



Crossing the threshold

Strong fundamental demand and a likely shift in policy focus are keys to our call to move into China property. Investors trying to time an overweight stance on the sector ran into several false starts last year and we were cautious in our October 2010 initiation, primarily because of policy overhang. But we expect a policy shift — from controlling demand to increasing land supply — as the government looks to rein in inflation in the broader economy. At the same time, demand has proved resilient in the face of the Oct-Nov 2010 tightening, with contracted sales exceeding expectations and boosting FY11F earnings lock-in. Our analysis indicates an 11% increase in sales volume this year, backed by first home buyers and upgraders. Even assuming an average 5% price correction in 2011F, we look for annualised ASPs to rise. We are lifting FY11F earnings, end-11F NAVs and PTs by 3%, 7% and 9%, respectively. Our new FY11F earnings forecasts are 16% above consensus and we expect upward revisions by the street. From a 30% discount at the time of our initiation, the sector is now at a 35% discount to end-11F NAV. Favouring less exposure to overheated cities, together with strong balance sheets and high earnings visibility, we keep big-cap COLI, mid-cap Agile and small-cap KWG as our top picks.

- ① The right time to revisit China property
- ② Policy shift from demand to supply -> more equity friendly
- ③ Confidence reflected in earnings / NAV revisions

Nomura Anchor Reports examine the key themes and value drivers that underpin our sector views and stock recommendations for the next 6 to 12 months.

Stocks for action

We favour: 1) less exposure to overheated cities; 2) strong balance sheets; and 3) high earnings visibility. Our top picks remain COLI, Agile and KWG. Sino Ocean is now a BUY following COSCO's share disposal.

| Stock | Rating | Price | Price target |
|-----------------------|---------|-------|--------------|
| Agile (3383 HK) | BUY | 12.58 | 15.66* |
| COLI (688 HK) | BUY | 15.38 | 21.30* |
| Country Gdn (2007 HK) | NEUTRAL | 3.03 | 3.30* |
| CR Land (1109 HK) | NEUTRAL | 15.54 | 15.79* |
| GZ R&F (2777 HK) | REDUCE | 12.16 | 10.46* |
| KWG (1813 HK) | BUY | 6.67 | 7.98* |
| Poly (HK) (119 HK) | BUY | 8.19 | 10.52* |
| Shimao (813 HK) | BUY | 12.90 | 16.54* |
| Sino Ocean (3377 HK) | BUY↑ | 5.50 | 6.66* |

↑ Upgrading from Neutral

* Revising PT up

Local currency; prices as of 5 Jan close

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Any authors named on this report are research analysts unless otherwise indicated.
See the important disclosures and analyst certifications on pages 81 to 84.



⊙ Action

We believe now is the time to revisit the China property sector. 2010 brought many false starts for investors trying to time an overweight sector stance. In our view, the recent rebound is sustainable, backed by a sound base of fundamental demand and a likely policy shift toward increased supply. Following strong 2010 contracted sales, we lift FY11F earnings and end-11F NAVs and PTs by 3%, 7% and 9%.

⚡ Catalysts

Strong 2010 contracted sales figures are likely to trigger earnings / NAV revisions by the street in the coming months, in our view.

⚓ Anchor themes

A likely policy shift from demand to supply is positive for developers. We expect less aggressive measures in 2011F, with controlling broader inflation likely to be top of the government's agenda. Recent policies have had little impact on fundamental demand, and rate hikes should have little impact on share prices initially.

Stocks for action

We favour: 1) less exposure to overheated cities; 2) strong balance sheets; and 3) high earnings visibility. Our top picks remain COLI, Agile and KWG. Sino Ocean is now a BUY following COSCO's share disposal.

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↑ Upgrading from Neutral ; * Revising PT up
Local currency; prices as of 5 Jan close

Crossing the threshold

① The right time to revisit China property

We believe the recent rebound in the China property sector is sustainable, given signs of a shift in policy focus from administrative demand controls to increasing land supply. Better-than-expected contracted sales in Oct-Nov 2010 suggest to us that fundamental demand is intact, even under property tightening. Moreover, history tells us that, in the early stages, interest rate hikes don't have a significant impact on share price performance. Investors ran into several false starts in trying to time an overweight position in China property in 2010. We believe now is the time to revisit the sector.

② Policy shift from demand to supply -> more equity friendly

Instead of introducing more administrative demand controls, we believe the central government is leaning towards increasing land supply, which should be favourable for developers, in our view. Our comprehensive and conservative demand/supply analysis suggests that fundamental demand from first home buyers and upgraders will remain strong in 2011F, supporting an 11% y-y increase in sales volume. Annualised ASPs should rise, even assuming an average price correction of 5% across all cities in 2011F. This explains why we are comfortable in expecting further improvement in contracted sales going into 2011F.

③ Confidence reflected in earnings / NAV revisions

Following strong 2010 contracted sales figures, we expect upward earnings / NAV revisions by the street. On our estimates, across our China property universe, a full 62% of FY11F earnings are locked in. We are therefore confident in our revised earnings forecasts, which are 16% above consensus. On average, we revise up FY11F earnings, end-11F NAVs and PTs by 3%, 7% and 9%, respectively. We find the sector is trading at a 35% discount to our average end-11F NAV estimates, vs a 30% discount at the time of our initiation in Oct 2010; we see attractive returns. We have 6 BUYS, 2 NEUTRALs and 1 REDUCE in our coverage universe. Our top picks remain COLI, Agile and KWG.

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Also see our 4 October Anchor Report on China property: **Policy ... many possible moves**

Policy ... many possible moves

Policy? Policy? Policy... Everyone is talking a possible new round of property policies, but we believe most observers may not be aware of the combination of policy moves and their potential long term impact. Property taxes and enforcement of LAT are likely to be the major components of this new round of property tightening in our view, and we discuss these in more detail in this report.

Given some signs of market recovery in 2010, we see increasing policy risk in the China property market. In our analysis, Beijing, Shanghai, Shenzhen and Hangzhou are overheated, and we therefore believe the government would implement more measures in these cities. Indeed, the Central government has recently started to reiterate its previous policies, suggesting new rounds of tightening.

We initiate coverage of the China Property Sector with a cautious view and forecast property prices to drop 5-10%, but with stable volumes, from now to end-2011F. Overheated cities are likely to face direct and strict tightening measures, while housing demand in non-overheated cities is still supported by urbanization and upgrades. We prefer stocks with less exposure to overheated cities, while those with solid balance sheets and high leverage visibility should be given credit. Top ideas: Long COU and Short CRL; other preferred stocks: Agile Property and KWG Property.

Stocks for action

With increasing policy risks, we prefer stocks with less exposure to overheated cities. Our top idea, Long COU and Short CRL. Other top picks include Agile and KWG.

| Stock | Rating | Price | Target |
|----------------|--------|-------|--------|
| COU (1203.HK) | BUY | 10.20 | 12.50 |
| CRL (1109.HK) | SELL | 14.80 | 14.87 |
| KWG (1033.HK) | BUY | 5.10 | 6.20 |
| AGL (1077.HK) | BUY | 11.20 | 13.00 |
| SHEN (1013.HK) | BUY | 10.10 | 10.50 |
| SHEN (1013.HK) | BUY | 4.40 | 4.60 |
| AGL (1077.HK) | BUY | 4.10 | 4.20 |
| COU (1203.HK) | BUY | 2.20 | 2.30 |
| SHEN (1013.HK) | BUY | 3.20 | 3.30 |

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© All indicators suggest a new round of tightening measures.
 © Property tax and enforcement of LAT are likely the major themes.
 © We prefer stocks with less exposure to overheated cities.
 © Top ideas: Long COU (858 HK, BUY) & short CRL (1109 HK, REDUCE)

Nomura Anchor Reports examine the key themes and value drivers that underpin our sector views and stock recommendations for the next 6 to 12 months.

Any authors named on this report are research analysts unless otherwise indicated. See the important disclosures and analyst certifications on pages 112 to 115.

10 October 2010

Also see our 7 December China Strategy report: **2011 Outlook — Higher ground**

Higher ground

Following the rebound of 2009 and consolidation of 2010, we are positive on the outlook for China's equity markets in 2011. We have year-end targets for the HSCI China Index and HSCEI index of 83 and 16,000, implying 24% and 25% upside potential, respectively. We see index performance being backed by 1) 21%+ earnings growth, with large-cap sectors such as Financials and Energy on course to deliver strong earnings; 2) attractive valuations (on our forecasts, 13x FY11F earnings, in line with the past 10-year average, and 2x price-book with P/B of 2.0x); and 3) a positive liquidity outlook. We believe fundamentals will provide the surest footing for stock prices in 2011. Sectors with improving earnings prospects and strong P/Bs are best placed to scale the heights, in our view, particularly when there are uncertainties on the policy front and the cost of capital is on the rise. While concerns over high inflation could weigh on equity market performance in the short term, we recommend investors position themselves for resulting buying opportunities, since historically the market tends to only once inflation has peaked out. Our 10 stocks for 2011: Agile Properties, ABC, China Everbright International, China Life Insurance, China Mengniu Dairy, CSCC, Sino, Perfect World, Sinopec and ZTE.

Stocks for action

Our top picks are front-line beneficiaries of investment opportunities in China in 2011, and feature strong earnings growth potential, healthy balance sheets, and attractive valuations.

| Stock | Rating | Price | Target |
|----------------------------------|--------|-------|--------|
| Agile Properties (1077.HK) | BUY | 12.00 | 15.00 |
| China Everbright Int'l (1038.HK) | BUY | 4.1 | 4.7 |
| China Life Insurance (1209.HK) | BUY | 4.4 | 5.1 |
| China Mengniu Dairy (1119.HK) | BUY | 20.0 | 25.0 |
| China Sinopec (1033.HK) | BUY | 20.0 | 25.0 |
| China Everbright Int'l (1038.HK) | BUY | 12.0 | 15.0 |
| China Everbright Int'l (1038.HK) | BUY | 12.0 | 15.0 |
| China Everbright Int'l (1038.HK) | BUY | 12.0 | 15.0 |
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| China Everbright Int'l (1038.HK) | BUY | 12.0 | 15.0 |
| China Everbright Int'l (1038.HK) | BUY | 12.0 | 15.0 |

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Don't miss our companion outlook reports on Asia, Singapore and Malaysia, published 8 December, 2010.

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7 December 2010

In a nutshell

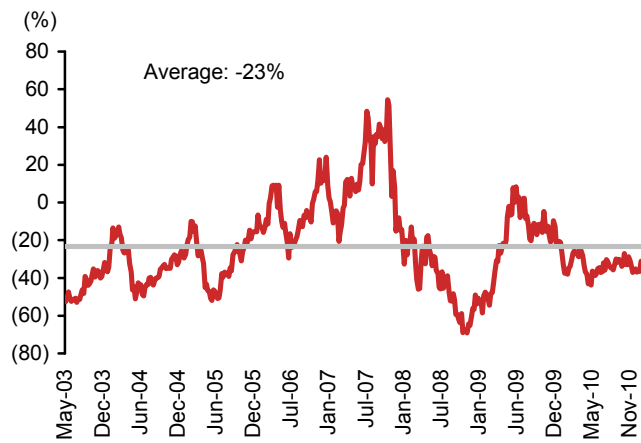
Exhibit 1. Valuation summary

| Company | Bloomberg Ticker | Rating | Last price (HK\$) | Price target (HK\$) | Upside (%) | Market cap (HK\$mn) | End-11F NAV | | | P/E | | Yield FY10F (%) | P/BV | | Net debt/equity FY10F (%) |
|----------------------------------|------------------|---------|-------------------|---------------------|------------|---------------------|-------------|----------|-------------|-----------|-----------|-----------------|-----------|-----------|---------------------------|
| | | | | | | | (HK\$/sh) | Disc (%) | PT disc (%) | FY10F (x) | FY11F (x) | | FY10F (x) | FY11F (x) | |
| China Property developers | | | | | | | | | | | | | | | |
| COLI | 688 HK | BUY | 15.38 | 21.30 | 38 | 125,693 | 18.06 | (15) | N.A | 13.6 | 10.1 | 2.1 | 2.5 | 2.1 | 45.8 |
| GRL | 1109 HK | NEUTRAL | 15.54 | 15.79 | 2 | 83,712 | 19.74 | (21) | (20) | 20.7 | 14.2 | 1.4 | 1.7 | 1.6 | 53.5 |
| Shimao | 813 HK | BUY | 12.90 | 16.54 | 28 | 45,762 | 23.62 | (45) | (30) | 11.7 | 7.7 | 2.6 | 1.5 | 1.3 | 76.4 |
| Guangzhou R&F | 2777 HK | REDUCE | 12.16 | 10.46 | (14) | 39,184 | 17.44 | (30) | (40) | 9.5 | 7.9 | 3.2 | 1.8 | 1.6 | 91.4 |
| KWG | 1813 HK | BUY | 6.67 | 7.98 | 20 | 19,297 | 11.40 | (41) | (30) | 15.6 | 9.8 | 1.9 | 1.5 | 1.3 | 62.5 |
| Agile | 3383 HK | BUY | 12.58 | 15.66 | 24 | 43,687 | 22.37 | (44) | (30) | 11.0 | 8.6 | 3.3 | 2.2 | 1.9 | 42.4 |
| Sino-Ocean | 3377 HK | BUY | 5.50 | 6.66 | 21 | 31,011 | 9.51 | (42) | (30) | 14.1 | 9.7 | 2.3 | 0.9 | 0.8 | 61.2 |
| Poly (HK) | 119 HK | BUY | 8.19 | 10.52 | 28 | 29,553 | 13.15 | (38) | (20) | 20.9 | 13.6 | 0.7 | 1.3 | 1.2 | 68.7 |
| Country Garden | 2007 HK | NEUTRAL | 3.03 | 3.30 | 9 | 50,598 | 4.71 | (36) | (30) | 14.4 | 8.5 | 2.5 | 1.9 | 1.6 | 37.7 |

Note: We derive our price target for COLI based on 14x FY11F EPS. Share prices as of 5 Jan 2011 close.

Source: Company data, Bloomberg, Nomura estimates

Exhibit 2. Sector NAV discount



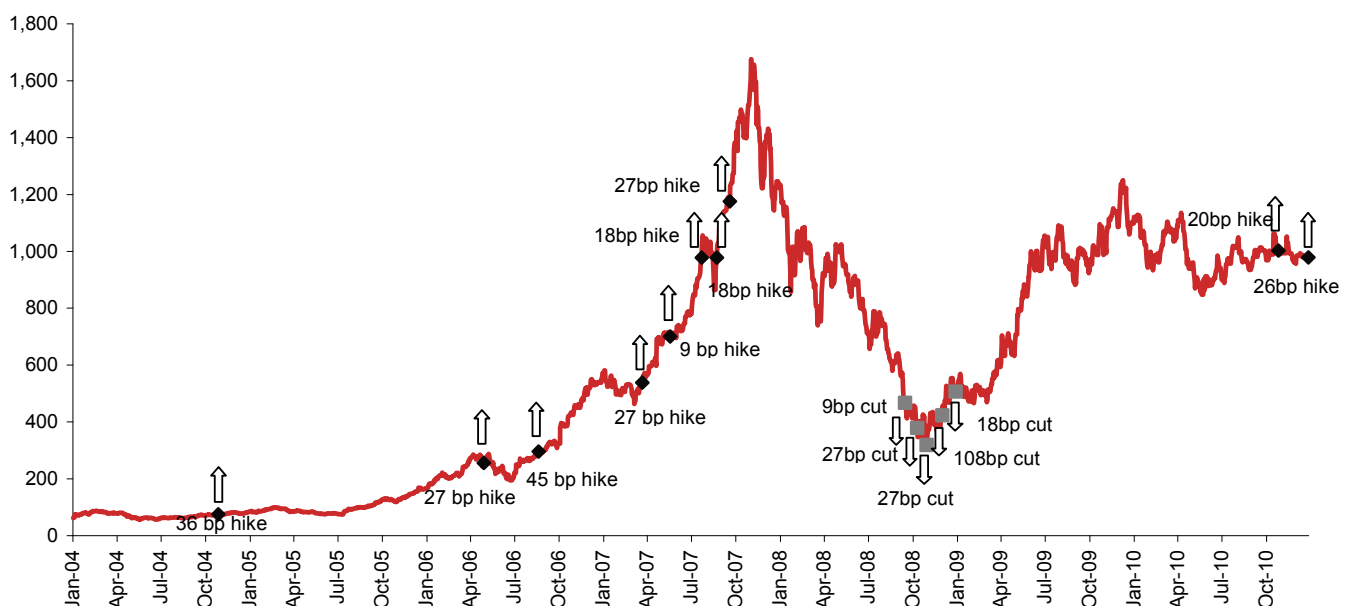
Source: Company data, Nomura research

Exhibit 3. Revisions to FY11F EPS, end-11F NAV

| Company | FY11F EPS (LC\$) | | | End-11F NAV (HK\$) | | |
|----------------|------------------|------|----------|--------------------|-------|----------|
| | Old | New | +/- (%) | Old | New | +/- (%) |
| COLI | 1.50 | 1.52 | 1 | 17.04 | 18.06 | 6 |
| CRL | 0.95 | 1.10 | 16 | 18.60 | 19.74 | 6 |
| Shimao | 1.30 | 1.46 | 13 | 21.98 | 23.62 | 7 |
| R&F | 1.39 | 1.35 | (3) | 16.63 | 17.44 | 5 |
| KWG | 0.61 | 0.60 | (2) | 10.75 | 11.40 | 6 |
| Agile | 1.27 | 1.28 | 1 | 18.99 | 22.37 | 18 |
| Sino Ocean | 0.50 | 0.50 | (1) | 8.83 | 9.51 | 8 |
| Poly (HK) | 0.60 | 0.60 | 0 | 12.48 | 13.15 | 5 |
| Country Garden | 0.31 | 0.31 | 0 | 4.54 | 4.71 | 4 |
| Average | | | 3 | | | 7 |

Source: Company data, Nomura estimates

Exhibit 4. China property stocks' share price performance vs interest rate changes (2004-10)



Note: All interest rate hikes / cuts for over-five-year lending rate. On 20 Dec 2007, the PBoC increased the one-year lending rate by 18bps with no change in over-five-year lending rate. Performance of index comprising 25 HK-listed China property stocks

Source: CEIC, Bloomberg, Nomura research

Now is the time to revisit China property

Executive summary

We believe the recent rebound in the China property sector is sustainable, given signs of a policy shift toward increased supply. Strong contracted sales in Oct-Nov 2010 indicate that fundamental demand is intact, even under property tightening. History tells us that interest rate hikes have little impact on share prices initially. 2010 brought many false starts for investors trying to time an overweight sector stance. We believe now is the time to revisit the sector.

Strong 2010 contracted sales figures are likely to trigger earnings / NAV revisions by the street in the coming months, in our view. We are confident in our revised earnings forecasts, which are 16% above consensus, given that an average 62% of FY11F earnings have been already secured. On average, we revise up FY11F earnings, end-11F NAVs and PTs by 3%, 7% and 9%, respectively. The sector is now at a 35% discount to our average end-11F NAV estimates, vs a 30% average discount at the time of our initiation in Oct 2010; we see attractive returns. We have 6 BUYs, 2 NEUTRALs and 1 REDUCE in our coverage universe. Our top picks remain COLI, Agile and KWG.

Sustainable rebound, backed by base of fundamental demand and possible policy shift

Supporting factors

- 2011F policy focus expected to shift from demand to supply;
- Fundamental demand should continue to support sales volume;
- Strong 2010 contracted sales likely to lead to earnings / NAV revisions by the street;
- Valuations now closer to the entry level (40-45% sector NAV discount) we suggested back in October.

Exhibit 5. Changes in earnings forecasts, end-11F NAVs and PTs

| Company | Bloomberg | | Last Price | Ratings | | End-11F NAV | | Price target | | Target Prem/(Disc) | Potential upside |
|----------------|-----------|----------|------------|---------|---------|-------------|-------|--------------|-------|--------------------|------------------|
| | Ticker | Currency | | Old | New | Old | New | Old | New | | |
| COLI | 688 HK | HKD | 15.38 | BUY | BUY | 17.04 | 18.06 | 21.00 | 21.30 | N.A | 38% |
| CRL | 1109 HK | HKD | 15.54 | NEUTRAL | NEUTRAL | 18.59 | 19.74 | 14.87 | 15.79 | -20% | 2% |
| Shimao | 813 HK | HKD | 12.90 | BUY | BUY | 21.98 | 23.62 | 15.39 | 16.54 | -30% | 28% |
| Guangzhou R&F | 2777 HK | HKD | 12.16 | REDUCE | REDUCE | 16.63 | 17.44 | 9.98 | 10.46 | -40% | -14% |
| KWG | 1813 HK | HKD | 6.67 | BUY | BUY | 10.75 | 11.40 | 7.52 | 7.98 | -30% | 20% |
| Agile | 3383 HK | HKD | 12.58 | BUY | BUY | 18.99 | 22.37 | 13.29 | 15.66 | -30% | 24% |
| Sino Ocean | 3377 HK | HKD | 5.50 | NEUTRAL | BUY | 8.83 | 9.51 | 5.30 | 6.66 | -30% | 21% |
| Poly (HK) | 119 HK | HKD | 8.19 | BUY | BUY | 12.48 | 13.15 | 9.98 | 10.52 | -20% | 28% |
| Country Garden | 2007 HK | HKD | 3.03 | NEUTRAL | NEUTRAL | 4.54 | 4.71 | 3.18 | 3.30 | -30% | 9% |

| Company | Currency | Old EPS | | | New EPS | | | % change in EPS | | | Lock-in FY11F (%) |
|----------------|----------|---------|-------|-------|---------|-------|-------|-----------------|-------|-------|-------------------|
| | | FY10F | FY11F | FY12F | FY10F | FY11F | FY12F | FY10F | FY11F | FY12F | |
| COLI | HKD | 1.11 | 1.50 | 1.88 | 1.13 | 1.52 | 1.90 | 2 | 1 | 1 | 55 |
| CRL | HKD | 0.74 | 0.95 | 1.10 | 0.75 | 1.10 | 1.16 | 1 | 16 | 6 | 52 |
| Shimao | RMB | 1.03 | 1.30 | 1.46 | 0.97 | 1.46 | 1.64 | (6) | 13 | 12 | 41 |
| Guangzhou R&F | RMB | 1.19 | 1.39 | 1.67 | 1.12 | 1.35 | 1.51 | (6) | (3) | (10) | 74 |
| KWG | RMB | 0.45 | 0.61 | 0.98 | 0.37 | 0.60 | 0.87 | (17) | (2) | (12) | 83 |
| Agile | RMB | 1.01 | 1.27 | 1.48 | 1.01 | 1.28 | 1.56 | 0 | 1 | 6 | 54 |
| Sino Ocean | RMB | 0.31 | 0.50 | 0.57 | 0.34 | 0.50 | 0.60 | 10 | (1) | 5 | 66 |
| Poly (HK) | HKD | 0.39 | 0.60 | 0.91 | 0.39 | 0.60 | 0.91 | 0 | 0 | 0 | 53 |
| Country Garden | RMB | 0.18 | 0.31 | 0.40 | 0.18 | 0.31 | 0.40 | 0 | 0 | 0 | 76 |

Note: We derive our price target for COLI based on 14x FY11F EPS.

Source: Bloomberg, Company data, Nomura research

2011F policy surprises unlikely

- **Property tax:** The pilot programme should be first applied in Shanghai and Chongqing, we believe. We foresee a limited impact on the market unless extremely high tax rates are introduced (we expect 0.8% pa on historical cost).
- **Enforcement of LAT:** Rather than immediate collection, we believe local governments will clear the full Land Appreciation Tax (LAT) in phases. We do not rule out that unpaid LAT may have to be set aside in some restricted accounts.
- **Further interest rate hikes:** We estimate that a 25bps interest rate hike would lead to only a 2% increase in monthly mortgage payments. Plus, continuous rate hikes should widen the interest rate spread between China and the US, attracting more hot money in anticipation of RMB appreciation.

Stock picks

We stick with our stock-picking criteria: favour developers that have less exposure to overheated cities, along with strong balance sheets and high earnings visibility. We continue to prefer big-cap stocks such as **COLI (688 HK)**, mid-cap stocks such as **Agile (3383 HK)** and small-cap stocks such as **KWG (1813 HK)**. We upgrade **Sino Ocean (3377 HK)** to BUY (from Neutral), the overhang from COSCO's share disposal having been removed.

TOP picks remain COLI (688 HK), Agile (3383 HK) and KWG (1813 HK)

Valuation and price target methodology

Our price targets are mostly based on 20-40% discounts to our end-11F NAV estimates. COLI is the only company where we set our price target on a P/E basis, on account of its relatively high production rate.

In deriving our NAV estimates, we assume property prices fall by 5% in non-overheated cities and 10% in overheated cities by end-2011F. We use DCF to value property development projects, with a discount rate of 10-12%. Valuation of investment properties in China is done on a cap-rate approach, using a rate of 8-10%. For all properties projects under development, we deduct any outstanding costs and assume full LAT payment in our calculations.

Risks to our investment view

- Tighter-than-expected property policies;
- Imbalanced housing supply and demand;
- Slower-than-expected urbanisation; and
- Economic slowdown in China.

Sensitivity of earnings, end-11F NAV

Our base case assumes a property price correction of 5-10% in 2011F, depending on the city. We believe our assumptions are conservative and we therefore provide a sensitivity on end-11F NAV and FY11F EPS, based on scenarios where: 1) there are no policy measures implemented, prices stay flat, or go up by another 5% (ie, 5-10% above our base case); 2) policy hits the market harder than expected – prices fall by 10-15% or 15-20% (ie, 5-10pp more than our expectation).

In our sensitivity analysis, we take the view that non-overheated cities would be less impacted than overheated cities (ie, Beijing, Shanghai, Shenzhen and Hangzhou), and hence make a parallel shift in ASP assumptions (either up or down 5-10% from the base-case assumption).

Exhibit 6. End-11F NAV sensitivity analysis

| Company | -15% to -20% | -10% to -15% | Base case (-10% to -5%) | -5% to 0% | 0% to 5% |
|----------------|---------------------|---------------------|------------------------------------|------------------|-----------------|
| COLI | (12) | (6) | 0 | 6 | 12 |
| CRL | (12) | (6) | 0 | 6 | 12 |
| Shimao | (9) | (5) | 0 | 4 | 9 |
| Guangzhou R&F | (13) | (7) | 0 | 6 | 12 |
| KWG | (11) | (5) | 0 | 5 | 10 |
| Agile | (15) | (7) | 0 | 7 | 14 |
| Sino Ocean | (17) | (9) | 0 | 9 | 17 |
| Poly (HK) | (17) | (8) | 0 | 8 | 17 |
| Country Garden | (19) | (9) | 0 | 9 | 18 |

Source: Nomura estimates

Exhibit 7. FY11F EPS sensitivity analysis

| Company | -15% to -20% | -10% to -15% | Base case (-10% to -5%) | -5% to 0% | 0% to 5% |
|----------------|---------------------|---------------------|------------------------------------|------------------|-----------------|
| COLI | (13) | (7) | 0 | 6 | 12 |
| CRL | (9) | (4) | 0 | 4 | 8 |
| Shimao | (10) | (4) | 0 | 4 | 9 |
| Guangzhou R&F | (18) | (9) | 0 | 8 | 17 |
| KWG | (11) | (6) | 0 | 6 | 11 |
| Agile | (18) | (9) | 0 | 9 | 17 |
| Sino Ocean | (5) | (3) | 0 | 3 | 5 |
| Poly (HK) | (18) | (10) | 0 | 10 | 18 |
| Country Garden | (7) | (4) | 0 | 3 | 6 |

Source: Nomura estimates

Fundamental demand intact under tightening policy environment

Sound base of fundamental demand

In 2011F, we expect the central government, in a bid to cool surging property prices, will turn to the supply side from administrative demand controls. The restrictions on home purchases should slow speculative activity, in our view. Despite an increase in housing supply, we expect fundamental demand from first home buyers and upgraders to continue driving transaction volume in 2011F. We believe annualised ASPs should still rise, even assuming a 5% price correction across all cities.

Central government will focus on increasing supply in 2011F, in our view

Policy shift toward increased supply

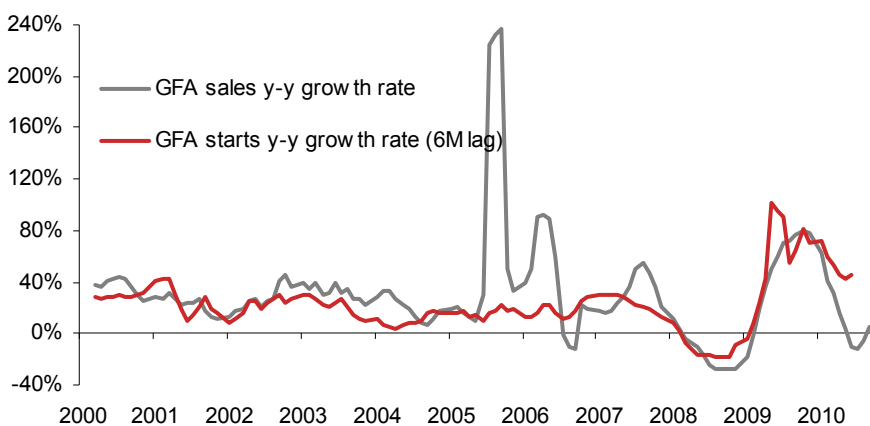
According to the Ministry of Land and Resources (MLR), actual land supply in Jan-Nov 2010 was 956mn sqm (land area), a y-y increase of 47.8%. Although only 52% of the full-year target (1.85bn sqm) was met, actual land supply in the first 11 months in 2010 was still 25% above the 2009 total. Assuming a 2.1x plot ratio for Jan-Nov 2010 land supply, we estimate sites totalling around 2bn sqm GFA will be released to the market — around 2.3x of 2009 total sales. Assuming 90sqm per unit, this should be enough to provide around 22mn units in the next couple of years. With a view to cooling surging property prices in the long run, we believe the government is turning more to supply-side measures from its previous reliance on administrative demand controls.

More housing supply expected in 2011F

We forecast new housing starts of 1,274mn sqm GFA during 2Q10-1Q11F, which will translate into new supply in 2011F. Including inventory of 576mn sqm GFA rolled over from 2010, we expect floor area available for sale in 2011F to increase by 30% y-y to 1,850mn sqm GFA. History tells us that new housing starts are strongly correlated with transaction volume, with a six-month lag. Developers are willing to replenish their land banks once they fetch strong presales, boosting new housing starts thereafter. Driven by strong sales in 4Q09 (+69% y-y) and 1Q10 (+34% y-y), residential starts in 2Q10 and 3Q10 were up 67% y-y and 52% y-y, respectively, potentially providing total new supply of 685mn sqm GFA in 2011F. Given some signs of a volume slowdown after the introduction of 10 key measures in Apr 2010, we expect new housing starts in 4Q10 and 1Q11F to be steady. We expect housing starts to rebound in 2Q11F, in light of three consecutive months in which transaction volume picked up: Sept 2010 (+14.9% y-y), Oct 2010 (+14.2%) and Nov 2010 (+12.3%).

GFA available for sale forecast to increase by 30% y-y to 1.85bn sqm GFA in 2011F

Exhibit 8. Strong correlation between housing starts and sales volume



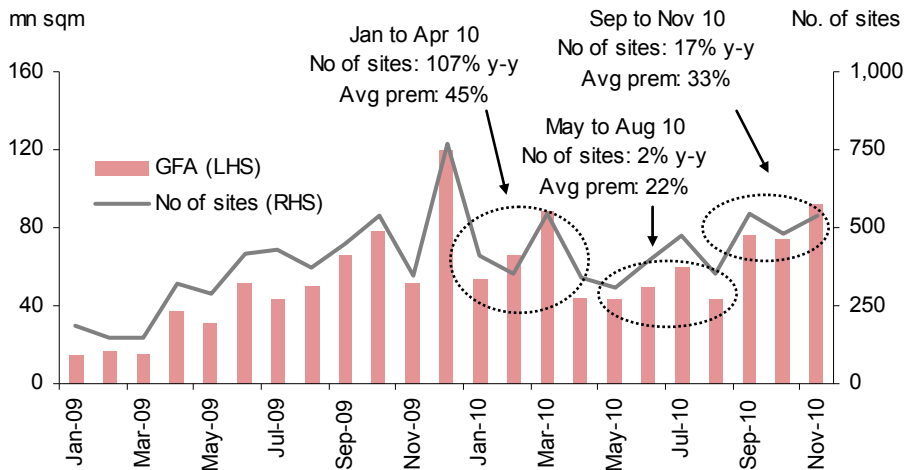
New housing starts strongly correlated with sales volumes, with six-month lag

Source: CEIC, Nomura research

We believe our assumptions are also well supported by developers' land acquisition activities, which are in line with their sales performances. During the first four months in 2010, when sales volume was up 30% y-y, the number of land transactions surged

by 107% y-y, with a 45% average transacted price premium. Later, when sales volume was down 10% y-y during Apr-Aug 2010, the number of land transactions was up a marginal 2% y-y while the average transacted price premium narrowed to 22%. Robust sales in Sept-Nov 2010 (up 13.8% y-y) led to 17% y-y growth in land transactions, while the average transacted land premium increased to 33%. Traditionally, developers need 6-9 months to start construction of newly acquired sites.

Exhibit 9. More landbanking activity when sales are strong



Source: CEIC, Soufun, Nomura research

We expect 20% y-y rise in 2011F new housing starts

We expect 20% y-y growth in the floor area of new housing starts in 2011F, supported by increasing land supply from the central government. On the other hand, the stringent measures against land hoarding could help accelerate construction, in our view. Our forecast for new housing starts of 1,547mn sqm GFA comprises 1,354mn sqm GFA of private housing starts and 192mn sqm GFA of economic housing starts.

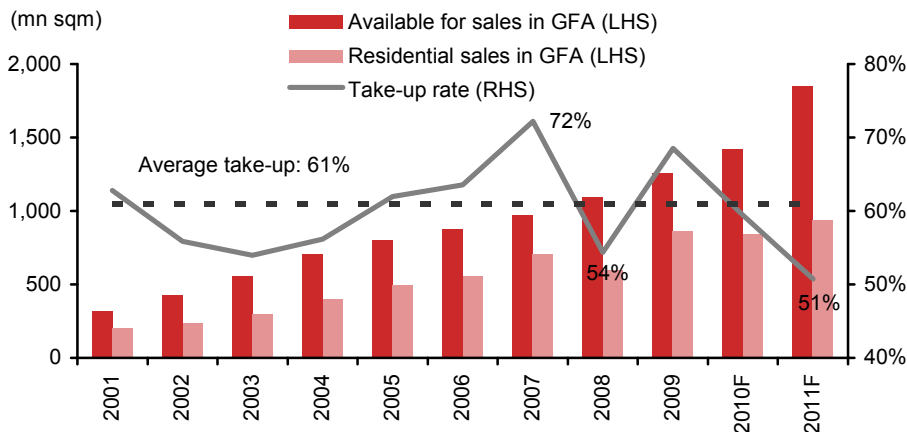
Fundamental demand should continue to drive volume in 2011F

Over the past nine years for which full data are available (2001-09), we find the average take-up rate to be 61% of total GFA available for sale (2007 was the peak, with a take-up rate of 72%, while 2008 had the worst take-up rate, at 54%). Taking into account policy uncertainty that may discourage speculators/investors from investing in the property market, we believe we are conservative in assuming a take-up rate of 51%, based on the 2008 take-up rate (54%) together with a decline in speculative activities (3%).

Landbanking activity also driven by sales performance

We expect the central government to turn to the supply side from administrative demand controls

Under conservative assumptions, we still expect transaction volumes to go up 11% y-y

Exhibit 10. Average take-up rate at 61% in 2001-09F

Source: CEIC, Nomura research

Transaction volume up 11% y-y to 939mn sqm GFA in 2011F

With a total of 1,850mn sqm GFA available for sale in 2011F, we forecast 2011F transaction volume at 939mn sqm GFA, up 11% y-y. We see this being driven mainly by a 145% y-y increase to 110mn sqm GFA in the economic housing sector. For the private housing sector, we expect transaction volume to increase by 4% y-y to 829mn sqm GFA. Looking at the three major sources of housing demand in the private housing sector – 1) first home demand; 2) living improvement demand; and 3) speculation/investment demand — we believe our sales estimate of 829mn sqm GFA in the private housing sector in 2011F is achievable.

1) First home buyers arising from urbanisation (440mn sqm GFA)

Urbanisation-driven demand arises from existing urban households that do not yet own homes and new urban households, which together we estimate will generate first home demand of 440mn sqm GFA. Over 1995-2009, we estimate 111mn households moved to the city (taking into account shrinkage in the size of households from 3.23 persons/household in 1995 to the current average of 2.89 persons), while only around 54.6mn units of new commodity residential housing were sold in the same period (assuming 90 sqm/unit). Even assuming no existing urban households have bought a new flat for upgrading, we find there are still some 55mn urban households that have yet to buy a new home in the past 15 years.

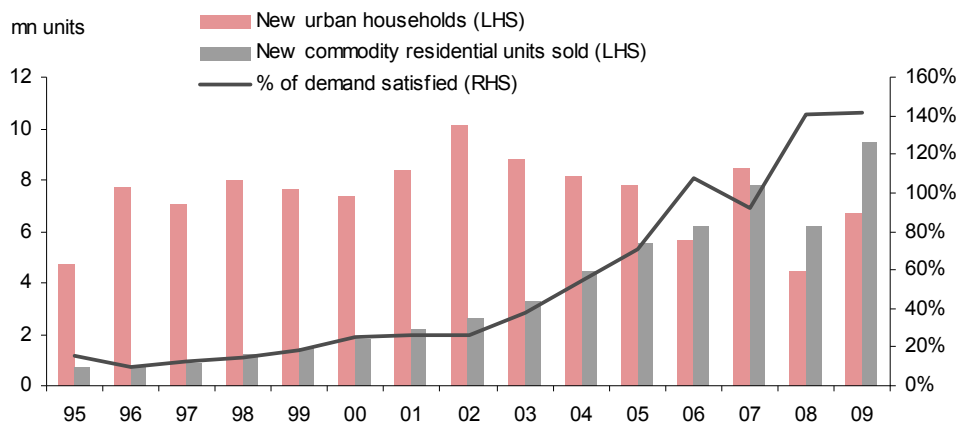
The central government has identified that there are around 15.4mn low income households that it intends to assist in the next three years. These would likely be in the pool of 55mn urban households that have not yet bought their own homes. Excluding these 15.4mn low-income households, the remaining 39.6mn urban households could generate housing demand of 3,564mn sqm GFA, on our estimates. Assuming another 15-year take-up period (ie, 2.64mn urban households enter the home market each year), this should equate to first home demand of around 240mn sqm GFA.

By 2009, China's urbanization rate stood at 46.6%. Assuming a 1pp increase in the urbanization rate each year, a total of 13mn new urban residents (or 4.5mn new urban households) should move to cities each year, in our view. Assuming 50% of these new urban households purchase their own homes, this should generate additional first home demand of 200mn sqm GFA (50% x 4.5mn households x 90 sqm/unit).

Average take-up rate at 61% of total GFA available for sale (2007 hit peak of 72%)

Our sales forecast looks to be well supported by fundamental demand

Housing demand of 440mn sqm GFA to be generated from first home buyers, especially new urban households

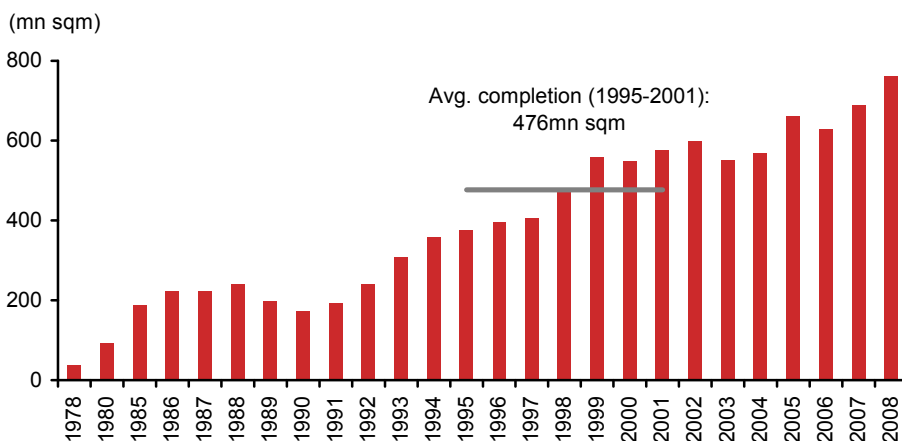
Exhibit 11. At least 55mn urban households have yet to buy a new home

Source: CEIC, Nomura research

2) Home demand from living standard improvement (381mn sqm GFA)

In our opinion, some properties in China that are only ten years old can look and function as though they are 50 years old. Our point is that this provides a base for housing demand from upgraders who have lived in their homes for more than ten years. Looking at the relatively short history of commodity housing in China, between 1995 and 2001, on average, residential buildings with a total GFA of 476mn sqm were completed each year. Assuming 80% of these existing home owners are looking to improve their living standards, this should generate housing demand of 381mn sqm GFA, which also accounts for around 2% of the total existing residential floor area of 18,630mn sqm GFA (621mn urban population x 30/sqm living floor area per capita).

Home owners may look to upgrade, given poor quality of "old" buildings

Exhibit 12. Average of 476mn sqm GFA completed pa during 1995-2001

Source: CEIC, Nomura research

3) Speculation / investment demand (38mn sqm GFA)

It is hard to quantify how many residential properties were purchased for speculative or investment purposes. One study by China Vanke indicates that ~12% of the company's customers are speculators or investors. Given continuous policy headwinds, we assume that 50% of speculators/investors may leave the property market, leaving only 6% of private housing demand to come from speculation / investment demand in 2011F. Based on an average transaction volume of 640mn sqm GFA between 2005 and 2010 in the private housing market, we still expect housing demand of 38mn sqm GFA in 2011F from speculators / investors.

Speculation / investment demand seen slowing to 38mn sqm GFA in 2011F

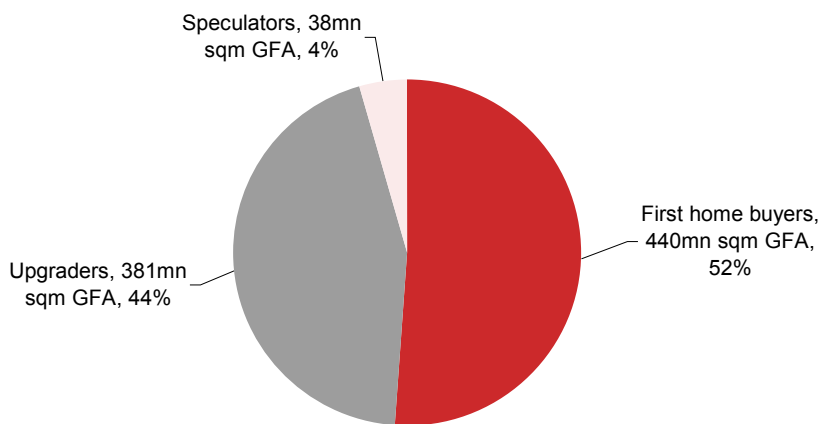
We estimate end-user demand will reach 821mn sqm GFA

To summarise, end-user demand for private housing in 2011F will be around 821mn sqm GFA under our conservative estimates (440mn sqm GFA from first home purchases, 381mn from upgraders). Together with possible housing demand of 38mn sqm GFA from speculators/investors, we are very comfortable with our expectation of 2011 private housing sales totalling 829mn sqm GFA.

