COLI (688 HK)

FY22E preview: page not yet turned

We estimate COLI to deliver 20% YoY decline in 2022E core profit, close to buy-side expectation. Moreover, the earnings slide may continue into 2023E (-7% YoY) due to sales decline in 2022 (-15% YoY). This has made COLI's valuation not cheap enough to investors at 6.7/7.3x 2022/23E despite the recent pull back. Forward-looking, we expect the leading indicator – its 2023E sales growth to turn positive due to abundant sellable resources in high-tier cities and improving market after reopening and policy relaxation. This may support COLI's share price and earnings recovery in 2024E. Therefore, we maintain Buy but it is worth waiting for clearer sign of sales growth to long the stock. **Catalyst**: Policy relaxation in Tier 1 cities; **Risk**: 2022E earnings miss.

- **FY22E earnings preview:** After a lackluster 3Q22 operation data (Revenue/EBIT -59%/-77% YoY), we expect 2022E core net profits to decline 20% YoY to RMB29bn. The main reasons are mainly because of -36% YoY in 9M22 EBIT and COVID impact on construction in 4Q. GP margin is estimated to lower further to 21% in 2022E vs. 23% in 2021. As for 2023E NP, it is likely to remain under pressure and decline another 7% YoY due to 15% sales decline in 2022. We suggest investors may pay attention to its 2023E sales, which is the leading indicator of earnings and also the key to the asset turnover/ROE.

- **2023E sales outlook towards positive territory:** COLI (excl. COGO) finished 2022 with only 15% sales YoY decline, which is in the first category just behind Yuexiu, CRL, Binjiang and CM Shekou. This is mainly attributed to its abundant sellable resources in high-tier cities (90% of its land bank). Looking into 2023E, we expect COLI to deliver a positive sales growth as 1) it has maintained steady land investments in 2022 with land acquisition/sales at 31%. This can help COLI maintain at least similar sellable resources in 2022. 2) An improving sell-through rate on reopening and policy relaxation. As for the gratitude of recovery, it is still of high uncertainty which depends on if any relaxation in Tier 1 cities.

- **TP cut and Maintain Buy.** We cut our 2023/24E earnings by 9%/12% to reflect a lower sales booking and margin pressure. Also we revise down TP by 8% to use a deeper discount to NAV at 60% (previously at 55%). We maintain Buy rating on foreseeable sales growth, sales margin recovery in 2023E and attractive valuation at 0.6x PB (vs. its 5-YR historical average of 0.8x, even no premium over Vanke H and Midea).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	185,790	242,241	219,904	189,591	209,634
YoY growth (%)	13.5	30.4	-9.2	-13.8	10.6
Net income (RMB mn)	38,030	36,380	29,181	27,074	31,311
EPS (RMB)	3.47	3.32	2.67	2.47	2.86
YoY growth (%)	-8.7	-4.2	-19.8	-7.2	15.6
Consensus EPS (RMB)	N.A.	N.A.	2.7	2.7	3.0
P/E (x)	5.2	5.4	6.7	7.3	6.3
P/B (x)	0.6	0.6	0.6	0.5	0.5
Yield (%)	5.6	5.7	4.6	4.3	5.0
ROE (%)	14.0	11.7	8.2	7.5	8.3
Net gearing (%)	31.2	31.1	41.6	50.3	60.7

Source: Company data, Bloomberg, CMBI GLOBAL MARKET estimates

BUY (Maintain)

Target Price	**HK$27.90**
(Previous TP	HK$30.49)
Up/downside	**+31.9%**
Current Price	**HK$21.15**

China Property Sector

Jeffrey ZENG
(852) 3916 3727
jeffreyzeng@cmbi.com.hk

Miao ZHANG
(852) 3761 8910
zhangmiao@cmbi.com.hk

Bella LI
(852) 3757 6202
bellali@cmbi.com.hk

Stock Data

Mkt Cap (HK$ mn)	235,86
Avg 3 mths t/o (HK$ mn)	394.44
52w High/Low (HK$)	27.15/ 14.70
Total Issued Shares (mn)	10,945

