

BUY (1)
Medium Risk (M)

HONG KONG

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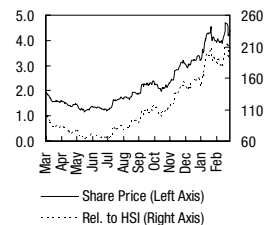
Note Released: 13 Mar 2006

Recommendation

Rating: 1M
Target Price : HK\$5.3
Expected Share Price Return 20.5%
Expected Dividend Yield 1.1%
Expected Total Return 21.6%

Market Data

RIC: 1109.HK
Price (10 Mar): HK\$4.40
52-Wk Hi/Lo: HK\$4.75/HK\$1.12
Market Cap. (Mils.): HK\$13568/
US\$1748
Shares Outst. (Mils.): 3083.59



Source: Datastream.

Performance (%):

	3M	6M	12M
Absolute	39.7	132.8	129.2
Relative	34.8	128.6	105.6

Source: Datastream.

China Resources Land Ltd
Strong NAV upside not currently priced in

Summary

- **Reiterate Buy**, new target HK\$5.30, on 10% discount to our HK\$5.90 NAV. We see strong upside in CR Land's NAV coming from the potential further asset injection from the parent company, and/or acquisition of new landbank
- **HK\$0.60/share:** Potential second asset injection from parent could add 3.8msm to CR Land's landbank, doubling its current size. Using today's property prices, we estimate that the properties are worth RMB9.6bn when fully developed, and the injection could add HK\$0.60/share to CRL's NAV
- **Further NAV growth:** On our estimates, CR Land's gearing is now about 20% after its recent share placement. This enhanced financing capacity should allow CR Land to continue acquiring new projects that are NAV enhancing
- **Strong leasing performance:** Leasing performance at newly acquired investment properties has been strong. For example, the Shenzhen CR Center office tower is now close to full, with international tenants like HSBC, ABN Amro, and other professional and consulting firms
- **We have raised our 2005 and 2007 estimates by 5% and 7%**, reflecting the better prices and rentals for CR Land's properties. We have, however, taken down our 2006 estimates due to the dilution of the recent share placement

Statistical Abstract

Year to 31 Dec	Net Profit (HK\$ Mils.)	FD EPS (HK\$)	EPS Growth (%)	P/E (x)	DPS (HK\$)	Yield (%)
2003	79	.05	-	88	.03	.7
2004	150	.10	100	44	.03	.7
2005E	301	.20	100	22	.05	1.1
2006E	718	.23	15	19.1	.06	1.4
2007E	1020	.33	43.5	13.3	.08	1.8

Source: Company, Citigroup Investment Research estimates.

Earnings Revision

Year to 31 Dec	Net Profit (HK\$ Mils.)		Diluted EPS (HK\$)			Dividend Per Share (HK\$)	
	Old	New	Old	New	% Chg	Old	New
2005E	284	301	.19	.2	5.3	.03	.05
2006E	665	718	.24	.23	-2.5	.05	.06
2007E	853	1020	.31	.33	6.5	.06	.08

Source: Citigroup Investment Research estimates.

Upside to NAV not currently priced in

We reiterate our Buy/Low Risk rating on China Resources Land (CR Land) with a new target price of HK\$5.30, which is based on a 10% discount to our HK\$5.90 NAV. We see strong potential for further NAV growth for CR Land through further asset injection from CR Land's parent company, China Resources Holdings (CRH),

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and new asset acquisitions given CR Land's enhanced balance sheet position (net gearing of 20% after recent share placement). These in our view, should continue to drive the re-rating of the stock.

Further injection from parent could add HK\$0.60/Share

According to our understanding, CRH currently has another four property projects in China with a total GFA of about 5.1msm (attributable GFA 3.8msm). The four projects include the Hangzhou project (JV with SHKP), the Wuxi project (another JV with SHKP), the Qinghe project in Beijing (JV with CR Land), and the Chengdu project (solely owned by CRH).

