January 16, 2014
Equity focus
Rating: BUY
TP: HK$ 4.40

Share price (HK$)	3.49
Est. share price return	26.1%
Est. dividend yield	2.9%
Est. total return	29.0%

Previous Rating &TP	BUY; HK$ 3.00
Previous Report Date	November 26, 2013

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Key Data

52Wk H/L(HK$)	3.98/1.18
Issued shares (mn)	6,054
Market cap (HK$mn)	21,127
3-mth avg daily turnover (HK$ mn)	46.1
Major shareholder(s) (%):	
Cheng Chung Hing	40.35

Source(s): Company, Bloomberg, ABCI Securities

FY13 Revenue breakdown (%)

Property development	95.9
Property investment	2.9
Property management	0.6
Hotels	0.2
Others	0.5

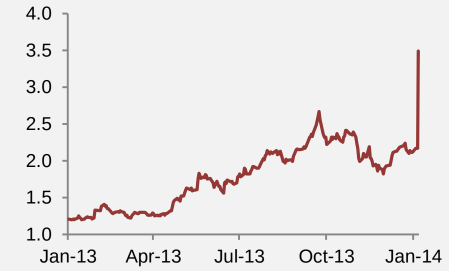
Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	89.2	89.8
3-mth	58.2	60.6
6-mth	101.6	87.2

*Relative to HSI
Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK$)



Source(s): Bloomberg, ABCI Securities

China South City (1668 HK)

Grabbing a slice of the e-commerce pie; reiterate BUY

- Tencent will subscribe a 10% stake in CSC at HK$ 2.20/share and will be granted an option to subscribe another 3% stake at HK$ 3.50/share
- The CSC-Tencent alliance will create a competitive O2O platform for e-commerce
- Positioned as the future logistic hub for Tencent, CSC's trade centre should enjoy stronger ASP and demand in the future
- CSC remains as our Top Pick in China property sector. We raise our TP to HK$ 4.40 (from HK$ 3.00 previously) based on a 55% discount to FY15E NAV

Strategic alliance with Tencent: A positive move. On Jan 14, 2013, CSC announced that Tencent (700 HK) would subscribe 680.3mn of new shares (10% of post-deal total share capital) at HK$ 2.20/share (no discount to previous closing price). Tencent would also be granted the option to subscribe 255.8mn shares (3% of total post-deal shares) at HK$ 3.50/ share within two years.

Online to Offline (O2O) platform to drive re-rating. We believe CSC's re-rating will continue because CSC has always been mistaken as a pure property developer, thus its logistics capability is overlooked. We believe CSC & Tencent's "Physical+Online" service integration will help Tencent to compete with Alibaba in the e-commerce and online retail markets. As both Tencent & Alibaba have already established strong internet platforms (online), the major battlefield will be on the logistics front (offline), i.e., timely delivery of goods, low-cost storage for SME and retailers. We believe CSC's physical (low-cost landbank and logistics services) and intangible assets (good relationships with SME) will prove invaluable to Tencent. In 1H13, CSC generated about HK$ 50mn in revenue from logistics and outlet services, representing a mere 1.5% of the total. We expect the operation to generate HK$ 337mn in revenue and HK$ 184mn in net profit for FY15E. On the property front, CSC may also benefit from ASP improvement because of the greater brand awareness resulted from having Tencent as a strategic investor and increasing business activities in CSC's trade centres.

Maintain BUY, raise TP to HK$4.40. Accounting for the share dilution after the new placement, we raise CSC's FY15E/16E EPS by 3.5% to 6.7% on better sales outlook as CSC's revised up its FY14E sales target of HK$ 14.0bn from HK$ 11bn previously. We also raise our FY15E NAV from HK$ 7.48 to HK$ 9.79 to factor in improved sales outlook and include valuation of the new O2O platform. Maintain **BUY** with revised TP at HK$ 4.40 (from HK$ 3.00 previously), based on a 55% discount to NAV (from 60% previously). CSC remains as our top pick in China Property sector.

