

China Real Estate

@ The Venturi Effect

CFA China Shenzhen, Guangzhou CE Seminar

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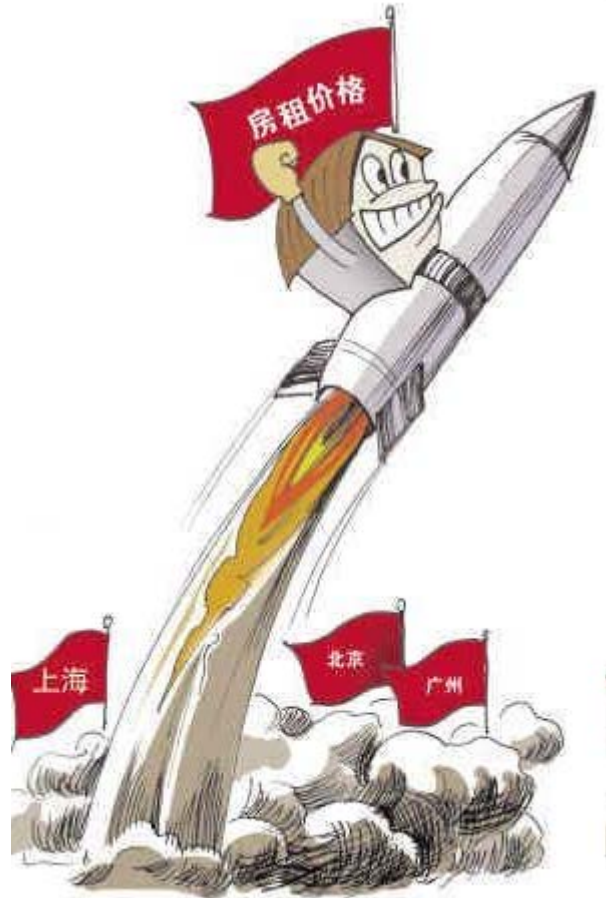


N39° 54.20' E116° 23.18', N39° 54.07' E116° 23.51', N39° 55.13' E116° 22.78':

**N39° 54.19' E116° 23.48', N31° 14.52' E121° 29.71', N23° 08.43' E113° 19.17', N22° 32.05' E114° 03.28',
N29° 33.61' E106° 34.40', N30° 39.63' E104° 04.55', N38° 55.25' E121° 38.34', N41° 47.98' E123° 25.67',
N30° 34.19' E114° 17.15', N28° 14.89' E114° 17.15', N28° 14.89' E112° 58.39', N23° 01.72' E113° 06.91':
N29° 36.55' E106° 33.45', N29° 34.54' E106° 34.18', N29° 33.68' E106° 29.28', N30° 43.52' E103° 58.66', N30°
37.04' E104° 2.71', N41° 44.86' E123° 24.23', N30° 19.45' E120° 4.48', N30° 10.45' E120° 8.36': N29° 33.73'
E106° 29.70', N29° 33.19' E106° 31.37', N30° 45.93' E103° 56.56', N30° 33.22' E104° 2.74', N30° 39.22' E104°
6.73', N41° 46.53' E123° 26.13', N30° 36.00' E114° 16.11', N28° 15.10' E113° 5.49', N22° 32.48' E114° 6.72',
N30° 15.48' E120° 12.32': N29° 35.17' E106° 31.13', N41° 57.71' E123° 25.38', N41° 54.09' E123° 37.43', N41°
44.99' E123° 21.11', N41° 39.79' E123° 19.77', N30° 18.58' E113° 57.87', N28° 16.03' E113° 5.19', N28° 15.89'
E112° 38.94', N29° 30.54' E106° 30.27', N29° 37.68' E106° 31.16', N29° 27.91' E106° 32.99', N30° 40.93' E103°
51.14', N41° 49.05' E123° 20.42', N41° 44.72' E123° 20.38', N30° 37.85' E114° 24.38', N28° 15.66' E112° 55.75',
N28° 14.79' E112° 55.88', N28° 9.48' E113° 1.87', N31° 43.75' E121° 55.52': N30° 40.81' E103° 53.30', N30°
40.89' E103° 51.80', N30° 40.88' E103° 52.55', N30° 58.12' E103° 36.14', N30° 29.70' E103° 53.85', N30° 33.22'
E104° 02.74', N30° 43.68' E104° 03.84', N30° 40.33' E104° 06.43', N30° 39.13' E104° 04.86', N30° 33.66' E104°
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16.03', N23° 08.64' E113° 11.97', N23° 08.97' E113° 12.30', N23° 27.60' E113° 21.22', N22° 57.04' E119° 28.30', N22° 00.02' E113° 20.59',**



Our Recommendations



❖ Locations

- ◆
- ◆
- ◆

❖ Physical

- ◆ Landed
- ◆ Mid-high end residential
- ◆ Retail

❖ Equity

- ◆ Regional focused
- ◆ Industry specialists
- ◆ Structured products



Contents – China's Real Estate Market

❖ State of the Market

- Disconnect
- Divergence

❖ Investor Issues

- Government policies
- Rising vacancies
- Affordability

❖ Fact or Fiction

- Have policies been effective?
- Contract sales continue – big get bigger
- Is RE EVA positive – K_d question

❖ Industry Fundamentals

- Economic growth - wealth creation
- Urbanization
- Demand and supply
- Affordability
- Affordable housing
- Social stability/harmony
- Market players (D&ECM, scale & scope +)
- Land acquisition
- Infrastructure

❖ Valuation

- Conventional: PE, PB, RNAV
- PE: RNAV, AM (conversion)
- Distressed: discount to
- Others: Cost, market, income
- **KEY** is understanding cash flow

❖ Investment: risks and returns

- Policies, Politics, People, Prices, Product, Positioning, Process, Promotion
- Catalysts and curve balls

❖ Forecasts

- The Matrix (Geography vs drivers)
- The Matrix Reloaded (product vs drivers)
- Matrix Revolutions (TSR vs γ)

❖ Recommendations

- Asset type



State of China's Real Estate market



..... State of China's Real Estate market

❖ Disconnect

❖ Divergence



Investor Issues

- ❖ Government Policies → Affordable housing schemes
Purchase restrictions
Loan restrictions
Taxes
- ❖ Rising Vacancies → Kangbashi, Erenhot
Zhengzhou New District, Xinyang
Dantu
64mn empty homes
20 new cities built every year
- ❖ Affordability → Payback periods
Sustainability of economic
and wage growth
Social Stability



Fact or Fiction?

1. Have policies been effective? Yes and No, it depends
 1. Physical market
 1. Transaction volumes
 2. Curbing growth in ASPs
 2. Financial markets
 1. ECM
 2. DCM

2. Contract sales continue – the big get bigger
 1. Capital intensive business
 2. Tight credit market, winners are those with access to capital
 3. Shift in market dynamics as consolidation takes place
 4. Wholesale transactions become more prevalent

3. Is real estate EVA positive? The K_d question
 1. Cost of debt is rising. In some cases short term debt is being transacted in excess of 25%. What are the implications of cost of capital and WACC?
 2. Where is the mispricing of risk? And where are the opportunities?



Fact or Fiction: Contract sales YTD end May

Company	Contract Sales	2011					
		2010 YTD Dec	Target (RMB bn)	YTD till Feb	YTD till Mar	YTD till Apr	YTD till May
CHINA OVERSEAS*	688 HK	67.110	80.0	15.0%	24.8%	35.0%	50.1%
CHINA RES LAND	1109 HK	22.263	30.0*	12.4%	18.9%	24.7%	31.3%
COUNTRY GARDEN	2007 HK	32.900	43.0	15.8%	21.6%	27.7%	41.4%
EVERGRANDE REAL	3333 HK	50.418	70.0	20.4%	28.3%	37.1%	48.2%
AGILE PROPERTY	3383 HK	32.300	37.0	18.1%	25.4%	31.1%	36.5%
BEIJING CAPITAL LAND	2868 HK	12.500	15.0	11.0%	16.8%	21.3%	26.7%
BEIJING NORTH ST	588 HK	1.050	3.9				
C C LAND HOLDING	1224 HK	5.801	7.5	15.5%	23.1%	28.4%	35.2%
FANTASIA HOLDING	1777 HK	3.892	6.0	11.0%	17.4%	29.6%	41.4%
GLORIOUS PROPERT	845 HK	12.680	15.0	12.2%	19.5%	27.1%	33.9%
GREENTOWN CHINA	3900 HK	54.100	55.0	13.8%	18.5%	24.0%	28.4%
GUANGZHOU R&F -H	2777 HK	32.200	40.0	9.6%	14.9%	21.5%	27.2%
KAISA GROUP HOLD	1638 HK	10.100	15.0	4.4%	8.0%	11.8%	18.3%
KWG PROPERTY	1813 HK	11.000	14.7	15.0%	22.3%	30.8%	37.7%
LONGFOR PROPERTI	960 HK	33.320	40.0	18.3%	24.7%	32.3%	40.1%
POLY HONG KONG	119 HK	11.400	18.0	8.3%	11.9%	17.8%	31.1%
POWERLONG REAL	1238 HK	6.215	10.0	5.7%	9.0%	12.4%	17.4%
SHENZHEN INVEST	604 HK	4.308	4.7	13.0%	17.7%	28.7%	36.2%
SHIMAO PROPERTY	813 HK	30.500	36.0	11.9%	17.6%	23.7%	30.7%
SHUI ON LAND	272 HK	4.976	10.0			41.4%	
SINO OCEAN LAND	3377 HK	21.600	30.0	15.7%	18.7%	24.3%	30.7%
SUNAC	1918 HK	7.082	18.3	4.7%	8.1%	13.8%	18.3%
SPG LAND	337 HK	6.390	8.0	14.5%	15.5%	16.2%	17.4%
YUZHOU PROPERTIE	1628 HK	5.217	9.0	7.6%	10.4%	12.4%	16.3%
In RMB bn till end of			Jan	Feb	Mar	Apr	May
CHINA VANKE (RMB bn)	000002 CH	108.160	20.100	6.080	9.330	7.900	9.010

