



August 23, 2016
Company Report
Rating: BUY
TP: HK\$31.70

Share price (HK\$) 26.85
Est. share price return 18.1%
Est. dividend yield 3.9%
Est. total return 22.0%

Previous Rating & TP BUY; HK\$ 31.00
Previous Report Date Mar 21, 2016

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Key Data

52Wk H/L(HK\$)	28.25/20.45
Issued shares (mn)	9,861
Market cap (HK\$m)	263,771
3-mth avg daily turnover (HK\$ mn)	409.48
Major shareholder(s) (%):	
China State Construction Engineering Corporation	61.18
Source(s): Company, Bloomberg, ABCI Securities	

1H16 Revenue breakdown (%)

Property Development	98.3
Property Investment	1.4
Others	0.3
Source(s): Company, ABCI Securities	

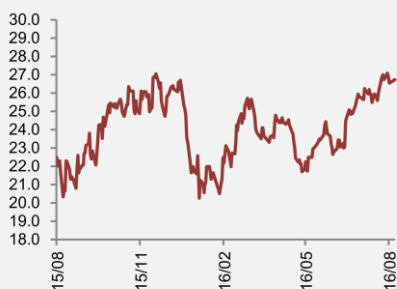
Share performance (%)

	Absolute	Relative*
1-mth	2.3	(1.9)
3-mth	16.6	3.7
6-mth	18.7	0.7

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

COLI (688 HK)

CITIC acquisition as strong boost to 2H16

- 1H16 core profit rose 15.8% YoY to HK\$ 15.8bn; gross margin declined 4.0ppt YoY to 28.2%
- COLI was in a net cash position of HK\$ 8.6bn (from 7% net gearing in end-2015) as at June 2016 as the Group remains conservative in landbanking
- 1H16 presale rose 11.5% YoY to HK\$ 95.3bn; sales target is lifted to HK\$ 210bn (from HK\$ 185bn) given that CITIC acquisition will be completed in 2H16
- Maintain **BUY** with new TP of HK\$ 31.70 (from HK\$31.0) with no discount to NAV

Core profit grew 15.8%YoY to HK\$ 15.8bn. COLI's 1H16 core profit (excluding fair value gain of investment properties) rose 15.8% YoY to HK\$ 15.8bn. Excluding the exceptional disposal gains on COLI's investment properties in HK and Beijing, core profit only edged up 2.2% YoY to HK\$13.9bn. Gross margin declined 4.0 ppt YoY to 28.2% in 1H16 but is similar to that FY15 gross margin at 28.6%. Management is confident that gross margin would reach 30% for FY16 based on the robust property market in China lately. However, we believe the trend of declining margin, which has begun since 2014, is likely to continue and upcoming injection of CITIC's assets (whose gross margins were 14-21% during 2013-15) may pose further downside risk to margin. With conservative landbanking, COLI was in a net cash of HK\$ 8.6bn (vs. 7% net gearing in end-2015) for the first time in ten years. In 1H16, COLI spent HK\$ 9.9bn to acquire 2.28mn sqm of new land in Jinan, Hong Kong, Nanchang, and Changchun. It avoided bidding for land in heated cities like Shenzhen and Shanghai, where land price is unreasonably high. In our view, COLI 's focus has been on integrating projects acquired from CITIC instead of organic growth in 1H16. Full-year results are likely to resume faster growth as the acquisition completes.

Raise sales target by 17% to HK\$ 210bn. In 1H16, COLI's presale rose 11.5% YoY to HK\$ 95.3bn, achieving 52% of previously set target (RMB 185bn). Management expects the CITIC acquisition will complete in 2H16 based on the current progress. With the additional landbank estimated at 31.5mn sqm or RMB 450bn of saleable resources, we expect COLI's presales to expand further in 2H16. With the newly set target, the implied presales growth of 20% YoY for FY16E may still be lower than its peers but we believe COLI is prioritizing bottom-line growth instead. COLI will expand its share base by 10% with the issuance of 1,096mn new shares at HK\$ 27.13/share to the CITIC group for the acquisition, but the Group expects the transaction to be earnings accretive. In the 13th FYP, COLI targets to achieve RMB 400bn in presale by 2020, implying a 17% CAGR during 2016-20.

Maintain BUY with revised TP of HK\$ 31.70 (from HK\$31.0). We factor in CITIC's property portfolio in our NAV estimate since the transaction will be completed in 2H16. We raise our NAV estimate to HK\$ 31.70 (from HK\$ 31.0) and TP to HK\$ 31.70 (from HK\$ 31.00) with no discount to NAV. As the CITIC's portfolio begins to contribute in 2H16, we believe COLI's presale and profit will pick up noticeably. Maintain **BUY**.

