

Analyst: Sam Ho

## Main Board H-share Listing- Research

復地(集團)股份有限公司

Shanghai Forte Land Co., Ltd. - [Stock Code: 2337]
**Global Coordinator, Bookrunner, Lead Manager and Sponsor** : Morgan Stanley

**Sector** : Real estate

**Business**: Development and sale of mass residential properties in Shanghai

<p><b>Total share offer:</b> <u>638,271,935</u> shares (30.22% of the enlarged share capital)</p> <p><b>Placement:</b> 574,443,135 shares (90%) - 567,781,200 new shares - 6,661,935 sale shares</p> <p><b>IPO:</b> 63,828,800 shares (10%)</p> <p><b>Greenshoe:</b> 94,741,500 shares</p>	<p><b><u>Business of Shanghai Forte</u></b></p> <p>The Group is one of the largest property developers in Shanghai in terms of GFA of all properties sold in Shanghai in 2002. It engages primarily in the development and sale of high-quality residential properties catering to the mass market. The Group also engages in other property-related services such as property-construction supervisory, sales planning and real estate agency services.</p>
<p><b>Price:</b> HK\$1.80- HK\$2.35 per share <b>H-shares market cap.:</b> HK\$1,148.9 million- HK\$1,499.9 million</p> <p><b>Staffing:</b> 853</p> <p><b>Prospective 2003 P/E:</b> 9x-11.8x (fully diluted) <b>Adjusted NAV per share:</b> HK\$2.06- HK\$2.22</p>	<p>As at 30/11/2003, the Group and other equity joint-venture companies have interests in 58 property development projects in Shanghai, Nanjing and Wuhan with approximately 4.81 million m<sup>2</sup> of GFA and site area amounting to some 3.68 million m<sup>2</sup>.</p>
<p><b>Book opens:</b> 19<sup>th</sup> January 2004 <b>Book closes:</b> 30<sup>th</sup> January 2004</p> <p><b>IPO commences:</b> 27<sup>th</sup> January 2004 <b>IPO ends:</b> 30<sup>th</sup> January 2004</p> <p><b>Share registrar:</b> Computershare Hong Kong Investor Services Limited <b>Receiving bank:</b> Standard Chartered Bank</p> <p><b>Listing date:</b> 6<sup>th</sup> February 2004</p>	<p>The Group's portfolio of properties under development is located mainly across Shanghai (such as Baoshan District (寶山區), Minhang District (閔行區), Pudong District (浦東區) and Putuo District (普陀區)), as well as in Nanjing, targeting the emerging middle class in Shanghai and Nanjing.</p>

### **Major Shareholders after Listing**

*(Assuming the over-allotment option is not exercised)*

Shanghai Fosun High Technology, the parent company of the Group	27.34%
Shanghai Fosun High New Technology, holding 12.6% interest in the parent company	15.07%
Shanghai Fosun Pharmaceutical, a sister company of the Group	12.65%
Shanghai Fosun Information, a sister company of the Group	9.81%
Shanghai Guangxin Technology, holding 87.4% interest in the parent company	4.21%
Dahua (Group) Company, a low-to-medium-end mainland property developer	0.35%
Dazhong Transportation (Group), a company listed on the Shanghai Stock Exchange	0.35%
	<u>69.78%</u>

### **Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$1,046 million-HK\$1,400 million.

*(Assuming the over-allotment option is not exercised)*

	HK\$ million
To fund the development of the Group's property projects and to further develop its property-development business	1,046-1,400

### **Financial Highlights**

	10 months ended 31 <sup>st</sup> October 2003 RMB'000	2002 RMB'000	2001 RMB'000	2000 RMB'000
Revenue				
<i>Sale and pre-sale of properties</i>	1,675,457	2,158,963	683,173	285,632
<i>Property agency fees</i>	26,469	55,773	12,225	12,399
<i>Property sales planning fees</i>	330	-	-	-
<i>Construction supervisory fees</i>	410	662	-	-
<i>Less: Business tax and government surcharges</i>	<u>(93,110)</u>	<u>(119,700)</u>	<u>(37,267)</u>	<u>(16,614)</u>
	<u>1,609,556</u>	<u>2,095,698</u>	<u>658,131</u>	<u>281,417</u>
Operating profit	<u>400,605</u>	<u>439,111</u>	<u>110,163</u>	<u>36,125</u>
Net profit	<u>311,177</u>	<u>341,243</u>	<u>51,212</u>	<u>29,070</u>
Dividend	-	-	23,264	-
EPS- basic	<u>RMB0.210</u>	<u>RMB0.231</u>	<u>RMB0.035</u>	<u>RMB0.020</u>

### **Total GFA available for sale and under development in major Shanghai cities**

Location	Saleable GFA for completed developments and estimated GFA for projects under development
Baoshan District	10,426 m <sup>2</sup>
Minhang District	704,609 m <sup>2</sup>
Putuo District	523,087 m <sup>2</sup>
Pudong District	250,262 m <sup>2</sup>

**Strengths**

- ✓ Shanghai is in the stage of rapid development. In 2002, its disposable income per capita of urban residents rose to RMB13,250. Since the housing affordability ratio (mortgage payment/household income) in Shanghai had improved to 52% in 2002 from 79% in 1998 due to increasing household income and easier access of mortgage financing, the mass residential segment should remain solid. Moreover, Shanghai has become increasingly attractive to both domestic and international investors. Between 2000 and 2002, a net average of some 100,000 people moved into Shanghai each year. This new demand has been targeting those high-to-medium-end houses, which is the major segment Forte focused.
- ✓ During its track record period, Forte achieved high pre-sale rates of 97.5% to 100% by the time of the issue of the relevant building-ownership certificates. This strong pre-sale capability lets Forte efficiently use its capital and enhance its ROE.
- ✓ Numerous awards in recognition of the high quality and design seen at Forte's properties since its founding in 1993 demonstrated its commitment as a quality developer. In October 2002, the Forte brand name was rated one of the "Top Nine Shanghai Property Brands to Watch Out For" in the "2002 Shanghai Property Brands Promotion Campaign".
- ✓ Valuation of Forte is undemanding on its 2003 earnings multiples of 9x-11.8x, when compared to other listed mainland property developers CR Land (*stock code: 1109*)'s 2003 P/E of 30.2x, Shanghai Real Estate (*stock code: 1207*)'s 2003 P/E of 14x and Shenzhen-listed China Vanke's 2003 P/E of 15.9x. Its relatively bigger scale and leading position in the Shanghai property market should allow Forte to have a higher premium to its Hong Kong-listed peers.

**Weaknesses**

- × Competition in the property-development market in Shanghai has been very intense since the market is fragmented with no dominant market player. In 2002, the total market share (in terms of GFA sold) of the 10 largest developers was only around 14.83%.
- × The Group's land reserve (including lands that are not yet granted land-use certificates) is expected to fulfil its development requirements for the next 4-5 years. However, the sustainability of its earnings growth relies heavily on sales progress as well as the time needed to obtain land-use certificates of the other projects under planning.
- × As at 31/10/2003, the Group provided buy-back guarantees of some RMB1,188.27 million to banks in respect of the mortgage loans. This may affect the Group's cashflow and financial position should these guarantees be called upon. Nevertheless, the mortgage-financing default rates are usually low in China, particularly Shanghai.

**Recommendation: Trading Buy**