



Company Report: Evergrande (03333 HK)

公司报告: 中国恒大 (03333 HK)

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Improving Fundamentals but Slowdown in Growth and Unattractive Valuation, Downgrade to "Accumulate"

改善的基本面但增长放缓且估值不吸引, 下调至“收集”

- **1H18 results beat our expectations riding on higher-than-expected GFA delivered.** Top line increased by 59.8% YoY to RMB300,348 mn in 1H18. Underlying net profit increased 21.0% YoY to RMB28,454 mn.
- **Contracted sales will remain high but growth rate may gradually fall.** During Jan.-Aug. 2018, contracted sales amounted to RMB385.09 bn, increasing 19.7% YoY, achieving 70.0% of its 2018 sales target. Contracted sales growth rate might slow down riding on decreasing land scale and falling sale-through rate. In addition, contracted liabilities decreased to RMB176,531 mn as at 30 Jun. 2018.
- **We expect a high gross margin level.** The Company's unit land cost amounted to RMB1,683 per sq.m., 16.0% of ASP during Jan.-Aug. 2018. Gross margin is expected to remain at around 35.3% in 2018-2020.
- **Evergrande's operating risks should gradually decrease alongside balance sheet enhancement and stable profitability.** The net gearing ratio will gradually decrease from 183.7% in 2017 to 66.3% in 2020.
- The Company's fundamentals should improve. However, its valuation should not be attractive. Overall, we revise down target price from HK\$30.17 to HK\$28.79, which represents a 35% discount to the Company's revised 2018E NAV of HK\$44.30 per share, 8.9x underlying 2018 PER and 2.4x 2018 PBR. **We downgrade to "Accumulate". Risks:** lower-than-expected house sales and listing failure for Evergrande's property development business on the A-share market.
- 由于高于预期的面积交付, 2018年上半年业绩好于我们预期。在2018年上半年收入同比增长59.8%至人民币3,003.48亿元。核心净利同比增长21.0%至人民币284.54亿元。
- 合约销售将维持相当大的一个体量但其增速可能逐渐下降。在2018年1-8月, 合约销售达到人民币3,850.9亿元, 同比增长19.7%, 达成其2018年销售目标的70.0%。鉴于下降的土储规模和下降的去化率, 合约销售增速可能下滑。且在2018年6月30日末, 合约负债下降至人民币1,765.31亿元。
- 我们预期高水准的毛利率。公司的单位土地成本达到人民币1,683元每平方米, 为2018年1-8月合约销售均价的16.0%。其毛利率将在2018到2020年维持在35.3%左右。
- 源于资产负债表的增强和稳定盈利, 中国恒大的运营风险将逐渐降低。净资产负债率将逐渐从2017年末的183.7%下降至2020年的66.3%。
- 公司的基本面应会进一步改善。但是其估值并不吸引。总体而言, 我们将目标价从30.17港元下调至28.79港元, 相当于较44.30港元的2018年每股净资产有35%的折让, 也分别相当于8.9倍2018年核心市盈率 and 2.4倍2018年市净率。我们下调至“收集”。风险: 低于预期的房屋销售和中国恒大的地产业务在A股上市失败。

Rating: **Accumulate**
Downgraded

评级: **收集 (下调)**

6-18m TP 目标价: **HK\$28.79**
Revised from 原目标价: HK\$30.17

Share price 股价: **HK\$26.200**

Stock performance



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 %	(7.7)	20.2	(13.8)
Rel. % to HS Index 相对恒指变动 %	(6.8)	26.4	(11.6)
Avg. Share price(HK\$) 平均股价 (港元)	25.2	24.9	23.4

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)	(%)	(%)
2016A	211,444	5,091	0.372	(47.8)	63.1	3.233	7.3	0.000	0.0	10.7
2017A	311,022	24,372	1.833	392.7	11.9	8.632	2.5	1.108	5.1	30.7
2018F	444,469	38,395	2.914	59.0	7.7	10.507	2.1	1.457	6.5	30.3
2019F	562,946	51,653	3.920	34.5	5.7	12.970	1.7	1.960	8.7	33.4
2020F	665,386	59,764	4.536	15.7	5.0	15.546	1.4	2.268	10.1	31.8
Shares in issue (m) 总股数 (m)				13,038.0	Major shareholder 大股东					Hui Ka Yan 78.0%
Market cap. (HK\$ m) 市值 (HK\$ m)				341,595.6	Free float (%) 自由流通比率 (%)					22.1
3 month average vol. 3 个月平均成交股数 ('000)				36,364.1	FY18 Net gearing (%) FY18 净负债/股东资金 (%)					117.3
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)				32.500 / 18.180	FY18 Est. NAV (HK\$) FY18 每股估值 (港元)					44.3

Source: the Company, Guotai Junan International.

