

# Shinsun Holdings (2599 HK)

## The leading YRD developer with national print

As born and deep rooted in YRD region (78% of land bank), Shinsun has achieved over RMB90bn sales club in 2020. With its strong YRD focus and national expansion, we think its 2021E sales growth will outperform industry to reach RMB105bn (+15% YoY). Also, its balance sheet may improve faster than expected with gearing below 100% by 2020E on equity funding and JV. We expect 22% earnings CAGR in 2019-2022E to RMB4.2bn driven both by revenue and margin improvement (ASP and funding costs). Initiate with Buy Rating.

- **High concentration on YRD region to benefit from the booming development.** The Company has a total land bank of 23mn sq m (attributable of 70%), out of which 78% is located in the Yangtze River Delta Region (50% from Zhejiang, 15% from Anhui and 10% from Jiangsu). In the short term, the wealth effect from stock market would spur the buying demand, evidenced by the recent sales data. In the long term, the YRD zone development would support long-term population inflow and thus housing demand/price.
- **We expect sales to grow 15-20% YoY in 2021E:** As a fast-growing developer (35% CAGR in 2017-2020), we may continue to see above-industry sales momentum at 15% YoY in 2021E thanks to 1) robust demand in YRD region; 2) strategical national expansion to key cities like Wuhan; and 3) increasing JV stakes: The level attributable sales % is ~70%, which is higher than the industry so it has room to increase JV stakes and reduce the burden.
- **Net gearing improving faster than market expectation:** Previously the fast growth and high attributable ratio put its balance sheet under pressure. With equity raising, constrained land acquisition (only at 30-40% of sales) and more JV sharing to lower the burden, its net gearing may go to below 100% in 2020E from 361% in 2019, satisfying the requirement of "three red line" policy.
- **Expect 22% core earnings CAGR in 2019-2022E on margins.** We forecast total revenue to grow 12% CAGR in 2019-2022E to reach RMB49.3bn. Core earnings are expected to grow 22% CAGR in 2019-2022E on improvement of gross margins to 25% (rising ASP in YRD and funding costs to 9%).
- **Initiate with Buy with TP of HK\$7.75.** We derive TP by applying 40% discount to its NAV per share at HK\$12.92, equivalent to 5.3x 21E PE. The Company is trading at 4.1x 21E PE, below industry average of 5x. **Catalyst:** Southbound inclusion effective on 15 Mar. Risk: sales slowdown in YRD.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY21E
Revenue (RMB mn)	14,215	35,520	41,104	45,096	49,304
YoY (%)	125.9	149.9	15.7	9.7	9.3
Net profit (RMB mn)	325	2,312	3,259	3,713	4,192
EPS (RMB)	N.A.	N.A.	1.07	1.22	1.38
EPS CHG (%)	N.A.	N.A.	0.32	13.9	12.9
Consensus EPS (RMB)	N.A.	N.A.	1.18	1.30	1.55
P/E (x)	N.A.	N.A.	4.8	4.2	3.7
P/B (x)	N.A.	N.A.	0.9	0.8	0.7
Yield (%)	N.A.	N.A.	5.2	6.0	6.7
ROE (%)	16.6	50.1	29.5	27.0	24.9
Net gearing (x)	7.4	3.6	1.0	0.7	0.7

Source: Company data, Bloomberg, CMBIS estimates

### BUY (Initiation)

Target Price	HK\$7.75
Up/Downside	+26.1%
Current Price	HK\$6.15

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### Stock Data

Mkt Cap (HK\$ mn)	16,891
Avg 3 mths t/o (HK\$ mn)	N.A.
52w High/Low (HK\$)	6.56/5.20
Total Issued Shares (mn)	3,043

Source: Bloomberg

### Shareholding Structure

Golden Stone	0.8%
Shinlight Limited	78.1%
Free float	21.1%

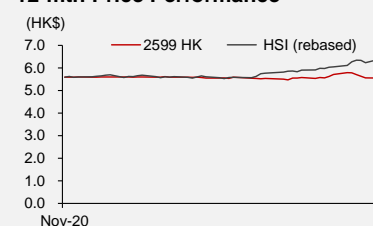
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-0.5%	-10.9%
3-mth	N.A.	N.A.
6-mth	N.A.	N.A.
12-mth	N.A.	N.A.

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

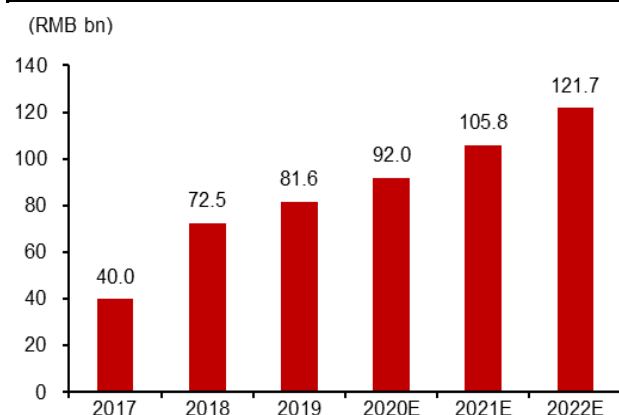
Auditor: Ernst & Young

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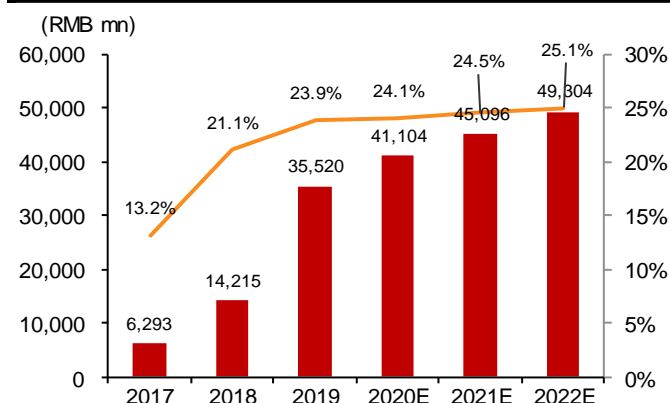
## Focus Charts