* 2011 contract sales target raised from RMB21.3 to 30bn

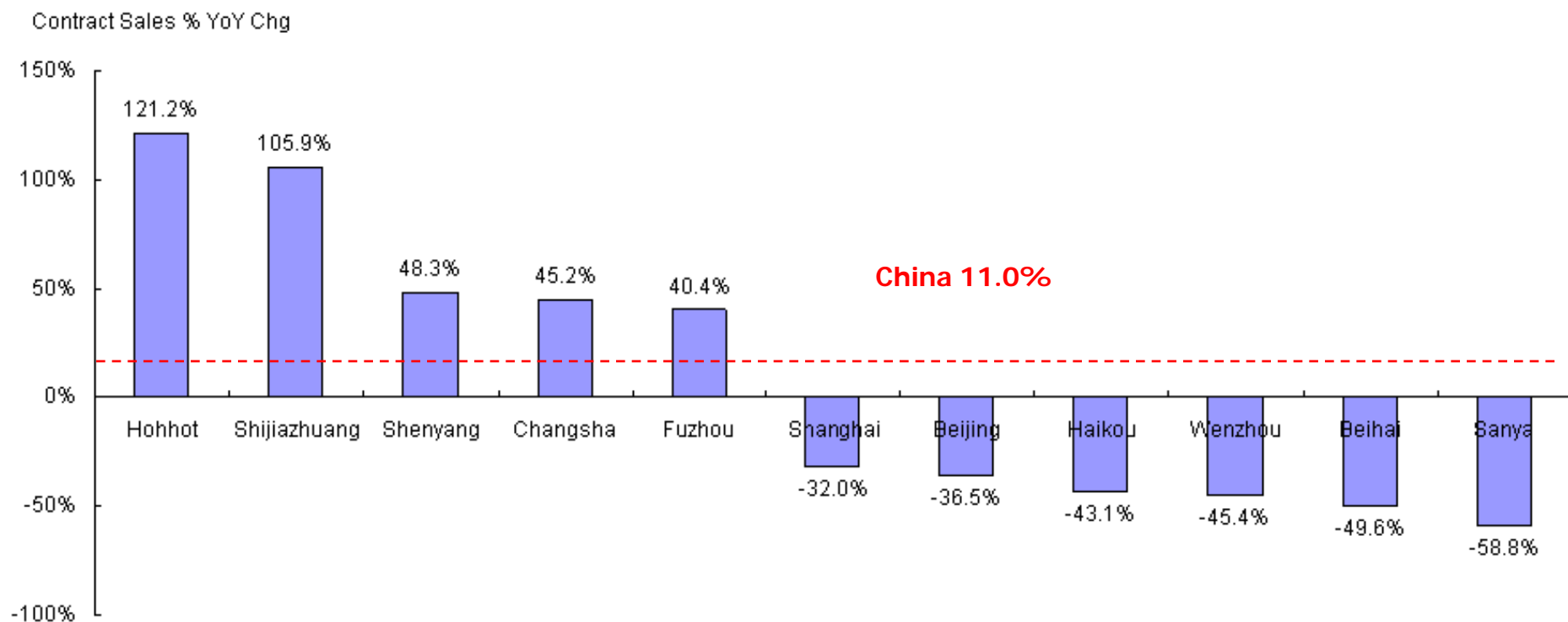


Fact or Fiction: Share price performance

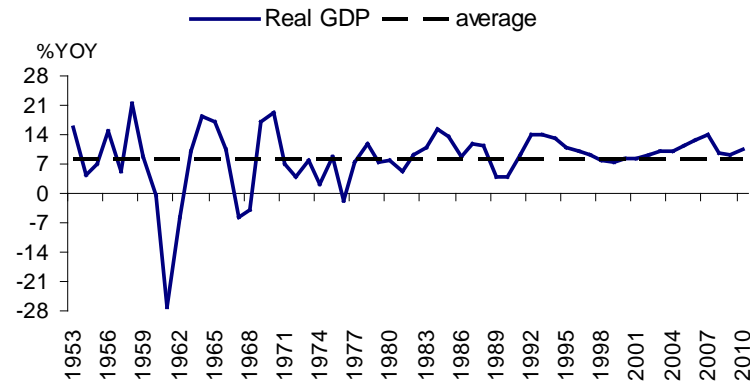
Short Na	Ticker	MKTCAPUS	LASTPX	Chg	% Chg	5D%	1M%	3M%	6M%	12M%	P/B	PE	PE+1	D/E	Turnover	Volume
PROP	.PROP		1,349.43	(4.32)	(0.32)	(4.16)	(8.20)	1.83	(8.08)	4.12						1,603
HANG SENG INDEX	HSI Index		21,695.26	-257.85	-1.17	-3.23	-5.27	-2.64	-4.49	7.73	1.64			96.75	30,370,698	0
HANG SENG CHINA ENT IND: HSCEI Index			12,045.05	-116.37	-0.96	-2.71	-5.40	-3.31	-3.40	3.98	1.83			130.51	17,349,490	0
CHINA OVERSEAS	688 HK	15,723	15.00	0.12	0.81	-4.09	0.81	13.29	2.88	-3.10	2.24	10.56	9.17	78.23	306,321,500	20,394,589
CHINA RES LAND	1109 HK	8,666	12.54	-0.06	-0.48	-5.57	-6.70	3.81	-7.39	-18.78	1.47	12.23	9.75	76.51	131,078,900	10,408,576
COUNTRY GARDEN	2007 HK	6,361	2.97	-0.11	-3.57	-9.73	-1.00	-2.30	0.68	40.09	1.66	8.56	6.93	79.15	64,638,840	21,346,389
EVERGRANDE REAL	3333 HK	8,677	4.51	-0.09	-1.96	-13.27	-20.04	31.49	17.45	92.74	2.72	6.53	5.11	145.84	343,343,100	75,349,255
GLORIOUS PROPERT	845 HK	2,219	2.22	0.00	0.00	0.91	-1.33	15.03	-23.45	-5.53	0.97	5.52	4.41	90.27	16,393,050	7,408,000
POLY HONG KONG	119 HK	2,138	4.62	-0.11	-2.33	-8.33	-21.69	-25.00	-37.99	-42.18	0.76	8.80	6.27	131.90	61,779,860	13,399,000
CAPITARETAIL	CRCT SP	629	1.24	-0.01	-0.80	1.64	-3.12	2.48	0.00	3.33	1.06	15.12	14.42	53.26	513,590	414,000
GZI REIT	405 HK	541	3.96	-0.04	-1.00	-1.25	-2.22	-1.00	-4.12	19.28	0.90	12.77	13.03	44.58	6,826,121	1,714,028
AGILE PROPERTY	3383 HK	5,069	11.38	0.10	0.89	-1.56	-5.64	12.90	4.02	40.49	1.76	7.41	6.18	102.08	110,416,900	9,592,661
BEIJING CAPITAL	2868 HK	547	2.07	-0.27	-11.54	-15.85	-20.38	-8.41	-23.05	-5.91	0.66	3.14	2.83	128.44	21,860,720	9,704,000
BEIJING NORTH ST	588 HK	1,588	1.74	-0.01	-0.57	-3.87	-7.45	-3.87	-17.14	-11.22	0.38	5.78	N.A.	79.01	526,460	302,000
C C LAND HOLDING	1224 HK	888	2.71	-0.04	-1.45	-1.81	-0.73	15.32	0.74	0.74	0.57	14.34	7.51	32.45	19,352,610	7,063,000
CENTRAL CHINA	832 HK	544.97	1.75	0.01	0.57	-7.41	-18.43	-11.16	-21.98	2.54	0.85	3.71	3.01	142.86	7,443,690	4,255,000
CHINA AOYUAN PRO	3883 HK	429	1.28	-0.01	-0.78	-6.57	-2.29	0.79	-13.51	8.47	0.47	7.59	5.06	58.12	4,127,730	3,179,000
CHINA SCE PROPER	1966 HK	732	2.00	0.03	1.52	-0.99	-0.50	1.52	-10.31	-1.96	1.29	5.11	4.05	58.26	2,057,290	1,033,000
FANTASIA HOLDING	1777 HK	725	1.16	0.00	0.00	-4.92	-5.69	-4.13	-13.43	-13.43	1.04	4.46	3.63	114.02	3,256,920	2,775,500
FRANSHION PROP	817 HK	2,479	2.11	0.01	0.48	1.93	-6.64	3.94	-11.72	-4.95	0.84	13.11	8.41	68.25	4,321,450	2,070,000
GREENTOWN CHINA	3900 HK	1,505	7.16	-0.09	-1.24	-4.41	-13.42	1.99	-17.61	-17.70	0.95	4.44	2.83	235.58	12,317,310	1,710,500
GUANGZHOU R&F -H	2777 HK	3,959	9.58	-0.07	-0.73	-2.64	-6.08	-1.94	-9.96	-5.52	1.30	5.69	5.00	139.28	72,737,620	7,517,150
HOPSON DEV	754 HK	1,463	6.51	-0.03	-0.46	-4.41	-9.08	-16.54	-22.96	-30.97	0.30	4.46	4.30	57.86	25,790,440	3,927,001
KAISA GROUP HOLD	1638 HK	1,755	2.79	-0.01	-0.36	0.00	0.00	9.84	20.78	72.22	1.14	7.75	5.83	79.33	7,379,740	2,648,000
KWG PROPERTY	1813 HK	1,815	4.89	-0.01	-0.20	5.39	-10.44	-4.12	-18.23	4.49	1.01	6.39	4.89	106.36	28,945,810	5,881,144
LONGFOR PROPERTI	960 HK	7,339	11.10	0.00	0.00	-2.63	-13.95	-0.36	4.13	48.40	2.97	10.88	8.23	99.79	49,534,540	4,450,674
MINGFA GROUP INT	846 HK	1,858	2.39	0.00	0.00	-0.42	-4.78	2.14	-1.24	3.91	2.15	9.68	7.94	80.39	6,441,080	2,739,000
POWERLONG REAL	1238 HK	1,127	2.16	-0.04	-1.82	-3.14	-8.09	-6.49	-13.25	-6.90	0.67	4.68	3.59	55.93	1,223,320	567,000
RENHE COMMERCIAL	1387 HK	3,671	1.34	0.03	2.29	0.00	0.00	17.54	-3.60	-19.76	1.77	5.27	4.54	42.06	84,010,080	62,841,101
SHENZHEN INVEST	604 HK	1,062	2.34	0.10	4.46	4.00	-3.31	-0.43	-11.03	4.46	0.61	7.93	6.59	87.00	15,173,740	6,633,758
SHIMAO PROPERTY	813 HK	3,974	8.73	-0.21	-2.35	-9.91	-15.08	-11.10	-25.26	-27.13	0.96	6.05	5.09	113.75	224,763,800	25,456,511
SHUI ON LAND LTD	272 HK	2,119	3.17	0.01	0.32	-5.09	-6.21	-7.31	-16.58	-5.93	0.55	11.25	8.92	77.60	27,973,320	8,808,863
SINO OCEAN LAND	3377 HK	2,481	3.43	-0.09	-2.56	-7.80	-21.15	-20.60	-36.36	-40.86	0.51	6.14	5.01	88.14	108,065,400	31,301,000
SOHO CHINA LTD	410 HK	4,279	6.43	-0.02	-0.31	-1.38	-3.31	12.81	10.86	47.48	1.44	16.32	6.29	53.14	45,640,570	7,078,702
SPG LAND	337 HK	380	2.82	0.03	1.08	-2.08	-13.23	-15.82	-21.88	-9.32	0.56	2.66	2.12	130.07	2,053,530	729,000
SUNAC CHINA HOLD	1918 HK	1,070	2.78	-0.04	-1.42	-6.08	3.73	16.22	-3.14	N/A	1.48	3.20	2.19	122.06	8,053,110	2,921,000
YANLORD LAND GRO	YLLG SP	1,938	1.23	-0.02	-1.60	-3.91	-10.87	-10.87	-25.45	-28.90	0.94	7.96	6.70	61.88	1,581,570	1,289,000
YUEXIU PROPERTY	123 HK	1,667	1.40	0.00	0.00	-6.67	-13.58	-9.68	-30.69	-13.95	0.68	7.45	5.36	108.51	16,915,320	12,083,600
YUZHOU PROPERTIE	1628 HK	754	2.45	-0.02	-0.81	-0.81	-2.00	6.99	1.66	-2.00	1.07	4.76	2.95	99.08	631,990	261,000
Hong Kong Developers																
HONGKONG LAND	HKL SP	16,935	7.29	-0.05	-0.68	-0.55	-0.68	12.85	6.42	44.07	0.84	24.30	23.29	19.12	26,325,130	3,588,000
HYSAN DEVELOP CO	14 HK	5,065	37.30	0.10	0.27	-1.84	-0.53	19.94	11.68	69.55	0.97	30.90	24.97	10.84	58,451,800	1,562,424
KERRY PROPERTIES	683 HK	6,890	37.35	-0.30	-0.80	-4.35	-2.10	-0.53	-8.90	9.21	0.93	11.89	10.68	30.64	37,176,540	991,523
WHARF HLDG	4 HK	20,048	51.60	-0.75	-1.43	-4.09	-5.41	7.05	-1.00	35.06	0.90	18.23	16.02	29.06	410,984,400	7,973,317
A share developers																
CHINA MERCHANT-A	000024 CH	4,657	16.90	0.43	2.61	3.24	-8.40	2.42	3.43	8.13	1.55	11.05	8.99	62.99	163,621,100	9,723,995
CHINA VANKE CO-A	000002 CH	13,719	8.05	0.06	0.75	0.63	-4.17	-1.59	-4.17	13.38	1.94	8.95	7.09	86.85	371,130,300	45,693,242
GEMDALE CORP-A	600383 CH	4,193	6.07	0.05	0.83	3.58	-5.01	-5.75	2.36	-10.74	1.52	8.09	6.08	115.69	419,691,400	68,220,502
SHENZHEN OVERSE-A	000069 CH	6,438	7.45	-0.04	-0.53	-1.06	-8.70	-7.52	11.10	3.00	3.14	11.37	8.94	128.16	113,022,500	14,987,022



