

CSI Properties

Bloomberg: 497 HK Equity | Reuters: 0497.HK

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DBS Group Research . Equity

30 Jun 2022

BUY

Last Traded Price (29 Jun 2022): HK\$0.198 (HSI : 21,997)
Price Target 12-mth: HK\$0.278 (40% upside) (Prev HK\$0.28)

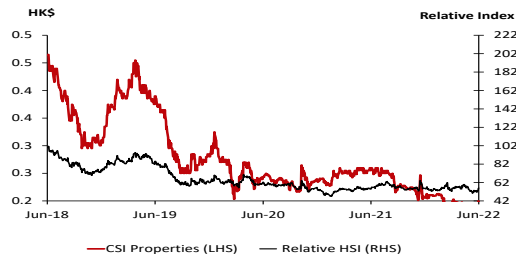
Analyst

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What's New

- FY22 net profit jumped to HK\$1.16bn, in line with profit alert issued earlier
- Recognised hefty gains on stake disposal of Novotel Hotel redevelopment and fair value surplus on transfer of two retail malls in Shanghai to investment properties
- Residential sales to drive near-term earnings
- BUY with HK\$0.278 TP

Price Relative



Forecasts and Valuation

FY Mar (HK\$ m)	2021A	2022A	2023F	2024F
Turnover	369	420	1,184	1,431
EBITDA	339	250	600	678
Pre-tax Profit	444	1,335	513	820
Net Profit	331	1,156	433	774
Net Profit Gth (%)	(71.4)	249.5	(62.6)	78.8
EPS (HK\$)	0.03	0.12	0.05	0.08
EPS Gth (%)	(70.9)	257.6	(62.3)	78.8
PE (X)	5.8	1.6	4.3	2.4
P/Cash Flow (X)	3.8	1.3	2.3	6.6
EV/EBITDA (X)	32.4	43.9	18.3	16.2
DPS (HK cts)	0.42	0.42	0.42	0.99
Div Yield (%)	2.1	2.1	2.1	5.0
Net Gearing (%)	70	50	59	51
ROE (%)	2.3	7.6	2.8	5.1
Est. NAV (HK\$):			1.3	1.4
Disc. to NAV (%)			(85)	(86)

Earnings Rev (%): 25 13
Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Residential sales to underpin earnings.

Investment Thesis

BUY with HK\$0.278 TP. The stock trades 85% below our appraised current NAV. The current low stock valuation, should support its share price. Residential sales should unlock its NAV, providing upside on stock.

Strong revaluation gains on reclassifying two shopping malls in Shanghai into investment properties. After the completion of extensive upgrading works, the rental at In Point Shopping Mall in Shanghai has sharply improved. CSI Properties retains this upgraded mall as well as Richgate Plaza, another shopping malls in Shanghai, for long-term rental. The reclassification of these two malls into investment properties resulted significant fair value gains of HK\$1.28bn in FY22, which, however, was offset by the unrealized losses of HK\$629m on financial assets.

Residential sales to drive the profit growth. Sales at Dukes Place at Jardine's Lookout and Infinity on the Peak are progressing smoothly. CSI Properties has sold 11 units at Dukes Place and 6 units at Infinity. Newly acquired Shouson Hill luxury project will go on sale soon. These luxury projects should dominate the company's near-term development earnings. The Novotel Hotel redevelopment in Jordan and two residential joint ventures at Yau Tong and Wong Chuk Hang MTR Stations are also anticipated to go on pre-sale in mid-23. 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 Jun-2023 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)	9,372
Mkt Cap (HKm/US\$m)	1,856 / 236
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	



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CSI Properties**WHAT'S NEW****Hefty fair value gains on transferring two malls in Shanghai to investment properties**

CSI Properties' FY22 net profit more than tripled to HK\$1.16bn mainly driven by significant revaluation gains upon the reclassification of two shopping malls in Shanghai to investment properties and hefty gains on stake disposal in the Novotel Hotel Redevelopment. This was partially offset by realised and unrealised losses on financial assets and property provisions. The results came as no surprise to the market as the company had issued a profit alert earlier this year. Final DPS stayed flat at HK\$0.0042.

