

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

9 Jan 2024

BUY

Last Traded Price (8 Jan 2024): HK\$26.20 (HSI : 16,224)
 Price Target 12-mth: HK\$40.60 (55% upside) (Prev HK\$44.8)

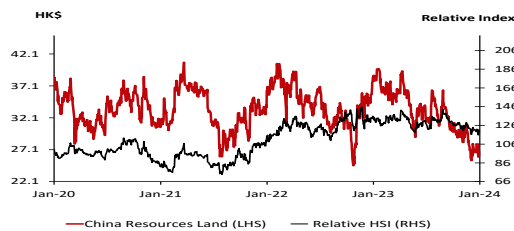
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What's New

- Continued presales outperformance and gradual asset monetisation via CREIT to serve as share price catalysts
- Expect to deliver resilient performance for FY23 with potential margin shortfall from the development side partially offset by resilient recurring income portfolio
- Trimmed FY23-25F earnings by 2-8% upon fine-tuned development revenue and margin assumptions
- Maintain BUY at HK\$40.60/sh TP

Price Relative



Forecasts and Valuation

FY Dec (RMB m)	2022A	2023F	2024F	2025F
Turnover	207,061	223,756	232,514	236,427
EBITDA	51,564	50,119	52,550	54,649
Pre-tax Profit	55,509	49,760	51,867	54,246
Net Profit	28,092	27,367	28,133	29,536
Core Profit	26,998	27,368	28,133	29,536
Core Profit Gth (%)	1.5	1.4	2.8	5.0
Core EPS (RMB)	3.79	3.84	3.95	4.14
Core EPS (HK\$)	4.14	4.19	4.31	4.53
Core EPS Gth (%)	1.5	1.4	2.8	5.0
Core PE (X)	6.3	6.2	6.1	5.8
P/Cash Flow (X)	139.0	8.2	12.8	16.1
EV/EBITDA (X)	7.5	7.8	7.7	7.6
DPS (HK\$)	1.54	1.56	1.60	1.68
Div Yield (%)	5.9	6.0	6.1	6.4
Net Gearing (%)	38.8	32.8	32.7	33.2
ROE (%)	11.5	10.4	10.0	9.7
Book Value (HK\$)	37.41	40.27	43.26	46.46
P/Book Value (X)	0.7	0.7	0.6	0.6

EPS Rev (%)		(2)	(4)	(8)
Consensus EPS (RMB)		4.06	4.41	4.87
Other Broker Recs:		B:33	S:0	H:0

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

Steady as she goes

Investment Thesis

Leading state-owned developer with solid recurring income. Ranked 4th in 2023 by gross presales based on data from CRIC, CR Land stood firm in the ongoing sector turbulence. Well positioned to extend its lead in the development segment, CR Land has a solid stream of recurring income from its scalable IP and asset-light businesses that is sufficient to cover its dividend and interest costs (recurring business income is expected to cover 1.97x of interest and dividend expenses for FY23F). CR Land offers a well-balanced exposure to China's real estate sector with a defensive component. Recurring business has contributed c.25%/43% of its 1H23A revenue/core earnings.

Standing firm amid sector turbulence. Per preliminary data from CRIC, CR Land achieved its Rmb300bn presales target in 2023, up 2% y-o-y despite the ongoing sector downturn. Thanks to its SOE background and product quality, sell-through has been fair at 50-60% with manageable price discounts. Meanwhile, its shopping mall portfolio continued to perform steadily with same-store sales growth of +27% in 11M23, while CR MixC remains resilient operationally. These point to the resilient performance of CR Land's recurring portfolio and should partially offset the margin pressure on the development front.

Multiple catalysts on the horizon to support share price. CR Land has proactively replenished its landbank and spent c.Rmb110bn on gross land premiums in 2023, up 3% y-o-y, or representing c.36% of its presales, as per data from CRIC. This should offer it flexibility in its project launches and place the company well for another year of presales outperformance in 2024. Meanwhile, CR Land's proposed spinoff of its Qingdao mall under CREIT has been approved and will likely be listed in 1Q24, laying a path for the company to gradually unlock the asset value of its sizable IP portfolio (c.Rmb265bn IP as of Jun-23, c.76% is shopping malls).

