

Company Focus

5 July 2009 | 16 pages

Shenzhen Investment (0604.HK)

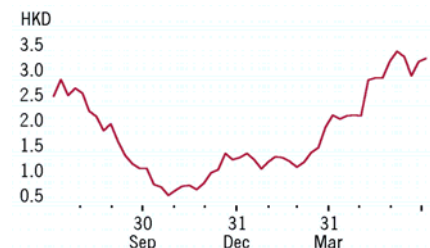
Buy: Geared Asset Play for Expected Supply Shortage in Shenzhen

 Rating change
 Target price change
 Estimate change

- Undervalued Shenzhen play** — SZI now trades at a deep 48% discount to our estimated NAV of HK\$6.60/share, 7.7x 2009E P/E, 6.6x 2010E P/E, 5.5x 2011E P/E, 1.0x 08 book value, and 3.5% 09E dividend yield – these in our view make SZI look attractive relative to the overall China property sector, which on our analysis now trades at par to NAV, and 2.1x 08 book value. We raise our target price to reflect new ASP, rental & sales volume assumptions.
- Expected shortage in Shenzhen** — Post our recent property tour to Shenzhen, we believe supply shortage is worsening in the city after the strong transaction volume recorded in 2009 YTD. As a reference, primary residential transaction volume in Jan-May was 3.2msm, +155% YoY, while commencement of construction in the period was 2msm, -45% YoY. With this, we expect to see more meaningful property price increases in 3Q09 in Shenzhen, which should benefit SZI. On our estimate, 68% of the NAV of SZI comes from Shenzhen, with most properties located in the urban city-areas.
- Strong contracted sales YTD** — In the first 5 months of 2009, SZI has already achieved total contracted sales of RMB2bn, up 80% YoY, and achieved 53% of its contracted sales target of RMB3.8bn already. Including our estimated rental and other income for 2009, which are relatively more stable in our view, SZI has locked in about 67% of our estimated revenue for 2009 already.
- Gearing has room to improve though** — At the end of Mar-09, SZI had net gearing of about 62%. While we believe that this gearing level is not excessive, we could see potential recapitalization exercises by the company, especially given the latest recapitalization exercises by the other Chinese developers YTD. Our risk code change to Medium Risk reflects this possibility.

Buy/Medium Risk	1M
<i>from Buy/Low Risk</i>	
Price (03 Jul 09)	HK\$3.40
Target price	HK\$4.62
<i>from HK\$2.19</i>	
Expected share price return	35.9%
Expected dividend yield	3.5%
Expected total return	39.4%
Market Cap	HK\$10,939M
	US\$1,412M

Price Performance (RIC: 0604.HK, BB: 604 HK)



Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Dec	(HK\$M)	(HK\$)	(%)	(x)	(x)	(%)	(%)
2007A	1,715	0.53	73.4	6.4	1.1	21.0	8.5
2008A	873	0.27	-49.1	12.6	1.0	8.5	3.2
2009E	1,434	0.44	64.3	7.7	0.9	12.7	3.5
2010E	1,670	0.52	16.4	6.6	0.8	13.4	3.8
2011E	1,990	0.62	19.2	5.5	0.7	14.3	4.4

Source: Powered by dataCentral

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¹Citigroup Global Markets Asia

Fiscal year end 31-Dec	2007	2008	2009E	2010E	2011E
Valuation Ratios					
P/E adjusted (x)	6.4	12.6	7.7	6.6	5.5
P/E reported (x)	6.4	12.6	7.7	6.6	5.5
P/BV (x)	1.1	1.0	0.9	0.8	0.7
Dividend yield (%)	8.5	3.2	3.5	3.8	4.4
Per Share Data (HK\$)					
EPS adjusted	0.53	0.27	0.44	0.52	0.62
EPS reported	0.53	0.27	0.44	0.52	0.62
BVPS	3.05	3.31	3.66	4.07	4.57
NAVps ordinary	na	na	na	na	na
DPS	0.29	0.11	0.12	0.13	0.15
Profit & Loss (HK\$M)					
Net operating income (NOI)	891	1,152	1,896	2,210	2,469
G&A expenses	-91	-3	-3	-3	-3
Other Operating items	479	478	984	966	932
EBIT including associates	1,279	1,627	2,877	3,172	3,398
Non-oper./net int./except.	1,092	-37	-232	-190	-191
Pre-tax profit	2,371	1,590	2,645	2,982	3,207
Tax	-438	-567	-958	-1,017	-866
Extraord./Min. Int./Pref. Div.	-219	-150	-253	-295	-351
Reported net income	1,715	873	1,434	1,670	1,990
Adjusted earnings	1,715	873	1,434	1,670	1,990
Adjusted EBIT	843	1,194	1,922	2,237	2,498
Adjusted EBITDA	932	1,284	2,012	2,328	2,589
Growth Rates (%)					
NOI	32.3	29.3	64.5	16.6	11.7
EBIT adjusted	25.1	41.7	61.0	16.4	11.7
EPS adjusted	73.4	-49.1	64.3	16.4	19.2
Cash Flow (HK\$M)					
Operating cash flow	-626	-1,169	235	-785	451
Depreciation/amortization	90	90	90	90	90
Net working capital	-271	-1,617	-27	-1,365	-269
Investing cash flow	-4,310	-1,563	0	0	0
Capital expenditure	-122	0	0	0	0
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	5,375	2,613	-530	-859	-398
Borrowings	3,899	2,614	-530	-859	-398
Dividends paid	0	0	0	0	0
Change in cash	439	-119	-295	-1,644	52
Balance Sheet (HK\$M)					
Total assets	25,526	27,719	29,444	30,443	32,334
Cash & cash equivalent	4,690	4,571	4,276	2,632	2,684
Net fixed assets	3,593	4,576	4,576	4,576	4,576
Total liabilities	14,292	16,160	16,684	16,260	16,442
Total Debt	9,638	12,251	11,722	10,863	10,465
Shareholders' funds	11,234	11,559	12,760	14,184	15,894
Profitability/Solvency Ratios					
EBIT margin adjusted (%)	30.3	34.6	41.5	33.7	28.7
ROE adjusted (%)	21.0	8.5	12.7	13.4	14.3
ROA adjusted (%)	7.9	3.3	5.0	5.6	6.3
Net debt to equity (%)	44.0	66.4	58.4	58.0	49.0
Interest coverage (x)	7.0	9.7	8.7	12.2	13.6

