

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

27 Mar 2024

BUY

Last Traded Price (26 Mar 2024): HK\$24.85 (HSI : 16,618)

Price Target 12-mth: HK\$40.60 (63% upside)

Analysts

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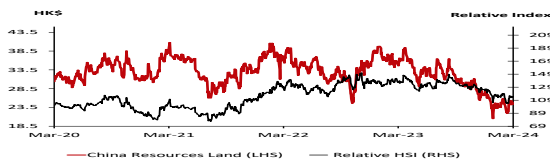
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What's New

- FY23 results in line; enhanced earnings quality with recurring income as % of core profit up 10ppt to 34%
- Guides for largely stable earnings growth for FY24 with recurring businesses to gradually contribute a larger portion of profit going forward
- Fine-tuned FY24-25F earnings by c.1% in reflection of adjusted development revenue and margin assumptions
- Showcasing resilience throughout sector turbulence; reiterate BUY and top pick at HK\$40.6/sh TP

Price Relative



Forecasts and Valuation

FY Dec (RMB m)	2022A	2023A	2024F	2025F
Turnover	207,061	251,137	237,637	245,691
EBITDA	51,564	61,494	51,096	55,545
Pre-tax Profit	55,509	66,438	50,906	54,711
Net Profit	28,092	31,365	28,316	29,100
Core Profit	26,998	27,770	28,316	29,100
Core Profit Gth (%)	1.5	2.9	2.0	2.8
Core EPS (RMB)	3.79	3.89	3.97	4.08
Core EPS (HK\$)	4.10	4.22	4.31	4.42
Core EPS Gth (%)	1.5	2.9	2.0	2.8
Core PE (X)	6.1	5.9	5.8	5.6
P/Cash Flow (X)	132.9	2.7	10.0	7.9
EV/EBITDA (X)	7.4	6.5	8.0	7.5
DPS (HK\$)	1.53	1.56	1.59	1.64
Div Yield (%)	6.1	6.3	6.4	6.6
Net Gearing (%)	35.0	30.7	30.0	28.5
ROE (%)	11.5	11.8	10.0	9.6
Book Value (HK\$)	37.11	40.27	43.23	46.31
P/Book Value (X)	0.7	0.6	0.6	0.5

EPS Rev (%)			1	(1)
Consensus EPS (RMB)			4.30	4.55
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 can cover c.1.9x its FY23 dividend and interest payable. CR Land offers a well-balanced exposure to China's real estate sector with a defensive component. Recurring business represented c.15.6%/34.4% of its FY23A revenue/core earnings.

Standing firm despite sector turbulence. Upon steady FY23 presales despite the ongoing sector downcycle, CR Land's consolidated unbooked sales stood at c.Rmb284bn at an average GPM of c.20%. Of this, c.Rmb194bn is expected to be recognised in FY24F, fully locked in our original development revenue forecast. Meanwhile, shopping mall portfolio continued to fare well, with 16 shopping malls scheduled for launch in 2024. CR MixC is also strong operationally. These hint at another year of resilient performance, despite a continually difficult market environment. We have lifted our FY24-25F earnings slightly by c.1% to reflect better-than-expected development revenue and margin assumptions.

Multiple catalysts on the horizon to support share price. While CR Land does not have a presales target for FY24, it plans to launch c.Rmb531bn in saleable resources for the year, largely flat from FY23's actual launches, of which 88% is located in Tier 1/2 cities. This should position CR Land well to achieve another year of presales outperformance upon a continually polarised market between higher and lower tier cities. Meanwhile, alongside its fine-tuned 14th FYP, CR Land intends to unlock the value of its sizeable IP portfolio (c.Rmb275.6bn in book value as at Dec 23, 75% retail mall) value via its asset management business model. Progress from this end – inclusive of a potential spin-off of assets through its two established CREIT platforms – could serve as share price and valuation catalysts.

Maintain BUY with TP HK\$40.60/sh Our TP is based on a sum-of-the-parts valuation: 1) 20x FY24F PE on contribution from CR MixC; 2) 10x EV/EBITDA on its IP business; and 3) 6.5x FY24F PE on development earnings (average forward PE since 2H23 when physical market further weakened).

