

## Jackson Hui

jackson.hui@clsa.com  
(852) 26008723

## Nicole Wong

(852) 26008207

26 June 2012

## Hong Kong Property

Reuters 0497.HK  
Bloomberg 497 HK

### Priced on 27 June 2012

HK HSI @ 19,176.9

12M hi/lo HK\$.34/.16

12M price target HK\$.49  
±% potential +56%

Shares in issue 8,305.9m  
Free float (est.) 49.0%

Market cap US\$337m

3M average daily volume  
HK\$4.8m (US\$.6m)

### Major shareholders

Mico Chung 51.0%

### Stock performance (%)

	1M	3M	12M
Absolute	10.5	12.5	16.7
Relative	7.9	23.5	34.1
Abs (US\$)	10.6	12.6	17.1



Source: Bloomberg

www.clsa.com

## Solid progress

CSI has made solid progress last year which is reflected in its FY12 result: net profit of HK\$1,768mn was up 103% y-y but more importantly, dividend is raised by 140% y-y to HKc2.4. The implied dividend yield is an attractive 7.6%. We believe the higher payout ratio will be sustainable given the company's significantly improved balance sheet with net gearing by end-FY12 of just 4%, and with chairman's substantially bigger stake in the company (of 51%, up from 35%). We initiate with a BUY recommendation, with a target price of HK\$0.49 based on 55% discount to NAV, implying 56% upside.

### FY12 results highlight

FY12 net profit of HK\$1,768mn was an equivalence of 66% of CSI's market cap and up 104% y-y on a 17% y-y increase in revenue and a 23ppt y-y increase net margin to 55%. Dividend of HKc2.4 is upped by 140% y-y on payout ratio of 11.3%, up from 9.5% in FY11 and 7.5% in FY10.

### More than earning its market cap

We expect CSI's FY13-15 net profit to stay high, at an average HK\$1,174mn per annum. This represents a 140% increase from average net profit between FY09-11. The aggregate net profit between FY13-15 is also an equivalence of 1.3x CSI's current market cap and if the company is to maintain a payout of 11% investors will receive 16% return just in dividend.

### Improved risk profile

The company's financial position has improved significantly with a net gearing of just 4% by end-FY12 on back of a 41% increase in both shareholder's equity (to HK\$6bn) and cash on hand (to HK\$2.4bn). The more diversified product mix, which spans office, retail and residential, the intention to seek for joint venture partners (notably for the HK\$1.4bn Monterey Court project) to avoid over-concentration of investment, and the increasing track record all point to improved risk profile.

### TP \$0.49, 56% upside. BUY

CSI is trading at a 71% disc to NAV which we expect to grow by 5-15% p.a. between FY13-15, and 0.45x price to book with an ROE that should range between 13.7% to 21.5% between FY13-15. Our target price of HK\$0.49 is pegged to a 55% discount to spot NAV or 65% discount to 1-year forward NAV, and implies a total upside of 56% including FY13 dividend. Initiate with BUY.

### Financials

Year to 31 March	11A	12A	13CL	14CL	15CL
Revenue (HK\$m)	2,745	3,218	2,842	444	3,136
Net profit (HK\$m)	858	1,754	1,443	1,011	1,070
EPS (HK\$)	0.11	0.21	0.18	0.12	0.13
CL/consensus (0) (EPS%)	-	-	-	-	-
EPS growth (% YoY)	43.6	102.9	(17.8)	(29.9)	5.8
PE (x)	3.0	1.5	1.8	2.6	2.4
Dividend yield (%)	3.2	7.7	6.7	4.7	5.0
FCF yield (%)	(23.2)	57.0	91.3	46.8	116.4
PB (x)	0.6	0.4	0.4	0.3	0.3
ROE (%)	22.4	34.6	22.9	13.8	14.0
Net debt/equity (%)	25.2	4.0	5.1	17.0	5.1

Source: CLSA Asia-Pacific Markets

Net profit up 103% y-y.  
Dividend up 140% y-y

## Solid progress

### FY12 results highlight

Revenue was up 17% y-y thanks to sales of Mohan Building (HK\$1.38bn), AXA Centre (7 office floors, HK\$1.1bn), 5 units of The Hampton (c. HK\$0.6bn) and 4) 32/F Bank of America Tower (HK\$0.3bn) in FY12 (In FY11: Eton Building for HK\$0.2bn, AXA Centre (9 office floors & 1 retail floor) for HK\$1.5bn, Int'l Capital Plaza for HK\$1.3bn)

Company has increased dividend payout ratio to 11.3% in FY12 from 9.5% in FY11 & 7.5% in FY10. Total dividend of HKc0.024/share is announced, +140% y-y (FY11: HK\$0.01/share). This implies a dividend yield of 7.6% on last close of share.

