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Hong Kong Property

Reuters 0497.HK
Bloomberg 497 HK

Priced on 19 June 2013

HK HSI @ 20,986.9

12M hi/lo HK\$0.40/0.30

12M price target HK\$0.46
±% potential +34%

Shares in issue 9,518.1m
Free float (est.) 53.8%

Market cap US\$417m

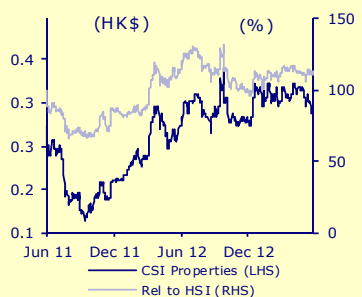
3M average daily volume
HK\$5.4m (US\$0.7m)

Major shareholders

Mico Chung 46.2%

Stock performance (%)

	1M	3M	12M
Absolute	(5.6)	0.0	11.5
Relative	3.9	5.0	3.1
Abs (US\$)	(5.5)	0.0	11.5



Source: Bloomberg

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FY13 results review

CSI's chairman Chung added recently another 2% to his stake in April. And company's profit sets to rebound by 63% in FY14, with 49% of net profit has now been locked in. But company is also facing headwinds from policy measures and cap rate expansion, which can be negative to company's earnings visibility. Current share price implies 34% potential upside, but stock re-rating may take time till the remaining 51% of FY14 earnings becoming more visible.

Results highlight

CSI's FY13 net profit came in at HK\$902m, down 49% y-y, is well-expected due to high-base FY12 and sale of remaining AXA Centre office floors slowed since DSD. Company booked 4 Hampton unit for HK\$484mn, AXA Centre (24/F, L/G retail) for HK\$359m, and 25%-owned CUBUS (attr value: HK\$383m) in FY13, compared to Mohan Residence (HK\$1.4bn) and AXA Centre (7 floors, HK\$1.7bn) a year ago. Financial position remains strong, net gearing improved to 10.8% from 16.3% in Sep 12. DPS was down 43% y-y, payout at 15% was kept broadly the same as FY12.

49% of 14CL profits locked in

43% of FY14 sales pipeline were already sold awaiting completions YTD, and 49% of our 14CL net profit has now been locked. Another 20% sales pipeline comes from Shanghai Platinum project, a 50-50 JV with Chinese Estate (123 HK, N-R) whose chairman is currently being accused by Macao government for bribery. As advised by management, CSI is the lead manager of the Platinum project and has control over timing and pricings.

Longer-term headwinds: policy measures & cap rate

CSI has demonstrated their expertise in creative product development achieving 112% return in past major exited trades, 57% came from passive market price appreciation and 55% came from value added by the company. With HK policy measures remain and cap rate set to re-expand, returns passive price appreciation are to decline which is negative to CSI future earnings visibility as HK prop represent 80% of NAV and 90% FY15's pipeline.

Maintain BUY

We set our TP at HK\$0.46 based on 55% disc to NAV of HK\$1.02/shr. We rate the stock with a BUY rec with 34% potential upside, but investors will need to be patient for the stock as re-rating may take time till the remaining 51% of FY14 earnings becoming more visible.

Financials

Year to 31 March	12A	13A	14CL	15CL	16CL
Revenue (HK\$m)	3,218	1,162	2,879	2,287	2,312
Rev forecast change (%)	-	-	110.8	12.8	-
Net profit (HK\$m)	1,754	903	1,468	833	1,070
NP forecast change (%)	-	-	43.3	(15.9)	-
EPS (HK\$)	0.21	0.10	0.15	0.09	0.11
CL/consensus (1) (EPS%)	-	-	140	88	-
EPS growth (% YoY)	102.9	(52.3)	51.7	(43.2)	28.4
PE (x)	1.6	3.3	2.2	3.9	3.0
Dividend yield (%)	7.1	4.4	6.8	3.9	5.0
ROE (%)	34.4	13.9	19.1	9.4	11.2
Net debt/equity (%)	4.0	10.8	6.3	6.2	15.1

