

12 July 2018

Property | Real Estate

Real Estate

Overweight (maintained)

Secular Growth Story Continues

Stocks Covered: 13
Ratings (Buy/Neutral/Sell): 9 / 2 / 2

Reiterate **OVERWEIGHT** on sector, as we expect developers' secular growth story to remain intact. Besides the buoyant contracted sales in June and 1H, we believe concerns on refinancing and the increase of funding cost of offshore issuances are overdone. Instead, the solid upcoming interim results and early achieving of FY18F contracted sales targets should catalyse a rebound in valuations, going to 2H. Our Top Picks are Shimao Property, Country Garden and CIFI.

1H contracted sales beat estimates. 29 out of 31 developers tracked by RHB reported their 1H property sales statistics, of which contracted sales value surged 36.4% YoY (vs 34.1% in 5M18), whilst locking in 50% of their sales targets (vs 47.2% in 1H17). In June alone, the 29 developers' contracted sales value rose 45.4% YoY and 34.7% MoM (vs +48% YoY and +11% MoM in May). Just as we expected, developers benefited from loosening pre-sale approvals where their sales volume in June increased 43.4% YoY and 35.3% MoM. Despite stringent ASP control, they also managed to report 1.4% YoY growth in contracted ASP.

Tighter financing channels accelerate consolidation. Amid credit tightening in the onshore debt market, and the new rule that prohibits using proceeds raised from offshore new issuances to finance new development projects, we believe new onshore issuances will be dominated by listed developers (mostly top 30 developers in terms of contracted sales value). This, in turn, should drive concentration in land market as well as contracted sales. In our view, listed developers and, in particular, those with strong cash flow and sizeable land banks should be set to accelerate their market share gains. Notable names include Country Garden and Shimao Property.

National property sales to see steady growth in 2H1. Despite ongoing city-specific policies being tightened, we expect the national property sales value to continue to grow at a steady 4.3% YoY in 2018. This is due to rebounding property sales in Tier-2 cities, spurred by city-specific talent policies; and a stable contribution from property sales in Tier-3 cities. Although China Development Bank has tightened approvals for funding of new shantytown redevelopment projects recently, we view that this was largely done to prevent funds from flowing into cities where destocking has largely been completed. The tighter approvals are also to avert overheating in these cities, and to divert funds into central and western China – where inventory digestion remains slow.

Reiterate OVERWEIGHT and Top Picks. Despite overshadowing concerns on refinancing risk and rising funding cost, we believe these have been imputed into valuations. The sector is trading at a 47% discount to NAV, which is relatively undemanding, given the solid fundamentals (27.2% and 28.5% earnings and contracted sales CAGRs over FY17-20F, and 19.5-23.0% ROE and 11.5-12.0% net margins for FY18-20F). This, coupled with a 4.7% dividend yield, leads us to believe it is an opportune time to rotate into the sector. Over the next three months, we expect to see better-than-expected 1H18 results and upward revisions of FY18 sales targets catalysing a rebound in sector valuations. Our Top Picks are Shimao Property, Country Garden and CIFI.

Top Picks

Shimao Property (813 HK) – BUY
Country Garden (2007 HK) – BUY
CIFI (884 HK) – BUY

