

China Resources Land

1H05 interim results: strong growth boosted by 2004 presales

- China Resources Land (CRL) reported a net profit of HK\$197 million in 1H05, up 315% y/y based on restated 1H04 earnings. Core net profit soared 553% y/y due to the low base, when few projects were completed in 1H04 while 2004 presales were completed in 1H05.
- Contracted sales in 1H05 in fact dropped 46% y/y. We expect contracted sales to rebound substantially in view of the launch of 4 projects in the coming two months in 4 cities, which added to Chengdu project launched in late Aug with warm responses. Overall, we still view the company as willing to maintain high asset turnover to generate decent bottom line growth.
- The stock is currently trading at 14.7x FY05E and 11.3x FY06E PER, and 37% discount to our estimated NAV of HK\$3.12. We maintain our figures and ratings unchanged subject to the analyst briefing which will be held this morning.

Overweight

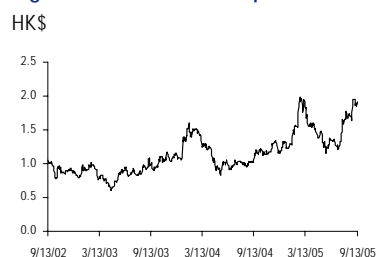
HK\$1.96

15 September 2005
Price Target: HK\$2.00

**Hong Kong
Property**

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Figure 1: Historical share price



Source: Datastream, JPMorgan

Table 1: Reuters: 1109.HK, Bloomberg: 1109 HK

HK\$ millions, year-end Dec

| | FY03 | FY04 | FY05E | FY06E | | | | |
|-----------------------|-------|-------|-------|-------|--------------------|-----------------|--------|---------|
| Sales (HK\$MM) | 1252 | 2409 | 3025 | 2845 | 52-week range | HK\$1.12-\$1.98 | | |
| Net profit (HK\$MM) | 79 | 150 | 200 | 259 | Market cap | 2958.3 | | |
| EPS (HK\$) | 0.053 | 0.100 | 0.133 | 0.173 | Market cap | 379.3 | | |
| DPS (HK\$) | 0.027 | 0.030 | 0.030 | 0.043 | Shares outstanding | 1509.3 | | |
| Sales growth (%) | 10.8 | 92.4 | 17.5 | 17.5 | Free float | 44.40% | | |
| Net profit growth (%) | -25.3 | 90.3 | 33.5 | 29.5 | Avg daily value | 10.8 | | |
| EPS growth (%) | -25.3 | 90.3 | 33.5 | 29.5 | Avg daily value | 1.38 | | |
| ROE (%) | 1.9 | 3.7 | 4.6 | 5.8 | Avg daily volume | MM shares | | |
| ROCE (%) | 1.1 | 2.0 | 2.6 | 3.2 | Index | HSI 15086.62 | | |
| P/E (x) | 37.3 | 19.6 | 14.7 | 11.4 | Exchange rate | HK\$7.8/US\$1 | | |
| NAV per share (HK\$) | | | 3.12 | | Performance | 1 mth | 3 mths | 12 mths |
| EV/EBITDA (x) | 71.9 | 18.8 | 12.9 | 12.1 | Absolute (%) | 12.3 | 43.3 | 69.9 |
| Div yield (%) | 1.4 | 1.5 | 1.5 | 2.2 | Relative (%) | 14.6 | 34.8 | 55.2 |

Source: Datastream, Company, JPMorgan estimates

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1H05 Interim results review

China Resources Land (CRL) reported a net profit of HK\$197 million in 1H05, up 315% y/y based on restated 1H04 earnings. Most of the net profit was originated from the presale of 1H05 completions in FY04, so that the 1H04 earnings were adjusted downwards significantly. Moreover, unrealized gains from the holding of Vanke shares were recognized in both 1H04 and 1H05. Stripping out the one-off items, the core net profit soared 555% y/y due to the low base, when few projects were completed in 1H04.

