ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

Company Report

China South City (1668 HK)
July 25, 2013

Rating: BUY
TP: HK$ 2.40
Initiation

Previous Rating & TP: NA
Previous Report: NA

Key Data

H-Share price (HK$)	1.88
Upside potential (%)	27.66
52Wk H/L(HK$)	1.93/ 1.05
Issued shares (mn)	6,054
Market cap (HK$ mn)	11,458
3-mth avg daily turnover (HK$ mn)	12.74
Major shareholder(s) (%):	
Cheng Chung Hing	40.35

Source(s): Company, Bloomberg, ABCI Securities

FY12 Revenue breakdown (%)

Property development	95.87
Property Investment	2.86
Property management	0.58
Hotels	0.18
Others	0.51

Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	15.5	6.8
3-mth	45.3	47.1
6-mth	48.8	60.6

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

1-Year price performance (HK$)

Source(s): Bloomberg, ABCI Securities

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Top developer in the Trade and Logistics niche

CSC's business model has not been fully understood by the market since its listing in 2009. Focusing on developing large-scale trade and logistics centres, the Group is able to secure land at a low cost and develop projects in phase to shorten payback cycle. Combined with its strategy of reserving half of the project as investment properties, CSC has been able to triple its underlying net profit from HK$0.4bn in FY10 to HK$1.8bn in FY13. Despite a good track record, its current share price is below its IPO level at HK$ 2.10. Strong earning potential and below-peer valuations at 6.0x FY14E P/E or 0.7x FY14E P/B prompt us to recommend BUY with TP at HK$2.40.

Lucrative business model. CSC's business model stands out among the average developers because of: (1) the low land cost. Weighted average land cost of CSC was only RMB 269/sqm, as local governments encourage development of large-scale trade and logistics parks; (2) larger projects are developed in multiple phases which allow shorter payback period.

Three earnings engines. We expect CSC's contracted sales to grow at a CAGR of 34% in FY14E-16E; rental revenue and ancillary services income will grow at a CAGR of 12% and 10%, respectively, for the same period.

Disciplined sales strategy. CSC usually reserves ~50% of each trade centre's GFA as investment properties, while the rest is sold over a period of four to five years to attain better ASPs.

Initiate CSC with BUY. We apply the DCF- model with a WACC of 13.5% to valuate the Group's property projects. Property development represents 96% of its Gross Assets Value (GAV), with investment property and hotels accounting for the rest (based on a 6% cap rate on net rental income and 5x EBITDA for hotels' valuation). We apply a 60% discount (in line with historical average since listing) to our NAV forecast to derive a TP of HK$ 2.40, which implies 7.2x FY14E P/E or 0.8x FY14E P/B (lower than peer average of 14.3x). We recommend BUY on CSC strong earning potential and below-peer valuation.

Risk factors: (1) Shares dilution by convertible bonds and (2) high volume of unsold units/vacancy may lead to slower cash in-flow.

FY ended Mar 31	FY12A	FY13A	FY14E	FY15E	FY16E
Revenue (HK$ mn)	3,671	7,488	10,263	14,547	17,551
Chg (%,YoY)	*64.3*	*104.0*	*37.1*	*41.7*	*20.6*
Underlying Net Profit* (HK$ mn)	923	1,776	2,020	3,662	4,224
Chg (%,YoY)	*70.1*	*92.5*	*13.7*	*81.3*	*15.4*
Underlying EPS (HK$)	0.15	0.29	0.31	0.56	0.64
Chg (%,YoY)	*69.8*	*91.6*	*6.3*	*78.8*	*15.1*
BVPS (HK$)	2.16	2.63	2.86	3.31	3.80
Chg (%,YoY)	*22.7*	*21.7*	*8.6*	*15.7*	*14.9*
P/E (x)	12.2	6.4	6.0	3.4	2.9
P/B (x)	0.87	0.71	0.66	0.57	0.49
DPS(HK$)	0.08	0.10	0.10	0.15	0.20
Yield (%)	4.0	5.3	5.3	8.0	10.6
ROE (%)	7.1	11.2	11.7	18.4	18.5
ROA (%)	3.0	4.2	4.0	6.4	6.8

Source(s): Company, Bloomberg, ABCI Securities estimates (Rmb1.0=HK$1.26)
**Underlying net profit is calculated by deducting revaluation gain and one-time disposal gain from the Group's reported net profit*

Contents

A Niche Developer

CSC is China's market leader in development of trade and logistics centres. CSC started its first project in Shenzhen back in 2002. Its current landbank exceeds 20mn sqm, with seven projects locating across China. CSC's projects are different from other developers in the following aspects:

(1) Bigger sizes, ranging from 2.6mn sqm in Shenzhen to 17.5mn sqm in Xi'an;

(2) Expertise required. Experiences in large-scale trade and logistics centre development projects are key prerequisites for the local governments to enter into master agreements with the developer prior to land acquisitions. This selection criterion weeds out numerous inexperienced developers.

Exhibit 1: CSC's landbank as of Mar 2013 (mn sqm)

Project	Completed Properties		Under Development	For Future Development	Total planned GFA	GFA for Land acquired	
(mn sqm)	*Sold*	*Unsold*		*Estimated*	*Estimated*		%
Shenzhen	0.6	1.2	-	0.8	**2.6**	**2.6**	100%
Nanchang	0.6	0.2	0.3	3.2	**4.3**	**4.3**	100%
Nanning	0.1	0.3	1.0	3.5	**4.9**	**2.5**	51%
Xi'an	0.2	0.4	0.3	16.6	**17.5**	**2.0**	12%
Harbin	0.0	0.0	0.7	11.3	**12.0**	**2.2**	19%
Zhengzhou	0.0	0.0	1.5	10.5	**12.0**	**4.2**	35%
Hefei	0.0	0.0	-	12.0	**12.0**	**3.9**	33%
Total	**1.4**	**2.1**	**3.8**	**57.9**	**65.3**	**21.8**	**33%**

Source(s): China South City; ABCI Securities

Exhibit 2: CSC Shenzhen

Source(s): China South City

Exhibit 3: CSC Nanchang

Source(s): China South City

Exhibit 4: CSC Harbin

Source(s): China South City

Exhibit 5: CSC Xi'an

Source(s): China South City

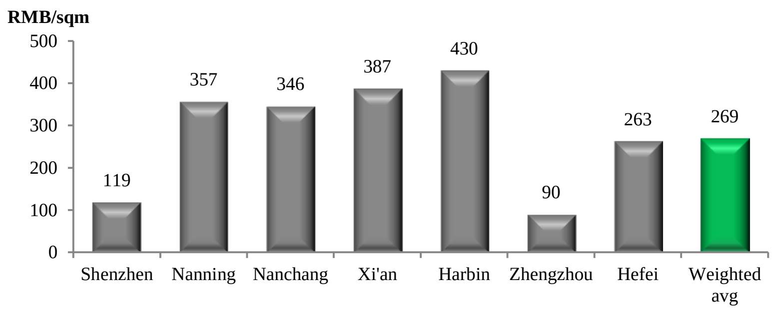
Lucrative business model

CSC's business model that specializes in the development of trade and logistics centres is highly lucrative in our view because of:

