

Analyst: Sabina Cheng
CHINA RESOURCES ENTERPRISE, LIMITED (華潤創業)

Sector	: Conglomerates
HKSE Code	: 0291
Market Price	: HK\$25.10 (01/04/2008)
HSI	: 23,137.46 (01/04/2008)
Shares Issued	: 2,386.364 million
Market Cap.	: HK\$59,420.46 million
52-week Hi / Lo	: HK\$36.00 / HK\$20.10

Chairman : Charles SONG Lin

Managing Director : Chen Shulin

SUMMARY OF THE FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2007
Final Results Highlights

	FY2007 HK\$ million	FY2006 HK\$ million	Change
• Turnover	62,123	65,437	-5.06%
• Profit before tax	3,652	2,861	27.65%
• Revaluation gain on investment properties	567	528	7.39%
• Share of results of associates	353	333	6.01%
• Profit attributable to shareholders	4,961	2,776	78.71%
• EPS – Basic (HK\$)	2.09	1.19	75.63%
• Final DPS (HK\$)	0.30	0.26	15.38%
• Total DPS (HK\$)	0.45	0.40	12.50%
• Special DPS (HK\$)	0.60	1.00	-40.00%

- China Resources Enterprise (“CRE”) reported a 79% y-o-y rise in net profit to HK\$4.961 billion for the year ended 31st Dec 2007 which was better than expectations, driven by the China’s sizzling economy last year. Underlying net profit was up 11% to HK\$2.051 billion (FY06: HK\$1.85 billion), driven by the 41% profit growth of the continuing businesses.
- Turnover fell 5.06% to HK\$62.123 billion (FY06: Turnover grew by 21.4% to HK\$65.44 billion). Excluding the discontinued petroleum business, turnover grew by 28% to HK\$51.50 billion from HK\$40.337 billion in FY06.
- EPS jumped 75.63% y-o-y to HK\$2.09. A final DPS and special DPS of HK\$0.30 and HK\$0.60 were declared, bringing the full-year total DPS to HK\$1.05 (2006: HK\$1.40). This represents a payout ratio of 50.24% (2006: 117.65%).
- As of 31st Dec 2007, consolidated net borrowings amounted to HK\$4.004 billion (31st Dec 2006: HK\$1.781 billion) and net gearing ratio was 13.3% (31st December 2006: 7.10%).

Turnover breakdown:

HK\$ million	FY2007	%	FY2006	%	Change
Retail	26,008	41.87	20,418	31.20	27.38%
Beverage	13,304	21.42	9,455	14.45	40.71%
Food processing and distribution	7,381	11.88	6,092	9.31	21.16%
Textile	4,713	7.59	4,453	6.81	5.84%
Investment Property	375	0.60	349	0.53	7.45%
Petroleum & related products distribution	10,610	17.08	25,100	38.36	-57.73%
Elimination of inter-segment transactions	-268	-0.43	(430)	-0.66	-37.67%
Total	62,123	100.00	65,437	100.0	-5.06%

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- **Net profit breakdown:**

HK\$ million	FY2007	%	FY2006	%	Change
Retail	521	10.50	217	7.82	140.09%
Beverage	303	6.11	174	6.27	74.14%
Food processing and distribution	531	10.70	435	15.67	22.07%
Textile	144	2.90	61	2.20	136.07%
Investment Property	648	13.06	647	23.31	0.15%
Petroleum & related products distribution	2,582	52.05	1,002	36.10	157.68%
Investments & others	429	8.65	421	15.17	1.90%
Net corporate interest and expenses	(197)	-3.97	(181)	-6.5	8.84%
Total	4,961	100.0	2,776	100.0	78.71%

