

## Company Report

### COLI (688 HK)

#### Well positioned for market downcycle

■ COLI(Zhuhai) demonstrates the group's opportunistic land banking strategy and city complex model to weather the downcycle

■ Zhuhai, Zhongshan, Jiangmen property markets are affected by tightening policies; COLI responded with different strategies

■ COLI is one of our top BUY given its strong execution, premium brand and solid financials

#### City complexes help weather the downcycle

COLI hosted a reverse roadshow last week to visit two complexes in Zhuhai. Management has a cautious view towards the property market but is eyeing on more land banking opportunities and has highlighted its city complex model in weathering the market downcycle.

#### Market slowdown on tightening policies

COLI has launched Zhuhai Unipark P2 in Oct 2018, with satisfactory sell through of 63%. Management said Zhuhai market had peaked in 2016, slowed down since the tightening policies in Apr 2017, and has deteriorated further since Oct 2018, due to home purchase restrictions. It expects home price to correct moderately (expensive land bought in 2016-17 come into market) and sell through to stay at low level.

#### Flexibly switch between development and operation

COLI adopts a fast asset turnover strategy in Zhongshan and Jiangmen due to their weaker fundamentals. Yet, it remains opportunistic towards land banking, as land price is trending down. The Zhuhai regional company is flexible towards land banking (RMB30bn budget unused) or leaving the budget to other regions, as it can focus on the operation of the city complexes. We believe this is the beauty of having a diversified business model. To recall, COLI is the largest en-bloc office landlord in China and it expects its rental income to double by 2020E.

#### Well positioned for market downcycle

We believe COLI will be one of the best positioned developers to weather the market downcycle in the next 6-12 months, given its strong execution, premium brand and solid financial position. COLI is one of our top BUY. Our TP HK\$32 is based on 10% discount to NAV. Current valuation of 31% disc to NAV, 5.2x P/E is attractive. Key risks: RMB depreciation, economic recession, further tightening policies.

#### Financials

HK\$ mn	2016	2017	2018E	2019E	2020E
Revenue	158,717	163,972	215,247	268,441	323,421
Growth (%)	-1%	3%	31%	25%	20%
Core profit	31,371	34,260	41,995	51,434	59,725
Growth (%)	19%	9%	23%	22%	16%
Core EPS (RMB)	3.08	3.13	3.83	4.69	5.45
vs consensus (%)	-	-	4%	7%	6%
DPS (RMB)	0.77	0.80	1.07	1.31	1.53
P/E (x)	7.9	7.8	6.3	5.2	4.5
ROE (%)	15%	14%	15%	16%	17%

Sources: Company data, CMS (HK) estimates

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#### WHAT'S NEW

N/A

### BUY

Previous	BUY
Price	HK\$24.30
12-month Target Price (Potential up/downside)	HK\$32 (+32%)
Previous	HK\$32

#### Price Performance



Source: Bigdata

%	1m	6m	12m
688 HK	(1.3)	(7.2)	(5.9)
HSI	(6.7)	(16.8)	(9.2)

#### Sector: Property

Hang Seng Index	25561
HSCEI	10222

#### Key Data

52-week range (HK\$)	22.35-32.2
Market cap (HK\$ mn)	256923
Avg. daily volume (mn)	18.79
BVPS (HK\$)	25.18

#### Shareholding Structure

CHINA OVERSEAS HOLDINGS	55.99%
No. of shares outstanding (mn)	10956
Free float	44.01%

