



COLI (688 HK) Negatives are priced in; maintain BUY

- FY19 core profit rose 10.1% YoY to RMB 34.3bn; Gross margin dropped 4.1ppt YoY to 33.7%
- COLI estimates a total saleable resources of RMB680bn for 2020
- Targets to increase rental revenue from RMB5bn in 2020 to RMB10bn by 2022
- Maintain **BUY** with revised TP of HK\$ 33.3 (from HK\$ 35.8), based on a 50% discount to NAV

Steady contracted sales outlook. COLI's FY19 reported net profit increased 10.3%YoY to RMB 41.6bn; core profit, which excluded fair value changes in investment properties, rose 10.1%YoY to RMB34.3bn, in line with our forecast. Gross margin dropped 4.1ppt YoY to 33.7%, in line with industry average. We believe rising land cost could be major reason for margin decline, as we notice that average land acquisition cost in FY19 rose to RMB 12,958/sqm (+88%YoY on average). Net gearing remains stable at 32.7%, despite the RMB 148.5bn (+22%YoY) land capex on new site acquisition totaling 11.46mn sqm. As at Dec 2019, COLI has a total landbank of 89.23mn sqm, of which 26.9% and 58.1% are located in tier 1/2 cities. While COLI has not specify any official sales target, given the uncertain outlook of COVID-19, management believes 2020 contracted sales should be higher than 2019. COLI estimates total saleable resources of RMB 680bn for 2020, based on RMB 310bn brought forward from 2019, and RMB100bn and RMB270bn of news resources in 1H20 and 2H20. We believe COVID-19 may have resulted in construction delay and hence a concentrated 2H launch schedule. Despite COLI's conservative contracted sales guidance, profit booking looks promising given the unbooked revenue of RMB 275.3bn as at Dec 2019, up 40% YoY.

Exciting rental revenue growth ahead. Revenue from commercial properties rose 22% YoY to RMB4.16bn, of which office revenue grew 19.7% YoY to RMB 2.90bn while shopping mall revenue jumped 53.7% YoY to RMB 840mn. It has 72 commercial properties in operation with a total GFA of 4.38mn sqm, with another 5.35mn sqm of GFA under construction or for future development, and aims to achieve RMB 5bn in rental revenue in 2020 and RMB 10bn by 2022. It also expanded its footprint into education, elderly care, and logistics businesses, which jointly generated a total operating income of RMB300mn in 2019. In particular, COLI operated two K12 schools, four kindergartens, five COLI academies and two camping sites.

Maintain BUY with revised TP of HK\$ 33.30. We lower our core profit forecasts by 13% and 18% to factor in the weaker contracted sales and slower completion due to COVID-19. However we raise our NAV/share forecast to HK\$ 66.6 (from HK\$ 51.2) to account for the latest land acquisition. We lower our TP to HK\$ 33.30 (from HK\$ 35.80), based on a reduced 50% discount to NAV (from 30%). Maintain **BUY**.

Results and Valuation

FY ended Dec 31	2018A	2019A	2020E	2021E	2022E
Revenue (RMB mn)	144,027	163,651	234,488	288,976	439,758
Chg (% YoY)		13.6	43.3	23.2	52.2
Core net profit (RMB mn)	31,153	34,300	40,467	47,352	57,684
Chg (% YoY)		10.1	18.0	17.0	21.8
Core EPS (RMB)	2.84	3.13	3.69	4.32	5.26
Chg (% YoY)		10.1	18.0	17.0	21.8
BVPS (RMB)	22.61	25.61	28.20	31.22	34.91
Chg (% YoY)		13.3	10.1	10.7	11.8
Core P/E (x)	8.3	7.5	6.4	5.4	4.5
P/B (x)	1.0	0.9	0.8	0.8	0.7
ROE (%)	12.6	12.2	13.1	13.8	15.1
ROA (%)	4.9	4.7	4.5	4.3	4.5
DPS(HK\$)	0.90	1.02	1.11	1.30	1.58
Yield (%)	3.8	4.3	4.7	5.5	6.7
Net gearing (%)	32.5	32.7	Net cash	Net cash	Net cash

