

CR Land (1109 HK)

11% core earnings growth

SUMMARY. Revenue and core earnings grew by 4.7% to RMB45.8bn and 11.3% to RMB8.11bn in 1H19, respectively. Total land bank amounted to 67.37mn sq m, which is sufficient for the Company's next five years' development. We raise TP from HK\$33.18 to HK\$34.81, based on 30% discount to NAV. Maintain HOLD recommendation.

- **Net profit grew by 43.6% to RMB12.7bn in 1H19.** Due to decline of properties booked in Shenzhen, recognized ASP tumbled by 21.5% that slowed down revenue growth of property development to 0.3% in 1H19. On the other hand, rental income soared by 34.9% to RMB5.0bn in the period because of the contribution of newly opened shopping malls. Gross margin narrowed to 38.2% in 1H19 from 48.1% in 1H18. Given RMB6.3bn revaluation gain in investment properties (IP) recorded in 1H19 (vs. RMB2.0bn in 1H18), bottom line jumped 43.6% to RMB12.7bn while core earnings gained 11.3% to RMB8.11bn in 1H19.
- **Contracted sales increased 26% in 1H19.** Contracted sales amount and area gained by 26.0% to RMB118.8bn and 9.6% to 6.26mn sq m in 1H19, respectively. Including RMB12.7bn sales in Jul, the Company achieved 54.3% hit rate by Jul based on RMB242bn sales target. As of Jun 2019, CR Land locked up revenue from property development of RMB273.3bn, of which RMB116.9bn was recognized in 2019. Earnings visibility is high in 2019 and 2020.
- **83 shopping malls will operate after 2021.** As at Jun 2019, 35 shopping malls were in operation. Rental income from shopping malls surged by 39% to RMB4.29bn in 1H19. In 2H19, six new shopping malls will open. It is estimated that there will be 53 shopping malls in operation by end-2021 and another 30 malls will operate after 2021. Strong pipeline of IP will be the major growth engine.
- **Total land bank of 67.37mn sq m.** CR Land acquired 39 plots of land with 10.21 mn sq m total GFA in 1H19. As of Jun 2019, the Company had the footprint in 75 cities worldwide. Total and attributable land bank amounted to 67.37mn sq m and 50.56mn sq m as at Jun 2019, respectively.
- **Maintain HOLD.** Net gearing increased from 34.9% as at Dec 2018 to 43.6% as at Jun 2019 but was at safe level. Cost of debt stayed at low level of 4.45% in 1H19. We raise our earnings forecast by 18.1% to RMB27.8bn in 2019 but trim 6.3% to RMB26.9bn in 2020. We estimate end-20 NAV to be HK\$49.73 per share. As a result, we raise TP from HK\$33.18 to HK\$34.81, representing a 30% discount to NAV.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	101,943	121,189	152,129	195,284	246,881
YoY growth (%)	8.4	18.9	25.5	28.4	26.4
Net income (RMB mn)	19,690	24,238	27,836	26,882	33,807
EPS (RMB)	2.84	3.50	4.02	3.88	4.88
YoY growth (%)	17.4	23.1	14.8	-3.4	25.8
P/E (x)	9.9	8.1	7.0	7.3	5.8
P/B (x)	1.6	1.4	1.2	1.1	1.0
Yield (%)	2.9	3.8	4.2	5.2	5.8
ROE (%)	16.4	17.5	17.4	15.0	16.6
Net gearing (%)	35.9	34.9	35.0	33.7	34.9

Source: Company data, CMBIS estimates

HOLD (Maintain)

Target Price	HK\$34.81
(Previous TP)	HK\$33.18)
Up/downside	+10.7%
Current Price	HK\$31.45

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Stock Data

Mkt Cap (HK\$ mn)	217,978
Avg 3 mths t/o (HK\$ mn)	304.3
52w High/Low (HK\$)	37.35/23.80
Total Issued Shares (mn)	6,931

Source: Bloomberg

Shareholding Structure

China Resources Group	61.3%
Free float	38.7%

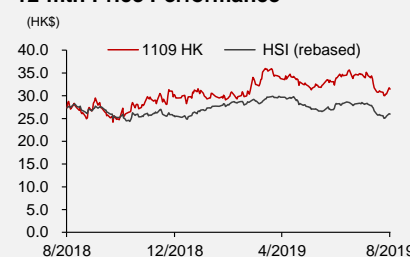
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-8.6%	0.0%
3-mth	-2.2%	4.0%
6-mth	6.9%	14.8%
12-mth	20.7%	25.0%

