

7 September 2012

Stock Focus

CSI PROPERTIES (497 HK)

Up And Coming

NOT RATED | HK\$0.315

In the eight years since its backdoor listing in 2004, CSI has evolved from a property trader into a serious property investor and developer, with an aspiration to establish a brand in the super-luxury residential sector. Such transformation has been underwritten by the rapid expansion of CSI's shareholders' equity, which has grown almost nine times in the period.

Behind this growth is management's keen acumen for the property market in buying the right property at the right time; and more importantly, of CSI's rewarding business model in identifying run-down or under-utilised buildings in good locations, giving them a makeover, and selling at a good profit. This process typically takes less than three years.

CSI's focus on asset turn, as opposed to building a quality recurrent income base, also enhances growth. The company's relatively young management team offers the energy and enthusiasm, and is able to think outside the box, bringing new ideas to an established industry.

We estimate that CSI's 1.3m sf property holding is sitting on an unrealised profit of HK\$4b based on prevailing property prices. However, the small portfolio and nature of its business mean that profit-booking could be lumpy and that the bottom line is sporadic. Recent acquisitions will raise book gearing to about 55%, and there is no funding pressure at present.

Trading at a 0.4x FY12 P/B and 70% discount to estimated NAV, CSI offers values when compared with the other small developers, particularly as its asset churn strategy should attract a narrower discount to NAV. CSI's small market cap and low liquidity are the main drawbacks. Eager to address these issues, management has started to be more proactive in communicating with institutional investors.

Figure 1: Key Financials

Year to 31 Mar	Turnover (HK\$m)	EBITDA (HK\$m)	Net Profit (HK\$m)	EPS (HK\$)	Net Profit Growth (%)	PE (x)	EV/EBITDA (x)	DPS (HK\$)	Yield (%)
2009	669	199	62	0.01	(77)	31.0	14.0	0.002	0.7
2010	1148	629	546	0.073	776	4.2	4.4	0.005	1.6
2011	2745	1036	858	0.105	57	3.0	2.7	0.010	3.2
2012	3,218	1975	1754	0.213	105	1.5	1.4	0.024	7.7

Source: CSI Properties

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Background

Chairman Mico Chung took control of CSI Properties (CSI) in Feb 04 as a backdoor listing for his property business. Although it is a newcomer to Hong Kong's small and competitive property market, CSI has managed to expand its shareholders' equity by almost nine times in its short history of eight years and generated an average ROE of 15%. CSI is run by a team of young and enthusiastic entrepreneurs that does not engage in property business in the conventional way, but rather focuses on capitalising the upside potential of undervalued properties. Management identifies run-down and under-utilised properties with upgrading potential, undertakes a major makeover and offloads the properties at a much higher value. Although CSI is still perceived as a property trader with the numerous small transactions in its early years, it has already transformed into a serious property investor and developer as the enlarged capital base allows CSI to take up bigger and longer-term projects. In 2010, with the success of The Hampton, the Couture Homes brand was established in order to tap the very top tier of the luxury residential market. In March, Mr Chung showed his confidence on the company by investing a further HK\$350m for an additional 16% stake. Recently, management has taken a more proactive approach in communicating with institutional investors. CSI has been a constituent stock of the MSCI Small Cap Hong Kong Index since May 11.

A Different Business Model

CSI was a small company when the present management took over, with shareholders' equity of only HK\$858m in March 05. With a limited capital base, the company mainly engaged in active trading of properties - buying small properties and flipping them for quick profits.

Its transformation into a more serious property investor started in Mar 06 when it bought a couple of commercial properties on Ashley Road, Tsimshatsui. Initially, CSI focused on commercial properties until its second milestone in May 08 when it bought its first luxury residential project in an affluent neighbourhood. CSI then totally gutted the old building, putting in a new floor plan and finish with 11 units, each with its own unique interior design and top-of-the-line furnishing. After tasting the success and seeing a gap in the luxury market, Coutour Homes was formed in 2010 to tap the very top tier of the luxury segment.

Management is very much aware that CSI is still a young and small company that needs to expand through high and profitable asset turns, so its business strategy is to buy properties with good value-enhancing potential, carry out extensive work to bring out this potential, and to realise this potential by offloading the properties at an elevated price within a relatively short holding period of within four years. Even though some properties are generating good rental income, establishing a recurrent income base is not in the agenda. CSI operates on a very different business model as compared with typical property developers and landlords.

