HONG KONG

2202 HK Outperform

Price (at 07:59, 07 Mar 2016 GMT) HK$18.26

Valuation - DCF	**HK$**	**23.38**
12-month target	**HK$**	**21.83**
Upside/Downside	**%**	**+19.6**
12-month TSR	**%**	**+23.3**
GICS sector		**Real Estate**
Market cap	**HK$m**	**307,076**
Market cap	**US$m**	**39,508**
Free float	**%**	**95**
30-day avg turnover	**US$m**	**13.0**
Number shares on issue	**m**	**16,817**

Investment fundamentals

Year end 31 Dec		2014A	2015E	2016E	2017E
Revenue	bn	138.0	169.3	181.2	195.5
EBIT	bn	26.0	32.5	35.5	42.3
EBIT growth	%	nmf	24.7	9.5	19.1
Reported profit	bn	16.3	16.8	20.6	23.3
Adjusted profit	bn	15.7	16.8	20.4	23.3
EPS rep	Rmb	1.48	1.53	1.87	2.11
EPS rep growth	%	nmf	3.3	22.6	12.7
EPS adj	Rmb	1.42	1.53	1.85	2.11
EPS adj growth	%	nmf	7.2	21.0	14.2
PER rep	x	10.4	10.1	8.2	7.3
PER adj	x	10.8	10.1	8.3	7.3
Total DPS	Rmb	0.41	0.41	0.55	0.63
Total DPS growth	%	nmf	0.0	35.3	14.2
Total div yield	%	2.7	2.7	3.6	4.1
ROA	%	5.3	6.2	6.5	7.2
ROE	%	19.0	17.8	18.8	18.6
EV/EBITDA	x	6.6	5.2	4.6	4.0
Net debt/equity	%	5.4	16.9	-12.6	-76.2
P/BV	x	1.9	1.7	1.5	1.3

Source: FactSet, Macquarie Research, March 2016
(all figures in Rmb unless noted, TP in HKD)

Analyst(s)
Wilson Ho, CFA
+852 3922 3248 wilson.ho@macquarie.com
David Ng, CFA
+852 3922 1291 david.ng@macquarie.com
Kan Li
+86 21 2412 9083 kan.li@macquarie.com

8 March 2016
Macquarie Capital Limited

China Vanke

Path to the Trillion

We initiate coverage of China Vanke (VANK) with an Outperform rating and a target price of HK$21.83/sh, indicating 23% TSR upside. VANK is the largest property developer in China with a presence in 66 cities and some 86m sqm of landbank at end-2015E. Despite its significant scale, last year Vanke came up with an ambitious target to become a trillion-market cap player in the industry by 2025 vs its current market cap of about Rmb200b.

In our view, the trillion-market cap plan should be underpinned by the increasing contribution of recurring income and the higher growth of new businesses which deserve higher valuations. We project that the traditional property development business, including overseas expansion, will only represent about 50% of the market cap. Amongst the five new businesses, property management is the most mature and will likely be spun off this year. We see the logistic properties (35% of 2025F market cap) playing a vital role to the trillion-market cap strategy.

On the verge of a big change

We expect 2016 to be a year of breakthrough for Vanke. While the company is pending material restructuring and its A-share suspended from trading since 18 Dec 2015, it has sped up land acquisitions over the past three months with 52 new purchases (vs 47 in the full-year of 2014 and 104 in 2015.). This suggests that property development remains a key business despite its plan to transform to an urban ancillary service provider.

We forecast VANK's contracted sales to grow by 20% to Rmb314bn in 2016E. The company needs to spend an addition of Rmb39bn in land purchases this year in order to achieve Rmb350bn (i.e. 11% growth) contracted sales in 2017, or Rmb78bn to achieve Rmb376bn (i.e. 20% growth) in 2017, with the contribution of overseas projects increasing gradually over the next few years, including the US and notably Hong Kong.

How does it compare with big-cap names?

Compared to **China Overseas Land** (688 HK, HK$24.90, Outperform, TP: HK$33.30) and **China Resources Land** (1109 HK, HK$20.20, Outperform, TP: HK$34.45), Vanke has more exposure to T1 cities (30%) than COLI (22%) but less that CRL at about 40%. VANK is a more pure play on property development, with 93% of GAV from property development, vs COLI at 84% and CRL at 67%. Vanke stands well in terms of FX risk, with a much higher RMB-borrowing (78% as at end-1H15).

Initiation with Outperform, TP of HK$21.83/sh

VANK currently trades at 21% discount to NAV of HK$23.38, 8.4x 2016E PE and offers 3.6% dividend yield. Our 2015F core profit is 6.5% lower than consensus as the market has not fully factored in the recognition of some price-cut projects which happened in 2014. Our forecasts on JCE profits are higher than the consensus despite our conservative revenue projections. Key risks include 1) concentration in property development business; 2) lack of track record for new businesses, 3) oversupply in lower tier cities in China: 4) uncertainty in restructuring and the potential share placement and 5) uncertainty regarding the hostile takeover from Baoneng. Amongst large caps, we like CR Land (top pick), followed by COLI and then Vanke.

Inside

Versus consensus

	Revenue (Rmbm)		
	2015E	2016E	2017E
MacQ	169,279	181,198	195,506
consensus	170,362	197,210	220,813
Difference	**-0.6%**	**-8.1%**	**-11.5%**
	Underlying earnings (Rmbm)		
	2015E	2016E	2017E
MacQ	16,834	20,370	23,264
consensus	18,010	21,303	24,525
	-6.5%	**-4.4%**	**-5.1%**

Source: FactSet, Macquarie Research, March 2016

Our 2015-17E earnings is 4.4-6.5% lower than consensus as the market is slow in reducing the earnings and has not fully factored in the recognition of some price-cut projects which happened in 2014. Our forecasts on JCE profits are higher than the consensus despite our conservative forecasts in revenue.

Bull case:

1) Continues to achieve a higher-than-peer average growth through market share gain
2) Policy easing and supportive measures to housing upgraders
3) Successful transformation to an urban ancillary service provider with the listing of its five new business arms

Bear case:

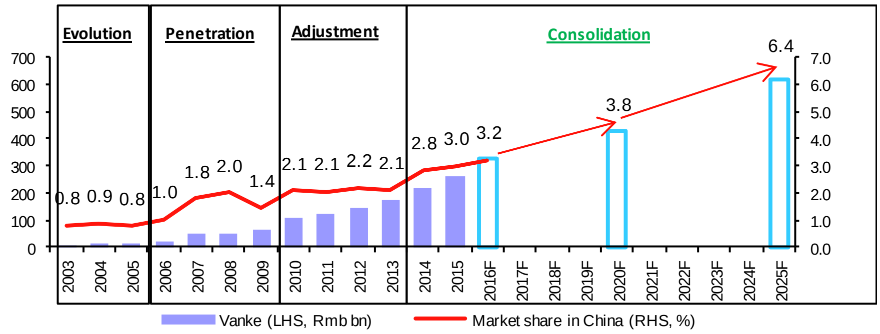
1) A hard-landing in China.
2) A sharp change of policy stance from relaxation to tightening.
3) Failure in the new businesses or more-than-expected capex required.

China Vanke

Company profile

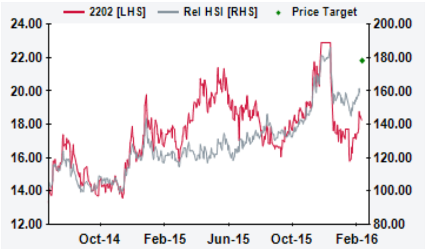
- China Vanke is the largest residential real estate developer in the world, with over 30 years of real estate development history since it stepped into the housing market in 1988. By 2014, Vanke was present in 65 cities in Mainland China, mainly in coastal areas. Beyond the Mainland, Vanke has invested in overseas markets, including New York City, San Francisco, and Singapore.
- On January 1991, Vanke A shares was listed on the Shenzhen Stock exchange under stock code (000002 SZ). In March 1993, Vanke B shares were listed on Shenzhen Stock exchange under stock code (2002). In June 2000, the Shenzhen Special Economic Zone Development (Group) Company, the single largest shareholder, entered into an equity transfer agreement with CRNC (China Resources National Corporation), disposing of all of the 51mn state-owned legal person shares it held to CRNC. CRNC then acquired another 27mn shares in December 2000. In December 2000, CRNC acquired 27mn shares from Tem Fat Hing Fung (Changzhou) Development Co., Ltd. After the share transfer, CRNC held an aggregate of 78mn share, representing 12.4% of total shares. In June 2003, CRNC transferred all of its equity interests to CRC.
- In June 2014, Vanke B was removed from the system of SD&C and Vanke H was listed on the Hong Kong Stock Exchange. In July 2015, Baoneng acquired 10% of Vanke shares. In Aug, Baoneng held 15.04% shares, surpassing CR Group (14.89%) to become the largest shareholder. On 18th Dec, Vanke announced a trading suspension due to potential restructuring. By then, Baoneng held 24.6%, CR Group held 15.23%, Anbang held 5%.

Fig 1 A winning market share consolidator…



Source: NBS, company data and Macquarie Research, March 2016

Fig 2 2202 HK rel HSI performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, March 2016

(all figures in Rmb unless noted, TP in HKD)

A market share consolidator…

Executive Summary

China Vanke is the largest property developer in China with a presence in 66 cities and owns 90m sqm of landbank by end-2015E. We expect 2016 to be a year of breakthrough for Vanke. While the company is pending a material restructuring with its A-share being suspended for trading since Dec 2015, the company has speeded up land purchases over the past three months with 52 projects (vs 47 in the full-year of 2014 and 104 in 2015.). This suggests that property development remains a key business despite its plan to transform to an urban ancillary service provider.

Top 3 market leaders in top-tier cities, PRD and YRD are key drivers

Despite being widely known as a national developer, Vanke has a concentrated portfolio and focuses on top-tier cities. The Guangshen (广深) and Shanghai regions account for nearly 60% of its revenue and about 70% of its net profit from property development, while the top 10 cities account for over 50% of its total sales and Vanke achieved top 5 positions in most of these cities (Fig 16), especially ranking the top 2 in the four T1 cities.

2014-17E contracted sales CAGR of 14% to Rmb76bn

We forecast VANK's contracted sales to grow 20% to Rmb314bn in 2016E. The company needs to spend an additional Rmb39bn on land purchases this year, in order to achieve Rmb350bn (i.e. 11% growth) contracted sales in 2017, or Rmb78bn to achieve Rmb376bn (i.e. 20% growth) in 2017 with the contribution of overseas projects increasing gradually over the next few years including in US and notably in Hong Kong, reaching about 5% of its total contracted sales by 2017. We forecast the core profits to grow at a 14% CAGR over 2015-2017E, with profits from JCE projects (especially overseas projects) set to increase gradually. We forecast the gross margin to bottom this year at 24.6% vs 25.1% in 2014. Margin should expand to 25.4% in 2016 and 27.6% in 2017, thanks to increased contribution from the high-margin region of Guangshen (notably Shenzhen, Xiamen and Zhuhai) and Shanghai (notably Shanghai and Nanjing).

Quant view

China Vanke ranks #1 out of our 941 global real-estate peers. Reasons include the distortion from the corporate action of Baoneng's hostile takeover, and its short trading history after converting the H-share. However, besides price momentum, our quant model shows that "valuation" factor also scores well.

Fig 3 Quant view – Vanke ranks #1 amongst our global real estate peers

Macquarie Quant View

The quant model currently holds a strong positive view on China Vanke. The strongest style exposure is Valuations, indicating this stock is under-priced in the market relative to its peers. The weakest style exposure is Growth, indicating this stock has weak historic and/or forecast growth. Growth metrics focus on both top and bottom line items.

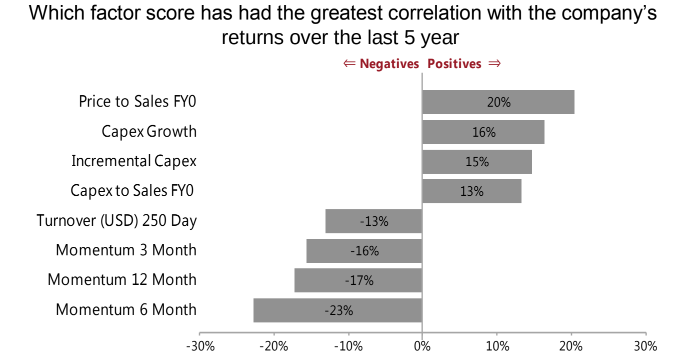
1/941

Global rank in Real Estate

% of BUY recommendations	46% (6/13)
Number of Price Target downgrades	0
Number of Price Target upgrades	0

Source: Macquarie Research, March 2016

Fig 4 Quant view - What drove Vanke's share prices?



Source: Macquarie Research, March 2016

Valuation methodology

Our end-2H16 NAV estimate of HK$23.38/sh includes HK$27.41/sh of development properties for sale, HK$2.19 of investment properties for lease, and HK$6.22 of net debt. Our target price of RMB is at a 6.6% discount to our end-2H16E NAV.

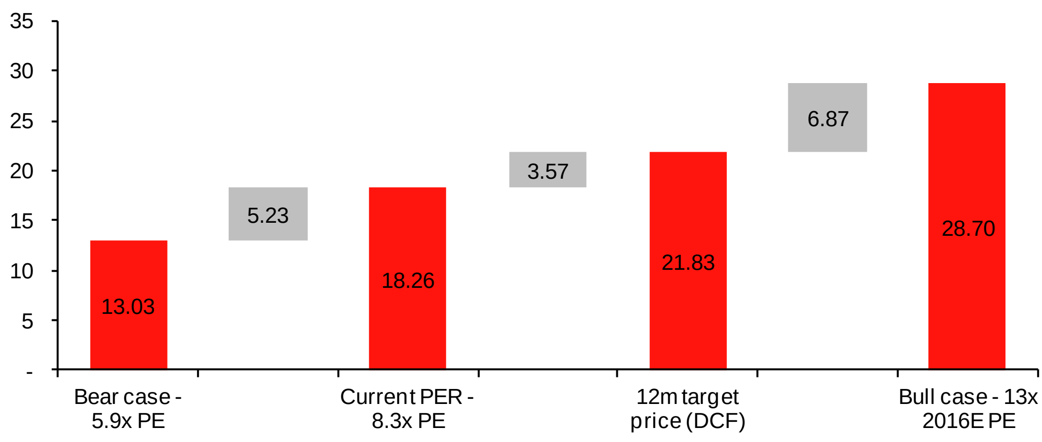
Our NAV estimate is the sum of GAV (gross asset value, before deducting net debt and other working capital) of individual projects plus net cash, net working capital and other investments of the whole company. GAV is the sum of all projects' free cash flows (FCF) over the next ten years. We assume all rental assets will be disposed of in 2024, and there is no terminal value. **We assume China property prices** to rise 5-10% in 2016. The discount rate we use is based on a risk-free rate of 3.5%, an equity risk premium of 7% and a historical beta of 1.27. For projects with negative total free cash flows, especially investment properties, we keep a floor value at the cost already incurred and carried on the book.