Risk factors: 1) Margin erosion trend; 2) Integration risk after asset injection; 3) Currency risks associated with FX debt exposure; 4) Dilution effect of controlling stake of major shareholder

Results and Valuation

FY ended Dec 31	2014A	2015A	2016E	2017E	2018E
Revenue (HK\$ mn)	119,997	148,074	200,044	268,428	318,000
Chg (% YoY)	45.5	23.4	35.1	34.2	18.5
Core net profit (HK\$ mn)	23,830	27,560	35,328	51,084	64,465
Chg (% YoY)	25.7	15.7	28.2	44.6	26.2
Underlying EPS (HK\$)	2.92	3.01	3.49	4.66	5.88
Chg (% YoY)	25.7	3.2	15.8	33.8	26.2
BVPS (HK\$)	16.31	20.92	21.34	23.00	27.12
Chg (% YoY)	21.2	28.2	2.0	7.8	17.9
Underlying PE (x)	9.2	8.9	7.7	5.8	4.6
PB (x)	1.6	1.3	1.3	1.2	1.0
ROE (%)	17.9	14.4	16.3	20.3	21.7
ROA (%)	6.8	6.5	7.0	8.9	10.0
DPS (HK\$)	0.55	0.92	1.05	1.40	1.77
Dividend yield (%)	2.0	3.4	3.9	5.2	6.6
Net gearing (%)	31.7	6.6	24.4	Net cash	Net cash

*Net gearing=Net debt/Total shareholders' equity

Source(s): Bloomberg, ABCI Securities estimates



Exhibit 1: COLI's 1H16 results

P&L	1H16	1H15	YoY Chg
	HK\$m	HK\$m	(%)
Turnover	78,150	64,849	20.5
Cost of Sales & direct operating costs	(56,110)	(43,938)	27.7
Gross Profit	22,039	20,910	5.4
Gross Margin (%)	28.2	32.2	(4.0ppt)
Selling and distribution costs	(999)	(937)	6.6
Administrative expense	(962)	(1,017)	(5.4)
EBIT	20,079	18,956	5.9
EBIT Margin (%)	25.7	29.2	(3.5ppt)
Other income	483	787	(38.6)
Fair Value gains on IP	5,273	3,551	na
Disposal of IP	2,478	-	na
Share of profit from JCE/ Associates	742	544	36.5
Finance cost	(293)	(282)	4.0
Profit before tax	28,762	23,556	22.1
Tax	(8,544)	(6,839)	24.9
- LAT	(3,047)	(1,895)	60.8
- Enterprise tax	(5,496)	(4,944)	11.2
Profit after tax	20,218	16,717	20.9
Minority Interest	(533)	(400)	33.3
Net profit	19,685	16,317	20.6
Core net profit	15,785	13,630	15.8
Core net profit - ex disposal gain	13,927	13,630	2.2
Core net margin	17.8	21.0	(3.2ppt)

Source(s): Company, ABCI Securities

Operating statistics	1H16	1H15	YoY Chg
			%
Contracted GFA (mn sqm)	6.01	5.82	3.2
Contracted ASP (HK\$/sqm)	15,848	14,678	8.0
Contracted Sales (HK\$ mn)	95,257	85,452	11.5
Balance sheet	Jun-16	Dec-15	YoY chg
	HK\$ mn	HK\$ mn	ppt
Gross debt	109,314	115,456	(5.3)
Cash	117,974	102,446	15.2
Net debt	(8,660)	13,011	(166.6)
Net gearing (%)	Net cash	7%	na

Exhibit 2: Financials of CITIC target group

HK\$m	2013	2014	2015
Turnover	33,590	26,149	21,487
Gross Profit	4,602	5,586	3,808
Net profit	911	1,483	1,331
Core net profit	897	1,467	1,279
Gross Margin (%)	13.7%	21.4%	17.7%
Core net margin (%)	2.7%	5.6%	6.0%
Gross debt	79,925	78,742	87,475
Cash	19,388	12,070	20,355
Net debt	60,537	66,671	67,119
Net gearing (%)	358%	358%	354%

Source(s): Company, ABCI Securities

Exhibit 3: COLI's operational and financial data before and after acquiring CITIC's portfolio

As at Dec 2015	Before acquisition	After acquisition
Land bank: Total GFA (mn sqm)	41.4	73.0
Land bank: Attributable GFA (mn sqm)	38.5	62.2
Total asset (HK\$bn)	427.2	582.2
Total equity (HK\$bn)	196.6	212.5
Net gearing (%)	6.6%	35.7%