In our supply and demand model, we project economic housing starts at 1.2mn units and 3.2mn units in 2010F and 2011F, respectively, in line with the supply targets of the central government. This translates into economic housing starts of 72m sqm GFA and 192mn sqm GFA, assuming an average unit size of 60 sqm. Given the authorities' strong motivation to speed up construction and completion of economic housing, we assume a take-up rate of 95% (5pp above the five-year average). Our conclusion is that transaction volume in economic housing will increase by 145% y-y to 110mn sqm GFA in 2011F.

Transaction volume in economic housing seen increasing 145% y-y in 2011F, due to significant supply

Exhibit 13. First home buyers and upgraders are still major demand drivers



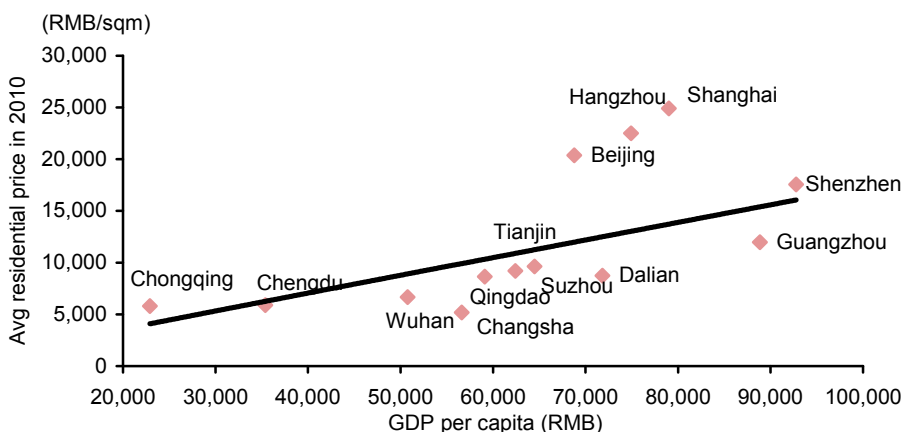
Note: 2011F forecasts

Source: CEIC, Nomura research

Some will question whether homebuyers will delay home purchases in expectation of price declines due to an increase in housing supply in 2012F. Our alternative affordability analysis indicates that affordability in most cities (except overheated cities such as Beijing, Shanghai, Shenzhen and Hangzhou) is still at comfortable levels, such that it is hard to see property prices falling significantly. Homebuyers will find it hard to wait until 2012F, given an outlook of increasing sales volume in 2011F, in our view.

Homebuyers may find it hard to wait given increasing sales volume

Exhibit 14. Relatively healthy affordability in most cities



Note: ASPs in Beijing, Shanghai, Shenzhen and Guangzhou based on secondary market transactions

Source: CEIC, Centaline, Soufun, Nomura research

Exhibit 15. Homebuyers may find it hard to wait given increasing sales volumes

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010F | 2011F |
|---|---------|---------|---------|-----------|-----------|-----------|-----------|
| Starts in GFA (000 sqm) | | | | | | | |
| Total residential starts | 551,851 | 644,038 | 787,955 | 836,421 | 932,984 | 1,288,777 | 1,546,532 |
| <i>y-y growth rate (%)</i> | 13 | 17 | 22 | 6 | 12 | 38 | 20 |
| Private housing starts | 516,716 | 600,248 | 739,852 | 780,203 | 879,438 | 1,216,777 | 1,354,532 |
| <i>y-y growth rate (%)</i> | 16 | 16 | 23 | 5 | 13 | 38 | 11 |
| Economic housing starts | 35,134 | 43,790 | 48,103 | 56,219 | 53,547 | 72,000 | 192,000 |
| <i>y-y growth rate (%)</i> | (23) | 25 | 10 | 17 | (5) | 34 | 167 |
| Available for sales in GFA (000 sqm) | | | | | | | |
| Total residential available for sales | 800,136 | 872,032 | 971,052 | 1,090,581 | 1,257,503 | 1,420,292 | 1,850,305 |
| <i>y-y growth rate (%)</i> | | 9 | 11 | 12 | 15 | 13 | 30 |
| Private housing available for sales | 761,160 | 832,504 | 930,807 | 1,052,766 | 1,222,310 | 1,367,324 | 1,734,214 |
| <i>y-y growth rate (%)</i> | | 9 | 12 | 13 | 16 | 12 | 27 |
| Economic housing available for sales | 38,976 | 39,527 | 40,245 | 37,815 | 35,192 | 52,968 | 116,092 |
| <i>y-y growth rate (%)</i> | | 1 | 2 | (6) | (7) | 51 | 119 |
| Sales in GFA (000 sqm) | | | | | | | |
| Total residential sales | 495,878 | 554,229 | 701,359 | 592,804 | 861,849 | 844,107 | 939,215 |
| <i>y-y growth rate (%)</i> | 25 | 12 | 27 | (15) | 45 | (2) | 11 |
| Private housing sales | 463,828 | 520,860 | 666,284 | 556,531 | 831,260 | 799,084 | 828,928 |
| <i>y-y growth rate (%)</i> | | 12 | 28 | (16) | 49 | (4) | 4 |
| Economic housing sales | 32,050 | 33,370 | 35,075 | 36,273 | 30,589 | 45,023 | 110,287 |
| <i>y-y growth rate (%)</i> | | 4 | 5 | 3 | (16) | 47 | 145 |
| ASP (in RMB) | | | | | | | |
| Residential sales | 3,010 | 3,132 | 3,665 | 3,655 | 4,474 | 4,840 | 4,936 |
| <i>y-y growth rate (%)</i> | | 4 | 17 | 0 | 22 | 8 | 2 |
| Sales value (in RMBbn) | | | | | | | |
| Residential sales | 1,499 | 1,704 | 2,532 | 2,042 | 3,816 | 4,085 | 4,636 |
| <i>y-y growth rate (%)</i> | | 14 | 49 | (19) | 87 | 7 | 13 |
| Take-up rate (%) | | | | | | | |
| Residential buildings | 62 | 64 | 72 | 54 | 69 | 59 | 51 |
| Private housing | 61 | 63 | 72 | 53 | 68 | 58 | 48 |
| Economic housing | 82 | 84 | 87 | 96 | 87 | 85 | 95 |

Notes:

For private housing market:

- 1) New housing starts translate into new supply in three quarters later;
- 2) We assume inventory as at end-2000 at 40% of new housing starts over 2Q99-1Q00.

For economic housing market:

- 1) We project economic housing starts at 1.2mn unit and 3.2mn units in 2010/11, with on average unit size of 60 sqm;
- 2) We assume inventory as end-2004 at 10% of average completed floor area in 2003-04.

Source: CEIC, Nomura research

Pricing outlook

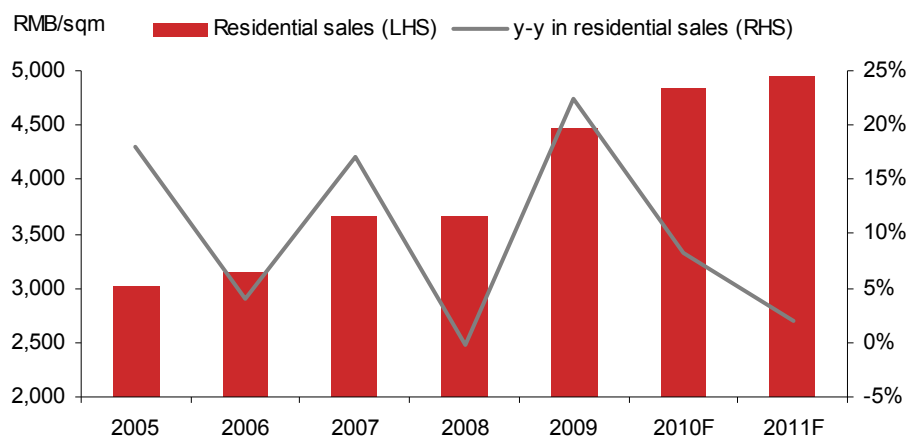
Will prices come down?

Annualised ASPs should still trend up

We continue to expect average residential property prices will fall 5-10% through to end-2011F (0-5% in non-overheated cities; 5-10% in overheated cities) in a continuous tightening environment. Assuming an average price correction of 5% across all cities (compared with an ASP of RMB5,196/sqm in Oct 2010), we estimate the overall annualised ASP in 2011F at RMB4,936/sqm, 2% higher than our expected ASP of RMB4,840/sqm in 2010. We believe this explains why developers are still aiming for a ~20-30% y-y increase in 2011F contracted sales (Exhibit 17).

We do not expect property prices to fall significantly due to a stable sales outlook in 2011F

Exhibit 16. Annualised ASP in 2011F will still trend up



Source: CEIC, Nomura research

The traditional demand and supply theory of prices down and volume up does not work well in the property market, where rational (or actually irrational) expectations play an important role. If buyers perceive that prices will go down significantly, many will wait and see, holding off until they believe prices have stabilised. On the other hand, when prices are surging, many people rush to the market out of fear of buying too late.

Given a relatively stable sales outlook (+4% y-y in term of volume) in the private housing market in 2011F, we do not expect property prices to fall significantly.

Exhibit 17. In general, developers targeting 20-30% y-y growth in 2011F sales

| Company | Bloomberg Ticker | Sales target 2010 (RMBmn) | Actual sales 2010 (RMBmn) | Sales target 2011F (RMBmn) | Sales target growth rate (%) |
|----------------|------------------|---------------------------|---------------------------|----------------------------|------------------------------|
| COLI | 688 HK | 50,000 | 52,815* | N.A | N.A |
| CRL | 1109 HK | 20,000 | 22,000* | N.A | N.A |
| Shimao | 813 HK | 30,000 | 30,500 | 36,000 | 18 |
| R&F | 2777 HK | 30,000 | 32,246 | 36,000 | 12 |
| Agile | 3383 HK | 24,700 | 32,300 | N.A | 20 to 30 |
| KWG | 1813 HK | 10,000 | 11,000 | 14,500 | 32 |
| Sino Ocean | 3377 HK | 18,000 | 22,000* | N.A | 20 to 30 |
| Country Garden | 2007 HK | 30,000 | 33,136* | 40,000 | 21 |
| Poly (HK) | 119 HK | 10,000 | 11,000* | 18,000 | 64 |

* Nomura estimates

Source: Company data, Nomura research

2010 policy review

2010: the most stringent tightening year

In 2010, the central government launched two major rounds of property tightening with a view to cooling surging property prices. Local governments then issued implementation details for these policy measures, with a local twist, to manage their own property markets. The most stringent measures include:

- **Implementation of strict mortgage policies (national policy)**
 - First-home buyers: 30% minimum downpayment + 70% / 85% of PBoC benchmark rate;
 - Second-home buyers: 50% minimum downpayment + 110% of PBoC benchmark rate;
 - Third-home (or above) buyers: no mortgage application is available.
- **Restriction of home purchases (applied in 16 cities)**
 - Most local households are allowed to buy one additional unit;
 - Non-local households should provide tax payment proof for at most 1 home purchase.
- **Increased land supply for subsidised housing**
 - Newly started construction of 5.8mn subsidised housing units in 2010;
 - Target to construct another 10mn subsidised housing units in 2011.

The first two policies are aimed at cooling housing demand, especially from speculators and investors. The latter one is aimed at resolving the housing difficulties facing low-income households. While some investors may doubt whether these subsidised housing targets can be achieved, the Ministry of Housing and Urban Rural Development (MOHURD) recently entered into more binding agreements with local government officials regarding 2010 targets, which we think could be viewed as strong support. With this, we believe local government officials have a greater incentive to meet targets or risk being passed over for promotion or even losing their jobs. This is especially important in the coming two years, ie, before central government leaders reshuffle their seats in 2012.

Other major policies include 1) cancelling some preferential policies such as deed tax and individual income tax; 2) restricting the use of pre-sales proceeds; 3) raising the prepayment of LAT; and 4) investigating any land hoarding activities.

Policy overhang in 2010 took the gloss off encouraging contracted sales figures

Central government has signed more binding agreements with local governments in a bid to meet subsidised housing targets

Exhibit 18. 10 key measures viewed as the most stringent

| 10 key measures (17 April 2010) | | New version (29 Sept 2010) | | | | | | | | | | | | | | | | | | | | | | | | |
|---|--|---|------------------------|-----------|---------------|------------------------------------|---------|-----|------------------------|------------------------------------|--------|-----|------------------------|-------------------------------------|-----|-----|------------------------|------------------------------------|-----|----|-----|---|-----|----|-----|--|
| 1 | To emphasize importance of stabilizing home prices. | Same. | | | | | | | | | | | | | | | | | | | | | | | | |
| 2 | To specify responsibilities of local governments on stabilization of home prices and construction of policy housing. | Same. | | | | | | | | | | | | | | | | | | | | | | | | |
| 3 | To implement differential mortgage policies strictly and the local governments can set cap on purchase units temporarily | For first home: LTV ratio = 70%, no exemption for size unit <90sqm For second home: same as before For third home: suspend all mortgage application nationally Non-local residents are not allowed to purchase properties if they cannot provide 1-year taxation proof | | | | | | | | | | | | | | | | | | | | | | | | |
| | <table border="1"> <thead> <tr> <th>Flat units</th> <th>Size</th> <th>LTV ratio</th> <th>Mortgage rate</th> </tr> </thead> <tbody> <tr> <td>1st flat per residential household</td> <td><=90sqm</td> <td>80%</td> <td>70% of benchmark rate*</td> </tr> <tr> <td>1st flat per residential household</td> <td>>90sqm</td> <td>70%</td> <td>70% of benchmark rate*</td> </tr> <tr> <td>2nd flat per residential household*</td> <td>all</td> <td>50%</td> <td>110% of benchmark rate</td> </tr> <tr> <td>3rd flat per residential household</td> <td>all</td> <td>0%</td> <td>n.a</td> </tr> <tr> <td>Less than one year certification of residence</td> <td>all</td> <td>0%</td> <td>n.a</td> </tr> </tbody> </table> <p>* 2nd flat is the second residential premises per one household, no matter whether the first flat was bought on mortgage or not.</p> | Flat units | Size | LTV ratio | Mortgage rate | 1st flat per residential household | <=90sqm | 80% | 70% of benchmark rate* | 1st flat per residential household | >90sqm | 70% | 70% of benchmark rate* | 2nd flat per residential household* | all | 50% | 110% of benchmark rate | 3rd flat per residential household | all | 0% | n.a | Less than one year certification of residence | all | 0% | n.a | |
| Flat units | Size | LTV ratio | Mortgage rate | | | | | | | | | | | | | | | | | | | | | | | |
| 1st flat per residential household | <=90sqm | 80% | 70% of benchmark rate* | | | | | | | | | | | | | | | | | | | | | | | |
| 1st flat per residential household | >90sqm | 70% | 70% of benchmark rate* | | | | | | | | | | | | | | | | | | | | | | | |
| 2nd flat per residential household* | all | 50% | 110% of benchmark rate | | | | | | | | | | | | | | | | | | | | | | | |
| 3rd flat per residential household | all | 0% | n.a | | | | | | | | | | | | | | | | | | | | | | | |
| Less than one year certification of residence | all | 0% | n.a | | | | | | | | | | | | | | | | | | | | | | | |
| 4 | To introduce tax policies on property consumption and investments, and to carry out LAT inspections. The Ministry of Finance and the State Administration of Taxation are to draft tax policies on individual property consumption and real estate gains. | Strengthen LAT settlement, especially for projects with extremely higher selling prices compare with nearby region. Local governments actively draft property tax pilot programme. | | | | | | | | | | | | | | | | | | | | | | | | |
| 5 | To increase the supply of residential lands, especially in the overheated cities. Local governments are required to release land supply plans in a timely manner. | Reinforce increase in land supply in overheated cities. | | | | | | | | | | | | | | | | | | | | | | | | |
| 6 | To adjust housing structures and ensure that land supply of policy housing, old area redevelopment and mass flats is not less than 70% of total land supply. | Same. | | | | | | | | | | | | | | | | | | | | | | | | |
| 7 | To provide 3mn units of policy flats and 2.8mn units from demolition in 2010. The Ministry of Housing and Urban-Rural Development is to lay out detailed policy housing supply plan for the years 2010 to 2012. | Reinforce implementation of 2010 housing subsidized housing construction (5.8mn units), with later plans for another 10mn units in 2011. Total land supply of 1.8bn sqm (site area) will be provided in 2011. | | | | | | | | | | | | | | | | | | | | | | | | |
| 8 | To regulate developers' land acquisition and financing activities. State-owned enterprises are prohibited from commercial real estate development; commercial banks are to reinforce risk management on loans to developers. No loans, IPOs, refinancing or any material asset restructuring activities are to be granted to developers that take part in land speculation. | Not mentioned. | | | | | | | | | | | | | | | | | | | | | | | | |
| 9 | To supervise property transaction order and crack down on housing hoarding activities. For properties that have obtained presale permits, developers should publicise all premises available for sale and their prices. | No bank borrowing for developers hoarding land or saleable units. | | | | | | | | | | | | | | | | | | | | | | | | |
| 10 | To improve the property information disclosure system and enhance the quality of data released by statistics depts. | Same. | | | | | | | | | | | | | | | | | | | | | | | | |

* Some banks have raised the preferential mortgage rate for first home purchases to 85% from 70%

Source: China government websites, Nomura research

Exhibit 19. Restrictions on home purchases aimed at cooling speculative activity

| | Local household | | | Non-local household | | |
|------------|-------------------|--------------------|-----------------------------|---------------------|---|---|
| | No home ownership | One home ownership | Two or above home ownership | No taxation records | One year taxation records and no home ownership | One year taxation records and one or above home ownership |
| Beijing | 1 | 1 | 1 | 1 | 1 | 1 |
| Tianjin | 1 | 1 | 1 | 1 | 1 | 1 |
| Dalian | 1 | 1 | 1 | 1 | 1 | 1 |
| Shanghai | 1 | 1 | 1 | 1 | 1 | 1 |
| Hangzhou | 1 | 1 | 1 | 1 | 1 | 1 |
| Ningbo | 1 | 1 | 1 | None | 1 | 1 |
| Wenzhou | 1 | 1 | 1 | 1 | 1 | 1 |
| Nanjing | 2 | 1 | None | nm | 2 | 1 |
| Suzhou | 1 | 1 | 1 | 1 | 1 | 1 |
| Xiamen | 1 | 1 | 1 | 1 | 1 | 1 |
| Shenzhen | 2 | 1 | None | None | 1 | None |
| Fuzhou | 1 | 1 | None | None | 1 | None |
| Guangzhou* | 1 | 1 | 1 | None | 1 | 1 |
| Sanya | 1 | 1 | 1 | 1 | 1 | 1 |
| Haikou | 1 | 1 | 1 | 1 | 1 | 1 |
| Lanzhou | 2 | 2 | 2 | 1 | 1 | 1 |

* People under 18 years of age cannot purchase flats in Guangzhou

Source: China government websites, Nomura research

Exhibit 20. Cancellation of some preferential deed tax

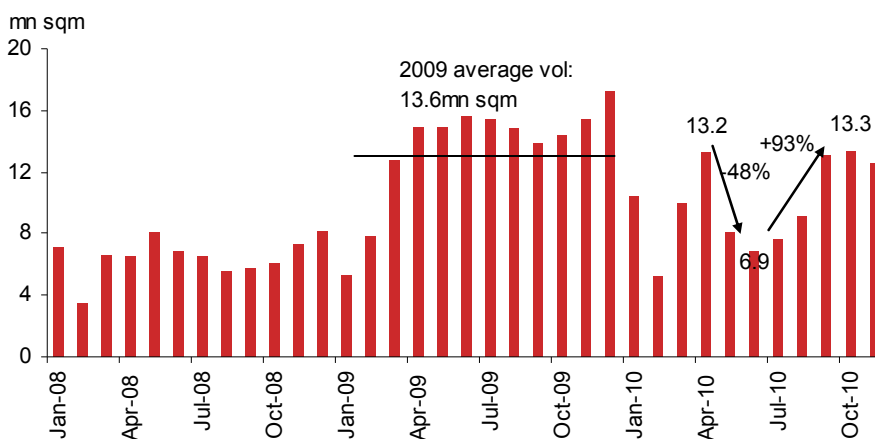
| Tax rate | Previous version | Current version (29 Sep 2010) |
|------------------------|---|---|
| 1.0% of total proceeds | 1) Common flat 2) GFA<90sqm 3) Individual's first home purchase | 1) Common flat 2) GFA<90sqm 3) The only residential property by the household |
| 1.5% of total proceeds | Other common flat | 1) Common flat 2) The only residential property by the household |
| 3.0% of total proceeds | Non-common flat | Other common and non-common flats |

Source: China government websites, Nomura research

Toughest measures had only two-month impact

- **Volume:** The tightening policy rolled out in Apr 2010 was successful for the two months thereafter, with transaction volume (based on a sample of 13 key cities in China) down on average by 48% to around 6.9mn sqm GFA. But pent-up demand was soon released after people had digested the policy impact, and Sept 2010 transaction volume quickly returned to the Apr 2010 level of around 13mn sqm GFA. The latest austerity measures did not bring about a significant decline in sales volume, which stayed at a monthly level of 12-13mn sqm GFA.

History tells us tightening impact lasts 2-3 months

Exhibit 21. Transaction volume bottomed out 2 months after Apr 2010 measures

Note: 13 cities include Beijing, Shanghai, Shenzhen, Guangzhou, Hangzhou, Suzhou, Chongqing, Chengdu, Tianjin, Dalian, Qingdao, Wuhan and Changsha

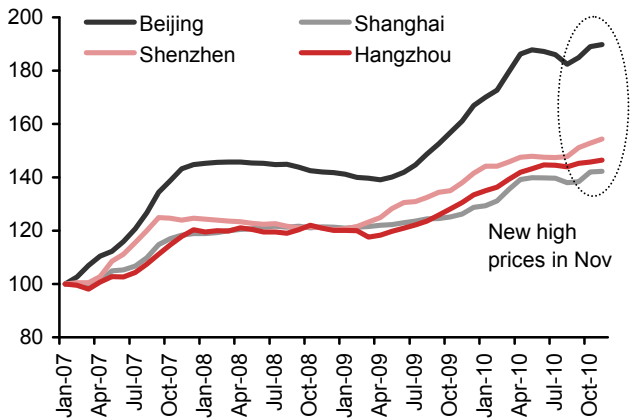
Source: CEIC, Nomura research

More importantly, still no meaningful price correction

- **Price:** Based on available price indices / data, we do not find much evidence to suggest that prices have adjusted meaningfully after two major rounds of tightening in Apr 2010 and Sep 2010. Looking at Soufun's home price index, average home prices in overheated cities (Beijing, Shanghai, Shenzhen and Hangzhou) are up 1-4% from their Apr 2010/May 2010 peak. Centaline's secondary home price index, meanwhile, is down only 0-5% from the peak of around Apr 2010. We believe this resilience in home prices has been driven mainly by strong fundamental demand as well as excess global liquidity.

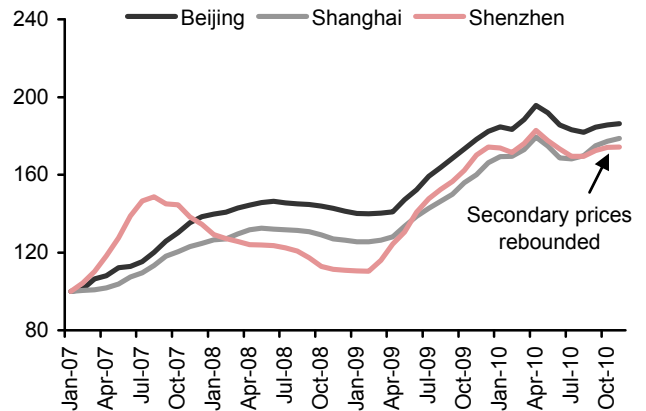
Resilience of home prices mainly driven by strong fundamental demand and excess global liquidity

Exhibit 22. Soufun home price indices reach new highs



Source: Soufun, Nomura research

Exhibit 23. Centaline secondary price indices also show signs of rebound

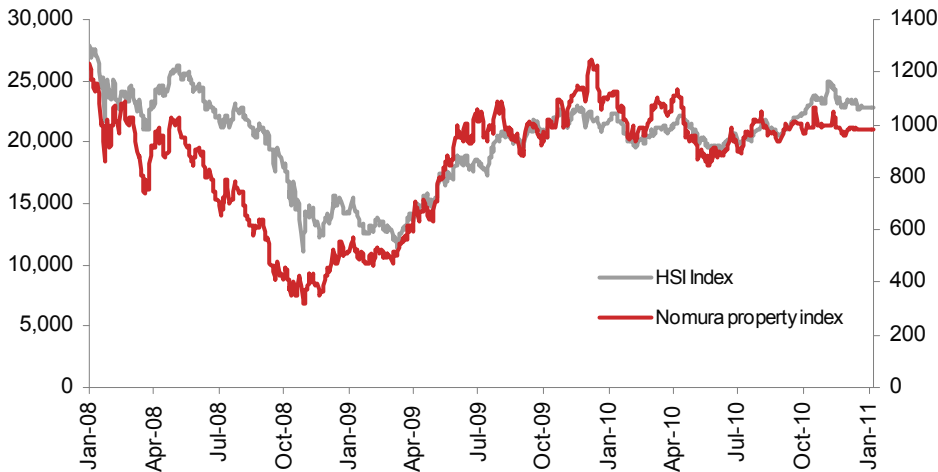


Source: Centaline, Nomura research

Concerns of ongoing tightening have weighed on share prices

The failure to cool surging property prices has raised concern there will be further, ongoing tightening in the property sector. We think this is the main reason the China property sector has underperformed the Hang Seng Index by 28% over the past 18 months. Indeed, all developers under our coverage have announced their Nov 2010 operating statistics and most have already met their full-year 2010 sales targets, suggesting housing demand is strong even under the tightening policy environment.

Exhibit 24. Nomura property index vs HSI



Note: Index comprises 25 HK-listed China property stocks
Source: Bloomberg, Nomura research

Nomura property index has underperformed HSI by 28% over 18 months

2011F policy preview

2011F: policy surprises unlikely

Looking to 2011, we do not underestimate policy impact and we expect the central government to closely monitor the property market and, if necessary, introduce several policies. But possible policy measures are frequently mentioned and, as such, should not come as a surprise to the market, in our view. A shift in policy focus from administrative demand controls to increasing land supply should be favourable to developers, supported by strong fundamental demand. Moreover, we expect less aggressive measures in the property market, given that control of inflation in the broader economy is likely to be the top priority of the government. In our 4 Oct Anchor report, *Policy...many possible moves*, we argued that the pilot property tax programme and full collection of land appreciation tax (LAT) would likely be the major tightening themes in 2011F. We are mindful of the prospect of rising interest rates, but contend that the impact is likely to be minimal in the early stages.

- **Implementation of pilot property tax programme**

- We expect the programme to be first implemented on new home sales;
- Second-home (or above) buyers should be enrolled for the programme;
- Tax rate is likely to be ~0.8% pa on the historical cost of the property;
- Shanghai and Chongqing should be the first trial cities.

Potential impact: Property tax reform is on the agenda for the 12th Five-Year Plan. We believe the reform will almost certainly be first introduced to Shanghai and Chongqing, and then to other overheated cities such as Beijing, Shenzhen and Hangzhou. Property tax will likely become an important and stable source of revenue for local governments, and increased holding costs could well deter speculators from investing aggressively. Still, investors are aware that the central government has been studying property tax and the question of reform for some time now. Unless the pilot programme is launched with an extremely high tax rate, we foresee only a limited impact on share prices, on the basis that this policy overhang is already factored in.

- **Full collection of Land Appreciation Tax (LAT)**

- We expect local governments to gradually increase LAT prepayment;
- Strict enforcement of LAT settlement / collection;
- Unpaid LAT to be set aside in restricted accounts. (Our new thoughts)

Potential impact: Again, the LAT is not something new to the market — it was first announced in Jan 1994 but has yet to be fully enforced. Although developers under our coverage have been making full provisions for LAT on their books, very few have set aside cash in anticipation of LAT settlement. Any speed-up in LAT collection could increase developers' working capital requirements, deterring them from buying land aggressively. It is more likely, in our view, that local governments will clear the LAT in phases. We do not rule out, however, that unpaid LAT, like pre-sale proceeds, may have to be set aside in restricted accounts that cannot be used for other purposes.

Exhibit 25. LAT at progressive tax rates, ranging from 30-60%

| Progressive level | Tax base | Tax rate (%) |
|-------------------|---|--------------|
| 1 | That part of the appreciation amount not exceeding 50% of the sum of deductible items | 30 |
| 2 | That part of the appreciation amount exceeding 50%, but not exceeding 100%, of the sum of deductible items | 40 |
| 3 | That part of the appreciation amount exceeding 100%, but not exceeding 200%, of the sum of deductible items | 50 |
| 4 | That part of the appreciation amount exceeding 200% of the sum of deductible items | 60 |

Source: Administrator of Local Taxation of Shenzhen Municipality website, Nomura research

All possible policies should be well anticipated and largely priced in

Unless the property tax is launched at an extremely high rate, it will have a limited impact on share prices, in our view

We think unpaid LAT may have to be set aside in some restricted accounts

Exhibit 26. Minimum LAT prepayment rates

| Provinces | % of sales |
|-------------------------|---------------|
| Eastern provinces | ≥2% |
| Central provinces | ≥1.5% |
| North-eastern provinces | ≥1.5% |
| Western provinces | ≥1% |
| Southern provinces | Not specified |

Source: State Administration of Taxation, Nomura research

Some local governments recently raised the minimum LAT prepayment rate

- **Further interest rate hikes**

- In 2010, the PBoC implemented two interest rates hikes totalling 50bps (based on one-year bank lending and deposit rates).
- Our economics teams forecasts four quarterly symmetrical interest rate hikes in 2011, for a total increase of 100bps.

Potential impact: The rate hike in Oct 2010 — the first for almost three years — signalled the start of another rising rate cycle, the goal being to tame excess liquidity and curb surging inflation. Traditionally, the property sector tends to be negatively affected, as rising mortgage rates tend to curb demand from potential home buyers. But we estimate that a 25bps increase in the lending rate (over 5 years) may lead to only a 1.8-2.1% increase in monthly mortgage payments for first-home buyers and second-home buyers. Unless there are significant rate hikes, the impact on mortgage payments is still limited, such that home buyers may not be too sensitive to the increments, we believe.

A 25bps increase in the mortgage rate would lead to only a ~2% increase in monthly payments

Even with our expectation of four interest rate hikes in 2011F, our economics team believes liquidity will remain sufficient throughout the year. This is supported by M2 growth, which for the first three quarters of 2010 stood at 19% y-y. On the other hand, the expected rate hikes will widen the interest rate spread between China and the US, as well as the EU, and this could potentially attract more money inflows in anticipation of renminbi appreciation. Given a lack of investment alternatives in China, we think the property market should be viewed as a shelter from surging inflation in the broader economy, and this explains why developers' share prices historically have not been swayed much by interest rate hikes.

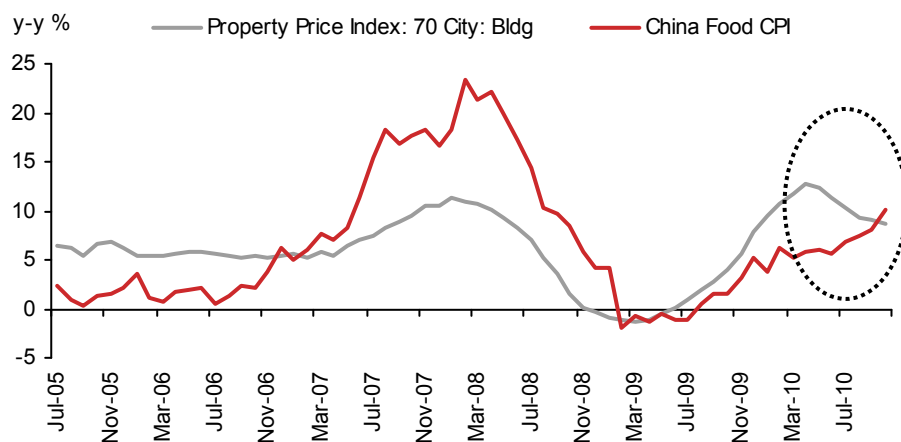
Increasing rate spread between China and US may attract more hot money inflows

Exhibit 27. Interest rate hikes may not have significant impact on mortgage payments in early stages

| Case | Loan value (RMB) | Terms years | BLR over 5 yr % p.a. | Disc/prem. | Effective rate % p.a. | Monthly payment (RMB) | Additional monthly payment (RMB) (%) | |
|---------------------------------|------------------|-------------|----------------------|------------|-----------------------|-----------------------|--------------------------------------|-----|
| For 1st Home (70% LTV) | | | | | | | | |
| Before interest rate hike | 1,000,000 | 20 | 6.14 | 0.85 | 5.22 | 6,721 | | |
| After interest rate hike | 1,000,000 | 20 | 6.40 | 0.85 | 5.44 | 6,845 | | |
| A further interest hike - 25bp | 1,000,000 | 20 | 6.65 | 0.85 | 5.65 | 6,965 | 120 | 1.8 |
| A further interest hike - 50bp | 1,000,000 | 20 | 6.90 | 0.85 | 5.87 | 7,087 | 242 | 3.5 |
| A further interest hike - 75bp | 1,000,000 | 20 | 7.15 | 0.85 | 6.08 | 7,209 | 364 | 5.3 |
| A further interest hike - 100bp | 1,000,000 | 20 | 7.40 | 0.85 | 6.29 | 7,333 | 488 | 7.1 |
| For 2nd Home (50% LTV) | | | | | | | | |
| Case | | | | | | | | |
| Before interest rate hike | 1,000,000 | 20 | 6.14 | 1.10 | 6.75 | 7,606 | | |
| After interest rate hike | 1,000,000 | 20 | 6.40 | 1.10 | 7.04 | 7,777 | | |
| A further interest hike - 25bp | 1,000,000 | 20 | 6.65 | 1.10 | 7.32 | 7,943 | 166 | 2.1 |
| A further interest hike - 50bp | 1,000,000 | 20 | 6.90 | 1.10 | 7.59 | 8,111 | 334 | 4.3 |
| A further interest hike - 75bp | 1,000,000 | 20 | 7.15 | 1.10 | 7.87 | 8,281 | 504 | 6.5 |
| A further interest hike - 100bp | 1,000,000 | 20 | 7.40 | 1.10 | 8.14 | 8,452 | 675 | 8.7 |
| HFM for the 1st home | | | | | | | | |
| Case | | | | | | | | |
| Before interest rate hike | 300,000 | 20 | 4.05 | 1.00 | 4.05 | 1,826 | | |
| After interest rate hike | 300,000 | 20 | 4.30 | 1.00 | 4.30 | 1,866 | | |
| A further interest hike - 25bp | 300,000 | 20 | 4.55 | 1.00 | 4.55 | 1,906 | 40 | 2.2 |
| A further interest hike - 50bp | 300,000 | 20 | 4.80 | 1.00 | 4.80 | 1,947 | 81 | 4.3 |
| A further interest hike - 75bp | 300,000 | 20 | 5.05 | 1.00 | 5.05 | 1,988 | 122 | 6.6 |
| A further interest hike - 100bp | 300,000 | 20 | 5.30 | 1.00 | 5.30 | 2,030 | 164 | 8.8 |
| HFM for the 2nd home | | | | | | | | |
| Case | | | | | | | | |
| Before interest rate hike | 300,000 | 20 | 4.05 | 1.10 | 4.46 | 1,891 | | |
| After interest rate hike | 300,000 | 20 | 4.30 | 1.10 | 4.73 | 1,935 | | |
| A further interest hike - 25bp | 300,000 | 20 | 4.55 | 1.10 | 5.01 | 1,981 | 45 | 2.3 |
| A further interest hike - 50bp | 300,000 | 20 | 4.80 | 1.10 | 5.28 | 2,027 | 91 | 4.7 |
| A further interest hike - 75bp | 300,000 | 20 | 5.05 | 1.10 | 5.56 | 2,073 | 138 | 7.1 |
| A further interest hike - 100bp | 300,000 | 20 | 5.30 | 1.10 | 5.83 | 2,120 | 185 | 9.5 |

Note: HFM reps housing fund mortgage

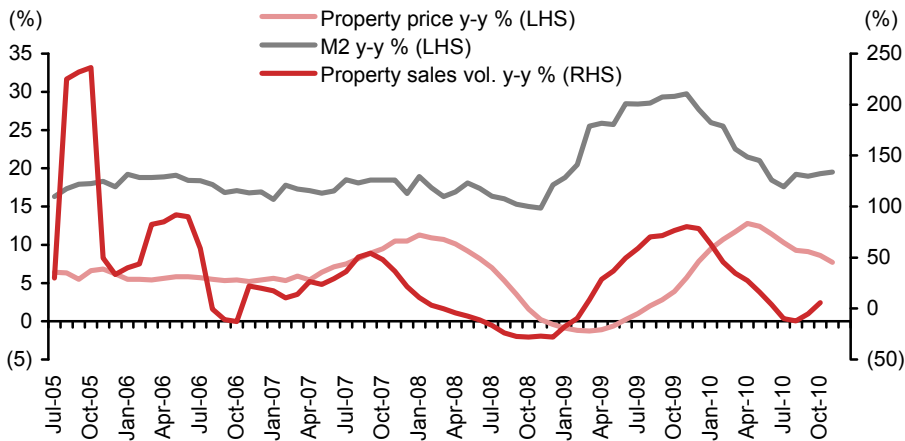
Source: CEIC, Nomura research

Exhibit 28. Property Price Index vs Food CPI

Source: CEIC, Nomura research

Cooling real estate sector can hardly be blamed for rising food prices, in our view

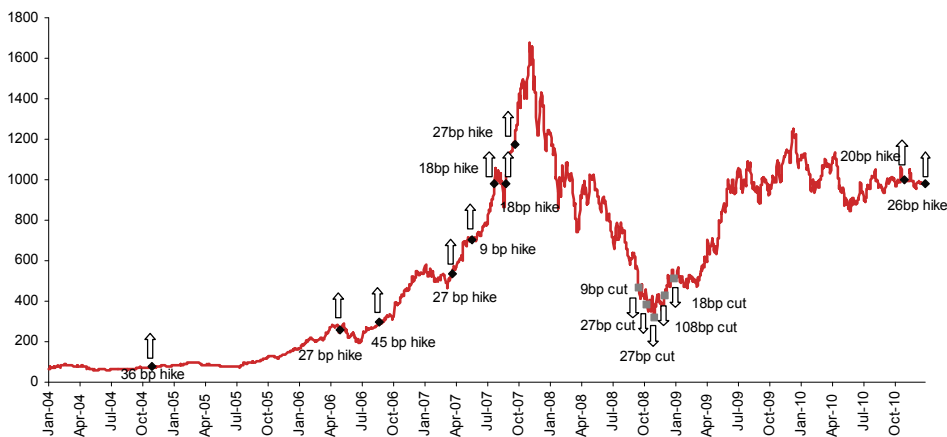
Exhibit 29. Liquidity vs property transaction volume and price



Excess liquidity should drive both transaction volume and prices

Source: CEIC, Nomura research

Exhibit 30. China property stocks' share price performance vs interest rate changes (2004-10)



Note: All interest rate hikes / cuts for over-five-year lending rate. On 20 Dec 2007, the PBoC increased the one-year lending rate by 18bps with no change in over-five-year lending rate. Performance of index comprising 25 HK-listed China property stocks

Source: CEIC, Bloomberg, Nomura research

Lifting earnings and NAV estimates

2010 contracted sales beat consensus**Despite tightening, all developers met 2010 sales targets**

As of end-Nov 2010, six of the nine China property developers under Nomura coverage had already achieved their full year 2010 sales targets. The remaining three — China Resources Land, Guangzhou R&F and Shimao — hit their targets in Dec 2010.

Looking at the contracted sales figures for Oct-Nov 2010 — when new tightening measures were implemented — we find that policies such as restrictions on home purchases and suspension of third home mortgages had only a limited impact. Interestingly, if we total up contracted sales in Oct 2010 and Nov 2010, the accumulated figure accounts for 25% of total YTD sales. We take this as an indication of strong housing demand even under a tightening policy environment.

The developers under coverage have, on average, end-FY10F net debt/equity of around 60%, which looks stretched. In view of restrictions on the use of pre-sale proceeds, bank borrowings and trust financing, some investors may be concerned at the possibility of price-cutting in 2011F. We see this as unlikely to happen. In addition to recording strong 2010 sales, most developers have moved to lengthen their debt maturity profiles by using 5- to 7-year senior notes or granting syndicated loans, reducing the possibility of running into financial distress, we believe. Encouraging contracted sales may not have an immediate impact on developers' cashflow positions given that pre-sales proceeds must be put into supervised bank accounts for construction purposes. But these companies' balance sheets should still be enhanced through an increase in restricted cash.

Contracted sales figures even stronger under tightening policy in Oct-Nov 2010

Strong contracted sales may help ease cashflow concerns

Exhibit 31. All developers met 2010 contracted sales targets

| Company | Bloomberg Ticker | Contracted sales | | | | | Y/Y (%) | Sales target | Sales |
|----------------|------------------|------------------|----------------|-------------------|-------------------|---------------|---------|--------------|-------|
| | | Oct-10 (RMBmn) | Nov-10 (RMBmn) | Jan-Nov10 (RMBmn) | Jan-Nov09 (RMBmn) | 2010 (RMB mn) | | achieved (%) | |
| COLI | 688 HK | 6,207 | 4,655 | 50,776 | 39,655 | 28 | 50,000 | 102 | |
| CRL | 1109 HK | 3,000 | 2,590 | 19,358 | 23,889 | (19) | 20,000 | 97* | |
| Shimao | 813 HK | 4,046 | 3,480 | 27,137 | 21,000 | 29 | 30,000 | 90* | |
| Guangzhou R&F | 2777 HK | 2,261 | 5,321 | 28,977 | 23,369 | 24 | 30,000 | 97* | |
| Agile | 3383 HK | 5,400 | 2,800 | 25,400 | 15,500 | 64 | 24,700 | 103 | |
| KWG | 1813 HK | 750 | 500 | 10,550 | 6,870 | 54 | 10,000 | 106 | |
| Sino Ocean | 3377 HK | 2,500 | 2,200 | 18,200 | 11,700 | 56 | 18,000 | 101 | |
| Country Garden | 2007 HK | 5,100 | 3,500 | 30,400 | 19,380 | 57 | 30,000 | 101 | |
| Poly (HK) | 119 HK | 1,700 | 900 | 10,100 | 7,300 | 38 | 10,000 | 101 | |

Note: Guangzhou R&F, Shimao, and CRL announced that they met 2010 sales targets during Dec 2010.

Source: Company data, Nomura research

Encouraging contracted sales to spur FY11F earnings revisions

The developers' strong 2010 sales figures beat most street estimates and should further strengthen developers' FY11F earnings, leading to possible earnings / NAV revisions by the street over the next couple of months, in our view. Relative to our last updated estimates, we revise developers' earnings for FY11F by 3% (ranging from -3% for Guangzhou R&F to +16% for CRL). Compared with our 4 Oct 2010 report, *Policy...many possible moves*, our earnings forecasts are 9% higher on average. Our earnings upgrades not only factor in better-than-expected contracted sales but also margin improvements in anticipation of higher contracted ASPs.

