

# China Overseas Property (2669 HK)

## Await recovery

**SUMMARY.** COPL achieved 12.5% 1H19 soft growth in 1H19. We expect margin to recover in 2H19. We revise up our TP from HK\$3.33 to HK\$4.10. Maintain **HOLD**.

- **Soft 1H19 growth.** In 1H19, revenue increased by 25.9% to HK\$2,400mn. However, gross margin dropped from 27.7% in 1H18 to 20.1% in 1H19. Margin decline was mainly attributed to the service reform started in 2018 and came into effect in 2H18 thus, leaving 1H18 as a high base. Measures of service improvement include (i) realignment of the human resources allocation structure during 2018 that certain back office supporting staff were assigned to front line and (ii) increase in direct deployment of project-level management personnel. As a result, gross profit declined 6.4% YoY. On the other hand, SG&A to revenue improved from 12.6%/8.3% in 1H18/FY18 to 6.4% in 1H19. EBIT was up 13.3% YoY. Net profit accordingly grew 12.5% to HK\$248mn.
- **Signs of margin recovery.** EBIT margin (1H19:14.7%) has recovered from 2H18 compared to 16.4/10.7% in 1H18/2H18. We expect it will continue in 2H19. Furthermore, growth of topline, mainly property management, was better than we expected. Given a low base in 2H18, we expect a faster YoY growth in 2H19.
- **Passive attitude towards VAS.** Since 2H18, the Company has started the car parking spaces trading business and believed the business is valuable to its property management segment. Thus, the Company would continue to expand it. The new business segment "car parking spaces trading business" has been separately disclosed since 1H19. Furthermore, revenue from pre-delivery services, move-in assistance services, delivery inspection services and engineering service quality monitoring, as well as advertisement income were reallocated to VAS segment in 2019 from property management services segment. But in fact, car parking spaces trading business is not a new business model. Other peers have already involved in the car parking space. COPL is lagging in VAS compared to peers. As a listed subsidiary of China Overseas Holdings, we expect COPL to slowly develop its VAS to avoid unnecessary operation or reputation risk. Quality of property management service is the focus.
- **Raise earnings forecast, maintain HOLD.** Due to better-than-expected property management segment growth and sign of margin recovery, we revise up our FY19/20 earnings forecast by 7.7%/10.3% to HK\$539/665mn. Subsidiary of Poly Development (600048 CH, BUY), Poly Property Management is preparing for H-share listing. Uniqueness of COPL (large SOE backed) may be weakened then, which further affects its valuation. We give our TP based on 25x FY19E P/E, or equivalently 20.3x FY20E P/E, thus we derive our TP at HK\$4.10. **Maintain HOLD.**

### Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (HK\$ mn)	3,358	4,155	5,002	5,845	6,648
YoY growth (%)	1.9	23.7	20.4	16.8	13.7
Net income (HK\$ mn)	307	402	539	665	766
EPS (HK\$)	0.093	0.122	0.164	0.202	0.233
YoY growth (%)	0.0	0.0	0.0	0.0	0.0
P/E (x)	40.2	30.7	22.9	18.5	16.1
P/B (x)	14.5	11.1	8.2	6.2	4.8
Yield (%)	0.80	1.07	1.22	1.47	1.72
ROE (%)	35.8	35.9	35.7	33.4	30.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

**HOLD (Maintain)**

Target Price **HK\$4.10**  
 (Previous TP **HK\$3.33**)  
 Up/Downside **+9.3%**  
 Current Price **HK\$3.75**

### China Property Service Sector

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### Stock Data

Mkt Cap (HK\$ mn)	12,326
Avg 3 mths t/o (HK\$ mn)	36.3
52w High/Low (HK\$)	4.52/1.69
Total Issued Shares (mn)	3,287

Source: Bloomberg

### Shareholding Structure

China Overseas Holding	56.02%
Silver Lot Development	5.16%
Free float	38.82%

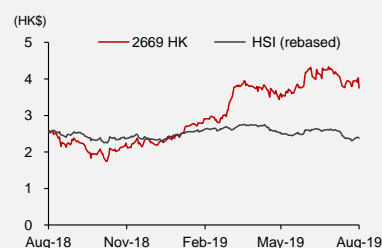
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-6.1%	2.9%
3-mth	13.2%	19.2%
6-mth	38.5%	50.9%
12-mth	56.2%	65.0%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