Key Risks

Higher-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)	177,205 / 22,650
Major Shareholders (%)	
China Resources Co. Ltd.	59.6
Free Float (%)	40.4
3m Avg. Daily Val. (US\$m)	44.0
GICS Industry: Real Estate / Real Estate Management & Development	



Watchlist the stock on Insights Direct to receive prompt updates

China Resources Land

WHAT'S NEW

FY23 results in line with enhanced earnings quality

FY23 earnings in line with enhanced earnings quality. CR Land reported core earnings of Rmb27.77bn (+3% y-o-y), in line with our/market estimates. Revenue rose 21% y-o-y, which came in above expectations on stronger-than-expected recognised ASP (+25% y-o-y), offsetting a 4% decline in GFA recognised. Blended gross margin fell by a mild 1ppt y-o-y to 25.2%, in line with expectations. Other income came in at c.Rmb8.6bn, nearly doubled y-o-y, and was above expectations. SG&A to presales ratio rose 1ppt to 4.6% whilst JV contributions fell 42% y-o-y, tracking below our expectations. Notably, upon a robust pickup in its recurring businesses, recurring income as a % of revenue and core profit, respectively, rose 0.7ppt and 10.4ppt to 15.6% and 34.4%, indicating further improved earnings quality. Final dividend of Rmb1.243/sh was declared, representing a largely unchanged c.37% full-year dividend payout on reported core profit.

Resilient presales outlook with strong revenue visibility. CR Land plans to launch c.Rmb530.8bn in saleable resources for 2024, 88% of which is expected to be located in Tier 1 and 2 cities. This would represent a mild decline from FY23 and would require a moderately higher but not unreachable 58% sell-through rate if it were to achieve its FY23 presales level. Consolidated unbooked sales, which stood at c.Rmb284.1bn as at Dec 23 with c.Rmb194bn expected to be recognised in FY24, have fully locked in our FY24F development revenue estimates. The company aims to launch 16 high-end shopping malls in 2024 after opening 10 in FY23.

Balance sheet well maintained. Net gearing rose 4.1ppt h-o-h to 32.6% as of Dec 23. Total cash to short-term debt ratio came in at 1.77x, (vs. 1.87x as of Jun 23 or 1.59x as of Dec 22). Weighted average finance cost held up well and stood at a 10-year low of 3.56%, flat h-o-h or down 19bps vs. 3.75% in FY22. FY23 rental income alone is sufficient to cover its interest and dividends payable by 1.08x.

Adding 'Asset Management' into its 14th Five-Year Plan. CR Land opted to include asset management as part of its 14th FYP during its mid-term review of its mid-term business strategy. Currently managing c.Rmb428bn worth of gross AUM, CR Land aims to grow its asset scale under management to >Rmb500bn by the end of the 14th FYP. It intends to establish a complete capital recycling loop for its assets, right from the initial investment stage to exit. CR Land currently intends to leverage on its two established CREIT platforms to regularly monetise its on-balance sheet assets, with a mid-term target for the two platforms to reach c.Rmb30-50bn in asset value within 3-5 years' time.

FY23 result summary

CR Land (1109 HK)			
FY Dec (RMB mn)	FY22	FY23	y-o-y %
Sales	207,061	251,137	21%
Development properties	176,162	212,078	20%
Property investment & management	15,627	22,228	42%
Others	15,271	16,831	10%
Cost of goods sold	(152,771)	(187,975)	23%
Gross profit	54,291	63,162	16%
SG&A	(11,280)	(13,980)	24%
Other income	3,119	8,639	177%
Operating profit	46,130	57,821	25%
Fair value gain on investment properties	6,978	8,001	15%
Finance costs	(1,700)	(1,744)	3%
Share of Associates' or JV Income	4,101	2,360	-42%
Pretax profit	55,509	66,438	20%
LAT	(9,322)	(11,916)	28%
Income Tax	(13,817)	(17,218)	25%
Taxation	(23,140)	(29,134)	26%
Minority interests	(4,278)	(5,938)	39%
Reported profit	28,092	31,365	12%
Core earnings	26,998	27,770	3%
Gross profit margin (%)	26.2%	25.2%	↓ 1 ppts
Core profit margin (%)	13.0%	11.1%	↓ 2 ppts
Reported profit margin (%)	13.6%	12.5%	↓ 1 ppts
SG&A as % of top line	5.4%	5.6%	↑ 0 ppts
SG&A as % of contracted sales	3.7%	4.6%	↑ 1 ppts
Effective Tax Rate (%)	41.7%	43.9%	↑ 2 ppts
EPS (RMB)	3.94	4.40	12%
Core EPS (RMB)	3.79	3.89	3%
DPS (Rmb)	1.40	1.44	3%
Payout ratio (Reported core profit)	37%	37%	↓ 0 ppts
Contracted sales (RMB mn)	301,326	307,033	2%
GFA Sold ('000 sm)	14,254	13,073	-8%
ASP (Rmb/sm)	21,140	23,486	11%
Recognized Sales (Rmb mn)	176,162	212,078	20%
Recognized GFA ('000 sm)	12,331	11,839	-4%
Recognized ASP (Rmb/sm)	14,287	17,913	25%
Average funding cost	3.75%	3.56%	↓ 0 ppts
No. of shares (Mn)	7,131	7,131	0%
Three-Red-Lines	Jun-23	Dec-23	
Net gearing ratio	28.5%	32.6%	↑ 4 ppts
Total cash to ST debt	1.87x	1.77x	
% of restricted cash	1%	1%	
Free cash to ST debt	1.59x	1.49x	
Adj. liabilities to asset ratio	59.8%	58.4%	↓ 1 ppts