Revising up FY11F earnings by 3% on average

Exhibit 32. Revising up FY11F earnings by 3% on average

| Company | Bloomberg Ticker | Currency | Old EPS | | | New EPS | | | % change in EPS | | |
|----------------|------------------|----------|---------|-------|-------|---------|-------|-------|-----------------|-------|-------|
| | | | FY10F | FY11F | FY12F | FY10F | FY11F | FY12F | FY10F | FY11F | FY12F |
| COLI | 688 HK | HK\$ | 1.11 | 1.50 | 1.88 | 1.13 | 1.52 | 1.90 | 2 | 1 | 1 |
| CRL | 1109 HK | HK\$ | 0.74 | 0.95 | 1.10 | 0.75 | 1.10 | 1.16 | 1 | 16 | 6 |
| Shimao | 813 HK | RMB | 1.03 | 1.30 | 1.46 | 0.97 | 1.46 | 1.64 | (6) | 13 | 12 |
| Guangzhou R&F | 2777 HK | RMB | 1.19 | 1.39 | 1.67 | 1.12 | 1.35 | 1.51 | (6) | (3) | (10) |
| KWG | 1813 HK | RMB | 0.45 | 0.61 | 0.98 | 0.37 | 0.60 | 0.87 | (17) | (2) | (12) |
| Agile | 3388 HK | RMB | 1.01 | 1.27 | 1.48 | 1.01 | 1.28 | 1.56 | (0) | 1 | 6 |
| Sino Ocean | 3377 HK | RMB | 0.31 | 0.50 | 0.57 | 0.34 | 0.50 | 0.60 | 10 | (1) | 5 |
| Poly (HK) | 119 HK | HK\$ | 0.39 | 0.60 | 0.91 | 0.39 | 0.60 | 0.91 | 0 | 0 | 0 |
| Country Garden | 2007 HK | RMB | 0.18 | 0.31 | 0.40 | 0.18 | 0.31 | 0.40 | 0 | 0 | 0 |

Source: Company data, Nomura research

Exhibit 33. Earnings forecasts 9% higher than at time of our initiation (4 Oct 2010)

| Company | Bloomberg Ticker | Currency | Old EPS | | | New EPS | | | % change in EPS | | |
|----------------|------------------|----------|---------|-------|-------|---------|-------|-------|-----------------|-------|-------|
| | | | FY10F | FY11F | FY12F | FY10F | FY11F | FY12F | FY10F | FY11F | FY12F |
| COLI | 688 HK | HK\$ | 1.11 | 1.50 | 1.88 | 1.13 | 1.52 | 1.90 | 2 | 1 | 1 |
| CRL | 1109 HK | HK\$ | 0.74 | 0.95 | 1.10 | 0.75 | 1.10 | 1.16 | 1 | 16 | 6 |
| Shimao | 813 HK | RMB | 1.03 | 1.30 | 1.46 | 0.97 | 1.46 | 1.64 | (6) | 13 | 12 |
| R&F | 2777 HK | RMB | 1.19 | 1.39 | 1.67 | 1.12 | 1.35 | 1.51 | (6) | (3) | (10) |
| KWG | 1813 HK | RMB | 0.45 | 0.61 | 0.98 | 0.37 | 0.60 | 0.87 | (17) | (2) | (12) |
| Agile | 3388 HK | RMB | 0.86 | 1.04 | 1.19 | 1.01 | 1.28 | 1.56 | 17 | 23 | 31 |
| Sino Ocean | 3377 HK | RMB | 0.31 | 0.50 | 0.57 | 0.34 | 0.50 | 0.60 | 10 | (1) | 5 |
| Poly (HK) | 119 HK | HK\$ | 0.39 | 0.60 | 0.91 | 0.39 | 0.60 | 0.91 | 0 | 0 | 0 |
| Country Garden | 2007 HK | RMB | 0.17 | 0.23 | 0.28 | 0.18 | 0.31 | 0.40 | 9 | 35 | 44 |

Source: Company data, Nomura research

Good grounds for above-consensus earnings estimates

Our revised FY11F earnings forecasts are on average 16% above consensus, according to Bloomberg. We see this as a reflection of conservative estimates by the street that will have to be revised up. In our view, our above-consensus numbers are well-supported by the encouraging contracted sales figures of late, which lift the percentage of FY11F earnings locked in to 62% (based on sales in Jan-Nov 2010), on our estimates, from 36% (based on Jan-Aug 2010).

Consensus estimates look conservative, leaving room for upward revisions by the street

For example, consensus revenue forecasts for Agile stand at RMB18.3bn for FY10F and RMB22.5bn for FY11F. With the company carrying forward sales of RMB9.5bn from FY09 and achieving RMB25.4bn of its sales target in the first 11 months of 2010, it has already locked in 100% and 74% of consensus FY10-11F revenue forecasts. Using our forecasts, Agile has locked in 100% and 54% of FY10F and FY11F revenue, which is more reasonable, in our view.

We now forecast sector EPS growth of 45% y-y in FY11F and find around 62% of earnings are already locked in. In our opinion, this high earnings visibility — one of our key stock-picking criteria — will serve as a strong support to share price performance.

Exhibit 34. 62% of our FY11F earnings forecasts secured

| | Bloomberg Ticker | Carried forward sales (RMBm) | Jan-Nov10 achieved sales (RMBm) | Forecast dev. sales (RMBm) | | Lock-in rate (%) | | |
|----------------|------------------|------------------------------|---------------------------------|----------------------------|--------|------------------|------------|-----------|
| | | | | FY10F | FY11F | FY10F | FY11F | |
| Agile | 3383 HK | 9,500 | 25,400 | 20,490 | 26,809 | 100 | 54 | |
| COLI | 688 HK | 17,241 | 50,776 | 40,153 | 44,534 | 100 | 55 | |
| CRL | 1109 HK | 19,100 | 19,358 | 20,375 | 27,936 | 100 | 52 | |
| Country Garden | 2007 HK | 16,300 | 30,400 | 22,387 | 32,181 | 100 | 76 | |
| Guangzhou R&F | 2777 HK | 13,600 | 28,977 | 23,418 | 26,060 | 100 | 74 | |
| KWG | 1813 HK | 4,500 | 10,550 | 6,940 | 9,728 | 100 | 83 | |
| Poly (HK) | 119 HK | 4,000 | 10,100 | 7,011 | 13,395 | 100 | 53 | |
| Shimao | 813 HK | 6,500 | 27,137 | 20,928 | 30,701 | 100 | 41 | |
| Sino Ocean | 3377 HK | 11,600 | 18,200 | 13,782 | 19,323 | 100 | 66 | |
| | | | | | | Average | 100 | 62 |

Source: Company data, Nomura research

End-11F NAV estimates revised up

Following our earnings revisions, we revise up our end-11F NAV estimates by 7% on average compared with our last updated NAV estimates. The NAV increase is mainly due to: 1) NAV-enhancement landbanking activities by individual companies; 2) adjustment of ASP assumptions for some existing projects; and 3) change in RMB/HKD rate to 1.16 from 1.14.

We revise up end-11F NAV estimates by 7% on average

In deriving our NAV estimates, we continue to assume property prices fall by end-2011F by 5% in non-overheated cities and 10% in overheated cities. We use DCF to value property development projects, with a discount rate of 10-12%. Valuation of investment properties in China is based on a cap-rate approach using rates of 8-10%. For all properties projects under development, we deduct any outstanding costs and assume full LAT payment in our calculations.

Across our coverage, we revise up Agile's end-11F NAV most by 18% to HK\$22.37, from HK\$18.99. The increase is mainly due to better-than-expected contracted sales (especially in Hainan), as well as some NAV-enhancement land banking activities. We also refresh our view on some existing projects in sub-urban areas where we previously applied lower ASPs.

Raising price targets by 9% on average

Our price targets are mostly based on 20-40% discounts to our end-11F NAV estimates. COLI is the only company where we set our price target on a P/E basis, given its relatively high production rate.

We apply a long-term average P/E of 14x FY11F EPS to derive our price target for COLI. For companies with a state-owned enterprise (SOE) background (ie, CRL and Poly (HK)), we derive our price targets by applying a 20% discount to our end-11F NAV estimate. Our targeted NAV discount is 30% for Shimao, KWG, Agile and Country Garden. We use a wider NAV discount (40%) if developers have heavy debts (ie, Guangzhou R&F) or are exposed to other uncertainties.

In this report, we change our targeted NAV discount for Sino Ocean Land to 30%, from 40%, since a major overhang (share disposal by its second-largest shareholder, COSCO) has been lifted. We upgrade the stock to BUY, from Neutral.

In line with the NAV adjustments, our price targets are up 9% on average.

Exhibit 35. We revise up NAVs and price targets by 7% and 9% on average

| Company | Bloomberg ticker | Currency | End-11F NAV | | | Price target | | |
|----------------|------------------|----------|-------------|-------|----------|--------------|-------|----------|
| | | | Old | New | % change | Old | New | % change |
| COLI | 688 HK | HKD | 17.04 | 18.06 | 6 | 21.00 | 21.30 | 1 |
| CRL | 1109 HK | HKD | 18.59 | 19.74 | 6 | 14.87 | 15.79 | 6 |
| Shimao | 813 HK | HKD | 21.98 | 23.62 | 7 | 15.39 | 16.54 | 7 |
| Guangzhou R&F | 2777 HK | HKD | 16.63 | 17.44 | 5 | 9.98 | 10.46 | 5 |
| KWG | 1813 HK | HKD | 10.75 | 11.40 | 6 | 7.52 | 7.98 | 6 |
| Agile | 3383 HK | HKD | 18.99 | 22.37 | 18 | 13.29 | 15.66 | 18 |
| Sino Ocean | 3377 HK | HKD | 8.83 | 9.51 | 8 | 5.30 | 6.66 | 26 |
| Poly (HK) | 119 HK | HKD | 12.48 | 13.15 | 5 | 9.98 | 10.52 | 5 |
| Country Garden | 2007 HK | HKD | 4.54 | 4.71 | 4 | 3.18 | 3.30 | 4 |

Note: We apply a long-term average PE of 14x FY11F EPS to derive price target for COLI.

Source: Bloomberg, Company data, Nomura research

Fundamentals offset further policy risk

We believe we are being careful not to underestimate policy impact in 2011F. We do not doubt that policy tightening, especially in overheated cities like Beijing, Shanghai, Shenzhen and Hangzhou, will remain in 2011F, and we believe frequently discussed topics such as property tax implementation and full LAT collection will be major themes in this round of tightening.

But we expect less aggressive measures in the property market, with control of inflation in the broader economy now likely to top the government's agenda. Rather than introducing more administrative demand controls, we believe the central government will increase land supply, for which we see a solid base of fundamental demand. While we are mindful of the likelihood of hikes in interest rates and RRR, we expect a minimal impact on share prices in the early stages.

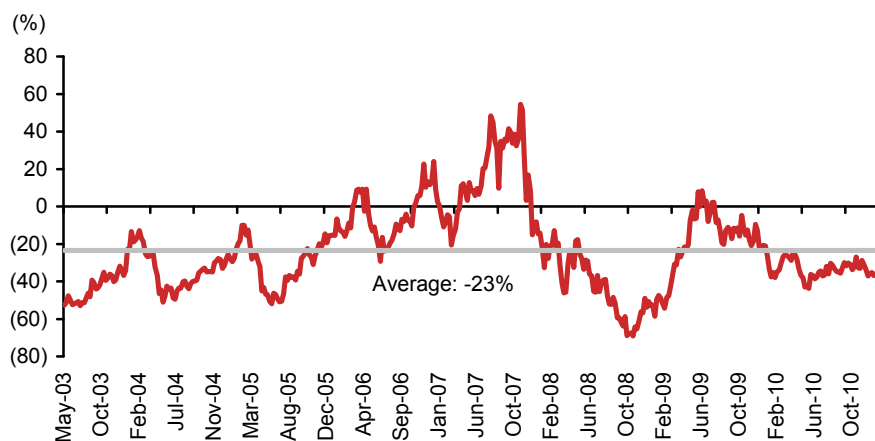
Time to BUY China property sector

Share prices are at an average 35% discount to our end-11F NAV estimates, compared with a 30% discount to end-11F NAV at the time of our initiation in Oct 2010. Given our expectation of improving EPS, rising NAVs, and enhanced earnings visibility, we believe the prevailing 35% discount is overdone.

2010 brought many false starts for investors trying to time an overweight sector stance. We were cautious in our October initiation, arguing that an attractive entry level would be at around a 40-45% discount to average end-11F NAV. With the prevailing discount closer to our originally targeted range, we believe now is the time to buy into the sector.

Valuations now closer to original target entry level (ie, 40-45% discount to sector NAV)

Exhibit 36. Sector current NAV discount



Source: Bloomberg, Nomura research

Preferred exposure

Top picks

Continue to favour COLI, Agile and KWG

We stick with our stock-picking criteria, preferring developers that are less exposed to overheated cities and have strong balance sheets and high earnings visibility. We continue to prefer big-cap stocks such as COLI, mid-cap stocks such as Agile, and small-cap stocks such as KWG.

Top picks: COLI (688 HK), Agile (3383 HK) and KWG (1813 HK)

COLI (688 HK, BUY, PT: HK\$21.3)

We believe that over the past few years COLI has built up an impressive track record, delivering consistent earnings growth, stable margins and healthy gearing. Compared with Jan-Nov 2009, COLI posted contracted sales of HK\$58.7bn (+31% y-y) in the same period of 2010 from a diverse geographical base (25% from Yangtze River Delta; 23% from Pearl River Delta; 19% from Northern Region; 17% from Western Region and 15% from Bohai Rim). The company's well-balanced national exposure should help mitigate any further policy impact, in our view. Since COLI has both sales and production capacity in place, we believe it can further grow its business from an already high base. We reiterate BUY on COLI with a price target of HK\$21.3 (from HK\$21), based on 14x FY11F EPS of HK\$1.52.

Key investment risks include lower-than-expected sales and possible slippage in new construction starts.

Agile (3383 HK, BUY, PT: HK\$15.66)

Agile remains one of our top picks for its relatively healthy balance sheet and attractive valuation. We believe investors may be overestimating the importance of Hainan to Agile. Hainan accounts for only ~20% of our GAV estimate under conservative price assumptions (we assume an ASP of RMB10k/sqm for the project in Hainan, while the current selling price is at about RMB25k/sqm). Other traditional markets for the company such as Nanjing, Zhongshan and Guangzhou are also doing quite well, contributing over 70% of total contracted sales in 2010. Agile currently has an outstanding land premium of RMB4.1bn with expected construction expense of RMB13bn in FY11F. We expect positive cashflow throughout the year. We believe the street is underestimating Agile's FY10-11F earnings, and we expect consensus earnings to be revised up in the coming months. With the stock trading at a 44% discount to our revised end-11F NAV estimate of HK\$22.37 (from HK\$18.99), we see significant share price upside. We reaffirm our BUY call with a new price target of HK\$15.66 (from HK\$13.29), based on a 30% discount to end-11F NAV.

Key investment risks include weaker-than-expected sales and further tightening measures applied to overheated cities, including Hainan.

KWG (1813 HK, BUY, PT: HK\$7.98)

We like KWG for its strong brand equity and premium pricing capability. Backed by quality delivery, the company reached its 2010 sales target of RMB10bn early in Oct 2010. On our estimates, KWG has locked in 100% of FY10F earnings and 83% of FY11F earnings, giving it the best earnings visibility among our coverage. Compared with a year ago, the stock price remains around HK\$6 (no share placements during the year), despite a 30% y-y increase in the company's land bank to 8.9m sqm GFA. Investors are paying the same dollar amount but getting more upside potential, we believe. We reiterate our BUY on KWG with a revised price target of HK\$7.98 (from HK\$7.52), based on a 30% discount to our end-11F NAV of HK\$11.4 (from HK\$10.5).

Key investment risks include failure to enter new markets such as Shanghai, and a potential slowdown in pre-sales.

Rating upgrade: Sino Ocean Land

Sino Ocean Land (3377 HK, BUY, PT: HK\$6.66): On 16 Dec 2010, COSCO sold all of its shares in Sino Ocean (950mn, or 16.85% of total shares in issue) at HK\$5.6 apiece. In our view, this removes a major overhang. Chen Din Hwa, chairman of Nan Fung Group, was one of the major buyers, increasing the company's stake in Sino Ocean to 21.89% (from 10.19%) and becoming the second-largest shareholder after China Life. We believe Nan Fung, a well resourced and experienced Hong Kong developer, should bring in more capital and property expertise to Sino Ocean, strengthening its already solid balance sheet. Besides, Sino Ocean performed well in 2010, recording contracted sales of over RMB20.3bn (as of 16 Dec 2010), up 42% y-y and exceeding its original target of RMB18bn. Its sales performance in 2010 should help lift consensus earnings forecasts as well as NAV estimates, in our opinion. We upgrade Sino Ocean to BUY from Neutral, with a new price target of HK\$6.66 (from HK\$5.3), based on a revised targeted NAV discount of 30% (from 40%) to our end-11F NAV estimate of HK\$9.51 (from HK\$8.83).

Overhang lifted

Key investment risks include weaker-than-expected sales and over-aggressive landbanking.

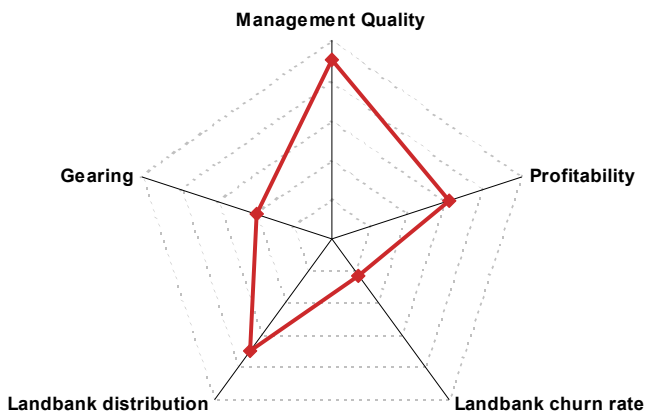
Exhibit 37. Valuation summary

| Company | Bloomberg ticker | Rating | Last price (HK\$) | Price target (HK\$) | Upside (%) | Market cap (HK\$mn) | End-11F NAV | | | P/E | | Yield FY10F (%) | P/BV | | Net debt/equity FY10F (%) |
|----------------------------------|------------------|---------|-------------------|---------------------|------------|---------------------|-------------|----------|-------------|-----------|-----------|-----------------|-----------|-----------|---------------------------|
| | | | | | | | (HK\$/sh) | Disc (%) | PT disc (%) | FY10F (x) | FY11F (x) | | FY10F (x) | FY11F (x) | |
| China Property developers | | | | | | | | | | | | | | | |
| COLI | 688 HK | BUY | 15.38 | 21.30 | 38 | 125,693 | 18.06 | (15) | N.A | 13.6 | 10.1 | 2.1 | 2.5 | 2.1 | 45.8 |
| CRL | 1109 HK | NEUTRAL | 15.54 | 15.79 | 2 | 83,712 | 19.74 | (21) | (20) | 20.7 | 14.2 | 1.4 | 1.7 | 1.6 | 53.5 |
| Shimao | 813 HK | BUY | 12.90 | 16.54 | 28 | 45,762 | 23.62 | (45) | (30) | 11.7 | 7.7 | 2.6 | 1.5 | 1.3 | 76.4 |
| Guangzhou R&F | 2777 HK | REDUCE | 12.16 | 10.46 | (14) | 39,184 | 17.44 | (30) | (40) | 9.5 | 7.9 | 3.2 | 1.8 | 1.6 | 91.4 |
| KWG | 1813 HK | BUY | 6.67 | 7.98 | 20 | 19,297 | 11.40 | (41) | (30) | 15.6 | 9.8 | 1.9 | 1.5 | 1.3 | 62.5 |
| Agile | 3383 HK | BUY | 12.58 | 15.66 | 24 | 43,687 | 22.37 | (44) | (30) | 11.0 | 8.6 | 3.3 | 2.2 | 1.9 | 42.4 |
| Sino-Ocean | 3377 HK | BUY | 5.50 | 6.66 | 21 | 31,011 | 9.51 | (42) | (30) | 14.1 | 9.7 | 2.3 | 0.9 | 0.8 | 61.2 |
| Poly (HK) | 119 HK | BUY | 8.19 | 10.52 | 28 | 29,553 | 13.15 | (38) | (20) | 20.9 | 13.6 | 0.7 | 1.3 | 1.2 | 68.7 |
| Country Garden | 2007 HK | NEUTRAL | 3.03 | 3.30 | 9 | 50,598 | 4.71 | (36) | (30) | 14.4 | 8.5 | 2.5 | 1.9 | 1.6 | 37.7 |

Note: We derive our price target for COLI based on 14x FY11F EPS. Share prices as of 5 Jan 2011 close.

Source: Company data, Bloomberg, Nomura estimates

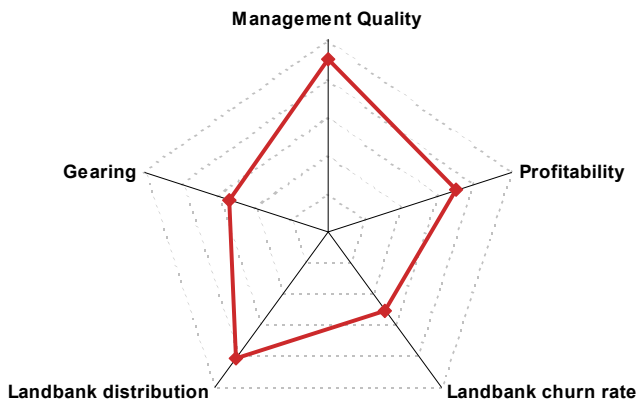
Stock recommendations



Agile (3383 HK)-BUY

Agile is trading at a 44% discount to our revised end-11F NAV estimate of HK\$22.37 (from HK\$18.99), which looks attractive. We reiterate our BUY on Agile with a PT of HK\$15.66 (from HK\$13.29), implying 24% upside. Apart from Hainan project sales, Agile's overall operations have been strong, contributing 70% of total sales in 2010. We believe "conservative" consensus earnings forecasts will be revised up in the coming months, a positive catalyst for the share price. Agile remains a top pick.

Key risks include weaker-than-expected sales and further tightening measures applied to overheated cities including Hainan.



COLI (688 HK)-BUY

We believe COLI has built up an impressive track record of consistent earnings growth, stable margins and healthy gearing in recent years. Its well-established national exposure should help mitigate any further policy impact. COLI has both sales and production capacity to grow from an already high base, in our view. We maintain our BUY rating on COLI, with a revised PT of HK\$21.3 (from HK\$21), based on 14x FY11F EPS. COLI remains a top pick.

Key investment risks include lower-than-expected sales and possible slippage in new construction starts.

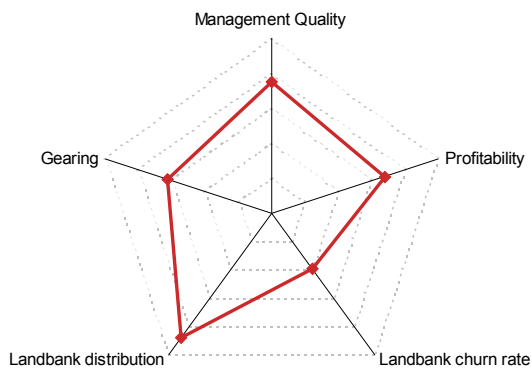


CRL (1109 HK)-NEUTRAL

CRL's low asset turnover and increasing gearing are likely to limit share price upside, we believe. Though CRL is the second-largest developer on the Hong Kong Exchange, we think its execution capability may not match its market cap. CRL is the only developer (under our coverage) to post a y-y decline in contracted sales in 2010. On 13 Dec 2010 we upgraded CRL to NEUTRAL, from Reduce, mainly on valuation grounds. Our new PT of HK\$15.79 (from HK\$14.87) is based on a 20% discount to our end-11F NAV estimate of HK\$19.74 (from HK\$18.59).

Key investment risks include project slippage and tighter-than-expected policy especially in overheated cities.

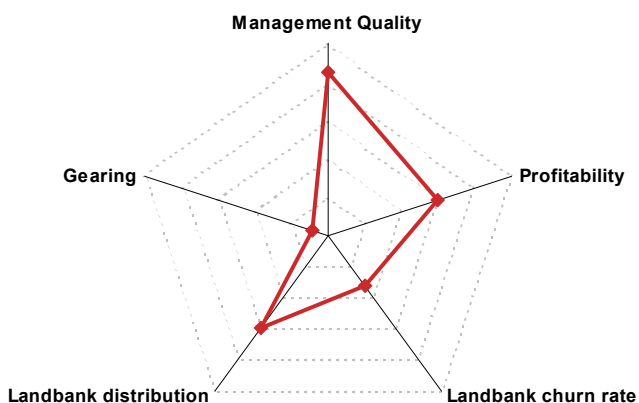
Stock recommendations



CG (2007 HK)-NEUTRAL

CG is planning to develop some mixed-use projects and hold some commercial properties for long-term investment. It will also participate in subsidized housing, likely for reasons of “national service”. CG’s refocusing on Guangdong operations may slow its national expansion, we believe. Despite strong YTD sales and high earnings visibility, valuations seem stretched. We remain NEUTRAL, with a revised PT of HK\$3.3 (from HK\$3.18), based on a 30% discount to our end-11F NAV estimate of HK\$4.71 (from HK\$4.54).

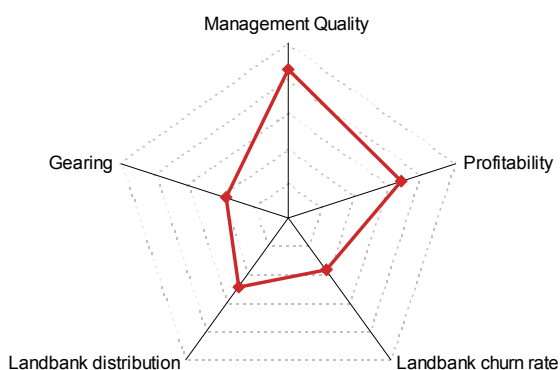
Key investment downside risks include over-aggressive landbanking strategy. Upside risks include better-than-expected sales from ex-Guangdong business.



R&F (2777 HK)-REDUCE

R&F’s relatively high gearing is a concern for some investors. With its continuous landbanking strategy, we believe R&F’s net gearing will remain at around 90% over the next few years. The company’s lack of financing source may put it at risk in an environment of rising interest rates. Any slowdown in sales could heighten concern over the company’s debt repayment ability. We maintain our REDUCE rating with a revised PT of HK\$10.46 (from HK\$9.98), based on a 40% discount to our end-11F NAV estimate of HK\$17.44 (from HK\$16.63).

Key investment risks include better-than-expected sales and significant improvement in net debt/equity.

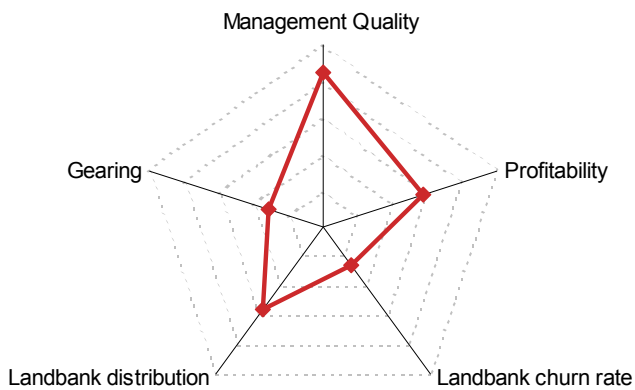


KWG (1813 HK)-BUY

We believe KWG has demonstrated its execution capability in new cities over the past few years. Backed by quality product delivery, the company can easily command premium pricing. Compared with a year ago, investors are paying the same dollar amount (circa HK\$6/share) for more upside potential (landbank has increased by 30% y-y to 8.9m sqm). We reaffirm our BUY on KWG with a revised PT of HK\$7.98 (from HK\$7.52), based on a 30% discount to our end-11F NAV estimate of HK\$11.4 (from HK\$10.75). KWG remains a top pick.

Key investment risks include failure to enter new markets such as Shanghai, and a potential slowdown in contracted sales.

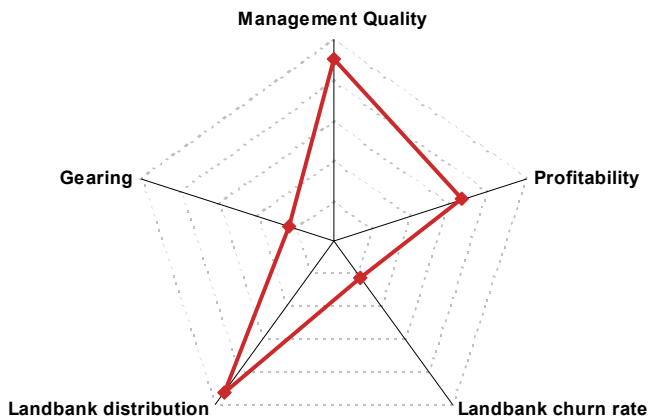
Stock recommendations



Poly HK (119 HK)-BUY

Poly (HK) remains one of our favoured stocks in terms of asset injections, supported by a strong SOE parent. Poly (HK) achieved its 2010 sales target and is targeting an 80% sales increase in 2011F, which looks challenging. We believe 2011 is the year in which Poly (HK) must demonstrate its execution capability so as to justify its relatively rich-looking valuation. We maintain our BUY on Poly (HK) with a revised PT of HK\$10.52 (from HK\$9.98), based on a 20% discount to our end-11F NAV estimate of HK\$13.15 (from HK\$12.48).

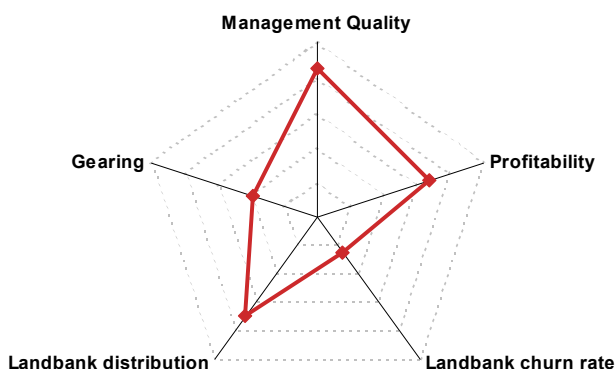
Key investment risks include weaker-than-expected sales and its lack of track record.



Shimao (813 HK)-BUY

We believe Shimao's diversified land bank and business stream should offer strong defensiveness in a policy tightening environment. Concerns of sales slippage should be assuaged, the company having fetched 2010 contracted sales of RMB30.5bn. Strong sales from its commercial arm, Shanghai Shimao, suggest its business strategy is successful. We maintain our BUY on Shimao with a revised PT of HK\$15.98 (from HK\$15.39), based on a 30% discount to our end-11F NAV estimate of HK\$22.83 (from HK\$21.98).

Key investment risks include weaker-than-expected sales and over-aggressive landbanking.



Sino Ocean (3377 HK)-BUY

In our view, Sino Ocean's major overhang has been removed, COSCO having sold all its shares on 16 Dec10. Following the disposal, Nan Fung increased its stake in Sino Ocean to 21.89% and became the second-largest shareholder. This should be positive, since we expect Nan Fung to bring in more capital and expertise. We therefore upgrade Sino Ocean to BUY (from Neutral) with PT of HK\$6.66 (from HK\$5.3), based on a revised target discount of 30% (from 40%) to our end-11F NAV estimate of HK\$9.51 (from HK\$8.83).

Key investment risks include weaker-than-expected sales and over-aggressive landbanking.

Exhibit 38. Revised estimates relative to consensus

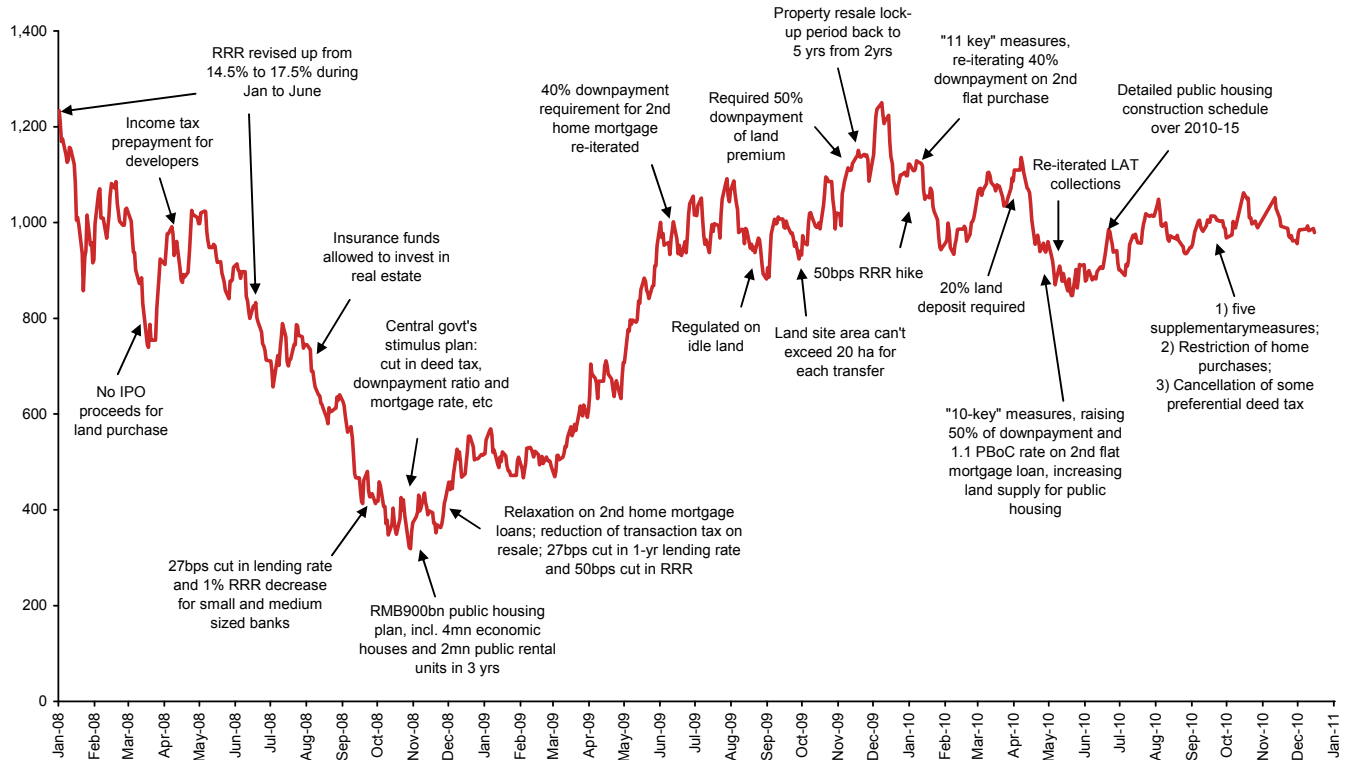
| | Bloomberg ticker | Nomura estimate | | | Consensus | | | Variance | | |
|---------------------------------------|---------------------|-----------------|--------|--------|-----------|--------|--------|----------|-------|-------|
| | | FY10F | FY11F | FY12F | FY10F | FY11F | FY12F | FY10F | FY11F | FY12F |
| Underlying Net profit (LC\$mn) | | | | | | | | | | |
| Agile Property | 3383 HK | 3,562 | 4,443 | 5,423 | 2,842 | 3,548 | 4,183 | 25 | 25 | 30 |
| China Overseas Land Investment | 688 HK | 9,223 | 12,431 | 15,499 | 8,644 | 10,355 | 12,258 | 7 | 20 | 26 |
| China Resources Land | 1109 HK | 3,844 | 5,911 | 6,268 | 4,141 | 5,300 | 6,287 | (7) | 12 | 0 |
| Country Garden | 2007 HK | 3,040 | 5,124 | 6,614 | 2,986 | 3,950 | 4,779 | 2 | 30 | 38 |
| Guangzhou R&F | 2777 HK | 3,616 | 4,338 | 4,858 | 3,448 | 4,160 | 4,552 | 5 | 4 | 7 |
| KWG | 1813 HK | 1,084 | 1,722 | 2,508 | 1,236 | 1,725 | 2,181 | (12) | 0 | 15 |
| Poly (HK) | 119 HK | 1,349 | 2,164 | 3,281 | 1,307 | 1,865 | 2,507 | 3 | 16 | 31 |
| Shimao Property | 813 HK | 3,423 | 5,194 | 5,823 | 3,640 | 4,130 | 4,528 | (6) | 26 | 29 |
| Sino Ocean | 3377 HK | 1,930 | 2,792 | 3,381 | 2,040 | 2,536 | 3,106 | (5) | 10 | 9 |
| EPS (LC\$) | | | | | | | | | | |
| Agile Property | 3383 HK | 1.01 | 1.28 | 1.56 | 0.80 | 0.99 | 1.18 | 26 | 29 | 33 |
| China Overseas Land Investment | 688 HK | 1.13 | 1.52 | 1.90 | 1.05 | 1.27 | 1.50 | 7 | 19 | 26 |
| China Resources Land | 1109 HK | 0.75 | 1.10 | 1.16 | 0.81 | 1.02 | 1.21 | (7) | 8 | (4) |
| Country Garden | 2007 HK | 0.18 | 0.31 | 0.40 | 0.18 | 0.24 | 0.29 | 4 | 33 | 41 |
| Guangzhou R&F | 2777 HK | 1.12 | 1.35 | 1.51 | 1.07 | 1.29 | 1.41 | 5 | 4 | 7 |
| KWG | 1813 HK | 0.37 | 0.60 | 0.87 | 0.43 | 0.60 | 0.75 | (12) | 0 | 15 |
| Poly (HK) | 119 HK | 0.39 | 0.60 | 0.91 | 0.38 | 0.52 | 0.70 | 4 | 16 | 30 |
| Shimao Property | 813 HK | 0.97 | 1.46 | 1.64 | 1.02 | 1.17 | 1.30 | (5) | 25 | 26 |
| Sino Ocean | 3377 HK | 0.34 | 0.50 | 0.60 | 0.36 | 0.45 | 0.55 | (4) | 11 | 9 |
| DPS (LC\$) | | | | | | | | | | |
| Agile Property | 3383 HK | 0.36 | 0.45 | 0.55 | 0.24 | 0.26 | 0.31 | 51 | 70 | 75 |
| China Overseas Land Investment | 688 HK | 0.33 | 0.44 | 0.55 | 0.24 | 0.28 | 0.32 | 38 | 59 | 70 |
| China Resources Land | 1109 HK | 0.21 | 0.33 | 0.35 | 0.24 | 0.27 | 0.33 | (9) | 21 | 6 |
| Country Garden | 2007 HK | 0.07 | 0.11 | 0.14 | 0.06 | 0.07 | 0.09 | 11 | 51 | 60 |
| Guangzhou R&F | 2777 HK | 0.34 | 0.40 | 0.45 | 0.37 | 0.44 | 0.49 | (8) | (8) | (8) |
| KWG | 1813 HK | 0.11 | 0.18 | 0.26 | 0.08 | 0.11 | 0.14 | 35 | 58 | 88 |
| Poly (HK) | 119 HK | 0.06 | 0.09 | 0.14 | 0.05 | 0.08 | 0.11 | 6 | 20 | 29 |
| Shimao Property | 813 HK | 0.29 | 0.44 | 0.49 | 0.30 | 0.33 | 0.37 | (2) | 32 | 35 |
| Sino Ocean | 3377 HK | 0.11 | 0.15 | 0.18 | 0.10 | 0.12 | 0.14 | 16 | 29 | 32 |

Source: Bloomberg, Nomura estimates

Appendix

Share price impact of previous policy measures

Exhibit 39. Policy measures and China property stocks' share prices



Note: performance of index comprising 25 HK-listed China property stocks

Source: Nomura research

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Maintained

BUY

⊙ Action

With relatively low net debt/equity (42% by end-10F), high FY11F earnings visibility (54% secured) and attractive valuations (44% discount to end-11F NAV), Agile offers strong upside potential, in our view. We expect Hainan sales to continue to surprise the market. BUY reiterated; Agile remains a top sector pick.

⚡ Catalysts

We believe the stock will continue to be rewarded for its steady operations and disciplined land banking strategy. Street estimates will likely be revised up in the next few months, we expect.

⚓ Anchor themes

A likely policy shift from demand to supply is positive for developers. We expect less aggressive measures in 2011F, with controlling broader inflation likely to be top of the government's agenda. Recent policies have had little impact on fundamental demand, and rate hikes should have little impact on share prices initially.

Disciplined expansion

① 44% discount to end-11F NAV – attractive valuation

Agile shares are trading at a 44% discount to our revised end-11F NAV of HK\$22.37 (from HK\$18.99), factoring in strong 2010F contracted sales and some NAV-enhancement land banking activities. Looking to 2011F, we expect the company to continue its winning formula to expand its business under disciplined financial management.

② Dec 2010 contracted sales surprise the market

In Dec 2010, Agile generated another record-high contracted sales figure of RMB6.9bn, up 50%. Full-year contracted sales were up 61% to RMB32.3bn. Hainan's Clearwater Bay project continued to surprise the market, recording sales of RMB9.9bn (vs 2009: RMB6.4bn). The company is now targeting sales growth of 20-30% in FY11F.

③ Time for earnings revisions from the street

We believe our above-consensus FY11F EPS of RMB1.28 is supported by strong 2010F contracted sales, securing 54% of FY11F earnings (based on contracted sales over Jan-Nov 2010). We believe the street has underestimated Agile's FY11F earnings and there will be upgrades to consensus forecasts in the run-up to the final results announcement due March 2011.

④ Reiterating BUY, raising PT to HK\$15.66

Our revised PT of HK\$15.66 (from HK\$13.29) is based on a 30% discount (unchanged) to our new end-11F NAV. Agile has an outstanding land premium of RMB4.1bn, with expected construction expenses of RMB13bn in FY11F. We expect to see positive cashflow throughout the year given the company's strong sales pipeline. We reiterate Agile as our top BUY; it is also one of our top picks in our 2011 *China Strategy Outlook*.

Key investment risks include weaker-than-expected sales and further tightening measures applied to cities including Hainan.

Closing price on 5 Jan HK\$12.58

Price target **HK\$15.66**
(from HK\$13.29)

Upside/downside 24.5%

Difference from consensus **35.5%**

FY11F net profit (RMBmn) 4,443

Difference from consensus **24.9%**

Source: Nomura

Nomura vs consensus

We are optimistic the company can continue to generate strong sales from Hainan and comfortably achieve our above-consensus earnings estimate.

Key financials & valuations

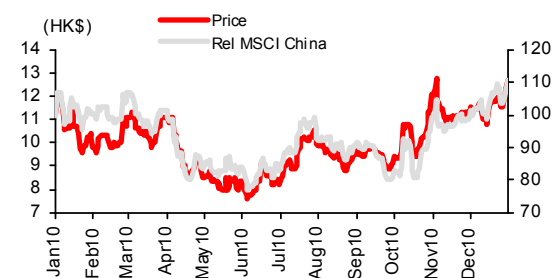
| 31 Dec (RMBmn) | FY09 | FY10F | FY11F | FY12F |
|-----------------------|--------|--------|--------|--------|
| Revenue | 13,331 | 20,857 | 27,644 | 37,817 |
| Reported net profit | 1,865 | 3,735 | 4,443 | 5,423 |
| Normalised net profit | 1,728 | 3,562 | 4,443 | 5,423 |
| Normalised EPS (RMB) | 0.48 | 1.01 | 1.28 | 1.56 |
| Norm. EPS growth (%) | 51.1 | 109.8 | 27.1 | 22.1 |
| Norm. P/E (x) | 23.1 | 10.8 | 8.5 | 6.9 |
| EV/EBITDA (x) | 12.4 | 5.6 | 4.9 | 4.0 |
| Price/book (x) | 2.8 | 2.2 | 1.8 | 1.6 |
| Dividend yield (%) | 1.4 | 3.3 | 4.1 | 5.0 |
| ROE (%) | 13.8 | 23.9 | 23.6 | 24.3 |
| Gearing (%) | 27.3 | 26.2 | 23.8 | 21.1 |

Earnings revisions

| | | | |
|---------------------------|-------|-------|-------|
| Previous norm. net profit | 3,562 | 4,409 | 5,147 |
| Change from previous (%) | - | 0.8 | 5.4 |
| Previous norm. EPS (RMB) | 1.01 | 1.27 | 1.48 |

Source: Company, Nomura estimates

Share price relative to MSCI China



| | 1m | 3m | 6m |
|----------------------------------|------|------|------------|
| Absolute (HK\$) | 12.5 | 39.8 | 55.3 |
| Absolute (US\$) | 12.4 | 39.5 | 55.7 |
| Relative to Index | 12.0 | 37.8 | 39.1 |
| Market cap (US\$m) | | | 5,621 |
| Estimated free float (%) | | | 36.1 |
| 52-week range (HK\$) | | | 12.66/7.47 |
| 3-mth avg daily turnover (US\$m) | | | 20.95 |
| Stock borrowability | | | Easy |
| Major shareholders (%) | | | |
| Chan Cheuk Yin | | | 61.7 |

Source: Company, Nomura estimates

Agile Property (3383 HK, BUY, PT: HK\$15.66)

Agile Property

www.agile.com.cn

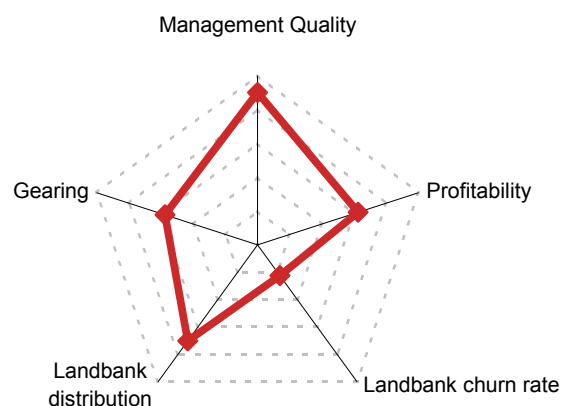
Company description

Agile is one of the best-known brands in China's real estate market, with a home base in Zhongshan. Founded by the Chen Family, Agile mainly targets middle- and upper-middle-class local residents.