Note: RMB to HK\$= 1.09

* Core net profit = profit attributable to owners of the company – (fair value changes investment properties)x0.75

Source(s): Bloomberg, ABCI Securities estimates

Company Report Mar 27, 2020

Rating: **BUY**
TP: HK\$ 33.30

Analyst : Kenneth Tung

Tel: (852) 2147 8311

kennettung@abci.com.hk

Share price (HK\$)	23.50
Est. share price return	41.7%
Est. dividend yield	4.7%
Est. total return	46.4%
Previous Rating &TP	BUY, HK\$35.8
Previous Report Date	Jan 25, 2019

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L(HK\$)	27.85/20.15
Issued shares (mn)	10,956
Market cap (HK\$ mn)	257,466
3-mth avg daily turnover(HK\$ mn)	451.9
Major shareholder(s) (%):	
China State Construction Engineering Corporation	55.99%

Source(s): Bloomberg, ABCI Securities

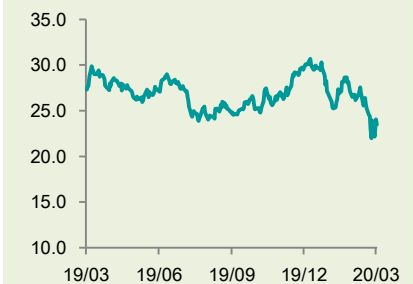
Share Performance (%)

	Absolute	Relative*
1-mth	(10.8)	0.6
3-mth	(20.8)	(5.5)
6-mth	(2.9)	6.6

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year share performance(HK\$)



Source(s): Bloomberg, ABCI Securities



Risk factors: 1) Margin erosion trend; 2) Currency risks associated with FX debt exposure; 3) Uncertain development of COVID-19 epidemic

Exhibit 1: COLI's FY19 results

P&L	FY19	FY18	YoY
	RMBmn	RMBmn	(%)
Turnover	163,651	144,027	13.6
Cost of Sales	(108,571)	(89,592)	21.2
Gross Profit	55,080	54,435	1.2
Gross Margin (%)	33.7	37.8	(4.1ppt)
Selling and distribution costs	(2,646)	(2,202)	20.2
Administrative expense	(2,730)	(2,492)	9.5
EBIT	49,704	49,741	(0.1)
EBIT Margin (%)	30.4	34.5	(4.2ppt)
Other income	2,465	2,371	4.0
Fair Value gains on IP and others	10,002	8,747	14.4
Exchange loss	173	(1,443)	(112.0)
Share of profit from JCE/ Assoc.	3,367	2,874	17.1
Finance cost	(759)	(1,332)	(43.0)
Profit before tax	64,952	60,958	6.6
Tax	(22,204)	(21,728)	2.2
- LAT	(9,240)	(11,464)	(19.4)
- Enterprise tax	(12,965)	(10,264)	26.3
Profit after tax	42,747	39,230	9.0
Minority Interest	(1,129)	(1,513)	(25.4)
Net profit	41,618	37,716	10.3
Core net profit (ex. fair value changes)	34,300	31,153	10.1
Core net margin	21.0	21.6	(0.7ppt)

Operating statistics	FY19	FY18	YoY
			%
Contracted GFA (mn sqm)	17.94	15.93	12.6
Contracted ASP (HK\$/sqm)	21,019	18,910	11.2
Contracted Sales (HK\$ mn)	377,168	301,240	25.2
Balance sheet	Dec-19	Dec-18	YoY
	RMBmn	RMBmn	
Gross debt	189,964	171,259	10.9
Cash	95,448	87,885	8.6
Net debt	94,517	83,374	13.4
Net gearing (%)	32.7%	32.5%	0.2%
Revenue	FY19	FY18	YoY
	RMBmn	RMBmn	
Property development	159,186	140,311	13.5
Property investment	3,750	2,968	26.3
Others	715	748	(4.4)
Total	163,651	144,027	13.6

