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## China Resources Land (1109.HK)

*State-Owned Property Company---preparing to Fly*

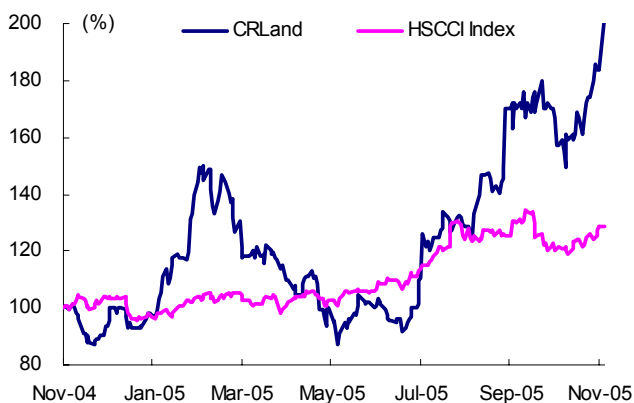
### FINANCIAL HIGHLIGHTS & SHARE INFORMATION

( HK \$ mn )	2002A	2003A	2004A	2005E	2006E
Sales	1,130	1,252	2,409	2,722	3,501
(+/-%)	-67%	11%	92%	13%	29%
Operating Profit	-20	63	197	386	688
(+/-%)	-128%	414%	210%	97%	78%
Net Profit	106	79	150	314	582
(+/-%)	-34%	-25%	90%	109%	85%
FD EPS (HK \$)	0.04	0.03	0.05	0.11	0.21
(+/-%)	-34%	-25%	90%	109%	85%
DPS (HK \$)	0.01	0.01	0.02	0.03	0.03
P/E (X)	70.2	94.1	49.4	23.6	12.8
P/B (X)	1.88	1.86	1.99	0.97	0.90
EV/EBITDA	-442	96	33.1	24	14
ROE	2.7%	2.0%	3.9%	5.5%	7.4%
Dividend Yield	0.5%	0.5%	0.6%	1.1%	1.1%
<b>H-Share</b>					
Bloomberg code	1109.HK				
Share price	HK\$2.675				
Target price	HK\$2.97				
Daily turnover (mn shs)	59.36				
52wk high/low	HK\$2.7755/1.12				
Issued shares (mn)	2,774				
Free float (mn)	754				
Major shareholders (%)	China Resources (Holdings) Co., Ltd. (72.8%)				

### Key Points:

- ◆ **CRLand is to become the property flagship of China Resources National Corporation.** CRLand announced its new acquisitions plan, acquiring four rental assets and a piece of land with a GFA of 175 th sqm under development for a total price of HK\$ 3.1953 billion. The purchase consideration is to be funded by selling Vanke B-shares held by CRLand and issuance of new CRLand shares to its parent company CRH. After such acquisitions, CRLand is to become the flagship on real estate business in China Resources National Corporation.
- ◆ **The state-owned property company is preparing to fly.** China Resources National Corporation, CRLand's ultimate parent company, is one of the 16 SOEs authorized by the government to operate property development as one of their core businesses (Table 4). The central government aims to help those state-owned property companies to be more competitive in the property sector by restructuring and injection of more land resources and state owned property assets. CRLand is now fulfilling its consolidations within the group and obtains a large growth potential during the restructure of property SOEs.
- ◆ **2005 EPS forecast is revised to HK\$0.113 and HK\$0.210 for 2006.** We raise our forecast on the company's aggregate FY05 revenue by 5% to HK\$2.72 billion and FY05 profit by 0.7% to HK\$0.31 billion, representing a FY05 EPS of HK\$0.113. Our estimate on FY06 top line is revised up 23% to HK3.5 billion, with an EPS of HK\$0.210.
- ◆ **We reiterate our ACCUMULATE recommendation.** This transaction will benefit CRLand's free-float share holders by a 10% increase in book value per share. After such transaction, BPS is to be HK\$2.75 and NAV about HK\$3.24 per share under our estimates. Our valuation shows that the stock has an 11% upside potential, we reiterate our ACCUMULATE rating and set a target price of HK\$ 2.97 per share.