Our target price is an adjusted version of NAV. For our target price calculation, we factor in only the next three years of FCF derived from a bottom-up project launch projection but followed by FCF based on top-down company-wide volume and price growth or decline assumptions in the remaining seven years, without considering individual project performance. Our target price values non-real estate assets using P/E, P/B or EV/EBITDA multiples. A subjective forward beta of 1.20 is used for our target price instead of historical beta of 1.27 for NAV to account for lower management execution risks and future market volatilities affecting the valuation of assets.

NAV reflects the value of the land bank and tends to be lower than reported book value (HK$9.48/sh at June 2015). In our view, the latter does not give sufficient credit or discount to the company's market positioning, growth aspirations and execution track record. We believe our target price captures all the above aspects and it is heavily influenced by our judgment of management's quality, as reflected in our choice of beta and our medium-term assumptions for the company's overall volume, price and cost growth. A detailed valuation breakdown is shown in Figure 8.

Bull-case scenario. Our blue-sky valuation of HK$28.70 is derived assuming 13x 2016E PE multiple which is the implied PER for its Trillion market-cap goal *(see details in the section "Road to the Trillion")*. Our 12-month TP of HK$21.83 implies 8.3x FY16E PER. Our bear case scenario of HK$13.03 implies a 5.9x PE multiple for the stock which is the lowest valuation since its conversion to the H-share listing.

Fig 5 Blue-sky valuation scenario



Source: Macquarie Research, March 2016

Fig 6 Enterprise free cash flows

(in RMB billion) fiscal year	Near term 47% of GAV			Medium term 20% of GAV			Long term 33% of GAV			
	2015F	2016F	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F
Cash flows of development properties only (based on existing land bank, attributable basis unless specified)										
Contracted sales (Gross, reported basis)	261.5	314.0	323.9	235.9	147.4	80.8	61.6	32.4	10.9	4.7
Cash sales (Attributable)	180.2	223.2	239.1	166.1	105.3	56.6	41.5	21.9	7.4	2.9
Land purchase	(65.2)	(21.1)	-	-	-	-	-	-	-	-
Construction capex	(69.4)	(72.8)	(70.3)	(56.2)	(37.2)	(23.0)	(15.7)	(10.2)	(3.1)	(0.3)
SGA outflows	(7.3)	(9.0)	(9.9)	(6.9)	(4.3)	(2.3)	(1.7)	(0.9)	(0.3)	(0.1)
Taxes and other outflows	(22.4)	(29.9)	(33.7)	(30.3)	(20.0)	(12.5)	(7.6)	(5.2)	(2.1)	(0.4)
#1 Free cash flows	15.8	90.4	125.2	72.7	43.8	18.9	16.5	5.6	2.0	2.0
Cash flows of investment properties only (attributable)										
Rental income of operating assets	0.3	0.5	0.8	1.0	1.2	1.4	1.6	2.0	2.2	2.3
Related expenses	(0.7)	(1.1)	(1.3)	(1.6)	(1.9)	(2.2)	(2.6)	(3.2)	(3.3)	(3.6)
Total capex	(4.6)	(2.7)	(2.0)	(2.3)	(2.7)	(2.5)	(1.8)	(0.8)	(0.4)	-
#2 Free cash flows	(4.9)	(3.3)	(2.5)	(3.0)	(3.4)	(3.3)	(2.8)	(1.9)	(1.5)	(1.2)
Attributable free cash flow (including both development properties and investment properties)										
	10.9	87.1	122.7	69.7	40.4	15.6	13.7	3.6	0.4	0.8
For valuation purposes of development properties: existing land bank + land bank replenishment during medium term (attributable)										
Cash sales	180.2	223.2	239.1	146.1	87.7	52.6	52.6	52.6	52.6	52.6
Total capex	164.3	132.8	113.9	103.5	63.2	43.7	25.4	25.4	25.4	25.4
#3 Free cash flows	15.8	90.4	125.2	42.6	24.5	8.9	27.2	27.2	27.2	27.2

Source: Macquarie Research, March 2016

Fig 7 Target price derivation

	RMB/share	
DCF for development properties	**25.86**	**A / shares**
GAV for investment properties	**2.19**	**B / shares**
Net cash	**1.59**	**C / shares**
Other assets	**(7.80)**	**D / shares**
Target price	**21.83**	**(A+B+C+D) / shares**
	HK$ m	
	309,977	**A + B**
Total development properties (DCF)	**285,752**	
Near term from 2014 to 2016	**134,268**	
Medium term from 2017 to 2019	57,118	
Long term beyond 2019	94,366	
Total investment properties (GAV)	24,226	**B**
Hotel	**3,861**	
Retail for Lease	7,803	
Office for Lease	10,596	
Residential for Lease	1,965	
Carparks	-	

Source: Macquarie Research, March 2016

Fig 8 NAV derivation

	RMB/share	
NAV/share	**23.38**	**E / shares**
	HK$ m	-
NAV	**258,402**	**E = F + X + Y +Z**
Total gross asset value	**327,125**	**F = G + H**
Net cash	**17,534**	**X**
Net working capital	**(87,179)**	**Y**
Other investments	**922**	**Z**
Total development properties	**302,900**	**G**
Residential	**266,799**	
Retail for Sale	17,501	
Office for Sale	18,600	
Total investment properties	**24,226**	**H**
Hotel	**3,861**	
Residential for Lease	**1,965**	
Retail for Lease	**7,803**	
Office for Lease	**10,596**	
Carparks	**-**	
No. of outstanding shares (m)	11,052	

Source: Macquarie Research, March 2016

Key assumptions

Fig 9 Key price and rental assumptions

Residential price growth	China – Tier-one cities			China – Tier-two cities			China – Tier-three cities		
	2016F	2017F	Cap rate	2016F	2017F	Cap rate	2016F	2017F	Cap rate
Villas	5%	0%		5%	0%		0%	0%	
Luxury	5%	0%		5%	0%		0%	5%	
Above average	5%	0%		10%	0%		0%	5%	
Mass market	5%	0%		10%	0%		0%	5%	
Remote	5%	0%		5%	0%		0%	5%	
Office rental growth									
Top Grade A	0%	0%	6.0%	0%	0%	9.0%	5%	3%	4.0%
Grade A	0%	0%	8.0%	0%	0%	10.0%	5%	3%	3.5%
Grade B	0%	0%	10.0%	0%	0%	11.0%	5%	3%	5.5%
Retail rental growth									
Mall	0%	0%	7.0%	0%	0%	8.0%	3%	3%	4.5%
Street	0%	0%	8.0%	0%	0%	9.0%	3%	3%	3.5%
Auxiliary	0%	0%	9.0%	0%	0%	10.0%	1%	1%	5.5%
Hotel rental growth									
5-star	0%	0%	8.0%	0%	0%	9.0%	0%	0%	6.5%
4-star	0%	0%	9.0%	0%	0%	10.0%	0%	0%	7.5%
3-star	0%	0%	10.0%	0%	0%	11.0%	0%	0%	8.5%

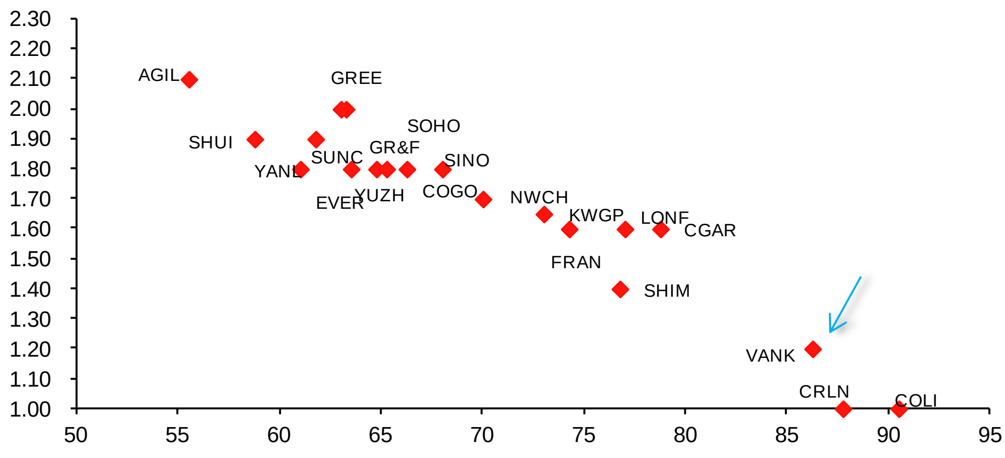
Source: Company data, Macquarie Research, March 2016

Fig 10 Financial summary (Rmb m)

Summary	2013	2014	2015E	2016E	2017E
Revenue	127,454	137,994	169,279	181,198	195,506
Cost of sales	(92,814)	(103,359)	(127,620)	(135,212)	(141,544)
Gross profit	34,639	34,635	41,658	45,986	53,962
Adjusted net profit	15,156	15,700	16,834	20,370	23,264
Gross margin	27%	25%	25%	25%	28%
Underlying profit margin	12%	11%	10%	11%	12%
Financial stability					
Net gearing^	42%	7%	22%	-16%	-90%
Interest coverage	4.2	3.9	5.4	7.3	13.8
Associates/Net profit	7%	13%	19%	23%	18%
SGA/Revenue	5%	6%	5%	6%	6%
Tax/Pre-tax income	36%	38%	41%	41%	42%
Net operating cash flow	(17,332)	31,778	1,333	81,688	123,931
Net investing cash flow	(9,114)	(4,338)	(8,674)	(31,185)	(7,139)
Net financing cash flow	18,358	(8,820)	(2,786)	(35,394)	(24,250)

Source: Company data, Macquarie Research, March 2016

Fig 11 Beta of China Vanke (VANK) aligns with peers based on composite scores of developers (x-axis) and forward beta (y-axis)



Note: Apart from sales and earnings growth, we evaluate our covered companies based on various factors, both tangible and intangible. We then derive a final score and assign subjective forward beta to derive our target prices. The six categories of metrics are overall company status, management, balance sheet, return, investor relations and land bank.

Source: Company data, Macquarie Research, March 2016

Sector comparison

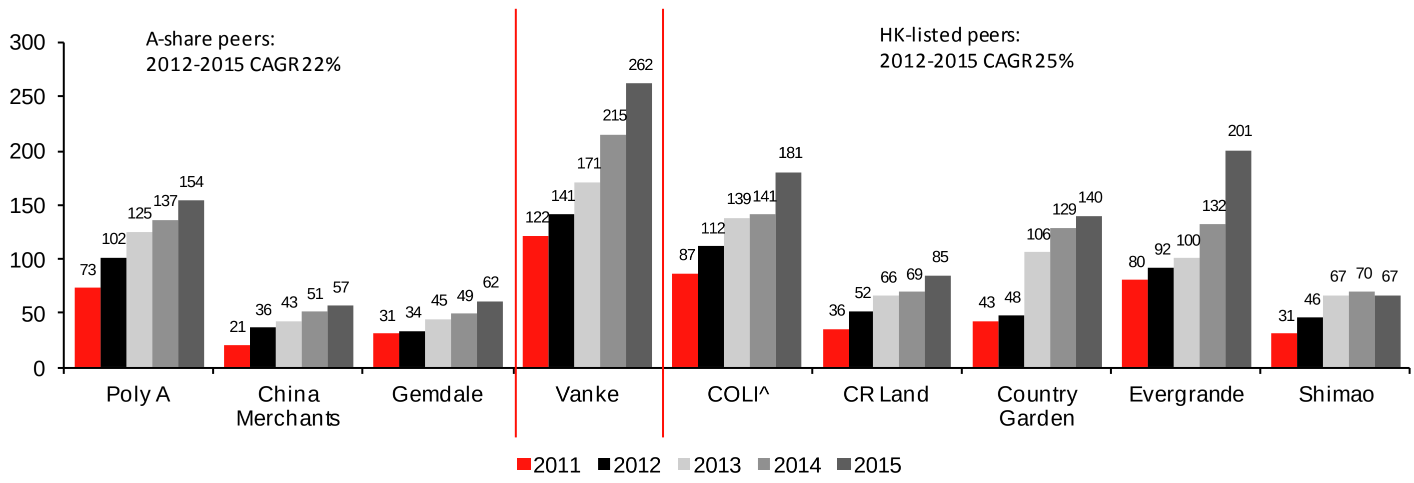
China Vanke currently trades at 8.3x 2016E PE and 21% NAV discount. Its valuation is generally in line with the large-cap peers listed in Hong Kong. However, after the B-to-H conversion, Vanke has become the only major property developer with an A/H dual-listed platform and this is not fully appreciated by the market, in our view. Further upside could also come from the material asset restructuring which the company is now working on, and its transformation to an urban ancillary service provider with success in its five new businesses.