- **Retail business**

- Net profit of the retail business, which comprises supermarket, retail stores in Hong Kong and brand-fashion distribution in China, jumped by 140.09% to HK\$521 million from HK\$217 million in 2006. Turnover increased by 27.38% y-o-y to HK\$26.01 billion. The **supermarket** operation delivered profit of HK\$363 million (2006: HK\$152 million), with improved performance led by mainland China, while EBITDA was up 36% to HK\$1.051 billion.
- As of 31st Dec 2007, there were 2,389 stores in mainland China and Hong Kong, of which 1,217 are self-operated and the rest are franchised. Approximately, 58% of the turnover was from Eastern and Central China, 27% from Southern China, 10% from Hong Kong and the rest from Northern China.
- Brand-fashion in China reported a 2.8 times increase in net profit to HK\$98 million and number of international brands further reduced. Esprit JV delivered turnover growth of 39% on a 15.2% same store growth. Other retail stores contributed earnings of HK\$60 million, a strong growth of 54%. Strong same store growth of Chinese Arts & Crafts (CAC) and CR Care stores of 7.1% and 22.8% respectively was the major contributor to the overall improvement. At the end of Dec 2007, CRE operated 5 CAC stores and 41 CR Care stores.
- Profit contribution from the **beverage business** rose by 74.14% to HK\$303 million. **Beer** sales volume grew 31% y-o-y to 6.94 million kilolitres, representing a market share of about 17.6% (2006: 15.1%). Beer's average selling price increased 7.6% y-o-y (constant currency 1.7%) to about HK\$1,780 per kilolitre and gross margin was steady. Sales volume of CRE's flagship brand "SNOW" beer surged 69% y-o-y to 5.12 million kilolitres, accounting for 74% of the total volume sold (2006: 57.2%). CRE's **purified water** operation, which has been 100% owned since last May, recorded a 31% y-o-y rise in sales volume and a lucrative net margin of 6.7%, compared to breweries' 1.9%.
- The **food processing and distribution** business saw a net profit growth of 22.07% to HK\$531 million. Sales volume growth under the marine fishing and aquatic products processing operation was 39%. Despite the shortage of livestock and price volatility, foodstuff distribution reported a steady operating profit boosted by higher contribution from the frozen and assorted food distribution. Opening of the live-pig imports market in Hong Kong has increased competition. Profitability of food processing was lifted by marine fishing, which had a notable recovery. Slaughtering volume in Hong Kong dropped. The three meat processing projects in Shenzhen, Shanghai and Hangzhou contributed combined turnover of HK\$990 million and operating profit of HK\$61 million with overall increase in slaughtering volume.
- The **textile** business reported a 136.07% jumped in earnings to HK\$144 million (2006: HK\$61 million). Sales volume of cotton yarns increased 12% y-o-y to 61,478 tonnes whilst sales of fabrics dropped 13% to 185 million meters. Earnings contribution from the garment division increased by 19% attributable to effective cost reduction as sales volume only increased by 2%. Overall gross margin improved by 0.7%.

- Net profit of the **property** business edged up slightly by 0.15% to HK\$648 million while turnover was up 7.45% to HK\$375 million. Excluding tax revaluation surplus and disposal gains of certain non-core investment properties with an aggregate HK\$408 million (2006: HK\$432 million), attributable profit of the division increased by 11.6%. Gross rental income increased by 8% to HK\$372 million on the back of a 1.4% increase in average retail rent and initial contribution from JD Mall. Average occupancy rate of CRE's retail properties dropped from 98% to 88% as JD Mall, the newly redeveloped multi-storey retail property at Jordan, was completed during 2007. The shopping mall at Jiangmen contributed HK\$11 million gross rental income. There was no property disposal gain compared to HK\$13 million last year.
- As a non-core business, the disposal of the **petroleum and related products distribution** division was completed on 29 Jun 2007 and a gain of HK\$2.399 billion was booked. No more contribution from this business segment was recorded after 1H 2007.
- CRE has a 10% interest in HIT Investments Limited and Hutchison Ports Yantian Investments Limited. The Hong Kong and Yantian deepwater port operations continued to maintain a stable profit performance in 2007.

Outlook & Prospect

- **Focuses on the development of hypermarkets this year** Management of CRE saw continuous growth in 1Q 2008 and expected that increasing sales would offset higher operating and raw material costs. This year, CRE aims to improve operational efficiency by focusing on the development of hypermarkets. Meanwhile, the Group is making efforts to rationalize the supply chain in the regions in PRC in order to reduce purchase costs. Moreover, it will also continue enhance existing operations, open new stores in target districts and explore acquisition opportunities to raise market presence in the Mainland.
- **JV in beer unit lowers the operation costs to a certain extent** The joint venture with SABMiller of South Africa has lowered CRE's operating costs for its 62 breweries through bulk sourcing of raw materials like barley. Separately, CRE plans to raise its capacity at an annual rate of 30% with guidance for revenue growth of about 20% y-o-y, implying that the capacity expansion could outpace sales growth in the foreseeable future. In addition, in 2007, 16 new breweries booked a loss of HK\$107 million and it should take a longer time for the brewery division to deliver meaningful results.
- **Food processing and distribution division** Ng Fung Hong saw profit rise 22% to HK\$531 million amid shortages of pork and beef. However, it is suspected that PRC pig farmers would be more profitable by selling their pigs in the Mainland rather than exporting them via Ng Fung Hong to Hong Kong. We accordingly see CRE's volume growth in this division would be affected.
- **Non-core units** Market expects that CRE would dispose of its non-core units such as the textile operations and its 10% stake in container port operator Hong Kong International Terminals this year to raise more funds for further core business acquisitions.
- **Valuation** CRE is currently trading around FY2008E 14X PER. In view of the strong growth in its core profits, market has just revised up earnings forecast for CRE by 6% for 2008 and 9% for 2009. Looking ahead, catalysts of this counter should be the hypermarket chain store business in Northern China, the disposal of its textile operations as well as the 10% stake in HIT and Yantian port.

Recommendation: Buy on weakness



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