Daiwa Capital Markets

The 10-second briefing

Property after the boom

Taiwan Economy

- QE tapering signals the end of the real-estate bull market. We expect property prices to fall 5-10% this year as investors retreat
- Taipei City is likely to be the exception, as new arrivals and limited housing supply should continue to lend support
- We highlight 6 stocks with exposure to the Taiwan residential-property market

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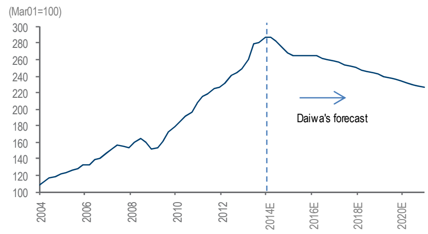
■ Party ends, curtain falls

Taiwan's housing market has been in a bull market for more than 10 years, but QE tapering from the Fed in the US is likely to bring this to an end. Foreign-capital outflows and rising mortgage and yield rates should all lead to a fall in house prices. There has been increasing pessimism in the market about the property sector since mid-2013, with some expecting an imminent crash.

We expect prices to drop this year as QE is tapered, but only modestly. We see the near-term risk to the Taiwan housing market coming from neither foreign-capital outflows nor rising interest rates, but from the retreat of property investors. Falling investment demand would put pressure on house prices, but we believe end-users would move in after a 5-10% fall in prices. Price should stabilise thereafter, until the pressure from gradual rises in mortgage interest rates is felt in late 2015 or 2016. We expect average house prices to fall gradually by 20-30% between now and 2020.

■ **Taiwan: house-price forecasts**



Source: CEIC, Daiwa forecasts

Projects targeted at investors, especially those in the suburbs with a lack of public facilities, could face greater price pressure. Risks also stem from policies and public expectations, as both factors could affect when end-users enter the market.

■ Taipei the exception

House prices in Taipei City should be more inelastic than elsewhere. Real demand has always been stronger, as people new to the city arrive looking for jobs. A lack of housing stock and limited new supply also leads to sticky prices. Given high entry costs and a relatively weaker price growth in Taipei since 2011, we believe most speculators have exited the market over the past 2 years. As such, any further pull-back in investment demand from Taipei should have a limited impact.

■ No big drag on GDP growth

The impact of falling house prices on GDP growth may not be as great as many expect. The real-estate and construction sectors together account for 10% of GDP, but the part affected directly by house prices accounts for less than 3% of GDP. We also see limited interdependence between real estate and construction and other industries, implying that a fall in house prices would not be a big drag on other sectors. Healthy balance sheets at banks should also cushion the shock if house prices were to fall more than the market expects. We maintain our 2.7% YoY GDP forecast for 2014.

■ Fresh views from the bottom up

The value of project launches planned for 1H14 (from 29 March onward) should be the highest for 7 years, with potential sales of TWD459bn, with Taipei City and New Taipei City accounting for 55% of the total. Our research suggests that: 1) luxury house prices should remain steady in Taipei City, but selling periods may lengthen from the current average of 3-6 months, 2) developers expect prices to soften outside Taipei City, especially where there is an oversupply, and 3) developers have become cautious about buying land, even in Taipei City, as they see land prices as too high. We believe that the developers most exposed to luxury residential projects in Taipei City will be the most defensive.

Company Section

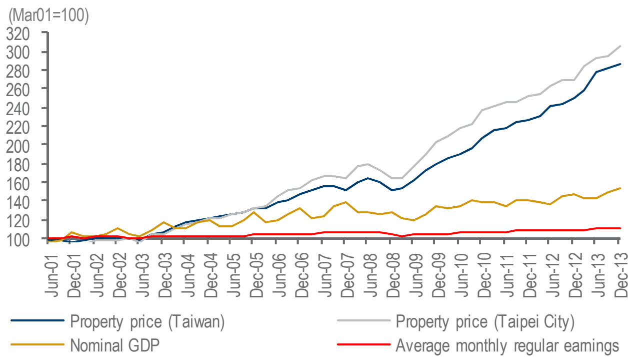
Property after the boom

The tapering of QE signals the end of the price boom in the Taiwan housing market. While we expect prices to trend down, a collapse over the near term looks unlikely. We maintain our 2014 GDP forecast at 2.7% YoY.

The boom and the bubble

Taiwan's property sector has been in a bull market for more than 10 years, with only a temporary setback during the 2008 global financial crisis. In fact, as the Sinyi Residential Property Price Index (the price index for houses already constructed) shows, prices rose faster after bottoming out during the global financial crisis, increasing by 88.9% from 2009-13, compared with a growth rate of 34.8% from 2004-08. The former figure is much higher than both the respective nominal-GDP and income-growth rates of 21% and 5.6% over 2009-13.

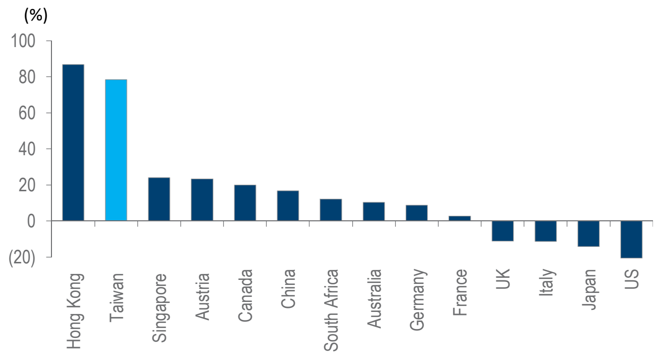
■ **Taiwan: residential property prices, nominal GDP, and earnings**



Source: CEIC, Daiwa

Up until 4Q13, Taiwan was one of the world's best-performing property sectors. House prices have increased by 78.5% in Taiwan since 4Q07.

■ **Housing-price changes globally (since 4Q07)**



Source: The Economist (as of 12 January 2013), CEIC, Daiwa

As at the end of 2Q13, the average price for a house in Taipei City was TWD655,000/ping (or about USD6,600/sq m). A ping is a traditional measure of property, and is equivalent to 3.3 sq m. The price seems low compared with other cities in Asia, such as Hong Kong and Singapore, but the burden for Taipei's residents of buying a unit is heavier than the headline price suggests.

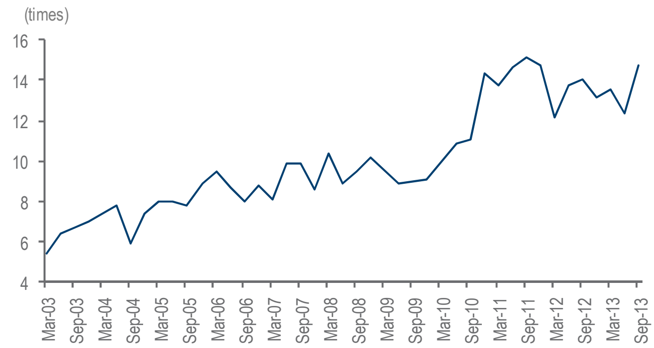
First, in most cases, there is huge disparity in the gross floor area, which is used to calculate the unit price, and the saleable area. In other words, a high "public facility ratio", which indicates the percentage of space occupied by public facility, such as lobby and an elevator, is applied to a property purchased in Taiwan.

The public facility ratio mostly ranges from 10% to 50%. Taiwan Realty Estate Co, one of the major property agents in Taiwan, collected data on housing deals made in the island's 6 major cities during 1H12. The company calculated the average public facility ratio for residential buildings constructed at different times. Buildings constructed from 1991-2000, 2001-10 and thereafter had respective average public facility ratios of 26.2%, 31.5%, and 35.3%, according to the survey.

Singapore and Japan use the saleable area to calculate the unit price. Hong Kong's property market uses both methods, but the disparity is not that big. However, a law implemented in April 2013 requires new buildings in Hong Kong to use the saleable area for unit-price calculations and this should gradually unify the method of calculation. Given this, we believe that in order to compare Taiwan's house prices with those elsewhere in Asia on a level basis, a 20-30% premium to the current headline price is necessary.

In addition, Taiwan has a lower income level than Hong Kong and Singapore. GDP per capita for Taiwan was USD20,958 for 2013, or about 55% and 38% of those for Hong Kong and Singapore, respectively. Meanwhile, monthly earnings for 2013 (including bonuses and irregular earnings) averaged USD1,550 in Taiwan, which was also lower than in Hong Kong (USD2,572) and Singapore (USD3,697). Taking into account income levels, Taipei could be the second least-affordable house market in the world, with a house price-to-annual income ratio of 14.7x for 3Q13 (Hong Kong: 14.9x).

■ **House prices-to-annual income ratio (Taipei City)**



Source: CEIC, Daiwa

Besides a very high house price-to-annual income ratio, there are other indicators that suggest a bubble. The following table summarises some international criteria for the real-estate market.

■ **Indicators that are widely used in identifying housing bubbles (data as at end-3Q13*)**

	Normal standard	Taiwan	Taipei City
House price-to-annual income ratio	3-6x	9.2x	14.7x
Mortgage repayment-to income ratio	<33%	33.7%	48.8%
Outstanding mortgage loan amount-to-NGDP ratio	<40%	41.3%	n.a
Rental yield	5%	n.a	1.57%
House price-to-annual rental income	20x	n.a	64x
Vacancy rate	3-5%	10.6%	7.8%

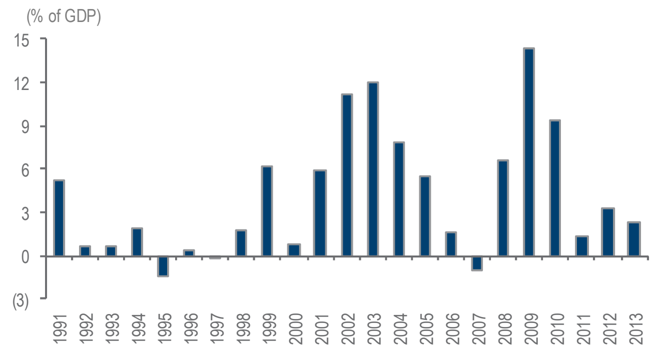
Source: CEIC, Daiwa
*Note: *2012 data for rental yield, house price-to-annual rental income, and vacancy rate*

For 2012, the rental yield in Taipei, at 1.57%, was the lowest among the Asia economies (Hong Kong: 3%; Singapore: 2.4%), implying that large amounts of money had flooded in to buy property. Rental-yield data is unavailable for other cities, but bubbles can still be detected by looking at other indicators. For example, the outstanding mortgage loan amount-to-nominal GDP ratio for Taiwan rose from 27.5% for 4Q06 to 41.3% for 3Q13, higher than the 40% level that is generally regarded as indicating a price bubble. The vacancy rate for the whole island was 10.6%, higher than the 7.8% for Taipei City and the 3-5% level that is generally regarded as indicating a price bubble internationally.

Where do the funds come from?

Taiwan is an export-oriented economy that sees large trade surpluses every year. Its current account has not recorded a deficit since 1981, when the number was first recorded. Even excluding capital outflows, a large part of which have gone to China for investment, the overall balance has been in surplus for the past 30 years, with only a few exceptions. The money stays in the island and propels money growth.

