

COMPANY NOTE

Target | Estimate Change

China | Property | China Property

5 June 2015

Jefferies

Shenzhen Investment Ltd. (604 HK) One Mission Completed, Another Mission On the Way; Reiterate Buy

Key Takeaway

In our view, share placing done by SZI differs from most of its peers given the preparation for value-accretive acquisitions. Fundamentally, its financial strength was enhanced with the expected net gearing to fall below 60% post the equity issue. The increased free float should also compel investment flow into the stock. Reiterate Buy with parent injection as the key catalyst.

HK\$2.77bn share placement for projects acquisition: SZI issued 670mn new shares at HK\$4.13 (9.6% discount to the last price prior to the placement) to raise HK\$2.77bn. The issue represented 9.98% of the existing share capital, and parent's stake will be reduced to 60.7% from 66.7% after the deal. Based on SZI, the proceeds will be used for operation including acquisitions of projects in Shenzhen. With the enlarged equity base, its net gearing will also improve to below 60% from 70% previously on our estimate.

Enhanced financial strength = NAV expansion potential: Under the backdrop of SOE asset securitization, SZI targets to take up 2mn sqm GFA Shenzhen land resources from parent over the coming 2-3 years. The improved leverage level suggests a high flexibility to prepare for asset injection. In our view, the parent may inject Huangbeiling project (saleable GFA: 150k sqm) in near term, as it will begin presale in September. Over Rmb6bn sales will be generated. Based on SZI track record, we expect the injection will be NAV-accretive and sharpen company future profitability.

Robust sales to continue: As of May, SZI's contracted sales amounted to Rmb4.4bn, up 83%yoy, the highest growth in the sector. Including another Rmb2.8bn sales subscription, it has locked in 65% of its Rmb11bn sales target. We believe SZI will beat its target significantly, thanks to higher-than-expected home prices in Shenzhen. For instance, the ASP of Tanglang City reached Rmb40k/sqm, 30% over its initial plan. Strong momentum will continue when it launch the LOFT of Upperhills (Rmb8.5bn saleable resource) and Rose Garden (Rmb2.5bn) in 2H.

Raised TP on ASP rise: To mark to current market price, we adjusted up our ASP assumptions in Shenzhen by 20%. Our NAV estimate is cut to HK\$7.3/sh (prev. 7.5) due to share issue. We narrowed down target discount to 30% from 35% on strong NAV realization and strengthened financial position.

Valuation/Risks

We raised our TP from HK\$4.9 to HK\$5.1, based on a 30% disc to NAV of HK\$7.3 (up 3%) .Key risks: lower-than-expected presales and unexpected economic turmoil.

HKD	Prev.	2013A	Prev.	2014A	Prev.	2015E	Prev.	2016E
Rev. (MM)	--	9,779.0	--	13,827.0	--	14,022.0	--	16,325.0
Core Earnings (MM)	--	1,787	--	1,624	2,231	2,252	2,282	2,323
BV/Share	--	5.46	--	5.22	4.75	4.91	4.91	4.83
P/B		0.8x		0.8x		0.8x		0.9x
Dividend	--	0.19	--	0.16	0.17	0.16	0.18	0.16
Div. Yield		4.61%		3.88%		3.88%		3.88%
EPS								
FY Dec	--	0.38	--	0.28	0.34	0.32	0.34	0.32
FY P/E		10.8x		14.7x		12.9x		12.9x