Source(s): Company, ABCI Securities

Exhibit 2: COLI's 2020E NAV

	Attr. GFA (mn sqm)	Net assets value (HK\$ mn)	% of total	Valuation Method	Implied value per sqm (HK\$)
Property development	77.6	599,216	93%	DCF with WACC of 8.5%	7,717
Investment Properties	5.4	43,120	7%	6% cap rate on 2020E net rental income	8,060
Total 2020E GAV		642,336	100%		
2020E Net cash/ (debt)		86,981	14%		
Total 2020E NAV		729,317	114%		
No. of share outstanding (diluted)		10,956			
NAV per share (HKD)		66.6			
Target discount (%)		50%			
Target Price (HKD)		33.30			
WACC	8.5%				
Cost of debt	4.8%				
Cost of equity	12.0%				
Debt/ (Debt + Equity)	41%				

Source(s): Company, ABCI Securities estimates

**Exhibit 3: Changes in TP and profit forecasts**

	New	Old	Chg	Reasons
NAV	66.57	51.17	30.1%	Factoring in the latest land acquisition in FY19
Discount	50%	30%	-20ppt	Widening discount to NAV for the sector
TP (HK\$)	33.30	35.80	-7.0%	
Core profit (RMBmn)				
- 2020E	40,467	46,510	-13.0%	Possible construction delay due to COVID-19 and uncertain post-outbreak recovery
- 2021E	47,352	57,927	-18.3%	Possible construction delay due to COVID-19 and uncertain post-outbreak recovery

Source(s): Company, ABCI Securities estimates

Consolidated income statement (2018A-2022E)

FY Ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Revenue	144,027	163,651	234,488	288,976	439,758
Cost of sales	(89,592)	(108,571)	(152,656)	(187,298)	(317,816)
Gross Profit	54,435	55,080	81,832	101,677	121,942
SG&A expenses	(4,694)	(5,376)	(5,785)	(6,493)	(7,629)
EBIT	49,741	49,704	76,046	95,184	114,313
Finance cost	(1,332)	(759)	(792)	(812)	(812)
Share of profit of associates	2,874	3,367	1,155	1,493	95
Other income/ (expenses)	2,371	2,465	479	720	1,139
Fair value gain of investment properties	8,747	10,002	0	0	0
Disposal/one-off items	(1,443)	173	0	0	0
Profit before tax	60,958	64,952	76,889	96,585	114,735
Tax	(21,728)	(22,204)	(33,704)	(43,494)	(46,669)
Profit after tax	39,230	42,747	43,184	53,092	68,066
Minority interest	(1,513)	(1,129)	(2,717)	(5,740)	(10,382)
Reported net profit	37,716	41,618	40,467	47,352	57,684
Core net profit*	31,153	34,300	40,467	47,352	57,684
Per share					
Reported EPS (RMB)	3.44	3.80	3.69	4.32	5.26
Core EPS (RMB)	2.84	3.13	3.69	4.32	5.26
DPS (HK\$)	0.90	1.02	1.11	1.30	1.58
Payout ratio (%)	32%	33%	30%	30%	30%
BVPS (RMB)	22.61	25.61	28.20	31.22	34.91
Growth %					
Revenue	-13.3%	13.6%	43.3%	23.2%	52.2%
Gross Profit	-0.5%	1.2%	48.6%	24.3%	19.9%
EBIT	1.7%	-0.1%	53.0%	25.2%	20.1%
Underlying net profit	-4.0%	10.1%	18.0%	17.0%	21.8%
Margin %					
Gross margin	37.8%	33.7%	34.9%	35.2%	27.7%
Gross margin (post-LAT)	30.6%	28.8%	27.2%	26.8%	22.6%
EBIT margin	34.5%	30.4%	32.4%	32.9%	26.0%
Core net margin	21.4%	19.4%	17.9%	17.9%	15.5%
Key assumptions					
Contracted Sales (RMB mn)	253,947	332,434	363,159	418,828	526,380
GFA sold (mn sqm)	15.93	17.94	17.62	21.84	26.05
ASP (RMB/sqm)	15,937	18,526	20,609	19,180	20,207
Booked Sales (RMB mn)	140,311	159,186	229,461	283,301	433,340
GFA delivered (mn sqm)	9.37	10.48	11.72	13.86	22.58
Booked ASP (RMB/sqm)	14,979	15,193	19,583	20,440	19,191