Source: Bloomberg

12-mth Price Performance



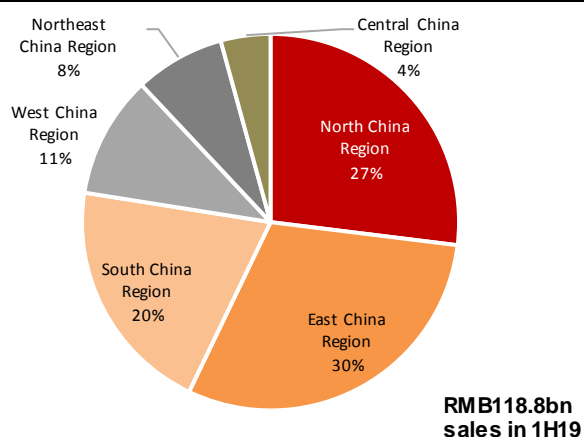
Source: Bloomberg

Auditor: Ernst & Young

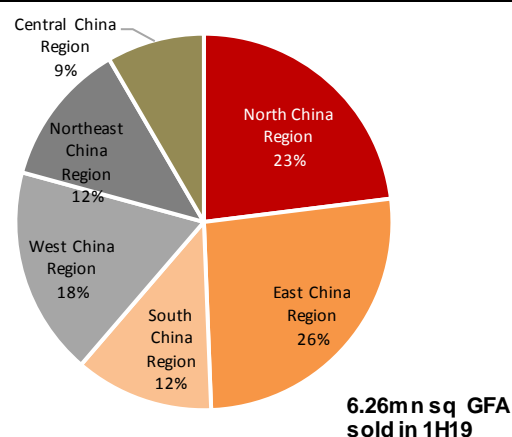
Figure 1: 1H19 interim results

	1H19A (RMB mn)	1H18A (RMB mn)	Growth (%)	Remark
Turnover	45,849	43,778	4.7%	
-Property development	36,610	36,486	0.3%	Booking GFA increased by 27.8% to 2.48mn sqm in 1H19
-Property investment	4,979	3,690	34.9%	
-Hotel	716	678	5.6%	
-Other	3,544	2,924	21.2%	
Cost of Sales	(28,330)	(22,712)	24.7%	
Gross Profit	17,519	21,066	-16.8%	Gross margin narrowed by 9.9ppt to 38.2% in 1H19
Other operating income	1,760	961	83.2%	
Distribution Cost	(2,003)	(1,474)	35.9%	
Administrative Expenses	(2,113)	(1,580)	33.7%	
EBIT	15,163	18,973	-20.1%	
Net finance income	(726)	(929)	-21.8%	Average cost of debt: 4.45%
Associated	1,824	341	434.4%	
Exceptional	6,256	2,032	207.9%	Revaluation gain of investment properties
Pre-tax Profit	22,516	20,417	10.3%	
Taxation	(7,893)	(9,710)	-18.7%	Effective tax rate narrowed by 12.5ppts to 35.1% in 1H19
Profit after Tax	14,623	10,707	36.6%	
Minority	(1,749)	(1,718)	1.8%	
Distribution to perpetual security	(148)	(138)	7.6%	
Net Profit	12,726	8,851	43.8%	Declared interim dividend of RMB0.129 per share, up 17% yoy
Core Profit	8,106	7,284	11.3%	