BUY

Price target HK\$5.10
(from HK\$4.90)
Price HK\$4.12

Bloomberg: 604 HK
Reuters: 0604.HK

Financial Summary

Net Debt (MM): HK\$22,834.0

Market Data

52 Week Range: HK\$4.66 - HK\$2.08

Total Entprs. Value (MM): HK\$50,256.7

Market Cap. (MM): HK\$27,422.7

Shares Out. (MM): 6,656.0

Float (MM): 2,225.1

Avg. Daily Vol.: 34,333,760

Venant Chiang *

Equity Analyst

+852 3743 8013 venant.chiang@jefferies.com

Parvani Zheng *

Equity Analyst

+852 3743 8019 pzheng@jefferies.com

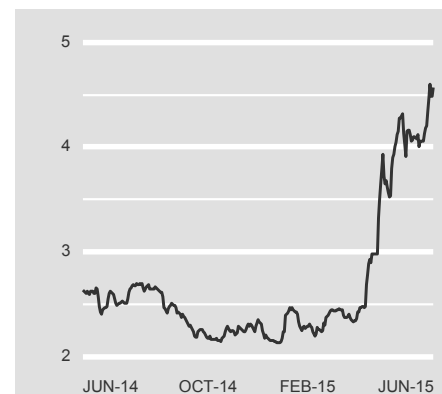
Michael He *

Equity Analyst

+852 3743 8026 mhe@jefferies.com

* Jefferies Hong Kong Limited

Price Performance



Attractive Asset Injection Ahead

As the largest developer under SZ government, SZI holds 1.7mn sqm land bank in SZ, 1.1mn sqm land under application for redevelopment, and owns good pipeline to fetch lands along MTR line and in Qianhai with cooperation of SZ MTR and SZ international.

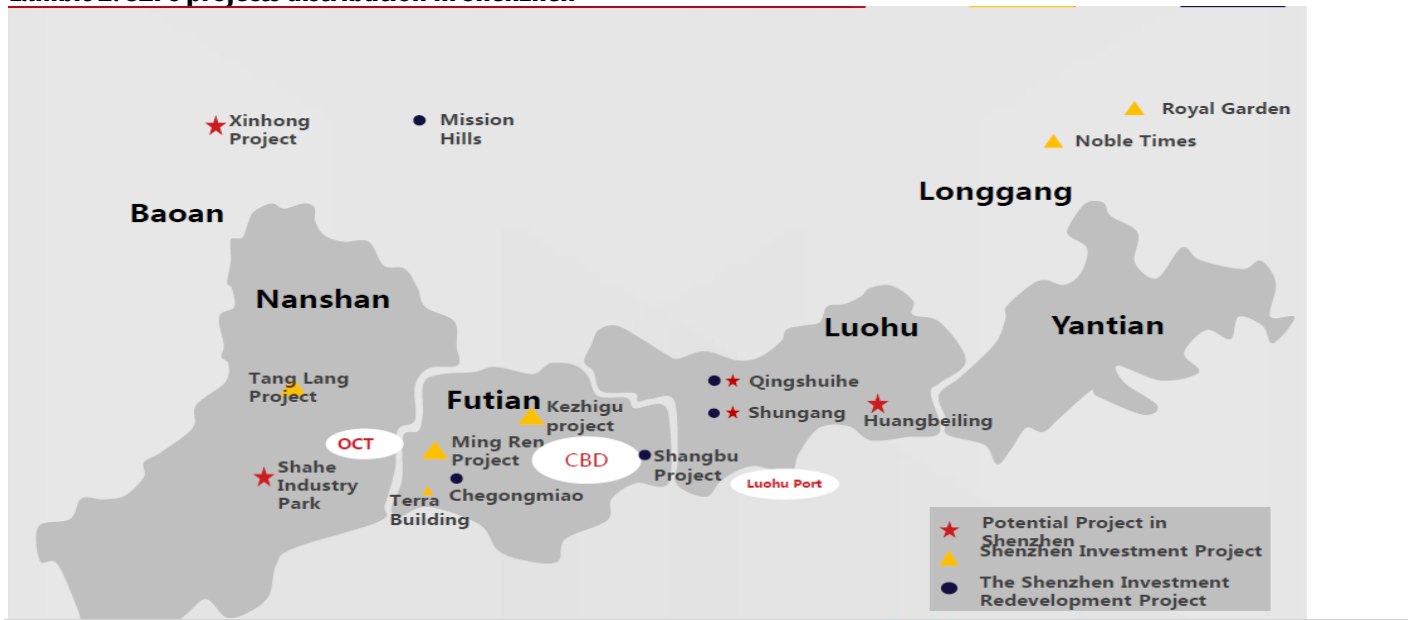
Nevertheless, SZI's parent company Shum Yip Group undertakes large amount of redevelopment projects in Shenzhen Old Town. At present, the parent holds 2mn sqm land reserve in Shenzhen, with 0.7mn sqm under construction and 1.3mn sqm under demolition/planning. Huangbeiling project is expected to launch in the year-end with GFA available for sale of 150k sqm at ASP around Rmb40k/sqm. Against the backdrop of asset securitization and improve company's efficiency, SZI is likely to have all these land plots injected in the coming 2-3 years, in our view.

