2016年8月10日

投资决策

买入

招商蛇口 (001979.SZ)

潜在回报： 17%

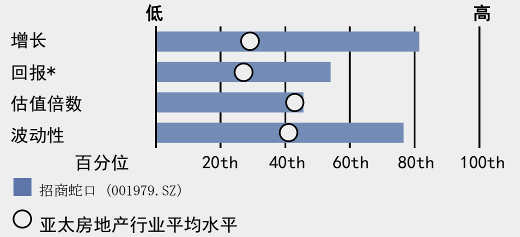
证券研究报告

立足高远，扎根深圳；首次覆盖评为买入（摘要）

建议理由

我们首次覆盖招商蛇口并评为买入，基于净资产价值的12个月目标价格为人民币18元，隐含17%的上涨空间。我们认为招商蛇口相对于同业而言中长期盈利增长的可预见性更好，推动因素包括：1) 公司在“新中国”模式创新中心——深圳的优质地段拥有高质量、低成本资产（在其土地储备/2016年末预期净资产价值中占比约40%/70%，为研究范围内开发商中的最高水平）；2) 与母公司招商局集团形成的协同效应使得招商蛇口能够通过城市更新改造、国企资产整合以及邮轮母港开发等多元化方式获取土地；3) 逐步通过“船、港、城、游、购、娱”联动开发带动社区发展，从而实现土地/房地产价值的长期升值。

投资摘要



* 回报 - 资本回报率

投资摘要指标的全面描述请参见本报告的信息披露部分。

推动因素

- 我们认为招商蛇口2015年12月份上市以来的股价表现（下跌32%，而同业下跌18%）导致其相对于同业的估值溢价大幅收窄（上市时2016年预期市净率为3.5倍、同业均值为2.0倍，而当前分别为2.3倍和1.8倍），已经反映了深圳前海/蛇口地块（在公司2016年末预期净资产价值中占比25%）土地整备和开发进度相关的不确定性。
- 但鉴于年初以来深圳房地产价格（一二手房平均）上涨30%、招商局集团与前海政府关于未来前海地块开发的利润分成问题进一步明朗，我们认为当前招商蛇口相对于同业的估值溢价过低而缺乏合理性，因为公司：1) 在深圳拥有的优质土地储备开发周期长从而蕴含长期升值潜力；2) 在土地获取能力方面具有独特优势。
- **主要推动因素**：1) 鉴于公司在深圳拥有优质土地储备，我们预计强劲的预售收入增速和稳健的利润率将带动招商蛇口2016-18年每股盈利年均复合增速达到20%（内地开发商均值为8%）；2) 与招商局集团跨行业资源的潜在资产整合有望带来价值创造空间。

估值

我们对2016年末预期净资产价值应用30%的折让，计算得出12个月目标价格人民币18元。招商蛇口当前股价较2016年末预期净资产价值折让39%、2016年预期市净率为2.3倍、2016-18年预期净资产回报率均值为18%，而内地上市开发商均值分别为折让28%、1.8倍和16%。

主要风险

深圳房价意外大幅下跌、执行失误。　　　*全文翻译随后提供

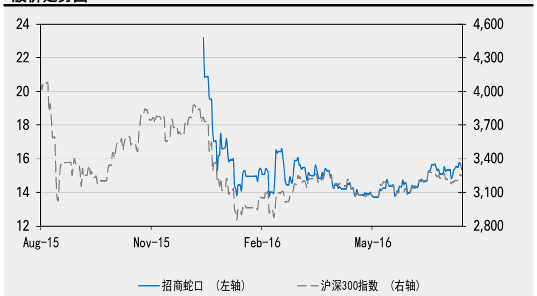
所属投资名单

亚太买入名单

主要数据	当前
股价 (Rmb)	15.37
12个月目标价格 (Rmb)	18.00
市值 (Rmb mn / US$ mn)	121,485.9 / 18,235.4
外资持股比例 (%)	--

	12/15	12/16E	12/17E	12/18E
每股盈利 (Rmb)	0.80	1.08	1.30	1.55
每股盈利增长 (%)	17.7	35.5	20.2	19.6
每股摊薄盈利 (Rmb)	0.87	1.08	1.30	1.55
每股基本盈利 (Rmb)	0.87	1.08	1.30	1.55
市盈率 (X)	27.6	14.2	11.8	9.9
市净率 (X)	3.7	2.3	2.0	1.7
EV/EBITDA (X)	16.9	13.3	9.2	6.6
股息收益率 (%)	1.2	2.1	2.5	3.0
净资产回报率 (%)	17.6	17.1	18.0	18.8

股价走势图



股价表现 (%)	3个月	6个月	12个月
绝对	11.4	2.8	--
相对于沪深300指数	5.4	(6.1)	--

资料来源：公司数据、高盛研究预测、FactSet（股价为8/10/2016收盘价）

行业评级： 中性

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招商蛇口： 财务数据概要

损益表(Rmb mn)	12/15	12/16E	12/17E	12/18E
主营业务收入	**49,222.4**	**66,607.8**	**84,175.7**	**97,581.3**
主营业务成本	(35,880.7)	(51,882.2)	(64,843.2)	(75,228.6)
销售、一般及管理费用	(2,351.0)	(2,949.8)	(3,529.8)	(3,874.1)
研发费用	--	--	--	--
其它营业收入/（支出）	0.0	0.0	0.0	0.0
EBITDA	**11,684.2**	**12,365.9**	**16,579.1**	**19,457.4**
折旧和摊销	(693.5)	(590.1)	(776.4)	(978.7)
EBIT	**10,990.7**	**11,775.8**	**15,802.8**	**18,478.6**
利息收入	574.3	406.1	231.4	379.4
财务费用	(1,524.4)	(1,395.6)	(1,322.1)	(1,322.1)
联营公司	138.3	6.2	77.6	105.3
其它	231.5	3,431.4	1,612.6	1,612.6
税前利润	**10,410.3**	**14,224.0**	**16,402.3**	**19,253.9**
所得税	(2,363.8)	(3,582.9)	(4,146.5)	(4,863.7)
少数股东损益	(1,154.0)	(2,096.9)	(1,987.4)	(2,105.7)
优先股股息前净利润	**6,892.5**	**8,544.2**	**10,268.5**	**12,284.5**
优先股息	0.0	0.0	0.0	0.0
非经常性项目前净利润	**6,892.5**	**8,544.2**	**10,268.5**	**12,284.5**
税后非经常性损益	0.0	0.0	0.0	0.0
净利润	**6,892.5**	**8,544.2**	**10,268.5**	**12,284.5**
每股基本盈利（非经常性项目前）(Rmb)	0.87	1.08	1.30	1.55
每股基本盈利（非经常性项目后）(Rmb)	0.87	1.08	1.30	1.55
每股摊薄盈利（非经常性项目后）(Rmb)	0.87	1.08	1.30	1.55
每股股息(Rmb)	0.26	0.32	0.39	0.47
股息支付率(%)	29.8	30.0	30.0	30.0
自由现金流收益率(%)	0.3	(8.3)	14.5	22.9

资产负债表(Rmb mn)	12/15	12/16E	12/17E	12/18E
现金及等价物	40,611.2	23,143.6	37,939.1	63,829.8
应收账款	17,734.5	19,448.5	24,578.1	28,492.4
存货	121,380.5	140,547.7	125,296.2	96,358.0
其它流动资产	6,846.6	8,215.9	9,037.5	9,941.3
流动资产	**186,572.8**	**191,355.7**	**196,850.9**	**198,621.4**
固定资产净额	2,544.2	3,423.6	4,504.3	5,678.5
无形资产净额	507.3	507.3	507.2	507.1
长期投资	13,912.4	17,827.5	20,999.1	24,930.3
其它长期资产	7,362.5	7,362.5	7,362.5	7,362.5
资产合计	**210,899.2**	**220,476.7**	**230,224.1**	**237,099.9**
应付账款	18,446.7	25,585.8	31,977.5	37,099.0
短期贷款	9,041.4	9,041.4	9,041.4	9,041.4
其它流动负债	75,405.8	68,666.5	61,678.8	51,407.6
流动负债	**102,893.9**	**103,293.6**	**102,697.7**	**97,548.0**
长期贷款	39,925.8	39,925.8	39,925.8	39,925.8
其它长期负债	5,916.3	6,507.9	7,158.7	7,874.6
长期负债	45,842.1	46,433.7	47,084.5	47,800.4
负债合计	**148,735.9**	**149,727.3**	**149,782.2**	**145,348.4**
优先股	**0.0**	**0.0**	**0.0**	**0.0**
普通股权益	**46,628.3**	**53,117.5**	**60,822.7**	**70,026.6**
少数股东权益	15,535.0	17,631.9	19,619.2	21,724.9
负债及股东权益合计	**210,899.2**	**220,476.7**	**230,224.1**	**237,099.9**
每股净资产(Rmb)	**5.90**	**6.72**	**7.70**	**8.86**
评估净资产价值(Rmb mn)	**--**	**205,483.8**	**225,130.9**	**--**
评估每股净资产(Rmb)	**--**	**26.00**	**28.48**	**--**

增长率和利润率(%)	12/15	12/16E	12/17E	12/18E
主营业务收入增长率	8.2	35.3	26.4	15.9
EBITDA增长率	6.1	5.8	34.1	17.4
EBIT增长率	6.6	7.1	34.2	16.9
净利润增长率	31.1	24.0	20.2	19.6
每股盈利增长	22.8	24.0	20.2	19.6
毛利率	27.1	22.1	23.0	22.9
EBITDA利润率	23.7	18.6	19.7	19.9
EBIT利润率	22.3	17.7	18.8	18.9

比率	12/15	12/16E	12/17E	12/18E
净资产回报率(%)	17.6	17.1	18.0	18.8
总资产回报率(%)	3.6	4.0	4.6	5.3
平均运用资本回报率(%)	NM	NM	NM	NM
存货周转天数	1,129.4	921.4	748.2	537.7
应收账款周转天数	103.5	101.9	95.5	99.3
应付账款周转天数	180.4	154.9	162.0	167.6
净负债/股东权益(%)	13.4	36.5	13.7	(16.2)
EBIT利息保障倍数(X)	11.6	11.9	14.5	19.6

现金流量表(Rmb mn)	12/15	12/16E	12/17E	12/18E
优先股股息前净利润	6,892.5	8,544.2	10,268.5	12,284.5
折旧及摊销	693.5	590.1	776.4	978.7
少数股东权益	1,154.0	2,096.9	1,987.4	2,105.7
运营资本增减	(7,281.9)	(13,742.1)	16,513.6	30,145.5
其它	626.0	(7,523.3)	(7,236.0)	(10,564.4)
经营活动产生的现金流	**2,084.3**	**(10,034.2)**	**22,309.8**	**34,949.9**
资本开支	(1,483.9)	(1,469.5)	(1,857.1)	(2,152.8)
收购	0.0	0.0	0.0	0.0
剥离	49.4	0.0	0.0	0.0
其它	(608.2)	(3,908.9)	(3,094.0)	(3,825.9)
投资活动产生的现金流	**(2,042.6)**	**(5,378.4)**	**(4,951.1)**	**(5,978.7)**
支付股息的现金（普通股和优先股）	(4,904.4)	(2,055.1)	(2,563.3)	(3,080.5)
借款增减	3,275.9	0.0	0.0	0.0
普通股发行（回购）	11,828.5	0.0	0.0	0.0
其它	4,272.2	0.0	0.0	0.0
筹资活动产生的现金流	**14,472.2**	**(2,055.1)**	**(2,563.3)**	**(3,080.5)**
总现金流	**14,513.8**	**(17,467.6)**	**14,795.4**	**25,890.7**

估值	12/15	12/16E	12/17E	12/18E
基本市盈率(X)	27.6	14.2	11.8	9.9
市净率(X)	3.7	2.3	2.0	1.7
EV/EBITDA(X)	16.9	13.3	9.2	6.6
股息收益率(%)	1.2	2.1	2.5	3.0

核心估值	12/15	12/16E	12/17E	12/18E
核心利润(Rmb mn)	6,307.5	8,544.2	10,268.5	12,284.5
每股核心盈利(Rmb)	0.80	1.08	1.30	1.55
核心净资产回报率(%)	16.1	17.1	18.0	18.8
核心总资产回报率(%)	3.3	4.0	4.6	5.3
核心平均运用资本回报率(%)	NM	NM	NM	NM
核心市盈率(X)	27.6	14.2	11.8	9.9
核心股息支付率(%)	32.6	30.0	30.0	30.0
每股核心盈利增长率(%)	17.7	35.5	20.2	19.6

注：最后一个实际年度数据可能包括已公布和预测数据。

资料来源：公司数据、高盛研究预测

对此报告有贡献的人员

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Prices in this report are as of the market close of August 8, 2016, unless otherwise stated.
Gao Hua Securities acknowledges the role of Scofield Chi of Goldman Sachs in the preparation of this product.