■ **Taiwan balance of payments: overall balance as a % of GDP**

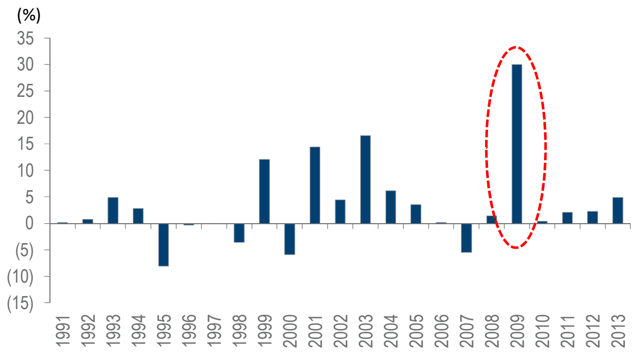


Source: CEIC, Daiwa

The Central Bank of China (CBC) successfully curbed money growth before 2001, mainly by maintaining high policy rates. Nevertheless, when the economy was hit by the dot-com bubble burst and the SARS crisis, the CBC was forced to cut the policy rate, from 4.625% in January 2001 to 1.375% in June 2003, and keep it low before it started to raise the rate again in October 2004. Things went fairly well after that, with the M1b growth rate being close to the nominal GDP growth rate over 2005-08.

However, the global financial crisis and the US Fed's QE programme have disrupted the CBC's efforts, as evidenced by a spike in the excess-liquidity measure (the difference between M1b and the nominal GDP growth rate) in 2009. Although the CBC did a good job in sterilising QE inflows through open-market operations, it was forced to keep the policy rate low in order to protect economic growth.

■ Excess liquidity



Source: CEIC, Daiwa

In addition, significant cuts in the gift and inheritance tax rates were implemented in January 2009, with them reduced from a maximum tax rate of 50% to a uniform tax rate of 10%, which resulted in a flood of offshore money moving into Taiwan. Property was an attractive investment for this money, especially when yield rates were low globally and investment opportunities were scarce in Taiwan amid anaemic economic growth.

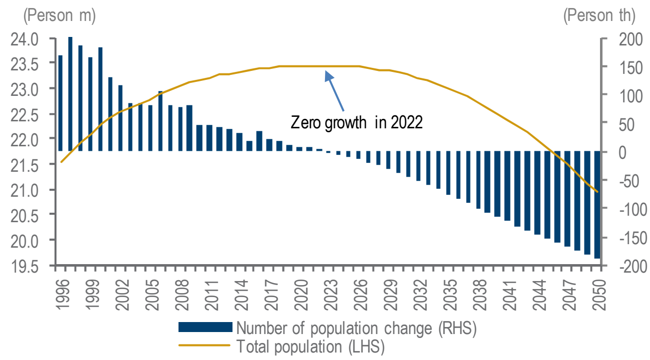
The CBC started to raise its policy rate again in June 2010, by when the economy had recovered from the global financial crisis. The pace of increase was slow, however, with rises of only 12.5bps a quarter. The rate-hike schedule was postponed by the European debt crisis. The policy rate has been 1.875% since July 2011, and funds have continued to pour into the property market.

The government has introduced policies in an attempt to cool the market, such as a luxury tax scheme implemented in June 2011. Second homes not occupied by the owner within one year of purchase have a 15% tax rate when sold, while a tax of 10% is levied on the price of those sold within 2 years of purchase. The CBC also adopted targeted measures with respect to high-value house loans, capping the loan-to-value ratio at 60%. Nevertheless, without the use of the powerful interest-rate tool, house prices have continued rising even after the introduction of these policies.

No bubble can last forever

The rise in prices cannot last forever. In addition to the fact that economic growth, wage growth, and household real purchasing-power growth have been lagging behind housing price growth to a great extent over the past 10 years, the demographic trend is not supportive of further price rises. According to the Council for Economic Planning and Development (CEPD, which has now been incorporated into the National Development Council), Taiwan could witness zero population growth by 2022. Without major changes to the immigration policy, the likelihood of which we see as low, house demand should decline on the back of declining demographic support over the long term.

■ Taiwan: population forecasts



Source: CEIC, CEPD, Daiwa

As such, it is clear that the property-price bubble has to deflate or burst at some point in the future. The question is when and how.

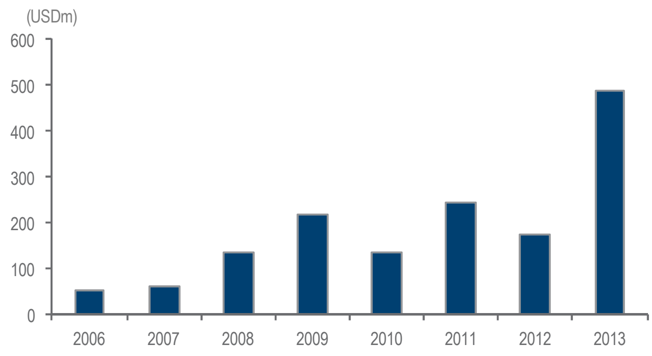
QE tapering: the tipping point?

The Fed's QE tapering, and the eventual exit from QE, is likely to have a direct impact on Taiwan in 3 areas: 1) foreign capital could leave the island as funds are returned to the US, 2) the CBC would probably start a new round of monetary tightening, pushing up interest rates on mortgages, and 3) other investment tools, such as bonds, would regain their attractiveness as yields rise. If these 3 things were to happen, we would expect property prices in Taiwan to fall. Market bears see QE tapering as the tipping point for sharp falls in house prices and believe a crash is imminent. While we agree that QE tapering will have an effect on the property market, we doubt there will be large price corrections over the near term.

Foreign capital: not a key player

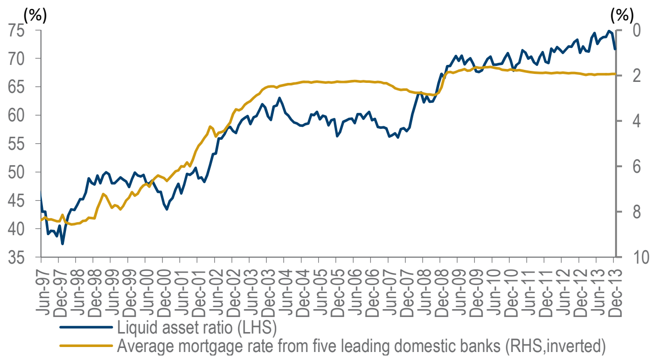
Compared with Hong Kong and Singapore, Taiwan's property market is more isolated from global fund flows. The amount of FDI approved for real-estate activity was only USD0.5bn for 2013, compared with USD36.8bn for Hong Kong for 2012 and USD21.9bn for Singapore for 2011. Foreign investment in real estate remained low over the QE period (see the following chart). It was not until 2013 that there was a sharp rise in such investment, likely driven by a set of regulations easing restrictions on the entry of capital from Mainland China.

■ Taiwan: FDI approved for real-estate activities



Source: CEIC, Daiwa

■ Liquid-asset ratio and the mortgage rate (inverted RHS axis)



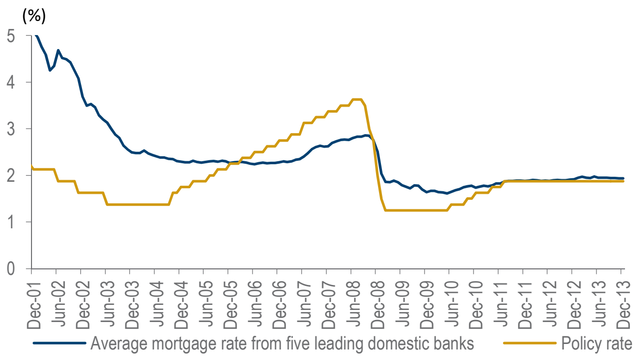
Source: CEIC, Daiwa

Taiwanese, therefore, account for most of the demand in the property market. As mentioned in the previous section, a large proportion of the funds that have entered the property market in Taiwan have been earned from trade surpluses, which leads to structurally sustainable money inflows into Taiwan. As long as Taiwan can keep its trade balance in the black, we believe any pull-back in foreign capital would have a minor impact on house prices.

Mortgage rates should rise, but not rapidly

The mortgage rate is the direct funding cost for house purchases and is likely to edge up when the policy rate rises. However, there have been exceptions to this. For example, the CBC embarked on a rate-hike cycle in October 2004, but it was not until 2H07 that the average mortgage rate started to increase.

■ Taiwan: average mortgage rate and policy rate



Source: CEIC, Daiwa

Excess liquidity in the banks sector may have been the main reason for this. The liquid-asset ratio, which describes banks' liquidity conditions by dividing their liquid assets by their short-term liabilities, seems to be a good indicator of the mortgage rate. The following graph shows the correlation: the more liquidity in the banks, the lower the mortgage rate is likely to be.

As such, there seems no evidence to suggest that policy-rate hikes by the CBC would instantly drive the mortgage rate higher, especially when the banks sector has abundant liquidity. As we expect the CBC to keep the policy rate on hold before resuming its tightening cycle in 2015 (see *G3 recovery versus Fed tapering*), we believe prices in the housing market will not feel any real pressure from a rising mortgage rate until late 2015 or 2016.

Rising yields: diverting investment funds

Property is both a consumer good and an investment tool. Demand for property as a consumer good is usually stable, but investment demand fluctuates.

During the QE period, property has been seen as an asset that provides a strong and secure income stream while other investment tools offer low returns. Even though the rental yield in Taiwan is the lowest in Asia, it is still higher than that for bonds and time deposits (the 10-year government bond yield averaged 1.54% and the 1-year time deposit rate averaged 1.39% over 2008-13), especially when large capital gains were widely expected by the property investors.

Given rising yield trends following QE tapering, some funds could be diverted from the property market, especially as entry prices have risen so much now. With reduced demand, home prices should fall. To what extent the pull-back will affect prices will depend on how much investment demand accounts for in the property market.

Unfortunately, there is no official data on the proportion of units purchased for investment to total housing stock. Local real estate agents have conducted some surveys estimating the proportion of properties bought for investment purposes among the total housing transactions, but the results vary. Some agents claim that 20% of transactions are investment-based, but others put it at up to 50%.

What's next?

In our opinion, the near-term risk for Taiwan's housing market, therefore, is not the potential for foreign-capital outflows or rising mortgage rates, but the retreat of property investors as they divert their funds to other investment tools when yields rise. That said, a pick-up in end-use demand, including first-time home buyers and home buyers looking for an upgrade, could provide a buffer.

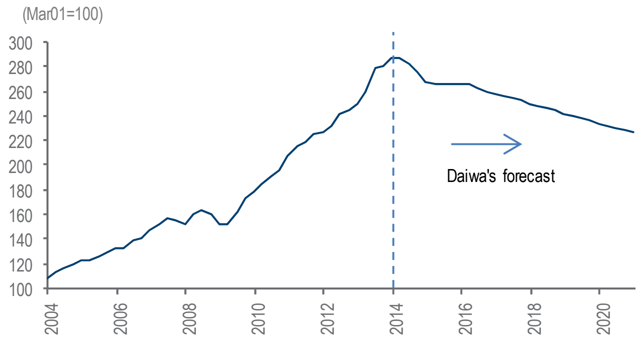
Years of soaring prices has crowded out some real housing demand, forcing households to rent units or live together with their elder family members instead of buying. Some households have given up on the idea of upgrading their houses over the past few years amid unattainable housing prices. Such pent-up demand should act as a stabiliser in the housing market, in our view.

At the initial stage, these households could take a wait-and-see attitude. But a 5-10% fall in average prices should be enough to trigger some reaction. During the 2008 global financial crisis (GFC), when GDP growth fell sharply and the unemployment rate soared, Taiwan's housing prices on average fell by 7.3% from their peak. Given the better economic outlook for 2014 (our GDP growth forecast for Taiwan is 2.7% YoY for 2014, up from 2.1% YoY for 2013), a price correction comparable with that during the GFC should be enough to trigger some movements from these households, in our view.

