Deutsche Bank
Markets Research

Rating
Buy

Asia
China

Property
Property

Company
Yuexiu Property

Reuters	Bloomberg	Exchange	Ticker
0123.HK	123 HK	HSI	0123

Date
27 March 2012

Company Update

Price at 27 Mar 2012 (HKD)	1.57
Price target - 12mth (HKD)	3.04
52-week range (HKD)	1.80 - 0.96
HANG SENG INDEX	21,047

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Focus on faster asset turnover to drive faster growth ahead

Re-rating on faster turnover and growth from commercial properties

At the current share price, Yuexiu is trading at a 64% discount to our estimated NAV, 0.6x P/B and 5.6% 2011 dividend yield. We believe current valuations are attractive, especially given management's focus on accelerating asset turnover on its residential and commercial properties portfolio. Also, the continued strong performance of prime-location commercial properties in China should help drive further growth in earnings and NAV. Maintaining Buy.

Yuexiu REIT provides a unique platform for Yuexiu to recycle capital

Yuexiu is unique among the listed China property companies because it is now the only HK-listed China property company that has a listed China REIT – Yuexiu REIT (0405.HK). According to management, with the completion of Yuexiu's new, Grade A commercial properties like Guangzhou IFC, Fortune Plaza, Fortune World Plaza and Asia Pacific Century Plaza, Yuexiu will work on the potential disposal of these prime assets into Yuexiu REIT, which would allow Yuexiu to realize the value of these prime investment properties and at the same type re-cycle capital more efficiently and improve asset turnover.

Yuexiu is also on track to achieve its RMB10bn contracted sales target

For 2012, Yuexiu has saleable resources of about 1.45msm. As a reference, in the first two months of 2012, Yuexiu achieved contracted sales of RMB1.05bn, plus subscription sales of about RMB550m. In March, given more relaxed mortgage approval process for first-time homebuyers, sales have shown a notable pick-up. In the first half of March, Yuexiu has already achieved over RMB1bn of sales, and management is confident that it can achieve cumulative sales of about RMB3bn in 1Q12 – or about 30% of this year's sales target.

Attractive valuations at 64% NAV discount and 0.6x end-2011 P/B

Our HK$3.04 TP is based on 30% discount to our HK$4.35 est. NAV, factoring in 10-20% declines in 2012 ASPs in Tier-1/2 cities. We have cut our NAV (from HK$4.76 to HK$4.35 and TP from HK$3.33 to HK$3.04) as we have revised our rental assumptions for Guanzhou IFC. Risks: stricter-than-expected tightening; weaker-than-expected pick-up after price cuts; unexpected economic volatility.

Key changes

Price target	3.33 to 3.04	↓	-8.7%
Sales (FYE)	14,819 to 14,176	↓	-4.3%
Op prof margin(FYE)	32.3 to 33.1	↑	2.3%
Net profit(FYE)	2,972.6 to 2,684.0	↓	-9.7%

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-0.6	37.7	-6.0
HANG SENG INDEX	-0.8	13.0	-9.1

Forecasts And Ratios

Year End Dec 31	2010A	2011A	2012E	2013E	2014E
Sales (CNYm)	5,634.0	9,569.0	14,175.6	16,209.1	16,337.4
Reported NPAT(CNYm)	912.8	5,095.0	2,684.0	2,761.4	2,859.1
Reported EPS FD(CNY)	0.16	0.55	0.29	0.30	0.31
DB EPS FD (CNY)	0.05	0.12	0.29	0.30	0.31
DB EPS growth (%)	–	151.7	137.2	2.9	3.5
PER (x)	34.7	10.0	4.4	4.3	4.2
Yield (net) (%)	0.0	5.8	5.5	5.5	5.5

Source: Deutsche Bank estimates, company data

[1] DB EPS is fully diluted and excludes non-recurring items
[2] Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

All prices are those current at the end of the previous trading session unless otherwise indicated. Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies. Deutsche Bank does and seeks to do business with companies covered in its research reports. Thus, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. DISCLOSURES AND ANALYST CERTIFICATIONS ARE LOCATED IN APPENDIX 1. MICA(P) 146/04/2011.

Model updated:27 March 2012

Running the numbers

Asia

China

Property

Yuexiu Property

Reuters: 0123.HK Bloomberg: 123 HK

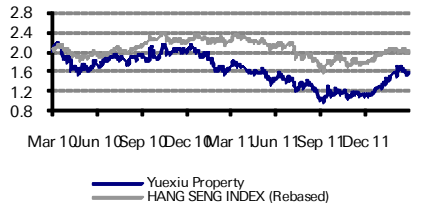
Buy

Price (27 Mar 12)	HKD 1.57
Target Price	HKD 3.04
52 Week range	HKD 0.96 - 1.80
Market Cap (m)	HKDm 14,617
	USDm 1,882

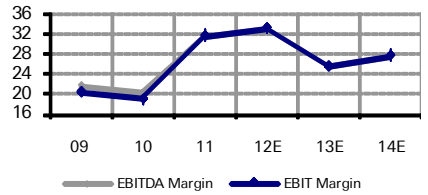
Company Profile

Yuexiu Property Company Ltd., through its subsidiaries, develops, manages and invests in properties. The Company also invests in a Real Estate Investment Trusts.

