

China Overseas Land & Investment Ltd.

Hong Kong

Category:	Corporate Rating
Rating Type:	Unsolicited Rating
Industry:	Property Development
Long-term Credit Rating:	AA _g
Rating Outlook:	Stable

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Rating Rationale

The rating of China Overseas Land & Investment Ltd. (“COLI” or “the Company”) is underpinned by the Company’s (1) leading position in China’s real estate market; (2) steady sales growth and strong profitability; (3) decreasing debt leverage; and (4) strong support from its shareholder. The rating also takes into consideration the acquisition of projects from CITIC Limited (“CITIC”) and its adverse effect on the Company’s credit metrics.

Strengths

- **Leading property developer and balanced geographic distribution.** COLI has secured leading competitive position and strong brand name in the industry, covering the major cities in Yangtze River Delta, Pearl River Delta, Pan Bohai Rim and the Central West region.
- **Steady growth in contracted sales.** With the increase in operating scale, COLI’s contracted sales grew steadily in recent years. The Company generated contracted sales of HKD 210.6 billion in 2016, increasing by 16.6% YoY, while the contracted sales area amounted to 13.0 million sqm. The profitability of COLI was also relatively strong, with a gross profit margin of 27.8% in 2016. The Company’s revenue and profit are expected to further increase after the projects under construction are sold and recognized in the future.
- **Prudent financial policy.** COLI adopted prudent financial management and business development strategy. The Company’s sufficient cash balances, manageable debt burden and good profitability of its existing projects led to strong credit metrics.
- **Excellent shareholder background and strong shareholder support.** The ultimate controlling shareholder of COLI was China State Construction Engineering Group (“CSCEG”), the largest construction company in China. CSCEG has injected all its property development projects to COLI, which helped expand the Company’s operating scale. The strong support from parent company is supportive for the rating.

Challenges

- **Acquisition of CITIC projects adversely affected operating results.** Though the acquisition of CITIC projects, COLI added 31.55 million sqm to its total land bank. However, the gross profit margin of CITIC projects was relatively lower than the Company's existing projects, which adversely affected the overall profitability. The Company recorded losses of HKD 986 million in 2016 due to the CITIC asset acquisition. We will continue to monitor the consolidation of CITIC projects.

Corporate Profile

COLI was established in 1979 and was listed on the Hong Kong Stock Exchange in 1992 (Stock Code: 0688.HK). The controlling shareholder of the Company was China Overseas Holdings Limited, and the ultimate controlling shareholder was CSCEG. As of 31 December 2016, CSCEG indirectly held 55.07% of the Company's shares.

The principle business of COLI includes property development and investment, property agency and management, and treasury operations. As for property development, the Company has entered into 55 cities in Mainland China and the market of Hong Kong, Macau and London. As of 31 December 2016, the Company held a total land bank of 56.77 million sqm in 33 cities of mainland China, Hong Kong and Macau, of which 48.81 million sqm was attributable to the Company's interest. COLI acquired 17 land plots in 13 cities of mainland China and one in Hong Kong, with a total additional GFA of 9.72 million sqm in 2016.

Key Indicators

China Overseas Land & Investment Ltd.	2016	2015	2014
Contracted Sales (HKD billion)	201.6	180.6	140.8
<i>Contracted Sales (USD billion)</i>	27.2	23.3	18.2
Contracted Sales Area (million sqm)	13.0	12.6	9.4
Average Selling Price (HKD per sqm)	16,150	14,336	14,980
Total Assets (HKD billion)	571.3	582.2	410.2
<i>Total Assets (USD billion)</i>	73.2	74.6	52.6
Net Assets (HKD billion)	227.4	215.6	138.6
<i>Net Assets (USD billion)</i>	29.2	27.6	17.8
Total Revenue (HKD billion)	164.1	169.6	138.5
<i>Total Revenue (USD billion)</i>	21.0	21.7	17.8
Net Profits (HKD billion)	38.4	35.4	27.8
<i>Net Profits (USD billion)</i>	4.9	4.5	3.6
Total Capitalization Ratio (%)	43.3	48.3	41.3
Net Gearing Ratio (%)	7.3	36.3	27.1
Gross Margin (%)	27.8	27.2	28.4
Return on Equity (%)	17.3	19.0	21.8
Total Debt/EBITDA (x)	3.0	3.8	2.2
EBITDA Interest Coverage (x)	6.6	5.0	10.6

Source: Company data, CCXAP research

Appendix. CCXAP's Credit Rating Symbols and their Meaning

China Chengxin (Asia Pacific) Credit Ratings Company Limited uses simple, consistent, and comparable rating symbols expressed in letters to represent the credit worthiness of rated entities and rated debt issues.

A. Long-Term Credit Ratings

A long-term credit rating refers to a rating for a period of more than 12 months.

Rating Symbol	Definition
AAAg	Capacity to meet commitments on short-term and long-term debts is extremely strong. Business is operated in a virtuous circle. The foreseeable uncertainty on business operations is minimal.
AAg+ AAg AAg-	Capacity to meet short-term and long-term financial commitments is very strong. Business is operated in a virtuous circle. Foreseeable uncertainty in business operations is relatively low.
Ag+ Ag Ag-	Capacity to meet short-term and long-term commitments is strong. Business is operated in a virtuous circle. Business operation and development may be affected by internal uncertain factors, which may create fluctuations in profitability and solvency of the issuer.
BBBg+ BBBg BBBg-	Capacity to meet financial commitment is considered adequate and capacity to meet short-term and long-term commitments is satisfactory. Business is operated in a virtuous circle. Business is affected by internal and external uncertainties. Profitability and solvency may experience significant fluctuation. Principal and interest may not be sufficiently protected by the terms of agreement.
BBg+ BBg BBg-	Capacity to meet short-term and long-term financial commitment is relatively weak. Financial commitment towards short-term and long-term debts is below average. Status of business operations and development is not good. Solvency is unstable and subject to sustainable risk.
Bg+ Bg Bg-	Financial commitment towards short-term and long-term debts is bad. Business is affected by internal and external uncertain factors. There are difficulties in business operations. Solvency is uncertain and subject to high credit risk.
CCCg	Financial commitment towards short-term and long-term debts is very bad. Business is affected by internal and external uncertain factors. There are difficulties in business operations. Poor solvency with very high credit risk.
CCg	Financial commitment towards short-term and long-term debts is extremely bad. Business operations are poor. There are very limited positive internal and external factors to support business operation and development. Extremely high credit risk is found.
Cg	Financial commitment towards short-term and long-term debts is insolvent. Business falls into a vicious circle. Very limited positive internal and external factors are found to support business operations and development in positive cycle. Extremely high credit risk is seen and is near default.
Dg	Unable to meet financial commitments. Default is confirmed.

B. Long-term Credit Rating Outlook

A rating outlook is the medium- and long-term trend of the credit rating of a rated entity. In formulating a rating outlook, CCXAP considers the potential change in economic and commercial factors from a medium- and long-term perspective for a period of 12 to 18 months.

Positive	Indicates a rating with an ascending trend
Negative	Indicates a rating with a descending trend
Stable	Indicates the rating is likely to be stable

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