As such, we only see property prices coming down moderately in 2014 by 5-10% due to a likely pullback in investment demand. Prices should then stay flat afterwards as pent-up end-use demand kicks in, but could fall again later when the pressure of rising mortgage rates is felt.

As the CBC is generally prudent in its rate-hike decisions, usually raising rates by only 12.5bps in each quarter, pressure from rising mortgage rates is likely to be gradual, implying an orderly decline for housing prices. In the long run, however, we believe a 20-30% price correction is needed for house prices to meet the country's economic fundamentals (that is, for the housing price/ annual income ratio to drop to 6x, in accordance with international standards).

■ Daiwa's forecast for Taiwan's average housing prices



Source: CEIC, Daiwa

Despite an orderly slowdown in average prices, some areas could face larger price pressure. Projects targeting investment needs, especially those located in suburban areas with a lack of public facilities, could find themselves in trouble. These projects were attractive to investors due to their relatively low entry cost and the expectation of high housing prices in the city centre spilling over to those on the outskirts. Without sufficient living facilities, end-use buyers may not be willing to step in when investors pull back from those areas.

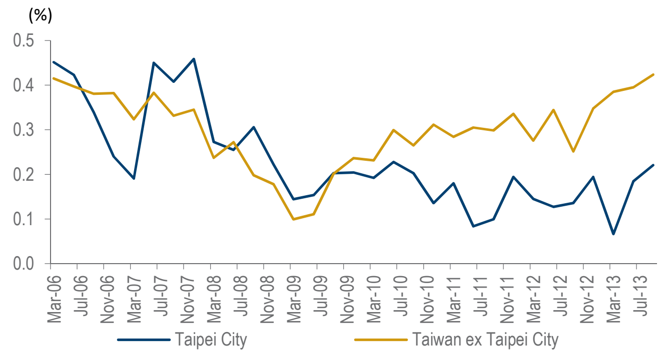
Taipei City: steady housing prices

We expect Taiwan's housing prices on average to start falling in 2014, albeit at a more modest rate than many expect. However, for Taipei City, housing prices could still be quite inelastic in the near term, in our view.

Housing demand has always been strong in Taipei City as people move there to find jobs, offsetting the impact of the declining birth rate. In addition, unlike in other cities in Taiwan, where housing supply roughly meets demand (or is in oversupply in some places), supply falls short of demand in Taipei. Taipei's housing stock was 935,837 units in 3Q13, about 50,000 fewer than the number of households surveyed in 2Q13.

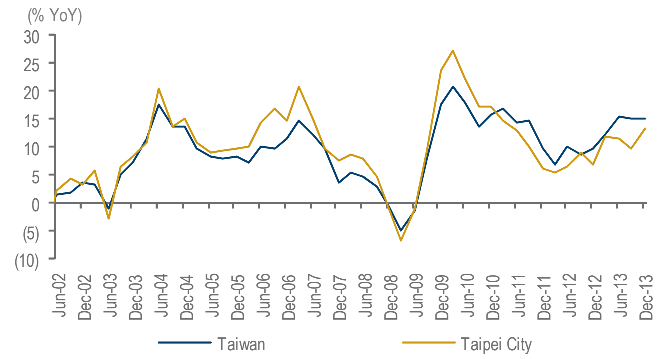
The building permit granted for construction (BPC), which is a good leading indicator of new housing supply, implies that the supply in Taipei is unlikely to pick up in the near term. As shown in the graph below, the ratio of BPC to housing stock for Taipei has been much lower than that for other places since 2009. Besides scarce land bank, a slow pace of urban renewal is also one of the main reasons behind this.

■ Building permits granted for construction to housing stock



Source: CEIC, Daiwa

■ Average housing price growth in Taiwan and Taipei City



Source: CEIC, Daiwa

Due to the lack of new housing supply, Taipei is now filled with aged houses. Some 50.9% of the houses in Taipei were over 30 years of age in 3Q12, while only 6.5% were less than 5 years old. Prices of old houses have remained high despite deteriorating housing conditions, as many such homes are located in the centre of Taipei. New houses are forced to be built on the edge of the city but also have pricing power by offering better facilities.

Support for house prices also comes from a better relationship with Mainland China. Taiwan is the only place in the Greater China area that offers permanent private property rights, which is attractive to Mainlanders (both China and Hong Kong currently use a land leasehold system). Among all the big cities in Taiwan, Taipei continues to be the most competitive in attracting Mainland capital. Although strict regulations exist to prevent excess Mainland capital pouring into the real-estate sector, property prices in Taipei still find support from rising office space demand and new job opportunities provided by Chinese corporates.

In addition, we believe the property speculators have more or less left Taipei in recent years. Since 1Q11, year-on-year growth for Taipei's housing prices has constantly fallen short of the average housing price growth for the whole island. With lower return rates and higher entry costs, Taipei's popularity with speculators should have faded over the past few years. In other words, the force of dragging prices caused by the pull-back by investors going forward may not be as significant in Taipei as in other cities.

Risks and uncertainties

The above analysis presents our base-case scenario for Taiwan's property market. However, some exogenous factors could alter the results. We see: 1) the government delivering stricter-than-expected cooling measures, and 2) extreme pessimism abruptly prevailing among the public, as 2 such major sources of risk and uncertainty.

Unattainable housing prices have been the most-complained-about issue among the public in recent years. Given the 7-in-1 election (for local officials and representatives, including city mayors and city legislators) due to take place on 29 November 2014, pressure exists for the ruling party to deliver some cooling measures to attract voters.

That said, although some policies, such as raising the assessed property value used for tax calculations and further lowering the loan-to-value ratio for luxury mansions, could be introduced, we doubt the government would go beyond that in the near term. Not only would it involve a lot of law amendments to go further, but sharp price corrections would also be seen as unfavourable for the government. Our view is validated by the Minister of Finance, Chang Sheng-ford, who put property tax reform as a medium-to-long term goal instead of a near-term one when he introduced the "fiscal consolidation scheme" on 24 February 2014. Moving from the current assessed land value tax system to actual selling price taxation could be one of the medium-to-long term reform goals.

Upside for the property market could also come from the policy front as the election approaches. Candidates are likely to draw rosy blueprints for future urban development and public infrastructure, which could increase the land value near those areas and offset some cooling efforts. For example, the plan/ construction of the Mass Rapid Transit (MRT) system has always driven up housing prices nearby based on historical experience.

In summary, the policy front is likely to have a neutral impact on average housing prices, in our view. Nevertheless, we cannot rule out the possibility that stricter-than-expected cooling measures could be implemented. For example, a significant rise in the luxury tax rate or the introduction of new taxes for owning vacant units could hammer housing prices.

To fully grasp public expectations on property is fundamentally an impossible task. Although a 5-10% drop in average housing prices, in our view, would be sufficient to vitalise the pent-up housing demand, any change in market sentiment could prompt these buyers to wait longer before stepping in. How the government addresses its policy and how the media interpret it could change the market sentiment dramatically in an instant. If pessimism abruptly prevails, housing prices could fall more before they stabilise.

Implications for GDP growth

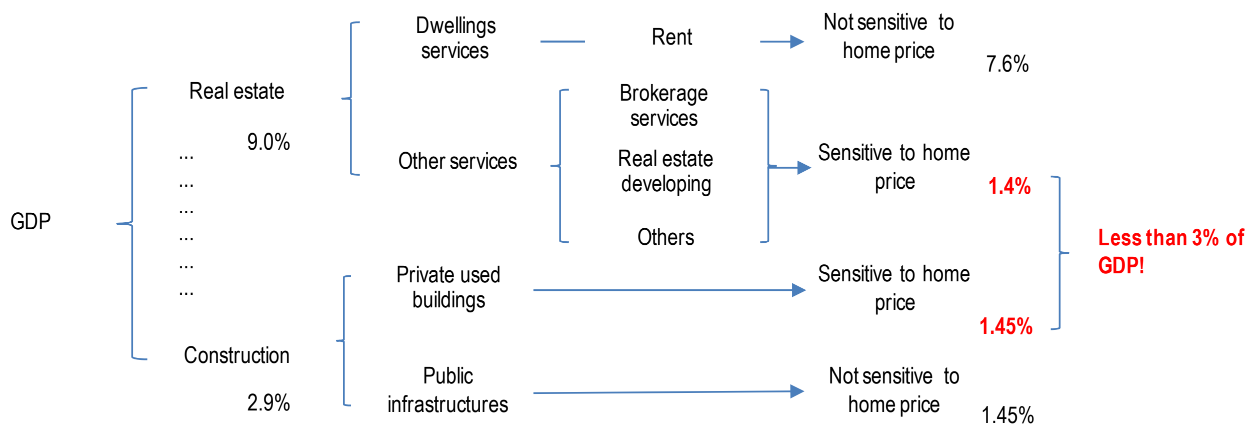
The real-estate sector has long been seen as one of the main engines for economic growth in Taiwan. It accounted for 8.3% of the country's total GDP in 2013, making it the third-largest sector in Taiwan (after the manufacturing sector at 32.2%, and the wholesale and retail trade at 17.4%). Including the construction sector, the ratio rises to 10.6%. It also seems to have the power to vitalise industries such as steel and cement. These characteristics have led to fears that falling home prices would dent the sector outlook and drag the economy into recession. However, we think such fears are exaggerated.

From the GDP calculation, real estate can be further broken down into "dwellings services" and other services (which include brokerage services, real estate development, etc.). Dwellings services are the service value of housing; in other words, it is equivalent to rent. Not only do rental units have rental value, but estimated rent amounts are also applied to self-owned housing units when calculating the GDP contributed from the real-estate sector. This set of data is announced later than the headline figures, and thus is often left unnoticed. In 2012, dwellings services accounted for 7.6% of total GDP while other services accounted for 1.4% (the whole real-estate sector accounted for 9% of GDP in 2012).

Since rent is unlikely to be volatile, especially the estimated rent value of self-owned units, the impact of the falling home prices will be mostly felt by other real-estate services. This means only 1.4% of the GDP was directly affected by housing prices in 2012. The figure rises to 4.3% if we take the construction sector into account (2.9% of GDP), but it is still lower than the headline number of 9% for 2012.

It is worth noting that the construction of both private-use units and public infrastructure is included under the construction subcomponent of the GDP calculation. The exact share is unknown, but we expect more than half of the construction to be public-related. Since public infrastructure is not sensitive to housing prices, the actual direct impact on housing prices should thus be less than 3% of GDP (see the diagram below).

■GDP breakdown by industry (in 2012)



Source: CEIC, Daiwa
Note: The numbers indicate the share of GDP

The contribution of real-estate services to headline GDP growth (1.2% YoY by industry approach) was 0.24pp for 2012. Of this, 0.19pp came from dwellings services while only 0.05pp was from other real-estate services. Meanwhile, the contribution of the construction sector to GDP growth contracted by 0.03pp despite home prices increasing by 8.9% YoY for 2012. As such, the correlation between home prices and GDP growth may not be as strong as many have thought.

In terms of the concerns that falling home prices could hinder a recovery for other sectors, such as steel and cement, we see these worries as being overdone as well. From the official input-output table, which shows the interdependencies between different industries, we see no outstanding connection between real-estate services and other industries. According to the table, when the final demand for real-estate services decreases by 1 unit, 1.47 units of output will be wiped off the economy, because the inputs for that service are also wiped out. The impact is actually smaller than that for the finance & insurance sector of 1.50 and the wholesale & retail sector of 1.63. The impact on the construction sector is much higher at 3.31, but is not as high as that for other manufacturing industries (see the following table).

