C C Land (1224) – Initiating with BUY

Key Data

Price(8/6/2012)	HK$1.76
Price target	HK$2.28
Upside potential	29.3%
52Wk H/L(HK$)	3.09/0.98
Issued shares(mn)	2,544
Market Cap(HK$mn)	4,477
15-day avg vol(mn)	3.15
Auditors	Ernst&Young
Major shareholder:	
Cheung Chung Kiu*	51.09%

Source: Company data & Bloomberg

**The Chairman of the group*

Report date: 8 June, 2012
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As a vehicle to tap into property market in western China

Pure western China asset play: C C Land Holdings Limited ("CCL" or the group) is a HK-listed property developer with 100% of development land bank located in western China. As of May 2012, the group has an attributable GFA(AGFA) 8.0mn sq.m, of which 70.1% is in Chongqing, 14.4% in Guiyang, 10.3% in Chengdu and the rest of 5.1% in Dazhou. Western China is characterized with relatively high GDP growth and genuine demand for homes dominates the market. We believe the strong underlying market in the western cities presents great opportunities for the group to accelerate its development.

Able to enjoy long-term appreciation of core land asset: The land site in Yubeing, Chongqing, with attributable GFA at 2.7mn sq.m.(as of May-12) is regarded as core asset of the group. The land site is situated at one of the most prime locations within Liangjiang New Area (两江新区) — China's third economic development zone after Shanghai's Pudong New Area and Tianjin's Binhai at a sub-provincial level. The prime location implies a strong upside of capital appreciation. We appraised the project at gross asset value(GAV) of HK$7,427mn (or HK$2.91/share), accounting for 48.2% of total GAV.

Strong balance sheet positions CCL well for future land expansion: The management is prudently managing the balance sheet. In FY2010, the group was in net cash position and in FY2011, its net gearing was at 2.4%. The management targets to maintain leverage below 20%. This means it can gear up greatly should there is good land acquisition opportunity.

Valuation

We use the NAV method to appraise the intrinsic value of the group. Meanwhile we use PE multiple method to set price target in a bid to reflect earnings growth momentum of the group. Based on est FY12 basic EPS of Rmb0.2276 and with the targeted PER of 10.0x we set target price at HK$2.28, representing 52.6% discount to current NAV(HK$4.80).

Financial summary

FY ended 31/12	2010	2011	2012E	2013E
Revenue(HK$mn)	1,526	4,857	7,357	9,311
Chg(YoY)	*41.2%*	*218.3%*	*51.5%*	*26.6%*
Net profit(HK$mn)	256	417	555	1,004
Chg(YoY)	*-695.4%*	*63.1%*	*33.2%*	*80.9%*
EPS(HK$)	0.1015	0.1179	0.2276	0.4143
Chg(YoY)	*-545.7%*	*16.2%*	*93.1%*	*82.0%*
Core net profit^ (HK$mn)	203	261	581	1,058
Chg(YoY)	*-447.9%*	*28.8%*	*122.4%*	*82.0%*
Core EPS (HK$)	0.0792	0.1024	0.2276	0.4143
Chg(YoY)	*-447.9%*	*29.3%*	*122.4%*	*82.0%*
BVPS(HK$)	4.79	5.08	5.27	5.64
Chg(YoY)	*3.9%*	*6.3%*	*3.7%*	*7.0%*
DPS (HK$)	0.04	0.04	0.05	0.08
Yield	2.3%	2.3%	2.6%	4.7%
PE(x)	17.3	14.9	7.7	4.2
PB(x)	0.37	0.35	0.33	0.31
ROAE	2.0%	3.0%	3.7%	6.5%

^Excluding revaluation G/L on investment property; @Rmb0.8121/HK$

Source: Company's announcements and ABCI Securities estimates

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Company Background

5-yr share price graph

Source: Bloomberg

We consider CCL as an asset play in western part of China. The group develops, sells, leases and manages properties, in Chongqing, Chengdu, Guiyang and Dazhou. All these four areas are located in western part of China It also manufactures and trades packaging products and travel bags, and invests in Treasures. To streamline the business, the management keeps divesting non-core business - packaging products and travel bags. The travel bags business was sold in early Mar this year. A proposal to spin-off the packaging business for separating listing was submitted to the Hong Kong Stock Exchange on 29 Dec 2011 and now subject to approval.

The group was previously known as Qualipak International Holdings Limited(Qualipak). Qualipak was founded by Peter Lam(Deputy Chairman and Managing Director of CCL) and his wife in 1989, and went listed on the Hong Kong Stock Exchange in 1999. In Jun-06, Cheung Chung Kiu(Chairman of CCL) injected a piece of land with 3.07mn sq.m. GFA in Yubei, Chongqing, into Qualipak, and since then China property development became the group’s core business. In Jan-07, the group was renamed as CCL.

Major shareholders

The chairman, Cheung Chung Kiu, which owns 1,299.7mn shares or 51.09% of the total share capital, is the largest shareholder of the group.

Mr. Cheung has a wide range of experience in investment and business management, including approximately 20 years of property development and investment experience in the PRC. Mr. Cheung is also the founder and Chairman of Yugang International Limited (613 HK), Chairman of Y.T. Realty Group Limited (75 HK) and Chairman of The Cross-Harbour (Holdings) Limited (32 HK).

