



Company Report

C C Land (1224 HK) – Hold

Real Estate Development Industry

Cut 12-month target price to HK\$1.90(Previous HK\$2.28)

Key data

Share price (HK\$)	1.67
Target price (HK\$)	1.90
Upside potential (%)	13.7
52Wk H/L(HK\$)	2.18 / 0.94
Issued shares (mn)	2,543
Market cap (HK\$mn)	4,296
30-day avg vol (HK\$mn)	5.73
Auditors	Ernst&Young
Major shareholder (%):	
Cheung Chung Kiu	51.44

Source: Company, Bloomberg, ABCI Securities

Revenue composition in 1H12 (%)

Property development	99.7
Property investment	0.2
Others	0.1

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	(2.4)	(4.9)
3-mth	0.7	(4.8)
6-mth	(16.3)	(8.7)

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

Analyst

Report date: 29 Aug, 2012

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Previous report

Date: 8 Jun, 2012

Rating: Buy

Downgrade on slow pace in margin restore

After first breakeven for its core business in 2010 and a sign of growth in 2011 on low base, market has expected C C Land to enter harvest period, on better execution capability and margin restore. Better-than-expected GFA delivered should signal an improving execution, but core net profit margin, another factor for market watching out, recovered at pace far below expectation. Our 12/2013E EPS was cut down by 37%/45% to HK\$0.143/0.243. Cut down our TP from HK\$2.28 to HK\$1.90. Downgrade rating from BUY to HOLD.

Top line mildly above expectation: On stronger GFA delivered, revenue for 1H12 grew by 250.8% YoY to HK\$3.7bn, 15.1% higher than our expectation. In 1H12 the group registered strongest growth 235.9% YoY for GFA delivered to 432K sq.m.. Full year target of ~728K is on track. This could be a sign of improving execution, after multiple slippages in delivery.

Core net profit margin improving at slow pace: Core net profit margin inched up by 0.2ppt to 3.9%, far below street consensus of 8.6%, this is a major disappointment to market. Higher LAT expense ratio was the major dragging factor. In light of slow pace in margin improvement, we lower our core net margin forecast to 4.8% for 2012 and 6.5% for 2013.

Low net gearing: Net gearing for 1H12 edged up to 5.9% from 2.4%, but still considerably lower than industry average 60%. Thanks to its low gearing, edges in low bank financing cost maintain with est. effective interest rate 5.3%. The group has ability to leverage up for land acquisition, but we expect it is not the first priority for C C Land given its low pace in unlocking already huge hidden value in balance sheet.

Cut TP, downgrade to HOLD: Applying 10.0x forward core PE and based on our revised core EPS of Rmb0.190 for FY13, we derive our TP HK\$1.90, representing 59.5% discount to our revised NAV. Downgrade to HOLD. The PE ratio we used is higher than that for most other small-mid-cap developers, given growth C C Land should achieve on low base.

Risk factors: Slower-than-expected sales in 2H12; implementation of western China specific tightening; a substantial NAV-accretive acquisition.

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
EPS (HK\$)	(0.023)	0.101	0.118	0.143	0.230
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
BVPS(HK\$)	4.61	4.79	5.08	5.12	5.32
PE(x)	-	-	14.3	11.8	7.3
PB(x)	-	-	0.33	0.33	0.32
Dividend yield (%)	1.8	2.4	2.4	1.7	2.7
ROAE(%)	-0.4	2.0	3.0	3.2	4.5

Source: Company data, Bloomberg, ABCI Securities estimates



Key takeaways from analyst meeting

Mixed picture for 1H12 results

Top line mildly above expectation: On stronger GFA delivered, revenue for 1H12 grew by 250.8% YoY to HK\$3.7bn, 15.1% higher than our expectation. The group booked 432K sq.m. GFA, up 235.9% YoY, the strongest growth since property development became the core business in 2007. Full year delivery schedule, ~728K is on track. After multiple slippages in delivery, the expected achievement of full year target should signal an improving execution capability.

