

China / Hong Kong Company Update

China Resources Land

Bloomberg: 1109 HK EQUITY | Reuters: 1109.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

4 Apr 2022

BUY

Last Traded Price (1 Apr 2022): HK\$37.30 (HSI : 22,040)
Price Target 12-mth: HK\$50.93 (37% upside) (Prev HK\$49.3)

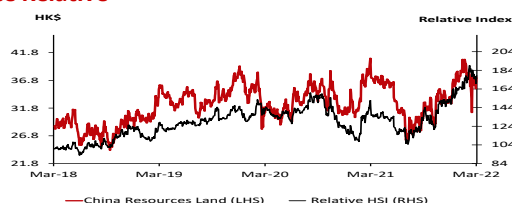
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What's New

- Reaffirms its commitment to maintaining low double-digit earnings growth
- Gradually moving towards the end of its multiple-year margin compression trend
- A likely beneficiary of a potential physical market recovery, given its Tier 1, 2 city-centric saleable resources
- Maintain BUY and sector top pick with TP of HK\$50.93

Price Relative



Forecasts and Valuation

FY Dec (RMB m)	2020A	2021A	2022F	2023F
Turnover	179,587	212,108	243,023	271,027
EBITDA	51,580	52,572	53,996	57,818
Pre-tax Profit	60,172	60,366	54,671	58,482
Net Profit	30,031	32,401	29,254	31,889
Core Profit	24,140	26,600	29,254	31,889
Core Profit Gth (%)	11.6	10.2	10.0	9.0
Core EPS (RMB)	3.39	3.73	4.10	4.47
Core EPS (HK\$)	4.17	4.59	5.05	5.51
Core EPS Gth (%)	9.0	10.2	10.0	9.0
Core PE (X)	8.9	8.1	7.4	6.8
P/Cash Flow (X)	9.7	25.8	nm	nm
EV/EBITDA (X)	6.7	6.7	6.7	6.5
DPS (HK\$)	1.54	1.70	1.87	2.03
Div Yield (%)	4.1	4.6	5.0	5.5
Net Gearing (%)	30.2	25.1	24.9	24.9
ROE (%)	14.8	14.3	11.8	11.8
Book Value (HK\$)	35.13	39.11	42.68	46.56
P/Book Value (X)	1.1	1.0	0.9	0.8

EPS Rev (%): 5 8
Consensus EPS (RMB): 4.16 4.57
Other Broker Recs: B:31 S:0 H:0

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Well-deserved valuation premium

Investment Thesis

Reaffirmed its commitment to maintain low double-digit earnings growth for 2022. On one hand, CR Land's revenue growth will likely be well supported by a stable progression in its development business (unbooked sales as at Dec 21 stood at c.Rmb218bn) and robust growth from CR MixC (1209 HK, 40%+ growth) and its IP business (20%+ growth). Meanwhile, recognised GPM fell to 27% in FY21 alongside a drop in the development margin to 23.7%. With CR Land's target to maintain a c.20% GPM for property development and its aim to maintain its overall GPM at c.25%, its multiple-year margin compression trend should soon reach the end of the tunnel. These, coupled with CR Land's plan to control operating costs, should support the company in achieving its commitment to maintain double-digit earnings growth.

A likely beneficiary of a potential physical market rebound in 2H22, thanks to its well-located saleable resources. CR Land prudently planned to launch c.Rmb528bn of saleable resources for 2022, a slight decline of c.3% from its actual level of c.Rmb544bn launched in 2021. Of this, 93% of its planned saleables are located in Tier 1 and 2 cities. This places CR Land well, both in terms of presales defensiveness and growth potential, as higher tiered cities show more resilience in demand and are the first to see strong sales rebounds, thanks to their generally superior city economic and demand dynamics.

Valuation:

Our TP is based on a sum-of-the-parts (SOTP) valuation model that assigns 1) 30x FY22F PE on attributable earnings from CR MixC Lifestyle (1209 HK); 2) 10x EV/EBITDA on its IP business; and 3) 8.0x FY22F PE on development earnings (equivalent to CR Land's 3-year average 1-year forward PE).

Where we differ:

Gross margins should be bottoming. While CR Land's development margins will likely fall gradually to c.20% as more of its newly acquired land is recognised, we believe downward margin pressure from this end will likely be partially offset by the rising contribution from its recurring businesses. We believe CR Land can maintain an overall GPM of 25% in the medium term.

Key Risks to Our View:

Larger-than-expected margin pressure from its development business, below-expected presales performance, and economic downturn in China may affect overall luxury retail sales and thus its mall performances.

