

Company Report

Zhong An Property (672 HK)

Property developer in v-shaped recovery

- Zhong An is a Hangzhou-based property developer. Riding on fast development of Zhejiang Province, Zhong An's contracted sales were up +47% YoY in 2016 (faster than peers' +37%), and mgmt. expected sales to grow another +39% in 2017E (sector avg: +19%)
- Mgmt. expected profits to turnaround in 17E on margin recovery as major projects' current ASPs are 5-88% higher than FY16 ASP
- Recent share placements provide further financial capability to accelerate landbank replenishments and sales growth in 2H17/18E

Robust contracted sales CAGR of 41% in 16-18E

Zhong An is a residential property developer with GFA landbank concentrating in Hangzhou (53%) and Zhejiang Province (26%). Company is set to ride on the tailwinds of fast economic development / TMT industry in the region and property market recovery in suburban areas, its contracted sales growth is to +39% YoY in 2017E to RMB7bn (faster than its small-mid cap peers' of +19% YoY sales growth). By 6M17, company has secured 50% of FY17E's sales target.

Recovering margins & profits

Company reported a core profit of RMB67m in 2016, from a loss of RMB207m in 2015 due to +150% YoY in GFA delivered offset GP margin compressed from 25% in FY14 to 12% in FY16. With key projects' ASP now 5-88% higher than FY16 ASP, mgmt. expected margin recovery to be on the verge. For every 5pp increase in GP margin, company's gross profit would increase by 42%.

Further equity raising is possible

Zhong An has completed 2 share placements in the past 3 months (Jun17: HK\$261m for 20% of existing share capital, Jul17: HK\$150m for 3.55%) to enhance capital and shareholder bases. Post placements, pro-forma net gearing reduced to 46% from 51% by end-Dec16. Company did not rule out the possibility of more equity financing in future in order to further optimize the capital structure and to replenish new landbank.

Valuation

Stock is trading at 66% discount to management's estimated NAV of HK\$7.84, wider than 58% discount of its small-mid cap peers. It is trading at 78.8x 2016 P/E (from a low earnings base) and 3.2x P/B.

Financials

RMB mn	2012	2013	2014	2015	2016
Revenue	2,396	2,438	1,550	2,883	5,007
Growth (%)	-	1.8%	-36.4%	86.0%	73.7%
Adjusted net profit	345	220	(116)	(207)	68
Growth (%)	-	-36.1%	N/A	N/A	N/A
Adj. EPS (RMB)	0.15	0.09	(0.05)	(0.09)	0.03
Adj. P/E (x)	15.7	24.6	(46.7)	(25.9)	78.8
Dividend yield (%)	-	-	0.8	-	-
Net gearing (%)	56	63	77	61	51
Adj EPS (HK\$)	0.17	0.11	(0.06)	(0.10)	0.03

Sources: Company data, CMS (HK) estimates

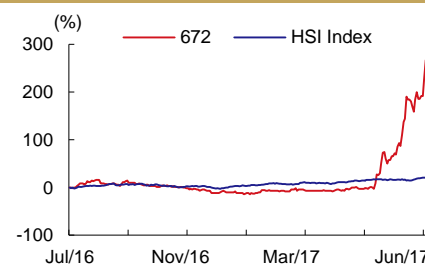
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Non-Rated

Previous	N/A
Price	HK\$2.62
12-month Target Price (Potential up/downside)	N/A
Previous	N/A

Price Performance



Source: Bigdata

%	1m	6m	12m
672 HK	122.0	336.7	269.0
HSI	4.1	15.3	21.7

Sector: Real Estate

Hang Seng Index	26941
HSCEI	10832

Key Data

52-week range (HK\$)	0.59-2.71
Market cap (HK\$ mn)	7646
Avg. daily volume (mn)	4.2
BVPS (HK\$)	2.29

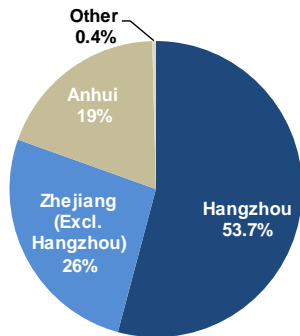
Shareholding Structure

Shi Kancheng	56%
No. of shares outstanding (mn)	2918
Free float	44%

Sources: Bloomberg, Big data

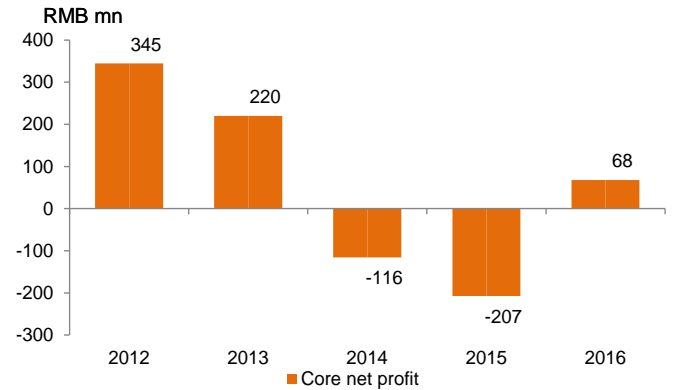
Focus charts

Figure 1: A Hangzhou-focused developer (over 50% of its landbank is located in Hangzhou)



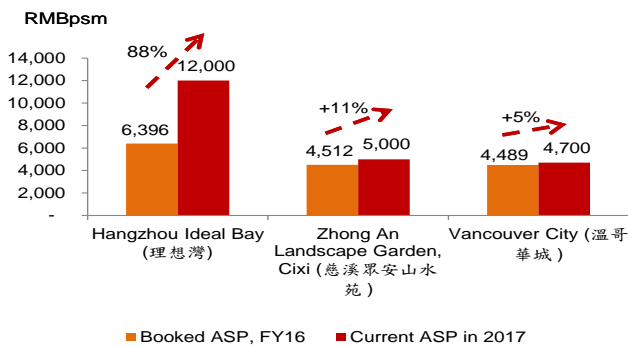
Sources: Company data, CMS(HK)

Figure 2: Zhong An's core earnings have troughed in 2015....



