

COLI (688 HK)

Margin pressure may overshadow the earnings visibility

- May need to wait for margin bottom before seeing earnings growth back to teens:** While the whole industry is facing downward pressure on margins (especially GPM), COLI may find it hard to get back to its +30% gross margin. Therefore the future drivers will be contracted sales and office rentals. For sales, management has already speeded up the asset turnover by shortening the number of days from land acquisitions to new start. However, due to high base and only 3-year-development landbank, it is hard for COLI to boost sales growth back to 20%+ offsetting the margin decline in the near term. For commercial, we think the visibility of double digit growth is quite high as there are 50 projects under construction accounting for 65% of those in operation and may bring 13% 2021-24 CAGR in GFA, but this portion is relatively small (only 2% of total revenue in 1H21). We think earnings growth for COLI may only accelerate after net margin bottom (could be 15-16% historically).
- Flat 1H21 results on margin decline:** COLI delivered lackluster 1H21 results with 1% YoY growth in its core earnings (excl. IP's fair value gain and FX gain) to RMB18.2bn. Revenue increased 22% YoY to RMB107.9bn in 1H21 but it was offset after GP margin eroded 2.1ppt YoY to 28.5% in 1H21. As profits from JV/associates dropped by 40% YoY in 1H21, net margin eroded 3.9ppt YoY to 19.3% in 1H21. EPS was RMB1.90/share (+2% YoY) and the Company declared an HK\$0.45/share interim dividend (19.7% payout ratio; -2% YoY), same as 1H20.
- Still very healthy balance sheet to support more land acquisitions in 1H21.** The Company has continued to fulfil the RRR requirements and stayed within the green category with liability to Asset (excluding presales) at 53.4% (53.3% in 1H20), net gearing at 32.5% (32.6% in 1H20) and cash to short-term debt at 2.6x (2.5x in 1H20), all well within the requirements. This is mainly due to its disciplined land acquisitions strategy in 1H21 and it only spent RMB45.8 attributable land costs or 24% of sales to avoid the overheated land market. Given its full-year attributable budget of RMB165bn, we expect COLI to replenish more in 2H as management guided to reach its original budget.
- Maintain Buy.** The Company is trading at 4x 2021E PE, much below its 5Y historical average of 6.3x.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	144,027	163,651	185,790	221,386	252,305
YoY growth (%)	N.A.	13.6	13.5	14.2	14.0
Net income (RMB mn)	37,716	41,618	43,904	45,979	52,352
EPS (RMB)	3.44	3.80	4.01	4.20	4.78
YoY growth (%)	N.A.	10.3	5.5	4.7	13.9
Consensus EPS (RMB)	N.A.	N.A.	N.A.	4.45	4.97
P/E (x)	6.1	5.5	4.2	4.0	3.7
P/B (x)	0.9	0.8	0.7	0.6	0.6
Yield (%)	4.3	5.5	8.0	6.9	7.8
ROE (%)	15.2	14.8	14.0	13.0	13.2
Net gearing (%)	32.5	32.7	32.6	29.8	25.7

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$30.49
(Previous TP)	HK\$30.49)
Up/downside	+67.3%
Current Price	HK\$18.22

China Property Sector

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Stock Data

Mkt Cap (HK\$ mn)	199,415
Avg 3 mths t/o (HK\$ mn)	372.91
52w High/Low (HK\$)	24.15/ 14.92
Total Issued Shares (mn)	10,945

Source: Bloomberg

Shareholding Structure

CTCEC	56.0%
Free float	44.0%

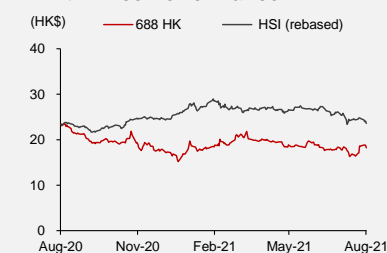
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	2.2%	10.6%
3-mth	-0.5%	10.0%
6-mth	2.0%	20.6%
12-mth	-19.7%	-21.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Figure 1: 1H21 results

RMB mn	1H20	1H21	YoY	1H/2020	1H/2021E
Revenue	88,625	107,879	22%	48%	49%
- Property development	86,346	105,011	22%		
- Property investment	1,923	2,269	18%		
- Others	357	599	68%		
Gross profit	27,114	30,790	14%	49%	43%
Net profit	20,527	20,779	1%		
Core earnings (excl. FV gain and FX)	17,940	18,192	1%	41%	40%
EPS (RMB)	1.87	1.90	2%		
DPS (RMB)	0.37	0.37	0%	31%	26%
Dividend payout ratio	20.0%	19.7%	-2%		
GP Margin	30.6%	28.5%	-2.1 ppt		
Net Margin	23.2%	19.3%	-3.9 ppt		
	FY20	1H21			
Net Gearing	32.6%	32.5%			
Debt to Aseet (excl. presales)	53.3%	53.4%			
Cash / ST Debt	2.5 x	2.6 x			

