

**BEA securities**

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HONG KONG RESEARCH**13th October 2009****Analyst: Sabina Cheng****Main Board Listing – Research****寶龍地產控股有限公司****Powerlong Real Estate Holdings Limited [Stock Code: 01238]**

Sole Global Coordinator : Macquarie Capital Securities Limited
Joint Bookrunners, Joint Sponsors, and : Goldman Sachs (Asia) L.L.C.
Joint Lead Managers : ICBC International Capital Limited
 Macquarie Capital Securities Limited

Sector : Real Estate**Business** : A leading commercial property developer in China

| | |
|---|--|
| <p>Total share offer: <u>1,000,000,000</u> shares (25% of the enlarged share capital)</p> <p>Public Offer: 100,000,000 shares (10%)</p> <p>Placing: 900,000,000 shares (90%)</p> <p><i>*Comprising 850,000,000 new Shares and 150,000,000 Sale Shares)</i></p> | <p><u>Business of Powerlong Real Estate (“The Group” or “Powerlong”)</u></p> <p>Powerlong is a leading commercial property developer in China specializing in the development and operation of commercial complexes. Its existing property projects are generally located in prime positions close to the city center of fast-growing, emerging cities in Fujian Province (福建省), Jiangsu Province (江蘇省), Shangdong Province (山東省), Henan Province (河南省) and Anhui Province (安徽省).</p> <p>As of 30th June 2009, the Group had a total of 17 property development projects at various stages of development in 14 cities in China. Its properties under development with a total site area of 1,525,474 square meters in Suzhou City (蘇州市) and Wuxi City (無錫市) in Jiangsu Province, Qingdao City (青島市) and Tai'an City (泰安市) in Shangdong Province, Luoyang City (洛陽市) in Henan Province as well as Bengbu City (蚌埠市) in Anhui Province. Its properties held for future development with a total site area of 1,786,885 square meters in Suqian City (宿遷市), Yancheng City (鹽城市) and Changzhou City (常州市) in Jiangsu Province, Qingdao City and Yantai City (煙臺市) in Shangdong Province, as well as Xinxiang City (新鄉市) in Henan Province.</p> <p>In addition, the Group is currently developing three hotels as part of its project developments in Suzhou City, Qingdao City and Tai'an City, and has engaged a subsidiary of Starwood Hotels Resorts Worldwide Inc to manage these hotels.</p> |
| <p>Price: HK\$2.75 per share</p> <p>Market Cap: HK\$2.75 billion</p> <p>Pro forma fully diluted FY09 P/E: 7.9x</p> <p>Adjusted NTA per share: HK\$1.61–HK\$ 1.70</p> <p>Staffing: 1,568 (as of 30th June 2009)</p> | |
| <p>HK Public Offer period: 25th Sep 2009 – 30th Sep 2009 noon</p> <p>Receiving bankers:</p> <p>Industrial and Commercial Bank of China (Asia) Limited</p> <p>Standard Chartered Bank (Hong Kong) Limited</p> <p>Bank of Communications Co., Limited Hong Kong Branch</p> <p>Wing Lung Bank Limited</p> <p>Hong Kong Share registrar:</p> <p>Computershare Hong Kong Investor Services</p> <p>Listing date: 14th October 2009</p> | |

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**Shareholders after Listing** (Assuming the over-allotment option is not exercised)

| | |
|---|--------|
| Skylong – a company which is wholly owned by Hoi Kin Hong, the chairman of the board of directors and president of the Group. | 45.0% |
| Sky Infinity – a company which is wholly owned by Hoi Wa Fong, executive director and of chief executive officer of the Group. | 15.0% |
| Walong – a company which is wholly owned by Hoi Wa Fan, non-executive director of the Group. | 7.5% |
| Wason – a company owned by Che Lok Teng (70%), sister-in-law of Hoi Kin Hong, as well as three nieces of Hoi Kin Hong, namely Hoi Wa Lam (許華琳) (10%), Hoi Wa Lam (許華嵐) (10%) and Hoi Wa Weng (10%). | 7.5% |
| Public shareholders | 25.0% |
| | 100.0% |

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$2,205.4 million (based on an offer price of HK\$2.75 and assuming the over-allotment option is not exercised)

| | HK\$ million |
|---|--------------|
| To acquire new land reserve for development in China and settle outstanding land premium for new projects the Group recently acquired | 1,677 |
| To finance the development of its exiting projects | 201 |
| To finance the redemption of the New Secured Note issued by Superb Miles Limited (a fellow subsidiary of ICBC International) | 235 |
| For general working capital purposes | 92.4 |

Financial Highlights

| | Year ended 31 st December | | | Six months ended | |
|-------------------------------------|--------------------------------------|-------------|-------------|----------------------------|----------------------------|
| | 2006 | 2007 | 2008 | 30 th June 2008 | 30 th June 2009 |
| | RMB million | RMB million | RMB million | RMB million | RMB million |
| Revenue | 402.8 | 1,025.8 | 1,583.8 | 675.1 | 1,294.3 |
| Gross profit | 206.4 | 612.9 | 714.7 | 266.7 | 685.0 |
| Operating profit | 252.7 | 1,031.5 | 1,331.1 | 180.0 | 585.7 |
| Profit attributable to shareholders | 117.4 | 603.3 | 932.7 | 55.7 | 330.1 |
| Gross profit margin | 51.2% | 59.7% | 45.1% | 39.5% | 52.9% |
| Operating profit margin | 62.7% | 100.6% | 84.0% | 26.7% | 45.3% |
| Net profit margin | 29.1% | 58.8% | 58.9% | 8.3% | 25.5% |
| Gearing ratio (%) | 3.8 | 24.6 | 22.7 | - | 15.4 |