■ **Input-output table for major industries**

Input \ Output	Real estate	Finance & insurance	Wholesale & retail	Construction	Electronic parts	Computer, electronic & optical
Petro & Chemicals	.03	.03	.08	.31	.55	.49
Rubber & plastic	.00	.00	.02	.04	.05	.07
Basic metal	.04	.01	.02	.63	.23	.25
Electronic parts	.01	.01	.01	.03	1.88	.88
Computers, electronic & optical	.00	.00	.00	.01	.01	1.07
Machinery equipment	.01	.01	.01	.16	.05	.07
Power, gas & water	.01	.01	.03	.06	.07	.06
Construction	.06	.01	.01	1.01	.01	.01
Wholesale & retail	.02	.02	1.04	.21	.14	.18
Finance & insurance	.12	1.19	.04	.05	.06	.07
Real estate	1.01	.03	.05	.02	.01	.02
Other sectors	.15	.20	.31	.79	.49	.57
Total	1.47	1.50	1.63	3.31	3.56	3.75

Source: Directorate-General of Budget, Accounting and Statistics (DGBAS), Daiwa
Note: Based on 2006 data

As such, we do not expect a fall in home prices to weigh much on GDP growth, particularly when the price corrections are likely to be moderated in the near term. The financial sector could come under some pressure from falling property prices, as property assets are widely used as loan collateral in Taiwan (48.7% of the loans used property as collateral in 2012), but healthy bank balance sheets should be able to provide a buffer against the shocks. The non-performing loans ratio and loan-to-deposit ratio for Taiwanese banks both hit record lows of 0.36% and 77.4% at the end of 2013, which are much lower than the respective ratios of 4.2% and 107% before the last housing bubble burst in 1997. Overall liquidity risk is modest as evidenced by the high liquid reserve ratio of domestic banks at 33% for December 2013, which is well above the statutory minimum of 10%.

The dimmer outlook for the property sector could result in issues such as unemployment and financial loss for investors. Nevertheless, this is what would happen if other sectors were to face a similar situation. We would remind investors that property is not so special from other industries and overweighting its status is unnecessary. For Taiwan, export performance remains the key economic growth driver. As a result, we comfortably leave our 2.7% YoY GDP forecast for 2014 (2.1% YoY for 2013) unchanged despite fears of a falling trend in home prices.

Conclusions

QE tapering is likely signalling the end of the bull property market. In contrast to the bear's view, where sharp price falls are expected, we believe corrections will remain orderly as a liquid banking system and end-use buyers continue to lend support. In the near term, property prices will likely be under pressure due to a fall in investment demand as yields on other investment tools rise. We think a 5-10% price drop is likely before pent-up demand steps in and stabilises prices. In the long term, we look for prices to gradually fall by 20-30% to meet the economic fundamentals.

Housing prices in Taipei City could be more inelastic, despite a falling price trend elsewhere on the island. Not only has demand always been stronger than elsewhere in the country due to newcomers searching for job opportunities, but a lack of housing stock and limited new future housing supply have led to sticky prices. Given that the housing price growth rate in Taipei has fallen below the average growth rate since 2011, we believe Taipei's halo for speculators has already faded over the past few years. As such, the pull-back of investment demand from Taipei could be more limited on its housing market than it would have been if all the property investors had remained in the market.

An orderly decline in average housing prices would be both favourable and achievable going forward, but some areas could still face higher pressure. Projects targeting investment needs, especially those located in suburban areas with a lack of public facilities should be the places to worry about. Risks also stem from the policy side and changeable public expectations. Both factors could defer the entry timing of end-use home buyers, which could lead to a further drop in prices before they stabilise.

Although falling home prices look poisonous for economic growth, we believe that the impact will not be as great as most expect, given our view that the impact of home prices on economic growth is smaller than most expect, and the healthy balance sheets at the banks. In our base case, where we see an abrupt housing bubble burst as unlikely in the near them, the dimmer outlook for the property sector should not have a major drag on economic growth. We therefore maintain our 2.7% YoY GDP forecast for 2014 despite a likely fall in house prices.

■ Taiwan property: peer comparison

		Price (TWD)	Mkt cap	Daily turnover	Taipei City	EPS (TWD)			PER (x)			EPS growth (%)	
Company	Ticker	3/14/2014	(USDm)	(USDm)	Exposure	2013E	2014E	2015E	2013E	2014E	2015E	2014E	2015E
Yulon Motor	2201 TT	50.5	2,618	8		2.2	2.6	2.8	23.2	19.3	18.1	20%	7%
Taiwan Fertilizer	1722 TT	62	2,003	6		3.0	4.2	4.3	23.7	14.6	14.5	40%	1%
Ruentex	9945 TT	50.9	1,969	9		16.0	5.5	6.8	3.7	9.3	7.4	-66%	25%
Farglory	5522 TT	49.85	1,373	2	17%	8.3	8.6	9.8	6.6	5.8	5.1	5%	13%
Highwealth	2542 TT	62.3	1,228	3	37%	10.8	16.1	n.a.	5.9	3.9	n.a.	49%	n.a.
Cathay Real Estate	2501 TT	17.6	961	1	13%	1.0	2.5	1.9	18.2	7.0	9.3	140%	-25%
Prince Housing	2511 TT	14.9	793	1		1.1	2.0	2.2	17.2	7.3	6.9	93%	5%
Chong Hong	5534 TT	84.6	694	4	63%	19.6	9.6	11.0	5.2	8.8	7.7	-51%	15%
Huaku	2548 TT	73.3	669	3	69%	10.9	10.4	9.9	7.8	7.0	7.4	-4%	-5%
Kindom	2520 TT	33.05	549	5	43%	2.1	7.6	7.3	16.4	4.3	4.5	261%	-4%
Huang Hsiang	2545 TT	50.4	544	1		5.2	7.8	15.0	13.5	6.5	3.4	50%	92%
China Metal Products	1532 TT	37.8	481	1	52%	8.6	4.4	6.6	4.6	8.7	5.7	-50%	51%
Hung Sheng	2534 TT	22.7	441	2	67%	-0.1	6.8	5.7	n.a.	3.3	4.0	n.a.	-16%
Yungshin	5508 TT	72.2	431	1	0%	11.2	11.7	n.a.	6.3	6.2	n.a.	4%	n.a.
Hung Poo	2536 TT	28.50	300	0	67%	3.3	5.3	5.6	9.2	5.4	5.1	59%	6%
Advancetek	1442 TT	35.15	239	1	4%	6.6	4.5	6.3	5.0	7.8	5.5	-32%	41%
Average									**11.5**	**7.8**	**7.6**		

Source: Bloomberg, data as of 14 March 2014

■ Taiwan property: peer comparison (cont'd)

		ROE(%)			PBR (x)			Share price performance (%)				Dividend yield	
Company	Ticker	2013E	2014E	2015E	2013E	2014E	2015E	1m	3m	6m	12m	2013E	2014E
Yulon Motor	2201 TT	5%	6%	6%	1.1	1.1	1.0	-3.7	-2.9	-4.1	-13.9	6%	6%
Taiwan Fertilizer	1722 TT	6%	7%	8%	1.3	1.1	1.1	-2.9	-10.1	-16.6	-20.9	6%	7%
Ruentex	9945 TT	61%	17%	18%	1.7	1.4	1.3	-6.7	-14.3	-24.0	-24.1	7%	8%
Farglory	5522 TT	19%	18%	18%	1.2	1.0	0.9	-0.1	-5.8	-13.6	-15.6	5%	8%
Highwealth	2542 TT	24%	36%	n.a.	1.7	1.2	n.a.	0.7	-4.6	-12.4	-9.5	3%	7%
Cathay Real Estate	2501 TT	8%	17%	13%	1.4	1.1	1.1	-2.5	-10.9	-24.0	-1.5	2%	4%
Prince Housing	2511 TT	7%	15%	14%	1.3	1.0	0.9	-7.5	-15.3	-16.3	-25.8	n.a.	n.a.
Chong Hong	5534 TT	43%	18%	17%	2.1	1.6	1.3	-1.9	-11.9	-23.5	-18.4	n.a.	n.a.
Huaku	2548 TT	19%	17%	19%	1.7	1.4	1.3	-9.0	-17.7	-22.0	-8.6	12%	n.a.
Kindom	2520 TT	10%	29%	24%	1.7	1.2	1.0	-6.5	-9.2	-24.6	18.5	5%	6%
Huang Hsiang	2545 TT	5%	8%	15%	n.a.	1.4	n.a.	-1.5	-9.4	-27.9	-40.9	n.a.	n.a.
China Metal Products	1532 TT	24%	11%	11%	1.2	1.1	1.0	-0.4	-13.4	-13.8	-8.5	4%	13%
Hung Sheng	2534 TT	0%	35%	22%	1.4	1.0	0.9	-7.1	-10.7	-12.0	0.1	7%	5%
Yungshin	5508 TT	11%	12%	n.a.	n.a.	n.a.	n.a.	-7.3	-12.7	-12.5	-11.0	3%	5%
Hung Poo	2536 TT	n.a.	n.a.	n.a.	1.0	0.8	n.a.	-4.4	-10.2	-9.5	-14.6	6%	7%
Advancetek	1442 TT	32%	19%	n.a.	1.5	1.6	n.a.	-6.2	-8.7	-5.3	10.0	2%	2%
Average		**17%**	**18%**	**15%**	**1.5**	**1.2**	**1.1**					**6%**	**7%**

Source: Bloomberg, data as of 14 March 2014

The 10-second briefing

Taiwan Fertilizer
1722 TT

Target (TWD): **n.a.**
Up/downside: -
14 Mar price (TWD): **62.00**

A large landbank

- Company expects earnings improvement from Jubail and the real estate project to be the main earnings drivers this year
- It believes rental income would be affected if the property market were to slow, but current contracts would not be affected
- There are no plans to sell its land

■ Not Rated

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■ Background

Founded in 1946, Taiwan Fertilizer was established by the government and privatised in 1999. The company has remained the biggest shareholder (with a 24% stake). It is the biggest fertiliser company in Taiwan, with a 75% share of the market. However, as the price of fertiliser is controlled by the government to protect farmers, Taiwan Fertilizer's earnings are driven mainly by its chemicals business and real estate.

For 9M13, chemicals made up 21% of total gross profit, real estate 86%, and others 9%. Fertiliser represented a loss of 8% of total gross profit.

■ Highlights

Market outlook. Taiwan Fertilizer believes its rental income might be affected if there were a deterioration in overall property demand, but that its existing contracts would not be affected.

2014 guidance. The company expects the earnings drivers for 2014 to be the 50%-owned Jubail chemical plant in Saudi Arabia and its real-estate business. It expects earnings from Jubail to increase to TWD2.4-2.5bn (representing a rise of more than 30% YoY) and from property to increase YoY as well, due to a potentially large project being booked in 4Q14. The Bloomberg consensus forecasts the 2014 net profit to increase by 39% YoY.

Land-development plans in 2014. Taiwan Fertilizer aims to focus on rental income rather than selling land in the future.

The company plans to book part of the R5 project (in Nankang, Taipei) this year. R5 is a residential project with a value of TWD9.7bn (much bigger than the most recently booked project, R4-1, worth TWD3.2bn), which Taiwan Fertilizer expects to contribute to earnings over 4Q14-1Q15 (it is already 100% sold).

It has been confirmed that the C2 plot (in Nankang, Taipei) will be leased to Grand Hi-lai Hotel and Caesar Park Hotel, with Taiwan Fertilizer starting to receive rental income from 2018.

