



March 14, 2014
Company Report
Rating: HOLD
TP: HK\$ 19.50

Share price (HK\$) 18.80
Est. share price return 3.7%
Est. dividend yield 3.0%
Est. total return 6.7%

Previous Rating & TP BUY; HK\$ 25.00
Previous Report Date Nov 22, 2013

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Key Data

52Wk H/L(HK\$)	25.00/17.70
Issued shares (mn)	8,173
Market cap	156,645
3-mth avg daily turnover (HK\$ mn)	505.1
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	

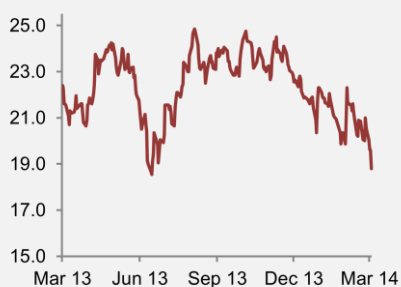
Share performance (%)

	Absolute	Relative*
1-mth	(15.7)	(13.6)
3-mth	(16.8)	(11.1)
6-mth	(20.5)	(16.3)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

COLI (688 HK)

FY13 results: Negative surprise from margin

- Core profit grew 20% YoY to HK\$18.96bn, which is 8.4% below our forecast
- Major negative surprise came from gross margin that dropped by 3.2ppt YoY to 35.1% even when impact of affordable housing is excluded
- COLI announced a conservative sales target of HK\$ 140bn for 2014 despite sellable resources will expand by 22% YoY
- Maintain **HOLD** with revised TP of HK\$ 19.50 (from HK\$ 25.00) based on a 20% discount to NAV

Margin erosion — worse than expected. COLI's core profit grew by 20%YoY HK\$ 18.96bn as revenue surged 28% YoY (GFA delivered: + 29% YoY; booked ASP: -1%), which was 8.4% lower than our forecast or 3.6% below consensus. Margin is disappointing as GP margin dropped from 38.3% in FY12 to 32.5% in FY13 due to booking of several affordable housing projects with low ASPs. COLI has agreed to participate in these projects so as to secure quality sites from local governments. Even if we exclude such impact, GP margin would still drop 3.2 ppt YoY to 35.1%. In our view, COLI is not immune to impact of rising land cost, as demonstrated by its declining margin over the past three years (from 40.3% in FY11, to 38.3% in FY12 and 35.1% in FY13).

Net gearing edged up slightly from 20.5% in FY12 to 28.5% in FY13 on massive land acquisition (16mn sqm at RMB 51bn). COLI announced a DPS of HK\$0.49/share, implying a 20% payout ratio and an unexciting yield of 2.5% (vs 5%-6% yield for small/mid cap players).

Prudent 2014 sales target implies a flat yoy growth. COLI's presales target for 2014 is HK\$ 140bn, similar to presale achieved last year. Based on its track record, we expect the Group to revise up its target in 2H13. Management said sellable resources in FY14 would be HK\$220bn, up 22% YoY from HK\$ 180bn last year. COLI expects 60%-70% of total presale will be completed in 1H14, as opposed to 40% in 1H13. So far, COLI has presold HK\$24.32bn of properties for 2M14.

Margin is unlikely to recover; maintain HOLD. We lower FY14E's core profit by -2.1% but raise FY15E's by 16.5% to factor in the latest land acquisition. In 2M14, COLI acquired 8.0mn sqm at RMB 21,734mn (equivalent to 42% of FY13 land spending), which would support earnings in 2015. We lower our NAV estimate to HK\$ 24.38/share (from HK\$ 25.00) to reflect COLI's declining profitability. We maintain HOLD on COLI with TP of HK\$ 19.50/share (previous: HK\$ 25.00) is based on a 20% discount to NAV (from 0% previously) as margin is unlikely to recover in the near term.

Risk factors: 1) Higher/lower ASP than expected; 2) Asset injection at discount/premium to market value; 3) Further tightening in China's property market.

