

Key Data

Share price (HK\$)	17.70
52Wk H/L(HK\$)	19.16/9.99
Issued shares (mn)	8,172.5
Market cap(HK\$m)	144,654
30-day avg vol (HK\$m)	469.2
Auditors	Deloitte
Major shareholder:	
China State Construction Engineering Corporation Limited	53.18

Source: Company data & Bloomberg

Revenue composition in FY11 (%)

Property development	96.3
Others	3.7

Source: Company data

Share performance (%)

	Absolute	Relative*
1-mth	(3.2)	(7.9)
3-mth	10.6	9.6
6-mth	21.4	26.3

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

Analyst:

Vivian Li
Tel: (852) 2147 8897
Email: vivianli@abci.com.hk

China Overseas (688 HK) –Unrated
Real Estate Development Industry

Prefer to market leader

As expected, the improved over-supply situation in residential market is raising chances of ASP rebound, however, this is against government intention. We expect market to be risk adverse in the short term on increasing policy risk. China Overseas (COLI), the largest Chinese developer listed in HK, again proved its formidable leader position with its interim results.

Sector-policy risk re-surfaces. With the over-supply situation for the sector keeps improving, the upside risk of home price will increase, which therefore is triggering policy risk again. By NBSC, the growth for the year to Jul residential GFA start dropped to 25 months low of -13.4% YoY. In contrast, the demand keeps rebounding with year to Jul new home sales was down 7.5% YoY. The decline of new home sales has been narrowing down over the past 6 months. With the property developers proactively downsizing their inventories and deliberately slowing down construction pace, the oversupply situation in China's residential market is set to further improve. We forecast the supply/demand ratio to reach 1.44x for 2012 and drop to 1.06x for 2013.

COLI-solid 1H12 results. 1H12 core net income came in at HK\$6.4bn, up 9.3% YoY; total gross margin improved by 0.2ppt to 40.9% against 40.7% for 1H11; cash on hand was HK\$26.6bn by end Jun, up 46.2% YoY, with net debt/equity declined by 5.7ppt to 32.1%. From the perspectives of growth, profitability and financial situation, we believe COLI's interim results were encouraging and should far outpace peers. Interim dividend of HK\$0.15/share and a special dividend of HK\$0.02/share are declared, implying a total of 0.96% half year dividend yield.

Upward revision of 2012 sales target. COLI revised up full year sales target by 25% to HK\$100bn from HK\$80bn. With contracted sales reaching HK\$75.2bn year to July, COLI only need to accomplish HK\$5.0bn sales each month for the remaining year, against avg. HK\$10.7bn realized sales each month in Jan-Jul, we believe the revised target is still conservative.

Turning aggressive in land acquisitions. The group eyes on quality land acquisitions with budget capex of HK\$15bn for 2H12. This, by our estimation will translate to HK\$18.8bn or HK\$2.29 per share NAV enhancement. The stock was trading at 9.4x and 1.77x 12E consensus PE and PB respectively, both at 1s.d. below mean.

Risk factors: worse-than-expected sales for 2H12; unfavorable government policy.

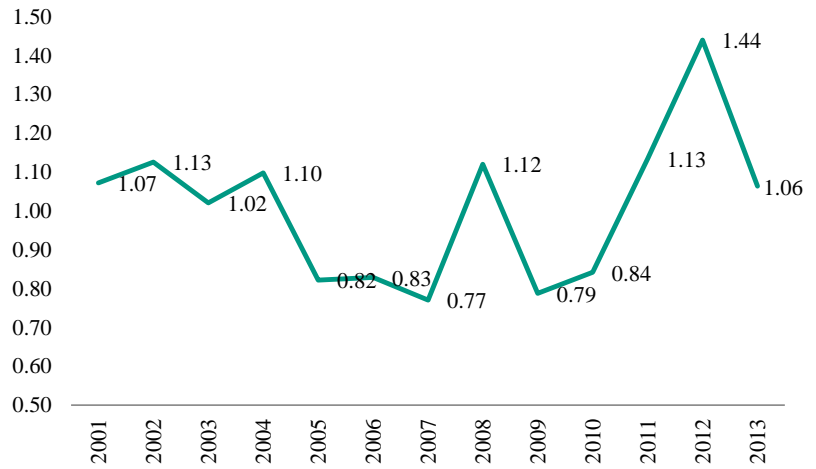
Forecast and Valuation

FY ended Dec 31	FY07A	FY08A	FY09A	FY10A	FY11A
Revenue (HK\$m)	16,633	18,892	37,322	44,313	48,583
YoYchg(%)	52.4	13.6	97.5	18.7	9.6
Net income (HK\$m)	4,180	5,049	7,469	12,373	15,025
YoYchg(%)	76.3	20.8	47.9	65.7	21.4
PE(x)	-	-	-	-	9.6
PB(x)	-	-	-	-	2.1
Dividend yield (%)	0.7	0.7	1.1	1.5	1.9
ROAE(%)	20.0	17.0	19.8	25.6	24.0

Source: Company data, Bloomberg, ABCI Securities estimates



Supply/demand ratio for China's residential mar

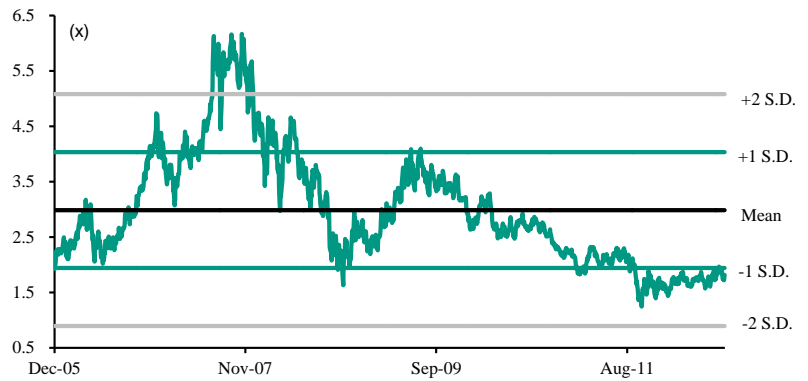


Note: Our assumptions on supply estimation,

- GFA start will enter into pre-sale period in one year time
- Supply = GFA start last year adjusted for sellable ratio (85%)

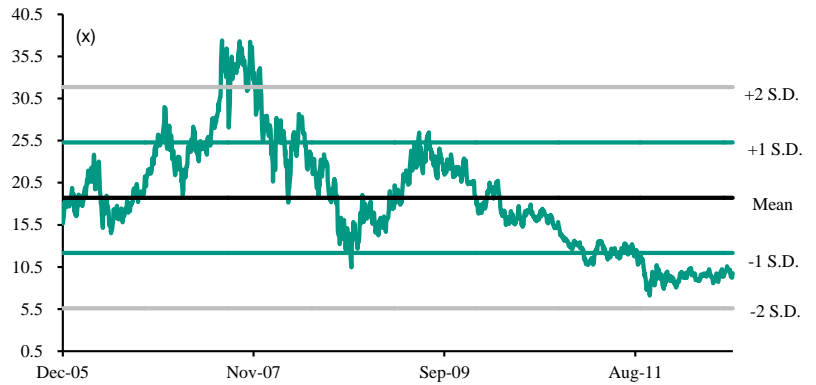
Source: NBSC and ABCI Securities

PB band chart



Source: Bloomberg and ABCI Securities

PE band chart



Source: Bloomberg and ABCI Securities



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**Office address: ABCI Securities Company Limited, 13/F Fairmont House,
8 Cotton Tree Drive, Central, Hong Kong.**

Tel: (852) 2868 2183