

China Property Update

October Contract Sales for Developers Should be Mostly Good

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Channel checks suggest that the various listed China property stocks should post MoM growth in contract sales in October, including Sunac, Evergrande, and Country Garden, partly due to their launch pipeline. We believe a few developers, such as Poly Property and Greentown are likely to post flattish contract sales MoM.

Several recent launches in 1st and 2nd tiered cities saw high sell-through rate, including Franshion and Sunac's launch of Beijing Laiguangying project (100% sold). Some developers (with the exception of lower tiered cities' heavy Evergrande and Country Garden) managed to raise property selling prices by 5-15% in the past few months. Sino-Ocean raised some project prices in Beijing and Dalian by 5-15% and Shimao in Wuxi, Hangzhou and Nanjing by 5-10%.

Within the HK-listed universe, it seems fewer number of developers would miss their 2012 contract sales targets. We believe Agile and Glorious are likely to miss their respective targets among stocks that we track. Recall that as of end-September, the sector's simple average locked-in sales vs. 2012 contract sales targets was 80%.

The HK-listed China property sector is trading at a 43% discount to NAV, 6.8x FY13F earnings, 6.0x FY14F earnings as well as at 0.9x FY13F book. On a forward PER and PB, basis, the sector is trading at 0.8x standard deviation below historical average forward PER and PB.

From a valuation perspective, stocks like CR Land (1109 HK) and Shimao (813 HK) are trading close to their historical averages in terms of discounts to NAV and forward PERs, and look fully valued to us. We prefer KWG (1813 HK), Sino-Ocean (3377 HK), and Longfor (960 HK). We also like small-cap Sunac's (1918 HK) execution and very cheap valuation, but wonder whether its second-largest shareholder Bain Capital might exit part of its position after three years of purchasing a stake in Sunac from Lehman.

October contract sales and project launch color

October contract sales numbers are not out yet except for GZ R&F (2777 HK), but we expect developers such as Sunac (1918 HK), Evergrande (3333 HK) and Country Garden (2007 HK) to post MoM rises in contract sales in October due to launch pipeline, while some developers such as Poly Property (119 HK) should have flattish contract sales in October.

Sunac launched the Beijing Laiguangying (JV with Franshion) and Tianjin Mier Er project in October, achieving good sales. The Beijing Laiyuanying units launched were sold out and fetched about CNY1.8 b of total subscription sales at an ASP of CNY30k/sq m. Tianjin project's sell-thru rate was ~70-80% and saw around CNY0.7 bn of subscription sales with an ASP of CNY25k/sq m.

GZ R&F achieved strong contract sales of CNY4.1 b in October, up 65% MoM and up 101% YoY. Over the first 10 months of the year, it achieved CNY26.5b, up 13% YoY and locking in 83% of its contract sales target. The developer launched Yingtong Grade A office in Pearl River New Town in Guangzhou on last Saturday and over the first three days, it achieved over CNY0.47 b (i.e., estimated ~80-90 units sold; overall unit sizes range from 120-over 300 sq m) at an ASP of CNY35k/sq m. R&F's well-located Harbin project also launched in October.

Evergrande: channel checks suggest that Evergrande launched some new batches of available for sale resources from its Qidong project in October and achieved similar ASPs as the first launch. Oct contract should be up MoM.

We expect Poly Property to have flattish MoM contract sales in October vs. September's CNY 2.9 b. November contract sales should be higher than October for Poly Property as Wuhan Poly Park and Shanghai Poly Star Island's contract sales are expected to be recorded in November.

Country Garden already disclosed good sales # at last Friday's briefing and October should be up MoM.

Figure 1: Expected Launch Pipeline over the next few months

	Nov	Dec	Our Comments
Agile			GZ Science City project is targeted to be launched in Nov/Dec, though the expected launch timing has been delayed. Brand new batch of units from Hainan Clearwater Bay in Dec. The Magnificence Nanjing is also targeted to be launched in year end. Shenyang official launch in Nov, despite soft launched already at an ASP of CNY8k/sq m. Agile has slipped some launch time and hence, we are less confident in guided project launch timing.
Country Garden			In Nov, new launches include Zhangjiatie Country Garden and Hangzhou Country Garden (Xiasha), and in Dec, expect Country Garden Hill Lake Bay in Nansha and Tangxia Country Garden Grand Garden.
COLI			Most of the brand new launches in China have been launched. 2 HK new projects for Nov and Dec are planned.
CRL			Towards year-end, 2 launches -- Hangzhou Zhijiang project and Zhengzhou project -- are planned for launch.
GZ R&F			Harbin Jiangwan New Town and Yingtong Grade A office in Pearl River New Town were launched in late Oct. Over the first 3 days of launch, Yingtong office fetched over CNY0.47 b at an ASP of 35k/sq m. The delayed Taiyun project and Datong project should launch in Nov/Dec. Tianjin Guandong Building is still waiting for presale permit and target is to be launched in 4Q if it can obtain the permit.
KWG			Hainan Lingshui project has soft launched for a while, but is targeted to be launched in Oct. Guangzhou Biological Island Ph 1 (serviced apartments) is expected to be launched in Nov/Dec. Suzhou Emerald might launch next year instead.
Longfor			We estimate Nov contract sales to be relatively high given expected Rmb7-8 bn of available for sale resources. In Oct, Xian Waft Yard (Daming Palace) and a Hangzhou project are expected to be launched, followed by new Daxing project, and more batches from such projects as Beijing Changying Paradise Walk and Chongqing Yuanzhu project.
Poly Property			Wuhan Poly Park and Shanghai Poly Star Island are expected to be launched in late-Oct/Nov. The Suzhou Poly West Bank Villa project should also be launched in 4Q, depending on market response. In Dec or early next year, Poly Aegean Sea in northern Nanning should be launched.
Shimao			No brand new project launch in the remainder of the year, as guided during interim results.
Sino-Ocean			Launches will go through only if potential sell-through indicated in the current building phase reaches 70% and 50% for new and existing projects respectively. Longgang district's Sino-Ocean Express (SO's first project in Shenzhen) is expected to be launched in Nov, and we believe the target is to sell 500-600 units. Dalian Ocean Midtown (new project) is also slated for 4Q launch.
Sunac			Beijing Laiguangying (JV with Franshion) and Tianjin Mian Er were launched in Oct, and Beijing sales were especially strong. Sunac also plans to launch Wuxi Yulun Garden Ph 2 and Chongqing APEV project in 4Q, and potentially some resources from JV projects with Greentown.

