

# CR Land (1109 HK)

## Flat performance in 2020

Revenue and net profit declined by 2.1% to RMB44.9bn and 9.3% to RMB11.5bn in 1H20, respectively. Contracted sales gained 2.5% to RMB134.8bn in 7M20, which completed 51% of full year sales target. Spin-off for property management business is expected to process this year. We raise TP to HK\$44.79. Maintain BUY.

- **Core earnings rose 3% in 1H20.** Revenue and net profit declined by 2.1% to RMB44.9bn and 9.3% to RMB11.5bn in 1H20, respectively. GM narrowed 4.7ppts to 33.5% in 1H20. Although delivery GFA increased by 18.2% to 2.93mn sq m, ASP shrank 16.9% to RMB12,289 per sq m due to product mix. CR Land implemented better cost control on SG&A expenses. Core earnings increased 3.2% to RMB8.4bn in the period.
- **Contracted sales gained 2.5% in 7M20.** Contracted sales declined 6.7% to RMB110.8bn in 1H20 due to less saleable resources and outbreak. CR Land will accelerate sales pace and launch RMB300bn properties in 2H20 to secure full year sales target of RMB262bn. Contracted sales soared by 90% YoY to RMB23.97bn in Jul 2020. As at Jun 2020, about RMB230.4bn of properties were pre-sold but unbooked, of which RMB107bn will be recognized in 2H20.
- **Flat rental income in 2019 due to outbreak.** Rental income suffered from RMB700mn rental concession and lost 12.5% to RMB5bn in 1H20. Overall occupancy rate stayed at 93.9% in 1H20. Furthermore, CR Land acquired four commercial projects with GFA of 0.27mn sq m from CRH. Number of malls in operation is expected to increase from 64 in 2020 to 88 in 2022 and 120 after 2022. It will support a 15-20% rental income CAGR beyond 2020.
- **Footprints in 81 cities.** The Company acquired 30 projects with attributable GFA of 3.78 sq m in 1H20. As at Jun 2020, CR Land owned attributable GFA of 49.80mn sq m for development business and 9.38mn sq m for IP.
- **Greenlight of property management business spin-off.** CR Land received approval from HKEx for property management and commercial operational service business spin-off. As at Jun 2020, managed GFA totaled 112mn sq m, of which 87.5% and 12.5% are residential and commercial properties.
- **Raise TP.** We slightly cut earnings forecasts by 1.0%, 0.3% and 3.2% to RMB26.4bn, RMB31.8bn and RMB34.7bn in 2020-22, respectively. However, we raise our end-20 NAV forecast from HK\$63.22 to HK\$63.98. Accordingly, TP is changed from HK\$44.25 to HK\$44.79, representing a 30% discount to NAV. Reiterate BUY.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	121,189	147,736	181,240	242,568	271,335
YoY growth (%)	18.9	21.9	22.7	33.8	11.9
Net income (RMB mn)	24,238	28,672	26,383	31,809	34,666
EPS (RMB)	3.50	4.12	3.70	4.46	4.86
YoY growth (%)	23.1	17.7	-10.1	20.6	9.0
Consensus EPS (RMB)	N.A.	3.66	3.87	4.47	4.69
P/E (x)	9.3	7.9	8.8	7.3	6.7
P/B (x)	1.6	1.3	1.2	1.1	1.0
Yield (%)	3.2	3.3	3.8	4.6	5.1
ROE (%)	17.5	16.5	13.7	14.6	14.3
Net gearing (%)	34.9	31.7	32.1	31.6	34.4

Source: Company data, Bloomberg, CMBIS estimates

## BUY (Maintain)

Target Price	HK\$44.79
(Previous TP)	HK\$44.25)
Up/downside	+22.9%
Current Price	HK\$36.45

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#### Stock Data

Mkt Cap (HK\$ mn)	259,923
Avg 3 mths t/o (HK\$ mn)	370
52w High/Low (HK\$)	40.45/27.05
Total Issued Shares (mn)	7,131

Source: Bloomberg

#### Shareholding Structure

China Resources Group	59.6%
Free float	40.4%

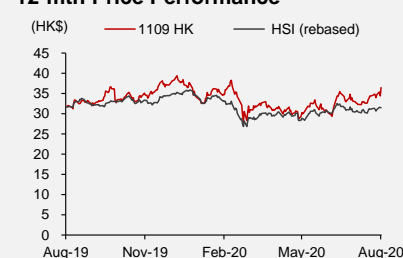
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	3.8%	0.6%
3-mth	17.4%	5.7%
6-mth	-1.3%	4.2%
12-mth	4.9%	7.7%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: Ernst & Young

