地储备，但考虑到政府持续严控预售证发放以及严格限价，公司 2017 年在公开土地市场过多拿地可能对利润率形成压力，且预售进度存在不确定性。我们将每股净资产值折价从 15% 扩大到 20%，并得到新的 12 个月目标价为 28.8 港元（相比原目标价为 28.65 港元）。考虑到目前股价较目标价存在约 5.5% 上行空间，我们将评级从增持下调至中性。

State-owned developer China Overseas Land & Investment (COLI) reported contract sales of HK\$232bn in 2017 (+10% YoY), representing the second lowest growth in the sector. We are cautious about COLI's aggressive land purchase strategy since Yan Jianguo was appointed as CEO in early 2017, and expect the firm to post weaker 2017 results than most peers. We lower our diluted EPS forecasts from HK\$3.76 to HK\$3.65 in 17E (+0.3% YoY) and from HK\$4.02 to HK\$3.89 in 18E (+6.6% YoY), while maintaining our 19E forecast at HK\$4.57 (+17.5% YoY). We lift our target price from HK\$28.65 to HK\$28.80. With 5.5% upside, we downgrade our rating from Outperform to Hold.

Contract sales. COLI achieved contract sales of HK\$232bn in 2017 (+10% YoY), representing 14.5msqm (+11% YoY) and an average selling price (ASP) of HK\$16,045/sqm (-1% YoY). Its contract sales growth is the second lowest in the industry (sector average: 50%-plus YoY). As such, COLI ranks seventh among China's top-100 developers by sales in 2017 (vs sixth in 2016). We expect the company to set its 2018 YoY growth target at c.20%, following strong land investment in 2017. By contrast, most private developers have disclosed a growth target of 30-40%. COLI announced January contract sales of HK\$26bn (+30% YoY), underperforming most peers, while research firm CRIC estimated COLI's February contrast sales at c.HK\$17bn (+14% YoY).

Land replenishment. The firm has increased its focus on property acquisitions over the past two years, with the acquisitions of assets from its parent in 2015 and from CITIC (267:HK – N-R) in 2016. In 2017, the firm accelerated land replenishment through the open market, with expenditure rising to Rmb95bn (vs Rmb41bn in 2016 and Rmb35bn in 2015), largely in line with its full-year guidance of Rmb100bn, as disclosed in early 2017. We calculate that, as of end-2017, the firm's attributable land reserves totalled 53msqm, providing sufficient supply of sellable resources for the next three to four years, with an average floor cost of Rmb5,075/sqm or 38% of current selling prices. We note 14% of land reserves are located in tier-1 cities, 77% in tier-2 cities, and 9% in tier-3 cities.

New leadership. We see management change as one of the possible reasons behind COLI's weak growth. Following the unexpected resignation of former chairman and CEO Hao Jianmin in late 2016, Yan Jianguo, who left COLI three years ago to work for Longfor Properties (960:HK – Outperform), was appointed as CEO in early 2017 and chairman in June 2017. A number of investors attribute COLI's aggressive land purchase strategy to the new CEO. We believe the company will need time to adapt to the new leadership, and remain cautious on its short-term growth prospects.

Downgrade to Hold. We cut our 17E core EPS forecast by 3.1% to HK\$3.22 (+4% YoY) and our 18E forecast by 3.3% to HK\$3.67 (+14% YoY), to reflect weak 2017 sales, while maintaining our 19E forecast at HK\$4.35 (+18% YoY). We lift our NAV estimate from HK\$33.70 to HK\$36.00, given the recent acquisitions, although their value might not be reflected until after 2019. The stock currently trades at 8.5x 17E PE, 7.4x 18E PE, 1.2x 17E PB, and 1.0x 18E PB (24% discount to NAV). We like the company's strong balance sheet and prime land reserves. However, its aggressive land purchase strategy on the open market in 2017 lead to increased margin pressure and uncertainty on pre-sale progress. We lift our target NAV discount from 15% to 20%, and revise up our target price from HK\$28.65 to HK\$28.80. With 5.5% upside, we downgrade our rating from Outperform to Hold.

Contract sales

COLI achieved contract sales of HK\$232bn in 2017 (+10% YoY), representing 14.5msqm (+11% YoY) and an average selling price (ASP) of HK\$16,045/sqm (-1% YoY). Its contract sales growth is the second lowest in the industry (sector average: 50%-plus YoY). As such, COLI ranks seventh among China's top-100 developers by sales in 2017 (vs sixth in 2016).

We expect the company to set its 2018 YoY growth target at c.20%, following strong land investment in 2017. By contrast, most private developers have disclosed a growth target of 30-40%.

COLI announced January contract sales of HK\$26bn (+30% YoY), underperforming most peers, while research firm CRIC estimated COLI's February contract sales at c.HK\$17bn (+14% YoY).

