

# COLI (688 HK)

## Core earnings reached HK\$21bn in 1H19

**SUMMARY.** Revenue and core earnings grew by 5.4% to HK\$93.4bn and 9.5% to HK\$21.0bn in 1H19, respectively. We trim TP from HK\$32.13 to HK\$28.36, based on 30% discount to NAV. Maintain HOLD recommendation.

- **Net profit grew by 7.4% to HK\$24.9bn in 1H19.** Revenue and net profit gained 5.4% to HK\$93.4bn and 7.4% to HK\$24.9bn in 1H19, respectively. Excluding the revaluation gain, core earnings increased by 9.5% to HK\$21.0bn in the period. Gross margin slightly declined by 0.9ppt to 34.9% but core net margin gained by 0.8ppt to 22.5% in 1H19. Excluding COGO (81 HK, BUY), pre-sold and unbooked properties amounted to HK\$221.5bn and corresponding GFA was 9.09mn sq m as at Jun 2019.
- **Contracted sales increased 29% in 1H19.** Contracted sales amount and area gained by 28.7% to HK\$194.2bn and 8.9% to 9.22mn sq m in 1H19, respectively. Contracted ASP rose 18.3% to HK\$21,066 per sq m in 1H19 as 6.3% of contracted sales came from HK & Macau. Including HK\$33.1bn sales in Jul, the Company achieved 64.9% hit rate by Jul based on HK\$350bn sales target. In 2H19, HK\$500bn saleable resources will be launched for sales, hence COLI is confident to achieve sales target. Management also expects to have HK\$400bn sales next year.
- **Total land bank of 91.75mn sq m.** COLI acquired 24 plots of land with 4.64 mn sq m total GFA in 1H19. Total consideration was HK\$75.2bn. The Company entered new markets of Shijiazhuang and Guiyang in the period. Total and attributable land bank amounted to 91.75mn sq m and 63.84mn sq m as at Jun 2019, respectively.
- **Aiming to have HK\$10bn rental income by 2023.** Revenue from commercial properties soared by 15.6% to HK\$2.35bn in 1H19, of which office and mall rental were HK\$1.67bn and HK\$0.45bn, respectively. COLI had 72 commercial properties under operations with total rentable area of 3.1mn sq m. Another 5.78mn sq m of commercial properties are under construction and for future development. COLI aims to have HK\$10bn rental income by 2023.
- **Maintain HOLD.** Net gearing was 33.8% as at Jun 2019. Cost of debt stayed at low level of 4.28% in 1H19. We raise our earnings forecast by 9.5% to HK\$49.1bn in 2019. We estimate end-20 NAV to be HK\$40.51 per share. As a result, we trim TP from HK\$32.13 to HK\$28.36, representing a 30% discount to NAV.

### Earnings Summary

| (YE 31 Dec)          | FY17A   | FY18A   | FY19E   | FY20E   | FY21E   |
|----------------------|---------|---------|---------|---------|---------|
| Revenue (HK\$ mn)    | 166,045 | 171,461 | 201,053 | 237,264 | 270,828 |
| YoY growth (%)       | 1.2     | 3.3     | 17.3    | 18.0    | 14.1    |
| Net income (HK\$ mn) | 40,767  | 44,877  | 49,114  | 49,589  | 56,984  |
| EPS (HK\$)           | 3.72    | 4.10    | 4.48    | 4.53    | 5.20    |
| YoY growth (%)       | 2.4     | 10.1    | 9.4     | 1.0     | 14.9    |
| P/E (x)              | 6.8     | 6.2     | 5.7     | 5.6     | 4.9     |
| P/B (x)              | 1.0     | 1.0     | 0.9     | 0.8     | 0.7     |
| Yield (%)            | 3.2     | 3.6     | 4.5     | 4.9     | 5.7     |
| ROE (%)              | 15.3    | 15.8    | 15.3    | 13.9    | 14.4    |
| Net gearing (%)      | 27.1    | 32.5    | 31.4    | 34.1    | 34.9    |

