

Jackson Hui

jackson.hui@cls.com
(852) 26008723

Nicole Wong

(852) 26008207

19 November 2012

Hong Kong Property

Reuters 0497.HK
Bloomberg 497 HK

Priced on 19 November 2012
HK HSI @ 21,262.1

12M hi/lo HK\$.40/.19

12M price target HK\$.46
±% potential +47%

Shares in issue 9,518.1m
Free float (est.) 55.8%

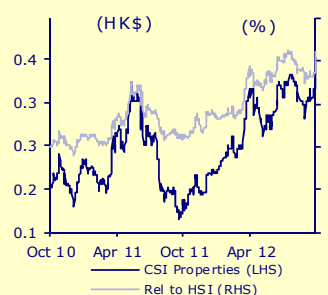
Market cap US\$381m

3M average daily volume
HK\$19.4m (US\$2.5m)

Major shareholders
Mico Chung 44.2%

Stock performance (%)

| | 1M | 3M | 12M |
|------------|-------|--------|------|
| Absolute | (8.8) | (8.8) | 45.5 |
| Relative | (7.6) | (13.7) | 26.6 |
| Abs (US\$) | (8.8) | (8.8) | 46.2 |



Source: Bloomberg

www.cls.com

1H results review

The recently introduced BSD has a near term positive but longer term negative impact on CSI. Good news is commercial properties will dominate CSI's 2H13 pipeline accounting for 94% by value, and thus cashflow will stay strong. Bad news is 24% of NAV and 34% of FY14 sales pipeline are coming from HK luxury residential where impact of BSD will be negative. Coupled with earnings dilution caused by recent share placement, hence we lowered our target price by 6% to HK\$0.46/shr. At 69% discount to NAV, CSI still offer 47% upside but there will be no clear near term catalyst.

Results highlight

CSI's net profit came in at HK\$373m, down 72% y-y, largely due to high base effect and well-expected. Company booked HK\$684m sale was booked in 1H13 mainly from 3 Hampton units and AXA L/G retail, compared to a record HK\$2.4bn property sales in 1H12 thanks to disposals of Mohan Residence (HK\$1.3b) and 6 office floors of AXA Centre (HK\$1.0b). Financial position remains strong with net gearing at 16.3% at Sep'12 (or 9.2% after share placement). No interim dividends as is tradition.

BSD: a near term positive ...

CSI has a HK\$3.7bn 2H13 sales pipeline, 94% by sales value is Hong Kong commercial properties which are exempted from Buyers' Stamp Duty and Special Stamp Duty. After the balance sheet date, one Hampton unit was sold for HK\$84m (before BSD); and CUBUS achieved the price after BSD and was sold for HK\$1.5bn at a 63% gross margin (est. all-in cost: HK\$557m).

...but a longer-term headwind

BSD, however, will bring negative impact on longer-term earnings. 24% of NAV is coming from HK luxury residential; The Tung Lo Wan Road project (complete in FY15) and 47 Barker Road project are set to launch next year and together represent 34% of FY14 pipeline by sales value.

Maintain BUY

We cut the NAV by 7% to HK\$1.01/shr factoring in BSD impact and earnings dilution by recent share placement. New target price of HK\$0.46/shr is pegged to 55% discount to NAV. Share is trading at 69% disc to NAV, offering 47% upside but a near term catalyst is missing. Maintain BUY but no hurry to chase for the stock.

Financials

| Year to 31 March | 11A | 12A | 13CL | 14CL | 15CL |
|-------------------------|-------|-------|--------|--------|--------|
| Revenue (HK\$m) | 2,745 | 3,218 | 2,843 | 1,366 | 2,027 |
| Rev forecast change (%) | - | - | 0.1 | 207.8 | (35.4) |
| Net profit (HK\$m) | 858 | 1,754 | 1,372 | 1,025 | 991 |
| NP forecast change (%) | - | - | (4.9) | 1.3 | (7.4) |
| EPS (HK\$) | 0.11 | 0.21 | 0.15 | 0.11 | 0.10 |
| CL/consensus (1) (EPS%) | - | - | 88 | 88 | 80 |
| EPS growth (% YoY) | 43.6 | 102.9 | (27.5) | (30.4) | (3.3) |
| PE (x) | 3.0 | 1.5 | 2.0 | 2.9 | 3.0 |
| Dividend yield (%) | 3.2 | 7.8 | 6.0 | 4.2 | 4.0 |
| ROE (%) | 22.4 | 34.6 | 19.5 | 11.4 | 9.7 |
| Net debt/equity (%) | 25.2 | 4.0 | (5.3) | 2.9 | 3.5 |

