

COLI (688 HK)

3Q21 results slightly beat; potential re-rating on anti-cycle land acquisitions

- 3Q21 results slightly beat:** COLI delivered solid 3Q21 results with revenue up 46% YoY to RMB43bn. This is slightly better than expected as it contributed 20% of 2021E revenue vs. 16% in 3Q20. 3Q21 operating profits also recovered to grow 6% YoY vs. flattish 1H21 but OP margin declined 7ppt YoY, in line with 1H21 and industry trend. As a result, 9M21 revenue and OP grew 28% and 1% YoY to RMB151/39bn. On the balance sheet, the net gearing edged up to 35.6% in 9M21 vs. 33.8% in 1H21 due to more aggressive land acquisitions while cash balance remained largely unchanged at RMB116bn.
- Further widening its advantage on anti-cycle land acquisitions:** Currently industry is still facing tight policy and weak property sales and this has led to huge reduction of land acquisitions by most of developers. This is evidenced by the weak land market where land premium and unsuccessful rate hit a recent low in Sep 2021 to 4% and 27% (vs. 5yr average of 20% and 12%). COLI has taken advantage of this opportunity to accelerate its land acquisitions in the 2nd batch of land supply and spent RMB46bn in Sep alone, all in the core Tier 1-2 cities at RMB13,000/sq m. We estimate the GP margin will be above 30% for these 19 plots which shows a GP margin recovery vs. 28.5% in 1H21. Looking forward, COLI still has RMB60bn budget to bottom fish in the 3rd round of land supply at the year end so we think the margin trend would look more sustainable.
- High earnings visibility:** Despite worsening property market, we are confident that COLI could achieve its 2021E sales target of RMB400bn (+11% YoY) given the high completion rate of 69% in 9M21 (industry at 66%). Looking beyond, we think the double digit growth in sales is achievable as set in its 14th 5-year plan given its abundant cash and speeding up in land acquisitions (25% YoY growth in 2021 land acquisitions budget). Also, the profitability may improve after the anti-cycle land acquisitions in 2H21 and less competitive land market after high-leveraged developers are squeezed out. This would imply high visibility in earnings growth to achieve 10% YoY.
- Top pick.** The Company is trading at 3.9x 2021E PE and 8% dividend yield, much below its historical average of 6.3x and 1SD-below-average of 5.4x. Given its high earnings visibility, we think the valuation looks very attractive and reiterate top buy.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	144,027	163,651	185,790	221,386	252,305
YoY growth (%)	N.A.	13.6	13.5	14.2	14.0
Net income (RMB mn)	37,716	41,618	43,904	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.	N.A.	4.45	4.97
P/E (x)	6.1	5.5	4.2	4.0	3.7
P/B (x)	0.9	0.8	0.7	0.6	0.6
Yield (%)	4.3	5.5	8.0	6.9	7.8
ROE (%)	15.2	14.8	14.0	13.0	13.2
Net gearing (%)	32.5	32.7	32.6	29.8	25.7

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$30.49
(Previous TP)	HK\$30.49)
Up/downside	+75.4%
Current Price	HK\$17.38

China Property Sector

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Stock Data

Mkt Cap (HK\$ mn)	190,221
Avg 3 mths t/o (HK\$ mn)	394.44
52w High/Low (HK\$)	21.95/ 14.92
Total Issued Shares (mn)	10,945

Source: Bloomberg

Shareholding Structure

CTCEC	56.0%
Free float	44.0%

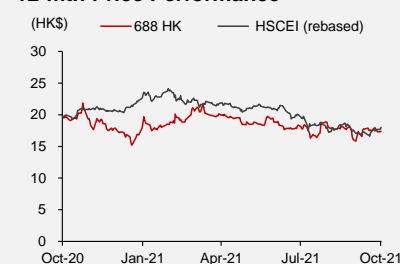
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	7.6%	7.2%
3-mth	-5.8%	6.6%
6-mth	-14.0%	5.7%
12-mth	-11.5%	-2.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