Source: Company data, CMBIS estimates

### HOLD (Maintain)

|               |            |
|---------------|------------|
| Target Price  | HK\$28.36  |
| (Previous TP  | HK\$32.13) |
| Up/downside   | +11.9%     |
| Current Price | HK\$25.45  |

### China Property Sector

#### Samson Man, CFA

(852) 3900 0853

samsonman@cmbi.com.hk

#### Chengyu Huang

(852) 3761 8773

huangchengyu@cmbi.com.hk

### Stock Data

|                          |            |
|--------------------------|------------|
| Mkt Cap (HK\$ mn)        | 277,740    |
| Avg 3 mths t/o (HK\$ mn) | 310.2      |
| 52w High/Low (HK\$)      | 31.3/22.35 |
| Total Issued Shares (mn) | 10,956     |

Source: Bloomberg

### Shareholding Structure

|            |       |
|------------|-------|
| COLI       | 55.1% |
| CITICI     | 10.0% |
| Free float | 34.9% |

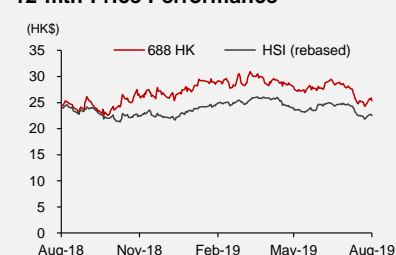
Source: HKEx

### Share Performance

|        | Absolute | Relative |
|--------|----------|----------|
| 1-mth  | -9.6%    | -1.0%    |
| 3-mth  | -8.0%    | -3.1%    |
| 6-mth  | -10.7%   | -2.7%    |
| 12-mth | 7.5%     | 13.5%    |

