

## Land Acquisition

## China Properties

### Shenzhen Investment (604 HK, HK\$3.52)

### Not Rated

Key takeaways from telephone conference yesterday are as follows:

**Latest land acquisition.** Yesterday, Shenzhen Investment (SI) announced it had acquired the entire interest in Shenzhen Ya Bao for HK\$550.0m in cash, financed from its internal resources. Shenzhen Ya Bao owns a total gross area of 622,924.5 sqm in Ya Bao Industrial City. As of 9 December 2006, the market value of Ya Bao Industrial City was estimated by an independent valuer at RMB623.0m. As of 31 May 2006, Shenzhen Yao Bao's net profit stood at RMB3.3m and net assets RMB122.3m.

**Land bank.** After the transaction, SI will have more than 4.1m sqm of GFA in land reserves and properties under construction in eight major cities. Shenzhen and Huizhou account for around 56.10% of its total land bank. SI also owns quality land in Dongguan, Panyu, Nanhai, Wuhan, Changsha and Shenyang.

**Jingdong Expressway.** SI also announced it had sold 44.6% in its 91.0%-owned Jingdong Expressway to Pingan Insurance to free up around HK\$618.0m in cash for further land acquisitions. So far, SI has disposed of most of its non-core assets except its 80.0% stake in a transportation company.

**Financials.** The company's current net gearing stands at about 35.8% after the recent non-core asset disposals and land bank acquisitions. The company plans to spend about HK\$2.0-3.0b to acquire about 1.0m sqm of land in Shenzhen and 2.0m sqm outside in the next six months. It aims to buy at HK\$1,000.0 per sqm, compared with the average land cost in Shenzhen of about HK\$2,000.0 per sqm.

**Valuation.** Compared with other major listed China property counters except Shanghai peers, SI still has the deepest discount to NAV (32.7% based on the estimated NAV of HK\$5.23) compared with the sector average of less than 10.0%. The counter is currently trading at 12.7x FY12/07F P/E and 11.6x FY12/08F P/E.

**Table 1: Recent non-core asset disposals**

	Stake (%)	Cash proceeds (HK\$m)	Type of project	Disposal gain (HK\$m)	Use of net proceeds
Mawan Power	19	1,000	Infrastructure	371	Land bank acquisition and pay dividend
Cable TV	31	317	Media	170	Land bank acquisition
SEB Hitachi	20	70	Industrial	(83)	Land bank acquisition
Shumyip Logistics	na	Split with minority investors	Infrastructure.	na	na

Source: Company data

**Table 2: Recent land bank acquisitions**

	Site (sqm)	Plot ratio (x)	Total GFA (sqm)	Land cost (HK\$m)	Land use	Acquisition channels
Ya Bao, Shenzhen (Meilin Guan Gate, Longgang)	622,924.5	2.3	655,500.0	550.0	Industrial park-style commercial, office and residential use, Similar to Terra Industrial & Digital Park	Acquisition of an industrial company
Pingshan, Shenzhen (Longgang district)	28,000.0	3.0	84,650.0	150.0	Residential use, small units for young families	Public auction
Yezhihu, Wuhan (university district, Nanhu Lake)	200,000.0	2.2	440,000.0	459.0	Residential use	Partnership with local government

Source: Company data

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**Table 3: Land bank locations (excluding Road King and Coastal Greenland)**

Provinces	Cities	GFA (sqm)	Attrib. GFA sqm	% of total
Guangdong	Shenzhen	1,680,473.0	1,261,354.0	30.9
	Huizhou	1,242,786.0	1,032,586.0	25.3
	Dongguan	890,000.0	318,086.0	7.8
	Panyu	495,300.0	126,302.0	3.1
	Nanhai	207,500.0	52,913.0	1.3
Hubei	Wuhan	834,235.0	659,119.0	16.1
Hunan	Changsha	720,000.0	576,000.0	14.0
Liaoning	Shenyang	205,170.0	59,089.0	1.5
<b>Total</b>		<b>6,275,464.0</b>	<b>4,085,449.0</b>	<b>100.0</b>

Source: Company data

**Table 4: Estimated NAV as of 3 January 2007**

Asset	Valuation method	HK\$ per share
1. Land bank	4.09 m sqm GFA @ RMB2,000.00=RMB8.18 b	2.92
2. Projects under construction	0.80m sqm GFA @ RMB3,000.00 = RMB2.40b	0.86
3. Investment property	HK\$2,871.00m (0.50*revalued book)	0.51
4. Road King	166.00m shares *HK\$16.00 (DCF)	0.95
5. Coastal Greenland	DCF, HK\$1.80 * 605.00m shares = HK\$1.09b	0.39
6. Jingdong Expressway	Book value, roughly = DCF (11% discount) = HK\$560.00m	0.20
7. Transport	HK\$128.00m (book)*0.80=HK\$102.00m	0.04
Deduct:	Net debt: HK\$1.80b	(0.64)
	No. of shares outstanding 2.80b	
<b>Estimated NAV (per share)</b>		<b>*HK\$5.23</b>

\* unaudited

Source: Company data