

CR Land (1109 HK)

Outperforming FY22E, promising FY23E and not-far-fetching FY25E target

We suggest investors to accumulate CR Land after the recent pull back. Our main thesis is its visible earnings growth acceleration (1%/11%/17% YoY in 2022-24E) driven by robust rental income (20-30% CAGR) and sales back to teens growth in 2023E. This would help not widen its gap with others (FY22E - 20% YoY on average), but also make its 14th Five Year target closer to reach on the contracted sales side (+15% 2020-2025E CAGR), especially with the chance of policy relaxation in Tier 1 cities. If so, it may further drive its valuation to 8-10x long-term PE range (now 7.5x 2023E) as the clear winner of this crisis.

Catalyst: policy relaxation in Tier 1 cities.

- **Core profit growth: Flattish FY22E, double digit FY23E, high-teens FY24E:** We expect CR Land to deliver a flattish FY22E as 1) 10% DP revenue increase would be offset by margin decline and 2) IP is impacted by RMB2.49bn rental relief for tenants. However, the recovery will be accelerating in FY23E and FY24E as FY23E would see rental income normalization that would grow 43% YoY to drive NP to grow 11%, and FY24E NP may see 17% YoY growth after DP booking normalization (sales growth in 2023E) and robust rental growth at 20%.
- **Expect 2023E sales to grow double digit:** CR Land finished 2022 with only 5% sales YoY decline, the second best among all major developers. It is mainly attributed to 85% of its sellable resources in Tier 1-2 cities. Looking into 2023E, we expect 10-15% YoY gross sales growth to reach RMB330-350bn due to 1) strong anti-land acquisitions in 2022E with land/sales at 42%, one of the highest in the industry to provide enough sellable resources in high-tier cities. 2) Gradually recovering market sentiment after reopening. 3) Potential policy relaxation in Tier 1 cities to benefit CR Land most.
- **Shopping malls:** CR Land opened 12 shopping malls to reach 66 (+19% YoY) by 2022 and has met its annual target. This has mainly helped offset the impact of RMB2.49bn rental relief for tenants to achieve flattish rental income in 2022 at RMB18bn. This will also pave the way for 2023E to achieve 43% YoY growth in rental income (or 25% after rebase). The reopening has also cleared the uncertainties for CR Land to comfortably achieve its 2025E target to open 100 malls (or 12 per year) and rental income target of RMB25.6bn (12% CAGR required vs. our 30% CAGR).
- **Two ST risks to be addressed:** 1) **Balance Sheet:** Due to aggressive anti-cycle land acquisitions, CR Land's liability/asset ratio may have exceeded SASAC's red line at 70% (our estimate at 70.2% by Dec 2022). To deleverage, CR Land would have to either contain land acquisitions in 2023E or enlarge equity base via issuance. 2) **Luxury malls:** after reopening, the overseas traveling and Daigou may bring certain impacts on local luxury sales as Japan/some Europe countries offer attractive price discount vs. China after their currency depreciation.
- **Reiterate Buy:** We cut 2022E earnings by 4% to reflect RMB2.49bn rental relief for tenants during pandemic, but revised up 2023E earnings by 3% to reflect the positive impact on rentals after reopening. We raised TP by 1% to reflect the ASP increase (mixed change) in our NAV calculation with target discount unchanged at 50%. The company is currently trading at 7.5x 2023E PE, slightly below its 5-YR historical average of 8x.