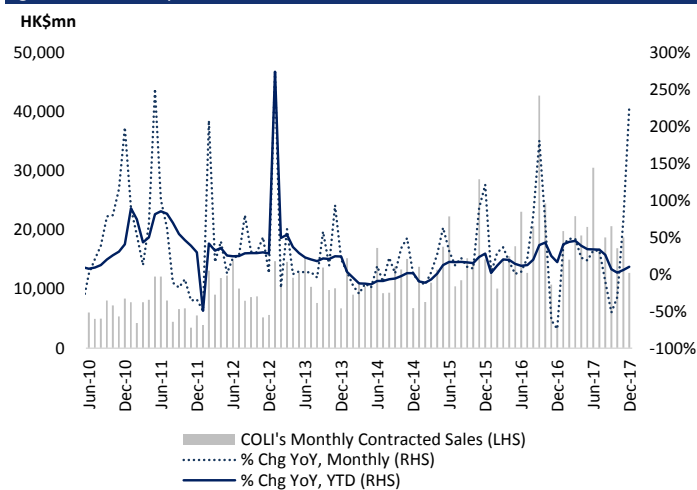
Fig 1: Contract sales of key listed developers, 2012-2017 (unit: Rmbbn)

Code	Listcos	12A	13A	14A	15A	16A	17A	Jan-18	18-Feb	2M18	% Chg YoY in 2M18	5-Y Cagr
1918 HK	Sunac	32	51	66	68	151	362	22	19	41	126%	63%
600048 CH	A-share Poly	102	125	137	154	210	315	32	22	53	85%	25%
3333 HK	Evergrande	92	100	132	201	373	501	64	48	113	64%	40%
2007 HK	Country Garden	48	106	129	140	309	551	69	55	124	42%	63%
2202 HK	Vanke	141	171	215	261	364	530	68	36	104	20%	30%
688 HK	COLI	89	111	115	154	185	207	23	13	36	15%	18%
Total/Average		504	664	794	978	1,592	2,466	278	192	470	59%	40%

Note: COLI's February sales data estimated by CRIC.

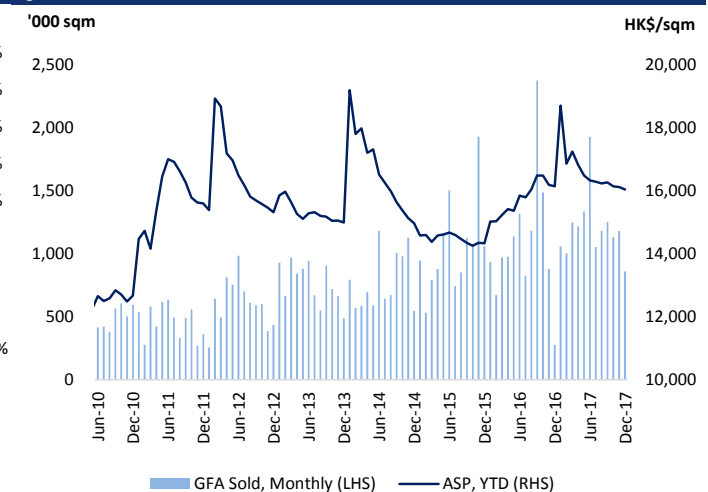
Source: CRIC, Company data, SWS Research

Fig 2: COLI's monthly contract sales



Source: Company data, SWS Research

Fig 3: COLI's GFA sold and ASP



Source: Company data, SWS Research

Land replenishment

The firm has increased its focus on property acquisitions over the past two years, with the acquisitions of assets from its parent in 2015 and from CITIC (267:HK – N-R) in 2016. In 2017, the firm accelerated land replenishment through the open market, with expenditure rising to Rmb95bn (vs Rmb41bn in 2016 and Rmb35bn in 2015), largely in line with its full-year guidance of Rmb100bn, as disclosed in early 2017.

We calculate that, as of end-2017, the firm's attributable land reserves totalled 53msqm, providing sufficient supply of sellable resources for the next three to four years, with an average floor cost of Rmb5,075/sqm or 38% of current selling prices. We note 14% of land reserves are located in tier-1 cities, 77% in tier-2 cities, and 9% in tier-3 cities.

Fig 4: Open market land investment by value and % of contract sales

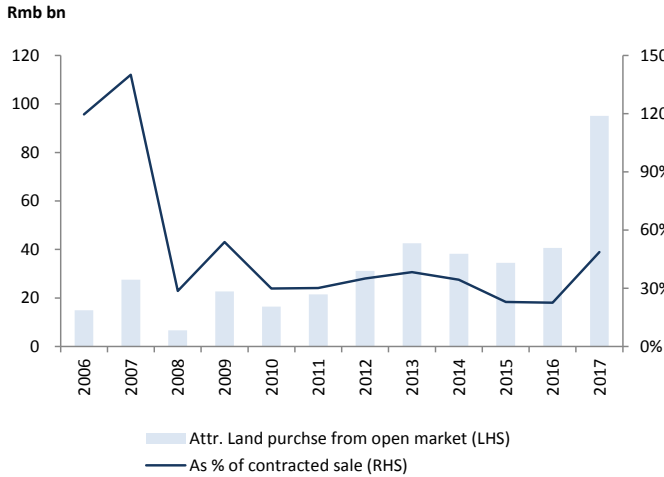
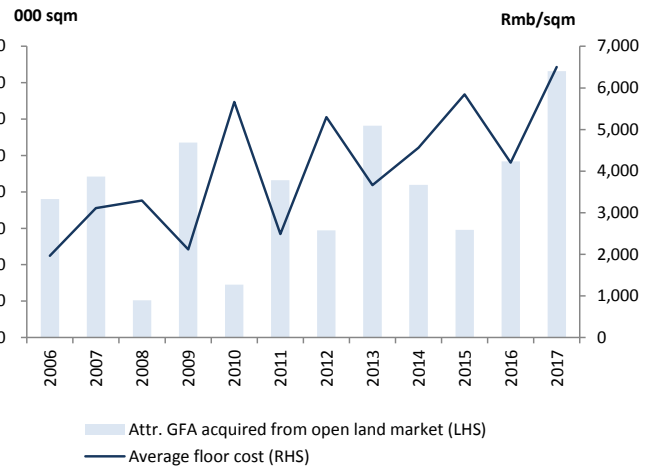


