

Analyst: Anita Hwang

Main Board Listing – Research

Franshion Properties (China) Limited [Stock Code: 0817] 方興地產(中國)有限公司

**Sole global coordinator, sole bookrunner,
sole sponsor and sole lead manager**

: Deutsche Bank

Sector : Real Estate

Business : Real Estate development and investment

Total share offer: <u>1,411,100,000</u> shares (30% of the enlarged share capital) Public Offer: 141,112,000 shares (10%) Placing: 1,269,988,000 shares (90%) Greenshoe: 211,664,000 shares	<u>Business of Franshion Properties (Franshion)</u> Franshion is a developer and investor of large-scale real estate projects in the PRC, with an emphasis on commercial real estate. Franshion is the flagship real estate development company of Sinochem Corporation, which is one of only 16 central State-owned Enterprise with the approval of the SASAC to develop, invest in and manage property projects as one of its core businesses. Franshion engages principally in the development, sale, leasing and management of commercial and residential properties with a focus on high-end commercial projects in prime locations. The strategy is to sell all of the residential properties but to retain part of the quality commercial properties for long-term investment purposes. Franshion completed a total of 3 projects in Beijing and Shanghai and have been developing another 2 in Shanghai and Zhuhai. The company provided a FY07E profit forecast with net profit attributable to shareholders after fair value gains on investment properties estimated to be no less than HK\$1,991.3 million, equivalent to an un-audited fully diluted EPS of HK\$0.423. Should the fair value gains be stripped out, the FY07E net profit attributable to shareholders would be some HK\$401.6 million.
Price: HK\$1.85 – HK\$2.35 per share Market Cap: HK\$8.70 billion – HK\$11.05 billion Pro-forma fully diluted FY07 PER: 21.8X – 27.6X (before fair value gains on investment properties) 4.4X – 5.6X (after fair value gains on investment properties) Adjusted NTA per share: HK\$1.69 – HK\$2.05 Staffing: 109	
HK Public Offer period: 6 th August 07 – 9 th August 07 noon Receiving bank: Bank of China (HK) ICBC (Asia) Standard Chartered (HK) Share registrar: Computershare Hong Kong Investor Services Limited Listing date: 17 th August 2007	

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

Sinochem Hong Kong	70.0%
Public shareholders*	30.0%
	<u>100.0%</u>

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Remarks: (*) Franshion and the global coordinator have entered into corporate placing agreements with each of the following cornerstone investors:

- **Dr. Cheng Yu Tung**, through Chow Tai Fook Nominee Limited, will subscribe for 86,666,000 shares (some 1.84% of the enlarged share capital).
- **New World China Land Limited** (0917.HK) will subscribe for 43,334,000 shares (some 0.92% of the enlarged share capital).
- **The Government of Singapore Investment Corporation** will subscribe for 130,000,000 shares (some 2.76% of the enlarged share capital).
- **Stark Master Fund Ltd. and Stark Asia Master Fund Ltd.** will subscribe for 104,000,000 and 26,000,000 shares respectively (some 2.21% and 0.55% of the enlarged share capital, respectively). The two funds are investment funds held by US domestic and/or international professional investors.

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$2,761.5 million. (Assuming an offer price of HK\$2.10, being the mid-point of the indicative offer price range, and the over-allotment option is not exercised)

	HK\$ million
As part of the consideration for the companies Franshion intends to acquire*	440.0
To develop newly acquired Huigang land development project property in Shanghai	545.0
For project funding purposes including in respect of the Zhuhai Every Garden Project and Shanghai Gaoyang International Passenger Transport Centre	300.0
As partial consideration for the acquisition of Sinochem Corporation's interest in Jin Mao, Shimao Investment and Shanghai Yin Hui, pursuant to options granted to Franshion by Sinochem Corp.^	1,250.0
For general corporate purposes	Remaining

*Franshion agreed to acquire 75% of both Sinochem Property Management and Wangfujing Hotel Management from Sinochem Hong Kong for HK\$826 million. Franshion will also buy a 50% share of Chemsunny for HK\$1.413 billion. When the acquisitions are completed, the company will fully-own Sinochem Tower, Wangfujing Grand Hotel and Chemsunny Plaza, which are all located in Beijing. The acquisitions are expected to take place no later than 31 Dec 2007.

^In addition, Franshion can exercise an option offered by Sinochem Corp. to acquire its indirect interests in Jin Mao, Shimao Investment and Shanghai Yin Hui, which hold shares in various properties and property development projects in China.

