

Analyst: Anita Hwang

Main Board Listing – Research

SOHO China Limited [Stock Code: 0410] SOHO 中國有限公司

Joint sponsors : Goldman Sachs HSBC
Joint global coordinators, joint bookrunners and joint lead managers : Goldman Sachs HSBC UBS
Sector : Real Estate
Business : Real Estate development and investment

Total share offer: <u>1,549,420,000</u> shares (30.99% of the enlarged share capital) Public Offer: 154,942,000 shares (10%) Placing: 1,394,478,000 shares (90%) Greenshoe: 232,413,000 shares <i>*Comprising 1,095,058,000 New Shares and 299,420,000 Sale Shares</i>	<u>Business of SOHO China (SOHO)</u> SOHO is a commercial property developer with a strong focus on central Beijing. The primary focus is on the development and sale of commercial properties. A total of 1.21 million sq. m GFA was completed and an additional 878,422 sq. m GFA is expected to be completed by the end of 2009. SOHO's strategy is selling (rather than leasing) large-scale commercial properties in Beijing, particularly prime retail properties, which SOHO expects to generate high profitability through selection and development of high return projects. SOHO provided FY07E profit forecast with consolidated profit attributable to shareholders estimated to be no less than RMB1,624 million, equivalent to a pro forma fully diluted EPS of RMB0.324. Most of the IPO proceeds have been planned for the development of the Tiananmen South (Qianmen) project , which will become one of the largest commercial pedestrian zones in central Beijing. The entire project is expected to be completed in phases by 3Q09 but the project is still pending for the required government approvals.
Price: HK\$6.30– HK\$8.30 per share Market Cap: HK\$31.5 billion – HK\$41.5 billion Pro-forma fully diluted FY07 PER: 18.9X –24.9X Adjusted NTA per share: RMB1.72 – RMB2.19 Staffing: 270	
HK Public Offer period: 21 st September 07 – 27 th September 07 noon Receiving bank: HSBC Bank of East Asia Bank of China (HK) Share registrar: Computershare Hong Kong Investor Services Limited Listing date: 8 th October 2007	

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

Mrs. Pan Zhang Xin Marita – a founder, an executive director, the CEO and the wife of Mr. Pan Shiyi – a founder, an executive director and the Chairman of the Board (through HSBC Trustee holding the shares under a trust)	66.48%
Mr. Fraser – one of the selling shareholders	1.008%
Mrs. Cox-Fill – one of the selling shareholders	1.522%
Other shareholders*	30.988%
	<u>100.0%</u>

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*Remarks:*

* SOHO and the joint global coordinators have entered into corporate placing agreements with each of the following corporate investors:

- **Mr. Kuok Hock Nien**, through Honeybush Ltd. and Kerry Asset Management Ltd., will subscribe for HK\$480 million worth of shares (some 1.4% of the enlarged share capital).
- **Kerry Properties Ltd.**, through Trebanos Investment Co. Ltd., will subscribe for HK\$120 million worth of shares (some 0.3% of the enlarged share capital).
- **Mr. Woo Kwong Ching**, through Margingle International Ltd., will subscribe for HK\$600 million worth of shares (some 1.6% of the enlarged share capital).
- **Mr. Larry Yung Chi Kin**, through Bright Century Development Ltd., will subscribe for HK\$114 million worth of shares (some 0.3% of the enlarged share capital).
- **CITIC Pacific Ltd.**, through Facina Holdings Inc., will subscribe for HK\$114 million worth of shares (some 0.3% of the enlarged share capital).
- **Mr. Lau Luen Hung of Chinese Estates Holdings Ltd.** will subscribe for HK\$228 million worth of shares (some 0.6% of the enlarged share capital).
- **Standard Chartered Private Equity Ltd.** will subscribe for HK\$228 million worth of shares (some 0.6% of the enlarged share capital).
- **Bank of China Ltd**, through Will Rich Investments Ltd., will subscribe for HK\$228 million worth of shares (some 0.6% of the enlarged share capital).
- **Government of Singapore Investment Corporation** will subscribe for HK\$228 million worth of shares (some 0.6 % of the enlarged share capital).

