

27 March 2019

Property | Real Estate

China Resources Land (1109 HK)

Buy (Maintained)

Steady And Visible Growth Path; Keep BUY

Target Price (Return) HKD36.90 (+13%)
 Price: HKD32.65
 Market Cap: USD28,831m
 Avg Daily Turnover (HKD/USD) 393m/50m

- Maintain BUY with new HKD36.90 TP from HKD33, 13% upside plus 4.5% yield.** We continue to like CRL as its advantages of high profit margins, decent earnings growth and strong financial position are all well preserved. CRL's enlarged landbank paves the way for sustainable contracted sales growth in the long term. More of its shopping malls in operation and expanding its value-added services would boost its IP income and valuation as well.
- Decent and sustainable contracted sales growth.** We believe China Resources Land's (CRL) 15% FY19F contracted sales growth target remains comparable among the Top 10 developers (in contracted sales value terms). It is based on a conservative sell-through of 58% (FY18: 63%), which leads us to believe the target is achievable. Moreover, CRL tapped the retreat of the property market to expand its landbank in 2H18, which equipped itself with adequate saleable resources to sustain contracted sales growth in the long term.
- Solid profit margins.** Riding on the bookings of high-margin projects in Shenzhen (28% of total bookings), GPM reached a historical high of 43.4% in FY18. Though we expect GPM to retreat to 37-41% in FY19F-21F, it remains competitive among peers. Also, given a more rapid growth of its investment properties (IP) income – and many of its urban re-development projects, which command higher GPM, set to generate sales revenue in long term – we expect CRL to be able to maintain desirable profit margins going forward.
- FY18 earnings missed on FX loss, but solid on all fronts.** FY18 core earnings rose 18% YoY, but below our and Street forecasts by 4% and 15%. However, stripping out the FX loss, its core profit would have soared 28% YoY and actually beat the Street by 4%. Other than the GPM aforementioned, CRL's net gearing stayed healthy at 38% (treating perpetual securities as debt), while average funding cost stayed low at 4.47%.
- Maintain BUY with higher TP.** We tweak FY19F-20F earnings by -3/-4%, and introduce FY21F earnings with 13% YoY growth at 19% CAGR for FY18-21F. However, we raise our end-FY19F ENAV 12% to HKD49.20 from HKD44, as CRL managed to enlarge its landbank without lifting leverage. Maintaining a 25% discount to ENAV (+2SD), we raise our TP to HKD36.90.

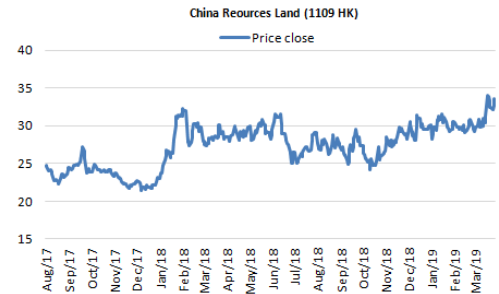
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	11.8	14.1	13.9	22.8	15.0
Relative	11.2	(0.0)	12.8	3.7	(6.6)
52-wk Price low/high (HKD)	34.1 – 23.8				



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (CNYm)	101,943	121,189	154,812	192,024	232,173
Recurring net profit (CNYm)	16,379	19,296	24,697	28,836	32,553
Recurring net profit growth (%)	0.6	17.8	28.0	16.8	12.9
Recurring EPS (CNY)	2.36	2.78	3.56	4.16	4.70
Recurring P/E (x)	11.7	10.0	7.8	6.7	5.9
P/BV (x)	1.6	1.4	1.2	1.1	1.0
DPS (CNY)	0.82	1.06	1.25	1.46	1.64
Dividend Yield (%)	3.0	3.8	4.5	5.2	5.9
ROAE (%)	13.7	13.9	16.0	16.7	16.8
Net debt to equity (%)	35.9	37.7	34.1	29.7	34.2
Interest coverage (x)	7.3	7.6	8.5	8.5	8.1