**Figure 1: Contract sales**



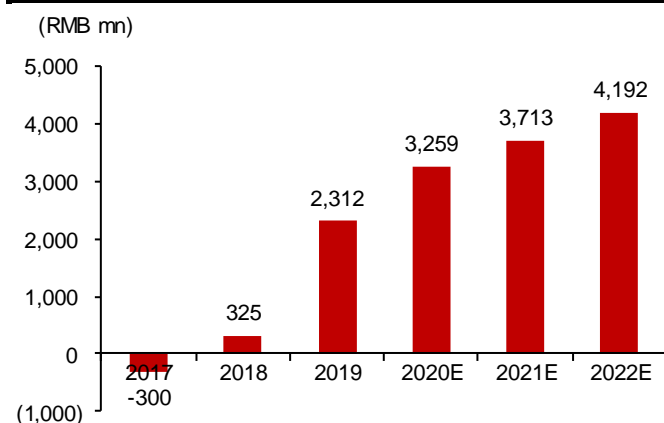
Source: Company data, CMBIS estimates

**Figure 2: Revenue and gross profit margin**



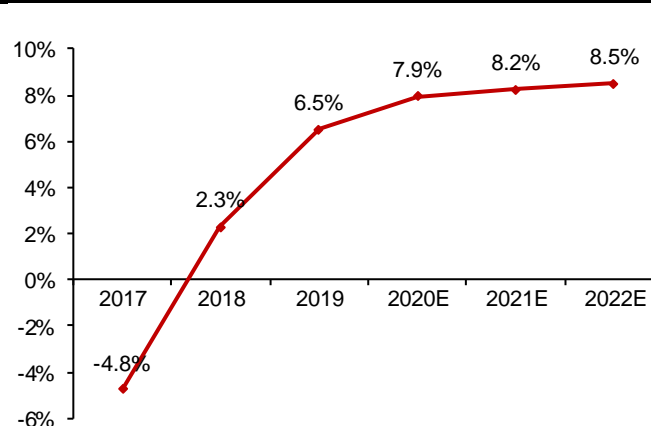
Source: Company data, CMBIS estimates

**Figure 3: Net profit attributable to shareholders**



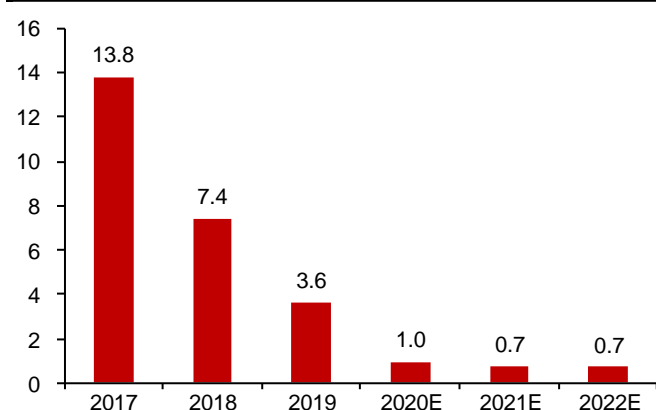
Source: Company data, CMBIS estimates

**Figure 4: Net profit margin**



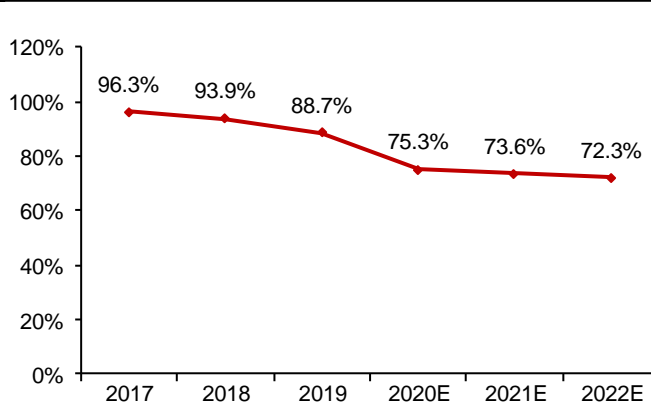
Source: Company data, CMBIS estimates

**Figure 5: Net gearing ratio**



Source: Company data, CMBIS estimates

**Figure 6: Liabilities to asset (ex. contract liabilities)**



Source: Company data, CMBIS estimates

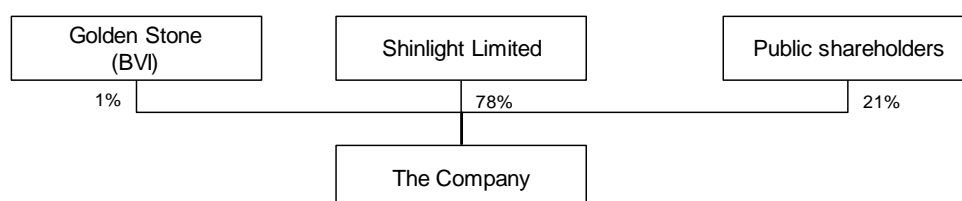
## Company Overview

Headquartered in Shanghai, Shinsun is a fast-growing, large-scale, comprehensive real estate developer focusing on the development of quality residential properties in selected regions in China. According to the Enterprise Research Institute of the Development Research Center of the State Council, the Center for Real Estate of Tsinghua University and the China Index Academy, Shinsun has been consistently ranked among “China’s Top 100 Real Estate Developers” for ten consecutive years and ranking is improved from 92nd in 2011 to 27th in 2020.

Shinsun Property was established in the PRC by Mr. Chen Guoxiang and Ms. Zhu Guoling in 1995. The Company commenced its property development business in Shaoxing, Zhenjiang Province in 1999 and has expanded footprints into key cities in Zhejiang Province including Hangzhou, Wenzhou, Ningbo, Shaoxing, Quzhou and Huzhou. It has also strategically focused on the Pan-Yangtze River Delta Region since 2004. Over the years, Shinsun has transformed from a leading regional residential property developer to an established comprehensive real estate developer with national presence. Leveraging the brand and experience in developing quality residential properties, Shinsun has built a growing portfolio of diversified investment properties, including office buildings, commercial complexes, community businesses and hotels.

As of 31 Mar 2020, Shinsun had a total of 195 projects in 43 cities across 11 provinces with a total attributable GFA of 23.04mn sq m. According to the Enterprise Research Institute of the Development Research Center of the State Council, the Center for Real Estate of Tsinghua University and the China Index Academy, Shinsun has been consistently ranked among “China’s Top 100 Real Estate Developers” for ten consecutive years and ranking improved from 92nd in 2011 to 27th in 2020.

**Figure 7: Shareholding structure**



Source: Company data, CMBIS

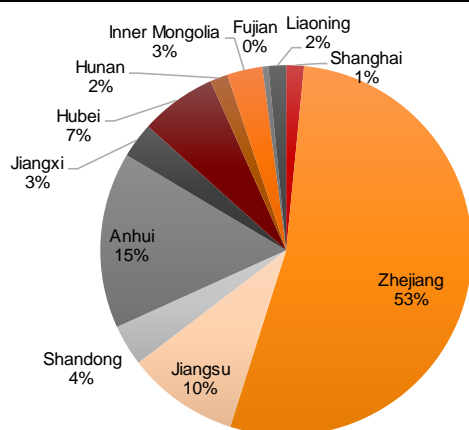
## Business Overview

### Geographical focus on the YRD

Headquartered in Shanghai, Shinsun has established a leading market position in Zhejiang Province through over 20 years of development. Shinsun has adopted a “1+1+X” expansion strategy since 2016. It has based its development in Zhejiang Province, deeply penetrated into the Pan-Yangtze River Delta Region and expanded into other cities with high growth potential outside the Pan-Yangtze River Delta Region.

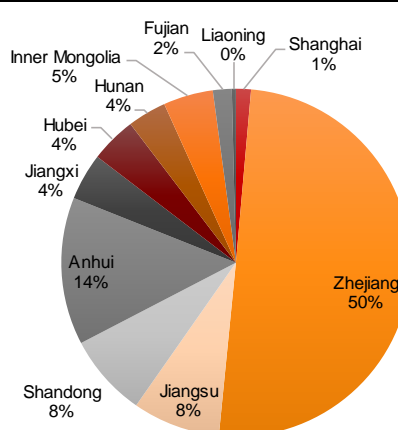
As of 31 Mar 2020, Shinsun had 195 property projects at various stages of development, comprising 172 projects developed by subsidiaries and 23 projects developed by joint ventures and associates. As of 21 Mar 2020, Shinsun owned a land bank of total aggregate attributable GFA of 23.04mn sq m, including (i) GFA available for sales, leasable GFA and GFA for property investment for completed properties of approximately 1.80mn sq m; (ii) total planned GFA for properties under development of approximately 15.85mn sq m; and (iii) total estimated GFA for properties held for future development of approximately 5.40mn sq m.

