

## Company Report: China Overseas (00688 HK)

公司报告: 中国海外发展 (00688 HK)

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# Solid Fundamentals and Attractive Valuation, Maintain "Buy"

稳固基本面且估值吸引, 维持“买入”

- **The Company's contracted sales will grow steadily alongside increased market share under property sector consolidation.** The Company's land bank value is equivalent to over RMB1,000 bn. With low leverage ratios, the Company has abundant room to expand its business operations despite a tapering policy and monetary environment.
- **We expect leading profitability for COLI due to high quality land bank, proper unit land costs, exceptional operating cost control and healthy balance sheet.** The Company's land bank is mainly located in higher-tier cities. Gross margin is expected to remain at around 35.6% between 2018 and 2020, considering that unit land cost amounted to approximately RMB4,688 per sq.m., 28.9% of ASP during Jan.-Oct. 2018.
- 1H18 underlying net profit was in line with our expectation. Underlying net profit in 1H18 increased 4.4% YoY to HK\$20,875 mn. **We revise up 2018F, 2019F and 2020F underlying net profit slightly by 5.0%, 2.4% and 0.9% to HK\$50,006 mn, HK\$57,641 mn and HK\$65,293 mn, respectively.**
- Alongside solid fundamentals, the Company should still justify a low NAV discount. However, headwinds in 2019 sales and ASP for the property sector with RMB depreciation will deteriorate the Company's valuation somewhat. Thus, we revise down target price from HK\$35.24 to HK\$31.92, which represents an 8% discount to 2018E NAV of HK\$34.70 per share and implies 7.0x 2018 underlying PER and 1.1x 2018 PBR. **We maintain "Buy". Risks:** lower-than-expected contracted sales and further credit crunch.
- 公司合约销售将随着地产行业整合下的市场份额提高而稳定增长。公司土地价值相当于人民币 1 万亿元。基于低的杠杆比率, 尽管收紧的政策和货币环境, 公司有足够空间扩张商业运营。
- 因为高质量土储, 合适的单位土地成本, 突出的运营成本控制 and 健康的资产负债表, 我们预计中国海外发展领先的盈利能力。公司土储完全位于高线城市。考虑到单位土地成本为人民币 4,688 元每平米, 相当于 2018 年 1-10 月销售均价的 28.9%, 毛利率将在 2018 到 2020 年维持在 35.6% 左右。
- 2018 年上半年核心净利符合我们预期。核心净利同比上升 4.4% 到 208.75 亿港元。我们将 2018, 2019 以及 2020 年核心净利分别轻上调 5.0%, 2.4% 以及 0.9%, 达到 500.06 亿港元, 576.41 亿港元以及 652.93 亿港元。
- 基于稳固的基本面, 公司仍应该适用一个低的每股净资产折让。然而, 地产行业在销售和售价上的逆境以及人民币贬值将会使得公司估值有所走坏。因而, 我们将目标价从 35.24 港元下调至 31.92 港元, 相当于较 34.70 港元的 2018 年每股净资产估值有 8% 的折让, 也分别相当于 7.0 倍 2018 年核心市盈率 and 1.1 倍 2018 年市净率。我们维持“买入”。

**风险:** 低于预期的合约销售和进一步信贷收紧。

Rating:

**Buy**

Maintained

评级:

买入 (维持)

6-18m TP 目标价:

**HK\$31.92**

Revised from 原目标价:

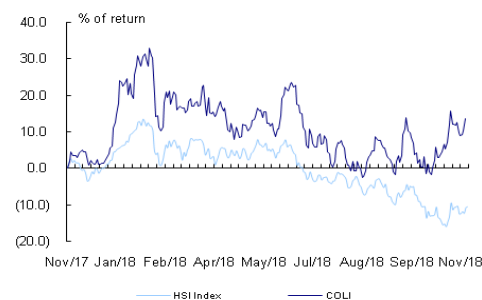
HK\$35.24

Share price 股价:

HK\$27.500

## Stock performance

股价表现



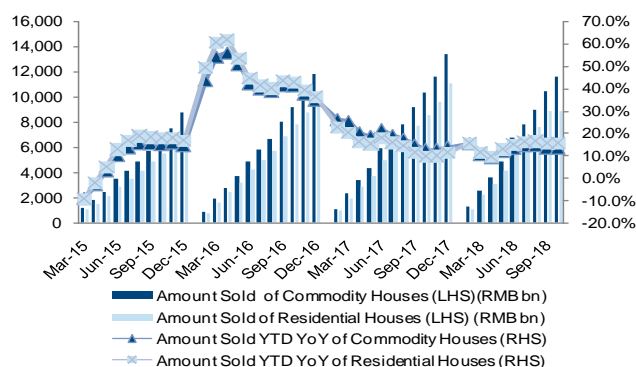
Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	17.3	18.5	15.3
Rel. % to HS Index 相对恒指变动 %	14.1	21.6	25.0
Avg. Share price(HK\$) 平均股价 (港元)	25.2	24.3	25.4

Source: Bloomberg, Guotai Junan International.

