



November 27, 2013
Equity focus
Rating: BUY
TP: HK\$ 3.00

Share price (HK\$) 2.04
Est. share price return 47.1%
Est. dividend yield 4.9%
Est. total return 52.0%

Previous Rating & TP BUY; HK\$ 3.00
Previous Report Date November 22, 2013

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Key Data

52Wk H/L(HK\$) 2.67/1.14
Issued shares (mn) 6,054
Market cap 12,980
3-mth avg daily turnover (HK\$ mn) 26.6
Major shareholder(s) (%):
Cheng Chung Hing 40.35
Source(s): Company, Bloomberg, ABCI Securities

FY12 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	(9.5)	(10.7)
3-mth	(0.9)	(8.6)
6-mth	28.8	27.2

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

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

China South City (1668 HK)

Solid margins and presales; maintain BUY

- Robust 1HFY14 results with core profit up by 27.1% to HK\$ 620mn
- 1HFY14 presales up 202% to HK\$ 5,787mn
- Commercial property exposure implies limited impact from tightening policy
- Low land cost enables a gross margin above 50%
- Maintain BUY with TP of HK\$3.00 based on a 60% discount to end-FY15E NAV. Our top Pick for the China property sector

Robust 1HFY14 results. CSC's 1HFY14 (Mar- Sep 2013) revenue grew 27.5% YoY to HK\$ 3,197mn, mainly driven by delivery of Xi'an projects during the period (HK\$2.2bn, 69% of total revenue). Gross margin dropped slightly from 53.7% in 1HFY13, to 51.6% in 1HFY14, as contribution of new projects (projects acquired after FY10, i.e. Xi'an, Zhengzhou, Harbin, Hefei) which usually have lower ASPs increased. Excluding the fair value gain of investment properties, core profit (post MI) jumped 27.1% YoY to HK\$ 620mn for 1HFY14.

Dual engines to drive 2HFY14 performance. Presales during the period surged 202% YoY to HK\$ 5,787mn, while the Hefei project launched in Nov 2013 attracted overwhelming responses. About RMB 880mn of sales deposits have been received for the project, implying that HK\$4.5bn of presale will be secured in coming months. We are confident that CSC will beat their FY14 contracted sales target of HK\$ 11bn. Further, CSC's rental business (excluded retail outlet) showed good progress (HK\$ 115mn, +14%). Average rent rate of CSC Shenzhen Phase 1/2 jumped +22%/8% YoY to HK\$44/HK\$37 per sqm per month. Rental revenue of its retail outlet operation, which is calculated based on turnover rent, also surged 403% YoY to HK\$44mn.

Maintain BUY with TP at HK\$3.00. We believe impressive presale and growing rental business should drive CSC's share performance in the future. Entering 2014, CSC's commercial exposure and low-cost landbank will ensure solid ASP and margins. Maintain **BUY** with TP at HK\$ 3.00 based on a 60% discount to end-FY15 NAV.

Risk factors: 1) Tightening policy on commercial property sector; 2) High level of unsold inventories may slow cash flow; 3) Dilution effects of CB conversion; 4) unexpected delay of completion of pre-sold properties

Results and Valuation

FY ended Mar 31	FY12A	FY13A	FY14E	FY15E	FY16E
Revenue (HKD mn)	3,671	7,488	10,743	15,513	20,285
Chg (% YoY)	64.3	104.0	43.5	44.4	30.8
Core net profit (HKD mn)	923	1,776	2,172	3,908	5,131
Chg (% YoY)	70.1	92.5	22.2	79.9	31.3
Underlying EPS (HKD)	0.15	0.29	0.33	0.59	0.77
Chg (% YoY)	69.8	91.6	12.4	77.3	31.3
BVPS (HKD)	2.16	2.63	2.75	3.18	3.74
Chg (% YoY)	22.7	21.7	4.5	15.6	17.7
Underlying PE (x)	13.3	6.9	6.2	3.5	2.6
P/B (x)	0.94	0.78	0.74	0.64	0.55
ROE (%)	7.1	11.2	11.9	18.5	20.6
ROA (%)	3.0	4.2	4.3	6.7	7.8
DPS (HKD)	0.08	0.10	0.10	0.15	0.20
Dividend yield (%)	3.7	4.9	4.9	7.4	9.8
Net gearing (%)	21.5	32.0	45.4	48.7	13.9