Table 2: 1H05 results summary

HK\$MM, Year-end Dec

| | 1H04 | 1H04 (restated) | 1H05 | Y/Y% | Comments | 2005E | 2006E |
|--|----------------|--------------------|----------------|--------------|--|----------------|----------------|
| Property Sales | 1033.9 | 465.9 | 1,157.0 | | Mainly due to chg in a/c policy and recognition of 1H05 completions (total 0.22m sq m) | 2916.11 | 2734.15 |
| Rental Income& Property Management | 39.3 | 39.3 | 73.9 | | | 108.95 | 110.47 |
| Turnover | 1073.2 | 505.2 | 1230.9 | 144% | | 3025.06 | 2844.63 |
| Property Sales | 119.6 | NA | NA | | | 396.42 | 420.82 |
| Rental Income and Property Management | -4.0 | NA | NA | | | 10.90 | 11.05 |
| Others | 0 | NA | NA | | | -36.0 | -36.0 |
| EBIT | 115.6 | 8.5 | 223.5 | 2524% | Margin expansion due to cost control and increasing sales price | 371.32 | 395.87 |
| Net Interest Income/(expense) | -0.8 | -10.4 | -43.1 | 315% | Reduced capitalized interest and increase in net debts by HK\$314m in 1H05 | -56.12 | -37.81 |
| Operating Profit | 114.8 | -1.9 | 180.4 | NA | | 315.20 | 358.06 |
| Associates | 5.6 | 3.3 | 7.6 | 134% | | 19.99 | 19.99 |
| Exceptional items | | | | | | 0.00 | 0.00 |
| - Vanke gain | 25.4 | 25.4 | 34.8 | 37% | Unrealized and no cash impact | | |
| - Revaluation gains on investment pty | | 0.0 | 0.7 | NA | a/c policy change | | |
| - Revaluation gains on swaps | | 0.0 | 14.0 | NA | a/c policy change | | |
| Profit before Tax | 145.8 | 26.8 | 237.6 | 785% | | 335.19 | 378.05 |
| Taxation | -54.4 | -1.4 | -24.7 | 1610% | | -94.19 | -106.61 |
| Profit before Minority Interest | 91.5 | 25.4 | 213.0 | 739% | | 241.00 | 271.44 |
| Minority Interests | 11.7 | 22.0 | -16.3 | -174% | | -40.65 | -11.97 |
| Net Profit | 103.1 | 47.4 | 196.7 | 315% | | 200.35 | 259.47 |
| Core Net Profit | 77.7 | 23.2 | 152.0 | 555% | | 200.35 | 259.47 |
| EPS | 0.069 | 3.150 | 13.050 | 314% | | 0.133 | 0.172 |
| Core EPS | 0.052 | 0.015 | 0.101 | 553% | | 0.133 | 0.173 |
| Development margin | 11.6% | 9.1% | 21.6% | | | | |
| Total area sold | 245,920 | 245,920 | 131,730 | -46% | | | |

Source: Company, JPMorgan estimates

Key results highlights

78% of FY05 completions sold

The major earnings contributor during 1H05 was the Chengdu Jade City Phase 1 and La Firenze 1 & 2 which were completed during the period. By end-1H05, Chengdu Jade City Phase 1 and La Firenze 1&2 were 97% and 82% sold. Of the 387,741 sq m scheduled to be completed in FY05, 79% were already by end-1H05.

Table 3: FY05 completion schedule

| | Total GFA (sq m) | Completion | Sales start | Area sold up to Jun-05 (sq m) | JPM estimated dev margin |
|---------------------|---------------------|------------|----------------|----------------------------------|-----------------------------|
| La Firenze 1 | 8,745 | 1H05 | 2005 | 5,899 | 21% |
| La Firenze 2 | 83,132 | 1H05 | 2003 | 69,207 | 18% |
| Phoenix City 2 | 129,616 | 2H05 | mid-04 | 85,429 | 14% |
| Grand Constellation | 40,589 | 1H05 | 1H04 | 22,460 | 15% |
| Chengdu Jade City 1 | 125,659 | 1H05 | 1H04 | 122,503 | 15% |

Source: Company, JPMorgan estimates

Slower sales in 1H05 but volume should pick up substantially in 2H05

Notwithstanding the apparently strong turnover growth, contracted sales in 1H05 in fact dropped 46% y/y to only 131,730 sq m due to few major new launches compared with the previous period.