Source: Bloomberg

Shareholding Structure

CTCEC	56.0%
Free float	44.0%

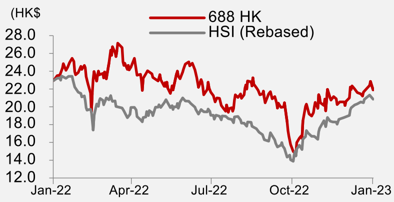
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	6.3%	-4.7%
3-mth	39.0%	-6.4%
6-mth	1.2%	-7.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

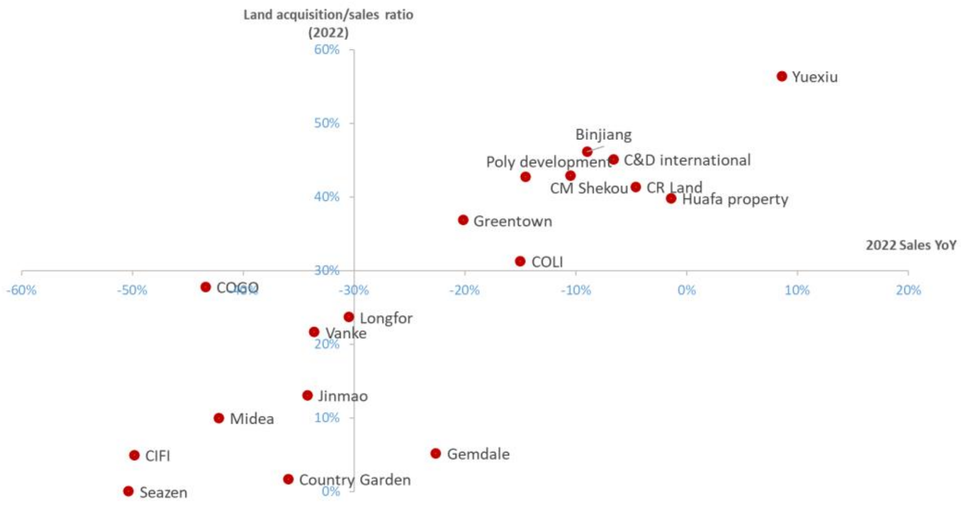
Auditor: PwC

Figure 1: COLI's sales YoY decline was -15% in 2022 if excl. COGO

Sales (RMB bn)	Dec-22	YoY	MoM	Nov-22	YoY	2022 sales	YoY	2021 sales	YoY
Yuexiu	22.1	10%	87%	11.8	-11%	125.0	9%	115.2	20%
CR Land	49.6	10%	81%	27.5	35%	301.3	-5%	315.7	11%
Binjiang	20.4	40%	34%	15.3	11%	153.9	-9%	169.1	24%
CM Shekou	42.6	-3%	82%	23.5	-7%	292.6	-10%	326.8	18%
Poly	57.2	56%	54%	37.0	-3%	457.3	-15%	534.9	6%
COLI*	38.1	-4%	58%	24.1	-11%	294.7	-20%	369.5	2%
Gemdale	20.4	-15%	13%	18.0	3%	221.8	-23%	286.7	18%
Sino-Ocean	10.8	-30%	-1%	10.9	-28%	100.3	-26%	136.3	4%
Longfor	18.4	-54%	5%	17.5	-23%	201.6	-30%	290.1	10%
Vanke	39.8	-37%	31%	30.4	-29%	416.9	-34%	627.8	-11%
Country Garden (attri)	22.0	-2%	-15%	26.0	-37%	357.5	-36%	558.0	-2%
China SCE	4.6	-32%	9%	4.2	-44%	59.0	-44%	104.5	3%
CIFI	6.4	-70%	55%	4.2	-75%	124.0	-50%	247.3	7%
Shimao	7.0	-37%	8%	6.5	-60%	86.5	-68%	269.1	-10%
Sunac China	8.2	-83%	2%	8.0	-78%	169.3	-72%	597.4	4%
Average	**368**	**-19%**	**39%**	**265**	**-25%**	**3,362**	**-32%**	**4,948**	**-10%**

