

Share Price vs. Index


Sources: Bloomberg, BOCI Research

Share Price Performance

	1M	3M	6M
Absolute (%)	8	42	96
Relative to BOCI China-HK (%)	5	41	77

Sources: Bloomberg, BOCI Research

Key Data (pre acquisition)

Total issued shares (m)	1,518
Free float (%)	50
Free float mkt. cap. (HK\$ m)	1,825
3M avg. daily turnover (HK\$ m)	22
Net debt/equity (%)	66
NAV per share (HK\$)	3.4
Major shareholders (%)	
China Resources Holdings	50

Sources: Company data, Bloomberg, BOCI Research

Key Data (post acquisition)

Total issued shares (m)	2,774
Free float (%)	27
Free float mkt. cap. (HK\$ m)	1,825
3M avg. daily turnover (HK\$ m)	22
Net debt/equity (%)	44
NAV per share (HK\$)	3.4
Major shareholders (%)	
China Resources Holdings	72.8

Sources: Company data, Bloomberg, BOCI Research

Date of last note: 21 September 2005

PROPERTY — Developers
Company Update
China Resources Land
(1109.HK/HK\$2.425 — Outperform)

Target Price: HK\$3.30

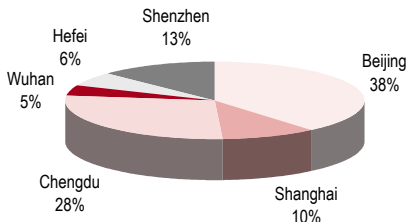
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Size matters. Through asset injections, the total market capitalisation of China Resources Land (CRL) surged to HK\$6.7bn from HK\$3.7bn, while its pro-forma gearing dropped to 55% from 66%. However, we actually expect its net debt to equity to drop to 44% due to the capitalisation of the shareholders' loan for its acquired assets (i.e., only HK\$900m debt from the newly acquired assets). In addition, book value and our initial appraised NAV were also enhanced by 10% and 20% to HK\$2.8 and HK\$4.08 per share, respectively. Given the stronger rental income and earnings from the increased stake in the Beijing projects, EPS is likely to stay at the current estimates after the acquisition. This further provides the company with a more solid base for future expansion. Earnings quality has been further enhanced as we estimate that rental income will account for 46% and 41% of its net profit for 2006 and 2007 respectively. We have raised our target price from HK\$2.5 to HK\$3.3 per share (or 20% discount to its appraised NAV), representing 36% from the current level.

Asset injection to further strengthen recurrent income.

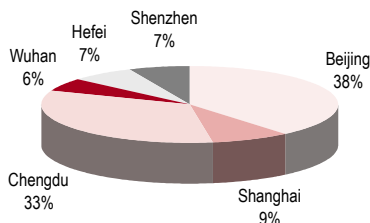
CRL announced plans to purchase three investment properties and a 21.53% stake in CR Land (Beijing) from its parent, China Resources Holdings, for HK\$3.2bn (or 35.7% discount to the fair market value of HK\$5.2bn) through the issuance of 1,256m new shares at HK\$2.2875 each and disposal of its 2.25% stake in **China Vanke B** shares (200002.SZ/HK\$4.25, U) to CR Holdings at HK\$4.205 per share. The price of the newly issue CRL shares represents a discount of 5.7% to its share price before trading suspension and a discount of 10% to its book value of HK\$2.55 per share. The newly issued shares represents 82.7% and 45.3% of the existing issued share capital and the enlarged issued share capital of the company, respectively. After the transaction, China Resources Holdings stake in CRL will increase from 50.3% to 72.8%. After the disposal of the 2.25% stake in China Vanke B, CRL will record a profit of HK\$62m. While the announcement stated that the transaction would be completed on or before 31 January 2006, management actually expected the transaction to be completed by the end of this year (i.e., HK\$62m profit from disposal of China Vanke is likely to be booked this year and increase the net profit by 17%). As a result of the acquisition of the 21.53% stake in CR Land (Beijing), we expect attributable development profits to increase by HK\$86m and HK\$106m in 2006 and 2007, respectively, or 19% and 17% of its pre-acquisition earnings in 2006 and 2007. While the rental income remain slow due to the rent free period especially from its recently opened City Crossing ph 1 in Shenzhen, we expect rental income from these three projects will be HK\$251m and HK\$293m in 2006 and 2007. As a result, net profit after the acquisitions will be enhanced by 17% for 2005, 84% for 2006 and 84% for 2007, offsetting any dilution effect from the new shares to be issued for the transactions.

Total Land Bank Breakdown



Source: Company data

Development Land Bank Breakdown



Source: Company data

Flagship real estate arm of CR Group with enhanced earnings quality.

After the transactions, CRL will be able to integrate the parent's real estate business and transform itself into the listed flagship vehicle for the real estate operations of the group. This will also alleviate investors' concerns over China property developers' low recurrent income and high volatility in earnings due to policy risks on the mainland. By injecting these three investment properties, we expect rental income will account for not less than 30% of CRL's earnings for 2006. Rental income will improve further after the completion of City Crossing Phase 2.

