

## **Main Board Listing - Research**

### 領匯房地產投資信託基金

#### The Link Real Estate Investment Trust [Stock Code: 0823]

**Joint Global Coordinators and Joint Listing Agents** : Goldman Sachs, HSBC and UBS Investment Bank  
**Lead Restructuring Adviser** : UBS Investment Bank

**Sector** : Financials  
**Business** : Real estate investment trust (REIT)

**Total share offer:** 1,925,846,000 units  
(90.10% of the enlarged share capital)

**Public Offer:** 577,754,000 units (10%)  
**Placing:** 1,348,092,000 units (90%)

**Greenshoe:** 211,608,000 units

**Price:** HK\$9.70 – HK\$10.30 per unit  
**Public Offer discount:** 5%

**Market Cap.:** HK\$20.73 billion – HK\$22.02 billion

**Forecast net profit before extraordinary items**  
**(25<sup>th</sup> November, 2005 – 31<sup>st</sup> March, 2006):**  
Not less than HK\$424 million

**NAV per unit:** HK\$10.16 – HK\$10.30

**Staffing:** 272

**HK Public Offer period:**  
14<sup>th</sup> November 2005 - 17<sup>th</sup> November 2005

**Receiving bank:** Bank of China (HK)  
Bank of East Asia  
Hang Seng Bank  
HSBC  
Standard Chartered Bank (HK)

**Unit registrar:** Computershare Hong Kong  
Investor Services Limited

**Listing date:** 25<sup>th</sup> November 2005

#### **Business of the Link REIT**

The Link REIT will hold Hong Kong's largest portfolio of retail properties in terms of internal floor area (IFA). The portfolio comprises 180 properties, of which 149 are integrated retail and carpark facilities, two are standalone retail facilities and 29 are standalone carpark facilities. The Link REIT's initial portfolio serves mainly the daily needs of residents of the adjacent housing estates (which housed approximately 40% of Hong Kong population).

The portfolio has an IFA of approximately 960,000 square meters of retail space, which is estimated to account for 9.1% of Hong Kong's total retail space.

The average occupancy rate of the retail facilities as at 31<sup>st</sup> July 2005 was 91.4%. The ten largest tenants (in terms of monthly base rent) accounted for 34.8% of the total monthly base rent from the retail facilities for July 2005. Carpark spaces of the portfolio were estimated to account for 13.7% of Hong Kong's total commercial carpark spaces based on information available at 30<sup>th</sup> September 2003. The utilisation rate for the carpark facilities was 72.9% as at 31<sup>st</sup> July 2005.

For the year ended 31<sup>st</sup> March 2005, the Retail and Carpark (RC) Operations generated HK\$3,696 million in total revenues, 68.3% of which comprised rental income from the retail operations and 25.4% comprised gross receipts from the carpark operations. The remaining 6.3% of total revenues was attributable to other revenues, principally air conditioning fees charged to tenants.

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

Hong Kong Housing Authority	9.9%
Strategic Partner – CapitaLand of Singapore	6.8%
Cornerstone Investors*	19.3%
<b>Total</b>	<b>36.0%</b>

\* Cornerstone investors include: AIA, AMP Capital, Capital Research, Fidelity Investments, First State Investments, Henderson Global Investors, ING Clarion Real Estate Securities, L.P., Prudential Asset Management (HK)., and Stichting Pensioenfond ABP.

**Use of Proceeds**

Proceeds from the offering are estimated to be HK\$22,016 million

(Assuming the over-allotment option is exercised, and at an issue price of HK\$10.30 each, which is the upper limit of the indicative price range)

	HK\$ million
Payment of purchase price to Hong Kong Housing Authority pursuant to the Acquisition Arrangements	34,185*

\*Loan facilities of HK\$12,169 million will be drawn down to cover the shortfall from the IPO proceeds

