

Company In-Depth

23 November 2006 | 15 pages

China Resources Land (1109.HK)

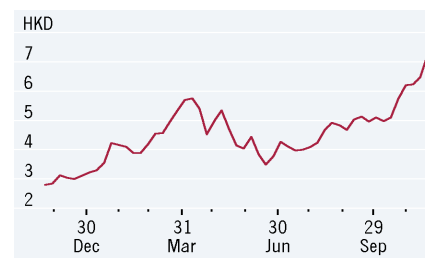
Buy: Twin Turbos for Growth

 Rating change
 Target price change
 Estimate change

- Reiterate Buy/Medium Risk** — new target price HK\$9.38, at par to our new NAV of HK\$9.38, revised up on the latest landbank Beijing and Suzhou acquisitions. Our target price and 2006E dividend yield of 1.0% imply a total return of 23% for the next 12 months. Latest landbank acquisitions by both CR Land and CRH indicate that CR Land's NAV growth does not stop with the second asset injection.
- CR Land's own landbanking** — CR Land has lately acquired an urban site inside the third ring road in Beijing. The total GFA is about 0.29msm, and the land cost is RMB1.035bn, or RMB3,500psm. Based on a RMB13,000psm selling price, the project should return a margin of about 37%. It is NAV enhancing and reaffirms our view that CR Land's NAV would also grow via its own landbanking.
- CRH as landbank incubator** — CRH has newly acquired a 1.3msm residential landbank in Dalian. The land cost is RMB1.7bn, or RMB1,298psm. With this new acquisition, the pipeline of landbank (that could be injected into CR Land) at CRH has increased to 2.75msm (attributable), with a total cost of RMB4.5bn. This pipeline presents a strong, visible source of NAV growth for CR Land.
- Unique growth story** — CR Land presents a unique growth story among the major nationwide developers. Its own landbanking out of its own recurrent cash flows should provide it with decent organic growth, while the potential future asset injections from the parent would continue to provide a one-off boost to its NAV. With these, we are seeing decent upside to our HK\$9.38 NAV.

Buy/Medium Risk	1M
Price (22 Nov 06)	HK\$7.67
Target price	HK\$9.38
	<i>from HK\$8.07</i>
Expected share price return	22.3%
Expected dividend yield	1.0%
Expected total return	23.3%
Market Cap	HK\$24,051M
	US\$3,089M

Price Performance (RIC: 1109.HK, BB: 1109 HK)



See page 13 for Analyst Certification and important disclosures.

Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Dec	(HK\$M)	(HK\$)	(%)	(x)	(x)	(%)	(%)
2004A	150	0.10	90.4	76.8	2.8	3.7	0.4
2005A	306	0.11	10.5	69.5	2.6	5.0	0.4
2006E	816	0.26	136.0	29.4	2.3	8.9	1.0
2007E	1,448	0.44	67.5	17.6	2.0	12.7	1.6
2008E	2,766	0.83	91.0	9.2	1.7	20.3	2.1

