

# CR Land (1109 HK)

## HK\$6.7bn Top-up Placement

CR Land announced to have HK\$6.7bn top-up placement. It sold 200mn existing shares at HK\$33.65 per share and will subscribe same amount of shares at same price. Total proceeds amounted to HK\$6.7bn. The parent will reduce its holding from 61.27% to 59.55% after the subscription of new shares in Nov 2019. New shares represent 2.8% of enlarged capital. We raise TP from HK\$34.81 to HK\$36.02 due to new land acquisitions in 3Q19 and new proceeds. Maintain HOLD recommendation.

- **Raised HK\$6.72bn.** The Company announced to sell 200mn existing shares at HK\$33.65 per share and will subscribe same amount of shares at same price. The placing price is equivalent to 6.9% discount to previous closing price of HK\$36.15. Total proceeds amounted to HK\$6.72bn, of which 90% is used for land acquisitions and remaining 10% is used for general working capital.
- **Contracted sales increased 16% in 9M19.** Contracted sales amount and area gained by 15.7% to RMB175.4bn and 11.0% to 9.56mn sq m in 9M19, respectively. CR Land achieved 73% hit rate by Sep based on RMB242bn sales target. Although sales growth in 9M19 was faster than national average of 7.1%, it was slower than that of mid-cap developers because of the size. East China Region, North China Region and South China Region contributed about 29.0%, 24.1% and 19.3% of contracted sales in 9M19, respectively. The even geographical distribution would reduce concentration risk.
- **29% rental income growth in 9M19.** Following more shopping malls commenced operation, rental income from investment properties surged by 29.1% to RMB8.91bn in 9M19. In 2H19, six new shopping malls will open. It will drive rental income growth further in the future. We forecast rental income will grow at 18.0% to RMB11.2bn in 2019 and 20.0% to RMB13.5bn in 2020.
- **RMB21.9bn capex on land acquisitions in 3Q19.** CR Land acquired 20 plots of land with 4.33 mn sq m total GFA in 3Q19. Attributable land premium amounted to RMB21.86bn. In 9M19, CR Land replenished 14.53mn sq m of new land bank that can support the Company's development next three years.
- **Maintain HOLD.** We forecast net gearing as at Dec 2019 to improve from 35.3% before placement to 31.1% after placement. We also trim our EPS forecast by 0.5% in 2019 and 2.8% in 2020 due to dilution. However, we raise end-20 NAV estimate from HK\$49.73 to HK\$51.45 due to new proceeds and new land. As a result, we raise TP from HK\$34.81 to HK\$36.02, 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	4.00	3.77	4.74
YoY growth (%)	17.4	23.1	14.3	-5.7	25.8
P/E (x)	10.5	8.5	7.5	7.9	6.3
P/B (x)	1.7	1.5	1.3	1.2	1.0
Yield (%)	2.8	3.5	4.0	4.9	5.5
ROE (%)	16.4	17.5	16.8	14.5	16.1
Net gearing (%)	35.9	34.9	31.1	30.3	32.0

Source: Company data, CMBIS estimates

### HOLD (Maintain)

Target Price	HK\$36.02
(Previous TP	HK\$34.81)
Up/downside	+8.2%
Current Price	HK\$33.30

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#### Stock Data

Mkt Cap (HK\$ mn)	230,800
Avg 3 mths t/o (HK\$ mn)	313
52w High/Low (HK\$)	37.40/23.80
Total Issued Shares (mn)	6,931

Source: Bloomberg

#### Shareholding Structure

China Resources Group	58.4%
Free float	41.6%

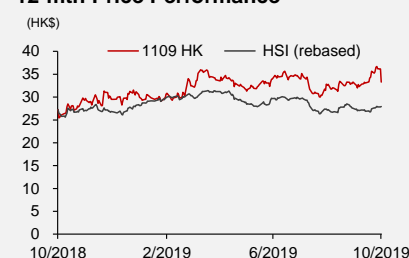
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	8.6%	7.4%
3-mth	4.0%	12.0%
6-mth	7.0%	19.9%
12-mth	42.3%	36.1%

