

## CR Lands

### Winner of next 5 years, BUY

#### 2017 result: slow growth, but high profitability

Revenue slightly improved by 8.5% YoY to HKD 118.5 bn. Thanks to GPM growing by 6.5 pts to 40%, gross profit surged by 29%. Total SG&A to revenues declined from 5.9% in 2016 to 5.3% in 2017, which indicated CR lands had strong cost control capability (vs contracted sales surged by 41% YoY in 2017). Attr. core net profit increased by 17% YoY, which implies 18% of core net profit margin in 2017 (vs 17% in 2016). Booking ASP increasing and lower booking cost in 2017 resulted GPM and net profit enhancement. Key takeaways from result meeting: 1) gross margin in 1<sup>st</sup>/2<sup>nd</sup>/3<sup>rd</sup> tier cities in 2017 were 61.9%/32.8%/31.3%, respectively; 2) there are RMB 126.1 bn of unbooked contracted sales with 43% of GPM, of which RMB 79 bn with 45% GPM will be booked in 2018; 3) Booking schedule: 9.26 mn sq.m/ 11.1 mn sq.m and 14.31 mn sq.m in 2018/2019/2020, respectively.

#### Eyes on quality growth, not just scale

The company has announced its sales target of RMB 183 bn in 2018, which implies 20% YoY increase. Comparing with peers, the company's growth target is very conservative. The management explained that the company's eyes on quality growth rather than scale growth; looking for better return for shareholder is the top priority. The company plans to maintain its ranking in the top 10 developers in terms of contracted sales in 2018. The management mentioned they estimated the 10<sup>th</sup> developers would achieve RMB 200 bn in 2018. 30% YoY growth of sales in 2018 should be comfortable for CR lands. Regarding saleable resource, the company will launch RMB 310 bn saleable resource, of which RMB 30 bn are in Shenzhen.

#### Multi-channel for land acquisition

The company's land cost to price ratio of land acquisitions in 2017 and first two months of 2018 are only 40% and 39%. This will provide safety for the company to adjust selling price in uncertain market condition. And the company has been processing on redevelopment projects, shanty housing redevelopment, co-op with non-real estate developer SOEs who has land plots in 1<sup>st</sup> tier cities, to acquire low cost land resource in core location in 1<sup>st</sup> tier cities. This unique competitiveness is irreproducible for non-SOE developers, with the addition of very low funding cost of 4.16% in 2017. We believe, in the deleveraging environment, CR Lands has strong competitiveness to acquire land resources and funding with low interest rate. Moreover, the company's Mixc brand in China will enhance its product synergy to provide high premium for its residential projects in 2<sup>nd</sup> and 3<sup>rd</sup> tier cities.

#### We expect GPM to be above 35% in 2018 and decline in 2019 and 2020

We believe the company will deliver over 35% GPM in 2018, as RMB 79 bn of unbooked contracted sales has about 45% GPM. Thanks to its low land cost in 1<sup>st</sup> tier cities, we expect GPM will be 38%/36%/34% in 2018/2019/2020, respectively.

#### Upgrade to 'BUY' Revise up price target to HK\$34.74, 22% upside

We are cautious on property sector in this deaveraging environment. However, CR Lands' multi-channel of land acquisition is irreproducible competitiveness to scale pursuer with high land cost. Foreseeable growth is also the key to upgrade its rating to 'BUY'. We revise up target price to HK\$34.74. Our price target implies 38% discount to Dec-18 NAV, 9.7x 2018e core PE and 6.8x 2019e core PE. The stock is trading at 49% discount to Dec-18 NAV, 7.9x 2018e core PE and 1.1x 2018e PB.

Stock code: 1109.HK

Rating: BUY

Price target (HK\$)	34.74
Previous target(HK\$):	27.86
Current price (HK\$, 20 Mar 2018)	28.55
Upside/downside %	22%
Market cap (HK\$ m)	212,087
Market cap (US\$ m)	27,033
Avg daily turnover (HK\$ m)	379

