



Feb 3, 2016  
Company Report  
Rating: BUY  
TP: HK\$ 4.40

Share price (HK\$) 2.89  
Est. share price return 52.2%  
Est. dividend yield 5.1%  
Est. total return 57.3%

Previous Rating & TP NA  
Previous Report Date NA

Analyst : Kenneth Tung  
Tel: (852) 2147 8311  
Email: kennethtung@abci.com.hk

**Key Data**

52Wk H/L(HK\$)	4.66/2.18
Issued shares (mn)	6,656
Market cap (HK\$ mn)	21,118
3-mth avg daily turnover (HK\$ mn)	50.24
Major shareholder(s) (%)	
Shum Yip Holdings	60.89

Source(s): Company, Bloomberg, ABCI Securities

**FY14 Revenue breakdown (%)**

Property development	79.1
Property investment	4.9
Property management	8.8
Others	7.2

Source(s): Company, ABCI Securities

**Share performance (%)**

	Absolute	Relative*
1-mth	(21.2)	(11.9)
3-mth	(10.1)	3.6
6-mth	(2.0)	22.1

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

**1-Year stock performance (HK\$)**



Source(s): Bloomberg, ABCI Securities

# Shenzhen Investment (604 HK)

## Thrive on Shenzhen's reviving market; initiate BUY

- Multiple channels to acquire land, including asset injection from parent, co-operation with sister company, Shenzhen Int'l, and urban redevelopment
- Strong presale (FY15: RMB16bn, +116 % YoY) and rental income (FY14: HK\$681mn, +24%YoY)
- Initiate **BUY** with TP of HK\$4.40 based on a 50% discount to NAV. SZI is our top pick among Shenzhen property developers

**Multiple channels to acquire land.** SZI secure land through multiple ways in Shenzhen at a bargain price. **1) Asset injection from parent.** SZI purchased 1.5mn sqm land in Shenzhen from its parent over the last few years. Past transactions with its parent company are also attractively priced. E.g. Upperhills project was injected at RMB11.4k/sqm, which represents only 10% of current ASP. **2) Co-operation with sister company Shenzhen international.** As at Dec 2014, SZ international has a total of 0.98 mn GFA of warehousing/ logistics space in Shenzhen, which could potentially transform into higher-valued residential/ office space. **3) Urban redevelopment.** SZI is able to secure two redevelopment projects with a total GFA of 480k sqm on its own in 2013 & 2014 due to its local knowledge and expertise.

**Strong presales and rental performance.** Most of SZI's Shenzhen projects are located in prime locations capable of demanding a high ASP. For instance, the Upperhills project close to Futian CBD is selling at ~RMB 120k/sqm. In 2015, SZI achieved RMB 16bn in presales, up 116% YoY and exceeded its target of RMB 11bn. Given the higher ASP, gross margin for projects in Shenzhen was 44.7% in 1H15, as compared to 27.0%/10.8% in the tier-2/3 cities. As revenue contribution from Shenzhen increased (from 23% in 1H14 to 72% in 1H15), we expect gross margin to improve steadily. As of June 2015, SZI has an investment property (IP) portfolio with a GFA of 1mn sqm in Shenzhen, generating rental revenue of HK\$ 681mn and HK\$ 382mn in 2014 and 1H15, up 24.3%YoY and 27.0%YoY. Upon completion of the high-end shopping malls and office space at UpperHills and Shumyip Zhongcheng, SZI's IP GFA should increase by 600k sqm. SZI targets to achieve RMB 2bn in rental income by 2018.

**Initiate BUY with TP HK\$4.40; Top pick among Shenzhen developers.** The valuation of SZI is based on the discount-to-NAV method. We conduct a DCF analysis and apply a WACC of 9.4% to assess the value of property development projects, and apply a cap rate of 6.0% on 2016E rental income for the valuation of investment properties. Finally, we apply a 50% discount to our 2016E NAV estimate of HK\$ 57.2bn (or HK\$ 8.79/share) to derive our TP of HK\$ 4.40. SZI is our Top pick among Shenzhen players given its channels to acquire cheap land resources in Shenzhen and low finance cost enabled by its SOE background. Initiate **BUY**

**Risk factors:** 1) FX loan exposure; 2) Placement risks; 3) Impairment loss on lower-tier cities.

**Results and Valuation**

FY ended Dec 31	2013A	2014A	2015E	2016E	2017E
Revenue (HK\$ mn)	9,779	13,827	15,740	21,684	27,648
Chg (% YoY)	14.1	41.4	13.8	37.8	27.5
Underlying Net Income (HK\$ mn) <sup>1</sup>	1,787	1,624	1,934	3,233	3,898
Chg (% YoY)	9.0	(9.1)	19.0	67.2	20.6
Underlying EPS (HK\$)	0.38	0.28	0.30	0.50	0.60
Chg (% YoY)	(14.6)	(27.7)	6.8	67.2	20.6
BVPS (HK\$)	5.31	5.07	5.13	5.37	5.67
Chg (% YoY)	12.9	(4.5)	1.0	4.8	5.6
Underlying PE (x)	7.5	10.4	9.7	5.8	4.8
P/B (x)	0.5	0.6	0.6	0.5	0.5
ROE (%)	7.1	5.3	5.6	9.0	10.3
ROA (%)	2.3	1.7	1.8	3.0	3.4
DPS(HK\$)	0.19	0.16	0.15	0.25	0.30
Yield (%)	6.6	5.5	5.1	8.6	10.4
Net gearing <sup>2</sup> (%)	61.0	60.2	53.0	44.3	25.2

<sup>1</sup> Underlying net income = Net profit - revaluation gain of investment properties and one-off items

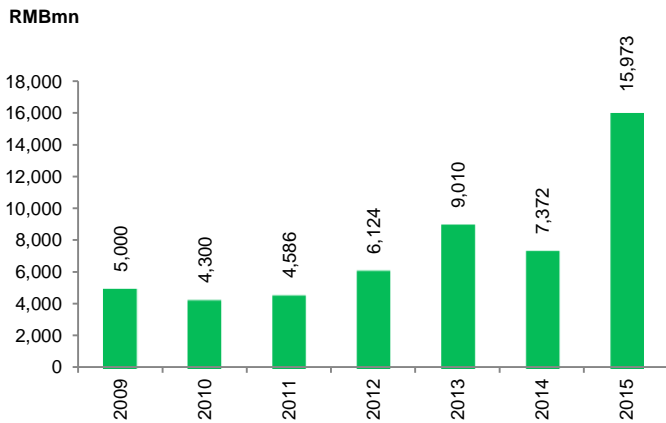
<sup>2</sup> Net gearing = Net debt/Total equity