Figure 2: Successful Track Record

Property Hong Kong	Location	Use	Date of purchase	Date of sale	Cost (HK\$m)	Price (HK\$m)	Increase (%)	IRR (%)	Work done
Paul Y Centre	Kwun Tong	Industrial/office	Nov-05	Jun-07	780	1,150	47	178	Renovation
88 Gloucester Road	Wanchai	Office	May-03	Jul-07	196	783	299	65	Renovation
4 houses at Tai Tam	Island South	Lux residential	Dec-06	Feb08-May09	280	555	98	68	Renovation
Novel Plaza	Shanghai	Office	Oct-07	Sep-08	820	1,200	46	84	Renovation
14-16 Hankow Road	Tsimshatsui	Lux residential/retail	Apr-07	Aug-11	620	1,380	123	43	Conversion from commercial into residential
10 floors at AXA Centre	Wanchai	Office/retail	Aug-06	Nov-10	775	1,560	101	30	Renovation
International Capital Plaza	Shanghai	Office/retail	Apr-06	Dec-10	867	1,353	56	19	Renovation
8 units at The Hampton	Happy Valley	Lux residential	May-08	Nov 11-Mar 12	335	807	141	42	Renovation

Source: CSI Properties

Does The Model Work?

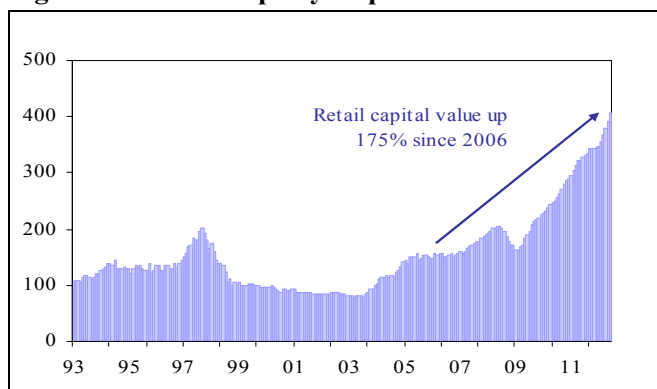
CSI generated a total HK\$3,168m in net profit in the last three financial years on an average ROE of 25%, showing that its business model has been working. Going forward, we still see good opportunities for the following reasons:

There are many old districts in the urban part of Hong Kong. Given the lack of space in the urban districts, the government has been undertaking initiatives to speed up redevelopment of these old areas. For example, starting from Apr 10, for buildings over 50 years old, as long as 80% of ownership has been secured, developers can apply to the Land Tribunal for the compulsory sale of the remaining titles. Before this new rule, it could easily take a developer well more than 10 years to assemble a small site. But now the process is much easier and faster, and this allows the smaller developers to actively participate in redevelopment of old buildings.

Meanwhile, there are numerous run-down old buildings located in busy districts across Hong Kong. Through substantial renovation, repositioning and proper property management, values of these buildings can be greatly enhanced. CSI's H8, conversion of a small commercial block into Ginza-style F&B building, is a case in point.

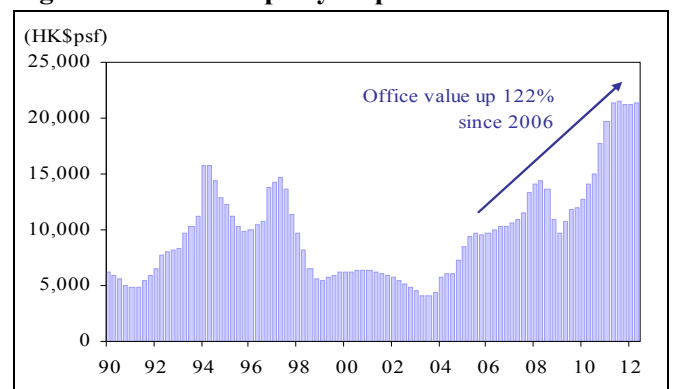
Admittedly, other developers are also eyeing these opportunities, including big-caps such as Henderson Land and small companies such as Soundwill. But for a start, CSI is focusing on small-sized developments, typically around 50,000 sf or below, that the larger developers are not interested in. In addition, most of the smaller developers focus on the residential segment, while CSI has experience both in revamping and redevelopment residential and commercial properties.

Figure 3: Retail Property Capital Value



Source: HKSAR, UOB Kay Hian

Figure 4: Office Property Capital Value



Source: HKSAR, UOB Kay Hian

Coutour Homes – The Way Forward

Management takes a lot of pride in The Hampton, which is the first of its kind in Hong Kong to have each unit individually designed and furnished. Its success has given rise to the Coutour Homes brand.

In May 08, CSI paid HK\$290m for an aged residential block, equivalent to HK\$8,121 psf. Partnered with Steve Leung, an architect and interior designer and now the vice chairman of Coutour Homes, CSI then spent another HK\$120m on a major overhaul of the building, from converting the original 15 flats into 11 units with size between 3,500 sf and 5,500 sf, to the finishing touch of installing swanky interior design as well as top-of-the-line furnishings.