Source: Bloomberg, AMTD Equity Research

#### Key forecasts

(HKD m)	2017	2018e	2019e	2020e
Revenue	118,588	145,705	183,561	246,554
yoy %	8%	23%	26%	34%
Attr NP	23,038	22,347	31,835	42,055
yoy %	18%	-3%	42%	32%
Core Attr NP	18,537	22,347	31,835	42,055
yoy %	11%	18%	38%	30%
Gross margin	40.3%	38.3%	35.5%	34.0%
Net gearing	Net cash	Net cash	Net cash	Net cash
EPS	2.67	3.22	4.59	6.07
DPS	0.97	0.94	1.34	1.77
BPS	20.64	23.87	28.46	34.53

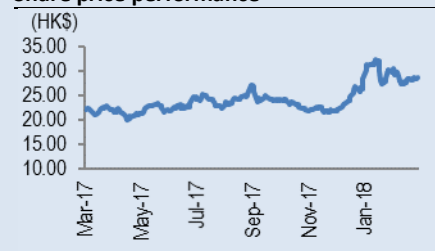
Source: Company data, AMTD Equity Research

#### Valuation

	2017	2018e	2019e	2020e
P/E	9.6	7.9	5.6	4.2
P/BV	1.2	1.1	0.9	0.7
Div. yield	3.8%	3.7%	5.2%	6.9%
ROE	16.1%	16.0%	18.9%	20.4%
ROA	4.0%	3.4%	4.2%	4.9%

Source: Bloomberg, AMTD Equity Research

#### Share price performance



Source: Bloomberg

**Donald Yu**  
Analyst

+852 3163 3384

[Donald.Yu@amtdgroup.com](mailto:Donald.Yu@amtdgroup.com)
**Michelle Li**  
Analyst

+852 3163 3383

[Michelle.Li@amtdgroup.com](mailto:Michelle.Li@amtdgroup.com)

Figure 1: Previous forecast vs actual result

PnL, HKD '000	2016	2017	AMTD 2017E	YoY	Actual vs Est
Revenue	109,327,527	118,587,887	124,425,144	8.5%	-4.7%
Sales of properties	98,727,260	104,558,607	112,764,850	5.9%	-7.3%
Cost of sales	(72,438,555)	(70,851,167)	(81,613,052)	-2.2%	-13.2%
<b>GPM</b>	34%	40%	34%	6.5 pts	5.8 pts
Gross profit	36,888,972	47,736,720	42,812,092	29.4%	11.5%
Other income	2,588,792	1,785,842	2,588,792	-31.0%	-31.0%
Fair value gains on investment properties	4,830,649	6,002,069	-	24.2%	n.a.
Selling expenses	(3,245,449)	(3,898,041)	(4,571,200)	20.1%	-14.7%
Administrative expenses	(3,082,962)	(4,219,143)	(4,342,338)	36.9%	-2.8%
Finance costs	(193,318)	(1,527,325)	(42,116)	690.1%	3526.5%
Profit before tax	38,387,292	46,115,868	37,045,837	20.1%	24.5%
Income tax expense	(15,888,148)	(20,685,595)	(15,186,895)	30.2%	36.2%
Profit for the year	22,499,144	25,430,273	21,858,943	13.0%	16.3%
Adjusted profit for the year	18,876,157	20,928,721	21,858,943	10.9%	-4.3%
<b>Profit for the year attributable to:</b>					
<b>Owners of the Company</b>	19,500,880	23,016,685	18,860,679	18.0%	22.0%
<b>Non-controlling interests</b>	2,998,264	2,391,981	2,998,264	-20.2%	-20.2%
<b>Core net profit</b>	15,877,893	18,536,740	18,860,679	16.7%	-1.7%
Net Debt / Equity	24%	36%	0%	12.0 pts	35.7 pts
Current Ratio	146%	139%	150%	-6.6 pts	-11.0 pts
Interest Coverage	8.3x	8.5x	8.0x	0.1x	0.4x
ROA	4.57%	4.01%	3.77%	-0.6 pts	0.2 pts
ROCE	8.91%	7.71%	7.47%	-1.2 pts	0.2 pts
ROE	16.27%	13.35%	17.37%	-2.9 pts	-4.0 pts
GPM	33.74%	40.25%	34.41%	6.5 pts	5.8 pts
NPM	20.58%	21.44%	17.57%	0.9 pts	3.9 pts
Core NPM	17.27%	17.65%	17.57%	0.4 pts	0.1 pts
Total Debt	79,751,133	126,036,393	91,495,601	58.0%	37.8%
Cash	46,673,952	64,322,516	91,278,815	37.8%	-29.5%
Net Debt	33,077,181	61,713,877	216,787	86.6%	28367.6%
ST Debt	11,988,217	30,213,452	15,305,986	152.0%	97.4%
Properties held under development	195,662,615	267,360,130	222,046,636	36.6%	20.4%
Advanced proceeds received from customers	105,663,376	142,805,881	145,016,036	35.2%	-1.5%

