

Share Price vs. Index



Sources: Bloomberg, BOCI Research

Share Price Performance

	1M	3M	6M
Absolute (%)	27	66	130
Relative to HSCEI (%)	25	40	98

Sources: Bloomberg, BOCI Research

Full-year Results

(HK\$ m)	2004 (restated)	2005	% YoY
Property sales	2,140	2,998	40
Area Sold (sq m)	367	422	15
Turnover	1,890	2,707	43
Profit by division			
Sale of Properties	40	363	812
Property investment and management	4	73	1,904
Interest income & others	1	1	6
Other income	60	118	95
Corporate expenses	(13)	(18)	43
Finance Costs	(28)	(67)	136
Associates	16	16	(2)
Pretax profit	80	486	507
Taxation	(109)	(47)	(57)
Minority Interests	51	(54)	n.m.
Earnings	21	385	1,700
Core earnings	79	323	308
Basic EPS (HK\$)	0.014	0.248	1,671
FD EPS (HK\$)	0.014	0.244	1,643
DPS	0.03	0.033	10
Gross profit margin (%)	11	19	
Net profit margin (%)	1	14	

Source: Company data

Date of last note: 23 January 2006

PROPERTY — Developers

Results Comment

China Resources Land

(1109.HK/HK\$5.35 — Outperform)

Target Price: HK\$6.05

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More upside likely. Given the strong pre-sales, an increasing completion schedule and additional contributions from newly acquired investment properties, we believe China Resources Land (CR Land) will enjoy strong earnings CAGR of 50% over the next three years. The potential asset injection from parent China Resources Holding (CRH) remains one of the major drivers of its NAV enhancement. We have raised our target price from HK\$5.64 to HK\$6.05 on the potential asset injection, representing a premium of 5% to our appraised NAV. However, as we pointed out in *The Raw and the Cooked* of 20 March, it will not still not be a surprise for the counter to trade even closer to its potential NAV of HK\$7.15, including value from asset injections. We maintain our **Outperform** on the counter.

Strong results likely to continue. CR Land announced a 2005 net profit of HK\$385m, up 17x from its restated 2004 results (or 156% from its reported 2004 net profit based on the previous accounting standard). The earnings were 37% higher than our forecast and well above market consensus. Major discrepancies were the higher-than-expected gain from foreign exchange (HK\$70m against our expectations of HK\$39m), lower finance costs (HK\$67m, 30% below our expectations) and the net impact of the revaluation surplus of HK\$23m for its investment properties (HK\$49m in revaluation surplus before tax). Provisioning for doubtful debts amounted to HK\$58m, 14% above our forecast. Stripping out the exceptional item, including the HK\$97m gain from the disposal of China Vanke B shares, core earnings amounted to HK\$323m, up 3.1x YoY.

Earnings from property continued to grow. In 2005, earnings from property sales grew 8x to HK\$363m, 4% above our expectations. Major contributions came from the La Firenze Phases I and II, Fortune Island, Top Box, Chengdu Jade City Phase I, Grand Constellation and Phoenix City Phase II. During the year, the company sold total floor space of 422k m², up 15% YoY. Contract sales reached HK\$3bn, up 40% YoY. CR Land IS scheduled to complete 383,640m² of projects this year. Together with the unsold stock, a total of 481,462m² projects (or 462,291m² attributable to CR Land) can be booked this year upon sales. In 2007, the company also plan to speed up the completion to 807,341m² (688,758m² attributable to CR Land), 16% higher than previous schedule. The company also plans to complete 944,571m² (807,465m² attributable to the company) in 2008. That is, the area available for booking (assuming 100% is sold) increased by 14% YoY, 68% YoY and 17% YoY in 2006, 2007 and 2008. The improved completion schedule will be a solid base for strong growth in property sales. As a result, we expect earnings from property sales to increase at a CAGR of 38% over the next three years to HK\$1.2bn in 2008. In fact, the company has already pre-sold 51% of the projects in terms of gross floor area (GFA) in 2006. We estimate that CR Land has locked in HK\$390m, or 55% of earnings, from property sales for this year.

