

## Pure Property Play

## China Properties

### Shenzhen Investment (604 HK, HK\$4.51)

### Not Rated

Strong CPI data expected. China will announce its first quarter GDP figures tomorrow and March CPI on 20 April 2007. Market is concerned that if CPI growth exceeds 3%, the Chinese government may introduce new measures to control inflation. In this marco environment, we recommend sticking to stocks with high discounts to NAV, such as Shenzhen Investment (SI). Key takeaways from our recent meeting with its management are as follows:

**Property focus.** SI may sell its 46.4% owned Jingdong Expressway to its parent Sum Yip which has extensive experience in infrastructure management and which spin off its infrastructure projects to unlock value. Its 24.1% owned associate Road King (1098 HK, HK12.86, NR) plans to spin-off its property division in the near term.

**Land bank focus.** Around 30.7% of its land bank is in Shenzhen and 38.5% in the rest of Guangdong. The company has a total GFA of 7.9m sqm (excluding GFA of properties under construction) and attributable GFA of 4.6m sqm. Including the Road King and Coastal Greenland stakes, its total attributable land bank stands at about 8.0m sqm.

**Cash rich.** With HK\$4.2b in cash in hand, we believe SI has sufficient financial resources to further replenish its land bank. The company plans to acquire about 1.5m sqm (GFA) in 2007 and 1.0m sqm in 2008.

**Increasing development profits.** SI plans to complete 0.4m sqm (attributable GFA) in 2007, of which around 40.0% has been booked in 2007, part of its RMB4.50b development profit target for the year. In 2008, it targets 0.75m sqm. Its medium-term targets include a core earnings CAGR of 20% in the next five years.

**Performance targets.** Exceeding a 15.0% core ROE in 2007, and 20.0% in 2008. In 2008, double the 2006 core profit. The gross profit margin of 40.0-50.0% in 2007 – 2008.

**Table 1: Estimated un-audited NAV as of 10 Apr 2007**

	Valuation method	HK\$ per share
1. Land bank	4.6m sqm GFA @ RMB2,000.0=RMB9.2b	3.26
2. Projects under construction	0.8m sqm GFA @ RMB3,500.0 = RMB2.8b	1.00
3. Investment property	HK\$2.2b (assuming 70% on HK\$3.1b market value)	0.77
4. Road King	180m shares@HK\$13.0 = HK\$2.41b	0.83
5. Coastal Greenland	HK\$1.2@625.0m shares = HK\$750m	0.27
6. Jingdong Expressway	Book value, or = DCF (11.0% discount) = HK\$560.0m	0.20
7. Miscellaneous industrial assets to be sold.	HK\$500.0m estimated realizable value	0.18
8. Proceeds of selling Mawan Power, SEG Display, cable TV and Jingdong	HK\$1,180.0m	0.42
Deduct:	Net debt: HK\$3,171m	(1.12)
	No. of shares outstanding 2.821m	
<b>Estimated NAV (per share)</b>		<b>HK\$5.81</b>

Source: Company data

**Valuation.** Trading at an estimated un-audited NAV of around HK\$5.81, representing a 22.4% discount to its yesterday's closing price.

**Risks.** More austerity measures imposed by the Chinese government to cool down the overheated market.