

China / Hong Kong Company Update

China Overseas Land

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DBS Group Research . Equity

8 Jan 2024

BUY

Last Traded Price (5 Jan 2024): HK\$13.14 (HSI : 16,535)
Price Target 12-mth: HK\$18.20 (39% upside) (Prev HK\$21.6)

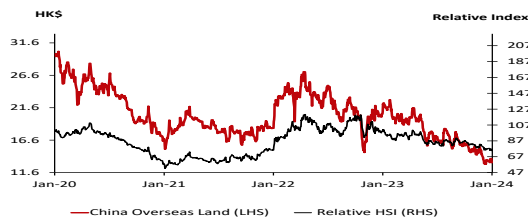
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What's New

- En-route for another year of presales outperformance, premised on sector-leading land acquisition pace in quality Tier 1-2 cities
- FY23 presales fell short of target despite outperforming the sector; FY23F results may fall short of expectations with revenue recognition likely to be affected
- Trimmed FY23-25F earnings by 14-15% on slower revenue recognition and margin assumptions
- Maintain BUY with a revised TP of HK\$18.20/sh

Price Relative



Forecasts and Valuation

FY Dec (RMB m)	2022A	2023F	2024F	2025F
Turnover	180,322	190,226	202,292	218,162
EBITDA	34,236	35,269	36,909	38,693
Pre-tax Profit	40,290	34,162	35,801	37,504
Net Profit	27,548	21,611	22,584	23,760
Core Profit	24,420	21,611	22,584	23,760
Core Profit Gth (%)	(28.0)	(11.5)	4.5	5.2
Core EPS (RMB)	2.23	1.97	2.06	2.17
Core EPS (HK\$)	2.43	2.15	2.25	2.37
Core EPS Gth (%)	(28.0)	(11.5)	4.5	5.2
Core PE (X)	5.4	6.1	5.8	5.6
P/Cash Flow (X)	nm	6.2	18.5	20.3
EV/EBITDA (X)	9.1	8.7	8.5	8.4
DPS (HK\$)	0.76	0.65	0.68	0.71
Div Yield (%)	5.8	4.9	5.1	5.4
Net Gearing (%)	42.9	40.3	40.1	40.0
ROE (%)	7.8	5.9	5.9	5.9
Book Value (HK\$)	35.32	36.67	38.23	39.88
P/Book Value (X)	0.4	0.4	0.3	0.3
EPS Rev (%)		(14)	(14)	(15)
Consensus EPS (RMB)		2.26	2.46	2.75
Other Broker Recs:		B:35	S:0	H:0

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Slight hiccup before regaining its glow

Investment Thesis

Strong cost control and execution track record. Having been listed on the HKEx for over 20 years, COLI has built a strong reputation for superior cost control, prudent financial management and proven execution skills. COLI's focus on Tier 1-2 cities and its SOE background have enabled it to navigate the turbulence in the property sector. As per CRIC, COLI is now 3rd and 2nd among China developers based on gross and attributable presales in 2023. Premised on its decent landbank quality (>95% of land acquired in 2023 located in Tier 1-2 cities excl COGO), COLI is well poised to extend its presales outperformance in 2024.

Expect a slight hiccup in the forthcoming result season upon its presales miss. Despite evidently outperforming peers, COLI's 2023 presales growth fell short of its original expectations (+5% y-o-y as compared to target of 20%) and may affect its 2023F revenue recognition. Meanwhile, despite its reputation advantage and superior project locations, COLI is not immune to the physical market downturn and has made moderate price discount to ensure decent project sell-through rates. Together with potential inventory impairments to reflect a further downtrend in the physical market in 2H23, we trimmed our FY23-25F earnings by 14-15%.

Poised to benefit from ongoing market share consolidation. While slightly missing its presales target for the year, COLI remained proactive on the land acquisition front and spent c.Rmb134bn in gross land premium in 2023, up 21% (vs >10% growth target). This represented c.43% of its presales in 2023, ranking it first among names we track. Of which, over 95% are in quality Tier 1 and 2 cities that will likely continue to fare better in 2024. This should provide sufficient saleable resources for COLI to further consolidate its market share and record another year of sector-leading presales growth, offering support to its valuation performance.