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



Exhibit 1: CSC's 1HFY14 results

P&L	1HFY14	1HFY13	YoY Chg	Remarks
	HK\$ mn	HK\$ mn	(%)	
Turnover	3,197	2,507	27.5	Mainly on completion of Xi'an projects
Cost of Sales & direct operating costs	(1,548)	(1,161)	33.3	
Gross Profit	1,649	1,347	22.5	
Gross Margin (%)	51.6	53.7	(2.1)	Mainly on the launch of more new projects, with lower ASPs to attract buyers in Phase 1
Selling and distribution costs	(190)	(84)	127.5	Presales more than doubled during the period
Administrative expense	(262)	(224)	16.8	
EBIT	1,197	1,039	15.2	
EBIT Margin (%)	37.4	41.4		
Other income, gains and losses	26	7	280.9	
Fair value gain of investment properties	488	388	26.0	
Other exceptional items	12	(42)	na	
Share of profit from JCE/ Associates	(0)	(0)	164.7	
Finance cost	(81)	(43)	87.7	
Profit before tax	1,642	1,348	21.8	
Tax	(459)	(610)	(24.8)	
- LAT	(380)	(222)	70.9	
- Enterprise tax	(79)	(388)	(79.6)	
Profit after tax	1,183	738	60.4	
Minority Interest	(219)	11	na	Mainly on the 35% minority stake in Xi'an projects
Net profit	965	749	28.7	
Core profit (before Minority Interest)	839	477	76.1	
Core profit (after Minority Interest)	620	488	27.1	
Operating statistics				
Contracted GFA (mn sqm)	0.63	0.17	265.3	
Contracted ASP (HK\$/sqm)	9,231	11,161	(17.3)	
Presales (HK\$ mn)	5,787	1,915	202.2	
GFA Delivered (mn sqm)	0.34	0.31	10.2	
Booked ASP (HK\$/sqm)	8,567	7,641	12.1	
Property sales booked (RMB mn)	2,880	2,332	23.5	
Balance sheet				
	Sep-13	Mar-13	HoH %	
	HK\$ mn	HK\$ mn		
Gross debt	14,934	11,853	26.0	
Cash	9,080	6,778	34.0	
Net debt	5,854	5,076	15.3	
Net gearing (%)	35.4	32.0	3.4	Mainly on the RMB 1,034 in land capex for Hefei project

* 1HFY14 represents Mar-Sep 2013 figures

Source(s): Company; ABCI Securities

Exhibit 2: CSC's booked sales & revenue breakdown

Project	GFA		ASP		Booked sales		YoY Chg
	1HFY14	1HFY13	1HFY14	1HFY13	1HFY14	1HFY13	
	000 sqm	000 sqm	HK\$/sqm	HK\$/sqm			
Shenzhen	5.8	0.3	27,100	18,100	158	6	<i>NA</i>
Xi'an	259	0	9,000	-	2,330	-	<i>NA</i>
Nanning	67.3	25.5	7,633	15,557	514	397	29%
Trade Centre (Mall)	5.1	25.5	16,800	15,600	86	397	-78%
Residential	62.2	0	6,900	-	428	-	NA
Nanchang	4.1	279.4	12,634	7,401	52	2,068	-97%
Trade Centre (Mall)	2.3	44.8	16,700	13,600	38	610	-94%
Residential	1.8	234.6	7,600	6,200	14	1,458	-99%
Property sales (pre- business tax)	336.2	305.2	9,081	8,094	3,053	2,470	24%
Revenue breakdown							
Property sales (post- business tax)					2,880	2,332	24%
Finance lease					118	30	292%
Rental					115	101	14%
Property management					34	21	58%
Hotel					-	13	NA
Other fee income					50	11	371%
Total revenue					3,197	2,507	27%

