

Last Closing: HK\$2.71

Upside: +56.8%

Target Price: HK\$4.25↓

China Property Sector

China South City Holdings Limited (1668.HK)

Slowdown in property sales, but new businesses still on track

UP

MP

OP

Financial Highlights

Y/E 31 Mar	2012/13	2013/14	2014/15E	2015/16E	2016/17E
Revenue (HK\$ m)	7,488	13,468	15,177	18,293	23,207
YoY growth (%)	104.0	79.9	12.7	20.5	26.9
Core net profit (HK\$ m)	1,776	2,678	2,700	3,268	4,408
EPS (HK\$)	0.295	0.427	0.357	0.408	0.550
Vs. Consensus (+/- %)			(29.9)	(35.7)	(30.2)
EPS growth (%)	44.3	44.8	(16.4)	14.3	34.9
P/E (x)	9.2	6.3	7.6	6.6	4.9
P/B (x)	1.0	0.8	0.9	0.8	0.7
Dividend yield (%)	3.7	5.2	4.4	5.0	5.5

Source: Company, BOCOM Int'l estimates

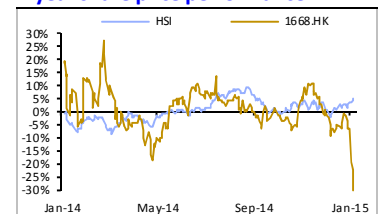
🔵 **Disappointing contracted sales.** 3QFY15 contracted sales was HK\$2.1bn (-70% YoY), and 9MFY15 was HK\$8.9bn (-29% YoY). While there was a high base in 3QFY14 and the company used the back-loaded sales in 4Q, momentum was still slower than our projection with 49% of its FY15 target locked in (9MFY14: 90%). The management attributed the slowdown to additional management resources allocated to new businesses, as well as the postponed sales schedule. While maintaining the FY15 sales target (HK\$18bn), the management agreed it will be challenging to make up for the remaining HK\$9bn in 4QFY15, as the next major new launch, CSC Chongqing, will only fall into FY16, as originally planned. We are also concerned, and apply a more conservation growth assumption, in light of the potential shift of investment demand out of trade centre back to conventional residential. Therefore, we lower our FY15-FY17 contracted sales target by 17%-23% to HK\$15bn-25bn, accordingly.

🔵 **Maintain Buy.** On the other hand, the company denied the media reports and rumours relating to any investigation among the Shenzhen developers. We believe the market should focus back on CSC's fundamentals. We cut our FY15-FY17 earnings forecast by 11%-17%, in accordance with the slower contracted sales. While we still expect a mild 1% growth in core net profit, we forecast a 16% decline in EPS, due to the enlarged equity base. Nevertheless, we expect a smaller decline in dividend, with a higher recurrent income base allowing a higher payout ratio. We believe the valuation is still attractive at the current level of 70% property NAV discount, 7.6x FY15E P/E and a 4.4% FY15E yield. Moreover, we believe the market should not ignore the value creation from new businesses. We maintain our **BUY** rating on the counter, with a new target price of HK\$4.25 (from HK\$5.60), based on a wider target discount at 65% (from 50%) to its property NAV of HK\$9.00, and HK\$1.1 for the new businesses, at 0.1x-0.5x Price/NAV.



- 🔵 Management denied the Shenzhen investigation-related rumours.
- 🔵 Going back to fundamentals, the counter is trading at 7.6x FY15E P/E with a 4.4% FY15E yield, after revising our earnings forecast.
- 🔵 Maintain Buy with a new target price of HK\$4.25.