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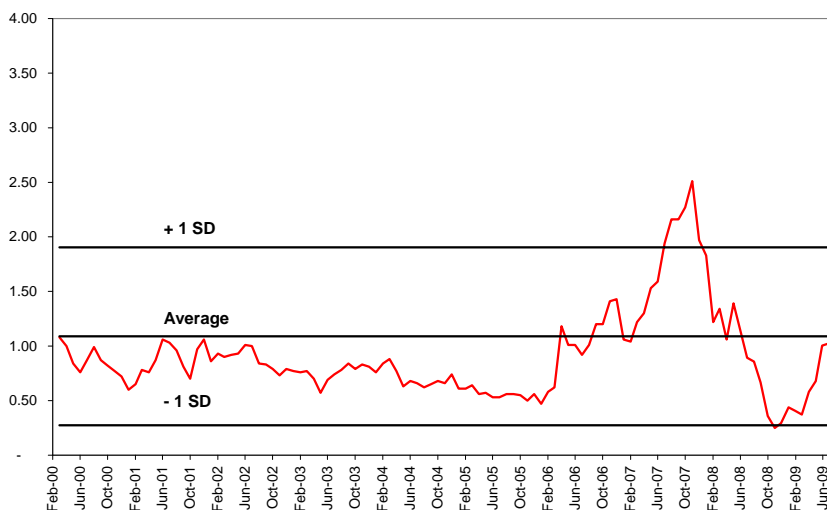


Undervalued Play for Brighter Market Outlook in Shenzhen

Shenzhen Investment (SZI) now trades at a deep 48% discount to our estimated NAV of HK\$6.60/share, 7.7x 2009E P/E, 6.6x 2010E P/E, 5.5x 2011E P/E, 1.0x 08 book value, and 3.5% 09E dividend yield – these in our view make SZI look attractive relative to the overall China property sector, which on our analysis now trades at par to NAV, and 2.1x 08 book value.

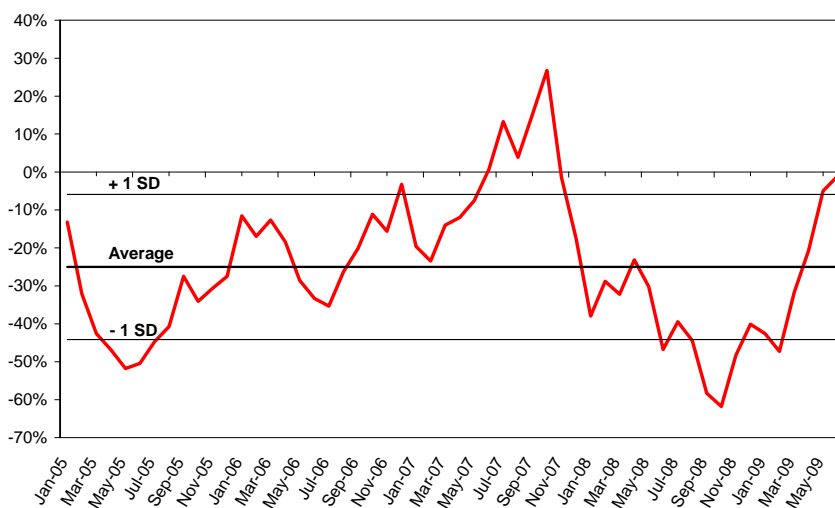
We reiterate our Buy rating on SZI, raising our target price to HK\$4.62 mainly as we apply new ASP, rental and property sales volume assumptions for SZI.