Source: Powered by dataCentral

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Fiscal year end 31-Dec	2004	2005	2006E	2007E	2008E
Valuation Ratios					
P/E adjusted (x)	76.8	69.5	29.4	17.6	9.2
P/E reported (x)	76.8	55.3	29.4	17.6	9.2
P/BV (x)	2.8	2.6	2.3	2.0	1.7
Dividend yield (%)	0.4	0.4	1.0	1.6	2.1
Per Share Data (HK\$)					
EPS adjusted	0.10	0.11	0.26	0.44	0.83
EPS reported	0.10	0.14	0.26	0.44	0.83
BVPS	2.72	2.92	3.28	3.77	4.44
NAVps ordinary	na	na	na	na	na
DPS	0.03	0.03	0.08	0.12	0.16
Profit & Loss (HK\$M)					
Net operating income (NOI)	196	542	1,277	2,185	4,083
G&A expenses	0	0	0	0	0
Other Operating items	20	10	0	0	0
EBIT including associates	216	551	1,277	2,185	4,083
Non-oper./net int./except.	-28	-66	-78	-74	-57
Pre-tax profit	188	485	1,199	2,112	4,026
Tax	-81	-47	-360	-633	-1,208
Extraord./Min. Int./Pref. Div.	43	-54	-23	-30	-52
Reported net income	150	384	816	1,448	2,766
Adjusted earnings	150	306	816	1,448	2,766
Adjusted EBIT	196	536	1,277	2,185	4,083
Adjusted EBITDA	196	555	1,277	2,185	4,083
Growth Rates (%)					
NOI	220.9	176.9	135.8	71.1	86.8
EBIT adjusted	220.9	173.9	138.5	71.1	86.8
EPS adjusted	90.4	10.5	136.0	67.5	91.0
Cash Flow (HK\$M)					
Operating cash flow	-122	-497	-1,581	-1,012	5,639
Depreciation/amortization	0	20	0	0	0
Net working capital	-273	-784	-2,448	-2,494	2,636
Investing cash flow	-29	-9	0	0	0
Capital expenditure	-29	-9	0	0	0
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	297	968	791	202	-2,531
Borrowings	338	552	-34	-600	-2,000
Dividends paid	-41	-45	-251	-398	-531
Change in cash	146	461	-790	-811	3,108
Balance Sheet (HK\$M)					
Total assets	9,608	17,775	19,851	22,632	23,612
Cash & cash equivalent	1,536	1,997	1,207	0	0
Net fixed assets	1,115	7,758	8,158	8,158	8,158
Total liabilities	4,622	9,445	9,338	9,839	8,532
Total Debt	3,750	5,836	5,802	5,202	3,960
Shareholders' funds	4,986	8,330	10,513	12,793	15,080
Profitability/Solvency Ratios					
EBIT margin adjusted (%)	8.1	19.8	33.6	35.3	37.5
ROE adjusted (%)	3.7	5.0	8.9	12.7	20.3
ROA adjusted (%)	1.6	2.2	4.3	6.8	12.0
Net debt to equity (%)	44.4	46.1	43.7	40.7	26.3
Interest coverage (x)	7.1	8.4	16.4	29.6	71.8

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Twin Turbo for Growth

We reiterate our Buy/Medium Risk (1M) rating on CR Land with a new target price of HK\$9.38, which is based on our new NAV of HK\$9.38, revised upward to reflect the latest landbank Beijing and Suzhou acquisitions by CR Land. Our target price and 2006E dividend yield of 1.0% imply a total return of 23% for the next 12 months. In our view, the latest landbank acquisitions by both CR Land and its parent CRH indicate that CR Land's NAV growth does not stop with the second asset injection that was just recently announced.

CR Land has lately acquired an urban site inside the third ring road in Beijing. The total GFA is about 0.29msm and the land cost is RMB1.035bn, or RMB3,500psm. Based on nearby comparable selling prices of about RMB13,000psm, the project should be able to return a margin of about 37%, and hence it is NAV enhancing. More important, the acquisition reaffirms our view that besides the support from the parent, CR Land would also be able to grow its NAV through its own landbanking.

In addition, after the latest asset injection, the parent, CRH, has also replenished its pipeline of properties by acquiring a 1.3msm new residential landbank in Dalian. The land cost is RMB1.7bn, or RMB1,298psm. With this new acquisition, the pipeline of landbank (that could be injected into CR Land) at CRH has increased to 2.75msm (attributable), with a total attributable land cost of RMB4.5bn. This pipeline presents a strong, visible source of NAV growth for CR Land.

In our view, CR Land presents a unique growth story among the major nationwide developers. Its own landbanking out of its own recurrent cash flows should provide it with decent organic growth, while the potential future asset injections from the parent would continue to provide a one-off boost to its NAV. With these, we are seeing strong upside to our HK\$9.38 NAV, and hence we are now applying no NAV discount when determining our price target for CR Land.