Holding 178.9mn shares or 7.03% of the total share capital, T. Rowe Price Associates Inc. and its Affiliates(T. Rowe Price) was the second largest shareholder of CCL. T. Rowe Price, a well-known US investment manager founded in 1937 is managing nearly $555 billion in assets as of March 31,

2012. T. Rowe Price first invested in CCL in late 2009 and increased its stake in 2011 and 2012 respectively.

Date	% of issued shares after the increasing	Average price/share (HK$)
15/02/2012	7.03%	1.886
18/08/2011	6.06%	2.244
08/12/2009	5.03%	4.132

Source: HKEX dated by 30, May 2012

Investment Themes

Pure western China asset play with strong presence in Chongqing municipality

All the land bank of CCL is located in western China (or western part of China, including Chongqing municipality and 12 provinces, such as Sichuan, Guiyang, Yunnan, and Shanxi). In terms of attributable GFA(AGFA), 70.1% of CCL's land bank is in Chongqing, 14.4% in Guiyang, 10.3% in Chengdu. Based on our appraised asset value, Chongqing contributed 75.7% of its total gross asset value (GAV), while Chengdu contributed 12.2% and Guiyang contributed 9.3%. The strong underlying market in the western cities presents great opportunities for the group to accelerate its development.

Robust economic growth: The western China is characterized by strong economic growth in last several years. Going forward we believe the speeding up in urbanization and industrialization in the regions will lay down solid foundation for its sustainable economic growth.

Chongqing, with an area 82,000Km2 and 32mn population, is the largest municipality city in China. It has seen strong economic growth with the real GDP growth for 2009, 2010 and 2011 reaching 14.9%, 17.1% and 16.4% respectively, which far outperformed the nation's GDP of 9.2%, 10.4% and 9.2% in the corresponding periods.

For Chengdu and Guiyang, their economic growth were higher than the overall growth rate in China in last three years.

We believe the economic growth is dominant factor affecting property market, especially in the longer terms. The higher GDP growth in an area implies a higher property demand and strong upside of capital appreciation for land value in that area, particular for the lands in the prime locations. Looking forward, the group will continue to seek opportunity to replenish its land bank in western China, according to the management.

	Area	Population	GDP growth (%)			
	km2	mn	2011	2010	2009	Location
Chongqing	82,000	32.0	16.4	17.1	14.9	In the Southwestern region of China, the confluence of Yangtze River and Jialing River, one of the four direct-controlled municipalities in China
Chengdu	12,390	14.0	15.2	15.0	14.7	In the Southwestern China, upstream of the Yangtze River, which is the provincial capital of Sichuan Province
Guiyang	8,034	4.3	17.1	14.3	13.3	In the Southwestern region of China, the central part of Guizhou Province and the eastern part of Yungui Plateau, which is the provincial capital of Guizhou Province
China	960,000	1,300.0	9.2	10.4	9.2	

Source: government websites

End-user driven market: Owner-occupation constituted the mainstream demand in Chongqing, Chengdu and Guiyang, which evidenced by a relatively stable residential price trend in the areas. In the cities filled with investment demand, the residential price usually see more fluctuations. Based on the monthly property market survey conducted by the National Bureau of Statistics of China ("NBSC"), the PRC, we prepare the residential property price indexes in 6 major hot cities (Beijing, Tianjin, Shanghai, Guangzhou, Shenzhen and Chongqing) and 5 major cities in western China. We rebased the index to 100% at Dec 2007. The property price indexes are for new home price index.

During Dec-07 to Mar-12, we calculated the price changes between the peak and bottom for Chongqing, Chengdu and Guiyang were at 15.3%, 10.6% and 16.5% respectively. The volatilities are lower during the cycle compared the sample cities of 12.0-25.8%.

	Dec-07	2008	2009	2010	2011	Mar-2012	Max	Min	Gap
6 hot cities									
Chongqing	100%	-5.0%	1.9%	10.2%	10.0%	9.9%	10.2%	-5.0%	15.3%
Beijing	100%	1.5%	14.7%	26.0%	27.3%	26.5%	27.3%	1.5%	25.8%
Tianjin	100%	2.3%	13.5%	21.1%	22.7%	22.4%	22.7%	2.3%	20.4%
Shanghai	100%	-1.9%	7.0%	8.1%	10.1%	9.5%	10.1%	-1.9%	12.0%
Guangzhou	100%	-9.6%	8.2%	8.1%	11.3%	10.5%	11.3%	-9.6%	20.9%
Shenzhen	100%	-18.8%	-7.3%	-5.8%	-2.7%	-3.4%	-2.7%	-18.8%	16.1%
5 major cities in western China									
Chongqing	100%	-5.0%	1.9%	10.2%	10.0%	9.9%	10.2%	-5.0%	15.3%
Chengdu	100%	-3.0%	2.2%	6.1%	7.6%	7.3%	7.6%	-3.0%	10.6%
Guiyang	100%	4.5%	11.4%	17.3%	20.9%	20.9%	20.9%	4.5%	16.5%
Kunming	100%	-1.3%	9.5%	15.2%	17.8%	17.7%	17.8%	-1.3%	19.0%
Xian	100%	4.2%	10.1%	19.1%	23.2%	22.6%	23.2%	4.2%	19.0%

Source: NBSC and ABCI Securities

In addition, Chongqing is the only city among the 4 municipalities and the 28 provincial capital cities that are immune from home purchase restriction. The strong genuine demand and lower policy risk provide cushion for the group in the market downturn.

