



COLI (688 HK)

Negatives are priced in; maintain BUY

- FY16 core profit rose 12% YoY to HK\$ 32.7bn; excluding the one-off disposal gains to related companies, core profit dropped 4% YoY
- The CITIC portfolio registered a net loss in FY16 but margin will be recovering in FY17
- 2017 sales target of HK\$ 210bn implies a flat growth but sales momentum would accelerate from 2018 onwards to meet the HK\$ 400bn target for 2020
- Maintain **BUY** with revised TP of HK\$ 30.2 (from HK\$ 27.4), still based on a 20% discount to NAV

Company Report

Mar 24, 2017

Rating: **BUY**

TP: **HK\$ 30.20**

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FY16 - a year of integration. COLI's core profit rose 12%YoY to HK\$ 32.7bn, seemingly in line with consensus. If excluding the HK\$11bn one-off disposal gains to related companies (e.g. the tier-3/4 property portfolio to COGO, 81HK), however, core profit declined 4%YoY to HK\$ 25.2bn. Gross margin (GPM) was below 30% for the second year at 27.8%, up 0.6ppt YoY. The lower-than-expected profitability is mainly due to CITIC's property portfolio acquired in FY16 that registered a net loss of HK\$ 986mn (from a profit of HK\$ 1,331mn in FY15). Management commented performance would recover in 2017 and the portfolio's GPM, which was 21.6% in FY16, would rise to a level similar to the Group's average. The key achievement of COLI in 2016 was on its balance sheet. Net gearing declined to 7.3% in Dec 2016 from 34.2% in Dec 2015. The Group has refinanced the majority of CITIC's high-cost debts taken up during the acquisition. Management remains confident in achieving a GPM of over 30% over the next few years.

Faster growth to resume in 2018. In FY16, COLI's presale rose 17% YoY to HK\$ 210.6bn. For 2017, COLI's sales target of HK\$ 210bn implies a flat growth despite a 12% YoY increase in saleable resources to HK\$ 350bn. The Group plans to increase new construction starts by 150% YoY to 19mn sqm and raise the land acquisition budget by 126% YoY to HK\$ 100bn, hence we expect presale to resume faster growth in 2018-19 to reach the HK\$ 400bn target in 2020. We believe COLI's cyclical landbanking strategy (i.e. increase land purchase in 2017 when land market cools down on policy tightening) would support margins.

Maintain BUY with revised TP of HK\$ 30.20. Although COLI's results have missed market's expectation, we raise our NAV/share forecast to HK\$ 37.80 (from HK\$ 34.28) on the belief that momentum would resume in 2018. We lift our TP to HK\$ 30.20 (from HK\$ 27.40), still based on a 20% discount to NAV. We believe current share price (up 16% YTD, underperforming the sector's average of 36%) has fully priced in slower growth and weaker margins in 2016-17. Maintain **BUY**.

Risk factors: 1) Margin erosion trend; 2) Integration risk after asset injection; 3) Currency risks associated with FX debt exposure

Results and Valuation

FY ended Dec 31	2015A	2016A	2017E	2018E	2019E
Revenue (HK\$ mn)	148,074	164,069	162,580	196,029	228,358
Chg (% YoY)	23.4	10.8	(0.9)	20.6	16.5
Core net profit (HK\$ mn)	27,560	25,207	28,059	31,300	41,236
Chg (% YoY)	15.7	(8.5)	11.3	11.5	31.7
Core EPS (HK\$)	3.01	2.49	2.56	2.86	3.76
Chg (% YoY)	3.2	(17.4)	3.0	11.5	31.7
BVPS (HK\$)	20.92	21.93	22.05	24.03	26.62
Chg (% YoY)	28.2	4.8	0.6	8.9	10.8
Core PE (x)	8.0	9.6	9.4	8.4	6.4
P/B (x)	1.1	1.1	1.1	1.0	0.9
ROE (%)	14.4	11.3	11.6	11.9	14.1
ROA (%)	6.5	4.4	4.5	4.3	4.8
DPS(HK\$)	0.92	0.77	0.79	0.88	1.17
Yield (%)	3.8	3.2	3.3	3.7	4.9
Net gearing (%)	6.6	7.3	1.7	Net cash	Net cash

Source(s): Bloomberg, ABCI Securities estimates

Share price (HK\$)	23.95
Est. share price return	26.1%
Est. dividend yield	3.3%
Est. total return	29.4%
Previous Rating & TP	BUY, HK\$27.4
Previous Report Date	Nov 3, 2016

