

China / Hong Kong Company Guide

CSI Properties

Version 1 | Bloomberg: 497 HK Equity | Reuters: 0497.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

31 May 2018

BUY (initiate)

Last Traded Price (31 May 2018): HK\$0.510 (HSI : 30,469)

Price Target 12-mth: HK\$0.64 (25% upside)

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Price Relative



Forecasts and Valuation

FY Mar (HK\$ m)	2017A	2018F	2019F	2020F
Turnover	1,868	3,881	3,937	2,800
EBITDA	1,567	917	1,806	1,378
Pre-tax Profit	1,367	1,072	1,410	2,246
Net Profit	1,347	988	1,076	2,022
Net Profit Gth (%)	(18.1)	(26.7)	8.9	87.9
EPS (HK cts)	13.42	9.84	10.72	20.14
EPS (HK\$)	0.13	0.10	0.11	0.20
EPS Gth (%)	(15.2)	(26.7)	8.9	87.9
PE (X)	3.8	5.2	4.8	2.5
P/Cash Flow (X)	nm	40.6	3.0	nm
EV/EBITDA (X)	12.7	21.7	11.0	14.5
DPS (HK cts)	1.62	1.18	1.29	2.42
DPS (HK\$)	0.02	0.01	0.01	0.02
Div Yield (%)	3.2	2.3	2.5	4.7
Net Gearing (%)	67	71	62	56
ROE (%)	13.2	8.3	7.9	13.5
Est. NAV (HK\$):			1.6	1.8
Disc. to NAV (%)			(69)	(72)
Earnings Rev (%):		NEW	NEW	NEW
Consensus EPS (HK\$):		N/A	N/A	N/A
Other Broker Recs:		N/A	N/A	N/A

Source of all data on this page: Company, DBSV, Thomson Reuters, HKEX

Small but pretty

- An astute property company with a unique winning formula
- Multiple growth catalysts in place
- Initiating coverage with BUY rating and HK\$0.64 TP

An astute property company with a unique winning formula Under the leadership of the Chairman, Mr. Mico Chung, CSI Properties has been widely recognised as a shrewd property trader in Hong Kong after a series of astute investment decisions throughout the years. The management excels in identifying appropriate property investment opportunities, executing value enhancement initiatives, and making timely decisions in realising the property value, which differentiates the company from its peers and continues to propel its growth.

Multiple growth catalysts in place. CSI Properties increased its property development activities in recent years which should enhance its earnings visibility in the long term. Successful sale/pre-sale of Kau To Highland, COO Residence, 38 Wai Yip Street and 2-4 Shelly Street should have locked in >HK\$1.3bn pre-tax profits for CSI Properties in FY19-20. The company boasts a luxury residential portfolio in superb locations such as The Peak and Jardine's Lookout which should be well sought after by the affluent when offered for sale. CSI Properties is also strengthening its foothold in Central office/commercial market where demand/supply imbalance prevails.

Initiating coverage with BUY rating and HK\$0.64 TP. The stock is trading at 69% discount to our assessed current NAV and PE of 4.8-5.2x for FY18-19. Despite the share price rally this year, valuation remains inexpensive taking into account the company's proven track record of creating shareholders value. The planned launch of its luxury residences should serve as a share price catalyst for the year ahead. The company also stands to benefit from expected office/commercial price appreciation in Central given its growing exposure there. Potential stake increase by major shareholder could cushion the downside risk of share price, if any. Therefore, we initiate coverage on CSI Properties with a BUY rating and TP of HK\$0.64, premised on a 65% discount to Jun-19 NAV estimate.

Valuation:

Our TP is based on 65% discount to our Jun-19 NAV estimate.

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)	10,037.1
Mkt. Cap (HK\$m/US\$m)	5,118.9/652.2
Major Shareholders	
Mr. Mico Chung (%)	49.90
Dalton Investments (%)	6.96
Value Partner (%)	6.91
Free Float (%)	36.23
3m Avg. Daily Val. (US\$m)	0.7

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Investment Summary

A well-recognised property trader with a unique winning formula. Mico Chung, the company's Chairman, took control of CSI Properties in Feb-04. Under the leadership of Mr. Chung, CSI Properties is now reputed to be a shrewd property trader with a string of astute investment decisions made. Throughout the years, the company has established a proven track record of creating shareholders value through identifying appropriate investment opportunities, executing value enhancement initiatives and crystallising asset values.

Property development to enhance earnings visibility. In recent years, CSI Properties has redeployed more resource to property development which should strengthen the company's earnings visibility. With successful sale/pre-sale of Kau To Highland, COO Residence, 2-4 Shelly Street, and 38 Wai Yip Street, we estimate CSI Properties has already locked in development income of over HK\$1.3bn in FY19-20.

An overlooked Central commercial play. CSI Properties has gradually built up an office/commercial portfolio near the Central/Mid-levels escalator system. This makes the company a prime beneficiary of continued commercial price appreciation in Central. The recent launch of 2-4 Shelly Street met with encouraging market response. The nearby office/commercial project at 46-48 Cochrane Street should be equally popular among buyers when offered for pre-sale in 2019 while Graham Street commercial redevelopment, a joint venture with Wing Tai Properties (369.HK), offers good long-term upside.

Luxury portfolio a gem CSI Properties boasts a unique portfolio of super luxury residences in Hong Kong that is set to be well sought after among affluent buyers. The Perkins Road project at Jardine's Lookout is envisaged to be released for sale in late 2018, followed by the phased sale of 8-12 Peak Road refurbishment project. The residential development at 47 Baker Road on the Peak is one of its kind by virtue of its coveted address and unparalleled views. The superb luxury manors in Sheung Shui should also achieve premium pricing. Overall, our analysis suggests that these luxury residences should yield total attributable pre-tax profit of over HK\$2.5bn to CSI Properties.

Concerns over relatively higher financial leverage should not be overdone. Including off-balance sheet debt, CSI Properties' net debt to total asset ratio is close to 40%, which appears higher than the Hong Kong-based developers or landlords. As of Sep-17, the company maintained >HK\$3.8bn as investments held for trading which is very liquid in nature and can be used for debt repayment, if necessary. Hence we should not place too much concern on its financial risk.

Steady dividend payout ratio. In recent years, CSI Properties maintained a relatively stable dividend payout ratio of 12-15%. Based on dividend payout ratio of 12%, we estimate CSI Properties' DPS to be HK\$0.0118, HK\$0.0129, & HK\$0.0242 cents in FY3/18, FY3/19 and FY3/20 respectively, translating into dividend yields of 2.3-4.7%.

Major shareholder casts a vote of confidence over the company's prospects. Throughout the years, Mr. Chung has repeatedly cast his vote of confidence on the company's prospects through raising his stake in the company to the current 49.9%. This signals the strong embedded value of the stock, thus supporting its share price.

Undemanding valuation with multiple catalysts in place. The stock is trading at 69% discount to our assessed current NAV, and PEs of 4.8-5.2x in FY18-19. Valuation is by no means demanding. The planned launch of its luxury residences, if greeted with enthusiastic response, should unlock its NAV, providing upside on the stock. CSI Properties also stands to benefit from continued price appreciation of office/commercial properties in Central given its exposure there. Earnings visibility is set to improve along with growing property development activities. Potential stake increase by major shareholder could cushion potential downside risks on share price.

BUY rating with HK\$0.64 TP. Applying a target discount of 65% to our Jun-2019 NAV estimate, we derive a target price of HK\$0.64 which offers 25% potential upside from the current level. Thus we initiate our coverage on the stock with a BUY rating.

Key investment risks. The company's ability to crystallise asset values with capital recycled to other new investments with better earnings potential plays a crucial role in driving CSI Properties' long-term growth. Any prolonged property market downturn would inevitably lessen its ability to realise the value of its properties held for sale, especially commercial properties. This would affect the company's cash flow and its refinancing ability. To minimise this risk, CSI Properties holds >HK\$3.8bn worth of investments held for trading which is very liquid in nature and could be used for debt repayment, if necessary.

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Strengths

Proven track record on identifying investment opportunities, executing value enhancement initiatives and crystallising asset values.

Redeploying more resources to property development which should enhance the company's earnings visibility.

Boasts a unique and trophy portfolio of super luxury residence in Hong Kong that is set to be well sought after among the affluent.

Weaknesses

CSI Properties' earnings used to be volatile as it derives a meaningful portion of earnings from property trading which is erratic and less predictable.

Including off-balance sheet debt, CSI Properties' net debt to total asset ratio is close to 40%, which appears higher than other Hong Kong-based developers or landlords.

CSI Properties has a market capitalisation of HK\$5bn with an average daily turnover of HK\$4.2m over the previous twelve months. This makes it challenging to attract high institutional following.

Opportunities

CSI Properties has gradually beefed up its office/commercial portfolio near the Central/Mid-levels escalator system. This makes it a prime beneficiary of continued commercial price appreciation in Central.

Threats

Interest rate hikes would drive up capitalisation rate and thus affect valuations of commercial properties.

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

Any prolonged property market downturn would inevitably lessen its ability to realise the value of its properties held for sale, especially commercial properties. This would affect the company's cash flow and its refinancing ability.