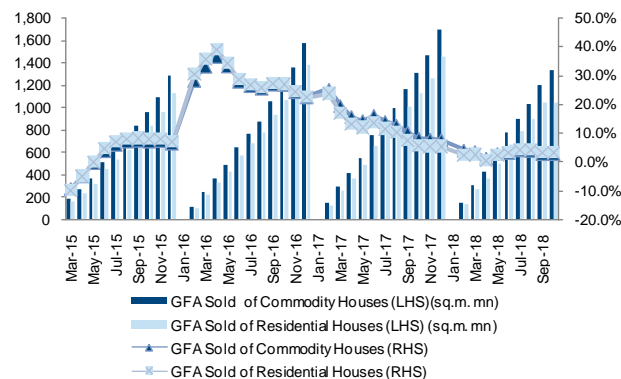
Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(HK\$ m)	(HK\$ m)	(HK\$)	(Δ %)	(x)	(HK\$)	(x)	(HK\$)	(%)	(%)
2016A	164,069	37,021	3.635	(3.2)	7.6	21.824	1.3	0.828	3.0	17.1
2017A	166,045	40,767	3.721	2.4	7.4	24.251	1.1	0.800	2.9	16.7
2018F	220,998	51,553	4.705	26.4	5.8	28.156	1.0	1.014	3.7	18.0
2019F	257,355	61,199	5.586	18.7	4.9	32.728	0.8	1.098	4.0	18.3
2020F	295,131	70,115	6.400	14.6	4.3	38.029	0.7	1.297	4.7	18.1
Shares in issue (m) 总股数 (m)				10,956.2	Major shareholder 大股东		China Overseas Holdings Limited 56.0%			
Market cap. (HK\$ m) 市值 (HK\$ m)				301,295.5	Free float (%) 自由流通比率 (%)		44.0			
3 month average vol. 3 个月平均成交股数 ('000)				16,982.0	FY18 Net gearing (%) FY18 净负债/股东资金 (%)		29.2			
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)				32.200 / 22.350	FY18 Est. NAV (HK\$) FY18 每股估值 (港元)		34.7			

Source: the Company, Guotai Junan International.

**Housing sales growth continued to decrease.** During Jan.-Oct. 2018, the YoY increase in commodity house sales decreased 0.8 ppts compared to that during Jan.-Sep. 2018. The YoY increase in investment fell slightly by 0.2 ppts. Moreover, land area sold recorded rapid YoY growth of 15.3% during Jan.-Oct. 2018 owing to increase in land supply by local governments. Sources of funds for real estate development enterprises recorded moderate YoY growth of 7.7%.

**Figure 1: Cumulative House Sales Amount in China**


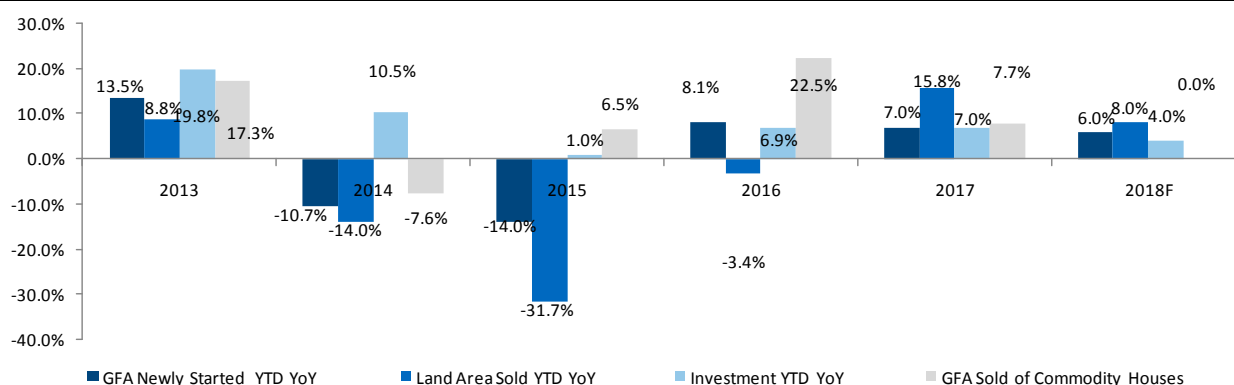
Source: National Bureau of Statistics of China, Guotai Junan International.

