

China South City

1668 HK

Share price (12 Jan): **HKD3.00**

12-mth rating: **Buy (1)**

Target price: **HKD6.30 (SOTP-based)**

Unchanged fundamentals, good entry point for accumulation

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■ What's new

- We hosted a conference call with CSC this afternoon to discuss the 3Q15 results and 4Q15 outlook with investors.

■ Analysis

- Management explained that the decrease is mainly due to the high base of last 3Q. The faster-than-expected schedule of the Hefei project was the main reason. The project itself contributed HKD4bn in contracted sales in 3Q last year. The Hefei project was, in fact, the fastest project that the company has finished, taking only 12 months from land bidding to contracted sales. Management mentioned that if the Hefei project was excluded, contracted sales have actually increased slightly YoY.
- The company did not change its yearly contracted sales target, i.e. HKD18bn and is working hard to meet the target. We believe a flat YoY growth will be a more reasonable target for FY15.
- CSC believes the fundamental business landscape is still solid. The relocation demand is strong.

Management mentioned that investors are still interested in the company's projects but hesitate to sign contracts due to 1) concerns over China's economic growth slowing down, 2) expectations of future interest rate cuts and 3) tighter credit conditions. Most of them adopted a "wait-and-see" policy.

- The company emphasized that the relocation process is not slower than its expectation. The management explained each project has a different schedule, and will keep working closing with local government to fasten the pace. It believes that the current anti-corruption campaign is diverting the local government's focus from urban renewal. However, as long as the urbanization process continues, a strong demand for relocation should resume soon.
 - CSC also expressed that its recurring income, e-commerce and logistic platform has shown decent growth. The LIEP registered drivers has reached 40,000 and there are more than 100 monthly transactions. The e-commerce platform also worked smoothly with Tencent and JD.com. The company believes it will benefit from the coming 2 months which is the peak season for China's logistics services.
- #### ■ Recommendation
- CSC's share price decreased today due to the weak 3Q15 numbers, and we believe this pressure will persist in the short term. However, we see this as a good opportunity to accumulate the shares as we remain positive on CSC's business model in the long term and a 4Q15 recovery. The stock is now trading at a FY16 PER of 6.4x, which is low

compared to its asset-heavy peers in our coverage. The major risk is slower-than-expected implementation of relocation by local governments.

In the interests of timeliness, this document has not been edited.

China South City

1668 HK

Share price (9 Jan): **HKD3.48**

12-mth rating: **Buy (1)**

Target price: **HKD6.30**

Weaker-than-expected 3Q15 operating data

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■ What's new

- CSC announced 9M15 (March end) contracted sales of HK\$8.9bn, down 29% YoY, lower than our expectations.

■ Analysis

- The 9M15 numbers imply 3Q15 contracted sales of about HK\$2.1bn, down 70% YoY. The shortfall was due mainly to the high base effect achieved by Hefei (4bn contracted sales in 3Q14). Besides, management stated that the progress in some cities were affected, as local government seems to have other priorities over relocation of old wholesale market.
- For 4Q15, management expects strong YoY growth from last year's HK\$1.5bn. However, with the shortfall in 3Q15, we expect the FY15 numbers could hardly achieve its target of HK\$1.8bn, even though management is still aiming to push for this target. We believe flat YoY to be a more reasonable target for FY15.
- We see the weaker-than-expected contracted sales growth in 3Q15 to mainly affect FY16, although it could definitely hurt the sentiment on the stock in the near term.

■ Recommendation

- We expect short-term share price pressure due to weak 3Q15 numbers. However, we see this to be a good opportunity for accumulation as we remain positive on CSC's business model in the long term and 4Q15 recovery should help the sentiment to return. Major risk is slower-than-expected implementation of relocation by local government.

We will host a teleconference with management at 3pm today, pls sign up your client if they are interested.

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