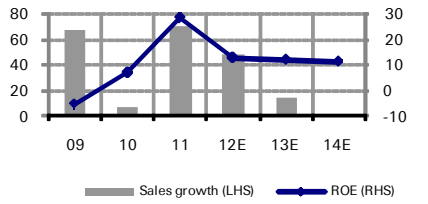
Price Performance



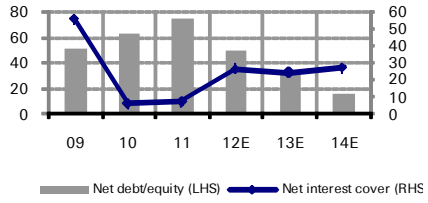
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2009	2010	2011	2012E	2013E	2014E
Financial Summary						
DB EPS (CNY)	-0.02	0.05	0.12	0.29	0.30	0.31
Reported EPS (CNY)	-0.10	0.16	0.55	0.29	0.30	0.31
DPS (CNY)	0.09	0.00	0.07	0.07	0.07	0.07
BVPS (CNY)	1.7	1.7	2.2	2.4	2.6	2.9
Weighted average shares (m)	7,129	7,484	9,284	9,284	9,284	9,284
Average market cap (CNYm)	9,089	12,532	11,291	11,881	11,881	11,881
Enterprise value (CNYm)	13,168	20,408	23,535	20,036	16,948	12,945
Valuation Metrics						
P/E (DB) (x)	nm	34.7	10.0	4.4	4.3	4.2
P/E (Reported) (x)	nm	10.5	2.2	4.4	4.3	4.2
P/BV (x)	1.15	1.06	0.43	0.53	0.48	0.44
FCF Yield (%)	nm	nm	nm	54.0	49.5	52.0
Dividend Yield (%)	7.3	0.0	5.8	5.5	5.5	5.5
EV/Sales (x)	2.5	3.6	2.5	1.4	1.0	0.8
EV/EBITDA (x)	11.6	17.9	7.8	4.3	4.1	2.9
EV/EBIT (x)	12.2	19.0	7.8	4.3	4.1	2.9
Income Statement (CNYm)						
Sales revenue	5,300	5,634	9,569	14,176	16,209	16,337
Gross profit	1,897	1,780	4,064	6,307	6,036	6,552
EBITDA	1,140	1,137	3,019	4,690	4,115	4,519
Depreciation	57	64	0	0	0	0
Amortisation	0	0	0	0	0	0
EBIT	1,082	1,073	3,019	4,690	4,115	4,519
Net interest income(expense)	-20	-177	-420	-181	-171	-168
Associates/affiliates	121	255	480	88	88	88
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	-763	848	5,285	0	0	0
Profit before tax	421	2,001	8,364	4,597	4,032	4,438
Income tax expense	714	1,021	3,107	1,660	1,097	1,392
Minorities	405	67	162	253	174	187
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	-697	913	5,095	2,684	2,761	2,859
DB adjustments (including dilution)	572	-636	-3,964	0	0	0
DB Net profit	-125	277	1,131	2,684	2,761	2,859
Cash Flow (CNYm)						
Cash flow from operations	-716	-6,949	-3,697	6,402	5,868	6,159
Net Capex	-287	-730	0	0	0	0
Free cash flow	-1,003	-7,679	-3,697	6,402	5,868	6,159
Equity raised/(bought back)	7	2,941	0	0	0	0
Dividends paid	-459	-31	-404	-802	-754	-762
Net inc/(dec) in borrowings	4,519	5,269	4,046	-6,632	-1,337	856
Other investing/financing cash flows	-1,821	1,624	-1,576	-1,409	-1,955	-1,318
Net cash flow	1,244	2,123	-1,630	-2,441	1,822	4,935
Change in working capital	*-1,650*	*-6,836*	*-6,715*	*4,686*	*3,885*	*3,805*
Balance Sheet (CNYm)						
Cash and other liquid assets	6,173	7,473	6,128	3,686	5,508	10,443
Tangible fixed assets	9,622	10,379	15,105	17,476	20,403	22,748
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	2,780	2,874	3,860	3,859	3,858	3,858
Other assets	18,379	30,056	36,103	34,075	30,264	26,513
Total assets	36,954	50,781	61,196	59,097	60,034	63,561
Interest bearing debt	12,593	17,736	21,782	15,150	13,813	14,669
Other liabilities	11,845	16,698	18,676	21,073	21,166	21,553
Total liabilities	24,439	34,435	40,458	36,223	34,979	36,223
Shareholders' equity	12,076	15,860	20,288	22,322	24,434	26,643
Minorities	440	486	450	551	621	696
Total shareholders' equity	12,515	16,346	20,738	22,873	25,054	27,338
Net debt	*6,420*	*10,264*	*15,655*	*11,464*	*8,305*	*4,226*
Key Company Metrics						
Sales growth (%)	67.8	6.3	69.8	48.1	14.3	0.8
DB EPS growth (%)	na	na	151.7	137.2	2.9	3.5
EBITDA Margin (%)	21.5	20.2	31.5	33.1	25.4	27.7
EBIT Margin (%)	20.4	19.0	31.5	33.1	25.4	27.7
Payout ratio (%)	nm	0.0	12.8	24.2	23.5	22.7
ROE (%)	-5.5	6.5	28.2	12.6	11.8	11.2
Capex/sales (%)	5.5	13.0	0.0	0.0	0.0	0.0
Capex/depreciation (x)	5.1	11.5	nm	nm	nm	nm
Net debt/equity (%)	51.3	62.8	75.5	50.1	33.1	15.5
Net interest cover (x)	55.3	6.1	7.2	26.0	24.1	26.9

Source: Company data, Deutsche Bank estimates



Accelerating asset turnover to drive valuations re-rating

Undemanding valuations

Yuexiu now trades at 64% NAV discount, 4x 2012E P/E and 0.6x end-2011 P/B – undemanding in our view, especially given that we have assumed 10-20% declines in ASPs in Tier-1/2 cities in 2012 already. We believe current valuations are attractive, especially given management's focus on accelerating asset turnover on its residential and commercial properties portfolio with the following plans:

1) continued disposal of non-core investment properties to unlock values from those properties;

2) potential disposal of core investment properties, like Guangzhou IFC, Fortune Plaza, Fortune World Plaza and Asia Pacific Century Plaza into 35.6%-owned Yuexiu REIT, in order to re-cycle capital for new development; and

3) expanding development scale to support growth in property sales.

Also, the continued strong performance of prime-location commercial properties in Tier-1 cities in China should help drive further growth in earnings and NAV for Yuexiu given its exposure to commercial properties in the city-center in Guangzhou.

Yuexiu REIT provides a platform for Yuexiu to recycle capital

Yuexiu is unique among the listed China property companies because, currently, Yuexiu is the only HK-listed China property company that has a listed China REIT – Yuexiu REIT (0405.HK). According to the management of Yuexiu, with the completion of Yuexiu's new, Grade A commercial properties like Guangzhou IFC, Fortune Plaza, Fortune World Plaza and Asia Pacific Century Plaza, Yuexiu will work on potential disposal of these prime assets into Yuexiu REIT, which would be good for both because:

1) Yuexiu can realize the value of these prime investment properties and at the same type re-cycle capital more efficiently and improve asset turnover; and

2) Yuexiu REIT would be able to expand its asset base and potentially see increases in earnings and distributions to its unit-holders.

In our view, if Yuexiu is successful in disposing its new, prime investment properties into Yuexiu REIT, it should help trigger a meaningful narrowing of the current NAV discount and P/B discount of the stock.

Bright outlook for high-quality commercial properties in China

We are bullish on China's commercial property market in China on the back of continued economic growth in China and on the central government's strong determination to streamline the economic structure of the China economy with a larger focus on boosting domestic consumption.

