

CG Services (6098 HK)

A solid beat to kick off road to RMB100bn; Reiterate Top Pick

With CGS's another solid beat, we are very confident on its >RMB100bn revenue target by 2025E (50% CAGR) as 1) contracted GFA to exceed 1.3bn sq m in 2021E after acquiring Languang; 2) step into commercial property managements which is another blue sea; 3) fast-growing VAS via offering more comprehensive services (e.g. community group shopping, insurance) to increase VAS/sq m to RMB30; and 4) city services to further widen BtoG and BtoB business connection. As a result, we revise up 2021/22E earnings by 10-17% and lift TP to HK\$91.2. Reiterate CGS as our Top Pick on growth visibility and VAS.

- 2020 earnings a solid beat:** CGS delivered a strong 2020 net profits at RMB2.7bn (+61% YoY), 11% higher than the profit alert and our estimates. The beat mainly came from the GPM which benefited from higher contribution from VAS. Total revenue grew 62% YoY mainly driven by basic PM business (+63% YoY) and Community VAS (+100% YoY). GPM expanded 2.4ppt YoY partly due to government subsidies. As a result, EPS increased by 56% YoY reaching RMB0.976/share and the Company declared RMB0.219/share dividend which is equivalent to 23% payout ratio.
- The road to RMB100bn revenue by 2025:** Management guided that CGS targets to exceed RMB100bn revenue by 2025E, out of which basic PM contributed RMB50bn, VAS RMB30bn and city services RMB20bn. This implies about 50% CAGR and the key growth engines shifted to Community VAS and City Services at 77%/86% CAGR. Besides, with VAS's high margin to support, we expect core net profits could achieve similar growth rates. In particular, we estimate 56% CAGR for 2020-23E earnings growth.
- VAS the new growth engine:** CGS achieved 100% growth in 2020 Community VAS business with VAS/sq m improving to RMB4.6/sq m (in line with our forecast). Looking forward, the Company will develop community VAS into a RMB30bn-revenue business via 1) more VAS services: management targeted to increase services offerings such as Community group shopping, insurance, asset management and brokerage. 2) Higher residents penetration in the mature community by making use of big data. 3) Upstream business acquisition. Together with CGS's strong execution, we think its VAS/sq m may increase to RMB30/sq m, closer to US / Japan in the future which will pave the way to reach RMB30bn revenue.
- Earnings and TP change:** We revised up 2021/22E revenue by 22-32% reflecting higher-than-expected growth in VAS and city services, and thus increase 2021/22E net profits by 10-17% YoY accordingly. By applying 35x 2022E PE multiple (unchanged), we derived the new TP of HK\$91.2/share.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	9,645	15,600	27,265	39,683	56,879
YoY growth (%)	106.3	61.7	74.8	45.5	43.3
Net income (RMB mn)	1,671	2,686	4,649	6,479	9,944
EPS (RMB)	0.63	0.98	1.57	2.20	3.37
YoY growth (%)	69.8	55.7	61.3	39.4	53.5
Consensus EPS (RMB)	0.63	0.91	1.28	1.75	2.75
P/E (x)	N.A.	58.8	36.5	26.2	17.0
P/B (x)	N.A.	20.2	32.9	20.9	12.4
Yield (%)	N.A.	0.4	0.7	1.0	0.0
ROE (%)	31.1	18.4	25.8	28.3	32.7
Net gearing (%)	Net cash				

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$91.17
(Previous TP)	HK\$84.60
Up/Downside	+31.3%
Current Price	HK\$69.20

China Property Service Sector

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Stock Data

Mkt Cap (HK\$ mn)	204,265
Avg 3 mths t/o (HK\$ mn)	615.71
52w High/Low (HK\$)	71.45/27.20
Total Issued Shares (mn)	2,952

Source: Bloomberg

Shareholding Structure

Yang Huiyan	49.5%
Ping An Insurance	8.3%
Free float	42.2%

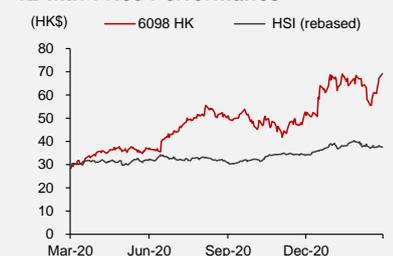
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-0.9%	4.8%
3-mth	30.5%	18.4%
6-mth	35.1%	11.6%
12-mth	133.0%	83.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Figure 1: Earnings change

RMB mn	New		Old		Diff (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	27,265	39,683	22,361	29,790	21.9%	33.2%
Gross Profit	8,651	13,087	7,643	10,808	13.2%	21.1%
Operating profit	5,180	8,151	4,732	6,912	9.5%	17.9%
Net profit	4,537	6,382	4,143	5,440	9.5%	17.3%
Gross Margin	31.7%	33.0%	34.2%	36.3%	-2.5ppts	-3.3ppts
Operating Margin	19.0%	20.5%	21.2%	23.2%	-2.2ppts	-2.7ppts
Net Margin	16.6%	16.1%	18.5%	18.3%	-1.9ppts	-2.2ppts