Results and Valuation

FY ended Dec 31	2012A	2013A	2014E	2015E	2016E
Revenue (HK\$ mn)	64,581	82,469	134,797	148,142	142,384
Chg (% YoY)	25.8	27.7	63.5	9.9	(3.9)
Core net profit (HK\$ mn)	15,800	18,960	23,242	26,644	26,909
Chg (% YoY)	25.9	20.0	22.6	14.6	1.0
Underlying EPS (HK\$)	1.93	2.32	2.84	3.26	3.29
Chg (% YoY)	25.9	20.0	22.6	14.6	1.0
BVPS (HK\$)	10.68	13.46	15.73	18.34	20.97
Chg (% YoY)	21.8	26.0	16.9	16.6	14.4
Underlying PE (x)	9.7	8.1	6.6	5.8	5.7
PB (x)	1.8	1.4	1.2	1.0	0.9
ROE (%)	18.1	17.2	18.1	17.8	15.7
ROA (%)	6.9	6.4	7.0	7.6	7.2
DPS (HK\$)	0.41	0.47	0.57	0.65	0.66
Dividend yield (%)	2.2	2.5	3.0	3.5	3.5
Net gearing (%)	20.5	28.5	(4.5)	(56.4)	(93.4)

*Net gearing=Net debt/Total shareholders' equity

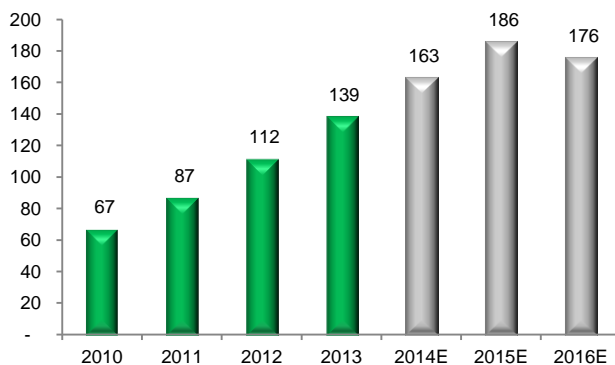
Source(s): Bloomberg, ABCI Securities estimates

Exhibit 1: COLI's FY13 results reflect declining margins

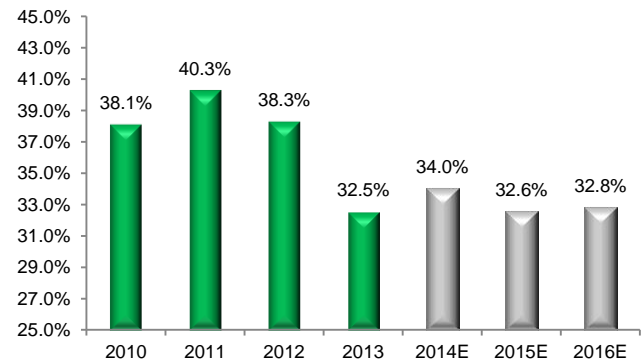
P&L	FY13	FY12	YoY Chg
	HK\$ mn	HK\$ mn	(%)
Turnover	82,469	64,581	28
Cost of Sales & direct operating costs	(55,647)	(39,855)	40
Gross Profit	26,822	24,725	8
Gross Margin (%)	32.5	38.3	(5.8)
Selling and distribution costs	(1,247)	(842)	48
Administrative expense	(1,570)	(1,194)	31
EBIT	24,005	22,689	6
EBIT Margin (%)	29.1	35.1	(6.0)
Other income, gains and losses	904	731	24
Fair value gain of investment properties	3,438	3,651	(6)
Other exceptional items	1,458	0	na
Share of profit from JCE/ Associates	3,773	2,637	43
Finance cost	(290)	(286)	2
Profit before tax	33,289	29,422	13
Tax	(10,110)	(10,590)	(5)
- LAT	(4,065)	(5,009)	(19)
- Enterprise tax	(6,044)	(5,580)	8
Profit after tax	23,179	18,832	23
Minority Interest	(135)	(110)	23
Net profit	23,044	18,722	23
Underlying net profit	18,960	15,800	20
Operating statistics			
Presales GFA (mn sqm)	9.2	7.3	27
Presales ASP (HK\$/sqm)	15,008	15,295	(2)
Presale (HK\$ mn)	138,520	111,520	24