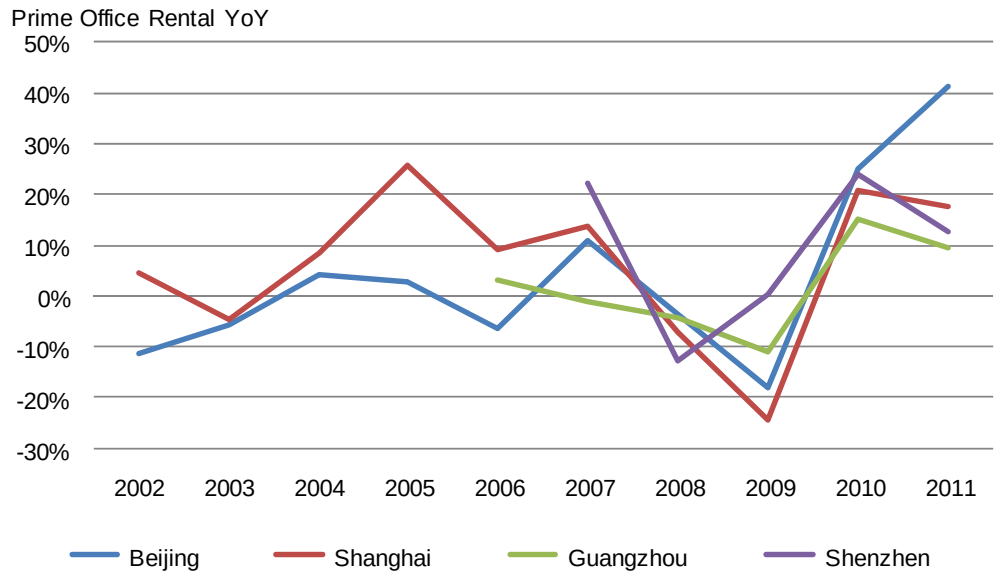
As a reference, on the 5th Plenary Session of the 11th National People's Congress, Premier Wen Jiabao announced GDP growth of 7.5% for China for 2012. This is the first time that China sets the GDP growth target lower than 8% in eight years since 2005. Premier Wen explained that China needs to put more efforts on economic structure optimization and improve economic development quality and efficiency, so that long-term evolution and progression could be guaranteed, instead of just quantitatively pursue a 8% target. As another reference, on the 4th Plenary Session of the 11th National People's Congress held in Mar 2011, the average annual GDP growth target was set at 7.5% for 2011-2015, compared with 11.2% actual annual growth rate during 2006-2010.

In our view, this GDP growth target cut is a positive signal, as the government is now focusing more on quality of growth than quantity of growth – and boosting domestic consumption is one of the strategies of the central government to enhance the quality of growth.

Strong growth for commercial properties in 2011

And according to JLL, rental and capital values of prime office and retail spaces have shown strong growth in 2011. For example, in 2011, prime office rents were up by 41% in Beijing, 18% YoY in Shanghai, and 9% in Guangzhou, while prime retail base-rents were up by 12% in Beijing, 4% in Shanghai, and 8% in Guangzhou. In our view, if we include the growth in turnover rentals, the YoY increases in rents should be even higher

Figure 1: China Property: Prime office rental growth (YoY) in Tier-1 cities

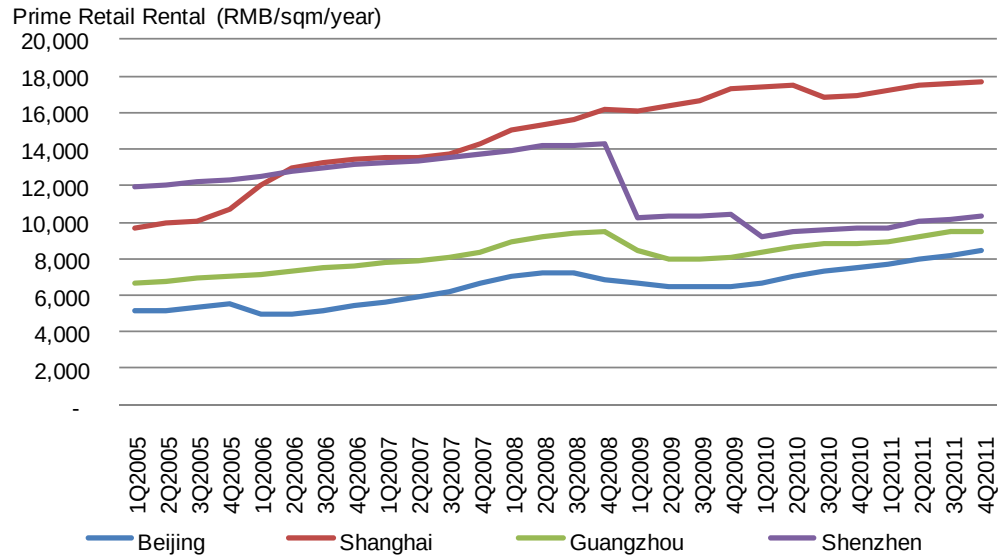


Source: JLL, Deutsche Bank

Going forward, we expect to see more supportive measures by the central government to boost domestic consumption, which should help drive further growth in rental and capital values for Yuexiu, hence presenting more earnings and NAV upside potential for the stock.

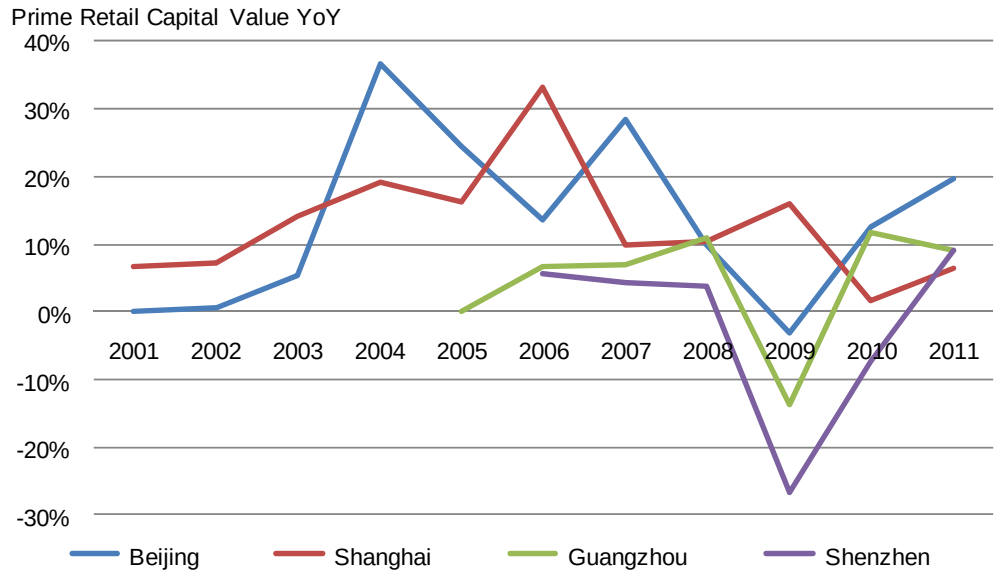
For Yuexiu, we expect to see strong and sustainable growth in rental and further improvements in vacancy rates. For Yuexiu, we have long argued that its principal focus on the commercial property market is a strong driver for future value and recurring income growth. In five years' time, Yuexiu should achieve a more solid critical mass as new properties continue to get completed.

Figure 2: China Property: Prime Retail Rental



Source: JLL, Deutsche Bank

Figure 3: China Property: Prime Retail Capital Value YoY Growth



Source: JLL; Deutsche Bank

Rentable GFA of Yuexiu's properties portfolio expected to rise 100% by end-2015

Currently, excluding hotels, the rentable GFA of Yuexiu's investment properties portfolio is about 0.7msm, and based on Yuexiu's latest development plan, the rentable GFA of its ex-hotel investment properties portfolio should increase to about 1.41msm by the end of 2015.