Fig 5: Open market land investment by GFA and average floor cost



Source: Company data, SWS Research

Source: Company data, SWS Research

Fig 6: Land bank breakdown by cities as of end-2017

City	Tier of Cities	Attributable GFA ('000 sqm)	Average Floor Cost (Rmb/sqm)
Jinan	Tier-2/3	6,957	2,019
Chengdu	Tier-2	5,324	4,257
Shenyang	Tier-2/3	3,478	1,575
Beijing	Tier-1	3,472	10,734
Tianjin	Tier-2	3,128	6,665
Changchun	Tier-2/3	2,982	2,497
Qingdao	Tier-2	2,535	1,356
Chongqing	Tier-2	2,436	5,780
Guangzhou	Tier-1	1,876	7,702
Foshan	Tier-2/3	1,830	4,653
Xian	Tier-2/3	1,804	1,838
Nanjing	Tier-2	1,652	11,337
Suzhou	Tier-2	1,569	8,512
Dalian	Tier-2/3	1,073	3,412
Zhengzhou	Tier-2	1,061	4,552
Fuzhou	Tier-2	969	10,292
Shanghai	Tier-1	920	14,442
Wuxi	Tier-2/3	834	4,763
Harbin	Tier-2/3	832	2,202
Zhuhai	Tier-2	823	4,523
Urumqi	Tier-3	794	2,598
Changsha	Tier-3	753	1,972
Yantai	Tier-3	681	1,472
Wanning	Tier-3	593	900
Ningbo	Tier-2/3	585	8,811
Taiyuan	Tier-3	541	2,162
Wuhan	Tier-2	451	8,802
Zhaoqing	Tier-4	398	4,288
Kunming	Tier-2/3	353	5,090
Zhenjiang	Tier-4	336	7,507
Shenzhen	Tier-1	324	7,255
Nanchang	Tier-2/3	323	5,833
Xiamen	Tier-2	263	12,600
Dongguan	Tier-3	235	12,457
Hangzhou	Tier-2	210	18,056
Zhongshan	Tier-3	175	4,477
Hongkong	Tier-1	165	37,156
Haikou	Tier-2/3	156	2,051
Zhangzhou	Tier-4	153	7,840
Jiangmen	Tier-4	134	4,684
Sanya	Tier-2/3	19	2,000
Macau	Tier-1	14	21,100
Total		53,212	5,074

Source: Company data, SWS Research

New leadership

We see management change as one of the possible reasons behind COLI's weak growth. Following the unexpected resignation of former chairman and CEO Hao Jianmin in late 2016, Yan Jianguo, who left COLI three years ago to work for Longfor Properties (960:HK – Outperform), was appointed as CEO in early 2017 and chairman in June 2017.

A number of investors attribute COLI's aggressive land purchase strategy to the new CEO. We believe the company will need time to adapt to the new leadership, and remain cautious on its short-term growth prospects.

Fig 7: Change of management

Former chairman and CEO Hao Jianmin resigned (unknown reason)	Yan Jianguo became CEO	Yan Jianguo was elected as chairman, while still acting as CEO
Dec-16	Jan-17	Jun-17
Vice chairman Xiao Xiao was appointed as chairman and CEO of the company	Xiao Xiao continued to act as chairman	-

Source: Company data, SWS Research

COGO's rights issue

COLI acquired a 38% stake in property developer China Overseas Grand Oceans Group (COGO; 81:HK – N-R) in 2010, and positioned COGO on tier-3 and tier-4 cities, in contrast to COLI's focus on higher-tier cities. Following COLI's partial transfer of CITIC's assets to COGO in 3Q16, and the robust recovery of the property market in lower-tier cities in 2017, COGO delivered 54% YoY sales growth in 2017, with total sales of HK\$37bn.

In November 2017, COGO proposed a rights issue on the basis of one rights share for every two shares at the price of HK\$4.08, with COLI agreeing to fully underwrite the rights issue.

As announced on 2 February, the rights issue was oversubscribed (x2.65), with COLI's stake in COGO remaining stable at c.38% after the rights issue.