Target Price

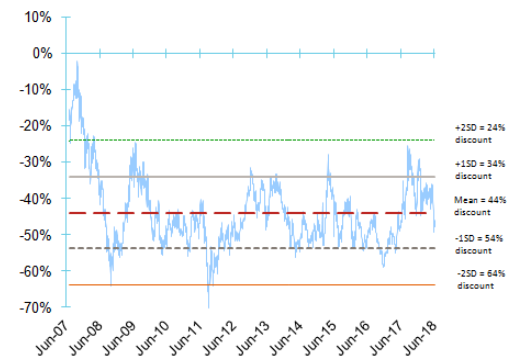
HKD30.00
HKD22.00
HKD7.80

Secular growth story remains intact

Name	Stock Code	FY17-20F CAGR (%)		
		Contracted Sales	Revenue	Net Profit
Country Garden	2007 HK	29.5%	34.2%	28.5%
Evergrande	3333 HK	24.5%	21.7%	26.7%
Sunac	1918 HK	32.7%	53.9%	40.8%
COLI	688 HK	27.6%	27.9%	24.4%
Longfor	960 HK	24.4%	23.0%	19.1%
CR Land	1109 HK	24.5%	33.2%	18.5%
Greentown	3900 HK	16.6%	17.0%	4.1%
CIFI	884 HK	39.1%	38.7%	36.3%
Shimao	813 HK	35.5%	29.8%	39.8%
Agile	3383 HK	36.2%	22.1%	25.9%
KWG	1813 HK	44.3%	33.1%	33.7%
CSC	1668 HK	23.5%	26.1%	18.6%
COGO	81 HK	21.0%	15.7%	27.8%

Source: Bloomberg

Undemanding valuation



Source: Bloomberg

Company	Stock code	Rating	TP (HKD)	Price (2018/07/11) (HKD)	End-FY18F ENAV (HKD)	ENAV disc/(prem) (%)
Agile Property	3383 HK	BUY	20.00	11.48	34.00	66%
COGO	81 HK	SELL	2.30	2.65	6.60	60%
COLI	688 HK	BUY	36.60	24.85	43.00	42%
China Resources Land	1109 HK	BUY	31.50	25.90	42.00	38%
China South City	1668 HK	BUY	2.40	1.48	6.90	79%
CIFI Holdings	884 HK	BUY	7.80	4.66	10.40	55%
Country Garden	2007 HK	BUY	22.00	12.82	25.80	50%
Evergrande	3333 HK	BUY	31.70	21.35	42.20	49%
Greentown China	3900 HK	SELL	7.10	10.06	20.30	50%
KWG Property	1813 HK	NEUTRAL	10.00	8.78	22.30	61%
Longfor	960 HK	BUY	26.30	20.75	35.10	41%
Shimao Property	813 HK	BUY	30.00	20.80	40.00	48%
Sunac	1918 HK	NEUTRAL	31.00	26.70	41.30	35%

Source: Company data, RHB

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Developers' June Contracted Sales

