



June 30, 2015
Company Report
Rating: BUY
TP: HK\$ 3.20

Share price (HK\$) 2.68
Est. share price return 19.4%
Est. dividend yield 7.1%
Est. total return 26.5%

Previous Rating & TP BUY; HK\$ 4.60
Previous Report Date Nov 28, 2014

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Key Data

52Wk H/L(HK\$) 4.27/2.07
Issued shares (mn) 7,759
Market cap (HK\$ mn) 20,083
3-mth avg daily turnover (HK\$ mn) 218.63
Major shareholder(s) (%):
Cheng Chung Hing 32.15
Tencent 11.94

Source(s): Company, Bloomberg, ABCI Securities

FY15 Revenue breakdown (%)

Property development 88.7
Property investment 5.9
Property management 1.4
E-commerce 2.1
Others 2.0

Source(s): Company, ABCI Securities

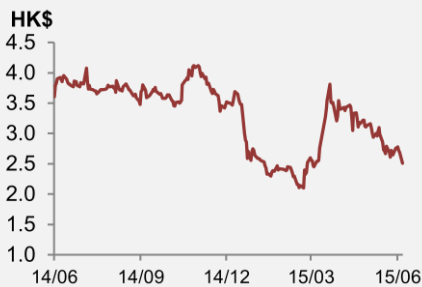
Share performance (%)

	Absolute	Relative*
1-mth	(14.6)	(9.8)
3-mth	(1.2)	(5.2)
6-mth	(28.1)	(34.2)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

China South City (1668 HK)
Promising e-commerce outlook

- Core profit declined 31% YoY to HK\$ 1,854mn in FY15
- Property sales were weak as presales dropped 20% YoY to HK\$ 11.2bn. Management set a sales target of HK\$11-12bn for FY16
- Recurring revenue was strong (+68% YoY to HK\$1.1bn) as e-commerce/logistics business continues to grow swiftly
- CSC's e-commerce platform could be a stepping stone for the Group to enter the SME microfinancing market
- Maintain **BUY** with revised TP at HK\$ 3.20 (from HK\$4.60) based on a 40% NAV discount

Results disappointed market on the property side. CSC announced its Mar-end FY15 results. Core profit declined 30.8% YoY to HK\$ 1,854mn, 31% below the consensus forecast on weaker-than-expected property sales. CSC's presales dropped by 20% YoY to HK\$ 11,254mn (37-44% below initial target of HK\$ 18-20bn), while booked revenue from property sales decreased 32% YoY to HK\$ 8.7bn. Its FY15 results marked the first year of sales decline since the Group's listing in 2009. Management attributed poor property sales to: 1) the delay in infrastructure developments; 2) SME's relocation from old markets to CSC's trade centers, which is normally initiated by local governments, has slowed down in pace. While 3QFY15 (Sep-Dec 2014) presales were weak (-70%YoY to HK\$ 2.1bn), substantial rebound was seen in 4QFY15 (Jan-Mar 2015, +65% YoY to HK\$2.4bn). We believe CSC's sales are recovering especially after various favorable policies were implemented (interest rate/RRR cut etc.).

Prudent FY16 sales target. In FY16, CSC set a flat sales target of HK\$ 11-12bn, which we believe to be prudent. As a result of slower property sales, net gearing increased to 65% from 24% a year ago. CSC will reduce its capex (HK\$ 8bn in construction capex; HK\$ 1-2bn in land capex) to match with its inflow of sales income in FY16. Despite decline in core profit, CSC maintained its DPS at HK\$ 0.14/share, implying an attractive yield of 5.2%.

E-commerce/logistics business is progressing well. Recurring revenue (Property rental/E-commerce/Logistics) soared 68% YoY to HK\$ 1.1bn. Management expects such revenue to reach HK\$1.5-2.0bn over the next 2 years. In fact, quality revenue growth was recorded in the 5 sub-segments:

- E-commerce:** Revenue rose slightly by 8% YoY to HK\$ 202mn, as the membership program is still under trial operation and confined to CSC's Zhengzhou project only. Over the past year, CSC has put great emphasis on improving SME's IT skills by providing extensive training. The no. of e-commerce membership subscribers increased to 13k in FY15 from 7k in FY14. Once CSC finishes finetuning its e-commerce model, the business can be easily replicated to other cities. (continue next page)