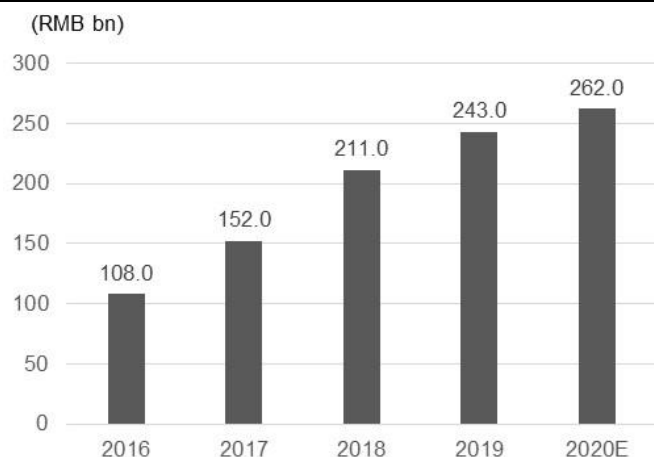
#### Related reports

1. Results slightly missed – 27 Mar 2020
2. Better than expected rental growth – 16 Jan 2020
3. HK\$6.7bn Top-up Placement – 22 Oct 2019
4. 11% core earnings growth – 21 Aug 2019

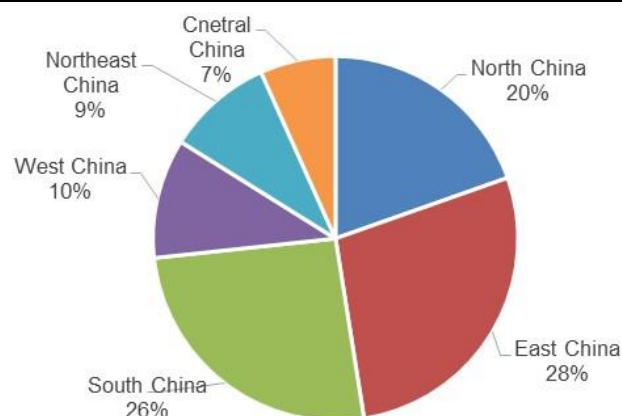
**Figure 1: 2020 interim results**

	1H20 (Rmb mn)	1H19 (Rmb mn)	Change (%)	Remark
<b>Turnover</b>	<b>44,869</b>	<b>45,849</b>	<b>-2.1%</b>	
-Property development	35,972	36,610	-1.7%	Delivery GFA increased 18.2% to 2.93mn sq m
-Property investment & management	4,635	4,979	-6.9%	Rental concession of RMB700mn in 1H20
-Hotel	350	716	-51.2%	
-Construction	3,912	3,544	10.4%	
Cost of Sales	(29,823)	(28,330)	5.3%	
<b>Gross Profit</b>	<b>15,046</b>	<b>17,519</b>	<b>-14.1%</b>	Gross margin narrowed 4.7ppts to 33.5% in 1H20
Other income	1,636	1,760	-7.1%	
Distribution Cost	(1,846)	(2,003)	-7.9%	Cost control
Administrative Expenses	(1,714)	(2,113)	-18.9%	
<b>EBIT</b>	<b>13,122</b>	<b>15,163</b>	<b>-13.5%</b>	
Interest Expense	(565)	(726)	-22.3%	
Associated	2,281	1,824	25.1%	
Revaluation gain of investment properties	4,491	6,256	-28.2%	
Pre-tax Profit	19,329	22,516	-14.2%	
Taxation	(6,095)	(7,893)	-22.8%	Effective tax rate decreased by 3.5ppts to 31.5% in 1H20
Profit after Tax	13,235	14,623	-9.5%	
Minorities	(1,472)	(1,749)	-15.8%	
Perpetual securities	(221)	(148)	49.0%	Repaid all perpetual securities
<b>Net Profit</b>	<b>11,542</b>	<b>12,726</b>	<b>-9.3%</b>	RMB0.15 dividend was declared in 1H20
<b>Core Profit</b>	<b>8,366</b>	<b>8,106</b>	<b>3.2%</b>	