Company background

A property trading company primarily focused on prime commercial properties in Hong Kong. Mr. Mico Chung, the current controlling shareholder and Chairman of the company, took control of CSI Properties back in Feb-04 via a purchase of shares from Mr. Choo Yeow Ming, the previous substantial shareholder of the company. The total consideration was HK\$73m for c.29.36% of issued share capital of the company. The company started off as a property trading company that was primarily focused in making strategic property investments in prime commercial property market leveraging on the management's strength in identifying appropriate investment properties, repackaging and repositioning them to improve rental yield.

Expansion into Shanghai and residential projects. The company had intended to pursue strategic investment opportunities in China's commercial property market back in 2005. CSI Properties swiftly established its Shanghai office in Sep-06 and completed their first acquisition of a prime commercial property (International Capital Plaza) in Shanghai, Hongkou district, co-investing with Lehman Brothers, in Apr-07. In Dec-06, the company acquired its first residential project in Tai Tam, which marked the first step of the company's involvement in the residential sector in Hong Kong. Later in 2008, the company acquired two more residential projects in Blue Pool Road and Cape Road.

Establishment of "Couture Home" brand. In 2010, the company established its premium residential property

development brand "Couture Home" to develop prime residential projects. Acquired in 2008, The Hampton on Blue Pool Road was the first residential project under this premium brand. CSI Properties has also made its first residential site acquisition in Qingpu, Shanghai through an equally owned joint venture with Asia Standard in Jun-11. This project was also developed under its "Couture Home" brand.

Acquired land through tenders. In addition to acquiring sites or properties for development/refurbishment through private treaties, CSI Properties has actively participated in land tenders since its first successful bid for a land parcel in Kau To via government tender in May-12. The site was then developed into Kau To Highland which has been completely sold out. In late 2017, CSI Properties secured the development rights of Site C of Graham Street redevelopment in partnership with Wing Tai Properties. This marked its first involvement in a Urban Renewal Authority (URA) project. Furthermore, the company joined hands with Sino Land to win the tender for MTRC's Yau Tong Ventilation Building site in May-18.

Tapping into Macau and Beijing's property markets. In 2014, CSI Properties extended its reach into the Macau market and established its Macau office during the year with the HK\$234m acquisition of Ginza Plaza (subsequently sold for HK\$288m in Oct 14) and two floors of Broadway Centre in downtown Macau. Later in 2017, the company made its foray into Beijing's residential property market through a joint venture with Phoenix Property Investors in the acquisition of a residential project on Jin Bao Street.

Well-established track record on property trading

Properties	Date of purchase	Date of disposal	Month of holding	Purchase price (HK\$m)	Selling price (HK\$m)	Annualised IRR (%)
Paul Y Centre, Kwun Tong	Jan-06	Jun-07	17	780.00	1,150.00	178%
Ginza plaza basement shops, Macau	Jul-14	Oct-14	3	234.33	288.17	171%
Novel Plaza, Shanghai	Oct-07	Aug-08	12	819.00	1,209.00	84%
11/F-23/F Henan Building, Wanchai	Jan-15	Feb-16	13	338.00	496.00	70%
No.88 Gloucester Road	Jun-03	Sep-07	51	196.00	783.00	65%
No. 703-705 Nathan Road	Dec-13	Jul-14	7	830.00	1,062.72	47%
Stanley Street 30, 30A	Apr-08	Nov-09	20	105.00	149.00	45%
No. 14-16 Hankow Road	Apr-07	Aug-11	52	605.00	1,380.00	43%
Golden Center, Shum Shui Po	Dec-12	Aug-14	20	523.00	665.00	26%
H8, Tsim Sha Tsui	Jun-06	Jul-13	85	328.00	668.00	25%

Source: Company, DBS Vickers

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Property development to enhance earnings visibility

In recent years, CSI Properties has been strengthening its property development business. Generally, development earnings are more predictable than property trading profits. Given that property development is becoming an increasingly important earnings platform for CSI Properties in the next couple of years, overall earnings visibility is set to improve.

CSI Properties' residential development division is branded under "Couture Homes" which was formally launched in 2010. Differentiated from other local developers, Couture Homes focuses on building tailor-made and premium lifestyle residential projects, targetting high net-worth end users willing to pay premium pricing for unique design and quality furnishing. Its first development project, The Hampton in Happy Valley, acquired from Nan Fung Group, was a great success. Since its initial launch in 2012, the market response to this upmarket development was spectacular. All eleven luxury units were sold in 2013.

In 2011, the company acquired a greenfield residential site in Causeway Bay through private treaty. The site was then redeveloped into YOO Residence with 144 units of c.400-5,000sf each. All units were fully sold for >HK\$2.5bn.

YOO Residence



Source: DBS Vickers

CSI Properties also acquired residential sites for development via government tenders. Since 2012, CSI Properties successfully acquired three residential sites in Kau To, Tuen Mun and Sheung Shui through government tenders.

Acquired in May-12 for HK\$532m (or HK\$10,551psf), the Shatin low-density site was developed into Kau To Highland. Completed in mid-2015, this luxurious project contains 20 houses. It was initially launched in 2016, and sales momentum has improved remarkably in recent months. All houses were sold, amassing sales proceeds of >HK\$1.7bn with ASP exceeding HK\$30,000psf. This project is the mainstay of near-term development earnings.

COO Residences in Tuen Mun was offered for pre-sale in Sep-17 and market response was enthusiastic. All 204 units were fully pre-sold for >HK\$850m or c.HK\$15,500psf. We forecast apartment sales to generate pre-tax development earnings of c.HK\$150m upon hand-over to the buyers in late 2019.

On the commercial front, strata-titled sale of 38 Wai Yip Street (30%-owned joint venture office development in Kowloon Bay) and 2-4 Shelly Street in Central are making good progress. The successful project sale has enabled CSI Properties to lock in its development profits in FY19-20. This in turn enhances the earnings visibility of the company.

An overlooked Central commercial play

Including the newly acquired Wellington Street redevelopment site, CSI Properties boasts a commercial property portfolio of c.0.3m sf in attributable GFA in Central. This makes it a prime beneficiary of continued commercial price appreciation there.

Most of CSI Properties' commercial projects in Central are conveniently located adjacent to the Central/Mid-levels escalator system with easy accessibility to core Central, Soho area as well as Mid-levels. This greatly enhances the appeal among buyers.

CSI Properties acquired 18 office floors, two ground floor shops and a roof top (GFA: 43,000sf) at Oriental Crystal Commercial Building on Lyhurst Terrace for c.HK\$700m in Dec-16. In 2017, the company offered the office floors for sale on strata-title basis after refurbishment and has since sold or contracted to sell 17 floors already. The selling price has exceeded HK\$20,000psf and has been on an uptrend particularly after URA awarded the redevelopment rights of the Graham Street commercial site in late Oct-17.

Oriental Crystal Commercial Building



Source: DBS Vickers

The company also offered a Ginza-style commercial development (GFA: 40000sf) at 2-4 Shelly Street for pre-sale in Feb-18. Market response has been encouraging with c.60% of space sold already. ASP reached HK\$30,000psf. Buyers included co-working space operators. With pre-tax margins estimated at c.60%, this commercial project should be a profit bonanza upon scheduled completion in FY19/20.

2-4 Shelly Street



Source: DBS Vickers

The URA's Gage Street/Graham Street commercial site marked the company's largest investment in Central. In Oct-17, CSI Properties joined hands with Wing Tai Properties to secure the redevelopment right of this URA project through public tender. Adjacent to Hong Kong's oldest fresh market, this redevelopment project is a 5-minute walk from both Central and Sheung Wan MTR stations. This points to excellent accessibility and hence strong development value. The site will be redeveloped into a mixed-use property complex comprising a Grade A office tower, a hotel and retail shops, providing GFA of 433,516sf. The retail premises will be returned to the URA after completion. Wing Tai Properties and CSI Properties have respective stakes of 65% and 35% in this project.

Graham Street commercial site



Source: DBS Vickers

Luxury portfolio a gem

CSI Properties boasts a unique portfolio of super luxury residences in Hong Kong that is set to be well sought after when launched for sale in the next three years. The company's luxury portfolio has total attributable GFA of c.150,000sf, mostly in traditional luxury areas such as The Peak and Jardine's Lookout.

The Perkins Road project is envisaged to be released onto the market for sale in late 2018, followed by refurbishment project at 8-12 Peak Road. At Jardine's Lookout, there has not been any new supply of luxury apartments for more than three decades. This augurs well for sales response to the Perkins Road project. The 8-12 Peak Road project offers unmatched views of Victoria Harbour and should draw tremendous interest after the extensive refurbishment.

47 & 49 Perkins Road



Source: Company

View from 8-12 Peak Road



Source: DBS Vickers

Over the past six months, luxury market momentum has been gathering stream. Mount Nicholson is a case in point. Not only have take-up rates accelerated but selling prices have also reached new highs. We believe CSI Properties is among the prime beneficiaries of improving demand for super luxury homes.