### 52WK PERFORMANCE

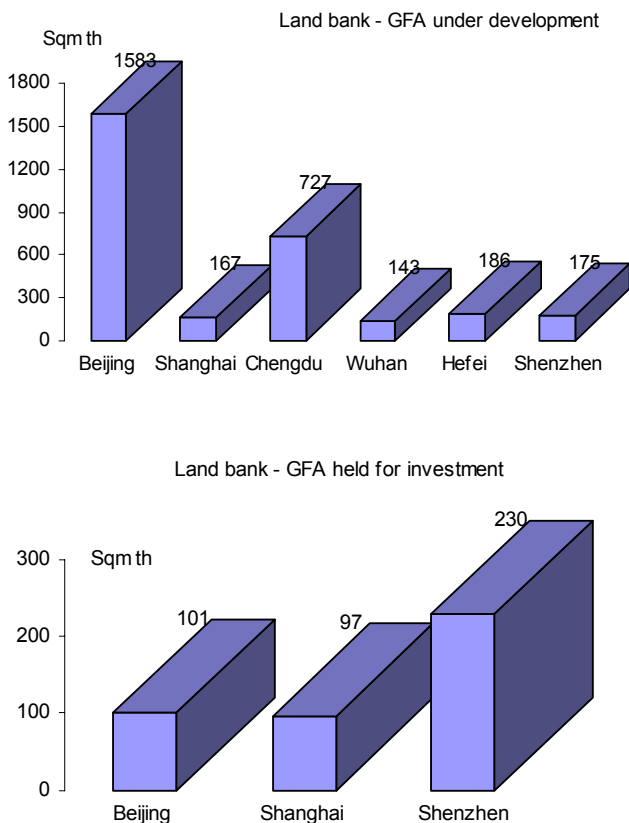


Source: Company data, Bloomberg, CICC Research

**TABLE 1: MAIN FINANCIAL DATA COMPARISON**

(HKD mn)	12/30/2005 (E)	30/06/2005 (A)	YoY %
Non-current assets	5,117	2,127	141
Investment in securities	69	313	(78)
Investment properties	3,636	444	718
Minority interests	61	771	(92)
Capital and reserves	7,617	3,852	98
Share capital	277	151	84
Reserves	7,340	3,702	98
Shares held by CRH (mn)	2,019	764	164
Percentage	72.8%	50.6%	22

Source: Company data, CICC Research

**CHART 1: LAND BANK UP TO NOVEMBER 2005**


Source: Company data, CICC Research

## CRLand to Be the Property Flagship of China Resources National Corporation

CRLand announced its new acquisition plan, to acquire Gain Ahead Group Limited, a wholly owned subsidiary of China Resources (Holdings) Company Limited (CRH), with a total consideration of HK\$ 3195.3 million. Gain Ahead owns two wholly owned subsidiaries, King Role and Boom Go (Company structures before/after the merger shown in Charts 3-5). After the transaction, most of the real estate assets owned by CRH were injected into CRLand, and the listed company is to be the property flagship of China Resources National Corporation.

## The Purchase Consideration is to Be Funded by Sales of Vanke B-shares and Issuance of New CRLand Shares to its Parent Company CRH

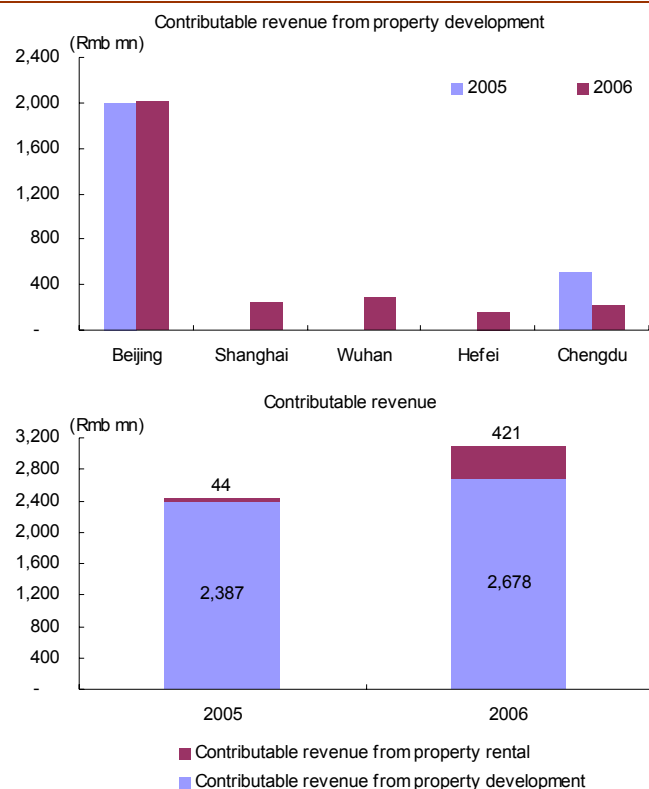
- Selling about 76.8 million Vanke B shares to CRH at the current share price of HK\$4.205 will account for 10% of total consideration. (Table 2)
- The issuance of 1.27 billion new CRLand shares to CRH at HK\$ 2.2875 per share will help pay off the remaining 90% consideration. The new issuance will increase CRLand's total shares number to 2.774 billion, up 85%.

