August 20, 2015
Company Report
Rating: BUY
TP: HK$ 29.50

Share price (HK$)	23.00
Est. share price return	28.3%
Est. dividend yield	2.6%
Est. total return	30.9%
Previous Rating &TP	HOLD; HK$ 29.50
Previous Report Date	May 6, 2015

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Key Data

52Wk H/L(HK$)	34.05/19.8
Issued shares (mn)	9,861
Market cap (HK$mn)	226,793
3-mth avg daily turnover (HK$ mn)	579.17
Major shareholder(s) (%):	
China State Construction Engineering Corporation	61.18

Source(s): Company, Bloomberg, ABCI Securities

FY14 Revenue breakdown (%)

Property Development	96.9
Property Investment	1.0
Others	2.1

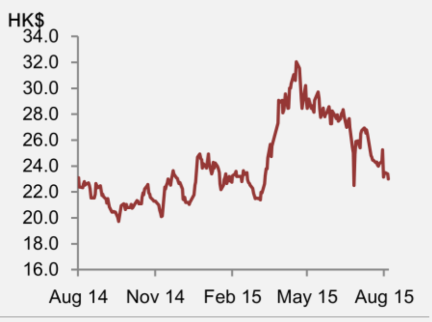
Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	(14.0)	(7.2)
3-mth	(18.8)	(4.9)
6-mth	(2.5)	2.6

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

1-Year stock performance (HK$)



Source(s): Bloomberg, ABCI Securities

COLI (688 HK)

Strong 1H15 results with skillful forex management; Upgrade to **BUY**

- Core profit rose 20.3% YoY to HK$ 13.6bn, 13% higher than consensus
- 1H15 presales rose 17% YoY to HK$ 85bn; management lifted full-year presales target to HK$ 180bn from HK$ 168bn
- COLI's net forex liability amounted to HK$ 30bn only, translating to 10% of NAV. Forex risk is skillfully managed by overseas assets functioning as natural hedges as well as diversification of debt's denominating currency
- Upgrade to **BUY** from Hold; TP unchanged at HK$ 29.50 with no discounts to NAV

Results exceed expectation. COLI announced its 1H15 results. Core profit rose 20.3% YoY to HK$ 13.63bn in 1H15, 13% higher than consensus Gross margin remained stable at 32.2%, which is impressive when compared to 26.5% for Vanke, the No.1 developer in China by presales in 1H15. Management commented several low-margin projects in China were booked in 1H15, though its impacts were offset by the more profitable ventures in HK/Macau. Net gearing improved from 27% in Dec 2014 to 13% in June 2015, as balance sheet was strengthened after the equity issuance to parent company for asset injection (Please refer to our report on Mar 25, 2015 for details). Net debt also fell from 33% HoH to HK$ 25bn, as new land acquisition in 1H15 amounted to only HK$ 10.46bn, while cash collection of presales remained healthy at HK$ 55.34bn. Overall, COLI's has been rather consistent in its performance so the latest results should not offer too much of a surprise to the market.

1H15 presales rose 17% YoY to HK$85bn; The Group raises full-year sales target to HK$ 180bn. COLI's 1H15 presales jumped 17% to HK$ 85bn as GFA presold rose 31.7%YoY to 5.82mn; ASP declined 11.2%YoY to HK$14,678/sqm. COLI's presales growth of 17% YoY in 1H15 is higher than that of its peers at 11% YoY. In July 2015, COLI registered HK$10.45bn in presales (+12%YoY). 7M15 presales fulfilled 57% of the Group's previous full-year target of HK$168bn. Hence, COLI decided to raise its full-year sales target to HK$ 180bn. The Group estimates saleable resources to reach HK$ 280bn for 2015, of which HK$150bn will be available in 2H15.

Forex debt was hedged in multiple ways. As of June 15, COLI's total forex debt was HK$ 84bn (mainly in USD and HKD), representing 80.6% of total borrowings. COLI had HK$ 24bn in cash (held in USD and HKD) and HK$ 30bn of property assets in HK/ Macau. Its net forex liability of HK$30bn is equivalent to only 10% of our 2015E NAV estimate (HK$ 291bn) only. Hence, for every 5% depreciation in RMB would result in 0.5% decline in our NAV estimate at most. *(continue next page)*

