

24 August 2018

**Hold**  
**Unchanged**

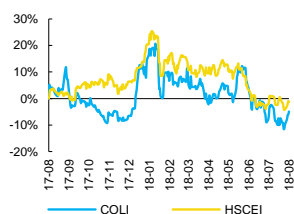
## 维持中海海外中性评级，增长目标提速遇市场转弱

### CHINA OVERSEAS LAND & INVESTMENT (00688 HK)

#### Market Data: Aug, 23

Closing Price (HK\$)	24.45
Price Target (HK\$)	26.85
HSCEI	10,815
HSCCI	4,211
52-week High/Low (HK\$)	32.20/22.50
Market Cap (USD Mn)	34,125
Market Cap (HK\$ Mn)	267,874
Shares Outstanding (Mn)	10,956
Exchange Rate (RMB-HK\$)	1.14

#### Price Performance Chart:



Source: Bloomberg

#### Analyst

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#### Related Reports

Sluggish performance, Apr27, 2018

Expanding uncertainty, Mar27, 2018

Reserve build-up, Mar8, 2018

#### Financial summary and valuation

	2016	2017	2018E	2019E	2020E
Revenue (HK\$m)	164,069	166,045	200,709	233,808	272,420
YOY (%)	-3%	1%	21%	16%	17%
Underlying Net income (HK\$m)	31,371	34,260	38,450	45,023	51,822
YOY (%)	9%	9%	12%	17%	15%
Net income (HK\$m)	37,021	40,767	44,983	51,621	58,487
EPS (HK\$)	3.64	3.72	4.11	4.71	5.34
Core EPS (HK\$)	3.08	3.13	3.51	4.11	4.73
ROE (%)	10.8%	14.0%	13.6%	14.0%	14.2%
Net Gearing (%)	7.3%	27%	24%	21%	18%
Dividend Yield (%)	3.1%	3.3%	3.6%	4.2%	4.8%
P/E (x)	7.9	7.8	7.0	5.9	5.2
P/B (x)	1.1	1.0	0.9	0.8	0.7

Core EPS is calculated as if all non-recurring items are excluded. P/E is calculated as closing price divided by each year's core EPS.

大型国有内地开发商中国海外发展公布 2018 年中期业绩，公司每股核心净利同比增长 14%至 1.75 港币，每股股息同比增长 14%至港币 40 仙。公司今年上半年核心净利超出我们预期值约 10 个百分点，主要受益于非并表联营和合营项目的贡献。公司毛利率从 2017 年上半年的 30.5%提升至 2018 年上半年的 35.8%。截止今年 6 月末，公司已售未结的 2300 亿港币锁定收入，对应毛利率在三成左右。公司净负债率维持在 27%的低位，同时平均融资成本仍处于 4.3%左右的低位。

中海海外上半年实现合约销售 1508 亿港币，同比增长 18%，公司表示维持全年合约销售目标增长 25%至 2900 亿港币不变，下半年同比增速会提高到三成以上。公司还透露，下半年可售货源高达 5000 亿港币，但其中逾千亿元新盘将在年尾推出，同时考虑到市场可能转冷，因此仅将下半年目标去化率定在低于三成（上半年去化率为 44%）。公司并表示，鉴于目前所在城市多数仍严格实行限价政策，不会一味追求销售规模，会在速度和利润之间寻求平衡。但鉴于继续大幅增长的新开工（1H18 继续增长 43%），明年会拥有足够货源支撑销售进一步增长，并对 2020 年实现 4000 亿港币充满信心。

在 15 年完成整合母公司中建的房地产资产以及 16 年完成中信集团房地产资产收购后，中海海外在 2017 年新的管理团队带领下，显著加大了公开市场购买力度，权益购地金额从 15/16 年的 345 亿/407 亿人民币跳升到 2017 年的 950 亿和今年上半年的 450 亿。相对今年全年 1100 亿人民币的购置目标，公司在上半年的购地仍略显谨慎，因看到二季度开始土地市场有走软迹象，希望等待下半年更好的窗口低位补地。公司目前总土地储备近 7000 万方，权益储备 5840 万方，主要位于一二线城市以及核心三线城市。三四线城市的拓展仍然通过旗下中海海外宏洋来进行。