This planned increase in size of Yuexiu's investment properties portfolio should help drive growth in the recurrent rental income of the company. At the same time, with more investment properties completed, the resulting revaluations of investment properties in the balance sheet should also help increase Yuexiu's shareholders' equity, which should help bring down the gearing levels in the balance sheet and further enhance its financing capacities.



Figure 4: Yuexiu – Investment properties portfolio, now and 2015

	Office	Retail	Carpark & Others	Total
2009 Rental Income (RMBmn)	150	110	20	280
2010 Rental Income (RMBmn)	110	160	20	290
2011 Rental Income (RMBmn)	160	210	80	450
Guangzhou IFC (sqm)	182,000	47,000	71,000	300,000
2011 Total Rentable GFA (sqm)	284,000	200,000	214,000	698,000
Appraised Value (RMBmn)	7,220	3,380	1,320	11,920
Future key completions				
2013 - Fortune World Plaza				266,000
2014 - Fortune Plaza				210,000
2015 - Asia Pacific Century Plaza				232,000
End-2015 Total Rentable GFA (Sqm)				**1,406,000**
% Growth vs. end-2011 level				**101%**

Source: Company data, Deutsche Bank

Update of leasing performance at Guangzhou IFC

At end-2011, the 182,000sqm office portion of Guangzhou IFC was 54% leased at an average monthly rent of RMB210psm, while the 47,000sqm retail portion was 100% leased to Guanzhou Friendship Store. The Four Seasons Hotel (on the 67-100/F) is scheduled to open in May 2012, while the Ascott Serviced Apartment is scheduled to open in 2Q12. For the office portion, the management is targeting an occupancy rate of 80% by the end of 2012.

For 2014, the management is targeting an annual rental income of about RMB900mn from the whole Guangzhou IFC complex.

Disposal of non-core investment properties speed up turnover

Yuexiu Property (Yuexiu), originally named Guangzhou Investment, has been the listed vehicle of Yue Xiu Enterprise, the principle investment vehicle of the Guangzhou Municipal People's Government. Yuexiu was originally more an investment conglomerate, with businesses such as cement, newsprint, toll roads, property development and property investment. Since 2002, Yuexiu has embarked on a reorganization process, and started to dispose of its non-property businesses. For example, Yuexiu disposed of its newsprint business in 2008, spun off its toll-road business in 2009, and sold its supermarket business in 2011. These disposals effectively turned Yuexiu from a conglomerate into a property company.

And in addition to the disposal of its non-property assets, Yuexiu has also started to dispose of its non-core investment properties in order to upgrade the overall quality of its investment properties portfolio and to allow for more efficient use of capital for the company. For example, in 2008-2011, Yuexiu has disposed of a total of 163,600sqm of non-core investment properties, realizing a total sales value of over RMB2.77bn.

Figure 5: Yuexiu: Disposal of non-core investment properties

Year	Saleable GFA (sqm)	Sales Revenue (RMBmn)	Cost (RMBmn)
2008	33,700	492	334
2009	12,400	236	197
2010	81,000	1,345	876
2011	36,500	703	596
Total	**163,600**	**2,776**	**2,003**

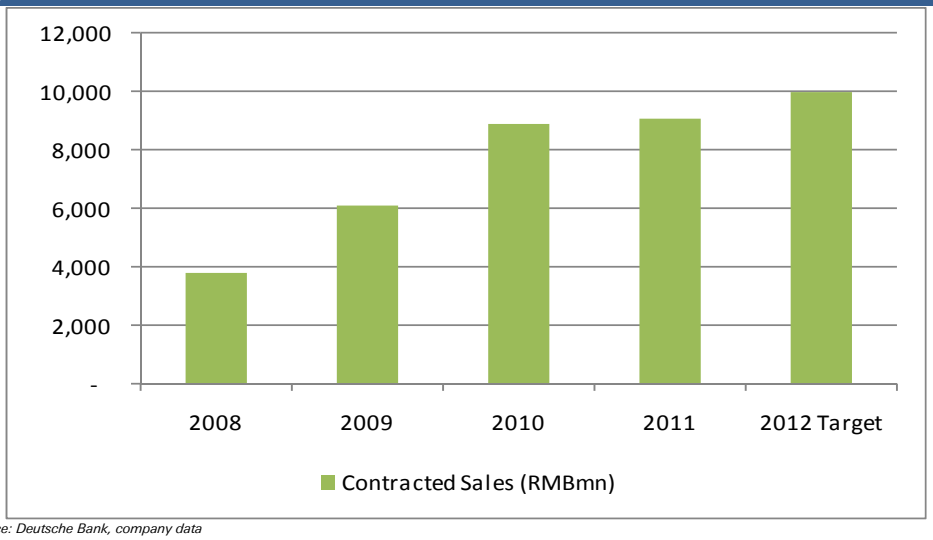
Source: Company, Deutsche Bank

Yuexiu is targeting RMB10bn of contracted sales in 2012

In 2011, Yuexiu achieved contracted sales of RMB9.05bn, so meeting its original target of RMB9bn. For 2012, the company is targeting contracted sales of RMB10bn. For 2012, the company has saleable resources of about 1.45msm

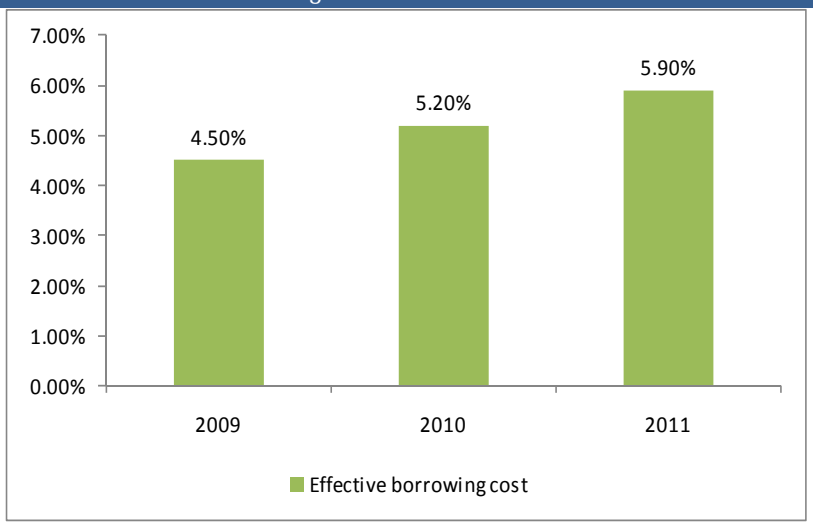
As a reference, in the first two months of 2012, Yuexiu has achieved contracted sales of RMB1.05bn, plus subscription sales of about RMB550mn. In March, on the back of more relaxed mortgage approval process for first-time homebuyers, sales has shown notable pick-up. In the first half of March, Yuexiu has already achieved over RMB1bn of sales, and the management is confident that it would achieve cumulative sales of about RMB3bn in 1Q12 – or about 30% of this year's sales target.