Quality land bank with undemanding land cost

Around 65% of CCL's projects or around 85% of its projects in Chongqing is located in prime city areas. This brings in strong upside potential for land appreciation and strong pricing power of the group.

CCL's current land bank has a competitive book cost of Rmb2,070/sq.m., while the land cost is even lower at est. Rmb1,765/sq.m., based on the acquisition cost.

We expect the land bank to be able to generate good margins in the upcoming 7~8 years for the group. Using the booked cost and the 2012 ASP (we build in 10-15%YoY price decline on project level for 2012 ASP), we estimate 48.0% of projects of CCL to be able to generate >= 35% gross profit margin (GPM) before LAT, or 40.0% of projects with GPM >=35% after LAT.

Able to enjoy long-term appreciation of core land asset

The land site in Yubeing Chongqing, with original 3.07mn sq.m. AGFA(Jun-06) and a remaining AGFA at 2.7mn sq.m.(May-12) is regarded as core asset of the group. In terms of AGFA, the land accounted for 33.3% of CCL's total development land bank.

The land is situated at one of the most prime locations within Liangjiang New Area (两江新区) — China's third economic development zone after Shanghai's Pudong New Area and Tianjin's Binhai at a sub-provincial level. The setting up of this New Area has been announced by government and is considered a landmark move in the development of Western China in terms of boosting economy and narrowing the gap between the east and the west.

The prime location implies a strong upside of capital appreciation for the land. The land was injected by Mr. Cheung in Jun 2006 at cost of HK$1,081/sq.m. and was revaluated up to ~HK$2,084/sq.m. subsequently after the transaction. After a series of impairment test (land acquired through company subject to revaluation upon acquisition and impairment testing every financial year according to accounting policy) the current land price on book is about HK$2,084/ sq.m.(or HK$2.18/share) based on management guidance.

Based on the above land cost, we appraised the project at GAV of HK$7,427mn (or HK$2.91/share), accounting for 48.2% of total GAV.

Business Analysis

Property development

Property development was the core business of the group, contributing to 96.3% of the total revenue in FY2011.

Chongqing focused land bank, balanced product portfolio: The group currently has a total development land bank of 11.9mn sq.m. and an AGFA of 8.0mn sq.m, of which 70.1% is in Chongqing, 14.4% in Guiyang, 10.3% in Chengdu and the rest of 5.1% in Dazhou. All the four regions are located in western China, characterizing the group as a pure western China asset player.

Breaking down by usage, 59.6% of its AGFA is for residential use, 10.3% for retail, 13.8% for offices and the rest of 16.3% for car-park spaces and other auxiliary facilities. We believe the group possesses a well-balanced product portfolio, which allows it to cushion off the boom and burst of property market cycle going forward.

Land bank breaking down by city

City	GFA K sq.m.	AGFA K sq.m.	AGFA %
Chongqing	8,551	5,621	70.1%
Chengdu	1,582	828	10.3%
Dazhou	413	413	5.1%
Guiyang	1,363	1,159	14.4%
TOTAL	**11,909**	**8,020**	**100.0%**

Source:company data and ABCI Securities estimates

Land bank breaking down by usage

Usage	GFA K sq.m.	AGFA K sq.m.	AGFA %
Residential	5,933	3,583	44.7%
Office	1,255	1,104	13.8%
Commercial	984	824	10.3%
Town-house & villa	1,094	693	8.6%
Hotel & serviced apartment	591	505	6.3%
Car-park spaces and other auxiliary facilities	2,052	1,311	16.3%
TOTAL	**11,909**	**8,020**	**100.0%**

Source: company data and ABCI Securities estimates

Aggressive land acquisitions while maybe not at best timing: Since the Yubei project injection by Mr. Cheung in 2006, CCL has been expanding its land bank via acquisitions and auctions, particularly in the year 2007 and 2011.

Since the end of 2006, the group has acquired 24 land sites, among which 11 were done in 2007 and 6 were done in 2011, or in terms AGFA, 53.2% were acquired in 2007 and 24.6% were acquired in 2011. During the 2007-2011 property market cycle, year 2007 and 2011 was believed to be or at least near to the peak, implying the timing of acquisition maybe not the best for a property developer.

Land acquisitions summary since end 2006

Project Name	City	Stake %	Gross GFA Ksq.m.	AGFA Ksq.m.
As of May 2012				
1	Rongchong County,Chongqing	26	157	41
Year 2011				
2	Nan'an District,Chongqing	26	598	155
3	Jiangnan New District,Wanzhou, ,Chongqing	100	271	271
4	Brighton Place&Plaza,Guanghua New City,Qingyang District	51	349	178
5	Ludao New District,Bishan Country	26	826	215
6	Verakin,Chayuan New District	51	358	183
7	Jinyang New District,Guiyang	85	1,363	1,159
Year 2010				
8	Nanmenshan, Fuling District, Chongqing	31	71	22
Year 2009				
9	Yutang Town, Dujiangyan District, Chengdu	60	187	112
10	Chengnan, Chengdu	100	312	312
11	U-City, Shapingba District, Chongqing	100	423	423
12	Mumashan District, Xinjin County, Chengdu	49	344	169
Year 2008				
13	Tongnanxian, Chongqing	100	867	867
Year 2007				
14	Wenjing,Chengdu	50	555	278
15	Kunming.Yunan	70	62	44
16	Pengshan,Sichuan	60	1,000	600
17	Jiangbei,Chongqing	25	1,030	257
18	Dujiangyan,Chengdu	100	61	61
19	Yubei,Chongqing	100	339	339
20	Jinjing District,Chengdu	50	413	207
21	Verakin City,Chongqing	51	1,659	846
22	Dazhou,Sichuan	95	364	346
23	Jintang,Chengdu	60	2,226	1,336
24	Wanzhou,Chongqing	100	351	351
Total:		61.8	14,186	8,772

