

COLI (688 HK)

Flat performance

Revenue and core earnings grew by 11% to RMB88.6bn and 0.3% to RMB17.9bn in 1H20, respectively. Contracted sales amount only gained 0.1% to RMB193.5bn in 7M20. Land acquisition has accelerated since Jul. COLI owned RMB111.4bn cash on hand and balance sheet with net gearing ratio of 33%. We believe it has strong war chest for future business expansion. Raise TP to HK\$30.49. BUY.

- Core interim profit gained 0.3% in 1H20.** Revenue gained 11.0% to RMB88.6bn but net profit tumbled by 3.7% to RMB20.5bn in 1H20. Excluding the revaluation gain, core earnings increased by 0.3% to RMB17.9bn in the period. Gross margin declined by 4.3ppt to 30.6%. SG&A expenses were under well control in 3.0% of revenue (decline 0.1ppts from 1H19). 4x increase of deduction from minority interest (from RMB0.4bn in 1H19 to RMB2.3bn in 1H20) dragged down bottom line. Interim dividend maintained at HK\$0.45.
- Contracted sales increased 4% in 1H20.** Contracted sales amount and area gained by 4.2% to RMB172.0bn and 3.5% to 9.54mn sq m in 1H20, respectively. Given 24mn sq m new start in 2020, we forecast full year sales target to be RMB374bn. So COLI accomplished 52% of our estimated sales target till Jul as contracted sales amounted to RMB21.5bn in Jul 2020. As of Jun 2020, unbooked pre-sales (ex COGO) amounted to RMB155.5bn.
- Prudent land acquisitions.** COLI acquired 21 land parcels in 13 cities with attributable GFA of 5.62mn sq m in 1H20. Total attributable land budget is RMB140bn in 2020. Land acquisition pace has accelerated since Jul. From 1 Jul to 21 Aug, COLI further acquired 15 projects with attributable GFA of 3.3mn sq m. As of Jun 2020, total and attributable land bank amounted to 90.06mn sq m and 61.59mn sq m, respectively.
- One of the best balance sheets in property sector.** Net gearing ratio was 33.0% and cash on hand totaled RMB111.4bn as of Jun 2020. In addition, cost of debt was only 4.01% in the period. Chinese authorities has recently tightened the financing requirements for property companies. We believe COLI would leverage its balance sheet to capture more land bank in the future.
- Maintain BUY.** Other than adding back non-core earnings in 2020, we maintain our earnings forecast unchanged. We forecast net profit to grow by 20.5% to RMB43.9bn in 2020 and 11.2% to RMB46.0bn in 2021. We raise end-20 NAV forecast from HK\$40.17 to HK\$43.55. As a result, we lift TP from HK\$28.12 to HK\$30.49, representing a 30% discount to NAV.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	144,027	163,651	193,914	221,386	252,305
YoY growth (%)	N.A.	13.6	18.5	14.2	14.0
Net income (RMB mn)	37,716	41,618	43,923	45,979	52,352
EPS (RMB)	3.44	3.80	4.01	4.20	4.78
YoY growth (%)	N.A.	10.3	5.5	4.7	13.9
Consensus EPS (RMB)	N.A.	N.A.	3.72	4.22	4.82
P/E (x)	6.1	5.5	5.2	5.0	4.4
P/B (x)	0.9	0.8	0.7	0.6	0.6
Yield (%)	4.3	5.5	5.7	6.9	7.8
ROE (%)	15.2	14.8	13.8	12.9	13.1
Net gearing (%)	32.5	32.7	27.4	29.8	25.7

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$30.49
(Previous TP)	HK\$28.12)
Up/downside	+30.0%
Current Price	HK\$23.45

China Property Sector

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Stock Data

Mkt Cap (HK\$ mn)	256,913
Avg 3 mths t/o (HK\$ mn)	341
52w High/Low (HK\$)	31.0/21.8
Total Issued Shares (mn)	10,956