Fig 12 Peer valuation table

Ticker	Company	TP	Price	Rating	PE (x) 2014	PE (x) 2015E	PB	NAV	NAV vs mkt value**	EBITDA margin 2014	EBITDA margin 2015E	Net gearing 2014	Net gearing 2015E
688 HK	COLI	33.3	25.35	OP	9.5	8.3	1.6	24.72	3%	31%	31%	28%	32%
1109 HK	CR Land	34.45	20.70	OP	11.0	9.4	1.2	26.31	-21%	25%	26%	46%	53%
2202 HK	China Vanke	21.83	18.26	OP	10.9	10.1	1.6	23.36	-21%	19%	20%	7%	22%
3333 HK	Evergrande	2.81	5.92	UP	19.0	12.9	0.7	7.13	-17%	17%	32%	165%	292%
2007 HK	Country Garden	4.15	3.29	OP	5.6	5.4	1.0	4.42	-26%	18%	19%	67%	60%
Median					**10.9**	**9.4**	**1.2**		**-21%**	**19%**	**26%**	**46%**	**53%**
Average					**11.2**	**9.2**	**1.2**		**-16%**	**22%**	**26%**	**63%**	**92%**
3383 HK	Agile	3.42	4.07	N	3.2	3.8	0.4	13.01	-69%	25%	21%	105%	104%
81 HK	COGO	3.20	2.73	OP	5.6	5.4	0.5	6.20	-56%	19%	14%	48%	74%
817 HK	China Jinmao	3.88	2.24	OP	5.7	6.9	0.5	4.84	-54%	32%	26%	113%	101%
3900 HK	Greentown	9.09	7.10	OP	5.8	4.3	0.5	17.84	-60%	18%	16%	100%	81%
2777 HK	R&F	12.23	9.79	OP	5.0	4.5	0.5	16.43	-40%	28%	30%	176%	149%
1813 HK	KWG	6.83	5.33	OP	5.1	4.4	0.6	7.88	-32%	24%	24%	67%	35%
960 HK	Longfor	13.67	10.86	OP	7.5	7.8	1.1	16.19	-33%	22%	22%	61%	18%
917 HK	New World China	7.8	7.55	N	14.7	25.0	1.1	7.18	5%	33%	29%	33%	38%
813 HK	Shimao	19.85	11.90	OP	4.4	4.3	0.7	28.13	-58%	25%	25%	81%	79%
272 HK	Shui On Land	3.28	2.09	OP	31.7	10.4	0.3	5.36	-61%	25%	14%	85%	116%
3377 HK	Sino-Ocean	6.77	4.01	OP	6.7	7.3	0.6	9.21	-56%	17%	18%	79%	73%
410 HK	SOHO	3.02	3.89	UP	9.6	52.9	0.4	4.17	-7%	53%	53%	11%	17%
1918 HK	Sunac	7.09	5.70	OP	4.3	4.5	1.0	15.94	-64%	11%	10%	91%	21%
YLLG SP	Yanlord	1.61	1.17	OP	15.8	9.8	0.6	2.49	-53%	23%	21%	69%	56%
123 HK	Yuexiu	1.32	1.18	OP	6.4	9.7	0.4	3.33	-65%	17%	14%	66%	72%
1628 HK	Yuzhou	3.10	1.84	OP	5.2	4.2	0.7	4.30	-57%	31%	25%	69%	70%
Median					**5.8**	**6.2**	**0.6**		**-56%**	**25%**	**22%**	**74%**	**73%**
Average					**8.5**	**10.3**	**0.6**		**-48%**	**25%**	**23%**	**78%**	**69%**
Sector median					**6.4**	**7.3**	**0.6**		**-53%**	**24%**	**22%**	**69%**	**70%**
Sector average					**9.0**	**9.2**	**0.7**		**-41%**	**24%**	**23%**	**84%**	**70%**

Note: Prices as at 7 Mar, 2016 close, PE based on our estimated adjusted EPS; *In S$; ** Negative indicates current market price is at a discount to NAV. OP - Outperform, N - Neutral, UP - Underperform; Source: Bloomberg, Macquarie Research, March 2016.

Fig 13 Contracted sales performance of key Chinese developers during 2012-15 (Rmb bn)



Source: Company data, Macquarie Research, March 2016; ^COLI number in HKD

Fig 14 Key operational matrices of major peers in China market

	Vanke	China Merchant Shekou	Poly A	Gemdale	COLI	CRL
Ticker	000002 CH	001979 CH	600048 CH	600383 CH	688 HK	1109 HK
Market cap (USD bn)	22.6	17.9	14.6	6.5		
Central SOE/local SOE?	Non-SOE	Central SOE	Central SOE	Non-SOE	Central SOE	Central SOE
Major shareholders	Baoneng (24.3%)	China Merchant Group (76.1%)	Poly Group (43.9%)	Sino-Life (29.9%)	CSCEC (61.2%)	CR Group (61.27%)
Valuation						
PE - 2016E (x)	8.3	19.0	6.8	12.0	8.0	9.2
PBR (x)	1.5	2.6	1.7	1.9	1.6	1.2
Landbank scale (m sqm)						
No. of cities	65	34	60	27	35	49
Landbank	86.4	31.3	93.3	25.7	44.1	42.2
Strategic district	Nationwide	Shenzhen	Nationwide	Xian/Shenyang	Nationwide	Shenzhen
Contracted sales (Rmb bn)						
2015	261.5	57.1	154.1	61.7	150.5	85.2
2014	215.1	51	136.7	49.4	117. ^	69.2
2013	170.8	43.2	125.3	45	115.4	66.3
13-15 CGAR (%)	24%	15%	11%	17%	14%	13%
Contracted ASP (Rmb k psm)						
2015	12.6	16.1	12.6	13.8	11.9	12.6
2014	11.9	14	12.8	12.7	12.5	10.5
2013	11.5	15.8	11.8	12.5	12.5	11.5
13-15 CGAR (%)	5%	1%	4%	5%	-2%	5%
Land acquisition (Rmb bn)						
2015	66	28	61	23	37	60
2014	33	20	39	13	40	25
2013	88	26	67	24	44	33
13-15 CGAR (%)	-14%	4%	-4%	-2%	-9%	35%
GFA replenished / GFA sold						
2015	114%	64%	96%	91%	47%	79%
2014	54%	132%	99%	68%	86%	93%
2013	210%	237%	176%	174%	121%	138%
Revenue (Rmb bn)						
2017E	223.2	72.3	164.7	59.9	160.6	131.0
2016E	199.4	63	147.9	55.6	140.1	118.5
2015E	171.8	54	126.4	49.1	118.9	103.9
Revenue split – 2014A (%)						
Property development	97%	90%	97%	96%	97%	91%
Property investment	0.1%	9%	including in 97%	including in 96%	1%	6%
Others	2%	1%	3%	4%	2%	3%
Core earnings (Rmb bn)						
2017E	23.3	8.6	18.5	5.5	32.5	18.7
2016E	20.4	7.1	16.5	5	28.7	16.4
2015E	16.8	6.2	14	4.3	24.2	13.9
2014A	15.7	5.3	12.2	4	19.9	11.8
2014-17 CAGR (%)	14%	18%	16%	12%	18%	17%
Gross margin - overall (%)						
2015E	25%	25%	n/a	n/a	32%	31%
2014	21%	27%	24%	20%	33%	31%
2013	23%	29%	22%	19%	33%	28%
Core profit margin (%)						
2017E	10.70%	11.90%	11.30%	9.20%	20.22%	14.31%
2016E	10.50%	11.30%	11.20%	9.00%	20.46%	13.81%
2015E	10.50%	11.60%	11.10%	8.70%	20.34%	13.37%
Net gearing – End June 2015 (%)	21%	78%	131%	81%	13%	39%
Average finance cost – End June 2015 (%)	7.00%	5.10%	5.70%	5.90%	4.30%	4.37%

Source: Company data, Macquarie Research, March 2016

Riding on market share gain

No worries about the industry slow down

- Despite the macro backdrop of slower industry growth, we believe Vanke can still achieve double-digit sales growth of 13% CGAR over the next five years through market share gain, and overseas expansion.
  - ⇒ Vanke achieved Rmb261b in contracted sales in 2015, representing about 3% market share in China with a footprint in 65 cities. In the top 20 cities where it does business, Vanke achieved about 4.8% market share, up from 4.6% in 2014.
  - ⇒ Assuming that Vanke's market share could ramp up to 10% in these cities in five years with the rest of cities posting no growth, it could achieve Rmb459b sales by 2020, which would represent about 12% CAGR.

Spectacular performance in T1 cities

- The market dominance in T1 cities is one of the key reasons for the company to achieve market share gains in China. According to CREIS, Vanke secured top 2 positions in the four T1 cities in 2015 in terms of property sales. It had a market share of 5.4%.
- We believe its diversified land acquisition channel helps to sustain growth, including partnerships, M&A, primary development and urban redevelopment. Most importantly, it has achieved good results, as evidenced by its 24% CAGR from 13-15, vs COLI at 14% and CRL at 13% during the same period. The benefit of these is to help the company to secure the land bank in T1 cities which see limited supply and to acquire it at reasonable cost.
  - ⇒ For instance, in Beijing it has several projects partnering with SOE companies like BUCC, COFCO and Minmetals Land. In Shanghai, it has been actively engaged in M&A to secure quality projects, while in Shenzhen, it has invested in LVGEM (95 HK) with 6.39% stake acquired in 2015, in addition to Vanke's urban redevelopment projects. LVGEM is one of the largest urban redevelopment players in the city. In 2013, its parent company obtained a large-scale redevelopment project in Shenzhen's Baishizhou with a total GFA of 5.5m sqm (including about 1m sqm of relocation housing).
- In our view, Vanke's strong execution, diversified landbank acquisition channel and flexible pricing strategy will help the company to continue to gain market share in these cities. Over the longer term, we expect Vanke's market share can ramp to above 10%, up from 5% currently. This compares to Hong Kong's property market leader Sun Hung Kai (16 HK) dominant at 18% share in the city. We believe this is achievable in T1 cities due fierce competition.

Eastern and Southern China as crown jewels

- Amongst the four regional offices of Vanke, the performance of the Shanghai region (i.e. Eastern China) and the Guangshen region (i.e. Southern China) is the strongest in terms of both sales and profitability. In 2014, the contracted sales of the two regional offices accounted for 29% and 32% of sales, respectively. Net profit margins were 14% and 17%, respectively, in 2014. This compares to a net profit margin of 5% for the Beijing region (dragged down by Northeastern China), and 7% for the Chengdu region.
- We expect Vanke will continue to strengthen the leading position in these two regions. In 2015, Guangshen and Shanghai accounted for 34% and 22% of the land replenishment, in terms of GFA.

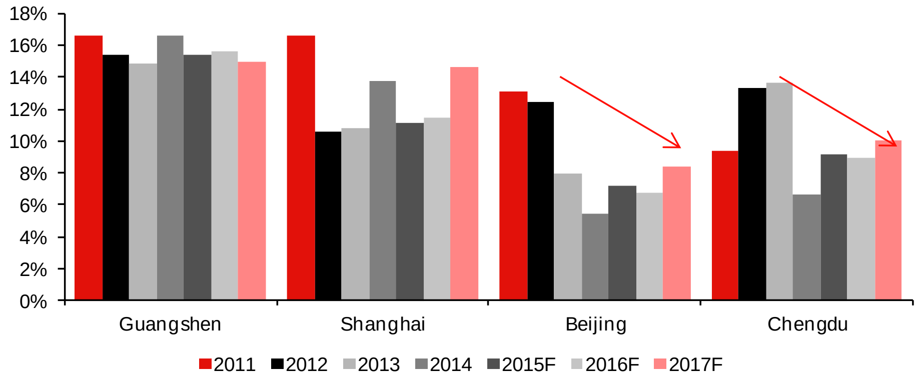
Fig 15 Net profit margin (including MI) by regional offices

Margin decline since 2013 was mainly due to the Beijing and Chengdu regions

The chart on the right shows the net profit margin breakdown by regional offices.

Vanke's margin declined sharply since 2013 and has hovered at a low level. This was mainly due to the margin dip in the Beijing office (which has been affected by poor property market in Northeast China) and the Chengdu office (which include some T3 cities in western and south-western China).

We expect the Shanghai office and the Guangshen office to support the margin over the next few years.



Source: Company data, Macquarie Research, March 2016

Fig 16 City-level sale performance of Vanke (Rmb bn) – achieving top 3 positions in most cities

		2014			2015		
No.	**City**	**City sales**	**Vanke sales**	**Ranking**	**City sales**	**Vanke sales**	**Ranking**
1	Shanghai	350.0	21.3	2	509.4	34.7	1
2	Shenzhen	131.7	11.3	1	282.2	22.3	1
3	Beijing	273.9	15.6	1	351.8	16.2	2
4	Hangzhou	156.0	12.0	2	213.8	15.0	3
5	Guangzhou	242.1	10.5	6	241.6	12.6	2
6	Dongguan	65.5	7.0	1	99.5	11.7	1
7	Wuhan	180.7	6.6	2	224.8	10.5	1
8	Nanjing	135.2	4.1	>10	177.3	7.5	3
9	Foshan	85.1	4.6	2	121.6	8.0	3
10	Ningbo	78.1	5.3	1	107.9	6.2	1
11	Xian	109.7	3.6	3	114.6	4.6	1
12	Chongqing	281.5	4.6	5	295.2	4.0	5
13	Chengdu	207.5	6.0	3	206.1	4.2	4
14	Tianjin	148.7	4.7	1	179.0	6.1	4
15	Fuzhou	103.5	2.0	7	106.6	2.3	9
16	Qingdao	97.1	5.8	1	126.3	5.2	2
17	Changsha	92.9	3.6	2	111.7	3.6	3
18	Jinan	63.8	2.3	4	91.6	4.1	2
19	Suzhou	154.7	5.3	2	220.0	6.5	4
20	Nanning	53.2	1.4	3	66.5	0.9	3

Source: NBS, CREIS, Macquarie Research, March 2016

- Vanke achieved 4.8% market share in the top 20 cities in 2015, vs 4.6% in 2014
- Vanke achieved 6.2% market share in the top 10 cities in 2015, vs 5.8% in 2014
- Vanke achieved 6.3% market share in the top 5 cities in 2015, vs 6.1% in 2014

Fig 17 Land acquisitions in 2015 – Guangshen was the main focus

Region	**# of projects**	**Planned GFA**	**% of Total**
Guangshen	32	7,557	34%
Shanghai	33	4,910	22%
Beijing	28	5,976	27%
Chengdu	11	3,980	18%
Total	**104**	**22,423**	**100%**

Source: Macquarie Research, March 2016

Financial analysis

VANK's core profit should increase from a CAGR of 14% from Rmb15.7bn in 2014 to Rmb23.2bn in 2017E

Earnings growth and margins

We expect VANK's core profit (excluding non-recurring items) to grow from Rmb15.7bn in 2014 to Rmb16.8bn in 2015E, Rmb20.4bn in 2016E and reach Rmb23.2bn in 2017E, equivalent to 2014-17E CAGRs of 14%. With more partnership projects, we forecast the contribution from JCE projects (non-consolidated projects) will grow steadily from Rmb2.0bn in 2014 to Rmb3.1bn in 2015, Rmb4.8bn in 2016 and Rmb4.2bn in 2017E, accounting for 18-23% of its core profits during the period, compared to 13% in 2014.