Figure 1. SZI – Price to Book Ratio



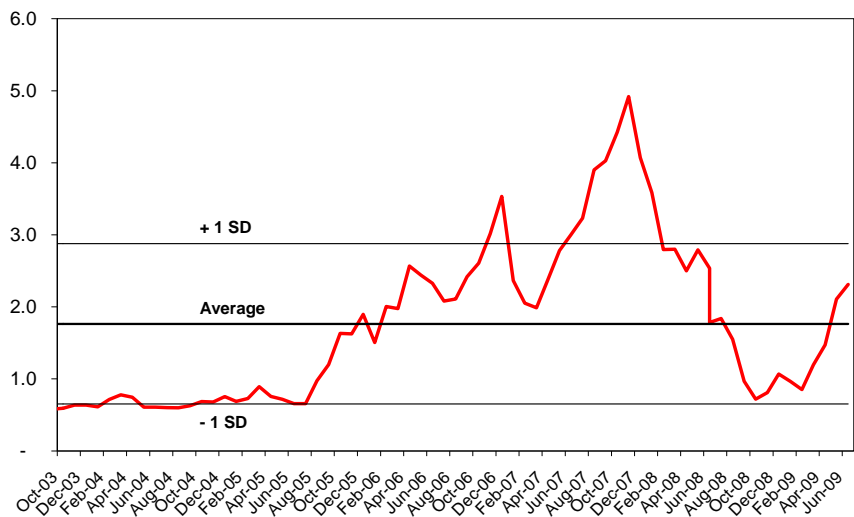
Source: Citi Investment Research and Analysis

Figure 2. China Property – Sector Discount to NAV



Source: Citi Investment Research and Analysis

Figure 3. China Property – Sector P/B



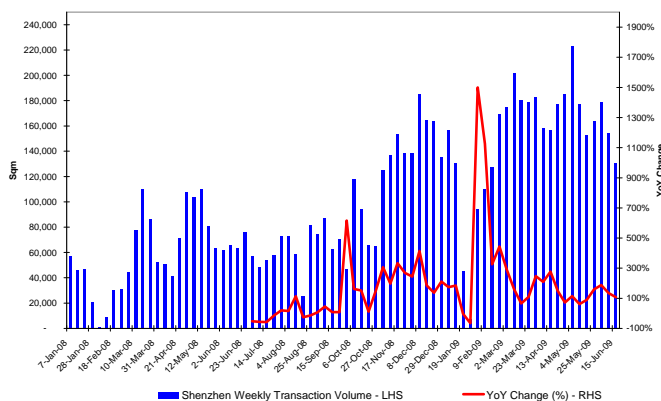
Source: Citi Investment Research and Analysis

Expected supply shortage in Shenzhen

After our recent tour to Shenzhen, we believe that the supply shortage is worsening in the city after the strong transaction volume recorded in 2009 YTD. As a reference, primary residential transaction volume in Jan-May was 3.2msm, +15% YoY, while commencement of construction in the period was 2msm, -45% YoY. With this, we expect to see more meaningful property price increases in 3Q09 in Shenzhen, which should benefit SZI.

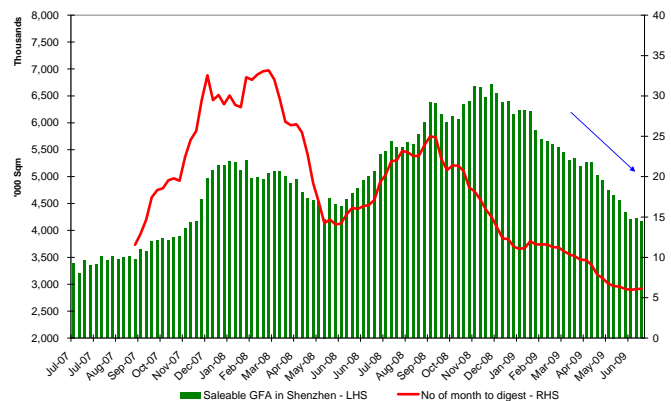
On our estimates, 68% of the NAV of SZI comes from Shenzhen, with most properties located in the urban city-areas.

Figure 4. Shenzhen – Weekly Transaction Volume of Residential Housing



Source: Soufun, Citi Investment Research and Analysis

Figure 5. Shenzhen – Number of Months to Digest the Saleable GFA



Source: Soufun, Citi Investment Research and Analysis

Figure 6. Supply shortage in key cities has been deteriorating

	Primary residential transactions in Jan- May 09		Change	Commencement of Construction in Jan- May 09		Change
	mn GFA		%	mn GFA		%
The Whole country	246.44		25.50%	357		-16.20%
Top Tier cities						
Beijing	6.425		140%	3.396		-54.50%
Shanghai	7.867		18.80%	5.447		-25.40%
Shenzhen	3.21		154.80%	2.02		-45.4%
Hangzhou	2.35		142%	N/A		N/A

Source: Citi Investment Research and Analysis

Figure 7. SZI – Exposure to Shenzhen (Provided by Company)

