8 April 2005

FINANCIALS/REAL ESTATE – CHINA

CR Land

Outperform

Unchanged

Robust earnings, compelling valuation

2004 earnings beat expectations with stronger growth in development profit. Driven by sustained growth in sales area and improving margins, the earnings outlook is very encouraging for the coming years. OUTPERFORM maintained.

Share price	**HKD1.53**
Target price	**HKD2.12**
Previous target price	HKD2.05

Expected Return (12 Months)

Capital growth	38.4%
Dividend yield	2.3%
Total return	40.7%
Required return	11.2%
Expected excess return	29.5%

Market capitalisation	USD295m
Average turnover	USD2.4m
Issued shares	1,502.7m
Bloomberg code	1109 HK
Reuters code	1109.HK

Analyst

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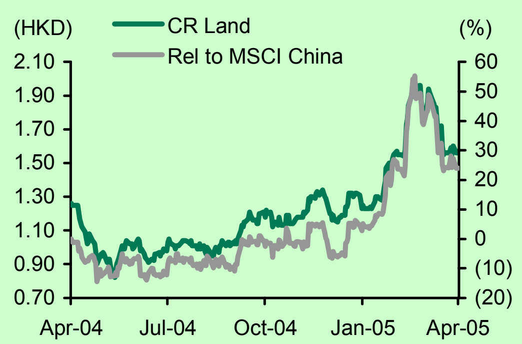
Share Price Daily vs MSCI



Source: Datastream

Event: Update after release of 2004 final results.

Key points

- **2004 core earnings ahead of expectations:** CR Land reported net profit of HKD150m (consensus: HKD138m), up 90% yoy on a 92.4% increase in turnover. Taking advantage of strong core earnings, the company has aggressively provided HKD116.7m for doubtful debts versus our forecast of HKD25m (2003: HKD55m). Net profit also included HKD58.7m unrealised gain in Vanke B-shares (2003: HKD74m). Excluding the bad debt provision and Vanke gain, core earnings rose 377% yoy to HKD146.4m from HKD30.7m in 2003. This growth was driven primarily by a 271% jump in development profit on a 95% increase in property sales to HKD2,313m (our forecast was HKD1,426m) and higher gross profit margin of 13% versus 7% in 2003.
- **Solid completion pipeline fuelling strong development profit growth:** The key drivers for 2005–06 earnings will be a sustained increase in property sales supported by a tighter completion pipeline and further improvement in profit margins. From 2005 onward, the company will recognise development profit on a completion basis (previously stage of completion basis). Adjusting for the updated development schedule and the new accounting policy, we have revised our forecasts. Note we do not factor in any increase in the sale prices of CR Land's projects. On this basis, we expect the company's property sales to increase 27%, 30% and 18% in 2005, 2006 and 2007 respectively; and we expect profit margin to improve from 13% in 2004 to 16% in 2005, 19% in 2006 and 20% in 2007. Consequently, we forecast CR Land's net profit to rise 64% in 2005, 69% in 2006 and 29% in 2007 on the back of 56%, 50% and 27% growth in development profit. Unrealised gains from the investment in Vanke will likely decline but this should be offset by lower provisions for receivables.
- **Balance sheet to improve rapidly on stronger operating cash flow:** Net gearing has gone up in the past few years on sluggish property sales and substantial capex on landbank replenishment. As at Dec 2004, net gearing rose further to 54.2% from 50.8% with net debt up to HKD2,214m from HKD2,023m. With strong cash flow expected from property sales in the coming years, we expect CR Land's net debt to decline to HKD1.1b by end-2006 with net gearing down to a healthier 23.5% level.
- **Target price and recommendation:** On our revised forecasts, CR Land offers a very attractive P/E of 6.4x averaged on 2005–07 earnings. The stock is also at steep discounts of 53% and 47% to appraised NAV of HKD3.26 and book value of HKD2.87, respectively. These valuations make CR Land a lot cheaper than peers, which are at 30–40% NAV discounts and P/BV ratios above 1x. CR Land's existing landbank amounting to 2.55m sqm is sufficient to sustain development activities in the next 4–5 years at least. Its landbank in Shanghai only represents 8.9% of its total landbank in GFA terms. This should reduce its overall earnings risk given the potential slowdown in property prices in the overheated housing market in Shanghai.