**Figure 2: Cumulative House Sales GFA in China**


Source: National Bureau of Statistics of China, Guotai Junan International.

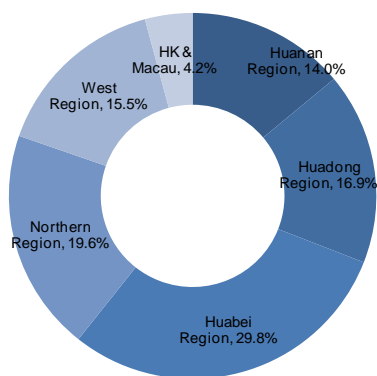
**Targeted and tightening policies will be maintained but monetary environment may be moderately loose.** Targeted policies will be maintained to promote the steady and sound development of the property sector. On 7 Oct. 2018, the PBOC announced RRR cuts. This implies that monetary policy may not follow rate hikes in the US. Overall, for the policy and monetary environment, the key note of healthy property market maintenance will not change.

**Commodity house sales will face headwinds in sales and investment in 2019 but policies should ease if falling sales damage the economy.** Sales and investment in 2019 is expected to be lower riding on tightening external environment with high base in 2018. However, urbanization and demand from housing replacement will support housing demand in 2018-2020. Moreover, if the property market starts to slump dramatically, the policy and credit environment related to the property sector should loosen again to stabilize the property market as per the last round of policy easing which started on 30 Sep. 2014.

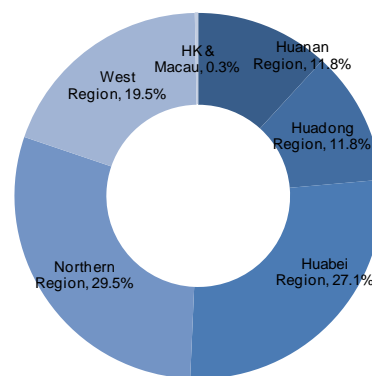
**Figure 3: Key Property Development and Sales Data**


Source: National Bureau of Statistics of China, Guotai Junan International.

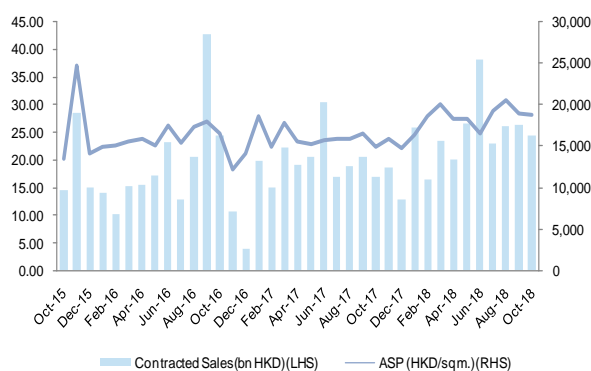
**We expect contracted sales for China Overseas ("COLI") to steadily grow after 2019.** During Jan.-Oct. 2018, contracted sales amounted to HK\$250.897 bn, up 25.1% YoY, achieving 86.5% of the Company's 2018 sales target. The Company is on track to achieve its sales target in 2018 riding on sufficient saleable resources. Cash collections rate fell from 98.1% in 2017 to 88.9% in 1H18, but is still at a high level. The Company's land bank value is equivalent to over RMB1,000 bn. With low leverage ratios as at the end of 1H18, the Company has abundant room to leverage its business operations despite a tapering policy and monetary environment. This could launch sufficient saleable resources after 2019. As one of the property leaders with a quality brand and favorable pipeline, we think the Company's contracted sales could increase alongside market share increasing under property sector consolidation.

**Figure 4: COLI's Contracted Sales Amount Breakdown in 1H18**


Source: The Company, Guotai Junan International.

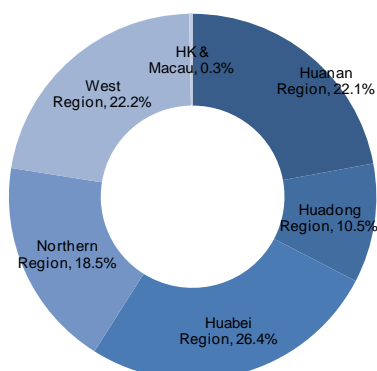
**Figure 5: COLI's Contracted Sales GFA Breakdown in 1H18**


Source: The Company, Guotai Junan International.

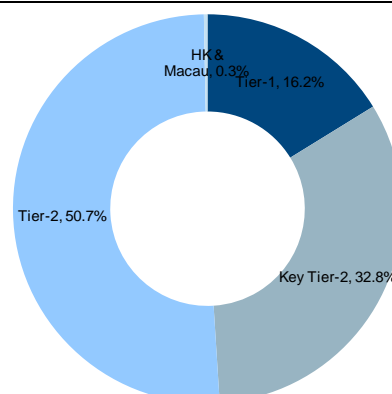
**Figure 6: COLI's Contracted Sales**


Source: The Company, Guotai Junan International.