Results and Valuation

FY ended Dec 31	2013A	2014A	2015E	2016E	2017E
Revenue (HK$ mn)	82,469	119,997	150,966	211,923	260,658
Chg (% YoY)	27.7	45.5	25.8	40.4	23.0
Core net profit (HK$ mn)	18,960	23,830	27,279	41,300	53,040
Chg (% YoY)	20.0	25.7	14.5	51.4	28.4
Underlying EPS (HK$)	2.32	2.92	2.98	4.19	5.38
Chg (% YoY)	20.0	25.7	2.2	40.6	28.4
BVPS (HK$)	13.46	16.31	21.62	23.43	27.73
Chg (% YoY)	26.0	21.2	32.5	8.4	18.4
Underlying PE (x)	9.9	7.9	7.7	5.5	4.3
PB (x)	1.7	1.4	1.1	1.0	0.8
ROE (%)	17.2	17.9	13.8	17.9	19.4
ROA (%)	6.4	6.8	6.0	7.9	9.1
DPS (HK$)	0.47	0.55	0.60	0.84	1.08
Dividend yield (%)	2.0	2.4	2.6	3.6	4.7
Net gearing (%)	28.2	31.7	14.0	(30.1)	(68.3)

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

COLI's foreign currency risk is effectively managed in the following ways: **1) Overseas assets as natural hedges.** COLI generated HK$4.38bn in presales from HK/Macau in 1H15 and HK$ 5.06bn in 2014; **2) Diversified currency exposure with debts denominated in different currencies.** In response to the strengthening USD, COLI diversified its debt portfolio by issuing the 4-year Euro bond amounting to € 600mn with a 1.75% coupon rate in July 2015. Forex risk should be mitigated by having debts denominated in different currencies. In this way, they can enjoy a more competitive interest rate where RMB debt alone cannot offer. Nonetheless, COLI is currently exploring opportunities in issuing domestic RMB bonds.

Upgrade to BUY with unchanged TP of HK$ 29.50. The recent share price correction (COLI's share price was down 8.8% since Aug 11, 2015) , which we believe to be mostly driven by concerns over COLI's forex debt exposure, has been overdone, given that the Group's debt size is small when compared to its NAV and its overseas asset exposure would function as natural hedges. We keep our earnings and NAV forecasts unchanged given 1H15 results are in line with our forecasts. Recent share price correction, combined with the Group's consistently solid performance, has prompted us to upgrade COLI to **BUY** from Hold with a TP of HK$29.50 based on no discounts to NAV.

Risk factors: 1) Rising litigation risk across the sector; 2) Integration risk after asset injection; 3) Currency risks of FX debt exposure.

Exhibit 1: COLI's 1H15 results

P&L	1H15	1H14	YoY Chg
	HK$mn	HK$mn	(%)
Turnover	**64,849**	**54,275**	***19.5***
Cost of Sales & direct operating costs	(43,938)	(36,755)	*19.5*
Gross Profit	**20,910**	**17,520**	***19.3***
Gross Margin (%)	***32.2***	***32.3***	***(0.1ppt)***
Selling and distribution costs	(937)	(529)	*77.1*
Administrative expense	(1,017)	(962)	*5.8*
EBIT	**18,956**	**16,029**	***18.3***
EBIT Margin (%)	***29.2***	***29.5***	***(0.3ppt)***
Other income	787	669	*17.6*
Fair Value gains on IP and other exceptional items	3,551	2,992	*na*
Share of profit from JCE/ Associates	544	1,106	*(50.8)*
Finance cost	(282)	(241)	*17.2*
Profit before tax	**23,556**	**20,556**	*14.6*
Tax	**(6,839)**	**(6,798)**	***0.6***
- LAT	(1,895)	(2,711)	*(30.1)*
- Enterprise tax	(4,944)	(4,087)	*21.0*
Profit after tax	**16,717**	**13,757**	*21.5*
Minority Interest	(400)	174	*(329.9)*
Net profit	**16,317**	**13,931**	*17.1*
Core net profit	**13,630**	**11,330**	*20.3*
Core net margin	***21.0***	***20.9***	***0.1ppt***

Operating statistics	1H15	1H14	YoY Chg
			%
Contracted GFA (mn sqm)	5.82	4.42	*31.7*
Contracted ASP (HK$/sqm)	14,678	16,521	*(11.2)*
Contracted Sales (HK$ mn)	**85,452**	**73,040**	***17.0***

Balance sheet	Jun-15	Dec-14	HoH chg
	HK$ mn	**HK$ mn**	
Gross debt	103,655	97,358	*6.5*
Cash	78,611	59,848	*31.4*
Net debt	**25,044**	**37,510**	***(33.2)***
Net gearing (%)	**13%**	**27%**	***-14ppt***

