

CR Land (1109 HK)

Results slightly missed

Although 2019 core earnings was 9% below our estimate, its IP business and property management business were the catalysts. Due to COVID-19, we cut earnings forecast by 4.1% in 2020 and 9.1% in 2021. After considering the new land bank, we raise our NAV estimate from HK\$61.01 to HK\$63.22. Then, we raise target price from HK\$42.15 to HK\$44.25. Maintain BUY.

- **Core earnings 9% below our estimate.** Revenue and net profit gained by 21.9% to RMB147.7bn and 18.3% to RMB28.7bn in 2019, respectively. Gross margin narrowed from 43.4% in 2018 to 37.9% in 2019 because of less SZ projects contribution. Effective tax rate tumbled by 3.6ppts to 43.7% in 2019 because of less LAT. Excluding revaluation gain of investment properties (IP), core earnings gained by 12.2% to RMB21.6bn, which was 8.9% below our forecast. Total dividend was RMB1.066 per share, up 0.7% YoY.
- **2020 contracted sales target of RMB262bn.** CR Land was ranked as the tenth largest developer in China, in terms of contracted sales. After considering the impact of outbreak, CR Land sets its 2020 contracted sales target at RMB262bn, compared with full year contracted sales of RMB242.5bn in 2019. As at end-19, about RMB223.9bn of properties were pre-sold but unbooked, of which RMB128.7bn will be recognized in 2020.
- **Rental income reached RMB12bn in 2019.** Rental income increased by 26.3% to RMB12.0bn in 2019, of which malls, offices and hotels contributed about 76%, 12% and 12% of total rental income. CR Land opened eight new IPs in 2019. By 2020, CR Land expects to have 88 malls in 9.0mn sq m leasable GFA under operation.
- **Spin-off of Property management business on track.** The Company acquired 82 projects with attributable GFA of 13.25 sq m in 2019. As at end-19, CR Land owned attributable GFA of 41.67mn sq m for development business and 6.94mn sq m for IP. Furthermore, CR Land adopts X Strategy, including property management, senior housing and rental apartment as well as city development and operation. CR Land had 140mn sq m of properties under management and revenue from property management surged by 35.8% to RMB5.8bn in 2019. If the Company succeeds to spin off property management business, it would enhance its NAV.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	121,189	147,736	198,292	245,171	273,723
YoY growth (%)	18.9	21.9	34.2	23.6	11.6
Net income (RMB mn)	24,238	28,672	26,638	31,910	35,821
EPS (RMB)	3.50	4.12	3.74	4.47	5.02
YoY growth (%)	23.1	17.7	-9.3	19.8	12.3
Consensus EPS (RMB)	N.A.	3.66	4.03	4.61	N.A.
P/E (x)	7.8	6.6	7.3	6.1	5.4
P/B (x)	1.4	1.1	1.0	0.9	0.8
Yield (%)	3.9	3.9	4.5	5.5	6.2
ROE (%)	17.5	16.5	13.8	14.7	14.7
Net gearing (%)	34.9	31.7	31.2	31.5	30.4

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$44.25
(Previous TP)	HK\$42.15)
Up/downside	+45.8%
Current Price	HK\$30.35

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Stock Data

Mkt Cap (HK\$ mn)	216,424
Avg 3 mths t/o (HK\$ mn)	550
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%

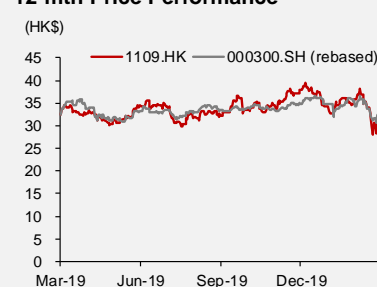
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-12.7%	-3.8%
3-mth	-18.3%	-11.1%
6-mth	-7.3%	-3.7%
12-mth	-3.4%	-3.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