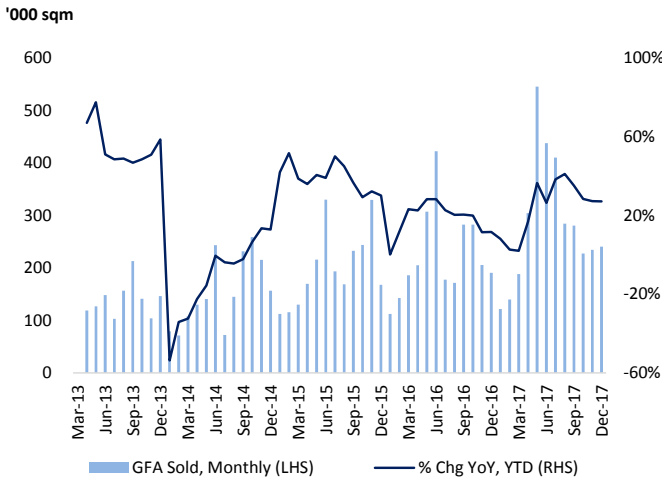
Fig 8: COGO's shareholding structure

	Prior to the rights issue		After the rights issue	
	Number of shares ('000)	As % of total shares	Number of shares ('000)	As % of total shares
COLI				
Star Amuse	833,531	36.5%	1,262,211	36.9%
Chung Hoi	33,170	1.5%	49,754	1.5%
Parties presumed to be acting in concert	433	0.0%	650	0.0%
Sub-total of COLI	867,134	38.0%	1,312,615	38.3%
Other directors	369,294	16.2%	466,226	13.6%
Public shareholders	1,045,812	45.8%	1,644,491	48.0%
Total	2,282,240	100.0%	3,423,360	100.0%

Note: Star Amuse is a wholly owned subsidiary of Big Crown Limited. Big Crown and Chung Hoi are wholly owned subsidiaries of COLI.

