

Analyst: Anita Hwang

Main Board Listing – Research

Sino-Ocean Land Holdings Limited [Stock Code: 3377] 遠洋地產控股有限公司

Joint sponsors : Goldman Sachs Morgan Stanley
Joint bookrunners and joint lead managers : Goldman Sachs Morgan Stanley BOCI

Sector : Real Estate

Business : Real Estate development and investment

<p>Total share offer: <u>1,551,200,000</u> shares (36.6% of the enlarged share capital)</p> <p>Public Offer: 155,120,000 shares (10%)</p> <p>Placing: 1,396,080,000 shares (90%)</p> <p>Greenshoe: 232,680,000 shares</p> <p><i>*Comprising 1,117,740,000 New Shares and 278,340,000 Sale Shares</i></p>	<p><u>Business of Sino-Ocean Land (Sino- Ocean)</u></p> <p>Sino-Ocean was established in 1993 as a real estate subsidiary of COSCO Group. It primarily develops medium to high-end residential properties, premium grade office buildings, retail space, serviced apartments and hotels.</p> <p>Sino-Ocean has an established brand “Ocean” after completing 8 property projects in Beijing. As of 31 July 2007, Sino-Ocean has completed developments of a total GFA of 2.28 million sq. m. The current land reserve has a total GFA of about 8.59 million sq. m. It has 21 projects at various stages of development in Beijing, Tianjin, Shenyang, Dalian (“Pan-Bohai regions”) and Zhongshan.</p> <p>The company provided FY07E profit forecast with consolidated profit attributable to shareholders after fair value gains on investment properties estimated to be no less than RMB1,633 million, equivalent to a pro forma fully diluted EPS of RMB0.38. Should the fair value gains be stripped out, the FY07E consolidated profit attributable to shareholders would be some RMB1,453 million, equivalent to a pro forma fully diluted EPS of RMB0.34.</p>
<p>Price: HK\$6.45– HK\$7.70 per share</p> <p>Market Cap: HK\$27.37 billion – HK\$32.67 billion</p> <p>Pro-forma fully diluted FY07 PER: 18.3X – 21.8X (before fair value gains on investment properties)</p> <p>Adjusted NTA per share: RMB2.66 – RMB3.01</p> <p>Staffing: 345</p>	
<p>HK Public Offer period: 14th September 07 – 19th September 07 noon</p> <p>Receiving bank: Bank of Communications Bank of China (HK) ICBC (Asia)</p> <p>Share registrar: Computershare Hong Kong Investor Services Limited</p> <p>Listing date: 28th September 2007</p>	

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

COSCO International Holdings (0517.HK) through Sunny Wealth Investments Ltd.	21.56%
Sinochem Hong Kong	15.00%
Pacific Alliance Asia Opportunity Fund Ltd. through Jolly Eagle Development Ltd.	5.88%
Financial Investors [^]	21.00%
Public shareholders*	36.60%
	<u>100.0%</u>

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**Remarks:**

[^]In late 2006, Sino-Ocean introduced 6 Financial Investors. Their respective holdings in Sino-Ocean are shown in the following table.

Morgan Stanley (through SSF Livingston)	7.00%
Standard Chartered Bank (through SC Private Equity)	3.57%
Merrill Lynch (through Indopark)	2.80%
IFR	3.08%
Talent Ocean	2.94%
Credit Suisse (through RECP)	1.61%
	<u>21.00%</u>

* Sino-Ocean and the joint bookrunners have entered into corporate placing agreements with each of the following 10 cornerstone investors to purchase an aggregate of HK\$1,872 million worth of shares:

- **China Life Insurance (Group) Company** will subscribe for HK\$233.84 million worth of shares (some 0.78% of the enlarged share capital).
- **Dr. Lee Shau Kee**, through Goldlead Limited, will subscribe for HK\$233.84 million worth of shares (some 0.78% of the enlarged share capital).
- **The Government of Singapore Investment Corporation** will subscribe for HK\$233.84 million worth of shares (some 0.78 % of the enlarged share capital).
- **OZ Management LP** will subscribe for HK\$233.84 million worth of shares (some 0.78% of the enlarged share capital). OZ Management LP is an international, institutional alternative asset management firm.
- **HKR International Limited (0480.HK)**, through Abraham Investment Holdings Limited, will subscribe for HK\$155.89 million worth of shares (some 0.52 % of the enlarged share capital).
- **BOCOM International Holdings Company Limited** will subscribe for HK\$155.89 million worth of shares (some 0.52% of the enlarged share capital). BOCOM is principally engaged in investment banking and investment in securities.
- **Caricom Limited** will subscribe for HK\$155.89 million worth of shares (some 0.52% of the enlarged share capital). Caricom Limited is a privately held company incorporated in HK and has interests in approximately 200,000 sq. ft. of commercial property in HK.
- **The Kwok family of Sun Hung Kai Properties (0016.HK)**, through Dellwood International Limited, will subscribe for HK\$155.89 million worth of shares (some 0.52% of the enlarged share capital).
- **Fidelity Insurance Company Limited** will subscribe for HK\$155.89 million worth of shares (some 0.52% of the enlarged share capital).
- **Sinotrans (HK) Holdings Limited** will subscribe for HK\$155.89 million worth of shares (some 0.52% of the enlarged share capital).