**Figure 8: Geographical breakdown in terms of number of projects**



Source: Company data, CMBIS

**Figure 9: Geographical breakdown in terms attributable GFA**



Source: Company data, CMBIS

Figure 10: Total land bank in terms of geographical location as of 31 Mar 2020

City	Number of projects	Completed GFA available for sale (1), lease (2) or investment (3)	Planned GFA under development (4) (sq m)	Estimated GFA for future development (5) (sq m)	Total attributable land bank (1) (sq m)	% of total attributable land bank
Shanghai Municipality	3	31,866	0	288,366	320,232	1.4%
Zhejiang Province	104	1,008,499	8,647,628	1,906,298	11,562,425	50.2%
Hangzhou	17	197,021	1,328,567	859,136	2,384,724	10.3%
Ningbo	4	20,051	177,894	0	197,945	0.9%
Shaoxing	41	484,314	2,157,191	607,084	3,248,589	14.1%
Wenzhou	3	0	506,637	0	506,637	2.2%
Taizhou	8	127,036	1,416,903	0	1,543,939	6.7%
Jiaxing	7	36,311	385,399	0	421,710	1.8%
Huzhou	10	55,943	1,084,697	0	1,140,640	4.9%
Zhoushan	3	65,799	407,676	0	473,475	2.1%
Quzhou	6	22,024	737,796	0	759,820	3.3%
Lishui	4	0	357,345	440,078	797,423	3.5%
Jinhua	1	0	87,523	0	87,523	0.4%
Jiangsu Province	19	316,691	1,554,010	0	1,870,701	8.1%
Suzhou	2	58,073	108,280	0	166,353	0.7%
Yangzhou	1	0	205,302	0	205,302	0.9%
Nantong	2	148,511	0	0	148,511	0.6%
Lianyungang	2	29,863	55,918	0	85,781	0.4%
Yancheng	1	0	222,159	0	222,159	1.0%
Suqian	1	0	119,341	0	119,341	0.5%
Taizhou	8	80,244	727,129	0	807,373	3.5%
Nanjing	1	0	73,594	0	73,594	0.3%
Zhenjiang	1	0	42,287	0	42,287	0.2%
Shandong Province	7	33,506	968,604	765,982	1,768,092	7.7%
Ji'nan	3	6,973	666,420	42,583	715,976	3.1%
Ji'ning	3	26,533	169,508	723,399	919,440	4.0%
Liaocheng	1	0	132,676	0	132,676	0.6%
Anhui Province	30	209,756	2,554,497	394,744	3,158,997	13.7%
Wuhu	4	563	661,033	0	661,596	2.9%
Xuancheng	10	110,181	938,429	194,323	1,242,933	5.4%
Chuzhou	12	99,012	416,495	161,039	676,546	2.9%
Ma'anshan	2	0	248,937	0	248,937	1.1%
Suzhou	1	0	260,737	0	260,737	1.1%
Anqing	1	0	28,866	39,382	68,248	0.3%
Jiangxi Province	6	7,747	824,555	170,093	1,002,394	4.3%
Jiujiang	1	0	208,887	0	208,887	0.9%
Fuzhou	4	0	503,141	170,093	673,234	2.9%
Shangrao	1	7,747	112,527	0	120,273	0.5%
Hubei Province	13	114,798	377,323	490,571	982,692	4.3%
Wuhan	4	14,272	0	67,293	81,565	0.4%
Xiantao	5	78,332	228,471	184,935	491,738	2.1%
Jingmen	1	0	148,852	238,343	387,195	1.7%
Jingzhou	3	22,194	0	0	22,194	0.1%
Hunan Province	3	6,873	594,311	226,159	827,343	3.6%
Hengyang	1	0	131,206	100,354	231,560	1.0%
Yueyang	1	6,873	245,371	0	252,244	1.1%
Changde	1	0	217,734	125,805	343,539	1.5%
Inner Mongolia Autonomous Region	6	0	208,552	854,733	1,063,285	4.6%
Hohhot	6	0	208,552	854,733	1,063,285	4.6%
Fujian Province	1	35,305	66,329	300,000	401,634	1.7%
Nanping	1	35,305	66,329	300,000	401,634	1.7%
Liaoning Province	3	37,196	49,666	0	86,862	0.4%
Anshan	3	37,196	49,666	0	86,862	0.4%
<b>Total attributable land bank</b>	<b>195</b>	<b>1,802,237</b>	<b>15,845,475</b>	<b>5,396,945</b>	<b>23,044,656</b>	<b>100.0%</b>

Source: Company data, CMBIS

## Notes:

- (1) Includes (i) GFA pre-sold but yet to be delivered; and (ii) GFA unsold and available for sales.
- (2) Refers to GFA available to generate rental income excluding investment properties.
- (3) Refers to GFA of property held for investment.
- (4) Refers to total planned GFA under development as set out in the construction work commencement permits.
- (5) Refers to (i) GFA for which Shinsun has signed a land grant contract but has not obtained the relevant land use rights certificates; and (ii) GFA for which Shinsun has obtained the land use rights certificates but has not obtained the requisite construction work commencement permits.
- (6) Total land bank equals the sum of (i) GFA available for sale, leasable GFA and GFA for property investment for completed properties; (ii) total planned GFA for properties under development; and (iii) total estimated GFA for properties held for future development.
- (7) For projects held by joint ventures or Shinsun's associates, total GFA has been adjusted by its equity interest in the respective project.
- (8) Certain amounts above may have been rounded up or down. Accordingly, totals in the table above may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to such rounding.

## Quality residential property portfolio

Revenue from property development accounted for 99.6% of Shinsun's revenue in 2019. Shinsun develops a variety of quality residential properties, mainly mid- to high-end residential properties targeting first-time purchasers, first-time upgraders, subsequent upgraders, and high-net-worth customers, in the form of four major series:

- 1) Arbor series (樾系): Featuring strong functionality and practicality, Arbor series primarily targets first-time purchasers and offers interior designs that provide sufficient space for the living needs of family members, especially children.
- 2) Mansion series (府系): Featuring modern Chinese design, Mansion series primarily targets first-time upgraders who seek comfort in addition to functionality and practicality. In terms of interior design, the Mansion series offers spacious living areas for each age group.
- 3) Cloud series (雲境系): Featuring modern minimalist design style with a mix of modern Chinese and metropolitan, the Cloud series targets subsequent upgraders who value premium living environment and centralized community facilities.
- 4) Top series (Top 系): The Top series targets high-net-worth customers seeking luxury lifestyles with high degrees of privacy. Shinsun hires renowned designers to ensure top-level craftsmanship, and equip the properties with premium branded hardware and decoration.



## Other services

### Management consulting services

Shinsun provides management consulting services to its joint ventures and associates, mainly including services in connection with project construction, cost control, project design, procurement and sales and marketing of properties during the development and sales process. Revenue from management consulting services amounted to RMB9.0mn and RMB23.9mn in 2018 and 2019, respectively.

### Property leasing

As of 31 Mar 2020, Shinsun owned eight completed investment properties with an aggregate GFA of approximately 297,146 sq m. Leasing income was RMB14.0mn, RMB14.6mn and RMB12.6mn in 2017-19, respectively.

**Figure 11: Detailed information of investment properties**

Project	Location	GFA for Investment Property (sq m)	Occupancy rate as of 31 Mar 2020
<b>Investment properties held as of 31 Mar 2020</b>			
1 Tiantai Shinsun Century Square Phase II	Taizhou, Zhejiang Province	127,036	100%
2 Zhuji Square Shopping Mall Project	Shaoxing, Zhejiang Province	78,333	100%
3 Zhuji New Century Garden Shops	Shaoxing, Zhejiang Province	770	100%
4 Zhuji Futian Garden Shops	Shaoxing, Zhejiang Province	7,268	100%
5 Guangxin Building 18th Floor	Hangzhou, Zhejiang Province	1,375	100%
6 Ruijing International Business Center 27th Floor	Hangzhou, Zhejiang Province	241	100%
7 Honghu Shinsun Jujin Square	Jingzhou, Hubei Province	13,236	N/A (1)
8 Hubei Shinsun Fairyland International Hotel (2)	Xiantao, Hubei Province	68,887	N/A (3)
<b>Investment properties added subsequent to 31 Mar 2020</b>			
9 Zhuji Shinsun Century Hotel (2)	Shaoxing, Zhejiang Province	43,254	N/A (3)

Source: Company data, CMBIS

(1) This property does not have an occupancy rate as Shinsun was in the process of formulating the lease and tenant sourcing plan as of 31 Mar 2020.