	Shenzhen	Total	%
Land bank by Size ('000sqm)	1,616	10,487	15%
Land bank by market value ('000RMB)	6,463	14,966	43%
Investment property ('000sqm)	633	633	100%
Revenue 2008 ('000 HK\$)	1,817	2,529	72%
Pre-sale target 2009 ('000RMB)	2,466	3,830	64%

Source: Company Report

Figure 8. SZI – Landbank Breakdown (Excluding SZI's stakes in Tianan Cyber Park, Road King and Coastal Greenland)

			Total GFA (sqm)	Attri GFA (sqm)	
Fully paid land premium	Guangdong	Shenzhen	1,722,241	1,615,754	15.53%
		Huizhou	1,548,222	1,522,792	14.63%
		Dongguan	423,679	423,679	4.07%
		Foshan	761,347	761,347	7.32%
	Hubei	Wuhan	527,956	361,646	3.48%
	Hunan	Changsha	1,735,693	1,388,554	13.34%
	Anhui	Chaohu	191,600	153,280	1.47%
	Jiangsu	Taizhou	570,094	570,094	5.48%
	Liaoning	Shenyang	201,282	94,603	0.91%
		Sub-total	7,682,114	6,891,749	
With outstanding land premium		Heyuan	1,530,000	1,615,754	14.70%
		Foshan	961,651	961,651	9.24%
		Maanshan	1,460,000	1,022,000	9.82%
	Sub-total	3,951,651	3,599,405		
Total			11,633,765	10,491,154	100.00%

Source: Company Report; Citi Investment Research and Analysis

Figure 9. Tian An Cyber Park's Land Bank (Tian An is 37.5% owned by SZI)

Project	Commence	Location	Type	Land Cost	Land area	GFA	Stake	Attributable GFA
				RMB'mn	Sqm	Sqm		Sqm
Land Bank								
Tian An Longgang Cyber City	2008	Shenzhen	Indu, Com	100	118,856	356,517	37.5%	133,694
Tian An (Nanhai) Cyber City	2008	Nanhai	Indu	56	90,289	225,724	33.8%	76,182
Tian An (Panyu) Cyber City	2008	Panyu	Indu	48	342,243	513,364	37.5%	192,512
Jiangsu Taicang	N/A	Jiangsu	Com, Office, Res		333,000	850,000	37.5%	318,750
Jiangsu Changzhou	N/A	Changzhou	Res, Indu		210,900	500,000	37.5%	187,500
Subtotal					1,095,288	2,445,605		908,637
Project under construction								
Tian An Longgang Cyber City Ph 2	Jun-08	Shenzhen	Indu	51	31,957	99,113	37.5%	37,167
Tian An Golf Seaview Garden Ph 3	Dec-05	Shenzhen	Res	142	34,891	151,838	37.5%	56,939
Tian An Changzhou Cyber City	Apr-08	Changzhou	Indu	30	78,400	153,400	37.5%	57,525
Tian An (Panyu) Ph IV (Flat)	Jan-07	Panyu	Res	5	21,562	55,316	37.5%	20,744
Tian An (Nanhai) Cyber City Ph 2	Feb-08	Nanhai	Indu	15	24,280	78,331	33.8%	26,437
Tian An Buji Hongda Building	2006	Shenzhen	Com, Res	30	5,241	93,415	37.5%	35,030
Subtotal					196,331	631,413		233,842
Total					1,291,619	3,077,018		1,142,480

Source: Company Report; Citi Investment Research and Analysis

Accelerating asset turnover

Following the recovery in the China property market, and the strong contracted sales growth achieved in 2009 YTD, SZI already plans to accelerate its development and completion schedule. According to the company, it is planning to complete 0.895sqm in 2009, 1.08msm in 2010, and 1.18msm in 2011. In our view, the planned acceleration of completion volume in 2010-2011 should help improve the asset turnover of the company, which in turn should help further narrow the current deep 48% NAV discount of the company, and narrow the current P/B gap that SZI is trading at versus other Chinese developers.

In addition, with the strong growth in contracted sales, the planned pick-up in completion volume should also help bring in faster earnings growth for the company over the next three years.

Figure 10. SZI – Completion Schedule 2009 (Excluding SZI's stakes in Tianan Cyber Park, Road King and Coastal Greenland)

Project	Location	Type	GFA (sqm)	GSA sqm	Stake
Red Pine Building	Shenzhen	Indu	45,800	38,800	75%
Wuhan Nanhu Ph 2	Wuhan	Res	125,645	97,385	75%
Garden Hill Ph 1 (Part 1)	Huizhou	Res	40,780	39,297	100%
Times Industrial Park	Shenzhen	Indu	87,662	73,442	100%
Wanlin Lake Ph 2	Huizhou	Res	117,806	81,000	100%
Wanlin Lake Ph 3 (Part 1 Villa)	Huizhou	Res	12,000	9,205	100%
Shumyip Coast Ph 3 (Part 2)	Shenzhen	Res, Com	86,174	66,887	100%
Purple Kylin Hill Ph 1 (Part 1)	Shenzhen	Res	63,795	55,000	100%
Royal Springs (Villas)	Dongguan	Res, Com	29,400	24,000	100%
Noble Residence	Shenzhen	Res	84,846	81,528	100%
Wuai Terminal	Shenyang	Com	201,282	80,000	47%
			895,190	646,544	

