



Rating
Buy

Asia
China

Property

Company
**China Resources
Land**

Reuters 1109.HK	Bloomberg 1109 HK	Exchange HKG	Ticker 1109
ADR Ticker CRBJY	ISIN US16942S1050		

Date
23 March 2015

Results

Price at 23 Mar 2015 (HKD)	21.00
Price target - 12mth (HKD)	26.50
52-week range (HKD)	22.95 - 13.72
HANG SENG INDEX	24,375

Tony Tsang Research Analyst (+852) 2203 6256 tony.tsang@db.com	Jason Ching, CFA Research Analyst (+852) 2203 6205 jason.ching@db.com
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FY14 results beat; better balance between growth and risks

Reiterating Buy, raising TP to HK\$26.50; solid FY14 results

CR Land's FY14 core net profit was 5% better than our expectation, and both its gross margin from property sales and its dividends were higher than expected. In the results, we also did not see any major negative issues on inventory, accounts receivables, net gearing, investment property revaluations, or interest capitalization. While CR Land's future growth will likely continue to moderate, given the latest China macro and property market dynamics, we still expect 18% CAGR over 2015-2017, reasonably fast in our view, given CR Land's better risk profile vs. the private developers. And with more expected policy easing by the government, we see more positive catalysts ahead.

FY14 core net profit up 25% YoY to HK\$11.8bn, DPS up 13.3% YoY

CR Land's core net profit was 5% better than our expectation, mainly on the back of higher sales booking. Gross margin from property sales was 29.1%, up versus the 26.1% in 2013 and better than our 28% forecast. However, LAT of HK\$4.2bn was higher than our forecast, and hence FY14 core net profit margin was in line with our expectation at 13.4%, and up only slightly versus 13.2% in 2013. According to the management, the higher gross margin was due to a higher % of booking from Tier-1/2 cities and also enhanced product offerings in Tier-3/4 cities, but we also believe that was partly due to the provisions made in FY13. A final DPS of HK\$0.41 was declared, bringing the full-year DPS to HK\$0.495, up 13.3% YoY – better than expected. Financial positions remained strong, with net gearing of 46% and 6.6x EBITDA/gross interest.

Things to monitor: land acquisitions, negative cashflow, slower rental growth

While we are positive on CR Land, we need to closely monitor: 1) its relatively aggressive land acquisitions (especially in Tier-1 cities) in 2014 and 2015, which could lead to resumed margin pressure; 2) budgeted negative cash flow of RMB12bn for 2015 (negative RMB8bn in FY14); 3) rental income growth post-2017 (given slowed/negative growths for mature malls, slower growth in new GFA, a higher % of new malls from lower-tier cities opening in the future).

Attractive valuations at 41% NAV discount and 8.9x 2015E P/E

Our HK\$26.50 TP is based on a 25% discount to our est. NAV of HK\$35.33, up from HK\$34.57, mainly as we adjust for CR Land's FY14 results. We expect more policy easing from the government in the next two months, which should also boost sentiment for CR Land. Risks: unexpected economic and policy volatility, unexpected weak response to policy easing by the government.

Forecasts And Ratios

Year End Dec 31	2013A	2014A	2015E	2016E	2017E
Sales (HKDm)	71,388.7	88,381.3	95,793.9	99,862.3	104,002.4
EBITDA (HKDm)	16,913.0	23,007.0	24,818.8	24,369.4	30,786.5
Reported NPAT (HKDm)	14,355.4	14,708.5	15,214.9	15,869.6	19,389.3
DB EPS FD (HKD)	1.62	2.02	2.33	2.43	2.97
DB EPS growth (%)	-	25.0	15.2	4.3	22.2
PER (x)	13.5	8.5	9.0	8.6	7.1
Yield (net) (%)	2.0	2.9	2.6	2.8	3.1

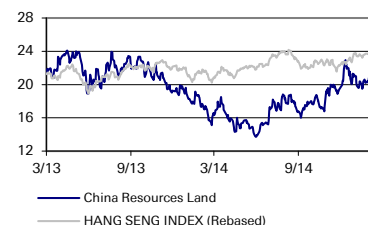
Source: Deutsche Bank estimates, company data

Key changes

Price target	25.94 to 26.50	↑	2.2%
Sales (FYE)	86,863 to 95,794	↑	10.3%
Op prof margin (FYE)	25.4 to 25.9	↑	2.1%
Net profit (FYE)	14,949.5 to 15,214.9	↑	1.8%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	2.7	8.0	30.4
HANG SENG INDEX	-1.9	4.5	13.7

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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Model updated: 23 March 2015

Fiscal year end 31-Dec

2013 2014 2015E 2016E 2017E

Running the numbers

Asia
China
Property

China Resources Land

Reuters: 1109.HK Bloomberg: 1109.HK

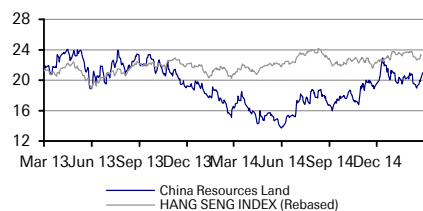
Buy

Price (23 Mar 15) HKD 21.00
Target Price HKD 26.50
52 Week range HKD 13.72 - 22.95
Market Cap (m) HKDm 122,338
USDm 15,770

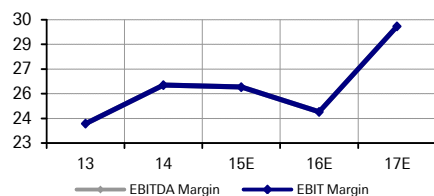
Company Profile

Develops and manages real estate property in China

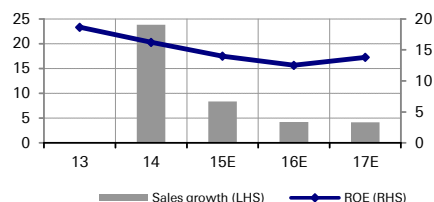
Price Performance



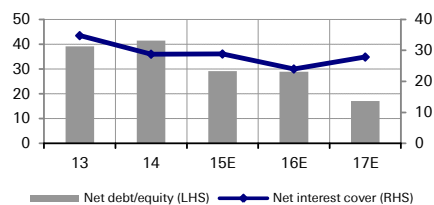
Margin Trends



Growth & Profitability



Solvency



Financial Summary

DB EPS (HKD)	1.62	2.02	2.33	2.43	2.97
Reported EPS (HKD)	2.46	2.52	2.33	2.43	2.97
DPS (HKD)	0.44	0.50	0.55	0.60	0.65
BVPS (HKD)	14.5	16.6	18.5	20.3	22.6
Weighted average shares (m)	5,829	5,831	6,472	6,531	6,531
Average market cap (HKDm)	127,275	100,591	122,338	122,338	122,338
Enterprise value (HKDm)	169,241	150,641	167,014	170,710	155,496

Valuation Metrics

P/E (DB) (x)	13.5	8.5	9.0	8.6	7.1
P/E (Reported) (x)	8.9	6.8	9.0	8.6	7.1
P/BV (x)	1.32	1.23	1.14	1.03	0.93
FCF Yield (%)	5.8	nm	3.9	0.4	13.7
Dividend Yield (%)	2.0	2.9	2.6	2.8	3.1
EV/Sales (x)	2.4	1.7	1.7	1.7	1.5
EV/EBITDA (x)	10.0	6.5	6.7	7.0	5.1
EV/EBIT (x)	10.0	6.5	6.7	7.0	5.1

Income Statement (HKDm)

