



November 22, 2013
Company Report
Rating: **HOLD**
TP: HK\$ 25.00

Share price (HK\$) 23.85
Est. share price return 4.82 %
Est. dividend yield 2.10 %
Est. total return 6.92 %

Previous Rating & TP BUY; HK\$ 26.00
Previous Report Date Aug 6, 2013

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Key Data

52Wk H/L(HK\$)	25.18/17.52
Issued shares (mn)	8,173
Market cap	192,056
3-mth avg daily turnover (HK\$ mn)	477.1
Major shareholder(s) (%):	
China State Construction Engineering Corporation	53.18
Source(s): Company, Bloomberg, ABCI Securities	

FY12 Revenue breakdown (%)

Property Development	95.1
Property Investment	0.9
Others	4.0
Source(s): Company, ABCI Securities	

Share performance (%)

	Absolute	Relative*
1-mth	(1.0)	(2.4)
3-mth	3.9	(4.2)
6-mth	0.2	(1.0)

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

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

COLI (688 HK)
From leader to mediocre

- Expect margin to fall further from 38.3% in 2012 to 36.9%/ 36.5% in FY13E/14E
- COLI's 10M13 presales grew 19%YoY , lower than peer average of 33%
- Asset injection from parent company is likely to be NAV accretive but a concrete timetable is yet to be confirmed
- Downgrade to **HOLD** from BUY on falling profitability. We derive our TP of HK\$25.00 based on no discount to NAV

Margin is trending down. COLI's 3Q revenue was up 31.3% YoY to HK\$ 22.1bn while operating profit grew only 2.5% YoY to HK\$ 6.3bn. This implies that COLI's 3Q13 EBIT margin decreased further to 28.7% from 34.8% in 1H13 and 36.2% in FY12. COLI used to trade at premium to peers on high margins- which we believe may not be sustainable in the future. In our view, its consistent decline in margin is mainly caused by COLI's aggressive sales target (HK\$ 120bn for 2013) to achieve double-digit growth despite its high base. To maintain such growth, COLI has to penetrate into new, lower-tier cities where demand and profitability could be lower to ensure sufficient project pipeline.

Less exciting growth than peers. For 10M13, COLI achieved HK\$ 122bn in presales, up 19% YoY and were lower than the average growth among peers at 33% YoY. In terms of growth, small/mid cap players have performed better than their larger counterparts this year so far given the former's lower base.

Asset injection could be a near-term upside catalyst. We believe asset injection from CSCEC (601668 CH) could begin as soon as 1H14E. Given the size of CSCEC's sizeable landbank, the injected sites could have a GFA reaching 10mn sqm (27% of COLI's existing landbank of 36.5mn sqm). We believe COLI would acquire the assets by stages. If the Group is able to secure the assets at discounted rates, the injection could be an upside catalyst for COLI's NAV and margins.

Downgrade to HOLD on thinning margins. We lower our earnings forecasts by 1.9% and 7.6% for FY14E and FY15E to factor in the latest land acquisitions and geographic expansion that may result in lower gross margins. We forecast COLI could achieve HK\$ 143bn in presales for 2014E, given that land capex was high as HK\$ 29bn in 9M13. We expect gross margin to edge down from 36.9% in FY13E to 36.5% in FY14E due to its penetration into lower-tier cities with lower ASPs. We also roll over our NAV estimate to end-2014, and cut our TP by 3.8% to HK\$ 25.00 (previous TP: HK\$ 26.00) based on its undiscounted NAV. Downgrade COLI to **HOLD** from BUY.

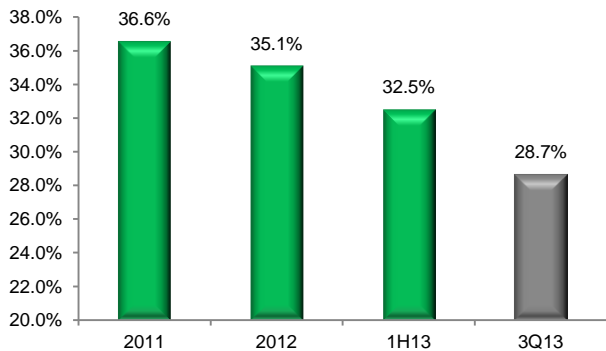
Risk factors: 1) Higher/lower ASP than expected; 2) Asset injection at discount/premium to market value; 3) Further tightening measures on property sector.