Figure 1: Contracted sales summary for Jun 18

Developer	Ticker	Contracted sales revenue				Contracted sales volume				Contracted ASP			
		Jun 18	May 18	% mom	% yoy	Jun 18	May 18	% mom	% yoy	Jun 18	May 18	% mom	% yoy
		(CNY bn)	(%)	(%)	(%)	(sqm)	(%)	(%)	(%)	(CNY/sqm)	(%)	(%)	(%)
Country Garden	2007 HK	77.8	77.2	0.8%	74.1%	8,600,000	7,900,000	8.9%	72.3%	9,048	9,767	(7.4%)	1.0%
China Vanke	000002 CH	65.6	42.9	53.1%	33.6%	4,499,000	2,797,000	60.9%	29.1%	14,588	15,331	(4.8%)	3.4%
Poly Real Estate	600048 CH	60.2	35.7	68.5%	58.0%	4,279,400	2,228,100	92.1%	57.2%	14,066	16,032	(12.3%)	0.5%
Evergrande	3333 HK	50.1	41.8	19.7%	(18.0%)	4,742,000	3,852,000	23.1%	(21.7%)	10,563	10,859	(2.7%)	4.6%
Sunac	1918 HK	46.0	38.3	20.1%	61.0%	2,805,680	2,519,000	11.4%	87.4%	16,381	15,193	7.8%	(14.1%)
COLI*	688 HK	38.1	26.7	42.7%	24.8%	2,294,400	1,454,900	57.7%	18.9%	16,620	18,373	(9.5%)	4.9%
Future Land	1030 HK	28.1	16.6	68.8%	255.1%	2,357,000	1,356,100	73.8%	304.5%	11,921	12,271	(2.9%)	(12.2%)
Longfor	960 HK	21.0	17.5	19.7%	24.3%	1,434,000	1,120,000	28.0%	36.8%	14,630	15,652	(6.5%)	(9.2%)
Shimao	813 HK	20.7	10.6	96.3%	83.4%	1,274,492	675,603	88.6%	92.4%	16,272	15,636	4.1%	(4.7%)
BCL	2868 HK	20.3	4.8	325.2%	262.1%	503,000	201,000	150.2%	110.5%	40,318	23,731	69.9%	72.1%
Greentown	3900 HK	16.7	17.4	(4.0%)	21.9%	770,000	950,000	(18.9%)	-	21,688	18,316	18.4%	21.9%
CIFI	884 HK	15.2	12.7	20.0%	68.5%	1,021,500	736,500	38.7%	95.7%	14,880	17,203	(13.5%)	(13.9%)
China Jinmao	817 HK	15.0	8.1	84.6%	62.0%	526,148	326,057	61.4%	14.9%	28,446	24,868	14.4%	40.9%
Gemdale	600383 CH	14.6	11.9	22.6%	(21.6%)	876,000	723,000	21.2%	(2.4%)	16,632	16,432	1.2%	(19.6%)
