

# CRL (1109.HK)

## Fundamental factors kept improving

Bloomberg | Reuters | POEMS

1109.HK | 1109.HK | 1109.HK

Sector: Mainland Property



Phillip Securities (Hong Kong) Ltd

Phillip Securities Research

9 July, 2012

## Performance Analysis

Rating : Neutral Closing Price : 16.38 TP : 16.20

### Summary

Contracted sales of CRL in 1H2012 increased sharply, exceeding market forecast. Its contracted sales in the first six months reached RMB 20.6bn, significantly rising by 56% than 13.2bn in 1H 2011, and accounted for 52% of full-year sales target of 40bn. CRL's completion rate was obviously better than peers average because the company launched more positive selling strategy and house market had been recovering. Its sales in May and June reached 5bn and 4.3bn with obvious improvement.

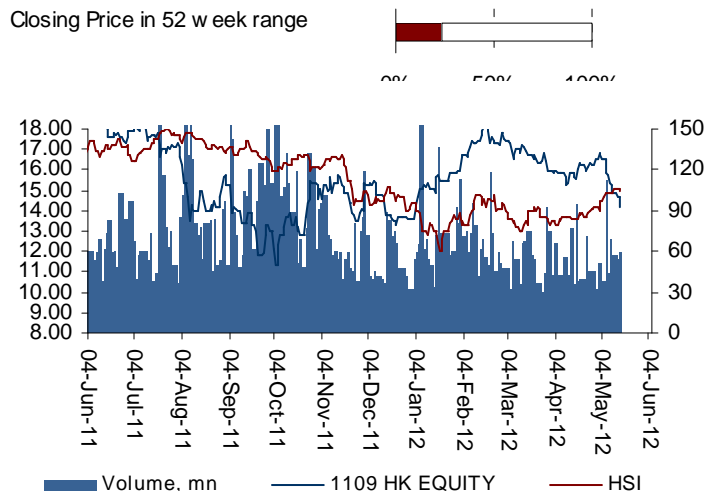
Since 2011 the company accelerated its steps on commercial properties, and several projects have been opened one by one. Because more capital was put into investment properties, more projects will be put into operation in 2012-2014. We believe that there will be several investment projects amounted more than 1.5mn sqm to be launched, and rental revenue in coming three years will keep stable growth.

Debt of CRL rose obviously. Its debt at the end of 2011 soared by HKD 23.3bn to 48.8bn, and net debt to equity ratio climbed by 22.2 points to 73.6% with historical high level. In 2012 there will be 36% of total debt to be due, the company will renew and repay the short-term debt of 21.9bn, in our opinion. Therefore, we expect that CRL's net debt will drop with declining net debt to equity ratio of below 58% level in 2012. And the ratio in 2013 will maintain over 60% for large expense plan on investment properties.

In our opinion, fundamental factors kept improving from 2011. Besides of over-forecasted sales performance, revenue from investment properties may ensure its keeping stable growth, which can make CRL enjoy higher valuation. Since Oct, 2011, the company's share price has dropped by 126%, and current price basically represented 10.5 times of forecasted P/E in 2013. We give CRL "Neutral" rating, 12m TP at HKD 16.2.

### CRL

<b>Rating</b>	<b>3.00</b>	<b>Neutral</b>
- Previous Rating	3.00	Neutral
<b>Target Price (HKD)</b>	<b>16.2</b>	
- Previous Target Price (HKD)	13.3	
Closing Price (HKD)	16.38	
Expected Capital Gains (%)	-1.1%	
Expected Dividend Yield (%)	1.7%	
<b>Expected Total Return (%)</b>	<b>0.6%</b>	
Raw Beta (Past 2yrs w weekly data)	1.39	
Market Cap. (HKD mn)	95,445	
Enterprise Value (HKD mn)	150,309	
52 w week range (HKD)	7.28-16.82	
Closing Price in 52 w week range		