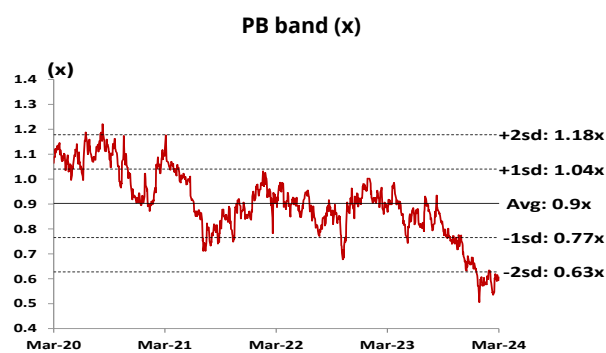
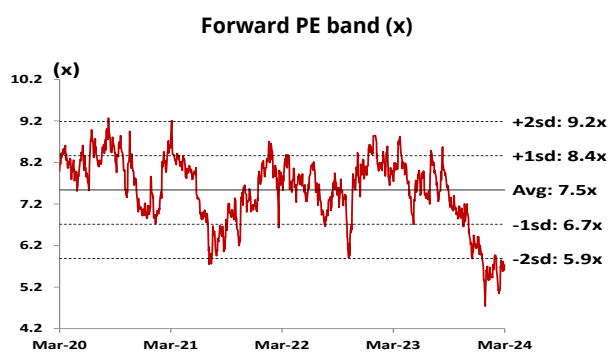
Source: Company, DBS HK

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



Source: Thomson Reuters, DBS HK

China Resources Land

Segmental Breakdown (RMB m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Revenues (RMB m)					
Property development	183,861	176,162	212,078	193,561	197,208
Property leasing	15,867	15,627	19,911	22,898	25,187
Hotel operations	1,567	1,394	2,317	2,665	2,931
Others	10,812	13,878	16,831	18,514	20,365
Total	212,108	207,061	251,137	237,637	245,691

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Turnover	212,108	207,061	251,137	237,637	245,691
Cost of Goods Sold	(154,909)	(152,771)	(187,975)	(177,220)	(181,314)
Gross Profit	57,200	54,291	63,162	60,418	64,377
Other Opg (Exp)/Inc	(7,528)	(8,161)	(5,341)	(13,189)	(13,022)
Operating Profit	49,671	46,130	57,821	47,229	51,355
Associates Inc	4,297	4,101	2,360	2,596	2,856
Net Interest (Exp)/Inc	(1,397)	(1,700)	(1,744)	1,081	500
Exceptional Gain/(Loss)	7,795	6,978	8,001	0	0
Pre-tax Profit	60,366	55,509	66,438	50,906	54,711
Tax	(22,970)	(23,140)	(29,134)	(18,545)	(21,454)
Minority Interest	(4,994)	(4,278)	(5,938)	(4,045)	(4,157)
Net Profit	32,401	28,092	31,365	28,316	29,100
Core Profit	26,600	26,998	27,770	28,316	29,100
Adj EBIT (ex associates / ex revals)	49,672	46,130	57,821	47,229	51,355
Adj EBITDA (add DA)	50,977	47,463	59,134	48,500	52,690
Adj. Interest expense (include perps)	8,510	9,656	10,670	11,419	10,790
Sales Gth (%)	18.1	(2.4)	21.3	(5.4)	3.4
Net Profit Gth (%)	7.9	(13.3)	11.7	(9.7)	2.8
Core Profit Gth (%)	10.2	1.5	2.9	2.0	2.8
Adj EBIT Gth (%)	0.2	(7.1)	25.3	(18.3)	8.7
Gross Mgn (%)	27.0	26.2	25.2	25.4	26.2
Core Profit Margin (%)	12.5	13.0	11.1	11.9	11.8
Adj EBIT Margin (%)	23.4	22.3	23.0	19.9	20.9
Tax Rate	38.1	41.7	43.9	36.4	39.2
Adj EBITDA ICR (x)	5.99	4.92	5.54	4.25	4.88

