

CR Land (1109 HK)

Better than expected rental growth

CR Land announced that management was reshuffled in Dec 2019. We believe the change does not have negative impact to the Company. Its contracted sales increased by 15% to RMB242.5bn in 2019. So it was ranked as the 10th largest property company in China. After 10mn sq m newly acquired lands in 2H19, we raise our NAV estimate to HK\$61.01. Then, we raise target price from HK\$36.02 to HK\$42.15. Upside potential is 16.0%. Recommendation is changed to BUY.

- **Top management changed.** The Company announced that Tang Yong resigned as the Chairman of the Board and Wang Xiangming was appointed as Chairman of the Board in Dec 2019. Mr Tang would act as the President of CR Power (836 HK, NR). On the other hand, Mr. Wang joined CR (Holdings) in 2019. Prior to that, he was general manager of China State Construction Engineering Corp. So we believe the departure of Mr Tang is an internal arrangement. We do not have any concern about this.
- **Contracted sales increased 15% in 2019.** Contracted sales amount and area gained by 15.1% to RMB242.5bn and 10.5% to 13.25mn sq m in 2019, respectively. Contracted ASP gained by 4.2% to RMB18,304/sq m in 2019. Sales in East China and North China represented about 30% and 22% of contracted sales in 2019. According to CRIC, CR Land was ranked as the top 10 developer based on contracted sales in 2019. We forecast its contracted sales growth will slow to 13.4% in 2020 due to the scale.
- **Sustainable rental income growth in 2019.** The Company also announced that its rental income grew by 29.7% to RMB12.4bn in 2019. Now, it operates 32 shopping malls with 10.2mn sq m of leasable GFA. In 2020, Xian Mixc One, Nanning Wuxiang Mixc One and Chengdu Mixc Phase II will open and these bring about 0.26mn sq m of leasable GFA to the Company. We forecast rental income will grow at 24.0% to RMB15.3bn in 2020. Furthermore, the Company plans to spin off its property management business that will become a short-term catalyst.
- **Upgrade to BUY.** Since the better than expected rental growth, we raise our earnings forecasts by 2.2%, 3.3% and 3.9% in 2019-21E. CR Land has strengthened its capital after HK\$6.7bn share placement. It bought 43 plots of land with total GFA of 10.03mn sq m in 2H19. We raise end-20 NAV estimate to HK\$61.01 due to new land acquisitions. As a result, we raise TP from HK\$36.02 to HK\$42.15, representing a 30% discount to NAV. As a result, recommendation is upgraded to BUY.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	101,943	121,189	153,243	197,114	249,617
YoY growth (%)	8.4	18.9	26.4	28.6	26.6
Net income (RMB mn)	19,690	24,238	28,460	27,772	35,118
EPS (RMB)	2.84	3.50	4.09	3.89	4.92
YoY growth (%)	17.4	23.1	16.9	-4.7	26.5
P/E (x)	11.6	9.4	8.0	8.4	6.7
P/B (x)	1.9	1.6	1.4	1.3	1.1
Yield (%)	2.5	3.2	3.6	4.4	5.0
ROE (%)	16.4	17.5	17.1	14.9	16.5
Net gearing (%)	35.9	34.9	30.7	29.5	30.6

Source: Company data, CMBIS estimates

BUY (Up)

Target Price	HK\$42.15
(Previous TP	HK\$36.02)
Up/downside	+16.0%
Current Price	HK\$36.35

China Property Sector

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Stock Data

Mkt Cap (HK\$ mn)	260,992
Avg 3 mths t/o (HK\$ mn)	532
52w High/Low (HK\$)	50.45/28.80
Total Issued Shares (mn)	7,131

Source: Bloomberg

Shareholding Structure

China Resources Group	59.6%
Free float	40.4%

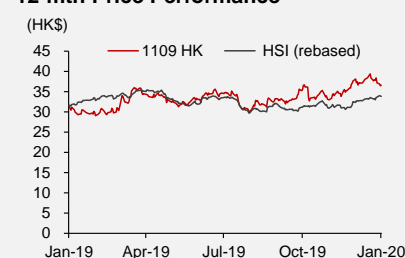
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Share Performance

	Absolute	Relative
1-mth	-3.2%	-7.2%
3-mth	3.4%	-5.1%
6-mth	5.0%	3.5%
12-mth	18.0%	7.4%

