

# COGO (81 HK)

## Better shaped to face any challenge

COGO changed presentation currency to RMB in the current year. Revenue and net profit grew by 33% to RMB28.6bn and 63% to RMB3.33bn in 2019, respectively. About RMB89bn of property sales had been locked up. We forecast net profit to be RMB4.21bn, RMB4.75bn and RMB5.51bn in 2020-22, respectively. We trim TP from HK\$7.72 to HK\$7.21. Maintain BUY.

- Core profit surged 60% in 2019.** Since COGO announced a positive profit alert in Jan 2020, it is not surprised that net profit grew by 63% to RMB3.33bn in 2019. Driven by the increase of completed GFA to 3.26mn sq m, revenue gained by 32.8% to RMB28.6bn in 2019. On the other hand, gross margin and net margin expanded by 4.2ppts to 33.3% and 2.2ppts to 11.6% in 2019, respectively, due to the higher ASP. Final dividend increased from HK\$0.112 in 2018 to HK\$0.195 in 2019 that resulted in full year payout ratio improvement from 18.9% in 2018 to 21.9% in 2019.
- Estimated RMB88.6bn revenue had been locked-up.** In 2019, contracted sales amount and area surged by 30.8% to RMB53.7bn and 26% to 5.04mn sq m, respectively. Although contracted sales amounted to RMB4.0bn in 2M20, COGO aims to have RMB60bn sales target in 2020. 8.32mn sq m of properties had been presold and unbooked. With contracted sales ASP of RMB10,652 per sq m in 2019, we estimate RMB88.6bn of revenue from property sales had been locked up which provides more than one year earnings visibility.
- Land bank sufficient to 5 year development.** In 2019, COGO acquired 31 plots of land with total GFA of 6.19mn sq m. Entering new markets in Quanzhou, Weinan and Qingyuan, COGO invested in projects spanning 26 mainland cities as at end-19 and plans to expand 2-3 new cities each year. As at end-19, total and attributable land bank amounted to 24.01mn sq m and 21.94mn sq m, respectively.
- Cut TP to HK\$7.21.** We forecast net profit to be RMB4.21bn, RMB4.75bn and RMB5.51bn in 2020-22, respectively. COGO has the healthy balance sheet with net gearing ratio of 15.6% as at end-19. We trim our end-20 NAV forecast from HK\$11.03 to HK\$10.3. As a result, we adjust downward TP from HK\$7.72 to HK\$7.21, which is equivalent to 30% discount to NAV. Upside potential is 76.8% Reiterate BUY.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	21,525	28,591	37,080	43,726	50,698
YoY growth (%)	26.1	33.8	20.8	17.9	15.9
Net income (RMB mn)	2,043	3,330	4,208	4,749	5,508
EPS (RMB)	0.750	1.183	1.370	1.546	1.794
YoY growth (%)	34.6	57.7	15.8	12.8	16.0
P/E (x)	5.4	3.4	3.0	2.6	2.3
P/B (x)	0.8	0.7	0.6	0.5	0.4
Yield (%)	3.5	6.3	6.9	8.3	9.3
ROE (%)	14.6	20.7	20.3	19.5	19.3
Net gearing (%)	Net cash	15.6	16.8	11.8	23.3

Source: Company data, CMBIS estimates

### BUY (Maintain)

Target Price	HK\$7.21
(Previous TP)	HK\$7.72)
Up/downside	+76.8%
Current Price	HK\$4.08

### China Property Sector

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#### Stock Data

Mkt Cap (HK\$ mn)	13,967
Avg 3 mths t/o (HK\$ mn)	47
52w High/Low (HK\$)	6.12/ 3.26
Total Issued Shares (mn)	3,423

