農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

China Property Sector

Funding is Power: the Large gets Larger

Jan 28, 2019

China Property Sector
Funding is power: the large gets larger

- Mortgage rate and USD bond yield have shown early sign of stabilization since 2019.
- Major policy relaxation is unlikely because
- new home price is still rising
- Contracted sales growth of listed PRC developers would slow from 30% YoY in 2018 to 10% in 2019E based on our estimates
- We prefer SOE players amid a tough financing environment. Our top picks are **COLI (688 HK)** and **Jinmao (817 HK)**
- Downgrade **Evergrande(3333 HK)** to **HOLD** from Buy on slowing contracted sales

Sector Report
Jan 28, 2019
OVERWEIGHT

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The worst is over. According to rong360.com, first-home mortgage rate was down 0.03ppt MoM to 5.68% in Dec 2018, reversing the 23-month MoM growth streak. We believe declining mortgage rate is driven by RRR cuts as well as seasonal factors. In early 2019, bond yield pressure starts easing. Bond yields for Aoyuan (3883 HK), Agile (3383 HK), and Times (1233 HK) with 2021 maturity declined by 2.7-3ppt from the peak in Nov 2018 to 7.0-8.4% in Jan 2019.

Major policy relaxation unlikely. According to NBS, new home prices in 70 major cities increased 10.4% YoY on average in 2018 (2017: +5.7% YoY), of which tier-1,2 and 3 cities rose 2.8%, 10.7% and 11.1%, respectively. GFA pending for sales dropped 11% YoY to 524mn sqm as of Dec 2018. These data revealed that price growth in China's property market has not been curbed effectively; hence room for policy relaxation is limited.

Industry consolidation will be the sales growth driver for 2019. In FY18, contracted sales of major listed developers increased 30%YoY to RMB 4,807bn; developers achieved 104.3% on their sales targets on average. Due to the tightening measures, M&A activities have accelerated in the past three years, resulting in market consolidation. Aided by a lower borrowing cost and better ability to raise debts for land acquisition, the top 10 developers in China have taken up 26.9% of contracted sales in 2018 vs. 17.0% in 2015. Since financing remains tight for the property sector, developers with less financial prowess may have to dispose of their projects to cut debts. We believe larger developers with more solid financials will continue to gain market share despite the tightened credit conditions.

The large gets larger, COLI and Jinmao are our top picks. We maintain our **OVERWEIGHT** rating on the China property sector due to: **1) Strong earnings growth for 2019-20.** Since contracted sales in 2018 will be recognized in the P&L in 2019/20**,** developers' earning growth will continue. We estimate core net profit in 2018E-20E for property stocks under our coverage (excl. Evergrande) would grow by 37%, 27% and 24% respectively; **2) Attractive valuation.** The sector is now trading at 6.2x fwd. P/E with a 6.0% div. yield, similar to its historical average despite faster earnings growth ahead. The sector's P/E and dividend yield are more attractive than HSI's (10.4x 2019E P/E and 3.9% div. yield). The high dividend yield is an appeal to value investors in a volatile market. Our top picks for the sector are SOE players **COLI and Jinmao**, given their lower cost of debt, healthy balance sheet, and higher core net margins. We also downgrade Evergrande to **HOLD** from Buy due to its slowing contracted sales.

Key Data

Avg.19E P/E (x)	5.0
Avg.19E P/B (x)	0.98
Avg.19E Dividend Yield (%)	7.7

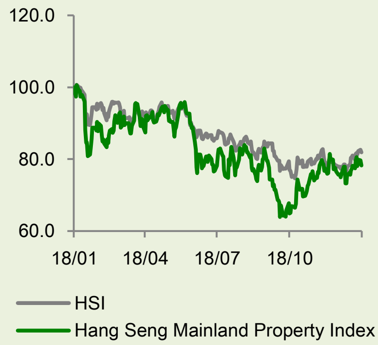
Source(s): Bloomberg, ABCI Securities

Sector Performance %

	Absolute	Relative*
1-mth	2.21	(2.45)
3-mth	18.94	13.50
6-mth	(3.77)	2.20

*Relative to HSI
Source(s): Bloomberg, ABCI Securities

1-Year sector performance



Source(s): Bloomberg, ABCI Securities

Sector Valuation Summary (Data as of Jan 25, 2019)

Company	Ticker	Current Rating	Previous Rating	TP (HK$)	FY18E P/E(x)	FY19E P/E (x)	FY18E P/B (x)	FY19E P/B (x)	FY18E Yield(%)	FY19E Yield(%)
COLI	688	BUY	BUY	35.80	7.9	6.5	1.1	0.9	3.4	4.2
Jinmao	817	BUY	BUY	5.50	8.4	6.1	1.1	1.0	4.8	6.5
Aoyuan	3883	BUY	BUY	7.40	5.5	3.6	1.1	0.9	5.5	8.3
Times	1233	BUY	BUY	13.30	4.2	3.5	0.8	0.7	7.1	8.7
Logan	3380	BUY	BUY	13.10	6.6	5.4	1.9	1.6	5.6	6.9
Yuzhou	1628	BUY	BUY	4.60	3.5	3.1	0.8	0.7	9.8	11.3
Agile	3383	BUY	BUY	15.90	4.2	3.6	0.8	0.7	9.3	10.9
CIFI	884	BUY	BUY	5.10	5.4	4.1	1.3	1.0	5.5	7.4
Sunac	1918	BUY	SELL	31.40	8.4	5.9	1.8	1.5	2.2	3.1
Evergrande	3333	HOLD	BUY	22.20	6.8	6.0	2.1	1.8	7.3	8.3

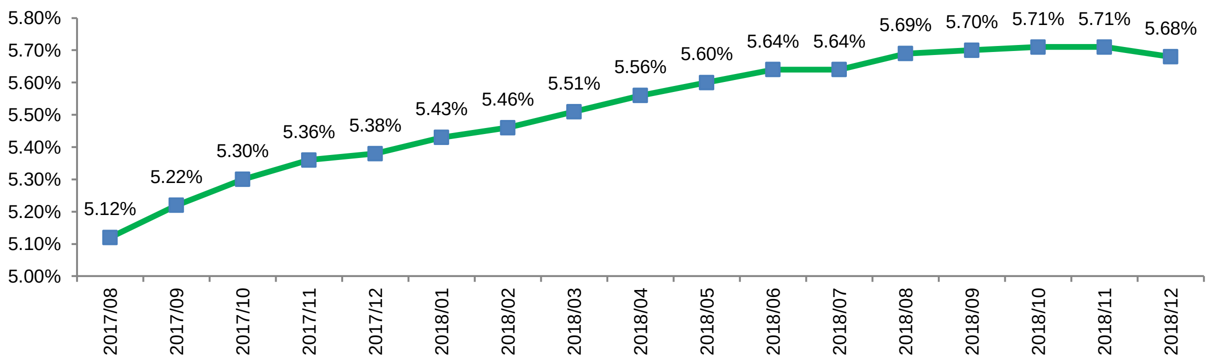
Source(s): Bloomberg, ABCI Securities estimates

Mortgage rate began to fall

According to rong360.com, first-home mortgage rate declined by 0.03ppt MoM to 5.68% in Dec 2018, ending its 23-month MoM growth streak. We believe declining mortgage rate is driven by: **1) RRR cuts.** RRR was slashed four times in 2018, pumping up liquidity in the property sector. The two RRR cuts in Jan 2019 will provide further room for improvement in the next few months. **2) Seasonal factor.** Banks are more eager to lend at the year's start because unused loan quota remains high. Some of the banks would lower their home loan pricing to gain market share. **3) Tier-1 cities are the drivers.** Reduction in mortgage rate in Dec 2018 was largely driven by tier-1 cities since some banks cut the first-home mortgage rate from 1.1x to 1.05x PBOC rate. This reflects banks are more positive on tier-1 cities than tier-3/4 cities. Reduced monetary compensation for shantytown redevelopment may have impacted banks' confidence in lower-tier cities.

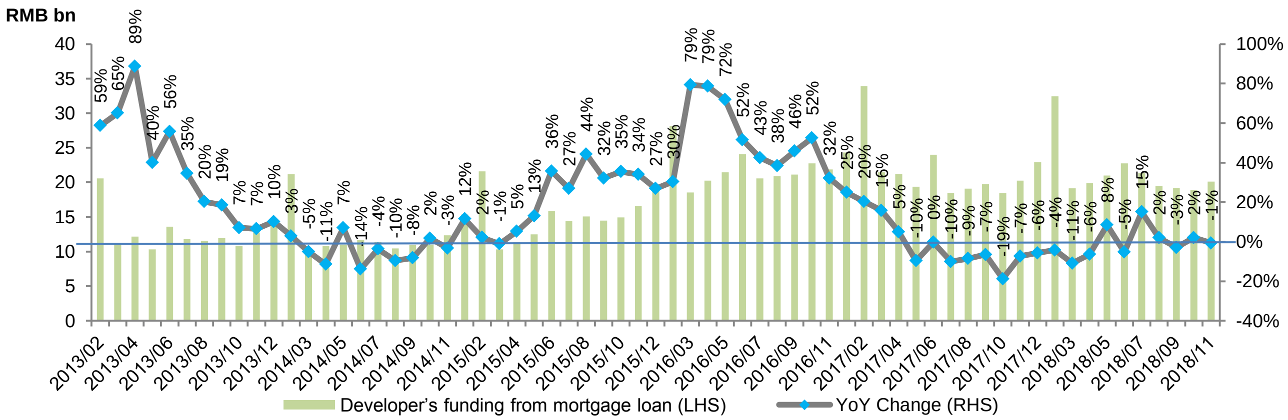
Overall, we believe mortgage rate would only decline moderately from 1.1x to around 1.0x PBOC rate in the next 12 months, based on our expectation for more RRR cuts in 2019. Declining mortgage rate should create additional property demand from first-home buyers. However it is unlikely to drop to the low in 2015-16 at 0.85x when banks were aggressively granting new mortgage loan. Developers' funds from mortgage loan increased 22% YoY in 2015 and 46% YoY in 2016; it declined by 2% YoY in 2017 and -1% YoY in 2018 after the implementation of mortgage restriction. With mortgage restriction firmly in place, mortgage rate is unlikely to drop significantly.

