

# China Overseas Land & Investment (688.HK)

## China Nationwide Property Developer

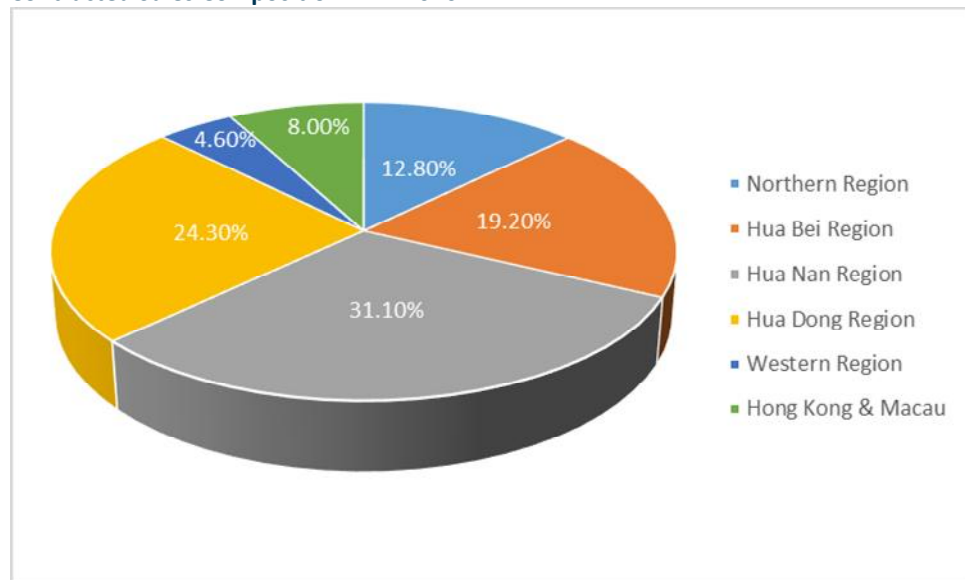
Hong Kong | Property | Company report

12 January 2017

### Property Development Portfolio Spans across China

China Overseas Land & Investment is a nationwide property developer in China. In general, China Overseas engages evenly in the developed regions of China, with a main focus on the development in cities in Hua Nan Region and Hua Dong Region, such as Shenzhen, Guangzhou and Shanghai. In 1H2016, the contracted sales in these two regions account for 55.4% of the total sales in terms of revenue. In particular, China Overseas can be distinguished from the typical mainland Chinese property developer by the fact that they have a long strategic presence of engaging in the Hong Kong property industry. In 1H2016, Hong Kong contributes to about 8% of the contracted sales in terms of revenue.

### Contracted Sales Composition in 1H2016



Source: Company Reports, Phillip Securities

In the Kai Tak Development programme, China Overseas has launched its first project in the programme in September 2016. The first phase of One Kai Tak was launched in September and the flats available were sold quickly. China Overseas acquired the land at a price of HKD5,427 and HKD4,913 per square foot in 2013. With the recent land acquisition by other companies in Kai Tak being priced at HKD13,500 per square foot, China Overseas is expected to benefit from that expensive land acquisition and is expected to have a larger pricing power in the latter phases of One Kai Tak project, which in Phase 1 the average price per square foot is about HKD14,900, after including all discount. The expected completion date of One Kai Tak is in the third quarter of 2017 and therefore the revenue associated with One Kai Tak is expected to be recognised in 2017 or later.

### Accumulate

CMP HKD22.00  
(Closing price at 10 Jan 2017)  
TARGET HKD24.40 (+10.91%)

