

## COMPANY UPDATE

## China Overseas Property Holdings (2669 HK)

Acquisition Of Construction Supervision Subsidiary From 830 HK Bringing Both Risks And Opportunities

On 11 Oct 23, COPH announced the acquisition of a construction supervision subsidiary of CSCDHL (830 HK) at HK\$950m, implying 18x PE over the target company's guaranteed 2023 net profit of HK\$50m. The market is worried that the acquisition valuation was too high. However, we think this acquisition brings strategic benefits which could turn into financial benefits in the future. Maintain BUY. Lower target price by 15.9% to HK\$9.83 to factor in a higher beta.

### WHAT'S NEW

- COPH announced a acquisition with connect party.** On 11 Oct 23, China Overseas Property Holdings (COPH) announced the acquisition of a construction supervision subsidiary of CSCDHL (830 HK) at HK\$950m, implying 18x PE over the target company's guaranteed 2023 net profit of HK\$50m. The acquisition PE is: a) lower than the PE of COPH as of 11 Oct 23 (17.7x); b) lower than the average PE of A-listed comparable construction supervision companies (34.9x); but c) higher than the PE of 830HK (9.5x). The deal is still pending approval by EGM of 830 HK, and is expected to close by the end of this year.
- Highlights of the target company.** The company: a) holds a Comprehensive Qualification in Engineering Supervision; b) currently has 128 projects under management; c) has been sourcing projects from within CSCEC and from third parties; d) is a national high-tech enterprise (enjoying tax incentives); and e) reported higher GP margin than COPH. At the conference call on 12 Oct 23, the management targets to achieve double-digit growth of the new business in the next few years.

### STOCK IMPACT

- Strategic benefits include** a) establishing COPH's presence in mainland construction supervision & consultancy market; b) preparing COPH for its future expansion into community maintenance/old village redevelopment business; and c) acquisition of high-tech enterprises will have a tax saving effect.

### KEY FINANCIALS

Year to 31 Dec (HK\$m)	2021	2022	2023F	2024F	2025F
Net turnover	9,442.0	12,689.0	16,710.2	21,887.8	28,344.9
EBITDA	1,279.0	1,640.1	2,158.6	2,831.7	3,594.9
Operating profit	1,212.9	1,554.8	2,047.8	2,687.7	3,407.6
Net profit (rep./act.)	983.9	1,232.5	1,589.5	2,073.8	2,618.9
Net profit (adj.)	(1.9)	(43.7)	1,589.5	2,073.8	2,618.9
EPS (Fen)	(0.1)	(1.3)	48.4	63.1	79.7
PE (x)	n.m.	n.m.	13.0	10.2	9.4
P/B (x)	7.9	6.6	5.0	3.9	3.0
EV/EBITDA (x)	15.6	12.1	9.2	7.0	5.5
Dividend yield (%)	1.2	1.6	2.0	2.6	3.3
Net margin (%)	10.4	9.7	9.5	9.5	9.2
Net debt/(cash) to equity (%)	(109.9)	(102.6)	(84.6)	(68.1)	(77.2)
ROE (%)	38.2	37.3	38.1	38.1	36.9
Consensus net profit (HK\$ m)	-	-	1,668	2,110	2,634
UOBKH/Consensus (x)	-	-	0.95	0.98	0.99

Source: China Overseas Property Holdings, Bloomberg, UOB Kay Hian  
n.m. : not meaningful; negative P/E reflected as "n.m."

## BUY

(Maintained)

Share Price	HK\$6.45
Target Price	HK\$9.83
Upside	+34.4%
(Previous TP)	HK\$11.69

### COMPANY DESCRIPTION

China Overseas Property Holdings is a subsidiary of China Overseas Holdings Limited and an avant-garde in the property management industry in China with first-class qualifications.

### STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	2669 HK
Shares issued (m):	3,286.9
Market cap (HK\$m):	23,829.7
Market cap (US\$m):	3,047.0
3-mth avg daily t'over (US\$m):	5.6

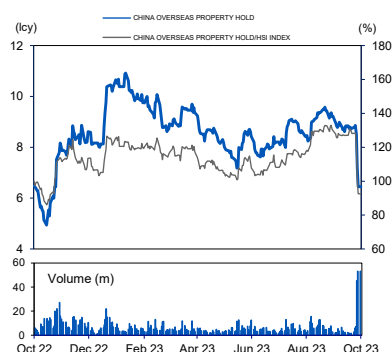
### Price Performance (%)

52-week high/low			HK\$10.92/HK\$4.94	
1mth	3mth	6mth	1yr	YTD
(22.1)	(11.2)	(22.7)	7.1	(10.8)

### Major Shareholders

	%
-	-
-	-
-	-
FY23 NAV/Share (Hkd)	1.44
FY23 Net Cash/Share (Hkd)	1.22

### PRICE CHART



Source: Bloomberg

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### EARNINGS REVISION/RISK

- **Keep our earnings forecast unchanged.** The acquired company is expected to report no less than HK\$50m net profit in 2023, which is approximately 3.1% of COPH's estimated earnings. However, reduction in interest income and increase in inter-segment revenue may partially offset the increase of earnings from the new business. Thus, based on our current information, we keep our earnings forecast unchanged.

### VALUATION/RECOMMENDATION

- **Maintain BUY with lower target price of HK\$9.83.** We lower our DCF-derived target price to HK\$9.83 on: a) higher beta to reflect higher volatility of COPH; and b) lower net cash after the acquisition. COPH is now trading at 10.2x 2024PE, which is close to 2SD below the mean. We maintain BUY as we believe the company will continue to deliver 30% earnings CAGR in the 14th FYP.
- **Recent stock correction may provide good entry point.** The company's shares have fallen 24.2% cumulatively on the two days after the announcement of the acquisition. However, we believe that although the acquisition price is not low, there are still several important strategic highlights: a) the acquisition target is an asset-light company, which is in line with COPH's business positioning; and b) it will generate synergies with COPH in the field of urban operation services in the future. In addition, considering: a) management's solid track record of beating earnings targets; and b) the ample market room of urban operation services, we expect to see stronger growth of the acquired company once the acquisition and merger is completed.

### 2FY PE

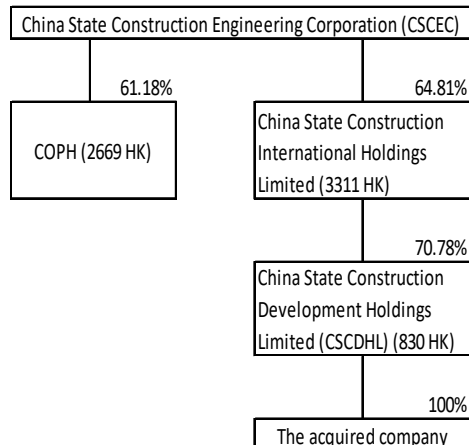


Source: Bloomberg, UOB Kay Hian

### SHARE PRICE CATALYST

- Easing of demand-side industry policies.
- Faster-than-expected implementation of Housing Maintenance Fund.

### SHAREHOLDING STRUCTURE OF COPH AND CSCDHL



Source: COPH, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (HK\$m)	2022	2023F	2024F	2025F
Net turnover	12,689.0	16,710.2	21,887.8	28,344.9
EBITDA	1,640.1	2,158.6	2,831.7	3,594.9
Deprec. & amort.	85.3	110.8	144.1	187.3
EBIT	1,554.8	2,047.8	2,687.7	3,407.6
Total other non-operating income	62.9	62.9	62.9	62.9
Associate contributions	4.9	6.3	8.2	10.7
Net interest income/(expense)	68.8	81.1	95.5	112.3
<b>Pre-tax profit</b>	<b>1,637.7</b>	<b>2,132.4</b>	<b>2,782.0</b>	<b>3,514.0</b>
Tax	(397.7)	(533.1)	(695.5)	(878.5)
Minorities	(7.5)	(9.8)	(12.7)	(16.6)
<b>Net profit</b>	<b>1,232.5</b>	<b>1,589.5</b>	<b>2,073.8</b>	<b>2,618.9</b>
Net profit (adj.)	(43.7)	1,589.5	2,073.8	2,618.9