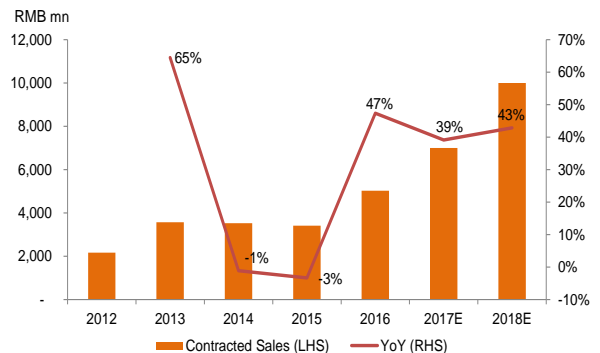
*All data are from company management's sales guidance. Sources: Companies, CMS (HK)

Figure 3: ...as key projects' ASP have increased by 5% to 88% in past 12 months



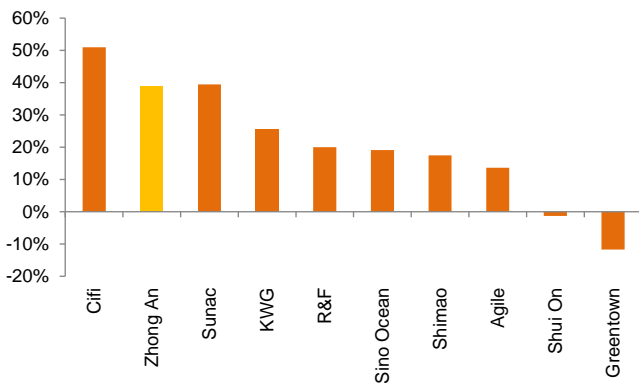
Sources: Company data, CMS(HK)

Figure 4: Management expected Contracted sales growth to accelerate, and is set to grow a 41% CAGR in 2016-2018E



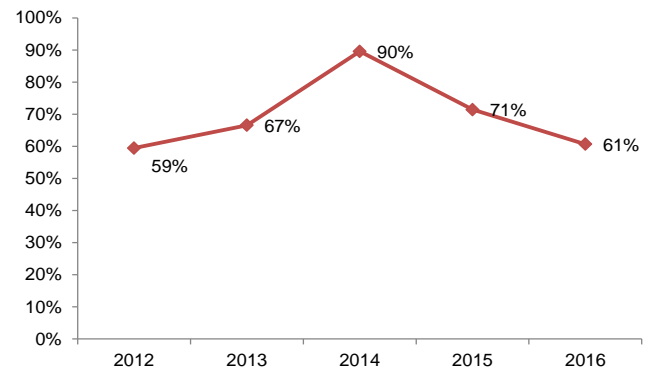
Sources: Company data, CMS(HK)

Figure 5: Higher than peers' sales growth (contracted sales growth guidance in 2017E)



Sales guidance by company's management. Sources: Company data, CMS(HK)

Figure 6: Stabilizing financial position (Zhong An's net gearing ratios)



Sources: Company data, CMS(HK)

Company background

A Hangzhou-focused developer

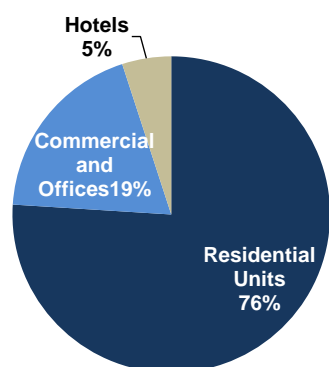
Zhong An was established in 1997 and listed on the Main Board of Hong Kong Stock Exchange in 2007. The company primarily focuses on developing residential properties in China, especially in Hangzhou and Anhui Province.

As at the end of 2016, the Group had landbank of total GFA of about 5.9mn sqm, of which 53.7% and 19.0% are located in Hangzhou and Anhui. The average land cost is RMB1,183psm.

In term of development strategy, Zhong An aims at implementing the business model of collecting sales proceeds in quick process through acquiring and selling products at fair price. In general, the Group targets to realize positive cashflow one year after acquiring the lands for all projects.

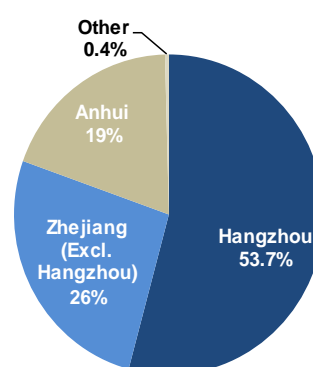
Additionally, Zhong An has spun off its commercial property and hotel business subsidiary, China New City (1321 HK) and listed on HKEx in 2014. Currently Zhong An holds ~73% stake of China New City (1321 HK)

Figure 7: Landbank – Use type breakdown (Dec16)



Sources: Company data

Figure 8: Landbank-Geographical distribution (Dec16)



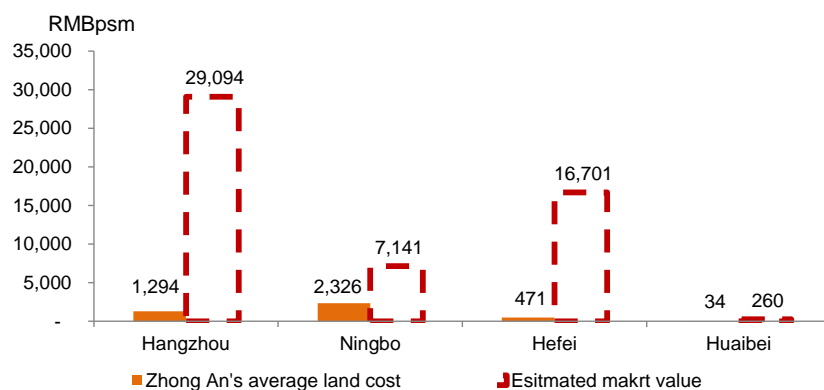
Sources: Company data

Low land costs

With landbank size of 5mn sqm which is sufficient for company's development in the next 3-4 years, company can wait for land market to become less competitive to replenish landbank. Since beginning of 2016, company has replenished only 2 land sites through M&A.

