

3 July 2018

Property | Real Estate

China South City Holdings

Buy (Maintained)

Reigniting Growth Engine

Target Price: HKD2.40
 Price: HKD1.53
 Market Cap: USD1,561m
 Bloomberg Ticker: 1668 HK

Reiterate BUY with new HKD2.40 TP from HKD2.20, 57% upside, based on the same 65% discount to end-FY19F ENAV of HKD6.90. We affirm our conviction that CSC's accelerating growth momentum would sustain over FY19F, backed by large presale deposits (102% of FY19F's revenue) and projected sector-leading GPM of 42.7%. We also like the strong growth in its recurring income, which in our view, should fully cover debt-servicing costs and add defensiveness to the stock. Its current valuation at a 75% discount is undemanding, given CSC's earnings CAGR of 18.6% for FY18F-21F, and ROEs of 14-15% for FY19F-21F.

Results beat. China South City's (CSC) FY18F (Mar) core net profit came in at HKD1.6bn (+19% YoY) – 4.8% higher than our estimate. The positive surprise was from better-than-expected GPM of 43.3% (vs our estimate of 41.2%) and lower SG&A, which came in 12.5% below our estimates.

Bullish FY19F contracted sales target. CSC announced FY19F sales target of HKD16bn (+33% YoY) of which 80% would be contributed by contracted sales of residential properties, while the remaining would be mainly trade centres and office units. The announced sales target is in line with our and peers' targeted 25-30% growth rate.

40% plus GPM with multiple year visibility. Backed by a landbank with average land cost of CNY418.4 per sqm (5.5% of FY18F's blended contracted ASP), we came away reassured that CSC will maintain its GPM at 40% or above for the foreseeable future, albeit slowly diminishing to 41.7% in FY21F from 43.3% in FY18, due to rising financing cost.

Accelerating growth in recurring income adds defensiveness. With 18.3m sqm GFA in logistics parks to be operational by FY19F, we see recurring income from property management, logistics and warehouse services, as well as outlet operations as strong growth drivers. During FY18F-21F, we expect recurring income (including e-commerce) to grow at a CAGR of 20.3%.

Reigniting growth. As property sales and recurring income continue to scale up, its GPM should maintain at sector-leading level. As such, we lift our FY19F-20F earnings by 7% and 9% to reflect stronger margins. We also incorporate FY21F's earnings. Overall, we anticipate earnings to grow at a CAGR of 18.6% during FY18F-21F, with ROEs sustaining at 14-15% over FY19F-21F.

Maintain BUY with new HKD2.40 TP, based on an unchanged 65% discount to our new end-FY19F ENAV of HKD6.90, from HKD6.30. Catalysts include a stronger-than-expected manufacturing sector, and the potential spin-off of its non-property development businesses. Downside risks include a further crackdown on developers' financing means.

Share Data

Avg Daily Turnover (HKD/USD) 29.4m/3.68m
 52-wk Price low/high (HKD) 1.44 - 2.41
 Free Float (%) 53
 Shares outstanding (m) 8,010
 Estimated Return 57%

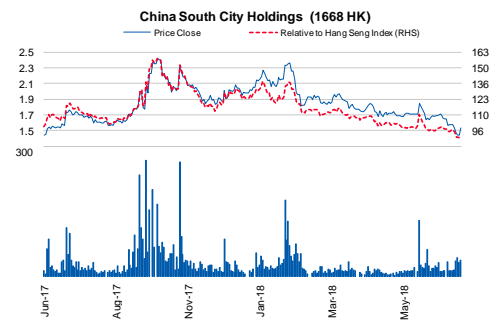
Shareholders (%)

Cheng Chung Hing 26.9
 Tencent 11.6
 Cheng Tai Po 7.4

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(25.4)	(11.1)	(13.6)	(25.4)	6.3
Relative	(20.6)	(4.6)	(8.3)	(20.6)	(3.5)

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Mar-17	Mar-18	Mar-19F	Mar-20F	Mar-21F
Total turnover (HKDm)	7,838	9,405	12,833	16,185	18,854
Reported net profit (HKDm)	4,323	4,513	5,655	6,480	7,179
Recurring net profit (HKDm)	1,351	1,609	1,954	2,400	2,682
Recurring net profit growth (%)	12.1	19.0	21.5	22.8	11.7
Recurring EPS (HKD)	0.17	0.20	0.24	0.30	0.33
DPS (HKD)	0.05	0.05	0.07	0.08	0.09
Recurring P/E (x)	9.06	7.62	6.27	5.10	4.57
P/B (x)	0.43	0.34	0.30	0.26	0.23
Dividend Yield (%)	3.3	3.3	4.6	5.3	5.9
Return on average equity (%)	15.9	14.0	14.6	14.7	14.3
Return on average assets (%)	5.0	4.5	4.6	4.5	4.4
Net debt to equity (%)	78.2	77.4	61.5	58.9	61.2
Our vs consensus EPS (adjusted)					

