

Land bank boost

China Properties

Shenzhen Investment (604 HK, HK\$3.80)

Not Rated

Acquisitions. Shenzhen Investment (SI) announced its acquisition of two sites in Changsha, Hunan province, and Huizhou, Guangdong province. It has also paid a land premium of RMB350.0m to convert its industrial site in Huizhou, acquired last year, into a residential and commercial project with an attributable GFA of 542,106 sqm. The moves will boost its total attributable GFA to 4,362,181 sqm, which excludes its interests in Road King (1098 HK, HK\$12.84, NR) and Coastal Greenland (1124 HK, HK\$1.24, NR).

Table 1: Details of new acquisitions

	Type	Land Cost (RMBm)	Land Area (sqm)	Total GFA (sqm)	Stake (%)	Attributable GFA (sqm)
Changsha, Hunan province	Residential	68.0	146,996	161,696	80.0	129,357
Huizhou, Zhongkai City Square, Guangdong	Commercial	100.0	35,312	211,672	100.0	211,672
Huizhou, Zhongkai Software Park 2, Guangdong	Residential	350.0	463,339	602,340	90.0	542,106

Source: Company data

Attractive pricing. The average land cost of the three sites is below RMB600.0 per sqm. SI acquired the first and third of the above-mentioned projects from local governments and the second from a private property developer.

Table 2: Land bank locations (excluding Road King and Coastal Greenland)

Province	City	GFA (sqm)	Attrib. GFA sqm	% of total
Guangdong	Shenzhen	1,680,473	1,256,206	28.8
	Huizhou	1,287,862	1,185,109	27.2
	Dongguan	890,000	318,086	7.3
	Panyu	495,300	126,302	2.9
	Nanhai	207,500	52,913	1.2
Hubei	Wuhan	834,235	659,119	15.1
Hunan	Changsha	881,696	705,357	16.2
Liaoning	Shenyang	205,170	59,089	1.3
Total		6,482,236	4,362,181	100.0

Source: Company data

Land sale. SI has launched part three of Phase II of Shum Yip Coast in Shenzhen's Baoan District, with 600 of the 680 residential units pre-sold at the average selling price of RMB9,500.0 per sqm. The remainder will be sold in the coming weeks given the good response.

Property prices still firm. According to the National Development and Reform Commission's price, China's overall primary residential prices rose 5.9% YoY in February, 0.2% lower than in January. Shenzhen saw the biggest gain of 9.9%, followed by Beijing (9.7%), Guangzhou (9.6%) and Fuzhou (9.1%).

Valuation. SI's own appraised NAV stood at HK\$5.23 as of 3 Jan 2007. The counter is currently trading at 14.0x FY12/06F P/E and 12.4x FY12/07F P/E.

Risks. If the current efforts fail to curb speculation in the property market, the government may introduce more austerity measures.