

## Excellence Commercial Property (6989 HK)

### Finding success in serving large corporate customers

Excellence announced solid 2020 results with net profit up 82%, beating consensus and in line with our estimates, thanks to strong third-party gains (+44% GFA, +38% revenue) and growing VAS through customized services and AM. We are convinced that Excellence's business model, which focuses on contracts with large corporate customers (Internet giants, TMT up-and-comers, etc.) can enable outperformance in a field (office buildings) that in general has been somewhat slowing down. We raise earnings forecast in 2021E/22E by 8.2%/1.6% and reiterate BUY.

- **2020 earnings a solid beat.** Managed GFA grew 36% YoY to 32mn sq m, in which commercial GFA grew 35% to 16mn sq m (third-party: +44%, parentco: +4%). Revenue was up 38% YoY to RMB253mn, driven by VAS (+76%) which contributed to 14% of revenue (2019: 11%). Basic PM revenue grew 34% YoY, driven by third-party commercial projects (+38%) and public projects (+60%). Gross margin grew 2.7ppt to 26.3%, thanks to better profitability on commercial PM (2020 GPM: parentco +2.4ppt, third-party +4.4ppt) and VAS (2020 GPM: +9.4ppt to 34.6%). The Company announced dividend of HK\$0.095/share, representing 30% payout ratio.
- **Maintains guidance of 45% NP CAGR in two years.** Company reaffirmed previous guidance of RMB500mn/700mn net profit in 2021E/22E, or 45% CAGR in two years. It expects third-party expansion to be the future driver, with basic PM/VAS making up 80%/20% of revenue.
- **Serving large corporate customers key to navigating the office building market.** 80% of Excellence's third-party contracts are for managing regional branches/HQs for large corporate customers, and in 2020 the Company has gained new customers such as JD, DJI and Kuaishou, in addition to existing cooperation with Tencent, Baidu, etc. We think such a business model offers several advantages: 1) secures tenants & price hikes against general slowdown of office building market which suffers from oversupply, declining occupancy and potential loss of pricing power; 2) avoids direct competition with pipeline-heavy competitors such as CR Mixc; 3) taps into GBA's growing TMT scene which will offer ample opportunities for expansion; 4) enables customized VAS for individual customers.
- **Raise earnings forecast by 8.2%/1.6% in 2021E/22E.** We raise earnings forecast in 2021E/22E by 8.2%/1.6% on results and confidence in Excellence's business model. Maintain TP of HK\$ 14.9 on 20x 2022E P/E. Reiterate BUY.

#### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	1,223	1,836	2,517	4,034	4,980
YoY growth (%)	29	50	37	60	23
Net income (RMB mn)	126	179	325	553	733
EPS (RMB)	N/A	N/A	0.337	0.452	0.599
YoY growth (%)	N/A	N/A	N/A	34.4	32.5
Consensus EPS (RMB)	N/A	N/A	N/A	N/A	N/A
P/E (x)	N/A	N/A	25.3	18.8	14.2
P/B (x)	N/A	N/A	3.3	3.3	3.3
Yield (%)	N/A	N/A	1.1	1.6	2.1
ROE (%)	55.4	59.8	11.2	18.9	24.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

Target Price **HK\$14.90**  
 Up/Downside **+62.0%**  
 Current Price **HK\$9.20**

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#### Stock Data

Mkt Cap (HK\$ mn)	11,247
Avg 3 mths t/o (HK\$ mn)	16.07
52w High/Low (HK\$)	12.04/8.21
Total Issued Shares (mn)	1,222

Source: Bloomberg

#### Shareholding Structure

Li Wa	58.8%
Xiao Xingping	9.6%
Li Yuan	5.2%
Free float	26.4%

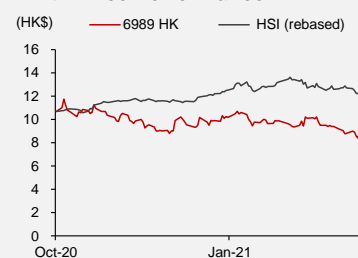
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	-10.0%	-8.0%
3-mth	-2.8%	-9.7%
6-mth	N.A.	N.A.
12-mth	N.A.	N.A.

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

**Auditor: KPMG**

**Figure 1: Earnings revision**

RMB mn	New		Old		Diff (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	4,034	4,980	3,837	4,867	5.1%	2.3%
Gross Profit	1,058	1,337	920	1,200	14.9%	11.4%
Operating profit	805	1,028	744	1,005	8.1%	2.3%
Net profit	553	733	511	721	8.2%	1.6%
EPS (RMB)	0.45	0.60	0.42	0.59	7.7%	1.6%
Gross Margin	26.2%	26.8%	24.0%	24.7%	2.2ppts	2.2ppts
Operating Margin	19.9%	20.6%	19.4%	20.6%	0.6ppts	0ppts
Net Margin	13.7%	14.7%	13.3%	14.8%	0.4ppts	-0.1ppts

