

CSI Properties

Bloomberg: 497 HK Equity | Reuters: 0497.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

16 May 2022

BUY

Last Traded Price (13 May 2022): HK\$0.184 (HSI : 19,899)
Price Target 12-mth: HK\$0.28 (52% upside) (Prev HK\$0.335)

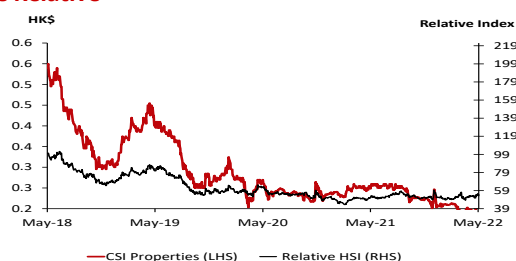
Analyst

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What's New

- Significant revaluation gains on reclassifying In Point Shopping Mall in Shanghai as an investment property
- Residential sales to drive core earnings growth
- Continued share buyback to support share price
- BUY for strong asset backing with HK\$0.28 TP

Price Relative



Forecasts and Valuation

FY Mar (HK\$ m)	2021A	2022F	2023F	2024F
Turnover	369	386	1,137	1,383
EBITDA	493	302	497	574
Pre-tax Profit	444	1,344	409	714
Net Profit	331	1,170	345	685
Net Profit Gth (%)	(71.4)	253.7	(70.5)	98.4
EPS (HK\$)	0.03	0.12	0.04	0.07
EPS Gth (%)	(70.9)	262.3	(70.3)	98.4
PE (X)	5.4	1.5	5.0	2.5
P/Cash Flow (X)	3.5	4.4	2.5	9.7
EV/EBITDA (X)	23.6	38.7	23.5	20.3
DPS (HK cts)	0.42	0.42	0.42	0.88
Div Yield (%)	2.3	2.3	2.3	4.8
Net Gearing (%)	70	57	68	61
ROE (%)	2.3	7.7	2.3	4.6
Est. NAV (HK\$):			1.3	1.4
Disc. to NAV (%)			(86)	(87)

Earnings Rev (%): 318 (48) New

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

Unlocking value through residential sales

Investment Thesis

BUY with HK\$0.28 TP. The stock trades 86% below our appraised current NAV. The current low stock valuation, coupled with continued share buybacks, should support its share price.

Significant revaluation gains on reclassifying In Point Shopping Mall in Shanghai as an investment property. Following the extensive upgrading works, In Point Shopping Mall in Shanghai is seeing a strong improvement in rentals. CSI Properties has decided to retain this upgraded mall as well as Richgate Plaza, also in Shanghai, for long-term rental. Reclassification into investment properties has brought significant fair value gains of HK\$1.3bn in FY22.

Residential sales to drive the earnings growth. Apartment sales at Dukes Place at Jardine's Lookout and Infinity on the Peak are progressing smoothly. CSI Properties has sold 10 units at Dukes Place and 6 units at Infinity. These two lucrative luxury projects should provide the mainstay of its near-term development earnings. The re-opening of the border with Mainland China should facilitate sales of Cadenza in Sheung Shui and the Barker Road luxury house project. The newly acquired Shouson Hill luxury project should augment its short-term development profit. Elsewhere, Lai Sun Yuen Long Centre and Kwu Tung agricultural lots are expected to be developed into residential units after the payment of land premium.

Valuation:

Our target price is based on an 80% 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.

At A Glance

Issued Capital (m shrs)	9,515
Mkt Cap (HKm/US\$m)	1,751 / 223
Major Shareholders (%)	
Chung (Cho Yee Mico)	55.3
Free Float (%)	44.7
3m Avg. Daily Val. (US\$m)	0.07
GICS Industry: Real Estate / Real Estate Management & Development	



Watchlist the stock on Insights Direct to receive prompt updates



CSI Properties

WHAT'S NEW

Significant revaluation gains on reclassifying In Point Shopping Mall as an investment property

Following the completion of upgrading works and repositioning exercise, the rental value of In Point Shopping Mall in Shanghai has significantly increased with improved tenant mix. Currently, the mall is 70% let. When fully let, In Point Shopping mall is estimated to generate annual rental income of Rmb90-100m. Besides, CSI Properties is also contemplating taking some steps to enhance the rental yield of Richgate Plaza in the Xintiandi area of Shanghai. Recently, the company decided to reclassify these two retail properties in Shanghai as investment properties which are held for long-term rental. As such, the company will record substantial revaluation gains of HK\$1.3bn, mainly from In Point Shopping Mall arising from sharply improved rental value, in FY22. This should in turn give a boost to its bottom-line earnings.

FOCO, the newly built commercial property in Central, is 50% leased to F&B outlets. With GFA of 32,000sf, FOCO should yield annual rental income of HK\$30m when fully leased.

