China Overseas Land & Investment (688 HK)

Takeaways From Channel Checks And 1H26 Results Preview

BUY (Maintained)	
Share Price	HK$13.08
Target Price	HK$19.88
Upside	52.0%
Previous TP:	HK$19.58

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Highlights

- Property sales are on a recovery momentum. We expect ~16% blended gross profit margin in 1H26, which implies a slower yoy decline. Land investment may be skewed towards 2H26.
- We foresee revaluation loss from IP in 1H26, excluding which, core net profit is estimated to decline at low-teens yoy. Higher sales and lower land investment in 1H26 should have resulted in lower net gearing as of Jun 26.
- Reiterate BUY with a target price of HK$19.88. Having outperformed the HSI in the month after results in eight of the past 10 announcements, COLI remains our top pick.

Analysis

- **We conducted a channel check on COLI on 13 July. Key takeaways are:**
  - **Property sales are recovering.** For COLI, contracted sales grew 11.8% yoy to Rmb134.35b in 1H26, driven by a 27% yoy growth in ASP. Both newly launched projects and existing projects saw improved sales performance. Since late-June, visits to sales office and the visit-to-sales conversion ratio have seen a mom decline; however, this is mainly due to seasonality rather than being a weakening trend. With a lower base last year and better sentiment in Tier 1 cities, we expect improving yoy growth in contracted sales in Jul and Aug 26. We believe COLI is able to achieve its target of sales stabilisation in 2026 from 2025's Rmb251.23b.
  - **Margin pressure may ease, with expected slower yoy decline in 1H26.** We expect gross profit margin of property development (PD) to be near the upper end of the 13-15% guidance range (vs 15.8% in 1H25), and the blended gross profit margin at around 16% (vs 17.4% in 1H25). The expected narrower margin compression, compared with -4.7ppt yoy in 1H25 and -2.2ppt in 2025, is largely driven by higher margin on projects acquired during the market trough. Historically, COLI's margins tend to be higher in 1H and lower in 2H due to increased year-end inventory sell-down, and COLI reiterated its PD gross margin guidance of 13.0-15.0% (vs 13.9% in 2025), which in our view points to a gradual stabilisation of margins in 2026.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	185,154	168,089	161,382	158,158	159,527
EBITDA	26,411	19,676	17,658	18,964	20,731
Operating profit	25,951	19,257	17,221	18,510	20,260
Net profit (rep./act.)	15,636	12,691	11,765	12,565	13,651
Net profit (adj.)	15,720	13,010	11,765	12,565	13,651
EPS (HK$)	143.6	118.9	107.5	114.8	124.7
PE (x)	7.9	9.5	10.5	9.8	9.1
P/B (x)	0.3	0.3	0.3	0.3	0.3
EV/EBITDA (x)	11.8	15.8	17.6	16.4	15.0
Dividend yield (%)	4.7	3.9	3.6	3.8	4.2
Net margin (%)	8.4	7.6	7.3	7.9	8.6
Net debt/(cash) to equity (%)	30.9	37.1	39.5	37.5	35.1
Interest cover (x)	28.2	27.0	25.6	28.7	30.3
ROE (%)	4.1	3.3	3.0	3.2	3.4
Consensus net profit (HK$m)	-	-	12,509.3	13,143.7	14,148.4
UOBKH/Consensus (x)	-	-	0.94	0.96	0.96

Source: COLI, Bloomberg, UOB Kay Hian

Stock Data

GICS sector	Real Estate
Bloomberg ticker:	688 HK
Shares issued (m):	10,944.9
Market Cap (Rmbm):	143,159.1
Market cap (US$m):	18,262.4
3-mth avg t'over (US$m):	64.7

Price Performance (%)

52-week high/low: HK$16.7/HK$11.36

1mth	3mth	6mth	1yr	YTD
(16.6)	6.3	0.2	(4.2)	6.8

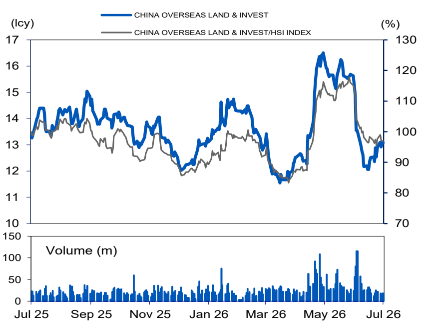
Major Shareholders

	%
China State Construction Engineering Corporation	56.10

Major Shareholders

FY26 NAV/Share (Rmb)	38.9
FY26 Net Debt/ Share (Rmb)	14.26

Price Chart



Source: Bloomberg

Company Description

China Overseas Land & Investment provides real estate services. The Company develops, manages, and invests in commercial properties. China Overseas Land & Investment serves customers globally.