Financial Highlights

HK\$ million	Year ended 31 st December		
	2004	2005	2006
Revenue	-	1,129.3	500.7
Gross profit	-	471.8	137.7
Other income and gains	4.9	6.0	130.2
Profit / (loss) before tax	(16.2)	461.8	246.7
Profit / (loss) for the year	(13.9)	301.7	212.0
Gross Margin	NA	41.8%	27.5%
Net Margin	NA	26.7%	42.3%



Strengths/Opportunities

- ✓ **Attractive property portfolio** The property portfolio of Franshion primarily locates in prime locations in major commercial cities in the PRC. Some of the locations or buildings occupy unique locations and are landmarks of cities. The investment properties are concentrated in Shanghai and Beijing where rentals are expected to grow amid strong economic growth and capital appreciation. Net asset value enhancement is likely when cap rates are expected to compress in the coming few years.

Also, the property portfolio is well-diversified covering commercial, office, hotel and retail sectors, as well as residential properties developed for sale. We think the balanced portfolio and unique property locations are key competitive advantages of Franshion.

- ✓ **Asset injection from parent** Franshion's controlling shareholder, Sinochem Corporation, is a State-owned Enterprise under the supervision of the SASAC. It is one of the largest state-owned conglomerates in the PRC covering a range of business including petroleum, fertilizer and chemical products, finance, insurance, logistics and real estate. Franshion is defined as the development platform for Sinochem Corporation's property business. The first round of asset injection will be funded with some of the proceeds from the IPO offering. The assets will include Sinochem Tower, Wangfujing Grand Hotel and Chemsunny Plaza, which are all located in Beijing. Also, an option was granted to Franshion from the parent for Jin Mao Tower and its hotel portfolio, Yin Hui assets and Shimao Investment. Details of the properties are listed in the table below.

Weaknesses/Threats

- × The asset injection plan will be subject to the final approval from the SASAC. Also, the prices of the assets to be acquired under the option granted to Franshion are yet to be determined. These remain the key uncertainties around the asset injection plan.
- × The track record of Franshion is relatively short with its first project completed in 2005.
- × The IPO price range of Franshion is at a FY07E pro-forma fully diluted PER range of 21.76X – 27.65X. HK-listed peers with strong investment portfolio include China Resources Land (1109.HK), SPG Land (0337.HK) and Guangzhou Investment (0123.HK). The peers' FY07E PER range is dispersed (13X - 44X). From a discount/premium to NAV perspective, the comparable peers trade at a discount of 30% to a premium of about 35% while the sector average is at a premium of about 15%. Franshion is priced at a discount of about 7% to a premium of 18% to its NAV. We think the valuation is a bit on the high-end should the shares being priced at the high end of the range.

Recommendation: Trading Buy


Appendix: Franshion's Property projects

	Total GFA (sqm.)	Type of development	Completion date	Brief description
Completed projects				
Shanghai Fortune Plaza	44,652	Office	2005	7 low-rise office buildings located in Liujiazui in the Pudong District
Shanghai Zhangyang Riverside Garden	57,305	Residential	2006	5 high-rise apartment buildings next to the Shanghai Fortune Plaza
Chemsunny Plaza, Beijing	193,936	Office	2006	Three 14-storey office buildings in Beijing's financial district
Projects under development				
Shanghai Gaoyang International Passenger Transport Centre	297,125	Office, retail, service apartments and leisure	2009	A transportation hub in the heart of Shanghai adjacent to the Bund
Zhuhai Every Garden	136,416	Residential	2008	13 apartment buildings located on the eastern side of Zhuhai's harbour
Land Bank				
A parcel of land next to the Shanghai Gaoyang International Passenger Transport Centre	200,000	Office	-	Purchased the land use rights for 50% interest
Properties intended to acquire (anticipated to be completed by the end of 2007)				
Sinochem Tower, Beijing	49,066	Office	1995	26-storey office building in Beijing's financial district
Chemsunny Plaza, Beijing	193,936	Office	2006	Three 14-storey office buildings in Beijing's financial district
Wangfujing Grand Hotel	41,349/ 405 rooms	Hotel	1995	A 14-storey hotel on Wangfujing Street, Beijing
Potential asset injection targets (under the option granted by Sinochem Corp. to Franshion)				
Jin Mao including:				
• Jin Mao Tower	290,000	Office, hotel	Various	A landmark office building in Pudong, Shanghai housing the Grand Hyatt Shanghai Hotel
• Luxury hotels assets	1,366 rooms	Hotels	Various	Hilton Sanya Resort & Spa; Jin Mao Ritz-Carlton Sanya Hotel; JW Marriott Hotel in Shenzhen
Shimao Investment	An investment company holding various interests in China World Trade Centre, the China World Hotel, the China World Apartments, the Traders Hotel, the China World Exhibition Hall, and the China World Shopping Mall			
Shanghai Yin Hui	A piece of land of 41,345 sqm which is situated at west parcel of Huishan land in the North Bund in Shanghai			



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