Exhibit 1: Average interest rate of first-home loan in China (Aug 2017- Dec 2018)



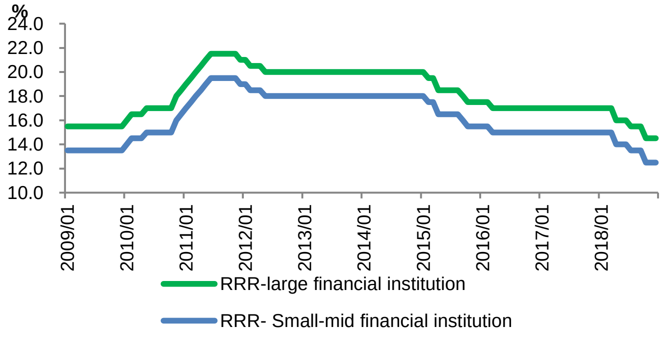
Source(s): Rong360, ABCI Securities

Exhibit 2: Developers' funds from mortgage loan



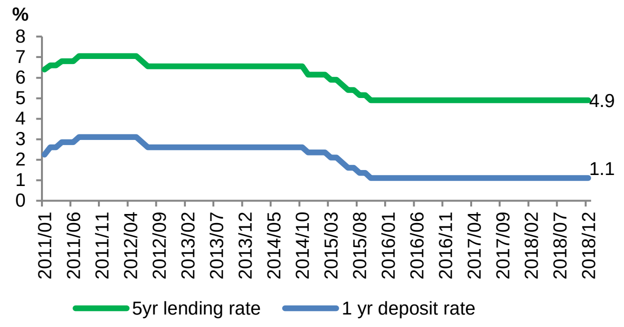
Source(s): NBS, ABCI Securities

Exhibit 3: RRR cut



Source(s): PBOC, ABCI Securities

Exhibit 4: PBOC rate



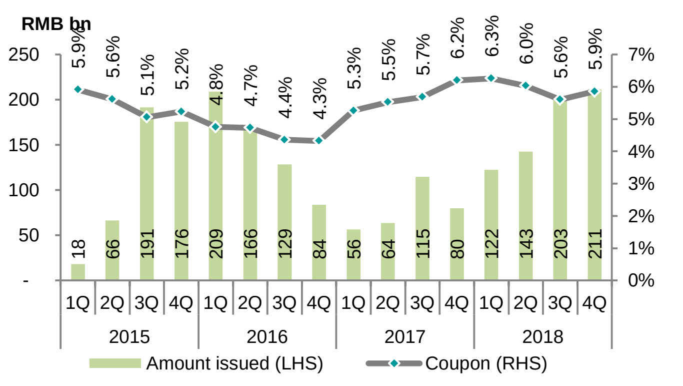
Source(s): PBOC, ABCI Securities

Bond yield may have peaked out

Bond-issuing costs for developers have increased noticeably in 4Q18. Onshore corporate bonds issued by developers increased 4% QoQ or 165% YoY to RMB 211bn, while average coupon rate rebounded 0.3ppt QoQ to 5.9% in 4Q18. For issuance of USD bonds, financing cost jumped 2.1ppt QoQ to 9.7% in 4Q18. Offshore issuance costs surged as bond investors anticipate a down cycle in the China property sector, given the slowed contracted sales in 4Q18 and price cut during the Golden Week (Oct 1-7) as reported by the media.

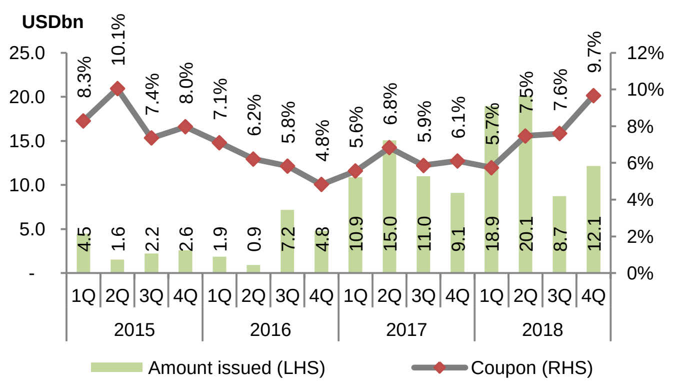
Bond issuance costs may have peaked in 4Q18 in our view. Entering 2019, bond yield pressure starts easing. Bond yields of Aoyuan (3883 HK), Agile (3383 HK) and Times (1233 HK) with 2021 maturity declined by 2.7-3ppt from peak in Nov 2018 to 7.0-8.4% in Jan 2019. The market expects a degree of policy loosening in the sector given that minor adjustments have been made in some cities. In Dec 2018, the holding period (2-3 years) required for property resale was removed in Heze city, Shandong. Nonetheless, based on recent data on property sales and new home prices, we believe the property market is far from entering a down cycle. Hence, any major relaxation on the home purchase restrictions is highly unlikely. However, developers' credit quality is likely to improve for 2019 as they slowed down their land acquisitions with a less aggressive sales target. For instance, Aoyuan only target to achieve contracted sales growth of 25-30%YoY for 2019, compared to 100%YoY growth in 2018. With a decelerating growth rate and less aggressive targets, developers will have less pressure to increase land acquisitions and hence better gearing.

Exhibit 5: China developers' onshore RMB bond issuance



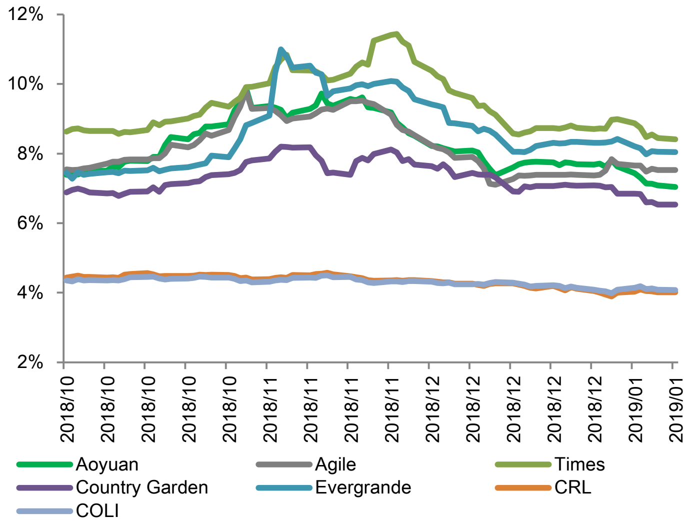
Source(s): Bloomberg, ABCI Securities

Exhibit 6: China developers' offshore USD bond issuance



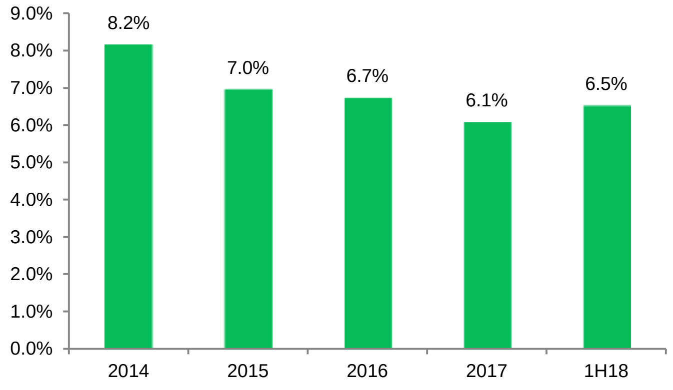
Source(s): Bloomberg, ABCI Securities

Exhibit 7: Bond yield of developers



Source(s): Bloomberg, ABCI Securities

Exhibit 8: Average borrowing cost of major listed developers



*Based on a sample of 20 developers

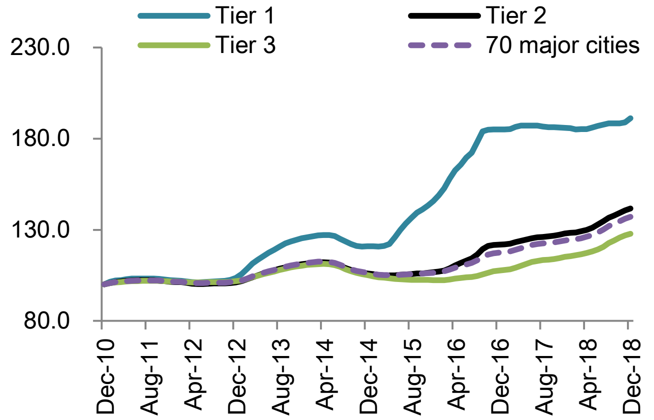
Source(s): Companies, ABCI Securities

Major policy relaxation unlikely

Statistics suggest property price is still trending up

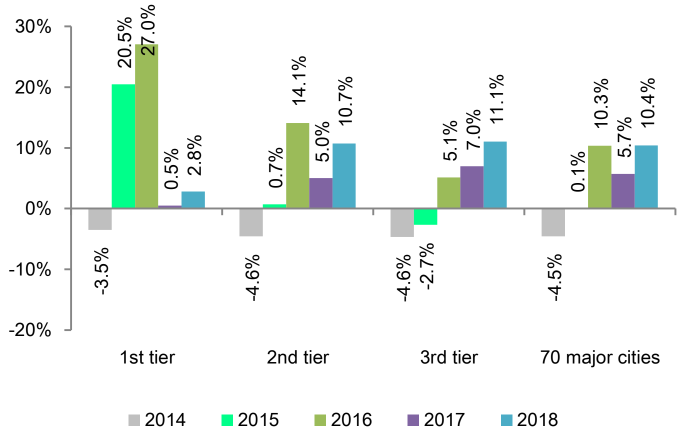
According to NBS, new home prices in 70 major cities increased 10.4% YoY in 2018 (2017: +5.7% YoY), of which tier-1, 2 and 3 cities rose 2.8%, 10.7% and 11.1%, respectively. GFA pending for sales, a proxy of inventory level among developers, has been declining since 2016; as of Dec 2018, the figure was down 11% YoY to 524mn sqm. These data support the view that property market in China is still in an uptrend, hence a major reversal of the existing austerity measures remains unlikely. Major relaxation on policy may spur investment demand, inflating property price further – a risk that we believe the government is unwilling to take.

