

COLI (688 HK)

Quality landbank for future growth

- Acquired RMB 94.9bn of new sellable resources in 1H22
- Core profit CAGR of 5.5% for 2022E-24E on the back of quality projects acquired YTD
- While net gearing increased 7.9ppt HoH to 39.0% in 1H22, average borrowing cost declined from 3.55% in FY21 to 3.44%
- Rental income grew 7.5%YoY to RMB 2.44bn in 1H22 despite COVID resurgence
- Maintain **BUY** with revised TP of HK\$ 31.5 (from HK\$ 32.9) based on a 50% discount to NAV

Weathering the storm with strong credit profile. COLI's 1H22 core profit (excluding net gains after tax arising from changes in fair value of investment properties and FX gains and losses) decreased 4.6% YoY to RMB 17.35bn, as revenue declined 3.8%YoY to RMB 103.8bn while gross margin dropped 5.1ppt YoY to 23.5%. Net gearing went up 7.9ppt HoH to 39.0% as of June 2022 due to land purchases amounting to RMB 48.01bn (representing 35% of 1H22 contracted sales; GFA: 3.58mn sqm). COLI also spent RMB 10.66bn in M&As to acquire equity interests in several projects in Guangzhou, Shanghai, and Chengdu from third-party developers. These purchases add RMB 94.9bn of new sellable resources (assuming an ASP of RMB 27k/sqm). As of June 2022, COLI had a total landbank of 47.05mn sqm (or 40.95mn sqm on an attributable basis). Despite a higher net gearing, COLI fulfills all the three-red-line requirements. While contracted sales dropped 33% YoY to RMB 138.5bn in 1H22, cash collection rate increased 1.3ppt YoY to 88.0%. Average borrowing cost continues to trend down from 3.55% in FY21 to 3.44% in 1H22.

Outstanding performance in office and shopping mall rentals. Despite COVID resurgence in 1H22, rental income increased 7.5% YoY to RMB 2.44bn. In comparison, rental income of CR Land (1109 HK), a major shopping mall operator in China, dropped 5.9% YoY to RMB 8.09bn in 1H22. Office rental income rose 1% YoY to RMB1.75bn, while shopping mall income jumped 23% YoY to RMB 0.64bn. The increase income from malls was driven by the 2.4% YoY growth in same-store-rental income since aggregate retail sales of its malls went up 7.7% YoY. Upon completion of investment properties under development, GFA of COLI's investment properties will increase from 6.15mn sqm to 11.05mn sqm.

Maintain BUY with revised TP at HK\$ 31.5. We lower our 2022E/23E core profit forecasts by 6.4%/21.0% to factor in the weaker gross margin and contracted sales. As a result, we cut our NAV/share forecast to HK\$ 63.0 (from HK\$ 65.8). We lower our TP to HK\$ 31.5 (from HK\$ 32.9) based on a 50% discount to NAV (unchanged). We forecast a core profit CAGR of 5.5% for 2022E-24E on the back of quality projects acquired YTD as well as property market recovery after policy relaxation. Maintain **BUY**. COLI remains our most preferred large-cap developer given the solid balance sheet and impressive rental revenue growth.

Results and Valuation

FY ended Dec 31	2020A	2021A	2022E	2023E	2024E
Revenue (RMB mn)	185,790	242,241	250,180	238,848	252,348
Chg (% YoY)	13.5	30.4	3.3	(4.5)	5.7
Core net profit* (RMB mn)	38,030	36,380	35,430	35,516	39,489
Chg (% YoY)	10.9	(4.3)	(2.6)	0.2	11.2
Core EPS (RMB)	3.47	3.32	3.24	3.24	3.61
Chg (% YoY)	10.9	(4.2)	(2.6)	0.2	11.2
BVPS (RMB)	28.67	31.39	33.53	35.67	38.06
Chg (% YoY)	12.0	9.5	6.8	6.4	6.7
Core P/E (x)	5.0	5.2	5.4	5.4	4.8
P/B (x)	0.61	0.55	0.52	0.49	0.46
ROE (%)	12.1	10.6	9.7	9.1	9.5
ROA (%)	4.6	4.2	3.8	3.4	3.1
DPS(HK\$)	1.18	1.21	1.10	1.10	1.23
Yield (%)	6.0	6.1	5.6	5.6	6.2
Net gearing (%)	31.2	31.1	34.1	Net cash	Net cash