House sales maintained steady growth. During Jan.-Aug. 2018, the YoY increase in commodity house sales maintained steady growth compared to that during Jan.-Jul. 2018. The YoY increase in investment decreased slightly by 0.1 ppts. Moreover, land area sold increased 15.6% YoY during Jan.-Aug. 2018. Sources of funds for real estate development enterprises recorded moderate YoY rebound. We expect steady investment. Housing sales amount remained high in absolute terms. In addition, saleable areas extended downside momentum. Subsequently, we argue steady fundamentals for the property market.

Figure 1: Cumulative House Sales Amount in China

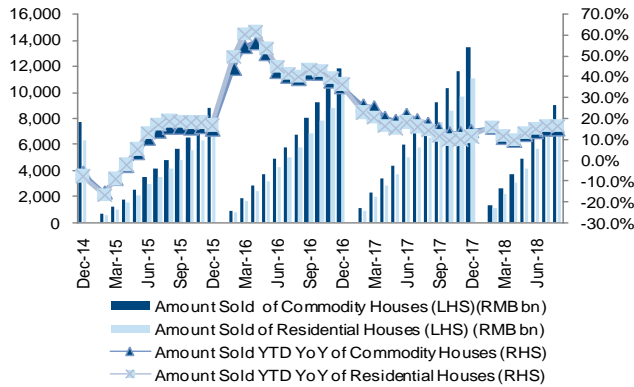
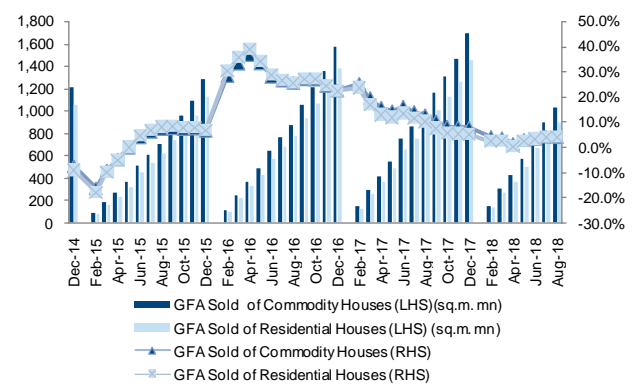


Figure 2: Cumulative House Sales GFA in China



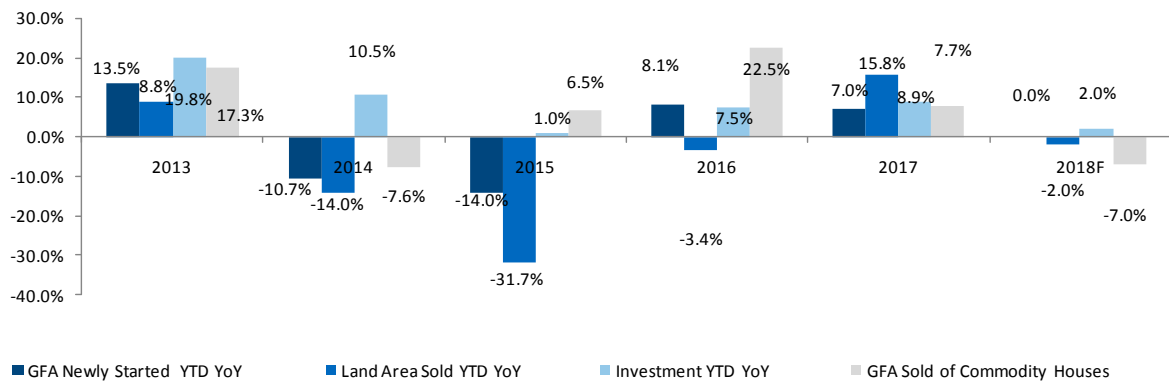
Source: National Bureau of Statistics of China, Guotai Junan International.

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

Severe external environment will be maintained but policies should be moderately loose if the macro economy starts to deteriorate due to the Sino-US trade war. There should be no trigger for policy changes due to stable ASP, proper stock turnover and decreasing land auction premium. Tightening policies will be extended. Despite recent marginal loosening, the credit environment will follow a tightening trend in the long run. For the global market, the US has entered into an interest rate hike cycle, therefore, we expect that the PBOC will continue to reduce leverage and shrink its balance sheet in the long run. Monetary policy will be prudent and neutral, with the keynote of deleveraging.