中海海外这两年的销售增长慢于可比同业华润置地，且在毛利率上也略逊色（华润置地中期入账毛利率 48%），而投资物业从品牌、运营到规模亦未及后者。我们看到公司在新的管理团队带领下试图提高增速，且公司还于二季度末推出了覆盖 400 多名高管的股权激励计划（首期售出逾 1 亿股，占总股本 1%，认购价 25.85 港币，较目前市价高出约 6%），但在下半年房地产销售可能转弱的情况下，我们对公司合约销售的利润率和存货增长都有担心。我们维持公司 2018-20 年每股核心净利预测值不变，更新每股净资产值到 35.8 港币，考虑到整体的市场估值下行，将目标净资产值折价从 20%扩大到 25%，获得新的目标价 26.85 港币（相比原目标价为 28.0 港币），对应 18 年 1 倍 PB 和 7.7 倍 PE。鉴于上行空间不足 10%，我们维持中海海外中性评级。

The company does not hold any equities or derivatives of the listed company mentioned in this report ("target"), but then we shall provide financial advisory services subject to the relevant laws and regulations. Any affiliates of the company may hold equities of the target, which may exceed 1 percent of issued shares subject to the relevant laws and regulations. The company may also provide investment banking services to the target. The Company fulfills its duty of disclosure within its sphere of knowledge. The clients may contact compliance@swsresearch.com for relevant disclosure materials or log into www.swsresearch.com under disclosure column for further information. The clients shall have a comprehensive understanding of the disclosure and disclaimer upon the last page.

SOE developer China Overseas Land & Investment (COLI) reported 1H18 core EPS growth of 14% YoY to HK\$1.75, c.10% above our estimate, thanks mainly to contribution from non-consolidated projects, and a 14% YoY higher dividend at HK\$40 cents. Gross margin improved 5.3ppts YoY to 35.8%. Unbooked contract sales were HK\$230bn, at gross margin of c.30%. Net gearing ratio is largely stable at c.27%, while average borrowing cost remains low at c.4.3%. We maintain our EPS forecasts of HK\$4.11 in 18E (+10.5% YoY), HK\$4.71 in 19E (+14.6% YoY), and HK\$5.34 in 20E (+13.4% YoY). We lower our target price from HK\$28.00 to HK\$26.85. Maintain Hold.

**Contract sales.** The company achieved contract sales of HK\$150.8bn in 1H18 (+18% YoY) and maintained its full-year sales target of HK\$290bn (+25%YoY), requiring 30% YoY sales growth in 2H18. The company guided HK\$500bn in total sellable resources, of which over HK\$100bn new projects will be launched in 2H18, with sell-through ratio target of below 30% (vs 44% in 1H18) given the weakening market. Given sustained strict price-cap measures in higher-tier cities, the company aims to balance sales growth with profitability. Moreover, given the rapid growth in new-starts (+43% YoY in 1H18), which would translate into sufficient sellable resources for 2019, the company is confident it can achieve its sales target of HK\$400bn in 2020E.

**Land purchases.** After completing the acquisitions of assets from its parent in 2015 and from CITIC (267:HK – N-R) in 2016, COLI accelerated land replenishment under its new management team, with land cost attributable to the firm up from Rmb34.5bn in 2015, Rmb40.7bn in 2016 to Rmb95.0bn in 2017 and Rmb45.0bn in 1H18. Given the full-year land purchase target of Rmb110bn, the company remained cautious in 1H18, as the land market started to cool in 2Q18, waiting for better timing in 2H18. As of mid-2018, total land reserves reached 70msqm, of which 58.4msqm is attributable to the firm, mainly focused on tier-1&2 cities and key tier-3 cities, while market expansion in lower-tier cities was mainly conducted by acquired firm China Overseas Grand Oceans Group (81:HK – N-R).

