

# Binjiang Service (3316 HK)

## 1H23 missed, future growth under pressure

Company's 1H23 earnings missed with NP grew at 21% YoY vs. original FY target of 30% given 1) late approval of withholding tax deduction which could have sent NP growth to 29% in 1H23. 2) GP margin declined 4.8 ppts to 26.7% mainly driven by revenue structure change in community VAS. We like the company for its stable parentco., good cash flow and high dividend pay-out ratio, but lowered our forecast in NP by 4-11% in FY23-25E to reflect its pressure on both third-party expansion and two VAS segments. Maintain BUY with new TP of HK\$ 34.33, representing 16x 2023E PE.

■ **1H23 earnings missed due to late withholding tax relief and margin contraction.** Company delivered 43% YoY growth in revenue to RMB 1.2bn in 1H23, and net profit grew 21% YoY to RMB 231mn, missing our expectation. This was mainly due to 1) withholding tax deduction approval was later-than-expected. Company's dividend paid to non-PRC receivers was subject to a withholding tax rate of 10%, the on-going tax deduction application will lower the rate to 5%, representing ~RMB 21mn impairment reversal. The NP growth could reach 29% if application approved earlier. 2) GP margin declined 4.8 ppts to 26.7% mainly caused by community VAS structure change.

■ **VAS growth under pressure.** Non-owner VAS segment recorded revenue of RMB 279mn, with growth slowed 19% YoY in 1H23 from 45.7% in 1H22 and 28.8% in FY22 as developers continue to cut expense due to liquidity strain. Community VAS booked 212% YoY growth in revenue but the GP margin was largely contracted to 34.8% in 1H23 from 71.5% in 1H22 and 48.3% in FY22 as the housing brokerage service and home living services with high GP margins were impacted by slow recovery of property market and consumption, and company puts more efforts on soft furnishing business with lower margin that leads to proper growth in revenue, but a big decline in GP margin. The trend is likely to continue in 2H23 in our view.

■ **Operating cash flow remained good.** Company's operating cash flow increased 39% YoY in 1H23 thanks to less PM fee delay in high-end projects and more revenue contribution from services with fee collected in advance like soft furnishing.

■ **Maintain BUY and cut TP by 4% to HK\$ 34.33.** We like the company for its less connected transaction, stable parentco., good cash flow and high dividend pay-out ratio at 60%, Maintain BUY. We lowered our forecast on net profit by 4-11% in FY23-25E (25% CAGR) to reflect company's pressure on third-party expansion among intensifying competition and struggling VAS business mentioned above. We come up with a new TP of HK\$ 34.3, representing 16x 2023E PE. The company is currently trading at 10x 2023E PE. Catalysts: withholding tax impairment reversal, Stock Connection inclusion. Risk: lower-than-expected property market recovery.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	1,399	1,983	2,756	3,621	4,610
YoY growth (%)	45.7	41.7	39.0	31.4	27.3
Net profit (RMB mn)	321.8	412.0	515.9	642.4	799.1
EPS (Reported) (RMB)	1.16	1.49	1.87	2.32	2.89
YoY growth (%)	46.6	28.0	25.2	24.5	24.4
Consensus EPS (RMB)	na	na	1.96	2.57	3.30
P/E (x)	15.7	12.1	9.2	7.4	6.0
P/B (x)	5.4	4.0	3.0	2.4	1.9
Yield (%)	3.8	4.9	6.5	8.1	10.1
ROE (%)	36.1	37.7	36.6	36.1	35.9

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

**Target Price** **HK\$34.33**  
 (Previous TP) **HK\$35.8**  
**Up/Downside** **85.5%**  
**Current Price** **HK\$18.50**

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#### Stock Data

Mkt Cap (HK\$ mn)	5,113.5
Avg 3 mths t/o (HK\$ mn)	3.0
52w High/Low (HK\$)	27.50/13.22
Total Issued Shares (mn)	276.4