(2) Shinsun operated and derived hotel service revenue from Zhuji Shinsun Century Hotel and Hubei Shinsun Fairyland International Hotel during the Track Record Period. It reclassified Hubei Shinsun Fairyland International Hotel and Zhuji Shinsun Century Hotel from property, plant and equipment to investment properties in Mar 2020 and Apr 2020, respectively, and expects to generate property leasing income from these two hotels thereafter.

(3) This property does not have an occupancy rate as it is a hotel.

### Hotel services

During Track Record Period, Shinsun operated three hotels in Zhejiang and Hubei provinces. Revenue from hotel services totalled RMB110mn, RMB112mn and RMB107mn in 2017-19, respectively.

Following the reorganization, Shinsun ceased the hotel services business in 2020 by disposing Zhuji Xiangsheng Youqiju Hotel Co. Ltd in Jan 2020. Shinsun further disposed of hotel services for Hubei Shinsun Fairyland International Hotel and Zhuji Shinsun Century Hotel, and reclassified them from property, plant and equipment to investment properties during the period between Mar 2020 and Apr 2020 and expects no revenue generated from operation of these two hotels thereafter.

### Property management services

During the Track Record Period, Xiuyan Manchu Autonomous County Xiangsheng Yuedu Property Co., Ltd. and Taizhou Xiangsheng Property Management Co., Ltd. provided property management services to four residential properties. These services primarily include security, cleaning, greening, repair and maintenance. Revenue derived from Shinsun's property management services was RMB3.5mn, RMB2.7mn and RMB3.8mn in 2017-19, respectively. Shinsun disposed of Taizhou Xiangsheng Property Management Co., Ltd in Jan 2018. In addition, to further focus its resources on property development, Shinsun disposed of Xiuyan Manchu Autonomous County Xiangsheng Yuedu Property Co., Ltd. in Mar 2020 as part of the Reorganization. Accordingly, it does not expect to record any revenue from property management services following the disposal.

## COVID-19 impact

The property construction and sales activities have been gradually resumed as the COVID-19 pandemic had been largely contained. Currently, (i) all property projects located in and outside Hubei Province had resumed normal operations; (ii) contractors continued to carry out their obligations under the relevant contracts pursuant to the contract terms; (iii) Shinsun did not experience any significant shortage of construction materials or labors that materially interrupted the construction or sales of properties; and (iv) in the event Shinsun experiences any delays in the completion of construction or the delivery of its projects, Shinsun would not be subject to penalties from government authorities or damages from property purchasers within a reasonable period affected by the COVID-19 pandemic if it notifies the purchasers in a timely manner, pursuant to *force majeure* provisions under property purchase contracts.

As of 31 Mar 2020, Shinsun had 13 property projects in Hubei Province with an aggregate attributable GFA of 0.98mn sq m. Currently, Shinsun had obtained approvals from relevant authorities with respect to resumption of construction for three projects under development. There may be an approximately one- to three-month delay in the property delivery of two projects under development in Hubei Province. But Shinsun is allowed to extend the delivery date pursuant to the relevant government policies.

## Suppliers and customers

Suppliers primarily include construction contractors and equipment suppliers. Shinsun's purchases from its five largest suppliers amounted to RMB5,027mn, RMB10,465mn and RMB11,286mn in 2017-19, respectively, accounting for 43.9%, 47.3% and 57.5% of total purchase. Purchases from the single largest supplier, Xiangsheng Construction (which is a connected person) amounted to RMB4,386mn, RMB9,610mn and RMB9,832mn in 2017-19, respectively, accounting for 38.3%, 43.5% and 50.1% of total purchase.

Customers are primarily individual purchasers and corporate entities. Revenue from five largest customers amounted to RMB107mn, RMB75mn and RMB86mn in 2017-19, respectively, accounting for 1.7%, 0.5% and 0.2% of total revenue. All of five largest customers are independent third parties in 2017-19.

## Competitive Advantages

### **A fast-growing, large-scale, comprehensive real estate developer, deeply rooted in Zhejiang Province and the Pan-YRD Region with strategic nationwide coverage**

#### **A fast-growing, large-scale, comprehensive real estate developer**

Shinsun is a fast-growing, large-scale, comprehensive real estate developer in China focusing on the development of quality residential properties in select regions in China. Revenue increased from RMB 6,293.3mn in 2017 to RMB 14,215.3mn in 2018 and further to RMB 35,519.5mn in 2019, representing a CAGR of 137.6%. Recognized GFA increased from approximately 0.84mn sq m in 2017 to approximately 1.42mn sq m in 2018, and further to approximately 3.49mn sq m in 2019, representing a CAGR of 104.0%.

#### **Widely recognized brand evidenced by numerous industry accolades**

According to the Enterprise Research Institute of the Development Research Centre of the State Council, the Centre for Real Estate of Tsinghua University and the China Index Academy, Shinsun has been consistently ranked among "China's Top 100 Real Estate Developers" for ten consecutive years in terms of comprehensive capabilities since 2011.

#### **Deeply rooted in Zhejiang Province**

Headquartered in Shanghai and deeply rooted in Zhejiang Province, Shinsun has established a leading market position in Zhejiang Province over 20 years of development. According to the China Real Estate Index System, in 2019, Shinsun ranked the third in terms of contracted sales among all residential property developers in Zhejiang Province.

#### **Well-positioned in the Pan-Yangtze River Delta Region**

Shinsun expanded into the Pan-Yangtze River Delta Region in 2004 and since then has established a strong market presence in the area. According to JLL, in 2019, the Pan-YRD Region contributed to approximately 27.3% nominal GDP of the PRC, and had a disposal income per capita higher than national average, which has spurred the development of real estate market in the region. In addition, the PRC Government has issued various favourable policies to promote the integrated development of the region. Shinsun is well-positioned to capitalize on the favourable policies and expected growth opportunities in the Pan-YRD Region.

#### **Strategic nationwide coverage**

Shinsun's success in Zhejiang Province and the Pan-YRD Region laid a solid foundation for strategic expansion into other economic regions of China. As of 31 Mar 2020, Shinsun had 195 projects at various stages of development in 43 cities across 11 provinces with a total GFA attributable of 23.04mn sq m.

### **"1+1+X" expansion strategy and quality land bank**

#### **National penetration**

Following "1+1+X" expansion strategy, Shinsun expanded its land bank in Zhejiang Province and the Pan-Yangtze River Delta Region and other regions in China to reinforce the leading position. It entered into Jiangsu Province and Shanghai Municipality in 2004 and 2007, respectively and since then it had presented in other areas in the Pan-Yangtze River Delta Region such as Nanjing, Hefei, Suzhou, Nantong, Yangzhou, Wuhu and Jiujiang. Its extensive experience in Zhejiang Province and the Pan-Yangtze River Delta Region, acute insight into market trends and effective cost control have enabled Shinsun to build a successful track record in identifying and acquiring land parcels with long-term investment value, even in cities outside Zhejiang Province and the Pan-Yangtze River Delta Region, such as Wuhan in 2007 and Hohhot in 2018.

### **Flexible land acquisition approach**

Shinsun adopts diverse land acquisition methods to control land acquisition costs. Apart from public tender, auction or listing-for-sale, Shinsun also obtains land by acquiring project companies which possess land parcels and establishing joint ventures with other property developers. Furthermore, it has established a “Shinsun town” model under which Shinsun cooperates with local governments to develop featured comprehensive real estate projects with a mix of residential and commercial properties. It works closely with local governments in project positioning and industrial planning to accomplish local city-industry integration policies. It may obtain residential and commercial land for development at relatively low land acquisition cost and with various policy support.

“1+1+X” expansion strategy, quality land bank and the strategic location of land parcels will provide Shinsun with a solid foundation in future property development and support its sustainable development.