Results and Valuation

FY ended Mar 31	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue (HK\$ mn)	13,468	9,758	12,794	15,739	17,833
Chg (% YoY)	79.9	(27.6)	31.1	23.0	13.3
Core net profit (HK\$ mn)	2,678	1,854	2,223	3,038	3,635
Chg (% YoY)	50.7	(30.8)	19.9	36.7	19.6
Underlying EPS (HK\$)	0.39	0.23	0.28	0.38	0.45
Chg (% YoY)	33.2	(40.9)	19.9	36.7	19.6
BVPS (HK\$)	2.89	3.20	3.20	3.34	3.50
Chg (% YoY)	9.9	10.9	(0.3)	4.4	4.9
Underlying PE (x)	6.8	11.6	9.6	7.1	5.9
P/B (x)	0.93	0.84	0.84	0.80	0.77
ROE (%)	13.4	7.5	8.7	11.4	13.0
ROA (%)	4.5	2.5	2.8	3.5	3.8
DPS (HK\$)	0.14	0.14	0.19	0.24	0.29
Dividend yield (%)	5.2	5.2	7.1	9.0	10.8
Net gearing (%)	23.5	65.3	95.6	108.7	114.4

*Net gearing=Net debt/Total Shareholders' equity

Source(s): Bloomberg, ABCI Securities estimates

- **Logistics:** Revenue soared 286% YoY to HK\$ 95.8mn. Logistic warehousing in operation increased 464% YoY to 464,900sqm. Currently, there are 490k sqm of warehouses under construction and 3.9mn sqm were under the planning stage. Going forward, the Group's logistic network can also be shared with Tencent's JD.com (largest online electronic retailers in China). The spotlight will be on the Logistics Information Exchange Platform (LIEP) that allows empty trucks on their return journeys to obtain new orders from the platform. The registered LIEP carrier has increased to 121k in Mar 2015 (from 13k in Sep 2014), which represents a 1% market share based on an estimated 10mn total Heavy Goods Vehicles (HGV) in China. In our view, this business model is just the HGV version of Uber (a taxi/private car app); we believe it would be valued by many online giants such as Tencent or Alibaba.
- **Outlet business:** Revenue jumped 35%YoY to HK\$ 92mn due to the increased no of outlet centres and GFA in operation. The no. of online outlet users of the Aolaigo website (online retailing) also went up 16k in June 2014 to 1.1mn in Mar 2015. Aolaigo began its partnership with Tencent's JD.com in FY15 and is now ranked as one of the Top 10 third-party retailers in JD.com.
- **Property Rental:** Revenue surged 88% YoY to HK\$ 574mn on commencement of CSC's trade centers outside Shenzhen and HOBA Furnishing acquired in FY14. Excluding the impact of HOBA's acquisition, property rental revenue still jumped about 50%YoY on a like-for-like basis. CSC proposed to spin-off HOBA in National Equities Exchange and Quotation System by FY16 the earliest. HOBA currently has 9 stores in China, with the ones in Nanning and Shenzhen currently under trial operation. We believe the synergy between CSC and HOBA to emerge gradually and revenue growth should accelerate in the next few years.
- **Property management:** Revenue jumped 99%YoY to HK\$ 133mn as more occupants moved into CSC Nanchang, Nanning, Xi'an and Zhengzhou, which have entered into trial operation.

Opportunities in SME micro-financing: In the analyst meeting, management also highlighted the emerging opportunities of microfinancing for SMEs. In general, banks are reluctant to lend to SMEs given the lack of business transparency. As an increasing number of SMEs are conducting their businesses via CSC's e-commerce platform, CSC could obtain useful financial and operating data to better informed of the companies' credit profiles. Assuming 60% of its existing 13k e-commerce users have a solid credit profile, the total loan size can be as high as RMB 7.8bn if we assume each user to borrow RMB 1mn.