Source: CLSA

Figure 1

Results snapshot

	FY12A	FY13A	chg
	(HK\$m)	(HK\$m)	% y-y
P&L			
Revenue	3,217.9	1,162.4	(64)
Cost of sales	(1,551.6)	(424.6)	(73)
Gross profit	1,666.3	737.8	(56)
SG&A	(163.2)	(193.6)	19
Other income/exp	219.7	466.9	113
Finance costs	(52.9)	(72.5)	37
Share of results of JCEs	31.6	21.8	(31)
Share of results of associates	185.3	25.1	(86)
Profit before tax	1,886.8	985.5	(48)
Taxation	(118.5)	(60.5)	(49)
Profit for the year	1,768.3	925.0	(48)
Minority interest	(14.2)	(22.4)	57
Profit attr to equity shareholders	1,754.1	902.7	(49)
Dividends	199.3	131.4	(34)
Payout ratio (%)	11.4	14.6	2.2 ppt
Balance sheet			
Short-term debt	735.6	751.9	2
Long-term debt	1,928.3	3,125.2	62
Cash	2,424.0	3,112.0	28
Net debt	239.8	765.0	219
Shareholders' equity	5,958.9	7,064.3	19
Net gearing (%)	4.0	10.8	6.8 ppt

Source: Company data, CLSA

Figure 2 shows the latest sales pipeline.

H8 and the Hampton (1/F, 2A) were scheduled to be sold in FY13 but transactions are now to be completed in FY14. Company had also acquired 703-705 Nathan Road for HK\$830mn and Enterprise Square for HK\$260mn in early 2013 and successfully re-sold for HK\$1.0bn and HK\$280mn in just 3 months. Combined resulting in 111% and 43% upgrade in revenue and earnings for FY14.

Novotel Hotel Jordan repositioning work will be completed by 2015 vs our estimate of late 2014, resulting in earnings cut for FY15. Under current master plan, upper retail floors of Novotel will be converted into additional hotel rooms and remaining retail area will reposition to more upscale tenants to maximize rental revenue. The earnings cut is partly offset by sale of remaining 6 floors of AXA Centre, which we now expect to be sold in FY15 when current lease expires.