Risk factors: 1) Tightening policy on commercial property sector; 2) High level of unsold inventories may slow cash flow

Results and Valuation

FY ended Mar 31	FY12A	FY13A	FY14E	FY15E	FY16E
Revenue (HK$ mn)	3,671	7,488	10,604	17,588	21,870
Chg (% YoY)	64.3	104.0	41.6	65.9	24.3
Core net profit (HK$ mn)	923	1,776	2,185	4,748	6,049
Chg (% YoY)	70.1	92.5	23.0	117.3	27.4
Underlying EPS (HK$)	0.15	0.29	0.33	0.63	0.80
Chg (% YoY)	69.8	91.6	10.5	92.3	27.4
BVPS (HK$)	2.16	2.63	2.71	3.18	3.77
Chg (% YoY)	22.7	21.7	3.1	17.3	18.6
Underlying PE (x)	22.7	11.8	10.7	5.6	4.4
P/B (x)	1.62	1.33	1.29	1.10	0.92
ROE (%)	7.1	11.2	10.6	19.7	21.2
ROA (%)	3.0	4.2	3.7	6.8	7.3
DPS (HK$)	0.08	0.10	0.10	0.15	0.20
Dividend yield (%)	2.1	2.9	2.9	4.3	5.7
Net gearing (%)	21.5	32.0	16.3	7.7	(41.3)

*Net gearing=Net debt/Total Shareholders' equity
Source(s): Bloomberg, ABCI Securities estimates

Exhibit 1: CSC's share placement to Tencent on 15 Jan 2014

	No of share	Price	Proceed raised	As % of total share capital
	mn	HK$	HK$ mn	
- New shares	680	2.20	1,497	10%
- Option (with two year option period)	245	3.50	857	3%
Total	**925**		**2,353**	

Source(s): Company; ABCI Securities

Exhibit 2: Changes in earnings forecasts

	Previous			Current			Change (%)		
	FY14E	FY15E	FY16E	FY14E	FY15E	FY16E	FY14E	FY15E	FY16E
Core net profit (HK$mn)	**2,172**	**3,908**	**5,131**	**2,185**	**4,748**	**6,049**	***0.6%***	***21.5%***	***17.9%***
YoY chg (%)	*22%*	*80%*	*31%*	*23%*	*117%*	*27%*			
Core EPS (HK$)	**0.33**	**0.59**	**0.77**	**0.33**	**0.63**	**0.80**	***-1.6%***	***6.7%***	***3.5%***
YoY chg (%)	*12%*	*77%*	*28%*	*11%*	*92%*	*27%*			
Contracted sales (HK$mn)	**11,533**	**14,979**	**23,188**	**14,516**	**18,867**	**30,423**	***25.9%***	***26.0%***	***31.2%***
YoY chg (%)	*41%*	*30%*	*55%*	*77%*	*30%*	*61%*			
GFA delivery (mn sqm)	**1.03**	**1.34**	**1.81**	**1.03**	**1.58**	**1.89**	***0.5%***	***18.3%***	***4.4%***
Gross margin (%)	**52.6%**	**58.0%**	**56.8%**	**52.1%**	**57.1%**	**58.3%**	***-0.5ppt***	***-1ppt***	***1.5ppt***

Source(s): Company; ABCI Securities estimates

Exhibit 3: CSC FY15E NAV forecast

	Attr. GFA (mn sqm)	Net assets value (HK$ mn)	% of total	Valuation Methodology	Implied value per sqm (HK$)
Property development					
Shenzhen	2.2	12,155	16%	DCF at WACC of 10.4%	5,644
Nanning	2.7	8,938	12%		3,337
Nanchang	3.7	13,162	17%		3,601
Xi'an	1.1	2,608	3%		2,417
Harbin	2.2	4,367	6%		1,957
Others	8.2	24,965	33%		3,061
Subtotal	**20.0**	**66,196**	**87%**		**3,318**
Investment Properties		4,279	6%	5% cap rate on FY15E net rental income	
O2O Platform (Warehouse, logistics & outlet)		5,517	7%	30x 2015E PE on online platform operation	
Total FY15E GAV		**75,992**	**100%**		
FY15E Net debt		(1,846)	-2%		
Total FY15E NAV		**74,146**	**98%**		
No. of share outstanding		7,577			
NAV per share (HK$)		**9.79**			
Target discount (%)		55%			
Target Price (HK$)		**4.40**			