**Maintain Hold.** In the past two years, COLI's sale growth was slower than comparable peer China Resources Land (1109:HK – O-PF), with lower gross margin (CR Land: 48% in 1H18), while its investment properties are not as good. We note the company is accelerating sales growth and also launched an incentive scheme (the first phase sold more than 1.0bn shares, accounting for 1% of total share capital, at a subscription price of HK\$25.85, a c.6% premium to current market price). However, we still remain cautious over margin pressure and rising inventory, given the weakening market outlook for 2H18. We maintain our core EPS forecasts, and raise our net asset value estimate from HK\$35.0 to HK\$35.8, but enlarge our target NAV discount from 20% to 25%, thus cut our target price from HK\$28.0 to HK\$26.85, implying 1.0x 18E PE and 7.7x 18E PB. With 9.8% upside, we maintain our Hold recommendation.

## Appendix: Company financials

Figure 1: Forecast Income Statement

HK\$m	2013A	2014A	2015A	2016A	2017A	2018E	2019E	2020E
<b>Revenue</b>	82,470	138,505	169,562	164,069	166,045	200,709	233,808	272,420
Property sales	78,615	134,022	163,559	159,891	162,140	196,609	229,502	267,899
Property rentals	857	1,643	2,013	2,137	2,450	2,573	2,701	2,836
Others	2,998	2,839	3,990	2,040	1,455	1,528	1,604	1,684
<b>Cost of Sales</b>	(55,647)	(99,195)	(123,442)	(118,425)	(111,345)	(136,231)	(159,781)	(187,437)
<b>Gross Profit</b>	26,823	39,310	46,120	45,643	54,700	64,479	74,027	84,982
<b>Revaluation gains</b>	<b>3,438</b>	<b>5,637</b>	<b>7,514</b>	<b>7,723</b>	<b>8,086</b>	<b>8,167</b>	<b>8,249</b>	<b>8,331</b>
<b>Other Income</b>	904	1,915	1,961	1,789	5,354	3,150	3,308	3,473
<b>Gains on assets disposal</b>		<b>736</b>	<b>909</b>	<b>9,301</b>	<b>533</b>			
Distribution expenses	(1,247)	(1,933)	(2,843)	(3,372)	(2,950)	(3,098)	(3,252)	(3,415)
Administrative expenses	(1,570)	(2,057)	(3,106)	(3,180)	(2,849)	(2,991)	(3,141)	(3,298)
<b>EBIT</b>	<b>28,348</b>	<b>43,607</b>	<b>50,555</b>	<b>57,905</b>	<b>62,874</b>	<b>69,707</b>	<b>79,190</b>	<b>90,073</b>
Other gains	<b>1,458</b>		<b>2,513</b>					
Jointly controlled entities	3,773	1,261	1,059	1,252	1,939	2,133	2,346	2,581
Finance Costs	(290)	(545)	(2,757)	(2,056)	(1,394)	(1,432)	(1,446)	(1,518)
<b>Profit before tax</b>	33,289	44,324	51,370	57,102	63,420	70,408	80,090	91,136
Tax expense	(10,110)	(16,573)	(15,954)	(18,711)	(21,277)	(23,912)	(26,805)	(30,818)
Inc tax	(5,618)	(9,416)	(9,575)	(9,507)	(11,508)	(14,082)	(16,018)	(18,227)
LAT	(4,003)	(6,828)	(5,013)	(7,776)	(9,434)	(9,830)	(10,787)	(12,591)
Deferred	(489)	(328)	(1,366)	(1,428)	(335)			
<b>Profit for the year</b>	<b>23,179</b>	<b>27,751</b>	<b>35,416</b>	<b>38,391</b>	<b>42,143</b>	<b>46,496</b>	<b>53,285</b>	<b>60,318</b>
Minority interests	(135)	(551)	(772)	(1,370)	(1,375)	(1,513)	(1,664)	(1,830)
<b>Profit attr to shareholders</b>	<b>23,044</b>	<b>27,200</b>	<b>34,644</b>	<b>37,021</b>	<b>40,767</b>	<b>44,983</b>	<b>51,621</b>	<b>58,487</b>
Dividends paid	(3,841)	(5,086)	(5,423)	(8,436)	(8,765)	(9,612)	(11,256)	(12,956)
Underlying net profit	20,176	22,910	28,894	31,371	34,260	38,450	45,023	51,822
Basic EPS	2.82	3.33	3.75	3.64	3.72	4.11	4.71	5.34
Diluted EPS	2.82	3.33	3.75	3.64	3.72	4.11	4.71	5.34
DPS	0.47	0.55	0.61	0.77	0.80	0.88	1.03	1.18
Underlying EPS	2.47	2.80	3.13	3.08	3.13	3.51	4.11	4.73