We forecast the gross margin to bottom in 2015F at 24.6%, down slightly from 25.1% in 2014, largely due to some price cuts in 2014. We expect the gross margin to recover gradually to 25.4% in 2016 and 27.6% in 2017, thanks to increased contribution from the high-margin region of **Guangshen (notably Shenzhen, Xiamen and Zhuhai)** and **Shanghai (notably Shanghai and Nanjing)**. We estimate the revenue from these two regions to increase from 59% in 2014 to 66% in 2017.

We forecast VANK's contracted sales to grow 20% YoY from Rmb261bn in 2015 to 314bn in 2016E

Fig 18 Vanke's land purchase

	GFA mn sqm	Attri land cost Rmb mn	AV Rmb psm
2013	30.7	79,370	2,588
2014	9.7	32,412	3,341
2015	23.5	84,730	3,603
YTD 2016	2.1	6,654	3,232

Source: Company data, Macquarie Research, March 2016

Contracted sales

We forecast VANK's contracted sales to grow by 20% to Rmb314bn in 2016E. The company needs to spend an addition of Rmb39bn in land purchase this year, in order to achieve Rmb350bn (i.e. 11% growth) contracted sales in 2017, or Rmb78bn to achieve Rmb376bn (i.e. 20% growth) in 2017. In light of the heating up of the land market in T1 and some of the key T2 cities, we expect the company will continue to do more JVs and M&A so as to mitigate risk and obtain land resources at reasonable cost. Moreover, the contribution of overseas projects should increase gradually over the next few years, including the US and notably Hong Kong. Currently Vanke has four projects in Hong Kong. We expect Vanke to launch its Tsuen Wan JV project in 2016, Wanchai and So Kwun Wat projects in 2017 and Sham Shui Po project in 2018. We estimate the total sellable resources amount to Rmb33bn.

Fig 19 Financial summary of VANK (Rmb m)

	2012	2013	2014	2015E	2016E	2017E	2018E
Revenue	**96,860**	**127,454**	**137,994**	**169,275**	**181,183**	**195,489**	**203,526**
Cost of sales	-65,454	-92,814	-103,359	-127,617	-135,204	-141,537	-143,105
Gross profit	**31,406**	**34,639**	**34,635**	**41,658**	**45,979**	**53,952**	**60,421**
Selling and marketing expenses	(3,056)	(3,865)	(4,522)	(4,778)	(5,450)	(6,096)	(6,472)
Administrative expenses	(2,846)	(3,089)	(3,986)	(4,327)	(4,911)	(5,473)	(5,848)
Other operating income/expenses	(165)	(150)	(102)	(102)	(102)	(102)	(102)
Profit from operations (EBIT)	**25,338**	**27,536**	**26,025**	**32,451**	**35,516**	**42,281**	**47,999**
Interest expenses	(1,739)	(1,496)	(1,547)	(2,176)	(2,332)	(2,533)	(2,312)
Interest income	981	740	929	889	988	1,826	2,924
Share of results of associates	890	999	2,043	3,146	4,718	4,259	6,498
Other non-operating income/expenses	27	1	2	2	2	2	2
Pre-tax exceptional items	142	116	2,474	-	-	-	-
Profit before tax	**25,639**	**27,897**	**29,926**	**34,312**	**38,893**	**45,834**	**55,111**
Income tax	-10,035	-9,550	-10,699	-12,712	-13,914	-17,276	-20,291
Profit before minority interests	**15,604**	**18,347**	**19,227**	**21,600**	**24,979**	**28,558**	**34,820**
Minority interests	-3,111	-3,179	-3,542	-4,766	-4,613	-5,301	-5,898
Post-tax exceptional items	590	(497)	606	-	270	-	10
Net profit	**13,082**	**14,671**	**16,291**	**16,834**	**20,636**	**23,257**	**28,932**
Adjusted Net Profit	**12,507**	**15,156**	**15,700**	**16,834**	**20,366**	**23,257**	**28,922**
Dividends	1,429	1,981	4,516	4,516	6,110	6,977	8,677
DPS	0.13	0.18	0.41	0.41	0.55	0.63	0.79
EPS	1.19	1.33	1.48	1.53	1.87	2.10	2.62
EPS (adjusted net profit)	1.14	1.38	1.42	1.53	1.84	2.10	2.62
Profitability (%)							
Gross profit margin (%)	32.42%	27.18%	25.10%	24.61%	25.38%	27.60%	29.69%
EBIT margin (%)	26.16%	21.60%	18.86%	19.17%	19.60%	21.63%	23.58%
Net profit margin (%)	13.51%	11.51%	11.81%	9.94%	11.39%	11.90%	14.22%
Core profit margin (%)	12.91%	11.89%	11.38%	9.94%	11.24%	11.90%	14.21%

Source: Company data, Macquarie Research, March 2016;

Debt and net gearing

We see further reduction in Vanke's financing cost with the opening up of the onshore bond markets

We see a substantial room for Vanke's financing cost to decline. In 2014, average financing cost stood at about 7%. This is not consistent with the strong and investment-grade credit rating given by international credit rating agencies. In addition to tapping the offshore markets, the company has utilized the onshore financing channels and issued MTNs, onshore corporate bonds, to replace some of its high-cost onshore borrowings.

For instance, the company issued Rmb5b in onshore corporate bonds in Sep15 at 3.5%. It also issued a three-year MTN of Rmb18b at 4.7% in Dec14.

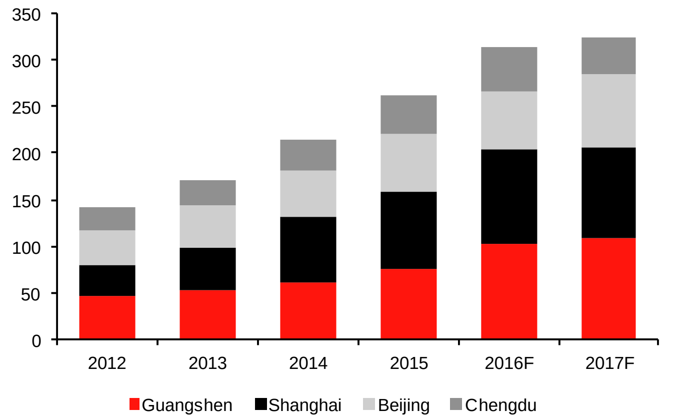
FX risk is manageable with non-Rmb borrowings only at 21.9%. The company also entered into a NDF contract to hedge a USD loan of Rmb0.33b

By the end of 1H15, Rmb-denominated borrowings accounted for 78.1% of the total, vs 80.4% as at end-1H14. We see its FX risk is manageable. Moreover, the company also entered into a NDF (non-deliverable forward) contract to hedge a USD loan of Rmb0.33b.

We forecast the net gearing (as % of shareholders' equity) to increase to 22% by the end of 2015, up from 7% a year ago, mainly due to more land purchases. In 2015, an attributable land cost of Rmb85bn was spent, vs Rmb32bn in 2014. In particular, a total of 52 new projects were acquired over the past three months, vs 47 in the full-year of 2014 and 104 in 2015.

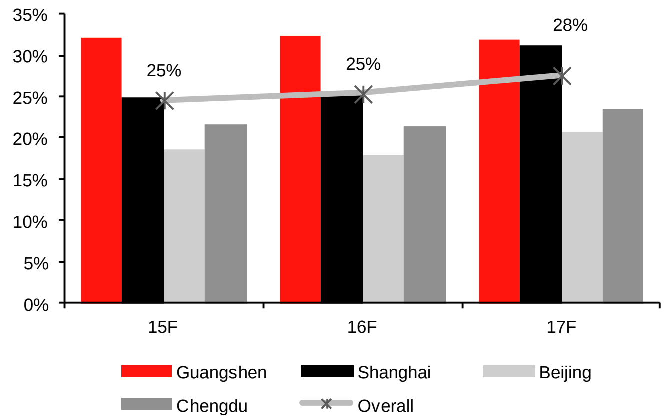
Cash collection is a key gauge on which Vanke's management focuses. In 2014, Vanke collected sales receipts of RMB209 bn, which represented over 90% of the total contracted sales. This has also helped Vanke to maintain a lower-than-peer average gearing.

Fig 20 Contracted sales forecast (Rmb bn)



Source: Company data and Macquarie Research, March 2016

Fig 21 Gross margin forecast



Source: Company data and Macquarie Research, March 2016

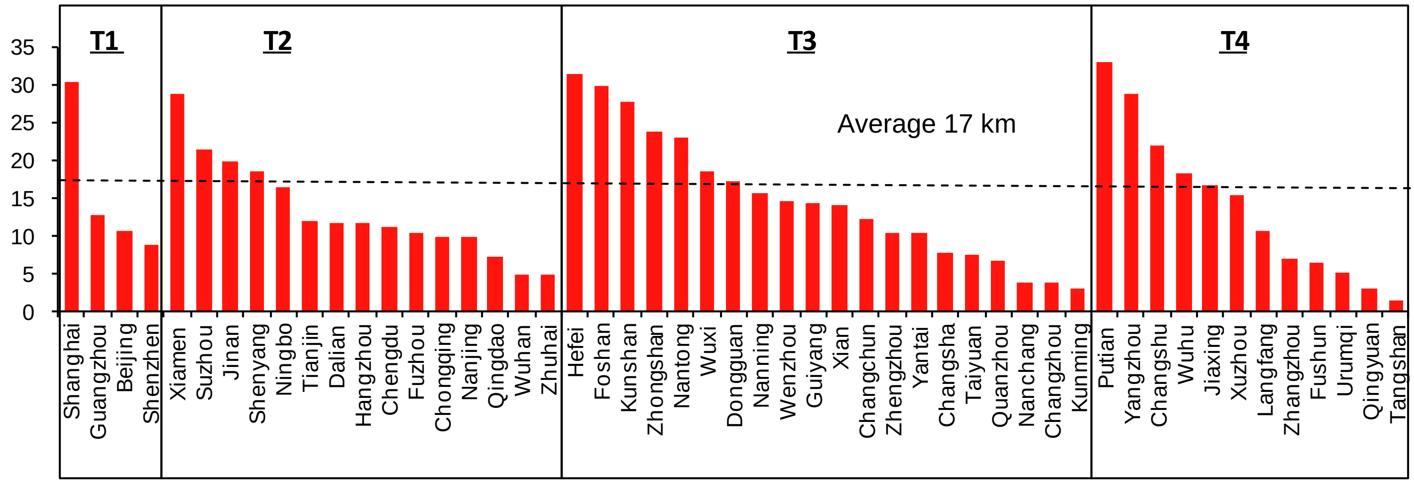
Project analysis

Location, location, location!

We have closely examined 264 projects Vanke acquired over the past three years. We found that Vanke has disciplined criteria for project selection.

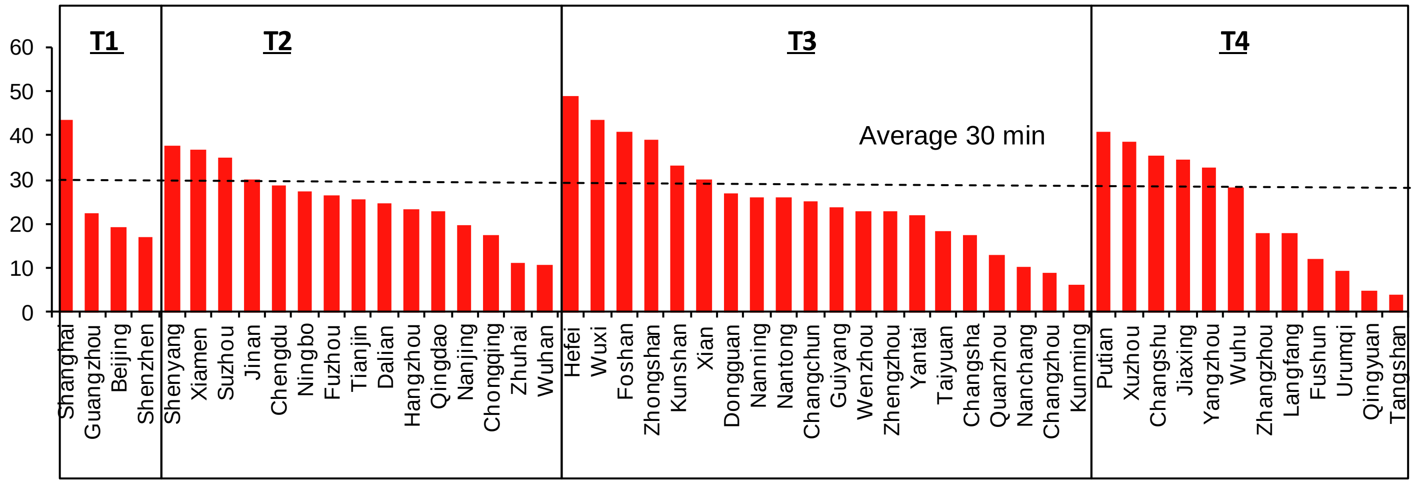
- Vanke likes projects located in city centre or hubs. For projects acquired over the past three years, we found that their locations to the city centres are about 17km on average.
- Vanke likes projects with good transportation linkage. For projects acquired over the past three years, we found that the travelling time to the city centres are about 30 minutes on average. This is a good fit for the mass-market buyers or the typical urban residents who need to work. This also explains the high popularity and sell-through rate achieved for Vanke's projects.