### Key Financial Summary

FYE	10A	11A	12E	13E
Revenue (HKD mn)	25,729	35,795	42,513	52,600
Net Profit, adj. (HKD mn)	6,005	8,070	7,552	8,595
EPS, adj. (HKD)	1.194	1.477	1.296	1.475
P/E (X),adj.	11.49	8.35	11.96	10.51
BVPS (HKD)	8.54	10.35	11.450	12.640
P/B (X)	1.61	1.19	1.35	1.23
DPS (HKD)	0.310	0.260	0.259	0.325
Div. Yield (%)	2.26%	2.11%	1.67%	2.09%

Source: Bloomberg, CRL

\*All multiples & yields based on current market price

### Valuation Method

P/E

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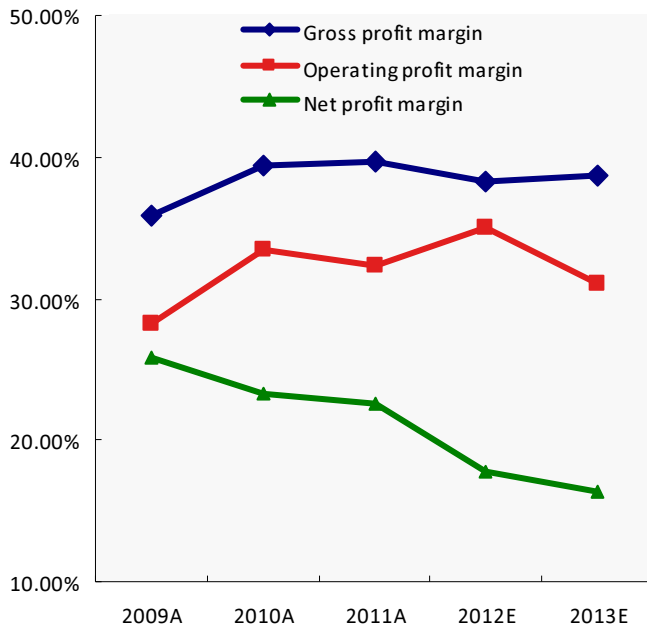
### Sales rose significantly because of recovering market

Contracted sales of CRL in 1H2012 increased sharply, exceeding market forecast. Its contracted sales in the first six months reached RMB 20.6bn, significantly rising by 56% than 13.2bn in 1H 2011, and accounted for 52% of full-year sales target of 40bn. CRL's completion rate was obviously better than peers average because the company launched more positive selling strategy and house market had been recovering. Its sales in May and June reached 5bn and 4.3bn with obvious improvement.

### Sales completion rate in the first three quarters will exceed 85%

We expect that the company will launch strong marketing plan in 3Q to complete the sales target of 40bn in advance. The company will launch new supplies of over 20bn in 3Q, and sales in 3Q will be 13.5bn with completion rate of more than 50%. Therefore, sales completion rate in the first three quarters will exceed 85%.

Figure1, View of profitability



Source, Company report and Phillip Securities

### Revenue from investment properties kept increased

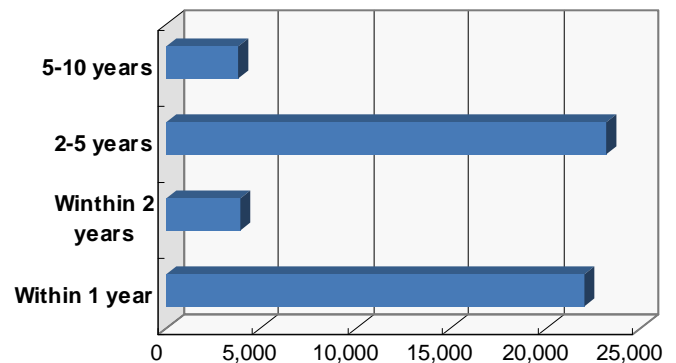
In 2011 CRL achieved revenue of HKD 35.8bn, rising by 39.1% YoY, in which revenue from investment properties reached HKD 2.79bn, rising by 57.1% YoY.

"The MIXc" and "Rainbow City", two major brands of commercial properties, orient different market consumers respectively. Since 2011 the company accelerated its steps on commercial properties, and several projects have been opened one by one. Because more capital was put into investment properties, more projects will be put into operation in 2012-2014. We believe that there will be several investment projects amounted more than 1.5mn sqm to be launched, and rental revenue in coming three years will keep stable growth.

