

Analyst: Anita Hwang

Main Board Listing – Research

Country Garden Holdings Company Limited [Stock Code: 2007] 碧桂園控股有限公司

Joint global coordinators, joint
bookrunners, joint sponsors & joint

: Morgan Stanley

UBS AG

lead managers
Sector : Real Estate

Business : Real Estate development

Total share offer: <u>2,400,000,000</u> shares (15% of the enlarged share capital) Public Offer: 240,000,000 shares (10%) Placing: 2,160,000,000 shares (90%) Greenshoe: 360,000,000 shares	<p><u>Business of Country Garden Holdings</u></p> <p>Country Garden is a property developer based in Guangdong. It started its property development activities in 1997.</p> <p>The Group primarily focuses on the development of large-scale residential community projects and the sale of villas, townhouses, apartment buildings, parking spaces and retail shops. Other lines of business include construction, installation, fitting and decoration, property management, and hotel development and management.</p> <p>Residential home projects of the Group are generally located in newly urbanized areas and suburban areas of large cities, and the center of medium-sized cities. As of 31 Jan 2007, Country Garden has 27 projects with an aggregate GFA of 6.49 million sq. m. completed, 4.82 million sq. m. under development and 13.32 million sq. m. held for future development. 22 of the 27 projects are located in Guangdong while the other 5 projects are in Jiangsu, Hunan, Liaoning and Inner Mongolia.</p>
Price: HK\$4.18– HK\$5.38 per share Market Cap: HK\$66.9 – HK\$86.1 billion Pro-forma basic FY07 PER: 16.5X – 21.3X Adjusted NTA per share: HK\$0.69 – HK\$0.87 Staffing: 17,968	
HK Public Offer period: 3 rd April 07 – 11 th April 07 noon Receiving bank: Bank of China (HK) The Bank of East Asia HSBC Share registrar: Tricor Investor Services Limited Listing date: 20 th April 2007	

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

Ms. Yang Huiyan - Executive Director (through Concrete Win Limited)	59.5%
Mr. Yang Erzhu - Executive Director (through Automic Group Limited)	10.2%
Mr. Su Rubo - Executive Director (through Easy Hope Holdings Limited)	5.1%
Mr. Zhang Yaoyuan - Executive Director (through Acura International Global Limited)	5.1%
Mr. Ou Xueming - Executive Director (through Highlander Group Limited)	5.1%
Public shareholders*	15.0%
	<u>100.0%</u>

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Remarks: (*) Country Garden and the joint global coordinators have entered into corporate investor agreements with each of the following corporate investors:

- **Dr. Lee Shau Kee**, through Tadwin Limited, will subscribe for HK\$1 billion worth of shares (or some 1.3% of the enlarged share capital)
- **Dr. Cheng Yu Tung**, through Chow Tai Fook Nominees Limited, will subscribe for HK\$1 billion worth of shares (or some 1.3% of the enlarged share capital).
- **CITIC Pacific Limited** (0267.HK), through Goldino Enterprise Inc., will subscribe for HK\$500 million worth of shares (some 0.7% of the enlarged share capital)
- **Temasek Holdings (Private) Limited**, through Baytree Investment (Mauritius) Pte Ltd. will subscribe for HK\$500 million worth of shares (some 0.7% of the enlarged share capital).
- Members of the Kuok Group companies (**Mr. Kuok Hock Nien**), through Honeybush Limited, will subscribe for HK\$500 million worth of shares (some 0.7% of the enlarged share capital).

Shares held by each of the above corporate investors will be subject to a lock-up period of 12 months from the listing date.