Source(s): Company, ABCI Securities



Exhibit 4: COLI's FY16E NAV

	Attr. GFA (M sqm)	Net assets value (HKD m)	% of total	Valuation Methodology	Implied value per sqm (HK\$)
Property development					
Hua Nan	16.8	80,389	20%	DCF at WACC of 6.9%	4,796
Hua Dong	18.2	80,350	20%		4,420
Hua Bei	10.3	7,784	2%		756
Northern	20.7	93,524	23%		4,523
Western	12.6	83,725	21%		6,626
HK & Macau	0.55	23,478	6%		42,437
Subtotal	79.1	369,250	92%		4,668
Investment Properties		32,038	8%	5.5% cap rate on 2016E net rental income	
Total 2016E GAV		401,288	100%		
2016E Net cash/ (debt)		(54,383)	-14%		
Total 2016E NAV		346,905	86%		
No. of share outstanding- post CITIC acquisition (mn)		10,956			
NAV per share (HK\$)		31.7			
Target Premium/ (discount) (%)		0%			
Target Price (HK\$)		31.70			
WACC					
Cost of debt		6.9%			
Cost of Equity		3.5%			
Debt/ (Debt + Equity)		41%			

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2013A-2018E)

FY Ended Dec 31 (HK\$ mn)	2013A	2014A	2015A	2016E	2017E	2018E
Revenue	82,469	119,997	148,074	200,044	268,428	318,000
Cost of sales	(55,647)	(80,759)	(105,763)	(142,791)	(187,712)	(220,510)
Gross Profit	26,822	39,238	42,312	57,253	80,716	97,490
SG&A expenses	(2,817)	(3,570)	(4,213)	(6,131)	(7,508)	(8,608)
EBIT	24,005	35,667	38,098	51,122	73,208	88,882
Finance cost	(290)	(346)	(574)	(671)	(703)	(703)
Share of profit of associates	3,773	1,599	977	503	807	1,034
Other income/ (expenses)	904	1,578	364	1,563	1,510	2,853
Fair value gain of investment properties	3,438	5,169	7,445	0	0	0
Disposal/one-off items	1,458	0	2,513	0	0	0
Profit before tax	33,289	43,667	48,823	52,517	74,822	92,065
Tax	(10,110)	(15,462)	(14,772)	(16,053)	(22,373)	(26,368)
Profit after tax	23,179	28,205	34,051	36,464	52,449	65,697
Minority interest	(135)	(525)	(739)	(1,137)	(1,365)	(1,232)
Reported net profit	23,044	27,680	33,312	35,328	51,084	64,465
<i>Less: exceptional items</i>	<i>(4,084)</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Underlying net profit	18,960	23,830	27,560	35,328	51,084	64,465
Per share						
Underlying EPS (HKD)	2.32	2.92	3.01	3.49	4.66	5.88
DPS (HKD)	0.47	0.55	0.92	1.05	1.40	1.77
Payout ratio (%)	20%	19%	31%	30%	30%	30%
BVPS (HKD)	13.46	16.31	20.92	21.34	23.00	27.12
Growth %						
Revenue	27.7%	45.5%	23.4%	35.1%	34.2%	18.5%
Gross Profit	8.5%	46.3%	7.8%	35.3%	41.0%	20.8%
EBIT	5.8%	48.6%	6.8%	34.2%	43.2%	21.4%
Underlying net profit	20.0%	25.7%	15.7%	28.2%	44.6%	26.2%
Margin %						
Gross margin	32.5%	32.7%	28.6%	28.6%	30.1%	30.7%
Gross margin (post-LAT)	28.9%	28.3%	26.3%	27.3%	28.8%	29.8%
EBIT margin	29.1%	29.7%	25.7%	25.6%	27.3%	28.0%
Core net margin	19.1%	18.9%	17.3%	18.0%	19.2%	20.3%
Key assumptions						
Contracted Sales (HKDmn)	138,520	140,900	180,632	257,476	322,346	354,476
GFA sold (m sqm)	9.23	9.55	12.63	17.25	22.27	24.08
ASP (HKD/sqm)	15,008	14,755	14,304	14,926	14,473	14,722
Booked Sales (HKDmn)	78,615	116,254	143,695	195,130	262,913	311,807
GFA delivered (m sqm)	5.40	6.79	9.23	12.91	17.19	20.55
Booked ASP (HKD/sqm)	14,558	17,121	15,572	15,119	15,291	15,170