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	27.85/20.15
Issued shares (mn)	10,956
Market cap (HK\$ mn)	266,783
3-mth avg daily turnover(HK\$ mn)	481.6
Major shareholder(s) (%):	
China State Construction Engineering Corporation	55.07%
CITIC Group	10.00%

Source(s): Bloomberg, ABCI Securities

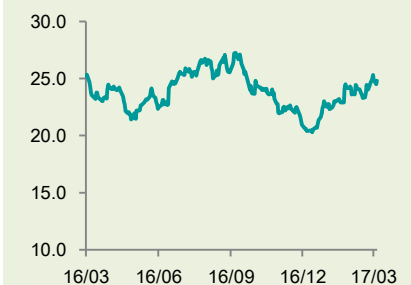
Share Performance (%)

	Absolute	Relative*
1-mth	3.0	2.2
3-mth	19.4	6.2
6-mth	(10.5)	(12.9)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year share performance(HK\$)



Source(s): Bloomberg, ABCI Securities



Exhibit 1: COLI's FY16 results

P&L	FY16	FY15	YoY
	HK\$m	(Restated) HK\$m	(%)
Turnover	164,069	169,562	(3.2)
Cost of Sales	(118,425)	(123,442)	(4.1)
Gross Profit	45,643	46,120	(1.0)
Gross Margin (%)	27.8	27.2	+0.6ppt
Selling and distribution costs	(3,372)	(2,843)	18.6
Administrative expense	(3,180)	(3,107)	2.4
EBIT	39,092	40,170	(2.7)
EBIT Margin (%)	23.8	23.7	+0.1 ppt
Other income	3,062	3,002	2.0
Fair Value gains on IP and others	5,850	7,470	na
Disposal gains	11,204	3,586	212.5
Exchange loss	(1,303)	(1,161)	12.3
Share of profit from JCE/ Assoc.	1,252	1,059	18.3
Finance cost	(2,056)	(2,757)	(25.4)
Profit before tax	57,102	51,368	11.2
Tax	(18,711)	(15,954)	17.3
- LAT	(7,776)	(5,013)	55.1
- Enterprise tax	(9,075)	(10,941)	(17.1)
Profit after tax	38,391	35,414	8.4
Minority Interest	(1,370)	(771)	77.7
Net profit	37,021	34,643	6.9
Core net profit	32,656	29,041	12.4
Core net profit (ex. disposal gains)	25,207	26,352	(4.3)
Core net margin	14.8	15.5	-0.8 ppt

Operating statistics	FY16	FY15	YoY
		(Restated)	%
Contracted GFA (mn sqm)	13.04	12.63	3.3
Contracted ASP (HK\$/sqm)	16,149	14,304	12.9
Contracted Sales (HK\$ mn)	210,648	180,632	16.6
GFA delivered (mn sqm)	9.36	9.73	(3.8)
Booked ASP (HK\$/sqm)	17,082	16,811	1.6
Booked Sales (HK\$ mn)	159,891	163,559	(2.2)
Balance sheet	Dec-16	Dec-15	YoY
	HK\$ mn	HK\$ mn	
Gross debt	173,821	201,045	(13.5)
Cash	157,162	127,315	27.9
Net debt	16,659	73,730	(85.2)
Net gearing (%)	7.3%	34.2%	-26.9 ppt
Revenue	FY16	FY15	YoY
	HK\$m	HK\$m	
Property development	159,891	163,559	(2.2)
Property investment	2,137	2,013	6.2
Others	2,040	3,990	(48.9)
Total	164,069	169,562	(3.2)

Source(s): Company, ABCI Securities

Exhibit 2: Performance of CITIC property portfolio

	COLI (ex CITIC)			CITIC portfolio			Total		
	2016	2015	YoY change	2016	2015	YoY change	2016	2015	YoY change
	HK\$m	Restated HK\$m		HK\$m	Restated HK\$m		HK\$m	Restated HK\$m	
Revenue	134,417	148,074	-9%	29,652	21,487	38%	164,069	169,562	-3%
Gross profit	39,241	42,312	-8%	6,402	3,808	68%	45,643	46,120	-2%
<i>Gross margin</i>	29.2%	28.6%	+0.6ppt	21.6%	17.7%	+3.9ppt	27.8%	27.2%	+0.6ppt
Net profit	38,007	33,312	14%	(986)	1,331	NA	37,021	34,643	7%
<i>Net margin</i>	28.3%	22.5%	+5.8ppt	-3.3%	6.2%	-9.5ppt	22.6%	20.4%	2.1ppt