Maintain BUY with TP HK\$40.60/sh. Our TP is based on a sum-of-the-parts valuation: 1) 25x FY24F PE on contribution from CR MixC; 2) 10x EV/EBITDA on its IP business; and 3) 7.2x FY24F PE on development earnings (pegged to CR Land's 3-year average 1-year forward PE).

Key Risks

Larger-than-expected margin pressure from its development business could create earnings downside risk.

Slower-than-expected physical market and retail sales recovery may affect CR Land's earnings growth outlook.

At A Glance

Issued Capital (m shrs)	7,131
Mkt Cap (HKm/US\$m)	192,180 / 24,618
Major Shareholders (%)	
China Resources Co. Ltd.	59.6
Free Float (%)	40.4
3m Avg. Daily Val. (US\$m)	33.0
GICS Industry: Real Estate / Real Estate Management & Development	

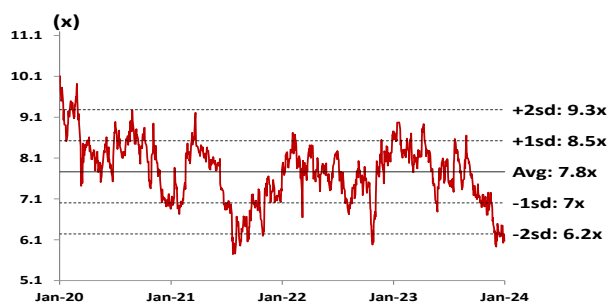
China Resources Land

Company Background

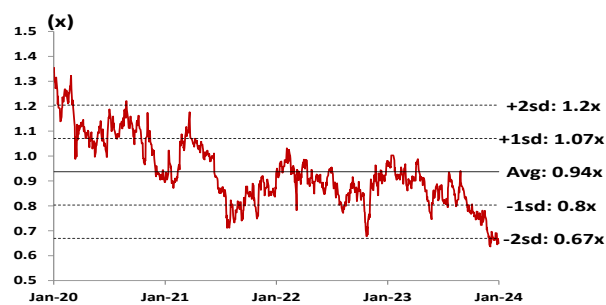
CR Land is a PRC developer focusing on nationwide residential developments and shopping mall investments (MixC and Hi 5). As a state-owned red chip, the company has been enjoying strong support from its parent company through asset injections in the past few years.

Historical PE and PB band

Forward PE band (x)



PB band (x)



Source: Thomson Reuters, DBS HK

China Resources Land

Segmental Breakdown (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenues (RMB m)					
Property development	183,861	176,162	184,369	186,151	183,085
Property leasing	15,867	15,627	19,534	23,441	28,129
Hotel operations	1,567	1,394	1,812	2,174	2,391
Others	10,812	13,878	18,041	20,747	22,822
Total	212,108	207,061	223,756	232,514	236,427

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Turnover	212,108	207,061	223,756	232,514	236,427
Cost of Goods Sold	(154,909)	(152,771)	(168,282)	(173,567)	(174,606)
Gross Profit	57,200	54,291	55,474	58,947	61,822
Other Opg (Exp)/Inc	(7,528)	(8,161)	(11,188)	(11,393)	(12,058)
Operating Profit	49,671	46,130	44,286	47,554	49,764
Associates Inc	4,297	4,101	4,512	3,609	3,429
Net Interest (Exp)/Inc	(1,397)	(1,700)	962	704	1,054
Exceptional Gain/(Loss)	7,795	6,978	0	0	0
Pre-tax Profit	60,366	55,509	49,760	51,867	54,246
Tax	(22,970)	(23,140)	(18,483)	(19,715)	(20,491)
Minority Interest	(4,994)	(4,278)	(3,910)	(4,019)	(4,219)
Net Profit	32,401	28,092	27,367	28,133	29,536
Core Profit	26,600	26,998	27,368	28,133	29,536
Sales Gth (%)	18.1	(2.4)	8.1	3.9	1.7
Net Profit Gth (%)	7.9	(13.3)	(2.6)	2.8	5.0
Core Profit Gth (%)	10.2	1.5	1.4	2.8	5.0
Gross Mgn (%)	27.0	26.2	24.8	25.4	26.1
Core Profit Margin (%)	12.5	13.0	12.2	12.1	12.5
Tax Rate	38.1	41.7	37.1	38.0	37.8

