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**Equity Valuation -- China State Construction
International Holdings Ltd**

by

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City University of Hong Kong**

2011

CityU Student Research

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Construction Contractor

China State Construction International

Date: 2 November 2011

Ticker: 3311.HK

Current Price: HK\$6.25

Recommendation: Buy

Price Target: HK\$7.72

Table 1: Financial outlook

(HKD '000)	2009	2010	2011E	2012E	2013E
Revenue	9,706,121	11,982,871	14,738,931	17,686,718	21,224,061
Net Profit	704,181	1,062,668	1,412,047	1,685,214	2,064,780
Net Profit Growth (%)	90%	82%	33%	19%	23%
EPS (HKD)	0.23	0.32	0.34	0.43	0.53
DPS (HKD)	0.07	0.08	0.10	0.13	0.16
ROE (%)	21.6%	26.1%	20.1%	16.9%	18.4%

Sources: Company data, CityU estimates

Affordable Housing - a driver to move CSCI

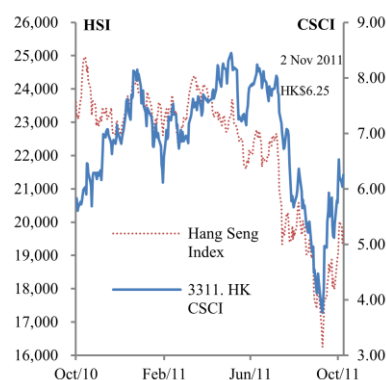
Table 2: Market Profile as at 2 Nov 2011

52 week price range	HKD 3.42 – 8.54
Average daily volume	12,559,756
Dividend yield	1.92%
Share outstanding	3,586M
Market cap	USD 2,874M
P/E	15.39
P/B	4.19
ROE	26.1%

Table 3: Shareholders

China Overseas Holdings	61.86%
Free Float	38.14%

Figure 1: One-year price performance of CSCI relative to HSI



Source: Bloomberg

Valuation. We initiate coverage on CSCI with a **BUY** rating and a target price of **\$7.72**. We evaluated CSCI by applying two techniques: Discounted Cash Flow and Multiples Analysis.

Growth drivers. 1. There will be substantial increase in high profit margin Build -Transfer (BT)¹ infrastructure investment projects² for affordable housing projects in the PRC; 2. CSCI has a cash cow business in HK cash construction³ market for public housing and civil engineering works.

Positioning. CSCI has 17% market share and ranks no. 1 in HK public works construction market. It also has 25% market share of public housing in HK. In the PRC, it is a leading player in investment infrastructure projects for bridges, highways and affordable housing.

Industry. Total new affordable housing in the PRC is expected to be 36 million units in the next five years (2011 to 2015), valued at about RMB 1 trillion per year on average. Public housing construction in HK remains steady. Construction demand from large civil works such as 10-mega infrastructure and high speed railway is strong.

Financials. Net profit CAGR for FY2011-15 is expected to be 22.7%, driven by strong sales growth and the improving margins due to change in revenue mix. CSCI has a strong balance sheet. CSCI has a net cash position currently and the net gearing ratio is expected to be maintained below 40% in the next few years.

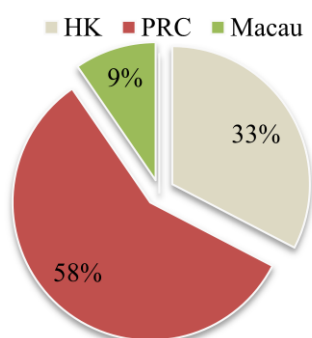
Risks. Default and payback risks from local governments in the PRC are guarded by a 4-step project selection process. Other risks included construction cost inflation and interest rate upside are mitigated.

¹ **Build -Transfer (BT)** A construction agreement formed between contractor and government. The contractor co-finances projects with banks, and government will pay upon project completion.

² **Infrastructure investment** A category of construction models that the contractor has to deal with project finance and management.

³ **Cash construction** A tradition construction model that the contractor is responsible only for project management.

Figure 2: Gross Profit by Market (FY2011H1)



Business Description

Company background

China State Construction International Holding Limited (CSCI; 3311.HK) was established in HK since 1979 and has been one of the largest construction contractors for public works. It currently takes up 25% of the public housing market and 17% in public projects. CSCI is a leading contractor of BT / BOT projects in the PRC.

Business distribution

CSCI conducts businesses principally in HK and the PRC. The company mainly focuses on **cash construction** projects in HK, and **infrastructure investment projects** in the PRC. The company expects to generate 80% of the net profit from infrastructure investment business by 2015 in light of its higher profit margin than that of cash construction.

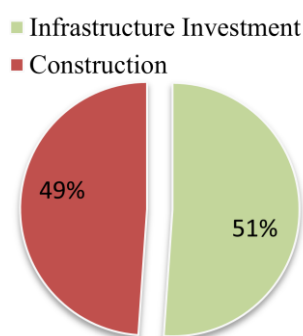
Shareholder structure

61.86% of CSCI's shares are held by China Overseas Holdings Limited (COHL), a wholly owned subsidiary of CSCEC. The intermediate parent company, China State Construction Engineering Corporation Limited (CSCEC; 601668.CN), is the largest contractor in the PRC and has 30 years of construction experience in the PRC.

Financial highlights

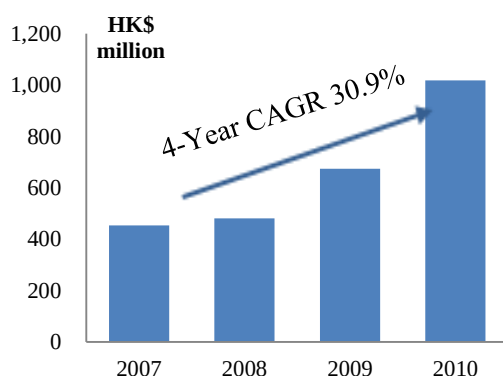
From FY2007 to FY2010, the EPS has increased from \$0.22 to \$0.32. The 4-year net profit CAGR is 30.9%. CSCI shows strong management capabilities to cope with economic downturn. In FY2008, CSCI still recorded a positive net profit growth under global financial tsunami while its peers recorded diminished profit under the same circumstances.

Figure 3: Gross Profit by Business Segment (FY2011H1)



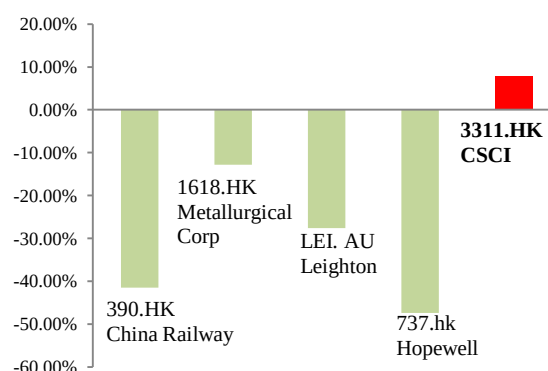
Source: Company data

Figure 4: Net profit Growth (FY2007 – 2010)



Source: Bloomberg

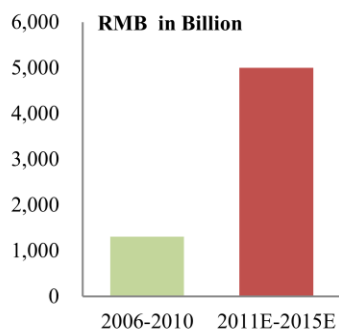
Figure 5: Peer Comparison - Net profit growth in FY2008



Industry Overview and Competitive Positioning

Demand: promising future in public construction in both the PRC and HK

Figure 6: Affordable Housing Market Value



Source: Ministry of Housing and Urban-Rural Development, the PRC

- Affordable housing in the PRC

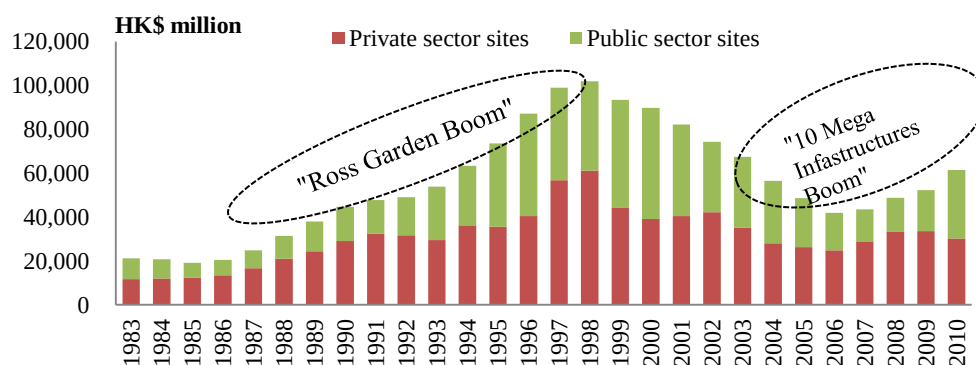
In 2006-2010, the robust development of construction industry has been driven by economic growth in the PRC. In the 12th 5-year plan, the PRC central government aggressively increased the number of target affordable housing units. It sets a target of 36 million units in total for the next 5 years (2011 – 2015). The total construction value is estimated to be RMB 5 trillion for the 5-year period from 2011 to 2015.

CSCI has targeted to achieve at least 1% of the total market share in the PRC affordable housing. The central government's affirmative attitude towards affordable housing policies guarantees CSCI stable earnings in the coming years, regardless of the economic fluctuations.

- Public housing and civil construction demand in HK

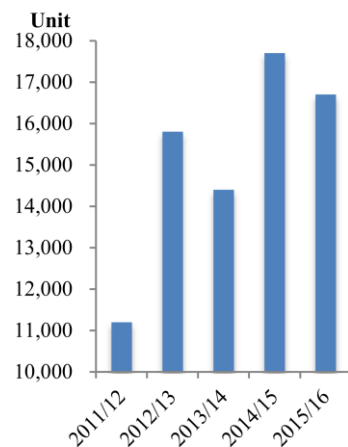
Boosted by 10-mega infrastructure projects, the gross value of construction works has been increasing steadily since 2008. A further expansion of construction industry in HK can also be expected in the coming 2-3 years.

Figure 7: Gross value of construction works performed by main contractors from 1983 to 2010 in HK



Source: Census and Statistical Department

Figure 8: Estimated Public Housing Production in HK (as at Oct 2011) (Excluded units from Housing Ownership Scheme)



Source: Housing Authority

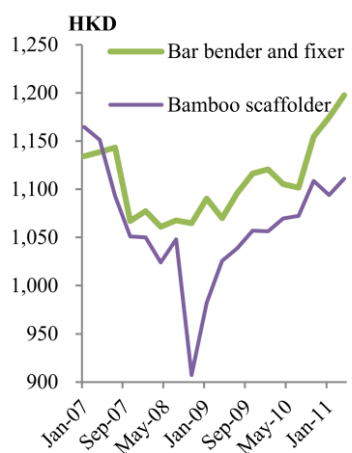
In 2011-2012 Policy Address, the government promised an annual supply of 15,000 units of public housing in the next five years. An addition total of 17,000 units of Housing Ownership Scheme is also in the plan. Thus, the foreseeable volume of public housing production could stabilize CSCI's future revenues in HK.

Supply: Labor and material costs

In HK market, many construction workers have left the industry since the recession in 2008. After the announcement of 10-mega infrastructure projects by HK government in 2009, the shortage of labour resource caused the labor costs to increase.

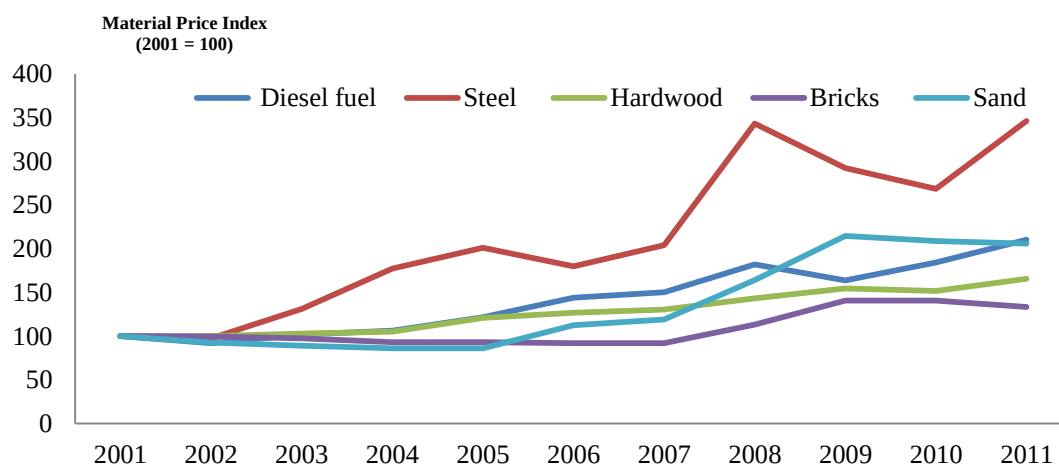
For the construction materials, the prices of some such as steel and diesel fuel show an increasing trend.

Figure 9: Daily wages of workers engaged in public sector construction projects



Source: Census and Statistics Department

Figure 10: Index Numbers of the Costs of Materials Used in Public Sector Construction Projects



Source: Census and Statistics Department

Fortunately, CSCI involves mainly in public works in which both labour and material costs can be fully passed on to the government. The profit margin of the projects can therefore be maintained regardless of the fluctuating construction costs.

In the PRC market, the construction costs of BT / BOT projects could be adjusted annually by local governments through price quota system which tracks the actual market price fluctuations, and thus maintain a fixed margin for CSCI. Therefore, inflation in material costs does not have significant effects on CSCI's profit margin.

Competitive positioning:

- Extensive experience and networks in HK

With more than 30 years of experience in HK construction market, CSCI has developed its strategies and accumulated strong project management capabilities. As a fully licensed and the biggest government contractor, CSCI has been building 25% public housing units in HK and attained 17% public works construction market share. The rich experience, high quality and advanced technology differentiate CSCI from its mainland competitors to compete in the PRC market.

- Dual financing channels in HK and the PRC

Compared with its peers which have no or little business exposure in HK, CSCI has substantial businesses in both the PRC and HK, allowing it to obtain bank loans from both regions depending on their interest rate levels. For instance, the current market interest rate for corporate loans in HKD is around 2 – 4%, which is less than the interest rate in the PRC for RMB loans (6 – 8%).

- Comprehensive support from parent company in the PRC

CSCEC, the parent company, supports CSCI's expansion plan in the PRC in several ways: 1. The better connections with local governments through the parent increase the chance to get projects. 2. The extensive experience of the parent in the PRC market can help to screen out local governments with poor financial status so as to reduce the default/payback risks in BT projects. 3. The parent's strategic partnership with big four commercial banks guarantees CSCI's financing channels in the PRC. 4. The parent is the CSCI's subcontractor for all projects in the PRC, providing sufficient labour resources and construction materials.