### CASH FLOW

Year to 31 Dec (HK\$m)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>1,181.7</b>	<b>1,770.2</b>	<b>900.1</b>	<b>2,852.6</b>
Pre-tax profit	1,678.3	2,132.4	2,782.0	3,514.0
Tax	(397.7)	(533.1)	(695.5)	(878.5)
Deprec. & amort.	85.3	110.8	144.1	187.3
Associates	7.5	9.8	12.7	16.6
Working capital changes	(151.2)	73.9	(1,304.5)	66.6
Non-cash items	(40.6)	(23.6)	(38.8)	(53.3)
<b>Investing</b>	<b>(202.1)</b>	<b>(1,081.2)</b>	<b>(189.3)</b>	<b>(220.9)</b>
Capex (growth)	(87.9)	(1,095.1)	(188.6)	(245.1)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	(114.2)	13.9	(0.8)	24.2
<b>Financing</b>	<b>(309.8)</b>	<b>(400.1)</b>	<b>(500.5)</b>	<b>(652.9)</b>
Dividend payments	(295.8)	(381.9)	(476.8)	(622.1)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Others/interest paid	(14.0)	(18.2)	(23.7)	(30.8)
<b>Net cash inflow (outflow)</b>	<b>669.7</b>	<b>288.9</b>	<b>210.2</b>	<b>1,978.8</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>3,298.2</b>	<b>3,705.9</b>	<b>3,994.8</b>	<b>4,205.0</b>
Changes due to forex impact	(262.3)	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>3,705.6</b>	<b>3,994.8</b>	<b>4,205.0</b>	<b>6,183.8</b>
<b>Ending cash &amp; cash equivalent</b>			<b>12,300.1</b>	<b>13,649.5</b>

### BALANCE SHEET

Year to 31 Dec (HK\$m)	2022	2023F	2024F	2025F
Fixed assets	323.2	420.2	546.2	710.1
Other LT assets	270.8	1,217.5	1,218.1	1,221.9
ST debt	n.a.	n.a.	n.a.	n.a.
Cash/ST investment	3,705.9	3,994.8	4,205.0	6,183.8
Other current assets	5,821.4	7,696.2	8,730.6	11,570.8
<b>Total assets</b>	<b>10,121.4</b>	<b>13,328.6</b>	<b>14,699.9</b>	<b>19,686.6</b>
Other current liabilities	6,356.8	8,441.6	8,348.5	11,485.4
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	101.6	101.6	101.6	101.6
Shareholders' equity	3,611.4	4,724.0	6,175.6	8,008.9
Minority interest	51.6	61.4	74.2	90.7
<b>Total liabilities &amp; equity</b>	<b>10,121.4</b>	<b>13,328.6</b>	<b>14,699.9</b>	<b>19,686.6</b>

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	12.9	12.9	12.9	12.7
Pre-tax margin	12.9	12.8	12.7	12.4
Net margin	9.7	9.5	9.5	9.2
ROA	13.4	13.6	14.8	15.2
ROE	37.3	38.1	38.1	36.9
<b>Growth</b>				
Turnover	34.4	31.7	31.0	29.5
EBITDA	28.2	31.6	31.2	27.0
Pre-tax profit	24.3	30.2	30.5	26.3
Net profit	25.3	29.0	30.5	26.3
Net profit (adj.)	n.a.	n.a.	30.5	26.3
EPS	n.a.	n.a.	30.5	26.3
<b>Leverage</b>				
Debt to total capital	0.0	0.0	0.0	0.0
Debt to equity	0.0	0.0	0.0	0.0
Net debt/(cash) to equity	(102.6)	(84.6)	(68.1)	(77.2)
Interest cover (x)			44.0	91.1

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