**High quality land bank expansion will support COLI's growth with stable gross margins.** As at 30 Jun. 2018, the Company had total land reserves of 87.36 mn sq.m. (vs. 63.75 mn sq.m. as at 31 Dec. 2017) and total attributable GFA of 67.48 mn sq.m. (vs. 53.78 mn sq.m. as at 31 Dec. 2017). The Company's land bank is mostly located in higher-tier cities. In addition, unit land cost amounted to approximately RMB4,688, 28.9% of ASP during Jan.-Oct. 2018. During the same period, COLI spent RMB74.639 bn towards land replenishment activities, representing 7.8% YoY decrease. Total land reserves replenished during the same period amounted to 13,991,778 sq.m. and average land costs amounted to RMB5,787.4 per sq.m. Meanwhile, with its SOE background and strong capital strength, the Company continued to diversify its land acquisition channel, including M&A activity, cooperation, primary and secondary linked development, shanty town redevelopment and urban renewal. Diversified land acquisition initiatives could help the Company to maintain its unit land cost at a proper level. In addition, the Company could achieve higher probability of replenishing land parcels with proper costs when the property market cools down. Therefore, we expect gross margins to remain stable.

**Figure 7: COLI's Land Bank Breakdown by Region During 1H18**


Source: Bloomberg, Guotai Junan International.

**Figure 8: COLI's Land Bank Breakdown by City Tier During 1H18**


Source: Bloomberg, Guotai Junan International.

**Exceptional presentation in operating cost controls with a healthy balance sheet will enhance its profitability.** In 1H18, SG&A of contracted sales was only 1.8%. In the same period, the weighted average funding cost maintained a low level at 4.3%, which was sharply lower than the Company's average funding cost of HK-listed property peers of 8.1%. As the Company has a stable business model, the Company is expected to maintain prominent cost control measures, which will consolidate its profitability. COLI also exhibited a strong balance sheet as its net gearing ratio remained at low levels; 28.1% at the end of 1H18. The Company's strong balance sheet reinforces its ability to access financial resources. Strong capital strength supports the Company's diversified land replenishment initiatives with relative low costs amidst market concentration, which will also enforce profitability and support scale enlargement.

**1H18 underlying net profit was in line with our expectation.** The Company's top line slightly increased by 1.6% YoY to HK\$88,601 mn in the fast half of 2018. Riding on less GFA delivered, the top line in 2018 was lower than our expectations. However, gross profit amounted to HK\$31,701 mn, up 19.8% YoY riding on a 5.3 ppt YoY increase in gross margin. With more LAT payments, net profit increased 7.2% YoY to HK\$23,219 mn, which was in line with our expectation. If we exclude after-tax fair value gains on IPs, gains on disposal of subsidiaries and exchange losses, underlying net profit increased 4.4% YoY to HK\$20,872 mn, also in line with our expectation. Underlying net profit margin increased slightly by 0.6 ppts YoY to 23.0%. As at 30 Jun. 2018, net gearing ratio increased to 28.1% on the grounds of decreasing sale-through rate and cash collection ratio. Cash balance increased 23.0% YoY to HK\$127,931 mn. We still think that the Company remains in a healthy financial position.

**Table 1: Comparison of the Company's Income Statement in 1H17 and 1H18**

HK\$ mn	1H17	1H18	Change
Total revenue	87,199	88,601	1.6%
Gross profit	26,595	31,701	19.2%
GPM	30.5%	35.8%	5.3 ppts
NP	21,654	23,219	7.2%
Underlying NP	20,002	20,875	4.4%
NPM	24.8%	26.2%	1.4 ppts
Underlying NPM	22.9%	23.6%	0.6 ppts
DPS (HK\$ cent)	35.0	40.0	14.3%
Underlying EPS (HK\$ cent)	182.6	190.5	4.4%
ROE	9.7%	8.9%	-0.8 ppts

Source: the Company, Guotai Junan International.

**Table 2: Comparison of the Company's Balance Sheet in 2017 and 1H18**

HK\$ mn	2017	1H18	Change
Cash and cash equivalents	104,051	127,931	23.0%
Total asset	645,405	715,842	10.9%
Stock of properties	335,542	361,508	7.7%
Total Debt	178,238	205,448	15.3%
Shareholders' equity	265,694	275,879	3.8%
Net gearing ratio	27.1%	28.1%	1.0 ppts

Source: the Company, Guotai Junan International.