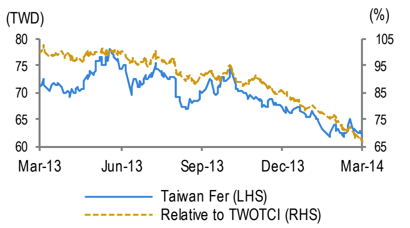
Notably, the company has leased one plot of land in Nangang for 50 years (from 2006) to ChinaTrust FHC, for the latter's headquarters. Within this period, Taiwan Fertilizer plans to book rental fees (8% of the announced land price, which amounted to TWD210m for 2013) and land royalty fees of TWD64m annually.

High dividend-payout ratio. Over the past 5 years, the company's dividend-payout ratio has been about 80% (a yield of about 3.5%) and it guides for a sustained high payout ratio for its cash dividend.

■ Valuation

The stock is trading currently at a 2014E PBR of 1.1x, based on the Bloomberg-consensus forecasts, compared with a range of 0.5-2.2x since 2002.

Share price performance



12-month range	61.80-78.10
Market cap (USDbn)	2.00
3m avg daily turnover (USDm)	6.12

Source: FactSet, Daiwa

■ **Taiwan Fertilizer: financial highlights**

(TWDm)	2008	2009	2010	2011	2012	3Q12	4Q12	1Q13	2Q13	3Q13
Net sales	17,026	17,157	14,436	16,978	17,828	4,014	5,400	5,905	3,253	3,596
COGS	-15,827	-14,322	-12,451	-15,335	-15,395	-3,593	-3,841	-4,090	-2,988	-3,455
Gross profit	1,199	2,836	1,985	1,643	2,433	421	1,559	1,815	265	141
Operating costs	-918	-1,062	-1,138	-1,194	-1,334	-283	-472	-395	-318	-334
Operating profit	281	1,773	847	449	1,099	138	1,087	1,420	-53	-193
Non-operating profit	3,259	472	998	2,837	2,651	764	392	1,102	93	449
Pre-tax profit	3,540	2,245	1,846	3,287	3,749	902	1,479	2,522	40	256
Taxes	-1,348	-978	-122	-276	-410	-136	-61	-265	-16	-24
Net profit	2,192	1,267	1,724	3,011	3,339	765	1,418	2,257	24	232
Pre-tax EPS (TWD)	3.61	2.29	1.88	3.35	3.83	0.92	1.51	2.57	0.04	0.26
Net EPS (TWD)	2.24	1.29	1.76	3.07	3.41	0.78	1.45	2.30	0.02	0.24
Outstanding shares (m)	980	980	980	980	980	980	980	980	980	980
Operating ratios										
Gross margins	7.0%	16.5%	13.8%	9.7%	13.6%	10.5%	28.9%	30.7%	8.2%	3.9%
Operating margin	1.7%	10.3%	5.9%	2.6%	6.2%	3.4%	20.1%	24.1%	-1.6%	-5.4%
Pre-tax margin	20.8%	13.1%	12.8%	19.4%	21.0%	22.5%	27.4%	42.7%	1.2%	7.1%
Net margin	12.9%	7.4%	11.9%	17.7%	18.7%	19.1%	26.3%	38.2%	0.7%	6.4%
YoY (%)										
Net revenue	44%	1%	-16%	18%	5%	-12%	23%	29%	-15%	-10%
Gross profit	40%	136%	-30%	-17%	48%	6%	775%	1020%	-9%	-66%
Operating income	-1%	530%	-52%	-47%	144%	62%	n.a.	n.a.	-538%	-240%
Pre-tax income	-22%	-37%	-18%	78%	14%	-22%	403%	322%	-95%	-72%
Net income	-42%	-42%	36%	75%	11%	-22%	232%	336%	-96%	-70%
QoQ (%)										
Net revenue						5%	35%	9%	-45%	11%
Gross profit						45%	271%	16%	-85%	-47%
Operating income						n.a.	688%	31%	-104%	n.a.
Pre-tax income						17%	64%	70%	-98%	540%
Net income						20%	85%	59%	-99%	853%

Source: Company

■ **Taiwan Fertilizer: land-development plans for 2014**

Area	Location	Size (ping)	Size (sq m)	Current status
Nangang Business-Trade Park No. R5	Taipei City	2,045	6,459	Fully sold and construction under way
Nangang Business-Trade Park No. C2	Taipei City	7,051	23,310	1. C2 hotel leasing. Bid winners are Grand Hi-lai Hotel and Caesar Park Hotel. Applying for construction licence
Nangang Business-Trade Park No. C3	Taipei City	12,565	41,537	
Nangang Business-Trade Park No. C4	Taipei City	2,091	6,911	2. C3 superficies due to be released, preparing to call for bids
Hsinchu Tech Business Park No. D7-ABCDF	Hsinchu	17,790	58,810	D7-A construction due to start soon
Hsinchu Tech Business Park No. D3	Hsinchu	6,907	22,834	Leased 6,979 ping
Keelung Mixed-Use Development	Keelung City	9,772	35,563	Has applied to for change in industrial district zoning
Kaohsiung Multifunctional Commerce and Trade Park	Kaohsiung City	48,779	161,253	Rezoning
Hualien Ocean Holiday Park	Hualien	138,734	458,627	1. Dow Exploration Center has opened 2. Experience Area due to open soon 3. SPA Resort is still at the planning stage

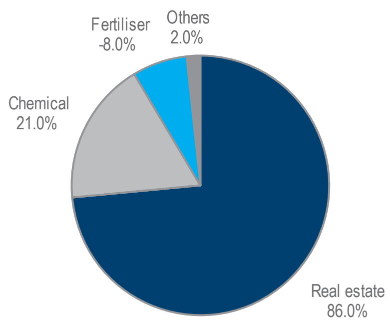
Source: Company; note: projects in Taipei City are in grey

■ **Taiwan Fertilizer: landbank**

Location	Lot of land	Size (sq m)	Book value (TWDm)	As a % of total landbank
Taipei City	77	121,856	13,137	39.66
New Taipei City	125	66,201	1,114	3.36
Taichung City	1	582	79	0.24
Yunlin County	1	17,510	91	0.27
Keelung City	235	240,347	4,254	12.84
Ilan County	10	4,383	110	0.33
Hsinchu City	59	234,989	4,253	12.84
Miaoli County	113	305,706	1,798	5.43
Kaohsiung City	9	161,180	5,151	15.55
Hualien County	43	560,082	2,661	8.03
Total	**679**	**1,712,956**	**33,125**	**100.0**

Source: Company

■ **Taiwan Fertilizer: gross-margin breakdown**



Source: Company

The 10-second briefing

Chong Hong Construction
5534 TT

Target (TWD): **n.a.**
Up/downside: -
14 Mar price (TWD): **84.60**

Pipeline focused on Taipei City and New Taipei City

■ Not Rated

- The company expects 2014 home prices to remain firm, especially in Taipei City, but anticipates longer selling periods
- It expects its Linkou project (Chong Hong Linkou I) to be the key revenue driver this year
- Its focus in the next few years is on both residential and commercial projects; projects in hand total TWD100bn

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■ Background

Founded in 1975, Chong Hong Construction (CHC) focuses on development projects in Taipei City and New Taipei City, which together account for 90% of its projects in hand. The company has a balanced development profile (residential and commercial). Its factory-office projects are mostly in Neihu (Taipei City) and account for 21% of its projects in hand.

■ Highlights

Market outlook. CHC said it has a positive outlook on the Taipei home market, given sufficient capital within the market and low interest rates. Although the company believes that interest rates will rise in the future, it expects this process to unfold over a 3- to 5-year horizon. It does not believe that the policy measures currently in place will suppress the housing market.

However, CHC believes there will be a disparity in the sales performance of projects to be launched in 2014, with those located in central Taipei City likely to sell better than others. The company also notes that selling periods, on average, are likely to be longer this year than last.

2014 guidance. CHC expects 3 projects to contribute to its sales in 2014. Two projects have been fully sold, while the remaining one — Chong Hong Linkou I — is targeted at tapping local demand in Linkou (New Taipei City) as well as replacement demand from Taipei City. Given the demand profile, the project has a larger space per unit than other projects in Linkou. The project is scheduled to be launched at the end of March but 50% of available units have been pre-reserved, according to the company. According to the Bloomberg-consensus estimate, CHC's sales are forecast to total TWD6.4bn in 2014.

Other projects in 2014. In the current year CHC intends to launch 4 projects, for which it targets total sales of TWD19.7bn. The 3 projects in Linkou are expected to account for 91% of the sales target, according to the company. The remaining project is in Beitou (Taipei City).

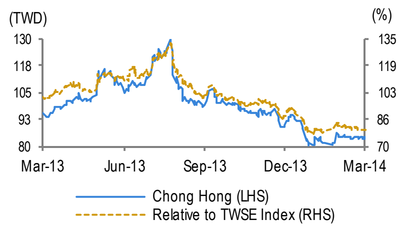
Future strategy. CHC sees land prices as relatively expensive currently, and it intends to focus on co-development projects for which it believes risks are lower.

Sufficient projects for future revenues. According to the company, its projects in hand total some TWD100bn, of which more than TWD20bn has been pre-sold. It expects to recognise the remaining TWD80bn in the years through to 2020. Assuming a net margin of 25-30%, the company expects EPS to total around TWD120 in 2014-2020.

■ Valuation

Based on the Bloomberg-consensus EPS, the stock is trading at 8.8x 2014E PER.

Share price performance



12-month range	80.90-130.00
Market cap (USDbn)	0.69
3m avg daily turnover (USDm)	3.72

