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CMB INTERNATIONAL
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Poly Property Services (6049 HK)

Visible momentum in community VAS

In 1H20, Poly Property recorded growth in revenue and net attributable profit of 27.6% and 27.4% YoY respectively. Managed GFA was up 22% YoY, while overall gross margin decreased due to COVID impact on high-margin businesses. We believe community VAS will rebound after being under pressure, while the Company is set to achieve its FY20E earnings target. We raise TP to HK$90.6 based on its average forward P/E of 47.8x. Maintain BUY.

- **Overall results in line; set to achieve FY20 earnings target.** Poly Property recorded revenue of RMB 3,601mn in 1H20, and net attributable profit of RMB 400mn, an increase of 27.6% and 27.4% YoY respectively. Managed GFA was up 22% YoY, at 317mn sq m. Overall gross margin decreased by 3.2ppts to 20.4%, mainly due to COVID impact on high-margin community VAS. Management reiterated its earnings target of 30-40% growth in FY20E, which we believe is achievable.
- **Stable GFA expansion on multiple fronts.** During 1H20, the Company signed 137 new third-party projects with contract value of approximately RMB650mn per year, more than half of which were regarding non-residential properties. New contracted GFA received from the parent company increased by 9.1mn sq m during 1H20, while new contracted GFA from third-party sources decreased by 13.8mn sq m due to expiration of a 60mn sq m public project. Managed GFA remains evenly split between parent company and third-party sources, signaling equal emphasis on both fronts.
- **Despite COVID impact, community VAS is where momentum lies.** High-margin community VAS business such as certain home services, community media and community space came under pressure during the COVID-19 outbreak, resulting in an overall decline in community VAS GPM (30.2% in 1H20; -13.9ppts YoY). Meanwhile, travel restrictions during the pandemic enabled community retail to thrive, and new vertical businesses such as move-in and furnishing have shown strong momentum. We believe that 1) Poly Property's strong foothold in tier 1/core tier 2 cities and 2) the sheer scale of community VAS market under the Company are major catalysts for pressured VAS to make a swift recovery post-COVID.
- **Raise TP to HK$90.6.** We revise down 2020E/21E earnings by 2.4%/0.7% after 1H20 results. We believe that Poly Property remains a top tier player within the sector with a clear edge in terms of developer background, expansion capability in the third-party property market, and public property niche. We raise TP from HK$75.7 to HK$90.6 based on its average forward P/E of 47.8x. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	4,229	5,967	8,098	10,545	13,173
YoY growth (%)	30.5	41.1	35.7	30.2	24.9
Net income (RMB mn)	328	491	706	940	1,211
EPS (RMB)	N/A	1.21	1.28	1.70	2.19
YoY growth (%)	N/A	N/A	5.3	33.1	28.9
Consensus EPS (RMB)	N/A	N/A	1.34	1.83	2.49
P/E (x)	N/A	50.1	47.6	35.7	27.7
P/B (x)	N/A	6.5	6.1	5.5	4.8
Yield (%)	N/A	0.5	0.7	0.9	1.1
ROE (%)	50.5	9.7	12.7	15.1	17.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	**HK$90.60**
(Previous TP	HK$75.70)
Up/Downside	**+33.8%**
Current Price	**HK$67.70**

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Stock Data

Mkt Cap (HK$ mn)	37,461
Avg 3 mths t/o (HK$ mn)	180.18
52w High/Low (HK$)	92.85/40.8
Total Issued Shares (mn)	553

Source: Bloomberg

Shareholding Structure

Poly Development	72.3%
Free float	27.7%

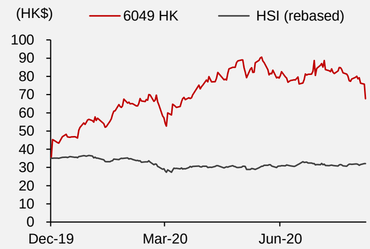
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-9.6%	-12.5%
3-mth	-4.5%	-14.3%
6-mth	18.8%	24.7%
12-mth	N.A.	N.A.