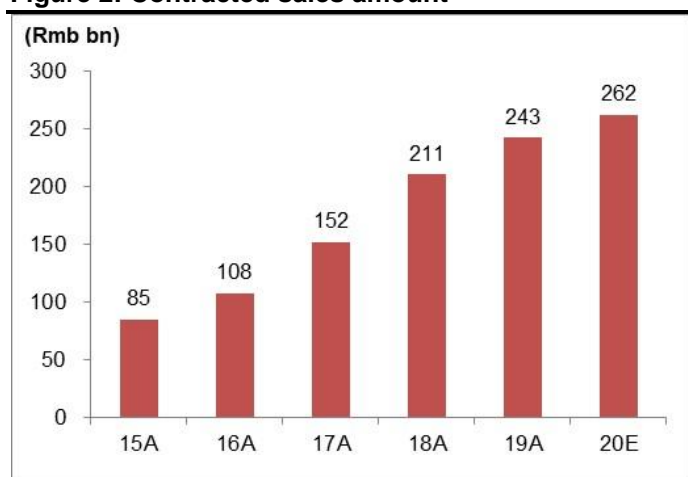
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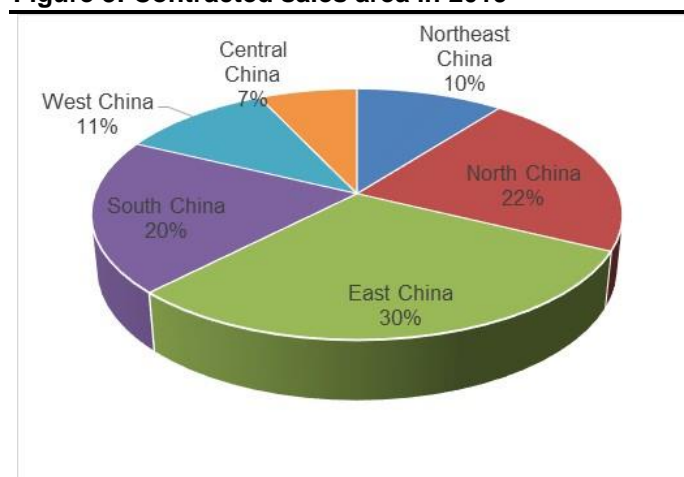
Figure 1: 2019 results

	FY18A (RMB mn)	FY19A (RMB mn)	Growth (%)	FY19E (RMB mn)	Diff (%)	Remark
Turnover	121,189	147,736	21.9%	153,243	-3.6%	
-Property development	105,148	127,199	21.0%	133,200	-4.5%	Delivery GFA increased by 24% to 7.53mn sq m in 2019
-Property investment	9,519	12,028	26.3%	12,347	-2.6%	8 shopping malls opened in 2018
-Other	6,522	8,510	30.5%	7,696	10.6%	
Cost of Sales	-68,607	-91,736	33.7%	-93,817	-2.2%	
Gross Profit	52,582	56,000	6.5%	59,425	-5.8%	Gross margin was narrowed by 5.5ppts to 37.9% in 2019
Other operating income	1,023	2,858	179.4%	2,444	17.0%	
Distribution Cost	-4,177	-5,070	21.4%	-5,299	-4.3%	
Administrative Expenses	-4,159	-5,745	38.1%	-5,299	8.4%	
EBIT	45,268	48,043	6.1%	51,272	-6.3%	
Net finance income	-1,743	-1,327	-23.9%	-2,258	-41.2%	
Associated	1,297	3,718	186.7%	3,040	22.3%	
Exceptional	6,904	10,560	52.9%	6,256	68.8%	Revaluation gain in IP
Pre-tax Profit	51,726	60,994	17.9%	58,309	4.6%	
Taxation	-24,449	-26,643	9.0%	-25,734	3.5%	Effective tax rate declined by 3.6ppts to 43.7% in 2019
Profit after Tax	27,277	34,352	25.9%	32,575	5.5%	
Minority	-2,752	-5,390	95.9%	-3,820	41.1%	
Perpetual securities	-288	-289	N.A.	-295	-2.0%	
Net Profit	24,238	28,672	18.3%	28,460	0.7%	Total dividend of RMB1.066 per share, up 0.7% YoY
Core Profit	19,296	21,647	12.2%	23,768	-8.9%	