Figure 1. China Resources Land – Potential Future Asset Injection

Project	GFA (sqm)	Land Cost		Ownership				Stake CRL Can Acquire
		(RMB mn)	(RMB psm)	CRH	CRL	SHKP	Others	
Hanzhou Project	550,000	1,100	2,000	60%		40%		60%
Wuxi Project	1,450,000	2,100	1,448	55%		35%	10%	55%
Qinghe, Beijing	800,000	2,565	3,206	51%	49%			51%
Chengdu Project	2,300,000	2,100	913	100%				100%
Total	5,100,000		7,568					

Source: HK Economics Times, Citigroup Estimates

Factoring in today's property prices, original costs of the projects and their expected development profits, we estimate that the projects (based on the attributable GFA to CRH) are worth about RMB9.6bn. If we assume that the injection will be made at a 35% discount to the above estimated value (similar to the NAV discount for the first injection in Nov 2005), and that it will be half financed by placing new shares to CRH at today's share price of HK\$4.40/share of CR Land, we estimate that the second injection could add another HK\$0.60/share (or 10%) to CR Land's NAV.

Figure 2. Estimated Value of CRH's four property projects (Based on attributable GFA to CRH)

Project	GFA (sqm)	Stake CRL Can Acquire	Land Cost (RMB mn)	Land Cost (RMB psm)	Dev Cost (RMB psm)	Total Cost (RMB psm)	Est. Price (RMB psm)	Est. Margin	PV (Est. Profit RMB mn)*	Est. Value (RMBmn)
Wuxi Project	1,450,000	55%	1,155	1,448	2,500	3,948	5,000	21%	644	1,799
Qinghe, Beijing	800,000	51%	1,308	3,206	3,200	6,406	8,000	20%	499	1,808
Chengdu Project	2,300,000	100%	2,100	913	2,500	3,413	4,500	24%	1,920	4,020
Total			5,223						4,330	9,554

Source: Citigroup Estimates. *Using a discount rate of 9.2%.

Figure 3. CR Land - Analysis of Potential Benefit of the Injection of CRH's Remaining Four Property Projects

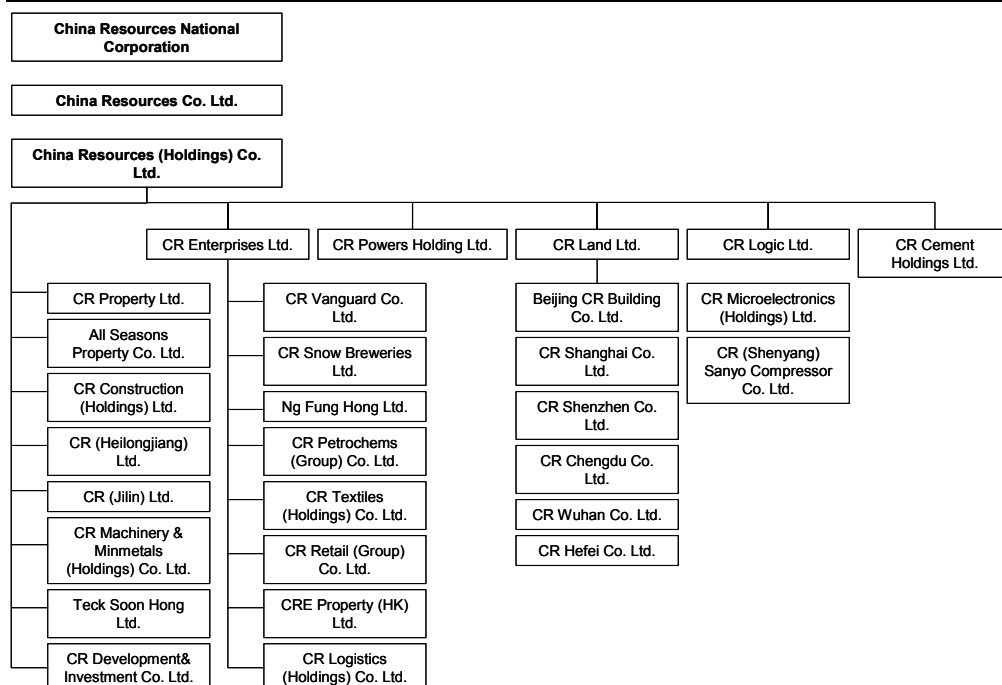
Purchase Price at Discount to Estimated NAV in Figure 2	Purchase Price (RMB mn)	100% Equity Financing			50% Equity Financing		
		New Shares Issued	New NAV (HK\$m)	New NAV (HK\$/Share)	New Shares Issued	New NAV (HK\$m)	New NAV (HK\$/Share)
0%	9,554	2,098	27,291	5.29	1,049.2	22,675	5.52
5%	9,076	1,994	27,291	5.40	996.8	22,905	5.65
10%	8,598	1,889	27,291	5.52	944.3	23,136	5.78
15%	8,121	1,784	27,291	5.64	891.8	23,367	5.92
20%	7,643	1,679	27,291	5.76	839.4	23,598	6.05
25%	7,165	1,574	27,291	5.89	786.9	23,829	6.20
30%	6,688	1,469	27,291	6.03	734.5	24,060	6.34
35%	6,210	1,364	27,291	6.17	682.0	24,290	6.49
40%	5,732	1,259	27,291	6.32	629.5	24,521	6.65