BUY (Maintain)

Target Price	HK\$45.10
(Previous TP)	HK\$44.79)
Up/downside	+22.7%
Current Price	HK\$36.75

China Property Sector

Jeffrey ZENG
 (852) 3916 3727
 jeffreyzeng@cmbi.com.hk

Miao ZHANG
 (852) 3761 8910
 zhangmiao@cmbi.com.hk

Bella LI
 (852) 3757 6202
 bellali@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	235,86
Avg 3 mths t/o (HK\$ mn)	370
52w High/Low (HK\$)	41.05/ 23.95
Total Issued Shares (mn)	7,131

Source: Bloomberg

Shareholding Structure

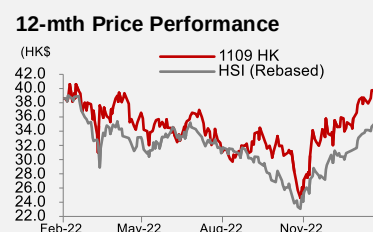
China Resources Group	59.6%
Free float	40.4%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	3.8%	-6.5%
3-mth	42.1%	2.5%
6-mth	17.4%	5.3%

Source: Bloomberg



Source: Bloomberg

Earnings Summary

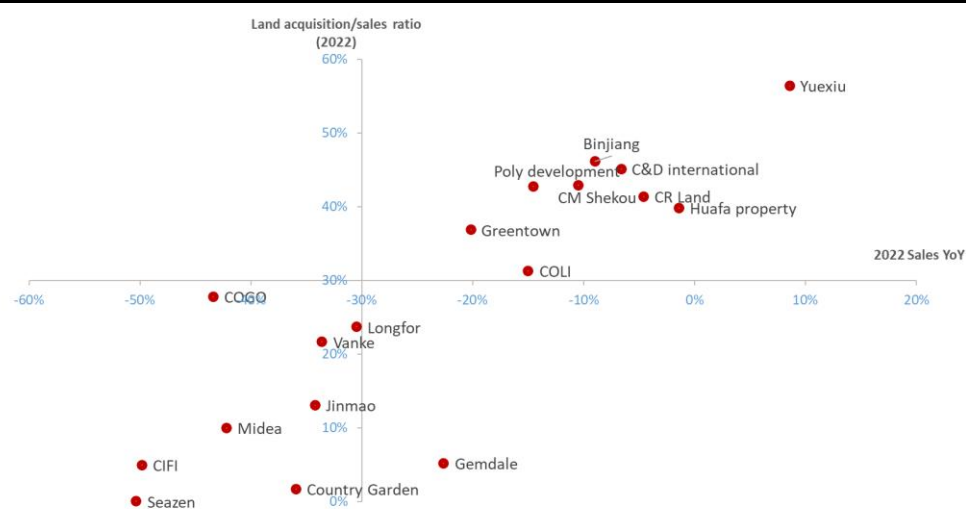
(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	179,587	212,108	233,738	235,314	264,990
YoY growth (%)	NA	18.1	10.2	0.7	12.6
Core profit (RMB mn)	24,136	26,596	26,914	29,826	34,959
EPS (RMB)	3.39	3.73	3.77	4.18	4.90
YoY growth (%)	NA	10.2	1.2	10.8	17.2
Consensus EPS (RMB)	N.A.	N.A.	3.89	4.22	4.77
P/E (x)	9.3	8.5	8.4	7.6	6.4
P/B (x)	1.1	0.99	0.94	0.87	0.80
Yield (%)	4.0	4.4	5.3	5.9	6.9
ROE (%)	14.7	14.3	11.2	11.5	12.4
Net gearing (%)	29.5	24.4	27.7	26.7	36.3

Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: CR Land outperformed most developers in 2022 and Jan 2023 sales growth

Sales (RMB bn)	Jan-23	YoY	MoM	Dec-22	YoY 2022 sales	YoY	
Yuexiu	8.8	75%	-60%	22.1	10%	125.0	9%
Binjiang	12.1	17%	-41%	20.4	40%	153.9	-9%
CR Land	16.0	5%	-68%	49.6	10%	301.3	-5%
CM Shekou	15.9	5%	-63%	42.6	-3%	292.6	-10%
Poly	29.5	4%	-48%	57.2	56%	457.3	-15%
Longfor	10.9	1%	-41%	18.4	-54%	201.6	-30%
COLI*	12.5	-15%	-67%	38.1	-4%	294.7	-20%
Vanke	27.8	-22%	-30%	39.8	-37%	416.9	-34%
Sino-Ocean	3.3	-27%	-69%	10.8	-30%	100.3	-26%
Gemdale	9.2	-39%	-55%	20.4	-15%	221.8	-23%
China SCE	3.1	-39%	-33%	4.6	-32%	59.0	-44%
Shimao	4.5	-40%	-36%	7.0	-37%	86.5	-68%
CIFI	5.0	-41%	-22%	6.4	-70%	124.0	-50%
Country Garden (attri)	21.1	-42%	-4%	22.0	-2%	357.5	-36%
Sunac China	7.1	-75%	-14%	8.2	-83%	169.3	-72%
Average	186.6	-22%	-49%	367.6	-19%	3,361.9	-32%