Source: FactSet, Daiwa

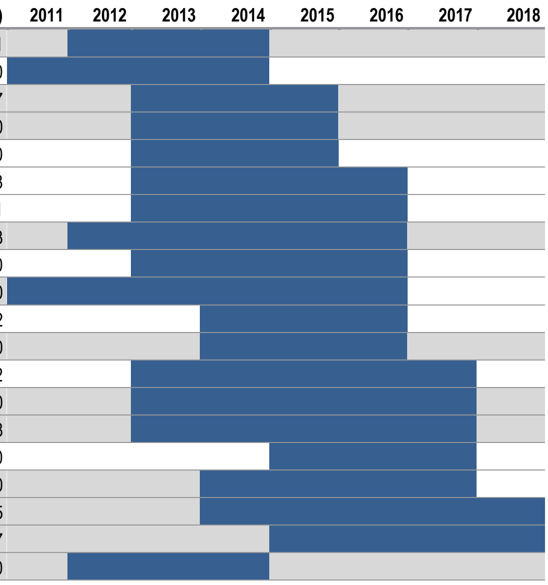
■ CHC: financial summary

(TWDm)	2008	2009	2010	2011	2012	3Q12	4Q12	1Q13	2Q13	3Q13
Net sales	**4,147**	**3,785**	**6,652**	**5,253**	**8,992**	**4,249**	**4,118**	**6,995**	**91**	**504**
COGS	-2,284	-2,295	-3,570	-2,448	-3,115	-1,471	-1,344	-2,071	-57	-241
Gross profit	**1,863**	**1,490**	**3,081**	**2,805**	**5,877**	**2,778**	**2,775**	**4,924**	**33**	**263**
Operating costs	-277	-254	-389	-402	-390	-99	-223	-31	-36	-49
Operating profit	**1,586**	**1,237**	**2,691**	**2,404**	**5,487**	**2,679**	**2,552**	**4,893**	**-3**	**214**
Non-operating profit	-32	2	3	21	16	28	0	10	3	-27
Pre-tax profit	**1,554**	**1,238**	**2,695**	**2,424**	**5,503**	**2,707**	**2,552**	**4,903**	**0**	**187**
Taxes	-28	-51	-23	-143	-238	-98	-82	-9	-240	0
Net profit	**1,525**	**1,187**	**2,672**	**2,281**	**5,265**	**2,608**	**2,471**	**4,894**	**-239**	**187**
Pre-tax EPS (TWD)	7.56	5.47	11.16	9.91	22.18	10.92	10.28	19.71	0.00	0.75
Net EPS (TWD)	7.42	5.25	11.06	9.33	21.22	10.52	9.96	19.67	-0.96	0.75
Outstanding shares (m)	206	226	241	245	248	248	248	249	249	249
Operating Ratios										
Gross margins	44.9%	39.4%	46.3%	53.4%	65.4%	65.4%	67.4%	70.4%	36.5%	52.1%
Operating margin	38.2%	32.7%	40.5%	45.8%	61.0%	63.1%	62.0%	70.0%	-3.0%	42.4%
Pre-tax margin	37.5%	32.7%	40.5%	46.2%	61.2%	63.7%	62.0%	70.1%	0.5%	37.1%
Net margin	36.8%	31.4%	40.2%	43.4%	58.6%	61.4%	60.0%	70.0%	-264.4%	37.1%
YoY (%)										
Net revenues	13%	-9%	76%	-21%	71%	469%	176%	1402%	-43%	-88%
Gross profit	33%	-20%	107%	-9%	110%	650%	225%	1968%	-62%	-91%
Operating income	39%	-22%	118%	-11%	128%	813%	275%	2312%	-105%	-92%
Pre-tax income	35%	-20%	118%	-10%	127%	829%	269%	2305%	-99%	-93%
Net income	34%	-22%	125%	-15%	131%	824%	266%	2382%	n.a.	-93%
QoQ (%)										
Net revenues						2576%	-3%	70%	-99%	457%
Gross profit						3129%	0%	77%	-99%	694%
Operating income						4911%	-5%	92%	-100%	n.a.
Pre-tax income						6646%	-6%	92%	-100%	n.a.
Net income						n.a.	-5%	98%	-105%	n.a.

Source: Company

■ CHC: project timeline

Projects		Location	Investment Type	Total sales (TWDbn)
Chong Hong Jin Mao	長虹菁英	Taipei City	Own	1.1
Chong Hong Linkou I	世紀長虹	New Taipei City	Own	8.0
Chong Hong Qiyan	長虹天蔚	Taipei City	Own	1.7
Chong Hong WTO 12	長虹新世紀	Taipei City	Own	7.0
Chong Hong Tain Hui	長虹天薈	New Taipei City	Own	2.0
Chong Hong Sanchong	長虹天馥	New Taipei City	Joint venture	0.8
Chong Hong Yingge	鶯歌住宅	New Taipei City	Own	3.1
Chong Hong PARK- Park Hall (II)	長虹天璽	Taipei City	Own	8.3
Chong Hong Linkou II	長虹天際	New Taipei City	Own	8.0
Chong Hong Civic Blvd.	忠泰長虹明日博	Taipei City	Urban renewal	6.0
Chong Hong Linkou III	林口建林段	New Taipei City	Partly joint venture	2.2
Chong Hong WTO 13	長虹 WTO 十三期	Taipei City	Own	8.0
Chong Hong Szu Yua	新莊思源住商	New Taipei City	Joint venture	4.2
Chong Hong WTO 14	長虹 WTO 十四期	Taipei City	Joint venture	4.0
Chong Hong WTO 15	長虹 WTO 十五期	Taipei City	Own	2.8
Chong Hong Guishan	龜山住商	Taoyuan County	Own	10.0
Chong Hong Songde	松德都更案	Taipei City	Urban renewal	2.0
Chong Hong Yongji Rd.	虹欣永吉路住宅	Taipei City	Urban renewal	4.5
Chong Hong Xinyi	長虹信義傳家	Taipei City	Urban renewal	2.7
Chong Hong Jin Tai	長虹新時代廣場	Taipei City	Own	10.0
Total				**96.4**



Source: Company; note: projects in Taipei City are in grey, scheduled completion period is in blue

Daiwa Capital Markets

Company

Financials / Taiwan
17 March 2014

The 10-second briefing

Huaku Development
2548 TT

Target (TWD): **n.a.**
Up/downside: -
14 Mar price (TWD): **73.30**

High-end player with a focus on Taipei City

■ Not Rated

- Huaku's projects are concentrated in the high-end residential segment in Taipei City
- The company believes demand remains healthy but sees land prices in Taipei and China as excessive
- It is targeting stable earnings in 2014-15, with a cash dividend of at least TWD5 in the coming years

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■ Background

Huaku Development is a Taiwan-based property developer with a focus on land development in Taipei City. It is well known in the industry for the quality of its units.

■ Highlights

Market outlook. Huaku expects end-user demand to support home prices, especially in Taipei City. It believes demand remains healthy for high-end residential projects that are unique and/or targeted at first-time buyers. It has no plans to purchase land in 2014 as it sees prices as excessive.

2014 sales guidance. According to Huaku, sales in each of 2014 and 2015 should be around TWD9bn and earnings should be stable.

Four projects in 2014. Of the four scheduled launches this year, three are in Taipei City. The company expects the four projects to generate sales of TWD27bn. The New World and Moon Mansion projects are to be launched in April.

Huaku: project pipeline for 2014

Project	Location	Type	Land area (ping)	Est. sales (TWD bn)
Moon Mansion	Taipei City	R	730	1.2
Dunbei	Taipei City	R	948	8.6
JiangZihCui	New Taipei City	R	1,168	5.4
New World #1	Taipei City	R/C	9,903	9.9
New World #2	Taipei City	R	773	2.1
2014 Total				27.2

Source: Company. Note: R is Residential, C is Commercial

New World #1 and #2. This is a 70-year "surface rights" project, whereby owners have the right to use the home for a defined period but do not own the land. Under Taiwan law, leaseholds are capped at 20 years, whereas surface rights have no such limitation. The project will have 500 units and could generate sales of TWD12bn, according to the company. Although it may be priced at a 40% discount to neighbouring projects, potential buyers may have reservations about the mortgage terms and long-term outlook for the secondary market. Huaku is negotiating loan terms with banks and working to get the project's market positioning right. The project's sell-through rates will likely be closely watched, given their implications for future surface-rights projects.

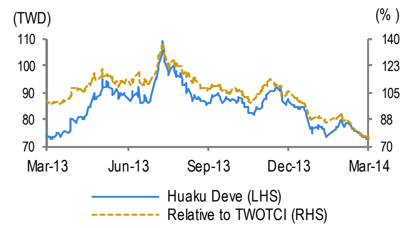
Huaku sees land prices in China as excessive. The company has two projects in Chengdu, and expects the ShaHeWan service apartment/residential project to contribute sales of TWD1.4-1.5bn in sales for 2014. However, it has no plans for additional projects in the area because land prices exceed home prices, and it intends to wait before pursuing further opportunities.

Dividend plans. Huaku is targeting to have a stable cash dividend of TWD5-6/share in 2014-16.

■ Valuation

Based on the Bloomberg-consensus EPS forecast, Huaku is trading at a 2014 PER of 7.0x, versus a past-five-year range of 6-12x.

Share price performance



12-month range	72.90-109.00
Market cap (USDbn)	0.67
3m avg daily turnover (USDm)	2.87

Source: FactSet, Daiwa

▪Huaku: financial highlights

(TWDm)	2008	2009	2010	2011	2012	3Q12	4Q12	1Q13	2Q13	3Q13
Net sales	10,262	9,380	9,834	8,499	5,536	507	3,560	8,215	206	108
COGS	-6,753	-5,754	-6,189	-5,092	-3,251	-286	-2,036	-4,915	-142	-71
Gross profit	3,509	3,627	3,645	3,406	2,285	222	1,524	3,300	64	37
Operating costs	-824	-666	-686	-635	-480	-120	-149	-149	-149	-119
Operating profit	2,685	2,961	2,959	2,772	1,805	102	1,374	3,151	-85	-82
Non-operating profit	66	-199	76	195	-9	-48	25	28	-0	-5
Pre-tax profit	2,751	2,761	3,035	2,967	1,796	54	1,400	3,179	-85	-87
Taxes	-181	-196	-109	-165	-110	-9	-3	-49	-27	0
Net profit	2,570	2,565	2,926	2,802	1,686	47	1,399	3,132	-110	-85
Pre-tax EPS (TWD)	11.80	11.42	11.64	10.93	6.49	0.19	5.06	11.48	-0.31	-0.31
Net EPS (TWD)	11.02	10.61	11.22	10.33	6.09	0.17	5.05	11.32	-0.40	-0.31
Outstanding shares (m)	233	242	261	271	277	277	277	277	277	277
Operating Ratios										
Gross margins	34.2%	38.7%	37.1%	40.1%	41.3%	43.7%	42.8%	40.2%	31.2%	34.1%
Operating margin	26.2%	31.6%	30.1%	32.6%	32.6%	20.1%	38.6%	38.4%	-41.5%	-76.2%
Pre-tax margin	26.8%	29.4%	30.9%	34.9%	32.5%	10.6%	39.3%	38.7%	-41.5%	-80.5%
Net margin	25.0%	27.3%	29.8%	33.0%	30.5%	9.2%	39.3%	38.1%	-53.3%	-78.3%
YoY (%)										
Net revenues	49%	-9%	5%	-14%	-35%	-76%	112%	1082%	-73%	-79%
Gross profit	98%	3%	1%	-7%	-33%	-74%	125%	1171%	-77%	-83%
Operating income	114%	10%	0%	-6%	-35%	-85%	165%	1812%	-152%	-181%
Pre-tax income	113%	0%	10%	-2%	-39%	-92%	154%	1761%	-150%	-262%
Net income	110%	0%	14%	-4%	-40%	-93%	156%	1720%	-261%	-281%
QoQ (%)										
Net revenues						-34%	602%	131%	-97%	-47%
Gross profit						-21%	588%	117%	-98%	-42%
Operating income						-38%	1250%	129%	-103%	n.a.
Pre-tax income						-69%	2495%	127%	-103%	n.a.
Net income						-31%	2882%	124%	-103%	n.a.

Source: Company

▪Huaku: project timeline

Project	Location	Type	Sales value (TWDbn)	2013	2014	2015	2016	2017	2018
HuaCheng	New Taipei City	R	3.8						
Grand Vision	Taipei City	R	5.4						
Sun Mansion	Taipei City	R	3.2						
Cloud Mansion	Taipei City	R	1.1						
The Universe	Taoyuan County	R	2.2						
Sky Garden	Taipei City	R	17.6						
Oasis Park	New Taipei City	R	8.0						
Moon Mansion	Taipei City	R	1.2						
New World #1	Taipei City	R	9.9						
New World #2	Taipei City	R/C	2.1						
JiangZihCui	New Taipei City	R	5.4						
DunBei	Taipei City	R	8.6						
BaDe	Taipei City	R	6.5						
JinTai	Taipei City	C	7.9						
Sanduo 4th Rd.	Kaohsiung City	R	5.4						
SyueFu	Taipei City	R	3.6						
ShaHeWan (China)	Chengdu	R	3.0						
I-Ping (China)	Chengdu	R/C	2.2						
Value **launched** per year (TWDbn)				32.1	31	22	3.6	-	-
Value **completed** per year (TWDbn)				3.0*	9.2	8.7	36.7	22.6	16.9

Source: Company
**Sales of V-Park were fully recognised between 2012 (TWD3.2bn) and 2013 (TWD5.7bn)*
Note: projects in Taipei City are in grey, scheduled completion period is in blue

The 10-second briefing

Kindom Construction
2520 TT

Target (TWD): **n.a.**
Up/downside: -
14 Mar price (TWD): **33.05**

A balanced portfolio in Taiwan's two major cities

■ Not Rated

- Some 80% of its projects on hand are based in Taipei and New Taipei City, with Taipei City accounting for about 40%
- It does not expect home prices to collapse, but believes properties will take longer to sell, capping prices
- Plans to focus more on co-development and surface-right projects given a potentially tougher property market

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■ Background

Founded in 1979, Kindom Construction (Kindom) focuses on residential-house development. Of the company's projects, about 80% is in Taipei and New Taipei City, with a balanced ratio between the two areas.

