

Did you get a clear look at China South City's assets? 1668.HK

Review of state-owned enterprise's investment event

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Comments on Key Events:

- **A Shenzhen state-owned enterprise bought its way into China South City's largest shareholder seat at a low price, garnering positive performance from the capital market.** Under the quotation source from Guotai Junan, the bid price of CSCHCN 11 1/2/12/2022 increased from \$50 on December 29 to \$89 on January 3, and decreased to \$80 on January 5. The bid price of CSCHCN 10 7/8 06/26/22 doubled from \$40 on December 29 to \$81 on January 3, and decreased to \$74 on January 5. The prices of two bonds maturing in 2023 also rose from \$35 to \$76, and fell to \$70 on January 5. In Hong Kong stock market, the share price of China South City rose from HK \$0.48 on December 20 to a closing price of HK \$0.73 on January 3, before falling to HK \$0.7 on January 5.
- **There are two distinct standpoints after the rise in the price of the company's securities as a result of this significant share purchase.** In the positive view, China South City is supported by core land assets and the "commerce logistics +" business model with emphasis on operation. The participation of state-owned enterprise may alleviate the pressure of short-term debt, and may further drive the development of potential business model and the decrease of financing cost in the long term. However, the other view is more cautious, that the "commerce logistics +" model has a long investment cycle and a lot of capital precipitation, and whether it can stimulate the potential of the business model needs to wait for a long time. Furthermore, it remains to be seen whether there will be good cooperation between the existing management and state-owned enterprises.
- **No matter how far-reaching the impact of the stock purchase will be on the medium and long term operation of China South City, it is an indisputable fact that it still faces great financial pressure in the short term.** From the company's semi-annual results, the short-term interest-bearing debt are 14.52 billion Hong Kong dollars, while the company's cash and cash equivalents are only 5.2 billion Hong Kong dollars, ratio of cash to current debt is only 0.36, the company still has US \$970 million foreign bonds and 1.988 billion domestic bonds to be repaid in 2022; Prior to revoking the company's rating on 12/16/2021, S&P stated that China South City's liquidity would remain tight over the next 12 months due to offshore refinancing difficulties and slowing contracted sales, which could weaken further if the company fails to execute its asset disposal plan as scheduled.
- **CRIC Securities believes that HK \$1.8938 billion obtained by equity financing is obviously insufficient for the company to deal with the short-term liquidity crisis, and the chemistry between state-owned enterprise and the company is not clear.** In short term, the company's credit level and liquidity need to be evaluated based on the company's existing assets.
- **Through detailed research, CRIC Securities has obtained first-hand data of 8 projects in China South City, including every business form and every building.**
- **Risk warning:** Market Risk, Research Risk, Data Risk

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Event

On 31 December, China South City Holdings Limited (1668.HK) announced that it would issue 3.35 billion new shares to Shenzhen Construction and Development Group or its wholly-owned subsidiaries at the subscription price of HK \$0.57 per share. The total proceeds from the issue of the subscribed shares are estimated to be about HK \$1,909.5 million. After deducting relevant expenses, The net proceeds from the issue of subscription shares amounted to about HK \$1,893.8 million. Upon completion of the subscription, Shenzhen Construction and Development Group will account for 29.28% of the issued share capital of China South City after the allocation and issuance of the additional Subscription shares. The subscription Shares under this Agreement are priced at a discount of approximately 17.39% to the closing price on the Date of the Subscription Agreement and approximately 14.93% discount to the average closing price of the last five consecutive trading days immediately preceding the Date of the Subscription Agreement.

Research Scope

CRIC Securities conducted a field investigation of eight projects in China South City, namely: Shenzhen China South City, Xi'an China South City, Chongqing China South City, Hefei China South City, Zhengzhou China South City, Nanchang China South City, Nanning China South City, and Harbin China South City.

Table 1: Research Dimensions and Working Methods of Eight Projects in China South City