## Main Changes After the Acquisition

- It's parent company, CRH increase its holdings to 72.8% from 50.6%;
- Having four rental assets with a total GFA of 392.3 th sqm, one in Beijing, one in Shanghai and the other two in Shenzhen (please see Table 5 for details);
- Obtaining one piece of land with a GFA of 175 th sqm in Shenzhen;
- Total share number would increase 85% from 1.5 billion to 2.774 billion;
- BPS is to increase from HK\$2.55 to HK\$2.75.

## Rental Land Bank is to Support Stable Annual Cash Inflow

Taking into account the four newly acquired rental assets with a GFA of 392.3 th sqm, CRLand's current land bank held for rent is about 428 th sqm, which should bring a stable annual income of HK\$354 million. The increase in rental property is to help the company diversify risks compared with a pure property developer.

**CHART 2: REVENUE BREAKDOWN**

Source: Company data, CICC Research

**TABLE 2: SALES OF VANKE B SHARES**

	Pre-transaction	Post-transaction
China Resources Holdings Co., Ltd.		
A share	88,285,383	88,285,383
B share	-	76,830,876
China Resources Land Co., Ltd.		
A share	-	-
B share	76,830,876	-

Source: Company data, CICC Research

**TABLE 3: REVISION HIGHLIGHTS**

		2005E	2006E
Turnover (HK\$mn)	Original	2,595	2,855
	Revised	2,722	3,501
	(+/-%)	5%	23%
Net Profit (HK\$mn)	Original	312	351
	Revised	314	582
	(+/-%)	0.7%	65.7%
FD EPS (HK\$)	Original	0.112	0.127