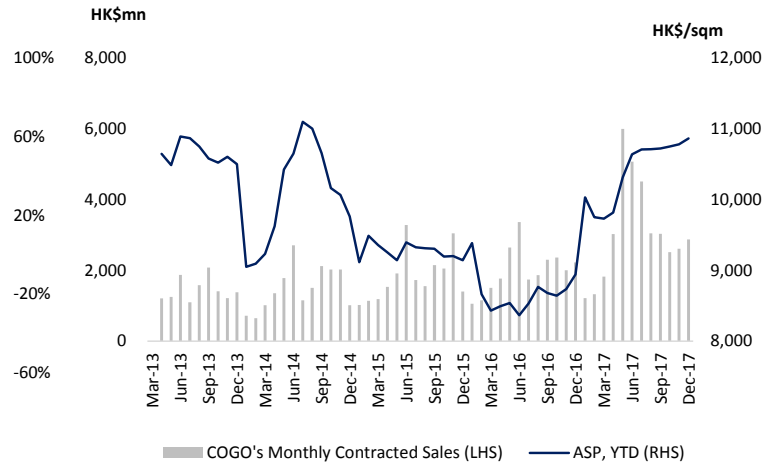
Source: Company data, SWS Research

Fig 9: COGO's GFA sold



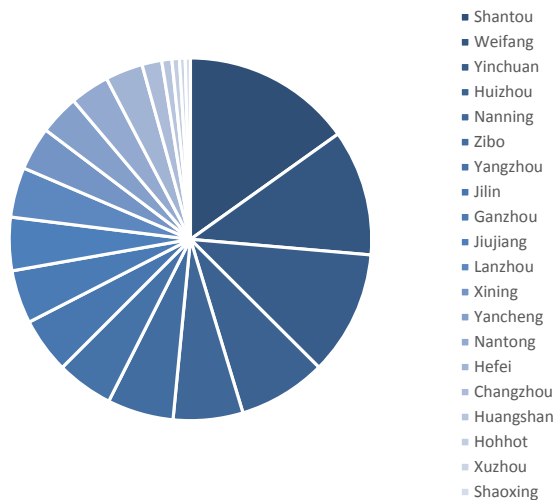
Source: Company data, SWS Research

Fig 10: COGO's ASP



Source: Company data, SWS Research

Fig 11: COGO's land banks breakdown by city as of mid-2017



Source: Company data, SWS Research

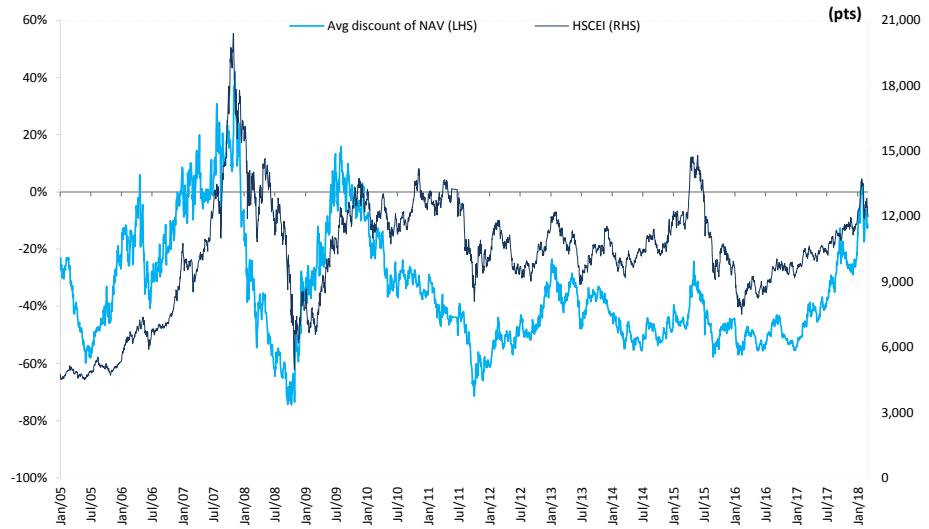
Downgrade to Hold

We cut our 17E core EPS forecast by 3.1% to HK\$3.22 (+4% YoY) and our 18E forecast by 3.3% to HK\$3.67 (+14% YoY), to reflect weak 2017 sales, while maintaining our 19E forecast at HK\$4.35 (+18% YoY). We lift our NAV estimate from HK\$33.70 to HK\$36.00, given the recent acquisitions, although their value might not be reflected until after 2019.

The stock currently trades at 8.5x 17E PE, 7.4x 18E PE, 1.2x 17E PB, and 1.0x 18E PB (24% discount to NAV). We like the company's strong balance sheet and prime land reserves. However, its aggressive land purchase strategy on the open market in 2017 led to increased margin pressure and uncertainty on pre-sale progress.

We lift our target NAV discount from 15% to 20%, and revise up our target price from HK\$28.65 to HK\$28.80. With 5.5% upside, we downgrade our rating from Outperform to Hold.

Fig 12: Comparison of average discount to NAV among medium-sized and large Hong Kong-listed Chinese developers to HSCEI



Source: Wind, SWS Research

Fig 13: Valuation and target prices

Company	Code	Market Cap (HK\$bn)	Rating	Target price (HK\$)	PE (x)			PB (x)			NAV Disc	17E Dividend yield	Shares Performance	
					16A	17E	18E	16A	17E	18E			2017	2018
COLI	688 HK	299	Hold	28.80	7.8	8.5	7.4	1.1	1.2	1.0	-24%	2.9%	25%	9%
Country Garden	2007 HK	302	Outperform	15.64	5.4	13.3	11.2	0.9	2.9	2.4	-1%	2.4%	248%	-6%
CR land	1109 HK	191	Outperform	29.83	7.8	9.8	7.9	1.1	1.3	1.1	-26%	2.9%	36%	20%
Longfor	960 HK	129	Outperform	27.29	6.7	11.7	9.3	0.8	1.6	1.4	-18%	2.8%	106%	14%
Shimao	813 HK	70	Hold	22.04	4.9	8.7	7.3	0.6	1.0	1.0	-20%	3.8%	73%	23%
Sino-ocean	3377 HK	43	Outperform	6.65	8.3	9.3	7.5	0.5	0.7	0.6	-53%	4.3%	60%	6%
KWG	1813 HK	35	Hold	8.70	4.2	8.1	6.9	0.5	1.0	0.9	-21%	4.1%	128%	25%
Poly Ppty	119 HK	15	Buy	5.36	96.0	14.1	5.4	0.3	0.5	0.5	-48%	2.2%	58%	-2%
Yuzhou	1628 HK	21	Outperform	5.53	5.5	5.9	4.8	1.1	1.3	1.1	-37%	5.3%	74%	20%
Average					5.1	9.9	7.5	0.8	1.3	1.1	-27%	3.4%	92%	11%