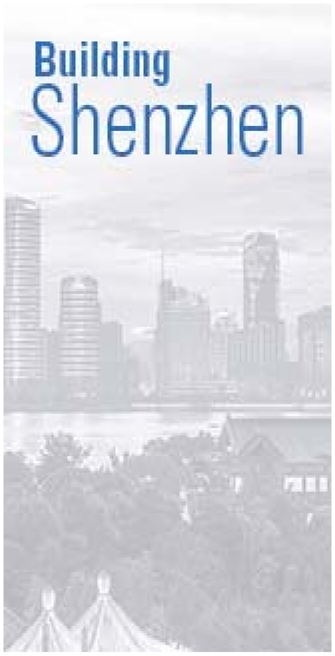
Exhibit 1: Valuation comp sheet for China property coverage universe

Company	Ticker	Mkt Cap (US$ bn)	Rating	Price as of 8/Aug/16	12 mth Price target	Potential upside/ downside (%)	Target price disc. to NAV	End-16 NAV	Shr price (disc)/ prem to NAV	FD Core P/E (x) 15A	FD Core P/E (x) 16E	FD Core P/E (x) 17E	FD Core P/E (x) 18E	P/B (exclude revaluation gain) (x) 15A	P/B (exclude revaluation gain) (x) 16E	P/B (exclude revaluation gain) (x) 17E	P/B (exclude revaluation gain) (x) 18E	Dividend yield (%) 15A	Dividend yield (%) 16E	Dividend yield (%) 17E	Dividend yield (%) 18E
Hong Kong listed																					
Agile	3383.HK	2.4	Buy*	4.77 (HK$)	**5.60**	17	-55%	**12.48**	(62)	6.3	5.3	4.3	4.7	0.5	0.5	0.5	0.4	8.5	7.8	8.3	7.6
China Vanke (H)	2202.HK	3.2	Neutral	19.18 (HK$)	**18.00**	(6)	-30%	**25.68**	(25)	9.6	8.6	7.5	8.5	1.7	1.6	1.4	1.3	4.6	6.0	6.8	6.0
COGO	0081.HK	0.7	Neutral	2.33 (HK$)	**2.78**	19	-60%	**6.82**	(66)	6.4	4.8	4.6	4.9	0.6	0.5	0.5	0.4	0.0	0.0	0.0	0.0
COLI	0688.HK	33.7	Buy	26.65 (HK$)	**29.20**	10	-10%	**32.44**	(18)	9.1	7.9	6.8	7.6	1.5	1.3	1.2	1.0	3.5	2.5	2.9	2.6
CRL	1109.HK	18.4	Buy	20.70 (HK$)	**24.20**	17	-25%	**32.25**	(36)	10.3	8.3	7.5	6.8	1.5	1.4	1.2	1.1	2.8	3.4	3.8	4.2
CG	2007.HK	9.6	Neutral	3.37 (HK$)	**3.60**	7	-45%	**6.49**	(48)	6.4	6.7	5.7	5.4	0.9	0.9	0.8	0.7	4.9	4.7	5.5	5.7
Evergrande	3333.HK	9.8	Sell	5.61 (HK$)	**3.30**	(41)	-60%	**8.19**	(32)	11.6	14.9	11.3	9.9	2.4	2.6	2.4	2.4	7.8	6.9	8.9	10.3
China Jinmao	0817.HK	3.1	Neutral	2.25 (HK$)	**2.24**	(0)	-40%	**3.73**	(40)	10.2	8.2	7.8	8.2	0.9	0.8	0.7	0.7	3.6	4.7	5.0	4.7
Greentown	3900.HK	1.7	Neutral	5.97 (HK$)	**6.34**	6	-55%	**13.65**	(56)	9.0	5.9	5.4	5.7	0.5	0.5	0.5	0.4	0.0	0.0	0.0	0.0
R&F	2777.HK	5.1	Neutral	12.34 (HK$)	**10.60**	(14)	-40%	**17.73**	(30)	5.7	5.8	5.8	6.1	1.0	1.0	0.9	0.8	11.9	6.2	6.1	5.8
Joy City	0207.HK	2.6	Neutral	1.42 (HK$)	**1.14**	(20)	-45%	**2.08**	(32)	59.0	29.1	18.8	17.0	0.9	1.0	0.9	0.9	0.8	1.0	1.4	1.6
KWG	1813.HK	2.0	Neutral	5.01 (HK$)	**5.50**	10	-45%	**9.95**	(50)	4.7	4.6	4.3	4.3	0.7	0.7	0.6	0.5	7.2	6.7	7.1	7.1
Longfor	0960.HK	8.4	Buy	11.22 (HK$)	**12.40**	11	-50%	**24.84**	(55)	7.6	7.7	7.1	7.5	1.2	1.2	1.0	0.9	3.9	3.9	4.2	4.0
Poly Property (H)	0119.HK	1.0	Neutral	2.20 (HK$)	**2.35**	7	-75%	**8.80**	(75)	n.m.	n.m.	80.3	32.3	0.3	0.3	0.3	0.3	0.0	0.0	0.0	0.0
Red Star Macalline	1528.HK	3.8	Neutral	8.15 (HK$)	**9.70**	19	-30%	**13.83**	(41)	9.2	9.0	8.7	8.7	1.6	1.5	1.4	1.3	7.7	6.9	7.0	7.0
Shimao	0813.HK	4.7	Neutral	10.70 (HK$)	**11.10**	4	-60%	**27.83**	(62)	5.1	4.8	4.3	5.2	0.8	0.7	0.7	0.6	6.6	6.4	7.0	5.8
Shui On Land	0272.HK	2.2	Neutral	2.12 (HK$)	**2.20**	4	-55%	**4.95**	(57)	n.m.	n.m.	n.m.	n.m.	0.6	0.6	0.6	0.6	2.4	1.9	1.4	1.4
Sino Ocean	3377.HK	3.4	Buy	3.50 (HK$)	**3.90**	11	-60%	**9.73**	(64)	7.7	6.1	5.1	5.1	0.6	0.6	0.5	0.5	3.7	4.7	5.6	5.6
SOHO China	0410.HK	2.6	Neutral	3.94 (HK$)	**3.80**	(4)	-50%	**7.56**	(48)	36.5	34.9	23.7	18.5	0.8	1.0	1.0	0.9	21.8	3.0	4.3	5.5
Sunac	1918.HK	2.4	Buy	5.49 (HK$)	**5.80**	6	-50%	**11.53**	(52)	4.6	4.5	3.9	3.9	0.8	0.8	0.7	0.6	4.4	4.4	5.0	5.1
Wanda	3699.HK	29.3	Neutral	50.50 (HK$)	**50.10**	(1)	-40%	**81.48**	(38)	11.1	10.8	9.6	10.7	1.6	1.5	1.4	1.3	2.6	3.3	3.7	3.3
HK listed average						**3**			**(47)**	**7.9**	**7.3**	**6.5**	**6.7**	**1.0**	**1.0**	**0.9**	**0.9**	**5.2**	**4.0**	**4.5**	**4.4**
A-share listed																					
CMSK	001979.SZ	18.2	Buy	15.75 (Rmb)	**18.00**	14	-30%	**26.00**	(39)	19.7	14.6	12.1	10.1	2.7	2.3	2.0	1.8	1.7	2.1	2.5	3.0
CFLD	600340.SS	12.1	Buy	26.20 (Rmb)	**28.70**	10	n.m.	n.m.	n.m.	14.4	12.2	9.5	7.4	5.1	3.0	2.3	1.8	2.3	0.8	1.1	1.4
Gemdale	600383.SS	7.3	Sell	10.42 (Rmb)	**9.20**	(12)	-35%	**14.08**	(26)	24.8	14.5	12.9	13.9	1.5	1.5	1.4	1.3	4.0	4.1	4.6	4.3
OCT	000069.SZ	9.0	Buy	7.01 (Rmb)	**7.80**	11	-45%	**14.18**	(51)	12.4	10.8	9.8	9.7	1.5	1.3	1.2	1.1	1.1	1.1	1.3	1.3
Poly (A)	600048.SS	17.6	Buy*	9.48 (Rmb)	**10.70**	13	-10%	**11.85**	(20)	8.3	7.6	6.7	7.0	1.4	1.2	1.1	1.0	3.6	3.5	3.7	3.6
SMC	600823.SS	3.0	Neutral	7.21 (Rmb)	**7.64**	6	-25%	**10.20**	(29)	11.5	10.3	9.7	11.4	1.1	1.0	0.9	0.8	1.1	1.0	1.1	0.9
Vanke (A)	000002.SZ	33.2	Sell	21.87 (Rmb)	**15.60**	(29)	-30%	**22.34**	(2)	13.3	11.2	9.8	11.1	2.4	2.1	1.9	1.8	3.3	4.4	5.1	4.5
Onshore average						**7**			**(28)**	**13.1**	**10.2**	**8.8**	**8.8**	**2.2**	**1.8**	**1.5**	**1.4**	**2.4**	**2.4**	**2.8**	**2.7**
Singapore listed																					
Yanlord	YNLG.SI	1.8	Buy	1.19 (S$)	**1.43**	20	-50%	**2.85**	(58)	9.9	7.9	6.7	6.7	0.7	0.6	0.6	0.5	1.2	1.6	1.8	1.8
Simple average of above						**5**			**(46)**	**12.9**	**10.3**	**11.2**	**9.2**	**1.3**	**1.1**	**1.0**	**0.9**	**4.4**	**3.4**	**3.8**	**3.8**

Notes: (1) *denotes the stock is on our Conviction List. (2) Our 12-month target prices are based on end-2016E NAV for our coverage universe (excluding Red Star Macalline which is based on SOTP). (3) Average P/E does not include SOHO, Poly HK, Joy City and Shui On Land which are outliers.

Source: *Company data, Datastream, Gao Hua Securities Research.*

Overview: Strong roots in SZ creates attractive risk-return profile



We initiate coverage on CMSK (US$18bn market cap as of August 8, 2016) with Buy and a 12-month target price of Rmb18, implying 14% potential upside vs. average 7% for our onshore coverage.

Best-in-class landbank in Shenzhen, positioned as sector proxy

- CMSK was listed in 2015 after integrating the property development business (CMP (A), 000024.SZ; delisted in Dec-15) of its parent China Merchants Group (CMG), thereby becoming CMG's real estate flagship.
- The merger helped CMSK expand its landbank size and now it has the largest NAV exposure to Shenzhen within our coverage. CMSK currently owns GFA40mn sqm landbank in total across 33 cities in China, with Shenzhen contributing over 30%-40% of 2017E-2018E presales, 40% of landbank (mostly in Nanshan district, the emerging CBD), 45%-50% of 2016E-2018E earnings and 70% of its end-2016E NAV (all highest among our coverage universe).
- With prime quality land reserves at competitive cost (land cost 23% of 2016E ASP vs. our coverage average of 31%) in Shenzhen, we expect CMSK to deliver sector-leading EPS growth in 2016E-2018E (20% CAGR vs. peer average of 8%) and robust ROE (+2pp to 19% in 2018E from 2016E vs. peers average -2pp to 15%) on the back of a well-protected margin (avg 33% GPM in 2016E-18E, 3pp above peers).
- In addition, CMSK is involved in more than 10 urban redevelopment projects with total site area of c.3.5mn sqm in Shenzhen, which should pave the way for CMSK to further deepen its foothold and consolidate its sector leadership in Shenzhen, in our view.
- Leveraging its best-in-class landbank position in Shenzhen and its shared resources and branding with CMG, we believe CMSK is poised to lead the long-term sector growth in the region. Currently, CMSK has 3 areas of focus, namely property, industrial parks and cruise business, each accounting for on average 85%/14%/1% of topline in 2016E-2018E. The company aims to become a leading community and industrial park developer and manager in China over the long term.

Cultivating greater synergies with parent group

Moreover, we see further room for CMSK to explore a diversified portfolio of property assets within CMG's cross-industry resources, and potential synergies yet to be priced in. As a top level SOE, CMG manages businesses across finance, real estate and transportation. During recent years, CMG has been consolidating various business segments under its corporate umbrella, both internally and externally. We think this presents ample opportunity for CMSK as it can now grow its asset portfolio through diversified land sourcing channels:

1. Land injection and conversion through SOE's asset consolidation. For example, the ongoing integration of Sinotrans-CSC (owns total site area over 6mn sqm landbank with over 70% in tier-1/2 cities, mainly for logistics and industrial use) into CMG could potentially allow CMSK to tap the landbank over the next 3-5 years;

2. Cruise town developments based on key port assets owned by CMG. Leveraging the 28 ports in 15 countries under CMG, CMSK could build its presence in major harbor cities in China through shared branding with CMG and co-development of "cruise, port, city, business and tourism" to harness community potential, eventually translating into land/property value appreciation over time. "Shenzhen Shekou" has proven to be a successful model riding on geographic and policy-related advantages. In our view, if this model could be potentially rolled out to other parts of China, it could help unlock CMSK's full potential nationwide.

Valuation undemanding in light of growth and returns

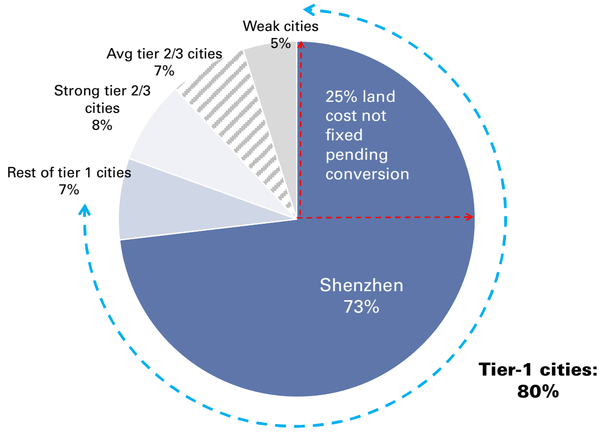
Our 12-month target price of Rmb18 for CMSK is based on a 30% discount to end-2016E NAV of Rmb26.0, which implies 2.5X average 2016E-2017E P/B against average 18% ROE. Our target price implies 30% premium to our onshore sector TP-implied P/B & ROE trendline (vs. 20% premium its predecessor CMP (A) traded at during the last downturn in 2H13-14, to reflect CMSK's improving ROE quartile and lower than peers average leverage ratio).

We see risks associated with CMSK's high concentration in Shenzhen and uncertainties from the conversion of Qianhai/Shekou site for development; but based on our scenario analysis, we believe the valuation risk/reward is skewed towards the upside.

- If Shenzhen property price/volume were to drop 30%/50% from the 2015 level (similar % drop in Shenzhen during past downcycles), our end-2016E NAV and average 2017E-2018E earnings would be 11%/21% lower than our base case. However, on the upside, if ASPs were to increase 30% from the current level (as per our forecast in our thematic report *Building Shenzhen: Solid fundamentals bolster local property market; Buy CMSK, CRL*, published simultaneously) and volumes were to rise 20% (back to the peak in 2009), our end-2016E NAV and average 2017E-2018E earnings would be boosted by 16%/34% (Exhibit 29).
- For the unsecured land price in **Qianhai/Shekou sites, if** the land price for the Qianhai site becomes 50% higher than our current forecast (up to the similar level of nearby acquisitions), our end-2016E NAV and average 2017E-2018E earnings will be just 7%/5% lower than the base-case (Exhibit 31).

