

Analyst: Sabina Cheng

Main Board Listing – Research

人和商業控股有限公司

Renhe Commercial Holdings Company Limited [Stock Code: 01387]
**Joint Global Coordinators, Joint Bookrunners,
Joint Sponsors and Joint Lead Managers**

: BOC International, HSBC,
Morgan Stanley and UBS

Sector : Consumer services – wholesale & distribution

Business : An operator and developer of stand-alone underground shopping centers in PRC

Total share offer: <u>3,000,000,000</u> shares (15.0% of the enlarged share capital) Public Offer: 300,000,000 shares (10%) Placing: 2,700,000,000 shares (90%) Greenshoe: 450,000,000 shares	<u>Business of Renhe Commercial</u> Renhe Commercial (“Renhe”) ranked as the largest privately owned operator and developer of stand-alone underground shopping centres (in terms of GFA), for wholesale and retail sales of apparel and accessories in China as of 31 st Dec 2007, according to the Euromonitor Report. Renhe opened its first underground shopping center in Harbin back in 1992. Currently, it operates 3 underground shopping centers in Harbin and 1 in Guangzhou. It also has 2 projects under development in Zhengzhou, Henan Province and Shenyang, Liaoning Province, and 9 projects for in Harbin, Guangzhou, Wuhan, Zhengzhou, Tianjin, Nanchang and Shenzhen, respectively, with an aggregate GFA of approximately 1,411,558 sq.m. In 2006, it adopted “The First Tunnel” (“地一大道”) as the name for its 1 st underground shopping center in Guangzhou and plans to use that name as the brand name for all its future underground shopping centers. On top of its rental business, Renhe also generates its revenue from transferring its operating rights for a portion of its shop units to enhance liquidity and optimize capital usages. Renhe expects more than 89% of its revenue for the year ending 31 st Dec 2008 would be generated from the transfer of operation rights.
Price: HK\$1.40 – HK\$1.71 per share Market Cap: HK\$28.00 billion – HK\$34.20 billion Pro forma fully diluted FY2008E PER: 13.0x – 15.8x Unaudited pro forma adjusted NTA per share: HK\$0.31 – HK\$0.35 Staffing: 862 (as of 31 st March 2008)	
HK Public Offer period: 30 th September 2008 – 8 th October 2008 Receiving banks: HSBC Limited, BOC (HK) Limited Share registrar: Computershare Hong Kong Investor Services Ltd. Listing date: 15 th October 2008	

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**Shareholding Structure after Listing**

Super Brilliant - wholly-owned by Mrs. Hawken, a controlling shareholder and director of Renhe (via Shining Hill)	64.28%
Wealthy Aim Holdings Limited - wholly-owned by Mrs. Hawken, a controlling shareholder and director of Renhe	4.68%
NW Investors [comprising various interests of New World Development Group & its controller - Dr. Cheng Yu Tung]	7.27%
Capital International Private Equity Fund V, L.P. and CGPE V, L.P.	3.69%
Sequoia Capital China Growth Fund I, L.P.	0.83%
Global Giant Enterprises Limited – owned by Mr. Lau Lap Tak, an independent 3 rd party	3.40%
Ever Union Capital Limited– owned by Mr. Che Fung, an independent 3 rd party	0.55%
Palmas Assets Limited - owned by E-House China Real Estate Investment Fund I	0.30%
Public investors	15.00%
	100.0%

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$4,432 million (Assuming the over-allotment option is not exercised, and at an issue price of HK\$1.56 each, being the midpoint of the indicative price range)

	HK\$ million
To finance the Phase I of Shenyang Project, which is under construction	400
To finance the Phase V and VI of Harbin Project, Phase II of Guangzhou Project, Tianjin Project, Shenzhen Project and Nanchang Project, which are for future development	3,932
For general working capital purposes	100

Financial Highlights

	Year ended 31 st December			3 months ended 31 st March	
	2005	2006	2007	2007	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	65,162	162,662	366,495	230,251	409,758
Gross profit	48,090	124,615	285,357	177,405	322,945
Operating profit	35,040	80,853	292,670	176,182	331,020
Attributable profit	11,904	48,490	266,675	170,604	279,009
Gross margin	73.8%	76.6%	77.9%	77.0%	78.8%
Operating margin	53.8%	49.7%	79.9%	76.5%	80.8%
Net margin	18.3%	29.8%	72.8%	74.1%	68.1%



Revenue Breakdown by product (% of Total Revenues)

	Year ended 31 st December						For the 3 months ended 31 st March			
	2005 RMB'000	%	2006 RMB'000	%	2007 RMB'000	%	2007 RMB'000	%	2008 RMB'000	%
Lease income	65,162	100.0	100,781	62.0	176,505	48.2	40,261	17.5	44,249	10.8
Transfer of operation rights	-	-	61,881	38.0	189,990	51.8	189,990	82.5	365,509	89.2
Total	65,162	100.0	162,662	100.0	366,495	100.0	230,251	100.0	409,758	100.0

Strengths/Opportunities

- ✓ **Competitive development costs** The development of underground civil air defence shelters for commercial use is not categorized as real estate property development under current PRC laws and regulations. Accordingly, Renhe is not subject to land use right premiums and land appreciation tax, which enables it to develop its projects at competitive costs.
- ✓ **Upfront rent payment** For shop units, Renhe collects either a one-time entry fee when a customer first becomes a tenant or at least one-year's rental upfront. Such cash inflows help cover part of the construction costs of the project and reduce financing costs for its construction projects.
- ✓ **Tenant Profile** The Group does not have a concentrated tenant base as none of its tenants lease more than 2% of the Group's leasable GFA or contribute more than 2% of its gross lease income. The five largest tenants in terms of lease income accounted for approximately 2.92%, 2.51% and 3.37%, respectively.
- ✓ **Pre-IPO investors** include New World Strategic Investment, a unit of New World Development, which will hold 7.27% and Capital International Private Equity Fund V will buy 3.69%. City Gains group, a wholly owned subsidiary of Warburg Pincus, has agreed to subscribe for an estimated HK\$389 million worth of shares in the global offering.

Weaknesses/Threats

- x **Intensive competition** Renhe's potential competitors include, Harbin HIT Group, Yuexiu City Construction Group and the Beijing Central Business District Administrative Commission.
- x **Demanding valuation** Renhe has a pro forma FY2008E PER between 13X and 15.8X. It is within the range of those listed department stores, such as, Golden Eagle Retail (03308) trading at 19.72X, Intime Department Store (01833) at 10.79X, Lifestyle (01212) at 12.51X and New World Department Stores China (00825) at 16.25X and Parkson Retail (03368) at 21.94X. Given that Renhe is still in the process of building up its nationwide network of underground shopping centres, which may involve execution risks, thus, such valuation appears to be demanding.

Recommendation: Hit & Run



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