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$8,657 million. (Assuming an offer price of HK\$7.3, being the mid-point of the indicative offer price range, and the over-allotment option is not exercised)

	HK\$ million
To finance the acquisition of an interest in Beijing Tianjie, the project company for the Tiananmen South (Qianmen) Project and for the development of such project	2,163
To finance the development of Commune by the Great Wall project	78
To repay debts in relation to Guanghualu SOHO project	302
To finance the development of Sanlitun SOHO project, including HK\$724 million to repay debt	772
To finance the development of future projects and to finance the potential acquisition of 11 Parcels in the Tiananmen South (Qianmen) project	4,476
For working capital	balance

Financial Highlights

RMB million	Year ended 31 st December		
	2004	2005	2006
Revenue	2,332	3,842	1,740
Gross profit	973	1,845	921
Operating profit	806	1,647	771
Attributable profit	318	710	341
Gross margin	41.7%	48.0%	59.2%
Operating margin	34.6%	42.9%	44.3%
Net margin	13.6%	18.5%	19.6%

Strengths/Opportunities

- ✓ **Differentiated business model** SOHO concentrates on building and selling large-scale, prime commercial properties rather than the common “build and hold for investment”. It sells in the form of strata units. SOHO believes large-scale, prime retail property has potential for higher margins than office or residential projects.
- ✓ The IPO price range of SOHO is at a FY07E pro-forma fully diluted PER range of 18.9X –24.9X. HK-listed peers with a high concentration of property portfolio in Beijing include China Resources Land (1109.HK), Beijing Capital Land (2868.HK) and Beijing North Star (0588.HK). The peers’ FY07E PER range is dispersed (16.7X - 50X). China Resources Land is more diversified geographically with about 25% of its assets in the Pan- Bohai region. Beijing Capital Land has about 80% of its assets in Beijing, Tianjin and Dalian. Beijing North Star’s assets are concentrated in Beijing and Changsha.

From a discount/premium to NAV perspective, the comparable peers trade at a discount of 21% to a premium of about 35% while the sector average is at a premium of about 15%. As a sector leader, China Overseas Land & Investment (0688.HK) trades at 30X FY07E PER and about 36% premium to its FY07E NAV. SOHO is priced at a discount of about 17.7% to a premium of 1% to its NAV. We think SOHO is reasonably priced and should be able to trade at a premium valuation to this peer group.

Weaknesses/Threats

- × SOHO’s property portfolio is heavily concentrated in Beijing and hence there is little geographical diversification on the earnings.
- × **Tiananmen South (Qianmen) project** still pending for the required approvals. This project is Beijing’s largest Hutong conservation area to bring about one of the largest commercial pedestrian zones in central Beijing. The entire project is expected to be completed in phases by 3Q09.

There are 44 different plots of land in the project, of which 33 parcels were acquired or in the process of acquiring land use rights by Beijing Tianjie (“Tianjie”). Beijing Danshi (“Danshi”), which is effectively wholly-owned by Mr. and Mrs. Pan Shiyi, has 49% interest in Tianjie. SOHO and Danshi have entered into agreements for the acquisition of the interest, but is subject to final approvals from the government. SOHO intends to bid in tender to acquire the remaining 11 parcels of land. Though we like the project for its uniqueness and prime location, SOHO is still subject to the risk of not obtaining the approval and hence earnings shortfall or delays. The project accounts for some 20% of FY08E earnings.

- × Going forward, land replenishment may become difficult and costly given SOHO’s focus on commercial properties at prime locations.

Recommendation: Trading buy


Appendix: Key information related to SHOH's property projects

Project	Location	Use	Total planned GFA (sq. m.)	Attributable economic interest (%)	Status
Sanlitun SOHO	Central Beijing	Retail, office, residential	465,680	95	Under development
Guanghualu SOHO	Central Beijing (CBD)	Office, retail	75,766	95	Under construction
SOHO Shangdu	Central Beijing (CBD)	Office, retail	172,176	100	Phase 2 completed; Phase 3 completed
Chaowai SOHO	Central Beijing (CBD)	Office, retail	151,168	99.5	Under construction
Jianwai SOHO	Central Beijing (CBD)	Office, retail, residential	683,821	95	Substantially completed
SOHO Newtown	Central Beijing (CBD)	Office, retail, residential	471,300	54	Completed
Commune by the Great Wall, managed by Kempinski	Beijing Great Wall	Hotel, residential	30,544	95	Phase 1 completed; Phase 2 under construction
Boao Kempinski	Hainan province	Hotel, residential	36,561	90	Completed
Total			2,087,016		
Tiananmen South (Qianmen) — 33 Parcels	Central Beijing	Retail, office, residential	165,000		Purchase agreement signed; subject to PRC government approvals
Tiananmen South (Qianmen) — 11 Parcels	Central Beijing	Retail, office, residential	195,000		Open tender in later 2007



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