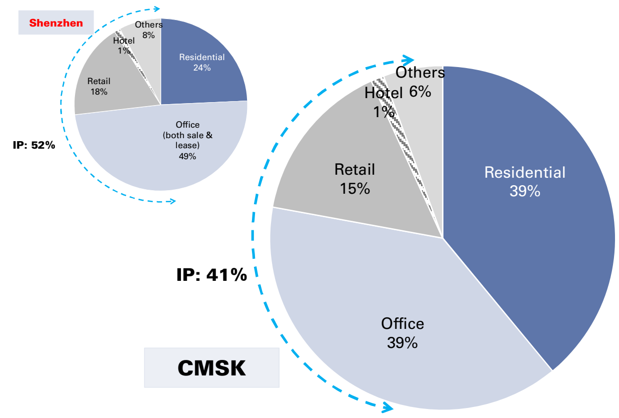
With CMSK currently trading at a 39% discount to end-2016E NAV, 14.6X and 2.3X 2016E P/E & P/B against average 18% ROE in 2016E-2018E vs. average 28%/10.2X/1.8X against 16% ROE for our onshore coverage, we see its risk-reward profile as attractive for a high-quality name. We initiate coverage with a Buy rating.

Exhibit 2: Shenzhen contributes a major share to CMSK's NAV…
End-2016E NAV breakdown by city



Source: Gao Hua Securities Research.

Exhibit 3: …including 24%/49% from residential/office properties, respectively
End-2016E NAV breakdown by type



Source: Gao Hua Securities Research.

Valuation: Defensive quality shines through volatility

NAV is our primary valuation methodology

We believe the most appropriate methodology to value CMSK is by using net asset value (NAV); we then cross-check this using PB/ROE correlation. This valuation methodology is consistent with our entire China property coverage universe (for details, refer to our report *Valuations compressed ahead of upcoming downturn; Prefer consolidators; Longfor to Buy,* dated May 27, 2016).

Exhibit 4 summarizes our discount rate/cap rate assumptions for valuing CMSK's property assets and our end-2016E NAV estimate for the company.

- For property development, we discount a 6-year cash flow to calculate net present value.
- For investment properties/hotels, we adopt an income capitalization approach to ascribe value which discounts the annual gross rental value by market yield (i.e. cap rate) and net of outstanding capex.

Exhibit 4: NAV valuation: WACC/cap rate assumptions and our end-2016E NAV calculation

WACC assumption	
Equity-component	
Equity market premium	6.5%
Risk free rate	3.0%
Beta	1.2
Cost of equity	10.6%
Debt component	
Cost of debt	4.6%
Tax rate	25.0%
After-tax cost of debt	3.4%
Long-run debt to capital ratio	20%
WACC	**9.2%**

Cap rate assumption		
IP-Retail		8.2%
IP-Office		7.5%
Hotel		11.2%
Valuation summary	**End-2016E**	***% of total***
	(Rmb bn)	*(%)*
Development properties- GAV	125.2	*59%*
Investment properties- GAV	88.6	*41%*
--office	*61.3*	*29%*
--retail	*12.1*	*6%*
--service apartment & others	*12.5*	*6%*
--hotel	*2.7*	*1%*
Net cash/(debt)	-8.3	
Total NAV	205.5	
No. of shares (bn)	7.9	
NAV per share (Rmb)	**26.0**	

Source: Gao Hua Securities Research.

Sensitivity analysis

We conduct below NAV sensitivity based on the assumption changes of rental prices, WACC, and cap rate given more than 40% of the valuation coming from rental properties (mostly office assets) for which we use the income capitalization approach to ascribe value.

Exhibit 5: Sensitivity: Cap rate matters most
NAV sensitivity to changes in rental price, WACC and cap rate

(Rmb)	Rental		-- -20%	Rental		-- -10%	Rental		-- 0%	Rental		-- +10%	Rental		-- +20%
WACC	**11.2%**	**9.2%**	**7.2%**	**11.2%**	**9.2%**	**7.2%**	**11.2%**	**9.2%**	**7.2%**	**11.2%**	**9.2%**	**7.2%**	**11.2%**	**9.2%**	**7.2%**
End-16 NAV	21.8	22.5	23.3	23.6	24.2	25.0	25.4	**26.0**	26.7	27.1	27.7	28.4	28.9	29.5	30.2
% chg	*-16%*	*-13%*	*-10%*	*-9%*	*-7%*	*-4%*	*-2%*	*0%*	*3%*	*4%*	*7%*	*9%*	*11%*	*13%*	*16%*
Cap rate	**9.5%**	**7.5%**	**5.5%**	**9.5%**	**7.5%**	**5.5%**	**9.5%**	**7.5%**	**5.5%**	**9.5%**	**7.5%**	**5.5%**	**9.5%**	**7.5%**	**5.5%**
End-16 NAV	19.4	22.5	27.9	20.8	24.2	30.3	22.2	**26.0**	32.8	23.6	27.7	35.2	24.9	29.5	37.6
% chg	*-25%*	*-13%*	*7%*	*-20%*	*-7%*	*17%*	*-15%*	*0%*	*26%*	*-9%*	*7%*	*35%*	*-4%*	*13%*	*45%*

Source: Gao Hua Securities Research.

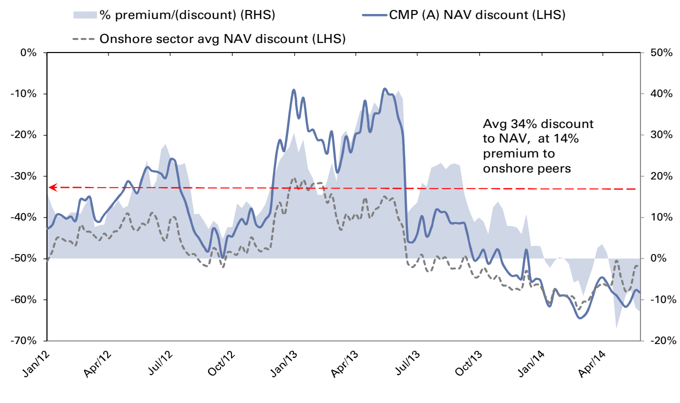
We derive our 12-m TP of Rmb18.0 by applying a 30% discount to end-2016E NAV

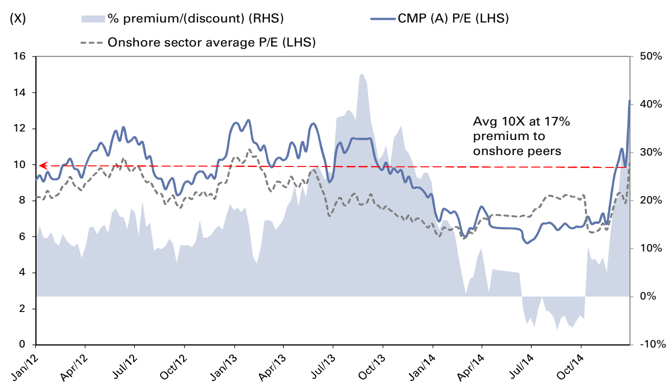
We apply a 30% target price discount to end-2016E NAV of Rmb26.0 to derive our 12-month target price of Rmb18.0 for CMSK vs. the range of 10% to 45% discount for the onshore coverage (or on avg 30%). Our TP for CMSK implies a higher premium of 30% to our onshore sector TP-implied P/B & ROE trendline, vs. 20% premium its predecessor CMP (A) traded at during the last downturn in 2H13-2014 to reflect CMSK's improving ROE quartile (from Q3 in last downturn to Q2 in 2016E-2017E and will be further up to Q1 in 2018E among the onshore coverage) and lower than peers average leverage ratios (Exhibit 7).

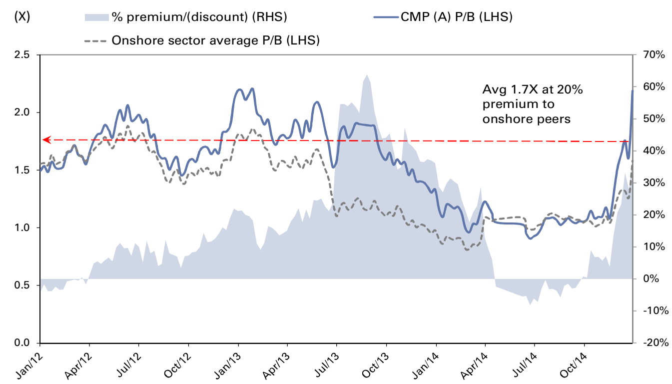
Our 12-m target price of Rmb18.0 for CMSK implies a 14% potential upside vs. average 7% upside potential for our onshore coverage universe.

Exhibit 6: The predecessor CMP(A) had been trading at avg 34% discount to NAV, 10X P/E and 1.7X PB during 2012-2014, and at 14%/17%/20% premium to our onshore coverage peers

Historical trading NAV discount, 12-m forward P/E and 12-m trailing P/B for CMP (A) vs. onshore coverage peers







Source: Datastream, company data, Gao Hua Securities Research.

Exhibit 7: Our A-share valuation discount to NAV is based on TP implied P/B against ROE quartile and leverage change in this cycle vs. the last industry downcycle

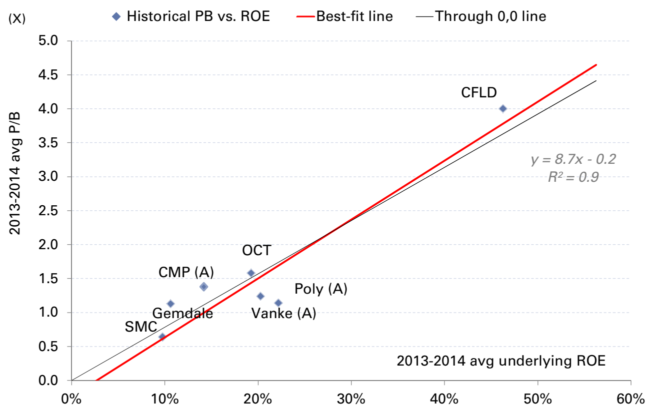
Premium/discount against P/B-ROE trend line during last industry down cycle (2H2013-2014) and ROE/leverage changes

	P/B prem/disc to sector trend line			P/B (X)			ROE quartile				Total leverage					
	2H13-14 downcycle	16-17E		2H13-14	16-17E						Normal			Adjusted by revaluation, presale deposits and PCS		
	Avg	Current trading implied	TP implied	Avg	Current	TP implied	13-14	13-15	16E-17E	18E	13-14	2015	16E-17E	13-14	2015	16E-17E
Onshore																
CMSK	20%*	20%	30%	1.5*	2.2	2.5	15.7%	18.1%	17.6%	18.8%	73%	71%	66%	65%	61%	59%
Gemdale	40%	20%	20%	1.1	1.4	1.3	10.6%	9.2%	10.7%	9.9%	68%	66%	64%	62%	60%	58%
OCT	10%	-10%	0%	1.6	1.3	1.4	19.3%	17.5%	13.0%	11.7%	67%	63%	60%	65%	61%	57%
Poly (A)	-30%	-30%	-30%	1.1	1.2	1.3	22.2%	21.0%	17.7%	14.6%	78%	76%	71%	68%	65%	60%
SMC	0%	-20%	0%	0.6	0.9	1.0	9.8%	9.9%	9.8%	7.5%	67%	62%	59%	64%	60%	57%
Vanke (A)	-20%	0%	-30%	1.7	2.0	1.4	20.3%	19.9%	20.2%	16.4%	78%	78%	75%	66%	66%	62%
CFLD	10%	0%	10%	4.0	2.6	2.9	46.3%	44.6%	29.7%	27.5%	86%	85%	81%	75%	75%	70%
Avg				**1.7**	**1.7**	**1.7**	**20.6%**	**20.0%**	**17.0%**	**15.2%**	**74%**	**71%**	**68%**	**66%**	**64%**	**60%**

Note: (1) the numbers marked with "*" refer to CMP (A) (000024.SZ; delisted) historical trading PB and its premium to the sector PB/ROE trend line during last down-cycle. (2) ROE color coding for respective quartile: 1Q-dark blue, 2Q-light blue, 3Q-light grey, 4Q-dark grey.

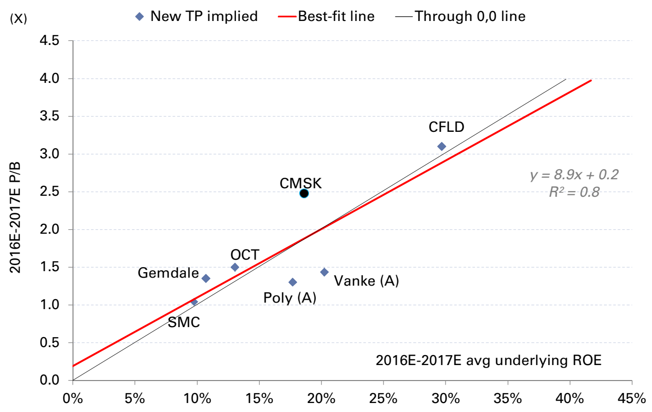
Source: Datastream, Company data, Gao Hua Securities Research.

Exhibit 8: Our onshore coverage universe P/B-ROE trend line during the last downcycle



Source: Datastream, Company data.

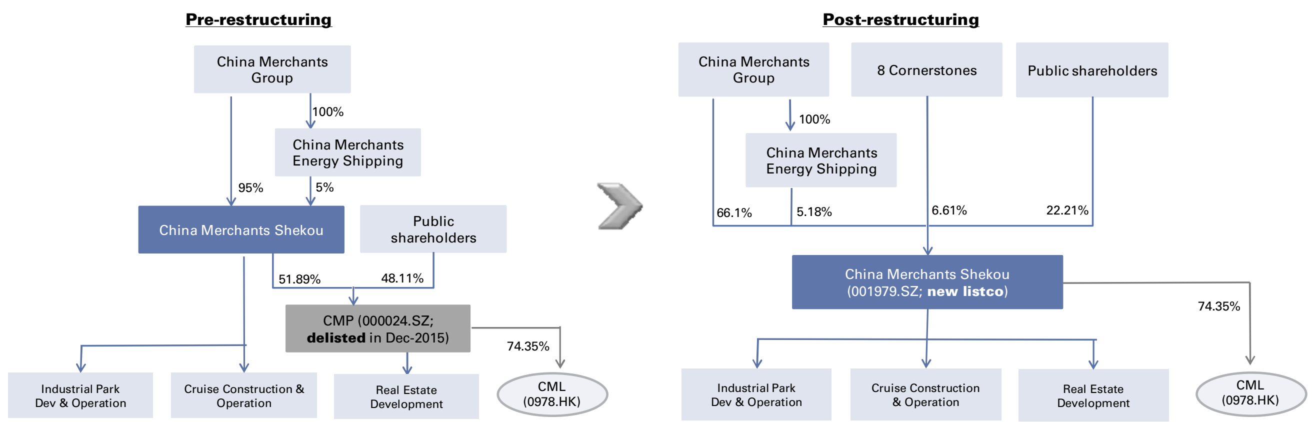
Exhibit 9: Our target price implied P/B-ROE trend line for 2016E-2017E



Source: Datastream, Company data, Gao Hua Securities Research.