Sources: Bloomberg

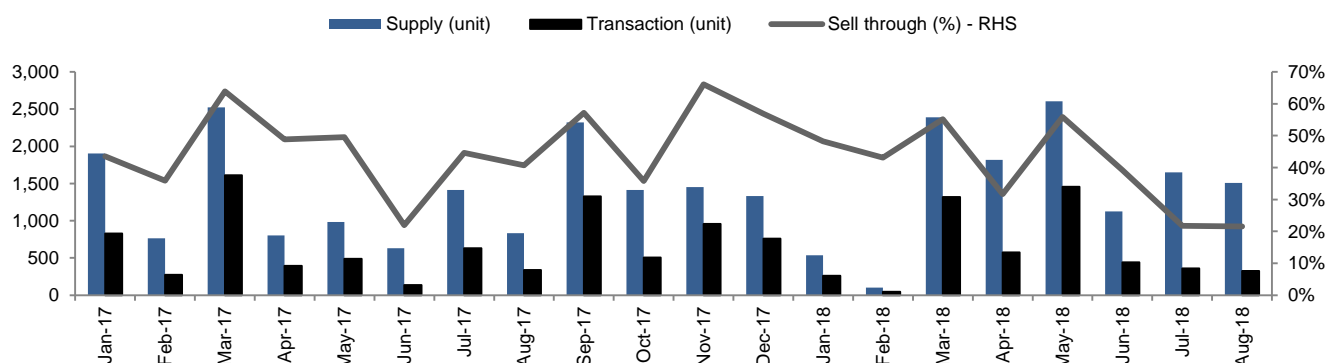
#### Related Research

1. COLI (688 HK) - Better and faster (BUY) 2018/08/23

## Well positioned for market downcycle

### Zhuhai market overview

Figure 1: Zhuhai market slowed down since 2017



Sources: Company data, CMS(HK)

Figure 2: Tightening policies in Zhuhai

Type	Content
Home purchase restriction	1. Whole city, both primary & secondary home 2. For local family: <=3 home; for non-local family: <= 1 home with 5-year social insurance or tax record
Downpayment requirement	1. >30% for people without mortgage <b>and</b> home; 2. For people have mortgage <b>or</b> already have 1 home: Ordinary residential: >40%, Non-ordinary residential > 60% 3. For people have mortgage <b>and</b> already have 1 home: Ordinary residential: >50%, Non-ordinary residential > 70% 4. Stop mortgage for people already have 2 home
Price cap	1. First launch: lower than the average contracted price of 3 similar projects within 4km in the last 6 months 2. Follow-up launches: lower than the average contracted price of this project in the last 6 months
Registration restriction	ASP of entire city capped at RMB20,500/sqm
Resale restriction	At least 3 years for person and company

Sources: Company data, CMS(HK)

### Zhuhai Unipark: seamlessly connected to Zhuhai station, Macao, Guangzhou

Zhuhai Unipark is a city complex under development with residential, mall, office and hotel. It is seamlessly connected to Zhuhai metro Qianshan station (one stop from Zhuhai railway station). The site was auctioned to COLI in 2007 and the development was delayed due to some planning issues between COLI and local government (resolved now). Also due to the delay, the land cost is considerably lower than the recent land cost in Zhuhai.

Phase 1 was launched and completed in 2010s. The sales proceeds have paid back a large part of the overall land cost (phase 1 and 2), implying a limited finance cost burden. The first batch of 176 units in Phase 2 has been approved for presale recently at ASP of RMB33,000/sqm, considerably higher than the district average RMB22,000/sqm. The batch has been launched in Oct 2018 and has recorded a sell through of 63%, which is considered satisfactory comparing other new launches in Zhuhai. Management explained the key dragger to Zhuhai market is the home purchase restriction. Currently, majority of the homebuyers are local residents or non-locals with businesses in Zhuhai. The commercial portion (hotel, mall, office) will be completed in May 2021.

Figure 3: Zhuhai Unipark is seamlessly connected to Zhuhai metro Qianshan station and ...



Sources: Fang.com, CMS(HK)

Figure 4: ... is planned to be a city complex with residential, mall and grade-A office



Sources: Fang.com, CMS(HK)

Figure 5: Zhuhai Unipark is a scalable city complex



Sources: CMS(HK)

Figure 6: COLI is well-known for its product quality



Sources: CMS(HK)

### Zhuhai midtown: the first city complex in Zhuhai

Zhuhai midtown is Zhuhai's first city complex. It consists of residential, retail, office and hotel with total GFA of 240,000 sqm. The residential portion (72,000 sqm) were sold out before 2014. The commercial portion (170,000 sqm) has been under full operation since May 15. The hotel is operated by Pullman, offering 268 hotel rooms. The retail portion consists of 15 blocks of street-facing retail shops. The office portion consists of two grade-A office buildings. Despite the inferior location, COLI successfully creates synergy within the complex, generating ~RMB300mn rental income, being one of the highest among Zhuhai complexes. The office is 95% occupied.