Source: Company, ABCI Securities estimates



Consolidated balance sheet (2013A-2018E)

As of Dec 31 (HK\$ mn)	2013A	2014A	2015A	2016E	2017E	2018E
Current assets	241,216	284,021	341,550	416,193	483,444	551,668
Cash	41,411	51,215	102,446	61,073	177,073	305,225
Trade & other receivables	2,431	2,431	11,203	11,203	11,203	11,203
Property under development	164,362	196,385	206,341	322,356	273,608	213,679
Other current assets	33,012	33,990	21,560	21,560	21,560	21,560
Non-current assets	55,307	66,916	85,686	87,654	89,925	92,423
Property, plant & equipment	1,371	1,355	1,223	1,287	1,352	1,416
Investment properties	32,532	44,755	64,057	65,557	67,057	68,557
Investment in Associate and JCE	15,930	15,727	15,010	15,413	16,120	17,054
Other non-current assets	5,473	5,079	5,396	5,396	5,396	5,396
Total Assets	296,522	350,937	427,237	503,846	573,369	644,091
Current Liabilities	110,928	135,910	113,693	164,487	196,936	221,350
Short term borrowings	3,303	22,542	7,269	7,269	7,269	7,269
Trade & other payables	21,523	35,420	34,644	34,644	34,644	34,644
Pre-sales deposits	61,414	46,848	47,495	98,288	130,738	155,152
Other current assets	24,687	31,100	24,285	24,285	24,285	24,285
Non-current liabilities	74,544	78,219	116,931	116,931	116,931	116,931
Long term borrowings	69,397	71,990	108,187	108,187	108,187	108,187
Other payables	582	739	1,238	1,238	1,238	1,238
Other non-current assets	4,566	5,490	7,506	7,506	7,506	7,506
Total Liabilities	185,472	214,129	230,624	281,418	313,867	338,281
Net Assets	111,050	136,808	196,613	222,429	259,502	305,810
Shareholders' Equity	109,971	133,334	191,558	216,287	252,046	297,171
Minority Interest	1,080	3,474	5,055	6,142	7,457	8,639
Total Equity	111,050	136,808	196,613	222,429	259,503	305,811
Key ratio						
Gross debt (HKDm)	72,700	94,532	115,456	115,456	115,456	115,456
Net debt (HKDm)	31,288	43,317	13,011	54,383	(61,617)	(189,769)
Net gearing (%)	28.2%	31.7%	6.6%	24.4%	-23.7%	-62.1%
Contracted sales/ Total assets (x)	0.47	0.40	0.42	0.51	0.56	0.55

Source: Company, ABCI Securities estimates



Consolidated cash flow statement (2013A-2018E)

FY ended Dec 31 (HK\$ mn)	2013A	2014A	2015A	2016E	2017E	2018E
EBITDA	24,057	35,720	38,151	51,175	73,261	88,934
Change in Working Capital	(27,709)	(38,992)	(15,556)	(60,517)	86,125	89,271
Tax payment	(10,110)	(15,462)	(14,772)	(16,053)	(22,373)	(26,368)
Operating Cashflow	(13,762)	(18,734)	7,822	(25,395)	137,013	151,837
Purchase of PP&E	(117)	(117)	(117)	(117)	(117)	(117)
Addition of Investment Properties	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)
Others	1,004	1,678	464	1,663	1,610	2,953
Investing Cashflow	(612)	61	(1,153)	46	(7)	1,336
Debt raised	31,248	36,802	15,000	10,000	10,000	10,000
Debt repaid	(10,062)	(106)	(171)	(10,000)	(10,000)	(10,000)
Interest expenses	(2,389)	(3,672)	(4,599)	(5,376)	(5,631)	(5,631)
Equity raised	0	0	42,806	0	0	0
Dividend to shareholders	(3,841)	(4,496)	(8,425)	(10,598)	(15,325)	(19,339)
Others	(50)	(50)	(50)	(50)	(50)	(50)
Financing Cashflow	14,905	28,478	44,561	(16,024)	(21,006)	(25,020)
Net cash inflow/ (outflow)	531	9,804	51,230	(41,373)	116,000	128,153
Cash- beginning	40,880	41,411	51,215	102,446	61,073	177,073
Cash- year-end	41,411	51,215	102,446	61,073	177,073	305,225

Source: Company, ABCI Securities estimates



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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return $- 6\% \leq$ Stock return $<$ Market return rate
Sell	Stock return $<$ Market return $- 6\%$

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 1.5
Low	180 day volatility/180 day benchmark index volatility $<$ 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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