Investment Summary

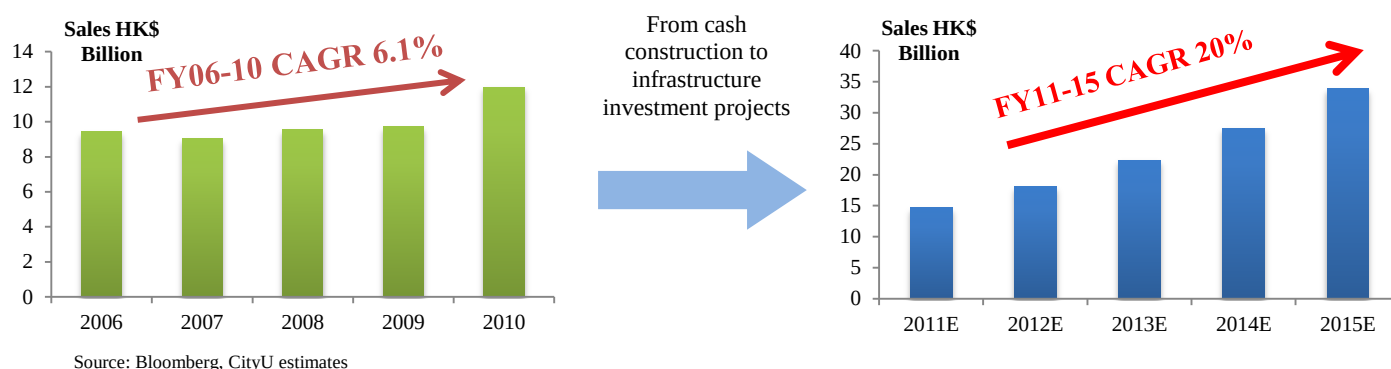
CSCI is the largest construction contractor for public projects in HK and a flagship company of a construction-related State-owned Enterprise, CSCEC, for the **affordable housing projects** in the PRC.

The affordable housing projects in the PRC and the public housing and civil engineering works in HK are the main growth drivers.

1. Strong upside factor from the PRC market - transformation from cash construction to Build – Transfer (BT) model of infrastructure investment projects

The business models of CSCI can be divided into infrastructure investment and cash construction. Traditionally, CSCI focused on cash construction in both the PRC and HK. The revenue growth was stable (FY06-10 CAGR = 6.1%) and the profit margin of the public projects was steady (between 2 to 7% depending on the construction demand).

Exhibit 1: Transformation from cash construction to BT model



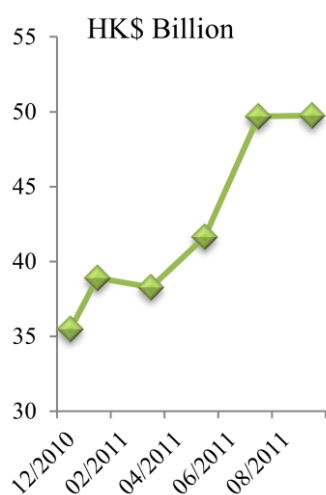
In 2009, CSCI started to diversify into infrastructure investment projects in the PRC.

In infrastructure investment segment, CSCI specializes in **Build – Transfer (BT)** for **affordable housing**. A unique feature of this model is that the project is co-financed by the contractor and banks. CSCI could therefore **require a higher profit margin** due to its financing to projects during the construction phase.

BT model is especially favorable under current credit crunch condition of the local governments, and CSCI has the ability to source funding from both HK and the PRC side.

CSCI has accumulated six affordable housing BT projects in thirteen months (June 2010 to July 2011), which amounted to over HK\$ 9.86 billion. The government's determination in 12th 5-Year Plan for 2011 – 2015 on affordable housing has further pushed construction demand. Based on macro demand, we believe CSCI would continue to grow its BT businesses in the PRC.

Figure 11: Project value not yet booked
(Dec 2010 – Sept 2011)



2. Cash cow opportunities from HK market – negative working capital supports BT affordable housing projects in the PRC

Taking government cash construction projects in HK gives CSCI a **negative working capital position**, facilitating the expansion of BT affordable housing projects. CSCI receives a monthly payment from the government for the public works in HK, while it does not need to pay immediately to the suppliers. This negative working capital position (account receivable↓ + inventory – account payable↑) is beneficial to CSCI. The increase in net operating cash flow would reduce the financial burden and act as a source of funding to support BT projects in the PRC.

As at 30 September 2011, the new contracts awarded for FY2011 are valued at HK\$25.79 billion. Given the company target HK\$ 30 billion, CSCI has achieved 86% of the full year target of 2011, which is ahead of the company expectations of 75%.

Furthermore, the project value yet to be booked as at the end of third quarter of FY2011 is estimated to be HK\$49.75 billion, which is about equal to the 2-year sales forecast of our projection for FY2012-13, implying a strong forward earning visibilities.

Valuation

Table 4: DCF Assumptions

Debt/Equity	40%
Beta	1.3
Risk-free Rate	1.5%
Market Return	10.0%
Cost of Equity	12.3%
Cost of Debt	4.6%
WACC	9.9%

Sources: Bloomberg, CityU estimates

We evaluate CSCI by applying two methods: **Discounted Cash Flow (DCF)** and **P/E Multiples**.

Discounted Cash Flow analysis

Our DCF model values CSCI at **\$7.81** per share for the start of 2012. The value is calculated by summing up the free cash flows to the firm generated from the PRC and HK businesses. Figures used in the model are broken down by assuming the followings:

Sales: Revenues from the PRC and those from HK are expected to account for 60% and 40% respectively by 2015.

Gross margin⁴: The overall gross margin will reach 13.5% by 2015 from 11% in 2010 because of its active expansion plan in the PRC.

Net profit: Starting from 2015, the proportions of net income attributed to the PRC and HK operations are 75% and 25% respectively.

Terminal growth: The terminal growth stage of the PRC businesses will start from 2020, and that of Hong Kong will start from 2017. The terminal growth rates for both regions are 3%.

Assumptions made on the regional businesses are as follows:

In the PRC, revenues will increase dramatically because of both 1) CSCI's desire to shift the focus from HK to the PRC and 2) Central government's policy to grow the affordable housing industry in which CSCI will be actively participating. The BT/BOT projects that will be deployed in the PRC are expected to attract the higher gross margin at 14-18%.

In HK, the revenues will grow smoothly since the management intends to reserve the resources for the expansion plan in the PRC. Notwithstanding, the 10-mega projects and the reactivation of Home Ownership Scheme will improve the industry prospects. Gross margin will be about 7-10%.

Table 5: Sensitivity Analysis

↓WACC	Terminal Growth Rate →				
	2.0%	2.5%	3.0%	3.5%	4.0%
9.0%	\$8.27	\$8.80	\$9.42	\$10.14	\$11.02
9.5%	\$7.53	\$7.97	\$8.48	\$9.07	\$9.77
9.9%	\$6.99	\$7.37	\$7.81	\$8.31	\$8.91
10.0%	\$6.32	\$6.63	\$6.99	\$7.40	\$7.87
11.0%	\$5.81	\$6.08	\$6.39	\$6.74	\$7.13

Table 6: CSCI's ROE and Peers' ROE and P/E

CSCI's 3-year average ROE	22.70%
Peers' 3-year average ROE	12.90%
Peers' 3-year average P/E	17.52x

Sources: Bloomberg

Source: CityU estimates

P/E valuation

We worked out a market-based target price by comparing the valuation of the peers in infrastructure and building sector with that of CSCI's.

We look at the P/E ratio since we believe this is the most common way that the market values the company. Given improving and superior performance of CSCI, we apply a P/E multiple at 17.52x, which is the average P/E of the peers over the last three years. With CSCI's superior ROE performance comparing to its peers, we believe this multiple could be conservatively used.

The price derived is **\$7.62** per share for FY2012.

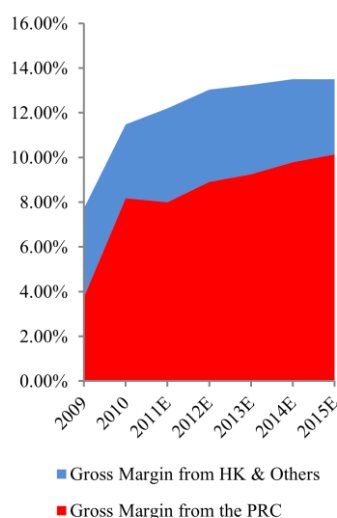
Summary of valuation

We estimate a 2012 year start target price of **\$7.72**. The price is the average of the prices implied by the DCF model and the P/E multiple.

⁴ Gross margin refers to sales revenues minus its cost of sales, divided by the sales revenues.

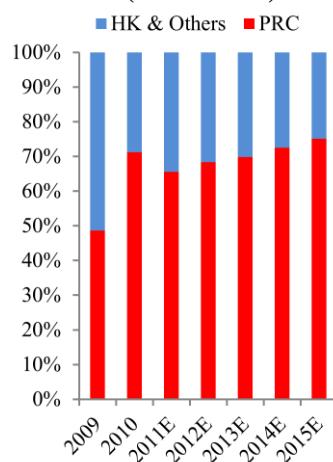
Financial Analysis

Figure 12: Gross margin breakdown
(FY2009 – 2015)



Source: Company data, CityU estimates

Figure 13: Revenue breakdown
(FY2009 – 2015)



Source: Company data, CityU estimates

Sales: Growth promised by active participation in the PRC

PRC: Expansion in affordable housing market in the PRC

With Central Government's determination to build 36 million units of affordable housing by 2015 as proposed in the 12th 5-year plan, five trillion of revenues are expected to be brought to the industry. The company expects to take up at least 1% of the affordable housing market share or 360,000 units by 2015. This can bring more than RMB 10 billion of revenues to the company per year on average.

HK: A healthy market

The total revenue contribution by HK to the company is expected to decrease from 60% to about 40% by 2015. Nevertheless, Hong Kong still presents with profitable opportunities for CSCI because of the 10-mega infrastructures projects and other public projects such as the redevelopment plan in many HK areas.

Margins: Focus shifting leads to improvements in profitability

Changes in the regional mix: The PRC market contributed 40% of sales in 2010 but accounted for about 70% of gross profits. The company plans to increase Chinese sales to 60% by 2015 and to expand company's overall margin to about 13.5%.

Changes in product mix: As BT/BOT requires more professional knowhow in financial management, the gross margin is higher than the traditional cash construction model. Along with the rapid expansion to affordable housing market in the PRC, management has targeted 67% revenue from BT/BOT by 2015.

ROE: Superior with outstanding profit margin

CSCI's profit margin has been improved from about 2% in 2005 to 8.2% in 2010 because of greater exposure to the PRC market. Though the asset turnover is not as impressive as the profit margin at 0.7x, its ROE is the highest at 26.1%, with lower than average leverage.

Table 7: Peer comparison – ROE in 2010

Company Name	Ticker	Profit Margin	Asset Turnover (X)	Assets/Equity	= ROE
China State Construction Int'	3311-HK	8.9%	0.7	4.2	26.1%
China Communications Construction	1800-HK	3.6%	1.0	4.3	14.9%
China State Construction	601668-SS	2.6%	1.0	3.8	10.3%
China Railway	390-HK	1.6%	1.3	5.3	11.3%
China Railway Construction	1186-HK	0.9%	1.4	6.0	8.1%
Hopewell Infrastructure	737-HK	27.6%	0.2	1.9	12.0%
Metallurgical Corp. of China	1618-HK	2.6%	0.8	5.4	11.0%
Shanghai Construction	600170-SS	1.3%	1.5	5.8	11.8%

Source: Bloomberg

Earnings: A healthy level of growth

With strong sales growth along with the improving margins due to focusing on BT/BOT projects, CSCI's net profit is expected to increase at CAGR 22.7% from 2011 to 2015.

Financial structure: Sufficiently sound for further growth

BT/BOT is a business model which requires the contractor to have strong balance sheet. With net cash position after the rights issue last year, the company is financially sound to participate in affordable housing projects in the PRC. The net gearing ratio⁵ is expected to be maintained below 40% for FY2011-2015.

Table 8: Net gearing ratio

	2008	2009	2010	2011 E	2012E	2013E	2014E	2015E
Net Gearing Ratio	-39.89%	-56.10%	35.13%	6.53%	20.21%	30.55%	23.60%	10.08%

Source: Company data, CityU estimates

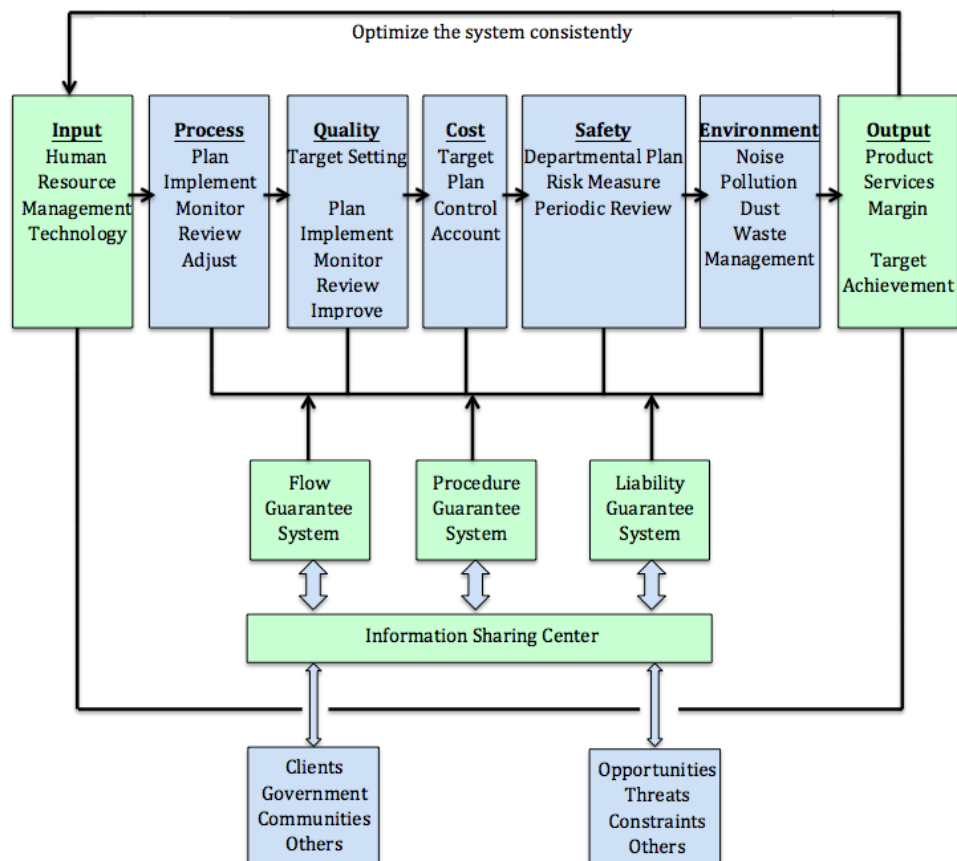
⁵ Net gearing ratio refers to total debt minus cash and cash equivalents, divided by the common equity. A negative number means a net cash situation

Corporate Governance and Social Responsibility

CSCI devotes itself to consistently improve its corporate governance. In May 2011, the company was admitted as a member of **The Chamber of Hong Kong Listed Companies (the “Chamber”)** and signed **The Hong Kong Corporate Governance Charter (the “Charter”)** on 17 May 2011. Being on boards of the Chamber demonstrates CSCI’s commitment to further highlight the spirit and substance of corporate governance by reinforcing its policies and decision-making processes.

In CSCI, the “5+3” system contributes to today’s leadership position in HK construction market. This innovative project management also includes elements of good corporate governance and social responsibility.