At A Glance

Issued Capital (m shrs)	7,131
Mkt Cap (HK\$m/US\$m)	265,986 / 33,955
Major Shareholders (%)	
China Resources Co. Ltd.	59.6
Free Float (%)	40.4
3m Avg. Daily Val. (US\$m)	61.34
GICS Industry: Real Estate / Real Estate Management & Development	



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China Resources Land

FY21 result summary

FY Dec (RMB mn)	FY20	FY21	y-o-y %
Sales	179,587	212,108	18%
Development properties	157,140	183,861	17%
Property investment & management	11,698	15,867	36%
Others	10,750	12,380	15%
Cost of goods sold	(124,172)	(154,909)	25%
Gross profit	55,415	57,200	3%
SG&A	(10,439)	(11,965)	15%
Other income	4,596	4,437	-3%
Operating profit	49,572	49,671	0%
Fair value gain on investment properties	8,884	7,795	-12%
Finance costs	(1,284)	(1,397)	9%
Share of Associates' or JV Income	3,000	4,297	43%
Pretax profit	60,172	60,366	0%
- LAT	(12,933)	(9,199)	-29%
- Income Tax	(13,149)	(13,772)	5%
Taxation	(26,082)	(22,970)	-12%
Minority interests	(4,280)	(4,994)	17%
Reported profit	29,810	32,401	9%
Core earnings	24,140	26,596	10%
Gross profit margin (%)	30.9%	27.0%	↓ 4 ppts
Core profit margin (%)	13.4%	12.5%	↓ 1 ppts
Reported profit margin (%)	16.6%	15.3%	↓ 1 ppts
SG&A as % of top line	5.8%	5.6%	↓ 0 ppts
SG&A as % of contracted sales	3.7%	3.8%	↑ 0 ppts
Effective Tax Rate (%)	43.3%	38.1%	↓ 5 ppts
EPS (RMB)	4.18	4.54	9%
Core EPS (RMB)	3.39	3.73	10%
DPS (HK\$)	1.48	1.69	14%
DPS (Rmb)	1.25	1.38	10%
Payout ratio (Reported core profit)	37%	37%	↓ 0 ppts
Cash (Rmb m)	89,451	108,748	22%
Contracted sales (RMB mn)	285,030	315,755	11%
GFA Sold ('000 sm)	14,187	16,649	17%
ASP (Rmb/sm)	20,091	17,988	-10%
Recognized Sales (Rmb mn)	157,140	183,861	17%
Recognized GFA ('000 sm)	10,430	14,764	42%
Recognized ASP (Rmb/sm)	15,066	12,453	-17%
Average funding cost	4.08%	3.71%	↓ 0 ppts
	Jun-21	Dec-21	
Net debt to equity ratio	37.4%	30.4%	
S/T debt as % of total debt	21.5%	27.6%	
Cash	94,851	108,748	
% of restricted cash	0%	2%	
	Jun-21	Dec-21	
Three-Red-Lines			
Net gearing ratio	37.4%	30.4%	
Cash to ST debt	2.3	2.0	
Adj. liabilities to asset ratio	60.9%	60.4%	

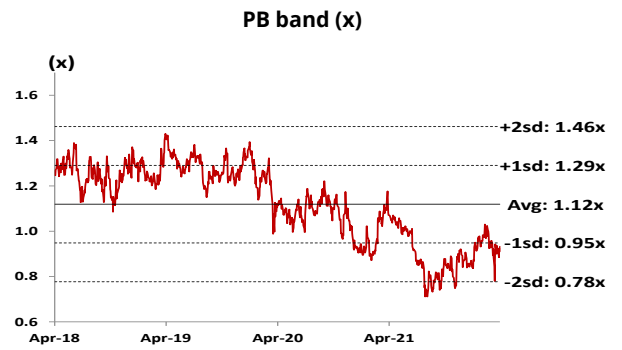
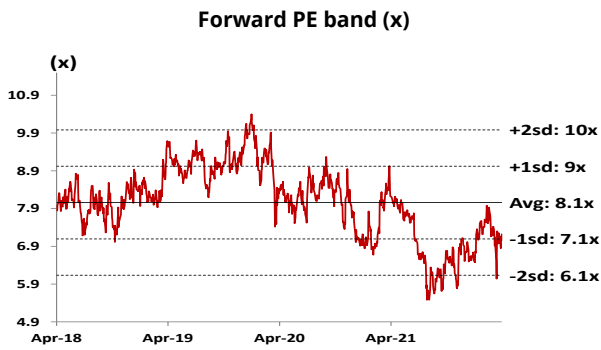
Source: Company, DBS HK

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Company Background

CR Land is a PRC developer focusing on nationwide residential developments and shopping mall investments (MixC and Hi 5). As a state-owned red chip, the company has been enjoying strong support from its parent company through asset injections in the past few years.