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

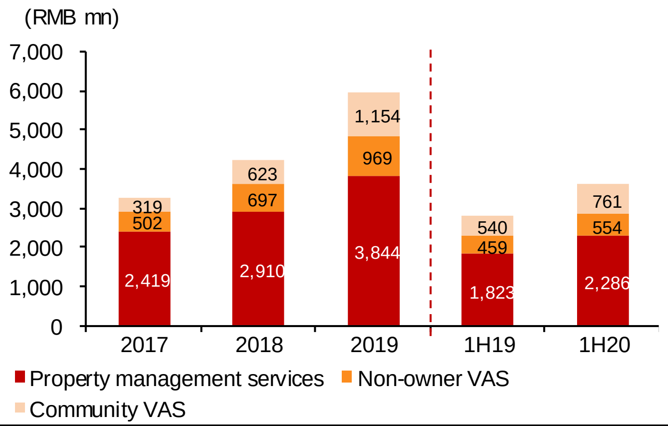
Auditor: BDO

Figure 1: 2020 interim results

	1H20	1H19	YoY	Remarks
Revenue	**3,601**	**2,822**	27.6%	
Property management services	2,286	1,823	25.4%	
Non-owner VAS	554	459	20.8%	
Community VAS	761	540	40.8%	
Cost of sales	(2,867)	(2,156)	33.0%	
Gross Profit	**734**	**667**	10.1%	GPM -3.2% YoY due to COVID impact on community VAS
Other income	89	15	484.1%	RMB 48mn in bank interest income; RMB 30mn in govt. grants
Administrative expenses	(309)	(245)	26.1%	
Other expenses	(0)	(1)	-19.1%	
EBIT	**514**	**436**	17.7%	
Share from JV/Associate	9	10	-9.8%	
Finance cost	(0)	(0)	-8.3%	
Exceptional	34	(9)	n.a.	
Pre-tax Profit	**556**	**437**	27.2%	
Income tax	(145)	(116)	24.9%	
Profit for the period	**411**	**321**	28.0%	
Non-controlling interest	(11)	(7)	54.7%	
Net profit attr. to shareholders	**400**	**314**	27.4%	

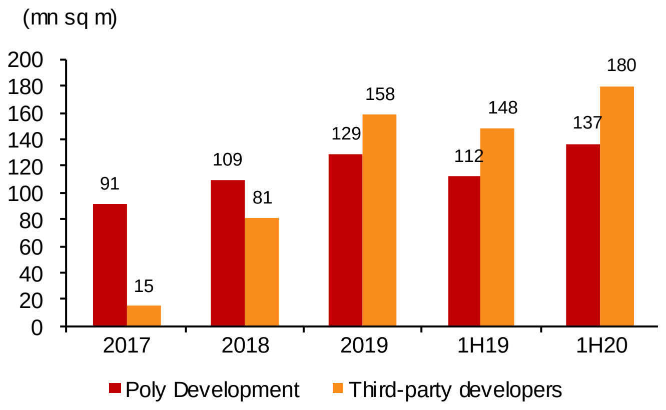
Source: Company data, CMBIS

Figure 2: Revenue



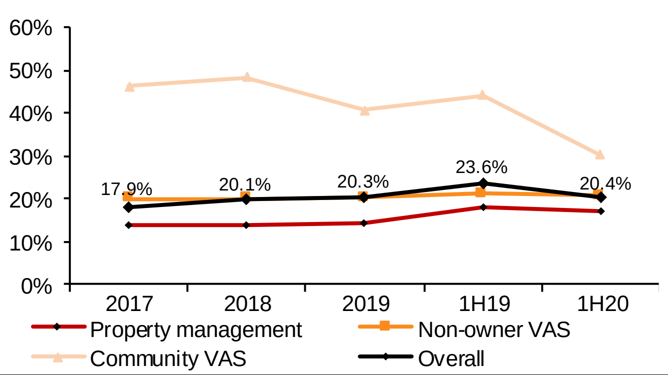
Source: Company data, CMBIS

Figure 3: GFA under management



Source: Company data, CMBIS

Figure 4: Gross profit margin



Source: Company data, CMBIS

Figure 5: Community VAS revenue by segment

(RMB mn)	FY19	% of total	1H20	% of total
Move-in and furnishing	192.5	17%	199.3	26%
Community retail	119.3	10%	176.1	23%
Parking lot management	182.7	16%	100.8	13%
Community media	65.4	6%	34.4	5%
Community space mgmt	136.7	12%	49.1	6%
Community convenience & others	457.7	40%	201.4	26%
Total	**1,154**	**100%**	**761.1**	**100%**