Figure 5: The Hampton: Individually Designed And Furnished – Example 1



Source: UOB Kay Hian

Figure 6: The Hampton: Individually Designed And Furnished – Example 2



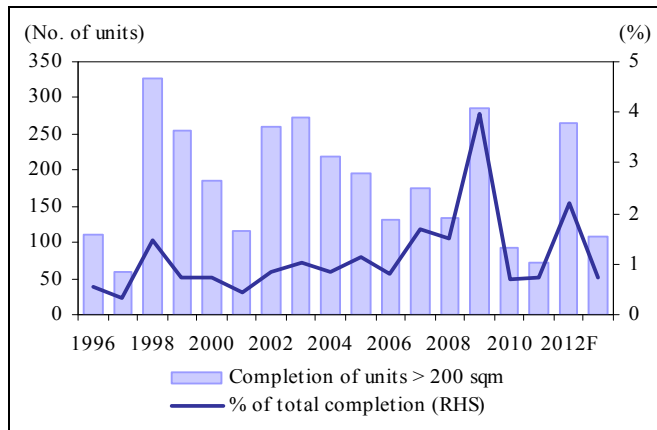
Source: UOB Kay Hian

Admittedly, it takes time to find a buyer that is willing to pay HK\$100m for a flat with a design that suits his taste. This is why only eight flats have been sold since its launch last November. However, the return makes it worthwhile. The eight units have generated a total proceed of HK\$807m, already well above the HK\$410m total investment for the whole project, and there are also three remaining units that are currently undergoing fitting-out, that could potentially bring in another HK\$300m.

There is no developer in Hong Kong undertaking a similar business approach, so management looks to overseas for inspiration, including London's Candy & Candy, a luxury property developer established in 1999 in London and SC Global Developments, set up in Singapore in 1996. Both companies have achieved success and recognition despite their short history in the industry.

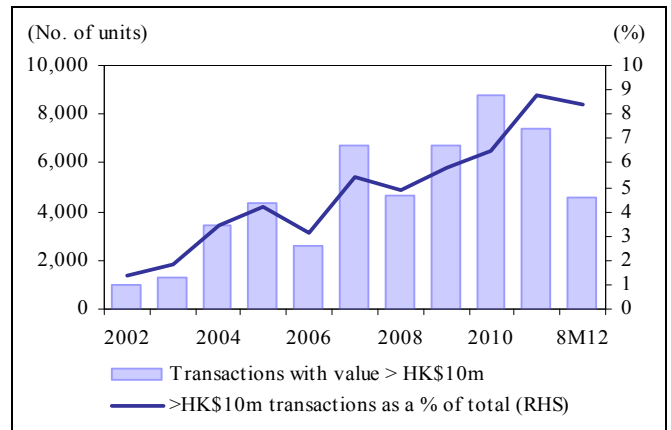
Supply of luxury units in Hong Kong has always been scarce, and influx of mainland Chinese buyers has been driving prices up. While developers are all eyeing this lucrative segment and have included large units in their high-rise developments, the real luxury units need to have the right address and the right size. All eight units at The Hampton have been bought by Chinese buyers, a group which now accounts for over 50% of the primary luxury market in Hong Kong in terms of value, from less than 20% five years ago.

Figure 7: Completion Of Large Residential Units



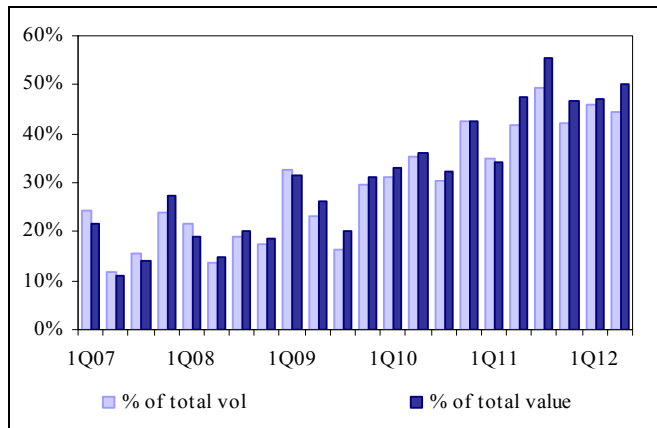
Source: HKSAR, UOB Kay Hian

Figure 8: Transaction Volume Of Luxury Residential Units



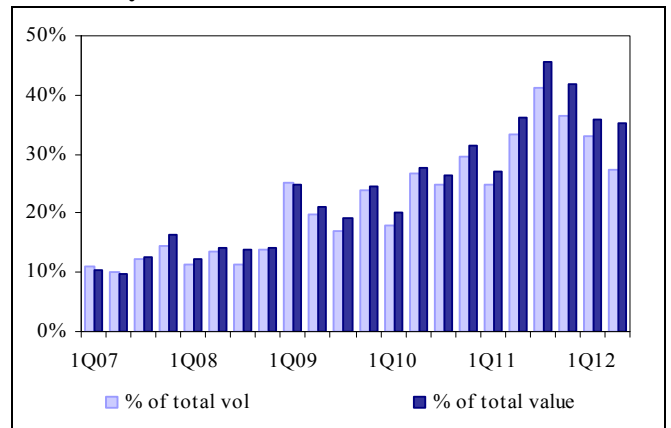
Source: HKSAR, UOB Kay Hian

Figure 9: Est. Market Share Of Mainland Buyers In Lux Segment (HK\$12m) - Primary



Source: Centaline

Figure 10: Est. Market Share Of Mainland Buyers In Lux Segment (HK\$12m) – Primary & Secondary



