

COMPANY RESULTS

CR Land (1109 HK)

2023: Results In Line; Clearer Growth Path Ahead

CR Land's core attributable net profit increased 2.9% yoy to Rmb27.8b, of which 34.4% was contributed by recurring income. DPS was Rmb1.44, with a stable payout ratio of 37%. Despite a challenging environment: a) the DP business stayed in relatively good shape, and b) the CR IP brand saw strengthened competitiveness. Management continues to aim for steady earnings growth in 2024 and for new growth from the asset management business. Trim earnings. Maintain BUY and TP of HK\$42.39.

2023 RESULTS

Year to 31 Dec (Rmbm)	2022	2023	yoy	UOBKH estimate	Actual vs estimate
Revenue	207,061	251,138	21.3%	231,572	8.4%
Development property (DP)	176,162	212,078	20.4%	193,779	9.4%
Investment property (IP)	17,021	22,230	30.6%	18,803	18.2%
Asset-light management	8,334	10,643	27.7%		
Eco-system elementary business	5,544	6,187	11.6%		
Core Net Profit	27,000	27,770	2.9%	27,420	1.3%
Development property (DP)	20,523	18,212	-11.3%		
Investment property (IP)	5,319	7,850	47.6%		
Asset-light management	776	973	25.4%		
Eco-system elementary business	382	735	92.4%		
Core EPS	3.79	3.89	2.9%		
DPS	1.40	1.44	2.9%		
Payout ratio	37.0%	37.0%			
Margin					
Gross margin	26.2%	25.2%	-1.0%	25.2%	-0.1%
Development property (IP)	23.0%	20.7%	-2.3%	20.5%	0.2%
Investment property (IP)	65.6%	69.6%	4.0%	72.7%	-3.1%

Source: CR Land, UOB Kay Hian

RESULTS

• **Core net profit in line with expectations.** Core net profit grew 2.9% yoy to Rmb27.8, in line with our expectation of Rmb27.4b. Gross margin dropped 1ppt to 25.2%, with lower gross profit from development property (DP) (20.7%), compensated by higher gross profit from investment property (IP) (70%). The DP, IP and asset-light businesses contributed to 66%/28%/6% of total core net profit respectively. Annual DPS grew 2.9% to Rmb1.44, implying a relatively stable payout ratio of 37%. Net gearing decreased 6.2ppt yoy to 32.6%.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2022	2023	2024F	2025F	2026F
Net turnover	207,061.1	251,138.4	287,809.9	293,455.7	297,627.9
EBITDA	44,395.2	50,089.1	57,072.2	61,466.5	63,960.2
Operating profit	43,010.3	49,181.4	56,021.1	60,272.0	62,622.4
Net profit (rep./act.)	28,091.9	31,365.4	28,994.2	31,844.9	33,947.6
Net profit (adj.)	27,000.0	27,770.0	28,994.2	31,844.9	33,947.6
EPS (sen)	378.6	389.4	406.6	446.6	476.1
PE (x)	6.1	5.9	5.6	5.1	4.8
P/B (x)	0.7	0.6	0.5	0.5	0.4
EV/EBITDA (x)	6.8	6.0	5.3	4.9	4.7
Dividend yield (%)	6.1	6.3	6.6	6.8	7.3
Net margin (%)	13.6	12.5	10.1	10.9	11.4
Net debt/(cash) to equity (%)	49.8	45.2	4.1	1.6	(62.4)
Interest cover (x)	26.1	28.7	36.2	41.4	83.9
ROE (%)	11.9	12.3	10.2	10.0	9.7
Consensus net profit	-	-	30,746	33,278	35,877
UOBKH/Consensus (x)	-	-	0.94	0.96	0.95

Source: CR Land, Bloomberg, UOB Kay Hian

n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

BUY

(Maintained)

Share Price	HK\$24.85
Target Price	HK\$42.39
Upside	+70.6%

COMPANY DESCRIPTION

China Resources Land is a strategic business unit under China Resources Group. It is mainly engaged in residential development, investment property, urban redevelopment and property management operations.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	1109 HK
Shares issued (m):	7,130.9
Market cap (HK\$m):	177,203.8
Market cap (US\$m):	22,651.1
3-mth avg daily t'over (US\$m):	43.8

Price Performance (%)

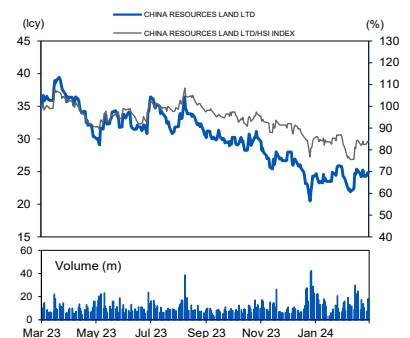
52-week high/low HK\$39.45/HK\$20.50

<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(3.7)	(6.8)	(19.1)	(29.8)	(11.3)

Major Shareholders

	<b>%</b>
China Resources Holdings	65.4
FY24 NAV/Share (HK\$)	42.34
FY24 Net Debt/Share (HK\$)	3.33