Sales revenue	71,389	88,381	95,794	99,862	104,002
Gross profit	23,746	31,336	33,993	33,950	40,831
EBITDA	16,913	23,007	24,819	24,369	30,786
Depreciation	0	0	0	0	0
Amortisation	0	0	0	0	0
EBIT	16,913	23,007	24,819	24,369	30,786
Net interest income/(expense)	-486	-799	-860	-1,015	-1,105
Associates/affiliates	310	58	0	269	1,301
Exceptionals/extraordinary	7,201	4,520	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0
Profit before tax	23,938	26,786	23,958	23,623	30,983
Income tax expense	9,091	10,745	8,188	7,176	11,249
Minorities	491	1,332	556	578	344
Other post-tax income/(expense)	0	0	0	0	0
Net profit	14,355	14,708	15,215	15,870	19,389
DB adjustments (including dilution)	-4,912	-2,906	0	0	0
DB Net profit	9,444	11,802	15,215	15,870	19,389

Cash Flow (HKDm)

Cash flow from operations	16,577	8,671	35,421	25,451	28,828
Net Capex	-9,251	-21,465	-30,065	-24,885	-10,000
Free cash flow	7,326	-12,795	5,356	567	18,828
Equity raised/(bought back)	496	0	12,610	0	0
Dividends paid	-2,016	-2,886	-3,592	-3,886	-4,245
Net inc/(dec) in borrowings	11,480	19,833	1,500	2,100	3,100
Other investing/financing cash flows	-5,093	9,543	-8,444	0	0
Net cash flow	12,193	13,695	7,430	-1,219	17,683
Change in working capital	7,467	-6,780	24,379	11,669	9,060

Balance Sheet (HKDm)

Cash and other liquid assets	28,239	40,289	47,720	46,500	64,183
Tangible fixed assets	65,493	82,210	112,275	137,160	147,160
Goodwill/intangible assets	1,834	1,974	1,974	1,974	1,974
Associates/investments	3,481	4,954	4,954	5,156	6,131
Other assets	182,710	200,487	199,231	186,462	186,287
Total assets	281,757	329,915	366,153	377,252	405,735
Interest bearing debt	64,901	84,734	86,234	88,334	91,434
Other liabilities	123,269	137,047	146,997	143,434	153,329
Total liabilities	188,170	221,781	233,231	231,768	244,763
Shareholders' equity	84,802	96,561	120,793	132,777	147,921
Minorities	8,785	10,560	11,116	11,694	12,038
Total shareholders' equity	93,587	107,121	131,909	144,470	159,959
Net debt	36,662	44,445	38,515	41,834	27,261

Key Company Metrics

Sales growth (%)	nm	23.8	8.4	4.2	4.1
DB EPS growth (%)	na	25.0	15.2	4.3	22.2
EBITDA Margin (%)	23.7	26.0	25.9	24.4	29.6
EBIT Margin (%)	23.7	26.0	25.9	24.4	29.6
Payout ratio (%)	17.7	19.6	23.4	24.5	21.9
ROE (%)	18.7	16.2	14.0	12.5	13.8
Capex/sales (%)	13.0	24.3	31.4	24.9	9.6
Capex/depreciation (x)	nm	nm	nm	nm	nm
Net debt/equity (%)	39.2	41.5	29.2	29.0	17.0
Net interest cover (x)	34.8	28.8	28.8	24.0	27.9

Source: Company data, Deutsche Bank estimates

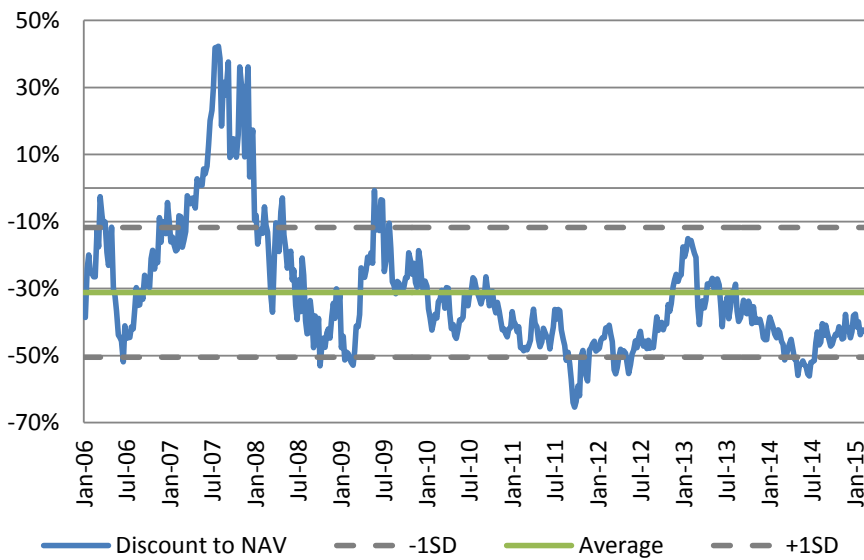


Good FY14 results with no major negative surprises

Attractive valuations at 41% NAV discount

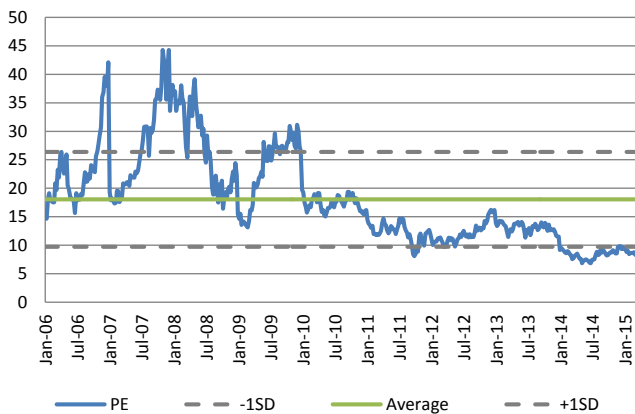
CR Land trades at a 41% NAV discount and 8.9x 2015E P/E – both well below historical average, and is one of the most attractive companies among the big-cap Chinese developers, in our view.

Figure 1: Historical discount to NAV



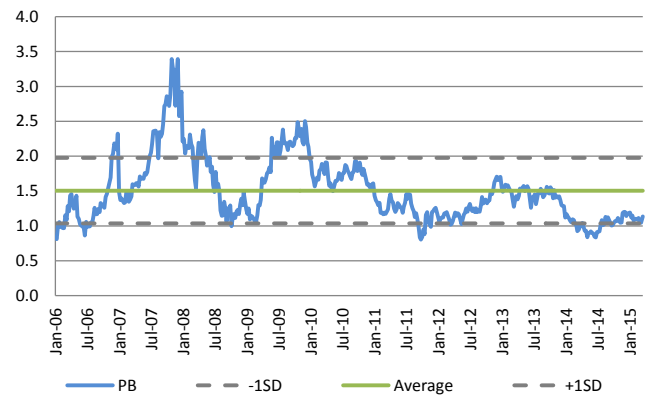
Source: Bloomberg Finance LP; Deutsche Bank

Figure 2: Historical P/E



Source: Bloomberg Finance LP; Deutsche Bank

Figure 3: Historical P/B



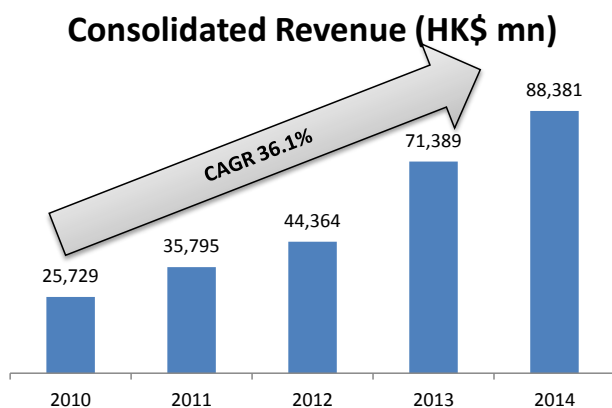
Source: Bloomberg Finance LP; Deutsche Bank