Note: RMB to HK\$= 1.14

* Core net profit = profit attributable to owners of the company – net gains after tax arising from changes in fair value of investment properties- FX gains/ (losses)

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Aug 25, 2022

Rating: BUY

TP: HK\$ 31.5

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Share price (HK\$)	19.80
Est. share price return	59.1%
Est. dividend yield	5.6%
Est. total return	64.7%
Previous Rating & TP	BUY, HK\$32.9

Previous Report Date Feb 16, 2022

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L(HK\$)	27.35/15.42
Issued shares (mn)	10,945
Market cap (HK\$ mn)	216,711
3-mth avg daily turnover(HK\$ mn)	553.1
Major shareholder(s) (%):	
China State Construction Engineering Corporation	56.00%

Source(s): Bloomberg, ABCI Securities

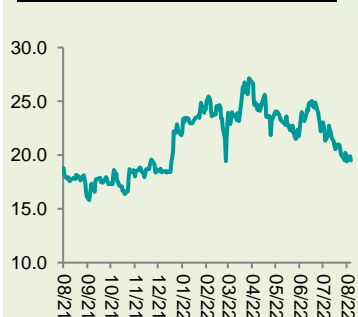
Share Performance (%)

	Absolute	Relative*
1-mth	(9.8)	(3.5)
3-mth	(14.5)	(10.3)
6-mth	(21.1)	(2.6)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year share performance(HK\$)



Source(s): Bloomberg, ABCI Securities



Risk factors: 1) Declining margin trend and profitability; 2) Currency risks associated with FX debt exposure; 3) Uncertain development of COVID; 4) Further policy tightening on utilization of presales proceeds to ensure project completion

Exhibit 1: COLI's 1H22 results

P&L	1H22	1H21	YoY Chg	Operating statistics	1H22	1H21	YoY Chg
	RMBmn	RMBmn	(%)				
Turnover	103,789	107,879	(3.8)	Contracted GFA (mn sqm)	6.26	10.50	(40.3)
Cost of Sales	(79,443)	(77,090)	3.1	Contracted ASP (RMB/sqm)	22,110	19,742	12.0
Gross Profit	24,346	30,790	(20.9)	Contracted sales (RMBm)	138,501	207,207	(33.2)
Gross Margin (%)	23.5	28.5	(5.1ppt)				
Selling and distribution costs	(1,740)	(1,872)	(7.0)				
Administrative expense	(1,531)	(1,667)	(8.2)				
EBIT	21,075	27,251	(22.7)				
EBIT Margin (%)	20.3	25.3	(5.0ppt)				
Other income	552	2,112	(73.9)				
Fair Value gains on IP	2,504	2,033	23.2				
Share of profit from JCE/ Associates	1,557	1,548	0.5				
Finance cost	(526)	(417)	26.2				
Profit before tax	25,162	32,528	(22.6)				
Tax	(7,568)	(10,561)	(28.3)				
- LAT	(1,293)	(3,081)	(58.0)				
- Enterprise tax	(6,275)	(7,480)	(16.1)				
Profit after tax	17,594	21,967	(19.9)				
Minority Interest	(851)	(1,189)	(28.4)				
Net profit	16,743	20,779	(19.4)				
Less: less: net gains after tax arising from changes in fair value of IP	(1,783)	(1,549)	15.1				
Core net profit- (ex fair value gains of IP)	14,960	19,230	(22.2)				
Add FX losses/ less FX gains	2,390	(1,040)	(329.8)				
Core net profit- (ex fair value gains of IP, FX gains & losses)	17,350	18,190	(4.6)				
Core net margin	16.7%	16.9%	(0.1ppt)				
				Balance sheet	Jun-22	Dec-21	YoY %
					RMBmn	RMBmn	
				Gross debt	269,819	241,922	11.5
				Cash	125,321	130,956	(4.3)
				Net debt	144,498	110,966	30.2
				Net gearing (%)	39.0%	31.1%	7.9%
				Revenue breakdown	1H22	1H21	YoY %
					RMBmn	RMBmn	
				Property development	100,849	105,011	(4.0)
				Property investment	2,440	2,269	7.5
				Others	500	599	(16.4)
				Total	103,789	107,879	(3.8)