### Net debt to equity ratio at the end of 2012 will decline

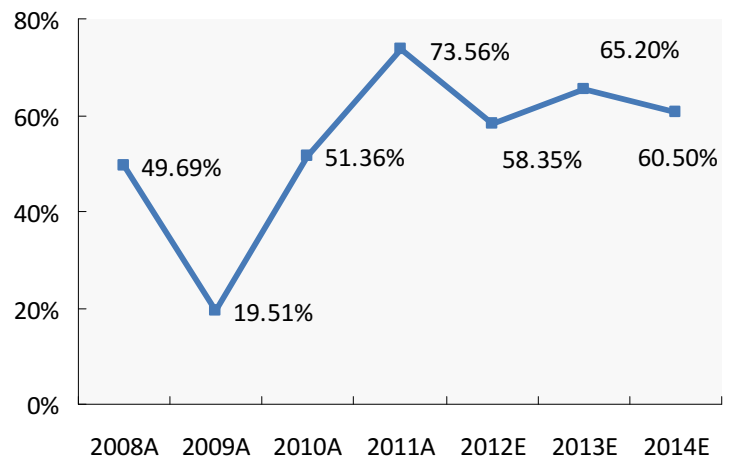
Debt of CRL rose obviously. Its debt at the end of 2011 soared by HKD 23.3bn to 48.8bn, and net debt to equity ratio climbed by 22.2 points to 73.6% with historical high level. In 2012 there will be 36% of total debt to be due, the company will renew and repay the short-term debt of 21.9bn, in our opinion. Therefore, we expect that CRL's net debt will drop with declining net debt to equity ratio of below 58% level in 2012. And the ratio in 2013 will maintain over 60% for large expense plan on investment properties.

Figure2, View of debt structure



Source, Company report and Phillip Securities

Figure3, View of net debt to equity ratio



Source, Company report and Phillip Securities

### Earning forecast

According to our estimation, CRL's booked revenue in 2012-2013 will increase stably, and revenue from investment properties will rise more rapidly. Total revenue in 2012-2013 will be HKD 42.5bn and 52.6bn, EPS at HKD 1.296 and 1.475, and pay out ratio will maintain over 20%.

### Risk

Sales may progress slowly with dropping sales completion rate.

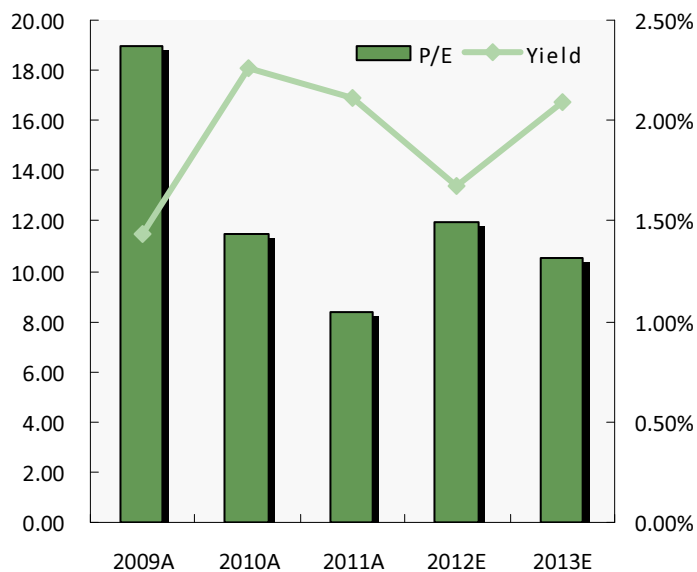
Short-term debt may not renew and repay smoothly.

Expense from investment properties will exceed forecast.