As of 23 Dec 2010, the company holds a total landbank of 33.7mn sqm, with over 68 projects in 26 cities. The most prominent site: the 9mn sqm Hainan Clearwater Bay project.

Agile was listed on the HKSE in Dec 2006 and is now 61.7% owned by the Chen family.

Our five-factor analysis



Key attributes

- **Management quality:** Experienced management with over 17 years of experience in property development.
- **Profitability:** Post LAT development margins averaged 23% in 2007-09 and should further improve to 27% in 2010-12F.
- **Landbank churn rate:** 2010 sales of ~2.8mn sqm; at the current rate, should be enough for 12 years of development.
- **Landbank distribution:** 30% of our estimated development landbank value is in first-tier cities.
- **Gearing:** Gearing stood at 61.4% as of 30 June 2010. We expect net debt/equity of ~42% by end-FY10F.

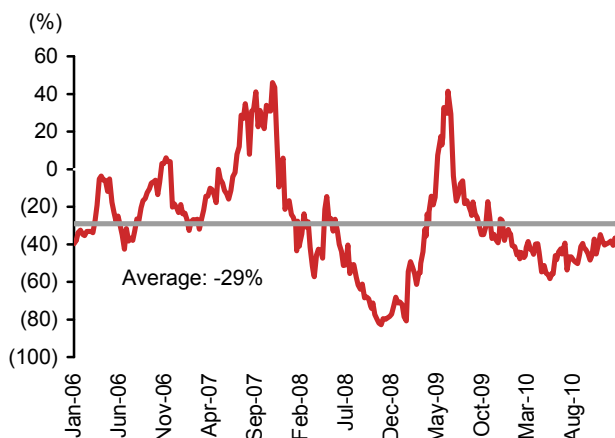
Key themes

- Around one-third of the landbank in terms of GFA is located in Hainan, accounting for ~20% of our estimated GAV.
- Disciplined landbanking strategy brings in a relatively healthy balance sheet with low gearing.

Key concerns

- Sales performance of the Hainan project is uncertain.
- Its sizable landbank may attract an idle land penalty.

NAV discount



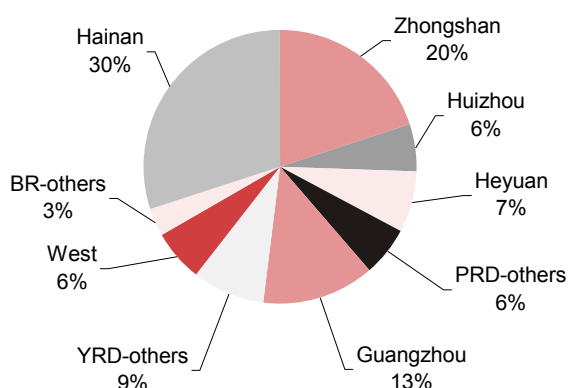
Source: Bloomberg, Company data, Nomura research

End-11F NAV breakdown

| | (RMBmn) | HK\$/share | % of total asset |
|-------------------------------|---------------|--------------|------------------|
| Dev. Prop/under dev't | | | |
| Residential | 65,951 | 22.03 | 87.0 |
| Commercial | 347 | 0.12 | 0.5 |
| Inv. Prop/under dev't | | | |
| Office | 1,345 | 0.45 | 1.8 |
| Retail | 1,509 | 0.50 | 2.0 |
| Hotel prop under dev't | 6,659 | 2.22 | 8.8 |
| Net debt (incl. land premium) | (8,853) | (2.96) | |
| Total net asset | 66,957 | | |
| NAV/share | | 22.37 | |

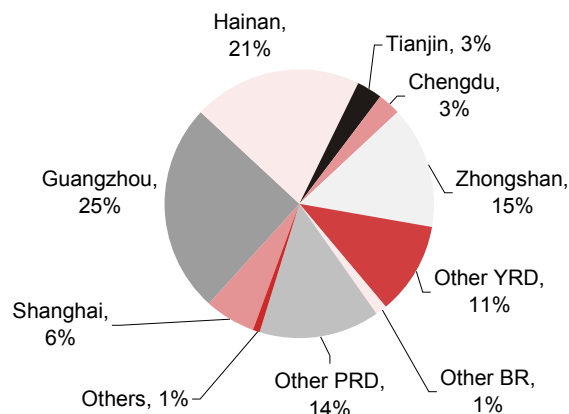
Source: Company data, Nomura estimates

Exhibit 40. Landbank breakdown



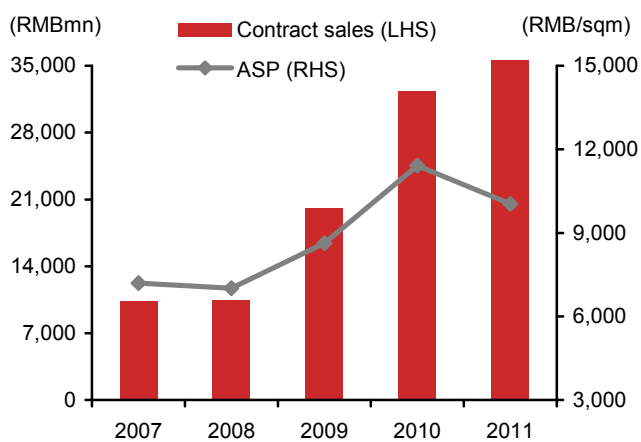
Source: Company data, Nomura research

Exhibit 41. End-FY11F GAV breakdown



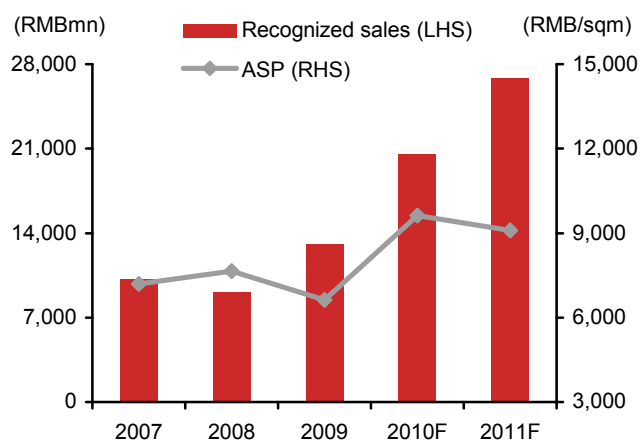
Source: Company data, Nomura estimates

Exhibit 42. Contracted sales and ASP



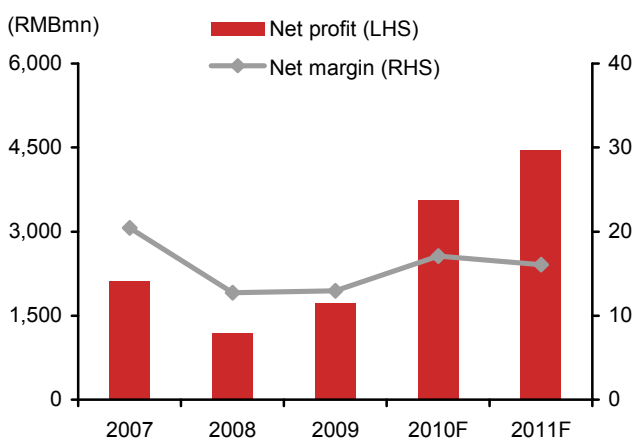
Source: Company data, Nomura estimates

Exhibit 43. Recognized sales and ASP



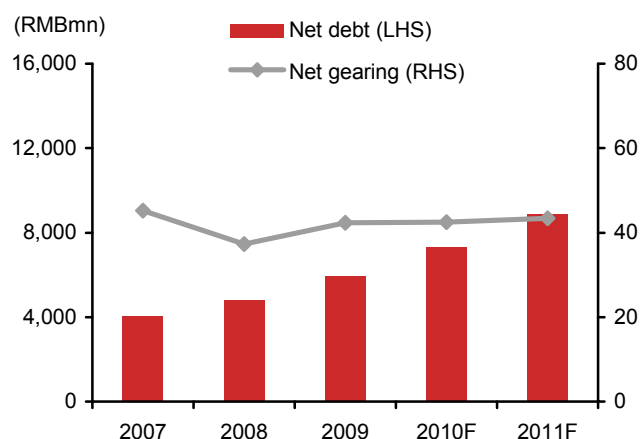
Source: Company data, Nomura estimates

Exhibit 44. Net profit and net margin



Source: Company data, Nomura estimates

Exhibit 45. Net debt and net debt/equity



Source: Company data, Nomura estimates

Financial statements

| Income statement (RMBmn) | | | | | |
|---------------------------------------|--------------|---------------|---------------|---------------|---------------|
| Year-end 31 Dec | FY08 | FY09 | FY10F | FY11F | FY12F |
| Investment properties | - | - | - | 153 | 245 |
| Property development | 9,094 | 13,058 | 20,490 | 26,809 | 36,592 |
| Hotels/serviced apartments | 29 | 40 | 88 | 348 | 578 |
| Other Revenue | 203 | 233 | 279 | 335 | 402 |
| Revenue | 9,326 | 13,331 | 20,857 | 27,644 | 37,817 |
| EBIT contributions | | | | | |
| Investment properties | - | - | - | 99 | 159 |
| Property development | 2,405 | 3,582 | 8,421 | 9,641 | 11,170 |
| Hotels/serviced apartments | (7) | (15) | 1 | 2 | 2 |
| Other income | - | - | - | - | - |
| Management expenses | (126) | (36) | (378) | (375) | (371) |
| EBITDA | 2,302 | 3,579 | 8,092 | 9,416 | 11,008 |
| Depreciation and amortisation | (31) | (48) | (48) | (48) | (48) |
| EBIT | 2,272 | 3,531 | 8,044 | 9,368 | 10,960 |
| Net interest expense | (103) | (9) | (259) | (217) | (150) |
| Associates & JCEs | - | - | - | 151 | 249 |
| Other income | 180 | 4 | 45 | - | (0) |
| Earnings before tax | 2,348 | 3,526 | 7,830 | 9,302 | 11,059 |
| Income tax | (1,172) | (1,661) | (3,759) | (4,169) | (4,767) |
| Net profit after tax | 1,176 | 1,865 | 4,070 | 5,133 | 6,292 |
| Minority interests | 9 | (137) | (508) | (690) | (869) |
| Other items | | | | | |
| Preferred dividends | | | | | |
| Normalised NPAT | 1,186 | 1,728 | 3,562 | 4,443 | 5,423 |
| Extraordinary items | 4,281 | 137 | 172 | - | - |
| Reported NPAT | 5,467 | 1,865 | 3,735 | 4,443 | 5,423 |
| Dividends | (1,089) | (560) | (1,247) | (1,555) | (1,898) |
| Transfer to reserves | 4,377 | 1,306 | 2,488 | 2,888 | 3,525 |
| Valuation and ratio analysis | | | | | |
| FD normalised P/E (x) | 35.3 | 23.1 | 10.8 | 8.5 | 6.9 |
| FD normalised P/E at price target (x) | 44.0 | 28.8 | 13.4 | 10.5 | 8.6 |
| Reported P/E (x) | 7.7 | 21.4 | 10.3 | 8.5 | 6.9 |
| Dividend yield (%) | 2.6 | 1.4 | 3.3 | 4.1 | 5.0 |
| Price/cashflow (x) | na | 13.6 | 19.5 | 5.7 | 9.0 |
| Price/book (x) | 3.2 | 2.8 | 2.2 | 1.8 | 1.6 |
| EV/EBITDA (x) | 19.1 | 12.4 | 5.6 | 4.9 | 4.0 |
| EV/EBIT (x) | 19.3 | 12.6 | 5.6 | 4.9 | 4.0 |
| EBIT margin (%) | 24.4 | 26.5 | 38.6 | 33.9 | 29.0 |
| Effective tax rate (%) | 49.9 | 47.1 | 48.0 | 44.8 | 43.1 |
| Dividend payout (%) | 19.9 | 30.0 | 33.4 | 35.0 | 35.0 |
| ROA (pretax %) | 8.3 | 10.4 | 17.7 | 16.1 | 16.2 |
| Growth (%) | | | | | |
| Revenue | (9.6) | 42.9 | 56.5 | 32.5 | 36.8 |
| EBITDA | (48.9) | 55.4 | 126.1 | 16.4 | 16.9 |
| EBIT | (49.4) | 55.4 | 127.8 | 16.5 | 17.0 |
| Normalised EPS | (43.5) | 51.1 | 109.8 | 27.1 | 22.1 |
| Normalised FDEPS | (43.5) | 51.1 | 109.8 | 27.1 | 22.1 |
| Per share | | | | | |
| Reported EPS (RMB) | 1.46 | 0.52 | 1.06 | 1.28 | 1.56 |
| Norm EPS (RMB) | 0.32 | 0.48 | 1.01 | 1.28 | 1.56 |
| Fully diluted norm EPS (RMB) | 0.32 | 0.48 | 1.01 | 1.28 | 1.56 |
| Book value per share (RMB) | 3.50 | 3.90 | 4.96 | 5.87 | 6.99 |
| DPS (RMB) | 0.30 | 0.16 | 0.36 | 0.45 | 0.55 |

We estimate 54% of FY11F earnings have been secured

Source: Nomura estimates

Cashflow (RMBmn)

| Year-end 31 Dec | FY08 | FY09 | FY10F | FY11F | FY12F |
|--------------------------------------|----------------|--------------|----------------|--------------|----------------|
| EBITDA | 2,302 | 3,579 | 8,092 | 9,416 | 11,008 |
| Change in working capital | (3,852) | 3,171 | 774 | 1,601 | (1,803) |
| Other operating cashflow | (1,072) | (3,822) | (6,902) | (4,463) | (5,010) |
| Cashflow from operations | (2,622) | 2,928 | 1,964 | 6,553 | 4,195 |
| Capital expenditure | (157) | (354) | (2,100) | (4,710) | (1,000) |
| Free cashflow | (2,779) | 2,575 | (136) | 1,843 | 3,195 |
| Reduction in investments | | | | | |
| Net acquisitions | 2,771 | - | - | - | - |
| Reduction in other LT assets | (1,705) | (1,924) | (3,123) | (5,901) | (249) |
| Addition in other LT liabilities | 190 | (15) | - | 0 | - |
| Adjustments | 1,851 | (1,443) | 1,165 | 3,788 | 93 |
| Cashflow after investing acts | 328 | (807) | (2,094) | (270) | 3,039 |
| Cash dividends | (1,401) | (379) | (569) | (1,272) | (1,555) |
| Equity issue | (165) | (340) | - | - | - |
| Debt issue | 1,777 | 1,996 | 4,091 | 1,500 | - |
| Convertible debt issue | | | | | |
| Others | 768 | 406 | 1,244 | (0) | - |
| Cashflow from financial acts | 979 | 1,682 | 4,766 | 228 | (1,555) |
| Net cashflow | 1,307 | 875 | 2,672 | (42) | 1,484 |
| Beginning cash | 3,945 | 5,252 | 6,128 | 8,800 | 8,758 |
| Ending cash | 5,252 | 6,128 | 8,800 | 8,758 | 10,242 |
| Ending net debt | 4,816 | 5,953 | 7,311 | 8,853 | 7,370 |

Source: Nomura estimates

Balance sheet (RMBmn)

| As at 31 Dec | FY08 | FY09 | FY10F | FY11F | FY12F |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Cash & equivalents | 5,252 | 6,128 | 8,800 | 8,758 | 10,242 |
| Properties held for sale | 16,254 | 15,096 | 26,337 | 31,630 | 38,043 |
| Accounts receivable | 1,479 | 1,291 | 1,420 | 1,562 | 1,718 |
| Other current assets | 4,607 | 8,705 | 6,276 | 6,276 | 6,276 |
| Total current assets | 27,591 | 31,220 | 42,833 | 48,226 | 56,279 |
| Investment properties | - | - | 1,732 | 1,732 | 1,732 |
| Other fixed assets (net) | 261 | 1,869 | 2,821 | 3,774 | 4,726 |
| Associates | | 2,040 | 2,040 | 2,191 | 2,440 |
| Other LT assets | 7,126 | 9,050 | 12,172 | 18,073 | 18,322 |
| Total assets | 34,978 | 44,178 | 61,598 | 73,995 | 83,499 |
| Short-term debt | 3,510 | 2,229 | 2,229 | 2,229 | 2,229 |
| Accounts payable | 7,318 | 12,536 | 20,117 | 24,916 | 27,254 |
| Other current liabilities | 2,773 | 3,480 | 5,614 | 7,851 | 10,280 |
| Total current liabilities | 13,601 | 18,245 | 27,960 | 34,996 | 39,763 |
| Long-term debt | 6,559 | 9,851 | 13,883 | 15,383 | 15,383 |
| Convertible debt | | | | | |
| Other LT liabilities | 1,023 | 1,009 | 1,009 | 1,009 | 1,009 |
| Total liabilities | 21,183 | 29,105 | 42,851 | 51,388 | 56,154 |
| Minority interest | 879 | 1,011 | 1,520 | 2,210 | 3,079 |
| Preferred stock | | | | | |
| Shareholders' Equity | 4,937 | 4,597 | 4,597 | 4,597 | 4,597 |
| Other equity and reserves | 7,979 | 9,465 | 12,630 | 15,801 | 19,669 |
| Total shareholders' equity | 12,916 | 14,062 | 17,227 | 20,398 | 24,266 |
| Total equity & liabilities | 34,978 | 44,178 | 61,598 | 73,995 | 83,499 |

Leverage

| | | | | | |
|--------------------------------|------|-------|------|------|------|
| Interest cover | 22.0 | 377.0 | 31.0 | 43.3 | 73.1 |
| Gross debt/property assets (%) | 28.8 | 27.3 | 26.2 | 23.8 | 21.1 |
| Net debt/EBITDA (x) | 2.09 | 1.66 | 0.90 | 0.94 | 0.67 |
| Net debt/equity (%) | 37.3 | 42.3 | 42.4 | 43.4 | 30.4 |

Net debt/equity expected to stay at relatively comfortable levels

Dupont decomposition

| | | | | | |
|----------------------------|------|------|------|------|------|
| Net margin (%) | 58.6 | 14.0 | 17.9 | 16.1 | 14.3 |
| Asset utilisation (x) | 0.3 | 0.3 | 0.4 | 0.4 | 0.5 |
| ROA (%) | 17.2 | 4.7 | 7.1 | 6.6 | 6.9 |
| Leverage (Assets/Equity x) | 2.9 | 2.9 | 3.4 | 3.6 | 3.5 |
| ROE (%) | 49.9 | 13.8 | 23.9 | 23.6 | 24.3 |

Source: Nomura estimates

China Overseas Land & Inv 688 HK

PROPERTY | CHINA

Maintained

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BUY

NOMURA

NOMURA INTERNATIONAL (HK) LIMITED

⊙ Action

Despite a high base, COLI maintained its strong sales with Jan-Nov 2010 sales of HK\$58.7bn, up 30% y-y. We raise our FY11F EPS and PT by 1% to HK\$1.52 and HK\$21.30; the highest upside potential in our universe. Strong execution and diversified geographical exposure should support performance. Top BUY.

⚡ Catalysts

Given its relatively low gearing (46% by end-FY10F), we expect COLI to continue to replenish its land bank at a relatively reasonable cost.

⚓ Anchor themes

A likely policy shift from demand to supply is positive for developers. We expect less aggressive measures in 2011F, with controlling broader inflation likely to be top of the government's agenda. Recent policies have had little impact on fundamental demand, and rate hikes should have little impact on share prices initially.

Shining sales everywhere

① Reiterate top BUY with revised PT of HK\$21.30

Our new PT is based on a long-term average of 14x (unchanged) our revised FY11F EPS of HK\$1.52 (was HK\$1.50) (methodology unchanged). Once again, COLI generated encouraging contracted sales, reaching HK\$58.7bn (RMB50.6bn) during Jan-Nov 2010, up 30% y-y. This should lock-in more than 100% and 55% of our above-consensus FY10F and FY11F earning estimates.

② Raising contracted sales in every region

Compared with a year ago, COLI's contracted sales in FY10F were more geographically diversified (25% from Yangtze River Delta; 23% from Pearl River Delta; 19% from Northern Region; 17% from Western Region and 15% from Bohai Rim). Its well-balanced national exposure should help mitigate any further policy impact, in our view.

③ 2010 land bank replenishment cost to be relatively low

Over the past 11 months, COLI has paid RMB16.7bn to acquire an attributable landbank of 5.1mn sqm GFA. Excluding three land acquisitions in Hong Kong and Macau, the average land cost of RMB2,762/sqm is only 26% of its current contracted ASP of RMB10,753/sqm, which is relatively low, in our view.

④ Lowest risk, highest return in our coverage universe

Strong execution capability and diversified geographical exposure should support the share price performance of COLI, in our view, even amid further policy tightening. We expect net gearing to be 46% by end-10F, well below the average 60% of our coverage universe. Our revised PT of HK\$21.30 provides the most attractive upside potential of 38%.

Key investment risks include lower-than-expected sales and possible slippage in new construction starts.

Closing price on 5 Jan HK\$15.38

Price target **HK\$21.30**

(from HK\$21.00)

Upside/downside 38.5%

Difference from consensus **15.1%**

FY11F net profit (HK\$m) 12,431

Difference from consensus **18.1%**

Source: Nomura

Nomura vs consensus

We are more optimistic on FY11F earnings as COLI has achieved good sales YTD and we expect more meaningful contribution from its newly acquired company.

Key financials & valuations

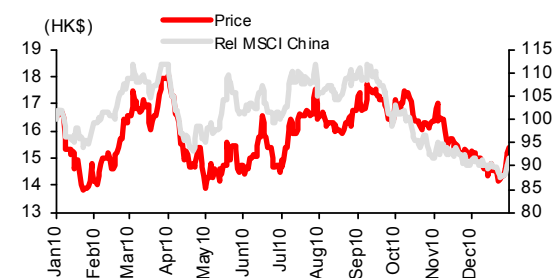
| 31 Dec (HK\$m) | FY09 | FY10F | FY11F | FY12F |
|-----------------------|--------|--------|--------|--------|
| Revenue | 37,322 | 48,258 | 57,642 | 71,307 |
| Reported net profit | 7,469 | 10,726 | 12,431 | 15,499 |
| Normalised net profit | 6,469 | 9,223 | 12,431 | 15,499 |
| Normalised EPS (HK\$) | 0.79 | 1.13 | 1.52 | 1.90 |
| Norm. EPS growth (%) | 73.7 | 42.3 | 34.8 | 24.7 |
| Norm. P/E (x) | 19.4 | 13.6 | 10.1 | 8.1 |
| EV/EBITDA (x) | 11.9 | 8.3 | 5.7 | 5.2 |
| Price/book (x) | 3.0 | 2.5 | 2.1 | 1.8 |
| Dividend yield (%) | 1.3 | 2.1 | 2.9 | 3.6 |
| ROE (%) | 19.8 | 23.3 | 22.8 | 24.0 |
| Gearing (%) | 20.7 | 23.5 | 18.0 | 14.0 |

Earnings revisions

| | | | |
|---------------------------|-------|--------|--------|
| Previous norm. net profit | 9,068 | 12,251 | 15,299 |
| Change from previous (%) | 1.7 | 1.5 | 1.3 |
| Previous norm. EPS (HK\$) | 1.11 | 1.50 | 1.87 |

Source: Company, Nomura estimates

Share price relative to MSCI China



| | 1m | 3m | 6m |
|--------------------------------------|-----|-------|-------------|
| Absolute (HK\$) | 2.1 | (6.3) | 6.2 |
| Absolute (US\$) | 2.0 | (6.5) | 6.5 |
| Relative to Index | 1.6 | (8.2) | (10.1) |
| Market cap (US\$m) | | | 16,173 |
| Estimated free float (%) | | | 47.0 |
| 52-week range (HK\$) | | | 18.10/13.82 |
| 3-mth avg daily turnover (US\$m) | | | 44.57 |
| Stock borrowability | | | Easy |
| Major shareholders (%) | | | |
| China State Construction Engineering | | | 53.1 |

Source: Company, Nomura estimates

COLI (688 HK, BUY, PT: HK\$21.3)

COLI

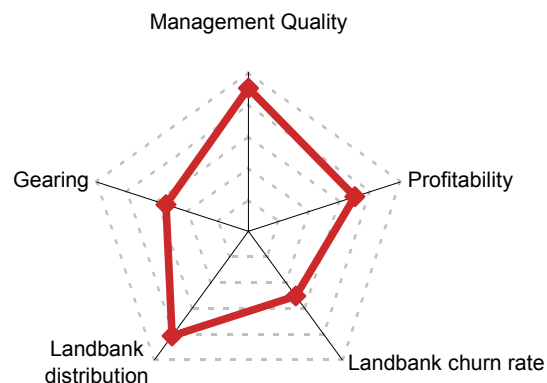
www.coli.com.hk

Company description

China Overseas Land & Investment is the Hong Kong-listed property development arm of China State Construction Engineering, a leading State-Owned Enterprise (SOE) and one of the largest construction and property development companies in China.

The company currently has 30.5mn sqm GFA (attri.) of landbank in around 20 cities.

Our five factor analysis



Key attributes

- **Management quality:** Experienced management with over 28 years of experience in property development.
- **Profitability:** Post LAT development margins averaged 28% in 2007-09, we expect the same margin in 2010-12F.
- **Landbank churn rate:** 2010F sales of ~5.1mn sqm; at the current rate, should be enough for 6 years of development.
- **Landbank distribution:** 19% of our estimated development land bank value is in first-tier cities
- **Gearing:** Gearing stood at 48.4% as of 30 June 2010. We expect gearing of ~46% by end-10F.

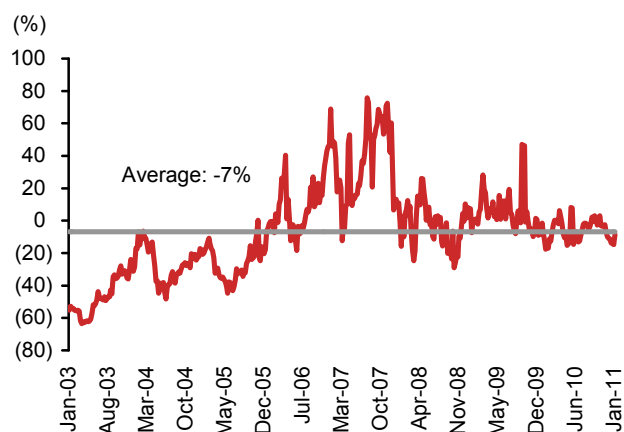
Key themes

- A leading national developer with consistent earning growth, stable margin and healthy gearing.
- Strong SOE background, with proven construction and management capabilities.

Key concerns

- Earnings growth may slow on an already high base.
- NAV valuation appears rich when compared with peers.

NAV discount



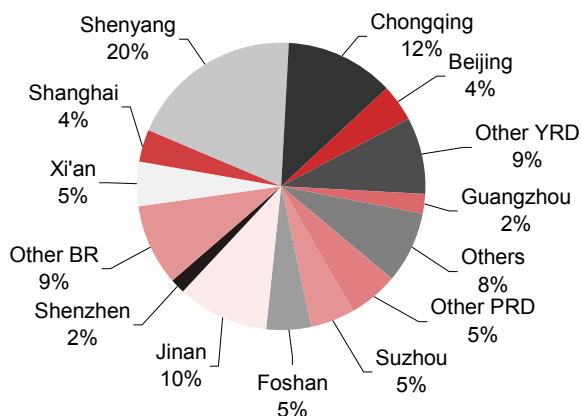
Source: Bloomberg, Company data, Nomura research

End-11F NAV breakdown

| | (RMBmn) | HK\$/share | % of total asset |
|-------------------------------|----------------|--------------|------------------|
| China Dev. Prop | | | |
| Residential | 117,553 | 16.69 | 84.4 |
| Commercial/ others | 1,602 | 0.23 | 1.2 |
| China Inv. Prop | | | |
| Office | 7,103 | 1.01 | 5.1 |
| Retail | 2,430 | 0.34 | 1.7 |
| HK/Macau dev prop | 9,098 | 1.29 | 6.5 |
| HK/Macau inv prop | 1,441 | 0.20 | 1.0 |
| Net debt (incl. land premium) | (11,989) | (1.70) | |
| Total net asset | 127,239 | | |
| NAV/share | | 18.06 | |

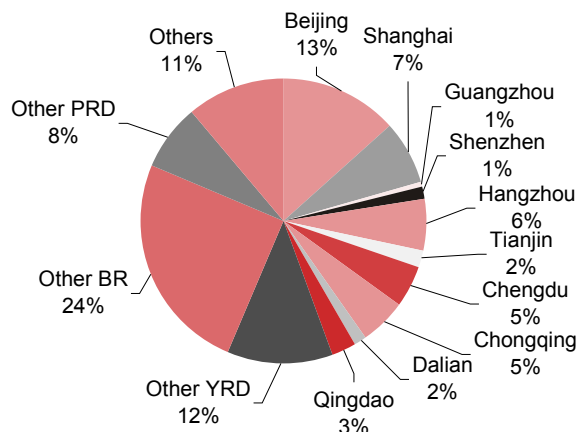
Source: Company data, Nomura estimates

Exhibit 46. Land bank breakdown



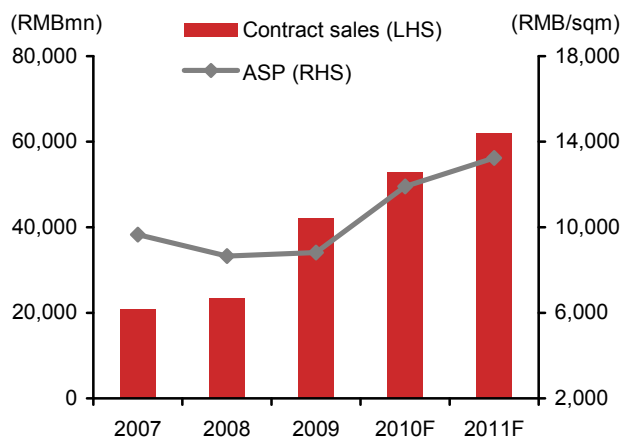
Source: Company data, Nomura research

Exhibit 47. End-11F GAV breakdown



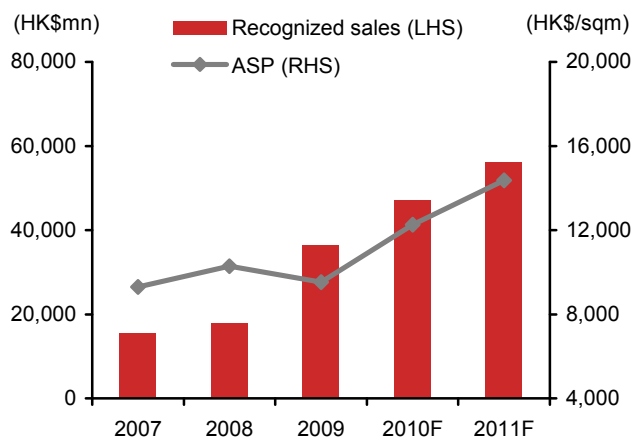
Source: Company data, Nomura estimates

Exhibit 48. Contracted sales and ASP



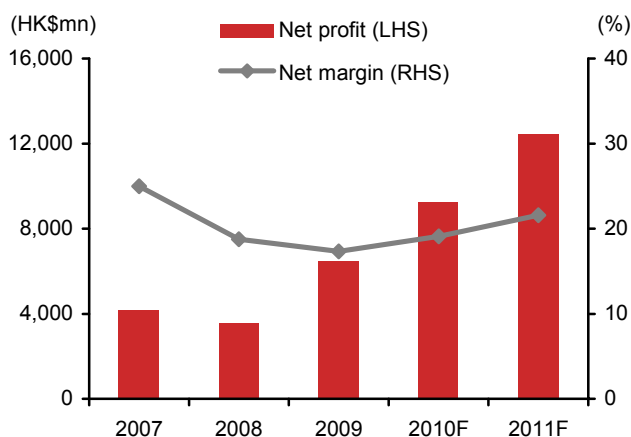
Source: Company data, Nomura estimates

Exhibit 49. Recognised sales and ASP



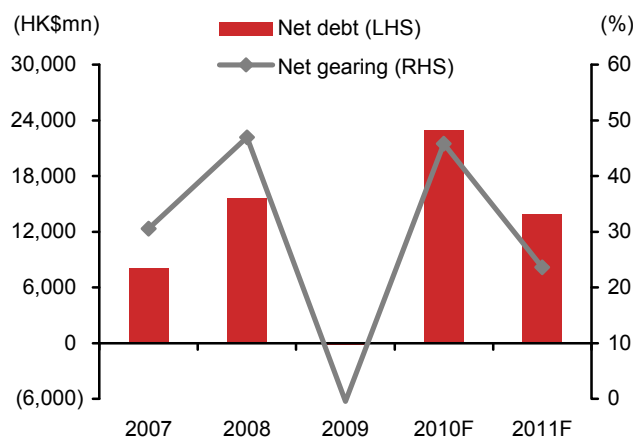
Source: Company data, Nomura estimates

Exhibit 50. Net profit and net margin



Source: Company data, Nomura estimates

Exhibit 51. Net debt and net debt/equity



Source: Company data, Nomura estimates

Financial statements

| Income statement (HK\$m) | | | | | |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|
| Year-end 31 Dec | FY08 | FY09 | FY10F | FY11F | FY12F |
| Investment properties | 204 | 195 | 339 | 443 | 763 |
| Property development | 17,891 | 36,383 | 47,062 | 56,207 | 69,389 |
| Hotels/serviced apartments | | | | | |
| Other Revenue | 857 | 744 | 857 | 993 | 1,155 |
| Revenue | 18,952 | 37,322 | 48,258 | 57,642 | 71,307 |
| EBIT contributions | | | | | |
| Investment properties | 175 | 160 | 241 | 431 | 699 |
| Property development | 6,731 | 10,476 | 17,837 | 23,364 | 24,088 |
| Hotels/serviced apartments | | | | | |
| Other income | (111) | (104) | (333) | (330) | (326) |
| Management expenses | (74) | (40) | - | - | - |
| EBITDA | 6,796 | 10,532 | 17,745 | 23,465 | 24,461 |
| Depreciation and amortisation | (74) | (40) | - | - | - |
| EBIT | 6,722 | 10,491 | 17,745 | 23,465 | 24,461 |
| Net interest expense | (186) | 175 | 199 | 214 | 234 |
| Associates & JCEs | (38) | 23 | 151 | 816 | 2,125 |
| Other income | | | | | |
| Earnings before tax | 6,498 | 10,689 | 18,096 | 24,495 | 26,820 |
| Income tax | (2,916) | (4,085) | (8,387) | (11,315) | (10,641) |
| Net profit after tax | 3,582 | 6,604 | 9,709 | 13,180 | 16,180 |
| Minority interests | (24) | (135) | (486) | (749) | (681) |
| Other items | | | | | |
| Preferred dividends | | | | | |
| Normalised NPAT | 3,558 | 6,469 | 9,223 | 12,431 | 15,499 |
| Extraordinary items | 1,491 | 1,000 | 1,503 | - | - |
| Reported NPAT | 5,049 | 7,469 | 10,726 | 12,431 | 15,499 |
| Dividends | (1,021) | (1,634) | (2,675) | (3,605) | (4,495) |
| Transfer to reserves | 4,028 | 5,835 | 8,051 | 8,826 | 11,004 |

COGO results consolidated starting FY10F

Valuation and ratio analysis

| | | | | | |
|---------------------------------------|------|------|------|------|------|
| FD normalised P/E (x) | 33.7 | 19.4 | 13.6 | 10.1 | 8.1 |
| FD normalised P/E at price target (x) | 46.6 | 26.8 | 18.9 | 14.0 | 11.2 |
| Reported P/E (x) | 23.7 | 16.8 | 11.7 | 10.1 | 8.1 |
| Dividend yield (%) | 0.8 | 1.3 | 2.1 | 2.9 | 3.6 |
| Price/cashflow (x) | na | 14.2 | na | 9.5 | 16.6 |
| Price/book (x) | 3.6 | 3.0 | 2.5 | 2.1 | 1.8 |
| EV/EBITDA (x) | 20.9 | 11.9 | 8.3 | 5.7 | 5.2 |
| EV/EBIT (x) | 21.1 | 11.9 | 8.3 | 5.7 | 5.2 |
| EBIT margin (%) | 35.5 | 28.1 | 36.8 | 40.7 | 34.3 |
| Effective tax rate (%) | 44.9 | 38.2 | 46.3 | 46.2 | 39.7 |
| Dividend payout (%) | 20.2 | 21.9 | 24.9 | 29.0 | 29.0 |
| ROA (pretax %) | 10.1 | 12.6 | 16.3 | 17.1 | 15.6 |

COLI has consistently maintained good margins

Growth (%)

| | | | | | |
|------------------|--------|------|------|------|------|
| Revenue | 13.9 | 96.9 | 29.3 | 19.4 | 23.7 |
| EBITDA | (1.4) | 55.0 | 68.5 | 32.2 | 4.2 |
| EBIT | (0.6) | 56.1 | 69.1 | 32.2 | 4.2 |
| Normalised EPS | (19.3) | 73.7 | 42.3 | 34.8 | 24.7 |
| Normalised FDEPS | (19.3) | 73.7 | 42.3 | 34.8 | 24.7 |

Per share

| | | | | | |
|-------------------------------|------|------|------|------|------|
| Reported EPS (HK\$) | 0.65 | 0.92 | 1.31 | 1.52 | 1.90 |
| Norm EPS (HK\$) | 0.46 | 0.79 | 1.13 | 1.52 | 1.90 |
| Fully diluted norm EPS (HK\$) | 0.46 | 0.79 | 1.13 | 1.52 | 1.90 |
| Book value per share (HK\$) | 4.23 | 5.15 | 6.14 | 7.22 | 8.57 |
| DPS (HK\$) | 0.13 | 0.20 | 0.33 | 0.44 | 0.55 |

Source: Nomura estimates

Cashflow (HK\$m)

| Year-end 31 Dec | FY08 | FY09 | FY10F | FY11F | FY12F |
|--------------------------------------|----------------|---------------|-----------------|----------------|----------------|
| EBITDA | 6,796 | 10,532 | 17,745 | 23,465 | 24,461 |
| Change in working capital | (12,303) | 13,319 | (31,592) | 304 | (6,992) |
| Other operating cashflow | 2,655 | (14,990) | 3,618 | (10,533) | (9,905) |
| Cashflow from operations | (2,853) | 8,860 | (10,229) | 13,236 | 7,564 |
| Capital expenditure | (1,441) | (24) | - | - | - |
| Free cashflow | (4,294) | 8,836 | (10,229) | 13,236 | 7,564 |
| Reduction in investments | - | - | (1,000) | - | - |
| Net acquisitions | 465 | (495) | 847 | - | - |
| Reduction in other LT assets | (399) | (142) | (2,700) | 816 | 2,125 |
| Addition in other LT liabilities | (158) | (31) | - | - | - |
| Adjustments | (3,763) | (914) | 3,250 | (266) | (1,575) |
| Cashflow after investing acts | (8,149) | 7,254 | (9,832) | 13,785 | 8,113 |
| Cash dividends | (1,015) | (1,143) | (2,675) | (3,605) | (4,495) |
| Equity issue | 1,197 | 1,272 | - | - | - |
| Debt issue | 7,933 | (964) | 9,000 | (2,000) | (2,000) |
| Convertible debt issue | | | | | |
| Others | 562 | 8,438 | (10,659) | (1,117) | (1,050) |
| Cashflow from financial acts | 8,677 | 7,603 | (4,334) | (6,722) | (7,545) |
| Net cashflow | 528 | 14,857 | (14,166) | 7,063 | 568 |
| Beginning cash | 8,478 | 9,006 | 23,863 | 9,697 | 16,760 |
| Ending cash | 9,006 | 23,863 | 9,697 | 16,760 | 17,328 |
| Ending net debt | 15,589 | (196) | 22,970 | 13,907 | 11,338 |

Source: Nomura estimates

Balance sheet (HK\$m)

| As at 31 Dec | FY08 | FY09 | FY10F | FY11F | FY12F |
|---------------------------------------|---------------|----------------|----------------|----------------|----------------|
| Cash & equivalents | 9,006 | 23,863 | 9,697 | 16,760 | 17,328 |
| Properties held for sale | 53,979 | 50,447 | 61,097 | 76,879 | 92,614 |
| Accounts receivable | 1,045 | 1,120 | 1,176 | 1,235 | 1,297 |
| Other current assets | 7,850 | 17,829 | 46,139 | 54,150 | 69,161 |
| Total current assets | 71,880 | 93,259 | 118,109 | 149,024 | 180,400 |
| Investment properties | 6,428 | 7,748 | 8,748 | 8,748 | 8,748 |
| Other fixed assets (net) | 295 | 270 | 270 | 270 | 270 |
| Associates | 6,274 | 11,999 | 10,204 | 11,020 | 13,144 |
| Other LT assets | 700 | 842 | 1,748 | 1,748 | 1,748 |
| Total assets | 85,576 | 114,117 | 139,079 | 170,809 | 204,310 |
| Short-term debt | 3,946 | 4,364 | 4,364 | 4,364 | 4,364 |
| Accounts payable | 8,259 | 12,204 | 13,425 | 14,767 | 16,244 |
| Other current liabilities | 17,731 | 33,626 | 39,831 | 62,644 | 84,983 |
| Total current liabilities | 29,936 | 50,195 | 57,620 | 81,775 | 105,591 |
| Long-term debt | 20,649 | 19,302 | 28,302 | 26,302 | 24,302 |
| Convertible debt | | | | | |
| Other LT liabilities | 2,107 | 2,811 | 2,811 | 2,811 | 2,811 |
| Total liabilities | 52,692 | 72,308 | 88,733 | 110,888 | 132,704 |
| Minority interest | (335) | (283) | 202 | 951 | 1,631 |
| Preferred stock | | | | | |
| Shareholders' Equity | 17,122 | 19,609 | 19,609 | 19,609 | 19,609 |
| Other equity and reserves | 16,098 | 22,484 | 30,535 | 39,362 | 50,366 |
| Total shareholders' equity | 33,220 | 42,093 | 50,144 | 58,970 | 69,975 |
| Total equity & liabilities | 85,576 | 114,117 | 139,079 | 170,809 | 204,310 |

Leverage

| | | | | | |
|--------------------------------|------|----------|------|------|------|
| Interest cover | 36.1 | na | na | na | na |
| Gross debt/property assets (%) | 28.7 | 20.7 | 23.5 | 18.0 | 14.0 |
| Net debt/EBITDA (x) | 2.29 | net cash | 1.29 | 0.59 | 0.46 |
| Net debt/equity (%) | 46.9 | net cash | 45.8 | 23.6 | 16.2 |

Dupont decomposition

| | | | | | |
|----------------------------|------|------|------|------|------|
| Net margin (%) | 26.6 | 20.0 | 22.2 | 21.6 | 21.7 |
| Asset utilisation (x) | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 |
| ROA (%) | 6.7 | 7.5 | 8.5 | 8.0 | 8.3 |
| Leverage (Assets/Equity x) | 2.5 | 2.7 | 2.7 | 2.8 | 2.9 |
| ROE (%) | 17.0 | 19.8 | 23.3 | 22.8 | 24.0 |

Source: Nomura estimates

⊙ Action

CRL's contracted sales in Sep-Nov 2010 of RMB8.8bn were surprisingly strong, driving up our FY11F EPS forecast by 15% to HK\$1.10. However, CRL remained the only developer under our coverage to record a y-y decline in contracted sales. This, in over view, is not matched with its position as the second-largest developer listed in Hong Kong. Maintain NEUTRAL, mainly on valuation.