Source: Company data, RHB

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FY18 Results Review

Figure 1: CRL's FY18 results vs RHB forecasts

FY end Dec 31 (CNY m)	Actual	Actual	2H18	RHB	2H18	(Restated)	Actual	FY18	RHB	FY18	BBG	
	1H18	2H18	YoY	2H18	Variance	FY17	FY18	YoY	FY18	Variance	Consensus	Variance
Turnover	43,778	77,411	9.4%	88,310	-12.3%	101,943	121,189	18.9%	132,088	-8.3%	120,563	0.5%
Property sales	36,486	68,662	7.4%	77,949	-11.9%	89,511	105,148	17.5%	114,435	-8.1%		
Property rental and mgmt	3,690	4,402	31.0%	4,810	-8.5%	6,351	8,092	27.4%	8,500	-4.8%		
Hotels	678	749	5.6%	822	-8.9%	1,295	1,427	10.2%	1,500	-4.9%		
Others	2,924	3,598	29.0%	4,730	-23.9%	4,786	6,522	36.3%	7,654	-14.8%		
Cost of sales	(22,712)	(45,895)	12.7%	(54,887)	-16.4%	(60,981)	(68,607)	12.5%	(77,599)	-11.6%		
Gross profit	21,066	31,515	4.9%	33,423	-5.7%	40,962	52,582	28.4%	54,490	-3.5%		
Other incomes	932	91	-95.7%	347	-73.7%	1,751	1,023	-41.6%	1,279	-20.0%		
Selling and marketing costs	(1,474)	(2,703)	32.2%	(1,920)	40.8%	(3,381)	(4,177)	23.5%	(3,394)	23.1%		
Administrative expenses	(1,580)	(2,579)	14.3%	(634)	306.8%	(3,655)	(4,159)	13.8%	(2,214)	87.8%		
Operating profit	18,943	26,325	-5.6%	31,216	-15.7%	35,676	45,268	26.9%	50,160	-9.8%		
Revaluation change	2,061	4,843	90.1%	0	#DIV/0!	5,150	6,904	34.1%	2,061	235.0%		
Finance cost	(929)	(814)	-15.2%	(983)	-17.3%	(1,603)	(1,743)	8.7%	(1,912)	-8.9%		
Associates and JCEs	341	956	1204.7%	345	176.7%	202	1,297	542.4%	687	88.9%		
Profit before taxation	20,417	31,310	6.0%	30,579	2.4%	39,425	51,726	31.2%	50,995	1.4%		
Taxation	(9,710)	(14,739)	11.0%	(14,531)	1.4%	(17,675)	(24,449)	38.3%	(24,241)	0.9%		
Profit after taxation	10,707	16,570	1.9%	16,047	3.3%	21,750	27,277	25.4%	26,754	2.0%		
Minority interests	(1,856)	(1,183)	8.7%	(786)	50.6%	(2,060)	(3,039)	47.6%	(2,642)	15.1%		
Reported net profit	8,851	15,387	1.4%	15,262	0.8%	19,690	24,238	23.1%	24,113	0.5%		
Recurring net profit	7,280	12,016	-10.9%	15,287	-21.4%	16,379	19,296	17.8%	22,567	-14.5%	20,160	-4.3%
Basic EPS (CNY)	1.277	2.220	1.4%	2.198	1.0%	2.841	3.497	23.1%	3.476	0.6%		
Core EPS (CNY)	1.050	1.734	-10.9%	2.202	-21.3%	2.363	2.784	17.8%	3.253	-14.4%	3.010	-7.5%
DPS (HKD)	0.110	0.949	28.3%	0.923	2.8%	0.825	1.059	28.4%	1.033	2.5%	1.003	5.6%
BVPS (HKD)	17.797	19.965	15.6%	19.853	0.6%	17.273	19.965	15.6%	19.853	0.6%	19.525	2.3%
Gross margin	48.1%	40.7%		37.8%		40.2%	43.4%		41.3%			
Operating margin	43.3%	34.0%		35.3%		35.0%	37.4%		38.0%			
Effective tax rate	-47.6%	-47.1%		-47.5%		-44.8%	-47.3%		-47.5%			
Net margin	20.2%	19.9%		17.3%		19.3%	20.0%		18.3%			
Core net margin	16.6%	15.5%		17.3%		16.1%	15.9%		17.1%			