We think that commodity house sales will only experience limited decline. Urbanization and demand from housing replacement will lead to sustainable housing demand in 2018-2020. 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: Key Property Development and Sales Data



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

Evergrande's (the "Company") 1H18 underlying net profit beat our expectation riding on higher-than-expected GFA delivered. Top line increased by 59.8% YoY to RMB300,348 mn in 1H18 due to more GFA delivered. Gross profit amounted to RMB108,859 mn, soaring 61.7% YoY. Given less land appreciation taxes, net profit increased 63.6% YoY to RMB30,805 mn, beating our expectation. Moreover, underlying net profit increased by 21.0% YoY to RMB28,454 mn, which also beat our expectation. The Company recorded improving gross margin with a gain of 0.4 ppts YoY. Underlying net profit margin decreased 3.0 ppts YoY to 9.5%. Net gearing ratio sharply fell 56.4 ppts YoY riding on net profit soaring and debt scale falling.

Table 1: Comparison of the Company's Income Statement in 1H17 and 1H18

RMB mn	1H17	1H18	Change
Total revenue	187,981	300,348	59.8%
Gross profit	67,304	108,859	61.7%
GPM	35.8%	36.2%	0.4 ppts
Net profit	18,834	30,805	63.6%
Net profit (Ex. after-tax fair value gains on IP and exchange losses)	23,518	28,454	21.0%
NPM	10.0%	10.3%	0.2 ppts
NPM (Ex. after-tax fair value gains on IP and exchange losses)	12.5%	9.5%	-3.0 ppts
DPS (RMB cent)	0.0	0.0	n.a.
EPS (RMB cent)	140.0	233.8	67.0%
ROE	24.7%	25.0%	0.3 ppts

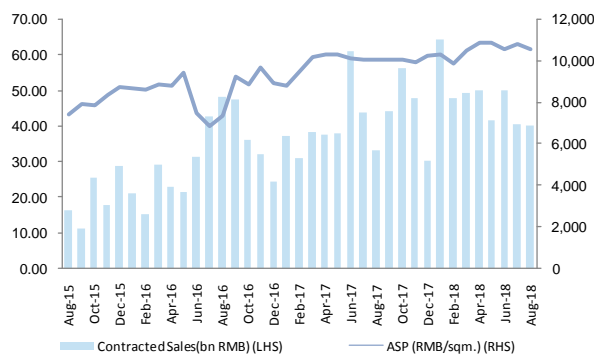
Source: the Company, Guotai Junan International.

Table 2: Comparison of the Company's Balance Sheet in 2017 and 1H18

RMB mn	2017	1H18	Change
Cash and cash equivalents	287,722	257,944	-10.3%
Total asset	1,761,752	1,769,888	0.5%
Stock of properties	953,521	958,057	0.5%
Advanced proceeds received from customers	267,555	176,531	-34.0%
Trade and other payables	399,459	454,410	13.8%
Total debt	732,625	623,724	-14.9%
Shareholders' equity	114,772	145,767	27.0%
Net gearing ratio	183.7%	127.3%	-56.4 ppts

Source: the Company, Guotai Junan International.

We expect contracted sales to remain high, but with a slowdown in growth rate. During Jan.-Aug. 2018, contracted sales amounted to RMB385.09 bn, increasing 19.7% YoY, achieving 70.0% of its 2018 sales target. The Company's saleable resources fully covered all city tiers. However, policy tightening was only targeted towards cities with overheating property markets, especially 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 covering a wide geographic area. In addition, the Company's quality brand reputation and competitive ASP should support its contracted sales as well. With saleable resource of over RMB700.0 bn in 2H18 and expected sale-through rate of over 60.0%, we think the Company could achieve its 2018 sales target. However, the Company will decrease its land scale. Thus, growth rate of saleable resources might decrease. Alongside decreasing sale-through rate due to severe external environment, we expect a slowdown of the Company's contracted sales growth rate. In addition, contracted liabilities decreased to RMB176,531 mn as at 30 Jun. 2018. That is, GFA sold but not delivered is not enough to support rapid growth of total revenue.

Figure 4: Evergrande's Sales Records


Source: the Company.