Source: Company Report; Citi Investment Research and Analysis

Figure 11. SZI – Completion Schedule 2010 (Excluding SZI's stakes in Tianan Cyber Park, Road King and Coastal Greenland)

Project	Location	Type	GFA (sqm)	GSA sqm	Stake
Snow Pine Building	Shenzhen	Indu	50,400	42,700	75%
Wanlin Lake Ph 3 (Part 1)	Huizhou	Res	35,500	22,448	100%
Garden Hill Ph 1 (Part 2)	Shenzhen	Indu	41,500	21,953	100%
Noah Mountain Forest Ph 3	Changsha	Res	77,147	76,147	80%
Euro-view Garden Ph 1 (Part 1)	Dongguan	Res	180,000	150,000	100%
Splendid City Ph 1	Jiangsu Jiangyan	Res	65,000	50,000	100%
Purple Kylin Hill Ph 1 (Part 2)	Shenzhen	Res	40,433	32,242	100%
Purple Kylin Hill Ph 2	Shenzhen	Res, Com	169,692	110,325	100%
Royal Springs (High-rise)	Dongguan	Res, Com	142,481	108,450	100%
Shumyip City Ph 1	Foshan	Res, Com	246,908	182,307	100%
Chaohu Project Ph 1	Caohu	Hotel	30,400	Not for sale	80%
			1,079,461	796,572	

Source: Company Report; Citi Investment Research and Analysis

Figure 12. SZI – Completion Schedule 2011 (Excluding SZI's stakes in Tianan Cyber Park, Road King and Coastal Greenland)

Project	Location	Type	GFA (sqm)	GSA sqm	Stake
Guanlan Project Ph 1	Shenzhen	Res, Com	78,000	70,000	45%
Wuhan Nanhu Rose Bay Ph 3	Wuhan	Res	50,000	40,000	53%
Chengdu Qingbaijiang Ph `	Chengdu	Res, Com	60,000	50,000	53%
Splendid City Ph 2	Shenzhen	Res, Com	85,000	70,000	100%
Wanlin Lake Ph 3 (Part 2)	Jiangsu Jiangyan	Res	65,000	58,071	100%
Noah Mountain Forest Ph 2 (Part 2)	Huizhou	Res	55,000	40,000	80%
Maanshan Residential Ph 1	Maanshan	Res	120,000	100,000	70%
Pingshan 2	Shenzhen	Res	218,086	213,706	100%
Kenzi Project Ph 1	Shenzhen	Res	80,000	77,000	100%
Chaohu Project Ph 1	Caohu	Res	114,300	100,000	80%
Yundonghai Villas Ph 1	Foshan	Res	100,000	80,000	100%
Qingshuihe Auto Logistic Park	Shenzhen	Logistics	156,500	100,000	95%
			1,181,886	998,777	

Source: Company Report; Citi Investment Research and Analysis

Earnings Revisions

We have adjusted upward our 2009-2011 earnings estimates for SZI mainly as we have incorporated higher ASP assumptions and adjusted our property sales assumptions for SZI's development properties.

Figure 13. Shenzhen Investment – Earnings Revisions

Year to	Net Income (HK\$ m)		FD EPS (HK\$)		% Chg.	DPS (HK\$)	
	Old	New	Old	New		Old	New
2009E	549	1,434	0.170	0.444	161.0%	0.100	0.120
2010E	424	1,670	0.131	0.517	294.2%	0.100	0.130
2011E		1,990		0.616			0.150

Source: Citi Investment Research and Analysis

Financial Analysis

Figure 14. SZI – Income Statement (HK\$m)