1. Low land cost. Owing to local governments' strong initiatives to develop large-scale trade & logistics parks, CSC has been able to secure projects at a very low land cost. Weighted average land cost of CSC's landbank is only RMB 269/sqm, representing only 3% of ASP (vs. industry average of 10%-20%). As a result, CSC has a gross and net margin of 53% and 25%, respectively, even higher than the property industry leader COLI (688 HK)

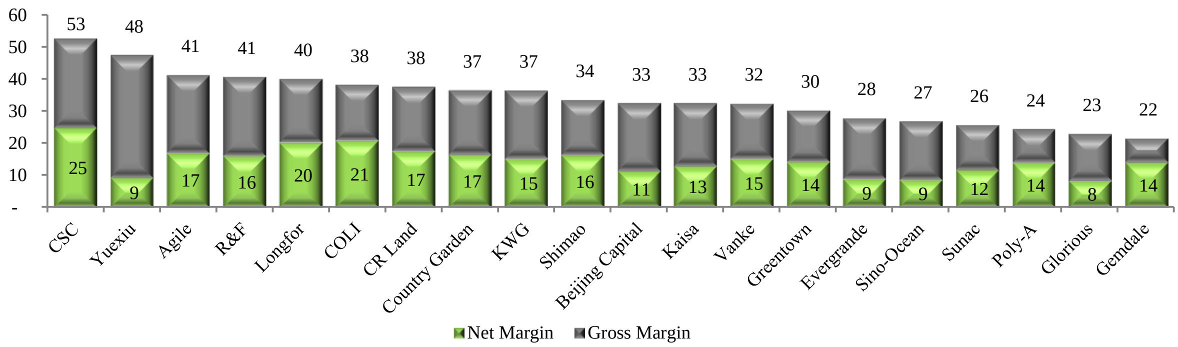
2. Phase development shortens payback period. Larger projects are developed in multiple phases. For example, a project with a GFA of 10 mn sqm is divided into multiple phases, and the Group will acquire and develop the area accordingly. CSC can sell the properties under development in one phase before investing in other phases of the project, thus the payback period is much shortened. For example, the RMB 1bn and RMB 3.7bn land and construction costs in FY04 (Phase 1) and FY10 (Phase 2) in its Shenzhen projects were fully recovered by FY07 and FY12, respectively.

Exhibit 6: Low-cost Landbank (as of Mar 2013)



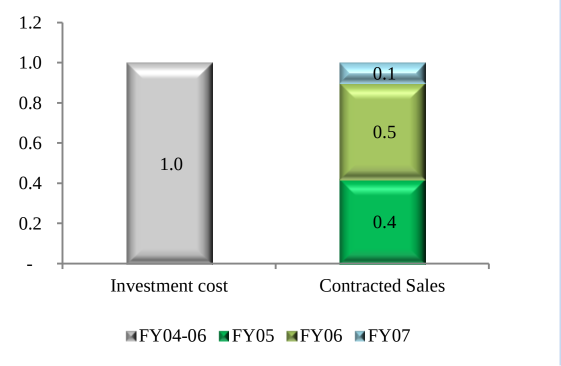
Source(s): China South City; ABCI Securities

Exhibit 7: Above-sector average gross & net margins in FY12 (%)



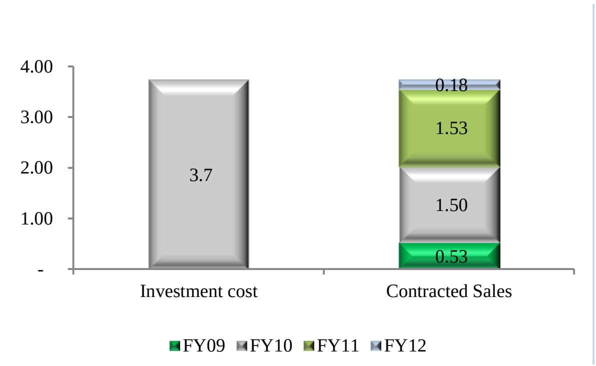
**Revenue adjusted for business tax for CSC*
*** Gross/Net Margin as at FY13 for CSC; Rest as at FY12*
Source(s): Company data, ABCI Securities

Exhibit 8: CSC Shenzhen Phase I- cost recovery in 4 years (HK$ bn)



Source(s): China South City, ABCI Securities

Exhibit 9: CSC Shenzhen Phase II- cost recovery in 4 years (HK$ bn)



Source(s): China South City, ABCI Securities

Two Key drivers for Trade and Logistics centre demand

1. Government-led Urbanization Process

The large-scale trade centre development is led by the local governments as a process to relocate SME-oriented trade centre in prime locations to city outskirts. As urbanization takes place, the governments prefer to free up land resources in prime locations for residential and office development while easing traffic congestion caused by the transport-intensive trade and logistics industry.

Exhibit 10: Urbanization rate in 2006-12

	2006	2007	2008	2009	2010	2011	2012	2006-12 CAGR (%)
Urban Population (m)	583	606	624	645	670	691	712	**3.4**
Population (m)	1314	1321	1328	1335	1341	1347	1354	**0.5**
Urbanization rate (%)	***44.4***	***45.9***	***47.0***	***48.3***	***50.0***	***51.3***	***52.6***	

Source(s): NBS

Both the governments, SMEs and trade & logistics developers will benefit from such development. SMEs will be able to enjoy lower rent and more visitations from potential buyers, given the large-scale park reach a critical mass and become a one-stop purchasing location to draw traffic. Given its expertise in trade/logistics centre development, CSC will be able to secure sites at a low cost from government.

Exhibit 11: A winning solution for all

SMEs	Government	CSC
Incentives from government - Relocation compensation from government ***Benefit from large-scale trade & logistics centres*** - Lower rent - Critical mass to attract traffic	***Benefit of SME's relocation*** - Easing traffic in city centres - Land sales from prime sites previously occupied by trade/logistics centre	***Incentives from government*** - Lower Land cost

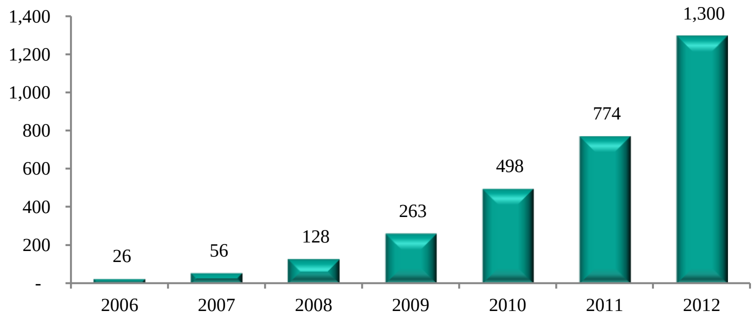
Source(s): China South City, ABCI Securities

2. Rising E-commerce Activities

Growing online retail sales activities in China has reduced the need for retail store to locate at prime locations. Relocation of retail stores could be the next key demand driver for trade and logistics centres. SME retailers that are unable to afford high rent in the city centres can enjoy lower rents and efficient storage and logistics costs in CSC's trade & logistics parks.