### Valuation

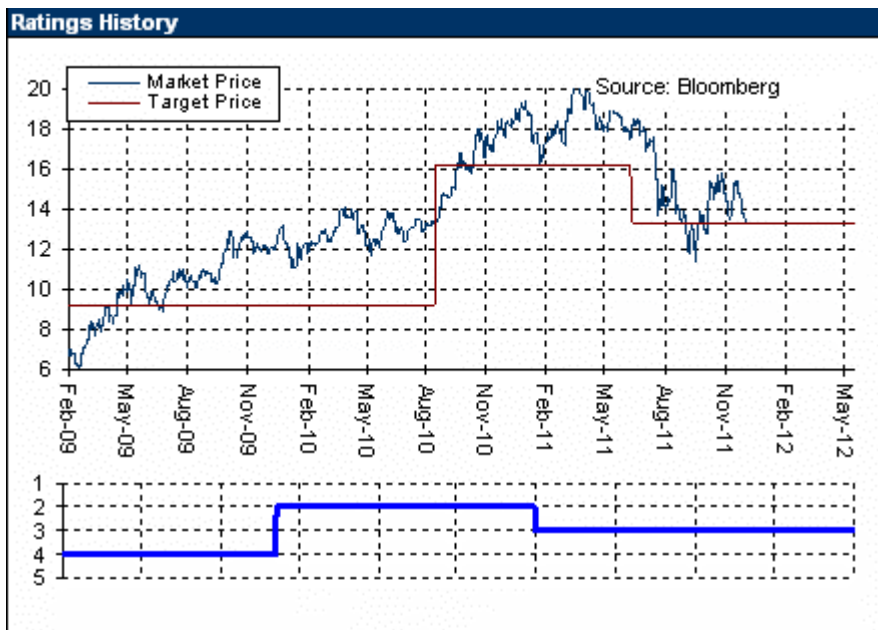
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Figure4, View of valuation



Source, Company report and Phillip Securities

FYE	FY09	FY10	FY11	FY12F	FY13F
<b>Valuation Ratios</b>					
P/E (X), adj.	18.98	11.49	8.35	11.96	10.51
P/B (X)	2.23	1.61	1.19	1.35	1.23
EV/EBITDA (X), adj.	19.95	11.88	10.70	11.60	10.15
Dividend Yield (%)	1.44%	2.26%	2.11%	1.67%	2.09%
<b>Per share data (HKD)</b>					
EPS, reported	0.881	1.194	1.477	1.296	1.475
EPS, adj.	0.881	1.194	1.477	1.296	1.475
DPS	0.240	0.310	0.260	0.259	0.325
BVPS	7.49	8.54	10.35	11.450	12.640
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	77.78%	54.53%	39.12%	18.77%	23.73%
Operating profit	86.88%	83.12%	34.42%	28.27%	9.68%
EBT	90.21%	64.82%	24.04%	-10.35%	19.27%
Net Income, adj.	115.84%	39.52%	34.39%	-6.42%	13.81%
<b>Margins</b>					
Gross profit margin	35.89%	39.46%	39.62%	38.20%	38.65%
Operating profit margin	28.29%	33.52%	32.39%	34.98%	31.01%
Net profit margin	25.85%	23.34%	22.55%	17.76%	16.34%
<b>Key Ratios</b>					
ROE (%)	12.67%	14.35%	15.18%	10.88%	11.50%
ROA (%)	5.07%	5.16%	5.17%	3.73%	4.15%
Net Debt/(Cash)	7,585	25,454	48,817	42,711	45,600
Net Gearing (X)	19.51%	51.36%	73.56%	58.10%	62.50%
<b>Income Statement (HKD mn)</b>					
Revenue	16,650	25,729	35,795	42,513	52,600
Cost of sales	(10,674)	(15,577)	(21,612)	(26,273)	(32,270)
Gross profit	5,976	10,152	14,182	16,240	20,330
Operating profit	4,710	8,625	11,594	14,872	16,311
EBT	7,030	11,587	14,373	12,885	15,368
Tax	(2,285)	(4,270)	(6,131)	(4,961)	(5,994)
Tax rate	32.50%	36.85%	42.66%	38.50%	39.00%
Profit for the year	4,745	7,317	8,242	7,924	9,374
Minority interests	(441)	(1,312)	(172)	(372)	(779)
Net profit	4,304	6,005	8,070	7,552	8,595
Source: BLOOMBERG, CRL and Phillip Securities					



**PSR Rating System**

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
<-20%	Sell	5

**Remarks**  
 We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm$ 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

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