A well-positioned portfolio post restructuring

Exhibit 10: Shareholding structure of CMSK



Note: The 8 cornerstone investors refer to ICBC Credit Suisse Asset Management (0.64%), Guokai Financial limited Company (0.8%), Shenzhen Overseas Chinese Town (0.8%), Beijing Qidian Linyu No.1 Investment Center (0.8%), CIB-fund (0.8%), Shenzhen Zhaowei Investment Partners (1.07%), Bosera Capital (1.07%), Employee stock ownership plan (0.36%).

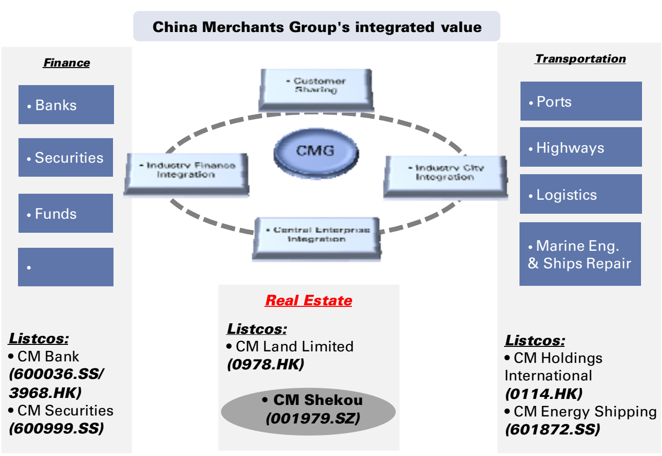
Source: Company data.

China Merchants Group (CMG) is a century-old Chinese conglomerate and one of the top SOEs directly under SASAC. Founded in the Westernization Movement in 1872, CMG has been pioneering China's industry and business developments. **In 1979**, CMG as the sole investor promoted the establishment of "**Shekou Industrial Zone**", making it one of the first zones in China to open up to the outside world. It also set up China Merchants Bank and Ping An Insurance Company, the first joint holding-backed Chinese bank and insurance company, respectively. CMG possesses three core business segments: **(1)** transportation and related infrastructure (ports, toll roads, energy transportation and logistics, ship repairing, marine engineering); **(2)** finance (banking, securities, investment funds, insurance) and **(3)** property (zones development, real estate). As of end-2015, CMG's total assets amounted to Rmb6.4tn (or Rmb660bn owners' equity) and it generated total revenue of Rmb281bn with a total profit of Rmb82.6bn, ranking #3 among all central SOEs. CMG has stakes in 29 listed subsidiaries in Mainland China, Hong Kong, and Singapore.

China Merchants Shekou (CMSK) was listed on December 31, 2015, post asset restructuring across the property development business of China Merchant Properties (000024.SZ; delisted in Dec-15), the industrial park development business and cruise business. CMSK is now 71.28% owned by parent CMG and is its onshore listed real estate flagship. CMSK also owns 74.35% of China Merchants Land (0978.HK; NC), which is the sole offshore listed real estate vehicle for the group.

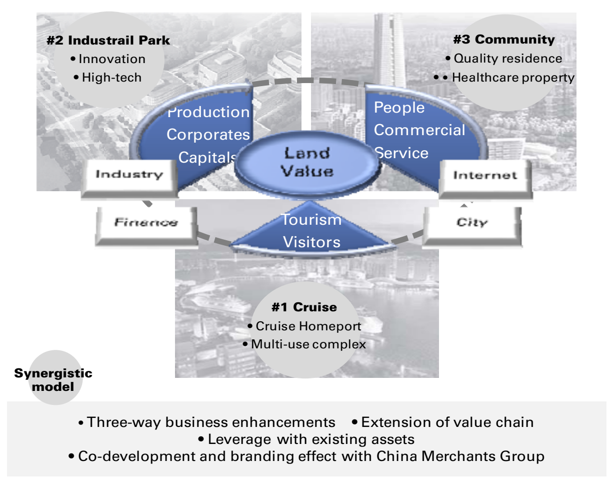
We believe such asset repackaging effectively empowers CMSK with an integrated set of cross-industry resources under parent group CMG and gives it a natural edge to explore a diversified portfolio of property assets. For example, it can build presence in major harbor cities in China through shared branding with CMG and **co-development of "cruise, port, city, business and tourism"** to harness community potential, eventually translating into land/property value appreciation over time. "Shenzhen Shekou" has proven to be a successful model riding on geographic and policy-related advantages. In our view, if this model could be potentially rolled out to other parts of China, it could unlock CMSK's full potential nationwide.

Exhibit 11: As the onshore listed real estate flagship of CMG, CMSK is well-positioned to benefit from cross-industry resources and branding with CMG
Overview of China Merchants Group's integrated value chain



Source: *Company data, Gao Hua Securities Research.*

Exhibit 12: The integrated development model with inherent synergies will promote community enhancement and translate into land/property value accretion for CMSK over time
Co-development of "cruise, port, city, business and tourism"



Source: *Company data, Gao Hua Securities Research.*

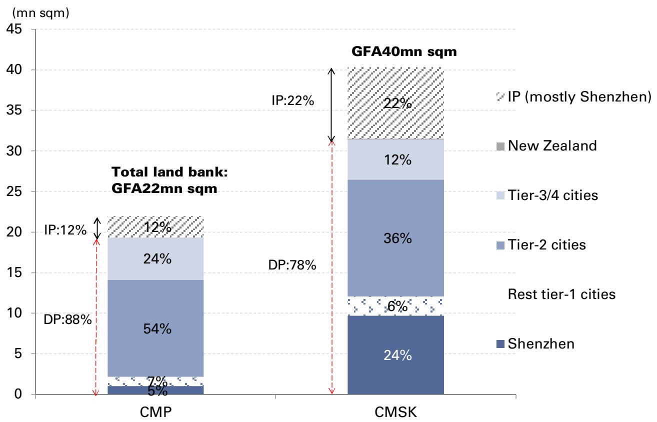
The merger with CMP (A) not only helped scale up CMSK's landbank size, but also raised its Shenzhen exposure significantly. Now it owns a total of GFA40mn sqm landbank across 33 cities in China, with more than 40% in Shenzhen vs. previously 17% for CMP (A).

By leveraging shared resources and branding under CMG, CMSK strategically focuses on 3 areas of development:

- **Community** development and operations --property sales (**85%** of revenue in 2015)
- **Industrial parks'** development and operations -- rental, property management and service fees and commercial en-bloc sales (**14%** of revenue in 2015)
- **Cruise industry** development and operations -- ferries & ports (**1%** of revenue in 2015).

Exhibit 13: The merger not only helped scale up CMSK's landbank size, but also boosted its Shenzhen exposure to over 40% from CMP's 17% previously

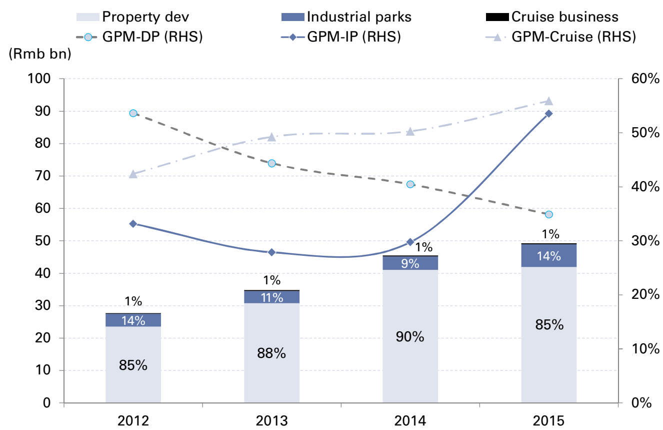
Comparison of land bank's city exposure of CMSK vs. CMP



Source: Company data.

Exhibit 14: Property sales is the main business

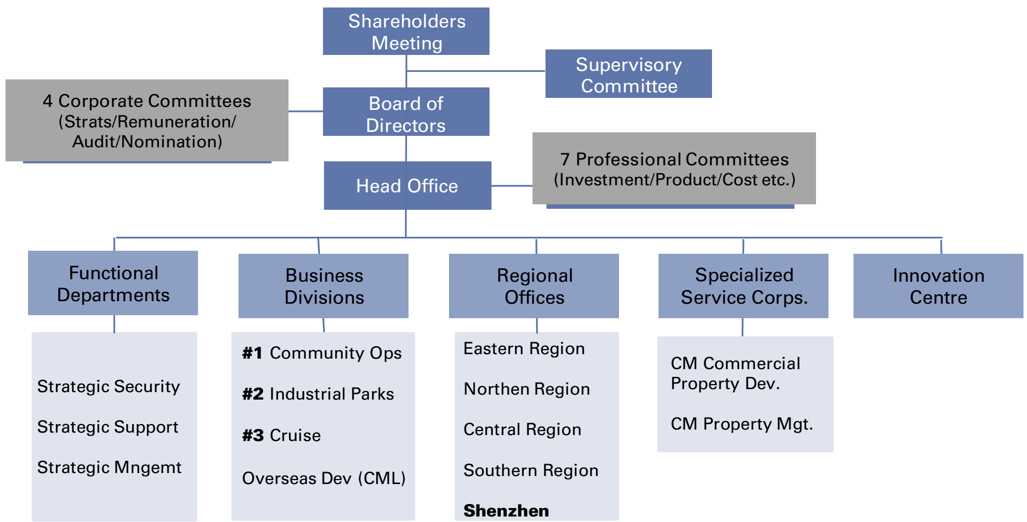
CMSK revenue/gross margin performance, by segment



Source: Company data.

Exhibit 15: Shenzhen has been positioned as equally important as other regional offices

CMSK's organizational structure



Source: Company data.

#1. Community development and operations

--Targeting Rmb100bn presales by 2018E or 25% growth CAGR in 2016E-2018E

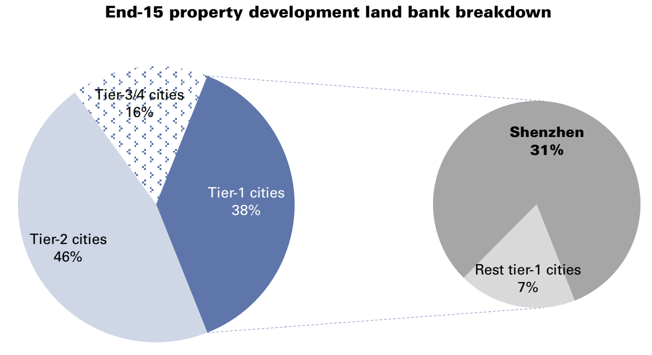
CMP (A) (000024.SZ, delisted in Dec-2015), founded in 1984, is one of the oldest real estate companies in China and now constitutes the main body of CMSK's real estate business. By end-2015, CMSK's total development landbank amounted to GFA31.5mn sqm in 33 cities (38%/46%/16% in tier-1/2/3 cities respectively).

CMSK has a well-diversified product portfolio in both residential (villas, mid & high-end residential, upscale apartments, affordable housing) and commercial segments (community retail, waterfront urban cultural complex, urban commercial complex, leisure/healthcare/senior care real estate, upscale hotels), thereby enabling it to cater to demand from different markets. For example:

- The "**I-Hope**" product line, which specializes in serving the upgrade needs in housing, e.g., two-kid rooms in response to the loosening of "one-child" policy in China;
- The "**Livable communities for all ages**" concept through integrating/acquiring/ constructing educational institutions, health management amenities and commercial services to cover a full spectrum of resident needs. Such a new community concept was introduced in light of an ageing population and a need for integrated family residences.
- The **proprietary property management service following property development** to help get a firm grip on asset quality management and allow better convenience through the internet of things. For example, CMSK launched Cmpmc.com, an online property management service provider, to constantly analyze data of its property occupiers and respond effectively with changes in its management services.

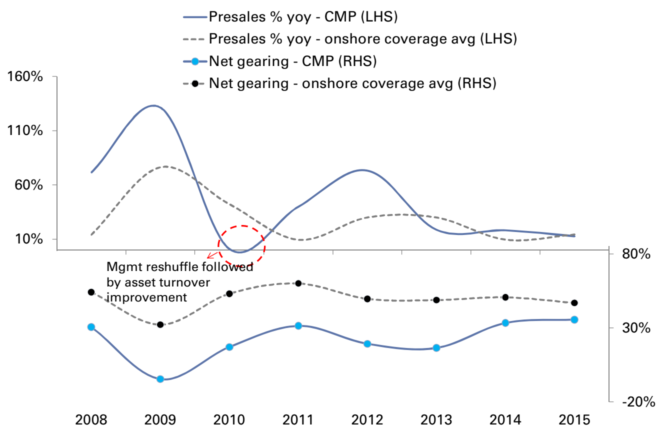
As the main pillar of growth, CMSK's real estate business' **investment strategy** could be summarized in 3 salient points: **1) steady land banking** with average annual land acquisition amount c.50% of presales; **2) deep dive into existing tier-1/2 cities** and focus on sub-core areas within the major city clusters. Resources would be reallocated between cities depending on supply & demand dynamics and tier-1 cities and strong markets like Tianjin/Nanjing/Suzhou/Wuhan would enjoy more privileges; and **3) diversified land sourcing capabilities**. CMSK has various ways of acquiring land, such as auction, JV, urban redevelopment, M&A as well as leveraging CMG's cross-industry resources. Meanwhile, the company is preparing to cooperate with global industry giants to venture into healthcare and tourism property sectors, and to strengthen its overseas arms.