Sino-Ocean	3377 HK	14.4	7.2	99.2%	69.9%	757,400	355,300	113.2%	35.8%	18,960	20,293	(6.6%)	25.2%
R&F	2777 HK	13.5	10.5	28.9%	63.2%	977,700	824,600	18.6%	77.5%	13,808	12,697	8.7%	(8.0%)
Central China	832 HK	12.2	4.7	157.1%	143.1%	1,635,803	645,144	153.6%	98.2%	7,435	7,333	1.4%	22.7%
China Aoyuan	3883 HK	12.0	7.5	59.6%	125.0%	1,277,000	686,000	86.2%	149.9%	9,374	10,933	(14.3%)	(10.0%)
Yuexiu	123 HK	9.1	4.7	95.5%	85.3%	432,300	234,100	84.7%	62.3%	21,029	19,863	5.9%	14.1%
Agile	3383 HK	8.4	8.7	(2.5%)	6.3%	695,000	704,000	(1.3%)	4.5%	12,129	12,287	(1.3%)	1.7%
COGO*	81 HK	8.0	7.2	11.5%	58.3%	621,700	569,400	9.2%	42.2%	12,921	12,652	2.1%	11.3%
KWG	1813 HK	6.8	5.6	21.5%	143.7%	418,000	354,000	18.1%	113.3%	16,287	15,822	2.9%	14.3%
Powerlong	1238 HK	4.2	3.5	19.5%	87.4%	257,890	242,296	6.4%	51.7%	16,325	14,540	12.3%	23.6%
China SCE	1966 HK	3.5	3.2	9.9%	(11.3%)	254,026	259,750	(2.2%)	41.8%	13,727	12,216	12.4%	(37.5%)
Poly (HK)	119 HK	3.2	6.5	(50.8%)	(22.0%)	181,000	270,000	(33.0%)	(34.9%)	17,680	24,074	(26.6%)	19.9%
Yuzhou	1628 HK	3.0	4.1	(26.6%)	(12.5%)	193,771	298,474	(35.1%)	13.0%	15,575	13,767	13.1%	(22.6%)
Fantasia	1777 HK	3.0	2.0	47.5%	304.7%	279,440	221,239	26.3%	258.9%	10,585	9,067	16.7%	12.7%
Hopson	754 HK	2.1	1.5	41.0%	162.6%	188,341	104,206	80.7%	286.9%	11,309	14,500	(22.0%)	(32.1%)
Shui On Land	272 HK	1.6	2.3	(32.6%)	10.0%	44,200	68,600	(35.6%)	78.2%	35,747	34,184	4.6%	(38.3%)
Total / average		594.3	441.3	34.7%	45.4%	44,196,191	32,676,369	35.3%	43.4%	13,447	13,506	(0.4%)	1.4%

Source: RHB

* COLI & COGO Contracted Sales Revenue and ASP are denominated in HKD

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Figure 2: Contracted sales summary for 1H18