Land replenishment activities are set to accelerate in the next 6-12 months, as after the two share placements in 1H17 has further strengthened company's financial position.

Figure 9: Zhong An's average land cost and estimated market value*



*estimated market value is based on the transacted land prices in the cities during 6M17. Sources: Wind, land.fang.com, Company data

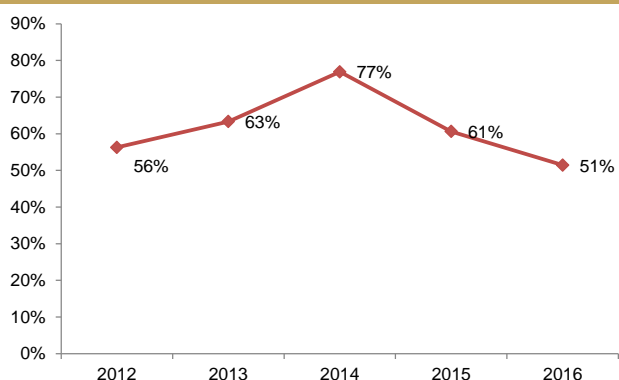
Financial positions

Company's net gearing ratio (net debt over total equity) has once increased to 77% at Dec14 from 56% at Dec12, as company accelerated its land acquisitions in the period, while tightening policy measures in 2013-14 have affected the sales progress and thus the cash inflows of the company.

Financial position has improved in recent years as company slowed land acquisitions, net gearing ratios decreased from 77% in Dec14 to 51% in Dec16; net debts also reduced from Rmb5.4bn at Dec14 to Rmb4.0bn at Dec16.

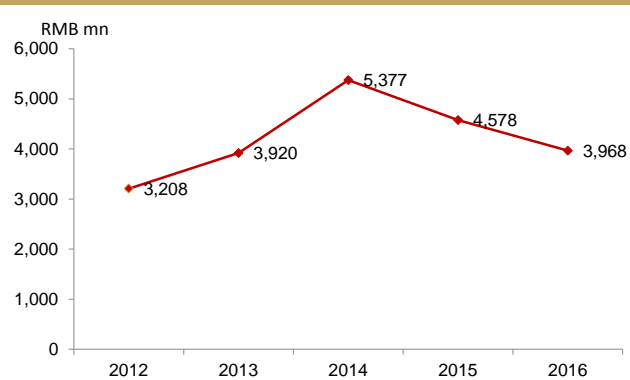
Management targeted to maintain net gearing ratios at 45-65% for coming 3 years.

Figure 10: Net debt to equity ratio



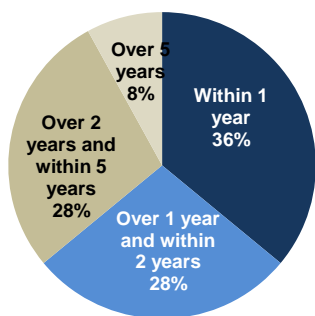
Sources: Company data, CMS(HK)

Figure 11: Net debt from 2012 to 2016



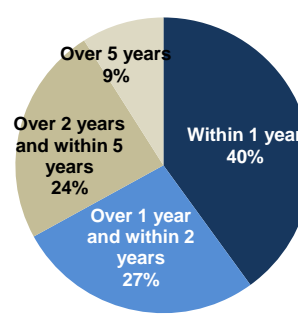
Sources: Company data, CMS(HK)

Figure 12: Debt - Breakdown by maturity (Dec15)



Sources: Company data

Figure 13: Debt - Breakdown by maturity (Dec16)



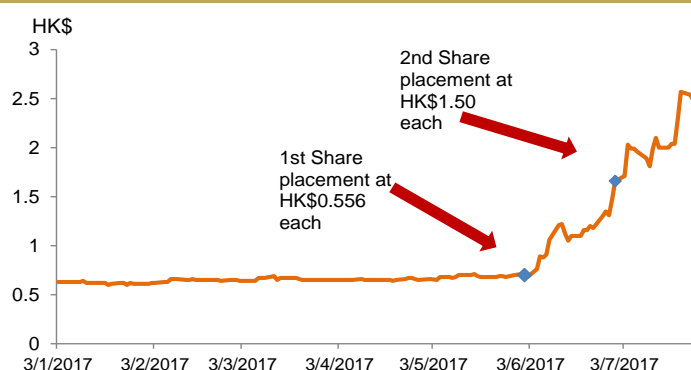
Sources: Company data

Optimizing the shareholding structure

Company has completed 2 rounds of share placements in the past 3 months, namely in Jun 2017 and July 2017 at placement prices of HK\$0.556 and HK\$1.50 raising HK\$261m and HK\$150m respectively.

After the share placements, company has broadened its shareholder base introducing institutional investors including CVP and asset management; it has also further strengthened the financial position and financial capability to capture any land opportunities in 2H17.

