

It could get worse but probably not cheaper

Alan Jin, PhD, CFA

Mizuho Securities Asia Ltd.
 alan.jin@hk.mizuho-sc.com
 +852 2685 2018

Wayne Lee, CFA

Mizuho Securities Asia Ltd.
 wayne.lee@hk.mizuho-sc.com
 +852 2685 2029

In our House Alarm series published from [May](#) to [October](#) 2016, we warned of a policy reversal from easing to tightening, the fading of sales momentum, and a likely housing price decline in upper-tier cities, among other risks. Some of the risks have already materialised while others have yet to be fully reflected. Our cautiousness towards the housing market remains unchanged, and we believe it will continue to deteriorate. However, the fierce sell-off seen in 4Q16, which marked the worst fourth quarter for the sector since 2008, has led us to believe that risk-reward looks favourable, as not only housing market risks but also other external risks (RMB depreciation, capital outflows) have been priced in. Meanwhile, the strong seasonality of a results season rally may once again trigger valuation normalisation. We believe current valuations are attractive to long-term investors, and think that short-sellers should cover/reduce short positions. We expect the rally to be sector wide in the next 3–4 months, and we particularly favour bellwethers and yield plays. **Bellwethers:** We upgrade COLI to BUY (from Neutral) following the share price correction, and make it a top pick alongside CR Land (BUY). **High yield:** We favour yield names amid unjustifiably low valuations in our view. On our research, we upgrade Guangzhou R&F to BUY (from U/P) backed by its high dividend yield (~11–12% in FY16–18) and improved fundamentals (solid margins even if the physical market softens, given low land acquisition costs).

Risk-reward not bad

- **Spring months typically best time to hold China property stocks.** This year the rally may come early. Bellwethers COLI and CR Land have reported positive returns in February–April in eight out of nine years since 2008. The sharp decline in 4Q16 was the deepest since 2008, setting the stage in our view for a mean-reversion rally driven by earnings reporting, mainly in March.
- **Attractive dividend yields.** The 11 developers we cover have an average expected FY16E dividend yield of 5.3%, much higher than the Hang Seng Index's 3.7% per Bloomberg consensus data.
- **Macro risks abating.** We believe part of the hit from policy curbs has already been priced in. RMB depreciation and capital outflows in the Hong Kong stock market seem to be abating, setting the backdrop for a normalisation of valuations in our view.
- **Valuations near distressed levels.** With the upcoming earnings season set to be upbeat, prevailing valuations are not justified in our view. Both PBR and discounts to NAV are close to 1x standard deviation below historical averages since 2009. PER is 0.7x standard deviation below.

Sector snapshot

	Net profit (m)		EPS		BVPS		P/E (x)		P/B (x)	
	Dec 16E	Dec 17E	Dec 16E	Dec 17E	Dec 16E	Dec 17E	Dec 16E	Dec 17E	Dec 16E	Dec 17E
Agile Group (CNY)	2,862	3,943	0.73	1.01	10.42	11.18	4.9	3.6	0.3	0.3
Central China Real Estate (CNY)	974	1,360	0.40	0.56	3.10	3.53	3.6	2.6	0.5	0.4
China Evergrande Group (CNY)	6,148	7,209	0.45	0.52	4.20	4.72	10.1	8.6	1.1	1.0
China Jinmao (HKD)	4,003	4,524	0.38	0.42	3.36	3.47	5.7	5.1	0.6	0.6
China Overseas Land & Investment (HKD)	37,273	39,083	3.78	3.96	21.77	25.03	5.6	5.4	1.0	0.9
China Resources Land (HKD)	18,907	23,275	2.73	3.36	17.94	20.52	6.6	5.4	1.0	0.9
Country Garden (CNY)	10,424	13,015	0.46	0.58	3.20	3.58	8.1	6.5	1.2	1.0
Guangzhou R&F Properties (CNY)	5,471	6,895	1.70	2.14	14.32	15.00	5.0	4.0	0.6	0.6
KWG Property (CNY)	3,063	3,367	1.03	1.13	8.19	9.01	3.8	3.4	0.5	0.4
Sino-Ocean Group (CNY)	3,467	4,213	0.46	0.56	6.20	6.56	6.8	5.6	0.5	0.5
Yuexiu Property (CNY)	1,561	2,086	0.13	0.17	2.40	2.33	7.7	5.8	0.4	0.4

Source: Company data, Bloomberg, Mizuho research

Reasons to BUY

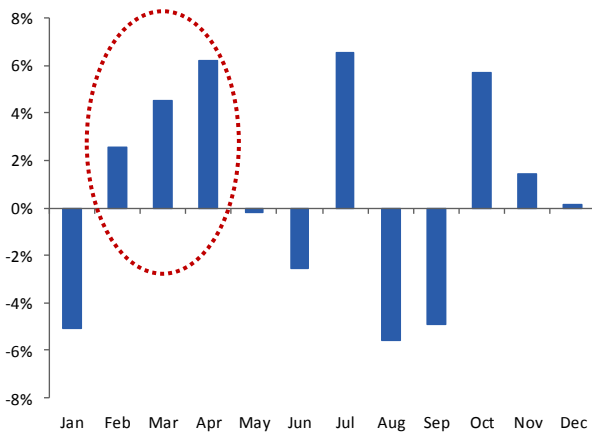
1. Strong seasonality: spring is the harvest time for China property stocks, and this year the rally may come earlier

Though January usually is a bad month for China property stocks, the spring season in general is a good time to own China property names.

- Since 2008, the total return of low-beta names (taking COLI and CR Land as proxies) from February to April were positive eight out of the past nine years (2008–16), with the exception of 2014. Similarly, high-beta names collectively reported six positive returns in the same period over the past nine years.
- We think the bellwethers will lead the rally by posting higher returns in the early stage (February and March), with high-betas catching up in April.
- We believe high-betas have long-tail rallies as the average May return is also positive, while low-betas post negative returns in May on average.

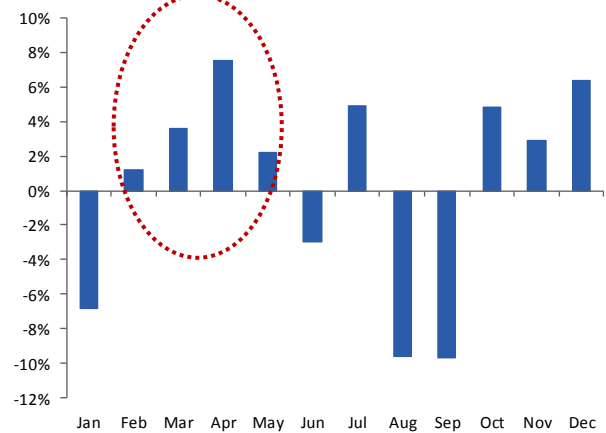
This year, the rally could come earlier as we have seen a sharp decline in the sector since October, which has paved the way for valuations to stage an early rally. The average decline of low-beta names was 22% in October–December, the deepest drop since 2008. High-beta names declined by a total of 7% in the last three months of 2016, less sharp but also the deepest decline since 2008. This likely occurred because valuations of high-beta stocks have not risen significantly over the past few years despite the two-year rally in the housing market.

Fig 1 Historical monthly performance of China property sector since 2008, low-beta names



Source: Bloomberg, Mizuho research

Fig 2 Historical monthly performance of China property sector since 2008, high-beta names



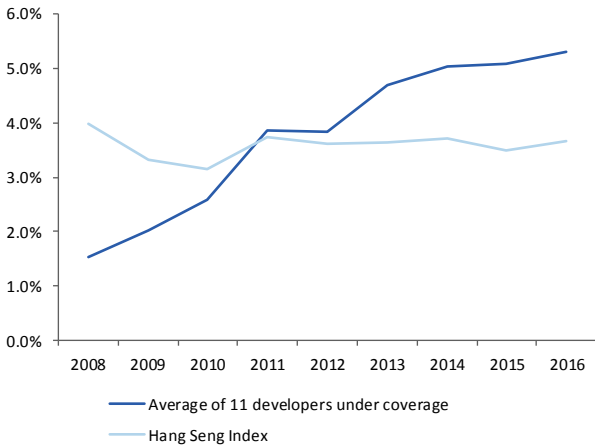
Source: Bloomberg, Mizuho research

2. Dividends

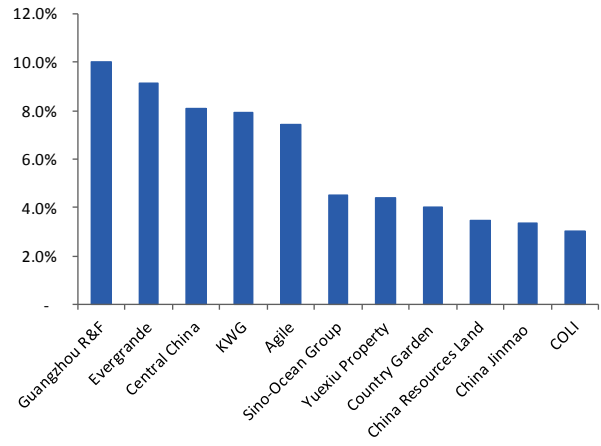
As share price growth has lagged earnings and DPS growth, we believe China property has turned into a high-yield sector, with some developers offering dividend yields above 6%, including Guangzhou R&F, Evergrande, Central China, KWG, and Agile, to name a few. We believe such high yields look attractive, and think some investors will position themselves before the results season to tap into the high dividend yields.

A typical example is Guangzhou R&F (2777 HK). Its share price tanked after the company suspended its DPS payout in 2015, but rallied in the first part of 2016 on a high dividend yield.

Fig 3 Developers typically pay out much higher dividend yields than the Hang Seng Index **Fig 4** Dividend yields for companies under coverage



Source: Bloomberg, Mizuho research



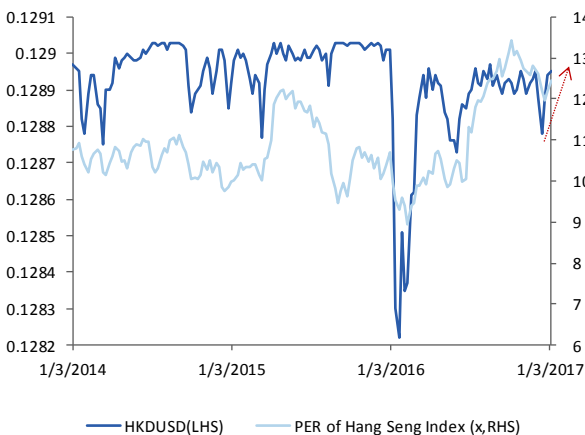
Source: Bloomberg, Mizuho research

3. Macro risks abating

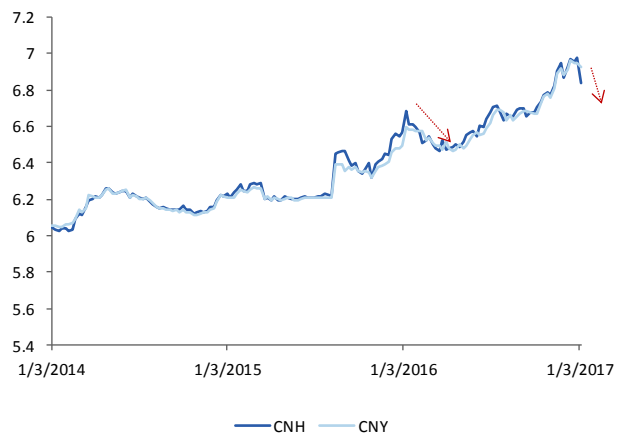
We discussed macro risks in our 21 December note entitled [China property: A not so merry Christmas](#). Entering 2017, these concerns that have caused the sector to tank are seemingly disappearing. With CNY staging a strong rally on the back of the PBoC's short-squeeze, we expect RMB depreciation pressure to ease in the next one or two quarters, though long-term depreciation pressure will persist (see [Capital controls trigger liquidity squeeze in offshore RMB market](#), JG Shen and Michael Luk, 6 January 2017).

The capital outflows that depressed Hong Kong stock market valuations in 4Q16 are also reversing, as evidenced by the stronger HKD against the USD.