Net gearing continued to improve from 25.2% in end-Mar'11, to 21% at interim, and then to 4.0% at end-Mar'12.

Figure 1

### FY12 results snapshot

	FY11A (HK\$m)	FY12A (HK\$m)	% y-y
<b>P&amp;L</b>			
Revenue	2,745.3	3,217.9	17
Cost of sales	(1,773.1)	(1,551.6)	(12)
Gross profit	972.2	1,666.3	71
SG&A	(98.6)	(163.2)	66
Other income/exp	64.6	219.7	240
Finance costs	(80.0)	(52.9)	(34)
Share of results of JCEs	55.8	31.6	(43)
Share of results of associates	26.4	185.3	602
Profit before tax	940.5	1,886.8	101
Taxation	(84.1)	(118.5)	41
Profit for the year	856.4	1,768.3	106
Minority interest	1.4	(14.2)	(1,114)
Profit attr to equity shareholders	857.8	1,754.1	104
EPS (HK\$/share)	0.105	0.213	103
DPS (HK\$/share)	0.010	0.024	140
<b>Payout ratio (%)</b>	9.5	11.3	1.8 ppt
<b>Balance sheet</b>			
Short-term debt	1,086.7	735.6	(32)
Long-term debt	1,701.1	1,928.3	13
Cash	1,721.8	2,424.0	41
Net debt	1,066.0	239.8	(78)
Shareholders' equity	4,237.5	5,958.9	41
<b>Net gearing (%)</b>	25.2	4.0	(21.2) ppt

Source: CLSA Asia-Pacific Markets

### More than earning its market cap

We expect CSI's FY13-15 net profit to stay high, at an average HK\$1,174mn per annum. This represents a 140% increase from average net profit between FY09-11. The aggregate net profit between FY13-15 is also an equivalence of 1.3x CSI's current market cap.

Assuming company maintains a pay-out ratio of 11%, CSI's investors will receive 16% return just in dividends between FY13-15.