Source: Bloomberg

12-mth Price Performance

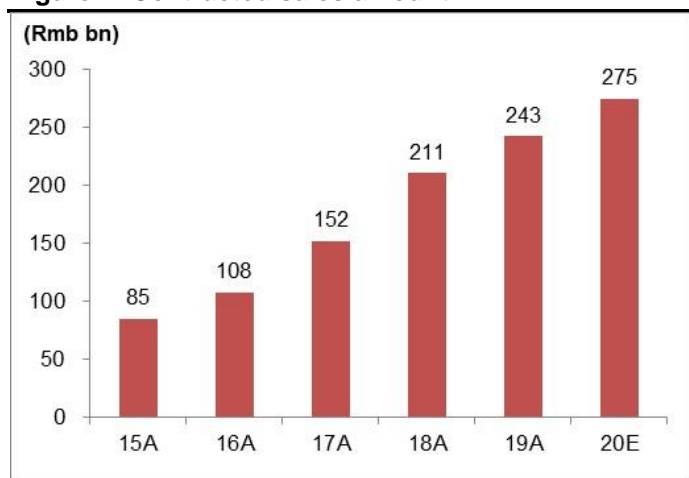


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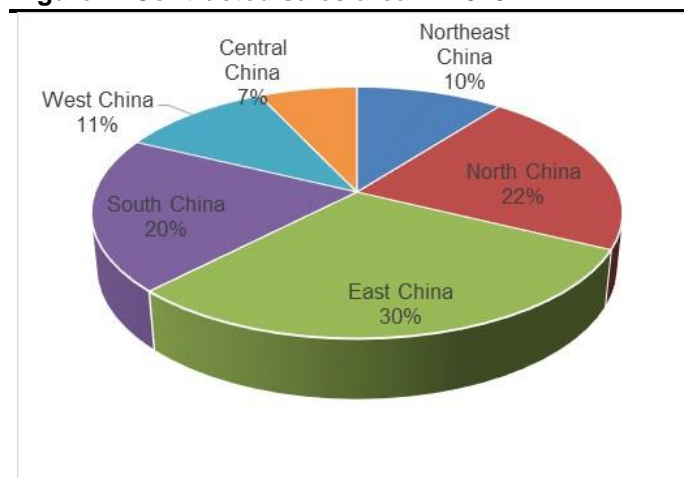
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Related reports

1. HK\$6.7bn Top-up Placement – 22 Oct 2019
2. 11% core earnings growth – 21 Aug 2019

Figure 1: Contracted sales amount

Source: Company data, CMBIS estimates

Figure 2: Contracted sales area in 2019

Source: Company data

Figure 3: Forecast revision

(RMB mn)	New			Old			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	153,243	197,114	249,617	152,129	195,284	246,881	0.7%	0.9%	1.1%
Gross Profit	59,425	71,323	88,029	58,735	70,188	86,333	1.2%	1.6%	2.0%
EBIT	51,272	62,244	74,460	50,647	61,204	72,899	1.2%	1.7%	2.1%
Net profit	28,460	27,772	35,118	27,836	26,882	33,807	2.2%	3.3%	3.9%
EPS (RMB)	4.09	3.89	4.92	4.00	3.77	4.74	2.2%	3.3%	3.9%
Gross Margin	38.8%	36.2%	35.3%	38.6%	35.9%	35.0%	0.2 ppt	0.2 ppt	0.3 ppt
EBIT Margin	33.5%	31.6%	29.8%	33.3%	31.3%	29.5%	0.2 ppt	0.2 ppt	0.3 ppt
Net Margin	18.6%	14.1%	14.1%	18.3%	13.8%	13.7%	0.3 ppt	0.3 ppt	0.4 ppt

Source: CMBIS estimates

Figure 4: End-20 NAV estimate

	NAV/share		% of NAV	Remark
	(HK\$ m)	(HK\$)		
Development project	225,982	31.69	52.6%	DCF method with 11.7% WACC 6% cap rate by end-20
Investment Properties	284,466	39.89	66.3%	
GAV	510,448	71.58	118.9%	
Less: Net debt	(76,090)	(10.67)	-17.7%	
Less: Perpetual bonds	(5,000)	(0.70)	-1.2%	
NAV	429,359	60.21	100.0%	

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	101,943	121,189	153,243	197,114	249,617
Property sales	89,511	105,148	133,200	172,800	220,800
Rental	7,646	9,519	12,347	15,310	18,372
Other	4,786	6,522	7,696	9,004	10,445
Cost of sales	(60,981)	(68,607)	(93,817)	(125,791)	(161,587)
Gross profit	40,962	52,582	59,425	71,323	88,029
Other income and gains	1,751	1,023	2,444	2,805	749
Distribution expenses	(3,381)	(4,177)	(5,299)	(5,845)	(6,912)
Administrative expenses	(3,655)	(4,159)	(5,299)	(6,039)	(7,406)
Other expenses	0	0	0	0	0
Operating profit	35,676	45,268	51,272	62,244	74,460
Finance expenses	(1,603)	(1,743)	(2,258)	(2,431)	(2,631)
Associates/JV	202	1,297	3,040	3,240	3,640
Exceptional	5,150	6,904	6,256	0	0
Pre-tax profit	39,425	51,726	58,309	63,052	75,470
Profits tax	(17,675)	(24,449)	(25,734)	(30,756)	(35,446)
After-tax profit	21,750	27,277	32,575	32,297	40,023
Minority interest	(2,060)	(2,752)	(3,820)	(4,230)	(4,610)
Perpetual	0	(288)	(295)	(295)	(295)
Net profit	19,690	24,238	28,460	27,772	35,118
Core profit	16,379	19,296	23,768	27,772	35,118