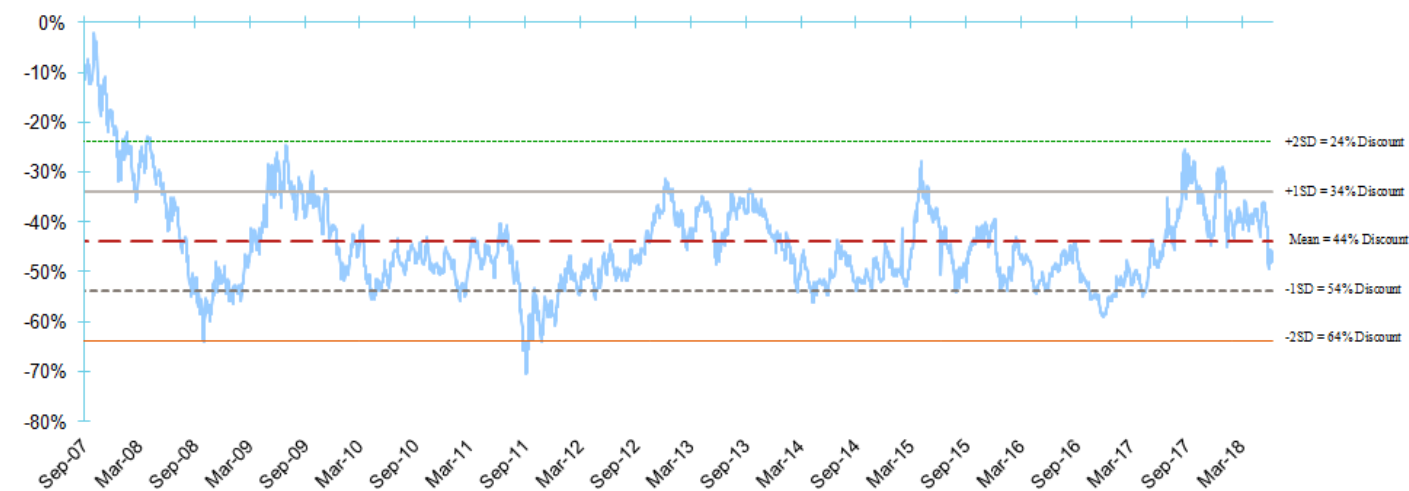
Developer	Ticker	1H18	1H17	1H18	FY18	1H18	FY17	1H17
		sales (CNY bn)	sales (CNY bn)	% yoy (%)	target (CNY bn)	lock-in (%)	actual sales (CNY bn)	lock-in (%)
Country Garden	2007 HK	412.5	288.9	42.8%	n.a.	n.a.	550.8	52.5%
China Vanke	000002 CH	304.7	277.2	9.9%	n.a.	n.a.	529.9	52.3%
Evergrande	3333 HK	304.2	244.1	24.6%	550.0	55.3%	501.0	48.7%
Poly Real Estate	600048 CH	215.3	146.6	46.9%	n.a.	n.a.	309.2	47.4%
Sunac	1918 HK	191.5	108.9	76.0%	450.0	42.6%	362.0	30.1%
COLI*	688 HK	150.8	127.3	18.5%	290.0	52.0%	232.1	54.9%
Longfor	960 HK	97.1	92.6	4.8%	200.0	48.6%	156.1	59.3%
Future Land	1030 HK	95.3	49.1	94.2%	180.0	53.0%	126.5	38.8%
Greentown	3900 HK	75.4	59.5	26.7%	n.a.	n.a.	146.3	40.7%
Shimao	813 HK	72.3	45.1	60.3%	140.0	51.7%	100.8	44.8%
China Jinmao	817 HK	71.8	24.1	197.7%	90.0	79.7%	69.3	34.8%
CIFI	884 HK	66.0	47.2	40.0%	140.0	47.2%	104.0	45.3%
Gemdale	600383 CH	63.1	70.3	(10.3%)	n.a.	n.a.	140.8	50.0%
R&F	2777 HK	57.0	38.8	46.8%	130.0	43.8%	81.9	47.4%
Agile	3383 HK	46.6	40.4	15.3%	110.0	42.3%	89.7	45.0%
Sino-Ocean	3377 HK	45.1	30.5	48.1%	100.0	45.1%	70.6	43.2%
China Aoyuan	3883 HK	40.3	16.5	143.9%	73.0	55.2%	45.6	36.2%
BCL	2868 HK	36.1	24.5	47.2%	75.0	48.1%	55.9	43.9%
KWG	1813 HK	32.4	14.6	121.8%	65.0	49.9%	28.7	50.9%
COGO*	81 HK	28.5	18.5	54.0%	n.a.	n.a.	37.1	49.8%
Yuexiu	123 HK	28.0	20.1	39.5%	55.0	50.9%	40.9	49.1%
Central China	832 HK	25.3	13.9	82.4%	45.0	56.3%	30.4	45.6%
Poly (HK)	119 HK	24.1	22.2	8.6%	n.a.	n.a.	37.9	58.6%
Yuzhou	1628 HK	21.5	21.5	0.0%	60.0	35.8%	40.3	53.3%
China SCE	1966 HK	20.8	15.5	34.1%	50.0	41.6%	33.2	46.7%
Powerlong	1238 HK	16.3	9.1	80.3%	35.0	46.7%	20.9	43.4%
Fantasia	1777 HK	11.3	5.1	123.8%	n.a.	n.a.	20.2	25.1%
Hopson	754 HK	6.2	4.5	40.0%	n.a.	n.a.	9.2	48.2%
Shui On Land	272 HK	6.0	4.4	36.0%	n.a.	n.a.	10.4	42.2%
Total / average		2,565.4	1,880.8	36.4%	2,838.0	50.0%	3,981.4	47.2%