Still not end of story. With the acquisition, CRL's total land bank has been further increased by 24% from 2.6m m² to 3.2m m², of which 17% is completed investment properties. Its exposure in Shenzhen and increased exposures in Shanghai and Beijing further reinforce CRL's position as a national developer. In terms of geographical distribution, 38% of the land bank is in Beijing, 28% in Chengdu, 13% in Shenzhen, 10% in Shanghai, 5% in Wuhan and 6% in Hefei. As the flagship real estate operator of China Resources Group, we expect CRL to acquire the remaining three China projects from its parent to strengthen the company's land bank further in future.

CRL Land Bank After Acquisition in Terms of Attributable GFA

Total Land bank	Development Land bank (m ²)	Investment land bank (m ²)	Total (m ²)
Beijing	1,035,840	205,005	1,240,845
Shanghai	226,079	97,139	323,218
Chengdu	885,529	0	885,529
Wuhan	146,900	0	146,900
Hefei	186,255	0	186,255
Shenzhen	175,000	229,937	404,937
Total	2,655,603	532,081	3,187,684

Source: Company data

Remaining China Projects under China Resources Holding

Projects	Stake (%)	Use	GFA (sq m)	Attr. GFA (m ²)	Total land cost (Rmb m)	Land cost (AV)
Qing He Project	49	R/C	832,500	407,925	2,565	3,563
Hangzhou Residential/ Commercial site	60	R/C/O	555,544	333,326	1,100	1,980
Wuxi, Jiangsu	55-60	R/C/O	167,224	91,973-100,334	2,510	15,011

Source: China Resources Holding

Three Major Investment Properties to be Acquired

Location	China Resources Building	China Resources Times Square	City Crossing Ph 1
	Beijing	Shanghai	Shenzhen
Total GFA (sq m)	65,222	97,139	229,937
Shopping Mall	13,091	51,190	167,008
Office	41,342	36,843	41,740
No. of CP	327	115	1,034
Completion date	1999	1997	2004
Property Value (Rmb m)	1245	1132	3,719
Property value/GFA (Rmb)	19,089	11,653	16,174
Aug 05 rent (Rmb m)	7.315	7.08	15.3
Occupancy rate (%)			
Office	93	91	75
Retail	100	79	90

Source: Company data

Summary of Transaction Values

Transaction	Rmb m	No of shares (m)	Price (HK\$)	Discount (%)
Purchase Price	3,328			
Payment by:				
New shares of CR Land	2,987	1,256	2.288	(32.7)*
2.25% of China Vanke - B	336	77	4.205	(1)**
Assets to purchase				
NAV of target group	2,894			
Capitalised loan from King Role and Boom Go group	1,544			
Revaluation surplus of City crossing ph 2	661			
Increase in value of investment properties from June 2005 to Aug 2005	79			
Fair market value***	5,179			
Discount to fair market value (vs purchase price) (%)	(35.7)			

*Discount to our appraised NAV

** Discount to previous closing price

*** Fair market value adjusted by revaluation surplus without revaluation of 21.53% CR Land (Beijing)

Sources: Company data, BOCI Research estimates

Assets to Purchase

Properties	Location	Stake (%)	Attr GFA (m ²)
China Resources Building	Beijing	100	65,222
China Resources Times Square	Shanghai	100	97,139
City Crossing Ph 1	Shenzhen	100	229,937
City Crossing Ph 2	Shenzhen	100	175,000
CR Land (Beijing)	Beijing	21.53	307,816

Source: Company data, BOCI Research

Investment Summary (pre acquisition)

Year ended Jun 31	2003	2004	2005E	2006E	2007E
Revenue (HK\$ m)	1,252	2,409	2,577	3,567	3,751
Change (%)	11	92	7	38	5
Net profit (HK\$ m)	79	150	257	325	423
Fully diluted EPS (HK\$)	0.052	0.099	0.169	0.214	0.278
Change (%)	(25)	90	71	27	30
Previous EPS (HK\$)	-	-	0.169	0.214	0.278
Change (%)	-	-	0	0	0
I/B/E/S EPS (HK\$)	-	-	0.140	0.153	0.203
P/E (x)	46.5	24.5	14.4	11.3	8.7
CFPS (HK\$)	0.07	0.10	0.18	0.23	0.29
P/CF (x)	33.4	23.9	13.6	10.8	8.3
EV/EBITDA (x)	216.7	30.1	17.3	10.0	8.7
DPS (HK\$)	0.027	0.030	0.051	0.065	0.084
Yield (%)	1.1	1.2	2.1	2.7	3.5

Sources: Company data, BOCI Research estimates

Investment Summary (post acquisition)

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Assuming acquisition takes place at the end of 2005

Sources: Company data, BOCI Research estimates

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