In Sep-21, CSI Properties divested a 49% stake in Novotel Hotel redevelopment to a Canadian fund and a minority partner for HK\$1.715bn with disposal gains of HK\$742m. Foundation works of this redevelopment project is in progress. Upon scheduled project completion in 2025, it will provide GFA of >0.25msf. Pre-sale of residential portion is expected in mid-23. Elsewhere, the residential joint venture projects at Yau Tong and Wong Chuk Hang MTR Stations are also anticipated to go on pre-sale around mid-23.

The company also booked revaluation surplus of HK\$1.28bn, mainly from reclassifying In Point Shopping Mall in Shanghai from property held for sale into investment property. Rental value of this retail property has substantially improved after the completion of extensive renovation.

Elsewhere, CSI booked a mark-to-market valuation loss of HK\$629m in FY22. Its financial asset has market value of HK\$655m as of Mar-22. (Sep-21: HK\$1.7bn)

In May-22, CSI Properties sold a triplex (4,207sf) on the ground floor in Dukes Place at Jardines' Lookout for HK\$334m or HK\$80,000psf. This is the most expensive unit at this luxury development in terms of unit price. Since its initial launch in Jan-20, CSI Properties has sold 11 units for HK\$2.3bn. The company will launch the remaining units for

sale via tender in the future. This, coupled with Infinity on the Peak, should dictate the near-term development earnings.

With GFA of c.32,000sf, the newly built FOCO in Central has been substantially let to F&B and lifestyle tenants. Following the completion of substantial enhancement works, Harbourside HQ in Kowloon Bay is now targeting high-yielding tenants from banking, TMT and insurance.

In Mar-22, consolidated net debt stood at HK\$7.83bn, down from Sep-21's HK\$8.58bn. This represented 27% of total assets. Its off-balance sheet debt reached HK\$8.5bn. (Sep-21: HK\$8.42bn)

In FY22, CSI Properties has bought back 117m shares for HK\$28.2m or HK\$0.241/sh on average. This signalled the stock's strong embedded value.

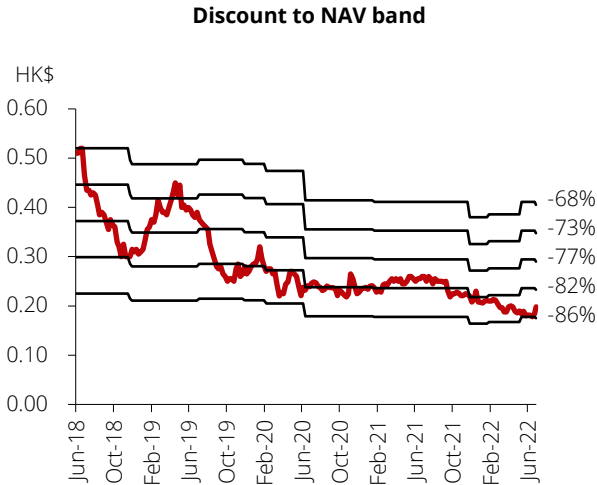
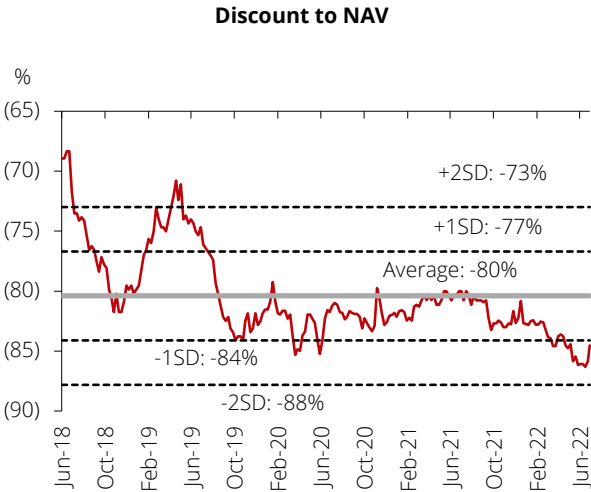
Meanwhile, the stock, trading at 85% discount to our assessed current NAV, is attractively valued. Continued sales of its lucrative luxury developments should help to unlock its NAV, providing upside on stock. Thus we maintain our BUY rating with HK\$0.278 TP premised on 80% discount to our Jun-2023 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