Source(s): Bloomberg, ABCI Securities estimates

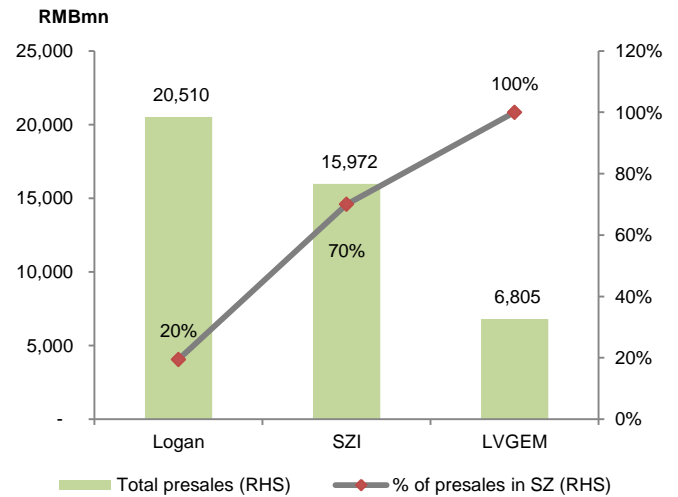
## Strong support from parent

Shenzhen Investment (SZI), listed in HKEX in 1997, is the largest listed real estate company under Shenzhen State Owned Assets Supervision and Administration Commission. Shenzhen, being its prime market, contributed RMB 4.7bn or 61% of the Group's 1H15 presales. As property demand in Shenzhen rise, SZI's presales surged 117% YoY in 2015 to RMB 16.0bn

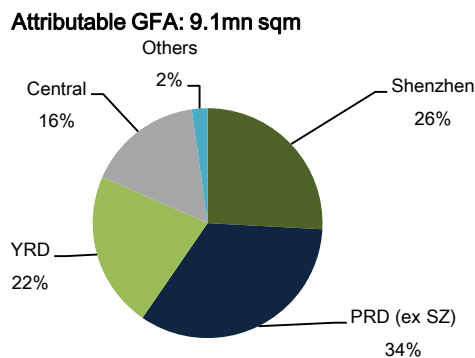
As of June 2015, SZI has a total attributable landbank of 9.062mn sqm, of which 1.8mn sqm (or 22% of total landbank) is located in Shenzhen, much higher than 1.4mn sqm of LVGEM and 0.7mn for Logan. In Dec 2015, SZI's landbank is further strengthened after the asset injection of a 0.43mn sqm project in Huangbeiling, Luohu District from its parent group.

**Exhibit 1: SZI's presales**


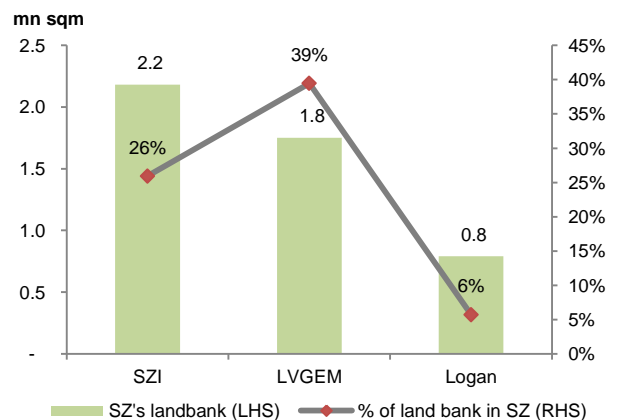
Source(s): Company, ABCI Securities

**Exhibit 2: SZI's % of presales in Shenzhen vs. peers (2015E)**


Source(s): Company, ABCI Securities estimates

**Exhibit 3: SZI's landbank (2015E)**


Source(s): Company, ABCI Securities estimates

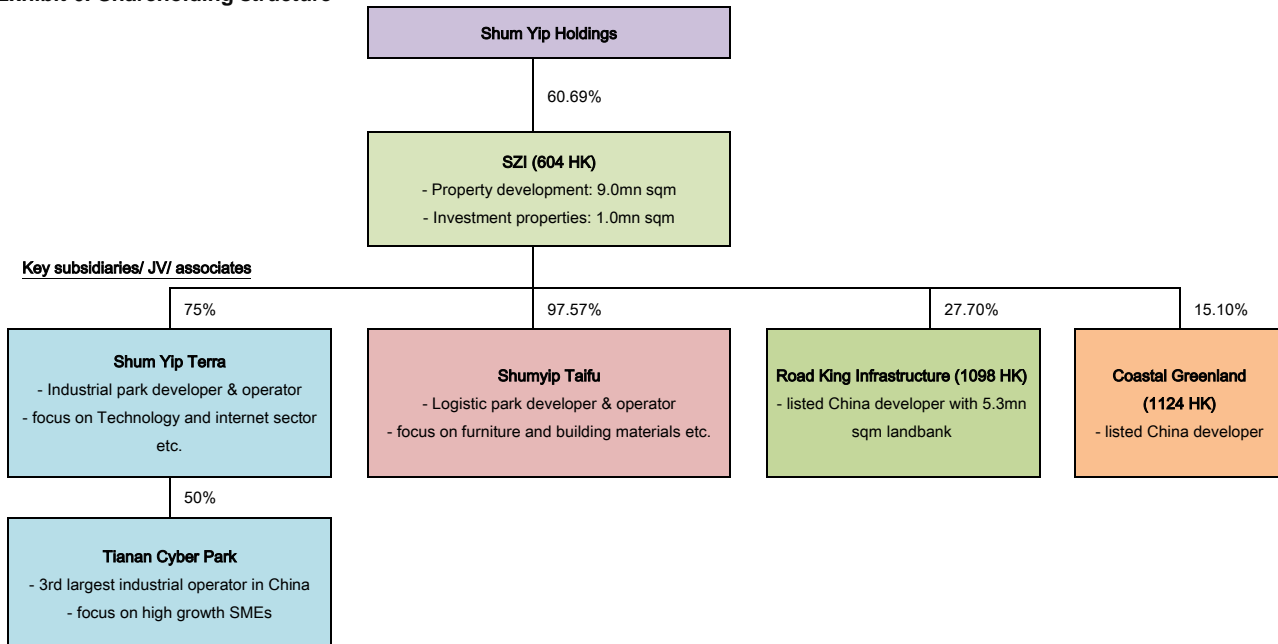
**Exhibit 4: SZI's percentage of landbank from Shenzhen vs. peers (2015E)**


Source(s): Company, ABCI Securities estimates

**Exhibit 5: SZI's landbank in Shenzhen (1H15)**


Source(s): Company

SZI conducts property business by acquiring land from the open market, urban redevelopment, and from its parents. Besides, SZI also invests in different property developers, holding a 37.5% stake in Tianan Cyber Park, 27.7% stake in Road King Infrastructure and 15.1% stake in Coastal Greenland. Profit contribution from JV/Associates (HK\$ 693mn) accounts for 43% of the Group's 2014 core profit.