Results and Valuation

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (HK\$ mn)	51,332	64,581	112,847	127,882	123,682
Chg (% YoY)	10.0	25.8	74.7	13.3	(3.3)
Core net profit (HK\$ mn)	12,548	15,958	20,712	23,740	22,871
Chg (% YoY)	33.4	27.2	29.8	14.6	(3.7)
Underlying EPS (HK\$)	1.54	1.95	2.53	2.90	2.80
Chg (% YoY)	33.4	27.2	29.8	14.6	(3.7)
BVPS (HK\$)	8.76	10.68	12.70	15.03	17.27
Chg (% YoY)	30.8	21.8	19.0	18.3	14.9
Underlying PE (x)	15.5	12.2	9.4	8.2	8.5
PB (x)	2.7	2.2	1.9	1.6	1.4
ROE (%)	17.5	18.3	20.0	19.3	16.2
ROA (%)	7.1	6.9	7.3	8.1	8.0
DPS (HK\$)	0.33	0.41	0.51	0.58	0.56
Dividend yield (%)	1.4	1.7	2.1	2.4	2.3
Net gearing (%)	32.7	20.5	(34.6)	(37.4)	(59.0)

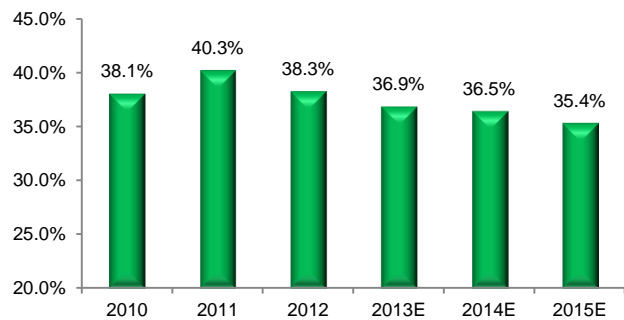
*Net gearing=Net debt/Total Shareholders' equity
Source(s): Bloomberg, ABCI Securities estimates

Exhibit 1: COLI's EBIT Margin (2011-3Q13)



Source(s): Company, ABCI Securities

Exhibit 2: COLI's gross margin (2010-15E)



Source(s): Company, ABCI Securities estimates

Exhibit 3: 10M13 presales of the listed Chinese developers

(RMB bn)	Oct-13		10M2013		2013 Target	Achievement ratio	2012 Actual		Exceed/ (below) target by
	YoY	YoY	YoY	YoY			YoY	YoY	
1 Country Garden	15.0	134%	79.7	121%	62	128.5%	48	10%	10.7%
2 Sunac	6.3	74%	38.9	70%	45	86.3%	32	78%	5.2%
3 Kaisa	2.5	39%	19.3	50%	22	87.6%	17	14%	5.7%
4 Shimao	7.5	113%	55.6	42%	63	88.3%	46	51%	50.3%
5 CR Land	5.9	40%	56.6	35%	57	99.2%	52	45%	30.5%
6 KWG	1.5	18%	13.4	34%	16	83.9%	12	7%	1.7%
7 Greentown	7.5	29%	51.1	34%	55	92.9%	51	48%	27.4%
8 Gemdale	2.8	-23%	34.7	34%	41	84.7%	34	10%	4.9%
9 Vanke	17.4	27%	145.8	33%	160	91.2%	141	16%	6.2%
10 R&F	4.9	20%	34.4	30%	42	81.9%	32	8%	0.6%
11 Longfor	4.9	29%	40.2	26%	46	87.5%	40	5%	2.9%
12 Evergrande	16.6	17%	91.3	25%	100	91.3%	92	15%	15.4%
13 Agile	4.2	35%	29.7	24%	42	70.6%	33	5%	10.2%
14 Poly-A	12.1	57%	100.7	21%	117	86.1%	102	39%	27.2%
15 COLI*	9.8	14%	121.6	19%	120	101.3%	90	28%	-10.2%
16 Yuexiu	0.9	56%	13.4	15%	13.2	101.2%	12	36%	23.0%
17 Sino-Ocean	3.0	-14%	31.0	14%	35	88.6%	31	15%	15.2%
18 Beijing Capital	1.8	57%	11.5	13%	20	57.4%	13	20%	10.6%
19 Glorious	0.3	-66%	5.3	-46%	11	47.8%	11	-18%	-15.8%
Total	122.8	37%	948.7	33%	1,067	88.9%	890	23%	11.2%

