



January 23, 2015  
Company Report  
Rating: BUY  
TP: HK\$ 28.30

Share price (HK\$)	24.15
Est. share price return	17.2%
Est. dividend yield	2.2%
Est. total return	17.2%

Previous Rating & TP	HOLD; HK\$ 23.70
Previous Report Date	Oct 16, 2014

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**Key Data**

52Wk H/L(HK\$)	26.7/17
Issued shares (mn)	8,173
Market cap	197,400
3-mth avg daily turnover (HK\$ mn)	560.7
Major shareholder(s) (%):	
China State Construction Engineering Corporation	53.18
Source(s): Company, Bloomberg, ABCI Securities	

**FY13 Revenue breakdown (%)**

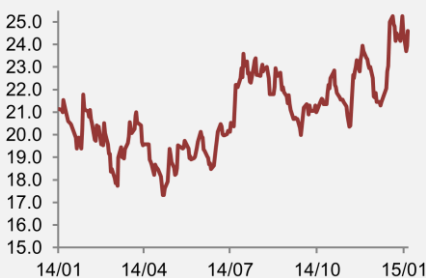
Property Development	95.3
Property Investment	1.0
Others	3.6
Source(s): Company, ABCI Securities	

**Share performance (%)**

	Absolute	Relative*
1-mth	15.5	10.1
3-mth	15.2	9.7
6-mth	10.8	9.3

\*Relative to HSI  
Source(s): Bloomberg, ABCI Securities

**1-Year stock performance (HK\$)**



Source(s): Bloomberg, ABCI Securities

COLI (688 HK)  
All set to soar in 2015

- We expect presales growth to resume to 20% YoY in 2015 on low base (2% YoY growth in 2014) and enlarged landbank (land acquired in 2014: 11.7mn sqm)
- Asset injection is likely to occur in 2015, helping the Group to strengthen its landbank and reduce internal competition
- Upgrade to BUY from Hold with revised TP of HK\$ 28.30 (from HK\$ 23.70) based on no discounts to NAV

**Presales set to rebound in 2015 on low base and enlarged landbank.** COLI achieved HK\$ 140.9bn of presales in 2014, up 2% YoY and sold a total GFA of 9.4mn sqm (+2% YoY) at an ASP of HK\$ 15k/sqm (unchanged YoY) in 2014. The Group's deliberate effort in upholding its ASP and maintaining profitability level could be reason of its tepid growth at 2% YoY in 2014, slower than the peer average of 18% YoY. In 2015, we expect COLI's presales momentum to rebound and growth would return to the 20% level, which is in line with its historical growth rate of 20%-30% in 2012-13. Apart from the low base in 2014, COLI's active land acquisition during the property downturn will significantly increase its saleable resources. The Group acquired a total GFA of 11.7 mn sqm at RMB 42.4bn in 2014, representing 38% of presales of the same year. By cost, 40% of the acquisition takes place in first-tier cities in Guangzhou and Beijing, where we expect strong recovery on recent rate cut. We believe COLI's cyclical land purchase will allow it to outperform as the property sector recovers.

**Asset injection likely to occur in 2015.** In 2014, COLI's parent company, CSCEC, entrusted its property business to COLI. Pursuant to the Entrusted Agreement, CSCEC agreed to entrust COLI to provide management services to its 24 project companies (estimated to have an aggregate landbank of 10mn sqm) for a term of 3 years at a fee of not more than HK\$ 100mn per annum. We expect progress of asset injection to speed up in 2015, following various SOE reforms and asset injections in SOEs such as CITIC (267 HK) and CR Land (1109 HK). CR Land's share price rose 11% after announcing its asset injection, outperforming the 5%-6% rise seen in its SOE peers. We believe asset injection will be positive to COLI by strengthening its landbank and reducing internal competition.

**Upgrade to BUY with revised TP at HK\$28.30; upgrade to BUY with TP revised to HK\$ 28.30.** As litigation risk emerges among non-SOE developers, we expect market share of SOE developers to increase in 2015, while small/mid-cap private developer would turn cautious to ensure their businesses are fully compliant with relevant laws and regulations. We revise our FY15E NAV to HK\$ 28.3/shr (HK\$ 24.4/shr) on the expectation that presales and ASP would increase on recent rate cut. We lift its TP to HK\$ 28.3 (previous: HK\$ 24.4) with no discounts to NAV. We upgrade COLI from **HOLD** to **BUY**. COLI is our preferred large-cap SOE play in the sector.