Maintain BUY with TP revised to HK\$18.20/sh. Our TP is based on a sum of the parts (SOTP) valuation model that assigns 1) unchanged 10x EV/EBITDA on its IP business; and 2) 5.0x FY24F PE (prior: 7.0x) on development earnings, on par with its 1-year forward PE average in 2023.

Key Risks

Slower than expected presales and project delivery; larger-than-expected margin compression.

At A Glance

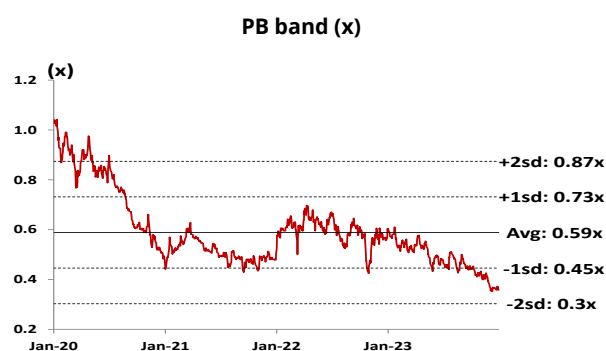
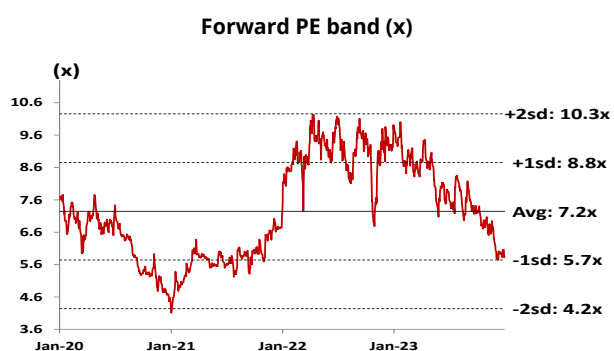
Issued Capital (m shrs)	10,945
Mkt Cap (HKm/US\$m)	143,817 / 18,411
Major Shareholders (%)	
China State Construction Engineering Corp Ltd	56.1
CITIC Ltd	10.0
Free Float (%)	33.9
3m Avg. Daily Val. (US\$m)	26.3
GICS Industry: Real Estate / Real Estate Management & Development	

China Overseas Land

Company Background

China Overseas Land & Investment Limited (COLI) is a PRC developer focusing on residential developments in Tier 1 and Tier 2 cities, and it is a subsidiary of China State Construction. As a leading developer in China and a state-owned red chip, the company has a strong execution and corporate governance track record.

Historical PE and PB band



Source: Thomson Reuters, DBS HK

China Overseas Land

Segmental Breakdown (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenues (RMB m)					
Sales of properties	236,356	174,511	183,467	194,680	209,895
Property rentals	4,667	4,741	5,689	6,542	7,196
Others	1,218	1,070	1,070	1,070	1,070
Total	242,241	180,322	190,226	202,292	218,162