Source: Citigroup Estimates

We believe that the injection of the four property projects from CRH to CR Land does make commercial sense because that would help remove overlaps inside the CRH group by putting all the property assets of the group in CR Land, and turning CR Land into a stronger property arm of the CRH group.

As we discussed in our report “China Property: A New Paradigm”, the Hong Kong developers should become significant players in the mainland property markets in three years’ time. Therefore, for CR Land to compete effectively with the Hong Kong developers with formidable balance sheet strength, CR Land would need to expand its capital base and scale of operations. In our view, the further asset injection by CRH will help CR Land address this need.

Figure 4. CR Holdings – Corporate Structure



Source: Company

Investment thesis

We maintain Buy/Medium Risk rating on China Resources Land (CR Land) with a target price of HK\$5.30, which is based on a 10% discount to our estimated NAV of HK\$5.90/share. We see strong upside in our estimated NAV for CR Land coming from the potential second round of asset injection from CR Land’s parent company, China Resources Holdings. Besides, we believe that the NAV growth for CR Land won’t just stop with the second asset injection. With its much improved balance sheet after the first asset injections and the enhanced financing capacity (plus the potential further enhancement from the second injection), we believe that CR Land would embark on more landbanking activities in mainland China, hence driving further NAV growth.

We have raised our estimated NAV from HK\$4.88/share to HK\$5.90/share after taking into account the better-than-expected leasing performances of the company’s newly acquired investment properties (like the Shenzhen CR Center, MIXc, and Beijing CR Center) and the stronger sales responses from the company’s projects in

Beijing and Chengdu. In addition, in our new NAV estimates, we have also factored in moderate price growth of 3-5% for the residential projects of CR Land for 2006 and 2007. We believe this moderate price growth is achievable first because of the continued GDP and income growth in the cities that those projects are in.

Valuation

Our new target price of HK\$5.30 is based on a 10% discount to our estimated NAV of HK\$5.90/share for CR Land. We have raised our price target for CR Land from HK\$3.50 to HK\$5.30 on the back of a higher estimated NAV and the application for a lower NAV discount when determining our target price.

As a reference, we have taken up our estimated NAV of CR Land from HK\$4.88 to HK\$5.90, first because we incorporated the company's latest leasing performances at CR Land's new investment properties (like the Shenzhen CR Center, MIXc, and Beijing CR Center), for which CR Land has achieved better-than-expected rental and occupancies. Second, we have also factored in residential price growth of 3-5% per year in 2006 and 2007 for CR Land's projects in mainland China. As a reference, in our previous NAV estimate, we factored in flat primary residential prices from current levels for CR Land's property projects in mainland China.

In our view, given the potential of further NAV enhancement through further asset injection from CR Land's parent company, CR Holdings, we think CR Land deserves to trade at a 10% discount (vs. 30% previously) to our estimated NAV of HK\$5.90, which is based solely on the existing asset base of the company and has not assumed any further asset injection yet. In addition, given the much improved capital base (gearing of as low as 20% now) of the company after the first asset injection and the recent share placement, we believe CR Land is in a good position to acquire more new projects in mainland China, which could bring in further NAV enhancements. Lastly, CR Land's recent new property launches in mainland China have also achieved better-than-expected sales performances, removing our previous concerns about the company's relatively slower property sales progress in the past.