Source: Company data, RHB

Analysts

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Financial Exhibits

Financial model updated on : 2018-06-29

Asia	Financial summary	Mar-17	Mar-18	Mar-19F	Mar-20F	Mar-21F
Hong Kong	Recurring EPS (HKD)	0.17	0.20	0.24	0.30	0.33
Property	EPS (HKD)	0.54	0.56	0.71	0.81	0.90
China South City Holdings	DPS (HKD)	0.05	0.05	0.07	0.08	0.09
Bloomberg 1668 HK	BVPS (HKD)	3.53	4.52	5.16	5.89	6.69
Buy	Weighted avg adjusted shares (m)	8,003	8,007	8,007	8,007	8,007
Valuation basis	Valuation metrics	Mar-17	Mar-18	Mar-19F	Mar-20F	Mar-21F
65% discount to end-FY19F ENAV of HKD6.90	Recurring P/E (x)	9.06	7.62	6.27	5.10	4.57
Key drivers	P/E (x)	2.83	2.71	2.17	1.89	1.71
Strong contracted sales and earnings growth recovery	P/B (x)	0.43	0.34	0.30	0.26	0.23
Key risks	FCF Yield (%)	19.1	(17.9)	34.1	(6.1)	(27.4)
Weak sales for wholesale trade centres	Dividend Yield (%)	3.3	3.3	4.6	5.3	5.9
	EV/EBITDA (x)	(3.17)	(2.78)	(4.31)	(4.27)	(3.92)
	EV/EBIT (x)	(3.36)	(2.92)	(4.49)	(4.43)	(4.05)
Company Profile	Income statement (HKDm)	Mar-17	Mar-18	Mar-19F	Mar-20F	Mar-21F
China South City was founded in 2002. It is a leading developer and operator of integrated logistics and trade centres in China. 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. The company was listed on HKEx in Sep 2009.	Total turnover	7,838	9,405	12,833	16,185	18,854
	Gross profit	3,510	4,069	5,478	6,804	7,869
	EBITDA	2,384	2,755	3,530	4,277	4,893
	Depreciation and amortisation	(137)	(133)	(145)	(155)	(163)
	Operating profit	2,247	2,623	3,385	4,122	4,730
	Net interest	(204)	(217)	(109)	(71)	(65)
	Pre-tax profit	6,592	6,785	8,210	9,491	10,662
	Taxation	(2,269)	(2,281)	(2,524)	(2,971)	(3,435)
	Minority interests	(0)	9	(32)	(40)	(47)
	Recurring net profit	1,351	1,609	1,954	2,400	2,682
	Cash flow (HKDm)	Mar-17	Mar-18	Mar-19F	Mar-20F	Mar-21F
	Change in working capital	1,083	(4,528)	4,134	(2,008)	(5,043)
	Cash flow from operations	2,806	(2,840)	6,502	965	(1,650)
	Capex	(463)	643	(2,322)	(1,708)	(1,707)
	Cash flow from investing activities	(392)	721	(2,243)	(1,590)	(1,584)
	Dividends paid	(400)	(400)	(565)	(648)	(718)
	Cash flow from financing activities	(3,611)	2,285	932	1,418	2,059
	Cash at beginning of period	10,267	9,072	9,236	14,427	15,220
	Net change in cash	(1,196)	166	5,191	793	(1,175)
	Ending balance cash	9,072	9,237	14,427	15,220	14,045
	Balance sheet (HKDm)	Mar-17	Mar-18	Mar-19F	Mar-20F	Mar-21F
	Total cash and equivalents	10,491	10,656	15,847	16,639	15,464
	Tangible fixed assets	5,964	6,351	9,760	11,813	13,848
	Total investments	42,274	48,277	53,211	58,651	64,648
	Total other assets	3,652	4,639	4,733	4,830	4,930
	Total assets	88,976	111,546	133,181	153,050	171,220
	Short-term debt	8,396	7,724	8,079	8,451	8,843
	Total long-term debt	12,796	18,230	20,572	23,478	27,087
	Total liabilities	60,496	75,145	91,667	105,674	117,347
	Shareholders' equity	28,298	36,218	41,308	47,139	53,601
	Minority interests	181	182	206	237	272
	Total equity	28,479	36,401	41,514	47,376	53,873
	Net debt	22,282	28,172	25,550	27,908	32,958
	Total liabilities & equity	88,976	111,546	133,181	153,050	171,220
	Key metrics	Mar-17	Mar-18	Mar-19F	Mar-20F	Mar-21F
	Revenue growth (%)	27.7	20.0	36.4	26.1	16.5
	Recurrent EPS growth (%)	9.6	19.0	21.5	22.8	11.7
	Gross margin (%)	44.8	43.3	42.7	42.0	41.7
	Operating EBITDA margin (%)	30.4	29.3	27.5	26.4	26.0
	Net profit margin (%)	55.1	48.0	44.1	40.0	38.1
	Dividend payout ratio (%)	9.3	8.9	10.0	10.0	10.0
	Capex/sales (%)	5.9	(6.8)	18.1	10.6	9.1
	Interest cover (x)	8.16	8.90	18.01	21.89	25.07

Source: Company data, RHB

Results Review

Earnings beat

On 28 Jun night, CSC announced its FY18 results. Core net profit came in at HKD1.6bn (+19% YoY) and was 4.8% higher than our estimate. The positive surprise was mainly due to better-than-expected GPM of 43.3% (vs our estimate of 41.2%) and lower SG&A, which came in 12.5% below our estimate.

Revenue came in 5% lower than our expectations due to slower-than-expected delivery of properties.

Net gearing retreat from 1H18; disappointing payout

CSC announced a final DPS of HKD0.05, the same as FY17. This represents a payout ratio of 25% (down from 30% of last year). Meanwhile, net gearing declined to 77.4% from 85.6% in 1H18, whilst the weighted average financing cost was at 6.68% (vs 6.16% in FY17).