Figure 14: Zhong An's share price performance at each share placement



Sources: Bloomberg, Company data, CMS(HK)

Figure 15: Zhong An's recent share placements

Date	Placing Price (HK\$)	% discount to previous closing price	No. of shares involved (% of existing issued share capital)	Remarks
10 Mar 2011	1.40	4.76%	50,000,000 (2.14%)	
3 Jun 2017	0.556	18.2%	469,716,000 (20%)	Shares placed to >6 independent investors reportedly include CVP
3 Jul 2017	1.50	12.3%	100,000,000 (3.55%)	Shares placed to >6 independent investors which reportedly include UBS asset management and CSOP

Source: Company data, HKEX, CMS(HK)

Figure 16: Change in shareholding structure after each share placement

	Before 1 st share placement (as of 9 Mar 2011)	After 1 st share placement (as of 10 Mar 2011)	After 2 nd share placement (as of 12 Jun 2017)	After 3 rd share placement (as of 12 Jul 2017)
Shi Kancheng	69.87%	68.4%	57.8%	55.8%
Placees	0%	2.1%	16.7%	3.4%
Public shareholders	30.13%	29.5%	25.5%	40.8%

Source: HKEX, CMS(HK)

Business outlook

A 41% contracted sales CAGR in 2016-18E

In 2016, the company recorded contracted sales of RMB5.03bn +47% YoY, well ahead of small-mid cap peers' of +37%. Company guided for another 39% YoY growth in contracted sales to RMB7.0bn in 2017E, faster than peers' of +19%.

In 2017E, company has a total saleable pipeline of RMB10.6bn, which implies a 66% sell-through rate in order to achieve the full-year's sales target. Such sell-through ratio is higher than 44% achieved in 2016, but management is still confident in achieving the target as 1) 50% of full year's sales target has been secured by 6M17, and 2) 41% of total saleable pipeline is new saleable resources, higher than 23% in 2016.

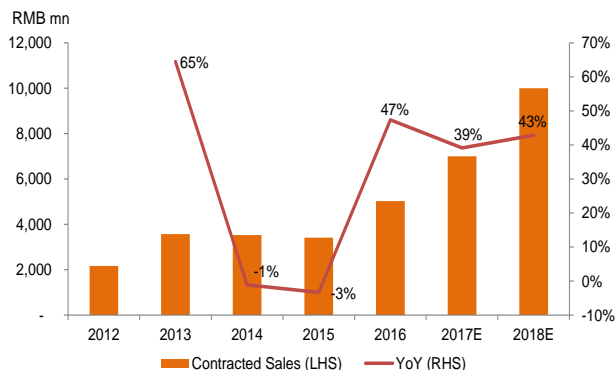
For 2018E, company targets to achieve RMB10bn contracted sales (+43% YoY). Management expected the growth will be coming from new land sites to be acquired 2H17 which should turn into new saleable resources in 2018E.

Figure 17: Zhong An's saleable pipeline and sell-through rates

(RMB bn)	Inventory b/f	New saleable	Total saleable	Contracted Sales/targets	Sell-thru rate (%)	New saleable as % of total
2016	8.7	2.6	11.3	5.0	44%	23%
2017E	6.3	4.3	10.6	7.0	66%	41%

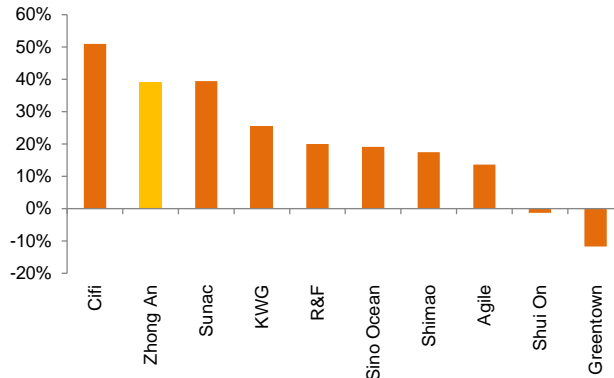
Source: Company data, CMS(HK)

Figure 18: 2012-2016 Contracted sales CAGR: 23%



Sources: Company data, CMS(HK)

Figure 19: Zhong An and peers' contracted sale growth in 2017E (YoY%)



*All data are from company management's sales guidance. Sources: Companies, CMS (HK)

Major projects on sale in 2017E

Project I: Jade Mansion (翡翠珑湾)

Located at Yuyao, Zhejiang Province with a total GFA of 292,807sqm, Jade Mansion is targeted as a low-density residential project consisting of three phases with townhouses and residential apartments. The construction of phase one with townhouses was completed in 2014 and phase three was completed in June 2016. The construction of phase two is expected to start at the end of 2016.

Figure 20: Jade Mansion – key details of the project

Unit size (sqm)	89sqm (2 bedrooms), 94-136sqm (3 bedrooms), 143sqm (4 bedrooms)
Land cost (RMBpsm)	3,804
Total GFA (sqm)	292,807
ASP (RMBpsm)	7,500
GFA under development	72,988

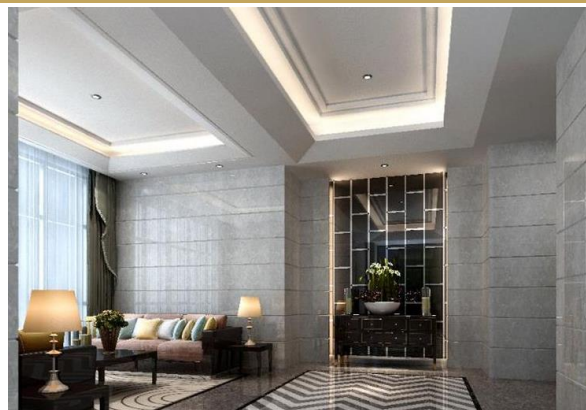
Sources: Company data, fang.com, CMS (HK)

Figure 21: Jade Mansion (exterior)



Sources: fang.com

Figure 22: Apartments' lobby



Sources: fang.com

Project II: Ideal Bay (理想湾)

Located at Linping, Yuhang District, Hangzhou, Ideal Bay has a total GFA of about 638,856sqm and consists of townhouses in British architectural design and high-rising apartment units. The project was fully completed in June 2016. It currently has GFA of about 340,156sqm that was completed for future sales. According to channel checks, the sales target of the project in 2017 is set at RMB800mn.