Reiterating Buy, raising TP to HK\$26.50

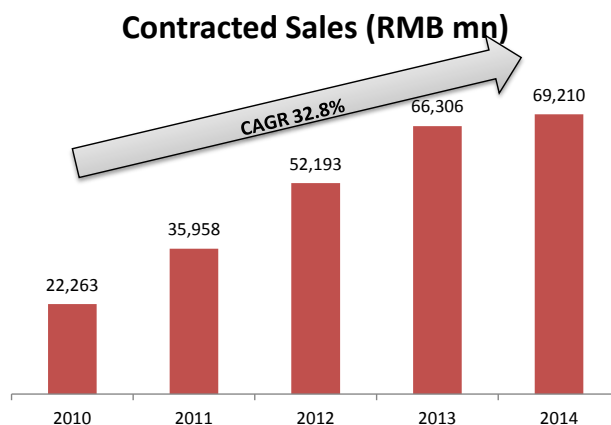
CR Land's FY14 core net profit was 5% better than our expectation, and its gross margin from property sales and dividends were higher than expected. In the results, we also did not see any major negative issues on inventory, accounts receivables, net gearing, investment properties revaluations, or interest capitalization. While CR Land's future growth will likely continue to moderate, given the latest China macro and property market dynamics, we still expect 18% CAGR over 2015-2017E, reasonably fast, in our view, given CR Land's better risks profile vs. the private developers. And, with more expected policy easing by the government, we see more positive catalysts ahead.

Figure 4: CR-Land – Consolidated Revenue (HK\$ mn)



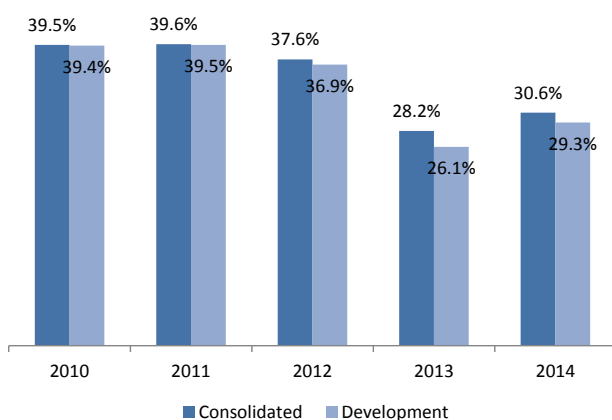
Source: Company, Deutsche Bank

Figure 5: CR Land – Contracted Sales (RMB mn)



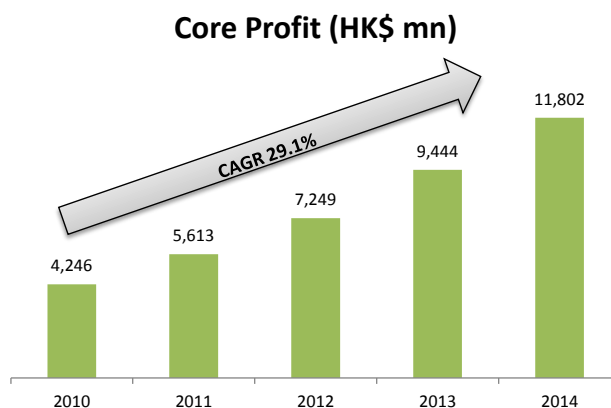
Source: Company, Deutsche Bank

Figure 6: CR Land – Gross profit margin



Source: Company, Deutsche Bank

Figure 7: CR Land – Core Profit (HK\$ mn)



Source: Company, Deutsche Bank



Figure 8: CR Land – FY14 all-in-one

HK\$ mn	Value				YoY Change		
	FY11	FY12	FY13	FY14	FY12	FY13	FY14
Key Items							
Core Net Profit	5,616.6	7,249.0	9,443.8	11,802.0	29%	30%	25%
Core EPS	1.03	1.25	1.62	2.02	21%	30%	25%
Gross Margin	39.6%	37.6%	28.2%	30.6%	-5%	-25%	9%
Core Net Margin	23.4%	24.1%	20.6%	13.4%	3%	-15%	-35%
Reported Net Profit	8,384.0	10,568.6	14,696.0	14,708.5	26%	39%	0%
Reported Net Margin	15.7%	16.6%	13.2%	16.6%	6%	-20%	26%
Net Gearing	75%	45%	43%	46%	-40%	-3%	6%
DPS	0.26	0.34	0.44	0.50	29%	30%	13%
Net Book Value Per Share	10.35	11.86	14.55	16.55	15%	23%	14%
P&L							
Total Revenue	35,794.8	43,789.4	71,388.7	88,381.3	22%	63%	24%
Property Sales Revenue	31,300.7	38,521.8	64,817.6	80,482.1	23%	68%	24%
Gross Rental Income	2,624.7	2,984.4	3,857.3	4,626.8	14%	29%	20%
Hotel	N/A	N/A	661.6	809.5	N/A	N/A	22%
EBIT							
Property Sales	10,305.5	12,096.4	14,682.3	20,605.5	17%	21%	40%
Property Rental	1,099.8	1,443.7	2,016.2	2,161.7	31%	40%	7%
Hotel	(9.6)	(3.8)	(93.4)	(157.8)	-60%	2334%	69%
EBIT Margin							
Property Sales	33%	31%	23%	26%	-5%	-28%	13%
Property Rental	42%	48%	52%	47%	15%	8%	-11%
Hotel	N/A	N/A	-14%	-19%	N/A	N/A	38%
Expenses							
Selling & marketing expenses	1545.9	1,901.7	2,106.4	2,958.6	23%	11%	40%
Administrative expenses	2104.8	1,809.1	1,820.2	2,183.4	-14%	1%	20%
Selling & marketing expenses as a % of Total Revenue	4%	4%	3%	3%	1%	-32%	13%
Administrative expenses as a % of Total Revenue	6%	4%	3%	2%	-30%	-38%	-3%
SG&A as a % of Total Revenue	10%	8%	6%	6%	-17%	-35%	6%
Accounting policy check							
Gross interest expenses	1,397.5	2,837.6	2,945.1	3,426.8	103%	4%	16%
Capitalized interests	1,012.8	2,168.0	2,799.3	2,658.2	114%	29%	-5%
% of interests capitalized	72%	76%	95%	78%	5%	24%	-18%
Capitalized interests as a % of core net profit	18%	30%	30%	23%	66%	-1%	-24%
Investment properties revaluation gains	3,240.1	4,001.0	7,168.2	4,520.4	23%	79%	-37%
IP revaluation gains as a % of last-year-end investment properties value	15%	14%	16%	8%	-8%	20%	-53%
Gross rental income as a % of latest investment properties value	9%	7%	6%	6%	-24%	-4%	-5%

