

HOUSE OF CARDS

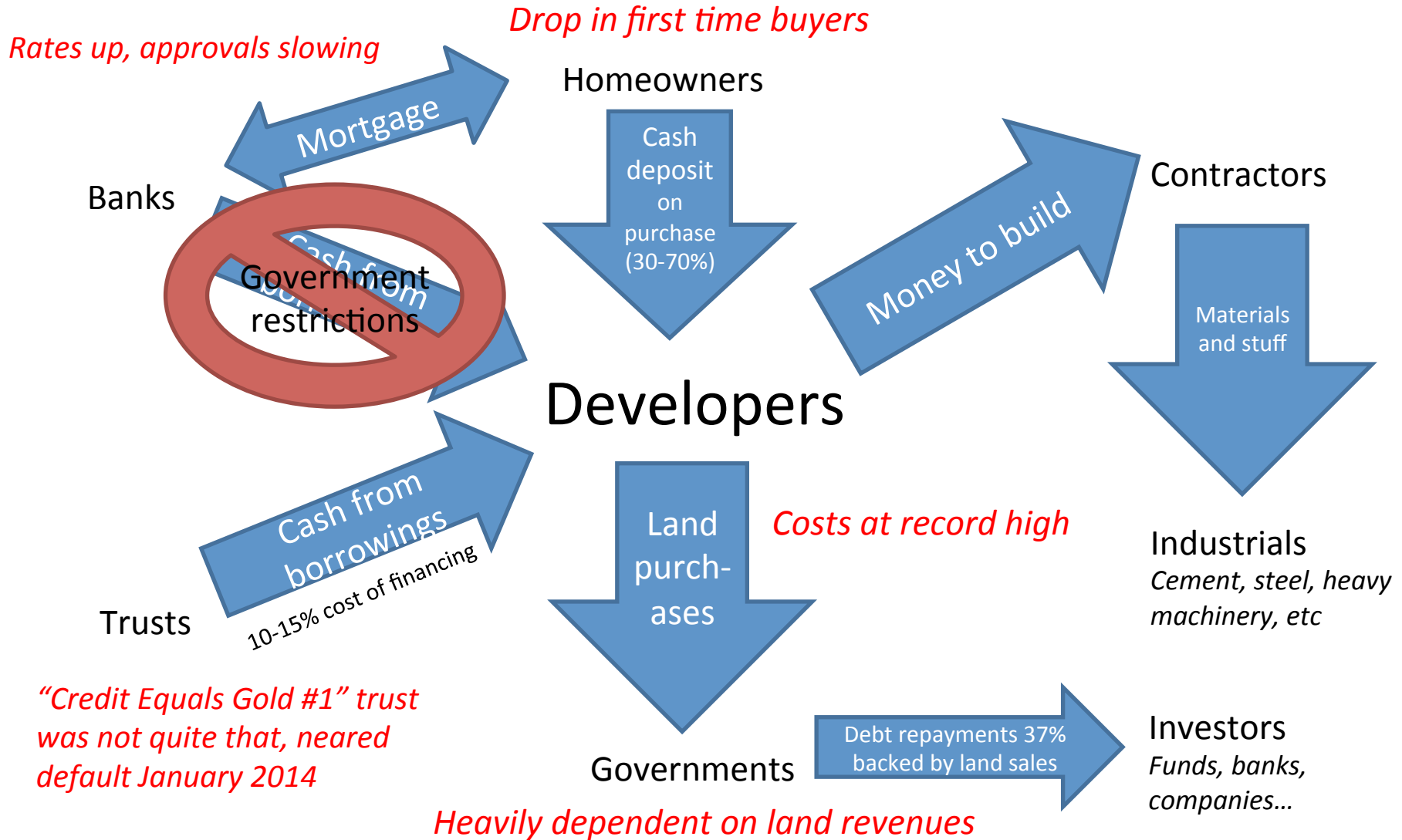
Evergrande Real Estate Group

(3333 HK)

SELL, TP HKD 2.50

5 July 2014

Developer relationships



Recent developments

- Signs of distress among developers
 - “Are they trying to kill us?”
 - Developer busts: Shanghai Yuehe, Zhejiang Xingrun
- Falling prices, volumes amid extensive promotional activity
 - Home buybacks, co-payment of deposits
 - Drop in volume, prices across 100 cities for 2nd month

“Are they trying to kill us?”

- the “golden era” in which **“everybody makes money out of property is gone”**
- likened the country’s real-estate sector to the Titanic: **“It will soon hit an iceberg”**
- “Beijing and Shanghai are the same,” he said. **“Are they trying to kill us?”**
- Yu Liang
President of Vanke
China’s biggest developer
- Pan Shiyi
Chairman of Soho China
Largest prime office developer
- Song Weiping
President of Greentown
Selling stake to Sunac