Exhibit 1: Parent's landbank in Shenzhen

Project	Total GFA (000 sqm)	Progress
Huangbeiling	394	Expected to launch in September 2015
Qingshuihe logistic redevelopment	126	Under construction
Sungang logistic redevelopment	120	Under construction planning
Shahe Century Vally	700	Under construction planning
Shahe industrial park	133	Under construction
Shahe Hetang project	109	Under demolition
Shahe Jinsanjiao project	131	Under planning of redevelopment
Xinghongcheng project	272	Under planning of redevelopment
Total	1,985	

Source: Company data, Jefferies

Exhibit 2: SZI's projects distribution in Shenzhen



Source: Company, Jefferies

Enhanced financial strength= NAV expansion potential

Against the background of SOE reform and asset securitization, SZI targets to take 2mn sqm GFA Shenzhen land from parent in the coming 2-3 years. We see the enlarged share capital represent more potential to raise debt for asset injection ahead. In our view, the parent may inject Huangbeiling project (saleable GFA: 150k sqm) in near term, as it is available for sale in September, which would contribute over Rmb6bn sales. Based on its track records, we expect valuation accretive injection to enhance NAV as well as sharpen future profitability.

Exhibit 3: Historical asset injection

	Asset injection	Consideration (Rmb bn)	Settlement	Implied cost for injected land (Rmb/sqm)	ASP(Rmb/sqm)	Status
Jan 2014	Bio-Agriculture Group	5.60	50% settled by cash and 50% by share issuance to the parent at HK\$3.29/sh, 21.7% premium to the last closing price	26,000	80,000	Expected to launch in 2016
Jan 2013	Upperhills	4.15	100% by issue shares at HK\$3.67/share to the parent, 9.1% premium to the last closing price	12,000	70,000	Launched in 2013

Source: Company data, Jefferies

Exhibit 4: Historical asset injection comparison

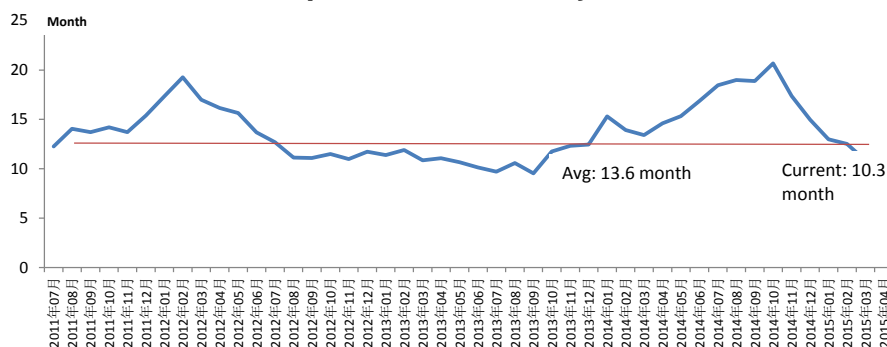
Company	Date	Nature of transaction	vs. last trading price	vs. 5d avg bf.	vs. 10d avg bf.
COLI	Mar-15	Issue of consideration shares to fund acquisition	10.8%	14.5%	15.2%
CR Land	Dec-14	Issue of consideration shares to fund acquisition	-8.6%	-8.6%	7.2%
Joy City (207 HK, NC)	Aug-14	Issue of consideration shares to fund acquisition	4.7%	3.6%	2.6%
Shenzhen Investment	Jan-14	Issue of consideration shares to fund acquisition	23.3%	17.0%	16.7%
Sino-Ocean	Jan-14	Subscription of shares to fund acquisition	1.7%	1.4%	0.5%
Joy City	Sep-13	Issue of consideration shares and placement of new shares to fund acquisition	-42.9%	-39.2%	-38.3%
Shenzhen Investment	Jan-13	Issue of consideration shares to fund acquisition	9.1%	9.3%	8.7%
Median			4.7%	3.6%	7.2%

Source: Company data, Jefferies

Edge on Shenzhen focus

As the city of innovation and financial reform spearhead, Shenzhen is one of the best property markets in China when we consider the rapid recovery and its future roadmap. Despite being a small player today, we believe Shenzhen Investment will capitalize on the visible growth plan that backed on unprecedented policy support. Lingering home undersupply, land shortage and rising home price should directly benefit SZI, as its 70% saleable resource are in Shenzhen.