Source: CLSA Asia-Pacific Markets

1H results review

Figure 1

Results snapshot

| | 1HFY12 (HK\$m) | 1HFY13 (HK\$m) | y-y chg (%) |
|---------------------------------|-------------------|-------------------|----------------|
| Income statement | | | |
| Revenue | 2,510.8 | 793.0 | (68) |
| - Sale of properties | 2,401.5 | 684.1 | (72) |
| - Rental income | 109.4 | 108.9 | (0) |
| COGS | (1,147.4) | (314.7) | (73) |
| Gross profit | 1,363.4 | 478.3 | (65) |
| Gains/(losses) from investments | (41.9) | 51.8 | na |
| Other gains/(losses) | (3.5) | 0.0 | na |
| Other income | 7.3 | 14.2 | 94 |
| Admin expense | (99.0) | (90.1) | (9) |
| Finance cost | (25.7) | (33.3) | 29 |
| | 1,200.6 | 421.0 | (65) |
| JCEs | 30.2 | 1.5 | (95) |
| Associates | 156.0 | 14.0 | (91) |
| Profit before tax | 1,386.7 | 436.6 | (69) |
| Taxation | (71.2) | (46.6) | (35) |
| Profit for the period | 1,315.5 | 390.0 | (70) |
| - Minority interest | 3.5 | 17.1 | 394 |
| - Equity shareholders | 1,312.1 | 373.0 | (72) |
| Balance sheet | | | |
| | Mar 12 | Sep 12 | |
| Short-term debt | 735.6 | 792.8 | 8 |
| Long-term debt | 1,928.3 | 2,049.2 | 6 |
| Cash | 2,424.0 | 1,834.7 | (24) |
| Net debt | 239.8 | 1,007.3 | 320 |
| Shareholders' equity | 5,958.9 | 6,172.0 | 4 |
| Net gearing (%) | 4.0 | 16.3 | 12 |

Source: Company, CLSA Asia-Pacific Markets

High-base in last interim

Results review

Being a small niche property developer, CSI's earnings pattern is choppy by nature. Net profit was down 72% y-y to HK\$373m in 1H13, this is well-expected as company had a record property sale revenue last year thanks to sales of Mohan Residence for HK\$1.38bn (company turned the office building located in Tsim Sha Tsui into a serviced apartment), 6 floors of AXA Centre for HK\$993m (office building in Wan Chai), and 1 unit of The Hampton for HK\$88m (a luxury residential at Happy Valley).

In 1H13, company booked property sale of HK\$684m, mainly coming from 3 units of Hampton for HK\$400m (ASP HK\$25,000psf) and L/G retail of AXA Centre for HK\$188m.

Financial position remains healthy, with net gearing of 16.3% (vs 4.0% at Mar'12). The increase in net gearing was mainly due to debt financing for acquisitions of Novotel Hotel (HK\$600m), Kau To Shan land site (HK\$300m). If including share issuance in Oct'12 for HK\$400m, net gearing ratio will be 9.2%. Company has cash on hand of HK\$1.8bn (or HK\$2.2bn including share issuance), the strong financial capability allows company to seek NAV accretive acquisitions.

Similar to previous years, there were no interim dividend declared.

94% 2H13 pipeline are HKomm'l prop & is set to benefit from BSD

BSD: a near term positive

CSI has a HK\$3.7bn 2H13 sales pipeline (or attributable HK\$2.6bn), 94% are Hong Kong commercial properties which are exempted from Hong Kong Buyers' Stamp Duty and Special Stamp Duty. Projects on 2H13 sales pipeline include 9 office floors of AXA Centre (est. sales value HK\$1.5bn), H8 (est. sales value HK\$0.6bn), Cubus (25% owned, est. total sales value of HK\$1.5bn), and 3 Hampton units (est. sales value of HK\$230m).

