China Property Sector
Shenzhen players set to outperform

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Sector Rating: Overweight

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- The Shenzhen Centa leading index rose 59% in 2015, indicating strong property demand in the region
- New land supply has been shrinking for last 5 years. This has led to demand-supply imbalance.
- We initiate **BUY** on **SZI (604 HK)** and **LVGEM (95 HK)**. **SZI** is our top pick among Shenzhen players given its cheap land resources from parent and low finance cost enabled by its SOE background. We also recommend **BUY** on Logan and LVGEM based on the former's fastest asset turnover and the latter's high exposure to the Shenzhen market

Key Data

Avg.16E P/E (x)	4.7
Avg.16E P/B (x)	0.7
Avg.16E Dividend Yield (%)	6.6

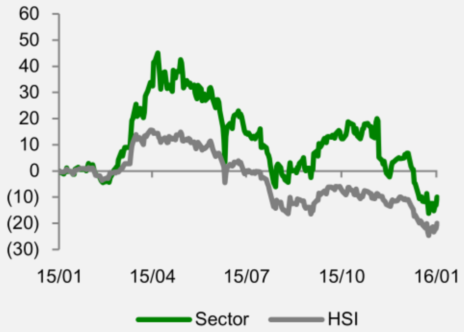
Source(s): ABCI Securities estimates

Sector performance (%)

	Absolute	Relative*
1-mth	0.82	3.55
3-mth	4.72	11.23
6-mth	(17.73)	1.87

* Relative to Hang Seng Index
Source(s): Bloomberg, ABCI Securities

1-Year Sector performance (%)



Source(s): Bloomberg, ABCI Securities

Demand supply imbalance. Shenzhen's property market has been reviving since early 2015. The Shenzhen Centa leading index, a property price index based on the transaction prices of major second-hand property projects in Shenzhen, rose 59% in 2015. In fact, Shenzhen's property price has been growing the fastest among the Chinese cities. However, new land supply falls short of the demand and has been diminishing since 2010 for five consecutive years. The supply in 2015 was 4.83mn sqm, equivalent to only 46% of that in 2010 (10.43mn sqm).

A market sensitive to rate cut: Mortgage buyers represent 90% of total home purchases in Shenzhen, according to the statistics from real estate agency, Lianjia. After the six rate cuts in China since Nov 2014, monthly mortgage installments, based on the falling 5-year PBOC loan rate, reduced by 16% on average. Successive rate cuts have strengthened the purchasing power of Shenzhen's property buyers.

Prefer Shenzhen players. We expect developers with high exposure to Shenzhen to benefit from this rising property price in the city. These include:

1) SZI (604 HK) - an SOE player with multiple land acquisition channels. SZI has the largest landbank (2.2mn sqm in Shenzhen) and presales in the area by absolute amount (RMB11.1bn in Shenzhen). We regard SZI as our top pick among property players in Shenzhen given 1) its capability to acquire land at low cost through its parent, urban redevelopment and JVs with other SOEs; 2) low cost of debt based on its SOE background. Initiate **BUY,** TP HK$4.40.

2) Logan (3380 HK) –fastest asset turnover by focusing on first-home buyers. Logan has higher presales and net profit (in absolute amount) than SZI and LVGEM. However, Shenzhen only accounts for 8% of landbank and 20% of presales of the Group. Some of its non-Shenzhen projects, such as the Logan City in Huizhou, nonetheless attracted first-home buyers from Shenzhen. We like Logan for its strong presales performance (+54% YoY to RMB20.5bn) in 2015. Its balance sheet has further improved after new share placement of HK$1.55bn. However, we lower our TP to HK$ 4.50 (from HK$ 4.70), mainly on the dilution effect of share issuance. Maintain **BUY.**

3) LVGEM (95 HK) - a niche player in Shenzhen. Although LVGEM has the lowest revenue and net profit compared to SZI and Logan, we estimate close to 100% of LVGEM's presales are generated from Shenzhen, meaning that the Group has been benefiting immensely from the rising property market in Shenzhen. Ten out of its 16 completed projects are obtained through urban redevelopment and had a high gross margin (2014: 46.4%) because of the low land cost. Initiate **BUY** with TP of HK$ 2.90.

Sector Valuation Summary (data as of Feb 2, 2016)

Company	Ticker	Current Rating	Previous Rating	Price (HK$)	TP (HK$)	FY15E P/E(x)	FY16E P/E (x)	FY15E P/B (x)	FY16E P/B (x)	FY15E Yield (%)	FY16E Yield (%)
SZI	604	BUY	NA	2.89	4.40	9.7	5.8	0.6	0.5	5.1	8.6
LVGEM	95	BUY	NA	2.01	2.90	48.2	7.7	1.9	1.7	0.0	4.5
Logan	3380	BUY	BUY	2.28	4.50	5.3	4.8	0.8	0.7	5.7	6.6

Source(s): Companies, ABCI Securities estimates

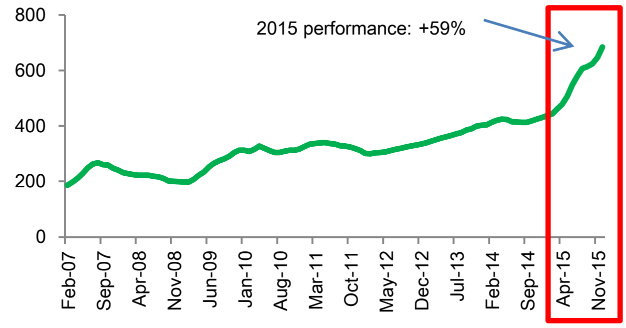
Contents

Demand supply imbalance

- **Strong underlying demand.** Shenzhen's property market has been heating up since early 2015. The Shenzhen Centa Leading Index, a property price index based on the transaction prices of major second-hand property projects in Shenzhen, rose 59% in 2015. Based on NBS data, Shenzhen's new home price and secondary home prices also went up by 47.3% and 42.5% in 2015, outperforming the other first-tier cities by 34.7ppt and 27.7ppt.

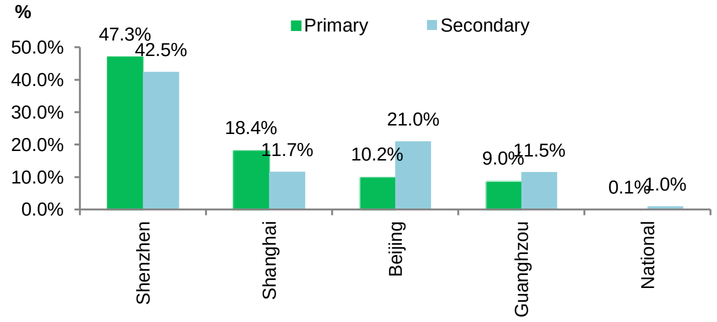
  We believe the key drivers for Shenzhen property demands have been : **1) increasing number of finance and high tech talents.** Some of the largest financials and IT firms, such as China Merchant Bank, Ping An, Tencent, and Huawei, have chosen Shenzhen to be their headquarters, attracting more affluent Financial/IT talents from different parts of China to relocate in the city. Rising number of middle-class population has become a major driver for mid-/higher-end residential projects. **2) The least polluted tier-1 city**. Situated in southern China with a long coastal line, Shenzhen was ranked 46th best city out of 366 cities in terms of air quality in 2015 (Guangzhou: 105th; Shanghai: no. 222nd; Beijing:339th), based on the PM2.5 density statistics prepared by Green Peace. As factories in the Guangdong province are migrating to western China for lower labor cost, Shenzhen's air quality is unlikely to deteriorate significantly going forward. People seeking for better career prospects and living environment may prefer to settle in Shenzhen over the other tier-1 cities.

Exhibit 1: Shenzhen Centa leading index



Source(s): Centaline

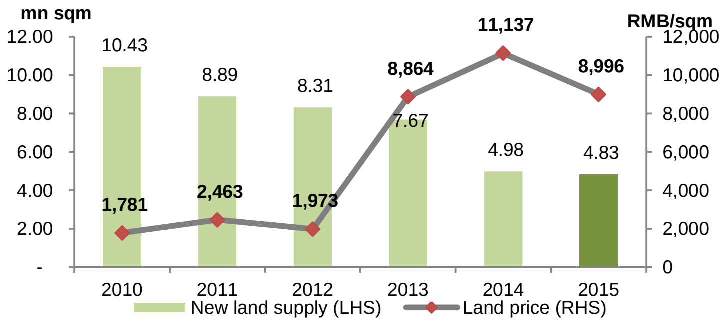
Exhibit 2: Shenzhen property price increase in 2015 (Dec 15 vs. Dec 14)



Source(s): NBS

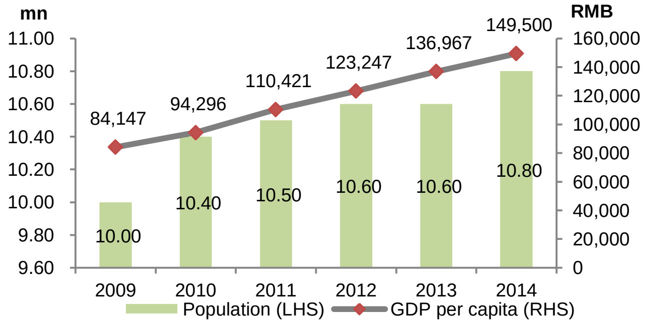
- **Structural land supply shortage.** New land supply has been diminishing since 2010 for five consecutive years. Supply in 2015 was 4.83mn sqm, equivalent to ~46% of that in 2010 (10.43mn sqm). Growth in land supply has been lower than that of the population (+1.6% CAGR in 2009-14) and economy (GDP per capita: +12.2% CAGR in 2009-14).

Exhibit 3: Shenzhen's land sales



Source(s): CRIC

Exhibit 4: Shenzhen's population and GDP per capita



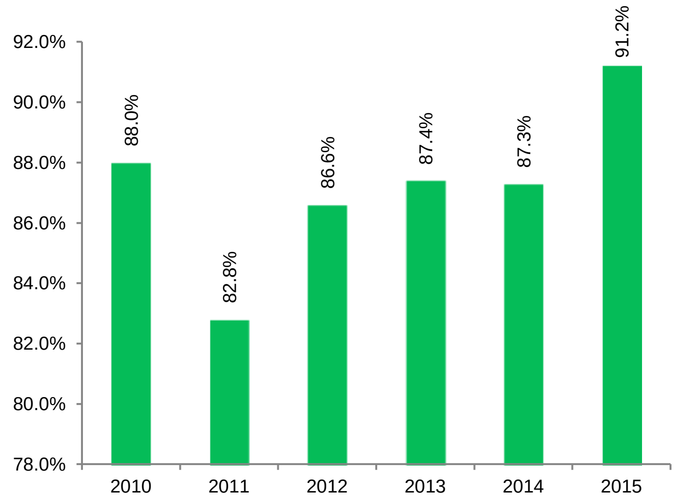
Source(s): Shenzhen Statistics Bureau

A market sensitive to rate cut

Given the high property price in Shenzhen, mortgage buyers represent close to 90% of total home purchases based on the statistics from real estate agency, Lianjia. After the six rate cuts in China since Nov 2014, the monthly mortgage installment reduced by 16% on the falling 5-year PBOC loan rate. National mortgage loan growth also reached 27% YoY in Dec 2015 from 0-10% YoY in 1H15. A low interest rate environment is highly favorable to the mortgage-driven housing market in Shenzhen.

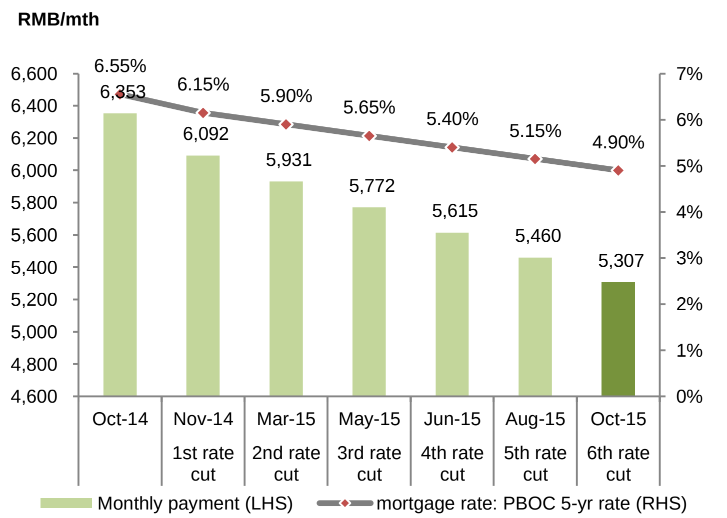
However, Shenzhen's investment demand is growing at the same time. Proportion of property investors rose from 9.2% in 2010 to 26.7% in 2015. Should there be a property downturn, investors may cut price aggressively to dispose the property holdings for loan repayment. Such panic selling could trigger a material downward correction in property prices.

Exhibit 5: Proportion of mortgage buyers in Shenzhen



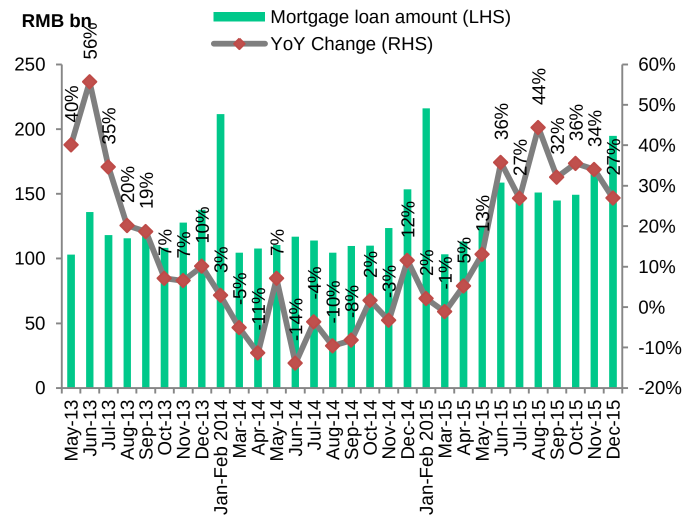
Source(s): Lianjia

Exhibit 6: Monthly mortgage payment dwindles after multiple rate cuts



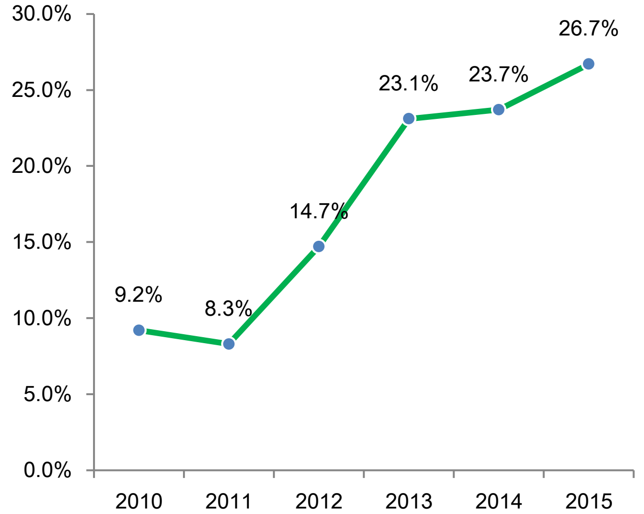
*Calculated based on RMB1mn mortgage loan, 30 year term
Source(s): Rong360.com