Source: Bloomberg

Shareholding Structure

COLI	55.1%
CITICI	10.0%
Free float	34.9%

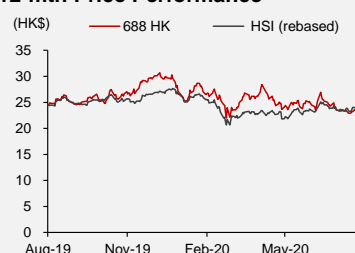
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-3.5%	-3.0%
3-mth	-1.7%	-10.2%
6-mth	-14.2%	-6.7%
12-mth	-7.4%	-3.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

Related Reports

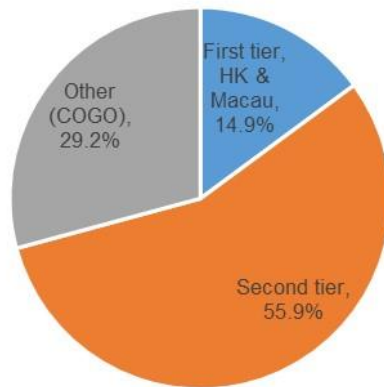
- Double digit growth next three years – 29 Mar 2020
- Core earnings reached HK\$21bn in 1H19 – 23 Aug 2019
- Investment properties as new engine – 21 Mar 2019

Figure 1: 1H20 results

	1H20 (RMB mn)	1H19 (RMB mn)	Change (%)	Remark
Revenue	88,625	79,836	11.0%	
Property sales	86,346	77,649	11.2%	
Rental	1,923	1,811	6.2%	RMB20mn rent reduction in 1H20
Other	357	377	-5.3%	
Cost of sales	(61,511)	(51,977)	18.3%	
Gross profit	27,114	27,859	-2.7%	Gross margin narrowed 4.3ppts to 30.6% in 1H20
Other income	1,610	1,420	13.4%	
Marketing expenses	(1,295)	(1,129)	14.7%	
Administrative expenses	(1,365)	(1,344)	1.6%	
EBIT	26,064	26,806	-2.8%	Gross margin narrowed 4.2ppts to 29.4% in 1H20
Finance costs	(431)	(407)	5.9%	
Share from associates and JVs	2,542	1,926	32.0%	
Investment properties revaluation gain	5,198	4,497	15.6%	
PROFIT BEFORE TAX	33,373	32,822	1.7%	
Income tax	(10,570)	(11,057)	-4.4%	Effective tax rate narrowed by 2.0ppts to 31.7% in 1H20
PROFIT FOR THE YEAR	22,803	21,765	4.8%	
Non-controlling interests	(2,277)	(440)	417.1%	
Net profit to shareholders	20,527	21,325	-3.7%	Net margin narrowed 3.5ppts to 23.2% in 1H20
Core profit to shareholders	17,940	17,886	0.3%	

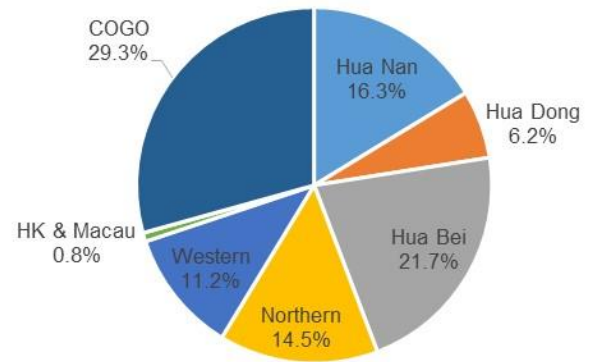
Source: Company data, CMBIS

Figure 2: Land bank in tier of cities as at Jun 2020



Source: Company data, CMBIS

Figure 3: Land bank distribution as at Jun 2020



Source: Company data, CMBIS

Figure 4: 2020 business plan

	1H20	2020E
New start (mn sq m)	8.21	24.00
Completion (mn sq m)	7.32	19.00
Under construction (mn sq m)	46.48	N.A.
Attributable new land bank budget (RMB bn)	52.3	140.0