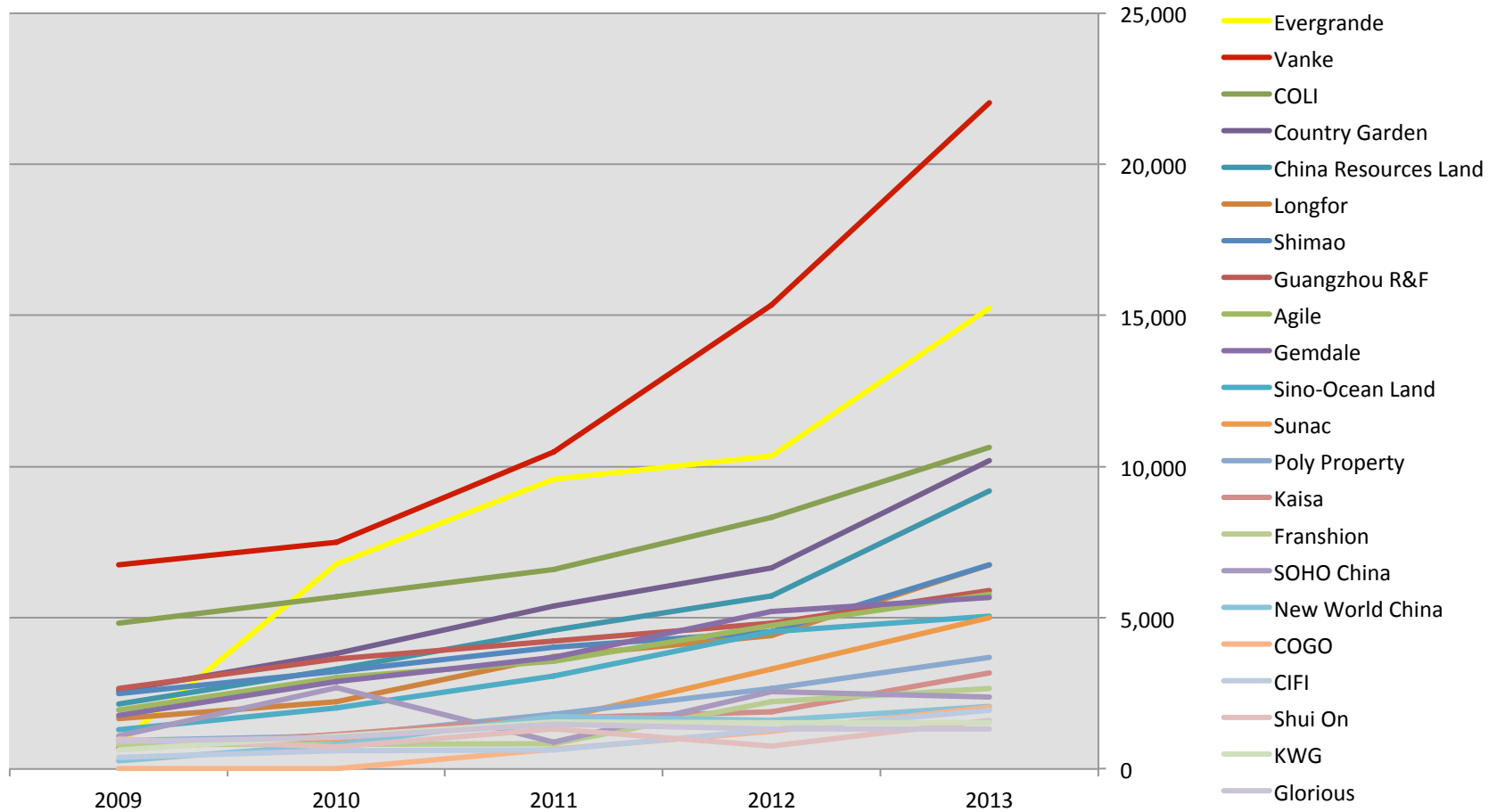
How to play this

- Short **most exposed** developers (**Evergrande**, Vanke, COLI, China Resources, Country Garden)
- Short developers with **narrowest margins** (Glorious, Sunac, Poly Property, **Evergrande**)
- Short **highest-levered** developers (**Evergrande**, Country Garden)
- Short developers with **significant near-term refinancing/highest interest costs** (**Evergrande**, Glorious, Agile)
- 2nd order:
 - Short **industrials** exposed to construction decline (e.g. steel majors, Sany Heavy)
 - Short **banks** with most exposure to property loans (e.g. Huaxia)

What is Evergrande?

- Integrated property developer (98% FY13 revenue) with some investment property/property management businesses
- One of China's largest developers
 - By landbank: largest
 - By saleable area: largest
 - By transaction value: second after Vanke
 - FY13: 291 projects in 147 cities
- Pre-2013: 2nd/3rd/4th tier city developer, buys a big parcel of land and builds a town on it, selling units at low prices. Think HDB estates
- 2013: shift in strategy to tier-1/2 cities... but at what cost?