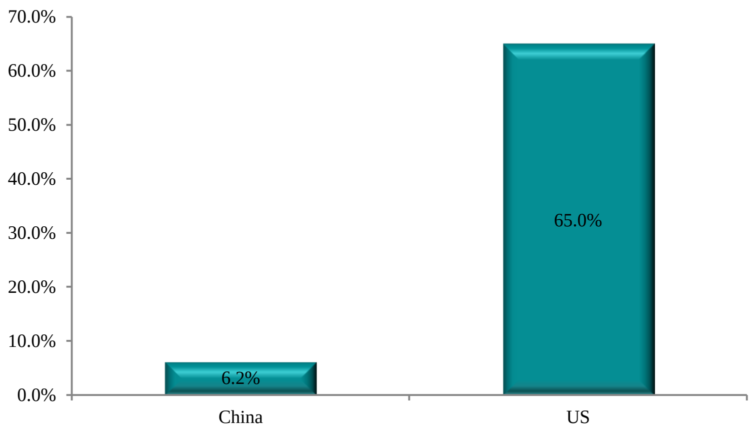
China's online retail revenue has grown almost 50 times from RMB 26bn in 2006 to RMB 1,300bn in 2012. According to iResearch Group, online retail sales only account for 6.2% of total China's retail sales in 2012, much lower than the 65% in the U.S. Thus, we see huge demand potential for trade and logistics centres and services driven by the fast-growing online retailers.

Exhibit 12: China's online retail sales in 2006-12 (RMB bn)



Source(s): iResearch Consulting Group, Ministry of Commerce

Exhibit 13: China and US online retail sales as a percentage of total retail sales in 2012



Source(s): iResearch Consulting Group

In fact, CSC has been able to capture such demand via its logistics services operation. Currently logistics services are only available in CSC Shenzhen, which provides services such as warehousing, freight forwarding, on-site third-party delivery, etc. Logistics services should extend to Nanning, Nanchang, Xi'an and Zhengzhou in 2014.

Strong relocation demand- CSC Zhengzhou as an example

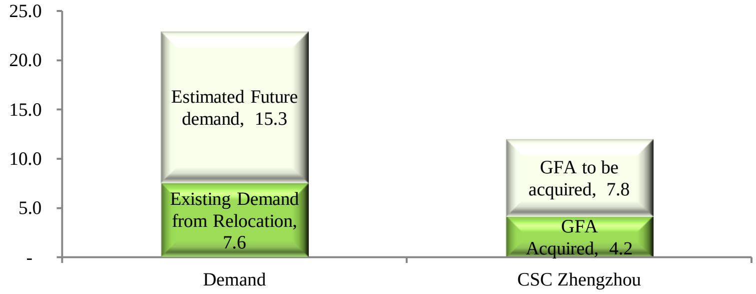
Take CSC Zhengzhou as an example- existing relocation demand (7.6m sqm) should more than satisfy the 4.2m sqm GFA acquired by CSC. The estimated future demand of 15.3mn sqm GFA over the longer term will be accommodated by 7.8mn sqm GFA under further land tendering.

Exhibit 14: Key metrics of CSC Zhengzhou

Demographics*		**Relocation Demand**	**Location and Quality of Site**
Population (m)	9.031	**Zhengzhou municipal government**	**Zhengzhou:**
Urban Population (m)	5.986	**relocation plan:** 2012-2015	Capital city of Henan Province
GDP (RMB bn)	554.7	**Target:** Relocate 177 wholesales markets out of	2nd Eurasian Continental Bridge- China Section
YoY %	*12%*	3rd ring of city	One of 7 major highway hubs in China
GDP per Capita (RMB)	63,328	**GFA to be dismantled:** 7.63m sqm	
YoY %	*19.6%*		**CSC Zhengzhou:**
			30-min drive to international airport
			Adjacent to Beijing Guangzhou Railway Freight Station
			A few km away from Beijing-HK-Macau Highway

** Figures as at 2012*
Source(s): China South City

Exhibit 15:Relocation Demand vs. Supply from CSC Zhengzhou in 2012 (sqm,mn)



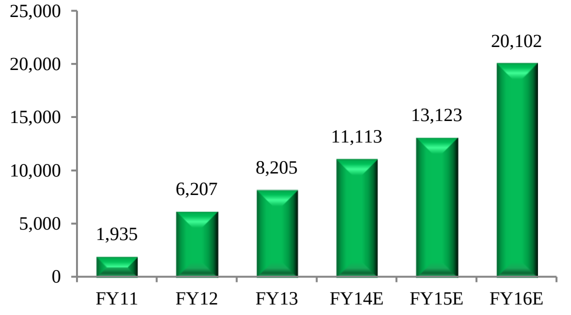
Source(s): China South City, ABCI Securities

Three earnings engines

For the past few years, CSC has successfully replicated its one-body-two-wings (一体两翼) strategy (50% of GFA as trade centre, 25% as residential 25% as commercial facilities) in Shenzhen to other cities. We expect revenue growth in the three segments to accelerate because of:

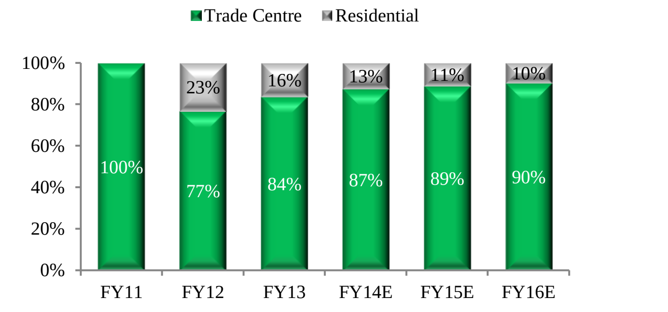
1. Rising contracted sales at 34% CAGR in FY14E-16E
CSC's contracted sales have been impressive, growing at a CAGR of 106% in FY11-13. Sales in 1Q14 remained strong and grew 162% YoY to HK$ 2.2bn. We expect CSC's contracted sales to grow 32% YoY to HK$ 11.1bn in FY14E, in line with its target of HK$ 11bn. With the upcoming Hefei project (Total GFA: 3.9mn sqm; estimated ASP: RMB 8k/sqm), acquired in May 2013, presale should start as soon as 2014, and we forecast contracted sales to be boosted further.