Figure 14: 5+3 Project Management System



Source: Company data

Quality control

CSCI emphasizes its quality control. The quality management system is established in accordance with the requirements of ISO9001. CSCI has won quality-related awards from various accredited authorities. CSCI has also organized regular training courses to promote quality awareness among staff and subcontractors.

Safety and insurance

CSCI pays close attention to the safety issues in workplaces. The safety and audit systems are designed in accordance with the requirements of OHSAS18001. Insurance policies are implemented to cover potential risks of contractors and employees in case of accidents.

Environment

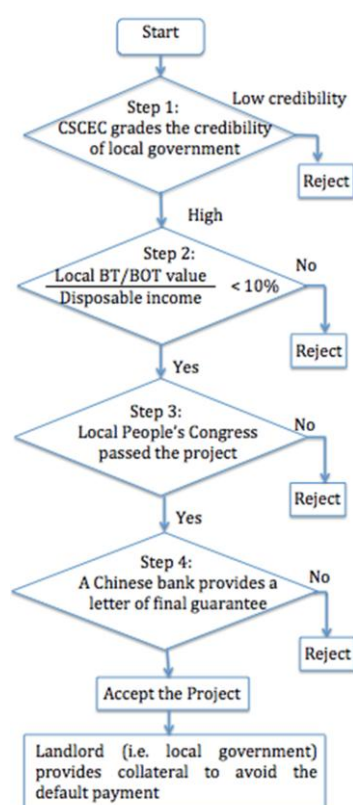
It is CSCI's company policy to continuously improve its environmental management system to ensure a healthy growth of the company's business. The system is accredited by HKQAA ISO 14001 certification in 1998. CSCI has also won various awards for its environmental-friendly projects.

Social responsibility

The company has been participating in social activities from time to time and it encourages its employees to join the activities that promote social responsibilities.

Investment Risks

Figure 15: 4-Step Project Selection Process



Source: Company data

1. Default/Deferral in payment risk

CSCI relies heavily on affordable housing projects in the PRC to sustain its growth. This could result default/deferral in payment risk from the local governments in the PRC. However, we expect that the payment-related risks are mitigated.

CSCI has developed a systematic **4-step project selection process** to reduce the default/deferral in payment problems from the local governments, which CSCI will go through before committing to the projects. Basically, CSCI will only cooperate with the municipals that have good financial resources and committed attitude towards affordable housing.

2. Material & labour cost inflation

The construction cost inflation could erode CSCI's profit but these problems would be reduced by two similar cost-adjusting systems.

Affordable housing projects in China are in BT model. All the specific costs of the contracts are under the protection of **price quota system**, in which the contract costs are reviewed annually for price fluctuations.

For CSCI's public works in HK, the government would share the risk through the **Contract Price Fluctuation System (CPFS)**. The government would compensate the increase in material and labour cost every 21 months. (Source: Development Bureau)

3. Interest rate upside risk

CSCI requires large capital investment to finance affordable housing BT projects (20% of the project value) in the PRC and thus has lots of bank borrowings. The hike in interest rate could increase the finance costs and hurt the profitability. We believe that the loan interest rate in the PRC will be higher than that of HK in the next five years. CSCI could alleviate the burden by shifting part of the loans to HK which has a lower interest rate than RMB-denominated loans.

4. Financial risk

CSCI involves in heavy loans to finance the BT projects (80% of the project value) in the PRC. A higher financial leverage is thus expected. Increase in financial leverage could make the group more vulnerable to business downturn and drive up its cost of borrowing. CSCI has restricted its net gearing ratio with no more than 40%, thus lowering the risk exposure to call-loan problem.

Appendix I: Financial Statements

Table 9: Income statement

Income Statement (HKD m)

	2009	2010	2011E	2012E	2013E
Combined Sales from Group and Jointly Controlled Entities	12,673	13,967	17,732	21,279	25,535
Sales from Jointly Controlled Entities	2,967	1,984	2,994	3,592	4,311
Group Sales	9,706	11,983	14,739	17,687	21,224
Group Cost of Sales	(8,957)	(10,667)	(12,926)	(15,381)	(18,412)
Group Gross Profit	750	1,316	1,813	2,305	2,812
Administrative Expenses	(356)	(467)	(513)	(683)	(809)
Selling & Distribution Expenses	(10)	(5)	(6)	(7)	(8)
Other Expenses	(22)	(26)	(32)	(39)	(47)
Other Income	88	84	84	117	163
Share of Associates	12	20	24	28	33
Share of Jointly Controlled Entities	309	322	396	475	570
EBIT	771	1,244	1,765	2,196	2,713
Interest Income	18	48	66	40	53
Finance Expense	(13)	(16)	(179)	(265)	(352)
Taxation	(72)	(213)	(239)	(286)	(350)
Net Profit	704	1,063	1,412	1,685	2,065
Net Profit Attributable to Minority Interest	53	80	106	126	155
Net Profit Attributable to Shareholders	652	983	1,306	1,559	1,910
Avg. Number of Fully Diluted Shares	2,802	3,042	3,586	3,586	3,586
Earnings per share (HKD)	0.23	0.32	0.36	0.43	0.53
Dividends	187	252	342	468	573
Dividends per share (HKD)	0.07	0.08	0.10	0.13	0.16

Sources: Company data and CityU estimates

Table 10: Ratio analysis

	2009	2010	2011E	2012E	2013E
Group Gross Profit Margin	7.7%	11.0%	12.3%	13.0%	13.3%
S & GA to Sales	3.8%	3.9%	3.5%	3.9%	3.9%
EBIT Margin	7.9%	10.4%	12.0%	12.4%	12.8%
Effective Tax Rate	9.3%	16.7%	14.5%	14.5%	14.5%
Net Profit Margin	7.3%	8.9%	9.6%	9.5%	9.7%
Payout Ratio	29%	26%	26%	30%	30%

Sources: Company data and CityU estimates

Table 11: Balance sheet

Balance Sheet (HKD m)

	2009	2010	2011E	2012E	2013E
Intangible Assets	10	10	10	10	10
LT Receivables (All BT Projects)	687	1,978	3,984	6,628	9,288
Tangible Fixed Assets	4,552	7,775	6,599	6,816	7,788
Fixed Assets	5,248	9,763	10,594	13,454	17,086
Cash and Cash Equivalents	5,858	3,728	7,023	7,036	7,646
Receivables	3,744	4,748	5,601	6,721	8,065
Other Current Assets	463	440	1,626	3,347	4,788
Current Assets	10,064	8,917	14,250	17,104	20,500
Total Assets	15,313	18,679	24,844	30,558	37,586
Payables	6,851	7,543	7,664	9,197	11,037
Short- term Debt	249	-	1,775	1,129	2,102
Other Current Liabilities	635	689	2	674	1,896
Current Liabilities	7,735	8,232	9,441	11,001	15,034
Long- term Debt	3,640	5,351	5,679	8,038	9,174
Other Non- current Liabilities	274	473	269	972	1,494
Total Liabilities	11,649	14,056	15,388	20,011	25,702
Retained Earnings for the Year	456	688	914	1,091	1,337
Other Capital & Reserve	3,054	3,931	8,539	9,453	10,544
Shareholders' Equity	3,510	4,619	9,453	10,544	11,881
Minority Interest	154	4	2	2	2
Total Equity	3,664	4,623	9,456	10,547	11,884
Total Liabilities & Equity	15,313	18,679	24,844	30,558	37,586

Sources: Company data and CityU estimates

Table 12: Statement of Cash Flow

Cash Flow Statement (HKD m)

	2009	2010	2011E	2012E	2013E
Net Income	704	1,063	1,412	1,685	2,065
Depreciation	115	137	177	212	255
Change in WC	3,227	(313)	(732)	413	495
Decrease in LT Receivables (All BT Projects)	-	-	94	56	580
Other Items	(2,478)	1,930	-	-	-
Operating Cash Flow	1,568	2,816	951	2,366	3,395
Investing Cash Flow					
Capital Expenditures	(1,128)	(3,227)	(1,500)	(1,800)	(2,160)
Increase in LT Receivables (BT Housing)	(299)	(1,291)	(1,500)	(1,800)	(2,160)
Other Items	(212)	(1,999)	-	-	-
Cash Flow from Investing	(1,639)	(6,517)	(3,000)	(3,600)	(4,320)
Financing Cash Flow					
Net New Debt	2,512	1,462	2,102	1,714	2,108
Net New Equity	-	-	3,584	-	-
Dividends	(187)	(252)	(342)	(468)	(573)
Other Items	1,223	328	-	-	-
Cash Flow from Financing	3,548	1,539	5,344	1,247	1,536
Exchange Rate Effect	(3)	32	-	-	-
Net Increase In Cash	3,474	(2,130)	3,295	13	610

Sources: Company data and CityU estimates

Table 13: Free cash flow (Regional)

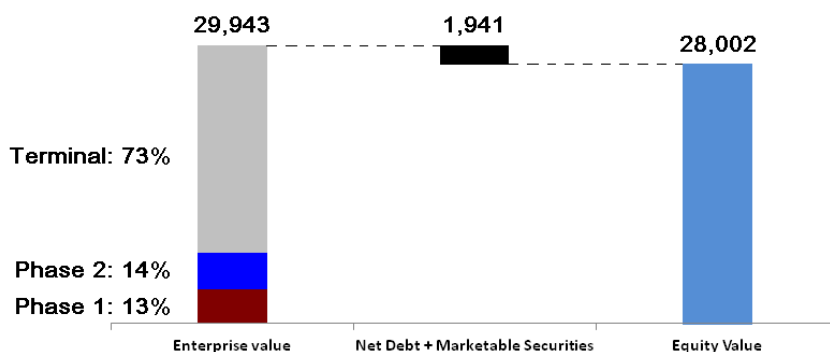
	2009	2010	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
PRC Cash Flow Estimates												
Sales	2,134	4,825	5,896	7,959	10,612	14,008	18,338	21,088	24,251	32,618	40,447	45,907
EBIT	375	886	988	1,501	1,927	2,463	3,088	3,642	4,308	5,794	7,185	8,154
NOPAT	347	769	820	1,298	1,675	2,136	2,680	3,155	3,725	5,010	6,213	7,052
Capex, net	(547)	(2,590)	(2,460)	(3,105)	(3,780)	(4,601)	(5,599)	(6,439)	(7,404)	(9,959)	(12,349)	(14,016)
Depreciation	25	55	71	96	127	168	220	253	291	391	485	551
Change in Working Capital	710	(126)	(293)	186	248	327	428	385	443	596	739	838
Decrease in LT Receivables	-	-	94	56	580	2,830	4,450	3,564	4,277	5,752	7,133	8,096
Free Cash Flow	534	(1,892)	(1,768)	(1,469)	(1,150)	861	2,180	918	1,332	1,791	2,221	2,520
HK & Others Cash Flow Estimates												
Sales	7,572	7,158	8,843	9,728	10,612	11,461	12,225	14,059	16,168			
EBIT	396	358	778	695	786	887	975	1,150	1,360			
NOPAT	352	261	706	612	688	773	839	988	1,166			
Capex, net	(880)	(1,927)	(540)	(495)	(540)	(583)	(622)	(715)	(823)			
Depreciation	89	82	106	117	127	138	147	169	194			
Change in Working Capital	2,518	(187)	(439)	227	248	267	285	257	295			
Free Cash Flow	2,079	(1,771)	(167)	461	523	594	649	698	833			

Sources: Company data and CityU estimates

Appendix II: Valuation

Figure 16: Valuation model

Discounted free cash flow (,000 HKD)		%EV
Phase 1 : NPV (FCF)	3,831,877	13%
Phase 2 : NPV (FCF)	4,288,612	14%
NPV (Terminal value)	21,822,362	73%
Enterprise value	29,942,852	
Net Debt in 2012	(2,131,273)	
Marketable securities	190,057	
Equity Value	28,001,635	
No. of share	3,586,251	
Target share price	7.81	

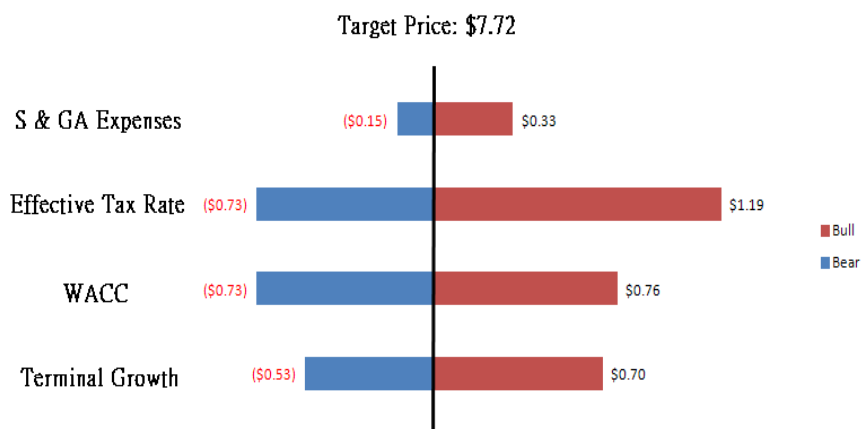


Source: CityU estimates

Figure 17: Scenario Analysis

Sensitivity Analysis Assumptions

	Bear	Bull
S & GA Expenses	110%	90%
Effective Tax Rate	15.5%	13.5%
WACC	10.5%	9.5%
Terminal Growth	2.0%	4.0%



Source: CityU estimates

Appendix III: Peer comparison

Table 14: Peer comparison (valuation)