Fig 22 Average distance to the city centres for the newly acquired projects from 2013-2015



Source: Company data, Baidu map, Macquarie Research, March 2016

Fig 23 Average time travelling to the city centres for the newly acquired projects from 2013-2015



Source: Company data, Baidu map, Macquarie Research, March 2016

Small is beautiful

The effective and diversified land acquisition channels enable Vanke to sustainable high growth despite a large base.

Vanke does not care much about the project size for its projects. We believe the project location, sales visibility and profitability are more important considerations from Vanke when it comes to project selection. As a reference, for land purchases in 2015, 35% of the projects were acquired with a total GFA less than 100k sqm. These projects have a much shorter construction cycle, many of which could be delivered within two years from acquisition, thereby supporting its asset-churn model.

Diversified land acquisition channels

Compared to other developers, Vanke likes using JVs. COLI is the developer which least prefers using JV. Out of the 17 projects acquired in 2015, 16 were acquired in a 100% stake. Interestingly, the partner of the only one JV project is its *sister company* CSCI (3311 HK). On average, the attributable stake of projects acquired by Vanke is 73%, vs COLI at 99%, and CRL at 72%. CRL just started doing JVs extensively in 2015 so as to increase its landbank in T1 cities.

We believe the effective and diversified land acquisition channels enable Vanke to sustain a high growth rate despite a large base.

Vanke is one of the pioneers in practising the model 'a small stake for larger control' (小股操盘) in property development. Leveraging on its superior brand equity, reputation and strong project management skills, Vanke holds only a partial stake in projects or even 50% or less but still own the right of project execution. With the help of minority stake and fee incomes, it is expected that could enhance the capital efficiency and hence a higher ROE.

Fig 24 A comparison of the land replenishment between Vanke, COLI and CR Land

	Vanke	COLI^	CRL
Newly added landbank in 2015 (Gross GFA, sqm)	22,423,000	5,960,717	5,105,900
# of projects	104	17	21
Average size (Gross GFA, sqm)	215,606	350,630	243,138
Weighted average attributable stake	73%	99%	72%

^ *excluding COGO*

Source: Company data, Macquarie Research, March 2016

Key risks

Concentration in property development business

VANK is highly exposed to the property development business, accounting for 93% of GAV in 2016E. Recurring income only accounts for 0.2% of revenue. Property development in China is highly competitive and fragmented. Vanke has to compete with other property developers in China in terms of land auction bidding, product quality, location, and financial resources. Vanke contracted sales in 2015 amounted to RMB261.5 billion, representing approximately 3% of the total sales of Rmb8.73trn commodity units in the PRC according to the National Bureau of Statistics. The land price in T1 and T2 cities has followed property prices to increase in 2015. The high land price may lower Vanke gross margin down the road if property prices fail to pick up.

Lack of track record for new businesses

VANK has announced plans to expand its business into leasing, overseas development, education, healthcare, etc. However, except for property management, these businesses lack proven records. There is no guarantee that their past success in property development will help them to achieve success in new business. Property management, education, leasing, healthcare are labour-intensive. VANK may face rising labour cost and insufficient talent to deliver high quality service at early stages. Moreover, compared to Vanke's finance cost of about 7%, many of the emerging businesses may not generate enough yield to pay off finance cost. For the healthcare business, Vanke management commented the seniors cannot afford the high-end serviced apartment to support a meaning yield for Vanke. Currently they are only developing healthcare service to accumulate experience and talent. They will expand only when healthcare customers start to afford the service in the future.

Oversupply in some cities in China

Certain cities, mostly T3 cities, in the PRC have experienced oversupply, slower sales, and lower property price since 2014, affected by a series of governmental policies and talent outflow. VANK is highly exposed to the lower tier cities in PRC, accounting for 37% of GAV in 2016E. Compared to 13% GAV in T3 for COLI and 24% of CRLN, VANK has a considerable amount of assets in T3 which face oversupply and property price decrease. However, Vanke products mainly target the mass market and first- time home purchasers and the demand for self-use properties from first-time purchasers remain strong in lower tier cities, with good fundamentals.

Uncertainty in restructuring and the potential share placement

As VANK is in the process of a material asset restructuring; at the request of the Company to the Shenzhen Stock Exchange, trading in Vanke A (000002 CH) has been suspended from Dec 18^{th} 2015. According to Vanke, it has entered into a non-legal binding LOI with a potential party for transaction. This may be a measure leading to potential new share placement in attempt to reduce Baoneng's interest of 24.62% in VANK. The potential new share placement may also dilute investors' existing interest as a result. The key thing to watch is the EGM on Mar 17^{th}, which is to consider and approve the resolution in relation to the application for continuing trading suspension of the Vanke A shares.

Uncertainty in the hostile takeover from Baoneng

We think Baoneng's position of largest shareholder in VANK may exert negative impact on VANK. As VANK management continued to protest Baoeneng's hostile takeover, the dispute may result in either a plunge of VANK share price if Baoneng loses and possibly disposes of its interest or departure of key management if Baoneng wins and unwilling VANK management depart.

Road to the Trillion

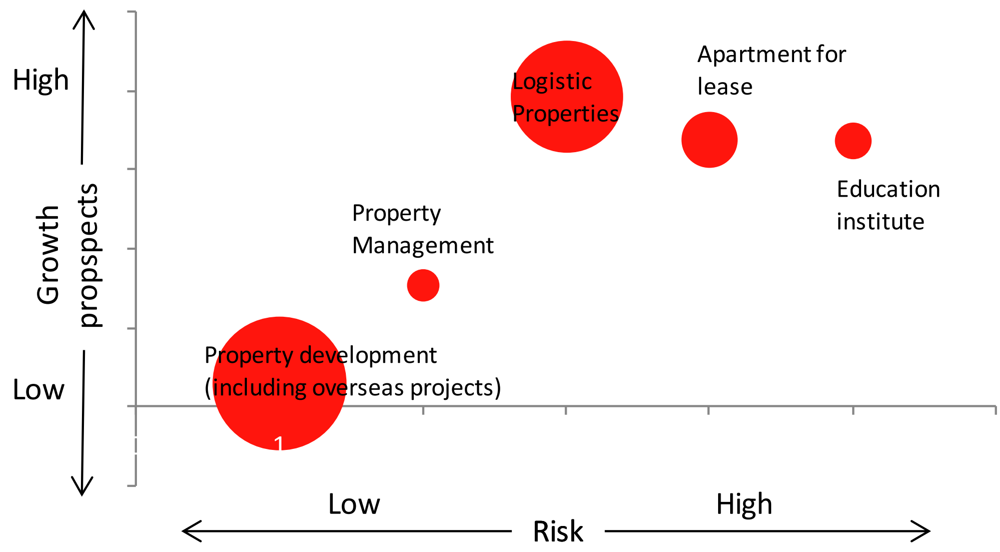
Break the ceiling, touch the sky…

In our view, the trillion-market cap plan is underpinned by the increasing contribution of recurring income and the higher growth of the new businesses which deserve higher valuations.

In view of the end of the high-growth era in the property sector, Vanke has been exploring new growth drivers to break the ceiling. In 1H15, the company first unveiled five new businesses which may be spun off when they become mature. According to Yu Liang, the General Manager of Vanke, the company targets to achieve Rmb1trn market cap by 2015 with the development of these new businesses.

In our view, the trillion-market cap plan is underpinned by the increasing contribution of recurring income and the higher growth of the new businesses which deserve higher valuations. We project that the traditional property development business would only represent about 50% of the market cap, including the expansion to overseas property projects. The remaining 50% would come from the new businesses, with logistic properties taking the largest share at 35% of the entire market cap, followed by the apartment for lease at 8% and the property management at 3% and the educational institute at 4%.

Fig 25 Risk-reward analysis of Vanke's new businesses



Growth prospects: mainly determined by the industry growth compounded by the penetration of the company; **Risk:** mainly determined by expertise and knowledge of the company. The size of bubbles represents their relative market-caps by 2025F.

Source: Macquarie Research, March 2016

Fig 26 Road to the Trillion market-cap – the success of new businesses plays a critical role

	2025E net profit Rmb bn	Target Multiple x	Valuation Rmb bn	% of total	Remark
1) Property management	2.8	11.1	30.7	3%	New business
2) Logistic Properties	13.9	25.1	349.8	35%	New business
3) Apartment for lease	5.1	20.0	83.2	8%	New business
4) Educational institute	1.8	20.0	35.6	4%	New business
5) Property development including overseas projects	49.9	10.0	498.5	50%	Existing business but with the expansion to overseas
Total	73.5	(implied) 13.6	997.8	100%	

Source: Company data, Macquarie Research, March 2016

However, we are aware of the uncertainties, as most of these new businesses are still are at infant stages. The success of the logistic properties should be the largest swing factor for the company to reach the trillion market-cap. In contrast, the property management business which is relatively mature could only contribute about 3% of its trillion market cap.

Fig 27 2014 Top 10 property management company in China

	Top 10 list
1	Vanke
2	Greentown
3	Chang Cheng (长城)
4	Poly
5	Gemdale
6	Shoukai (首开鸿城)
7	Jumbo (君豪, independent from developers)
8	Color Life
9	Zhong Ao (independent from developers)
10	Esteem (广东康景)

Ranking measured by scale, financials, service quality, growth potential and social responsibilities

Source: CREIS, Macquarie Research, March 2016

Property Management

- Amongst all the five new businesses which Vanke proposed, the property management business is the most mature, with a sizable scale already established. **We expect the company will spin off this business in 2016.**
- By the end of 2014, the GFA under management of the company amounted to 103.4m sqm, with 457 projects in 61 cities in China.
- Revenue from property management (net of tax) amounted to Rmb1.87b in 2014, up 35% YoY. Operating margin edged up by 1.05pp to 13.24%.
- Thanks to its strong brand reputation, Vanke also provides property management services to projects built by other developers. We believe the expansion of Vanke property management to be higher than peers, along with more management of third party projects.
- According to the company, it targets about 60m sqm of newly added third-party projects in 2015, which is nearly 4x of its planned GFA completion of 15.8m sqm in 2015. By the end of 2017E, the GFA under management will reach about 200m sqm, vs 103m sqm in 2014.

Fig 28 An overview of Vanke's property management business

Property management	2011	2012	2013	2014
Revenue (Rmb mn) ^	540	807	1,385	1,874
GFA under mgmt (mn sqm)	N/A	N/A	N/A	103.4
# of projects	N/A	N/A	N/A	457
# of cities	N/A	N/A	N/A	61

^ *net of business tax*

Source: Company data, Macquarie Research, March 2016

Fig 29 Comparables for the property management business – we use 11.1x PER for valuation

Ticker	Company	Price	Mkt cap US$mn	PE (x) 2015	PE (x) 2016F	PB (x)	GPM 2014	GPM 2015F	EBIT margin 2014	ROE 2014	ROE 2015F
China property management comp											
1538 HK	Zhong Ao Home	1.2	126	14.0	8.4	8.6	33%	35%	22%	76%	7%
1778 HK	Color Life	5.7	727	28.0	13.8	3.8	80%	64%	30%	14%	23%
Average				**21.0**	**11.1**	**6.2**					
China offline real estate agencies											
EJ US	E-House	6.2	882	19.0	8.8	0.9	66%	69%	1%	1%	8%
733 HK	Hopefluent	1.9	166	6.0	5.4	0.6	n/a	n/a	11%	8%	9%
1200 HK	Midland	2.8	256	66.0	38.5	1.4	n/a	60%	4%	10%	10%
002285 CH	Shenzhen World	14.3	3,173	33.3	26.6	5.8	30%	31%	20%	18%	16%
Average				**31.0**	**19.8**	**2.2**					
China online real estate agencies											
SFUN US	Soufun	5.9	2,819	n.a	23.2	3.3	79%	32%	-4%	-2%	-2%
LEJU US	Leju	4.0	539	9.8	8.1	1.3	90%	89%	10%	11%	11%
SOHU US	Sohu	48.2	1,865	n.a	62.6	1.5	59%	54%	4%	-4%	-3%
SINA US	Sina	43.6	3,034	38.1	30.1	1.2	62%	61%	-3%	11%	3%
WUBA US	58.COM	55.7	7,883	n.a	34.6	2.9	95%	92%	-35%	-18%	-3%
Average				**23.9**	**31.7**	**2.0**					
Global online real estate agencies											
ZG US	Zillow	24.8	4,240	266.2	54.9	1.6	91%	91%	-23%	-9%	1%
REA AU	REA	50.7	4,946	29.7	24.5	10.6	55%	56%	52%	35%	36%
Average				**148.0**	**39.7**	**6.1**					

Source: Bloomberg, Macquarie Research, March 2016

"As for industrial real estate, the emerging maker culture, SMEs and micro businesses would become the major driving force behind China's economic growth. There is a need to completely revamp and modernize the logistic properties."
--- Vanke 2014 AR

Logistic Properties

- In 1H15, the company established Vanke Logistic Property Development *Ltd*, a separate business entity from its traditional property development, to replace its logistic business *division*. According Guandian news, Blackstone is one of the shareholders.
- As at end-Feb16, Vanke has acquired eight logistic projects with a total GFA of 0.7m sqm. By 2018, Vanke targets to own about 16m sqm in logistic projects including a completion of GFA of 10m sqm, with a focus mainly in the Southern China region where the company is headquartered, rapidly growing central and western region and the eastern region.
- Modern warehousing in China is significantly underpenetrated vs. global standards. JLL estimates that modern warehousing is only ~4.5% (~29m sqm) of total stock in China. We continue to believe that demand will remain strong, with a steady increase in the demand for modern warehousing and rental.
- According to China Warehousing Association data, warehouse stock at the end of 2012 in China was 698mn sqm. But CRRE data showed logistics space specialized for modern e-commerce operations was only 13mn sqm, representing 1.9% of total logistics stock as of the end of 2013. In our opinion, the demand for modernized warehouses is strong, with the rapid growth of e-commence in China. Our China/HK internet team forecasts strong 25% gross merchandise value (GMV) growth over the next three years. Vanke targets about 7-10% yield on cost on these projects.