Source(s): The Company, ABCI Securities

Exhibit 2: COLI's 2023E NAV

	Net assets value		Valuation Method
	(RMB mn)	% of total	
Property development	427,869	92%	DCF with WACC of 16.9% 7% cap rate on 2023E net rental income
Investment Properties	34,788	8%	
Total 2023E GAV	462,657	100%	
2023E Net cash/ (debt)	142,451	31%	
Total 2023E NAV	605,108	131%	
No. of share outstanding (diluted)	10,945		
NAV per share (RMB)	55.3		
Ex rate	1.14		
NAV per share (HK\$)	63.0		
Target discount (%)	50%		
Target Price (HK\$)	31.5		
WACC	16.9%		
Cost of debt	3.4%		
Cost of equity	27.0%		
Debt/ (Debt + Equity)	41%		

Source(s): Company, ABCI Securities estimates



Exhibit 3: Changes in TP and profit forecasts

	NEW	OLD	Chg	Reasons
NAV	63.0	65.8	-4.2%	Factor in weaker gross margin and contracted sales
Discount	50%	50%		
TP (HK\$)	31.5	32.9	-4.3%	
Core profit (RMBmn)				
-2022E	35,430	37,863	-6.4%	Factor in weaker gross margin and contracted sales
-2023E	35,516	44,950	-21.0%	Factor in weaker gross margin and contracted sales

Source(s): Company, ABCI Securities estimates



Consolidated income statement

FY Ended Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
Revenue	185,790	242,241	250,180	238,848	252,348
Cost of sales	(129,969)	(185,215)	(188,390)	(179,758)	(189,320)
Gross Profit	55,821	57,026	61,789	59,090	63,029
SG&A expenses	(6,144)	(6,969)	(6,292)	(5,987)	(6,563)
EBIT	49,677	50,057	55,497	53,103	56,466
Finance cost	(884)	(866)	(1,110)	(1,139)	(1,128)
Share of profit of associates	4,856	3,686	5,691	7,026	10,334
Other income/ (expenses)	3,251	2,255	1,402	2,161	4,837
Fair value gain of investment properties	9,191	5,540	2,504	0	0
Exchange gains/(losses)	3,112	2,457	(2,390)	0	0
Profit before tax	69,204	63,130	61,595	61,151	70,510
Tax	(21,495)	(20,068)	(20,388)	(18,609)	(20,687)
Profit after tax	47,709	43,062	41,206	42,542	49,822
Minority interest	(3,805)	(2,906)	(5,691)	(7,026)	(10,334)
Reported net profit	43,904	40,155	35,516	35,516	39,489
Core net profit*	38,030	36,380	35,430	35,516	39,489
Per share					
Reported EPS (RMB)	4.01	3.67	3.24	3.24	3.61
Core EPS (RMB)	3.47	3.32	3.24	3.24	3.61
DPS (HK\$)	1.18	1.21	1.10	1.10	1.23
Payout ratio (%)	30%	30%	30%	30%	30%
BVPS (RMB)	28.67	31.39	33.53	35.67	38.06
Growth %					
Revenue	13.5%	30.4%	3.3%	-4.5%	5.7%
Gross Profit	1.3%	2.2%	8.4%	-4.4%	6.7%
EBIT	-0.1%	0.8%	10.9%	-4.3%	6.3%
Core net profit	10.9%	-4.3%	-2.6%	0.2%	11.2%
Margin %					
Gross margin	30.0%	23.5%	24.7%	24.7%	25.0%
EBIT margin	26.7%	20.7%	22.2%	22.2%	22.4%
Core net margin	20.5%	15.0%	14.2%	14.9%	15.6%
Key assumptions					
Contracted Sales (RMB mn)	360,723	369,495	296,759	328,786	462,130
GFA sold (mn sqm)	19.17	18.90	15.11	14.59	20.58
ASP (RMB/sqm)	18,814	19,545	19,634	22,533	22,456

