

BUY

TARGET PRICE	HKD5.47
UP/DOWNSIDE	+117.9%
CLOSE	HKD2.51

HOW WE DIFFER FROM CONSENSUS

MARKET RECS

TARGET PRICE (%)	9.7	POSITIVE	2
EPS 2015 (%)	1.1	NEUTRAL	0
EPS 2016 (%)	(3.2)	NEGATIVE	0

Recurring income on track

■ FY15 PAT -31% y-y; DPS unchanged HKD0.14

CSC reported FY15 PAT of HKD1,854m, -31% y-y and 24% below our estimate due to property sales falling 32% y-y. Contracted sales fell 20% y-y to HKD11.3b. CSC expects 0-5% contracted sales growth in FY16. Its gross margin increased 4ppt y-y to 53% on favourable property sales mix (ASP +6% y-y, residential accounted for 17% of sales, +11pt y-y). Its core profit margin fell 0.8ppt y-y to 19.0% with its SGA expense ratio rising 7.7ppt. A dividend per share of HKD0.14 was declared, implying a 60% payout.

■ What's positive: recurring income +68% y-y; potential disposal

Recurring income of HKD1.1b was driven by rental income (+88% y-y) and logistics & warehousing income (+286% y-y). Shenzhen trade centre occupancy improved 6ppt y-y to 74%, driving robust rental growth while logistics GFA in operation increased by 464% y-y to 465k sqm helping logistic income growth. CSC expects recurring income to grow 30-40% pa in the next two years, and to account for 20-25% of total revenue (from 11% currently) in three to five years. CSC plans to spin off HOBA Furnishing (FY15 rev: HKD211m) on the New Third Board.

■ What's negative: bleak property sales outlook; higher leverage

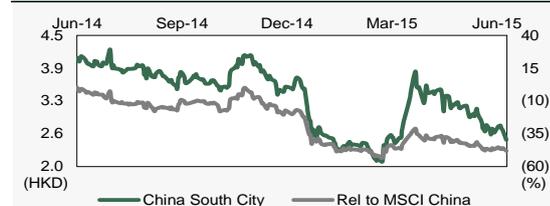
The weak macro economy and delays in relocation dampened CSC's property sales last year. The unclear macro outlook led to CSC's toned down near-term property sales target. However, it sees this as just short-term friction, and believes the long-term outlook is intact. Net gearing ratio rose to 65% from 24% in FY14 (FY14 was low due to capital injection from the rights issue). CSC is comfortable with its leverage and aims to balance capex and property sales.

■ Several initiatives to boost long-term outlook

CSC's online programme in Zhengzhou, launched at the start of 2014, helps SMEs enhance their online businesses. In the last 12 months, the number of registered members almost doubled (from 7,000 to 13,000). CSC's Logistics Information Exchange Platform (LIEP, launched April 2015) has 122k registered carriers, a good foundation for CSC to develop an ecosystem around its SME clients. Trading at a 75% NAV discount and 7x FY16 PE, we think the valuation is undemanding. We have a BUY rating.

KEY STOCK DATA

YE Mar (HKD m)	2014A	2015E	2016E	2017E
Revenue	13,468	12,877	16,319	20,231
Rec. net profit	2,678	2,434	2,875	3,763
Recurring EPS (HKD)	0.43	0.33	0.36	0.47
EPS growth (%)	44.8	(21.8)	7.6	30.9
Recurring P/E (x)	5.9	7.5	7.0	5.3
Dividend yield (%)	6.1	3.6	4.3	5.6
EV/EBITDA (x)	3.3	5.8	5.6	4.5
Price/book (x)	0.8	1.0	0.9	0.8
Net debt/Equity (%)	24.3	60.1	59.1	59.8
ROE (%)	14.9	12.0	13.5	16.5



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(14.6)	2.4	(38.0)
Relative to country (%)	(6.6)	(3.2)	(48.0)
Mkt cap (USD m)	2,590		
3m avg daily turnover (USD m)	29.6		
Free float (%)	31		
Major shareholder	Cheng Chung Hing (31%)		
12m high/low (HKD)	4.23/2.10		
3m historic vol. (%)	65.5		
ADR ticker	-		
ADR closing price (USD)	-		
Issued shares (m)	8,001		