### COMPANY DATA

O/S SHARES (MN) :	10,956
MARKET CAP (HKDMN) :	241,036
52 - WK HI/LO (HKD):	27.85 / 20.15

### SHARE HOLDING PATTERN , %

China Overseas Holdings Limited	61.18
CITIC Limited	11.11

### PRICE PERFORMANCE , %

	1M	3M	1Y
China Overseas	(1.79)	(12.18)	(4.14)
HSI	(0.51)	(5.28)	13.55

### PRICE VS. HSI



Source: Phillip Securities (HK) Research

### KEY FINANCIALS

HKD mn	FY14	FY15	FY16E	FY17E
Net Sales	138,505	148,074	163,732	170,305
Net Profit	27,751	34,051	37,661	38,725
EPS, HKD	3.3300	3.6100	3.4374	3.5345
PER, x	6.68	5.91	6.75	6.90
BVPS, HKD	16.3532	19.4266	22.2901	25.2345
P/BV, x	1.36	1.10	1.04	0.97
ROE, %	20.4	17.4	14.8	14.5

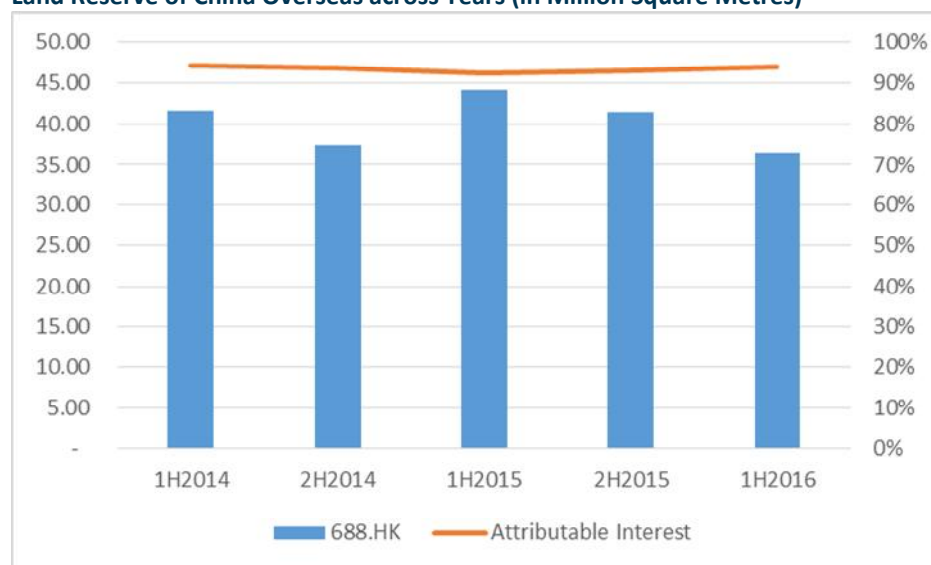
Source: Company reports, Phillip Securities Est.

John Wong (2277 6527)  
johnycwong@phillip.com.hk

## Huge Project and Land Reserve

During 1H2016, 48 properties, with a total GFA of 7,130,000 square metres were completed. There were 24 major construction projects, with a total GFA of 5,802,000 square metres, of which 2,326,000 square metres, or 40.1% of the major property's GFA contributed by Hua Nan Region and Hua Dong Region. China Overseas has a huge land reserve and regularly has over 35 million square metres of GFA across years. Up to November 2016, China Overseas has acquired land in Jinan, Hong Kong, Nanchang and Changchun, providing an additional GFA of 7.25 million square metres to the land reserve.

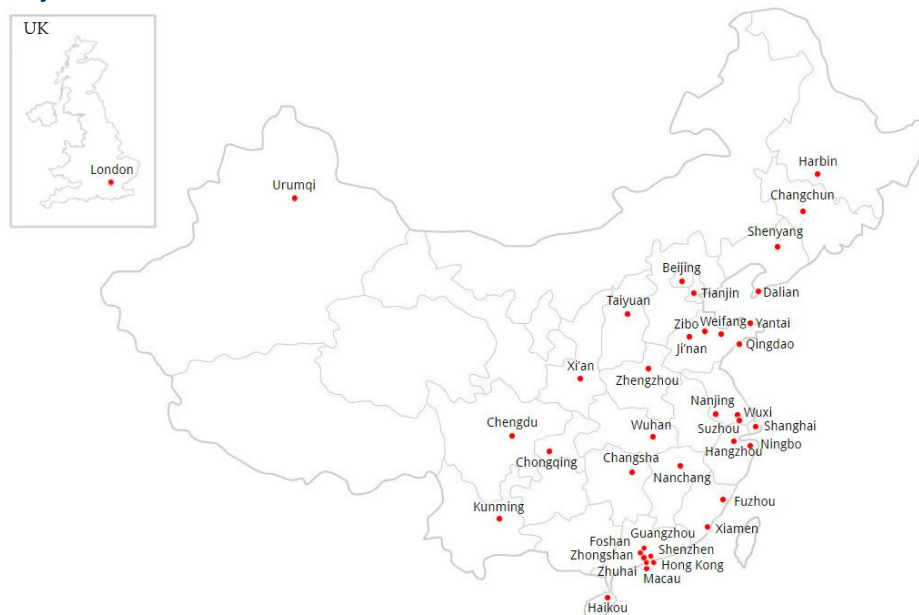
**Land Reserve of China Overseas across Years (in Million Square Metres)**