**Exhibit 6: Shareholding structure**


\* As at Jun 2015

Source(s): Company, ABCI Securities

## #1: Quality projects in Shenzhen to drive margins

Most of SZI's Shenzhen projects are located in prime location. Upperhills, located close to Futian CBD, is well received by market. ASP rose from RMB63k/sqm at its initial launch in 2013 to RMB 120k/sqm currently. Tanglang City, located next to the Tanglang Metro station in Nanshan, also achieved an ASP at RMB 40k/sqm in May-July 2015. Going forward, SZI plans to launch two more new projects for presales- Shumyip Zhongcheng, which is located next to Shenzhen's luxury residential district Honey Lake, and Chegongmiao Redevelopment project, an integrated office development scheduled to be launched in 2016.

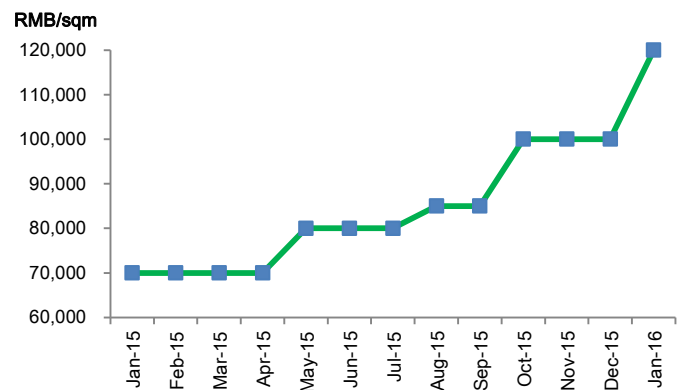
**Exhibit 7: SZI's key projects in SZ (Jun 2015)**

	GFA mn sqm	Stake %	Attributable GFA mn sqm	Completion date
Upper Hills 深業上城	0.65	100%	0.65	2017
Shumyip Zhongcheng 深業中城	0.36	100%	0.36	2018
Tanglang City 塘朗城	0.26	50%	0.13	2015
Chegongmiao Redevelopment Project Phase 1 車公廟更新項目 1 期	0.12	75%	0.09	2017
Taifu Square Phase 1 泰富廣場 1 期	0.17	96%	0.16	2017
Taifu Square Phase 2-4 泰富廣場 2-4 期	0.26	96%	0.25	2022
Qingshuihe Auto Park Phase 3 清水河國際汽車物流產業園 3 期	0.03	100%	0.03	2017
Qingshuihe Auto Park Phase 4 清水河國際汽車物流產業園 4 期	0.03	100%	0.03	2018
Chaohu Royal Spring North Phase 1.1 巢湖北區多層住宅 1 區 1 期	0.01	100%	0.01	2015
Guanlan Rose Garden 深業泰然觀瀾玫瑰院	0.15	38%	0.06	2015

Source(s): Company, ABCI Securities

**Exhibit 8: Upperhill**


Source(s): Fang.com

**Exhibit 9: Upperhill's ASP**


Source(s): Fang.com

**Exhibit 10: Shumyip Zhongcheng**


Source(s): Fang.com

**Exhibit 11: Chegongmiao Redevelopment Project**


Source(s): Fang.com

**Exhibit 12: Tanglang project**


Source(s): fang.com

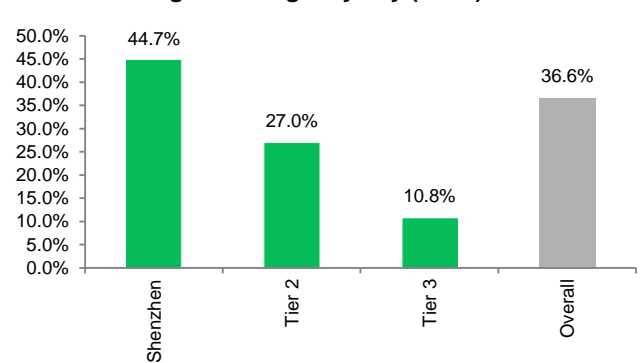
**Exhibit 13: Guanlan Rose Garden**


Source(s): fang.com

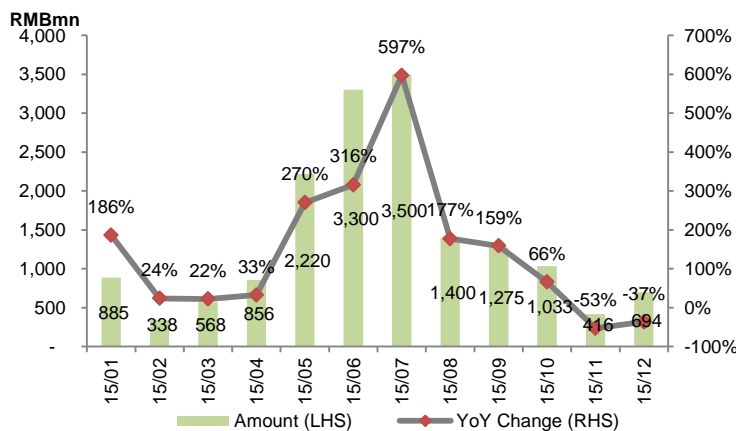
Due to strong presales performance in the Group's Shenzhen projects, revenue contribution from the region increased from 23% in 1H14 to 72% in 1H15. Given the higher ASP, gross margin for Shenzhen projects is high at 44.7%, as compared to 27.0% and 10.8% for projects in tier-2/3. On the back of active land acquisition in Shenzhen and disposal of projects in lower-tier cities, we expect SZI's gross margin to improve further in 2016-17.