CSI have sold the one Hampton unit for HK\$84m prior to announcement of BSD; market switched focus to commercial properties post BSD, CUBUS reached the price and was sold for some HK\$1.5bn. The estimated all-in cost is HK\$557m, achieved a gross margin of 63%.

Figure 2

Sales pipeline

| | Stake | Total GFA | Est ASP at disposal | All-in cost | Margin | Total cash proceeds | Attr. Cash proceeds | Sales contribution | Asso./ JCEs | EBIT |
|--|-------|-----------|---------------------|-------------|--------|---------------------|---------------------|--------------------|-------------|--------------|
| | (%) | (sqf) | (HK\$psf) | (HK\$psf) | (%) | (HK\$m) | (HK\$m) | (HK\$m) | (HK\$m) | (HK\$m) |
| 1HFY13A | | | | | | | | | | |
| 5B, 7A, 7B The Hampton | 90 | 15,000 | 26,000 | 12,782 | 51 | 390 | 351 | 390 | - | 178 |
| AXA Centre (basement retail) | 100 | 19,607 | 10,000 | 5,508 | 45 | 196 | 196 | 196 | - | 88 |
| | | | | | | 586 | 547 | 586 | - | 267 |
| 2HFY13CL | | | | | | | | | | |
| CUBUS | 25 | 68,000 | 22,000 | 8,195 | 63 | 1,496 | 374 | - | 235 | 235 |
| AXA Centre (15, 17~24/F office, skysign, carparks) | 100 | 116,806 | 12,000 | 5,940 | 51 | 1,402 | 1,402 | 1,402 | - | 708 |
| 2B The Hampton | 90 | 3,300 | 25,000 | 12,782 | 49 | 83 | 74 | 83 | - | 36 |
| H8 | 100 | 45,101 | 13,000 | 7,050 | 46 | 586 | 586 | 586 | - | 268 |
| 1A, 2A The Hampton | 90 | 6,099 | 24,106 | 12,782 | 47 | 147 | 132 | 147 | - | 62 |
| | | | | | | 3,714 | 2,569 | 2,218 | 235 | 1,309 |
| FY14CL | | | | | | | | | | |
| The Platinum | 50 | 370,000 | 5,837 | 2,077 | 64 | 2,160 | 1,080 | - | 696 | 696 |
| AXA Centre (G/F retail) | 100 | 16,996 | 14,560 | 5,508 | 62 | 247 | 247 | 247 | - | 154 |
| 24 Wellington Street | 100 | 700 | 235,200 | 154,286 | 34 | 165 | 165 | 165 | - | 57 |
| 2-4 Shelley Street | 100 | 32,000 | 16,800 | 10,043 | 40 | 538 | 538 | 538 | - | 216 |
| 47 Barker Road | 100 | 4,232 | 71,050 | 56,440 | 21 | 301 | 301 | 301 | - | 62 |
| Golden computer (new wing) | 40 | 29,800 | 22,400 | 17,396 | 22 | 668 | 267 | - | 60 | 60 |
| 33-39 Tung Lo Wan Rd | 50 | 90,000 | 18,000 | 12,948 | 28 | 1,620 | 810 | - | 227 | 227 |
| | | | | | | 5,698 | 3,407 | 1,250 | 983 | 1,471 |
| FY15CL | | | | | | | | | | |
| 23-25 Ashley Road | 100 | 41,310 | 16,016 | 8,490 | 47 | 662 | 662 | 662 | - | 311 |
| 27 Ashley Road | 100 | 20,218 | 16,016 | 10,879 | 32 | 324 | 324 | 324 | - | 104 |
| JIA Hotel | 100 | 45,000 | 14,000 | 8,118 | 42 | 630 | 630 | 630 | - | 265 |
| Qingpu villa project (Ph1) | 50 | 257,200 | 4,810 | 3,000 | 38 | 1,237 | 619 | - | 233 | 233 |
| Novotel (hotel) | 50 | 215,000 | 9,808 | 8,819 | 10 | 2,109 | 1,054 | - | 106 | 106 |
| Novotel (retail) | 50 | 75,000 | 12,320 | 9,359 | 24 | 924 | 462 | - | 111 | 111 |
| | | | | | | 5,885 | 3,750 | 1,615 | 450 | 1,130 |
| FY16CL and beyond | | | | | | | | | | |
| In-Point | 100 | 122,000 | 5,103 | 2,973 | 42 | 623 | 623 | 623 | - | 260 |
| Kau To Shan (villa project) | 100 | 50,375 | 22,178 | 19,495 | 12 | 1,117 | 1,117 | 1,117 | - | 135 |
| Monterey Court (luxury resi) | 60 | 73,306 | 33,749 | 29,307 | 13 | 2,474 | 1,484 | 2,474 | - | 195 |
| Qingpu villa project (remaining phases) | 50 | 385,800 | 4,954 | 3,000 | 39 | 1,911 | 956 | - | 377 | 377 |
| | | | | | | 5,502 | 3,557 | 3,591 | 377 | 707 |