- **Relatively weak IP performance.** Due to a lower capex on investment properties (IP) construction and continued downward pressure on office rents in mainland China, we expect pressure on the IP segment, and net revaluation loss in 1H26. However, as total revaluation loss of completed properties in 2025 is equivalent to 13% of core net profit and only 0.4% of equity, we expect the impact from revaluation loss on net gearing to be limited. The new development of REIT regulation framework (eg opening of new commercial REIT channel) may temporarily delay the expansion of COLI's listed REIT.
- **Slow land investment in 1H26.** Attributable land premium (excluding Sheung Road Station Phase 2) fell 80.9% yoy to Rmb7.66b in 1H26, with no land acquisition in four Tier 1 cities. The slower-than-expected pace is mainly due to: a) less land supply in higher tier cities, and b) the fierce competition. COLI has been sticking to its counter-cyclical discipline. We anticipate its acquisitions picking up in 2H26 as supply increases.
- **Preview for 1H26 results.** We expect a slight decrease in top-line and a less than 2ppt yoy decline in blended gross profit margin will lead to a low-teens yoy decline in core net profit. Strong sales and slower land acquisitions are expected to further lower the net gearing ratio, from the industry low level of 34.3% as of Dec 25.

Earnings Revision/Risk

- We cut our 2026/27/28 core net profit forecasts by 8.2%/6.1%/2.4% respectively, reflecting a more conservative development gross margin assumption. COLI has kept its development gross margin guidance unchanged at 13-15%. We had previously assumed a faster recovery in profitability; on that note, we trim those optimistic assumptions to more conservative levels.

Key Changes To Estimates

	Old			New			Change		
Rmbm	26E	27E	28E	26E	27E	28E	26E	27E	28E
Revenue	161,382	158,158	159,527	161,382	158,158	159,527	0	0	0
GPM-PD	15%	16%	16%	13.5%	14.5%	15.5%	-1.5%	-1.5%	-0.5%
GPM	15.7%	16.4%	17.0%	14.5%	15.5%	16.5%	-1.2%	-0.9%	-0.5%
Core net profit	12,814	13,378	13,983	11,765	12,565	13,651	-8.2%	-6.1%	-2.4%

Source: COLI, Bloomberg, UOB Kay Hian

Valuation/Recommendation

- **Maintain BUY with a target price of HK$19.88.** Holding the NAV discount unchanged at 55%, we update our 2026 NAV and slightly raised the target price to HK$19.88.
- **COLI remains our top pick.** Besides improving fundamentals, COLI also demonstrates decent post-results seasonality. Across the 10 results announcements since 2021, COLI has outperformed the HSI in the month after its results announcement in eight of 10 occasions (and delivered a positive absolute return in seven of 10), with an average one-month total return of +6.4% and an average relative return of +6.2% vs the HSI (see table on the right).

Share Price Catalyst

- Stronger-than-expected recovery in property market of Tier 1 cities.

Post-Results Share Price Performance — One-Month Return Since 2021

Results	Date	Total return (%)	Rel. to HSI (%)
1H2021	Aug 21	(12.0)	(9.0)
FY2021	Mar 22	2.3	7.4
1H2022	Aug 22	10.8	17.7
FY2022	Mar 23	2.6	4.5
1H2023	Aug 23	1.3	4.1
FY2023	Mar 24	31.5	23.8
1H2024	Aug 24	17.4	5.9
FY2024	Mar 25	(0.9)	5.4
1H2025	Aug 25	(3.0)	(6.7)
FY2025	Mar 26	14.3	8.8
Average	–	6.4	6.2