Fact or Fiction: China is not a homogenous market

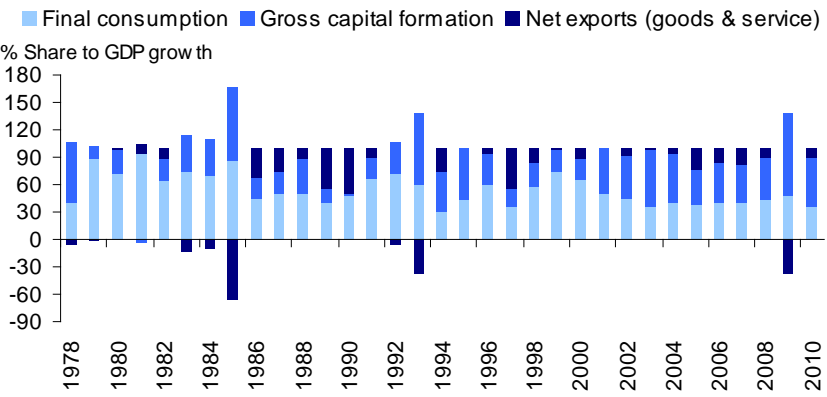


Industry Fundamentals – Economic growth and wealth creation



❖ Real GDP growing at 9.1-14.2% between 2001-10

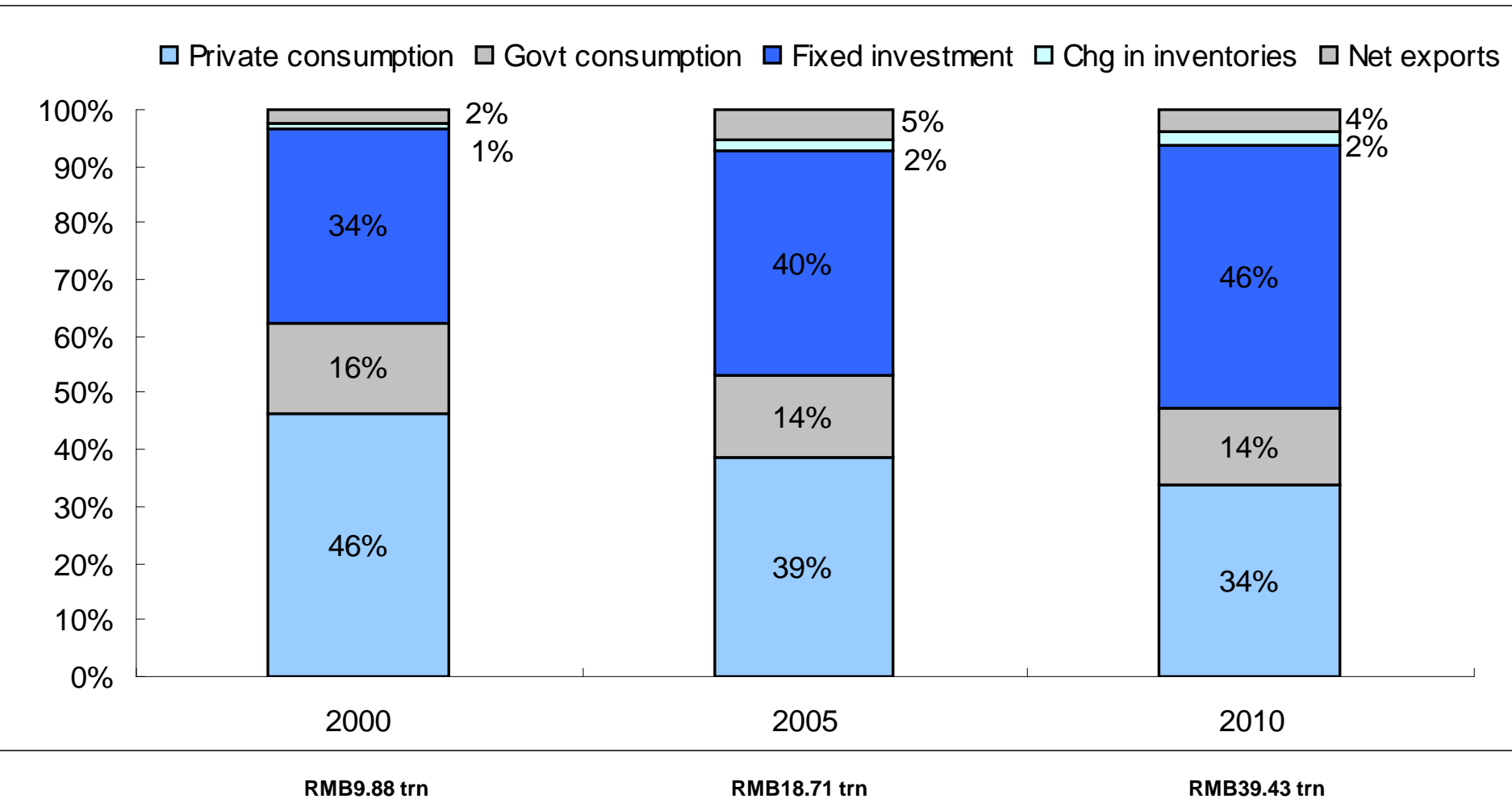
❖ Simple average growth of 8.5%, CAGR of 8.2% from 1953-2010



❖ Gross capital formation contribute most to GDP growth

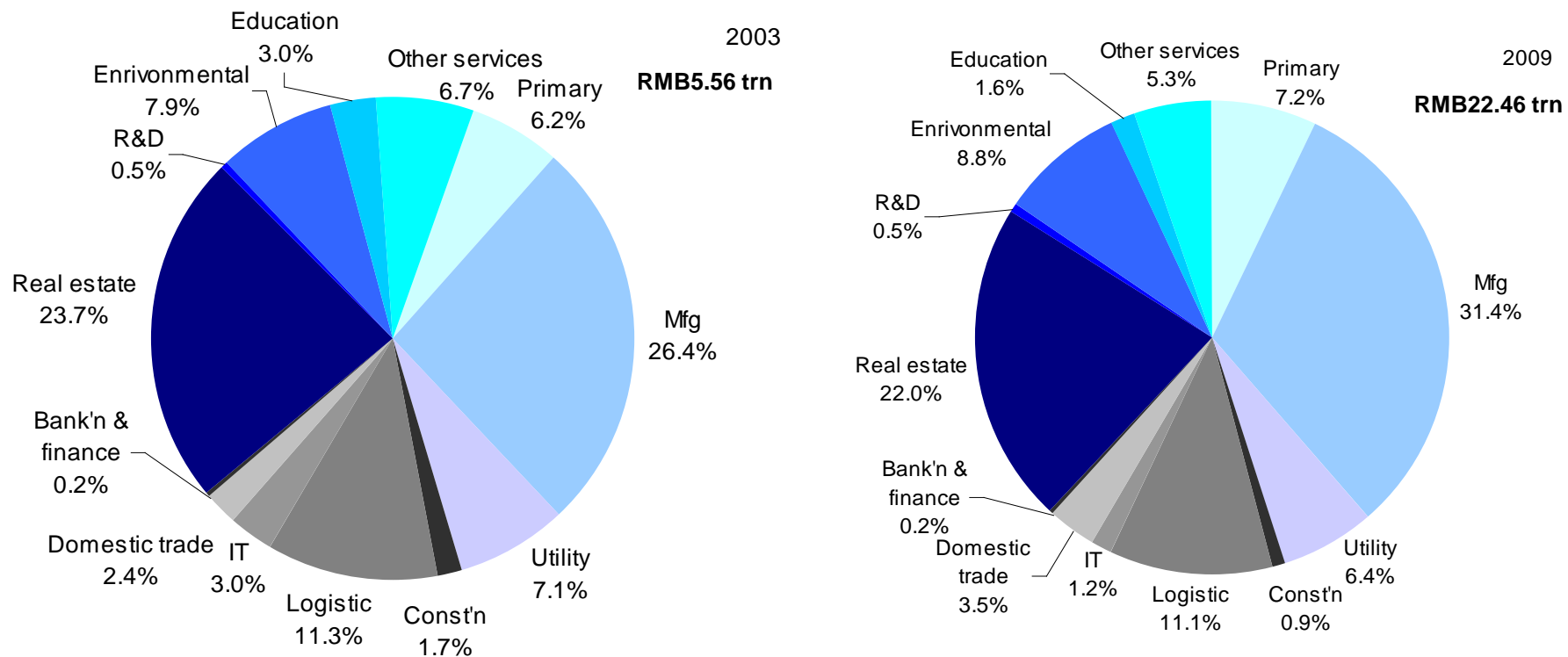


Industry Fundamentals – Economic growth and wealth creation



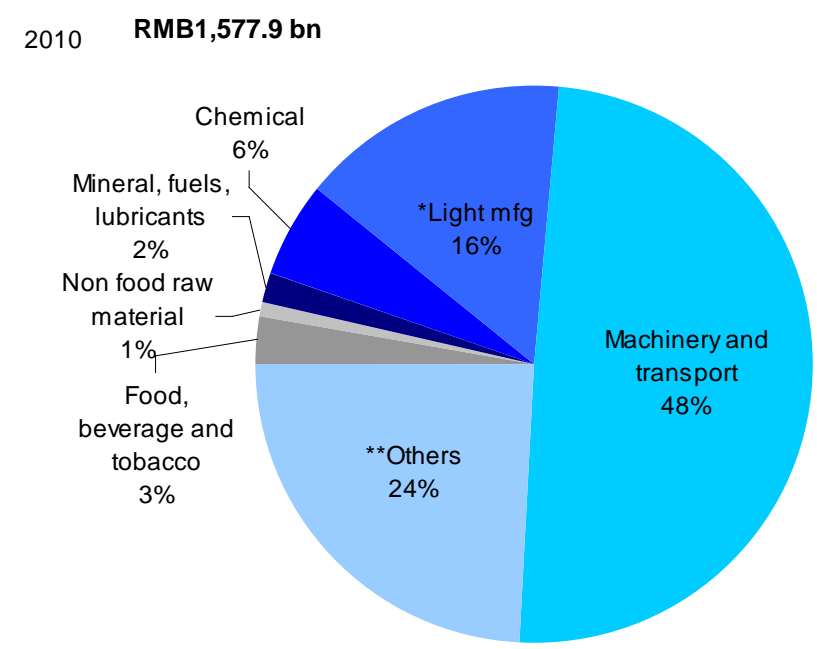
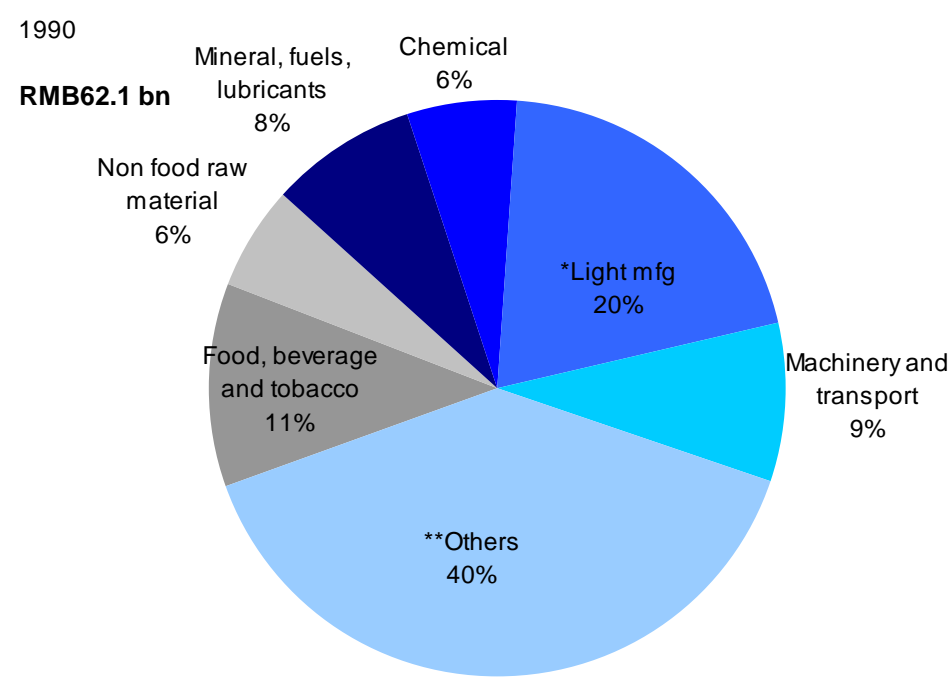
Industry Fundamentals – Economic growth and wealth creation