Figure 6: Yuexiu – Contracted sales, 2008 – 2012



Source: Deutsche Bank, company data

Figure 7: Yuexiu: Effective borrowing cost



Source: Company ,Deutsche Bank

Financial analysis

Earnings and NAV revisions

We have revised down our earnings estimate for 2012 by 9.7% mainly as the leasing performance at Guangzhou IFC are not as strong as what we originally expected. For the same reasons, we have also taken down our estimated NAV for Yuexiu from HK$4.76/share to HK$4.35/share, and our target price from HK$3.33 to HK$3.04.

Figure 8: Yuexiu – Income Statement (RMBmn)

For Year Ended Dec 31	2009	2010	2011	2012E	2013E	2014E
Property Development	3,946	4,301	8,477	12,801	14,618	14,500
Property Management	373	344	351	386	425	467
Property Investment	320	289	445	693	871	1,074
Others	662	700	296	296	296	296
Total Revenue	**5,300**	**5,634**	**9,569**	**14,176**	**16,209**	**16,337**
Property Development	1,107	935	2,679	4,385	3,830	4,203
Property Management	10	8	(8)	(9)	(10)	(11)
Property Investment	291	148	407	485	566	698
Others	(99)	62	29	29	29	29
Unallocated operating costs	(227)	(79)	(89)	(200)	(300)	(400)
EBIT	**1,082**	**1,073**	**3,019**	**4,690**	**4,115**	**4,519**
Net financing cost	(20)	(177)	(420)	(181)	(171)	(168)
Share results of associates	121	255	480	88	88	88
Exceptional item	(763)	848	5,285	-	-	-
Pre-tax profit	**421**	**2,001**	**8,364**	**4,597**	**4,032**	**4,438**
Income tax	(400)	(871)	(2,692)	(1,149)	(1,008)	(1,110)
LAT	(314)	(150)	(415)	(510)	(89)	(283)
Minority interests	405	67	162	253	174	187
Net profit	**(697)**	**913**	**5,095**	**2,684**	**2,761**	**2,859**
Core net profit	**(125)**	**277**	**1,131**	**2,684**	**2,761**	**2,859**

Source: Company, Deutsche Bank



Figure 9: Yuexiu – Balance Sheet (RMBmn)

As at Dec 31	2009	2010	2011	2012E	2013E	2014E
Cash and cash equivalents	4,328	6,451	4,821	2,380	4,201	9,136
Receivables	601	3,340	852	1,536	1,754	1,740
Charged bank deposits	1,845	1,022	1,307	1,307	1,307	1,307
Inventories and PUD	17,481	26,229	34,609	31,897	27,868	24,131
Other current asset	255	442	1,530	1,530	1,530	1,530
Total Current assets	**24,511**	**37,484**	**43,119**	**38,649**	**36,660**	**37,843**
Investment properties	7,490	7,632	11,923	13,322	15,829	17,495
Fixed assets and land use rights	2,132	2,747	3,183	4,154	4,574	5,253
Interests in subsidiaries and associate	1,697	1,719	2,109	2,108	2,107	2,106
Other non-current assets	1,124	1,199	864	864	864	864
Total Non-current assets	**12,443**	**13,297**	**18,077**	**20,447**	**23,374**	**25,718**
Total assets	**36,954**	**50,781**	**61,196**	**59,097**	**60,034**	**63,561**
Payables	4,524	4,851	6,482	7,470	8,378	8,311
Advance from customers	4,075	7,901	5,393	7,063	6,230	6,350
Short term debt	1,887	6,034	10,591	5,475	2,740	5,918
Other current liabilities	513	537	893	632	651	984
Total current liabilities	**11,000**	**19,322**	**23,359**	**20,640**	**17,999**	**21,564**
Long term borrowings	10,706	11,703	11,191	9,675	11,073	8,751
Other non-current liabilities	2,733	3,410	5,908	5,908	5,908	5,908
Total non-current liabilities	**13,439**	**15,113**	**17,099**	**15,583**	**16,981**	**14,659**
Total liabilities	**24,439**	**34,435**	**40,458**	**36,223**	**34,979**	**36,223**
Minority Interests	440	486	450	551	621	696
Total net Asset	**12,076**	**15,860**	**20,288**	**22,322**	**24,434**	**26,643**
Capital and retained earnings	11,246	15,090	19,908	21,942	24,054	26,263
Other reserves	830	770	380	380	380	380
Shareholders' funds	**12,076**	**15,860**	**20,288**	**22,322**	**24,434**	**26,643**

Source: Company, Deutsche Bank

Figure 10: Yuexiu – Cashflow Statement

For Year Ended Dec 31	2009	2010	2011	2012E	2012E	2012E
Profit before tax	**1,244**	**1,801**	**3,019**	**4,690**	**4,115**	**4,519**
Working capital changes	(1,650)	(6,836)	(6,715)	4,686	3,885	3,805
Income tax paid	(338)	(569)	-	(1,921)	(1,079)	(1,059)
Interests paid	(378)	(711)	-	(1,053)	(1,054)	(1,107)
Others	407	(635)	-	-	-	-
Net cash from operation	**(716)**	**(6,949)**	**(3,697)**	**6,402**	**5,868**	**6,159**
Capex	(294)	(735)	-	-	-	-
Disposal / purchase	(591)	629	-	(1,498)	(2,044)	(1,407)
Others	(1,223)	1,043	(1,576)	89	89	89
Net cash from investing activities	**(2,107)**	**937**	**(1,576)**	**(1,409)**	**(1,955)**	**(1,318)**
Net change in borrowings	4,519	5,269	4,046	(6,632)	(1,337)	856
Equity raised	7	2,941	-	-	-	-
Dividends paid & others	(457)	(29)	(404)	(802)	(754)	(762)
Net cash from financing activities	4,069	8,180	3,642	(7,434)	(2,091)	94
Net change in cash and cash equivalents	**1,246**	**2,167**	**(1,630)**	**(2,441)**	**1,822**	**4,935**
Beginning cash	3,083	4,328	6,451	4,821	2,380	4,201
FX change & Others	(3)	(44)	-	-	-	-
Ending cash	**4,328**	**6,451**	**4,821**	**2,380**	**4,201**	**9,136**

Source: Company. Deutsche Bank



Valuation

Our estimated NAV for Yuexiu is HK$4.35/share

Our target price of HK$3.04 for Yuexiu is based on a 30% discount to our estimated NAV of HK$4.35/share. Our estimated NAV for Yuexiu is calculated by using a sum-of-the-parts methodology. We apply DCF to estimate the value of the company's development projects by taking the estimated cash inflows from property sales minus the outstanding costs, including any outstanding land costs, construction costs, related income taxes and the LAT for each of the development projects. With respect to the investment properties' valuation, we use the income capitalization approach, taking the estimated rental revenues of the investment properties divided by the estimated capitalization (cap) rates. For different types of properties in different locations, our estimated rents and cap rates differ. In arriving at the NAV for the company, we take the aggregate estimated value for the previously mentioned business segments and then add the company's net cash position or subtract its net debt position.

Specifically, our estimated NAV of HK$4.35/ share incorporates the following assumptions:

1) ASP declines of 10-20% in Tier-1/2 cities in 2012,

2) Full payment of the LAT (estimated according to the LAT formula),

3) WACC of 9.7%, and

4) Cap rates of 8-10% for the investment properties of Yuexiu.