Source(s): Company, ABCI Securities

Exhibit 3: COLI's 2017 guidance

	2017E	2016	YoY change	
	unit		%	
Contracted sales	HK\$ bn	210.0	210.6	0%
Construction start	mn sqm	>19.0	7.6	>150%
Construction completion	mn sqm	>13.5	13.4	>0%
Land acquisition	mn sqm	16.0	9.7	65%
Existing land premium	HK\$ bn	16.5	5.4	206%
New land acquisition	HK\$ bn	100.0	44.3	126%
Construction cost	HK\$ bn	43.5	42.3	3%
Total capex	HK\$ bn	160.0	92.0	74%

Source(s): Company, ABCI Securities estimates



Exhibit 4: COLI's 2017E NAV

	Attr. GFA (mn sqm)	Net assets value (HK\$ mn)	% of total	Valuation Method	Implied value per sqm (HK\$)
Property development					
Hua Nan	18.0	79,138	19%		4,395
Hua Dong	19.5	73,755	18%		3,776
Hua Bei	11.1	6,268	1%	DCF with	567
Northern	22.2	126,603	30%	WACC of 8.5%	5,699
Western	13.6	83,084	20%		6,120
HK & Macau	0.59	22,615	5%		38,048
Subtotal	85.0	391,464	94%		4,606
Investment Properties		26,626	6%	6% cap rate on 2017E net rental	
Total 2017E GAV		418,090	100%		
2017E Net cash/ (debt)		(4,154)	-1%		
Total 2017E NAV		413,936	99%		
No. of share outstanding (diluted)		10,956			
NAV per share (HKD)		37.8			
Target discount (%)		20%			
Target Price (HKD)		30.20			
WACC					
Cost of debt		8.5%			
Cost of equity		12.0%			
Debt/ (Debt + Equity)		41%			

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2014A-2019E)

FY Ended Dec 31 (HK\$ mn)	2014A	2015A	2016A	2017E	2018E	2019E
Revenue	119,997	148,074	164,069	162,580	196,029	228,358
Cost of sales	(80,759)	(105,763)	(118,425)	(111,396)	(138,814)	(155,166)
Gross Profit	39,238	42,312	45,643	51,185	57,215	73,191
SG&A expenses	(3,570)	(4,213)	(6,551)	(7,995)	(9,993)	(12,090)
EBIT	35,667	38,098	39,092	43,189	47,222	61,102
Finance cost	(346)	(574)	(2,056)	(2,227)	(2,431)	(2,431)
Share of profit of associates	1,599	977	1,252	711	853	648
Other income/ (expenses)	1,578	364	3,062	1,407	1,199	2,052
Fair value gain of investment properties	5,169	7,445	4,547	0	0	0
Disposal/one-off items	0	2,513	11,204	0	0	0
Profit before tax	43,667	48,823	57,102	43,081	46,844	61,372
Tax	(15,462)	(14,772)	(18,711)	(13,929)	(14,536)	(18,929)
Profit after tax	28,205	34,051	38,391	29,151	32,308	42,442
Minority interest	(525)	(739)	(1,370)	(1,092)	(1,008)	(1,206)
Reported net profit	27,680	33,312	37,021	28,059	31,300	41,236
<i>Less: exceptional items</i>	(3,850)	(5,752)	(11,814)	0	0	0
Underlying net profit	23,830	27,560	25,207	28,059	31,300	41,236
Per share						
Underlying EPS (HK\$)	2.92	3.01	2.49	2.56	2.86	3.76
DPS (HK\$)	0.55	0.92	0.77	0.79	0.88	1.17
Payout ratio (%)	19%	31%	31%	31%	31%	31%
BVPS (HK\$)	16.31	20.92	21.93	22.05	24.03	26.62
Growth %						
Revenue	45.5%	23.4%	10.8%	-0.9%	20.6%	16.5%
Gross Profit	46.3%	7.8%	7.9%	12.1%	11.8%	27.9%
EBIT	48.6%	6.8%	2.6%	10.5%	9.3%	29.4%
Underlying net profit	25.7%	15.7%	-8.5%	11.3%	11.5%	31.7%
Margin %						
Gross margin	32.7%	28.6%	27.8%	31.5%	29.2%	32.1%
Gross margin (post-LAT)	28.3%	26.3%	23.7%	29.7%	28.0%	30.7%
EBIT margin	29.7%	25.7%	23.8%	26.6%	24.1%	26.8%
Core net margin	18.9%	17.3%	15.4%	17.5%	16.0%	18.3%
Key assumptions						
Contracted Sales (HK\$ mn)	140,900	180,632	210,648	222,175	290,072	354,283
GFA sold (mn sqm)	9.55	12.63	13.04	16.02	18.73	25.21
ASP (HK\$/sqm)	14,755	14,304	16,149	13,872	15,486	14,054
Booked Sales (HK\$ mn)	116,254	143,695	159,891	158,082	191,162	223,067
GFA delivered (mn sqm)	6.79	9.23	9.36	9.86	12.52	14.59
Booked ASP (HK\$/sqm)	17,121	15,572	17,082	16,037	15,267	15,294