Exhibit 5: No. of Month required to clear inventory in Shenzhen



Source: Jefferies, CRIC, local government

Exhibit 6: Home transaction data in Shenzhen

	New home sold (mn sqm)	Consideration (Rmb bn)	ASP (Rmb/sqm)	Secondary home sold(mn sqm)	New supply (mn sqm)
2012	4,088,412	69.34	16,960	5,709,000	7,313,658
2013	5,283,234	94.8	17,943	8,654,700	7,813,384
2014	4,897,422	96.63	19,730	5,700,100	8,119,343
As of Apr 15	2,101,423	47.3	22,509	3,087,000	1,824,038

Source: Jefferies, CRIC, local government

Exhibit 7: Key measures to advance financial reform in Shenzhen

#1 Cross-border financial service innovation

Explore a new mode of RMB and foreign currencies account management
Absorb offshore RMB bank deposits from foreign institutions
Attract more foreign enterprises setting up financial settlement center in SZ

#2 Deepening financial cooperation between SZ and HK

Aims for a quick launch of the pilot SZ-HK stock connect
Have more HK institutions set up joint securities ventures in Qianhai
Further promote QFLP and QDIE pilots*

#3 Completing a modern financial organization system

Promote qualified financial institutions to develop innovative financial services
Explore a collaboration mechanism on internet finance supervision
Establish relevant rating system of small/micro loan market

#4 Boosting integration of financing and other industries

Broaden credit support to enterprises in high-tech/emerging industries
Promote the listing of high-tech/TMT companies in ChiNext
Encourage financing institutions to provide low-cost guarantee service to small/micro enterprises

#5 Create a sound environment for financial reform and innovation

Formulate the "13th Five Year Plan" of Shenzhen financial reform
Implement financial reform in FTZs and Shekou FTZ is the pilot

Source: Media reports, Jefferies. *QFLP: Qualified Foreign Limited Partner and QDIE: Qualified Domestic Investment Enterprise

Valuation

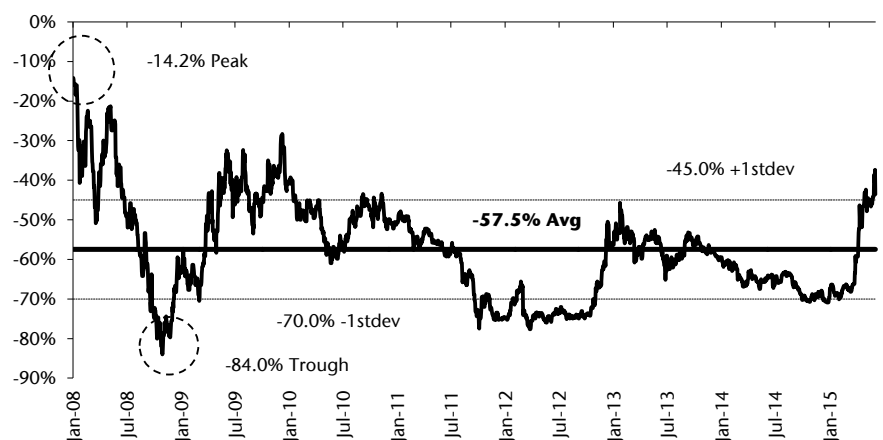
SZI has traded at an average of 58% discount to NAV since 2008, ranging from 14.2% discount to 84% discount. In light of current market price, we raised up our ASP assumption in Shenzhen by 20%. Given share placement, our NAV estimation shrank to HK\$7.3/sh (prev. 7.5). We narrowed down NAV discount to 30% from 35% on its financial position improvement. Reiterate Buy with TP of HK\$5.1/sh.

