

COLI

Targeting stable high-quality growth

Upgrade to 'BUY' on steady growth, reasonable profitability and low valuation; 2017 results in line

Revenue increased slightly by 1.2% from HK\$ 164 bn in 2016 to HK\$ 166 bn in 2017 while GPM further improved by 5.1ppts to 32.9%. SG&A to contracted sales compressed to 2.5%, down from 3.1% in 2016 thanks to the improving operation efficiency after the new chairman took office. Due to higher GPM and better operation efficiency, the core net profit increased by 16%. The company maintained a healthy debt structure with only 27.9% net gearing ratio while weighted average borrowing cost was 4.27%. As an SOE-developer, COLI doesn't plan to boost sales scale and sacrifice its profitability in next 2-3 years. The capex target of land premium only increased by 10% to HK\$ 153 bn in 2018. Regarding land acquisition cost, COLI's land cost to price ratio in 2017 was only about 40% compared to industry average of 50%. The Chairman mentioned in the result meeting that the company had acquired the first development projects in Xiong'An and acquired over 3 mn sq.m of shanty housing redevelopment Chang'An Street, Beijing. We believe the company has competitive strength to obtain relatively low-cost lands as well as funding in the deleveraging environment. That is why we upgrade its rating to 'Buy'. Overall, we prefer SOE developers over non-SOE developers.

25% YoY growth target of contracted sales in 2018

The management targets to achieve HK\$ 400 bn contracted sales in 2020, implying a CAGR of 20%. COLI hasn't changed its development pace while peers are seeking explosive growth to maintain sales ranking in top 50. The company maintains its pace at 20-30% growth of sales and keeps its launching schedule at 40%/60% in 1H/2H2018 even with tightening mortgage policy.

Continuously develop investment properties and expand to senior housing and logistics properties

Residential project will still be the key profit contributor in next 3 years. The company will allocate 90% of investment in residential projects, 7-8% in investment properties and the rest of investment will be used to explore the possibility in senior housing and logistics properties. Comparing with CR Lands, COLI prefers to invest in office buildings, which involves less operation problems: 38 office buildings vs only 12 shopping malls and 11 hotels in operations. Besides, the company is also starting its rental housing business in 2017 and expects 3,000 to 5,000 rooms to be launched annually.

We expect GPM to remain above 30%

The company will continuously acquire land with low cost in future and will focus on profitability rather than growth and scale. We expect the company will deliver over 30% GPM in next 3 years, due to its relatively low-land cost and good cost control. Additionally, contracted sales in 1st and 2nd tier cities will contribute high GPM in future. We expect GPM will be 31%/32%/32% in 2018/2019/2020, respectively.

Upgrade to 'Buy' and revise up price target to HK\$33.92, 24% upside

As a leading SOE developer, COLI targets profitable land plots, and enjoys very low funding cost. The company has maintained stable pace of sales in 1st and 2nd tier cities. Its valuation is relatively low among leading developers: trading at 6.9x 2018e core PE vs over 8x of peers. Therefore, we revised up its rating to 'Buy' and price target to HK\$33.92. Our price target implies 25% discount to Dec-18 NAV, 8.6x 2018e core PE and 7.3x 2019e core PE. The stock is trading at 40% discount to Dec-18 NAV, 6.9x 2018e core PE and 0.8x 2018e PB.

Stock code: 688.HK

Rating: BUY

Price target (HK\$)	33.92
Previous target(HK\$):	31.40
Current price (HK\$, 28 Mar 2018)	27.30
Upside/downside %	24%
Market cap (HK\$ m)	299,104
Market cap (US\$ m)	38,118
Avg daily turnover (HK\$ m)	608

Source: Bloomberg, AMTD Equity Research

Key forecasts

(HK\$ m)	2017	2018e	2019e	2020e
Revenue	166,045	217,072	254,304	312,720
yoy %	1%	31%	17%	23%
Attr NP	40,767	43,185	50,722	60,099
yoy %	10%	6%	17%	18%
Core Attr NP	36,307	43,185	50,722	60,099
yoy %	16%	19%	17%	18%
Gross margin	32.9%	31.2%	31.7%	31.7%
Net gearing	27.1%	27.3%	22.3%	17.3%
EPS	3.31	3.94	4.63	5.49
DPS	0.80	0.85	1.00	1.18
BPS	24.25	28.19	32.82	38.31

Source: Company data, AMTD Equity Research

Valuation

	2017	2018e	2019e	2020e
P/E	8.2	6.9	5.9	5.0
P/BV	1.1	1.0	0.8	0.7
Div. yield	2.9%	3.1%	3.6%	4.3%
ROE	15.4%	15.5%	15.6%	15.8%
ROA	6.3%	6.1%	6.3%	6.5%

Source: Bloomberg, AMTD Equity Research

Share price performance



Source: Bloomberg

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Figure 1: Previous forecast vs actual result