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2014A-2019E)

As of Dec 31 (HK\$ mn)	2014A	2015A	2016A	2017E	2018E	2019E
Current assets	284,021	341,550	474,913	524,298	619,881	759,920
Cash	51,215	102,446	157,162	169,667	230,129	510,763
Restricted cash	-	-	-	-	-	-
Trade & other receivables	2,431	11,203	11,341	11,341	11,341	11,341
Property under development	196,385	206,341	269,321	306,200	341,322	200,726
Other current assets	33,990	21,560	37,089	37,089	37,089	37,089
Non-current assets	66,916	85,686	96,376	98,551	100,869	102,981
Property, plant & equipment	1,355	1,223	3,887	3,951	4,015	4,080
Investment properties	44,755	64,057	67,093	68,593	70,093	71,593
Investment in Associate and JCE	15,727	15,010	16,039	16,650	17,403	17,951
Other non-current assets	5,079	5,396	9,357	9,357	9,357	9,357
Total Assets	350,937	427,237	571,289	622,849	720,750	862,901
Current Liabilities	135,910	113,693	199,604	230,749	306,082	418,606
Short-term borrowings	22,542	7,269	40,286	40,286	40,286	40,286
Trade & other payables	35,420	34,644	44,815	44,815	44,815	44,815
Pre-sales deposits	46,848	47,495	82,256	113,400	188,733	301,258
Other current liabilities	31,100	24,285	32,247	32,247	32,247	32,247
Non-current liabilities	78,219	116,931	144,261	144,261	144,261	144,261
Long-term borrowings	71,990	108,187	133,534	133,534	133,534	133,534
Other payables	739	1,238	870	870	870	870
Other non-current liabilities	5,490	7,506	9,857	9,857	9,857	9,857
Total Liabilities	214,129	230,624	343,866	375,010	450,344	562,868
Net Assets	136,808	196,613	227,423	247,838	270,407	300,033
Shareholders' Equity	133,334	191,558	222,248	241,621	263,231	291,701
Perpetual capital instrument	-	-	-	-	-	-
Minority Interest	3,474	5,055	5,175	6,217	7,175	8,332
Total Equity	136,808	196,613	227,423	247,838	270,407	300,033
Key ratio						
Gross debt (HK\$ mn)	94,532	115,456	173,821	173,821	173,821	173,821
Net debt (HK\$ mn)	43,317	13,011	16,659	4,154	(56,308)	(336,942)
Net gearing (%)	31.7%	6.6%	7.3%	1.7%	-20.8%	-112.3%
Contracted sales/ Total assets (x)	0.40	0.42	0.37	0.36	0.40	0.41

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2014A-2019E)

FY ended Dec 31 (HK\$ mn)	2014A	2015A	2016A	2017E	2018E	2019E
EBITDA	35,720	38,151	39,144	43,242	47,275	61,154
Change in Working Capital	(38,992)	(15,556)	(17,147)	1,592	48,209	261,119
Tax payment	(15,462)	(14,772)	(18,711)	(13,929)	(14,536)	(18,929)
Operating cash flow	(18,734)	7,822	3,287	30,905	80,948	303,344
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	1,678	464	3,162	1,507	1,299	2,152
Investing cash flow	61	(1,153)	1,545	(110)	(317)	535
Debt raised	36,802	15,000	76,559	10,000	10,000	10,000
Debt repaid	(106)	(171)	(10,000)	(10,000)	(10,000)	(10,000)
Interest expenses	(3,672)	(4,599)	(8,821)	(9,554)	(10,429)	(10,429)
Equity raised	0	42,806	0	0	0	0
Dividend to shareholders	(4,496)	(8,425)	(7,804)	(8,687)	(9,690)	(12,766)
Others	(50)	(50)	(50)	(50)	(50)	(50)
Financing cash flow	28,478	44,561	49,884	(18,290)	(20,169)	(23,245)
Net cash inflow/ (outflow)	9,804	51,230	54,716	12,505	60,462	280,634
Cash- beginning	41,411	51,215	102,446	157,162	169,667	230,129
Cash- year-end	51,215	102,446	157,162	169,667	230,129	510,763

Source(s): 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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