Source: Company data, SWS research

Figure 2: Forecast Balance Sheet

HK\$m	2013A	2014A	2015A	2016A	2017A	2018E	2019E	2020E
Investment property	32,532	54,921	64,057	67,093	97,377	101,377	105,377	109,377
PP&E	1,371	1,378	1,223	3,887	3,898	3,653	3,654	3,837
Interests in JV and associates	15,930	16,952	15,010	16,038	20,637	22,701	24,971	26,219
Others	5,474	5,256	5,396	9,358	21,702	21,556	22,487	23,611
<b>Non-current assets</b>	<b>55,307</b>	<b>78,506</b>	<b>85,686</b>	<b>96,376</b>	<b>143,614</b>	<b>149,287</b>	<b>156,489</b>	<b>163,044</b>
Properties under development	160,952	230,484	203,183	261,690	335,541	370,307	405,108	449,773
Pre-paid land premiums	19,835	15,124	4,493	7,631	24,306	29,220	34,625	36,356
Cash and cash equivalents	41,411	58,281	120,047	154,983	99,460	108,085	112,616	116,123
Restricted cash	533	1,567	1,873	2,178	4,590			
Receivable	2,431	8,450	11,203	11,341	14,300	15,730	17,303	18,168
Others	16,054	17,752	752	37,090	23,593	25,952	28,548	29,975
<b>Current assets</b>	<b>241,216</b>	<b>331,658</b>	<b>341,550</b>	<b>474,913</b>	<b>501,790</b>	<b>549,294</b>	<b>598,199</b>	<b>650,395</b>
<b>Total assets</b>	<b>296,523</b>	<b>410,163</b>	<b>427,237</b>	<b>571,289</b>	<b>645,404</b>	<b>698,581</b>	<b>754,688</b>	<b>813,439</b>
Share capital and premiums	817	19,634	62,434	90,420	90,420	90,420	90,420	90,420
Retained earnings	109,153	114,036	129,123	131,828	175,274	210,645	251,010	296,542
<b>Majority interests</b>	<b>109,970</b>	<b>133,670</b>	<b>191,558</b>	<b>222,248</b>	<b>265,694</b>	<b>301,065</b>	<b>341,430</b>	<b>386,962</b>
Minority interests	1,080	4,886	5,055	5,175	7,849	8,241	8,654	9,086
<b>Total equity</b>	<b>111,050</b>	<b>138,557</b>	<b>196,613</b>	<b>227,423</b>	<b>273,543</b>	<b>309,306</b>	<b>350,084</b>	<b>396,048</b>
Borrowings	36,709	26,639	41,986	61,773	90,256	95,856	98,357	100,859
Senior notes	32,688	48,177	66,200	71,761	57,558	57,558	57,558	57,558
Others	5,147	7,707	8,744	10,727	17,504	18,379	19,298	20,263
<b>Non-current liabilities</b>	<b>74,544</b>	<b>82,523</b>	<b>116,931</b>	<b>144,261</b>	<b>165,318</b>	<b>171,793</b>	<b>175,213</b>	<b>178,680</b>
Advanced sales proceeds	61,414	55,950	47,495	82,256	77,857	85,643	94,207	98,917
Payable	21,523	42,818	34,644	44,815	51,826	54,417	57,138	59,995
Borrowings	3,303	22,542	7,269	40,286	30,424	29,724	29,025	28,327
Tax payable	16,357	21,116	18,466	21,888	29,742	31,229	32,791	34,430
Others	8,332	46,657	5,819	10,359	16,694	16,468	16,230	17,042
<b>Current liabilities</b>	<b>110,929</b>	<b>189,084</b>	<b>113,693</b>	<b>199,604</b>	<b>206,543</b>	<b>217,481</b>	<b>229,391</b>	<b>238,711</b>
<b>Total liabilities</b>	<b>185,473</b>	<b>271,606</b>	<b>230,624</b>	<b>343,866</b>	<b>371,861</b>	<b>389,274</b>	<b>404,604</b>	<b>417,391</b>
<b>Total equity and liabilities</b>	<b>296,523</b>	<b>410,163</b>	<b>427,237</b>	<b>571,289</b>	<b>645,404</b>	<b>698,580</b>	<b>754,688</b>	<b>813,439</b>