Source: Company Reports, Phillip Securities

The majority of the land and projects of China Overseas are located in the Eastern part of China.

## Project & Land Reserve of China Overseas



Source: China Overseas Land & Investment

China Overseas has also completed the acquisition of Citic Property in September 2016 and Citic Property could inject 30 million square metres of land resources into China Overseas. From this acquisition, we expect China Overseas to benefit from Citic Property’s land reserve, which is mainly located in the developed region such as Pearl Delta Region and Beijing, Tianjin Region. According to the 2015 annual report of Citic, the property segment of Citic is composed of the following land:

**Composition of Citic’s Land Reserve**



Source: Company Reports, Phillip Securities

Besides, China Overseas has an associate company called China Overseas Grand Oceans, which concentrates on the development projects in the Tier 3 Cities. Recently, Grand Oceans has acquired the Tier 3 Cities assets of China Overseas at a consideration of CNY3,516Mn. We expect China Overseas to continue to focus on Tier 1 and Tier 2 Cities and enjoy the higher profit margin and demand in these cities.

**Financial Overview**

Contracted sales of China Overseas has been strong for years and has risen from HKD112Bn in 2012 to HKD207Bn in 2016 Jan-Nov, a rise of 85% during the period. Recognised sales has risen significantly too, from HKD64.6Bn in 2012 to HKD140.1Bn in 2015.

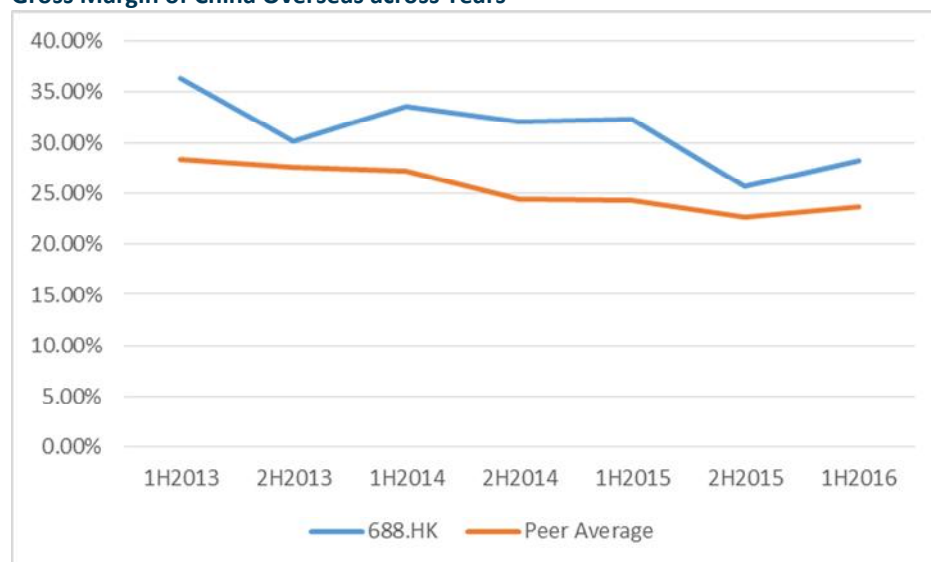
**Contracted Sales across Years**



Source: Company Reports, Phillip Securities

China Overseas has strong sales as well as profitability. Of the property developers of the same size and the same strategy, China Overseas has greater gross profit margin than the others have. This is probably due to China Overseas being concentrated on Tier 1 and Tier 2 City development and the Tier 3 City development, which generally has a lower profit margin, is left to its associate company, Grant Oceans, which only had a gross profit margin of 18.1% in 1H2016 and 15.6% in 2015.