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	9,645	15,600	27,265	39,683	56,879
Basic PM	5,817	8,607	12,767	16,395	20,385
Non-owner VAS	1,422	1,370	2,112	3,049	4,225
Community VAS	865	1,731	4,077	8,003	15,032
City services	-	884	3,452	4,538	5,758
Others	1,541	3,009	4,858	7,697	11,479
Cost of sales	(6,593)	(10,301)	(18,614)	(26,595)	(37,072)
Gross Profit	3,052	5,300	8,651	13,087	19,807
Other income	51	121	86	104	95
Selling expenses	(67)	(136)	(237)	(345)	(495)
Administrative expenses	(1,208)	(1,950)	(3,217)	(4,564)	(6,427)
Impairment	(31)	(98)	(102)	(131)	(163)
Operating profit	1,798	3,236	5,180	8,151	12,817
JV/Associates	8	41	53	69	89
Finance cost	92	44	46	48	51
Exceptional	178	394	129	126	128
Pre-tax Profit	2,076	3,715	5,408	8,394	13,08
Income tax	(358)	(933)	(541)	(1,59)	(2,617)
PROFIT FOR THE YEAR	1,718	2,782	4,868	6,799	10,46
Non-controlling interest	(48)	(96)	(219)	(320)	(523)
Net Profit attribute to	1,671	2,686	4,649	6,479	9,944

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	2,045	7,916	15,375	18,003	20,653
Property, plant and	312	1,249	1,929	2,609	3,290
Intangible assets	1,604	6,176	12,902	14,782	16,662
Others	129	490	543	612	701
Current assets	10,224	23,288	26,895	36,361	50,538
Trade and other receivables	2,004	5,244	9,164	13,338	19,118
Cash and cash equivalents	6,914	15,215	14,791	19,977	28,235
Others	1,306	2,829	2,940	3,046	3,185
Total assets	12,269	31,204	42,270	54,364	71,191
Current liabilities	6,427	14,233	21,593	28,508	37,353
Trade and other payables	4,690	7,476	13,588	19,415	27,062
Others	1,737	6,757	8,005	9,094	10,291
Non-current liabilities	162	812	812	812	812
Deferred income tax	143	510	510	510	510
Others	19	302	302	302	302
Total liabilities	6,590	15,045	22,405	29,320	38,165
Equity to shareholders	5,373	14,566	18,052	22,912	30,371
Non-controlling interests	306	1,593	1,812	2,132	2,655
Total Equity	5,680	16,159	19,865	25,044	33,026

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before tax	2,076	3,715	5,408	8,394	13,084
D&A	149	60	240	240	240
Change in working capital	1,528	3,951	3,329	2,635	2,925
Others	(496)	(1,017)	(639)	(1,711)	(2,757)
Net cash from operating	3,257	6,709	8,338	9,557	13,493
Capex	(81)	(5,570)	(2,800)	(2,800)	(2,800)
JV/Associates	(40)	-	-	-	-
Others	(1,507)	44	(4,800)	48	51
Net cash from investing	(1,628)	(5,526)	(7,600)	(2,752)	(2,749)
Equity raised	1,738	-	-	-	-
Change of debts	(9)	3,812	-	-	-
Others	(331)	3,307	(1,162)	(1,620)	(2,486)
Net cash from financing	1,399	7,118	(1,162)	(1,620)	(2,486)
Net change in cash	3,028	8,301	(424)	5,186	8,258
Cash at the beginning of the year	3,869	6,914	15,215	14,791	19,977
Exchange difference	17	-	-	-	-
Cash at the end of the year	6,914	15,215	14,791	19,977	28,235

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Basic PM	60.3	55.2	46.8	41.3	35.8
Non-owner VAS	14.7	8.8	7.7	7.7	7.4
Community VAS	9.0	11.1	15.0	20.2	26.4
City services	0.0	5.7	12.7	11.4	10.1
Others	16.0	19.3	17.8	19.4	20.2
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	31.6	34.0	31.7	33.0	34.8
Net margin	17.3	17.2	17.0	16.3	17.5
Effective tax rate	17.2	25.1	10.0	19.0	20.0
Growth (%)					
Revenue	106.3	61.7	74.8	45.5	43.3
Gross profit	73.3	73.6	63.2	51.3	51.3
Operating profit	82.8	80.0	60.1	57.3	57.2
Net profit	81.0	60.8	73.1	39.4	53.5
Balance sheet ratios					
Current ratio (x)	1.6	1.6	1.2	1.3	1.4
Receivable turnover days	76	123	123	123	123
Returns (%)					
ROE	31.1	18.4	25.8	28.3	32.7
ROA	13.6	8.6	11.0	11.9	14.0
Per share					
EPS (RMB)	0.63	0.98	1.57	2.20	3.37
DPS (RMB)	0.15	0.23	0.39	0.55	0.00
BVPS (RMB)	1.39	2.84	1.74	2.75	4.64

Source: Company data, CMBIS estimates

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