

Performance Analysis

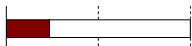
Summary

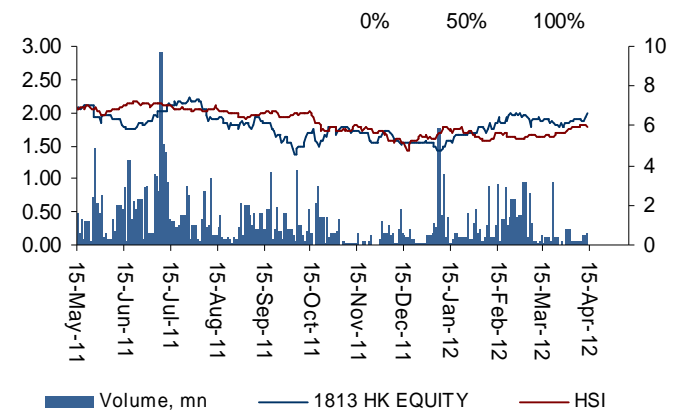
KWG's sales in 2011 totaled RMB 11.5bn, rising by 5% YoY, but the performance didn't hit the sales target of RMB15bn. Partly due to management's over-positive forecast, and also because many projects were affected by purchase limit policies. Furthermore ASP did not drop as much as expected to boost sales. On the whole KWG maintained growth on sales. We expect that the two serviced apartment projects in Guangzhou will be sales core. And commercial properties will play more important role, as sales reached over RMB5.5bn, accounting for near 50% of totals.

KWG's debt scale increased in 2011. KWG's liquidity risk rose. Because of increased inventories, rising short-term debt and below expectation cash balance of RMB4bn. For more than RMB21bn of properties inventories, activating stocks and promoting liquidity are positive towards improving its financial status. However, we think that there is not clear enough policy outlook, net debt to equity ratio will rise in a narrow margin but with limited financial risk.

We think that KWG's strategy on focusing on commercial property can fit current market conditions. The company may ensure continuous sales growth, and financial risk is under control in spite of tightened liquidity. In our opinion, the company's valuation and dividend yield are attractive. Loosening policies and good sales activities will be direct driver of share price. We give KWG "Hold" rating, 12m TP at HKD4.85, representing to 5.2times expected P/E in 2013.

KWG

Rating	2.00	Accumulate
- Previous Rating	1.00	Buy
Target Price (HKD)	4.85	
- Previous Target Price (HKD)	3.8	
Closing Price (HKD)	4.27	
Expected Capital Gains (%)	13.6%	
Expected Dividend Yield (%)	4.4%	
Expected Total Return (%)	18.0%	
Raw Beta (Past 2yrs w weekly data)	1.62	
Market Cap. (HKD mn)	12,354	
Enterprise Value (HKD mn)	20,109	
52 week range (HKD)	2.28-5.94	
Closing Price in 52 week range		



Key Financial Summary

FYE	10A	11A	12E	13E
Revenue (RMB mn)	7,466	10,123	10,582	11,622
Net Profit, adj. (RMB mn)	1,280	2,103	2,001	2,192
EPS, adj. (RMB)	0.44	0.73	0.69	0.76
P/E (X),adj.	10.7	2.9	5.7	5.2
BVPS (RMB)	4.00	4.66	5.20	5.82
P/B (X)	0.87	0.74	0.67	0.60
DPS (RMB)	0.11	0.22	0.17	0.23
Div. Yield (%)	2.34%	10.34%	4.39%	5.77%

Source: Bloomberg, KWG

*All multiples & yields based on current market price

Valuation Method

P/E

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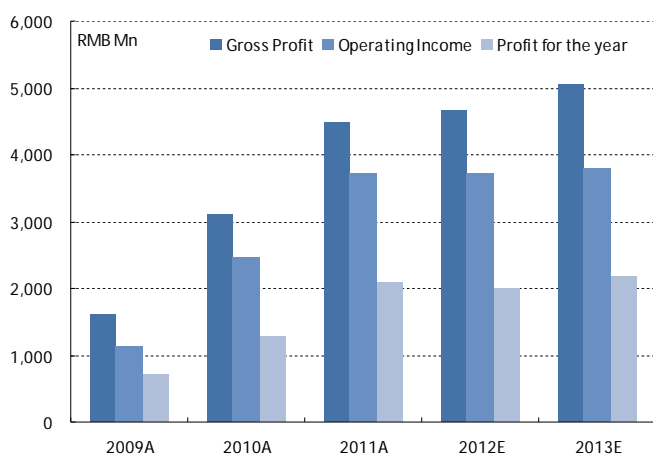
Sales proportion of commercial property will keep increasing

KWG's sales in 2011 totaled RMB 11.5bn, rising by 5% YoY, but the performance didn't hit the sales target of RMB15bn. Except for the management's over-positive forecast, many projects were affected by purchase limit policies and less than expected decrease on ASP price are the main reasons. On the whole KWG maintained growth on sale.