The residential housing development at 47 Baker Road on The Peak is one of its kind by virtue of its coveted address and unparalleled views. The scarcity of such projects should translate into sky high prices. Besides traditional luxury areas, CSI also develops 5-6 superb luxury manors measuring over 7,000sf in its Sheung Shui site which sits next to the renowned clubs such as the Hong Kong Golf Club. With such product uniqueness, the company should be able to achieve premium pricing.

Moreover, CSI Properties is entitled to 50% of all future profit from the luxury project at 3-6 Genea in Central. Conveniently located near Lan Kwai Fong and core Central, this redevelopment project also offers a tranquil living environment. These features should make it well sought after when the project goes on sale.

3-6 Glenealy



Source: DBS Vickers

Overall, our analysis suggests that these luxury residence projects should yield total attributable pre-tax profit of over HK\$2.5bn to CSI Properties. This has yet to take into account of the Maryknoll House site in Stanley which serves as a long-term land bank.

Various initiatives to exploit property values.

In addition to generating a quick profit from flipping the properties, CSI Properties also spends time to maximise the property values or exploit the sites' potential through various enhancement initiatives. Taking the Ashley Road project as an example, CSI Properties purchased 23-25 and 27 Ashley Road back in 2006. In an attempt to fully exploit the redevelopment potential, CSI Properties had intended to enlarge the sites through acquiring units at the adjacent building. Finally, the company fully consolidated the ownership of 21-21A Ashley Road after acquiring the remaining G/F and 1/F units in Nov-17. Now, CSI Properties has submitted the building plan for the amalgamated sites to the government for approval. The company plans to redevelop these sites into a mixed-use commercial/hotel tower with GFA of c.100,000sf. Since the project is strategically located in the heart of Tsim Sha Tsui, it should command higher values when redeveloped. This suggests substantial value creation.

brands in the future. This should enhance property values and earnings.

Meanwhile, since these properties have yet to realise their full potential, the company is retaining them for rental. Coupled with other properties including Novotel Nathan Road Hotel, CSI Properties enjoys recurrent income of >HK\$300m p.a.

Ashley Road property



Source: DBS Vickers

In Shanghai, CSI Properties plans to reposition In Point shopping mall into double-decker street front stores, similar to Park Lane Street in Tsim Sha Tsui, for yield enhancement. Conversion will be carried out in phases to minimise the business disruption to existing tenants. In our opinion, this initiative should allow the property to better tap the increased shopper traffic following the opening of HKRI Taikoo Hui nearby. This should lead to further price appreciation in the medium term. At the superbly located Richgate Plaza in Xintiandi, CSI Properties intends to refurbish the mall and upgrade the tenant mix by introducing more premium retail

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Joint venture to propel growth

CSI Properties often acquires properties for trading or participates in development projects through joint ventures. Its project partners range from property funds such as Phoenix Property Investors to property developers including Sino Land, Asia Standard International, and Wing Tai Properties. The joint venture arrangement reduces investment risks. More importantly, this enables the company to participate in sizeable projects without stretching its balance sheet

significantly. The Graham Street commercial redevelopment, a JV with Wing Tai Properties, is a case in point. Total investment cost is estimated to exceed HK\$14bn over a development period of 7 years. If CSI Properties develops on its own instead of partnering with Wing Tai Properties, this would be a burden on its balance sheet until the project bears fruit. A diversified base of joint venture partners also allows the company to better extend its reach to good quality projects which is crucial to its long term growth.

Key joint venture projects

Projects	Location	Stake (%)	Use	Types	Project Partners
38 Wai Yip Street	Kowloon Bay	30	O	Development properties	Billion Development & Sino Land
Graham Street redevelopment	Central	35	O/H/C	Development properties	Wing Tai Properties
Yau Tong Ventilation Building site	Yau Tong	20	R	Development properties	Sino Land
47 & 49 Perkins Road	Jardine's Lookout	60	R	Development properties	Asia Standard & Grosvenor
8-12 Peak Road	The Peak	65	R	Properties held for sale	Phoenix Proeprty Investors
Queen's Gate	Shanghai	50	R	Developemnt Properties	Asia Standard
Beijing Legend residential units	Beijing	65	R	Properties held for sale	Phoenix Proeprty Investors

Source: Company, DBS Vickers

Earnings recovery on the horizon

In 1HFY3/18, CSI Properties recorded net profit of HK\$214m, up 72% y-o-y. For the full year, we forecast CSI Properties' net profit to be HK\$988m, down 27% as its FY3/17 earnings were boosted by strong gains from the sale of J Plus Hotel. Disposal of the Wan Chai Road and Glenealy sites, and five office floors at Enterprise Square Three should yield a total attributable profit of over HK\$700m in 2HFY3/18. Besides, the majority of profits from the sale of office floors at Oriental Crystal Commercial Building should also be recognised in 2HFY3/18.

Moving into FY3/19, Kau To Highland and 2-4 Shelly Street are among the key profit contributors. Between the two, 2-4 Shelly Street should be very lucrative given its low land cost. Coupled with the gains from the disposal of Electric Road commercial site, this leads us to project 9% earnings growth for FY3/19. Equally important, a significant portion of our projected development profits are already locked-in through project pre-sales.

COO Residence in Tuen Mun and 38 Wai Yip Street (an office project in Kowloon Bay co-developed with Billion Development and Sino Land) will take centre stage in FY3/20. Elsewhere, its lucrative luxury property portfolio such as the Perkins Road and Peak Road refurbishment projects should also start to contribute. Even without taking into account of potential property trading profits, we forecast CSI Properties' net profit to grow by another 88% in FY3/20.

In recent years, the company has maintained a relatively stable dividend payout ratio at 12-15%.

Based on dividend payout ratio of 12%, we estimate CSI Properties' DPS to be HK\$0.0118, HK\$0.0129, & HK\$0.0242 in FY3/18, FY3/19 and FY3/20 respectively, translating into dividend yields of 2.3-4.7%.

Financial Position

As of Sep-17, CSI Properties had total borrowings of HK\$10.88bn including c.US\$355m worth of notes. Cash on hand and bank balance amounted to HK\$2.54bn. This translated into net debt of HK\$8.34bn which represented 34.8% of total assets. If we included the off-balance sheet debt of HK\$3.74bn, net debt-to-total asset ratio stood at c.37.4%.

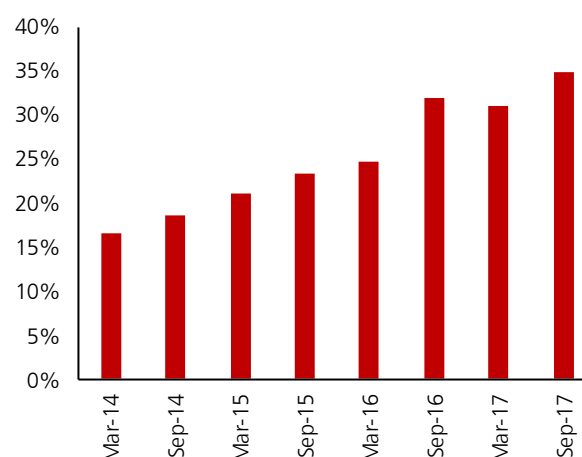
The company redeemed the US\$105m notes due Jan-18 which carried coupon rate of 6.5% p.a. with the proceeds from the issue of senior perpetual capital securities. In Sep-17, CSI Properties issued US\$200m 5.75% senior perpetual capital securities. The securities has no fixed maturity and are callable at the option of CSI Properties in Sep-22, after which the distribution rate will be reset every five years to the sum of

1) 5-year US Treasury Benchmark Rate, 2) initial spread of 4.005%, and 3) step-up margin of 3%. This issue has further diversified the company's funding channel, and should be positive to its long-term growth.

Besides, CSI Properties had US\$250m notes which carries an interest rate of 4.875% p.a. and are due in Aug-21.

Overall, CSI Properties has a relatively higher financial leverage (that is crucial for driving its growth) than other Hong Kong-based developers and landlords. As of Sep-17, the company maintained >HK\$3.8bn as investments held for trading as of Sep-18 which is very liquid in nature and can be used for debt repayment, if necessary. Hence we should not place too much concern on its financial risk.

Net debt to total asset ratio



Source: Bloomberg, DBS Vickers

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Valuation

Based on sum-of-the parts (SOTP) valuation, we estimate CSI Properties' current net asset value (NAV) at HK\$16.5bn or HK\$1.64/sh. We applied the discount cash flow model to value development properties and used market prices for comparable transactions to value properties held for sale.

Current NAV estimate

	HK\$m	% of GAV
HK		71
Residential	7,579	24
Office	7,379	23
Retail	3,194	10
Hotel	4,158	13
Industrial	520	2
Other	0	0
Farmland	0	0
China	5,352	17
Overseas	81	0
Listed investments	3,877	12
Others	71	0
Gross Asset Value	32,211	100
Net debt	(15,721)	
Net Asset Value	16,490	
NAV (HK\$sh)	1.64	

Source: DBS Vickers

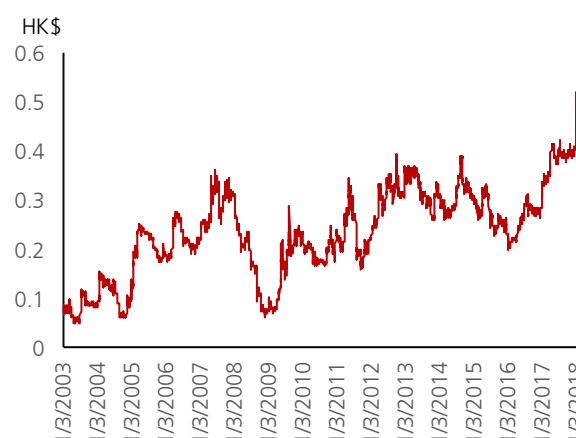
Properties held for sale and development properties represent 39% and 47% the company's gross asset value (GAV). Moreover, investments held for trading account for 12% of its gross worth.

