Recommendation

BUY

HSI: 22,527.48
Last Price: HK$ 24.85
12-Mth Target Price: HK$29.50

HONG KONG

Conglomerate

Share Information

Ticker: 363.HK
Mkt Cap: HK$26.72bn
Shares outstanding: 1,075m
3-year EPS CAGR: 8.26%
PEG: 1.42
Net Cash: HK$6,226m
Ent value: HK$26.23bn
BVPS: HK$21.18
Price/BVPS: 1.17
Avg daily T/O: HK$65.69m
Estimated free float: 43.49%
ROE: 9.99%
ROA: 6.27%
52 week Range: HK$21.80/48.80
Major shareholder: SIIC – 51.06%

Source: Company, South China Research

Share Price Chart

Shanghai Industrial Holdings Limited is principally engaged in the business of real estate infrastructure facilities medicine and consumer products.

New Flash

Shanghai Industrial Holdings Limited announced the acquisition of two strategic assets from its parent company Shanghai Industrial Investment Holdings Co. Ltd. for a total consideration of approximately HK$5.546 billion. These assets include 87% interests of Shanghai Four Seasons Hotel and 100% interests of Hu-Hang Expressway (Shanghai section).

Analysis

We view this as a positive move as the company looks to expand its businesses. Shanghai is the heart of business development in China, hotels with the capacity to hold large business functions are rare. Thus the acquisition of the Shanghai Four Seasons hotel will enhance to company’s profit.

Earnings Review/ Forecast

In FY07 the company’s net profit grew 59.6% YoY, with an EPS of HK$1.87 and a dividend yield of 2.7%. Base on our earnings model we forecast an earnings growth of 12.4% and 10.5% in FY08 and FY09 respectively.

Valuation

We reiterate Shanghai Industrial Holdings as BUY with a target price of HK$29.50, which implies a forward FY08 P/E of 11.80, with an EPS of HK$2.11. We forecast a 12.4% and 10.5% YoY growth in the company’s EPS in FY08 and FY09 respectively.

Shanghai Industrial Holdings Limited is currently trading almost -2std away from its mean 1-year rolling forward mean P/E of 15.5X. At our target price of HK$29.50, it implies a 1-year rolling forward P/E of 11.8X, which is still below the mean P/E, thus we think it is under valued at the current time and at a very attractive level.

Price Sensitivity – Based on 1 year rolling forward PE band

Source: Company Data, South China Research

Important: please refer to our disclosures and disclaimers at the end of this report

Note: All prices in this report are based on the 22 July 2008 close
South China Financial Holdings Ltd

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EARNINGS DATA

Year to 31 December

<table>
<thead>
<tr>
<th></th>
<th>2007A</th>
<th>2008F</th>
<th>2009F</th>
<th>2010F</th>
</tr>
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<tbody>
<tr>
<td>Pre-ex Profit</td>
<td>HK$1,815</td>
<td>2,006</td>
<td>2,184</td>
<td>2,303</td>
</tr>
<tr>
<td>Pre-ex EPS</td>
<td>HK$1.69</td>
<td>1.87</td>
<td>2.04</td>
<td>2.15</td>
</tr>
<tr>
<td>Net profit</td>
<td>HK$2,007</td>
<td>2,256</td>
<td>2,492</td>
<td>2,657</td>
</tr>
<tr>
<td>Change</td>
<td>% +59.6</td>
<td>+12.4</td>
<td>+10.5</td>
<td>+6.6</td>
</tr>
<tr>
<td>EPS</td>
<td>HK$1.87</td>
<td>2.11</td>
<td>2.33</td>
<td>2.48</td>
</tr>
<tr>
<td>Change</td>
<td>% +59.6</td>
<td>+12.4</td>
<td>+10.5</td>
<td>+6.6</td>
</tr>
<tr>
<td>PER</td>
<td>X 13.3</td>
<td>11.8</td>
<td>10.7</td>
<td>10.0</td>
</tr>
<tr>
<td>DPS</td>
<td>HK$0.67</td>
<td>0.70</td>
<td>0.72</td>
<td>0.74</td>
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<tr>
<td>Yield</td>
<td>% 2.7</td>
<td>2.8</td>
<td>2.9</td>
<td>3.0</td>
</tr>
<tr>
<td>EV/EBITDA</td>
<td>X 13.0</td>
<td>11.0</td>
<td>7.8</td>
<td>7.3</td>
</tr>
</tbody>
</table>

Source: Company Data, South China Research

PROFIT FORECASTS

Year to 31 December

<table>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>HK$6,851</td>
<td>7,954</td>
<td>10,983</td>
<td>15,138</td>
<td>16,238</td>
</tr>
<tr>
<td>EBITDA</td>
<td>HK$1,252</td>
<td>2,018</td>
<td>2,566</td>
<td>3,852</td>
<td>4,334</td>
</tr>
<tr>
<td>Depreciation</td>
<td>(323)</td>
<td>(349)</td>
<td>(373)</td>
<td>(400)</td>
<td>(428)</td>
</tr>
<tr>
<td>EBIT</td>
<td>HK$1,575</td>
<td>2,367</td>
<td>2,939</td>
<td>4,252</td>
<td>4,761</td>
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<tr>
<td>Net interest inc/(exp)</td>
<td>162</td>
<td>232</td>
<td>302</td>
<td>371</td>
<td>427</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>HK$1,737</td>
<td>2,599</td>
<td>3,241</td>
<td>4,623</td>
<td>5,188</td>
</tr>
<tr>
<td>Tax</td>
<td>HK$(282)</td>
<td>(657)</td>
<td>(1,783)</td>
<td>(2,162)</td>
<td></td>
</tr>
<tr>
<td>Minority interests</td>
<td>(242)</td>
<td>(310)</td>
<td>(328)</td>
<td>(348)</td>
<td>(369)</td>
</tr>
<tr>
<td>Net profit</td>
<td>HK$1,258</td>
<td>2,007</td>
<td>2,256</td>
<td>2,492</td>
<td>2,657</td>
</tr>
</tbody>
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Source: Company Data, South China Research

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