Source: Bloomberg, HKEX, UOB Kay Hian

Profit & Loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	168,088.8	161,381.6	158,158.2	159,527.3
EBITDA	19,676.3	17,657.6	18,963.9	20,731.4
Deprec. & amort.	418.9	436.5	454.1	471.7
EBIT	19,257.5	17,221.1	18,509.9	20,259.7
Total other non-operating income	1,557.3	962.5	847.0	762.3
Associate contributions	521.8	495.7	520.5	546.6
Net interest income/(expense)	(727.6)	(691.0)	(661.2)	(683.3)
Pre-tax profit	20,609.0	17,988.4	19,216.2	20,885.2
Tax	(7,177.5)	(5,537.1)	(5,917.9)	(6,438.0)
Minorities	(740.3)	(686.3)	(732.9)	(796.3)
Net profit	12,691.2	11,765.0	12,565.3	13,650.9
Net profit (adj.)	13,010.0	11,765.0	12,565.3	13,650.9

Balance Sheet

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Fixed assets	212,974.5	213,274.5	213,574.5	213,874.5
Other LT assets	57,098.9	58,580.5	60,106.7	61,678.6
Cash/ST investment	103,351.5	99,540.3	113,254.3	128,618.3
Other current assets	542,272.5	556,895.9	569,034.0	581,784.8
Total assets	915,697.3	928,291.3	955,969.4	985,956.1
ST debt	42,316.1	44,431.9	46,653.5	48,986.2
Other current liabilities	220,273.1	216,688.8	223,585.4	230,985.0
LT debt	205,059.3	211,211.1	217,547.4	224,073.8
Other LT liabilities	28,149.6	29,545.2	33,941.3	38,996.8
Shareholders' equity	387,947.8	394,776.6	402,871.2	411,747.3
Minority interest	31,951.4	31,637.6	31,370.6	31,166.8
Total liabilities & equity	915,697.3	928,291.3	955,969.4	985,956.1

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	(20,464.0)	482.7	17,728.8	19,708.0
Profit fo the year	20,609.0	17,988.4	19,216.2	20,885.2
Tax	(7,177.5)	(5,537.1)	(5,917.9)	(6,438.0)
Deprec. & amort.	418.9	436.5	454.1	471.7
Associates	(521.8)	(495.7)	(520.5)	(546.6)
Working capital changes	(33,387.8)	(11,637.8)	4,682.8	5,414.7
Non-cash items	(404.7)	(271.5)	(185.8)	(78.9)
Other operating cashflows	0.0	(0.0)	0.0	0.0
Investing	(2,503.0)	(300.0)	(300.0)	(300.0)
Capex (growth)	(300.0)	(300.0)	(300.0)	(300.0)
Investment	49,389.2	50,870.8	52,397.0	53,968.9
Others	(51,592.2)	(50,870.8)	(52,397.0)	(53,968.9)
Financing	(7,275.3)	(3,993.9)	(3,714.9)	(4,044.0)
Dividend payments	(5,936.1)	(5,470.7)	(5,774.8)	(6,187.3)
Proceeds from borrowings	5,811.5	8,267.6	8,557.9	8,859.1
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(7,150.6)	(6,790.7)	(6,498.0)	(6,715.8)
Net cash inflow (outflow)	(30,242.4)	(3,811.1)	13,713.9	15,364.0
Beginning cash & cash equivalent	123,892.2	103,351.5	99,540.3	113,254.3
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	93,649.9	99,540.3	113,254.3	128,618.3

Key Metrics

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	11.7	10.9	12.0	13.0
Pre-tax margin	12.3	11.1	12.1	13.1
Net margin	7.6	7.3	7.9	8.6
ROA	1.4	1.3	1.3	1.4
ROE	3.3	3.0	3.2	3.4
Growth				
Turnover	(9.2)	(4.0)	(2.0)	0.9
EBITDA	(25.5)	(10.3)	7.4	9.3
Pre-tax profit	(22.0)	(12.7)	6.8	8.7
Net profit	(18.8)	(7.3)	6.8	8.6
Net profit (adj.)	(17.2)	(9.6)	6.8	8.6
EPS	(17.2)	(9.6)	6.8	8.6
Leverage				
Debt to total capital	37.1	37.5	37.8	38.1
Debt to equity	63.8	64.8	65.6	66.3
Net debt/(cash) to equity	37.1	39.5	37.5	35.1
Interest cover (x)	27.0	25.6	28.7	30.3