Figure 1: CSC's FY18 results review

FY end Mar 31 (HKD m)	Actual		2H18	RHB	2H18	Actual		FY18	RHB	FY18	BBG	FY18
	1H18	2H18	YoY	2H18	Diff (%)	FY17	FY18	YoY	FY18	Diff (%)	Consensus	Diff (%)
Turnover	3,620	5,785	17.0%	6,487	-10.8%	7,839	9,405	20.0%	10,108	-6.9%	9,899	-5.0%
Property development	2,700	4,685	14.7%	5,271	-11.1%	6,241	7,385	18.3%	7,971	-7.4%		
Rental income	361	370	6.9%	569	-34.9%	700	732	4.6%	930	-21.3%		
Property management	247	128	-5.3%	244	-47.4%	289	376	30.0%	491	-23.5%		
E-commerce	85	160	6.4%	162	-1.0%	214	245	14.8%	247	-0.7%		
Others	226	441	92.3%	241	82.6%	396	667	68.7%	468	42.6%		
Cost of sales	(2,135)	(3,201)	19.5%	(3,811)	-16.0%	(4,328)	(5,336)	23.3%	(5,946)	-10.3%		
Gross profit	1,486	2,584	13.9%	2,676	-3.4%	3,510	4,069	15.9%	4,161	-2.2%		
Other income and expenses	129	399	N/A	244	63.5%	579	527	-8.9%	372	41.6%		
Selling and distribution costs	(307)	(373)	62.9%	(464)	-19.6%	(625)	(681)	9.0%	(772)	-11.8%		
Administrative expenses	(518)	(698)	19.6%	(879)	-20.6%	(1,146)	(1,216)	6.1%	(1,397)	-13.0%		
Operating profit	788	1,911	33.2%	1,577	21.2%	2,318	2,700	16.5%	2,365	14.2%		
Revaluation change	1,066	3,312	-7.6%	3,258	1.7%	4,550	4,378	-3.8%	4,325	1.2%		
Finance cost	(118)	(177)	6.7%	(63)	181.7%	(275)	(295)	7.0%	(181)	63.0%		
Profit before taxation	1,737	5,047	3.9%	4,772	5.8%	6,592	6,783	2.9%	6,509	4.2%		
Taxation	(752)	(1,529)	10.2%	(1,004)	52.3%	(2,269)	(2,281)	0.5%	(1,756)	29.9%		
Profit after taxation	984	3,518	1.4%	3,769	-6.6%	4,323	4,502	4.1%	4,753	-5.3%		
MI	6	3	-200.4%	19	-83.6%	(0)	9	N/A	25	-63.0%		
Reported net profit	991	3,521	1.6%	3,788	-7.0%	4,323	4,512	4.4%	4,778	-5.6%		
Recurring net profit	332	1,277	16.8%	1,203	6.1%	1,351	1,609	19.0%	1,535	4.8%	1,535	4.8%
Basic EPS (HKD)	0.124	0.440	1.6%	0.473	-7.0%	0.540	0.563	4.4%	0.597	-5.6%		
Core EPS (HKD)	0.041	0.159	16.8%	0.150	6.1%	0.169	0.201	19.0%	0.192	4.8%	0.190	5.7%
DPS (HKD)	0.000	0.050	0.0%	0.060	-16.2%	0.050	0.050	0.0%	0.060	-16.2%	0.070	-28.6%
BVPS (HKD)	3.768	4.523	28.0%	4.092	10.5%	3.535	4.523	28.0%	4.092	10.5%		
Gross margin	41.0%	44.7%		41.2%		44.8%	43.3%		41.2%			
Operating margin	21.8%	33.0%		24.3%		29.6%	28.7%		23.4%			
Effective tax rate	-43.3%	-30.3%		-21.0%		-34.4%	-33.6%		-27.0%			
Net margin	27.4%	60.9%		58.4%		55.1%	48.0%		47.3%			
Core net margin	9.2%	22.1%		18.5%		17.2%	17.1%		15.2%			

Source: RHB

Figure 2: Revenue from property development (by city)

		Absolute Amount			Contribution (% of Total)			Absolute Amount			Contribution (% of Total)		
		2H18	2H17	2H16	2H18	2H17	2H16	FY18	FY17	FY16	FY18	FY17	FY16
Total Revenue from Properties Delivered	HKD m	4,541	3,697	2,734				7,230	5,794	4,164			
CSC Shenzhen	HKD m	-	-	26	-	-	1.0%	-	8	114	-	0.1%	2.7%
CSC Nanchang	HKD m	2,353	1,013	32	51.8%	27.4%	1.2%	3,462	1,919	200	47.9%	33.1%	4.8%
CSC Nanning	HKD m	383	816	219	8.4%	22.1%	8.0%	1,094	910	399	15.1%	15.7%	9.6%
CSC Xi'an	HKD m	133	270	424	2.9%	7.3%	15.5%	285	356	568	3.9%	6.1%	13.6%
CSC Harbin	HKD m	272	464	21	6.0%	12.5%	0.8%	626	816	49	8.7%	14.1%	1.2%
CSC Zhengzhou	HKD m	578	428	597	12.7%	11.6%	21.8%	864	663	1,168	12.0%	11.4%	28.1%
CSC Hefei	HKD m	722	649	621	15.9%	17.5%	22.7%	739	978	650	10.2%	16.9%	15.6%
CSC Chongqing	HKD m	100	58	794	2.2%	1.6%	29.0%	160	144	1,015	2.2%	2.5%	24.4%
Total GFA Delivered	m sqm	0.52	0.61	0.43				0.86	0.91	0.60			
CSC Shenzhen	m sqm	-	-	0.00	-	-	0.2%	-	0.00	0.00	-	0.0%	0.8%
CSC Nanchang	m sqm	0.23	0.15	0.00	44.2%	24.6%	1.1%	0.36	0.25	0.03	41.5%	28.0%	4.4%
CSC Nanning	m sqm	0.04	0.13	0.04	8.2%	21.0%	8.3%	0.14	0.14	0.06	15.8%	15.8%	9.8%
CSC Xi'an	m sqm	0.02	0.06	0.08	4.4%	9.5%	17.8%	0.05	0.07	0.09	5.9%	7.6%	15.8%
CSC Harbin	m sqm	0.05	0.11	0.00	9.5%	18.3%	0.5%	0.10	0.19	0.00	12.0%	20.8%	0.8%
CSC Zhengzhou	m sqm	0.06	0.04	0.07	10.8%	6.9%	15.6%	0.08	0.07	0.13	9.8%	7.2%	21.9%
CSC Hefei	m sqm	0.11	0.11	0.12	20.4%	18.1%	27.2%	0.11	0.17	0.12	12.5%	18.4%	20.2%
CSC Chongqing	m sqm	0.01	0.01	0.13	2.6%	1.6%	29.4%	0.02	0.02	0.16	2.4%	2.3%	26.2%
Blended ASP of GFA Delivered	HKD / sqm	8,718	6,038	6,372				8,398	6,383	6,947			
CSC Shenzhen	HKD / sqm	N/A	N/A	37,571				N/A	38,000	23,224			
CSC Nanchang	HKD / sqm	10,225	6,734	6,851				9,697	7,559	7,530			
CSC Nanning	HKD / sqm	8,984	6,346	6,178				8,035	6,364	6,768			
CSC Xi'an	HKD / sqm	5,753	4,634	5,553				5,606	5,164	6,007			
CSC Harbin	HKD / sqm	5,508	4,131	9,409				6,032	4,320	10,061			
CSC Zhengzhou	HKD / sqm	10,329	10,125	8,896				10,215	10,205	8,891			
CSC Hefei	HKD / sqm	6,801	5,841	5,329				6,864	5,868	5,379			
CSC Chongqing	HKD / sqm	7,400	6,116	6,300				7,629	6,820	6,458			