Exhibit 7: Mortgage loan growth in China



Source(s): NBS, ABCI Securities

Exhibit 8: Proportion of investors among property buyers in Shenzhen

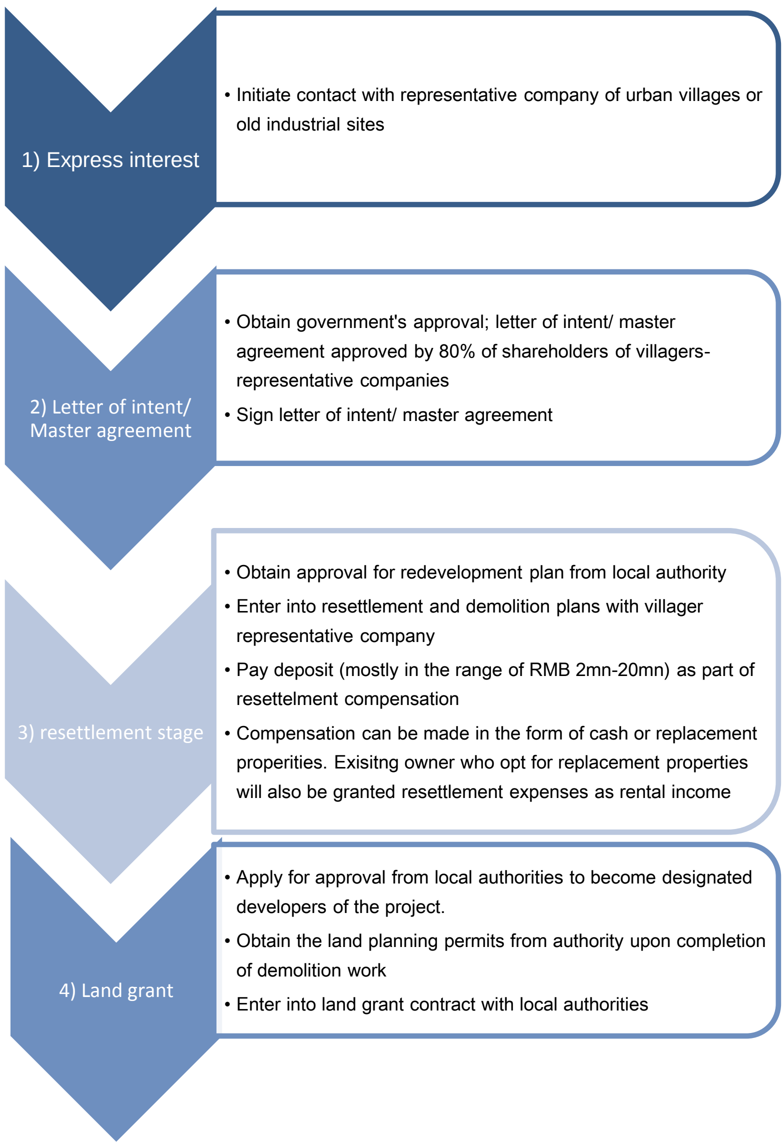


Source(s): Lianjia

Urban redevelopment in Shenzhen

Due to the slow land sales, Shenzhen provides favorable terms to developers for urban redevelopment. Urban redevelopment projects tend to have a low land cost and initial capital cash outflow. According to urban redevelopment policy in Shenzhen, for a GFA below a 2.5x plot ratio, no land premium will be applied; for a GFA of a 2.5x-4.5x plot ratio, a payment equivalent to 20% of the benchmark land premium will be needed; for a GFA with a plot ratio exceeding 4.5x, a 100% land premium will be paid. For a typical project with a 10x plot ratio, we estimate a land premium equivalent to 65% of the market rate will be applied. Shenzhen players, with many participating in major redevelopment projects, therefore have a higher gross margin exceeding 35%, as compared to the peer average of 25-30%.

Exhibit 9: Process of urban redevelopment project



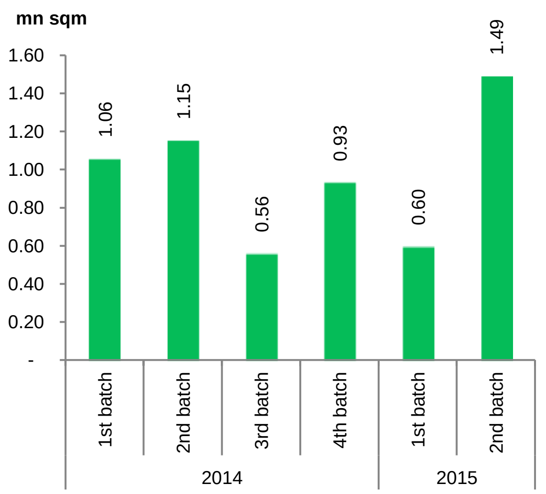
Source(s): LVGEM, ABCI Securities

Exhibit 10: Land premium for redevelopment project in Shenzhen

Urban villages	
Plot ratio	% of benchmark land premium to be paid
<2.5x	0%
2.4-4.5x	20%
>4.5x	100%
Old industrial sites	
Plot ratio	% of benchmark land premium to paid
Additional GFA built (for industrial use)	50%
Additional GFA built (for residential/ commercial use)	100%

Source(s): LVGEM, ABCI Securities

Exhibit 11: Land area approved by the Shenzhen City Renewal Plan (深圳市城市更新单元计划)



Source(s): Urban Planning, Land and Resoruces Commission of Shenzhen, ABCI Securities

Initiate SZI as our top pick in Shenzhen

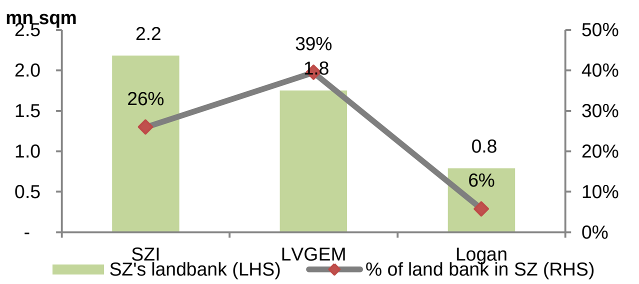
The three major HK-listed Shenzhen developers covered in this report differentiate themselves from other players in the following ways:

- **SZI (604 HK) -** SZI, with a SOE background, has the largest landbank in Shenzhen (2.2mn sqm) and presales in the area by absolute amount (RMB11.1bn). SZI as our top pick among other Shenzhen property players because of 1) its capability to acquire land at low cost through its parent, urban redevelopment and JVs with other SOEs; 2) low cost of debt based on its SOE background. Initiate **BUY** with TP at HK$4.40.

- **Logan (3380 HK) -** Logan has the highest total presales and net profit in absolute amount compared to the two other developers, although Shenzhen currently only accounts for 8% of its landbank and 20% of presales. Its project in Huizhou, Logan City, attracted a substantial amount of first-home buyers from Shenzhen. We like Logan for its strong presales performance in 2015 (+54% YoY to RMB 20.5bn); its balance sheet has also improved after its new share placement amounting to HK$1.55bn. We lower our TP to HK$4.50 (from HK$4.70) mainly on the dilution effect of the share issuance. Maintain **BUY.**

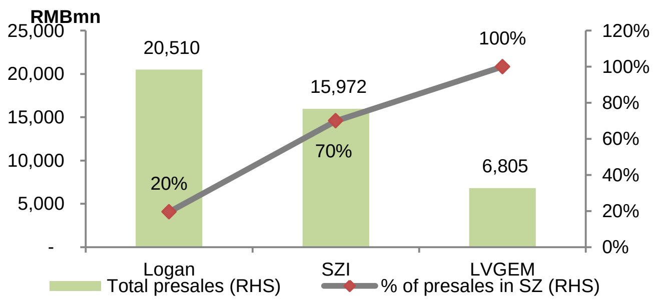
- **LVGEM (95 HK) -** LVGEM is a niche player in Shenzhen with a specialty in urban redevelopment. After recent asset injection in Nov 2015, Vanke and Ping An have become its strategic investors. Based on our estimate, almost all of LVGEM's presales are generated from Shenzhen and therefore is highly sensitive to changes in the region's property market. Initiate **BUY** with TP at HK$ 2.90.

Exhibit 12: Proportion of landbank from Shenzhen (2015E)



Source(s): Company, ABCI Securities estimates

Exhibit 13: Proportion of presales from Shenzhen (2015E)



Source(s): Company, ABCI Securities estimates

Exhibit 14: Key metrics of major Shenzhen developers

	LVGEM			Shenzhen International			Logan		
	95 HK			604 HK			3380 HK		
	2014	2013	YoY chg	2014	2013	YoY chg	2014	2013	YoY chg
	RMBmn	RMBmn	%	HK$mn	HK$mn	%	RMBmn	RMBmn	%
Revenue	**4,851**	**1,971**	***146%***	**13,827**	**9,779**	***41%***	**12,498**	**11,119**	***12%***
Gross profit	**2,357**	**810**	***191%***	**4,073**	**3,602**	***13%***	**3,804**	**4,116**	***-8%***
Gross margin	*48.6%*	*41.1%*	*+7.5ppt*	*29.5%*	*36.8%*	*-7.4ppt*	*30.4%*	*37.0%*	*-6.6%*
Core profit	**1,200**	**273**	***340%***	**1,624**	**1,787**	***-9%***	**1,760**	**2,045**	***-14%***
Core net margin	*24.7%*	*13.9%*	*+10.9ppt*	*11.7%*	*18.3%*	*-6.5ppt*	*14.1%*	*18.4%*	*-4.3%*
Net gearing	**88.5%**	**84.8%**	***+3.7ppt***	**60.2%**	**61.0%**	***-0.8ppt***	**65.7%**	**60.9%**	*+4.8ppt*
Rental income (RMB mn)	**352**	**271**	***30%***	**681**	**547**	***24%***	**55**	**60**	***-9%***

Source(s): Companies, ABCI Securities

Exhibit 15: Valuation table

	China Property	Ticker	Rating	TP	Mkt cap (HKD bn)	Share Price (local ccy)	Performance 3M % Chg	YTD % Chg	2015 % Chg	Discount to NAV (%)	Valuation P/E 2014A	P/E 2015E	P/E 2016E	Yield (%) 2014A	Yield (%) 2015E	Yield (%) 2016E	P/B 2014A	P/B 2015E	P/B 2016E
	Residential :																		
1	Wanda	3699 HK	BUY	78.10	159.8	35.30	(31)	(22)	(7)	(77.39)	7.5	8.1	5.9	3.2	3.7	5.1	0.7	0.8	0.8
2	COLI	688 HK	BUY	32.00	218.4	22.15	(14)	(19)	22	(21.63)	7.6	7.4	5.3	2.5	2.7	3.8	1.4	1.0	0.9
3	Vanke-H	2202 HK	NR		303.7	17.30	(4)	(24)	30	(25.59)	15.2	9.0	7.6	3.4	3.9	4.5	1.8	1.6	1.4
4	CR Land	1109 HK	NR		128.1	18.48	(11)	(18)	13	(47.37)	10.9	8.8	7.6	2.7	2.9	3.4	1.1	1.0	0.9
5	Evergrande	3333 HK	BUY	8.30	69.6	5.09	(14)	(25)	143	(63.31)	27.2	7.7	4.6	10.0	6.5	11.0	0.6	0.6	0.6
6	Country Garden	2007 HK	NR		67.8	3.00	2	(6)	11	(49.12)	6.2	5.7	5.1	5.8	5.6	6.1	0.9	0.8	0.7
7	Longfor	960 HK	NR		55.5	9.52	(12)	(18)	19	(46.39)	7.1	6.3	5.7	3.5	3.7	4.0	0.9	0.8	0.8
8	Shimao	813 HK	NR		35.8	10.32	(24)	(25)	(15)	(62.64)	3.8	3.7	3.4	8.2	8.2	8.7	0.6	0.6	0.5
9	Sino Ocean	3377 HK	NR		28.3	3.77	(14)	(24)	18	(61.13)	6.7	6.4	5.6	5.9	6.3	7.0	0.5	0.5	0.5
10	Guangzhou R&F	2777 HK	NR		27.2	8.44	10	(12)	6	(52.22)	6.5	4.2	3.8	0.0	7.7	8.1	0.6	0.5	0.5
11	**SZI**	**604 HK**	**BUY**	**4.40**	**21.3**	**2.89**	**(6)**	**(20)**	**70**	**(66.91)**	**10.4**	**9.7**	**5.8**	**5.5**	**5.1**	**8.6**	**0.6**	**0.6**	**0.5**
12	Sunac	1918 HK	BUY	9.40	16.2	4.78	0	(20)	(22)	(82.19)	3.6	4.5	3.5	4.7	4.0	5.2	0.8	0.7	0.6
13	Agile	3383 HK	NR		14.4	3.67	(13)	(15)	2	(67.07)	3.1	3.7	3.5	10.1	7.1	7.7	0.4	0.3	0.3
14	Yuexiu Properties	123 HK	NR		13.9	1.12	(17)	(16)	(7)	(63.28)	7.5	6.4	5.7	6.4	5.7	6.8	0.4	0.4	0.4
15	KWG	1813 HK	NR		14.9	4.97	(12)	(14)	14	(71.11)	4.6	4.2	3.6	7.8	8.0	9.0	0.6	0.5	0.5
16	Greentown	3900 HK	HOLD	6.60	12.9	5.95	(11)	(23)	0	(64.21)	5.9	3.5	3.6	0.0	7.9	8.9	0.5	0.4	0.4
17	**Logan**	**3380 HK**	**BUY**	**4.50**	**12.7**	**2.28**	**(31)**	**(13)**	**13**	**(74.75)**	**5.5**	**5.3**	**4.8**	**4.8**	**5.7**	**6.6**	**0.9**	**0.8**	**0.7**
18	**LVGEM**	**95 HK**	**BUY**	**2.90**	**9.4**	**2.01**	**(19)**	**(17)**	**9**	**(65.21)**	**6.7**	**48.2**	**7.7**	**0.0**	**0.0**	**4.5**	**1.2**	**1.9**	**1.7**
19	CIFI	884 HK	BUY	2.20	10.1	1.52	(10)	(12)	21	(72.09)	4.0	3.9	3.5	7.2	7.9	8.6	0.8	0.7	0.6
20	BJ Capital Land	2868 HK	NR		8.5	2.82	(24)	(21)	29	(48.73)	5.7	3.0	2.6	10.4	8.7	9.4	0.5	na	na
21	COGO	81 HK	NR		5.9	2.60	6	(21)	(17)	(71.86)	4.8	3.8	3.0	1.9	2.2	2.7	0.5	0.4	0.4
	HK Listed Avg						**(12)**	**(18)**	**17**	**(59.72)**	**7.6**	**7.7**	**4.8**	**5.0**	**5.4**	**6.6**	**0.8**	**0.7**	**0.7**
	- Large cap (>HKD30b) avg						**(14)**	**(20)**	**27**	**(49.18)**	**10.7**	**7.1**	**5.7**	**4.9**	**4.6**	**5.8**	**1.0**	**0.9**	**0.8**
	- Small-mid cap (<HKD30b) avg						**(11)**	**(18)**	**11**	**(66.21)**	**5.6**	**8.1**	**4.3**	**5.0**	**5.9**	**7.1**	**0.6**	**0.6**	**0.6**

* Data as at Feb 2, 2016
Source(s): Bloomberg, ABCI Securities estimates

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

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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

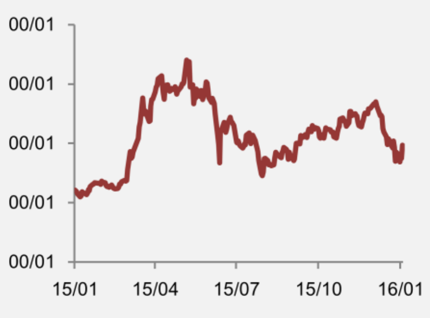
Source(s): Company, ABCI Securities

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 such as asset injection from parent, co-operation with sister company 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 form 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)[1]	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[2] (%)	61.0	60.2	53.0	44.3	25.2

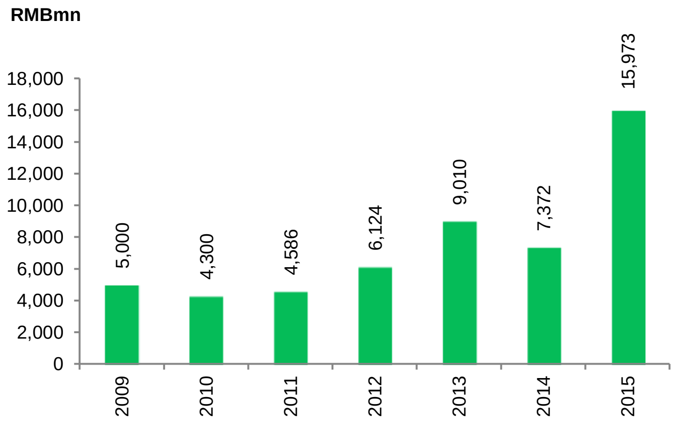
[1]Underlying net income =Net profit - revaluation gain of investment properties and one-off items
[2]Net gearing=Net debt/Total equity
Source(s): Bloomberg, ABCI Securities estimates