Source: Company data, AMTD Equity Research

Figure 2: P&amp;L forecast and key ratios

PnL, HKD mn	2016	2017	2018e	2019e	2020e	2017	2018e	2019e	2020e
Revenue	109,328	118,588	145,705	183,561	246,554	8.5%	22.9%	26.0%	34.3%
Sales of properties	98,727	104,559	130,935	167,977	230,074	5.9%	25.2%	28.3%	37.0%
Cost of sales	(72,439)	(70,851)	(89,849)	(118,480)	(162,733)				
Gross profit	36,889	47,737	55,856	65,081	83,820	29.4%	17.0%	16.5%	28.8%
Selling expenses	(3,245)	(3,898)	(5,066)	(5,931)	(7,117)	20.1%	30.0%	17.1%	20.0%
Administrative expenses	(3,083)	(4,219)	(5,483)	(6,580)	(7,896)	36.9%	30.0%	20.0%	20.0%
Share of post-tax loss of an associate	618	149	149	149	149				
Share of post-tax (losses)/profits of joint ventures	(18)	86	86	86	86				
Finance costs	(193)	(1,527)	(1,527)	(1,041)	(1,286)	690.1%	0.0%	-31.9%	23.6%
Profit before tax	38,387	46,116	45,801	53,551	69,542	20.1%	-0.7%	16.9%	29.9%
Income tax expense	(15,888)	(20,686)	(21,062)	(19,325)	(25,095)				
Profit for the year	22,499	25,430	24,739	34,227	44,447	13.0%	-2.7%	38.3%	29.9%
Profit for the year attributable to:									
<b>Net profit</b>	19,501	23,038	22,347	31,835	42,055	18.1%	-3.0%	42.5%	32.1%
<b>Core net profit</b>	15,878	18,537	22,347	31,835	42,055	16.7%	20.6%	42.5%	32.1%
Non-controlling interests	2,998	2,392	2,392	2,392	2,392				
Dividends	4,879	6,702	6,501	9,261	12,235				
<b>EPS - basic</b>	2.81	3.32	3.22	4.59	6.07				
<b>EPS-underlying</b>	2.29	2.67	3.22	4.59	6.07				
<b>DPS - basic</b>	0.70	0.97	0.94	1.34	1.77				
<b>NAV per share</b>	16.80	20.64	23.87	28.46	34.53				
<b>Key Ratios, HKD mn</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>				
GPM	33.7%	40.3%	38.3%	35.5%	34.0%				
NPM	20.6%	21.4%	17.0%	18.6%	18.0%				
Core NPM	17.3%	17.6%	17.0%	18.6%	18.0%				
ROA	4.6%	4.0%	3.4%	4.2%	4.9%				
ROCE	8.9%	7.7%	7.3%	9.4%	11.2%				
ROE	16.3%	16.1%	16.0%	18.9%	20.4%				
Total Debt / EBITDA	2.1x	2.7x	2.3x	1.9x	1.4x				
Total Debt / Equity	57.3%	73.2%	56.3%	46.0%	36.7%				
Total Debt / Capitalization	36.4%	42.3%	36.0%	31.5%	26.8%				
Net Debt / EBITDA	0.9x	1.3x	-0.2x	-1.3x	-2.5x				
Net Debt / Equity	23.8%	35.9%	-4.8%	-30.0%	-64.4%				
Net Debt / Capitalization	15.1%	20.7%	-3.1%	-20.6%	-47.1%				
Current Ratio	146.0%	139.3%	136.7%	136.6%	146.1%				
Cash / Total Assets	10.9%	11.2%	18.2%	23.1%	32.7%				
Inventory / Total Assets	46.0%	46.7%	45.0%	44.8%	38.7%				
Net debt / Net Inventory	16.8%	23.1%	-3.2%	-20.4%	-53.7%				
Quick Ratio	123.1%	116.9%	102.9%	95.5%	86.1%				
Cash Ratio	22.9%	22.4%	33.8%	41.0%	60.0%				
Interest Coverage	8.3x	8.5x	8.4x	12.0x	13.1x				