Result Summary

FY Mar (HK\$m)	FY21	FY22	% Chg	Comments
Revenue	368.7	420.5	14	
Cost of sales and services	(132.4)	(389.1)	194	
Gross Profit	236.3	31.3	(87)	
Income from investments	229.2	83.4	(64)	
Losses from investment	19.6	(570.9)	N.A.	FY22: Included net realised and unrealised losses of HK\$678.4m (FY21: gains of HK\$81.7m) on financial assets
Other income	197.6	274.5	39	
Fair value gain on transfer of properties held for sale to investment properties	0.0	1,281.3	N.A.	FY22: mainly from reclassifying In Point and Richgate Plaza in Shanghai from properties held for sale to investment properties
Other gains and losses	30.8	720.0	2,241	FY22: mainly from disposal of 49% equity interests in Novotel Hotel
Administrative expenses	(240.3)	(267.1)	11	
Finance costs	(275.3)	(310.5)	13	
Share of results of JVs	246.1	116.0	(53)	FY21: mainly from Dukes Place at Jardines' Lookout
Share of results of associates	0.5	(22.8)	N.A.	
Profit before tax	444.5	1,335.2	200	
Income tax expense	(26.0)	(97.1)	274	
Non-controlling interests	2.0	(8.5)	N.A.	
Perpetual securities	(89.7)	(73.4)	(18)	
Net profit	330.8	1,156.2	250	
Total DPS (HK\$)	0.0042	0.0042	0	

Source: CSI Properties

CSI Properties

Key Assumptions (%)

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

Source: DBS HK

Segmental Breakdown (HK\$ m)

FY Mar	2020A	2021A	2022A	2023F	2024F
Revenues (HK\$ m)					
Property rental income	212	227	249	292	389
Property sales income	3,498	142	171	892	1,041
Total	3,710	369	420	1,184	1,431

Source: DBS HK

Income Statement (HK\$ m)

FY Mar	2020A	2021A	2022A	2023F	2024F
Turnover	3,710	369	420	1,184	1,431
EBITDA	1,111	339	250	600	678
Depr / Amort	(34)	(35)	(36)	(37)	(39)
EBIT	1,077	304	215	563	639
Associates Inc	402	247	93	286	576
Interest (Exp)/Inc	(171)	(106)	(254)	(335)	(395)
Exceptionals	0	0	1,281	0	0
Pre-tax Profit	1,309	444	1,335	513	820
Tax	(65)	(26)	(97)	(38)	(40)
Non-controlling Interest	2	2	(8)	(6)	(6)
Holders of Perpetual Securities	(90)	(90)	(73)	(37)	0
Net Profit	1,156	331	1,156	433	774
Sales Gth (%)	8	(90)	14	182	21
Net Profit Gth (%)	118	(71)	250	(63)	79
EBITDA Margins (%)	30	92	60	51	47
EBIT Margin (%)	29	82	51	48	45
Tax Rate (%)	5	6	7	7	5

Source: DBS HK

CSI Properties

Balance Sheet (HK\$ m)