Figure 7: Zhuhai midtown consists of 2 grade-A office towers and retail shops



Sources: CMS(HK)

Figure 8: Zhuhai midtown is one of the best city complex in Zhuhai



Sources: Baidu, CMS(HK)

Figure 9: Peers comparison

Company	Ticker	Share Price (HK\$)	TP (HK\$)	Rating	Mkt Cap (US\$ m)	NAV (HK\$)	Disc to NAV (%)	Disc to Mkt NAV (%)	Upside (%)	P/E (x)			P/B (x)		Yield (%)		Net gearing	
										2017	2018E	2019E	2018E	2019E	2018E	2019E	2017	1H18
Vanke	2202 HK	23.80	36.0	BUY	36.2	40	41	49	51	8.0	6.4	5.2	1.5	1.2	5.7	6.9	9	33
Country Garden	2007 HK	8.35	13.0	BUY	23.2	15	45	64	56	7.0	4.7	3.7	1.2	1.0	8.2	10.5	57	59
Evergrande	3333 HK	19.88	36.0	BUY	33.3	42	53	46	81	8.3	5.6	4.3	1.6	1.3	15.5	11.6	184	127
COLI	688 HK	24.30	32.0	BUY	34.1	35	31	39	32	7.8	6.3	5.2	0.8	0.7	4.4	5.4	28	27
Sunac	1918 HK	21.15	36.0	BUY	11.9	45	53	65	70	17.8	6.9	4.1	1.5	1.1	3.6	6.1	257	232
Longfor	960 HK	17.40	28.0	BUY	13.2	31	44	55	61	9.0	7.1	5.6	1.1	1.0	5.6	7.1	48	55
CR Land	1109 HK	27.25	-	NR	24.2	-	-	39	-	9.9	7.3	6.4	1.2	1.0	5.3	6.2	43	47
Shimao Prop	813 HK	15.88	-	NR	6.7	-	-	57	-	6.7	5.0	3.9	0.7	0.6	7.7	9.8	61	63
Logan	3380 HK	7.64	-	NR	5.4	-	-	59	-	8.0	5.1	3.8	1.3	1.0	8.2	11.0	51	66
Guangzhou R&F	2777 HK	12.54	-	NR	5.2	-	-	65	-	4.6	3.4	2.8	0.5	0.5	11.7	14.1	189	187
Agile	3383 HK	8.90	-	NR	4.5	-	-	65	-	5.0	3.9	3.2	0.7	0.6	12.4	14.9	94	88
Jinmao	817 HK	3.35	-	NR	5.0	-	-	60	-	7.9	6.4	4.9	0.8	0.8	6.2	8.1	69	66
CIFI	884 HK	3.25	-	NR	3.2	-	-	69	-	4.9	3.8	3.1	0.8	0.7	9.3	11.9	49	72
Sino-Ocean	3377 HK	3.05	-	NR	3.0	-	-	74	-	4.9	4.0	3.3	0.4	0.4	10.6	12.9	66	77
Future Land	1030 HK	4.27	-	NR	3.2	-	-	73	-	6.8	4.3	3.1	1.2	0.9	8.4	10.9	117	155
KWG	1813 HK	5.70	-	NR	2.3	-	-	72	-	4.3	3.3	2.6	0.5	0.4	11.0	14.0	72	77
SZI	604 HK	2.27	-	NR	2.4	-	-	66	-	3.8	6.0	5.1	0.4	0.3	8.2	9.3	22	38
Greentown	3900 HK	5.50	-	NR	1.5	-	-	72	-	6.2	4.3	4.1	0.4	0.3	4.6	4.9	59	55
Yuzhou	1628 HK	2.79	-	NR	1.7	-	-	75	-	3.5	2.7	2.2	0.6	0.5	13.0	16.0	69	63
Times	1233 HK	6.73	-	NR	1.6	-	-	69	-	4.1	3.1	2.4	0.6	0.5	9.4	12.0	68	67
Aoyuan	3883 HK	4.73	-	NR	1.6	-	-	62	-	5.8	4.6	3.3	0.9	0.7	8.3	11.6	65	73
Ronshine	3301 HK	8.87	-	NR	1.8	-	-	65	-	-	4.0	2.7	0.9	0.7	4.5	6.8	165	140
China SCE	1966 HK	2.73	-	NR	1.3	-	-	72	-	4.4	3.1	2.5	0.6	0.5	9.2	12.0	81	69
Poly	119 HK	2.40	-	NR	1.1	-	-	70	-	5.7	2.9	2.9	0.2	0.2	10.6	10.2	72	85
CCRE	832 HK	2.98	-	NR	1.0	-	-	64	-	7.8	7.2	3.4	0.8	0.6	4.1	8.0	50	47
<b>Big 6</b>					<b>152.0</b>		<b>44</b>	<b>53</b>	<b>58</b>	<b>9.7</b>	<b>6.2</b>	<b>4.7</b>	<b>1.3</b>	<b>1.1</b>	<b>7.2</b>	<b>7.9</b>	<b>97</b>	<b>89</b>
<b>Small-mid cap</b>					<b>76.8</b>			<b>66</b>		<b>5.8</b>	<b>4.4</b>	<b>3.4</b>	<b>0.7</b>	<b>0.6</b>	<b>8.6</b>	<b>10.8</b>	<b>77</b>	<b>81</b>
<b>Overall</b>					<b>228.8</b>			<b>63</b>		<b>6.8</b>	<b>4.9</b>	<b>3.7</b>	<b>0.8</b>	<b>0.7</b>	<b>8.2</b>	<b>10.1</b>	<b>82</b>	<b>83</b>