**Exhibit 14: SZI's gross margin**

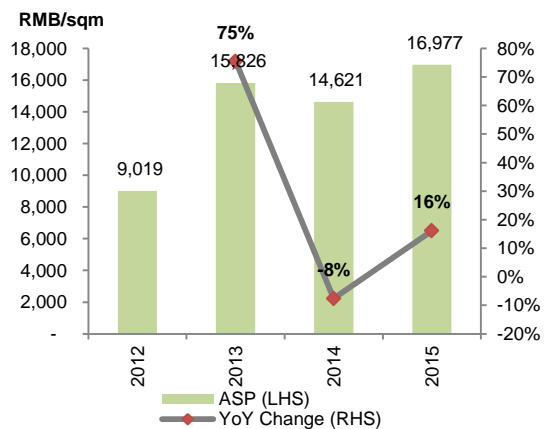

Source(s): Company, ABCI Securities

**Exhibit 15: SZI gross margin by city (1H15)**


Source(s): Company, ABCI Securities

**Exhibit 16: Monthly presales**


Source(s): Company, ABCI Securities

**Exhibit 17: ASP trend**


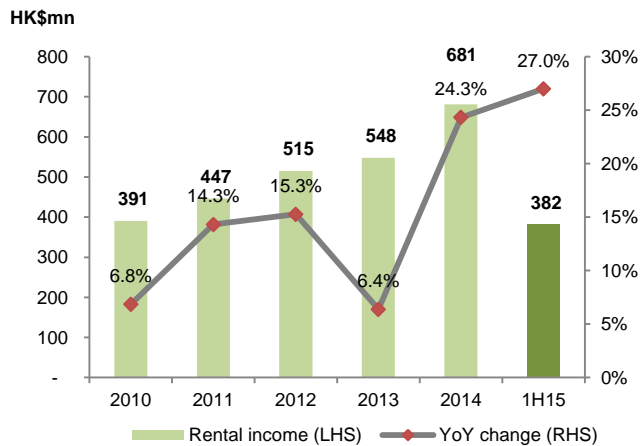
Source(s): Company, ABCI Securities

Going forward, SZI aims to achieve a sustainable growth of 20-30% in 2016 presale, with more than 70% to be contributed by Shenzhen projects. The Group also targets to grow its Shenzhen landbank to 4mn sqm in longer term, representing 40-50% of total existing landbank by GFA or 70% by value.

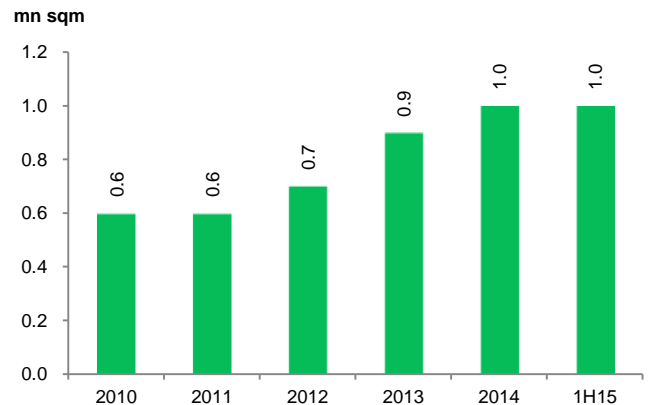
## #2: Steady rental income streams

As of June 2015, SZI has an investment property portfolio with a GFA of 1mn sqm in Shenzhen, generating HK\$ 681mn and HK\$ 382mn rental revenue in 2014 and 1H15, up 24.3%YoY and 27.0%YoY. Currently, the IP portfolio consists of numerous small-scale rental properties of different usages such as residential, commercial, office and industrial. Rental growth of 6-15% rate was registered in 2010-13. For 2014-1H15, SZI managed to achieve a YoY growth over 20% as the Shenzhen rental market turned active.

We expect the return of the IP portfolio will improve upon completion of high-end shopping malls and office space in larger scale mixed-use project UpperHills and Shumyip Zhongcheng. By adding 600k sqm of superior IP GFA to the portfolio, SZI targets to achieve RMB 2bn in rental income by 2018E.

**Exhibit 18: SZI rental income**


Source(s): Company; ABCI Securities

**Exhibit 19: GFA of SZI's IP**


Source(s): Company; ABCI Securities

**Exhibit 20: SZI's IP pipeline**

Key new IP	2015E	2016E	2017E	2018E
Qingshuihe Auto Park phase 2	40,000			
Taifu Square		60,000		
UpperHills Commercial			160,000	
UpperHills Office Tower and Hotel				240,000
Shumyip Zhongcheng			30,000	
<b>Total</b>	<b>40,000</b>	<b>60,000</b>	<b>190,000</b>	<b>240,000</b>

Source(s): Company, ABCI Securities estimates

## #3: Multiple channels to acquire land

SZI secures land in Shenzhen at a bargain price through multiple channels:

- 1) **Asset injection from parent:** As Shenzhen property price grows rapidly, land price rises. Private developers in Shenzhen either acquire expensive land in open auction and tendering, or participate in urban redevelopment to acquire land at a more reasonable price despite the lengthy process involved. Backed by its parent group, SZI has been able to increase its landbank through asset injection. The Group has been injected with one property package each year since 2013. So far, SZI has purchased a total of 1.5mn sqm in Shenzhen from its parent. Better yet, the transaction is usually attractively priced. For instance, the Upperhills project was acquired at RMB 11.4k/sqm, representing only 10% of the current ASP. Moreover, the transaction is financed by the new share issuance at 9-21%



premium to market share price. This has helped ease the financial burden of the Group

In Dec 2015, SZI announced the latest asset injection of Huangbeiling project (Shumyip Dongling) for RMB 1.9bn. The amount will be paid by cash while the net debt of RMB 2bn of the project will be taken up by SZI. The whole project has an estimated saleable GFA of 250k sqm, translating into a land cost of RMB 16.5k/sqm. The project has commenced construction (RMB 917mn incurred) and presale is scheduled to start in 2016.