Near-term, development income should stem from the sale of Dukes Place at Jardine's Lookout, Infinity on the Peak and Cadenza in Sheung Shui. CSI Properties has sold ten apartments at Dukes Place for HK\$1.94bn or c.HK\$68,000psf on average. Profit from eight apartments sold were recognised in FY21, with the remaining two to be booked in 2HFY22. CSI Properties has a 60% stake in this luxury development which is estimated to offer fat pre-tax margin of >40%. CSI Properties has also sold six refurbished units at 65%-owned Infinity on the Peak. Elsewhere, the company is currently redeveloping a house at this project which will provide GFA of 9,000sf upon scheduled completion in 2023.

In Jan-22, CSI Properties and CC Land acquired respective stakes of 8% and 32% in a luxury project in Shouson Hill (RBL 1198) from Mr.Hui, Shima Group's Chairman. The acquisition values this newly completed project at >HK\$50,000psf. Emperor International and Mingfa Group hold 40% and 20% stakes in this development which offers 15 luxurious houses. When sold, this luxury development would add to the company's near-term earnings.

In 2H21, CSI Properties obtained approval from the Town Planning Board for the redevelopment of its 50%-held Lai

Sun Yuen Long Centre. Subject to the payment of land premium, this industrial building will be redeveloped for residential use with 828 units.

Elsewhere, in-situ land exchange application for agricultural land lots in Kwu Tung has been accepted by the government. CSI Properties has a 40% stake in these plots with the balance held by Asia Standard. In late March, the government announced to extend the standardisation of land premium assessment for land exchange in Kwu Tung and Fanling North NDAs including the above-mentioned project. Subject to the land premium payment, this joint venture development will provide total GFA of >0.9msf upon project completion.

Coupled with the Novotel hotel redevelopment and Wong Chuk Hang Station Package 5, they would provide the mainstay of the company's development income over the medium to long term.

YTD, CSI Properties has repurchased 27.4m shares for HK\$5.6m or HK\$0.207/sh. In FY22, the company bought back 117m shares for HK\$28.2m or HK\$0.241/sh. Continued share buybacks not only signals the stock's strong embedded value but also limits the downside risk on share price.

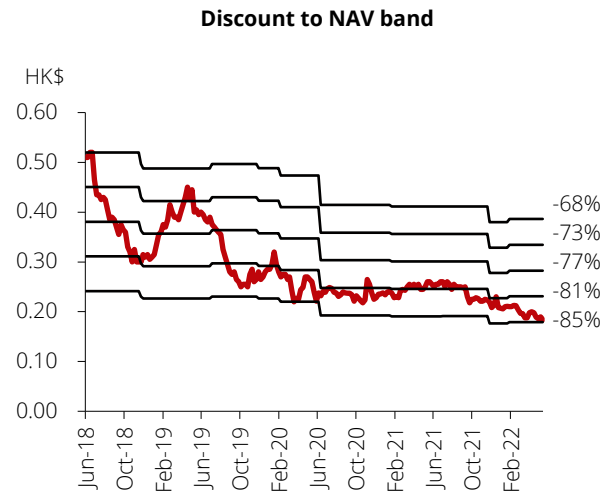
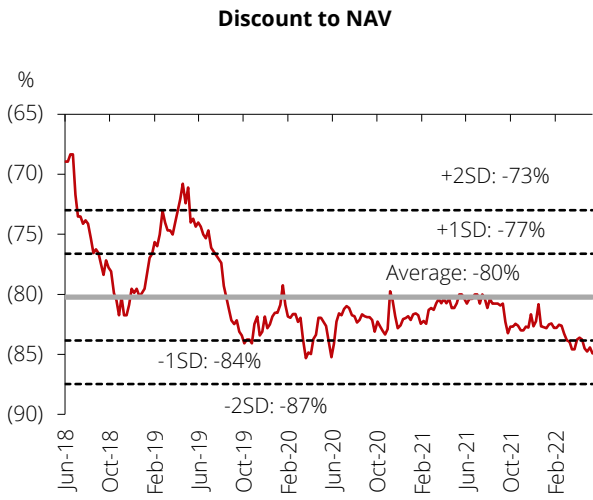
The stock is trading at 86% discount to our appraised current NAV. Such a low valuation, coupled with continued share repurchase, should lend support to its share price. Ongoing luxury home sales should unlock its NAV, thus narrowing its discount to NAV. Maintain BUY with HK\$0.28 TP, based on target discount of 80% to our Dec-2022 NAV estimate.