⚡ Catalysts

Upside catalyst: stronger-than-expected sales in Beijing and Shanghai. Downside catalyst: tighter-than-expected property policies in overheated cities.

⚓ Anchor themes

A likely policy shift from demand to supply is positive for developers. We expect less aggressive measures in 2011F, with controlling broader inflation likely to be top of the government's agenda. Recent policies have had little impact on fundamental demand, and rate hikes should have little impact on share prices initially.

Fully valued with no catalyst

① Contracted sales of RMB22bn in FY10F

As of 5 December 2010, CRL had achieved contracted sales of RMB20.3bn for 2010, beating its full-year target of RMB20bn. We expect full-year contracted sales of roughly RMB22bn on a better-than-expected sales recovery during Sept-Nov 2010, which contributed RMB8.8bn or 40% of our full year sales forecast. Thus, we revise up our FY11F EPS forecast by 15% to HK\$1.10, with some 52% of this already secured.

② Mismatch between contracted sales and market cap

Despite a significant improvement in sales, our FY10F forecast for contracted sales of RMB22bn still lags that of most mid-cap stocks, such as Agile, Guangzhou R&F, Shimao and Country Garden. CRL is the only developer we cover to record a drop in contracted sales (from RMB25bn in FY09). This, in our view, does not match its position as the second-largest China developer listed in Hong Kong. Its low-asset turnover remains a major investment concern.

③ Limited impact on further asset injection activities

Looking to FY11F, we expect CRL to continue to acquire assets from parent CRH at mark-to-market prices. However, we do not expect any significant NAV enhancement through the asset injections given that the acquisition costs are likely to be high, in our view. Thus we do not see the asset injection as a catalyst for CRL.

④ Maintain NEUTRAL, with revised PT of HK\$15.79

We revise up CRL's end-11F NAV to HK\$19.74 (from HK\$18.59) to reflect better-than-expected sales. With the shares at a 21% discount to our NAV, we see limited upside potential. We remain NEUTRAL on CRL, with our PT revised to HK\$15.79 (from HK\$14.87), based on a 20% discount to our end-11F NAV estimate.

Key investment risks include project slippage and tighter-than-expected policy especially in overheated cities.

| | |
|---------------------------|--------------------------------------|
| Closing price on 5 Jan | HK\$15.54 |
| Price target | HK\$15.79 (from HK\$14.87) |
| Upside/downside | 1.6% |
| Difference from consensus | -12.2% |
| FY11F net profit (HK\$m) | 5,911 |
| Difference from consensus | 7.3% |
| Source: Nomura | |

Nomura vs consensus

We think consensus numbers are behind the curve, with the consensus average having barely moved for two months while the stock price has dropped by 20%.

Key financials & valuations

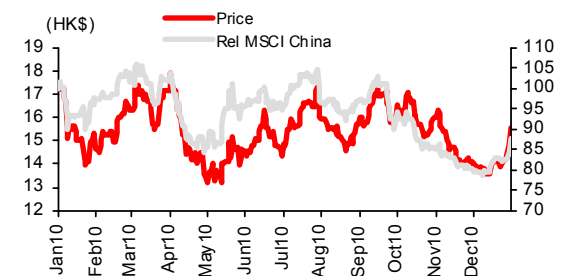
| 31 Dec (HK\$m) | FY09 | FY10F | FY11F | FY12F |
|-----------------------|--------|--------|--------|--------|
| Revenue | 16,601 | 26,243 | 35,442 | 42,610 |
| Reported net profit | 4,409 | 3,853 | 5,911 | 6,268 |
| Normalised net profit | 3,141 | 3,844 | 5,911 | 6,268 |
| Normalised EPS (HK\$) | 0.64 | 0.75 | 1.10 | 1.16 |
| Norm. EPS growth (%) | 69.1 | 16.7 | 46.3 | 6.0 |
| Norm. P/E (x) | 24.2 | 20.7 | 14.2 | 13.4 |
| EV/EBITDA (x) | 18.3 | 13.8 | 11.6 | 11.1 |
| Price/book (x) | 2.1 | 1.7 | 1.6 | 1.5 |
| Dividend yield (%) | 1.5 | 1.4 | 2.1 | 2.2 |
| ROE (%) | 13.0 | 8.9 | 11.7 | 11.4 |
| Gearing (%) | 28.4 | 31.8 | 31.6 | 31.1 |

Earnings revisions

| | | | |
|--------------------------|-------|-------|-------|
| Previous nom. net profit | 3,780 | 5,128 | 5,907 |
| Change from previous (%) | | 1.7 | 15.3 |
| Previous nom. EPS (HK\$) | 0.74 | 0.95 | 1.10 |

Source: Company, Nomura estimates

Share price relative to MSCI China



| | 1m | 3m | 6m |
|--|------|-------|-------------|
| Absolute (HK\$) | 10.1 | (2.1) | 8.2 |
| Absolute (US\$) | 10.0 | (2.3) | 8.5 |
| Relative to Index | 9.5 | (4.0) | (8.1) |
| Market cap (US\$m) | | | 10,771 |
| Estimated free float (%) | | | 34.6 |
| 52-week range (HK\$) | | | 17.94/13.18 |
| 3-mth avg daily turnover (US\$m) | | | 21.93 |
| Stock borrowability | | | Easy |
| Major shareholders (%) | | | |
| China Resources (Holdings) Company Limited | | | 65.4 |

Source: Company, Nomura estimates

CRL (1109 HK, NEUTRAL, PT: HK\$15.79)

China Resources Land

www.crland.com.hk

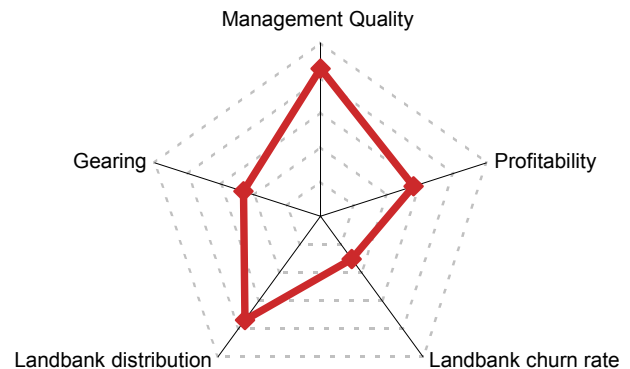
Company description

Listed in 1996, CRL became an integrated property developer with flagship projects such as Shenzhen MIXc and Park Lane Manor.

The company holds a total landbank of 23.7mn sqm GFA, across 20-plus projects in China.

CRL is 65.4% owned by parent company China Resources (Holdings) Co Ltd (CRH). Its market cap is around HK\$84bn.

Our five-factor analysis



Key attributes

- *Management quality*: Most of the top management has more than 20 years of experience in running business for CRH.
- *Profitability*: Post LAT development margins average 22% in 2007-09, we expect the same margin in 2010-12F.
- *Landbank churn rate*: 2010F sales of ~2.1mn sqm; at the current rate, should be enough for 10 years of development.
- *Landbank distribution*: 26% of our estimated development landbank value is in first-tier cities.
- *Gearing*: Gearing stood at 46.1% as of 30 June 2010. We expect gearing of ~ 54% by end-10F.

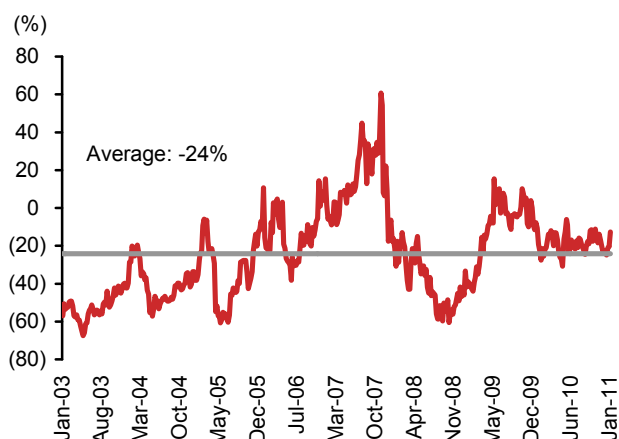
Key themes

- SOE background with asset injection angle.
- A pioneer in running high-class shopping malls such as Shenzhen MIXc in China.

Key concerns

- Disappointing pre-sales figures for 2011F.
- Limited NAV enhancement from asset injections.

NAV discount



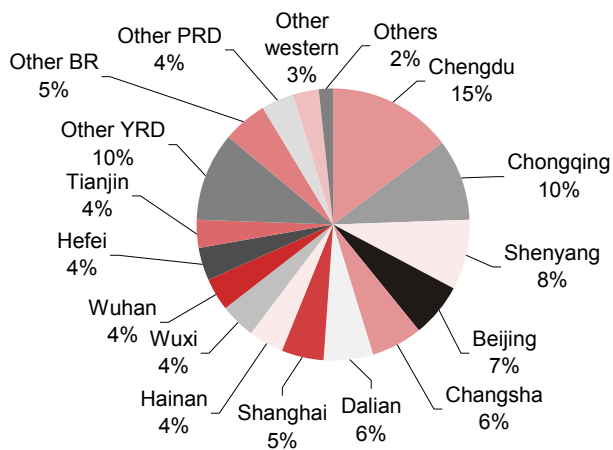
Source: Bloomberg, Company data, Nomura research

End-11F NAV breakdown

| | (RMBmn) | HK\$/share | % of total asset |
|-------------------------------|---------------|--------------|------------------|
| Dev. prop/under dev't | | | |
| Residential | 74,498 | 16.05 | 62.8 |
| Inv. prop/under dev't | | | |
| Office/retail | 34,285 | 7.38 | 28.9 |
| Residential | 3,160 | 0.68 | 2.7 |
| Car park space | 304 | 0.07 | 0.3 |
| Hotel prop under dev't | 6,431 | 1.39 | 5.4 |
| Net debt (incl. land premium) | (27,021) | (5.82) | |
| Total net asset | 91,658 | | |
| NAV/share | | 19.74 | |

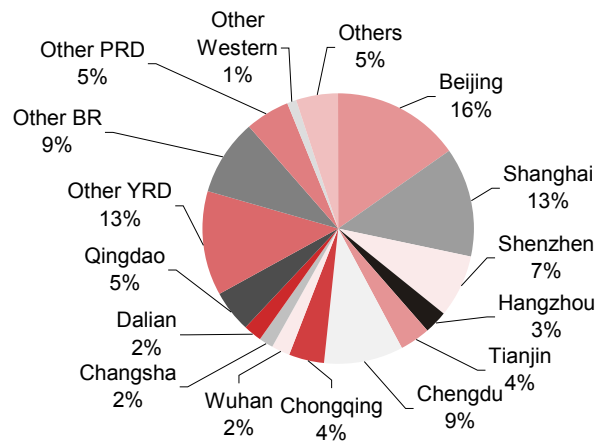
Source: Company data, Nomura estimates

Exhibit 52. Land bank breakdown



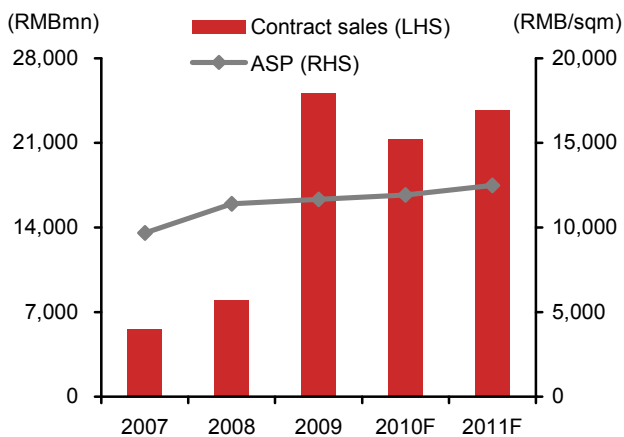
Source: Company data, Nomura research

Exhibit 53. End-11F GAV breakdown



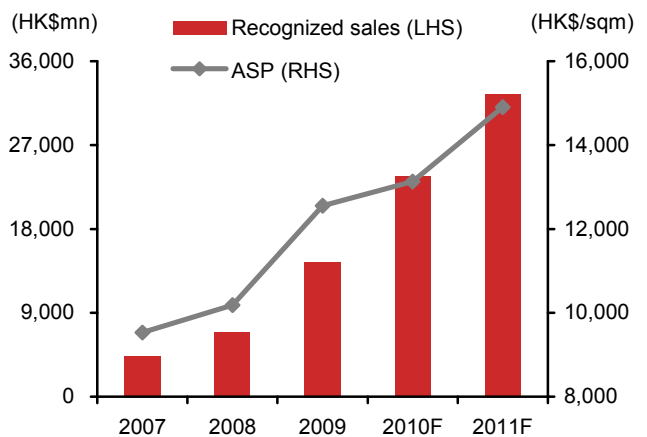
Source: Company data, Nomura estimates

Exhibit 54. Contracted sales and ASP



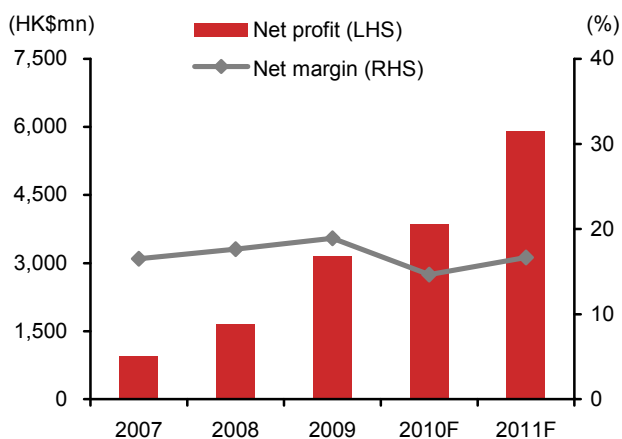
Source: Company data, Nomura estimates

Exhibit 55. Recognized sales and ASP



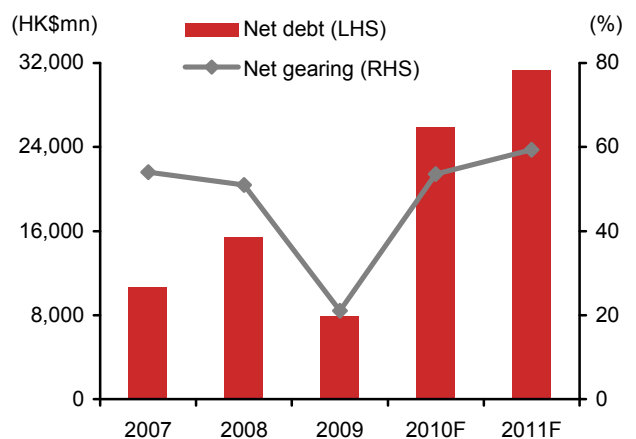
Source: Company data, Nomura estimates

Exhibit 56. Net profit and net margin



Source: Company data, Nomura estimates

Exhibit 57. Net debt and net debt/equity



Source: Company data, Nomura estimates

Financial statements

| Income statement (HK\$m) | | | | | |
|---------------------------------------|--------------|---------------|---------------|---------------|---------------|
| Year-end 31 Dec | FY08 | FY09 | FY10F | FY11F | FY12F |
| Investment properties | 967 | 1,069 | 1,247 | 1,553 | 2,039 |
| Property development | 6,949 | 14,450 | 23,635 | 32,406 | 38,953 |
| Hotels/serviced apartments | - | - | 176 | 184 | 194 |
| Other Revenue | 1,449 | 1,082 | 1,186 | 1,300 | 1,424 |
| Revenue | 9,366 | 16,601 | 26,243 | 35,442 | 42,610 |
| EBIT contributions | | | | | |
| Investment properties | 639 | 555 | 661 | 823 | 1,080 |
| Property development | 1,796 | 4,198 | 7,196 | 8,966 | 9,448 |
| Hotels/serviced apartments | - | - | 15 | 49 | 70 |
| Other income | 136 | 225 | 57 | 59 | 79 |
| Management expenses | (32) | (113) | (59) | (68) | (80) |
| EBITDA | 2,571 | 4,977 | 7,929 | 9,896 | 10,677 |
| Depreciation and amortisation | (32) | (113) | (59) | (68) | (80) |
| EBIT | 2,539 | 4,865 | 7,871 | 9,829 | 10,597 |
| Net interest expense | (64) | (49) | (78) | (135) | (158) |
| Associates & JCEs | 97 | 41 | 12 | 13 | 14 |
| Other income | | | | | |
| Earnings before tax | 2,572 | 4,857 | 7,805 | 9,706 | 10,453 |
| Income tax | (875) | (1,695) | (3,116) | (3,568) | (3,742) |
| Net profit after tax | 1,697 | 3,163 | 4,688 | 6,139 | 6,710 |
| Minority interests | (44) | (21) | (844) | (228) | (443) |
| Other items | | | | | |
| Preferred dividends | | | | | |
| Normalised NPAT | 1,652 | 3,141 | 3,844 | 5,911 | 6,268 |
| Extraordinary items | 342 | 1,268 | 9 | - | - |
| Reported NPAT | 1,994 | 4,409 | 3,853 | 5,911 | 6,268 |
| Dividends | (509) | (1,158) | (1,156) | (1,773) | (1,880) |
| Transfer to reserves | 1,485 | 3,251 | 2,697 | 4,138 | 4,387 |
| Valuation and ratio analysis | | | | | |
| FD normalised P/E (x) | 40.9 | 24.2 | 20.7 | 14.2 | 13.4 |
| FD normalised P/E at price target (x) | 41.6 | 24.6 | 21.1 | 14.4 | 13.6 |
| Reported P/E (x) | 33.9 | 17.2 | 20.7 | 14.2 | 13.4 |
| Dividend yield (%) | 0.7 | 1.5 | 1.4 | 2.1 | 2.2 |
| Price/cashflow (x) | na | 7.0 | na | na | 43.5 |
| Price/book (x) | 2.4 | 2.1 | 1.7 | 1.6 | 1.5 |
| EV/EBITDA (x) | 37.2 | 18.3 | 13.8 | 11.6 | 11.1 |
| EV/EBIT (x) | 37.6 | 18.7 | 13.9 | 11.7 | 11.2 |
| EBIT margin (%) | 27.1 | 29.3 | 30.0 | 27.7 | 24.9 |
| Effective tax rate (%) | 34.0 | 34.9 | 39.9 | 36.8 | 35.8 |
| Dividend payout (%) | 25.5 | 26.3 | 30.0 | 30.0 | 30.0 |
| ROA (pretax %) | 4.9 | 7.0 | 8.6 | 8.6 | 8.2 |
| Growth (%) | | | | | |
| Revenue | 64.9 | 77.3 | 58.1 | 35.1 | 20.2 |
| EBITDA | 48.4 | 93.6 | 59.3 | 24.8 | 7.9 |
| EBIT | 49.4 | 91.6 | 61.8 | 24.9 | 7.8 |
| Normalised EPS | 46.0 | 69.1 | 16.7 | 46.3 | 6.0 |
| Normalised FDEPS | 46.0 | 69.1 | 16.7 | 46.3 | 6.0 |
| Per share | | | | | |
| Reported EPS (HK\$) | 0.46 | 0.90 | 0.75 | 1.10 | 1.16 |
| Norm EPS (HK\$) | 0.38 | 0.64 | 0.75 | 1.10 | 1.16 |
| Fully diluted norm EPS (HK\$) | 0.38 | 0.64 | 0.75 | 1.10 | 1.16 |
| Book value per share (HK\$) | 6.42 | 7.52 | 8.97 | 9.81 | 10.62 |
| DPS (HK\$) | 0.11 | 0.23 | 0.21 | 0.33 | 0.35 |

Source: Nomura estimates

Cashflow (HK\$mn)

| Year-end 31 Dec | FY08 | FY09 | FY10F | FY11F | FY12F |
|--------------------------------------|----------------|---------------|-----------------|----------------|--------------|
| EBITDA | 2,571 | 4,977 | 7,929 | 9,896 | 10,677 |
| Change in working capital | (13,801) | 5,755 | (25,289) | (8,022) | (6,341) |
| Other operating cashflow | 2,945 | 74 | (1,530) | (2,214) | (2,411) |
| Cashflow from operations | (8,285) | 10,807 | (18,889) | (340) | 1,925 |
| Capital expenditure | (924) | (1,081) | (1,500) | (1,500) | (1,500) |
| Free cashflow | (9,209) | 9,726 | (20,389) | (1,840) | 425 |
| Reduction in investments | (22) | (2,297) | - | - | - |
| Net acquisitions | | | | | |
| Reduction in other LT assets | (200) | 115 | (0) | (0) | 0 |
| Addition in other LT liabilities | 371 | 641 | 1,597 | 1,521 | 1,506 |
| Adjustments | 688 | (2,252) | (1,042) | (1,465) | (1,452) |
| Cashflow after investing acts | (8,372) | 5,931 | (19,835) | (1,784) | 479 |
| Cash dividends | (459) | (688) | (1,497) | (1,403) | (1,935) |
| Equity issue | 33 | 4,277 | 5,531 | - | - |
| Debt issue | 4,720 | 6,367 | 10,527 | 3,904 | 4,310 |
| Convertible debt issue | - | - | - | - | - |
| Others | 4,901 | (2,031) | (2,125) | (2,286) | (2,378) |
| Cashflow from financial acts | 9,196 | 7,924 | 12,435 | 215 | (3) |
| Net cashflow | 824 | 13,855 | (7,400) | (1,569) | 476 |
| Beginning cash | 4,834 | 5,659 | 19,514 | 12,114 | 10,545 |
| Ending cash | 5,659 | 19,514 | 12,114 | 10,545 | 11,021 |
| Ending net debt | 15,434 | 7,945 | 25,871 | 31,344 | 35,178 |

Source: Nomura estimates

Balance sheet (HK\$mn)

| As at 31 Dec | FY08 | FY09 | FY10F | FY11F | FY12F |
|---------------------------------------|---------------|---------------|----------------|----------------|----------------|
| Cash & equivalents | 5,659 | 19,514 | 12,114 | 10,545 | 11,021 |
| Properties held for sale | 38,150 | 40,828 | 56,894 | 62,584 | 68,842 |
| Accounts receivable | 9,885 | 13,751 | 22,002 | 27,002 | 32,002 |
| Other current assets | 437 | 1,160 | 1,468 | 1,811 | 2,251 |
| Total current assets | 54,130 | 75,252 | 92,479 | 101,942 | 114,116 |
| Investment properties | 9,998 | 16,742 | 22,043 | 25,467 | 28,929 |
| Other fixed assets (net) | 2,274 | 2,579 | 2,837 | 3,120 | 3,432 |
| Associates | 996 | 907 | 949 | 949 | 949 |
| Other LT assets | 1,219 | 1,104 | 1,104 | 1,104 | 1,104 |
| Total assets | 68,618 | 96,584 | 119,412 | 132,583 | 148,531 |
| Short-term debt | 4,063 | 1,827 | 2,101 | 2,416 | 2,779 |
| Accounts payable | 10,290 | 24,975 | 23,671 | 26,237 | 31,062 |
| Other current liabilities | 4,525 | 2,861 | 3,503 | 3,947 | 4,479 |
| Total current liabilities | 18,878 | 29,664 | 29,275 | 32,600 | 38,320 |
| Long-term debt | 17,030 | 25,632 | 35,884 | 39,473 | 43,420 |
| Convertible debt | | | | | |
| Other LT liabilities | 1,648 | 2,289 | 3,886 | 5,407 | 6,913 |
| Total liabilities | 37,556 | 57,584 | 69,045 | 77,480 | 88,653 |
| Minority interest | 799 | 1,190 | 2,034 | 2,262 | 2,704 |
| Preferred stock | | | | | |
| Shareholders' Equity | 25,412 | 29,706 | 35,273 | 35,273 | 35,273 |
| Other equity and reserves | 4,851 | 8,104 | 13,060 | 17,568 | 21,901 |
| Total shareholders' equity | 30,263 | 37,810 | 48,333 | 52,841 | 57,174 |
| Total equity & liabilities | 68,618 | 96,584 | 119,412 | 132,583 | 148,531 |

Leverage

| | | | | | |
|--------------------------------|------|------|-------|------|------|
| Interest cover | 39.4 | 99.1 | 100.4 | 72.5 | 67.1 |
| Gross debt/property assets (%) | 30.7 | 28.4 | 31.8 | 31.6 | 31.1 |
| Net debt/EBITDA (x) | 6.00 | 1.60 | 3.26 | 3.17 | 3.29 |
| Net debt/equity (%) | 51.0 | 21.0 | 53.5 | 59.3 | 61.5 |

Dupont decomposition

| | | | | | |
|----------------------------|------|------|------|------|------|
| Net margin (%) | 21.3 | 26.6 | 14.7 | 16.7 | 14.7 |
| Asset utilisation (x) | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 |
| ROA (%) | 3.4 | 5.3 | 3.6 | 4.7 | 4.5 |
| Leverage (Assets/Equity x) | 2.4 | 2.4 | 2.5 | 2.5 | 2.6 |
| ROE (%) | 8.0 | 13.0 | 8.9 | 11.7 | 11.4 |

Source: Nomura estimates

Unwillingness to cut price in Beijing and Shanghai may lead to increased gearing

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Maintained

NEUTRAL

⊙ Action

Country Garden has demonstrated its ability to maintain steady sales growth even in a tightening environment. Strong contracted sales should support our FY11F earning estimates. However, current valuation seems stretched; thus, we maintain our NEUTRAL rating but revise up our PT to HK\$3.30 (from HK\$3.18), on a 30% discount to our new end-11F NAV estimate of HK\$4.71 (from HK\$4.54).

✂ Catalysts

Sales from ex-Guangdong business have started to stabilize, and this could be a surprise catalyst in 2011.

⚓ Anchor themes

A likely policy shift from demand to supply is positive for developers. We expect less aggressive measures in 2011F, with controlling broader inflation likely to be top of the government's agenda. Recent policies have had little impact on fundamental demand, and rate hikes should have little impact on share prices initially.

Good sales; stretched valuation

① Our above-consensus numbers are reasonable

As of Nov 2010, Country Garden had achieved contracted sales of RMB30.4bn, up 57% y-y. With no new projects launched in Dec 2010, we expect full-year contracted sales of RMB33bn, up 42% y-y. Strong contracted sales should secure 76% of our above-consensus FY11F earnings estimate, suggesting some possible earning revisions from the street.

② Significant land bank but healthy churn rate

In terms of GFA, we expect a total of 6.1mn sqm will be sold in 2010, suggesting ~8 years of development based on an existing landbank of ~50mn sqm GFA. Country Garden currently has around 14mn sqm of land bank under construction, which can be pre-sold quickly under its high asset turnover model. We believe the company can comfortably achieve its 30% y-y 2011 sales target, which is about RMB43bn.

③ Two new initiatives going into 2011

Country Garden is now looking to develop some mixed-use projects and hold parts of commercial properties for investment later. The company is also planning to construct some subsidised housing (less than 100k sqm in 2011), more for national services.

④ Maintain NEUTRAL, with PT revised up to HK\$3.30

Better-than-expected ASPs in some existing projects drive up our end-11F NAV estimate by 4% to HK\$4.71. Applying a 30% targeted NAV discount (unchanged), our revised PT rises to HK\$3.30 (from HK\$3.18), which provides limited upside. We maintain our NEUTRAL rating, mainly due to stretched valuation.

Key investment downside risks include over-aggressive land banking strategy. *Upside risks* include better-than-expected sales from ex-Guangdong business.

| | |
|---------------------------|------------------------------------|
| Closing price on 5 Jan | HK\$3.03 |
| Price target | HK\$3.30 (from HK\$3.18) |
| Upside/downside | 8.8% |
| Difference from consensus | 7.8% |
| FY11F net profit (RMBmn) | 5,124 |
| Difference from consensus | 26.6% |
| Source: Nomura | |

Nomura vs consensus

Street estimates, in our view, have not taken into account the strong sales achieved so far that we think should give FY11F earnings a boost when the projects are sold.

Key financials & valuations

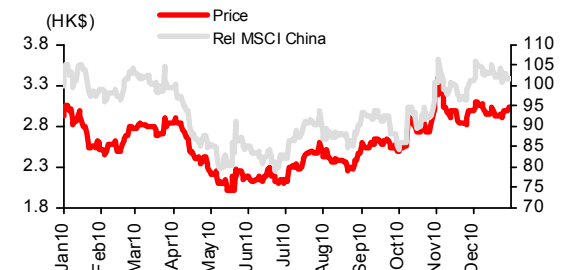
| 31 Dec (RMBmn) | FY09 | FY10F | FY11F | FY12F |
|-----------------------|--------|--------|--------|--------|
| Revenue | 17,586 | 23,614 | 33,499 | 42,531 |
| Reported net profit | 2,080 | 3,092 | 5,124 | 6,614 |
| Normalised net profit | 1,739 | 3,040 | 5,124 | 6,614 |
| Normalised EPS (RMB) | 0.11 | 0.18 | 0.31 | 0.40 |
| Norm. EPS growth (%) | (38.7) | 73.6 | 68.6 | 29.1 |
| Norm. P/E (x) | 25.1 | 14.1 | 8.4 | 6.5 |
| EV/EBITDA (x) | 14.4 | 8.3 | 4.7 | 4.0 |
| Price/book (x) | 2.1 | 1.8 | 1.6 | 1.3 |
| Dividend yield (%) | 1.7 | 2.5 | 4.2 | 5.4 |
| ROE (%) | 10.4 | 14.0 | 20.3 | 22.2 |
| Gearing (%) | 27.9 | 28.1 | 24.5 | 23.0 |

Earnings revisions

| | | | |
|--------------------------|-------|-------|-------|
| Previous nom. net profit | 3,040 | 5,124 | 6,614 |
| Change from previous (%) | - | - | - |
| Previous nom. EPS (RMB) | 0.18 | 0.31 | 0.40 |

Source: Company, Nomura estimates

Share price relative to MSCI China



| | 1m | 3m | 6m |
|-----------------------------------|-----|------|-----------|
| Absolute (HK\$) | 1.0 | 21.7 | 44.3 |
| Absolute (US\$) | 0.9 | 21.4 | 44.6 |
| Relative to Index | 0.5 | 19.7 | 28.0 |
| Market cap (US\$mn) | | | 6,510 |
| Estimated free float (%) | | | 20.0 |
| 52-week range (HK\$) | | | 3.40/2.01 |
| 3-mth avg daily turnover (US\$mn) | | | 5.19 |
| Stock borrowability | | | Easy |
| Major shareholders (%) | | | |
| Yang Huiyan | | | 59.8 |
| Yang Erzhu | | | 5.9 |

Source: Company, Nomura estimates

Country Garden (2007 HK, NEUTRAL, PT: HK\$3.30)

Country Garden

www.countrygarden.com.cn

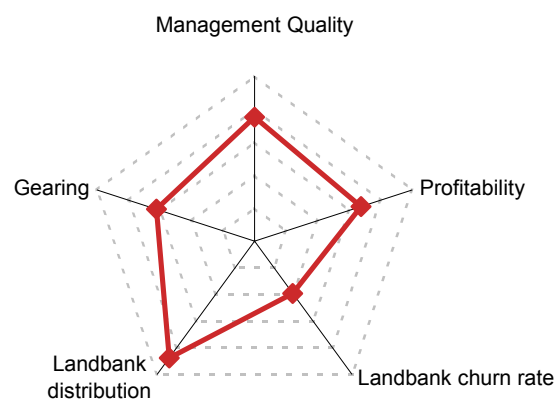
Company description

Country Garden is a Guangdong-based developer specialising in large-scale community developments. The company was listed on the Hong Kong Stock Exchange in April 2007.

The company has 50.5mn sqm GFA of landbank with land-use rights in around 32 cities.

Flagship projects include Shunde Country Garden and Country Garden Phoenix city in Guangzhou.

Our five-factor analysis



Key attributes

- *Management quality*: Experienced management with over 15 years of experience in property development.
- *Profitability*: Post LAT development margins averaged 29% in 2007-09 and should decline to 25% in 2010-12F.
- *Landbank churn rate*: 2010F sales of ~6.1mn sqm; at the current rate, should be enough for 8.3 years of development.
- *Landbank distribution*: 13% of our estimated development land bank value is in first-tier cities.
- *Gearing*: Gearing stood at 40.4% as of 30 June 2010. We expect gearing of ~38% by end-10F.

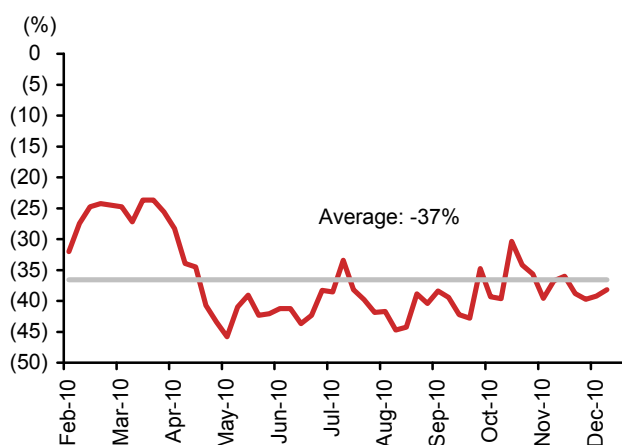
Key themes

- Huge low-cost landbank in suburban areas of first-tier cities and second/third-tier cities.
- Volume ramping up with more projects maturing.

Key concerns

- Marketability of new projects in relatively remote areas is uncertain.
- Shareholder concentration – with only around 20% free float and low stock liquidity.

NAV discount



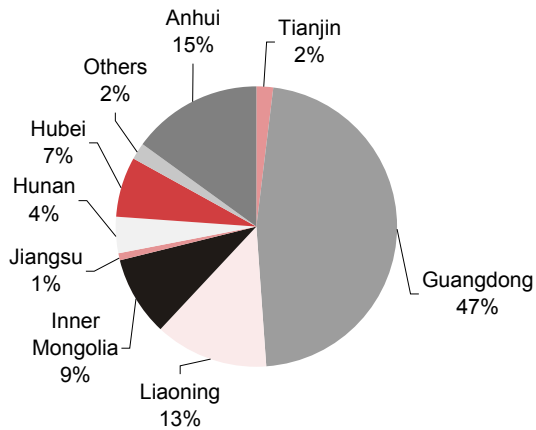
Source: Bloomberg, Company data, Nomura research

End-11F NAV Breakdown

| | (RMBmn) | HK\$/share | % of total asset |
|-------------------------------|---------------|-------------|------------------|
| Dev. Prop/under dev't | 66,738 | 4.71 | 90.6 |
| Hotel prop under dev't | 6,907 | 0.49 | 9.4 |
| Net debt (incl. land premium) | (6,829) | (0.48) | |
| Total net asset | 66,817 | | |
| NAV/share | | 4.71 | |

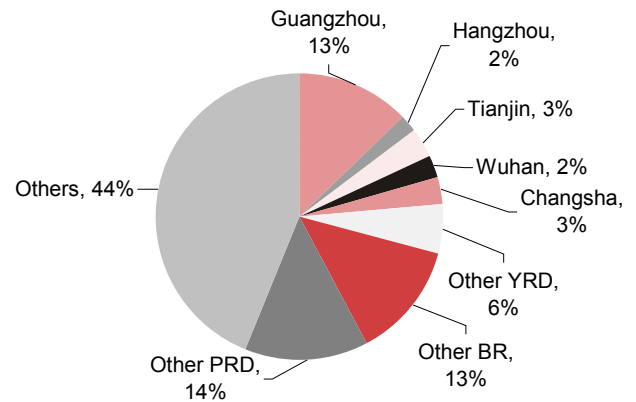
Source: Company data, Nomura estimates

Exhibit 58. Land bank breakdown



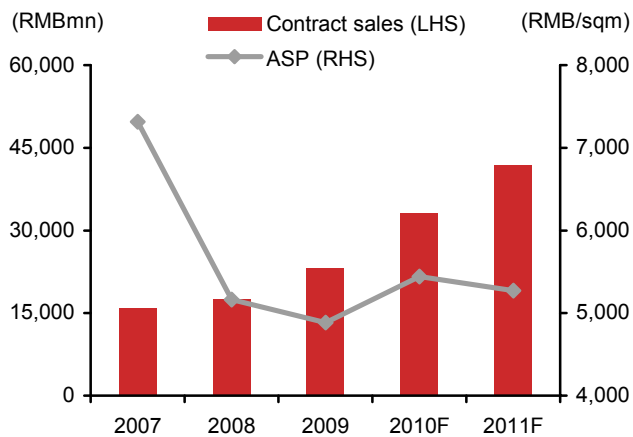
Source: Company data, Nomura research

Exhibit 59. End-11F GAV breakdown



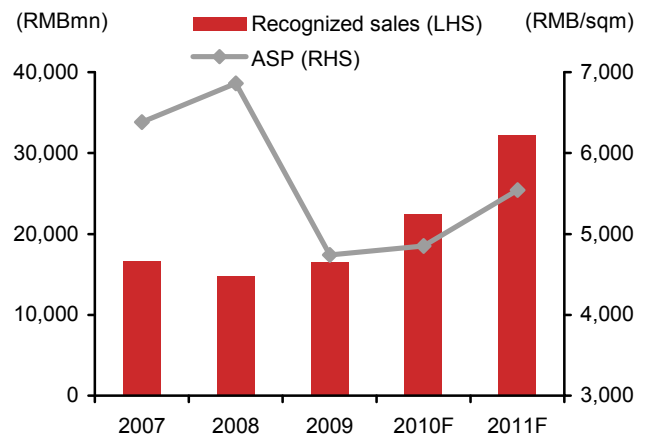
Source: Company data, Nomura estimates

Exhibit 60. Contracted sales and ASP



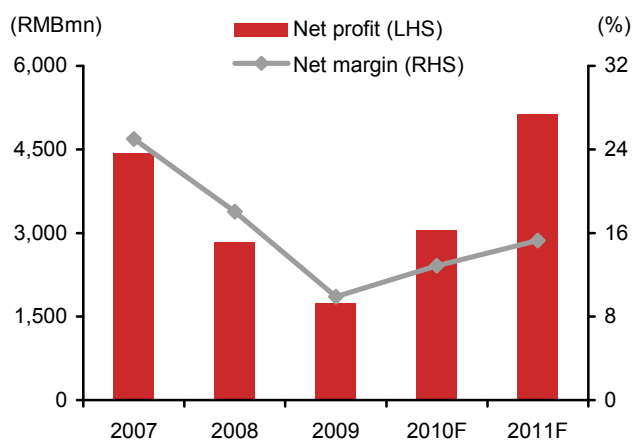
Source: Company data, Nomura estimates

Exhibit 61. Recognized sales and ASP



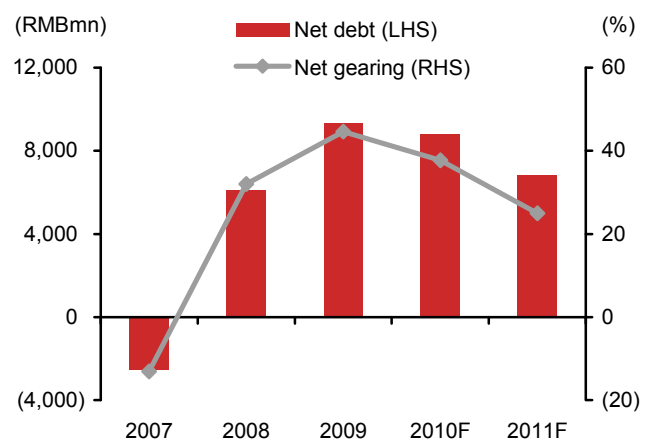
Source: Company data, Nomura estimates

Exhibit 62. Net profit and net margin



Source: Company data, Nomura estimates

Exhibit 63. Net debt and net debt/equity



Source: Company data, Nomura estimates

Financial statements

| Income statement (RMBmn) | | | | | |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Year-end 31 Dec | FY08 | FY09 | FY10F | FY11F | FY12F |
| Investment properties | | | | | |
| Property development | 14,737 | 16,545 | 22,387 | 32,181 | 40,984 |
| Hotels/serviced apartments | 275 | 314 | 446 | 561 | 765 |
| Other Revenue | 702 | 727 | 781 | 756 | 781 |
| Revenue | 15,713 | 17,586 | 23,614 | 33,499 | 42,531 |
| EBIT contributions | | | | | |
| Investment properties | | | | | |
| Property development | 5,500 | 3,596 | 6,141 | 10,534 | 12,072 |
| Hotels/serviced apartments | 66 | 141 | 201 | 207 | 344 |
| Other income | (64) | (78) | (200) | (219) | (205) |
| Management expenses | (26) | (131) | (111) | (149) | (157) |
| EBITDA | 5,643 | 3,747 | 6,335 | 10,713 | 12,395 |
| Depreciation and amortisation | (168) | (219) | (304) | (340) | (340) |
| EBIT | 5,476 | 3,528 | 6,031 | 10,373 | 12,054 |
| Net interest expense | (758) | (651) | (1,048) | (1,788) | (1,762) |
| Associates & JCEs | - | - | (1) | 107 | 188 |
| Other income | (0) | 40 | 2 | - | - |
| Earnings before tax | 4,718 | 2,917 | 4,984 | 8,692 | 10,481 |
| Income tax | (1,846) | (1,132) | (1,893) | (3,464) | (3,818) |
| Net profit after tax | 2,871 | 1,785 | 3,091 | 5,228 | 6,662 |
| Minority interests | (37) | (46) | (51) | (104) | (48) |
| Other items | | | | | |
| Preferred dividends | | | | | |
| Normalised NPAT | 2,835 | 1,739 | 3,040 | 5,124 | 6,614 |
| Extraordinary items | (1,456) | 341 | 52 | - | - |
| Reported NPAT | 1,378 | 2,080 | 3,092 | 5,124 | 6,614 |
| Dividends | (491) | (740) | (1,082) | (1,793) | (2,315) |
| Transfer to reserves | 887 | 1,339 | 2,010 | 3,330 | 4,299 |
| Valuation and ratio analysis | | | | | |
| FD normalised P/E (x) | 15.6 | 25.1 | 14.1 | 8.4 | 6.5 |
| FD normalised P/E at price target (x) | 16.9 | 27.3 | 15.4 | 9.1 | 7.1 |
| Reported P/E (x) | 32.0 | 21.0 | 13.9 | 8.4 | 6.5 |
| Dividend yield (%) | 1.1 | 1.7 | 2.5 | 4.2 | 5.4 |
| Price/cashflow (x) | na | na | 8.6 | 6.8 | 8.1 |
| Price/book (x) | 2.3 | 2.1 | 1.8 | 1.6 | 1.3 |
| EV/EBITDA (x) | 9.1 | 14.4 | 8.3 | 4.7 | 4.0 |
| EV/EBIT (x) | 9.4 | 15.3 | 8.7 | 4.8 | 4.1 |
| EBIT margin (%) | 34.8 | 20.1 | 25.5 | 31.0 | 28.3 |
| Effective tax rate (%) | 39.1 | 38.8 | 38.0 | 39.9 | 36.4 |
| Dividend payout (%) | 35.6 | 35.6 | 35.0 | 35.0 | 35.0 |
| ROA (pretax %) | 14.9 | 7.1 | 9.9 | 14.6 | 14.9 |
| Growth (%) | | | | | |
| Revenue | (11.4) | 11.9 | 34.3 | 41.9 | 27.0 |
| EBITDA | (20.4) | (33.6) | 69.1 | 69.1 | 15.7 |
| EBIT | (21.4) | (35.6) | 71.0 | 72.0 | 16.2 |
| Normalised EPS | (39.1) | (38.7) | 73.6 | 68.6 | 29.1 |
| Normalised FDEPS | (39.1) | (38.7) | 73.6 | 68.6 | 29.1 |
| Per share | | | | | |
| Reported EPS (RMB) | 0.08 | 0.13 | 0.19 | 0.31 | 0.40 |
| Norm EPS (RMB) | 0.17 | 0.11 | 0.18 | 0.31 | 0.40 |
| Fully diluted norm EPS (RMB) | 0.17 | 0.11 | 0.18 | 0.31 | 0.40 |
| Book value per share (RMB) | 1.17 | 1.28 | 1.42 | 1.66 | 1.95 |
| DPS (RMB) | 0.03 | 0.05 | 0.07 | 0.11 | 0.14 |