**We mildly adjust underlying profit estimations.** We expect that COLI's contracted sales growth will maintain stable growth momentum from 2019. GFA delivered in 1H18 was lower than our previous expectations. We revise down 2018F, 2019F and 2020F total revenue by 7.4%, 9.1% and 10.3% to HK\$220,998 mn, HK\$257,355 mn and HK\$295,131 mn, respectively. The Company still holds a quality land bank with proper unit land costs. We expect that gross margins in 2018F, 2019 and 2020F will remain steady. Gross margin in 1H18 was higher than our previous assumptions; we therefore revise up gross margin in 2018F, 2019F and 2020F. In short, considering higher LAT, we revise up 2018F, 2019F and 2020F underlying net profit slightly by 5.0%, 2.4% and 0.9% to HK\$50,006 mn, HK\$57,641 mn and HK\$65,293 mn, respectively. Net gearing ratio in 2018 was lower than our previous assumptions, therefore we revise down net gearing ratio in 2018. However, along with more saleable resources launching but lower sale-through rate, we expect that net gearing ratios should be higher than our previous assumptions. We revise up net gearing ratios in 2019F and 2020F by 4.3 ppts and 8.9 ppts, respectively.

**Table 3: Revisions to 2018-2020 Profit Estimations**

HK\$ mn	New estimation			Old estimation			Change		
	2018F	2019F	2020F	2018F	2019F	2020F	2018F	2019F	2020F
Total revenue	220,998	257,355	295,131	238,610	283,126	328,921	-7.4%	-9.1%	-10.3%
Gross profit	80,258	91,601	104,120	72,744	85,688	98,890	10.3%	6.9%	5.3%
Operating profit	83,141	96,407	110,258	76,055	91,691	106,495	9.3%	5.1%	3.5%
Net profit	51,553	61,199	70,115	49,864	60,671	70,487	3.4%	0.9%	-0.5%
Underlying profit	50,006	57,641	65,293	47,624	56,300	64,704	5.0%	2.4%	0.9%
Underlying EPS (HK\$)	4.564	5.261	5.959	4.347	5.139	5.906	5.0%	2.4%	0.9%
Gross margin	36.3%	35.6%	35.3%	30.5%	30.3%	30.1%	5.8 ppts	5.3 ppts	5.2 ppts
Operating profit margin	37.6%	37.5%	37.4%	31.9%	32.4%	32.4%	5.7 ppts	5.1 ppts	5.0 ppts
Net profit margin	23.3%	23.8%	23.8%	20.9%	21.4%	21.4%	2.4 ppts	2.4 ppts	2.4 ppts
Underlying net profit margin	22.6%	22.4%	22.1%	20.0%	19.9%	19.7%	2.6 ppts	2.5 ppts	2.4 ppts
ROE	18.0%	18.3%	18.1%	17.4%	18.3%	18.3%	0.6 ppts	0.0 ppts	-0.2 ppts
ROCE	21.9%	21.3%	21.1%	19.5%	20.3%	21.7%	2.4 ppts	1.0 ppts	-0.6 ppts
ROA	10.4%	10.5%	10.5%	9.7%	9.7%	9.7%	0.7 ppts	0.8 ppts	0.8 ppts
Net gearing ratio	29.2%	33.0%	27.2%	36.4%	28.7%	18.3%	-7.2 ppts	4.3 ppts	8.9 ppts

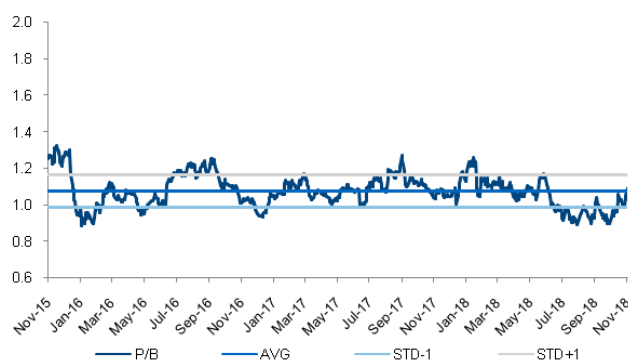
Source: Guotai Junan International.

**We trim TP down but maintain "Buy".** The Company's contracted sales will maintain stable growth momentum after 2018 due to sufficient saleable resources. Gross margin is likely to remain at around 35.6% riding on COLI's dominant land cost control measures. A strong balance sheet and exceptional operating cost control measures could consolidate profitability. The Company therefore should still justify a low NAV discount. However, headwind in 2019 sales and ASP for the property sector with RMB depreciation will deteriorate the Company's valuation somewhat. Thus, we conservatively revise down the target price from HK\$35.24 to HK\$31.92, which represents an 8% discount to 2018E NAV of HK\$34.70 per share and implies 7.0x 2018 underlying PER and 1.1x 2018 PBR. We maintain "Buy". Risk factors: home sales are lower than expected and further monetary crunch.

