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HONG KONG RESEARCH
26th March, 2015

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CHINA OVERSEAS LAND & INVESTMENT LTD. (中國海外發展)

Sector	:	Real Estate
HKSE Code	:	00688
Market Price	:	HK$24.10 (26/03/2015)
HSI	:	24,497.08 (26/03/2015)
Shares Issued	:	8,174.0 million
Mkt. Cap.	:	HK$196,993 million
52 weeks Hi/ Lo	:	HK$26.70 /HK$17.66

Chairman	:	Hao Jian Min
Vice Chairman	:	Xiao Xiao

SUMMARY OF THE FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2014

Final Results Highlights

	2014 HK$ million	2013 HK$ million	*y-o-y Change*
• Turnover	119,997	82,469	*45.5%*
• Profit before tax	43,667	33,289	*31.2%*
• **Increase in fair value of investment properties**	5,169	3,438	*50.3%*
• Share of profits from associates and jointly controlled entities	1,599	3,773	*(57.6%)*
• Finance costs	(346)	(290)	*19.0%*
• **Profit attributable to shareholders**	**27,680**	**23,044**	***20.1%***
	HK$	HK$	
• Earnings per share – Basic	3.39	2.82	*20.2%*
• Dividend per share – Final	0.35	0.29	*20.7%*
• Dividend per share – Total	0.55	0.47	*17.0%*

- China Overseas Land & Investment ("COLI" or the "Group") posted a 20.1% year-on-year increase in net profit to HK$27.68 billion for the year ended 31st December 2014, which was above market consensus on higher-than-expected GFA (Gross Floor Area) of properties being booked. Stripping out the after-tax revaluation gains of HK$3.85 billion, the Group's core net earnings soared 25.6% year-on-year to HK$23.83 billion.

- Turnover jumped 45.5% to HK$120.0 billion from a year ago, with PRC property development business contributing for 93.7% of its total turnover. Gross profit margin slightly improved by 20 basis points from 32.5% in 2013 to 32.7% in 2014, as fewer affordable housing projects with lower gross margin were booked in 2014 compared to the previous year.

- As at 31st December 2014, its total attributable land bank amounted to 37.35 million sqm (+25.8% year-on-year), as the Group acquired 17 land parcels in China during the year, adding approximately GFA of 9.04 million sqm to its land reserve.

- Its net gearing ratio slipped from 37.2% as of June 2014 to 32.4% as of December 2014, thanks to a substantial increase in sales proceeds collection in 4Q14. As at 31st December 2014, its total cash balance amounted to HK$51.2 billion, an increase of 23.7% year-on-year.

- Earnings per share was HK$3.39 per share, an increase of 20.2% year-on-year. The Group declared a final dividend of HK$0.35 per share, up 20.7% from a year earlier. Together with its interim dividend of HK$0.20 per share (1H13: HK$0.18 per share), its full-year dividend climbed 17.0% year-on-year to HK$0.55 per share. Payout ratio slightly declined from 16.7% in 2013 to 16.2% in 2014.

Business Highlights

Segment turnover breakdown

(HK$ million)	**2014**	**%**	**2013**	**%**	***y-o-y Change***
Property Development	116,254	96.9%	78,615	95.3%	*47.9%*
Property Investment	1,185	1.0%	858	1.0%	*38.2%*
Other Operations *	2,558	2.1%	2,997	3.6%	*(14.6%)*
Segment total	**119,997**	**100.0%**	**82,469**	**100.0%**	*45.5%*

** Other operations including turnover from real estate agency and management services, construction and building design consultancy services*

Property development

- In 2014, COLI's contracted sales totalled HK$140.81 billion (+1.7% year-on-year), surpassing its annual sales target of HK$140 billion. Corresponding GFA sold was 9.4 million sqm, an increase of 1.8% year-on-year. From geographical perspective, contracted sales in China edged down by 0.9% year-on-year to HK$135.75 billion, while contracted sales in Hong Kong and Macau spiked 220.3% year-on-year to HK$5.06 billion.
- Turnover from China jumped 52.9% year-on-year to HK$112.46 billion, whereas turnover from Hong Kong and Macau tumbled by 25.4% year-on-year to HK$3.79 billion. Nevertheless, operating margin improved in both territories, with operating margin in China and Hong Kong & Macau expanding from 28.0% to 30.6% and 29.9% to 45.7%, respectively.

Property Investment

- Turnover from property rental marked solid growth of 38.2% year-on-year to HK$1,185 million, thanks to satisfactory occupancy performance and increased contributions from new investment properties completed during the year, including i) Jinan China Overseas Plaza, ii) Beijing China Overseas Building, iii) Chengdu China Overseas International Centre and iv) Shenyang China Overseas Plaza. Hence, the total GFA of its completed investment properties significantly increased by 90.0% year-on-year to 1.14 million square metres at the end of 2014.
- Segment profit (including share of profits of associates and jointly controlled entities) amounted to HK$6.03 billion (+43.6% year-on-year), which included a revaluation gain (after deferred tax) of its investment properties of HK$3.85 billion. Stripping out this non-recurring item, adjusted profit would have increased by 38.0% year-on-year to HK$2.18 billion.

Outlook & Prospects

- ***Announcement of asset injection from parent company***. Together with the release of its final results, COLI announced further details on the proposed asset injection from its parent company, China Overseas Holdings Ltd. ("COHL"). The projects to be injected will include 27 property projects in China (Beijing, Shanghai and other Tier 2-3 cities), as well as 3 office buildings in London. The total consideration is RMB33.817 billion, which will be financed by the issuance of 1.69 billion new shares of COLI at HK$25.38 per share, representing a premium of 10.8% to the closing price of 23rd March 2015 or a premium of 15.2% to its average closing price for the last ten consecutive trading days.

The proposed asset injection is viewed to be positive for the Group. The average gross margin of the injected projects is expected to be around 33% to 35%, similar to COLI's 2014 gross margin of 32.7%. Secondly, the injected projects has a total GFA of 10.9 million square metres, which is a boost to the Group's land bank (+29.2% to over 48 million square metres) as well as expands its geographical coverage. Thirdly, the Group's net gearing is expected to slip to around 25% due to a significant increase in its equity following the asset injection, which will provide ample financial resources for its future land acquisitions.

- ***Contracted sales target for 2015.*** Management aimed to achieve contracted sales of HK$168 billion for 2015, an increase of 19.3% year-on-year. Its sales target is reasonable, given i) its saleable resources of HK$250 billion which represented a sell-through rate of 67.2% (vs. 64% in 2014), as well as ii) policy relaxation and monetary easing in China which will be supportive for home purchase. During the first 2 months of 2015, COLI recorded contracted sales of HK$21.6 billion, representing 12.9% of its annual sales target. Further, the Group set an earnings growth target of 20% year-on-year this year.

- ***Expect a stable gross margin this year.*** Despite a downward trend of gross margin among its peers, Management anticipated a stable gross margin this year compared to that in 2014. A stable gross margin may be achievable, given that the Group has been reluctant to cut selling prices for the sake of sales growth as well as its strong execution capability.

- Valuation of COLI shares is undemanding, trading at 16.3% discount to 2015E NAV and 7.9x 2015E P/E, against its historical average of 8% discount and 13x P/E. We recommend "Buy" on the counter, in view of its healthy balance sheet, strong execution, as well as the removal of share overhang in respect of potential asset injection from its parent company. Downside risks include weaker-than-expected property sales and policy tightening.

Recommendation: Buy

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