WACC	**10.4%**
Cost of debt	8.0%
Cost of Equity	15.0%
Debt/ (Debt + Equity)	**51%**

Source(s): Company, ABCI Securities estimates

Exhibit 4: Sector valuation- Property sector

	China Property	Ticker	Rating	Mkt cap	Share Price	Performance 1M	3M	2013	Discount to NAV	Valuation P/E			Yield (%)			P/B		
				(HK$ bn)	(local ccy)	% Chg	% Chg	% Chg	(%)	2012A	2013E	2014E	2012A	2013E	2014E	2012A	2013E	2014E
	Residential :																	
1	COLI	688 HK	HOLD	179	21.85	(2)	(10)	(6)	(12.6)	11.2	8.6	7.5	1.9	2.3	2.7	2.0	1.7	1.5
2	CR Land	1109 HK	NR	114	19.50	(0)	(15)	(9)	(35.0)	15.0	12.4	9.8	1.7	2.1	2.5	1.5	1.5	1.3
3	Country Garden	2007 HK	NR	83	4.48	(6)	(21)	15	(43.5)	9.3	7.7	6.1	4.0	4.7	5.9	1.6	1.5	1.2
4	Longfor	960 HK	NR	61	11.30	4	(15)	(29)	(68.7)	8.7	7.8	6.6	2.3	2.6	3.0	1.5	1.3	1.1
5	Shimao	813 HK	NR	61	17.66	(2)	(9)	22	(47.9)	8.3	7.5	5.8	3.2	4.1	5.2	1.3	1.2	1.0
6	Evergrande	3333 HK	NR	45	2.81	(8)	(22)	(30)	(63.0)	3.6	4.1	3.4	0.0	5.0	5.9	0.7	0.7	0.6
7	Guangzhou R&F	2777 HK	NR	35	10.78	(6)	(21)	(12)	(63.9)	5.5	4.9	4.3	7.1	7.6	8.6	1.0	0.9	0.8
8	Greentown	3900 HK	BUY	24	11.04	(9)	(29)	(17)	(74.9)	4.6	3.8	3.4	5.8	6.4	7.0	1.0	0.8	0.7
9	Agile	3383 HK	NR	27	7.71	(8)	(16)	(24)	(62.8)	4.2	4.4	4.0	5.1	5.5	6.0	0.8	0.6	0.6
10	Sino Ocean	3377 HK	NR	35	4.80	(2)	(3)	(12)	(50.2)	7.8	8.5	7.1	5.0	5.0	5.4	0.6	0.6	0.6
11	COGO	81 HK	NR	16	6.86	(5)	(28)	(21)	(53.1)	6.5	5.7	4.5	1.6	2.2	2.7	1.6	1.4	1.1
12	Yuexiu Properties	123 HK	NR	17	1.79	(5)	(19)	(22)	(64.6)	12.3	7.9	6.2	3.7	4.8	6.0	0.5	0.5	0.5
13	Sunac	1918 HK	BUY	17	4.96	4	(5)	(23)	(72.5)	4.9	4.3	2.9	2.2	2.3	3.4	1.2	0.9	0.7
14	KWG	1813 HK	NR	12	4.25	(1)	(17)	(26)	(71.8)	5.0	4.1	3.4	4.5	5.6	6.6	0.6	0.6	0.5
15	Kaisa	1638 HK	BUY	11	2.30	3	(9)	4	(62.7)	6.6	4.1	2.9	0.0	0.0	0.0	0.7	0.6	0.5
16	CIFI	884 HK	NR	10	1.62	5	0	16	(63.2)	8.1	4.7	3.4	3.1	3.5	4.6	1.0	0.9	0.7
17	BJ Capital Land	2868 HK	NR	5	2.61	(2)	(6)	(18)	(69.5)	4.9	3.4	2.6	7.8	10.8	13.5	0.5	0.5	0.4
18	Future Land	1030 HK	NR	5	0.89	(3)	(6)	(38)	(79.6)	4.3	4.5	3.5	7.2	7.2	9.4	0.7	0.6	0.6
19	Modern Land	1107 HK	NR	2	1.30	8	0	(13)	na	6.2	na	na	0.0	na	na	na	na	na
	Residential Avg					**(2)**	**(13.2)**	**(13)**	**(58.9)**	**7.2**	**6.0**	**4.9**	**3.5**	**4.5**	**5.5**	**1.1**	**0.9**	**0.8**
	Commercial:																	
1	SOHO China	410 HK	NR	33	6.30	(7)	(7)	7	(45.4)	7.6	6.9	10.7	5.1	5.0	4.9	0.8	0.7	0.7
2	Hui Xian REIT	87001 HK	NR	25	3.82	(1)	(1)	(7)	(43.8)	15.5	19.3	18.4	6.4	6.5	6.9	0.7	0.7	0.7
3	Franshion	817 HK	BUY	24	2.65	2	(1)	(3)	(45.3)	11.6	8.6	6.8	2.6	3.8	4.5	1.0	0.9	0.9
4	Shui On Land	272 HK	NR	19	2.41	1	(10)	(37)	(64.3)	56.2	15.8	10.7	2.6	2.6	2.7	0.4	0.4	0.4
5	Yuexiu REIT	405 HK	NR	10	3.68	(3)	(3)	3	(29.2)	10.3	35.9	24.4	7.5	7.7	8.2	0.6	0.6	0.6
6	**China South City**	**1668 HK**	**BUY**	**22**	**3.49**	**80**	**50**	**88**	**(64.4)**	**11.8**	**10.7**	**5.6**	**2.9**	**2.9**	**4.3**	**1.3**	**1.3**	**1.1**
7	Zall	2098 HK	NR	9	2.56	(6)	(16)	(12)	na	11.1	na	na	2.4	na	na	1.4	na	na
8	Wuzhou	1369 HK	NR	6	1.34	6	8	10	na	18.3	5.2	3.6	0.0	3.9	5.5	2.0	0.2	0.2
	Commercial Avg					**9**	**2**	**6**	**(48.7)**	**17.8**	**14.7**	**11.4**	**3.7**	**4.6**	**5.3**	**1.0**	**0.7**	**0.6**
	- Developers					**19**	**8**	**14**	**(54.8)**	***21.8***	***10.5***	***8.4***	***3.3***	***3.6***	***4.1***	***0.9***	***0.8***	***0.8***
	- Landlords/REIT					**(2)**	**(2)**	**(2)**	**(36.5)**	***12.9***	***27.6***	***21.4***	***7.0***	***7.1***	***7.6***	***0.7***	***0.7***	***0.7***