Source: Centaline

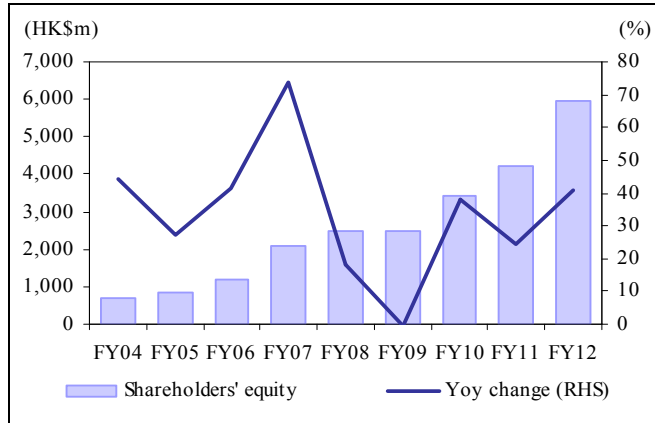
CSI has three major luxury projects under the Couture Homes brand in Hong Kong and one in Shanghai in the pipeline. One of them is a development of 20 villas in Kau To Shan, a luxury district in Shatin, of around 2,500 sf each with its own garden and swimming pool. CSI was able to pay HK\$583m for the 50,375 sf gross floor area (GFA) project in a government tender on 18 May, above consensus range of HK\$400m-500m, because of its Couture Homes concept. Prevailing secondary market prices for villas in the area are now around HK\$20,000 psf, and adding designs and furnishing would easily raise prices by 10% or more. On this basis, we calculate that CSI could make a margin of at least 30%.

Another key project under Couture Homes is the redevelopment of Monterey Court, located in an exclusive area at Jardine’s Lookout. CSI acquired the 28-year-old building this June for HK\$1,408m. Based on a 75,000 sf GFA, land cost is about HK\$18,800 psf, which is cheaper than the HK\$24,830psf that SHKP paid for a nearby luxury site in a government auction in May 11, even though Monterey Court is located in a more exclusive neighbourhood. The transaction is expected to be completed in Dec 12, with all existing tenants moving out by mid-13. Demolition will probably start in 2014 to make way for a new residential block offering 18 units of 4,500 sf each as well as two villas, expected to be completed in 2017.

Why CSI Is Worth A Look

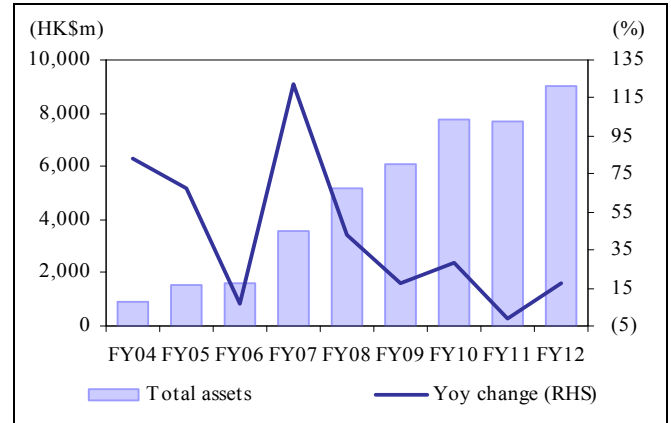
Strong money-making ability. Since CSI’s backdoor listing in 2004, shareholders’ equity has expanded almost nine times from HK\$675m in Mar 04 to HK\$5,959m in Mar 12, and the beauty is that only HK\$1,273m came from equity fund-raisings (six top-up share placements between May 05 and Aug 09, and a rights issue in Jul 09), with the remaining HK\$4b coming from earnings (excluding property revaluation which is a paper gain) generated in the ensuing years, which straddled the 2008 financial crisis. This reflects management’s strong business acumen.

Figure 11: Shareholders’ Equity And Yoy Growth



Source: CSI Properties

Figure 12: Total Assets And Yoy Growth

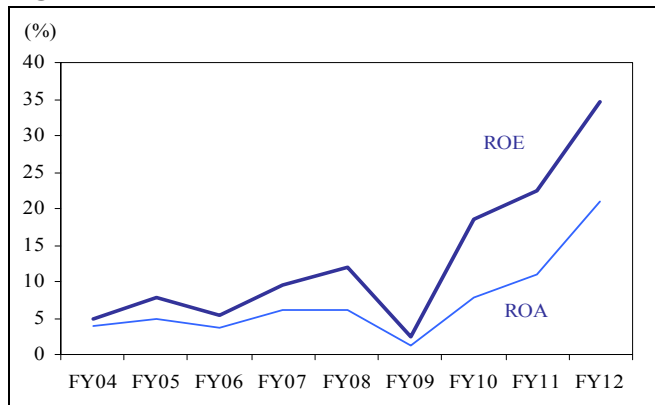


Source: CSI Properties

Finding a niche. Although it is relatively new to Hong Kong’s property scene, CSI has managed to find its niche – renovating and repositioning commercial properties to enhance/maximise their values as well as offering super-luxury residential units that come with interior designs and top-notch furnishing. While these concepts seem straightforward, they nonetheless require a dedicated and versatile team for the execution. CSI’s relatively young top management team has been able to see outside of the box, and bring in a new kind of approach to an industry that is dominated by a few experienced developers.