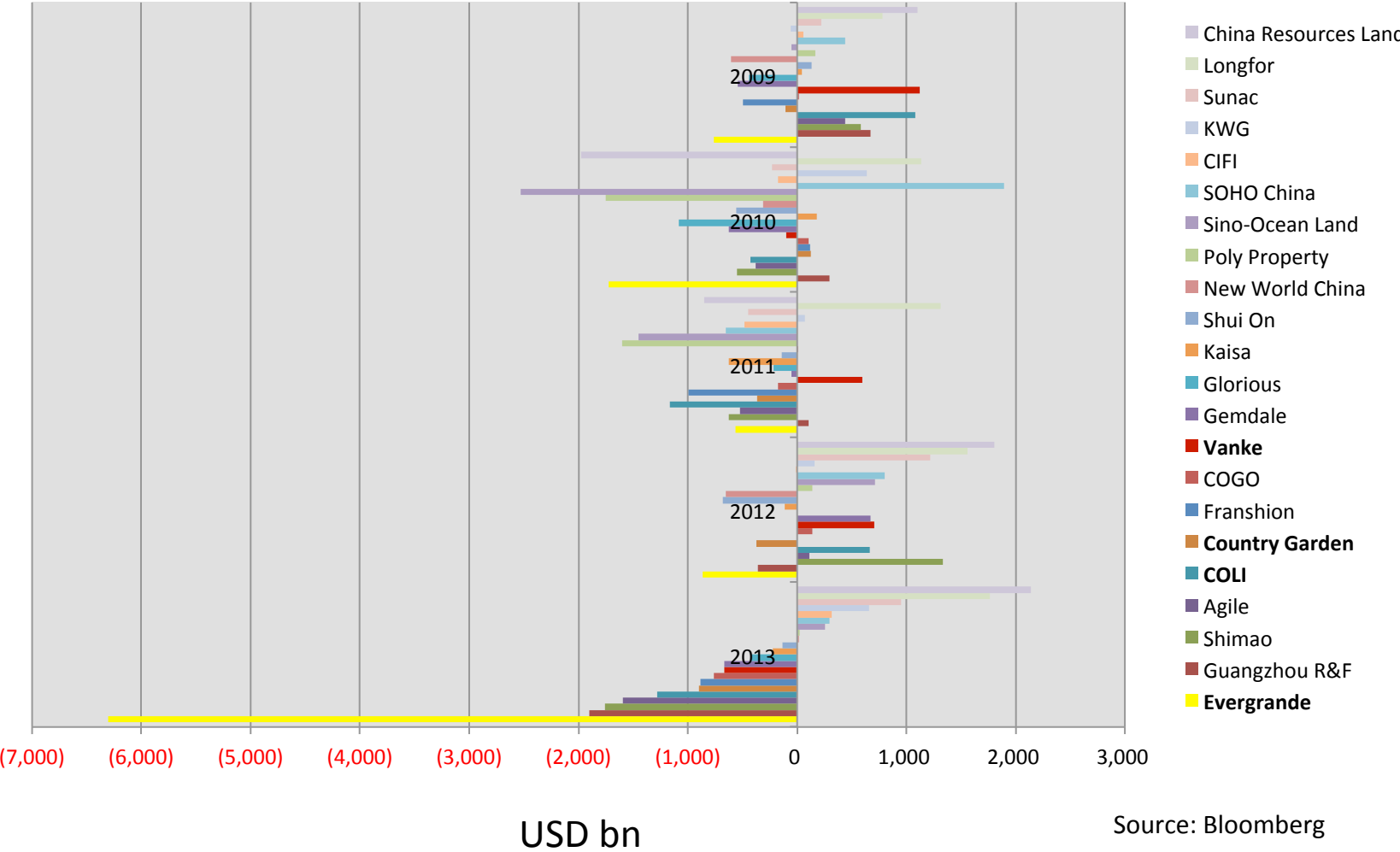
Developers by revenue



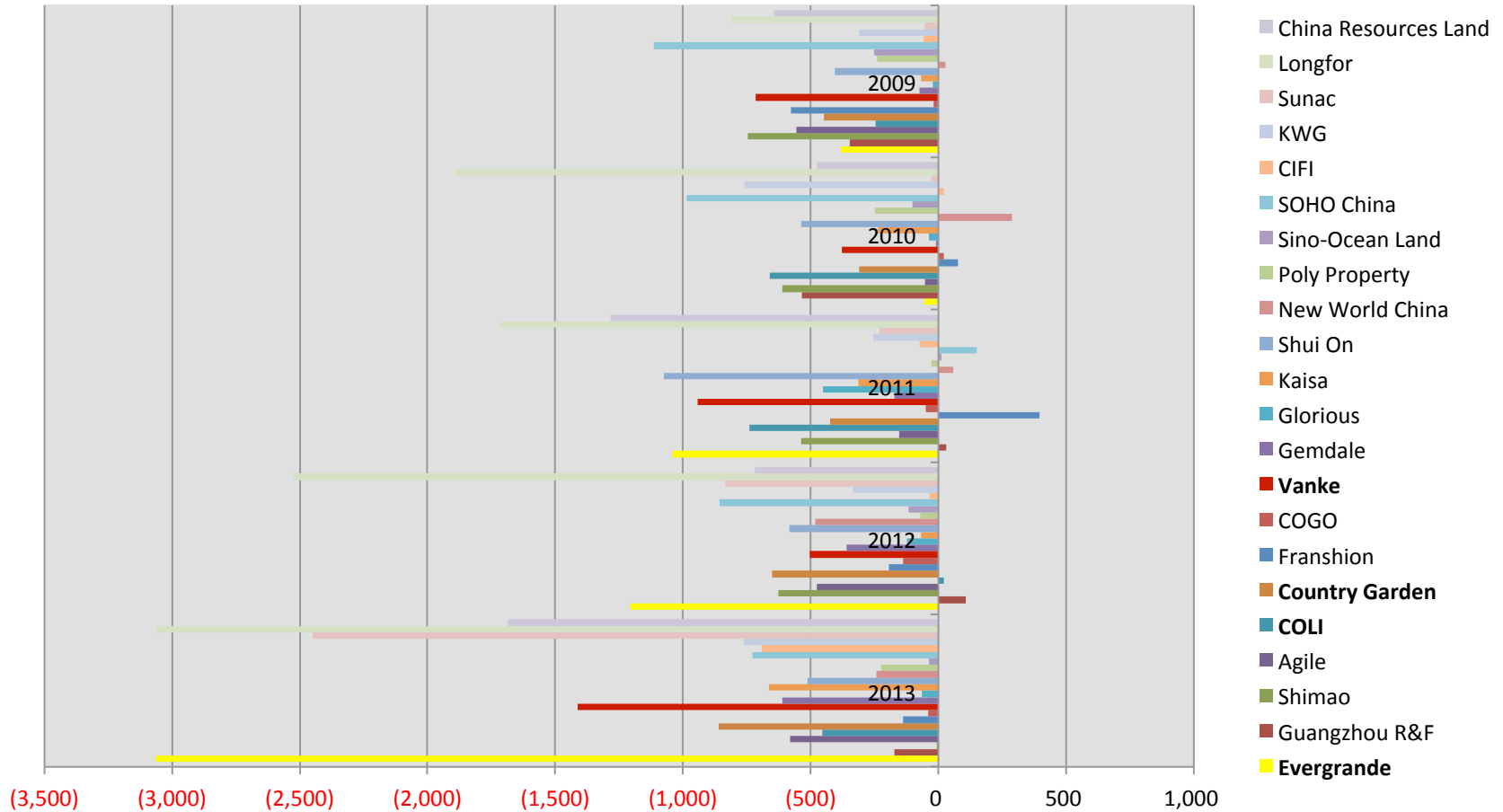
USD bn

Source: Bloomberg

Developer cash flow from operations



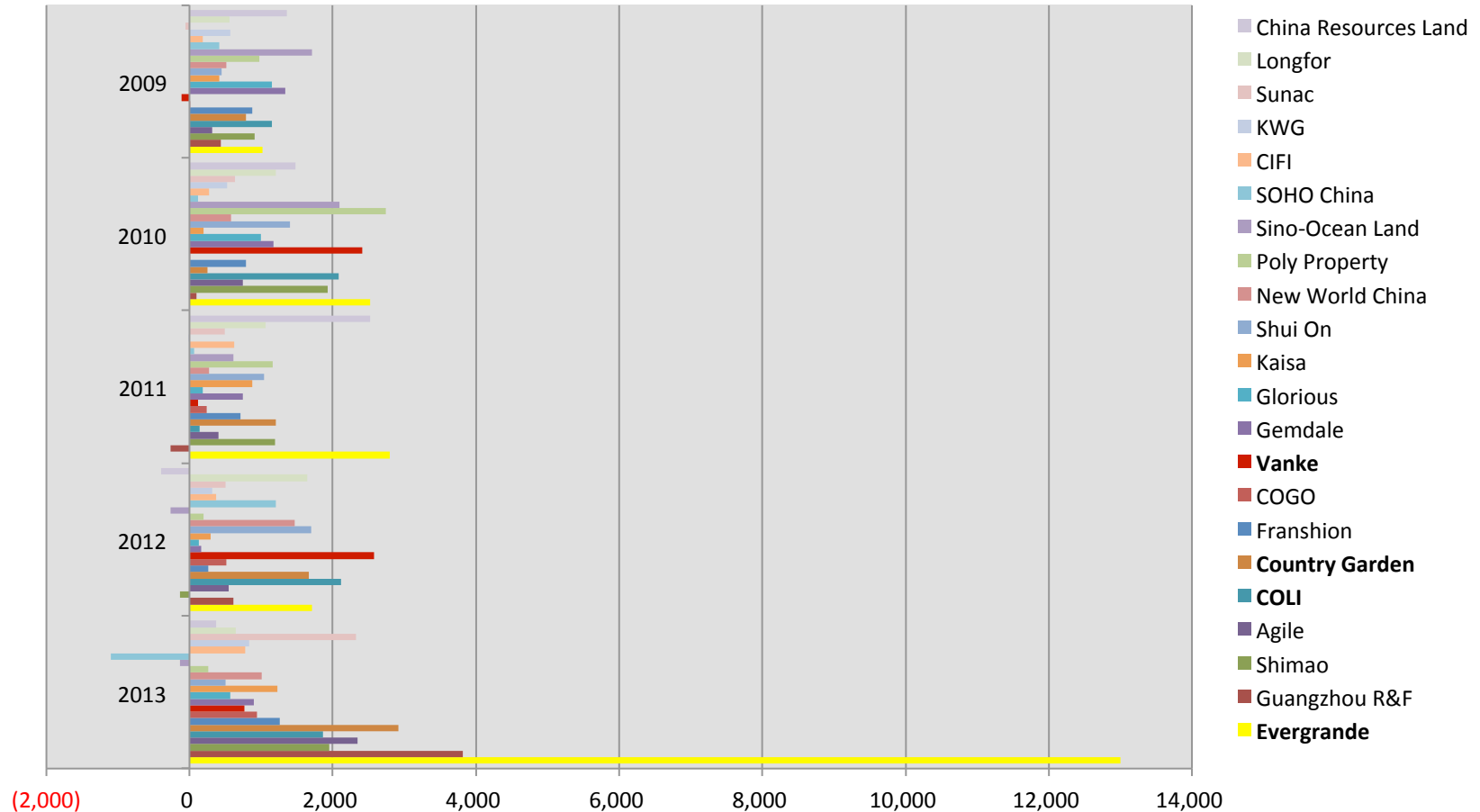
Developer cash flow from investing



USD bn

Source: Bloomberg

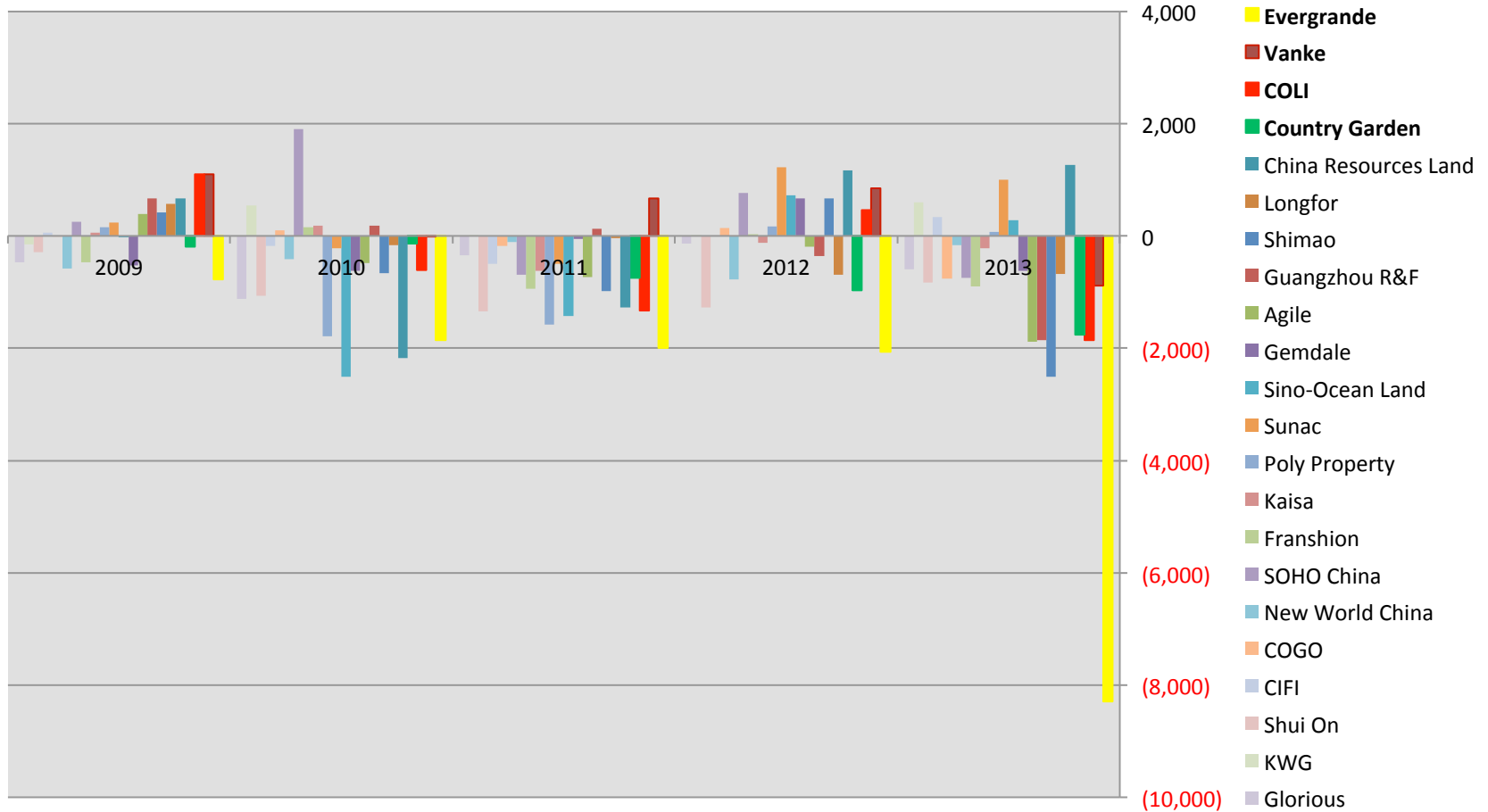
Developer cash flow from financing



USD bn

Source: Bloomberg

Developer free cash flow



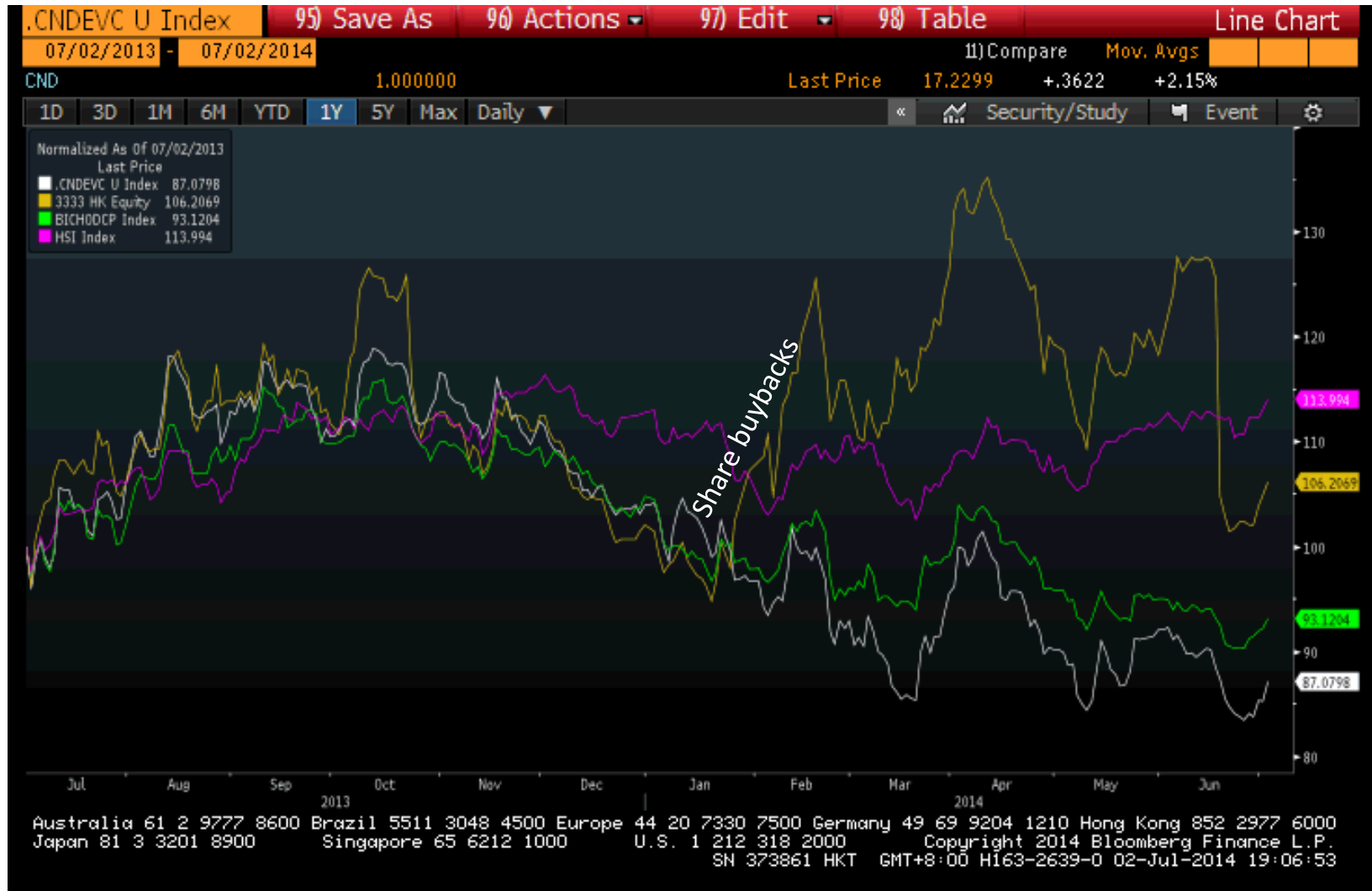
USD bn

Source: Bloomberg

Why Evergrande?

- Largest landbank/development properties with smaller margins: one of the most exposed
- Guided FY14 negative operating cash flow of RMB 21.5bn