* Data as at 16 Jan 2014
Source(s): Companies, ABCI Securities estimates, Bloomberg

Exhibit 5: Sector valuation- Logistic and internet sectors

	China Property	Ticker	Mkt cap	Share Price	Performance 1M	3M	2013	Valuation P/E			Yield (%)			P/B		
			(HK$ bn)	(local ccy)	% Chg	% Chg	% Chg	2012A	2013E	2014E	2012A	2013E	2014E	2012A	2013E	2014E
	Internet :															
1	Tencent	700 HK	954	512.50	1	8	99	57.5	44.3	34.9	0.2	0.3	0.3	14.1	13.1	10.0
2	IGG	8002 HK	12	8.81	(2)	110	na	NM	56.8	28.4	0.0	na	na	na	na	na
3	HT International	8292 HK	8	12.78	8	25	231	82.9	44.7	28.5	0.0	na	na	14.9	5.9	4.8
4	Boyaa	434 HK	9	12.46	(2)	58	na	52.4	34.7	27.0	0.0	na	na	23.7	5.7	4.7
	Internet average				**1**	**50**	**165**	**64.2**	**45.1**	**29.7**	**0.0**	**0.3**	**0.3**	**17.6**	**8.2**	**6.5**
	Logistics:															
1	Kerry Logistics	636 HK	24	13.98	(0)	na	na	15.7	15.9	23.9	0.0	0.8	0.8	2.1	1.7	1.6
2	Global Logistics Properties	GLP SP	85	2.93	(0)	2	4	16.4	41.1	32.4	1.4	1.3	1.4	1.3	1.3	1.2
3	Mapletree Industrial Trust	MINT SP	13	1.30	(2)	3	(2)	14.3	14.1	13.5	7.1	7.4	7.6	1.2	1.1	1.1
	Logistics average				**(1)**	**2.6**	**1**	**15.5**	**23.7**	**23.3**	**2.8**	**3.2**	**3.3**	**1.5**	**1.4**	**1.3**