Source: Company data, CMBIS estimates

## Financial Summary

### Income statement

YE Dec 31 (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Revenue</b>	<b>1,223</b>	<b>1,836</b>	<b>2,525</b>	<b>4,034</b>	<b>4,980</b>
Basic property mgnt	1,067	1,576	2,111	3,211	3,736
VAS	133	204	359	798	1,239
Other	24	56	55	25	6
Cost of sales	(929)	(1,403)	(1,861)	(2,977)	(3,643)
<b>Gross profit</b>	<b>294</b>	<b>433</b>	<b>664</b>	<b>1,058</b>	<b>1,337</b>
Other income	3	17	23	31	39
Other net losses	(7)	(16)	21	(10)	(9)
Distribution expenses	(8)	(7)	(15)	(20)	(25)
Administrative expenses	(77)	(97)	(195)	(254)	(314)
<b>Operating profit</b>	<b>205</b>	<b>331</b>	<b>498</b>	<b>804</b>	<b>1,028</b>
Finance expenses	(1)	(20)	(30)	(7)	(2)
Associates/JV	7	6	9	7	10
Exceptional	-	-	-	-	-
<b>Pre-tax profit</b>	<b>211</b>	<b>317</b>	<b>477</b>	<b>804</b>	<b>1,036</b>
Profits tax	(55)	(83)	(121)	(203)	(257)
After-tax profit	157	234	356	601	779
Minority interest	(31)	(55)	(31)	(48)	(46)
<b>Net profit</b>	<b>126</b>	<b>179</b>	<b>325</b>	<b>553</b>	<b>733</b>

### Cash flow summary

YE Dec 31 (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
<b>EBIT</b>	<b>205</b>	<b>331</b>	<b>498</b>	<b>804</b>	<b>1,028</b>
Depreciation and amortization	15	28	28	28	31
Change in working capital	(332)	(103)	(17)	385	315
Income tax paid	(60)	(74)	(131)	(211)	(248)
Others	7	3	199	140	(1)
<b>Net cash from operating</b>	<b>(164)</b>	<b>185</b>	<b>578</b>	<b>1,148</b>	<b>1,125</b>
Capex	(16)	(306)	(14)	(89)	(172)
Associates/JV	(21)	1	(11)	(1)	(2)
Other	(54)	(460)	0	(0)	-
<b>Net cash from investing</b>	<b>(92)</b>	<b>(765)</b>	<b>(26)</b>	<b>(90)</b>	<b>(174)</b>
Equity raised	-	-	2,894	-	-
Change of Debts	150	315	(91)	(254)	(110)
Dividend paid	-	-	(458)	(575)	(166)
Other	37	227	(30)	(6)	(1)
<b>Net cash from financing</b>	<b>187</b>	<b>542</b>	<b>2,315</b>	<b>(835)</b>	<b>(277)</b>
Net change in cash	(69)	(38)	2,867	223	674
Cash at the beginning	554	485	447	3,314	3,537
Exchange difference	-	-	-	-	-
<b>Cash at the end</b>	<b>485</b>	<b>447</b>	<b>3,314</b>	<b>3,537</b>	<b>4,210</b>
Pledged deposit	75	69	39	69	69
<b>Cash at BS</b>	<b>560</b>	<b>516</b>	<b>3,353</b>	<b>3,606</b>	<b>4,280</b>

### Balance sheet

YE Dec 31 (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Non-current assets</b>	<b>115</b>	<b>589</b>	<b>596</b>	<b>652</b>	<b>799</b>
Fixed asset	49	55	64	75	83
Investment properties	11	134	123	130	137
Associates/JV	40	40	51	52	54
Intangible assets/Goodwill	3	338	326	370	496
Other non-current assets	11	22	31	25	28
<b>Current assets</b>	<b>1,265</b>	<b>1,963</b>	<b>4,334</b>	<b>4,549</b>	<b>5,338</b>
Cash	560	516	3,353	3,606	4,280
Account receivable	295	929	561	735	850
Inventories	0	0	2	0	0
Other current assets	411	517	418	209	209
<b>Current liabilities</b>	<b>1,002</b>	<b>1,874</b>	<b>1,243</b>	<b>1,611</b>	<b>2,053</b>
Borrowings	150	465	194	20	10
Trade and other payables	766	1,276	893	1,450	1,880
Contract liabilities	45	63	82	84	96
Deferred taxation	34	59	57	43	52
Lease liabilities	7	11	18	14	15
<b>Non-current liabilities</b>	<b>16</b>	<b>222</b>	<b>431</b>	<b>331</b>	<b>239</b>
Borrowings	0	0	180	100	0
Other non-current liabilities	16	222	251	231	239
<b>Shareholders' equity</b>	<b>283</b>	<b>391</b>	<b>3,184</b>	<b>3,182</b>	<b>3,763</b>
Minority interest	80	65	72	78	83
<b>Total equity</b>	<b>363</b>	<b>456</b>	<b>3,256</b>	<b>3,260</b>	<b>3,846</b>

### Key ratios

YE Dec 31	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Sales mix (%)</b>					
Basic property mgnt services	87.2	85.9	83.6	79.6	75.0
VAS	10.9	11.1	14.2	19.8	24.9
Other	2.0	3.0	2.2	0.6	0.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	24.1	23.6	26.3	26.2	26.8
EBIT margin	16.8	18.0	19.7	19.9	20.6
Net margin	10.3	9.7	12.9	13.7	14.7
Effective tax rate	25.9	26.3	25.3	25.3	24.8
<b>Growth rate (%)</b>					
Revenue	29.1	50.1	37.5	59.8	23.5
Gross profit	26.0	47.3	53.1	59.3	26.4
EBIT	12.0	61.3	50.2	61.6	27.8
Net profit attributable	15.3	41.9	82.1	70.2	32.5
<b>Balance sheet ratios</b>					
Current ratio (x)	1.3	1.0	3.5	2.8	2.6
Net gearing ratio (%)	-1.1	-0.1	-0.9	-1.1	-1.1
<b>Returns (%)</b>					
ROE	55.4	59.8	11.2	18.9	20.7
ROA	11.3	9.2	7.2	11.5	12.7
<b>Per share data</b>					
EPS (RMB)	N.A.	N.A.	0.34	0.45	0.60
DPS (RMB)	N.A.	N.A.	0.10	0.14	0.18
BVPS (RMB)	N.A.	N.A.	2.60	2.60	3.08

Source: Company data, CMBIS estimates

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