* light color indicates some launches expected and dark color indicates many launches expected. Blank cells indicate not much project launches expected.

Source: Company data, Soufun, Kim Eng Securities estimates

Figure 2: China Property Monthly Contract Sales

CNY b	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Jan-Sept Total	9M YoY (%)	% achieved of Target as of Sept (%)	
Agile*	2.1	2.1	2.2	2.1	2.4	3.2	2.1	2.2	2.4	20.7	(10)	32	65
COLI (note #s converted to Rmb)	3.2	10.7	7.4	9.7	10.1	12.1	8.3	6.6	7.1	75.4	29	82	92
Country Gdn	0.9	1.8	3.4	3.0	3.7	4.5	4.8	3.7	3.8	29.6	(9)	43	69
CRL	1.5	2.4	4.3	3.1	5.0	7.0	4.6	6.0	3.8	37.7	56	40	94
Evergrande	2.2	2.0	4.0	8.2	10.4	8.2	8.2	7.2	8.1	58.6	(15)	80	73
Glorious	0.4	0.6	0.6	1.1	1.4	1.5	1.1	1.1	1.1	8.9	(14)	13.3	68
GZ R&F	1.2	2.4	3.0	2.9	2.3	2.8	2.4	2.8	2.5	22.3	4	32	70
KWG Property	0.4	0.6	1.0	1.0	1.1	1.2	1.1	1.1	1.2	8.8	(6)	12	73
Longfor	1.2	2.1	3.2	3.0	3.4	4.5	3.1	3.6	4.0	28.1	(1)	39	72
Poly Property	0.5	0.5	1.0	1.0	2.1	5.1	2.7	1.5	2.9	17.2	41	19	91
Shimao*	0.9	2.1	4.3	4.1	5.1	6.0	4.1	4.0	5.1	36.7	50	at least 40	92
Sino-Ocean	0.3	1.0	2.0	2.6	1.9	5.9	3.3	3.3	3.3	23.6	24	27	87
Sunac	0.6	0.8	2.0	2.2	2.3	3.3	2.4	2.6	3.0	19.2	73	30	64
Yuexiu Prop		1.1		2.1	1.6	1.3	1.3	1.4	1.4	11.0	133	10	110
Vanke*	12.2	7.3	11.5	7.4	10.7	13.3	10.4	11.4	12.0	96.3	(1)	130	74

*Note: Vanke's is not official target. Agile posted 2012 contract sales GFA target of 3.1 mn sq m, and the dollar amount target is our estimate.

Sunac's target was revised from Rmb22 bn to Rmb30 bn, and COLI from HK\$80 to HK\$100bn. Shimao's informal target revised to at least Rmb40 bn. Poly's target revised from Rmb16 bn to Rmb19 bn.

Source: Company data, Bloomberg, Kim Eng Securities

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Maybank Kim Eng Research uses the following rating system:

BUY	Return is expected to be above 10% in the next 12 months (excluding dividends)
HOLD	Return is expected to be between - 10% to +10% in the next 12 months (excluding dividends)
SELL	Return is expected to be below -10% in the next 12 months (excluding dividends)

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The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

Some common terms abbreviated in this report (where they appear):

Adex = Advertising Expenditure	FCF = Free Cashflow	PE = Price Earnings
BV = Book Value	FV = Fair Value	PEG = PE Ratio To Growth
CAGR = Compounded Annual Growth Rate	FY = Financial Year	PER = PE Ratio
Capex = Capital Expenditure	FYE = Financial Year End	QoQ = Quarter-On-Quarter
CY = Calendar Year	MoM = Month-On-Month	ROA = Return On Asset
DCF = Discounted Cashflow	NAV = Net Asset Value	ROE = Return On Equity
DPS = Dividend Per Share	NTA = Net Tangible Asset	ROSF = Return On Shareholders' Funds
EBIT = Earnings Before Interest And Tax	P = Price	WACC = Weighted Average Cost Of Capital
EBITDA = EBIT, Depreciation And Amortisation	P.A. = Per Annum	YoY = Year-On-Year
EPS = Earnings Per Share	PAT = Profit After Tax	YTD = Year-To-Date
EV = Enterprise Value	PBT = Profit Before Tax	

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