Figure 2

Sales pipeline

	Stake	Total GFA	est ASP at disposal	est All-in cost	Margin	Total proceeds	Attr cash proceeds	Revenue contribution	Asso/JCEs	EBIT
	(%)	(sqf)	(HK\$psf)	(HK\$psf)	(%)	(HK\$m)	(HK\$m)	(HK\$m)	(HK\$m)	(HK\$m)
FY13A										
5B, 7A, 7B The Hampton	90	15,000	26,000	12,782	51	390	351	390	-	198
AXA Centre (L/G retail)	100	19,607	10,000	5,508	45	196	196	196	-	88
AXA Centre (24/F)	100	10,380	16,500	5,508	67	171	171	171	-	114
CUBUS (retail)	25	68,000	22,000	8,195	63	1,496	374	-	374	235
2B The Hampton	90	3,300	25,000	12,782	49	83	74	83	-	40
						2,336	1,167	840	374	675
FY14CL										
H8 (retail)	100	45,101	15,000	7,050	53	677	677	677	-	359
1/F, 2A The Hampton (residential)	90	6,099	25,000	12,782	49	152	137	152	-	75
703-705 Nathan Road (2-20/F retail)	100	27,000	25,000	23,000	8	675	675	675	-	54
703-705 Nathan Road (G/F+1/F retail)	100	3,000	130,000	69,667	46	390	390	390	-	181
Enterprise Square (office)	100	40,505	7,000	6,500	7	284	284	284	-	20
AXA Centre (1 office floor, high floor)	100	10,380	14,000	5,940	58	145	145	145	-	84
The Platinum, Shanghai (office)	50	370,000	5,837	2,077	64	2,160	1,080	-	1,080	696
yoo Residence (residential)	50	90,000	21,000	12,948	38	1,890	945	-	945	362
24 Wellington street (retail)	100	700	210,000	154,286	27	147	147	147	-	39
2-4 Shelley Street (retail)	100	32,000	15,680	10,043	36	502	502	502	-	180
						7,021	4,981	2,972	2,025	2,049
FY15CL										
AXA Centre (6 office floors)	100	96,046	13,000	5,940	54	1,249	1,249	1,249	-	678
AXA Centre (G/F retail)	100	16,996	28,840	8,748	70	490	490	490	-	341
47 Barker Road (residential)	100	4,232	67,498	56,440	16	286	286	286	-	47
Shanghai Qingpu Ph1 (residential)	50	257,200	4,670	3,000	36	1,201	601	-	601	215
58-60 Sai Yeung Choi Street (retail)	50	3,000	200,850	189,000	6	603	301	-	301	18
						3,828	2,926	2,024	902	1,299
FY16CL and beyond										
Golden computer centre (retail)	40	29,800	23,764	17,396	27	708	283	-	283	76
23-25 Ashley Road (retail)	100	41,310	15,447	8,490	45	638	638	638	-	287
27 Ashley Road (retail)	100	20,218	15,447	10,879	30	312	312	312	-	92
JIA Hotel (hotel, retail)	100	45,000	16,786	8,118	52	755	755	755	-	390
Novotel (hotel)	50	215,000	10,102	8,819	13	2,172	1,086	-	1,086	138
Novotel (retail)	50	75,000	11,882	9,359	21	891	446	-	446	95
Kau To Shan (residential)	100	50,375	22,178	19,495	12	1,117	1,117	1,117	-	135
Monterey Court (residential)	60	73,306	33,749	29,307	13	2,474	1,484	2,474	-	326
Shanghai Qingpu Ph2 (residential)	50	385,800	4,954	3,000	39	1,911	956	-	956	377
In Point (retail)	100	122,444	4,954	2,973	40	607	607	607	-	243
						11,586	7,684	5,904	2,770	2,159

Source: Company data, CLSA

NAV: HK\$1.02/shr

Figure 3

FY14 NAV estimate

	FY14 NAV (HK\$m)	% of GAV
HK properties	8,247	81%
- Residential	2,144	21%
- Commercial	6,104	60%
China properties	1,945	19%
- Residential	783	8%
- Commercial	1,162	11%
Total	10,192	100%
Net (debt)/cash	(530)	
NAV	9,518	
NAV per share (HK\$)	1.02	