Exhibit 8: NAV breakdown

WACC (9.3%)	NAV (HK\$ mn)	NAV/share (HK\$)
Development property	60,234	8.6
Investment property	12,364	1.8
Net cash/(debt)	-21,470	-3.1
Net asset value	51,127	7.3

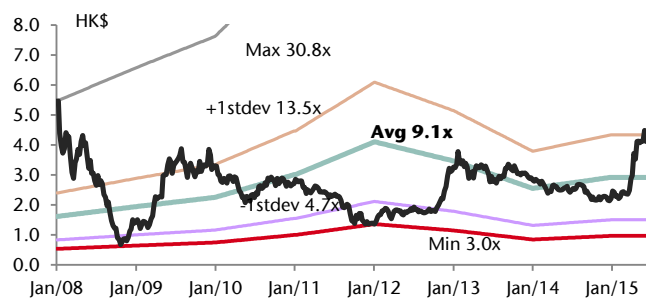
Source: Jefferies estimates

Exhibit 9: Historical NAV premium/discount



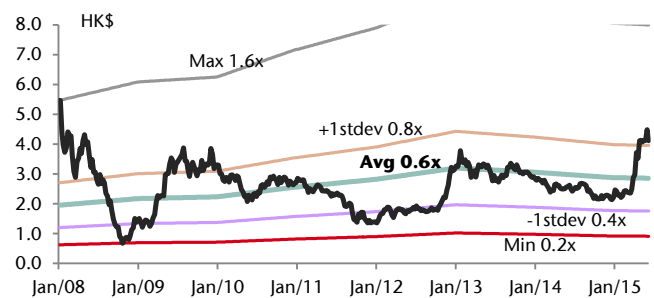
Source: Jefferies, Bloomberg as of Jun 5, 2015