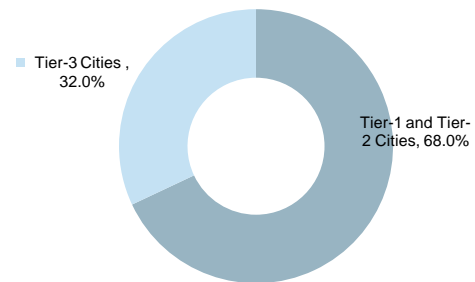
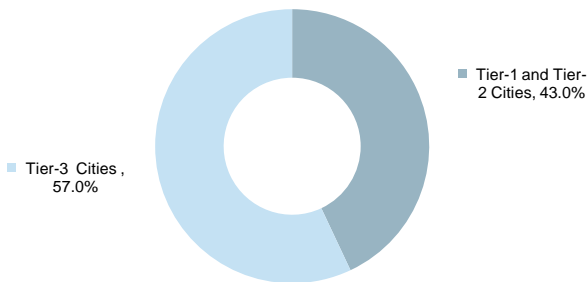
The Company's other segment will become a new growth engine in the future. Evergrande will focus on health care, cultural tourism and high-tech industries as services segments. Evergrande Tourism Group (the "Group") focuses on its flagship product "Evergrande Fairyland", with 13 cultural tourism projects. The GFA for tourism was 47.14 mn sq.m. During 1H18, contracted sales from cultural tourism projects amounted to RMB19.55 bn. Evergrande Health Industry Group Limited ("Evergrande Health"), a subsidiary of the Group, focuses on two major business segments, namely the health management segment and the new energy vehicle segment. Based on the 2018 business plan of Evergrande Health, Evergrande Health targets to achieve membership spending amount to RMB5.0 bn. In Jun. 2018, Evergrande Health acquired the entire issued share capital of Season Smart Limited, the sole assets of which amounts to 45% equity interest in Smart King Ltd., which in turn owns the business of Smart Technology Holdings Ltd. ("Faraday Future").

The Company will slow down its pace of land replenishment activities to enhance its balance sheet. In 1H18, the Company acquired 68 projects with total GFA of 30.86 mn sq.m., down 34.0% YoY. Average land cost amounted to RMB1,446 per sq.m.; 43% of all newly acquired projects were in tier-1 and tier-2 cities. The Company also has 42 projects in Shenzhen with a planned GFA of 24.32 mn sq.m. Potential GFA from redevelopment projects amounted to 72.85 mn sq.m.

Enormous scale of land banks alongside low unit land costs support the Company's contracted sales with stable gross margins. As at the end of 1H18, the Company had 822 projects in 228 cities. Total GFA amounted to 305 mn sq.m., down 2.2% from the end of 2017. Its unit land cost amounted to RMB1,683 per sq.m., 16.0% of ASP during Jan.-Aug. 2018. We estimate gross margins to remain at around 35.3% in 2018-2020.

Figure 5: Evergrande's Land Bank Replenishment Breakdown by Original Value During 1H18

Figure 6: Evergrande's Land Bank Breakdown by Original Value at the end of 1H18



Source: the Company.

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The Company will strive to decrease its net gearing ratio, which will decrease the Company's operating risks. The Company has changed its strategy from "scale development" to "scale and efficiency development". We expect considerable contracted sales amount, stable profitability and scale growth reduction of land reserves. Therefore, net gearing ratio will gradually decrease to a healthy level during 2018-2020. Balance sheet enhancement could decrease the Company's operating risks.

We slightly adjust underlying profit estimations. Total revenue in 1H18 was higher than our previous assumption. We expect that Evergrande's contracted sales will maintain its considerable scale. Therefore, we have slightly adjusted 2018F, 2019F and 2020F total revenue by -2.0%, 2.7% and 1.2% to RMB444,469 mn, RMB562,946 mn and RMB665,386 mn, respectively. With a quality land bank and low unit land cost, we expect stable gross margins in 2018-2020. We have moderately adjusted gross margin. Overall, we revise up 2018F, 2019F and 2020F underlying net profit by 1.8%, 4.7% and 0.3% to RMB36,567 mn, RMB48,938 mn and RMB56,413 mn, respectively. We expect lower net gearing ratio and stronger balance sheet to follow the Company's strategy of "scale and efficiency development". Moreover, net gearing ratio in 1H18 was lower than our previous expectation. Thus, we revise down net gearing ratio in 2018F, 2019F and 2020F by 11.8 ppts, 3.4 ppts and 15.4 ppts, respectively.