That said, CRL has begun the sales launches for some of the FY06 completions. For instance, Fortune Island in Daxing District (Southern part of Beijing) was launched on 22 May with 25,238 sq m (23% of the project) sold by end-1H05. And despite slower sales of Phoenix City Phase 2 (to be completed in 2H05) in the past 3 months, CRL has pre-launched Phoenix City Phase 3 overseas and received over 100 orders so far. Moreover, following the launch of 324 units in Chengdu on 28 Aug with 70% sold within the same day, CRL would start marketing of 4 projects in the coming two months in 4 cities.

Table 4: Sales launch in 3Q05

| | JPM Est. price Rmb/sq m | Est. launch date |
|--|----------------------------|---------------------------|
| Fortune Island Ph1 - low rises (Beijing) | 5,000-6,000 | Sep-Oct 05 |
| The Bund Side Ph1 (Shanghai) | 15,800 | Sep 05 (40 orders rcv'd) |
| Chengdu Jade City Ph2 | 3,600 | 28 Aug |
| Hefei project Ph1 | 3,900 | 4Q05 (get presale permit) |
| Wuhan project Ph1 | 4,600 | end Sept to Oct 05 |

Source: Company, JPMorgan estimates

Table 5: CRL - Properties sold (FY03 to 1H05)

| City | FY03 | | FY04 | | 1H05 | | |
|------------------------|--------------------|---------------------------|--------------------|---------------------------|--------------------|---------------------------|---------------|
| | GFA sold (Sq m) | Avg Price (RMB / sq m) | GFA sold (Sq m) | Avg Price (RMB / sq m) | GFA sold (Sq m) | Avg Price (RMB / sq m) | |
| La Firenze 1 | Beijing | 17,351 | 6,584 | 16,539 | 6,429 | 14,812 | 5,406 |
| La Firenze 2 | Beijing | 55,687 | 5,235 | 85,760 | 5,825 | - | - |
| Fortune Island | Beijing | - | - | - | - | 25,238 | 7,626 |
| Top Box | Beijing | 23,658 | 11,202 | 22,831 | 12,727 | - | - |
| Grand Constellation | Beijing | 10,639 | 16,537 | 7,099 | 18,382 | 4,714 | 15,723 |
| Chengdu Jade City Ph 1 | Chengdu | - | - | 121,944 | 3,542 | - | - |
| Phoenix City | Beijing | 12,195 | 8,868 | 38,586 | 11,166 | 34,848 | 12,009 |
| Phoenix City - office | Beijing | - | - | - | - | 40,000 | 13,979 |
| Jingtong Sunny Uptown | Beijing | 47,473 | 4,729 | 28,055 | 5,075 | - | - |
| U-space | Beijing | 27,001 | 9,357 | 18,450 | 9,415 | - | - |
| Car Park | | 2,848 | 3,800 | 18,971 | 3,091 | - | - |
| Others | | 10,977 | 7,346 | 9,014 | 3,091 | 12,118 | 6,230 |
| Total | | 207,829 | 7,330 | 367,248 | 6,368 | 131,730 | 10,626 |

Remark: Average selling prices were derived from contracted sales / GFA sold

Source: Company, JPMorgan estimates

We believe CRL aims at maintaining a low inventory level through (1) presale 6-12 months ahead of completions and locking in profits for coming year, and (2) putting up units for sale even under soft market sentiment. So far CRL's projects do not fetch eye-catching development margins; projects usually fetch a pre-tax margin of 12-20%, though margin expansion is quite likely when the Shanghai Bund Side project and Beijing Phoenix City Ph 3 start to contribute to net profit. We believe CRL could have offered price-cuts for certain backlog units. By going for volume instead of margin, CRL has maintained a higher asset turnover which has in the past been an overhang of the company, and provides better earnings visibility.

High finance costs due to greater debt burden

CRL incurred interest expenses of HK\$78.8 million in 1H05, up 31% from 1H04, as a result of higher debt burden. Net debt stood at HK\$2,528 million with a net gearing ratio of 65.6% against 45.5% by end-1H04 and 59.4% by end-04. We expect net gearing to decrease in 2H05 if presales go on well to meet the land premium payments (Rmb138.5 million by end-FY05 for Hefei project) and cash outlays for construction. However, with some Rmb770 million scheduled to be paid in FY06 as the land premium and relocation compensations for the Qing He project, an imminent improvement in the balance sheet seems less likely, in our view.