Exhibit 10: PE Band



Source: Jefferies, Bloomberg as of Jun 5, 2015

Exhibit 11: PB Band



Source: Jefferies, Bloomberg as of Jun 5, 2015

Exhibit 12: Valuation Table

Company	Ticker	Price*	Mkt Cap US\$ mn	Rating	Tgt Price *	Upside /Down	NAV*	Disc /prem.	PE			PB			DY		
									2013	2014	2015E	2013	2014	2015E	2013	2014	2015E
COLI	688 HK	28.40	36,119	Buy	33.8	19%	33.8	-16%	12.2	9.8	9.7	2.1	1.7	1.4	1.7	1.9	2.1
CR Land	1109 HK	25.10	22,438	Buy	29.0	16%	30.5	-18%	15.5	12.4	12.3	1.7	1.5	1.3	1.8	2.0	2.0
Vanke H	2202 HK	20.40	27,865	Buy	20.6	1%	24.2	-16%	11.9	11.4	10.1	2.3	2.0	1.8	2.5	3.1	3.5
Average of large developers						12%		-16%	13.2	11.2	10.7	2.1	1.8	1.5	2.0	2.3	2.5
Longfor	960 HK	12.52	9,409	Buy	14.5	16%	20.7	-40%	8.9	8.3	8.1	1.5	1.1	1.0	2.3	2.8	2.9
Sino Ocean	3377 HK	5.31	5,154	Buy	6.6	24%	10.9	-51%	8.5	8.9	10.9	0.7	0.8	0.8	4.3	4.5	4.5
Evergrande	3333 HK	5.02	9,596	Hold	3.6	-28%	8.9	-44%	6.8	7.0	6.6	1.3	1.2	1.0	10.7	10.7	6.0
CGH	2007 HK	3.55	10,342	Hold	3.3	-7%	6.6	-46%	6.0	5.9	6.3	1.2	1.0	0.9	6.0	5.2	6.3
Greentown	3900 HK	10.72	2,988	Hold	9.0	-16%	17.9	-40%	4.2	10.7	7.7	0.7	0.8	0.7	5.0	0.0	2.6
Shimao	813 HK	16.66	7,462	Hold	15.9	-5%	29.0	-42%	6.3	5.8	6.1	1.1	1.0	0.9	4.8	5.4	5.2
Sunac	1918 HK	9.21	4,037	Hold	9.1	-1%	15.1	-39%	7.0	6.7	5.9	1.8	1.5	1.2	2.6	2.6	3.0
R&F	2777 HK	9.43	3,919	U/P	8.1	-14%	18.0	-48%	4.1	6.1	5.4	0.7	0.7	0.6	8.2	0.0	0.0
Agile	3383 HK	5.92	2,991	U/P	3.9	-34%	13.1	-55%	3.7	4.3	5.7	0.6	0.5	0.5	8.0	6.8	5.1
Average of medium developers						-7%		-45%	6.2	7.1	7.0	1.1	0.9	0.9	5.8	4.2	3.9
CIFI	884 HK	2.06	1,798	Buy	2.7	31%	4.7	-56%	6.3	5.2	4.6	1.1	1.0	0.8	3.4	5.3	6.3
COGO	81 HK	4.15	1,222	Buy	7.6	83%	12.7	-67%	3.8	4.6	4.5	0.8	0.7	0.6	2.7	2.2	2.2
Franshion	817 HK	2.99	3,498	Buy	2.6	-13%	4.8	-38%	11.1	9.1	9.3	0.9	0.8	0.8	3.2	4.0	3.7
KWG	1813 HK	7.67	2,916	Buy	8.5	11%	14.1	-46%	7.6	7.0	6.5	1.0	0.9	0.8	4.7	5.4	5.7
SZI	604 HK	4.12	3,566	Buy	5.1	24%	7.3	-44%	10.8	14.7	12.9	0.8	0.8	0.8	4.6	3.9	3.9
Soho	410 HK	5.23	3,507	Hold	5.5	5%	7.8	-33%	5.1	12.3	26.2	0.6	0.6	0.6	6.0	6.0	3.8
Hopson	754 HK	8.25	2,386	Hold	7.5	-9%	24.9	-67%	7.4	9.2	15.9	0.3	0.3	0.3	0.0	0.0	0.0
Poly Property	119 HK	4.29	2,026	Hold	4.1	-4%	8.2	-48%	7.7	39.0	13.0	0.5	0.5	0.5	5.2	1.8	2.3
Powerlong	1238 HK	2.00	1,031	Hold	1.2	-40%	3.1	-35%	6.4	5.9	5.5	0.4	0.4	0.3	0.0	3.1	3.7
Renhe	1387 HK	0.98	4,010	U/P	0.4	-59%	0.7	40%	N/A	N/A	N/A	0.8	0.8	N/A	0.0	0.0	0.0
Yanlord	YLLG SP	1.16	1,670	U/P	0.87	-25%	1.9	-40%	9.0	11.8	10.9	0.6	0.5	0.5	1.1	1.1	1.1
Average of niche developers						0%		-40%	7.8	11.8	9.2	0.7	0.7	0.6	2.5	2.7	2.9
HK listed average						0%		-39%	7.7	9.7	9.2	1.0	0.9	0.8	4.0	3.5	3.4
Vanke A	000002 CH	15.57	27,865	Buy	16.5	6%	19.4	-20%	11.4	10.9	9.6	2.2	1.9	1.7	2.6	3.2	3.7
CMP A	000024 CH	31.96	12,157	Hold	21.0	-34%	26.2	22%	19.6	19.4	19.5	3.1	2.6	2.4	1.0	1.0	1.0
Gemdale	600383 CH	15.06	10,905	U/P	7.1	-53%	11.8	28%	28.4	26.9	22.5	2.3	2.2	2.0	1.1	1.1	1.1
China Listed Average						-27%		10%	19.8	19.1	17.2	2.5	2.3	2.0	1.6	1.8	1.9
Overall Average						-4%		-33%	9.2	10.9	10.2	1.2	1.1	1.0	3.6	3.2	3.1