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

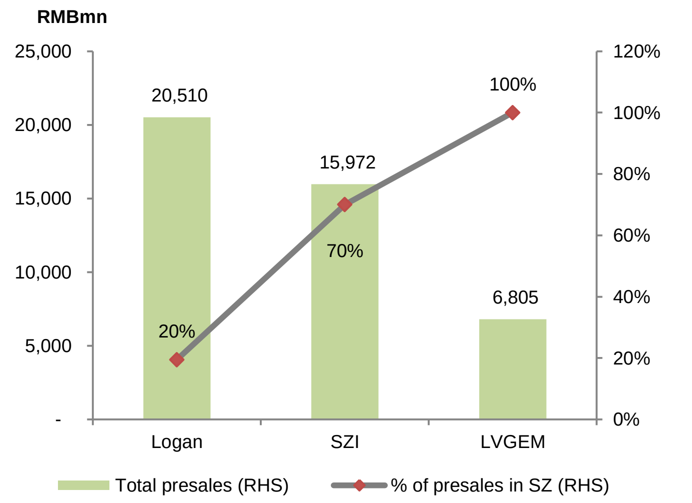
As of June 2015, SZI has a total attributable landbank of 9.062mn sqm, of which 1.8mn sqm (or 22% of total landbank) is located in Shenzhen, much higher than 1.4mn sqm of LVGEM and 0.7mn for Logan. In Dec 2015, SZI's landbank is further strengthened after the asset injection of a 0.43mn sqm project in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

Exhibit 16: SZI's presales



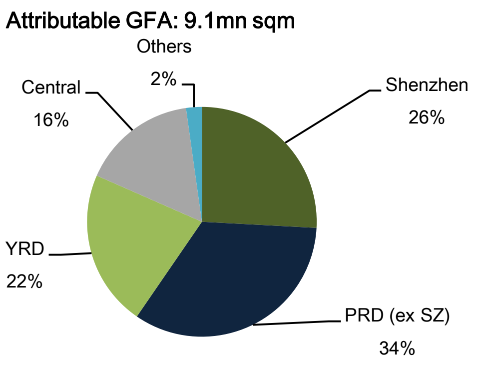
Source(s): Company, ABCI Securities

Exhibit 17: SZI's % of presales in Shenzhen vs. peers (2015E)



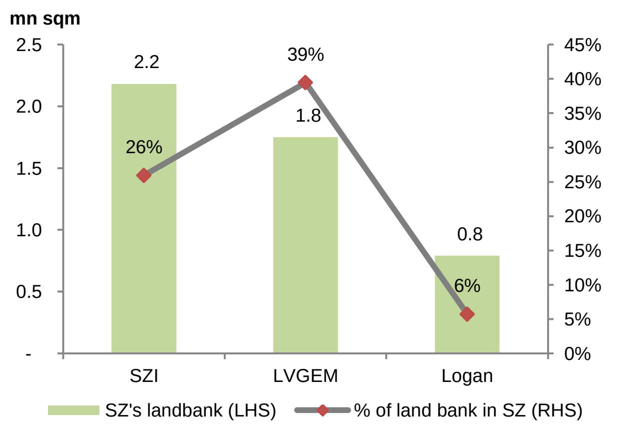
Source(s): Company, ABCI Securities estimates

Exhibit 18: SZI's landbank (2015E)



Source(s): Company, ABCI Securities estimates

Exhibit 19: SZI's percentage of landbank from Shenzhen vs. peers (2015E)



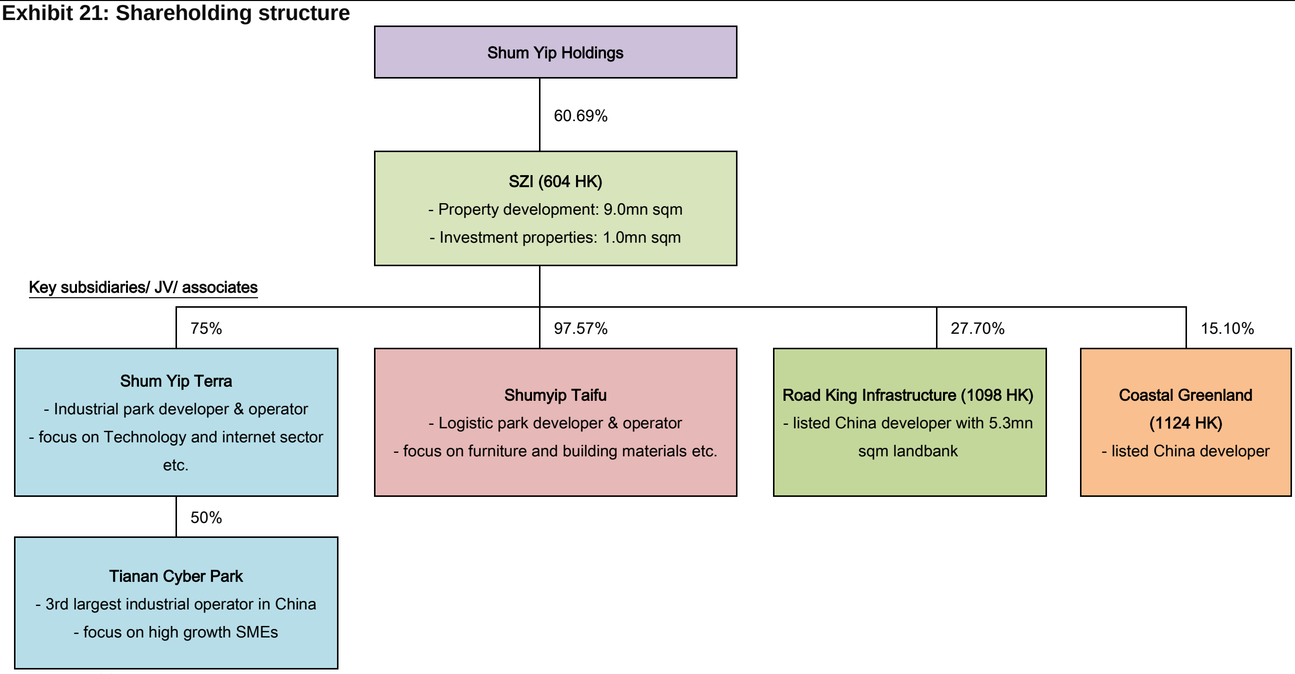
Source(s): Company, ABCI Securities estimates

Exhibit 20: 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 21: 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 22: SZI's key projects in SZ (Jun 2015)

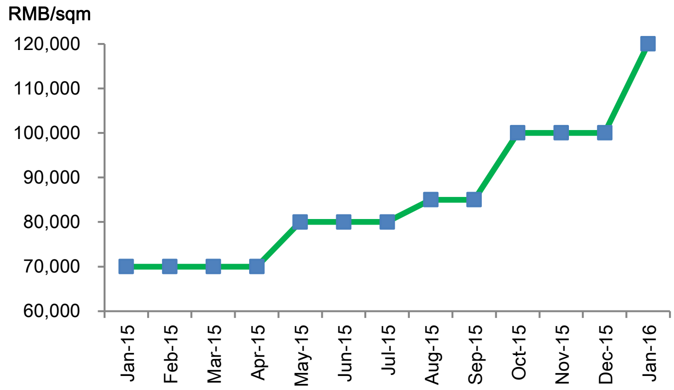
	GFA mn sqm	Stake %	Attributable GFA mn sqm	Completion date
Upper Hills 深業上城	0.65	100%	0.65	2017
Shumyip Zhongcheng 深業中城	0.36	100%	0.36	2018
Tanglang City 塘朗城	0.26	50%	0.13	2015
Chegongmiao Redevelopment Project Phase 1 車公廟更新項目 1 期	0.12	75%	0.09	2017
Taifu Square Phase 1 泰富廣場 1 期	0.17	96%	0.16	2017
Taifu 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 23: Upperhill

Source(s): Fang.com

Exhibit 24: Upperhill's ASP



Source(s): Fang.com

Exhibit 25: Shumyip Zhongcheng

Source(s): Fang.com

Exhibit 26: Chegongmiao Redevelopment Project

Source(s): Fang.com

Exhibit 27: Tanglang project

Source(s): fang.com

Exhibit 28: Guanlan Rose Garden

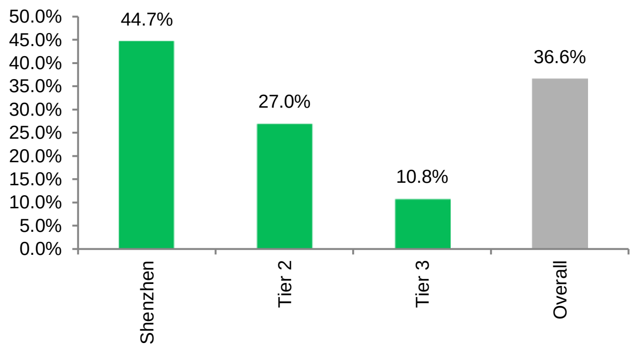
Source(s): fang.com

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 29: SZI's gross margin

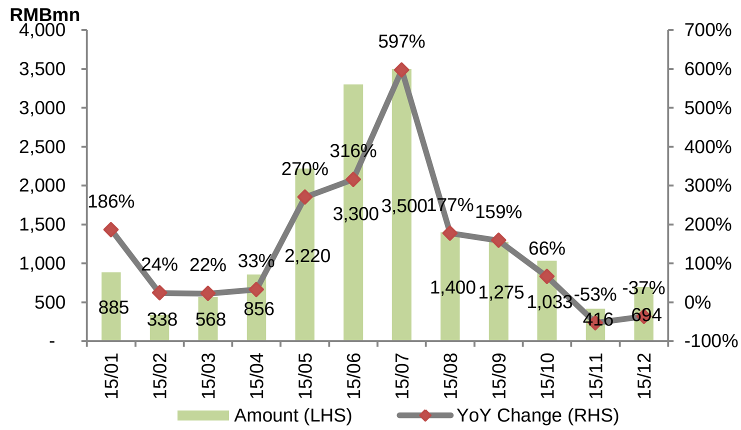
Source(s): Company, ABCI Securities

Exhibit 30: SZI gross margin by city (1H15)



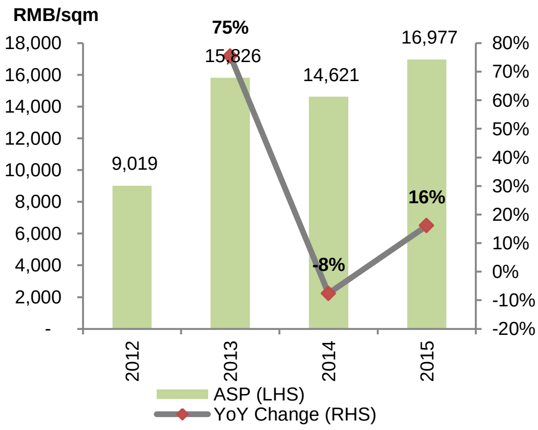
Source(s): Company, ABCI Securities

Exhibit 31: Monthly presales



Source(s): Company, ABCI Securities

Exhibit 32: ASP trend



Source(s): Company, ABCI Securities

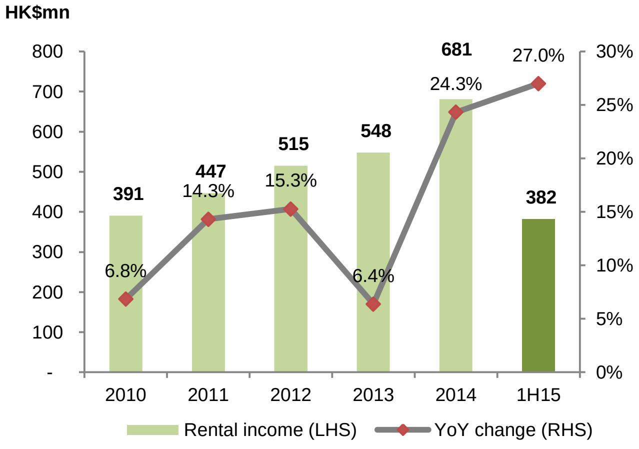
Going forward, SZI aims to achieve a sustainable growth of 20-30% in 2016 presale, with more than 70% to be contributed by Shenzhen projects. The Group also targets to grow its Shenzhen landbank to 4mn sqm in longer term, representing 40-50% of total existing landbank by GFA or 70% by value.

#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.

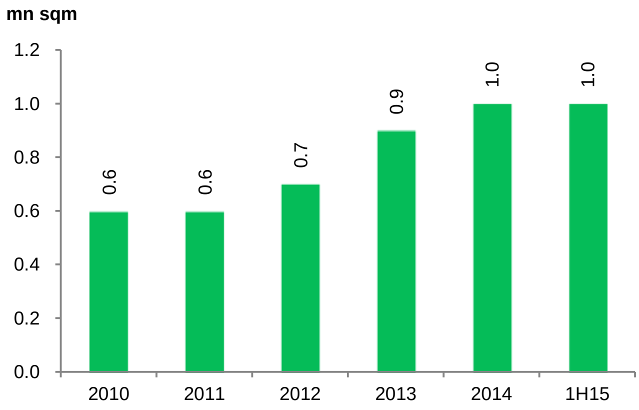
We expect the return of the IP portfolio will improve upon completion of high-end shopping malls and office space in larger scale mixed-use project UpperHills and Shumyip Zhongcheng. By adding 600k sqm of superior IP GFA to the portfolio, SZI targets to achieve RMB 2bn in rental income by 2018E.

Exhibit 33: SZI rental income



Source(s): Company; ABCI Securities

Exhibit 34: GFA of SZI's IP



Source(s): Company; ABCI Securities

Exhibit 35: 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	
Total	**40,000**	**60,000**	**190,000**	**240,000**

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 36: 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 37: 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
Total		**1,139**	**980**

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 38: Urban redevelopment projects directly obtained by SZI

Date	Project	Estimated GFA
		000 sqm
2014	Liantang Industrial Area, Luohu District,	380
2013	Chegongmiao 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.

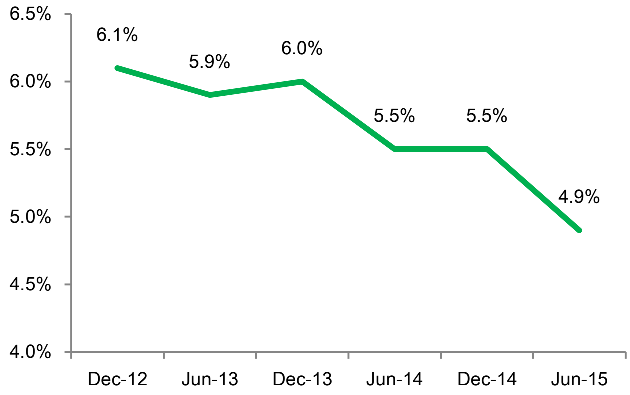
Through its various channels of land acquisition, we believe SZI's landbank would expand by 3mn sqm in GFA in Shenzhen over the next 3-5 years.

#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.

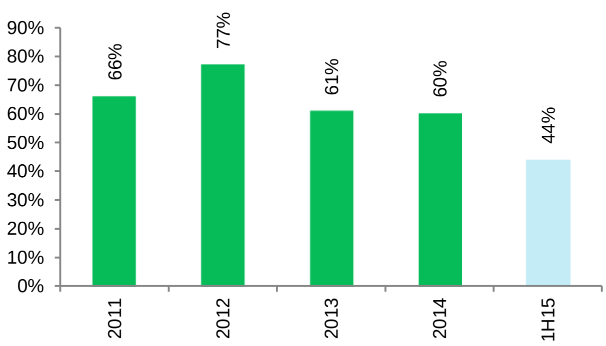
As SZI's parent may have a better credit rating in China, it could raise onshore corporate bond and lend the money to SZI at the same rate. This would reduce SZI's cost of debt further.