Figure 1. CR Land vs. Our Top Buys in China Property

11/22/2006		Price	Market Cap	CIR	Est. NAV	NAV	Target	Target	Implied	P/E				
	RIC	HK\$	(USD)	Rating	NAV	Discount	Price	NAV Disc	Upside	FY04	FY05	FY06E	FY07E	FY08E
China Resources Land	1109.HK	7.67	3,088.9	1M	9.38	-18%	9.38	0%	22%	76.8	69.5	29.9	17.8	9.6
Agile Property	3383.HK	7.20	3,204.3	1M	8.50	-15%	8.50	0%	18%	109.6	25.5	17.6	12.1	10.1
Greentown China	3900.HK	11.94	2,066.2	1M	13.76	-13%	12.38	-10%	4%	35.4	25.8	10.8	8.3	6.4
Guangzhou Investment	0123.HK	1.78	1,546.6	1H	2.73	-35%	1.91	-30%	7%	41.3	4.5	27.6	14.3	11.1
GZI REIT	0405.HK	3.08	395.6	1L	3.28	-6%	4.20	28%	36%	34.8	30.4	15.4	14.8	14.3
New World China Land	0917.HK	4.76	2,340.1	1M	8.55	-44%	6.00	-30%	26%	59.5	47.6	29.8	18.3	12.9
Shenzhen Investment	0604.HK	3.45	1,245.7	1L	5.49	-37%	4.39	-20%	27%	24.2	16.0	14.7	12.4	9.0

Source: Company Reports and Citigroup Investment Research

Organic growth through CR Land's own landbanking

CR Land has lately acquired an urban site inside the third ring road in Beijing. The total GFA is about 0.29msm and the land cost is RMB1.035bn, or RMB3,500psm. Assuming an end-selling price of RMB13,000psm (in-line with achieved transacted prices nearby), the project should return a margin of about 37%, and therefore, it is both NAV and earnings enhancing. After this latest

landbanking, CR Land's landbank size has increased further from 9msm to 9.3msm, covering 9 cities, located mainly in the urban districts.

Figure 2. CR Land – Land bank as of 22 Nov 2006

	Completed for sale (sqm)	Under development (sqm)	Total GFA (sqm)	Attributable GFA (sqm)
Beijing	164,065	1,734,102	1,898,167	1,624,194
Shanghai	-	228,429	228,429	228,429
Shenzhen	-	298,070	298,070	298,070
Chendu	10,696	4,482,257	4,492,953	4,492,953
Wuhan	-	149,850	149,850	149,850
Hefei	-	226,629	226,629	226,629
Ningbo	-	324,767	324,767	324,767
Changsha	-	1,378,036	1,378,036	1,378,036
Suzhou	-	61,415	61,415	61,415
Sub-total:	174,761	8,883,555	9,058,316	8,784,343
IP Land Bank			636,869	539,530
Grand Total:			9,695,185	9,323,873

Source: Company Reports

More important, the acquisition reaffirms our view that CR Land's NAV would also grow via its own landbanking, besides the support from the parent.

CRH replenishing landbank for incubation

After the announcement of the second asset injection into CR Land, the parent, CRH, has replenished its pipeline of projects by acquiring a new residential landbank in Dalian, with a GFA of 1.31msm. The land cost is RMB1.7bn, or RMB1,298psm.

With this new acquisition, the pipeline of landbank (that could be injected into CR Land) at CRH has risen back to 2.75msm (attributable), with a total attributable land cost of RMB4.5bn. This pipeline presents a strong, visible source of NAV growth for CR Land. We believe that the Wuxi project, with about 80% of its GFA in residential and with an attributable land cost of RMB1.51bn, will be the next injection candidate.

Figure 3. CR Holding – Land bank as of 22 Nov 2006

	Total GFA (sqm)	Use	Interest	Attributable GFA (sqm)	Land cost (RMB mn)
Hangzhou	550,000	Commercial	60%	330,000	1,100
Wuxi	1,450,000	Res/Com	60%	870,000	2,510
Dalian	435,800	Commercial	55%	239,690	1,177
Dalian	1,309,600	Residential	100%	1,309,600	1,700

Source: Company Reports and Citigroup Investment Research

At the moment, CRH is also looking to acquire new landbank in Chongqing and Beijing. In our view, during periods of rising land costs, CRH is now serving the role as a landbank incubator for CR Land, locking in land costs at lower levels first, and then injecting into CR Land when the relevant projects are reaped for

cash inflows. In our view, this should continue to provide NAV and earnings growth for CR Land, and help expand its property portfolio.