PRICE CHART



Source: Bloomberg

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- **DP business stayed in relatively good shape despite challenging environment.** Partly due to inventory impairment, gross margin of the DP business lowered to 20.7%. DP's landbank decreased 4.5% yoy to 52.5m sqm, backed by resilient land acquisition (55% of contracted sales), with higher contribution from Tier 1 & 2 cities (73%). Thanks to accelerated capital recycling through multiple channels (REITs, property sales, etc), net gearing ratio fell to 32.6% as of Dec 23 from 38.8% as of Dec 22. The DP business is well on track despite a challenging industry environment.
- **Resilient investment property portfolio:** a) Retail sales of CR Land's malls recorded 31.2% SSSG growth, driven by a 35.4% yoy growth in average daily footfall; b) the number of malls ranked top 3 in the local market increased from 49 in 2022 to 61 in 2023; c) occupancy cost stayed at a healthy level of 12.2%, implying upside in rental income; d) occupancy rates of offices improved 2.6pt to 81.8% in 2023; and e) gross margin of the IP segment increased 4.0ppt to 70%. Competitiveness of CR Land's malls was further strengthened in 2023.

### STOCK IMPACT

- **Continued to target positive earnings growth in 2024.** Despite of abundant saleable resources (Rmb530.8b, -1.4%yoy), management stay cautious on property sales, and aims to outperform the market and maintain its top 4 position. On the other hand, management expects higher contribution of recurring income to support the stable earnings growth.
- **Strategy update.** Accommodating the new normal of the industry, management plans to expand the asset management business as a new growth driver. As of end-23, CR Land's asset under management reached Rmb427.5, of which 63%/14%/12% were contributed by malls/offices/public facilities respectively. With the successful listing of REITs, we expect accelerated capital recycling of CR Land's assets to help drive earnings growth in the medium term.

### EARNINGS REVISION/RISK

- **Trim earnings forecasts to factor in macroeconomic slowdown.** To factor in weaker-than-expected retail sales and China's property market in 2024, we lower our 2024/25 earnings forecasts by 7.1%/9.8% respectively.
- **Key risks:** Economic recovery is worse than expected, deeper than expected renminbi depreciation.

### VALUATION/RECOMMENDATION

- **We maintain BUY on CR Land with an unchanged target price of HK\$42.39,** derived from SOTP valuation model. CR Land is currently trading at 0.55x 2024F P/B, 5.6x 2024F PE with a 6.6% 2023 dividend yield.

### SOTP VALUATION

		2024	Target PE	Valuation
Attributable net profit from property development	Rmb m	18,004	5.5	99,020
Attributable net profit from recurring income	Rmb m	10,991	16.0	175,849
Sum of the Parts	Rmb m	28,994		274,869
Sum of the Parts	HK\$ m			302,253
No. of shares	m			7,131
Target price	HK\$/sh			42.39

Source: CR Land, UOB Kay Hian

### SHARE PRICE CATALYST

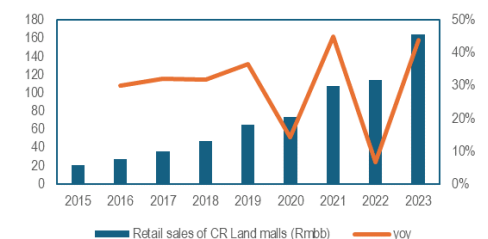
- Tier 1 cities further removing home purchase restrictions.

### KEY DATA OF DP SEGMENT

(Rmb billion)	2021	2022	2023
Contracted sales (a)^	216	208.8	214.9
Land acquisition (b)^	112.6	110.2	118.0
=(b)/(a)	52%	53%	55%
ASP of sales	17,988	21,146	23,486
AV of land acquisition	10,352	13,169	13,673
DP Land bank (m sqm)	57.8	54.9	52.5
Saleable resource for the current year	505.7	527.8	538.4
yoy	-15.1%	-5.0%	-4.5%

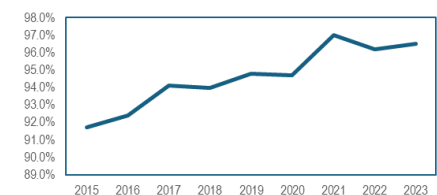
Source: CR Land, UOB Kay Hian.^ on attributable basis