Exhibit 16: Contracted Sales Forecast (HK$, mn)



Source(s): China South City, ABCI Securities estimates

Exhibit 17: Contracted sales- residential vs. trade Centre

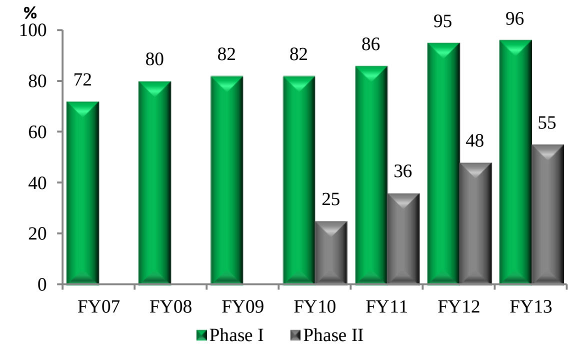


Source(s): China South City, ABCI Securities estimates

2. Expanding Rental portfolio
CSC currently holds a rental portfolio of 0.6mn sqm GFA in Shenzhen for leasing. Phase 1 has reached the mature stage with a 96% occupancy rate and a rising rent rate (FY13: RMB 40/sqm/mth, +14% YoY), while Phase 2 has an occupancy rate of 55%.

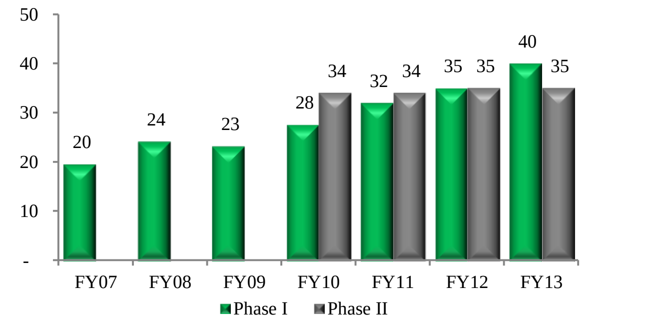
Going forward, as GFA of rental portfolio will increase upon completion of new projects (CSC tends to retain 50% of trade centres for lease). We expect rental revenue to grow at 12% CAGR in FY14E-16E

Exhibit 18: Occupancy rate of CSC Shenzhen (%)



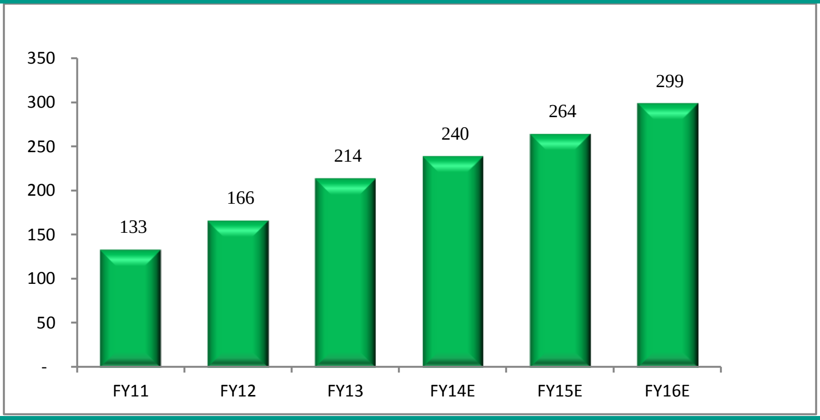
Source(s): China South City, ABCI Securities

Exhibit 19: Rent Rate of CSC Shenzhen (RMB/sqm)



Source(s): China South City, ABCI Securities

Exhibit 20: CSC's rental income in FY11-16E (HKD mn)



Source(s): China South City , ABCI Securities estimates

3. Other Ancillary Services

Apart from property sales and rental, CSC also provides five major ancillary services, including (1) outlet operation and management, (2) e-commerce, (3) logistics, (4) property management, and (5) convention & exhibition services. Of which e-commerce and logistics services should benefit most from rising online retail activities and may serve as key drivers of CSC's ancillary services in our view.

Exhibit 21: Five Major Ancillary Services

	Operations	Details
1	Outlet Operation and Management	CSC Shenzhen - Began operation in Apr 2011 - Located in Phase II trade centre Other projects: - Trial operation in Nanning, Nanchang and Xi'an in FY14 - Offering over 100 brands
2	E-Commerce	- B2C/ B2B platform with 195k registered users
3	Logistics	- Available in CSC Shenzhen currently - provides warehousing, freight forwarding, on-site third party delivery etc. - Logistics services should extend to Nanning, Nanchang, Xi'an and Zhengzhou in FY14E
4	Property management	- Committed to differentiating CSC projects from old wholesale markets
5	Convention & Exhibition	- A special team to outreach in major trade fair across China

Source(s): China South City, ABCI Securities

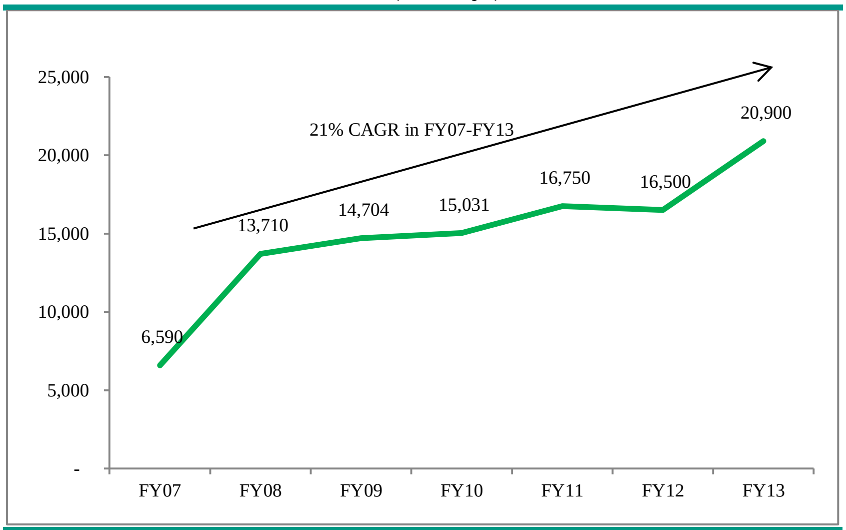
Success replicable in Tier-2 cities?

CSC has demonstrated an impressive contracted sales record over the past few years. However, market has concerns over the sustainability of such large-scale development model in tier-2 cities, as sales in later phases could diminish on declined purchase enthusiasm.

Disciplined sales strategy generated good returns for buyers

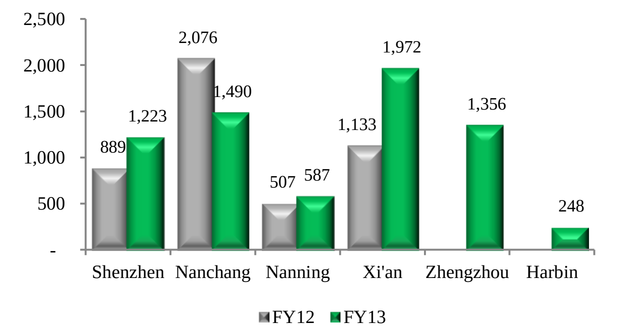
CSC reserves about 50% GFA of trade centres as investment properties, while launching the rest for sales over a period of four to five years to enjoy better ASP. The above measures avoid oversupply in the market to support ASP, as demonstrated by CSC Shenzhen. Good investment returns in early phases could reassure potential buyers and generate sales momentum in subsequent phases.