CR Land fits into our bullish sector view

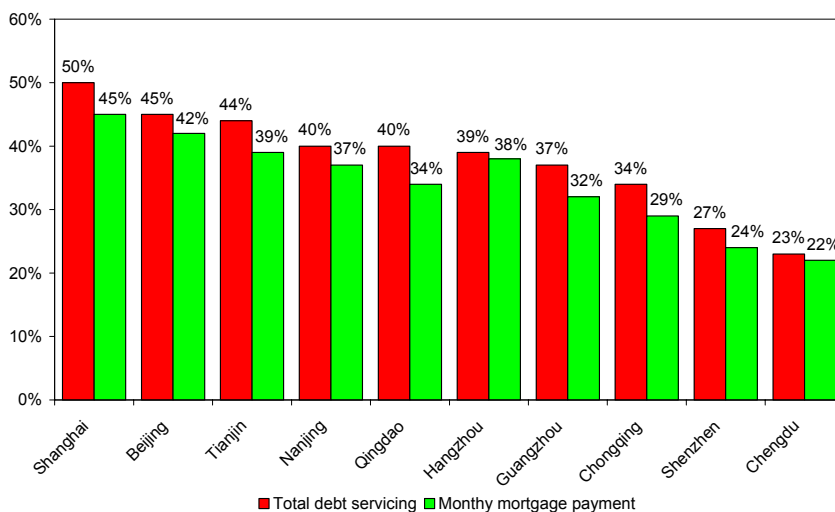
CR Land fits into our bullish sector view on the end-user segments of the China residential property market. We remain bullish on financially solid mainland property developers that target principally the local end-users with good-quality products, carefully-chosen locations and good market positioning.

In our view, instead of being impacted by the property market control measures introduced by developers, this group of developers should be able to take advantage of the resulting industry consolidations to snap up increasing market share in the China property markets, translating that into higher sales volume and more opportunities for landbank expansion.

In addition, those property developers with the track record and ability to establish themselves in the second-tier and third-tier cities in China should enjoy faster growth since the second- and third-tier cities are still in an early phase of development, so both land costs and home prices in those cities are still at a relatively lower base. These should present larger upside in terms of both sales volume growth and development margins.

CR Land has recently added another three cities – Ningbo, Changsha, and Suzhou – to its property portfolio. Now, CR Land has projects in Beijing, Shanghai, Shenzhen, Hefei, Wuhan, Chengdu, Ningbo, Suzhou and Changsha, making it a real nationwide developer. If the assets (i.e., the Hangzhou, Wuxi, and Dalian projects) currently held by CRH are injected into CR Land, CR Land's nationwide reach should expand further.

Figure 4. China – Debt Servicing and Housing Affordability Ratio (monthly debt payments as a % of total monthly income)



Source: PBOC

Figure 5. China Residential Sales by Regions, Jan-Aug 2006

	Jan - Aug 06		Jan - Aug 05		Jan - Aug 06 YoY Growth		2006 Vs 2005 Growth Trend	
	GFA Sold m sqm	Amount RMB bn	GFA Sold m sqm	Amount RMB bn	GFA Sold m sqm	Amount RMB bn	GFA Sold	Amount
National	282.8	906.4	172.3	479.3	64%	89%	>	>
Eastern China	158.6	663.7	104.4	367.4	52%	81%	>	>
Beijing	13.2	94.3	13.2	72.4	0%	30%	<	>
Tianjin	7.5	32.2	5.0	17.3	51%	86%	>	>
Hebei	8.8	17.1	4.3	7.6	103%	126%	>	>
Shanghai	16.0	111.9	12.3	70.0	30%	60%	>	>
Jiangsu	28.4	96.3	15.3	42.3	86%	128%	>	>
Zhejiang	16.3	71.9	10.4	33.9	58%	112%	>	>
Fujian	10.1	35.0	6.7	17.0	51%	106%	>	>
Shandong	18.5	44.8	12.7	26.8	46%	67%	>	>
Guangdong	25.6	118.8	15.8	55.9	62%	113%	>	>
Hainan	1.1	3.7	1.2	3.1	-11%	18%	<	>
Central China	57.7	112.6	33.9	56.7	70%	99%	>	>
Shanxi	2.9	5.6	2.4	4.2	22%	33%	>	>
Jilin	2.4	4.9	1.8	3.6	32%	36%	>	>
Anhui	10.4	22.3	6.0	12.0	73%	86%	>	>
Jiangxi	7.9	11.9	4.6	5.0	72%	138%	>	>
Henan	11.0	19.6	5.4	8.5	104%	132%	>	>
Hubei	9.8	24.6	5.6	11.4	74%	116%	>	>
Hunan	7.8	12.6	5.7	7.5	38%	68%	>	>
Western China	66.5	130.1	34.0	55.2	96%	136%	>	>
Guangxi	6.6	13.3	3.6	6.7	81%	99%	>	>
Chongqing	9.5	20.5	6.3	11.3	50%	82%	>	>
Sichuan	20.6	41.4	7.3	10.5	182%	296%	>	>