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	0	5

Source: DBS HK

Segmental Breakdown (HK\$ m)

FY Mar	2020A	2021A	2022F	2023F	2024F
Revenues (HK\$ m)					
Property rental income	212	227	216	244	341
Property sales income	3,498	142	170	892	1,041
Total	3,710	369	386	1,137	1,383

Source: DBS HK

Income Statement (HK\$ m)

FY Mar	2020A	2021A	2022F	2023F	2024F
Turnover	3,710	369	386	1,137	1,383
EBITDA	1,111	493	302	497	574
Depr / Amort	(34)	(35)	(37)	(39)	(41)
EBIT	1,077	458	264	458	533
Associates Inc	402	247	70	286	576
Interest (Exp)/Inc	(171)	(260)	(291)	(335)	(395)
Exceptionals	0	0	1,300	0	0
Pre-tax Profit	1,309	444	1,344	409	714
Tax	(65)	(26)	(90)	(20)	(23)
Non-controlling Interest	2	2	(11)	(6)	(6)
Holders of Perpetual Securities	(90)	(90)	(73)	(37)	0
Net Profit	1,156	331	1,170	345	685
Sales Gth (%)	8	(90)	5	194	22
Net Profit Gth (%)	118	(71)	254	(70)	98
EBITDA Margins (%)	30	134	78	44	41
EBIT Margin (%)	29	124	68	40	39
Tax Rate (%)	5	6	7	5	3

Source: DBS HK

CSI Properties

Balance Sheet (HK\$ m)

FY Mar	2020A	2021A	2022F	2023F	2024F
Fixed Assets	297	262	1,525	1,486	1,445
Long-term Investments	0	0	0	0	0
Other LT Assets	386	322	322	322	322
Associates/JVs	9,746	12,513	14,114	14,324	13,943
Bank Balance/Cash & Liquid	2,675	1,501	2,862	2,221	3,284
ST Investments	2,172	1,521	1,521	1,521	1,521
Inventory	11,503	12,179	8,693	8,597	9,058
Debtors	319	346	296	256	245
Other Non Cash Current	13	0	0	0	0
Total Assets	27,113	28,644	29,334	28,727	29,819
ST Debt	1,812	3,574	1,502	1,200	1,200
Creditors	346	578	618	658	698
Other Current Liab	989	1,146	1,146	1,146	1,146
LT Debt	9,440	8,365	10,237	10,939	11,339
Deferred Tax Liabilities	20	28	28	28	28
Other LT Liabilities	46	82	82	82	82
Perpetual Securities	1,539	1,539	1,321	0	0
Non-controlling Interests	36	34	45	51	57
Shareholder's Equity	12,884	13,298	14,355	14,623	15,269
Total Cap. & Liab.	27,113	28,644	29,334	28,727	29,819
Share Capital (m)	9,815	9,649	9,420	9,372	9,372
Net Cash/(Debt)	(8,577)	(10,438)	(8,877)	(9,918)	(9,255)
Working Capital	13,536	10,249	10,106	9,591	11,065
Net Gearing (%)	59	70	57	68	61

Source: DBS HK

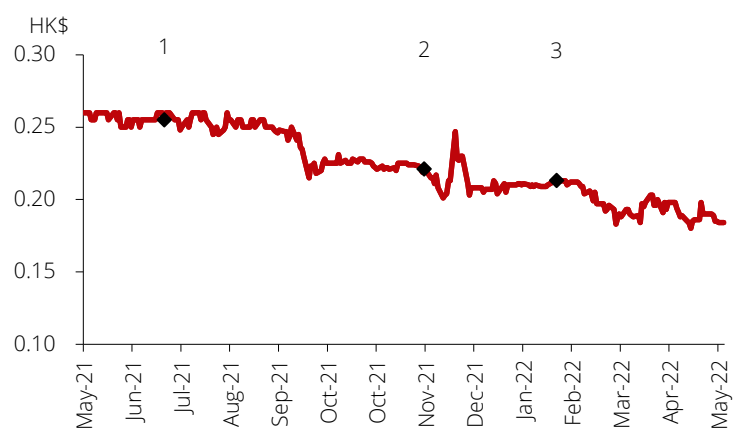
Cash Flow Statement (HK\$ m)

FY Mar	2020A	2021A	2022F	2023F	2024F
EBIT	1,077	458	264	458	533
Tax Paid	(14)	(42)	(90)	(20)	(23)
Depr/Amort	34	35	37	39	41
Chg in Wkg.Cap	372	(229)	76	176	(410)
Other Non-Cash	(564)	238	15	15	15
Operating CF	905	460	303	668	156
Net Capex	(523)	(20)	0	0	0
Investments	47	14	0	0	0
Associates & JVs	(353)	(2,199)	254	76	957
Associates' Dividends	602	1	0	0	0
Others	257	260	1,642	(37)	0
Investing CF	30	(1,944)	1,896	39	957
Net Chg in Debt	948	604	(200)	400	400
New Capital	(97)	(72)	0	0	0
Dividend	(71)	(52)	(41)	(40)	(39)
Other Financing CF	(453)	(203)	(597)	(1,708)	(410)
Financing CF	327	278	(838)	(1,348)	(49)
Chg in Cash	1,262	(1,206)	1,361	(641)	1,063

Source: DBS HK

CSI Properties

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	29-Jun-21	HK\$0.260	HK\$0.345	Buy
2:	25-Nov-21	HK\$0.219	HK\$0.34	Buy
3:	9-Feb-22	HK\$0.210	HK\$0.335	Buy

Source: DBS HK

Analyst: Jeff Yau

CSI Properties

DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

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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