1-year share price performance



Source: BOCOM Int'l

Stock data

52w High (HK\$)	4.99
52w Low (HK\$)	2.56
Market cap (HK\$m)	21,713.60
Issued shares (m)	8,012.40
Avg daily vol (m)	28.64
1-mth change (%)	(23.01)
YTD change (%)	(23.45)
50d MA (HK\$)	3.67
200d MA (HK\$)	3.69
14-day RSI	17.56

Source: Company data, Bloomberg

Alfred Lau, CFA, FRM
 alfred.lau@bocomgroup.com
 Tel: (852) 2977 9235

Figure 1: earnings revision

	FY15E	FY16E	FY17E
Contracted sales (HK\$bn) - old	18,028	23,603	32,094
Contracted sales (HK\$bn) - new	14,938	18,017	24,918
chg (%)	(17.1)	(23.7)	(22.4)
Revenue (HK\$bn) - old	17,196	22,703	29,139
Revenue (HK\$bn) - new	15,177	18,293	23,207
chg (%)	(11.7)	(19.4)	(20.4)
Core profit (HK\$bn) - old	3,023	3,941	5,318
Core profit (HK\$bn) - new	2,700	3,268	4,408
chg (%)	(10.7)	(17.1)	(17.1)
EPS (HK\$) - old	0.482	0.628	0.848
EPS (HK\$) - new	0.357	0.408	0.550
chg (%)	(26.0)	(35.1)	(35.1)
DPS (HK\$) - old	0.120	0.157	0.212
DPS (HK\$) - new	0.120	0.135	0.150
chg (%)	-	(14.0)	(29.2)

Source: BOCOM Int'l estimates

Figure 2: NAV of property development and investment segments

	Value (RMB m)	Value (RMB m)
Property development :		
- CSC Shenzhen	7,561	
- CSC Nanchang	7,865	
- CSC Nanning	4,581	
- CSC Xian	2,884	
- CSC Harbin	1,512	
- CSC Zhengzhou	6,027	
- CSC Hefei	1,038	
- CSC Chongqing	1,565	
		33,033
Investment properties		25,251
Gross asset value (GAV)		58,284
Gross asset value (GAV) (HK\$ m)		72,855
Net debt (HK\$)		(4,742)
Property net asset value (NAV)		68,113
Property NAV per share (HK\$)		9.00

Source: BOCOM Int'l estimates

Figure 3: SOTP target price

	SOTP Gross value (HK\$ m)	Target discount (%)/ Price-to-NAV (x) (%)	SOTP Net value (HK\$ m)	SOTP value per share (HK\$)	Remarks
Property development	68,113	65%	23,840	3.15	
New business:					
Warehouse	9,209	0.5x	4,605		
Logistics	3,567	0.5x	1,784		Imply 45x/15x FY16/17E target P/E
E-commerce	16,875	0.1x	1,688		Imply 6x-16x FY15-17E target P/E
Total	29,651	0.3x	8,076	1.10	
Target price (HK\$)				4.25	
Current share price (HK\$)				2.71	
- Upside (%)				56.8%	

Source: BOCOM Int'l estimates

Company background

China South City (CSC) was founded in 2002. It is a leading developer and operator of integrated logistics and trade centers in China. The phase 1 of its flagship project, namely CSC Shenzhen, was acquired in 2003 and commenced operation in 2004. CSC replicated its business model across China, including Nanchang, Xian, Nanning, Harbin, Zhengzhou, Hefei and Chongqing. Currently, it has 8 projects in various stages of development in China. The company was listed on HKEx in September 2009.

China South City (1668.HK): Financial Statements

Profit & loss (HK\$m)