		P/E				P/B			EV/EBITDA			ROE		
Ticker	Name	Mkt Cap (US\$ mil)	2010	2011E	2012E	2010	2011E	2012E	2010	2011E	2012E	2010	2011E	2012E
3311 HK	CSCI	2,822	20.98	17.78	14.06	4.73	2.14	2.08	14.59	11.41	9.20	24.20	20.06	16.85
Infrastructure construction sector														
600170 CH	SHANGHAI CONSTRUCTION	1,918	16.58	8.37	7.28	1.97	n.a	n.a	3.61	n.a	n.a	12.59	12.25	13.12
737 HK	HOPEWELL HIGHWAY	1,655	16.98	12.34	13.29	1.96	1.53	1.47	12.28	9.48	9.14	11.49	12.18	11.32
1618 HK	METALLURGICAL CORP	8,505	10.39	5.15	4.20	1.24	0.56	0.50	11.85	10.16	8.44	12.71	12.45	13.46
1800 HK	CHINA COMM CONST	11,664	8.60	6.70	6.15	1.42	1.08	0.94	7.55	6.18	5.35	17.19	16.80	16.52
1186 HK	CHINA RAILWAY CONSTRUCT	9,087	23.05	6.74	6.25	1.71	0.84	0.76	4.74	3.49	3.14	7.67	13.66	13.16
390 HK	CHINA RAILWAY GROUP LTD	10,205	13.51	7.00	6.39	1.52	0.72	0.66	8.28	6.55	5.93	11.73	11.21	11.05
601668 CH	CHINA STATE CONSTRUCTION	15,993	11.03	8.18	6.23	1.33	1.13	0.94	6.39	6.39	4.78	12.36	13.28	14.71
	Average		14.31	7.78	7.11	1.59	0.98	0.88	7.81	7.04	6.13	12.25	13.12	13.33
Construction / infra machinery sector														
1072 HK	DONGFANG ELECTRIC CORP	7,397	25.15	12.65	11.16	5.93	2.89	2.35	16.73	9.64	8.53	26.42	25.28	23.03
1157 HK	ZOOMLION HEAVY INDUSTRY	11,774	15.51	9.61	8.17	3.15	2.04	1.71	14.01	8.58	7.12	26.81	24.06	23.34
2727 HK	SHANGHAI ELECTRIC GRP	11,195	19.86	11.83	10.71	2.07	1.27	1.16	20.39	12.85	11.31	11.25	10.82	10.99
3339 HK	LONKING HOLDINGS	1,753	8.79	6.17	5.74	2.94	1.59	1.33	7.88	5.76	5.34	39.11	28.95	25.05
3808 HK	SINOTRUK HONG KONG	1,689	12.58	7.44	7.14	1.03	0.56	0.52	6.76	6.06	5.60	8.46	7.66	8.09
631 HK	SANY HEAVY EQUIPMENT	2,910	30.36	20.26	15.07	4.24	3.39	2.83	23.70	16.00	11.61	14.96	17.60	20.32
601106 CH	CHINA FIRST HEAVY	4,164	45.69	28.70	22.36	2.36	1.53	1.44	29.17	21.35	16.07	7.57	5.85	6.78
	Average		22.56	13.81	11.48	3.10	1.89	1.62	16.95	11.46	9.37	19.23	17.18	16.80
Building material sector														
323 HK	MAANSHAN IRON & STEEL	3,379	24.54	25.38	14.11	0.99	0.56	0.54	6.05	6.20	5.43	4.10	2.49	4.44
347 HK	ANGANG STEEL CO	5,894	35.52	38.63	17.91	1.35	0.54	0.53	8.94	8.10	6.85	3.86	1.67	2.98
914 HK	ANHUI CONCH CEMENT	17,716	17.76	10.04	9.14	3.17	2.76	2.24	11.12	6.60	6.08	19.64	30.63	25.62
600019 CH	BAOSHAN IRON & STEEL	14,761	8.64	8.46	7.01	1.07	0.85	0.79	5.83	5.79	5.13	12.90	9.33	10.64
	Average		21.62	20.63	12.04	1.64	1.18	1.02	7.98	6.67	5.87	10.12	11.03	10.92
	Blended average of CSCI peers		19.14	12.98	9.91	2.19	1.40	1.22	11.40	8.78	7.40	14.49	14.23	14.15

Source: Bloomberg, CityU estimates

Table 15: Peer comparison (growth, profitability and others)

	Ticker	Name	Growth (%)						Profitability (%)						Solvency (X)			Cap Ex/Sales (%)								
			EBITDA			EBIT			Net Profit			EBITDA			Profit Margin				ROA			Total Assets/ Equity	Asset Turnover (X)			
			Sales growth	Growth	EBITDA	Growth	EBIT	EBIT Growth	Net Profit growth	Margin	EBITDA Margin	EBIT Margin	Profit Margin	ROA	Net Debt /EBITDA	Net Debt /Equity										
Infrastructure construction sector	2010	2011E	2010	2011E	2010	2011	2010	2011E	2010	2011E	2010	2011E	2010	2011E	2010	2011E	2010	2011E	2010	2011E	2010	2011E	2010	2011E		
	23.46	23.00	55.87	40.69	61.31	41.93	81.61	32.88	11.52	13.18	11.38	8.87	9.58	6.25	6.49	1.72	35.06	4.18	0.71	3.77	2010	2010	3.77	2010		
	27.46	n.a	-1.70	n.a	11.28	n.a	24.43	n.a	2.38	n.a	1.29	n.a	1.32	n.a	2.04	n.a	-6.29	-118.14	5.78	1.54	4.27	2010	2010	4.27	2010	
	14.39	9.64	3.95	13.63	2.57	12.75	-9.77	-2.80	47.70	77.26	37.96	59.76	27.62	40.21	6.23	6.69	2.41	47.65	1.93	0.23	4.23	2010	2010	4.23	2010	
	24.71	23.09	28.33	14.80	29.16	22.40	20.25	15.52	6.10	6.21	5.08	5.02	2.58	2.45	2.05	1.60	5.62	128.84	5.39	0.79	4.66	2010	2010	4.66	2010	
	20.19	16.15	14.12	22.53	10.60	25.69	36.99	35.87	6.75	7.39	4.75	5.39	3.62	3.60	3.45	3.64	2.37	59.70	4.33	0.95	3.47	2010	2010	3.47	2010	
	32.28	19.18	2.70	40.81	-14.36	50.30	-35.65	57.38	3.10	4.07	1.38	2.29	0.93	1.60	1.34	2.40	-1.45	-34.16	6.01	1.44	3.60	2010	2010	3.60	2010	
	36.54	20.06	21.08	6.50	25.72	6.43	8.95	-7.52	3.44	3.86	2.32	2.62	1.64	1.48	2.14	2.08	1.88	38.89	5.28	1.30	2.09	2010	2010	2.09	2010	
	41.92	34.78	38.39	43.12	38.58	n.a	51.63	37.57	5.86	6.26	5.21	n.a	2.60	2.61	2.66	6.27	0.21	4.14	3.85	1.02	4.55	2010	2010	4.55	2010	
	Construction /infra machinery sector	14.73	18.47	53.96	34.84	53.68	30.88	54.88	31.48	9.67	10.50	7.20	8.13	6.92	7.32	3.31	3.80	-1.49	-44.84	7.00	0.48	6.92	2010	2010	6.92	2010
55.06		42.28	79.52	61.30	85.12	60.24	90.68	67.12	19.33	20.40	18.04	19.11	14.49	15.77	9.63	11.04	0.41	9.04	2.30	0.66	3.56	2010	2010	3.56	2010	
9.26		12.49	16.78	6.29	18.64	6.19	13.46	10.22	6.52	6.99	4.52	5.42	4.42	4.46	2.96	3.44	-5.06	-58.57	2.85	0.67	5.20	2010	2010	5.20	2010	
74.18		23.38	129.93	34.33	141.58	39.66	120.70	24.29	21.18	18.92	19.44	17.60	14.69	12.85	15.20	12.03	1.87	88.30	2.57	1.03	4.24	2010	2010	4.24	2010	
42.13		2.57	88.87	-3.30	103.51	-14.47	76.96	-0.49	8.59	7.93	6.44	5.47	3.73	3.60	3.17	2.96	0.80	13.38	2.73	0.85	3.61	2010	2010	3.61	2010	
41.13		38.76	33.47	38.12	33.65	41.06	36.72	28.28	27.44	27.89	25.92	26.82	24.99	23.42	11.82	13.90	-3.78	-57.00	1.24	0.47	19.10	2010	2010	19.10	2010	
-6.08		20.47	-20.59	-15.65	-33.96	-4.72	-33.59	-7.89	16.08	14.06	10.20	13.45	9.26	8.60	3.10	3.34	0.75	6.07	1.70	0.33	10.59	2010	2010	10.59	2010	
Building material sector		25.05	24.62	19.96	-8.55	106.51	-33.20	180.74	-42.16	11.42	8.18	3.71	1.86	1.75	0.80	1.59	0.82	2.26	56.49	2.51	0.91	3.32	2010	2010	3.32	2010
		31.56	10.71	29.58	-16.54	99.88	-44.68	174.60	-72.48	11.33	9.34	3.52	2.17	2.23	0.69	1.95	1.17	3.29	60.19	1.94	0.87	5.28	2010	2010	5.28	2010
		38.04	49.59	62.77	107.48	76.44	126.58	75.80	126.23	30.80	39.52	24.96	34.54	17.86	24.86	11.49	18.51	1.13	33.17	1.72	0.64	25.92	2010	2010	25.92	2010
	36.45	13.80	39.83	-11.44	105.26	-16.69	121.61	-17.45	14.81	n.a	8.24	n.a	6.38	n.a	6.18	4.51	1.92	50.15	1.94	0.97	6.56	2010	2010	6.56	2010	

Source: Bloomberg

Appendix IV: Glossary

4-step project selection process A process that is implemented by CSCI to select a healthy and profitable BT affordable housing projects.

5+3 Project Management A project management system developed by CSCI with 5 factors: process, quality, cost, safety and environment, supported by 3 systems: flow guarantee system, procedure guarantee system and liability guarantee system.

Affordable housing Houses that their prices or rentals are lower than market levels, targeting at low/middle income group.

BOT (Build, Operate and Transfer) A contractual agreement that the contractor first finances and constructs the project and is granted the infrastructure operating right by the government. The right will be transferred to the government after a certain years.

BT (Build and Transfer) A construction agreement formed between contractor and government. The contractor co-finances projects with banks, and government will pay upon project completion.

Cash construction A tradition construction model that the contractor is responsible only for project management.

CAGR Compound Annual Growth Rate

Contract Price Fluctuation System (CPFS) A system that Hong Kong government adjusts labor and material inflation (positive or negative) in public construction contract every 21 months.

Contractor An organization that contracts with the counterparty (the land-owner or developer) for the construction of a building, road or other facilities.

Disposable income Local government's tax income with regular expenses such as education, health and public expenditure excluded.

Infrastructure investment A category of construction models that the contractor has to deal with project finance and management.

ISO14001 A series of international standards relates to environmental management passed in 2008, designed to help organizations to minimize their operations negatively affected the environment (i.e. adverse changes to air, water, or land), published by ISO in 1999.

ISO9001 A series of international standards relates to quality management system, designed to help ensure the organizations meet the needs of customers and other stakeholders, published by International Organization Standardization (ISO) in 2008.

Letter of final guarantee A guarantee issued by a third-party Chinese bank states that the bank will promise final payment in case of local governments' deferral.

Local People's Congress Lower level congresses under National People's Congress (i.e. the people's congresses of provinces and townships) which elect government officials and approve plans for social development.

OHSAS18001 An international occupational health and safety management system specification that is to help organizations minimize the risk to employees.

Price quota system A system adopted by local governments in the PRC that is to adjust material and labour costs annually in pricing public projects. A booklet of detailed construction costs is published annually by local government.

Subcontractor An entity that signs a contract with the contractor to perform parts or all of the obligations of another's contract.

The Chamber of Hong Kong Listed Companies A non-profit organization serving listed companies and other industry bodies in Hong Kong; striving to promote sound corporate governance and uphold Hong Kong's position as an international trade, commercial and financial centre.

The Hong Kong Corporate Governance Charter A charter contains sound corporate governance; emphasizes company culture, leadership, relationship, internal controls, corporate social responsibility and business ethics. It is developed by The Chamber of Hong Kong Listed Companies and Public Policy of the Hong Kong Baptist University.

Twelve five year plan The 12th series (for the year 2011-2015) of economic development initiatives drafted by the Communist Party of China and approved by the Central Committee and national congresses. The plan covers major topics related to country development, such as industry, services, education, social welfare and environment.

Appendix V: Company information

Table 16: Construction Licenses held by CSCI in HK and the PRC

Region	Category	License
HK	5 Major Categories (Building, Waterworks, Road & Drainage, Port and Site Formation)	Group C
PRC	Building & Foundation	Class I
PRC	Supervisory Consultancy	Class A in 9 Categories
PRC	Pre-cast Production	Grade II

Table 17: CSCI's Construction awards in 2010 (partial list)

Award Name	Authority	Award(s)
Considerate Contractors Site Award Scheme 2010 - Public Works - New Works	Development Bureau and Construction Industry Council	1 Gold, 1 Silver, 1 Merit
CEDD Award Scheme for Good Performers on Construction Site Safety	Civil Engineering and Development Department	CEDD Safety Award 2009 – Gold Award
The 10th Hong Kong Occupational Safety & Health Award (2011)	Occupational Safety Health Council	Pointing and Calling Silver Award, Safety Management System Silver Award - Construction

Table 18: CSCI's Corporate Social Responsibility activities

Corporate Social Responsibility activities in 2010
"Community Chest Walks for Millions Hong Kong Island and Kowloon 2010"
"Run-up Two IFC Charity Race 2010"
"Art in Hospital"
"Love and Care Visit to China Overseas Project Hope Schools"
"Walk for the Environment 2010"
"The Gas Station for Schoolwork"

Corporate Social Responsibility activities in 2010

Source: Company data

Appendix VI: Project List

Current Project in HK (selected):

Project Name: Central-Wanchai Bypass Tunnel (Causeway Bay Typhoon Shelter Section).

Awarded date: September 2010

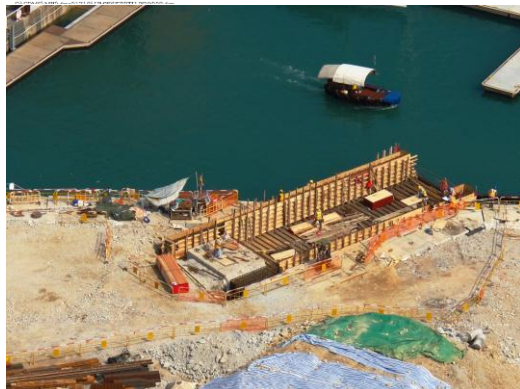
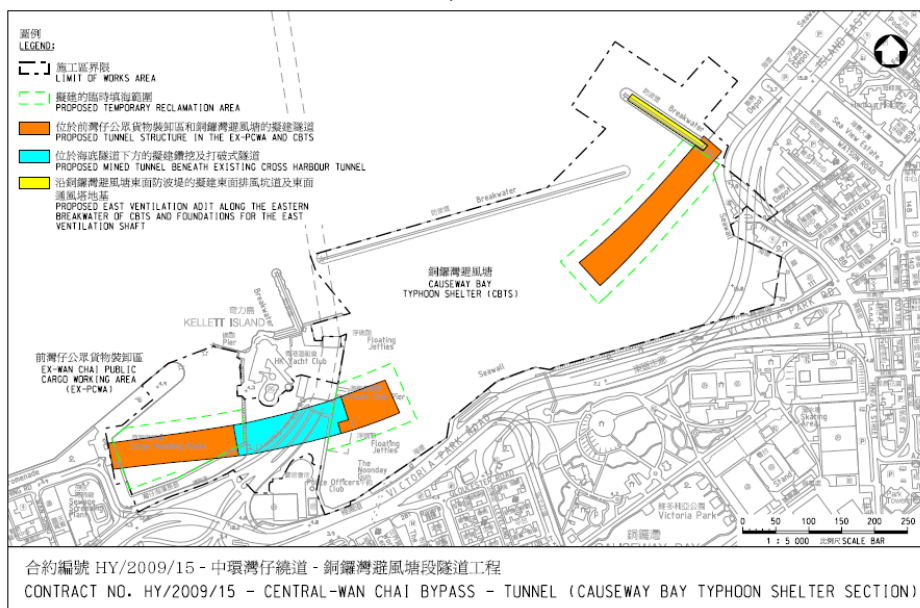
Total contract value: HK\$5.38 billion (The single largest construction contract the Group has ever undertaken individually)

Contract Description: The scope of the contract mainly includes:

Construction of tunnel structure in the ex-Wan Chai Public Cargo Working Area (ex-PCWA) and Causeway Bay Typhoon Shelter (CBTS) including the associated temporary reclamation and the subsequent removal of the temporary reclamation after completion of tunnel structure;

Construction of mined tunnel beneath existing Cross Harbour Tunnel;

Construction of foundations for the East Ventilation Shaft, together with the East Ventilation Adit along the Eastern Breakwater of CBTS; and



