

Analyst: Kevin Tam

Main Board Listing – Research

綠城中國控股有限公司

Greentown China Holdings Limited [Stock Code:3900]

Sponsor : JP Morgan
Joint Global Coordinators and Joint Book-runners : JP Morgan & UBS

Sector : Real Estate
Business : Property developer in the PRC

Total share offer: <u>324,675,500</u> shares <i>[(Comprising 298,701,500 new shares (23% of enlarged capital) and 25,974,000 existing shares)]</i> Public Offer: 32,468,000 shares (10%) Placing: 292,207,500 shares (90%) Greenshoe: 48,701,000 shares (15%)	<u>Business of Greentown China Holdings</u> Greentown China Holdings Ltd. is a large-scale property developer based in Zhejiang Province. The Group is currently engaged in or planning to develop 83 property projects or phases that are expected to be completed in the next 5 years. The GFA of the 83 projects amounts to 8.6 million sq. m. with attributable interest to the Group amounts to 5.5 million sq. m. Among the land banks, 3.4 million sq. m. are in Hangzhou; 2.6 million sq. m. in other cities in Zhejiang Province; 786,000 sq. m. in Shanghai; 528,000 sq. m. in Beijing and 1.3 million sq. m. in Hefei, Changsha and Urmqi. The Group has 3 main types of projects; namely villas, low-rise apartment buildings and high-rise apartment buildings. It targets the middle to higher income residents in China. The total GFA of properties delivered for the years 2003, 2004 and 2005 were 167,073 sq. m, 429,881 sq. m. and 448,877 sq. m. respectively.
Price: HK\$6.57 – HK\$9.86 Market Cap: HK\$8,532 mn – HK\$12,805 mn Forecasted Net Profit for FY06: RMB1,471 mn FY06E PE ratio on a pro forma fully diluted basis: 6.0X – 9.0X Adjusted net tangible asset value per share: HK\$1.93 – HK\$2.67 Staffing: 1,035	
HK Public Offer period: 30 th June to 6 th July 2006 Receiving bank: Bank of China (Hong Kong) Bank of Communications Standard Chartered Bank Share registrar: Computershare Hong Kong Listing date: 13 th July 2006	

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

Song Wei Ping (Chairman of the Group)	38.62%
Shou Bainian (Executive vice chairman and CEO of the Group)	29.54%
Xia Yibo (Wife of Song Wei Ping)	5.3%
Stark (a member of the affiliated family of funds of Stark Investment (HK) Limited)	0.77%
JP Morgan	0.77%
Public	25.0%
	<u>100.0%</u>

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Use of Proceeds

Net proceeds from the offer are estimated to range from HK\$1,869 million to HK\$2,820 million. (At IPO prices of HK\$6.57 per share and HK\$9.86 per share respectively, and no over-allotment is exercised)

	RMB million
To redeem all mandatory Convertible Bonds	572
To finance the development costs for some properties under development	975
To acquire new land for development	385 - 870
To repay certain outstanding loans and/or for general corporate purposes	Remaining balance

Financial Highlights

	Year ended 31 st December		
	2003	2004	2005
	RMB million	RMB million	RMB million
Turnover	1,224.4	2,739.1	2,535.1
Gross profit	364	882.2	895.5
EBIT	252.8	732.5	705.5
Net profit	77.2	454.4	622.7
Owner's equity	120.3	547.2	665.9

Strengths/Opportunities

- ✓ In FY05, the Group's gross margin and net margin stood at 35.3% and 24.6% respectively. The high profit margin reveals the Group's premium brand status, cheap land costs and marketing capability. In fact, the "Greentown" brand was ranked one of the 10 most valuable property brands in China by the Top 10 China Real Estate Research Group in 2004 and 2005.
- ✓ The Group has obtained land use certificates for over 95% of its land bank. Hence, there is little uncertainty and capital commitment re. its future development.
- ✓ The Group has adequate land bank of attributable interest at 5.5 million sq. m. More than 70% (or 6 million sq. m) of the Group's land banks are located in Hangzhou and Zhejiang, where economic growth are highest among other PRC provinces.
- ✓ Properties developed by the Group diversifies among the mid to high end segment, with projected unit selling prices ranging from RMB 5,000 to over RMB 40,000 per sq. m.. The diversified portfolio reduces its risk exposure to government's current cooling measures, which aim to curb speculative demand at the high-end segment.
- ✓ Trading at FY06E PER of 6.0X to 9.0X, the Group's IPO valuation is cheaper than its peers competitors, which are trading at around double digit prospective PER.

Weaknesses/Threats

- × The Group is highly leveraged. As at 31 December 2005, its debt to equity ratio stood at 641%.
- × Even after the IPO, the Group's pro forma debt to equity ratio is estimated at a high range of 228% to 168% (at the low end and high end of IPO price respectively).
- × Greentown rely on pre-sale of properties as a major funding source. Should there be any downfall on pre-sales, the Group would likely experience cash flow problems.

Recommendation: TRADING BUY/ (Limit placement order at low end of the price range)

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