Table 3: Revisions to 2018-2020 Profit Estimations

RMB mn	New estimations			Old estimations			Change		
	2018F	2019F	2020F	2018F	2019F	2020F	2018F	2019F	2020F
Total revenue	444,469	562,946	665,386	435,899	548,015	657,796	2.0%	2.7%	1.2%
Gross profit	160,509	199,228	228,418	160,482	197,725	232,587	0.0%	0.8%	-1.8%
Operating profit	134,729	171,409	194,742	134,859	170,178	199,050	-0.1%	0.7%	-2.2%
Net profit	38,395	51,653	59,764	38,987	50,058	59,923	-1.5%	3.2%	-0.3%
Underlying profit	36,567	48,938	56,413	35,923	46,734	56,249	1.8%	4.7%	0.3%
Gross margin	36.1%	35.4%	34.3%	36.8%	36.1%	35.4%	-0.7ppts	-0.7 ppts	-1.0 ppts
Operating profit margin	30.3%	30.4%	29.3%	30.9%	31.1%	30.3%	-0.6 ppts	-0.6 ppts	-1.0 ppts
Net profit margin	8.6%	9.2%	9.0%	8.9%	9.1%	9.1%	-0.3 ppts	0.0 ppts	-0.1 ppts
Underlying net profit margin	8.2%	8.7%	8.5%	8.2%	8.5%	8.6%	0.0 ppts	0.2 ppts	-0.1 ppts
ROE	30.3%	33.4%	31.8%	29.0%	29.6%	29.7%	1.3 ppts	3.8 ppts	2.1 ppts
ROCE	19.6%	23.7%	25.5%	19.6%	24.2%	26.8%	0.0 ppts	-0.5 ppts	-1.4 ppts
ROA	7.2%	8.6%	9.2%	6.4%	7.2%	7.6%	0.8 ppts	1.4 ppts	1.6 ppts
Net gearing ratio	117.3%	95.6%	66.3%	129.1%	99.0%	81.6%	-11.8 ppts	-3.4 ppts	-15.4 ppts

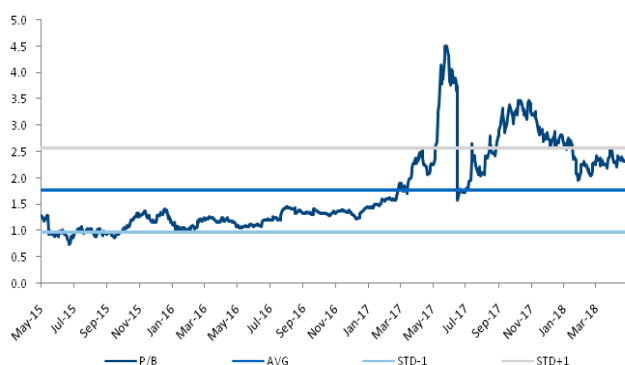
Source: Guotai Junan International.

Downgrade to "Accumulate". The Company will focus on its strategy of "scale and efficiency development". Contracted sales should maintain its considerable scale. The Company's diversified business distribution might be a new growth engine in the future. Quality land bank with proper unit land cost stabilized gross margin. In addition, net gearing ratio is likely to gradually decrease to a healthy level. The Company's fundamentals are likely to further improve. Evergrande's operating risks should gradually decrease. This is favorable, especially when monetary environment is tightening up. However, the revenue growth rate will slow down. Evergrande's valuation is significantly higher than the sector weighted average amongst HK-listed large-sized developers with its 2018F, 2019F and 2020F PER of 8.1x, 6.1x and 5.3x, respectively. The Company's valuation should not be attractive. Overall, we revise down target price from HK\$30.17 to HK\$28.79, which represents a 35% discount to the Company's 2018E NAV of HK\$44.30 per share, 8.9x underlying 2018 PER and 2.4x 2018 PBR. We downgrade Evergrande's investment rating to "Accumulate". Key risk factors include: lower-than-expected house sales and listing failure for Evergrande's property development business in the A-share market.

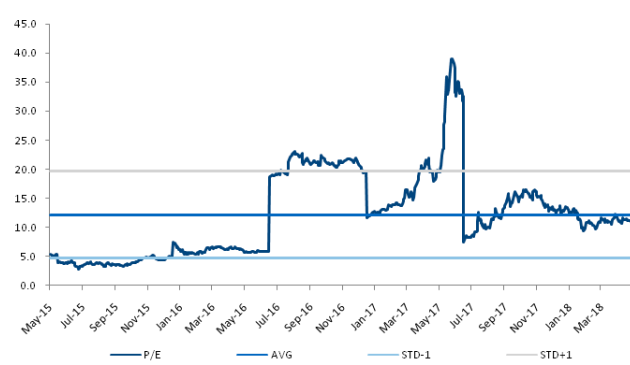
Table 4: Breakdown of Evergrande's 2018 NAV

			NAV/share		
	(RMB m)	(HK\$ m)	(HK\$)	% of NAV	% of GAV
Development Properties	647,537	752,950	57.75	130.4%	88.4%
Investment Property	84,856	98,670	7.57	17.1%	11.6%
Gross Asset Value	732,393	851,620	65.32	147.5%	100.0%
(Net Debt)/ Net Cash	-235,724	-274,098	-21.02	-47.5%	
NAV	496,669	577,522	44.30	100.0%	
NAV/Share	38.09	44.30			

Source: the Company, Guotai Junan International.