**Risk factors:** 1) Rising litigation risk across the sector; 2) Asset injection at premiums to market value.

**Results and Valuation**

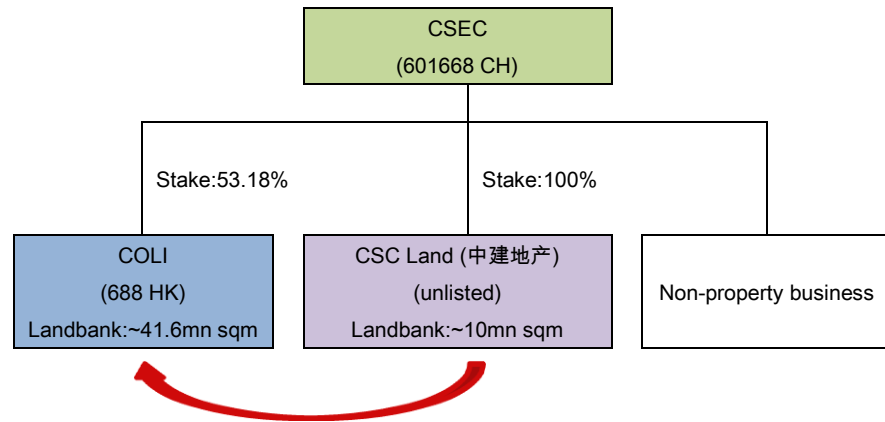
FY ended Dec 31	2012A	2013A	2014E	2015E	2016E
Revenue (HK\$ mn)	64,581	82,469	128,657	137,622	172,564
Chg (% YoY)	25.8	27.7	56.0	7.0	25.4
Core net profit (HK\$ mn)	15,800	18,960	21,959	24,241	32,840
Chg (% YoY)	25.9	20.0	15.8	10.4	35.5
Underlying EPS (HK\$)	1.93	2.32	2.69	2.97	4.02
Chg (% YoY)	25.9	20.0	15.8	10.4	35.5
BVPS (HK\$)	10.68	13.46	15.61	17.98	21.19
Chg (% YoY)	21.8	26.0	16.0	15.2	17.9
Underlying PE (x)	12.5	10.4	9.0	8.1	6.0
PB (x)	2.3	1.8	1.5	1.3	1.1
ROE (%)	18.1	17.2	17.2	16.5	19.0
ROA (%)	6.9	6.4	6.9	7.6	10.7
DPS (HK\$)	0.41	0.47	0.54	0.59	0.80
Dividend yield (%)	1.7	1.9	2.2	2.5	3.3
Net gearing (%)	20.5	28.5	20.8	24.4	(16.3)

\*Net gearing=Net debt/Total Shareholders' equity  
Source(s): Bloomberg, ABCI Securities estimates





Exhibit 5: Potential asset injection to COLI



Source(s): Company, ABCI Securities

Exhibit 6: COLI's FY15E NAV

	Attr. GFA (mn sqm)	Net asset value (HKD mn)	% of total	Valuation Methodology	Implied value per sqm (HK\$)
<b>Property development</b>					
Hua Nan	8.6	54,176	20%	DCF at WACC of 7.3%	6,316
Hua Dong	9.3	54,725	21%		5,882
Hua Bei	5.3	17,090	6%		3,245
Northern	10.6	57,741	22%		5,457
Western	6.5	44,709	17%		6,914
HK & Macau	0.28	13,260	5%		46,837
<b>Subtotal</b>	<b>40.5</b>	<b>241,701</b>	<b>91%</b>		<b>5,971</b>
Investment Properties		25,108	9%	5.0% cap rate on 2014E net rental income	
<b>Total 2015E GAV</b>		<b>266,809</b>	<b>100%</b>		
2015E Net debt		(35,830)	-13%		
<b>Total 2015E NAV</b>		<b>230,979</b>	<b>87%</b>		
No. of share outstanding		8,173			
<b>NAV per share (HK\$)</b>		<b>28.3</b>			
Target Premium/ (discount) (%)		0%			
<b>Target Price (HK\$)</b>		<b>28.30</b>			
<b>WACC</b>					
WACC	7.3%				
Cost of debt	3.5%				
Cost of Equity	10.0%				
<b>Debt/ (Debt + Equity)</b>	<b>36%</b>				