Source: Company, Deutsche Bank



Figure 9: CR Land – Operational highlights

HK\$ mn	FY11	FY12	% YoY Growth	FY13	% YoY Growth	FY14	% YoY Growth
Operational metrics							
Property sales and rental							
Delivery GFA (sqm)	2,200,000	2,600,000	18%	5,000,000	92%	5,792,038	16%
Delivery ASP (RMB psm)	14,228	14,816	4%	12,964	-13%	13,895	7%
Rental income (RMB mn)	2,792	3,628	30%	4,622	27%	5,436	18%
IP leaseable area (sqm)	1,018,730	1,920,170	88%	1,999,613	4%	2,983,273	49%
New GFA acquired (sqm)	9,415,946	4,331,468	-54%	7,611,781	76%	8,423,796	11%
Total acquisition cost (RMBmn)	19,636	7,602	-61%	32,089	322%	30,156	-6%
Average unit land cost (RMBpsm)	2,085	1,755	-16%	4,216	140%	3,580	-15%
Contracted sales (RMBmn)	35,958	52,200	45%	66,300	27%	69,220	4%
Contracted GFA (sqm)	2,977,586	4,730,000	59%	5,782,000	22%	6,601,000	14%
Contracted ASP (RMB psm)	12,076	11,036	-9%	11,467	4%	10,486	-9%
Sell-through rate	50%	60%	NA	70%	NA	49%	NA
Saleable resources (RMBmn)	72,000	87,000	21%	95,000	9%	140,000	47%
Total gross debt (RMBmn)	61,984	52,903	-15%	64,901	23%	86,064	33%
Total cash balance (Rmb mn)	15,368	21,953	43%	28,239	29%	40,289	43%
Net gearing (%)	75%	45%	NA	43%	NA	46%	NA
Debt maturity:							
Less than 12 months	22,073	5,283	-76%	16,256	208%	19,218	18%
Between 1-2 years	4,131	11,629	181%	22,974	98%	23,122	1%
Between 2-5 years	32,005	33,716	5%	23,403	-31%	22,368	-4%
More than 5 years	3,774	2,274	-40%	2,267	0%	21,356	842%
Rmb as % of total debt	41%	27%	NA	31%	NA	36%	NA
USD as % of total debt	59%	73%	NA	69%	NA	64%	NA
Average borrowing interest rate	3.62%	3.77%	NA	3.76%	NA	4.47%	NA
Cashflow Analysis							
Inflow							
Sales proceeds	30,000	50,500	68%	64,000	27%	64,000	0%
Rental income	2,620	3,720	42%	1,800	-52%	4,100	128%
Outflow							
Land premium	(19,600)	(10,700)	-45%	(13,000)	21%	(30,600)	135%
Construction capex	(17,300)	(22,000)	27%	(36,300)	65%	(24,400)	-33%
SG&A	(3,700)	(4,400)	19%	(4,300)	-2%	(5,400)	26%
Interest expenses	(1,700)	(4,400)	159%	(1,800)	-59%	(2,400)	33%
Taxation	(3,000)	(4,400)	47%	(9,300)	111%	(11,000)	18%
Others	(1,700)	(1,500)	-12%	(1,600)	7%	(2,100)	31%

Source: Company, Deutsche Bank



FY14 core net profit up 25% YoY to HK\$11.8bn, DPS up 13.3% YoY

CR Land's core net profit was 5% better than our expectations, mainly on the back of higher sales booking.

Gross margin from property sales was 29.1%, up versus 26.1% in 2013 and better than our 28% forecast. However, LAT of HK\$4.2bn was higher than our forecast, and hence FY14 core net profit margin was in line with our expectations at 13.4%, and up only slightly versus 13.2% in 2013. According to the management, the higher gross margin was due to a higher % of booking from Tier-1/2 cities and also enhanced product offerings in Tier-3/4 cities, but we also believe that was partly due to provisions made in FY13.

Figure 10: CR Land – FY14 at a glance

Year Ended 31 Dec (HK\$ mn)	2013	2014	Change
Revenue	71,389	88,381	23.8%
Development	64,818	80,482	24.2%
Investment Property	4,622	5,436	17.6%
Gross Profit	20,107	27,044	34.5%
Development	16,896	23,575	39.5%
Investment Property	2,995	3,364	12.3%
Gross Profit Margin	28.20%	30.60%	+2.4pt
Development	26.10%	29.30%	+3.2pt
Investment Property	64.80%	61.90%	-2.7pt
IP *(excluding hotel)	73.70%	71.50%	-2.2pt
Attributable Net Profit	14,696	14,708	0.1%
Core Profit	9,444	11,802	25.0%
Core Profit Margin	13.20%	13.40%	+0.2pt
Net Profit Margin	20.60%	16.60%	-4.0pt
EPS - Basic (HK cents) *	252.1	252.2	0.0%
EPS - Fully Diluted (HK cents) *	251.8	252	0.1%
DPS (HK cents) *	43.7	49.5	13.3%

Source: Company

Not: EPS based on number of shares as of 31 Dec 2014, final DPS of 41 HK cents based on number of shares as of 23 Mar 2015

A final DPS of HK\$0.41 was declared, bringing the full-year DPS to HK\$0.495, up 13.3% YoY – better than expected.

Figure 11: CR Land – balance sheet highlights

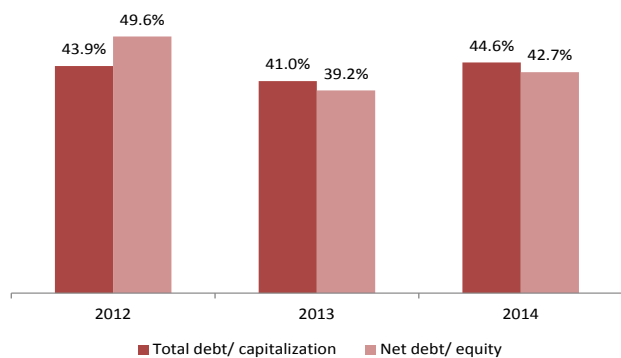
(HK\$ mn)	31-Dec-13	31-Dec-14	Change
Cash and cash equivalents	28,239	40,289	42.7%
Total debt	64,901	86,064	32.6%
Net debt	36,662	45,775	24.9%
Total equity	93,587	107,121	14.5%
Total capitalization	158,488	193,185	21.9%
Total debt/ capitalization	41.00%	44.60%	+3.6pt
EBITDA/ Gross Interest	7.2x	6.6x	-0.6x
Total debt/ EBITDA	4.0x	3.8x	-0.2x
Net debt/ equity	39.20%	42.70%	+3.5pt

Source: Company



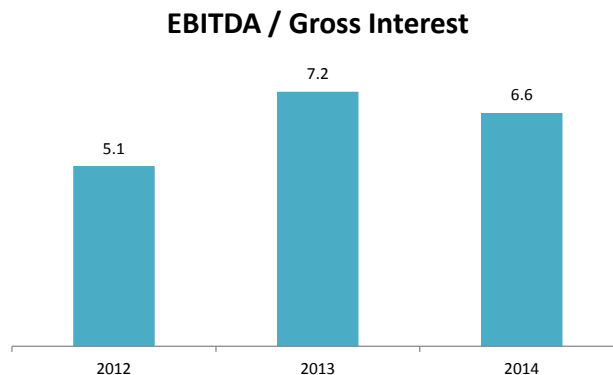
Financial positions remained strong, with net gearing of 46% and 6.6x EBITDA/Gross Interest. Average borrowing costs went up to 4.47% in FY14 but remained slower than the industry average.

Figure 12: CR Land – debt ratios



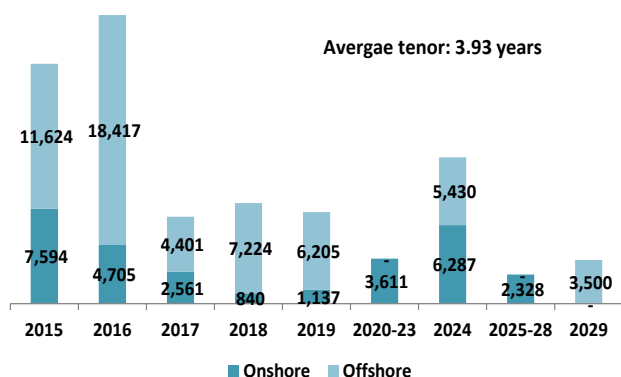
Source: Company, Deutsche Bank

Figure 13: CR Land – EBITDA / gross interest



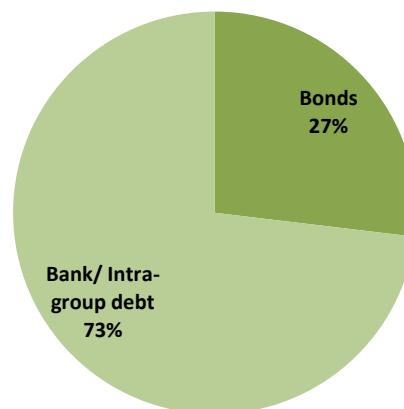
Source: Company, Deutsche Bank

Figure 14: CR Land – Debt Maturity Profile (HK\$ mn)