Source: Company data, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	144,027	163,651	185,790	221,386	252,305
Property sales	140,311	159,186	180,786	214,137	244,116
Rental	2,968	3,750	4,052	5,221	6,161
Other	748	715	952	2,028	2,028
Cost of sales	(89,592)	(108,571)	(129,969)	(149,434)	(170,111)
Gross profit	54,435	55,080	55,821	71,952	82,194
Other income and gains	928	2,638	6,363	4,725	4,782
Distribution expenses	(2,202)	(2,646)	(3,513)	(3,210)	(3,658)
Administrative expenses	(2,492)	(2,730)	(2,631)	(3,099)	(3,532)
Other expenses	0	0	0	0	0
Operating profit	50,668	62,344	65,231	70,367	79,785
Finance expenses	(1,332)	(759)	(884)	(1,707)	(1,825)
Associates/JV	2,874	3,367	4,856	4,805	5,593
Exceptional	8,747	0	0	0	0
Pre-tax profit	60,957	64,952	69,204	73,465	83,553
Profits tax	(21,728)	(22,204)	(21,495)	(24,665)	(28,081)
After-tax profit	39,230	42,747	47,709	48,799	55,472
Minority interest	(1,513)	(1,129)	(3,805)	(2,820)	(3,120)
Perpetual	0	0	0	0	0
Net profit	37,716	41,618	43,904	45,979	52,352
Core profit	31,097	34,300	37,010	45,979	52,352

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
EBIT	50,668	62,344	65,231	70,367	79,785
Depreciation and amortization	183	236	371	450	484
Change in working capital	(46,292)	(25,226)	(30,594)	(48,060)	(28,700)
Income tax paid	(13,165)	(16,479)	(20,896)	(22,165)	(24,281)
Others	1,809	(964)	3,841	2,549	(1,894)
Net cash from operating	(6,797)	9,910	9,697	3,140	25,394
Capex	(4,033)	(4,743)	(231)	106	128
Associates/JV	(3,829)	82	8,446	(3,598)	(543)
Other	883	2,061	(10,755)	0	0
Net cash from investing	(6,980)	(2,599)	(2,540)	(3,492)	(415)
Equity raised	0	0	0	0	0
Change of Debts	19,856	19,309	16,177	16,400	11,800
Dividend paid	(8,684)	(9,720)	(10,627)	(14,243)	(15,886)
Other	3,707	(8,108)	2,485	0	0
Net cash from financing	14,879	1,481	8,035	2,157	(4,086)
Net change in cash	1,102	8,791	15,192	1,805	20,893
Cash at the beginning	82,552	83,996	92,895	110,77	107,57
Exchange difference	792	107	(423)	(5,000)	(5,000)
Cash at the end	84,446	92,895	107,66	107,57	123,46
Pledged deposit	3,889	2,553	2,805	2,553	2,553
Cash at BS	88,335	95,448	110,46	110,12	126,02

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Non-current assets	138,362	163,264	187,404	189,650	204,814
Fixed asset	3,669	4,019	5,011	4,844	5,200
Investment properties	97,516	114,021	140,879	136,000	148,000
Associates/JV	31,634	37,410	33,314	40,200	42,608
Intangible assets	56	56	56	56	56
Other non-current assets	5,486	7,758	8,144	8,550	8,950
Current assets	495,586	560,632	636,253	671,355	740,048
Cash	87,885	95,448	110,469	101,143	117,036
Account receivable	19,328	21,901	25,797	20,500	23,200
Inventories	368,833	423,055	475,689	530,000	580,000
Other current assets	19,540	20,228	24,298	19,712	19,812
Current liabilities	217,745	258,248	303,962	289,400	318,200
Borrowings	27,010	32,078	43,805	31,400	33,200
Trade and other payables	55,447	65,812	82,808	72,000	78,000
Contract liabilities	81,268	97,939	121,122	120,000	138,000
Deferred taxation	30,486	38,672	38,124	42,000	45,000
Other current liabilities	23,534	23,747	18,104	24,000	24,000
Non-current liabilities	159,591	176,503	191,346	202,050	213,100
Borrowings	144,249	157,886	169,175	180,000	190,000
Other non-current liabilities	15,342	18,617	22,170	22,050	23,100
Shareholders' equity	247,762	280,604	314,147	353,306	397,473
Minority interest	8,849	8,541	14,203	13,300	13,800
Perpetual bond	0	0	0	0	0
Total equity	256,612	289,145	328,349	366,606	411,273

Key ratios

YE 31 Dec	FY18A	FY19A	FY20A	FY21E	FY22E
Sales mix (%)					
Property sales	97.4	97.3	97.3	96.7	96.8
Rental	2.1	2.3	2.2	2.4	2.4
Others	0.5	0.4	0.5	0.9	0.8
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	37.8	33.7	30.0	32.5	32.6
Pre-tax margin	35.2	32.0	35.1	31.8	31.6
Net margin	26.2	25.4	23.6	20.8	20.7
Effective tax rate	35.6	34.2	31.1	33.6	33.6
Balance sheet ratios					
Current ratio (x)	2.3	2.2	2.1	2.3	2.3
Receivable day	49.0	48.8	52.1	33.8	33.6
Payable day	140.5	146.8	167.4	118.7	112.8
Inventory day	1502.6	1422.3	1337.0	1294.6	1244.5
Net gearing ratio (%)	32.5	32.7	32.6	30.1	25.8
Returns (%)					
ROE	15.2	14.8	14.0	13.0	13.2
ROA	5.9	5.7	5.3	5.3	5.5
Per share data					
EPS (RMB)	3.44	3.80	4.01	4.20	4.78
DPS (HK\$)	0.90	1.02	1.18	1.45	1.65
BVPS (RMB)	22.61	25.61	28.67	32.25	36.28

Source: Company data, CMBIS estimates

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