Less GP margin squeezing concern: C C Land delivered development profit margin of 30.7% for 1H12 based on the booked land cost, if the revaluation of land cost is removed, the development margin for 1H12 is at 47.0%, 3.9ppt above our forecast.

Thanks to its strong cash position, the group hasn't been keen on price cut to stimulate sales, making its able to hold up GP margin well. The 30.7% development profit margin was 1.5ppt lower than 1H11 development profit margin but 4.6ppt higher than 2H11. For 2H12, management guided a high twenties GP margin.

Core net profit margin improving at slow pace: Core net profit rose 73.3x to HK\$146mn (or core EPS HK\$0.056), missing expectation on higher LAT expense ratio.

For a growing developer, the mismatch in revenue and cost often distorted the net profit margins and earnings while they may need 2-3 years start up time to normalize the situation. As the group's booked revenue was smaller than contracted sales, SG&A cost ate big part of margin during past years. This situation improved this year in view of surging delivery. SG&A/revenue ratio dropped to 8.4% for 1H12 compared to 14.2% for 2011, this brought in margin improving but the positive effect was offset by continuous high LAT. For 1H 12 LAT expense ratios maintained at 10.1% of revenue against 4-6% for peers. Core net profit margin inched up by 0.2ppt to 3.9%, far below street consensus of 8.6%, this is a major disappoint to market.

Speeding up delivery schedule and reducing the contribution of high LAT project, the Yubei Project should be the two major moves which help to restore core net profit margin. In light of slow pace in margin improvement, we lower our core net margin forecast to 4.8% for 2012 and 6.5% for 2013.

Low net gearing: Net gearing for 1H12 edged up to 5.9% from 2.4%, but still considerably lower than industry average 60%. Thanks to its low gearing, edges in low bank financing cost maintain with est. effective interest rate 5.3%, it is a long term positive factor on GP margin.

The management targets to maintain leverage below 25%. This means it can gear up greatly should there is good land acquisition opportunity. Nevertheless, in view of scalable land bank, 11.3mn sq.m. or 7.6mn sq.m. as of end-Jun, we expect speeding up asset turnover should be the first priority of C C Land's agenda. Sales/average asset ratio was continue low at 10.6% for 1H12.

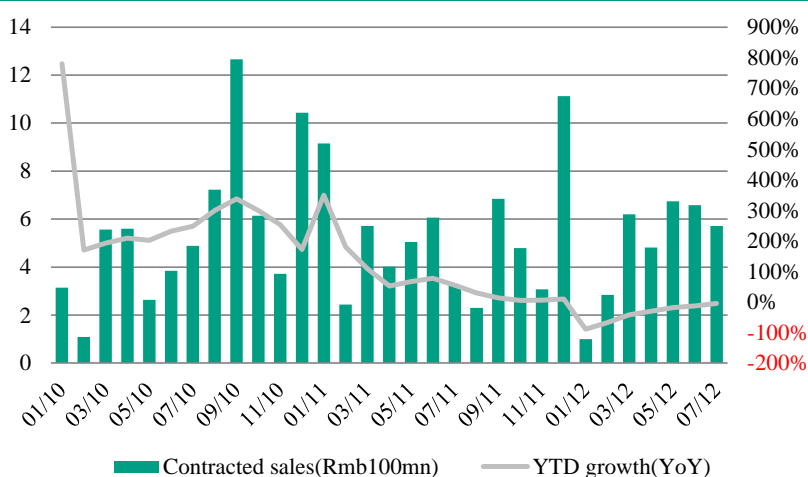
Sales progress tracking their full year target but not encouraging

Budget contracted sales are at Rmb6.8bn for 2012, slightly or 6.6% higher than their realized sales in 2011(Rmb6.3bn).

As of end-Jul, C C Land achieved Rmb3.4bn contracted sales or 49.8% of budget, down 5% YoY. Achievement on full year sales target is on track, on the back of Rmb8.0bn salable resources and a conservative 43% sell through rate.