Maintain BUY with TP lowered to HK\$ 3.20 (from HK\$ 4.60). Given the worse-than-expected results, we lower our FY16E-17E core profit forecasts by 43%-54%, and our Mar-end FY16E NAV is reduced to HK\$ 5.36 (from HK\$ 9.11). We apply a lower NAV discount of 40% (50% previously) to reflect better policy outlook after recent rate/RRR cuts. Subsequently, TP is revised down to HK\$ 3.20 (from HK\$ 4.60 previously). Maintain **BUY** on CSC. Overall, we believe FY16 would be a transitional year for the Group as profit growth will be temporarily impacted by the increased focus on e-commerce development. We are optimistic over this strategy change although it could take more than two years for the transition to be completed.

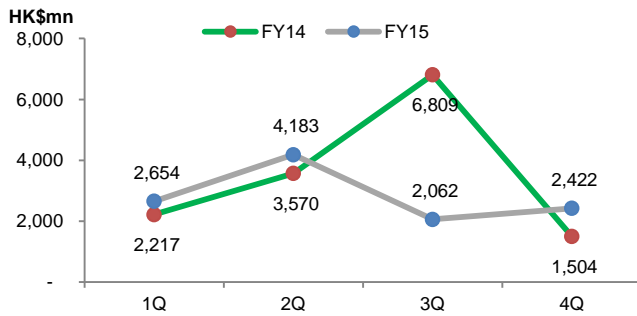
Risk factors: 1) Oversupply of housing in 2nd-tier cities; 2) High level of unsold inventories may impede cash flow.



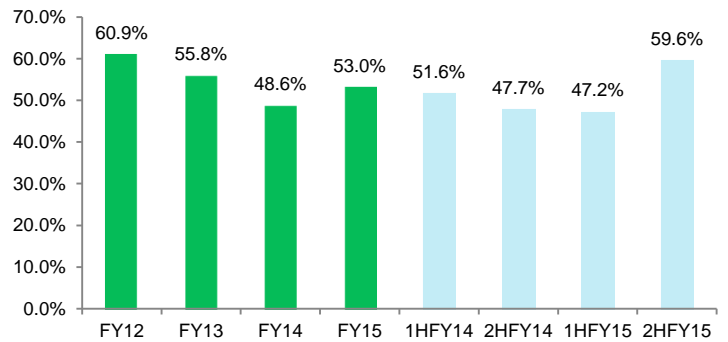
Exhibit 1: CSC's Mar-ended FY15 results

P&L	FY15			FY14			YoY Chg	Operating statistics	FY15		FY14		YoY Chg
	HK\$ mn	HK\$ mn	HK\$ mn	HK\$ mn	HK\$ mn	HK\$ mn			HK\$ mn	HK\$ mn	HK\$ mn	HK\$ mn	
Turnover	9,758	13,468	(28)	Contracted GFA (mn sqm)	1.25	1.75	(28)						
Cost of Sales & direct operating costs	(4,582)	(6,921)	(34)	Contracted ASP (RMB/sqm)	8,958	8,083	11						
Gross Profit	5,176	6,547	(21)	Contracted Sales (RMB mn)	11,231	14,106	(20)						
Gross Margin (%)	53.0	48.6		GFA Delivered (mn sqm)	1.00	1.62	(38)						
Selling and distribution costs	(722)	(581)	24	Booked ASP (RMB/sqm)	8,655	7,910	9						
Administrative expense	(1,074)	(863)	24	Property sales booked (RMB/sqm)	8,654	12,813	(32)						
EBIT	3,379	5,103	(34)	Balance sheet	Mar-15	Mar-14	HoH %						
EBIT Margin (%)	34.6	37.9		Gross debt	25,003	17,519	43						
Other income, gains and losses	173	188	(8)	Cash	8,673	12,777	(32)						
Fair value gain of investment properties	2,399	1,266	89	Net debt	16,331	4,742	244						
Other exceptional items	82	(235)	(135)	Net gearing (%)	65.3%	23.5%	+41.8ppt						
Share of profit from JCE/ Associates	(7)	(1)	1067										
Finance cost	(166)	(153)	8										
Profit before tax	5,859	6,169	(5)										
Tax	(2,145)	(2,472)	(13)										
- LAT	(1,214)	(1,270)	(4)										
- Enterprise tax	(931)	(1,202)	(23)										
Profit after tax	3,715	3,696	0										
Minority Interest	13	(202)	(106)										
Net profit	3,728	3,494	7										
Core profit (after Minority Interest)	1,854	2,678	(31)										
Core net margin	19.0%	19.9%											