Source:companies' data and ABCI Securities estimates

Although maybe at poor timing, CCL acquired land parcels with good quality and most of the lands still have positive margin. We believe it is evidenced that the group has local network and knowledge to negotiate and/or explore ways to buy at good price. Although it may be an unsustainable edge of the group, we would like to highlight that the cost advantage of core land bank provides a support for overall margin of the group.

Quality land bank with undemanding land cost: Around 65% of CCL's projects or around 85% of its projects in Chongqing is located in prime city areas. This brings in strong upside potential for land appreciation and strong pricing power of the group.

CCL's current land bank has a competitive book cost of Rmb2,070/sq.m., while the land cost is even lower at est. Rmb1,765/sq.m., based on the acquisition cost.

We expect the land bank to be able to generate good margins in the upcoming 7~8 years for the group. Using the booked cost and the 2012 ASP (we build in 10-15%YoY price decline on project level for 2012ASP), we estimate 48.0%

of projects of CCL to be able to generate >= 35% gross profit margin (GPM) before LAT, or 40.0% of projects with GPM >=35% after LAT.

The GPM analysis on project basis

	City	Locations	Project Names In English	Project Names In Chinese	Stake %	AGFA K sq.m.	AGFA /total AGFA	GAV Rmbmn	GAV/ Total GAV	GPM Before LAT	GPM After LAT
1	Chongqing	Yubei District	Phoenix County	梧桐郡	100	399	5.0%	657	5.2%	30.5%	28.0%
2	Chongqing	Yubei District	Mansions on the Peak	御府	100	60	0.7%	149	1.2%	53.6%	41.9%
3	Chongqing	Yubei District	Lot #10	第 10 号地段	100	436	5.4%	1,636	13.0%	54.4%	42.2%
4	Chongqing	Yubei District	L'Ambassadeur	山顶道国宾城	100	494	6.2%	694	5.5%	13.6%	13.6%
5	Chongqing	Yubei District	Lot #17-1	第 17-1 号地段	100	210	2.6%	567	4.5%	49.4%	39.8%
6	Chongqing	Yubei District	Lot #9	第 9 号地段	100	305	3.8%	785	6.2%	49.4%	39.8%
7	Chongqing	Yubei District	Lot #19	第 19 号地段	100	260	3.2%	627	5.0%	49.4%	39.8%
8	Chongqing	Yubei District	Lot #4	第 4 号地段	100	557	6.9%	1,012	8.0%	49.4%	39.8%
9	Chongqing	Yubei District	Lot #3-1	第 3-1 号地段	100	260	3.2%	561	4.5%	49.4%	39.8%
10	Chongqing	Yubei District	Others	其他	100	91	1.1%	64	0.5%	4.9%	4.9%
11	Chongqing	Jiangbei District	Jiangbei District	重庆市江北项目	25	339	4.2%	451	3.6%	-10.0%	-10.0%
12	Chongqing	Nan'an District	Verakin New Park City	同景国际城	51	775	9.7%	1,095	8.7%	42.6%	35.5%
13	Chongqing	Nan'an District	Ertang Project	二塘项目	26	155	1.9%	224	1.8%	11.5%	11.5%
14	Chongqing	Wanzhou District	Riverside One, Wanzhou	滨江壹号	100	286	3.6%	314	2.5%	35.8%	31.3%
15	Chongqing	Wanzhou District	Wanzhou Project	万州项目	100	271	3.4%	295	2.3%	20.8%	20.8%
16	Chongqing	Shapingba District	Academic Heights	春华秋实	100	467	5.8%	381	3.0%	42.5%	35.5%
17	Chongqing	Bishan County, Ludao New District	Bishan Verakin New Park City	璧山•同景國際城	26	215	2.7%	95	0.8%	-6.9%	-6.9%
18	Chongqing	Rongchang County	Rongchang County	重慶市榮昌縣	26	41	0.5%	23	0.2%	21.2%	21.2%
19	Chengdu	Dujiangyan District, Yutang Town	Villa Splendido	禮里山莊	60	138	1.7%	45	0.4%	-2.7%	-2.7%
20	Chengdu	Jinjiang District	Sky Villa	四海逸家	51	246	3.1%	866	6.9%	18.5%	18.5%
21	Chengdu	Shuangliu County	Villa Royale	城南逸家	51	139	1.7%	253	2.0%	36.8%	31.9%
22	Chengdu	Xinjin County	La Concorde	牧山逸家	51	127	1.6%	90	0.7%	1.7%	1.7%
23	Chengdu	Qingyang District	Brighton Place & Plaza	光華逸家	51	178	2.2%	293	2.3%	1.7%	1.7%
24	Dazhou	Dazhou, Tongchuan District	Dazhou, Tongchuan District	四川省達州市通川區	100	413	5.1%	224	1.8%	29.0%	27.0%
25	Guiyang	Jinyang New District	First City, Guiyang	中渝•第一城	85	1,159	14.4%	1,175	9.3%	50.6%	40.6%

Source: Company data and ABCI Securities

Property investment

Property investment accounts for a slight slice of CCL's portfolio in terms of both AGFA (i.e. 1.0% of total land bank) and revenue contribution (i.e. 0.3% of revenue in FY2011 or 2.5% for net profit). The existing investment properties (IPs) has an AGFA of 83K sq.m.(i.e. 1.0% of total land bank), among which 63.0% is Car-park spaces and other auxiliary facilities,34.1% for commercial space and the remaining of 2.9% for residential use. All these projects are situated in Yubei District of Chongqing.

