

SO WHAT? THE BNP PARIBAS ANGLE

- Our earnings forecasts are well above market consensus.
- In view of the strong interim results, the stock has hit our once very aggressive price target.
- We have raised our price target by 35%, again well ahead of consensus.

Net profit 05HKD265m
.....(From HKD247m)

Diff from consensus ..21.0%
Consensus (mean) HKD219m
Consensus (momentum) ↑

Current NAV HKD3.82
.....(From HKD3.26)

Target Price HKD2.87
.....(From HKD2.12)

Diff from consensus ..51.1%
Consensus (median) HKD1.90
Consensus (momentum) ↑

Current PriceHKD2.25
Upside/(Downside).....27.6%

BUY
(Unchanged)

Recs in the Market

Positive7
Neutral0
Negative3
Consensus (momentum)↑

Sources: Thomson One Analytics; BNP Paribas Peregrine estimates

CR Land's interim earnings beat all market expectations, thanks to much-improved profit margin and high property sales recognized during the period. A solid completion pipeline coupled with resilient demand and prices for its residential projects should drive robust earnings growth. Our price target is revised up and BUY recommendation is intact.

Sustainable growth ahead

Very positive earnings surprises

CR Land's interim results beat all market expectations with net profit up 315% y-y to HKD196.7m from HKD47.4m (restated from HKD103m with development profit recognised on completion basis) in 1H04 and well above our forecast of HKD133m. The key contributor to the performance is a 490% increase in development profit, thanks to much higher profit margin (21.6% vs 9.1%) and sales volume (+149% y-y). Meanwhile, rental income also picked up significantly following re-positioning of its investment properties. In 1H05, contracted sales in Beijing were up 43% y-y to 131,730 sqm despite austerity measures.

Core earnings outlook remains robust

CR Land is expected to complete 387,700 sqm of properties in 2005, of which 305,500 sqm have been pre-sold and substantial portion of the development profit has been locked in. In 2006–07, completion rate will increase further to 393,000 sqm and 805,000 sqm. Profit margin should continue to improve with the contribution of highly profitable projects in Chengdu and Shanghai. Despite the consolidation in Shanghai's housing market, CR Land has been able to achieve encouraging sales at good prices through aggressive marketing overseas.

Extra gains from China Vanke and non-RMB loans

Its 76.8m China Vanke 'B' shares should continue to contribute unrealised investment gains (1H05: HKD35m) given the encouraging share price performance of the stock. Betting on the appreciation of RMB, CR Land has maintained some HKD1.6b non-RMB borrowing. The 2% appreciation of RMB should generate unrealised currency gains (HKD30–35m) for the company in 2H05.

Deserves more respectable valuation

To reflect the better profit margin and NAV accretion from the newly acquired project in Beijing, we have revised up CR Land's appraised NAV to HKD3.82 from HKD3.26/share. The stock is now trading at a steep 41% discount to its NAV and mere high-single digit P/E. Given the strong production pipeline and resilient housing demand, we believe that CR Land deserves a more respectable valuation. Our target NAV discount is narrowed to 25% from 35% implying price target of HKD2.87. BUY recommendation is intact.

Please see the important notice on the back page.

Adrian Ngan

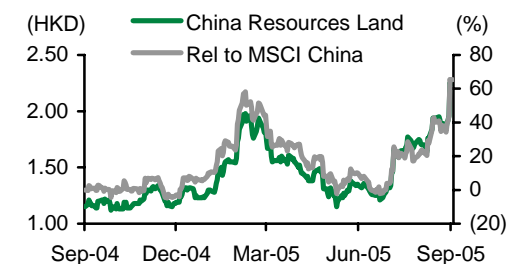
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Earnings Estimates And Valuation Ratios