Source: Nomura estimates

Margins likely bottomed in 2009

Cashflow (RMBmn)

| Year-end 31 Dec | FY08 | FY09 | FY10F | FY11F | FY12F |
|--------------------------------------|----------------|----------------|--------------|----------------|--------------|
| EBITDA | 5,643 | 3,747 | 6,335 | 10,713 | 12,395 |
| Change in working capital | (8,427) | 314 | (12,273) | (2,020) | (4,397) |
| Other operating cashflow | (3,596) | (4,852) | 10,946 | (2,342) | (2,672) |
| Cashflow from operations | (6,379) | (791) | 5,008 | 6,352 | 5,325 |
| Capital expenditure | (1,386) | (551) | (500) | (300) | (300) |
| Free cashflow | (7,765) | (1,343) | 4,508 | 6,052 | 5,025 |
| Reduction in investments | (153) | - | - | - | - |
| Net acquisitions | (404) | (857) | (153) | - | - |
| Reduction in other LT assets | (556) | (2,304) | (1,824) | (0) | 0 |
| Addition in other LT liabilities | 172 | 152 | (0) | 0 | - |
| Adjustments | 1,760 | 1,657 | (1,082) | (2,910) | (2,908) |
| Cashflow after investing acts | (6,945) | (2,694) | 1,449 | 3,141 | 2,117 |
| Cash dividends | (1,557) | (191) | (740) | (1,082) | (1,793) |
| Equity issue | (303) | (61) | - | - | - |
| Debt issue | 835 | 3,062 | 7,679 | 1,500 | 1,500 |
| Convertible debt issue | 4,206 | 2,528 | (2,926) | (1,604) | - |
| Others | 2 | 45 | - | - | - |
| Cashflow from financial acts | 3,182 | 5,383 | 4,013 | (1,186) | (293) |
| Net cashflow | (3,762) | 2,689 | 5,462 | 1,955 | 1,823 |
| Beginning cash | 9,497 | 5,735 | 8,424 | 13,886 | 15,842 |
| Ending cash | 5,735 | 8,424 | 13,886 | 15,842 | 17,665 |
| Ending net debt | 6,110 | 9,346 | 8,783 | 6,829 | 6,505 |

Source: Nomura estimates

Balance sheet (RMBmn)

| As at 31 Dec | FY08 | FY09 | FY10F | FY11F | FY12F |
|---------------------------------------|---------------|---------------|---------------|---------------|----------------|
| Cash & equivalents | 5,735 | 8,424 | 13,886 | 15,842 | 17,665 |
| Properties held for sale | 24,240 | 25,335 | 45,964 | 54,355 | 62,766 |
| Accounts receivable | 3,339 | 7,058 | 7,764 | 8,541 | 9,395 |
| Other current assets | 1,129 | 1,839 | 2,535 | 3,407 | 4,367 |
| Total current assets | 34,442 | 42,657 | 70,150 | 82,144 | 94,193 |
| Investment properties | 149 | 141 | 141 | 141 | 141 |
| Other fixed assets (net) | 2,842 | 3,878 | 4,074 | 4,034 | 3,994 |
| Associates | | 2,040 | 216 | 323 | 511 |
| Other LT assets | 12,682 | 14,982 | 6,030 | 6,030 | 6,030 |
| Total assets | 50,115 | 63,699 | 80,612 | 92,672 | 104,869 |
| Short-term debt | 2,823 | 3,251 | 3,251 | 3,251 | 3,251 |
| Accounts payable | 14,599 | 20,603 | 29,515 | 35,777 | 39,945 |
| Other current liabilities | 2,710 | 2,545 | 3,390 | 5,147 | 6,807 |
| Total current liabilities | 20,132 | 26,399 | 36,156 | 44,175 | 50,003 |
| Long-term debt | 5,003 | 10,240 | 17,919 | 19,419 | 20,919 |
| Convertible debt | 4,018 | 4,279 | 1,499 | - | - |
| Other LT liabilities | 1,581 | 1,481 | 1,335 | 1,230 | 1,230 |
| Total liabilities | 30,734 | 42,399 | 56,909 | 64,825 | 72,152 |
| Minority interest | 280 | 371 | 422 | 526 | 574 |
| Preferred stock | | | | | |
| Shareholders' Equity | 14,687 | 14,926 | 14,926 | 14,926 | 14,926 |
| Other equity and reserves | 4,414 | 6,003 | 8,355 | 12,396 | 17,217 |
| Total shareholders' equity | 19,101 | 20,929 | 23,281 | 27,322 | 32,143 |
| Total equity & liabilities | 50,115 | 63,699 | 80,612 | 92,672 | 104,869 |

Leverage

| | | | | | |
|--------------------------------|------|------|------|------|------|
| Interest cover | 7.2 | 5.4 | 5.8 | 5.8 | 6.8 |
| Gross debt/property assets (%) | 23.6 | 27.9 | 28.1 | 24.5 | 23.0 |
| Net debt/EBITDA (x) | 1.08 | 2.49 | 1.39 | 0.64 | 0.52 |
| Net debt/equity (%) | 32.0 | 44.7 | 37.7 | 25.0 | 20.2 |

Dupont decomposition

| | | | | | |
|----------------------------|-----|------|------|------|------|
| Net margin (%) | 8.8 | 11.8 | 13.1 | 15.3 | 15.6 |
| Asset utilisation (x) | 0.4 | 0.3 | 0.3 | 0.4 | 0.4 |
| ROA (%) | 3.1 | 3.7 | 4.3 | 5.9 | 6.7 |
| Leverage (Assets/Equity x) | 2.3 | 2.8 | 3.3 | 3.4 | 3.3 |
| ROE (%) | 7.2 | 10.4 | 14.0 | 20.3 | 22.2 |

Source: Nomura estimates

Low gearing maintained;
ample capacity for further land
acquisitions

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 Jianping Chen (Researcher) +852 2252 2139 jianping.chen@nomura.com

REDUCE

⊙ Action

Despite contracted sales of RMB32.2bn in 2010 (+33% y-y), R&F's continued land banking strategy should keep its net debt/equity at an average of 90% over the next few years, on our estimates. Its lack of financing flexibility may put it at risk if interest rates rise. We maintain our reduce rating with revised PT of HK\$10.46 (from HK\$9.98), based on a 40% discount to our end-11F NAV of HK\$17.44.

⚡ Catalysts

Any record-breaking land bank acquisition may draw focus to the company's high gearing and over-aggressive land banking strategy recently.

⚓ Anchor themes

A likely policy shift from demand to supply is positive for developers. We expect less aggressive measures in 2011F, with controlling broader inflation likely to be top of the government's agenda. Recent policies have had little impact on fundamental demand, and rate hikes should have little impact on share prices initially.

| | |
|---------------------------|-------------------------------------|
| Closing price on 5 Jan | HK\$12.16 |
| Price target | HK\$10.46 (from HK\$9.98) |
| Upside/downside | -13.9% |
| Difference from consensus | -9.2% |
| FY11F net profit (RMBmn) | 4,338 |
| Difference from consensus | 5.3% |
| Source: Nomura | |

Nomura vs consensus

We view continued land bank replenishment as negative for Guangzhou R&F given its high gearing.

Can gearing come off one day?

① Disappointing gearing to continue

Instead of being a high-asset turnover developer, Guangzhou R&F continues to have high gearing, given its aggressive land bank replenishment. With net gearing of 105% (as of end-1H10), the company paid RMB4bn to acquire four sites in Beijing, Shanghai, Taiyuan and Huizhou in Nov-Dec 2010. We expect a high gearing figure of over 90% for the fourth consecutive year.

② Geographical sales distribution imbalance

R&F announced YTD contract sales of RMB32.2bn in 2010, up 33% y-y. Over 70% of the sales are contributed by Beijing, Guangzhou and Tianjin. Despite rapid expansions into other second-tier cities such as Taiyuan and Chongqing, the contributions are still minimal with low margins. Over the past few years, the company has been selling its higher quality land bank to sustain its sales growth, but we believe its stretched balance sheet has limited its ability to replenish land bank of the same quality.

③ Reiterate REDUCE; PT: HK\$10.46 (from HK\$9.98)

Our price target is based on a 40% discount to our revised end-11F NAV estimate of HK\$17.44 (from HK\$16.63) to reflect its continued high gearing. We expect the rising interest rate will increase its financial expenses and thus affect its profit margin. Any slowdown in sales may raise concerns on its ability to repay debt given its lack of financing flexibility. We tune down our FY11F EPS by 3% to RMB1.35.

Key investment risks include better-than-expected sales and significant improvement in net gearing.

Key financials & valuations

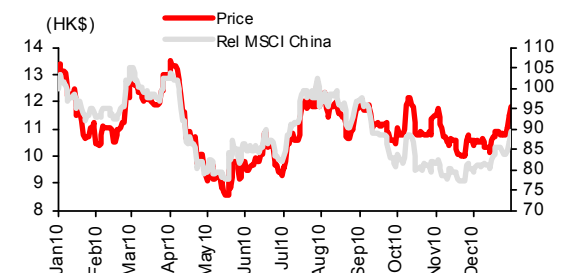
| 31 Dec (RMBmn) | FY09 | FY10F | FY11F | FY12F |
|-----------------------|--------|--------|--------|--------|
| Revenue | 18,196 | 24,910 | 27,722 | 35,552 |
| Reported net profit | 2,900 | 3,616 | 4,338 | 4,858 |
| Normalised net profit | 1,911 | 3,616 | 4,338 | 4,858 |
| Normalised EPS (RMB) | 0.59 | 1.12 | 1.35 | 1.51 |
| Norm. EPS growth (%) | (3.0) | 89.2 | 19.9 | 12.0 |
| Norm. P/E (x) | 18.1 | 9.3 | 7.8 | 7.0 |
| EV/EBITDA (x) | 6.1 | 3.8 | 3.5 | 3.8 |
| Price/book (x) | 2.0 | 1.8 | 1.5 | 1.3 |
| Dividend yield (%) | 3.4 | 3.2 | 3.9 | 4.3 |
| ROE (%) | 18.2 | 20.1 | 21.1 | 20.4 |
| Gearing (%) | 36.8 | 35.5 | 34.1 | 33.7 |

Earnings revisions

| | | | |
|---------------------------|-------|-------|-------|
| Previous norm. net profit | 3,823 | 4,465 | 5,366 |
| Change from previous (%) | (5.4) | (2.8) | (9.5) |
| Previous norm. EPS (RMB) | 1.19 | 1.39 | 1.67 |

Source: Company, Nomura estimates

Share price relative to MSCI China



| | 1m | 3m | 6m |
|----------------------------------|------|------|------------|
| Absolute (HK\$) | 12.0 | 13.0 | 26.8 |
| Absolute (US\$) | 11.9 | 12.8 | 27.1 |
| Relative to Index | 11.5 | 11.1 | 10.5 |
| Market cap (US\$m) | | | 1,589 |
| Estimated free float (%) | | | 35.0 |
| 52-week range (HK\$) | | | 13.80/8.85 |
| 3-mth avg daily turnover (US\$m) | | | 18.91 |
| Stock borrowability | | | Hard |
| Major shareholders (%) | | | |
| Li Sze Lim | | | 33.1 |
| Zhang Li | | | 31.9 |

Source: Company, Nomura estimates

Guangzhou R&F (2777 HK, REDUCE, PT: HK\$10.46)

Guangzhou R&F

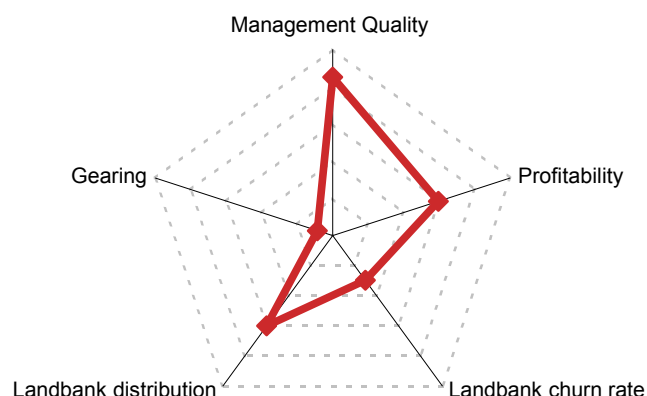
www.rfchina.com

Company description

Guangzhou R&F was founded in 1994, focusing on property development, investment and hotel businesses. Headquartered in Guangzhou, the company has expanded into 12 cities over the past 16 years.

As of today, R&F has an attributable land bank of ~25mn sqm GFA. Listed in 2005, R&F is largely owned by Mr Li and Mr Zhang, with a total stake of 64.8%.

Our five factor analysis



Key Attributes

- *Management quality*: Both the chairman and co-chairman have over 16 years property development experience
- *Profitability*: Post LAT development margins averaged 25% in 2007-09, and should decline to 23% in 2010-12F
- *Landbank churn rate*: 2010F sales of ~2.5m sqm; at the current rate, should be enough for 10 years of development
- *Landbank distribution*: 40% of our estimated development landbank value is from first-tier cities.
- *Gearing level*: Gearing stood at 104.9% as of 30 June 2010. We expect gearing of ~91% by end-10F.

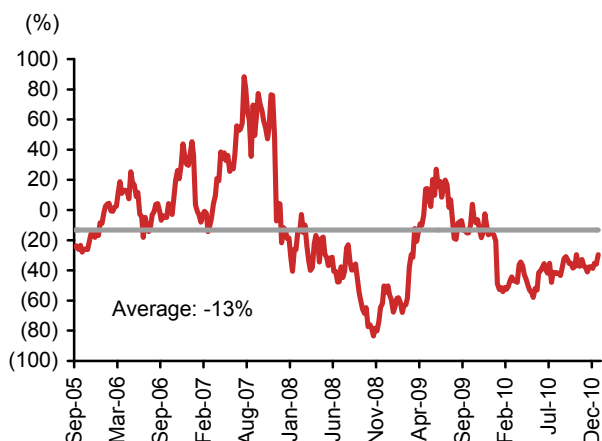
Key themes

- High-asset run developer with stable contracted sales.

Key concerns

- No immediate signals of gearing coming down.
- Heavily dependent on sales in Beijing, Guangzhou and Tianjin.
- Lack of financing sources due to its domestic share nature.

NAV discount



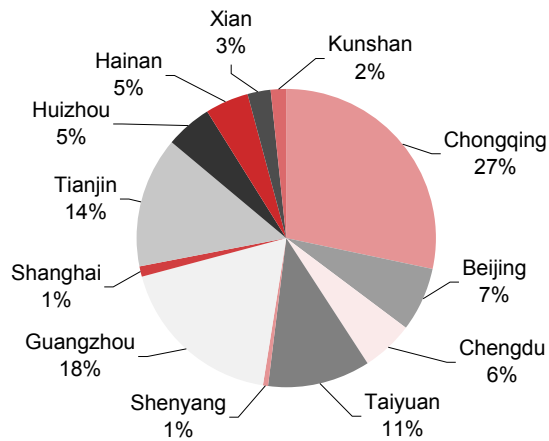
Source: Bloomberg, Company data, Nomura research

End-11F NAV breakdown

| | (RMBmn) | HK\$/share | % of total asset |
|-------------------------------|---------------|--------------|------------------|
| Dev. Prop/under dev't | | | |
| Office/retail | 8,378 | 3.02 | 10.6 |
| Residential | 46,410 | 16.71 | 58.7 |
| Inv. Prop/under dev't | | | |
| Office/retail | 18,270 | 6.58 | 23.1 |
| Hotel prop under dev't | 5,957 | 2.14 | 7.5 |
| Net debt (incl. land premium) | (30,569) | (11.00) | |
| Total net asset | 48,446 | | |
| NAV/share | | 17.44 | |

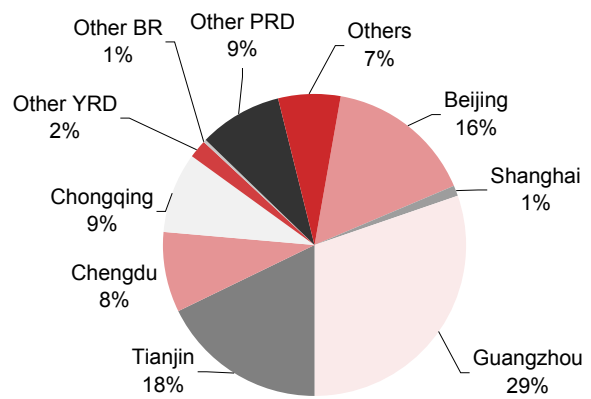
Source: Company data, Nomura estimates

Exhibit 64. Land bank breakdown



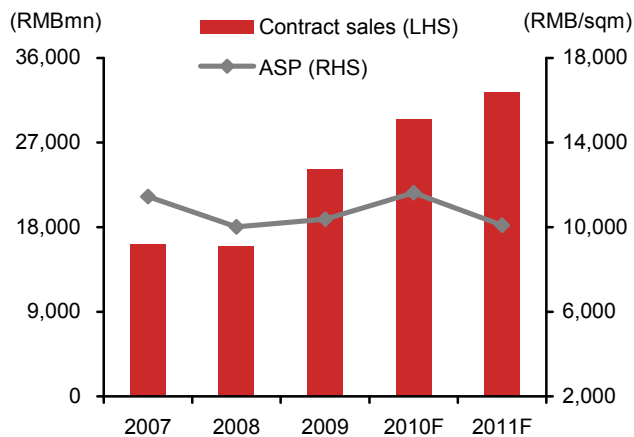
Source: Company data, Nomura research

Exhibit 65. End-11F GAV breakdown



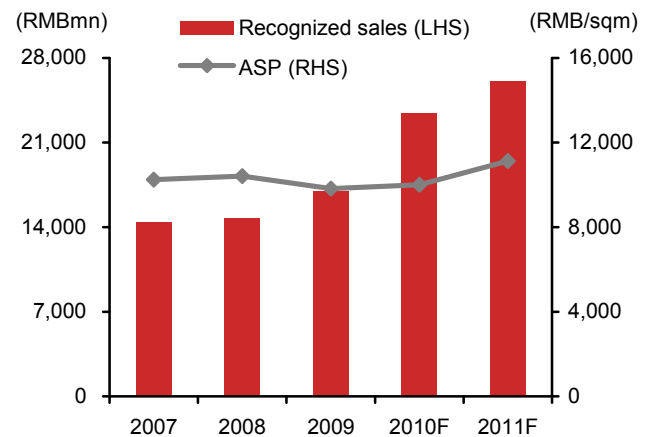
Source: Company data, Nomura estimates

Exhibit 66. Contracted sales and ASP



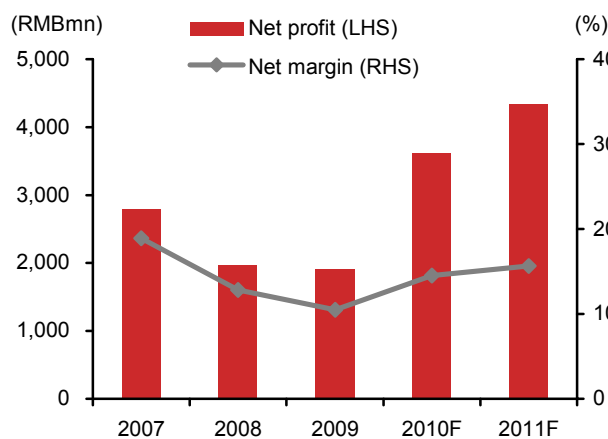
Source: Company data, Nomura estimates

Exhibit 67. Recognized sales and ASP



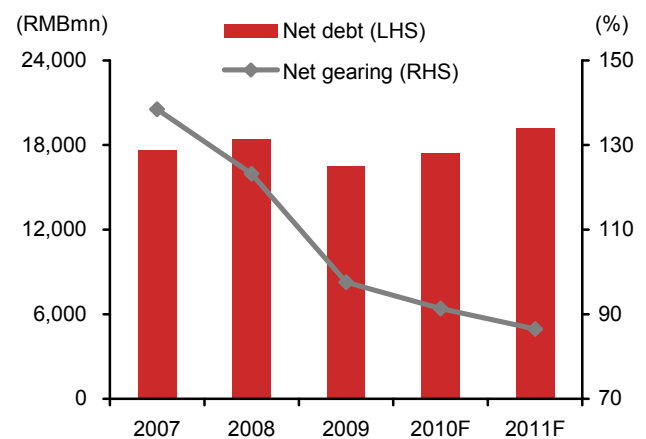
Source: Company data, Nomura estimates

Exhibit 68. Net profit and net margin



Source: Company data, Nomura estimates

Exhibit 69. Net debt and net debt/equity



Source: Company data, Nomura estimates

Financial statements

| Income statement (RMBmn) | | | | | |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Year-end 31 Dec | FY08 | FY09 | FY10F | FY11F | FY12F |
| Investment properties | 157 | 278 | 369 | 469 | 515 |
| Property development | 14,729 | 16,984 | 23,418 | 26,060 | 33,781 |
| Hotels/serviced apartments | 183 | 404 | 541 | 552 | 551 |
| Other Revenue | 290 | 530 | 583 | 641 | 705 |
| Revenue | 15,360 | 18,196 | 24,910 | 27,722 | 35,552 |
| EBIT contributions | | | | | |
| Investment properties | 83 | 213 | 284 | 361 | 396 |
| Property development | 4,078 | 4,748 | 7,080 | 8,077 | 8,693 |
| Hotels/serviced apartments | 90 | 181 | 227 | 284 | 313 |
| Other income | (114) | (651) | (293) | (361) | (435) |
| Management expenses | (279) | (313) | (259) | (284) | (285) |
| EBITDA | 4,137 | 4,491 | 7,297 | 8,362 | 8,967 |
| Depreciation and amortisation | (279) | (313) | (259) | (284) | (285) |
| EBIT | 3,858 | 4,178 | 7,038 | 8,078 | 8,682 |
| Net interest expense | (312) | (456) | (634) | (664) | (729) |
| Associates & JCEs | 7 | (2) | - | 84 | 143 |
| Other income | | | | | |
| Earnings before tax | 3,553 | 3,719 | 6,405 | 7,498 | 8,096 |
| Income tax | (1,564) | (1,786) | (2,751) | (3,116) | (3,199) |
| Net profit after tax | 1,990 | 1,933 | 3,654 | 4,381 | 4,896 |
| Minority interests | (19) | (22) | (37) | (44) | (39) |
| Other items | | | | | |
| Preferred dividends | | | | | |
| Normalised NPAT | 1,971 | 1,911 | 3,616 | 4,338 | 4,858 |
| Extraordinary items | 1,149 | 988 | - | - | - |
| Reported NPAT | 3,119 | 2,900 | 3,616 | 4,338 | 4,858 |
| Dividends | (902) | (1,160) | (1,085) | (1,301) | (1,457) |
| Transfer to reserves | 2,217 | 1,739 | 2,532 | 3,036 | 3,401 |
| Valuation and ratio analysis | | | | | |
| FD normalised P/E (x) | 17.7 | 18.1 | 9.3 | 7.8 | 7.0 |
| FD normalised P/E at price target (x) | 15.3 | 15.5 | 8.0 | 6.7 | 6.0 |
| Reported P/E (x) | 11.2 | 11.9 | 9.3 | 7.8 | 7.0 |
| Dividend yield (%) | 2.6 | 3.4 | 3.2 | 3.9 | 4.3 |
| Price/cashflow (x) | 26.6 | 7.6 | 19.9 | 3,420.8 | na |
| Price/book (x) | 2.3 | 2.0 | 1.8 | 1.5 | 1.3 |
| EV/EBITDA (x) | 7.2 | 6.1 | 3.8 | 3.5 | 3.8 |
| EV/EBIT (x) | 7.7 | 6.6 | 4.0 | 3.7 | 3.9 |
| EBIT margin (%) | 25.1 | 23.0 | 28.3 | 29.1 | 24.4 |
| Effective tax rate (%) | 44.0 | 48.0 | 43.0 | 41.6 | 39.5 |
| Dividend payout (%) | 28.9 | 40.0 | 30.0 | 30.0 | 30.0 |
| ROA (pretax %) | 7.4 | 7.5 | 11.0 | 11.0 | 10.6 |
| Growth (%) | | | | | |
| Revenue | 4.0 | 18.5 | 36.9 | 11.3 | 28.2 |
| EBITDA | (18.8) | 8.6 | 62.5 | 14.6 | 7.2 |
| EBIT | (21.4) | 8.3 | 68.5 | 14.8 | 7.5 |
| Normalised EPS | (29.5) | (3.0) | 89.2 | 19.9 | 12.0 |
| Normalised FDEPS | (29.5) | (3.0) | 89.2 | 19.9 | 12.0 |
| Per share | | | | | |
| Reported EPS (RMB) | 0.97 | 0.90 | 1.12 | 1.35 | 1.51 |
| Norm EPS (RMB) | 0.61 | 0.59 | 1.12 | 1.35 | 1.51 |
| Fully diluted norm EPS (RMB) | 0.61 | 0.59 | 1.12 | 1.35 | 1.51 |
| Book value per share (RMB) | 4.64 | 5.25 | 5.91 | 6.87 | 7.92 |
| DPS (RMB) | 0.28 | 0.36 | 0.34 | 0.40 | 0.45 |

Source: Nomura estimates

Rising interest rate may increase its financial expenses

Cashflow (RMBmn)

| Year-end 31 Dec | FY08 | FY09 | FY10F | FY11F | FY12F |
|--------------------------------------|--------------|--------------|--------------|--------------|----------------|
| EBITDA | 4,137 | 4,491 | 7,297 | 8,362 | 8,967 |
| Change in working capital | (1,806) | 3,952 | (2,057) | (4,154) | (7,263) |
| Other operating cashflow | (1,016) | (3,919) | (3,544) | (4,197) | (4,662) |
| Cashflow from operations | 1,315 | 4,524 | 1,696 | 10 | (2,958) |
| Capital expenditure | (875) | (292) | (751) | (635) | (558) |
| Free cashflow | 440 | 4,232 | 944 | (626) | (3,517) |
| Reduction in investments | | | | | |
| Net acquisitions | (126) | 462 | (301) | - | - |
| Reduction in other LT assets | 1,800 | (573) | (649) | - | - |
| Addition in other LT liabilities | (136) | (136) | - | - | - |
| Adjustments | (1,980) | (791) | (52) | 68 | 98 |
| Cashflow after investing acts | (1) | 3,195 | (58) | (558) | (3,419) |
| Cash dividends | (803) | (924) | (1,482) | (1,246) | (1,462) |
| Equity issue | - | - | - | - | - |
| Debt issue | 571 | 3,917 | 4,325 | 1,854 | 2,009 |
| Convertible debt issue | | | | | |
| Others | - | (354) | 642 | 44 | - |
| Cashflow from financial acts | (232) | 2,639 | 3,484 | 652 | 547 |
| Net cashflow | (234) | 5,834 | 3,427 | 94 | (2,872) |
| Beginning cash | 2,287 | 2,053 | 7,887 | 11,314 | 11,408 |
| Ending cash | 2,053 | 7,887 | 11,314 | 11,408 | 8,537 |
| Ending net debt | 18,418 | 16,503 | 17,401 | 19,161 | 24,042 |

Source: Nomura estimates

Balance sheet (RMBmn)

| As at 31 Dec | FY08 | FY09 | FY10F | FY11F | FY12F |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Cash & equivalents | 2,053 | 7,887 | 11,314 | 11,408 | 8,537 |
| Properties held for sale | 34,394 | 35,040 | 41,577 | 45,735 | 50,308 |
| Accounts receivable | 3,915 | 4,553 | 6,553 | 8,553 | 10,553 |
| Other current assets | 1,000 | 1,225 | 1,671 | 2,376 | 3,433 |
| Total current assets | 41,362 | 48,706 | 61,115 | 68,072 | 72,831 |
| Investment properties | 7,361 | 10,332 | 11,171 | 12,964 | 15,002 |
| Other fixed assets (net) | 4,869 | 5,039 | 5,146 | 5,254 | 5,365 |
| Associates | 672 | 911 | 1,402 | 1,402 | 1,402 |
| Other LT assets | 783 | 1,356 | 2,004 | 2,004 | 2,004 |
| Total assets | 55,047 | 66,344 | 80,839 | 89,695 | 96,603 |
| Short-term debt | 9,488 | 6,867 | 4,183 | 4,810 | 5,532 |
| Accounts payable | 15,382 | 20,212 | 27,423 | 30,131 | 30,499 |
| Other current liabilities | 2,364 | 2,996 | 2,710 | 2,710 | 2,710 |
| Total current liabilities | 27,235 | 30,075 | 34,316 | 37,652 | 38,741 |
| Long-term debt | 10,983 | 17,523 | 24,532 | 25,759 | 27,046 |
| Convertible debt | | | | | |
| Other LT liabilities | 1,785 | 1,727 | 2,800 | 3,959 | 5,056 |
| Total liabilities | 40,002 | 49,325 | 61,648 | 67,369 | 70,843 |
| Minority interest | 93 | 106 | 143 | 186 | 225 |
| Preferred stock | | | | | |
| Shareholders' Equity | 4,442 | 4,442 | 4,442 | 4,442 | 4,442 |
| Other equity and reserves | 10,510 | 12,471 | 14,606 | 17,697 | 21,093 |
| Total shareholders' equity | 14,952 | 16,914 | 19,048 | 22,140 | 25,535 |
| Total equity & liabilities | 55,047 | 66,344 | 80,839 | 89,695 | 96,603 |

Leverage

| | | | | | |
|--------------------------------|-------|------|------|------|------|
| Interest cover | 12.4 | 9.2 | 11.1 | 12.2 | 11.9 |
| Gross debt/property assets (%) | 37.2 | 36.8 | 35.5 | 34.1 | 33.7 |
| Net debt/EBITDA (x) | 4.45 | 3.67 | 2.38 | 2.29 | 2.68 |
| Net debt/equity (%) | 123.2 | 97.6 | 91.4 | 86.5 | 94.2 |

Dupont decomposition

| | | | | | |
|----------------------------|------|------|------|------|------|
| Net margin (%) | 20.3 | 15.9 | 14.5 | 15.6 | 13.7 |
| Asset utilisation (x) | 0.3 | 0.3 | 0.3 | 0.3 | 0.4 |
| ROA (%) | 5.7 | 4.8 | 4.9 | 5.1 | 5.2 |
| Leverage (Assets/Equity x) | 4.0 | 3.8 | 4.1 | 4.1 | 3.9 |
| ROE (%) | 22.5 | 18.2 | 20.1 | 21.1 | 20.4 |

Source: Nomura estimates

Continued land banking strategy leads to high gearing of over 90%

⊙ Action

KWG reached its 2010 pre-sales target of RMB10bn early in October. With no significant change in our FY11F EPS forecast, we expect the strong pre-sales figure to lift our FY11F earnings lock-in ratio to 83%. We still believe that KWG's high-quality delivery is one of the winning formulas in China property market. KWG is a top BUY, with a revised PT of HK\$7.98.

✈ Catalysts

With more projects available for sale, we believe KWG can once again achieve its prudent pre-sales target of RMB15bn in early 4Q11F.

⚓ Anchor themes

A likely policy shift from demand to supply is positive for developers. We expect less aggressive measures in 2011F, with controlling broader inflation likely to be top of the government's agenda. Recent policies have had little impact on fundamental demand, and rate hikes should have little impact on share prices initially.

| | |
|---------------------------|------------------------------------|
| Closing price on 5 Jan | HK\$6.67 |
| Price target | HK\$7.98 (from HK\$7.52) |
| Upside/downside | 19.6% |
| Difference from consensus | 20.2% |
| FY11F net profit (RMBmn) | 1,722 |
| Difference from consensus | -0.8% |
| Source: Nomura | |

Nomura vs consensus

We believe KWG, with its prudent management, will gradually expand to become a mid-cap developer. It is the rising star among our coverage.

Rising star, with three strengths

① Strength 1: met 2010 sales target within ten months

KWG's 2010 pre-sales reached RMB11bn, representing an increase of 45% y-y. Similar to 2009, the company achieved its full year pre-sales target of RMB10bn within ten months, and we believe its prudent 2011 pre-sales goal of RMB15bn to be achievable, given that more projects are available for sales.

② Strength 2: highest earnings visibility for FY11F

Taking into account unrecognised sales from FY09, we estimate that KWG has already secured 83% of our FY11F earnings forecast, the highest earning visibility among our coverage universe. We revise down our FY11F EPS by 3% to RMB0.6, mainly on profit margin adjustments. Our revised FY11F EPS forecast still suggests growth of 59% y-y, indicating rapid expansion, in our view.

③ Strength 3: relatively high upside potential

During 2010, KWG increased its land bank by 30% to 8.9mn sqm GFA through acquisition of sites in Shanghai and Tianjin. In our view, compared with a year ago, investors paying the same amount of money (around HK\$6.00/share) should capture more upside potential than before, especially from KWG's strong brand and premium pricing capability, which should bring NAV enhancement from these acquisitions.

④ Top BUY, with revised PT of HK\$7.98

Our revised PT of HK\$7.98 is based on a 30% discount to our end-11F NAV estimate of HK\$11.4 (from HK\$10.75). Management's prudence should result in relatively healthy gearing of roughly 62%, which we think is reasonable. We continue to see KWG as a rising star among the stocks under our coverage.

Key investment risks include failure to enter new markets such as Shanghai, and a potential slowdown in pre-sales.

Key financials & valuations

| 31 Dec (RMBmn) | FY09 | FY10F | FY11F | FY12F |
|---------------------------|-------|--------|-------|--------|
| Revenue | 4,267 | 6,818 | 9,635 | 14,556 |
| Reported net profit | 720 | 1,084 | 1,722 | 2,508 |
| Normalised net profit | 675 | 1,084 | 1,722 | 2,508 |
| Normalised EPS (RMB) | 0.25 | 0.37 | 0.60 | 0.87 |
| Norm. EPS growth (%) | 87.4 | 51.8 | 58.9 | 45.6 |
| Norm. P/E (x) | 23.8 | 15.4 | 9.7 | 6.6 |
| EV/EBITDA (x) | 17.9 | 12.5 | 8.5 | 6.0 |
| Price/book (x) | 1.6 | 1.5 | 1.3 | 1.1 |
| Dividend yield (%) | 0.9 | 2.0 | 3.1 | 4.5 |
| ROE (%) | 7.6 | 10.0 | 14.3 | 18.3 |
| Gearing (%) | 30.3 | 39.8 | 36.8 | 33.8 |
| Earnings revisions | | | | |
| Previous nom. net profit | | 1,297 | 1,777 | 2,823 |
| Change from previous (%) | | (16.5) | (3.1) | (11.1) |
| Previous nom. EPS (RMB) | | 0.45 | 0.61 | 0.98 |

Source: Company, Nomura estimates

Share price relative to MSCI China



| | 1m | 3m | 6m |
|----------------------------------|-----|------|-----------|
| Absolute (HK\$) | 9.2 | 10.2 | 35.0 |
| Absolute (US\$) | 9.1 | 10.0 | 35.3 |
| Relative to Index | 8.7 | 8.4 | 18.8 |
| Market cap (US\$m) | | | 2,483 |
| Estimated free float (%) | | | 40.7 |
| 52-week range (HK\$) | | | 7.13/3.89 |
| 3-mth avg daily turnover (US\$m) | | | 5.15 |
| Stock borrowability | | | Easy |
| Major shareholders (%) | | | |
| Kong Jianmin | | | 59.4 |

Source: Company, Nomura estimates

KWG Properties (1813 HK, BUY, PT: HK\$7.98)

KWG Properties

www.kwgproperty.com

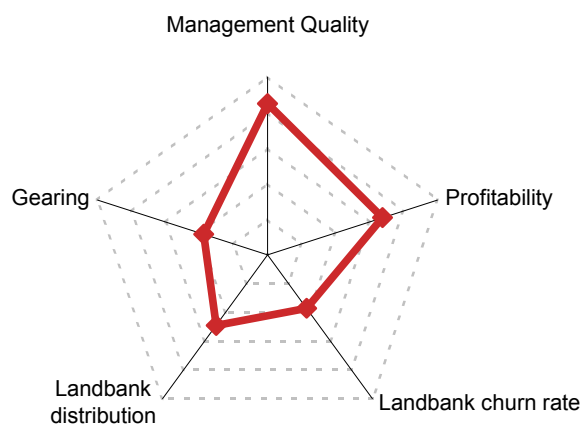
Company description

KWG Property was established in Guangzhou in 1995, focusing on mid- to high-end residential property development.

The company holds a total land bank of 8.9mn sqm GFA, with 24 projects in nine cities.

KWG was listed in Hong Kong in July 2007 and is 59.4%-owned by chairman Kong Jianmin. Its market cap is about HK\$19bn.

Our five-factor analysis



Key attributes

- *Management quality*: Experienced management with over 15 years of experience in property development.
- *Profitability*: Post LAT development margins averaged 30% in 2007-09, and should decline to 24% in 2010-12F.
- *Landbank churn rate*: 2010 sales of ~1mn sqm; at the current rate, should be enough for 8 years of development.
- *Landbank distribution*: 51% of our estimated development landbank value is in first-tier cities.
- *Gearing*: Gearing stood at 43.4% as of 30 June 2010. We expect gearing of ~62% by end-10F.

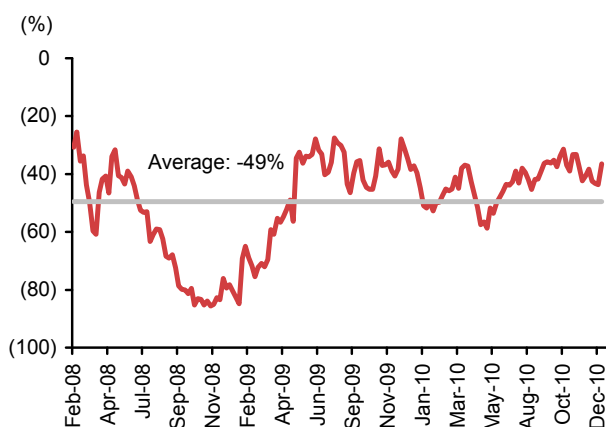
Key themes

- Strong brand with premium pricing capability.
- Highest earnings visibility in FY10-11F.

Key concerns

- Small yet growing investment property portfolio.