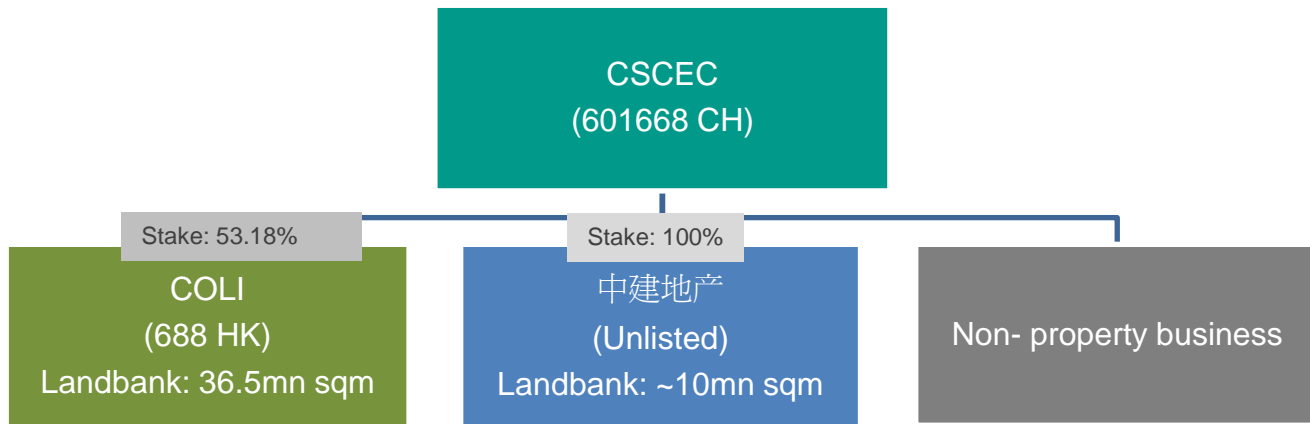
* In HK\$

Source(s): Companies, ABCI Securities

Pros & Cons of asset injection

- ✓ Increase COLI's landbank and reduce the need to purchase land at high prices
- ✓ Boost presale in near term, as some projects may have met the presales requirement
- ✓ Avoid internal competition among sister companies in the property sector
- ✗ Assets are unlikely to be injected at big discounts as CSCEC (601668 CH) is also a listed company, and asset disposal below market price will be unfavorable to its minority shareholders of CSCEC

Exhibit 4: Group chart and land bank as at 30 Jun 2013



Source(s): ABCI Securities

Exhibit 5: Forecast changes for COLI

	Previous			Current			Change (%)		
	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E
Core net profit (RMB mn)	19,390	24,389	25,089	20,712	23,740	22,871	6.8%	-2.7%	-8.8%
<i>YoY chg (%)</i>	21.5	25.8	2.9	29.8	14.6	-3.7			
Contracted sales (RMB mn)	120,135	138,034	125,514	135,234	143,257	148,220	12.6%	3.8%	18.1%
<i>YoY chg (%)</i>	7.7	14.9	-9.1	21.3	5.9	3.5			
GFA delivered (mn sqm)	6.41	6.62	5.93	6.80	7.00	6.15	6.0%	5.7%	3.7%
Gross margin (%)	37.1%	37.9%	38.8%	36.9%	36.5%	35.4%	-0.17ppt	-1.4ppt	-3.4ppt

Source(s): ABCI Securities estimates



Exhibit 6: COLI's FY14E NAV

	Attr. GFA (M sqm)	Net assets value		Valuation Methodology	Implied value per sqm (HKD)
		(HKD m)	% of total		
Property development					
Hua Nan	9.1	38,662	24%	DCF at WACC of 7.6%	4,271
Hua Dong	8.8	38,180	24%		4,339
Hua Bei	4.1	9,153	6%		2,223
Northern	10.9	34,849	22%		3,189
Western	7.0	21,448	14%		3,053
HK & Macau	0.21	534	0%		2,566
Subtotal	40.1	142,826	90%		3,559
Investment Properties		15,677	10%	5.0% cap rate on 2014E net rental income	
Total 2014E GAV		158,503	100%		
2014E Net debt		45,884	29%		
Total 2014E NAV		204,387	129%		
No. of share outstanding		8,173			
NAV per share (HKD)		25.0			
Target Premium/ (discount) (%)		0%			
Target Price (HKD)		25.00			
WACC	7.6%				
Cost of debt	3.5%				
Cost of Equity	10.0%				
Debt/ (Debt + Equity)	32%				