**Table 4: Breakdown of COLI's 2018 NAV**

	NAV/share			
	(HK\$ m)	(HK\$)	% of NAV	% of GAV
Development Properties	320,792	29.28	84.4%	67.8%
Investment Property	152,312	13.90	40.1%	32.2%
Gross Asset Value	473,104	43.18	124.4%	100.0%
Net Debt	-92,924	(8.48)	-24.4%	
NAV	380,180	34.70	100.0%	
NAV/Share	34.70			

Source: the Company, Guotai Junan International.

**Figure 9: COLI's 3-Year Historical P/B**


Source: Bloomberg, Guotai Junan International.

**Figure 10: COLI's 3-Year Historical P/E**


Source: Bloomberg, Guotai Junan International.

**Table 5: Peers Comparison**

Company	Stock Code	Mkt Cap (HK\$ m)	Last Price HK\$	PE			PB			D/Y%	ROE	EVEBITDA
				2018F	2019F	2020F	2018F	2019F	2020F			
HK listed large developers with major revenue from mainland												
China Overseas Land &	00688 HK		27.500	7.4	6.3	5.4	1.0	0.9	0.8	3.4	14.5	3.4
China Evergrande	03333 HK		20.000	5.3	4.5	4.2	1.6	1.4	1.2	12.7	33.5	12.7
China Resources Land	01109 HK		29.800	8.3	7.1	6.2	1.3	1.2	1.1	4.0	16.9	4.0
Country Garden	02007 HK		9.380	5.2	4.0	3.4	1.5	1.2	0.9	6.6	31.4	6.6
Longfor Group Holdings	00960 HK		21.700	8.8	7.1	5.7	1.4	1.2	1.2	4.6	17.9	4.6
China Vanke Co Ltd-H	02202 HK		28.000	7.8	6.4	5.7	1.8	1.5	1.3	4.6	23.9	4.6
Sunac China Holdings	01918 HK		25.050	7.1	4.5	3.5	1.8	1.4	1.0	3.3	24.0	3.3
Agile Group Holdings	03383 HK		10.000	4.5	3.8	3.2	0.8	0.7	0.6	10.6	18.1	10.6
Shimao Property	00813 HK		18.500	6.0	4.7	3.9	0.8	0.7	0.7	6.5	14.5	6.5
Guangzhou R&F	02777 HK		11.980	3.3	2.8	2.4	0.5	0.5	0.4	11.9	15.7	11.9
Bbmj Corp-H	02009 HK		2.620	5.4	5.4	5.5	0.4	0.4	0.4	3.5	8.3	3.5
Sino-Ocean Group	03377 HK		3.430	4.6	3.8	3.0	0.4	0.4	0.4	9.1	9.8	9.1
China Jinmao Holdings	00817 HK		3.640	7.1	5.5	4.6	1.0	0.9	0.8	5.6	13.3	5.6
Hopson Development	00754 HK		6.430	7.1	6.9	6.2	n.a.	n.a.	n.a.	4.2	n.a.	4.2
Zhenro Properties	06158 HK		4.900	7.1	4.9	3.7	1.2	0.9	0.7	n.a.	20.0	n.a.
Kwg Group Holdings Ltd	01813 HK		6.510	3.9	3.1	2.5	0.6	0.5	0.5	9.3	15.4	9.3
Yuexiu Property Co Ltd	00123 HK		1.400	5.8	5.3	4.9	0.5	0.4	0.4	6.4	7.2	6.4
Shenzhen Investment	00604 HK		2.550	7.8	6.7	6.5	0.5	0.4	0.4	6.3	6.1	6.3
Yuexiu Real Estate	00405 HK		4.930	n.a.	n.a.	n.a.	0.9	1.0	1.0	6.8	4.7	6.8
Yuzhou Properties Co	01628 HK		3.240	3.3	2.7	2.2	0.7	0.6	0.5	10.9	21.5	10.9
Greentown China	03900 HK		6.160	4.8	4.4	4.4	0.4	0.4	0.3	4.1	7.4	4.1
China Aoyuan Property	03883 HK		4.910	4.9	3.5	2.7	1.0	0.8	0.6	7.7	21.9	7.7
Soho China Ltd	00410 HK		3.080	37.4	32.1	28.7	0.4	0.4	0.4	3.7	1.2	3.7
Median				5.9	4.8	4.3	0.9	0.8	0.6	6.4	15.5	6.4
Simple Average				7.4	6.2	5.4	0.9	0.8	0.7	6.6	15.8	6.6
Weighted Average				7.0	5.7	5.0	1.3	1.1	1.0	6.1	21.1	6.1
HK listed mid-small developers with major revenue from												
China Overseas Grand	00081 HK		2.730	4.7	3.7	3.1	0.4	0.4	0.4	2.6	11.0	2.6
Poly Property Group Co	00119 HK		2.590	3.7	3.3	3.1	0.3	0.3	0.3	8.0	8.9	8.0
Shanghai Industrial	00563 HK		1.380	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Modern Land China Co	01107 HK		1.040	4.0	2.7	2.3	0.5	0.4	0.4	6.5	10.5	6.5
Powerlong Real Estate	01238 HK		3.140	2.8	2.3	1.9	0.4	0.3	0.3	8.6	20.8	8.6
C C Land Holdings Ltd	01224 HK		1.880	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Fantasia Holdings	01777 HK		0.920	3.4	n.a.	n.a.	n.a.	n.a.	n.a.	7.5	n.a.	7.5
Ronshine China	03301 HK		9.670	4.5	3.0	2.3	1.0	0.8	0.6	4.0	25.3	4.0
Central China Real	00832 HK		2.920	7.5	4.0	3.3	0.8	0.7	0.6	4.0	10.6	4.0
China Sze Group	01966 HK		2.820	3.3	2.7	2.1	0.6	0.5	0.5	8.7	20.0	8.7
Top Spring International	03688 HK		2.120	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Beijing Capital Land	02868 HK		3.010	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	9.4	n.a.	9.4
Zhong An Real Estate	00672 HK		0.275	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Beijing North Star Co	00588 HK		2.440	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
China South City	01668 HK		1.240	6.5	5.1	4.1	0.3	0.3	0.2	5.6	10.5	5.6
Shui On Land Ltd	00272 HK		1.740	5.2	6.9	6.4	0.3	0.3	0.3	6.7	1.9	6.7
Glorious Property	00845 HK		0.370	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Median				4.2	3.3	3.1	0.4	0.4	0.4	6.7	10.6	6.7
Simple Average				4.6	3.7	3.2	0.5	0.4	0.4	6.5	13.3	6.5
Weighted Average				4.6	3.9	3.3	0.5	0.5	0.4	6.4	14.1	6.1