Exhibit 39: SZI's average borrowing cost



Source(s): Company, ABCI Securities

Exhibit 40: SZI's net gearing



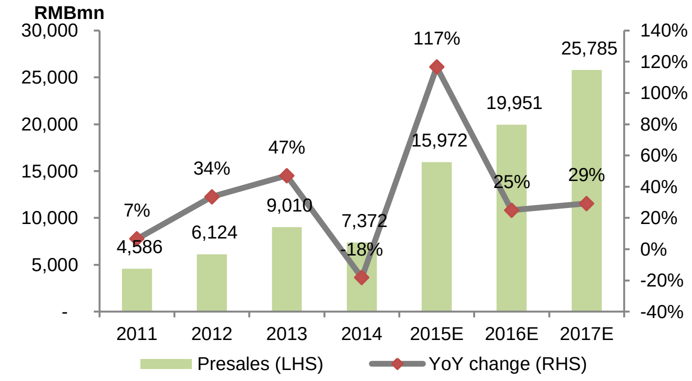
Source(s): Company, ABCI Securities

Financial analysis

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

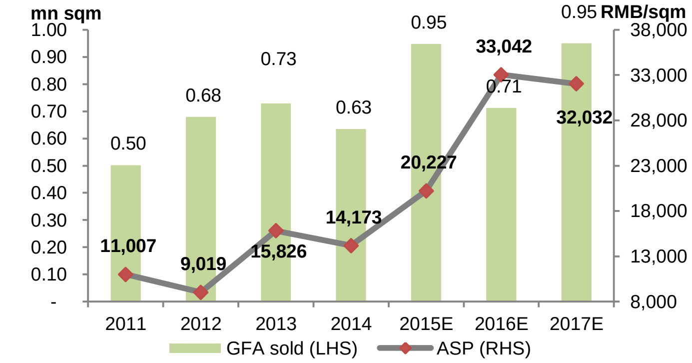
We expect SZI's presales to expand by 27% CAGR from RMB 15.9bn in 2015E to RMB 25.8bn in 2017E on the back of increasing saleable resources in Shenzhen. We expect presales for the Shum Yip Zhongcheng project and Chegongmiao redevelopment project would start in 2016, and the recently injected Huangbeiling 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 41: SZI's presales



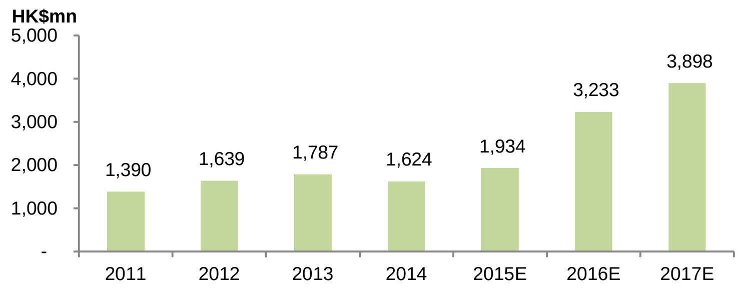
Source(s): Company, ABCI Securities estimates

Exhibit 42 : SZI's GFA sold and ASP



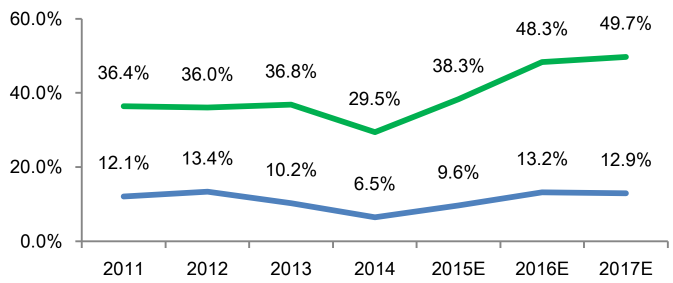
Source(s): Company, ABCI Securities estimates

Exhibit 43: SZI's core net profit in 2012-17E (RMB mn)



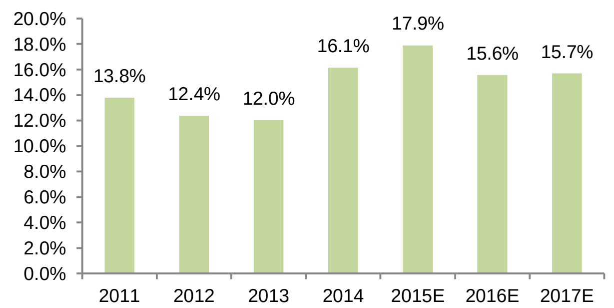
Source(s): Company, ABCI Securities estimates

Exhibit 44: SZI's gross and net margins in 2010-16E



Source(s): Company, ABCI Securities estimates

Exhibit 45 : SZI's SG&A-to-sales ratio

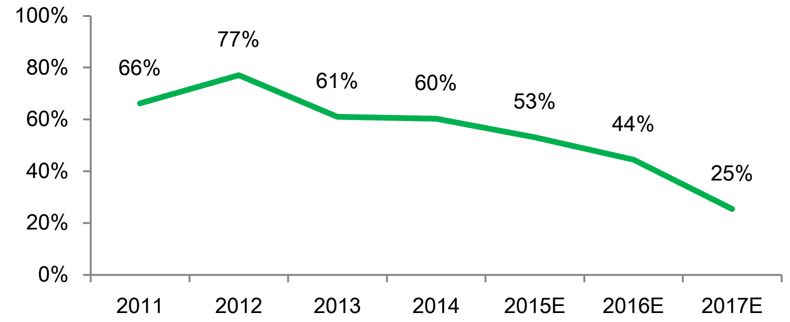


Source(s): Company, ABCI Securities estimates

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 46: 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 47: SZI's 2016E NAV

	Attr. GFA (M sqm)	Net assets value (HKD m)	% of total	Valuation Methodology	Implied value per sqm (HKD)
Property development					
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
Subtotal	**7.3**	**61,934**	**79%**		**8,469**
Investment properties	**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**	
Total 2016E GAV		**78,626**	**100%**		
2016E Net debt		(21,765)	-28%		
Total 2016E NAV		**56,861**	**72%**		
No. of share outstanding		6,510			
NAV per share (HKD)		**8.73**			
Target discount (%)		50%			
Target Price (HKD)		**4.40**			

WACC	**9.4%**
Cost of debt	6.0%
Cost of Equity	15.0%
Debt/ (Debt + Equity)	**53%**

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)

FY Ended Dec 31 (HK$ mn)	2013A	2014A	2015E	2016E	2017E
Revenue	**9,779**	**13,827**	**15,740**	**21,684**	**27,648**
Cost of sales	(6,177)	(9,754)	(9,711)	(11,209)	(13,895)
Gross Profit	**3,602**	**4,073**	**6,029**	**10,475**	**13,752**
SG&A expenses	(1,176)	(2,232)	(2,817)	(3,375)	(4,338)
EBIT	**2,426**	**1,841**	**3,212**	**7,100**	**9,414**
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
Profit before tax	**5,077**	**5,853**	**3,821**	**7,173**	**9,364**
Tax	(1,976)	(2,349)	(1,813)	(3,823)	(5,332)
Profit after tax	**3,101**	**3,504**	**2,008**	**3,350**	**4,033**
Minority interest	(373)	(375)	(74)	(117)	(135)
Reported net profit	**2,728**	**3,129**	**1,934**	**3,233**	**3,898**
Less: exceptional items	(942)	(1,505)	0	0	0
Underlying net profit	**1,787**	**1,624**	**1,934**	**3,233**	**3,898**
Per share					
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$)	5.31	5.07	5.13	5.37	5.67
Growth %					
Revenue	14.1%	41.4%	13.8%	37.8%	27.5%
Gross Profit	16.6%	13.1%	48.0%	73.7%	31.3%
EBIT	19.6%	-24.1%	74.5%	121.0%	32.6%
Underlying net profit	9.0%	-9.1%	19.0%	67.2%	20.6%
Margin %					
Gross margin	36.8%	29.5%	38.3%	48.3%	49.7%
Gross margin (post-LAT)	15.5%	14.5%	19.6%	27.4%	29.9%
EBIT margin	24.8%	13.3%	20.4%	32.7%	34.1%
Core net margin	10.2%	6.5%	9.6%	13.2%	12.9%
Key assumptions					
Contracted Sales (HK$ 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)

As of Dec 31 (HK$ mn)	2013A	2014A	2015E	2016E	2017E
Current assets	**49,719**	**59,686**	**60,050**	**62,504**	**69,303**
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
Non-current assets	**27,173**	**34,819**	**44,603**	**45,827**	**44,043**
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
Total Assets	**76,892**	**94,505**	**104,653**	**108,331**	**113,346**
Current Liabilities	**30,817**	**34,843**	**41,233**	**43,227**	**46,209**
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
Non-current liabilities	**18,496**	**26,888**	**26,888**	**26,888**	**26,888**
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
Total Liabilities	**49,312**	**61,731**	**68,121**	**70,115**	**73,097**
Net Assets	**27,579**	**32,774**	**36,532**	**38,215**	**40,249**
Shareholders' Equity	**25,338**	**30,496**	**34,230**	**35,846**	**37,795**
Perpetual Convertible Securities	-	-	-	-	-
Minority Interest	2,242	2,278	2,302	2,369	2,454
Total Equity	**27,579**	**32,774**	**36,532**	**38,215**	**40,249**
Key ratio					
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)

FY ended Dec 31 (HK$ mn)	2013A	2014A	2015E	2016E	2017E
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)
Operating cash flow	**(134)**	**1,634**	**(200)**	**5,839**	**10,611**
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
Investing cash flow	**(10)**	**(2,431)**	**803**	**270**	**176**
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)
Financing cash flow	**55**	**2,527**	**(239)**	**(3,656)**	**(3,988)**
Net cash inflow/ (outflow)	**(89)**	**1,730**	**364**	**2,454**	**6,799**
Cash- beginning	6,734	6,645	8,375	8,739	11,194
Cash- year-end	**6,645**	**8,375**	**8,739**	**11,194**	**17,993**

Source(s): Company, ABCI Securities estimates

Feb 3, 2016
Company Report
Rating: BUY
TP: HK$ 2.90

Share price (HK$)	2.01
Est. share price return	44.3%
Est. dividend yield	0.0%
Est. total return	44.3%

Previous Rating &TP	NA
Previous Report Date	NA

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Email: kennethtung@abci.com.hk

LVGEM (95 HK)

A Shenzhen property plays with promising prospects; initiate **BUY**

- LVGEM (China) has become a major developer in Shenzhen after asset injection
- Quality projects in Futian should ensure good presales and profitability in 2016E-17E
- Rental income rose 30% YoY in 2014 to RMB 352mn on the back of rising LFA
- Urban redevelopment provides LVGEM with cheap land sources
- Initiate **BUY** with TP of HK$ 2.9 based on a 50% discount to NAV

Becoming a major player in the Shenzhen property market. Following the asset injection of HK$13,785mn, LVGEM (China) will become a sizeable developer with over 3.6mn sqm of GFA in land reserves, of which 1.4mn sqm will be located in Shenzhen. LVGEM is set to benefit from the rising property market in the region.

Quality projects located in Futian. The injected properties include two major projects in Futian district of Shenzhen- Hongwan Garden (虹灣花園) and Mangrove Luxury Garden (紅樹華府). Presales of Hongwan Garden were a success with ASP increasing steadily from RMB 47,500/sqm in Jan 2015 to RMB 62,000/sqm in Dec 2015, according to Fang.com. For Mangrove Luxury Garden, we expect a better ASP given the better environment surrounding the project. We estimate presales would rise from RMB 5.7bn in 2015E to RMB 8.2bn in 2017E, implying a 20% CAGR over the period.

Rising rental income. A quality rental portfolio in Shenzhen with an LFA of 0.22mn sqm (as of Apr 2015) is now under LVGEM's ownership after the injection. Driven by Neo Urban commercials and Zoll Centers, rental income jumped 30% YoY in 2014 to RMB 352mn. Going forward, we expect rental income to grow at an 18%CAGR in 2015E-17E upon completion of the new Zoll Centers.

Cheap land sources from urban redevelopment. Ten out of 16 completed projects are obtained through urban redevelopment scheme that usually entails a low land cost, although the acquisition process could be lengthy. Hence, gross margin rose steadily from 25.1% in 2012 to 34.3% in 2013 and 46.4% in 2014.

Initiate BUY with TP of HK$ 2.90 based on a 50% discount to NAV. We conduct our valuation for LVGEM based on the discount-to-NAV method. We apply the DCF with a WACC of 10.4% for the property development segment (RMB 20.0bn) and a 3% cap rate for the investment properties (RMB 17bn). A 50% discount is applied to our 2016E NAV estimate of RMB 23.0bn (or HK$ 5.78/ share) to derive our TP that arrives at HK$ 2.90. Initiate **BUY**.

Risk factors: 1) Long relocation process; 2) Complicated regulations governing the redevelopment process; 3) Further tightening policies on the property market

Key Data

52Wk H/L(HK$)	4.2/1.7
Issued shares (mn)	4,694
Market cap (HK$ mn)	9,387
3-mth avg daily turnover (HK$ mn)	2.62
Major shareholder(s) (%):	
Mr WONG Hong King	75.00

Source(s): Company, Bloomberg, ABCI Securities

FY14 Revenue breakdown (%)

Property development	88.7
Property investment	7.2
Comprehensive services	4.1

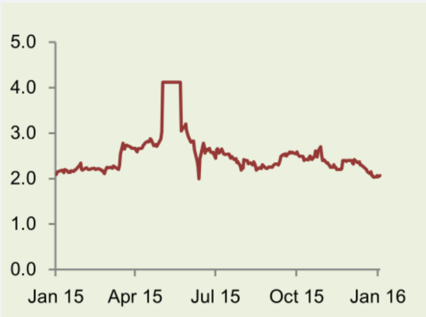
Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	(15.7)	(5.7)
3-mth	(18.1)	(5.6)
6-mth	(23.0)	(4.1)

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

1-Year stock performance (HK$)



Source(s): Bloomberg, ABCI Securities

Results and Valuation

FY ended Dec 31	2013A	2014A	2015E	2016E	2017E
Revenue (RMB mn)	1,971	4,851	2,350	8,696	10,190
Chg (%,YoY)	306.3	146.2	(51.6)	270.1	17.2
Core net profit (RMB mn)[1]	273	1,200	287	1,807	2,390
Chg (%,YoY)	(297.8)	339.6	(76.1)	529.2	32.3
Underlying EPS (RMB)	0.06	0.26	0.04	0.22	0.29
Chg (%,YoY)	(297.8)	339.6	(86.1)	529.2	32.3
BVPS (RMB)	1.11	1.48	0.89	1.03	1.20
Chg (%,YoY)	15.1	33.1	(39.7)	14.8	17.0
Underlying PE (x)	29.3	6.7	48.2	7.7	5.8
P/B (x)	1.5	1.2	1.9	1.7	1.4
ROE (%)	5.2	17.3	4.0	21.7	24.6
ROA (%)	1.5	5.9	1.1	6.4	7.8
DPS(HK$)	-	-	-	0.09	0.12
Yield (%)	-	-	-	4.5	6.0
Net gearing[2] (%)	84.8	88.5	60.7	105.6	94.7

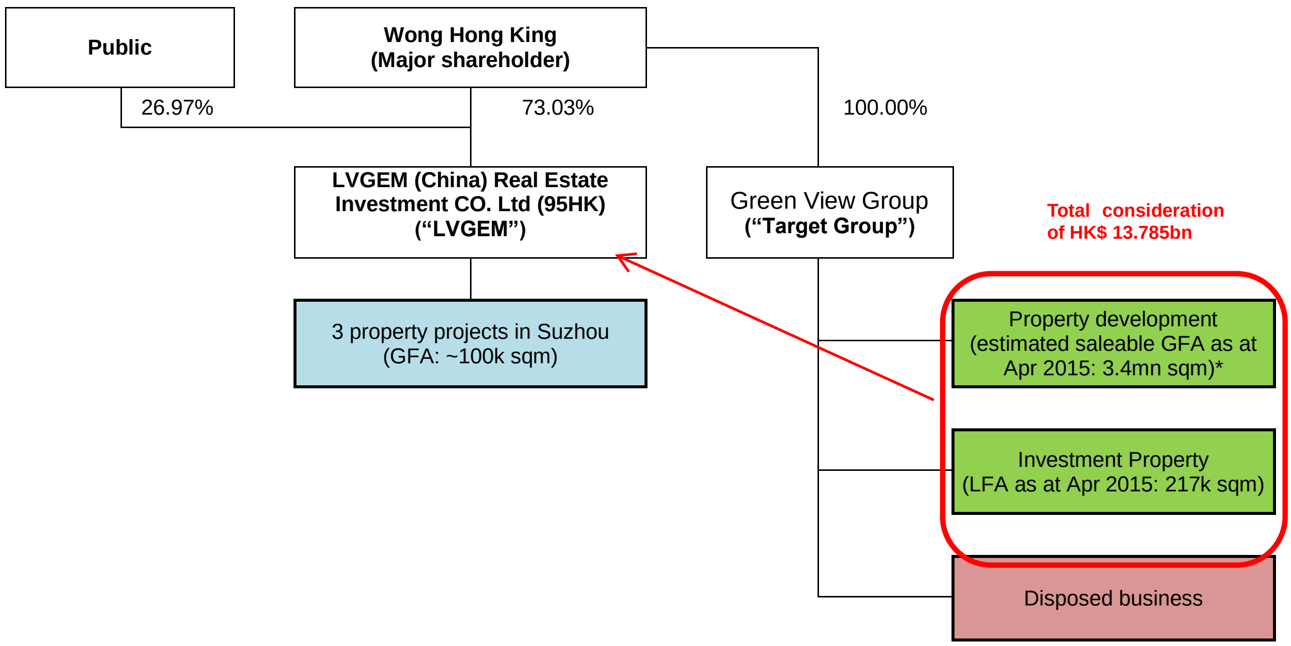
[1]Core net profit =Net profit - revaluation gain of investment properties and one-off items
[2]Net gearing=Net debt/Shareholders' equity
Source(s): Bloomberg, ABCI Securities estimates

Transforming into a Shenzhen play after asset injection

LVGEM (China) (95 HK) completed its asset injection in Nov 2015. LVGEM acquired the property segment of the Target Group (Green View Group) owned by the major shareholder of LVGEM, Mr. Wong Hong King. Total consideration for the injection was HK$ 13,785mn. After the injection, LVGEM has transformed itself from a small Suzhou developer (with a 0.1mn sqm landbank as of Dec 2014) to a major Shenzhen player with an estimated land reserve of 3.4mn sqm GFA and 217k of leasable floor area (LFA) of completed investment property as of Apr 2015.