	Revised	0.113	0.210
	(+/-%)	0.7%	65.7%

Source: Company data, CICC Research

**The State-owned Property Company is Going to Fly**

In order to rectify the disorder between main and supplementary businesses, the restructure of real estate SOEs shall be implemented under the guidance of SASAC. There are about 100 real estate companies involved in the restructure with a total asset of about Rmb180 billion. Sixteen SOEs are designated to acquire other real estate companies. China Resources National Corporation, CRLand's parent company, is one of the SOEs that have obtained the right (Table 6). The central government aims to help these property SOEs to be more competitive in the property sector by injecting more land resources and property assets. CRLand is now fulfilling its consolidations within the group and obtains a large potential on future M&A of other SOE property assets.

**2005 EPS Forecast Revised to HK\$0.115 and HK\$0.210 for 2006**

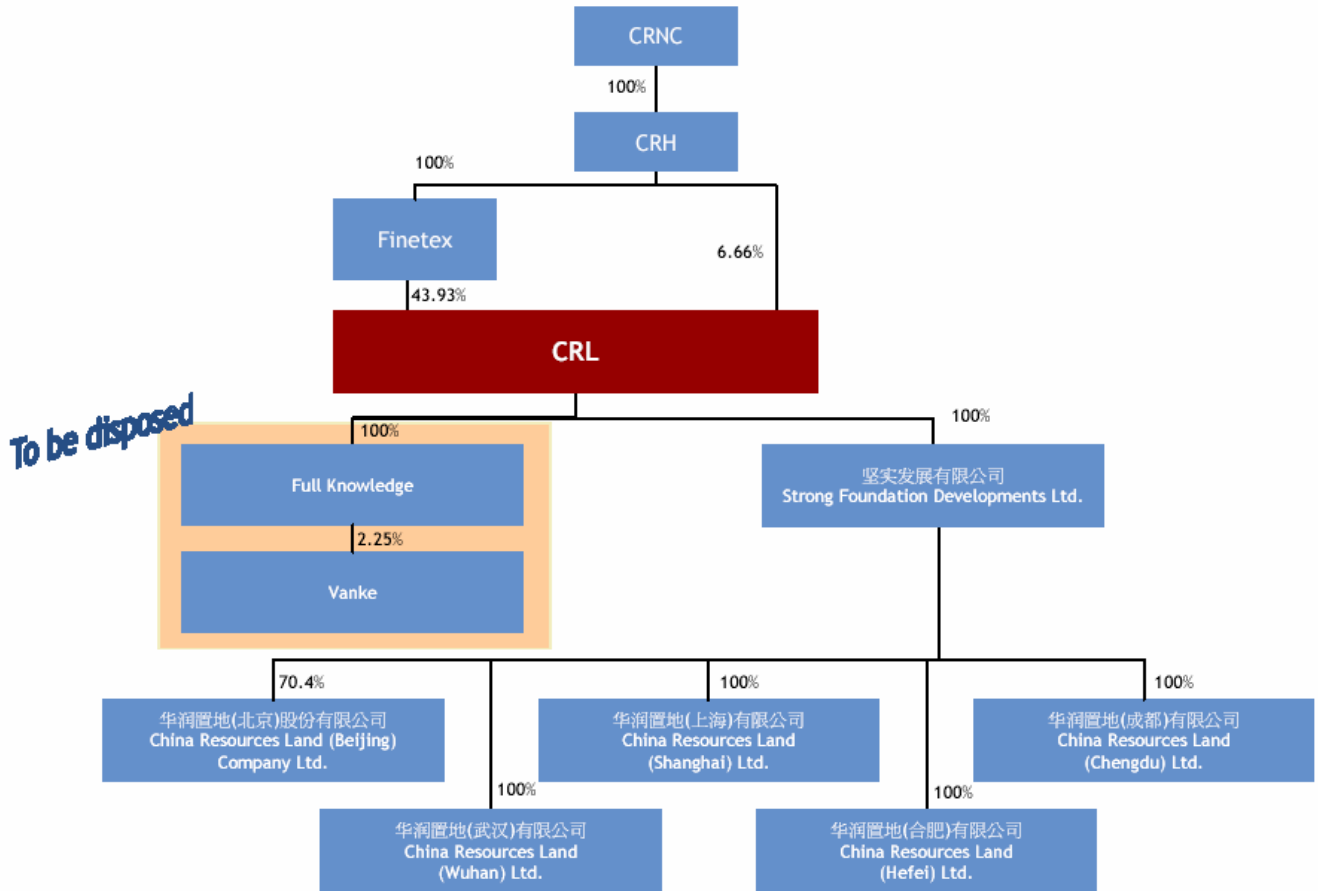
We revise our forecasts on CRLand's FY05 and FY06 earnings based on its updated project prices to be booked and new balance sheet after acquisition. We raise our forecast on the company's aggregate FY05 revenue by 5% to HK\$2.72 billion and FY05 profit by 0.7% to HK\$0.31 billion, representing a FY05 EPS of HK\$0.113. Our estimate on FY06 top line is revised up 23% to HK\$3.5 billion, with an EPS of HK\$0.210. (Table 3)