* Core net profit = profit attributable to owners of the company – (fair value changes investment properties)x0.75

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2018A-2022E)

As of Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Current assets	495,586	560,632	735,111	931,057	1,101,664
Cash	87,885	95,448	276,946	589,176	975,466
Restricted cash	-	-	-	-	-
Trade & other receivables	9,723	10,932	10,932	10,932	10,932
Property under development	359,763	409,029	402,010	285,726	70,042
Other current assets	38,215	45,224	45,224	45,224	45,224
Non-current assets	138,362	163,264	165,734	168,542	169,952
Property, plant & equipment	3,204	4,019	3,934	3,849	3,764
Investment properties	97,516	114,021	115,521	117,021	118,521
Investment in Associate and JCE	23,321	36,306	37,361	38,755	38,749
Other non-current assets	14,320	8,918	8,918	8,918	8,918
Total Assets	633,948	723,896	900,845	1,099,599	1,271,616
Current Liabilities	217,745	258,248	404,203	564,121	685,427
Short-term borrowings	27,010	32,078	32,078	32,078	32,078
Trade & other payables	55,447	65,812	65,812	65,812	65,812
Pre-sales deposits	81,268	97,939	243,894	403,812	525,118
Other current liabilities	54,020	62,419	62,419	62,419	62,419
Non-current liabilities	159,591	176,503	176,503	176,503	176,503
Long-term borrowings	144,249	157,886	157,886	157,886	157,886
Other payables	1,759	2,430	2,430	2,430	2,430
Other non-current liabilities	13,583	16,187	16,187	16,187	16,187
Total Liabilities	377,336	434,751	580,706	740,624	861,930
Net Assets	256,612	289,145	320,139	358,975	409,686
Shareholders' Equity	247,762	280,604	308,931	342,077	382,456
Minority Interest	8,849	8,541	11,208	16,898	27,230
Total Equity	256,612	289,145	320,139	358,975	409,686
Key ratio					
Gross debt (RMB mn)	171,259	189,964	189,964	189,964	189,964
Net debt (RMB mn)	83,374	94,517	(86,981)	(399,211)	(785,502)
Net gearing (%)	32.5%	32.7%	-27.2%	-111.2%	-191.7%

* Our financial model does not include any unconfirmed land acquisitions in future to avoid inflating NAV without substantial grounds; therefore, our net gearing forecasts for FY20E-22E declines consistently based on the assumption of no land purchase, which may deviate from the historical practice of the Company.

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2018A-2022E)

FY ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
EBITDA	49,943	49,906	76,248	95,386	114,515
Change in Working Capital	11,915	(17,334)	161,536	284,981	345,768
Tax payment	(21,728)	(22,204)	(33,704)	(43,494)	(46,669)
Operating cash flow	40,130	10,368	204,080	336,873	413,614
Purchase of PP&E	(117)	(117)	(117)	(117)	(117)
Addition of Investment Properties	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)
Others	2,471	2,565	579	820	1,239
Investing cash flow	854	948	(1,038)	(797)	(378)
Debt raised	15,000	41,442	10,000	10,000	10,000
Debt repaid	(59,841)	(25,000)	(10,000)	(10,000)	(10,000)
Interest expenses	(7,859)	(8,970)	(9,354)	(9,590)	(9,590)
Equity raised	0	0	0	0	0
Dividend to shareholders	(9,861)	(11,175)	(12,140)	(14,206)	(17,305)
Others	23,099	(50)	(50)	(50)	(50)
Financing cash flow	(39,461)	(3,753)	(21,544)	(23,846)	(26,945)
Net cash inflow/ (outflow)	1,523	7,562	181,498	312,230	386,290
Cash- beginning	86,362	87,885	95,448	276,946	589,176
Cash- year-end	87,885	95,448	276,946	589,176	975,466

Source(s): Company, ABCI Securities estimates



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Rating	Definition
Buy	Stock return \geq Market return rate (10%)
Hold	- Market return (-10%) \leq Stock return $<$ Market return rate (10%)
Sell	Stock return $<$ - Market return (-10%)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2008 (HSI total return index 2008-19 CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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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