### RETAIL SALES OF CR LAND MALLS(RMBB)



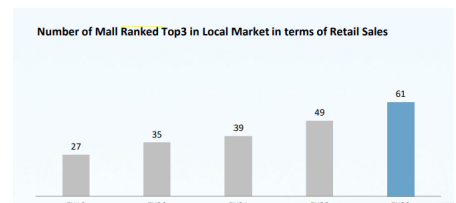
Source: CR Land, UOB Kay Hian

### OCCUPANCY RATIO OF CR LAND MALLS



Source: CR Land, UOB Kay Hian

### NO OF MALLS RANKED TOP 3 IN LOCAL MARKET IN TERMS OF TENANT SALES



Source: CR Land, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
<b>Net turnover</b>	<b>251,138.4</b>	<b>287,809.9</b>	<b>293,455.7</b>	<b>297,627.9</b>
EBITDA	50,089.1	57,072.2	61,466.5	63,960.2
Deprec. & amort.	907.7	1,051.1	1,194.5	1,337.8
EBIT	49,181.4	56,021.1	60,272.0	62,622.4
Total other non-operating income	16,640.2	4,000.0	4,000.0	4,000.0
Associate contributions	2,360.2	2,596.2	2,855.8	3,141.4
Net interest income/(expense)	(1,743.9)	(1,576.7)	(1,484.4)	(761.9)
<b>Pre-tax profit</b>	<b>66,437.9</b>	<b>61,040.6</b>	<b>65,643.4</b>	<b>69,001.8</b>
Tax	(29,134.1)	(26,557.0)	(27,769.3)	(28,627.0)
Minorities	(5,938.4)	(5,489.5)	(6,029.2)	(6,427.3)
Preferred dividends	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>31,365.4</b>	<b>28,994.2</b>	<b>31,844.9</b>	<b>33,947.6</b>
Net profit (adj.)	27,770.0	28,994.2	31,844.9	33,947.6

### CASH FLOW

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
<b>Operating</b>	<b>42,645.2</b>	<b>45,827.4</b>	<b>30,092.5</b>	<b>33,474.0</b>
Pre-tax profit	66,437.9	61,040.6	65,643.4	69,001.8
Tax	(29,134.1)	(26,557.0)	(27,769.3)	(28,627.0)
Deprec. & amort.	(907.7)	(1,051.1)	(1,194.5)	(1,337.8)
Associates	(2,360.2)	(2,596.2)	(2,855.8)	(3,141.4)
Working capital changes	5,050.0	11,312.2	(7,604.7)	(5,859.2)
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	3,559.3	3,678.9	3,873.3	3,437.6
<b>Investing</b>	<b>(50,000.0)</b>	<b>(50,000.0)</b>	<b>(50,000.0)</b>	<b>(50,000.0)</b>
Capex (growth)	(30,000.0)	(30,000.0)	(30,000.0)	(30,000.0)
Investments	(20,000.0)	(20,000.0)	(20,000.0)	(20,000.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
<b>Financing</b>	<b>3,982.8</b>	<b>29,345.4</b>	<b>37,570.7</b>	<b>44,645.0</b>
Dividend payments	10,277.5	(10,727.8)	(11,145.7)	(11,881.6)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	90,000.0	90,000.0	90,000.0	90,000.0
Loan repayment	(50,042.6)	(49,926.8)	(41,283.5)	(33,473.3)
Others/interest paid	(46,252.0)	0.0	0.0	0.0
<b>Net cash inflow (outflow)</b>	<b>(3,371.9)</b>	<b>25,172.8</b>	<b>17,663.2</b>	<b>28,119.0</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>116,046.6</b>	<b>158,926.7</b>	<b>184,099.5</b>	<b>201,762.7</b>
Changes due to forex impact	0.0	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>112,674.7</b>	<b>184,099.5</b>	<b>201,762.7</b>	<b>229,881.7</b>

### BALANCE SHEET

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Fixed assets	278,635.2	311,135.2	343,635.2	376,135.2
Other LT assets	128,181.1	143,161.6	159,476.6	175,886.4
Cash/ST investment	112,675.1	184,099.5	201,762.7	229,881.7
Other current assets	671,685.8	674,029.4	671,241.2	669,833.4
<b>Total assets</b>	<b>1,191,177.1</b>	<b>1,312,425.8</b>	<b>1,376,115.7</b>	<b>1,451,736.8</b>
ST debt	64,286.8	41,283.5	33,473.3	0.0
Other current liabilities	519,919.0	628,460.8	637,606.1	873,183.2
LT debt	167,992.5	155,178.0	173,704.6	0.0
Other LT liabilities	54,829.7	60,007.1	65,961.1	72,808.2
Shareholders' equity	264,867.2	302,725.1	334,570.0	368,517.6
Minority interest	119,281.9	124,771.3	130,800.5	137,227.8
<b>Total liabilities &amp; equity</b>	<b>1,191,177.1</b>	<b>1,312,425.8</b>	<b>1,376,115.7</b>	<b>1,451,736.8</b>

### KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	19.9	19.8	20.9	21.5
Pre-tax margin	26.5	21.2	22.4	23.2
Net margin	12.5	10.1	10.9	11.4
ROA	2.8	2.3	2.4	2.4
ROE	12.3	10.2	10.0	9.7
<b>Growth</b>				
Turnover	21.3	14.6	2.0	1.4
EBITDA	12.8	13.9	7.7	4.1
Pre-tax profit	19.7	(8.1)	7.5	5.1
Net profit	11.7	(7.6)	9.8	6.6
Net profit (adj.)	2.9	4.4	9.8	6.6
EPS	2.9	4.4	9.8	6.6
<b>Leverage</b>				
Debt to total capital	37.7	31.5	30.8	0.0
Debt to equity	87.7	64.9	61.9	0.0
Net debt/(cash) to equity	45.2	4.1	1.6	(62.4)
Interest cover (x)	28.7	36.2	41.4	83.9

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