**Exhibit 21: Asset injection from parents**

Date	Project	Estimated GFA	Stake	Attr. GFA	Consideration	Outstanding debt/land premium	Adjusted consideration	AV	Share issuance	Issue price	Premium to last close
		000 sqm	%	000 sqm	RMB mn	RMB mn	RMB mn	RMB/sqm	million	HK\$	%
		(i)	(ii)	(iii= i x ii)	<A>	<B>	<C= A+B>	<C/(iii)>			
Dec-15	Huangbeiling, Luohu District, Shenzhen	250	95%	238	1,914	2,000	3,914	16,480			
May-14	Shumyip Zhongcheng project	385	100%	385	5,589	2,444	8,033	20,877	1,062	3.28	21.0%
Jan-13	Upperhills	789	100%	789	4,150	4,820	8,970	11,370	1,400	3.67	9.1%

Source(s): Company, ABCI Securities

- 2) **Co-operation with sister company, SZ International:** Aside from land injection from parent, SZI may also secure new projects from sister company Shenzhen International (152 HK) on a JV basis. As at Dec 2014, SZ international has a total of 0.98 mn GFA (or 1.1mn sqm in site area) of warehousing/ logistics space in Shenzhen that could potentially transform into more profitable residential/ office space with a higher plot ratio. We expect negotiation with the government and land grant for the early phases to be finalized in the next 12-18 months.

**Exhibit 22: Urban redevelopment projects directly obtained by SZI**

Location	Logistic park in Shenzhen	Land area	GFA
		000 sqm	000 sqm
Longhua	South China Logistic Park	611	399
Qianhai	Western Logistic Park	380	420
Meilin	Huatongyuan Logistic Centre	116	133
Baoan	SZ Airport Express Center	32	28
<b>Total</b>		<b>1,139</b>	<b>980</b>

Source(s): Company, ABCI Securities

- 3) **Urban redevelopment:** Deeply rooted in Shenzhen, SZI secured two redevelopment projects with a total GFA of 480k sqm in 2013 and 2014. For the redevelopment in Chengongmiao, only 100k sqm of GFA has been secured so far. The total size of the project was 420k sqm under its development plan, hence SZI will acquire the remaining GFA in phases in the future.

**Exhibit 23: Urban redevelopment projects directly obtained by SZI**

Date	Project	Estimated GFA
		000 sqm
2014	Liantang Industrial Area, Luohu District,	380
2013	Chengongmiao redevelopment	100

Source(s): Company, ABCI Securities

- 4) **JV with Shenzhen Metro:** Having an SOE background has helped SZI to secure JV projects with the Shenzhen Metro. The Tanglang City projects are jointly developed by SZI and Shenzhen Metro on a 50-50 basis. As of Dec 2014, Shenzhen Metro had a land reserve of 3.83mn sqm in Shenzhen. We believe SZI would be able to participate in more Metro station development projects in the future.

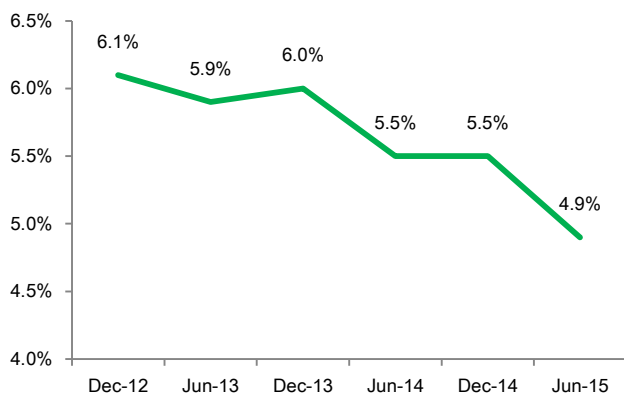
Through its various channels of land acquisition, we believe SZI's landbank would expand by 3mn sqm in GFA in Shenzhen over the next 3-5 years.

#### #4: Low finance cost

As an SOE, SZI's average borrowing cost is much lower than the private developers. In 1H15, SZI's average borrowing cost was 4.9%, down 0.6ppt HoH. Its finance cost should fall further in 2H15 after the 5-year loan facility of HK\$ 200mn at 4% obtained in May 2015. Besides, SZI's equity has been strengthened by new share placement of HK\$2.7bn (670mn shares at HK\$ 4.13, 9.1% dilution, 9.6% discount to last close) in June 2015, which helps enhance its credit profile. In the future, SZI may increase the proportion of RMB borrowing given the multiple rate cuts and active corporate bond market onshore.

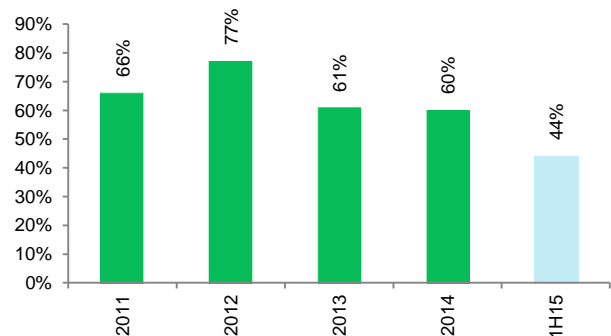
As SZI's parent may have a better credit rating in China, it could raise onshore corporate bond and lend the money to SZI at the same rate. This would reduce SZI's cost of debt further.