Fixed Asset Investment

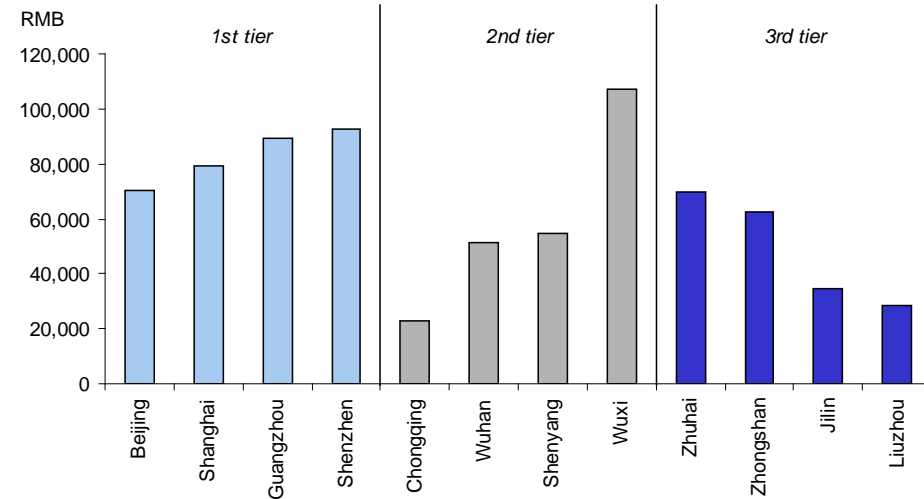
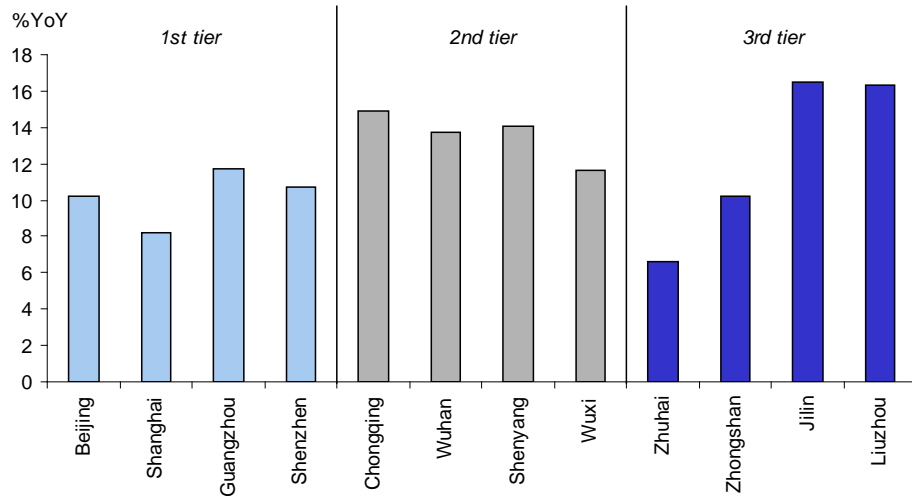


Industry Fundamentals – Economic growth and wealth creation

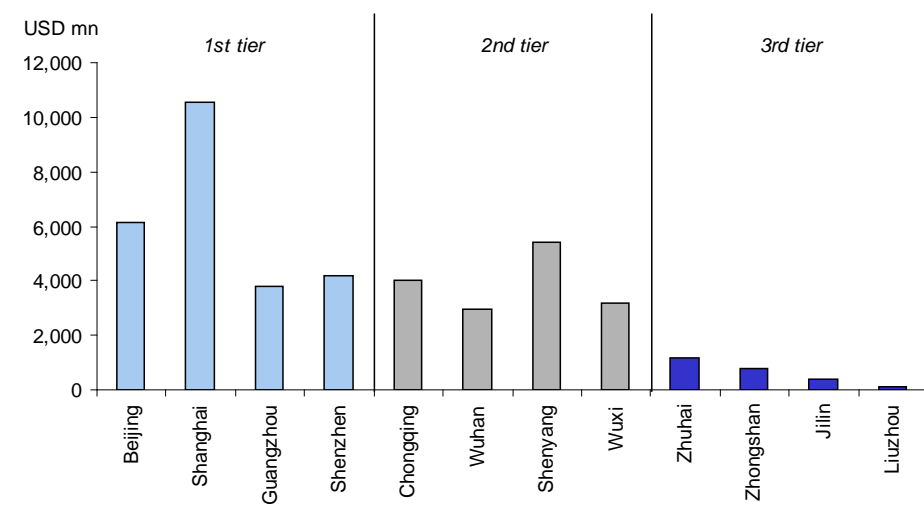
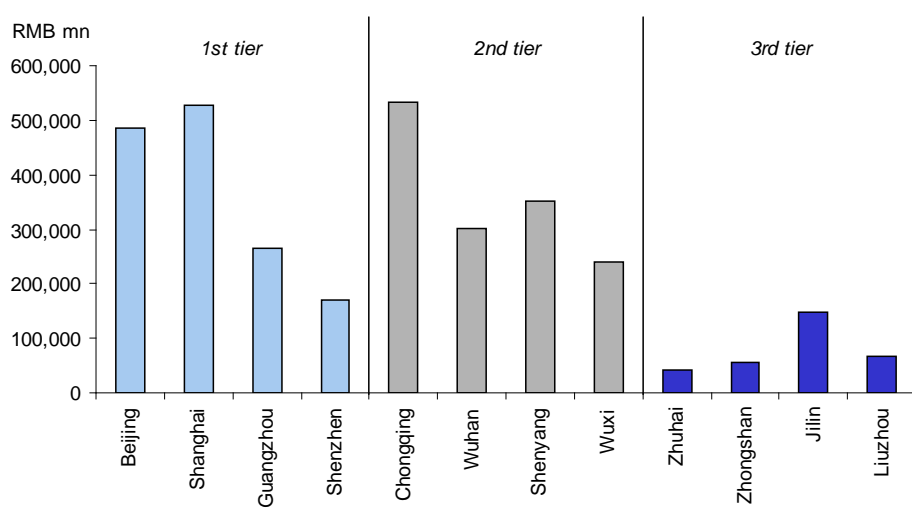
Exports



Industry Fundamentals – Diverse growth rates and wealth levels

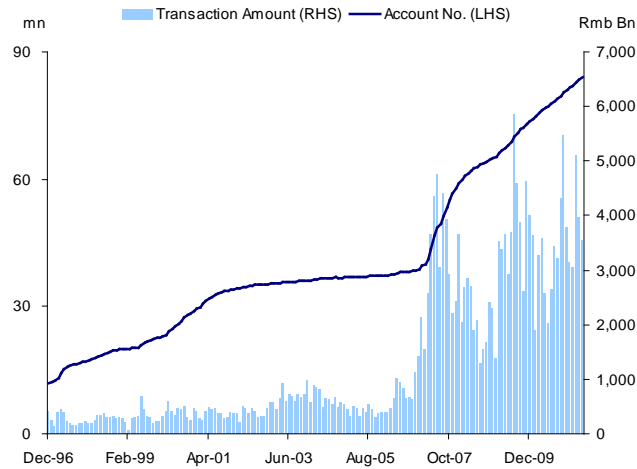


Industry Fundamentals – Diverse FAI and FDI levels



Industry Fundamentals – Investment alternatives

Individual Accounts/Transaction Volume Shanghai Stock Exchange



Transaction Volume/Price_Shanghai Gold Exchange

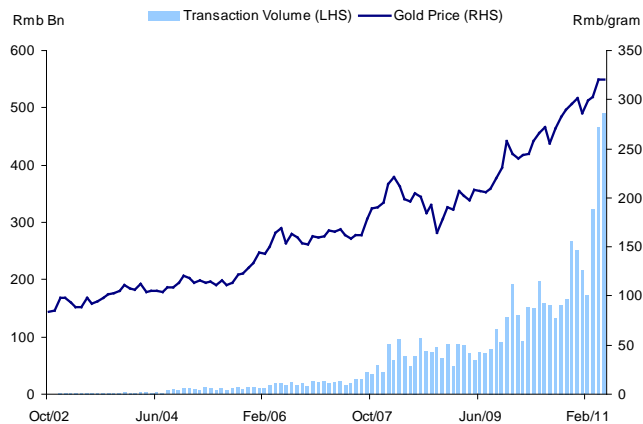
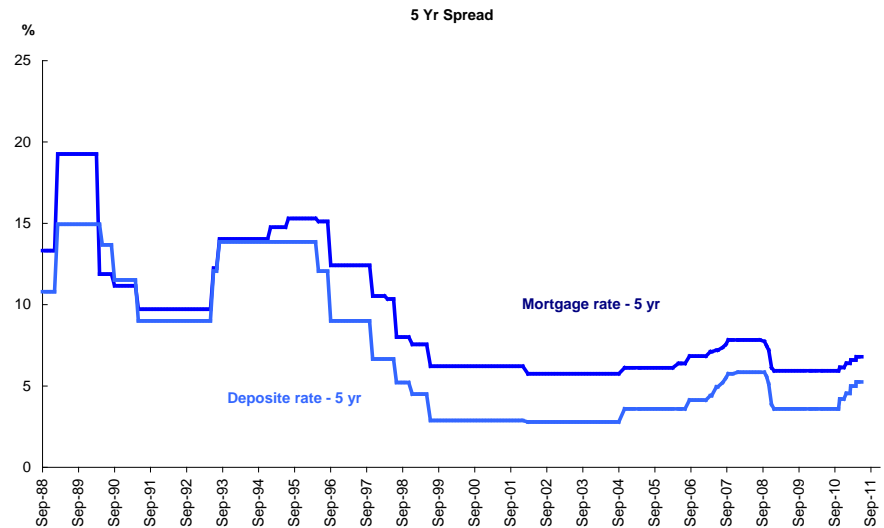


Figure : Availability of Investment Options In China

Type	Date	Event
Trust	Oct-79	Establishment of China's first trust company, CITIC Trust
Equity	Dec-90	The establishment of Shanghai and Shenzhen Stock Exchange
Real Estate	Jul-94	China's private housing market started with the State Council's No.43 Document on deepening urban housing reform
Mutual Fund	Sep-01	China's first open-end fund (华安创新) was launched in Sep, asset under management reached RMB5 bn
Trust	Oct-01	Passage of the trust law
Equity	Oct-05	Passage of the securities law
Gold	Dec-06	Individuals are allowed to trade gold at Shanghai Gold Exchange