Exhibit 22: ASP Trend for CSC Shenzhen (RMB/sqm)



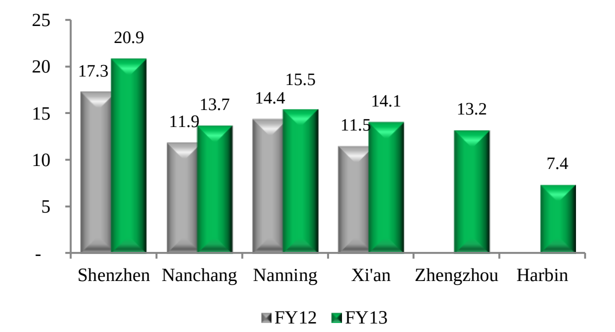
Source(s): China South City, ABCI Securities

Exhibit 23: Contracted Sales of trade centre by location (RMB mn)



Source(s): China South City , ABCI Securities

Exhibit 24: Contracted ASP of trade centre by location (RMB k/sqm)



Source(s): China South City, ABCI Securities

Replicable model in Tier-2 cities

While CSC's existing landbank of ~20m sqm is sufficient for development in the next 15 years, the Group will be able to secure new projects to drive future growth. The number of projects for sales increased from only two in FY11 to six in FY13. As CSC secured the Hefei projects and acquired the first batch on land in May 2013, the number of projects on sales will increase further to seven in FY14E.

Exhibit 25: CSC's projects for sales

Year	Projects for Sales						Total
FY11	Shenzhen	Heiyuen					2
FY12	Shenzhen	Heiyuen	Nanchang	Nanning	Xi'an		5
FY13	Shenzhen	Nanchang	Nanning	Xi'an	Zhengzhou	Harbin	6

Source(s): China South City, ABCI Securities

Strengths over peers on project acquisition and scale

We have seen CSC's stronger financial performance as compared to peers for past few years:

Zall (2098 HK) is a developer and operator of large-scale, consumer product-focused wholesale shopping malls and commercial properties in China. Zall's booked sales dropped by 39% YoY (CSC: up 104% YoY) in FY12 to RMB 1.5bn. Despite the Group has a higher gross margin of 73% (due to exceptionally low land cost of their North Hankou project), sales momentum gradually declined as Zall failed to secure new projects for sales in other cities. The North Hankou project and the No. 1 Enterprise Community in Wuhan are only selling projects since IPO in FY11 (CSC's number of projects increased from two in FY11 in to five in FY12). In our view, slow geographic expansion is the major reason for Zall's fallen sales.

Wuzhou (1369 HK) is a property developer engaging in the development and operation of multi-functional commercial complexes. Despite registering a healthy topline growth, the Group only achieved a net margin of 13-14% (CSC: 22-26%) in FY11-12 mainly due to the lack of economies of scale. Wuzhou's SG&A expenses represented 22.4% of its total revenue (~RMB 500m), higher than the 11% for CSC.

In comparison, CSC is able to maintain sustainable sales growth with high margin due to 1) fast geographic expansion & 2) economies of scale, in which both Zall and Wuzhou are lacking of.

Exhibit 26: Peer Comparison

	CSC			Zall			Wuzhou		
Ticker		**1668 HK**			**2098 HK**			**1369 HK**	
Year eneded		**Mar**			**Dec**			**Dec**	
	FY11	**FY12**	**FY13**	**FY10**	**FY11**	**FY12**	**FY10**	**FY11**	**FY12**
	HKDm	HK$ mn	HK$ mn	RMB mn	RMB mn	RMB mn	RMB mn	RMB mn	RMB mn
Revenue	**2,234**	**3,671**	**7,488**	**770**	**2,454**	**1,490**	**876**	**1,516**	**2,253**
YoY Chg %		*64%*	*104%*		*219%*	*(39%)*		*73%*	*49%*
Gross Profit	**1,333**	**2,236**	**4,177**	**357**	**1,739**	**1,083**	**390**	**739**	**1,201**
YoY Chg %		*68%*	*87%*		*388%*	*-38%*		*90%*	*62%*
Gross margin	*59.7%*	*60.9%*	*55.8%*	*46.3%*	*70.9%*	*72.7%*	*44.5%*	*48.8%*	*53.3%*
EBIT	**1,013**	**1,698**	**3,351**	**292**	**1,586**	**858**	**160**	**436**	**722**
YoY Chg %		*68%*	*97%*		*444%*	*-46%*		*172%*	*66%*
EBIT margin	*45.4%*	*46.3%*	*44.8%*	*37.9%*	*64.6%*	*57.6%*	*18.3%*	*28.8%*	*32.0%*
Underlying Net profit	**542**	**923**	**1,776**	**165**	**1,003**	**628**	**71**	**203**	**321**
YoY Chg %		*70%*	*93%*		*507%*	*-37%*		*185%*	*58%*
Core net margin	*20.4%*	*22.2%*	*26.2%*	*21.5%*	*40.9%*	*42.1%*	*8.2%*	*13.4%*	*14.2%*

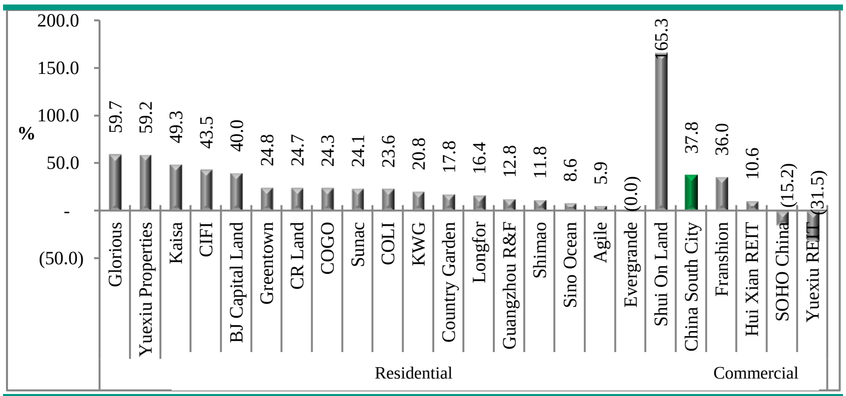
Source(s): Company data

Attractive Valuation

Deserves higher valuation than residential plays

Commercial developers (excluding landlords) are now trading at an average of 7.9x FY13E P/E, which is 30% higher than the residential developers (6.1x FY13E P/E), mainly on lower policy risks. CSC, however, has the lowest valuation of 6.0x FY14E P/E within the commercial property sector, which is comparable to mid-to-small-cap residential peers. Furthermore, we expect CSC's EPS will grow at 37.8% in FY13-15E, which is higher than most commercial peers albeit its lower valuation at present. Hence, we believe the counter is undervalued.

