

Evergrande (3333.HK)

Multi business lines achieving strong growth

HONG KONG | PROPERTY | COMPANY UPDATE

28 December 2015

Full-year sales target of RMB180 billion is basically achieved

The latest data showed that contract sales of Evergrande reached RMB17.85 billion in November and sales by GFA was 2.14 million sq.m., representing an increase of 33.2% and 26.6% yoy respectively. For the first 11 months, contract sales of the company already reached RMB172.4 billion, which accounted for 96% of the upwardly adjusted sales target of RMB180 billion, representing a growth of 42.8% yoy. It can be said that the company has basically reached its full-year target and may probably exceed it.

While keeping its rapid sell-through on the one hand, Evergrande also replenished its land bank quickly. In early December, Evergrande spent RMB13.5 billion to acquire 4 mega projects which are located in Haikou in Hainan, Wuhan in Hubei, Huizhou in Guangdong, from Hong Kong's New World Group. The asset quality is superior in this transaction. Moreover, the payment method is beneficial to Evergrande, which has strong operation capability. Other than the RMB3.15 billion down payment, the company can pay for the rest of transaction price within two years. Evergrande can leverage on its advantage in high turnover. By using cash flows from its property projects to pay for the rest of the transaction price, it can ensure a relatively higher investment return for the project.

Diversification strategy is bearing fruit

In the recent half year, effects from Evergrande's diversification strategy begin to unfold. Its series of activities include: building an O2O platform, Heng Teng Internet; Evergrande Taobao Football Club; the successful listing of Evergrande Culture Industry Group on the new Third Board; restructuring of its food industry and the building of the Evergrande life insurance platform. Evergrande has successfully expanded the "Evergrande" brand to consumption, finance, sports and cultural businesses to become an integrated brand. Driving rapid growth of each platform for future spin-off has become an effective path to realize the value of Evergrande. We can expect that Evergrande will expand into more industries and increase the degree of capitalization.

Financial structure continues to improve

On 15 October, the company announced that it successfully issued corporate bonds through a private placement, breaking the country's record of privately issued debts in terms of fund raised. There were two types of bonds in this private placement, namely "3+2" term and 5-year term, with coupon rates lower than those of off-shore bonds. The annual coupon rate of the RMB17.5 billion "3+2"-term bond was 7.3% and that of the 5-year bond was 7.88%. The smooth execution of the issuance of onshore debt, privately placed debt and equity placement is beneficial to the optimization of the company's financial structure and costs.

Risk

Slower sales;
Progress of business diversification is below expectations

Neutral (Update)

Closing Price: HKD 6.50

(Closing price as at 24, Dec 2015)

Target Price: HKD 6.60 (1.50%)

O/S SHARES (MN) :	13,972
MARKET CAP (HKD MN) :	90,816
Ent. Value (HKD MN) :	197,652
52 - WK HI/LO (HKD) :	8.40/3.04

SHARE HOLDING PATTERN, %

PROMOTERS :	72.7
NON PROMOTER CORP. HOLDINGS :	4.3
PUBLIC & OTHERS :	23.0

PRICE



Source: Phillip Capital Research

KEY FINANCIALS

RMB Mn	FY13	FY14	FY15E	FY16E
Revenue	93,672	111,398	140,254	167,234
Net Profit	27,639	31,784	37,940	49,318
EPS	0.790	0.850	0.650	0.970
P/E (X)	2.32	2.74	8.52	5.71
BVPS	3.030	3.500	5.110	5.340
P/B (X)	0.60	0.67	1.08	1.04
DPS	0.430	0.430	0.260	0.270
Div. Yield	23.50%	18.45%	4.69%	4.87%

Source: Phillip Capital Research Est.

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Valuation

Strong sales of Evergrande outperformed its peers. There are still abundant sales pipelines in next year and it is believed that the growth momentum will continue. Besides, the smooth progress of its business diversification strategy and further enhancement in its degree of capitalization will enhance its enterprise value. We recommend a "Neutral" rating, with a 12-month target price of HKD6.6, which is equivalent to 2015/2016 prospective PE ratio of 8.5x and 5.7x. (Closing price as at 24, Dec 2015)

Financials

FYE	FY12	FY13	FY14	FY15F	FY16F
Valuation Ratios					
P/E (X), adj.	4.03	2.32	2.74	8.52	5.71
P/B (X)	0.96	0.60	0.67	1.08	1.04
Dividend Yield (%)	0.00%	23.50%	18.45%	4.69%	4.87%
Per share data (RMB)					
EPS, reported	0.610	0.790	0.850	0.650	0.970
EPS, adj.	0.610	0.790	0.850	0.650	0.970
DPS	0.000	0.430	0.430	0.260	0.270
BVPS	2.550	3.030	3.500	5.110	5.340
Growth & Margins (%)					
Growth					
Revenue	5.40%	43.53%	18.92%	25.90%	19.24%
EBIT	-17.07%	54.01%	22.82%	-30.59%	42.49%
Net Income, adj.	-19.00%	37.52%	-0.06%	-24.43%	49.77%
Margins					
Gross profit margin	27.90%	29.51%	28.53%	27.05%	29.49%
EBIT margin	25.27%	27.11%	28.00%	15.44%	18.45%
Net profit margin	14.05%	13.46%	11.31%	6.79%	8.53%
Key Ratios					
ROE (%)	26.12%	29.04%	25.28%	12.72%	18.16%
ROA (%)	4.39%	4.52%	4.12%	3.27%	3.86%
Net Debt/(Cash)	43,484	68,699	115,268	106,892	112,537
Net Gearing (X)	101.90%	86.60%	102.60%	94.62%	95.18%
Income Statement (RMB mn)					
	FY12	FY13	FY14	FY15F	FY16F
Revenue	65,261	93,672	111,398	140,254	167,234
Gross profit	18,210	27,639	31,784	37,940	49,318
EBIT	16,523	25,044	28,563	22,882	32,402
EBT	16,490	25,396	31,191	21,650	30,850
Tax	(7,308)	(11,687)	(13,175)	(9,310)	(13,266)
Tax rate	44.32%	46.02%	42.24%	43.00%	43.00%
Profit for the year	9,182	13,709	18,016	12,340	17,584
Minority interests	11	1,097	5,412	2,815	3,318
Net profit	9,171	12,612	12,604	9,525	14,266

Source: BLOOMBERG, Evergrande and Phillip Securities

(Financial figures as at 24 December 2015)

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm 5\%$ from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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