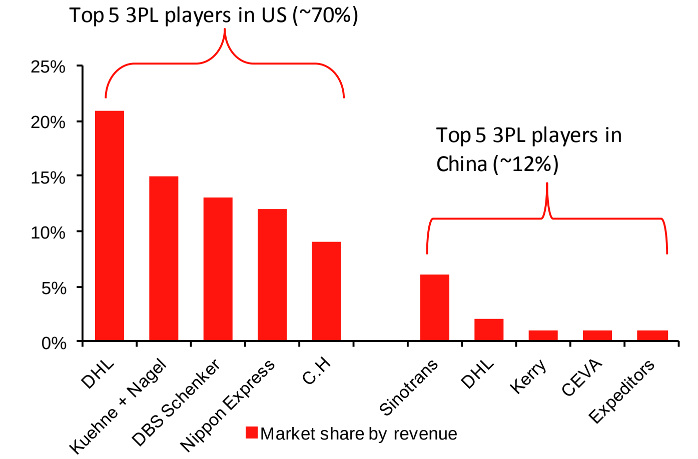
Fig 30 An overview of the rental performance - Warehouse demand remains healthy…

	Rmb /day / sqm	YOY		Rmb /day / sqm	YOY		Rmb /day / sqm	YOY
T1 cities			T2 cities			T3 cities		
Beijing	1.1	12%	Tianjin	0.95	3%	Harbin	0.8	11%
Shanghai#	1.35	8%	Chengdu#	1	10%	Hefei	0.8	9%
Guangzhou	1.1	12%	Chongqing	0.83	9%	Jinan	0.8	3%
Shenzhen	1.33	5%	Ningbo#	1	10%	Changsha#	0.83	14%
Average	**1.22**	**9%**	Qingdao	0.7	8%	Zhengzhou	0.75	5%
			Dalian	1	11%	Nanchang	0.83	4%
			Shenyang#	0.9	6%	Shijiazhuang	0.65	11%
			Hangzhou#	1.2	10%	Tangshan	0.4	0%
			Nanjing	0.8	7%	Xian	0.95	6%
			Suzhou	1.1	10%	Lanzhou	0.75	7%
			Wuhan#	0.95	6%	Kunming	0.83	5%
			Average	**0.95**	**8%**	Yinchuan	0.5	9%
						Average	**0.74**	**7%**

 # refers to cities which Vanke already entered. In addition to these, Vanke has also bought a logistic project in Guiyang. In total, Vanke has now owns 8 logistic property projects in 8 cities

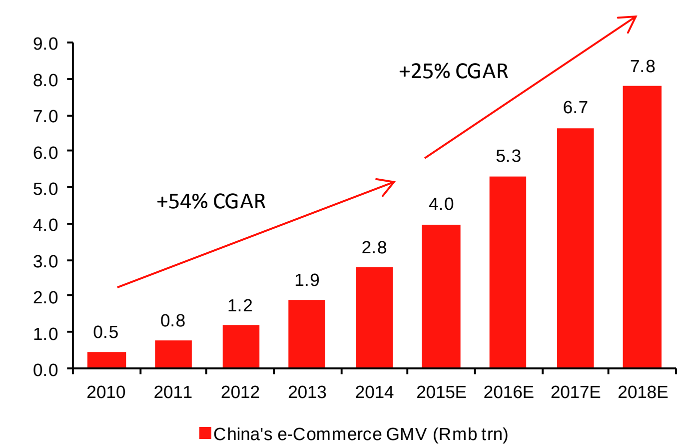
Source: China Warehousing Association, Macquarie Research, March 2016

Fig 31 The 3PL industry in China remains fragmented vs US



Source:Armstrong and Associates and Macquarie Research, March 2016

Fig 32 e-commerce GMV growth in China still strong (25% CGAR, 2015-18E)



Source: iResearch and Macquarie Research, March 2016

Fig 33 Comparables for the logistic properties business – we use 25.1x PER for valuation

Ticker	Company	Price	Mkt cap US$mn	PE (x) 2015F	PE (x) 2016F	PB (x)	GPM 2014	GPM 2015F	EBIT margin 2014	ROE 2014	ROE 2015F
GLP SP	GLP	1.9	6,599	20.8	21.4	0.8		81%	50%	8%	5%
PLD US	Prologis	41.5	21,743	37.9	34.6	1.5			17%	6%	4%
600648 CH	Waigaoqiao	19.4	3,169	40.5	21.3	2.5	20%		13%	7%	
600340 CH	CFLD	25.8	11,705	13.3	10.7	5.6	31%	36%	19%	42%	35%
MLT SP	Mapletree Logistics	1.0	1,736	13.0	12.4	0.9	77%	93%	69%	9%	7%
1668 HK	CSC	1.7	1,720	7.6	6.0	0.6	49%	50%	34%	14%	8%
1369 HK	Wuzhou	0.8	514	13.4	8.4	0.8	35%	n.a	10%	2%	6%
1396 HK	Hydoo	1.1	553	6.9	5.3	0.8	42%	49%	19%	13%	11%
002492 CH	Zhuhai Winbase	12.7	526	115.5	105.8	3.4	41%	30%	29%	5%	3%
Average				**29.9**	$\boxed{\textbf{25.1}}$	**1.9**					

Source: Bloomberg, Macquarie Research, March 2016

Apartment for lease (Vanke Lodge)

- Vanke engages in residential leasing business through Vanke Lodge. It offers apartments for lease with an adequate level of services, under centralised management and a target of new urban migrants. Compared to the traditional residential rental market, these lease terms are more flexible with a term of six months or above.
- Currently there are nine Vanke Lodge projects, including those in operation and those under construction which can provide nearly 10,000 units of serviced apartments. By the end of 2017, the company targets to provide 150,000 apartment for lease through Vanke Lodge.
- Thanks to its scale, execution and cost control, the fee-to-income ratio is below 0.15, which enables Vanke to achieve a net yield-on-cost of 5% with a gross yield of about 6%. This should be sufficient to cover its relevant financing costs.
- Moreover, policy has turned supportive to this business, with the government increasingly encouraging the establishment of a rental residential market.

Fig 34 Comparables for the leasing business – we use 16.4x PER for valuation

Ticker	Company	Price	Mkt cap US$mn	PE (x) 2015	PE (x) 2016F	PB (x)	GPM 2014	GPM 2015F	EBIT margin 2014	ROE 2014	ROE 2015F
RGU LN	Regus	304.50	4,009.72	20.4	17.5	5.0	23%	22%	8%	21%	20%
SRV AU	Servcorp	7.17	523.18	17.4	15.3	2.8	20%	22%	12%	15%	17%
Average				**18.9**	$\boxed{\textbf{16.4}}$						

Source: Bloomberg, Macquarie Research, March 2016

Educational institute

Fig 35 Shenzhen Vanke Meisha Academy (万科梅沙书院)

Source: Macquarie Research, March 2016

- Leveraged its strong market share in the property market and the large scale of the property management business, Vanke aims at being a top-notch education service provider.
- In 2015, 15 community campuses in Guangzhou, Shenzhen, Xiamen, Foshan, Dongguan and Changsha were established. On the other hand, over the past two years, six outdoor campuses in Sanya, Guangzhou, Shenzhen, Jilin and Dongguan were set up.
- The company targets to establish 150 community campuses in 11 cities, 12 city campuses in nine cities and 12 outdoor campuses in nine cities.
- In addition to the rising disposal income and more awareness in off-site educations and extracurricular activities amongst parents, policy has turned supportive to this business with the relaxation of the second-child policy.

Fig 36 Comparables for educational institute business – we use 19.3x PER for valuation

Ticker	Company	Price	Mkt cap US$mn	PE (x) 2015F	PE (x) 2016F	PB (x)	GPM 2014	GPM 2015F	EBIT margin 2014	ROE 2014	ROE 2015F
1317 HK	Mapleleaf	4.4	770	21.0	17.7	2.8	44%	47%	28%	18%	12%
NORD US	Nord Anglia	19.8	2,061	29.3	22.1	7.2	41%	39%	14%	12%	17%
EDU US	New Oriental	31.1	4,876	20.6	16.8	3.8	60%	58%	13%	17%	17%
DL US	China Distance	13.9	495	15.3	13.9	37.4	59%	59%	23%	38%	
XRS US	Tal Education	50.0	4,004	35.5	30.8	13.7	52%	52%	15%	31%	33%
TEDU US	Tarena	10.1	552	19.8	14.1	2.8	71%	71%	10%	12%	14%
Average				**23.6**	**19.3**	**11.3**					

Source: Bloomberg, Macquarie Research, March 2016

Overseas business

- Vanke first tapped into overseas projects in 2013 with a residential project in San Francisco by partnership with US property developer Tishman. Since then, Vanke has gradually added more overseas projects. Vanke expects that through participating in overseas projects, it can learn from some of the best international peers and would further strengthen its professional skills and management abilities.
- By the end of Feb16, Vanke has a total of ten overseas projects including six in the US, three in HK and one in Singapore. The company is now looking for opportunities in the UK and other European countries. Overseas projects account for 7% of its GAV based on our estimates. We forecast sales from overseas business will increased remarkably over the next few years, and achieve 4% of the total contracted sales in 2017, notably with the launch of HK projects.

Recent developments

Baoneg's hostile takeover…

- During 2H15, Baoneng, a Shenzhen-based property and insurance conglomerate, started to accumulated Vanke shares, via its subsidiary Shenzhen Jushenghua Co and affiliate Foresea Life Insurance. Baoneng Group, established in 1992, has three core businesses: Jushenghua serves as the financial platform; Foresea Life is ranked 13th among national life insurers; and real estate development business in 30 cities nationwide.
- On August 26th, Baoneng 's stake in Vanke surpassed state-controlled China Resources Co., and became the biggest shareholder of Vanke. The two continued to build up their stakes in the following months.
- On Dec 7th, Anbang Group, an insurance group which bought Waldorf Astoria New York, also started to acquire 5% shares.
- On Dec 17th, Vanke Chairman Wang Shi publicly criticized Baoneng group for lacking credibility that would damage Vanke. The next day, Baoneng replied it had a "good reputation" and strictly abided by the law.
- On Dec 18th, Vanke announced suspension of trading due to potential asset restructuring in an attempt to reduce Baoneng's stake. On Jan 6th, Vanke H (2202 HK) resumed trading while Vanke A (000002 SZ) remained trading suspension.
- In Feb 2016, market expected Baoneng Group to dispose Vanke shares as Baoneng borrowed heavily to fund the takeover. However, Baoneng denied it would sell Vanke shares.

Fig 37 Baoneng and Vanke equity interest

Shareholders	10 Jul	24 Jul	26 Aug	1 Sep	4 Dec	7 Dec	10 Dec	11 Dec	14 Dec	17 Dec
Qianhai Life (Baoneng Sub)	5.00%	5.93%	6.66%	6.66%	6.66%	6.66%	6.66%	6.66%	6.66%	6.66%
Jushenghua (Baoneng Sub)	0.00%	4.07%	8.38%	13.35%	13.35%	13.35%	15.08%	15.79%	16.86%	17.96%
Total Baoneng	**5.00%**	**10.00%**	**15.04%**	**20.01%**	**20.01%**	**20.01%**	**21.74%**	**22.45%**	**23.52%**	**24.62%**
CR Group	**14.89%**	**14.89%**	**14.89%**	**15.23%**	**15.23%**	**15.23%**	**15.23%**	**15.23%**	**15.23%**	**15.23%**
Anbang	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**5.00%**	**5.00%**	**5.00%**	**5.00%**	**5.00%**

Source: Company data, Macquarie Research, March 2016

Fig 38 Baoneng and Vanke key events

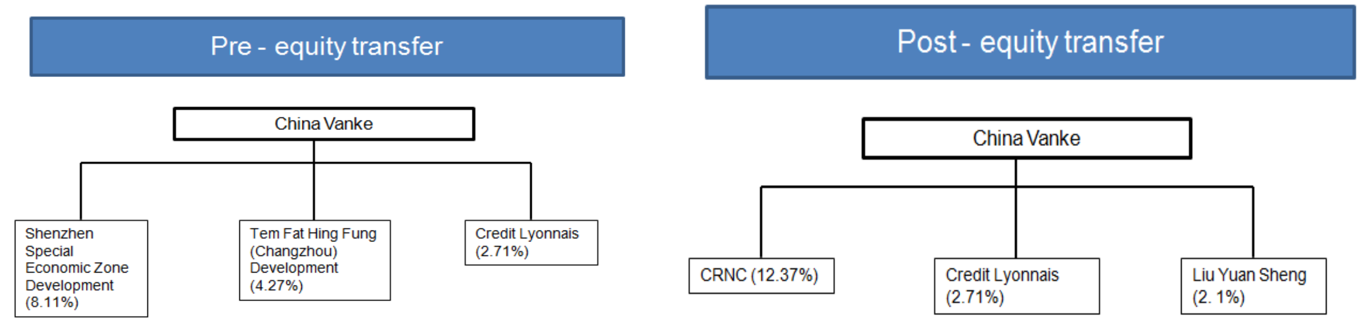
Date	Who	Event / comment
10 Jul	Baoneng	Acquired 5% of Vanke shares
24 Jul	Baoneng	Acquired 5% shares
26 Aug	Baoneng	Acquired 5.04% shares and became largest shareholder
1 Sep	CR Group	Acquired 0.34% shares
4 Dec	Baoneng	Acquired 4.97% shares
7 Dec	Anbang	Acquired 5% shares
17 Dec	Baoneng	Acquired 2.88% shares
17 Dec	Vanke	Chairman Wang Shi opposed Baoneng to become the largest shareholder
18 Dec	Baoneng	Baoneng announced to maintain integrity and play by the rule
18 Dec	Vanke	Trading suspended due to potential restructuring
23 Dec	Vanke	Chairman Wang Shi toned down and said Vanke, CR Group, and Baoneng are one family
6 Jan	Vanke	H share resumed trading but A share remained suspended
29 Jan	Vanke	A share continue suspension till Mar 18th
6 Feb	Baoneng	Baoneng denied to sell Vanke shares