Exhibit 9: Property price Index by city tier



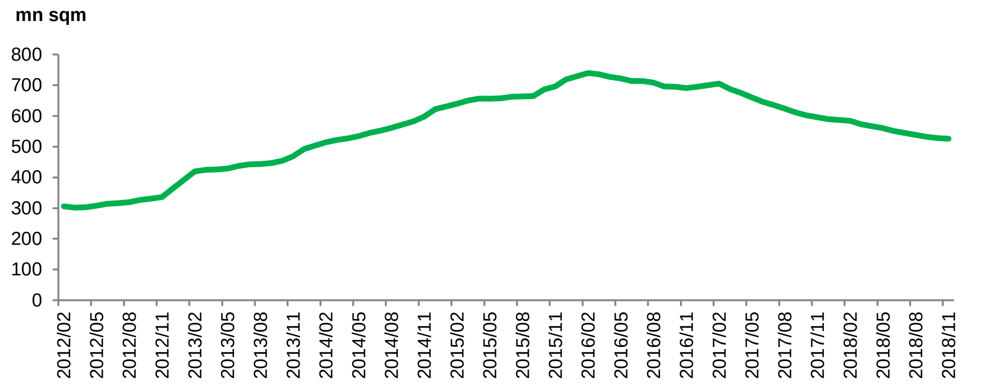
Source(s): PBOC, ABCI Securities

Exhibit 10: Property price change by city tier



Source(s): NBS, ABCI Securities

Exhibit 11: GFA pending for sales

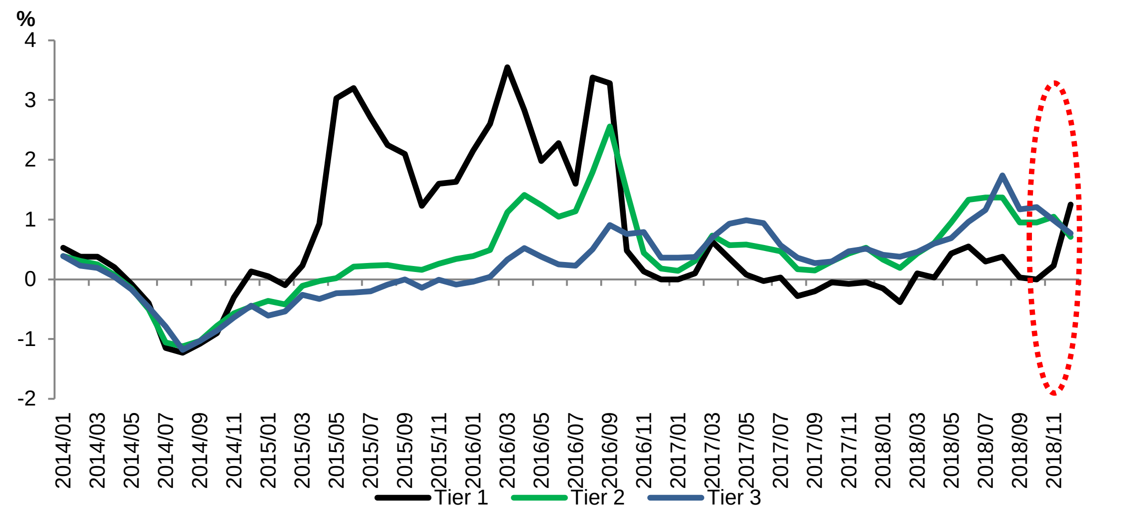


Source(s): NBS, ABCI Securities

Property price in tier-3/4 cities may be pressured in 2019

PBOC's Pledged Supplemental Lending (PSL) is the main source of monetary compensation for China's shantytown redevelopment projects. As a result of RRR cuts, balance sheet of PBOC may shrink. Hence, money released from PSL to these projects may slow, affecting the housing demand from displaced residents. In July 2018, the Ministry of Housing and Urban-Rural Development (MOHURD) said policy on monetary compensation of shantytown redevelopment will be adjusted for cities with rising property price and insufficient inventories. More specifically, the option of direct monetary compensation for displaced residents will be cancelled for cities with surging property prices; instead, replacement homes will be given. The slowdown in shantytown redevelopment may adversely affect the real estate market in tier-3/4 cities. Based on NBS, property price in tier-3 cities has already slowed since Aug 2018 (Dec 2018: +0.77% MoM, vs +1.74%MoM in Aug 2018). According to 21jingji.com, 2019 Shanty town targets for Shanxi, Henan and Sichun declined by 74%YoY, 70%YoY and 41%YoY to 32.6k units, 150k units and 150k units respectively. In contrast, MoM growth of new home price in tier-1 cities accelerated in Dec 2018, indicating liquidity from lower-tier cities is shifting to tier-1 regions.

Exhibit 12: MoM new home price change by city tier



Source(s): NBS, ABCI Securities

Industry consolidation – the sales growth driver for 2019

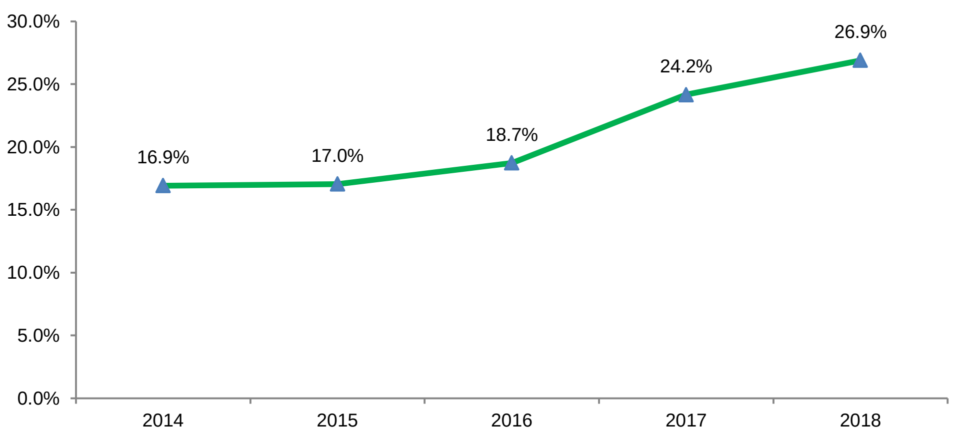
In Dec 2018, contracted sales in 23 major listed developers increased 31% YoY to RMB 484bn on average, as GFA sold increased 27% YoY to 33.9mn sqm and ASP rose 3% YoY to RMB 14,274/sqm. For FY18, contracted sales of major listed developers were up 30% YoY to RMB 4,807bn; on average, these developers achieved 104.3% on their sales targets. We believe faster sales growth in Dec was mainly attributable to:

1) Window dressing at year end. By launching more new projects to boost sales in Dec, developers could report higher cash level and lower net gearing figure at year end. These figures will be reflected in their FY18 results to be announced in Mar 2019; The improvement of financial position will help to enhance credit status and to lower borrowing cost subsequently.

2) Last attempt to complete sales target. Contracted sales of developers such as SZI (604 HK), Agile (3383 HK) and Yuzhou (1628 HK) grew 931% YoY, 62% YoY and 54% YoY in Dec, making their last attempt to complete their sales targets. However, they still missed their full-year targets by 6.7-17.7%, reflecting tightening measures in Shenzhen, Hainan, and Xiamen remain effectively in place. We believe the 20-30% YoY growth in contracted sales among listed developers may not recur in 2019.

Over the past three years, M&A activities have ramped up on the back of tightening policies, accelerating consolidation in the sector. With lower borrowing costs and better ability to raise debt for land acquisition, the top 10 players in China have taken up an increasingly larger market share in terms of contracted sales (17.0% in 2015 to 26.9% in 2018). As financing environment of the property sector remains tight, developers with less financial prowess may have to dispose of their projects to cut debt. We believe larger developers with healthy balance sheets will continue to gain market share. SOE players, whose average borrowing costs are lower than peers, will benefit from market consolidation. In 2019, we expect new homes sales to be flat as firm regulatory controls remain in place. However, we believe listed players, with better access to offshore bond and equity markets, would continue to gain market share and achieve a 10%YoY growth in contracted sales in 2019.