Source(s): Company, ABCI Securities estimates

Exhibit 7: COLI's 1H13 results

P&L	1H13	1H12	YoY Chg
	HK\$ mn		(%)
Turnover	32,188	25,282	27.3
Cost of Sales & direct operating costs	(20,512)	(14,932)	37.4
Gross Profit	11,677	10,350	12.8
Gross Margin (%)	36.3	40.9	(4.7)
Selling and distribution costs	(450)	(358)	25.4
Administrative expense	(754)	(597)	26.2
EBIT	10,474	9,395	11.5
EBIT Margin (%)	32.5	37.2	
Other income, gains and losses	736	263	179.4
Fair value gain of investment properties	1,964	2,567	(23.5)
Other exceptional items	1,458	0	na
Share of profit from JCE/ Associates	1,629	562	189.9
Finance cost	(151)	(112)	35.4
Profit before tax	16,109	12,676	27.1
Tax	(5,009)	(4,254)	17.8
- LAT	(1,901)	(1,825)	4.2
- Enterprise tax	(3,107)	(2,428)	28.0
Profit after tax	11,100	8,422	31.8
Minority Interest	(68)	(37)	81.0
Net profit	11,033	8,385	31.6
Underlying net profit	8,060	6,360	26.7
Balance sheet	Jun-13	Dec-12	HoH %
Gross debt	66,401	58,789	12.9
Cash	51,742	40,880	26.6
Net debt	14,659	17,908	(18.1)
Net gearing (%)	15.0	20.5	(5.6)

Source(s): Company, ABCI Securities



Consolidated income statement (2011A-2015E)

FY Ended Dec 31 (HK\$ mn)	2011A	2012A	2013E	2014E	2015E
Revenue	51,332	64,581	112,847	127,882	123,682
Cost of sales	(30,660)	(39,855)	(71,224)	(81,229)	(79,942)
Gross Profit	20,672	24,725	41,623	46,654	43,741
SG&A expenses	(1,897)	(2,037)	(2,376)	(2,543)	(2,607)
EBIT	18,775	22,689	39,246	44,111	41,134
Finance cost	(591)	(286)	(332)	(356)	(356)
Share of profit of associates	922	2,637	698	867	1,022
Other income/ (expenses)	771	696	1,017	1,196	1,480
Fair value gain of investment properties	3,020	3,651	-	-	-
Disposal/one-off items	868	35	-	-	-
Profit before tax	23,765	29,422	40,630	45,817	43,280
Tax	(8,207)	(10,590)	(17,360)	(19,341)	(17,979)
Profit after tax	15,558	18,832	23,270	26,476	25,302
Minority interest	(94)	(110)	(2,558)	(2,736)	(2,431)
Reported net profit	15,464	18,722	20,712	23,740	22,871
Less: exceptional items	(2,916)	(2,765)	-	-	-
Underlying net profit	12,548	15,958	20,712	23,740	22,871
Per share					
Underlying EPS (HKD)	1.54	1.95	2.53	2.90	2.80
DPS (HKD)	0.33	0.41	0.51	0.58	0.56
Payout ratio (%)	21%	21%	20%	20%	20%
BVPS (HKD)	8.76	10.68	12.70	15.03	17.27
Growth %					
Revenue	10.0%	25.8%	74.7%	13.3%	-3.3%
Gross Profit	16.3%	19.6%	68.3%	12.1%	-6.2%
EBIT	18.3%	20.8%	73.0%	12.4%	-6.7%
Underlying net profit	33.4%	27.2%	29.8%	14.6%	-3.7%
Margin %					
Gross margin	40.3%	38.3%	36.9%	36.5%	35.4%
Gross margin (post-LAT)	34.0%	32.1%	29.3%	29.2%	28.7%
EBIT margin	36.6%	35.1%	34.8%	34.5%	33.3%
Core net margin	22.8%	20.8%	20.0%	20.0%	19.6%
Key assumptions					
Contracted Sales (HK\$m)	87,090	111,520	135,234	143,257	148,220
GFA sold (m sqm)	5.58	7.29	8.64	9.27	9.87
ASP (HKD/sqm)	15,602	15,295	15,651	15,449	15,018
Booked Sales (HKD)	49,432	61,407	109,268	123,873	119,166
GFA delivered (m sqm)	2.94	4.18	6.80	7.00	6.15
Booked ASP (HKD/sqm)	16,814	14,691	16,070	17,690	19,374
Land acquisition (HK\$m)	24,161	35,639	29,395	32,000	-
GFA acquired (m sqm)	10.6	10.3	5.0	5.0	-
Land cost (HKD/sqm)	2,287	3,453	5,846	6,400	-
Land acquisition to Contracted sales (%)	27.7%	32.0%	21.7%	22.3%	-