Note: All information of non-rated stocks are sourced from Bloomberg; Sources: Bloomberg, Company data, CMS(HK); Share price as of 22 Oct 2018

## Financial Summary

### Profit & Loss Statement

RMB mn	2016	2017	2018E	2019E	2020E
<b>Revenues</b>	<b>158,717</b>	<b>163,972</b>	<b>215,247</b>	<b>268,441</b>	<b>323,421</b>
Cost of sales	-113,074	-109,272	-148,382	-187,045	-228,744
<b>Gross profit</b>	<b>45,643</b>	<b>54,700</b>	<b>66,865</b>	<b>81,397</b>	<b>94,678</b>
SG&A expenses	-6,551	-5,798	-7,611	-9,492	-11,436
Other operating income	11,091	5,886	5,886	6,181	6,799
<b>Operating profit</b>	<b>50,183</b>	<b>54,788</b>	<b>65,141</b>	<b>78,085</b>	<b>90,040</b>
Financial costs	-2,056	-1,394	-1,621	-1,817	-1,911
JV and associates	1,252	1,938	3,439	4,224	5,206
Others	0	0	0	0	0
<b>PBT</b>	<b>49,379</b>	<b>55,333</b>	<b>66,959</b>	<b>80,492</b>	<b>93,335</b>
Taxes	-16,780	-19,256	-22,494	-27,293	-31,492
<b>Profit after tax</b>	<b>32,599</b>	<b>36,077</b>	<b>44,464</b>	<b>53,199</b>	<b>61,843</b>
MI and Perpetuals	-1,228	-1,817	-2,469	-1,765	-2,118
<b>Core profit</b>	<b>31,371</b>	<b>34,260</b>	<b>41,995</b>	<b>51,434</b>	<b>59,725</b>
FV changes	5,650	6,507	0	0	0
One-offs	0	0	0	0	0
<b>Net profit</b>	<b>37,021</b>	<b>40,767</b>	<b>41,995</b>	<b>51,434</b>	<b>59,725</b>

### Balance Sheet

RMB mn	2016	2017	2018E	2019E	2020E
<b>Current assets</b>	<b>474,913</b>	<b>501,791</b>	<b>589,748</b>	<b>676,263</b>	<b>735,131</b>
Cash & equivalents	157,162	104,051	79,500	67,327	36,131
Trade receivables	18,239	21,541	24,401	27,833	31,951
Inventories	274,576	362,316	470,987	565,167	649,930
Other current assets	24,937	13,883	14,861	15,936	17,119
<b>Non-current assets</b>	<b>96,376</b>	<b>143,614</b>	<b>147,013</b>	<b>149,633</b>	<b>152,482</b>
Investment property	67,093	97,377	97,377	97,377	97,377
PP&E	4,454	4,473	4,863	5,292	5,764
JV and associates	16,038	20,637	22,701	23,836	25,028
Other non-current assets	8,790	21,126	22,071	23,128	24,313
<b>Total assets</b>	<b>571,289</b>	<b>645,405</b>	<b>736,760</b>	<b>825,897</b>	<b>887,613</b>
<b>Current liabilities</b>	<b>199,604</b>	<b>206,543</b>	<b>259,721</b>	<b>303,434</b>	<b>313,230</b>
Bank loans	40,286	30,424	35,424	40,424	45,424
Trade payables	127,071	129,684	171,769	203,474	200,211
Other liquid liabilities	32,247	46,435	52,529	59,537	67,596
<b>Long-term liabilities</b>	<b>144,261</b>	<b>165,319</b>	<b>171,689</b>	<b>178,197</b>	<b>184,855</b>
Loans	133,534	147,815	152,815	157,815	162,815
Others	10,727	17,504	18,875	20,382	22,040
<b>Total liabilities</b>	<b>343,866</b>	<b>371,861</b>	<b>431,411</b>	<b>481,631</b>	<b>498,085</b>
Issued capital	90,420	90,420	90,420	90,420	90,420
Reserves	131,828	175,274	205,510	242,543	285,545
<b>Shareholders' Equity</b>	<b>222,248</b>	<b>265,694</b>	<b>295,931</b>	<b>332,963</b>	<b>375,965</b>
MI and Perpetuals	5,175	7,849	9,419	11,303	13,563
<b>Total equity</b>	<b>227,423</b>	<b>273,543</b>	<b>305,350</b>	<b>344,266</b>	<b>389,528</b>
<b>BVPS (RMB)</b>	<b>20.3</b>	<b>24.3</b>	<b>27.0</b>	<b>30.4</b>	<b>34.3</b>
<b>NAV (HK\$)</b>			<b>35.0</b>		