Exhibit 13: Market share of top 10 HK-listed PRC developers



Source(s): CRIC, NBS, ABCI Securities

Exhibit 14:2018 contracted sales of listed major PRC developers

		2018						2018	Sales target
		Amount RMBbn	YoY %	GFA 000 sqm	YoY %	ASP RMB/sqm	YoY %	Target RMBbn	Achievement ratio
1	Jinmao	124.9	115%	4,504	88%	27,742	15%	120	104.1%
2	Aoyuan	91.3	100%	8,863	98%	10,300	1%	73	125.0%
3	Shimao	176.1	75%	10,687	76%	16,482	-1%	140	125.8%
4	KWG	65.5	72%	3,966	79%	16,516	-4%	65	100.8%
5	Logan	71.8	65%	4,401	81%	16,314	-9%	70	102.6%
6	R&F	131.1	60%	10,180	61%	12,873	-1%	130	100.8%
7	Sino-Ocean	109.5	53%	5,168	39%	21,189	10%	100	109.5%
8	CIFI	152.0	46%	9,569	52%	15,884	-4%	140	108.6%
9	Times	60.6	46%	3,733	45%	16,232	0%	55	110.2%
10	SZI	16.5	42%	571	1%	28,792	40%	20	82.3%
11	Yuexiu	57.8	41%	2,769	25%	20,869	13%	55	105.1%
12	Yuzhou	56.0	39%	3,695	55%	15,157	-10%	60	93.3%
13	CR Land	210.9	39%	11,989	25%	17,587	11%	183	115.2%
14	Country garden	728.7	32%	77,307	27%	9,426	4%	na	na
15	Poly-A	404.8	31%	27,661	23%	14,635	6%	na	na
16	COLI*	301.2	30%	15,935	10%	18,905	18%	290	103.9%
17	Longfor	200.6	29%	12,363	22%	16,229	6%	200	100.3%
18	Sunac	460.8	27%	30,562	39%	15,079	-8%	450	102.4%
19	Beijing Capital	70.7	26%	3,063	20%	23,066	6%	75	94.2%
20	Vanke	607.0	15%	40,378	12%	15,032	2%	na	na
21	Agile	102.7	14%	7,977	8%	12,871	6%	110	93.3%
22	Evergrande	551.3	10%	52,435	4%	10,515	6%	550	100.2%
23	Greentown	101.2	-2%	3,980	-10%	25,427	9%	110	92.0%
	Total	**4,807.2**	**30%**	**351,756**	**25%**	**13,666**	**4%**	**2,940**	**104.3%**

*in HK$
Source(s): Company, CRIC, ABCI Securities

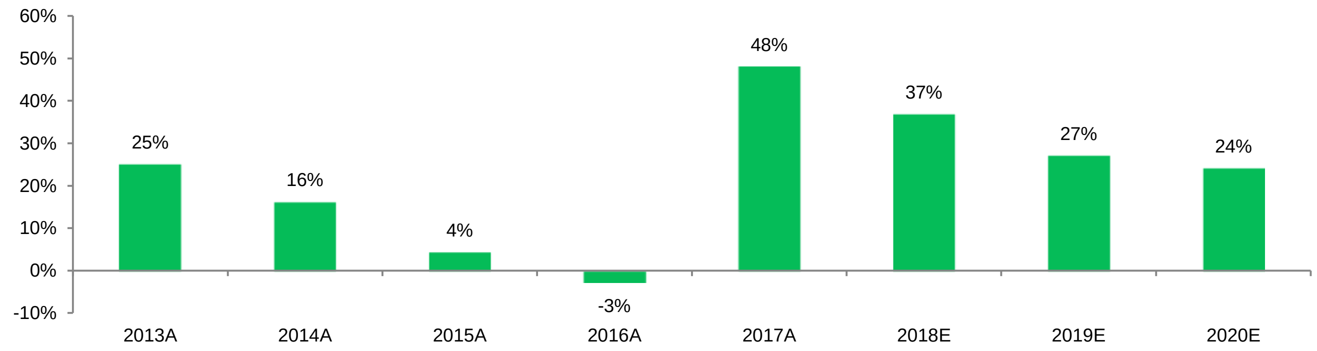
The large gets larger; COLI (688 HK) and Jinmao (817 HK) are our top picks

While chances of policy relaxation are remote, larger listed players will continue to benefit from market consolidation. We maintain positive on the China property sector due to: **1) impressive earnings growth in 2019-20,** given the strong contracted sales in 2018 that will be recognized to P&L in 2019-20. We estimate core net profit in 2018, 2019 and 2020 for property stocks under our coverage (excl. Evergrande) would grow by 37%, 27% and 24%, respectively. **2) Attractive valuation**. The sector is now trading at 6.2x fwd P/E with a 6.0% div. yield, similar to its historical average despite faster earnings growth ahead. The sector's P/E and dividend yield are more attractive than HSI's (10.4x 2019E P/E and 3.9% div. yield). The high dividend yield is an appeal to value investors in a volatile market.

We roll forward our NAV forecast to 2019E and raise our NAV forecast for our covered stocks by 8%. However, we apply a higher discount to NAV (from 40% to 50% on average) into our model to reflect slowing contracted sales momentum and higher cost of debt expected for 2019; hence, our TP is adjusted down by 13% on average for our covered stocks.

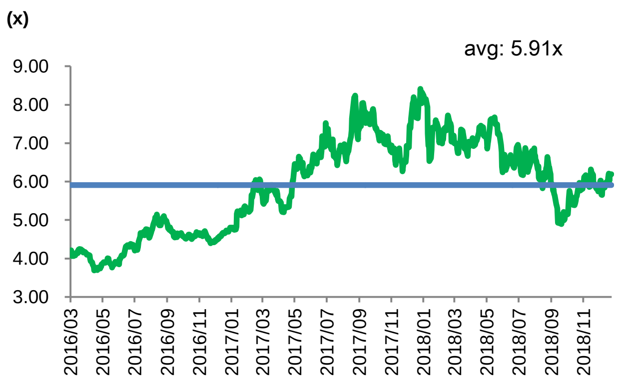
Our top picks for the sector are SOE players **COLI** and **Jinmao,** given their lower cost of debt, healthy balance sheet, and higher core net margins. We also downgrade **Evergrande (3333 HK)** to **HOLD** from Buy due to its slowing contracted sales**.**

Exhibit 15: 2018E-20E core profit growth for property stocks under our coverage



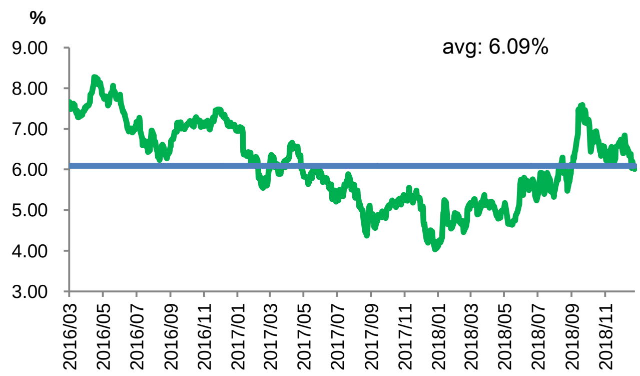
* Based on 9 developers under our coverage; Evergrande was excluded due to its volatile earnings in 2015-17 caused by coupon payments to perpetual capital instruments
Source(s): Bloomberg, ABCI Securities estimates

Exhibit 16: Historical fwd P/E for the China property sector



Source(s): Bloomberg, ABCI Securities

Exhibit 17: Historical fwd yield for the China property sector



Source(s): Bloomberg, ABCI Securities

Exhibit 18: TP changes in our coverage universe

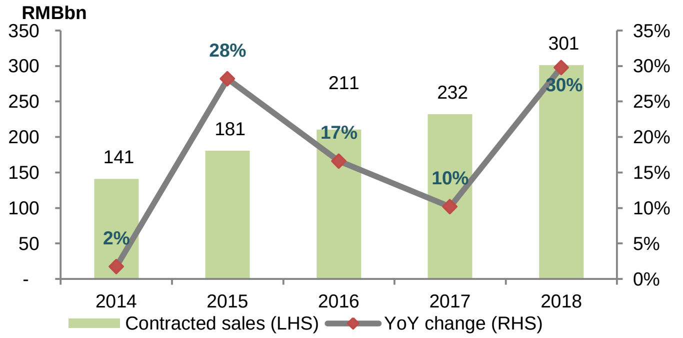
Company	Ticker	Rating		2019E NAV (HK$)		Discount (%)		TP (HK$)		
		Previous	Current	Previous	Current	Previous	Current	Previous	Current	*Change (%)*
COLI	688	BUY	**BUY**	43.56	**51.17**	20%	**30%**	34.90	35.80	**2.6%**
Jinmao	817	BUY	**BUY**	10.73	**13.71**	40%	**60%**	6.40	5.50	**-14.1%**
Aoyuan	3883	BUY	**BUY**	17.95	**18.61**	50%	**60%**	9.00	7.40	**-17.8%**
Times	1233	BUY	**BUY**	30.37	**33.22**	60%	**60%**	12.10	13.30	**9.9%**
Logan	3380	BUY	**BUY**	14.67	**21.80**	40%	**40%**	8.80	13.10	**48.9%**
Yuzhou	1628	BUY	**BUY**	15.45	**11.40**	50%	**60%**	7.70	4.60	**-40.3%**
CIFI	884	BUY	**BUY**	11.89	**12.64**	50%	**60%**	5.90	5.10	**-13.6%**
Agile	3383	BUY	**BUY**	45.14	**39.69**	50%	**60%**	22.60	15.90	**-29.6%**
Sunac	1918	BUY	**BUY**	60.30	**78.57**	30%	**60%**	42.20	31.40	**-25.6%**
Evergrande	3333	BUY	**HOLD**	39.73	**31.75**	10%	**30%**	35.80	22.20	**-38.0%**