* 1HFY14 represents Mar-Sep 2013 figures

Source(s): Company; ABCI Securities



Exhibit 3: CSC's 1HFY14 Presales breakdown

Project	GFA sold		Amount	%
	000 sqm	HK\$/sqm		
Shenzhen	17.9	48,851	283	4.9%
Trade Centre (Mall)	5.8	27,207	158	2.7%
Office	3.3	11,848	39	0.7%
Residential	8.8	9,795	86	1.5%
Nanchang	47.0	23,947	757	13.1%
Trade Centre (Mall)	45.2	16,447	743	12.8%
Residential	1.8	7,500	14	0.2%
Nanning	35.2	23,939	299	5.2%
Trade Centre (Mall)	5.1	16,882	86	1.5%
Residential	30.1	7,056	212	3.7%
Xi'an	145.9	22,482	1,406	24.3%
Trade Centre (Mall)	32.4	14,133	458	7.9%
Trade Centre (Detached)	113.5	8,349	948	16.4%
Zhengzhou				
Trade Centre (Detached)	229.4	8,268	1,897	32.8%
Harbin				
Trade Centre (Detached)	151.5	7,568	1,147	19.8%
Total	627	9,231	5,787	100.0%

* 1HFY14 represents Mar-Sep 2013 figures
Source(s): Company; ABCI Securities

Exhibit 4: CSC's landbank as at Sep 2013

Project (m sqm)	Completed Properties		Under Development	For Future Development	Total planned GFA	GFA of Land acquired		GFA To be acquired	
	Sold	Unsold				%	%		
Shenzhen	0.7	1.1	0.2	0.7	2.6	2.6	100%	-	0%
Nanchang	0.6	0.2	0.4	3.2	4.3	4.3	100%	-	0%
Nanning	0.1	0.7	0.6	3.5	4.9	2.5	51%	2.4	49%
Xi'an	0.5	0.5	0.5	16.1	17.5	2.5	14%	15.0	86%
Harbin	0.0	0.0	0.8	11.2	12.0	2.2	19%	9.8	81%
Zhengzhou	0.0	0.0	1.8	10.2	12.0	4.2	35%	7.8	65%
Hefei	0.0	0.0	0.9	11.1	12.0	3.9	33%	8.1	67%
Total	1.8	2.5	5.0	56.0	65.3	22.3	34%	43.0	66%

Source(s): Company; ABCI Securities

Exhibit 5: CSC FY15E NAV forecast

Property development	Attr. GFA	Net assets value	% of total	Valuation Methodology	Implied value per sqm (HKD)
	(mn sqm)	(HKD m)			
Shenzhen	2.2	10,052	17%	DCF at WACC of 10.4%	4,667
Nanning	2.7	6,890	11%		2,572
Nanchang	3.7	10,958	18%		2,998
Xi'an	1.1	2,364	4%		2,191
Harbin	2.2	3,530	6%		1,582
Others	8.2	22,006	37%		2,698
Subtotal	20.0	55,801	93%		2,797
Investment Properties & Others		4,279	7%	5% cap rate on FY15E net rental income	
Total FY15E GAV		60,080	100%		
FY15E Net debt		(10,289)	-17%		
Total FY15E NAV		49,791	83%		
No. of share outstanding		6,652			
NAV per share (HKD)		7.48			
Target discount (%)		60%			
Target Price (HKD)		3.00			

WACC	10.4%
Cost of debt	8.0%
Cost of Equity	15.0%
Debt/ (Debt + Equity)	52%

Source(s): Company; ABCI Securities estimates



Consolidated income statement (2012A-2016E)