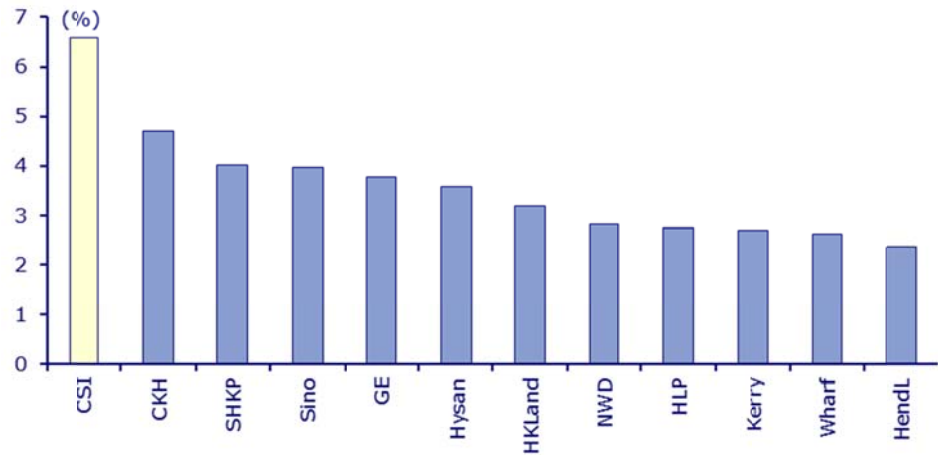
Earning 1.3x its current  
market cap

Contribution by project

	Stake (%)	Total GFA (sqf)	Est. ASP at disposal (HK\$psf)	All-in cost (HK\$psf)	Margin (%)	Attr. cash proceeds (HK\$m)	Sales contrib'n (HK\$m)	Asso./ JCE (HK\$m)	EBIT (HK\$m)
	25	68,000	22,000	8,195	63	374	-	235	235
	100	116,806	12,000	5,940	51	1,402	1,402	-	708
	100	12,483	26,000	12,782	51	325	325	-	165
	100	9,149	25,000	12,782	49	229	229	-	112
	100	45,000	13,000	7,050	46	585	585	-	268
	100	700	210,000	154,286	27	147	147	-	39
						<b>3,061</b>	<b>2,688</b>	<b>235</b>	<b>1,527</b>
	50	370,000	5,667	1,923	66	1,048	-	696	696
	100	19,607	14,560	5,013	66	285	285	-	177
	100	na	na	na	na	40	40	-	17
d)	50	90,000	18,000	11,989	33	567	-	159	159
						<b>1,940</b>	<b>325</b>	<b>855</b>	<b>1,049</b>
	100	4,232	61,750	55,175	11	261	261	-	22
	100	45,000	17,248	8,536	51	776	776	-	362
	100	32,000	22,176	14,355	35	710	710	-	215
	50	215,000	9,808	8,666	12	1,054	-	106	106
	50	75,000	12,320	8,666	30	462	-	111	111
d)	50	90,000	17,100	11,989	30	115	-	28	28
	100	122,000	4,810	2,984	38	587	587	-	223
i)	70	29,800	23,408	18,476	21	488	698	-	147
						<b>4,454</b>	<b>3,032</b>	<b>245</b>	<b>1,214</b>

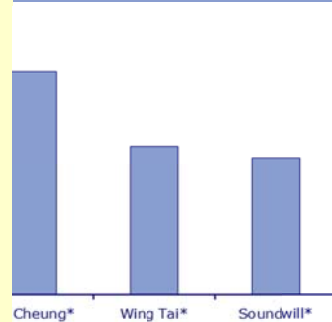
Figure 3

CSI's FY13CL dividend yield vs major developers/landlords



Source: CLSA Asia-Pacific Markets

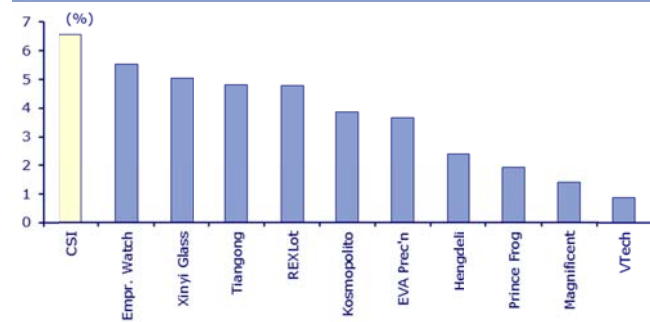
vs smaller property peers



HKR, Tai Cheung, Wing Tai and c Markets

Figure 5

FY13CL CSI dividend yield vs other industry small-caps



Source: CLSA Asia-Pacific Markets

### Earnings forecast

Our FY13 net profit of HK\$1,442m is based on the following key assumptions:

1. AXA Centre (8 office floors) to be sold at ASP HK\$12,000psf, all-in cost of HK\$5,940psf implying a margin of 51%.
2. Remaining 6 units of The Hampton will be sold at HK\$25,000-26,000psf. All-in cost of HK\$12,782psf, 50% margin.
3. Cubus. ASP HK\$22,000psf, all-in cost \$8,195psf.

Our FY14 net profit of HK\$1,011m is based on the following key assumptions:

1. The Platinum. Sale at ASP HK\$5,667psf, all-in cost of HK\$1,923psf
2. AXA Centre (Basement retail, carpark spaces and sky sign). Basement retail to be sold at HK\$14,560psf, 78 carpark spaces at HK\$500,000/space, and sky sign for HK\$206,000.
3. 33-39 Tung Lo Wan Road project to be completed, and 70% units to be delivered. ASP HK\$18,000psf, all-in cost of HK\$11,989psf.

Our FY15 conservative net profit of HK\$1,070m is based on the following key assumptions:

1. 47 Barker Road will be sold at HK\$65,000psf. All-in cost of HK\$4,232psf.
2. JIA Hotel will be disposed at HK\$17,248psf. All-in cost at HK\$8,536psf
3. Novotel (hotel + retail) to be offloaded at HK\$3.0bn, all-in cost at HK\$2.6bn.
4. In Point at Shanghai will be sold at HK\$4,810psf (all-in cost: HK\$2,984psf)
5. Other projects including 2-4 Shelley Street (ASP: HK\$22,176psf; HK\$14,355psf), 33-39 Tung Lo Wan Road (15% of total units), and Golden Computer Centre (ASP: HK\$23,408psf; AV: HK\$18,476psf)