Balance sheet	Dec-12	Dec-12	YoY %
	HK\$ mn	HK\$ mn	
Gross debt	72,700	58,789	23.7
Cash	41,411	40,880	1.3
Net debt	31,288	17,908	74.7
Net gearing (%)	28.5	20.5	7.9

Source(s): Company, ABCI Securities

Exhibit 2: COLI's presales in 2011-2016E (HK\$ bn)


Source(s): Company, ABCI Securities estimates

Exhibit 3: COLI's gross margin (2011-16E)


Source(s): Company, ABCI Securities estimates



Exhibit 4: COLI's FY14 guidance

	2014 Guidance	2013 Guidance	2013 Actual
Net profit growth	20%	20%	23.1%
Project completion (mn sqm)	10	9	8.4
New project commencement (mn sqm)	12	10.8	12
Presale (HK\$ bn)	140	120	138.5
New land acquisition (mn sqm)	10	8	12.1
Total capex (HK\$ bn)	110	102	94.8
- Outstanding	14	22	19.3
- New Land Acquisition	50	30	39.4
- Construction	46	50	36.1

Source(s): Company, ABCI Securities

Exhibit 5: COLI's FY14E NAV

	Attr. GFA (mn sqm)	Net assets value (HK\$ mn)	% of total	Valuation Methodology	Implied value per sqm (HK\$)
Property development					
Hua Nan	8.6	43,809	23%	DCF at WACC of 7.3%	5,084
Hua Dong	8.4	44,419	23%		5,284
Hua Bei	3.7	11,467	6%		3,093
Northern	11.1	42,438	22%		3,839
Western	6.4	25,905	13%		4,032
HK & Macau	0.27	6,744	3%		24,562
Subtotal	38.5	174,782	90%		4,542
Investment Properties		18,712	10%	5.0% cap rate on 2014E net rental income	
Total 2014E GAV		193,495	100%		
2014E Net cash		5,774	3%		
Total 2014E NAV		199,269	103%		
No. of share outstanding		8,173			
NAV per share (HK\$)		24.38			
Target Premium/ (discount) (%)		-20%			
Target Price (HK\$)		19.50			
WACC	7.3%				
Cost of debt	3.5%				
Cost of equity	10.0%				
Debt/ (Debt + Equity)	36%				

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2012A-2016E)

FY Ended Dec 31 (HK\$ mn)	2012A	2013A	2014E	2015E	2016E
Revenue	64,581	82,469	134,797	148,142	142,384
Cost of sales	(39,855)	(55,647)	(88,931)	(99,906)	(95,667)
Gross Profit	24,725	26,822	45,865	48,235	46,718
SG&A expenses	(2,037)	(2,817)	(3,114)	(3,370)	(3,328)
EBIT	22,689	24,005	42,752	44,865	43,389
Finance cost	(286)	(290)	(419)	(440)	(440)
Share of profit of associates	2,637	3,773	828	1,062	1,092
Other income/ (expenses)	696	904	719	1,414	2,340
Fair value gain of investment properties	3,651	3,438	-	-	-
Disposal/one-off items	35	1,458	-	-	-
Profit before tax	29,422	33,289	43,880	46,900	46,382
Tax	(10,590)	(10,110)	(18,000)	(17,954)	(17,365)
Profit after tax	18,832	23,179	25,880	28,946	29,017
Minority interest	(110)	(135)	(2,637)	(2,302)	(2,108)
Reported net profit	18,722	23,044	23,242	26,644	26,909
Less: exceptional items	(2,922)	(4,084)	-	-	-
Underlying net profit	15,800	18,960	23,242	26,644	26,909
Per share					
Underlying EPS (HK\$)	1.93	2.32	2.84	3.26	3.29
DPS (HK\$)	0.41	0.47	0.57	0.65	0.66
Payout ratio (%)	21%	20%	20%	20%	20%
BVPS (HK\$)	10.68	13.46	15.73	18.34	20.97
Growth %					
Revenue	25.8%	27.7%	63.5%	9.9%	-3.9%
Gross Profit	19.6%	8.5%	71.0%	5.2%	-3.1%
EBIT	20.8%	5.8%	78.1%	4.9%	-3.3%
Underlying net profit	25.9%	20.0%	22.6%	14.6%	1.0%
Margin %					
Gross margin	38.3%	32.5%	34.0%	32.6%	32.8%
Gross margin (post-LAT)	32.1%	28.9%	28.0%	27.9%	28.5%
EBIT margin	35.1%	29.1%	31.7%	30.3%	30.5%
Core net margin	20.8%	19.1%	18.6%	18.8%	19.6%
Key assumptions					
Presale (HK\$ mn)	111,520	138,520	163,055	186,243	176,079
GFA sold (mn sqm)	7.29	9.23	10.95	12.51	11.63
ASP (HK\$/sqm)	15,295	15,008	14,887	14,887	15,139
Booked Sales (HK\$)	61,407	78,615	130,471	143,260	136,864
GFA delivered (mn sqm)	4.18	5.40	7.53	6.43	5.81
Booked ASP (HK\$/sqm)	14,691	14,558	17,323	22,274	23,562
Land acquisition (HK\$ mn)	35,639	52,145	38,327	-	-
GFA acquired (mn sqm)	10.3	11.7	8.2	-	-
Land cost (HK\$/sqm)	3,453	4,466	4,689	-	-
Land acquisition to presale (%)	32.0%	37.6%	23.5%	-	-