Valuation

The stock is currently trading at 14.7x FY05E and 11.3x FY06E PER, and 37% discount to our NAV estimate of HK\$3.12/sh. We maintain our figures and ratings unchanged subject to the analyst briefing which will be held this morning, and will provide an update afterwards.

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China Resources Land (1109.HK/HK\$1.96/Overweight)

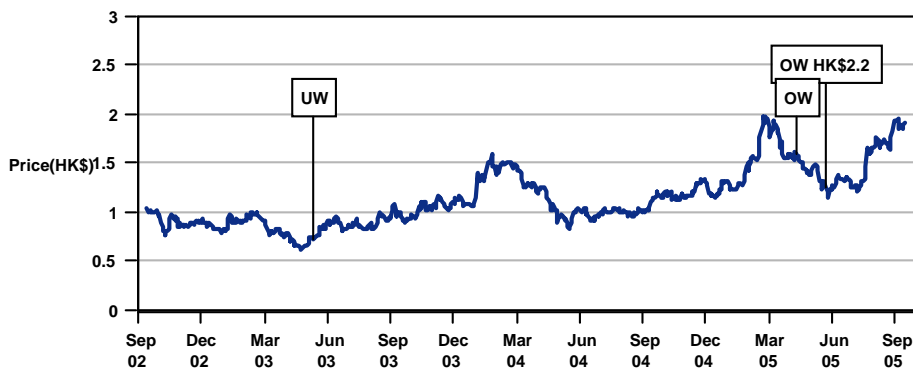
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China Resources Land (1109.HK) Price Chart



| Date | Rating | Share Price (HK\$) | Price Target (HK\$) |
|-----------|--------|--------------------|---------------------|
| 13-May-03 | UW | 0.73 | - |
| 10-Apr-05 | OW | 1.59 | - |

Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.
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|-------------------------------------|-----------------------------|---------------------------|-------------------------------|
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Revised June 30, 2005.

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China Resources Land: Summary of Financials

