

## CSI Properties

Bloomberg: 497 HK Equity | Reuters: 0497.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Feb 2022

### BUY

Last Traded Price (28 Jan 2022): HK\$0.210 (HSI : 23,550)  
Price Target 12-mth: HK\$0.335 (60% upside) (Prev HK\$0.34)

#### Analyst

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#### What's New

- Introduction of capital partners for Novotel Hotel redevelopment
- Improved market sentiment in the Northern Metropolis to facilitate the sales of Cadenza in Sheung Shui
- Border re-opening crucial for luxury home sales
- BUY with HK\$0.335 TP

### Strong asset backing

#### Investment Thesis

**BUY with HK\$0.335 TP.** The stock trades 83% below our appraised current NAV. Such a low valuation should limit any downside risk on share prices.

**Border reopening crucial for luxury home sales.** The relaxation of border control measures, if materialized, should lift sales momentum in the luxury sector. This should be positive for sales at Infinity and Dukes Place. Elsewhere, since the government announced its plan to develop the Northern Metropolis, market sentiment there has improved which should facilitate the sale of Cadenza, a newly completed luxury house project in Kwu Tung.

**Capital partners brought on board for Novotel Hotel redevelopment.** Novotel Hotel in Jordan has been closed to make way for residential/commercial redevelopment. With total GFA of 0.25m sf, this redevelopment project is scheduled for completion in 2025. In Sep21, CSI sold a 49% stake in this redevelopment project to a Canadian fund and another minority partner. This not only boosts its bottom-line earnings but also diversifies the investment risk.

#### Valuation:

Our target price is based on a 75% discount to our Dec-2022 NAV estimate.

#### Where we differ:

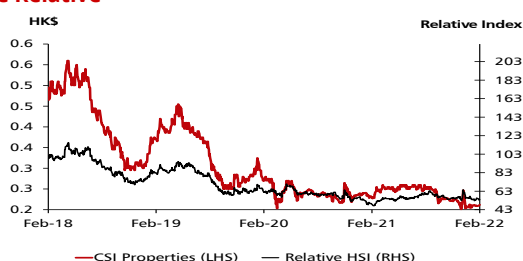
We are more positive on the company's ability to create shareholders' value by identifying appropriate investment opportunities, executing value enhancement initiatives and crystallising asset values. This should allow CSI to ride through the current market challenges.

#### Key Risks to Our View:

Any softening in luxury residential demand in Hong Kong could impact earnings and valuation.

Any prolonged property market downturn would inevitably impact the marketability of the properties held for sale.

#### Price Relative



#### Forecasts and Valuation

FY Mar (HK\$ m)	2020A	2021A	2022F	2023F
Turnover	3,710	369	385	831
EBITDA	1,111	493	710	479
Pre-tax Profit	1,309	444	425	759
Net Profit	1,156	331	279	659
Net Profit Gth (%)	118.1	(71.4)	(15.6)	135.9
EPS (HK\$)	0.12	0.03	0.03	0.07
EPS Gth (%)	123.0	(70.9)	(13.4)	135.9
PE (X)	1.8	6.1	7.1	3.0
P/Cash Flow (X)	2.2	4.0	108.0	nm
EV/EBITDA (X)	10.7	24.1	16.8	24.9
DPS (HK cts)	0.50	0.42	0.36	0.84
Div Yield (%)	2.4	2.0	1.7	4.0
Net Gearing (%)	59	70	60	57
ROE (%)	8.3	2.3	1.9	4.4
Est. NAV (HK\$):			1.22	1.34
Disc. to NAV (%)			(83)	(84)

Earnings Rev (%): (35) 6

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

#### At A Glance

Issued Capital (m shrs)	9,515
Mkt Cap (HK\$/US\$m)	1,998 / 257
Major Shareholders (%)	
Chung (Cho Yee Mico)	53.9
Free Float (%)	46.1
3m Avg. Daily Val. (US\$m)	0.33
GICS Industry: Real Estate / Real Estate Management & Development	



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**CSI Properties**

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**WHAT'S NEW****Offering Cadenza for sale**

Novotel Hotel in Jordan has been closed to make way for demolition. It will be redeveloped into a residential/commercial project with GFA of 0.256m sf with projection completed targeted for 2025. In Sep-21, CSI Properties sold a 49% stake in redevelopment to a Canadian fund and another minority partner for HK\$1.715bn. This not only brings in hefty disposal gains of HK\$743m but also diversifies the investment risk.

CSI Properties sold two units at 60%-owned Dukes Place at Jardine's Lookout for HK\$391m or HK\$68,600psf on average in 1HFY22. Elsewhere, three apartments of Infinity at 8-12Peak Road have been sold for c.HK\$1bn since Sep 21.

CSI Properties is offering Cadenza in Sheung Shui for sale. This newly completed luxury house development contains six luxurious villas with GFA of 33,100sf. Since the government announced its plan to develop the Northern Metropolis, market sentiment there has improved. This should facilitate the sale of Cadenza.