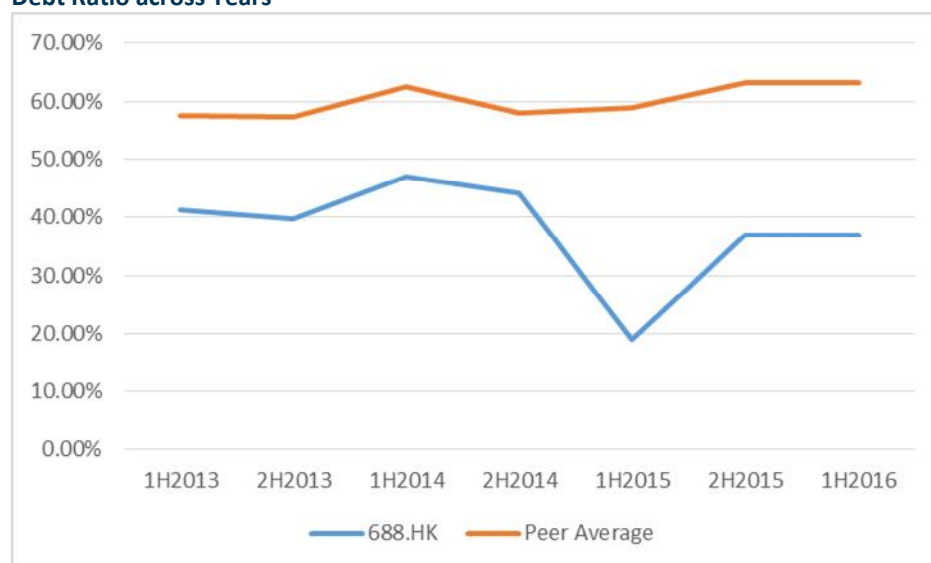
**Gross Margin of China Overseas across Years**



Source: Company Reports, Phillip Securities

Apart from profitability, China Overseas has better gearing ratio than its peers, with Total Debt to Total Capital ratio currently maintaining at around 36%. In comparison with the other nationwide property developers, which have a much higher debt ratio, with some having up to 80%, China Overseas clearly is at a better and much healthier position than its peers are.

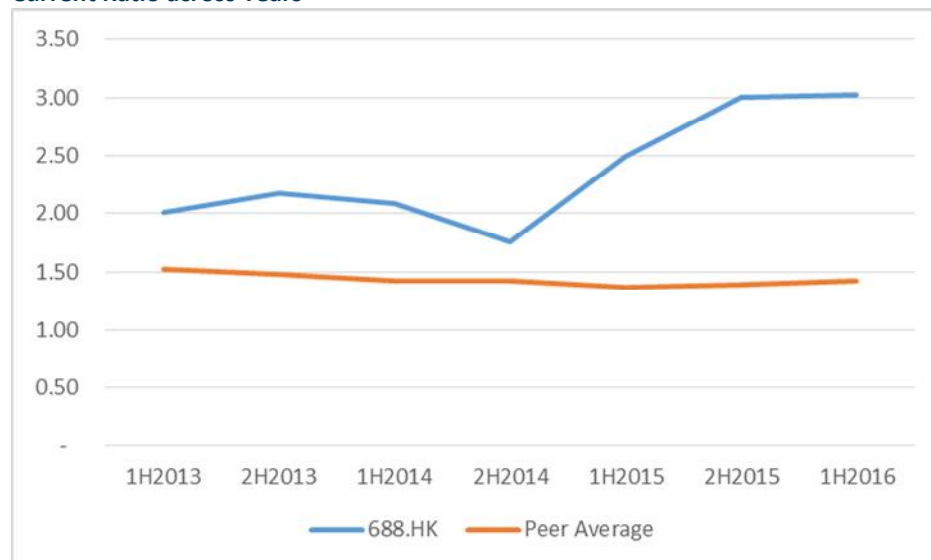
**Debt Ratio across Years**



Source: Company Reports, Phillip Securities

China Overseas also has much better liquidity than its peers, mainly caused by the realization of inventory of properties.