**Exhibit 24: SZI's average borrowing cost**



Source(s): Company, ABCI Securities

**Exhibit 25: SZI's net gearing**



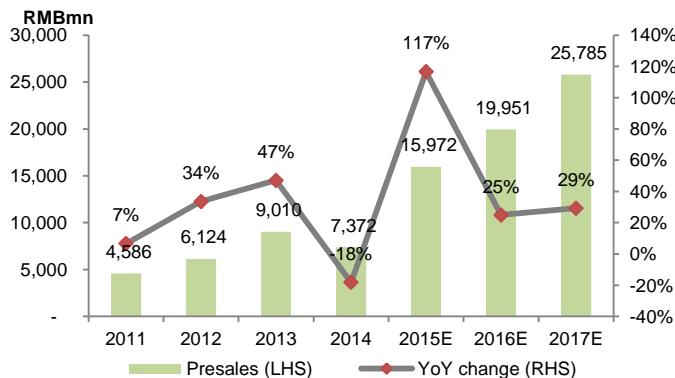
Source(s): Company, ABCI Securities



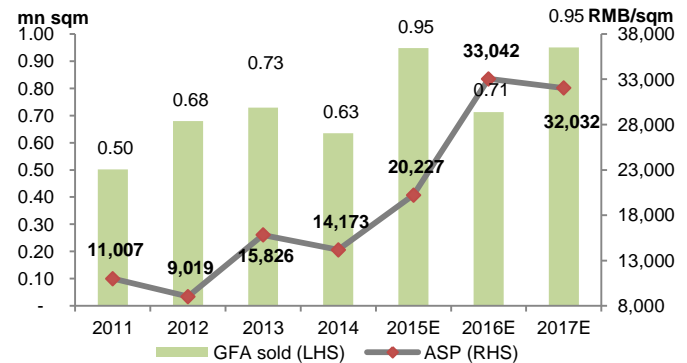
## Financial analysis

### Strong core profit growth at 42% CAGR in 2015-17E

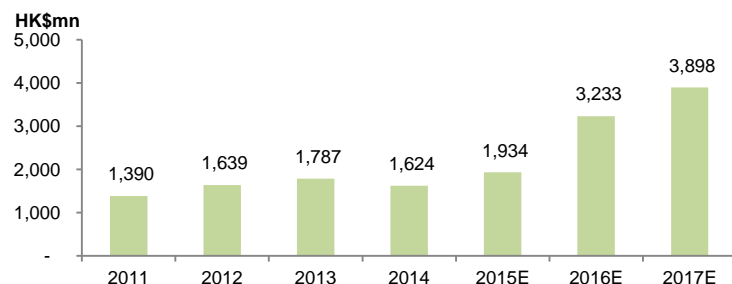
We expect SZI's presales to expand by 27% CAGR from RMB 15.9bn in 2015E to RMB 25.8bn in 2017E on the back of increasing saleable resources in Shenzhen. We expect presales for the Shum Yip Zhongcheng project and Chegongmiao redevelopment project would start in 2016, and the recently injected Huangbeiling project would start preselling in 2017. Driven by higher contribution from Shenzhen and ASP improvement, we expect gross and net margins to improve to 49.7% and 12.9% by 2017E from 37.5% and 9.1% in 2015E. We note that SG&A was high at 16.1% in 2014 after the acquisition of Nongke property package from parent (which contained the Zhongcheng project and non-property business). When Zhongcheng project is booked for profit, we expect the SG&A-to-sales ratio to fall and net margin to improve by 2016. On the back for fast-growing revenue and higher margins, we expect core profit to surge from HK\$1,934mn in 2015E to HK\$3,898mn in 2017E, implying a 42% CAGR.

**Exhibit 26: SZI's presales**


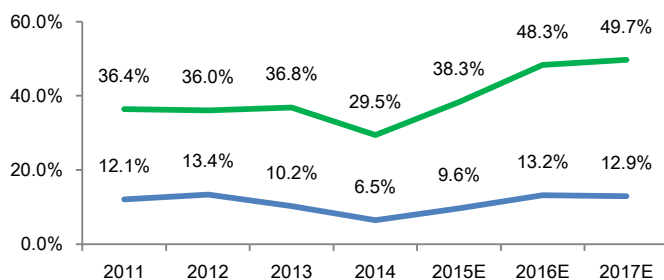
Source(s): Company, ABCI Securities estimates

**Exhibit 27: SZI's GFA sold and ASP**


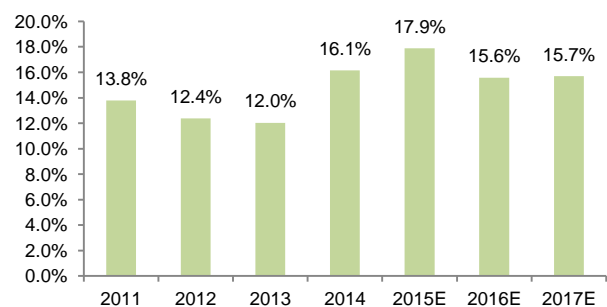
Source(s): Company, ABCI Securities estimates

**Exhibit 28: SZI's core net profit in 2012-17E (RMB mn)**


Source(s): Company, ABCI Securities estimates

**Exhibit 29: SZI's gross and net margins in 2010-16E**


Source(s): Company, ABCI Securities estimates

**Exhibit 30: SZI's SG&A-to-sales ratio**


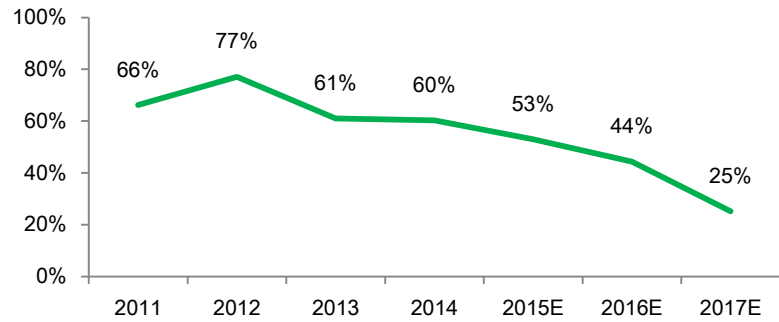
Source(s): Company, ABCI Securities estimates



### Gearing to decline on positive operating cash flow

We expect SZI's net gearing to fall from 60% in 2014 to 53% in 2015E, given the HK\$2.7bn of new share placement (at HK\$4.13, 9.6% discount to last close) in June 2015 and the healthy cash inflow generated by presale. In the future, we expect SZI to acquire land from parent by issuing new equity to parent (if stock market is weak) or institutional investors (when stock market is strong). In this way, SZI's balance sheet could strengthen further.

Exhibit 31: SZI's net gearing in 2012-17E



Source(s): Company, ABCI Securities estimates



## Initiate BUY with TP HK\$4.40; top pick in our Shenzhen property coverage

We assess the value of SZI using the discount-to-NAV method, one of the most common valuation metrics used by developers in China:

- **Property development:** We conduct a DCF analysis and apply a WACC of 9.4% to gauge the value of individual projects. The total value of property development projects arrives at HK\$ 62bn. The valuation translates into HK\$ 8,469/sqm for its total landbank or HK\$ 21,691/sqm for the projects in Shenzhen.
- **Investment properties:** We apply a cap rate of 6.0% on 2016E rental income to arrive at our estimate of HK\$ 15.2bn. This translates into HK\$ 13,824/sqm based on the 1.1mn sqm of investment properties.
- **Other investment:** We value SZI's listed equity investment based on the market price. Its 28% stake in Roadking therefore has a value of HK\$ 1.4bn and for its 15% stake in Coastal Greenland has a value of HK\$ 119mn.

