

Equities

Hong Kong/China

Company Update

## Company Report

# CSCI (3311 HK)

20 March 2015

### FY14 Results First Take

**FY14 results were in line with market expectations. Revenue increased 26% YoY to HK\$34.4bn, gross profit increased 26.6% YoY to HK\$4.74bn, with gross margin flat YoY. EPS increased 25.5% YoY to HK\$0.8875. A final DPS of HK\$0.15 was declared for a full-year dividend of HK\$0.26 per share and 29% payout ratio.**

- HK & Macau markets led gain.** By region, Hong Kong revenue grew 37% YoY while Macau surged 170% YoY, for 26% YoY overall growth in revenue. The affordable-housing business expanded steadily and the company is starting to reap rewards from its investment in China. Construction revenue from affordable-housing projects increased 29% YoY.
- Steady margin despite gross margin slip in Hong Kong/Macau construction segments.** CSCI has not yet recognised profits from certain large projects in Hong Kong as these are still at the initial stages. As a result, gross margin for Hong Kong construction dropped to 6.6% in FY14 from 7.3% in FY13. Similarly, the MGM project in Macau is also at an early stage. These were offset by margin improvements in investment and construction of affordable-housing projects (20.1% in FY14 vs. 18.5% in FY13). Gross margin was 13.8% in FY14 vs. 13.7% in FY13.
- EPS dilution from newly acquired assets from parent.** CSCI acquired China Overseas Ports Investment (COP), including a 60% stake in Laizhou port and a third-party logistics business in Shenzhen. The acquisition was completed in December and the loss from COP was HK\$0.63 per share.
- Improving OCF.** CSCI's operating cash outflow was HK\$1.689bn in FY14 vs. HK\$3.085bn in FY13. At the end of 2014, net gearing was 37%, in line with the company's guidance.
- The company will hold a results briefing today at 3 pm at the Island Ballroom, Island Shangri-La Hong Kong. Our earnings forecasts, target price and rating are under review.

China / Infrastructure

## BUY

Share Price	Target Price	Upside
HK\$10.72	HK\$16.20	51.12%

(As of 19 March 2015)

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52-week Price Range (HK\$)	10.52-14.16
Div yield %	2.43

#### Latest Key Data

FF no. of shares (m)	1,663
FF (%)	41.44
FF market cap (HK\$ m)	17,825
12M daily turnover (HK\$ m)	68.84
12M volatility (%)	29.56
12M Hi/Lo (HK\$)	10.52-14.16
PEG FY14-16E (x)	0.46
RoAE FY14 (%)	19.33
PBR FY14 (x)	2.17
Net debt/equity FY14 (%)	37.15

#### Performance (%)

	1M	YTD	12M
Absolute	(3.2)	(0.9)	(6.9)
Relative to HSCEI	(4.2)	(2.6)	(39.3)

#### Major Shareholders (%)

China Overseas Hldg.	58.22
Free float	41.31

#### Price Chart



Sources: Bloomberg, CER estimates

## CSCI results highlights

HK\$'000	FY13	FY14	YoY
Revenue	27,285,620	34,439,575	26%
COGS	(23,539,675)	(29,696,483)	26%
Gross profit	3,745,945	4,743,092	27%
Other income and other gains, net	436,542	475,339	9%
Administrative expenses	(959,512)	(899,269)	-6%
Distribution and selling and other operating expenses	(82,946)	(133,871)	61%
Operating income	3,140,029	4,185,291	33%
Share of profit of JV	430,228	294,345	-32%
Share of profit of associates	21,941	23,787	8%
Finance costs	(418,440)	(455,829)	9%
Profit before tax	3,173,758	4,047,594	28%
Income tax expenses	(503,071)	(659,716)	31%
PAT	2,670,687	3,387,878	27%
Owners of the company	2,749,551	3,457,410	26%
Non-controlling interests	(78,864)	(69,532)	-12%
Basic EPS - HK cents	70.71	88.75	26%
Diluted EPS - HK cents	87.52	69.68	26%
Final DPS - HK cents	12.0	15.0	25%

Source: Company

## China Everbright Research Limited Rating System

Buy	Expected to outperform the benchmark index by >15% over the next six months
Accumulate	Expected to outperform the benchmark index by 5 - 15% over the next six months
Hold	Expected to outperform or underperform the benchmark index by <5% over the next six months
Reduce	Expected to underperform the benchmark index by 5 - 15% over the next six months
Sell	Expected to underperform the benchmark index by >15% over the next six months

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