In the period, sales proportion from commercial properties rose significantly, which reached 39%. To lower influence of controlling policies, KWG accelerated its steps on commercial property development, serviced apartment, office and retail shop has become main sales source. The projects in Guangzhou sold smoothly and promoted cash flow effectively.

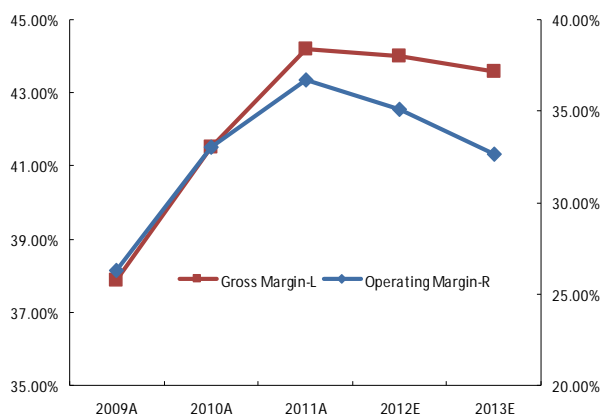
The management set the sales target in 2012 to RMB 12bn. The full-year supplies will be 1.8mn sqm, 40% of which belongs to commercial properties. The projects will increase to 20, in which 8 new projects are located in Shanghai, Suzhou, Hainan, Chengdu and Chengdu. We expect that the two serviced apartment projects in Guangzhou will be sales core. And commercial properties will play more important role, its sales reached over 5.5bn, accounting for near 50% of totals.

Figure1, View of profit



Source, Company report and Phillip Securities

Figure2, View of profitability



Source, Company report and Phillip Securities

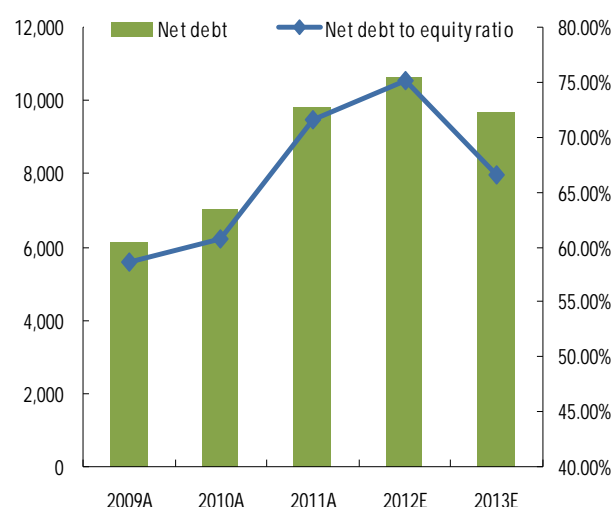
Debt continued increased but with limited financial risk

KWG's debt scale increased in 2011. The company's debt by the end of 2011 rose by 12% YoY to RMB13.8bn. Among that, short-term debt soared by 49% to RMB3.4bn. Therefore, net debt added RMB2.8bn to RMB9.81bn. The company's net debt to equity ratio by the end of 2011 rose by 10.8 points to 71.6%, in-line with its peers.

KWG's liquidity risk rose due to increased inventories. For more than RMB21bn of properties inventories, activating stocks and promoting liquidity are positive towards improving financial status. However, we think that policy outlook is unclear. Net debt to equity ratio will rise in a narrow margin but with limited financial risk.

Despite that property regulation policy is not expected to loosen in the short term, we expect that central government will loosen credit limit gradually in 2H2012. The government will have to launch more positive monetary policy against downside risk of China economy.

Figure3, View of debt ratio



Source, Company report and Phillip Securities

Profit forecast

In our opinion, for the management's cautious attitude and future uncertainties, booked revenue in 2012 and 2013 will maintain low growth. If credit policy to be loosened as planned, booked revenue in 2013 will improve. We expect that the company's revenue in 2012 and 2013 will be RMB10.6bn and RMB11.6bn, net profit will be RMB2bn and RMB2.19bn, EPS at RMB0.69 and RMB0.76, representing to HKD 0.85 and 0.94.

Risk

Sales may be weak.

If credit policy is not loosened as planned, financial risk will rise.