Historical PE and PB band



Source: Thomson Reuters, DBS HK

China Resources Land

Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (RMB m)					
Property development	127,199	157,140	183,861	206,964	223,683
Property leasing	10,748	11,698	15,867	19,041	23,801
Hotel operations	1,491	1,089	1,567	1,881	2,351
Others	8,730	9,660	10,812	15,137	21,192
Total	148,167	179,587	212,108	243,023	271,027

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Turnover	148,167	179,587	212,108	243,023	271,027
Cost of Goods Sold	(92,029)	(124,172)	(154,909)	(181,409)	(203,427)
Gross Profit	56,139	55,415	57,200	61,614	67,600
Other Opg (Exp)/Inc	(10,218)	(7,762)	(10,230)	(13,366)	(14,635)
Operating Profit	45,921	47,654	46,969	48,248	52,964
Associates Inc	3,718	3,000	4,297	4,727	3,781
Net Interest (Exp)/Inc	774	635	1,305	1,697	1,736
Exceptional Gain/(Loss)	10,732	8,884	7,795	0	0
Pre-tax Profit	61,145	60,172	60,366	54,671	58,482
Tax	(26,682)	(26,082)	(22,970)	(20,908)	(21,678)
Minority Interest	(5,390)	(4,060)	(4,994)	(4,509)	(4,915)
Net Profit	29,073	30,031	32,401	29,254	31,889
Core Profit	21,631	24,140	26,600	29,254	31,889
Sales Gth (%)	22.3	21.2	18.1	14.6	11.5
Net Profit Gth (%)	18.5	3.3	7.9	(9.7)	9.0
Core Profit Gth (%)	12.1	11.6	10.2	10.0	9.0
Gross Mgn (%)	37.9	30.9	27.0	25.4	24.9
Core Profit Margin (%)	14.6	13.4	12.5	12.0	11.8
Tax Rate	43.6	43.3	38.1	38.2	37.1

Source: Company, DBS HK

China Resources Land

Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Fixed Assets	15,805	19,912	21,667	20,645	19,573
Invt in Assocs & JVs	40,831	53,435	62,000	66,727	70,508
Other LT Assets	190,160	221,641	250,865	250,865	250,865
Cash & ST Invt	64,661	89,451	108,748	112,815	116,099
Other Current Assets	458,432	484,603	506,525	593,565	648,273
Total Assets	769,889	869,041	949,804	1,044,617	1,105,318
ST Debt	21,345	35,543	54,544	56,130	57,717
Creditors	99,082	117,899	131,693	191,349	214,651
Other Current Liab	274,525	290,408	278,390	278,390	278,390
LT Debt	113,200	129,442	125,431	133,844	142,258
Other LT Liabilities	25,946	39,507	67,670	67,670	67,670
Minority Interests	49,898	52,784	65,547	70,056	74,971
Shareholder's Equity	185,892	203,458	226,529	247,176	269,660
Total Capital	769,889	869,041	949,804	1,044,617	1,105,318
Share Capital (m)	6,964	7,131	7,131	7,131	7,131
Net Cash/(Debt)	(69,883)	(75,534)	(71,227)	(77,160)	(83,876)
Working Capital	84,824	76,295	96,441	123,825	155,231
Net Gearing (%)	36.5	30.2	25.1	24.9	24.9

Source: Company, DBS HK

Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Profit Before Tax	61,145	60,172	60,366	54,671	58,482
Assoc. & JV Inc/(loss)	(3,718)	(3,000)	(4,297)	(4,727)	(3,781)
Tax Paid	(19,043)	(20,416)	(25,393)	(20,908)	(21,678)
Depr/Amort	787	926	1,306	1,021	1,072
Chg in Wkg. Cap.	5,224	(6,840)	(12,774)	(27,384)	(31,406)
Other Non-Cash	(10,599)	(8,515)	(10,830)	(3,296)	(3,421)
Operating CF	33,797	22,328	8,378	(622)	(733)
Net chg in inv.	(14,056)	(14,056)	(30,151)	0	0
Assoc, MI, Invsmt	(30,299)	(18,789)	2,702	3,296	3,421
Investing CF	(44,355)	(32,845)	(27,449)	3,296	3,421
Net Chg in Debt	383	35,973	10,000	10,000	10,000
New Capital	18,432	(10,000)	0	0	0
Dividend	(7,674)	(7,759)	(7,858)	(8,607)	(9,404)
Other Financing CF	(8,829)	18,113	36,168	0	0
Financing CF	2,313	36,327	38,309	1,393	596
Chg in Cash	(7,760)	25,377	19,239	4,067	3,284
Chg in Net Cash	(9,493)	(5,651)	4,308	(5,933)	(6,716)

Source: Company, DBS HK

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Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	15-Apr-21	HK\$36.85	HK\$49.60	Buy
2:	12-Jan-22	HK\$36.65	HK\$49.30	Buy

Source: DBS HK

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RT LaDBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

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*Share price appreciation + dividends

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