Source: Company data, CMBIS

**Figure 2: Contracted sales amount**

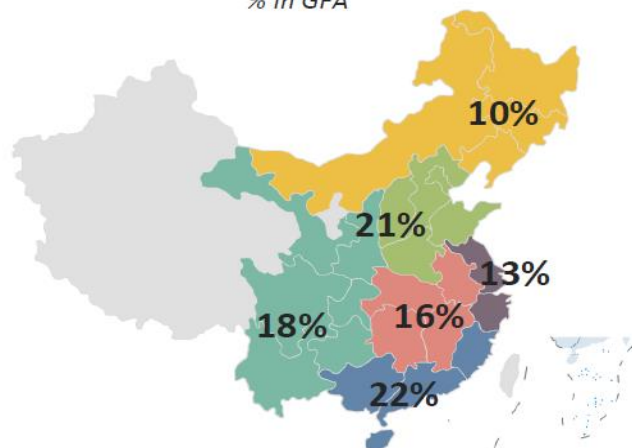
Source: Company data, CMBIS

**Figure 3: Contracted sales area in 1H20**

Source: Company data, CMBIS

**Figure 4: DP land bank breakdown by region**

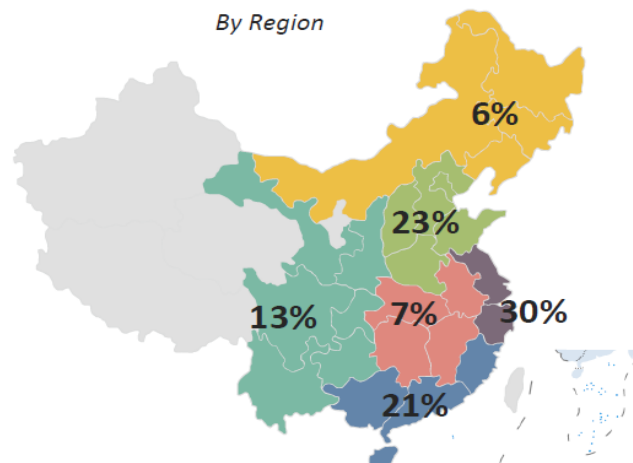
DP Land Bank Allocation by Regions  
% in GFA



Source: Company data

**Figure 5: IP land bank breakdown by region**

IP Land Bank Allocation  
By Region



Source: Company data

Figure 6: Forecast revision

(RMB mn)	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	181,240	242,568	271,335	198,292	245,171	273,723	-8.6%	-1.1%	-0.9%
Gross Profit	63,525	80,448	90,185	71,795	82,325	92,298	-11.5%	-2.3%	-2.3%
EBIT	54,266	68,685	76,226	61,086	69,945	78,314	-11.2%	-1.8%	-2.7%
Net profit	26,383	31,809	34,666	26,638	31,910	35,821	-1.0%	-0.3%	-3.2%
EPS (RMB)	3.70	4.46	4.86	3.74	4.47	5.02	-1.0%	-0.3%	-3.2%
Gross Margin	35.1%	33.2%	33.2%	36.2%	33.6%	33.7%	-1.2 ppt	-0.4 ppt	-0.5 ppt
EBIT Margin	29.9%	28.3%	28.1%	30.8%	28.5%	28.6%	-0.9 ppt	-0.2 ppt	-0.5 ppt
Net Margin	14.6%	13.1%	12.8%	13.4%	13.0%	13.1%	1.1 ppt	0.1 ppt	-0.3 ppt

Source: CMBIS estimates

Figure 7: CMBIS estimates vs consensus

(RMB mn)	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	181,240	242,568	271,335	177,539	212,674	239,520	2.1%	14.1%	13.3%
Gross Profit	63,525	80,448	90,185	62,368	71,839	77,789	1.9%	12.0%	15.9%
EBIT	54,266	68,685	76,226	51,625	62,747	56,307	5.1%	9.5%	35.4%
Net profit	26,383	31,809	34,666	27,085	31,256	33,585	-2.6%	1.8%	3.2%
EPS (RMB)	3.70	4.46	4.86	3.87	4.47	4.69	-4.3%	-0.1%	3.7%
Gross Margin	35.1%	33.2%	33.2%	35.1%	33.8%	32.5%	-0.1 ppt	-0.6 ppt	0.8 ppt
EBIT Margin	29.9%	28.3%	28.1%	29.1%	29.5%	23.5%	0.9 ppt	-1.2 ppt	4.6 ppt
Net Margin	14.6%	13.1%	12.8%	15.3%	14.7%	14.0%	-0.7 ppt	-1.6 ppt	-1.2 ppt