Source(s): Company, ABCI Securities estimates

COLI (688 HK; BUY; TP: HK$35.80): Growing contracted sales

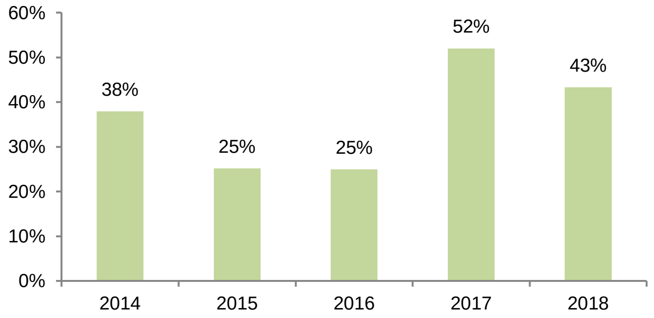
- **Sales growth accelerated:** COLI's 2018 contracted sales jumped 30% YoY (2017: +10% YoY; 2016: +17% YoY) to HK$ 301bn since GFA jumped 10% YoY to 15.93mn sqm and ASP rose 18%YoY to HK$ 18.9k/sqm. During 2016-17, COLI expended major efforts in integrating properties acquired from the CITIC group. We believe the restructuring has now been completed and the Group would resume a faster contracted sales growth from 2018 onwards.
- **Abundant saleable resources will enable fast growth in 2019:** In 2018, COLI acquired a total GFA of 22.6mn sqm for RMB 110bn (~RMB 4,858/sqm). The land capex represent 41% of contracted sales in 2018, higher than 2014-17 average of 35%. The average land cost of RMB 4,858/sqm also translates to 29% of contracted ASP in 2018, which should ensure a healthy gross margin of 30-35% based on our estimates.
- **Reiterate BUY; TP at HK$35.80.** The top 3 listed developers (Vanke [2202 HK], Evergrande and COLI) by market cap are trading at similar 2019 P/E of 6.2-6.5x; COLI is only trading at 0.91x 2019E P/B (vs. 1.48x for Vanke and 1.88x for Evergrande). As COLI has already resumed faster contracted sales growth of 30%YoY in 2018 (vs. 10%YoY for Evergrande and 15% YoY for Vanke), we believe the valuation discount is unjustifiable. We adjust up our NAV forecast for COLI to HK$ 51.17/share (from HK$ 43.56/share) and raise NAV discount to 30% (from 20%) to reflect sector risk; as a result, TP increases to HK$ 35.80 (from HK$ 34.90). COLI is our top large-cap pick for the sector.

Exhibit 19: COLI's contracted sales



Source(s): Company, ABCI Securities

Exhibit 20: COLI's land capex-to-contracted sales ratio

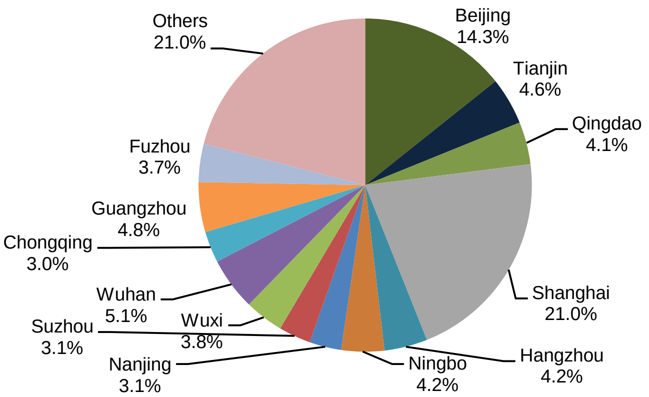


Source(s): Company, ABCI Securities

Jinmao (817 HK; BUY; TP: HK$5.50): Fastest-growing SOE player

- **One of the fastest growing players in 2018:** In 2018, Jinmao's contracted sales (excluding land sales) jumped 115% YoY to RMB 124.9bn, much faster than the peer average of 30% YoY. We believe such increase was driven by **1) expanding saleable resources.** Jinmao acquired 5.4mn sqm of new sites for RMB 46.7bn (attributable: RMB22.5bn) in 1H18. We estimate 2018 land capex could reach RMB 70bn, implying a land capex-to-sales ratio of 56%; **2) high exposure to higher tier cities.** Out of the total saleable resource of RMB169bn for 2018, tier-1 cities accounted for 40%. As we expect sales growth in tier 3/4 cities to slow in 2019 due to tightened funding on shantytown redevelopment, investment demand may return to higher-tier cities. Jinmao is set to benefit from such geographic shift in housing demand. It targets to achieve RMB 200bn in contracted sales by 2020, which is highly probable based on existing saleable resources and favorable geographic exposure.
- **Primary land development provides an alternative channel to acquire land resources:** As of June 2018, Jinmao has a primary development landbank of 17.6mn sqm (vs. 32.8mn sqm for secondary development). Upon completion of official tendering process, these primary projects can turn into high-margin land sales or become the Group's low-cost secondary landbank. The Group has signed six new city operation projects agreements in 1H18, which may also be incorporated into the landbank in the future.
- **Reiterate BUY; TP at HK$5.50.** We raise our NAV forecast to HK$13.71/share (from HK$ 10.73/share) but raise NAV discount to 60% (from 40%). Hence, TP is lowered to HK$ 5.50 (from HK$ 6.40) to reflect sector risk. Given the fast growth in contracted sales and low-cost landbank, Jinmao is our top small/mid-cap pick for the sector.

Exhibit 21: 2018 annual saleable resources by city (RMB169bn)



Source(s): Company, ABCI Securities

Exhibit 22: City operation projects signed by Jinmao in 1H18

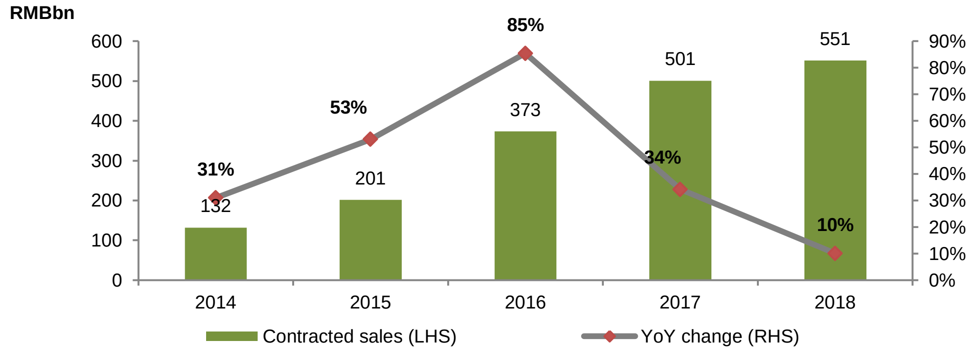
Project	Size
Suzhou Zhangjiagang High-tech Zone	GFA: 4.5mn sqm
Ningbo Fenghua Ningnan New City	Site area: 3.65sq km
Guangzhou Life Science City	Site area: 5.5sq km
Qingdao Jimo International City	GFA: 1.13mn sqm
Qingdao West Coast New District Innovative Science & Technology City	GFA: 3.67mn sqm
Sanya Nanfan Science & Technology City	Site area: 5,000mu

Source(s): Company, ABCI Securities

Evergrande (3333 HK; HOLD; TP: HK$22.20): Slowing sales; new energy vehicles could be a drag

- **Slowing contracted sales:** Evergrande's FY19 sales target of RMB 600bn implies a growth of 9.1% YoY, slowing from 85%YoY in 2016, 34%YoY in 2017, and 10% in 2018.
- **Considerable spending on new energy vehicle business:** On 15 Jan 2019, Evergrande Health (708 HK), a listed subsidiary of Evergrande, acquired a 51% stake in National Electric Vehicle Sweden (NEVS) for US$ 930mn from a consortium comprising of Tianjin Binhai Hi-tech Industrial Development Area (owned by Tianjin government) and State Research Information Technology Co., Ltd (owned by State Council Development Research Centre and China Unicom). On 24 Jan 2019, Evergrande Health also announced to acquire 58% stake in Shanghai CENAT, a power battery company to complement its new energy vehicle business. Legal disputes between Evergrande Health and Faraday Future were settled in Dec 2018, but market's concern over Evergrande's investment in new energy vehicle lingers. New energy vehicles business is still in the nascent stage of development and requires huge capex for facility construction, which may result in significant operating losses. This could potentially be a significant drag to Evergrande's financials in coming years.
- **Downgrade Evergrande from Buy to HOLD.** We downgrade Evergrande from Buy to **HOLD** on the back of slower sales and potential drag by new energy vehicle business. TP is lowered to HK$ 22.20 (from HK$ 35.80) as we raise our NAV discount from 10% to 30% base on the slower asset turnover rate expected.