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
EBIT	30,681	45,268	51,272	62,244	74,460
Depreciation and amortization	464	565	700	745	771
Change in working capital	(11,846)	6,062	(22,064)	(10,967)	(30,560)
Income tax paid	(13,561)	(24,009)	(26,329)	(27,694)	(34,140)
Others	3,572	(651)	6,081	(3,011)	(1,240)
Net cash from operating	9,311	27,235	9,660	21,317	9,291
Capex	(10,928)	(14,526)	(16,730)	(17,265)	(11,451)
Associates/JV	(14,751)	(24,900)	(7,846)	(2,920)	(2,887)
Other	302	(5,692)	1,227	(606)	310
Net cash from investing	(25,376)	(45,118)	(23,349)	(20,791)	(14,028)
Equity raised	0	0	6,028	0	0
Change of Debts	34,770	28,884	9,288	11,717	12,440
Dividend paid	(5,062)	(6,417)	(7,476)	(8,700)	(10,554)
Other	(1,524)	11,497	10,269	1,032	870
Net cash from financing	28,184	33,963	18,110	4,050	2,756
Net change in cash	12,119	16,080	4,420	4,575	(1,980)
Cash at the beginning	40,429	52,410	69,246	76,167	83,242
Exchange difference	(138)	756	2,500	2,500	2,500
Cash at the end	52,410	69,246	76,167	83,242	83,762
Pledged deposit	1,364	1,723	1,723	1,723	1,723
Cash at BS	53,774	70,969	77,890	84,965	85,485

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19A	FY20A	FY21A
Non-current assets	146,351	193,840	217,502	238,628	253,098
Fixed asset	10,633	14,006	14,900	15,420	16,100
Investment properties	99,209	126,864	142,000	158,000	168,000
Associates/JV	28,420	41,340	50,200	54,200	58,300
Intangible assets	433	419	419	419	419
Other non-current assets	7,657	11,210	9,983	10,589	10,279
Current assets	334,099	461,903	503,916	546,428	603,485
Cash	53,774	70,969	77,890	84,965	85,485
Account receivable	42,050	43,515	48,000	52,300	56,400
Inventories	224,444	305,595	348,000	378,000	430,000
Other current assets	13,831	41,823	30,026	31,163	31,600
Current liabilities	239,823	347,948	378,080	408,322	442,478
Borrowings	25,658	22,101	26,500	31,820	38,190
Trade and other payables	64,109	88,246	90,000	91,800	93,650
Contract liabilities	119,373	192,265	215,337	236,870	260,560
Deferred taxation	19,613	22,407	22,855	23,312	23,778
Other current liabilities	11,070	22,930	23,388	24,520	26,300
Non-current liabilities	96,387	127,090	131,024	140,117	147,123
Borrowings	79,899	110,111	115,000	121,397	127,467
Other non-current liabilities	16,489	16,979	16,024	18,720	19,656
Shareholders' equity	119,718	138,376	166,254	186,449	212,298
Minority interest	24,522	37,329	41,060	45,168	49,685
Perpetual bond	0	5,000	5,000	5,000	5,000
Total equity	144,240	180,705	212,314	236,617	266,982

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Property sales	87.8	86.8	86.9	87.7	88.5
Rental	7.5	7.9	8.1	7.8	7.4
Others	4.7	5.4	5.0	4.6	4.2
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	40.2	43.4	38.8	36.2	35.3
Pre-tax margin	35.0	37.4	33.5	31.6	29.8
Net margin	19.3	20.0	18.6	14.1	14.1
Effective tax rate	44.8	47.3	44.1	48.8	47.0
Balance sheet ratios					
Current ratio (x)	1.4	1.3	1.3	1.3	1.4
Receivable day	150.6	131.1	114.3	96.8	82.5
Payable day	229.5	265.8	214.4	170.0	136.9
Inventory day	1343.4	1625.8	1353.9	1096.8	971.3
Net gearing ratio (%)	35.9	34.9	30.7	29.5	30.6
Returns (%)					
ROE	16.4	17.5	17.1	14.9	16.5
ROA	4.1	3.7	3.9	3.5	4.1
Per share data					
EPS (RMB)	2.84	3.50	4.09	3.89	4.92
DPS (HK\$)	0.83	1.06	1.19	1.46	1.63
BVPS (RMB)	17.27	19.96	23.31	26.15	29.77

Source: Company data, CMBIS estimates

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