



国泰君安(香港)
Guotai Junan (HK)

Company Report

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Benefit from Shenzhen transaction volume increase; Upgrade to “Buy”

Shenzhen Investment

Code:00604

Buy

Price: HK\$0.900

China central bank has cancelled loan restriction on developers. Banks started to issue preferential loan rate to qualified first house buyers(less than 90 sq.m.), which triggered 5.6x transaction volume increase on Shenzhen new house. More policy may be issued to trigger property market demand. We expect Guangdong market to resume growth in 2H09. Maintain earning and NAV estimate. Upgrade to “Buy”. Raise 12-month target price to HK\$2.0, equal to 0.6xFY08 NBV.

Chinese Summary:

银行对发展商的贷款限制显著放松,减轻发展商资金压力。深圳众多银行本周下发贷款细则,为符合规定(首次购房,小于90平米)的客户给予首付2成至2.5成,贷款优惠利率较基准利率下调30%的政策,11月1日深圳市新房成交量几乎是上一交易日的5.6倍,显示消费者信心增强。维持预测09下半年广东房地产市场将恢复景气,公司将于2010年恢复增长。中国政府或将颁布更多利好政策。维持盈利预测及NAV值。公司股价仅相当于0.3xNBV值,估值明显偏低,上调评级至“买入”。上调12个月目标价67%至2.0港元,相当于0.6倍的08年预测NBV值。

End 12/31	Turnover (HK\$m)	Net Profit (HK\$m)	EPS (HK\$)	EPS (%)	PER (x)	DPS (HK\$)	Yield (%)	ROE (%)
2006A	1,813	804	0.316	46.8	2.8	0.252	28.0	14.3
2007A	2,900	1,715	0.570	80.3	1.6	0.312	34.6	21.1
2008F	2,589	641	0.198	(65.2)	4.5	0.099	11.0	6.2
2009F	1,859	445	0.138	(30.6)	6.5	0.069	7.6	4.2
2010F	3,126	597	0.185	34.1	4.9	0.092	10.3	5.8
Shares in issue (m)			3,235.9		Major shareholder		Shumyip,	47.4%
Market cap. (HK\$ m)			2,912.3		Free float (%)			52.6
Average vol. (m)			18.6		08 Net gearing (%)			31.1
08 NBV per share (HK\$)			3.4		08 P/B (x)			0.3
52 weeks High/low (HK\$)			7.790 / 0.540		NAV(HK\$)			3.9

Source: the Company, Guotai Junan (HK) Estimate

Supporting policies triggered property transaction volume. China central bank has cancelled loan restriction on developers, which will ease developer’s pressure. Banks started to issue preferential loan rate (20% down payment, 30% discount on nominal loan rate) to qualified first house buyers(less than 90 sq.m.), which triggered 5.6x transaction volume increase on Shenzhen new house(232 units sold on Nov 1, FY08, 5.6x increase compared with Oct 31 FY08), indicating customers regain confidence on property market.

More policies may be issued to trigger property demand. As to China central government, we expect more loan rate decrease in FY09 and preferential policies on second house purchase; As to local government, we expect Guangdong may reduce operating tax(5.5% of property transaction amount), delay developer’s payable land premium, give some preferential policies to foreign purchasers.

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Guangdong market to resume growth in 2H09 . Guangdong property price has fell over 30% compared with peak in FY07, with transaction volume hit a bottom in last 5 years. We expect Guangdong property price to fell 10%-15% in FY08, and the market will resume growth in 2H09. As a regional developer, the Company will benefit from this trend.

Maintain earning and NAV estimate, the Company to resume growth in FY10 . The Company has delayed most project completion plan to 2010. We expect its net profit to regain growth in FY10. Retain earning and NAV estimate.

Segment (HK\$m)	Valuation method	Appreciation	NAV (HK\$ m)	NAV/share (HK\$)	share of NAV(%)
Real Estate		Book value			
Investment Property		3,316.00	847.92	4,136	1.4
Property Development		1,436.15	13,942.37	15,379	5.1
Property Management	10 x PER		243.28	158	0.1
Road King(01098)	market value			372	0.1
Costal(01124)	market value			161	0.1
Net debt + payable land premium				(7,622)	(2.5)
Sum				12,583.14	3.9

Source: the Company, Guotai Junan (HK)

Upgrade rating to “Buy”, raise 12-month target price to HK\$2.0. The Company’s net gearing ratio will be 31.1% in FY08, without liquidity problem. As a regional play, the stock traded at 77% discount to NAV, 0.3x FY08 NBV, obviously undervalued. Upgrade rating to “Buy”, raise 12-month target price to HK\$2.0, equal to 0.6x FY08 NBV.

Risks. 1. In the future China government may issue more austerity measures to temper market growth (such as issue of property tax and change of pre-sales system), which may lead to nation-wide property prices fall and a slump of China property markets.



Attachment 1. the Company's Income Statement

HK\$000	1H08	1H07	YoY change
Revenue	646,034	808,435	-20.1%
Cost of sales	(434,862)	(373,271)	16.5%
Gross profit	211,172	435,164	-51.5%
Other income and gains	125,489	165,350	-24.1%
Increase in fair value of investment properties	447,917	452,903	-1.1%
Other loss	(221,922)	213,077	
Selling and distribution costs	(55,657)	(23,093)	141.0%
Administrative expenses	(190,182)	(212,511)	-10.5%
Other operating expenses	(52,028)	(60,490)	-14.0%
Operating profit	264,789	970,400	-72.7%
Finance costs	(92,199)	(125,434)	-26.5%
Share of profits and losses of associates	278,851	183,365	52.1%
Profit before tax	451,441	1,028,331	-56.1%
Tax	(110,832)	(369,273)	-70.0%
Profit: continued operations	340,609	659,058	-48.3%
Profit: discontinued operations	(2,534)	175,961	
Profit for the year	338,075	835,019	-59.5%
attributable to minority shareholder	(44,920)	(133,935)	-66.5%
attributable to equity holders	293,155	701,084	-58.2%
EPS(HK\$)	0.091	0.237	-61.5%

Source: the Company, Guotai Junan (HK)

Rating Definition	The Benchmark: Hong Kong Hang Seng Index	Time Horizon: 6 to 18 months
	Rating	Relative Performance
	Buy	>15%
	Accumulate	5% to 15%
	Neutral	-5% to 5%
	Reduce	-5% to -15%
	Sell	<-15%

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