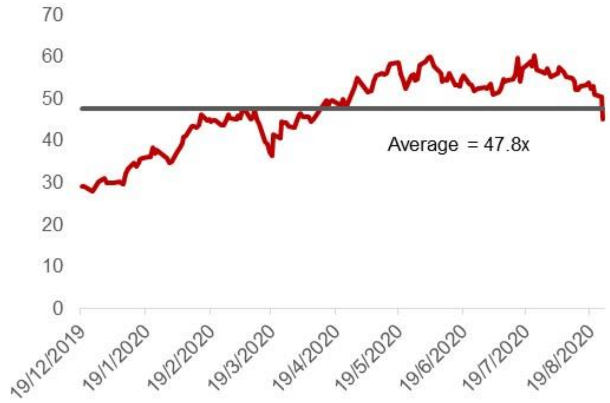
Source: Company data, CMBIS

Figure 6: Earnings revision

	New		Old		Diff (%)	
RMB mn	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	8,098	10,545	8,333	10,559	-2.8%	-0.1%
Gross Profit	1,599	2,237	1,762	2,277	-9.2%	-1.8%
EBIT	937	1,295	1,002	1,313	-6.5%	-1.4%
Net profit	706	940	724	947	-2.4%	-0.7%
EPS (RMB)	1.28	1.70	1.31	1.71	-2.4%	-0.7%
Gross Margin	19.7%	21.2%	21.1%	21.6%	-1.4ppts	-0.4ppts
EBIT Margin	11.6%	12.3%	12.0%	12.4%	-0.5ppts	-0.2ppts
Net Margin	8.7%	8.9%	8.7%	9.0%	0ppts	-0.1ppts

Source: Company data, CMBIS estimates

Figure 7: Forward P/E



Source: Bloomberg, CMBIS

Figure 8: Peer group valuation table

Company	Ticker	Last price (HK$)	Mkt Cap (HK$ mn)	P/E 19A	P/E 20E	P/E 21E
Large-size property management companies						
COUNTRY GARDEN S	6098 HK	51	140,728	72.6	54.3	39.5
A-LIVING SERVI-H	3319 HK	40.7	54,267	39.5	28.0	21.3
POLY PROPERTY -H	6049 HK	67.7	37,461	50.0	45.2	33.0
Average for leaders				54.0	42.5	31.2
Mid-size property management companies						
GREENTOWN SERVIC	2869 HK	10.06	32,365	52.8	41.0	31.9
CHINA OVERSEAS P	2669 HK	6.98	22,942	42.7	33.9	26.1
EVER SUNSHINE LI	1995 HK	14.6	24,388	89.4	55.4	36.1
S-ENJOY SERVICE	1755 HK	24.4	19,962	64.1	41.5	28.0
CENTRAL CHINA NE	9983 HK	10.8	13,446	N.A.	30.0	21.3
POWERLONG COMMER	9909 HK	25.9	16,097	52.5	48.6	33.5
SICHUAN LANGUANG	2606 HK	52.15	9,288	15.0	13.8	10.4
TIMES NEIGHBORHO	9928 HK	11.62	11,454	79.8	42.5	24.7
COLOUR LIFE SERV	1778 HK	4.08	5,936	10.0	9.5	8.7
AOYUAN HEALTHY L	3662 HK	7.19	5,222	27.0	19.3	13.7
KAISA PROSPERITY	2168 HK	29.95	4,612	22.9	16.3	11.8
BINJIANG SERVICE	3316 HK	19.98	5,523	40.5	30.7	23.4
Average for mid-size				45.2	31.9	22.5

Source: Bloomberg, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Turnover	**4,229**	**5,967**	**8,098**	**10,545**	**13,173**
Property management	2,910	3,844	5,186	6,739	8,411
VAS to non-property	697	969	1,250	1,563	1,890
Community VAS	623	1,154	1,662	2,244	2,872
Cost of sales	(3,378)	(4,756)	(6,499)	(8,308)	(10,326)
Gross Profit	**851**	**1,211**	**1,599**	**2,237**	**2,847**
Other income	24	59	100	40	40
Administrative expenses	(415)	(574)	(761)	(981)	(1,212)
Other expenses	(4)	(1)	(1)	(2)	(2)
EBIT	**456**	**695**	**937**	**1,295**	**1,673**
Share from JCE	5	16	16	18	18
Finance cost,net	(1)	(1)	(1)	(1)	(1)
Exceptional	3	(25)	34	-	-
Pre-tax Profit	**463**	**685**	**986**	**1,312**	**1,690**
Income tax	(127)	(182)	(261)	(348)	(448)
PROFIT FOR THE YEAR	336	503	724	964	1,242
Non-controlling interest	(8)	(13)	(18)	(24)	(31)
Net Profit to shareholders	**328**	**491**	**706**	**940**	**1,211**