Source: Company data, SWS research

**Figure 3: Forecast Cash Flow Statement**

HK\$m	2013A	2014A	2015A	2016A	2017A	2018E	2019E	2020E
Cash generated from/(used in) operations	(345)	8,016	59,988	75,577	(29,420)	27,400	29,600	31,080
Others	(9,741)	(12,264)	(17,240)	(15,038)	(12,617)	(15,140)	(17,411)	(18,282)
<b>Net cash generated from operating activities</b>	<b>(10,086)</b>	<b>(4,248)</b>	42,748	60,539	<b>(42,037)</b>	12,260	12,189	12,798
Acquisitions	(1,060)	(2,407)	(2,724)	(2,377)	(4,568)	(1,000)	(1,200)	(1,260)
Others		(2,061)	(413)	17,491	(3,511)	1,230	1,353	1,421
<b>Net cash generated from Investing activities</b>	<b>(1,060)</b>	<b>(4,468)</b>	<b>(3,137)</b>	15,114	<b>(8,079)</b>	230	153	161
Proceeds from issuance of shares			42,800					
Proceeds of senior notes issuance	13,913	24,658	33,818	(15,022)	(4,513)	4,900	1,802	1,804
Net borrowings	(3,351)	(3,841)	(5,763)	(8,193)	(9,153)	(8,765)	(9,612)	(11,256)
Others			(9,978)	(8,730)	(7,372)			
<b>Net cash generated from financing activities</b>			<b>(40,576)</b>	<b>(822)</b>	8,121			
<b>Increase in cash and cash equivalents</b>	130	<b>(4,875)</b>	<b>(4,604)</b>	374	<b>(222)</b>			
Cash and cash equivalents at beginning of year	10,692	15,942	15,697	(32,393)	(13,140)	(3,865)	(7,810)	(9,452)
Exchange losses on cash and cash equivalents	(454)	7,226	55,308	43,260	(63,256)	8,625	4,531	3,507
Cash and cash equivalents at end of the year	40,880	51,178	69,667	120,047	154,983	99,460	108,085	112,616

Source: Company data, SWS research

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When measuring the difference between the markup of the security and that of the market's benchmark within six months after the release of this report, we define the terms as follows:

Trading BUY: Share price performance is expected to generate more than 20% upside over a 6-month period.

BUY: Share price performance is expected to generate more than 20% upside over a 12-month period.

Outperform: Share price performance is expected to generate between 10-20% upside over a 12-month period.

Hold: Share price performance is expected to generate between 10% downside to 10% upside over a 12-month period.

Underperform: Share price performance is expected to generate between 10-20% downside over a 12-month period.

SELL: Share price performance is expected to generate more than 20% downside over a 12-month period.

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