Figure 23: Ideal Bay– key details of the project

Unit size (sqm)	80sqm (2 bedrooms), 88-138sqm (3 bedrooms), 196sqm (4 bedrooms), 219sqm (5 bedrooms)
ASP (RMBpsm)	2016: 7,000; 2017:13,000
Land cost (RMBpsm)	1,548
Total GFA (sqm)	538,856
GFA completed for sales (sqm)	340,156 (ASP too low after completion in 2016, the group decided to resell in 2017 in view of rising and reasonable ASP)
2017 Sales target	RMB800mn

Sources: Company data, fang.com, CMS (HK)

Figure 24: Ideal Bay (exterior)



Sources: Company data

Figure 25: Show Room



Sources: fang.com

Project III: College Square (学军里)

Acquired in 2015 with average cost of RMB1,328psm, the residential project is located at Yuhang District, Hangzhou, Zhejiang Province with total GFA of about 196,293sqm and consisted of a number of high-rising residential apartments and shopping units. The project is with convenient and quick access to the old city of Yuhang District and situated at the planned hi-tech center of Hangzhou. The ASP of the apartments has moved up from RMB7,000psm in 2016 to ~RMB14,000psm in 2017. The project is expected to complete in 2Q18.

Figure 26: College Square (exterior)



Sources: fang.com

Figure 27: Design layout of apartment with GFA of 128sqm (4 bedrooms)



Sources: fang.com

Project IV: White house Palace (白马御府)

The residential project has total GFA of about 68,345sqm with four high-rising apartment buildings and townhouses. The average land cost is ~RMB7,000psm. Additionally, located at the core areas of Xiaoshan District in Hangzhou, the project has an ASP of ~RMB25,000psm even under strict local tightening controls. The project is expected to complete in 2Q18.

Figure 28: Located at the core area of Xiaoshan District



Sources: Baidu

Figure 29: Design layout of apartment with GFA of 138sqm (4 bedrooms)



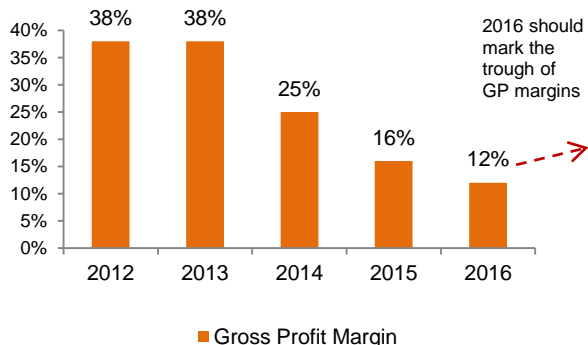
Sources: Baidu

Recovering profitability

Company's core profit has declined from recent peak of RMB345m in 2012 to a net loss of RMB207m in 2015, largely due to the compressions in GP margins from 38% in 2012 to 16% in 2015 from the delivery of 1st phase of new suburban projects.

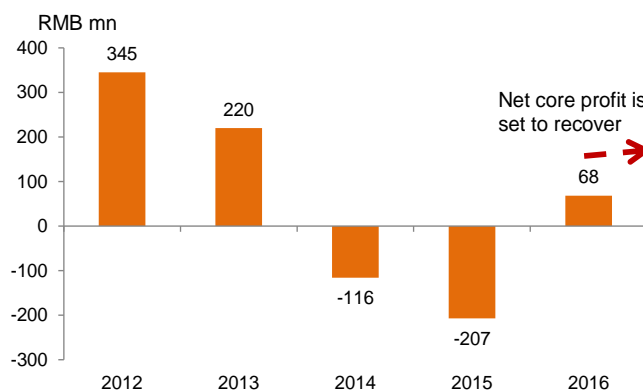
However, profitability has started to improve in 2016 as the increase in GFA delivered (+150% YoY) offset the decline in GP margins, and company implemented more stringent cost controls (SG&A expenses decreased by 10.2% YoY in FY16). With current ASP of major projects are now 5-88% higher than booked ASP in 2016 (figure 34), gross profit margin re-expansion is on the verge. The sensitivity analysis on figure 32 suggests for a 5pp increase in gross profit margin, Zhong An's gross profit will increase by 42%.

Figure 30: Management expected GP margin to cover in 2017E as project ASPs are increasing...



Sources: Company data, CMS(HK)

Figure 31: ...management also expected profits should have troughed in 2015 (Zhong An's core net profit)



*All data are from company management's sales guidance. Sources: Companies, CMS (HK)

Figure 32: Sensitivity analysis on GP margin

(RMB mn)	-10pp	-5pp	Base Case	+5pp	+10pp
Revenue (2016A)	5,007				
GP Margin	2%	7%	12%	17%	22%
Gross Profit	100	351	601	851	1,102
% change	-83%	-42%	-	+42%	+83%

Source: Company data, fang.com, CMS(HK)

Figure 33: Improving GP Margin of key projects

	Land cost (RMBpsm)	Estimated all-in cost (RMBpsm)	Booked ASP, 2016 (RMBpsm)	GPM on booked ASP (%)	Current ASP in 2017 (RMBpsm)	GPM on current ASP (%)
Hangzhou Ideal Bay (理想湾)	1,548	5,548	6,396	13.3	12,000	53.8
Zhong An Landscape Garden, Cixi (慈溪众安山水苑)	467	3,967	4,512	12.1	5,000	20.7
Vancouver City (温哥华城)	34	3,034	4,489	32.4	4,700	35.4
Average				19.2		36.6

Source: Company data, fang.com, CMS(HK)

Figure 34: GP margin in FY16 was lower than FY15 due to bookings of low ASP projects. But GP margins are set to recover as current ASP is 5-88% higher than booked ASP (Booked ASP of major projects in 2015-16, and current ASP)