Source: Company, Deutsche Bank

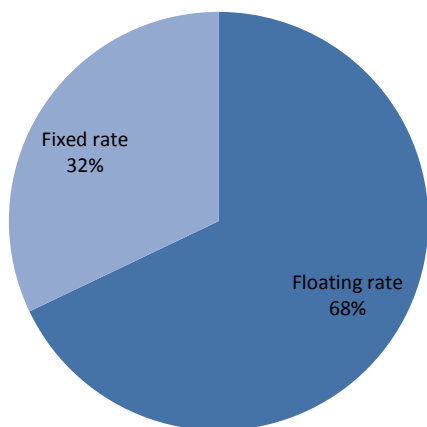
Figure 15: CR Land – Debt Composition



Source: Company, Deutsche Bank

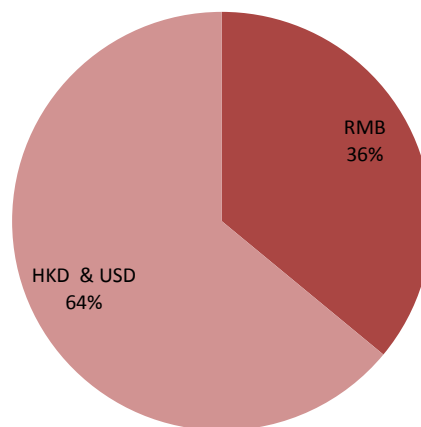


Figure 16: CR Land – Loan Breakdown: Fixed/Floating Rate



Source: Company, Deutsche Bank

Figure 17: CR Land – Loan Breakdown by Currency



Source: Company, Deutsche Bank

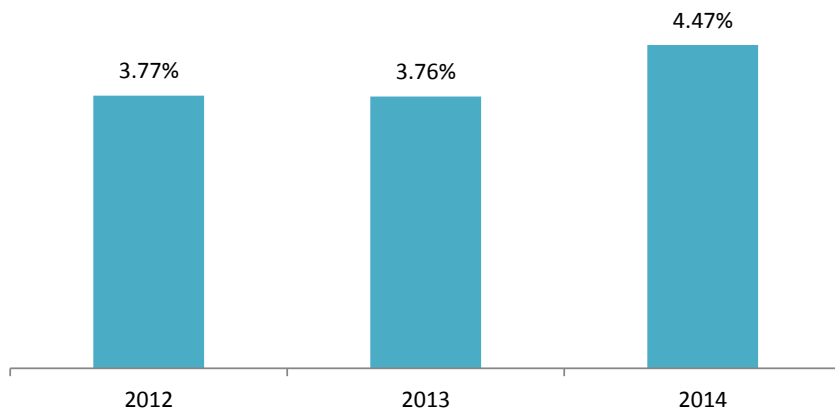
Figure 18: CR Land – Finance Costs (HK\$ mn)

	2013	2014	YoY change
Total Interest	2,289.40	3,427.00	49.70%
Less: Capitalisation	-1,803.10	-2,658.20	47.40%
Exchange loss/ (gain)	-340.6	30.3	
Finance Costs on P/L	145.8	799.1	448.20%
Weighted Average Funding Cost	3.76%	4.47%	0.71pt

Source: Company

Figure 19: CR Land – Average Funding Cost

Average Funding Cost



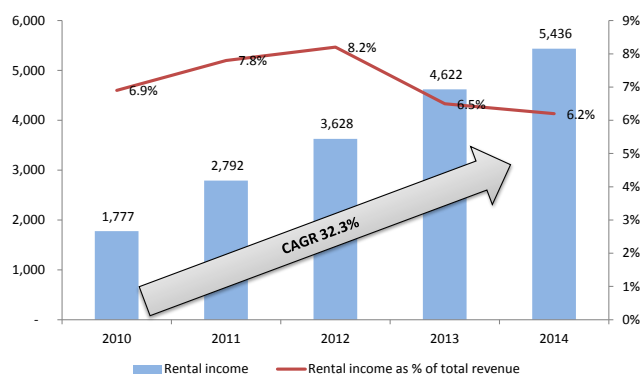
Source: Company



Things to monitor: land acquisitions, negative cashflow, and slower rental growth

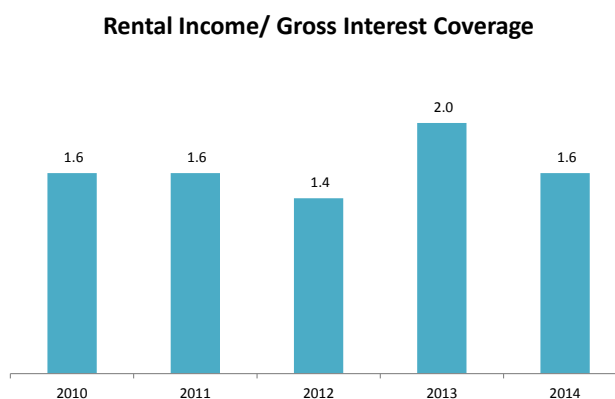
While we are positive on CR Land, we need to closely monitor: 1) its relatively aggressive land acquisitions (especially in Tier-1 cities) in 2014 and 2015, which could lead to resumed margin pressure; 2) budgeted negative cashflow of RMB12bn for 2015 (negative RMB8bn in FY14); 3) rental income growth post-2017 (given slowed/negative growths for mature malls, slower growth in new GFA, a higher % of new malls from lower-tier cities opening in the future).

Figure 20: CR Land – Rental Income (HK\$ mn)



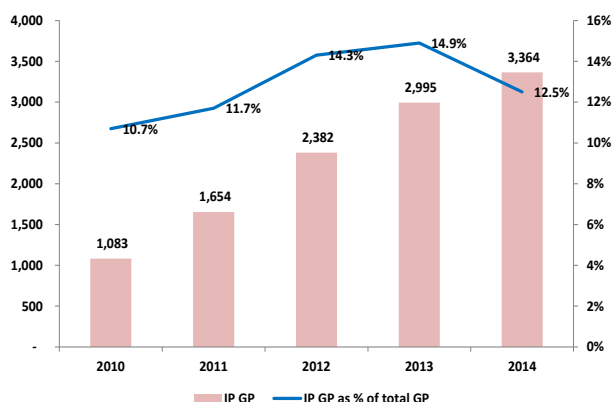
Source: Company, Deutsche Bank

Figure 21: CR Land – Rental Income/ Gross Interest Coverage



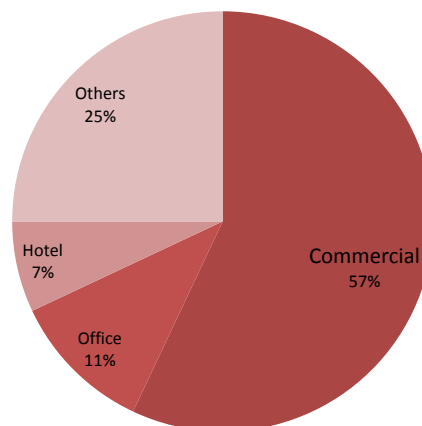
Source: Company, Deutsche Bank

Figure 22: CR Land – IP Gross Profit (HK\$ mn)