Figure 7: Evergrande's 3-Year Historical P/B


Source: Bloomberg, Guotai Junan International.

Figure 8: 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	EV/EBITDA
				2018F	2019F	2020F	2018F	2019F	2020F	2018F	2018F	2018F
HK listed large developers with major revenue from mainland												
China Overseas Land &	00688 HK	278,287.5	25.400	6.8	5.8	5.0	0.9	0.8	0.7	3.7	14.5	3.7
China Evergrande Group	03333 HK	341,594.3	26.200	6.9	5.8	5.3	2.2	1.8	1.5	8.9	35.0	8.9
China Resources Land Ltd	01109 HK	198,918.0	28.700	7.9	6.8	5.9	1.3	1.1	1.0	4.2	16.8	4.2
Country Garden Holdings Co	02007 HK	238,133.5	10.980	6.0	4.5	3.8	1.7	1.3	1.0	5.7	30.6	5.7
Longfor Group Holdings Ltd	00960 HK	131,955.0	22.250	8.9	7.1	5.9	1.4	1.3	1.2	4.5	17.7	4.5
China Vanke Co Ltd-H	02202 HK	302,506.4	26.650	7.4	6.1	5.4	1.6	1.4	1.2	4.8	23.2	4.8
Sunac China Holdings Ltd	01918 HK	115,361.8	26.200	7.4	4.6	3.5	1.8	1.4	1.0	3.1	24.0	3.1
Agile Group Holdings Ltd	03383 HK	45,437.8	11.600	5.1	4.1	3.3	0.9	0.8	0.7	9.3	18.5	9.3
Shimao Property Holdings	00813 HK	71,933.6	21.600	6.9	5.4	4.4	1.0	0.9	0.8	5.6	14.7	5.6
Guangzhou R&F Properties -	02777 HK	48,013.3	14.900	4.0	3.3	2.8	0.6	0.6	0.5	9.8	15.9	9.8
Bbmj Corp-H	02009 HK	41,016.8	2.670	5.3	5.1	5.0	0.4	0.4	0.4	3.6	8.5	3.6
Sino-Ocean Group Holding	03377 HK	27,950.7	3.670	4.9	4.0	3.3	0.5	0.4	0.4	8.6	9.8	8.6
China Jinmao Holdings	00817 HK	44,234.9	3.830	7.5	5.7	4.4	1.0	0.9	0.8	5.4	13.2	5.4
Hopson Development	00754 HK	15,356.4	6.900	11.0	10.8	n.a.	n.a.	n.a.	n.a.	2.8	n.a.	2.8
Zhenro Properties Group Ltd	06158 HK	18,512.3	4.490	6.4	4.4	3.4	1.0	0.8	0.6	n.a.	20.0	n.a.
Kwg Group Holdings Ltd	01813 HK	24,968.8	7.870	4.7	3.6	2.9	0.7	0.6	0.5	7.8	15.5	7.8
Yuexiu Property Co Ltd	00123 HK	17,485.8	1.410	5.7	5.1	4.6	0.4	0.4	0.4	6.7	7.3	6.7
Shenzhen Investment Ltd	00604 HK	19,673.9	2.390	7.2	5.9	5.7	0.4	0.4	0.4	6.3	6.3	6.3
Yuexiu Real Estate	00405 HK	15,653.2	5.150	n.a.	22.5	22.5	1.0	1.0	1.0	6.6	4.7	6.6
Yuzhou Properties Co	01628 HK	16,279.9	3.500	3.4	2.7	2.2	0.7	0.6	0.5	10.4	21.8	10.4
Greentown China Holdings	03900 HK	17,211.8	7.940	6.5	6.0	5.8	0.5	0.5	0.4	3.1	7.4	3.1
Powerlong Real Estate	01238 HK	14,030.5	3.510	3.1	2.5	2.1	0.4	0.4	0.3	7.8	20.8	7.8
Soho China Ltd	00410 HK	15,754.6	3.030	34.4	29.1	20.3	0.4	0.4	0.4	3.8	1.3	3.8
Median				6.6	5.4	4.5	0.9	0.8	0.6	5.7	15.7	5.7
Simple Average				7.6	7.0	5.8	1.0	0.8	0.7	6.0	15.8	6.0
Weighted Average				7.1	5.9	5.1	1.4	1.2	1.0	5.6	21.8	5.6
HK listed mid-small developers with major revenue from mainland												
China Overseas Grand	00081 HK	8,866.5	2,590	4.5	3.5	2.8	0.4	0.4	0.3	2.7	11.0	2.7
Poly Property Group Co Ltd	00119 HK	10,288.9	2,810	3.9	3.7	3.4	0.3	0.3	0.3	7.8	9.4	7.8
Shanghai Industrial Urban	00563 HK	6,398.6	1,330	7.8	7.4	6.7	0.5	0.4	0.4	2.9	4.6	2.9
Modern Land China Co Ltd	01107 HK	3,208.4	1,150	5.6	4.0	3.6	0.5	0.5	0.5	5.0	9.4	5.0
China Aoyuan Property	03883 HK	15,016.8	5,600	5.5	3.9	3.0	1.1	0.9	0.7	6.9	21.9	6.9
C C Land Holdings Ltd	01224 HK	7,415.3	1,910	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Fantasia Holdings Group Co	01777 HK	5,647.7	0,980	3.6	n.a.	n.a.	n.a.	n.a.	n.a.	6.8	n.a.	6.8
Ronshine China Holdings	3301 HK	15,345.9	9,600	4.5	3.1	2.3	1.0	0.8	0.6	3.9	24.7	3.9
Central China Real Estate	00832 HK	8,603.5	3,150	7.7	3.7	2.7	0.8	0.7	0.6	3.8	10.8	3.8
China Sce Group Holdings	01966 HK	11,815.7	3,090	3.6	2.9	2.3	0.7	0.6	0.5	8.0	20.0	8.0
Top Spring International Hld	03688 HK	3,366.9	2,430	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	8,750.8	2,890	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	10.7	n.a.	10.7
Zhong An Real Estate Ltd	00672 HK	1,859.3	0,320	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Beijing North Star Co Ltd-H	00588 HK	12,486.1	2,360	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
China South City Holdings	01668 HK	10,412.4	1,300	6.8	5.3	4.3	0.3	0.3	0.3	5.4	10.5	5.4
Shui On Land Ltd	00272 HK	14,512.0	1,800	6.0	22.4	15.7	0.3	0.3	0.3	5.7	1.9	5.7
Glorious Property Holdings	00845 HK	3,039.1	0,390	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Median				5.5	3.8	3.2	0.5	0.4	0.4	5.6	10.7	5.6
Simple Average				5.4	6.0	4.7	0.6	0.5	0.4	5.8	12.4	5.8
Weighted Average				5.3	6.5	5.0	0.6	0.5	0.5	5.9	13.7	6.0