Year ended 31 Mar	FY12/13	FY13/14	FY14/15E	FY15/16E	FY16/17E
-PPT development	7,179	12,813	14,249	16,957	21,176
-IP	214	305	409	429	451
-PPT management	44	67	75	89	111
-E-commerce, warehouse and logistics	0	214	373	744	1,393
-Hotel & others	52	70	72	74	76
Turnover	7,488	13,468	15,177	18,293	23,207
COGS	(3,311)	(6,921)	(8,277)	(10,049)	(12,531)
Gross profit	4,177	6,547	6,900	8,244	10,676
-PPT development	3,127	4,546	4,728	5,577	7,110
-IP	210	246	327	343	361
-PPT management	(23)	(46)	(48)	(53)	(61)
-E-commerce, warehouse and logistics	0	167	297	518	987
-Hotel & others	10	56	50	52	53
EBIT	3,324	4,969	5,353	6,437	8,451
Interest expenses - net	(102)	(104)	(95)	(103)	(97)
Revaluation gain	1,251	1,266	1,217	1,278	1,343
Tax	(1,606)	(2,472)	(2,634)	(3,111)	(3,933)
MI	(117)	(202)	(228)	(274)	(348)
Net profit	2,750	3,457	3,613	4,226	5,415
Core profit	1,776	2,678	2,700	3,268	4,408

Balance sheet (HK\$m)

Year ended 31 Mar	FY12/13	FY13/14	FY14/15E	FY15/16E	FY16/17E
Cash and equivalent	6,778	12,777	12,296	13,774	16,597
Inventories	9,953	13,701	14,161	16,695	20,711
A/C receivables	937	2,806	2,971	3,584	4,956
Others	760	759	759	759	759
Current assets	18,428	30,042	30,187	34,812	43,023
Investment properties	19,426	24,034	25,251	26,529	27,872
PP&E	601	659	701	758	826
PUD	2,382	2,933	5,057	5,963	7,397
Land deposits	781	1,052	1,011	1,193	1,479
Others	728	1,241	1,241	1,241	1,241
Non-current assets	23,917	29,919	33,261	35,683	38,815
ST bank loans	4,418	5,842	6,134	6,440	6,763
Presales deposits	3,793	5,120	5,638	6,736	9,995
A/C payables	4,373	8,690	8,222	10,192	13,100
Others	2,790	4,592	4,592	4,592	4,592
Current liabilities	15,374	24,243	24,586	27,961	34,449
LT bank loans	4,582	6,611	7,272	7,999	8,799
Senior notes	2,853	4,057	3,976	3,896	3,818
Convertible bonds	0	1,009	999	989	979
Others	3,493	3,896	3,592	3,273	2,937
Non-current liabilities	10,928	15,573	15,839	16,157	16,533
Minority interests	190	175	345	551	812
Net assets	15,853	19,970	22,678	25,826	30,042

Source: Company data, BOCOM Int'l estimates

Cash flow (HK\$m)

Year ended 31 Mar	FY12/13	FY13/14	FY14/15E	FY15/16E	FY16/17E
EBIT	3,324	4,969	5,353	6,437	8,451
Depreciation and amortisation	27	70	79	84	91
Change in working capital	(1,078)	(1,736)	(1,174)	(1,062)	(584)
Tax paid	(916)	(1,496)	(1,261)	(1,520)	(2,009)
Others	757	895	0	0	0
Operating cash flow	2,114	2,703	2,997	3,939	5,949
Capex	(3,031)	(3,255)	(2,324)	(1,130)	(1,684)
Acquisition and investment	(576)	217	0	0	0
Assets disposal	322	259	0	0	0
Interest and dividend received	29	44	93	96	114
Others	(57)	7	0	0	0
Investing cash flow	(3,312)	(2,729)	(2,231)	(1,034)	(1,570)
Share issue / repurchase	0	1,497	0	0	0
Repurchase of shares	0	(2,032)	0	0	0
Issue of senior notes/CB	928	3,985	0	0	0
Change in bank loan	4,112	3,514	953	1,034	1,122
Interest paid	(572)	(1,077)	(1,296)	(1,382)	(1,478)
Dividend Paid	(454)	(616)	(905)	(1,078)	(1,199)
Others	83	(88)	0	0	0
Financing cash flow	4,096	5,182	(1,248)	(1,426)	(1,555)
Change in net cash	2,898	5,157	(481)	1,478	2,823
Effect of forex	51	(118)	0	0	0