In terms of geography, Hong Kong assets make up 81% of the company's GAV (excluding investments held for trading) with the remaining balance primarily contributed from Shanghai and Beijing.

Our analysis also suggests that every 10% appreciation in office, retail, and residential prices in Hong Kong adds 2.9%, 2.5% and 3.9% to its NAV respectively.

Mr. Mico Chung acquired a 29.47% stake in the company in Feb-04. Since then, the share price of CSI Properties has continued to climb and reached a high in mid-2007. Starting from 2H07, its share price started to drift down. With the outbreak of Global Financial Crisis (GFC), its share price tumbled >80% to trade at a near-historical low of HK\$0.064 in Dec-08. With the recovery post GFC, the shares regained lost ground. Between 2012 and 2015, the shares traded sideways within HK\$0.2 and HK\$0.4. From Apr-16, the share price of CSI Properties resumed its uptrend and reached a new high at HK\$0.56 in Apr-18. YTD, its share price has gained c.26%.

Share price performance



Source: Bloomberg, DBS Vickers

Throughout the years, Mr. Chung has repeatedly demonstrated his vote of confidence on the company's prospects through raising his stake in the company.

Since late Mar-18, Mr. Chung accumulated a total of 200.3m shares (or c.1.9% stake) in the open market for c.HK\$104m or HK\$0.521/sh bringing his stake to 49.9%. This underpins strong support to CSI Properties' share price.

The stock is trading at 69% discount to our appraised current NAV, and at PEs of 4.8-5.2x for FY18-19. Valuation is inexpensive particularly taking into account the company's proven track record of creating shareholder value. Moreover, CSI Properties has been growing its property development business which should enhance the company's earnings visibility over the long term, and warrant a higher stock valuation.

The planned launch of its luxury residences at Jardine's Lookout and The Peak should be well received given the scarcity value of projects in the area. This should serve as a share price catalyst. With growing office/commercial exposure in Cental, CSI Properties is set to be a prime beneficiary of continued office/commercial price appreciation there. Potential further stake increases by Mico Chung could offer downside risk protection to its share price. Therefore, we initiate our coverage on CSI Properties with a BUY rating. Our TP of HK\$0.64 is derived by applying a target discount of 65% to our Jun-19 NAV estimate. This suggests 25% upside potential from the current level.

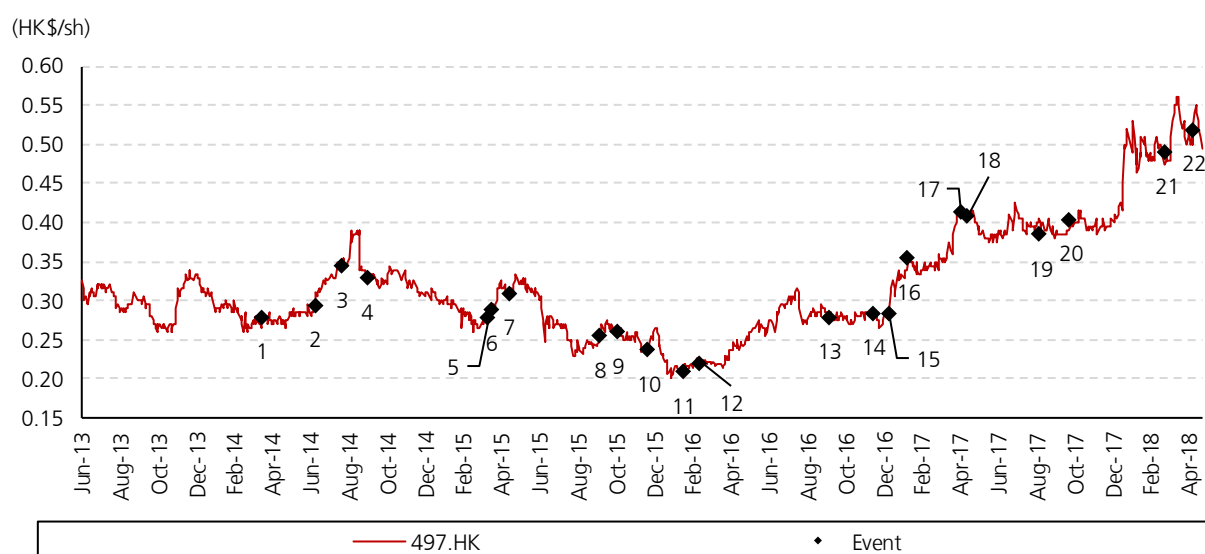
Key investment risks. The company's ability to crystallise asset values with capital recycled to other new investments with better earnings potential plays a crucial role in driving CSI Properties' long-term growth. Any prolonged property market downturn would inevitably lessen its ability to realise the value of its properties held for sale, especially the commercial

properties. This would affect the company's cash flow and its refinancing ability. To minimise this risk, CSI Properties holds >HK\$3.8bn investments held for trading which are very liquid in nature and could be used for debt repayment, if necessary.

Company Guide

CSI Properties

Key events vs CSI Properties' share price



Event

- 1 The company repurchased shares
- 2 The company repurchased shares
- 3 Won the government tender for a residential/Commercial site in Tuen Mun for HK\$427m
- 4 Major shareholder Mico Chung raised his stake in the company
- 5 Disposed Henan Building in Wanchai to a private investor who is also a director of CSI for HK\$510m
- 6 Acquired a residential site in Sheung Shui through government tender
- 7 Acquired an office site at Kowloon Bay (NKIL 6313) together with Billion Development and Sino Land via government tender
- 8 Acquired 65% stake at 8-12 Peak Road
- 9 Consolidated ownership of Novotel Nathan Road hotel
- 10 The company repurchased shares
- 11 Acquired 50% stake in the 232 Wan Chai Road site
- 12 Acquired 46 & 48 Cochrane Street in Central for redevelopment.
- 13 Acquired 50% stake in 44 Stanley Village Road
- 14 Acquired Oriental Crystal Commercial Building in Central
- 15 Disposed several properties in Causeway Bay including J Plus Hotel, properties on Pennington Street, and a shop on Keswick Street for HK\$1.7bn.
- 16 Major shareholder Mico Chung raised his stake in the company
- 17 Acquired 65% interest in Beijing Legendale Residential units for Rmb1.76bn
- 18 Acquired a site at Electric Road, Tin Hau for redevelopment
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- 22 Sino Land and CSI formed a JV and won the tender for the MTR Yau Tong Ventilation Building site.

Source: Company, DBS Vickers

CRITICAL FACTORS TO WATCH

Critical Factors

CSI Properties' share price performance is positively correlated with its NAV, which reflects how the company creates shareholder value through proactive and timely investments in the property market.

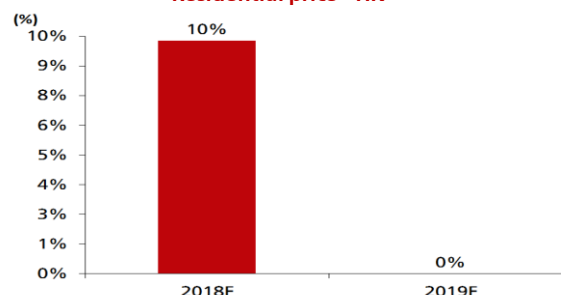
After securing the redevelopment rights of Gage Street/Graham Street mixed use project and acquiring the majority stake in a commercial building on Wellington Street, we estimate Central portfolio makes up of 20% of the company's GAV. In recent months, strata-titled sales of Oriental Crystal Commercial Building and 2-4 Shelly Street have been proceeding well which would play a crucial role in determining the company's bottom line earnings. Given supply/demand imbalance, office prices in Central continue to appreciate, which is positive to CSI Properties. We believe another office/commercial development at 46-48 Cochrane Street would also be well sought after when offered for sale in 2019.

Besides, CSI Properties is well poised to tap on the robust demand for luxury homes. CSI Properties plans to launch its Perkins Road luxury development in late 2018 followed by the sale of the refurbished 8-12 Peak Road in 2019. The super luxurious house at 47 Baker Road on The Peak should be well sought after by the affluent given its scarcity. The expected favourable responses to the launch of these luxury homes should improve the sentiment towards the stock.