Source: Bloomberg

#### Shareholding Structure

COLI	38.32%
Billy Yung	13.53%
Free float	48.15%

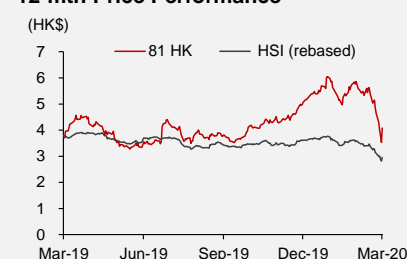
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	-39.8%	-23.3%
3-mth	-29.1%	-9.2%
6-mth	-6.6%	13.9%
12-mth	6.3%	44.3%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: BDO

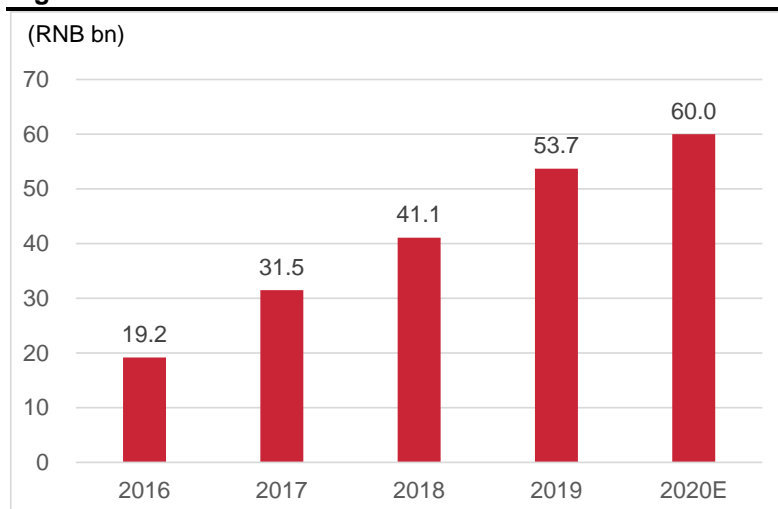
#### Related Reports

- Positive profit alert with more than 60% growth – 22 Jan 2020
- Attractive valuation – 22 Aug 2019
- Glory return – 25 Mar 2019

**Figure 1: 2019 results**

	FY18A (HK\$mn)	FY19A (HK\$mn)	Growth (%)	Remark
<b>Turnover</b>	<b>21,525</b>	<b>28,591</b>	<b>32.8%</b>	
-Property development	21,274	28,317	33.1%	3.3mn sq m of properties were completed in 2019
-Property investment	188	193	2.4%	
-Other	62	81	30.4%	
Cost of Sales	(15,264)	(19,063)	24.9%	
<b>Gross Profit</b>	<b>6,261</b>	<b>9,528</b>	<b>52.2%</b>	Gross margin expanded by 4.2ppts to 33.3% in 2019
Other operating income	372	389	4.6%	
Distribution Cost	(708)	(1,148)	62.1%	
Administrative Expenses	(608)	(793)	30.5%	
Other Expenses	(135)	(32)	-76.4%	
<b>EBIT</b>	<b>5,182</b>	<b>7,944</b>	<b>53.3%</b>	
Net finance income	(78)	(34)	-56.4%	Cost of debt: 4.66% in 2019
Associated	234	313	33.7%	
Exceptional	0	72	N.A.	Revaluation gain in investment properties
Pre-tax Profit	5,339	8,296	55.4%	
Taxation	(3,233)	(4,799)	48.4%	Effective tax rate retreated 2.7ppts to 57.8% in 2019
Profit after Tax	2,106	3,497	66.1%	
Minority	(62)	(167)	167.8%	
<b>Net Profit</b>	<b>2,043</b>	<b>3,330</b>	<b>63.0%</b>	Declared final dividend of HK\$0.195 per share
<b>Core Profit</b>	<b>2,043</b>	<b>3,276</b>	<b>60.3%</b>	