Source: Company data, CLSA Asia-Pacific Markets

BSD also has negative impact in longer-term

BSD: also a headwind

BSD, however, also brings negative impact to CSI's longer-term earnings. HK luxury residential represents 24% of NAV, and the Tung Lo Wan Road project (sales value of some HK\$1.6bn and 28% of FY14 sales pipeline by value) is

47% upside

NAV: HK\$1.01/shr

scheduled to launch presale in early next year and completion will take place in FY15CL. We believe the BSD will weaken the sales momentum and thus cut FY15CL earnings by 7%.

Maintain BUY

We lower the NAV by 7% factoring the impact of BSD and earnings dilution caused by recent share placement. The stock is trading at [69]% discount to NAV. The new target price of HK\$0.46/share is pegged to 55% discount to FY13 NAV of HK\$1.01/share, implies 47% upside, but a near term share price catalyst is missing. Maintain BUY but no hurry to chase for the stock.

Figure 3

FY13 NAV estimate

| | FY13 NAV (HK\$m) | % of GAV |
|-----------------------------|---------------------|------------|
| HK properties | 7,459 | 81% |
| - Residential | 2,233 | 24% |
| - Commercial | 5,226 | 57% |
| China properties | 1,730 | 19% |
| - Residential | 688 | 8% |
| - Commercial | 1,042 | 11% |
| Total | 9,190 | 100% |
| Net (debt)/cash | 443 | |
| NAV | 9,633 | |
| NAV per share (HK\$) | 1.01 | |
| # of shares (m) | 9,518 | |

