

Analyst: Kelvin Li

Main Board Listing – Research

盛高置地(控股)有限公司

SPG LAND (HOLDINGS) LIMITED [Stock Code: 0337]

Sponsor and Global Coordinator : DBS Asia Capital Limited
Joint Bookrunners and Joint Lead Managers : DBS Asia Capital Limited
 Macquarie Securities Limited

Sector : Real Estate

Business : Development and sale of residential properties in Shanghai

<p>Total share offer: <u>250,000,000</u> shares (25% of the enlarged share capital)</p> <p>Public Offer: 25,000,000 shares (10%)</p> <p>Placing: 225,000,000 shares (90%)</p> <p>Greenshoe: 37,500,000 shares</p> <hr/> <p>Price: HK\$4.28 – HK\$4.90 per share Market Cap: HK\$4,280 million – HK\$4,900 million</p> <p>Pro-forma FY2006E P/E: 12.1x – 13.9x</p> <p>Adjusted NTA per share: HK\$2.12 – HK\$2.27</p> <p>Staffing: 484 (as of 30th June 2006)</p> <hr/> <p>HK Public Offer period: 26th September 2006 – 29th September 2006 noon</p> <p>Receiving bank: DBS Bank (HK) Standard Chartered Bank (HK)</p> <p>Share registrar: Tricor Investor Services Limited</p> <p>Listing date: 10th October 2006</p>	<p><u>Business of SPG Land</u></p> <p>SPG Land mainly engages in the development and sale of private residential properties in Shanghai. Most of the property developments of SPG Land are large-scaled property projects with multiple phases.</p> <p>Since establishment in 1998, the Group has developed various phases of three large-scaled residential projects, namely <i>Cambridge Forest Newtown</i>, <i>Cambridge Waters</i> and <i>Cambridge Watertown</i>, targeting middle to upper class homebuyers.</p> <p>SPG Land has been developing six development projects in Shanghai and one in Huangshan. As at 31/07/2006, the seven projects have an aggregate site area of 3 million sq. m., with planned gross floor area (GFA) of 2.46 million sq. m.</p> <p>Besides residential property development, SPG Land also plans to diversify its business into hotel development, including the <i>Holiday Inn Hotel</i> development project at <i>Cambridge Forest Newtown</i> and investment in the hotel development project of <i>The Peninsula Shanghai</i>.</p>
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Major Shareholders after Listing (Assuming the over-allotment option is not exercised)

SPG Holdings / Prestige Glory – 100% owned by chairman Mr. Wang Weixian	62.093%
Brilliant Bright – a holding company owned by HSBC Trustee, which is a trustee of the Duanyuan Trust set up by chairman Mr. Wang Weixian	10.782%
Easternflair – 100% owned by CEO Mr. Tse Sai Tung	1.125%
Boom Rich – 100% owned by Ms. Wang Xuling, the sister of Mr. Wang	1.000%
	75.000%

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$1,010 million.

(Assuming the over-allotment option is not exercised, and at an issue price of HK\$4.28 each, being the lower end of the indicative price range)

	HK\$ million
To finance the Group's property developments	151.5
To finance the acquisitions of land or companies holding land or properties	606.0
To repay existing loans	151.5
Working capital	101.0

Financial Highlights

	Year ended 31 st December			6 months ended
	2003	2004	2005	30 th June 2006
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	814,514	748,610	1,169,176	1,147,353
Gross profit	216,577	231,778	431,940	334,344
Operating profit	179,712	117,711	317,252	296,734
Net profit	144,805	96,478	262,201	231,194

Strengths/Opportunities

- ✓ The Group has an abundant land bank of approximately 1.7 million sq. m. GFA, of which included 1.2 million sq. m. for future property development. It should be sufficient for development projects in the next five years.
- ✓ The Group has achieved good development margins ranging from 30% to 40% during the last three years. With its rich land reserve, the Group should maintain satisfactory profit margins for its residential projects in the next couple of years.
- ✓ Since its establishment in 1998, the Group has built up strong reputation and brand name for residential property development in Shanghai. The Group also attained a proven record in large-scaled project development and received several awards for the quality and design of its projects.
- ✓ In order to diversify its business, the Group plans to develop three hotel projects in the Mainland, namely *The Peninsula Shanghai*, *Holiday Inn in Cambridge Forest Newtown* and *Huangshan Taipinghu Resort*. The three hotels are expected to commence operations by 2009, which should help strengthen the Group's cash flows and lessen its reliance on property development.
- ✓ To be priced at 12-14x forward price-earnings multiple, valuation of SPG Land is slightly higher than sector average. However, it is not too demanding given its rich land reserve.

Weaknesses/Threats

- × Thanks to strong economic growth driven by keen fixed asset investment, Mainland urban property prices increased substantially over the last couple of years. However, it has come along with higher land prices, which would lift the Group's average cost for future land purchase and so eat into its development margins.
- × It is reported that the Chinese government is drafting rules to limit foreign investment in real estate on the Mainland in order to curb speculative buying and ease rising price pressure, which may slow down sales in the PRC's luxury property market.

Recommendation: Trading Buy

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