Source: Source: Yuanta Securities



Source: PBOC



Physical Real Estate has been the Best Performer

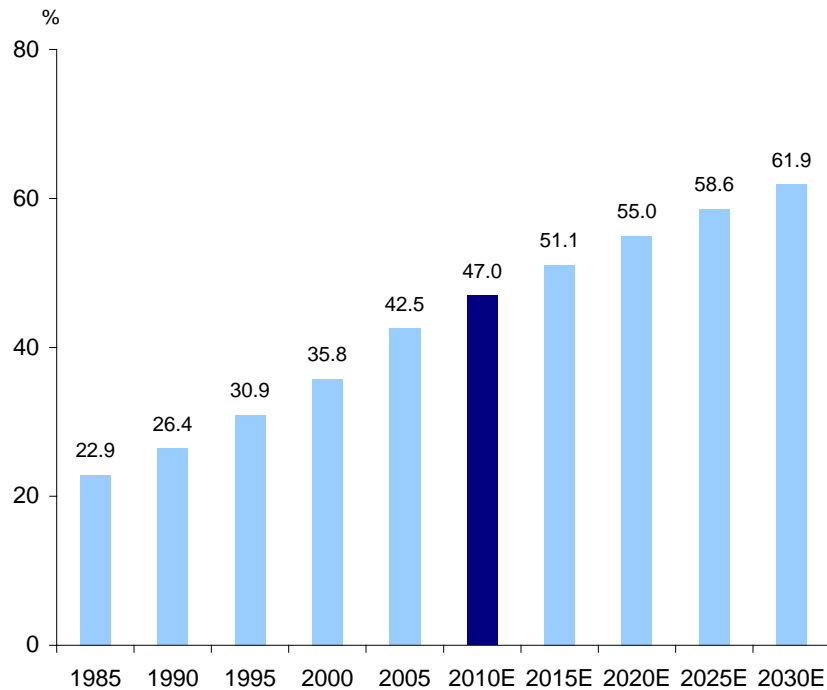


Low Mortgage Rates also Fuel Rise in Unit Home Prices



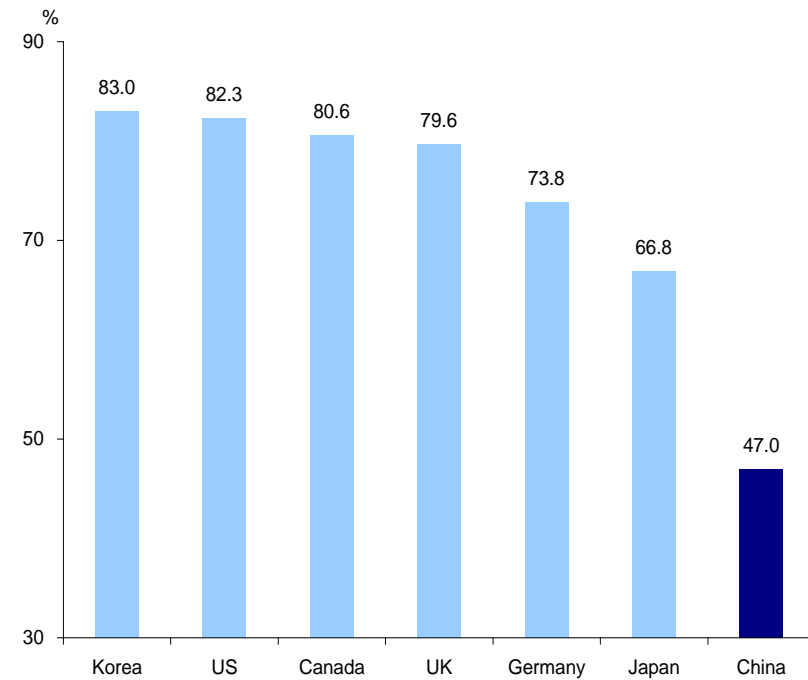
Industry Fundamentals – Urbanization

China Urbanisation Rate



Source: UN

2010E Urbanisation Rate: China vs Selected Countries



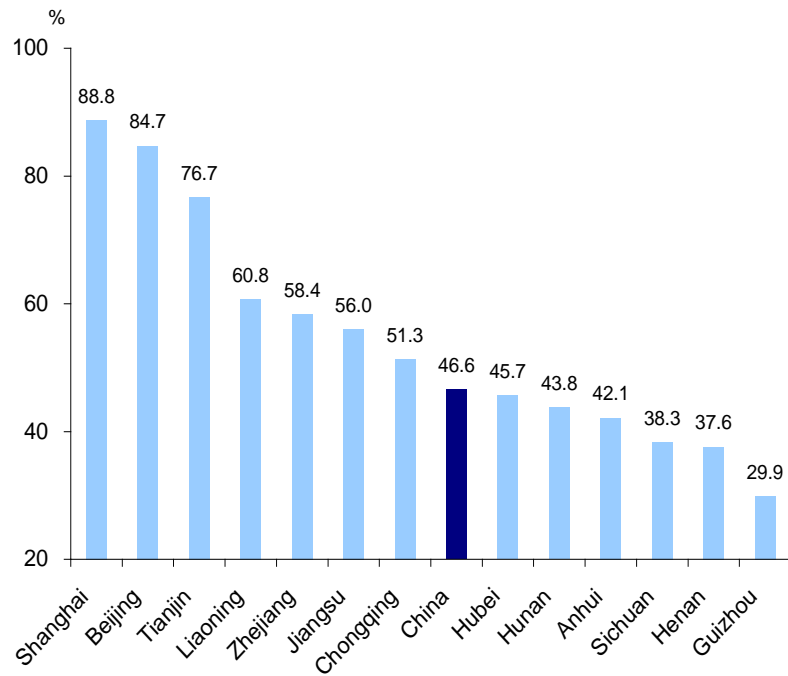
Source: UN

The Continuing Theme for the Next Two Decades



Industry Fundamentals – Urbanization by regions

2009 China Urbanisation Rate: Selected Provinces/Cities



Source: NBS

- ❖ Large regional differences
- ❖ Most coastal provinces above national average of 46.6%
- ❖ Shanghai approaching 90%
- ❖ but Guizhou still less than 30%
- ❖ Central and Western China to catch up

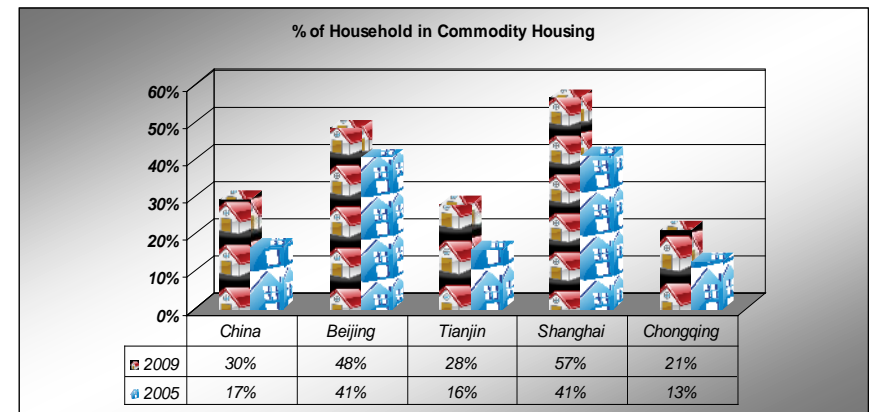
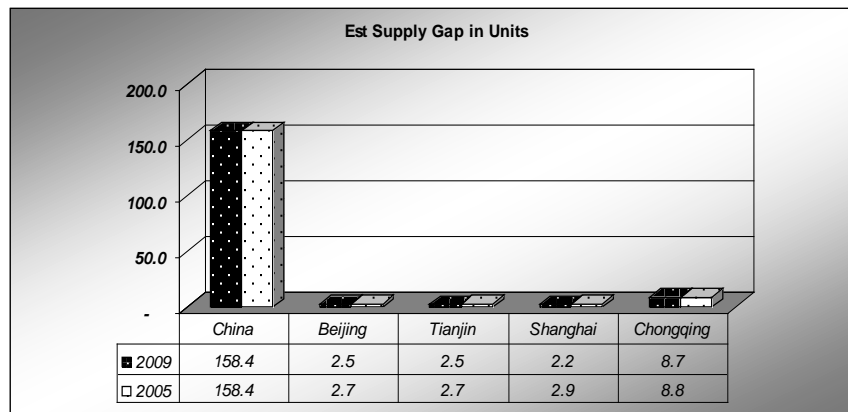
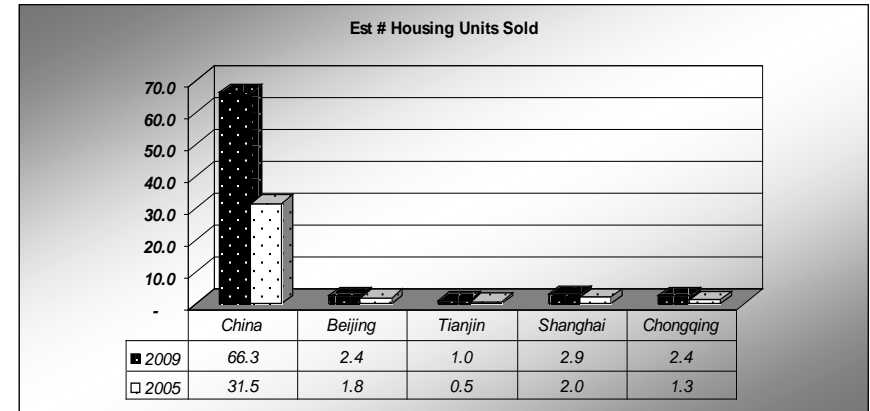
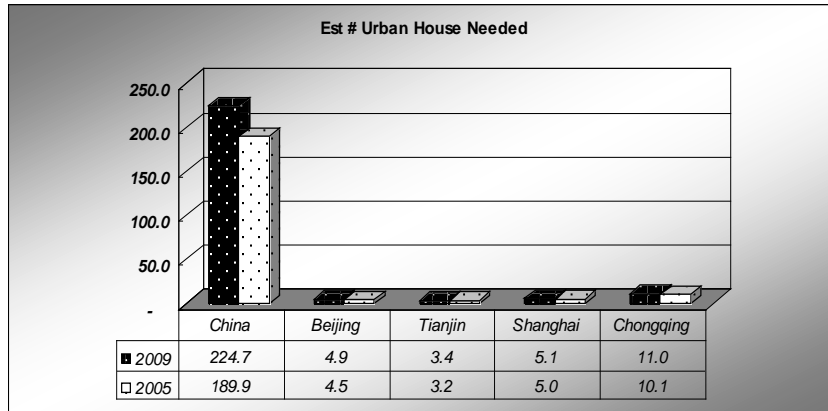


Industry Fundamentals – Infrastructure: The Bullet

High Speed Railway Links	Previously	Current	Planned	Completion
Chongqing - Chengdu		2hrs 56min	57min	2015-07
Shanghai - Hangzhou		45mins		2010-10-26
Shanghai - Nanjing				2010-07-01
Fuzhou - Xiamen				2010-04-26
Zhengzhou - Xian		2hrs		2010-02-06
Guangzhou - Wuhan	10.5hrs	3hrs		2009-12-26
Fuzhou - Wenzhou	15hrs	100min		2009-09-28
Wenzhou - Ningbo				2009-09-28
Hefei - Wuhan	8hrs	1hrs 55min		2009-04-01
Shijiazhuang - Taiyuan				2009-04-01
Beijing - Shijiazhuang			1hr	2009-04-01
Jinan - Qingdao		2hrs 15 mins		2008-12-20
Beijing - Tianjin	90min	30min		2008-08-01
Hefei - Nanjing		54min		2008-04-19
Guiyang - Guangzhou				2014
Harbin - Dalian				2012
Beijing - Guangzhou			8hrs	2012
Beijing - Shanghai			4.5hrs	2012



Industry Fundamentals - Demand & Supply!



Industry Fundamentals – Affordable housing 保障性用房

- ❖ Economic housing 经济适用房
- ❖ Low rental housing 廉租房
- ❖ Relocation housing 棚改房
- ❖ 12th five year plan (2011 – 2015), to build 36mn affordable homes
- ❖ In 2011
- ❖ 10mn units to start work in China
- ❖ 1mn units in Chongqing
- ❖ [5.8MN IN 2009]

Economy Housing Application Standard			
	Annual After-Tax Income*	Average Living Area*	Net Asset
	RMB	sm	000 RMB
Shanghai	<34,800	<15	<90
Guangzhou	<36,574	<10	<110
Beijing	<22,700	<10	<240
Chengdu	<40,000*	<15	
Hangzhou	<21,491	<48	
Shenyang	<70% of City Avg	<70% of City Avg	
Shenzhen	<26,529		<320