- Worst cash outflows historically
- Management selling shares/leaving
- Heavily geared: estimated 185% to equity
- Significant refinancing risk: USD1.35bn 13% bond expiring in Jan 2015
 - Vs estimated USD 3-4bn in cash after dividend, acquisition of Huaxia shares, selling half the football club
 - Actual cash paid for interest in FY13: USD1.2bn (Bloomberg)
- Despite that, intention to take on more debt
- Share price has been supported by buybacks and >15% dividend despite how its fundamentals are worsening

Evergrande vs peers and HSI



Source: Bloomberg

Managers getting out

- CEO Xia Hai Jun
 - 41.8m shares in June
 - 26.2m shares in April
 - First sale since joining as CEO in 2007
 - Now holds 0.42%
- Vice Chairman Li Gang (resigned 1 May 2014)
 - Sold 33m shares in April
 - Previous sale of 9m shares in 2012
 - He has since resigned Joined in 2003, Board since 2008
- Executive director Lai Lixin (resigned 14 Feb 14)
 - Stepped down to “dedicate [more time to] Changsha” division of Evergrande
- Previous movements in 2012 were ostensibly due to amendments to the Corporate Governance Code
 - Yu Kam Kee, Lawrence resigned as an independent non-executive director of the Company with effect from 23 June 2012
- Citron Research’s allegations made public on 20 June