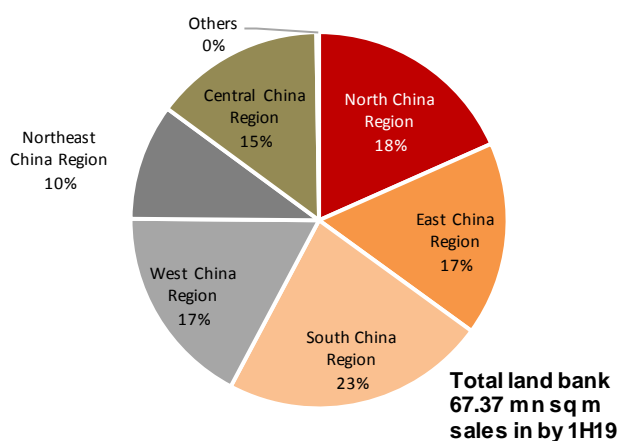
Source: Company data

Figure 2: Contracted sales amount in 1H19

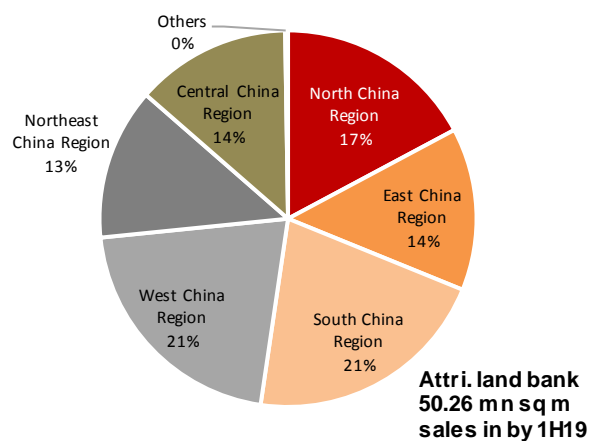
Source: Company data

Figure 3: Contracted sales area in 1H19

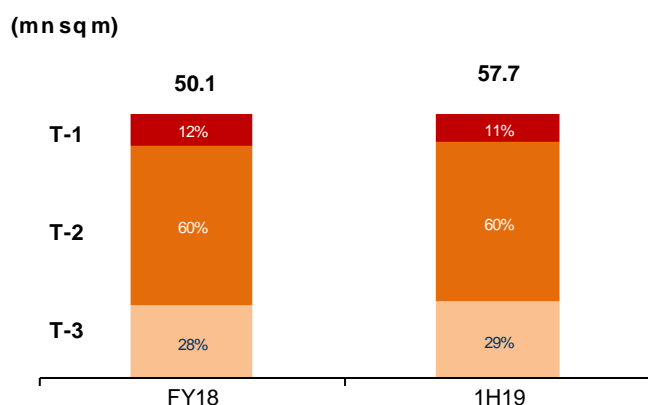
Source: Company data

Figure 4: Total land bank breakdown

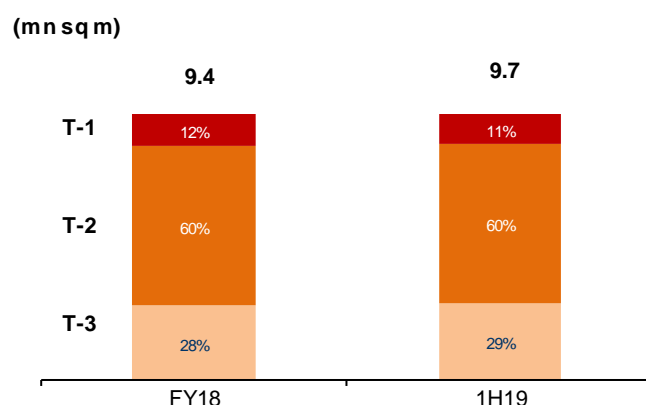
Source: Company data

Figure 5: Attri. land bank breakdown

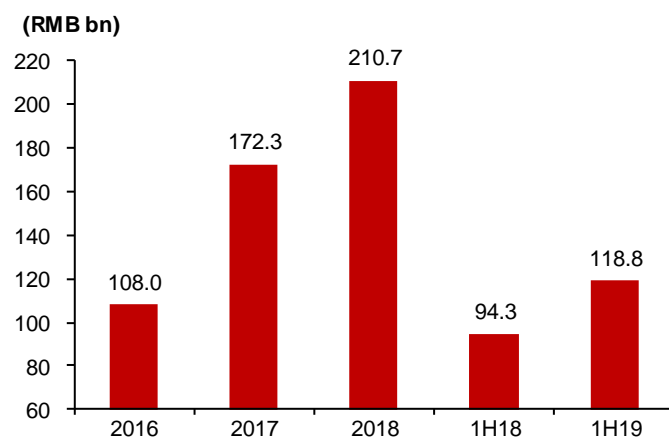
Source: Company data

Figure 6: Development property land bank breakdown by tiers of cities


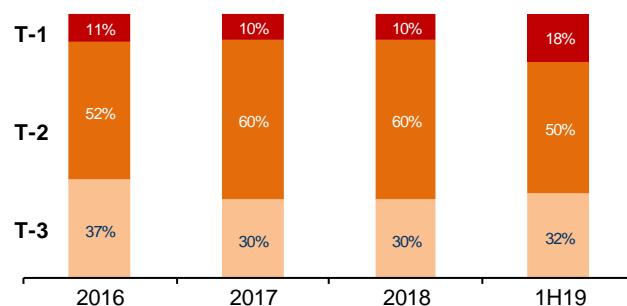
Source: Company data

Figure 7: Investment property land bank breakdown by tiers of cities


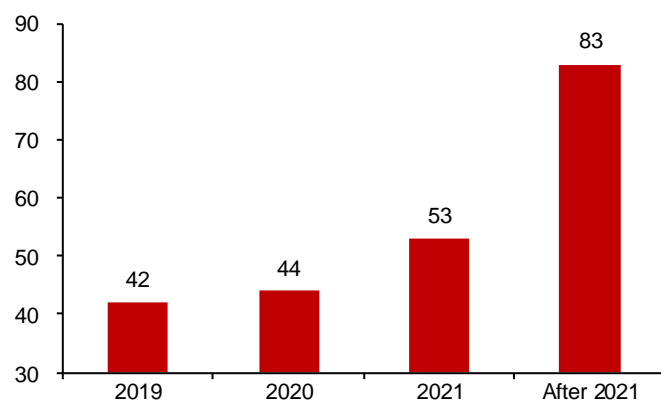
Source: Company data

Figure 8: Contracted sales


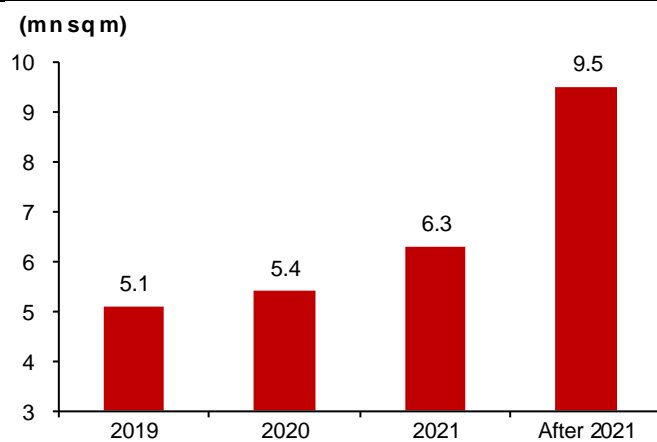
Source: Company data

Figure 9: Contracted sales by tiers of cities


Source: Company data

Figure 10: Number of malls


Source: Company data

Figure 11: GFA of IP in operation


Source: Company data

Figure 12: Forecast revision

RMB mn	New			Old			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	152,129	195,284	246,881	163,969	211,484	274,481	-7.2%	-7.7%	-10.1%
Gross Profit	58,735	70,188	86,333	63,234	75,858	95,717	-7.1%	-7.5%	-9.8%
EBIT	50,647	61,204	72,899	55,701	66,305	81,227	-9.1%	-7.7%	-10.3%
Net profit	27,836	26,882	33,807	23,570	28,674	36,110	18.1%	-6.3%	-6.4%
EPS (RMB)	4.02	3.88	4.88	3.40	4.14	5.21	18.1%	-6.3%	-6.4%
Gross Margin	38.6%	35.9%	35.0%	38.6%	35.9%	34.9%	0 ppt	0.1 ppt	0.1 ppt
EBIT Margin	33.3%	31.3%	29.5%	34.0%	31.4%	29.6%	-0.7 ppt	0 ppt	-0.1 ppt
Net Margin	18.3%	13.8%	13.7%	14.4%	13.6%	13.2%	3.9 ppt	0.2 ppt	0.5 ppt