Earnings Adjustments

YE 31 Dec (HKDm)	2005E	2006E	2007E
Prev net profit	173.3	206.9	—
Change (%)	42.2	101.7	
Prev EPS (HKD)	0.115	0.138	—
Change (%)	42.2	101.7	

Earnings Forecasts

Year-end Dec	2003	2004	2005E	2006E	2007E
Net profit (HKD m)	78.9	150.1	246.5	417.4	537.0
EPS (HKD)	0.052	0.100	0.164	0.278	0.357
EPS growth (%)	(25)	90	64	69	29
P/E (x)	29.1	15.3	9.3	5.5	4.3
Dividend yield (%)	1.8	2.0	2.3	3.3	3.9
ROE (%)	1.6	3.0	4.8	7.8	9.3

Sources: CR Land; BNP Paribas Peregrine estimates

BNP PARIBAS
Equities

(Please refer to the important notice on the back page)

Further analysis

Summary Of Earnings Estimates

Year-end 31 Dec (HKD m)	2003	2004	2005E	2006E	2007E
Turnover	**1,252.3**	**2,408.8**	**3,034.8**	**3,908.4**	**4,610.5**
Operating activities					
Property sales	89.5	306.4	478.9	717.8	911.9
Rental income	2.5	3.7	4.5	4.6	4.6
Property management	2.1	0.7	0.9	1.0	1.1
Other income	80.2	70.1	25.0	10.0	10.0
Selling & marketing expenses	(13.7)	(18.6)	(29.4)	(38.1)	(45.1)
Administrative expenses	(36.0)	(44.4)	(45.7)	(47.1)	(48.5)
Depreciation	(19.7)	(20.5)	(21.3)	(22.2)	(23.1)
Operating profit before interests	**104.9**	**297.5**	**412.9**	**626.1**	**811.0**
Allowances for doubtful debts	(54.9)	(116.7)	(25.0)	—	—
Impairment of property inventories	(7.0)	—	—	—	—
Interest income	20.4	15.7	17.5	25.3	31.4
Interest expense	(113.7)	(103.8)	(146.0)	(157.5)	(153.0)
Interest capitalised	79.3	75.1	109.5	118.1	114.7
Net financial charge	(34.4)	(28.64)	(36.5)	(39.4)	(38.2)
Operating profit	**29.0**	**167.9**	**368.9**	**612.0**	**804.1**
Share of results of associate	7.4	20.0	20.4	20.8	21.2
Pre-tax profit	**36.4**	**187.9**	**389.3**	**632.8**	**825.3**
Tax	(17.3)	(81.0)	(112.9)	(183.5)	(239.4)
Minority interest	59.8	43.3	(29.9)	(31.9)	(49.0)
Profit attributable to shareholders	**78.9**	**150.1**	**246.5**	**417.4**	**537.0**
Change (yoy %)	*(25.3)*	*90.4*	*64.2*	*69.3*	*28.6*
EPS (HKD)	**0.052**	**0.100**	**0.164**	**0.278**	**0.357**
DPS (HKD)	**0.027**	**0.030**	**0.035**	**0.050**	**0.060**
BV/share (HKD)	**2.648**	**2.720**	**2.870**	**3.129**	**3.452**

Sources: CR Land; BNP Paribas Peregrine estimates

CR Land – NAV Estimates

	Appraised mkt value (HKD m)	Per share (HKD)	% of total asset
Developed properties	5,633	3.75	79.2
Completed properties for sale	450	0.30	6.3
Land pending development	250	0.17	3.5
Investment properties	465	0.31	6.5
Others	314	0.21	4.4
Net debt	(2,214)	(1.47)	
Appraised net asset value	**4,897**	**3.26**	

Source: BNP Paribas Peregrine estimates

Financial summary - China Resources Land

Adrian Ngan

Rating	
Share price (HKD)	1.53
Target price (HKD)	2.12
Capital growth (%)	38.4
Dividend yield (%)	2.3
Total return (%)	40.7
Required return (%)	11.2
Expected excess return (%)	29.5
Recommendation	Outperform

Market data	
Market cap (US$m)	295
Average turnover (US$m)	2.37
Free float (%)	49.6
Bloomberg code	1109 HK
Reuters code	1109.HK
Year end	Dec

Financial summary	2003A	2004A	2005E	2006E	2007E
(HKD m)					
Net profit - reported	79	150	247	417	537
Net profit - adjusted	79	150	247	417	537
EPS - diluted adjusted	0.052	0.100	0.164	0.278	0.357
EPS growth (%)	(25.3)	90.4	64.2	69.3	28.6
DPS	0.03	0.03	0.04	0.05	0.06
EBITDA margin (%)	11.6	13.9	14.9	17.2	18.1
ROIC (%)	1.1	3.4	4.9	7.4	9.2
Net debt / equity (%)	50.8	54.2	39.8	23.5	14.7

Valuation	2003A	2004A	2005E	2006E	2007E
DCF valuation (HKD)					3.26
Premium/(discount) to DCF (%)					(53.0)
PE - diluted adjusted (x	29.1	15.3	9.3	5.5	4.3
Dividend yield (%)	1.8	2.0	2.3	3.3	3.9
P/CF (x)	neg	243.5	5.5	4.9	3.4
P/FCF (x)	neg	neg	4.3	3.5	5.6
Price/book(x)	0.58	0.56	0.53	0.49	0.44
EV/EBITDA (x)	25.8	12.5	9.0	5.3	3.8
EV/Capitial employed	0.6	0.6	0.6	0.5	0.5

Key assumptions	2003A	2004A	2005E	2006E	2007E
Risk free rate (%)					5.0
Equity risk premium (%)					6.2
WACC (%)					6.1

Sales by division	2003A	2004A	2005E	2006E	2007E
(HKD m)					
Property sales	1,058	1,184	2,313	2,937	3,807
Rental	0	13	8	22	22
Others	36	59	60	74	76

Company description

China Resources Land (CRL) was listed on the Hong Kong Stock Exchange in Nov 1996. It was previously named China Resources Beijing Land with its focus on property development/investment in Beijing city. It adopted its present name on 15 Jan 2002 to reflect the intention to diversify property development into other geographical areas in China other than Beijing. CRL's property development landbank in Beijing, Shanghai and Chengdu currently amounts to over 2.5m sq m.