Source: CEIC

Taking advantage of industry consolidation

The recent property market measures introduced by the central government in China recently have led to investor concerns about mainland China's property markets. In our view, while the overhang on tightening could drag on for some more time in the China real estate market, investors should note that the negative impact of tightening measures is likely to be felt most acutely in the following areas:

- In major cities where property-price growth is sharper and more widely publicized;
- In luxury segments where property price levels have risen to unreasonably high levels, and these segments normally target the foreign buyers, e.g., the real luxury apartment segments in Shanghai and Beijing; and
- By smaller property players whose competitive edge is more elusive, who must rely more on bank financing, and whose staying power is relatively weak.

In our view, the latest property market measures by the central government would help bring in a healthier development of the mainland property market. Industry consolidation in the China property market should continue, and should favor large-scale developers with strong cash flows and low gearing over the medium to longer term. As and when weaker players are driven out of the market, competition is likely to become less intense, which should benefit larger

players that are stronger in terms of brand equity and their financial positions. In addition, when more small players get into financial troubles, more and cheaper landbanking opportunities would arise for larger developers.

In our view, with its strong brand identity in China, good product quality, strong property presales, its solid financial positions, and the continuous support from the parent, CR Land should be able to take advantage of these landbanking opportunities, which should potentially bring in further enhancements to NAV.

Highest earnings visibility

As of now, CR Land has presold over 90% of its FY06 property completions and about 30% of its FY07 completions. And with recurrent rental income making up 40% and 30% of our estimated total earnings for FY06 and FY07, respectively, CR Land should have secured about 94% and 51% of our estimated total earnings for FY06 and FY07, respectively. This is one of the highest among the China property developers under our coverage.

Figure 6. China Property – Sales and Earnings locked in for 2006 and 2007

Stock	RIC	% earnings from recurrent income		% earnings from property sales		% property sales locked in		% earnings locked in	
		2006	2007	2006	2007	2006	2007	2006	2007
Agile Property	3383.HK	0%	0%	100%	100%	90%	0%	90%	0%
Guangzhou R&F	2777.HK	2%	6%	98%	94%	93%	20%	93%	25%
COLI	0688.HK	6%	4%	94%	96%	90%	20%	91%	23%
Hopson Development	0754.HK	2%	1%	99%	99%	90%	15%	90%	16%
China Resources Land	1109.HK	37%	30%	63%	70%	90%	30%	94%	51%
Beijing Capital Land	2868.HK	1%	1%	99%	99%	85%	27%	85%	28%
GZI REIT	0405.HK	100%	100%	0%	0%	NA	NA	100%	100%
Shenzhen Investment	0604.HK	53%	46%	47%	54%	85%	25%	93%	60%
Guangzhou Investment	0123.HK	39%	31%	61%	69%	88%	25%	93%	48%
Greentown China	3900.HK	0%	0%	100%	100%	96%	25%	96%	25%
New World China Land	0917.HK	100%	19%	100%	81%	100%	35%	100%	47%
Sector Average		31%	22%	78%	78%	91%	22%	93%	38%

Source: Citigroup Investment Research

Earnings Revisions

We have taken up our 2007 and 2008 estimates by 2.3% and 3.7%, respectively, mainly reflecting the latest landbank acquisitions in Suzhou and Beijing, and a slightly higher RMB exchange rate (RMB7.50 to US\$1).