**Valuation and Recommendations**

**NAV calculation:** After the new acquisition, the new rental assets have a NAV of about Rmb4.8 billion, accounting for half of the total NAV. We also update the prices of the projects under development. The price hike leads to the higher net asset value from those properties. CRLand's new NAV would be about HK\$ 3.24 per share at the end of 2005, and HK\$3.65 per share by the end of 2006. The current price is at a discount of about 17% to its FY05 NAV.

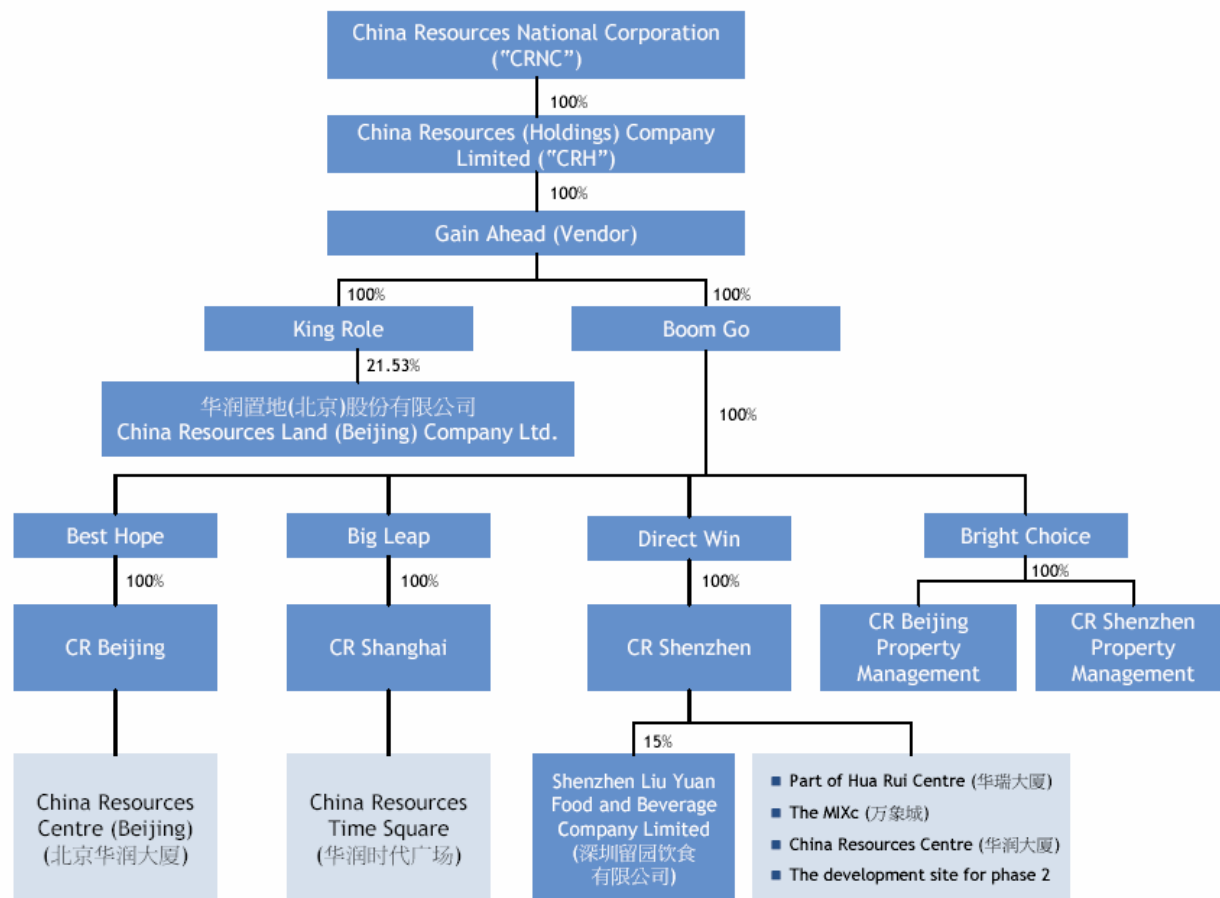
**We reiterate our ACCUMULATE recommendation for CRLand.** The stock is trading at 23.6x FY05 EPS and a 17% discount to our estimated NAV. We set a target price of HK\$2.97 in the next 12 months. It represents an 18.6% discount to FY06 NAV and a FY06 P/E ratio of about 14x, slight higher than comparable peers, to reflect the larger proportion of rental projects in the listco.