Financial ratios

Year ended 31 Mar	FY12/13	FY13/14	FY14/15E	FY15/16E	FY16/17E
Growth analysis:					
Turnover growth (%)	104.0%	79.9%	12.7%	20.5%	26.9%
EBIT growth (%)	48.7%	49.5%	7.7%	20.2%	31.3%
Core profit growth (%)	45.3%	50.7%	0.8%	21.0%	34.9%
Core EPS growth (%)	44.3%	44.8%	-16.4%	14.3%	34.9%
Margin analysis:					
Gross margin (%)	55.8%	48.6%	45.5%	45.1%	46.0%
Property Gross margin (%)	57.1%	49.1%	45.7%	44.1%	43.6%
EBIT margin (%)	44.4%	36.9%	35.3%	35.2%	36.4%
Property EBIT margin (%)	43.6%	35.5%	33.2%	32.9%	33.6%
Core net margin (%)	23.7%	19.9%	17.8%	17.9%	19.0%
Others:					
Gearing (%)	74.8%	87.7%	81.1%	74.8%	67.8%
Net debt / equity (excluded MI) (%)	32.0%	23.7%	26.8%	21.5%	12.5%
Net debt / equity (included MI) (%)	31.6%	23.5%	26.4%	21.0%	12.2%
Current ratio	1.2	1.2	1.2	1.2	1.2

BOCOM International

11/F, Man Yee Building, 68 Des Voeux Road, Central, Hong Kong

Main: + 852 3710 3328

Fax: + 852 3798 0133

www.bocomgroup.com**Rating System****Company Rating**

Buy: Expect more than 20% upside in 12 months

LT Buy: Expect more than 20% upside but longer than 12 months

Neutral: Expect low volatility

Sell: Expect more than 20% downside in 12 months

Sector Rating

Outperform ("OP"): Expect more than 10% upside in 12 months

Market perform ("MP"): Expect low volatility

Underperform ("UP"): Expect more than 10% downside in 12 months

Research Team**Head of Research**

@bocomgroup.com

@bocomgroup.com

Raymond CHENG, CFA, CPA, CA (852) 2977 9393 raymond.cheng

Strategy

Hao HONG, CFA (852) 2977 9384 hao.hong

Banks/Network Financials

Qingli YANG (852) 2977 9212 yangqingli

Shanshan LI, CFA (86) 10 8800 9788 - 8058 lishanshan

Li WAN, CFA (86) 10 8800 9788 - 8051 Wanli

Consumer Discretionary

Phoebe WONG (852) 2977 9391 phoebe.wong

Anita CHU (852) 2977 9205 anita.chu

Consumer Staples

Summer WANG (852) 2977 9221 summer.wang

Shawn WU (852) 2977 9386 shawn.wu

Healthcare

Milo LIU (852) 2977 9387 milo.liu

Insurance & Brokerage

Jerry LI (852) 2977 9389 liwenbing

Internet

Yuan MA, PhD (86) 10 8800 9788 - 8039 yuan.ma

Connie GU, CPA (86) 10 8800 9788 - 8045 conniegu

Metals & Mining

Jovi LI (852) 2977 9243 jovi.li

Economics

Miaoxian LI (86) 10 8800 9788 - 8043 miaoxian.li

Oil & Gas/ Gas Utilities

Fei WU (852) 2977 9392 fei.wu

Tony LIU (852) 2977 9390 xutong.liu

Property

Alfred LAU, CFA, FRM (852) 2977 9235 alfred.lau

Luella GUO (852) 2977 9211 luella.guo

Renewable Energy

Louis SUN (86) 21 6065 3606 louis.sun

Telecom & Small/ Mid-Caps

Zhiwu LI (852) 2977 9209 lizhiwu

Technology

Miles XIE (852) 2977 9216 miles.xie

Transportation & Industrial

Geoffrey CHENG, CFA (852) 2977 9380 geoffrey.cheng

Fay ZHOU (852) 2977 9381 fay.zhou

Automobile

Wei YAO (86) 21 6065 3675 wei.yao

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