

CR Mixc Lifestyle (1209 HK)

NDR takeaway

We hosted a post-results NDR for CR Mixc Lifestyle. Below are the key questions from investors, and answers from Company management:

- **What is CR Mixc's strategy for third-party expansion?** The Company plans to focus on three major property types: 1) **residential and commercial properties**; 2) **public projects** by leveraging CR Land's history as a public service provider (infrastructure, public facilities, venues); 3) **industrial parks & high-tech parks** by coordinating with other CR subsidiaries or bidding/M&A. The Company considers its core strength to be the capacity to operate multi-type property complex.
- **How will gross margin for commercial operations improve?** CR Mixc targets 60%+ gross margin for mall/office building operations in 2021. The Company plans to achieve economy of scale through increasing the capacity of existing personnel, and letting them work on multiple projects at once. Apart from new projects, CR Mixc can improve margins through existing projects which have seen 15%+ rental growth.
- **How does retail sales growth improve commercial operations revenue?** Given rental income = retail sales*rent/sales ratio and the ratio is mostly constant, retail sales growth should roughly equal rental growth. Therefore, CR Mixc's 2021 target of 33% sales growth represents >30% rental growth. Furthermore, tenants' EBITDA margin increases given largely constant costs, allowing EBITDA to grow even faster. Finally, as CR Mixc takes fixed rate commissions from rental (5%) and EBITDA (10%), operations revenue growth will likely exceed 33% should CR Mixc reach its sales target.
- **What is the growth trajectory for malls, and how to maintain long-term growth?** CR Mixc's malls enter a stable phase after three years in operation, where sales/rental income grows by 15-20% per year. To maintain long-term growth, the Company does the following: 1) annual elimination of tenants based on sales ranking, with worst-performing 20% swapped out after contract ends; 2) hardware adjustments based on project and consumer preference; 3) adjustments to tenant structure based on operating statistics.
- **Do luxury brands have bargaining power over mall operators, and enjoy a rental discount?** The luxury section has a lower rent/sales ratio than lower-tier items of the same type, but makes a major contribution to operations revenue given its much larger sales income. In CR Mixc's luxury malls, top-end brands contribute to ~45% sales revenue and 40%+ of operations income.
- **How does CR Mixc compete in the upper-middle tier mall space?** Compared to the luxury Mixc series, the upper-middle tier Mixc series faces more competition, and in general, Mixc performs better than Mixc in sales per unit area. The Company considers Mixc as a regional (spanning tier one to strong tier three cities) but still high quality project (with upscale brand offerings). Among 62 of Mixc's projects (incl. 30+ Mixc), 40+ ranks top 3 regionally in terms of sales. The Company employs a ranking-oriented, sales-oriented strategy to improve its mall offerings and maintain competitiveness.

BUY (Maintain)

Target Price	HK\$56.00
Up/Downside	+23.8%
Current Price	HK\$45.25

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Stock Data

Mkt Cap (HK\$ mn)	103,283
Avg 3 mths t/o (HK\$ mn)	208.67
52w High/Low (HK\$)	53.30/27.25
Total Issued Shares (mn)	2,283

Source: Bloomberg

Shareholding Structure

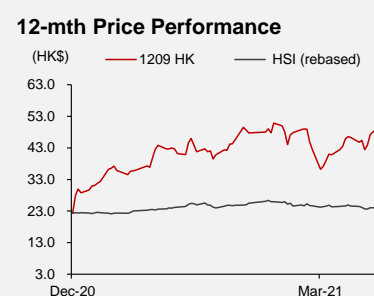
CR Land & CR Holdings	73.7%
Company directors	0.1%
Free float	26.2%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-3.2%	-1.2%
3-mth	28.8%	23.6%
6-mth	N.A.	N.A.
12-mth	N.A.	N.A.