Source: Company data, CMBIS estimates

**Figure 2: Contracted sales**

Source: Company data, CMBIS

**Figure 3: End-20 NAV estimate**

	(RMB mn)	(RMB/Share)	(HK\$/Share)	%	Remark
Development project	32,490	9.49	10.58	102.7%	DCF method with 15.9% WACC
Investment Properties	3,200	0.93	1.04	10.1%	At book
GAV	35,690	10.43	11.62	112.8%	
Net debt	(4,049)	(1.18)	(1.32)	-12.8%	
<b>NAV</b>	<b>31,641</b>	<b>9.24</b>	<b>10.30</b>	<b>100.0%</b>	

Source: CMBIS estimates

**Figure 4: 2020 business plan**

	2020 Target	2019 Actual	Change (%)
Contracted sales (RMB bn)	60.0	53.7	11.7%
New land acquisition (mn sq m)	7.0	6.2	13.0%
GFA completed (mn sq m)	4.3	3.3	32.1%
New projects commencements GFA (mn sq m)	8.5	8.4	0.7%

Source: Company data

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>21,525</b>	<b>28,591</b>	<b>37,080</b>	<b>43,726</b>	<b>50,698</b>
Property development	21,274	28,317	36,759	43,375	50,315
Rental income	188	193	244	268	300
Other business	62	81	77	83	83
Cost of sales	(15,264)	(19,063)	(26,192)	(31,765)	(36,834)
<b>Gross profit</b>	<b>6,261</b>	<b>9,528</b>	<b>10,887</b>	<b>11,961</b>	<b>13,864</b>
Other income and gains	372	389	329	340	371
Distribution expenses	(708)	(1,148)	(1,112)	(1,312)	(1,521)
Administrative expenses	(608)	(793)	(927)	(1,049)	(1,217)
Other expenses	(135)	(32)	(19)	(22)	(25)
<b>Operating profit</b>	<b>5,182</b>	<b>7,944</b>	<b>9,159</b>	<b>9,918</b>	<b>11,472</b>
Finance expenses	(78)	(34)	(33)	(37)	(43)
Associates/JV	234	313	40	71	108
Exceptional	0	72	0	0	0
<b>Pre-tax profit</b>	<b>5,339</b>	<b>8,296</b>	<b>9,166</b>	<b>9,952</b>	<b>11,536</b>
Profit tax	(3,233)	(4,799)	(4,854)	(5,073)	(5,876)
After-tax profit	2,106	3,497	4,311	4,879	5,660
Minority interest	(62)	(167)	(103)	(130)	(152)
Perpetual	0	0	0	0	0
<b>Net profit</b>	<b>2,043</b>	<b>3,330</b>	<b>4,208</b>	<b>4,749</b>	<b>5,508</b>
<b>Core profit</b>	<b>2,043</b>	<b>3,276</b>	<b>4,208</b>	<b>4,749</b>	<b>5,508</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY18E	FY19E	FY20E	FY21E	FY22E
<b>EBIT</b>	<b>5,182</b>	<b>9,286</b>	<b>10,210</b>	<b>11,057</b>	<b>12,789</b>
Depreciation and amortization	46	80	112	119	129
Change in working capital	1,082	(10,894)	(1,590)	(3,100)	(6,700)
Income tax paid	(2,431)	(2,911)	(6,801)	(5,455)	(6,351)
Others	2,045	(1,334)	(504)	(8)	(2,100)
<b>Net cash from operating</b>	<b>5,924</b>	<b>(5,772)</b>	<b>1,427</b>	<b>2,612</b>	<b>(2,233)</b>
Capex	(29)	(642)	(649)	(429)	(399)
Associates/JV	(198)	(230)	(123)	(24)	(136)
Other	(2,410)	0	0	0	0
<b>Net cash from investing</b>	<b>(2,637)</b>	<b>(872)</b>	<b>(772)</b>	<b>(453)</b>	<b>(535)</b>
Equity raised	4,133	0	0	0	0
Change of Debts	5,284	2,167	3,510	4,600	5,850
Dividend paid	(184)	(589)	(941)	(1,027)	(1,164)
Other	(3,406)	0	0	0	0
<b>Net cash from financing</b>	<b>5,826</b>	<b>1,578</b>	<b>2,569</b>	<b>3,573</b>	<b>4,686</b>
Net change in cash	9,113	(5,066)	3,224	5,732	1,918
Cash at the beginning	13,936	22,221	16,755	19,580	24,912
Exchange difference	(828)	(400)	(400)	(400)	(400)
<b>Cash at the end</b>	<b>22,221</b>	<b>16,755</b>	<b>19,580</b>	<b>24,912</b>	<b>26,430</b>
Pledged deposit	6,924	10,671	10,671	10,671	10,671
Cash at BS	29,146	27,427	30,251	35,583	37,101