Superior return on investment. We estimate that CSI’s 1.3m sf property portfolio has a book cost of HK\$9.1b and a prevailing market value of HK\$13b, implying a 43% return. This potential profit will be booked in the next three years, based on CSI’s rapid asset turnover model. In fact, CSI has an enviable track record in its short history, generating an average 60% internal rate of return (IRR) over an average holding period of 2.5 years on properties that they have sold.

Figure 13: ROE And ROA



Source: CSI Properties

Figure 14: Equity Fund-raising History

Period	(HK\$m)	Remarks
FY12	-	
FY11	-	
FY10	418	1,000m top-up shares @ HK\$0.245; 9 for 20 rights issue @ HK\$0.078
FY09	-	
FY08	-	1 into 5 share subdivision
FY07	632	90m top-up shares @ HK\$1.49; 313.5m top-up shares @ HK\$1.59
FY06	222	45m top-up shares @ HK\$1.31; 50m top-up shares @ HK\$1.10; 100m top-up shares @ HK\$1.08
FY05	-	4 in 1 share consolidation
FY04	-	

Source: CSI Properties

Offering good value. CSI is trading at a FY12 P/B of 0.44x and 70% discount to NAV, towards the low end of the typical range for small- and mid-sized property companies. Valuation would seem to be even more distressed if we take into account CSI's strategy of fast asset turn. Companies that are able to realise hidden asset value quickly deserve a narrower discount to NAV.

Chairman's commitment. Mr Chung spent HK\$350m to acquire a further 16% stake in CSI (from 34.35% to 50.70%) this March via an open market offer made last December, at an average HK\$0.255/share. This is a strong show of his commitment to the company. Share price is now 23% above his acquisition price.

More Prudent Strategy For China

CSI started its operation in Shanghai in 2006, basically adopting a similar business model of buying properties with upgrading potential, carrying out the works and then selling the property for good profits. In May 06, it bought International Capital Plaza, a retail property, in a 60/40 JV with Lehman Brothers. In Dec 10, the building was sold for Rmb1.16b. With an all-in cost of Rmb740m, this project generated an IRR of 20% in 4.5 years. In Oct 07, it bought another retail mall, Novel Plaza, for Rmb820m, and managed to sell that for Rmb1.2b in Sep 08, generating a whopping IRR of 84% in less than a year.

CSI currently has three projects in Shanghai. In Point is a shopping mall located just behind the Four Seasons Hotel. The mall is currently 96%-occupied, generating HK\$51m of rental income p.a.. Management is looking for a significant lift in value of the property when Swire Properties' Dazhongli project nearby is completed in 2015. Platinum is a grade A office building located near Xintiandi, which CSI acquired with Chinese Estates in Apr 10. The office space is 98%-occupied with tenants including McKinsey's China headquarters, Standard Chartered Bank and LG Group. The third project is CSI's first luxury residential development in Shanghai. CSI bought the site with another Hong Kong developer in Jun 11. CSI plans to build 220+ super-luxurious units under the Couture Homes brand.

Management's stated plan is to expand its China investments to 50% of their total portfolio from the current 30%, focusing in Shanghai and potentially expanding to Beijing. However, no time frame has been set. We believe that the availability of investment opportunities in Hong Kong and how well the Couture Homes brand works in China will dictate CSI's expansion pace in China. But unlike the case for Hong Kong, we expect its China strategy to be more prudent because management does not know China as well and will undertake most projects with a JV partner.

Figure 15: Current Property Portfolio

Property	Location	Use	Stake (%)	Attributable GFA (sf)	Market value by independent valuer (HK\$m)	Book value per FY12 account (HK\$m)
Certain units at AXA Centre	Wanchai	Office/Retail	100	153,409	2,090	715
23,25,27 Ashley Road	Tsimshatsui	Retail	100	61,528	717	368
21 Ashley Road, G/F	Tsimshatsui	Retail	100	1,280	59	46
Certain units at The Hampton	Happy Valley	Lux residential	90	9,000	194	105
H8, 8 Hau Fook Street	Tsimshatsui	Retail	100	45,101	540	304
Certain units and 4 carparks at Bank of America Tower	Queensway	Office/Carpark	100	7,400	181	154
47 Barker Road	The Peak	Lux residential	100	3,883	204	204
2-4 Shelly Street	Central	Lux residential	100	34,590	285	285
14 Pennington Street	Causeway Bay	Office/Retail	100	2,754	130	130
Keswick Court, G/F	Causeway Bay	Retail	100	640	33	33
Duke Wellington House, G/F	Central	Retail	100	432	110	110
Cubus	Causeway Bay	Retail	25	15,000	363	129
1 Irving Street	Causeway Bay	Hotel	100	45,000	575	575
Novotel Nathan Road	Jordan	Hotel	50	145,000	1,184	1,184
33-39 Tung Lo Wan Road	Causeway Bay	Lux residential	50	45,000	500	500
Kau To Shan	Shatin	Lux residential	100	50,376	531	531
Monterey Court	Jardine's Lookout	Lux residential	60	45,000	842	842
In Point, 168-169 Wujiang Road	Shanghai	Retail	100	122,444	901	636
Platinum	Shanghai	Office	50	185,000	1,503	1,055
Qing Pu	Shanghai	Lux residential	50	321,500	591	591
Total				1,294,337	11,532	8,497