PnL, HK\$ '000	2016	2017	AMTD 2017E	YoY	Actual vs Est
Revenue	164,068,528	166,044,963	193,853,839	1.2%	-14.3%
Sales of properties	159,891,147	162,139,770	189,676,458	1.4%	-14.5%
Cost of sales	(113,073,759)	(111,345,157)	(135,220,749)	-1.5%	-17.7%
GPM	28%	33%	30%	5.1 pts	2.7 pts
Gross profit	45,643,222	54,699,806	58,633,090	19.8%	-6.7%
Other income	1,789,484	5,353,577	1,789,484	199.2%	199.2%
Fair value gains on investment properties	7,722,671	5,946,121	0	-23.0%	n.a.
Selling expenses	(3,371,597)	(2,949,521)	(3,682,181)	-12.5%	-19.9%
Administrative expenses	(3,179,742)	(2,848,693)	(3,472,653)	-10.4%	-18.0%
Finance costs	(2,055,956)	(1,393,544)	(1,940,703)	-32.2%	-28.2%
Profit before tax	57,101,801	63,419,299	56,120,777	11.1%	13.0%
Income tax expense	(18,711,025)	(21,277,184)	(20,094,013)	13.7%	5.9%
Profit for the year	38,390,776	42,142,115	36,026,765	9.8%	17.0%
Adjusted profit for the year	32,598,773	37,682,524	36,026,765	15.6%	4.6%
Profit for the year attributable to:					
Owners of the Company	37,020,638	40,766,835	34,656,627	10.1%	17.6%
Non-controlling interests	1,370,138	1,375,280	1,370,138	0.4%	0.4%
Core net profit	31,228,635	36,307,244	34,656,627	16.3%	4.8%
Net Debt / Equity	7%	27%	-8%	19.8 pts	35.3 pts
Current Ratio	238%	243%	263%	5.0 pts	-20.4 pts
Interest Coverage	6.7x	8.6x	6.7x	1.9x	2.0x
ROA	6.48%	6.32%	5.32%	-0.2 pts	1.0 pts
ROCE	9.23%	9.02%	7.69%	-0.2 pts	1.3 pts
ROE	15.10%	15.45%	14.47%	0.3 pts	1.0 pts
GPM	27.82%	32.94%	30.25%	5.1 pts	2.7 pts
NPM	22.56%	24.55%	17.88%	2.0 pts	6.7 pts
Core NPM	19.87%	22.69%	17.88%	2.8 pts	4.8 pts
Total Debt	173,820,540	178,238,437	187,254,955	2.5%	-4.8%
Cash	157,161,732	104,050,615	208,808,436	-33.8%	-50.2%
Net Debt	16,658,808	74,187,822	-21,553,481	345.3%	-444.2%
ST Debt	40,286,290	30,423,797	20,964,473	-24.5%	45.1%
Properties held under development	261,689,777	335,541,563	290,749,448	28.2%	15.4%
Advanced proceeds received from customers	6,897,193	7,240,012	6,897,193	5.0%	5.0%

Source: Company data, AMTD Equity Research

Figure 2: P&L forecast and key ratios

PnL, HK\$ mn	2016	2017	2018e	2019e	2020e	2016	2017	2018e	2019e	2020e
Revenue	164,069	166,045	217,072	254,304	312,720	-3.2%	1.2%	30.7%	17.2%	23.0%
Sale of properties	159,891	162,140	213,167	249,174	307,590					
Cost of sales	(113,074)	(111,345)	(149,396)	(173,644)	(213,580)					
Gross profit	45,643	54,700	67,676	80,660	99,140	-1.0%	19.8%	23.7%	19.2%	22.9%
Selling expenses	(3,372)	(2,950)	(5,570)	(6,684)	(8,020)	18.6%	-12.5%	88.8%	20.0%	20.0%
Administrative expenses	(3,180)	(2,849)	(4,177)	(5,013)	(8,020)	2.4%	-10.4%	46.6%	20.0%	60.0%
Share of post-tax loss of an associate	477	1,164	1,164	1,164	1,164					
Share of post-tax (losses)/profits of joint ventures	776	774	1,162	1,626	1,789					
Finance costs	(2,056)	(1,394)	(1,287)	(1,454)	(1,654)	-25.4%	-32.2%	-7.7%	13.0%	13.8%
Profit before tax	57,102	63,419	66,995	78,327	92,425	11.2%	11.1%	5.6%	16.9%	18.0%
Income tax expense	(18,711)	(21,277)	(22,435)	(26,230)	(30,951)					
Profit for the year	38,391	42,142	44,560	52,097	61,475	8.4%	9.8%	5.7%	16.9%	18.0%
Profit for the year attributable to:										
Net profit	37,021	40,767	43,185	50,722	60,099	6.9%	10.1%	5.9%	17.5%	18.5%
Core net profit	31,229	36,307	43,185	50,722	60,099	7.7%	16.3%	18.9%	17.5%	18.5%
Non-controlling interests	1,370	1,375	1,375	1,375	1,375					
Dividends	8,436	8,765	9,285	10,905	12,922					
EPS - basic	3.64	3.72	3.94	4.63	5.49					
EPS-underlying	3.07	3.31	3.94	4.63	5.49					
DPS - basic	0.83	0.80	0.85	1.00	1.18					
BVPS	21.82	24.25	28.19	32.82	38.31					
Key Ratios, HK\$ mn	2016	2017	2018e	2019e	2020e					
GPM	27.8%	32.9%	31.2%	31.7%	31.7%					
NPM	22.6%	24.6%	19.9%	19.9%	19.2%					
Core NPM	19.9%	22.7%	20.5%	20.5%	19.7%					
ROA	6.5%	6.3%	6.1%	6.3%	6.5%					
ROCE	9.2%	9.0%	8.3%	8.5%	8.7%					
ROE	15.1%	15.4%	15.5%	15.6%	15.8%					
Total Debt / EBITDA	2.9x	2.8x	2.9x	2.9x	2.8x					
Total Debt / Equity	76.4%	65.2%	63.3%	61.9%	60.8%					
Total Debt / Capitalization	43.3%	39.5%	38.8%	38.2%	37.8%					
Net Debt / EBITDA	0.3x	1.1x	1.3x	1.0x	0.8x					
Net Debt / Equity	7.3%	27.1%	27.3%	22.3%	17.3%					
Net Debt / Capitalization	4.2%	16.4%	16.7%	13.8%	10.8%					
Current Ratio	237.9%	242.9%	270.4%	294.5%	355.3%					
Cash / Total Assets	27.5%	16.1%	16.1%	18.1%	20.4%					
Inventory / Total Assets	47.2%	55.8%	58.4%	59.5%	59.8%					
Net debt / Net Inventory	6.2%	20.6%	20.9%	17.2%	13.6%					
Quick Ratio	159.2%	192.6%	215.9%	229.8%	269.2%					
Cash Ratio	78.7%	50.4%	54.5%	64.7%	86.1%					
Interest Coverage	6.7x	8.6x	9.2x	9.6x	9.9x					