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$8,640.4 million. (Assuming an offer price of HK\$7.075, being the mid-point of the indicative offer price range, and the over-allotment option is not exercised)

	HK\$ million
To finance the development of the following 12 existing projects (including the repayment of 2 short-term loans in an aggregate amount of US\$350 million):	
North Fourth Ring Road Project (Beijing)	2,423.3
Ocean City (Zhongshan)	1,268.3
Pulida Project (Tianjin)	819.6
Ocean Donglong Villas	777.2
Red Star Project (Dalian)	634.3
Ocean Office Park (Beijing)	598.1
Ocean Jiangtai Business Center (Beijing)	555.1
Haihe New Skyline (Tianjin)	444.1
Ocean Prospect (Dalian)	403.5
Ocean Paradise (Shenyang)	325.9
Ocean Express (Tianjin)	210.2
Ocean Express (Beijing) (Phase II)	180.8

**Financial Highlights**

RMB million	Year ended 31 st December		
	2004	2005	2006
Revenue	1,892	2,711	3,708
Gross profit	428	625	1,006
Fair value gains on investment properties	-	228	282
Profit before tax	202	623	945
Profit for the year	110	428	597
Gross margin	22.6%	23.1%	27.1%
Profit before tax margin	10.7%	23.0%	25.5%
Net margin	5.8%	15.8%	16.1%

Breakdown of revenue by activities

RMB million	2004	%	2005	%	2006	%
Property development	1,792	94.7%	2,537	93.6%	3,521	94.9%
Property investment	0	0.0%	50	1.9%	55	1.5%
Others	100	5.3%	124	4.6%	133	3.6%
Total	1,892	100.0%	2,711	100.0%	3,708	100.0%

Key information related to Sino-Ocean's property projects as of 31 July 2007

GFA (sq. m)			For future development	
	Completed	Under development	Land use right certificate obtained	Land use right certificate not yet obtained
Residential	1,761,613	800,960	1,823,720	52,926
Office	192,759	95,356	218,789	78,000
Retail	108,062	89,898	264,825	42,802
Hotel	55,901	-	38,529	81,355
Other	378,414	212,683	352,314	32,925
Total	2,496,749	1,198,897	2,698,177	288,008
Attributable	2,320,491	1,021,539	2,657,339	280,381

Strengths/Opportunities

- ✓ **A Pan-Bohai Rim play** The Pan-Bohai area is one of the key development regions as highlighted by the PRC Government. Sino-Ocean ranked as the number one developer in Beijing in terms of the amount of gross floor area (GFA) sold since January 2004 according to China Index Academy. The strong track record and brand name should help Sino-Ocean to expand in high growth areas, such as Tianjin, Shenyang, Dalian and Zhongshan.
- ✓ **Diversified property portfolio** The property portfolio of Sino-Ocean primarily is located in prime areas in Beijing. Also, the property portfolio is well-diversified covering commercial, office, hotel and retail sectors, as well as residential portfolio mainly targeting the affluent middle class with a few luxury projects. We see the balanced portfolio and prime property locations are key competitive advantages of Sino-Ocean.



- ✓ The IPO price range of Sino-Ocean is at a FY07E pro-forma fully diluted PER range of 18.3X –21.8X. HK-listed peers with property portfolio in the Bohai region include China Resources Land (1109.HK), Beijing Capital Land (2868.HK) and Beijing North Star (0588.HK). The peers' FY07E PER range is dispersed (16.7X - 50X). China Resources Land is more diversified geographically with about 25% of its assets in the Pan- Bohai region. Beijing Capital Land has a smaller asset size compared with Sino-Ocean, of which about 80% of its assets in Beijing, Tianjin and Dalian. Beijing North Star's assets are concentrated in Beijing and Changsha.

From a discount/premium to NAV perspective, the comparable peers trade at a discount of 21% to a premium of about 35% while the sector average is at a premium of about 15%. As a sector leader, China Overseas Land & Investment (0688.HK) trades at 30X FY07E PER and about 36% premium to its FY07E NAV. Sino-Ocean is priced at a discount of about 7% to a premium of 10% to its NAV. We think Sino-Ocean is attractively priced and can trade at a premium valuation to this peer group.

Weaknesses/Threats

- × Most of the current and future austerity measures are targeting the high-end residential units, which are one of the key products of Sino-Ocean.
- × Despite the strategy to diversify its land bank into the Pan-Bohai area and the Pearl River Delta, Sino-Ocean's property portfolio is highly concentrated in Beijing (over 50% of its gross asset value is in Beijing). Should there be any near-term adverse changes to the Beijing property market, Sino-Ocean's performance would be materially affected.

Recommendation: Subscribe



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