Source: CSI Properties

Executive Director And Senior Management

Mr Mico Chung (age 51) is the chairman and executive director. A solicitor by training, Mr Chung acquired CSI from its previous major shareholder in Feb 04. He joined Bond Corporation in 1990 and was in charge of a number of property deals, including SHKP's acquisition of World Trade Centre in Causeway Bay from Hongkong Land for HK\$1.72b in 1990. He joined China Strategic in 1992 and concluded a number of China deals. When he was with PCCW, Mr Chung was involved in the Cyberport project and the subsequent spin-off of Pacific Century Premium Development from PCCW.

Mr Simon Kan (age 40) is an executive director and the company secretary. He qualified as a solicitor in 1997 and joined the company in 2001. Prior to that, he had over 10 years of legal and compliance experience in various listed companies. Mr Kan provides legal advice and ensures speedy execution of deals for CSI.

Mr Chow Hou Man (age 41) is the executive director in charge of the finance function. Mr Chow joined in 2001 and has over 18 years of financial experience in various companies listed in Hong Kong and overseas.

Mr Wong Chung Kwong (age 61) is the executive director responsible for the Hong Kong property division. Prior to joining in 2004, Mr Wong had 40 years of experience in real estate business in both Hong Kong and China working for various companies, with experience in sales and marketing, acquisitions, repositioning and asset management. He has extensive knowledge and networking contacts in Hong Kong.

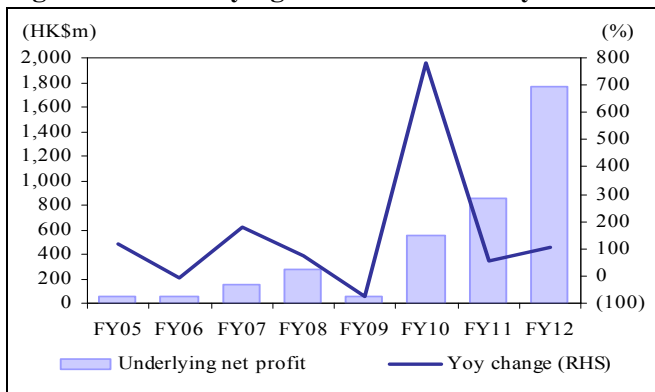
Ms Dong Yan is the general manager in charge of the Shanghai division. She joined CSI in 2006 after working for Shanghai Real Estate (owned by the Shanghai municipal government) for over 10 years. Ms Dong has extensive knowledge and networking contacts in the Shanghai property market and is also close to city and district officials.

Financials

Expecting sporadic earnings trend. Except for FY09 which was affected by the global financial crisis, CSI has managed to report strong profit growth year after year, boasting a CAGR of 62% from FY05 to FY12. But since it's on a high profit base now, it is unrealistic to expect this growth momentum to continue. FY13 is a case in point - only three units at The Hampton have been locked in so far this year. Although management is actively looking for a buyer for Cubus and H8, which are both Ginza-style F&B buildings, it is hard to predict whether buyers will come along, especially as we can see that management is quite determined to get good prices on them. While we believe it will be much easier to dispose of the remaining three units of The Hampton and eight floors at AXA, trying to get the right price might hinder this disposal process.

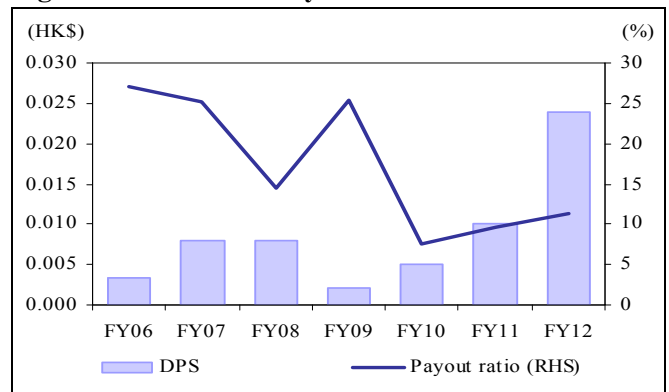
CSI's property portfolio has an attributable GFA of 1.3m sf, which we estimate is sitting on an unrealised profit of HK\$4b based on prevailing property prices. Given the nature of the business and the small property portfolio, it is difficult to smooth out earnings. Hence we expect the bottom-line will be volatile going forward. This also means that dividends, which are pegged at a 15-20% payout, will also fluctuate.