* per capita data,

Source: Local Housing Bureau

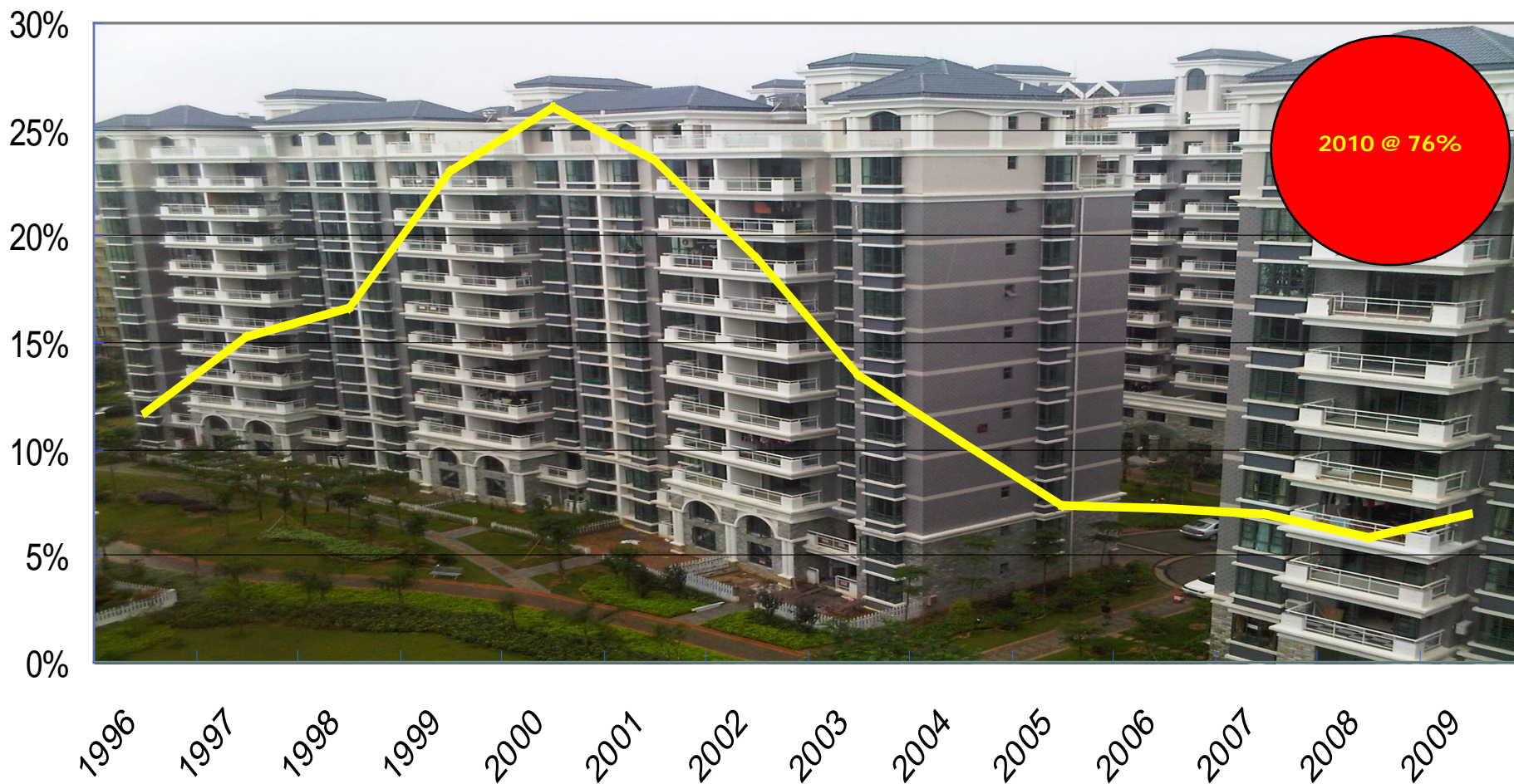
except for Chengdu's Income and Hangzhou's living area standards, which are for a household

DILEMMA: land sales is a large source of revenues for local governments.
Where is funding for affordable housing going to come from?



Industry Fundamentals – Affordable housing

Economy Housing as % of Residential Housing Area Sold



Industry Fundamentals - China – low cost housing: a comparison

❖ China

- ◆ RMB2 - 5,000 psm
- ◆ 70 – 80 sm
- ◆ GDP/capita
 - USD4,161 or RMB27,658
- ◆ 9.49x annual income
- ◆ Construction cost based pricing approach

- ◆ Income ceiling.....

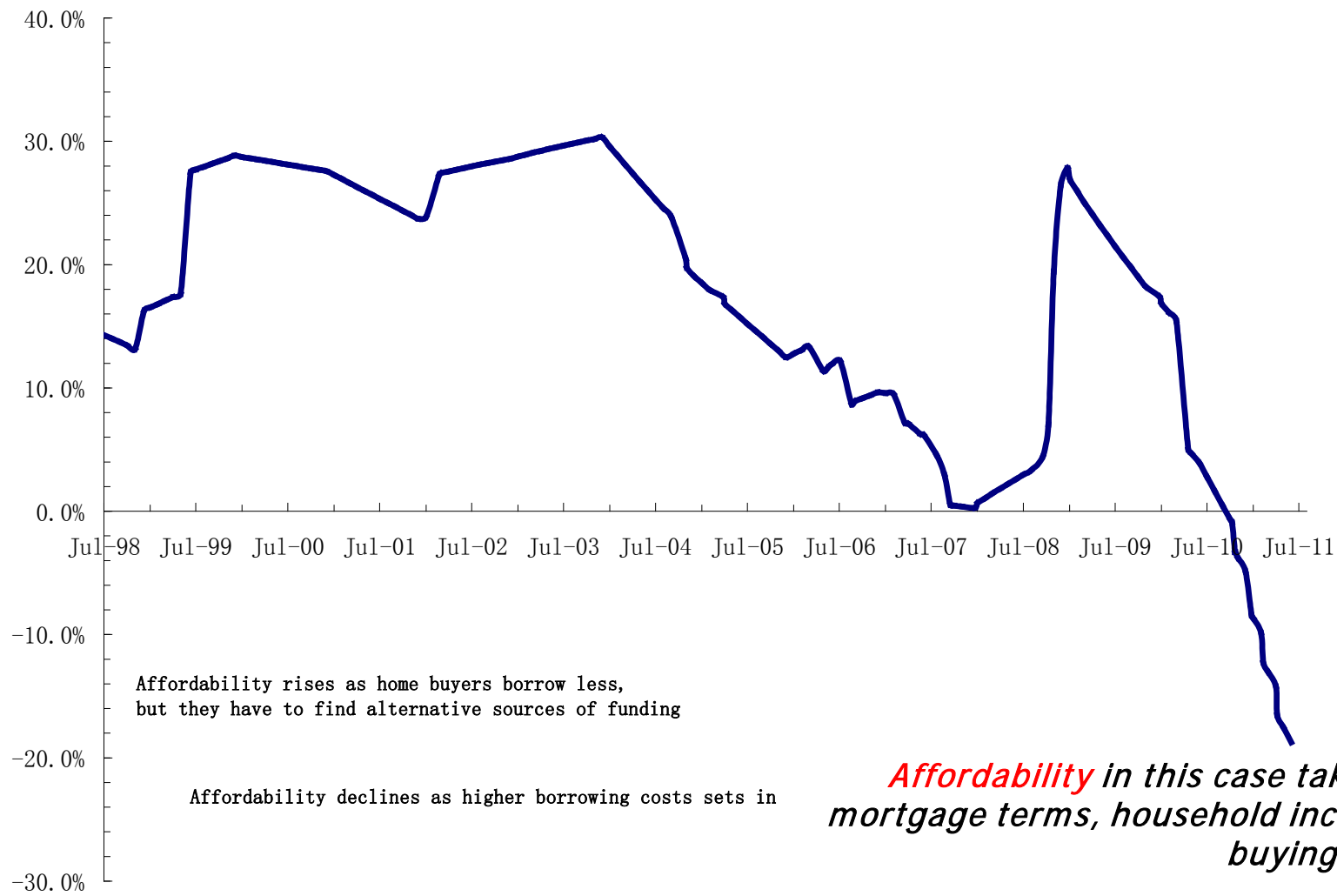
❖ Singapore

- ◆ SGD291 – 535.9k per unit
- ◆ 65 – 130sm
- ◆ GDP/capita
 - USD43,516 or SGD56,719
- ◆ 7.28x annual income
- ◆ Median house price (including approximate transaction cost). Construction cost based pricing approach adopted in 70s, average affordability was 3.65 years

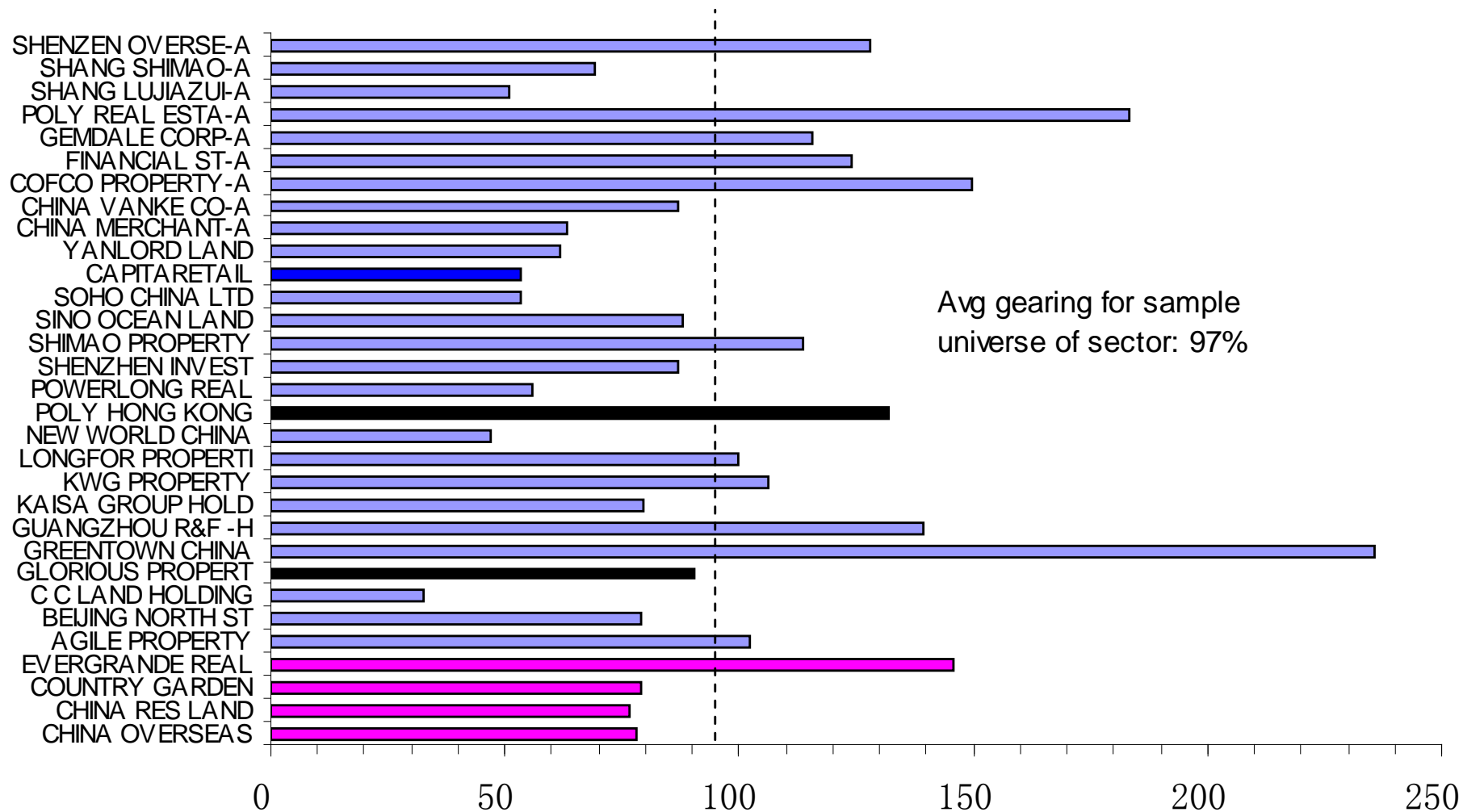
- ◆ Income ceiling: gross monthly household income must not exceed S\$8,000. If acquiring with extended family, then gross monthly household income must not be more than \$12,000.



