



January 21, 2011

Dear clients and colleagues,

As discussed in our commentary of last week, real estate is an important industry in our benchmark index. In China this industry has been growing rapidly supported by strong economic growth and urbanization. In 2010 investment in China's real estate developments increased 33.2% to CNY 4.8 trillion (US\$727B), and the new housing supply was expected to be over 8 million units.

We choose to participate in this big and growing market through a niche industry called the real estate services industry. One of the newest holdings is China Real Estate Information Corporation (CRIC). This week we would like to present you its industry and the company.

China's real estate services industry

China's real estate services industry is a relatively young industry established a decade ago. It can be divided into two business segments:

1. Online real estate advertising

This market is under-penetrated. The real estate industry is among the top 5 industries that spend the most in online advertising. Online advertising spending of total is only 5.8% in China vs. 17.4% in the US. China's online advertising spending totaled \$18B in 2009, and is expected to grow at 15% during 2010-2015. Top three online real estate ads platform providers account for 72% of market share, where CRIC holds the #2 position at 15%. In terms of online advertising for new projects, CRIC holds the #1 position at 27% of market share.

2. Offline real estate services

- Offline information services: Out of roughly 100 real estate information service providers in China, only 22% are able to provide nationwide data information. Top five providers accounted for 60% of market share. CRIC holds the #1 position at 41%.
- Offline consulting services: There are nearly 1000 providers in China, including international consulting companies such as CB Richard Ellis and Jones Lang LaSalle (one of our top 10 holdings). Top five providers account for 33% of market share, where CRIC holds the #1 position at 11.6%.

Despite the financial crisis China's real estate services industry has been growing at over 20% in the past few years. Customer demand is high and resilient. This industry serves 15,000 active developers, 1 million housing product suppliers and thousands of brokers and agents in China. To compete with their peers effectively, these players require more and more real estate information and meanwhile need to increasingly promote themselves to the public.

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The Frost and Sullivan Report 2009 forecasted that by 2013 China's real estate services industry revenue would reach CNY 10B (US\$1.5B). This means that over the next three years the online real estate advertising industry would grow at a CAGR of 23% and the offline services industry at 24%.

China Real Estate Information Corporation (CRIC US – US\$8.60)

www.cric.com

Business Overview

CRIC is a US-listed Chinese company providing a range of real estate information and consulting services in China. Its customers are mainly real estate developers, brokers, and agents. Its business covers 120 cities. It is the exclusive partner of Sina and Baidu for online real estate advertising.

Two business segments:

1. Offline real estate services: 60% of total revenue. Key services include subscription-based information, customized consulting, and advertising.
2. Online real estate websites: 40% of total revenue.

History

The company was originally founded in 2001 as a unit of E-House, a real estate services provider in China. In 2008, it joined forces with Sina by merging with Sina Leju, the online real estate website of Sina. The shareholder structure is E-house 50%, Sina 33%, and public 15%.

Management

Very experienced management team. Co-chairman/CEO Mr. Xin Zhou is co-founder of E-House. Co-chairman Mr. Charles Chao is CEO of Sina.

Market Data

Market Cap U\$1.2B, no debt, cash \$313M, fwd p/e (12/2011) 14.5x, fwd ev/ebitda (12/2011) 9.85x, gross margin 75%, profit margin 14%, one-year return -7%.

Competitive advantages

- Proprietary real estate database: the most comprehensive real estate data source in China. The database contains over 10 years' data on project details, stats, news, and maps, etc.
- Long-term stable relationship with major developers: It serves 85% of top 100 developers.
- Exclusive alliance with Sina and Baidu.

Competition

In the online business Soufun and Sohu Focus are the main competitors. There are many players in the offline business but no major competitors.

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Growth strategy

- Increase data subscribers: Successful growth record: 1,600 in 2008, 3,200 in 2009, and 4,400 as of September 2010.
- Create new products, such as: database on land; secondary homes; tourism homes; and commercial property, etc.
- Expand to more cities.

Risks

- Prolonged policy control on real estate market.
- Competition

Investment Theme

The Chinese housing market is getting stable. Since May 2010 the market has been going through corrections and adjustments due to government control measures. We do not expect dramatic government policy to come considering existing policies have already halted excessive price-hikes, reduced transaction volume, and sent to the market the signals of further interest rate hikes and new property taxes.

We believe the fundamental drivers of China's real estate market are still strong.

- Increasing disposable income/capita creates demand for better housing: Grew at a CAGR of 13% during 2002-2008.
- Increasing urbanization rate: 1% increase translates to 10 million people moving to cities.
- Properties are affordable, especially in non-tier-1 cities: overall price/income ratio was 8x in 2009.

Valuation

Target price = US\$16, using DCF model at growth rate of 20% for 7 years, 6% at maturity, and risk premium of 9%.

Regards,
The Global Alpha Team

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