We classify the upcoming commercial, office and hotel as development portfolio because the management hasn't decided whether or not to hold them for investment purpose, which is highly depending on the cash flow situation and market status. However, the management mentioned that they hope to increase the profit contribution of IPs to 20% after five years. Although the strong financial position may support CCL to hold more properties for investment purpose we see it as a tough job for the group due to lacking of management expertise and experience to successfully run this business.

Land bank breaking down by usage

Usage	K sq.m.	K sq.m.	%
Residential	2	2	2.9%
Office	0	0	0.0%
Commercial	28	28	34.1%
Town-house & villa	0	0	0.0%
Hotel & serviced apartment	0	0	0.0%
Car-park spaces and other auxiliary facilities	52	52	63.0%
TOTAL	**83**	**83**	**100.0%**

Source: company data and ABCI Securities estimates

Current investment property portfolio

	Project Name	Detailed address	Use	Stake %	Occupancy rate %	AGFA K sq.m.
1	California Garden	Longxi Jie Dao,Yubei District,Chongqing	Commercial	100	59.7	22
			Residential	100	0.0	2
			Car parking spaces	100	100.0	16
2	California City Garden	Longxi Jie Dao,Yubei District,Chongqing	Commercial	100	81.8	5
			Car parking spaces	100	100.0	12
			Auxiliary facilities	100	100.0	3
3	Kechuang Building	No. 8 Jinshan Road,Longxi Jie Dao,Yubei District,Chongqing	Car parking spaces	100	100.0	3
4	Huijingtai	No. 3 Jinshan Road,Longxi Jie Dao,Yubei District,Chongqing	Commercial	100	6.5	2
			Car parking spaces	100	100.0	11
5	Underground Carpark	No. 2 Xingai Road,Longxi Jie Dao,Yubei District,Chongqing	Car parking spaces	100	70.1	8

Source: company data, and ABCI Securities estimates

Sector Comparison

Our analysis indicated that the group possess quality land asset but our profitably comparison showed that the group looks less capable to unlock the hidden value of its balance sheet.

Profitability Comparison

Ticker	Stock name	Latest FY end	^ROE (%)	GPM (%)	NPM (%)	Asset turnover (%)	Net D/E (%)
1224	**C C LAND HOLDING**	**12/2011**	**2.9**	**27.1**	**8.6**	**13.6**	**2.4**
HK- listed peers							
688	CHINA OVERSEAS	12/2011	21.5	44.9	30.9	27.6	33.2
1109	CHINA RES LAND	12/2011	13.7	39.6	22.5	19.8	56.7
3333	EVERGRANDE REAL	12/2011	36.1	33.3	18.4	34.6	67.5
960	LONGFOR PROPERTI	12/2011	31.5	40.5	28.7	24.8	39.2
2007	COUNTRY GARDEN	12/2011	20.1	34.5	16.8	32.4	61.4
3383	AGILE PROPERTY	12/2011	24.1	53.8	22.8	28.1	52.6
813	SHIMAO PROPERTY	12/2011	21.1	38.4	24.8	22.2	81.6
2777	GUANGZHOU R&F -H	12/2011	21.5	41.7	17.7	32.5	85.1
119	POLY HONG KONG	12/2011	13.1	39.5	22.8	14.8	93.2
1813	KWG PROPERTY	12/2011	15.6	44.2	20.8	22.7	61.8
1638	KAISA GROUP HOLD	12/2011	15.9	29.8	17.5	26.0	76.6
1918	SUNAC CHINA HOLD	12/2011	33.8	33.6	22.5	31.5	104.1
1777	FANTASIA HOLDING	12/2011	20.8	42.8	21.6	40.6	56.7
2868	BEIJING CAPITAL	12/2011	20.8	38.7	15.7	19.9	-13.3
A shares peers							
000002	CHINA VANKE CO-A	12/2011	21.9	39.8	13.4	24.2	-8.4
600048	POLY REAL ESTA-A	12/2011	20.9	37.2	13.9	24.1	90.9
	Simple average		22.0	39.5	20.7	26.6	58.8
	Max		36.1	53.8	30.9	40.6	104.1
	Min		13.1	29.8	13.4	14.8	-13.3

^ROE=Net profit /attributable equity

Net D/E= Net debt/total equity

Source: company data and ABCI Securities estimates

We have identified 14 HK-listed and 2 A-shares companies which are engaged in property development and investment. They have an average ROE at 22.0%.

CCL registered ROE at 2.9% which is significant lower than the industry average.

We expect that the profitability of CCL was distorted by the accounting policy. According to the GAAP accounting rule, the project's stake acquired through transfer of company is subject to revaluation upon acquisition and impairment testing every financial year, which depress development margins of CCL and inflate its equity. Our judgment was evidenced by its historical financial data. In FY2006 and FY2007, the acquisition and revaluation gain of land of Yubei and Verakin caused a significant jump in its equity respectively In FY2006, its equity grew at 831%YoY and the equity further grew 96% in FY2007.