Figure 16: Underlying Net Profit And Yoy Growth



Source: CSI Properties

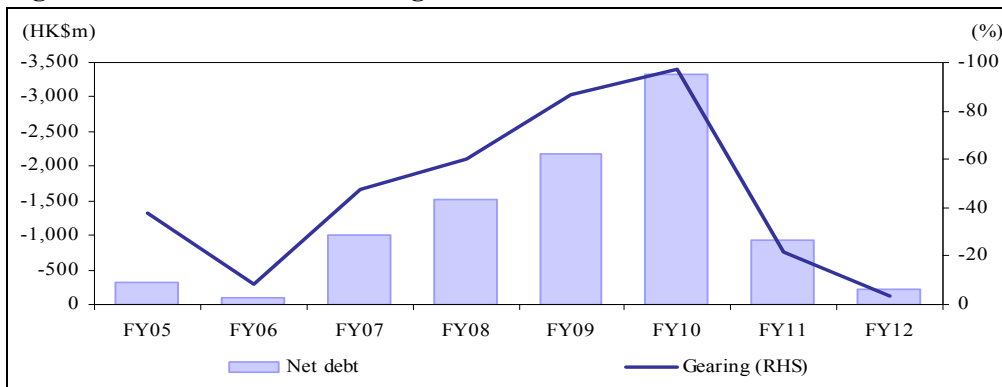
Figure 17: DPS And Payout Ratio



Source: CSI Properties

Comfortable financing position. After peaking in FY10, gearing has been falling rapidly in the last two years as the harvest period was arriving. With gearing dropping to 4% in Mar 12, CSI has bought three properties for HK\$3.1b since the last financial year end. Excluding the cash received from the sales of The Hampton units since March, CSI has sufficient resources to fund these new investments with gearing raised to about 55%, which is still a manageable level. However, unless CSI manages to offload some of the properties it has on hand, we think there is limited capacity to take on more projects. However, we think this is a good thing since property prices have continued to surge to lofty levels.

Figure 18: Net Debt And Gearing



Source: CSI Properties

Valuation And Peer Comparison

We compare CSI with five small- to medium-sized developers. Based on last set of full-year numbers, CSI is the cheapest in terms of PER at 1.5x, and also offers the highest yield of over 7%. In terms of P/B, it is only cheaper than Wing Tai and K. Wah because the other three companies - Soundwill, HKR and Emperor International - have a sizable rental portfolio that is revalued at the year end, boosting shareholders' equity and lowering book gearing. On the other hand, CSI's balance sheet is very understated as all the properties are stated at cost, including those that are earning rental income now, because they are held for sale, not for rental. On this basis, the 0.44x FY12 P/B is more attractive than it first appears.

Based on valuation by an independent valuer, CSI calculates that it is worth HK\$1.15/share. We conservatively estimate that CSI's NAV is about HK\$1.02, meaning it is currently trading at a significant 70% discount to its market value. This seems to be an unusually wide discount given the fact that the company's properties are well-located and of high quality, and the company also has a high asset turn model.

In fact, since CSI intends to sell all its properties, it should be realising its asset value a lot faster than peers. On this basis, CSI should be trading at a narrower discount to NAV or book value to peers.

Figure 19: Peer Comparison

Stock	Ticker	Share price (HK\$)	Market cap HK\$b	BV (HK\$)	P/B (x)	EPS (HK\$)	PER (x)	DPS (HK\$)	Yield (%)
CSI Properties	497 HK	0.315	2,616	0.72	0.44	0.21	1.48	0.02	7.62
Emperor International	163 HK	1.630	5,977	4.77	0.34	0.33	4.87	0.10	6.26
HKR International	480 HK	2.850	3,848	10.74	0.27	0.40	7.18	0.08	2.81
K. Wah International	173 HK	3.250	8,489	4.95	0.66	0.48	6.83	0.10	3.08
Soundwill Holdings	878 HK	12.040	3,380	37.02	0.33	1.58	7.62	0.13	1.08
Wing Tai Properties	369 HK	4.600	6,128	9.76	0.47	0.61	7.58	0.12	2.50
Henderson Land *	12 HK	47.750	114,659	78.23	0.61	2.41	19.83	1.00	2.09

* Henderson Land is included as a reference for a large cap developer that engages in redevelopment of old buildings

Source: UOB Kay Hian

Weaknesses

Small market cap and low trading liquidity. CSI only has a market cap of HK\$2.7b (US\$350m), the smallest compared with the other five small and medium-sized developers selected for our peer comparison. After Mr Chung's increase of his stake to 50.7% in March, free float has been further reduced to 49.3%. However, compared with the other mid-cap developers, CSI's daily turnover is quite high relative to its market cap. Recently management has started to raise the group's profile by taking a more proactive approach in communicating with institutional investors. If the property market stays buoyant, we expect liquidity to also improve. However, we want to stress that being small and illiquid is the reason why CSI is trading at such distressed valuations. Like a double-edged sword, when it gets bigger and becomes more well-known, investors will have to pay more for its share.