Sources: FactSet estimates; BNP Paribas estimates



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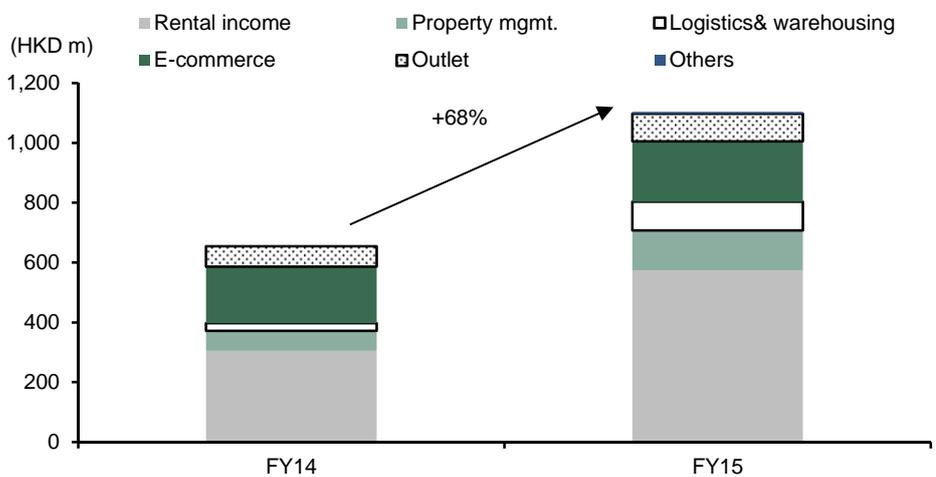
Exhibit 1: FY15 result summary

Mar year end	FY15	FY14	Growth
	(HKD m)	(HKD m)	(y-y %)
Contracted sales	11,321	14,106	(20)
Revenue	9,758	13,468	(28)
- Property sales	8,654	12,813	(32)
- Recurring income	1,104	656	68
Cost of goods sold	(4,582)	(6,921)	(34)
- Property sales	(3,779)	(6,519)	(42)
- Recurring income	(803)	(402)	100
Gross profit	5,176	6,547	(21)
- Property sales	4,875	6,293	(23)
- Recurring income	300	254	18
SG&A expense	(1,796)	(1,444)	24
Core profit	1,854	2,678	(31)

	FY15	FY14	Change
	(%)	(%)	(y-y ppt)
Gross margin	53.0	48.6	4.4
- Property sales	56.3	49.1	7.2
- Recurring income	27.2	38.7	(11.5)
SG&A expense as % of revenue	18.4	10.7	7.7
Core margin	19.0	19.9	(0.9)

Sources: CSC; BNP Paribas

Exhibit 2: Recurring income grew up 68% y-y, accounting for 11% of total sales in FY15 (5% in FY14)