Source: Bloomberg as of Jun 5, 2015, Jefferies, *Trading currency

Exhibit 13: Summary of Financials

Income statement						Cash flow statement					
HKD mn	2012	2013	2014	2015E	2016E	HKD mn	2012	2013	2014	2015E	2016E
Revenues	8,568	9,779	13,827	14,022	16,325	PBT ex. Exceptionals	3,702	5,077	5,854	4,323	4,795
COGS	(5,480)	(6,177)	(9,754)	(9,535)	(10,938)	Change in working cap.	(2,432)	(2,453)	(116)	(59)	(1,659)
Gross Profit	3,089	3,602	4,073	4,487	5,387	Others	(3,170)	(3,885)	(5,585)	(6,827)	(3,201)
SG&A	(1,003)	(991)	(1,412)	(1,435)	(1,671)	CF from operations	(1,900)	(1,260)	154	(2,562)	(64)
EBIT	2,747	3,319	4,209	4,136	4,258	Investment properties	(531)	(663)	(630)	(716)	(716)
Interest expense	(480)	(636)	(743)	(813)	(924)	Others	77	193	(2,171)	0	0
Associates	867	1,051	697	906	1,358	CF from investing	(454)	(471)	(2,800)	(716)	(716)
Other gains/adjustments	567	1,342	1,692	94	103	Free cash flow	(2,354)	(1,731)	(2,647)	(3,279)	(781)
PBT	3,702	5,077	5,854	4,323	4,795	Free cash flow per share	(0.65)	(0.37)	(0.45)	(0.47)	(0.11)
Tax	(1,142)	(1,976)	(2,349)	(1,821)	(2,029)	Equity financing	0	25	4	2,730	0
Minority	(404)	(363)	(375)	(250)	(443)	Debt financing	4,325	1,233	5,398	1,971	2,199
Net profit	2,156	2,738	3,131	2,252	2,323	Others	(335)	273	(914)	(1,180)	(1,208)
Net profit (core)	1,639	1,787	1,624	2,252	2,323	CF from financing	3,990	1,531	4,488	3,521	991
Shares outstanding (weighted)	3,640	4,644	5,840	6,991	7,326	Increase in cash and cash equivalents	1,636	(200)	1,841	243	210
EPS (core)	0.45	0.38	0.28	0.32	0.32	Beginning cash	5,098	6,734	6,534	8,375	8,618
DPS	0.18	0.19	0.16	0.16	0.16	Ending cash (ex. Restricted cash)	6,734	6,534	8,375	8,618	8,828
Balance sheet						Ratio Analysis (%)					
HKD mn	2012	2013	2014	2015E	2016E		2012	2013	2014	2015E	2016E
Investment properties	9,210	15,300	20,019	20,735	21,451	Gross Margin	36%	37%	29%	32%	33%
Others	4,958	5,600	6,761	6,761	6,761	Operating margin	32%	34%	30%	29%	26%
Associates	5,342	6,274	8,039	8,039	8,039	Net profit margin	19%	18%	12%	16%	14%
Total fixed assets	19,510	27,173	34,819	35,535	36,252	Sales growth	17%	14%	41%	1%	16%
Property under development	15,724	28,357	30,795	32,258	38,726	EBIT growth	43%	21%	27%	-2%	3%
Completed properties for sale	7,095	8,435	14,708	14,855	15,598	Net profit growth	40%	9%	-9%	39%	3%
Debtors & deposits	4,776	4,533	4,376	4,437	3,265	EPS growth	37%	-15%	-28%	16%	-2%
Bank balances & cash	7,168	7,461	9,657	9,900	10,110	BVPS	4.82	5.46	5.22	4.91	4.83
Others	119	932	150	150	175	Interest coverage (x)	4.1	4.2	4.2	3.0	3.1
Total assets	54,392	76,892	94,505	97,136	104,126	Net debt to total capital	44%	48%	41%	32%	39%
Current liabilities	20,019	30,817	34,843	30,995	31,121	Net debt to equity	78%	80%	75%	58%	74%
Long term debt	13,236	12,168	17,342	19,768	25,075	Sales/assets	18%	15%	16%	15%	16%
Other long term liabilities	0	1,221	1,764	1,764	1,764	Assets/equity	310%	303%	310%	283%	294%
Deferred income tax	1,627	5,107	7,782	7,782	7,782	ROA	3%	3%	2%	2%	2%
Long term liabilities	14,863	18,496	26,888	29,314	34,622	ROE	10%	8%	6%	7%	7%
Minority Interests	1,962	2,242	2,278	2,528	2,971	ROCE	5%	4%	3%	4%	3%
Shareholders' funds	17,548	25,338	30,496	34,298	35,413						
Total liabilities and equity	54,392	76,892	94,505	97,136	104,126						

Source: Company data, Jefferies

Company Description

Shenzhen Investment Limited, through its subsidiaries, develops and invests in properties, sells commercial and industrial goods, and provides transportation services.