Current Project in PRC (Selected):

Project Name: Tianjin Junliang City Relocation Project
Awarded date: 25 November 2010
Total contract value: (HK\$ 810 million)
Contract Description:

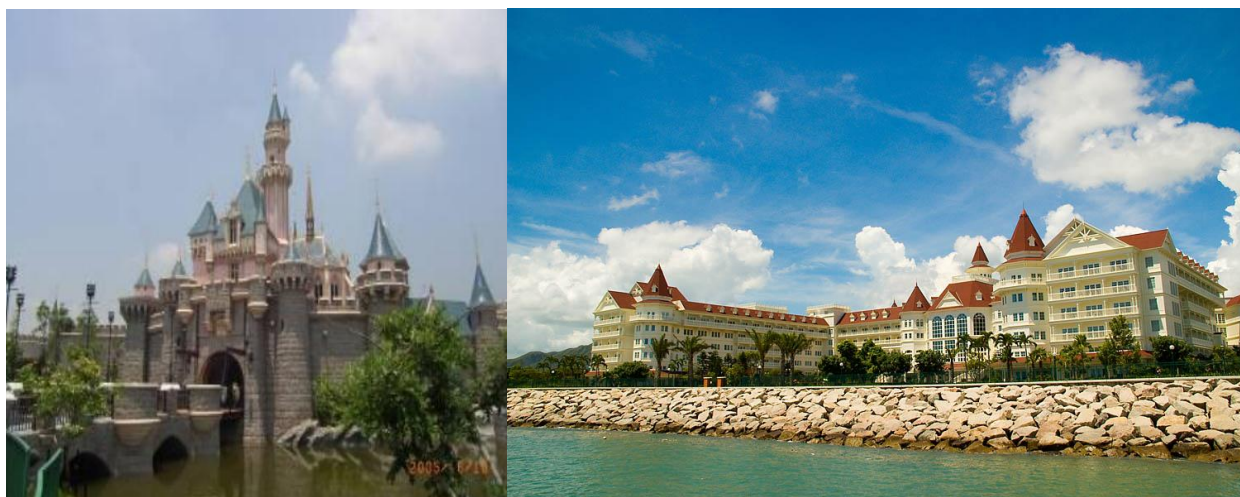
1. The fifth phase:
 - 1) Procession of 4.5-meter-deep foundation of 137,093 sq.m., for 135,605 sq.m. Residential building construction and 1,488 sq.m. related public works;
 - 2) Construction of sixteen 15-to-26-layer apartment houses with total construction area around 135,605 sq.m. (for residential: 113210 sq.m., for underground garage: 22,395 sq.m.)
 - 3) One related public works with total construction area of 1,488 sq.m.
2. The sixth phase:
 - 1) Procession of 4.5-meter-deep foundation of 117,769 sq.m., for 102,769 sq.m. Residential building construction and 15,000 sq.m. related public works;
 - 2) Construction of twelve 18-to-32-layer apartment houses with total construction area around 102,769sq.m. (for residential: 92,433 sq.m., for underground garage: 10,336 sq.m.)
 - 3) Two related public works with total construction area of 15,000 sq.m.

**Past Project in Hong Kong (Selected):**

Project Name: Disneyland in Hong Kong
Construction Period: Jan 2002 - April 2005
Total contract value: HK\$5.72 billion
Contract Description:

The scope of the contract mainly includes:

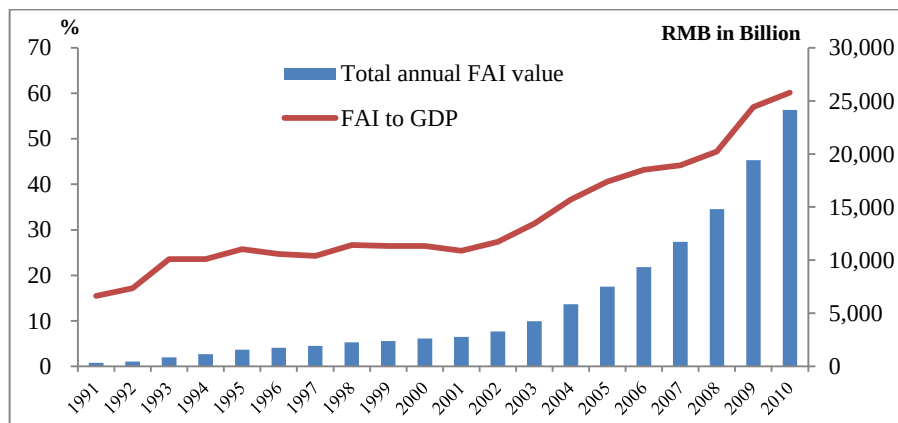
- Procession of 2.5 million square meters of foundation, such as landfilling, making gravel piles;
- Procession of contaminated cement for 80,000 m³, of which 30,000m³ contains strong carcinogen, dioxins;
- Construction of 20 kilometers of roads and bridges ;
- Construction of 130,000-square-meter of man-made lake and water entertainment on pure sandy land;
- Planting of more than one thousand kind of plants, among which 43,000 are transplanted from Australia, Malaysia, Indonesia and etc.;
- Production of 2.1 million root meters of topsoil as planting soil;
- Construction of 100,000 meters of reinforced concreted culvert;
- Construction of a six-star hotel with 403 rooms and 3 presidential suites; and
- Construction of two theme parks—Tomorrow Land and Fantasy Land.



Source: Company data, Highways Department

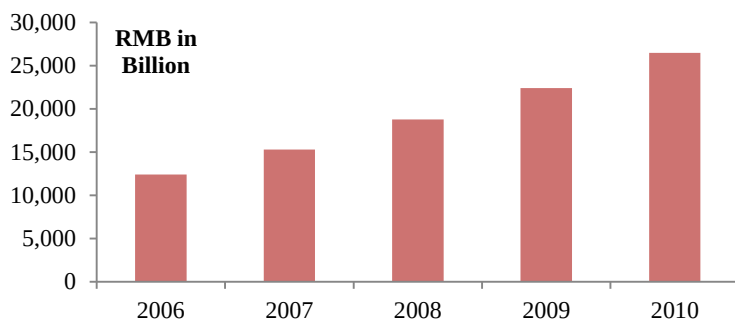
Appendix VI: Market Outlook

Figure 18: Fixed Asset Investment in the PRC



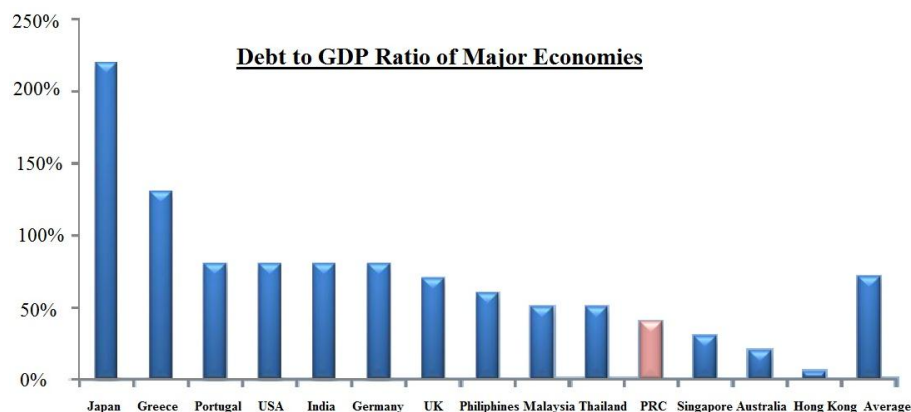
Source: National Bureau of Statistics of China

Figure 19: Total value from construction industry in the PRC (2006-2010)



Source: National Bureau of Statistics of China

Figure 19: Local government debt level in the PRC



Source: Company data

Appendix VI: Prospects of public projects in HK and PRC

Table 19: Details of 10-mega Infrastructure Projects in Hong Kong

10-mega Infrastructure Projects in Hong Kong		
Project Name	Total contract value (HK\$ Billion)	Period of Construction
South Island Line	7	2011-2015
The Sha Tin to Central Link	37.4	2010-2015
The Tuen Mun Western Bypass and Tuen Mun-Chek Lap Kok Link	20	2011-2016
The Guangzhou-Shenzhen-Hong Kong Express Rail Link	60	2010-2015
Hong Kong-Zhuhai-Macao Bridge	83	2009-2016
Hong Kong-Shenzhen Airport Co-operation	59.2	Planning
Hong Kong-Shenzhen Joint Development of the Lok Ma Chau Loop	Planning	
West Kowloon Cultural District	24	2010-2015
Kai Tak Development Plan	100	2009-2021
New Development Areas (NDAs)	20	2012-2019
Estimated total	410.6	

Sources: HKSAR Policy Address 2007/08, Development Bureau

Table 20: Highlights of 2011/12 Policy Address & Budget about public housing and infrastructure

2011/12 HK Policy Address & Budget
•Maintaining Public Rental Housing (PRH) Production - an average production of 15 000 PRH units
•Resumption of Home Ownership Scheme - plan to provide more than 17 000 flats over four years from 2016-17 onwards
•Estimate that the capital works expenditure for each of the next few years will exceed \$60 billion. (\$49.6 billion in 2010-11, \$58 billion in 2011-12)

Sources: HKSAR Policy Address & Budget 2011/12

Table 21: Policy on Construction and Management of Affordable Housing Project

Scope		
Public rental Housing (PRH) & Low Rental Housing (LRH)	-	The flat size is around 40 sq.m per unit.
	-	The rental is around 10% of market average for LRH and 30-80% for PRH.
Economic Housing (EH) & Price-limited Housing (PLH)	-	The flat size of EH and PLH is limited to 60 sq.m per unit.
	-	The price is roughly 50% of comparable commodity housing for EH, and 80% for PLH.
Relocation Housing (RH)	-	Compensated for free and extra area sold per price of EH.
Supporting Policies		
Land supply	-	Affordable housing is of the first priority of the local government's land utilization plan.
Government capital investment	-	More than 10% of profit generated from land auctioning should be invested in affordable housing.
	-	Net interest (after tax and provision for loan risk) generated from housing fund should be reinvested into LRH and PRH.
	-	In case the public budget can not cover the target, no government office buildings can be additionally built or purchased.
Financing support	-	Banks are encouraged to finance affordable housing projects with interest rate incentives.
Tax exemption policy	-	Local governments are directed to provide tax incentives to affordable housing projects.
Construction Quality Control		
Plan Optimization	-	Ensure high quality, efficient utilization of space, and complete public facilities.
Accountability & Monitoring	-	Entities involved have permanent liability to any project defects.
Housing Distribution and Operation		
Regulate selection criteria	-	Selection criteria revised and published regularly.
	-	Applicants are subject to auditing. Any fake information proved will lead to 5-year disqualification of right to apply for affordable housing.
Forbid re-renting and resale	-	The term of lease for LRH & PRH is 3-5 years; residents will be subjected to revised criteria assessment before continuing renting.
	-	EH & PLH can not be traded within the first 5 years after purchase.

Source: General Office of the State Council of the People's Republic of China

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China State Construction International

--CITY UNIVERSITY OF HONG KONG



Pictures - Projects by CSCI:
Apartment in Dubai, Central – Wan Chai Bypass Tunnel,
Affordable Housing in Tianjin, Tai Wai Maintenance Centre

Target Price

- Build Transfer affordable housing in the PRC
- Ten-Mega Infrastructure Projects Boom in HK



Target Price:
HK\$ 7.72

↑ **Upside:**
21.4%

Current Price:
HK\$ 6.36

Sources: Bloomberg, CityU estimates

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Risk Factors

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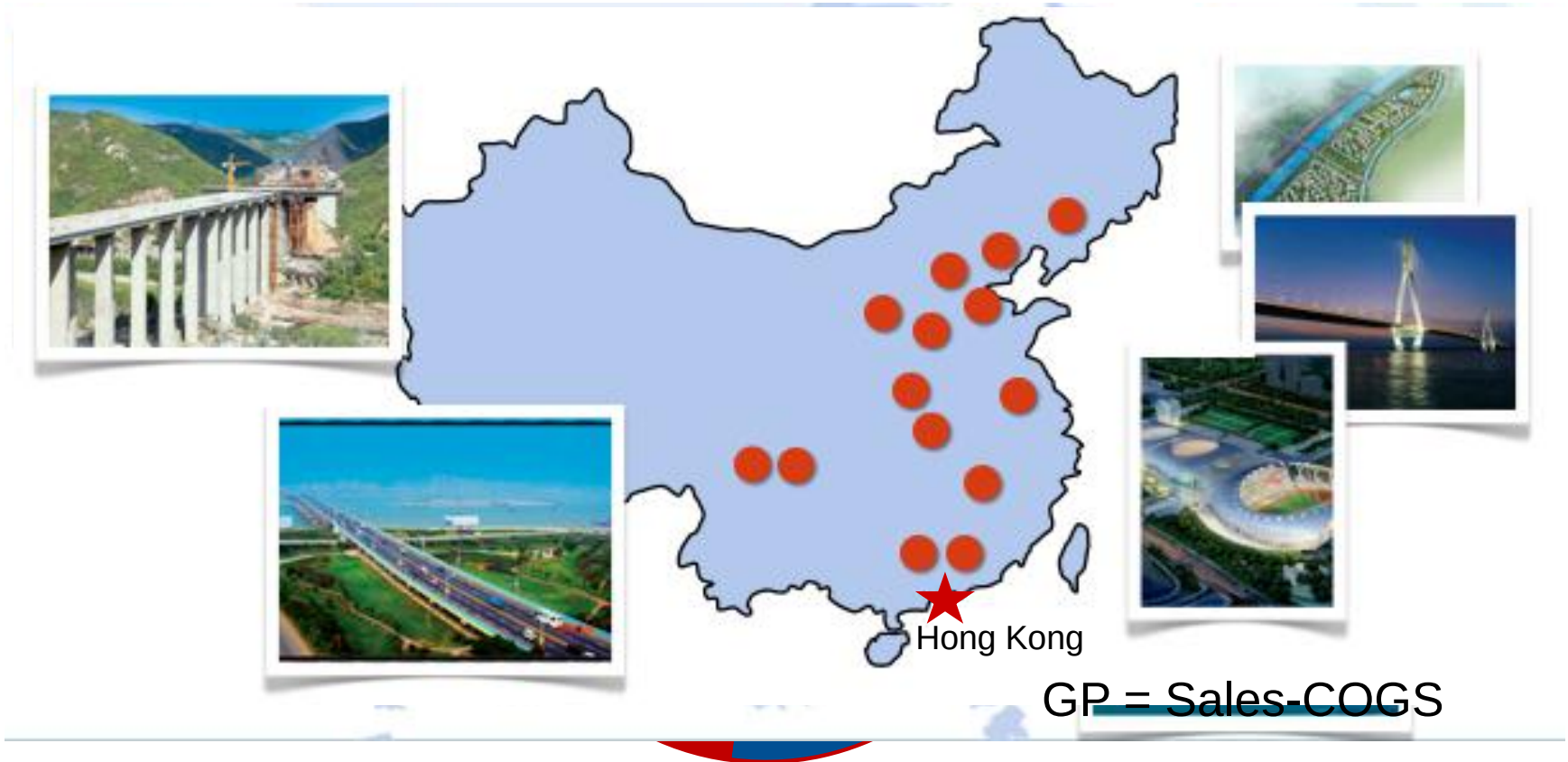


