

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	Net cash	Net cash	Net cash	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%

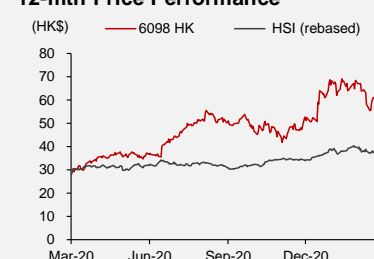
Source: HKEx

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						Cash flow summary					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	9,645	15,600	27,265	39,683	56,879	Profit before tax	2,076	3,715	5,408	8,394	13,084
Basic PM	5,817	8,607	12,767	16,395	20,385	D&A	149	60	240	240	240
Non-owner VAS	1,422	1,370	2,112	3,049	4,225	Change in working capital	1,528	3,951	3,329	2,635	2,925
Community VAS	865	1,731	4,077	8,003	15,032	Others	(496)	(1,017)	(639)	(1,711)	(2,757)
City services	-	884	3,452	4,538	5,758	Net cash from operating	3,257	6,709	8,338	9,557	13,493
Others	1,541	3,009	4,858	7,697	11,479	Capex	(81)	(5,570)	(2,800)	(2,800)	(2,800)
Cost of sales	(6,593)	(10,301)	(18,614)	(26,595)	(37,072)	JV/Associates	(40)	-	-	-	-
Gross Profit	3,052	5,300	8,651	13,087	19,807	Others	(1,507)	44	(4,800)	48	51
Other income	51	121	86	104	95	Net cash from investing	(1,628)	(5,526)	(7,600)	(2,752)	(2,749)
Selling expenses	(67)	(136)	(237)	(345)	(495)	Equity raised	1,738	-	-	-	-
Administrative expenses	(1,208)	(1,950)	(3,217)	(4,564)	(6,427)	Change of debts	(9)	3,812	-	-	-
Impairment	(31)	(98)	(102)	(131)	(163)	Others	(331)	3,307	(1,162)	(1,620)	(2,486)
Operating profit	1,798	3,236	5,180	8,151	12,817	Net cash from financing	1,399	7,118	(1,162)	(1,620)	(2,486)
JV/Associates	8	41	53	69	89	Net change in cash	3,028	8,301	(424)	5,186	8,258
Finance cost	92	44	46	48	51	Cash at the beginning of the year	3,869	6,914	15,215	14,791	19,977
Exceptional	178	394	129	126	128	Exchange difference	17	-	-	-	-
Pre-tax Profit	2,076	3,715	5,408	8,394	13,08	Cash at the end of the year	6,914	15,215	14,791	19,977	28,235
Income tax	(358)	(933)	(541)	(1,59)	(2,617)	Key ratios					
PROFIT FOR THE YEAR	1,718	2,782	4,868	6,799	10,46	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Non-controlling interest	(48)	(96)	(219)	(320)	(523)	Sales mix (%)					
Net Profit attribute to	1,671	2,686	4,649	6,479	9,944	Basic PM	60.3	55.2	46.8	41.3	35.8
Balance sheet						Non-owner VAS	14.7	8.8	7.7	7.7	7.4
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	Community VAS	9.0	11.1	15.0	20.2	26.4
Non-current assets	2,045	7,916	15,375	18,003	20,653	City services	0.0	5.7	12.7	11.4	10.1
Property, plant and	312	1,249	1,929	2,609	3,290	Others	16.0	19.3	17.8	19.4	20.2
Intangible assets	1,604	6,176	12,902	14,782	16,662	Total	100.0	100.0	100.0	100.0	100.0
Others	129	490	543	612	701	Profit & loss ratios (%)					
Current assets	10,224	23,288	26,895	36,361	50,538	Gross margin	31.6	34.0	31.7	33.0	34.8
Trade and other receivables	2,004	5,244	9,164	13,338	19,118	Net margin	17.3	17.2	17.0	16.3	17.5
Cash and cash equivalents	6,914	15,215	14,791	19,977	28,235	Effective tax rate	17.2	25.1	10.0	19.0	20.0
Others	1,306	2,829	2,940	3,046	3,185	Growth (%)					
Total assets	12,269	31,204	42,270	54,364	71,191	Revenue	106.3	61.7	74.8	45.5	43.3
Current liabilities	6,427	14,233	21,593	28,508	37,353	Gross profit	73.3	73.6	63.2	51.3	51.3
Trade and other payables	4,690	7,476	13,588	19,415	27,062	Operating profit	82.8	80.0	60.1	57.3	57.2
Others	1,737	6,757	8,005	9,094	10,291	Net profit	81.0	60.8	73.1	39.4	53.5
Non-current liabilities	162	812	812	812	812	Balance sheet ratios					
Deferred income tax	143	510	510	510	510	Current ratio (x)	1.6	1.6	1.2	1.3	1.4
Others	19	302	302	302	302	Receivable turnover days	76	123	123	123	123
Total liabilities	6,590	15,045	22,405	29,320	38,165	Returns (%)					
Equity to shareholders	5,373	14,566	18,052	22,912	30,371	ROE	31.1	18.4	25.8	28.3	32.7
Non-controlling interests	306	1,593	1,812	2,132	2,655	ROA	13.6	8.6	11.0	11.9	14.0
Total Equity	5,680	16,159	19,865	25,044	33,026	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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