

CG Services (6098 HK)

Acquisition of Languang: more positive on lower-than-expected purchase price

The announced acquisition price came lower than market expectation, which is even more positive for CGS. On a pro-forma basis, this deal would help boost CGS's 2020/21 earnings by 13% if assuming 64.62% stakes acquisition. Due to the exchange rules, CGS would propose a general offer but a privatization may not be successful as 1) 30% price premium (or 7x Languang's 2022E PE) may not be attractive enough to other shareholders such as Chairman Yao (6%) and Orient Fund (5%). 2) If Chairman Yao stays, he may decide to keep his stake as part of the incentive. 3) Languang's future growth path may accelerate with CGS's support therefore minority shareholders may not be willing to sell now.

- What's new:** CGS announced that it will purchase 64.62% stakes of Languang Jusbon from its parentco Sichuang Languang development (600466 CH) at a total consideration of RMB4.85bn (RMB42.1/share or HK\$50.7/share). The acquisition price is equivalent to 30% premium over the last trading price of Languang.
- Privatization for Languang Jusbon?:** After the deal, Languang's parentco will cease completely and that would leave the remaining shareholders to be Chairman Yao Min (6%), Orient Fund (5%) and the rest public shareholders (24%). The deal itself would trigger a general offer but it is still a question mark on privatization given that the offer price came lower than market expectation. The key deciding power would be Chairman Yao and Orient Fund.
- Impact on CGS:** We think this is very positive for CGS as 1) strategically, Languang's strong presence in Southwest (60% of managed GFA) would fill the gap for CGS (only 3% in the region). 2) Financially, the acquisition would boost CGS 2021/22E earnings by 20% if assuming 100% stake acquisition after the general offer. Also, the two companies share similar profitability and thus there is less likely margin dilution. 3) Valuation wise, the purchase price is equivalent to Languang's 7x 2022E PE, which would be value accretive. 4) Balance sheet wise, there's enough cash to support up to 100% stake acquisition as CGS has already raised HK\$7.7bn via placement in Dec 2020.
- Impact on Languang Jusbon:** The deal would trigger a general offer that would benefit the minority shareholder. If Languang remains listed afterwards, we think it would be also positive as CGS would help Languang gain market share in Southwest region. As for the reason why Languang's parentco is willing to sell at this valuation, we think it has to do with the debt structure improvement under the "three red line" policy.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	3,377	5,127	16,680	22,361	29,790
YoY growth (%)	91.8	51.8	72.9	34.1	33.2
Net income (RMB mn)	801	1,231	2,417	4,143	5,440
EPS (RMB)	0.37	0.63	0.89	1.53	2.01
YoY growth (%)	77.1	48.9	42.2	71.4	31.3
Consensus EPS (RMB)	N.A.	N.A.	0.91	1.28	1.75
P/E (x)	61.3	41.2	62.4	36.4	27.7
P/B (x)	12.0	11.4	26.0	16.8	11.4
Yield (%)	0.8	1.2	0.4	0.7	0.9
ROE (%)	14.8	19.9	33.6	40.2	37.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$84.60
(Previous TP)	HK\$84.60)
Up/Downside	+26.3%
Current Price	HK\$67.00

China Property Service Sector

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Stock Data

Mkt Cap (HK\$ mn)	197.153
Avg 3 mths t/o (HK\$ mn)	606.50
52w High/Low (HK\$)	71.45/23.95
Total Issued Shares (mn)	2,932

Source: Bloomberg

Shareholding Structure

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

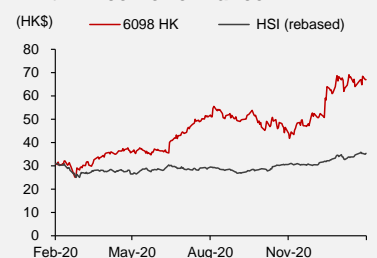
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-1.9%	-4.7%
3-mth	44.2%	25.8%
6-mth	31.5%	8.9%
12-mth	109.4%	88.6%