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: PricewaterhouseCoopers

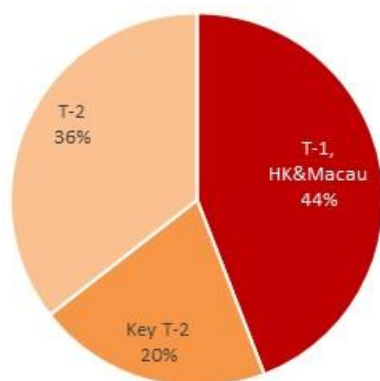
### Related Reports

1. Investment properties as new engine – 21 Mar 2019
2. Ample resources on pipeline – 24 Aug 2018

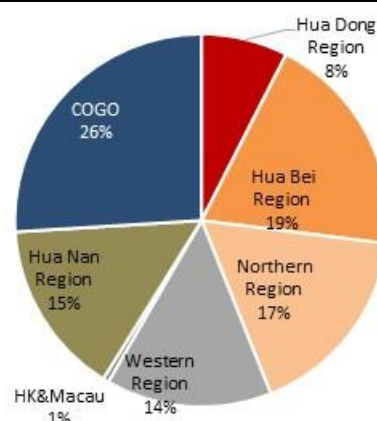
**Figure 1: 1H19 interim results**

|                         | 1H19<br>(HK\$mn) | 1H18<br>(HK\$mn) | Growth<br>(%) | Remark  |
|-------------------------|------------------|------------------|---------------|---|
| <b>Turnover</b>         | <b>93,375</b>    | <b>88,601</b>    | <b>5.4%</b>   |   |
| -Property development   | 90,817           | 86,301           | 5.2%          |   |
| -Property investment    | 2,118            | 1,762            | 20.2%         |   |
| -Other                  | 440              | 538              | -18.1%        |   |
| Cost of Sales           | (60,792)         | (56,900)         | 6.8%          |   |
| <b>Gross Profit</b>     | <b>32,583</b>    | <b>31,701</b>    | <b>2.8%</b>   | Gross margin fell by 0.9ppts to 34.9% in 1H19           |
| Other operating income  | 1,661            | 1,423            | 16.7%         |   |
| Distribution Cost       | (1,321)          | (1,100)          | 20.0%         |   |
| Administrative Expenses | (1,572)          | (1,685)          | -6.7%         |   |
| <b>EBIT</b>             | <b>31,351</b>    | <b>30,338</b>    | <b>3.3%</b>   | EBIT margin narrowed by 0.7ppts to 33.6% in 1H19        |
| Net finance income      | (476)            | (690)            | -31.1%        |   |
| Associated              | 2,252            | 2,088            | 7.9%          |   |
| Exceptional             | 5,260            | 5,408            | -2.7%         |   |
| Pre-tax Profit          | 38,388           | 37,144           | 3.3%          |   |
| Taxation                | (12,932)         | (12,889)         | 0.3%          | Effective tax rate narrowed by 1.0ppts to 33.7% in 1H19 |
| Profit after Tax        | 25,456           | 24,255           | 5.0%          |   |
| Minority                | (515)            | (1,037)          | -50.3%        |   |
| <b>Net Profit</b>       | <b>24,942</b>    | <b>23,219</b>    | <b>7.4%</b>   | Interim dividend to HK\$0.45                            |
| <b>Core Profit</b>      | <b>20,990</b>    | <b>19,169</b>    | <b>9.5%</b>   |   |

Source: Company data

**Figure 2: Attributable land premium breakdown by city in 1H19**

Source: Company data

**Figure 3: Land bank distribution as at Jun 2019**

Source: Company data

**Figure 4: 2019 business target**

|  | Completed in<br>1H19 | FY2019<br>Target | Completion |
|--|----------------------|------------------|------------|
| Contracted sales of COLI series (HK\$bn)         | 194.2                | 350.0            | 55%        |
| New attri. Land investment amount (HK\$bn)       | 57.4                 | 135.0            | 43%        |
| New start (excl. COGO) (mn sq m)                 | 10.05                | 25.85            | 39%        |
| Construction commencement (excl. COGO) (mn sq m) | 6.85                 | 16.00            | 43%        |

Source: Company data

**Figure 5: Commercial properties under operation**

|                | Number | Total GFA<br>(k sqm) | Rentable area<br>(k sqm) |
|----------------|--------|----------------------|--------------------------|
| Offices        | 45     | 2,770                | 2,140                    |
| Shopping malls | 13     | 1,110                | 610                      |
| Hotels         | 12     | 340                  | 340                      |
| Apartments     | 2      | 20                   | 10                       |
| Total          | 72     | 4,250                | 3,100                    |

Source: Company data

**Figure 6: Forecasts revision**

| (HK\$ mn)    | New     |         |         | Old     |         |         | Diff (%) |       |       |
|--------------|---------|---------|---------|---------|---------|---------|----------|-------|-------|
|              | FY19E   | FY20E   | FY21E   | FY19E   | FY20E   | FY21E   | FY19E    | FY20E | FY21E |
| Revenue      | 201,053 | 237,264 | 270,828 | 201,053 | 237,264 | 270,828 | 0.0%     | 0.0%  | 0.0%  |
| Gross Profit | 68,138  | 76,945  | 87,892  | 68,138  | 76,945  | 87,892  | 0.0%     | 0.0%  | 0.0%  |
| EBIT         | 65,260  | 74,078  | 85,094  | 65,252  | 74,027  | 84,988  | 0.0%     | 0.1%  | 0.1%  |
| Net profit   | 49,114  | 49,589  | 56,984  | 44,847  | 49,548  | 56,899  | 9.5%     | 0.1%  | 0.1%  |
| EPS (HK\$)   | 4.48    | 4.53    | 5.20    | 4.09    | 4.52    | 5.19    | 9.6%     | 0.1%  | 0.2%  |
| Gross Margin | 33.9%   | 32.4%   | 32.5%   | 33.9%   | 32.4%   | 32.5%   | 0 ppt    | 0 ppt | 0 ppt |
| EBIT Margin  | 32.5%   | 31.2%   | 31.4%   | 32.5%   | 31.2%   | 31.4%   | 0 ppt    | 0 ppt | 0 ppt |
| Net Margin   | 24.4%   | 20.9%   | 21.0%   | 22.3%   | 20.9%   | 21.0%   | 2.1 ppt  | 0 ppt | 0 ppt |