Source: Company data, AMTD Equity Research

Figure 3: Balance sheet forecast & Cash flow forecast

Balance Sheet, HK\$ mn	2016	2,017	2018e	2019e	2020e
Non-current assets	96,376	143,614	143,614	143,614	143,614
Current assets	474,913	501,791	568,199	666,186	774,146
Stock of properties	261,690	335,542	391,468	457,601	524,333
Bank balances and cash	157,162	104,051	114,533	146,387	187,615
Others	56,062	62,198	62,198	62,198	62,198
Current liabilities	199,604	206,543	210,148	226,186	217,910
Others	159,318	176,119	174,868	193,039	206,262
Bank and other borrowings – due within one year	34,472	13,325	35,280	33,148	11,648
Notes payable – due within one year	5,815	17,099	0	0	0
Non-current liabilities	144,261	165,319	183,562	213,413	268,174
Bank and other borrowings - due after one year	61,773	90,256	166,058	195,908	250,670
Notes payable – due after one year	71,761	57,559	0	0	0
Amounts due to non-controlling shareholders	870	3,800	3,800	3,800	3,800
Deferred tax liabilities	9,857	13,704	13,704	13,704	13,704
Capital and reserves	227,423	273,543	318,104	370,201	431,676
Equity attributable to owners of the Company	222,248	265,694	308,879	359,601	419,701
Non-controlling interests	5,175	7,849	9,224	10,600	11,975
Cash Flow Statement, HK\$ mn	2016	2017	2018e	2019e	2020e
Profit before income tax	57,102	63,419	66,995	78,327	92,425
Operating cash flows before movements in working capital	40,098	64,813	68,282	79,781	94,079
Decrease in stock of properties	20,202	(73,852)	(55,926)	(66,133)	(66,732)
Increase/(decrease) in trade and other payables, pre-sales deposits, and rental and other deposits	17,451	3,154	9,620	18,171	13,224
Cash (used in) from operations	75,578	(23,075)	21,976	31,818	40,571
Income taxes paid	(15,038)	(21,277)	(22,435)	(26,230)	(30,951)
Net cash (used in) from operating activities	60,540	(44,352)	(459)	5,589	9,620
Net cash used in investing activities	15,114	(18,621)	0	0	0
Financing activities					
New bank and other borrowings raised	37,030	53,721	44,063	62,998	66,410
Repayment of bank and other borrowings	(60,259)	(40,286)	(20,964)	(35,280)	(33,148)
Net cash from (used in) financing activities	(32,394)	12,041	10,941	26,265	31,608
Net increase in cash and cash equivalents	43,259	(50,933)	10,482	31,854	41,228
Effect of foreign exchange rate changes	(8,324)	0	0	0	0
Cash and cash equivalents at beginning of the year	120,048	154,983	104,051	114,533	146,387
Cash and cash equivalents at end of the year	154,983	104,051	114,533	146,387	187,615

Source: Company data, AMTD Equity Research

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AMTD Investment Ratings

Stock Rating

Buy	Stock with potential return of over 20% over the next 12 months
Hold	Stock with potential return of -20% to +20% over the next 12 months
Sell	Stock with potential loss of over 20% over the next 12 months

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