CHART 3: HOLDING STRUCTURE OF CRLAND: PRE-TRANSACTION



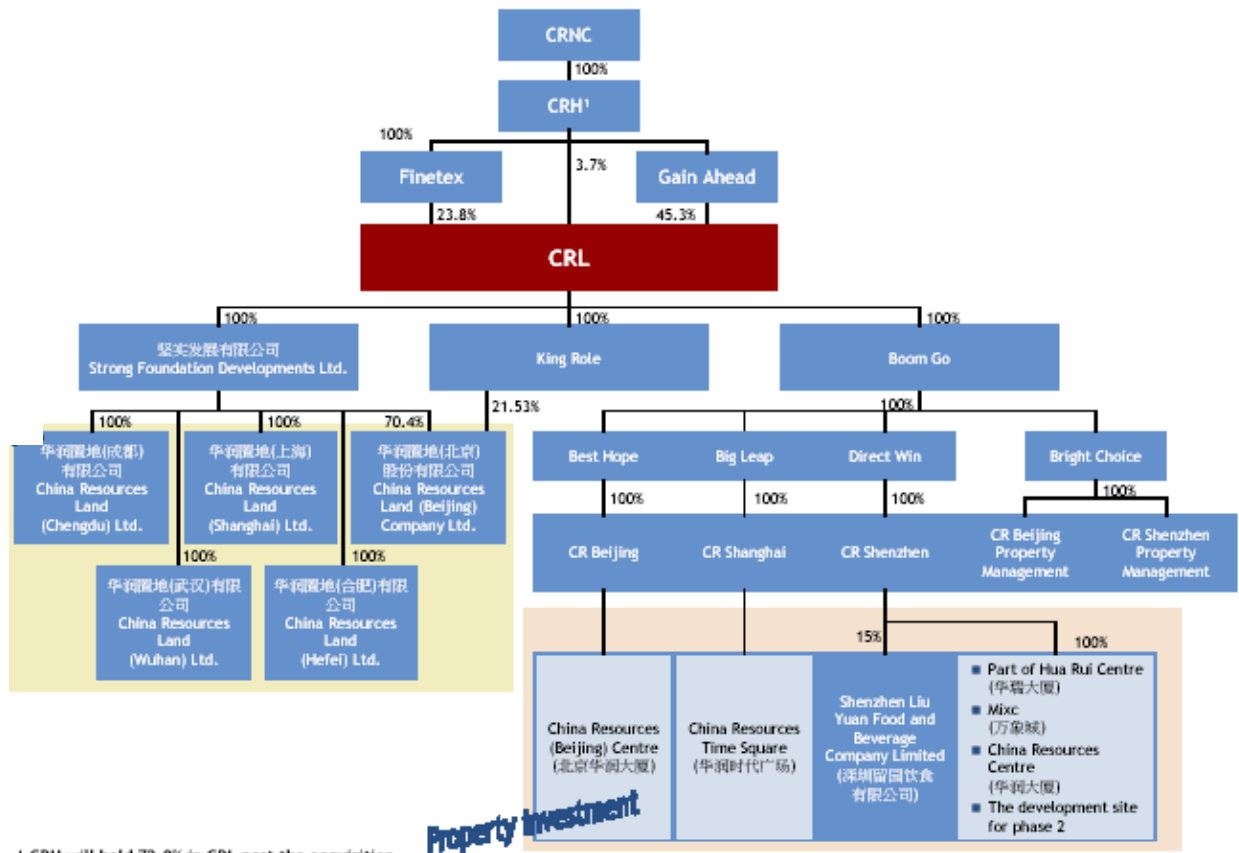
Source: Company data, CICC Research

CHART 4: HOLDING STRUCTURE OF THE TARGET ASSETS PRIOR TO THE TRANSACTION



Source: Company data, CICC Research

CHART 5: HOLDING STRUCTURE OF CRLAND: POST-TRANSACTION



1 CRH will hold 72.8% in CRL post the acquisition

Source: Company data, CICC Research

TABLE 4: VALUATIONS OF COMPARABLE COMPANIES

	Closing Price (HKD)	NAV (HKD)	Price / NAV	P/E(X)			P/B(X)			ROE(%)		
				2004	2005E	2006E	2004	2005E	2006E	2004	2005E	2006E
Cheungkung Holdings	78.85	95.63	-18%	14.74	15.76	14.42	1.01	0.95	0.91	7.04	6.20	6.63
New World Development	10.00	25.66	-61%	-28.57	12.85	16.05	0.64	0.58	0.57	-1.95	4.56	3.93
Sino Land	8.60	9.24	-7%	24.36	18.06	14.78	1.17	1.09	0.99	5.04	6.24	7.40
Sunhungkai	75.10	78.96	-5%	26.08	16.89	13.47	1.33	1.23	1.14	5.41	7.38	8.70
Henderson	34.45	46.73	-26%	20.15	14.63	12.22	1.02	0.95	0.89	5.36	6.79	7.47
Hang Lung	11.30	17.40	-35%	16.50	13.49	9.64	1.19	1.06	1.02	7.48	7.97	9.98
Kerry Properties	19.90	20.36	-2%	12.19	13.46	12.29	1.05	0.96	0.90	9.12	7.94	7.81
<b>Average</b>			<b>-22%</b>	<b>17.93</b>	<b>15.02</b>	<b>13.27</b>	<b>1.06</b>	<b>0.97</b>	<b>0.92</b>	<b>5.36</b>	<b>6.73</b>	<b>7.42</b>
Beijing Capital Land	2.08	8.85	-77%	11.79	12.89	8.91	1.45	1.33	1.20	12.60	7.50	8.70
China Overseas	2.98	2.60	14%	17.73	14.81	12.50	1.83	1.69	1.55	10.31	11.63	12.62
CRLand	2.68	3.40	-21%	49.41	23.61	12.76	1.99	0.97	0.90	3.90	5.54	7.35
Beijing North Star	1.94	2.86	-32%	13.86	13.10	11.41	0.70	0.72	0.69	5.18	5.55	5.90
Shanghai Real Estate	1.11	1.06	5%	6.73	5.81	4.20	1.25	0.97	0.80	11.98	17.83	20.67
New World China Land	3.08	-2.34	131%	39.42	43.85	52.02	0.31	0.39	0.50	0.79	0.75	1.00
<b>Average</b>			<b>-22%</b>	<b>19.90</b>	<b>14.04</b>	<b>9.96</b>	<b>1.44</b>	<b>1.14</b>	<b>1.03</b>	<b>8.79</b>	<b>9.61</b>	<b>11.05</b>