Fig 5 Capital flows turn favourable for the Hong Kong stock market **Fig 6** RMB depreciation likely to abate in the next 3-4 months



Source: Bloomberg, Mizuho research



Source: Bloomberg, Mizuho research

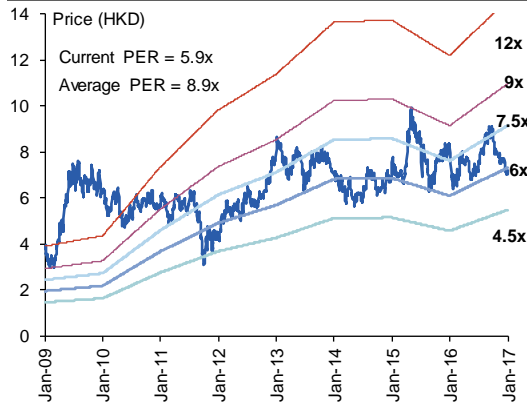
4. Valuation: attractive

We looked at three commonly used valuation yardsticks: PER, PBR, and discount to NAV. All three point to a distressed valuation, with both PBR and the discount to NAV trading near one standard deviation below their respective averages since 2009. As such, we view the sector as attractive even in the face of expected sector headwinds.

- PER: the sector is at 5.9x rolling 12-month PER, 0.7x below the standard deviation since 2009.

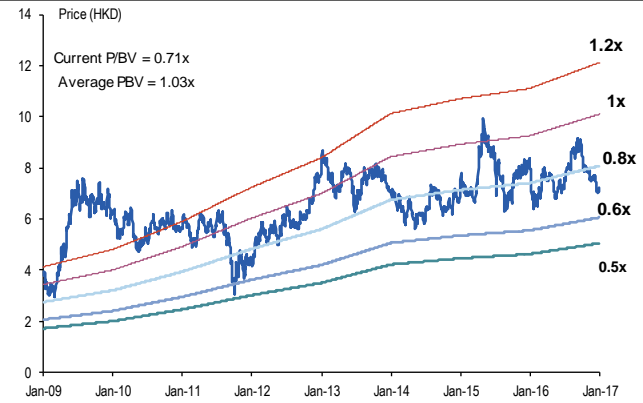
- PBR: the sector is at 0.7x rolling 12-month book value, 1x standard deviation below the average of 1.0x.
- Discount to NAV: after the recent sell-off, the sector is trading at a 53% discount to NAV, close to 1x standard deviation from the historical average discount of 44% since 2009, similar to PBR.

Fig 7 Rolling 12-month current PER band



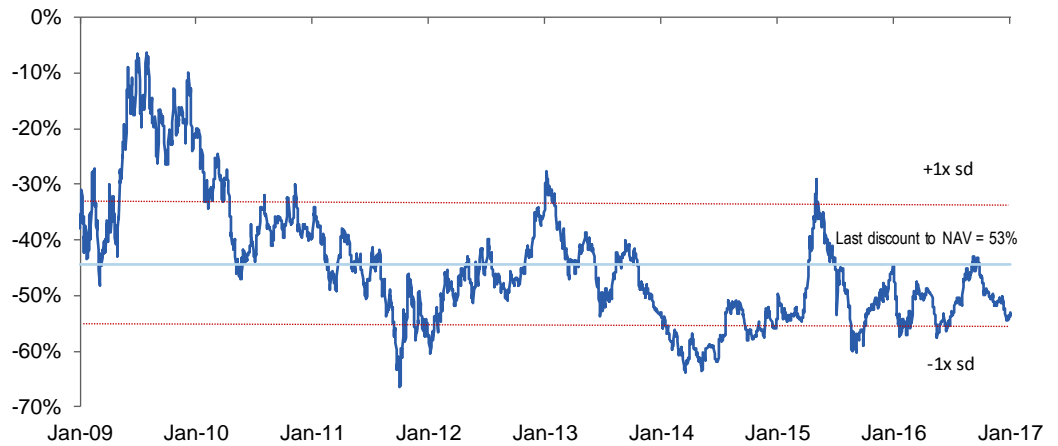
Source: Bloomberg, Mizuho research

Fig 8 Rolling 12-month current P/BV band



Source: Bloomberg, Mizuho research

Fig 9 Discount to NAV



Source: Bloomberg, Mizuho research

Fig 10 China property sector – valuation summary

Company	Ticker	Rating	Price performance (%)			Market cap (HKDmn)	Closing price (HKD)	PO	Upside/downside (%) (HKD)	NAV	Px disc to NAV (%)	Core P/E (x)			P/B (x)			EV/EBI TDA (x)		Dividend yield	
			YTD	5 day	1 day							FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY16E	FY15	FY16E	
CR Land	1109 HK	BUY	3.8	4.6	0.6	125,450	18.10	24.50	35.4	39.50	54	8.8	7.3	6.0	1.1	1.0	0.9	5.07	3.2%	3.4%	
Country Garden	2007 HK	U/P	(3.2)	(2.8)	(0.2)	90,748	4.20	2.77	(34.0)	6.93	39	8.4	8.1	6.5	1.3	1.2	1.0	9.42	3.6%	4.0%	
Evergrande	3333 HK	U/P	4.6	4.8	-	69,133	5.05	4.15	(17.8)	9.88	49	11.2	10.1	8.6	1.2	1.1	1.0	19.60	8.9%	9.1%	
CN Jinmao	817 HK	U/P	2.9	4.9	(0.5)	22,944	2.15	1.52	(29.3)	3.52	39	8.2	7.1	6.1	0.6	0.6	0.6	5.63	3.4%	3.4%	
Sino Ocean Group	3377 HK	BUY	1.4	4.8	1.1	26,449	3.52	3.60	2.3	11.00	68	14.7	7.3	6.0	0.5	0.5	0.5	9.66	3.3%	4.4%	
Yuexiu	123 HK	BUY	2.8	3.8	-	13,517	1.09	1.33	22.0	3.10	65	9.7	9.6	7.8	0.4	0.4	0.5	10.02	4.1%	4.2%	
KWG	1813 HK	BUY	(0.7)	1.9	0.2	13,345	4.37	5.60	28.1	10.92	60	4.5	3.8	3.4	0.5	0.5	0.4	10.16	7.4%	7.8%	
COLI	688 HK	BUY	3.9	5.2	1.7	233,915	21.35	25.60	19.9	34.62	38	7.1	6.1	5.9	1.1	1.0	0.8	3.92	2.6%	2.7%	
Guangzhou R&F	2777 HK	BUY	1.8	4.8	2.0	30,774	9.55	12.60	31.9	24.22	61	5.7	4.1	3.8	0.7	0.6	0.6	8.48	14.1%	10.6%	
Agile	3383 HK	BUY	2.5	3.3	0.2	15,864	4.05	5.51	36.0	15.28	73	10.6	3.8	3.1	0.4	0.3	0.3	5.80	9.1%	7.4%	
Central China	832 HK	BUY	(4.1)	(5.3)	(3.0)	3,956	1.62	2.45	51.2	6.99	77	4.3	3.6	2.6	0.5	0.5	0.4	1.81	6.6%	8.3%	
Spring REIT	1426 HK	BUY	(1.6)	(0.3)	(0.3)	3,584	3.17	3.87	22.1	3.91	19	24.9	22.6	22.7	0.5	0.5	0.5	18.20	7.6%	8.3%	
Average^			1.4	2.7	0.2	58,736	6.82	8.15	13.3	15.09	57	8.47	8.5	6.4	5.4	0.8	0.7	0.6	6.0%	6.0%	
Longfor	960 HK	NR	3.7	5.3	0.4	7,639	10.20	14.22	39.4	na	na	6.0	6.6	5.7	1.1	0.9	0.8	8.43	3.1%	4.5%	
Vanke-H	2202 HK	NR	1.9	3.2	(2.1)	31,837	18.04	19.67	9.1	na	na	9.8	8.6	7.3	2.0	1.6	1.4	10.92	3.1%	5.1%	
Poly HK	119 HK	NR	5.4	8.0	5.4	1,272	2.71	2.47	(9.0)	na	na	10.5	-	44.4	0.3	0.4	0.4	11.74	2.8%	0.5%	
Shimao	813 HK	NR	2.8	4.0	(0.2)	4,541	10.42	12.10	16.2	na	na	4.1	5.0	4.5	0.7	0.6	0.5	7.67	7.6%	6.4%	
Greentown	3900 HK	NR	0.5	3.1	(0.2)	1,750	6.31	7.19	14.0	na	na	5.4	6.4	5.5	0.5	0.4	0.4	11.30	0.0%	2.8%	
SZI	604 HK	NR	2.9	3.2	0.9	3,138	3.20	4.53	41.4	na	na	6.0	8.0	6.5	0.7	0.7	0.6	6.97	5.0%	5.9%	
Hui Xian REIT	87001 HK	NR	(0.0)	0.6	-	2,192	3.13	3.78	20.8	na	na	12.1	14.2	13.0	0.6	0.6	0.6	11.08	8.2%	9.1%	
SOHO CHINA	410 HK	NR	2.6	2.9	1.0	2,613	3.92	4.31	10.0	na	na	4.5	49.4	39.4	0.5	0.5	0.5	5.78	7.1%	7.6%	
Fantasia	1777 HK	NR	-	3.1	-	731	0.99	1.53	54.2	na	na	4.0	7.4	5.7	0.5	0.5	0.4	7.17	4.9%	4.6%	
Sunac	1918 HK	NR	3.6	3.7	(1.0)	3,305	6.68	6.14	(8.1)	na	na	6.2	12.1	8.0	1.2	1.0	0.9	25.34	3.2%	1.8%	
BJ Capital Land	2868 HK	NR	1.7	3.1	1.4	1,149	2.96	4.50	52.0	na	na	3.2	5.4	4.2	0.6	0.5	0.5	39.51	9.4%	6.4%	
COGO	81 HK	NR	4.0	4.4	1.2	770	2.63	3.20	21.7	na	na	4.7	5.2	4.1	0.5	0.5	0.4	4.52	1.9%	0.7%	
Sector average^			1.9	3.3	0.4	28,839	6.05	7.03	17.1	12.65	57	7.2	9.2	7.5	0.8	0.7	0.6	10.84	5.3%	5.1%	

Source: Mizuho research, Bloomberg. Prices as of closing price on 6 Jan.

China Overseas Land & Investment (688 HK)

China / Real Estate Investment & Services

10 Jan 2017

BUY (FROM NEUTRAL)

Solid fundamentals intact—upgrade to BUY

We upgrade COLI to BUY (from Neutral), believing that this battered bellwether will once again lead the sector rally during the upcoming results season. COLI's share price slumped by 22% in 4Q16 (HSI: -6%) on profit-taking amid policy risk and a management reshuffle. In our view the selloff is overdone, given robust fundamentals. We raise our PO to HKD25.60 (from HKD25.00), factoring in the acquisition of CITIC's property portfolio (15 September 2016) and its own land acquisitions in 2016. Our PO is based on a 26% discount to our NAV estimate. We raise FY16-17E core earnings by 1-6% on higher delivery assumptions. COLI and CR Land are our top picks in the sector.

Solid fundamentals after management reshuffle. We think policy headwinds and the resignation of the former chairman have depressed the share price. Yet we believe the sell-off is overdone, since COLI's long-term fundamentals as an SOE post his departure remain strong. This may not have been the case for a non-SOE developer, where the chairman is typically the founder and largest shareholder. On our research, appointing an SOE chairman is as much about the art of politics as it is about professional ability. We think the market is overlooking the point that the new management team now has the reinforced backing of the parentco. So the management reshuffle may be a long-term positive and not a negative.

Expecting steady sales. COLI posted contracted sales of HKD207b (+25% YoY) in 11M16. In our view, with the CITIC portfolio starting to contribute in 2017, COLI will continue to print double-digit contracted sales growth through FY18.

Valuation: bellwether trading as an ordinary stock. Post the sell-off COLI shares are trading like an ordinary stock rather than a bellwether. We think 6.1x FY16E PER represents a rare opportunity to accumulate for long-term gains. Our PO points to 19.9% upside potential.