**Profit and Loss Accounts of the RC Operations**

	Year ended 31 <sup>st</sup> March			4 months ended 31 <sup>st</sup> July	
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M
<b>Revenues</b>					
Rental income from Retail Operations	2,491	2,291	2,525	820	857
Gross receipts from Carpark Operations	1,012	946	938	312	289
Other revenues	<u>266</u>	<u>261</u>	<u>233</u>	<u>77</u>	<u>76</u>
	3,769	3,498	3,696	1,209	1,222
<b>Direct outgoings</b>					
Staff costs	(484)	(382)	(264)	(89)	(81)
Property managers' fees and related expenses	(401)	(409)	(405)	(131)	(133)
Utilities	(350)	(355)	(362)	(136)	(136)
Cleansing and security	(211)	(235)	(252)	(79)	(81)
Repairs and maintenance	(230)	(210)	(162)	(51)	(59)
Government rent and rates	(72)	(78)	(69)	(22)	(24)
Estate promotion and marketing expenses	(99)	(131)	(140)	(40)	(4)
Other direct outgoings	<u>(67)</u>	<u>(75)</u>	<u>(121)</u>	<u>(25)</u>	<u>(31)</u>
	<u>(1,914)</u>	<u>(1,875)</u>	<u>(1,775)</u>	<u>(573)</u>	<u>(549)</u>
	1,855	1,623	1,921	636	673
General and administrative expenses	<u>(122)</u>	<u>(117)</u>	<u>(108)</u>	<u>(33)</u>	<u>(32)</u>
	<u>1,733</u>	<u>1,506</u>	<u>1,813</u>	<u>603</u>	<u>641</u>
Ppt. Revaluation deficit (charged)/written back	<u>(2,302)</u>	<u>8,915</u>	<u>756</u>	<u>(1,647)</u>	<u>221</u>
<b>Profit for the year/period retained by HKHA</b>	<b><u>(569)</u></b>	<b><u>10,421</u></b>	<b><u>2,569</u></b>	<b><u>(1,044)</u></b>	<b><u>862</u></b>

**Selected Balance Sheets Data of the RC Operations**

	As at 31 <sup>st</sup> March			As at 31 <sup>st</sup> July
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2005</u>
	HK\$'M	HK\$'M	HK\$'M	HK\$'M
Fixed assets	22,022	32,293	33,504	33,722
Current assets	168	149	147	174
Current liabilities	<u>976</u>	<u>886</u>	<u>766</u>	<u>709</u>
Net assets	<u>21,214</u>	<u>31,556</u>	<u>32,885</u>	<u>33,187</u>
Financed by:				
Account with HKHA	<u>21,214</u>	<u>31,556</u>	<u>32,885</u>	<u>33,187</u>



**Strengths/Opportunities**

- ✓ The Link REIT will be the largest listed retail landlord in Hong Kong in terms of gross floor area (GFA), i.e. 19.14 million square feet in GFA that is more than twice the size of Sun Hung Kai Properties' 9.2 million square feet. Properties involved are located in public housing estates that house about 40% of the Hong Kong population. This kind of coverage is unrivalled by other operators in local market.
- ✓ Asset enhancement studies by major property consultants show that a combination of cost and revenue initiatives could grow the bottom line by 25%. As Link's board and management are determined to improve its efficiency and corporate governance after the privatization, earnings of Link should have ample room for improvement.
- ✓ The book NAV as assessed by the independent valuer of this IPO, CB Richard Ellis, is below replacement construction cost and implies a land cost of zero. This conservative valuation provides a cushion against future downturn of the property market.
- ✓ The estimated dividend yield (around 5.83% for FY 2006 and 6.30% for FY 2007) is much higher than those of other property investors listed in the Hong Kong market.

**Weaknesses/Threats**

- × As market value of retail properties has increased since December last year, Link REIT would have to fund the HK\$3 billion increase in property valuation by debt at interest above that of 2004. It is estimated that the interest expense would be raised from around 13% of EBIT to 28% of EBIT and the gearing would go up to 36% from 28% of gross assets last year after the revaluation.
- × According to the revised Hong Kong REIT code, borrowings of REITs are limited to 45% of their total gross asset value, impairment of asset value might cause funding pressure if Link is at "full leverage".
- × Given the 100% income payout policy, Link REIT might need to issue new shares for future acquisitions or any sizable capital expenditure, thus causing earnings dilution.
- × Any loss in asset value will flow through the profit and loss accounts. Income to be distributed to unit holders might be reduced upon certain value impairment.

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