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$11,133 million. (Being the mid-point of the offer price range [HK\$4.78 per share] and assuming the over-allotment option is not exercised)

	HK\$ million
To finance the development of existing projects	6,680
To acquire new land for development in China	3,340
For general working capital	1,113

Financial Highlights

	Year ended 31 st December		
RMB million	2004	2005	2006
Revenue	3,240.3	5,191.5	7,940.9
Gross profit	922.3	1,722.2	2,644.5
Operating profit	533.6	1,185.5	2,081.6
Attributable profit	237.1	589.5	1,672.5
Gross Margin	28.5%	33.2%	33.3%
Operating Margin	16.5%	22.8%	26.2%
Net Margin	7.3%	11.4%	21.1%

Breakdown of turnover by activities

Year ended 31 st December	2004		2005		2006	
	RMB million	%	RMB million	%	RMB million	%
Sales of properties	2,150.4	66.4	4,086.7	78.7	6,961.4	87.7
Rendering of construction services	739.4	22.8	535.8	10.3	514.2	6.5
Rendering of hotel services	123.5	3.8	185.3	3.6	194.0	2.4
Rendering of property management services	115.4	3.6	134.5	2.6	170.4	2.1
Rendering of school services	94.9	2.9	114.7	2.2	59.1	0.7
Rendering of decoration services	16.8	0.5	134.6	2.6	41.9	0.5
Total	3,240.3	100.0	5,191.5	100.0	7,940.9	100.0



Strengths/Opportunities

- ✓ **Low-cost land bank** Country Garden has been focusing on developing projects in suburban areas and mid-tier cities. Therefore, the average unit land cost is lower than 10% of average unit selling price in 2006. The current land bank of 4.82 million sq. m. GFA under development and 13.32 million sq. m. GFA held for future development should be able to sustain developments for another five years.
- ✓ **Strong track record** Country Garden recorded strong growth in revenue during the track record period. Aggregate GFA delivered was 427,530 sq. m., 731,173 sq. m., and 1.32 million sq. m. at an average realized selling price per sq. m. of RMB5,029.8, RMB5,589.2 and RMB5,280.2 during FY04, FY05 and FY06 respectively. Country Garden also gave an attributable profit forecast of RMB4.01 billion for FY07 on the back of recognized revenue of RMB2.7 billion for the 2 months ended 28 February 2007. The large forecast increase in attributable profit is mainly driven by strong growth in property sales and an increase in average selling price of the properties. Part of the strong growth in top and bottom-line was attributable to the quick selling cycle in which construction of villas and low-rise apartments takes an average of 12 and 18 months respectively.
- ✓ **Product portfolio** The principal products of Country Garden are villas, townhouses and low-rise apartments. Some of the residential communities also include hotel and resort operations. Currently, Country Garden owns and operates one 5-star hotel and one 4-star hotel, as well as three in operation which were developed to the 5-star standard of the “Star-Rating Standard for Tourist Hotels”. Also, five hotels are under construction in accordance with the 5-star standard of the “Star-Rating Standard for Tourist Hotels”.
- ✓ **Strong brand recognition** The brand name “Country Garden” is highly recognized in the property sector, particularly in the Guangdong and the Pearl River Delta area. The PRC State Administration for Industry and Commerce named Country Garden as one of only two “China’s Well-Known Trademarks” in the property sector.

Weaknesses/Threats

- × **Regulatory measures to cool the property market** A number of measures have recently been put forward by the government to curb the over-heated property market. Some of these measures will undoubtedly affect Country Garden directly. As of 1st June 2006, of the newly approved and newly commenced construction projects in different cities including town and counties, at least 70% of the total construction area must be used for building small apartments with unit floor area of 90 sq. m. or below. Land supply for villa construction will be continuously suspended, and land supply for low-density and large-area housing property construction will be strictly restricted.
- × **Rich valuation** The IPO price range of Country Garden at an indicative FY07E pro-forma fully diluted PER range of 16.5X – 21.3X is expensive when compared with its peers. HK-listed peers with strong operations in Guangdong include Guangzhou R&F Properties (2777), Agile Property (3383) and Hopsun Development (0754). The peers’ FY07E PER range is 10.6X to 17.6X. Country Garden’s NAV per share estimate is averaging at about HK\$3.93, which translates into a 6.3% to 36.8% premium to NAV at the IPO price range. The discount to NAV of comparable peers ranges from 5% to 25%. So from a discount/premium to NAV perspective, Country Garden is on the high side.

Recommendation: Subscribe



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