Source: Company data, AMTD Equity Research

Figure 3: Balance sheet forecast &amp; Cash flow forecast

Balance Sheet, HKD mn	2016	2,017	2018e	2019e	2020e
<b>Non-current assets</b>	<b>129,100</b>	<b>174,928</b>	<b>174,415</b>	<b>174,415</b>	<b>174,415</b>
<b>Current assets</b>	<b>297,944</b>	<b>399,638</b>	<b>486,415</b>	<b>585,424</b>	<b>679,265</b>
Properties held under development and held for sale	195,663	267,360	296,317	339,338	329,759
Bank balances and cash	46,674	64,323	120,374	175,878	278,814
Others	55,608	67,955	69,724	70,208	70,692
<b>Current liabilities</b>	<b>204,108</b>	<b>286,835</b>	<b>355,722</b>	<b>428,684</b>	<b>464,972</b>
Short-term borrowings	105,663	142,806	219,987	289,250	343,864
Deposits received on sale of properties	11,988	30,694	22,400	26,100	7,774
Others	86,457	113,335	113,335	113,335	113,335
<b>Non-current liabilities</b>	<b>83,778</b>	<b>115,308</b>	<b>107,946</b>	<b>99,766</b>	<b>112,872</b>
Borrowings	67,763	95,583	88,527	80,347	93,453
Others	16,015	19,726	19,419	19,419	19,419
Equity attributable to owners of the Company	<b>139,159</b>	<b>172,423</b>	<b>197,162</b>	<b>231,389</b>	<b>275,836</b>
Perpetual capital instruments	116,438	143,087	165,435	197,269	239,324
Non-controlling interests	22,721	29,335	31,727	34,119	36,511
Cash Flow Statement, HKD mn	2016	2017e	2018e	2019e	2020e
<b>Profit before income tax</b>	<b>38,387</b>	<b>46,116</b>	<b>45,801</b>	<b>53,551</b>	<b>69,542</b>
Operating cash flows before movements in working capital	31,790	47,159	46,844	54,107	70,344
Increase in properties for sale	(7,822)	(71,698)	(28,957)	(43,021)	9,579
Increase in advances received from pre-sales of properties	15,455	37,143	77,181	69,263	54,614
Cash (used in) from operations	31,024	6,394	95,068	80,350	134,538
PRC Income tax paid	(15,532)	(20,686)	(21,062)	(19,325)	(25,095)
<b>Net cash (used in) from operating activities</b>	<b>15,491</b>	<b>(14,291)</b>	<b>74,006</b>	<b>61,025</b>	<b>109,443</b>
<b>Net cash used in investing activities</b>	<b>(8,957)</b>	<b>(13,103)</b>	<b>(2,605)</b>	<b>(1,041)</b>	<b>(1,286)</b>
Financing activities					
<b>Net proceeds from borrowings</b>	<b>7,873</b>	<b>46,526</b>	<b>(15,350)</b>	<b>(4,480)</b>	<b>(5,220)</b>
<b>Net cash from (used in) financing activities</b>	<b>(4,146)</b>	<b>46,526</b>	<b>(15,350)</b>	<b>(4,480)</b>	<b>(5,220)</b>
<b>Net increase in cash and cash equivalents</b>	<b>2,389</b>	<b>19,131</b>	<b>56,051</b>	<b>55,504</b>	<b>102,936</b>
Effect of foreign exchange rate changes	(2,940)	-	-	-	-
Cash and cash equivalents at beginning of the year	45,742	45,191	64,323	120,374	175,878
<b>Cash and cash equivalents at end of the year</b>	<b>45,191</b>	<b>64,323</b>	<b>120,374</b>	<b>175,878</b>	<b>278,814</b>

Source: Company data, AMTD Equity Research

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<b>Sell</b>	Stock with potential loss of over 20% over the next 12 months

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### AMTD Global Markets Limited

**Address:** 23/F & 25/F, Nexxus Building, No. 41 Connaught Road Central, Central, Hong Kong  
**Tel:** (852) 3163-3288 **Fax:** (852) 3163-3289

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