Source: CMBIS estimates

**Figure 7: End-20 NAV estimate**

|                       | (HK\$ m)  | NAV/share<br>(HK\$) | % of NAV | Remark                    |
|-----------------------|-----------|---------------------|----------|---------------------------|
| Development project   | 458,362   | 41.84               | 103.3%   | DCF method with 9.9% WACC |
| Investment Properties | 110,580   | 10.09               | 24.9%    | 4-6% cap rate             |
| GAV                   | 568,942   | 51.93               | 128.2%   |                           |
| Less: Net debt        | (125,126) | (11.42)             | -28.2%   | by end-19                 |
| NAV                   | 443,816   | 40.51               | 100.0%   |                           |

Source: CMBIS estimates

## Financial Summary

### Income statement

| YE Dec 31 (HK\$ mn)     | FY17A          | FY18A          | FY19E          | FY20E          | FY21E          |
|-------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Revenue</b>          | <b>166,045</b> | <b>171,461</b> | <b>201,053</b> | <b>237,264</b> | <b>270,828</b> |
| Property sales          | 162,140        | 167,037        | 195,433        | 230,611        | 262,896        |
| Rental                  | 2,450          | 3,534          | 4,240          | 5,003          | 5,904          |
| Other                   | 1,455          | 891            | 1,380          | 1,650          | 2,028          |
| Cost of sales           | (111,345)      | (106,658)      | (132,915)      | (160,319)      | (182,937)      |
| <b>Gross profit</b>     | <b>54,700</b>  | <b>64,803</b>  | <b>68,138</b>  | <b>76,945</b>  | <b>87,892</b>  |
| Other income and gains  | 8,027          | 1,081          | 3,455          | 4,251          | 4,921          |
| Distribution expenses   | (2,950)        | (2,622)        | (3,016)        | (3,440)        | (3,927)        |
| Administrative expenses | (2,849)        | (2,967)        | (3,317)        | (3,678)        | (3,792)        |
| Other expenses          | 0              | 0              | 0              | 0              | 0              |
| <b>Operating profit</b> | <b>56,928</b>  | <b>60,296</b>  | <b>65,260</b>  | <b>74,078</b>  | <b>85,094</b>  |
| Finance expenses        | (1,394)        | (1,586)        | (1,728)        | (1,943)        | (2,171)        |
| Associates/JV           | 1,938          | 3,422          | 3,503          | 3,998          | 4,478          |
| Exceptional             | 5,946          | 10,413         | 5,260          | 0              | 0              |
| <b>Pre-tax profit</b>   | <b>63,419</b>  | <b>72,545</b>  | <b>72,295</b>  | <b>76,134</b>  | <b>87,401</b>  |
| Profits tax             | (21,277)       | (25,866)       | (21,553)       | (24,843)       | (28,436)       |
| After-tax profit        | 42,142         | 46,679         | 50,742         | 51,291         | 58,964         |
| Minority interest       | (1,375)        | (1,802)        | (1,628)        | (1,702)        | (1,980)        |
| Perpetual               | 0              | 0              | 0              | 0              | 0              |
| <b>Net profit</b>       | <b>40,767</b>  | <b>44,877</b>  | <b>49,114</b>  | <b>49,589</b>  | <b>56,984</b>  |
| <b>Core profit</b>      | <b>36,397</b>  | <b>40,827</b>  | <b>45,164</b>  | <b>49,589</b>  | <b>56,984</b>  |