Analyst Certification:

I, Venant Chiang, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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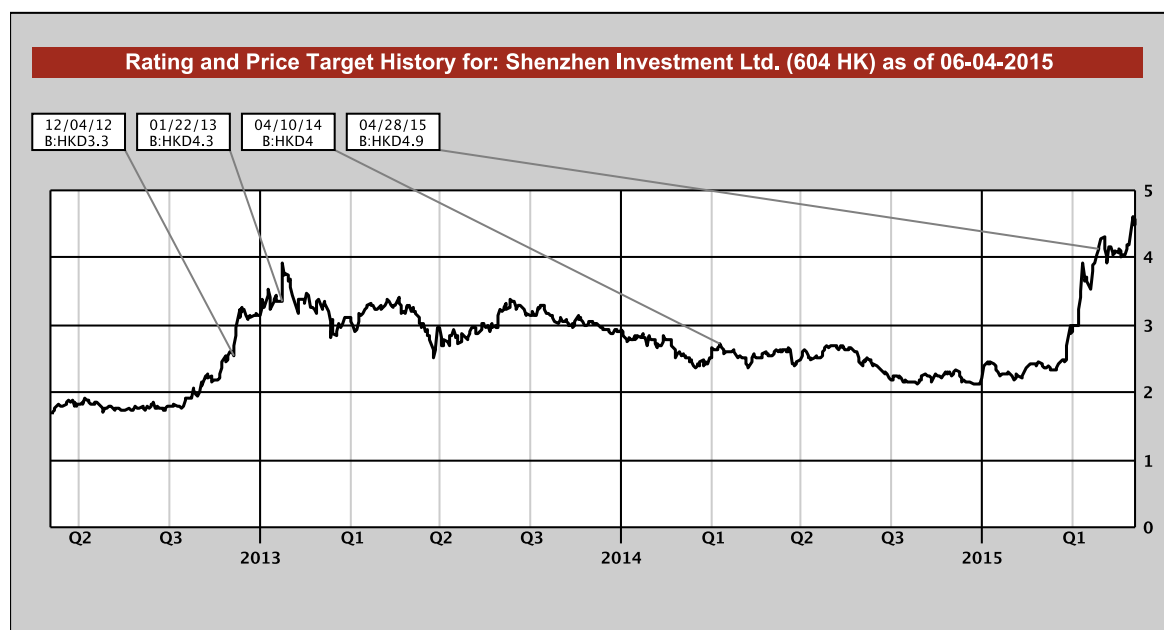
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Other Companies Mentioned in This Report

- Agile Property Holdings Ltd. (3383 HK: HK\$5.92, UNDERPERFORM)
- China Merchants Property - A (000024 CH: NA, HOLD)
- China Overseas Grand Oceans (81 HK: HK\$4.15, BUY)
- China Overseas Land & Investment (688 HK: HK\$28.40, BUY)
- China Resources Land Ltd. (1109 HK: HK\$25.10, BUY)
- China Vanke Co. Ltd. - A (000002 CH: CNY15.57, BUY)
- China Vanke Co. Ltd. - H (2202 HK: HK\$20.40, BUY)
- CIFI Holdings Co. Ltd. (884 HK: HK\$2.06, BUY)
- Country Garden Holdings Co. (2007 HK: HK\$3.55, HOLD)
- Evergrande Real Estate Group (3333 HK: HK\$5.02, HOLD)
- Franshion Properties (817 HK: HK\$2.99, BUY)
- Gemdale Corp. - A (600383 CH: CNY15.06, UNDERPERFORM)
- Greentown China Holdings (3900 HK: HK\$10.72, HOLD)
- Guangzhou R&F Properties - H (2777 HK: HK\$9.43, UNDERPERFORM)
- Hopson Development Holdings (754 HK: HK\$8.25, HOLD)
- KWG Property Holdings (1813 HK: HK\$7.67, BUY)
- Longfor Properties (960 HK: HK\$12.52, BUY)
- Poly Property (119 HK: HK\$4.29, HOLD)
- Powerlong Real Estate Holdings Ltd. (1238 HK: HK\$2.00, HOLD)
- Renhe Commercial Holdings (1387 HK: HK\$0.98, UNDERPERFORM)
- Shimao Property Holdings Ltd. (813 HK: HK\$16.66, HOLD)
- Sino-Ocean Land Holdings (3377 HK: HK\$5.31, BUY)
- Soho China Ltd. (410 HK: HK\$5.23, HOLD)
- Sunac China Holdings Ltd (1918 HK: HK\$9.21, HOLD)
- Yanlord Land Group Ltd. (YLLG SP: SGD1.16, UNDERPERFORM)



Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY	1072	51.54%	295	27.52%
HOLD	841	40.43%	161	19.14%
UNDERPERFORM	167	8.03%	13	7.78%

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