

Analyst: Kevin Tam

## **Main Board Listing – Research**

瑞安房地產有限公司 (0272)

Shui On Land Limited [Stock Code: 0272]
**Joint Global Coordinators, Joint Bookrunners**
**Joint Sponsors and Joint Lead Managers**

: Deutsche Bank AG, HSBC, JP Morgan

**Sector** : Property Development and Investment

**Business** : Large-scale integrated property developer in China

|   |   |
|---|---|
| <b>Total share offer:</b> 1,158,746,000 shares<br>(28.1% - 28.5% of the enlarged share capital)<br><b>Public Offer:</b> 115,875,000 shares (10%)<br><b>Placing:</b> 1,042,871,000 shares (90%)<br>(of which 602,746,000 shares are offered by selling shareholders)<br><b>Greenshoe:</b> 115,874,600  | <b><u>Business of Shui On Land Limited</u></b><br><br>Shui On Land Ltd. (the “Company”) is one of the leading property developers in the PRC and the flagship property Company of the Shui On Group. The Company engages in the development, sale, leasing, management and the long-term ownership of high quality residential, office, retail, entertainment and cultural properties in the PRC.<br><br>The Company focuses on large-scale projects, composed of city-core development projects and integrated residential development projects.<br><br>The Company currently engages in six major multi-phase projects with an aggregate GFA of 7.0 million square meters upon completion, namely Shanghai Taipingqiao (1.1mn sq. m); Shanghai Rui Hong Xin Cheng (1.3mn sq. m); Shanghai Knowledge and Innovation Community (537,000 sq. m); Chongqing Tiandi (2.6mn sq. m); Wuhan Hankou Tiandi (1.4mn sq. m); and Hangzhou Xihu Tiandi (52,000 sq. m). |
| <b>Price:</b> HK\$4.8 – HK\$5.35 per share<br><b>Market Cap:</b> HK\$20 bn to HK\$22 bn<br><b>Forecasted FY06 net profit<sup>#</sup>:</b> RMB1,450 million<br><b>Pro Forma FY2006E P/E<sup>#</sup>:</b> 13.8X – 15.4X<br><b>Adjusted NTA per share:</b> RMB 2.71 – RMB 2.82<br><b>Staffing:</b> 1,019 |   |
| <b>HK Public Offer period:</b> 20 <sup>th</sup> – 25 <sup>th</sup> September 2006<br><b>Receiving bank:</b> HSBC<br>Bank of China (Hong Kong)<br>Standard Chartered Bank (HK)<br><b>Share registrar:</b> Computershare Hong Kong<br><b>Listing date:</b> 4 <sup>th</sup> October 2006                 |   |

<sup>#</sup> Before (i) revaluation of investment properties and (ii) fair value adjustment on warrants and capped conversion right of Senior Preference Shares

### **Major Shareholders after Listing** (based on maximum offer price of HK\$5.35 per share and over allotment not being exercised)

|   |             |
|---|-------------|
| Shui On Investment Company Ltd.         | 13.9%       |
| Shui On Properties Ltd.                 | 23.1%       |
| NRI Ltd. *                              | 18.3%       |
| HSBC Securities Investments (Asia) Ltd. | 3.6%        |
| Public **                               | 41.1%       |
|   | <b>100%</b> |

\* New Rainbow Investments Ltd., a wholly owned subsidiary of Shui On Construction and Materials Ltd.

\*\* Public includes the shareholdings of Financial Investors (ERGO, Metro Holdings, Citigroup, Ocean Equity Holdings, Value Partners Funds, Standard Chartered Bank (HK), Shanghai Hotel Investments, Jebsen and Company) whose Preference Shares will be converted into shares of the Company on the listing Date and a portion of these shares will be sold by the selling shareholders in the Global Offering.

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### Use of Proceeds

Assuming Offer Price at HK\$5.075 per share (mid-point of the proposed price range), net proceeds from the offer are estimated at HK\$2,558.1 million.

|  | HK\$ million      |
|--|-------------------|
| Used for the Shanghai Taipingqiao, Shanghai Rui Hong Xin Cheng, Shanghai Knowledge and Innovation Community, Chongqing Tiandi and Wuhan Hankou Tiandi projects | 1,863.8           |
| To fund future projects  | 445               |
| General corporate purposes   | Remaining balance |

### Financial Highlights

|   | Year ended 31 <sup>st</sup> December |                    |                    | Three months ended 31 <sup>st</sup> March |                    |
|---|--------------------------------------|--------------------|--------------------|---|--------------------|
|   | 2003                                 | 2004               | 2005               | 2005                                      | 2006               |
|   | <u>RMB Million</u>                   | <u>RMB Million</u> | <u>RMB Million</u> | <u>RMB Million</u>                        | <u>RMB Million</u> |
| Turnover  | 977.3                                | 1,038.9            | 1,017.8            | 94  | 138.1              |
| Gross profit  | 330.7                                | 439.2              | 691.1              | 87.9                                      | 120                |
| Profit before revaluation gain on investment properties and tax | 126.6                                | 70.4               | 271                | 16  | 8                  |
| Revaluation increase in investment properties                   | 62.7                                 | 1,687.2            | 606.6              | 376.1                                     | -                  |
| <b>Net profit</b>   | <b>29</b>                            | <b>786</b>         | <b>380</b>         | <b>180</b>                                | <b>(18.6)</b>      |

### Strengths/Opportunities

- ✓ Shui On Land adopts a different business model as compared with its peers. The Company has been partnering with local governments on large-scale urban redevelopment projects.
- ✓ Shui On Land targets the mid- to high-end markets. The success of Shanghai Xintiandi, one of the landmarks in Shanghai, helped build the strong brand image of Shui On Land. The Company is duplicating its successful model in Shanghai Xintiandi into other second and third tier cities.
- ✓ The Company has a more balanced portfolio with higher proportion of projected revenue from rental income. Approximately 40% of GFA is for investment properties, which can generate a more diversified and stable income stream to the Company.
- ✓ The IPO price range indicates a FY06E PER of 13.8X to 15.4X, which is not cheap as compared to its peers like Shimao Property (0813) and Greentown China (3900), which are trading at FY06E PER of low double-digit. Nevertheless, the IPO price range also indicates an attractive discount of about 30% to its estimated NAV.

### Weaknesses/Threats

- × With focus in middle- to high- end segments in Shanghai, the Company is vulnerable to further austerity measures by the government.
- × For the redevelopment projects, there is uncertainty over whether the Company can reach a mutually acceptable relocation compensation agreement with the existing residents as planned.
- × The Company is highly geared. As at 31<sup>st</sup> March 2006, total debt amounted at RMB3.96 billion, of which RMB2.26 billion was due within one year. Debt to equity stood at 77% while the pro forma post-IPO debt to equity ratio is estimated at 34%.

**Recommendation: Neutral**

**Important Disclosure / Analyst Certification / Disclaimer**

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