Source: Company data, CMBIS

Figure 5: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	193,914	221,386	221,386	193,914	221,386	252,305	0.0%	0.0%	-12.3%
Gross Profit	62,980	71,952	71,952	62,980	71,952	82,194	0.0%	0.0%	-12.5%
EBIT	61,261	70,367	70,368	61,191	70,227	79,636	0.1%	0.2%	-11.6%
Net profit	43,923	45,979	45,981	40,643	46,706	53,117	8.1%	-1.6%	-13.4%
EPS (RMB)	4.01	4.20	4.20	3.71	4.26	4.85	8.1%	-1.5%	-13.5%
Gross Margin	32.5%	32.5%	32.5%	32.5%	32.5%	32.6%	0 ppt	0 ppt	-0.1 ppt
EBIT Margin	31.6%	31.8%	31.8%	31.6%	31.7%	31.6%	0 ppt	0.1 ppt	0.2 ppt
Net Margin	22.7%	20.8%	20.8%	21.0%	21.1%	21.1%	1.7 ppt	-0.3 ppt	-0.3 ppt

Source: CMBIS estimates

Figure 6: CMBIS vs consensus estimates

(RMB mn)	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	193,914	221,386	221,386	192,245	225,471	261,206	0.9%	-1.8%	-15.2%
Gross Profit	62,980	71,952	71,952	62,689	72,786	83,212	0.5%	-1.1%	-13.5%
EBIT	61,261	70,367	70,368	57,810	66,316	75,331	6.0%	6.1%	-6.6%
Net profit	43,923	45,979	45,981	39,726	44,653	51,176	10.6%	3.0%	-10.2%
EPS (RMB)	4.01	4.20	4.20	3.72	4.22	4.82	7.6%	-0.5%	-13.0%
Gross Margin	32.5%	32.5%	32.5%	32.6%	32.3%	31.9%	-0.1 ppt	0.2 ppt	0.6 ppt
EBIT Margin	31.6%	31.8%	31.8%	30.1%	29.4%	28.8%	1.5 ppt	2.4 ppt	2.9 ppt
Net Margin	22.7%	20.8%	20.8%	20.7%	19.8%	19.6%	2 ppt	1 ppt	1.2 ppt

Source: Bloomberg, CMBIS estimates

Figure 7: End-20 NAV

			NAV/share		Remark
	(RMB mn)	(HK\$m)	(HK\$)	% of NAV	
Development project	479,359	534,403	48.78	112.0%	DCF method with 9.0% WACC
Investment Properties	88,489	98,650	9.00	20.7%	5% cap rate
GAV	567,848	633,053	57.78	132.7%	
Less: Net debt	(90,662)	(101,072)	(9.23)	-21.2%	by end-20
NAV	477,186	531,980	43.55	100.0%	

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	144,027	163,651	193,914	221,386	252,305
Property sales	140,311	159,186	187,839	214,137	244,116
Rental	2,968	3,750	4,424	5,221	6,161
Other	748	715	1,650	2,028	2,028
Cost of sales	(89,592)	(108,571)	(130,934)	(149,434)	(170,111)
Gross profit	54,435	55,080	62,980	71,952	82,194
Other income and gains	928	2,638	4,099	4,725	4,782
Distribution expenses	(2,202)	(2,646)	(2,812)	(3,210)	(3,658)
Administrative expenses	(2,492)	(2,730)	(3,006)	(3,099)	(3,532)
Other expenses	0	0	0	0	0
Operating profit	50,668	52,342	61,261	70,367	79,785
Finance expenses	(1,332)	(759)	(1,617)	(1,707)	(1,825)
Associates/JV	2,874	3,367	4,299	4,805	5,593
Exceptional	8,747	10,002	5,198	0	0
Pre-tax profit	60,957	64,952	69,142	73,465	83,553
Profits tax	(21,728)	(22,204)	(22,529)	(24,665)	(28,081)
After-tax profit	39,230	42,747	46,613	48,799	55,472
Minority interest	(1,513)	(1,129)	(2,690)	(2,820)	(3,120)
Perpetual	0	0	0	0	0
Net profit	37,716	41,618	43,923	45,979	52,352
Core profit	31,097	34,300	41,336	45,979	52,352