Exhibit 16: Shenzhen accounts for 31% of CMSK's development property landbank as of end-2015
CMSK's property development land bank breakdown by city



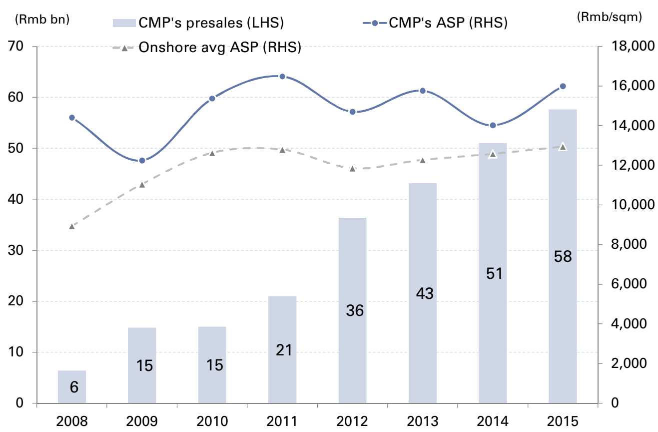
Source: Company data.

Exhibit 17: CMSK's predecessor CMP has generally achieved higher presales growth with better-controlled leverage...
CMP presales growth and net gearing vs. onshore peers



Source: Company data.

Exhibit 18: ...and enjoyed average 26% presales ASP premium to onshore peers given higher exposure to Shenzhen and mid-to-high end product focus
CMP presales and ASP vs. onshore peers



Source: Company data.

#2. Industrial park development and operations

--Aiming to be among the top 3 in 3 years and national leader in about 10 years

The company's industrial park development and operations business includes the development, management and sales of specialized industrial parks/ mega city complexes and related commercial properties. These developments mainly consist of three types of parks, i.e. internet focused, culture & creativity focused and Free-Trade-Zone (FTZ) focused, as elaborated below. Recurring income from investment properties, rentable land and hotels contributed c.40% of this segment's revenue in 2015.

"Shenzhen Shekou" proven to be a successful model riding on geographic and policy-related advantages

Situated in Shenzhen, the innovation heartland in New China, CMSK enjoys geographic and policy-related advantages to promote the development of "smart industrial parks". CMSK is the largest industrial park developer and operator in Shenzhen Shekou area, which was the origin and remains the core of CMSK's industrial park business.

- **Shekou Net Valley (internet focused)**, riding on Shenzhen's transformation into an innovation-led economy, CMSK dismantled the older industrial plants and turned them into a knowledge-based industry center of total GFA380k sqm. In 2015, 65% out of the 419 companies in Net Valley were engaged in high-tech and internet-focused sectors, making it one of the most innovative industrial parks of CMSK.
- **Nanhai E-Cool (culture & creativity focused),** converted from old factory plants into a cultural and creative site area through introduction of design companies and arts & leisure businesses.
- **SZ-HK regional integration (FTZ focused),** led by its joint development in the Qianghai/Shekou area with the Authority of Qianhai. CMSK holds 2.42sq km land area in Qianhai district. It plans to develop cross border e-commerce and other emerging industries to drive the industrial parks in this area.

Potentially replicating the Shekou model into 10 parks all across China

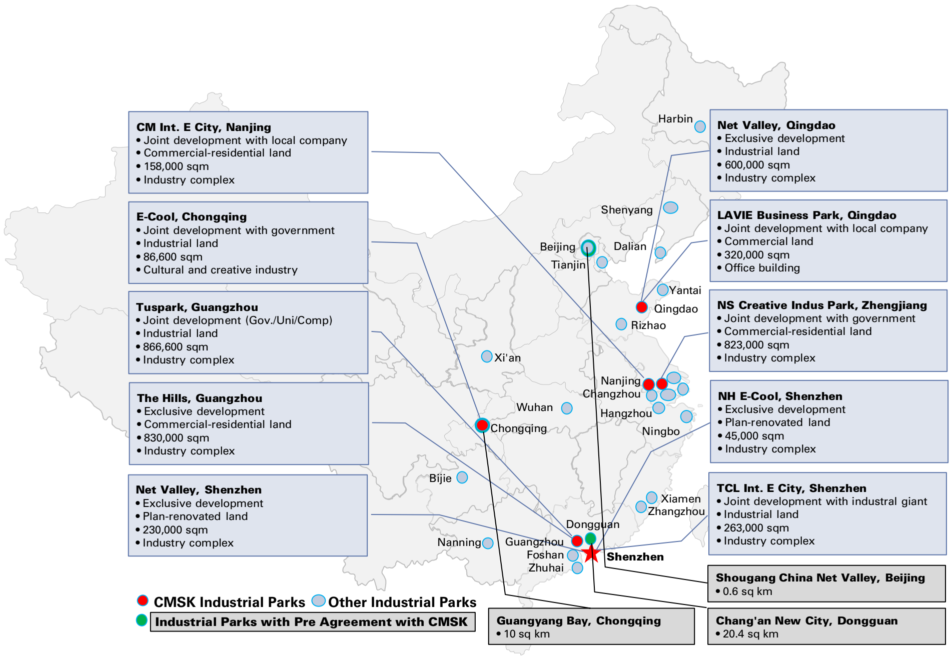
The success of developing Shekou enables CMSK to explore other parts of China. CMSK currently is involved in 10 key industrial park developments in China (total site areas amount to 4.2mn sqm, including 7 parks outside Shenzhen), which covers manufacturing, cultural, financial and technology industries, and another 3 projects in the upcoming pipeline (see Exhibit 19). Among the 10 parks involved, 5 of them are located in PRD region, the business incubation center of new China.

- **Qingdao Net Valley**: The first industrial park project launched outside Shenzhen and to be exclusively developed by CMSK. It is located in the north of Jiaozhou Bay, Qingdao's national-level high-tech development zone, and covers total site area of 600k sqm. The Valley will be developed into office/R&D properties of total GFA1mn sqm. Meanwhile, CMSK is also in charge of developing GFA500k sqm residential properties near the park to provide residential catchment. Once completed, the entire project will be able to accommodate 1,000 companies and 40k working population.

Moreover, by leveraging the international platform of CMG (i.e., its port business across 5 continents, 15 countries/regions and 28 harbors, examples including the Chinese-Belarusian Industrial Park), CMSK plans to expand its industrial park business footprint in 2 more overseas OBOR cities.

Exhibit 19: 10 industrial parks across China with total GFA6.7mn sqm (17% of total land bank and 12% of NAV)

Mapping the 10 existing industrial park projects and 3 pipeline projects in China



Source: Company data.

#3. Cruise industry development and operations

--Sailing from Shenzhen Prince Bay

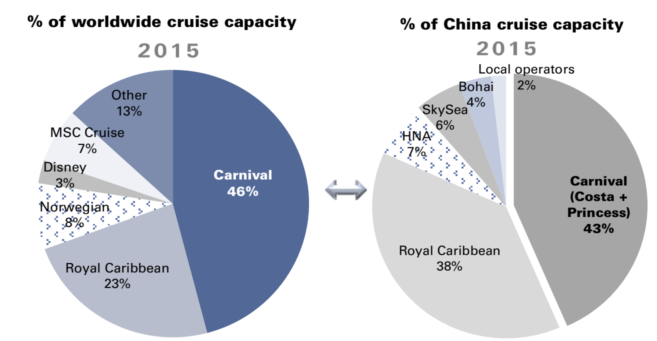
Currently CMSK's cruise business mainly consists of two parts: 1) ferry operation (by Xunlong Ferry and CMSK Ferry Terminal Services Co.) and 2) port development. Last year, the cruise business generated total Rmb0.33bn revenue (with a GPM of 56%). Strategically, we think the cruise business can also sharpen CMSK's competitive edge in land sourcing, as CMSK can participate in larger-scale, jointly developed projects of "cruise, port, city, business and tourism" with other companies under CMG. Moreover, CMSK aims to engage across the whole value chain of the cruise business, from cruise tourism, retail properties, hotels and resorts, to ports development. A booming cruise market would not only benefit CMSK, but also increase land and property value around major ports that CMSK may tap for real estate related development, in our view.

The flagship project of CMSK's cruise business, **Prince Bay Cruise Homeport,** is scheduled to begin operations by end-2016. The Prince Bay area covers c. 690k sqm with a GFA1.7mn sqm. The plan for Prince Bay Cruise Homeport has 15 docks (220,000GT x1—the only one in China, 50,000GTx1, 10,000GTx1, 800GT high-speed passenger ship berth x10 and another 2 hot docks). Once completed, the Prince Bay Cruise Homeport will become the biggest and only international cruise terminal integrating sea, land, railway and air transportation in South China. According to the company, by the end of 2020, the homeport will have a team of 6 cruises (including MOU with global leading cruise company Carnival) focusing on Asia premium routes, serving 1.5mn passengers per year. It would have one third market share in China, as per the Ministry of Transport (*details in our report Building Shenzhen: Unfolding the blueprint for a global gateway city; Buy Shenzhen Airport*, published simultaneously). In addition, there are two other catalysts for the cruise business in Prince Bay: **(1)** in May 2016, the China National Tourism Administration has allowed CMSK to establish a 9.4sq km **Pilot Cruise Development Zone of China** in Prince Bay area; **(2)** CMG also signed **memoranda of understanding with Carnival** (CCL.US; Rating

Suspended; the global leader in cruise industry, see Exhibit 20) in 2015, which consists of two possible joint ventures that would facilitate owning Chinese-designed vessels, and port and destination development.

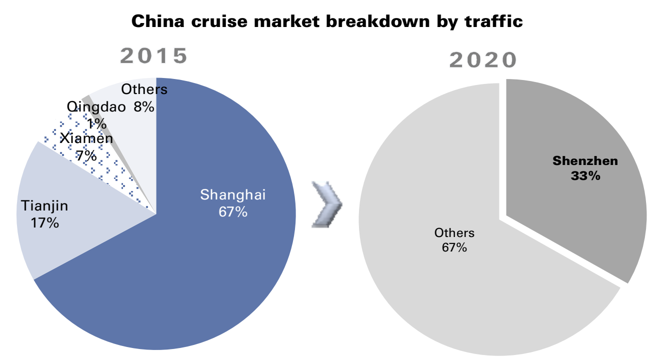
CMSK also holds 30.85% shares of **Tianjin Cruise Homeport** and plans to build 2 more cruise homeports in **Qingdao and Xiamen**. As shown in Exhibit 21, the 4 major ports of CMG (in the form of wholly-owned, equity or joint development) had a dominant share in the China cruise market last year (hosted total 228mn cruise passengers traffic or 92% of total in China). Apart from that, considering the plenty of port resources of CMG, e.g. Newcastle Port (Australia), Malta Free Port (Malta), Colombo Port (Sri Lanka), Zarubino Port (Russia) etc., CMSK could potentially expand its cruise business presence domestically and globally with the support of its parent group.

Exhibit 20: Carnival is the dominant cruise player in the world and is also heavily investing in China, duopoly with Royal Caribbean
Global and China cruise market share 2015



Source: Cruise Industry News, Company data, Goldman Sachs Global Investment Research.

Exhibit 21: The 4 major ports (Shanghai, Tianjin, Xiamen and Qingdao) that CMG is involved in account for 90% market share of the cruise business in China in 2015
CMG's national port layout



Source: Company data, Ministry of Transport.

Strengths: Sail from Shenzhen and catch the wind

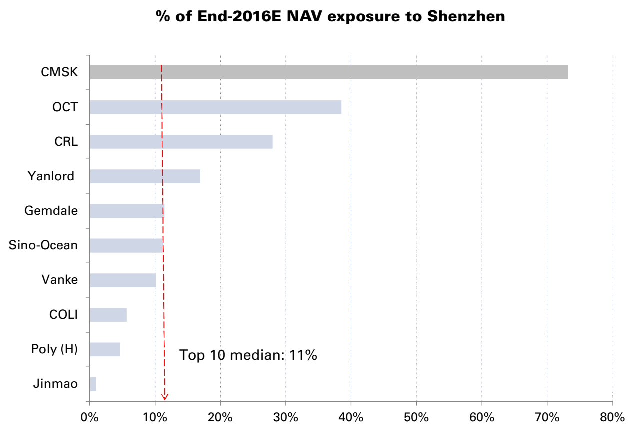
#1 Strong roots in Shenzhen gives CMSK the edge

CMSK has prime quality land reserves in Shenzhen (especially in the emerging CBD Nanshan district) and strong development capabilities. We believe the price/return outlook for its high-quality landbank at competitive cost is likely to be more sustainable than that of average locations or expensive land acquired by peers in the open-auction market.

(1) Size matters: CMSK has the largest landbank exposure in Shenzhen within our coverage universe, which provides solid foundation for it to deepen its foothold and consolidate its leadership. By the end of 2015, CMSK owned 13.9mn sqm of attributable landbank in Shenzhen or 44% of its total attributable landbank (including 11.7mn sqm in Nanshan district or 38% of total) and thus the highest NAV exposure to Shenzhen among our coverage universe (73%, followed by OCT 38% and CRL 28%, Exhibit 22). In the past 5 years, CMSK consistently ranked among the top 10 in terms of market share in Shenzhen (ranked by sales, on average was 7% during 2010-2015 vs. 38% for top 10 developers' aggregate as shown in Exhibit 23), and it ranked 3rd in 2015, behind Vanke and CRL, according to China Real Estate Index System.

Exhibit 22: Size matters: CMSK has highest NAV exposure to Shenzhen among our coverage

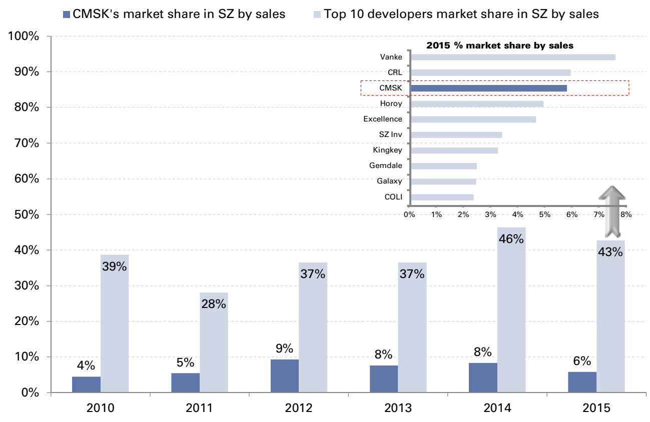
Comparison of top 10 developers % NAV exposure to Shenzhen among our coverage universe



Source: Gao Hua Securities Research.