FY Mar	2020A	2021A	2022A	2023F	2024F
Fixed Assets	297	262	3,855	3,818	3,778
Long-term Investments	0	0	0	0	0
Other LT Assets	386	322	414	414	414
Associates/JVs	9,746	12,513	13,232	13,441	13,061
Bank Balance/Cash & Liquid	2,675	1,501	3,479	2,988	4,138
ST Investments	2,172	1,521	405	405	405
Inventory	11,503	12,179	7,301	7,205	7,666
Debtors	319	346	305	265	254
Other Non Cash Current	13	0	2	2	2
Total Assets	27,113	28,644	28,993	28,538	29,719
ST Debt	1,812	3,574	2,291	1,200	1,200
Creditors	346	578	598	638	678
Other Current Liab	989	1,146	1,131	1,131	1,131
LT Debt	9,440	8,365	9,018	10,509	10,909
Deferred Tax Liabilities	20	28	148	148	148
Other LT Liabilities	46	82	0	0	0
Perpetual Securities	1,539	1,539	1,257	0	0
Non-controlling Interests	36	34	42	48	54
Shareholder's Equity	12,884	13,298	14,508	14,864	15,598
Total Cap. & Liab.	27,113	28,644	28,993	28,538	29,719
Share Capital (m)	9,815	9,649	9,431	9,372	9,372
Net Cash/(Debt)	(8,577)	(10,438)	(7,830)	(8,721)	(7,971)
Working Capital	13,536	10,249	7,471	7,895	9,456
Net Gearing (%)	59	70	50	59	51

Source: DBS HK

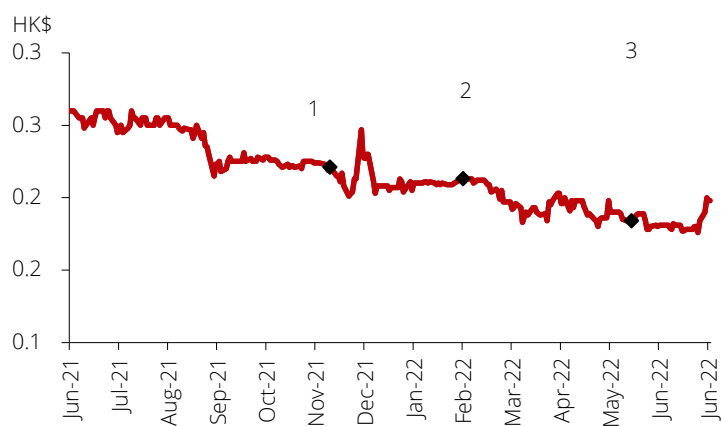
Cash Flow Statement (HK\$ m)

FY Mar	2020A	2021A	2022A	2023F	2024F
EBIT	1,077	304	215	563	639
Tax Paid	(14)	(42)	(97)	(38)	(40)
Depr/Amort	34	35	36	37	39
Chg in Wkg.Cap	372	(229)	76	176	(410)
Other Non-Cash	(564)	392	1,133	15	15
Operating CF	905	460	1,363	754	243
Net Capex	(523)	(20)	0	0	0
Investments	47	14	0	0	0
Associates & JVs	(353)	(2,199)	260	76	957
Associates' Dividends	602	1	0	0	0
Others	257	260	1,642	(37)	0
Investing CF	30	(1,944)	1,902	39	957
Net Chg in Debt	948	604	(630)	400	400
New Capital	(97)	(72)	0	0	0
Dividend	(71)	(52)	(41)	(40)	(39)
Other Financing CF	(453)	(203)	(602)	(1,644)	(410)
Financing CF	327	278	(1,272)	(1,284)	(49)
Chg in Cash	1,262	(1,206)	1,993	(491)	1,150

Source: DBS HK

CSI Properties

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	25-Nov-21	HK\$0.219	HK\$0.34	Buy
2:	9-Feb-22	HK\$0.210	HK\$0.335	Buy
3:	16-May-22	HK\$0.184	HK\$0.280	Buy

Source: DBS HK

Analyst: Jeff Yau, CFA

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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