The whole transaction is financed by a share issuance at HK$ 2.20 in the following structure: 1) 300mn shares were issued to Vanke, the largest developer in China; 2) 300mn shares were issued to Ping An, the leading insurance firm in China; 3) 200mn shares were issued to professional and institutional investors; 4) 2,509mn ordinary shares and 3,413mn convertible shares (at HK$2.06) were issued to Mr. Wong

Exhibit 48: Asset injection in Nov 2015



Source(s): Company, ABCI Securities

Exhibit 49: Shareholding structure after injection (Nov 2015)

	Before injection		After injection: Upon completion			After injection: Assume all convertible shares are converted	
	No. of shares	% of total	No. of shares	Number of convertible shares	% of total	No. of shares	% of total
Shareholders	mn	%	mn	mn	%	mn	%
Mr Wong and his associates	1,011	73%	3,520	3,413	75%	6,934	86%
Vanke	-	0%	300		6%	300	4%
Ping An	-	0%	300		6%	300	4%
Placees	-	0%	200	-	4%	200	2%
Public shareholders	373	27%	373	-	8%	373	5%
Total	**1,384**	**100%**	**4,694**	**3,413**	**100%**	**8,107**	**100%**

Source(s): Company, ABCI Securities

Exhibit 50: Landbank of the Target Group (Apr 2015)

	City	Stake	Construction start	Comp-letion	Saleable GFA-presold	Saleable GFA-unsold	Leasable GFA
Completed					**000sqm**	**000sqm**	**000sqm**
LVGEM Shan Zhuang (綠景山莊)	Shenzhen	100%	Apr-98	Apr-00	-	0	4
LVGEM Xin Yuan Phase I (綠景新苑一期)	Shenzhen	100%	Sep-00	Jan-02	-	-	-
LVGEM Xin Yuan Phase II(綠景新苑二期)	Shenzhen	100%	May-03	Feb-04	-	-	5
Lanwan Peninsula (藍灣半島社區)	Shenzhen	100%	May-02	Aug-04	-	0	5
Phase II of LVGEM Garden (綠景花園二期)	Shenzhen	100%	Nov-03	Jun-05	-	1	21
Zhongcheng Tianyoi Garden (中城天邑花园)	Shenzhen	100%	Mar-06	Dec-08	-	0	-
LVGEM Hotel (綠景錦江酒店)	Shenzhen	100%	Mar-06	Dec-08	-	-	4
Zhonghe Tixiang Famous Garden, Phase I 中核緹香名苑一期	Yiyang	100%	Aug-07	Apr-09	-	4	-
NEO Complex, Tower A, B and C (綠景紀元大廈 NEO A, B, C 座)	Shenzhen	100%	Jan-04	May-11	-	-	106
City Garden (城市立方花園)	Shenzhen	100%	Mar-08	Nov-10	-	2	5
LVGEM Chanson Garden (綠景香頌花園)	Shenzhen	100%	Feb-11	Dec-12	-	0	23
LVGEM Chanson Meilu Garden (綠景香頌美廬園)	Shenzhen	100%	May-11	May-13	-	-	0
LVGEM 1866 Garden (公館 1866 花園(南區、北區))	Shenzhen	100%	Jun-11	Aug-13	-	4	43
LVGEM International Garden 綠景國際花城(A1 區)	Maoming	100%	Jul-13	Dec-14	-	38	-
	Subtotal				**-**	**49**	**217**
Under development							
Hongwan Garden (虹灣花園)	Shenzhen	100%	Dec-12	Oct-15	23	114	34
LVGEM International Garden, Block A2 化州國際花城 (A2 區)	Maoming	100%	Mar-14	Nov-15	56	144	25
Mangrove Luxury Garden (紅樹華府)	Shenzhen	100%	Jul-14	Mar-17	-	123	21
	Subtotal				**80**	**381**	**80**
					Site Area	**Estimated total GFA**	
For future development					**000sqm**	**000sqm**	
Land Lot of LVGEM International Garden, 綠景國際花城地块	Maoming	100%	2016		715	2,000	
Zhonghe Tixiang Famous Garden, Phase II 中核緹香名苑二期	Yiyang	100%	2016		27	95	
	Subtotal				**742**	**2,095**	
Projects planned to be redeveloped or contracted to be acquired							
Mei Jing 美景	Shenzhen		TBD		14	90	
Liguang 黎光	Shenzhen		NA		271	726	
	Subtotal				**285**	**816**	

Source(s): Company, ABCI Securities

Following the asset injection, LVGEM's revenue will enlarge by almost 10 times while its net income will swing into a profit of RMB1.2bn based on its FY14 figures. With a larger balance sheet and higher turnover, LVGEM could take up large or premium sites that were previously considered unaffordable.

Exhibit 51: Key financials of Target Group (FY14)

	LVGEM China (95 HK) HK$mn	Target group (unlisted) RMBmn
Revenue	**524**	**4,851**
YoY change	147%	146%
Gross profit	**108**	**2,357**
YoY change	342%	191%
Gross margin	***21%***	***49%***
Core profit (excl. one- off items)	**(11)**	**1,200**
YoY change	NA	340%
Core net margin	***NA***	***24.7%***

Source(s): Company, ABCI Securities

Three core strengths arise in LVGEM after the injection

1. Quality projects located in Futian CBD

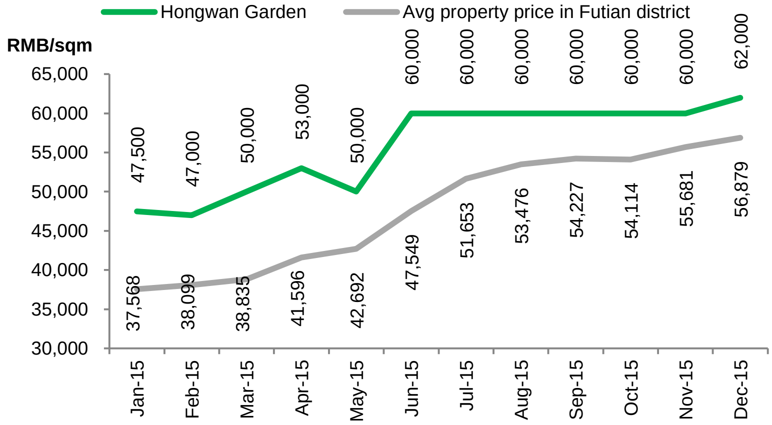
The two major projects in Shenzhen - Hongwan Garden (虹灣花園) and Mangrove Luxury Garden (紅樹華府), which were injected into the Group in 2015, will be the key presales and earnings driver for LVGEM in 2016-17.

- **Hongwan Garden (虹灣花園):** Hongwan Garden is a residential and commercial project conveniently located in the CBD of Futian district, Shenzhen, and is adjacent to the Mei Lin metro station. It consists of five high-rise residential buildings, two apartment buildings and a retail shopping mall. Along with the rising property price in Shenzhen, Hongwan Garden's ASP increased by 31% from RMB 47,500/sqm in Jan 2015 to RMB 62,000/sqm in Dec 2015, according to Fang.com. We forecast this project would generate RMB 3.6bn/ RMB 1.7bn in presales for 2015E/16E, and RMB 5.3bn in booked revenue for 2016E upon completion.

Exhibit 52: Hongwan Garden (虹灣花園)

Source(s): fang.com

Exhibit 53: ASP of Hongwan Garden (虹灣花園) vs. average property price in Futian



Source(s): Fang.com, ABCI Securities

Exhibit 54: Location of Hongwan Garden (虹灣花園)

Source(s): fang.com

Exhibit 55: Details of Hongwan Garden (虹灣花園)

Total GFA	367.4k sqm
LFA of commercial area <A>	34k sqm
GFA presold <B>	23k sqm
Unsold saleable residential GFA <C>	113k sqm
Total development cost <D>	RMB2.7bn
land and construction cost per sqm <D/(A+B+C)>	RMB19,728/sqm
Construction start	Dec 2012
Launch of presales	Oct 2014
Expected completion	Oct 2015

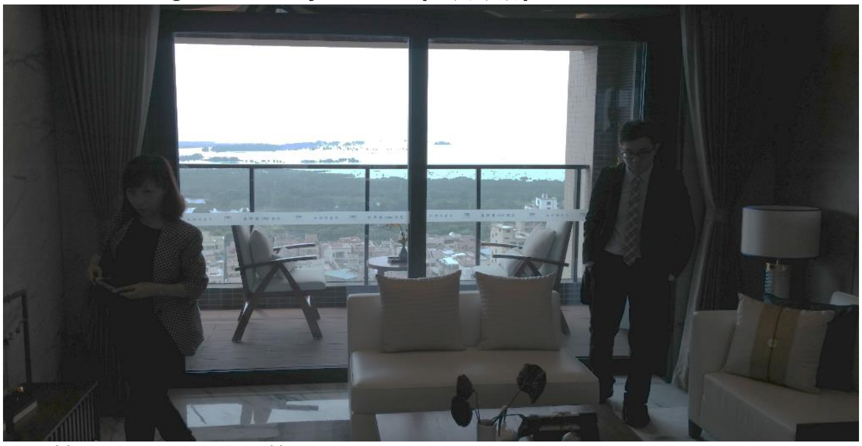
Source(s): Company, ABCI Securities

- **Mangrove Luxury Garden (紅樹華府):** Mangrove Luxury Garden is a residential and commercial project conveniently located in southeast corner of the intersection of Shazui Road and Jindyi Road in the CBD of Futian district. In additional to the shopping center, the project will have three residential towers and an integrated building with offices, a hotel, and apartments. Presales should commence in 2016, and we expect its ASP to be higher than that of Hongwan Garden given the former's spectacular sea view.

Exhibit 56: Mangrove Luxury Garden (紅樹華府)

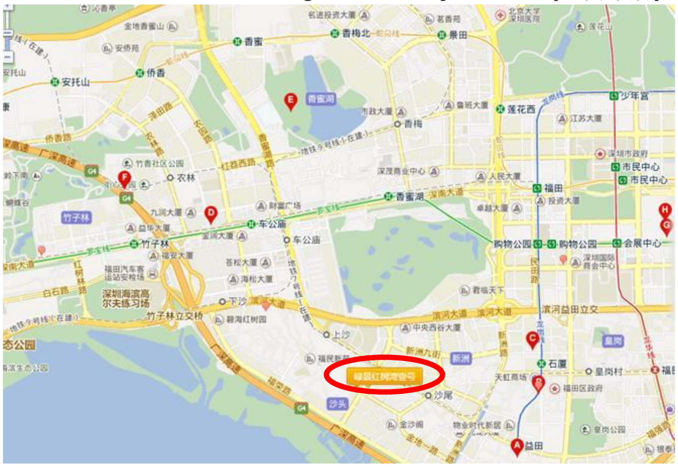
Source(s): fang.com

Exhibit 57: Mangrove Luxury Garden (紅樹華府)



Source(s): Company, ABCI Securities

Exhibit 58: Location of Mangrove Luxury Garden (紅樹華府)



Source(s): fang.com, ABCI Securities

Exhibit 59: Details of Mangrove Luxury Garden (紅樹華府)

Total GFA	305k sqm
LFA of commercial area <A>	20.5k sqm
Unsold saleable residential GFA <B>	123k sqm
Estimated total development cost <C>	RMB2.0bn
land and construction cost per sqm <C/(A+B)>	RMB13,938/sqm
Construction start	Jul 2014
Launch of presales	4Q2015
Expected completion	Mar 2017

Source(s): Company, ABCI Securities

- **Projects to be redeveloped or acquired in Shenzhen:** Apart from the above two projects under development, the asset injection also contains two projects (Meijing and Liguang) with the land redevelopment/ land acquisition proceedings in process.

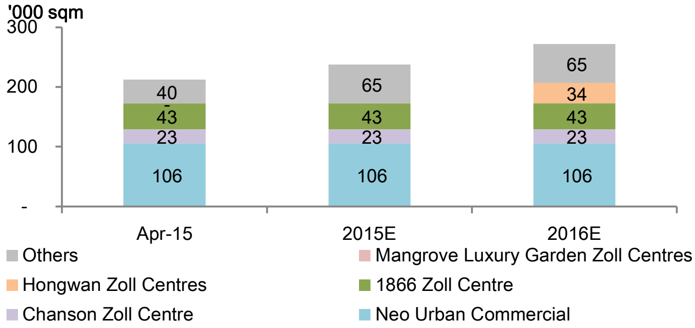
  1) Meijing project (美景): The Meijing project is located on No. 4088 Qiaoxing Road in Nanshan district. It is situated in a well-developed area complemented with public transport facilities and is within walking distance to the Railway Line 1 and 2. Currently, the project has a site area of 13,865sqm with six industrial buildings with a total GFA of 30,569 sqm. It is 40% owned by the Target group and 60% owned by Shenzhen Shawei Industrial Co. Ltd, a villager-representative company. The project is scheduled to be redeveloped into an industrial complex and existing buildings should be demolished in 1-2 years. The project has been submitted to relevant authorities for approval. Upon successful application, a total GFA of 89,848 sqm will be granted.

2) Liguang project（黎光）**:** The project is in Liguang Village, Guanlan Town, Bo'an District, Shenzhen. Liguang project is situated in a mature residential area near Guanlanhu Liguang Golf Club. A total site area of 271k sqm will be developed into a residential, commercial and industrial complex. The Target Group has entered into agreements with relevant parties to acquire the development right of the project. The name of the project has yet to be determined.

2. The Zoll Centers: LVGEM's flagship commercial property to drive rental income

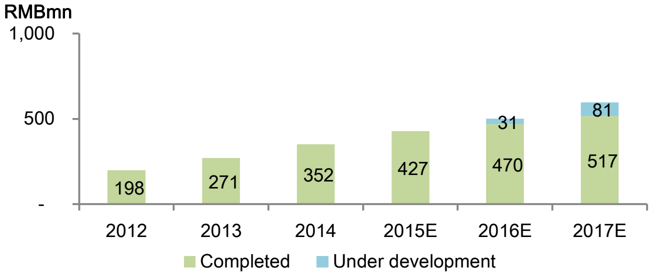
A quality rental portfolio in Shenzhen with an LFA of 0.22mn sqm (as of Apr 2015) is now under LVGEM's ownership after the injection. The portfolio registered impressive rental income growth of 30%YoY in 2014. The two core properties, Neo Urban commercials and Zoll centers, contributed to 86% of total rental income (RMB 352mn) in 2014. Upon completion of new Zoll centers, we expect rental income to rise further.