Price (06 Jan 2017)	HKD21.35
Price objective	(from HKD25.00) HKD25.60
Pot'l up/downside	19.9%
Market cap	HKD233.9b (USD30.16b)
52-week high-low	HKD27.45-20.30
No. of shares (m)	10,956
Avg. daily turnover (3M / 12M)	USD60.0m / USD65.1m

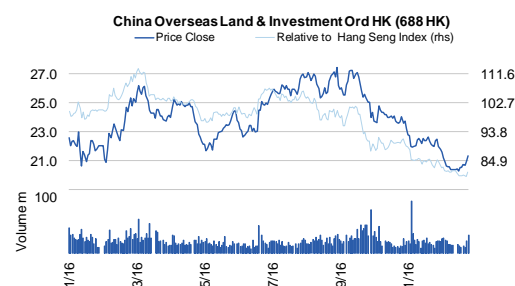
Alan Jin, PhD, CFA

 Mizuho Securities Asia Ltd.
 alan.jin@hk.mizuho-sc.com
 +852 2685 2018

Wayne Lee, CFA

 Mizuho Securities Asia Ltd.
 wayne.lee@hk.mizuho-sc.com
 +852 2685 2029

Share price performance with volume



Share price (%)	-1 mth	-3 mth	-12 mth
Ordinary shares	-3.2	-15.8	-15.5
Relative to Index	-2.4	-9.7	-22.8

Source: Bloomberg

Valuation

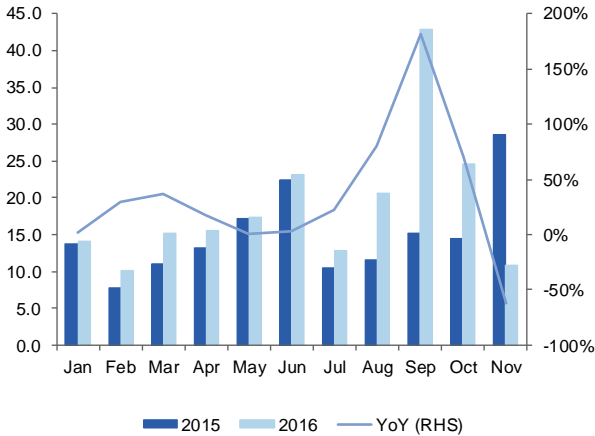
YE:	Dec 14	Dec 15	Dec 16E	Dec 17E	Dec 18E
Revenue (HKDm)	119,997	148,074	180,881	210,758	219,659
Net profit (HKDm)	27,680	33,312	37,615	41,298	42,112
Normalised net profit (HKDm)	23,830	27,457	35,740	39,798	40,612
Norm. net profit margin	19.86%	18.54%	19.76%	18.88%	18.49%
Normalised EPS (HKD)	2.92	2.99	3.51	3.63	3.71
Net debt to equity	32.49%	6.79%	18.83%	(2.87%)	(3.12%)
Normalised P/E (x)	7.32	7.13	6.08	5.88	5.76
P/B (x)	1.31	1.10	0.96	0.84	0.75
EV/EBITDA (x)	5.37	5.10	4.16	3.23	3.17
ROE	19.23%	16.47%	15.98%	14.86%	13.44%
Dividend yield	2.58%	2.64%	2.73%	3.00%	3.06%

Source: Company data, Bloomberg, Mizuho research

Steady sales, among the best margins in the sector per our estimates

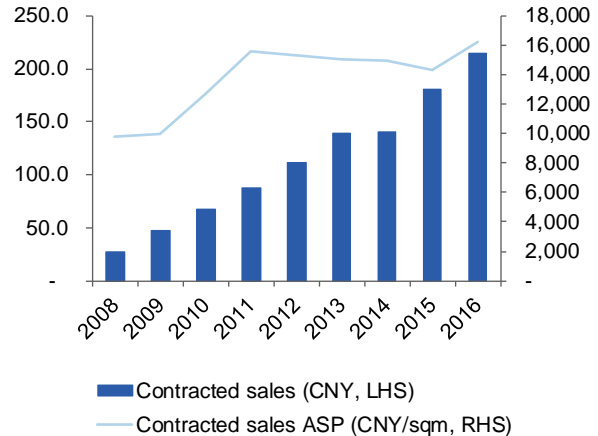
For 11M16 COLI posted contracted sales of HKD207b, up by 25% YoY. We expect it to report full-year contracted sales of HKD215b, up 19% YoY. We think the company may not want to report bumper sales in December as this may set a high base of comparison for 2017. The sales run-rate is satisfactory in our view. With full-year contracted ASP probably up by 13%, net margin will likely be stable at around 18-19%—among the widest in the sector per our research.

Fig 1 COLI contracted sales



Source: Company reports, Mizuho research

Fig 2 Contracted sales and ASP of COLI, 2008-2016E



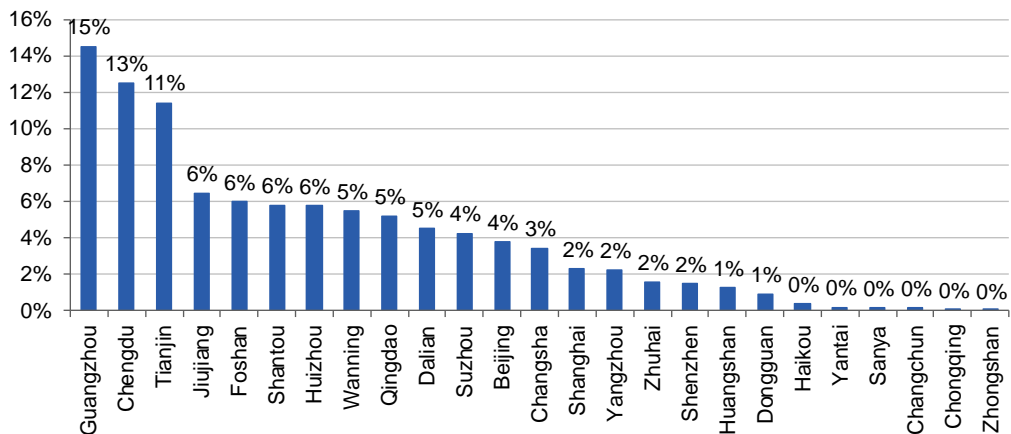
Source: Company reports, Mizuho research

CITIC portfolio: significant contributions from 2017E

Some investors appear concerned that the departure of the former chairman, Mr Hao, may affect COLI's acquisition of CITIC's property portfolio. He was seen by some as a driving force behind the deal. We remain upbeat, since the deal has already been completed (15 September 2016), according to a company [announcement](#). Plus we believe COLI's acquisition of CITIC Group's (267 HK, NR) property business is mainly the outcome of SOE reform, and is not the brainchild of COLI's management. Note that CITIC Group companies CITIC Group and COLI's parentco China State Construction Engineering Corp (601688 CH, NR) are both deputy-ministry level SOEs.

We think the acquisition of CITIC's property portfolio will boost COLI's sales from 2017E. As much as 21m sqm GFA of landbank in CITIC's portfolio are in COLI's 10 major cities for sales in the past few years, expanding land reserve in these cities by 49-855% (next Fig). Also, 72% of the portfolio's GFA is in tier-1/tier-2 cities.

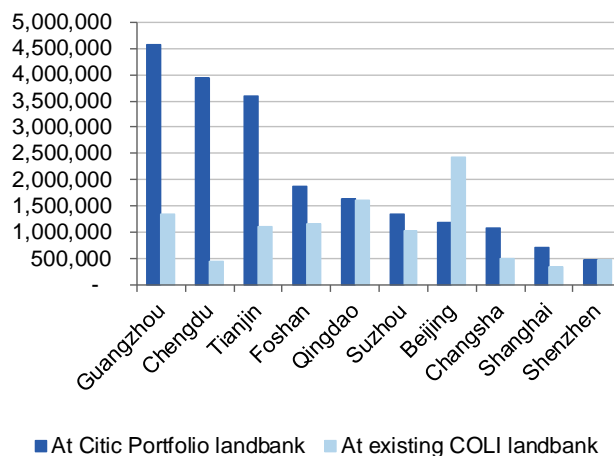
Fig 3 CITIC's landbank geographical breakdown



Source: Company data, Mizuho research

Fig 4 10 major tier 1 and 2 cities to boost GFA by 49% to 855%

	At Citic Portfolio landbank	At existing COLI landbank	GFA (sqm) increase in %
Guangzhou	4,571,478	1,357,607	337%
Chengdu	3,937,575	460,534	855%
Tianjin	3,599,213	1,110,203	324%
Foshan	1,880,745	1,154,271	163%
Qingdao	1,642,509	1,622,186	101%
Suzhou	1,343,120	1,021,673	131%
Beijing	1,184,217	2,430,611	49%
Changsha	1,084,152	503,623	215%
Shanghai	721,949	346,605	208%
Shenzhen	472,895	481,518	98%

Fig 5 Citic Portfolio's landbank could boost COLI's existing landbank


Source: Company data, Mizuho research

Valuation and risks

Valuation

Our end FY17E NAV estimate of HKD34.62/share (previously end FY16 NAV HKD33.84/share) is derived based on DCF assuming a 12.5% WACC discount rate. Our PO of HKD25.60 (from HKD25.00) is derived by applying a 26% (unchanged) discount to our NAV estimate—the average discount since 2009. So we are using the mid-cycle valuation for COLI. We raise core earnings for FY16E/17E by 1%/6%, mainly on higher delivery assumptions.

Fig 6 Revised earnings estimates

(HKD m)	Revenue			Normalised net profit		
	Old	New	Change (%)	Old	New	Change (%)
FY16E	170,449	180,881	6%	35,398	35,740	1%
Fy17E	185,516	210,758	14%	37,583	39,798	6%

Source: Company reports, Mizuho research

Risks

Downside investment risks: earlier-than-expected and deeper housing market correction; a prolonged macroeconomic down-cycle in Hong Kong; and faster-than-expected RMB depreciation.

Fig 7 NAV breakdown estimate

Residential developments	Value (CNY m)	Value per share	% of gross asset value		Value (CNY m)	Value per share	% of gross
Pearl River	64,691	5.9	15.4	Northern	16,399	1.5	3.9
Guangzhou	12,290	1.1	2.9	Changchun	2,923.5	0.3	1
Shenzhen	22,798	2.1	5.4	Shenyang	11,512.6	1.1	3
Zhongshan	7	0.0	0.0	Harbin	1,764.5	0.2	0
Zhuhai	3,022	0.3	0.7	Jilin	(49.1)	(0.0)	(0)
Foshan	5,599	0.5	1.3	Hohhot	247.1	0.0	0
Shantou	10,313	0.9	2.5	Hong Kong	15,432.1	1.4	4
Xiamen	460	0.0	0.1	Macau	1,507.4	0.1	0
Zhengzhou	(58)	(0.0)	(0.0)				
				Gross development asset value (CNY m)	279,207	25.5	69.3
Fuzhou	1,508	0.1	0.4				
Haikou	1,503	0.1	0.4	PRC investment properties			
Dongguan	46	0.0	0.0	Residential	899	0.1	0.2
Wanning	1,342	0.1	0.3	Office Property	54,447	5.0	13.5
Huizhou	5,688	0.5	1.4	Commercial	55,094	5.0	13.7
Sanya	172	0.0	0.0	Overseas investment	4,861		
Yangtze River Delta	51,117	4.7	12.2	Less PV of Capex	(2,832)	(0.3)	(0.7)
				Gross investment assets (CNY m)	112,469	10.3	27.9
Shanghai	28,464	2.6	6.8				
				Gross Property assets (CNY m)	391,676	35.8	97.2
Hangzhou	4,398	0.4	1.0	HKD/CNY exchange rate	1.07		
Suzhou	2,317	0.2	0.6	Gross property assets (HKD m)	419,093	38.3	97.2
				Investments at cost	12,236	1.1	2.8
Nanjing	6,032	0.6	1.4				
Ningbo	6,023	0.5	1.4	Gross asset value (HKD m)	431,329	39.4	100.0
Wuxi	2,024	0.2	0.5	Less net debt	(46,087)	(4.2)	
Changzhou	193	0.0	0.0	Less MSHI	(5,979)	(0.5)	
Nantong	(29)	(0.0)	(0.0)				
Yangzhou	1,457	0.1	0.3	Net asset value (HKD m)	379,262	34.6	
Shaoxing	(38)	(0.0)	(0.0)	Shares outstanding	10,956		
Yancheng	32	0.0	0.0	Net asset value per share (HKD)	34.62		
Hefei	243	0.0	0.1	Discount to NAV	26%		
				FY16F fair value (HKD)	25.60		
Bohai Rim	94,326	8.6	22.5				
Beijing	35,815	3.3	8.5				
Tianjin	31,883	2.9	7.6				
Dalian	7,444	0.7	1.8				
Qingdao	7,644	0.7	1.8				
Jinan	1,670	0.2	0.4				
Weifang	5,634	0.5	1.3				
Zibo	3,061	0.3	0.7				
Yantai	1,175	0.1	0.3				
Western & Central	35,735	3.3	8.5				
Chengdu	11,847	1.1	2.8				
Xian	6,379	0.6	1.5				
Chongqing	8,244	0.8	2.0				
Changsha	4,452	0.4	1.1				
Nanchang	(549)	(0.1)	(0.1)				
Lanzhou	159	0.0	0.0				
Yinchuan	(150)	(0.0)	(0.0)				
Guilin	183	0.0	0.0				
Nanning	259	0.0	0.1				
Wuhan	285	0.0	0.1				
Kunming	236	0.0	0.1				
Urumqi	1,395	0.1	0.3				
Taiyuan	2,127	0.2	0.5				
Jiujiang	680	0.1	0.2				
Huangshan	187	0.0	0.0				