1. Average does not include New World China.

2. China Overseas and CRLand numbers are CICC estimate, others are market consensus.

Source: Company data, CICC Research

TABLE 5: PROJECTS TO BE BOOKED IN 2005 AND 2006

City	Project	Stake	GFA (smq)	Unsettled floor space (sqm)	Expected price (Rmb/sqm)	Total revenue (Rmb th)	Expected complete time	Floor space to settle (sqm)		Revenue (Rmb th)		Gross margin
								2005	2006	2005	2006	
Beijing	La Firenze I	91.9%	28,760	28,760	5,800	166,808	Dec-04	7,190	-	42,953	-	22.6%
	La Firenze II	91.9%	99,750	99,750	6,000	598,500	Dec-05	89,775	9,975	425,354	47,262	10.5%
	Fortune Island	91.9%	115,200	115,200	6,300	725,760	Dec-06	-	92,160	-	721,428	23.4%
	Phoenix City II	91.9%	120,000	110,652	11,500	1,272,494	Dec.-05	88,521	22,130	1,217,041	304,260	17.9%
	Phoenix City III	91.9%	340,000	320,000	14,000	4,480,000	Jun-05	-	48,000	-	642,720	18.5%
	Top Box	91.9%	9,678	9,678	12,000	116,136	Jun-04	9,678	-	116,136	-	9.5%
	U-Space II	91.9%	25,421	25,421	9,500	241,500	Jun-07	-	12,711	-	165,146	13.0%
	Grand Constellation	91.9%	40,682	40,589	17,000	690,013	Dec-05	22,460	18,129	372,174	300,407	15.0%
Qinghe Project	46.9%	832,500	832,500	7,900	6,576,750	Dec-09	-	-	-	-	-	8.2%
Shanghai	The Bund Side I	100%	185,000	166,500	16,000	2,664,000	Dec-06	-	13,320	-	246,953	18.9%
Wuhan	Phoenix City	100%	150,600	143,070	4,800	686,736	Dec-06	-	64,382	-	285,146	8.4%
Hefei	Hefei Project	100%	186,255	186,255	4,000	745,020	Dec-07	-	37,251	-	157,311	13.4%
Chengdu	Jade City I	100%	800,000	727,421	3,700	2,691,457	Dec-09	122,503	50,919	504,753	209,788	10.2%
Total				2,805,795	7,718	21,655,174		340,127	368,977	2,678,411	3,080,421	

Source: Company data, CICC Research

TABLE 6: FY05 NAV

## 1. Properties under development and held for development(NAV)

City	Project	GFA(sqm th)	GFA(%)	NAV(HK\$ mn)	NAV(%)
Beijing	La Firenze I	29	1.0%	29	0.5%
	La Firenze II	100	3.6%	304	5.4%
	Fortune Island	115	4.1%	471	8.4%
	Phoenix City II	111	3.9%	918	16.4%
	Phoenix City III	320	11.4%	965	17.3%
	Top Box	10	0.3%	84	1.5%
	U-Space II	25	0.9%	113	2.0%
	Grand Constellation	41	1.4%	387	6.9%
	Qinghe Project	833	29.7%	361	6.5%
	Subtotal	1,583	56.4%	3,633	65.1%
Shanghai	The Bund Side I	167	5.9%	646	11.6%
Wuhan	Phoenix City	143	5.1%	102	1.8%
Hefei	Hefei Project	186	6.6%	209	3.7%
Chengdu	Jade City I	727	25.9%	993	17.8%
Total		2,806	100.0%	5,585	100.0%

## 2. Investment &amp; holding properties (NAV)

City	Project	GFA(sqm th)	GFA(%)	NAV(HK\$ mn)	NAV(%)
Beijing	BJ Resources Building	65	10.8%	1,099	20.7%
	Others	36	6.0%	547	10.3%
	Subtotal	101	16.8%	1,646	30.9%
Shanghai	China Resources Time Square	97	16.1%	999	18.8%
	City Crossing Phase I	230	38.1%	2,388	44.9%
Shenzhen	City Crossing Phase II	175	29.0%	289	5.4%
	Subtotal	405	67.1%	2,677	50.3%
Total		603		5,321	
	Net Debt			-1,924	
	Net Asset Value			8,982	
	NAV per Share(HK\$)			3.24	

Source: Company data, CICC Research

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### Appendix 1: Background Information on CGOEs

The SASAC allows eleven more central-government-owned companies to operate property development as their core business (property CGOEs for short) on October 12, 2005. Taking into account the five designated on June 28, 2004, there are a total of 13 property CGOEs. Li Rongrong, head of SASAC, stated at the end of 2004 that if the property business of CGOEs fails to rank top three in the sector by size, they should be restructured. This move reaffirms that the property sector is still a mainstay of China's economy.

On June 28 2004, the SASAC called for CGOEs to strengthen their core business and dispose of non-core business to enhance their competitive strength. The SASAC rolled out a circular on the consolidation of property businesses for CGOEs and designated five CGOEs to consolidate central-government-owned property assets, including China State Construction Engineering Corp (China Overseas Land & Investment), China Merchants Group (China Merchants Property Development), China National Real Estate Development Group Corp, China Poly Group Corp, China Overseas Chinese Town Group Corp and China Resources National Corp.

One year after the circular was issued, none CGOEs transferred their property business to the designated five. The only exception is Huaneng Group, who transferred the Rmb1.6 billion assets of its property subsidiary Huaneng Property for free to China National Real Estate Development Group Corp. It is estimated that 80% of the 169 CGOEs have property business and their property assets worth Rmb180 billion. These assets will eventually be transferred to the 16 designated CGOEs.

In fact, CGOEs have strong powers in the property sector. According to the survey on 2005 China property brands by China Real Estate Index Institute, central-government-owned property brands are quite valuable. The five property CGOEs designated in 2004, including China Overseas Land & Investment, China Merchants Property Development, China Overseas China Town Group Corp and China Poly Group Corp, rank top ten property brands. Since CGOEs play an important role in the property sector with the huge amount of properties, the SASAC will support those CGOEs to have their core business in property, confirming the important position of the real estate sector.