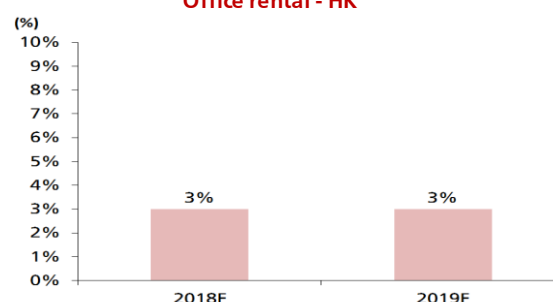
The sale/pre-sale of Kau To Highland, COO Residences, 38 Wai Yip Street and 2-4 Shelly Street have met with enthusiastic responses. We estimate CSI Properties has locked in development profit of over HK\$1.3bn for FY19-20. In recent years, CSI Properties allocated more resources towards property development which should improve the earnings visibility and predictability. This should in turn warrant a higher stock valuation.

KEY ASSUMPTION

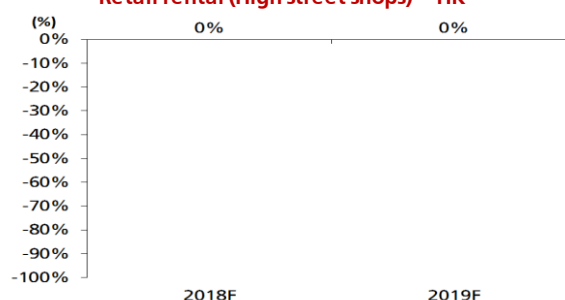
Residential price - HK



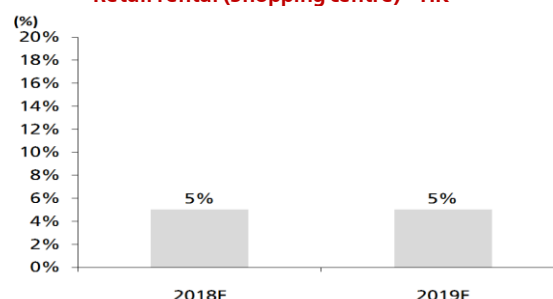
Office rental - HK



Retail rental (High street shops) - HK



Retail rental (Shopping centre) - HK



Source: Company, DBS Vickers

Company Guide

CSI Properties

Balance Sheet:

As of Sep-17, CSI Properties had total borrowings of HK\$10.88bn including c.US\$400m worth of notes. Cash on hand and bank balance amounted to HK\$2.54bn. This translated into net debt of HK\$8.34bn which represented 34.8% of total assets. If we include the off-balance sheet debt of HK\$3.74bn, net debt-to-total asset ratio rises to c.37.4%.

CSI Properties has a relatively higher financial leverage than other Hong Kong-based developers and landlords. As of Sep 17, the company maintained >HK\$3.8bn as investments held for trading which is very liquid in nature and can be used for debt repayment, if necessary. Hence we should not place too much concern on its financial risk.

Share Price Drivers:

The planned launch of its luxury residential projects including those on 47-49 Perkins Road and 8-12 Peak Road, if greeted with enthusiastic response, should provide upside on the stock. With growing office/commercial exposure in Central, CSI Properties should stand to benefit from further office price appreciation there. Moreover, successful project pre-sale increases the company's earnings visibility, which would justify a higher stock valuation.

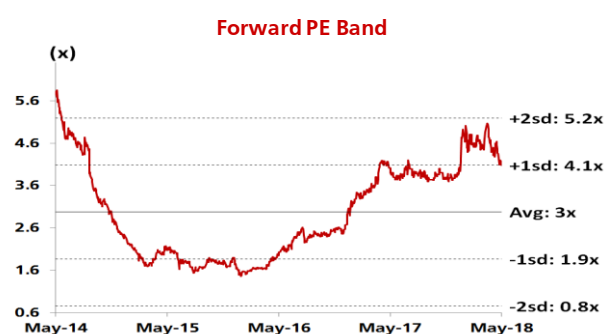
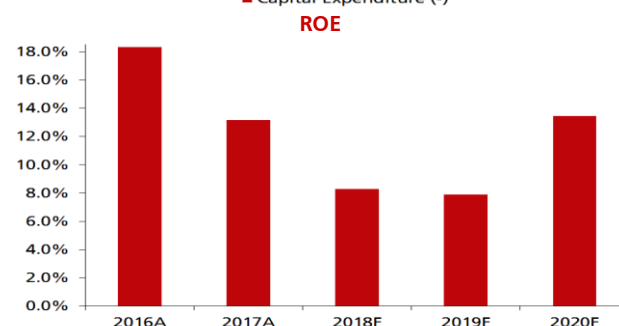
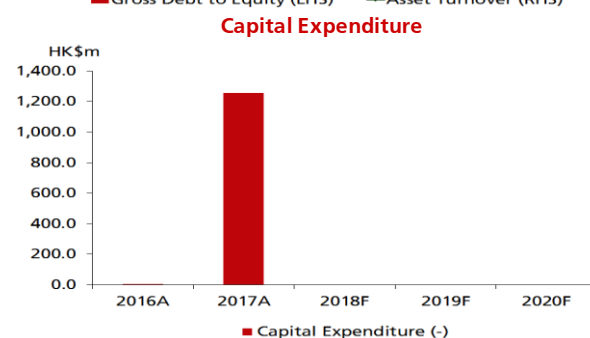
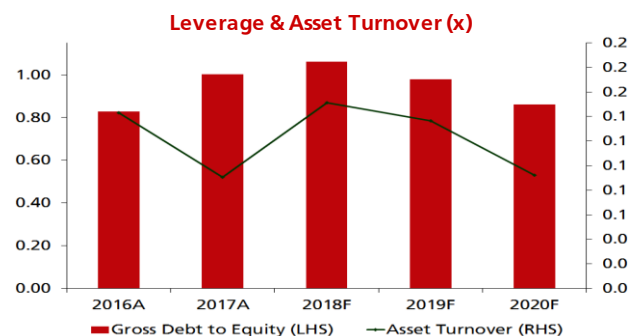
Key Risks:

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

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

Company Background:

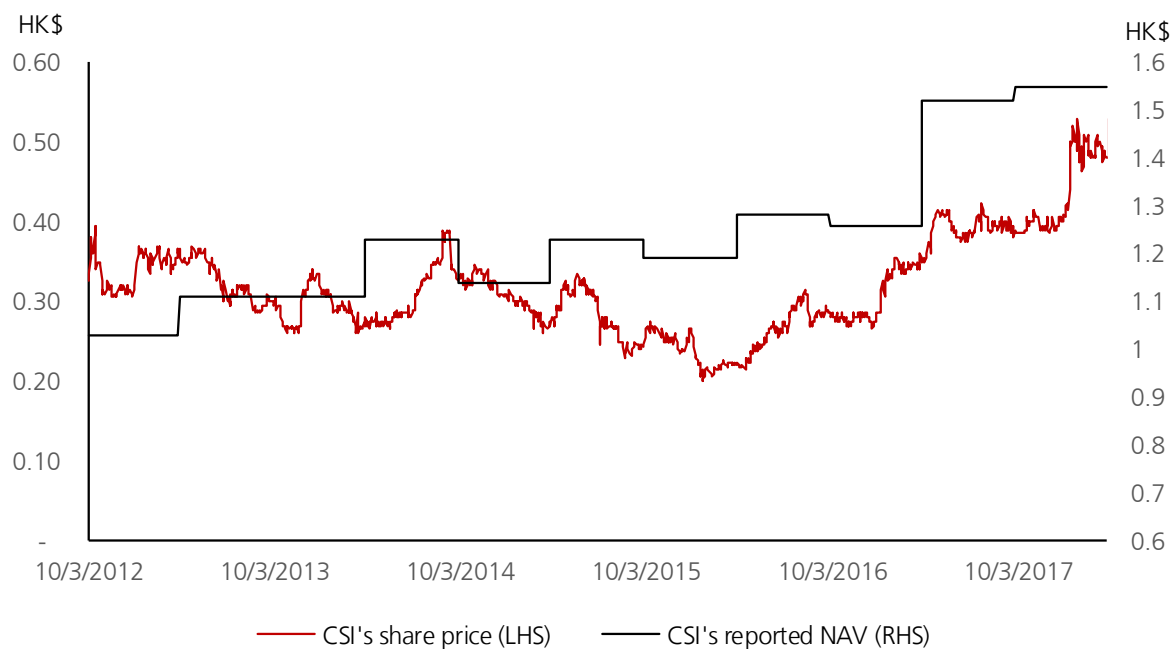
Acquired by the current Chairman Mr. Mico Chung in 2004, CSI Properties is engaged in the trading and development of premium residential and commercial properties in Hong Kong, Macau and parts of Mainland China. The company currently holds over 20 prime commercial and residential projects, such as Kau To Highland, redevelopment project at Graham Street, and the recently acquired Yau Tong Ventilation Building site.



Source: Company, DBS Vickers

Appendix 1: A look at Company's listed history – what drives its share price?