Source(s): Company

Exhibit 2: CSC's presales by quarter


Source(s): Company

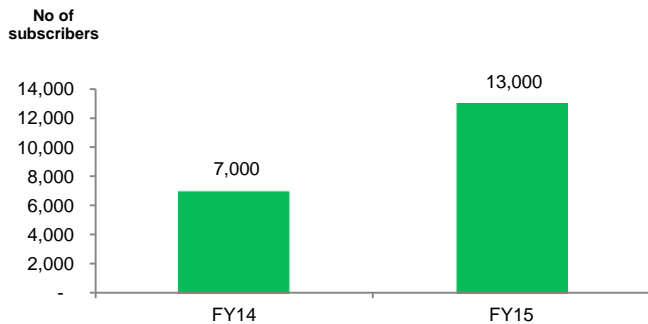
Exhibit 3: CSC's gross margin trend


Source(s): Company

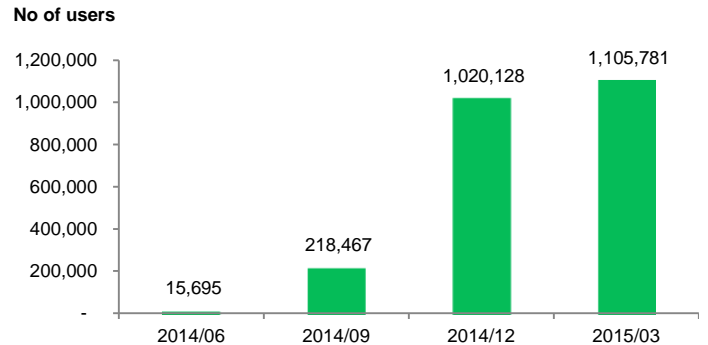
Exhibit 4: CSC's FY15 revenue breakdown

HK\$mn	FY15	FY14	YoY chg
Property sale	8,654	12,813	-32%
- Trade centre	6,837	11,778	-42%
- Residential	1,354	757	79%
- Finance lease	463	278	67%
Recurring income	1,104	656	68%
- Rental	574	305	88%
- Property management	133	67	99%
- E-commerce	202	189	7%
- Outlet	92	69	35%
- Logistics and others	102	26	294%
Total revenue	9,758	13,468	-28%