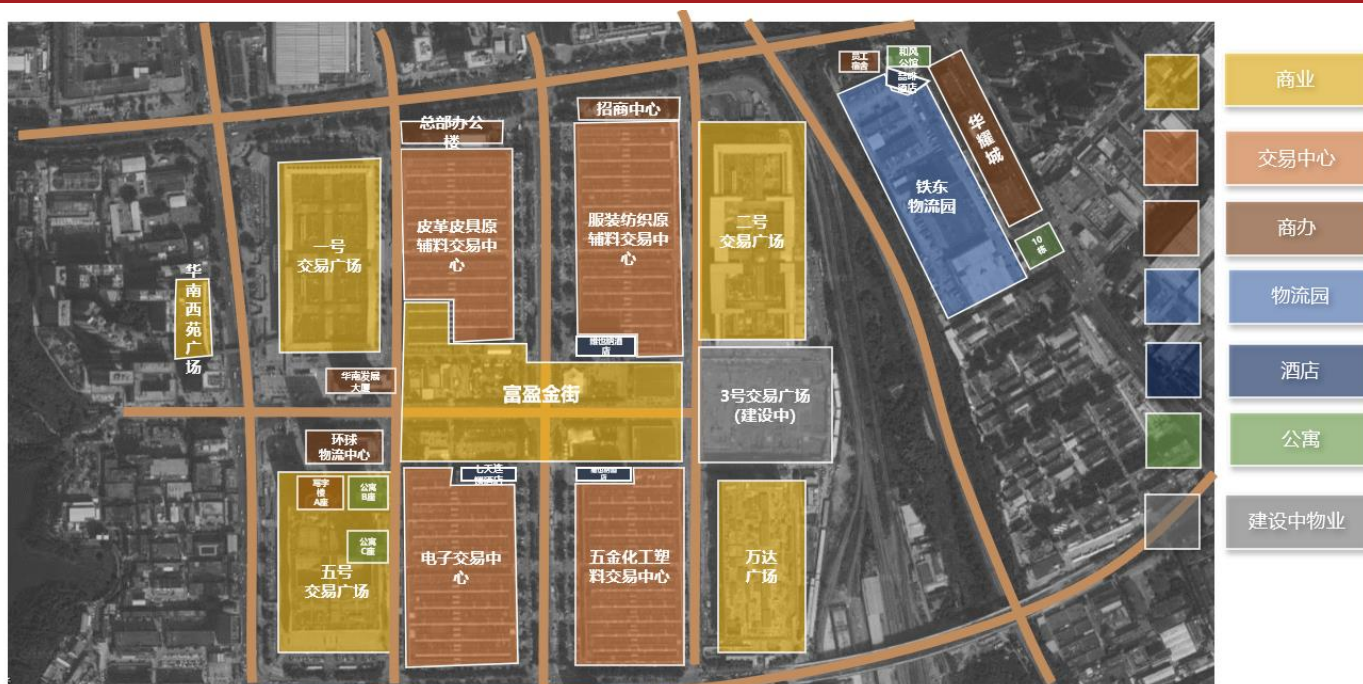
No.	Research Dimensions	Indicators (about single project)	Working Methods
1	Land Banking	Total Land Area	Make a preliminary assessment through the data of CRIC database, and then check the actual situation through the field exploration
2		Gross Floor Area	
3		Area Available for Rent and Sale	
4		Land Usage	
5		Service Life	
6		Construction Progress	
7	Valuation	Area Available for Sale	Make a preliminary judgment on the valuation of each project through the CRIC database and the disclosure of the company, and then check the valuation level of the project through the on-site research and sales staff interview
8		Future Valuation	
9	Assets Status	Current Vacancy Rate of Trade City/Outlets/Logistics Park	Data were obtained mainly through field research, photographic evidence collection, and interview of merchants
10		Historical Vacancy Rate of Trade City/Outlets/Logistics Park	
11		Main Tenant of Trade City/Outlets/Logistics Park	
12		Customer Flow of Trade City/Outlets	According to mobile phone signaling tracking and big data, the monthly human flow of the project business in the last three years was counted, and weekdays and holidays were distinguished
13	Contracted Sales and Selling Rate	Contracted Sales of Residential/Commercial Project	Contracted sales data of each project was recorded by CRIC database, and then checked by field research
14		Contracted GFA of Residential/Commercial Project	
15		Selling Rate of Residential/Commercial Project	
16	Business Model	Business Charging Model of Outlets/Logistics/Property Management	Communicate and interview with investment promotion departments, small and medium-sized tenants and property management departments, and investigate the operation of parking lots, offices and facilities and equipment of the project, and evaluate by taking photos and obtaining evidence and recording interviews
17		Property Area Under Management	
18	Stability of Project Operation	Whether the parking lot, facilities and equipment of office and property are shut or not; Business Operation Research	

Data Sources: CRIC Securities

Example Of Research Results: Shenzhen China South City

CRIC Securities conducted separated research on each business form and each building in China South City from eight aspects, including commercial property, trading center, commercial office, logistics, hotel, apartment, property under construction and market contidion(of commercial /residential /office properties), to restore the actual state of operation of the project. The following is an example of the research results of the China South City project located in Shenzhen.