## **Diversified product portfolio and well-established brand image**

### **Comprehensive product range**

Shinsun provides comprehensive product offerings, catering to the varying needs of target customers and covering first-time purchasers, first-time upgraders, subsequent upgraders and high-net-worth customers. Shinsun is able to design and build quality properties tailored to customers with different needs and preferences. Shinsun has developed four series of residential properties, including Arbor series targeting first-time purchasers, Mansion series targeting first-time upgraders, Cloud series targeting subsequent upgraders and Top series targeting high-net-worth customers.

Shinsun also has built a portfolio of diversified commercial properties, covering office buildings, shopping centers, community businesses and hotels. Investment properties would generate stable and recurrent income and enhances the value of the nearby residential properties that Shinsun developed.

### **Shinsun Club builds image and loyalty**

Service quality is important to Shinsun customers and its brand image. Shinsun has developed and implemented “Happiness” customer service system to serve different customer groups. It also introduced Shinsun Club, an interactive multi-function new media platform where residents can request maintenance services, lodge complaints, and stay informed with project progress and online activities. Shinsun believes that its emphasis on product integrity and services quality will help Shinsun enhance brand image and cultivate brand loyalty.

## **Seasoned and visionary management and dedicated execution team**

Shinsun’s historical success and future prospects depend on the quality and experience of management team and execution team. Mr. Chen Guoxiang, Shinsun’s Chairman, has more than 27 years of industry experience. He has served as a council member and an executive council member of the 7th and 8th Council of the China Real Estate Industry Association (中国房地产业协会).

Shinsun has recruited a team of seasoned and visionary management personnel with an average of ten years of experience in the real estate industry, most of whom had experience in top 30 property development companies in China. Shinsun attracts and retains talented employees with competitive compensation and incentives, as well as comprehensive training and transparent career paths.

## Business Strategy

### Continue with “1+1+X” expansion strategy, strengthen position in Zhejiang Province and the Pan-Yangtze River Delta Region and actively expand into cities with high potential

To capitalize on the favourable policy with respect to the Integrated Regional Development of the Yangtze River Delta promulgated by the State Council in 2019, Shinsun plans to solidify its leading market position in Zhejiang Province and the Pan-Yangtze River Delta Region. Shinsun expects Zhejiang Province and the Pan-Yangtze River Delta Region to continue to play an important role in China's economic growth, population concentration, industrial transformation and consumption upgrades, and Shinsun plans to increase its market shares therein to capture the opportunities. Shinsun also plans to expand strategically into other cities with high growth potential across China, such as Changsha.

Shinsun undergoes a careful examination and selection process of land parcels and carry out site selection process with a strong focus on the growth potential, marketability and profitability. Shinsun plans to continue to diversify land acquisition strategies by working closely with local partners, regional and project companies and government agencies. Shinsun intends to continue to adopt localized land acquisition strategies in order to acquire land located at desirable locations at reasonable costs.

### Further optimize product mix and upgrade service to enhance brand value

Shinsun plans to fulfil its mission as a “happy life operator” and provide customer-oriented products and services. Shinsun plans to monitor market trends and customers' evolving needs to diversify products and upgrade services. Shinsun intends to refine analysis of customer profiles, based on which Shinsun plans to update its property series targeting better-defined demographics. In particular:

- For customers of the Arbor series, Shinsun plans to address their needs for living and activity spaces;
- For customers of the Mansion series, Shinsun plans to optimize product features to improve their living experience in terms of property design quality;
- For customers of the Cloud series, Shinsun plans to enhance the details of property designs to address their needs for perfection;
- For customers of the Top series, Shinsun plans to introduce design features and services that provide them with enhanced sense of luxury, customization and privacy.

It will continue to uphold commitments to product quality. Shinsun plans to strengthen cooperation with leading architecture and design firms to maintain the artistic value and premium quality of property projects. In addition, Shinsun plans to further develop mixed residential and commercial properties under the “Shinsun Town” (祥生小鎮) model to capitalize on lower land acquisition costs and favourable government policies.

### Further improve operational efficiency through standardized management and comprehensive operation model

To facilitate nationwide expansion, Shinsun will continue to implement standardized management procedures to improve operational efficiency. It also plans to refine the comprehensive operational model. Shinsun will continue to place great emphasis on project planning and positioning to improve development efficiency, achieve high asset turnover, and ensure product quality. The emphasis on operational efficiency will be beneficial in timely responding to market changes, capture new opportunities, and expand into new markets.

Shinsun plans to optimize organizational structure by further empowering regional companies and project companies to make decisions, because they are better connected to the local communities, customer bases, and regulatory authorities. It plans to offer more robust data support to regional and project companies, which will help them better formulate and adhere to budgets. Shinsun also plans to refine the management system by establishing accountability measures, upgrading information technology systems, and standardizing internal rules and procedures on communications, property development, risk control, cost management, and supplier selection. The optimization of Shinsun's operation and organizational structure will enable it to achieve higher operational efficiency and more rapid business growth.

### **Continue to diversify financing channels, improve capital structure and reduce costs**

To optimize capital structure and reduce financing costs, Shinsun plans to continue to explore diversified debt financing channels such as ABS, senior notes or other debt offerings, as well as equity financing channels such as strategic investments. Shinsun plans to continue to adhere to prudent financial policies, closely monitor exposures to financial risks and control various costs and expenses, such as land acquisition costs, administrative expenses and selling and distribution expenses.

To maintain healthy profit margins, Shinsun intends to flexibly pricing its properties, taking into account market value, local conditions, and investments. It plans to consider holistically its investment and asset acquisition strategies, to grow business while controlling costs and ensuring balance of capital structure. To expedite asset turnover and improve working capital liquidity, Shinsun also plans to compress project development cycle by more thoroughly reforming and implementing the standardized operational procedures to improve property development efficiency.

### **Continue to build a talented team and establish a competitive compensation scheme**

Shinsun believes that clear career paths are critical in attracting and retaining talented employees. To that end, Shinsun plans to continue to offer value-added trainings to employees through targeted vocational courses tailored to different functions and positions. Shinsun's Shinsun Business School (祥生商学院) will continue to offer a wide variety of managerial courses to employees on the management career track. Shinsun also plans to establish an internal leadership pipeline where it offers clear career paths to employees through management trainee programs and internal referral programs.

In addition, Shinsun plans to optimize the competitiveness and structure of the employee compensation. Shinsun designs compensation schemes that reward both individual efforts and departmental success (共创共赢、能者多得). The compensation schemes sufficiently mobilize morale and entrepreneurial spirit of employees, and align interests of employees with achievements of the Group.



## Financial Analysis

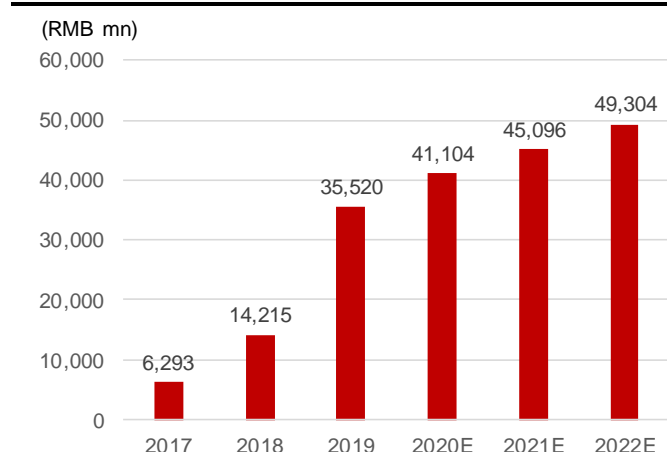
### Forecast revenue to grow at a 16% CAGR next three years

Revenue amounted to RMB6.29bn, RMB14.2bn and RMB35.5bn in 2017-19, respectively. Revenue from property development is the major income contributor that accounted for 98.0%, 99.0% and 99.6% of total revenue in 2017-19, respectively. The substantial rise in revenue from property sales was attributed by the rise in recognized GFA from 0.84mn sq m in 2017 to 1.42mn sq m in 2018 and further to 3.49mn sq m in 2019. Furthermore, recognized ASP increased from RMB7,355 per sq m in 2017 to RMB9,896 per sq m in 2018 and further to RMB10,140 per sq m in 2019.