The group acquired the Yubei land (core land bank) and the Verakin projects' through above mentioned method, CCL booked HK$3,066mn and HK$1,837mn on these two assets. The equity asset was therefore inflated. And when CCL booked revenue from these two projects, the revaluation of land cost should be adopted. The development margin will be depressed by ~6-15ppt. In FY2011, based on booked land cost, the group registered 27.5 % GPM (or 14.4% in FY2010) for property development business while the margin will be increased to 43.5 %(or 20.9% in FY2010) if acquisition land cost was used.

Land cost estimated for Yubei Project

	Gross GFA K sq.m.	Interest %	AGFA K sq.m.	Total HK$mn	HK$/sq.m.
Acquisition cost in Oct 2006	3,070	100	3,070	3,318	1,081
+ revaluation gain in 2006	3,070	100	3,070	3,079	1,003
Impairment testing every FY afterwards					
Book as of May-12	**2,673**	**100**	**2,673**	**5,569**	**2,084**

Source: company data and ABCI Securities estimates

Land cost estimated for Verakin Project

	Gross GFA K sq.m.	Interest %	AGFA K sq.m.	Total HK$mn	HK$/sq.m.
Acquisition cost in Oct 2007	1,659	51	846	625	739
+ revaluation gain in 2007	1,659	51	846	417	493
Impairment testing every FY afterwards					
Book as of May-12	**1,162**	**51**	**593**	**730**	**1,231**

Source: company data and ABCI Securities estimates

The lower ROE also resulted from lower gearing ratio (net debt/equity). Over-leveraged which is used to boost up ROAE is an industry norm. The group's gearing ratio was at 2.4%, the third lowest in 16 peers, and the lowest in the non-SOE small-cap developers (Kaisa, Sunac and Fantasia).

When we excluding the negative impact from the accounting policy and the gearing ratio, we expect the major reason causing its lower ROE was CCL's lower asset turnover (i.e. slow sales and slow project completion schedule).

Financial Review and Forecast

Financial review

After the land injection, the property development business of CCL had been in loss making during FY2006-2009. Apart from the above mentioned reason, accounting policy early booking benefit of land appreciation and therefore depressing GP margins, the mismatch in revenue and cost was another reason.

For a fast-growing property 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. The profit of property development can only be booked when it is delivered to buyers while the cost related to pre-sales (mainly selling, general and administration) has to be expensed immediately when incurred. The situation will improve when the booking amount starts to cover cost from pre-sales, which usually occurs after 2-3 years of initial development.

However, the group looks a little bit slow in turning profitable, which came in 4 years after business initiation. We expect this was due to its low completion schedule. For FY2008-2009, the group delivered GFA125-188K sq.m., lower than 2.0% of AGFA at the time.

In FY2010, the group first registered positive profit in core business with low GPM of 14.4%. It delivered 203K sq.m.. GFA. In FY2011, it was on track to register strong growth with GFA delivered up 200.6%YoY to 609K sq.m. and GPM at 27.5%. However these two key indicators disappointed market as they missed management guidance sharply.

Financial forecast

We agree that more check points needed for its execution capability, which once improved, should move the group quickly onto next transition, harvest stage.

In the short term, backed by Rmb5.8bn and Rmb6.4bn realized contracted sales each in 2010 and 2011, we expect the earnings visibility for FY2012 is high. The core net profit is expected to grow 122.4% to HK$581mn in FY2012.

100.0% of FY2012 delivery target locked in: According to the management, CCL had pre-sales Rmb8.50bn carried forward at Dec 2011, within which we expect Rmb5.90bn to be booked in FY2012. Together with the sales achieved as of May-12, we estimate CCL has around Rmb5.91bn sold but unbooked revenue, representing 100.0% of FY2012E revenue from property development.

Revenue lock- in ratio estimation

	Rmbbn
Unrecognized contract sales as of end-2012	8.50
To be booked FY2012	5.90
YTD contract sales achieved(up to 31 May 2012) in FY2012	2.80
Estimated YTD contract sales to be booked in FY2012	0.01
Total YTD bookable contract sales	5.91
FY2012E revenue from property development	5.91
Lock-in ratio	100.0%

Source:company data and ABCI Securities estimates

Strong balance sheet positions it well for future land expansion: CCL has been characterized by low gearing. In FY2010, the group was in net cash position in FY2010.In FY2011, it net gearing was at 2.4%. The management targets to maintain leverage below 20%. This means it can gear up greatly should bargaining hunting opportunity appear. It is positive for the investors taking CCL as a land investment vehicle in western China. However, from growth point of view, the far below industry average (60%) gearing may mean low development pace, low ROAE growth and hence low equity recycling going forward.