Source: Company, DBS HK

China Resources Land

Balance Sheet (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Fixed Assets	21,667	21,785	20,464	19,077	17,621
Invt in Assocs & JVs	62,000	75,717	80,229	83,838	87,267
Other LT Assets	250,865	270,545	270,545	270,545	270,545
Cash & ST Invt	108,748	97,468	102,456	100,181	95,168
Other Current Assets	506,525	615,817	656,471	688,599	714,762
Total Assets	949,804	1,081,332	1,130,165	1,162,241	1,185,363
ST Debt	54,544	61,243	62,036	62,829	63,623
Creditors	131,693	140,858	177,107	195,659	203,705
Other Current Liab	278,390	325,155	325,155	325,155	325,155
LT Debt	125,431	155,860	160,067	164,274	168,481
Other LT Liabilities	67,670	56,508	41,508	26,508	11,508
Minority Interests	65,547	97,660	101,570	105,589	109,808
Shareholder's Equity	226,529	244,047	262,722	282,227	303,083
Total Capital	949,804	1,081,332	1,130,165	1,162,241	1,185,363
Share Capital (m)	7,131	7,131	7,131	7,131	7,131
Net Cash/(Debt)	(71,227)	(119,636)	(119,647)	(126,922)	(136,936)
Working Capital	96,441	149,804	154,210	167,786	185,903
Net Gearing (%)	30.4	38.8	32.8	32.7	33.2

Source: Company, DBS HK

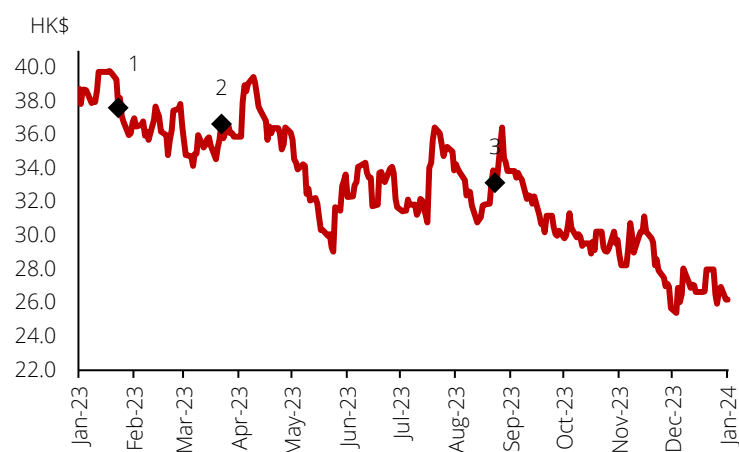
Cash Flow Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Profit Before Tax	60,366	55,510	49,760	51,867	54,247
Assoc. & JV Inc/(loss)	(4,297)	(4,101)	(4,512)	(3,609)	(3,429)
Tax Paid	(20,578)	(24,916)	(18,483)	(19,715)	(20,491)
Depr/Amort	1,306	1,333	1,321	1,387	1,456
Chg in Wkg.Cap.	(23,748)	(23,757)	(4,406)	(13,576)	(18,117)
Other Non-Cash	(6,020)	(2,838)	(2,949)	(2,947)	(3,046)
Operating CF	7,028	1,230	20,732	13,406	10,621
Net chg in inv.	(27,308)	(21,953)	0	0	0
Assoc, MI, Invsmt	(495)	(17,384)	2,949	2,947	3,046
Investing CF	(27,803)	(39,337)	2,949	2,947	3,046
Net Chg in Debt	16,222	1,503	5,000	5,000	5,000
New Capital	0	0	0	0	0
Dividend	(8,905)	(10,379)	(8,693)	(8,628)	(8,680)
Other Financing CF	32,882	35,011	(15,000)	(15,000)	(15,000)
Financing CF	40,198	26,136	(18,693)	(18,628)	(18,680)
Chg in Cash	19,239	(11,228)	4,988	(2,275)	(5,014)
Chg in Net Cash	4,308	(48,409)	(12)	(7,275)	(10,014)

Source: Company, DBS HK

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Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	Target Price	Rating
1	31-Jan-23	HK\$37.60	HK\$44.70	BUY
2	30-Mar-23	HK\$35.70	HK\$44.80	BUY
3	31-Aug-23	HK\$33.90	HK\$44.80	BUY

Source: DBS HK

Analyst: Jason Lam

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DBS 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)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 9 Jan 2024 10:29:38 (HKT)

Dissemination Date: 9 Jan 2024 15:02:25 (HKT)

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