Source: Company reports, Mizuho research

Financials

Fig 8

Summary income statement (HKDm)	Dec 14	Dec 15	Dec 16E	Dec 17E	Dec 18E
Investment properties revenue	1,185	1,915	2,490	2,739	3,013
Property development revenue	116,254	143,695	175,803	205,518	214,145
Hotel/serviced apartments revenue					
Other revenue	2,558	2,465	2,588	2,501	2,501
Revenue	119,997	148,074	180,881	210,758	219,659
Investment properties EBIT	2,157	3,384	4,400	4,840	5,324
Property development EBIT	36,685	37,225	54,693	68,383	72,826
Hotels/serviced apartments EBIT					
Other EBIT	111	140	170	168	166
Operating EBITDA	37,130	38,374	60,220	67,128	68,109
Depreciation and amortisation	115	88	-	-	-
Operating EBIT	37,245	38,462	60,220	67,128	68,109
Net interest income	(346)	(574)	(2,728)	(4,630)	(5,069)
Associates and JVs	1,599	977	1,074	1,665	2,581
Other income	1,319	4,103	625	500	500
Pre-tax profit	39,817	42,968	59,191	64,663	66,120
Taxation	(15,462)	(14,772)	(22,528)	(23,803)	(24,286)
Post-tax profit	24,355	28,196	36,664	40,860	41,834
Minorities	(525)	(739)	(924)	(1,063)	(1,222)
Preferred dividends					
Normalised net profit	23,830	27,457	35,740	39,798	40,612
Extraordinary & other adjustments	3,850	5,855	1,875	1,500	1,500
Net profit	27,680	33,312	37,615	41,298	42,112
Dividends	(4,496)	(5,553)	(6,394)	(7,021)	(7,159)
Appropriation to reserve					

Source: Company data, Mizuho research

Fig 9

Key ratios	Dec 14	Dec 15	Dec 16E	Dec 17E	Dec 18E
Revenue growth	45.51%	23.40%	22.16%	16.52%	4.22%
Op EBITDA growth (YoY)	49.7%	3.4%	56.9%	11.5%	1.5%
EPS growth	20.11%	7.28%	1.75%	1.97%	1.97%
Normalised EPS growth	25.67%	2.71%	17.29%	3.43%	2.05%
P/CF (x)	17.64	3.81	3.18	6.84	19.83
P/B (x)	1.31	1.10	0.96	0.84	0.75
EV/EBITDA (x)	5.37	5.10	4.16	3.23	3.17
EV/EBIT (x)	5.35	5.09	4.16	3.23	3.17
Interest cover	107.8	67.0	22.1	14.5	13.4
Dividend yield	2.58%	2.64%	2.73%	3.00%	3.06%
Dividend payout ratio	16.24%	16.67%	17.00%	17.00%	17.00%
EBIT/sales	33.47%	29.41%	34.23%	32.88%	32.41%
Tax rate	38.83%	34.38%	38.06%	36.81%	36.73%
Leverage					
Net debt/EBITDA	1.17	0.34	0.77	(0.12)	(0.14)
Net debt to equity	32.49%	6.79%	18.83%	(2.87%)	(3.12%)
Net profit margin	23.07%	22.50%	20.80%	19.59%	19.17%
Dupont decomposition					
Sales/avg assets	0.37	0.38	0.35	0.32	0.31
ROAA	8.55%	8.56%	7.24%	6.27%	5.91%
Avg assets/avg equity	2.61	2.33	2.32	2.46	2.36
ROAE	22.75%	20.51%	17.24%	15.77%	14.22%
Per share					
EPS (HKD)	3.39	3.63	3.70	3.77	3.84
Normalised EPS (HKD)	2.92	2.99	3.51	3.63	3.71
FDEPS (HKD)	3.39	3.63	3.70	3.77	3.84
BVPS (HKD)	16.31	19.43	22.34	25.46	28.60
DPS (HKD)	0.55	0.56	0.58	0.64	0.65

Source: Company data, Mizuho research

Fig 10

Summary balance sheet (HKDm)	Dec 14	Dec 15	Dec 16E	Dec 17E	Dec 18E
Cash and equivalents	51,215	102,446	145,987	210,066	221,862
Properties held for sale	196,457	206,405	238,916	286,883	280,454
Accounts receivable	7,671	11,203	11,564	13,474	14,043
Other current assets	7,973	10,244	12,711	15,852	19,857
Total current assets	284,021	341,550	419,304	537,415	548,471
Investment property	44,755	64,224	70,052	70,052	70,136
Associates: share of net assets	17,623	16,981	16,981	16,981	16,981
Joint-control cos: share of net assets					
Other fixed assets	-	-	-	-	-
Other LT assets	3,074	3,194	104,424	78,387	83,726
Total assets	350,937	427,237	612,232	704,446	721,080
Total short term debt	22,542	7,269	7,269	7,269	7,269
Accounts payable	35,420	34,644	38,108	41,919	46,111
Other current liabilities	9,270	3,955	4,746	4,746	4,746
Total current liabilities	135,910	113,693	167,351	214,916	186,592
Total long-term debt	71,990	108,187	184,804	194,804	204,804
Convertible debt					
Other long-term liabilities	739	1,238	1,238	1,238	1,238
Total liabilities	214,129	230,624	361,524	419,589	401,766
Minority interests	3,474	5,055	5,979	5,979	5,979
Preferred shares					
Shareholders' funds	133,334	191,558	244,729	278,877	313,335
Total equity	136,808	196,613	250,708	284,857	319,315
Total liabilities & equity	350,937	427,237	612,232	704,446	721,080

Source: Company data, Mizuho research

Fig 11

Summary cash flow statement (HKDm)	Dec 14	Dec 15	Dec 16E	Dec 17E	Dec 18E
Operating ebitda	37,130	38,374	60,220	67,128	68,109
Decrease in working capital	(27,258)	(13,243)	19,445	(6,466)	(27,583)
Other operating cashflow	(14,435)	21,356	(24,933)	(24,094)	(24,735)
Cash flow from operations	(4,564)	46,487	54,732	36,569	15,790
Capital expenditure	(106)	(113)	-	-	-
Free cash flow	(4,669)	46,374	54,732	36,569	15,790
Net acquisitions	(5,247)	(1,793)	(3,328)	2,000	1,916
Decrease in other assets	(554)	(120)	(101,230)	26,037	(5,340)
Increase in other liabilities	158	499	0	(0)	0
Other new investments					
Adjustments	3,342	2,309	102,304	(24,372)	7,921
Cash flow after investing activities	(6,971)	47,269	52,478	40,234	20,287
Dividends paid	(4,048)	(6,976)	(9,167)	(11,271)	(13,269)
Equity issued	2	42,800	29,709	-	-
Debt issued	21,819	19,052	6,000	10,000	10,000
Convertible bonds issued					
Other financing cash flow	(909)	(46,962)	(5,579)	(4,783)	(5,222)
Cash flow from financing activities	16,863	7,915	20,963	(6,055)	(8,491)
Total cash generated	9,892	55,184	73,441	34,179	11,796
Cash at beginning of period	41,411	51,215	102,446	145,987	210,066
Implied cash at end of year	51,215	102,446	175,887	180,166	221,862
Net debt	43,317	13,011	46,087	(7,992)	(9,789)

Source: Company data, Mizuho research

China Resources Land

(1109 HK)

Reiterate BUY on all round strength

CR Land's share price fell 19% in 4Q16 (HSI index: -6%) as concerns about the property bubble bursting spooked investors. While we were calling for a sector correction, we believe the sell-off in CR Land was unfounded, as its fundamentals are among the sector's strongest. Not only is its development business making steady progress, its retail investment portfolio is defying sector headwinds, with rental income up 25% YoY in RMB terms in 3Q. Contracted sales in 2016 are set to exceed management's target of CNY106b. CR Land has the most balanced mix between development business and investment properties. BUY.

Premier investment properties. Controversial views on CR Land hinged mainly on its investment properties, especially retail malls outside tier-1 cities. We agree that retail and office premises in lower-tier cities in China are overbuilt, but there are still rare winners and CR Land is one. In a recent [conference call](#), management indicated that retail rental growth was up around 25% YoY in RMB terms and 18% YoY in HKD terms, even after the negative impact of VAT reform in Jan-Sep 2016. Now hosting the largest number of Apple Stores in China, CR Land should continue to win the trust of the most selective retailers on its established track record and deep knowledge.

Property development: CNY100b+ for the first time. CR Land posted cumulative contracted sales of CNY99b by November. Therefore, we think it is on track to meet its full-year sales target of CNY106b, thanks to asset injections from its parent company and its being ahead of the curve in land acquisitions in tier-1 cities (eg, Beijing and Shanghai) starting in early 2015.

Steady growth through the cycle. Over the past 3-4 years, CR Land's business has been improving steadily. The company was among the first to see a bottoming out of margins in the housing market downturn in 2014 and has expanded steadily ever since. Gearing declined to 13.5% at end-FY15 and is likely to remain low on bulky sales inflows and disciplined capex for land acquisitions. Trading at 7.2x FY16 PER, 1x FY16 PBR, and a 52% discount to NAV, the stock looks attractive.

BUY

Price (06 Jan 2017)	HKD18.10
Price objective	HKD24.50
Pot'l up/downside	35.4%
Market cap	HKD125.4b (USD16.18b)
52-week high-low	HKD23.55-17.00
No. of shares (m)	6,931
Avg. daily turnover (3M / 12M)	USD29.21m / USD31.81m

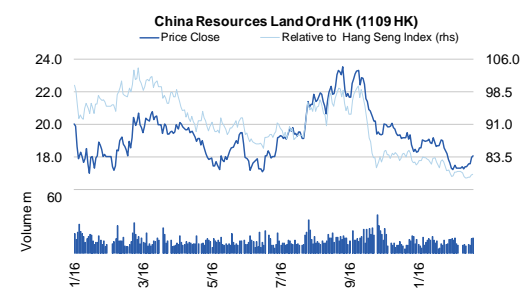
Alan Jin, PhD, CFA

Mizuho Securities Asia Ltd.
alan.jin@hk.mizuho-sc.com
+852 2685 2018

Wayne Lee, CFA

Mizuho Securities Asia Ltd.
wayne.lee@hk.mizuho-sc.com
+852 2685 2029

Share price performance with volume



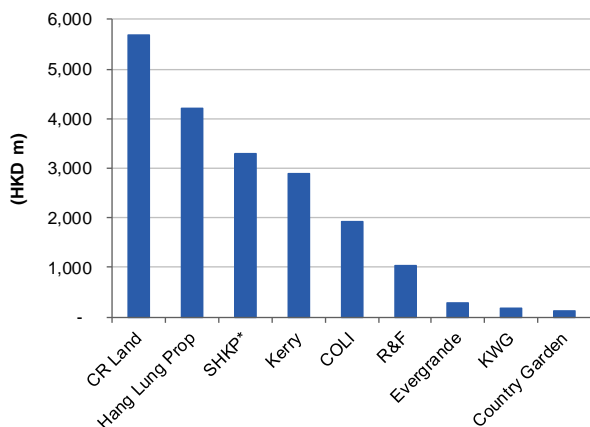
Share price (%)	-1 mth	-3 mth	-12 mth
Ordinary shares	-3.2	-11.7	-14.2
Relative to Index	-2.4	-5.6	-21.5

Source: Bloomberg

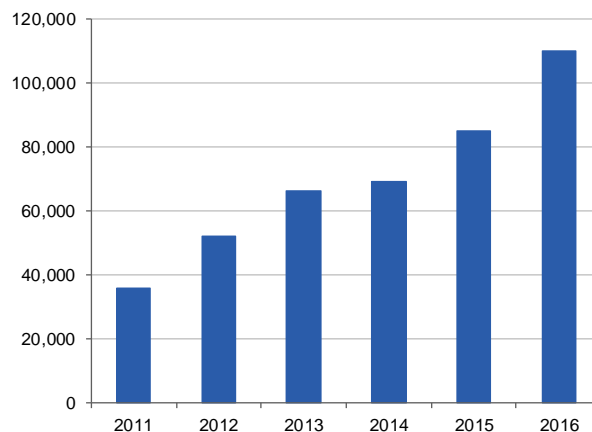
Valuation

YE:	Dec 14	Dec 15	Dec 16E	Dec 17E	Dec 18E
Revenue (HKDm)	88,381	103,393	119,259	139,412	159,778
Net profit (HKDm)	14,708	17,527	18,907	23,275	27,019
Normalised net profit (HKDm)	11,802	13,987	17,407	21,775	25,519
Norm. net profit margin	13.35%	13.53%	14.60%	15.62%	15.97%
Normalised EPS (HKD)	2.02	2.07	2.51	3.14	3.68
Net debt to equity	46.03%	26.33%	13.28%	11.92%	1.33%
Normalised P/E (x)	8.94	8.75	7.21	5.76	4.92
P/B (x)	1.09	1.09	1.01	0.88	0.77
EV/EBITDA (x)	5.97	6.14	4.09	3.59	2.85
ROE	11.76%	11.71%	12.65%	14.17%	14.51%
Dividend yield	3.02%	3.17%	3.47%	4.34%	5.09%

Source: Company data, Bloomberg, Mizuho research

Fig 1 Developers' rental income from China (FY15)


Source: Company reports, Mizuho research. Note: *SHKP

Fig 2 CR Land contracted sales (CNY m)


Source: Company reports, Mizuho research. Note: 2016 sales figures is Mizuho estimate

Valuation and risks

Valuation

Our NAV estimate of HKD39.50/share is based on our DCF estimate assuming 10.4% WACC. Our PO of HKD24.50 is derived by applying a discount to NAV of 38% (average discount since 2009). The shares are at 7.2x FY16E normalised EPS, 1.0x FY16E PBV, and a 52% discount to NAV—attractive, in our view. Implied upside potential is 35%.