Source(s): Company, ABCI Securities

Exhibit 2: COLI's FY15E NAV

	Attr. GFA (M sqm)	Net assets value (HKD m)	% of total	Valuation Method	Implied value per sqm (HK$)
Property development					
Hua Nan	10.4	64,425	20%		6,193
Hua Dong	11.3	65,075	20%		5,767
Hua Bei	6.4	20,406	6%	DCF at WACC of 6.9%	3,195
Northern	12.8	71,038	22%		5,535
Western	7.8	53,607	17%		6,836
HK & Macau	0.34	15,854	5%		46,172
Subtotal	**49.1**	**290,405**	**91%**		**5,915**
Investment Properties		28,912	9%	5.0% cap rate on 2015E net rental income	
Total 2015E GAV		**319,317**	**100%**		
2015E Net debt		(28,486)	-9%		
Total 2015E NAV		**290,831**	**91%**		
No. of share outstanding (mn)		9,861			
NAV per share (HK$)		**29.5**			
Target Premium/ (discount) (%)		0%			
Target Price (HK$)		**29.50**			

WACC	**6.9%**
Cost of debt	3.5%
Cost of Equity	10.0%
Debt/ (Debt + Equity)	**41%**

Source(s): Company, ABCI Securities estimates

Consolidated income statement (2013A-2017E)

FY Ended Dec 31 (HK$ mn)	2013A	2014A	2015E	2016E	2017E
Revenue	**82,469**	**119,997**	**150,966**	**211,923**	**260,658**
Cost of sales	(55,647)	(80,759)	(103,455)	(144,971)	(175,991)
Gross Profit	**26,822**	**39,238**	**47,510**	**66,953**	**84,667**
SG&A expenses	(2,817)	(3,570)	(4,441)	(5,934)	(6,917)
EBIT	**24,005**	**35,667**	**43,070**	**61,019**	**77,751**
Finance cost	(290)	(346)	(412)	(437)	(437)
Share of profit of associates	3,773	1,599	860	920	637
Other income/ (expenses)	904	1,578	1,775	2,009	2,693
Fair value gain of investment properties	3,438	5,169	0	0	0
Disposal/one-off items	1,458	0	0	0	0
Profit before tax	**33,289**	**43,667**	**45,293**	**63,510**	**80,642**
Tax	(10,110)	(15,462)	(16,225)	(20,549)	(25,678)
Profit after tax	**23,179**	**28,205**	**29,068**	**42,961**	**54,964**
Minority interest	(135)	(525)	(1,789)	(1,661)	(1,924)
Reported net profit	**23,044**	**27,680**	**27,279**	**41,300**	**53,040**
Less: exceptional items	*(4,084)*	*0*	*0*	*0*	*0*
Underlying net profit	**18,960**	**23,830**	**27,279**	**41,300**	**53,040**
Per share					
Underlying EPS (HKD)	2.32	2.92	2.98	4.19	5.38
DPS (HKD)	0.47	0.55	0.60	0.84	1.08
Payout ratio (%)	20%	19%	20%	20%	20%
BVPS (HKD)	13.46	16.31	21.62	23.43	27.73
Growth %					
Revenue	27.7%	45.5%	25.8%	40.4%	23.0%
Gross Profit	8.5%	46.3%	21.1%	40.9%	26.5%
EBIT	5.8%	48.6%	20.8%	41.7%	27.4%
Underlying net profit	20.0%	25.7%	14.5%	51.4%	28.4%
Margin %					
Gross margin	32.5%	32.7%	31.5%	31.6%	32.5%
Gross margin (post-LAT)	28.9%	28.3%	27.9%	29.3%	30.3%
EBIT margin	29.1%	29.7%	28.5%	28.8%	29.8%
Core net margin	19.1%	18.9%	18.7%	19.8%	20.8%
Key assumptions					
Contracted Sales (HKD mn)	138,520	140,900	209,427	255,204	290,005
GFA sold (m sqm)	9.23	9.62	13.86	15.83	18.03
ASP (HKD/sqm)	15,008	14,652	15,105	16,122	16,085
Booked Sales (HKD)	78,615	11,620	146,706	207,064	255,101
GFA delivered (m sqm)	5.40	6.79	4.97	4.33	4.87
Booked ASP (HKD/sqm)	14,558	1,711	29,546	47,844	52,428