CSI's Properties share price vs. adjusted NAV per share

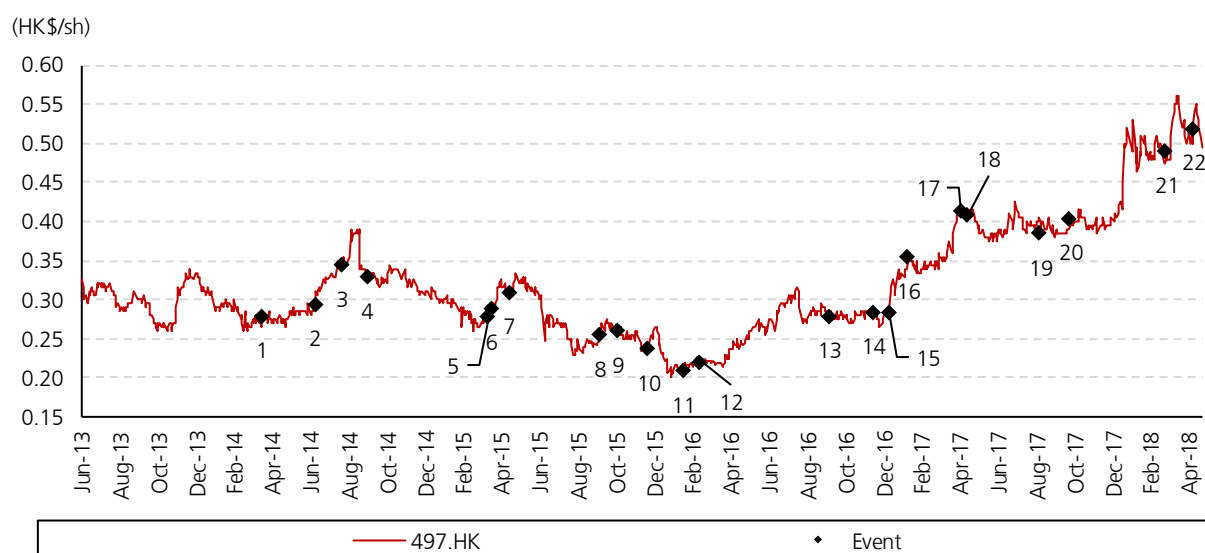


Source: Company, DBS Vickers

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CSI Properties

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- 22 Sino Land and CSI formed a JV and won the tender for the MTR Yau Tong Ventilation Building site.

Source: Company, DBS Vickers

Key Assumptions

	2018F	2019F
Residential price - HK	10.0%	0.0%
Office rental - HK	3.0%	3.0%
Retail rental (High street shops) - HK	0.0%	0.0%
Retail rental (Shopping centre) - HK	5.0%	5.0%

Source: Company, DBS Vickers

Segmental Breakdown (HK\$ m)

FY Mar	2016A	2017A	2018F	2019F	2020F
Revenues (HK\$ m)					
Property rental income	226	281	327	327	342
Property sales income	1,975	1,587	3,554	3,609	2,457
Total	2,201	1,868	3,881	3,937	2,800

Source: Company, DBS Vickers

Income Statement (HK\$ m)

FY Mar	2016A	2017A	2018F	2019F	2020F
Turnover	2,201	1,868	3,881	3,937	2,800
EBITDA	1,183	1,567	917	1,806	1,378
Depr / Amort	(46)	(37)	(37)	(37)	(37)
EBIT	1,137	1,530	880	1,769	1,340
Associates Inc	704	58	496	6	1,431
Interest (Exp)/Inc	(130)	(221)	(305)	(365)	(525)
Exceptionals	0	0	0	0	0
Pre-tax Profit	1,711	1,367	1,072	1,410	2,246
Tax	(54)	(21)	(33)	(199)	(134)
Minority Interest	(12)	1	(51)	(135)	(90)
Net Profit	1,645	1,347	988	1,076	2,022
Sales Gth (%)	195	(15)	108	1	(29)
Net Profit Gth (%)	526	(18)	(27)	9	88
EBITDA Margins (%)	54	84	24	46	49
EBIT Margin (%)	52	82	23	45	48
Tax Rate (%)	3	2	3	14	6

Source: DBS Vickers

Balance Sheet (HK\$ m)

FY Mar	2016A	2017A	2018F	2019F	2020F
Fixed Assets	623	154	117	80	43
Other LT Assets	3,265	4,850	8,569	8,992	7,700
Cash & ST Invt	5,343	5,902	7,031	7,622	7,348
Other Current Assets	9,011	12,136	12,542	12,696	16,322
Total Assets	18,242	23,041	28,259	29,391	31,413
ST Debt	561	2,142	1,324	1,324	1,324
Creditors	237	941	541	581	621
Other Current Liab	307	539	539	539	539
LT Debt	7,450	8,647	12,665	12,665	12,665
Other LT Liabilities	5	3	3	3	3
Minority Interests	14	14	65	200	290
Shareholder's Equity	9,667	10,755	13,122	14,080	15,972
Total Cap. & Liab.	18,242	23,041	28,259	29,391	31,413
Share Capital (m)	10,037	10,037	10,037	10,037	10,037
Net Cash/(Debt)	(4,482)	(7,186)	(9,257)	(8,665)	(8,940)
Working Capital	13,249	14,415	17,169	17,875	21,186
Net Gearing (%)	46	67	71	62	56

Source: DBS Vickers

Cash Flow Statement (HK\$ m)

FY Mar	2016A	2017A	2018F	2019F	2020F
EBIT	1,137	1,530	880	1,769	1,340
Tax Paid	(22)	(5)	(33)	(199)	(134)
Depr/Amort	46	37	37	37	37
Chg in Wkg.Cap	(1,855)	(1,695)	(806)	(114)	(3,585)
Other Non-Cash	116	(1,077)	15	15	15
Operating CF	(578)	(1,210)	93	1,507	(2,328)
Net Capex	(2)	1,256	0	0	0
Assoc, MI, Invsmt	765	(1,666)	(3,223)	(417)	2,723
Investing CF	763	(410)	(3,223)	(417)	2,723
Net Chg in Debt	2,399	1,894	3,200	0	0
New Capital	0	0	0	0	0
Dividend	(67)	(198)	(163)	(119)	(129)
Other Financing CF	(267)	(29)	1,222	(380)	(540)
Financing CF	2,066	1,667	4,259	(499)	(669)
Chg in Cash	2,251	47	1,129	592	(274)

Source: DBS Vickers

Appendix 2: Hong Kong properties for sale

Luxury property Portfolio

Kau To Highland.

Kau To Highland is a high-end residential project developed on the first land parcel that was acquired by the company through government land tender in May -12 for c.HK\$531.5m or c.HK\$10,551psf. The site was then developed into 20 luxurious houses with unit sizes that ranged from 1,996sf to 4,162sf. All units were presold for >HK\$1.7bn since it was first launched for sale in 2016. Notably, a major portion of houses sold will be delivered with profit to be recognised in FY3/19. CSI Properties has 92% stake in this luxury house project. The entire project is estimated to generate attributable pre-tax profit of c.HK\$560m.

Kau To Highland



Source: Company

Perkins Road luxury project

Located in one of the most prestigious luxury residential districts in Hong Kong, this upmarket project is being redeveloped on the former Monterey Court site at Jardine's Lookout, which was acquired in Dec-12 for c.HK\$1.4bn. CSI Properties has a 60% stake in this joint venture redevelopment with the balance equally held by UK-based Grosvenor and Asia Standard. The project's total GFA is c.73,000sf (or saleable floor area of 58,000sf). This superbly located project will offer 16 super luxurious residential units which are among the largest apartments offered in Hong Kong. The structure is being topped out, to be followed by interior finishing works with targeted completion in late 2018. CSI Properties targets to launch this super-luxury project in late 18. In recent months, luxury apartments at the nearby Mount Nicholson are sought after with selling prices in excess of HK\$100,000psf. We believe that the Perkins Road development should be equally popular among the affluent when offered for sale in late 2018. Given the low land costs, this upmarket project should be very lucrative. We estimate that the Perkins Road project, if fully

sold, should yield attributable profit of c.HK\$1bn to CSI Properties which should kick in starting from FY20 onwards.

47 & 49 Perkins Road



Source: Company

8-12 Peak Road Project

In Jun-15, CSI Properties acquired 17 apartments and one house at 8-12 Peak Road for c.HK\$1.8bn or c.HK\$39,000psf in partnership with Phoenix Property Investors. CSI Properties has 65% stake with the balance held by Phoenix Property Investors. The units represent c.60.3% interest in this completed residential project with a total saleable GFA of 46,512sf. This residential development offers sweeping views of Victoria Harbour. In an attempt to better capture the strong embedded value of this prime residential project, CSI Properties is conducting an all-rounded refurbishment of the façade and interiors of this aged residential project. The individual units will be done in phases and the house will be redeveloped in 4-5 years. The first phase of refurbished apartments will be offered for sale in 1Q19. We estimate this refurbishment project will offer decent pre-tax profit margin of c.35%.

8-12 Peak Road



Source: DBS Vickers

View from the 8-12 Peak Road refurbishment project



Source: DBS Vickers

47 Barker Road

The rare heritage site located in the ultra-premier residential area of Hong Kong at The Peak was acquired by CSI Properties for HK\$204m in Feb-11. The site is being redeveloped into a 4-storey house with a historical façade. The planned GFA stands c.4,230sf, Including the land premium of c.HK\$103.2m paid in 2015 and construction & financing costs, we estimate total

development cost at c.HK\$500m. In view of its unrivalled ultra-premium location and the supreme quality and characteristics of the project, we expect that this single luxurious house will fetch >HK\$200,000psf. Currently, superstructure works are well underway with targeted project completion in mid-2019.