Risks

Investment risks: 1) a sharp correction in home prices, especially in tier-1 cities; 2) prolonged weakness in China's economy; 3) worse-than-expected fluctuations in interest rates and the RMB; and 4) oversupply of commercial properties in certain cities in China.

Fig 3 NAV breakdown estimate

Residential developments	Value (CNY m)	Value per share (CNY)	% of gross asset value	PRC investment properties	Value (CNY m)	Value per share (CNY)	% of gross asset value
Bohai	26,927	3.9	10%	YRD	33,129	4.8	12%
Beijing	15,420	2.2	6%	Hangzhou	1,985	0.3	1%
Dalian	698	0.1	0%	Hefei	3,846	0.6	1%
Qingdao	2,822	0.4	1%	Ningbo	1,726	0.2	1%
Tianjin	1,868	0.3	1%	Shanghai	8,880	1.3	3%
Anshan	461	0.1	0%	Suzhou	4,672	0.7	2%
Tangshan	(174)	0.0	0%	Wuxi	1,060	0.2	0%
Weihai	1,722	0.2	1%	Nanjing	11,202	1.6	4%
Qinhuangdao	-	0.0	0%	Changzhou	(885)	-0.1	0%
Shijiazhuang	1,950	0.3	1%	Nantong	371	0.1	0%
Linyi	873	0.1	0%	Taizhou	1,330	0.2	0%
Yantai	341	0.0	0%	Yancheng	-	0.0	0%
Jinan	2,491	0.4	1%	Rizhao	(950)	-0.1	0%
Central and West	37,959	5.5	14%	Wenzhou	1,094	0.2	0%
Changsha	2,016	0.3	1%	North	6,033	0.9	2%
Chengdu	8,330	1.2	3%	Shenyang	3,639	0.5	1%
Chongqing	5,443	0.8	2%	Changchun	324	0.0	0%
Kunming	889	0.1	0%	Harbin	833	0.1	0%
Mianyang	342	0.0	0%	Xi'an	1,236	0.2	0%
Wuhan	6,101	0.9	2%	Gross asset value	180,140	26.0	68%
Nanchang	119	0.0	0%	Gross investment assets	85,908	12.4	32%
Guiyang	3,128	0.5	1%	Office	31,415	4.5	12%
Nanning	2,296	0.3	1%	Retail	59,583	8.6	22%
Liuzhou	1,257	0.2	0%	Hotel	5,786	0.8	2%
Xuzhou	3,927	0.6	1%	Carpark	6,285	0.9	2%
Zhengzhou	10	0.0	0%	Less PV of CAPEX	(17,161)	-2.5	-6%
Zibo	804	0.1	0%	Gross property assets (CNY m)	266,048	38.4	100%
Taiyuan	2,545	0.4	1%	Gross asset value (HKD)	309,358	44.6	
Ganzhou	752	0.1	0%	Less net debt (HKD)	(16,515)	-2.4	
PRD and South	76,093	11.0	29%	Less MSHI (HKD)	(19,079)	-2.8	
Guangzhou	5,289	0.8	2%	Net asset value (HKD)	273,764	39.5	
Shenzhen	65,184	9.4	25%	Shares outstanding	6,931		
Xiamen	2,070	0.3	1%	NAV per share (HKD) FY16	39.50		
Fuzhou	441	0.1	0%	HKD/CNY	1.16		
Hainan	3,085	0.4	1%	Discount to NAV	38%		
Huizhou	23	0.0	0%	Price objective	24.5		

Source: Company reports, Mizuho research

Financials

Fig 4

Summary income statement (HKDm)	Dec 14	Dec 15	Dec 16E	Dec 17E	Dec 18E
Investment properties revenue	4,627	5,685	7,019	8,142	10,602
Property development revenue	80,482	93,536	107,340	125,520	142,298
Hotel/serviced apartments revenue	810	969	1,057	1,330	1,796
Other revenue	2,463	3,202	3,843	4,419	5,082
Revenue	88,381	103,393	119,259	139,412	159,778
Investment properties EBIT	2,162	2,355	3,100	3,813	4,958
Property development EBIT	29,141	29,403	39,923	45,123	51,347
Hotels/serviced apartments EBIT	(111)	(49)	(20)	(10)	20
Other EBIT	(111)	(68)	(38)	44	51
Operating EBITDA	26,382	25,757	36,760	42,518	48,957
Depreciation and amortisation	(444)	(428)	(471)	(518)	(570)
Operating EBIT	25,938	25,329	36,289	41,999	48,387
Net interest income	(799)	1	(127)	63	58
Associates and JVs	58	298	-	-	-
Other income	(2,931)	2,290	(3,654)	(3,019)	(3,643)
Pre-tax profit	22,265	27,918	32,509	39,043	44,803
Taxation	(9,131)	(12,081)	(12,882)	(14,603)	(16,087)
Post-tax profit	13,134	15,837	19,627	24,439	28,716
Minorities	(1,332)	(1,850)	(2,220)	(2,664)	(3,197)
Preferred dividends					
Normalised net profit	11,802	13,987	17,407	21,775	25,519
Extraordinary & other adjustments	2,906	3,541	1,500	1,500	1,500
Net profit	14,708	17,527	18,907	23,275	27,019
Dividends	(3,187)	(3,978)	(4,352)	(5,444)	(6,380)
Appropriation to reserve					

Source: Company data, Mizuho research

Fig 5

Key ratios	Dec 14	Dec 15	Dec 16E	Dec 17E	Dec 18E
Revenue growth	23.80%	16.99%	15.34%	16.90%	14.61%
Op EBITDA growth (YoY)	62.4%	(2.4%)	42.7%	15.7%	15.1%
EPS growth	0.05%	2.76%	5.24%	23.11%	16.09%
Normalised EPS growth	24.92%	2.19%	21.42%	25.10%	17.19%
P/CF (x)	8.68	14.31	6.63	n.a.	8.49
P/B (x)	1.09	1.09	1.01	0.88	0.77
EV/EBITDA (x)	5.97	6.14	4.09	3.59	2.85
EV/EBIT (x)	6.07	6.24	4.15	3.63	2.88
Interest cover	32	(33,196)	287	(670)	(829)
Dividend yield	3.02%	3.17%	3.47%	4.34%	5.09%
Dividend payout ratio	21.66%	22.70%	23.02%	23.39%	23.61%
EBIT/sales	26.10%	27.00%	27.37%	27.96%	28.00%
Tax rate	41.01%	43.27%	39.63%	37.40%	35.91%
Leverage					
Net debt/EBITDA	1.68	1.18	0.45	0.40	0.04
Net debt to equity	46.03%	26.33%	13.28%	11.92%	1.33%
Net profit margin	16.64%	16.95%	15.85%	16.70%	16.91%
Dupont decomposition					
Sales/avg assets	0.29	0.29	0.30	0.32	0.37
ROAA	4.81%	4.87%	4.68%	5.40%	6.19%
Avg assets/avg equity	3.05	3.01	2.93	2.80	2.48
ROAE	16.22%	16.57%	15.80%	17.46%	17.72%
Per share					
EPS (HKD)	2.52	2.59	2.73	3.36	3.90
Normalised EPS (HKD)	2.02	2.07	2.51	3.14	3.68
FDEPS (HKD)	2.52	2.59	2.73	3.36	3.90
BVPS (HKD)	16.56	16.59	17.94	20.52	23.49
DPS (HKD)	0.55	0.57	0.63	0.79	0.92

Source: Company data, Mizuho research

Fig 6

Summary balance sheet (HKDm)	Dec 14	Dec 15	Dec 16E	Dec 17E	Dec 18E
Cash and equivalents	40,289	45,875	64,798	64,368	79,142
Properties held for sale	167,484	188,340	190,192	205,482	166,764
Accounts receivable	21,616	27,564	33,392	39,035	44,738
Other current assets	10,220	16,889	15,990	16,559	17,150
Total current assets	239,609	278,668	304,372	325,444	307,794
Investment property	75,271	88,319	90,819	93,319	95,819
Associates: share of net assets	4,763	11,988	11,988	11,988	11,988
Joint-control cos: share of net assets					
Other fixed assets					
Other LT assets	3,733	3,102	3,102	3,102	3,103
Total assets	330,315	389,235	418,514	443,321	429,591
Total short term debt	19,414	14,143	14,143	14,143	14,143
Accounts payable	41,545	51,373	48,704	57,262	65,531
Other current liabilities	5,235	10,985	10,985	10,985	10,985
Total current liabilities	146,820	182,710	196,894	203,205	167,919
Total long-term debt	65,320	62,007	67,171	67,171	67,171
Convertible debt					
Other long-term liabilities	1,413	1,496	1,496	1,496	1,496
Total liabilities	223,194	257,411	275,078	279,389	241,823
Minority interests	10,560	16,858	19,079	21,743	24,940
Preferred shares					
Shareholders' funds	96,561	114,966	124,358	142,189	162,828
Total equity	107,121	131,824	143,436	163,932	187,768
Total liabilities & equity	330,315	389,235	418,514	443,321	429,591

Source: Company data, Mizuho research

Fig 7

Summary cash flow statement (HKDm)	Dec 14	Dec 15	Dec 16E	Dec 17E	Dec 18E
Operating ebitda	26,382	25,757	36,760	42,518	48,957
Decrease in working capital	(7,178)	7,689	7,403	(15,192)	(2,861)
Other operating cashflow	(10,542)	8,456	(19,544)	(20,571)	(22,959)
Cash flow from operations	8,662	41,902	24,619	6,754	23,137
Capital expenditure	(1,543)	(758)	(1,545)	(1,753)	(1,991)
Free cash flow	7,119	41,143	23,073	5,001	21,147
Net acquisitions	(8,769)	(14,600)	-	-	-
Decrease in other assets	1,131	631	0	(0)	(1)
Increase in other liabilities	1,413	83	(0)	(0)	0
Other new investments					
Adjustments	(5,776)	(13,285)	787	598	594
Cash flow after investing activities	(4,881)	13,973	23,860	5,598	21,739
Dividends paid	(2,751)	(3,760)	(4,352)	(5,444)	(6,380)
Equity issued	-	10,058	-	-	-
Debt issued	19,625	(11,081)	-	-	-
Convertible bonds issued					
Other financing cash flow	162	(422)	(585)	(585)	(585)
Cash flow from financing activities	17,035	(5,206)	(4,937)	(6,029)	(6,965)
Total cash generated	12,154	8,767	18,923	(431)	14,774
Cash at beginning of period	28,239	40,289	45,875	64,798	64,368
Implied cash at end of year	40,289	45,875	64,798	64,368	79,142
Net debt	44,445	30,275	16,515	16,946	2,171

Source: Company data, Mizuho research

Guangzhou R&F Properties (2777 HK)

China / Real Estate Investment & Services

10 Jan 2017

BUY (FROM UNDERPERFORM)

Favoured yield play—upgrade to BUY

We upgrade Guangzhou R&F to BUY (from U/P) as we believe: 1) its share price has been over-penalised as the hope for a quick A-share listing was dashed on the back of policy tightening, alongside slower sales growth in 2016 compared with peers and unfavourable high gearing; 2) its yield of around 11% should once again be welcomed by the market; 3) R&F's limited land acquisition over the past few years may be a virtue if the housing market cools and liquidity continues to tighten, as we are now projecting; and 4) among the high-beta names, R&F has one of the longest track records of paying high dividends while having high gearing at the same time. We raise our PO to HKD12.60 (from HKD10.20) after factoring in the ASP achieved in 2016 and new land acquisitions. We raise FY16-17E earnings by 4-5% on our higher delivery assumptions.