Source: Company, ABCI Securities estimates



Consolidated balance sheet (2011A-2015E)

As of Dec 31 (HK\$ mn)	2011A	2012A	2013E	2014E	2015E
Current assets	127,984	180,268	233,108	239,253	230,709
Cash	19,179	40,880	94,686	104,672	142,045
Trade & other receivables	1,850	2,599	2,599	2,599	2,599
Property under development	97,472	111,752	110,786	106,946	61,029
Other current assets	9,483	25,036	25,036	25,036	25,036
Non-current assets	47,991	49,557	51,720	54,051	56,537
Property, plant & equipment	338	976	1,040	1,105	1,169
Investment properties	17,765	23,657	25,157	26,657	28,157
Investment in Associate and JCE	16,009	17,192	17,791	18,557	19,480
Other non-current assets	13,879	7,732	7,732	7,732	7,732
Total Assets	175,975	229,825	284,828	293,304	287,246
Current Liabilities	67,929	83,975	119,901	106,699	79,963
Short term borrowings	9,820	5,546	5,546	5,546	5,546
Trade & other payables	16,378	16,917	16,917	16,917	16,917
Pre-sales deposits	24,480	40,506	76,432	63,230	36,494
Other current assets	17,250	21,007	21,007	21,007	21,007
Non-current liabilities	36,156	58,292	58,292	58,292	58,292
Long term borrowings	32,803	53,243	53,243	53,243	53,243
Other payables	1,055	2,018	2,018	2,018	2,018
Other non-current assets	2,298	3,031	3,031	3,031	3,031
Total Liabilities	104,085	142,268	178,193	164,991	138,256
Net Assets	71,890	87,557	106,634	128,312	148,990
Shareholders' Equity	71,617	87,244	103,814	122,806	141,102
Minority Interest	273	313	2,820	5,507	7,888
Total Equity	71,890	87,557	106,634	128,312	148,990
Key ratio					
Gross debt (HK\$ mn)	42,624	58,789	58,789	58,789	58,789
Net debt (HK\$ mn)	23,444	17,908	(35,898)	(45,884)	(83,256)
Net gearing (%)	32.7%	20.5%	-34.6%	-37.4%	-59.0%
Contracted sales/ Total assets (x)	0.49	0.49	0.47	0.49	0.52

Source: Company, ABCI Securities estimates



Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31 (HK\$ mn)	2011A	2012A	2013E	2014E	2015E
EBITDA	18,819	22,741	39,299	44,163	41,187
Change in Working Capital	(20,853)	(7,539)	38,728	(7,388)	21,154
Tax payment	(5,963)	(8,153)	(17,360)	(19,341)	(17,979)
Operating Cash flow	(7,998)	7,050	60,667	17,434	44,362
Purchase of PP&E	(143)	(117)	(117)	(117)	(117)
Addition of Investment Properties	(1,422)	(1,587)	(1,500)	(1,500)	(1,500)
Others	(3,888)	3,209	1,117	1,296	1,580
Investing Cash flow	(5,453)	1,506	(500)	(321)	(37)
Debt raised	9,450	16,048	10,000	10,000	10,000
Debt repaid	(8,694)	(11,003)	(10,000)	(10,000)	(10,000)
Interest expenses	(1,361)	(1,745)	(2,169)	(2,329)	(2,329)
Equity raised	-	-	-	-	-
Dividend to shareholders	(2,452)	(3,024)	(4,142)	(4,748)	(4,574)
Others	2,776	12,869	(50)	(50)	(50)
Financing Cash flow	(282)	13,146	(6,361)	(7,127)	(6,953)
Net cash inflow/ (outflow)	(13,733)	21,701	53,806	9,986	37,372
Cash- beginning	32,912	19,179	40,880	94,686	104,672
Cash- year-end	19,179	40,880	94,686	104,672	142,045

Source: Company, ABCI Securities estimates

Disclosures

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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 2007-2011

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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