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Scope of Business



Sources: Company data

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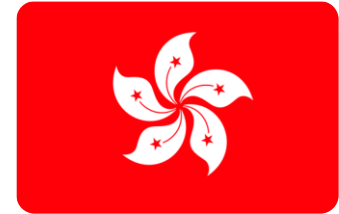
Scope of Business



Gross Margin: 20.3%



Infrastructure
Investment



Gross Margin: 5.5%



Cash
Construction

$$GM = (Sales - COGS) / Sales$$

Sources: Company data

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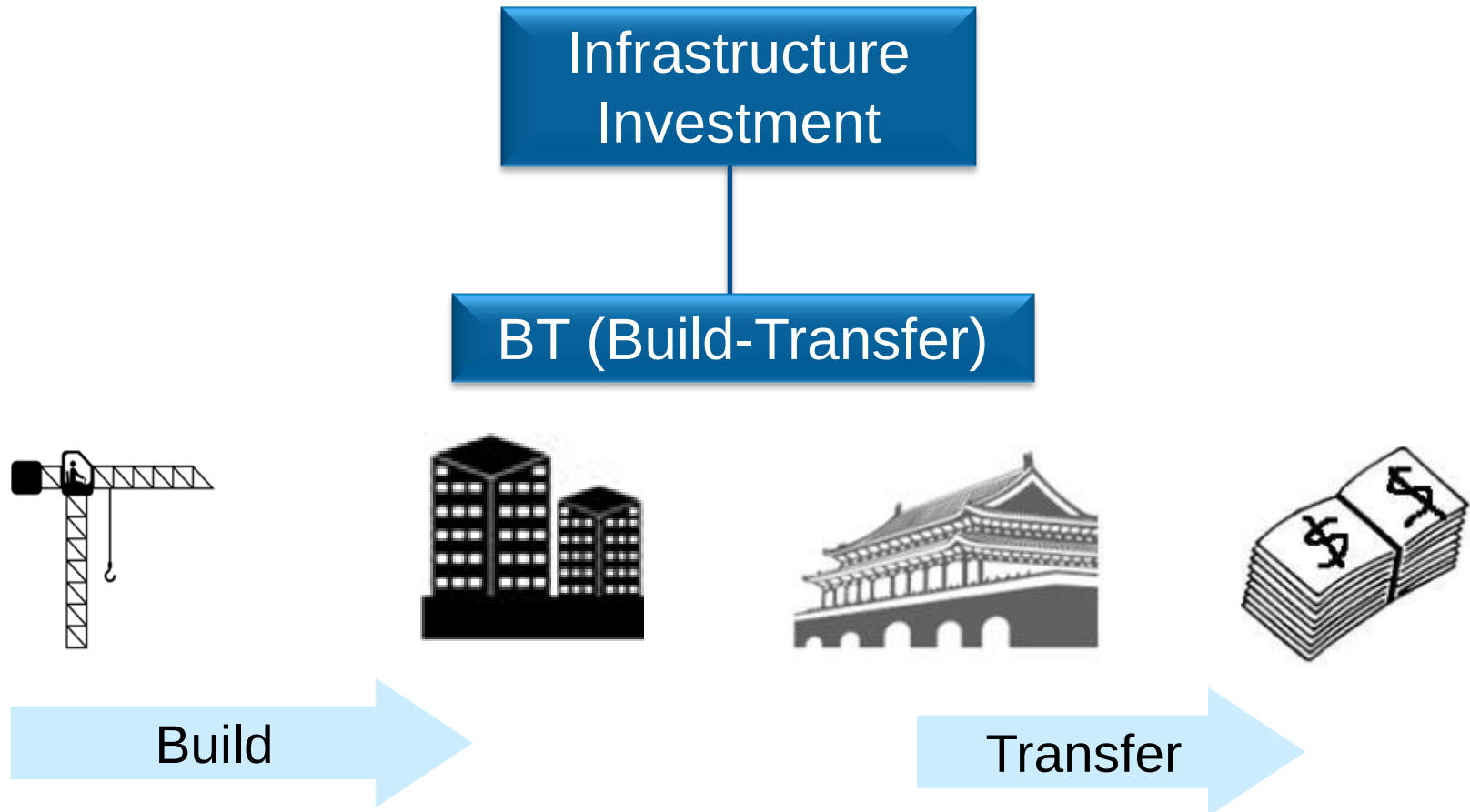


Valuation



Risk Factors

Business Models



Sources: Company data

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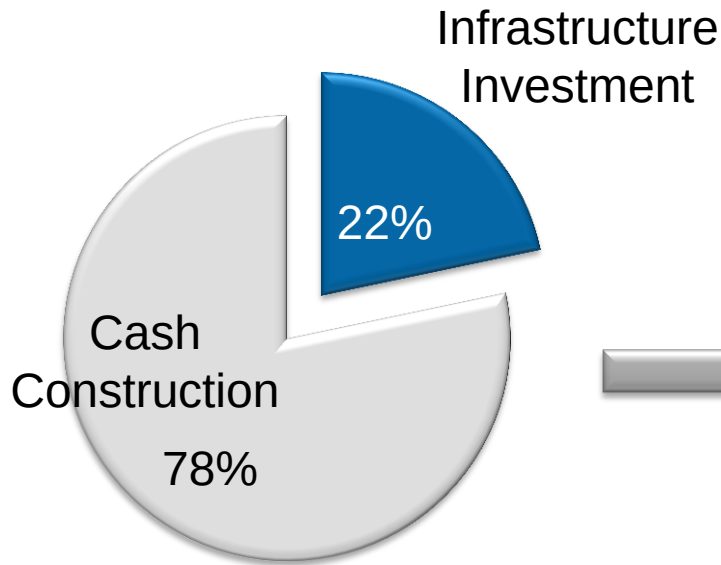
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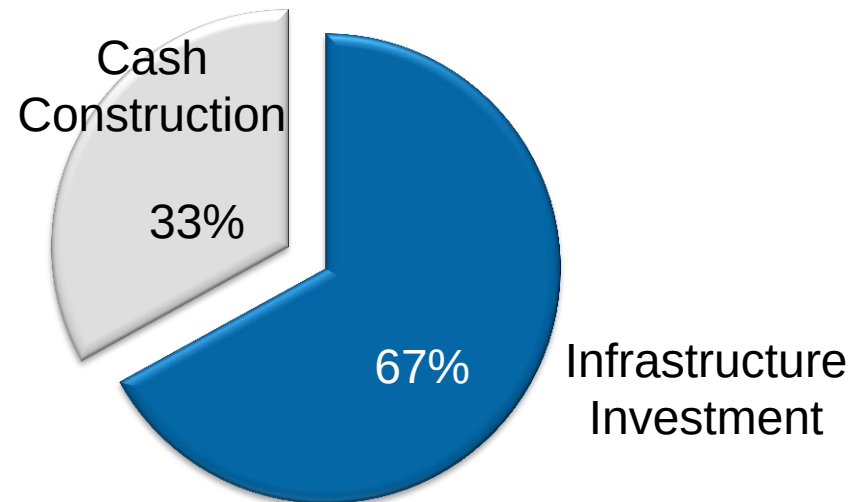
Risk Factors

Business Models

**Current Revenue Breakdown
(2010)**



5-Year Target (2015)



Sources: Company data

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Risk Factors

Parent Company



China State Construction Engineering

Win more projects

Provide labor resources

Guarantee financing channels

Reduce default risks



China State Construction International

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Risk Factors

Growth Drivers



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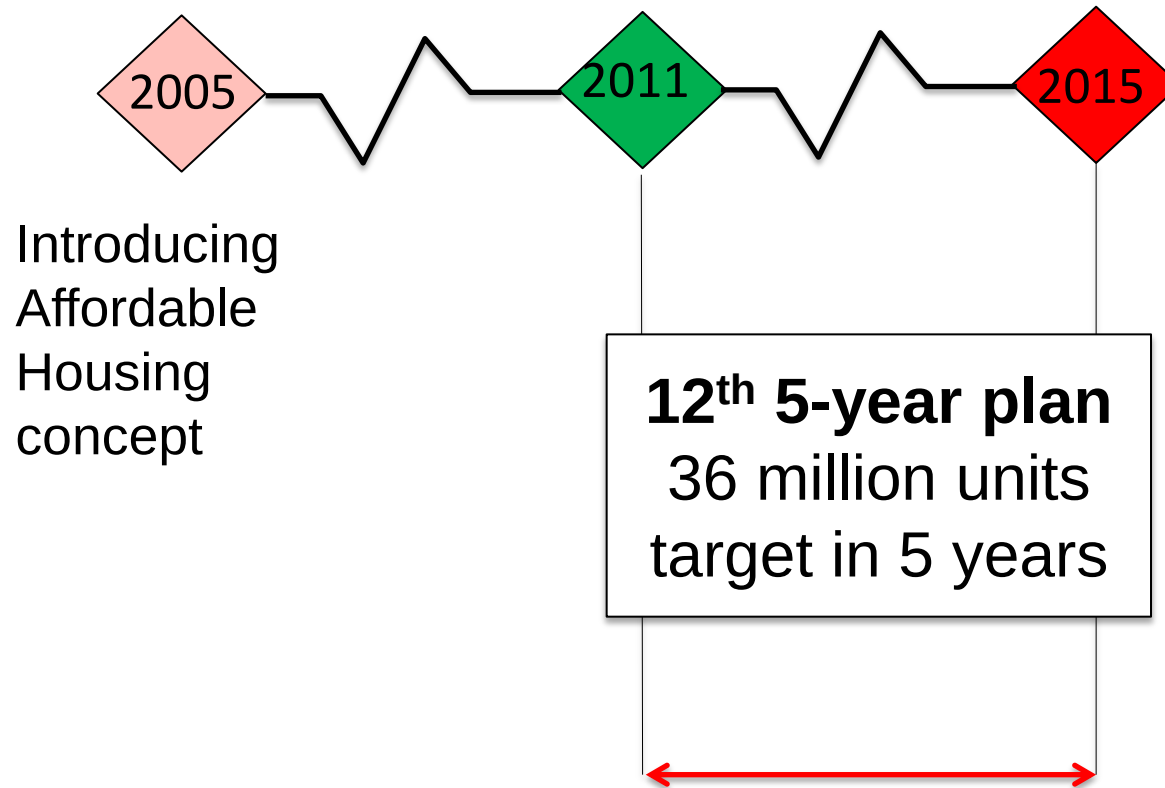
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Risk Factors

1st Growth Driver

-- Affordable Housing in the PRC



Sources: Mohurd, Company data, CityU estimates

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Risk Factors

Growth Driver

-- Affordable Housing policy changes

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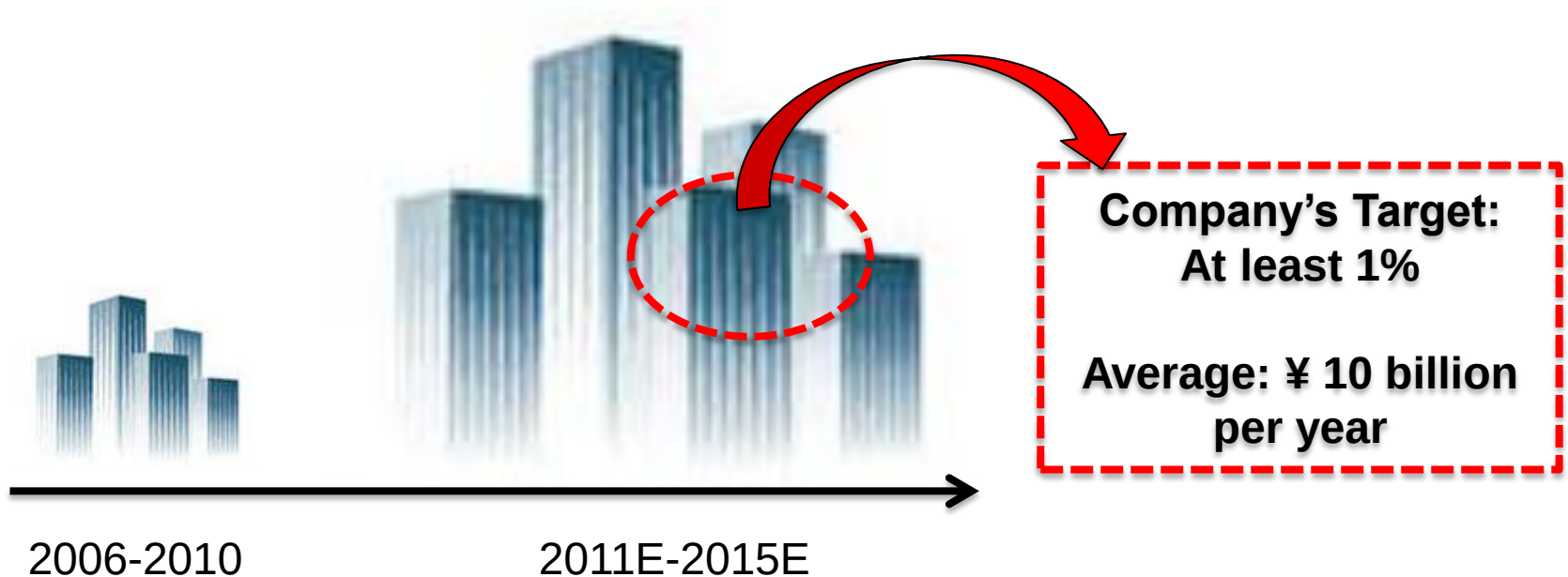
Risk Factors

Growth Driver

-- Affordable Housing market value increase

5- Year total:

$36 \text{ mil} \times 60\text{m}^2 \times \text{¥} 2,310 / \text{m}^2 = \text{¥} 5 \text{ trillion}$



Sources: Mohurd, Company data, CityU estimates

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Risk Factors

Growth Driver

- 3 pillars underpinning affordable housing projects

BT Affordable Housing

Parent
Support

Dual
Financing
Channels

Public
Housing
Experience
in HK

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Risk Factors

Growth Driver

- 3 pillars underpinning affordable housing projects

BT Affordable Housing

Parent
Support

1. Bid and win more projects



2. Reduce project default risk



3. Guarantee financing channels



4. Provide labor resources



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Risk Factors

Growth Driver

- 3 pillars underpinning affordable housing projects

BT Affordable Housing



Dual
Financing
Channels

RMB 6-8%

Lower
interest rate
in HK

HKD 2-4%

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Risk Factors

Growth Driver

- 3 pillars underpinning affordable housing projects

BT Affordable Housing



Public
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Experience
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Growth Driver

- 3 pillars underpinning affordable housing projects

BT Affordable Housing

Parent
Support

Dual
Financing
Channels

Public
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Risk Factors

Growth Driver

- CSCI's new affordable housing projects (Jan - July 2011)