Figure 5. China Resources Land – Estimated NAV

	NAV (HK\$m)	NAV/ Share(HK\$)	% of NAV	% of GAV
Development Properties				
Residential	7,294	2.39	40.4%	36.6%
Office	4,402	1.44	24.4%	22.1%
Retail	185	0.06	1.0%	0.9%
Total Development Properties	11,881	3.88	65.8%	59.6%
Investment Properties				
Residential	16	0.01	0.1%	0.1%
Office	2,931	0.96	16.2%	14.7%
Retail	4,667	1.53	25.8%	23.4%
Hotel	77	0.03	0.4%	0.4%
Carpark	153	0.05	0.8%	0.8%
Total Investment Properties	7,843	2.56	43.4%	39.3%
Other Assets	226	0.07	1.3%	1.1%
Gross Asset Value	19,951	6.52	110.5%	100.0%
Net debt	(1,893)	(0.62)	-10.5%	-9.5%
NAV	18,058	5.90	100.0%	90.5%

Source: Citigroup Estimates

Discount to NAV is the most widely used method for valuing Hong Kong and China property stocks. NAV measures how much a stock is worth based on the market value of its assets; for a property company those would be its development and investment properties. The NAV discount is then adjusted for the 'realizability' of those assets.

As a reference, our estimated NAV for CR Land has factored in residential price growth of 3-5% per year in 2006 and 2007 for the projects of CR Land in mainland China.

Discount to NAV is the most widely used method for valuing Hong Kong and China property stocks. NAV measures how much a stock is worth based on the market value of its assets; for a property company those would be its development and investment properties. The NAV discount is then adjusted for the 'realizability' of those assets.

Our estimated NAV is derived using sum of the parts; DCF for development properties, capitalization rates of 8-10% for rental properties, and book values for unlisted subsidiaries and non-property investments, less net debt.

Depending on their location, asset type, and asset quality, our assumed capitalization rates and rental growth forecasts for the rental properties of CR Land would be different for different properties. In our view, our estimated values for those investment properties represent the fair values that the individual properties could command in the event of a disposal.

We applied the DCF approach to value to the company's development properties in Beijing, Chengdu, Shanghai, Hefei, and Wuhan, for which we have assumed different selling prices for properties with different locations, asset types, qualities and years of completion in our net cash flow projections.

Our target price also represents a 2x price-to-book to our estimated book value of HK\$2.72 at end-2004. We believe this is justified by the company's large-scale landbank, solid property sales volume, strong brand identity in China, and good product quality. Given that development properties are valued at cost in the calculation of book value and the potential for further value-enhancing asset injection from the parent company, we argue that a price-to-book of greater than 1x is justifiable.

Risks

We rate CR Land Medium Risk although our quantitative risk rating system, which tracks 260-day historical volatility of the shares, rates CR Land High Risk. In our view, the re-rating of CR Land on the back of the restructuring of the company has led to volatility in the share price of CR Land, leading our quantitative risk rating system to assign a High Risk rating for the stock. We, however, believe that the restructuring of the company has the effect of expanding the recurrent income base of the company and enhancing its financing capacity, which should improve the earnings and financial stability of the company. Therefore, we are keeping a Medium Risk rating for CR Land.

Fundamentally, CR Land is exposed principally to the property markets in mainland China.

The most notable downside risks to CR Land's share price are economy and policy related. With regard to economic risks, any weaker-than-expected GDP growth for the Chinese and/or global economy, and the risk of a hard landing in the domestic economy could negatively affect buyers' sentiment in China's property markets, leading to elusive demand, which could render our sales and earnings estimates for CR Land unrealizable.

In addition, any stronger-than-expected pickup in inflation could result in a sharp rise in interest rates, affecting housing affordability for homebuyers. This could also attract new austerity measures, which could further dampen sentiment in the housing market.