Source: Company, DBS HK

China Resources Land

Balance Sheet (RMB m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Fixed Assets	21,667	21,785	21,110	19,839	18,504
Invt in Assocs & JVs	62,000	75,717	85,645	88,241	91,097
Other LT Assets	250,865	270,545	300,062	300,062	300,062
Cash & ST Invt	108,748	97,468	114,340	114,826	119,016
Other Current Assets	506,525	615,817	670,020	723,246	751,180
Total Assets	949,804	1,081,332	1,191,177	1,246,213	1,279,859
ST Debt	54,544	61,243	64,287	65,671	67,054
Creditors	131,693	140,858	158,671	185,209	189,453
Other Current Liab	278,390	325,155	361,248	361,248	361,248
LT Debt	125,431	155,860	167,993	171,609	175,225
Other LT Liabilities	67,670	56,508	54,830	54,830	54,830
Minority Interests	65,547	97,660	119,282	123,327	127,484
Shareholder's Equity	226,529	244,047	264,867	284,320	304,566
Total Capital	949,804	1,081,332	1,191,177	1,246,213	1,279,859
Share Capital (m)	7,131	7,131	7,131	7,131	7,131
Net Cash/(Debt)	(71,227)	(119,636)	(117,939)	(122,454)	(123,263)
Working Capital	96,441	149,804	150,101	176,788	200,480
Total Debt incl Perps	179,975	217,103	232,279	237,279	242,279
PPE	15,427	16,012	15,827	14,556	13,222
Development	6,239	5,774	5,283	5,283	5,283
Investment Properties	217,530	237,885	262,808	262,808	262,808
Net Gearing (%)	24.4	35.0	30.7	30.0	28.5
Debt to EBITDA (x)	3.53	4.57	3.93	4.89	4.60
Net Debt to EBITDA (x)	1.40	2.52	1.99	2.52	2.34
(Debt + Perp) / Asset	18.9	20.1	19.5	19.0	18.9
(Debt + Perp) / Asset (ex Intangibles)	18.9	20.1	19.5	19.0	18.9
Debt / Capital (TE + TD + Perp)	44.3	47.1	46.7	45.5	44.3
Debt / Asset (%)	18.9	20.1	19.5	19.0	18.9
Cash/ST debt (%)	199.4	159.1	177.9	174.9	177.5
ST debt / total debt (%)	30.3	28.2	27.7	27.7	27.7

Source: Company, DBS HK

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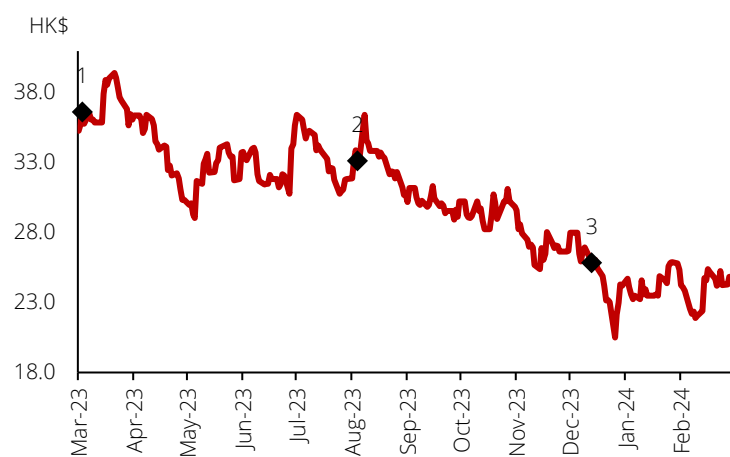
Cash Flow Statement (RMB m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Profit Before Tax	60,366	55,510	66,438	50,906	54,711
Assoc. & JV Inc/(loss)	(4,297)	(4,101)	0	(2,596)	(2,856)
Tax Paid	(20,578)	(24,916)	(54,885)	(18,545)	(21,454)
Depr/Amort	1,306	1,333	1,313	1,271	1,334
Chg in Wkg.Cap.	(23,748)	(23,757)	8,195	(26,687)	(23,692)
Other Non-Cash	(6,020)	(2,838)	39,686	12,053	12,737
Operating CF	7,028	1,230	60,746	16,402	20,781
Net chg in inv.	(27,308)	(21,953)	(24,923)	0	0
Assoc, MI, Invsmt	(495)	(17,384)	0	2,947	2,263
Investing CF	(27,803)	(39,337)	(24,923)	2,947	2,263
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)	(8,864)	(8,854)
Other Financing CF	32,882	35,011	(15,000)	(15,000)	(15,000)
Financing CF	40,198	26,136	(18,693)	(18,864)	(18,854)
Chg in Cash	19,239	(11,228)	17,131	485	4,190
Chg in Net Cash	4,308	(48,409)	1,697	(4,515)	(810)
Capex	(32,717)	(24,923)	0	0	0
Free Cashflow	1,230	60,746	16,402	20,781	0

Source: Company, DBS HK

China Resources Land

Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	Target Price	Rating
1	30-Mar-23	HK\$35.70	HK\$44.80	BUY
2	31-Aug-23	HK\$33.90	HK\$44.80	BUY
3	9-Jan-24	HK\$26.20	HK\$40.60	BUY

Source: DBS HK

Analysts: Jason Lam

Dexter Chun

Ben Wong

China Resources Land

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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

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Sources for all charts and tables are DBS HK unless otherwise specified.

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