Exhibit 23: Evergrande's contracted sales



Source(s): Company, ABCI Securities

Exhibit 24: Evergrande's investment in auto industry

Date	Entity	business	Amount	Stakes acquired	Remarks
Dec-18	Farady Future* (Revised agreement)	New energy vehicles	US$ 200mn	32%	Previous agreement in June 2018 to provide additional capital contribution of US$ 1.2bn by 2020 was cancelled
Sep-18	Guanghui Group	Auto distribution	RMB6.68bn	23.87%	Evergrande (3333 HK) will provide additional capital of RMB 7.8bn and its stake will increase to 40.964%
Jan-19	NEVS*	New energy vehicles	USD930mn	51%	Headquarter based in Sweden
Jan-19	Shanghai CENAT New Energy *	Pouch type power battery	RMB1,060mn	58.07%	Stake disposed by Shenzhen Clou Electronics (002121 CH)

* Investment via Evergrande Health (708 HK)

Source(s): Company, ABCI Securities

Exhibit 25: Valuation of the China property sector

	China Property	Ticker	Rating	TP	Mkt cap (HK$ bn)	Share Price (local ccy)	Performance 3M % Chg	YTD % Chg	2015 % Chg	Discount to NAV (%)	Valuation P/E 2017A	2018E	2019E	Yield (%) 2017A	2018E	2019E	P/B 2017A	2018E	2019E
	Residential :																		
1	Evergrande	3333 HK	HOLD	22.20	314.8	23.90	25	(11)	458	(24.71)	8.96	6.83	6.01	0.00	7.32	8.32	2.42	2.06	1.76
2	Vanke-H	2202 HK	NR		336.7	29.80	26	(4)	30	29.37	10.72	8.17	6.84	3.52	4.47	5.24	2.10	1.81	1.54
3	COLI	688 HK	BUY	35.80	312.3	28.20	19	12	26	(44.89)	9.52	7.94	6.46	2.84	3.40	4.18	1.16	1.05	0.94
4	Country Garden	2007 HK	NR		223.0	10.28	23	(31)	253	(49.63)	7.74	5.55	4.32	4.54	6.14	7.88	1.83	1.49	1.13
5	CR Land	1109 HK	NR		204.5	29.30	13	27	36	(17.79)	9.14	8.03	6.86	3.34	4.21	4.95	1.42	1.28	1.13
6	Sunac	1918 HK	BUY	31.40	123.0	27.80	33	(14)	414	(64.62)	19.90	8.44	5.90	2.10	2.15	3.08	2.17	1.84	1.47
7	Longfor	960 HK	NR		136.4	22.80	26	16	109	(13.11)	11.96	8.98	7.14	3.44	4.53	5.65	1.59	1.46	1.28
8	Guangzhou R&F	2777 HK	NR		46.6	14.30	18	(19)	105	(38.68)	5.26	3.87	3.18	8.98	10.34	12.47	0.62	0.59	0.53
9	Shimao	813 HK	NR		66.2	19.90	26	17	77	(32.54)	8.18	6.24	4.87	4.97	6.12	7.78	1.00	0.88	0.78
10	Logan	3380 HK	BUY	13.10	56.8	10.12	44	25	198	(53.59)	10.41	6.61	5.35	4.05	5.62	6.95	2.30	1.90	1.58
11	Jinmao	817 HK	BUY	5.50	43.7	3.74	11	9	75	(72.73)	10.60	8.41	6.12	7.00	4.77	6.55	1.22	1.12	1.01
12	Agile	3383 HK	BUY	15.90	38.0	9.60	7	(19)	229	(75.82)	5.63	4.22	3.59	9.38	9.30	10.93	0.89	0.80	0.71
13	Sino Ocean	3377 HK	NR		28.4	3.72	24	(31)	66	(64.74)	6.05	4.87	4.13	8.30	8.51	10.29	0.49	0.46	0.43
14	CIFI	884 HK	BUY	5.10	35.9	4.59	42	(3)	138	(63.68)	7.01	5.44	4.07	5.01	5.51	7.36	1.37	1.26	1.03
15	KWG	1813 HK	NR		24.4	7.62	31	(17)	132	(54.10)	5.92	4.51	3.60	6.28	7.96	9.79	0.73	0.64	0.57
16	Yuexiu Properties	123 HK	NR		19.5	1.56	27	7	45	(39.53)	9.03	6.41	5.87	5.69	5.87	6.76	0.51	0.49	0.47
17	Yuzhou	1628 HK	BUY	4.60	18.0	3.71	36	(11)	66	(67.46)	4.28	3.54	3.06	7.58	9.78	11.33	0.87	0.79	0.68
18	Times Property	1233 HK	BUY	13.30	17.5	9.53	47	24	118	(71.32)	5.91	4.20	3.47	5.07	7.14	8.66	0.96	0.83	0.71
19	Aoyuan	3883 HK	BUY	7.40	15.3	5.59	26	30	158	(69.96)	7.06	5.46	3.60	5.22	5.49	8.34	1.31	1.12	0.92
	HK Listed Avg						26	0	144	(46.82)	8.59	6.20	4.97	5.12	6.24	7.71	1.31	1.15	0.98
	- Large cap (>HKD50b)						23	(1)	168	(28.51)	10.15	7.12	5.73	3.75	5.41	6.62	1.59	1.38	1.17
	- Small-mid cap (<HKD50b)						29	1	122	(63.29)	7.19	5.37	4.29	6.36	6.99	8.70	1.06	0.94	0.81

Source(s): Bloomberg, ABCI Securities estimates

Risk factors

- **Increasing number of China property IPOs in HK:** In 2018, six Chinese developers were listed in HK, raising a total of HK$ 11.3bn. Five or more developers have filed with HKEx for listing approval. Since most sizeable PRC developers have already been listed, the upcoming IPOs are likely to be small players with weaker financials that may lower the overall valuation of the sector.

Exhibit 26: China developers IPO

Stock code	Developers	listing date	Proceeds raised HK$mn
3699	Everbright Grand China Assets Limited	16-Jan-18	156
6158	Zhenro Properties Group Limited	16-Jan-18	4,481
1996	Redsun Properties Group Limited	12-July-18	2,098
6111	DaFa Properties Group Limited	11-Oct-18	957
3990	Midea Real Estate Holding Limited	11-Oct-18	3,240
3616	Ever Reach Group (Holdings) Company Limited	12-Nov-18	372
	Total		**11,303**

Source(s): HKEX, ABCI Securities

- **Refinancing risks:** In 4Q18, coupon rate for offshore bond issuance surged 2.1ppt QoQ to 9.7%. With slowing contracted sales and tightening measures in place, bond yield may rebound after the recent correction.

- **FX risks:** FX risk exposure increases with issuance of USD bonds. FX volatilities are intensified by the development of Sino-US trade spats. In 2018, RMB depreciated by 5.2%. If RMB depreciates further, developers may suffer from unrealized FX losses as their USD debts are marked to market.

- **The tightening of Shanty town redevelopment may significantly impact the property market on a prolong basis.** Tightening of momentary compensation on Shanty town redevelopment was just commenced in 2H18 and the negative impact on developers' contracted sales may only become noticeable in 1H19. The decline in revenue and profit may only be reflected in 2020-21 when the pre-sold properties are booked in to P&L upon delivery to home buyers. Market may feel uncertain about the prolong impact of shanty town and price in a higher risk premium in the developers' valuation.

- **High land capex-to- contracted sales ratio for faster growth may not be sustainable.** With large land capex spent, developers are able to maintain fast contracted sales growth in the upcoming years with an expanding landbank. However, we observed that many developers have a land capex-to contracted sales ratio higher than their core net profit margins, implying internal profits generated from property development are not sufficient to finance their land capex. Such large amount of land capex may not be sustainable without external debt and equity raising. In our earnings model, we have not factored in future land capex due to uncertain timing and amount, hence net gearing ratios for our cover stocks are expected to improve. Such assumption may not be correct.

China Overseas Land & Investment Limited (688 HK)

Consolidated income statement (2016A-2020E)

FY Ended Dec 31 (HK$ mn)	2016A	2017A	2018E	2019E	2020E
Revenue	164,069	166,045	179,071	211,759	243,069
Cost of sales	(118,425)	(111,345)	(113,415)	(130,152)	(149,018)
Gross Profit	45,643	54,700	65,656	81,608	94,051
SG&A expenses	(6,551)	(5,798)	(7,237)	(8,443)	(9,926)
EBIT	39,092	48,902	58,419	73,164	84,125
Finance cost	(2,056)	(1,394)	(1,540)	(1,549)	(1,549)
Share of profit of associates	1,252	1,938	1,134	864	861
Other income/ (expenses)	3,062	2,891	647	755	847
Fair value gain of investment properties	5,820	5,946	0	0	0
Disposal/one-off items	9,932	5,136	0	0	0
Profit before tax	57,102	63,419	58,660	73,234	84,284
Tax	(18,711)	(21,277)	(18,591)	(23,951)	(27,357)
Profit after tax	38,391	42,142	40,069	49,283	56,927
Minority interest	(1,370)	(1,375)	(1,140)	(1,475)	(1,580)
Reported net profit	37,021	40,767	38,929	47,808	55,347
Less: exceptional items	(11,814)	(8,312)	0	0	0
Core net profit	25,207	32,455	38,929	47,808	55,347
Per share					
Core EPS (HK$)	2.49	2.96	3.55	4.36	5.05
DPS (HK$)	0.77	0.80	0.96	1.18	1.36
Payout ratio (%)	31%	27%	27%	27%	27%
BVPS (HK$)	21.93	24.25	26.84	30.03	33.72
Growth %					
Revenue	10.8%	1.2%	7.8%	18.3%	14.8%
Gross Profit	7.9%	19.8%	20.0%	24.3%	15.2%
EBIT	2.6%	25.1%	19.5%	25.2%	15.0%
Core net profit	-8.5%	28.8%	19.9%	22.8%	15.8%
Margin %					
Gross margin	27.8%	32.9%	36.7%	38.5%	38.7%
Gross margin (post-LAT)	23.7%	27.9%	34.6%	35.8%	36.0%
EBIT margin	23.8%	29.5%	32.6%	34.6%	34.6%
Core net margin	15.4%	19.2%	21.7%	22.9%	23.1%
Key assumptions					
Contracted Sales (HK$ mn)	210,648	232,070	301,240	331,967	398,560
GFA sold (mn sqm)	13.04	14.46	15.93	18.76	23.11
ASP (HK$/sqm)	16,149	16,049	18,905	17,696	17,246
Booked Sales (HK$ mn)	159,891	162,140	174,798	207,064	237,888
GFA delivered (mn sqm)	9.36	9.44	9.64	10.88	13.31
Booked ASP (HK$/sqm)	17,082	17,175	18,142	19,030	17,871

Source(s): Company, ABCI Securities estimates

China Overseas Land & Investment Limited (688 HK)

Consolidated balance sheet (2016A-2020E)

