

Analyst: Kevin Tam

## **Main Board Listing – Research**

世茂房地產控股有限公司

**Shimao Property Holdings Limited [Stock Code:0813]**
**Joint Global Coordinators, Joint Sponsors, Joint Bookrunners and Joint Lead Managers** : Goldman Sachs  
Morgan Stanley

**Sector** : Real Estate

**Business** : Property developer in the PRC

<b>Total share offer:</b> <u>595,124,000</u> shares <i>(20% of the enlarged share capital, assuming over-allotment option is not exercised)</i> <b>Public Offer:</b> 59,513,000 shares (10%) <b>Placing:</b> 535,611,000 shares (90%)* <b>Greenshoe:</b> 89,268,500 shares (15%)	<b><u>Business of Shimao Property</u></b> Shimao Property Holdings Ltd. is a large-scale developer of high-end real estate projects in the PRC. Shanghai Shimao Riviera Garden is its milestone project, recording 4 consecutive years of the highest sales proceeds in Shanghai. The Group has 15 projects at various stages of development located at Shanghai, Beijing, Harbin, Wuhan, Nanjing, Fuzhou, Kunshan, Changshu, Shaoxing and Wuhu. As at 31 March, 2006, the Group had completed the development of GFA of approximately 955,095 sq. m. and is in the process of developing a planned GFA of approximately 2,555,081 sq. m.. The Group currently holds land with planned GFA of approximately 2,019,068 sq. m. (with land use right certificates) for future development. Moreover, at the latest practicable date, the land intended for future development for which land use right certificates have not yet been obtained amounted to GFA of approximately 8,325,853 sq.m..
<b>Price:</b> HK\$6.25 – HK\$8.50 <b>Market Cap:</b> HK\$18.6 bn – HK\$25.3 bn <b>Un-audited pro forma net tangible asset value per share:</b> HK\$2.25 – HK\$2.79 <b>Staffing:</b> 1,042	
<b>Book opens:</b> 14 <sup>th</sup> June 2006 <b>Book closes:</b> 27 <sup>th</sup> June 2006 <b>HK Public Offer period:</b> 22 <sup>nd</sup> to 27 <sup>th</sup> June 2006 <b>Receiving bank:</b> Bank of China (Hong Kong) Standard Chartered Bank ICBC (Asia) <b>Share registrar:</b> Tricor Investor Services Ltd. <b>Listing date:</b> 5 <sup>th</sup> July 2006	

*Remark (\*): including 34,843,500 shares being offered to existing shareholders of Shimao International Holdings (stock code: 0649) at a rate of 1 new share for every 6 shares they own.*

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

Mr. Hui Wing Mau, <i>Chairman</i>	67.2%
GSS III Nimble, <i>wholly owned by Morgan Stanley</i>	8.0%
SC Private Equity, <i>the private equity arm of Standard Chartered (stock code: 2888)</i>	3.2%
CCBI Asset Management, <i>wholly owned by China Construction Bank (stock code: 0939)</i>	0.8%
Drawbridge Global, <i>a US company</i>	0.8%
Public	20%
	<u>100.0%</u>

*This report has been prepared solely for information purposes and we are not soliciting any action based upon it. Neither this document nor its contents shall be construed as an offer, invitation, advertisement, inducement or representation of any kind or form whatsoever. The information is based upon information, which we consider reliable, but accuracy or completeness is not guaranteed. Opinions expressed herein are subject to change without notice. At time of this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein, while its group companies may from time to time have interests in securities of the company or companies mentioned herein.*

### Use of Proceeds

Net proceeds from the offer are estimated to range from HK\$3,526.3 million to HK\$4,813.8 million. (At IPO prices of HK\$6.25 per share and HK\$8.5 per share respectively)

	HK\$ million
To finance the development of existing projects	\$2,115.8 – \$2,888.3
To finance new projects, including land acquisition costs	\$1,057.9 – \$1,444.1
Working Capital	Remaining Balance