Auditor: PwC

**Figure 1: 1H19 results**

HK\$ mn	1H18	1H19	Growth
<b>Revenue</b>	<b>1,907</b>	<b>2,400</b>	26%
Property services	1,574	1,938	23%
Value added	333	457	37%
Car parking spaces trading business	0	5	n.a.
Cost of Sales	(1,379)	(1,917)	39%
<b>Gross Profit</b>	<b>528</b>	<b>483</b>	-9%
Gross margin	27.7%	20.1%	-7.6ppt
Other income, net	24	23	-4%
Administrative Expenses	(240)	(153)	-36%
<b>EBIT</b>	<b>312</b>	<b>354</b>	13%
Associated	0	0	14%
Finance cost	(3)	(1)	-75%
Exceptional	4	(0)	-109%
<b>PROFIT BEFORE TAX</b>	<b>312</b>	<b>353</b>	13%
Income tax	(88)	(102)	16%
<b>PROFIT FOR THE YEAR</b>	<b>224</b>	<b>251</b>	12%
Minority	(3)	(2)	-39%
<b>Net Profit attribute to shareholders</b>	<b>221</b>	<b>248</b>	13%
Net margin	11.6%	10.4%	-1.2ppt

Source: Company data

**Figure 2: Earnings revision**

HK\$ mn	New			Old			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
<b>Revenue</b>	5,002	5,845	6,648	4,799	5,568	6,371	4.2%	5.0%	4.4%
<b>Gross Profit</b>	1,034	1,260	1,455	1,042	1,247	1,459	-0.8%	1.1%	-0.3%
<b>EBIT</b>	759	938	1,083	703	847	995	7.9%	10.8%	8.8%
<b>Net profit</b>	539	665	766	500	603	708	7.7%	10.3%	8.2%
<b>EPS (RMB)</b>	0.164	0.202	0.233	0.15	0.18	0.22	7.7%	10.3%	8.2%
<b>Gross Margin</b>	20.7%	21.6%	21.9%	21.7%	22.4%	22.9%	-1 ppt	-0.8 ppt	-1 ppt
<b>EBIT Margin</b>	15.2%	16.1%	16.3%	14.7%	15.2%	15.6%	0.5 ppt	0.8 ppt	0.7 ppt
<b>Net Margin</b>	10.8%	11.4%	11.5%	10.4%	10.8%	11.1%	0.3 ppt	0.5 ppt	0.4 ppt

Source: CMBI estimates

## Financial Summary

Income statement						Cash flow summary					
YE Dec 31 (HK\$ mn)	FY17A	FY18A	FY19E	FY20E	FY21E	YE Dec 31 (HK\$ mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Turnover</b>	<b>3,358</b>	<b>4,155</b>	<b>5,002</b>	<b>5,845</b>	<b>6,648</b>	<b>Profit before tax</b>	429	555	756	933	1,077
Property services	3,095	3,745	4,148	4,854	5,528	Depreciation, amortization, impairment	16	18	11	21	21
Value added Service	263	410	842	976	1,104	Change in working capital	229	(180)	244	295	291
Car parking spaces	-	-	12	14	17	Others	(159)	(163)	(212)	(262)	(302)
Cost of Sales	(2,555)	(3,306)	(3,968)	(4,585)	(5,193)	<b>Net cash from operating activities</b>	<b>515</b>	<b>229</b>	<b>799</b>	<b>987</b>	<b>1,087</b>
<b>Gross Profit</b>	<b>802</b>	<b>849</b>	<b>1,034</b>	<b>1,260</b>	<b>1,455</b>	Fixed assets Capex & Investment, net	(260)	(212)	(25)	(25)	(25)
Other income, net	48	49	45	46	47	Associated companies	(220)	(45)	-	-	-
Administrative Expenses	(420)	(344)	(320)	(368)	(419)	Others	32	33	-	-	-
<b>EBIT</b>	<b>431</b>	<b>554</b>	<b>759</b>	<b>938</b>	<b>1,083</b>	<b>Net cash from investing activities</b>	<b>(448)</b>	<b>(224)</b>	<b>(25)</b>	<b>(25)</b>	<b>(25)</b>
Associated	0	0	0	0	0	Equity raised	-	-	-	-	-
Finance cost	(9)	(3)	(4)	(5)	(6)	Change of debts	(112)	(265)	-	-	-
Exceptional	7	4	-	-	-	Others	(94)	(119)	(150)	(181)	(212)
						<b>Net cash from financing activities</b>	<b>(206)</b>	<b>(384)</b>	<b>(150)</b>	<b>(181)</b>	<b>(212)</b>
<b>PROFIT BEFORE TAX</b>	<b>429</b>	<b>555</b>	<b>756</b>	<b>933</b>	<b>1,077</b>	Net change in cash	(139)	(378)	624	781	850
Income tax	(122)	(149)	(212)	(261)	(302)	<b>Cash at the beginning of the year</b>	<b>2,417</b>	<b>2,452</b>	<b>2,398</b>	<b>3,022</b>	<b>3,803</b>
<b>PROFIT FOR THE YEAR</b>	<b>307</b>	<b>406</b>	<b>544</b>	<b>672</b>	<b>776</b>	Exchange difference	174	(99)	-	-	-
Minority	(0)	(4)	(5)	(7)	(9)	Others	259	423	-	-	-
<b>Net profit to shareholders</b>	<b>307</b>	<b>402</b>	<b>539</b>	<b>665</b>	<b>766</b>	<b>Cash at the end of the year</b>	<b>2,711</b>	<b>2,398</b>	<b>3,022</b>	<b>3,803</b>	<b>4,653</b>