#### Current Ratio across Years

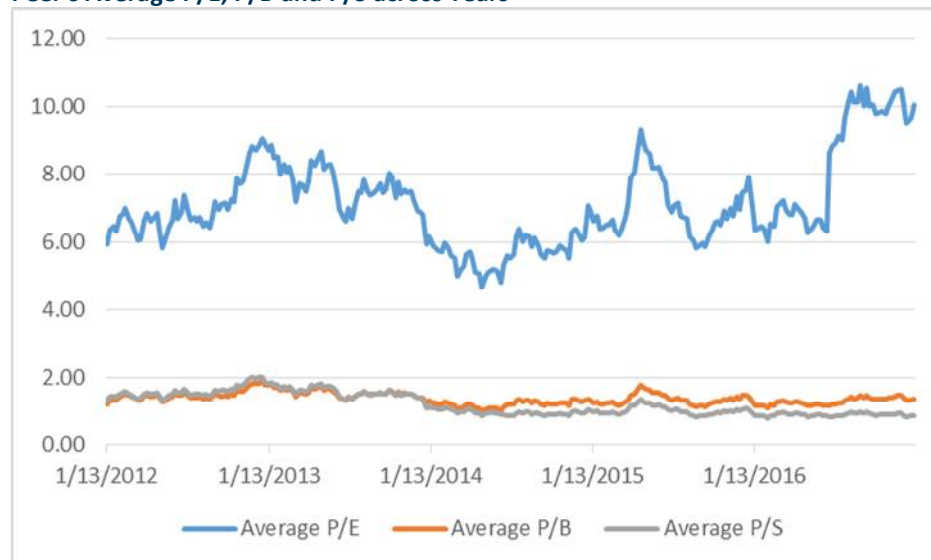


Source: Company Reports, Phillip Securities

## Valuation

The peer average P/E, P/B and P/S are 7.17x, 1.38x and 1.20x respectively. China Overseas's target price is therefore HKD24.40, with Accumulate rating assigned.

#### Peer's Average P/E, P/B and P/S across Years



Source: Bloomberg, Phillip Securities (HK) Research

## Risk

Tightening policy in the property market  
 Delay in construction

## Financials

FYE	2013	2014	2015	2016F	2017F
<b>Valuation Ratios</b>					
Price Earnings (P/E)	10.23	6.68	5.91	6.75	6.90
Price to Book (P/B)	2.14	1.36	1.10	1.04	0.97
<b>Per Share Data (HKD)</b>					
EPS	2.8200	3.3300	3.6100	3.4374	3.5345
Book Value Per Share	13.4560	16.3532	19.4266	22.2901	25.2345
Dividend Per Share	0.4700	0.5500	0.6100	0.5739	0.5901
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	27.7	67.9	6.9	10.6	4.0
Operating Income	5.8	47.1	7.9	15.1	4.0
Net Profit	23.1	19.7	22.7	10.6	2.8
<b>Margins</b>					
Gross Profit Margin	32.5	28.4	28.6	29.8	29.8
Operating Profit Margin	29.1	25.5	25.7	26.8	26.8
Net Profit Margin	28.1	20.0	23.0	23.7	23.7
<b>Key Ratios</b>					
ROE (%)	21.0	20.4	17.4	14.8	14.5
ROA (%)	7.8	6.6	7.8	8.0	7.7
<b>Income Statement (HKD Mn)</b>					
<b>Revenue</b>	82,469	138,505	148,074	163,732	170,305
- Cost of Goods Sold	(55,647)	(99,195)	(105,763)	(114,896)	(119,509)
<b>Gross Income</b>	26,822	39,310	42,311	48,836	50,796
- Operating Expenses	(2,817)	(3,990)	(4,213)	(4,990)	(5,190)
<b>Operating Income</b>	24,005	35,320	38,098	43,846	45,606
- Net Non-Operating Gain	9,284	9,004	10,725	12,091	11,911
<b>Pretax Income</b>	33,289	44,324	48,823	55,937	57,517
- Income Tax Expenses	(10,110)	(16,573)	(14,772)	(18,276)	(18,792)
<b>Net Profit</b>	23,179	27,751	34,051	37,661	38,725