Revenues Breakdown

| | Year ended 31 st December | | | Six months ended | |
|---|--------------------------------------|-----------------|-----------------|----------------------------|----------------------------|
| | 2006 | 2007 | 2008 | 30 th June 2008 | 30 th June 2009 |
| | RMB in millions | RMB in millions | RMB in millions | RMB in millions | RMB in millions |
| Sales of properties | | | | | |
| Fuzhou Powerlong City Plaza | 259.7 | 736.9 | 6.1 | - | 5.8 |
| Quanzhou Anhui Powerlong Haoyuan | 132 | - | - | - | - |
| Suzhou Taicang Powerlong City Plaza | - | 245.8 | 221.4 | 212.7 | - |
| Jinjiang Powerlong City Plaza | 7.6 | - | - | - | - |
| Tai'an Powerlong City Plaza | - | - | 235.2 | 40.7 | 5.4 |
| Bengbu Powerlong City Plaza | - | - | 502.7 | 287.4 | 146.8 |
| Zhengzhou Powerlong City Plaza | - | - | 464.8 | 100.5 | 241.0 |
| Wuxi Powerlong City Plaza | - | - | 81.6 | - | - |
| Qingdao Powerlong City Plaza | - | - | - | - | 856.6 |
| Sub-total | 399.3 | 982.7 | 1,511.80 | 641.3 | 1,255.60 |
| Property management services | 3 | 7.8 | 16 | 7 | 10.3 |
| Rental income of investment properties | 0.2 | 32.2 | 53.3 | 24.5 | 28.4 |
| Other income | 0.3 | 3.1 | 2.7 | 2.3 | - |
| Total | 402.8 | 1,025.80 | 1,583.80 | 675.1 | 1,294.30 |

**Strengths/Opportunities**

- ✓ The Group has sizeable land reserves of 7.2 million square meters gross floor area with low land cost at below RMB 600 per square meter on average. This landbank comprises 3.1 million square meters landbank under development and 3.8 million square meters landbank for future development and 0.3 million square meters completed and unsold properties.
- ✓ In 2008, the Group registered a decent growth of 54.6% year on year in profit attributable to shareholders. The growth was contributed by: (i) the PRC government's dedication to encourage domestic demand which benefited retailers as well as retail property developers; (ii) rapid urbanization, especially in second-tier cities, generated huge demand for local shopping malls and entertainment facilities; and (iii) a win-win model of project development and cooperation between the Group and each local government (On one hand, the Group benefits from speedy project approval from the local government, low land cost and high profit returns. On the other hand, the local government benefited from the recurrent tax revenues from shopping centers and job opportunities for local community.) In 2009 and 2010, profit from the Group's property sales is expected to reach RMB1,204 million and RMB1,488 million.

Weaknesses/Threats

- × The Group has gained brand recognition in its hometown in Fuzhou, through its Fuzhou Powerlong City Plaza. (This was the Group's first commercial and residential mixed project. The Group achieved 3-year payback period with IRR of over 50% and net margin of 20%). The Group plans to start business in new markets. However, we see potential execution risk given the intensified competition in the property development sector and it may not be well received in these new markets.
- × The initial public offering of Powerlong share was originally priced between HK\$3.3 and HK\$4.9, representing a 17% to 44% discount to the Group's NAV. Its closest peers with commercial property exposure in the PRC, such as, CR Land, Shui On Land, SOHO China and Franshion Property are trading at 17%, 38%, 41% and 39% discount to their respective NAVs. However, market sentiment on IPOs in Hong Kong has been cooling down since the disappointed debut performance of Metallurgical Corp of China (down 11.7% on debut) and the subsequent 5 IPOs namely China Lilang (down 0.8%), Peak Sport (down 17.1%), China South City (down 22.9%), Glorious Properties (down 14.6%) and China Resources Cement (unchanged from its IPO price).

In response to this latest market sentiment, the Group allowed retail subscribers to cancel their orders and set the share price 17% below the original low end of its price range. Despite of such move, share price of Powerlong is not expected to trade well above the IPO price, as there is a busy pipeline of initial public offerings by mainland developers in the near term which include much larger developers such as Evergrande Real Estate (a leader in the standardised operational model for large-scale quality property developers), Longfor Properties (one of the leading national residential developers in China), Fantasia Holdings Group (another beneficiary of the western China development with much business focus in Chengdu), Project Lilies (with landbank of a total GFA of approximately 10.88 million square meters), Mingfa Group (with landbank of a total GFA of 12.0 million square meters) and Excellence Real Estate Group (with landbank of a total GFA of 13.3 million square meters).

Recommendation: Unexciting



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