| Profit and Loss statement | | | | | | Cash flow statement | | | | | |
|-------------------------------|--------|-------|-------|--------|--------|-------------------------------|-------|-------|-------|-------|-------|
| HKD in millions, year-end Dec | FY03A | FY04A | FY05E | FY06E | FY07E | HKD in millions, year-end Dec | FY03A | FY04A | FY05E | FY06E | FY07E |
| Revenues | 1,252 | 2,409 | 3,025 | 2,845 | 6,466 | EBIT | 49 | 253 | 371 | 396 | 905 |
| % change Y/Y | 11.3 | 95.9 | 26.3 | -6.2 | 130.8 | Depreciation & amortisation | 0 | 0 | 0 | 0 | 0 |
| EBIT | 49 | 253 | 371 | 396 | 905 | Change in working capital | -630 | -542 | -190 | -296 | -285 |
| % change Y/Y | -320.7 | 419.6 | 46.6 | 6.6 | 128.5 | Taxes | -17 | -81 | -94 | -107 | -271 |
| EBIT Margin (%) | 3.9 | 10.5 | 12.3 | 13.9 | 14.0 | Cash flow from operations | -632 | -293 | 122 | 49 | 575 |
| Net Interest | -32 | -38 | -36 | -57 | 0 | Capex | 0 | -3 | -2 | -3 | -3 |
| Earnings before tax | 36 | 188 | 335 | 378 | 903 | Disposal/ (purchase) | 3 | 0 | 0 | 0 | 0 |
| % change Y/Y | -943.0 | 416.2 | 78.5 | 12.8 | 139.0 | Net Interest | -32 | -38 | -36 | -57 | 0 |
| Tax | 17 | 81 | 94 | 107 | 271 | Free cash flow | -632 | -296 | 119 | 46 | 572 |
| as % of EBT | -47.7 | -43.1 | -28.1 | -28.2 | -30.0 | Equity raised/ (repaid) | 0 | 0 | 0 | 0 | 0 |
| Net Income (Reported) | 79 | 150 | 200 | 259 | 537 | Debt raised/ (repaid) | 1,306 | 150 | -10 | 200 | -200 |
| % change Y/Y | -25.3 | 90.3 | 33.5 | 29.5 | 107.1 | Other | 0 | 0 | 0 | 0 | 0 |
| Core Net Profit | 55 | 266 | 200 | 259 | 536 | Dividends paid | -41 | -41 | -45 | -45 | -65 |
| % change Y/Y | -50.0 | 387.6 | -24.6 | 29.5 | 106.7 | Beginning cash | 772 | 1,389 | 1,536 | 1,585 | 1,770 |
| Shares Outstanding | 1,502 | 1,502 | 1,502 | 1,502 | 1,502 | Ending cash | 1,389 | 1,536 | 1,585 | 1,770 | 2,062 |
| EPS (reported) | 0.053 | 0.100 | 0.133 | 0.173 | 0.358 | DPS | 0.027 | 0.027 | 0.027 | 0.027 | 0.000 |
| % change Y/Y | -25.3 | 90.3 | 33.5 | 29.5 | 107.1 | | | | | | |
| Core EPS | 0.036 | 0.177 | 0.133 | 0.173 | 0.357 | | | | | | |
| % change Y/Y | -50.0 | 387.6 | -24.6 | 29.5 | 106.7 | | | | | | |
| Balance sheet | | | | | | Ratio Analysis | | | | | |
| HKD in millions, year-end Dec | FY03A | FY04A | FY05E | FY06E | FY07E | %, year-end Dec | FY03A | FY04A | FY05E | FY06E | FY07E |
| Cash and cash equivalents | 1,389 | 1,536 | 1,585 | 1,770 | 2,062 | EBIT margin | 3.9 | 10.5 | 12.3 | 13.9 | 14.0 |
| Accounts receivable | 959 | 909 | 809 | 859 | 809 | Operating margin | 1.3 | 9.4 | 10.4 | 12.6 | 13.6 |
| Inventories | 4,900 | 5,411 | 5,636 | 5,820 | 6,103 | Net profit margin | 6.3 | 6.2 | 6.6 | 9.1 | 8.3 |
| Others | 147 | 29 | 6 | 3 | 4 | SG&A/sales | | | | | |
| Current assets | 7,564 | 8,053 | 8,204 | 8,620 | 9,147 | Sales per share growth | 11.3 | 95.9 | 26.3 | -6.2 | 130.8 |
| LT investments | 0 | 0 | 0 | 0 | 0 | Sales growth | 11.3 | 95.9 | 26.3 | -6.2 | 130.8 |
| Net fixed assets | 451 | 408 | 368 | 369 | 370 | Net profit growth | -25.3 | 90.3 | 33.5 | 29.5 | 107.1 |
| Total assets | 9,286 | 9,746 | 9,867 | 10,300 | 10,844 | EPS growth | -25.3 | 90.3 | 33.5 | 29.5 | 107.1 |
| Liabilities | | | | | | Interest coverage (x) | 2 | 7 | 10 | 7 | 0 |
| ST loans | 1,231 | 1,935 | 1,735 | 1,755 | 1,775 | Net debt to total capital | 22 | 23 | 22 | 21 | 15 |
| Payables | | | | | | Net debt to equity | 47 | 50 | 45 | 45 | 29 |
| Others | 800 | 829 | 849 | 1,009 | 1,069 | Sales/assets | 13 | 25 | 31 | 28 | 60 |
| Total current liabilities | 2,031 | 2,764 | 2,584 | 2,764 | 2,844 | Assets/equity | 233 | 238 | 225 | 231 | 211 |
| Long term debt | 2,181 | 1,815 | 2,005 | 2,185 | 1,965 | ROE | 2.0 | 3.7 | 4.6 | 5.8 | 10.5 |
| Other liabilities | 152 | 123 | 0 | 0 | 0 | ROCE | 0.7 | 3.2 | 4.6 | 4.7 | 10.2 |
| Total liabilities | 4,364 | 4,702 | 4,589 | 4,949 | 4,809 | | | | | | |
| Shareholders' equity | 3,979 | 4,089 | 4,380 | 4,453 | 5,138 | | | | | | |
| BVPS | 2.65 | 2.72 | 2.91 | 2.96 | 3.42 | | | | | | |

Source: Company, JPMorgan estimates