As of 31 Dec 2019, contract liabilities amounted to RMB77.9bn, which is equivalent to RMB81.5bn transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) related to the sale of properties. Among RMB81.5bn transaction price, RMB47.5bn and RMB34.0bn are expected to be satisfied in 2020 and afterwards, respectively. This provides a clear guidance for future earnings recognition.

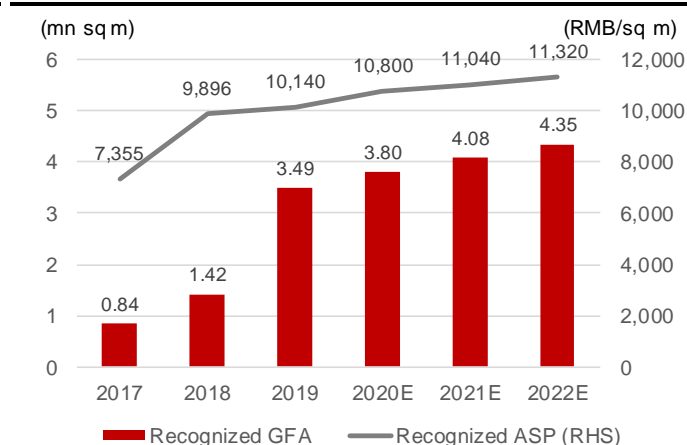
We project recognized GFA to be 3.80mn sq m, 4.08mn sq m and 4.35mn sq and recognized ASP to be RMB10,800 per sq m, RMB11,040 per sq m and RMB11,320 per sq m in 2020-22, respectively. As a result, revenue from property development is expected to be RMB41.0bn, RMB45.0bn and RMB49.2bn in 2020-22, respectively. We forecast total revenue to be RMB41.1bn, RMB45.1bn and RMB49.3bn in 2020-22, respectively, representing an 11.6% CAGR in the corresponding period.

**Figure 12: Revenue**



Source: Company data, CMBIS estimates

**Figure 13: Recognized GFA and ASP**



Source: Company data, CMBIS estimates

### Gross profit margin is expected to expand

Gross profit margin was 13.2%, 21.1% and 23.9% in 2017-19, respectively. The improvement of gross profit margin was mainly driven by the increase of recognized ASP for property development business as well as better cost control, especially, in the land cost. Recognized ASP increased from RMB7,355 per sq m in 2017 to RMB9,896 per sq m in 2018 and further to RMB10,140 per sq m in 2019. On the other hand, average land acquisition cost to recognized ASP ratio decreased from 31.8% in 2017 to 29.7% in 2018 and further to 28.7% in 2019. Gross profit margin for property development and sales was 12.4%, 20.8% and 23.7% in 2017-19, respectively.

**Figure 14: Average cost of properties sold**

	2017 (RMB/sq m)	2018 (RMB/sq m)	2019 (RMB/sq m)
Average land use right costs	2,342	2,937	2,915
Construction costs	3,435	4,299	4,357
Capitalized interest costs	664	605	461
<b>Total</b>	<b>6,441</b>	<b>7,841</b>	<b>7,733</b>
Gross margin for property development and sales	12.4%	20.8%	23.7%
Recognized ASP	7,355	9,896	10,140
Land use right costs/recognized ASP	31.8%	29.7%	28.8%
Construction costs/recognized ASP	46.7%	43.4%	43.0%
Capitalized interest/recognized ASP	9.0%	6.1%	4.5%
<b>Total</b>	<b>87.6%</b>	<b>79.2%</b>	<b>76.3%</b>

Source: Company data, CMBIS

As Shinsun will cease the operation of hotel and property management businesses in 2H20, there will be no revenue contribution from hotel and property management businesses afterwards. Property development and sales business will remain as the largest segment of revenue contribution for Shinsun. Since we project a mild ASP increase next three years, we expect overall gross profit margin to be 23.1%, 23.5% and 24.1% in 2020-22, respectively.

## SG&A expenses

Selling, General and Administrative (SG&A) expenses increased from RMB1.07bn in 2017 to RMB1.94bn in 2018 and to RMB2.40bn in 2019. The rise in SG&A expenses was attributed to strengthened selling and marketing efforts as well as business expansion. As a percentage of revenue, SG&A expense decreased from 17.0% in 2017 to 6.8% in 2019 because of robust growth of revenue from RMB6.3bn in 2017 to RMB35.5bn in 2019.

We forecast SG&A expenses to revenue ratio to be 7.0%, 6.9% and 6.8% in 2020-22, respectively because of economies of scale. As such, we project total SG&A expenses to increase by 20.0% to RMB2.88bn in 2020, 8.1% to RMB3.11bn in 2021 and 7.7% to RMB3.35bn in 2022.

**Figure 15: SG&A expenses**

	2017 (RMB mn)	% of revenue	2018 (RMB mn)	% of revenue	2019 (RMB mn)	% of revenue
Selling and distribution expenses	503	8.0%	753	5.3%	1,074	3.0%
Administrative expenses	522	8.3%	1,119	7.9%	1,125	3.2%
Other expenses	46	0.7%	70	0.5%	199	0.6%
SG&A expenses	1,070	17.0%	1,942	13.7%	2,399	6.8%
YoY			81.4%		23.5%	

Source: Company data, CMBIS

## Estimated net profit attributable to shareholders to grow at 22% CAGR next three years

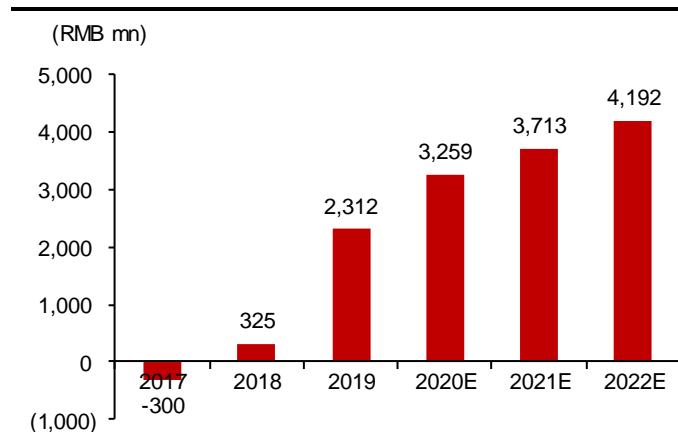
Shinsun recorded a net loss attributable to shareholders of RMB300mn in 2017. It is because Shinsun had accelerated property development activities and geographical expansion since 2016 and incurred significant SG&A expenses in 2017 while gross profit only amounted to RMB834mn in 2017. Following the business expansion in 2018 and 2019, operational environment improved with higher gross margin and less SG&A expenses to revenue ratio in 2018 and 2019. As a result, Shinsun had turned around since 2018. Net



profit attributable to shareholders was RMB325mn and RMB2,312mn in 2018 and 2019, respectively.