Key Data

Total issued shares (m)	3,084
Free float (%)	34.3
Free float mkt. cap. (HK\$ m)	5,694
3M avg. daily turnover (HK\$ m)	72
Net debt/equity (%)	30
Appraised NAV per share (HK\$)	5.76
Potential NAV per share (HK\$)	7.15
Major shareholders (%)	
China Resources Holdings	65.5

Sources: Company data, Bloomberg, BOCI Research

Strong recurrent base. Earnings from rentals and property management grew 19X to HK\$73m in 2005. The occupancy rate remained satisfactory at 95% for Xidan Cultural Centre and 70% for other investment properties in Beijing. For the major three projects included at the end of 2005, gross rental received in 2005 amounted to HK\$111m from Beijing China Resources Building, HK\$93m from Shanghai China Resources Time Square and HK\$247m from Shenzhen City Crossing Phase I. We also saw significant improvement in occupancy for the office portion of Shenzhen City Crossing Phase I, retail space of Shanghai China Resources Time Square and retail spaces of Shenzhen City Crossing Phase I with occupancy rates improving from 75%, 79% and 90% in August 2005 to 98%, 87% and 97% in December 2005, respectively. This further reinforces our positive view towards the newly injected investment properties, particularly those in Shenzhen and Shanghai. Including income from these three properties, gross rental of the company's investment property portfolio would have amounted to HK\$519m in 2005. Due to the improving occupancy rates and higher-than-expected achieved rent of the recently acquired investment properties in 2005, we have revised up our gross rental projection for the company by 21% to HK\$611 for 2006 and 24% HK\$700m for 2007. We also estimate the rental income will accounts for 39%, 32% and 29% of the company's operating profit in 2006, 2007 and 2008, respectively.

Earnings upgrade. Due to the stronger rental income and higher development profit on the rising completion schedule, we had already revised up our earnings forecasts by 18% for 2006 and 24% for 2007.

Asset injection still likely. The company has a total land bank of 4m m², of which 3.3m m² is residential and 637k m² is investment properties (CR Land put back the later La Firenze phases in its latest land bank schedule). With the estimated land cost of these 638,963 m² of projects at some Rmb1,000/m² only, gross profit margin is likely to be 48% at an average selling price of Rmb6,300/m². On top of its existing land bank, CRH still has an attributable land bank of 3.7m m², we believe these projects will be injected into CR Land in future. Assuming the projects will be injected at cost, we expect NAV to be enhanced by HK\$1.39, putting its potential NAV per share at HK\$7.15. In addition, the company is also prepared to invest HK\$2bn to expand further its land bank in Nanjing, Hefei, Wuhan, Shanghai and Beijing. As CR Land currently has HK\$3.1bn in cash on hand, we believe it has enough financial resources for future land bank expansion.

Remaining China Projects under China Resources Holding

Projects	Stake (%)	Use*	GFA (m ²)	Attr. GFA (m ²)	Total land cost (Rmb bn)	A.V. (Rmb/m ²)
Qing He Project	49	R/C	832,500	407,925	1.26	3,563
Hangzhou Residential/ Commercial site	60	R/C/O	550,000	330,000	0.66	2,000
Wuxi, Jiangsu	60	R/C/O	1,450,000	870,000	1.51	1,731
Chengdu project	100	R	2,050,000	2,050,000	2.14	1,004
			4,882,500	3,657,925	5.56	

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

Sources: China Resources Holding

Investment Summary

Year ended Dec 31	2004	2005	2006E	2007E	2008E
Revenue (HK\$ m)	1,890	2,707	4,005	5,185	4,610
Change (%)	51	43	48	29	(11)
Net profit (HK\$ m)	21	385	688	982	1,336
Fully diluted EPS (HK\$)	0.014	0.248	0.223	0.316	0.430
Change (%)	(73)	1671	(10)	42	36
Previous EPS (HK\$)	-	-	0.189	0.256	-
Change (%)	-	-	18	24	-
I/B/E/S EPS (HK\$)	-	-	0.210	0.268	0.400
P/E (x)	382.1	21.6	24.0	16.9	12.4
CFPS (HK\$)	0.02	0.25	0.23	0.32	0.40
P/CF (x)	290.4	21.1	23.5	16.6	13.5
EV/EBITDA (x)	136.0	37.8	21.3	14.2	10.4
DPS (HK\$)	0.030	0.033	0.047	0.056	0.067
Yield (%)	0.6	0.6	0.9	1.1	1.2

Sources: Company data, BOCI Research estimates