Overall, Shenzhen property assets represent 79% of our gross asset value forecast. We subtract the GAV of HK\$ 78.6bn by our 2016E net debt estimate (HK\$ 21.8bn) to derive our end-FY16E NAV of HK\$56,861 mn, or HK\$8.73/share.

We apply a 50% discount to our NAV estimate to derive our TP (HK\$4.40), which is the lower end of China property sector (sector average: 60%), given its SOE background and high exposure in tier-1 regions. SZI is our top BUY in our Shenzhen property coverage universe as the Group differentiates from its peers with a low land cost enabled by asset injection and redevelopment projects. Initiate **BUY**.

Exhibit 32: SZI's 2016E NAV

	Attr. GFA (M sqm)	Net assets value (HKD m)	% of total	Valuation Methodology	Implied value per sqm (HKD)
<b>Property development</b>					
Shenzhen	2.2	47,348	60%	DCF at WACC of 9.4%	21,691
Huizhou	1.7	3,082	4%		1,784
Shunde	0.4	1,645	2%		3,727
Wuhan	0.7	1,340	2%		2,015
Changsha	0.4	468	1%		1,305
Others	2.3	8,051	10%		3,506
<b>Subtotal</b>	<b>7.3</b>	<b>61,934</b>	<b>79%</b>		<b>8,469</b>
<b>Investment properties</b>					
	1.1	15,207	19%	6% Cap rate on 2016E net rental income	13,824
Roadking (1098 HK)		1,367	2%	Mkt value	
Coastal Greenland (1124 HK)		119	0%	Mkt value	
<b>Total 2016E GAV</b>		<b>78,626</b>	<b>100%</b>		
2016E Net debt		(21,765)	-28%		
<b>Total 2016E NAV</b>		<b>56,861</b>	<b>72%</b>		
No. of share outstanding		6,510			
<b>NAV per share (HKD)</b>		<b>8.73</b>			
Target discount (%)		50%			
<b>Target Price (HKD)</b>		<b>4.40</b>			
<b>WACC</b>					
WACC		9.4%			
Cost of debt		6.0%			
Cost of Equity		15.0%			
<b>Debt/ (Debt + Equity)</b>		<b>53%</b>			

Source(s): Company, ABCI Securities estimates



## Risk factors

- **FX loan exposure.** Offshore debt (mainly in US\$/HK\$) of HK\$12.3bn represented 40.1% of total borrowing as of June 2015, which may not be desirable given a depreciating RMB trend. However, SZI will increase onshore debt borrowing to mitigate such risk.
- **Placement risk.** As we expect more asset injection from parent over the next few years, SZI may fund the transaction by issuing new shares to the market and consequently diluting the EPS. Having said that, the placement will prevent the Group from excessive borrowing.
- **Impairment loss on lower-tier cities.** SZI planned to dispose projects in Maanshan, Changzhou, Taizhou, Jiangyan, Sanshui and Heyuan, respectively. These projects have a total site area of ~2.7 mn sqm and a GFA of 4.3mn sqm. As market value of some of these projects had fallen below its book value, SZI made an impairment of HK\$ 457mn in FY14. Due to housing oversupply in lower tier cities, further impairments of these projects may incur.



**Consolidated income statement (2013A-2017E)**

<b>FY Ended Dec 31 (HK\$ mn)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>
<b>Revenue</b>	<b>9,779</b>	<b>13,827</b>	<b>15,740</b>	<b>21,684</b>	<b>27,648</b>
Cost of sales	(6,177)	(9,754)	(9,711)	(11,209)	(13,895)
<b>Gross Profit</b>	<b>3,602</b>	<b>4,073</b>	<b>6,029</b>	<b>10,475</b>	<b>13,752</b>
SG&A expenses	(1,176)	(2,232)	(2,817)	(3,375)	(4,338)
<b>EBIT</b>	<b>2,426</b>	<b>1,841</b>	<b>3,212</b>	<b>7,100</b>	<b>9,414</b>
Finance cost	(636)	(743)	(802)	(802)	(802)
Share of profit of associates	1,051	697	491	489	460
Other income/ (expenses)	742	907	919	387	292
Fair value gain of investment properties	625	1,609	0	0	0
Disposal/one-off items	869	1,542	0	0	0
<b>Profit before tax</b>	<b>5,077</b>	<b>5,853</b>	<b>3,821</b>	<b>7,173</b>	<b>9,364</b>
Tax	(1,976)	(2,349)	(1,813)	(3,823)	(5,332)
<b>Profit after tax</b>	<b>3,101</b>	<b>3,504</b>	<b>2,008</b>	<b>3,350</b>	<b>4,033</b>
Minority interest	(373)	(375)	(74)	(117)	(135)
<b>Reported net profit</b>	<b>2,728</b>	<b>3,129</b>	<b>1,934</b>	<b>3,233</b>	<b>3,898</b>
Less: exceptional items	(942)	(1,505)	0	0	0
<b>Underlying net profit</b>	<b>1,787</b>	<b>1,624</b>	<b>1,934</b>	<b>3,233</b>	<b>3,898</b>
<b>Per share</b>					
Underlying EPS (HK\$)	0.38	0.28	0.30	0.50	0.60
DPS (HK\$)	0.19	0.16	0.15	0.25	0.30
Payout ratio (%)	49%	58%	50%	50%	50%
BVPS (HK\$)	5.31	5.07	5.13	5.37	5.67
<b>Growth %</b>					
Revenue	14.1%	41.4%	13.8%	37.8%	27.5%
Gross Profit	16.6%	13.1%	48.0%	73.7%	31.3%
EBIT	19.6%	-24.1%	74.5%	121.0%	32.6%
Underlying net profit	9.0%	-9.1%	19.0%	67.2%	20.6%
<b>Margin %</b>					
Gross margin	36.8%	29.5%	38.3%	48.3%	49.7%
Gross margin (post-LAT)	15.5%	14.5%	19.6%	27.4%	29.9%
EBIT margin	24.8%	13.3%	20.4%	32.7%	34.1%
Core net margin	10.2%	6.5%	9.6%	13.2%	12.9%
<b>Key assumptions</b>					
Contracted Sales (HK\$ mn)	11,545	8,994	19,166	23,543	30,427
GFA sold (mn sqm)	0.73	0.63	0.95	0.71	0.95
ASP (HK\$/sqm)	15,826	14,173	20,227	33,042	32,032
Booked Sales (HK\$ mn)	7,205	10,938	12,585	18,253	23,767
GFA delivered (mn sqm)	0.54	0.76	0.72	0.66	0.66
Booked ASP (HK\$/sqm)	13,378	14,443	17,426	27,532	36,177