Picture 1: Distribution Map of Shenzhen China South City's Business Form



Data Sources: CRIC Securities

Table 2: Projects of Each Business Form that Shenzhen China South City Has

Business Form	Project Name
Commercial Property	Exchange Square(No.1, 2, and 5)
	Wanda Plaza
	Fuying Golden Street
	South China Xiyuan Plaza
Trading Center	Leather Raw Materials Trading Center
	Electronic Manufacturing Goods Trading Center
	Hardware, Chemical and Plastic Trading Center
Commercial Office	Shenzhen Global Logistics Center
	South China Development Building
	Building 11, 12, 13 of Shenzhen Huayao City
	Office Building in Block A of No.5 Exchange Square
	Headquarter Office Building of China South City
Logistics	Investment Promotion Center
	Tiedong Logistics Park
Hotel	Hotel Vienna
	James Joce Coffetel
	7 Days Inn
Apartment	Block B and C of No.5 Exchange Square
	Staff Dormitory
	Hefeng Mansion
	Building 10 of Shenzhen Huayao City
Property Under Constrution	No.3 Exchange Square
Market Contidion	Local Market Supply and Demand Condition of Commercial /Residential /Office Properties

Data Sources: CRIC Securities

Picture 2: Preliminary Planning Map of Shenzhen Project (part of property not accomplished as planned)



Data Sources: CRIC Securities

Picture 3: Shenzhen China South City's Commercial Property—Basic Information of No.1 Exchange Square

一号交易广场			数据来源
基础信息	占地面积 (千㎡)		地图测量
	建筑面积 (千㎡)		暗访招商
	自持面积 (千㎡)		暗访招商
	销售面积 (千㎡)		暗访招商
	用地性质		暗访招商
	用地年限 (年)		暗访招商
	得房率		暗访招商
	营业时间		暗访招商
销售情况	层数		暗访招商
	项目开发阶段		实地考察
	已售面积 (千㎡)		实地考察
	销售均价 (元/㎡)		暗访招商
运营现状	待售面积 (千㎡)		暗访招商
	货值 (百万元)		暗访招商
	客流量		暗访招商
	自持部分空置率		暗访招商
	出售部分空置率		暗访招商
	业态分布		实地考察
	主力租户		实地考察
	营业额		实地考察
	自持部分租金 (元/㎡/月)		暗访招商
	出售部分租金 (元/㎡/月)		暗访招商
	租金增长		暗访招商
	运营模式		暗访招商
商业模式	物业费 (元/㎡/月)		暗访招商
	物管公司		实地考察
	停车场运营情况		暗访招商

Data Sources: CRIC Securities

Picture 4: Shenzhen China South City's Commercial Property—Shopping Mall of No.1 Exchange Square



Data Sources: CRIC Securities

Picture 5: Shenzhen China South City's Commercial Property—E-commerce Industrial Park of No.1 Exchange Square



Data Sources: CRIC Securities

Picture 6: Shenzhen China South City's Commercial Property—Summary of No.1 Exchange Square

Operation Status		Management Status	
Rent	Shenzhen South City's commercial property is the largest in the city. The rent level is the highest in the city. The rent level is the highest in the city. The rent level is the highest in the city.	Management	It is managed by Shuangfeng Commercial in a unified manner and differentiated management. The operation and management of the self-owned part is obviously better than that of the leased part.
Vacancy rate	The vacancy rate of the self-owned part is 15%, and the vacancy rate of the leased part is 30%. The vacancy rate of some electronic industrial parks is higher than that of shopping malls.	Equipment	Elevators, escalators, toilets and other equipment are in normal operation.
Rental growth rate	The annual rental growth is about 15%.	Parking space	The 2nd basement floor is a parking lot, where the charging standard is low and parking irregularities are common.
Customer flow	The passenger flow is 150 persons throughout the week and 150 persons throughout the week. The overall performance is larger at night than during the day.	Facilities	The guidance system is not perfect.

Data Sources: CRIC Securities

For detailed research report, please contact us according to the home page.

Risk Warning

Market Risk

The research of this paper is made under the current market and financing environment, thus there will be a circumstance that market and financing environment suddenly become positive and conclusion of this paper become not in line with the actual situation.

Research Risk

Part of the conclusions of this paper are obtained through personnel field research, and there could be some deviations in the field research results due to the passage of time.

Data Risk

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