Source: Bloomberg

#### 12-mth Price Performance



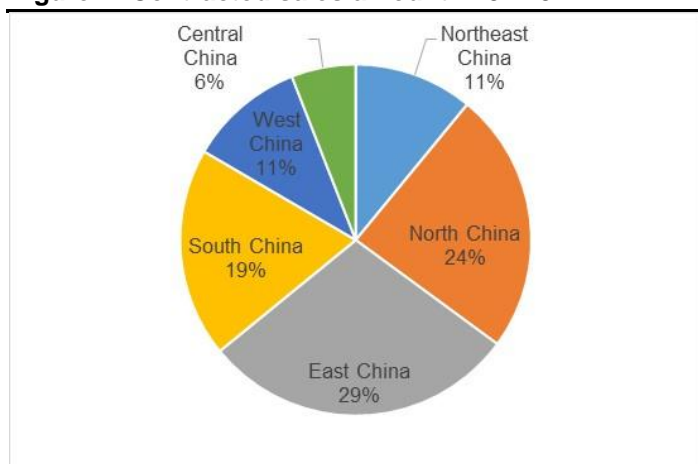
Source: Bloomberg

#### Auditor: Ernst & Young

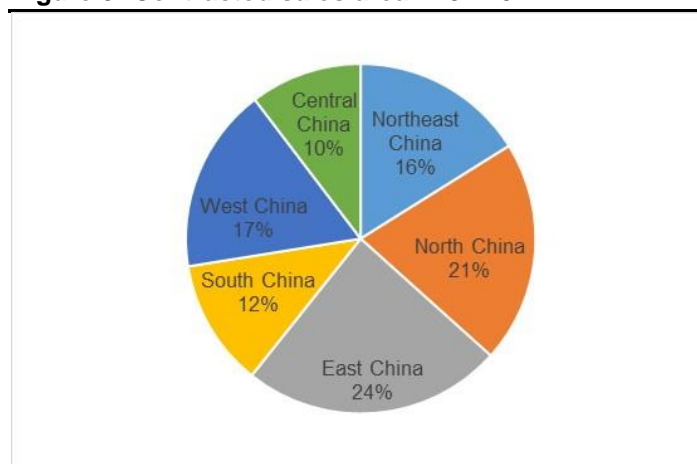
**Figure 1: Effect of the placing and the subscription**

	At present		Immediately after Completion of the Placing but before Subscription		Immediately after Completion of the Placing and Subscription	
Shareholders	No. of shares (mn)	%	No. of shares (mn)	%	No. of shares (mn)	%
CR Holdings	4,246.6	61.27%	4,046.6	58.38%	4,246.6	59.55%
Directors	2.6	0.04%	2.6	0.04%	2.6	0.04%
Placees	0.0	0.00%	200.0	2.89%	200.0	2.80%
Other public shareholders	2,681.8	38.69%	2,681.8	38.69%	2,681.8	37.61%
Total	6,931.0	100.00%	6,931.0	100.00%	7,131.0	100.00%

Source: Company data

**Figure 2: Contracted sales amount in 9M19**

Source: Company data

**Figure 3: Contracted sales area in 9M19**

Source: Company data

**Figure 4: Forecast revision**

RMB mn	New			Old			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	152,129	195,284	246,881	152,129	195,284	246,881	0.0%	0.0%	0.0%
Gross Profit	58,735	70,188	86,333	58,735	70,188	86,333	0.0%	0.0%	0.0%
EBIT	50,647	61,204	72,899	50,647	61,204	72,899	0.0%	0.0%	0.0%
Net profit	27,836	26,882	33,807	27,836	26,882	33,807	0.0%	0.0%	0.0%
EPS (RMB)	4.00	3.77	4.74	4.02	3.88	4.88	-0.5%	-2.8%	-2.8%

Source: CMBIS estimates

**Figure 5: End-20 NAV estimate**

	(HK\$ m)	NAV/share (HK\$)	% of NAV	Remark
Development project	199,214	27.94	54.3%	DCF method with 11.0% WACC 6% cap rate by end-20
Investment Properties	250,456	35.12	68.3%	
GAV	449,670	63.06	122.6%	
Less: Net debt	(77,778)	(10.91)	-21.2%	
Less: Perpetual bonds	(5,000)	(0.70)	-1.4%	
NAV	366,892	51.45	100.0%	

