

**Analyst: Sabina Cheng**

## Main Board Listing – Research

Central China Real Estate [Stock Code:0832] 建業地產股份有限公司

**Sole Global Coordinator, Sponsor and Bookrunner**

: Morgan Stanley Asia Limited

**Joint Lead Managers**

: Morgan Stanley Asia Limited  
BOCI Asia Limited

**Sector** : Real Estate

**Business** : Real Estate Development

<b>Total share offer:</b> <u>500,000,000</u> shares (25% of the enlarged share capital)  <b>Public Offer:</b> 50,000,000 shares (10%) <b>Placing:</b> 450,000,000 shares (90%) <b>Greenshoe:</b> 75,000,000 shares	<p><b><u>Business of Central China Real Estate ("CCRE")</u></b></p> <p>Since early 1990's CCRE has been focusing on residential property development in Henan Province in China. At present, CCRE is a leading residential property developer in Henan Province, according to the China Real Estate Top 10 Research Team based on a number of factors including scale, profitability and growth rate.</p> <p>CCRE primarily develops mid- to high-end residential properties. As of 31<sup>st</sup> March 2008, it had 43 property projects in various stages of development in 19 cities across Henan Province, including 16 prefecture-level cities (地級市) and 3 county-level cities (縣級市). The Group had completed a total GFA of 2.821million sq m - At present, CCRE has a land reserve with a total GFA of 4.803 million sq m. which should be sufficient for its developments need in the next 3 to 4 years.</p> <p>CCRE has two major development projects on hand - "Forest Peninsula" and "Green Garden". As of March 2008, the average selling price for Forest Peninsula projects was RMB3,415 per sq m, while that for Green Garden projects was RMB2,289 per sq m.</p>
<b>Price:</b> HK\$2.75 - HK\$3.80 per share  <b>Market Cap:</b> HK\$5,500 million– HK\$7,600 million  <b>Pro forma FY2009E PER:</b> 6.3X – 8.0X  <b>Adjusted NTA per share:</b> HK\$1.37 – HK\$1.62  <b>Staffing:</b> 951 (as of 31 <sup>st</sup> December 2007)	
<b>HK Public Offer period:</b> 26 <sup>th</sup> May 2008 – 29 <sup>th</sup> May 2008  <b>Receiving banks:</b> Bank of China (Hong Kong) Limited ICBC (Asia) Limited  <b>Principal share registrar &amp; transfer office:</b> Butterfield Fund Services (Cayman) Limited  <b>Hong Kong branch share registrar &amp; transfer office:</b> Computershare Hong Kong Investor Services Limited  <b>Listing date:</b> 6 <sup>th</sup> June 2008	

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

Joy Bright Investments Limited (wholly-owned by Mr Wu Po Sum who is the Chairman and executive Director of CCRE)	47.2%
CapitaLand LF (Cayman) Holdings Co., Limited (a direct wholly owned subsidiary of CapitaLand China)	27.1%
Super Joy International Limited (owned by Mr Wang Tianye, CCRE's CEO and executive Director)	0.7%
Public Investors	25.0%
	<u>100.0%</u>

**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$1,518 million (Assuming the over-allotment option is not exercised, and at an issue price of HK\$3.275 each, being the midpoint of the indicative price range)

	HK\$ million
To finance land acquisition for the development of the Kaifeng Water System Development Project (CCRE has an 80% attributable equity interest)	825
To finance CCRE's acquisition of 100% equity interest in Luoyang Zhonya and to fund the development of the Huayang Square (Luoyang) Project	218
To finance the development of its existing projects	208
To finance land acquisition for the development of the Kaifeng Zhengkai Forest Peninsula Project (CCRE has a 60% equity interest)	185
To finance the payment of the remaining balance for its acquisition of a 60% equity interest in the CCRE St. Andrews and to fund the development of the Zhongmou St. Andrew Project	72
For general working capital purpose	10

**Financial Highlights**

	Year ended 31 <sup>st</sup> December		
	2005 RMB'000	2006 RMB'000	2007 RMB'000
Turnover	1,096,024	1,261,265	1,821,663
Gross profit	222,342	328,696	513,289
Operating profit	123,463	218,975	343,172
<b>Profits attributable to shareholders</b>	<b>49,492</b>	<b>132,755</b>	<b>170,568</b>
Gross margin	20.29%	26.06%	28.18%
Operating margin	11.26%	17.36%	18.84%
Net margin	4.52%	10.53%	9.36%

**Strengths/Opportunities**

- ✓ **Impressive economic growth in Henan Province between 2002 and 2007** Henan's nominal GDP rose from RMB 603.5 billion in 2002 to RMB1,505.8 billion in 2007, ranking 5<sup>th</sup> in China. This represents a CAGR of 20.1% during 2002-07, higher than China's nominal GDP CAGR of 15.4% during the same period. Therefore, it is expected that CCRE should be able to benefit from the strong economic growth there going forward.
- ✓ **Well-recognised brand** CCRE has built "Jian Ye" (建業) into a reputable and well-recognised brand in Henan Province and it was ranked 1<sup>st</sup> of the "Top 10 Real Estate Enterprises by Brand Value in Mid-west China". Besides, it was ranked no. 39 among the "Top 100 Real Estate Enterprise in China" by the China Real Estate Top 10 Research team in 2008.



- ✓ **Valuation** Market estimates that CCRE would be traded between 6.3X and 8X FY2009 PE, which is fairly priced as stocks of other regional developers such as Beijing Capital Land and Shanghai Forte are trading with average FY2009 PE of 7.5X.

## **Weaknesses/Threats**

- × **Business risk** Business of CCRE is entirely concentrated in Henan Province and highly dependent on the economy and housing demand in there.
- × **Keen competition** Competitors outside Henan Province, including Greentown, Green Land, Country Garden are entering big cities such as Zhengzhou, Luoyang and Kaifeng.
- × **Mortgage loans** CCRE guarantees mortgage loans to its customers and may become liable to banks if its customers default in their mortgage payments. As of 31<sup>st</sup> Dec 2005, 2006 and 2007, defaults in relation to the mortgage loans took out by its customers and secured by its guarantees amounted to approximately RMB 0.6 million, RMB 0.8 million and RMB 0.8 million, respectively.
- × **Have incurred high level of debts** The gearing ratio of CCRE was 34.3%, 26.3% and 24.9% for respect year ended 31<sup>st</sup> Dec 2005, 2006 and 2007. As of 31<sup>st</sup> December 2007, the outstanding amount of total borrowings of CCRE stood at some RMB1,385.7 million, compared to that of RMB 1,008.8 million as of 31<sup>st</sup> Dec 2006.

**Recommendation:    Trading buy**



## **Important Disclosure / Analyst Certification / Disclaimer**

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