On the policy front, any further tightening measures and policy changes by the Central government with regard to mortgage applications and approvals, project financing, and property pre-sales to curb speculation and overinvestment could adversely affect the bottom lines and cash flows of property developers, and homebuyer sentiment.

Any of the aforementioned risks could impede the shares from reaching our target price.

Figure 6. China Resources Land – Earnings Analysis (HK\$ Mills)

Year to 31 Dec	2003	2004	2005E	2006E	2007E	2008E
Property Sales	1,184	2,313	2,675	2,797	3,857	4,833
Property investment	8	22	39	525	600	613
Property Management	60	74	81	89	98	108
Total Turnover	1,252	2,409	2,795	3,411	4,556	5,554
Property Sales	55	261	455	773	1,102	1,286
Property investment	(11)	4	28	378	432	441
Property Management	-	-	8	9	10	11
Allowance for Bad Debts	(55)	(117)	(70)	-	-	-
Others	71	48	82	(15)	(15)	(15)
Operating Profit	61	196	502	1,144	1,529	1,723
Other Income/Expenses	-	-	-	-	-	-
Net Interest Income/Expenses	(32)	(28)	(22)	(36)	(33)	(22)
Net Operating Profit	29	168	480	1,108	1,496	1,702
Share of Associates	7	20	-	-	78	174
Exceptionals	-	-	-	-	-	-
Profit before Taxation	36	188	480	1,108	1,574	1,876
Taxation	(17)	(81)	(158)	(366)	(519)	(619)
Minority Interest	60	43	(21)	(25)	(35)	(33)
Net Profit	79	150	301	718	1,020	1,224
Reported EPS (HK\$)	0.05	0.10	0.20	0.24	0.33	0.40
Core Net Profit	79	150	301	718	1,020	1,224
Core EPS (HK\$)	0.05	0.10	0.20	0.24	0.33	0.40
DPS (HK\$)	0.03	0.03	0.05	0.06	0.08	0.10

Source: Company, Citigroup Investment Research estimates

Figure 7. China Resources Land – Key Financial Ratios

Year to 31 Dec	2003	2004	2005E	2006E	2007E	2008E
ROE	2.0%	3.7%	7.1%	10.9%	11.1%	12.2%
ROA	1.2%	2.1%	4.3%	7.7%	8.5%	9.5%
Net Gearing	46.6%	48.6%	54.8%	17.8%	14.5%	10.8%
Dividend Payout Ratio	51.4%	30.0%	22.5%	25.3%	24.0%	25.0%
Interest Cover	0.5	1.9	4.1	6.7	9.3	12.7
Target ROE	1.0%	1.9%	3.8%	4.5%	6.3%	7.6%
Target P/E	101.0	53.0	26.5	22.4	15.9	13.2

Source: Company, Citigroup Investment Research estimates

Figure 8. China Resources Land – Balance Sheet (HK\$ Mills)

Year to 31 Dec	2003	2004	2005E	2006E	2007E	2008E
Investment Prop.	451	873	873	4,145	4,145	4,145
Other fixed assets	201	243	243	243	243	243
Fixed assets	652	1,115	1,115	4,388	4,388	4,388
Associates & JC entities	670	694	694	694	746	863
Other Investments	319	314	314	314	314	314
Property under dev/for sales	4,883	4,773	5,475	6,110	6,743	7,357
Bank balances & cash	1,389	1,536	1,155	1,951	1,936	1,385
Other current assets	1,292	1,176	1,199	1,301	1,194	843
Current Assets	7,564	7,484	7,829	9,363	9,872	9,585
Loans & overdrafts	1,231	1,937	1,937	1,937	1,737	937
Trade & other payables	800	827	839	1,023	911	555
Other current liabilities	0	0	79	183	247	281
Current liabilities	2,031	2,764	2,855	3,143	2,895	1,773
Total Net assets	7,173	6,844	7,098	11,616	12,426	13,377
Long term bank loans	2,181	1,813	1,813	1,813	1,813	1,813
Convertible bonds	0	0	0	0	0	0
Other long term liabilities	72	45	45	45	45	45
Long term liabilities	2,253	1,858	1,858	1,858	1,858	1,858
Minority interests	941	898	919	944	979	1,011
Shareholders' funds	3,979	4,089	4,322	8,814	9,589	10,508
Total capital employed	7,173	6,844	7,098	11,616	12,426	13,377
Book Value Per Share	2.65	2.72	2.88	2.91	3.14	3.44
P/B	1.66	1.62	1.53	1.51	1.40	1.28
Target P/B	2.00	1.95	1.84	1.82	1.69	1.54