Source: Bloomberg, CMBIS estimates

Figure 8: End-20 NAV estimate

	(RMB mn)	(HK\$ m)	NAV/share		Remark
			(HK\$)	% of NAV	
Development project	266,524	297,128	41.67	72.6%	DCF method with 11.7% WACC 6% cap rate
Investment Properties	204,473	227,952	31.97	55.7%	
Property management	26,910	30,000	4.21	7.3%	by end-20
GAV	497,907	555,080	77.84	135.6%	
Less: Net debt	(88,637)	(98,814)	(13.86)	-24.1%	
NAV	409,270	456,266	63.98	111.5%	

Source: CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>121,189</b>	<b>147,736</b>	<b>181,240</b>	<b>242,568</b>	<b>271,335</b>
Property sales	105,148	127,199	158,760	215,000	238,000
Rental	9,519	12,028	12,268	14,906	17,887
Other	6,522	8,510	10,211	12,662	15,448
Cost of sales	(68,607)	(91,736)	(117,715)	(162,121)	(181,150)
<b>Gross profit</b>	<b>52,582</b>	<b>56,000</b>	<b>63,525</b>	<b>80,448</b>	<b>90,185</b>
Other income and gains	1,023	2,858	2,159	2,306	2,321
Distribution expenses	(4,177)	(5,070)	(5,075)	(6,307)	(7,597)
Administrative expenses	(4,159)	(5,745)	(6,343)	(7,762)	(8,683)
Other expenses	0	0	0	0	0
<b>Operating profit</b>	<b>45,268</b>	<b>48,043</b>	<b>54,266</b>	<b>68,685</b>	<b>76,226</b>
Finance expenses	(1,743)	(1,327)	(1,442)	(1,593)	(1,719)
Associates/JV	1,297	3,718	3,240	3,640	3,640
Exceptional	6,904	10,560	4,491	0	0
<b>Pre-tax profit</b>	<b>51,726</b>	<b>60,994</b>	<b>60,555</b>	<b>70,732</b>	<b>78,148</b>
Profits tax	(24,449)	(26,643)	(29,721)	(34,313)	(38,872)
<b>After-tax profit</b>	<b>27,277</b>	<b>34,352</b>	<b>30,834</b>	<b>36,419</b>	<b>39,276</b>
Minority interest	(2,752)	(5,390)	(4,230)	(4,610)	(4,610)
Perpetual	(288)	(289)	(221)	0	0
<b>Net profit</b>	<b>24,238</b>	<b>28,672</b>	<b>26,383</b>	<b>31,809</b>	<b>34,666</b>
<b>Core profit</b>	<b>19,296</b>	<b>21,647</b>	<b>23,015</b>	<b>31,809</b>	<b>34,666</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY19E	FY20E	FY21E	FY22E
<b>EBIT</b>	<b>45,268</b>	<b>48,043</b>	<b>54,266</b>	<b>68,685</b>	<b>76,226</b>
Depreciation and amortization	565	761	788	800	825
Change in working capital	(58,618)	(30,193)	(40,666)	(28,540)	(31,160)
Income tax paid	(24,009)	(18,959)	(26,224)	(30,313)	(35,572)
Others	64,029	33,053	367	(2,784)	(3,268)
<b>Net cash from operating</b>	<b>27,235</b>	<b>32,706</b>	<b>(11,468)</b>	<b>7,848</b>	<b>7,051</b>
Capex	(14,526)	(17,688)	(9,530)	(4,300)	(13,125)
Associates/JV	(24,900)	(21,345)	(72)	(2,887)	(1,687)
Other	(5,692)	(3,850)	2,627	0	0
<b>Net cash from investing</b>	<b>(45,118)</b>	<b>(42,883)</b>	<b>(6,975)</b>	<b>(7,187)</b>	<b>(14,812)</b>
Equity raised	0	6,051	0	0	0
Change of Debts	28,884	111	22,275	8,180	17,190
Dividend paid	(6,417)	(8,780)	(7,666)	(8,914)	(10,910)
Other	11,497	4,736	20,071	(1,920)	(1,300)
<b>Net cash from financing</b>	<b>33,963</b>	<b>2,118</b>	<b>34,680</b>	<b>(2,654)</b>	<b>4,980</b>
Net change in cash	16,080	(8,059)	16,237	(1,993)	(2,781)
Cash at the beginning	52,410	69,246	61,672	80,409	80,917
Exchange difference	756	485	2,500	2,500	2,500
<b>Cash at the end</b>	<b>69,246</b>	<b>61,672</b>	<b>80,409</b>	<b>80,917</b>	<b>80,636</b>
Pledged deposit	1,723	2,027	2,027	2,027	2,027
Cash at BS	70,969	63,699	82,436	82,944	82,663