The company has sold retail shops in San Po Kong for HK\$170m with estimated disposal gains of >HK\$20m to be recognised in 2HFY22. Elsewhere, CSI Properties sold two office floors at 2-4 Shelly Street recently.

With a GFA of 32,000sf, FOCO, a commercial development at 48 Cochrane Street in Central, is close to completion. Pre-leasing is proceeding smoothly with a substantial portion of floors already pre-leased to F&B outlets.

Consolidated net debt stood at HK\$8.58bn in Sep21, down from Mar-21's HK\$10.4bn, thanks to proceeds from the stake disposal of Novotel Hotel redevelopment. This represented 31% of total assets. Its off-balance sheet debt increased to HK\$8.42bn from Mar-21's HK\$6.91bn.

Since Apr-21, the company has repurchased 99.3m shares for HK\$24.6m or HK\$0.248/sh on average. This signaled its strong hidden value and supported its share price.

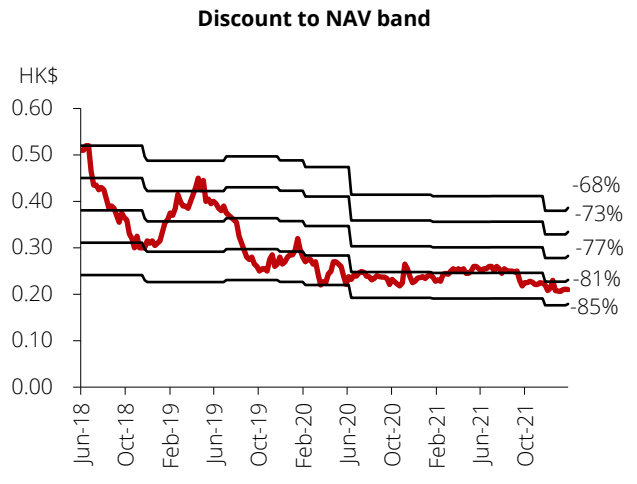
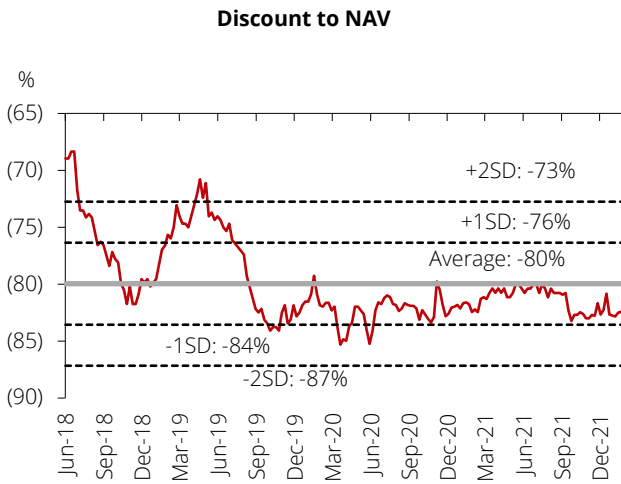
Meanwhile, the stock is trading at an 83% discount to our appraised current NAV. Such a low valuation should limit any downside risk on share prices. Based on our target discount of 75% to our Dec-22 NAV, we set our TP at HK\$0.335, and hence have a BUY call on CSI Properties.

**Company Background**

CSI Properties (CSI) is a property trading company primarily focusing on prime commercial properties in Hong Kong. The company has increased its property development activities in recent years. It boasts a luxury residential portfolio in prime locations such as The Peak and Jardine's Lookout, and has a strong foothold in the Central office/commercial market.

**CSI Properties**

**Discount to NAV**



Source: Bloomberg Finance L.P., DBS HK

## CSI Properties

### Key Assumptions (%)

	2022F	2023F
Residential price - HK	0	2
Office rental - HK	0	0
Retail rental (Shopping centre) - HK	5	5

Source: DBS HK

### Segmental Breakdown (HK\$ m)

FY Mar	2019A	2020A	2021A	2022F	2023F
<b>Revenues (HK\$ m)</b>					
Property rental income	302	212	227	215	232
Property sales income	3,137	3,498	142	170	599
<b>Total</b>	<b>3,439</b>	<b>3,710</b>	<b>369</b>	<b>385</b>	<b>831</b>

Source: DBS HK

### Income Statement (HK\$ m)

FY Mar	2019A	2020A	2021A	2022F	2023F
Turnover	3,439	3,710	369	385	831
EBITDA	959	1,111	493	710	479
Depr / Amort	(24)	(34)	(35)	(37)	(39)
<b>EBIT</b>	<b>935</b>	<b>1,077</b>	<b>458</b>	<b>673</b>	<b>440</b>
Associates Inc	20	402	247	43	634
Interest (Exp)/Inc	(218)	(171)	(260)	(291)	(315)
Exceptionals	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>738</b>	<b>1,309</b>	<b>444</b>	<b>425</b>	<b>759</b>
Tax	(70)	(65)	(26)	(63)	(21)
Non-controlling interests	(49)	2	2	(10)	(6)
Holder of Perpetual Securities	(90)	(90)	(90)	(73)	(73)
<b>Net Profit</b>	<b>530</b>	<b>1,156</b>	<b>331</b>	<b>279</b>	<b>659</b>
Sales Gth (%)	(13)	8	(90)	4	116
Net Profit Gth (%)	(48)	118	(71)	(16)	136
EBITDA Margins (%)	28	30	134	185	58
EBIT Margin (%)	27	29	124	175	53
Tax Rate (%)	9	5	6	15	3