Sources: Company data, CMS (HK) estimates

### Financial Ratios

	2016	2017	2018E	2019E	2020E
<b>YoY growth rate</b>					
Revenue	-1.0%	3.3%	31.3%	24.7%	20.5%
Gross profit	-1.0%	19.8%	22.2%	21.7%	16.3%
Core profit	19.0%	9.2%	22.6%	22.5%	16.1%
Core EPS	7.8%	1.5%	22.6%	22.5%	16.1%
DPS	26.2%	3.9%	34.2%	22.5%	16.1%
<b>Profitability</b>					
Gross margin	28.8%	33.4%	31.1%	30.3%	29.3%
Core margin	19.8%	20.9%	19.5%	19.2%	18.5%
ROE	14.5%	14.0%	15.0%	16.4%	16.8%
<b>Liquidity</b>					
Average borrowing cost	4.8%	4.3%	4.8%	5.1%	5.1%
Net debt to equity	7.3%	27.1%	35.6%	38.0%	44.2%
Current debt to cash	23%	17%	17%	17%	17%
FX debt to total debt	49%	50%	50%	50%	50%
<b>Operating efficiency</b>					
Asset turnover	0.3	0.3	0.3	0.3	0.4
Inventory turnover	0.8	0.7	0.7	0.7	0.7
AR turnover	1.3	1.3	1.4	1.4	1.6
<b>Per share</b>					
Core EPS (RMB)	3.08	3.13	3.83	4.69	5.45
DPS (RMB)	0.77	0.80	1.07	1.31	1.53
<b>Valuation ratios</b>					
Discount to NAV (%)				-31%	
P/E	7.9	7.8	6.3	5.2	4.5
P/B	1.2	1.0	0.9	0.8	0.7
Dividend yield (%)	3.2%	3.3%	4.4%	5.4%	6.3%
Dividend payout (%)	30.0%	30.0%	30.0%	30.0%	30.0%
<b>Cashflow Statement</b>					
RMB mn	2016	2017	2018E	2019E	2020E
<b>CF from operating activities</b>	<b>60,540</b>	<b>-42,037</b>	<b>-21,986</b>	<b>-7,686</b>	<b>-24,131</b>
Core profit	31,371	34,260	41,995	51,434	59,725
D&A	357	208	213	217	221
Working capital changes	35,480	-79,816	-75,482	-72,070	-98,809
Finance costs	-8,793	-7,593	-8,718	-9,773	-10,279
Tax	-15,038	-12,617	-13,675	-16,325	-18,879
Others	17,163	23,520	33,681	38,832	43,890
<b>CF from investing activities</b>	<b>15,114</b>	<b>-8,079</b>	<b>-2,490</b>	<b>-1,572</b>	<b>-1,648</b>
Capital expenditure	-276	-304	-334	-368	-404
Other investments	15,390	-7,776	-2,156	-1,204	-1,244
<b>CF from financing activities</b>	<b>-32,394</b>	<b>-13,141</b>	<b>-75</b>	<b>-2,915</b>	<b>-5,417</b>
Net borrowings	-15,023	-4,514	10,000	10,000	10,000
Share issuance	0	0	0	0	0
Dividends	-8,193	-9,154	-10,075	-12,915	-15,417
Others	-9,179	527	0	0	0
<b>Net cash flow</b>	<b>34,935</b>	<b>-55,523</b>	<b>-24,551</b>	<b>-12,172</b>	<b>-31,197</b>

## Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
NEUTRAL	Expect sector to perform in-line with the market over the next 12 months
UNDERWEIGHT	Expect sector to underperform the market over the next 12 months

Company Rating	Definition
BUY	Expect stock to generate 10%+ return over the next 12 months
NEUTRAL	Expect stock to generate +10% to -10% over the next 12 months
SELL	Expect stock to generate loss of 10%+ over the next 12 months

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