Source: Bloomberg



Source: Bloomberg

Auditor: Ernst & Young

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	4,432	5,868	6,779	8,984	11,957
YoY growth (%)	41.6	32.4	15.5	32.5	33.1
Net income (RMB mn)	423	365	818	1,580	2,115
EPS (RMB)	N.A.	N.A.	0.49	0.69	0.93
YoY growth (%)	N.A.	N.A.	N.A.	42.8	33.8
Consensus EPS (RMB)	N.A.	N.A.	0.33	0.63	0.86
P/E (x)	N.A.	N.A.	82.1	57.5	43.0
P/B (x)	N.A.	N.A.	7.3	6.5	6.0
Yield (%)	N.A.	N.A.	0.3	0.6	0.8
ROE (%)	63.4	35.4	6.6	11.3	14.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	4,432	5,868	6,779	8,984	11,957
Residential PM	2,763	3,472	3,884	5,155	7,110
Commercial op. and PM	1,668	2,397	2,895	3,829	4,847
Cost of sales	(3,766)	(4,926)	(4,952)	(6,076)	(8,069)
Gross Profit	665	942	1,827	2,908	3,888
Other income	55	77	180	77	79
Selling expenses	(54)	(71)	(50)	(63)	(84)
Administrative expenses	(335)	(432)	(747)	(674)	(897)
Other gains/(losses)	308	45	(3)	(5)	(5)
Operating profit	640	561	1,207	2,244	2,981
JV/Associates	-	-	-	-	-
Finance cost	(68)	(64)	(72)	(64)	(64)
Pre-tax Profit	572	497	1,135	2,180	2,917
Income tax	(149)	(132)	(317)	(599)	(802)
PROFIT FOR THE YEAR	423	365	818	1,580	2,115
Non-controlling interest	-	-	-	-	-
Net Profit to shareholders	423	365	818	1,580	2,115

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Profit before tax	572	497	1,135	2,180	2,917
D&A	42	53	50	54	58
Change in working capital	865	(10)	1,116	196	571
Others	(337)	(84)	(317)	(599)	(802)
Net cash from operating	1,142	455	1,984	1,831	2,743
Capex	(184)	(76)	(70)	(70)	(70)
JV/Associates	-	1	2	3	4
Others	(544)	(1,009)	(2)	(3)	(4)
Net cash from investing	(727)	(1,084)	(70)	(70)	(70)
Equity raised	-	-	11,051	-	-
Change of debts	73	191	522	-	-
Others	(223)	(92)	(3,780)	(301)	(569)
Net cash from financing	(150)	99	7,793	(301)	(569)
Net change in cash	265	(531)	9,707	1,460	2,104
Cash at the beginning of year	871	1,136	605	10,312	11,772
Exchange difference	-	-	-	-	-
Cash at the end of the year	1,136	605	10,312	11,772	13,876

Key ratios

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Non-current assets	2,382	2,478	2,744	2,651	2,671
PP&E	180	203	260	251	269
Investment properties	2,168	2,218	2,234	2,234	2,234
Others	34	57	250	166	168
Current assets	3,360	4,623	16,332	18,359	21,247
Inventories	106	106	196	241	320
Trade and other receivables	1,933	3,188	1,608	2,132	2,837
Cash and cash equivalents	1,136	605	10,312	11,772	13,876
Others	185	724	4,215	4,215	4,215
Total assets	5,742	7,101	19,076	21,010	23,918
Current liabilities	3,685	4,637	5,055	5,527	7,323
Trade and other payables	2,898	3,739	3,366	4,129	5,484
Others	787	899	1,690	1,397	1,839
Non-current liabilities	1,390	1,432	1,558	1,558	1,558
Deferred income tax liabilities	176	202	226	226	226
Others	1,214	1,230	1,332	1,332	1,332
Total liabilities	5,075	6,070	6,613	7,085	8,881
Equity to shareholders	667	1,032	12,463	13,925	15,037
Non-controlling interests	-	-	-	-	-
Total Equity	667	1,032	12,463	13,925	15,037

YE 31 Dec	FY18A	FY19A	FY20A	FY21E	FY22E
Sales mix (%)					
Residential PM	62.4	59.2	57.3	57.4	59.5
Commercial op. and PM	37.6	40.8	42.7	42.6	40.5
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	15.0	16.1	27.0	32.4	32.5
Net margin	9.5	6.2	12.1	17.6	17.7
Effective tax rate	26.1	26.5	27.9	27.5	27.5
Growth (%)					
Revenue	41.6	32.4	15.5	32.5	33.1
Gross profit	63.4	41.6	93.9	59.2	33.7
Operating profit	17.6	-12.4	115.3	85.9	32.8
Net profit	8.9	-13.7	124.1	93.2	33.8
Balance sheet ratios					
Current ratio (x)	0.9	1.0	3.2	3.3	2.9
Receivable turnover days	35	37	44	44	44
Returns (%)					
ROE	63.4	35.4	6.6	11.3	14.1
ROA	7.4	5.1	4.3	7.5	8.8
Per share					
EPS (RMB)	N.A.	N.A.	0.49	0.69	0.93
DPS (RMB)	N.A.	N.A.	0.13	0.25	0.33
BVPS (RMB)	N.A.	N.A.	5.46	6.10	6.59

Source: Company data, CMBIS estimates

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