	2015			2016			2017		
	Booked Revenue (RMB mn)	Booked GFA (sqm)	Booked ASP (RMBpsm)	Booked Revenue (RMB mn)	Booked GFA (sqm)	Booked ASP (RMBpsm)	Current ASP (RMBpsm)	Booked ASP, FY15 vs FY16 (YoY%)	Current ASP vs FY16 booked ASP (YoY%)
Hangzhou									
Hidden Dragon Bay	81	10,339	7,815	3	183	15,847	-	+103%	NA
Jiarun Mansion	311	22,239	13,975	746	50,623	14,728	25,000	+5%	+70%
Landscape Bay	162	13,952	11,604	299	25,469	11,736	-	+1%	NA
White Horse Manor	1,2110	106,813	11,334	196	16,859	11,644	-	+3%	NA
Ideal Bay	-	-	-	1,2710	198,700	6,396	12,000	NA	+88%
Others*	6	-	-	13	1,849	7,085	-	NA	NA
Yuyao									
Dragon Bay	286	8,923	32,074	300	10,523	28,509	25,000	-11%	-12%
Jade Mansion	393	21,115	18,593	828	98,545	8,403	-	-55%	NA
Zhong An Times Square (Ph2)	-	-	-	627	66,962	9,361	10,200	NA	+9%
Zhong An Landscape Garden, Cixi	-	-	-	335	74,299	4,512	5,400	NA	+20%
Hefei									
Green Harbour	227	27,370	8,297	98	9,631	10,134	-	+22%	NA
Huaibei									
Vancouver City	206	38,922	5,287	312	69,587	4,489	4,700	-15%	+5%
Total	2,882	249,673	11,543	5,028	623,230	8,067	13,717		

Source: Company data, fang.com, CMS(HK)

Management background

Directors

Shi Kancheng (alias Shi Zhongan) – Chairman, Executive Director and CEO, aged 55

- Joined the Group since the establishment of the first member of the Group, Zhong An Group Co., Ltd. (formerly known as Zhejiang Zhong An Property Development Co., Ltd.)
- Also served as the Chairman and the non-executive director of China New City Commercial Development Limited (“China New City”, stock code: 1321 HK), a subsidiary of the Company
- Prior to joining Zhong An Group, he formerly served as the tax officer in the finance and revenue bureau of Xiaoshan District of Hangzhou
- Graduated from an Executive Master of Business Administration program co-organized by the State University of Arizona and Shanghai National Accounting College in June 2007

Shen Tiaojuan– Executive Director and Vice President, aged 55

- Joined the Group in 1997, previously worked as the chief accountant of White Swan Industry Co., Ltd from 1996 to 1997, the chief accountant of Hangzhou Hualing Electrics Co., Ltd. in 1994, and the chief accountant and finance manager of Hangzhou Guanghua Chemical Fibres Factory from 1980 to 1993
- Responsible for the financial operation and financial management of the Group

Zhang Jiangang – Executive Director, member of the governance committee of the company, aged 48

- Joined the Group in 2003, swerved as the general manager and vice president of Zhong An Group and the general manager and assistant to the Chairman of Anhui Zhong An Real Estate Co., Ltd. (a subsidiary of the Company) prior to joining the group
- In charge of strategy implementation and operation management

Jin Jianrong- Executive Director and co-president of the company, aged 49

- Joined the Group in 2004, previously worked the deputy general manager of Zhejiang Lvdu Real Estate Development Company from 2003 to 2004, and a construction manager of Zhejiang Wanxiang Real Estate Company from 1997 to 2002
- In charge of engineering management of the projects of the Group
- Received a bachelor’s degree in civil engineering and management from the Sichuan University in 2006

Senior Management

Sun Zihua- Chief Operating Officer and the office of the president office of the group, aged 39

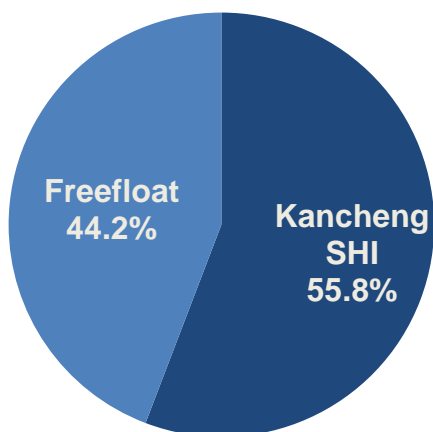
- Joined the Group in 2004, previously worked the deputy general manager of Zhejiang Lvdu Real Estate Development Company from 2003 to 2004, and a construction manager of Zhejiang Wanxiang Real Estate Company from 1997 to 2002
- In charge of engineering management of the projects of the Group

Pan Lei- Chief Marketing Officer

- Joined the group in June 2014, previously worked as the sales director of a property developer in Jiangsu Province from 2012 to 2014 and the planning director of subsidiaries of HK-listed Top Spring International Holdings Limited from 2010 to 2012
- In charge of the marketing of the Group

Shareholding structure

Figure 35: Shareholding Structure



Sources: Bloomberg, based on shareholding structure on 24 Jul 2017

Valuation and peers comparison

Stock is now trading at 66% discount to NAV of HK\$7.84/shr (NAV estimates provided by company's management), wider than sector's average discount of 58% (Zhong An's discount based on NAV estimates provided by company, Aoyuan and Yuzhou are NAV estimated by CMS(HK); other companies' are market consensus).

The stock is trading at 78.8x FY16 P/E, and 3.2x P/B, higher than the average small-mid cap peers of 0.7x P/B. According to management, the high P/B is due to the land sites acquired in 5-7 years ago at low historical costs on balance sheet. We estimated that the average book costs of Zhong An's landbank were only 13% of their current's market values, based on Hangzhou/ Ningbo/ Huaibei/ Hefei residential land sites transacted in 6M17 (source: Wind).