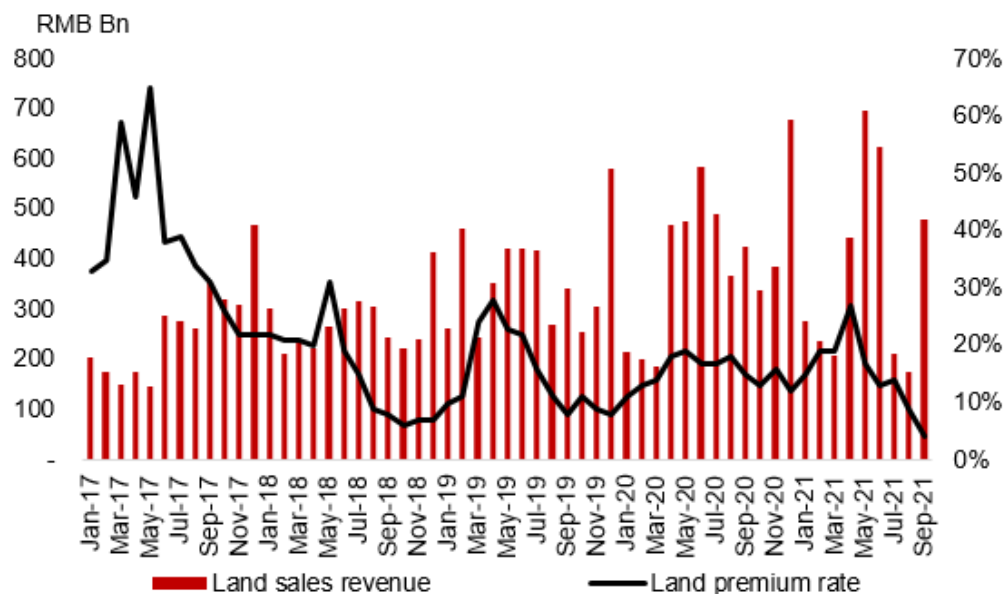
Auditor: PwC

Figure 1: 3Q21 results

RMB bn	3Q20	3Q21	YoY	3Q/20	3Q/21E	9M20	9M21	YoY	9M/20	9M/21E
Revenue	29.7	43.2	46%	16%	20%	118.3	151.1	28%	64%	68%
Operating profit	7.6	8.0	6%			38.8	39.4	1%		
Operating Margin	25.5%	18.5%	-7.0ppt			32.8%	26.1%	-6.7ppt		

	1H21	9M21	QoQ
Cash Balance	117	116	-1%
Net Gearing	33.8%	35.6%	1.8 ppt

Source: Company data, CMBIS

Figure 2: Overall land market remains weak in 3Q21

Source: Company data, CMBIS

Figure 3: COLI's land acquisition in Sep 2021

Land parcels acquired by the Group during September 2021							
No.	City in which land acquired is located	Name of development project	Percentage interest attributable to the Company	Land area (sq.m.)	Total GFA (sq.m.)	Attributable GFA (sq.m.)	Land premium (RMB mn) <small>(Note 2)</small>
1	Tianjin	Hexi District Project	100%	67,969.30	204,769.93	204,769.93	2,920.00
2	Tianjin	Hongqiao District Project	100%	66,726.40	244,699.99	244,699.99	3,466.00
3	Tianjin	Heping District Project	100%	18,705.40	161,131.00	161,131.00	2,160.00
4	Suzhou	Industrial Park District Project #3	100%	29,631.55	91,664.00	91,664.00	1,362.46
5	Shenyang	Huanggu District Project	100%	98,405.44	277,323.00	277,323.00	2,464.07
6	Shenyang	Hunnan District Project	100%	96,411.24	235,439.00	235,439.00	1,786.50
7	Chongqing	Jiangbei District Project #1	100%	9,324.40	35,213.45	35,213.45	213.81
8	Chongqing	Jiangbei District Project #2	100%	10,933.60	41,444.53	41,444.53	363.55
9	Suzhou	Changshu City Project	100%	48,299.00	131,082.10	131,082.10	1,260.00
10	Nanjing	Jiangbei New District Project	100%	71,123.91	237,501.38	237,501.38	3,620.00
11	Nanjing	Jiangning District Project	100%	63,976.16	197,025.94	197,025.94	2,140.00
12	Guangzhou	Liwan District Project	100%	63,336.00	301,749.00	301,749.00	6,323.92
13	Guangzhou	Haizhu District Project #2	100%	17,902.00	78,900.00	78,900.00	1,205.00
14	Guangzhou	Haizhu District Project #3	100%	19,794.00	81,485.00	81,485.00	2,371.99
15	Nanjing	Qixia District Project	100%	50,083.03	154,909.17	154,909.17	2,270.00
16	Shenzhen	Longhua District Project #1	100%	16,652.31	106,077.00	106,077.00	2,511.00
17	Shenzhen	Longgang District Project	100%	48,413.30	352,002.94	352,002.94	2,804.00
18	Shenzhen	Guangming District Project	100%	32,344.20	270,445.00	270,445.00	3,734.00
19	Shenzhen	Longhua District Project #2	100%	23,705.24	176,016.00	176,016.00	3,666.00
Sub-total for the Group:				853,736.48	3,378,878.43	3,378,878.43	46,642.30

Source: Company data, CMBIS

Figure 4: Historical forward PE chart



Source: Company data, CMBIS

Figure 5: Historical PB chart



Source: Company data, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	144,027	163,651	185,790	221,386	252,305
Property sales	140,311	159,186	180,786	214,137	244,116
Rental	2,968	3,750	4,052	5,221	6,161
Other	748	715	952	2,028	2,028
Cost of sales	(89,592)	(108,571)	(129,969)	(149,434)	(170,111)
Gross profit	54,435	55,080	55,821	71,952	82,194
Other income and gains	928	2,638	6,363	4,725	4,782
Distribution expenses	(2,202)	(2,646)	(3,513)	(3,210)	(3,658)
Administrative expenses	(2,492)	(2,730)	(2,631)	(3,099)	(3,532)
Other expenses	0	0	0	0	0
Operating profit	50,668	62,344	65,231	70,367	79,785
Finance expenses	(1,332)	(759)	(884)	(1,707)	(1,825)
Associates/JV	2,874	3,367	4,856	4,805	5,593
Exceptional	8,747	0	0	0	0
Pre-tax profit	60,957	64,952	69,204	73,465	83,553
Profits tax	(21,728)	(22,204)	(21,495)	(24,665)	(28,081)
After-tax profit	39,230	42,747	47,709	48,799	55,472
Minority interest	(1,513)	(1,129)	(3,805)	(2,820)	(3,120)
Perpetual	0	0	0	0	0
Net profit	37,716	41,618	43,904	45,979	52,352
Core profit	31,097	34,300	37,010	45,979	52,352