Source(s): Company, ABCI Securities estimates



**Consolidated income statement (2012A-2016E)**

<b>FY Ended Dec 31 (HK\$ mn)</b>	<b>2012A</b>	<b>2013A</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>
<b>Revenue</b>	<b>64,581</b>	<b>82,469</b>	<b>128,657</b>	<b>137,622</b>	<b>172,564</b>
Cost of sales	(39,855)	(55,647)	(85,085)	(93,971)	(118,070)
<b>Gross Profit</b>	<b>24,725</b>	<b>26,822</b>	<b>43,572</b>	<b>43,651</b>	<b>54,494</b>
SG&A expenses	(2,037)	(2,817)	(2,914)	(3,246)	(3,698)
<b>EBIT</b>	<b>22,689</b>	<b>24,005</b>	<b>40,657</b>	<b>40,406</b>	<b>50,795</b>
Finance cost	(286)	(290)	(419)	(440)	(440)
Share of profit of associates	2,637	3,773	750	854	957
Other income/ (expenses)	696	904	526	498	826
Fair value gain of investment properties	3,651	3,438	0	0	0
Disposal/one-off items	35	1,458	0	0	0
<b>Profit before tax</b>	<b>29,422</b>	<b>33,289</b>	<b>41,514</b>	<b>41,318</b>	<b>52,139</b>
Tax	(10,590)	(10,110)	(17,052)	(15,271)	(17,656)
<b>Profit after tax</b>	<b>18,832</b>	<b>23,179</b>	<b>24,461</b>	<b>26,047</b>	<b>34,483</b>
Minority interest	(110)	(135)	(2,503)	(1,806)	(1,643)
<b>Reported net profit</b>	<b>18,722</b>	<b>23,044</b>	<b>21,959</b>	<b>24,241</b>	<b>32,840</b>
<i>Less: exceptional items</i>	<i>(2,922)</i>	<i>(4,084)</i>	<i>0</i>	<i>0</i>	<i>0</i>
<b>Underlying net profit</b>	<b>15,800</b>	<b>18,960</b>	<b>21,959</b>	<b>24,241</b>	<b>32,840</b>
<b>Per share</b>					
Underlying EPS (HKD)	1.93	2.32	2.69	2.97	4.02
DPS (HKD)	0.41	0.47	0.54	0.59	0.80
Payout ratio (%)	21%	20%	20%	20%	20%
BVPS (HKD)	10.68	13.46	15.61	17.98	21.19
<b>Growth %</b>					
Revenue	25.8%	27.7%	56.0%	7.0%	25.4%
Gross Profit	19.6%	8.5%	62.4%	0.2%	24.8%
EBIT	20.8%	5.8%	69.4%	-0.6%	25.7%
Underlying net profit	25.9%	20.0%	15.8%	10.4%	35.5%
<b>Margin %</b>					
Gross margin	38.3%	32.5%	33.9%	31.7%	31.6%
Gross margin (post-LAT)	32.1%	28.9%	27.9%	27.9%	28.9%
EBIT margin	35.1%	29.1%	31.6%	29.4%	29.4%
Core net margin	20.8%	19.1%	18.4%	18.3%	19.4%
<b>Key assumptions</b>					
Presales (HKDm)	111,520	138,520	140,900	172,389	217,186
GFA sold (m sqm)	7.29	9.23	9.63	11.57	13.55
ASP (HKD/sqm)	15,295	15,008	14,633	14,903	16,033
Booked Sales (HKD)	61,407	78,615	124,331	132,740	167,043
GFA delivered (m sqm)	4.18	5.40	7.16	5.03	4.29
Booked ASP (HKD/sqm)	14,691	14,558	17,363	26,414	38,965