Figure 11: Yuexiu – Estimated NAV

	HK$mn	HK$/Share	% of NAV	% of GAV
Property Development				
Residential	21,216	2.29	53%	38%
Office	1,192	0.13	3%	2%
Retail	3,119	0.34	8%	6%
Total Property Development	**25,527**	**2.75**	**63%**	**46%**
Property Investment				
Residential	2,887	0.31	7%	5%
Office	16,122	1.74	40%	29%
Retail	7,437	0.80	18%	13%
Hotel	2,466	0.27	6%	4%
Others	71	0.01	0%	0%
Total Property Investment	**28,983**	**3.12**	**72%**	**52%**
Holdings of GZI REIT	1,517	0.16	4%	3%
Gross Asset Value	**56,028**	**6.04**	**139%**	**100%**
Net Cash/(Debt)	(15,655)	(1.69)	-39%	
NAV	**40,373**	**4.35**	**100%**	

Source: Deutsche Bank



Figure 12: China property – valuation table

		DB	Trade	Report	Mkt Cap	12M Daily T/O	Mar27	Target	Implied	Est.	NAV	EPS			PE(x)		
Company	Ticker	Rating	Ccy	Ccy	USDm	USDm	Price	Price	Upside	NAV	Disc	FY10A	FY11F	FY12F	FY10A	FY11F	FY12F
Covered																	
COLI	688 HK	Buy	HKD	HKD	15,745	59.22	14.96	23.68	58%	26.30	-43%	1.16	1.59	2.04	12.9	9.4	7.3
China Vanke - A	000002 CH	Buy	CNY	CNY	13,851	64.25	8.02	12.33	54%	13.70	-41%	0.66	0.88	0.91	12.1	9.2	8.8
China Vanke - B	200002 CH	Buy	HKD	CNY	13,851	3.18	9.00	13.18	46%	14.66	-39%	0.64	0.88	0.87	11.5	8.3	8.4
CR Land	1109 HK	Buy	HKD	HKD	10,175	26.01	13.56	21.80	61%	27.25	-50%	0.85	1.03	1.37	16.0	13.2	9.9
Country Garden	2007 HK	Sell	HKD	CNY	6,915	10.20	3.09	1.78	-42%	4.49	-31%	0.16	0.35	0.37	16.0	7.2	6.8
Evergrande	3333 HK	Buy	HKD	CNY	8,343	49.26	4.35	8.30	91%	10.37	-58%	0.37	0.63	0.86	9.6	5.6	4.1
Longfor	960 HK	Buy	HKD	CNY	7,303	9.37	11.00	16.00	45%	20.00	-45%	0.62	0.87	1.07	14.4	10.2	8.3
Agile	3383 HK	Buy	HKD	CNY	4,042	19.53	9.10	12.50	37%	17.82	-49%	1.04	1.49	1.56	7.1	5.0	4.7
SOHO China	410 HK	Buy	HKD	CNY	3,755	6.46	5.62	7.31	30%	9.75	-42%	0.68	0.27	0.56	6.7	16.6	8.2
R&F	2777 HK	Buy	HKD	CNY	3,897	11.48	9.39	17.18	83%	28.63	-67%	1.05	1.36	1.86	7.3	5.6	4.1
Hui Xian REIT	87001 HK	Buy	CNY	CNY	3,102	6.43	3.90	4.63	19%	6.61	-41%	0.21	0.11	0.21	18.9	35.6	18.2
Sino-Ocean	3377 HK	Sell	HKD	CNY	2,727	4.96	3.74	3.63	-3%	9.07	-59%	0.41	0.38	0.48	7.5	8.0	6.4
Renhe	1387 HK	Buy	HKD	CNY	2,451	10.30	0.90	2.55	183%	3.92	-77%	0.17	0.25	0.31	4.4	3.0	2.4
Franshion	817 HK	Buy	HKD	HKD	2,383	2.00	2.02	3.55	76%	5.08	-60%	0.12	0.18	0.30	17.3	11.2	6.8
Shui On	272 HK	Buy	HKD	CNY	2,401	2.73	3.20	5.01	57%	8.35	-62%	0.15	0.27	0.35	17.5	9.6	7.4
Poly HK Inv	119 HK	Buy	HKD	HKD	1,766	11.06	3.80	10.95	188%	13.68	-72%	0.34	0.68	0.94	11.3	5.6	4.0
Yanlord	YLLG SP	Sell	SGD	CNY	2,010	6.83	1.30	1.18	-9%	2.15	-40%	0.65	0.44	0.54	9.9	14.9	12.1
Yuexiu	123 HK	Buy	HKD	CNY	1,877	3.43	1.57	3.04	94%	4.35	-64%	0.04	0.12	0.29	34.5	10.4	4.4
COGO	81 HK	Buy	HKD	HKD	1,712	2.64	8.74	12.98	49%	16.22	-46%	0.65	1.05	1.62	13.5	8.3	5.4
Glorious	845 HK	Buy	HKD	CNY	1,335	3.69	1.33	4.51	239%	7.51	-82%	0.20	0.32	0.43	5.4	3.4	2.5
KWG	1813 HK	Buy	HKD	CNY	1,792	5.62	4.81	7.26	51%	10.37	-54%	0.52	0.64	0.87	7.4	6.1	4.5
Kaisa	1638 HK	Buy	HKD	CNY	1,023	2.71	1.62	4.00	147%	6.72	-76%	0.29	0.32	0.40	4.6	4.1	3.2
Sunac	1918 HK	Buy	HKD	CNY	966	0.91	2.50	5.21	108%	8.69	-71%	0.62	0.75	0.91	3.3	2.7	2.2
C C Land	1224 HK	Buy	HKD	HKD	541	1.71	1.65	4.62	180%	9.23	-82%	(0.02)	0.18	0.28	NA	9.0	5.9
Central China	832 HK	Buy	HKD	CNY	572	0.29	1.83	4.05	121%	6.74	-73%	0.27	0.42	0.57	5.5	3.6	2.6
E-House	EJ US	Buy	USD	USD	442	2.82	5.62	9.50	69%	NA	NA	0.82	(0.11)	0.50	6.8	NA	11.2
Minmetals	230 HK	Buy	HKD	HKD	417	0.45	0.97	2.68	176%	3.57	-73%	0.09	0.14	0.36	10.7	6.7	2.7
Not Rated																	
Shimao	813 HK	NR	HKD	CNY	3,674	16.96	8.23	NA	NA	NA	NA	0.7	1.2	1.2	9.5	5.6	5.3
NWCL	917 HK	NR	HKD	HKD	2,149	1.05	1.93	NA	NA	NA	NA	0.5	0.2	0.3	4.0	8.8	7.1
Mingfa	846 HK	NR	HKD	CNY	1,731	0.94	2.21	NA	NA	NA	NA	0.1	0.1	0.2	20.0	22.1	11.6
Hopson	754 HK	NR	HKD	HKD	1,062	1.86	4.75	NA	NA	NA	NA	1.3	1.2	1.2	3.7	4.1	4.1
Shenzhen Inv	604 HK	NR	HKD	HKD	756	1.45	1.62	NA	NA	NA	NA	0.2	0.3	0.3	10.0	5.8	6.3
Greentown	3900 HK	NR	HKD	CNY	1,158	1.61	5.48	NA	NA	NA	NA	0.7	1.3	1.5	6.4	3.5	2.9
Yuzhou	1628 HK	NR	HKD	CNY	532	0.11	1.72	NA	NA	NA	NA	0.3	0.4	0.3	4.5	3.6	4.4
BJ North Star	588 HK	NR	HKD	CNY	655	0.17	1.51	NA	NA	NA	NA	0.1	0.3		11.7	3.5	NA
Powerlong	1238 HK	NR	HKD	CNY	756	0.54	1.45	NA	NA	NA	NA	0.3	0.8	0.3	4.7	1.4	4.1
Fantasia	1777 HK	NR	HKD	CNY	604	0.56	0.90	NA	NA	NA	NA	0.1	0.2	0.2	7.0	3.2	3.8
Aoyuan	3883 HK	NR	HKD	CNY	364	0.18	1.08	NA	NA	NA	NA	0.1	0.2		7.1	5.1	NA
Zhong An	672 HK	NR	HKD	CNY	320	0.09	1.05	NA	NA	NA	NA	0.1	0.1	0.1	9.5	12.2	12.2
BC Land	2868 HK	NR	HKD	CNY	293	0.87	2.23	NA	NA	NA	NA	0.4	0.5	0.6	4.2	3.8	3.2
SPG Land	337 HK	NR	HKD	CNY	213	0.14	1.57	NA	NA	NA	NA	0.4	0.6	0.4	3.1	2.2	3.5
Overall average											**-58%**				**9.8**	**7.8**	**6.1**