YE Dec (HKD m)	2004	2005E	2006E	2007E
Revenue	2,409	3,035	3,908	4,611
Reported net profit	150	265	422	538
Recurring net profit	267	290	422	538
Previous net profit	150	247	417	537
Recurring EPS (HKD)	0.18	0.19	0.28	0.36
Previous EPS (HKD)	0.10	0.16	0.28	0.36
Rec EPS growth (%)	89.5	8.4	45.4	27.4
Recurring P/E (x)	12.7	11.7	8.0	6.3
Dividend yield (%)	1.3	1.6	2.2	2.7
EV/EBITDA (x)	18.2	12.2	10.0	7.7
Price/book (x)	0.8	0.8	0.7	0.7
ROE (%)	6.6	6.9	9.3	10.8
Net debt/equity (%)	54.2	62.1	54.9	43.8

Sources: CR Land; BNP Paribas Peregrine estimates

Share Price Daily vs MSCI



Next results/event:	Final (Mar 2006)
Market cap:	HKD3.4b/USD436m
12M Avg daily turnover:	USD2.4m
Free float:	50%
Major shareholder:	CR Holdings (50%)
12M High/Low:	HKD2.25–1.10

Source: Datastream

CR Land – Summary Of Interim Results

Year-end 31 Dec	1H05 (HKD m)	1H04 (HKD m)	Change (y-y %)
Turnover	1,230.9	505.2	144
Operating activities:			
- Property sales	249.8	42.3	491
- Rental income	17.3	(1.2)	—
- Property management	1.7	(0.6)	—
- Other income	66.0	41.2	60
Selling & marketing expenses	(16.4)	(7.9)	107
Administrative expenses	(39.4)	(30.7)	28
Operating profit before interests	279.0	43.1	547
Net financial charge	(49.0)	(19.5)	151
Operating profit	230.0	23.6	875
Share of results of associate	7.6	3.3	134
Pre-tax profit	237.6	26.8	
Taxation	(24.7)	(1.4)	1,610
Minority interest	(16.3)	22.0	(174)
Profit attributable to shareholders	196.7	47.4	315
EPS (HKD)	0.1305	0.0315	314
DPS (HKD)	—	—	—
BV/share (HKD)	2.56	2.48	3.0

Sources: CR Land; BNP Paribas Peregrine estimates

Both sales turnover and margin improved in 1H05, driving substantial growth in development profit

Other income included unrealised gain on Vanke 'B' shares (1H05: HKD35m)

CR Land – Consolidated Earnings And 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	30.0	30.9	31.8
- Property management	2.1	0.7	2.0	3.0	4.5
- Other income	80.2	70.1	75.0	10.0	10.0
Selling & marketing expenses	(13.7)	(18.6)	(35.2)	(38.1)	(45.1)
Administrative expenses	(36.0)	(44.4)	(57.7)	(59.4)	(61.2)
Depreciation	(19.7)	(20.5)	(21.3)	(22.2)	(23.1)
Operating profit before interests	104.9	297.5	471.6	642.1	828.9
Allowances for doubtful debts	(54.9)	(116.7)	(25.0)	-	-
Impairment of property inventories	(7.0)	-	-	-	-
Interest income	20.4	15.7	10.0	9.0	7.0
Interest expense	(113.7)	(103.8)	(164.2)	(175.0)	(187.0)
Interest capitalised	79.3	75.1	65.7	131.2	140.2
Net financial income/(charge)	(34.4)	(28.6)	(98.5)	(43.7)	(46.7)
Operating profit	29.0	167.9	358.1	607.3	789.1
Share of results of associate	7.4	20.0	14.5	14.8	15.1
Currency gains	-	-	32.0	-	-
Pre-tax profit	36.4	187.9	404.6	622.1	804.2
Taxation	(17.3)	(81.0)	(109.2)	(168.0)	(217.1)
Minority interest	59.8	43.3	(29.9)	(31.9)	(49.0)
Profit attributable to shareholders	78.9	150.1	265.5	422.3	538.0
Change (y-y %)	(25.3)	90.4	76.8	59.0	27.4
EPS (HKD)	0.052	0.100	0.176	0.280	0.356
DPS (HKD)	0.027	0.030	0.035	0.050	0.060