* Data as at 16 Jan 2014
Source(s): Companies, ABCI Securities estimates, Bloomberg

Consolidated income statement (FY12A-FY16E)

FY Ended Mar 31 (HK$ mn)	FY12A	FY13A	FY14E	FY15E	FY16E
Revenue	**3,671**	**7,488**	**10,604**	**17,588**	**21,870**
Cost of sales	(1,435)	(3,311)	(5,077)	(7,549)	(9,113)
Gross Profit	**2,236**	**4,177**	**5,527**	**10,038**	**12,757**
SG&A expenses	(538)	(826)	(974)	(1,203)	(1,544)
EBIT	**1,698**	**3,351**	**4,553**	**8,836**	**11,213**
Finance cost	(59)	(133)	(226)	(283)	(283)
Share of profit of associates	1	1	-	-	-
Other income/ (expenses)	22	52	175	296	448
Fair value gain of investment properties	1,118	1,251	-	-	-
Disposal/one-off items	525	(49)	-	-	-
Profit before tax	**3,306**	**4,473**	**4,501**	**8,849**	**11,377**
Tax	(1,258)	(1,606)	(2,017)	(3,912)	(4,960)
Profit after tax	**2,048**	**2,867**	**2,484**	**4,938**	**6,417**
Minority interest	23	(117)	(299)	(190)	(368)
Reported net profit	**2,071**	**2,750**	**2,185**	**4,748**	**6,049**
Less: exceptional items	(1,148)	(973)	-	-	-
Underlying net profit	**923**	**1,776**	**2,185**	**4,748**	**6,049**
Per share					
Underlying EPS (HK$)	0.15	0.29	0.33	0.63	0.80
DPS (HK$)	0.08	0.10	0.10	0.15	0.20
Payout ratio (%)	49%	34%	31%	24%	25%
BVPS (HK$)	2.16	2.63	2.71	3.18	3.77
Growth %					
Revenue	64.3%	104.0%	41.6%	65.9%	24.3%
Gross Profit	67.7%	86.8%	32.3%	81.6%	27.1%
EBIT	67.6%	97.4%	35.9%	94.1%	26.9%
Underlying net profit	70.1%	92.5%	23.0%	117.3%	27.4%
Margin %					
Gross margin	60.9%	55.8%	52.1%	57.1%	58.3%
Gross margin (post-LAT)	51.4%	48.2%	40.9%	43.8%	44.6%
EBIT margin	46.3%	44.8%	42.9%	50.2%	51.3%
Core net margin	22.2%	26.2%	23.4%	28.1%	29.3%
Key assumptions					
Contracted Sales (HK$ mn)	6,207	8,205	14,516	18,867	30,423
GFA sold (mn sqm)	0.59	0.71	1.49	1.76	2.76
ASP (HK$/sqm)	10,487	11,573	9,749	10,739	11,015
Booked Sales (HK$)	3,011	6,899	10,152	16,867	20,751
GFA delivered (mn sqm)	0.25	0.66	1.03	1.58	1.89
Booked ASP (HK$/sqm)	11,986	10,409	9,831	10,652	10,957

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (FY12A-FY16E)