### Financial Highlights

	Year ended 31 <sup>st</sup> December		
	2003	2004	2005
	RMB million	RMB million	RMB million
Turnover	1,358	1,699	2,500
Gross profit	227	312	597
EBIT	423	306	1,303
<b>Net profit</b>	<b>266</b>	<b>184</b>	<b>908</b>
Owner's equity	1,783	1,914	2,510

### Strengths/Opportunities

- ✓ Shimao has recorded an improving gross margin over the past 3 years, from 16.7% in 2003 to 18.4% in 2004 and 23.9% in 2005, given its low land cost and economies of scales. Land cost in the second-tier markets, where the company has recently entered into and put more focus on, is a fraction of that in first-tier cities, implying further room for margin expansion.
- ✓ Shimao is among the biggest holders of land reserves in the Mainland, with sites that can be developed into nearly 13 million sq.m. of GFA. The Group's size of land bank stood highest among the listed China properties developers in Hong Kong.
- ✓ Shimao has a portfolio of diversified land banks with approximately 75% being located in second-tier cities like Harbin and Wuhan. The impact relating to the speculative bubble on properties in second tier cities seems less severe than in first tier cities, so the Group's development should be less affected by the central government's cooling measures.

### Weaknesses/Threats.

- × Mainland government recently launched a new set of measures aimed at curbing speculation-driven price increases at the upper end of the property market while ensuring a sufficient supply of affordable homes for low- and mid-income earners. For example, under the guideline of the State Council, 70% of residential units completed have to be under a GFA 90 sq. m.. This guideline will pose some uncertainty on the Group who focuses on the high-end market.
- × Shimao is branching out into secondary cities, where demand for large-scale high-end residential projects is still unproven. Whether the company could replicate its success of Shanghai Shimao Riviera Garden is crucial to its long-term earnings sustainability.
- × The Group is quite highly leveraged. As at 31 December 2005, its debt to equity ratio stood at 105%. The post IPO pro forma debt to equity ratio is estimated at a more reasonable range of 35.1% to 42.7% (at the high end and low end of IPO price respectively) Nevertheless, the Group planned to pay RMB 2.3 billion and RMB 5.5 billion in FY06 and FY07 respectively for land use rights, indicating the Group's financial condition will remain stretched.
- × There is no earning estimate for FY06. However, the post IPO market cap stood at 18.5x to 25.1x of FY05 net profit (at the high end and low end of IPO price respectively). The valuation of Shimao looks a bit stretched.

**Recommendation: Neutral**

**Important Disclosure / Analyst Certification / Disclaimer**

This document is published by East Asia Securities Company Limited, a wholly-owned subsidiary of The Bank of East Asia, Limited (BEA). At time of this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein the report, while BEA and / its associated or affiliated companies may from time to time have interests in securities of the company or companies mentioned herein.

The research analyst primarily responsible for the content of this report, in part or in whole certifies that the views on the companies and their securities mentioned in this report accurately reflect his/her personal views. The analyst also certifies that no part of his/her compensation was, is, or will be, directly, or indirectly, related to specific recommendations or views expressed in this report.

This report has been prepared solely for information purposes and has no intention whatsoever to solicit any action based upon it. Neither this report nor its contents shall be construed as an offer, invitation, advertisement, inducement or representation of any kind or form whatsoever. The information is based upon information, which East Asia Securities Company Limited considers reliable, but accuracy or completeness is not guaranteed. Opinions expressed herein are subject to change without notice. Any recommendation contained in this report does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This report is not to be taken in substitution for the exercise of judgment by respective readers of this report, who should obtain separate legal or financial advice. East Asia Securities Company Limited and / or The BEA Group accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or further communication given in relation to this report.

At time of this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein the report, while BEA along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this report. BEA and its associates, its directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

BEA and/or any of its affiliates may beneficially own a total of 1% or more of any class of common equity securities of the subject company or companies mentioned in this report and may, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from the subject company or companies mentioned in the report.