

Analyst: Kelvin Li

Main Board Listing – Research

Zhong An Real Estate Limited [Stock Code: 0672] 眾安房產有限公司
Joint Global Coordinators, Bookrunners, Joint Sponsors and Joint Lead Managers

: Deutsche Bank and JP Morgan

Co-lead Managers

: CITIC Securities /DBS

Sector : Real Estate

Business : Real Estate development

Total share offer: <u>543,000,000</u> shares (27.15% of the enlarged share capital) Public Offer: 54,300,000 shares (10%) Placing: 488,700,000 shares (90%) Greenshoe: 81,450,000 shares	<u>Business of Zhong An</u> Established in 1997, Zhong An Real Estate is a regional developer and investor, focuses on the development and investment of residential and commercial properties in the Yangtze River Delta region. Most of its developments are large-scale mid-to high-end residential and commercial properties in Zhejiang and Anhui provinces. It has a proven track record of making early forays into areas that are in their infancy of urban development and securing prime sites at low costs, due to its in-depth knowledge of the city's regional development trend. Currently, it has 37 projects / project phases in various stages of development in Zhejiang and Anhui provinces. It has completed development of 9 projects or project phases with a total site area of 568,693 sq.m. and an aggregate GFA of 702,657 sq.m. Exsiting Landbank consists of: (i) a total site area of 212,550 sq.m. and an aggregate planned GFA of 492,607 sq.m. with land use rights certificates and the relevant work commencement permits; (ii) a total site area of 2,071,167 sq.m. and an aggregate planned GFA of 2,795,005 sq.m. with land use rights certificates; (iii) a total site area of 1,911,106 sq.m. and an aggregate planned GFA of 2,127,500 sq.m, for which they have entered into land supply contracts or master agreements with the local government authorities. It estimates that its current landbank will be sufficient for its currently contemplated development needs for the next 5 years and beyond.
Price: HK\$5.00 – HK\$6.67 per share Market Cap: HK\$10,000 million– HK\$13,340 million Pro forma FY2007E PER: 28.7 X – 38.2 X Adjusted NTA per share: HK\$1.36 – HK\$1.79 Staffing: 489 (as of 31 st August 2007)	
HK Public Offer period: 31 st October 2007 – 5 th November 2007 Receiving banks: Hang Seng Bank Standard Chartered Bank Share registrar: Butterfield Fund Services (Cayman) Limited HK Share registrar: Tricor Investor Services Ltd Listing date: 13 th November 2007	

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Shareholding Structure after Listing (Assuming the over-allotment option is not exercised)

Whole Good (100% owned by the chairman Mr Shi Kancheng)	72.85%
Public Investors	27.15%
	<u>100.00%</u>

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$3.2 billion (Assuming the over-allotment option is not exercised, and at an issue price of HK\$5.84 each, being the midpoint of the indicative price range)

	HK\$ million
Finance existing projects under development and projects held for future development	400
Finance land acquisitions for which they have entered into land grant contracts	930
Finance new projects and land acquisitions to replenish and increase Landbank in Hangzhou	1,450.6
Payment of outstanding acquisition costs for the Huijun International	225
Acquisition of land in other regions of the Greater Yangtze River Delta region and working capital and other general corporate purpose	Balance

Financial Highlights

	Year ended 31 st December		
	2004 RMB'000	2005 RMB'000	2006 RMB'000
Revenue	270,172	207,568	672,733
Gross profit	89,694	79,153	271,197
Profit from operating activities	76,501	41,511	213,216
Profit before tax	89,366	84,792	203,076
Project for the year/period	44,122	43,745	90,575
Gross margin	33.2%	38.1%	40.3%
Operating margin	28.3%	20.0%	31.7%
Net margin	16.3%	21.1%	13.5%
Earnings per share (RMB)	0.03	0.03	0.06

Revenue Breakdown

	Year ended 31 st December		
	2004 RMB'000	2005 RMB'000	2006 RMB'000
Sale of properties	282,261	213,813	704,141
Leasing income	3,008	3,526	5,186
Management fee income	897	2,014	3,213
Less: Business tax and surcharges	(15,994)	(11,785)	(39,807)
Aggregate revenue net of business tax and surcharges.	270,172	207,568	672,733
Leasing income percentage*	1.11%	1.70%	0.77%

* Leasing income percentage is equal to leasing income divided by the aggregate revenue net of business tax and surcharges. Leasing income mainly comes from investment properties.