Figure 7. CR Land - Earnings revision

Year to 31 Dec	Net Profit (HK\$ mn)		EPS (HK\$)			DPS (HK\$)	
	Old	New	Old	New	% Change	Old	New
2006E	805	816	0.26	0.26	0.0%	0.08	0.08
2007E	1,429	1,448	0.43	0.44	2.3%	0.12	0.12
2008E	2,653	2,766	0.80	0.83	3.7%	0.16	0.16

Source: Company Reports and Citigroup Investment Research

Financial Analysis

Figure 8. CR Land – Profits and Loss Statement (HK\$ mn)

Year end 31 Dec	2000	2001	2002	2003	2004	2005	2006E	2007E	2008E
Property Sales	1,611	3,385	1,058	1,184	2,313	2,547	2,912	5,212	9,873
Property investment	6	0	13	8	22	68	793	860	881
Property Management	15	36	59	60	74	92	101	111	122
Total Turnover	1,632	3,421	1,130	1,252	2,409	2,707	3,806	6,183	10,876
Property Sales	200	277	(15)	55	261	487	821	1,602	3,483
Property investment	5	0	6	(11)	4	73	476	602	617
Property Management	(5)	1	0	0	0	0	10	11	12
Allowance for Bad Debts	(35)	(218)	(71)	(55)	(117)	(104)	0	0	0
Others	0	0	62	71	48	86	(30)	(30)	(30)
Operating Profit	165	60	(18)	61	196	542	1,277	2,185	4,083
Other Income/Expenses	(29)	(14)	(7)	0	0	(6)	0	0	0
Net Interest Income/Expenses	52	8	4	(32)	(28)	(66)	(78)	(74)	(57)
Net Operating Profit	188	55	(22)	29	168	469	1,199	2,112	4,026
Share of Associates	(16)	(18)	21	7	20	16	0	0	0
Exceptionals	13	0	0	0	0	0	0	0	0
Profit before Taxation	185	37	(1)	36	188	485	1,199	2,112	4,026
Taxation	(49)	103	30	(17)	(81)	(47)	(360)	(633)	(1,208)
Minority Interest	(39)	21	49	60	43	(54)	(23)	(30)	(52)
Net Profit	97	160	78	79	150	384	816	1,448	2,766
EPS (HK\$) - Diluted	0.07	0.11	0.05	0.05	0.10	0.14	0.26	0.44	0.83
Core Net Profit	109	227	78	79	150	306	816	1,448	2,766
Core EPS (HK\$) - Diluted	0.07	0.14	0.05	0.05	0.10	0.11	0.261	0.44	0.83
DPS (HK\$)	0.02	0.02	0.03	0.03	0.03	0.03	0.08	0.12	0.16

Source: Company Reports and Citigroup Investment Research

Figure 9. CR Land – Cash Flow Statement (HK\$ mn)

Year end 31 Dec	2000	2001	2002	2003	2004	2005	2006E	2007E	2008E
Pretax Profit	185	37	(1)	36	188	485	1,199	2,112	4,026
Net Interest Expense (Income)	(52)	(26)	(18)	(24)	(17)	32	78	74	57
Non Cash Items Adjustment	7	27	(8)	2	74	(54)	-	-	-
Change in Working Capital	321	754	(664)	(630)	(273)	(784)	(2,448)	(2,494)	2,636
NCF from Operating Activities	461	792	(691)	(615)	(28)	(321)	(1,171)	(308)	6,719
Interest	(25)	(71)	(62)	(98)	(88)	(158)	(219)	(207)	(159)
Dividend	(33)	(41)	(15)	(20)	(39)	(13)	(251)	(398)	(531)
Returns on inv. & serv'g of finance	(58)	(113)	(77)	(118)	(127)	(171)	(470)	(606)	(690)
Tax paid	(10)	(140)	(64)	27	(36)	(66)	(191)	(497)	(921)
NCF before investing activities	(68)	(253)	(141)	(91)	(163)	(237)	(661)	(1,102)	(1,611)
NCF from Investing activities	(196)	(40)	(37)	(16)	(29)	(9)	-	-	-
Debt/Loan Financing	(124)	(347)	1,112	3,040	2,458	4,234	(34)	(600)	(2,000)
Issue of Shares	-	5	-	-	-	-	-	-	-
Increase in minorities	-	5	(0)	(0)	(0)	444	-	-	-
NCF from Financing activities	(124)	(337)	1,112	3,040	2,458	4,677	(34)	(600)	(2,000)
Change in Cash & Bank Balance	72	160	(532)	617	146	461	(790)	(811)	3,108
Beginning Cash & Bank Balance	1,071	1,144	1,304	772	1,389	1,536	1,997	1,207	396
Ending Cash & Bank Balance	1,144	1,304	772	1,389	1,536	1,997	1,207	396	3,504
OCF Per Share	0.31	0.53	(0.46)	(0.39)	0.00	(0.11)	(0.37)	(0.09)	2.02
FCF Per Share	0.13	0.33	(0.58)	(0.46)	(0.13)	(0.37)	(0.59)	(0.42)	1.54
Change in Net Cash Per Share	0.05	0.11	(0.35)	0.41	0.10	0.31	(0.25)	(0.24)	0.94