As of Mar 31 (HK$ mn)	FY12A	FY13A	FY14E	FY15E	FY16E
Current assets	**13,245**	**18,428**	**28,149**	**34,658**	**48,309**
Bank balances and cash	3,832	6,778	16,499	23,008	36,659
Trade receivables	526	937	937	937	937
Properties held for sale	7,908	9,953	9,953	9,953	9,953
Other current assets	979	760	760	760	760
Non-current assets	**17,421**	**23,917**	**31,087**	**34,843**	**34,509**
Properties under development	2,878	2,382	9,367	13,150	12,846
Property, plant and equipment	196	601	742	715	685
Investment properties	13,637	19,426	19,426	19,426	19,426
Investment in Associate and JCE	1	6	6	6	6
Other non-current assets	709	1,502	1,546	1,546	1,546
Total Assets	**30,666**	**42,345**	**59,236**	**69,501**	**82,818**
Current Liabilities	**10,895**	**15,374**	**27,108**	**33,673**	**42,189**
Short term borrowings	2,740	4,418	12,418	17,418	17,418
Trade and other payables	3,067	4,373	4,373	4,373	4,373
Pre-sale deposits	3,463	3,793	7,527	9,092	17,608
Other current liabilities	1,624	2,790	2,790	2,790	2,790
Non-current liabilities	**6,777**	**10,928**	**10,928**	**10,928**	**10,928**
Long term borrowings	3,878	7,435	7,435	7,435	7,435
Other payables	53	-	-	-	-
Other non-current liabilities	2,845	3,493	3,493	3,493	3,493
Total Liabilities	**17,671**	**26,302**	**38,036**	**44,601**	**53,117**
Net Assets	**12,995**	**16,043**	**21,200**	**24,900**	**29,700**
Shareholders Equity	**12,939**	**15,853**	**20,557**	**24,117**	**28,599**
Minority Interest	57	190	643	783	1,101
Total Equity	**12,995**	**16,043**	**21,200**	**24,900**	**29,700**
Key ratio:					
Gross debt (HK$ mn)	6,618	11,853	19,853	24,853	24,853
Net debt (HK$ mn)	2,786	5,076	3,354	1,846	(11,806)
Net gearing (%)	22%	32%	16%	8%	-41%
Contracted sales/ Total assets (x)	0.20	0.19	0.25	0.27	0.37

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (FY12A-FY16E)

FY ended Mar 31 (HK$ mn)	FY12A	FY13A	FY14E	FY15E	FY16E
EBITDA	1,721	3,378	4,583	8,873	11,253
Change in Working Capital	(2,468)	(554)	(1,968)	(615)	10,423
Tax payement	(160)	(200)	(2,017)	(3,912)	(4,960)
Operating Cashflow	**(907)**	**2,624**	**598**	**4,346**	**16,716**
Purchase of PP&E	(11)	(10)	(10)	(10)	(10)
Addition of Investment Properties	0	0	0	0	0
Investment in Associate/ JCE	11	0	0	0	0
Proceeds from Disposals	286	0	0	0	0
Others	(20)	0	175	296	448
Investing Cashflow	**265**	**(10)**	**165**	**286**	**438**
Debt raised	2,172	2,000	10,000	10,000	10,000
Debt repaid	(1,588)	(500)	(2,000)	(5,000)	(10,000)
Interest expenses	(522)	(719)	(1,510)	(1,886)	(1,886)
Equity raised	0	0	3,328	0	0
Convertible securities raised	0	0	0	0	0
Dividend to shareholders	(150)	(449)	(809)	(1,188)	(1,567)
Others	7	0	(50)	(50)	(50)
Financing Cashflow	**(81)**	**332**	**8,959**	**1,876**	**(3,503)**
Net cash inflow/ (outflow)	**(722)**	**2,946**	**9,722**	**6,508**	**13,651**
Cash- beginning	4,554	3,832	6,778	16,499	23,008
Cash- year-end	**3,832**	**6,778**	**16,499**	**23,008**	**36,659**

Source(s): Company, ABCI Securities estimates

Disclosures

Analyst Certification
I, Tung Yiu Kei Kenneth, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

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Definition of equity rating

Rating	Definition
Buy	Stock return ≥ Market return rate
Hold	Market return – 6% ≤ Stock return < Market return rate
Sell	Stock return < Market return – 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months
Market return: 5-year average market return rate from 2009-2013
Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	2.6 ≤180 day volatility/180 day benchmark index volatility
High	1.5 ≤ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	1.0 ≤180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.
Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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