Source: Bloomberg, Company data, SWS Research

Appendix: Company financials

Figure 1: Forecast Income Statement

HK\$m	2010A	2011A	2012A	2013A	2014A	2015A	2016A	2017E	2018E	2019E
Revenue	44,313	51,332	64,581	82,470	138,505	169,562	164,069	199,651	224,476	261,610
Property sales	42,962	49,432	61,407	78,615	134,022	163,559	159,891	196,226	220,880	257,834
Property rentals	294	373	585	857	1,643	2,013	2,137	1,282	1,346	1,414
Others	1,057	1,527	2,589	2,998	2,839	3,990	2,040	2,142	2,249	2,362
Cost of Sales	(26,539)	(30,660)	(39,855)	(55,647)	(99,195)	(123,442)	(118,425)	(138,389)	(155,421)	(181,143)
Gross Profit	17,774	20,672	24,726	26,823	39,310	46,120	45,643	61,261	69,055	80,466
Revaluation gains	2,016	3,020	3,651	3,438	5,637	7,514	7,723	6,000	3,000	3,000
Other Income	898	771	731	904	1,915	1,961	1,789	1,968	2,165	2,382
Gains on assets disposal	1,912	868			736	909	9,301			
Distribution expenses	(592)	(661)	(842)	(1,247)	(1,933)	(2,843)	(3,372)	(3,540)	(3,717)	(3,903)
Administrative expenses	(1,314)	(1,236)	(1,194)	(1,570)	(2,057)	(3,106)	(3,180)	(3,339)	(3,506)	(3,681)
EBIT	20,694	23,434	27,071	28,348	43,607	50,555	57,905	62,351	66,997	78,264
Other gains				1,458		2,513				
Jointly controlled entities	335	921	2,637	3,773	1,261	1,059	1,252	1,315	1,381	1,450
Finance Costs	(462)	(590)	(286)	(290)	(545)	(2,757)	(2,056)	(2,172)	(2,230)	(2,252)
Profit before tax	20,567	23,765	29,423	33,289	44,324	51,370	57,102	61,494	66,147	77,462
Tax expense	(7,897)	(8,206)	(10,590)	(10,110)	(16,573)	(15,954)	(18,711)	(19,952)	(21,844)	(25,548)
Inc tax	(4,023)	(4,322)	(5,078)	(5,618)	(9,416)	(9,575)	(9,507)	(12,299)	(13,229)	(15,492)
LAT	(3,874)	(3,884)	(5,010)	(4,003)	(6,828)	(5,013)	(7,776)	(7,653)	(8,614)	(10,056)
Deferred			(502)	(489)	(328)	(1,366)	(1,428)			
Profit for the year	12,670	15,559	18,833	23,179	27,751	35,416	38,391	41,542	44,304	51,914
Minority interests	(296)	(94)	(110)	(135)	(551)	(772)	(1,370)	(1,507)	(1,658)	(1,824)
Profit attr to shareholders	12,374	15,465	18,723	23,044	27,200	34,644	37,021	40,035	42,646	50,091
Dividends paid	(1,880)	(2,697)	(3,351)	(3,841)	(5,086)	(5,423)	(7,878)	(8,808)	(10,060)	(11,921)
Underlying net profit	9,501	13,016	15,802	20,176	22,910	28,894	31,371	35,235	40,246	47,691
Basic EPS	1.51	1.89	2.29	2.82	3.33	3.75	3.64	3.65	3.89	4.57
Diluted EPS	1.51	1.89	2.29	2.82	3.33	3.75	3.64	3.65	3.89	4.57
DPS	0.27	0.33	0.41	0.47	0.55	0.61	0.77	0.80	0.92	1.09
Underlying EPS	1.16	1.59	1.93	2.47	2.80	3.13	3.08	3.22	3.67	4.35

Source: Company data, SWS research

Figure 2: Forecast Balance Sheet

HK\$m	2010A	2011A	2012A	2013A	2014A	2015A	2016A	2017E	2018E	2019E
Investment property	14,054	17,765	23,657	32,532	54,921	64,057	67,093	71,093	75,093	79,093
PP&E	319	337	976	1,371	1,378	1,223	3,887	4,275	3,653	3,654
Interests in JV and associates	11,557	16,032	17,210	15,930	16,952	15,010	16,038	17,642	19,406	21,347
Others	10,423	13,857	7,714	5,474	5,256	5,396	9,358	9,000	8,219	8,483
Non-current assets	36,353	47,991	49,557	55,307	78,506	85,686	96,376	102,010	106,371	112,577
Properties under development	82,390	94,801	108,480	160,952	230,484	203,183	261,690	313,992	349,803	392,067
Pre-paid land premiums	1,916	6,027	14,136	19,835	15,124	4,493	7,631	8,394	11,717	15,372
Cash and cash equivalents	32,023	19,179	40,880	41,411	58,281	120,047	154,983	142,638	143,803	139,358
Restricted cash	448									
Receivable	2874	1,850	2599	2,431	8,450	11,203	11,341	12,476	13,723	15,095
Others	6,244	6,127	14,172	16,587	19,319	2,625	39,268	43,195	47,514	52,265
Current assets	125,895	127,984	180,267	241,216	331,658	341,550	474,913	520,694	566,560	614,157
Total assets	162,248	175,975	229,824	296,523	410,163	427,237	571,289	622,704	672,932	726,734
Share capital and premiums	817	817	817	817	19,634	62,434	90,420	90,420	90,420	90,420
Retained earnings	54,746	70,799	86,427	109,153	114,036	129,123	131,828	163,055	195,641	233,811
Majority interests	55,563	71,616	87,244	109,970	133,670	191,558	222,248	253,476	286,062	324,231
Minority interests	3,207	273	313	1,080	4,886	5,055	5,175	5,434	5,705	5,991
Total equity	58,770	71,889	87,557	111,050	138,557	196,613	227,423	258,910	291,767	330,222
Borrowings	24,305	25,114	32,095	36,709	26,639	41,986	61,773	82,115	87,715	90,216
Senior notes	10,018	7,690	21,147	32,688	48,177	66,200	71,761	71,761	71,761	71,761
Others	7,756	3,352	5,050	5,147	7,707	8,744	10,727	11,264	11,827	12,418
Non-current liabilities	42,079	36,156	58,292	74,544	82,523	116,931	144,261	165,140	171,303	174,395
Advanced sales proceeds	23,274	24,480	40,506	61,414	55,950	47,495	82,256	90,481	99,530	109,482
Payable	14,103	16,378	16,917	21,523	42,818	34,644	44,815	47,056	49,409	51,879
Borrowings	10,214	9,819	5,546	3,303	22,542	7,269	40,286	29,786	29,086	28,387
Tax payable	10,952	12,680	15,017	16,357	21,116	18,466	21,888	22,983	24,132	25,338
Others	2,856	4,573	5,990	8,332	46,657	5,819	10,359	8,349	7,705	7,030
Current liabilities	61,399	67,930	83,975	110,929	189,084	113,693	199,604	198,655	209,862	222,117
Total liabilities	103,478	104,086	142,267	185,473	271,606	230,624	343,866	363,795	381,165	396,512
Total equity and liabilities	162,248	175,975	229,824	296,523	410,163	427,237	571,289	622,704	672,932	726,734