Attractive dividend. Following our conversation with R&F, we expect the company to continue to pay out a high dividend. We raise our full-year FY16 DPS estimate from CNY70cents to CNY90cents, ie, a final DPS of CNY60cents on top of an interim DPS of CNY30cents. We think this results in a full-year dividend yield of ~11%, attractive in our view given R&F's improving fundamentals resulting from a better balance sheet and P&L.

Gearing may remain high but looks manageable. We estimate R&F will continue to report elevated net gearing of 144%, still high but lower than 170% in FY15. However, we are not concerned about its high gearing as the company has one of the longest track records of operating with high leverage in our view.

P&L. We expect the company to report core earnings of CNY6.7b for FY16 and a normalised profit margin of 13% versus 10.8% in FY15, thanks to a higher ASP and lower dividends payable to perpetual capital instrument (PCI) holders.

Valuation. R&F looks attractive at 4x FY16 PER, 0.57x PBR and a 61% discount to NAV (1.75x sd below the historical average of 43% since 2010).

Price (06 Jan 2017)	HKD9.55
Price objective	(from HKD10.20) HKD12.60
Pot'l up/downside	31.9%
Market cap	HKD30.77b (USD3.97b)
52-week high-low	HKD13.90-7.61
No. of shares (m)	3,223
Avg. daily turnover (3M / 12M)	USD6.59m / USD8.95m

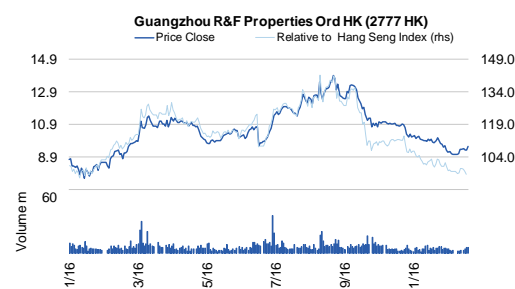
Alan Jin, PhD, CFA

 Mizuho Securities Asia Ltd.
 alan.jin@hk.mizuho-sc.com
 +852 2685 2018

Wayne Lee, CFA

 Mizuho Securities Asia Ltd.
 wayne.lee@hk.mizuho-sc.com
 +852 2685 2029

Share price performance with volume



Share price (%)	-1 mth	-3 mth	-12 mth
Ordinary shares	-2.7	-14.4	3.2
Relative to Index	-1.7	-8.1	-3.8

Source: Bloomberg

Valuation

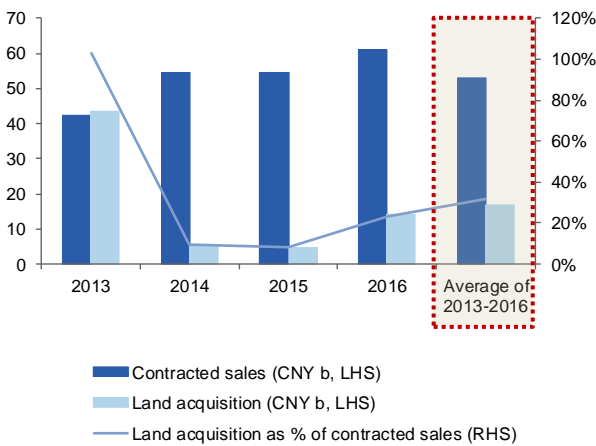
YE:	Dec 14	Dec 15	Dec 16E	Dec 17E	Dec 18E
Revenue (CNYm)	34,705	44,291	51,843	57,971	59,238
Net profit (CNYm)	6,552	6,721	6,764	7,496	7,908
Normalised net profit (CNYm)	3,992	4,787	6,764	7,246	7,658
Norm. net profit margin	11.50%	10.81%	13.05%	12.50%	12.93%
Normalised EPS (CNY)	1.25	1.49	2.10	2.25	2.38
Net debt to equity	176%	170%	144%	131%	117%
Normalised P/E (x)	6.80	5.68	4.04	3.77	3.57
P/B (x)	0.76	0.67	0.57	0.56	0.53
EV/EBITDA (x)	8.65	7.85	5.99	5.28	4.92
ROE	11.57%	12.31%	15.09%	14.78%	15.06%
Dividend yield	0.00%	14.12%	10.60%	11.92%	10.64%

Source: Company data, Bloomberg, Mizuho research

Satisfactory sales

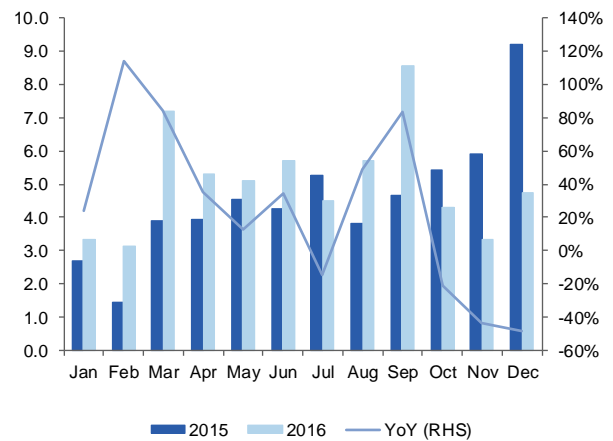
R&F posted contracted sales of CNY60.4b in FY16 (+12% YoY), with ASP hovering at around CNY13,000/sqm. The 12% growth in contracted sales may not look impressive compared with Country Garden's 120% YoY growth and Evergrande's 85% YoY expansion, but we think it is satisfactory given that the company has refrained from making aggressive land acquisitions over the past few years. In 2016, R&F made around CNY13b in land acquisitions according to our estimates, just 22% of contracted sales. Such a low land acquisition figure suggests minimal cash flow pressure for operations in 2017, enabling R&F to continue to focus on margin protection even when the market softens. Plus, the company was the most active in tapping the domestic bond market at much lower interest rates than it previously had paid.

Fig 1 Refraining from land acquisition to ease cash flow pressure



Source: Company reports, Mizuho research

Fig 2 R&F monthly contracted sales

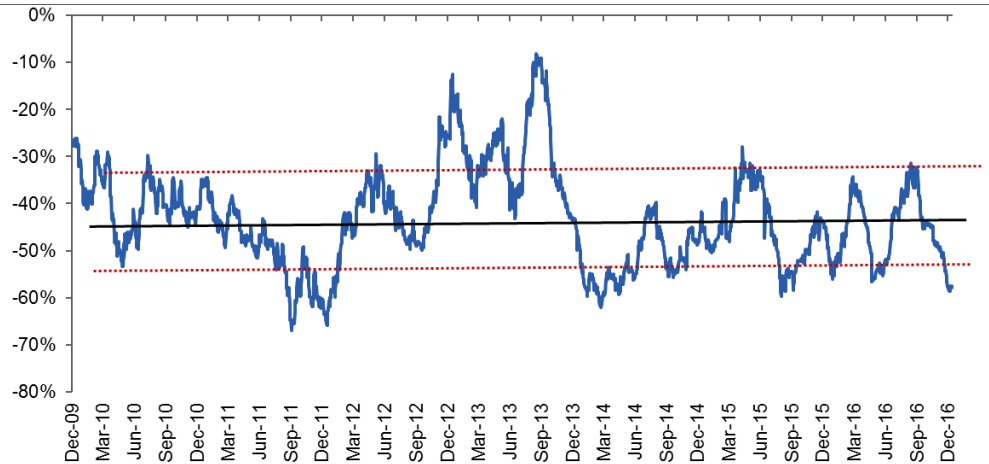


Source: Company reports, Mizuho research

After volatility stock price now looks attractive

R&F was a high-flyer in terms of share price performance for most of 2016 until the government came out with curbing measures at end September. Then the hope for a potential quick A-share listing was dashed, and profit-taking among disappointed investors led to a sharp decline in the share price in 4Q16. However, we still believe R&F benefited substantially from the market rally and it used the easing window to make sizable domestic bond issuances, paving a better foundation for operations over the next few years.

Fig 3 GZ R&F discount to NAV since 2010



Source: Company reports, Mizuho research

Valuation and risks

Valuation

We raise our PO to HKD12.60 from HKD10.20 after factoring in the ASP achieved in 2016 and several new land acquisitions in 2016. Our PO is derived by applying a discount of 48% to end FY17E NAV of HKD24.22/share (previously end FY16E NAV of HKD19.74/share), which is in turn based on DCF with a WACC of 12.6%. A 48% discount to NAV is 0.5x standard deviation below the historical mean since 2010.

The shares are now at a 61% discount to NAV, 1.75x standard deviation below the historical average of 43% since 2010.

Earnings and DPS revision

We raise our earnings estimates by 4%/5% for FY16-17E mainly on higher delivery assumptions.

Full-year FY16E DPS is raised to CNY90cents (from CNY70cents), since the company appears confident that it may pay out a final DPS of CNY60cents (interim DPS CNY30cents).

Fig 4 Operational forecast revisions

(Unit: HKD mn)	Revenue		Operating profit		Core earnings	
	FY16	FY17	FY16	FY17	FY16	FY17
Old	48,286	53,272	13,893	14,992	6,482	6,895
New	51,843	57,971	15,043	16,211	6,764	7,246
Change	7%	9%	8%	8%	4%	5%

Source: Company reports, Mizuho research

Risks

Downside investment risks, in our view: 1) prolonged tightening measures in the housing market; 2) tighter-than-expected liquidity; 3) persistently high land prices; 4) a sharp rise in interest rates in domestic and offshore borrowing markets.

Fig 5 NAV breakdown estimate

	Value (CNY m)	Value per share (CNY)	% of gross asset		Value (CNY m)	Value per share (CNY)	% of gross asset value
Residential developments							
Pearl River Delta region	29,507	9.2	20	<u>Malaysia</u>	8,344	2.6	6
Guangzhou	7,607	2.4	5	<u>Melbourne</u>	2,635	0.8	2
Shenzhen	3,666	1.1	3	<u>Brisbane</u>	3,158	1.0	2
Foshan	519	0.2	0	Sub-total of residential properties	116,989	36.3	81
Zhuhai	991	0.3	1	Investment properties			
Huizhou	8,125	2.5	6	Office and retail	19,252	6.0	13
Meizhou	1,665	0.5	1	Hotel	7,750	2.4	5
Hainan	6,934	2.2	5	Gross investment assets			
Western and Central	12,439	3.9	9	Gross investment assets	27,002	8.4	19
Xiangtan	3,783	1.2	3	Gross asset value			
Nanning	321	0.1	0	Gross asset value	143,991	44.7	100
Chongqing	5,370	1.7	4	Less net debt (include perpetual)	(68,827)	(21.4)	
Chengdu	86	0.0	0	Less MSHI	(528)	-	
Guiyang	560	0.2	0	less outstanding land premium	(1,700)	-	
Chuzhou	2,120	0.7	1	Yangtze River Delta			
Zhengzhou	199	0.1	0	Yangtze River Delta	18,970	5.9	13
				Net asset value (CNY)	72,936.5	22.6	
				Shares outstanding	3,223		
				Net asset value per share (CNY)	22.63		
				HK\$/CNY	1.07		
				FY17F fair value (HK\$)	24.22		
				Discount to NAV	48%		
				Target Price	12.60		
Bohai Rim and Northern							
Bohai Rim and Northern	41,938	13.0	29				
Beijing	11,483	3.6	8				
Shijiazhuang	1,812	0.6	1				
Tianjin	10,493	3.3	7				
Xi'an	1,082	0.3	1				
Taiyuan	6,519	2.0	5				
Datong	2,924	0.9	2				
Harbin	5,092	1.6	4				
Shenyang	391	0.1	0				
Baotou	2,142	0.7	1				