Source: Company data, CMBIS estimates

Figure 2: Contracted sales amount

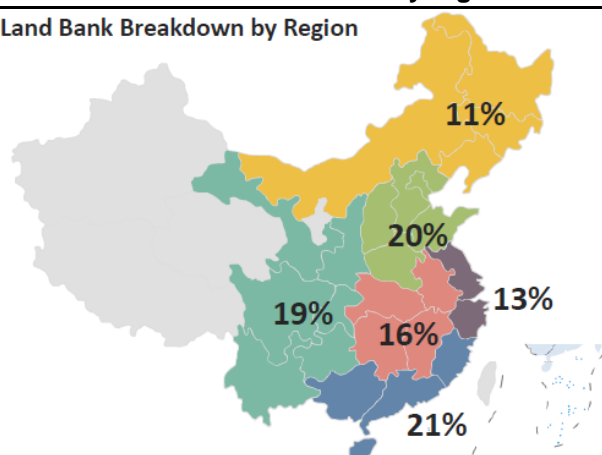
Source: Company data, CMBIS

Figure 3: Contracted sales area in 2019

Source: Company data, CMBIS

Figure 4: DP land bank breakdown by region

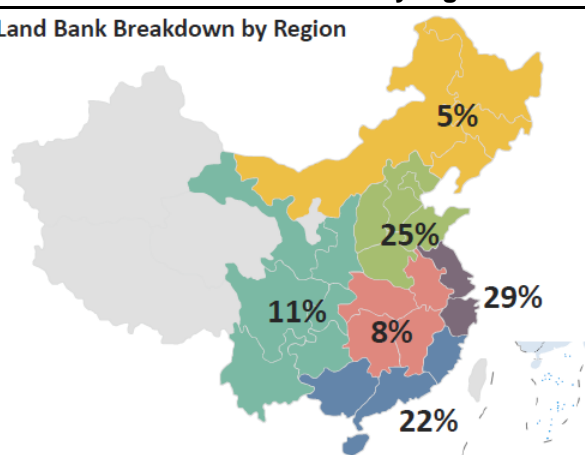
DP Land Bank Breakdown by Region



Source: Company data

Figure 5: IP land bank breakdown by region

IP Land Bank Breakdown by Region



Source: Company data

Figure 6: Forecast revision

(RMB mn)	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	198,292	245,171	273,723	197,114	249,617	N.A.	0.6%	-1.8%	N.A.
Gross Profit	71,795	82,325	92,298	71,323	88,029	N.A.	0.7%	-6.5%	N.A.
EBIT	61,086	69,945	78,314	62,244	74,460	N.A.	-1.9%	-6.1%	N.A.
Net profit	26,638	31,910	35,821	27,772	35,118	N.A.	-4.1%	-9.1%	N.A.
EPS (RMB)	3.74	4.47	5.02	3.89	4.92	N.A.	-4.0%	-9.0%	N.A.
Gross Margin	36.2%	33.6%	33.7%	36.2%	35.3%	N.A.	0 ppt	-1.7 ppt	N.A.
EBIT Margin	30.8%	28.5%	28.6%	31.6%	29.8%	N.A.	-0.8 ppt	-1.3 ppt	N.A.
Net Margin	13.4%	13.0%	13.1%	14.1%	14.1%	N.A.	-0.7 ppt	-1.1 ppt	N.A.

Source: CMBIS estimates

Figure 7: End-20 NAV estimate

	NAV/share			Remark
	(HK\$ m)	(HK\$)	% of NAV	
Development project	269,967	37.86	59.9%	DCF method with 11.7% WACC
Investment Properties	277,118	38.86	61.5%	6% cap rate
GAV	547,085	76.72	121.4%	
Less: Net debt	-86,297	-12.10	-19.1%	by end-20
Less: Perpetual bonds	-10,000	-1.40	-2.2%	
NAV	450,789	63.22	100.0%	

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	121,189	147,736	198,292	245,171	273,723
Property sales	105,148	127,199	173,166	215,000	238,000
Rental	9,519	12,028	14,914	18,121	21,745
Other	6,522	8,510	10,211	12,050	13,977
Cost of sales	-68,607	-91,736	-126,497	-162,846	-181,425
Gross profit	52,582	56,000	71,795	82,325	92,298
Other income and gains	1,023	2,858	2,180	2,331	2,439
Distribution expenses	-4,177	-5,070	-5,949	-6,865	-7,664
Administrative expenses	-4,159	-5,745	-6,940	-7,845	-8,759
Other expenses	0	0	0	0	0
Operating profit	45,268	48,043	61,086	69,945	78,314
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	0	0	0
Pre-tax profit	51,726	60,994	62,884	71,992	80,235
Profits tax	-24,449	-26,643	-31,436	-34,872	-39,174
After-tax profit	27,277	34,352	31,448	37,120	41,061
Minority interest	-2,752	-5,390	-4,230	-4,610	-4,610
Perpetual	-288	-289	-580	-600	-630
Net profit	24,238	28,672	26,638	31,910	35,821
Core profit	19,296	21,647	26,638	31,910	35,821