**FY13-15 cashflow analysis**

Net gearing stays at comfortable level even if AXA Centre sale not completed until FY3/14

**Cashflow forecast**

Our FY13-15 operating cashflow of HK\$95.7mn , -HK\$787mn and HK\$856mn is based on the following key assumptions:

1. FY13: land capex of HK\$2,270mn, construction capex of HK\$530mn
2. FY14: land capex of HK\$2,000mn, construction capex of HK\$862mn
3. FY14: land capex of HK\$2,000mn, construction capex of HK\$923mn

**Risk assessment**

The company's financial position has improved significantly with a net gearing of just 4% by end-FY12 on back of a 41% increase in both shareholder's equity (to HK\$6bn) and cash on hand (to HK\$2.4bn). The more diversified product mix, which spans office, retail and residential, the intention to seek for joint venture partners (notably for the HK\$1.4bn Monterey Court project) to avoid over-concentration of investment, and the building track record all point to improved risk profile.

Figure 6

**Scenario analysis**

Description	Base case	Scenario 1
	Projects sold according to sales pipeline.	AXA Centre not sold until FY14
	HK\$m	HK\$m
Cash at Mar'12	2,424.0	2,424.0
<b>Inflows:</b>		
Proceeds from project sales		
- Cubus	374.0	374.0
- AXA Centre (15, 17-24/F)	1,401.7	-
- 5B,7A,7B The Hampton (sale completed in May'12)	292.1	292.1
- 1A,2A,2B The Hampton	205.9	205.9
- H8	585.0	585.0
- 24 Wellington Street	147.0	147.0
Rental income	216.8	173.1
<b>Outflows:</b>		
Land acquisitions committed		
- Golden Computer Centre (70% stake)	(336.0)	(336.0)
- Kau To Shan land site (100% stake)	(531.5)	(531.5)
- The Monterey Court (55% stake)	(1,402.8)	(1,402.8)
SG&A	(179.6)	(179.6)
Tax	(163.4)	(92.6)
Dividends - FY12 dividends	(199.3)	(199.3)
Operating cashflows	409.9	(964.7)
Investing cashflows (include'g construction capex)	(529.8)	(529.8)
Financing cashflows	(944.3)	(944.3)
Cash at Mar'13	1,359.8	(14.8)
Gross debt at Mar'13	1,928.3	1,928.3
Net debt at Mar'13	568.5	1,943.1
Shareholders' equity at Mar'13	6,633.5	5,996.4
Net gearing (%)	8.6	32.4
Debt headroom (assume 20% net gearing)	758.2	na

Source: CLSA Asia-Pacific Markets

NAV: HK\$1.09/share

**Initiate with BUY. TP \$0.49**

CSI is trading at a 71% disc to NAV on an NAV which we expect to grow by 5-15% p.a. between FY13-15, and 0.45x price to book with an ROE that should range between 13.4% to 21.5% between FY13-15. Our target price of HK\$0.49 is pegged to a 55% discount to spot NAV or 65% discount to 1-year forward NAV, and implies a total upside of 56% including FY13 dividend. Initiate with BUY.

Figure 7

**FY13CL NAV breakdown**

	FY13 NAV (HK\$m)	% of GAV
HK properties	7,709	82%
- Residential	2,557	27%
- Commercial	5,152	55%
China properties	1,711	18%
- Residential	623	7%
- Commercial	1,088	12%
Total	9,420	100%
Net (debt)/cash	(353)	
<b>NAV</b>	<b>9,067</b>	
<b>NAV per share (HK\$)</b>	<b>1.09</b>	
# of shares (m)	8,306	
Current share price (HK\$)	0.32	
Curr disc to NAV	71%	
Target NAV disc	55%	
Target price (HK\$)	0.49	
Upside/downside	56%	