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2012A-2016E)

As of Dec 31 (HK\$ mn)	2012A	2013A	2014E	2015E	2016E
Current assets	180,268	241,216	273,751	289,381	309,819
Cash	40,880	41,411	78,474	157,236	232,821
Trade & other receivables	2,599	2,431	2,431	2,431	2,431
Property under development	111,752	164,362	159,835	96,702	41,555
Other current assets	25,036	33,012	33,012	33,012	33,012
Non-current assets	49,557	55,307	57,599	60,125	62,682
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	16,658	17,620	18,612
Other non-current assets	7,732	5,473	5,473	5,473	5,473
Total Assets	229,825	296,522	331,351	349,506	372,500
Current Liabilities	83,975	110,928	124,575	119,163	118,572
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	75,061	69,649	69,059
Other current assets	21,007	24,687	24,687	24,687	24,687
Non-current liabilities	58,292	74,544	74,544	74,544	74,544
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
Total Liabilities	142,268	185,472	199,119	193,707	193,116
Net Assets	87,557	111,050	132,232	155,799	179,384
Shareholders Equity	87,244	109,971	128,564	149,880	171,407
Minority Interest	313	1,080	3,667	5,919	7,977
Total Equity	87,557	111,050	132,232	155,799	179,384
Key ratio					
Gross debt (HK\$ mn)	58,789	72,700	72,700	72,700	72,700
Net debt (HK\$ mn)	17,908	31,288	(5,774)	(84,537)	(160,122)
Net gearing (%)	20.5%	28.5%	Net cash	Net cash	Net cash
Presale / Total assets (x)	0.49	0.47	0.49	0.53	0.47

Source(s): 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	42,804	44,918	43,442
Change in Working Capital	(7,539)	(27,854)	20,497	60,160	56,996
Tax payment	(8,153)	(10,110)	(18,000)	(17,954)	(17,365)
Operating Cashflow	7,050	(13,907)	45,301	87,124	83,073
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	819	1,514	2,440
Investing Cashflow	1,506	(612)	(798)	(103)	823
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	-	-	-	-	-
Dividend to shareholders	(3,024)	(3,841)	(4,648)	(5,329)	(5,382)
Others	12,869	(50)	(50)	(50)	(50)
Financing Cashflow	13,146	15,050	(7,441)	(8,259)	(8,312)
Net cash inflow/ (outflow)	21,701	531	37,063	78,762	75,585
Cash- beginning	19,179	40,880	41,411	78,474	157,236
Cash- year-end	40,880	41,411	78,474	157,236	232,821

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 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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