2014 refinancing is significant

Maturity	Rate/coupon	Size/crncy	Date issued	Expiry
2014 REDEEMED	7.5/semiannual	CNY 5.5b	14/1/2011	19/1/2014
2015	13.0/semiannual	USD1.35b	21/1/2010	27/1/2015 (5 year bond)
2016	9.25/semiannual	CNY3.7b	14/1/2011	19/1/2016 (5 year bond)
2018	8.75/semiannual	USD1.5bn	24/10/2013	30/10/2018 (5 year bond)
Perpetuals	?	CNY 25bn	2013	NA

Source: Bloomberg, company

- January 2015 refinancing may be a catalyst for the stock
 - If they cannot obtain a loan, equity issue will be significant at current USD5.8b market cap (>10% issue)
- January 2013 consent solicitation, communication with IR team: management intends to take on more debt/perpetual securities

Bonds trading at a discount

EVERRE 13 01/27/15 \$ ↑104.250 +.000 466.5 bp vs T 0.500 06/30/2016
 As of 01 Jul Vol 500.0M Op 104.250 Hi 104.250 Lo 104.250 Yld 5.128 TRAC

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 40 Corp 41 Govt 42 Loans 43 Pfd 44 CDS 45 CDS Idx 46 Muni 47 Futr 48 Optns 49 IRS 50 IRS Vols 51 Gen Gov

60 Excluded (1): Matured/Called, Non-Verified Bonds 61 Column Settings

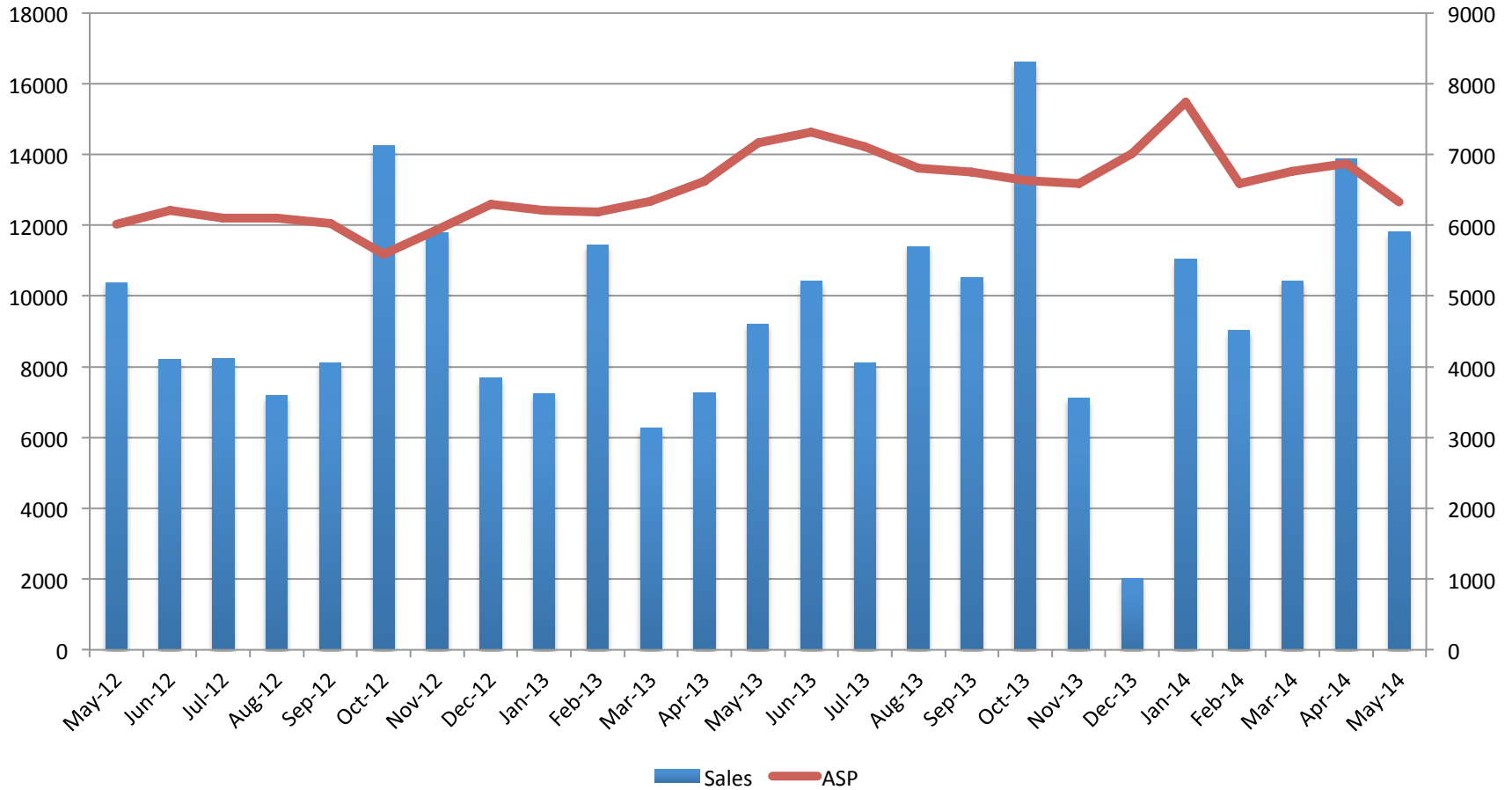
R	Issuer Name	Ticker	Coupon	Maturity	Series	BB Rtg	Mty Type	Announce	Curr	Ask Px	Source
		EVERRE									
1)	Evergrande Real Estate Group Ltd	EVERRE	13.000	01/27/2015	REGS	B+	BULLET	01/21/2010	USD	105.325	TRAC
2)	Evergrande Real Estate Group Ltd	EVERRE	13.000	01/27/2015	144A	B+	BULLET	01/21/2010	USD	104.250	TRAC
3)	Evergrande Real Estate Group Ltd	EVERRE	8.750	10/30/2018	REGS	B	CALLABLE	10/24/2013	USD	98.750	TRAC
4)	Evergrande Real Estate Group Ltd	EVERRE	9.250	01/19/2016		B	BULLET	01/13/2011	CNY	101.496	BGN
5)	Evergrande Real Estate Group Ltd	EVERRE	8.750	10/30/2018	144A	B	CALLABLE	10/24/2013	USD	96.250	TRAC