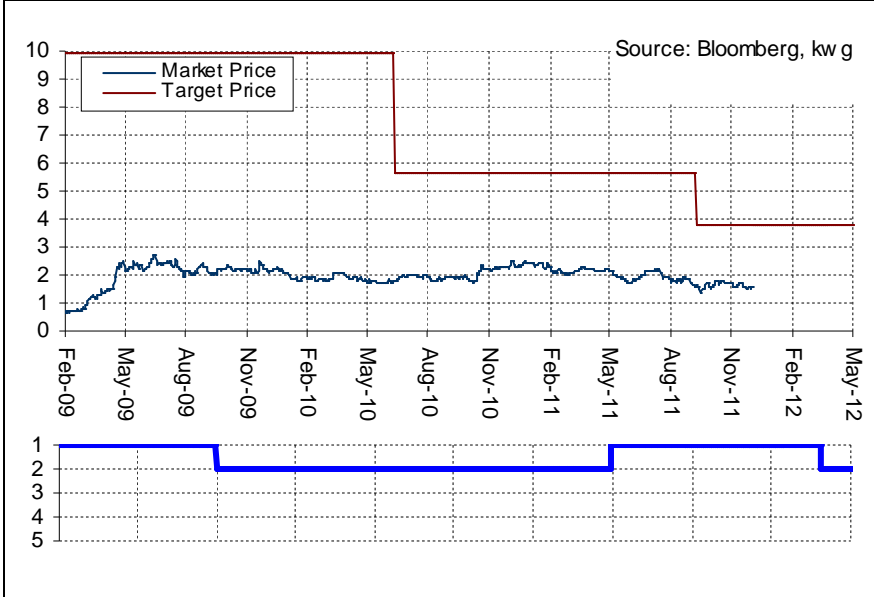
Valuation

We think that KWG's strategy on focusing on commercial property can fit current market conditions to counter the negative impact of policies. The company may ensure continuous sales growth, and financial risk is under control in spite of tightened liquidity. In our opinion, the company's valuation and dividend yield are attractive. Loosening policies and good sales will be direct driver of share price. We give KWG "Hold" rating, 12m TP at HKD4.85, representing to 5.2times expected P/E in 2013.

FYE	FY09	FY10	FY11	FY12F	FY13F
Valuation Ratios					
P/E (X), adj.	18.0	10.7	2.9	5.7	5.2
P/B (X)	0.96	0.87	0.74	0.67	0.60
EV/EBITDA (X), adj.	18.70	8.63	4.30	5.62	5.59
Dividend Yield (%)	1.07%	2.34%	10.34%	4.39%	5.77%
Per share data (RMB)					
EPS, reported	0.26	0.44	0.73	0.69	0.76
EPS, adj.	0.26	0.44	0.73	0.69	0.76
DPS	0.05	0.11	0.22	0.17	0.23
BVPS	3.60	4.00	4.66	5.20	5.82
Growth & Margins (%)	3.47	3.47	3.47	3.47	3.47
Growth					
Revenue	171.03%	74.97%	35.59%	4.53%	9.83%
Operating profit	81.02%	120.16%	50.61%	-0.07%	2.16%
EBT	80.20%	97.64%	58.69%	-3.99%	7.12%
Net Income, adj.	95.39%	77.78%	64.30%	-4.85%	9.55%
Margins					
Gross profit margin	37.87%	41.49%	44.18%	44.00%	43.58%
Operating margin	26.27%	33.06%	36.72%	35.10%	32.65%
Net profit margin	16.87%	17.14%	20.77%	18.91%	18.86%
Key Ratios					
ROE (%)	7.63%	11.66%	16.78%	14.65%	15.71%
ROA (%)	2.86%	3.74%	4.97%	4.58%	4.60%
Net Debt/(Cash)	6,105	7,056	9,809	10,660	9,683
Net Gearing (X)	58.60%	60.80%	71.60%	75.20%	66.50%
Income Statement (RMB mn)					
Revenue	4,267	7,466	10,123	10,582	11,622
Cost of sales	(2,650)	(4,368)	(5,650)	(5,926)	(6,557)
Gross profit	1,616	3,098	4,472	4,656	5,065
Operating profit	1,121	2,468	3,717	3,714	3,795
EBT	1,269	2,508	3,980	3,821	4,093
Tax	(548)	(1,225)	(1,876)	(1,819)	(1,903)
Tax rate	43.18%	48.84%	47.14%	47.60%	46.50%
Profit for the year	721	1,282	2,103	2,002	2,190
Minority interests	1	2	0	1	2
Net profit	720	1,280	2,103	2,001	2,192

Source: BLOOMBERG, KWG and Phillip Securities

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

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

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