Source: CLSA Asia-Pacific Markets

Summary financials

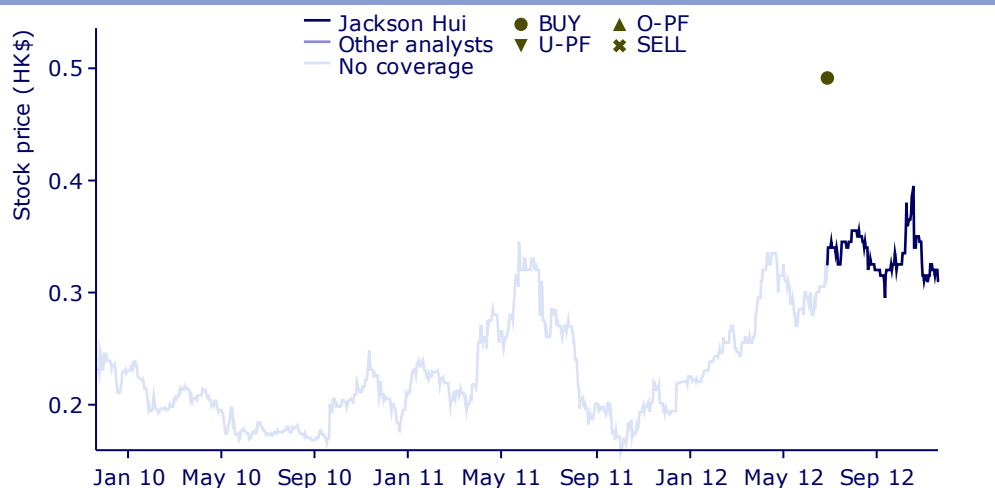
| Year to 31 March | 2011A | 2012A | 2013CL | 2014CL | 2015CL |
|---|--------------|----------------|----------------|----------------|----------------|
| Summary P&L forecast (HK\$m) | | | | | |
| Revenue | 2,745 | 3,218 | 2,843 | 1,366 | 2,027 |
| Op Ebitda | 945 | 1,738 | 1,343 | 430 | 771 |
| Op Ebit | 935 | 1,702 | 1,343 | 430 | 771 |
| Interest income | 4 | 20 | 20 | 20 | 20 |
| Interest expense | (80) | (53) | (94) | (110) | (137) |
| Other items | 82 | 217 | 281 | 798 | 454 |
| Profit before tax | 940 | 1,887 | 1,551 | 1,139 | 1,109 |
| Taxation | (84) | (119) | (155) | (114) | (111) |
| Minorities/Pref divs | 1 | (14) | (24) | - | (7) |
| Net profit | 858 | 1,754 | 1,372 | 1,025 | 991 |
| Summary cashflow forecast (HK\$m) | | | | | |
| Operating profit | 935 | 1,702 | 1,343 | 430 | 771 |
| Operating adjustments | - | - | - | - | - |
| Depreciation/amortisation | 11 | 35 | 0 | 0 | 0 |
| Working capital changes | (936) | 563 | 1,247 | 762 | 1,060 |
| Net interest/taxes/other | (707) | (294) | (249) | (224) | (248) |
| Net operating cashflow | (698) | 2,006 | 2,341 | 968 | 1,583 |
| Capital expenditure | 0 | 0 | (469) | (525) | (560) |
| Free cashflow | (698) | 2,006 | 1,872 | 443 | 1,023 |
| Acq/inv/disposals | 1,628 | (1,176) | (2,749) | (2,000) | (2,000) |
| Int, invt & associate div | 11 | (8) | - | - | - |
| Net investing cashflow | 1,639 | (1,185) | (3,219) | (2,525) | (2,560) |
| Increase in loans | 248 | 56 | 1,422 | 1,875 | 1,644 |
| Dividends | (41) | (82) | (199) | (165) | (123) |
| Net equity raised/other | (8) | (93) | 385 | - | - |
| Net financing cashflow | 199 | (119) | 1,608 | 1,711 | 1,521 |
| Incr/(decr) in net cash | 1,140 | 702 | 730 | 154 | 543 |
| Exch rate movements | - | - | - | - | - |
| Opening cash | 582 | 1,722 | 2,424 | 3,154 | 3,308 |
| Closing cash | 1,722 | 2,424 | 3,154 | 3,308 | 3,852 |
| Summary balance sheet forecast (HK\$m) | | | | | |
| Cash & equivalents | 1,722 | 2,424 | 3,154 | 3,308 | 3,852 |
| Debtors | 165 | 42 | 42 | 42 | 42 |
| Inventories | 4,151 | 3,242 | 3,615 | 4,853 | 5,793 |
| Other current assets | 824 | 654 | 654 | 654 | 654 |
| Fixed assets | 0 | 0 | 0 | 0 | 0 |
| Intangible assets | - | - | - | - | - |
| Other term assets | 624 | 1,371 | 1,239 | 1,239 | 1,239 |
| Total assets | 7,684 | 9,050 | 11,486 | 13,676 | 15,614 |
| Short-term debt | 1,087 | 736 | 125 | 356 | 137 |
| Creditors | 511 | 85 | 85 | 85 | 85 |
| Other current liabs | 129 | 312 | 312 | 312 | 312 |
| Long-term debt/CBs | 1,701 | 1,928 | 2,586 | 3,230 | 4,094 |
| Provisions/other LT liabs | 20 | 16 | 16 | 16 | 16 |
| Minorities/other equity | (1) | 13 | 181 | 181 | 188 |
| Shareholder funds | 4,238 | 5,959 | 8,180 | 9,495 | 10,783 |
| Total liabs & equity | 7,684 | 9,050 | 11,486 | 13,676 | 15,614 |
| Ratio analysis | | | | | |
| Revenue growth (% YoY) | 89.6 | 17.2 | (11.6) | (52.0) | 48.4 |
| Ebitda growth (% YoY) | 47.7 | 83.8 | (22.7) | (68.0) | 79.2 |
| Ebitda margin (%) | 34.4 | 54.0 | 47.2 | 31.5 | 38.0 |
| Net profit margin (%) | 31.2 | 54.5 | 48.3 | 75.0 | 48.9 |
| Dividend payout (%) | 9.5 | 11.4 | 12.0 | 12.0 | 12.0 |
| Effective tax rate (%) | 8.9 | 6.3 | 10.0 | 10.0 | 10.0 |
| Ebitda/net int exp (x) | 12.4 | 53.5 | 18.2 | 4.8 | 6.6 |
| Net debt/equity (%) | 25.2 | 4.0 | (5.3) | 2.9 | 3.5 |
| ROE (%) | 22.4 | 34.6 | 19.5 | 11.4 | 9.7 |
| ROIC (%) | 14.4 | 31.8 | 24.0 | 6.7 | 10.1 |
| EVA@/IC (%) | 9.1 | 26.5 | 18.8 | 1.4 | 4.8 |