Source: Company data, RHB

Figure 3: Contracted sales performance (by city)

		Absolute Amount			Contribution (% of Total)			Absolute Amount			Contribution (% of Total)		
		2H18	2H17	2H16	2H18	2H17	2H16	FY18	FY17	FY16	FY18	FY17	FY16
Total Contracted Sales Value	HKD m	6,576	4,320	2,832				12,026	8,636	6,628			
CSC Shenzhen	HKD m	2	14	203	0.0%	0.3%	7.2%	2	646	696	0.0%	7.5%	10.5%
CSC Nanchang	HKD m	1,313	971	622	20.0%	22.5%	22.0%	2,124	2,949	905	17.7%	34.1%	13.7%
CSC Nanning	HKD m	632	449	451	9.6%	10.4%	15.9%	1,058	923	643	8.8%	10.7%	9.7%
CSC Xi'an	HKD m	217	346	168	3.3%	8.0%	5.9%	544	509	380	4.5%	5.9%	5.7%
CSC Harbin	HKD m	212	549	220	3.2%	12.7%	7.8%	301	603	366	2.5%	7.0%	5.5%
CSC Zhengzhou	HKD m	1,751	65	310	26.6%	1.5%	10.9%	2,748	121	2,172	22.9%	1.4%	32.8%
CSC Hefei	HKD m	1,143	1,852	623	17.4%	42.9%	22.0%	3,182	2,711	820	26.5%	31.4%	12.4%
CSC Chongqing	HKD m	1,306	76	235	19.9%	1.7%	8.3%	2,066	175	647	17.2%	2.0%	9.8%
Total Contracted GFA Sold	m sqm	0.67	0.55	0.39				1.32	1.08	0.78			
CSC Shenzhen	m sqm	0.00	0.00	0.01	0.0%	0.2%	3.7%	0.00	0.05	0.05	0.0%	4.8%	6.9%
CSC Nanchang	m sqm	0.11	0.11	0.07	16.3%	20.4%	18.8%	0.20	0.34	0.11	15.5%	31.0%	13.9%
CSC Nanning	m sqm	0.06	0.06	0.07	8.9%	11.2%	16.9%	0.11	0.13	0.09	8.4%	12.1%	11.4%
CSC Xi'an	m sqm	0.03	0.05	0.03	4.1%	9.7%	6.9%	0.08	0.08	0.06	6.1%	7.3%	7.0%
CSC Harbin	m sqm	0.04	0.10	0.04	5.4%	18.7%	11.2%	0.05	0.11	0.06	4.1%	10.4%	8.1%
CSC Zhengzhou	m sqm	0.19	0.01	0.04	27.8%	1.2%	9.0%	0.29	0.01	0.20	21.8%	1.2%	25.4%
CSC Hefei	m sqm	0.09	0.20	0.10	12.7%	36.9%	26.1%	0.30	0.34	0.13	23.1%	31.1%	16.7%
CSC Chongqing	m sqm	0.17	0.01	0.03	24.7%	1.7%	7.4%	0.28	0.02	0.08	21.1%	2.0%	10.5%
Blended Contracted ASP	HKD / sqm	9,840	7,829	7,239				9,123	7,972	8,449			
CSC Shenzhen	HKD / sqm	19,000	11,250	13,918				19,000	12,303	12,769			
CSC Nanchang	HKD / sqm	12,048	8,637	8,464				10,411	8,778	8,321			
CSC Nanning	HKD / sqm	10,611	7,272	6,838				9,603	7,017	7,174			
CSC Xi'an	HKD / sqm	7,901	6,459	6,242				6,810	6,396	6,884			
CSC Harbin	HKD / sqm	5,916	5,327	4,993				5,528	5,344	5,768			
CSC Zhengzhou	HKD / sqm	9,412	9,803	8,821				9,559	9,520	10,892			
CSC Hefei	HKD / sqm	13,452	9,087	6,098				10,464	8,059	6,261			
CSC Chongqing	HKD / sqm	7,899	7,958	8,117				7,435	7,968	7,823			

Source: Company data, RHB

Figure 4: Contracted sales performance (by product)

		Absolute Amount			Contribution (% of Total)			Absolute Amount			Contribution (% of Total)		
		2H18	2H17	2H16	2H18	2H17	2H16	FY18	FY17	FY16	FY18	FY17	FY16
Total Contracted Sales Value	HKD m	6,576	4,320	2,832				12,026	8,636	6,628			
Trade Center (Mall Style)	HKD m	45	35	137	0.7%	0.8%	4.9%	142	79	1,793	1.2%	0.9%	27.1%
Trade Center (Detached Style)	HKD m	1,200	660	756	18.2%	15.1%	26.7%	1,652	1,091	1,936	13.7%	12.6%	29.2%
Office Units	HKD m	56	17	179	0.8%	0.4%	6.3%	63	644	577	0.5%	7.4%	8.7%
Residential Ancillaries	HKD m	5,285	3,651	1,756	80.2%	83.7%	62.1%	10,170	6,857	2,322	84.6%	79.1%	35.0%
Total Contracted GFA Sold	m sqm	0.67	0.55	0.39				1.32	1.08	0.78			
Trade Center (Mall Style)	m sqm	0.01	0.00	0.01	0.9%	0.5%	2.1%	0.01	0.01	0.14	1.1%	0.5%	17.2%
Trade Center (Detached Style)	m sqm	0.15	0.09	0.10	23.0%	16.3%	24.7%	0.22	0.15	0.25	16.8%	13.6%	31.5%
Office Units	m sqm	0.01	0.00	0.01	0.8%	0.3%	3.7%	0.01	0.05	0.05	0.5%	4.9%	6.3%
Residential Ancillaries	m sqm	0.50	0.46	0.27	75.3%	82.9%	69.5%	1.08	0.88	0.35	81.7%	80.9%	45.0%
Blended Contracted ASP	HKD / sqm	9,840	7,829	7,239				9,123	7,972	8,449			
Trade Center (Mall Style)	HKD / sqm	7,795	12,062	16,346				10,079	13,624	13,272			
Trade Center (Detached Style)	HKD / sqm	7,798	7,360	7,834				7,463	7,390	7,840			
Office Units	HKD / sqm	10,151	11,367	12,523				10,100	12,155	11,580			
Residential Ancillaries	HKD / sqm	10,505	7,976	6,455				9,447	7,819	6,585			