Exhibit 27: EPS CAGR FY13-15E



Source(s): Company data, ABCI Securities estimates

Exhibit 28: Peer valuation

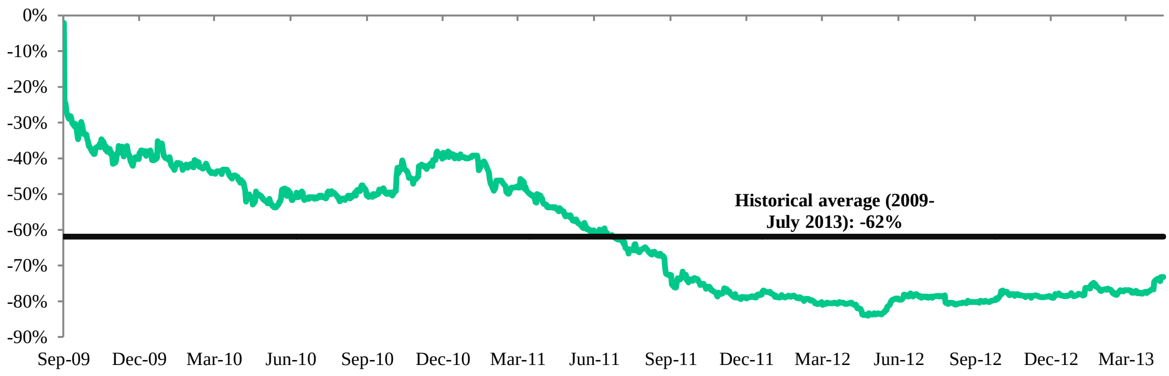
	China Property	**Ticker**	**Rating**	**Mkt cap**	**Share Price**	**Performance** 1M	YTD	2012	**Discount to NAV**	**2013E NAV**	**P/E**			**Yield (%)**			**P/B**		
				(HK$ bn)	(local ccy)	% Chg	% Chg	% Chg	(%)	(HK$)	2012A	2013E	2014E	2012A	2013E	2014E	2012A	2013E	2014E
	Residential :																		
1	COLI	688 HK	BUY	179.0	21.90	15.4	(5.2)	76.1	(15.9)	26.05	11.2	9.2	7.3	1.9	2.2	2.7	2.1	1.7	1.5
2	CR Land	1109 HK	NR	121.2	20.80	9.8	(1.4)	70.4	(25.5)	27.93	16.0	13.1	10.4	1.6	1.9	2.4	1.8	1.5	1.3
3	Country Garden	2007 HK	NR	77.7	4.21	12.3	3.7	38.6	(31.0)	6.10	9.0	7.6	6.5	4.1	4.8	5.5	1.6	1.4	1.2
4	Longfor	960 HK	NR	62.4	11.46	(7.1)	(24.5)	76.5	(45.3)	20.95	9.1	7.8	6.7	2.2	2.5	3.0	1.6	1.4	1.2
5	Shimao	813 HK	NR	57.2	16.48	17.2	12.7	121.9	(44.3)	29.57	8.0	7.4	6.1	3.3	4.1	4.8	1.3	1.1	1.0
6	Evergrande	3333 HK	NR	51.0	3.18	13.2	(25.2)	31.6	(62.6)	8.50	4.2	4.7	4.0	-	5.3	6.0	1.0	0.8	0.7
7	Guangzhou R&F	2777 HK	NR	36.7	11.40	(1.4)	(11.6)	109.4	(55.5)	25.60	6.0	5.2	4.6	6.6	7.2	8.1	1.1	1.0	0.8
8	Agile	3383 HK	NR	28.0	8.13	(0.5)	(25.4)	55.9	(64.2)	22.73	4.5	4.5	4.0	4.7	5.3	5.9	0.9	0.7	0.6
9	Greentown	3900 HK	BUY	31.5	14.64	13.3	3.1	320.1	(54.5)	32.16	5.5	4.6	3.5	4.3	4.7	5.1	1.2	1.0	0.8
10	Sino Ocean	3377 HK	NR	23.7	4.04	(0.5)	(30.2)	64.0	(53.8)	8.75	6.8	6.8	5.6	5.8	5.9	6.7	0.5	0.5	0.5
11	COGO	81 HK	NR	21.3	9.35	(5.5)	0.3	47.2	(32.6)	13.87	8.9	7.4	5.9	1.2	1.6	1.9	2.7	1.9	1.5
12	Yuexiu Properties	123 HK	NR	18.5	1.99	4.7	(18.8)	122.7	(62.4)	5.29	14.1	7.3	6.1	3.3	4.6	5.6	0.7	0.6	0.6
13	Sunac	1918 HK	BUY	17.9	5.38	4.3	(10.3)	277.4	(66.0)	15.81	5.4	3.8	3.5	2.0	2.6	2.8	1.4	1.0	0.8
14	KWG	1813 HK	NR	12.7	4.38	4.0	(24.7)	121.3	(66.3)	13.00	5.3	4.3	3.7	4.3	5.6	6.4	0.7	0.6	0.5
15	Glorious	845 HK	NR	8.9	1.14	(6.6)	(21.9)	15.9	(67.4)	3.50	10.3	5.1	4.1	-	1.8	2.6	0.4	0.4	0.3
16	Kaisa	1638 HK	BUY	8.5	1.72	(7.0)	(28.3)	77.8	(65.6)	4.99	5.1	3.5	2.3	-	-	-	0.5	0.5	0.4
17	CIFI	884 HK	NR	7.9	1.37	0.7	(2.1)	5.3	(67.1)	4.17	6.8	4.4	3.3	3.6	4.7	6.3	1.0	0.8	0.6
18	BJ Capital Land	2868 HK	NR	5.8	2.80	(4.1)	(13.0)	109.1	(67.3)	8.56	5.4	3.5	2.6	8.4	9.3	12.4	0.8	0.5	0.4
	HK Listed Avg					**3.5**	**(12.4)**	**96.7**	**(52.6)**		**7.9**	**6.1**	**5.0**	**3.2**	**4.1**	**4.9**	**1.2**	**1.0**	**0.8**
	- Large cap (>HKD30b) avg					***10.1***	***(6.6)***	***69.2***	***(41.8)***		***9.6***	***8.3***	***6.8***	***2.2***	***3.5***	***4.1***	***1.6***	***1.3***	***1.1***
	- Small-mid cap (<HKD30b) avg					***0.1***	***(15.3)***	***110.5***	***(61.3)***		***7.0***	***5.0***	***4.1***	***3.7***	***4.4***	***5.3***	***1.0***	***0.8***	***0.7***
1	Vanke	000002 CH	NR	135.1	10.28	(3.1)	0.4	30.3	(32.4)	15.20	8.4	6.9	5.6	1.9	2.0	2.3	1.7	1.4	1.1
2	Poly-A	600048 CH	NR	90.4	10.66	(5.4)	(26.3)	39.6	(42.6)	18.57	8.5	6.6	5.2	2.3	2.9	3.8	1.7	1.4	1.1
3	China Merchants Property	000024 CH	NR	53.3	26.80	7.2	(12.1)	68.9	na	na	13.6	10.4	8.2	1.1	1.4	1.7	1.9	1.6	1.4
4	Gemdale	600383 CH	NR	38.2	7.20	1.4	(3.8)	46.3	(12.1)	8.19	8.9	8.1	6.7	1.2	2.3	2.6	1.3	1.2	1.0
	A-share Listed Avg					**0.0**	**(10.5)**	**46.3**	**(29.0)**		**9.8**	**8.0**	**6.4**	**1.6**	**2.1**	**2.6**	**1.6**	**1.4**	**1.2**
	Commercial:																		
1	SOHO China	410 HK	NR	30.9	6.40	6.1	2.9	21.5	na	na	8.0	7.8	11.1	4.9	5.0	4.7	0.8	0.8	0.7
2	Hui Xian REIT	87001 HK	NR	25.9	4.00	4.4	(3.6)	19.6	na	na	16.7	20.0	13.9	6.0	6.2	6.4	0.7	0.7	0.7
3	**Franshion**	**817 HK**	**BUY**	**22.6**	**2.47**	**2.5**	**(11.5)**	**103.6**	**(49.0)**	**4.85**	**12.4**	**8.5**	**6.6**	**2.8**	**4.0**	**4.9**	**1.0**	**0.9**	**0.8**
4	Shui On Land	272 HK	NR	18.6	2.32	2.7	(38.1)	55.6	na	na	55.7	9.4	7.9	2.6	3.9	4.1	0.3	0.4	0.4
5	Yuexiu REIT	405 HK	NR	11.3	4.12	1.0	12.0	7.3	na	na	11.8	34.3	25.1	6.5	7.1	7.3	0.7	0.7	0.7
6	**China South City**	**1668 HK**	**BUY**	**11.5**	**1.88**	**16.8**	**60.7**	**19.4**	**(68.2)**	**5.91**	**6.4**	**6.0**	**3.4**	**5.3**	**5.3**	**8.0**	**0.7**	**0.7**	**0.6**
7	Zall	2098 HK	NR	10.5	2.99	6.0	(3.9)	(5.2)	na	na	13.4	na	na	2.0	na	na	1.7	na	na
	Commercial Avg					**5.6**	**2.6**	**31.7**			**17.7**	**14.3**	**11.3**	**4.3**	**5.2**	**5.9**	**0.9**	**0.7**	**0.7**
	- Developers					***7.0***	***3.5***	***50.0***			***20.6***	***7.9***	***7.2***	***3.9***	***4.6***	***5.4***	***0.7***	***0.7***	***0.6***
	- Landlords/REIT					***2.7***	***4.2***	***13.4***			***14.2***	***27.1***	***19.5***	***6.2***	***6.6***	***6.9***	***0.7***	***0.7***	***0.7***