Source: Company, Deutsche Bank

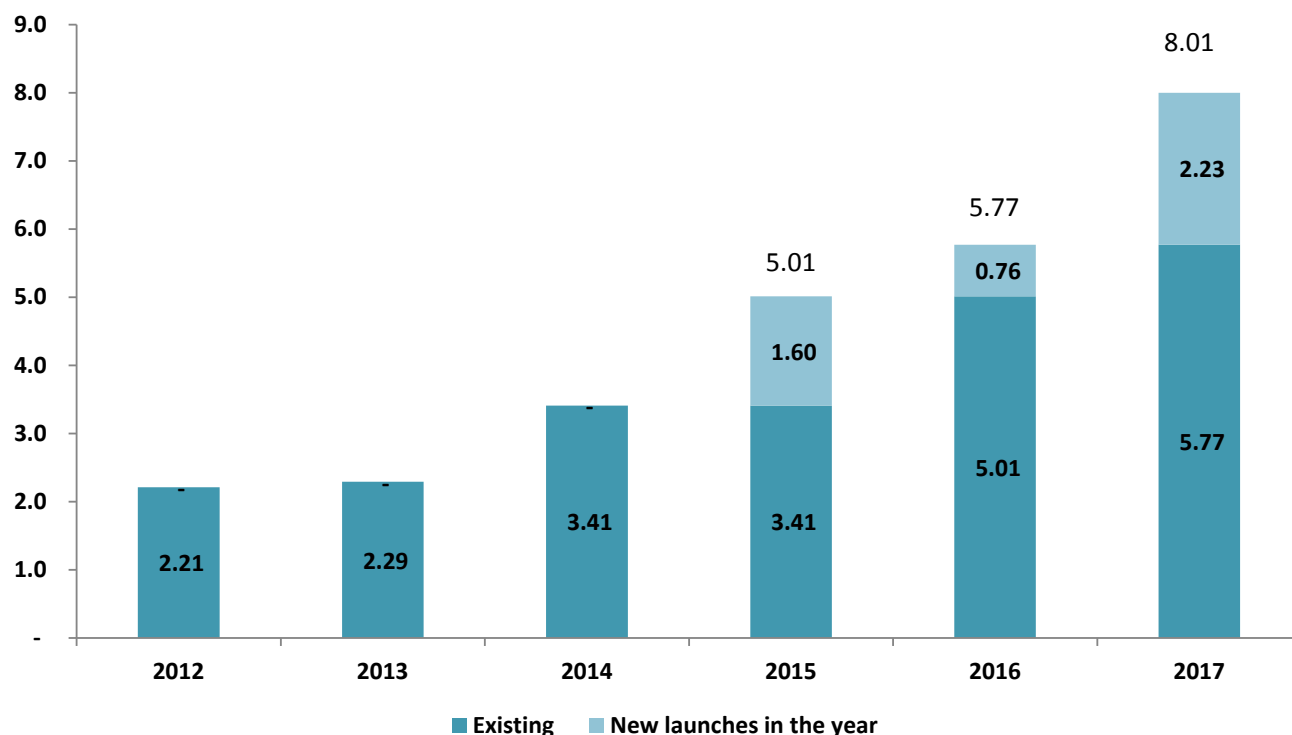
Figure 23: CR Land – GFA Breakdown by Product



Source: Company, Deutsche Bank



Figure 24: CR Land – Operational Investment Property GFA (mn sqm)



Source: Company

Figure 25: CR Land – Launch Schedule for IP in 2015-2017

Project	Operation	GFA (sqm)	GLA (sqm)
Qingdao Mixc	2015	421,145	164,255
Zibo Mixc One	2015	271,161	94,444
Ganzhou Mixc	2015	216,833	92,734
Hefei Mixc	2015	329,400	108,000
Shenyang Mixc One	2015	291,449	85,163
Changsha Mixc One	2015	68,329	36,020
Total rental area to be added in 2015		1,598,317	580,616
Rizhao Mixc One	2016	144,449	58,768
Wenzhou Mixc	2016	239,424	81,866
Shanghai Mixc	2016	268,318	104,000
Huizhou Xiaojing Bay Hotel	2016	67,000	N/A
Zibo Hotel	2016	42,946	N/A
Total rental area to be added in 2016		762,137	244,634
Xian Mixc One	2017	236,650	63,675
Taiyuan Mixc	2017	326,541	120,140
Nantong Mixc	2017	279,399	76,003
Chengdu Mixc Ph.2	2017	291,090	102,121
Hangzhou Mixc One	2017	198,165	TBC
Shenzhen Mixc World	2017	274,220	142,935
Beijing Miyun Mixc One	2017	160,696	77,846
Kunshan Mixc One	2017	142,997	54,142
Xiamen Mixc	2017	277,900	90,000



Hangzhou Hotel	2017	46,030	N/A
Total rental area to be added in 2017		2,233,688	726,862
Grand total		4,594,142	1,552,112

Source: Company, Deutsche Bank

More supportive measures on the property market likely in the near-term

As reported in local media (People.cn); the Ministry of Housing & Urban-rural Development (MoHURD) is working on a new policy document to stabilize housing consumption. The two key new measures would be: 1) lowering the downpayment requirements for Housing Provident Fund (HPF) purchase to 20%, and 2) lowering downpayment requirement and mortgage interest rates for 2nd time purchases. This new policy document will likely be announced soon. In our view, these measures could briefly boost market sentiment, but to see a powerful impact on the property market, we need to see faster PBOC rate cuts and larger mortgage rate discounts for mortgages.

In addition to the latest work by MoHURD, recently, more individual local governments in various provinces and cities (like Beijing, Guangzhou, Fujian, Jinan, Ningbo, Guizhou, Guangxi, and Xinjiang) have also come out with additional policy relaxations on the property market, and those additional measures were mainly on 1) relaxations of HPF home purchases (like downpayment and mortgage rates); and 2) purchases of existing commodity residential housing to serve as social housing.

Figure 26: China Property – recent additional policy easing by selected local governments

Date	City	Details
2-Mar-15	Shinjang Uyghur Aptonom Rayoni (Xinjiang)	Government to subsidised the deed tax value exceed 1% to primary market buyers 70% of benchmark rate will be applied as the lower limit for first home mortgages Those who has fully repaid their existing mortgage, the newly applied mortgage will be treated as first mortgage
3-Mar-15	Qinghai	Applicant can apply for HPF mortgage after 6 consecutive months of contribution Downpayment ratio will be lowered to 20% Children of whom have contributed to HPF are also eligible to use mortgage
6-Mar-15	Fuzhou	Proposed to use commodity housings as social housing for relocation of the demolished sites Purchase price by the government of the commodity housing will be over 15% discount from the estimated market value Details are still under study
9-Mar-15	Beijing	Consecutive time period for HPF contribution to be eligible HPF borrower has been shortened from 12months to 6 months Maximum HPF loan amount for first self-use commodity house is set at RMB1.2mn.
17-Mar-15	Jinan	30% down payment ratio for units with GFA over 90 sqm 20% down payment ratio for units with GFA under or equals to 90 sqm A benchmark interest rate will be applied to mortgages for both cases above
18-Mar-15	Ningbo	Ningbo Government passed the guidelines on new social housing source, including financial allowance for direct housing subsidy acquiring commodity residential housing from the market for social housing use
18-Mar-15	Guizhou	Government to repurchase the commodity housing units from the market Units will be supplied in social housings and also as reallocation units for shanty town redevelopments
18-Mar-15	Guangxi	Guangxi MOHRD announced the shanty town reallocation will adopt the mode of purchasing from the market



20-Mar-15 Fujian A total of 6,300 units have been repurchased from the market in Laibin and Nanning as of 18 Mar.
Three government departments in Fujian jointly issued a notice on supporting end-use housing demand
Except villas, first home purchase of any sizes (in both primary and secondary market) will enjoy the new policy
No more house investigation for HPF applications
95% of the HPF contribution can be lent
20% downpayment ratio for first HPF mortgage
Those who has fully repaid the existing mortgage can apply for second HPF mortgage
Benchmark interest rate will be applied to both first and second HPF mortgage

Source: Hexun, JRJ.com, China Securities Daily, People.cn; Deutsche Bank

We recommend switching from private developers to state-owned developers

Overall, we expect a solid set of FY14 results for CR Land. Recently, the FY14 results of some private developers have disappointed the market, presenting uncertainties or issues on actual leverage, relatively aggressive accounting, rising inventory, falling margins, and anti-corruption risks. Hence, while we are positive on expected policy easing, we recommend being selective, and we prefer the state-owned or better-quality developers like CR Land.