Exhibit 23: CMSK has been consistently ranked top 10 in Shenzhen (No.3 in 2015 by sales)

Top 10 developers market share in Shenzhen



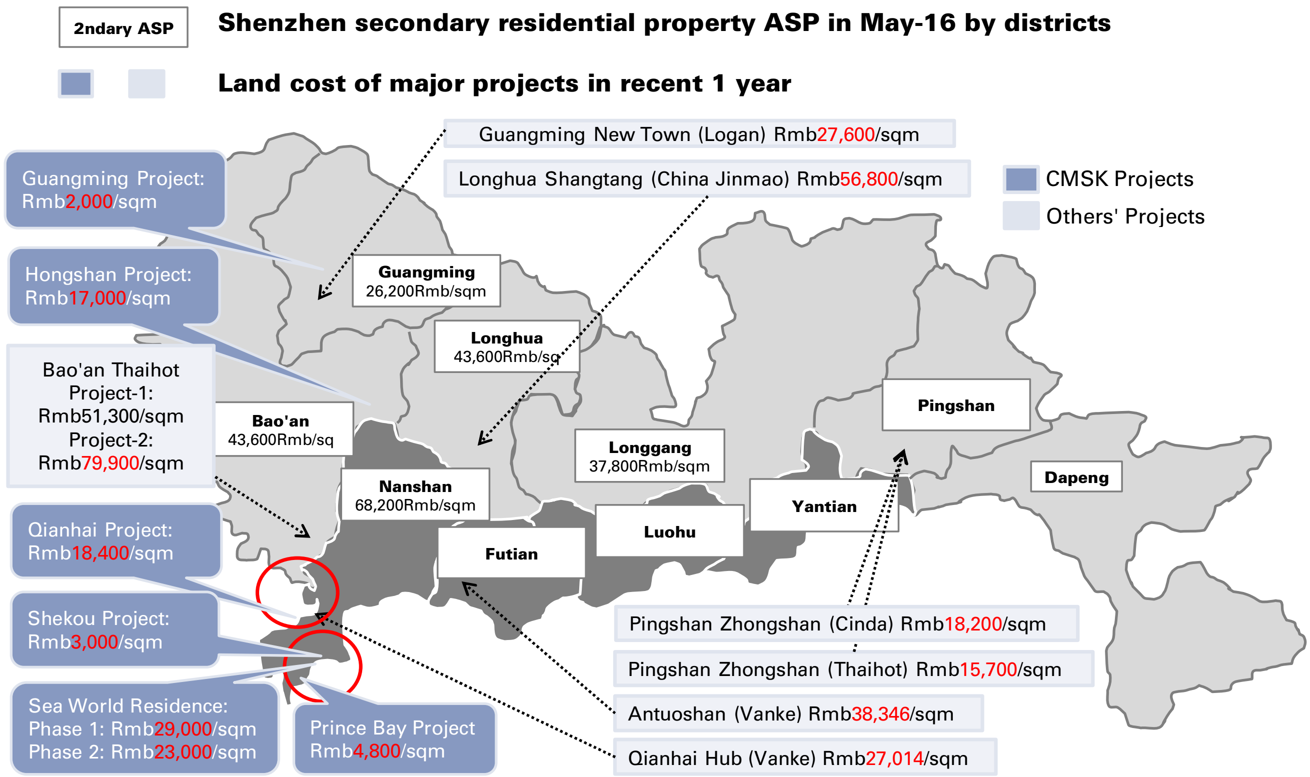
Source: CREIS, company data.

(2) Cost competiveness underpinning stronger return outlook amid market volatility. As shown in Exhibit 24, we listed land cost comparison for CMSK's key projects vs. recent high profile land acquisitions in Shenzhen:

- **CMSK's Qianhai project** land cost is only Rmb18,400/sqm, which is subject to change based on the final land conversion agreed by CMG and Authority of Qianhai (we layout our scenario analysis in Exhibit 31) vs. Rmb27,014/sqm on saleable GFA of Qianhai Hub project (proposed to be acquired by Vanke (000002.SZ; Sell) from Shenzhen Metro Group's in June-2016) and Rmb51,300-79,900/sqm of two nearby projects bought by Thaihot (000732.SZ; NC).
- **CMSK's Guangming project's** land cost is also much lower than Logan's (3380.HK; NC) Rmb27,600/sqm in the same district. Moreover, CMSK's **Shekou/Prince Bay projects** (located in the key development area as shown in Exhibit 24) only cost Rmb3,000-5,000/sqm.

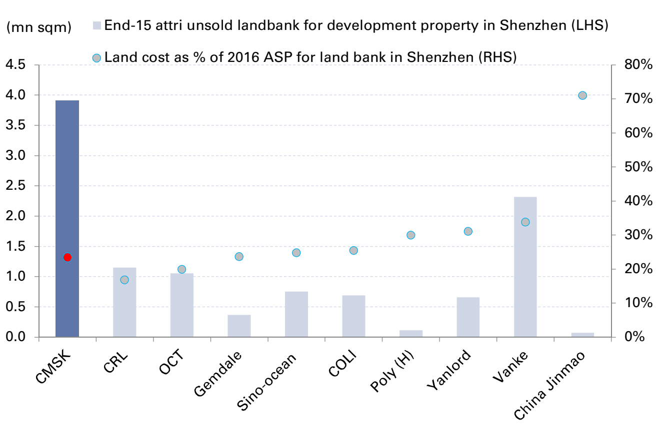
Overall, we think CMSK has the best-in-class landbank in terms of quality and location, while blended land cost 23% of 2016E ASP vs. average 31% for the rest of the developers with exposure to Shenzhen among our coverage. We see this as a comfortable cushion for margins, once the developments in some tier-2/3 cities (CMP expanded into during 2013-2015) start booking revenue. Therefore, we expect CMSK to have higher margins than peers average level (as shown in Exhibit 26) with increasing contribution from Shenzhen projects (average 24% of presales in 2014-2015 to avg 31% in 2016E-2018E).

Exhibit 24: Competitive land cost advantage for CMSK's Shenzhen projects
CMSK's land bank cost advantage in Shenzhen vs. comparable land auction price in the same districts



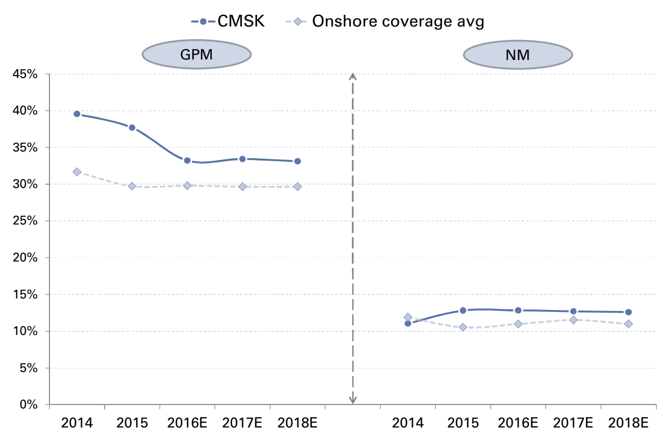
Source: Centaline, CREIS, company data.

Exhibit 25: Avg land cost 23% of ASP in Shenzhen (which contributes avg 31% presales in 16-18E) vs. peers' avg of 31%...
Comparison of land cost as % of ASP in Shenzhen for our coverage developers



Source: Company data, Gao Hua Securities Research.

Exhibit 26: ...lead to healthy margins among peers
GPM/NM comparison among onshore coverage developers



Source: Company data, Gao Hua Securities Research.

#2 Potential asset integration with CMG's cross-industry resources to explore diversified land sourcing opportunities

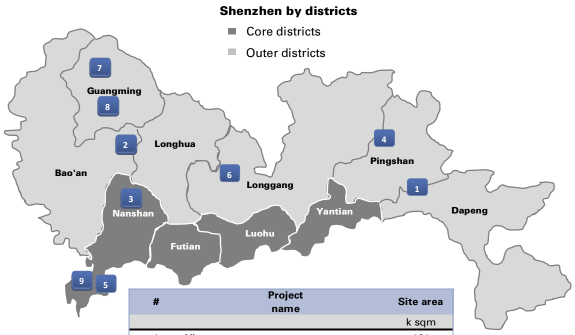
The strong SOE parent support and potential asset integration with CMG's cross-industry resources would be another highlight for CMSK relative to its peers.

- **Well-positioned to benefit from CMG's widespread business portfolio, and its long-standing relationships with local governments. (1)** With a long history of interpreting and understanding government's plans and policies, CMSK could gain first-mover advantage in the highly policy-driven environment and identify regions with highest growth potential. **(2)** Close relationship with local governments for joint development could help CMSK explore developmental opportunities, such as the JV in Qianhai project. This land plot is currently for industrial use but potentially available for conversion into commercial use. **(3)** A close relationship with governments would also help CMSK secure urban redevelopment projects. As we highlight in our report *Building Shenzhen: Solid fundamentals bolster local property market; Buy CMSK, CRL*, published simultaneously, urban redevelopment projects are likely to be the dominant source of residential housing supply in Shenzhen in the next 5 years, favoring developers with access to redevelopment project. By leveraging its strong roots in Shenzhen and CMG's resources, CMSK has been able to take part in over 10 redevelopment projects with total site area over 3.5mn sqm (such as Sanlian, Xiyong, Xili and Yuercun projects etc as we mapped in Exhibit 27) and around 0.6mn sqm saleable GFA would be launched into the market within the next three years.
- **Land injection and conversion through SOE's asset consolidation.** Integration of real estate assets within CMG will create further synergies with CMSK. For example, the integration of Sinotrans-CSC (with total site area of over 6mn sqm landbank with over 70% in tier-1/2 cities, mainly for logistics and industrial use now) into CMG could potentially give CMSK an opportunity to expand its land bank in the next 3-5 years upon completion of land injection and conversion. Meanwhile, Sinotrans-CSC, CMG and Shanghai Lingang have been running some industrial renovation projects in Shanghai already.
- **Cruise town development.** CMSK has acquired Prince Bay (Shenzhen, 1.7mn sqm) and East Harbor (Xiamen, 0.8m sqm) which will start generating revenues from 2017E. The company is also actively seeking new opportunities in Shanghai, Qingdao and other harbor cities based on cruise businesses there. Meanwhile, CMG's 28 ports in 15 countries across 5 continents, plus its 'port at the front, industrial park in the middle and city on the back' model run in some OBOR countries, would be able to bring more opportunities for CMSK's future expansion.

Last but not least, we note that CMG's enormous and diversified clientele will be shared with CMSK which can significantly widen its client base. There are around 62mn individual and institutional clients from CMB, 7mn from CMS vs. c0.5mn for CMSK.

Exhibit 27: Strong roots in Shenzhen help secure urban redevelopment projects in large scale (total 10 with site area of 3.5mn sqm)

Snapshot of CMSK's major urban redevelopment projects with available information in Shenzhen

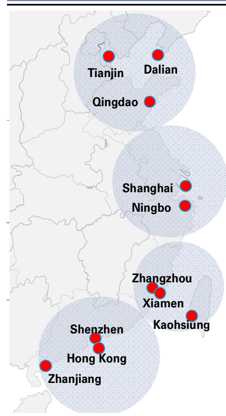


#	Project name	Site area
		k sqm
1	Xiyong	181
2	Niucheng Village redevelopment	n.a.
3	Xili	149
4	Pingshan River area	n.a.
5	Shekouyu Village	9
6	Buji Sanlian	76
7	Guangming Zhihui city	n.a.
8	Shenzhen Guangming redevelopment	141
9	Yanshan Road Baoyao District	57

Source: Company data, www.csgx.com, Gao Hua Securities Research.

Exhibit 28: Significant room of potential future asset consolidation from CMG

Summary of key ports related real estate assets held by CMG



China Presence	Region	Location	Selected companies (ports)	CMG's interest	Real estate assets remarks
	Bohai Rim	Qingdao	Qingdao Qianwan United Container Terminal	50%	2.44sq km site area
		Qingdao	Qingdao Qianwan West Port United Terminal	49%	1mn sqm storage yard area and 9 docks
		Tianjin	Tianjin Five Continents Int. Container Terminal	14%	0.29mn sqm yard area; 0.45mn sqm site area
	YRD	Shanghai	Shanghai International Port	24%	2.42mn sqm yard area
		Ningbo	Ningbo Daxie China Merchants International Terminals/ Ningbo Port	45%	1.66mn sqm total port area and 233km coastline
	Taiwan Strait	Xiamen	Xiamen Haicang Xinhaida Container Terminals	20%	0.43mn sqm site area
		Zhangzhou	Zhangzhou CM Port	60%	0.68mn sqm yard area
	PRD	Shenzhen	Shekou Container Terminals	80%	1.38mn sqm site area
		Shenzhen	Shenzhen Chiwan Wharf	46%	1.25mn sqm site area; 1.02mn sqm yard area
		Shenzhen	Shenzhen Mawan Terminal	84%	0.40mn sqm site area
		Zhanjiang	Zhanjiang Port	40%	1.33mn sqm yard area

Source: Company data, Gao Hua Securities Research.

Key risks

#1 Concentration risk in Shenzhen

As we expect the industry to enter into a slowdown phase in 4Q16-1Q17 (refer to our report "*Valuations compressed ahead of upcoming downturn; Prefer consolidators; Longfor to Buy*", dated May 27, 2016), we think CMSK to be more vulnerable to any potential Shenzhen property market volatilities. As per our estimate, its projects in Shenzhen accounts for 44% of its total attributable land bank and 73% of end-2016E NAV (35% from development properties and 38% from investment properties) and will contribute on average 31%/45-50% to presales/earnings during 2016E-2018E.

We note that during the past two industry downcycles, property prices corrected by 26%/12% from the peak to low (Aug-2007 to Feb-2009 and May-2011 to Feb-2012 respectively) in Shenzhen secondary market, while combined volumes in primary and secondary markets dropped 29%/45% yoy in 2008/2011 downturns. We layout below our sensitivity analysis by assuming ASP/volume may be 30%/50% below our base-case assumptions to test the potential downside risks to our earnings and valuation estimates for CMSK (as Exhibit 29 shows, earnings will be average 21% lower for 2017E/2018E and NAV will down 11% in this bear case).