Source: Company, ABCI Securities estimates



**Consolidated balance sheet (2013A-2017E)**

<b>As of Dec 31 (HK\$ mn)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>
<b>Current assets</b>	<b>49,719</b>	<b>59,686</b>	<b>60,050</b>	<b>62,504</b>	<b>69,303</b>
Cash	6,534	8,375	8,739	11,194	17,993
Restricted cash	927	1,282	1,282	1,282	1,282
Trade & other receivables	416	715	715	715	715
Properties under development	28,357	30,795	30,795	30,795	30,795
Properties held for sale	8,344	14,708	14,708	14,708	14,708
Inventories	126	136	136	136	136
Other current assets	13,484	18,519	18,519	18,519	18,519
<b>Non-current assets</b>	<b>27,173</b>	<b>34,819</b>	<b>44,603</b>	<b>45,827</b>	<b>44,043</b>
Property, plant & equipment	2,698	3,421	3,383	3,341	3,294
Properties under development	-	-	9,330	10,107	7,911
Investment properties	15,300	20,019	20,019	20,019	20,019
Investment in Associate and JCE	6,274	8,039	8,530	9,019	9,479
Other non-current assets	2,902	3,341	3,341	3,341	3,341
<b>Total Assets</b>	<b>76,892</b>	<b>94,505</b>	<b>104,653</b>	<b>108,331</b>	<b>113,346</b>
<b>Current Liabilities</b>	<b>30,817</b>	<b>34,843</b>	<b>41,233</b>	<b>43,227</b>	<b>46,209</b>
Short term borrowings	12,122	12,057	12,057	12,057	12,057
Trade & other payables	5,047	10,525	10,525	10,525	10,525
Pre-sales deposits	6,116	3,765	10,155	12,149	15,131
Other current liabilities	7,531	8,496	8,496	8,496	8,496
<b>Non-current liabilities</b>	<b>18,496</b>	<b>26,888</b>	<b>26,888</b>	<b>26,888</b>	<b>26,888</b>
Long term borrowings	12,168	17,342	17,342	17,342	17,342
Other payables	1,221	1,736	1,736	1,736	1,736
Other non-current liabilities	5,107	7,811	7,811	7,811	7,811
<b>Total Liabilities</b>	<b>49,312</b>	<b>61,731</b>	<b>68,121</b>	<b>70,115</b>	<b>73,097</b>
<b>Net Assets</b>	<b>27,579</b>	<b>32,774</b>	<b>36,532</b>	<b>38,215</b>	<b>40,249</b>
<b>Shareholders' Equity</b>	<b>25,338</b>	<b>30,496</b>	<b>34,230</b>	<b>35,846</b>	<b>37,795</b>
Perpetual Convertible Securities	-	-	-	-	-
Minority Interest	2,242	2,278	2,302	2,369	2,454
<b>Total Equity</b>	<b>27,579</b>	<b>32,774</b>	<b>36,532</b>	<b>38,215</b>	<b>40,249</b>
<b>Key ratio</b>					
Gross debt (HK\$m)	24,289	29,399	29,399	29,399	29,399
Net debt (HK\$m)	16,828	19,741	19,377	16,923	10,124
Net gearing (%)	61%	60%	53%	44%	25%
Contracted sales/ Total assets (x)	0.15	0.10	0.18	0.22	0.27

Source(s): Company, ABCI Securities estimates



**Consolidated cash flow statement (2013A-2017E)**

<b>FY ended Dec 31 (HK\$ mn)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>
EBITDA	2,549	1,990	3,366	7,258	9,578
Change in Working Capital	(1,890)	718	(1,753)	2,404	6,365
Tax payment	(793)	(1,074)	(1,813)	(3,823)	(5,332)
<b>Operating Cash flow</b>	<b>(134)</b>	<b>1,634</b>	<b>(200)</b>	<b>5,839</b>	<b>10,611</b>
Purchase of PP&E	(203)	(117)	(117)	(117)	(117)
Addition of Investment Properties	(517)	(359)	0	0	0
Investment in Associate/ JCE	(1)	(1,520)	0	0	0
Proceeds from Disposals	0	0	0	0	0
Others	710	(435)	919	387	292
<b>Investing Cash flow</b>	<b>(10)</b>	<b>(2,431)</b>	<b>803</b>	<b>270</b>	<b>176</b>
Debt raised	15,113	20,780	10,000	10,000	10,000
Debt repaid	(13,880)	(15,382)	(10,000)	(10,000)	(10,000)
Interest expenses	(1,587)	(1,850)	(1,989)	(1,989)	(1,989)
Equity raised	0	0	0	0	0
Convertible securities coupon payments	25	4	0	0	0
Dividend to shareholders	(276)	(324)	(967)	(1,616)	(1,949)
Others	660	(702)	2,717	(50)	(50)
<b>Financing Cash flow</b>	<b>55</b>	<b>2,527</b>	<b>(239)</b>	<b>(3,656)</b>	<b>(3,988)</b>
<b>Net cash inflow/ (outflow)</b>	<b>(89)</b>	<b>1,730</b>	<b>364</b>	<b>2,454</b>	<b>6,799</b>
Cash- beginning	6,734	6,645	8,375	8,739	11,194
<b>Cash- year-end</b>	<b>6,645</b>	<b>8,375</b>	<b>8,739</b>	<b>11,194</b>	<b>17,993</b>

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.

### Disclosures of Interests

ABC Securities Company Limited and/or its affiliates, within the past 12 months, have investment banking relationship with one or more of the companies mentioned in the report.

### Definition of equity rating

Rating	Definition
Buy	Stock return $\geq$ Market return rate
Hold	Market return - 6% $\leq$ Stock return < Market return rate
Sell	Stock return < Market return - 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2010-2014

Time horizon of share price target: 12-month

### Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

### Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is





determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

---

Copyright 2016 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

**Office address: ABCI Securities Company Limited, 13/F Fairmont House,  
8 Cotton Tree Drive, Central, Hong Kong.  
Tel: (852) 2868 2183**