

**BEA securities**

EAST ASIA SECURITIES COMPANY LIMITED

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**HONG KONG RESEARCH****13<sup>th</sup> March 2008****Analyst: Sabina Cheng****Main Board Listing – Research****Evergrande Real Estate Group Limited [Stock Code:3333] 恒大地产集团有限公司****Sole Global Coordinator**

: Goldman Sachs (Asia) L.L.C.

**Joint Bookrunners, Joint Lead Managers and Joint Sponsors**: Goldman Sachs (Asia) L.L.C.,  
Merrill Lynch Far East Limited,  
Credit Suisse (Hong Kong) Limited**Sector** : Real Estate**Business** : Real Estate Development**Total share offer:** \*2,960,911,000 shares  
**(31.84% of the enlarged share capital)****Public Offer:** 296,092,000 shares (10%)**Placing:** 2,664,819 000 shares (90%)**Greenshoe:** 444,136, 500 shares\*Comprising 2,850,000,000 New Shares and  
110,911,000 Sale Shares**Price:** HK\$3.50 - HK\$5.60 per share**Market Cap:** HK\$49,875 million– HK\$79,800 million**Pro forma FY2007E PER:** 43.9X – 70.2X**Adjusted NTA per share:** HK\$0.71 – HK\$1.11**Staffing:** 4,433 (as of 3<sup>rd</sup> March 2008)**HK Public Offer period:**13<sup>th</sup> March 2008 – 18<sup>th</sup> March 2008**Receiving banks:**

Bank of Communications Co. Ltd

ICBC (Asia) Limited

Hang Seng Bank Limited

Bank of East Asia, Limited

**Cayman Islands principal share registrar & transfer office:**

Butterfield Fund Services (Cayman) Limited

**Branch registrar & transfer office:**

Computershare HK Investor Services Limited

**Listing date:** 28<sup>th</sup> March 2008**Business of Evergrande**

Evergrande is one of the leading large-scale integrated residential property developers in China with land reserves of 45.8 million sq.m. in GFA.

Historically, the Group focused on property developments in Guangdong Province. It has now expanded to other high-growth cities in China, including Chongqing, Tianjin, Wuhan, Chengdu, Shenyang, Xi'an, Nanjing, Qidong, Kunming, Baotou, Tiayuan, Gui yang, Hefei, Changsha, Nanning, Zhengzhou and Luoyang.

The Group has developed Jinbi Garden, Jinbi Palace, Jinbi City Plaza, Jinbi Emerald Court, Jinbi New City Garden, Jinbi Century Garden, Jinbi Bay Garden, Jinbi Atrium and Jinbi Junhong Garden.

At present, there are 31 property projects, which are at various stages of development in 19 cities with an estimated total GFA of over 30 million sq. m.

For the 9 months to 30<sup>th</sup> September 2007, the Group's net profit attributable to shareholders was RMB1,002 million with net profit margin of 43.12%

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

Xin Xin (BIV) (100% owned by the chairman Hui Ka Yan)	68.16%
Public Investors	31.84%
	<u>100.00%</u>

**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$12,313.6 million (Assuming the over-allotment option is not exercised, and at an issue price of HK\$4.55 each, being the midpoint of the indicative price range)

	HK\$ million
To pay for the outstanding land premiums and to finance the existing projects	6,604.4
To acquire additional land reserves for property development	2,842.4
To pay the additional cash consideration with respect to the land use rights in Lujiazui Financial and Trade District of Shanghai	929.5
To repay a portion of the Structured Secured Loan from Credit Suisse	1,115.1
For general working capital purpose	Balance

**Financial Highlights**

	Year ended 31 <sup>st</sup> December			Nine months ended 30 <sup>th</sup> September	
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2006 RMB'000	2007 RMB'000
Sales	1,443,437	1,321,990	1,983,304	1,393,983	2,323,354
Gross profit	333,798	343,529	557,026	400,891	867,880
Operating profit	181,005	315,500	648,857	449,360	1,823,171
<b>Attributable profit</b>	<b>78,632</b>	<b>185,544</b>	<b>325,459</b>	<b>301,988</b>	<b>1,001,880</b>
Gross margin	23.13%	25.99%	28.09%	28.76%	37.35%
Operating margin	12.54%	23.87%	32.72%	32.24%	78.47%
Net margin	5.45%	14.04%	16.41%	21.66%	43.12%

**Revenue by business segment**

	Year ended 31 <sup>st</sup> December						For the nine months ended 30 <sup>th</sup> September			
	2004 RMB in millions		2005 RMB in millions		2006 RMB in millions		2006 RMB in millions		2007 RMB in millions	
Property development	1,412.1	97.8%	1,275.9	96.5%	1,885.4	95.1%	1,343.1	96.3%	2,228.1	95.9%
Property investment	3.2	0.2%	4.8	0.4%	11.8	0.6%	8.5	0.6%	10.5	0.5%
Property management services	14.0	1.0%	23.7	1.8%	46.3	2.3%	30.9	2.2%	44.4	1.9%
Others	14.1	1.0%	17.6	1.3%	39.8	2.0%	11.5	0.8%	40.4	1.7%
<b>Total</b>	<b>1,443.4</b>	<b>100.0%</b>	<b>1,322.0</b>	<b>100.0%</b>	<b>1,983.3</b>	<b>100.0%</b>	<b>1,394.0</b>	<b>100.0%</b>	<b>2,323.4</b>	<b>100.0%</b>