Source: Company reports, Mizuho research

Financials

Fig 6

Summary income statement (CNYm)	Dec 14	Dec 15	Dec 16E	Dec 17E	Dec 18E
Investment properties revenue	827	857	943	1,037	1,141
Property development revenue	31,651	40,744	48,028	53,939	54,942
Hotel/serviced apartments revenue	1,109	1,181	1,289	1,332	1,409
Other revenue	1,119	1,508	1,584	1,663	1,746
Revenue	34,705	44,291	51,843	57,971	59,238
Investment properties EBIT	619	635	698	768	845
Property development EBIT	9,288	11,214	14,529	15,636	15,978
Hotels/serviced apartments EBIT	45	(2)	(26)	(27)	(28)
Other EBIT	(248)	(534)	(158)	(166)	(175)
Operating EBITDA	10,062	11,767	15,541	16,760	17,224
Depreciation and amortisation	(473)	(454)	(499)	(549)	(604)
Operating EBIT	9,590	11,313	15,043	16,211	16,620
Net interest income	(2,335)	(3,116)	(3,294)	(3,025)	(2,669)
Associates and JVs	145	1,325	-	-	300
Other income	198	133	221	(218)	(561)
Pre-tax profit	7,596	9,655	11,969	12,969	13,690
Taxation	(3,650)	(4,877)	(5,205)	(5,722)	(6,032)
Post-tax profit	3,946	4,778	6,764	7,246	7,658
Minorities	46	9	-	-	-
Preferred dividends					
Normalised net profit	3,992	4,787	6,764	7,246	7,658
Extraordinary & other adjustments	2,560	1,934	-	250	250
Net profit	6,552	6,721	6,764	7,496	7,908
Dividends	-	(3,862)	(2,900)	(3,261)	(2,910)
Appropriation to reserve					

Source: Company data, Mizuho research

Fig 7

Key ratios	Dec 14	Dec 15	Dec 16E	Dec 17E	Dec 18E
Revenue growth	(4.32%)	27.62%	17.05%	11.82%	2.19%
Op EBITDA growth (YoY)	(18.82%)	16.94%	32.08%	7.84%	2.77%
EPS growth	(14.28%)	2.37%	0.07%	10.83%	5.49%
Normalised EPS growth	(31.34%)	19.66%	40.51%	7.13%	5.68%
P/CF (x)	n.a.	18.81	5.16	5.47	7.30
P/B (x)	0.76	0.67	0.57	0.56	0.53
EV/EBITDA (x)	8.65	7.85	5.99	5.28	4.92
EV/EBIT (x)	9.08	8.16	6.19	5.46	5.10
Interest cover	4.11	3.63	4.57	5.36	6.23
Dividend yield	0.00%	14.12%	10.60%	11.92%	10.64%
Dividend payout ratio	0.0%	57.5%	42.9%	43.5%	36.8%
EBIT/sales	28.62%	28.83%	29.44%	27.59%	27.62%
Tax rate	48.0%	50.5%	43.5%	44.1%	44.1%
Leverage					
Net debt/EBITDA	6.31	5.88	4.43	3.83	3.51
Net debt to equity	176%	170%	144%	131%	117%
Net profit margin	18.88%	15.17%	13.05%	12.93%	13.35%
Dupont decomposition					
Sales/avg assets	0.22	0.25	0.26	0.27	0.26
ROAA	4.20%	3.78%	3.43%	3.47%	3.48%
Avg assets/avg equity	4.53	4.57	4.40	4.40	4.47
ROAE	19.25%	17.53%	15.27%	15.45%	15.71%
Per share					
EPS (CNY)	2.05	2.10	2.10	2.33	2.45
Normalised EPS (CNY)	1.25	1.49	2.10	2.25	2.38
FDEPS (CNY)	2.05	2.10	2.10	2.33	2.45
BVPS (CNY)	11.16	12.63	14.86	15.24	16.00
DPS (CNY)	-	1.20	0.90	1.01	0.90

Source: Company data, Mizuho research

Fig 8

Summary balance sheet (CNYm)	Dec 14	Dec 15	Dec 16E	Dec 17E	Dec 18E
Cash and equivalents	19,830	21,284	26,584	31,582	35,331
Properties held for sale	98,550	101,100	119,155	121,463	127,036
Accounts receivable	10,891	13,576	15,553	17,391	17,771
Other current assets	2,911	3,199	4,177	4,611	4,777
Total current assets	132,181	139,160	165,468	175,047	184,915
Investment property	18,048	19,252	19,252	19,252	19,252
Associates: share of net assets	4,704	6,026	6,026	6,026	6,326
Joint-control cos: share of net assets					
Other fixed assets					
Other LT assets	8,214	9,022	7,567	7,874	7,937
Total assets	171,840	183,733	210,452	221,485	232,976
Total short term debt	22,105	32,679	32,679	32,679	32,679
Accounts payable	19,271	18,728	27,944	30,776	31,689
Other current liabilities					
Total current liabilities	70,691	80,820	95,360	104,856	113,910
Total long-term debt	61,202	57,737	62,731	63,048	63,048
Convertible debt					
Other long-term liabilities	3,450	3,936	3,936	3,936	3,936
Total liabilities	135,343	142,493	162,027	171,840	180,894
Minority interests	532	528	528	528	528
Preferred shares					
Shareholders' funds	35,965	40,712	47,897	49,118	51,554
Total equity	36,497	41,240	48,425	49,645	52,082
Total liabilities & equity	171,840	183,733	210,452	221,485	232,976

Source: Company data, Mizuho research

Fig 9

Summary cash flow statement (CNYm)	Dec 14	Dec 15	Dec 16E	Dec 17E	Dec 18E
Operating ebitda	10,062	11,767	15,541	16,760	17,224
Decrease in working capital	(22,776)	(5,969)	(6,470)	4,916	2,935
Other operating cashflow	(9,351)	(6,154)	(12,261)	(12,441)	(12,504)
Cash flow from operations	(22,065)	(356)	(3,190)	9,234	7,654
Capital expenditure	(1,133)	(1,439)	(1,459)	(701)	(767)
Free cash flow	(23,198)	(1,795)	(4,649)	8,534	6,887
Net acquisitions	(1,113)	(846)	-	-	-
Decrease in other assets	(2,367)	(808)	1,454	(306)	(63)
Increase in other liabilities	(736)	486	0	-	-
Other new investments					
Adjustments	3,219	(155)	472	316	-
Cash flow after investing activities	(24,195)	(3,118)	(2,722)	8,544	6,823
Dividends paid	(1,652)	-	(1,978)	(3,545)	(3,076)
Equity issued	-	-	-	-	-
Debt issued	6,064	-	10,000	-	-
Convertible bonds issued					
Other financing cash flow	15,268	4,573	0	(0)	1
Cash flow from financing activities	19,680	4,573	8,022	(3,545)	(3,075)
Total cash generated	(4,514)	1,454	5,299	4,998	3,749
Cash at beginning of period	24,344	19,830	21,284	26,584	31,582
Implied cash at end of year	19,830	21,284	26,584	31,582	35,331
Net debt	63,477	69,132	68,827	64,145	60,396

Source: Company data, Mizuho research

Analyst Certification

Each research analyst listed on the cover page of this report certifies that the views expressed in this research report accurately reflect the analyst's personal views about the subject security(ies) and issuer(s) and that no part of his/her compensation was, is, or will be, directly or indirectly, related to any specific recommendation or view expressed in this research report.

Important Disclosure Information

Mizuho Securities USA Inc. is affiliated with Mizuho Securities Asia Limited and distributes such research reports as a third party to US Institutional Investors. MSUSA does not have the ability to influence MHSA analyst coverage and ratings of any subject companies.

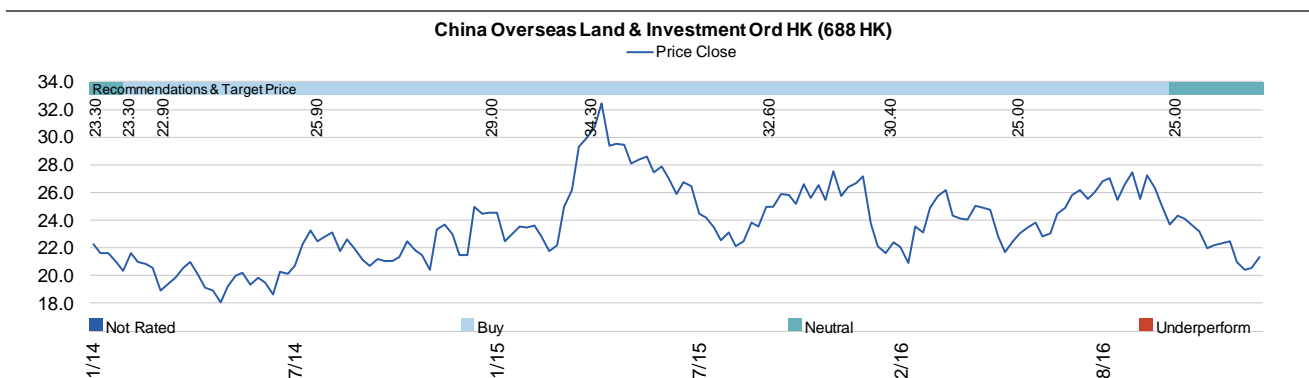
Disclosure footnote definitions in companies mentioned below: For those companies with no footnote number, Mizuho Securities Co., Ltd. and its affiliates (collectively, the "MHSC Group") have verified that there are no relevant disclosures for that security. Otherwise, definitions of the relevant disclosures are as follows:

1. Mizuho Securities Co., Ltd. and its affiliates (collectively, the "MHSC Group") beneficially own 1% or more of a class of common equity securities of this company.
2. Mizuho Securities Asia Limited ("MHSA") and/or MHSC Group companies which conduct business in Hong Kong in investment banking, proprietary trading or market making, or agency broking, has a financial interest in relation to this company.
3. This company owns in excess of 5% of the total issued share capital of a MHSC Group company.
4. One or more persons employed by or associated with MHSA, or a MHSC Group company, serves as an officer of this company.
5. One or more MHSC Group companies has been party to an agreement in the past 12 months relating for the provision of investment banking services to this company.
6. Within the past 12 months, one or more MHSC Group companies managed or co-managed a public offering of securities of this company.
7. One or more MHSC Group companies has received compensation for the provision of investment banking services from this company in the past 12 months.
8. One or more MHSC Group companies may expect to receive or intends to seek compensation relating to the provision of investment banking services to this company in the next 3 months.
9. One or more MHSC Group companies makes a market in the securities of this company.

Companies Mentioned (Prices as of 08 Jan 2017)

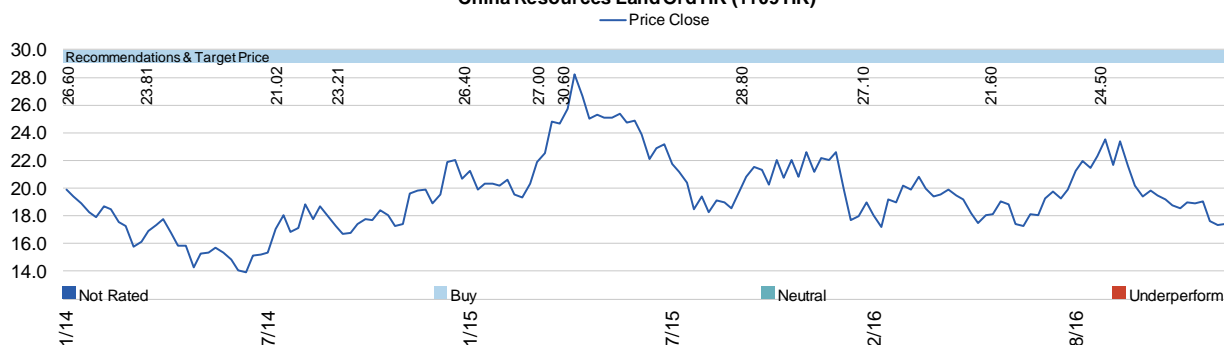
Agile Group (3383 HK, BUY, PO HKD5.51, HKD4.05)
 Central China Real Estate Ltd (832 HK, BUY, PO HKD2.45, HKD1.62)
 China Evergrande Group (3333 HK, UNDERPERFORM, PO HKD4.15, HKD5.05)
 China Jinmao Holdings Group Ltd (817 HK, UNDERPERFORM, PO HKD1.52, HKD2.15)
 China Overseas Land & Investment (688 HK, BUY, PO HKD25.60, HKD21.35)
 China Resources Land (1109 HK, BUY, PO HKD24.50, HKD18.10)
 Country Garden Holdings (2007 HK, UNDERPERFORM, PO HKD2.77, HKD4.20)
 Guangzhou R&F Properties (2777 HK, BUY, PO HKD12.60, HKD9.55)
 KWG Property (1813 HK, BUY, PO HKD5.60, HKD4.37)
 Sino-Ocean Group (3377 HK, BUY, PO HKD3.60, HKD3.52)
 Yuexiu Property (123 HK, BUY, PO HKD1.33, HKD1.09)