Source: CSC

Financial statements

China South City

Profit and Loss (HKD m) Year Ending Mar	2013A	2014A	2015E	2016E	2017E
Revenue	7,488	13,468	12,877	16,319	20,231
Cost of sales ex depreciation	(3,311)	(6,921)	(7,052)	(8,670)	(10,472)
Gross profit ex depreciation	4,177	6,547	5,825	7,649	9,759
Other operating income	0	0	0	0	0
Operating costs	(801)	(1,381)	(1,263)	(1,832)	(2,299)
Operating EBITDA	3,376	5,166	4,561	5,816	7,460
Depreciation	(27)	(68)	(120)	(132)	(134)
Goodwill amortisation	0	0	0	0	0
Operating EBIT	3,348	5,097	4,441	5,685	7,326
Net financing costs	(131)	(147)	(66)	(76)	(87)
Associates	1	(1)	0	0	0
Recurring non operating income	1,250	1,114	51	41	52
Non recurring items	6	105	0	0	0
Profit before tax	4,473	6,169	4,427	5,650	7,292
Tax	(1,606)	(2,472)	(1,993)	(2,775)	(3,529)
Profit after tax	2,867	3,696	2,434	2,875	3,763
Minority interests	(117)	(202)	0	0	0
Preferred dividends	0	0	0	0	0
Other items	0	0	0	0	0
Reported net profit	2,750	3,494	2,434	2,875	3,763
Non recurring items & goodwill (net)	(973)	(817)	0	0	0
Recurring net profit	1,776	2,678	2,434	2,875	3,763
Per share (HKD)					
Recurring EPS *	0.29	0.43	0.33	0.36	0.47
Reported EPS	0.46	0.56	0.33	0.36	0.47
DPS	0.10	0.15	0.09	0.11	0.14
Growth					
Revenue (%)	104.0	79.9	(4.4)	26.7	24.0
Operating EBITDA (%)	96.5	53.0	(11.7)	27.5	28.3
Operating EBIT (%)	97.5	52.2	(12.9)	28.0	28.9
Recurring EPS (%)	35.4	44.8	(21.8)	7.6	30.9
Reported EPS (%)	32.1	22.1	(40.1)	7.6	30.9
Operating performance					
Gross margin inc depreciation (%)	55.4	48.1	44.3	46.1	47.6
Operating EBITDA margin (%)	45.1	38.4	35.4	35.6	36.9
Operating EBIT margin (%)	44.7	37.8	34.5	34.8	36.2
Net margin (%)	23.7	19.9	18.9	17.6	18.6
Effective tax rate (%)	35.9	40.1	45.0	49.1	48.4
Dividend payout on recurring profit (%)	34.1	36.1	27.3	30.0	30.0
Interest cover (x)	35.2	42.2	68.4	75.0	85.2
Inventory days	984.4	623.7	868.0	817.3	665.1
Debtor days	35.6	50.7	63.0	36.5	41.8
Creditor days	809.9	579.5	784.1	660.1	528.9
Operating ROIC (%)	15.9	19.8	14.1	15.5	18.4
ROIC (%)	21.7	23.9	14.2	15.5	18.4
ROE (%)	12.3	14.9	12.0	13.5	16.5
ROA (%)	5.6	6.0	4.1	4.6	5.5
*Pre exceptional pre-goodwill and fully diluted					
Revenue By Division (HKD m)					
Property sales	7,179	12,813	11,889	14,985	18,661
Property rentals	214	305	505	610	696
Hotels/Service apartments	13	0	0	0	0
Construction services income	44	67	120	157	193

Sources: China South City; BNP Paribas estimates

Financial statements

China South City

Cash Flow (HKD m) Year Ending Mar	2013A	2014A	2015E	2016E	2017E
Recurring net profit	1,776	2,678	2,434	2,875	3,763
Depreciation	27	68	120	132	134
Associates & minorities	23	1,501	0	0	0
Other non-cash items	536	2,582	2,019	2,821	3,574
Recurring cash flow	2,363	6,829	4,573	5,828	7,471
Change in working capital	(1,315)	(3,223)	(4,438)	1,367	38
Capex - maintenance	(3,021)	(5,408)	(6,814)	(6,814)	(7,666)
Capex - new investment	(52)	(126)	(132)	(134)	(135)
Free cash flow to equity	(2,026)	(1,928)	(6,811)	247	(291)
Net acquisitions & disposals	(576)	0	0	0	0
Dividends paid	(454)	(605)	(967)	(730)	(862)
Non recurring cash flows	0	0	0	0	0
Net cash flow	(3,055)	(2,534)	(7,778)	(483)	(1,153)
Equity finance	0	0	0	0	0
Debt finance	4,550	7,725	1,490	2,798	3,309
Movement in cash	1,495	5,192	(6,288)	2,315	2,156

Per share (HKD)					
Recurring cash flow per share	0.39	1.09	0.63	0.73	0.93
FCF to equity per share	(0.34)	(0.31)	(0.93)	0.03	(0.04)

Balance Sheet (HKD m) Year Ending Mar	2013A	2014A	2015E	2016E	2017E
Working capital assets	12,428	18,321	22,973	22,243	24,377
Working capital liabilities	(10,956)	(18,220)	(19,806)	(18,639)	(20,137)
Net working capital	1,472	100	3,167	3,604	4,240
Tangible fixed assets	22,409	27,626	32,143	34,377	37,465
Operating invested capital	23,881	27,727	35,310	37,981	41,705
Goodwill	0	0	0	0	0
Other intangible assets	105	177	177	177	177
Investments	9	9	9	9	9
Other assets	0	0	0	0	0
Invested capital	23,995	27,913	35,496	38,167	41,891
Cash & equivalents	(6,807)	(12,795)	(6,528)	(8,865)	(11,044)
Short term debt	4,418	6,023	7,302	8,397	9,657
Long term debt *	7,435	11,677	11,778	13,563	15,705
Net debt	5,046	4,905	12,552	13,095	14,318
Deferred tax	2,906	2,864	2,063	2,909	3,639
Other liabilities	0	0	0	0	0
Total equity	15,853	19,970	20,706	21,988	23,760
Minority interests	190	175	175	175	175
Invested capital	23,995	27,913	35,496	38,167	41,891