** The data in table is as at 24 July 2013*
Source(s): Bloomberg; ABCI Securities estimates

Initiate CSC with a BUY with at TP HK$ 2.40

We adopt the DCF-model and apply a 13.5% WACC to gauge the value of the Group's property development projects. Property development represents 96% of the group's GAV, while investment properties account for the rest (assuming a 6% cap rate on net rental income). Based on a 60% discount to its NAV (historical average since listing), we derive CSC's TP of HKD2.40, which translates into 7.2x FY14E PE or 0.8x FY14E PB (lower than peers average of 14.3x). We recommend BUY on CSC on its fast profit growth, strong pricing power, high margins, and below-peer valuation.

Exhibit 29: CSC's discount to NAV



Source(s): Bloomberg, ABCI Securities

Exhibit 30: CSC's FY14E NAV breakdown

	Attr. GFA (mn sqm)	Net assets value (HK$ mn)	% of total	Valuation Methodology	Implied value per sqm (HK$)
Property development					
Shenzhen	2.2	9,094	20%	DCF at WACC of 13.5%	4,223
Nanning	2.7	6,326	14%		2,362
Nanchang	3.7	7,765	17%		2,125
Xi'an	1.1	3,162	7%		2,931
Harbin	2.2	3,267	7%		1,464
Others	8.16	14,073	31%		1,726
Subtotal	**20.0**	**43,687**	**96%**		**2,189**
Investment Properties		1,946	4%	6% cap rate on net rental income	
Hotels		27	0%	5x EBITDA mutiple	
Total FY14E GAV		**45,660**	**100%**		
FY14E Net debt		(10,048)	-22%		
Total FY14E NAV		**35,613**	**78%**		
No. of share outstanding		6,027			
NAV per share (HK$)		**5.91**			
Target discount (%)		60%			
Target Price (HK$)		**2.40**			
Current price (HK$)		1.88			
Upside		**27.7%**			

WACC	**13.5%**
Cost of debt	10.0%
Cost of Equity	20.0%
Debt/ (Debt + Equity)	**52%**

** Figures as at Jul 24, 2013*
Source(s): China South City, ABCI Securities estimates

Exhibit 31: CSC's historical forward P/E

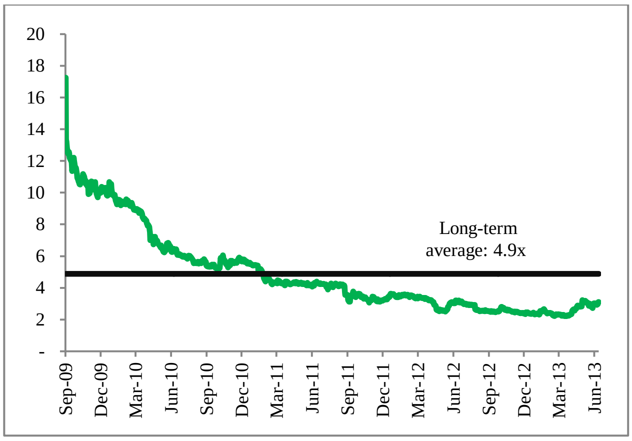
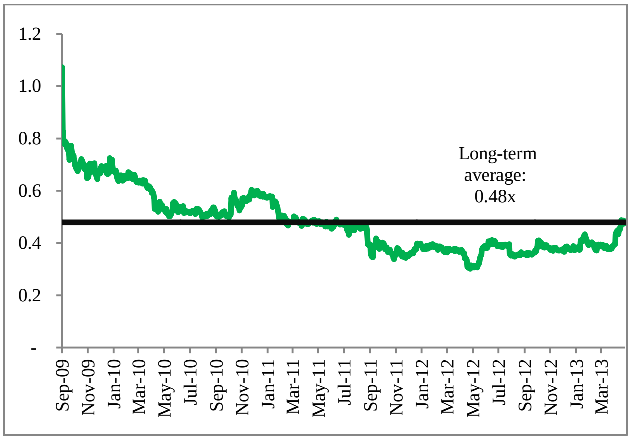


Exhibit 32: CSC's historical forward P/B



Source(s): Bloomberg, ABCI Securities

Source(s): Bloomberg; ABCI Securities

What are the risks?