Source: Bloomberg

12-mth Price Performance

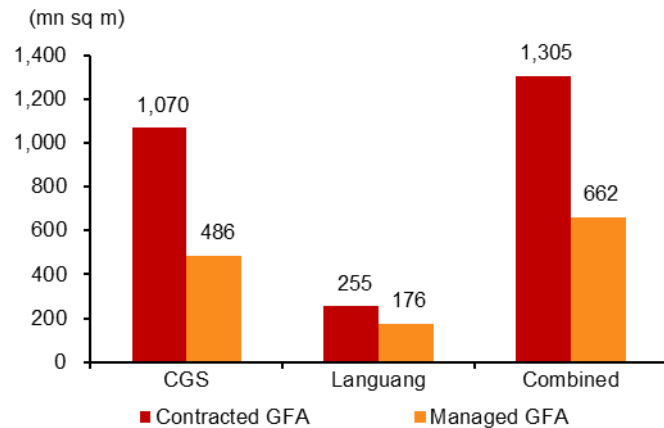


Source: Bloomberg

Auditor: PwC

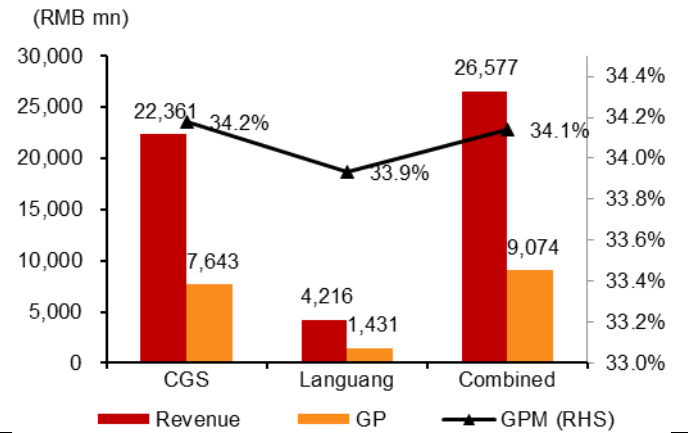
Key Charts

Figure 1: Pro-forma analysis on Contracted/Managed GFA in 2021E



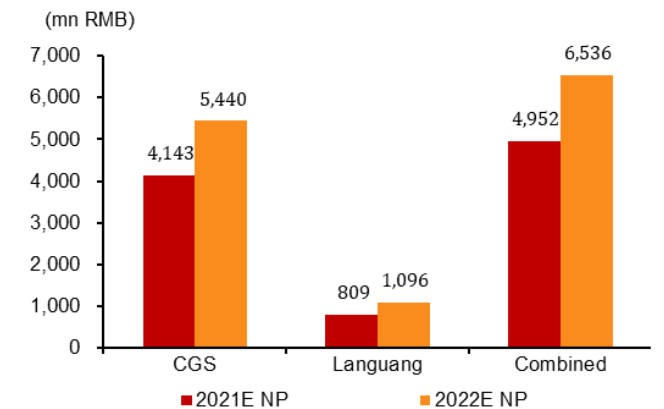
Source: Company data, CMBIS estimates

Figure 2: Pro-forma analysis on revenue/GP in 2021E



Source: Company data, CMBIS estimates

Figure 3: Pro-forma analysis on net profits in 2021/22E



Source: Company data, CMBIS estimates

Figure 4: Net gearing ratio

Company	Ticker	CMBI rating	TP (HK\$)	Last price (HK\$)	Mkt Cap (HK\$ mn)	P/E			Net profit growth (%)		
						20E	21E	22E	20E	21E	22E
CR MixC Lifestyle	1209 HK	BUY	52.2	48.05	109,674	102.2	60.7	46.1	144.2	68.2	31.8
Ever Sunshine	1995 HK	BUY	28.8	21.85	36,498	68.2	40.9	26.6	91.3	72.8	54.2
Country Garden Services	6098 HK	BUY	84.6	67.00	197,153	62.4	36.4	27.7	44.7	71.4	31.3
Poly Services	6049 HK	SELL	53.4	53.30	29,493	37.2	31.6	24.9	34.2	17.8	26.5
Powerlong Commercial	9909 HK	BUY	30.9	24.90	16,036	40.2	31.0	24.2	79.3	29.7	28.1
Greentown Services	2869 HK	HOLD	9.5	8.28	26,685	34.3	26.6	21.9	19.4	32.2	21.5
S-Enjoy	1755 HK	BUY	29.6	19.28	15,828	29.3	20.7	16.3	58.8	41.3	27.2
Excellence CM	6989 HK	BUY	14.9	9.85	12,042	23.8	18.5	13.2	86.0	62.9	39.7
A-Living	3319 HK	SELL	31.7	34.00	45,333	21.3	18.5	16.1	43.5	14.9	15.1
Central China New Life	9983 HK	BUY	11.3	7.16	9,002	20.3	13.3	9.5	55.4	53.1	39.3
Redsun Services	1971 HK	BUY	9.4	4.54	1,884	18.6	10.3	7.3	49.7	71.7	41.8
Languang Justbon	2606 HK	BUY	69.7	38.95	6,937	10.1	7.5	5.6	33.3	34.2	34.1
Average						39.0	26.3	19.9	52.2	46.9	30.0