Source: Company data, RHB

Changes In Earnings Forecasts

Figure 2: Changes to our forecasts

(CNY m)	FY19F			FY20F		
	Original	New	chg (%)	Original	New	chg (%)
Revenue	166,782	154,812	-7%	222,247	192,024	-14%
Cost of goods sold	(102,814)	(91,728)	-11%	(144,353)	(117,504)	-19%
Gross Profit	63,968	63,084	-1%	77,894	74,520	-4%
Selling and distribution exp	(3,515)	(4,647)	32%	(3,420)	(5,280)	54%
Administrative expenses	(2,462)	(4,694)	91%	(2,837)	(5,246)	85%
Other incomes	1,779	1,061	-40%	2,309	1,358	-41%
Revaluation gains	0	0	N/A	0	0	N/A
Interest expense	(2,007)	(2,007)	0%	(2,389)	(2,389)	0%
JCE & Associate items	865	1,571	82%	1,158	1,845	59%
Profit before tax	58,627	54,367	-7%	72,715	64,807	-11%
Taxation	(29,731)	(26,074)	-12%	(38,379)	(31,631)	-18%
Minority Interests	(3,336)	(3,596)	8%	(4,445)	(4,340)	-2%
Reported net profit	25,560	24,697	-3%	29,891	28,836	-4%
Recurring net profit	25,560	24,697	-3%	29,891	28,836	-4%
Gross profit margin (%)	38.4%	40.7%	2.4ppts	35.0%	38.8%	3.8ppts
Reported net profit margin (%)	15.3%	16.0%	0.6ppts	13.4%	15.0%	1.6ppts
Recurring net profit margin (%)	15.3%	16.0%	0.6ppts	13.4%	15.0%	1.6ppts

Source: RHB

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Figure 3: CRL's annual P&L (FY17-21F)

FY end Dec 31 (CNY m)	(Restated)				
	FY17	FY18	FY19F	FY20F	FY21F
Property sales	89,511	105,148	134,093	165,796	199,201
Property investment and management	6,351	8,092	10,311	13,138	16,740
Hotel operations	1,295	1,427	1,717	1,768	1,821
Construction, decoration and others	4,786	6,522	8,692	11,323	14,410
Total turnover	101,943	121,189	154,812	192,024	232,173
Cost of sales	(60,981)	(68,607)	(91,728)	(117,504)	(146,675)
Gross profit	40,962	52,582	63,084	74,520	85,498
Gain on changes in fair value of investm	5,150	6,904	0	0	0
Other income	1,751	1,023	1,061	1,358	1,721
Selling and marketing expenses	(3,381)	(4,177)	(4,647)	(5,280)	(5,802)
General and administrative expenses	(3,655)	(4,159)	(4,694)	(5,246)	(5,647)
Share of profit of investments in joint ver	202	1,297	1,571	1,845	2,106
Finance costs	(1,603)	(1,743)	(2,007)	(2,389)	(2,876)
Profit before taxation	39,425	51,726	54,367	64,807	75,001
Income tax expenses	(17,675)	(24,449)	(26,074)	(31,631)	(37,305)
MI and PCS distributions	(2,060)	(3,039)	(3,596)	(4,340)	(5,143)
Reported net profit	19,690	24,238	24,697	28,836	32,553
Recurring net profit	16,379	19,296	24,697	28,836	32,553
Reported EPS (CNY)	2.841	3.497	3.563	4.160	4.697
Recurring EPS (CNY)	2.363	2.784	3.563	4.160	4.697
DPS (CNY)	0.825	1.059	1.247	1.456	1.644
Profit margin:					
Gross margin	40.2%	43.4%	40.7%	38.8%	36.8%
Reported net margin	19.3%	20.0%	16.0%	15.0%	14.0%
Recurring net margin	16.1%	15.9%	16.0%	15.0%	14.0%
YoY growth:					
Turnover	-6.8%	17.5%	27.7%	24.0%	20.9%
Reported net profit	1.0%	23.1%	1.9%	16.8%	12.9%
Recurring net profit	0.6%	17.8%	28.0%	16.8%	12.9%
Reported EPS	1.0%	23.1%	1.9%	16.8%	12.9%
Recurring EPS	0.6%	17.8%	28.0%	16.8%	12.9%