Source: the Company, Guotai Junan International.



**Financial Statements and Ratios**

Income Statement					
Year end 31 Dec (HK\$ m)	2016A	2017A	2018F	2019F	2020F
Total Revenue	164,069	166,045	220,998	257,355	295,131
- Sales of Properties	159,891	162,140	216,205	251,777	289,191
- Property Rental	2,137	2,450	3,755	4,838	5,412
- Other Income	2,040	1,455	1,038	740	528
- Direct Operating Expenses	(5,352)	(2,073)	(7,208)	(8,394)	(9,627)
Cost of Sales	(113,074)	(109,272)	(133,531)	(157,359)	(181,384)
Gross Profit	45,643	54,700	80,258	91,601	104,120
- Change in Fair Value of IPs	7,723	5,946	5,968	9,675	12,280
- SG&A	(6,551)	(5,798)	(7,949)	(9,256)	(10,102)
- Other Gains, Net	11,091	8,027	4,864	4,388	3,960
Operating Profit	57,905	62,874	83,141	96,407	110,258
- Finance income/(costs), net	(2,056)	(1,394)	(1,768)	(2,012)	(2,296)
- Others	1,252	1,938	2,528	3,060	3,749
Profit before Tax	57,102	63,419	83,902	97,455	111,710
Income Tax	(18,711)	(21,277)	(30,201)	(33,706)	(38,674)
Profit after Tax	38,391	42,142	53,701	63,748	73,036
Non-controlling Interest	(1,370)	(1,375)	(2,148)	(2,550)	(2,921)
Shareholders' Profit / Loss	37,021	40,767	51,553	61,199	70,115
Adjusted Net Profit	26,797	38,187	50,006	57,641	65,293
Basic EPS	3.635	3.721	4.705	5.586	6.400
Underlying EPS (RMB)	2.631	3.485	4.564	5.261	5.959