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	4,675	9,645	16,680	22,361	29,790
Basic PM	3,445	5,817	8,455	11,424	14,789
Non-owner VAS	791	1,422	2,010	2,517	3,179
Community VAS	417	865	1,775	3,099	5,297
City services	-	-	2,712	3,452	4,538
Others	21	1,541	1,728	1,870	1,987
Cost of sales	(2,914)	(1,192)	(1,536)	(1,943)	(2,425)
Gross Profit	1,762	428	621	807	1,037
Other income	22	51	36	44	40
Selling expenses	(27)	(67)	(115)	(155)	(206)
Administrative expenses	(760)	(1,208)	(2,088)	(2,800)	(3,730)
Impairment	(13)	(31)	-	-	-
Operating profit	984	1,798	3,305	4,732	6,912
JV/Associates	3	8	9	11	14
Finance cost	54	92	96	101	106
Exceptional	29	178	-	-	-
Pre-tax Profit	1,069	2,076	3,411	4,845	7,032
Income tax	(135)	(358)	(853)	(485)	(1,336)
PROFIT FOR THE YEAR	934	1,718	2,558	4,361	5,696
Non-controlling interest	(11)	(48)	(141)	(218)	(256)
Net Profit attribute to	923	1,671	2,417	4,143	5,440

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	851	2,045	2,274	2,506	2,739
Property, plant and	113	312	482	652	822
Intangible assets	686	1,604	1,654	1,704	1,754
Others	52	129	139	150	163
Current assets	4,671	10,224	15,145	21,299	29,056
Trade and other receivables	788	2,004	3,465	4,646	6,189
Cash and cash equivalents	3,869	6,914	10,363	15,330	21,534
Others	489	3	3	3	3
Total assets	5,522	12,269	17,419	23,804	31,795
Current liabilities	3,127	6,427	9,623	12,684	16,339
Trade and other payables	2,060	4,690	7,285	9,567	12,338
Others	1,067	1,737	2,338	3,117	4,000
Non-current liabilities	65	162	162	162	162
Deferred income tax	65	143	143	143	143
Others	-	19	19	19	19
Total liabilities	3,192	6,590	9,786	12,846	16,501
Equity to shareholders	2,261	5,373	7,186	10,293	14,373
Non-controlling interests	69	306	447	665	921
Total Equity	2,330	5,680	7,633	10,958	15,294

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before tax	1,069	2,076	3,411	4,845	7,032
D&A	26	-	60	60	60
Change in working capital	617	2,027	1,725	1,873	2,102
Others	(163)	(845)	(959)	(597)	(1,456)
Net cash from operating	1,549	3,257	4,237	6,181	7,738
Capex	(62)	-	(280)	(280)	(280)
JV/Associates	(6)	-	-	-	-
Others	(46)	(1,608)	96	101	106
Net cash from investing	(114)	(1,608)	(184)	(179)	(174)
Equity raised	10	1,700	-	-	-
Change of debts	-	-	-	-	-
Others	(211)	(304)	(604)	(1,036)	(1,360)
Net cash from financing	(200)	1,396	(604)	(1,036)	(1,360)
Net change in cash	1,235	3,045	3,449	4,966	6,205
Cash at the beginning	2,634	3,869	6,914	10,363	15,330
Exchange difference	-	-	-	-	-
Cash at the end	3,869	6,914	10,363	15,330	21,534

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Basic PM	73.7	60.3	50.7	51.1	49.6
Non-owner VAS	16.9	14.7	12.1	11.3	10.7
Community VAS	8.9	9.0	10.6	13.9	17.8
City services	0.0	0.0	16.3	15.4	15.2
Others	0.5	16.0	10.4	8.4	6.7
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	37.7	4.4	3.7	3.6	3.5
Net margin	19.7	17.3	14.5	18.5	18.3
Effective tax rate	12.6	17.2	25.0	10.0	19.0
Growth (%)					
Revenue	49.8	106.3	72.9	34.1	33.2
Gross profit	70.1	73.3	79.3	39.7	41.4
Operating profit	69.6	82.8	83.8	43.2	46.1
Net profit	129.8	81.0	44.7	71.4	31.3
Balance sheet ratios					
Current ratio (x)	1.5	1.6	1.6	1.7	1.8
Receivable turnover days	62	76	76	76	76
Returns (%)					
ROE	40.8	31.1	33.6	40.2	37.8
ROA	16.7	13.6	13.9	17.4	17.1
Per share					
EPS (RMB)	0.37	0.63	0.89	1.53	2.01
DPS (RMB)	0.09	0.16	0.22	0.38	0.50
BVPS (RMB)	0.63	1.39	2.04	3.17	4.65

Source: Company data, CMBIS estimates

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