NAV discount



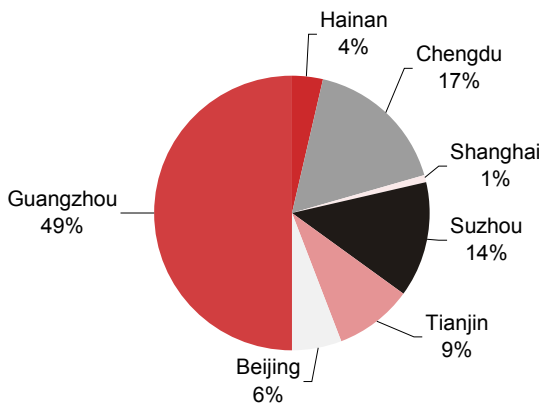
Source: Bloomberg, Company data, Nomura research

End-11F NAV breakdown

| | RMBmn | HK\$ / share | % of total asset |
|-------------------------------|---------------|--------------|------------------|
| Dev. Prop/under dev't | | | |
| Office/retail/Others | 4,764 | 1.91 | 13.1 |
| Residential | 22,938 | 9.20 | 63.1 |
| Inv. Prop/under dev't | | | |
| Office/retail | 4,889 | 1.96 | 13.5 |
| Residential | 1,063 | 0.43 | 2.9 |
| Car park space | 151 | 0.06 | 0.4 |
| Hotel prop under dev't | 2,517 | 1.01 | 6.9 |
| Net debt (incl. land premium) | (7,888) | | |
| Total net asset | 28,436 | | |
| NAV/share | | 11.40 | |

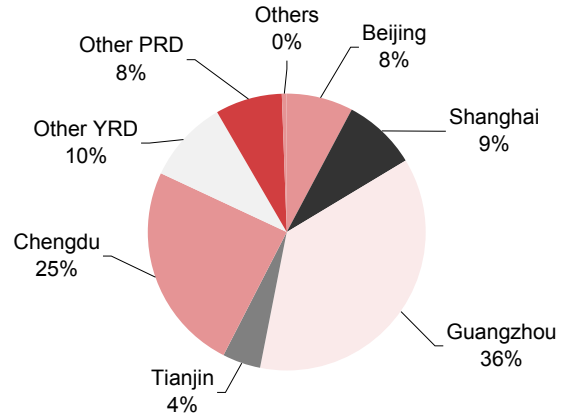
Source: Company data, Nomura estimates

Exhibit 70. Land bank breakdown



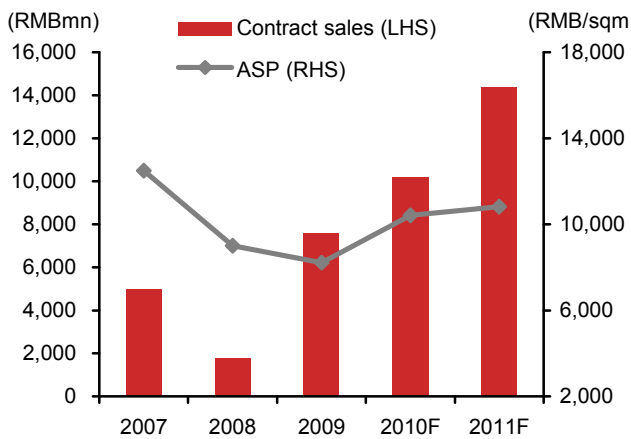
Source: Company data, Nomura research

Exhibit 71. End-11F GAV breakdown



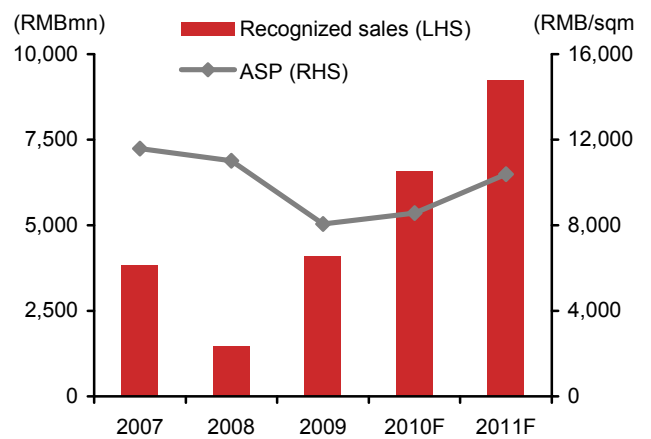
Source: Company data, Nomura estimates

Exhibit 72. Contracted sales and ASP



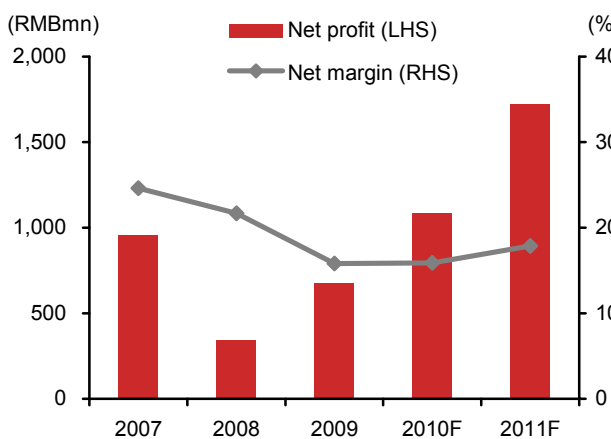
Source: Company data, Nomura estimates

Exhibit 73. Recognised sales and ASP



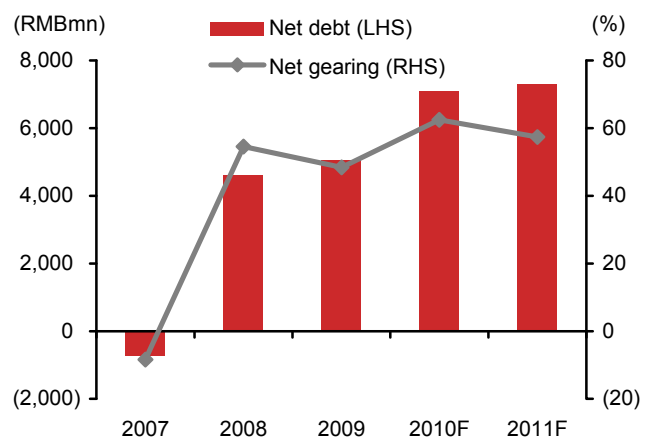
Source: Company data, Nomura estimates

Exhibit 74. Net profit and net margin



Source: Company data, Nomura estimates

Exhibit 75. Net debt and net debt/equity



Source: Company data, Nomura estimates

Financial statements

| Income statement (RMBmn) | | | | | |
|---------------------------------------|--------------|--------------|--------------|--------------|---------------|
| Year-end 31 Dec | FY08 | FY09 | FY10F | FY11F | FY12F |
| Investment properties | 75 | 99 | 106 | 142 | 154 |
| Property development | 1,471 | 4,110 | 6,593 | 9,241 | 13,985 |
| Hotels/serviced apartments | - | 10 | 57 | 171 | 311 |
| Other Revenue | 28 | 48 | 62 | 81 | 105 |
| Revenue | 1,574 | 4,267 | 6,818 | 9,635 | 14,556 |
| EBIT contributions | | | | | |
| Investment properties | 71 | 55 | 106 | 142 | 154 |
| Property development | 644 | 1,287 | 2,048 | 2,930 | 3,743 |
| Hotels/serviced apartments | - | (1) | (3) | 16 | 48 |
| Other income | (58) | (178) | (255) | (275) | (352) |
| Management expenses | (9) | (18) | (18) | (18) | (18) |
| EBITDA | 657 | 1,163 | 1,896 | 2,814 | 3,594 |
| Depreciation and amortisation | (9) | (18) | (18) | (18) | (18) |
| EBIT | 648 | 1,146 | 1,878 | 2,796 | 3,577 |
| Net interest expense | 24 | (2) | (10) | 159 | 171 |
| Associates & JCEs | 11 | 65 | - | - | 136 |
| Other income | | | | | |
| Earnings before tax | 682 | 1,209 | 1,868 | 2,956 | 3,884 |
| Income tax | (338) | (536) | (771) | (1,192) | (1,376) |
| Net profit after tax | 344 | 673 | 1,098 | 1,764 | 2,508 |
| Minority interests | (2) | 1 | (14) | (41) | 0 |
| Other items | | | | | |
| Preferred dividends | | | | | |
| Normalised NPAT | 341 | 675 | 1,084 | 1,722 | 2,508 |
| Extraordinary items | 27 | 45 | - | - | - |
| Reported NPAT | 369 | 720 | 1,084 | 1,722 | 2,508 |
| Dividends | (78) | (145) | (325) | (517) | (752) |
| Transfer to reserves | 291 | 575 | 759 | 1,206 | 1,756 |
| Valuation and ratio analysis | | | | | |
| FD normalised P/E (x) | 45.2 | 23.8 | 15.4 | 9.7 | 6.6 |
| FD normalised P/E at price target (x) | 54.1 | 28.5 | 18.4 | 11.6 | 7.9 |
| Reported P/E (x) | 41.9 | 22.3 | 15.4 | 9.7 | 6.6 |
| Dividend yield (%) | 0.5 | 0.9 | 2.0 | 3.1 | 4.5 |
| Price/cashflow (x) | na | na | na | 10.9 | 6.8 |
| Price/book (x) | 1.8 | 1.6 | 1.5 | 1.3 | 1.1 |
| EV/EBITDA (x) | 32.8 | 17.9 | 12.5 | 8.5 | 6.0 |
| EV/EBIT (x) | 33.3 | 18.2 | 12.6 | 8.6 | 6.1 |
| EBIT margin (%) | 41.2 | 26.9 | 27.5 | 29.0 | 24.6 |
| Effective tax rate (%) | 49.6 | 44.3 | 41.3 | 40.3 | 35.4 |
| Dividend payout (%) | 21.1 | 20.1 | 30.0 | 30.0 | 30.0 |
| ROA (pretax %) | 3.7 | 5.3 | 7.0 | 9.2 | 10.8 |
| Growth (%) | | | | | |
| Revenue | (59.3) | 171.0 | 59.8 | 41.3 | 51.1 |
| EBITDA | (65.6) | 77.0 | 62.9 | 48.4 | 27.7 |
| EBIT | (66.0) | 76.8 | 63.9 | 48.9 | 27.9 |
| Normalised EPS | (69.2) | 87.4 | 51.8 | 58.9 | 45.6 |
| Normalised FDEPS | (69.2) | 87.4 | 51.8 | 58.9 | 45.6 |
| Per share | | | | | |
| Reported EPS (RMB) | 0.14 | 0.26 | 0.37 | 0.60 | 0.87 |
| Norm EPS (RMB) | 0.13 | 0.25 | 0.37 | 0.60 | 0.87 |
| Fully diluted norm EPS (RMB) | 0.13 | 0.25 | 0.37 | 0.60 | 0.87 |
| Book value per share (RMB) | 3.27 | 3.60 | 3.92 | 4.40 | 5.09 |
| DPS (RMB) | 0.03 | 0.05 | 0.11 | 0.18 | 0.26 |

Source: Nomura estimates

Strong EPS growth over the next few years

Cashflow (RMBmn)

| Year-end 31 Dec | FY08 | FY09 | FY10F | FY11F | FY12F |
|--------------------------------------|----------------|----------------|----------------|--------------|--------------|
| EBITDA | 657 | 1,163 | 1,896 | 2,814 | 3,594 |
| Change in working capital | (5,219) | (125) | (1,573) | (259) | (60) |
| Other operating cashflow | (150) | (1,437) | (781) | (1,033) | (1,069) |
| Cashflow from operations | (4,712) | (398) | (458) | 1,523 | 2,466 |
| Capital expenditure | (229) | (611) | (500) | (500) | (500) |
| Free cashflow | (4,941) | (1,009) | (958) | 1,023 | 1,966 |
| Reduction in investments | 126 | 77 | - | - | - |
| Net acquisitions | (6) | (1,586) | (950) | (913) | (50) |
| Reduction in other LT assets | (222) | 869 | (0) | (0) | - |
| Addition in other LT liabilities | (12) | 698 | 0 | - | - |
| Adjustments | 23 | (737) | - | 0 | - |
| Cashflow after investing acts | (5,032) | (1,688) | (1,908) | 110 | 1,916 |
| Cash dividends | (389) | (78) | (145) | (325) | (517) |
| Equity issue | - | 1,320 | - | - | - |
| Debt issue | 3,358 | 2,683 | 5,447 | 623 | 808 |
| Convertible debt issue | - | - | - | - | 0 |
| Others | - | - | - | - | 0 |
| Cashflow from financial acts | 2,969 | 3,925 | 5,302 | 298 | 292 |
| Net cashflow | (2,063) | 2,238 | 3,394 | 408 | 2,207 |
| Beginning cash | 3,436 | 1,373 | 3,611 | 7,005 | 7,413 |
| Ending cash | 1,373 | 3,611 | 7,005 | 7,413 | 9,620 |
| Ending net debt | 4,621 | 5,035 | 7,088 | 7,303 | 5,903 |

Source: Nomura estimates

Balance sheet (RMBmn)

| As at 31 Dec | FY08 | FY09 | FY10F | FY11F | FY12F |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Cash & equivalents | 1,373 | 3,611 | 7,005 | 7,413 | 9,620 |
| Properties held for sale | 13,413 | 16,252 | 18,155 | 20,924 | 23,879 |
| Accounts receivable | 31 | 147 | 177 | 212 | 255 |
| Other current assets | 1,123 | 525 | 570 | 620 | 810 |
| Total current assets | 15,940 | 20,534 | 25,906 | 29,168 | 34,564 |
| Investment properties | 3,546 | 3,501 | 3,501 | 3,501 | 3,501 |
| Other fixed assets (net) | 993 | 1,554 | 2,087 | 2,619 | 3,152 |
| Associates | 20 | 2,577 | 3,477 | 4,340 | 4,340 |
| Other LT assets | 1,267 | 398 | 398 | 398 | 398 |
| Total assets | 21,767 | 28,565 | 35,370 | 40,027 | 45,955 |
| Short-term debt | 1,059 | 2,567 | 2,053 | 1,643 | 1,314 |
| Accounts payable | 4,942 | 6,638 | 6,638 | 8,629 | 11,218 |
| Other current liabilities | 1,012 | 1,549 | 1,954 | 2,558 | 3,098 |
| Total current liabilities | 7,014 | 10,753 | 10,645 | 12,830 | 15,630 |
| Long-term debt | 4,935 | 6,079 | 12,039 | 13,072 | 14,209 |
| Convertible debt | - | - | - | - | - |
| Other LT liabilities | 627 | 1,325 | 1,325 | 1,325 | 1,325 |
| Total liabilities | 12,576 | 18,157 | 24,009 | 27,227 | 31,164 |
| Minority interest | 723 | 4 | 18 | 59 | 59 |
| Preferred stock | - | - | - | - | - |
| Shareholders' Equity | 5,576 | 6,896 | 6,896 | 6,896 | 6,896 |
| Other equity and reserves | 2,893 | 3,508 | 4,447 | 5,845 | 7,836 |
| Total shareholders' equity | 8,469 | 10,405 | 11,344 | 12,741 | 14,732 |
| Total equity & liabilities | 21,767 | 28,565 | 35,370 | 40,027 | 45,955 |

Leverage

| | | | | | |
|--------------------------------|------|-------|-------|------|------|
| Interest cover | na | 585.2 | 195.7 | na | na |
| Gross debt/property assets (%) | 27.5 | 30.3 | 39.8 | 36.8 | 33.8 |
| Net debt/EBITDA (x) | 7.03 | 4.33 | 3.74 | 2.60 | 1.64 |
| Net debt/equity (%) | 54.6 | 48.4 | 62.5 | 57.3 | 40.1 |

Dupont decomposition

| | | | | | |
|----------------------------|------|------|------|------|------|
| Net margin (%) | 23.4 | 16.9 | 15.9 | 17.9 | 17.2 |
| Asset utilisation (x) | 0.1 | 0.2 | 0.2 | 0.3 | 0.3 |
| ROA (%) | 1.8 | 2.9 | 3.4 | 4.6 | 5.8 |
| Leverage (Assets/Equity x) | 2.4 | 2.7 | 2.9 | 3.1 | 3.1 |
| ROE (%) | 4.3 | 7.6 | 10.0 | 14.3 | 18.3 |

Source: Nomura estimates

Gearing stands at a relatively healthy level even under rapid expansion

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BUY

⊙ Action

Poly (HK) remains our favoured stock in terms of the asset injection story, supported by a strong SOE parent. After recording satisfactory 2010 sales, we believe Poly (HK) will have to demonstrate its execution capability in 2011 to justify its relatively expensive valuation. We reiterate BUY with a revised PT of HK\$10.52, based on a 20% discount to our end-11F NAV of HK\$13.15.

⚡ Catalysts

There may be a further re-rating of the stock when the company demonstrates its ability to execute projects quickly.

⚓ Anchor themes

A likely policy shift from demand to supply is positive for developers. We expect less aggressive measures in 2011F, with controlling broader inflation likely to be top of the government's agenda. Recent policies have had little impact on fundamental demand, and rate hikes should have little impact on share prices initially.

2011: show time

① Achievable 2011F sales target

With contracted sales of RMB10.1bn in Jan-Nov 2010, we expect full-year sales of RMB11bn, representing y-y growth of 38%. For 2011, the company targets another 64% y-y growth to RMB18bn, which is significantly higher than peers' targeted 20-30% growth. With GFA (~3mn sqm) likely to be available for sales, the target should be achievable, in our view.

② Possible asset injection within 6 months

We expect another round of asset injection within 6 months (last round of asset injection in March 2010), which should be a positive catalyst for Poly (HK). China Poly Group, the parent company of Poly (HK), sources projects at favourable prices and is willing to transfer them to Poly (HK) at or close to cost. This should be an NAV-enhancing land banking activity.

③ Time to show its execution capability

With support from its parent company to acquire low-cost land and by leveraging on its sister company's (Poly Real Estate) established brand in marketing its projects, we believe Poly (HK) should deliver high growth in the next few years. We are comfortable with our FY10F and FY11F EPS growth of 39% y-y and 54% y-y, which would earn a lock-in of 100% and 53%.

④ Maintain BUY, raise TP to HK\$10.52 from HK\$9.98

This is based on a 20% discount (unchanged) to our revised end-11F NAV of HK\$13.15 (from HK\$12.48). We believe our narrower-than-average target discount is justified given its high growth potential. Poly (HK) remains our favoured stock in terms of the asset injection story.

Key investment risks include weaker-than-expected sales and its lack of track record.

| | |
|---------------------------|-------------------------------------|
| Closing price on 5 Jan | HK\$8.19 |
| Price target | HK\$10.52 (from HK\$9.98) |
| Upside/downside | 28.5% |
| Difference from consensus | 5.4% |
| FY11F net profit (HK\$m) | 2,164 |
| Difference from consensus | 17.3% |
| Source: Nomura | |

Nomura vs consensus

We consider street estimates to be too conservative and to underestimate Poly (HK)'s high growth potential.

Key financials & valuations

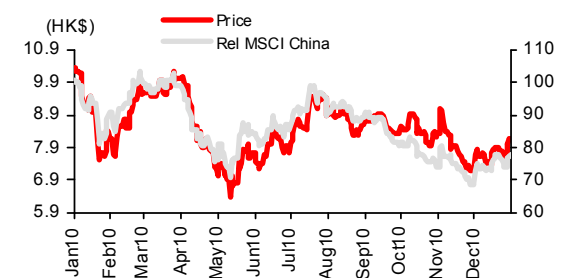
| 31 Dec (HK\$m) | FY09 | FY10F | FY11F | FY12F |
|-----------------------|-------|-------|--------|--------|
| Revenue | 7,197 | 8,345 | 15,499 | 22,995 |
| Reported net profit | 654 | 1,490 | 2,164 | 3,281 |
| Normalised net profit | 623 | 1,349 | 2,164 | 3,281 |
| Normalised EPS (HK\$) | 0.28 | 0.39 | 0.60 | 0.91 |
| Norm. EPS growth (%) | 617.2 | 38.7 | 53.6 | 51.6 |
| Norm. P/E (x) | 29.0 | 20.9 | 13.6 | 9.0 |
| EV/EBITDA (x) | 30.4 | 17.1 | 9.4 | 6.7 |
| Price/book (x) | 1.7 | 1.3 | 1.2 | 1.1 |
| Dividend yield (%) | 0.4 | 0.7 | 1.1 | 1.7 |
| ROE (%) | 6.3 | 8.0 | 9.2 | 12.8 |
| Gearing (%) | 28.0 | 35.6 | 36.7 | 31.2 |

Earnings revisions

| | | | |
|---------------------------|-------|-------|-------|
| Previous norm. net profit | 1,349 | 2,164 | 3,261 |
| Change from previous (%) | - | 0.0 | 0.6 |
| Previous norm. EPS (HK\$) | 0.39 | 0.60 | 0.90 |

Source: Company, Nomura estimates

Share price relative to MSCI China



| | 1m | 3m | 6m |
|----------------------------------|------|-------|------------|
| Absolute (HK\$) | 13.6 | (2.5) | 5.8 |
| Absolute (US\$) | 13.5 | (2.7) | 6.0 |
| Relative to Index | 13.1 | (4.4) | (10.5) |
| Market cap (US\$m) | | | 3,803 |
| Estimated free float (%) | | | 47.0 |
| 52-week range (HK\$) | | | 10.36/6.39 |
| 3-mth avg daily turnover (US\$m) | | | 11.93 |
| Stock borrowability | | | Easy |
| Major shareholders (%) | | | |
| China Poly Group | | | 48.1 |

Source: Company, Nomura estimates

Poly (HK) (119 HK, BUY, PT: HK\$10.52)

Poly (HK) Investments

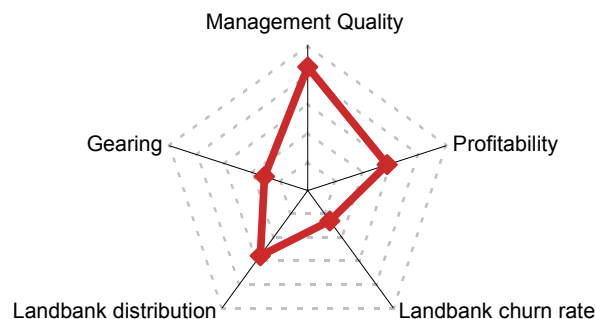
www.polyhongkong.com.hk

Company description

Poly (HK) is the Hong Kong-listed operations platform of China Poly Group, a leading state-owned enterprise. Poly (HK) has undergone a series of corporate restructuring and shifted focus to pure property development in 2005-07.

Over the past few years, the parent company has undertaken a series of asset injections, boosting Poly (HK)'s landbank from less than 1.25mn sqm to around 16mn sqm.

Our five factor analysis



Key attributes:

- **Management quality:** Most of Poly (HK)'s management team has been working with the China Poly Group for over 15 years, and has built a strong relationship with the Group's board.
- **Profitability:** Post-LAT development margins averaged 8% in 2007-09 (a bit distorted by the accounting treatment of assets injected in 2008). We expect margins to normalise to around 23% in 2010-12F.
- **Landbank churn rate:** 2010F sales of ~1.4mn sqm; at the current rate, should be enough for 12 years of development.
- **Landbank distribution:** 45% of our estimated landbank value is in first-tier cities.
- **Gearing:** Gearing stood at 63.8% as of 30 June 2010. We expect gearing of ~69% by end-10F.

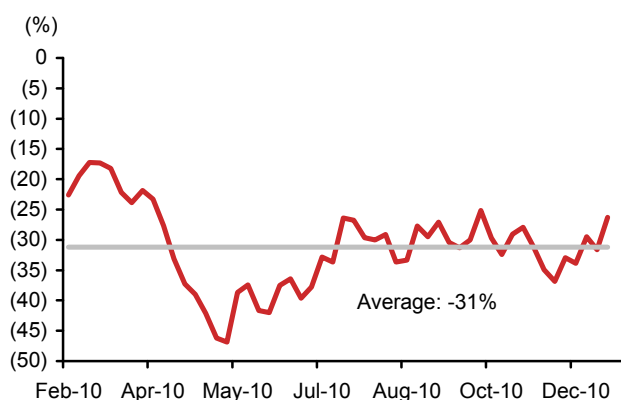
Key themes

- The parent company has a proven ability to acquire land at low cost, and has been transferring projects to Poly (HK) at or very close to cost. We expect asset injections to continue to be one of the key drivers of the stock.
- Poly (HK) shares the "Poly" brand with its A-share listed sister company, Poly Real Estate. Poly Real Estate's contracted sales ranked no.3 nationally in 2009, demonstrating strong brand recognition.

Key concerns

- Poly (HK)'s track record is still limited, since it only finished corporate restructuring in 2007.
- Poly (HK) is expanding rapidly and will likely need more debt/equity to fund its expansion.

NAV discount



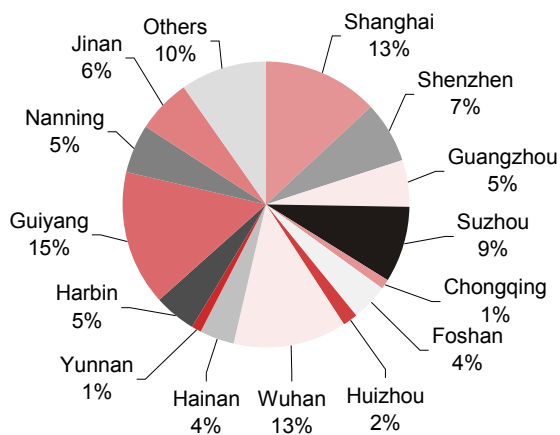
Source: Bloomberg, Company data, Nomura research

End-11F NAV breakdown

| | (HK\$mn) | HK\$/share | % of total asset |
|-------------------------------|---------------|--------------|------------------|
| Dev. Prop/under dev't | | | |
| Office/retail | 4,690 | 1.30 | 6.7 |
| Residential | 50,784 | 14.09 | 72.9 |
| Inv. Prop/under dev't | | | |
| Office/retail | 12,977 | 3.60 | 18.6 |
| Hotel | 909 | 0.25 | 1.3 |
| GCL Poly (3800.HK) | 318 | 0.09 | 0.5 |
| Net debt (incl. land premium) | (18,256) | (5.07) | |
| Loans from parent | (4,026) | (1.12) | |
| Total net asset | 47,396 | | |
| NAV/share | | 13.15 | |

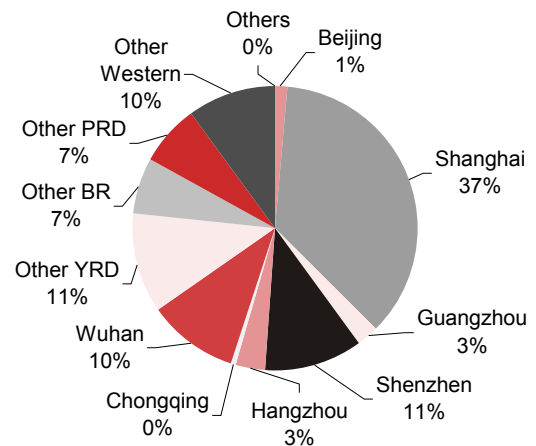
Source: Company data, Nomura estimates

Exhibit 76. Land bank breakdown



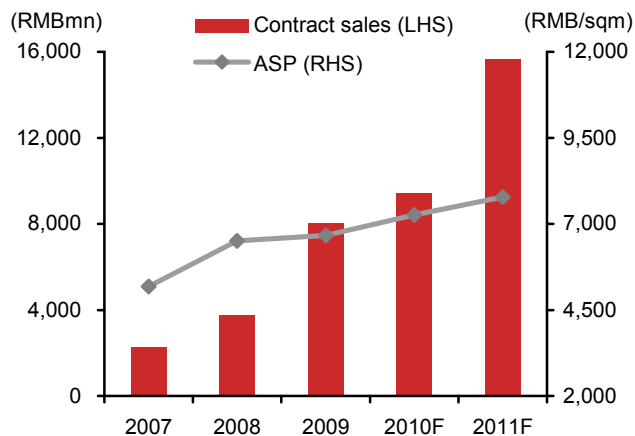
Source: Company data, Nomura research

Exhibit 77. End-11F GAV breakdown



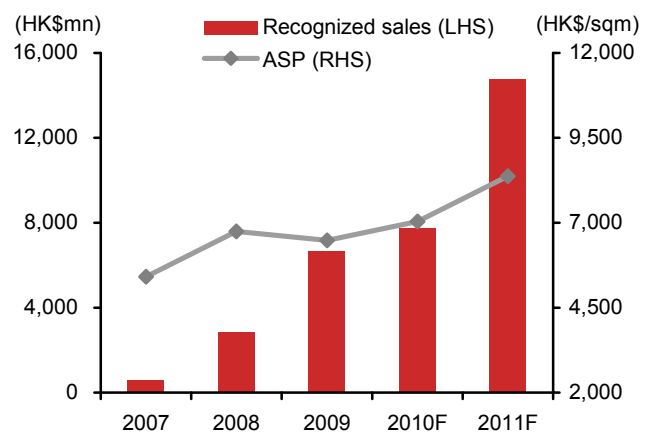
Source: Company data, Nomura estimates

Exhibit 78. Contracted sales and ASP



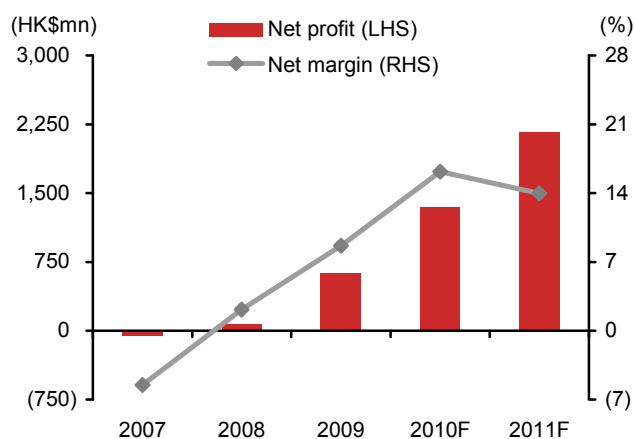
Source: Company data, Nomura estimates

Exhibit 79. Recognised sales and ASP



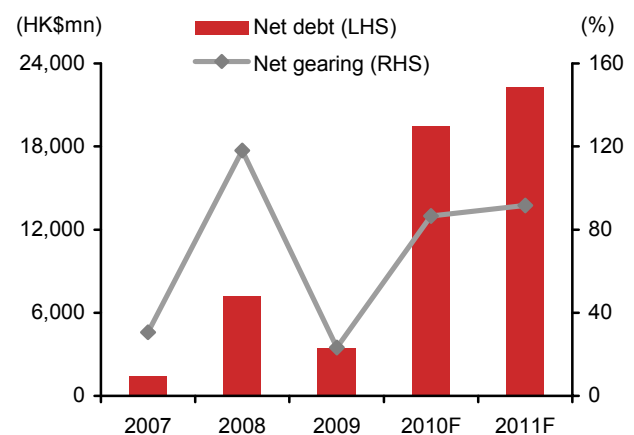
Source: Company data, Nomura estimates

Exhibit 80. Net profit and net margin



Source: Company data, Nomura estimates

Exhibit 81. Net debt and net debt/equity



Source: Company data, Nomura estimates

Financial statements

| Income statement (HK\$m) | | | | | |
|-------------------------------|--------------|--------------|--------------|---------------|---------------|
| Year-end 31 Dec | FY08 | FY09 | FY10F | FY11F | FY12F |
| Investment properties | 273 | 339 | 377 | 471 | 632 |
| Property development | 2,832 | 6,642 | 7,726 | 14,762 | 22,090 |
| Hotels/serviced apartments | 90 | 90 | 115 | 139 | 143 |
| Other Revenue | 129 | 125 | 126 | 128 | 129 |
| Revenue | 3,324 | 7,197 | 8,345 | 15,499 | 22,995 |
| EBIT contributions | | | | | |
| Investment properties | 118 | 96 | 198 | 283 | 435 |
| Property development | 169 | 884 | 2,268 | 4,851 | 6,191 |
| Hotels/serviced apartments | 51 | 51 | 40 | 49 | 50 |
| Other income | 18 | - | - | - | - |
| Management expenses | (119) | (94) | 22 | (145) | (148) |
| EBITDA | 296 | 999 | 2,594 | 5,107 | 6,601 |
| Depreciation and amortisation | (58) | (63) | (66) | (69) | (72) |
| EBIT | 238 | 936 | 2,528 | 5,038 | 6,528 |
| Net interest expense | (76) | (86) | (225) | (276) | (276) |
| Associates & JCEs | (4) | (14) | 34 | 4 | - |
| Other income | 46 | 243 | 637 | 261 | 386 |
| Earnings before tax | 205 | 1,078 | 2,974 | 5,027 | 6,639 |
| Income tax | (82) | (302) | (1,291) | (2,054) | (2,510) |
| Net profit after tax | 123 | 777 | 1,683 | 2,973 | 4,129 |
| Minority interests | (52) | (154) | (334) | (808) | (848) |
| Other items | | | | | |
| Preferred dividends | | | | | |
| Normalised NPAT | 72 | 623 | 1,349 | 2,164 | 3,281 |
| Extraordinary items | 137 | 31 | 141 | - | - |
| Reported NPAT | 209 | 654 | 1,490 | 2,164 | 3,281 |
| Dividends | (37) | (97) | (202) | (325) | (492) |
| Transfer to reserves | 172 | 556 | 1,288 | 1,840 | 2,789 |

Valuation and ratio analysis

| | | | | | |
|---------------------------------------|-------|------|------|------|------|
| FD normalised P/E (x) | 208.2 | 29.0 | 20.9 | 13.6 | 9.0 |
| FD normalised P/E at price target (x) | 267.5 | 37.3 | 26.9 | 17.5 | 11.6 |
| Reported P/E (x) | 71.6 | 27.7 | 19.0 | 13.6 | 9.0 |
| Dividend yield (%) | 0.2 | 0.4 | 0.7 | 1.1 | 1.7 |
| Price/cashflow (x) | na | 14.6 | na | 6.6 | 6.2 |
| Price/book (x) | 2.6 | 1.7 | 1.3 | 1.2 | 1.1 |
| EV/EBITDA (x) | 113.3 | 30.4 | 17.1 | 9.4 | 6.7 |
| EV/EBIT (x) | 141.5 | 32.4 | 17.6 | 9.5 | 6.7 |
| EBIT margin (%) | 7.2 | 13.0 | 30.3 | 32.5 | 28.4 |
| Effective tax rate (%) | 39.9 | 28.0 | 43.4 | 40.9 | 37.8 |
| Dividend payout (%) | 17.5 | 14.9 | 13.6 | 15.0 | 15.0 |
| ROA (pretax %) | 1.7 | 3.9 | 6.1 | 8.2 | 9.5 |

Growth (%)

| | | | | | |
|------------------|-------|-------|-------|------|------|
| Revenue | 241.4 | 116.5 | 15.9 | 85.7 | 48.4 |
| EBITDA | 224.2 | 237.0 | 159.7 | 96.9 | 29.3 |
| EBIT | 387.2 | 293.1 | 170.0 | 99.3 | 29.6 |
| Normalised EPS | na | 617.2 | 38.7 | 53.6 | 51.6 |
| Normalised FDEPS | na | 617.2 | 38.7 | 53.6 | 51.6 |

Per share

| | | | | | |
|-------------------------------|------|------|------|------|------|
| Reported EPS (HK\$) | 0.11 | 0.30 | 0.43 | 0.60 | 0.91 |
| Norm EPS (HK\$) | 0.04 | 0.28 | 0.39 | 0.60 | 0.91 |
| Fully diluted norm EPS (HK\$) | 0.04 | 0.28 | 0.39 | 0.60 | 0.91 |
| Book value per share (HK\$) | 3.18 | 4.90 | 6.24 | 6.75 | 7.52 |
| DPS (HK\$) | 0.02 | 0.03 | 0.06 | 0.09 | 0.14 |

Source: Nomura estimates

We expect EBIT to experience a period of high growth, with both volumes and margins expanding

Cashflow (HK\$mn)

| Year-end 31 Dec | FY08 | FY09 | FY10F | FY11F | FY12F |
|--------------------------------------|----------------|--------------|-----------------|----------------|----------------|
| EBITDA | 296 | 999 | 2,594 | 5,107 | 6,601 |
| Change in working capital | (4,006) | (1,808) | (6,604) | 1,442 | 597 |
| Other operating cashflow | 1,860 | 2,044 | 2,279 | (2,065) | (2,400) |
| Cashflow from operations | (1,850) | 1,235 | (1,731) | 4,483 | 4,798 |
| Capital expenditure | (107) | (123) | (365) | (433) | (396) |
| Free cashflow | (1,957) | 1,112 | (2,096) | 4,050 | 4,402 |
| Reduction in investments | (2) | (21) | - | - | - |
| Net acquisitions | 848 | - | (3,983) | - | - |
| Reduction in other LT assets | (812) | (2,666) | (15,250) | (6,542) | 0 |
| Addition in other LT liabilities | 280 | 73 | 375 | - | - |
| Adjustments | (12) | 1,148 | (375) | - | - |
| Cashflow after investing acts | (1,653) | (354) | (21,329) | (2,491) | 4,402 |
| Cash dividends | (96) | (38) | (202) | (325) | (492) |
| Equity issue | - | 4,280 | 5,455 | - | - |
| Debt issue | 2,959 | 3,929 | 12,000 | 5,000 | (2,000) |
| Convertible debt issue | | | | | |
| Others | 124 | (616) | 1,000 | - | - |
| Cashflow from financial acts | 2,987 | 7,555 | 18,253 | 4,675 | (2,492) |
| Net cashflow | 1,334 | 7,201 | (3,077) | 2,184 | 1,910 |
| Beginning cash | 1,830 | 3,163 | 10,364 | 7,287 | 9,471 |
| Ending cash | 3,163 | 10,364 | 7,287 | 9,471 | 11,381 |
| Ending net debt | 3,635 | 363 | 15,440 | 18,256 | 14,346 |

Source: Nomura estimates

Balance sheet (HK\$mn)

| As at 31 Dec | FY08 | FY09 | FY10F | FY11F | FY12F |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Cash & equivalents | 3,163 | 10,364 | 7,287 | 9,471 | 11,381 |
| Properties held for sale | 11,795 | 16,404 | 28,025 | 30,718 | 35,511 |
| Accounts receivable | 606 | 624 | 522 | 400 | 253 |
| Other current assets | 366 | 612 | 614 | 616 | 618 |
| Total current assets | 15,930 | 28,004 | 36,448 | 41,204 | 47,763 |
| Investment properties | 3,393 | 4,476 | 5,976 | 5,976 | 5,976 |
| Other fixed assets (net) | 1,384 | 1,512 | 1,811 | 2,175 | 2,499 |
| Associates | 68 | 166 | 166 | 166 | 166 |
| Other LT assets | 1,541 | 4,207 | 19,457 | 25,999 | 25,999 |
| Total assets | 22,316 | 38,365 | 63,859 | 75,520 | 82,402 |
| Short-term debt | 1,553 | 2,684 | 5,084 | 6,084 | 5,684 |
| Accounts payable | 3,365 | 6,846 | 9,986 | 12,782 | 16,668 |
| Other current liabilities | 4,253 | 3,837 | 5,614 | 6,831 | 8,191 |
| Total current liabilities | 9,170 | 13,367 | 20,683 | 25,697 | 30,543 |
| Long-term debt | 5,245 | 8,043 | 17,643 | 21,643 | 20,043 |
| Convertible debt | | | | | |
| Other LT liabilities | 743 | 816 | 1,191 | 1,191 | 1,191 |
| Total liabilities | 15,159 | 22,226 | 39,518 | 48,531 | 51,777 |
| Minority interest | 1,077 | 1,519 | 1,853 | 2,662 | 3,510 |
| Preferred stock | | | | | |
| Shareholders' Equity | 3,119 | 12,080 | 17,535 | 17,535 | 17,535 |
| Other equity and reserves | 2,961 | 2,540 | 4,953 | 6,793 | 9,581 |
| Total shareholders' equity | 6,080 | 14,620 | 22,487 | 24,327 | 27,116 |
| Total equity & liabilities | 22,316 | 38,365 | 63,859 | 75,520 | 82,402 |

Leverage

| | | | | | |
|--------------------------------|-------|------|------|------|------|
| Interest cover | 3.1 | 10.8 | 11.2 | 18.3 | 23.7 |
| Gross debt/property assets (%) | 30.5 | 28.0 | 35.6 | 36.7 | 31.2 |
| Net debt/EBITDA (x) | 12.26 | 0.36 | 5.95 | 3.57 | 2.17 |
| Net debt/equity (%) | 59.8 | 2.5 | 68.7 | 75.0 | 52.9 |

Dupont decomposition

| | | | | | |
|----------------------------|-----|-----|------|------|------|
| Net margin (%) | 6.3 | 9.1 | 17.9 | 14.0 | 14.3 |
| Asset utilisation (x) | 0.2 | 0.2 | 0.2 | 0.2 | 0.3 |
| ROA (%) | 1.3 | 2.2 | 2.9 | 3.1 | 4.2 |
| Leverage (Assets/Equity x) | 3.0 | 2.9 | 2.8 | 3.0 | 3.1 |
| ROE (%) | 3.9 | 6.3 | 8.0 | 9.2 | 12.8 |

Source: Nomura estimates

The increase in gearing is due to aggressive land purchase and ramp up of production

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Maintained

BUY

⊙ Action

Shimao's diversified land bank and business stream should offer defensiveness. Market concerns over sales slippage have been assuaged for now after the 2010 sales target was met. Strong sales from commercial arm Shanghai Shimao will likely see more upside surprise in FY11F. Maintain BUY with revised PT of HK\$16.54.

⚡ Catalysts

Strong sales from its commercial arm, Shanghai Shimao, prove its business strategy is successful.

⚓ Anchor themes

A likely policy shift from demand to supply is positive for developers. We expect less aggressive measures in 2011F, with controlling broader inflation likely to be top of the government's agenda. Recent policies have had little impact on fundamental demand, and rate hikes should have little impact on share prices initially.

Well-positioned for 2011F

① Finally, 2010 contracted sales have been achieved

Shimao announced that it had achieved contracted sales of RMB30.5bn in 2010, up 36% y-y and exceeding its original target of RMB30bn. This should remove market concerns on sales slippage. We revise up our FY11F EPS by 13% to RMB1.46 together, while 41% of FY11F earnings have been already secured.

② 2011F sales target of RMB36bn is too conservative

Looking into 2011, we believe a total GFA of ~5-6m sqm is available for sales. Assuming 70% of the GFA to be sold at RMB10,848/sqm (10% discount compared with contracted ASP of RMB12,054/sqm), Shimao would be able to generate contracted sales of RMB38bn. We see more upside on Shimao's conservative target of RMB36bn.

③ Gearing should be manageable

While Shimao's high gearing is a concern, we believe it to be manageable. We expect 2011 capex to be RMB31bn (including RMB10bn for outstanding land premium; RMB13bn for construction cost and RMB8bn for other expenses). This should be well-covered by its conservative sales target of RMB36bn. We expect net debt/equity to improve to ~76% by end-10F, and to ~70% by end-11F.

④ Revising up our PT by 7.5% to HK\$16.54. BUY

Shimao is currently trading at 45% discount to our end-11 NAV, which is a reflection of its high gearing and low earnings visibility. Its diversified land bank and business stream should offer strong defensiveness, in our view, while its commercial arm, Shanghai Shimao, is likely to spur upside. We maintain our BUY rating with a revised PT of HK\$16.54 (from HK\$15.39), based on 30% discount on our end-11F NAV of HK\$23.62 (from HK\$21.98).

Key investment risks include weaker-than-expected sales and over-aggressive landbanking.

| | |
|---------------------------|--------------------------------------|
| Closing price on 5 Jan | HK\$12.90 |
| Price target | HK\$16.54 (from HK\$15.39) |
| Upside/downside | 28.2% |
| Difference from consensus | 10.2% |
| FY11F net profit (RMBmn) | 5,194 |
| Difference from consensus | 24.7% |
| Source: Nomura | |

Nomura vs consensus

We are not overly concerned regarding Shimao's high gearing, given that more projects will be launched in 2011. Diversified land bank deserves credit.

Key financials & valuations

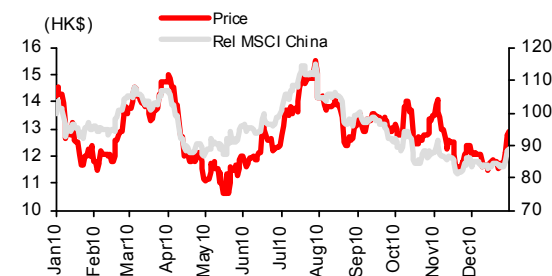
| 31 Dec (RMBmn) | FY09 | FY10F | FY11F | FY12F |
|-----------------------|--------|--------|--------|--------|
| Revenue | 17,032 | 22,199 | 32,023 | 37,495 |
| Reported net profit | 3,511 | 3,423 | 5,194 | 5,823 |
| Normalised net profit | 2,033 | 3,423 | 5,194 | 5,823 |
| Normalised EPS (RMB) | 0.59 | 0.97 | 1.46 | 1.64 |
| Norm. EPS growth (%) | 231.6 | 64.1 | 51.7 | 12.1 |
| Norm. P/E (x) | 19.3 | 11.6 | 7.6 | 6.8 |
| EV/EBITDA (x) | 11.3 | 8.1 | 5.1 | 4.3 |
| Price/book (x) | 1.7 | 1.5 | 1.3 | 1.2 |
| Dividend yield (%) | 2.6 | 2.6 | 3.9 | 4.4 |
| ROE (%) | 16.7 | 13.8 | 18.3 | 18.0 |
| Gearing (%) | 30.9 | 37.4 | 33.0 | 30.1 |

Earnings revisions

| | | | |
|---------------------------|-------|-------|-------|
| Previous norm. net profit | 3,667 | 4,600 | 5,183 |
| Change from previous (%) | (6.7) | 12.9 | 12.4 |
| Previous norm. EPS (RMB) | 1.03 | 1.30 | 1.46 |

Source: Company, Nomura estimates

Share price relative to MSCI China



| | 1m | 3m | 6m |
|----------------------------------|-----|-------|-------------|
| Absolute (HK\$) | 4.2 | (0.5) | 4.2 |
| Absolute (US\$) | 4.1 | (0.7) | 4.4 |
| Relative to Index | 3.7 | (2.4) | (12.2) |
| Market cap (US\$m) | | | 5,888 |
| Estimated free float (%) | | | 41.0 |
| 52-week range (HK\$) | | | 15.50/10.64 |
| 3-mth avg daily turnover (US\$m) | | | 23.01 |
| Stock borrowability | | | Easy |
| Major shareholders (%) | | | |
| Hui Wing Mau | | | 59.8 |

Source: Company, Nomura estimates

Shimao Property (813 HK, BUY, PT: HK\$16.54)

Shimao Property

www.shimaoproperty.com

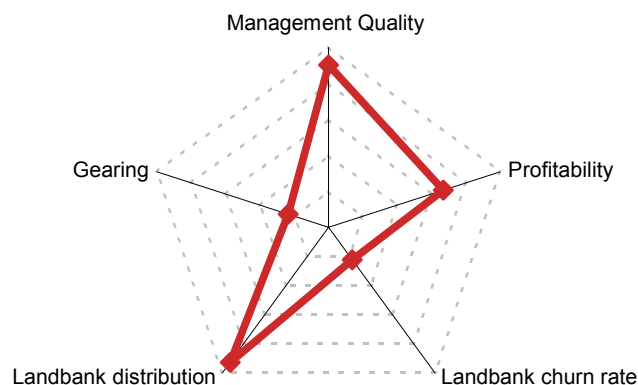
Company description

Shimao Property, incorporated in 2004, focuses on developing large scale, high quality and integrated real estate projects, mostly in fast-growing cities in China. Its 64% owned A-share Shanghai Shimao purely develops commercial properties.