Source: Company data, CMBI GLOBAL MARKET

Figure 2: COLI (excl COGO)'s land acquisition/sales at 31%, in line with others



Source: Company data, CMBI GLOBAL MARKET

Figure 3: Historical PB chart

Source: BBG, CMBI GLOBAL MARKET

Figure 4: New Target price derived

COLI NAV calculation				
attributable land bank (mn sqm):	41.0			
2022 ASP (RMB/sqm):	21700			
ASP assumption				
- 2022E	0%			
- 2023E	0%			
- 2024E	0%			
- 2025E	0%			
Land cost (RMB/sqm):	10,000			
Construction cost (RMB/sqm):	4,000			
Interest (RMB/sqm):	400			
Construction cost assumption				
- 2022E	0%			
- 2023E	1%			
- 2024E	1%			
- 2025E	1%			
SG&A/Sales	3%			
	2022E	**2023E**	**2024E**	**2025E**
Sales volume (mn sqm)	10.2	11.0	11.0	8.7
ASP	21,700	21,700	21,700	21,700
Attributable Sales value (RMB bn)	222	239	239	189
COGS	147	160	162	163
SG&A	7	7	7	6
Tax	24	25	24	7
Profits	44	47	45	13
DCF	44	44	41	11
NAV of current landbank (RMB bn)	**140**			
IP (RMB bn)	166			
Attributtable Equity (RMB bn)	344			
Total NAV (RMB bn)	650			
Discount to NAV	60%			
HKDRMB	0.9			
Target price (HKD/share)	27.9			

Source: Company data, CMBI GLOBAL MARKET

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	**185,790**	**242,241**	**219,904**	**189,591**	**209,634**
Property development	180,786	236,356	212,720	180,812	198,893
Rental income	4,052	4,667	5,601	6,721	8,065
Others	952	1,218	1,583	2,058	2,676
Cost of sales	(129,96	(185,21	(173,72	(147,88	(161,41
Gross profit	**55,821**	**57,026**	**46,180**	**41,710**	**48,216**
Other income and gains	6,363	4,712	5,561	5,637	5,773
Distribution expenses	(3,513)	(3,778)	(3,515)	(3,031)	(3,351)
Administrative expenses	(2,631)	(3,191)	(3,299)	(2,844)	(3,145)
Other expenses	0	0	0	0	0
Operating profit	**56,040**	**54,770**	**44,927**	**41,473**	**47,494**
Finance expenses	(884)	(866)	(1,365)	(1,570)	(1,806)
Associates/JV	4,856	3,686	3,093	3,093	3,093
Exceptional	9,191	5,540	0	0	0
Pre-tax profit	**69,204**	**63,130**	**46,655**	**42,996**	**48,781**
Profits tax	(21,495)	(20,068)	(14,354)	(12,802)	(14,350)
Profit after tax	47,709	43,062	32,301	30,194	34,431
Minority interest	(3,805)	(2,906)	(3,120)	(3,120)	(3,120)
Perpetual	0	0	0	0	0
Net profit	**43,904**	**40,155**	**29,181**	**27,074**	**31,311**
Core profit	**38,030**	**36,380**	**29,181**	**27,074**	**31,311**