As of Dec 31 (HK$ mn)	2016A	2017A	2018E	2019E	2020E
Current assets	474,913	501,791	671,851	809,889	980,865
Cash	157,162	104,051	74,688	295,393	567,902
Restricted cash	-	-	-	-	-
Trade & other receivables	11,341	14,301	14,301	14,301	14,301
Property under development	269,321	359,848	559,271	476,604	375,070
Other current assets	37,089	23,592	23,592	23,592	23,592
Non-current assets	96,376	143,614	146,213	148,541	150,866
Property, plant & equipment	3,887	3,898	3,962	4,026	4,091
Investment properties	67,093	97,377	98,877	100,377	101,877
Investment in Associate and JCE	16,039	20,637	21,671	22,435	23,196
Other non-current assets	9,357	21,702	21,702	21,702	21,702
Total Assets	571,289	645,405	818,064	958,430	1,131,731
Current Liabilities	199,604	206,543	321,119	425,163	556,534
Short-term borrowings	40,286	30,424	30,424	30,424	30,424
Trade & other payables	44,815	51,826	51,826	51,826	51,826
Pre-sales deposits	82,256	77,857	192,434	296,478	427,849
Other current liabilities	32,247	46,435	46,435	46,435	46,435
Non-current liabilities	144,261	165,319	165,319	165,319	165,319
Long-term borrowings	133,534	147,815	147,815	147,815	147,815
Other payables	870	3,800	3,800	3,800	3,800
Other non-current liabilities	9,857	13,704	13,704	13,704	13,704
Total Liabilities	343,866	371,861	486,438	590,482	721,853
Net Assets	227,423	273,543	331,626	367,948	409,878
Shareholders' Equity	222,248	265,694	294,110	329,007	369,406
Perpetual capital instrument	-	-	-	-	-
Minority Interest	5,175	7,849	37,517	38,941	40,472
Total Equity	227,423	273,543	331,626	367,948	409,878
Key ratio					
Gross debt (HK$ mn)	173,821	178,238	178,238	178,238	178,238
Net debt (HK$ mn)	16,659	74,188	103,550	(117,154)	(389,664)
Net gearing (%)	7.3%	27.1%	31.2%	-31.8%	-95.1%
Contracted sales/ Total assets (x)	0.37	0.36	0.37	0.35	0.35

Source(s): Company, ABCI Securities estimates

China Overseas Land & Investment Limited (688 HK)

Consolidated cash flow statement (2016A-2020E)

FY ended Dec 31 (HK$ mn)	2016A	2017A	2018E	2019E	2020E
EBITDA	39,144	48,954	58,471	73,217	84,178
Change in Working Capital	36,433	(78,375)	(78,107)	193,494	239,688
Tax payment	(15,038)	(12,617)	(18,591)	(23,951)	(27,357)
Operating cash flow	60,540	(42,037)	(38,226)	242,759	296,508
Purchase of PP&E	(895)	(63)	(117)	(117)	(117)
Addition of Investment Properties	(2,378)	(4,568)	(1,500)	(1,500)	(1,500)
Others	18,387	(3,449)	747	855	947
Investing cash flow	15,114	(8,079)	(870)	(762)	(669)
Debt raised	37,030	50,200	10,000	10,000	10,000
Debt repaid	(60,259)	(48,898)	(10,000)	(10,000)	(10,000)
Interest expenses	(8,730)	(7,372)	(8,280)	(8,332)	(8,332)
Equity raised	0	0	0	0	0
Dividend to shareholders	(7,878)	(8,436)	(10,513)	(12,911)	(14,947)
Others	18,900	11,512	28,527	(50)	(50)
Financing cash flow	(20,938)	(2,994)	9,733	(21,293)	(23,329)
Net cash inflow/ (outflow)	54,716	(53,111)	(29,363)	220,705	272,510
Cash- beginning	102,446	157,162	104,051	74,688	295,393
Cash- year-end	157,162	104,051	74,688	295,393	567,902

Source(s): Company, ABCI Securities estimates

Jinmao (817 HK)

Consolidated income statement (2016A-2020E)

FY Ended Dec 31 (RMB mn)	2016A	2017A	2018E	2019E	2020E
Revenue	27,304	31,075	39,237	74,836	95,879
Cost of sales	(17,099)	(21,034)	(23,658)	(54,637)	(72,257)
Gross Profit	10,205	10,041	15,579	20,199	23,621
SG&A expenses	(2,366)	(3,120)	(5,285)	(6,241)	(6,448)
EBIT	7,838	6,920	10,294	13,958	17,174
Finance cost	(729)	(1,692)	(1,091)	(1,106)	(1,122)
Share of profit of associates	(72)	63	3,470	3,350	2,641
Other income/ (expenses)	710	1,056	899	1,024	2,450
Fair value gain of investment properties	729	96	0	0	0
Disposal gains	0	2,561	0	0	0
Other one-off items	(186)	(179)	0	0	0
Profit before tax	8,291	8,825	13,571	17,225	21,143
Tax	(3,717)	(3,675)	(5,597)	(5,740)	(6,723)
Profit after tax	4,574	5,150	7,974	11,485	14,421
Minority interest	(2,038)	(1,172)	(2,817)	(4,399)	(5,334)
Reported net profit	2,535	3,978	5,157	7,086	9,087
Less: Fair value gain of investment properties, net of related tax effect and minority interest	(466)	(73)	0	0	0
Core net profit*	2,069	3,905	5,157	7,086	9,087
Per share					
Core EPS (RMB)	0.21	0.35	0.44	0.61	0.78
DPS (HK$)**	0.09	0.26	0.18	0.24	0.31
Payout ratio (%)	43%	74%	40%	40%	40%
BVPS (RMB)	2.72	3.08	3.34	3.70	4.17
Growth %					
Revenue	53.6%	13.8%	26.3%	90.7%	28.1%
Gross Profit	48.5%	-1.6%	55.2%	29.7%	16.9%
EBIT	61.7%	-11.7%	48.7%	35.6%	23.0%
Core net profit	-10.4%	88.7%	32.1%	37.4%	28.2%
Margin %					
Gross margin	37.4%	32.3%	39.7%	27.0%	24.6%
Gross margin (post-LAT)	18.6%	11.8%	22.2%	14.3%	14.4%
EBIT margin	28.7%	22.3%	26.2%	18.7%	17.9%
Core net margin	15.5%	10.4%	11.5%	10.9%	12.3%
Key assumptions					
Contracted Sales- property development (RMB mn)	37,464	58,010	125,196	148,515	160,798
GFA sold (mn sqm)	1.47	2.42	4.51	5.35	6.99
ASP (RMB/sqm)	25,435	24,004	27,760	27,768	23,001
Contracted Sales- Land (RMB mn)	11,052	11,310	3,060	11,340	11,784
GFA sold (mn sqm)	0.96	1.09	0.50	1.36	1.36
ASP (RMB/sqm)	11,534	10,406	6,091	8,343	8,670
Booked Property Sales (RMB mn)	21,456	21,967	32,715	62,423	83,005
GFA delivered (mn sqm)	0.85	1.16	1.43	3.20	4.40
Booked ASP (RMB/sqm)	25,165	18,996	22,827	19,530	18,847
Booked Land Sales (RMB mn)	2,137	4,902	2,228	7,673	7,920
GFA delivered (mn sqm)	0.19	0.78	0.40	1.26	1.26
Booked ASP (RMB/sqm)	11,400	6,253	5,543	6,093	6,290

* Core net profit= Net profit attributable to ordinary shareholders- fair value gains on investment properties, net of related tax effect and minority interest

** 2017 figures included special dividend of HK¢ 8.17

Source(s): Company, ABCI Securities estimates

Jinmao (817 HK)

Consolidated balance sheet (2016A-2020E)

As of Dec 31 (RMB mn)	2016A	2017A	2018E	2019E	2020E
Current assets	86,283	117,278	116,354	155,193	256,257
Cash	18,046	19,407	18,028	58,227	160,653
Restricted cash	2,328	3,235	3,235	3,235	3,235
Trade & other receivables	6,446	920	920	920	920
Property under development	15,990	24,650	24,650	24,650	24,650
Property held for sales	11,153	11,772	11,772	11,772	11,772
Land under development	5,521	6,877	7,332	5,971	4,610
Other current assets	26,798	50,417	50,417	50,417	50,417
Non-current assets	80,621	104,767	160,728	141,902	95,342
Property, plant & equipment	10,812	10,839	10,854	10,870	10,885
Properties under development	26,930	41,884	92,360	68,170	16,953
Land under development	11,705	8,998	8,998	8,998	8,998
Investment properties	22,029	27,812	29,812	31,812	33,812
Investment in Associate and JCE	5,376	6,838	10,307	13,657	16,298
Other non-current assets	3,769	8,395	8,395	8,395	8,395
Total Assets	166,904	222,044	277,082	297,095	351,599
Current Liabilities	71,382	107,074	154,342	166,511	211,036
Short-term borrowings	12,944	27,827	28,827	29,827	30,827
Trade & other payables	15,689	27,962	27,962	27,962	27,962
Pre-sales deposits	28,279	38,929	85,196	96,366	139,891
Other current liabilities	14,470	12,356	12,356	12,356	12,356
Non-current liabilities	39,778	48,527	48,527	48,527	48,527
Long-term borrowings	34,981	43,505	43,505	43,505	43,505
Other payables	-	-	-	-	-
Other non-current liabilities	4,797	5,022	5,022	5,022	5,022
Total Liabilities	111,160	155,601	202,868	215,037	259,563
Net Assets	55,744	66,444	74,214	82,058	92,037
Shareholders' Equity	28,988	32,852	38,612	42,863	48,315
Perpetual capital securities	7,894	14,802	14,802	14,802	14,802
Minority Interest	18,862	18,790	20,801	24,393	28,920
Total Equity	55,744	66,444	74,214	82,058	92,037
Key ratio					
Gross debt (RMB mn)	47,925	71,331	72,331	73,331	74,331
Net debt (RMB mn)	27,551	48,690	51,069	11,869	(89,557)
Net gearing (%)	49.4%	73.3%	68.8%	14.5%	-97.3%