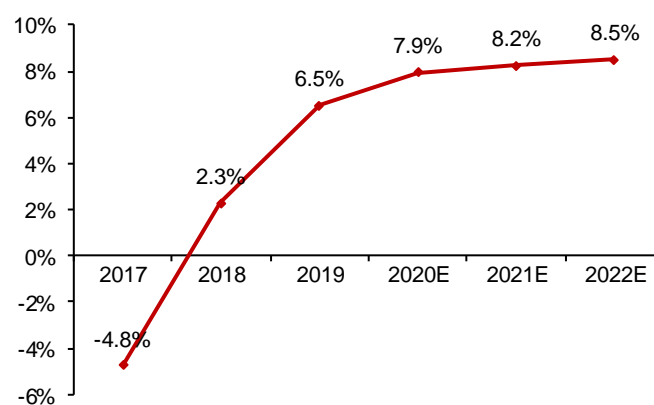
We forecast net profit attributable to shareholders to be RMB3.26bn, RMB3.71bn and RMB4.19bn in 2020-22, respectively, representing a 21.9% CAGR in the period. Furthermore, we project net profit (attributable to shareholders) margin to be 7.9%, 8.2% and 8.5% in 2020-22, respectively.

**Figure 16: Net profit attributable to shareholders**



Source: Company data, CMBIS estimates

**Figure 17: Net profit (attributable to shareholders) margin**



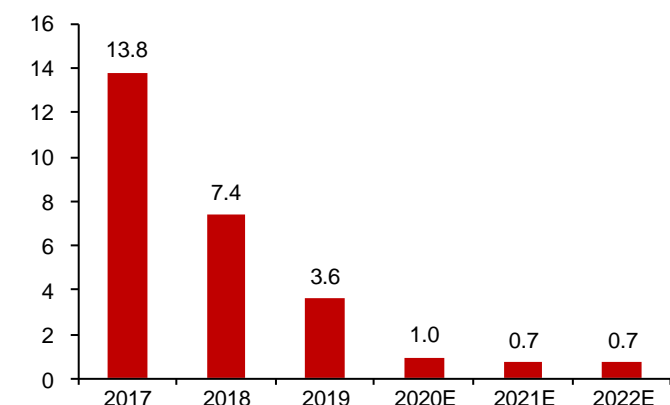
Source: Company data, CMBIS estimates

## Net gearing is improving

As of 31 Dec 2019, total interest-bearing bank and other borrowings was RMB28.5bn while cash and cash balances consisted of cash and cash equivalents, pledge deposits and restricted cash was RMB6.96bn. Net gearing ratio was 13.8x, 7.4x and 3.6x in 2017-19, respectively. Net gearing ratio of Shinsun was high. But net gearing ratio was improving from 2017 to 2019. It is primarily attributable to an increase in total equity as a result of the improvement in profitability but was partially offset by an increase in total borrowing. Total borrowing increased from RMB25.9bn in 2017 to RMB28.7bn in 2019.

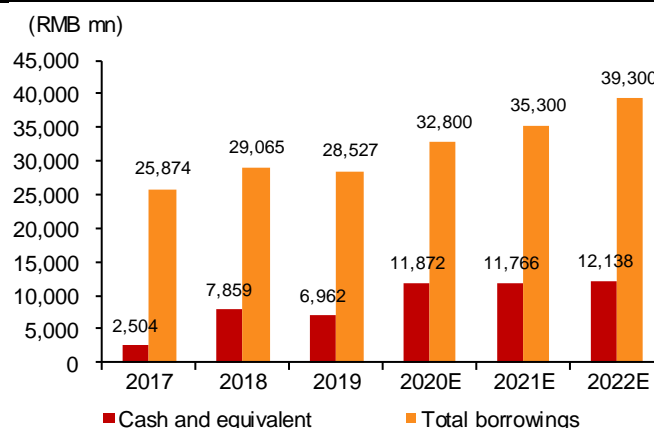
Following the adoption of “1+1+X” business strategy, we expect Shinsun will experience a rapid growth path in coming years. Its financial performance and profitability is expected to strengthen in coming years. We forecast net gearing ratio to retreat to 1x in 2020, 0.7x in 2021 and 0.7x in 2022.

**Figure 18: Net gearing ratio**



Source: Company data, CMBIS estimates

**Figure 19: Cash and debt position**



Source: Company data, CMBIS estimates

## Related party transactions

The trade amount due to related parties are in connection with construction services and management consulting services provided by related parties. The trade amount due from related parties are in connection with management consulting services and property leasing to related parties.

Amounts due to and from related parties primarily represent cash advances to and from related parties. During the Track Record Period, advances to and from related parties are primarily non-trade cash advances the Company made to or received from related parties in relation to business operations. From time to time in its ordinary course of business, Shinsun advances funds to joint ventures and associates to satisfy their capital needs, and joint ventures and associates advance funds to Shinsun to satisfy the capital needs. It also received advances from other related parties such as companies controlled by the Controlling Shareholder as well as made advances to companies controlled by the Controlling Shareholder. As of 31 Dec 2017, 2018 and 2019, Shinsun recorded non-trade amounts due from related parties of RMB2,479mn, RMB4,094mn and RMB5,256mn, respectively, and recorded non-trade amounts due to related parties of RMB3,186mn, RMB2,483mn and RMB991mn, respectively.

## Valuation

Currently, China property developers under coverage of CMBIS are trading at 40% discount to NAV or 5.3x 21E P/E. Using a DCF method ended 31 Dec 2020, we estimate net asset value of Shinsun's landbank amounted to RMB21.6bn. We also forecast the book value of 2020E to be RMB11.0bn. As a result, we estimate NAV of the Company to be RMB32.4bn as at 31 Dec 2020. We set TP to HK\$ 7.75 based on a discount rate of 40%, in line with the industry, representing 26% upside.

**Figure 20: NAV of Shinsun**

Valuation	NAV			Remark
	(Rmb mn)	(HK\$ mn)	% of NAV	
Properties under development	19,754	23,800	60.5%	
Investment property	1,857	2,237	5.7%	
NAV of land bank	21,611	26,037	66.2%	DCF method with 11.5% WACC Dec-20
Book value	11,032	13,291	33.8%	
NAV	32,642	39,328	100.0%	
No. of shares	3,043			
NAV per share (HK\$)	12.92			
end-21 RMB	0.830			
WACC	11.5%			
Current valuation				
Discount to NAV		-52.4%		
NAV		40%		
T.P.		7.75		
Upside		26.1%		
21E PE		5.27		

Source: CMBIS estimates

**Figure 21: Peers' valuation**

Company	Ticker	Last price (LC)	Mkt Cap (LC mn)	Rating	TP (LC)	P/E			NAV/share (LC)	Discount to NAV	TP Discount
						19A	20E	21E			
Vanke - H	2202 HK	33.60	455,954	BUY	33.92	8.7	7.7	6.8	48.46	30.7%	30%
COLI	688 HK	19.34	211,690	BUY	30.49	4.6	4.3	4.1	43.55	55.6%	30%
Country Garden	2007 HK	9.48	208,896	BUY	13.36	4.6	4.6	3.9	26.72	64.5%	50%
CR Land	1109 HK	38.05	271,332	BUY	44.79	8.3	9.2	7.7	63.98	40.5%	30%
Longfor	960 HK	49.20	298,187	HOLD	34.27	14.1	13.8	11.1	48.95	-0.5%	30%
Shimao	813 HK	24.30	85,966	BUY	44.94	6.6	5.9	5.0	59.92	59.4%	25%
Agile	3383 HK	10.88	42,617	BUY	13.89	5.0	4.8	4.1	27.78	60.8%	50%
KWVG	1813 HK	11.88	37,785	BUY	17.87	3.4	4.9	4.2	25.52	53.4%	30%
Times China	1233 HK	11.54	22,374	BUY	16.20	3.8	3.2	2.8	32.40	64.4%	50%
Yuzhou	1628 HK	3.12	17,764	BUY	4.82	3.9	3.4	2.9	9.65	67.7%	50%
China SCE	1966 HK	3.29	13,891	BUY	5.60	3.5	3.3	2.8	9.34	64.8%	40%
Redsun	1996 HK	2.76	9,175	BUY	3.52	6.2	5.8	4.4	5.87	53.0%	40%
Sinic	2103 HK	3.94	14,067	BUY	5.06	6.2	5.2	4.2	10.11	61.0%	50%
Vanke - A	000002 CH	33.62	379,944	BUY	31.36	9.7	8.6	7.6	48.46	30.6%	35%
<b>Average</b>						<b>6.3</b>	<b>6.1</b>	<b>5.1</b>		<b>50.4%</b>	<b>38.6%</b>

Source: Bloomberg, CMBIS estimates

## Key investment risks

In our view, key investment risks for the Company include 1) fluctuation of the China property market; 2) lack of financing for property development projects; 3) changes in government policies and regulations; 4) intra-sector competition.

## Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>14,215</b>	<b>35,520</b>	<b>41,104</b>	<b>45,096</b>	<b>49,304</b>	<b>EBIT</b>	1,166	6,329	7,170	8,182	9,260
Property development	14,077	35,372	41,040	45,043	49,242	Depreciation and amortization	66	106	9	12	12
Management consulting	9	24	30	35	40	Change in working capital	(33,893)	(499)	(4,247)	(6,980)	(13,300)
Property leasing	15	13	15	18	22	Income tax paid	(1,864)	(1,609)	(3,022)	(3,416)	(3,934)
Hotel	112	107	15	-	-	Others	34,015	(810)	(1,794)	6,895	7,082
Property management	3	4	4	-	-	<b>Net cash from operating</b>	<b>(509)</b>	<b>3,517</b>	<b>(1,883)</b>	<b>4,693</b>	<b>(880)</b>
Cost of sales	(11,216)	(27,039)	(31,216)	(34,025)	(36,952)	Capex	(762)	(972)	(174)	(1,886)	(526)
<b>Gross profit</b>	<b>2,999</b>	<b>8,480</b>	<b>9,888</b>	<b>11,071</b>	<b>12,352</b>	Associates/JV	(369)	(887)	(345)	(300)	(320)
Other income and gains	108	247	160	223	261	Other	(1,876)	(1,151)	(110)	(136)	(136)
Distribution expenses	(753)	(1,074)	(1,233)	(1,353)	(1,479)	<b>Net cash from investing</b>	<b>(3,007)</b>	<b>(3,009)</b>	<b>(629)</b>	<b>(2,322)</b>	<b>(982)</b>
Administrative expenses	(1,119)	(1,125)	(1,562)	(1,669)	(1,775)	Equity raised	916	259	3,156	-	-
Other expenses	(70)	(199)	(82)	(90)	(99)	Change of Debts	3,148	(563)	4,273	2,500	4,000
<b>Operating profit</b>	<b>1,166</b>	<b>6,329</b>	<b>7,170</b>	<b>8,182</b>	<b>9,260</b>	Dividend paid	(20)	(32)	-	(978)	(1,114)
Finance expenses	(432)	(778)	(419)	(460)	(504)	Other	(644)	(871)	4,500	500	500
Associates/JV	(61)	(43)	185	198	213	<b>Net cash from financing</b>	<b>3,401</b>	<b>(1,206)</b>	<b>11,928</b>	<b>2,022</b>	<b>3,386</b>
Exceptional	14	22	-	-	-	Net change in cash	(116)	(698)	9,416	4,393	1,523
<b>Pre-tax profit</b>	<b>686</b>	<b>5,530</b>	<b>6,937</b>	<b>7,920</b>	<b>8,970</b>	Cash at the beginning	3,229	3,114	2,415	11,831	16,225
Profits tax	(258)	(2,321)	(3,103)	(3,552)	(4,038)	Exchange difference	-	-	-	-	-
After-tax profit	428	3,209	3,834	4,368	4,931	<b>Cash at the end</b>	<b>3,114</b>	<b>2,415</b>	<b>11,831</b>	<b>16,225</b>	<b>17,748</b>
Minority interest	(103)	(897)	(575)	(655)	(740)	Pledged deposit	4,745	4,547	4,547	4,547	4,547
<b>Net profit</b>	<b>325</b>	<b>2,312</b>	<b>3,259</b>	<b>3,713</b>	<b>4,192</b>	Cash at BS	7,859	6,962	16,378	20,772	22,295

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	<b>4,177</b>	<b>#VALU</b>	<b>6,278</b>	<b>8,608</b>	<b>9,818</b>	<b>Sales mix (%)</b>					
Fixed asset	594	539	550	580	600	Property development	99.0	99.6	99.8	99.9	99.9
Investment properties	1,103	#VALU	1,650	3,500	4,000	Management consulting	0.1	0.1	0.1	0.1	0.1
Associates/JV	712	1,455	1,800	2,100	2,420	Property leasing	0.1	0.0	0.0	0.0	0.0
Intangible assets	10	12	18	18	18	Hotel	0.8	0.3	0.0	0.0	0.0
Other non-current assets	1,759	2,074	2,260	2,410	2,780	Property management	0.0	0.0	0.0	0.0	0.0
						<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Current assets</b>	<b>117,890</b>	<b>125,056</b>	<b>143,028</b>	<b>156,672</b>	<b>172,715</b>	<b>Growth rate (%)</b>					
Cash	7,859	6,962	16,378	20,772	22,295	Revenue	125.9	149.9	15.7	9.7	9.3
Account receivable	12,278	11,583	9,120	10,300	12,500	Gross profit	259.7	182.7	16.6	12.0	11.6
Inventories	91,720	98,090	105,800	113,100	125,000	Operating profit	N.A.	442.9	13.3	14.1	13.2
Due from related parties	4,162	5,561	8,500	9,120	9,500	Net profit	N.A.	611.4	40.9	13.9	12.9
Other current assets	1,872	2,859	3,230	3,380	3,420						
<b>Current liabilities</b>	<b>105,490</b>	<b>107,385</b>	<b>111,600</b>	<b>122,330</b>	<b>132,340</b>	<b>Profit &amp; loss ratios (%)</b>					
Borrowings	15,586	11,511	12,800	13,800	14,800	Gross margin	21.1	23.9	24.1	24.5	25.1
Trade and other payables	8,824	10,001	11,000	12,500	13,300	Operating margin	8.2	17.8	17.4	18.1	18.8
Contract liabilities	74,574	77,902	81,000	89,000	97,000	Net margin	2.3	6.5	7.9	8.2	8.5
Deferred taxation	566	1,923	2,000	2,120	2,210	Effective tax rate	37.6	42.0	44.7	44.8	45.0
Due to related parties	5,909	5,956	4,800	4,910	5,030						
Other current liabilities	31	92	0	0	0	<b>Balance sheet ratios</b>					
<b>Non-current liabilities</b>	<b>13,697</b>	<b>17,267</b>	<b>20,817</b>	<b>22,825</b>	<b>26,491</b>	Current ratio (x)	1.1	1.2	1.3	1.3	1.3
Borrowings	13,479	17,017	20,000	21,500	24,500	Net gearing ratio (x)	7.4	3.6	1.0	0.7	0.7
Other non-current liabilities	218	251	817	1,325	1,991						
<b>Shareholders' equity</b>	<b>1,958</b>	<b>4,617</b>	<b>11,032</b>	<b>13,767</b>	<b>16,845</b>	<b>Returns (%)</b>					
Minority interest	923	1,358	5,858	6,358	6,858	ROE	16.6	50.1	29.5	27.0	24.9
Total equity	2,881	5,975	16,889	20,125	23,703	ROA	0.4	2.5	2.6	2.6	2.7
						<b>Per share</b>					
						EPS (RMB)	N.A.	N.A.	1.07	1.22	1.38
						DPS (RMB)	N.A.	N.A.	0.32	0.37	0.41
						BVPS (RMB)	N.A.	N.A.	5.55	6.61	7.79

Source: Company data, CMBIS estimates

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