Figure 36: Zhong An's estimated NAV

	(RMBm)	(RMB/shr)
Hangzhou	13,808	4.73
Lingbo	1,954	0.67
Hefei	6,685	2.29
Huaibei	1,589	0.54
Gross Asset Value	24,036	8.24
Net debts	(3,968)	-1.36
Net Asset Value	20,068	6.88
NAV/share (RMB)	6.88	
NAV/share (HK\$)	7.84	

*Estimated NAV provided by company's management. Source: Company data

Figure 37: Zhong An is 66% discount to NAV vs peers' in average 58% discount

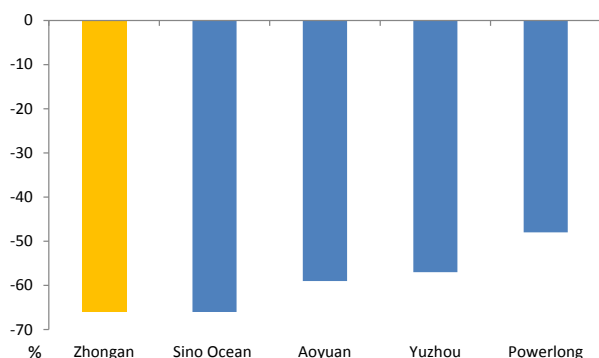
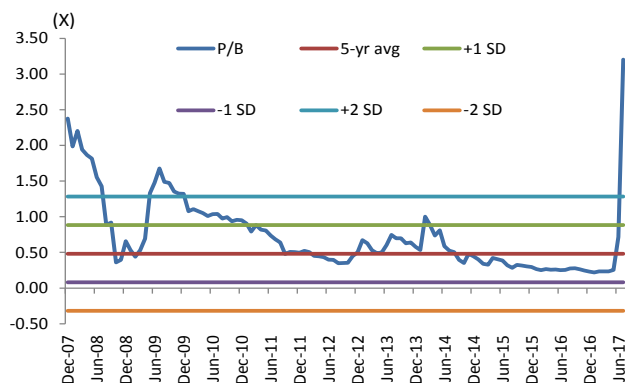


Figure 38: Zhong An trading at 3.2x P/B, based on the low book costs of land sites acquired 5-7 years ago



*Zhong An's discount based on NAV estimates provided by company, Aoyuan and Yuzhou are NAV estimated by CMS(HK); other companies' are market consensus. Sources: Company data, CMS(HK)

Sources: Companies, CMS (HK)

Figure 39: Peers' valuation summary

Company	Ticker	Rating	Curr. Price (HK\$)	Target price (HK\$)	Upside	16 P/E (x)	17E P/E (x)	18E P/E (x)	19E P/E (x)	16 div yld (%)	17E div yld (%)	18E div yld (%)	19E div yld (%)
H-Large caps													
COLI	688 HK	Buy	26.05	25.43	-2%	8.3	8.4	7.5	6.9	2.8	3.6	4.0	4.4
Longfor	960 HK	Buy	18.84	18.74	-1%	13.9	10.5	9.4	8.2	2.2	3.4	3.9	4.6
CRLand	1109 HK	N-R	24.35	N/A	N/A	10.2	8.8	7.6	6.8	2.6	3.3	3.8	4.3
Vanke H	2202 HK	N-R	22.05	N/A	N/A	11.7	8.3	7.2	6.4	3.7	5.0	5.8	6.4
Evergrande	3333 HK	N-R	20.90	N/A	N/A	51.4	15.9	11.0	9.3	1.5	3.1	3.8	4.6
Average						19.1	10.4	8.5	7.5	2.6	3.7	4.3	4.8
H-Mid caps													
Zhong An	672 HK	N-R	2.62	N/A	N/A	78.8	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Yuzhou	1628 HK	Buy	4.53	4.89	8%	8.9	6.3	5.0	4.4	4.0	5.6	6.3	7.0
Aoyuan	3883 HK	Buy	3.41	3.67	8%	9.0	6.3	4.2	3.4	3.8	5.5	8.4	10.4
Agile	3383 HK	N-R	8.92	N/A	N/A	13.6	7.9	6.9	6.3	2.6	4.4	4.9	5.3
Shimao	813 HK	N-R	14.84	N/A	N/A	8.4	6.4	5.6	5.0	4.0	4.9	5.6	6.2
Sunac	1918 HK	N-R	19.38	N/A	N/A	43.9	23.6	11.4	8.1	0.6	1.2	2.1	2.9
R&F	2777 HK	N-R	13.72	N/A	N/A	6.9	5.2	4.7	4.3	6.1	7.0	7.5	8.3
KWG	1813 HK	N-R	5.57	N/A	N/A	5.5	4.4	3.9	3.5	5.8	7.2	8.0	9.1
Sino Ocean	3377 HK	N-R	4.16	N/A	N/A	9.6	7.5	6.4	5.7	3.7	4.6	5.3	6.1
Shui On	272 HK	N-R	1.94	N/A	N/A	8.8	7.1	7.7	6.6	1.9	2.4	2.3	2.6
Average						19.3	8.3	6.2	5.2	3.6	4.8	5.6	6.4
A-Large caps (RMB)													
Vanke A	000002 CH	N-R	23.42	N/A	N/A	12.3	10.2	8.8	7.7	3.4	4.0	4.7	5.3
Poly A	600048 CH	N-R	10.37	N/A	N/A	8.5	8.1	7.0	6.0	3.1	3.5	4.0	4.5
Average						10.4	9.2	7.9	6.9	3.2	3.7	4.3	4.9
A-Mid caps													
Hebei Fortune	600340 CH	N-R	30.53	N/A	N/A	13.6	10.8	8.1	6.5	1.9	2.5	3.2	3.6
Gemdale	600383 CH	N-R	12.11	N/A	N/A	13.8	9.2	8.2	7.4	1.8	4.4	4.8	5.0
Financial Street	000402 CH	N-R	11.80	N/A	N/A	13.7	11.6	9.5	8.3	3.2	3.8	4.4	5.6
Risesun	002146 CH	N-R	10.20	N/A	N/A	12.0	9.5	7.7	6.7	2.3	3.8	4.4	5.8
Jinke	000656 CH	N-R	5.19	N/A	N/A	16.6	15.0	13.1	10.6	2.3	0.6	0.6	-
Tahoe	000732 CH	N-R	16.82	N/A	N/A	10.2	8.5	6.6	9.0	-	-	-	-
Average						13.3	10.8	8.9	8.1	1.9	2.5	2.9	3.3

Price valuation as of 26 July 2017; Zhong An FY16's P/E is based on core EPS provided by company management; COLI, Longfor, Yuzhou, and Aoyuan are based on CMS (HK) estimated EPS; other companies are based on Bloomberg consensus Sources: Bloomberg, Company data, CMS (HK) estimates

Key risks

The policy environment and/or government interventions on property markets could affect company's saleable pipeline and projects' sell-through rates; FX controls by central government could affect the sale pace of company's projects outside China; ability to replenish landbank at reasonable costs in a competitive land markets.