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
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Key risks to thesis

- General improvements to China property market
 - China property/homeownership restrictions lifted nationwide; some rollbacks at the local level for worst-hit cities
- Easing of Chinese credit
- Share buybacks/more large dividends
- Greater than expected cash collection rate; sales still on track
 - Sales target (40% of total) reached, but it and Vanke are the only ones on track
 - However, ASP dropped YoY (13%) and MoM (-7%)

ASPs and sales volumes



Peer comparison and valuation

Name	Market Cap (USDm)	Avg daily value traded 3M (USDm)	Free float (%)	Net gearing (%)	Interest coverage (T12M)	P/E			EV/EBITDA			P/B			ROE			Dvd 12M Yld - Net
						T12M	T+1	T+2	T12M	T+1	T+2	T12M	T+1	T+2	T12M	T+1	T+2	
Evergrande	5,814	24	31	185	2.3	3.1	3.4	0.5	6.93	5.56	4.92	0.82	0.52	0.48	29.04	17.76	18.70	17.4
Guangzhou R&F	4,087	11	96	131	3.1	3.3	3.4	0.5	6.02	4.68	3.89	0.79	0.60	0.53	26.07	18.96	19.79	7.9
Shimao	6,613	31	35	62	3.1	5.5	3.9	0.6	7.87	4.60	3.23	0.98	0.73	0.63	19.03	19.63	20.38	5.3
Agile	2,462	13	36	89	3.7	2.9	2.9	0.4	6.16	4.92	5.04	0.52	0.40	0.36	18.80	14.16	14.27	8.6
COLI	20,651	89	47	28	10.6	6.9	5.9	0.9	8.65	4.52	3.14	1.46	1.06	0.91	23.37	19.38	19.12	2.4
Country Garden	7,550	20	28	81	3.1	5.4	3.9	0.7	8.05	4.57	4.27	1.07	0.79	0.68	20.89	21.50	21.78	6.6
Franshion	2,388	3	32	45	3.8	4.4	4.1	0.4	8.18	4.58	3.21	0.64	0.47	0.43	14.61	11.87	11.66	4.7
COGO	1,449	5	28	61	6.8	3.6	2.8	0.5	5.62	2.11	1.99	0.99	0.62	0.50	32.55	25.28	24.22	2.2
Vanke	15,098	118	78	45	3.7	5.9	4.0	0.7	5.94	4.16	3.40	1.16	0.82	0.69	21.49	20.97	21.03	5.0
Gemdale	6,307	60	86	44	1.7	11.3	7.4	0.9	-	9.20	8.08	1.34	1.07	0.90	13.10	13.70	14.19	-
Glorious	1,106	0	32	89	0.1	22.0	5.0	0.3	-	8.48	11.37	0.37	0.30	0.31	1.60	4.70	5.20	0.0
Kaisa	1,586	2	39	70	1.9	3.3	2.3	0.3	5.88	2.55	0.80	0.55	0.42	0.34	18.06	19.04	22.02	6.1
Shui On	1,972	3	43	77	0.7	5.5	9.0	0.3	23.69	14.37	11.24	0.34	0.29	0.27	6.28	3.22	4.44	3.2
New World China	5,231	29	29	31	3.0	7.1	7.9	0.6	6.77	5.84	5.36	0.70	0.65	0.59	10.38	9.11	7.90	1.7
Poly Property	1,552	8	55	94	1.2	4.4	4.6	0.3	10.51	8.28	7.43	0.41	0.36	0.33	9.58	8.04	8.67	6.8
Sino-Ocean Land	3,848	3	60	54	2.4	4.8	5.5	0.5	9.02	6.16	4.85	0.58	0.49	0.45	10.41	9.20	10.62	5.8
SOHO China	4,133	5	37	18	5.7	3.3	19.5	0.6	4.93	20.42	24.61	0.69	0.61	0.60	21.68	3.58	2.79	5.1
CIFI	1,120	1	27	68	2.0	3.5	2.7	0.5	6.44	3.32	-	0.81	0.55	0.46	24.99	21.63	23.31	4.8
KWG	1,695	5	39	64	1.3	3.8	3.1	0.4	8.43	4.74	3.57	0.59	0.47	0.41	16.62	16.16	16.76	8.0
Sunac	1,975	8	43	86	2.4	3.8	2.2	0.4	5.28	2.61	1.30	0.90	0.54	0.41	27.53	27.86	25.95	5.2
Longfor	6,818	5	22	59	3.8	5.3	5.0	0.7	7.26	4.47	3.01	1.14	0.83	0.70	24.03	17.67	18.38	2.9
China Resources Land	10,804	33	32	39	7.2	5.7	6.0	0.7	9.29	5.50	4.71	0.99	0.76	0.68	19.10	13.73	13.97	3.0
Simple average	5,194	22	43	69	3.3	5.69	5.19	0.53	8.04	6.17	5.69	0.81	0.61	0.53	18.60	15.32	15.69	5.37



Questions?

Timeline

- 2014
 - 4 July: Dividend payment (54HKc/share, CNY6.5b)
 - June: CEO Xie Haijun sells shares again
 - 1 May: Vice Chairman Li Gang resigns after having sold shares
 - April: CEO Xie Haijun sells shares for first time
 - 31 March – FY13 results announcement
 - 27 January – 28 February – Share buybacks (CNY3.84bn)
 - 14 February: Executive Director Lai Lixin resigns
 - 22 January: Consent solicitations for debt covenants approved
- 2013
 - November – January 2014: Acquires 4.52% Huaxia shares (CNY4.1b)
 - 29 November: Buys land worth USD550m
 - 7 November: Issues 500m 8.75% 2018 senior notes
 - 17 January: Placement of 6.7% of shares at HKD4.35 (-6.5%)
- 2012
 - 23 June: resignation of independent director and 2 executive directors due to Corporate Governance Code amendments
 - 20 June: Citron Research alleges fraud at Evergrande