Source: Company, ABCI Securities estimates

Consolidated balance sheet (2013A-2017E)

As of Dec 31 (HK$ mn)	2013A	2014A	2015E	2016E	2017E
Current assets	**241,216**	**284,021**	**383,345**	**449,633**	**507,514**
Cash	41,411	51,215	66,046	166,047	287,159
Trade & other receivables	2,431	2,431	2,431	2,431	2,431
Property under development	164,362	196,385	280,878	247,164	183,933
Other current assets	33,012	33,990	33,990	33,990	33,990
Non-current assets	**55,307**	**66,916**	**69,240**	**71,624**	**73,725**
Property, plant & equipment	1,371	1,355	1,419	1,484	1,548
Investment properties	32,532	44,755	46,255	47,755	49,255
Investment in Associate and JCE	15,930	15,727	16,487	17,307	17,844
Other non-current assets	5,473	5,079	5,079	5,079	5,079
Total Assets	**296,522**	**350,937**	**452,586**	**521,257**	**581,239**
Current Liabilities	**110,928**	**135,910**	**171,190**	**205,210**	**220,886**
Short term borrowings	3,303	22,542	22,542	22,542	22,542
Trade & other payables	21,523	35,420	35,420	35,420	35,420
Pre-sales deposits	61,414	46,848	82,129	116,149	131,824
Other current assets	24,687	31,100	31,100	31,100	31,100
Non-current liabilities	**74,544**	**78,219**	**78,219**	**78,219**	**78,219**
Long term borrowings	69,397	71,990	71,990	71,990	71,990
Other payables	582	739	739	739	739
Other non-current assets	4,566	5,490	5,490	5,490	5,490
Total Liabilities	**185,472**	**214,129**	**249,410**	**283,430**	**299,105**
Net Assets	**111,050**	**136,808**	**203,176**	**237,827**	**282,133**
Shareholders' Equity	**109,971**	**133,334**	**197,963**	**231,003**	**273,435**
Minority Interest	1,080	3,474	5,213	6,824	8,698
Total Equity	**111,050**	**136,808**	**203,176**	**237,827**	**282,133**
Key ratio					
Gross debt (HKDm)	72,700	94,532	94,532	94,532	94,532
Net debt (HKDm)	31,288	43,317	28,486	(71,515)	(192,627)
Net gearing (%)	28.2%	31.7%	14.0%	-30.1%	-68.3%
Contracted sales/ Total assets (x)	0.47	0.40	0.46	0.49	0.50

Source: Company, ABCI Securities estimates

Consolidated cash flow statement (2013A-2017E)

FY ended Dec 31 (HK$ mn)	2013A	2014A	2015E	2016E	2017E
EBITDA	24,057	35,720	43,122	61,072	77,803
Change in Working Capital	(27,709)	(38,992)	(45,245)	71,946	83,118
Tax payment	(10,110)	(15,462)	(16,225)	(20,549)	(25,678)
Operating Cash Flow	**(13,762)**	**(18,734)**	**(18,347)**	**112,468**	**135,243**
Purchase of PP&E	(117)	(117)	(117)	(117)	(117)
Addition of Investment Properties	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)
Others	1,004	1,678	1,875	2,109	2,793
Investing Cash Flow	**(612)**	**61**	**258**	**492**	**1,176**
Debt raised	31,248	36,802	10,000	10,000	10,000
Debt repaid	(10,062)	(106)	(10,000)	(10,000)	(10,000)
Interest expenses	(2,389)	(3,672)	(4,380)	(4,649)	(4,649)
Equity raised	0	0	42,806	0	0
Dividend to shareholders	(3,841)	(4,496)	(5,456)	(8,260)	(10,608)
Others	(50)	(50)	(50)	(50)	(50)
Financing Cash Flow	**14,905**	**28,478**	**32,920**	**(12,959)**	**(15,307)**
Net cash inflow/ (outflow)	**531**	**9,804**	**14,831**	**100,001**	**121,112**
Cash- beginning	40,880	41,411	51,215	66,046	166,047
Cash- year-end	**41,411**	**51,215**	**66,046**	**166,047**	**287,159**

Source: Company, ABCI Securities estimates

Disclosures

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Definition of equity rating

Rating	Definition
Buy	Stock return ≥ Market return rate
Hold	Market return – 6% ≤ 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 ≤180 day volatility/180 day benchmark index volatility
High	1.5 ≤ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	1.0 ≤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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