Source: Company data, RHB

Changes In Earnings Forecasts

Backed by a landbank with average land cost of CNY418.4 per sqm (5.5% of FY18F blended contracted ASP), we came away reassured that CSC will maintain its GPM at 40% or above for the foreseeable future, albeit slowly diminishing to 41.7% in FY21F from 43.3% in FY18, due to rising financing cost.

With 18.3m sqm GFA in logistics parks to be operational by FY19F, we see its recurring income from property management, logistics and warehouse services, and outlet operations as strong growth drivers. Over FY18F-21F, we anticipate CSC's recurring income (including e-commerce) to grow at a CAGR of 20.3%.

As property sales and recurring income continue to scale up, GPMs should maintain at sector-leading level. We anticipate its earnings to grow at a CAGR of 18.6% during FY18F-21F, with ROEs holding steady at 14-15% over FY19F-21F.

Figure 5: Changes to our P&L forecasts

(HKD m)	FY19F			FY20F		
	Original	New	chg (%)	Original	New	chg (%)
Revenue	12,609	12,833	2%	16,092	16,185	1%
Cost of goods sold	(7,433)	(7,355)	-1%	(9,311)	(9,381)	1%
Gross Profit	5,176	5,478	6%	6,782	6,804	0%
Selling expenses	(933)	(863)	-7%	(1,157)	(919)	-21%
General & admin expenses	(1,680)	(1,595)	-5%	(2,144)	(1,882)	-12%
Interest expenses	(185)	(188)	2%	(189)	(188)	0%
Revaluation gains	4,768	4,934	3%	5,257	5,440	3%
Other income and expenses	413	444	8%	256	236	-8%
Pre-tax profit	7,559	8,210	9%	8,804	9,491	8%
Taxation	(2,180)	(2,524)	16%	(2,709)	(2,971)	10%
MI	32	(32)	N/A	40	(40)	N/A
Reported net profit	5,411	5,655	5%	6,136	6,480	6%
Recurring net profit	1,835	1,954	7%	2,193	2,400	9%
Gross profit margin (%)	41.5%	42.7%	1.2 ppts	41.3%	42.0%	0.7 ppts
Reported net profit margin (%)	47.6%	44.1%	-3.6 ppts	45.0%	40.0%	-5.0 ppts
Recurring net profit margin (%)	15.3%	15.2%	0.0 ppts	15.0%	14.8%	-0.2 ppts

Source: RHB

Figure 6: Income statement summary

Year ended 31 March (HKD m)	FY17	FY18	FY19F	FY20F	FY21F
Property sales	6,241	7,385	10,262	13,152	15,341
Property investment	700	732	955	1,053	1,161
Property management	289	376	522	669	780
E-commerce	214	245	286	334	389
Others	396	667	808	977	1,183
Total turnover	7,838	9,405	12,833	16,185	18,854
Property sales	1,305	1,395	1,908	2,406	2,760
Property investment	485	533	695	766	845
Property management	16	145	202	258	301
E-commerce	213	243	257	300	350
Others	228	306	323	391	473
EBIT	2,247	2,622	3,385	4,122	4,730
Interest income	72	78	79	118	124
Interest expenses	-275	-295	-188	-188	-189
Revaluation gain	4,550	4,378	4,934	5,440	5,997
Taxation	-2,269	-2,281	-2,524	-2,971	-3,435
Minority interests	-0	9	-32	-40	-47
Reported net profit	4,323	4,512	5,655	6,480	7,179
Recurring net profit	1,351	1,609	1,954	2,400	2,682
Reported EPS (HKD)	0.540	0.563	0.706	0.809	0.897
Recurring EPS (HKD)	0.169	0.201	0.244	0.300	0.335
DPS (HKD)	0.050	0.050	0.071	0.081	0.090
<u>Profit margin:</u>					
Gross margin	44.8%	43.3%	42.7%	42.0%	41.7%
EBIT margin	28.7%	27.9%	26.4%	25.5%	25.1%
Reported net margin	55.1%	48.0%	44.1%	40.0%	38.1%
Recurring net margin	17.2%	17.1%	15.2%	14.8%	14.2%
<u>YoY growth:</u>					
Turnover	27.7%	20.0%	36.4%	26.1%	16.5%
Booked property sales revenue	32.3%	18.3%	39.0%	28.2%	16.6%
EBIT	28.7%	16.7%	29.1%	21.8%	14.7%
Reported net profit	22.2%	4.4%	25.3%	14.6%	10.8%
Recurring net profit	12.1%	19.0%	21.5%	22.8%	11.7%
Recurring EPS	12.0%	19.0%	21.5%	22.8%	11.7%

Source: RHB

Valuation And Recommendation

We reiterate our BUY rating with a new HKD2.40 TP, based on the same 65% discount to end-FY19F ENAV of HKD6.90. We affirm our conviction on CSC's accelerating growth momentum to sustain over FY19F, backed by large presale deposits (102% of FY19F revenue) and projected sector-leading GPM of 42.7%.