Source: CLSA Asia-Pacific Markets

Companies mentioned

CSI Properties (497 - HK\$.31 - BUY)

Recommendation history of CSI Properties Ltd 497 HK



| Date | Rec | Target | Date | Rec | Target |
|--------------|-----|--------|------|-----|--------|
| 28 June 2012 | BUY | 0.49 | | | |

Source: CLSA Asia-Pacific Markets

Key to CLSA investment rankings: **BUY:** Total return expected to exceed market return AND provide 20% or greater absolute return; **O-PF:** Total return expected to be greater than market return but less than 20% absolute return; **U-PF:** Total return expected to be less than market return but expected to provide a positive absolute return; **SELL:** Total return expected to be less than market return AND to provide a negative absolute return. For relative performance, we benchmark the 12-month total return (including dividends) for the stock against the 12-month forecast return (including dividends) for the local market where the stock is traded.

©2012 CLSA Asia-Pacific Markets ("CLSA").

Note: In the interests of timeliness, this document has not been edited.

The analyst/s who compiled this publication/communication hereby state/s and confirm/s that the contents hereof truly reflect his/her/their views and opinions on the subject matter and that the analyst/s has/have not been placed under any undue influence, intervention or pressure by any person/s in compiling such publication/ communication.

The CLSA Group, CLSA's analysts and/or their associates do and from time to time seek to establish business or financial relationships with companies covered in their research reports. As a result, investors should be aware that CLSA and/or such individuals may have one or more conflicts of interests that could affect the objectivity of this report. Regulations or market practice of some jurisdictions/markets prescribe certain disclosures to be made for certain actual, potential or perceived conflicts of interests relating to research report and such details are available at www.clsa.com/member/research_disclosures/. Disclosures therein include the position of the CLSA Group only and do not reflect those of Credit Agricole Corporate & Investment Bank and/or its affiliates. If investors have any difficulty accessing this website, please contact webadmin@clsa.com or (852) 2600 8111. If you require disclosure information on previous dates, please contact compliance_hk@clsa.com

IMPORTANT: The content of this report is subject to and should be read in conjunction with the disclaimer and CLSA's Legal and Regulatory Notices as set out at www.clsa.com/disclaimer.html, a hard copy of which may be obtained on request from CLSA Publications or CLSA Compliance Group, 18/F, One Pacific Place, 88 Queensway, Hong Kong, telephone (852) 2600 8888.

27/04/2012