As at 31 Dec	2001	2002	2003	2004	2005	2006	2007	2008	2009E	2010E	2011E
Property development	961	581	902	890	1,799	1,007	2,015	2,529	3,677	5,634	7,690
Rental income	134	186	236	279	300	336	300	363	358	390	376
Property management	39	172	213	240	296	359	463	564	592	621	652
Transportation Services	199	145	146	145	149	154	151	194	204	214	225
Manufacturing	0	201	324	376	387	316	292	283	283	283	283
Others	25	48	72	70	74	110	122	149	149	149	149
Total Turnover	1,358	1,334	1,893	2,000	3,003	2,283	3,343	4,081	5,263	7,290	9,375
Property development	144	69	138	202	565	418	651	881	1,627	1,917	2,186
Rental income	105	129	137	153	213	247	214	281	254	277	267
Property management	3	31	30	14	9	9	27	(10)	15	16	16
Transportation Services	37	25	3	11	21	25	43	32	31	32	34
Manufacturing	0	13	(31)	3	(2)	(21)	(1)	14	0	0	0
Others	53	44	24	16	24	118	1	(1)	(1)	(1)	(1)
Unallocated Costs	(39)	(50)	(52)	(82)	(98)	(123)	(91)	(3)	(3)	(3)	(3)
EBIT	303	260	247	317	733	674	843	1,194	1,922	2,237	2,498
Net Interest Expenses	(125)	(104)	(45)	(58)	(107)	(139)	(132)	(133)	(232)	(190)	(191)
Net Operating Profit	178	155	203	259	626	534	710	1,061	1,690	2,047	2,307
Share of Associates	396	400	308	374	424	(84)	436	433	955	935	900
Exceptionals	94	0	(58)	23	(52)	886	1,225	96	0	0	0
Pretax Profit	668	555	452	656	998	1,336	2,371	1,590	2,645	2,982	3,207
Taxation	(105)	(96)	(99)	(99)	(152)	(197)	(438)	(567)	(958)	(1,017)	(866)
Minority Interest	(210)	(178)	(117)	(203)	(311)	(335)	(219)	(150)	(253)	(295)	(351)
Net Profit	353	281	236	355	534	804	1,715	873	1,434	1,670	1,990
Core Profit		281	294	332	586	(82)	490	777	1,434	1,670	1,990
EPS	0.16	0.12	0.10	0.14	0.22	0.32	0.57	0.27	0.44	0.52	0.62
PE	20.9	28.5	35.1	23.8	15.8	10.8	6.0	12.6	7.7	6.6	5.5
Target PE	28.4	38.7	47.7	32.3	21.5	14.6	8.1	17.1	10.4	8.9	7.5
DPS	0.04	0.04	0.04	0.05	0.13	0.23	0.29	0.11	0.12	0.13	0.15
Dividend Yield	1.2%	1.2%	1.2%	1.5%	3.8%	6.8%	8.5%	3.2%	3.5%	3.8%	4.4%

Source: Company Report; Citi Investment Research and Analysis

Figure 15. SZI – Cashflow Statement (HK\$m)

As at 31 Dec	2001	2002	2003	2004	2005	2006	2007	2008	2009E	2010E	2011E
OP Cash Flow before WC Change	459	406	551	724	1,160	657	814	1,327	1,923	2,238	2,499
Change in Working Capital	553	445	158	535	1,026	1,266	-271	-1,617	-27	-1,365	-269
Operating Cash Flow	1,012	851	708	1,259	2,186	1,923	543	-290	1,896	874	2,231
Returns on inv/service of finance	-201	-230	-243	-362	-487	-831	-962	-936	-1,166	-1,095	-1,170
Tax paid	-43	-85	-36	-34	-55	-129	-207	57	-496	-564	-610
NCF from Operating Activities	768	536	430	862	1,644	962	-626	-1,169	235	-785	451
NCF from Investing activities	-270	-957	-200	-1,364	-851	-2,188	-4,310	-1,563	0	0	0
NCF before Financing	498	-421	229	-502	794	-1,226	-4,936	-2,732	235	-785	451
NCF from Financing activities	-220	634	343	1,301	-644	2,001	5,375	2,613	-530	-859	-398
Increase in Cash/Bank	278	213	572	798	150	774	439	-119	-295	-1,644	52
Beginning Cash/Bank	1,532	1,809	2,012	2,580	3,385	3,509	4,212	4,690	4,571	4,276	2,632
FX and Other Adjustments	-1	-10	-4	6	-26	-71	40	0	0	0	0
Ending Cash/Bank	1,809	2,012	2,580	3,385	3,509	4,212	4,690	4,571	4,276	2,632	2,684
Net Debt	-226	-1,344	-1,118	-1,487	-674	-3,172	-4,948	-7,680	-7,446	-8,231	-7,780
Net Gearing	8%	41%	33%	40%	14%	49%	50%	72%	63%	63%	53%
OCF/Share	0.47	0.36	0.29	0.51	0.88	0.76	0.18	(0.09)	0.59	0.27	0.69

Source: Company Report; Citi Investment Research and Analysis

Figure 16. SZI – Balance Sheet (HK\$mn)