As of today, the company has an attributable land bank of 34mn sqm GFA in 30+ cities.

Listed in 2007, Shimao is now 60% owned by its Chairman Hui Wing Mau. Its market cap is about HK\$46bn.

Our five factor analysis



Key attributes

- *Management quality*: Chairman Hui Wing Mau has over 18 years of experience in property development.
- *Profitability*: Post LAT development margins averaged 26% in 2007-09 and should further improve to 27% in 2010-12F.
- *Landbank churn rate*: 2010 sales of ~2.5mn sqm; at the current rate, should be enough for 13 years of development.
- *Landbank distribution*: 7% of our estimated development landbank value is in first-tier cities.
- *Gearing level*: Gearing stood at 81% as of 30 June 2010. We expect gearing of ~76% by end-10F.

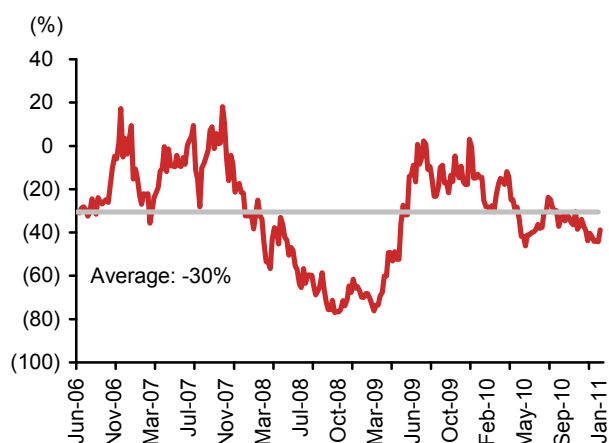
Key themes

- Diversified land bank offers strong defensiveness.
- Concerns regarding sales slippage have been removed.

Key concerns

- Low earnings visibility with 41% of FY11F to be secured.
- Over aggressive landbank replenishment.

NAV discount



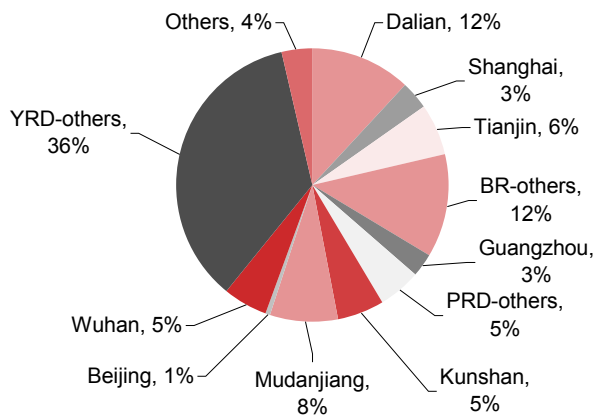
Source: Bloomberg, Company data, Nomura research

End-11F NAV breakdown

| | (RMBmn) | HK\$/share | % of total asset |
|-------------------------------|---------------|--------------|------------------|
| Dev. Prop/under dev't | | | |
| Office/retail | 8,187 | 2.68 | 7.8 |
| Residential | 71,147 | 23.28 | 67.7 |
| Inv. Prop/under dev't | | | |
| Office/retail | 12,118 | 3.96 | 11.5 |
| Hotel prop under dev't | 13,716 | 4.49 | 13.0 |
| Net debt (incl. land premium) | (32,964) | (10.79) | |
| Total net asset | 72,204 | | |
| NAV/share | | 23.62 | |

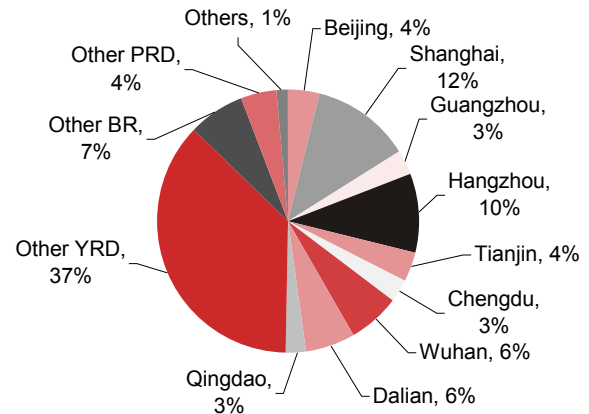
Source: Company data, Nomura estimates

Exhibit 82. Land bank breakdown



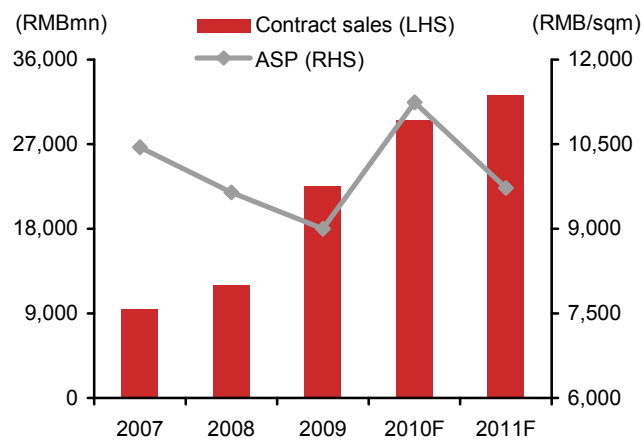
Source: Company data, Nomura research

Exhibit 83. End-11F GAV breakdown



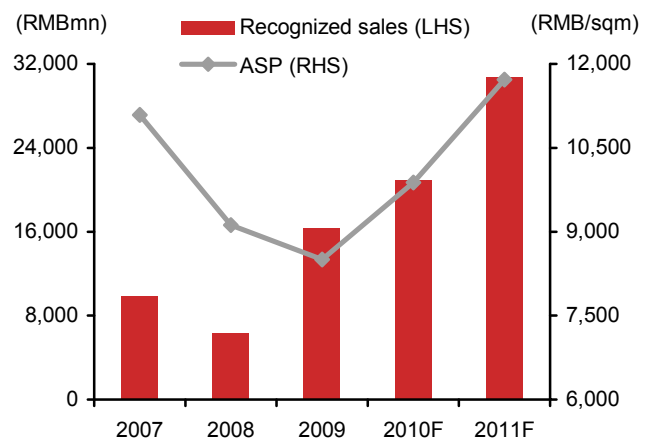
Source: Company data, Nomura estimates

Exhibit 84. Contracted sales and ASP



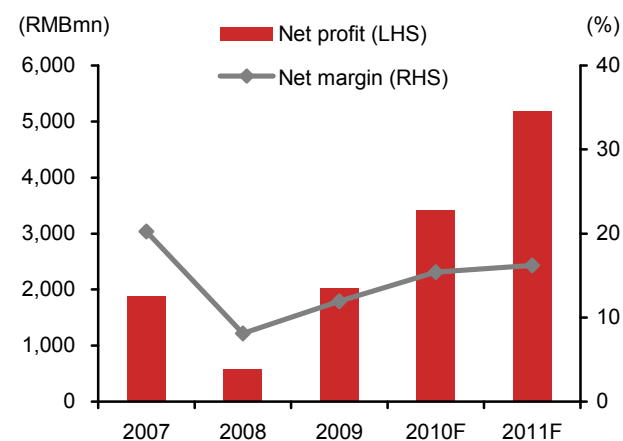
Source: Company data, Nomura estimates

Exhibit 85. Recognized sales and ASP



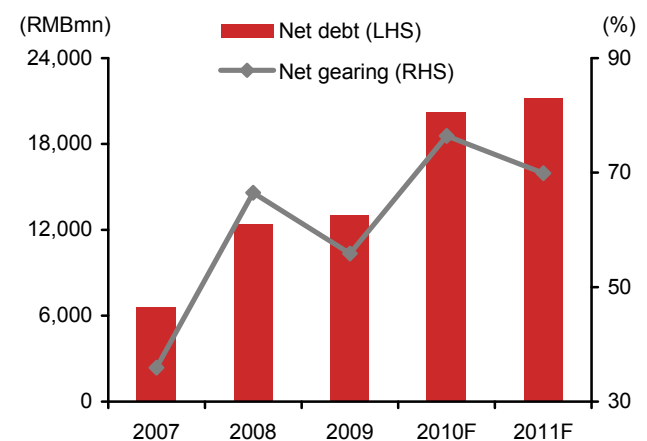
Source: Company data, Nomura estimates

Exhibit 86. Net profit and net margin



Source: Company data, Nomura estimates

Exhibit 87. Net debt and net debt/equity



Source: Company data, Nomura estimates

Financial statements

| Income statement (RMBmn) | | | | | |
|-------------------------------|--------------|---------------|---------------|---------------|---------------|
| Year-end 31 Dec | FY08 | FY09 | FY10F | FY11F | FY12F |
| Investment properties | 180 | 211 | 337 | 451 | 660 |
| Property development | 6,245 | 16,179 | 20,928 | 30,701 | 35,921 |
| Hotels/serviced apartments | 771 | 642 | 933 | 871 | 914 |
| Other Revenue | | | | | |
| Revenue | 7,196 | 17,032 | 22,199 | 32,023 | 37,495 |
| EBIT contributions | | | | | |
| Investment properties | 71 | 150 | 204 | 277 | 415 |
| Property development | 2,199 | 4,373 | 6,980 | 11,315 | 13,355 |
| Hotels/serviced apartments | 293 | 228 | 352 | 317 | 331 |
| Other income | (462) | (41) | (229) | (244) | (171) |
| Management expenses | (260) | (271) | (240) | (257) | (256) |
| EBITDA | 2,101 | 4,710 | 7,307 | 11,665 | 13,930 |
| Depreciation and amortisation | (260) | (271) | (240) | (257) | (256) |
| EBIT | 1,842 | 4,439 | 7,067 | 11,408 | 13,674 |
| Net interest expense | (350) | (307) | (419) | (568) | (587) |
| Associates & JCEs | 6 | 19 | 84 | 295 | 158 |
| Other income | | | | | |
| Earnings before tax | 1,498 | 4,150 | 6,732 | 11,135 | 13,245 |
| Income tax | (895) | (2,025) | (2,880) | (4,936) | (5,907) |
| Net profit after tax | 604 | 2,125 | 3,851 | 6,199 | 7,338 |
| Minority interests | (19) | (92) | (429) | (1,005) | (1,515) |
| Other items | | | | | |
| Preferred dividends | | | | | |
| Normalised NPAT | 585 | 2,033 | 3,423 | 5,194 | 5,823 |
| Extraordinary items | 257 | 1,478 | - | - | - |
| Reported NPAT | 841 | 3,511 | 3,423 | 5,194 | 5,823 |
| Dividends | (382) | (1,005) | (1,031) | (1,564) | (1,747) |
| Transfer to reserves | 459 | 2,507 | 2,392 | 3,630 | 4,076 |

We believe 100% and 41% of FY10F and FY11F sales have been secured

Valuation and ratio analysis

| | | | | | |
|---------------------------------------|-------|------|------|------|------|
| FD normalised P/E (x) | 64.9 | 19.3 | 11.6 | 7.6 | 6.8 |
| FD normalised P/E at price target (x) | 83.1 | 24.8 | 14.8 | 9.8 | 8.7 |
| Reported P/E (x) | 45.1 | 11.2 | 11.6 | 7.6 | 6.8 |
| Dividend yield (%) | 1.0 | 2.6 | 2.6 | 3.9 | 4.4 |
| Price/cashflow (x) | 136.0 | 9.9 | na | 11.2 | 8.1 |
| Price/book (x) | 2.0 | 1.7 | 1.5 | 1.3 | 1.2 |
| EV/EBITDA (x) | 25.4 | 11.3 | 8.1 | 5.1 | 4.3 |
| EV/EBIT (x) | 28.9 | 12.0 | 8.4 | 5.2 | 4.4 |
| EBIT margin (%) | 25.6 | 26.1 | 31.8 | 35.6 | 36.5 |
| Effective tax rate (%) | 59.7 | 48.8 | 42.8 | 44.3 | 44.6 |
| Dividend payout (%) | 45.4 | 28.6 | 30.1 | 30.1 | 30.0 |
| ROA (pretax %) | 4.7 | 8.6 | 10.7 | 14.3 | 14.4 |

Growth (%)

| | | | | | |
|------------------|--------|-------|------|------|------|
| Revenue | (22.4) | 136.7 | 30.3 | 44.3 | 17.1 |
| EBITDA | (35.5) | 124.2 | 55.1 | 59.6 | 19.4 |
| EBIT | (39.9) | 141.0 | 59.2 | 61.4 | 19.9 |
| Normalised EPS | (69.6) | 231.6 | 64.1 | 51.7 | 12.1 |
| Normalised FDEPS | (69.6) | 231.6 | 64.1 | 51.7 | 12.1 |

Per share

| | | | | | |
|------------------------------|------|------|------|------|------|
| Reported EPS (RMB) | 0.26 | 1.02 | 0.97 | 1.46 | 1.64 |
| Norm EPS (RMB) | 0.18 | 0.59 | 0.97 | 1.46 | 1.64 |
| Fully diluted norm EPS (RMB) | 0.18 | 0.59 | 0.97 | 1.46 | 1.64 |
| Book value per share (RMB) | 5.76 | 6.59 | 7.46 | 8.55 | 9.67 |
| DPS (RMB) | 0.11 | 0.29 | 0.29 | 0.44 | 0.49 |

Source: Nomura estimates

Cashflow (RMBmn)

| Year-end 31 Dec | FY08 | FY09 | FY10F | FY11F | FY12F |
|--------------------------------------|----------------|--------------|----------------|--------------|--------------|
| EBITDA | 2,101 | 4,710 | 7,307 | 11,665 | 13,930 |
| Change in working capital | (2,939) | (456) | (5,368) | (1,738) | (1,817) |
| Other operating cashflow | 1,116 | (279) | (4,586) | (6,383) | (7,246) |
| Cashflow from operations | 279 | 3,974 | (2,646) | 3,544 | 4,867 |
| Capital expenditure | (2,431) | (319) | (2,000) | (2,000) | (2,000) |
| Free cashflow | (2,152) | 3,656 | (4,646) | 1,544 | 2,867 |
| Reduction in investments | (1,455) | (1,047) | (1,268) | (1,256) | (1,190) |
| Net acquisitions | 1 | 97 | - | - | - |
| Reduction in other LT assets | (1,157) | (6,877) | (1,814) | (2,444) | (2,932) |
| Addition in other LT liabilities | (34) | 220 | 1,118 | 2,009 | 2,423 |
| Adjustments | (945) | 3,570 | 808 | 435 | 510 |
| Cashflow after investing acts | (5,743) | (381) | (5,802) | 288 | 1,677 |
| Cash dividends | (493) | (754) | (1,347) | (1,298) | (1,878) |
| Equity issue | 33 | 1,767 | - | - | - |
| Debt issue | 3,232 | 5,096 | 12,301 | 318 | 2,177 |
| Convertible debt issue | | | | | |
| Others | (33) | (249) | - | - | - |
| Cashflow from financial acts | 2,738 | 5,859 | 10,954 | (980) | 299 |
| Net cashflow | (3,005) | 5,478 | 5,152 | (692) | 1,976 |
| Beginning cash | 5,006 | 2,001 | 7,479 | 12,631 | 11,939 |
| Ending cash | 2,001 | 7,479 | 12,631 | 11,939 | 13,915 |
| Ending net debt | 12,433 | 13,048 | 20,197 | 21,207 | 21,408 |

Source: Nomura estimates

Balance sheet (RMBmn)

| As at 31 Dec | FY08 | FY09 | FY10F | FY11F | FY12F |
|---------------------------------------|---------------|---------------|---------------|----------------|----------------|
| Cash & equivalents | 2,001 | 7,479 | 12,631 | 11,939 | 13,915 |
| Properties held for sale | 17,831 | 24,098 | 33,218 | 39,862 | 47,834 |
| Accounts receivable | 1,634 | 2,998 | 3,298 | 3,628 | 3,990 |
| Other current assets | 233 | 311 | 590 | 767 | 997 |
| Total current assets | 21,699 | 34,887 | 49,737 | 56,195 | 66,736 |
| Investment properties | 6,050 | 6,373 | 8,978 | 11,673 | 13,800 |
| Other fixed assets (net) | 12,008 | 11,300 | 12,198 | 13,242 | 14,448 |
| Associates | 1,977 | 2,343 | 3,439 | 3,439 | 3,439 |
| Other LT assets | 4,748 | 11,625 | 13,438 | 15,882 | 18,814 |
| Total assets | 46,481 | 66,528 | 87,790 | 100,430 | 117,237 |
| Short-term debt | 3,539 | 3,932 | 6,213 | 5,200 | 5,981 |
| Accounts payable | 8,282 | 13,542 | 16,900 | 21,126 | 26,450 |
| Other current liabilities | 3,123 | 5,117 | 6,089 | 7,276 | 8,700 |
| Total current liabilities | 14,944 | 22,591 | 29,203 | 33,602 | 41,131 |
| Long-term debt | 10,895 | 16,595 | 26,614 | 27,945 | 29,342 |
| Convertible debt | | | | | |
| Other LT liabilities | 1,605 | 1,825 | 2,943 | 4,952 | 7,374 |
| Total liabilities | 27,444 | 41,010 | 58,760 | 66,499 | 77,847 |
| Minority interest | 342 | 2,169 | 2,598 | 3,603 | 5,118 |
| Preferred stock | | | | | |
| Shareholders' Equity | 10,609 | 12,376 | 12,376 | 12,376 | 12,376 |
| Other equity and reserves | 8,087 | 10,972 | 14,056 | 17,951 | 21,896 |
| Total shareholders' equity | 18,696 | 23,348 | 26,432 | 30,328 | 34,272 |
| Total equity & liabilities | 46,481 | 66,528 | 87,790 | 100,430 | 117,237 |

Leverage

| | | | | | |
|--------------------------------|------|------|------|------|------|
| Interest cover | 5.3 | 14.4 | 16.9 | 20.1 | 23.3 |
| Gross debt/property assets (%) | 31.1 | 30.9 | 37.4 | 33.0 | 30.1 |
| Net debt/EBITDA (x) | 5.92 | 2.77 | 2.76 | 1.82 | 1.54 |
| Net debt/equity (%) | 66.5 | 55.9 | 76.4 | 69.9 | 62.5 |

Dupont decomposition

| | | | | | |
|----------------------------|------|------|------|------|------|
| Net margin (%) | 11.7 | 20.6 | 15.4 | 16.2 | 15.5 |
| Asset utilisation (x) | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 |
| ROA (%) | 2.0 | 6.2 | 4.4 | 5.5 | 5.4 |
| Leverage (Assets/Equity x) | 2.3 | 2.7 | 3.1 | 3.3 | 3.4 |
| ROE (%) | 4.5 | 16.7 | 13.8 | 18.3 | 18.0 |

Source: Nomura estimates

Gearing should stay at high level but no concern on its cashflows

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From Neutral

BUY

⊙ Action

Sino Ocean's major overhang has been removed after COSCO sold all its shares in Dec 2010. Strong contracted sales of RMB20.3bn (up 42% y-y) as of 16 Dec 10 were slightly higher than our expectation. We raise our end-11F NAV by 8% to HK\$9.51 and also revise up our PT to HK\$6.66 (from HK\$5.3) by adopting a narrower targeted NAV discount of 30% (from 40%). Upgrade to BUY from Neutral.

⚡ Catalysts

Nan Fung Group, the second-largest shareholder, will bring in more capital and property expertise, which should strengthen its already solid balance sheet.

⚓ Anchor themes

A likely policy shift from demand to supply is positive for developers. We expect less aggressive measures in 2011F, with controlling broader inflation likely to be top of the government's agenda. Recent policies have had little impact on fundamental demand, and rate hikes should have little impact on share prices initially.

Post-disposal days to be better

① Nan Fung should bring in capital and property expertise

Sino Ocean's major overhang has been removed after COSCO sold all its share of 950mn shares (16.85% of total issued shares). After the share disposal, Nan Fung Group, an experienced developer in Hong Kong, increased its stake in Sino Ocean to 21.9% (from 10.2%), becoming the second-largest shareholder, following China Life with 24.1%. We view it as positive to Sino Ocean as we expect Nan Fung to bring in capital and property expertise for further developments.

② Strong 2010 sales strengthen FY11F earnings lock-in

As of 16 December 2010, Sino Ocean had achieved contracted sales of RMB20.3bn, surpassing its full-year target of RMB18bn by 13%. Such better-than-expected contracted sales have secured 75% of our FY11F earnings, which is one of the highest among our coverage. Sino Ocean still relies heavily on sales in Beijing, which remains our big concern. Hence, we maintain our FY11F core EPS at RMB0.5.

③ Upgrade to BUY (from Neutral); TP: HK\$6.66

We revise up our end-11F NAV by 8% to HK\$9.51 (from HK\$8.83) given its encouraging sales as well as some ASP refreshments on existing projects. We see COSCO's share disposal as a positive catalyst to unlock the value of Sino Ocean; therefore, we apply a narrower NAV discount of 30% (from 40%) to derive our price target. Our new price target of HK\$6.66 (from HK\$5.3) suggests potential upside of 21%; we therefore upgrade our rating to BUY from Neutral.

Risks to our investment view include weaker-than-expected sales and over-aggressive landbanking.

| | |
|---------------------------|------------------------------------|
| Closing price on 5 Jan | HK\$5.50 |
| Price target | HK\$6.66 (from HK\$5.30) |
| Upside/downside | 21.1% |
| Difference from consensus | 11.0% |
| FY11F net profit (RMBmn) | 2,792 |
| Difference from consensus | 6.3% |
| Source: Nomura | |

Nomura vs consensus

In line with the consensus, we believe the overhang from COSCO's share disposals has been removed, which should unlock the value of Sino Ocean.

Key financials & valuations

| 31 Dec (RMBmn) | FY09 | FY10F | FY11F | FY12F |
|---------------------------|--------|--------|--------|--------|
| Revenue | 8,824 | 14,472 | 20,096 | 27,231 |
| Reported net profit | 1,582 | 2,117 | 2,792 | 3,381 |
| Normalised net profit | 1,059 | 1,930 | 2,792 | 3,381 |
| Normalised EPS (RMB) | 0.23 | 0.34 | 0.50 | 0.60 |
| Norm. EPS growth (%) | (19.9) | 51.7 | 44.6 | 21.1 |
| Norm. P/E (x) | 21.5 | 13.9 | 9.6 | 7.9 |
| EV/EBITDA (x) | 15.1 | 11.5 | 7.2 | 7.2 |
| Price/book (x) | 1.2 | 0.9 | 0.8 | 0.8 |
| Dividend yield (%) | 1.6 | 2.4 | 3.1 | 3.8 |
| ROE (%) | 7.9 | 7.8 | 8.7 | 9.9 |
| Gearing (%) | 35.1 | 34.8 | 34.6 | 34.1 |
| Earnings revisions | | | | |
| Previous nom. net profit | | 1,749 | 2,816 | 3,222 |
| Change from previous (%) | | 10.4 | (0.9) | 4.9 |
| Previous nom. EPS (RMB) | | 0.31 | 0.50 | 0.57 |

Source: Company, Nomura estimates

Share price relative to MSCI China



| | 1m | 3m | 6m |
|--------------------------------------|-----|-------|-----------|
| Absolute (HK\$) | 9.1 | 0.9 | 0.2 |
| Absolute (US\$) | 9.0 | 0.7 | 0.4 |
| Relative to Index | 8.6 | (1.0) | (16.2) |
| Market cap (US\$m) | | | 3,990 |
| Estimated free float (%) | | | 75.9 |
| 52-week range (HK\$) | | | 7.86/4.60 |
| 3-mth avg daily turnover (US\$m) | | | 22.95 |
| Stock borrowability | | | Easy |
| Major shareholders (%) | | | |
| China Life Insurance (Group) Company | | | 24.1 |

Source: Company, Nomura estimates

Sino Ocean (3377 HK, BUY, PT: HK\$6.66)

Sino-Ocean Land

www.sinooceanland.com

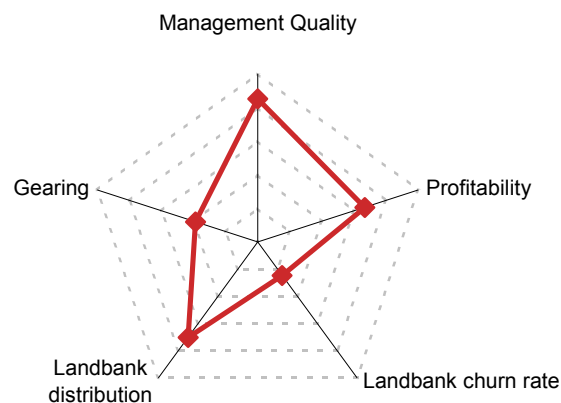
Company description

Incorporated and listed in 2007, Sino Ocean engages in property development and investment, mainly in the pan-Bohai Rim (BR) region.

Since its listing, Sino-Ocean has grown its land bank to 17mn sqm GFA in around nine high-growth cities.

After share disposal by COSCO, Chen Din Hwa, the chairman of Nan Fung Group increased its stake in Sino Ocean to 21.89% and became the second largest shareholder, following China Life Insurance of 24.1%

Our five factor analysis



Key attributes

- *Management quality*: Most of the senior management have experience in running property businesses.
- *Profitability*: Post LAT development margins averaged 30% in 2007-09 and should decline to 23% in 2010-12F
- *Landbank churn rate*: 2010 sales of ~1.4mn sqm; at the current rate, should be enough for 12 years of development.
- *Landbank distribution*: 30% of our estimated development landbank value is in first-tier city cities.
- *Gearing level*: Gearing stood at 68% as of 30 June 2010. We expect gearing of ~61% by end-10F.

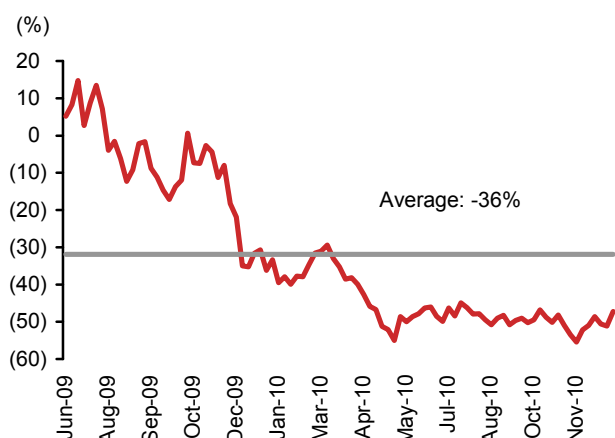
Key themes

- Developers with high exposure in pan-Bohai Rim region
- Solid fundamentals with first-mover advantages to grant some low interest rate borrowings

Key concerns

- Over-aggressive in land bank replenishment.
- Heavily dependent on sales in Beijing.

NAV discount



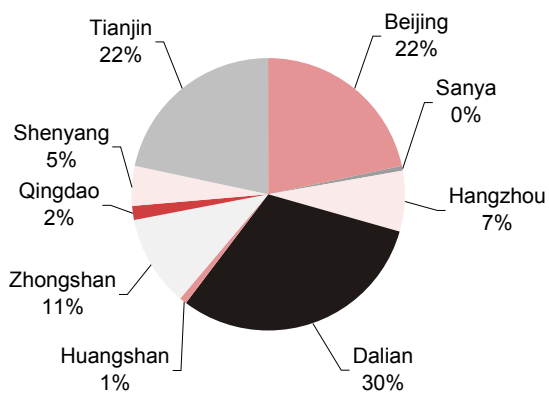
Source: Bloomberg, Company data, Nomura research

End-11F NAV breakdown

| | (RMBmn) | HK\$/ share | % of total asset |
|-------------------------------|---------------|-------------|------------------|
| Dev. Prop/under dev't | | | |
| Office/retail | 2,665 | 0.46 | 3.6 |
| Residential | 49,136 | 8.56 | 67.2 |
| Inv. Prop/under dev't | | | |
| Office/retail | 17,371 | 3.03 | 23.8 |
| Hotel prop under dev't | 3,964 | 0.69 | 5.4 |
| Net debt (incl. land premium) | (23,721) | (4.13) | |
| Total net asset | 49,415 | | |
| NAV/share | | 8.61 | |
| Cash from conversion of CS | 6,030 | | |
| NAV/share (ex-CS) | | 9.51 | |

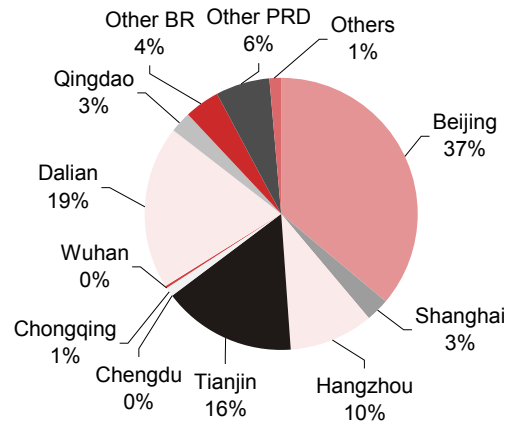
Source: Company data, Nomura estimates

Exhibit 88. Land bank breakdown



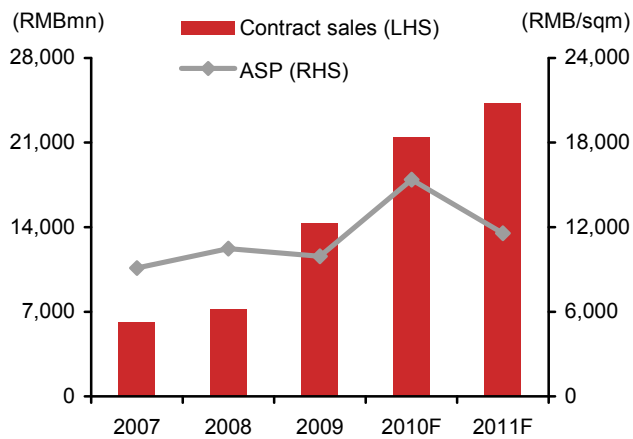
Source: Company data, Nomura research

Exhibit 89. End-11F GAV breakdown



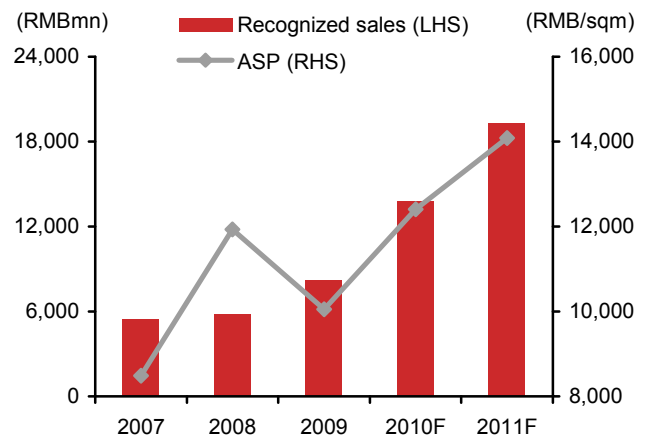
Source: Company data, Nomura estimates

Exhibit 90. Contracted sales and ASP



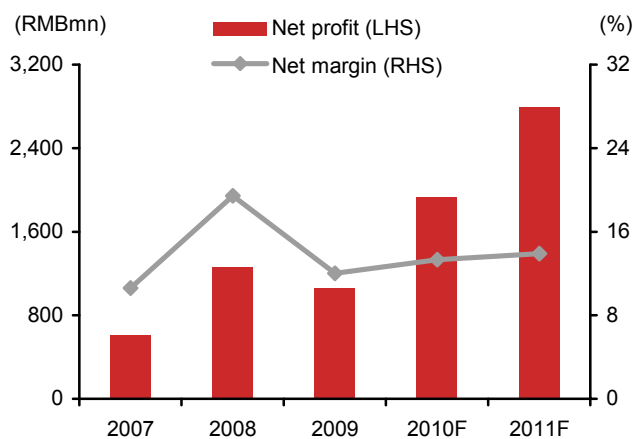
Source: Company data, Nomura estimates

Exhibit 91. Recognized sales and ASP



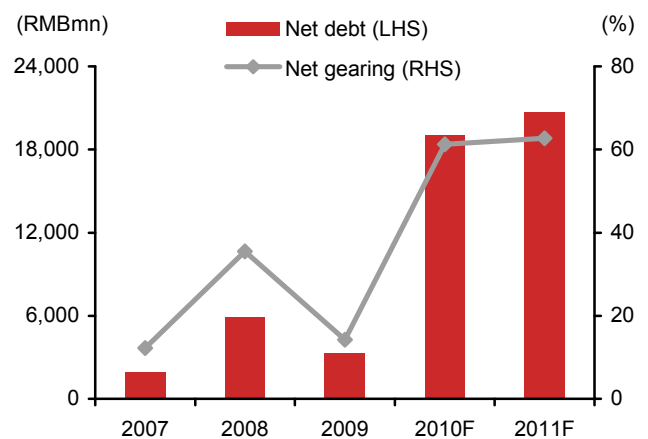
Source: Company data, Nomura estimates

Exhibit 92. Net profit and net margin



Source: Company data, Nomura estimates

Exhibit 93. Net debt and net debt/equity



Source: Company data, Nomura estimates

Financial statements

| Income statement (RMBmn) | | | | | |
|-------------------------------|--------------|--------------|---------------|---------------|---------------|
| Year-end 31 Dec | FY08 | FY09 | FY10F | FY11F | FY12F |
| Investment properties | 122 | 156 | 196 | 230 | 447 |
| Property development | 5,834 | 8,218 | 13,782 | 19,323 | 26,186 |
| Hotels/serviced apartments | | | | | |
| Other Revenue | 531 | 449 | 494 | 543 | 597 |
| Revenue | 6,487 | 8,824 | 14,472 | 20,096 | 27,231 |
| EBIT contributions | | | | | |
| Investment properties | 101 | 107 | 137 | 161 | 313 |
| Property development | 2,536 | 2,278 | 4,207 | 6,780 | 6,779 |
| Hotels/serviced apartments | | | | | |
| Other income | (373) | (298) | (368) | (354) | (338) |
| Management expenses | (24) | (20) | (22) | (22) | (21) |
| EBITDA | 2,264 | 2,087 | 3,977 | 6,588 | 6,755 |
| Depreciation and amortisation | (24) | (20) | (22) | (22) | (21) |
| EBIT | 2,240 | 2,067 | 3,955 | 6,566 | 6,733 |
| Net interest expense | 19 | (146) | (377) | (511) | (638) |
| Associates & JCEs | (2) | (54) | - | - | - |
| Other income | | | | | |
| Earnings before tax | 2,257 | 1,867 | 3,578 | 6,055 | 6,096 |
| Income tax | (939) | (752) | (1,640) | (2,924) | (2,524) |
| Net profit after tax | 1,317 | 1,115 | 1,938 | 3,130 | 3,572 |
| Minority interests | (57) | (56) | (8) | (338) | (191) |
| Other items | | | | | |
| Preferred dividends | | | | | |
| Normalised NPAT | 1,261 | 1,059 | 1,930 | 2,792 | 3,381 |
| Extraordinary items | 127 | 523 | 187 | - | - |
| Reported NPAT | 1,388 | 1,582 | 2,117 | 2,792 | 3,381 |
| Dividends | (399) | (447) | (635) | (838) | (1,015) |
| Transfer to reserves | 988 | 1,135 | 1,482 | 1,954 | 2,366 |

We expect 100% and 75% of our FY10F and FY11F revenue, respectively, to be secured

Valuation and ratio analysis

| | | | | | |
|---------------------------------------|------|------|------|------|------|
| FD normalised P/E (x) | 17.4 | 21.5 | 13.9 | 9.6 | 7.9 |
| FD normalised P/E at price target (x) | 21.1 | 26.0 | 16.8 | 11.6 | 9.6 |
| Reported P/E (x) | 15.8 | 14.4 | 12.6 | 9.6 | 7.9 |
| Dividend yield (%) | 1.8 | 1.6 | 2.4 | 3.1 | 3.8 |
| Price/cashflow (x) | na | na | na | na | na |
| Price/book (x) | 1.3 | 1.2 | 0.9 | 0.8 | 0.8 |
| EV/EBITDA (x) | 14.9 | 15.1 | 11.5 | 7.2 | 7.2 |
| EV/EBIT (x) | 15.0 | 15.2 | 11.6 | 7.2 | 7.2 |
| EBIT margin (%) | 34.5 | 23.4 | 27.3 | 32.7 | 24.7 |
| Effective tax rate (%) | 41.6 | 40.3 | 45.8 | 48.3 | 41.4 |
| Dividend payout (%) | 28.8 | 28.3 | 30.0 | 30.0 | 30.0 |
| ROA (pretax %) | 7.1 | 5.2 | 6.6 | 8.2 | 7.7 |

Growth (%)

| | | | | | |
|------------------|------|--------|------|------|------|
| Revenue | 12.8 | 36.0 | 64.0 | 38.9 | 35.5 |
| EBITDA | 47.3 | (7.8) | 90.6 | 65.6 | 2.5 |
| EBIT | 48.0 | (7.7) | 91.3 | 66.0 | 2.6 |
| Normalised EPS | 55.5 | (19.9) | 51.7 | 44.6 | 21.1 |
| Normalised FDEPS | 55.5 | (19.9) | 51.7 | 44.6 | 21.1 |

Per share

| | | | | | |
|------------------------------|------|------|------|------|------|
| Reported EPS (RMB) | 0.31 | 0.34 | 0.38 | 0.50 | 0.60 |
| Norm EPS (RMB) | 0.28 | 0.23 | 0.34 | 0.50 | 0.60 |
| Fully diluted norm EPS (RMB) | 0.28 | 0.23 | 0.34 | 0.50 | 0.60 |
| Book value per share (RMB) | 3.72 | 4.15 | 5.51 | 5.86 | 6.28 |
| DPS (RMB) | 0.09 | 0.08 | 0.11 | 0.15 | 0.18 |

Source: Nomura estimates

Cashflow (RMBmn)

| Year-end 31 Dec | FY08 | FY09 | FY10F | FY11F | FY12F |
|--------------------------------------|----------------|----------------|-----------------|----------------|--------------|
| EBITDA | 2,264 | 2,087 | 3,977 | 6,588 | 6,755 |
| Change in working capital | (4,591) | (122) | (23,862) | (5,049) | (3,891) |
| Other operating cashflow | (463) | (2,473) | (1,370) | (2,608) | (2,890) |
| Cashflow from operations | (2,791) | (508) | (21,255) | (1,069) | (27) |
| Capital expenditure | (27) | (25) | (31) | (28) | (28) |
| Free cashflow | (2,818) | (533) | (21,287) | (1,097) | (55) |
| Reduction in investments | | | | | |
| Net acquisitions | (512) | (445) | 7 | 8 | 8 |
| Reduction in other LT assets | (25) | (1,003) | 274 | (7) | (8) |
| Addition in other LT liabilities | (303) | 0 | - | - | (0) |
| Adjustments | 327 | (88) | (93) | 192 | 194 |
| Cashflow after investing acts | (3,331) | (2,069) | (21,099) | (904) | 139 |
| Cash dividends | (627) | (315) | (581) | (811) | (1,045) |
| Equity issue | - | 5,115 | - | - | - |
| Debt issue | 3,472 | 6,850 | 8,432 | 3,027 | 3,330 |
| Convertible debt issue | - | - | 6,120 | - | - |
| Others | (26) | 99 | (123) | - | - |
| Cashflow from financial acts | 2,819 | 11,748 | 13,848 | 2,217 | 2,285 |
| Net cashflow | (512) | 9,679 | (7,251) | 1,313 | 2,423 |
| Beginning cash | 9,348 | 8,837 | 18,516 | 11,265 | 12,578 |
| Ending cash | 8,837 | 18,516 | 11,265 | 12,578 | 15,002 |
| Ending net debt | 5,907 | 3,324 | 19,007 | 20,721 | 21,628 |

Source: Nomura estimates

Balance sheet (RMBmn)

| As at 31 Dec | FY08 | FY09 | FY10F | FY11F | FY12F |
|---------------------------------------|---------------|---------------|---------------|---------------|----------------|
| Cash & equivalents | 8,837 | 18,516 | 11,265 | 12,578 | 15,002 |
| Properties held for sale | 24,526 | 26,665 | 33,108 | 42,761 | 55,393 |
| Accounts receivable | 1,589 | 1,720 | 3,720 | 4,720 | 5,720 |
| Other current assets | 4,147 | 7,471 | 30,926 | 27,924 | 22,497 |
| Total current assets | 39,099 | 54,372 | 79,019 | 87,983 | 98,612 |
| Investment properties | 1,984 | 3,984 | 4,532 | 4,837 | 5,314 |
| Other fixed assets (net) | 342 | 364 | 276 | 283 | 291 |
| Associates | 311 | 966 | 959 | 959 | 959 |
| Other LT assets | 1,532 | 2,463 | 2,164 | 2,171 | 2,179 |
| Total assets | 43,268 | 62,148 | 86,950 | 96,233 | 107,355 |
| Short-term debt | 5,965 | 4,653 | 5,351 | 5,886 | 6,475 |
| Accounts payable | 8,759 | 14,021 | 21,917 | 24,364 | 28,510 |
| Other current liabilities | 1,191 | 1,402 | 1,542 | 1,696 | 1,866 |
| Total current liabilities | 15,916 | 20,076 | 28,810 | 31,947 | 36,850 |
| Long-term debt | 8,779 | 17,187 | 24,921 | 27,413 | 30,154 |
| Convertible debt | | | | | |
| Other LT liabilities | 790 | 999 | 1,651 | 2,968 | 3,901 |
| Total liabilities | 25,485 | 38,262 | 55,382 | 62,328 | 70,906 |
| Minority interest | 1,130 | 519 | 526 | 865 | 1,056 |
| Preferred stock | | | | | |
| Shareholders' Equity | 14,186 | 20,118 | 26,238 | 26,238 | 26,238 |
| Other equity and reserves | 2,467 | 3,250 | 4,804 | 6,803 | 9,156 |
| Total shareholders' equity | 16,653 | 23,368 | 31,041 | 33,040 | 35,393 |
| Total equity & liabilities | 43,268 | 62,148 | 86,950 | 96,233 | 107,355 |

Leverage

| | | | | | |
|--------------------------------|------|------|------|------|------|
| Interest cover | na | 14.2 | 10.5 | 12.8 | 10.6 |
| Gross debt/property assets (%) | 34.1 | 35.1 | 34.8 | 34.6 | 34.1 |
| Net debt/EBITDA (x) | 2.61 | 1.59 | 4.78 | 3.15 | 3.20 |
| Net debt/equity (%) | 35.5 | 14.2 | 61.2 | 62.7 | 61.1 |

Dupont decomposition

| | | | | | |
|----------------------------|------|------|------|------|------|
| Net margin (%) | 21.4 | 17.9 | 14.6 | 13.9 | 12.4 |
| Asset utilisation (x) | 0.2 | 0.2 | 0.2 | 0.2 | 0.3 |
| ROA (%) | 3.4 | 3.0 | 2.8 | 3.0 | 3.3 |
| Leverage (Assets/Equity x) | 2.5 | 2.6 | 2.7 | 2.9 | 3.0 |
| ROE (%) | 8.5 | 7.9 | 7.8 | 8.7 | 9.9 |

Source: Nomura estimates

Issuance of the Perpetual Convertible Securities should enhance its financial position

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A rating of '**Neutral**', indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months.

A rating of '**Reduce**', indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months.

A rating of '**Suspended**', indicates that the rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the company.

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A **'Bearish'** stance, indicates that the analyst expects the sector to underperform the Benchmark during the next six months.

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A **'Sell'** recommendation indicates that downside is more than 20%.

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