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
EBIT	56,040	54,770	44,927	41,473	47,494
Depreciation and amortization	371	408	552	580	590
Change in working capital	(19,336	(12,431	(26,892	(34,353	(20,699
Income tax paid	(20,896	(21,509	(14,354	(12,802	(14,350
Others	(4,978)	1,327	(28,267	(23,652	(40,630
Net cash from operating	**11,201**	**22,565**	**(24,034**	**(28,754**	**(27,595**
Capex	(12,087	(8,062)	277	480	490
Associates/JV	8,446	(5,494)	(998)	(247)	(285)
Other	(403)	(910)	0	0	0
Net cash from investing	**(4,044)**	**(14,465**	**(721)**	**233**	**205**
Equity raised	0	0	0	0	0
Change of Debts	26,760	32,627	36,288	41,732	47,991
Dividend paid	(10,627	8,452	(12,696	(7,413)	(15,870
Other	(8,098)	(26,654	0	0	0
Net cash from financing	**8,035**	**14,426**	**23,592**	**34,318**	**32,121**
Net change in cash	15,192	22,525	(1,163)	5,797	4,730
Cash at the beginning	92,895	107,66	129,86	123,69	124,49
Exchange difference	(423)	(328)	(5,000)	(5,000)	(5,000)
Cash at the end	**107,66**	**129,86**	**123,69**	**124,49**	**124,22**
Pledged deposit	2,805	1,095	2,553	2,553	2,553
Cash at BS	110,46	130,95	126,25	127,04	126,77

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	**187,404**	**220,950**	**254,073**	**265,844**	**298,288**
Fixed asset	5,011	5,524	5,800	5,900	6,000
Investment properties	140,879	166,204	191,135	200,691	230,795
Associates/JV	33,314	40,571	42,599	43,877	45,194
Intangible assets	56	56	5,134	5,078	5,021
Other non-current assets	8,144	8,594	9,405	10,297	11,278
Current assets	**636,253**	**648,957**	**663,738**	**687,324**	**715,335**
Cash	110,469	130,956	123,699	124,496	124,226
Account receivable	25,797	20,565	18,669	16,096	17,797
Inventories	475,689	464,029	487,231	511,592	537,172
Other current assets	24,298	33,406	34,140	35,140	36,140
Current liabilities	**303,962**	**293,901**	**300,597**	**284,847**	**293,095**
Borrowings	43,805	44,620	51,313	59,011	67,862
Trade and other payables	82,808	90,055	84,468	71,902	78,484
Contract liabilities	121,122	100,455	100,455	100,455	100,455
Deferred taxation	38,124	39,173	43,090	30,082	20,556
Other current liabilities	18,104	19,597	21,270	23,397	25,737
Non-current liabilities	**191,346**	**218,900**	**246,058**	**280,092**	**319,232**
Borrowings	169,175	197,302	226,897	260,932	300,071
Other non-current liabilities	22,170	21,598	19,160	19,160	19,160
Shareholders' equity	**314,147**	**343,560**	**354,492**	**368,442**	**378,390**
Minority interest	14,203	13,546	16,666	19,786	22,906
Perpetual bond	0	0	0	0	0
Total equity	328,349	357,106	371,158	388,228	401,296

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Property development	97.3	97.6	96.7	95.4	94.9
Rental income	2.2	1.9	2.5	3.5	3.8
Others	0.5	0.5	0.7	1.1	1.3
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Profit & loss ratios (%)					
Gross margin	30.0	23.5	21.0	22.0	23.0
EBIT margin	30.2	22.6	20.4	21.9	22.7
Net margin	23.6	16.6	13.3	14.3	14.9
Effective tax rate	31.1	31.8	30.8	29.8	29.4
Balance sheet ratios					
Current ratio (x)	2.1	2.2	2.2	2.4	2.4
Receivable day	50.7	31.0	31.0	31.0	31.0
Payable day	232.6	177.5	177.5	177.5	177.5
Inventory day	1335.9	914.5	914.5	914.5	914.5
Net gearing ratio (%)	31.2	31.1	41.6	50.3	60.7
Returns (%)					
ROE	14.0	11.7	8.2	7.3	8.3
ROA	5.3	4.6	3.2	2.8	3.1
Per share data					
EPS (RMB)	3.47	3.32	2.67	2.47	2.86
DPS (HK$)	1.18	1.21	0.97	0.90	1.04
BVPS (RMB)	28.67	31.36	32.36	33.63	34.54

Source: Company data, CMBI Global Market Estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIGM
OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I)falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time)("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.,) of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.