Source(s): Company, ABCI Securities estimates

Jinmao (817 HK)

Consolidated cash flow statement (2016A-2020E)

FY ended Dec 31 (RMB mn)	2016A	2017A	2018E	2019E	2020E
EBITDA	8,172	7,281	10,654	14,319	17,534
Change in Working Capital	(6,849)	(28,651)	(2,129)	39,291	98,709
Tax payment	(2,911)	(4,451)	(5,597)	(5,740)	(6,723)
Operating cash flow	(1,587)	(25,822)	2,928	47,870	109,521
Purchase of PP&E	(523)	(376)	(376)	(376)	(376)
Addition of Investment Properties	(20)	(3,707)	(2,000)	(2,000)	(2,000)
Investment in Associate/ JCE	(2,505)	(1,912)	0	0	0
Others	3,182	(8,396)	899	1,024	2,450
Investing cash flow	134	(14,390)	(1,477)	(1,352)	74
Debt raised	41,557	57,625	11,000	11,000	11,000
Debt repaid	(33,851)	(32,448)	(10,000)	(10,000)	(10,000)
Interest expenses	(2,511)	(3,245)	(3,626)	(3,677)	(3,727)
Equity raised	0	0	2,665	0	0
Perpetual securities coupon	(247)	(468)	(757)	(757)	(757)
Dividend to shareholders	(722)	(1,586)	(2,063)	(2,834)	(3,635)
Others	4,275	21,694	(50)	(50)	(50)
Financing cash flow	8,502	41,573	(2,830)	(6,318)	(7,169)
Net cash inflow/ (outflow)	7,049	1,361	(1,379)	40,200	102,426
Cash- beginning	10,997	18,046	19,407	18,028	58,227
Cash- year-end	18,046	19,407	18,028	58,227	160,653

Source(s): Company, ABCI Securities estimates

Evergrande (3333 HK)

Consolidated income statement (2016A-2020E)

FY Ended Dec 31 (RMB mn)	2016A	2017A	2018E	2019E	2020E
Revenue	211,444	311,022	528,080	595,589	639,480
Cost of sales	(152,022)	(198,760)	(324,506)	(364,662)	(397,745)
Gross Profit	59,422	112,262	203,575	230,927	241,735
SG&A expenses	(28,244)	(35,055)	(39,797)	(43,860)	(46,093)
EBIT	31,178	77,207	163,778	187,066	195,642
Finance cost	(6,392)	(8,927)	(5,150)	(4,168)	(3,677)
Share of profit of associates	(203)	1,402	1,515	1,515	1,515
Other income/ (expenses)	4,937	5,547	5,656	4,780	4,278
Fair value gain of investment properties	356	9,523	0	0	0
Disposal/one-off items	6,986	(7,279)	0	0	0
Profit before tax	36,862	77,473	165,799	189,193	197,757
Tax	(19,245)	(40,424)	(91,606)	(104,619)	(108,941)
Profit after tax	17,617	37,049	74,194	84,574	88,817
Minority interest	(2,745)	(8,896)	(33,551)	(38,390)	(40,689)
Perpetual coupon distribution	(9,781)	(3,781)	0	0	0
Reported net profit	5,091	24,372	40,643	46,184	48,128
Less: exceptional items	(2,047)	6,628	0	0	0
Core net profit	3,045	31,000	40,643	46,184	48,128
Per share					
Core EPS (RMB)	0.21	2.29	3.00	3.41	3.55
DPS (RMB)	-	-	1.50	1.70	1.77
Payout ratio (%)	0%	0%	50%	50%	50%
BVPS (RMB)	3.07	8.46	9.96	11.66	13.44
Growth %					
Revenue	58.8%	47.1%	69.8%	12.8%	7.4%
Gross Profit	58.8%	88.9%	81.3%	13.4%	4.7%
EBIT	84.8%	147.6%	112.1%	14.2%	4.6%
Core net profit	52.9%	918.2%	31.1%	13.6%	4.2%
Margin %					
Gross margin	28.1%	36.1%	38.5%	38.8%	37.8%
Gross margin (post-LAT)	25.0%	30.9%	29.6%	29.7%	29.2%
EBIT margin	14.7%	24.8%	31.0%	31.4%	30.6%
Core net margin	5.8%	10.9%	13.8%	13.9%	13.7%
Key assumptions					
Contracted Sales (RMB mn)	373,358	500,950	551,340	611,991	645,315
GFA sold (mn sqm)	44.69	50.30	52.43	59.57	60.51
ASP (RMB/sqm)	8,354	9,959	10,515	10,274	10,665
Booked Sales (RMB mn)	203,890	302,384	517,719	583,050	624,180
GFA delivered (mn sqm)	25.57	46.81	50.26	57.06	59.06
Booked ASP (RMB/sqm)	7,975	6,460	10,300	10,219	10,568

Source(s): Company, ABCI Securities estimates

Evergrande (3333 HK)

Consolidated balance sheet (2016A-2020E)

As of Dec 31 (RMB mn)	2016A	2017A	2018E	2019E	2020E
Current assets	1,113,635	1,522,947	1,515,132	1,609,285	1,744,904
Cash	198,420	152,008	85,685	35,131	18,773
Restricted cash	105,909	135,714	135,714	135,714	135,714
Trade & other receivables	76,434	120,782	120,782	120,782	120,782
Property under development	658,627	953,521	1,012,029	1,156,737	1,308,713
Other current assets	74,245	160,922	160,922	160,922	160,922
Non-current assets	237,233	238,805	238,039	237,233	236,427
Property, plant & equipment	20,833	32,898	30,904	28,910	26,916
Investment properties	132,045	151,950	152,020	152,090	152,160
Investment in Associate and JCE	24,374	30,376	31,534	32,652	33,770
Other non-current assets	59,981	23,581	23,581	23,581	23,581
Total Assets	1,350,868	1,761,752	1,753,171	1,846,518	1,981,332
Current Liabilities	733,394	1,084,855	1,022,451	1,054,367	1,124,478
Short-term borrowings	202,906	356,381	261,381	265,381	315,381
Trade & other payables	299,905	399,459	398,434	397,410	396,385
Pre-sales deposits	194,961	267,555	301,176	330,117	351,252
Other current liabilities	35,622	61,460	61,460	61,460	61,460
Non-current liabilities	424,942	434,689	434,689	434,689	434,689
Long-term borrowings	332,164	376,244	376,244	376,244	376,244
Other payables	0	0	0	0	0
Other non-current liabilities	92,778	58,445	58,445	58,445	58,445
Total Liabilities	1,158,336	1,519,544	1,457,140	1,489,056	1,559,167
Net Assets	192,532	242,208	296,030	357,462	422,165
Shareholders' Equity	53,847	114,772	135,093	158,185	182,249
Perpetual capital instrument	103,337	0	0	0	0
Minority Interest	35,348	127,436	160,937	199,277	239,915
Total Equity	192,532	242,208	296,030	357,462	422,165
Key ratio					
Gross debt (RMB mn)	535,070	732,625	637,625	641,625	691,625
Net debt (RMB mn)	230,741	444,903	416,226	470,780	537,138
Net gearing (%)	120%	184%	141%	132%	127%
Contracted sales/ Total assets (x)	0.28	0.28	0.31	0.33	0.33

Source(s): Company, ABCI Securities estimates

Evergrande (3333 HK)

Consolidated cash flow statement (2016A-2020E)

FY ended Dec 31 (RMB mn)	2016A	2017A	2018E	2019E	2020E
EBITDA	32,812	79,201	165,772	189,060	197,636
Change in Working Capital	(47,440)	(159,103)	20,435	(79,281)	(98,770)
Tax payment	(13,106)	(16,999)	(91,606)	(104,619)	(108,941)
Operating cash flow	(27,734)	(96,901)	94,601	5,161	(10,075)
Purchase of PP&E	(15,927)	(14,369)	(70)	(70)	(70)
Others	(103,632)	(33,113)	6,013	5,176	4,674
Investing cash flow	(119,559)	(47,482)	5,943	5,106	4,604
Debt raised	429,836	524,625	5,000	5,000	50,000
Debt repaid	(241,592)	(331,416)	(100,000)	(1,000)	0
Interest expenses	(30,876)	(54,072)	(51,496)	(41,680)	(36,773)
Equity raised	0	0	0	0	0
Proceed from non-controlling interest	(5,481)	(241)	(20,321)	(23,092)	(24,064)
Dividend to shareholders	16,882	119,192	0	0	0
Perpetual securities raised/(repaid)	28,237	(113,667)	0	0	0
Others	45,617	(46,450)	(50)	(50)	(50)
Financing cash flow	242,623	97,971	(166,867)	(60,822)	(10,887)
Net cash inflow/ (outflow)	95,330	(46,412)	(66,323)	(50,555)	(16,357)
Cash- beginning	103,090	198,420	152,008	85,685	35,131
Cash- year-end	198,420	152,008	85,685	35,131	18,773

Source(s): Company, ABCI Securities estimates

Disclosures

Analyst Certification
I, Tung Yiu Kei, Kenneth, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

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Definition of equity rating

Rating	Definition
Buy	Stock return ≥ Market return rate (10%)
Hold	- Market return (-10%) ≤ Stock return < Market return rate (10%)
Sell	Stock return < - Market return (– 10%)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months
Market return rate: average market return rate since 2005 (HSI total return index 2005-17 CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

Disclaimers

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