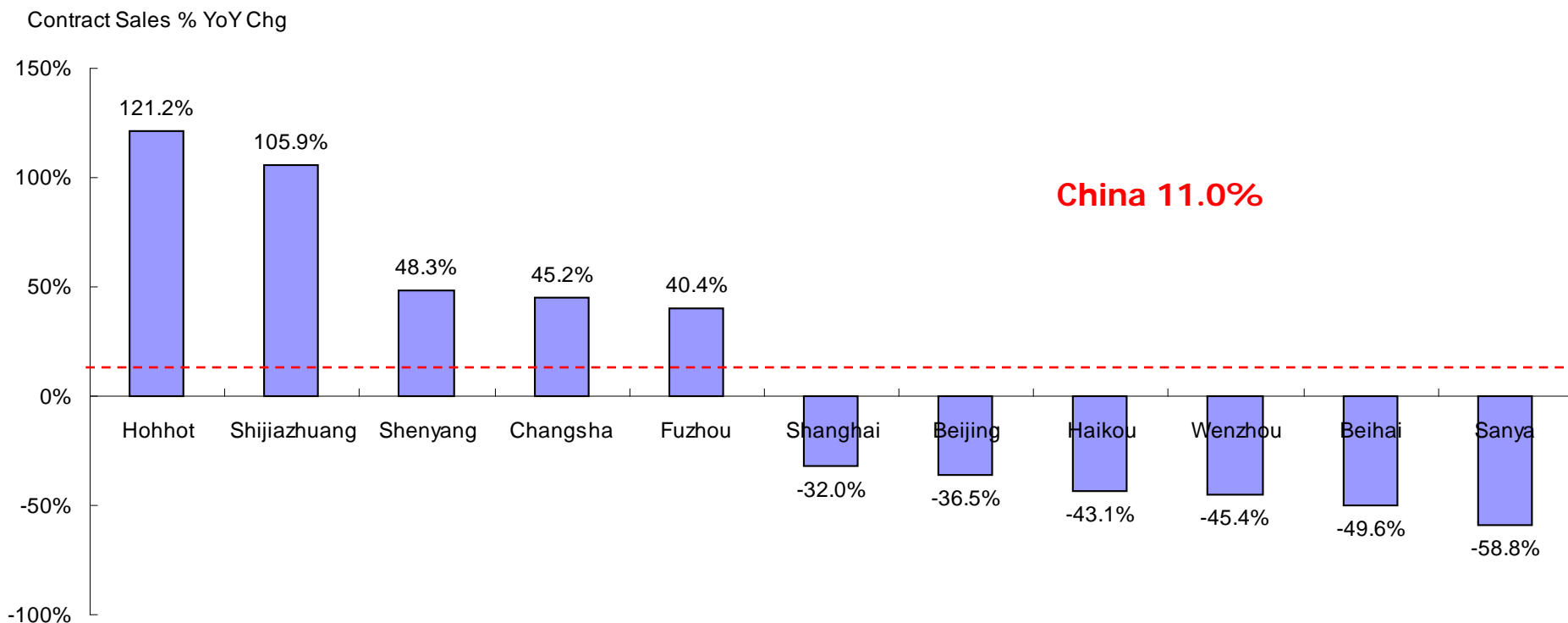
Industry Fundamentals – Affordability Ratio



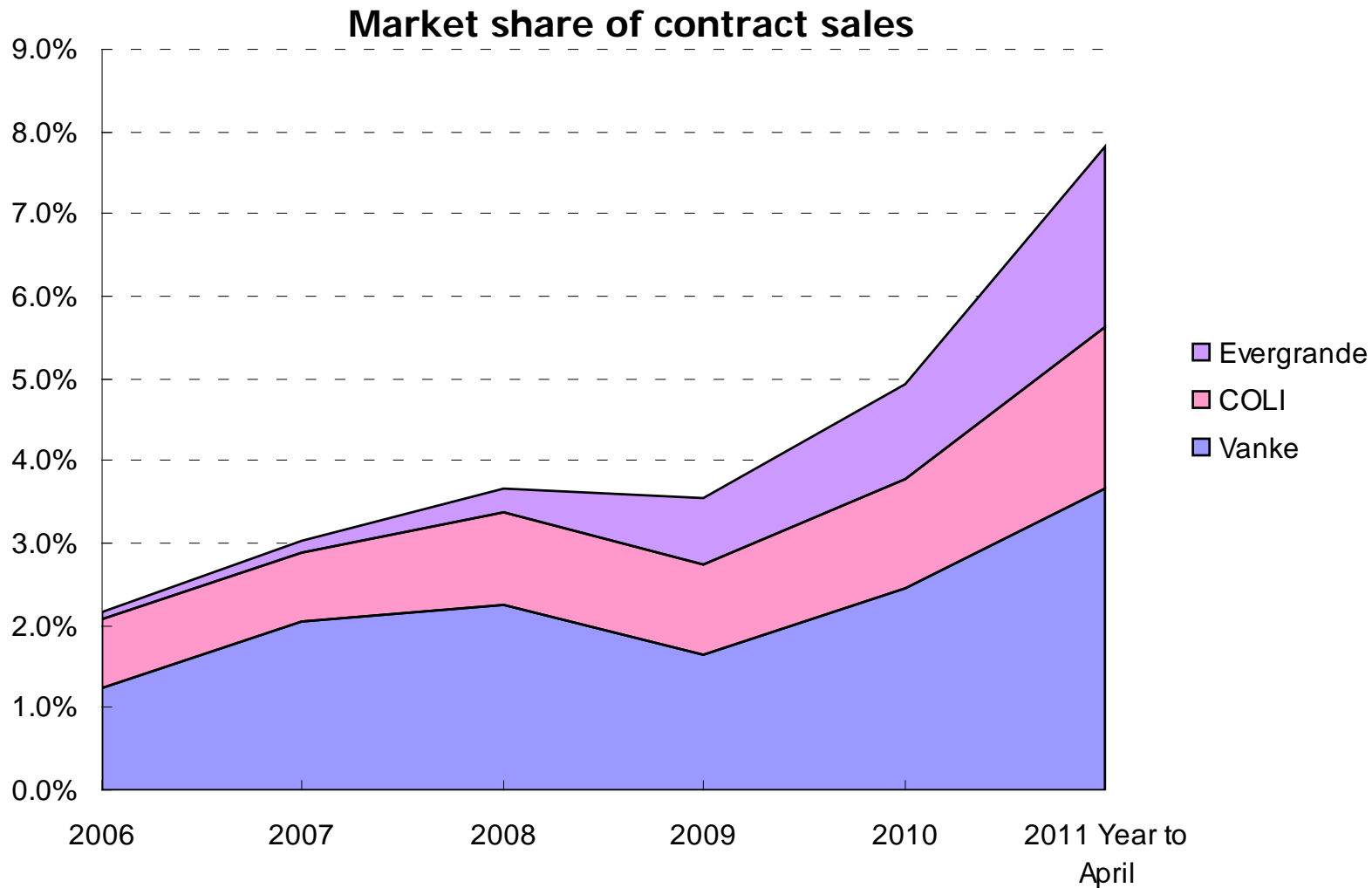
Industry Fundamentals – Market players (D&ECM)



Industry Fundamentals – 2011 YTD to Apr. Differing sales



Industry Fundamentals – the big get bigger



Industry Fundamentals – Policies: P P L

- ❖ Purchase restrictions
- ❖ 限购令
- ❖ Targeted at investors and speculators
- ❖ Typically in city centre
- ❖ Requires **proof** of residency: tax or social security contribution
- ❖ Price restrictions
- ❖ 限价细则
- ❖ Central government measures aimed at price cuts
- ❖ **BUT** all cities focused on narrowing growth range than reversing growth trend
- ❖ Most cities target rate below local GDP growth and per capita disposable income growth
- ❖ Loan restrictions
- ❖ 限贷
- ❖ 1st property
 - ◆ 30% down payment
 - ◆ >0.85x benchmark rates
- ❖ 2nd property
 - ◆ 50% down payment
 - ◆ >1.1x benchmark rates
- ❖ 3rd property
 - ◆ No loan available



Industry Fundamentals – Policies: Taxes post 28th Jan'11

❖ Chongqing 重庆

- ◆ aimed primarily at detached villas, higher end residential housing with selling price over twice the city's housing ASP and second homes of non local residents.
- ◆ progressive tax scheme with annual tax rates ranging from 0.5% to 1.2% based on the sales amount of the housing unit.
- ◆ deductible area of 100 sq m for new purchases per household will be applied.

❖ Shanghai 上海

- ◆ second and subsequent homes made after 28th Jan'11 will be levied an annual holding tax of 0.4-0.6% **on 70% of the sales value**.
- ◆ deductible area of 60 sq m per person will be applied (existing homes are included in the calculation of deductible areas).
- ◆ upgraders selling original home within one year of their purchase are exempt from tax.

❖ Nationwide

- ◆ sales tax will be levied on individuals that sell residential properties of:
- ◆ 1) any kind within five years after purchase at the full sales proceed;
- ◆ 2) non-ordinary properties after five years of purchase at net proceed after deducting purchase cost.
- ◆ 3) Sales of ordinary properties after five years will not be affected.



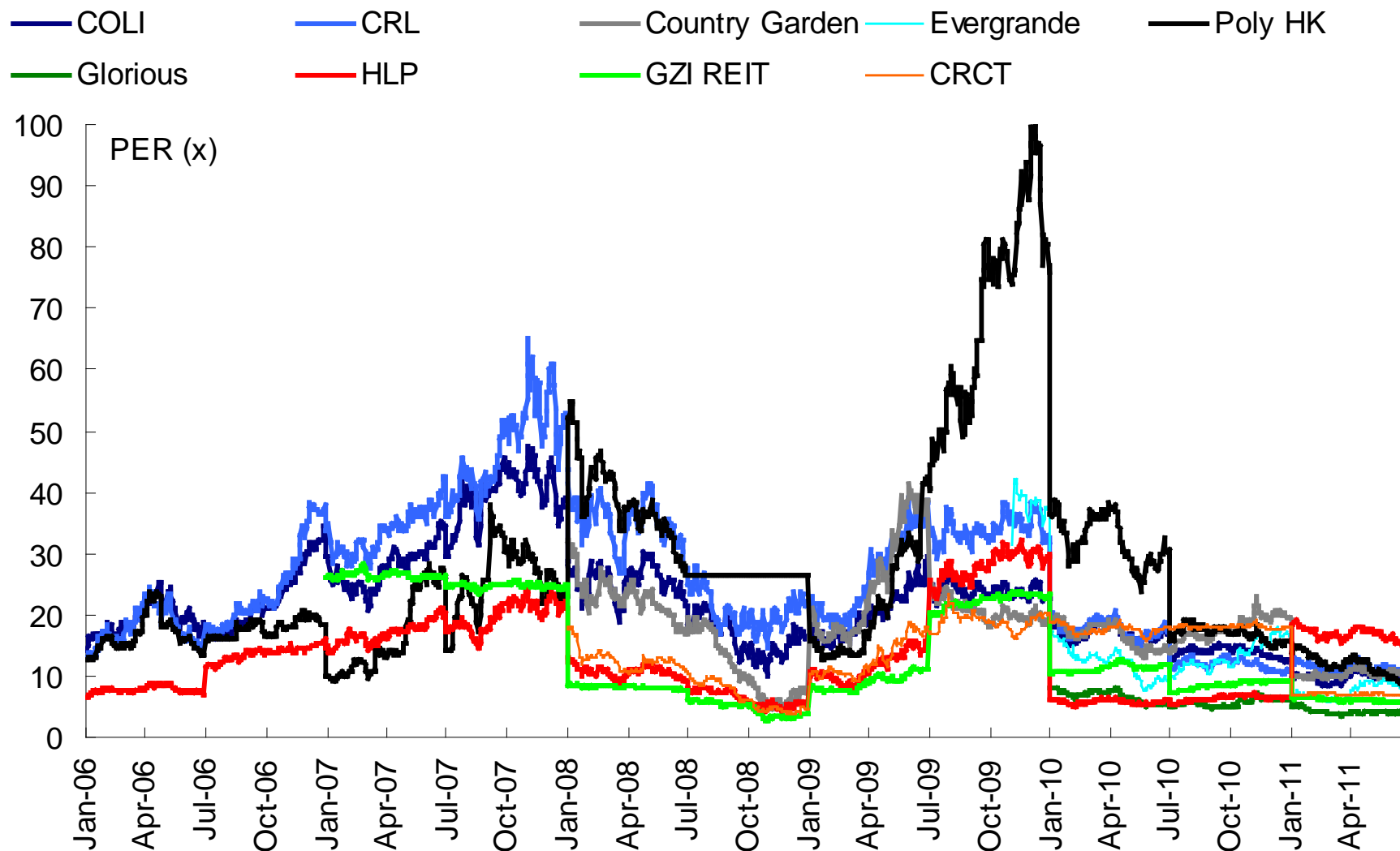
Industry Fundamentals – Policies: Affordable housing

Home Purchase Restriction In Major Cities		
	Implemented	Non
Municipalities	Beijing, Shanghai, Tianjin	Chongqing
Cities under separate state planning	Dalian, Ningbo, Xiamen, Qingdao, Shenzhen	
Provincial Capital Cities	Shijiazhuang, Taiyuan, Shenyang, Changchun, Harbin, Nanjing, Hangzhou, Nanchang, Jinan, Wuhan, Guangzhou, Nanning, Haikou, Chengdu, Guiyang, Kunming, Xi'An, Yinchuan, Hefei, Fuzhou, Zhengzhou, Changsha, Urumqi, Xining, Lanzhou, Hohhot	Lasah
Other Major Cities	Sanya, Wuxi, Foshan, Suzhou, Wenzhou	