Source: FactSet

#### Shareholding Structure

GREAT DRAGON VENTURES LTD	45.9%
HAOYU VENTURES LTD	12.9%

Source: Bloomberg

#### Share Performance

	Absolute	Relative
1-mth	-14.7%	-8.1%
3-mth	-5.2%	-4.9%
6-mth	-23.6%	-18.2%

Source: FactSet

#### 12-mth Price Performance



Source: FactSet

**Figure 1: 1H23 results summary**

RMB mn	1H22	1H23	YoY	1H/2022	1H/2023E
<b>Revenue</b>	<b>832</b>	<b>1,190</b>	<b>43%</b>	<b>42%</b>	<b>43%</b>
- Property management services	536	719	34%	45%	44%
- VAS to non owners	235	279	19%	43%	43%
- 5S VAS	61	191	212%	25%	41%
Gross profit	262	318	21%	44%	43%
<b>Net profit</b>	<b>190</b>	<b>231</b>	<b>21%</b>	<b>46%</b>	<b>45%</b>
EPS (RMB)	0.69	0.84	21%	46%	45%
DPS (RMB)	-	-			
Dividend payout ratio	-	-			
<b>GP Margin</b>	<b>31.5%</b>	<b>26.7%</b>	<b>-4.8 ppt</b>		
<b>Net Margin</b>	<b>22.9%</b>	<b>19.4%</b>	<b>-3.5 ppt</b>		
Managed GFA (mn sq m)	35.4	48.7	37%		
Contracted GFA (mn sq m)	57.4	74.2	29%		

Source: Company data, CMBIGM

**Figure 2: Earnings revision**

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	2,756	3,621	4,610	2,781	3,690	4,806	-1%	-2%	-4%
Gross Profit	733	958	1,200	791	1,042	1,353	-7%	-8%	-11%
Operating profit	652	823	1,034	685	907	1,179	-5%	-9%	-12%
Net profit	516	642	799	538	702	903	-4%	-8%	-11%
EPS (RMB)	1.87	2.32	2.89	1.95	2.54	3.27	-4%	-8%	-11%
Gross Margin	26.6%	26.5%	26.0%	28.4%	28.2%	28.1%	-1.8ppts	-1.8ppts	-2.1ppts
Operating Margin	23.6%	22.7%	22.4%	24.6%	24.6%	24.5%	-1ppts	-1.9ppts	-2.1ppts
Net Margin	18.7%	17.7%	17.3%	19.4%	19.0%	18.8%	-0.6ppts	-1.3ppts	-1.4ppts

Source: Company data, CMBIGM

**Figure 3: Financial forecast of Binjiang Service**

Key drivers	2020	2021	2022	2023E	2024E	2025E
<b>Managed GFA (mn sqm)</b>	<b>20</b>	<b>30</b>	<b>42</b>	<b>55</b>	<b>69</b>	<b>83</b>
YoY growth	39%	50%	40%	31%	25%	20%
Binjiang Group affiliates	13	16	19	23	27	31
Third party	7	14	23	32	42	52
M&A	-	-	-	-	-	-
<b>Contracted GFA (mn sqm)</b>	<b>35</b>	<b>50</b>	<b>69</b>	<b>90</b>	<b>113</b>	<b>137</b>
YoY growth	32%	40%	39%	31%	25%	20%
<b>Revenue (RMB mn)</b>	<b>960</b>	<b>1,399</b>	<b>1,983</b>	<b>2,756</b>	<b>3,621</b>	<b>4,610</b>
YoY growth	36.8%	45.7%	41.7%	39.0%	31.4%	27.3%
Property management services	554	841	1,193	1,647	2,101	2,572
VAS to non-property owners	312	420	540	645	771	906
Community VAS	94	139	249	464	749	1,132
<b>Gross margin</b>	<b>31%</b>	<b>32%</b>	<b>30%</b>	<b>27%</b>	<b>26%</b>	<b>26%</b>
Property management services	19%	19%	19%	19%	19%	18%
VAS to non-property owners	45%	45%	45%	40%	39%	38%
5S - Community VAS	55%	71%	48%	35%	35%	34%
<b>Net profits (RMB mn)</b>	<b>220</b>	<b>322</b>	<b>412</b>	<b>516</b>	<b>642</b>	<b>799</b>
YoY growth	91%	47%	28%	25%	25%	24%
<b>Net margin</b>	<b>23%</b>	<b>23%</b>	<b>21%</b>	<b>19%</b>	<b>18%</b>	<b>17%</b>

Source: Company data, CMBIGM

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	960	1,399	1,983	2,756	3,621	4,610
Cost of goods sold	(663)	(949)	(1,390)	(2,023)	(2,663)	(3,410)
Others	0	0	0	0	0	0
Gross profit	297	450	592	733	958	1,200
Operating expenses	(44)	(60)	(76)	(82)	(135)	(165)
Selling expense	(3)	(4)	(8)	(17)	(18)	(18)
Admin expense	(40)	(54)	(62)	(86)	(113)	(144)
Operating profit	253	390	516	652	823	1,034
Other income	10	10	15	7	7	7
Other expense	(12)	(12)	(21)	14	(11)	(10)
Net interest income/(expense)	30	32	42	42	42	42
Other income/expense	1	1	3	3	3	3
Pre-tax profit	284	423	561	697	868	1,080
Income tax	(64)	(98)	(142)	(174)	(217)	(270)
After tax profit	220	325	419	523	651	810
Minority interest	1	3	7	7	8	11
Net profit	220	322	412	516	642	799
Net dividends	132	106	247	310	385	479