Source: Company data, Macquarie Research, March 2016

Appendices

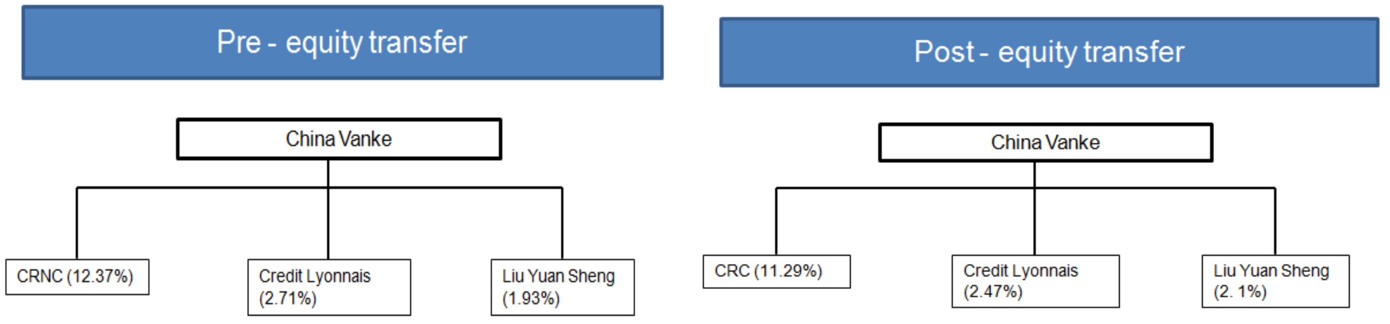
Ownership structure

Fig 39 Ownership change in 2000



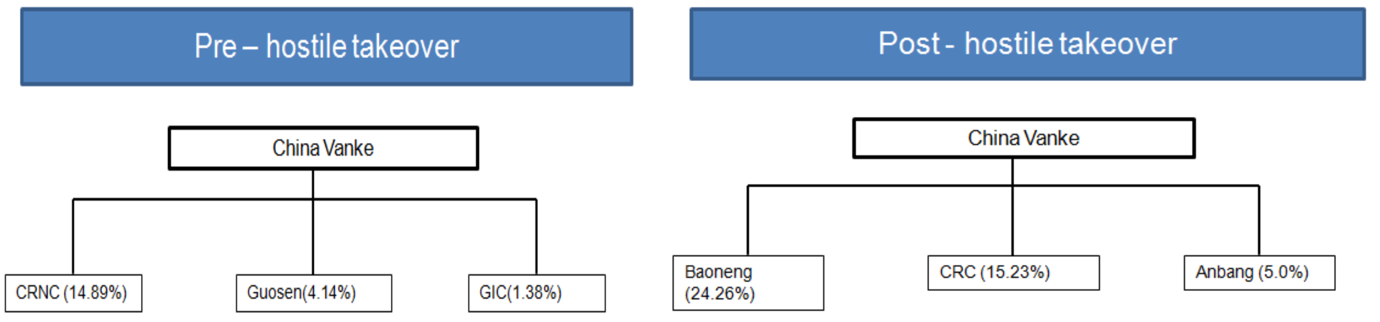
Source: Company data, Macquarie Research, March 2016

Fig 40 Ownership change in 2003



Source: Company data, Macquarie Research, March 2016

Fig 41 Ownership change in 2015 as



Source: Company data, Macquarie Research, March 2016

Management profile

Mr WANG Shi, aged 66, is the Chairman and an executive director of the company. He has also been a director of Sohu.com Inc. (NASDAQ stock code: SOHU) since May 2005 and an independent non-executive director of China Resources Land Limited (Hong Kong stock code:1109) since April 1997. Mr. Wang has been a visiting scholar of Pembroke College of the University of Cambridge in the United Kingdom since October 2013.

Mr YU Liang, aged 52, has been an executive director since 24 May 1994 and the president of the company since 15 February 2001. Mr. Yu joined on 10 December 1990. He later served as a deputy general manager in 1996 and an executive deputy general manager and the finance manager in 1999. Mr. Yu graduated from the Faculty of International Economics Studies of Peking University in the PRC with a bachelor's degree in International Economics in July 1988. He obtained a master's degree in Economics from Peking University in the PRC in January 1997.

Mr WANG Wenjin, aged 51, executive director since 28 March 2014, executive vice president since 26 October 2007 and finance manager since 12 March 2002. After joining Vanke on 25 November 1993, Mr. Wang became a deputy manager of the finance department in 1998 and a general manager of the same department in 1999. He became financial director in 2004. He graduated from Zhongnan University of Economics and Law in the PRC with a master's degree in June 1994.

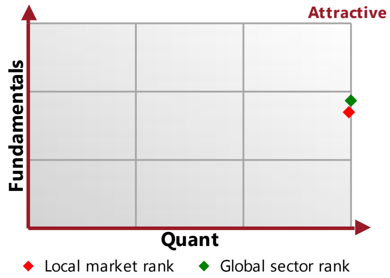
Macquarie Quant View

The quant model currently holds a strong positive view on China Vanke. The strongest style exposure is Valuations, indicating this stock is under-priced in the market relative to its peers. The weakest style exposure is Growth, indicating this stock has weak historic and/or forecast growth. Growth metrics focus on both top and bottom line items.

1/941

Global rank in Real Estate

% of BUY recommendations	46% (6/13)
Number of Price Target downgrades	0
Number of Price Target upgrades	0

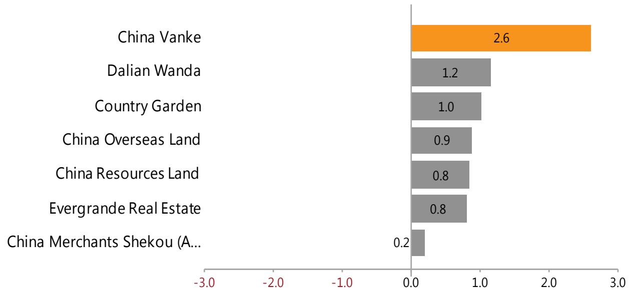


Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model.

Two rankings: Local market (China) and Global sector (Real Estate)

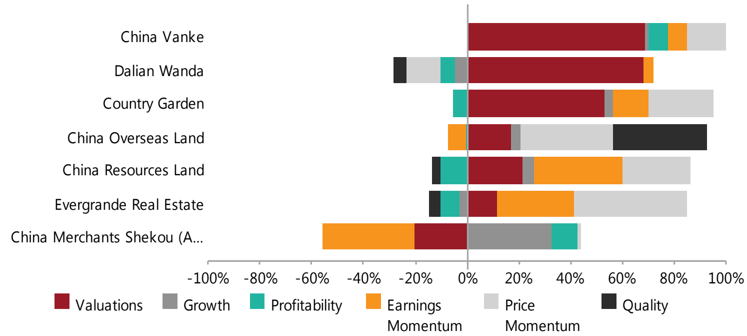
Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



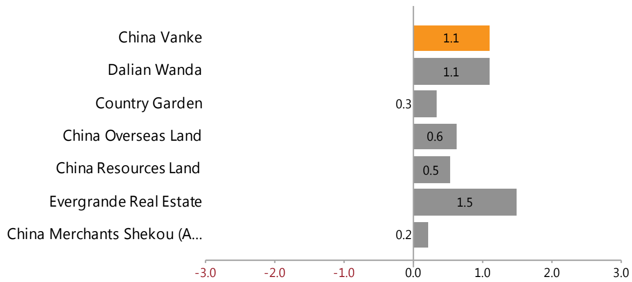
Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



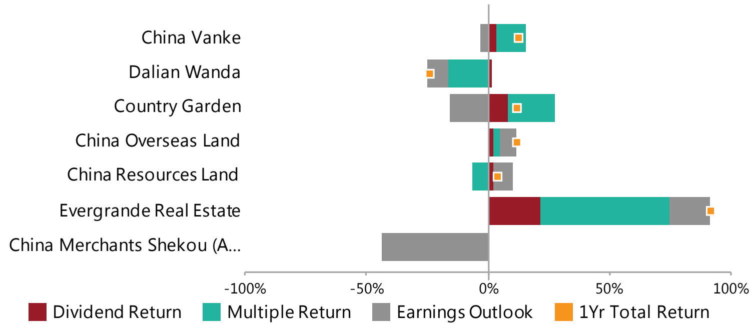
Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



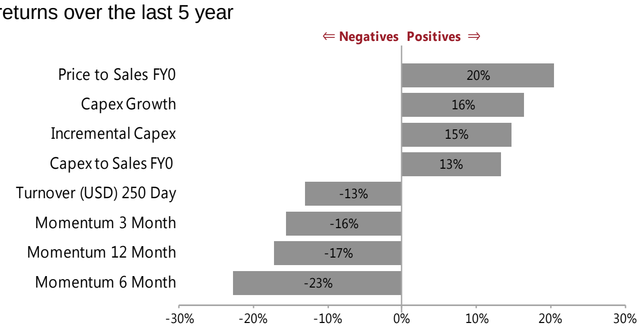
Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



What drove this Company in the last 5 years

Which factor score has had the greatest correlation with the company's returns over the last 5 year



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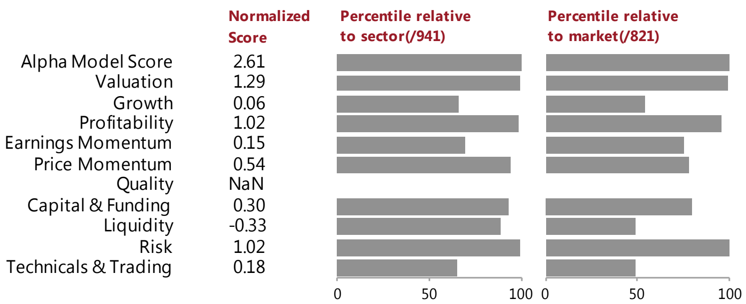
How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.



Source (all charts): FactSet, Thomson Reuters, and Macquarie Research. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group (cpg@macquarie.com)

China Vanke (2202 HK, Outperform, Target Price: HK$21.83)

Interim Results		**1H/15A**	**2H/15E**	**1H/16E**	**2H/16E**
Net Property Income	m	1,313	1,313	1,571	1,571
Development Income	m	17,000	147,346	21,525	154,223
Other Revenue	m	1,153	1,153	1,153	1,153
Total Revenue	**m**	**19,466**	**149,813**	**24,249**	**156,948**
Management Fees	m	0	0	0	0
Other Expenses	m	0	0	0	0
EBITDA	**m**	**9,889**	**23,141**	**1,070**	**35,087**
Dep & Amortisation	m	317	261	348	287
EBIT	**m**	**9,571**	**22,880**	**722**	**34,800**
Net Interest Income	m	-117	-1,169	-672	-672
Associates	m	911	2,235	565	4,154
Exceptionals	m	99	-99	0	0
Other Pre-Tax Income	m	4	-2	1	1
Pre-Tax Profit	**m**	**10,467**	**23,845**	**616**	**38,283**
Tax Expense	m	-3,720	-8,992	-735	-13,180
Net Profit	**m**	**6,747**	**14,853**	**-119**	**25,102**
Minority Interests	m	-1,943	-2,822	-920	-3,693
Reported Earnings	**m**	**5,229**	**11,605**	**-904**	**21,545**
Adjusted Earnings	**m**	**4,743**	**12,091**	**-1,039**	**21,410**
EPS (rep)		0.47	1.05	-0.08	1.95
EPS (adj)		0.43	1.10	-0.09	1.94
EPS Growth yoy (adj)	%	11.1	5.7	nmf	77.1
EBITDA Margins	%	50.8	15.4	4.4	22.4
EBIT Margins	%	49.2	15.3	3.0	22.2
Earnings Split	%	28.2	71.8	-5.1	105.1
Revenue Growth	%	-71.8	117.1	24.6	4.8
EBIT Growth	%	34.2	21.1	-92.5	52.1

Profit & Loss		**2014A**	**2015E**	**2016E**	**2017E**
Net Property Income	m	2,012	2,626	3,143	3,486
Development Income	m	133,752	164,346	175,748	189,713
Other Revenue	m	2,229	2,307	2,307	2,307
Total Revenue	**m**	**137,994**	**169,279**	**181,198**	**195,506**
Management Fees	m	0	0	0	0
Other Expenses	m	0	0	0	0
EBITDA	**m**	**26,574**	**33,030**	**36,157**	**42,980**
Dep & Amortisation	m	549	579	635	691
EBIT	**m**	**26,025**	**32,451**	**35,522**	**42,289**
Net Interest Income	m	-618	-1,287	-1,343	-708
Associates	m	2,043	3,146	4,718	4,259
Exceptionals	m	2,474	0	0	0
Other Pre-Tax Income	m	2	2	2	2
Pre-Tax Profit	**m**	**29,926**	**34,312**	**38,899**	**45,842**
Tax Expense	m	-10,699	-12,712	-13,915	-17,278
Net Profit	**m**	**19,227**	**21,600**	**24,983**	**28,564**
Minority Interests	m	-3,542	-4,766	-4,613	-5,301
Reported Earnings	**m**	**16,291**	**16,834**	**20,640**	**23,264**
Adjusted Earnings	**m**	**15,700**	**16,834**	**20,370**	**23,264**
EPS (rep)		1.48	1.53	1.87	2.11
EPS (adj)		1.42	1.53	1.85	2.11
EPS Growth (adj)	%	nmf	7.2	21.0	14.2
PE (rep)	x	10.4	10.1	8.2	7.3
PE (adj)	x	10.8	10.1	8.3	7.3
Total DPS		0.41	0.41	0.55	0.63
Total Div Yield	%	2.7	2.7	3.6	4.1
Basic Shares Outstanding	m	11,038	11,038	11,038	11,038
Diluted Shares Outstanding	m	11,035	11,038	11,038	11,038