Figure 27: China Property – Sharp rises in completed but unsold inventory for listed developers that have reported FY14 results

Company	RIC	Curr	End-2013	End-2014	Value Chg	% Chg
BC Land	2868.HK	RMB	4,672.39	6,432.26	1,759.87	37.7%
CCRE	0832.HK	RMB	4,367.64	5,451.73	1,084.09	24.8%
China Merchant Prop	000024.SZ	RMB	8,609.02	12,450.61	3,841.59	44.6%
China SCE	1966.HK	RMB	2,289.13	3,377.45	1,088.33	47.5%
CIFI	0884.HK	RMB	3,951.14	5,419.47	1,468.33	37.2%
Country Garden	2007.HK	RMB	18,919.82	23,203.24	4,283.41	22.6%
Gemdale	600383.SS	RMB	14,388.09	20,867.17	6,479.08	45.0%
Longfor	0960.HK	RMB	10,963.25	10,265.60	(697.65)	-6.4%
Poly-A	600048.SS	RMB	24,954.59	36,227.00	11,272.41	45.2%
R&F	2777.HK	RMB	10,992.88	17,222.12	6,229.24	56.7%
Sino-Ocean	3377.HK	RMB	12,079.65	17,213.76	5,134.11	42.5%
Total			116,187.59	158,130.41	41,942.82	36.1%

Source: Company, Deutsche Bank

Figure 28: China Property – Falling gross margins in FY14 results

Company	RIC	2013	2014	%-pt change
Aoyuan	3883.HK	30.7%	29.6%	(1.06)
BC Land	2868.HK	33.3%	29.8%	(3.42)
CCRE	0832.HK	33.5%	32.4%	(1.10)
China Merchant Property	000024.SZ	28.0%	25.0%	(3.00)
China SCE	1966.HK	27.1%	34.2%	7.13
CIFI	0884.HK	31.0%	25.4%	(5.59)
Country Garden	2007.HK	22.1%	19.0%	(3.10)
Gemdale	600383.SS	26.3%	28.5%	2.19
Longfor	0960.HK	27.0%	25.7%	(1.30)



Poly-A	600048.SS	31.3%	31.3%	0.08
R&F	2777.HK	40.7%	37.1%	(3.60)
Sino-Ocean	3377.HK	25.5%	22.4%	(3.13)
Average		29.7%	28.4%	(1.32)

Source: Company, Deutsche Bank



Financial analysis

Earnings and NAV revisions

We have adjusted up our estimated NAV for CR Land from HK\$34.12/share to HK\$35.33 and our target price from HK\$25.59 to HK\$26.50 mainly as we factored in the information from CR Land's latest reported FY14 results. For the same reasons, we have also revised up our estimated earnings for 2015 and 2016 by 3.5% and 2.2%.

Figure 29: CR Land – Income Statement (HK\$ mn)

Year Ended Dec 31	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E
Property Development	3,121	4,334	6,949	14,450	22,587	31,301	38,522	64,818	80,482	86,950	90,003	93,154
Property Investment	724	890	812	909	1,712	2,625	2,984	3,960	4,627	5,407	6,251	7,060
Property Management	92	97	319	383	352	598	736	-	-	-	-	-
Others	-	361	1,285	859	1,079	1,272	1,548	2,611	3,272	3,436	3,608	3,788
Total Revenue	3,937	5,681	9,366	16,601	25,729	35,795	43,789	71,389	88,381	95,794	99,862	104,002
Property Development	580	1,201	1,796	4,198	7,984	10,305	12,096	14,682	20,606	22,002	21,141	27,213
Property Investment	357	497	652	573	784	1,100	1,444	2,016	2,162	2,541	2,938	3,318
Property Management & Hotel Operations	-	-	-	-	(119)	(10)	(4)	(93)	(158)	(130)	(115)	(100)
Others	(71)	269	130	95	212	391	186	(16,227)	(22,147)	406	406	356
EBIT	865	1,967	2,578	4,866	8,861	11,786	13,722	378	462	24,819	24,369	30,786
Net interest income/expense	(103)	(73)	(64)	(49)	(242)	(385)	(670)	(486)	(799)	(860)	(1,015)	(1,105)
Share of results of associated cos.	12	68	97	41	48	45	414	310	58	-	269	1,301
Exceptional item	278	217	301	1,266	2,947	3,240	4,028	7,201	4,520	-	-	-
Pre-tax profit	1,052	2,178	2,912	6,125	11,615	14,687	17,495	23,938	26,786	23,958	23,623	30,983
Income Tax	(200)	(713)	(874)	(1,274)	(1,753)	(2,308)	(3,189)	(3,946)	(4,647)	(5,990)	(5,906)	(7,746)
LAT	-	-	-	-	(1,711)	(3,096)	(2,091)	(2,690)	(4,247)	(2,198)	(1,270)	(3,503)
Minority interests	7	(44)	(44)	(442)	(1,312)	(172)	(628)	(491)	(1,332)	(556)	(578)	(344)
Net profit	859	1,421	1,994	4,409	6,026	8,384	10,569	14,355	14,708	15,215	15,870	19,389
Core profit	636	1,517	1,693	2,953	4,268	5,617	7,249	9,444	11,802	15,215	15,870	19,389
Core EPS	0.20	0.42	0.39	0.60	0.84	1.02	1.24	1.62	2.02	2.33	2.43	2.97

Source: Company, Deutsche Bank Estimates



Figure 30: CR Land – Balance Sheet (HK\$ mn)

As at Dec 31	2006	2007	2008	2009	2010	2011	2012	2013	2,014	2015E	2016E	2017E
Investment properties	7,619	8,968	9,998	16,742	21,953	29,589	44,357	59,611	75,271	105,336	130,220	140,220
Deferred Taxation	369	374	399	471	482	711	431	387	427	427	427	427
Property, plant and equipment	818	3,683	2,274	2,579	3,299	4,070	4,971	5,882	6,939	6,939	6,939	6,939
Other non-current assets	-	50	632	453	3,321	8,502	1,853	4,298	3,115	3,115	3,115	3,115
Non-current Assets	8,807	13,075	13,303	20,245	29,055	42,873	51,613	70,179	85,752	115,817	140,701	150,701
Associates	734	831	996	907	968	775	2,353	2,921	4,763	4,763	4,965	5,940
Inventory	9,172	21,953	38,150	40,828	61,883	98,101	136,790	150,011	167,484	161,893	149,999	148,763
Deposits, debtors and prepayments	4,392	6,607	9,885	13,751	19,859	20,957	13,033	22,695	21,616	25,864	24,966	26,001
Cash and bank balances	3,358	4,517	5,659	19,514	11,972	15,368	21,953	28,239	40,289	47,720	46,500	64,183
Other current assets	276	502	625	1,339	1,899	2,513	2,514	7,712	10,411	10,497	10,521	10,546
Current Assets	17,198	33,579	54,318	75,432	95,614	136,938	174,290	208,657	239,800	245,973	231,986	249,493
Total Assets	26,739	47,485	68,618	96,584	125,638	180,586	228,256	281,757	330,315	366,553	377,652	406,135
Creditors and accruals	3,389	5,671	9,948	24,601	29,537	41,799	75,542	103,128	112,903	124,532	119,835	124,803
Payables	131	864	686	1,849	3,387	5,206	6,746	8,341	9,267	7,589	8,723	13,650
Short term loans	3,434	2,712	4,063	1,827	8,555	22,088	5,316	16,256	19,414	19,914	20,014	20,114
Other current liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Current liabilities	8,182	9,874	18,878	29,664	43,747	71,230	98,947	131,760	146,820	157,270	153,807	163,802
Bank loans	6,158	12,722	17,030	25,632	29,252	30,899	39,885	40,890	42,206	43,206	45,206	48,206
Bonds	-	-	-	-	-	7,754	7,735	7,755	23,113	23,113	23,113	23,113
Other non-current liabilities	666	1,277	1,648	2,289	3,223	4,341	5,189	7,765	11,054	11,054	11,054	11,054
Non-current Liabilities	6,824	13,999	18,678	27,920	32,476	42,993	52,809	56,410	76,374	77,374	79,374	82,374
Total Liabilities	15,006	23,873	37,556	57,584	76,223	114,223	151,756	188,170	223,194	234,644	233,181	246,176
Minority Interests	220	1,482	799	1,190	3,499	6,046	7,391	8,785	10,560	11,116	11,694	12,038
Total Net Assets	11,513	22,129	30,263	37,810	45,916	60,316	69,109	84,802	96,561	120,793	132,777	147,921
Capital and retained earnings	9,937	19,596	31,583	39,339	45,197	59,598	68,390	84,084	95,842	120,075	132,058	147,202
Other reserves	1,576	2,533	(1,319)	(1,529)	718	718	719	719	719	719	719	719
Shareholders' funds	11,513	22,129	30,263	37,810	45,916	60,316	69,109	84,802	96,561	120,793	132,777	147,921