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Risk Factors

Growth Driver

- Growing construction market in HK
- 10-mega Infrastructure Projects



Sources: Company data, HKSAR Budget 2011/12

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Risk Factors

Growth Driver

- Growing construction market in HK
- Greater supply of public housing

73,000 Units



FY2006-2010

92,800 Units



FY2011- 2015E

Sources: HKSAR Budget 2011/12, Housing Authority

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Risk Factors

Growth Driver

- The Largest Public Project Contractor



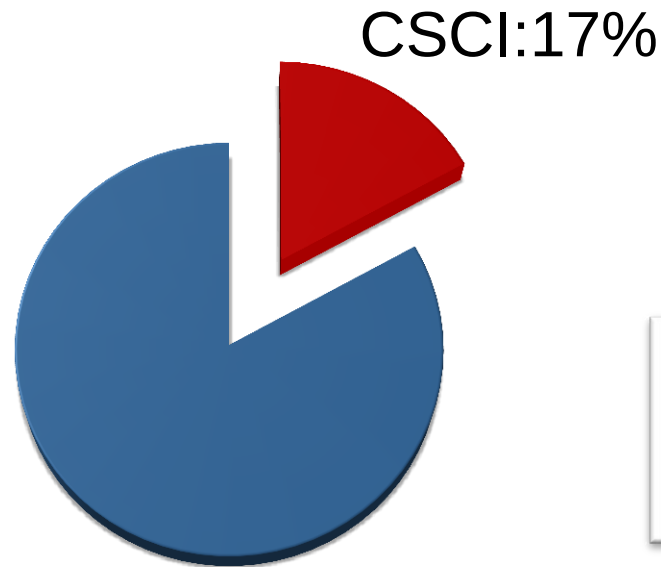
Company's market share in HK public works



Highway



Tunnel



Reclamation



Housing

Sources: Company data, HKSAR Budget 2011/12, Housing Authority

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Risk Factors

Growth Driver

- Faster cash collection in HK



Less Accounts Receivable
than Accounts Payable



Faster Cash
Collection



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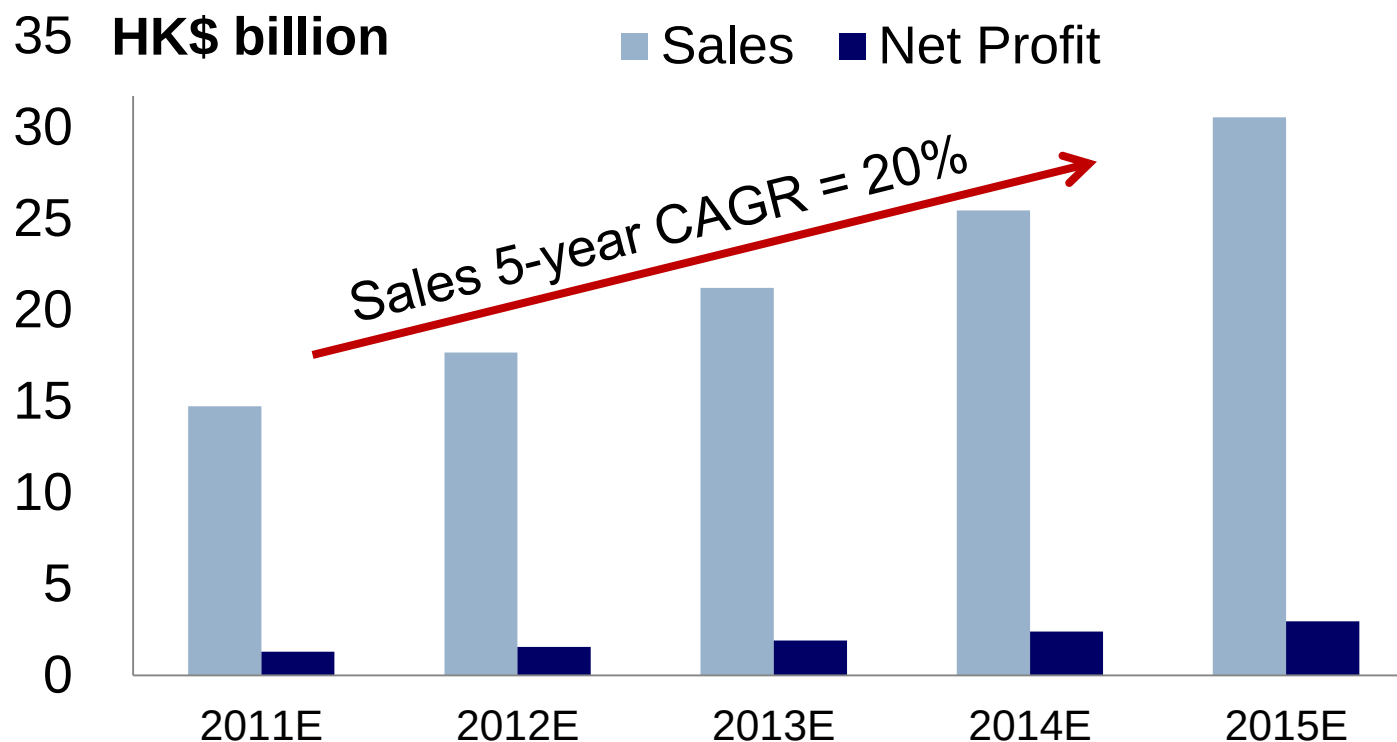


Risk Factors

Sales Estimates (FY2011-15)



Sales Growth Rate 2010 = 23.46%



Sources: Company data, CityU estimates

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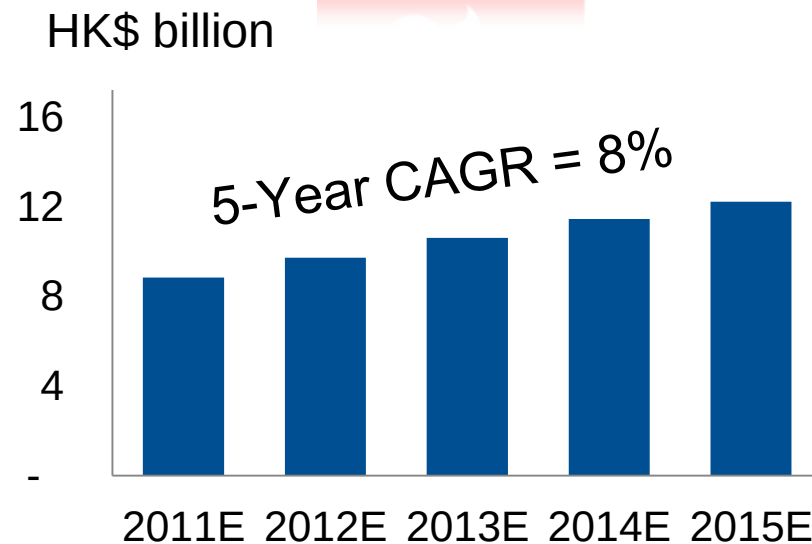
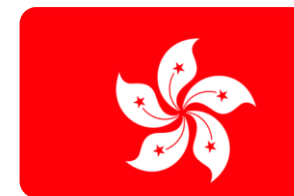
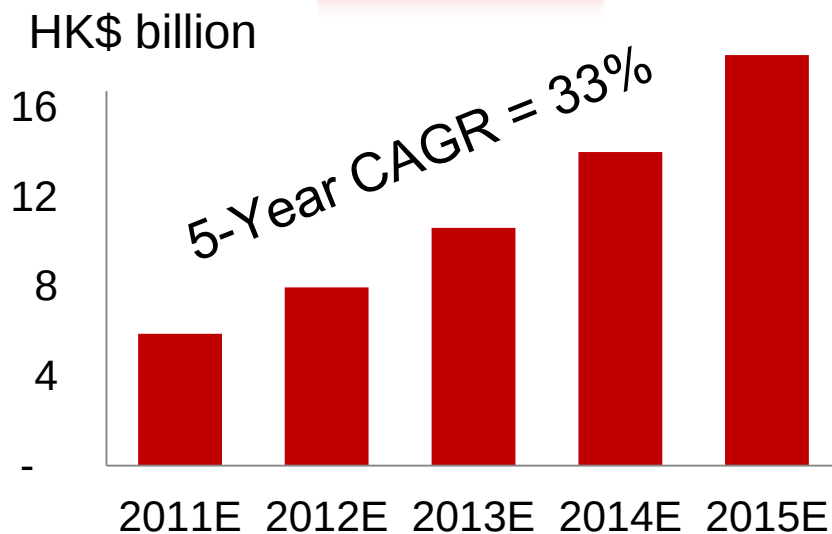


Risk Factors

Sales Estimates (FY2011-15)



Sales Growth by Market



Sources: Company data, CityU estimates

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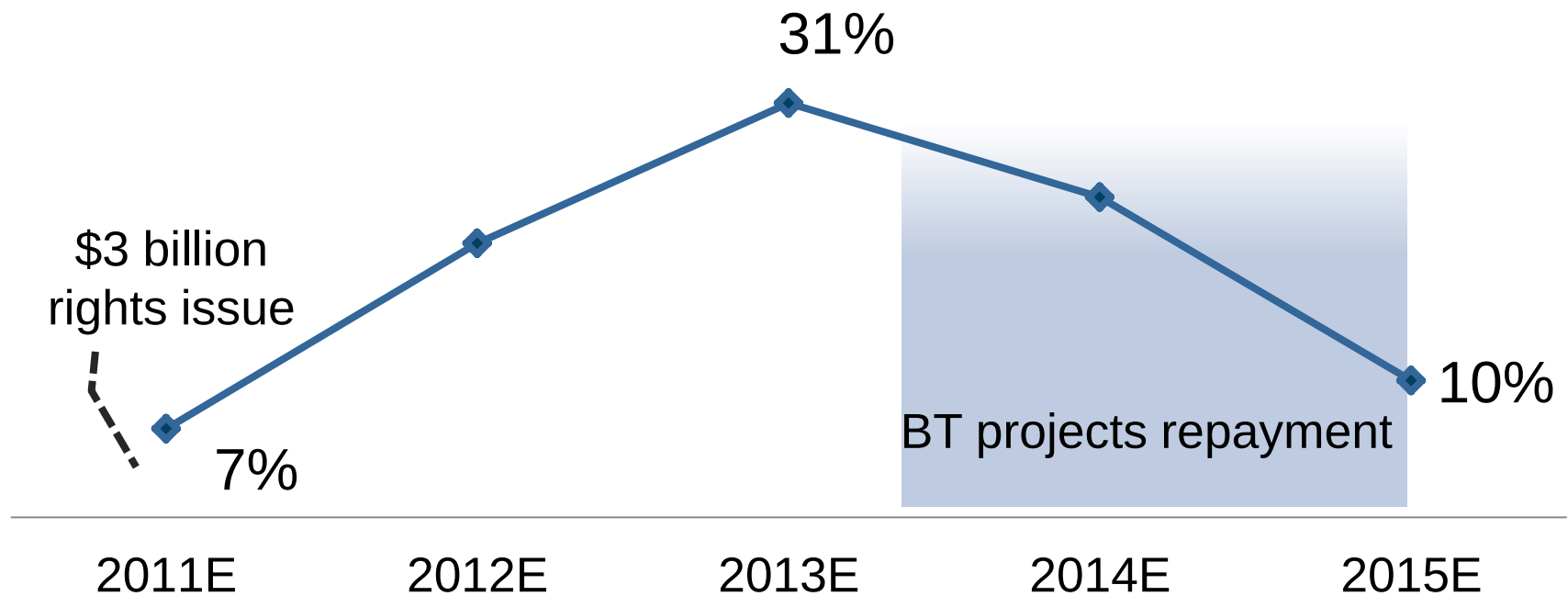
Net gearing ratio

- $(\text{Long Term Debt} - \text{Cash}) / \text{Total Equity}$



Company's target: 40%

Net Gearing Ratio



Sources: Company data, CityU estimates

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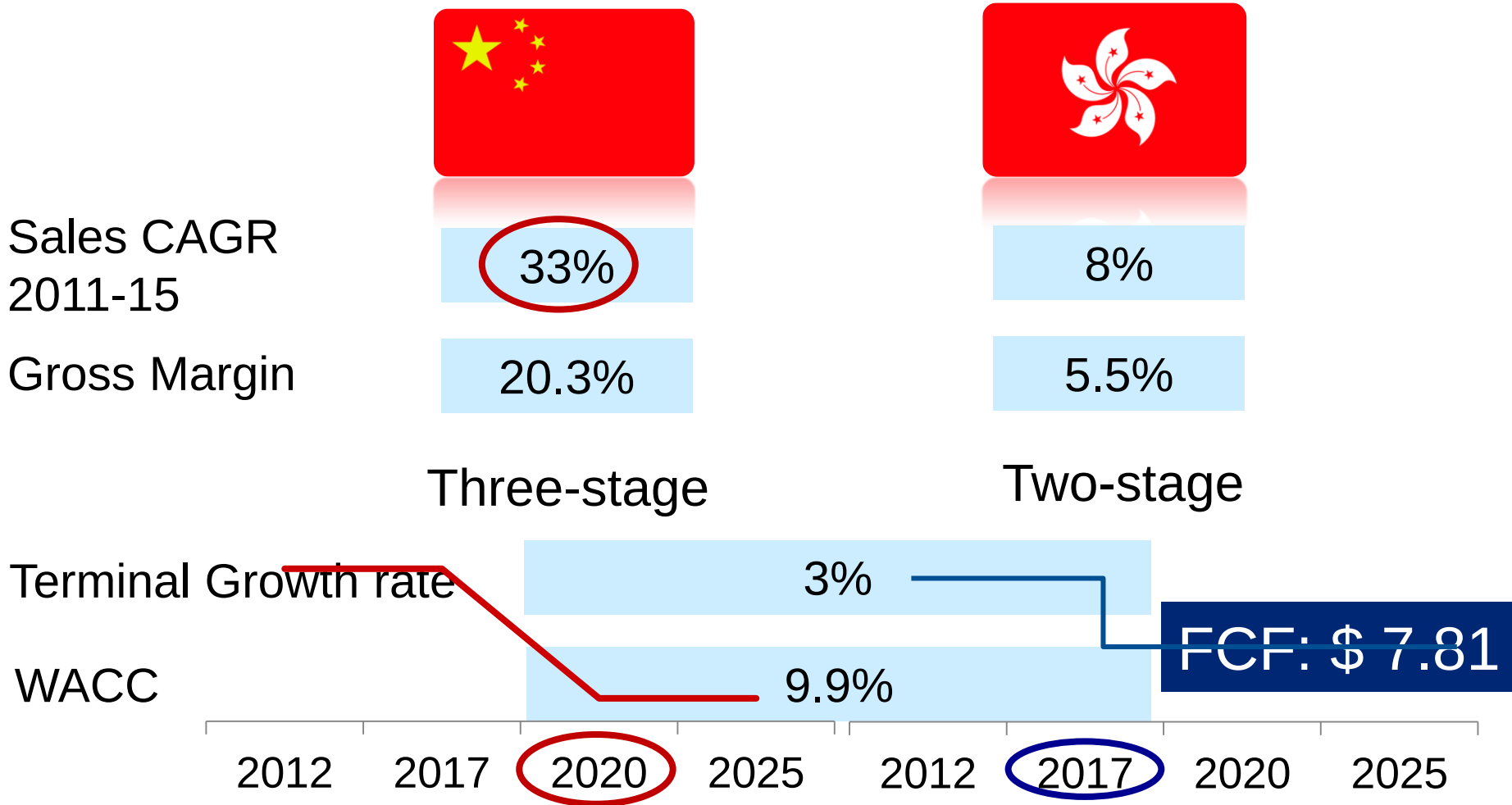