Consolidated income statements

For the year ended 31/12(HK$mn)	2010	2011	2012E	2013E
Property development and investment	1,314	4,679	7,334	9,289
Property investment	20	15	14	14
Treasury investment	16	8	8	9
Others	176	154	0	0
Total Turnover	**1,526**	**4,857**	**7,357**	**9,311**
Property development and investment	190	1,285	1,938	2,827
Property investment	18	14	13	13
Treasury investment	13	6	7	7
Others	23	12	0	0
SG&A	(458)	(690)	(855)	(1,114)
Other unallocated income and corporate expenses	568	396	0	0
EBIT	**353**	**1,024**	**1,102**	**1,733**
Net Interest Income	**(9)**	**11**	**(26)**	**40**
Share of Associates & JV	(10)	(28)	217	238
Exceptionals	64	59	0	0
Pretax Profit	**407**	**1,055**	**1,319**	**1,971**
Taxation	**(143)**	**(650)**	**(738)**	**(1,006)**
Minority Interest	(5)	116	(26)	(54)
Net Profit	**260**	**301**	**581**	**1,058**
Core Net Profit	**203**	**261**	**581**	**1,058**
FD EPS(HK$)	0.1015	0.1179	0.2276	0.4143
Chg		16.2%	93.1%	82.0%
FD Core EPS(HK$)	0.0792	0.1024	0.2276	0.4143
Chg		29.3%	122.4%	82.0%
PE	17.3	14.9	7.7	4.2
Target price/EPS	22.4	19.3	10.0	5.5
DPS(HK$)	0.04	0.04	0.05	0.08
Dividend Yield	2.3%	2.3%	2.6%	4.7%

Source: company data and ABCI Securities estimates

Consolidated balance sheets

As of 31/12(HK$mn)	2010	2011	2012	2013
PP&E	267	156	148	141
Prepaid land lease payments	1,899	785	765	757
Investment properties	338	373	373	373
Associates and JV	1,084	1,129	1,346	1,584
Properties under development	7,164	7,350	5,880	4,704
Interests in land use rights for property development	0	3,151	2,520	2,016
Other non-current assets	937	812	812	812
Fixed Assets	**11,690**	**13,756**	**11,846**	**10,388**
Properties under development	7,609	12,072	13,688	15,462
Completed properties held for sale	1,007	1,185	1,343	1,517
Trade receivables	113	38	73	100
Bank balances & cash	5,880	6,754	6,350	5,390
Other current assets	1,112	1,839	1,817	1,817
Current Assets	**15,720**	**21,887**	**23,271**	**24,285**
Total Assets	**27,411**	**35,643**	**35,117**	**34,673**
Short term loan	1,390	2,065	6,939	4,757
Trade payable	962	1,937	0	0
Other payables and accruals	6,077	8,660	6,232	8,303
Other current liabilities	887	1,505	1,505	1,505
Current Liabilities	**9,316**	**14,168**	**14,677**	**14,564**
Long term loans	2,899	5,034	3,546	2,326
Other long-term liabilities	1,980	1,836	1,836	1,836
Long Term Liabilities	**4,879**	**6,870**	**5,381**	**4,162**
Total Liabilities	**14,195**	**21,038**	**20,058**	**18,726**
Minority interests	950	1,624	1,598	1,544
Shareholders' funds	12,266	12,982	13,461	14,403
Total Equity	**13,216**	**14,606**	**15,059**	**15,947**
Net Debt	1,591	(346)	(4,135)	(1,693)
ST loans/total loans	32.4%	29.1%	66.2%	67.2%
Net debt/equity	-12.0%	2.4%	27.5%	10.6%
BVPS(HK$)	4.79	5.08	5.27	5.64
P/B	0.37	0.35	0.33	0.31
Target price/BVPS	0.48	0.45	0.43	0.40

Source: company data and ABCI Securities estimates

Consolidated cash flow statements

As of 31/12(HK$mn)	2010	2011	2012E	2013E
EBIT	411	1,060	1,319	1,971
D&A	65	50	27	15
Chg in WC	2,091	(658)	(3,518)	2,137
Other items	(632)	(370)	(217)	(238)
Cash flow from operations	1,935	82	(2,389)	3,886
Interest paid	(138)	(280)	(646)	(436)
Tax paid	(94)	(352)	(738)	(1,006)
Net cash flows from operating activities	**1,703**	**(550)**	**(3,772)**	**2,443**
Acquisition of land use rights	(1,928)	(2,971)	0	0
(Purchase)/Disposal PP&E	(16)	(39)	0	0
Investments in associates and jointly-controlled entities	(0)	0	0	0
Other items	928	68	0	0
Net cash flows used in investing activities	**(1,016)**	**(2,943)**	**0**	**0**
Equity raised/(repaid)	(36)	(34)	0	0
Net interest bearing loan	1,501	2,624	3,385	(3,402)
Dividend paid	(77)	(102)	(102)	(116)
Other items	177	240	0	0
Net cash flows from/(used in) financing activities	**1,565**	**2,728**	**3,284**	**(3,518)**
Net chg in cash and cash equivalent	**2,252**	**(765)**	**(489)**	**(1,075)**
Beginning cash	2,256	1,565	2,728	3,284
FX effects	34	184	0	0
Ending Cash	**4,543**	**985**	**2,239**	**2,209**
OCF/Share	1.77	0.39	0.88	0.87

Notes: No land acquisition is assumed

Source: company data and ABCI Securities estimates

Valuation

We appraise the equity of the group in two different approaches. We use the NAV method to appraise the intrinsic value of the group. Meanwhile we use PE multiple method to set price target in a bid to reflect earnings growth momentum of the group in the short term.

NAV calculation

Development properties: we apply a weighted average cost of capital (WACC) of 17.2% to our discounted cash flow for its property development business. The WACC is higher than the 10-15% for other China property developers in our coverage due to higher cost of equity commanded by investment market.

