

Main Board H-share Listing - Research

廣州富力地產股份有限公司

Guangzhou R&F Properties Co., Ltd. [Stock Code: 2777]

Joint Global Co-ordinators, Bookrunners, Lead Managers and Sponsors : Credit Suisse First Boston (Hong Kong) Limited
Morgan Stanley Dean Witter Asia Limited

Sector : Real Estate

Business : Property development and management

Total share offer: <u>183,925,800</u> H shares (25% of the enlarged share capital) Public Offer: 18,392,800 H shares (10%) Placing: 165,533,000 H shares (90%) Greenshoe: 27,588,800 H shares (15%)	<u>Business of Guangzhou R&F</u> <p>Guangzhou R&F is one of the leading property developers in Guangzhou. In 2003, the National Bureau of Statistics of China ranked it 3rd in terms of overall corporate strength within the PRC property development industry on a nationwide basis.</p> <p>The company primarily develops and sells quality private residential properties in Guangzhou and, more recently, in Beijing. It focuses on medium to higher-end property developments and targets the middle to upper-middle income residents. It has completed and / or is undertaking 32 property developments in Guangzhou, 4 in Beijing and 1 in Tianjin with an aggregate site area of 2.0 million square meters and an aggregate gross floor area of 8.7 million square meters.</p> <p>In addition to development and sale of residential properties, the Group also develops, sells and leases commercial and office spaces. It also engages in other ancillary property-related services including property management and property agency services. It has recently begun developing 2 hotels in Guangzhou, one to be operated under the Ritz-Carlton brand and the other under the Grand Hyatt brand.</p>
Price: HK\$10.70 – HK\$12.03 per H share Market Cap.: HK\$7.87 billion – HK\$8.85 billion Historical 2005 P/E: 8.0x – 9.0x (pro forma) Adjusted NTA per share: RMB5.56 – RMB5.92 Staffing: 907	
HK Public Offer period: 30 th June 2005 – 7 th July 2005 Receiving bank: Bank of China (Hong Kong) Share registrar: Computershare Hong Kong Investor Services Limited Listing date: 14 th July 2005	

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

Li Sze Lim, <i>Chairman</i>	36.33%
Zhang Li, <i>Vice Chairman and President</i>	36.33%
Lu Jing, <i>Executive Director and Deputy General Manager</i>	1.46%
Zhou Yaonan, <i>Executive Director and Deputy General Manager</i>	0.44%
Zhu Ling, <i>Chief Financial Officer and Deputy General Manager</i>	0.44%
	<u>75.00%</u>

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$1,873.3 million.

(Assuming the over-allotment option is not exercised, and at an issue price of HK\$10.70 each, being the lowest end of the indicative price range)

	HK\$ million
To fund property developments, in particular, Beijing R&F City and R&F Peach Garden projects	1,873.3

Financial Highlights

	Year ended 31 st December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Turnover	2,316,292	2,792,707	4,260,396
Gross profit	566,183	670,779	886,272
Operating profit	427,981	484,643	706,817
Net profit	359,582	408,836	544,558
Earnings per share – Basic	RMB0.6517	RMB0.7409	RMB0.9869

Strengths/Opportunities

- ✓ The company's property developments are predominately located in Guangzhou and Beijing. Guangzhou has one of the highest per capital GDPs in China, while Beijing has experienced a fast growing property market in recent years. Guangzhou's large population as well as its proximity to Hong Kong should help Guangzhou remain a growing property market in China in the years ahead. The Beijing property market should also be healthy partly because of the 2008 Olympic Games and partly because of its attraction to property investors as the capital city.
- ✓ Guangzhou R&F has recently diversified its property portfolio by developing long-term investment properties including hotels, commercial and office buildings. The move should help generate stable rental income to the company.
- ✓ Vice chairman Zhang Li said the target of austerity measures imposed on the property market was mainly targeting Shanghai, where the company has no exposure. He is optimistic that the company's net profit for this year will double to RMB1.04 billion from RMB545 million last year. At the same time, the company is promising investors an annualised dividend yield of not less than 8.6% for the remainder of the year.

Weaknesses/Threats

- × The key challenge facing the company is the effectiveness of government efforts to rein in property values. China issued a decree on May 2005 encompassing a range of measures including a 5% tax on property owners who sell within 2 years of purchase. The decree, which took effect 1st June 2005, allows provincial governments to take additional measures based on local market conditions. Guangdong province has already reacted to double the sales tax on luxury homes to 3%.
- × Domestic peer Beijing Capital Land (stock code: 2868) issued a profit warning on 29th June 2005 saying its first-half profits would be hit by the new accounting system and the austerity measures imposed on the mainland property market and the uncertainties would persist through the second half and affect the property firm's full-year results.
- × The valuation of Guangzhou R&F at 8.0x to 9.0x 2005E P/E is not very attractive when compared with an average of 8.3x for China property plays. In addition, the company is issuing shares at 86% premium to its net tangible asset value.

Recommendation: Caveat Emptor