

January 13, 2015

## China South City 1668 HK

**BUY**

**TP: HK\$ 4.74**

Rating: ◆ TP: ▼ EPS: ▼

### 1-3QFY15 sales disappointing; cut TP to HK\$4.74

**Disappointing sales performance; cut TP to HK\$4.74.** We revise down our earnings forecasts for CSC due to worse-than-expected sales and cut our TP from HK\$5.51 to HK\$4.74. However, we maintain our BUY rating for this commercial property player, given its established leadership position in a niche market and solid end-user demand.

**3QFY15 sales plunged 70%.** CSC announced disappointing third quarter sales, with contracted sales plunging 69.7% YoY to HK\$2.1bn. The company's cumulative sales in 1-3QFY15 reached HK\$8.9bn, falling 29.4% YoY. GFA sold dropped 37.9% YoY to 956k sqm though ASP rose 13.8% YoY, mainly due to a different product mix. Historically, the third quarter has been a good season for CSC's property sales. In 3QFY14, the company recorded 48.3% of its annual sales. However, the scenario seems different this year.

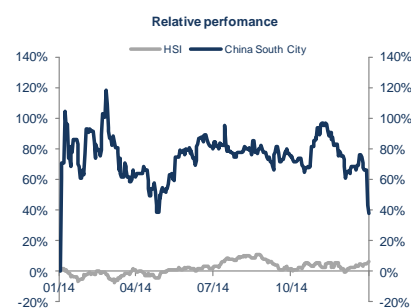
**Stock market seems more attractive.** We believe the reasons include: 1) China's slowing economy, which is weakening SMEs' buying power; 2) domestic investment interest shifting to the stock market from other areas like commercial properties. CSC's major products for sale are trade centers and most of its buyers are SMEs or investors, who are very sensitive to investment alternatives. The domestic stock market has been very hot in recent months and is expected to provide attractive returns in 2015.

**Annual sales target challenging.** Management has committed to more aggressive sales and promotions in the coming months. Moreover, the first batch of the new Chongqing project will be launched for sale in the final quarter of FY15. However, the annual target of HK\$18bn looks challenging, in our view. There is only one quarter left, but the company has reached only half its annual target. In 1-3QFY14, the company recorded over 89% of its total annual sales. We believe it is very likely that the company will miss its FY15 sales target. A full-year figure of about HK\$15bn, which represents single-digit growth, seems more achievable.

**Earnings forecast adjustments.** We revise down our EPS forecasts for FY15/FY16 by 11.7%/13.1% respectively and cut our TP from HK\$5.51 to HK\$4.74, which represents a larger NAV discount of 40% (previously 30%). Worse-than-expected sales suggest less investment demand in the short run, but that does not necessarily mean shrinking end-user demand (logistics and trading space for the retail industry) in the long run. We maintain our positive view on the niche market of logistics and trading properties, in which CSC has an established leadership position. We maintain our BUY rating.

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	3/13A	3/14A	3/15E	3/16E	3/17E		
Revenue (HK\$ mn)	7,488	13,468	14,840	20,450	25,044	Rating/Prev. Rating	BUY/(BUY)
EBITDA (HK\$ mn)	3,378	5,242	5,648	8,308	10,451	TP/Prev. TP (HK\$)	4.74 /5.51
Net profit, pre-exceptional (HK\$ mn)	1,893	2,880	3,113	4,735	6,295	Price (Jan. 13, 2015, HK\$)	2.89
EPS (HK\$)	0.31	0.46	0.39	0.59	0.79	% Upside/Downside	64%
- % change from prev. EPS	-	-	-11.7	-13.1	-12.7	Market Cap (HK\$/US\$m)	23,156 /2,987
- % vs. Consensus EPS	-	-	-12.7	2.3	1.9	Free float (%)	31
EPS growth (%)	109.0	46.2	-15.4	52.1	32.9	Daily vol - 6M avg (mn)	29
ROE (%)	13.1	16.1	14.5	18.9	21.1	Daily val - 6M avg (US\$m)	14
Net debt (cash)/equity (%)	31.6	24.4	37.7	39.1	32.1	Major shareholder/%	Cheng & Leung /40%
P/E (X)	9.2	6.3	7.4	4.9	3.7		
P/B (X)	1.1	0.9	1.0	0.9	0.7		
EV/EBITDA (X)	6.9	4.9	6.1	4.4	3.5		
Dividend yield (%)	3.4	4.8	5.5	7.9	9.7		

Source: Company data, HTI

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	Rating	Remark
<b>Stock</b> (9 - 12 months)	Buy	Target price +15% or more above the current price
	Hold	Target price within 0% to +15% of the current price
	Sell	Target price below the current price
<b>Sector</b>	Overweight	Relative performance over Hang Seng Index $\geq 10\%$
	Neutral	Relative performance within Hang Seng Index $-10\%$ to $+10\%$
	Underweight	Relative performance below Hang Seng Index $\leq -10\%$

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