  

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	1,368	1,482	2,640	3,616	4,720	5,998
Cash & equivalents	805	906	1,950	2,722	3,604	4,626
Restricted cash	46	57	58	58	58	58
Account receivables	96	173	343	477	627	799
Inventories	52	79	147	215	283	362
ST bank deposits	369	243	132	132	132	132
Financial assets at FVTPL	0	24	0	0	0	0
Contract assets	0	0	9	13	17	21
Non-current assets	134	202	354	357	362	367
PP&E	17	20	27	30	35	40
Deferred income tax	13	19	26	26	26	26
Investment in JVs & assos	4	6	9	9	9	9
Other non-current assets	101	157	292	292	292	292
Total assets	1,503	1,685	2,994	3,974	5,083	6,365
Current liabilities	643	711	1,681	2,341	3,046	3,860
Short-term borrowings	0	0	0	0	0	0
Account payables	473	496	672	978	1,288	1,649
Other current liabilities	61	70	101	101	101	101
Lease liabilities	1	2	0	0	0	0
Contract liabilities	107	144	907	1,261	1,657	2,110
Non-current liabilities	1	0	27	27	27	27
Deferred income	0	0	27	27	27	27
Other non-current liabilities	1	0	0	0	0	0
Total liabilities	644	711	1,708	2,368	3,073	3,887
Share capital	0	0	0	0	0	0
Retained earnings	0	0	0	0	0	0
Other reserves	841	941	1,246	1,572	1,984	2,464
Total shareholders equity	842	942	1,246	1,573	1,985	2,464
Minority interest	17	32	40	33	25	14
Total equity and liabilities	1,503	1,685	2,994	3,973	5,082	6,365

<b>CASH FLOW</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	284	423	561	697	868	1,080
Depreciation & amortization	6	6	8	79	85	86
Tax paid	(48)	(96)	(91)	(174)	(217)	(270)
Change in working capital	96	(69)	670	459	488	563
Others	(19)	(22)	(25)	24	49	48
<b>Net cash from operations</b>	<b>318</b>	<b>242</b>	<b>1,123</b>	<b>1,085</b>	<b>1,273</b>	<b>1,507</b>
<b>Investing</b>						
Capital expenditure	(8)	(13)	(22)	(4)	(5)	(5)
Acquisition of subsidiaries/ investments	0	(0)	(1)	0	0	0
Net proceeds from disposal of short-term investments	431	432	372	0	0	0
Others	(382)	(354)	(318)	0	0	0
<b>Net cash from investing</b>	<b>41</b>	<b>66</b>	<b>32</b>	<b>(4)</b>	<b>(5)</b>	<b>(5)</b>
<b>Financing</b>						
Dividend paid	(80)	(219)	(111)	(310)	(385)	(479)
Proceeds from share issues	11	13	2	0	0	0
Others	(3)	(2)	(2)	0	0	0
<b>Net cash from financing</b>	<b>(72)</b>	<b>(208)</b>	<b>(111)</b>	<b>(310)</b>	<b>(385)</b>	<b>(479)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	517	805	906	1,950	2,722	3,604
Exchange difference	2	1	1	0	0	0
<b>Cash at the end of the year</b>	<b>805</b>	<b>906</b>	<b>1,950</b>	<b>2,722</b>	<b>3,604</b>	<b>4,626</b>
<b>GROWTH</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Revenue	36.8%	45.7%	41.7%	39.0%	31.4%	27.3%
Gross profit	50.9%	51.2%	31.7%	23.8%	30.6%	25.3%
Operating profit	81.3%	54.1%	32.3%	26.3%	26.2%	25.7%
Net profit	91.4%	46.6%	28.0%	25.2%	24.5%	24.4%
<b>PROFITABILITY</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Gross profit margin	31.0%	32.1%	29.9%	26.6%	26.5%	26.0%
Operating margin	26.3%	27.9%	26.0%	23.6%	22.7%	22.4%
Return on equity (ROE)	28.1%	36.1%	37.7%	36.6%	36.1%	35.9%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Current ratio (x)	2.1	2.1	1.6	1.5	1.5	1.6
<b>VALUATION</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
P/E	15.3	15.7	12.1	9.2	7.4	6.0
P/B	4.0	5.4	4.0	3.0	2.4	1.9
Div yield (%)	3.9	3.8	4.9	6.5	8.1	10.1

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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