Sheung Shui Fan Kam Road project

CSI Properties acquired this low density residential site through a government tender for HK\$302m or HK\$9,127psf, after outbidding 13 other developers, in Apr-15. The site, which used to house a public school, will be developed into 5-6 luxury manors of 7,000-8,000sf plus garden and private swimming pool with total GFA of 33,110sf. Including construction and financing costs, we estimated total development costs at HK\$650m. Located in close proximity to the Hong Kong Golf Club and Beas River Country Club of The Hong Kong Jockey Club, the manor project, 92%-owned by CSI Properties, should be specifically targeted to super affluent buyers. Construction works is well underway with project completion scheduled in late 2019.

Sheung Shui Fan Kam Road



Source: Company

3-6 Genealy

In Jan-18, CSI Properties agreed to sell 3-6 Genealy in Central to Pacific Century Premium Development (PCPD) for HK\$2.02bn. PCPD's current plan to redevelop the two aging residential/commercial buildings erected on the site into a predominantly residential tower with GFA of 102,000sf. This implies that land cost is c.HK\$20,000psf. The site is within a stone's throw of Lan Kwai Fong (renowned dining and entertainment destination) and core Central area and just 5-

minute walk from Central MTR Station. Despite its convenient location, the site enjoys a tranquil environment. It provides greenery views of Hong Kong Zoological and Botanical Gardens. These unique features should make this luxury development sought after when completed.

This site disposal should bring in an immediate gain of HK\$370m to CSI Properties with capital freed up for new investments. Moreover, CSI is entitled to receive 50% of all future profit of this redevelopment. Based on our assumed ASP of HK\$36,000psf, CSI Properties is estimated to reap an attributable pre-tax development profit of >HK\$160m.

3-6 Glenealy



Source: DBS Vickers

Other development projects

COO Residence

CSI Properties acquired the site where COO Residence is being built for HK\$427m or HK\$5,306psf on GFA basis through a government tender in Aug-14. COO Residence is a 5-minute walk from Tuen Mun West Rail Station which points to strong transportation connectivity. The project contains 204 units, mainly small-sized units, which sit above retail shops. Total GFA is 80,496sf which is split into 67,840sf for residential use and 12,656sf for retail. The company launched the residential portion for pre-sale in Sep-17. Market response was very enthusiastic with all units pre-sold for >HK\$850m or c.HK\$15,500psf. Adding construction and financing costs, we estimate all-in cost at HK\$12,800psf on saleable area basis for apartments. Construction works are well underway with project completion scheduled in 3Q19. Retail shops are also earmarked for sale upon project completion. Given heavy pedestrian flow, we expect strong demand for retail shops

which would fetch encouraging prices. Overall, we estimate that this residential/retail project, if fully sold, could yield pre-tax earnings of c.HK\$600m to CSI Properties.

COO Residence



Source: Company

38 Wai Yip Street

CSI Properties teamed up with Sino Land and unlisted Billion Development to acquire an office site in Kowloon Bay for HK\$3.04bn through government tender in May-15. This translated into an accommodation value of HK\$6,199psf. CSI Properties has a 30% stake in this office development which will provide GFA of 490,188sf. The site is located close to Mega Box/Enterprise Square and Manhattan Place. Billion Development, which owns a 40% interest in this development, is the project manager. In Mar-17, the consortium offered this project for strata-titled sales. Initial market response has been encouraging with c.40% of total area already snapped up. Selling price averaged c.HK\$13,000psf. We estimate that this office development, if fully sold, will generate attributable pre-tax earnings of c.HK\$880m to CSI Properties. Superstructure works are currently underway with project completion targeted for mid-19.

38 Wai Yip Street



Source: DBS Vickers

Yau Tong Ventilation Building site

In May-18, a consortium comprising Sino Land (80%) and CSI Properties (20%) secured the development rights of a residential project at Yau Tong Ventilation Building after defeating five other developers or developer consortiums. This marked the company's first project along the railway. Scheduled for completion in 2025, this residential project will offer about 500 units with GFA of 325,342sf. Land premium was fixed at HK\$1.51bn or HK\$4,657psf on GFA basis. In addition to being responsible for land premium payment, the consortium is required to pay MTRC an undisclosed fixed lump sum and 25% of development profits. The Yau Tong Ventilation Building site provides good transportation connectivity given its close proximity to Yau Tong MTR Station. The project also offers seaviews. Thus we expect the average selling price to reach HK\$21,000psf on saleable area basis when the project is launched.

Central office portfolio

2-4 Shelly Street

CSI Properties acquired a residential/commercial building at 2-4 Shelly Street in SoHo area for HK\$285m in Mar-11. The buildings were demolished for redevelopment into a Ginza-style commercial building with GFA of over 40,000sf.

Superstructure works are currently underway with project completion scheduled in late 2018. CSI Properties offered this commercial project for strata-title sale in Feb-18. Located along the Central/Mid-levels escalator and walkway system, 2-4 Shelly Street is just a 5-minute walk from both core Central, Lan Kwai Fong and Mid-levels. This appeals to office users, F&B operators and semi-retail tenants. Therefore, the launch received enthusiastic response with c.60% of space being pre-sold for HK\$800m or ASP of HK\$30,000psf. Given low land costs, we estimate that 2-4 Shelly Street will generate handsome pre-tax margins of c.60%.

2-4 Shelly Street



Source: DBS Vickers

46-48 Cochrane Street

CSI Properties bought the property at 46-48 Cochrane Street for over HK\$410m in Mar-16. The company plans to redevelop it into a Ginza Style commercial project with GFA of 31770sf. Following the completion of demolition works, the company has commenced the foundation works with project due for completion in late 2020. Adjacent to the Central/Mid-levels escalator system, the site is in vicinity to the under-construction 2-4 Shelly Street. Judging from the recent encouraging sales response to 2-4 Shelly Street, we believe that 46-48 Cochrane Street could also attract strong market interest when offered

for pre-sale in 2H19. In addition, the project is in close proximity to the newly opened Central Police Station revitalisation project. This could prompt further enhancement of retail values for 46-48 Cochrane Street. Based on our assumed ASP of HK\$32,000psf, we forecast that this commercial development, if fully sold, should yield pre-tax earnings of c.HK\$380m to CSI Properties in FY21.

46-48 Cochrane Street



Source: DBS Vickers

Graham Street commercial development

In Oct-17, a consortium comprising Wing Tai Properties (65%) and CSI Properties (35%) outbid nine other developers in a tender to secure the redevelopment rights of the Urban Renewal Authority's (URA) Site C of Graham Street project in Central. Site C is the largest of the entire redevelopment of Graham Street where Hong Kong's oldest fresh market is. Nestled in the bustling area of Central, this redevelopment is conveniently located, just a 5-minute walk from both Central and Sheung Wan MTR Stations. Famous office buildings in the proximity include The Centre and Man Yee Building. Site C will be redeveloped into a property complex comprising a Grade A office tower, a hotel and retail shops with combined GFA of 0.43m sf. The project is scheduled to be completed in 2024. The retail shops will be returned to URA after completion. The mixed-use property complex will be linked with the neighboring Central/Mid-levels escalator on one hand and My Central (Site B of Graham Street redevelopment) on the other. This points to strong accessibility for both office and hotel portions, and hence high development value. Our estimated all-in costs is c.HK\$33,000psf which includes the undisclosed land premium. In Oct-17, Cheung Kong Asset Holdings agreed to sell 1.22m sf of The Centre to a consortium for HK\$40.2bn or c.HK\$33,000psf. Shortly after the completion of the transaction in Apr-18, the consortium members, mainly local

Company Guide

CSI Properties

property investors, are expected to offer to re-sell The Centre on strata title basis. This could prompt further office price appreciation in the area and underscores the high embedded value of Graham Street Site C redevelopment. We believe that this strategically located redevelopment would be a key long-term earnings catalyst for CSI Properties.

Gage Street/Graham Street redevelopment site



Source: DBS Vickers

Appendix 3: China properties for sale

Shanghai Queen's Gate Project

The Queen's gate project is a luxurious residential project acquired in Jun-11 through a 50:50 JV with Asia Standard International. Located in a luxurious villa district in Dahongqiao area of Shanghai that is only a 15-min drive from the new Hong Qiao International Airport. Adopting a British-style design, the project is developed into 224 luxurious villas with additional 96 apartment units. The first batch of presales began in Aug -15 with c.180 villas sold as at the end of May 2017 at an average selling price of >Rmb60,000psm. The remaining villas and apartments are currently waiting for the government's final selling price approval. The project is fully completed at an estimated all-in cost of c.Rmb32,000psm.

Shanghai Queen's Gate Project



Source: Company

Beijing Legendale Project



Source: Company

Beijing Legendale Residential Project.