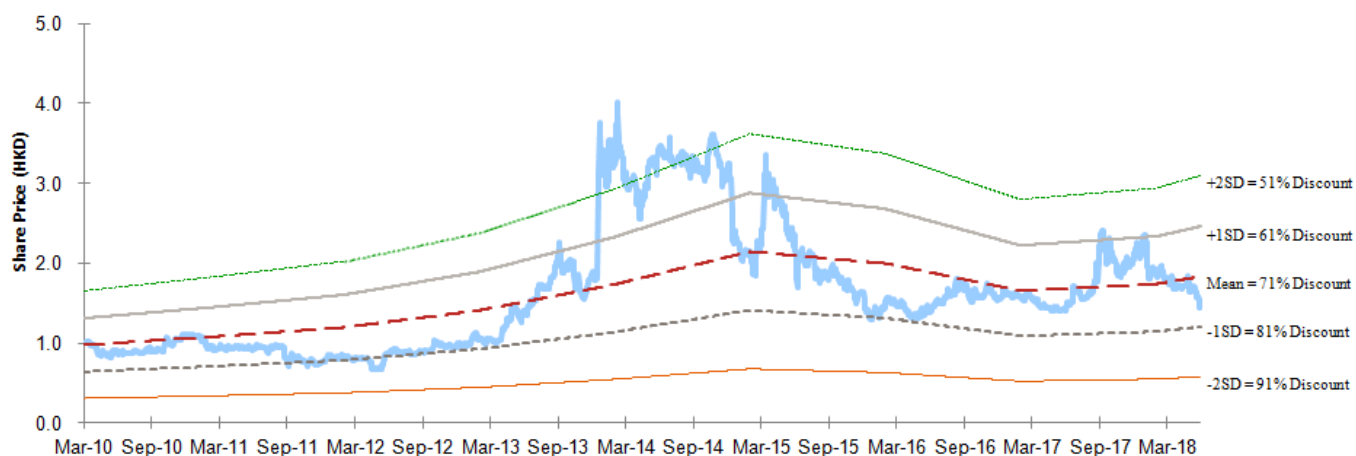
We also like the strong growth in its recurring income, which in our view, should fully cover CSC's debt servicing cost, and add defensiveness to the stock. Its current valuation at a 75% discount is undemanding, given CSC's earnings CAGR of 18.6% for FY18F-21F, and ROEs of 14-15% for FY19F-21F.

Figure 7: CSC's end-FY19 (Mar) NAV estimate

	Value (CNY m)	Value (CNY m)
Property development :		
- CSC Nanchang	5,785	
- CSC Nanning	593	
- CSC Xian	2,866	
- CSC Harbin	1,296	
- CSC Zhengzhou	5,752	
- CSC Hefei	7,320	
- CSC Chongqing	3,255	
		26,868
Investment properties		53,069
Gross asset value (GAV)		79,937
Gross asset value (GAV) (HKD m)		94,044
Net debt (HKD m)		(38,435)
Net asset value (NAV) (HKD m)		55,609
NAV per share (HKD)		6.90