Source: RHB

* COLI & COGO contracted sales revenue and ASP are denominated in HKD

Sector Valuation

Figure 3: China property sector's past 10 years' ENAV discount bands



Source: RHB

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Peer Comparison

Figure 4: Peer comparison I

Company	Stock code	*Price (HKD)	Mkt cap (USDm)	3-mth avg t/o (USDm)	RHB/Cons NAV (HKD)	Discount to NAV (%)	P/E		EPS YoY change		3-yr EPS CAGR (%)	P/BV		Div yield	
							FY18F (x)	FY19F (x)	FY18F (%)	FY19F (%)		FY18F (x)	FY19F (x)	FY18F (%)	FY19F (%)
Large peer average						40.4	6.9	5.5	19.4	26.3	21.2	1.5	1.2	5.5	6.3
China Vanke	2202 HK	25.20	38,438	33.7	33.34	24.4	6.8	5.6	23.9	22.4	19.5	1.5	1.3	5.5	6.8
**Country Garden	2007 HK	12.82	35,511	105.6	25.80	50.3	6.9	5.2	34.9	33.5	30.1	1.9	1.5	4.9	6.3
**Evergrande	3333 HK	21.35	35,856	67.2	42.20	49.4	6.1	5.1	-2.4	20.4	11.2	1.7	1.4	10.0	8.9
**China Overseas	688 HK	24.85	34,688	55.5	43.00	42.2	6.7	5.7	18.1	18.4	17.6	0.9	0.8	3.8	4.5
**CR Land	1109 HK	25.90	22,871	42.9	42.00	38.3	7.4	6.2	27.4	17.9	20.5	1.1	1.0	4.6	5.5
**Sunac	1918 HK	26.70	14,977	79.2	41.30	35.4	7.7	4.7	6.3	64.2	33.3	1.9	1.4	2.8	4.3
**Longfor	960 HK	20.75	15,678	14.2	35.10	40.9	8.2	6.5	27.2	26.0	25.3	1.3	1.1	4.8	6.1
Mid-and-small peer average						48.4	7.2	5.8	29.1	21.6	19.9	0.7	0.6	6.3	7.5
**Shimao	813 HK	20.80	8,976	21.4	40.00	48.0	6.5	5.2	33.0	23.6	26.9	0.9	0.8	6.0	7.4
**Agile	3383 HK	11.48	5,729	17.1	34.00	66.2	5.2	4.2	21.1	24.1	22.3	0.9	0.8	8.9	11.0
Guangzhou R&F	2777 HK	14.64	6,011	15.1	20.86	29.8	4.0	3.2	33.6	24.6	26.5	0.6	0.5	10.1	12.2
China Jinmao	817 HK	3.79	5,590	16.6	5.23	27.5	7.3	5.6	20.0	30.1	29.7	0.9	0.8	5.5	7.1
**CIFI	884 HK	4.66	4,610	15.9	10.40	55.2	5.5	4.2	26.3	29.2	26.9	1.1	0.9	6.5	8.4
Sino-Ocean	3377 HK	4.42	4,288	6.9	6.80	35.0	5.7	4.8	22.3	19.6	22.2	0.5	0.5	7.6	9.2
**KWG	1813 HK	8.78	3,529	16.0	22.30	60.6	5.0	3.9	53.7	29.9	36.1	0.7	0.6	7.0	9.0
Shenzhen Inv	604 HK	2.76	2,834	6.8	8.50	67.5	7.3	6.3	-27.1	17.3	-6.1	0.5	0.5	6.6	7.4
Kaisa	1638 HK	3.00	2,320	6.7	5.60	46.4	1.8	1.4	214.5	N/A	N/A	0.8	N/A	3.9	N/A
**Greentown	3900 HK	10.06	2,778	8.5	20.30	50.4	8.7	7.8	27.3	11.4	15.8	0.6	0.6	2.3	2.5
Yuexiu Property	123 HK	1.48	2,338	8.3	1.86	20.4	6.2	5.0	7.1	22.7	16.2	0.4	0.4	6.4	7.9
SOHO China	410 HK	3.56	2,358	3.9	7.30	51.2	36.4	27.5	N/A	32.5	N/A	0.5	0.5	4.3	5.0
Hopson	754 HK	6.58	1,866	1.4	13.08	49.7	10.4	10.3	N/A	1.6	N/A	N/A	N/A	2.9	2.9
Shui On Land	272 HK	1.81	1,859	5.2	5.90	69.3	8.4	7.8	-23.4	7.7	0.2	0.3	0.3	4.2	4.4
**CSC	1668 HK	1.48	1,510	4.2	6.90	78.6	6.0	4.9	N/A	22.4	25.0	0.3	0.3	3.4	5.0
Poly HK	119 HK	3.04	1,418	3.4	7.00	56.6	5.6	5.8	49.5	-2.8	N/A	0.4	0.4	5.3	5.1
**COGO	81 HK	2.65	1,156	3.4	6.60	59.8	3.9	3.2	42.8	21.3	25.5	0.4	0.4	2.3	2.8
Fantasia	1777 HK	1.21	888	1.8	2.60	53.5	4.3	3.3	20.0	29.2	24.9	0.5	0.3	5.8	7.1
Sector average						42.3	7.0	5.6	21.7	25.2	20.9	1.3	1.1	5.7	6.6

Note: *Prices are as at 11 Jul 2018. **Under RHB's coverage

Source: RHB, Bloomberg

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Figure 5: Peer comparison II