In Oct-16, a consortium comprising CSI Properties (65%) and Phoenix Property Investors (35%) entered into preliminary agreement to acquire 114 residential units at Beijing Legendale, which is located on Jin Bao Street and close to the Regent Hotel and Hong Kong Jockey Club clubhouse for c.Rmb1.76bn or c.62,857psm. This marked the company's entry into the Beijing market. The transaction is being completed in phases with majority already completed in May-17. The consortium currently plans to refurbish the existing structure of the project, including the façade and lobby areas, as well as the interior of residential units with modern designs to enhance the asset values. Refurbishment of the project is expected to commence in Jun-18. Including refurbishment cost, total cost is estimated to be c.Rmb70,000psm. Pre-tax margins is expected to be >40%.

Appendix 4: Investment and hotel properties

Shanghai In-point Shopping Mall

This retail shopping mall is conveniently located on Wujiang Road in the Jing'an District. It is situated adjacent to the Nanjing West Road Metro Station and opposite HKRI Taikoo Hui, thereby enjoying good foot traffic. Purchased in Aug-09, the property has a total GFA of c.122,000sf with an annual committed rent of over HK\$51m. Along with approval granted from the government, the company plans to transform the mall into double-decker premium street front stores as part of its asset enhancement programme, similar to the Park Lane shopping street located in Tsim Sha Tsui in Hong Kong. The company currently plans to hold on to this project to derive rental income.

In-point Shopping Mall

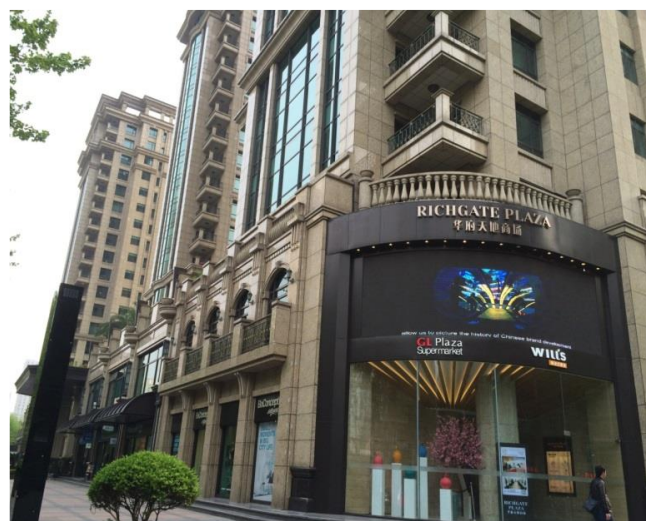


Source: Company

Shanghai Richgate Plaza

Acquired in Sep-16 for a total consideration of c.Rmb1.37bn or c.Rmb121,000 psm, Richgate Plaza is a premium retail project located in the prime area of Xintiandi in Huangpu District of Shanghai with a total GFA of c.11,300sm. The project currently hosts a diversified portfolio of mid-end tenants, including banks, F&B outlets, and supermarkets. Occupancy rate as at Sep-17 stood at 85% with an annual rental income of c.Rmb70m. CSI Properties intends to carry out refurbishment and bring in premium retail brands to enhance the property's value in the foreseeable future.

Richgate Plaza



Source: Company

Novotel Nathan Road Hotel

Located on the busy Nathan Road, this 4-star hotel project was acquired in 2012 through a 50:50 JV with Gaw Capital for a total consideration of c.HK\$2.4bn. In 2015, CSI Properties purchased the remaining 50% stake for c.HK\$1.7bn. Novotel Nathan Road Hotel has 389 guest rooms on top of a retail podium. We estimate this property yields an EBITDA of c.HK\$130m, of which one-third stems from retail portion. The company currently plans to hold this project as an investment property to generate recurring income in the near future.

Novotel Nathan Road Hotel



Source: DBS Vickers

Appendix 5: Management Profile

Senior Management Profile

Name	Age	Position	Profile
Mr. Chung Cho Yee, Mico	57	Chairman and Executive Director	Mr. Chung joined CSI Properties in 2004. He held a law degree from University College, University of London in the UK in 1983 and qualified as a solicitor in Hong Kong in 1986. Apart from his current position in CSI Properties, Mr. Chung currently serves as a non-executive director of HKT Limited and HKT Management Limited, the trustee-manager of the HKT Trust (6823 HK) and an independent non-executive director of HKC (Holdings) Limited (190 HK). Mr. Chung is the brother-in-law of Mr. Kan Sze Man, who is the Chief Operating Officer and Executive Director of CSI Properties.
Mr. Kan Sze Man	46	Chief Operating Officer and Executive Director	Mr. Kan joined CSI Properties in 2001 as a General Counsel and was later appointed as the Chief Operating Officer in 2016. Mr. Kan is a qualified solicitor by profession and was graduated from Wadham College, Oxford University in the UK in 1993. Before joining CSI Properties, Mr. Kan worked in the commercial department of a Hong Kong law firm and a U.K. City firm, until joining Hikari Tsushin Int'l Limited (now known as China Oil and Gas Group Limited) as Senior Vice President and legal counsel. Aside from his current positions in CSI Properties, Mr. Kan serves as a non-executive director of BCI Group (8412 HK), whom CSI Properties is a substantial shareholder. Mr. Kan is the brother-in-law of Mr. Chung.
Mr. Chow Hou Man	47	Chief Financial Officer and Executive Director	Mr. Chow joined the company as Chief Financial Officer in 2001. He was graduated from the Baptist University in Hong Kong and holds a Master of Business Administration degree from the Hong Kong Polytechnic University. Possessed with 20 years of financial experience, Mr. Chow had exposure in numerous listed companies in Hong Kong and overseas, as well as an international firm of certified public accountants. Mr. Chow is a member of both the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.
Mr. Fong Man Bun, Jimmy	53	Executive Director	Mr. Fong joined the company in 2011 and is currently a Managing Director of Couture Homes Properties Limited, a wholly-owned subsidiary of the company that engages in the development of luxurious residential properties. Mr. Fong is primarily responsible for identifying and advising on residential development and investment for both acquisition and disposal planning of CSI Properties. Possessed with over 25 years of solid experience in luxury residential real estate project development and investment, Mr. Fong has in-depth knowledge of the property market. He worked as a Director of Savills Hong Kong Limited since 1993 and had experience working in Shanghai, PRC in the 90s and also in the real estate department of Jones Lang Wotton (now known as Jones Lang LaSalle) in 1989.
Dr. Lam Lee G.	58	Independent Non-Executive Director	Dr. Lam joined the company in 2001. He is a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Board. Possessed with over 30 years of international experience in general management, management consulting, corporate governance, investment banking, direct investment and fund management, Dr. Lam has broad knowledge across TMT, consumer/healthcare, infrastructure/real estate, energy/resources and financial services sectors. Alongside positions held in CSI Properties, Dr. Lam currently holds numerous political positions as well as serving as independent non-executive director of several publicly listed companies and investment funds in the Asia Pacific Region, including Mei Ah Entertainment Group (391 HK), Vongroup Limited (318 HK), Glorious Sun Enterprises Limited (393 HK), Elife Holdings Limited (223), Sunwah Kingsway Capital (188 HK), China LNG Group (931 HK) and National Arts Entertainment and Culture Group Limited (8228 HK).
Mr. Cheng Yuk Wo	57	Independent Non-Executive Director	Mr. Cheng is the Chairman of Audit Committee and Remuneration Committee, and a member of Nomination Committee of the Board. Having joined the Group in 2002, Mr. Cheng is a fellow of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants, and a member of the Institute of Chartered Professional Accountants of Canada. He is a co-founder of a Hong Kong merchant banking firm and is the proprietor of a certified public accountant practice in Hong Kong. Mr. Cheng holds a Master of Science (Economics) degree in Accounting and Finance from the London School of Economics, England, and a Bachelor of Arts degree in Accounting from the University of Kent. Alongside existing positions within the Group, Mr. Cheng also serves as independent non-executive director of C.P. Lotus Corporation (121 HK), Chong Hing bank (1111 HK), Goldbond Group (172 HK), HKC (Holding) Limited (190 HK), CMPC Holdings (906), Top Spring International (3688 HK) and Liu Chong Hing Investment (194 HK), amongst other companies listed on the HKEx.
Dr. Lo Wing Yan, William	57	Independent Non-Executive Director	Dr. Lo joined the company in 2014 and currently serves as a member of Audit Committee of the Board. He holds a bachelor degree in Biochemistry and a Masters degree in Neurochemistry from the University of Kent at Canterbury and Institute of Psychiatry, London University, respectively. Dr. Lo also holds a MPhil degree in Molecular Pharmacology and a PhD degree in Genetic Engineering/Neuroscience from Cambridge University, UK. Dr. Lo was also a Bye-Fellow of Downing College, the University of Cambridge, and was appointed as a Justice of the Peace (J.P.) by the government of Hong Kong. Dr. Lo was also appointed as a member of the Hospital Governing Committee of HK Red Cross Blood Transfusion Services in 2017 and is currently a governor of an independent school, the ISF Academy, as well as the Chairman of Junior Achievement Hong Kong. Dr. Lo also serves as independent non-executive director of Jingrui Holdings (1862 HK), SITC Int'l (1308 HK) and Ronshine China (3301 HK).

Source: Company, DBS Vickers

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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)

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Share price appreciation + dividends

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CSI Properties

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