■ Highlights

Market outlook. Kindom believes house prices in Taiwan will be resilient, although the company sees limited room for upside. The main reasons for this are the strict terms for bank loans and the company's expectation that interest rates will not be raised further, to prevent a sharp fall in house prices. However, Kindom expects that it will take longer to sell a property and that this will cap the home price.

2014 guidance. The company guides for sales to be more than TWD10bn a year over the 2014-16 period. Meanwhile, the Bloomberg consensus forecasts Kindom's 2014 sales to be TWD15.5bn. Currently, the company estimates that it has a pipeline of projects worth about TWD100bn that have yet to be booked.

About 80% of its projects on hand are in Taipei and New Taipei City. Kindom expects Taipei City to account for 43% of the sales from the projects it has on hand (TWD100bn), mainly from the XinYa B, C, and F developments (more than TWD20bn of sales).

The company believes New Taipei City will account for close to 40% of total sales of the projects it has on hand, with developments in the Xinchung area being the largest contributor, with sales of more than TWD20bn. It guides for other residential developments in Sanchong to account for 15% of total sales of projects on hand and in ZhongHe to account for 6%.

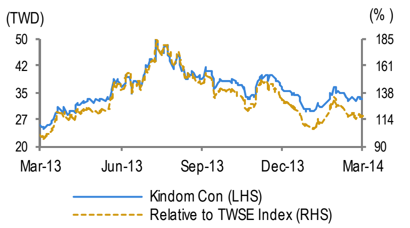
Co-development project with land owner and surface-right projects the focus in the future. Kindom plans to leverage on its experience in co-development projects to meet the challenges of a potentially tougher property market in the future, as this approach entails lower risk, even though the gross margin is lower than its current average margin of 30%.

Surface-right projects will be another focus. However, the company will be selective, as it sees potential issues in this segment. Issues include the following: 1) time value diminishes rapidly as the end of the contract approaches, resulting in a tougher secondary market, 2) mortgages will probably not be deductible from income tax for home buyers if the construction companies fund loans to buyers, and 3) opportunity cost: people might prefer to own the freehold instead of just the surface rights.

■ Valuation

The stock is trading currently at a PER of 4.3x, based on the 2014 Bloomberg-consensus EPS forecast.

Share price performance



12-month range	24.90-49.35
Market cap (USDbn)	0.55
3m avg daily turnover (USDm)	4.62

Source: FactSet, Daiwa

▪ Kindom: financial highlights

(TWDm)	2008	2009	2010	2011	2012	3Q12	4Q12	1Q13	2Q13	3Q13
Net sales	6,964	10,542	14,666	15,176	13,947	2,892	4,127	998	731	853
COGS	-5,562	-8,259	-11,543	-12,618	-11,542	-2,465	-3,203	-777	-447	-523
Gross profit	1,402	2,283	3,123	2,558	2,405	427	924	221	284	330
Operating costs	-761	-842	-966	-1,021	-1,018	-239	-325	-272	-285	-282
Operating profit	641	1,441	2,157	1,537	1,386	188	599	-51	-0	49
Non-operating profit	-204	-48	-156	-261	-143	-39	-5	415	-17	-57
Pre-tax profit	437	1,393	2,001	1,276	1,243	149	594	364	-17	-9
Taxes	-45	-216	-315	-295	-216	-19	-20	-27	-74	-18
Net profit	393	1,177	1,687	981	1,027	107	511	387	-108	-14
Pre-tax EPS (TWD)	0.89	2.85	4.07	2.59	2.49	0.30	1.19	0.72	-0.03	-0.02
Net EPS (TWD)	0.80	2.40	3.43	1.99	2.06	0.21	1.02	0.77	-0.21	-0.03
Outstanding shares (m)	489	489	492	493	499	499	499	503	504	504
Operating ratios										
Gross margins	20.1%	21.7%	21.3%	16.9%	17.2%	14.8%	22.4%	22.1%	38.9%	38.7%
Operating margin	9.2%	13.7%	14.7%	10.1%	9.9%	6.5%	14.5%	-5.1%	0.0%	5.7%
Pre-tax margin	6.3%	13.2%	13.6%	8.4%	8.9%	5.1%	14.4%	36.5%	-2.3%	-1.0%
Net margin	5.6%	11.2%	11.5%	6.5%	7.4%	3.7%	12.4%	38.8%	-14.7%	-1.6%
YoY (%)										
Net revenues	61%	51%	39%	3%	-8%	21%	-5%	-73%	-77%	-70%
Gross profit	53%	63%	37%	-18%	-6%	-23%	30%	-61%	-42%	-23%
Operating income	142%	125%	50%	-29%	-10%	-27%	22%	-115%	-100%	-74%
Pre-tax income	125%	218%	44%	-36%	-3%	-24%	47%	18%	-109%	-106%
Net income	154%	200%	43%	-42%	5%	-55%	62%	56%	-167%	-113%
QoQ (%)										
Net revenues						-10%	43%	-76%	-27%	17%
Gross profit						-13%	117%	-76%	29%	16%
Operating income						-29%	219%	-109%	n.a.	n.a.
Pre-tax income						-22%	299%	-39%	-105%	n.a.
Net income						-33%	376%	-24%	-128%	n.a.

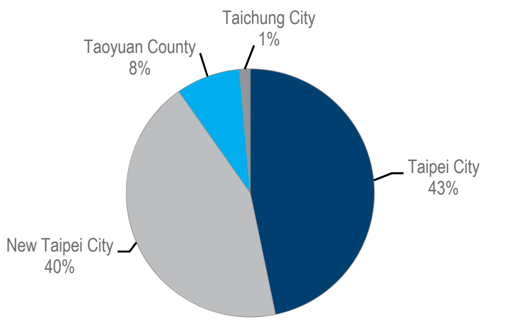
Source: Company

▪ Kindom: projects' estimated revenue recognition in 2014

Project		Location	2014 (TWDbn)
DingFeng	鼎峰	New Taipei City (Xinzhuang)	3-4
DingHua	鼎華	New Taipei City (Xinzhuang)	2-3
ZhongYan	**中研**	**Taipei City (Nangang)**	**3-4**
TianZun	天尊	New Taipei City (Xinzhuang)	2-3
JieShi	捷世	New Taipei City (Sanchong)	2-3
	Total		**12-17**

Source: Company

▪ Kindom: potential total sales breakdown by region



Source: Company

The 10-second briefing

China Metal Products
1532 TT

Target (TWD): **n.a.**
Up/downside: -
14 Mar price (TWD): **37.80**

High-end residential project specialist

■ Not Rated

- CMP expects real estate and subsidiary China Metal International to support strong EPS growth
- The company see its real-estate pipeline underpinning its earnings prospects for 2014 to 2017
- It is guiding for the net-profit contribution of real estate to exceed 50% for 2014 and 2015, up from 14% for 9M13

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■ Background

Founded in 1972, China Metal Products Group (CMP) started out as an iron foundry. In recent years, it has transformed itself into a holding company with five divisions. CMP's 51%-owned subsidiary, China Metal International Holdings (CMI) (319 HK, Not rated), contributed 74% of 9M13 net profit, while its residential real-estate business, mostly under PUJEN Construction (70%-owned by CMP), contributed about 14% of 9M13 net profit. CMP focuses on high-end residential projects, mostly in Taipei City.

■ Highlights

Property market outlook. CMP sees limited upside for home prices from current levels. In addition, changes in policy concerning high-end residential property (higher transaction tax and new price-disclosure requirements) have resulted in longer selling periods for CMP's high-end products. However, the company said it may purchase land in Taipei City this year if it finds prices to be reasonable.

Earnings guidance for 2014. CMP is guiding for 2014 and 2015 EPS of TWD3-4 and TWD5, respectively. Excluding one-time disposal income relating to the Park Land project, booked in 4Q13 (contributing some TWD7 to 2013 EPS), EPS for 2014 should still increase YoY, according CMP.

Expects increased earnings contribution from property in 2014. CMP estimates the net-profit contribution from construction will increase to more than 50% in 2014 and 2015, from 14% in 9M13.

Real-estate pipeline in Taipei City. CMP has seven projects in Taipei City. In 2014, it expects to recognise TWD4.2bn in revenue from two projects and a related contribution to EPS of TWD2. Another two projects are sold out and related revenues should be booked in 2015, according to the company. It expects to start promoting the remaining three projects in 1H14 and book related earnings contributions in 2015-17. CMP's major project this year is Bihu A&B, for which it expects to book total sales of TWD9.8bn. Although sales have not yet formally begun, around 30% of the units have been reserved by existing clients, according to the company.

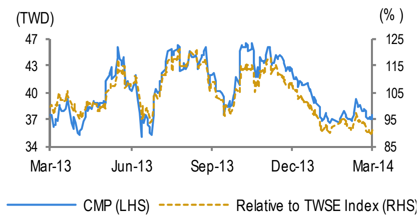
Core metal business. CMP expects its metal business to see a 10% YoY rise in net earnings in 2014, on the back of a deep pool of customers, an expanded product line, and healthy demand.

Dividend policy. According to management, the payout ratio will fall to around 40% in 2014-15 (vs. 60% in the past), as CMP seeks to retain cash for its property projects.

■ Valuation

The stock is trading at an 8.7x PER, based on the 2014E Bloomberg-consensus EPS. Its past-five-year average PER is around 14.7x.