## **Strengths/Opportunities**

- ✓ **Second largest land bank in China** Evergrande's land bank of 45.8 sq.m. is located in strategic areas (second- and third-tier cities) throughout China, and could be sufficient for developments in the coming four to five years.
- ✓ **Low average land costs** Evergrande has cost advantages over other smaller developers through centralised procurement, optimal design and integrated operations. It was reported that the average land cost of the Group was only some RMB 611 per sq.m.
- ✓ **One of the top 10 developers in China.** Since 2004, Evergrande has been ranked among the Top 10 Property Developers in China by China Real Estate Top 10 Research Group every year.

## **Weaknesses/Threats**

- × **Policy risk** The Mainland government has tightened credit control for homebuyers and developers. Implementation of further austerity measures remains possible as the inflation rate has been showing a strong uptrend.
- × **Lack track record in new cities** Evergrande has long been focusing on property development in Guangdong Province. It has limited experience in development and operation outside of Guangzhou to new cities.
- × **Highly leveraged** As of 31<sup>st</sup> January 2008, the outstanding bank and other borrowings amounted to RMB 11,133.4 million and the average interest rates were 7.4%. Bank borrowings repayable in 2 to 5 years accounted for over 60% of the total borrowings.

**Recommendation: Netural**



**Appendix: Key information related to Evergrande Real Estate Group Limited's projects and land banks**

**Figure 1: Geographical Breakdown of Projects' GFA and GAV**

Cities	FY07E GAV RMB million	%	FY07 GFA (sq.m.) %		Under development GFA (sq.m.)	Future development GFA (sq.m.)
Baotou	1,773	1.9%	2,038,536	4.5%	1,648,008	390,528
Changsha	1,328	1.4%	1,106,726	2.4%	550,598	556,128
Chengdu	2,633	2.8%	1,314,667	2.9%	1,314,667	-
Chongqing	8,367	9.0%	2,727,006	6.0%	910,480	1,816,526
E'zhou	1,519	1.6%	897,319	2.0%	897,319	-
Foshan	5,946	6.4%	2,108,091	4.6%	2,108,091	-
Guangzhou	9,226	9.9%	1,889,229	4.1%	877,874	1,011,355
Guiyang	484	0.5%	300,613	0.7%	300,613	-
Hefei	1,873	2.0%	494,085	1.1%	-	494,085
Kunming	1,114	1.2%	915,411	2.0%	915,411	-
Nanjing	3,368	3.6%	1,457,837	3.2%	1,352,246	105,591
Nanning	883	0.9%	758,924	1.7%	758,924	-
Pengshan	1,041	1.1%	583,603	1.3%	583,603	-
Qidong	24,960	26.7%	11,957,045	26.1%	11,957,045	-
Qingyuan	3,528	3.8%	2,795,559	6.1%	2,795,559	-
Shengyang	7,446	8.0%	3,176,900	6.9%	804,931	2,371,969
Taiyuan	3,948	4.2%	2,009,628	4.4%	426,115	1,583,513
Tianjin	663	0.7%	313,938	0.7%	313,938	-
Wuhan	7,300	7.8%	2,740,467	6.0%	1,044,558	1,695,909
Xian	1,083	1.2%	905,846	2.0%	905,846	-
Zhengzhou	720	0.8%	1,861,551	4.1%	-	1,861,551
Louyang	4,186	4.5%	3,398,495	7.4%	-	3,398,495
<b>Total</b>	<b>93,389</b>	<b>100.0%</b>	<b>45,751,476</b>	<b>100.0%</b>	<b>30,465,826</b>	<b>15,285,650</b>

**Figure 3. Breakdown of Completed Projects by Region**

Location	2007(sq.m)		2008E (sq.m)	
Guangdong	1,380,000	100%	1,905,106	16%
Chongqing	0	0%	883,322	7%
Tianjin	0	0%	313,938	3%
Hubei	0	0%	1,092,003	9%
Sichuan	0	0%	1,111,447	9%
Liaoning	0	0%	904,600	7%
Shaanxi	0	0%	467,493	4%
Jiangsu	0	0%	789,165	6%
Yunnan	0	0%	492,243	4%
Inner Mongolia	0	0%	313,800	3%
Shanxi	0	0%	779,968	6%
Guizhou	0	0%	178,245	1%
Anhui	0	0%	178,245	1%
Hunan	0	0%	580,995	5%
Guangxi	0	0%	303,224	2%
Henan	0	0%	1,950,223	16%
<b>Total</b>	<b>1,380,000</b>	<b>100%</b>	<b>12,244,017</b>	<b>100%</b>

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