Source: Company data, SWS research

Figure 3: Forecast Cash Flow Statement

HK\$m	2010A	2011A	2012A	2013A	2014A	2015A	2016A	2017E	2018E	2019E
Cash generated from/(used in) operations	1,338	(2,034)	15,202	(345)	8,016	59,988	75,577	5,480	27,400	29,600
Others	(3,889)	(5,963)	(8,152)	(9,741)	(12,264)	(17,240)	(15,038)	(18,798)	(22,557)	(25,941)
Net cash generated from operating activities	(2,551)	(7,997)	7,050	(10,086)	(4,248)	42,748	60,539	(13,318)	4,843	3,659
Acquisitions	(3,604)	(2,161)	(1,586)	(1,060)	(2,407)	(2,724)	(2,377)	(2,500)	(1,000)	(1,200)
Others	(1,302)	(3,292)	3,091		(2,061)	(413)	17,491	1,508	1,230	1,353
Net cash generated from Investing activities	(4,906)	(5,453)	1,505	(1,060)	(4,468)	(3,137)	15,114	(992)	230	153
Proceeds from issuance of shares	4					42,800				
Proceeds of senior notes issuance	20,872	(1,914)	16,165	13,913	24,658	18,098	58,364	9,842	4,900	1,802
Net borrowings	(1,631)	(1,880)	(2,697)	(3,351)	(3,841)	(5,086)	(5,423)	(7,878)	(8,808)	(10,060)
Others	(4,205)	3,494	(303)	130	(4,875)	(40,115)	(85,335)			
Net cash generated from financing activities	15,040	(299)	13,165	10,692	15,942	15,697	(32,394)	1,964	(3,908)	(8,258)
Increase in cash and cash equivalents	7,583	(13,749)	21,720	(454)	7,226	55,308	43,259	(12,345)	1,165	(4,446)
Cash and cash equivalents at beginning of year	23,782	32,023	19,179	40,880	51,178	69,667	120,047	154,983	142,638	143,803
Exchange losses on cash and cash equivalents	658	905	(18)	985	(123)	(4,928)	(8,324)			
Cash and cash equivalents at end of the year	32,023	19,179	40,880	41,411	58,281	120,047	154,983	142,638	143,803	139,358

Source: Company data, SWS research

Information Disclosure :

The views expressed in this report accurately reflect the personal views of the analyst. The analyst declares that neither he/she nor his/her associate serves as an officer of nor has any financial interests in relation to the listed corporation reviewed by the analyst. None of the listed corporations reviewed or any third party has provided or agreed to provide any compensation or other benefits in connection with this report to any of the analyst, the Company or the group company(ies). A group company(ies) of the Company confirm that they, whether individually or as a group (i) are not involved in any market making activities for any of the listed corporation reviewed; or (ii) do not have any individual employed by or associated with any group company(ies) of the Company serving as an officer of any of the listed corporation reviewed; or (iii) do not have any financial interest in relation to the listed corporation reviewed or (iv) do not, presently or within the last 12 months, have any investment banking relationship with the listed corporation reviewed.

Undertakings of the Analyst

I (We) am (are) conferred the Professional Quality of Securities Investment Consulting Industry by the Securities Association of China and have registered as the Securities Analyst. I hereby issue this report independently and objectively with due diligence, professional and prudent research methods and only legitimate information is used in this report. I am also responsible for the content and opinions of this report. I have never been, am not, and will not be compensated directly or indirectly in any form for the specific recommendations or opinions herein.

Disclosure with respect to the Company

The company is a subsidiary of Shenwan Hongyuan Securities. The company is a qualified securities investment consulting institute approved by China Securities Regulatory Commission with the code number ZX0065.

Releasing securities research reports is the basic form of the securities investment consulting services. The company may analyze the values or market trends of securities and related products or other relevant affecting factors, provide investment analysis advice on securities valuation/ investment rating, etc. by issuing securities research reports solely to its clients.

The Company fulfills its duty of disclosure within its sphere of knowledge. The clients may contact compliance@swsresearch.com for the relevant disclosure materials or log into www.swsresearch.com for the analysts' qualifications, the arrangement of the quiet period and the affiliates' shareholdings.

Introduction of Share Investment Rating

Security Investment Rating :

When measuring the difference between the markup of the security and that of the market's benchmark within six months after the release of this report, we define the terms as follows:

Trading BUY: Share price performance is expected to generate more than 20% upside over a 6-month period.