Source: Company Reports and Citigroup Investment Research

Figure 10. CR Land – Key Ratio

	2000	2001	2002	2003	2004	2005E	2006E	2007E	2008E
ROE	2.6%	4.2%	2.0%	2.0%	3.7%	6.3%	8.9%	12.7%	20.3%
ROA	1.8%	3.1%	1.4%	1.2%	2.1%	3.9%	5.9%	9.0%	15.0%
Net Gearing	25.2%	12.0%	Net cash	46.6%	48.6%	47.4%	44.8%	38.4%	Net cash
Dividend Payout Ratio	30.8%	20.6%	51.9%	51.4%	30.0%	12.9%	30.5%	27.5%	19.2%
Interest Cover	2.0	0.4	(0.3)	0.5	1.9	2.9	5.8	10.5	25.7

Source: Company Reports and Citigroup Investment Research

Figure 11. CR Land – Balance Sheet (HK\$ mn)

Year end 31 Dec	2000	2001	2002	2003	2004	2005	2006E	2007E	2008E
Investment Prop.	77	484	469	451	873	7,509	7,909	7,909	7,909
Other fixed assets	4	51	74	201	243	249	249	249	249
Fixed assets	81	535	543	652	1,115	7,758	8,158	8,158	8,158
Associates & JC entities	1,192	1,091	782	670	694	689	689	689	689
Other Investments	74	205	318	319	314	401	401	401	401
Property under dev/for sales	4,970	3,731	4,321	4,883	4,773	6,068	8,611	12,010	9,637
Bank balances & cash	1,144	1,304	772	1,389	1,536	1,997	1,207	396	3,504
Other current assets	685	772	1,231	1,292	1,176	861	785	977	1,223
Current Assets	6,798	5,808	6,324	7,564	7,484	8,926	10,603	13,383	14,364
Loans & overdrafts	1,597	1,768	601	1,231	1,937	1,876	1,842	1,242	(758)
Trade & other payables	545	764	903	800	827	2,678	2,436	3,400	3,807
Other current liabilities	579	187	9	0	0	11	180	317	604
Current liabilities	2,722	2,719	1,513	2,031	2,764	4,565	4,458	4,959	3,653
Total Net assets	5,425	4,919	6,455	7,173	6,844	13,209	15,393	17,673	19,959
Long term bank loans	47	0	1,501	2,181	1,813	3,960	3,960	3,960	3,960
Convertible bonds	445	0	4	0	0	0	0	0	0
Other long term liabilities	66	0	0	72	45	508	508	508	508
Long term liabilities	558	0	1,505	2,253	1,858	4,467	4,467	4,467	4,467
Minority interests	1,115	1,052	1,003	941	898	224	247	277	329
Shareholders' funds	3,752	3,867	3,947	3,979	4,089	8,106	10,267	12,517	14,751
Total capital employed	5,425	4,919	6,455	7,173	6,844	12,797	14,981	17,261	19,548
Book Value Per Share	2.51	2.58	2.63	2.65	2.72	5.39	3.29	3.77	4.44

Source: Company Reports and Citigroup Investment Research

China Resources Land

Company description

A subsidiary of China Resources Enterprise Limited, China Resources Land (CR Land) was founded in 1987 and listed on the main board of the Hong Kong Stock Exchange in 1996. CR Land is an investment holding company with subsidiaries principally engaged in property development and investment in the PRC. Most of the property portfolios are situated in Beijing. In accordance with its corporate development strategy, CR Land has successfully expanded its property development businesses via its subsidiaries across the country. Currently, CR Land has projects in Beijing, Shanghai, Chengdu, Wuhan and Hefei.