As at 31 Dec	2001	2002	2003	2004	2005	2006	2007	2008	2009E	2010E	2011E
Investment Prop	1,087	1,990	2,149	2,357	2,654	3,084	3,316	3,914	3,914	3,914	3,914
PP&E	417	656	729	646	611	3,435	277	561	561	561	561
Intangibles	0	0	0	0	41	42	0	101	101	101	101
Fixed assets	1,503	2,646	2,878	3,003	3,306	6,561	3,593	4,576	4,576	4,576	4,576
Associates & JC entities	2,029	2,255	1,894	2,669	3,047	2,452	3,354	4,899	5,853	6,788	7,688
Other Non-Current Assets	183	65	(50)	(34)	42	632	799	1,772	1,772	1,772	1,772
Development Props	252	1,594	1,296	1,280	1,223	2,526	7,311	9,909	10,581	11,378	11,378
Bank balances & cash	1,809	2,012	2,580	3,385	3,509	4,212	4,690	4,571	4,276	2,632	2,684
Other current assets	638	768	1,214	1,029	943	1,751	1,685	1,993	2,385	3,298	4,236
Current Assets	2,698	4,374	5,091	5,693	5,674	8,489	13,686	16,473	17,243	17,308	18,298
Loans & overdrafts	1,294	1,876	1,348	2,058	2,050	1,877	3,547	5,378	4,978	4,362	3,988
Trade & other payables	54	421	316	209	195	178	87	87	158	219	281
Other current liabilities	603	910	940	1,070	1,260	2,409	4,114	3,200	4,182	4,556	5,073
Current liabilities	1,951	3,207	2,604	3,338	3,505	4,464	7,749	8,665	9,318	9,136	9,342
Total Net assets	4,462	6,133	7,210	7,994	8,565	13,670	13,682	19,054	20,126	21,307	22,991
Long term bank loans	741	1,480	2,351	2,814	2,133	5,507	6,090	6,874	6,744	6,501	6,477
Other long term liabilities	33	28	103	92	130	366	453	622	622	622	622
Long term liabilities	774	1,508	2,454	2,906	2,263	5,873	6,543	7,496	7,366	7,123	7,099
Minority interests	937	1,367	1,384	1,376	1,509	1,354	1,376	867	943	1,031	1,136
Shareholders' funds	2,751	3,258	3,371	3,713	4,793	6,443	9,858	10,692	11,817	13,153	14,756
Total capital employed	4,462	6,133	7,210	7,994	8,565	13,670	17,778	19,054	20,126	21,307	22,991

Source: Company Report; Citi Investment Research and Analysis

Figure 17. SZI – Financial Ratios

As at 31 Dec	2001	2002	2003	2004	2005	2006	2007	2008	2009E	2010E	2011E
ROE	13.9%	9.3%	7.1%	10.0%	12.6%	14.3%	21.0%	8.5%	12.7%	13.4%	14.3%
ROA	7.7%	5.3%	3.5%	4.7%	6.5%	7.2%	10.9%	4.7%	7.3%	8.1%	9.0%
Net Gearing	8.2%	41.3%	33.2%	40.1%	14.1%	49.2%	50.2%	71.8%	63.0%	62.6%	52.7%
Interest Cover	2.2	2.2	3.5	3.6	5.7	3.3	3.0	2.2	2.8	4.0	4.7
Dividend Payout Ratio	25.5%	34.4%	41.6%	35.2%	60.4%	79.8%	55.1%	40.1%	27.0%	25.1%	24.3%
Target ROE	3.5%	2.6%	2.1%	3.1%	4.7%	6.8%	12.3%	5.9%	9.6%	11.2%	13.3%
Property Sales Margin	15%	12%	15%	23%	31%	41%	32%	35%	44%	34%	28%
EBIT Margin	22%	19%	13%	16%	24%	29%	25%	29%	37%	31%	27%
Net Profit Margin	26%	21%	12%	18%	18%	35%	51%	21%	27%	23%	21%
EPS Growth YoY	-39%	-27%	-19%	47%	51%	47%	80%	-53%	64%	16%	19%

Source: Company Report; Citi Investment Research and Analysis

Shenzhen Investment

Company description

Listed on the Stock Exchange of Hong Kong on 7 March 1997, Shenzhen Investment (SI) is involved in the development of medium to high-end residential apartments, mainly in Shenzhen. The company also develops office and industrial buildings in Shenzhen. SI is also involved in property investment and management, passenger and freight transportation services, manufacturing and sale of industrial and commercial products, infrastructure investments, and information technology business.

Investment strategy

We rate Shenzhen Investment shares Buy / Medium Risk (1M). Our HK\$4.62 target price is based on a 30% discount to our estimated NAV of HK\$6.60. Now at a deep discount to our estimated NAV, Shenzhen Investment presents an attractive exposure to urban landbank in Shenzhen, as well as the growing property markets in second- and third-tier cities like Changsha, Wuhan, Huizhou, Dongguan, Taicang, Changzhou, Foshan and Chaohu.

Valuation

Our target price for Shenzhen Investment is HK\$4.62, which is based on a 30% discount to our estimated NAV of HK\$6.60/share. As a reference, we have taken up our estimated NAV for SZI from HK\$4.38/share to HK\$6.60/share mainly as we have applied new ASP, rental, cap rate and discount rate assumptions for SZI's development properties and investment properties. When determining our price target, we are now using a 30% NAV discount, as opposed to the previous 50% as the much improved sentiment in the China property market should allow for higher asset turnover for the company and as the ample liquidity in the stock market has resulted in a higher risk appetite. With these, we have also taken up our target price for SZI from HK\$2.19 to HK\$4.62.