Source: Company data, CMBIGM

Figure 2: CR Land's land acquisition/sales at 42%, higher than close competitors


Source: Company data, CMBIGM

Figure 3: Historical PB chart


Source: BBG, CMBIGM

Figure 4: 1-YR forward PE chart



Source: BBG, CMBIGM

Figure 5: New Target price derived

CRL NAV calculation

attributable land bank (mn sqm): 39.4
 2022 ASP (RMB/sqm) 21139

ASP assumption

- 2022 0% Mix change
 - 2023E 0%
 - 2024E 0%
 - 2025E 0%

Land cost (RMB/sqm): 10,500
 Construction cost (RMB/sqm): 4,500
 Interest (RMB/sqm): 450
 Construction cost assumption
 - 2022E 0%
 - 2023E 1%
 - 2024E 1%
 - 2025E 1%

SG&A/Sales 4%

	2022E	2023E	2024E	2025E
Sales volume (mn sqm)	10	10	10	10
ASP	21,139	21,139	21,139	21,139
Sales value (RMB bn)	208	208	208	208
COGS	152	154	155	157
SG&A	8	8	8	8
Tax	17	16	16	15
Profits	31	30	29	28
DCF	31	28	26	24
NAV of current landbank (RMB bn)	109			

IP 218
 Attributable Equity 227
 Total NAV 553
 Discount to NAV 50%
 HKDRMB 0.9
 Target price 45.1

Source: Company data, CMBIGM

Financial Summary

Income statement

YE Dec 31 (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	179,587	212,108	233,738	235,314	264,990
Property sales	157,140	183,861	202,247	192,135	211,349
Rental	12,787	17,435	17,435	24,906	29,887
Other	9,660	10,812	14,056	18,273	23,755
Cost of sales	(124,172)	(154,909)	(173,640)	(172,010)	(192,096)
Gross profit	55,415	57,200	60,098	63,303	72,894
Other income and gains	4,596	4,437	2,944	2,765	2,137
Distribution expenses	(5,352)	(6,094)	(7,012)	(6,824)	(7,420)
Administrative expenses	(5,087)	(5,872)	(7,012)	(6,824)	(7,420)
Other expenses	0	0	0	0	0
Operating profit	49,572	49,671	49,018	52,420	60,192
Finance expenses	(1,284)	(1,397)	(1,871)	(2,058)	(2,264)
Associates/JV	3,000	4,297	3,640	3,640	3,640
Exceptional	8,884	7,795	0	0	0
Pre-tax profit	60,172	60,366	50,787	54,002	61,568
Profits tax	(26,082)	(22,970)	(19,263)	(19,566)	(21,999)
After-tax profit	34,090	37,395	31,524	34,436	39,569
Minority interest	(4,060)	(4,994)	(4,610)	(4,610)	(4,610)
Perpetual	(221)	0	0	0	0
Net profit	29,810	32,401	26,914	29,826	34,959
Core profit	24,136	26,596	26,914	29,826	34,959

