

## Acquisition of Coastal Greenland

## China Properties

### Shenzhen Investment (604 HK, HK\$2.94)

### Not Rated

#### Key takeaways from analyst meeting yesterday:

**Acquisition.** Shenzhen Investment (SI) acquired a 22.8% stake of Coastal Greenland (CG) (1124 HK, HK\$0.94, NR) for a total consideration of HK\$656.7m (HK\$510.9m for CB and HK\$145.8m for 7.32% existing shares from Citadel). SI will obtain 2 seats at the CG board. SI agrees to have a 1-year lock-up and not to increase its stake above 30%.

**Terms.** The acquisition cost of the CB (conversion price: HK\$0.70) from Citadel Equity Fund Ltd is around HK\$510.9m. The average acquisition price for the 162m common shares is estimated to be around HK\$0.90 per share. According to SI, it would like to replicate its investment model of Road King (1098 HK, HK\$11.76) on CG. SI acquired a 25% stake in Road Kong in 2004 at HK\$5.05 per share.

**Profit forecast.** CG's net profit reached HK\$105m in FY03/06. According to market consensus, the estimated net profit is HK\$300m (SI's estimate: HK\$400m) for FY03/07F and HK\$330m (SI's estimate: HK\$800m) for FY03/08F. The estimated NAV is around HK\$1.82 per share.

**Landbank.** CG has over 4.04m sqm of GFA in land reserves and properties under construction in 13 cities. Beijing and Wuhan account for around 62% of its total land bank. CG also owns quality land banks in Dalian, Shanghai, Dongguan and Chengdu.

CG's major land reserves (GFA) are as follows:

Dalian Xinghai Bay: 300,000 sqm

Beijing Shunyi Project: 180,000 sqm

Chengdu Dujiangyan Project: 340,000 sqm

Beijing Silo City (excluding Phases 1 – 4): 377,221 sqm (49.8% interest)

Chengdu: 220,000 sqm (90% interest)

**Table 1: Coastal Greenland's projects under construction**

	Status (%)	Est. year of completion	Type of project	Total GFA (sqm)	Attributed GFA (sqm)
Anshan Greenland IT City (Phase VI)	96	2007	Resid/Com.	145,000	139,200
Beijing Silo City (Phases I, II, III & IV)	50	2006	Resid/Com	473,059	235,347
Beijing Sunvilla Realhouse (Phase II & III)	95	2007	Residential	70,213	66,702
Dongguan Riviera Villa (Phases I & II)	65	2006	Resid/Com.	320,000	208,000
Jiangxi Riviera Garden (Phases I & II)	100	2006	Resid/Com	234,900	234,900
Shanghai Riviera Garden (Phases I & II)	100	2007	Residential	287,960	287,960
Wuhan Silo City	100	2007	Resid/Com	1,460,000	1,460,000

Source: Company data

**CG's net gearing.** CG's net gearing reached 85.7% in FY03/06 and is expected to go down to 53% in the next two years.

**SI's net gearing.** SI's net gearing is expected to go up from 40% to 46% after this deal and further up to 60% to 70% by year-end of 2008. SI secured a bank loan of HK\$3.7b which is sufficient for the payment of the total

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consideration of the acquisition. The interest rate for the loan is estimated to be around 5.8%. Targeted dividend payout is expected to be above 50%, according to management.

**Table 2: Key historical data**

Year to Mar (HK\$m)	2003	2004	2005	2006
Turnover	202.0	841.5	552.9	795.1
Profit/loss before tax	24.4	91.7	144.9	171.8
Net profit/loss	4.1	52.2	102.4	105.0
Dividends	-	-	-	43.2
Total assets	2,652.4	3,014.4	4,567.0	5,398.4
Total liabilities	(1,552.2)	(1,714.9)	(3,186.4)	(3,751.6)
Net assets	1,100.2	1,299.5	1,380.6	1,646.7
Attributable shareholders' fund	1,091.5	1,254.5	1,321.3	1,606.1

Source: Company data

**Shareholding structure of CG.** Coastal International: 22.5%, Coastal Enterprise Group: 21.9% and estimated free float: 55.6% (including SI's 22.8%).

**Property prices are still up.** According to the National Development and Reform Commission's price index in August, China's overall primary residential price rose 7.1% YoY and 4.5% monthly. Shenzhen saw the biggest gain, followed by Beijing, Xiamen, Chengdu and Tianjin. Only Shanghai recorded a decline in primary residential property prices.

**SI's latest land sales.** SI launched Phase II of Shum Yip Coast Phase 2 in Shenzhen (Baoan District) on 14 Oct. According to the company, the 60 duplex units (200 sqm each) on offer were all sold within an hour with an average price of RMB13,000 sqm.

**Valuation.** Compared with other major listed China property counters, SI still has the deepest discount to NAV (estimated to be around 36.1%) while the sector average is around 15.5%. Based on the estimated NAV of HK\$1.82, the NAV discount for Coastal Greenland is around 48.4%.

**Risks.** The Chinese government may impose another round of tightening policy. However, the 3Q06 economic figures showed that both GDP and fixed asset investment are slowing down. We expect the Chinese government may try to wait and evaluate the results of its austerity measures before taking further actions.