Source: Company, Phillip Securities (HK) Research Estimates  
(Financial figures as at 10 Jan 2017)

**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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**Contact Information (Regional Member Companies)**

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**SINGAPORE**

**Phillip Securities Pte Ltd**  
Raffles City Tower  
250, North Bridge Road #06-00  
Singapore 179101  
Tel : (65) 6533 6001  
Fax : (65) 6535 6631  
Website: [www.poems.com.sg](http://www.poems.com.sg)

**HONG KONG**

**Phillip Securities (HK) Ltd**  
Exchange Participant of the Stock Exchange of Hong Kong  
11/F United Centre 95 Queensway  
Hong Kong  
Tel (852) 22776600  
Fax (852) 28685307  
Websites: [www.phillip.com.hk](http://www.phillip.com.hk)

**INDONESIA**

**PT Phillip Securities Indonesia**  
ANZ Tower Level 23B,  
JI Jend Sudirman Kav 33A  
Jakarta 10220 – Indonesia  
Tel (62-21) 57900800  
Fax (62-21) 57900809  
Website: [www.phillip.co.id](http://www.phillip.co.id)

**THAILAND**

**Phillip Securities (Thailand) Public Co. Ltd**  
15th Floor, Vorawat Building,  
849 Silom Road, Silom, Bangrak,  
Bangkok 10500 Thailand  
Tel (66-2) 6351700 / 22680999  
Fax (66-2) 22680921  
Website: [www.phillip.co.th](http://www.phillip.co.th)

**UNITED KINGDOM**

**King & Shaxson Capital Limited**  
6th Floor, Candlewick House,  
120 Cannon Street,  
London, EC4N 6AS  
Tel (44-20) 7426 5950  
Fax (44-20) 7626 1757  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**AUSTRALIA**

**PhillipCapital Australia**  
Level 12, 15 William Street,  
Melbourne, Victoria 3000, Australia  
Tel (613) 96188238  
Fax (613) 92002272  
Website: [www.phillipcapital.com.au](http://www.phillipcapital.com.au)

**MALAYSIA**

**Phillip Capital Management Sdn Bhd**  
B-3-6 Block B Level 3 Megan Avenue II,  
No. 12, Jalan Yap Kwan Seng, 50450  
Kuala Lumpur  
Tel (603) 21628841  
Fax (603) 21665099  
Website: [www.poems.com.my](http://www.poems.com.my)

**JAPAN**

**PhillipCapital Japan K.K.**  
Nagata-cho Bldg.,  
8F, 2-4-3 Nagata-cho,  
Chiyoda-ku, Tokyo 100-0014  
Tel (81-3) 35953631  
Fax (81-3) 35953630  
Website: [www.phillip.co.jp](http://www.phillip.co.jp)

**CHINA**

**Phillip Financial Advisory (Shanghai) Co. Ltd**  
No 436 Hengfeng Road,  
Greentech Unit 604,  
Postal code 200070  
Tel (86-21) 51699400  
Fax (86-21) 63532643  
Website: [www.phillip.com.cn](http://www.phillip.com.cn)

**FRANCE**

**King & Shaxson Capital Limited**  
3rd Floor, 35 Rue de la Bienfaisance 75008  
Paris France  
Tel (33-1) 45633100  
Fax (33-1) 45636017  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**UNITED STATES**

**Phillip Futures Inc**  
141 W Jackson Blvd Ste 3050  
The Chicago Board of Trade Building  
Chicago, IL 60604 USA  
Tel +1.312.356.9000  
Fax +1.312.356.9005