Company is also undergoing optimization of shareholding structure by the way of equity financing.

Financial Summary

Balance Sheet

RMB mn	2012	2013	2014	2015	2016
Non-current assets	8,533	9,484	13,129	10,653	9,700
Investment properties	2,057	2,501	3,773	5,244	5,130
PPE	207	202	188	183	1,362
Properties under development	5,638	6,078	8,445	4,589	2,286
Investment in joint ventures	362	412	46	1	1
Deferred tax assets	129	143	202	184	169
Others	140	148	475	453	753
Current assets	6,353	7,659	7,632	11,436	10,570
Property inventories	5,074	5,827	5,531	9,179	8,454
Receivables	216	241	433	538	479
Cash	894	1,235	969	1,454	947
Other current assets	169	356	699	265	690
Total assets	14,886	17,144	20,761	22,089	20,270
Current liabilities	6,256	5,781	8,083	9,563	8,394
Payables	1,513	1,794	1,785	2,320	1,939
Borrowings	1,739	836	2,046	2,213	2,132
Others	3,004	3,150	4,253	5,029	4,323
Long-term liabilities	2,928	5,174	5,684	4,974	4,165
Borrowings	2,493	4,620	4,921	3,982	3,137
Others	435	553	764	992	1,029
Total liabilities	9,184	10,954	13,767	14,537	12,559
Share capital	222	222	221	221	221
Reserves	5,175	5,622	5,782	6,189	6,318
Minority interests	304	303	991	1,143	1,172
Total equity	5,701	6,147	6,993	7,553	7,711
Equity & liabilities	14,886	17,101	20,761	22,089	20,270

Cashflow Statement

RMB mn	2012	2013	2014	2015	2016
Operating cashflow	(574)	(448)	(2,059)	405	591
Net profit	697	824	639	1,009	249
Adjusting items	(10)	(230)	(653)	(956)	(157)
Working capital changes	(715)	(441)	(1,233)	1,004	935
Income tax paid	(186)	(131)	(249)	(112)	(45)
Investing cashflow	(259)	(225)	(105)	853	(194)
Capital expenditure	(187)	(69)	(30)	693	(299)
Other investments	(72)	(156)	(75)	160	105
Financing cashflow	1,343	1,007	1,896	(781)	(913)
Borrowings	2,628	4,582	3,937	2,356	2,930
Equity financing	(3)	-	(18)	-	-
Dividends	-	-	(43)	-	-
Others	(1,282)	(3,575)	(1,980)	(3,137)	(3,843)
Net cash flow	510	334	(268)	477	(516)

Source: company data

Profit & Loss Statement

RMB mn	2012	2013	2014	2015	2016
Revenues	2,396	2,438	1,550	2,883	5,007
Cost of sales	(1,476)	(1,519)	(1,160)	(2,426)	(4,382)
Selling expenses	(57)	(128)	(136)	(209)	(187)
Administrative expenses	(237)	(299)	(304)	(300)	(312)
Other income/ loss	21	31	44	276	30
Fair value gains	-	256	657	797	-
Finance costs	(4)	(11)	(38)	(34)	(12)
Associates & JCEs	(1)	(2)	(0)	(2)	(0)
PBT	697	824	639	1,009	249
Taxes	(307)	(366)	(238)	(415)	(88)
Profit after tax	390	458	402	593	161
Minority interests	(54)	(37)	(82)	(173)	(36)
Net profit	336	421	320	421	125
Non-recurring items	(45)	(238)	(517)	(801)	(93)
Underlying net profit	345	220	(116)	(207)	68
Adjusted EPS (RMB)	0.15	0.09	(0.05)	(0.09)	0.03
DPS (HK\$)	-	-	0.02	-	-
Div payout (%)	0%	0%	37%	0%	0%

Financial Ratios

	2012	2013	2014	2015	2016
Contract sales					
Contr sales total (RMBm)	2,170	3,570	3,530	3,413	5,030
Sales growth (%)	-	65%	-1%	-3%	47%
Growth					
Revenue (%)	-	1.8	N/A	86.0	73.7
Adj. net profit (%)	-	N/A	N/A	79.2	N/A
Profitability					
GP margin (%)	38.4	37.7	25.2	15.9	12.5
Adj. net profit margin (%)	14.4	9.0	(7.5)	(7.2)	1.4
Balance sheets					
Net debt / equity ratio (%)	56	63	77	61	51
Adj. ROE (%)	-	3.9	(1.9)	(3.3)	1.1
Adj. ROA (%)	-	1.4	(0.6)	(1.0)	0.3
Valuation analysis					
Adj. P/E (x)	15.7	24.6	(46.7)	(25.9)	78.8
P/B (x)	1.0	0.9	0.9	0.8	0.8
Div yield (%)	-	-	0.8	-	-

Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
NEUTRAL	Expect sector to perform in-line with the market over the next 12 months
UNDERWEIGHT	Expect sector to underperform the market over the next 12 months

Company Rating	Definition
BUY	Expect stock to generate 10%+ return over the next 12 months
NEUTRAL	Expect stock to generate +10% to -10% over the next 12 months
SELL	Expect stock to generate loss of 10%+ over the next 12 months

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