Source: RHB

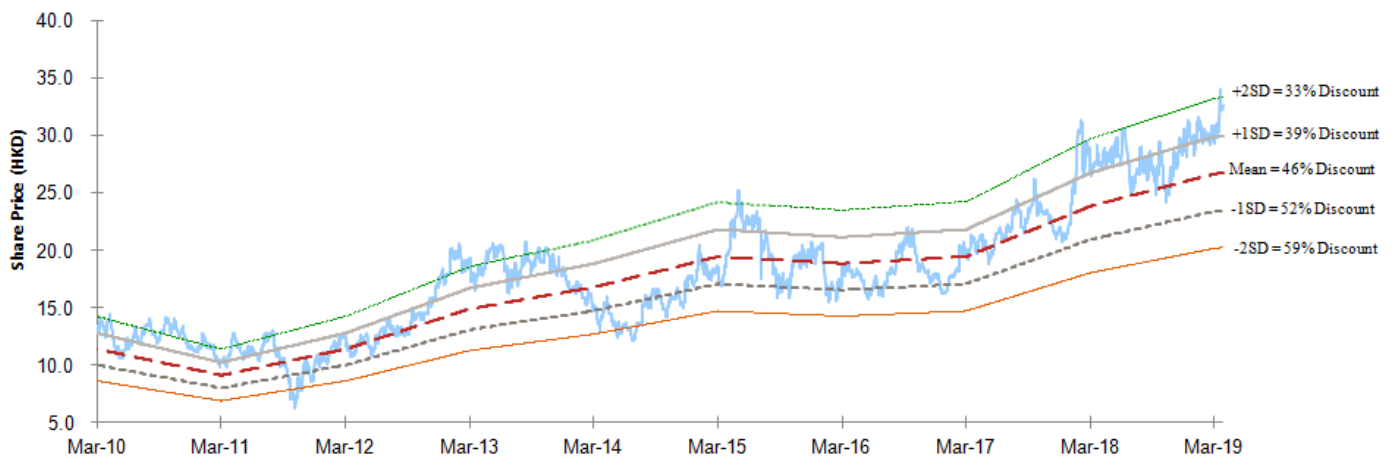
Valuation

Figure 4: CRL's end-FY19F ENAV

Details	Total HKDm	HKD/share	% of Total
Landbank - development properties	256,367	37.0	75.2%
Landbank - investment properties	156,714	22.6	45.9%
Net debt as at end-FY19F	(72,411)	(10.4)	(21.1%)
Total	340,670	49.2	100.0%

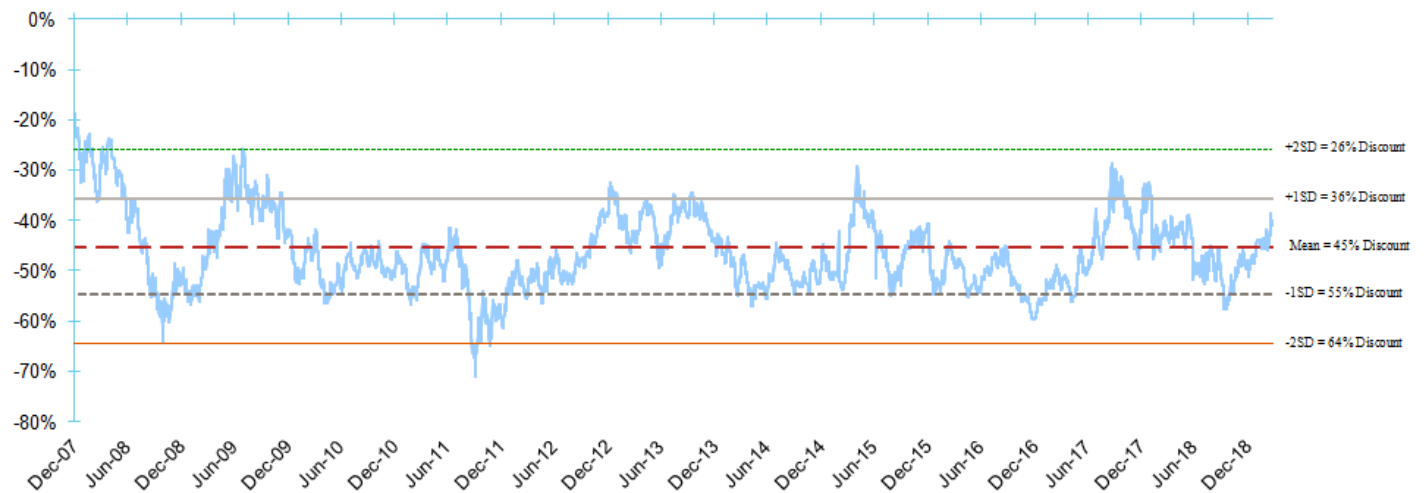
Source: RHB

Figure 5: CRL's 5-year rolling forward ENAV band



Source: Bloomberg, RHB

Figure 6: China property sector – 10-year ENAV discount band



Source: Bloomberg, RHB

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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