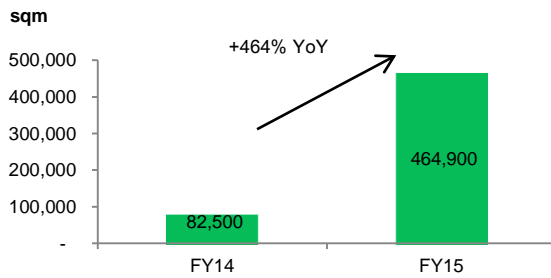
Source(s): Company

Exhibit 5: The No. of e-commerce membership program subscribers in Zhengzhou


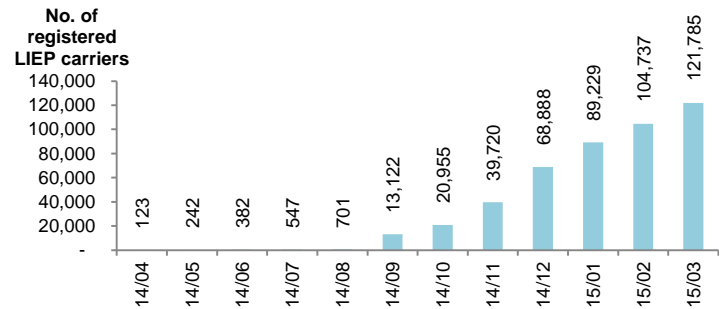
Source(s): Company

Exhibit 6: The no. of registered online outlet users


Source(s): Company

Exhibit 7: Logistics GFA in operation


Source(s): Company

Exhibit 8: Registered LIEP carriers


Source(s): Company

Exhibit 9: CSC's FY16E NAV forecast

	Attr. GFA (Mnsqm)	Net assets value (HKD mn)	% of total	Valuation Method	Implied value per sqm (HKD)
Property development					
Shenzhen	2.6	6,771	10%	DCF at WACC of 6.2%	2,557
Nanning	2.5	7,248	11%		2,924
Nanchang	4.3	5,704	9%		1,331
Xi'an	4.2	6,911	10%		1,663
Harbin	4.7	2,075	3%		437
Others	14.6	11,886	18%		812
Subtotal	32.9	40,595	62%		
Investment Properties & retail outlets		14,581	22%	5% cap rate on FY16E net rental income	
Online Platform (E-commerce and logistics)		10,713	16%	30x 2016E PE on online platform operation	
Total FY16E GAV		65,889	100%		
FY16E Net debt		(24,272)	-37%		
Total FY16E NAV		41,617	63%		
No. of share outstanding		7,759			
NAV per share (HKD)		5.36			
Target discount (%)		40%			
Target Price (HKD)		3.20			
WACC					
Cost of debt	6.2%				
Cost of equity	6.0%				
Debt/ (Debt + Equity)	50%				

Source(s): Company, ABCI Securities estimates



Consolidated income statement (FY13A-FY18E)

FY Ended Mar 31 (HK\$ mn)	FY13A	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	7,488	13,468	9,758	12,794	15,739	17,833
Cost of sales	(3,311)	(6,921)	(4,582)	(6,119)	(7,440)	(8,407)
Gross Profit	4,177	6,547	5,176	6,676	8,299	9,426
SG&A expenses	(826)	(1,444)	(1,796)	(2,124)	(2,278)	(2,462)
EBIT	3,351	5,103	3,379	4,552	6,021	6,964
Finance cost	(133)	(153)	(166)	(231)	(235)	(199)
Share of profit of associates	1	(1)	(7)	-	-	-
Other income/ (expenses)	52	188	173	121	107	119
Fair value gain of investment properties	1,251	1,266	2,399	-	-	-
Disposal/one-off items	(49)	(235)	82	-	-	-
Profit before tax	4,473	6,169	5,859	4,441	5,894	6,884
Tax	(1,606)	(2,472)	(2,145)	(2,218)	(2,856)	(3,250)
Profit after tax	2,867	3,696	3,715	2,223	3,038	3,635
Minority interest	(117)	(202)	13	-	-	-
Reported net profit	2,750	3,494	3,728	2,223	3,038	3,635
Less: exceptional items	(973)	(817)	(1,874)	-	(0)	(0)
Underlying net profit	1,776	2,678	1,854	2,223	3,038	3,635
Per share						
Underlying EPS (HK\$)	0.29	0.39	0.23	0.28	0.38	0.45
DPS (HK\$)	0.10	0.14	0.14	0.19	0.24	0.29
Payout ratio (%)	34%	36%	60%	68%	63%	64%
BVPS (HK\$)	2.63	2.89	3.20	3.20	3.34	3.50
Growth %						
Revenue	104.0%	79.9%	-27.6%	31.1%	23.0%	13.3%
Gross Profit	86.8%	56.8%	-21.0%	29.0%	24.3%	13.6%
EBIT	97.4%	52.3%	-33.8%	34.7%	32.3%	15.7%
Underlying net profit	92.5%	50.7%	-30.8%	19.9%	36.7%	19.6%
Margin %						
Gross margin	55.8%	48.6%	53.0%	52.2%	52.7%	52.9%
Gross margin (post-LAT)	48.2%	39.2%	42.3%	40.6%	41.2%	41.6%
EBIT margin	44.8%	37.9%	34.6%	35.6%	38.3%	39.1%
Core net margin	26.2%	21.7%	19.1%	17.4%	19.3%	20.4%
Key assumptions						
Contracted Sales (HK\$ mn)	8,205	14,106	11,321	11,653	14,967	16,869
GFA sold (m sqm)	0.71	1.75	1.25	1.10	1.41	1.57
ASP (HK\$/sqm)	11,573	8,083	9,030	10,607	10,607	10,778
Booked Sales (HK\$)	6,899	12,813	8,654	11,307	13,834	15,315
GFA delivered (mn sqm)	0.66	1.62	1.08	1.15	1.36	1.50
Booked ASP (HK\$/sqm)	10,409	7,910	8,017	9,850	10,164	10,182

Source: Company, ABCI Securities estimates



Consolidated balance sheet (FY13A-FY18E)