Sources: CR Land; BNP Paribas Peregrine estimates

Financial statements

China Resources Land

Profit and Loss (HKD m)					
Year Ending December	2003A	2004A	2005E	2006E	2007E
Revenue	1,252	2,409	3,035	3,908	4,611
Cost of sales ex depreciation	(1,078)	(2,028)	(2,417)	(3,147)	(3,652)
Gross profit ex depreciation	174	381	618	762	958
Other operating income	-	-	-	-	-
Operating costs	(50)	(63)	(93)	(97)	(106)
Operating EBITDA	125	318	525	664	852
Depreciation	(20)	(20)	(21)	(22)	(23)
Goodwill amortisation	-	-	-	-	-
Operating EBIT	105	297	504	642	829
Net financing costs	(34)	(29)	(99)	(44)	(40)
Associates	7	20	15	15	15
Recurring non operating income	20	16	10	9	-
Non recurring items	(62)	(117)	(25)	-	-
Profit before tax	36	188	405	622	804
Tax	(17)	(81)	(109)	(168)	(217)
Profit after tax	19	107	295	454	587
Minority interests	60	43	(30)	(32)	(49)
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	79	150	265	422	538
Non recurring items & goodwill (net)	62	117	25	0	0
Recurring net profit	141	267	290	422	538

Revenue growth mainly driven by the sustained increase in property sales

Per share (HKD)					
Recurring EPS *	0.09	0.18	0.19	0.28	0.36
Reported EPS	0.05	0.10	0.18	0.28	0.36
DPS	0.03	0.03	0.04	0.05	0.06

Growth					
Revenue (%)	10.8	92.4	26.0	28.8	18.0
Operating EBITDA (%)	22.1	155.3	65.1	26.5	28.3
Operating EBIT (%)	24.8	183.7	69.3	27.5	29.1
Recurring EPS (%)	(38.4)	89.5	8.4	45.4	27.4
Reported EPS (%)	(25.3)	90.4	76.4	58.7	27.4

Sustained improvement in development profit margin on the back of better cost control and steady sale prices

Operating performance					
Gross margin inc depreciation (%)	12.3	15.0	19.7	18.9	20.3
Operating EBITDA margin (%)	9.9	13.2	17.3	17.0	18.5
Operating EBIT margin (%)	8.4	12.3	16.6	16.4	18.0
Net margin (%)	11.2	11.1	9.6	10.8	11.7
Effective tax rate (%)	47.7	43.1	27.0	27.0	27.0
Dividend payout on recurring profit (%)	28.8	16.9	18.2	17.9	16.8
Interest cover (x)	3.9	11.6	5.4	15.2	21.2
Inventory days	1562.5	906.4	862.2	760.4	686.0
Debtor days	279.1	140.5	85.6	44.9	41.3
Creditor days	288.4	140.6	120.5	109.2	103.6
Operating ROIC (%)	1.4	3.7	5.8	6.9	8.6
Operating ROIC - WACC (%)	(8.1)	(5.9)	(3.7)	(2.6)	(1.0)
ROIC (%)	1.4	3.3	4.9	5.8	7.1
ROIC - WACC (%)	(8.1)	(6.2)	(4.7)	(3.7)	(2.4)
ROE (%)	3.6	6.6	6.9	9.3	10.8
ROA (%)	1.2	2.6	4.0	4.8	5.9

Expecting return on equity to improve on higher earnings base

* Pre exceptional, pre-goodwill and fully diluted

Revenue By Division (HKD m)	2003A	2004A	2005E	2006E	2007E
Property sales	1,184	2,313	2,937	3,807	4,507
Rental income	8	22	22	23	23
Others	60	74	76	78	81