BUY: Share price performance is expected to generate more than 20% upside over a 12-month period.

Outperform: Share price performance is expected to generate between 10-20% upside over a 12-month period.

Hold: Share price performance is expected to generate between 10% downside to 10% upside over a 12-month period.

Underperform: Share price performance is expected to generate between 10-20% downside over a 12-month period.

SELL: Share price performance is expected to generate more than 20% downside over a 12-month period.

Industry Investment Rating:

When measuring the difference between the markup of the industry index and that of the market's benchmark within six months after the release of the report, we define the terms as follows:

Overweight : Industry performs better than that of the whole market ;

Equal weight : Industry performs about the same as that of the whole market ;

Underweight : Industry performs worse than that of the whole market.

We would like to remind you that different security research institutions adopt different rating terminologies and rating standards. We adopt the relative rating method to recommend the relative weightings of investment. The clients' decisions to buy or sell securities shall be based on their actual situation, such as their portfolio structures and other necessary factors. The clients shall read through the whole report so as to obtain the complete opinions and information and shall not rely solely on the investment ratings to reach a conclusion. The Company employs its own industry classification system. The industry classification is available at our sales personnel if you are interested.

HSCEI is the benchmark employed in this report.

Disclaimer :

This report is to be used solely by the clients of SWS Research Co., Ltd. (subsidiary of Shenwan Hongyuan Securities, hereinafter referred to as the "Company"). The Company will not deem any other person as its client notwithstanding his receipt of this report.

This report is based on public information, however, the authenticity, accuracy or completeness of such information is not warranted by the Company. The materials, tools, opinions and speculations contained herein are for the clients' reference only, and are not to be regarded or deemed as an invitation for the sale or purchase of any security or other investment instruments.

The clients understand that the text message reminder and telephone recommendation are no more than a brief communication of the research opinions, which are subject to the complete report released on the Company's website (<http://www.swsresearch.com>). The clients may ask for follow-up explanations if they so wish.

The materials, opinions and estimates contained herein only reflect the judgment of the Company on the day this report is released. The prices, values and investment returns of the securities or investment instruments referred to herein may fluctuate. At different periods, the Company may release reports which are inconsistent with the materials, opinions and estimates contained herein.

Save and except as otherwise stipulated in this report, the contactor upon the first page of the report only acts as the liaison who shall not provide any consulting services.

The clients shall consider the Company's possible conflict of interests which may affect the objectivity of this report, and shall not base their investment decisions solely on this report. The clients should make investment decisions independently and solely at your own risk. Please be reminded that in any event, the company will not share gains or losses of any securities investment with the clients. Whether written or oral, any commitment to share gains or losses of securities investment is invalid. The investment and services referred to herein may not be suitable for certain clients and shall not constitute personal advice for individual clients. The Company does not ensure that this report fully takes into consideration of the particular investment objectives, financial situations or needs of individual clients. The Company strongly suggests the clients to consider themselves whether the opinions or suggestions herein are suitable for the clients' particular situations; and to consult an independent investment consultant if necessary.

Under no circumstances shall the information contained herein or the opinions expressed herein forms an investment recommendation to anyone. Under no circumstances shall the Company be held responsible for any loss caused by the use of any contents herein by anyone. Please be particularly cautious to the risks and exposures of the market via investment.

Independent investment consultant should be consulted before any investment decision is rendered based on this report or at any request of explanation for this report where the receiver of this report is not a client of the Company.

The Company possesses all copyrights of this report which shall be treated as non-public information. The Company reserves all rights related to this report. Unless otherwise indicated in writing, all the copyrights of all the materials herein belong to the Company. In the absence of any prior authorization by the Company in writing, no part of this report shall be copied, photocopied, replicated or redistributed to any other person in any form by any means, or be used in any other ways which will infringe upon the copyrights of the Company. All the trademarks, service marks and marks used herein are trademarks, service marks or marks of the Company, and no one shall have the right to use them at any circumstances without the prior consent of the Company.

This report may be translated into different languages. The Company does not warrant that the translations are free from errors or discrepancies.

This report is for distribution in Hong Kong only to persons who fall within the definition of professional investors whether under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO") or the Securities and Futures (Professional Investor) Rules (Chapter 571D of the laws of the Hong Kong under the SFO).

This report is for distribution in the United Kingdom only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) order 2001 (as amended) (the "Order") or (ii) are persons falling within Article 49(2)(a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc") of the Order (All such persons together being referred to as "Relevant Persons"). This document is directed only at Relevant Persons. Other Persons who are not Relevant Persons must not act or rely upon this document or any of its contents.

Distribution in Singapore

If distributed in Singapore, this report is meant only for Accredited Investors and Institutional Investors as defined under Section 4A of the Securities and Futures Act of Singapore. If you are not an Accredited Investor or an Institutional Investor, you shall ignore the report and its contents. The Singapore recipients of the report are to contact the Singapore office of Shenwan Hongyuan Singapore Private Limited at 65-6323-5208, or 65-6323-5209 in respect of any matters arising from, or in connection with, the report.