Cash Flow Statement					
Year end 31 Dec (HK\$ m)	2016A	2017A	2018F	2019F	2020F
Operating Activities					
Profit before Taxation	57,102	63,419	83,902	97,455	111,710
D&A	357	208	432	475	523
Increase in Fair Value of IP	(7,723)	(5,946)	(5,968)	(9,675)	(12,280)
Finance Costs	2,056	1,394	1,768	2,012	2,296
Others	(11,694)	(8,680)	(4,317)	(5,093)	(6,067)
Changes in Working Capital:	35,480	(79,816)	(32,792)	(59,786)	(40,342)
Net Cash from Operations	75,578	(29,421)	43,025	25,388	55,842
Income Taxes Paid	(15,038)	(12,617)	(26,296)	(30,116)	(34,818)
Cash from Operating Activities	60,540	(42,037)	16,728	(4,728)	21,024
Investing Activities					
Additions to IPs	(2,378)	(4,568)	(21,977)	(18,856)	(15,284)
Other Investing Cash Flow	17,492	(3,512)	5,689	6,441	8,564
Cash from Investing Activities	15,114	(8,079)	(16,288)	(12,415)	(6,720)
Financing Activities					
Debt Raised/(Repaid)	(15,023)	(4,514)	38,373	26,802	33,985
Dividends Paid	(7,878)	(8,436)	(8,765)	(11,109)	(12,031)
Other Financing Cash Flow	(9,494)	(190)	(8,291)	(6,151)	(3,958)
Cash from Financing Activities	(32,394)	(13,141)	21,316	9,541	17,996
Net Changes in Cash	43,259	(63,258)	21,757	(7,602)	32,300
Cash at Beg of Year	120,048	154,983	99,460	125,084	119,415
Exchange Losses	(8,324)	7,734	3,867	1,934	967
Restricted Bank Deposits	2,178	4,591	667	667	667
Cash at End of Year	157,162	104,051	125,751	120,082	153,349

Source: the Company, Guotai Junan International.

Balance Sheet					
Year end 31 Dec (HK\$ m)	2016A	2017A	2018F	2019F	2020F
Property and Equipment	3,887	3,898	3,937	3,976	4,016
Investments in Associates	5,512	8,232	12,966	14,976	17,297
Investment Properties	67,093	97,377	119,354	138,210	153,494
Other Non-current Assets	19,884	34,107	39,767	43,857	48,547
Total Non-current Assets	96,376	143,614	176,024	201,018	223,354
Cash & Cash Equivalents	157,162	104,051	125,751	120,082	153,349
Stock of Properties	261,690	335,542	429,347	524,678	591,805
Trade and Other Receivables	11,341	14,301	17,509	18,592	19,250
Other Current Assets	44,720	47,898	54,405	56,687	59,276
Total Current Assets	474,913	501,791	627,011	720,039	823,680
Total Assets	571,289	645,405	803,035	921,058	1,047,034
Trade and Other Payables	44,815	51,826	63,332	74,633	86,028
Deposits for proposed open offer	82,256	77,857	129,773	149,674	160,552
Bank Loans - Due within One Year	34,472	13,325	10,660	8,528	6,822
Other Current Liabilities	38,062	63,534	67,831	75,099	86,321
Total Current Liabilities	199,604	206,543	271,595	307,933	339,723
Long-term Borrowings	61,773	90,256	121,846	134,030	147,433
Guaranteed Notes Payable	71,761	57,559	69,070	82,884	99,461
Other Long-term Liabilities	10,727	17,504	22,044	25,090	28,292
Total Non-current Liabilities	144,261	165,319	212,960	242,005	275,186
Total Liabilities	343,866	371,861	484,556	549,938	614,909
Total Shareholders' Equity	222,248	265,694	308,482	358,572	416,656
Minority Interest	5,175	7,849	9,997	12,547	15,469
Total Equity	227,423	273,543	318,480	371,119	432,124

Financial Ratios					
	2016A	2017A	2018F	2019F	2020F
Revenue Growth (%)	-3.2	1.2	33.1	16.5	14.7
Gross Profit Growth (%)	-1.0	19.8	46.7	14.1	13.7
Reported Net Profit Growth (%)	6.9	10.1	26.5	18.7	14.6
Underlying Net Profit Growth (%)	-7.0	42.5	31.0	15.3	13.3
Gross Margin (%)	27.8	32.9	36.3	35.6	35.3
Operating Profit Margin (%)	35.3	37.9	37.6	37.5	37.4
Adjusted Net Margin (%)	16.3	23.0	22.6	22.4	22.1
ROE (%)	17.1	16.7	18.0	18.3	18.1
ROCE (%)	21.5	21.2	21.9	21.3	21.1
ROA (%)	10.1	9.7	10.4	10.5	10.5
Net Gearing Ratio	7.3	27.1	29.2	33.0	27.2
Debt to Equity Ratio	78.2	93.7	106.1	97.4	89.0
Underlying P/E (x)	10.5	7.9	6.0	5.2	4.6
P/E (Basic) (x)	7.6	7.4	5.8	4.9	4.3
P/E (Diluted) (x)	7.6	7.4	5.8	4.9	4.3
P/B (x)	1.3	1.1	1.0	0.8	0.7
Dividend Yield (%)	3.0	2.9	3.7	4.0	4.7

### Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

### Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

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