Sources: CR Land; BNP Paribas Peregrine estimates

Cash Flow (HKD m)					
Year Ending December	2003A	2004A	2005E	2006E	2007E
Recurring net profit	141	267	290	422	538
Depreciation	20	20	21	22	23
Associates & minorities	(67)	(63)	15	17	34
Other non-cash items	-	-	-	-	-
Recurring cash flow	93	224	327	462	595
Change in working capital	(656)	(204)	(598)	(266)	(176)
Capex - maintenance	(3)	(3)	(2)	(2)	(2)
Capex - new investment	-	-	-	-	-
Free cash flow to equity	(565)	17	(273)	193	418
Net acquisitions & disposals	1	-	-	-	-
Dividends paid	(41)	(45)	(53)	(75)	(91)
Non recurring cash flows	(15)	(14)	12	23	23
Net cash flow	(619)	(43)	(314)	141	350
Equity finance	-	-	-	-	-
Debt finance	1,306	500	(200)	(100)	(100)
Movement in cash	686	457	(514)	41	250
Per share (HKD)					
Recurring cash flow per share	0.06	0.15	0.22	0.31	0.39
FCF to equity per share	(0.38)	0.01	(0.18)	0.13	0.28

Balance Sheet (HKD m)					
Year Ending December	2003A	2004A	2005E	2006E	2007E
Working capital assets	6,007	6,179	6,863	7,354	7,505
Working capital liabilities	(804)	(773)	(859)	(1,084)	(1,058)
Net working capital	5,202	5,406	6,005	6,271	6,446
Tangible fixed assets	451	460	484	508	532
Operating invested capital	5,653	5,866	6,488	6,778	6,978
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Investments	1,237	1,321	1,384	1,371	1,358
Other assets	201	191	181	171	161
Invested capital	7,091	7,378	8,053	8,320	8,497
Cash & equivalents	(1,389)	(1,535)	(859)	(856)	(1,066)
Short term debt	1,226	1,326	1,286	1,266	1,246
Long term debt *	2,181	2,423	2,263	2,183	2,103
Net debt	2,018	2,214	2,691	2,593	2,283
Deferred tax	152	168	165	168	168
Other liabilities	-	-	-	-	-
Total equity	3,979	4,088	4,332	4,725	5,212
Minority interests	941	908	865	834	834
Invested capital	7,091	7,378	8,053	8,320	8,497

* Includes convertibles and preferred stock which is being treated as debt

Per share (HKD)					
Book value per share	2.65	2.72	2.87	3.13	3.45
Tangible book value per share	2.65	2.72	2.87	3.13	3.45

Financial strength					
Net debt/equity (%)	50.8	54.2	62.1	54.9	43.8
Net debt/total assets (%)	21.7	22.9	27.5	25.3	21.5
Current ratio (x)	3.6	3.7	3.6	3.5	3.7
CF interest cover (x)	(15.5)	1.6	(1.8)	5.4	11.5

Valuation					
	2003A	2004A	2005E	2006E	2007E
Recurring P/E (x) *	24.0	12.7	11.7	8.0	6.3
Recurring P/E @ target price (x) *	30.6	16.1	14.9	10.2	8.0
Reported P/E (x)	42.9	22.5	12.8	8.0	6.3
Dividend yield (%)	1.2	1.3	1.6	2.2	2.7
P/CF (x)	36.3	15.1	10.4	7.4	5.7
P/FCF (x)	neg	200.4	neg	17.6	8.1
Price/book (x)	0.8	0.8	0.8	0.7	0.7
Price/tangible book (x)	0.8	0.8	0.8	0.7	0.7
EV/EBITDA (x) **	39.6	18.2	12.2	10.0	7.7
EV/EBITDA @ target price (x) **	45.6	20.8	13.9	11.4	8.8
EV/invested capital (x)	0.9	0.9	0.8	0.8	0.8

* Pre exceptional, pre-goodwill and fully diluted

** EBITDA includes associate income and recurring non-operating income

Net debt will decline gradually from FY07 onwards as property sales exceed land acquisition cost

P/E and P/BV valuations are very undemanding given its profitable landbank

Sources: CR Land; BNP Paribas Peregrine estimates

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Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

*In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

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