Exhibit 60: LFA of LVGEM's investment properties



Source(s): Company, ABCI Securities estimates

Exhibit 61: Breakdown of rental revenue



Source(s): Company, ABCI Securities estimates

Exhibit 62: Rental income breakdown

(RMBmn)	2012	2013	2014	CAGR	4M14	4M15	YoY
Zoll Centers							
- Chanson Zoll Centers	-	14	37	**NA**	11	12	**10%**
- 1866 Zoll Centers	-	-	14	**NA**	0	12	**6428%**
Neo Urban Commercial Complex	152	207	249	**28%**	86	95	**11%**
Others	46	50	51	**5%**	10	12	**21%**
Total	**198**	**271**	**352**	**33%**	**108**	**132**	**23%**

Source(s): Company, ABCI Securities

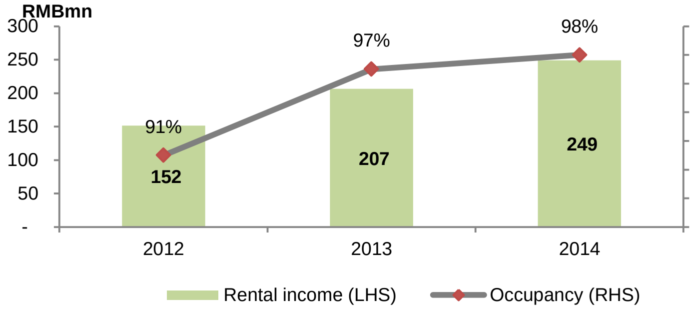
- **Neo Urban Commercials:** The Neo Urban Commercial Complex, which commenced operations in May 2011, is a large urban complex located at the junction of Shennan Boulevard and Tairan Boulevard at the CBD of Futian District, Shenzhen. The complex comprises of three main buildings- Tower A is a skyscraper that offers Grade A offices, while Tower B and C offer office, retail and residential spaces. As at Apr 2015, the Target Group owns a substantial portion of Tower A and all retail spaces in Tower B and C; the aggregate LFA owned by the Group in this project is 106k sqm.

  According to Jones Lang LaSalle (JLL), rental rate of Grade A office in Shenzhen grew 9.0%YoY in 2013 and 17.9% in 2014, higher than other tier-one cities. With an occupancy rate close to 98%, we believe the rental rate of Neo Urban Commercials is likely to rise, especially since 32.3%/27.6% of the tenancy will expire in 2016/2017.

Exhibit 63: Neo Urban commercials

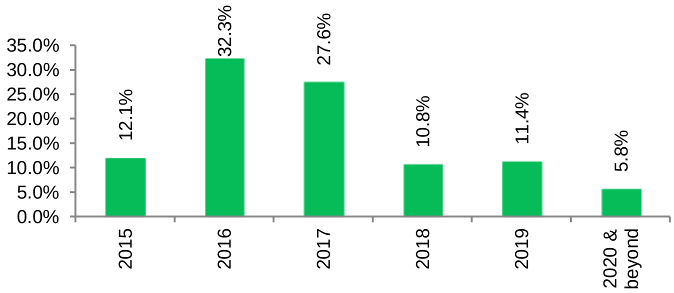
Source(s): Company, ABCI Securities

Exhibit 64: Key metrics of Neo Urban Commercials



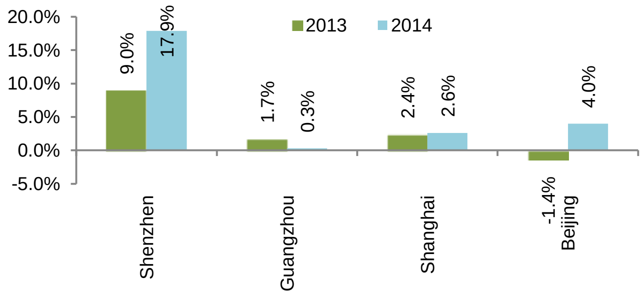
Source(s): Company, ABCI Securities

Exhibit 65: Tenancy expiry profile



Source(s): Company, ABCI Securities estimates

Exhibit 66: Grade A Office rental rate in tier-one cities (YoY change)



Source(s): JLL, ABCI Securities

- **Zoll Centers:** The Zoll Centers are a series of community-based lifestyle shopping centers. As of Dec 2014, LVGEM owned and operated two Zoll Centers, namely the Chanson Zoll Center and the 1866 Zoll Center, which commenced operation in May 2013 and May 2014. Two more Zoll Centers are currently under construction and scheduled for completion in 2016 and 2017.

  According to JLL, rental rates of shopping centers in Shenzhen have been increasing steadily at 0.5-1.2% QoQ for the past five quarters. We believe the upcoming new Zoll Centers could attain a high rental rate. For the existing Zoll Centers in operation, tenancy for 75% of the GFA will expire 5 years later, thus upward rent adjustments are highly unlikely in the near term. Nonetheless, 22% of rental income is calculated based on turnover or the combined method in 4M15, meaning that LVGEM should be able to obtain a higher rent when retail sales are strong.

Exhibit 67: Chanson Zoll Center

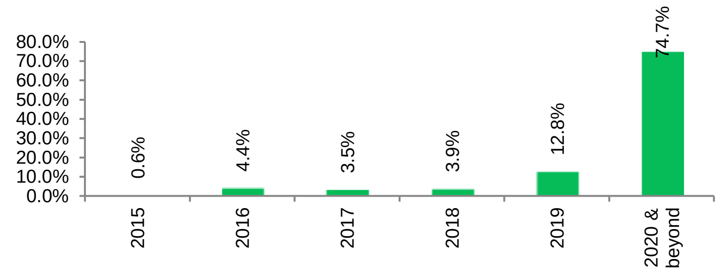
Source(s): Company, ABCI Securities

Exhibit 68: Zoll Centers' LFA by sector (Apr 2015)

(Usage by GFA in %)	Chanson Zoll Centers	1866Zoll Centers
Retail	25.4%	11.4%
Supermarket	24.6%	35.2%
F&B	23.9%	10.6%
Living ancillary services	11.1%	12.0%
Children services	8.8%	21.4%
Leisure and entertainment	5.5%	7.4%
Others	0.7%	2.0%
	100.0%	100.0%

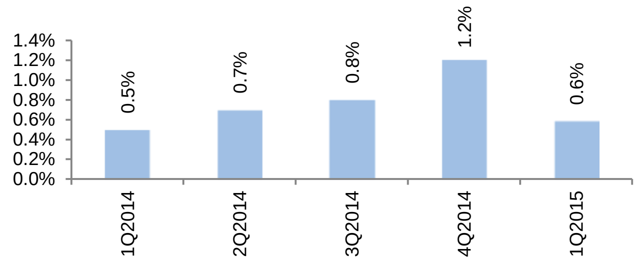
Source(s): Company, ABCI Securities

Exhibit 69: Tenancy expiry profile



Source(s): Company, ABCI Securities estimates

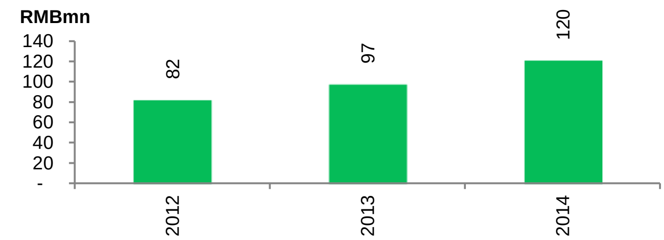
Exhibit 70: Shenzhen shopping mall rent (QoQ %)



Source(s): JLL, ABCI Securities

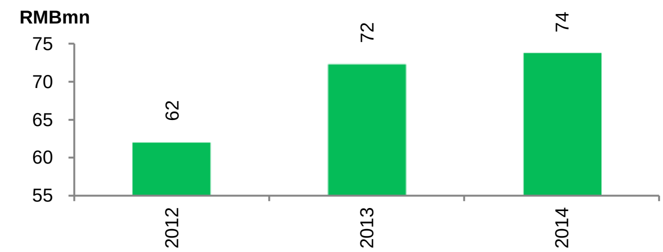
Comprehensive services: This segment mainly consists of property management services and hotel operations. As of Apr 2015, 19 properties with an aggregated GFA of 1.99mn sqm are managed by LVGEM. Sixteen of the 19 properties under management are also developed by the Group. Revenue from property management increased steadily from RMB 81.7mn in 2012 to RMB120.4mn in 2014 upon completion of new projects. In 2011, the LVGEM hotel, which has 330 rooms and is located in the CBD of the Futian District, commenced operation. The hotel generated a steady revenue stream of RMB 62mn-74mn annually in the last three years.

Exhibit 71: Property management revenue



Source(s): Company, ABCI Securities

Exhibit 72: Hotels revenue



Source(s): Company, ABCI Securities

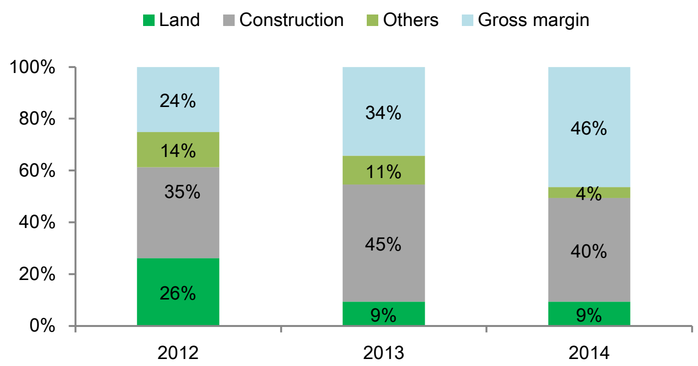
3. Cheap source of land from urban redevelopment

Ten out of the LVGEM's 16 completed projects, including Hongwan Garden and Mangrove Luxury, are acquired through urban redevelopment scheme. As new land supply of Shenzhen continues to shrink, the LVGEM's ability to secure new land from urban redevelopment becomes increasingly important.

The land costs of urban redevelopment projects tend to be low although the acquisition/development process could be lengthy. According to urban redevelopment policy in Shenzhen, for a GFA at below 2.5x plot ratio, no land premium is applied; for a GFA at 2.5x-4.5x plot ratio, 20% of benchmark land premium will be paid; for a GFA with a plot ratio exceeding 4.5x, a 100% land premium will be paid. For a usual project with a 10x plot ratio, a land premium at only 65% of market rate is applied. In 2013 and 2014, land cost represents 9% of Target group's ASP only, much lower than the 15%-25% for the sector.

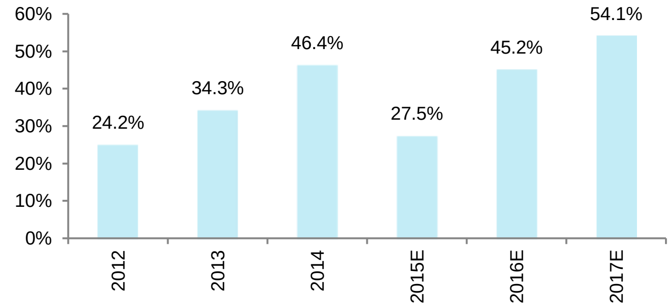
As a result of the low land cost, we estimate LVGEM's gross margins for Hongwan Garden and Mangrove Luxury would be high at 48.7% and 65.3%, which should elevate its overall gross margin from 27.5% in 2015E (due to the booking of non-Shenzhen projects) to 54.1% in 2017E.

Exhibit 73: Cost of sales breakdown



Source(s): Company, ABCI Securities

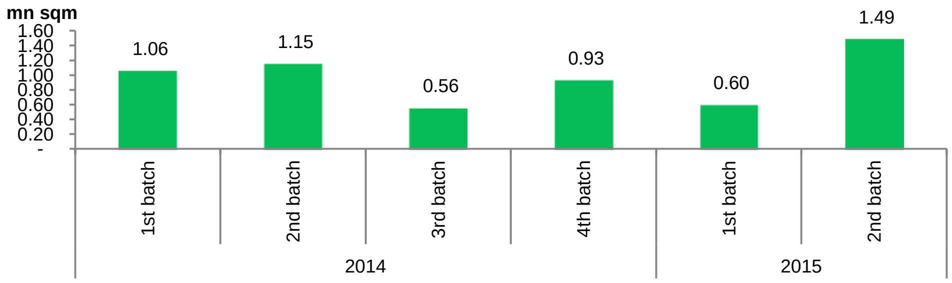
Exhibit 74: Gross margin for property development



Source(s): Company, ABCI Securities estimates

With a solid track record in Shenzhen's urban redevelopment, we believe LVGEM could secure more new redevelopment projects in the future. Shenzhen approved a total of 3.7mn sqm of site area in 2014 and 2.09mn sqm in 1H2015 for urban redevelopment under the city's renewal plan. We expect LVGEM will secure additional redevelopment projects in the next 12 months.

Exhibit 75: Total area approved by the Shenzhen City Renewal Plan (深圳市城市更新单元计划)



Source(s): Urban Planning, Land and Resoruces Commission of Shenzhen, ABCI Securities

Exhibit 76: Shenzhen's largest urban redevelopment site approved in 2014

Source(s): Urban Planning, Land and Resoruces Commission of Shenzhen,

Before the injection

In Jan 2014, New Heritage (former name of LVGEM China) announced the sale of 858.8mn shares (64.83% stake) at HK$ 944.7mn or HK$1.1/share by controlling shareholders to China LVGEM (wholly-owned by Mr. Wong). A cash offer was also announced to comply with the listing rules. In June 2014, Mr. Wong became a controlling shareholder of New Heritage. with a 70.03% stake. After the share acquisition, New Heritage changed its name to LVGEM China.

The development of LVGEM has not slowed after the change in major shareholder. With solid experience in Shenzhen's property market, LVGEM conducted two major acquisitions to strengthen its position in Shenzhen before the asset injection had completed. According to the announcements filed by LVEGM on HKEX, the following acquisitions were made:

- **Acquisition of a project in Shenzhen:** In Apr 2015, LVGEM acquired a 75% stake in a project in Baoan district, Shenzhen. The acquisition amount was RMB 145mn, or RMB 3,779/sqm based on a GFA of 38,365sqm. The project contributed to RMB 2.6mn in rental revenue in 1H15.

- **Expansion to Hong Kong:** On July 30, 2015, LVGEM announced to acquire an agricultural site in Lau Fau Shan for HK$ 710mn. Only 10% of the consideration is paid as deposit. The transaction will be completed when: 1) the farm land is approved for residential use; 2) the project has no less than 23,880sqm in GFA, which translates to HK$ 29,731/sqm or HK$ 2,763/sqft; 3). The minimum building height should be no less than 3 stories and 12.5 meters above the mean formation level. Upon successful change of land use, we believe this project could attract significant buyers' demand from Shenzhen due to its proximity to Futian CBD area and its view of Hong Kong's Wetland Park. In fact, land price of the nearby area Tuen Mun has been rising over the last 3 months as land transaction price surged from HK$ 3,720/sqft (mass residential sites) in June 2015 to HK$ 15,095/sqft (luxury low-rise projects) in Sep 2015.