Source: Deutsche Bank, Company, Bloomberg Finance LP Consensus estimates for companies NR



Figure 13: China property – valuation table (cont'd)

		EPS growth %			BVPS			PB(x)			DPS			Dividends yield %			Net gearing %		
Company	**Ticker**	**10A**	**11F**	**12F**	**10A**	**11F**	**12F**	**10A**	**11F**	**12F**	**10A**	**11F**	**12F**	**10A**	**11F**	**12F**	**10A**	**11F**	**12F**
Covered																			
COLI	688 HK	45.8	37.0	28.3	6.7	8.6	10.3	2.2	1.7	1.4	0.27	0.33	0.36	1.8	2.2	2.4	22.9	33.3	7.7
China Vanke - A	000002 CH	49.6	32.2	4.1	4.0	4.8	5.5	2.0	1.7	1.5	0.10	0.13	0.17	1.2	1.6	2.1	21.7	30.5	22.2
China Vanke - B	200002 CH	43.9	37.4	-0.7	4.0	4.8	5.3	1.8	1.5	1.4	0.10	0.13	0.17	1.4	1.8	2.3	21.7	30.5	22.2
CR Land	1109 HK	40.4	21.1	33.2	8.5	10.4	11.5	1.6	1.3	1.2	0.31	0.26	0.26	2.3	1.9	1.9	56.3	62.3	61.4
Country Garden	2007 HK	16.9	123.3	5.7	1.4	1.7		1.8	1.4	NA	0.10	0.13	0.11	3.8	5.2	4.4	41.4	57.2	41.3
Evergrande	3333 HK	NA	72.4	36.5	1.4	2.2	2.8	2.6	1.6	1.2	0.13	0.16	0.22	3.6	4.5	6.1	52.5	64.5	54.6
Longfor	960 HK	16.2	40.7	22.3	3.1	4.3	5.1	2.9	2.1	1.7	0.10	0.18	0.21	1.1	2.0	2.4	43.0	40.9	41.8
Agile	3383 HK	99.7	43.0	4.9	5.4	6.3	7.7	1.4	1.2	1.0	0.29	0.34	0.31	3.9	4.6	4.2	53.9	67.8	15.6
SOHO China	410 HK	107.7	-59.5	103.8	3.7	4.2	4.3	1.2	1.1	1.1	0.26	0.25	0.26	5.7	5.5	5.7	-36.9	-4.0	-13.1
R&F	2777 HK	67.0	29.9	36.1	6.1	7.0	8.4	1.2	1.1	0.9	0.50	0.60	0.65	6.6	7.9	8.5	94.4	85.9	77.8
Hui Xian REIT	87001 HK	-3.2	-46.9	95.6	2.7	5.2	5.1	1.5	0.8	0.8		0.15	0.25	0.0	3.8	6.5	0.0	-3.2	1.3
Sino-Ocean	3377 HK	76.5	-6.5	25.4	5.5	6.3	7.1	0.5	0.5	0.4	0.13	0.15	0.16	4.3	4.9	5.3	45.9	64.3	61.6
Renhe	1387 HK	-13.9	48.2	24.0	0.8	1.0	1.0	0.9	0.7	0.7	0.07	-	0.09	9.9	0.0	12.5	-0.2	0.3	-1.0
Franshion	817 HK	-4.7	54.3	65.9	2.5	2.9	3.1	0.8	0.7	0.6	0.03	0.04	0.05	1.5	2.0	2.5	21.3	48.7	32.7
Shui On	272 HK	-68.4	81.7	29.4	4.8	5.4	5.7	0.5	0.5	0.5	0.11	0.13	0.13	4.2	4.8	5.0	45.2	68.4	68.5
Poly HK Inv	119 HK	71.3	101.5	39.7	6.1	6.8	7.9	0.6	0.6	0.5	0.16	-	-	4.1	0.0	0.0	62.6	102.7	52.8
Yanlord	YLLG SP	6.4	-33.2	23.3	6.7	7.6	8.1	1.0	0.9	0.8	0.02	-	0.02	0.3	0.0	0.3	32.6	50.6	52.0
Yuexiu	123 HK	NA	229.8	137.2	1.7	2.2	2.4	0.7	0.6	0.5	-	0.07	0.07	0.0	5.5	5.5	64.7	77.2	51.1
COGO	81 HK	NA	62.4	54.7	3.5	3.4	5.0	2.5	2.6	1.8	0.10	0.05	0.10	1.1	0.6	1.1	0.7	22.9	-105.1
Glorious	845 HK	8.7	59.4	35.6	1.9	2.2	2.6	0.6	0.5	0.4	-	0.05	0.07	0.0	4.6	6.5	65.2	32.9	-9.0
KWG	1813 HK	58.5	22.5	34.5	4.0	4.7	5.4	1.0	0.8	0.7	0.06	0.06	0.06	1.5	1.5	1.5	47.7	62.7	-32.2
Kaisa	1638 HK	184.7	11.8	26.1	2.0	2.4	2.8	0.6	0.5	0.5	-	-	-	0.0	0.0	0.0	30.6	76.6	69.9
Sunac	1918 HK	138.7	20.8	20.5	2.3	3.2	4.2	0.9	0.6	0.5	-	-	-	0.0	0.0	0.0	40.6	57.6	19.1
C C Land	1224 HK	-83.3	NA	51.7	4.8	5.0	5.2	0.3	0.3	0.3	0.04	0.04	0.05	2.4	2.4	3.0	-3.5	32.6	13.1
Central China	832 HK	38.8	53.5	37.4	3.6	3.7	3.9	0.4	0.4	0.4	0.10	0.12	0.14	6.5	8.1	9.4	47.1	48.2	-16.4
E-House	EJ US	-35.6	NA	NA	11.1	7.9	7.8	0.5	0.7	0.7	0.25	0.15	0.15	4.4	2.7	2.7	-61.1	-62.3	-57.9
Minmetals	230 HK	53.4	59.4	148.0	1.8	1.9	2.3	0.5	0.5	0.4	0.01	0.01	0.01	1.0	1.0	1.0	13.8	-54.2	-123.0
Not Rated																			
Shimao	813 HK	8.9	68.8	5.4	7.5	8.4	9.2	0.9	0.8	0.7	0.3	0.4	0.4	5.0	5.4	5.5	82.1	98.7	94.5
NWCL	917 HK	60.3	-55.0	24.1	6.3	6.5	5.2	0.3	0.3	0.4	0.1	0.1	0.1	3.5	3.2	3.2	25.1	NA	21.0
Mingfa	846 HK	-8.4	-9.5	91.4	0.9	1.0	1.0	1.9	1.9	1.8	0.1	0.1	0.0	3.5	2.8	2.7	47.0	NA	NA
Hopson	754 HK	37.3	-8.6	-0.9	21.8	21.1	20.8	0.2	0.2	0.2	0.2	0.1	0.2	3.6	3.0	3.5	55.3	42.5	36.9
Shenzhen Inv	604 HK	15.4	73.2	-8.2	3.8	4.0	4.0	0.4	0.4	0.4	0.1	0.1	0.1	8.6	8.3	6.8	48.4	NA	NA
Greentown	3900 HK	8.1	83.3	20.2	6.2	7.0	8.2	0.7	0.6	0.5	0.5	0.2	0.3	10.4	5.6	6.9	212.2	295.2	NA
Yuzhou	1628 HK	43.1	24.4	-17.9	1.9		2.2	0.7	NA	0.6	0.1		0.0	6.6	NA	3.5	45.1	NA	NA
BJ North Star	588 HK	-46.6	233.8	NA	3.8	4.1		0.3	0.3	NA	0.0	0.0		1.6	2.4	NA	55.4	NA	NA
Powerlong	1238 HK	-33.4	236.2	-66.2	2.7		4.0	0.4	NA	0.3	0.1	0.1	0.1	5.1	6.2	6.1	31.9	NA	NA
Fantasia	1777 HK	17.7	120.7	-16.5	0.9		1.3	0.8	NA	0.5	0.0		0.0	4.6	NA	6.4	69.0	71.4	NA
Aoyuan	3883 HK	72.2	39.9	NA	2.3			0.4	NA	NA	0.0			3.8	NA	NA	21.4	NA	NA
Zhong An	672 HK	-5.4	-21.6	0.0	2.0	2.5	1.8	0.4	0.3	0.5	-			0.0	NA	NA	38.1	NA	NA
BC Land	2868 HK	139.1	9.4	18.7	2.6	3.3	3.6	0.7	0.5	0.5	0.2		0.2	10.0	NA	12.3	27.0	87.9	104.0
SPG Land	337 HK	158.1	44.0	-37.6	4.2	4.8	5.4	0.3	0.3	0.2	0.1	0.0	0.0	5.1	1.9	1.8	98.5	NA	NA
Overall average		**37.4**	**48.5**	**29.9**				**1.0**	**0.9**	**0.8**				**3.6**	**3.3**	**4.3**	**40.9**	**52.4**	**21.4**