Source: Company, Deutsche Bank Estimates



Valuation

Our estimated NAV for CR Land is HK\$35.33/share

Our target price of HK\$26.50 is based on a 25% discount to our estimated NAV of HK\$35.33/share. We calculate our estimated NAV for CR Land using a sum-of-the-parts methodology. We apply DCF to estimate the value of the company's development projects by taking the estimated cash inflows from property sales minus the outstanding costs, including any outstanding land costs, construction costs, related income taxes and the LAT for each of the development projects. With respect to the investment properties' valuation, we use the income capitalization approach, taking the estimated rental revenues of the investment properties divided by the estimated capitalization (cap) rates. For different types of properties in different locations, our estimated rents and cap rates differ. In arriving at the NAV for the company, we take the aggregate estimated value for the previously mentioned business segments and then add the company's net cash position or subtract its net debt position. Specifically, our estimated NAV of HK\$35.33/share incorporates the following assumptions:

- 1) Flat ASPs in 2015;
- 2) Full payment of the LAT (estimated according to the LAT formula)
- 3) WACC of 8.9%
- 4) Cap rates of 8-10% for the investment properties.

Figure 31: CR Land – Estimated NAV

	HK\$m	HK\$/Share	% of NAV	% of GAV
Property Development				
Residential	122,206	18.71	53.0%	46.5%
Carpark	186	0.03	0.1%	0.1%
Retail	168	0.03	0.1%	0.1%
	122,559	18.77	53.1%	46.7%
Property Investment				
Residential	3,736	0.57	1.6%	1.4%
Office	36,593	5.60	15.9%	13.9%
Retail	90,697	13.89	39.3%	34.5%
Hotel	18,462	2.83	8.0%	7.0%
Carpark	746	0.11	0.3%	0.3%
	150,234	23.00	65.1%	57.2%
Construction & decoration	(1,111)	(0.17)	-0.5%	-0.4%
Other assets	191	0.03	0.1%	0.1%
Outstanding Taxes payable	(9,267)	(1.42)	-4.0%	-3.5%
Gross Asset Value	262,606	40.21	113.8%	100.0%
Net debt	(31,836)	(4.87)	-13.8%	-12.1%
NAV	230,771	35.33	100.0%	87.9%

Source: Deutsche Bank



Investment risks

Macro risks

Government property tightening measures might be stricter than expected

The China property market is not only dependent on economic conditions and the demand-and-supply balance, but also on government policies. At times when the government is tightening its fiscal and monetary policies, especially via administrative measures, there could be volatile moves in housing transaction volumes, housing prices, land prices, and financing available to developers and homebuyers. With this in mind, if the government property market tightening measures are stricter than expected or if the impact of the measures already introduced is stronger than expected, we could see weaker-than-expected sales and price performance for the property businesses of Chinese property companies, including CR Land.

Unexpected economic fluctuations in the Chinese economy

In our view, any weaker-than-expected performance in the Chinese economy would likely result in weaker housing demand, hence affecting Chinese developers' property sales. On the other hand, any overly strong growth in the Chinese economy could raise concerns about overheating and attract tightening measures. Therefore, any unexpected fluctuations in the Chinese economy would likely affect demand and supply in the China property market and the business of China property companies such as CR Land.

Company specific risks

Execution on expanded landbank may take longer than expected

Owing to the boost in operating scale after a series of asset injections in the past, CR Land may not be able to meet the completion target, which may lower asset turnover. Although the company has a track record of receiving assets from the parent company at low cost, going forward the cost of injection may be higher-than-expected and hence potential NAV enhancement could be marginal. Also, asset injections may be executed on the basis of a share swap, through issuing new shares to the parent. Future proposed asset injections may also rely on equity fund raising and that, in turn, may lead to share dilution.



Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
China Resources Land	1109.HK	21.00 (HKD) 23 Mar 15	NA

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <http://gm.db.com/ger/disclosure/Disclosure.egsr?ricCode=1109.HK>

Analyst Certification

The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s) about the subject issuer and the securities of the issuer. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. Tony Tsang/Jason Ching

Historical recommendations and target price: China Resources Land (1109.HK)

(as of 3/23/2015)



1.	23/08/2013:	Buy, Target Price Change HKD27.27	4.	30/12/2014:	Buy, Target Price Change HKD25.59
2.	23/03/2014:	Buy, Target Price Change HKD25.17	5.	22/03/2015:	Buy, Target Price Change HKD25.94
3.	11/05/2014:	Buy, Target Price Change HKD22.82			



Equity rating key

Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Notes:

1. Newly issued research recommendations and target prices always supersede previously published research.

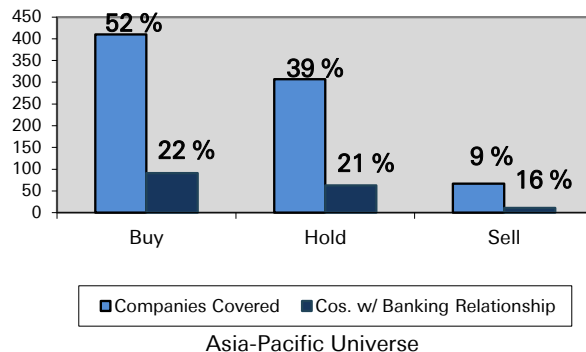
2. Ratings definitions prior to 27 January, 2007 were:

Buy: Expected total return (including dividends) of 10% or more over a 12-month period

Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period

Sell: Expected total return (including dividends) of -10% or worse over a 12-month period

Equity rating dispersion and banking relationships





Regulatory Disclosures

1. Important Additional Conflict Disclosures

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David Folkerts-Landau
Group Chief Economist
Member of the Group Executive Committee

Raj Hindocha
Global Chief Operating Officer
Research

Marcel Cassard
Global Head
FICC Research & Global Macro Economics

Richard Smith and Steve Pollard
Co-Global Heads
Equity Research

Michael Spencer
Regional Head
Asia Pacific Research

Ralf Hoffmann
Regional Head
Deutsche Bank Research, Germany

Andreas Neubauer
Regional Head
Equity Research, Germany

Steve Pollard
Regional Head
Americas Research

International locations

Deutsche Bank AG

Deutsche Bank Place
Level 16
Corner of Hunter & Phillip Streets
Sydney, NSW 2000
Australia
Tel: (61) 2 8258 1234

Deutsche Bank AG

Große Gallusstraße 10-14
60272 Frankfurt am Main
Germany
Tel: (49) 69 910 00

Deutsche Bank AG

Filiale Hongkong
International Commerce Centre,
1 Austin Road West, Kowloon,
Hong Kong
Tel: (852) 2203 8888

Deutsche Securities Inc.

2-11-1 Nagatacho
Sanno Park Tower
Chiyoda-ku, Tokyo 100-6171
Japan
Tel: (81) 3 5156 6770

Deutsche Bank AG London

1 Great Winchester Street
London EC2N 2EQ
United Kingdom
Tel: (44) 20 7545 8000

Deutsche Bank Securities Inc.

60 Wall Street
New York, NY 10005
United States of America
Tel: (1) 212 250 2500

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