Exhibit 77: Land transaction in northwest New Territories

Date	Site	Buyer	GFA	Consideration	AV
			000 sqft	HK$mn	HK$/sqft
Sep-15	Tuen Mun- Castle Peak Road	Poly	115	1,730	15,095
Aug-15	Yuen Long- Ngau Tam Mei	L'Avenue	45	548	12,119
Jul-15	Tuen Mun- So Kwun Wat	Vanke	842	3,822	4,541
Jun-15	Tuen Mun- Kwun Chui Road	Henderson	785	3,629	4,621
Jun-15	Tuen Mun- Hoi Wing Road	SHKP	355	1,319	3,720

Source(s): Land Department, ABCI Securities

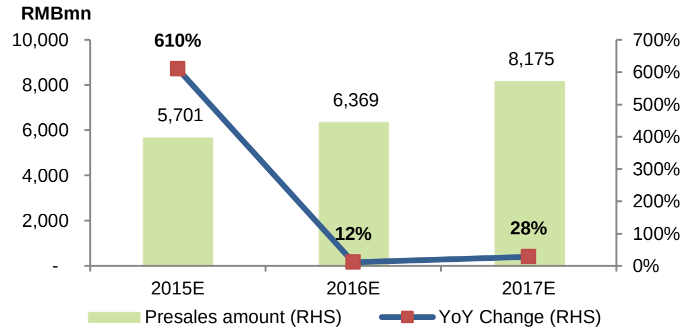
Financial analysis

Strong core profit growth at 26% CAGR in 2014-17E

We expect the LVGEM's presales to expand by 20% CAGR from RMB 5.7bn in 2015E to RMB 8.2bn in 2017E on the back of an active property market in Shenzhen. The two key projects, Hongwan Garden and Mangrove Luxury Garden, will be the key earnings contributors over the next few years. However, as Hongwan Garden and Mangrove Luxury Garden would be completed in 2016 and 2017, we estimate core profit would slow in 2015E to RMB 287mn, down 76% YoY. However, earnings growth will resurge to RMB2.4bn in 2017E, implying a 26% CAGR in 2014-17E

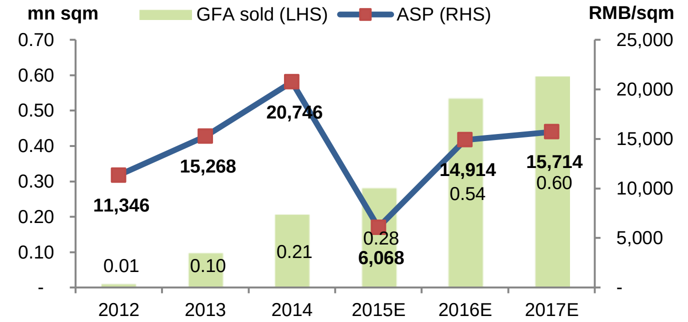
Margin-wise, gross margin will stay higher than 40% in 2016E-17E due to the low land cost of urban redevelopment projects. For 2015E, however, margins will be lower as we expect non- Shenzhen projects will account for a larger part in profit booking. We expect margins to improve steadily in 2016E-17E (2015E: 36.4%; 2016E: 43.2%; 2017E: 51.7%) as the LVGEM Group should attain a higher pricing power on the supply shortage in Shenzhen.

Exhibit 78: LVGEM's presales



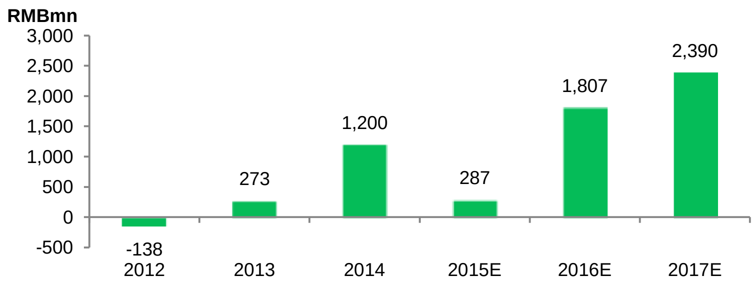
Source(s): Company, ABCI Securities estimates

Exhibit 79 : LVGEM's booked sales



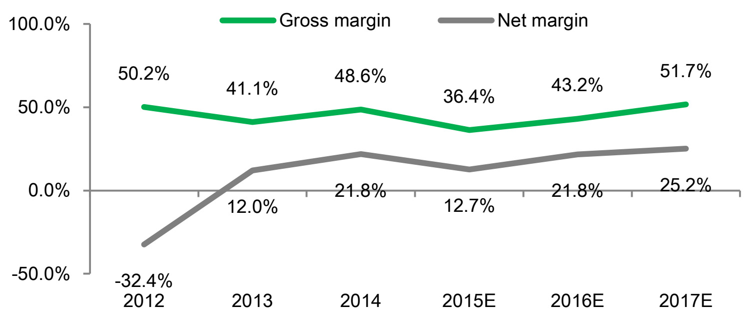
Source(s): Company, ABCI Securities estimates

Exhibit 80: LVGEM's core net profit in 2012-17E (RMB mn)



Source(s): Company, ABCI Securities estimates

Exhibit 81: LVGEM's gross and net margins in 2010-16E

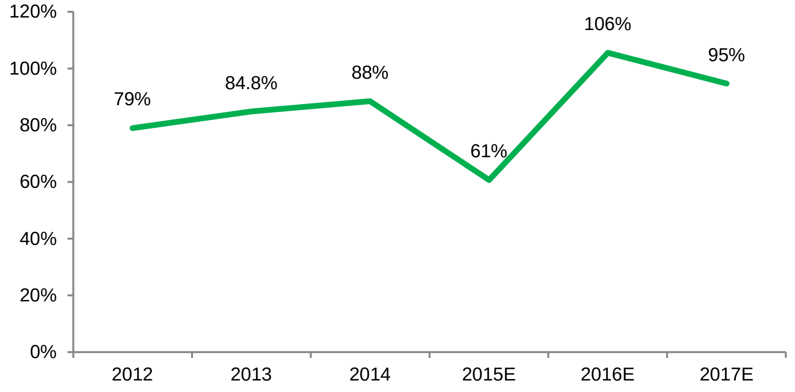


Source(s): Company, ABCI Securities estimates

Gearing may rise in 2016E-17E

We expect LVGEM's net gearing to fall from 88% in 2014 to 61% in 2015E due to strong cash inflow from presales of Hongwan Garden and Magrove Luxury Garden. However, we expect gearing to rise as on increasing investment in redevelopment projects.

Exhibit 82: LVGEM's net gearing in 2012-17E



Source(s): Company, ABCI Securities estimates

Initiate BUY with TP of HK$2.90 based on a 50% discount to NAV

Exhibit 83: LVGEM's end- FY16E NAV estimates

	Attr. GFA (M sqm)	Net assets value (RMB m)	% of total	Valuation Method	Implied value per sqm (RMB)
Shenzhen	1.5	17,419	46%		11,570
Maoming	2.5	2,040	5%	DCF at WACC of 10.4%	821
Others	0.2	121	0%		598
HK	0.0	436	1%	Book value	24,370
Property development	**4.2**	**20,017**	**53%**	**DCF at WACC of 10.4%**	**4,774**
Property investment & management	0.25	16,684	44%	3% cap rate of 2016E rental income	67,617
Comprehensive serivces		1,042	3%		10x 2016E PE
Total 2016E GAV		**37,744**	**100%**		
Convertible preference share		(5,860)	-16%		
2016E Net cash/ (debt)		(8,906)	-24%		
Total 2016E NAV		**22,978**	**61%**		
No. of share outstanding (diluted)		4,694			
NAV per share (RMB)		**4.90**			
Ex rate		1.18			
NAV per share (HKD)		**5.78**			
Target discount (%)		50%			
Target Price (HKD)		**2.90**			

WACC	**10.4%**
Cost of debt	8.5%
Cost of equity	15.0%
Debt/ (Debt + Equity)	**54%**

Source(s): Company, ABCI Securities estimates

We assess the valuation of LVGEM based on 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 10.4% to gauge the value of individual projects; total value of property development projects arrives at RMB 20bn. We assume LVGEM to successfully acquire 0.5mn sqm of new landbank in Shenzhen via redevelopment in 2016E. For the 75% stake in the Lau Fou Shan site in Hong Kong, we only include its acquisition cost (or book value) at HK$710mn (RMB582mn) in our valuation as the approval process of usage conversion (from agriculture to residential) could be lengthy.

- **Investment properties:** We apply a cap rate of 3% on 2016E rental income to arrive at our valuation estimate of RMB 17.0bn. This translates into RMB 67,617/sqm based on the total leasable floor area of 0.25mn sqm by end- 2016E.

- **Comprehensive services:** We apply 10x 2016E P/E on LVGEM's property management and hotel business.

Overall, Shenzhen property assets (property development and investment properties) represent 90% of our gross asset value forecast. We subtract the GAV of RMB 37.7bn by our 2016E net debt estimate (RMB 8.9bn) and convertible preference share amount (RMB 5.9bn) to derive our end-FY16E NAV of RMB 22,978mn, or HK$5.78/share.

We apply a 50% discount (towards low end of sector range) to our NAV estimates and derive our TP of HK$2.90. We believe LVGEM deserves to be traded at premium given its high Shenzhen exposure. Initiate **BUY**.

Risk factors

- **Relocation process could be lengthy.** The long process of urban redevelopment can be attributed to the negotiations with residents on the resettlement compensations in the form of cash, replacement properties, or both. The whole process could take 3-5 years for an individual site. Hence, timing for land acquisition is usually uncertain and the Group could be short on saleable resources if the process takes longer than expected.

- **Complicated regulations governing the redevelopment process.** Presales of Kaisa's urban redevelopment projects have been halted by relevant authorities due to possible breach of rules and regulations. So far, the LVGEM has not been involved in any legal cases regarding to similar violations. In our view, the LVGEM's has positioned itself to be a niche developer instead of one prioritizing a fast asset turnover. Thus, it is less likely to breach relevant regulations to speed up the relocation process.

- **Correlation to A-share market.** There are concerns that recent correction in A-share market may impair sentiment in property market, especially in Shenzhen where penetration of stock brokerages is high. However, property price in Shenzhen has showed no signs of abating. In fact, capital may have been diverted from stock market to physical properties as many Chinese citizens consider real estate to be a more defensive investment.

- **Policy tightening if property market is overheated.** High-tier cities have always been more tightly regulated as compared to other cities in China. E.g., the home purchase restriction in tier-1 cities has not been officially removed. If Shenzhen's property price surge excessively to an unaffordable level, the government may intervene with more tightening measures.

Consolidated income statement (2012A-2017E)

FY Ended Dec 31 (RMB mn)	2012A	2013A	2014A	2015E	2016E	2017E
Revenue	**485**	**1,971**	**4,851**	**2,350**	**8,696**	**10,190**
Cost of sales	(242)	(1,161)	(2,493)	(1,494)	(4,944)	(4,921)
Gross Profit	**243**	**810**	**2,357**	**855**	**3,753**	**5,269**
SG&A expenses	(204)	(197)	(193)	(141)	(308)	(359)
EBIT	**39**	**613**	**2,165**	**714**	**3,445**	**4,910**
Finance cost	(231)	(206)	(217)	(307)	(375)	(443)
Share of profit of associates	(0)	0	(0)	-	-	-
Other income/ (expenses)	2	8	19	37	44	38
Fair value gain of investment properties	-	591	895	-	-	-
Disposal/one-off items	652	0	-	-	-	-
Profit before tax	**461**	**1,006**	**2,861**	**445**	**3,114**	**4,505**
Tax	(130)	(326)	(1,132)	(146)	(1,220)	(1,942)
Profit after tax	**331**	**680**	**1,729**	**299**	**1,894**	**2,563**
Minority interest	(1)	0	(0)	(12)	(87)	(173)
Reported net profit	**330**	**680**	**1,728**	**287**	**1,807**	**2,390**
Less: exceptional items	*(468)*	*(407)*	*(528)*	-	-	-
Core net profit	**(138)**	**273**	**1,200**	**287**	**1,807**	**2,390**
Per share						
Underlying EPS (RMB)	(0.03)	0.06	0.26	0.04	0.22	0.29
DPS (HK$)	0.00	-	-	-	0.09	0.12
Payout ratio (%)	-7%	0%	0%	0%	41%	41%
BVPS (RMB)	0.97	1.11	1.48	0.89	1.03	1.20
Growth %						
Revenue		306.3%	146.2%	-51.6%	270.1%	17.2%
Gross Profit		232.9%	191.1%	-63.7%	338.8%	40.4%
EBIT		1475.1%	253.3%	-67.0%	382.4%	42.5%
Core net profit		-297.8%	339.6%	-76.1%	529.2%	32.3%
Margin %						
Gross margin	50.2%	41.1%	48.6%	36.4%	43.2%	51.7%
Gross margin (post-LAT)	172.3%	47.2%	43.9%	46.9%	39.2%	44.1%
EBIT margin	8.0%	31.1%	44.6%	30.4%	39.6%	48.2%
Core net margin	-32.4%	12.0%	21.8%	12.7%	21.8%	25.2%
Key assumptions						
Contracted Sales (RMB mn)				5,701	6,369	8,175
GFA sold (mn sqm)				0.42	0.52	0.60
ASP (RMB/sqm)				13,523	12,290	13,691
Booked Sales (RMB mn)				1,714	7,981	9,376
GFA delivered (mn sqm)				0.28	0.54	0.60
Booked ASP (RMB/sqm)				6,068	14,914	15,714

Source: Company, ABCI Securities estimates

Consolidated balance sheet (2012A-2017E)

As of Dec 31 (RMB mn)	2012A	2013A	2014A	2015E	2016E	2017E
Current assets	**6,392**	**7,438**	**7,879**	**14,118**	**15,593**	**17,909**
Cash	513	653	1,099	4,855	2,368	3,782
Restricted cash	43	388	742	742	742	742
Trade & other receivables	447	772	825	825	825	825
Property under development	5,267	5,310	4,932	7,416	11,377	12,279
Other current assets	122	315	280	280	280	280
Non-current assets	**9,684**	**11,133**	**12,630**	**12,701**	**12,773**	**12,844**
Property, plant & equipment	428	419	392	363	335	307
Investment properties	8,588	9,771	11,143	11,143	11,143	11,143
Investment in Associate and JCE	465	505	522	622	722	822
Other non-current assets	203	438	573	573	573	573
Total Assets	**16,076**	**18,571**	**20,509**	**26,819**	**28,365**	**30,753**
Current Liabilities	**7,530**	**6,975**	**5,065**	**11,077**	**11,465**	**12,264**
Short term borrowings	1,875	1,029	1,762	3,762	5,762	7,762
Trade & other payables	1,867	1,545	1,861	1,861	1,861	1,861
Pre-sales deposits	3,531	4,177	679	4,691	3,079	1,878
Other current assets	257	225	762	762	762	762
Non-current liabilities	**3,989**	**6,345**	**8,464**	**8,464**	**8,464**	**8,464**
Long term borrowings	2,282	4,464	6,254	6,254	6,254	6,254
Other payables	-	-	-	-	-	-
Other non-current assets	1,707	1,881	2,210	2,210	2,210	2,210
Total Liabilities	**11,519**	**13,320**	**13,529**	**19,540**	**19,929**	**20,728**
Net Assets	**4,558**	**5,251**	**6,980**	**7,279**	**8,437**	**10,026**
Shareholders' Equity	**4,542**	**5,226**	**6,954**	**1,381**	**2,452**	**3,868**
Convertible preference share	-	-	-	5,860	5,860	5,860
Minority Interest	16	26	26	38	125	298
Total Equity	**4,558**	**5,251**	**6,980**	**7,279**	**8,437**	**10,026**
Key ratio						
Gross debt (RMB mn)	4,157	5,493	8,016	10,016	12,016	14,016
Net debt (RMB mn)	3,601	4,452	6,175	4,419	8,906	9,492
Net gearing (%)	79%	85%	88%	61%	106%	95%
Contracted sales/ Total assets (x)	0%	0%	0%	21%	22%	27%

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2013A-2017E)

FY ended Dec 31 (RMB mn)	2012A	2013A	2014A	2015E	2016E	2017E
EBITDA	69	661	2,213	763	3,493	4,958
Change in Working Capital	890	(53)	(2,774)	1,988	(5,011)	(1,440)
Tax payment	(168)	(176)	(219)	(146)	(1,220)	(1,942)
Operating cash flow	**792**	**432**	**(780)**	**2,605**	**(2,738)**	**1,577**
Purchase of PP&E	(137)	(40)	(20)	(20)	(20)	(20)
Addition of Investment Properties	(489)	(767)	(510)	-	-	-
Others	(40)	(456)	(161)	(63)	(56)	(62)
Investing cash flow	**(666)**	**(1,263)**	**(691)**	**(83)**	**(76)**	**(82)**
Debt raised	1,571	3,251	4,390	10,000	10,000	10,000
Debt repaid	(1,004)	(1,915)	(1,867)	(8,000)	(8,000)	(8,000)
Interest expenses	(388)	(375)	(606)	(766)	(936)	(1,106)
Equity raised	-	-	-	-	-	-
Dividend to shareholders	-	-	-	-	(737)	(974)
Others	-	10	0	-	-	-
Financing cash flow	**178**	**971**	**1,917**	**1,234**	**327**	**(81)**
Net cash inflow/ (outflow)	**305**	**140**	**447**	**3,756**	**(2,487)**	**1,414**
Cash- beginning	208	513	653	1,099	4,855	2,368
Cash- year-end	**513**	**653**	**1,099**	**4,855**	**2,368**	**3,782**