Profit and Loss	2003A	2004A	2005E	2006E	2007E
(HKD m)					
Revenue	1,252	2,409	3,035	3,908	4,611
EBITDA	**145**	**334**	**452**	**674**	**834**
Depreciation	(20)	(20)	(21)	(22)	(23)
Goodwill amortisation	0	0	0	0	0
EBIT	**125**	**313**	**430**	**651**	**811**
Net financing costs	(34)	(29)	(36)	(39)	(7)
Associates (pre tax)	7	20	20	21	21
Provisions	(55)	(117)	(25)	0	0
Non recurring items	(7)	0	0	0	0
Profit before tax	**36**	**188**	**389**	**633**	**825**
Tax	(17)	(81)	(113)	(184)	(239)
Profit after tax	**19**	**107**	**276**	**449**	**586**
Associates & minorities	**60**	**43**	**(30)**	**(32)**	**(49)**
Preferred dividends	0	0	0	0	0
Other	0	0	0	0	0
Net profit - reported	**79**	**150**	**247**	**417**	**537**
Non recurring items (net)	0	0	0	0	0
Net profit - adjusted	**79**	**150**	**247**	**417**	**537**
EPS - reported	0.052	0.100	0.164	0.278	0.357
EPS - adjusted	0.052	0.100	0.164	0.278	0.357
EPS - diluted adjusted	0.052	0.100	0.164	0.278	0.357
DPS	0.027	0.030	0.035	0.050	0.060
Growth					
Revenue (%)	10.8	92.4	26.0	28.8	18.0
EBITDA (%)	20.2	130.2	35.4	49.1	23.8
EBIT (%)	22.1	150.0	37.4	51.3	24.5
EPS - diluted adj (%)	(25.3)	90.4	64.2	69.3	28.6
Operating performance					
EBITDA margin (%)	11.6	13.9	14.9	17.2	18.1
EBIT margin (%)	10.0	13.0	14.2	16.7	17.6
Net margin (%)	6.3	6.2	8.1	10.7	11.6
Interest cover (x)	1.10	3.02	2.95	4.14	5.30
ROE (%)	1.60	3.03	4.85	7.79	9.29
ROIC (%)	1.1	3.4	4.9	7.4	9.2
ROIC/WACC (x)	0.2	0.6	0.8	1.2	1.5
Dividend payout (%)	51.4	30.0	21.3	18.0	16.8

Balance sheet	2003A	2004A	2005E	2006E	2007E
(HKD m)					
Debtors and stock	6,007	6,179	5,918	5,892	6,008
Creditors	(804)	(773)	(859)	(1,084)	(1,058)
Other liabilities	(152)	(168)	(165)	(168)	(168)
Fixed assets	451	460	484	508	532
Investments	1,270	1,274	1,252	1,219	1,186
Intangibles	-	-	-	-	-
Capital employed	**6,771**	**6,972**	**6,630**	**6,367**	**6,500**
Net debt	2,023	2,214	1,715	1,104	762
Total equity	3,979	4,088	4,313	4,702	5,188
Minority interests	941	908	865	834	834
Net debt / equity (%)	50.8	54.2	39.8	23.5	14.7
Book value per share	2.65	2.72	2.87	3.13	3.45

Cash flow	2003A	2004A	2005E	2006E	2007E
(HKD m)					
Net income	79	150	247	417	537
Depreciation	20	20	21	22	23
Other non cash items	(100)	(161)	150	30	107
Recurrent cashflow	**(2)**	**9**	**418**	**470**	**667**
Chg in working capital	(630)	(300)	124	194	(256)
Capex - maintenance	(3)	(3)	(2)	(2)	(2)
Free cash flow	**(635)**	**(294)**	**540**	**662**	**410**
Capex - new investment	-	-	-	-	-
Net acq./disposals	1	-	-	-	-
Dividends paid	(41)	(45)	(53)	(75)	(90)
Non recurring cash flows	(15)	(14)	12	23	23
Net cash flow	**(689)**	**(354)**	**499**	**610**	**343**
Equity finance	-	-	-	-	-
Debt finance	1,306	500	(200)	(100)	(100)
Movement in cash	**617**	**146**	**299**	**510**	**243**
Cash flow per share	(0.00)	0.01	0.28	0.31	0.44
Free cash flow per share	(0.42)	(0.20)	0.36	0.44	0.27

Sources: CR Land; BNP Paribas Peregrine estimates