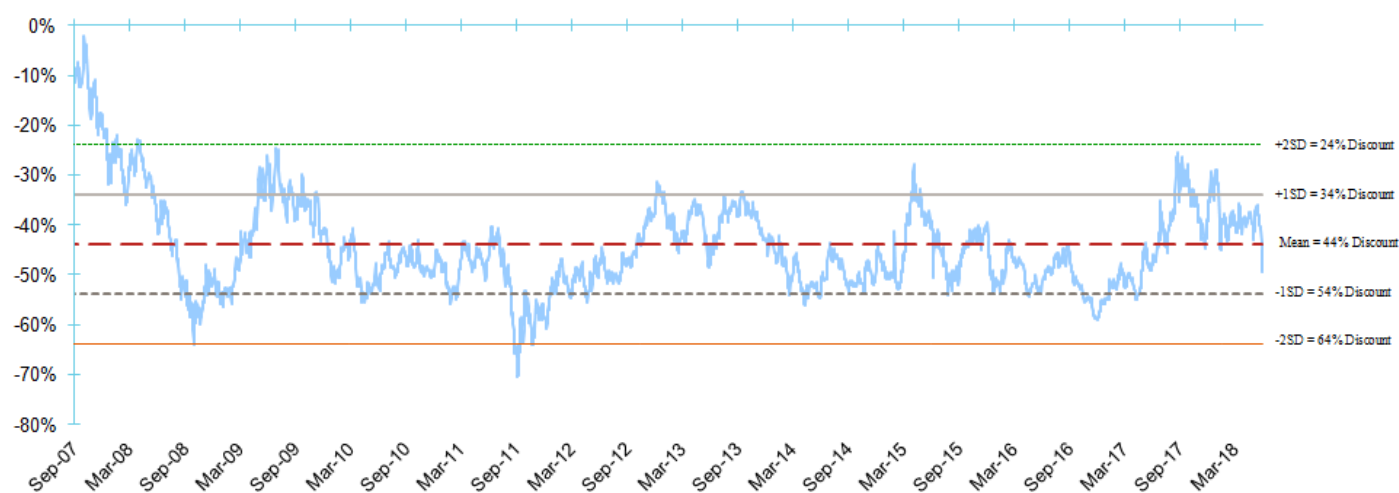
Source: RHB

Figure 8: CSC's 5-year rolling forward ENAV band



Source: RHB

Figure 9: China property – 10-year ENAV discount band



Source: RHB

Peer Comparison

Figure 10: Peer valuation comparison table I

Company	Stock code	*Price (HKD)	Mkt cap (USDm)	3-mth avg t/o (USDm)	RHB/Cons NAV (HKD)	Discount to NAV (%)	P/E FY18F (x)	P/E FY19F (x)	EPS YoY change FY18F (%)	EPS YoY change FY19F (%)	3-yr EPS CAGR (%)	P/BV FY18F (x)	P/BV FY19F (x)	Div yield FY18F (%)	Div yield FY19F (%)
Large peer average						38.0	7.1	5.7	20.3	26.3	21.4	1.5	1.3	5.4	6.1
China Vanke	2202 HK	27.45	40,767	35.0	33.34	17.7	7.3	6.0	23.9	22.4	19.5	1.6	1.4	5.0	6.2
**Country Garden	2007 HK	13.80	38,234	97.8	25.80	46.5	7.4	5.5	35.3	34.6	30.2	2.0	1.6	4.6	6.0
**Evergrande	3333 HK	20.00	33,588	59.6	42.20	52.6	5.6	4.7	-1.7	20.7	11.3	1.6	1.4	10.8	9.5
**China Overseas	688 HK	25.85	36,092	55.1	43.00	39.9	7.0	5.9	18.6	18.0	17.6	1.0	0.8	3.7	4.3
**CR Land	1109 HK	26.45	23,362	42.1	42.00	37.0	7.5	6.4	27.3	17.9	20.4	1.1	1.0	4.5	5.4
**Sunac	1918 HK	27.45	15,400	76.4	41.30	33.5	7.7	4.8	7.2	61.5	33.1	2.0	1.5	2.7	4.2
**Longfor	960 HK	21.15	15,984	14.7	35.10	39.7	8.3	6.6	27.2	25.9	25.3	1.3	1.2	4.7	6.0
Mid-and-small peer average						45.7	7.4	6.1	29.6	21.1	19.3	0.7	0.6	5.9	7.1
**Shimao	813 HK	20.60	8,892	21.0	40.00	48.5	6.4	5.1	33.0	23.5	26.8	0.9	0.8	6.1	7.5
**Agile	3383 HK	13.36	6,669	17.4	34.00	60.7	6.0	4.8	21.3	24.0	22.6	1.0	0.9	7.8	9.5
Guangzhou R&F	2777 HK	15.84	6,505	14.4	20.86	24.1	4.2	3.4	33.5	24.5	26.5	0.6	0.6	9.4	11.4
China Jinmao	817 HK	3.94	5,813	17.0	5.23	24.7	7.6	5.8	19.7	29.7	29.7	1.0	0.9	5.4	6.8
**CIFI	884 HK	4.99	4,904	15.0	10.40	52.0	5.8	4.5	26.3	29.5	27.0	1.2	1.0	6.2	7.9
Sino-Ocean	3377 HK	4.56	4,424	7.1	6.80	32.9	5.9	4.9	22.1	19.1	22.2	0.6	0.5	7.5	8.9
**KWG	1813 HK	9.86	3,965	15.6	22.30	55.8	5.6	4.3	53.7	29.8	36.1	0.8	0.7	6.3	8.1
Shenzhen Inv	604 HK	2.86	2,937	7.0	8.50	66.4	7.6	6.5	-27.1	17.3	-6.1	0.5	0.5	6.4	7.2
Kaisa	1638 HK	3.35	2,590	7.2	5.60	40.2	2.0	1.5	214.5	N/A	N/A	0.9	N/A	3.5	N/A
**Greentown	3900 HK	10.52	2,906	9.2	20.30	48.2	9.0	8.1	27.3	11.4	15.8	0.7	0.6	2.2	2.4
Yuexiu Property	123 HK	1.50	2,371	8.5	1.86	19.4	6.2	5.1	7.1	22.7	16.2	0.5	0.4	6.3	7.8
SOHO China	410 HK	3.73	2,472	4.1	7.30	48.9	36.6	29.4	N/A	24.4	N/A	0.5	0.5	4.1	4.8
Hopson	754 HK	6.99	1,982	1.5	13.08	46.6	11.1	10.9	N/A	1.6	N/A	N/A	N/A	2.7	2.7
Shui On Land	272 HK	1.99	2,045	5.3	5.90	66.3	9.2	8.5	-23.4	7.7	0.2	0.3	0.3	3.3	3.5
**CSC	1668 HK	1.53	1,562	4.1	6.90	77.8	6.7	5.7	N/A	17.4	N/A	0.3	0.4	3.3	5.2
Poly HK	119 HK	3.24	1,512	3.5	7.00	53.7	6.0	6.1	49.5	-2.8	N/A	0.4	0.4	4.9	4.8
**COGO	81 HK	2.89	1,261	3.4	6.60	56.2	4.2	3.4	46.4	20.7	26.6	0.4	0.4	2.1	2.6
Fantasia	1777 HK	1.31	962	1.8	2.60	49.6	4.6	3.6	20.0	29.2	24.9	0.5	0.3	5.3	6.6
Sector average						39.8	7.2	5.8	22.5	25.1	20.9	1.3	1.1	5.5	6.3