### Cash flow summary

| YE Dec 31 (HK\$ mn)            | FY17A           | FY18A           | FY19E          | FY20E          | FY21E          |
|--------------------------------|-----------------|-----------------|----------------|----------------|----------------|
| <b>EBIT</b>                    | <b>56,928</b>   | <b>60,296</b>   | <b>65,260</b>  | <b>74,078</b>  | <b>85,094</b>  |
| Depreciation and amortization  | 445             | 447             | 420            | 480            | 500            |
| Change in working capital      | (77,569)        | (52,966)        | (31,304)       | (53,000)       | (50,000)       |
| Income tax paid                | (15,673)        | (18,775)        | (22,243)       | (26,436)       | 0              |
| Others                         | (296)           | (5,760)         | (2,336)        | (3,859)        | 0              |
| <b>Net cash from operating</b> | <b>(36,164)</b> | <b>(16,758)</b> | <b>9,797</b>   | <b>(8,738)</b> | <b>35,594</b>  |
| Capex                          | (7,636)         | (4,722)         | (182)          | 280            | 100            |
| Associates/JV                  | (2,714)         | (4,556)         | (2,637)        | (1,867)        | (2,807)        |
| Other                          | 2,270           | 1,000           | 1,352          | (75)           | (400)          |
| <b>Net cash from investing</b> | <b>(8,079)</b>  | <b>(8,278)</b>  | <b>(1,468)</b> | <b>(1,662)</b> | <b>(3,107)</b> |
| Equity raised                  | 0               | 0               | 0              | 0              | 0              |
| Change of Debts                | (4,514)         | 23,106          | 19,551         | 31,500         | 23,000         |
| Dividend paid                  | (9,154)         | (10,370)        | (10,408)       | (13,147)       | (14,243)       |
| Other                          | 527             | 4,499           | (1,506)        | 1,500          | (600)          |
| <b>Net cash from financing</b> | <b>(13,141)</b> | <b>17,235</b>   | <b>7,636</b>   | <b>19,853</b>  | <b>8,157</b>   |
| Net change in cash             | (57,384)        | (7,801)         | 15,965         | 9,453          | 40,644         |
| Cash at the beginning          | 154,983         | 99,460          | 96,105         | 107,114        | 117,283        |
| Exchange difference            | 7,734           | (4,120)         | (5,000)        | (5,000)        | (5,000)        |
| <b>Cash at the end</b>         | <b>105,334</b>  | <b>87,538</b>   | <b>107,070</b> | <b>111,567</b> | <b>152,927</b> |
| Pledged deposit                | 4,591           | 4,450           | 4,591          | 4,591          | 4,591          |
| Cash at BS                     | 109,924         | 91,988          | 111,661        | 116,158        | 157,518        |

### Balance sheet

| YE Dec 31 (HK\$ mn)            | FY17A          | FY18A          | FY19A          | FY20A          | FY21A          |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Non-current assets</b>      | <b>143,614</b> | <b>158,309</b> | <b>173,790</b> | <b>182,265</b> | <b>193,365</b> |
| Fixed asset                    | 4,473          | 4,198          | 4,800          | 5,000          | 5,400          |
| Investment properties          | 97,377         | 111,574        | 124,000        | 129,000        | 135,000        |
| Associates/JV                  | 36,224         | 36,195         | 40,000         | 43,200         | 47,500         |
| Intangible assets              | 65             | 65             | 65             | 65             | 65             |
| Other non-current assets       | 5,475          | 6,277          | 4,925          | 5,000          | 5,400          |
| <b>Current assets</b>          | <b>501,791</b> | <b>567,032</b> | <b>621,205</b> | <b>699,074</b> | <b>769,222</b> |
| Cash                           | 104,051        | 100,555        | 111,705        | 121,874        | 127,222        |
| Account receivable             | 23,927         | 22,114         | 32,000         | 38,000         | 42,000         |
| Inventories                    | 359,947        | 422,006        | 460,000        | 520,000        | 580,000        |
| Other current assets           | 13,866         | 22,357         | 17,500         | 19,200         | 20,000         |
| <b>Current liabilities</b>     | <b>206,543</b> | <b>249,136</b> | <b>259,500</b> | <b>278,900</b> | <b>297,400</b> |
| Borrowings                     | 30,424         | 30,904         | 30,500         | 32,000         | 35,000         |
| Trade and other payables       | 55,255         | 63,440         | 65,000         | 68,000         | 70,000         |
| Contract liabilities           | 77,857         | 92,984         | 108,000        | 118,000        | 130,000        |
| Deferred taxation              | 29,742         | 34,881         | 36,000         | 38,500         | 40,000         |
| Other current liabilities      | 13,265         | 26,927         | 20,000         | 22,400         | 22,400         |
| <b>Non-current liabilities</b> | <b>165,319</b> | <b>182,598</b> | <b>204,700</b> | <b>235,150</b> | <b>256,200</b> |
| Borrowings                     | 147,815        | 165,045        | 185,000        | 215,000        | 235,000        |
| Other non-current liabilities  | 17,504         | 17,554         | 19,700         | 20,150         | 21,200         |
| <b>Shareholders' equity</b>    | <b>265,694</b> | <b>283,481</b> | <b>319,995</b> | <b>355,889</b> | <b>396,987</b> |
| Minority interest              | 7,849          | 10,125         | 10,800         | 11,400         | 12,000         |
| Perpetual bond                 | 0              | 0              | 0              | 0              | 0              |
| Total equity                   | 273,543        | 293,606        | 330,795        | 367,289        | 408,987        |