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY19E	FY20E	FY21E	FY22E
EBIT	30,681	48,043	61,086	69,945	78,314
Depreciation and amortization	464	761	788	800	825
Change in working capital	-11,846	-13,035	-53,796	-25,410	-31,160
Income tax paid	-13,561	-16,289	-27,939	-30,872	-35,874
Others	3,572	32,011	367	-2,784	-3,268
Net cash from operating	9,311	51,492	-19,492	11,678	8,836
Capex	-10,928	-32,150	-4,530	-9,300	-3,125
Associates/JV	-14,751	-10,452	-72	-2,887	-1,687
Other	302	-5,076	2,627	0	0
Net cash from investing	-25,376	-47,678	-1,975	-12,187	-4,812
Equity raised	0	6,028	0	0	0
Change of Debts	34,770	2,333	22,275	8,180	17,190
Dividend paid	-5,062	-7,476	-7,666	-8,914	-10,910
Other	-1,524	-14,469	20,071	-1,920	-1,300
Net cash from financing	28,184	-13,584	34,680	-2,654	4,980
Net change in cash	12,119	-9,770	13,213	-3,162	9,004
Cash at the beginning	40,429	69,246	61,976	77,689	77,027
Exchange difference	-138	2,500	2,500	2,500	2,500
Cash at the end	52,410	61,976	77,689	77,027	88,531
Pledged deposit	1,364	1,723	1,723	1,723	1,723
Cash at BS	53,774	63,699	79,412	78,750	90,254

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	193,840	242,013	244,280	256,880	262,080
Fixed asset	14,006	15,769	16,000	16,500	16,800
Investment properties	126,864	156,490	160,000	168,000	170,000
Associates/JV	41,340	53,048	54,200	58,300	61,200
Intangible assets	419	437	437	437	437
Other non-current assets	11,210	16,270	13,644	13,644	13,644
Current assets	461,903	520,095	593,705	652,820	724,744
Cash	70,969	63,699	79,412	78,750	90,254
Account receivable	43,515	50,563	52,300	56,400	63,000
Inventories	305,595	356,210	425,000	478,000	530,000
Other current assets	41,823	49,622	36,993	39,670	41,490
Current liabilities	347,948	391,067	428,454	466,404	499,734
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	236,870	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
Non-current liabilities	127,090	137,569	151,800	159,300	175,000
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
Shareholders' equity	138,376	173,574	193,531	217,597	243,791
Minority interest	37,329	49,898	54,200	56,400	58,300
Perpetual bond	5,000	10,000	10,000	10,000	10,000
Total equity	180,705	233,473	257,731	283,997	312,091

Key ratios

YE 31 Dec	FY17A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Property sales	87.8	86.1	87.3	87.7	86.9
Rental	7.5	8.1	7.5	7.4	7.9
Others	4.7	5.8	5.1	4.9	5.1
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	40.2	37.9	36.2	33.6	33.7
Pre-tax margin	35.0	32.5	30.8	28.5	28.6
Net margin	19.3	19.4	13.4	13.0	13.1
Effective tax rate	44.8	43.7	50.0	48.4	48.8
Balance sheet ratios					
Current ratio (x)	1.4	1.3	1.4	1.4	1.5
Receivable day	150.6	124.9	96.3	84.0	84.0
Payable day	229.5	243.2	193.3	168.2	161.3
Inventory day	1343.4	1417.3	1226.3	1071.4	1066.3
Net gearing ratio (%)	35.9	31.7	31.2	31.5	30.4
Returns (%)					
ROE	16.4	16.5	13.8	14.7	14.7
ROA	4.1	3.8	3.2	3.5	3.6
Per share data					
EPS (RMB)	2.84	4.12	3.74	4.47	5.02
DPS (HK\$)	0.83	1.07	1.24	1.50	1.68
BVPS (RMB)	17.27	24.34	27.14	30.51	34.19

Source: Company data, CMBIS estimates

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