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
EBIT	50,668	62,344	65,231	70,367	79,785
Depreciation and amortization	183	236	371	450	484
Change in working capital	(46,292)	(25,226)	(30,594)	(48,060)	(28,700)
Income tax paid	(13,165)	(16,479)	(20,896)	(22,165)	(24,281)
Others	1,809	(964)	3,841	2,549	(1,894)
Net cash from operating	(6,797)	9,910	9,697	3,140	25,394
Capex	(4,033)	(4,743)	(231)	106	128
Associates/JV	(3,829)	82	8,446	(3,598)	(543)
Other	883	2,061	(10,755)	0	0
Net cash from investing	(6,980)	(2,599)	(2,540)	(3,492)	(415)
Equity raised	0	0	0	0	0
Change of Debts	19,856	19,309	16,177	16,400	11,800
Dividend paid	(8,684)	(9,720)	(10,627)	(14,243)	(15,886)
Other	3,707	(8,108)	2,485	0	0
Net cash from financing	14,879	1,481	8,035	2,157	(4,086)
Net change in cash	1,102	8,791	15,192	1,805	20,893
Cash at the beginning	82,552	83,996	92,895	110,77	107,57
Exchange difference	792	107	(423)	(5,000)	(5,000)
Cash at the end	84,446	92,895	107,66	107,57	123,46
Pledged deposit	3,889	2,553	2,805	2,553	2,553
Cash at BS	88,335	95,448	110,46	110,12	126,02

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Non-current assets	138,362	163,264	187,404	189,650	204,814
Fixed asset	3,669	4,019	5,011	4,844	5,200
Investment properties	97,516	114,021	140,879	136,000	148,000
Associates/JV	31,634	37,410	33,314	40,200	42,608
Intangible assets	56	56	56	56	56
Other non-current assets	5,486	7,758	8,144	8,550	8,950
Current assets	495,586	560,632	636,253	671,355	740,048
Cash	87,885	95,448	110,469	101,143	117,036
Account receivable	19,328	21,901	25,797	20,500	23,200
Inventories	368,833	423,055	475,689	530,000	580,000
Other current assets	19,540	20,228	24,298	19,712	19,812
Current liabilities	217,745	258,248	303,962	289,400	318,200
Borrowings	27,010	32,078	43,805	31,400	33,200
Trade and other payables	55,447	65,812	82,808	72,000	78,000
Contract liabilities	81,268	97,939	121,122	120,000	138,000
Deferred taxation	30,486	38,672	38,124	42,000	45,000
Other current liabilities	23,534	23,747	18,104	24,000	24,000
Non-current liabilities	159,591	176,503	191,346	202,050	213,100
Borrowings	144,249	157,886	169,175	180,000	190,000
Other non-current liabilities	15,342	18,617	22,170	22,050	23,100
Shareholders' equity	247,762	280,604	314,147	353,306	397,473
Minority interest	8,849	8,541	14,203	13,300	13,800
Perpetual bond	0	0	0	0	0
Total equity	256,612	289,145	328,349	366,606	411,273

Key ratios

YE 31 Dec	FY18A	FY19A	FY20A	FY21E	FY22E
Sales mix (%)					
Property sales	97.4	97.3	97.3	96.7	96.8
Rental	2.1	2.3	2.2	2.4	2.4
Others	0.5	0.4	0.5	0.9	0.8
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	37.8	33.7	30.0	32.5	32.6
Pre-tax margin	35.2	32.0	35.1	31.8	31.6
Net margin	26.2	25.4	23.6	20.8	20.7
Effective tax rate	35.6	34.2	31.1	33.6	33.6
Balance sheet ratios					
Current ratio (x)	2.3	2.2	2.1	2.3	2.3
Receivable day	49.0	48.8	52.1	33.8	33.6
Payable day	140.5	146.8	167.4	118.7	112.8
Inventory day	1502.6	1422.3	1337.0	1294.6	1244.5
Net gearing ratio (%)	32.5	32.7	32.6	30.1	25.8
Returns (%)					
ROE	15.2	14.8	14.0	13.0	13.2
ROA	5.9	5.7	5.3	5.3	5.5
Per share data					
EPS (RMB)	3.44	3.80	4.01	4.20	4.78
DPS (HK\$)	0.90	1.02	1.18	1.45	1.65
BVPS (RMB)	22.61	25.61	28.67	32.25	36.28

Source: Company data, CMBIS estimates

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