Company	Stock	Mkt cap	Revenue		Net profit		Gross margin	Net margin		Net gearing		ROE		Share price change	
	code		FY17	FY18F	FY17	FY18F	FY17	FY17	FY18F	FY17	FY18F	FY17	FY18F	1-mth	YTD
		(USDm)	(USDm)	(USDm)	(USDm)	(USDm)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Large peer average							31.8	15.8	12.5	96.3	23.7	24.5	22.4	-16.8	-7.1
China Vanke	2202 HK	38,438	35,595	47,027	4,207	5,217	32.3	11.8	11.1	14.1	N/A	22.8	22.8	-19.1	-19.2
Country Garden	2007 HK	35,511	34,029	52,566	3,909	5,085	25.9	11.5	9.7	55.0	32.4	31.8	29.4	-23.1	-9.6
Evergrande	3333 HK	35,856	46,645	66,780	3,655	5,921	36.1	7.8	8.9	237.8	N/A	30.7	32.6	-11.0	-20.8
China Overseas	688 HK	34,688	20,891	26,972	5,194	5,165	33.4	24.9	19.1	27.1	13.4	16.7	14.5	-13.4	-1.2
CR Land	1109 HK	22,871	15,109	18,900	2,933	3,105	40.3	19.4	16.4	43.1	26.4	17.7	16.3	-16.9	12.6
Sunac	1918 HK	14,977	9,879	20,863	1,752	1,947	20.7	17.7	9.3	249.1	N/A	32.8	23.5	-17.7	-17.5
Longfor	960 HK	15,678	10,809	14,433	1,889	1,896	33.9	17.5	13.1	47.8	22.7	19.0	17.3	-16.3	6.1
Mid-and-small peer average							33.2	31.8	12.6	87.1	43.7	14.2	12.4	-19.7	-10.3
Shimao	813 HK	8,976	10,562	12,764	1,176	1,387	30.4	11.1	10.9	61.1	53.7	14.2	14.7	-17.6	22.4
Agile	3383 HK	5,729	7,740	9,478	975	1,094	40.1	12.6	11.5	93.8	12.8	16.8	17.3	-29.3	-3.2
Guangzhou R&F	2777 HK	6,011	8,890	11,745	3,199	1,522	35.4	36.0	13.0	188.8	89.7	40.2	15.6	-22.0	-16.9
China Jinmao	817 HK	5,590	4,660	6,293	597	723	32.3	12.8	11.5	69.1	53.6	12.9	12.9	-14.3	10.2
CIFI	884 HK	4,610	4,773	6,093	724	849	27.1	15.2	13.9	49.4	N/A	26.9	22.3	-25.1	-1.1
Sino-Ocean	3377 HK	4,288	6,874	7,862	767	737	24.5	11.2	9.4	66.5	33.5	11.1	9.9	-18.6	-18.0
KWG	1813 HK	3,529	1,731	2,434	543	679	34.8	31.4	27.9	72.4	40.7	14.0	15.4	-30.8	-3.8
Shenzhen Inv	604 HK	2,834	1,307	2,383	631	381	34.6	48.3	16.0	22.0	N/A	13.3	7.1	-12.1	-14.8
Kaisa	1638 HK	2,320	4,916	10,324	493	1,286	27.3	10.0	12.5	326.2	N/A	20.5	38.5	-31.0	-32.0
Greentown	3900 HK	2,778	6,292	6,606	328	304	19.2	5.2	4.6	59.1	48.4	6.5	6.6	-18.2	0.0
Yuexiu Property	123 HK	2,338	3,568	4,047	339	370	25.7	9.5	9.2	84.1	45.0	7.2	7.4	-12.4	1.4
SOHO China	410 HK	2,358	294	295	710	74	74.0	241.2	25.2	51.4	N/A	14.1	1.5	-11.9	-22.1
Hopson	754 HK	1,866	1,761	N/A	739	N/A	36.8	41.9	N/A	71.9	N/A	9.8	N/A	-17.9	-14.1
Shui On Land	272 HK	1,859	2,767	2,369	336	224	42.6	12.2	9.4	55.1	N/A	4.4	3.0	-17.0	-16.2
CSC	1668 HK	1,510	1,198	1,577	575	250	43.3	48.0	15.8	61.0	N/A	14.0	10.4	-12.9	-27.8
Poly HK	119 HK	1,418	4,039	4,864	314	285	20.6	7.8	5.9	72.1	N/A	9.3	6.4	-19.6	-25.3
COGO	81 HK	1,156	2,584	3,460	162	251	20.1	6.3	7.3	77.6	15.4	10.6	13.7	-24.7	-36.4
Fantasia	1777 HK	888	1,467	2,049	173	205	29.6	11.8	10.0	87.1	N/A	9.8	7.5	-18.8	13.1
Average							32.8	27.3	12.6	89.7	37.5	17.1	15.3	-18.9	-9.4

Note: *Prices are as at 11 Jul 2018. **Under RHB's coverage

Source: RHB, Bloomberg

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