Nevertheless, Such sales target and YTD achievement is not exciting, given its land bank scale and exposure. CCL is a pure western China asset paly with strong presence in Chongqing municipality. In terms of attributable GFA(AGFA), 70.1% of CCL's land bank is in Chongqing, 14.4% in Guiyang, 10.3% in Chengdu. These regions characterized with relatively high GDP growth and genuine demand for homes dominates the market. We believe the strong underlying market in the western cities should have presented great opportunities for the group to accelerate its sales.

Exhibit 1: Monthly contracted sales of C C Land



Source: Company data and ABCI Securities

NAV and earnings estimation revisions

EPS cut down: Factoring in expectation change on margin, update development schedule and latest ASP, we cut down our 12/2013E EPS by 37%/45% to HK\$0.143/0.243.

NAV cut down: Our 2012 NAV was appraised at HK\$4.57, down 4.8% compared with HK\$4.80 we made in early June. The stock was trading at 11.8/7.3x 2012/13E PE and 63.3% discount to our revised NAV. The discount is lower compared with 40-50% for small-to-mid-cap developers. A relative steep discount should persist until NAV unlocking process accelerates.



Exhibit 2: Our revisions to revenue and earnings forecasts

Our revisions to revenue and earnings forecasts FY ended Dec 31 (Rmbmn)	New forecast		Old forecast		Difference	
	2012E	2013E	2012E	2013E	2012E	2013E
Revenue	6,294	7,548	7,357	9,311	-14%	-19%
Gross profit	1,919	2,270	1,957	2,846	-2%	-20%
Core net profit	302	493	581	1,058	-48%	-53%
FD EPS (Rmb/share)	0.143	0.230	0.228	0.414	-37%	-45%
Gross profit margin	30.5%	30.1%	26.6%	30.6%	3.9	(0.5)
Core net profit margin	4.8%	6.5%	7.9%	11.4%	(3.1)	(4.8)

Source: ABCI Securities

Exhibit 4: Our revisions against consensus

Our revisions to revenue and earnings forecasts FY ended Dec 31 (Rmbmn)	New forecast		Consensus*		Difference	
	2012E	2013E	2012E	2013E	2012E	2013E
Revenue	6,294	7,548	7,302	8,712	-14%	-13%
Gross profit	1,919	2,270	2,432	2,823	-21%	-20%
Core net profit	302	493	629	727	-52%	-32%
FD EPS (Rmb/share)	0.143	0.230	0.247	0.285	-42%	-19%
Gross profit margin	30.5%	30.1%	33.3%	32.4%	(2.8)	(2.3)
Core net profit margin	4.8%	6.5%	8.6%	8.3%	(3.8)	(1.8)

*before 1H results release

Source: Bloomberg and ABCI Securities

Valuation: Applying 10.0x forward core PE and based on our revised core EPS of Rmb0.190 for FY13, we cut down our TP from HK\$2.28 to HK\$1.90, representing 59.5% discount to our revised NAV. We cut our rating from BUY to HOLD. The PE ratio we used is higher than that for most other small-mid-cap developers, given growth C C Land should achieve on low basis. Sales this year is unlikely to bring in upside surprise and as is for next year given its continue slow activity in unlocking hidden value. Meanwhile, land acquisition for C C Land, an owner of sizable land bank should not cheer up market significantly. The only positive is its strong balance sheet, should provide defensiveness on a worsening operating environment.