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	<b>4,426</b>	<b>5,742</b>	<b>6,052</b>	<b>6,452</b>	<b>6,932</b>
Fixed asset	1,021	1,439	1,520	1,650	1,800
Investment properties	2,601	2,745	3,200	3,380	3,500
Associates/JV	635	948	1,080	1,120	1,280
Intangible assets	3	0	0	0	0
Other non-current assets	166	611	252	302	352
<b>Current assets</b>	<b>99,201</b>	<b>128,355</b>	<b>138,076</b>	<b>155,208</b>	<b>168,326</b>
Cash	29,146	27,427	30,251	35,583	37,101
Account receivable	8,895	11,867	12,500	13,300	13,900
Inventories	59,327	86,451	93,000	104,000	115,000
Other current assets	1,834	2,610	2,325	2,325	2,325
<b>Current liabilities</b>	<b>62,289</b>	<b>90,557</b>	<b>95,120</b>	<b>104,520</b>	<b>108,470</b>
Borrowings	8,299	11,656	12,500	13,200	14,250
Trade and other payables	9,482	11,990	12,200	12,900	13,800
Contract liabilities	37,924	54,619	60,000	68,000	72,000
Deferred taxation	3,034	5,940	4,420	4,420	4,420
Other current liabilities	3,550	6,352	6,000	6,000	4,000
<b>Non-current liabilities</b>	<b>23,570</b>	<b>22,027</b>	<b>24,889</b>	<b>28,989</b>	<b>33,989</b>
Borrowings	20,324	19,133	21,800	25,700	30,500
Other non-current liabilities	3,246	2,894	3,089	3,289	3,489
<b>Shareholders' equity</b>	<b>17,040</b>	<b>19,545</b>	<b>23,139</b>	<b>27,151</b>	<b>31,799</b>
Minority interest	728	1,968	980	1,000	1,000
Perpetual bond	0	0	0	0	0
Total equity	17,768	21,513	24,119	28,151	32,799

### Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales mix (%)</b>					
Property development	98.8	99.0	99.1	99.2	99.2
Rental income	0.9	0.7	0.7	0.6	0.6
Other business	0.3	0.3	0.2	0.2	0.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	29.1	31.9	29.4	27.4	27.3
Pre-tax margin	24.1	27.1	24.7	22.7	22.6
Net margin	9.7	11.8	11.3	10.9	10.9
Effective tax rate	60.0	57.0	53.0	51.0	50.9
<b>Balance sheet ratios</b>					
Current ratio (x)	1.6	1.4	1.5	1.5	1.6
Receivable day	127.0	126.6	110.4	99.6	89.8
Payable day	135.3	127.9	107.7	96.6	89.1
Inventory day	1194.2	1354.6	1162.5	1071.9	1022.2
Net gearing ratio (%)	Net	15.6	16.8	11.8	23.3
<b>Returns (%)</b>					
ROE	14.6	20.7	20.3	19.5	19.3
ROA	2.4	3.0	3.3	3.3	3.5
<b>Per share data</b>					
EPS (RMB)	0.750	1.183	1.370	1.546	1.794
DPS (HK\$)	0.142	0.255	0.280	0.340	0.380
BVPS (RMB)	4.98	5.71	6.76	7.93	9.29

Source: Company data, CMBIS estimates

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