Profit & Loss Ratios		**2014A**	**2015E**	**2016E**	**2017E**
Revenue Growth	%	nmf	22.7	7.0	7.9
EBITDA Growth	%	nmf	24.3	9.5	18.9
EBIT Growth	%	nmf	24.7	9.5	19.1
EBITDA Margins	%	19.3	19.5	20.0	22.0
EBIT Margins	%	18.9	19.2	19.6	21.6
Net Profit Margins	%	11.4	9.9	11.2	11.9
Payout Ratio	%	28.8	26.8	30.0	30.0
EV/EBITDA	x	6.6	5.2	4.6	4.0
EV/EBIT	x	6.7	5.3	4.7	4.0
Balance Sheet Ratios					
ROE	%	19.0	17.8	18.8	18.6
ROA	%	5.3	6.2	6.5	7.2
ROIC	%	12.1	16.7	15.1	20.9
Net Debt/Equity	%	5.4	16.9	-12.6	-76.2
Interest Cover	x	42.1	25.2	26.4	59.7
Price/Book	x	1.9	1.7	1.5	1.3
Book Value per Share		8.0	9.1	10.6	12.1

Cashflow Analysis		**2014A**	**2015E**	**2016E**	**2017E**
EBITDA	**m**	**26,574**	**33,030**	**36,157**	**42,980**
Tax Paid	m	12,554	13,511	14,914	18,526
Chg in Working Capital	m	2,797	-43,145	29,869	59,454
Net Interest Paid	m	-10,435	-5,208	-3,970	-1,288
Other	m	288	3,146	4,718	4,259
Operating Cashflow	**m**	**31,778**	**1,333**	**81,688**	**123,931**
Acquisitions	m	-4,339	-2,834	-58	4,043
Capex	m	0	0	0	0
Asset Sales	m	1	-840	-1,127	-1,182
Other	m	0	-5,000	-30,000	-10,000
Investing Cashflow	**m**	**-4,338**	**-8,674**	**-31,185**	**-7,139**
Dividend (Ordinary)	m	-1,645	-4,516	-4,516	-6,111
Equity Raised	m	5,983	0	0	0
Debt Movements	m	-7,843	5,500	-25,000	-10,000
Other	m	-5,286	-3,770	-5,877	-8,139
Financing Cashflow	**m**	**-8,791**	**-2,786**	**-35,394**	**-24,250**
Net Chg in Cash/Debt	**m**	**18,649**	**-10,127**	**15,110**	**92,541**
Free Cashflow	**m**	**31,778**	**1,333**	**81,688**	**123,931**

Balance Sheet		**2014A**	**2015E**	**2016E**	**2017E**
Cash	m	62,715	52,588	67,698	160,239
Receivables	m	87,391	94,994	127,856	141,004
Inventories	m	314,421	339,181	317,451	262,803
Investments	m	5,072	6,300	8,447	8,546
Fixed Assets	m	5,312	5,574	6,066	6,556
Intangibles	m	757	757	757	757
Other Assets	m	32,971	35,581	35,017	32,444
Total Assets	**m**	**508,640**	**534,975**	**563,292**	**612,350**
Payables	m	314,088	317,547	354,544	395,605
Short Term Debt	m	22,832	27,832	17,832	12,832
Long Term Debt	m	46,149	46,649	31,649	26,649
Provisions	m	9,677	13,739	15,199	18,882
Other Liabilities	m	0	0	0	0
Total Liabilities	**m**	**392,746**	**405,767**	**419,224**	**453,969**
Shareholders' Funds	m	88,165	100,483	116,607	133,759
Minority Interests	m	27,729	28,725	27,460	24,622
Total S/H Equity	**m**	**115,894**	**129,208**	**144,067**	**158,381**
Total Liab & S/H Funds	**m**	**508,640**	**534,975**	**563,292**	**612,350**

All figures in Rmb unless noted.
Source: Company data, Macquarie Research, March 2016

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand
Outperform – return >3% in excess of benchmark return
Neutral – return within 3% of benchmark return
Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie – South Africa
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA
Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell)– return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months
Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

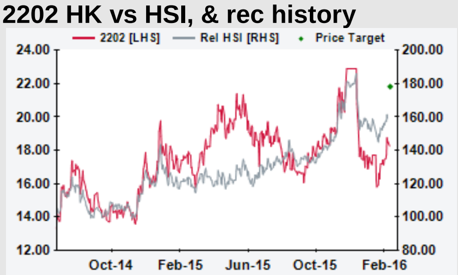
EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 December 2015

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	50.68%	61.04%	53.16%	47.90%	65.22%	43.59%	(for global coverage by Macquarie, 5.33% of stocks followed are investment banking clients)
Neutral	31.51%	24.66%	34.18%	47.70%	29.71%	34.62%	(for global coverage by Macquarie, 5.02% of stocks followed are investment banking clients)
Underperform	17.81%	14.30%	12.66%	4.39%	5.07%	21.79%	(for global coverage by Macquarie, 3.78% of stocks followed are investment banking clients)

2202 HK vs HSI, & rec history



(all figures in HKD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.
Source: FactSet, Macquarie Research, March 2016

12-month target price methodology

2202 HK: HK$21.83 based on a Sum of Parts methodology

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Asia Research

Head of Equity Research

Peter Redhead (Global – Head)	(852) 3922 4836
Matt Nacard (Asia – Head)	(852) 3922 1362

Automobiles/Auto Parts

Janet Lewis (China)	(852) 3922 5417
Zhixuan Lin (China)	(8621) 2412 9006
Amit Mishra (India)	(9122) 6720 4084
Lyall Taylor (Indonesia)	(6221) 2598 8489
Takuo Katayama (Japan)	(813) 3512 7856
James Hong (Korea)	(822) 3705 8661

Banks and Non-Bank Financials

Matthew Smith (China)	(8621) 2412 9022
Suresh Ganapathy (India)	(9122) 6720 4078
Lyall Taylor (Indonesia)	(6221) 2598 8489
Keisuke Moriyama (Japan)	(813) 3512 7476
Leo Nakada (Japan)	(813) 3512 6050
Chan Hwang (Korea)	(822) 3705 8643
Gilbert Lopez (Philippines)	(632) 857 0892
Thomas Stoegner (Singapore)	(65) 6601 0854
Dexter Hsu (Taiwan)	(8862) 2734 7530
Passakorn Linmaneechote (Thailand)	(662) 694 7728

Conglomerates

Gilbert Lopez (Philippines)	(632) 857 0892

Consumer and Gaming

Linda Huang (China, Hong Kong)	(852) 3922 4068
Kai Tan (China)	(852) 3922 3720
Zibo Chen (Hong Kong)	(852) 3922 1130
Amit Mishra (India)	(9122) 6720 4084
Fransisca Widjaja (Singapore)	(65) 6601 0847
Hendy Soegiarto (Indonesia)	(6221) 2598 8369
Toby Williams (Japan)	(813) 3512 7392
HongSuk Na (Korea)	(822) 3705 8678
Karisa Magpayo (Philippines)	(632) 857 0899

Emerging Leaders

Jake Lynch (China, Asia)	(852) 3922 3583
Aditya Suresh (Asia)	(852) 3922 1265
Neel Sinha (ASEAN)	(65) 6601 0562
Timothy Lam (Hong Kong)	(852) 3922 1086
Kwang Cho (Korea)	(822) 3705 4953

Industrials

Janet Lewis (Asia)	(852) 3922 5417
Patrick Dai (China)	(8621) 2412 9082
Inderjeetsingh Bhatia (India)	(9122) 6720 4087
Lyall Taylor (Indonesia)	(6221) 2598 8489
Kenjin Hotta (Japan)	(813) 3512 7871
James Hong (Korea)	(822) 3705 8661

Insurance

Scott Russell (Asia, Japan)	(852) 3922 3567
Leo Nakada (Japan)	(813) 3512 6050
Chan Hwang (Korea)	(822) 3705 8643

Software and Internet

Wendy Huang (Asia)	(852) 3922 3378
David Gibson (Asia)	(813) 3512 7880
Hillman Chan (China, Hong Kong)	(852) 3922 3716
Nitin Mohta (India)	(9122) 6720 4090
Nathan Ramler (Japan)	(813) 3512 7875
Prem Jearajasingam (Malaysia)	(603) 2059 8989

Oil, Gas and Petrochemicals

James Hubbard (Asia)	(852) 3922 1226
Aditya Suresh (Asia)	(852) 3922 1265
Duke Suttikulpanich (ASEAN)	(65) 6601 0148
Abhishek Agarwal (India)	(9122) 6720 4079
Polina Diyachkina (Japan)	(813) 3512 7886
Anna Park (Korea)	(822) 3705 8669
Isaac Chow (Malaysia)	(603) 2059 8982

Pharmaceuticals and Healthcare

Abhishek Singhal (India)	(9122) 6720 4086
David Lee (Korea)	(822) 3705 8686

Property

Tuck Yin Soong (Asia, Singapore)	(65) 6601 0838
David Ng (China, Hong Kong)	(852) 3922 1291
Kai Tan (China, Hong Kong)	(852) 3922 3720
Raymond Liu (China, Hong Kong)	(852) 3922 3629
Wilson Ho (China)	(852) 3922 3248
Abhishek Bhandari (India)	(9122) 6720 4088
William Montgomery (Japan)	(813) 3512 7864
Aiman Mohamad (Malaysia)	(603) 2059 8986
Kervin Sisayan (Philippines)	(632) 857 0893
Corinne Jian (Taiwan)	(8862) 2734 7522
Patti Tomaitrichitr (Thailand)	(662) 694 7727

Resources / Metals and Mining

Rakesh Arora (India)	(9122) 6720 4093
Stanley Liong (Indonesia)	(6221) 2598 8381
Polina Diyachkina (Japan)	(813) 3512 7886
Anna Park (Korea)	(822) 3705 8669

Technology

Damian Thong (Asia, Japan)	(813) 3512 7877
Allen Chang (China, Hong Kong, Taiwan)	(852) 3922 1136
Jason Sun (China, Hong Kong)	(852) 3922 4674
Nitin Mohta (India)	(9122) 6720 4090
David Gibson (Japan)	(813) 3512 7880
George Chang (Japan)	(813) 3512 7854
Daniel Kim (Korea)	(822) 3705 8641
Soyun Shin (Korea)	(822) 3705 8659
Patrick Liao (Taiwan)	(8862) 2734 7515

Telecoms

Nathan Ramler (Asia, Japan)	(813) 3512 7875
Danny Chu (China, Hong Kong, Taiwan)	(852) 3922 4762
Abhishek Agarwal (India)	(9122) 6720 4079
David Lee (Korea)	(822) 3705 8686
Prem Jearajasingam (Malaysia, Singapore)	(603) 2059 8989

Transport & Infrastructure

Janet Lewis (Asia)	(852) 3922 5417
Azita Nazrene (ASEAN)	(603) 2059 8980
Corinne Jian (Taiwan)	(8862) 2734 7522

Utilities & Renewables

Alan Hon (Hong Kong)	(852) 3922 3589
Inderjeetsingh Bhatia (India)	(9122) 6720 4087
Prem Jearajasingam (Malaysia)	(603) 2059 8989
Karisa Magpayo (Philippines)	(632) 857 0899

Commodities

Colin Hamilton (Global)	(4420) 3037 4061
Ian Roper	(65) 6601 0698
Jim Lennon	(4420) 3037 4271
Lynn Zhao	(8621) 2412 9035
Matthew Turner	(4420) 3037 4340
Rakesh Arora	(9122) 6720 4093

Economics

Peter Eadon-Clarke (Global)	(813) 3512 7850
Larry Hu (China, Hong Kong)	(852) 3922 3778
Tanvee Gupta Jain (India)	(9122) 6720 4355

Quantitative / CPG

Gurvinder Brar (Global)	(4420) 3037 4036
Woei Chan (Asia)	(852) 3922 1421
Anthony Ng (Asia)	(852) 3922 1561
Jason Zhang (Asia)	(852) 3922 1168

Strategy/Country

Viktor Shvets (Asia, Global)	(852) 3922 3883
Chetan Seth (Asia)	(852) 3922 4769
Peter Eadon-Clarke (Japan)	(813) 3512 7850
David Ng (China, Hong Kong)	(852) 3922 1291
Erwin Sanft (China, Hong Kong)	(852) 3922 1516
Rakesh Arora (India)	(9122) 6720 4093
Lyall Taylor (Indonesia)	(6221) 2598 8489
Chan Hwang (Korea)	(822) 3705 8643
Gilbert Lopez (Philippines)	(632) 857 0892
Conrad Werner (Singapore)	(65) 6601 0182
Jeffrey Ohlweiler (Taiwan)	(8862) 2734 7512
Alastair Macdonald (Thailand)	(662) 694 7753

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Jeffrey Chung (Asia)	(852) 3922 2074
Jeff Evans (Boston)	(1 617) 598 2508
Jeffrey Shiu (China, Hong Kong)	(852) 3922 2061
Thomas Renz (Geneva)	(41) 22 818 7712
Riaz Hyder (Indonesia)	(6221) 2598 8486
Nick Cant (Japan)	(65) 6601 0210
John Jay Lee (Korea)	(822) 3705 9988
Nik Hadi (Malaysia)	(603) 2059 8888
Eric Roles (New York)	(1 212) 231 2559
Gino C Rojas (Philippines)	(632) 857 0861

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Paul Colaco (San Francisco)	(1 415) 762 5003
Ruben Boopalan (Singapore)	(603) 2059 8888
Erica Wang (Taiwan)	(8862) 2734 7586
Angus Kent (Thailand)	(662) 694 7601
Ben Musgrave (UK/Europe)	(44) 20 3037 4882
Julien Roux (UK/Europe)	(44) 20 3037 4867

Sales Trading

Adam Zaki (Asia)	(852) 3922 2002
Stanley Dunda (Indonesia)	(6221) 515 1555

Sales Trading cont'd

Suhaida Samsudin (Malaysia)	(603) 2059 8888
Michael Santos (Philippines)	(632) 857 0813
Chris Reale (New York)	(1 212) 231 2555
Marc Rosa (New York)	(1 212) 231 2555
Justin Morrison (Singapore)	(65) 6601 0288
Isaac Huang (Taiwan)	(8862) 2734 7582
Brendan Rake (Thailand)	(662) 694 7707
Mike Keen (UK/Europe)	(44) 20 3037 4905