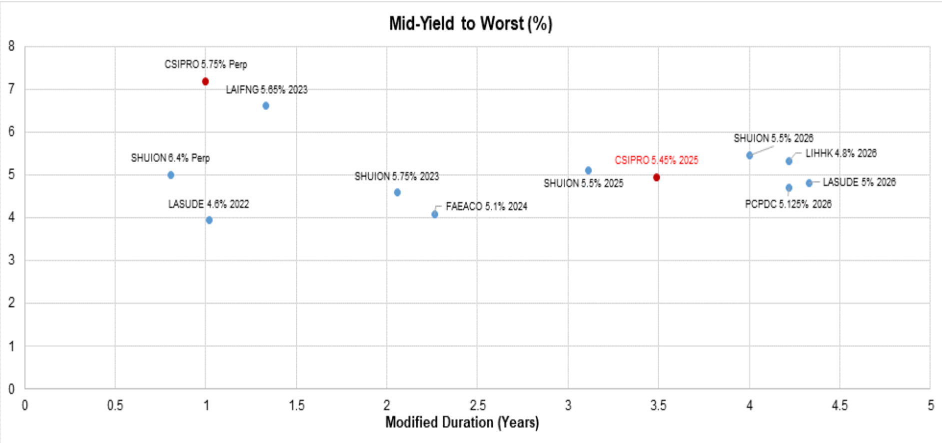
CMBI Credit Commentary - CSIPRO

CSI Properties – A low beta and carry play

Initiate coverage on CSIPRO with buy recommendations on CSIPRO'25 and perps

In our view, CSIPROs are good low-beta, carry and diversification play under the current volatile market environment. CSIPROs offer good RV and carry within HK corps universe. At 101.5 and 98, CSIPRO'25 and perps are trading at YTM and YTC of 5.0% and 7.7%, respectively. Between CSIPRO'25 and CSIPRO perps, we prefer CSIPRO perps given the yield pick-up, lower cash price and shorter tenor. We expect the perps to be called at par in Sep'22 and technical of the perps to be supported by CSI's incentive to buy back in view of the company's sufficient liquidity and ability to secure lower cost funding.



A niche property developer with higher revenue volatility

Revenue (HKD mn)	2019	2020	2021
Group level			
HK residential properties	2,037.4	885.4	
SG commercial properties	18.0		
HK commercial properties	1,081.6	2,612.6	141.8
	3,137.0	3,498.0	141.8
JVs and associates			
China residential properties	228.4	319.4	492.1
Hong Kong commercial properties		1,380.8	14.0
Hong Kong residential properties			1,084.2
	228.4	1,700.2	1,590.3
Less: non controlling interests	-178.3		
Total revenue attributable to CSI	3,187.0	5,198.2	1,732.1
Profit before tax (PBT)	737.8	1,309.0	444.5
PBT margin	23.1%	25.2%	25.7%

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Compared with its larger peers in China and Hong Kong, CSI has a smaller development pipeline, and hence its revenue and cash flow have been more dependent on the sales and deliveries of fewer and selective projects. In FY21 (ended Mar'21), CSI's revenue and profit before tax declined 67% and 66% to HKD1.7bn and HKD444.5mn, respectively, affected by its sales and delivery schedule, as well as to a smaller extent by COVID-19. CSI has completed residential properties valued HKD9bn (on an attributable basis), 2 MTR projects (with attributable saleable s resources of over HKD4.5bn) to be launched for pre-sales in FY23. We estimate that the attributable sales of residential properties to cHKD1.5bn and over HKD4bn (assuming only 30% sell-through for the 2 MTR projects) in FY22 and FY23, respectively. These, coupled with recurring rental income of HKD200mn p.a. and potential sales of commercial properties, should support revenue and profit before tax to rebound from the levels in FY21.

…. but disciplined investment strategies to protect stable financial profile

We take comfort that CSI has disciplined business and financial policies in acquiring new projects. The company has stringent investment criteria with IRR requirement of 20-25% for new projects. In Hong Kong, it will mainly focus on luxury residential projects or projects along MTR lines. In China, it continues to focus on commercial properties, especially in Shanghai - its home base in Mainland China. It limits its China exposure to 25-30% of its asset base. As per CSI, its priority is to recycle capital instead of expansion. It targets to maintains adj net debt/total assets (net debt incl commitment to JVs and total asset incl revaluation surplus and attributable JV assets) ratio around 40%. As at Mar'21, its adj net debt/asset ratio was 39.6%, compared with 36.8% in Mar'20 and 38.3% in Mar'19. Additionally, CSI maintains a prudent dividend policy with payout ratio of 12-15% of its net profit.

Capex and obligations are largely pre-funded; high chance of calling CSIPRO perps in Sep'22

We understand that CSI does not have outstanding land premium and has pre-funded most of its construction capex of cHKD4bn over the coming 4 years with bank facilities with funding costs at or below HIBOR+1.5%. It has a track record of pre-funding debt maturities, taking advantage of the favourable market condition. To illustrate, in Aug'20, it secured syndicated loan of HKD1.6bn with current funding cost below 2.2% to repay the 4.875% USD250mn due 8 Aug'21. This notably lowered its funding cost and lengthened its debt maturity as 91% of the principal repayment of these syndicated loans will be in Feb'24, the final maturity. CSI recently issued bonds of USD300mn at a coupon rate of 5.45%. In view of its sufficient liquidity, and pre-funded capex and low funding costs, we believe that a major part of the bond proceeds will be earmarked for the redemption of CSIPRO perps through on-market repurchase and calling the perps in Sep'22 at par. Recalled that the initial spread of the perps will step-up 300bps and coupon (5.75%) will be reset to 5-yr UST+7.005%, i.e. 7.812% based on current 5-yr UST. As per our discussions with CSI, it is not subject to covenants that prevent it from calling the perps.

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