Note: *Prices as at 29 Jun 2018

Note 2: **Under RHB coverage

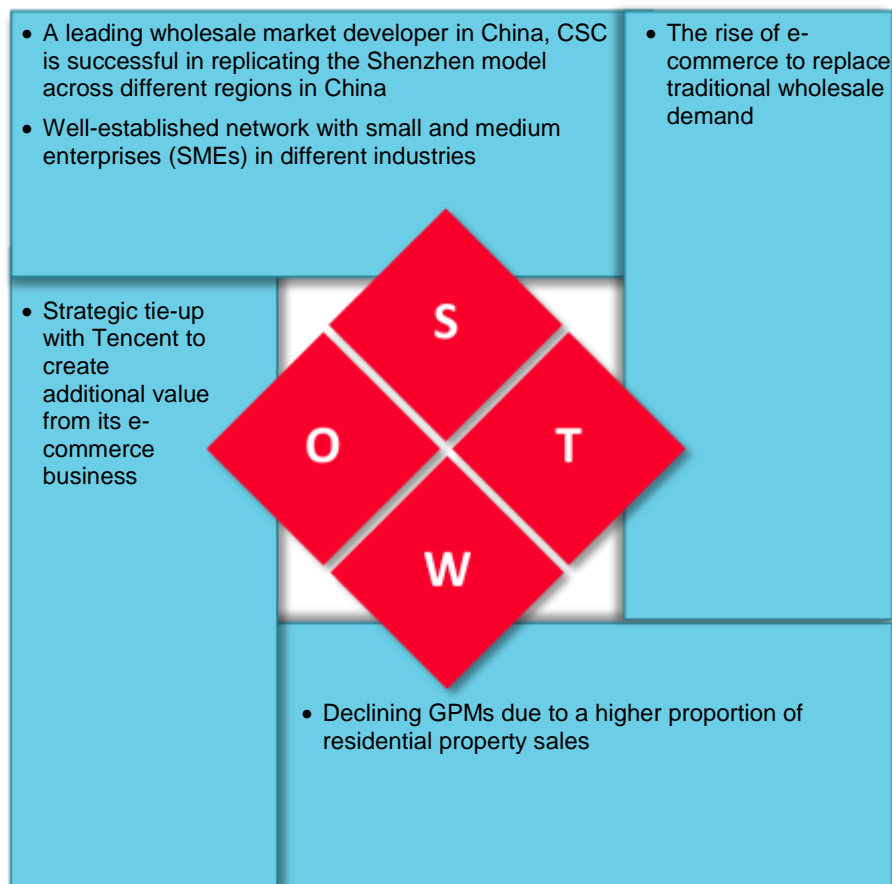
Source: RHB, Bloomberg

Figure 11: Peer valuation comparison table II

Company	Stock code	Mkt cap (USDm)	Revenue (USDm)		Net profit (USDm)		Gross margin (%)		Net margin (%)		Net gearing (%)		ROE (%)		Share price change (%)	
			FY17	FY18F	FY17	FY18F	FY17	FY18F	FY17	FY18F	FY17	FY18F	FY17	FY18F	1-mth	YTD
Large peer average							31.8	15.8	12.5	96.3	15.6	24.5	22.4	-8.1	-4.2	
China Vanke	2202 HK	40,767	35,882	47,406	4,241	5,262	32.3	11.8	11.1	14.1	N/A	22.8	22.8	-3.3	-12.0	
Country Garden	2007 HK	38,234	34,303	52,992	3,940	5,136	25.9	11.5	9.7	55.0	0.0	31.8	29.4	-6.4	-2.6	
Evergrande	3333 HK	33,588	47,021	67,300	3,685	5,934	36.1	7.8	8.8	237.8	N/A	30.7	33.3	-15.8	-25.8	
China Overseas	688 HK	36,092	20,896	27,228	5,195	5,189	33.4	24.9	19.1	27.1	13.4	16.7	14.6	-1.3	2.8	
CR Land	1109 HK	23,362	15,113	18,905	2,933	3,103	40.3	19.4	16.4	43.1	26.2	17.7	16.3	-7.7	15.0	
Sunac	1918 HK	15,400	9,959	21,047	1,766	1,964	20.7	17.7	9.3	249.1	N/A	32.8	23.4	-12.0	-15.1	
Longfor	960 HK	15,984	10,896	14,549	1,905	1,911	33.9	17.5	13.1	47.8	22.7	19.0	17.3	-10.1	8.1	
Mid-and-small peer average							33.2	31.8	12.5	87.1	43.3	14.2	12.4	-12.5	-4.5	
Shimao	813 HK	8,892	10,647	12,867	1,185	1,397	30.4	11.1	10.9	61.1	53.7	14.2	14.7	-7.2	21.2	
Agile	3383 HK	6,669	7,802	9,565	982	1,106	40.1	12.6	11.6	93.8	12.7	16.8	17.5	-10.9	12.6	
Guangzhou R&F	2777 HK	6,505	8,962	11,840	3,225	1,533	35.4	36.0	12.9	188.8	89.3	40.2	15.6	-15.6	-10.1	
China Jinmao	817 HK	5,813	4,698	6,327	601	729	32.3	12.8	11.5	69.1	54.0	12.9	13.1	-11.7	14.5	
CIFI	884 HK	4,904	4,811	6,142	730	856	27.1	15.2	13.9	49.4	N/A	26.9	22.3	-16.8	5.9	
Sino-Ocean	3377 HK	4,424	6,930	7,812	773	744	24.5	11.2	9.5	66.5	33.5	11.1	9.9	-14.8	-15.4	
KWG	1813 HK	3,965	1,745	2,454	547	685	34.8	31.4	27.9	72.4	40.7	14.0	15.5	-11.5	8.0	
Shenzhen Inv	604 HK	2,937	1,307	2,384	631	381	34.6	48.3	16.0	22.0	N/A	13.3	7.1	-14.1	-11.7	
Kaisa	1638 HK	2,590	4,956	10,407	497	1,296	27.3	10.0	12.5	326.2	N/A	20.5	38.5	-20.8	-24.0	
Greentown	3900 HK	2,906	6,342	6,659	331	306	19.2	5.2	4.6	59.1	48.4	6.5	6.6	-9.2	4.6	
Yuexiu Property	123 HK	2,371	3,597	4,079	342	373	25.7	9.5	9.2	84.1	45.0	7.2	7.4	-15.7	2.7	
SOHO China	410 HK	2,472	297	298	716	75	74.0	241.2	25.2	51.4	N/A	14.1	1.5	-7.7	-18.4	
Hopson	754 HK	1,982	1,762	N/A	739	N/A	36.8	41.9	N/A	71.9	N/A	9.8	N/A	-4.9	-8.7	
Shui On Land	272 HK	2,045	2,789	2,535	339	226	42.6	12.2	8.9	55.1	N/A	4.4	4.1	-11.2	-7.9	
CSC	1668 HK	1,562	1,199	1,591	575	234	43.3	48.0	14.7	61.0	N/A	14.0	10.0	-11.0	-25.4	
Poly HK	119 HK	1,512	4,040	4,865	314	285	20.6	7.8	5.9	72.1	N/A	9.3	6.4	-13.6	-20.4	
COGO	81 HK	1,261	2,584	3,393	162	254	20.1	6.3	7.5	77.6	12.3	10.6	13.7	-17.2	-30.7	
Fantasia	1777 HK	962	1,479	2,065	175	207	29.6	11.8	10.0	87.1	N/A	9.8	7.5	-11.5	22.4	
Average							32.8	27.3	12.5	89.7	34.8	17.1	15.3	-11.3	-4.4	

Source: RHB, Bloomberg

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2018-06-05	Buy	2.20	1.69
2017-12-03	Buy	2.20	1.88
2017-07-03	Buy	2.00	1.52
2017-02-12	Buy	2.13	1.67
2016-11-28	Buy	2.13	1.71
2016-10-16	Neutral	1.50	1.63
2016-07-14	Neutral	1.50	1.63
2016-06-28	Neutral	1.50	1.47
2015-12-01	Neutral	1.77	1.78
2015-10-23	Neutral	2.00	1.96

Source: RHB, Bloomberg

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Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

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