Margins

	Net					EBITDA					Gross profit				
	2013	2012	2011	2010	2009	2013	2012	2011	2010	2009	2013	2012	2011	2010	2009
Evergrande	14%	14%	18%	17%	18%	21%	19%	26%	23%	2%	30%	28%	33%	29%	34%
Vanke	11%	13%	14%	14%	12%	18%	27%	29%	23%	20%	32%	36%		26%	
COLI	28%	29%	30%	28%	20%	30%	36%	37%	37%	28%	33%	38%	40%	40%	32%
Country Garden	14%	16%	17%	17%	12%	21%	29%	28%	28%	22%	30%	37%	35%	32%	26%
China Resources Land	21%	24%	23%	23%	26%	24%	31%	33%	35%	29%	28%	38%	40%	39%	36%
Longfor	19%	23%	26%	27%	19%	24%	35%	35%	29%	26%	28%	40%	41%	34%	29%
Shimao	18%	20%	22%	21%	21%	28%	26%	32%	31%	28%	35%	34%	38%	37%	35%
Guangzhou R&F	21%	18%	18%	18%	16%	34%	35%	36%	33%	25%	39%	41%	42%	38%	32%
Agile	15%	17%	18%	29%	14%	29%	35%	47%	39%	28%	36%	42%	54%	46%	37%
Gemdale	10%	11%	13%	14%	15%	12%	17%	21%	21%	22%					
Sino-Ocean Land	13%	13%	13%	18%	18%	20%	21%	24%	24%	24%	24%	27%	31%	30%	30%
Sunac	10%	13%	22%	23%	17%	20%	22%	28%	39%	27%	23%	26%	34%	43%	28%
Poly Property	9%	13%	20%	22%	9%	16%	23%	29%	30%	14%	23%	30%	40%	41%	23%
Kaisa	15%	17%	18%	47%	12%	26%	23%	22%	31%	20%	34%	33%	30%	39%	28%
Franshion	20%	20%	36%	27%	19%	39%	36%	45%	39%	31%	44%	42%	54%	52%	52%
SOHO China	51%	66%	68%	20%	45%	49%	52%	47%	47%	46%	55%	56%	48%	51%	52%
New World China	29%	25%	22%	42%	67%	36%	40%	29%	11%	4%	42%	45%	31%	24%	34%
COGO	20%	25%	35%			28%	34%	49%			33%	41%	58%		
CIFI	16%	24%	33%	11%	13%	19%	17%	25%	22%	25%	26%	24%	34%	27%	30%
Shui On	22%	42%	40%	58%	40%	23%	28%	36%	30%	44%	32%	43%	44%	41%	52%
KWG	29%	25%	21%	17%	17%	27%	28%	37%	34%	27%	36%	37%	44%	41%	38%
Glorious	4%	13%	23%	51%	38%	4%	16%	33%	49%	44%	13%	23%	40%	48%	48%

Cash balance, FCFF, interest

	Cash and marketable securities				Actual cash paid for interest					Free cash flow to firm					
	2013	2012	2011	2010	2009	2013	2012	2011	2010	2009	2013	2012	2011	2010	2009
Evergrande	6,629	2,853	3,188	1,875	1,074	1,273	892	553	217	100	(8,294)	(2,069)	(1,989)	(1,851)	(776)
Vanke	7,330	8,199	5,336	5,739	3,163	N/A	N/A	N/A	N/A	332	(883)	849	668	(14)	1,092
COLI	5,341	5,274	2,469	4,062	3,067	292	400	175	144	99	(1,857)	463	(1,326)	(610)	1,096
Country Garden	3,124	1,894	1,229	773	675	620	477	326	167	115	(1,762)	(964)	(743)	(138)	(190)
China Resources Land	3,691	2,832	2,033	1,589	2,563	255	336	218	142	92	1,270	1,168	(1,279)	(2,180)	668
Longfor	2,379	2,948	2,242	1,497	996	400	315	219	127	86	(683)	(697)	(43)	(158)	573
Shimao	2,813	2,549	1,954	1,842	1,013	567	502	451	228	152	(2,505)	670	(985)	(663)	413
Guangzhou R&F	2,928	1,127	972	858	973	637	348	284	236	205	(1,863)	(352)	126	185	671
Agile	1,121	922	743	984	640	410	306	218	172	89	(1,883)	(194)	(729)	(479)	390
Gemdale	3,075	3,307	2,959	2,069	1,412	N/A	N/A	N/A	N/A	N/A	(621)	672	(54)	(619)	(525)
Sino-Ocean Land	1,961	1,789	1,472	2,160	2,581	398	442	309	209	128	277	728	(1,427)	(2,514)	(26)
Sunac	2,216	1,346	439	601	209	407	288	31	0	17	1,004	1,224	(500)	(224)	234
Poly Property	1,912	1,846	1,583	2,044	1,304	481	518	432	156	105	66	165	(1,577)	(1,783)	155
Kaisa	1,161	751	626	659	490	310	233	170	34	72	(223)	(119)	(627)	188	56
Franshion	1,886	1,679	1,574	1,445	454	251	122	101	79	65	(893)	25	(940)	158	(472)
SOHO China	1,673	3,161	1,890	2,690	1,354	164	135	96	75	47	(746)	766	(695)	1,898	250
New World China	2,493	1,709	1,367	1,023	470	129	98	84	67	65	(160)	(773)	(106)	(416)	(586)
COGO	928	772	260	243	114	75	33	21	14	15	(763)	137	(175)	106	(13)
CIFI	1,167	736	359	295	164	173	112	68	42	26	330	(16)	(501)	(181)	54
Shui On	889	1,008	559	744	429	462	352	239	122	112	(834)	(1,281)	(1,350)	(1,062)	(294)
KWG	1,555	790	639	801	372	312	253	210	98	71	592	6	0	538	(147)
Glorious	256	159	162	630	734	336	228	276	191	70	(597)	(135)	(343)	(1,120)	(463)

Local govt debt repayment pressures vs land sales revenue

- What makes the going tough for local governments is their pre-determined plan to use the revenue from land sales for debt repayments. Different provinces have vowed different ratios of land sale revenue repayment. The average ratio was 37 percent in 2012 and it could be as high as 66 percent (in Zhejiang province).
- Local governments are set to face huge debt repayment pressures, with over 4.24 trillion yuan (\$678.8 billion) of outstanding debt, or 38.95 percent of the total debt, set to mature in 2014 and 2015.