Source: CMBIS estimates

Figure 13: End-20 NAV estimate

	NAV/share			Remark
	(HK\$ m)	(HK\$)	% of NAV	
Development project	183,394	26.46	53.2%	DCF method with 10.7% WACC
Investment Properties	250,456	36.14	72.7%	6% cap rate
GAV	433,850	62.60	125.9%	
Less: Net debt	(84,206)	(12.15)	-24.4%	by end-20
Less: Perpetual bonds	(5,000)	(0.72)	-1.5%	
NAV	344,644	49.73	100.0%	

Source: CMBIS estimates

Financial Summary

Income statement

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	101,943	121,189	152,129	195,284	246,881
Property sales	89,511	105,148	133,200	172,800	220,800
Rental	7,646	9,519	11,233	13,480	15,636
Other	4,786	6,522	7,696	9,004	10,445
Cost of sales	(60,981)	(68,607)	(93,394)	(125,096)	(160,548)
Gross profit	40,962	52,582	58,735	70,188	86,333
Other income and gains	1,751	1,023	2,444	2,805	749
Distribution expenses	(3,381)	(4,177)	(5,266)	(5,798)	(6,847)
Administrative expenses	(3,655)	(4,159)	(5,266)	(5,991)	(7,336)
Other expenses	0	0	0	0	0
Operating profit	35,676	45,268	50,647	61,204	72,899
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	57,685	62,013	73,908
Profits tax	(17,675)	(24,449)	(25,734)	(30,606)	(35,197)
After-tax profit	21,750	27,277	31,951	31,407	38,712
Minority interest	(2,060)	(2,752)	(3,820)	(4,230)	(4,610)
Perpetual	0	(288)	(295)	(295)	(295)
Net profit	19,690	24,238	27,836	26,882	33,807
Core profit	16,379	19,296	23,144	26,882	33,807

Cash flow summary

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
EBIT	30,681	45,268	50,647	61,204	72,899
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)	(27,544)	(33,890)
Others	3,572	(651)	6,108	(3,025)	(1,276)
Net cash from operating	9,311	27,235	9,063	20,412	7,944
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	0	0	0
Change of Debts	34,770	28,884	9,288	11,717	12,440
Dividend paid	(5,062)	(6,417)	(7,472)	(8,456)	(10,258)
Other	(1,524)	11,497	10,269	1,032	870
Net cash from financing	28,184	33,963	12,086	4,294	3,052
Net change in cash	12,119	16,080	(2,200)	3,915	(3,032)
Cash at the beginning	40,429	52,410	69,246	69,546	75,961
Exchange difference	(138)	756	2,500	2,500	2,500
Cash at the end	52,410	69,246	69,546	75,961	75,429
Pledged deposit	1,364	1,723	1,723	1,723	1,723
Cash at BS	53,774	70,969	71,270	77,684	77,153

Balance sheet

YE Dec 31 (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	497,296	539,147	595,153
Cash	53,774	70,969	71,270	77,684	77,153
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	159,634	179,169	203,965
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	205,694	229,337	258,650

Key ratios

YE Dec 31	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Property sales	87.8	86.8	87.6	88.5	89.4
Rental	7.5	7.9	7.4	6.9	6.3
Others	4.7	5.4	5.1	4.6	4.2
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	40.2	43.4	38.6	35.9	35.0
Pre-tax margin	35.0	37.4	33.3	31.3	29.5
Net margin	19.3	20.0	18.3	13.8	13.7
Effective tax rate	44.8	47.3	44.6	49.4	47.6
Balance sheet ratios					
Current ratio (x)	1.4	1.3	1.3	1.3	1.3
Receivable day	150.6	131.1	115.2	97.8	83.4
Payable day	229.5	265.8	215.9	171.6	138.5
Inventory day	1343.4	1625.8	1360.0	1102.9	977.6
Net gearing ratio (%)	35.9	34.9	35.0	33.7	34.9
Returns (%)					
ROE	16.4	17.5	17.4	15.0	16.6
ROA	4.1	3.7	3.9	3.5	4.0
Per share data					
EPS (RMB)	2.84	3.50	4.02	3.88	4.88
DPS (HK\$)	0.83	1.06	1.19	1.46	1.63
BVPS (RMB)	17.27	19.96	23.03	25.85	29.43

Source: Company data, CMBIS estimates

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