Source: the Company, Guotai Junan International.

Financial Statements and Ratios

Income Statement					
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F
Total Revenue	211,444	311,022	444,469	562,946	665,386
- Sales of Properties	203,890	302,384	434,229	551,134	652,031
- Other Income	7,554	8,638	10,240	11,812	13,355
Cost of Sales	(152,022)	(198,760)	(283,959)	(363,717)	(436,968)
Gross Profit	59,422	112,262	160,509	199,228	228,418
- Change in Fair Value of IPs	5,124	8,513	9,364	10,301	11,331
- SG&A	(25,581)	(29,456)	(34,022)	(37,115)	(44,537)
- Other Gains, Net	9,260	(6,074)	(1,123)	(1,005)	(469)
Operating Profit	48,225	85,245	134,729	171,409	194,742
- Others	(62)	145	2,993	2,899	2,782
- Finance income/(costs), net	(11,301)	(7,917)	(12,865)	(10,918)	(10,666)
Profit before Tax	36,862	77,473	124,857	163,390	186,858
Income Tax	(19,245)	(40,424)	(61,915)	(78,713)	(88,884)
Profit after Tax	17,617	37,049	62,942	84,678	97,974
Non-controlling Interest	(12,526)	(12,677)	(24,547)	(33,024)	(38,210)
Shareholders' Profit / Loss	5,091	24,372	38,395	51,653	59,764
Adjusted Net Profit	5,058	23,638	36,567	48,938	56,413
Basic EPS	0.372	1.833	2.914	3.920	4.536
Underlying EPS (RMB)	0.364	1.741	2.775	3.714	4.282