Share price performance



12-month range	35.19-46.10
Market cap (USDbn)	0.48
3m avg daily turnover (USDm)	1.33

Source: FactSet, Daiwa

■ CMP: historical financial P&L summary

(TWDm)	2008	2009	2010	2011	2012	3Q12	4Q12	1Q13	2Q13	3Q13
Net sales	18,100	15,159	16,450	16,525	16,172	3,790	4,051	3,022	4,160	3,814
COGS	-14,936	-11,702	-12,759	-13,407	-13,297	-3,153	-3,170	-2,368	-3,158	-3,025
Gross profit	3,165	3,457	3,691	3,118	2,875	638	882	653	1,002	789
Operating costs	-1,484	-1,632	-1,521	-1,616	-1,607	-415	-430	-373	-438	-410
Operating profit	1,681	1,824	2,169	1,502	1,268	223	452	280	564	379
Non-operating profit	-500	3,982	-60	-329	182	28	44	94	-70	92
Pre-tax profit	1,181	5,806	2,109	1,174	1,450	250	496	374	494	471
Taxes	-991	-3031	-1,189	-729	-775	-17	-50	-39	-56	-76
Net profit	189	2775	920	445	675	135	214	185	246	216
Pre-tax EPS (TWD)	4.35	20.97	6.09	3.23	3.83	0.66	1.31	0.99	1.28	1.22
Net EPS (TWD)	**0.70**	**10.02**	**2.66**	**1.22**	**1.78**	**0.36**	**0.56**	**0.49**	**0.64**	**0.56**
Outstanding shares (m)	271	277	346	364	378	378	378	378	386	386
Operating Ratios										
Gross margins	17.5%	22.8%	22.4%	18.9%	17.8%	16.8%	21.8%	21.6%	24.1%	20.7%
Operating margin	9.3%	12.0%	13.2%	9.1%	7.8%	5.9%	11.2%	9.3%	13.6%	9.9%
Pre-tax margin	6.5%	38.3%	12.8%	7.1%	9.0%	6.6%	12.3%	12.4%	11.9%	12.3%
Net margin	1.0%	18.3%	5.6%	2.7%	4.2%	3.6%	5.3%	6.1%	5.9%	5.7%
YoY (%)										
Net revenues	8%	-16%	9%	0%	-2%	-6%	-8%	-24%	-5%	1%
Gross profit	1%	9%	7%	-16%	-8%	13%	16%	13%	29%	24%
Operating income	4%	9%	19%	-31%	-16%	25%	6%	19%	58%	70%
Pre-tax income	-19%	392%	-64%	-44%	24%	29%	150%	39%	14%	88%
Net income	-62%	1365%	-67%	-52%	52%	167%	355%	44%	24%	60%
QoQ (%)										
Net revenues						-13%	7%	-25%	38%	-8%
Gross profit						-18%	38%	-26%	53%	-21%
Operating income						-38%	103%	-38%	101%	-33%
Pre-tax income						-42%	98%	-25%	32%	-5%
Net income						-32%	58%	-14%	33%	-12%

Source: Company

■ CMP: summary of construction projects and expected revenue recognition period

Project	Location	Site area (Ping)	Area for sale (Ping)	Total value (TWDm)	Profits(TWDm)	Recognition	EPS (TWD)
CMP Pujen	Da An District, Taipei City	905	350	10,500	600	2014	1.1
Tairan Pujen	Zhong Zheng District, Taipei City	434	2,443	3,100	770	4Q14	1.4
Pujen Yiyi	Da An District, Taipei City	207	1,322	1,800	300	3Q15	1.05
Bihu A	Nei Hu District, Taipei City	1,281	7,200	9,000	4,500	3Q17	8.3
Bihu B	Nei Hu District, Taipei City	130	724	800	300	4Q15	0.55
Chingchen	Zhong Shan District, Taipei City	323	507	800	330	4Q15	0.6
Zhongxin Fuxing	Zhong Shan District, Taipei City	263	917	1,300	220	2Q16	0.4
Taichung 1	Taichung City	2,629	n.a.	n.a.	n.a.	3Q18	n.a.
Taichung 2	Taichung City	2,855	n.a.	n.a.	n.a.	2Q20	n.a.
Total		**9,027**	**13,463**	**27,300**	**7,020**		**13.4**

Source: Company
Note: projects in Taipei City are in grey

The 10-second briefing

Hung Poo Real Estate Development
2536 TT

Target (TWD): **n.a.**
Up/downside: -
14 Mar price (TWD): **28.50**

From mid-range projects to the high-end residential market

■ Not Rated

- Focuses on Taipei City and New Taipei City, providing mainly mid-range residential projects
- The company has high expectations for its new high-end residential project in Taipei City
- Expects the property market to slow this year, but has no plans to cut prices

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■ Background

Founded in 1988, Hung Poo Real Estate Development (Hung Poo) focuses on building mid-range to high-end residential projects, located mainly in Taipei City and New Taipei City.

In addition, the company has launched projects in China, but the performance of these is currently weak, according to management.

■ Highlights

Market outlook. Hung Poo has mixed views on the outlook for the housing market in Taiwan, seeing both positive and negative potential impact on house prices. The company expects a slowdown in the presales market, but believes the impact will be limited as interest rates remain at a relatively low level. Therefore, the company does not plan to cut prices even if the housing market slows.

Hung Poo said location would be more important than in the past few years, for both high-end or mid-range projects. For example, the company said sales at its high-end residential project in Dazhi, Taipei City, remained good.

2014 guidance. Hung Poo expects good sales YoY for 2014 (the Bloomberg consensus forecasts its sales to rise by 44% YoY to TWD6.1bn), and has a 1Q14 target sales range of TWD160-170m. The company also aims for a consolidated gross margin of 40-42% for this year, below the level for 2013 (around 42%, according to management).

New projects in 2014. Hung Poo plans to launch 4-5 projects this year, with 4 currently confirmed. All are either in Taipei City (ZhongXiao, ZhongShan #760) or New Taipei City (XinZhuang #289, Danshui #135).

High-end residential project – ZhongXiao. Unit prices at this project start from about TWD300m (more than TWD2.5m/ping, 110-130ping/unit). This is different from the company's other projects (mostly mid-range), so it has high expectations for the project, as it believes there will be strong support for high-end residential developments. Hung Poo estimates total sales for the project to be TWD12bn, with construction due to start in 2-3Q14.

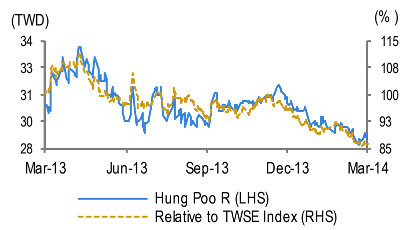
The company has not decided yet whether it will promote the project this year as it will depend on the market conditions.

Performance of New Taipei City projects likely to depend on location. The company is more positive on the prospects for Xinzhuang #289 (it expects total sales of TWD3.6bn) than for Danshui #135 (it expects total sales of TWD2.6bn), as the former is much closer to an MRT station.

■ Valuation

The stock is trading currently at a 2014 PER of 5.4x based on the Bloomberg-consensus forecast.

Share price performance



12-month range	28.25-33.70
Market cap (USDbn)	0.30
3m avg daily turnover (USDm)	0.28

Source: FactSet, Daiwa

Hung Poo: financial highlights

(TWDm)	2008	2009	2010	2011	2012	3Q12	4Q12	1Q13	2Q13	3Q13
Net sales	**7,057**	**5,017**	**3,744**	**2,951**	**4,399**	**1,067**	**963**	**464**	**409**	**831**
COGS	-4,642	-2,899	-2,439	-1,832	-2,645	-673	-615	-241	-296	-465
Gross profit	**2,414**	**2,118**	**1,304**	**1,119**	**1,754**	**394**	**348**	**223**	**113**	**366**
Operating costs	-371	-398	-221	-240	-484	-43	-290	-78	-135	-71
Operating profit	**2,044**	**1,720**	**1,084**	**879**	**1,271**	**351**	**58**	**145**	**-22**	**295**
Non-operating profit	-427	-58	-40	-65	-158	-29	-120	-48	-30	-34
Pre-tax profit	**1,617**	**1,662**	**1,044**	**815**	**1,113**	**322**	**-62**	**97**	**-52**	**261**
Taxes	-29	-70	-48	-32	-23	-38	0	-11	-45	-119
Net profit	**1,588**	**1,592**	**996**	**783**	**1,090**	**284**	**-62**	**86**	**-97**	**142**
Net EPS (TWD)	**5.48**	**5.49**	**3.44**	**2.45**	**3.42**	**0.89**	**-0.19**	**0.27**	**-0.30**	**0.44**
Operating ratios										
Gross margin	34.2%	42.2%	34.8%	37.9%	39.9%	36.9%	36.1%	48.1%	27.6%	44.0%
Operating margin	29.0%	34.3%	28.9%	29.8%	28.9%	32.9%	6.0%	31.3%	-5.4%	35.5%
Pre-tax margin	22.9%	33.1%	27.9%	27.6%	25.3%	30.2%	-6.4%	20.9%	-12.7%	31.4%
Net margin	22.5%	31.7%	26.6%	26.5%	24.8%	26.6%	-6.4%	18.5%	-23.7%	17.1%
YoY (%)										
Net revenue	92%	-29%	-25%	-21%	49%	41%	4%	42%	335%	-22%
Operating income	140%	-16%	-37%	-19%	45%	43%	-80%	-9%	n.a.	-16%
Pre-tax income	89%	3%	-37%	-22%	37%	39%	93%	-40%	n.a.	-16%
Net income	91%	0%	-37%	-21%	39%	22%	93%	-44%	n.a.	-50%

Source: Company

Hung Poo: projects under construction

Name		Land size (ping)	Land cost TWDm	Project description*	Units	Project value (TWDm)	Revenue 2013	Revenue after 2014	Revenue year
NeiHu #132	文德大樓	924	490	7F/B3	46	2,100	83	1,218	
XinZhuang #102	柏悅府	889	542	16F/B5	90	2,327	2,062	265	
ChongCheng #485	臺北官邸	364	706	7F/B2	13	1,393	279	89	
XinZhuang #328	雙橡園	473	520	16F/B5	63	1,733	665	1,068	
Neihu #91-4	宏普經貿	874	499	8F/B3	17	2,508	308	2,200	
BeiTou #217	鉑玉	295	269	11F/B3	20	760	36	724	
XinYi #406	帛詩華	176	860	15F/B4	71	2,269		2,269	2014,2015
NanKang #32-4	鉑金苑	415	1,022	10F/B2	72	2,100		2,100	2014
XinZhuang #212	宏普賓麗	196	334	13F/B3	46	700		700	2015
BeiTou #16	宏普新邑	377	359	9F/B4	63	1,543		1,543	2015
BaDe #589	宏普之星	1,685	687	24F/B3	271	2,768		2,768	2016
ZhongLi #141	宏普光年世界館	695	580	14F/B3	120	1,600		1,600	2015,2016
ZhongLi #81	宏普光年領袖館	879	687	14F/B3	108	1,500		1,500	2015,2016
Subtotal		**8,242**	**7,555**			**23,301**	**3,433**	**18,044**	

Source: Company
*Note: The rows shaded in grey show projects in Taipei City: *under project description, F denotes floors, and B denotes the number of basement levels*

Hung Poo: landbank

Name		Land size (ping)	Land cost TWDm	Project description*	Units	Project value (TWDm)	Pre-sale launch date
ZhongXiao	懷生段	444	1,295	22F/B7	41	12,000	
Dazhi	金泰段	2,640	3,142	9F/B3	40	15,000	
XinZhuang #418	副都心段	217	165			1,000	
NeiHu #54-11	舊宗段	1,080	364			2,600	
ShihLin #633	蘭雅段	436	925	15F/B4	16	3,600	
XinZhuang #289	副都心段	985	1,768	24F/B4	380	6,000	1Q14
BeiTou B	文林洲美段	913	774			4,600	
ZhongShan #760	長春段	238	557	10F/B3	45	1,500	2Q14
JainGuo	建國南路	85	595	14F/B2	39	1,100	
Danshui #135	淡海段	1,654	1,012	13.19/B5	356	2,600	2Q14
Subtotal		**8,692**	**10,597**			**50,000**	

*Source: Company; Note: Taipei City is marked in grey: *under project description, F denotes floors, and B denotes the number of basement levels*

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If you decide to enter into a business arrangement with us based on the information described in materials presented along with this document, we ask you to pay close attention to the following items.

- In addition to the purchase price of a financial instrument, we will collect a trading commission* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction.
- In some cases, we may also charge a maximum of ¥ 2 million (including tax) per year as a standing proxy fee for our deposit of your securities, if you are a non-resident of Japan.
- For derivative and margin transactions etc., we may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by us.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.
  *The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with us.

Corporate Name:	Daiwa Securities Co. Ltd.
	Financial instruments firm: chief of Kanto Local Finance Bureau (Kin-sho) No.108
Memberships:	Japan Securities Dealers Association, Financial Futures Association of Japan
	Japan Securities Investment Advisers Association
	Type II Financial Instruments Firms Association