Valuation



Risk Factors

Discounted Cash Flow



Sources: CityU estimates

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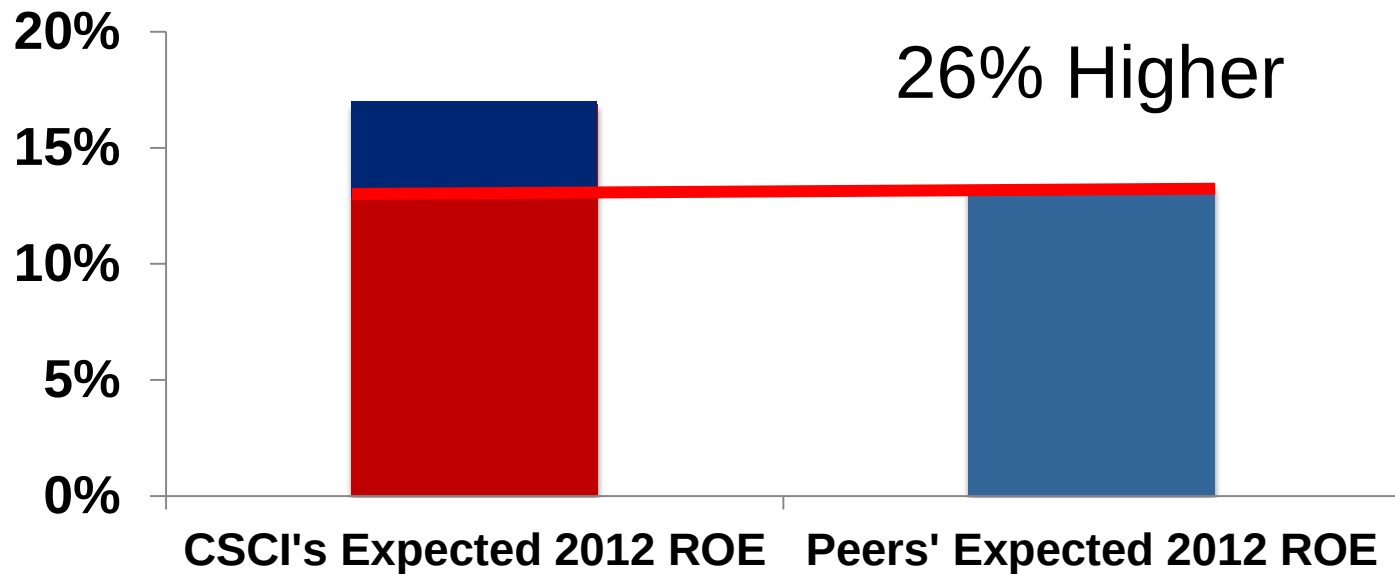
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P/E Analysis



Peer's 3-year Avg. P/E

17.45x

CSCI's 2012 Expected EPS

\$0.43

Price: \$7.62

Sources: Bloomberg, CityU estimates

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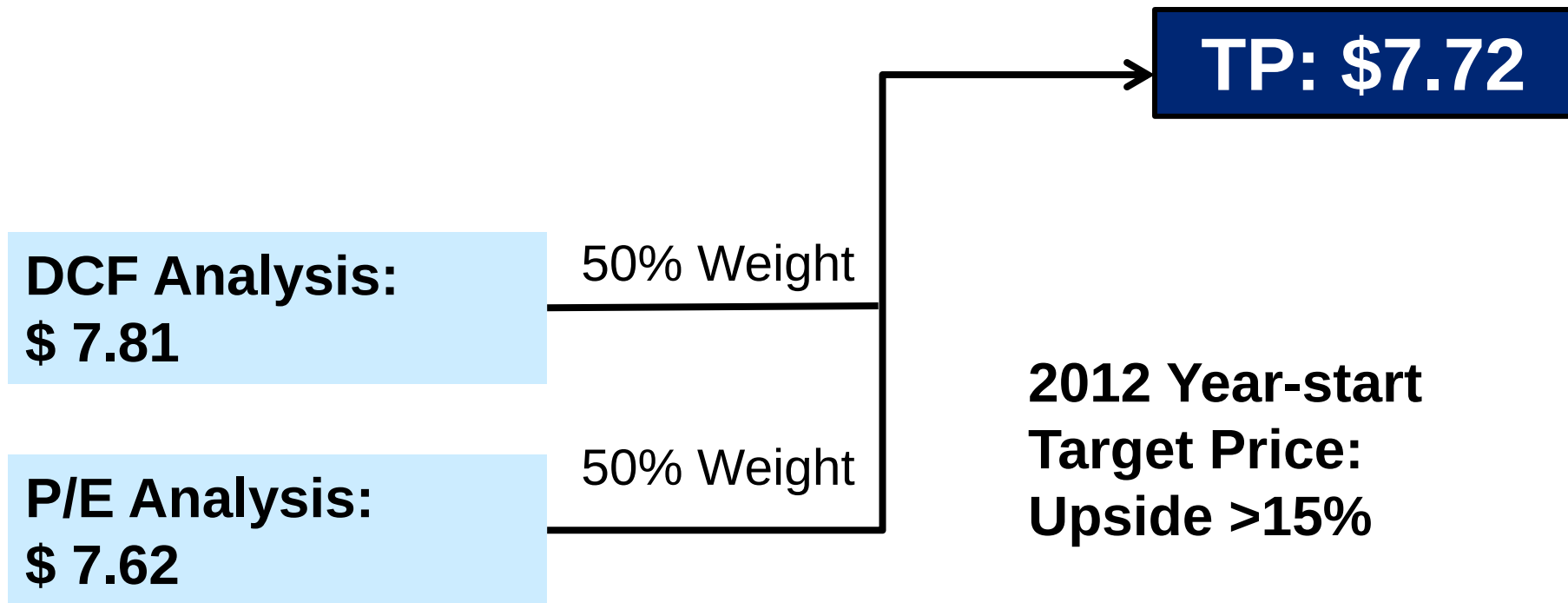


Valuation



Risk Factors

Valuation: Target Price



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Risk Factors

Risk Factors



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Risk Factors

Risk Factors

Risk Factors	Mitigations
• Default/deferral in payment	• Project selection system
• Material/Labor cost Inflation	• Contract value adjusting systems
• Interest rate upside	• Dual financing channels
• Financial Risks	• Company internal regulation

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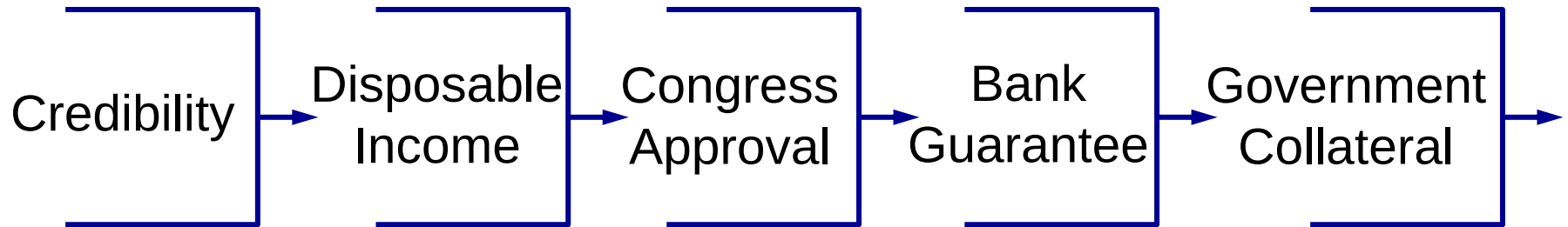


Risk Factors

Risk Factors

1. Default / Deferral in Payment

Mitigation: Project Selection System



Sources: Company Data

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Risk Factors

Risk Factors

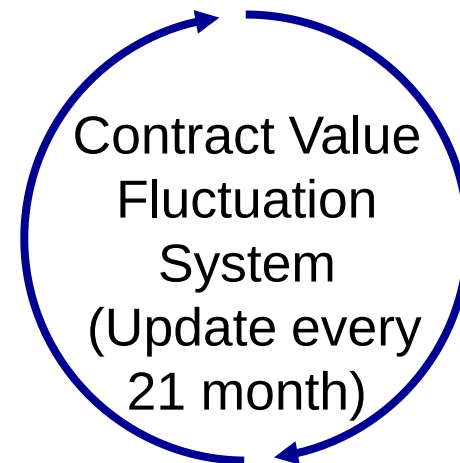
2. Material / Labor Cost Inflation

Mitigation: Contract Value Adjusting System

Affordable Housing in the PRC



Public Works in HK



Sources: Company data, HK Development Bureau

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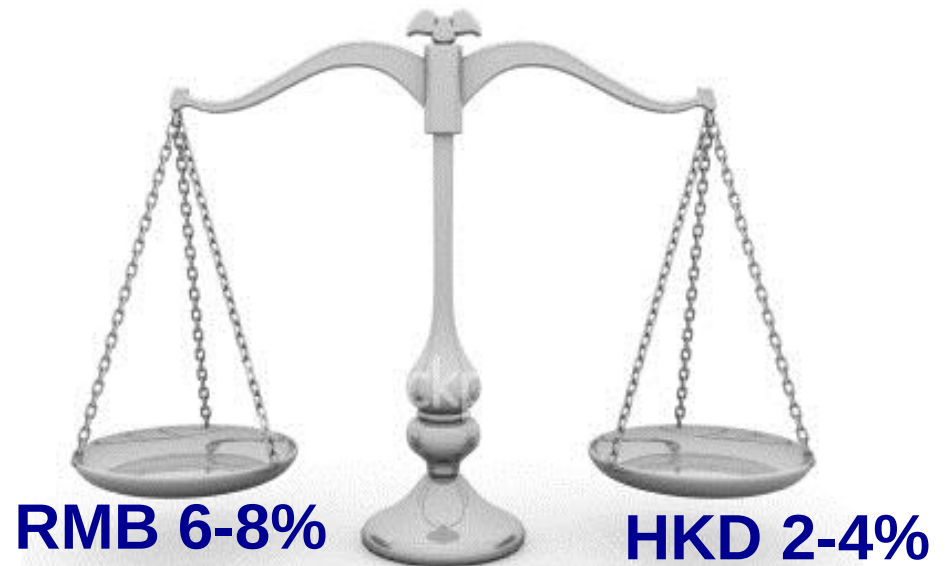


Risk Factors

Risk Factors

3. Interest Rate Upside

Mitigation: Dual Financing Channels



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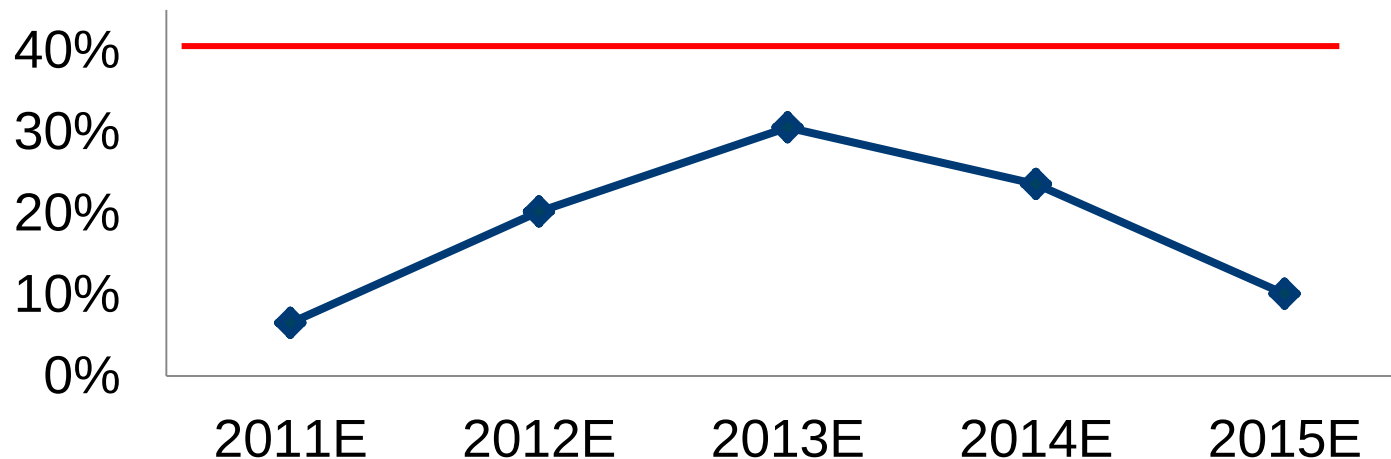
Risk Factors

Risk Factors

4. Financial Risks

Mitigation: Company Internal Regulation

Company Target: below 40%



Sources: Company data, CityU estimates

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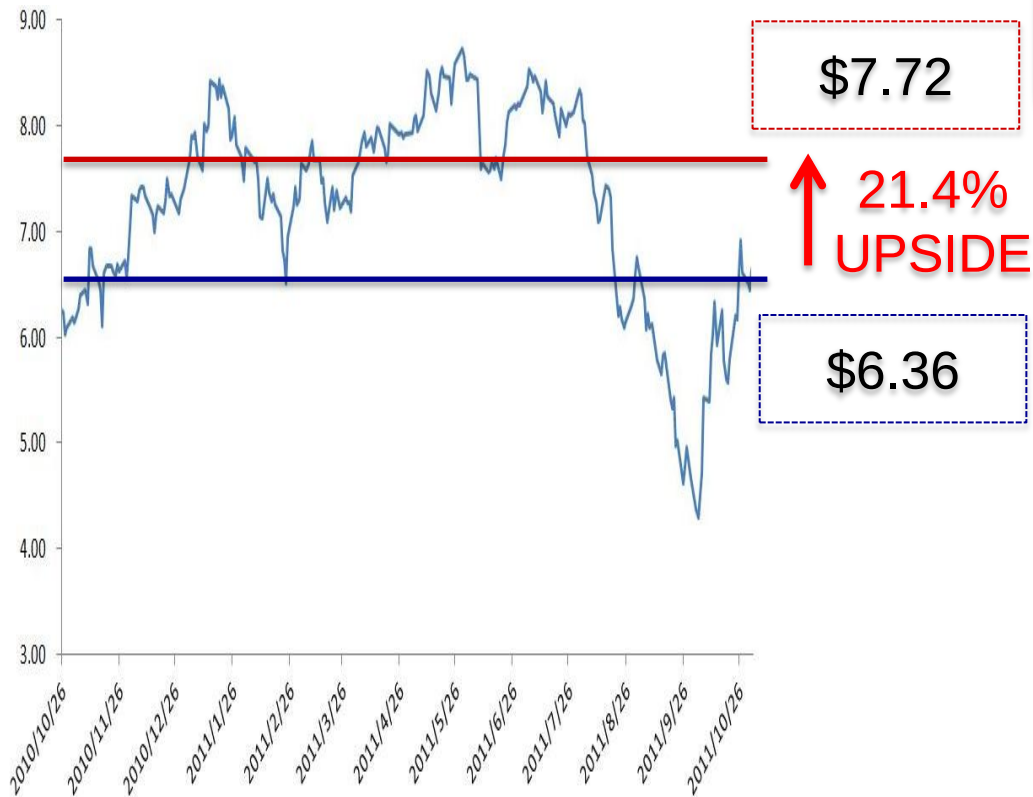
Valuation



Risk Factors

Investment Merits

BUY Rating



PRC
High Margin
Affordable
Housing
Expansion

Hong Kong
Cash Cow
Growing
Construction
Market

Two Core
Profit Growth Drivers

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