Source: Company, Citigroup Investment Research estimates

Figure 9. China Resources Land – Cash Flow (HK\$ Mills)

Year to 31 Dec	2003	2004	2005E	2006E	2007E	2008E
Pretax Profit	36	188	480	1108	1574	1876
Net Interest Expense (Income)	-24	-17	22	36	33	22
Non Cash Items Adjustment	2	74	0	0	-78	-174
Change in Working Capital	-630	-273	-612	-417	-505	-505
NCF from Operating Activities	-615	-28	-110	728	1024	1219
Interest	-98	-88	-124	-172	-165	-136
Dividend	-20	-39	-68	-183	-245	-306
Returns on inv. & serv'g of finance	-118	-127	-192	-355	-409	-442
Tax paid	27	-36	-79	-262	-430	-528
NCF before investing activities	-91	-163	-271	-617	-839	-969
NCF from Investing activities	-16	-29	0	-2872	0	0
Debt/Loan Financing	3040	2458	0	0	-200	-800
Issue of Shares	0	0	0	0	0	0
Increase in minorities	0	0	0	0	0	0
NCF from Financing activities	3040	2458	0	0	-200	-800
Change in Cash & Bank Balance	617	146	-381	797	-15	-551
Beginning Cash & Bank Balance	772	1389	1536	1155	1951	1936
Ending Cash & Bank Balance	1389	1536	1155	1951	1936	1385
OCF Per Share	-0.39	0.00	-0.07	0.24	0.33	0.40
FCF Per Share	-0.46	-0.13	-0.25	-0.91	0.06	0.08
Change in Net Cash Per Share	0.41	0.10	-0.25	0.26	-0.01	-0.18

Source: Company, Citigroup Investment Research estimates

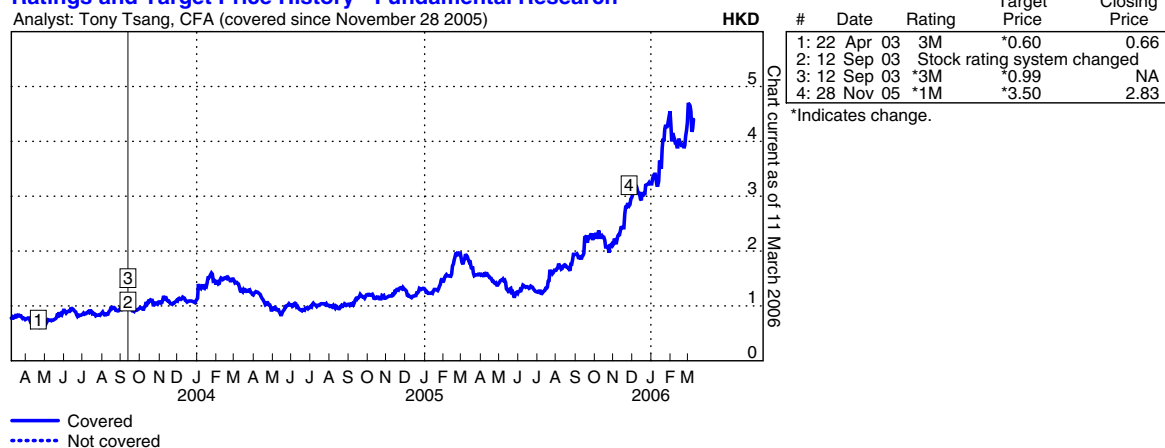
I, Tony Tsang, CFA, research analyst and the author of this report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject issuer(s) or securities. I also certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

IMPORTANT DISCLOSURES

China Resources Land Ltd (1109.HK)

Ratings and Target Price History - Fundamental Research

Analyst: Tony Tsang, CFA (covered since November 28 2005)



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Data current as of 31 December 2005

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