Cash Flow Statement					
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F
Operating Activities					
Profit before Taxation	17,617	37,049	62,942	84,678	97,974
Income Tax Expenses	19,245	40,424	61,915	78,713	88,884
D&A	1,964	1,994	3,317	3,648	4,013
Others	(3,924)	1,918	(1,966)	(4,500)	(5,486)
Changes in Working Capital:	(49,530)	(161,287)	64,325	3,943	71,816
Net Cash from Operations	(14,628)	(79,902)	190,532	166,482	257,201
Tax Paid	(13,106)	(16,999)	(61,915)	(78,713)	(88,884)
Interest Paid	(30,876)	(54,072)	(60,423)	(58,392)	(62,059)
Cash from Operating Activities	(58,610)	(150,973)	68,195	29,378	106,258
Investing Activities					
Additions to PPE and IPs	(15,927)	(14,369)	(12,410)	(10,362)	(11,398)
Other Investing Cash Flow	(103,632)	(33,113)	(9,807)	4,761	4,870
Cash from Investing Activities	(119,559)	(47,482)	(22,218)	(5,600)	(6,528)
Financing Activities					
Debt Raised/(Repaid)	202,356	193,209	(108,901)	25,124	41,419
Dividends Paid	(5,481)	(241)	(14,732)	(19,198)	(25,828)
Repayment of Perputuity	59,754	0	0	0	0
Other Financing Cash Flow	16,450	(40,055)	56,211	(15,586)	(24,161)
Cash from Financing Activities	273,079	152,913	(67,421)	(9,660)	(8,570)
Net Changes in Cash	94,910	(45,542)	(21,444)	14,118	91,160
Cash at Beg of Year	103,090	198,420	152,008	130,129	144,029
Exchange Losses	420	(870)	(435)	(218)	(109)
Cash at End of Year	198,420	152,008	130,129	144,029	235,080

Balance Sheet					
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F
PPE	20,833	32,898	39,478	43,425	47,768
Land Use Rights	5,401	7,935	7,142	7,499	7,874
Investment Property	132,045	151,950	167,145	183,860	202,245
Other Non-current Assets	78,954	46,022	58,707	59,111	59,532
Total Non-current Assets	237,233	238,805	272,472	293,895	317,419
Cash & Cash Equivalents	198,420	152,008	130,129	144,029	235,080
Properties under Development	577,851	851,363	849,195	879,972	827,960
Completed Properties	80,776	102,158	132,805	152,726	175,635
Restricted Cash	105,909	135,714	122,143	134,357	147,793
Trade and Other Receivables	76,434	120,782	172,605	218,614	258,395
Other Current Assets	74,245	160,922	183,715	167,245	159,244
Total Current Assets	1,113,635	1,522,947	1,590,592	1,696,943	1,804,107
Total Assets	1,350,868	1,761,752	1,863,064	1,990,837	2,121,525
Advanced Proceeds Received	194,961	267,555	305,172	307,015	294,553
Trade and Other Payables	299,905	399,459	487,585	507,462	528,320
Bank Borrowings	202,906	356,381	285,105	313,615	344,977
Other Current Liabilities	35,622	61,460	79,432	90,735	96,612
Total Current Liabilities	733,394	1,084,855	1,157,294	1,218,827	1,264,461
Long-term Borrowings	332,164	376,244	338,620	335,233	345,290
Deferred Income Tax Liabilities	38,424	51,556	44,421	43,977	43,183
Other Long-term Liabilities	54,354	6,889	6,119	5,472	4,926
Total Non-current Liabilities	424,942	434,689	389,159	384,682	393,399
Total Liabilities	1,158,336	1,519,544	1,546,454	1,603,509	1,657,860
Total Shareholders' Equity	44,240	114,772	138,435	170,890	204,827
Minority Interest	148,292	127,436	178,175	216,438	258,838
Total Equity	192,532	242,208	316,610	387,328	463,665

Financial Ratios					
	2016A	2017A	2018F	2019F	2020F
Revenue Growth (%)	58.8	47.1	42.9	26.7	18.2
Gross Profit Growth (%)	58.8	88.9	43.0	24.1	14.7
Reported Net Profit Growth (%)	1.6	110.3	69.9	34.5	15.7
Underlying Net Profit Growth (%)	-28.0	367.4	54.7	33.8	15.3
Gross Margin (%)	28.1	36.1	36.1	35.4	34.3
Operating Profit Margin (%)	22.8	27.4	30.3	30.4	29.3
Adjusted Net Margin (%)	2.4	7.6	8.2	8.7	8.5
ROE (%)	10.7	30.7	30.3	33.4	31.8
ROCE (%)	13.8	15.4	19.6	23.7	25.5
ROA (%)	3.6	4.8	7.2	8.6	9.2
Net Gearing Ratio	289.9	183.7	117.3	95.6	66.3
Debt to Equity Ratio	1,209.5	638.3	450.6	379.7	337.0
Underlying P/E (x)	64.5	12.5	8.1	6.1	5.3
P/E (Basic) (x)	63.1	11.9	7.7	5.7	5.0
P/E (Diluted) (x)	64.0	12.2	7.7	5.7	5.0
P/B (x)	7.3	2.5	2.1	1.7	1.4
Dividend Yield (%)	0.0	5.1	6.5	8.7	10.1

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.

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