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	**255**	**268**	**306**	**346**	**386**
Property, plant and	91	99	119	139	159
Intangible assets	99	96	98	100	102
Others	65	73	89	107	125
Current assets	**2,297**	**7,303**	**7,931**	**8,682**	**9,628**
Inventories	66	46	63	81	100
Trade and other receivables	196	391	531	692	864
Cash and cash equivalents	1,812	6,509	6,940	7,513	8,267
Others	224	357	397	397	397
Total assets	**2,552**	**7,571**	**8,237**	**9,028**	**10,014**
Current liabilities	**1,831**	**2,424**	**2,555**	**2,652**	**2,759**
Trade and other payables	1,081	1,434	1,526	1,623	1,730
Contracted liabilities	704	3	3	3	3
Others	45	988	1,026	1,026	1,026
Non-current liabilities	**29**	**25**	**27**	**27**	**27**
Deferred income tax liabilities	13	13	13	13	13
Others	15	12	14	14	14
Total liabilities	**1,859**	**2,449**	**2,582**	**2,678**	**2,786**
Equity to shareholders	**650**	**5,055**	**5,570**	**6,228**	**7,075**
Non-controlling interests	43	67	85	109	140
Total Equity	**693**	**5,122**	**5,654**	**6,337**	**7,215**

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E
Profit before tax	**463**	**685**	**986**	**1,312**	**1,690**
D&A	27	33	20	20	20
Chg in working capital	74	164	(64)	(82)	(85)
Others	(131)	(188)	(277)	(366)	(466)
Net cash from operating	**433**	**694**	**665**	**884**	**1,160**
FA Capex & Inv, net	8	23	(42)	(42)	(42)
Associated companies	(31)	(26)	-	-	-
Others	-	-	-	-	-
Net cash from investing	**(23)**	**(3)**	**(42)**	**(42)**	**(42)**
Equity raised	-	4,215	-	-	-
Chg of debts	-	-	-	-	-
Others	(213)	(176)	(212)	(282)	(363)
Net cash from financing	**(213)**	**4,039**	**(212)**	**(282)**	**(363)**
Net change in cash	197	4,730	411	560	754
Cash at the beginning	**1,597**	**1,794**	**6,524**	**6,935**	**7,495**
Exchange difference	-	(15)	-	-	-
Cash at the end of the year	**1,794**	**6,509**	**6,935**	**7,495**	**8,249**

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Property management services	68.8	64.4	64.0	63.9	63.9
Value-added services to non-property owners	16.5	16.2	15.4	14.8	14.3
Community value-added services	14.7	19.3	20.5	21.3	21.8
Total	**100**	**100**	**100**	**100**	**100**
Profit & loss ratios (%)					
Gross margin	20.1	20.3	19.7	21.2	21.6
EBIT margin	10.8	11.6	11.6	12.3	12.7
Net margin	7.8	8.2	8.7	8.9	9.2
Effective tax rate	27.4	26.6	26.5	26.5	26.5
Growth (%)					
Revenue	30.5	41.1	35.7	30.2	24.9
Gross profit	46.6	42.2	32.1	39.9	27.3
EBIT	58.8	52.3	34.8	38.2	29.2
Net profit	49.7	49.3	44.0	33.1	28.9
Balance sheet ratios					
Current ratio (x)	2.1	2.0	2.0	2.0	3.0
Receivable turnover days	17	24	24	24	24
Payables turnover days	21	19	19	19	19
Inventory turnover days	7	4	4	4	4
Net debt / total equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	50.5	9.7	12.7	15.1	17.1
ROA	13.2	6.6	8.8	10.7	12.4
Per share					
EPS (RMB)	N/A	1.21	1.28	1.70	2.19
DPS (RMB)	N/A	0.31	0.38	0.51	0.66
BVPS (RMB)	N/A	9.30	9.89	11.07	12.60

Source: Company data, CMBIS estimates

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