Exhibit 29: Financials' sensitivity to Shenzhen property market ASP and volume changes

		Margin				Financial position		Earnings outlook					ASP			NAV
		GPM (excl. LAT)		NM		Net gearing (%)		Underlying profit (Rmb bn)		Presales (Rmb bn)			(Rmb/sqm)			(Rmb)
		2017E	2018E	2017E	2018E	2016E	2017E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E	End-16E
Base-case		**33%**	**33%**	**12%**	**13%**	**36%**	**14%**	**10.3**	**12.3**	**65.6**	**78.4**	**90.1**	**16,755**	**18,101**	**21,161**	**26.0**
Price down 30% from base-case	**Volume chg:** -50%	**28%**	**25%**	**11%**	**10%**	**55%**	**40%**	**-13%**	**-29%**	**-12%**	**-13%**	**-22%**	**-9%**	**-12%**	**-20%**	**-11%**
	-30%	28%	26%	11%	10%	50%	33%	-13%	-26%	-9%	-11%	-16%	-7%	-12%	-17%	-10%
	-10%	28%	26%	11%	10%	47%	28%	-12%	-22%	-7%	-8%	-12%	-6%	-10%	-14%	-10%
	0%	28%	26%	11%	10%	45%	25%	-11%	-21%	-6%	-6%	-9%	-6%	-9%	-12%	-10%
	10%	28%	26%	11%	10%	44%	22%	-11%	-19%	-5%	-5%	-7%	-6%	-9%	-11%	-9%
	20%	28%	26%	11%	10%	42%	20%	-10%	-17%	-4%	-3%	-5%	-5%	-8%	-9%	-9%
Price down 10% from base-case	**Volume chg:** -50%	31%	28%	12%	11%	52%	35%	-9%	-18%	-10%	-11%	-21%	-7%	-8%	-16%	-6%
	-30%	31%	30%	12%	11%	45%	27%	-9%	-11%	-6%	-9%	-13%	-4%	-7%	-11%	-5%
	-10%	32%	30%	12%	12%	41%	20%	-7%	-9%	-3%	-5%	-7%	-3%	-4%	-6%	-4%
	0%	32%	31%	12%	12%	39%	17%	-5%	-5%	-2%	-3%	-4%	-2%	-3%	-4%	-4%
	10%	32%	31%	12%	12%	37%	14%	-4%	-4%	-1%	-1%	-1%	-1%	-2%	-2%	-4%
	20%	32%	32%	12%	12%	36%	11%	-3%	-1%	0%	1%	2%	-1%	-1%	0%	-4%
Price flat from base-case	**Volume chg:** -50%	33%	30%	12%	11%	51%	33%	-5%	-14%	-9%	-9%	-19%	-6%	-5%	-13%	-2%
	-30%	33%	31%	12%	12%	43%	24%	-5%	-13%	-4%	-7%	-10%	-2%	-4%	-8%	-1%
	-10%	33%	33%	12%	12%	39%	17%	-2%	-4%	-1%	-2%	-3%	-1%	-1%	-3%	0%
	0%	33%	33%	12%	13%	36%	14%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	10%	34%	34%	12%	13%	34%	10%	2%	4%	1%	2%	3%	1%	1%	3%	0%
	20%	34%	34%	12%	13%	32%	7%	3%	9%	3%	4%	7%	1%	3%	5%	1%
Price up 10% from base-case	**Volume chg:** -50%	34%	31%	13%	12%	49%	31%	3%	-8%	-8%	-7%	-16%	-5%	-3%	-11%	5%
	-30%	34%	33%	12%	12%	41%	21%	3%	-1%	-2%	-4%	-7%	-1%	-2%	-4%	6%
	-10%	35%	35%	13%	13%	36%	14%	6%	9%	1%	1%	0%	1%	2%	1%	7%
	0%	35%	35%	13%	13%	34%	10%	8%	14%	2%	3%	4%	2%	3%	4%	7%
	10%	35%	36%	13%	14%	31%	7%	10%	19%	3%	6%	8%	3%	5%	7%	7%
	20%	35%	37%	13%	14%	29%	3%	12%	24%	5%	8%	12%	4%	6%	10%	8%
Price up 30% from base-case	**Volume chg:** -50%	37%	34%	13%	13%	46%	27%	12%	-2%	-6%	0%	-5%	-2%	1%	-6%	13%
	-30%	37%	36%	13%	14%	36%	16%	12%	13%	1%	4%	6%	3%	3%	2%	14%
	-10%	38%	38%	13%	14%	31%	8%	16%	26%	4%	9%	15%	5%	7%	9%	15%
	0%	38%	39%	13%	15%	28%	4%	19%	32%	6%	12%	19%	6%	9%	12%	15%
	10%	38%	40%	13%	15%	25%	0%	21%	39%	8%	15%	24%	7%	11%	16%	15%
	20%	**39%**	**41%**	**13%**	**15%**	**22%**	**-4%**	**23%**	**46%**	**10%**	**18%**	**28%**	**8%**	**13%**	**19%**	**16%**

Note: Numbers in above table for GPM, NM and net gearing refer to the sensitivity results under different scenarios while for underlying profit, presales, ASP and NAV refer to the % change from our base-case forecast.

Source： Gao Hua Securities Research.

#2 Uncertainty in conversion of Qianhai/Shekou site for development

Given the Qianhai/Shekou sites together account for 15%/25% of CMSK's total landbank/end-2016E NAV and 15%/21% of its 2017E-2018E presales in our estimates (mainly from the Qianhai project), CMSK's final cost of land conversion will be key for its sustainable earnings growth visibility after 2017E.

According to the company's latest announcements: (1) on June 18, 2016, parent CMG will set up a JV with Authority of Qianhai with 50%/50% interest split to co-develop a total site area of 2.9sq km or total GFA c.5.05mn sqm (including 1.85sq km site area belonging to CMSK) in Qianhai; and (2) on July 28, 2016, CMSK will hold 82.5% interest in the 50%-stake owned by parent CMG and thus will be able to consolidate this project. Though the final consideration and detailed development plan is still under negotiation, we think these steps forward should remove the long-lasting overhang of benefit distribution between CMG and the government. We view this as a sign that the development project is accelerating. In addition, CMSK holds another 0.57sq km land in Qianhai district, so total site area of 2.42sq km or roughly 4.2mn sqm GFA by assuming the same plot ratio of the announced Qianhai JV project.

Taking into account CMSK's land conversion prices for both Qianhai/Shekou sites, we lay out below our sensitivity analysis which shows that if the land price for the Qianhai site is 50% higher than our base-case (or at similar level to the nearby Qianhai Hub project which was proposed to be acquired by Vanke from Shenzhen Metro Group at Rmb27,000/sqm based on saleable GFA in June-2016), our end-2016E NAV and avg 2017E-2018E EPS will be just 7%/5% lower than our base-case.

Exhibit 30: Summary of land bank without land use right

Region	Site areas							
	Total		...with LUR			...without LUR		
	Pieces (units)	Areas (k sqm)	Pieces (units)	Areas (k sqm)	% of total	Pieces (units)	Areas (k sqm)	% of total
Shekou	204	2,400	8	182	8%	196	2,218	92%
Qianhai	73	2,421	52	1,342	55%	21	1,079	45%
Prince Bay	32	530	0	0	0%	32	530	100%
Total	**309**	**5,351**	**60**	**1,524**	**28%**	**249**	**3,827**	**72%**

Source: Company data.

Exhibit 31: NAV/earnings sensitivity in relation to land conversion price

Sensitivity to land conversion price for Qianhai/Shekou sites		
CMSK's interest in Qianhai JV platform	**82.5%**	
Land cost % chg	**0%**	**+50%**
--implied land cost for Qianhai (Rmb/sqm)	*18,400*	*25,760*
End-16E NAV	**26.1**	**24.3**
% chg		*-7%*
2017E EPS	**1.30**	**1.20**
% chg		*-8%*
2018E EPS	**1.55**	**1.49**
% chg		*-4%*

Source: Gao Hua Securities Research.

Financials: Growth to translate into fully funded returns

Key assumptions

1. Development properties: We continue to project flattish price for tier-1 cities from the current level in 2016E-2018E (for details, refer to *Valuations compressed ahead of upcoming downturn; Prefer consolidators; Longfor to Buy,* dated May 27, 2016), except for Shenzhen, where we assume CMSK's projects' ASP, when launched in 2017-2018E, will be around 6% higher than current nearby projects' selling (details in our report *Building Shenzhen: Solid fundamentals bolster local property market; Buy CMSK, CRL*, published simultaneously), and we expect the excessive price appreciation in tier-2 cities YTD will be reversed by end-2017E (or about avg 5% drop from current level), while for tier-3/4 cities without much price gain, we assume ASP to remain flattish during 2016E-2018E.

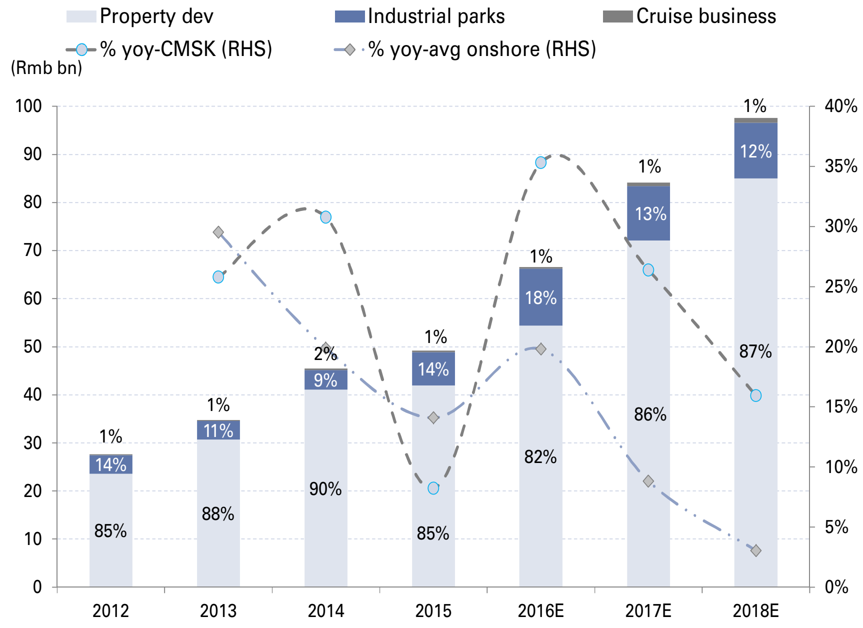
2. Investment properties: As we expect overall Shenzhen retail/office market rental rate to fall by 2%/3% p.a. in the next 5 years and followed by 2%/3% recovery in 2020-2025E (*details in our report Building Shenzhen: Solid fundamentals bolster local property market; Buy CMSK, CRL*, published simultaneously), we assume the initial rental rate for CMSK's investment property projects (mostly office in the emerging CBD Nanshan area) to be slightly lower than that of established projects in the market and without much rental growth in the year 2016-2018E. As for occupancy rate, we assume 80%-90% for the upcoming new projects upon commencement given our view that the market vacancy rate will be driven higher to 10%-15% (vs. 5% at end-2015) by the supply surge in the near term. That said, over the longer run we remain positive on the future demand in Shenzhen commercial property market on the back of successful industry upgrade & economic transformation (especially the favorable policies in Qianhai Free Trade Zone to attract both domestic and international corporates).

3. Hotels: We assume a flat room rate and occupancy rate (average c.70%) from 2015 level through 2018E as most of CMSK's hotel portfolio is located in Shenzhen/Beijing.

4. New acquisitions: We do not assume any new acquisitions from now to end-2018E. Our estimates/valuation in the next section is based on CMSK's existing portfolio.

Top line: 21% 2016E-18E CAGR with avg 85% contribution from property sales

Exhibit 32: Property sales will remain the key revenue contributor (avg 85%) in 2016E-18E
Revenue growth and breakdown by segment, 2012-2018E



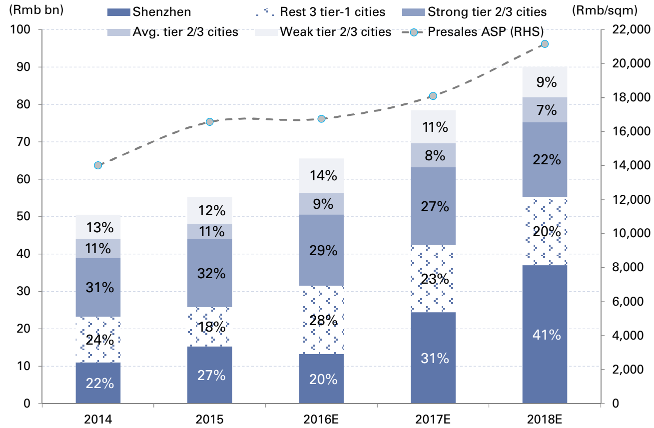
Source: Company data, Gao Hua Securities Research.

(1) Property sales: Rmb100bn presales within reach by 2018E driven by Shenzhen

We expect 14% yoy presales growth to Rmb65bn in 2016E (same as company target) against Rmb138bn saleable resources (the implied sell-through rate of 47% is lower than 58% it achieved in 2015 to reflect the volatility in tier-1 cities especially Shenzhen, primary property sales volume down -29% ytd as of Aug 7, 2016). Without factoring new project additions, we estimate CMSK's presales to grow at 17% CAGR in 2016-2018E (to achieve Rmb90bn in 2018E and thus we think management targeted Rmb100bn presales by 2018E is easily within reach with portfolio expanding in the coming years) vs. avg -2% for onshore peers, mainly driven by the increasing contribution from Shenzhen market (from 24% of total presales in 2014-15 to avg 31% in 2016E-18E) and thus pushing up presales ASP to over Rmb21k/sqm in 2018E, 28% higher than its 2015 level (vs. peers on avg flattish).

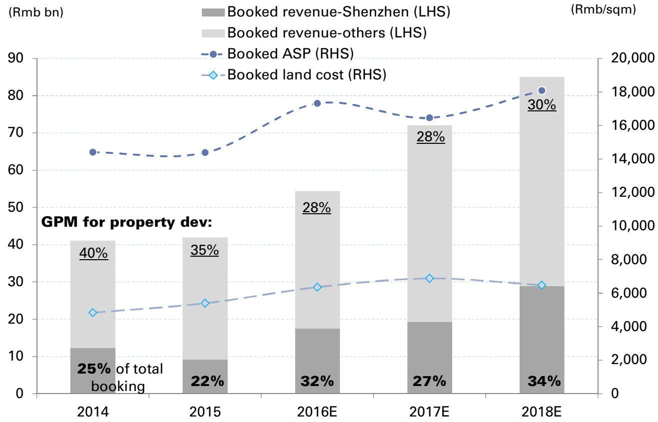
With the strong presales growth, revenue to be booked will grow at 25% CAGR in 2016E-2018E as per our estimate (vs. onshore peers' avg flattish). In addition, we expect gross margin for its property development segment to moderately improve to 30% in 2018E from the lows of 28% in 2016-2017E on the back of higher contribution from Shenzhen projects with superiors margins (avg 45% GPM).