Source: CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Revenue</b>	<b>101,943</b>	<b>121,189</b>	<b>152,129</b>	<b>195,284</b>	<b>246,881</b>
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)
<b>Gross profit</b>	<b>40,962</b>	<b>52,582</b>	<b>58,735</b>	<b>70,188</b>	<b>86,333</b>
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
<b>Operating profit</b>	<b>35,676</b>	<b>45,268</b>	<b>50,647</b>	<b>61,204</b>	<b>72,899</b>
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
<b>Pre-tax profit</b>	<b>39,425</b>	<b>51,726</b>	<b>57,685</b>	<b>62,013</b>	<b>73,908</b>
Profits tax	(17,675)	(24,449)	(25,734)	(30,606)	(35,197)
<b>After-tax profit</b>	<b>21,750</b>	<b>27,277</b>	<b>31,951</b>	<b>31,407</b>	<b>38,712</b>
Minority interest	(2,060)	(2,752)	(3,820)	(4,230)	(4,610)
Perpetual	0	(288)	(295)	(295)	(295)
<b>Net profit</b>	<b>19,690</b>	<b>24,238</b>	<b>27,836</b>	<b>26,882</b>	<b>33,807</b>
<b>Core profit</b>	<b>16,379</b>	<b>19,296</b>	<b>23,144</b>	<b>26,882</b>	<b>33,807</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>EBIT</b>	<b>30,681</b>	<b>45,268</b>	<b>50,647</b>	<b>61,204</b>	<b>72,899</b>
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)	6,081	(3,011)	(1,240)
<b>Net cash from operating</b>	<b>9,311</b>	<b>27,235</b>	<b>9,036</b>	<b>20,426</b>	<b>7,980</b>
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
<b>Net cash from investing</b>	<b>(25,376)</b>	<b>(45,118)</b>	<b>(23,349)</b>	<b>(20,791)</b>	<b>(14,028)</b>
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
<b>Net cash from financing</b>	<b>28,184</b>	<b>33,963</b>	<b>18,110</b>	<b>4,050</b>	<b>2,756</b>
Net change in cash	12,119	16,080	3,796	3,685	(3,292)
Cash at the beginning	40,429	52,410	69,246	75,543	81,727
Exchange difference	(138)	756	2,500	2,500	2,500
<b>Cash at the end</b>	<b>52,410</b>	<b>69,246</b>	<b>75,543</b>	<b>81,727</b>	<b>80,936</b>
Pledged deposit	1,364	1,723	1,723	1,723	1,723
Cash at BS	53,774	70,969	77,266	83,451	82,659

### Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19A	FY20A	FY21A
<b>Non-current assets</b>	<b>146,351</b>	<b>193,840</b>	<b>217,502</b>	<b>238,628</b>	<b>253,098</b>
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
<b>Current assets</b>	<b>334,099</b>	<b>461,903</b>	<b>503,292</b>	<b>544,914</b>	<b>600,659</b>
Cash	53,774	70,969	77,266	83,451	82,659
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
<b>Current liabilities</b>	<b>239,823</b>	<b>347,948</b>	<b>378,080</b>	<b>408,322</b>	<b>442,478</b>
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
<b>Non-current liabilities</b>	<b>96,387</b>	<b>127,090</b>	<b>131,024</b>	<b>140,117</b>	<b>147,123</b>
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
<b>Shareholders' equity</b>	<b>119,718</b>	<b>138,376</b>	<b>165,630</b>	<b>184,935</b>	<b>209,471</b>
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	211,690	235,103	264,156

### Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Sales mix (%)</b>					
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
<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	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
<b>Balance sheet ratios</b>					
Current ratio (x)	1.4	1.3	1.3	1.3	1.4
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	31.1	30.3	32.0
<b>Returns (%)</b>					
ROE	16.4	17.5	16.8	14.5	16.1
ROA	4.1	3.7	3.9	3.4	4.0
<b>Per share data</b>					
EPS (RMB)	2.84	3.50	4.00	3.77	4.74
DPS (HK\$)	0.83	1.06	1.19	1.46	1.63
BVPS (RMB)	17.27	19.96	23.23	25.93	29.38

Source: Company data, CMBIS estimates

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