

China Overseas Land Investment

(688.HK)

Interim Result Showed Stable Growth

HONG KONG | PROPERTY | COMPANY UPDATE

10 September 2015

Summary

- In 2015H1, benefiting from increased deliverable GFAs, the reported revenue of China Overseas Land (COLI) increased by 19.5% yoy to HKD64.9 billion while its core net profit increased by 20% yoy to HKD13.6 billion. Its gross margin was stable at 32%. In H1, revenue from property rental grew by 23% yoy to HKD920 million, mainly driven by increases in rents and occupancy rates. Profit from property rental reached HKD4.26 billion, which included the gain of HKD3.55 billion arising from changes in fair value of investment properties. The core profit of its rental business was HKD710 million, which increased by 16% yoy. Besides, revenue from other operations grew by 32% yoy to HKD1.38 billion, which was mainly generated from the property management business.
- In the first 7 months of 2015, contracted sales of COLI recorded an increase of 16.4% yoy to HKD95.9 billion. Contracted GFAs increased by 29.61% yoy to 6.57 million sq. m. We expect property sales to reach HKD1.1 billion in August, bringing cumulative sales value to HKD107 billion for the first 8 months, which will account for around 60% of its new sales target (HKD180 billion).
- In the coming 4 months, COLI needs to complete a sales target of HKD72 billion, which is equivalent to HKD18 billion per month. Given the traditional peak season of property sales from September to November and that the company has a strong project pipeline for sale, the sales performance of the company in the coming months is worth expecting.
- As of June, the bank balances and cash of COLI amounted to HKD78.6 billion, of which Hong Kong Dollar, Canadian Dollar and Renminbi accounted for 27%, 3.8% and 69% respectively. Interest bearing debts amounted to HKD103.7 billion, of which Hong Kong Dollar, US Dollar and Renminbi accounted for 32%, 46% and 19% respectively. Total net debts amounted to HKD23.1 billion and net gearing dropped from 28% in 2014 to 13.4%, due to more debt having matured in H1, higher cash collection from property sales and lower capex (In 2015H1, additional capex on land acquisitions of the company was just RMB8.3 billion, vs RMB24.5 billion in 2014H1).
- As for the impact of a devaluation in RMB on the fundamental aspects of the company, we expect that the negative impact to be smaller than market expected. Although the company has the largest foreign exchange exposure through its debts (its USD and HKD-denominated debts account for 81% of its total debts, which amount to HKD85 billion), considering the company is holding cash in foreign currency and with an asset size of over HKD50 billion, the actual translation loss of its foreign currency debt exposure is estimated to be around HKD30-50 billion. Besides, this belongs to a long-term foreign currency exposure and spot exposure is limited. As a result, under a scenario of RMB depreciating by 3% per year from 2015-2017, the impact of foreign exchange loss on earnings during the corresponding fiscal years will only be around 5%. Moreover, the dual funding platforms of COLI will also help reduce earnings volatility brought by changes in exchange rates.
- Amid the weak economy, it is quite exceptional for COLI to deliver a solid interim result. In H2, the positive catalysts of the fundamental aspects of the company include a smooth progress in property sales, sales target to be achieved earlier than expected, replenishment of its land bank at lower costs and refinancing of its foreign debts to reduce the negative impact from the devaluation of RMB. Overall speaking, we are cautiously optimistic about the macro environment and the domestic property market, although the overall valuations of the property stocks are already at a relatively low level. We grant a "Neutral" recommendation to COLI, with a 12-month target price of HKD20.8, which is equivalent to 6x and 5.4x of its prospective 2015/2016 PE. (Closing price as at 8 Sep, 2015)

Neutral (Update)

Closing Price: HKD 22.70

(Closing price as at 8 Sep, 2015)

Target Price: HKD 20.80 (-8.4%)

O/S SHARES (MN) :	9,861
MARKET CAP (HKD MN) :	223,835
Ent. Value (HKD MN) :	253,968
52 - WK HI/LO (HKD) :	34.05/19.80

SHARE HOLDING PATTERN, %

PROMOTERS :	56.02
NON PROMOTER CORP. HOLDINGS :	15.68
PUBLIC & OTHERS :	28.30

PRICE



Source: Phillip Capital Research

KEY FINANCIALS

HKD Mn	FY13	FY14	FY15E	FY16E
Revenue	82,469	119,997	137,720	175,815
Net Profit	26,822	39,238	44,290	58,273
EPS	2.37	2.92	3.51	3.86
P/E (X)	8.76	7.71	5.93	5.39
BVPS	13.46	16.31	20.38	23.36
P/B (X)	1.54	1.38	1.02	0.89
DPS	0.47	0.55	0.65	0.77
Div. Yield	2.26%	2.44%	3.13%	3.70%

Source: Phillip Capital Research Est.

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Financials

FYE	FY10	FY11	FY12	FY13	FY14	FY15F	FY16F
Valuation Ratios							
P/E (X), adj.	9.03	6.65	9.98	8.76	7.71	5.93	5.39
P/B (X)	2.03	1.43	2.14	1.54	1.38	1.02	0.89
Dividend Yield (%)	1.98%	2.63%	1.71%	2.26%	2.44%	3.13%	3.70%
Per share data (HKD)							
EPS, reported	1.51	1.89	2.29	2.37	2.92	3.51	3.86
EPS, adj.	1.51	1.89	2.29	2.37	2.92	3.51	3.86
DPS	0.27	0.33	0.39	0.47	0.55	0.65	0.77
BVPS	6.70	8.76	10.68	13.46	16.31	20.38	23.36
Growth & Margins (%)							
Growth							
Revenue	N.A.	15.84%	25.81%	27.70%	45.51%	14.77%	27.66%
Operating profit	N.A.	17.44%	21.51%	4.10%	48.59%	12.36%	31.80%
Net Income, adj.	N.A.	24.98%	21.07%	23.08%	20.12%	15.27%	19.27%
Margins							
Gross profit margin	41.97%	42.66%	41.82%	32.52%	32.70%	32.16%	33.14%
Operating margin	36.47%	36.97%	35.71%	29.11%	29.72%	29.10%	30.04%
Net profit margin	27.92%	30.13%	28.99%	27.94%	23.07%	23.17%	21.65%
Key Ratios							
ROE (%)	22.54%	21.58%	21.44%	20.21%	20.51%	19.68%	19.55%
ROA (%)	8.95%	9.14%	9.23%	7.22%	7.18%	7.71%	7.37%
Net Debt/(Cash)	13,766	23,614	18,733	31,022	36,559	35,402	42,251
Net Gearing (X)	23.74%	32.85%	20.50%	28.21%	27.35%	17.65%	18.28%
Income Statement (HKD mn)							
Revenue	44,313	51,332	64,580	82,469	119,997	137,720	175,815
Gross profit	18,599	21,899	27,006	26,822	39,238	44,290	58,273
Operating profit	16,160	18,978	23,060	24,005	35,668	40,077	52,822
EBT	20,567	23,765	29,422	33,288	43,667	46,394	56,559
Tax	(7,898)	(8,207)	(10,590)	(10,110)	(15,462)	(14,039)	(17,349)
Tax rate	38.40%	34.53%	35.99%	30.37%	35.41%	30.26%	30.67%
Profit for the year	12,669	15,558	18,832	23,178	28,205	32,355	39,210
Minority interests	296	94	110	135	525	447	1,152
Net profit	12,373	15,464	18,722	23,043	27,680	31,908	38,058

Source: BLOOMBERG, COLI and Phillip Securities

(Financial figures as at 8 September 2015)

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm 5\%$ from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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