Source: CLSA Asia-Pacific Markets

## Summary financials

Year to 31 March	2011A	2012A	2013CL	2014CL	2015CL
<b>Summary P&amp;L forecast (HK\$m)</b>					
<b>Revenue</b>	<b>2,745</b>	<b>3,218</b>	<b>2,842</b>	<b>444</b>	<b>3,136</b>
Op Ebitda	945	1,096	1,415	275	1,021
Op Ebit	935	1,702	1,415	275	1,021
Interest income	4	20	20	20	20
Interest expense	(80)	(53)	(80)	(65)	(57)
Other items	82	217	278	894	253
<b>Profit before tax</b>	<b>940</b>	<b>1,887</b>	<b>1,634</b>	<b>1,124</b>	<b>1,238</b>
Taxation	(84)	(119)	(163)	(112)	(124)
Minorities/Pref divs	1	(14)	(28)	-	(44)
<b>Net profit</b>	<b>858</b>	<b>1,754</b>	<b>1,443</b>	<b>1,011</b>	<b>1,070</b>
<b>Summary cashflow forecast (HK\$m)</b>					
<b>Operating profit</b>	<b>935</b>	<b>1,702</b>	<b>1,415</b>	<b>275</b>	<b>1,021</b>
Operating adjustments	-	-	-	-	-
Depreciation/amortisation	11	(606)	0	0	0
Working capital changes	(834)	800	1,306	117	1,017
Net interest/taxes/other	(707)	(175)	174	1,683	1,741
<b>Net operating cashflow</b>	<b>(596)</b>	<b>1,721</b>	<b>2,896</b>	<b>2,075</b>	<b>3,779</b>
Capital expenditure	0	(243)	(530)	(862)	(762)
<b>Free cashflow</b>	<b>(596)</b>	<b>1,478</b>	<b>2,366</b>	<b>1,212</b>	<b>3,017</b>
Acq/inv/disposals	1,628	397	(2,270)	(2,000)	(2,000)
Int, invt & associate div	(91)	(117)	-	-	-
<b>Net investing cashflow</b>	<b>1,537</b>	<b>38</b>	<b>(2,800)</b>	<b>(2,862)</b>	<b>(2,762)</b>
Increase in loans	248	(124)	(736)	(125)	(356)
Dividends	(41)	(776)	(199)	(173)	(121)
Net equity raised/other	(8)	(156)	(9)	0	0
<b>Net financing cashflow</b>	<b>199</b>	<b>(1,056)</b>	<b>(944)</b>	<b>(298)</b>	<b>(478)</b>
<b>Incr/(decr) in net cash</b>	<b>1,140</b>	<b>702</b>	<b>(849)</b>	<b>(1,085)</b>	<b>540</b>
Exch rate movements	-	-	-	-	-
<b>Opening cash</b>	<b>582</b>	<b>1,722</b>	<b>2,424</b>	<b>1,575</b>	<b>490</b>
<b>Closing cash</b>	<b>1,722</b>	<b>2,424</b>	<b>1,575</b>	<b>490</b>	<b>1,030</b>
<b>Summary balance sheet forecast (HK\$m)</b>					
Cash & equivalents	1,722	2,424	1,575	490	1,030
Debtors	165	42	42	42	42
Inventories	4,151	3,242	4,261	6,144	7,127
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
<b>Total assets</b>	<b>7,684</b>	<b>9,050</b>	<b>9,226</b>	<b>9,951</b>	<b>10,059</b>
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	1,804	1,448	1,311
Provisions/other LT liabs	20	16	16	16	16
Minorities/other equity	(1)	13	185	185	229
Shareholder funds	4,238	5,959	6,699	7,549	7,969
<b>Total liabs &amp; equity</b>	<b>7,684</b>	<b>9,050</b>	<b>9,226</b>	<b>9,951</b>	<b>10,059</b>
<b>Ratio analysis</b>					
Revenue growth (% YoY)	89.6	17.2	(11.7)	(84.4)	606.8
Ebitda growth (% YoY)	47.7	16.0	29.1	(80.6)	271.6
Ebitda margin (%)	34.4	34.1	49.8	61.9	32.6
Net profit margin (%)	31.2	54.5	50.8	227.9	34.1
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	33.7	23.6	6.1	27.9
Net debt/equity (%)	25.2	4.0	5.1	17.0	5.1
ROE (%)	22.4	34.6	22.9	13.8	14.0
ROIC (%)	14.4	31.8	23.8	3.7	11.2
EVA@/IC (%)	9.1	26.5	18.5	(1.6)	6.0

Source: CLSA Asia-Pacific Markets



## Companies mentioned

CSI Properties (497 - HK\$.32 - BUY)

---

**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/](http://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](mailto:webadmin@clsa.com) or (852) 2600 8111. If you require disclosure information on previous dates, please contact [compliance\\_hk@clsa.com](mailto: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](http://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