Recommendation History



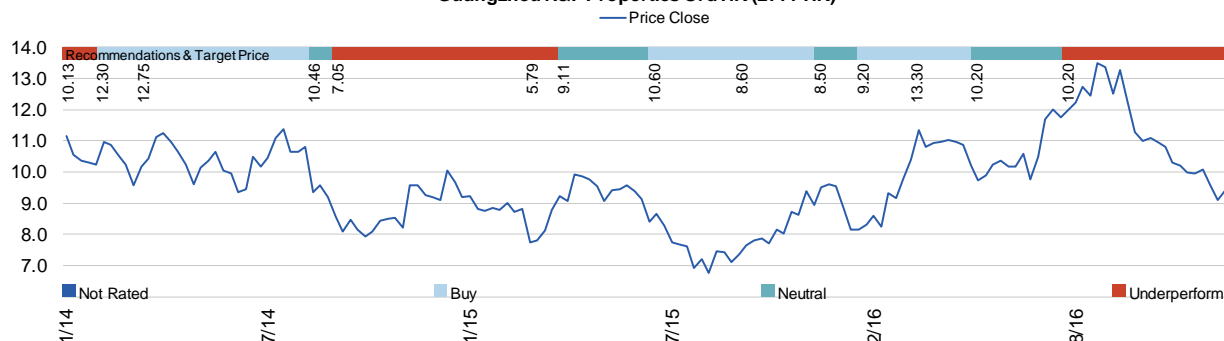
Source: Bloomberg, Mizuho research

Company name (ticker)	Date	Recommendation	Price objective
China Overseas Land & Investment (688 HK)	11-Oct-2016	Neutral	HKD25.00
	18-May-2016	Buy	HKD25.00
	20-Jan-2016	Buy	HKD30.40
	29-Sep-2015	Buy	HKD32.60
	16-Apr-2015	Buy	HKD34.30
	14-Jan-2015	Buy	HKD29.00
	04-Aug-2014	Buy	HKD25.90
	14-Mar-2014	Buy	HKD22.90
	10-Feb-2014	Buy	HKD23.30

China Resources Land Ord HK (1109 HK)


Source: Bloomberg, Mizuho research

Company name (ticker)	Date	Recommendation	Price objective
China Resources Land (1109 HK)	28-Aug-2016	Buy	HKD24.50
	18-May-2016	Buy	HKD21.60
	20-Jan-2016	Buy	HKD27.10
	29-Sep-2015	Buy	HKD28.80
	16-Apr-2015	Buy	HKD30.60
	24-Mar-2015	Buy	HKD27.00
	14-Jan-2015	Buy	HKD26.40
	18-Sep-2014	Buy	HKD23.21
	23-Jul-2014	Buy	HKD21.02
	24-Mar-2014	Buy	HKD23.81

Guangzhou R&F Properties Ord HK (2777 HK)


Source: Bloomberg, Mizuho research

Company name (ticker)	Date	Recommendation	Price objective
Guangzhou R&F Properties (2777 HK)	29-Jul-2016	Underperform	HKD10.20
	05-May-2016	Neutral	HKD10.20
	10-Mar-2016	Buy	HKD13.30
	20-Jan-2016	Buy	HKD9.20
	11-Dec-2015	Neutral	HKD8.50
	29-Sep-2015	Buy	HKD8.60
	10-Jul-2015	Buy	HKD10.60
	16-Apr-2015	Neutral	HKD9.11
	18-Mar-2015	Underperform	HKD5.79
	18-Sep-2014	Underperform	HKD7.05
	27-Aug-2014	Neutral	HKD10.46
	21-Mar-2014	Buy	HKD12.75
11-Feb-2014	Buy	HKD12.30	

Distribution of rating of companies covered by Mizuho Securities Asia Ltd.

Rating matrix	Distribution of ratings*(%)	Investment banking relationship**(%)
BUY	50.7	2.9
NEUTRAL	30.9	4.8
UNDERPERFORM	18.4	0.0

Note *: Distribution of rating on all companies covered by Mizuho Securities Asia Ltd.

Note **: Percentage of companies within each rating category receiving investment banking services from Mizuho Securities Asia Ltd in the past 12 months.

Mizuho Securities Asia Limited Ratings for Fundamental Research

Mizuho Securities Asia Limited ratings are based on the following definitions.

Ratings and price objectives are based on returns expected over the next 6-12 months.

BUY	Stocks for which our price objective, as of the date it is set, exceeds the share price by 10% or more as of the date of the rating.
NEUTRAL	Stocks for which our price objective, as of the date it is set, is within 10% of the share price as of the date of the rating.
UNDERPERFORM	Stocks for which our price objective, as of the date it is set, is below the share price by 10% or more as of the date of the rating, and/or which are expected to be among the stocks that provide lower investment returns than stocks within their respective coverage groups that have "BUY" or "NEUTRAL" ratings.
RS	RATING SUSPENDED – rating and price objective temporarily suspended.
NR	No Rating – not covered, and therefore not assigned a rating.

Guidelines for ratings

Mizuho Securities Asia Limited is using an absolute performance rating system, based on capital returns of share prices compared to price objectives with an investment horizon of six-to-twelve months. Stocks are classified into coverage groups, with the proviso that "Underperform" ratings must apply to at least 10% of any coverage group equal to or greater than 10 companies. However this ratings dispersion may be varied from time to time if we believe that different ratings better reflect the prospective investment returns from a given coverage group.

Prior to 4 October 2011, Mizuho Securities Asia Limited had a Buy/Hold/Sell rating system with definitions that correspond with the Buy/Neutral/Underperform recommendations outlined above.

Investors should be aware that share prices are prone to volatility. An investor's decision should depend on individual circumstances and other considerations. Recommendations should not be the only factor in making an investment decision. Should you require additional information on the valuation methodologies used to derive the price objective(s), please contact the author(s) of this report.

As of the date of this report, the research analyst listed on the cover page of this report, or his/her associate(s) or an associated person of the member with the ability to influence the content of a research reports, does not have any interest (including any direct or indirect ownership of securities, financial interests, arrangement for financial accommodation or serving as an officer) in any company mentioned in this report, does not know or has no reason to know of any conflict of interest at the time of publication of this research report that could influence the research analyst's views in the report.

THIS RESEARCH HAS BEEN PRODUCED BY MIZUHO SECURITIES ASIA LIMITED IN HONG KONG. IT HAS NOT BEEN PRODUCED IN THE UNITED STATES

For the purposes of disclosure under FINRA rules, our ratings correspond to "Buy", "Hold/Neutral", and "Sell", respectively.

Disclaimer

This report has been prepared by Mizuho Securities Asia Limited ("MHSA"), a subsidiary of Mizuho Securities Co., Ltd. ("MHSC"), solely for the purpose of supplying information to the clients of MHSA and/or its affiliates to whom it is distributed. This report is not, and should not be construed as, a solicitation or offer to buy or sell securities or related financial products.

This report has been prepared by MHSA solely from publicly available information. The information contained herein is believed to be reliable but has not been independently verified. MHSA makes no guarantee, representation or warranty, and MHSA, MHSC and/or their affiliates, directors, employees or agents accepts no responsibility or liability whatsoever, as to the accuracy, completeness or appropriateness of such information or for any loss or damage arising from the use or further communication of this report or any part. Information contained herein may not be current due to, among other things, changes in the financial markets or economic environment. Opinions reflected in this report are subject to change without notice.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. The report has been prepared without regard to the individual financial circumstances, needs or objectives of persons who receive it. The securities and investments related to the securities discussed in this report may not be suitable for all investors. Readers should independently evaluate particular investments and strategies, and seek the advice of a financial adviser before making any investment or entering into any transaction in relation to the securities mentioned in this report.

MHSA has no legal responsibility to any investor who directly or indirectly receives this material. Investment decisions are to be made by and remain as the sole responsibility of the investor. Investment involves risks. The price of securities may go down as well as up, and under certain circumstances investors may sustain total loss of investment. Past performance should not be taken as an indication or guarantee of future performance. Unless otherwise attributed, forecasts of future performance represent analysts' estimates based on factors they consider relevant. Actual performance may vary. Consequently, no express or implied warranty can be made regarding future performance.

Any references in this report to Mizuho Financial Group ("MHFG"), and/or its affiliates are based only on publicly available information. The authors of this report are prohibited from using or even obtaining any insider information. As a subsidiary of MHFG, MHSA does not, as a matter of corporate policy, cover MHFG for investment recommendation purposes.

MHSA or other companies affiliated with MHFG or MHSC, together with their respective directors and officers, may have or take positions in the securities mentioned in this report, or derivatives of such securities or other securities issued by companies mentioned in this report, for their own account or the accounts of others, or enter into transactions contrary to any recommendations contained herein, and may also perform or seek to perform broking and other investment or securities related services for the companies whose securities are mentioned in this report as well as other parties generally. This report has been prepared in accordance with MHSA's internal conflict of interest management policies. Details of MHSA's organizational and administrative controls for the prevention and avoidance of conflicts of interest are available upon request.

Restrictions on Distribution

This report is not directed to, or intended for distribution to or use by, any person who is a citizen or resident of, or entity located in, any locality, territory, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to or restricted by law or regulation. Persons or entities into whose possession this report comes should inform themselves about and observe such restrictions.

United Kingdom/European Economic Area: This report is distributed or has been approved for issue and distribution in the UK by Mizuho International plc (MHI), Mizuho House, 30 Old Bailey, London, EC4M 7AU, a member of the MHSC Group. MHI is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and is a member of the London Stock Exchange. For the avoidance of doubt this report is not intended for persons who are Retail Clients within the meaning of the Financial Conduct Authority's rules. This report may be distributed in other member states of the European Union.

United States: Mizuho Securities USA Inc., a member of the MHSC Group, 320 Park Avenue, New York, NY 10022, USA, contact number +1-212-209-9300, distributes or approves the distribution of this report in the United States and takes responsibility for it. Any transaction by a US investor resulting from the information contained in this report may be effected only through Mizuho Securities USA Inc. Interested US investors should contact their Mizuho Securities USA Inc. sales representative.

Japan: This report is distributed in Japan by Mizuho Securities Co., Ltd., Otemachi First Square Otemachi 1-chome, Chiyoda-ku, Tokyo 100-0004, Japan. Registered Financial Instruments Firm, No. 94 (Kinsho), issued by the Director, Kanto Local Finance Bureau. Member of Japan Securities Dealers Association, the Japan Securities Investment Advisers Association, Financial Futures Association of Japan, and the Type II Financial Instruments Firms Association.

Mizuho Securities Co., Ltd charges predetermined commissions for the various financial products we offer our clients for investment purposes. We charge a commission on domestic equity transactions up to a maximum of 1.134% of the contract amount, tax included. The minimum commission is JPY2,700, tax included. (If the value of the contract amount is less than JPY2,700 at the time of sale, we charge a brokerage commission of 97.2% of the contract amount, tax included.) These commissions are based on a tax rate of 8%. If the consumption tax rate changes, the new tax rate shall be applied from the date of the change.

The value of financial products may go down or up as prices fluctuate. Owners of financial products may suffer losses on the original value of their purchases.

Singapore: This report is distributed or has been approved for distribution in Singapore by Mizuho Securities (Singapore) Pte. Ltd. ("MHSS"), a member of the MHSC Group which is regulated by the Monetary Authority of Singapore. Any research report produced by a foreign Mizuho entity, analyst or affiliate is distributed in Singapore only to "Institutional Investors", "Expert Investors" or "Accredited Investors" as defined in the Securities and Futures Act, Chap. 289 of Singapore. Any matters arising from, or in connection with this material, should be brought to the attention of MHSS.

Hong Kong: This report is being distributed in Hong Kong by Mizuho Securities Asia Limited, a member of the MHSC Group, which is licensed and regulated by the Hong Kong Securities and Futures Commission.

Australia: This report is being distributed in Australia by MHSA, which is exempted from the requirement to hold an Australian financial services licence under the Corporation Act 2001 ("CA") in respect of the financial services provided to the recipients. MHSA is regulated by the Securities and Futures Commission under the laws of Hong Kong, which differ from Australian laws. Distribution of this report is intended only for recipients who are "wholesale clients" within the meaning of the CA.

China: This report is solely for the specific recipients who are qualified domestic institutional investors. The recipients of this report shall not further distribute such report, or disclose any information therein to any other person, including, but not limited to, any other non-PRC investors or any person in the PRC. MHSA research in relation to this report is produced outside the PRC. PRC investors shall have the relevant qualifications to invest in such securities and shall be responsible for obtaining all relevant approvals, licenses, verifications and/or registrations from the relevant governmental authorities themselves.

If you do not wish to receive our reports in the future, please contact mizuho.research@hk.mizuho-sc.com and kindly remark as "Unsubscribe" in the subject line.

© **Mizuho Securities Asia Limited**. All Rights Reserved 2017. This document may not be altered, reproduced or redistributed, or passed on to any other party, in whole or in part, without the prior written consent of Mizuho Securities Asia Limited.