

Asset Disposal

Hong Kong Properties

Capital Strategic (497 HK, HK\$0.435)

BUY (unchanged)

Target price: HK\$0.56 (+28.7%)

Disposal of Gloucester Road 88. On 16 July 2007, Capital Strategic Investment (CSI) disposed Gloucester Road 88 in Wanchai to Asset Manage Limited. The net proceeds (after only transaction costs) and the gross proceeds from the disposal would amount to around HK\$776.5m and HK\$783.0m respectively, which was in line with our forecast of HK\$750.0m – HK\$800.0m. The shares will resume trading today.

Value enhancement. CSI acquired Gloucester Road 88 in Wanchai for HK\$196.0m (about HK\$1,905.0 per sq. ft.) in June 2003 after SARS. The completion of the asset disposal further demonstrates its strong execution power to enhance asset value. The asset disposal allows CSI to efficiently use capital in identify other new projects to enhance asset value.

FY03/07 results due. CSI will announce its FY03/07 annual results on 19th July. We expect a strong growth in net profit, up 44.3% YoY at HK\$202.4m, supported by booming Hong Kong office market and stronger-than expected retail rental market.

Office market boom. According to DTZ Debenham Tie Leung, the monthly rents for Grade-A offices in Central reached an all-time average high of HK\$92.0 per sq. ft. in the 1H07, and forecast a 30.0% increase for the full year of 2007. They expect the vacancy rate for Hong Kong Grade A offices in Central will drop to 3.0% by the end of the year.

Valuation. The booming stock market has led to fast expansion of finance-related companies. We expect those non-finance-related companies continue moving out of Central to avoid high rents, which should benefit CSI with its prime investment portfolio concentrated in Wanchai, Tsim Sha Tsui and Causeway Bay. Given the booming office and retail properties in Hong Kong and its strong execution power, we reiterate our BUY recommendation. Our target price remains unchanged at HK\$0.56. The last closing price of HK0.435, representing a 37.9% discount to FY03/08F NAV of HK\$0.70.

Disclosure of interests: SBI E2-Capital Securities Ltd. acted as the placement agent for Capital Strategic Investment Limited on 30 January 2007. A director of SBI E2-Capital Securities Limited serves as an independent non-executive director of Capital Strategic Investment Limited.

Table 1: Financial summary

Year to	Net profit	EPS	EPS	P/E	P/B	EV/EBITDA	Yield	ROE	ROCE	N. Gearing
Mar	HK\$m	HK\$	Δ %	x	X	x	%	%	%	%
05A	181.5	0.095	492.3	4.6	0.9	10.8	1.6	23.1	13.0	22.9
06A	140.3	0.064	(32.0)	6.8	1.1	15.8	0.8	13.6	9.6	Cash
07F	202.4	0.041	(36.7)	10.7	1.1	5.4	2.4	12.9	8.2	37.0
08F	281.6	0.057	39.1	7.7	0.9	5.7	3.3	13.7	7.8	30.0
09F	395.0	0.080	40.3	5.5	0.8	2.8	4.6	16.7	9.4	27.0

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