Exhibit 33: Increasing contribution from Shenzhen will not only lead to 17% presales CAGR for CMSK in 16E-18E vs. onshore peers -2%...
Presales breakdown by city 2014-2018E



Source: *Company data, Gao Hua Securities Research.*

Exhibit 34: ...but also drive margin improvement
Booked revenue/ASP/land cost during 2014-2018E

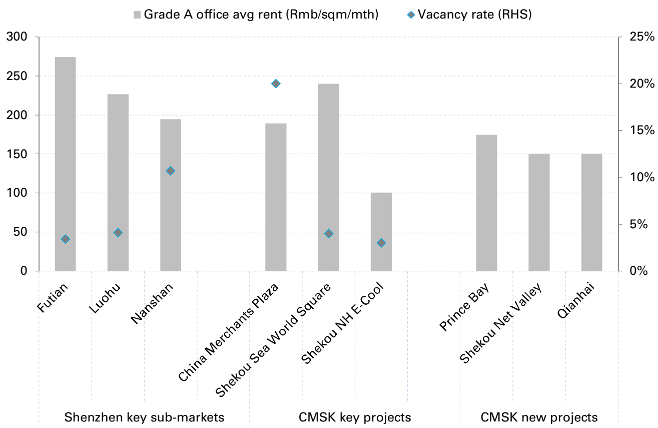


Source: *Company data, Gao Hua Securities Research.*

(2) Industrial parks: More than 60% from recurring income

Taking into consideration: (1) 2%/3% yoy p.a. decline of rental rate in 2016-2020E we expected for the overall Shenzhen market (factored in mix change) due to the near term supply surge; and (2) an intensified decentralization trend with concentrated new supply coming from Nanshan district (where majority of CMSK's assets located, details in in our report *Building Shenzhen: Solid fundamentals bolster local property market; Buy CMSK, CRL*, published simultaneously), we assume lower than average rental rate for CMSK's upcoming new projects (mostly office assets, as we summarize in Exhibit 35). Overall, we project largely flattish revenue from industrial park segment mainly due to lower contribution from commercial property en-bloc sales (based on management's current budgets). That said, recurring income (including rental from investment properties, rentable lands, hotels, property management fees etc) will account for over 60% of this segment's revenue in 2016E-2018E.

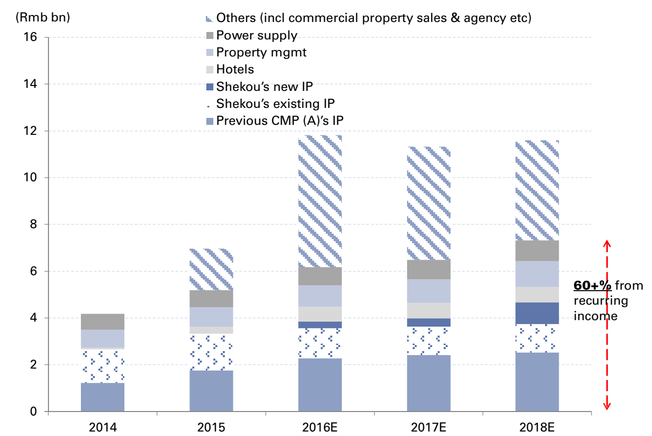
Exhibit 35: We assume lower than market prevailing rental rates for CMSK's upcoming new projects
Rental comparison of CMSK's projects vs. key office markets in 2015



Note: (1) CMSK's new projects will be complete and start operation in 2018 onwards so we don't have vacancy rate comparison in above chart; (2) The rental rates also refer to the rate we assumed for the years when CMSK's new projects start operation.

Source: *DTZ, company data, Gao Hua Securities Research.*

Exhibit 36: Recurring income will contribute 60%+ revenue for industrial park segment while commercial property sales will be the key swing factor
Rental revenue breakdown by key portfolio



Source: *Company data, Gao Hua Securities Research.*

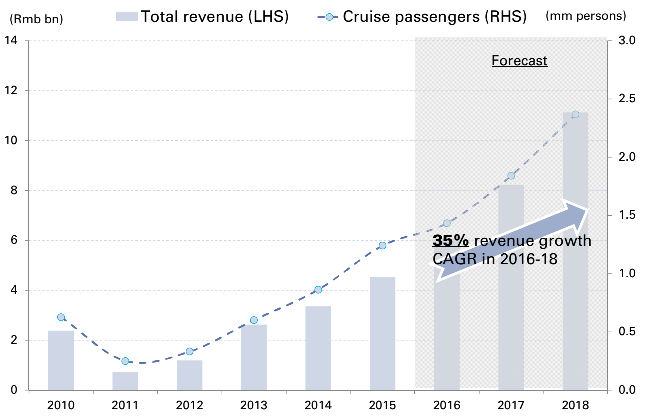
(3) Cruise business: New growth engine from a small base

According to China Cruise & Yacht Industry Association (CCYIA) & BigData Research, China's cruise terminal business will exceed Rmb10bn in 2018 from Rmb4.53bn in 2015 (implying 35% growth CAGR) on the back of a rapid increase in the addressable market (TAM) in China, as well as special government policies accommodating seaport development.

Along with the industry trend and the new capacity of both global leading players and domestic cruise companies will add to the Prince Bay homeport when launched at end-2016E, we are projecting 62% revenue growth CAGR for CMSK in 2016E-18E (from a low-base only Rmb332mn in 2015). But still the cruise business in the forecast years will be just a minor revenue contributor (avg 1% of top line in GSe) and we think the value of building the cruise business is more on value creation from nearby real estate projects (benefiting both residential and commercial properties) as well as enhancing CMSK's attractiveness to local governments with related port business to broaden its land sourcing channels.

Exhibit 37: China cruise market revenue is likely to grow at 35% CAGR in 2016-18 on the back of 20% p.a. passengers increase

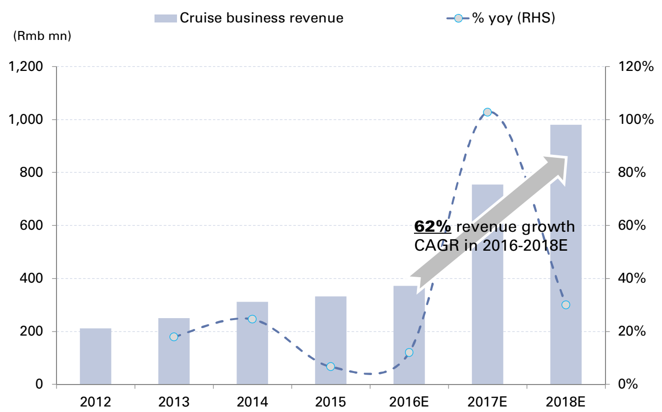
Total revenue and passengers of cruise industry in China



Source: The Cruise Lines International Association, BigData Research, China Cruise & Yacht Industry Association, Gao Hua Securities Research.

Exhibit 38: We expect CMSK's cruise business revenue to grow at 62% CAGR in 2016E-18E on the back of the launch of Prince Bay Homeport at end-16E

CMSK's cruise business revenue and yoy growth



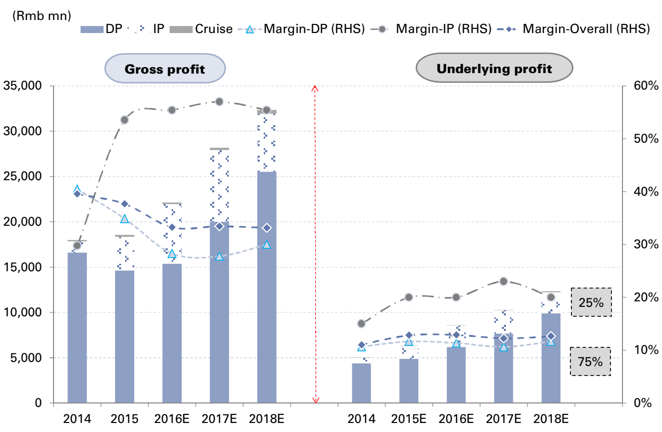
Source: Company data, Gao Hua Securities Research.

Profitability: Shenzhen the key earnings contributor

Looking ahead to 2016E-2018E, we expect **CMSK to deliver 20% EPS CAGR** (**Shenzhen will account for 45-50% of earnings**) with well-protected margins of avg 33% GPM/13% NM on the back of: **(1)** margin improvement for property sales (from 28% in 2016E to 30% in 2018E) as we mentioned earlier that we expect increasing contribution from Shenzhen to buffer lower margins could be generated in tier-2/3 cities CMSK penetrated into in the past 3 years (no of cities increase to 33 in 2015 from 19 in 2012); **(2)** moderate margin decline for industrial parks (see Exhibit 36) given lower contribution from commercial en-bloc sales currently budgeted; **(3)** for cruise business, we expect GPM to drop to 30% in 2017E from 53% in 2016E (mainly due to the opening expenses related to the initial launch of Prince Bay Homeport in end-2016E) but gradually recover to 40% in 2018E; **(4)** lower financing cost; we expect blended financing costs to decline to 4.8%, 4.5%, 4.5% in 2016E-2018E from 4.93% in 2015, mainly to reflect the lower cost of domestic financing (70+% of CMSK's total borrowings are onshore loans).

Overall, based on CMSK's existing portfolio, we estimate earnings from property sales will still contribute a major share to total earnings (avg 75%) in 2016E-2018E.

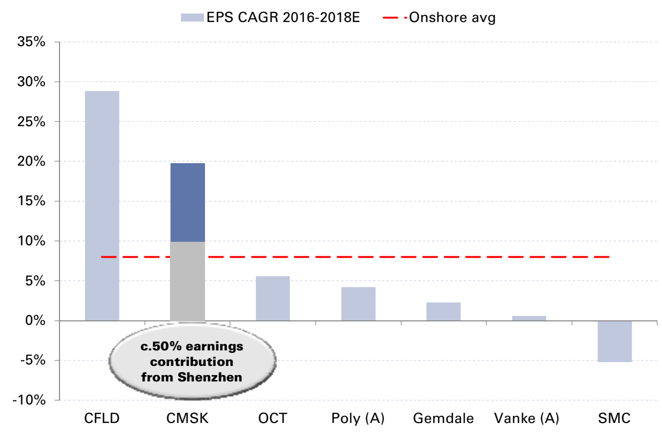
Exhibit 39: Overall we expect stable GPM (excl. LAT)/NM for CMSK in 2016E-18E, being avg 3pp/2pp higher than onshore peers
Earnings contribution and margin breakdown by segments



Note: DP=development properties, IP=industrial parks.

Source: *Company data, Gao Hua Securities Research.*

Exhibit 40: We expect CMSK to deliver 20% EPS CAGR during 2016-2018E (with 45-50% contribution from Shenzhen), higher than onshore coverage avg of 8%
2016-2018E EPS CAGR comparison for our onshore coverage

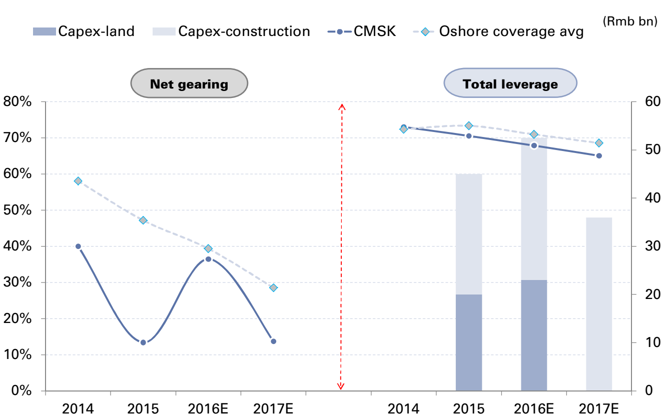


Source: *Gao Hua Securities Research.*

Strong balance sheet to support scale expansion

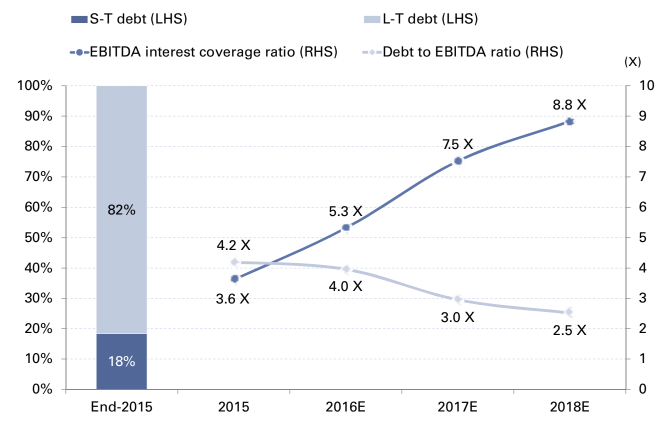
By end-2015, we estimate the total outstanding land premium for CMSK's existing land bank to amount to Rmb8bn and it acquired total Rmb20bn worth (or attributable Rmb15bn) new projects in Jan-May 2016; on top of the land premium we estimate that the company needs to spend about Rmb30-35bn for project construction in 2016E-2017E based on its project development plan. Without factoring in additional new project acquisitions in the reminder of the year, we estimate CMSK's net debt to total equity ratio will be at a healthy level of 36% by end-2016E. The ability to raise funds at a low cost (avg financing cost of 4.93% in 2015, the lowest among onshore peers whose avg was 5.7%), coupled with CMSK's existing balance sheet strength, should position it well for potential fast scale expansion in the coming years, in our view.

Exhibit 41: CMSK has strong balance sheet to grow its scale
Capex, net gearing, and total leverage ratio vs. coverage avg



Source: *Company data, Gao Hua Securities Research.*

Exhibit 42: We expect 2016-18E interest coverage ratio to steadily improve
Debt profile & EBITDA interest coverage ratio analysis



Source: *Company data, Gao Hua Securities Research.*

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