Discount to NAV is the most widely used method for valuing Hong Kong and China property stocks. NAV measures how much a stock is worth based on the market value of its assets; for a property company those would be its development and investment properties. The NAV discount is then adjusted for the 'realizability' of those assets and the growth potential in that NAV.

Our estimated NAV is derived using sum-of-the-parts; DCF for development properties, capitalization rates of 10-12% for rental properties, and book values for unlisted subsidiaries and non-property investments, less net debt.

We use a DCF approach to value development properties in Shenzhen, Huizhou, Changzhou, Taicang, Heyuan, Changsha, Wuhan, Dongguan, Chaohu, Foshan, Panyu and Shenyang, for which we have assumed different selling prices for properties with different locations, asset types, qualities and years of completion in our net cash flow projections.

Our target price also represents 1.39x SZI's latest reported book value of HK\$3.33/share at end-08. Given that the properties under development of SZI

are stated at historical cost, instead of prevailing market values, in the balance sheet, we believe that a P/B of higher than 1 is justified, particularly given the recovery in the China property markets in 2009 and the higher risk appetite in the stock market given current liquidity situations.

Figure 18. SZI – Estimated NAV

	NAV (HK\$m)	NAV (HK\$/Share)	% of NAV	% of GAV
Development Properties				
Residential	19,975	6.19	93.7%	63.6%
Office	298	0.09	1.4%	0.9%
Industrial	4,287	1.33	20.1%	13.7%
Subtotal Development Properties	24,560	7.61	115.3%	78.2%
Investment Properties				
Office	1,310	0.41	6.1%	4.2%
Retail	1,116	0.35	5.2%	3.6%
Residential	758	0.23	3.6%	2.4%
Industrial	1,141	0.35	5.4%	3.6%
Carparking Spaces	45	0.01	0.2%	0.1%
Subtotal Investment Properties	4,370	1.35	20.5%	13.9%
Coastal Greenland	488	0.15	2.3%	1.6%
Other Assets				
Self-occupied properties	561	0.17	2.6%	1.8%
Property Management	85	0.03	0.4%	0.3%
Road King Infrastructure	1,165	0.36	5.5%	3.7%
Transportation Services	178	0.06	0.8%	0.6%
Subtotal Other Assets	1,990	0.62	9.3%	6.3%
Gross Asset Value (GAV)	31,408	9.73	147%	100.0%
Net Cash/(Debt)	(7,680)	(2.38)	-36.0%	-24.5%
Potential LAT Liabilities	(2,004)	(0.62)	-9.4%	-6.4%
NAV	21,724	6.73	101.9%	69.2%
Cash from convertible instruments	393.3	0.12	1.8%	
Fully-diluted net asset value	22,117	6.60	100.0%	

Source: Citi Investment Research and Analysis

Risks

We have changed our risk rating on SZI from Low Risk to Medium Risk, mainly due to the higher net gearing of about 60% of the company now, and so the chance of a recapitalization exercise in the near-term is not low.

As a reference, our quantitative risk-rating system, which tracks historical 260-day share price volatility, assigns a Speculative Risk rating to SZI. Given that SZI belongs to the Shenzhen Municipal Government, its stable rental income stream from investment properties, and that the management of SZI has not demonstrated aggressive landbanking in the past, we believe that a Medium Risk rating is reasonable.

Fundamentally, Shenzhen Investment is exposed principally to the property markets in China. The most notable downside risks to Shenzhen Investment's share price are economy and policy related. Any weaker-than-expected GDP growth for the Chinese and/or global economy, and the risk of a hard landing in the domestic economy, could negatively affect buyers' sentiment in China's property markets, leading to weaker demand, which could render our sales and earnings estimates for Shenzhen Investment unrealizable.

In addition, any stronger-than-expected pickup in inflation could result in a sharp rise in interest rates, affecting housing affordability for homebuyers. This could also trigger new austerity measures, which could further dampen sentiment in the housing market.

On the policy front, any further tightening measures and policy changes by China's central government with regard to mortgage applications and approvals, project financing, and property pre-sales to curb speculation and overinvestment could adversely affect the bottom lines and cash flows of property developers, and homebuyer sentiment.

Any of the aforementioned risks could impede the shares from reaching our target price.

Appendix A-1

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IMPORTANT DISCLOSURES

Shenzhen Investment (0604.HK)

Ratings and Target Price History

Fundamental Research

Analyst: Tony Tsang



Chart current as of 4 July 2009

Date	Rating	Target Price	Closing Price	Date	Rating	Target Price	Closing Price	Date	Rating	Target Price	Closing Price
1 31-Oct-06	1L	*4.39	3.06	4 22-Jun-07	1L	*7.35	5.42	7 3-Oct-07	1L	*10.00	7.09
2 4-Jan-07	1L	*5.10	3.51	5 31-Jul-07	1L	*8.38	6.80	8 31-Jan-08	1L	*6.30	3.54
3 10-Apr-07	1L	*5.71	4.21	6 2-Sep-07	1L	*8.90	6.40	9 14-Oct-08	1L	*2.19	0.95

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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