Investment thesis

We reiterate our Buy/Medium Risk rating on China Resources Land (CR Land) with a target price of HK\$9.38, at par to our estimated NAV of HK\$9.38/share. We see strong upside in our estimated NAV for CR Land coming from the potential future asset injections 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 two 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.

Valuation

Our target price of HK\$9.38 is based on our estimated NAV of HK\$9.38/share. We have raised our price target for CR Land from HK\$8.07 to HK\$9.38 on the back of a higher estimated NAV. As a reference, we have taken up our estimated NAV of CR Land from HK\$8.97 to HK\$9.38 mainly reflecting the latest landbank acquisitions by CR Land in Suzhou and Beijing.

Figure 12. CR Land – Estimated NAV

	NAV (HK\$m)	NAV/ Share(HK\$)	% of NAV	% of GAV
Development Properties				
Residential	17,055	5.14	54.8%	52.4%
Office	4,026	1.21	12.9%	12.4%
Retail	231	0.07	0.7%	0.7%
Total Development Properties	21,312	6.42	68.5%	65.5%
Investment Properties				
Residential	17	0.01	0.1%	0.1%
Office	3,401	1.02	10.9%	10.5%
Retail	7,337	2.21	23.6%	22.5%
Hotel	83	0.02	0.3%	0.3%
Carpark	163	0.05	0.5%	0.5%
Total Investment Properties	11,001	3.31	35.3%	33.8%
Other Assets	226	0.07	0.7%	0.7%
Gross Asset Value	32,539	9.80	104.5%	100.0%
Net debt	(1,414)	(0.43)	-4.5%	-4.3%
NAV	31,125	9.38	100.0%	95.7%

Source: Citigroup Investment Research

As a reference, when determining our new target price, we have now assumed a zero discount to our NAV, versus a 10% discount previously. This is because the latest asset injections from the parent, CR Holdings, and the latest landbanking by CR Land, have led us to believe that we would continue to see strong growth in the NAV of CR Land. With this growth potential, we believe that the stock deserves to trade at its NAV.

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 and the growth potential in that NAV, in the way that the more realizable the NAV is, or the larger the growth potential the NAV carries, the lower the discount to NAV should be.

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

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, Shenzhen, Hefei, and Wuhan, Ningbo, Suzhou, and Changsha 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 2.8x our estimated book value of HK\$3.30 at end-2006. 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.

Risk

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.

Analyst Certification Appendix A-1

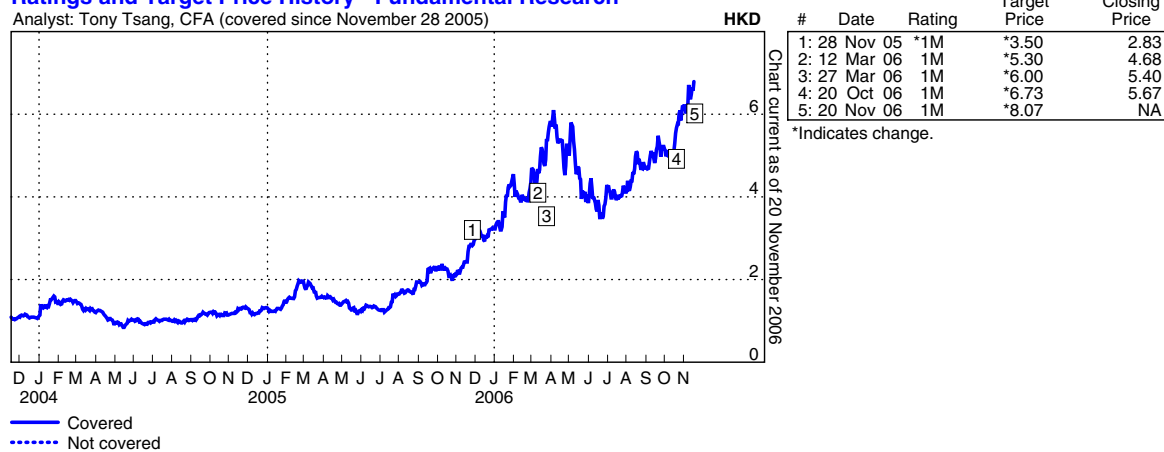
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IMPORTANT DISCLOSURES

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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