Source(s): Company, ABCI Securities estimates

Feb 3, 2016
Company Report
Rating: BUY
TP: HK$ 4.50

Share price (HK$)	2.28
Est. share price return	97.4%
Est. dividend yield	5.7%
Est. total return	103.1%

Previous Rating &TP	HK$4.70, BUY
Previous Report Date	Nov 20, 2015

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

Key Data

52Wk H/L(HK$)	3.70/2.11
Issued shares (mn)	5,558
Market cap (HK$ mn)	12,672
3-mth avg daily turnover (HK$ mn)	35.84
Major shareholder(s) (%):	
Mr. JI Haipeng	76.47
RRJ Capital	5.02
Value Partner	1.50

Source(s): Company, Bloomberg, ABCI Securities

FY14 Revenue breakdown (%)

Property development	97.7
Construction	1.8
Property investment	0.4

Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	(13.7)	(2.8)
3-mth	(31.6)	(19.0)
6-mth	(31.8)	(14.5)

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

1-Year stock performance (HK$)

Source(s): Bloomberg, ABCI Securities

Logan (3380 HK)

2015: A year of sales victory

- Presales in 2015 jumped 53.6% YoY to RMB 20.5bn, beating the sales target by 14%.
- In Dec, the second batch of its Acesite Mansion project in Shenzhen was released. About 400 units were sold at RMB60,000/sqm in the first day of sale
- New shares placement totaling HK$ 1.55bn was completed in Nov 2015 to strengthen the balance sheet
- Maintain **BUY** with revised TP of HK$4.50 (from HK$4.70) based on an unchanged discount to NAV at 50%

2015 presales jumped 53.6% YoY to RMB 20.5bn, beating sales target by 14%. Driven by strong performance of Acesite Mansion project [玖龙玺], Logan's presales jumped 115.4% YoY to RMB 2.74bn in Dec 2015 while ASP soared to RMB16.7k/sqm, up 127% MoM. For the second batch of its Acesite Mansion project in Shenzhen, a total of 400 units were sold at RMB 60,000/sqm (vs. RMB55,000/sqm for the first batch) in the first day of sale. For 2015, Logan's presales reached a record high at RMB 20.5bn, representing a growth of 53.6% YoY (vs. peer average increase at 17% YoY); GFA and ASP grew 32%YoY and 12% YoY.

Placement in November strengthens balance sheet further. In Nov 2015, Logan completed the issuance of 557.5mn new shares (10.03% of enlarged capital) at HK$2.78 (13% discount), raising a total of HK$ 1,550mn. This timely placement prior to the market downturn since beginning of 2016 eases the possibility that gearing may rise significantly related to its purchase of the site near the Hongshan Metro Station at RMB 11.25bn in Sep 2015. In Jan 2016, Logan issued US$ 260mn of 7.70% senior notes due 2020. The coupon rate is lower than the USD bonds raised in 2014 at 9.55%-11.25%.

Maintain BUY with revised TP of HK$4.50. Due to better-than-expected presales in 2015 and ASP performance, we raise our 2016E NAV estimate to RMB 42.5bn (from RMB 38.2bn). However, NAV per share drops to HK$9.03 (from HK$9.32) due to the new share issuance and RMB depreciation. We lower our TP to HK$ 4.50 (from HK$ 4.70), still based on 50% discount to FY16E NAV. Following the acquisition of the Hongshan site, landbank in Shenzhen (property development and investment properties) now accounts for 75% of total GAV. Rising property market in Shenzhen will benefit the Group. Maintain **BUY**.

Risk factors: 1) Forex risks; 2) Rising land cost in tier-1 cities; 3) Increase in net gearing.

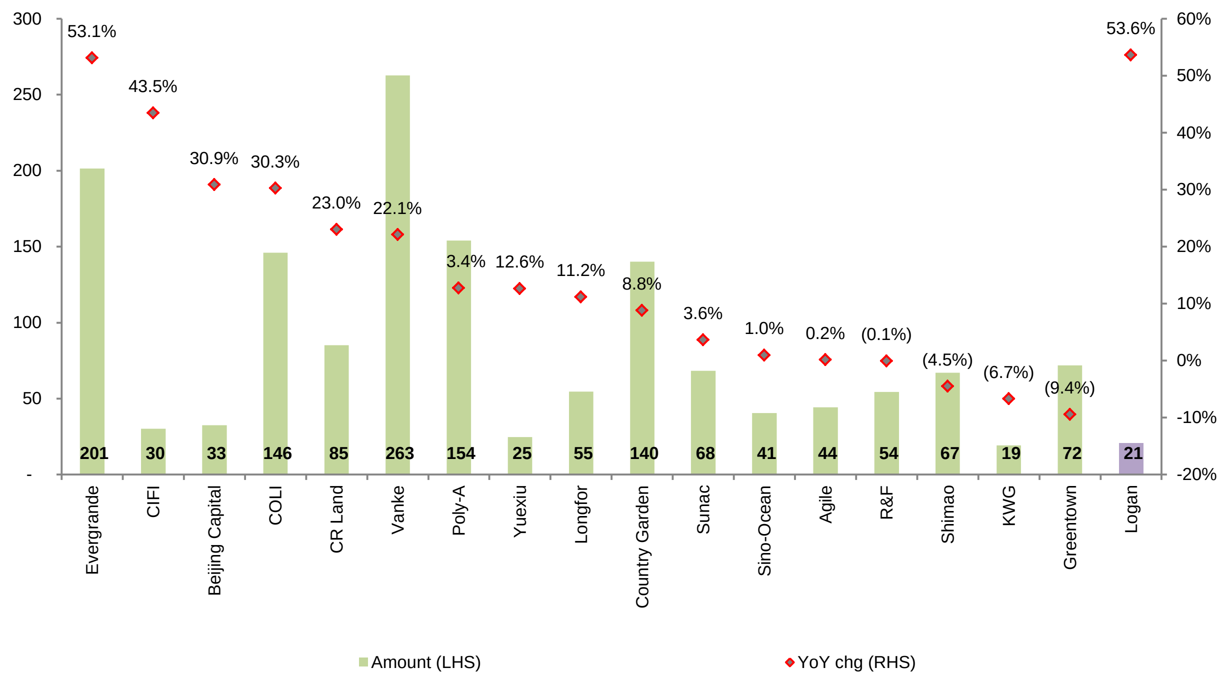
Results and Valuation

FY ended Dec 31	2013A	2014A	2015E	2016E	2017E
Revenue (RMB mn)	11,119	12,498	15,292	17,282	19,647
Chg (%,YoY)	68.8	12.4	22.4	13.0	13.7
Core net profit (RMB mn)[1]	2,045	1,760	2,018	2,261	2,661
Chg (%,YoY)	75.3	(13.9)	14.6	12.1	17.7
Underlying EPS (RMB)	0.41	0.35	0.36	0.41	0.48
Chg (%,YoY)	49.0	(13.9)	3.1	12.1	17.7
BVPS (RMB)	1.5	2.2	2.5	2.7	3.0
Chg (%,YoY)	52.3	52.8	10.6	10.4	10.2
Underlying PE (x)	4.7	5.5	5.3	4.8	4.0
P/B (x)	1.3	0.9	0.8	0.7	0.6
ROE (%)	27.9	15.7	14.6	14.9	15.9
ROA (%)	7.4	3.9	3.4	3.2	2.6
DPS(HK$)	0.11	0.11	0.13	0.15	0.20
Yield (%)	4.82	4.82	5.70	6.58	8.77
Net gearing[2] (%)	60.9	65.7	58.7	52.6	Net cash

[1]Core net profit =Net profit - revaluation gain of investment properties and one-off items
[2]Net gearing=Net debt/Total equity
Source(s): Bloomberg, ABCI Securities estimates

Exhibit 84: Presales growth of major developers in 2015

RMB bn



Source(s): Company, ABCI Securities estimates

Exhibit 85: Logan's 2016E NAV

	Attr. GFA (mn sqm)	Net assets value (RMB mn)	% of total	Valuation Method	Implied value per sqm (RMB)
Property development					
Shenzhen	0.7	27,543	61%		40,985
Huizhou	4.1	2,419	5%		586
Shantou	1.4	1,160	3%	DCF with 7.2%WACC	812
Foshan	1.0	251	1%		252
Others	6.5	13,578	30%		2,095
Subtotal	**13.7**	**44,950**	**86%**		**3,280**
Investment Properties	0.1	7,027	14%		1.5x book value
Total 2016E GAV		**51,977**	**100%**		
2016E Net debt		(9,454)	-18%		
Total 2016E NAV		**42,523**	**82%**		
No. of share outstanding (diluted)		5,558			
NAV per share (RMB)		**7.65**			
Ex rate		1.18			
NAV per share (HKD)		**9.03**			
Target discount (%)		50%			
Target Price (HKD)		**4.50**			

WACC	**7.2%**
Cost of debt	6.5%
Cost of equity	10.0%
Debt/ (Debt + Equity)	**55%**

Source(s): Company, ABCI Securities estimates

Consolidated income statement (2013A-2017E)

FY Ended Dec 31 (RMB mn)	2013A	2014A	2015E	2016E	2017E
Revenue	**11,119**	**12,498**	**15,292**	**17,282**	**19,647**
Cost of sales	(7,004)	(8,694)	(10,069)	(10,607)	(10,827)
Gross Profit	**4,116**	**3,804**	**5,224**	**6,676**	**8,819**
SG&A expenses	(729)	(940)	(1,371)	(1,813)	(2,593)
EBIT	**3,387**	**2,864**	**3,852**	**4,862**	**6,226**
Finance cost	(103)	(94)	(117)	(103)	(109)
Share of profit of associates	0	0	0	0	0
Other income/ (expenses)	28	85	78	89	236
Fair value gain of investment properties	0	0	0	0	0
Disposal/one-off items	(3)	862	0	0	0
Profit before tax	**3,309**	**3,718**	**3,813**	**4,848**	**6,353**
Tax	(1,252)	(1,297)	(1,582)	(2,046)	(2,793)
Profit after tax	**2,056**	**2,421**	**2,232**	**2,803**	**3,561**
Minority interest	(32)	(73)	(214)	(541)	(900)
Reported net profit	**2,024**	**2,348**	**2,018**	**2,261**	**2,661**
Less: exceptional items	*21*	*(588)*	*0*	*0*	*0*
Underlying net profit	**2,045**	**1,760**	**2,018**	**2,261**	**2,661**
Per share					
Underlying EPS (RMB)	0.41	0.35	0.36	0.41	0.48
DPS (RMB)	0.11	0.11	0.13	0.15	0.20
Payout ratio (%)	27%	31%	36%	37%	42%
BVPS (RMB)	1.47	2.24	2.48	2.74	3.02
Growth %					
Revenue	68.8%	12.4%	22.4%	13.0%	13.7%
Gross Profit	60.8%	-7.6%	37.3%	27.8%	32.1%
EBIT	63.3%	-15.4%	34.5%	26.2%	28.1%
Underlying net profit	75.3%	-13.9%	14.6%	12.1%	17.7%
Margin %					
Gross margin	37.0%	30.4%	34.2%	38.6%	44.9%
Gross margin (post-LAT)	34.2%	27.5%	29.3%	32.8%	37.4%
EBIT margin	30.5%	22.9%	25.2%	28.1%	31.7%
Core net margin	18.5%	14.2%	14.6%	16.2%	18.1%
Key assumptions					
Contracted Sales (RMB mn)	13,208	13,350	20,510	26,474	47,387
GFA sold (m sqm)	1.64	1.82	2.43	2.38	3.11
ASP (RMB/sqm)	8,043	7,347	8,441	11,122	15,237
Booked Sales (RMB)	10,385	12,215	14,989	16,956	19,296
GFA delivered (m sqm)	1.24	1.74	1.90	1.85	1.63
Booked ASP (RMB/sqm)	8,376	7,022	7,871	9,176	11,874

Source: Company, ABCI Securities estimates

Consolidated balance sheet (2013A-2017E)

As of Dec 31 (RMB mn)	2013A	2014A	2015E	2016E	2017E
Current assets	**23,624**	**39,226**	**53,219**	**65,555**	**96,945**
Cash	3,827	5,576	6,900	7,873	37,767
Restricted cash	678	1,938	1,938	1,938	1,938
Trade & other receivables	1,316	2,502	2,502	2,502	2,502
Property under development	17,686	27,875	40,545	51,908	53,404
Other current assets	117	1,334	1,334	1,334	1,334
Non-current assets	**4,187**	**5,610**	**5,710**	**5,811**	**5,911**
Property, plant & equipment	97	122	123	123	124
Investment properties	3,793	4,685	4,785	4,885	4,985
Investment in Associate and JCE	0	0	0	0	0
Other non-current assets	297	803	803	803	803
Total Assets	**27,812**	**44,836**	**58,929**	**71,366**	**102,857**
Current Liabilities	**13,635**	**17,827**	**29,180**	**39,699**	**68,790**
Short term borrowings	2,754	3,824	5,824	6,824	7,824
Trade & other payables	3,382	3,486	3,486	3,486	3,486
Pre-sales deposits	6,347	8,356	17,710	27,228	55,319
Other current assets	1,152	2,160	2,160	2,160	2,160
Non-current liabilities	**6,827**	**13,691**	**13,691**	**13,691**	**13,691**
Long term borrowings	6,228	12,441	12,441	12,441	12,441
Other payables	0	0	0	0	0
Other non-current assets	599	1,251	1,251	1,251	1,251
Total Liabilities	**20,462**	**31,519**	**42,872**	**53,390**	**82,481**
Net Assets	**7,350**	**13,317**	**16,057**	**17,976**	**20,375**
Shareholders' Equity	**7,336**	**11,210**	**13,786**	**15,214**	**16,763**
Minority Interest	14	2,107	2,271	2,763	3,613
Total Equity	**7,350**	**13,317**	**16,057**	**17,976**	**20,375**
Key ratio					
Gross debt (RMB mn)	8,983	16,265	18,265	19,265	20,265
Net debt (RMB mn)	4,477	8,751	9,427	9,454	(19,439)
Net gearing (%)	61%	66%	59%	53%	-95%
Contracted sales/ Total assets (x)	0.47	0.30	0.35	0.37	0.46

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2013A-2017E)

FY ended Dec 31 (RMB mn)	2013A	2014A	2015E	2016E	2017E
EBITDA	3,403	2,884	3,872	4,882	6,246
Change in Working Capital	(3,053)	(9,806)	(2,052)	(728)	27,771
Tax payment	(1,252)	(1,297)	(1,582)	(2,046)	(2,793)
Operating cash flow	**(902)**	**(8,220)**	**238**	**2,108**	**31,224**
Purchase of PP&E	(20)	(20)	(20)	(20)	(20)
Addition of Investment Properties	(100)	(100)	(100)	(100)	(100)
Others	28	85	78	89	236
Investing cash flow	**(92)**	**(35)**	**(42)**	**(31)**	**116**
Debt raised	3,615	11,613	2,000	5,000	5,000
Debt repaid	(841)	0	0	(4,000)	(4,000)
Interest expenses	(1,107)	(1,010)	(1,381)	(1,220)	(1,285)
Equity raised	(92)	(35)	(42)	(31)	116
Dividend to shareholders	(550)	(550)	(722)	(834)	(1,112)
Others	1,260	(15)	1,273	(19)	(166)
Financing cash flow	**2,285**	**10,003**	**1,127**	**(1,103)**	**(1,446)**
Net cash inflow/ (outflow)	**1,291**	**1,749**	**1,324**	**974**	**29,893**
Cash- beginning	2,537	3,827	5,576	6,900	7,873
Cash- year-end	**3,827**	**5,576**	**6,900**	**7,873**	**37,767**

Source(s): Company, ABCI Securities estimates

Disclosures

Analyst Certification

I, Kenneth Tung, 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
Hold	Market return – 6% ≤ 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 2009-2013
Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	2.6 ≤180 day volatility/180 day benchmark index volatility
High	1.5 ≤ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	1.0 ≤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.

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