FY Ended Mar 31 (HK\$ mn)	2012A	2013A	2014E	2015E	2016E
Revenue	3,671	7,488	10,743	15,513	20,285
Cost of sales	(1,435)	(3,311)	(5,090)	(6,510)	(8,763)
Gross Profit	2,236	4,177	5,653	9,004	11,522
SG&A expenses	(538)	(826)	(974)	(1,202)	(1,516)
EBIT	1,698	3,351	4,680	7,801	10,006
Finance cost	(59)	(133)	(196)	(252)	(252)
Share of profit of associates	1	1	-	-	-
Other income/ (expenses)	22	52	115	151	225
Fair value gain of investment properties	1,118	1,251	-	-	-
Disposal/one-off items	525	(49)	-	-	-
Profit before tax	3,306	4,473	4,599	7,700	9,979
Tax	(1,258)	(1,606)	(2,093)	(3,529)	(4,475)
Profit after tax	2,048	2,867	2,506	4,171	5,504
Minority interest	23	(117)	(334)	(264)	(373)
Reported net profit	2,071	2,750	2,172	3,908	5,131
Less: exceptional items	(1,148)	(973)	-	-	-
Underlying net profit	923	1,776	2,172	3,908	5,131
Per share					
Underlying EPS (RMB)	0.15	0.29	0.33	0.59	0.77
DPS (RMB)	0.08	0.10	0.10	0.15	0.20
Payout ratio (%)	49%	34%	30%	26%	26%
BVPS (RMB)	2.16	2.63	2.75	3.18	3.74
Growth %					
Revenue	64.3%	104.0%	43.5%	44.4%	30.8%
Gross Profit	67.7%	86.8%	35.4%	59.3%	28.0%
EBIT	67.6%	97.4%	39.7%	66.7%	28.3%
Underlying net profit	70.1%	92.5%	22.2%	79.9%	31.3%
Margin %					
Gross margin	60.9%	55.8%	52.6%	58.0%	56.8%
Gross margin (post-LAT)	51.4%	48.2%	41.4%	44.8%	44.5%
EBIT margin	46.3%	44.8%	43.6%	50.3%	49.3%
Core net margin	22.2%	26.2%	23.3%	26.9%	27.1%
Key assumptions					
Presales (RMB mn)	6,207	8,205	11,533	14,979	23,188
GFA sold (m sqm)	0.59	0.71	1.08	1.39	2.12
ASP (RMB/sqm)	10,487	11,573	10,639	10,763	10,930
Booked Sales (RMB)	3,011	6,899	10,369	15,066	19,769
GFA delivered (mn sqm)	0.25	0.66	1.03	1.34	1.81
Booked ASP (RMB/sqm)	11,986	10,409	10,090	11,257	10,894

Source: Company, ABCI Securities estimates



Consolidated balance sheet (2012A-2016E)

As of Mar 31 (HK\$ mn)	2012A	2013A	2014E	2015E	2016E
Current assets	13,245	18,428	20,195	23,214	30,044
Bank balances and cash	3,832	6,778	8,546	11,564	18,394
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	30,900	35,522	35,363
Properties under development	2,878	2,382	9,180	13,829	13,700
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	51,095	58,736	65,407
Current Liabilities	10,895	15,374	21,207	25,775	28,374
Short term borrowings	2,740	4,418	9,418	14,418	14,418
Trade and other payables	3,067	4,373	4,373	4,373	4,373
Pre-sale deposits	3,463	3,793	4,625	4,193	6,792
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	32,134	36,703	39,302
Net Assets	12,995	16,043	18,961	22,033	26,105
Shareholders' Equity	12,939	15,853	18,283	21,141	24,891
Minority Interest	57	190	678	892	1,214
Total Equity	12,995	16,043	18,961	22,033	26,105
Key ratio:					
Gross debt (RMB mn)	6,618	11,853	16,853	21,853	21,853
Net debt (RMB mn)	2,786	5,076	8,308	10,289	3,460
Net gearing (%)	22%	32%	45%	49%	14%
Presales/ Total assets (x)	0.20	0.19	0.23	0.26	0.35

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2011A-2015E)

FY ended Mar 31 (HK\$ mn)	2012A	2013A	2014E	2015E	2016E
EBITDA	1,721	3,378	4,710	7,838	10,047
Change in Working Capital	(2,468)	(554)	(4,857)	(3,652)	4,156
Tax payment	(160)	(200)	(2,093)	(3,529)	(4,475)
Operating Cash flow	(907)	2,624	(2,240)	658	9,728
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	115	151	225
Investing Cash flow	265	(10)	105	141	215
Debt raised	2,172	2,000	10,000	10,000	10,000
Debt repaid	(1,588)	(500)	(5,000)	(5,000)	(10,000)
Interest expenses	(522)	(719)	(1,305)	(1,681)	(1,681)
Equity raised	0	0	0	0	0
Convertible securities raised	0	0	975	0	0
Dividend to shareholders	(150)	(449)	(717)	(1,049)	(1,382)
Others	7	0	(50)	(50)	(50)
Financing Cash flow	(81)	332	3,903	2,220	(3,113)
Net cash inflow/ (outflow)	(722)	2,946	1,768	3,018	6,830
Cash- beginning	4,554	3,832	6,778	8,546	11,564
Cash- year-end	3,832	6,778	8,546	11,564	18,394

Source(s): Company, ABCI Securities estimates

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Analyst Certification

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return - 6% \leq 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 2007-2011

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq$ 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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