* includes convertibles and preferred stock which is being treated as debt

Per share (HKD)					
Book value per share	2.63	3.18	2.59	2.75	2.97
Tangible book value per share	2.61	3.16	2.56	2.72	2.95

Financial strength					
Net debt/equity (%)	31.5	24.3	60.1	59.1	59.8
Net debt/total assets (%)	12.1	8.3	20.3	19.9	19.6
Current ratio (x)	1.3	1.3	1.1	1.2	1.2
CF interest cover (x)	n/a	n/a	n/a	6.0	n/a

Valuation	2013A	2014A	2015E	2016E	2017E
Recurring P/E (x) *	8.5	5.9	7.5	7.0	5.3
Recurring P/E @ target price (x) *	18.6	12.8	16.4	15.2	11.6
Reported P/E (x)	5.5	4.5	7.5	7.0	5.3
Dividend yield (%)	4.0	6.1	3.6	4.3	5.6
P/CF (x)	6.4	2.3	4.0	3.4	2.7
P/FCF (x)	(7.5)	(8.2)	(2.7)	81.4	(69.1)
Price/book (x)	1.0	0.8	1.0	0.9	0.8
Price/tangible book (x)	1.0	0.8	1.0	0.9	0.9
EV/EBITDA (x) **	4.1	3.3	5.8	5.6	4.5
EV/EBITDA @ target price (x) **	8.0	6.2	10.4	9.7	7.7
EV/invested capital (x)	0.8	0.7	0.9	0.9	0.8

* Pre exceptional & pre-goodwill and fully diluted

** EBITDA includes associate income and recurring non operating income

Sources: China South City; BNP Paribas estimates

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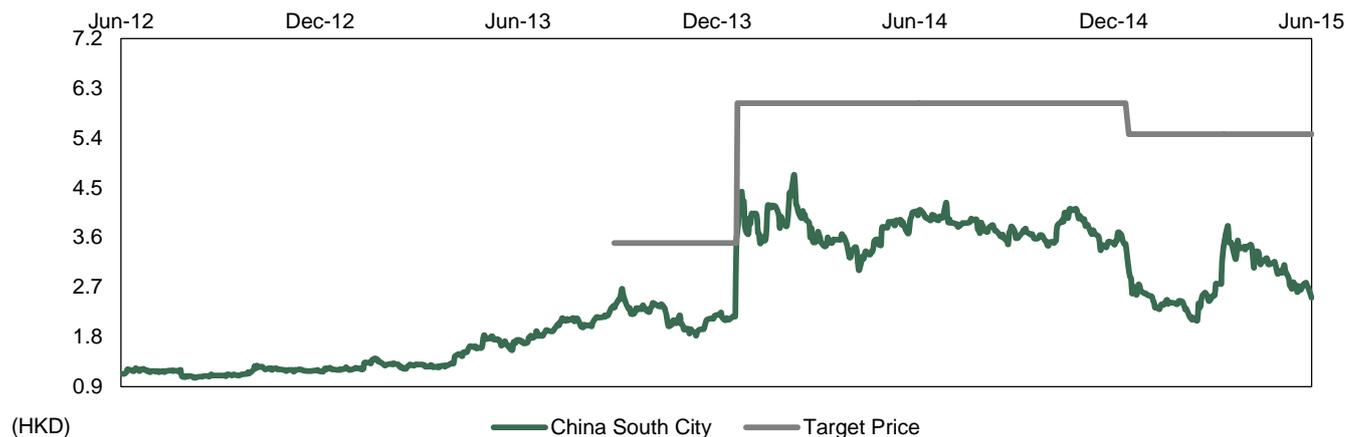
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History of change in investment rating and/or target price

China South City (1668 HK)



Date	Rating	Target price	Date	Rating	Target price	Date	Rating	Target price
26-Sep-13	Buy	3.50	17-Jan-14	Buy	6.03	12-Jan-15	Buy	5.47

Leif Chang started covering this stock from 24 Jun 2015

Price and TP are in local currency

Valuation and risks: Key downside risks to our NAV-based TP are further policy tightening and that sales might remain sluggish in major cities.

Sources: FactSet; BNP Paribas

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