Source: Company, ABCI Securities estimates



**Consolidated balance sheet (2012A-2016E)**

<b>As of Dec 31 (HK\$ mn)</b>	<b>2012A</b>	<b>2013A</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>
<b>Current assets</b>	<b>180,268</b>	<b>241,216</b>	<b>259,979</b>	<b>257,069</b>	<b>243,497</b>
Cash	40,880	41,411	46,182	36,869	100,847
Trade & other receivables	2,599	2,431	2,431	2,431	2,431
Property under development	111,752	164,362	178,354	184,757	107,207
Other current assets	25,036	33,012	33,012	33,012	33,012
<b>Non-current assets</b>	<b>49,557</b>	<b>55,307</b>	<b>57,521</b>	<b>59,840</b>	<b>62,262</b>
Property, plant & equipment	976	1,371	1,436	1,500	1,564
Investment properties	23,657	32,532	34,032	35,532	37,032
Investment in Associate and JCE	17,192	15,930	16,581	17,335	18,192
Other non-current assets	7,732	5,473	5,473	5,473	5,473
<b>Total Assets</b>	<b>229,825</b>	<b>296,522</b>	<b>317,500</b>	<b>316,909</b>	<b>305,758</b>
<b>Current Liabilities</b>	<b>83,975</b>	<b>110,928</b>	<b>111,886</b>	<b>90,146</b>	<b>51,131</b>
Short term borrowings	5,546	3,303	3,303	3,303	3,303
Trade & other payables	16,917	21,523	21,523	21,523	21,523
Pre-sales deposits	40,506	61,414	62,373	40,633	1,617
Other current assets	21,007	24,687	24,687	24,687	24,687
<b>Non-current liabilities</b>	<b>58,292</b>	<b>74,544</b>	<b>74,544</b>	<b>74,544</b>	<b>74,544</b>
Long term borrowings	53,243	69,397	69,397	69,397	69,397
Other payables	2,018	582	582	582	582
Other non-current assets	3,031	4,566	4,566	4,566	4,566
<b>Total Liabilities</b>	<b>142,268</b>	<b>185,472</b>	<b>186,430</b>	<b>164,690</b>	<b>125,675</b>
<b>Net Assets</b>	<b>87,557</b>	<b>111,050</b>	<b>131,070</b>	<b>152,219</b>	<b>180,084</b>
<b>Shareholders Equity</b>	<b>87,244</b>	<b>109,971</b>	<b>127,538</b>	<b>146,930</b>	<b>173,202</b>
Minority Interest	313	1,080	3,532	5,289	6,881
<b>Total Equity</b>	<b>87,557</b>	<b>111,050</b>	<b>131,070</b>	<b>152,219</b>	<b>180,084</b>
<b>Key ratio</b>					
Gross debt (HKDm)	58,789	72,700	72,700	72,700	72,700
Net debt (HKDm)	17,908	31,288	26,517	35,830	(28,148)
Net gearing (%)	20.5%	28.5%	20.8%	24.4%	-16.3%
Presales/ Total assets (x)	0.49	0.47	0.44	0.54	0.71

Source: Company, ABCI Securities estimates



Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31 (HK\$ mn)	2012A	2013A	2014E	2015E	2016E
EBITDA	22,741	24,057	40,710	40,458	50,848
Change in Working Capital	(7,539)	(27,854)	(10,711)	(25,704)	40,975
Tax payment	(8,153)	(10,110)	(17,052)	(15,271)	(17,656)
<b>Operating Cashflow</b>	<b>7,050</b>	<b>(13,907)</b>	<b>12,947</b>	<b>(516)</b>	<b>74,167</b>
Purchase of PP&E	(117)	(117)	(117)	(117)	(117)
Addition of Investment Properties	(1,587)	(1,500)	(1,500)	(1,500)	(1,500)
Others	3,209	1,004	626	598	926
<b>Investing Cashflow</b>	<b>1,506</b>	<b>(612)</b>	<b>(991)</b>	<b>(1,019)</b>	<b>(691)</b>
Debt raised	16,048	31,248	10,000	10,000	10,000
Debt repaid	(11,003)	(10,000)	(10,000)	(10,000)	(10,000)
Interest expenses	(1,745)	(2,307)	(2,742)	(2,880)	(2,880)
Equity raised	0	0	0	0	0
Dividend to shareholders	(3,024)	(3,841)	(4,392)	(4,848)	(6,568)
Others	12,869	(50)	(50)	(50)	(50)
<b>Financing Cashflow</b>	<b>13,146</b>	<b>15,050</b>	<b>(7,184)</b>	<b>(7,778)</b>	<b>(9,498)</b>
<b>Net cash inflow/ (outflow)</b>	<b>21,701</b>	<b>531</b>	<b>4,771</b>	<b>(9,313)</b>	<b>63,978</b>
Cash- beginning	19,179	40,880	41,411	46,182	36,869
<b>Cash- year-end</b>	<b>40,880</b>	<b>41,411</b>	<b>46,182</b>	<b>36,869</b>	<b>100,847</b>

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 from 2009-2013

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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