Figure 20: Market Cap And Daily Turnover Of Small- And Medium-sized Developers

Company	Ticker	3-mth avg daily turnover (HK\$)	6-mth avg daily turnover (HK\$)
CSI Properties	497 HK	3,788,488	5,050,616
Emperor Int'l	163 HK	4,337,400	3,627,114
HKR Int'l Ltd	480 HK	1,085,700	1,211,155
K Wah Int'l Holdings	173 HK	11,594,550	12,392,810
Soundwill Holdings	878 HK	610,126	1,340,481
Wing Tai Properties	369 HK	942,374	1,443,544

Source: Bloomberg

Choppy bottom-line. Like other smaller property companies, CSI faces the issue of volatile earnings trend because their small property portfolio does not allow shuffling of project sales and completion to smooth out the bottom-line. This is particularly the case for CSI as its recurrent income base is small. It also has a few relatively large properties, such as H8 and Cubus, and apart from being hard to predict when a buyer can be found, profit booking could be lumpy. So far, the profit trend has been steadily going upwards as CSI has been growing from a low base. However, since CSI is already on a high profit base, it will be a challenge to maintain yoy growth in the future.

Successful business model can be easily duplicated. CSI has found a profitable business model, which can be easily copied by other property companies. But we feel that in a competitive market such as that in Hong Kong, it takes more than having a right model to be successful, such as having a versatile and innovative team.

Figure 21: Profit & Loss

Year to 31 Mar (HK\$m)	2008	2009	2010	2011	2012
Turnover	403	669	1,448	2,745	3,218
Contribution					
Property holding	162	133	280	981	1,594
Strategic investment	-	92	(10)	88	230
Securities investment	(35)	(33)	62	13	56
Operating profit	127	192	332	1,083	1,880
Other income	34	23	334	8	143
Administrative expenses	(16)	(20)	(44)	(65)	(83)
Finance costs	(121)	(113)	(55)	(80)	(53)
Jointly controlled entities	155	0	0	(5)	-
Profit before tax	179	81	567	940	1,887
Taxation	82	(18)	(22)	(84)	(119)
Minority interests	12	(1)	1	1	(14)
Underlying net profit	272	62	546	858	1,754

Source: CSI Properties

Figure 22: Balance Sheet

Year to 31 Mar (HK\$m)	2008	2009	2010	2011	2012
Non-current assets					
Property, plant and equipment	11	11	34	127	733
Associates and jointly controlled entities	179	115	119	685	1,847
Other non-current assets	159	145	139	12	109
	349	272	292	823	2,688
Current assets					
Properties held for sale	3,191	4,330	4,724	4,151	3,242
Investments	86	212	258	434	551
Trade receivables and other debtors	472	39	1,898	417	124
Cash	1,066	1,206	617	1,859	2,445
	4,815	5,788	7,498	6,861	6,362
Current liabilities					
Payables and other creditors	(186)	(164)	(438)	(640)	(398)
Convertible notes	(3)	(3)	(2)	(79)	(9)
Bank borrowings	(122)	(891)	(897)	(1,008)	(726)
	(311)	(1,058)	(1,337)	(1,727)	(1,133)
Non-current liabilities					
Convertible notes	(472)	(502)	(167)	(87)	-
Bank borrowings	(1,847)	(1,973)	(2,842)	(1,614)	(1,928)
Other non-current liabilities	(13)	(18)	(30)	(20)	(16)
Minority interests	(43)	(39)	(0)	1	(13)
Net assets	2,478	2,470	3,413	4,238	5,959
Share capital	40	40	65	65	66
Reserves	2,438	2,430	3,348	4,172	5,893
Shareholders' equity	2,478	2,470	3,413	4,238	5,959

Source: CSI Properties

Figure 23: Cash Flow

Year to 31 Mar (HK\$m)	2008	2009	2010	2011	2012
Profit from operations	243	81	567	940	1,887
Depreciation	4	5	7	11	35
Non-cash adjustments	(92)	142	(401)	(700)	(467)
Working capital	(824)	(1,304)	(1,917)	(936)	563
Tax paid	(7)	(32)	(13)	(13)	(12)
Net cash from operations	(676)	(1,109)	(1,757)	(698)	2,006
Capex	(158)	(21)	(88)	(2)	(1,661)
Disposal proceeds	853	37	9	1,481	370
Other cash inflow	(93)	521	(84)	160	106
Net cash from investing activities	601	536	(164)	1,639	(1,185)
Share issue	(3)	(1)	418	-	7
Dividends	(40)	(40)	(16)	(41)	(82)
Bank borrowings	320	892	844	248	56
Others	391	(10)	57	(8)	(101)
Net cash from financing activities	669	841	1,304	199	(119)
Net increase in cash	594	268	(616)	1,140	702
Cash at beginning	336	930	1,198	582	1,722
Cash at end	930	1,198	582	1,722	2,424

Source: CSI Properties

As of 7 September 2012, the analyst and his / her immediate family do not hold positions in the securities recommended in this report.

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