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Turnover	242,241	180,322	190,226	202,292	218,162
Cost of Goods Sold	(185,215)	(141,928)	(151,893)	(161,895)	(174,882)
Gross Profit	57,026	38,394	38,333	40,397	43,279
Other Opg (Exp)/Inc	(6,671)	(6,339)	(5,136)	(5,664)	(6,545)
Operating Profit	50,355	32,055	33,197	34,733	36,735
Associates Inc	3,686	2,181	2,072	2,176	1,958
Net Interest (Exp)/Inc	1,091	1,259	(1,107)	(1,107)	(1,189)
Exceptional Gain/(Loss)	5,540	4,796	0	0	0
Pre-tax Profit	60,672	40,290	34,162	35,801	37,504
Tax	(20,068)	(11,451)	(11,351)	(11,963)	(12,425)
Minority Interest	(2,906)	(1,291)	(1,200)	(1,254)	(1,319)
Net Profit	37,698	27,548	21,611	22,584	23,760
Core Profit	33,920	24,420	21,611	22,584	23,760
Sales Gth (%)	30.4	(25.6)	5.5	6.3	7.8
Net Profit Gth (%)	(7.6)	(26.9)	(21.6)	4.5	5.2
Core Profit Gth (%)	(10.8)	(28.0)	(11.5)	4.5	5.2
Gross Mgn (%)	23.5	21.3	20.2	20.0	19.8
Core Profit Margin (%)	14.0	13.5	11.4	11.2	10.9
Tax Rate	33.1	28.4	33.2	33.4	33.1

Source: Company, DBS HK

China Overseas Land

Balance Sheet (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Fixed Assets	5,524	7,086	6,418	5,751	5,084
Invt in Assocs & JVs	40,571	43,410	45,483	47,659	49,617
Other LT Assets	174,855	198,359	207,870	213,862	220,034
Cash & ST Invt	130,956	110,306	123,927	128,164	131,247
Other Current Assets	518,001	554,094	576,971	598,838	624,793
Total Assets	869,907	913,254	960,669	994,274	1,030,776
ST Debt	44,620	39,355	41,200	43,044	44,889
Creditors	90,055	78,651	101,262	107,930	116,588
Other Current Liab	159,225	163,145	163,145	163,145	163,145
LT Debt	197,302	231,028	239,183	247,339	255,495
Other LT Liabilities	21,598	27,977	27,977	27,977	27,977
Minority Interests	13,546	18,618	19,818	21,071	22,390
Shareholder's Equity	343,560	354,480	368,084	383,767	400,292
Total Capital	869,907	913,254	960,669	994,274	1,030,776
Share Capital (m)	10,945	10,945	10,945	10,945	10,945
Net Cash/(Debt)	(110,966)	(160,077)	(156,456)	(162,219)	(169,136)
Working Capital	268,720	312,297	312,564	327,762	345,060
Net Gearing (%)	31.1	42.9	40.3	40.1	40.0

Source: Company, DBS HK

Cash Flow Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Profit Before Tax	63,130	36,007	34,162	35,801	37,504
Assoc. & JV Inc/(loss)	(3,686)	(2,181)	(2,072)	(2,176)	(1,958)
Tax Paid	(21,509)	(22,583)	(11,351)	(11,963)	(12,425)
Depr/Amort	0	0	0	0	0
Chg in Wkg.Cap.	(6,773)	(20,982)	(267)	(15,198)	(17,298)
Other Non-Cash	(8,597)	(779)	667	667	667
Operating CF	22,565	(10,518)	21,139	7,131	6,490
Net chg in inv.	(9,693)	(6,752)	(9,511)	(5,992)	(6,172)
Assoc, MI, Invsmt	(4,772)	(1,388)	0	0	0
Investing CF	(14,465)	(8,140)	(9,511)	(5,992)	(6,172)
Net Chg in Debt	32,627	17,363	10,000	10,000	10,000
New Capital	0	0	0	0	0
Dividend	(10,732)	(10,879)	(8,006)	(6,901)	(7,235)
Other Financing CF	(7,470)	(8,557)	0	0	0
Financing CF	14,426	(2,073)	1,994	3,099	2,765
Chg in Cash	22,197	(19,555)	13,621	4,237	3,083
Chg in Net Cash	(8,455)	(49,111)	3,621	(5,763)	(6,917)

Source: Company, DBS HK

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Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	Target Price	Rating
1	30-Jan-23	HK\$21.90	HK\$26.16	BUY
2	3-Apr-23	HK\$18.96	HK\$25.47	BUY
3	29-Aug-23	HK\$15.62	HK\$21.60	BUY

Source: DBS HK

Analyst: Jason Lam
 Dexter Chun
 Ben Wong

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DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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