Source: DBS HK

## CSI Properties

### Balance Sheet (HK\$ m)

FY Mar	2019A	2020A	2021A	2022F	2023F
Fixed Assets	252	297	262	225	186
Long-term Investments	0	0	0	0	0
Other LT Assets	471	386	322	322	322
Associates/JVs	9,622	9,746	12,513	13,680	13,543
Bank Balance/Cash & Liquid	1,410	2,675	1,501	2,921	2,591
ST Investments	1,949	2,172	1,521	1,521	1,521
Inventory	12,018	11,503	12,179	9,436	10,151
Debtors	554	319	346	336	326
Other Non Cash Current	53	13	0	0	0
<b>Total Assets</b>	<b>26,329</b>	<b>27,113</b>	<b>28,644</b>	<b>28,442</b>	<b>28,640</b>
ST Debt	2,123	1,812	3,574	1,502	1,200
Creditors	325	346	578	618	658
Other Current Liab	2,000	989	1,146	1,146	1,146
LT Debt	8,255	9,440	8,365	10,237	10,139
Deferred Tax Liabilities	12	20	28	28	28
Other LT Liabilities	0	46	82	82	82
Perpetual Securities	1,539	1,539	1,539	1,321	1,321
Non-controlling interests	38	36	34	44	50
Shareholder's Equity	12,037	12,884	13,298	13,464	14,016
<b>Total Cap. &amp; Liab.</b>	<b>26,329</b>	<b>27,113</b>	<b>28,644</b>	<b>28,442</b>	<b>28,640</b>
Share Capital (m)	10,037	9,815	9,649	9,403	9,403
Net Cash/(Debt)	(8,968)	(8,577)	(10,438)	(8,818)	(8,748)
Working Capital	11,536	13,536	10,249	10,949	11,585
Net Gearing (%)	66	59	70	60	57

Source: DBS HK

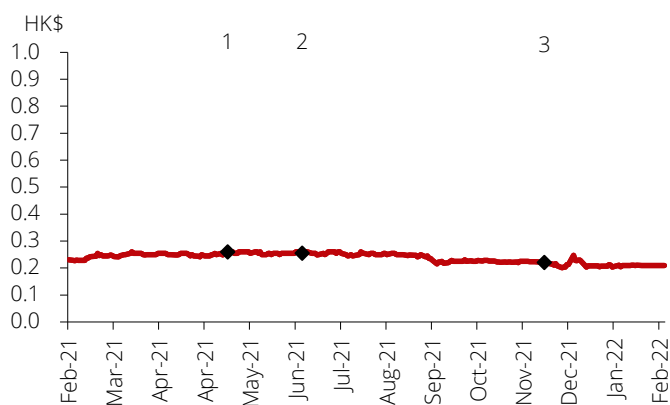
### Cash Flow Statement (HK\$ m)

FY Mar	2019A	2020A	2021A	2022F	2023F
EBIT	935	1,077	458	673	440
Tax Paid	(34)	(14)	(42)	(63)	(21)
Depr/Amort	24	34	35	37	39
Chg in Wkg.Cap	458	372	(229)	(707)	(665)
Other Non-Cash	65	(564)	238	15	15
<b>Operating CF</b>	<b>1,448</b>	<b>905</b>	<b>460</b>	<b>(45)</b>	<b>(192)</b>
Net Capex	(64)	(523)	(20)	0	0
Investments	(62)	47	14	0	0
Associates & JVs	(2,568)	(353)	(2,199)	661	771
Associates' Dividends	13	602	1	0	0
Others	753	257	260	1,642	(73)
<b>Investing CF</b>	<b>(1,929)</b>	<b>30</b>	<b>(1,944)</b>	<b>2,303</b>	<b>698</b>
Net Chg in Debt	133	948	604	(200)	(400)
New Capital	0	(97)	(72)	0	0
Dividend	(180)	(71)	(52)	(41)	(34)
Other Financing CF	(644)	(453)	(203)	(597)	(403)
<b>Financing CF</b>	<b>(690)</b>	<b>327</b>	<b>278</b>	<b>(838)</b>	<b>(837)</b>
Chg in Cash	(1,170)	1,262	(1,206)	1,420	(331)

Source: DBS HK

**CSI Properties**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	14-May-21	HK\$0.255	HK\$0.335	Buy
2:	29-Jun-21	HK\$0.260	HK\$0.345	Buy
3:	25-Nov-21	HK\$0.219	HK\$0.34	Buy

Source: DBS HK

Analyst: Jeff YAU CFA,

## CSI Properties

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**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

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