Cash flow summary

YE 31 Dec (RMB mn)	FY18E	FY19E	FY20E	FY21E	FY22E
EBIT	50,668	52,342	61,261	70,367	79,785
Depreciation and amortization	183	236	402	450	484
Change in working capital	(46,292)	(25,226)	(29,235)	(48,060)	(28,700)
Income tax paid	(13,165)	(16,479)	(18,887)	(22,165)	(24,281)
Others	1,809	(964)	3,841	2,549	(1,894)
Net cash from operating	(6,797)	9,910	17,382	3,140	25,394
Capex	(4,033)	(4,743)	(79)	106	128
Associates/JV	(3,829)	82	3,843	(3,598)	(543)
Other	883	2,061	(17)	0	0
Net cash from investing	(6,980)	(2,599)	3,747	(3,492)	(415)
Equity raised	0	0	0	0	0
Change of Debts	19,856	19,309	5,036	16,400	11,800
Dividend paid	(8,684)	(9,720)	(12,600)	(14,243)	(15,886)
Other	3,707	(8,108)	325	0	0
Net cash from financing	14,879	1,481	(7,239)	2,157	(4,086)
Net change in cash	1,102	8,791	13,890	1,805	20,893
Cash at the beginning	82,552	83,996	92,895	101,785	98,590
Exchange difference	792	107	(5,000)	(5,000)	(5,000)
Cash at the end	84,446	92,895	101,785	98,590	114,483
Pledged deposit	3,889	2,553	2,553	2,553	2,553
Cash at BS	88,335	95,448	104,338	101,143	117,036

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	138,362	163,264	176,206	189,650	204,814
Fixed asset	3,669	4,019	4,500	4,844	5,200
Investment properties	97,516	114,021	128,500	136,000	148,000
Associates/JV	31,634	37,410	35,000	40,200	42,608
Intangible assets	56	56	56	56	56
Other non-current assets	5,486	7,758	8,150	8,550	8,950
Current assets	495,586	560,632	608,290	671,355	740,048
Cash	87,885	95,448	104,338	101,143	117,036
Account receivable	19,328	21,901	18,000	20,500	23,200
Inventories	368,833	423,055	466,440	530,000	580,000
Other current assets	19,540	20,228	19,512	19,712	19,812
Current liabilities	217,745	258,248	268,000	289,400	318,200
Borrowings	27,010	32,078	30,000	31,400	33,200
Trade and other payables	55,447	65,812	68,000	72,000	78,000
Contract liabilities	81,268	97,939	106,000	120,000	138,000
Deferred taxation	30,486	38,672	40,000	42,000	45,000
Other current liabilities	23,534	23,747	24,000	24,000	24,000
Non-current liabilities	159,591	176,503	186,050	202,050	213,100
Borrowings	144,249	157,886	165,000	180,000	190,000
Other non-current liabilities	15,342	18,617	21,050	22,050	23,100
Shareholders' equity	247,762	280,604	317,647	356,256	399,763
Minority interest	8,849	8,541	12,800	13,300	13,800
Perpetual bond	0	0	0	0	0
Total equity	256,612	289,145	330,447	369,556	413,563

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Property sales	97.4	97.3	96.9	96.7	96.8
Rental	2.1	2.3	2.3	2.4	2.4
Others	0.5	0.4	0.9	0.9	0.8
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	37.8	33.7	32.5	32.5	32.6
Pre-tax margin	35.2	32.0	31.6	31.8	31.6
Net margin	26.2	25.4	22.7	20.8	20.7
Effective tax rate	35.6	34.2	32.6	33.6	33.6
Balance sheet ratios					
Current ratio (x)	2.3	2.2	2.3	2.3	2.3
Receivable day	49.0	48.8	33.9	33.8	33.6
Payable day	140.5	146.8	128.0	118.7	112.8
Inventory day	1502.6	1422.3	1300.3	1294.6	1244.5
Net gearing ratio (%)	32.5	32.7	27.4	29.8	25.7
Returns (%)					
ROE	15.2	14.8	13.8	12.9	13.1
ROA	5.9	5.7	5.6	5.3	5.5
Per share data					
EPS (RMB)	3.44	3.80	4.01	4.20	4.78
DPS (HK\$)	0.90	1.15	1.20	1.45	1.65
BVPS (RMB)	22.61	25.61	28.99	32.52	36.49

Source: Company data, CMBIS estimates

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