Balance sheet						Key ratios					
YE Dec 31 (HK\$ mn)	FY17A	FY18A	FY19E	FY20E	FY21E	YE Dec 31	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Non-current assets</b>	<b>269</b>	<b>294</b>	<b>308</b>	<b>313</b>	<b>317</b>	<b>Sales mix (%)</b>					
PP&E	35	41	56	61	66	Property services	92.2	90.1	82.9	83.1	83.1
Investment properties	106	133	133	133	133	Value added Service	7.8	9.9	16.8	16.7	16.6
Others	128	121	120	119	118	Car parking spaces	0.0	0.0	0.2	0.2	0.2
						<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Current assets</b>	<b>3,289</b>	<b>3,263</b>	<b>4,101</b>	<b>5,023</b>	<b>6,007</b>	<b>Profit &amp; loss ratios (%)</b>					
Inventory	10	37	37	43	49	Gross margin	23.9	20.4	20.7	21.6	21.9
Trade and other receivables	467	586	800	935	1,064	EBIT margin	12.8	13.3	15.2	16.1	16.3
Bank balances and cash	2,711	2,398	3,022	3,803	4,653	Net margin	9.1	9.7	10.8	11.4	11.5
Others	101	242	242	242	242	Effective tax rate	28.4	26.8	28.0	28.0	28.0
<b>Total Asset</b>	<b>3,558</b>	<b>3,557</b>	<b>4,409</b>	<b>5,336</b>	<b>6,324</b>	<b>Growth (%)</b>					
<b>Current liabilities</b>	<b>2,415</b>	<b>2,406</b>	<b>2,864</b>	<b>3,299</b>	<b>3,724</b>	Revenue	1.9	23.7	20.4	16.8	13.7
Trade and other payables	1,593	1,604	1,926	2,225	2,520	Gross profit	4.6	5.8	21.8	21.9	15.4
Receipts in advance	652	671	807	943	1,073	EBIT	24.8	28.6	37.1	23.6	15.5
Others	171	131	131	131	131	Net profit	29.1	31.1	34.0	23.4	15.3
<b>Non-current liabilities</b>	<b>281</b>	<b>22</b>	<b>22</b>	<b>22</b>	<b>22</b>	<b>Balance sheet ratios</b>					
Deferred tax liabilities	16	22	22	22	22	Current ratio (x)	1.4	1.4	1.4	1.5	1.6
Bank borrowing	265	-	-	-	-	Receivable turnover days	51	51	58	58	58
<b>Total liabilities</b>	<b>2,696</b>	<b>2,428</b>	<b>2,886</b>	<b>3,321</b>	<b>3,746</b>	Payables turnover days	228	177	177	177	177
Share capital	3	3	3	3	3	Inventory turnover days	1	3	3	3	3
Reserves	853	1,116	1,505	1,989	2,543	Net debt / total equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Equity to shareholders</b>	<b>856</b>	<b>1,120</b>	<b>1,508</b>	<b>1,992</b>	<b>2,546</b>	<b>Returns (%)</b>					
Non-controlling interests	5	9	15	22	31	ROE	35.8	35.9	35.7	33.4	30.1
<b>Total Equity</b>	<b>862</b>	<b>1,129</b>	<b>1,523</b>	<b>2,014</b>	<b>2,578</b>	ROA	8.6	11.4	12.3	12.6	12.3
						<b>Per share</b>					
						EPS (HK\$)	0.09	0.12	0.16	0.20	0.23
						DPS (HK\$)	0.03	0.04	0.05	0.06	0.06
						BVPS (HK\$)	0.26	0.34	0.46	0.60	0.77

Source: Company data, CMBIS estimates

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