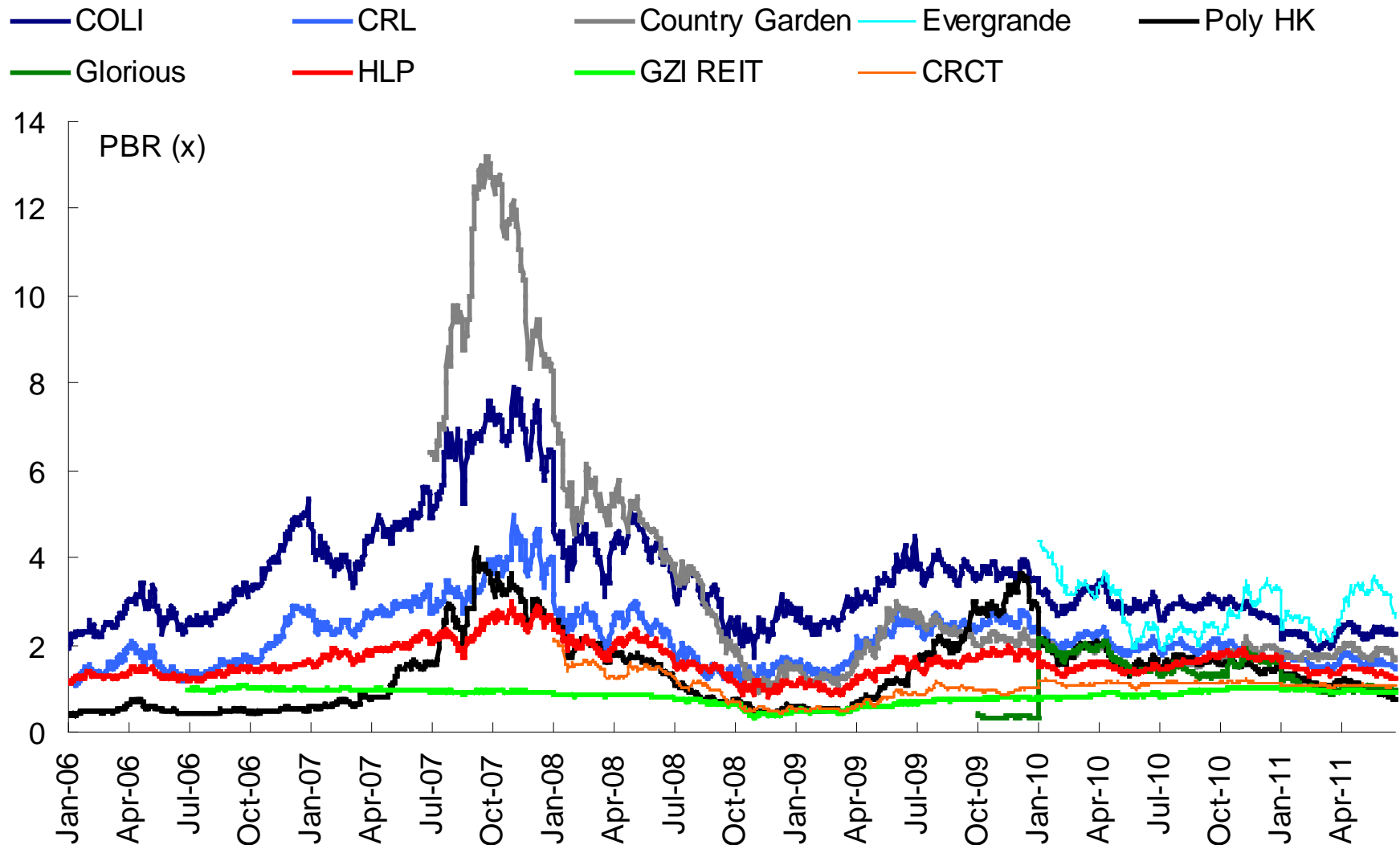
Source: Centaline, Soufun



Valuation – Conventional: PE, PB, RNAV etc



Valuation – Conventional: PE, PB, RNAV etc



Valuation – PE: income approach, AM (conversion)



Valuation – Others: cost, market, income, Distressed: discount to

- ❖ What is value?
- ❖ Whose perspective?
- ❖ Nothing is static, and many moving parts!

***KEY* is understanding cash flow**



Investment – Risks and Returns: Policies

❖ In Place

- ◆ Purchase restrictions
- ◆ Tighter loan policies
- ◆ Affordable housing
- ◆ Taxes

❖ In the future



Investment – Risks and Returns: where are the surprises?

❖ CATALYSTS

- ❖ A satisfactory solution to the PIGS crisis
- ❖ Strong recovery in key export markets
- ❖ QE 3

❖ CURVE BALLS

- ❖ Macro Economic
 - ◆ Social instability
 - ◆ Economic slowdown
 - ◆ Broad base credit tightening
- ❖ Industry
 - ◆ Increase land supply
 - ◆ Tighter financing measures
 - ◆ Real estate taxes
- ❖ Company Specific
 - ◆ Gearing
 - ◆ Interest cover
 - ◆ Cash flow from sales



Investment Alternatives: More and more synthetics

CB Details		Synthetic Assumptions		Computations	
CB issue	US\$500mn <i>HK\$3887mn</i>	Spot	HK\$12.460	Value of synthetic (mn)	HK\$470.332
Coupon	4%	Strike	HK\$18.256	Theoretical value of bond (mn)	HK\$3,417
Strike	HK\$18.256	Period	1,825	Value of bond at maturity (mn)	HK\$3,887
ESU (mn)	212.92	Interest	0.20%	Yield gap	13.77%
		Dividend	2.34%	Annualized yield gap	2.75%
		Volatility	40%		
		Unit Value	HK\$2.209	Cost of debt	6.753%

Agile issues a US\$500mn 4.0% CB due 28th April 2016

Conversion price at HK\$18.256

FX rate: US\$1.00 = HK\$7.774

Bonds to bear interest on 28th Apr and 28th Oct each year commencing 28th Oct 2011

Split CB into a straight bond and synthetic

Synthetic to yield 212,916,301 new shares

Synthetic valued at HK\$470mn

Bond valued at HK\$3,416mn

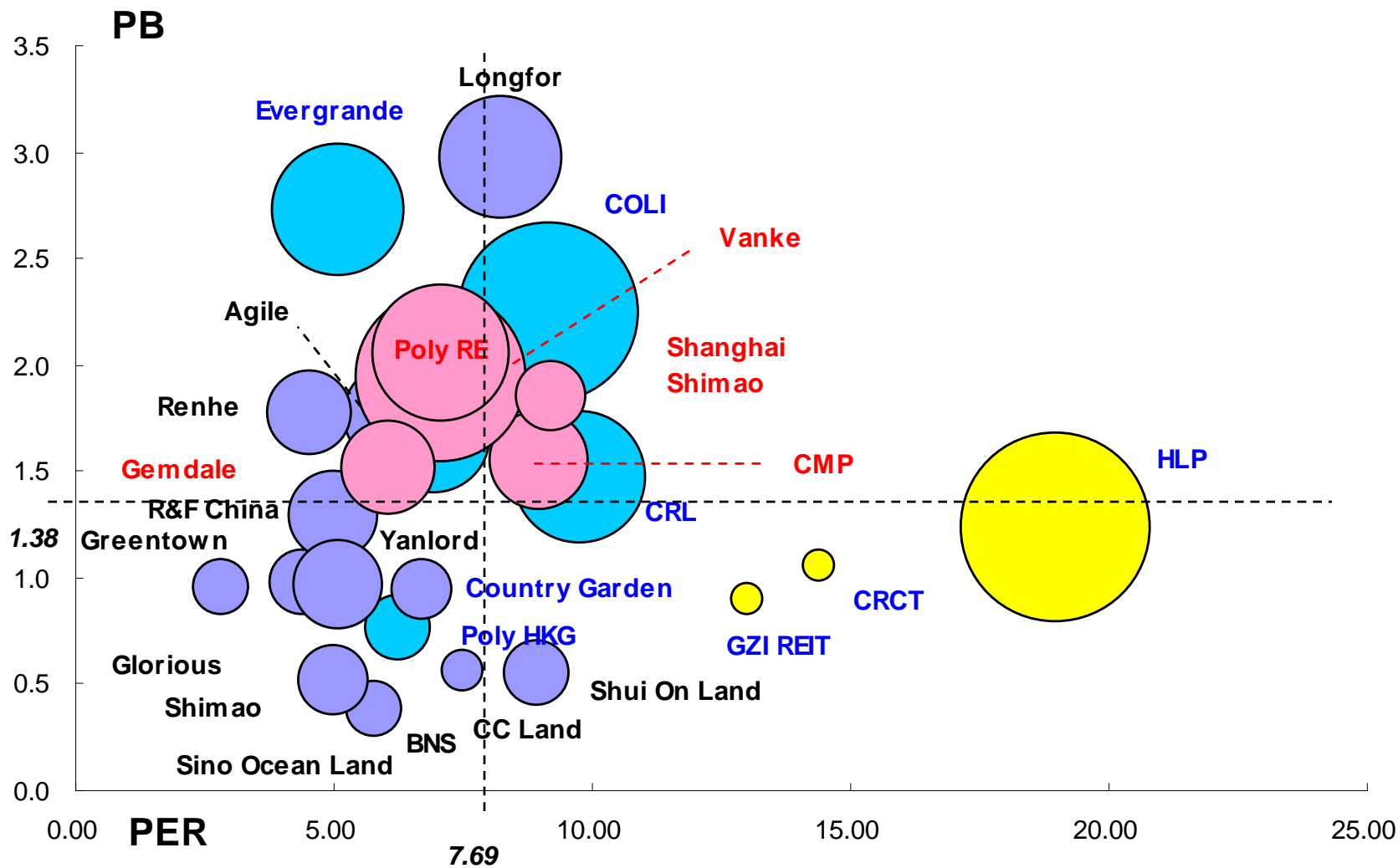
Effective yield to Agile Property is 6.75% p.a.

Dilution of 5.78% of enlarged share capital or 6.13% of existing share capital.

Premium to CP is 40% over closing price of HK\$13.04 of issue date, or 46.5% of close on 7th Apr'2011



Valuation – In Perspective



Forecasts – The Matrix Revolutions (TSR vs γ)

Company	Metrics	Mkt Cap USD	Price (HC)		Returns (%)			Volatility (%)	Sharpe Ratio	PER (x)		
			Last	Target	Stk app'n	Dvd yld	TSR			FY11	FY12	FY13
CHINA OVERSEAS	688 HK	15,723	15.00	23.50	56.67	1.71	58.37	33.12	1.64	9.0	9.2	4.4
CHINA RES LAND	1109 HK	8,666	12.54	20.90	66.67	2.65	69.32	34.64	1.89	9.8	8.4	6.4
COUNTRY GARDEN	2007 HK	6,361	2.97	3.80	27.95	3.41	31.35	39.91	0.69	11.0	9.1	6.7
EVERGRANDE REAL	3333 HK	8,677	4.51	6.35	40.80	1.34	42.14	50.60	0.75	7.6	6.5	4.7
GLORIOUS PROPERT	845 HK	2,219	2.22	3.10	39.64	1.94	41.58	45.96	0.82	5.1	4.0	3.3
POLY HONG KONG	119 HK	2,138	4.62	10.50	127.27	2.01	129.28	34.14	3.67	7.8	6.8	5.0
GZI REIT	405 HK	541	3.96	5.00	26.26	6.82	33.08	9.80	2.97	13.9	13.4	12.8
HANG LUNG PROPER	101 HK	16,946	29.55	40.00	35.36	2.23	37.60	23.80	1.41	47.7	21.8	17.5
CAPITARETAIL	CRCT SP	629	1.24	1.45	16.94	6.37	23.31	14.85	1.30	17.4	15.4	14.9

Note:

Risk free rate 3.99%

Source: Bloomberg and Yuanta Research estimates



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