In terms of ASP, we factor in 10%YoY decrease for Chongqing and 15%YoY decline for other cities in our base case scenario. We build in zero price change for all the cities in 2013.

Our WACC is using the following assumptions:

Major assumptions on WACC

Risk free rate	1.4%
Equity risk premium	12.0%
Beta	1.54
Cost of Equity	19.8%
Cost of debt	6.0%
Effective tax rate	25%
Long-term debt to capital ratio	17%
WACC	17.2%

Source: Bloomberg, ABCI Securities estimates

We arrive at a gross NAV of HK$6.10/share for its development properties.

Investment properties: We use a 10% cap rate for its investment properties in China, reaching gross NAV of HK$0.06/share.

Total business: Factoring in land premium outstanding and other in and off-balance sheet debts, we arrive at 2012 NAV of HK$4.80/share for CCL. The stock is currently trading at 63.4% discount to NAV, deeper than the peers.

NAV valuation table

Current NAV calculation				
				%
Development properties	Rmbmn	HK$mn	HK$/share	Total GAV
Chongqing	9,572	11,787	4.62	75.7%
Chengdu	1,547	1,905	0.75	12.2%
Dazhou	224	276	0.11	1.8%
Guiyang	1,175	1,447	0.57	9.3%
Sub-total	12,519	15,416	6.04	99.0%
Investment properties	123	151	0.06	1.0%
Total GAV	12,642	15,567	6.10	100.0%
Outstanding land premium	(2,400)	(2,955)	(1.16)	
Net cash/(debt)	(281)	(346)	(0.14)	
NAV	9961			
NAV/share(Rmb)	3.90			
NAV/share(HK$)	4.80			
Share price(HK$)	1.76			
Premium/discount to NAV	-63.4%			

Source: company data and ABCI Securities

PER multiple

We use forward P/E to set target price for CCL. PE multiple method is better to capture short term earnings growth momentum of a company. And we believe the method is justified for the developer with high land bank portfolio and sustainable delivery schedule is expected.

Market value China property developers at 1.94-10.84x est FY2012 PER with the average at 5.37x. We apply a 10.0x est FY2012 PER for CCL as we expect that its strong visible FY2012 growth justifies a higher than average PER rating.

Based on est FY12 basic EPS of Rmb0.2276 the targeted PER implies share price of HK$2.28, representing 52.6% discount to current NAV(HK$4.80).

Market Valuation Comparison

Company	Code	Price (HK$)	Market cap (HK$mn)	FY2011 PER(x)	Est. FY2012 PER(x)	Historical P/B(x)
China Overseas	688	16.04	134,847	9.05	7.90	1.86
China Resources	1109	14.60	87,638	12.59	10.84	1.41
Evergrande	3333	4.22	62,850	5.24	4.69	1.58
Longfor Properties	960	12.14	62,650	9.23	7.79	2.34
Country Garden	2007	3.03	52,650	6.97	6.31	1.50
Agile Property	3383	9.26	31,942	6.08	5.47	1.21
Shimao Property	813	10.98	38,122	7.19	6.49	1.02
R&F Properties	2777	10.38	33,448	5.84	5.55	1.17
Poly HK	119	3.55	13,604	6.16	5.03	0.52
KWG	1813	4.86	14,061	5.58	4.95	0.86
Kaisa Group	1638	1.43	7,015	3.30	2.61	0.48
Sunac	1918	2.34	7,020	2.32	1.94	0.82
Fantasia	1777	0.83	4,322	3.51	2.84	0.61
Beijing Capital	2868	1.90	3,912	2.79	2.70	0.56
			Average	6.08	5.37	1.08
			Max	12.59	10.84	2.34
			Min	2.32	1.94	0.48

Source:Bloomberg and ABCI Securities

Risk Factors

Concentration risk: With 70.1% of attributable land bank in Chongqing, and 38.3% in Yubei District, we expect CCL to be subject to high concentration risk. The valuation of the group will be very sensitive to the outlook on Chongqing property market, particularly on the Yubei District.

Operating risk: we noticed that around 24.6% of its land bank was acquired through associate shareholding structure. The group doesn't have strong control on these projects which expose the group with operating risk. We anticipate the role of the group in such projects is a pure financial investor.

Another type of operating risk may come from the delay of the completion of the projects, GFA start and GFA under-construction.

Economy risk: An economy hard landing or any weaker than expected GDP growth in China could dampen the purchasing power of home buyers and fast frozen the demand. Moreover a stronger than expected pick up in CPI will also lead to sharp surge in interest rate, affecting housing demand and increase the interest burden of the group.

Policy risk: High residential price may trigger another round of austerity measures on property sector. This could further damp sentiment in the housing market and negatively impact our sales and earnings forecast for CCL.

On the positive side, a larger than expected credit loosening may boost up volume rebound significantly and positively impact our sales and earnings forecast for CCL.

Liquidity risk: Characterized by small-cap property developer (market cap at HK$4.5bn), CCL is subject to liquidity risk. The average daily trading volume was at 3.2mn or HK$5.4mn in value terms over the past 15 trading days.

Share price risk: 15-days volatility of the stock was 45.6%, or 2.5x of 15-days volatility of HSI of 18.0%, indicating a higher-than-market share price risk.

When compared to 15-days volatility of HSCIPC(Hang Seng Property and Construction) 26.7%, an index tracking major China property developers, 15-days volatility of the stock was also at 1.7x larger, indicating a higher-than-sector share price risk.

Disclosures

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