### Key ratios

| YE Dec 31                           | FY17A        | FY18A        | FY19E        | FY20E        | FY21E        |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Sales mix (%)</b>                |              |              |              |              |              |
| Property sales                      | 97.6         | 97.4         | 97.2         | 97.2         | 97.1         |
| Rental                              | 1.5          | 2.1          | 2.1          | 2.1          | 2.2          |
| Others                              | 0.9          | 0.5          | 0.7          | 0.7          | 0.7          |
| <b>Total</b>                        | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> |
| <b>Profit &amp; loss ratios (%)</b> |              |              |              |              |              |
| Gross margin                        | 32.9         | 37.8         | 33.9         | 32.4         | 32.5         |
| Pre-tax margin                      | 34.3         | 35.2         | 32.5         | 31.2         | 31.4         |
| Net margin                          | 24.6         | 26.2         | 24.4         | 20.9         | 21.0         |
| Effective tax rate                  | 33.6         | 35.7         | 29.8         | 32.6         | 32.5         |
| <b>Balance sheet ratios</b>         |              |              |              |              |              |
| Current ratio (x)                   | 2.4          | 2.3          | 2.4          | 2.5          | 2.6          |
| Receivable day                      | 52.6         | 47.1         | 58.1         | 58.5         | 56.6         |
| Payable day                         | 121.5        | 135.0        | 118.0        | 104.6        | 94.3         |
| Inventory day                       | 1179.9       | 1444.2       | 1263.2       | 1183.9       | 1157.2       |
| Net gearing ratio (%)               | 27.1         | 32.5         | 31.4         | 34.1         | 34.9         |
| <b>Returns (%)</b>                  |              |              |              |              |              |
| ROE                                 | 15.3         | 15.8         | 15.3         | 13.9         | 14.4         |
| ROA                                 | 6.3          | 6.2          | 6.2          | 5.6          | 5.9          |
| <b>Per share data</b>               |              |              |              |              |              |
| EPS (HK\$)                          | 3.72         | 4.10         | 4.48         | 4.53         | 5.20         |
| DPS (HK\$)                          | 0.80         | 0.90         | 1.15         | 1.25         | 1.45         |
| BVPS (HK\$)                         | 24.25        | 25.87        | 29.21        | 32.48        | 36.23        |

Source: Company data, CMBIS estimates

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**BUY** : Stock with potential return of over 15% over next 12 months  
**HOLD** : Stock with potential return of +15% to -10% over next 12 months  
**SELL** : Stock with potential loss of over 10% over next 12 months  
**NOT RATED** : Stock is not rated by CMBIS

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
**MARKET-PERFORM** : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months  
**UNDERPERFORM** : Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Securities Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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