**TABLE 7: 16 SOEs AUTHORIZED BY THE GOVERNMENT TO OPERATE PROPERTY DEVELOPMENT AS CORE BUSINESSES**

1	China Railway Engineering Corporation	9	China Chemical Engineering (Group) Corporation
2	China Railway Construction Corporation	10	China Xinxing (Group) Corporation
3	China Metallurgical Construction Group Corporation	11	Nam Kwong (Group) Company Limited
5	China Travel Service (Holding) Hong Kong Limited	13	Sinochem Corporation
6	China Transportation Construction Corporation	14	China Poly Group Corporation
7	China Overseas Chinese Town Group Corporation	15	China Merchants Group
8	China Gezhouba (Group) Corporation	16	China Resources National Corporation

Source: Company data, CICC Research

**TABLE 8: KEY FINANCIAL DATA**

Year to 31 Dec	2002A	2003A	2004A	2005E	2006E
<b>Profit and loss (HK\$m)</b>					
Property development	1,117	1,244	2,387	2,678	3,080
Others	13	8	22	44	70
<b>Revenue</b>	<b>1,130</b>	<b>1,252</b>	<b>2,409</b>	<b>2,722</b>	<b>3,501</b>
Property development	47	82	307	441	558
Others	5	5	4	18	32
<b>Gross profit</b>	<b>52</b>	<b>87</b>	<b>311</b>	<b>459</b>	<b>590</b>
<b>Other operation income</b>	<b>82</b>	<b>101</b>	<b>86</b>	<b>88</b>	<b>91</b>
S. G & A expenses	-155	-124	-200	-161	-203
<b>Operating profit</b>	<b>-20</b>	<b>63</b>	<b>197</b>	<b>386</b>	<b>478</b>
Interest, net	-5	-34	-29	-45	-58
Associates	21	7	20	20	20
<b>Profit before taxation</b>	<b>-4</b>	<b>36</b>	<b>188</b>	<b>361</b>	<b>502</b>
Taxation	74	-17	-81	-90	-178
<b>Profit after tax</b>	<b>70</b>	<b>19</b>	<b>107</b>	<b>271</b>	<b>324</b>
Minorities	36	60	43	43	48
<b>Net profit</b>	<b>105</b>	<b>79</b>	<b>150</b>	<b>314</b>	<b>371</b>
<b>Balance sheet (HK\$mn)</b>					
<b>Current assets</b>	<b>6,324</b>	<b>7,564</b>	<b>8,251</b>	<b>9,079</b>	<b>10,055</b>
Cash	772	1,721	1,806	2,126	2,400
Stock of properties	4,321	4,883	5,539	6,185	6,914
Debtors	956	959	906	768	740
Others	275	-	-	-	-
<b>Current liabilities</b>	<b>1,513</b>	<b>2,031</b>	<b>4,075</b>	<b>4,488</b>	<b>4,803</b>
Loans	601	1,226	1,937	2,131	2,344
Creditors	903	800	2,138	2,234	2,334
<b>Non-current assets</b>	<b>1,644</b>	<b>1,641</b>	<b>2,124</b>	<b>5,117</b>	<b>5,237</b>
Fixed assets	469	451	432	475	522
Associates	782	670	694	694	764
<b>Non-current liabilities</b>	<b>2,508</b>	<b>3,194</b>	<b>2,572</b>	<b>2,090</b>	<b>2,290</b>
LT loans	1,501	2,181	1,813	1,994	2,194
Minority interests	1,003	941	755	61	62
Shareholders' funds	3,947	3,979	3,728	7,617	8,199
<b>Total assets</b>	<b>7,968</b>	<b>9,204</b>	<b>10,375</b>	<b>14,196</b>	<b>15,292</b>
<b>Cash flow statement (HK\$mn)</b>					
<b>Pre-tax profit</b>	<b>-4</b>	<b>36</b>	<b>188</b>	<b>361</b>	<b>712</b>
Taxation	74	-17	-81	-90	-178
Change in working capital	-497	160	1,391	234	128
<b>Free cash flow</b>	<b>-1,484</b>	<b>-373</b>	<b>844</b>	<b>-10</b>	<b>-59</b>
Dividends paid	-89	-103	-95	-133	-143
<b>Ratio</b>					
Gross margin	5%	7%	13%	17%	23%
Dividend yield	0.5%	0.5%	0.6%	1.1%	1.1%
ROA	1.3%	0.9%	1.4%	2.2%	2.4%
ROE	2.7%	2.0%	3.9%	5.5%	7.4%
Net gearing(%)	34%	42%	52%	26%	26%
Book value	1.42	1.43	1.34	2.75	2.96

Source: Company data, CICC Research