

## C C Land (1224 HK) –Hold Real Estate Development Industry

### Key data

|  |             |
|--|-------------|
| Share price (HK\$)                         | 1.95        |
| Target price (HK\$)                        | 1.90        |
| Upside potential (%)                       | -3.0%       |
| 52Wk H/L(HK\$)                             | 2.07 / 1.21 |
| Issued shares (mn)                         | 2,543       |
| Market cap (HK\$mn)                        | 4,994       |
| 30-day avg vol (HK\$mn)                    | 3.51        |
| Auditors                                   | Ernst&Young |
| Major shareholder (%):<br>Cheung Chung Kiu | 51.44       |

Source: Company, Bloomberg, ABCI Securities

### Remain neutral despite of NAV enhancement

**C C Land, a pure western China asset play, further strengthens its presence in the region by land acquisitions. With strong balance sheet, we believe the group has ability to engineer further expansions, this will enable the group to enjoy asset appreciation in the western China in the longer run as the region is witnessing strong economic growth. However, from short term perspective, slow asset turnover remains as the major concern of the group, which is constraining its pace in unlocking value of the existing portfolio.**

### Revenue composition in 1H12 (%)

|                      |      |
|----------------------|------|
| Property development | 99.7 |
| Property investment  | 0.2  |
| Others               | 0.1  |

Source: Company

**New land replenishment:** According to the latest company announcement, the group acquired three pieces of land in Chongqing and Chengdu with total attributable GFA at 864K sq.m. and consideration at Rmb2.5bn. This increases the attributable land reserves to 8.4mn sq.m.. The three sites enjoy convenient transportation and the gross margins (before LAT) range between 32% and 45% per our estimation. The acquisition is expected to enhance NAV of the group by 10.7% to Rmb4.11/share.

### Share performance (%)

|       | Absolute | Relative* |
|-------|----------|-----------|
| 1-mth | 7.2      | 7.8       |
| 3-mth | 14.9     | 5.8       |
| 6-mth | 22.9     | 6.2       |

Source: Bloomberg

\*Relative to Hang Seng Index

**Still financially defensive:** The group enjoys strong balance sheet with Rmb7.1bn cash balance and 5.9% net gearing by the end of June. We believe the group has ample cash and room to leverage up for further expansions. The year-end net cash position is expected to be at Rmb8.0bn with net gearing below 10%.

### 1 year price performance



Source: Bloomberg

**Sales not exciting:** For the first ten months, the group recorded Rmb5.8bn (or 750K sq.m.) sales, representing 17.0% YoY growth, against the 15.0% YoY average rate for the industry. We expect that such a growth rate is not attractive, in view of its low base, scalable land reserves, ample salable resources and end-user driven underlying market.

**Maintain neutral view on the stock:** In light of scalable land reserves (~8mn sq.m.) and slow pace of sales (800K-900K sq.m. GFA sold per annual), we expect first priority for the group should be speeding up asset turnover. Hence, we maintain our neutral view on the stock and TP at HK\$1.90. Our TP represents i) 10.0x 2013E P/core EPS ii) 0.38x PB iii) 62.4% discount to the revised NAV.

**Risk factors:** faster-than-expected sales; implementation of property tightening in the western China; a substantial NAV-accretive acquisition.

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### Forecast and valuation

| FY ended Dec 31    | FY09A  | FY10A | FY11A  | FY12E | FY13E |
|--------------------|--------|-------|--------|-------|-------|
| Net profit(HK\$mn) | (42.9) | 255.6 | 416.8  | 468.8 | 694.7 |
| Core NP (HK\$mn)   | (58)   | 9     | 179    | 302   | 493   |
| Core EPS (HK\$)    | -      | 0.004 | 0.070  | 0.117 | 0.190 |
| YoY chg(%)         | -      | -     | 1842.8 | 67.1  | 63.0  |
| P/core EPS(x)      | -      | -     | 27.9   | 16.7  | 10.2  |
| PB(x)              | -      | -     | 0.38   | 0.38  | 0.37  |
| Dividend yield (%) | 2.1    | 2.1   | 1.5    | 2.4   | 4.1   |
| ROAE(%)            | (0.4)  | 2.0   | 3.0    | 3.2   | 4.5   |

Source: Company data, Bloomberg, ABCI Securities estimate



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### Definition of equity rating

| Rating | Definition  |
|--------|---|
| Buy    | Stock return $\geq$ Market return rate                      |
| Hold   | Market return - 6% $\leq$ Stock return < Market return rate |
| Sell   | Stock return < Market return - 6%                           |

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Time horizon of share price target: 12-month

### Definition of share price risk

| Rating    | Definition   |
|-----------|--|
| Very high | $2.6 \leq$ 180 day volatility/180 day benchmark index volatility       |
| High      | $1.5 \leq$ 180 day volatility/180 day benchmark index volatility < 2.6 |
| Medium    | $1.0 \leq$ 180 day volatility/180 day benchmark index volatility < 1.5 |
| Low       | 180 day volatility/180 day benchmark index volatility < 1.0            |

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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