* Core net profit = profit attributable to owners of the company – net gains after tax arising from changes in fair value of investment properties- FX gains/ (losses)

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet

As of Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
Current assets	636,253	648,957	685,678	798,378	1,021,160
Cash	107,664	129,861	108,280	379,439	777,141
Restricted cash	2,805	1,095	1,204	1,325	1,457
Trade & other receivables	12,197	8,244	9,069	9,976	10,973
Property under development	471,491	463,009	520,378	360,891	184,842
Other current assets	42,097	46,747	46,747	46,747	46,747
Non-current assets	187,404	220,950	237,069	249,019	260,777
Property, plant & equipment	5,011	5,524	5,549	5,573	5,597
Investment properties	140,879	166,204	176,708	181,708	183,208
Investment in Associate and JCE	33,314	40,571	46,162	53,087	63,321
Other non-current assets	8,200	8,650	8,650	8,650	8,650
Total Assets	823,657	869,907	922,747	1,047,397	1,281,938
Current Liabilities	303,962	293,901	316,246	411,486	610,686
Short-term borrowings	43,805	44,620	42,620	40,620	38,620
Trade & other payables	82,808	90,055	99,060	108,966	119,863
Pre-sales deposits	121,122	100,455	115,796	203,129	393,433
Other current liabilities	56,228	58,770	58,770	58,770	58,770
Non-current liabilities	191,346	218,900	220,290	219,290	218,290
Long-term borrowings	169,175	197,302	198,692	197,692	196,692
Other payables	1,971	371	371	371	371
Other non-current liabilities	20,199	21,226	21,226	21,226	21,226
Total Liabilities	495,308	512,800	536,536	630,775	828,976
Net Assets	328,349	357,106	386,211	416,622	452,962
Shareholders' Equity	314,147	343,560	367,024	390,459	416,515
Minority Interest	14,203	13,546	19,187	26,163	36,447
Total Equity	328,349	357,106	386,211	416,622	452,962
Key ratio					
Gross debt (RMB mn)	212,980	241,922	241,312	238,312	235,312
Net debt/ (Cash) (RMB mn)	102,512	110,966	131,828	(142,451)	(543,286)
Net gearing (%)	31.2%	31.1%	34.1%	-34.2%	-119.9%

* 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 FY22E-24E 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

FY ended Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
Operating cash flow	11,201	22,565	10,896	300,908	425,209
Purchase of PP&E	(313)	(226)	(226)	(226)	(226)
Addition of Investment Properties	(11,856)	(9,693)	(8,000)	(5,000)	(1,500)
Others	8,125	(4,546)	100	100	100
Investing cash flow	(4,044)	(14,465)	(8,126)	(5,126)	(1,626)
Debt raised	44,579	68,994	11,000	11,000	11,000
Debt repaid	(28,401)	(41,439)	(14,000)	(14,000)	(14,000)
Interest expenses	(8,179)	(7,959)	(9,249)	(9,493)	(9,398)
Equity raised	0	0	0	0	0
Dividend to shareholders	(9,966)	(10,732)	(12,052)	(12,081)	(13,432)
Others	9,581	5,233	(50)	(50)	(50)
Financing cash flow	7,613	14,098	(24,351)	(24,624)	(25,880)
Net cash inflow/ (outflow)	14,770	22,197	(21,581)	271,159	397,702
Cash- beginning	92,895	107,664	129,861	108,280	379,439
Cash- year-end	107,664	129,861	108,280	379,439	777,141

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 2009 (For reference: HSI total return index 2009-21 averaged at 9.2%)

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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