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	<b>193,840</b>	<b>242,013</b>	<b>249,254</b>	<b>256,844</b>	<b>272,029</b>
Fixed asset	14,006	15,769	16,000	16,500	16,800
Investment properties	126,864	156,490	165,000	168,000	180,000
Associates/JV	41,340	53,048	54,200	58,300	61,200
Intangible assets	419	437	410	400	385
Other non-current assets	11,210	16,270	13,644	13,644	13,644
<b>Current assets</b>	<b>461,903</b>	<b>520,095</b>	<b>586,606</b>	<b>642,501</b>	<b>703,285</b>
Cash	70,969	63,699	77,313	78,431	78,795
Account receivable	43,515	50,563	52,300	56,400	63,000
Inventories	305,595	356,210	420,000	468,000	520,000
Other current assets	41,823	49,622	36,993	39,670	41,490
<b>Current liabilities</b>	<b>347,948</b>	<b>391,067</b>	<b>436,584</b>	<b>466,404</b>	<b>499,734</b>
Borrowings	22,101	21,345	31,820	35,000	38,190
Trade and other payables	88,246	98,420	105,000	113,000	121,000
Contract liabilities	192,265	226,720	245,000	260,560	280,000
Deferred taxation	22,407	28,562	30,000	32,000	34,000
Other current liabilities	22,930	16,020	24,764	25,844	26,544
<b>Non-current liabilities</b>	<b>127,090</b>	<b>137,569</b>	<b>151,800</b>	<b>159,300</b>	<b>175,000</b>
Borrowings	110,111	113,200	125,000	130,000	144,000
Other non-current liabilities	16,979	24,369	26,800	29,300	31,000
<b>Shareholders' equity</b>	<b>138,376</b>	<b>173,574</b>	<b>193,275</b>	<b>217,240</b>	<b>242,280</b>
Minority interest	37,329	49,898	54,200	56,400	58,300
Perpetual bond	5,000	10,000	0	0	0
Total equity	180,705	233,473	247,475	273,640	300,580

### Key ratios

YE 31 Dec	FY17A	FY19A	FY20E	FY21E	FY22E
<b>Sales mix (%)</b>					
Property sales	87.8	86.1	87.6	88.6	87.7
Rental	7.5	8.1	6.8	6.1	6.6
Others	4.7	5.8	5.6	5.2	5.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	40.2	37.9	35.1	33.2	33.2
Pre-tax margin	35.0	32.5	29.9	28.3	28.1
Net margin	19.3	19.4	14.6	13.1	12.8
Effective tax rate	44.8	43.7	49.1	48.5	49.7
<b>Balance sheet ratios</b>					
Current ratio (x)	1.4	1.3	1.3	1.4	1.4
Receivable day	150.6	124.9	105.3	84.9	84.7
Payable day	229.5	243.2	211.5	170.0	162.8
Inventory day	1343.4	1417.3	1302.3	1053.7	1047.8
Net gearing ratio (%)	35.9	31.7	32.1	31.6	34.4
<b>Returns (%)</b>					
ROE	16.4	16.5	13.7	14.6	14.3
ROA	4.1	3.8	3.2	3.5	3.6
<b>Per share data</b>					
EPS (RMB)	2.84	4.12	3.70	4.46	4.86
DPS (HK\$)	0.83	1.07	1.24	1.50	1.68
BVPS (RMB)	17.27	24.34	27.10	30.46	33.98

Source: Company data, CMBIS estimates

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