**Strengths/Opportunities**

- ✓ **A regional player with established competitive advantages and track records of performance.** The Group has high brand recognition in the Greater Yangtze River Delta region with proven execution capability across product range. (Please refer to the Appendix for information on its 9 completed projects since 1997).
- ✓ **Expected to have high recurrent income in 2007 after the completion of Highlong Plaza,** which covers a total site area of 30,933 sqm, with a total GFA of 172,569 sqm. It is a large-scale integrated commercial property which includes a 5-star standard Holiday Inn hotel, 3 buildings for offices and services apartment, a shopping center and underground carport. Further, the New White Horse Apartments, with GFA of 221,947 sqm located in the commercial center of Xiaoshan district of Hangzhou has begun the pre-sale in Jun 2006. The Vancouver City project of the Group is divided into 10 phases. At present, two phases have been completed. The whole project is expected to be completed by 2017 while Green Harbor, which is a high-end large-scale residential project with a total planned GFA of 1,186,540 sq. m has been scheduled into 8 phases of developments. The presale of Phases 1A to 1C starts in Nov 07.
- ✓ **Do not face any material relocation problems like many of other developers in PRC.**
- ✓ **Have a sizable Landbank that is sufficient to support its currently contemplated development needs for the next 5 years and beyond, and the Group has land use rights acquired at relatively low cost.** This Group maintains its strategy of business focus in the Greater Yangtze River Delta region. About two-third of its Hangzhou landbank comes from its mega-sized International Office Center project (2.14 million sqm in planned GFA). This is a mixed-use development and is strategically located in one of Hangzhou's planned new CBDs, Qianjiang Century City, on the south bank of Qiantang River. It is expected to offer substantial capital appreciation potential when this new CBD is developed, and to be of great significance to Zhong An's long-term growth. Moreover, the Group is now seeking opportunities in Shanghai and other cities within the region.

Weaknesses/Threats

- × **Land Appreciation Tax risk (LAT):** The Group cannot foresee when the PRC tax authorities will require it to settle the full amount of the applicable LAT. As of August 2007, it had not been required by the local tax authorities to settle any LAT in excess of the LAT that it has prepaid. If the implementation rules of LAT promulgated in the cities in which the projects are located require the Zhong An to settle all unpaid LAT not being provided for, the Company's business, financial condition and prospects could be adversely affected.
- × **Intensifying market competition:** The Group faces keen competition amid of the growing number of domestic and overseas property developers. This has resulted in surging land costs in most first-tier cities, increased costs for raw materials, shortages of skilled contractors.
- × **Low geographical diversification:** While Hangzhou makes up 57% of Zhong An's total land reserve, the city accounts for 86% of the Group's gross asset value.
- × **No prior experience in retail management.** The Group will commence the shopping mall operation at Highlong Plaza in Nov 07. Yet, the Group has no prior experience in retail management, which involves the optimal types of products and services being sold, tenant clustering and segmentation, as well as the implementation of marketing and promotion strategies. This is definitely a challenge to Zhong An going forward.

Recommendation: Trading Buy

**Appendix: Key information related to Zhong An completed projects**

Project	Location	Land use	Total GFA sq. m.	Completion date
Guotai Garden	Hangzhou, Zhejiang	Residential	178,812	Jan-06
Landscape Garden, Phase 1	Hangzhou, Zhejiang	Residential	111,455	Sep-05
Landscape Garden, Phase 2	Hangzhou, Zhejiang	Residential	44,487	Dec-06
Zhong'an Garden	Hangzhou, Zhejiang	Residential	46,404	Sep-03
Yipeng Building Material Market	Hangzhou, Zhejiang	Commercial	29,309	Jun-06
Guomao Building	Hangzhou, Zhejiang	Commercial	12,200	Oct-98
Integrated Service Center	Hangzhou, Zhejiang	Commercial/Office	11,131	Aug-05
Vancouver City, Phase 1	Huaibei, Anhui	Residential	168,088	Jul-04
Vancouver City, Phase 2-South Section	Huaibei, Anhui	Residential	100,771	Dec-06
Total			702,657	



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