Cash flow summary

YE Dec 31 (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
EBIT	49,572	49,671	49,018	52,420	60,192
Depreciation and amortization	912	1,301	1,083	1,400	1,400
Change in working capital	(10,224)	(4,204)	12,427	8,024	(32,692)
Income tax paid	(20,416)	(20,578)	(19,263)	(19,566)	(21,999)
Others	2,483	(19,163)	0	0	0
Net cash from operating	22,328	7,028	43,265	42,278	6,901
Capex	(16,953)	(29,587)	(40,046)	(26,416)	(28,918)
Associates/JV	(8,309)	(4,196)	(6,186)	(6,926)	(7,740)
Other	(7,583)	5,980	0	0	0
Net cash from investing	(32,845)	(27,803)	(46,232)	(33,342)	(36,657)
Equity raised	0	0	0	0	0
Change of Debts	35,973	16,222	17,999	19,797	21,777
Dividend paid	(9,064)	(10,820)	(9,891)	(11,980)	(11,980)
Other	9,417	34,797	0	0	0
Net cash from financing	36,327	40,198	8,109	7,817	9,797
Net change in cash	25,809	19,424	5,142	16,754	(19,959)
Cash at the beginning	62,157	87,534	106,773	111,914	128,668
Exchange difference	(432)	(185)	0	0	0
Cash at the end	87,534	106,773	111,914	128,668	108,709
Pledged deposit	0	0	0	0	0
Cash at BS	87,534	106,773	111,914	128,668	108,709

Balance sheet

YE Dec 31 (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	294,988	334,532	380,894	414,049	450,519
Fixed asset	19,912	21,667	28,000	28,000	28,000
Investment properties	187,379	217,530	250,160	275,176	302,693
Associates/JV	67,733	73,993	81,392	89,531	98,484
Intangible assets	52	88	88	88	88
Other non-current assets	19,911	21,254	21,254	21,254	21,254
Current assets	574,053	615,273	664,480	684,587	727,797
Cash	89,451	108,748	111,914	128,668	108,709
Account receivable	49,164	48,461	53,403	53,763	60,544
Inventories	377,090	403,026	444,125	447,119	503,508
Other current assets	58,349	55,037	55,037	55,037	55,037
Current liabilities	443,851	464,627	528,551	545,929	583,006
Borrowings	35,543	54,544	60,000	66,000	72,600
Trade and other payables	117,899	131,693	147,617	146,231	163,307
Contract liabilities	232,585	212,719	255,263	268,026	281,427
Deferred taxation	30,864	29,507	29,507	29,507	29,507
Other current liabilities	26,960	36,164	36,164	36,164	36,164
Non-current liabilities	168,949	193,101	205,644	219,442	234,619
Borrowings	129,442	125,431	137,974	151,771	166,949
Other non-current liabilities	39,507	67,670	67,670	67,670	67,670
Shareholders' equity	203,458	226,529	241,022	258,499	281,316
Minority interest	52,784	65,547	70,157	74,767	79,377
Perpetual bond	0	0	0	0	0
Total equity	256,242	292,076	311,178	333,266	360,692

Key ratios

YE Dec 31	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Property sales	87.5	86.7	86.5	81.7	79.8
Rental	7.1	8.2	7.5	10.6	11.3
Other	5.4	5.1	6.0	7.8	9.0
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	30.9	27.0	25.7	26.9	27.5
EBIT margin	27.6	23.4	21.0	22.3	22.7
Net margin	16.6	15.3	11.5	12.7	13.2
Effective tax rate	43.3	38.1	37.9	36.2	35.7
Balance sheet ratios					
Current ratio (x)	1.3	1.3	1.3	1.3	1.2
Receivable day	99.9	83.4	83.4	83.4	83.4
Payable day	346.6	310.3	310.3	310.3	310.3
Inventory day	1108.4	949.6	933.6	948.8	956.7
Net gearing ratio (%)	29.5	24.4	27.7	26.7	36.3
Returns (%)					
ROE	14.7	14.3	11.2	11.5	12.4
ROA	3.4	3.4	2.6	2.7	3.0
Per share data					
EPS (RMB)	4.18	4.54	3.77	4.18	4.90
DPS (RMB)	1.25	1.38	1.68	1.86	2.18
BVPS (RMB)	28.53	31.77	33.80	36.25	39.45

Source: Company data, CMBIGM estimates

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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