Source: Deutsche Bank, Company, Bloomberg Finance LP *Consensus estimates for companies NR*



Investment risks

Macro risks

Government property market tightening measures might be stricter than expected

The China property market is not only dependent on economic conditions and the demand-and-supply balance, but also on government policies. At times when the government is tightening its fiscal and monetary policies, especially via administrative measures, there could be volatile moves in housing transaction volumes, housing prices, land prices, and financing available to developers and homebuyers. Recently, there have been signs that the tightening measures by the government have been re-accelerated, with new measures on second home mortgages, LAT and equity financing, which would result in property price declines in the physical property market and heavy pressure on cash flows for developers. In addition, the tightening measures introduced since 2010 might not have had their full impact yet. With this in mind, if the government cash-tightening measures are stricter than expected or if the impact of the measures already introduced is stronger than expected, we could see weaker-than-expected sales and price performance for the property businesses of Chinese property companies, including Yuexiu.

Unexpected economic fluctuations in the Chinese economy

In our view, any weaker-than-expected performance in the Chinese economy would likely result in weaker housing demand, hence affecting Chinese developers' property sales. On the other hand, any overly strong growth in the Chinese economy would raise concerns about overheating and attract cash-tightening measures. Therefore, any unexpected fluctuations in the Chinese economy would likely affect demand and supply in the China property market and the business of China property companies such as Yuexiu.

Company-specific risks

High concentration to Guangzhou

Yuexiu focuses principally on Guangzhou, and so its business and operations are concentrated in Guangzhou, which would make Yuexiu subject more to the systematic and unsystematic risks in Guangzhou.

Asset disposal into Yuexiu REIT could be more difficult than expected

While Yuexiu is targeting to dispose of some of its commercial properties into Yuexiu REIT in order to improve its asset turnover, such disposal could turn out to be more difficult than expected as these potential disposal requires relatively huge capital commitments on the side of Yuexiu REIT, and hence potential equity financing on the part of Yeuxiu REIT, which could be difficult if stock market situations are not supportive.

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Yuexiu Property	0123.HK	1.57 (HKD) 27 Mar 12	NA

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies

For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at http://gm.db.com/ger/disclosure/Disclosure.eqsr?ricCode=0123.HK

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Historical recommendations and target price: Yuexiu Property (0123.HK)

(as of 3/27/2012)



1. 05/07/2010: Upgrade to Buy, Target Price Change HKD2.50
2. 03/11/2010: Buy, Target Price Change HKD3.22
3. 07/12/2010: Buy, Target Price Change HKD3.33

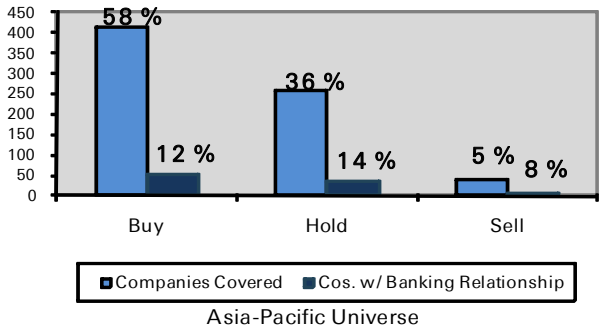
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Sell: Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock
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Equity rating dispersion and banking relationships



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