

Share Price vs. Index



Sources: Bloomberg, BOCI Research

Share Price Performance

	1M	3M	6M
Absolute (%)	35	95	179
Relative to BOCI China-HK (%)	24	73	153

Sources: Bloomberg, BOCI Research

Key Data

Total issued shares (m)	3,084
Free float (%)	34.3
Free float mkt. cap. (HK\$ m)	4,311
3M avg. daily turnover (HK\$ m)	35
Net debt/equity (%)	34.5
Appraised NAV per share (HK\$)	4.55
Major shareholders (%)	
China Resources Holdings	65.5

Sources: Company data, Bloomberg, BOCI Research

Date of last note: 6 January 2006

PROPERTY — Developers

Company Update

China Resources Land

(1109.HK/HK\$4.05 — Outperform)

Target Price: HK\$4.35

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Paving the way for future injection. After placing 300m shares to raise HK\$1.1bn, CR Land (CR Land) is well prepared to expand its land bank further for future growth. With HK\$2.8bn in cash on hand and reduced gearing, we expect to see further asset injections from its parent, China Resources Holding (CR Holding). This is likely to further enhance CR Land's NAV. Given the excitement of potential future asset injections, we expect CR Land's NAV discount to be closer to the valuation of another leading national developer, **China Overseas Land & Investment** (0688.HK/HK\$3.975, MP) at 5%. As a result, we raise our target price by 9% to HK\$4.35 per share (or 5% discount to its NAV of HK\$4.55). However, the placement may cast a shadow over the counter's share price performance in the short term especially because no specific asset injection has been identified thus far. Nevertheless, we maintain our **Outperform** call on the counter.

HK\$2.8bn war chest after share placement. CR Land raised HK\$1.1bn with the placement of 300m shares at \$3.725 each, or 8% discount to its market closing price of HK\$4.05. The placement saw the stake of China Resources Holding in CR Land dilute from 72.54% to 65.48%. This represents 10.78% of the existing shares or 9.73% of the enlarged number. CR Land's book value was also enhanced by 3% to HK\$2.88. In addition, CR Holding and CR Land have made commitments not to sell the listed company's shares over the next 90 days. This should further reduce investor concerns about further sales of CR Holding's existing stake during the same period. As a result of the placement, there will be dilutions of 7% and 9% in the earnings for 2006 and 2007, respectively, and fall of 1% in its NAV per share (including potential revaluation of investment properties) to HK\$4.55. After the placement, the gearing will be reduced from the estimated 50% as of December 2005 to 31%. Including the HK\$1.7bn on hand (as of June 2005), total cash pile will increase to HK\$2.8bn. This reflects a more aggressive land bank replenishment plan for the company as HK\$500m from the share placement will be used for land bank replenishment and the remaining HK\$600m as working capital for property development projects in China.

Asset injection still likely. With the HK\$2.8bn in cash on hand, we expect the long-anticipated asset injections from parent company to be carried out in the near future. Following the acquisition of another residential project in Chengdu on 6 December 2005, CR Holding's portfolio has been expanded further to a total gross floor area (GFA) of 3.8m m². Assuming **Sun Hung Kai Properties** (0016.HK/HK\$80.25, U) will take a 40% stake in this project (similar to the Hangzhou and Wuxi projects), the attributable GFA of the parent company's land bank in China will increase by 57% to 2.2m m², or 68% of the total existing land bank of CR Land. Based on the sizes and scales of the projects, we believe most of the land premium for them will be paid in instalments. Assuming CR Holding has paid land premium of some 20-35% on these projects, we estimate the total attributable NAV will be HK\$2.7bn, similar to CR Land's existing cash on hand.

Possible further NAV enhancement through asset injection. After the acquisitions of these projects, their potential injections will enhance CR Land's NAV per share a further HK\$0.09-HK\$0.43 for an acquisition price at 10-50% discount to our assessed NAV, or 2-10% of its current NAV per share of HK\$4.55. The company's total land bank, after the acquisition of the four projects, will increase from 3.2m m² to 5.4m m² and its exposure will also expand from six cities to eight. In fact, we expect CR Holding to remain an incubator for CR Land in the near future and may continue to increase its land bank for future injections. This will further help CR Land to expand its land bank rapidly and eventually become one of the top national developers in China.

Potential NAV Enhancement Through Asset Injections

Acquisition price (discount to valuation)	Value enhancement (HK\$ m)	NAV/share enhancement (HK\$)	% of existing NAV (%)
10%	267	0.09	1.9
20%	535	0.17	3.8
30%	802	0.26	5.7
40%	1,070	0.35	7.6
50% (At Cost)	1,328	0.43	9.5

Source: BOCI Research estimates

Remaining China Projects Under China Resources Holding

Projects	Stake (%)	Use*	GFA (m ²)	Attr. GFA (m ²)	Total land cost (Rmb m)	A.V. (Rmb/m ²)	Attri. NAV (HK\$ m)	Assumed land premium paid (%)
Qing He Project	49	R/C	832,500	407,925	2,565	3,563	483	35
Hangzhou Residential/ Commercial site	60	R/C/O	555,544	333,326	1,100	1,980	751	30
Wuxi, Jiangsu	60	R/C/O	167,224	100,334	2,510	15,011	760	30
Chengdu project	60	R	2,200,000	1,320,000	2,140	973	680	20
			3,755,268	2,161,586	8,315		2,674	

* R: Residential, C: Commercial, O: Office

Sources: China Resources Holding, BOCI Research estimates

Investment Summary

Year ended Dec 31	2003	2004	2005E	2006E	2007E
Revenue (HK\$ m)	1,252	2,409	2,570	4,167	4,705
Change (%)	11	92	7	62	13
Net profit (HK\$ m)	79	150	280	582	791
Fully diluted EPS (HK\$)	0.052	0.100	0.183	0.189	0.256
Change (%)	(26)	92	83	3	35
Previous EPS (HK\$)	-	-	0.183	0.204	0.282
Change (%)	-	-	0	(7)	(9)
I/B/E/S EPS (HK\$)	-	-	0.179	0.223	0.299
P/E (x)	77.9	40.5	22.1	21.4	15.8
CFPS (HK\$)	0.07	0.05	0.19	0.19	0.26
P/CF (x)	55.9	73.8	21.0	20.8	15.5
EV/EBITDA (x)	325.2	43.5	39.2	20.3	14.4
DPS (HK\$)	0.027	0.030	0.050	0.057	0.077
Yield (%)	0.7	0.7	1.2	1.4	1.9

Sources: Company data, BOCI Research estimates

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