Financial forecast

Consolidated income statements

For the year ended 31/12(Rmbmn)	2010	2011	2012E	2013E
Property development and investment	1,314	4,679	6,271	7,525
Property investment	20	15	14	14
Treasury investment	16	8	8	9
Others	176	154	0	0
Total Turnover	1,526	4,857	6,294	7,548
Property development and investment	190	1,285	1,900	2,250
Property investment	18	14	13	13
Treasury investment	13	6	7	7
Others	23	12	0	0
SG&A	(458)	(690)	(565)	(655)
Other unallocated income and corporate expenses	314	243	-88	0
EBIT	99	871	1,266	1,615
Net Interest Income	(9)	11	(26)	40
Share of Associates & JV	(10)	(28)	-	-
Exceptionals	318	212	109	159
Pre-tax Profit	407	1,055	1,374	1,774
Taxation	(143)	(650)	(879)	(1,119)
Minority Interest	(5)	116	100	100
Net Profit	260	301	369	595
Core Net Profit	9	179	302	493
FD EPS(HK\$)	0.101	0.118	0.143	0.230
Chg		16.2%	20.9%	61.3%
FD Core EPS(HK\$)	0.004	0.070	0.117	0.190
Chg		1842.8%	67.1%	63.0%
PE	16.6	14.3	11.8	7.3
Target price/EPS	18.8	16.1	13.4	8.3
DPS(HK\$)	0.04	0.04	0.03	0.05

Source: company data and ABCI Securities estimates

Financial ratio analysis

As of 31/12(Rmbmn)	2010	2011	2012E	2013E
Profitability				
GP Margin	14.4%	27.5%	30.3%	29.9%
EBITDA Margin	10.2%	18.8%	20.5%	21.6%
EBIT Margin	6.5%	17.9%	20.1%	21.4%
EBT Margin	24.0%	21.1%	21.2%	24.0%
Core net profit margin	0.6%	3.7%	4.8%	6.5%
ROAA	1.1%	1.3%	1.2%	1.8%
ROAE	2.0%	3.0%	3.2%	4.5%
Efficiency ratio				
Asset turnover	3.2%	7.7%	8.4%	10.0%
Liquidity				
Current ratio	1.69	1.54	1.45	1.61
Equity/ Assets	48.2%	41.0%	37.8%	43.2%
Net Debt/ Total Equity	-12.0%	2.4%	3.4%	14.7%

Source: company data and ABCI Securities estimates



Consolidated balance sheets

As of 31/12(Rmbmm)	2010	2011	2012E	2013E
PP&E	267	156	148	141
Prepaid land lease payments	1,899	785	765	757
Investment properties	338	373	469	628
Associates and JV	1,084	1,129	1,129	1,129
Properties under development	7,164	7,350	5,880	4,704
Interests in land use rights for property development	0	3,151	2,520	2,016
Other non-current assets	937	812	812	812
Fixed Assets	11,690	13,756	11,725	10,188
Properties under development	7,609	12,072	14,622	17,476
Completed properties held for sale	1,007	1,185	1,435	1,715
Trade receivables	113	38	67	83
Bank balances & cash	5,880	6,754	9,970	4,784
Other current assets	1,112	1,839	1,817	1,817
Current Assets	15,720	21,887	27,911	25,875
Total Assets	27,411	35,643	39,635	36,063
Short term loan	1,390	2,065	6,939	4,757
Trade payable	962	1,937	1,500	1,500
Other payables and accruals	6,077	8,660	9,253	8,303
Other current liabilities	887	1,505	1,505	1,505
Current Liabilities	9,316	14,168	19,197	16,064
Long term loans	2,899	5,034	3,546	2,326
Other long-term liabilities	1,980	1,836	1,836	1,836
Long Term Liabilities	4,879	6,870	5,381	4,162
Total Liabilities	14,195	21,038	24,579	20,226
Minority interests	950	1,624	1,724	1,824
Shareholders' funds	12,266	12,982	13,249	13,770
Total Equity	13,216	14,606	14,973	15,594
Net Debt	1,591	(346)	(515)	(2,299)
ST debt/total debt	32.4%	29.1%	66.2%	67.2%
Net debt/equity	-12.0%	2.4%	3.4%	14.7%
BVPS(HK\$)	4.79	5.08	5.12	5.32
P/B	0.35	0.33	0.33	0.32
Target price/BVPS	0.40	0.37	0.37	0.36

Source: company data and ABCI Securities estimates



農銀國際

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C C Land Holdings Limited

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