Source: CLSA

Summary financials

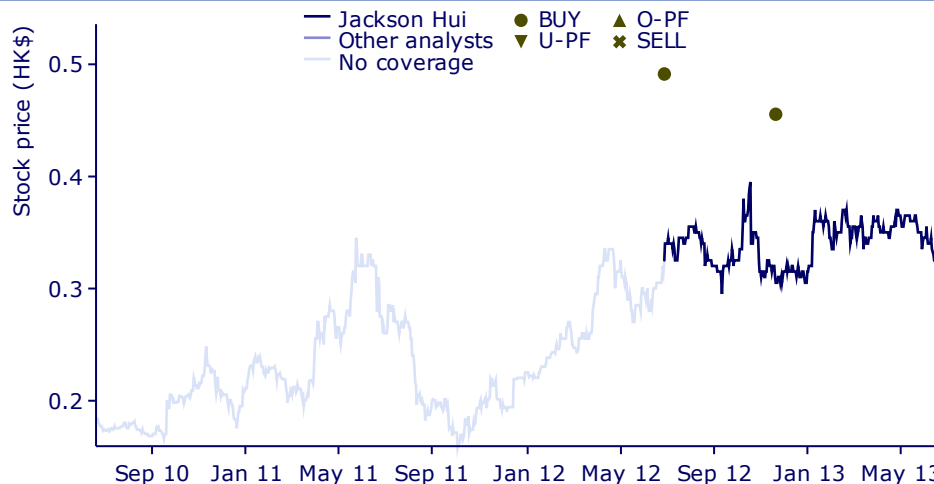
Year to 31 March	2012A	2013A	2014CL	2015CL	2016CL
Summary P&L forecast (HK\$m)					
Revenue	3,218	1,162	2,879	2,287	2,312
Op Ebitda	1,738	1,056	907	1,062	622
Op Ebit	1,702	994	907	1,062	622
Interest income	20	17	14	17	16
Interest expense	(53)	(72)	(160)	(185)	(225)
Other items	217	47	875	35	776
Profit before tax	1,887	986	1,635	930	1,189
Taxation	(119)	(61)	(164)	(93)	(119)
Minorities/Pref divs	(14)	(22)	(4)	(3)	-
Net profit	1,754	903	1,468	833	1,070
Summary cashflow forecast (HK\$m)					
Operating profit	1,702	994	907	1,062	622
Operating adjustments	-	-	-	-	-
Depreciation/amortisation	35	62	0	0	0
Working capital changes	563	232	686	998	519
Net interest/taxes/other	(294)	(161)	(324)	(278)	(344)
Net operating cashflow	2,006	1,126	1,269	1,782	797
Capital expenditure	0	(272)	(567)	(613)	(566)
Free cashflow	2,006	855	702	1,169	232
Acq/inv/disposals	(1,176)	(4,143)	(2,000)	(2,000)	(2,000)
Int, invt & associate div	(8)	-	-	-	-
Net investing cashflow	(1,185)	(4,414)	(2,567)	(2,613)	(2,566)
Increase in loans	56	3,285	1,248	2,000	2,000
Dividends	(82)	(199)	(131)	(220)	(125)
Net equity raised/other	(93)	1,555	0	-	-
Net financing cashflow	(119)	4,641	1,117	1,780	1,875
Incr/(decr) in net cash	702	1,353	(182)	949	107
Exch rate movements	-	(665)	-	-	-
Opening cash	1,722	2,424	3,777	3,595	4,545
Closing cash	2,424	3,112	3,595	4,545	4,651
Summary balance sheet forecast (HK\$m)					
Cash & equivalents	2,424	3,112	3,595	4,545	4,651
Debtors	42	96	96	96	96
Inventories	3,242	3,563	3,809	4,807	5,326
Other current assets	654	971	971	971	971
Fixed assets	0	0	0	0	0
Intangible assets	-	-	-	-	-
Other term assets	2,688	3,748	4,551	4,586	5,362
Total assets	9,050	11,490	13,022	15,004	16,406
Short-term debt	736	752	-	-	-
Creditors	85	286	286	286	286
Other current liabs	312	233	233	233	233
Long-term debt/CBs	1,928	3,125	4,125	5,125	6,125
Provisions/other LT liabs	16	9	9	9	9
Minorities/other equity	13	21	25	28	28
Shareholder funds	5,959	7,064	8,344	9,324	9,726
Total liabs & equity	9,050	11,490	13,022	15,004	16,406
Ratio analysis					
Revenue growth (% YoY)	17.2	(63.9)	147.7	(20.6)	1.1
Ebitda growth (% YoY)	83.8	(39.2)	(14.1)	17.2	(41.4)
Ebitda margin (%)	54.0	90.8	31.5	46.5	26.9
Net profit margin (%)	54.5	77.7	51.0	36.4	46.3
Dividend payout (%)	11.4	14.6	15.0	15.0	15.0
Effective tax rate (%)	6.3	6.1	10.0	10.0	10.0
Ebitda/net int exp (x)	53.5	19.0	6.2	6.3	3.0
Net debt/equity (%)	4.0	10.8	6.3	6.2	15.1
ROE (%)	34.4	13.9	19.1	9.4	11.2
ROIC (%)	31.8	16.6	12.7	13.7	7.2
EVA@/IC (%)	26.5	11.3	7.4	8.4	1.9

Source: CLSA

Companies mentioned

CSI Properties (497 HK - HK\$0.34 - BUY)

Recommendation history of CSI Properties Ltd 497 HK



Date	Rec	Target	Date	Rec	Target
20 November 2012	BUY	0.46	28 June 2012	BUY	0.49

Source: CLSA



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