As of Mar 31 (HK\$ mn)	FY13A	FY14A	FY15A	FY16E	FY17E	FY18E
Current assets	18,428	30,042	34,264	31,047	31,518	33,553
Bank balances and cash	6,778	12,777	8,673	5,456	5,926	7,962
Trade receivables	937	2,806	1,637	1,637	1,637	1,637
Properties held for sale	9,953	13,701	23,268	23,268	23,268	23,268
Other current assets	760	759	687	687	687	687
Non-current assets	23,917	29,919	38,990	48,772	55,503	61,286
Properties under development	2,382	2,933	3,697	13,520	20,297	26,132
Property, plant and equipment	601	659	1,328	1,287	1,241	1,189
Investment properties	19,426	24,034	30,218	30,218	30,218	30,218
Investment in Associate and JCE	6	13	40	40	40	40
Other non-current assets	1,502	2,279	3,707	3,707	3,707	3,707
Total Assets	42,345	59,961	73,254	79,820	87,020	94,839
Current Liabilities	15,374	24,243	28,346	34,258	40,391	46,946
Short term borrowings	4,418	5,842	9,576	14,576	19,576	24,576
Trade and other payables	4,373	8,871	9,615	9,615	9,615	9,615
Pre-sale deposits	3,793	5,120	3,920	4,833	5,966	7,520
Other current liabilities	2,790	4,411	5,235	5,235	5,235	5,235
Non-current liabilities	10,928	15,573	19,887	19,887	19,887	19,887
Long term borrowings	7,435	11,677	15,427	15,427	15,427	15,427
Other payables	-	-	-	-	-	-
Other non-current liabilities	3,493	3,896	4,459	4,459	4,459	4,459
Total Liabilities	26,302	39,817	48,232	54,145	60,278	66,832
Net Assets	16,043	20,144	25,022	25,675	26,742	28,007
Shareholders Equity	15,853	19,970	24,867	25,570	26,688	28,002
Minority Interest	190	175	155	105	55	5
Total Equity	16,043	20,144	25,022	25,675	26,742	28,007
Key ratio:						
Gross debt (HK\$ mn)	11,853	17,519	25,003	30,003	35,003	40,003
Net debt (HK\$ mn)	5,076	4,742	16,331	24,547	29,077	32,042
Net gearing (%)	32%	24%	65%	96%	109%	114%
Contracted sales/ Total assets (x)	0.19	0.24	0.15	0.15	0.17	0.18

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (FY13A-FY18E)

FY ended Mar 31 (HK\$ mn)	FY13A	FY14A	FY15A	FY16E	FY17E	FY18E
EBITDA	3,378	5,173	3,430	4,603	6,078	7,026
Change in Working Capital	(554)	2,245	(7,266)	(6,832)	(3,531)	(2,487)
Tax payment	(200)	(2,472)	(2,145)	(2,218)	(2,856)	(3,250)
Operating Cashflow	2,624	4,945	(5,980)	(4,448)	(309)	1,289
Purchase of PP&E	(10)	(10)	(10)	(10)	(10)	(10)
Addition of Investment Properties	0	0	0	0	0	0
Investment in Associate/ JCE	0	0	0	0	0	0
Proceeds from Disposals	0	0	0	0	0	0
Others	0	188	(2)	121	107	119
Investing Cashflow	(10)	178	(12)	111	97	109
Debt raised	2,000	10,000	9,879	10,000	10,000	10,000
Debt repaid	(500)	(9,815)	(5,238)	(5,000)	(5,000)	(5,000)
Interest expenses	(719)	(1,208)	(1,617)	(2,309)	(2,348)	(1,993)
Equity raised	0	3,328	0	0	0	0
Convertible securities raised	0	0	0	0	0	0
Dividend to shareholders	(449)	(1,049)	(1,086)	(1,520)	(1,920)	(2,320)
Others	0	(380)	(50)	(50)	(50)	(50)
Financing Cashflow	332	877	1,888	1,121	682	637
Net cash inflow/ (outflow)	2,946	5,999	(4,104)	(3,217)	470	2,035
Cash- beginning	3,832	6,778	12,777	8,673	5,456	5,926
Cash- year-end	6,778	12,777	8,673	5,456	5,926	7,962

Source(s): Company, ABCI Securities estimates

Disclosures

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 2009-2013

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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