- **Convertible bonds (CB) dilution.** In Apr 2013, CSC issued HK$ 975mn of convertible bonds to PAG, a private equity investor. The CB will mature in 2018 and have a coupon rate of 6.5% and exercise price of HKD1.56/share. As current share price is already above exercise price, the CB will lead to a 10% dilution impact on CSC if exercised.

- **High inventory.** Properties held for sales increased by 21% YoY from HK$ 7.8bn in FY12 to HK$ 9.4bn in FY13. CSC is cautious about launching further sales in other to avoid oversupply that may affect ASP of later phases. This may lead to a higher balance and higher net gearing.

- **ASP growing too fast:** Despite growing ASP may benefit CSC's margins in the short term, it may deter SMEs from moving into CSC's properties. If occupancy has not reached a reasonably level (no less than 70%), this would affect sales in subsequent phases. In our view, a stable and gradual growth in ASP is the key to sustainable business development.

Consolidated income statement (FY12A-FY16E)

Mar-end (HK$ mn)	FY12A	FY13A	FY14E	FY15E	FY16E
Revenue	**3,671**	**7,488**	**10,263**	**14,547**	**17,551**
Cost of sales	(1,435)	(3,311)	(4,884)	(5,839)	(7,474)
Gross Profit	**2,236**	**4,177**	**5,379**	**8,708**	**10,077**
SG&A expenses	(538)	(826)	(974)	(1,159)	(1,445)
EBIT	**1,698**	**3,351**	**4,405**	**7,548**	**8,632**
Finance cost	(59)	(133)	(211)	(262)	(262)
Share of profit of assocaites	1	1	-	-	-
Other income/ (expenses)	22	52	109	128	168
Fair value gain of investment properties	1,118	1,251	-	-	-
Disposal/one-off items	525	(48)	-	-	-
Profit before tax	**2,188**	**3,223**	**4,304**	**7,414**	**8,539**
Tax	(1,258)	(1,606)	(1,975)	(3,466)	(3,923)
Profit after tax	**930**	**1,616**	**2,328**	**3,948**	**4,616**
Minority interest	23	(117)	(308)	(287)	(392)
Reported net profit	**2,071**	**2,750**	**2,020**	**3,662**	**4,224**
Less: exceptional items	(1,148)	(973)	-	-	-
Underlying net profit	**923**	**1,776**	**2,020**	**3,662**	**4,224**
Per share					
Underlying EPS (HK$)	0.15	0.29	0.31	0.56	0.64
DPS (HK$)	0.08	0.10	0.10	0.15	0.20
Payout ratio (%)	49%	34%	32%	27%	31%
BVPS (HK$)	2.16	2.63	2.86	3.31	3.80
Growth %					
Revenue	64.3%	104.0%	37.1%	41.7%	20.6%
Gross Profit	67.7%	86.8%	28.8%	61.9%	15.7%
EBIT	67.6%	97.4%	31.4%	71.4%	14.4%
Underlying net profit	70.1%	92.5%	13.7%	81.3%	15.4%
Margin %					
Gross margin	60.9%	55.8%	52.4%	59.9%	57.4%
Gross margin (post-LAT)	51.4%	48.2%	41.4%	46.0%	45.0%
EBIT margin	46.3%	44.8%	42.9%	51.9%	49.2%
Core net margin	22.2%	26.2%	22.7%	27.1%	26.3%
Key assumptions					
Contracted Sales (HK$ mn)	6,207	8,205	11,113	13,123	20,102
GFA sold (m sqm)	0.59	0.71	1.04	1.11	1.84
ASP (HK$/sqm)	10,487	11,573	10,684	11,807	10,940
Booked Sales (HK$)	3,011	6,899	9,916	14,164	17,120
GFA delivered (m sqm)	0.25	0.66	0.98	1.18	1.53
Booked ASP (HK$/sqm)	11,986	10,409	10,079	12,023	11,201

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**	**19,430**	**20,873**	**24,842**
Bank balances and cash	3,832	6,778	7,781	9,224	13,192
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**	**30,985**	**36,335**	**37,524**
Properties under development	2,878	2,382	9,469	14,842	16,057
Property, plant and equipment	196	601	581	558	532
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	1,502	1,502	1,502
Total Assets	**30,666**	**42,345**	**50,415**	**57,208**	**62,365**
Current Liabilities	**10,895**	**15,374**	**20,845**	**24,696**	**26,544**
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	4,264	3,114	4,962
Other current liabilities	1,624	2,790	2,790	2,790	2,790
Non-current liabilities	**6,777**	**10,928**	**11,903**	**11,903**	**11,903**
Long term borrowings	3,878	7,435	8,410	8,410	8,410
Other payables	53	-	-	-	-
Other non-current liabilities	2,845	3,493	3,493	3,493	3,493
Total Liabilities	**17,671**	**26,302**	**32,748**	**36,599**	**38,447**
Net Assets	**12,995**	**16,043**	**17,667**	**20,610**	**23,919**
Shareholders Equity	**12,939**	**15,853**	**17,219**	**19,925**	**22,892**
Minority Interest	57	190	448	685	1,026
Total Equity	**12,995**	**16,043**	**17,667**	**20,610**	**23,919**
Key ratio:					
Gross debt (HK$ mn)	6,618	11,853	17,828	22,828	22,828
Net debt (HK$ mn)	2,786	5,076	10,048	13,605	9,637
Net gearing (%)	22%	32%	58%	68%	42%
Contracted sales/ Total assets (x)	0.20	0.19	0.22	0.23	0.32

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	4,435	7,581	8,669
Change in Working Capital	(2,468)	(554)	(5,423)	(5,040)	2,116
Tax payment	(160)	(200)	(1,975)	(3,466)	(3,923)
Operating CF	**(907)**	**2,624**	**(2,964)**	**(925)**	**6,861**
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	109	128	168
Investing CF	**265**	**(10)**	**99**	**118**	**158**
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)	(1,403)	(1,744)	(1,744)
Equity raised	0	0	0	0	0
Convertible securities raised	0	0	975	0	0
Dividend to shareholders	(150)	(449)	(654)	(956)	(1,257)
Others	7	0	(50)	(50)	(50)
Financing CF	**(81)**	**332**	**3,867**	**2,250**	**(3,051)**
Net cash inflow/ (outflow)	**(722)**	**2,946**	**1,003**	**1,443**	**3,968**
Cash- beginning	4,554	3,832	6,778	7,781	9,224
Cash- year-end	**3,832**	**6,778**	**7,781**	**9,224**	**13,192**

Source(s): Company, ABCI Securities estimates

Disclosures

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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 2007-2011
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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