

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)

Eva Yip, CFA

 (852) 2530 8226
 eva.yip@ebscn.hk

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

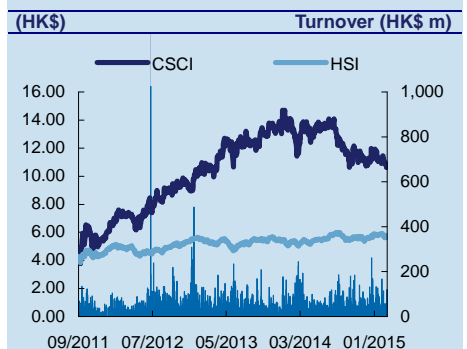
Performance (%)

	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

Analyst Certification

The research analyst(s) primarily responsible for the preparation of this report hereby certify that –

- (1) All of the views expressed in this report accurately reflect his or her or their personal views about the subject company or companies and its/theirs securities;
- (2) No part of his or her or their compensation was/were, is/are or will be directly or indirectly, related to the specific recommendations or views expressed in this report or any specific investment banking function;
- (3) He/she/they are not directly supervised by, and do not directly report to, investment banking functions;
- (4) He/she/they has/have not breach the quiet period restriction of dealing in the securities covered in this report;
- (5) He/she/they is/are not an officer and do(es) not hold any directorship in the company or companies this report covered.

Disclosure

Our firm does not have financial interests (including stock holding) that equal 1% or more of the market capitalization of the listed company under review at the date this report is published; does have investment banking relationship with the listed company under review within the past 12 months; and does not have market-making activities in the stock. None of our staff is an officer of the listed company.

Disclaimer

This report has been prepared by China Everbright Research Ltd. China Everbright Research Limited does not guarantee, either expressed or implied, the completeness, reliability and accuracy of the materials contained in the report.

This report has been prepared for general reference and no part of this report is to be constructed as an offer, invitation, advertisement or inducement whatsoever, or form to buy or sell any securities or financial instruments whether referred to herein or otherwise. Opinions in this report are subject to change by the original writer without notice. China Everbright Research Limited does not accept any liability whatsoever, directly, indirectly, consequential or incidental that may arise from the use of or reliance on the contents of this report.

China Everbright Research Limited and its affiliates and their respective associates, directors, employees or officers may from time to time have long or short positions in securities, warrants, futures, options, derivatives or any other interests and/or underwriting commitments in the securities or financial instruments referred to in this report.

Reports by China Everbright Research Limited do not have regard to the specific investment objectives, financial situation, risk tolerance or the particular needs of any investor. Before entering into any investment contract, individual should exercise judgment or seek for professional advice when necessary. The information contained herein is believed to be reliable. Its completeness and accuracy are, however, not guaranteed.

All copyrights are reserved by China Everbright Research Limited. This report or any part of its contents must not be reproduced in whole or in part without the prior written approval of China Everbright Research Limited.

China Everbright Research Limited is licensed by the Securities and Futures Commission (SFC) and is governed under the rules and regulations of the SFC and the Securities and Futures Ordinances and its subsidiary legislation.

Address: 17/F., Far East Finance Center, No. 16 Harcourt Road, Hong Kong.
Contact No.: (852) 2860-1101