

# Languang Justbon (2606 HK)

## Sizable acquisition needed to progress

The M&A-oriented Languang Justbon (“Justbon”) is the sector’s outlier pick. Like many others, we await further clarity on the Company’s M&A completion. Yet despite uncertainty, we see positive catalysts as the Company shifts away from its current M&A approach and secures more sizable deals. Initiate with BUY, with TP of HK\$64.2, representing 13.5x 2021 P/E.

- **The outlier pick of the sector.** A leading PM service provider in Southwestern China, Justbon has relied on third-party contracts and M&A over parent developer for new GFA delivery. GFA under management was 89.9mn sq m as of 1H20, 44% of which came from past acquisitions.
- **Active in M&A market, but need sizable deals to make progress.** Justbon has stepped up M&A efforts in 2020, completing 11 deals with total GFA of 17.2mn sq m to date. We feel that Justbon’s approach of making numerous small-sized acquisitions (managed GFA: avg. 1.6mn sq m per company acquired) is unlikely to trigger re-rating, with M&A quality being our major concern. We prefer larger M&A business such as the CMIG acquisition by A-Living, our sector top pick, and expects some of the larger-sized deals currently in Justbon’s M&A pipeline to drive re-rating in 2021.
- **Positive catalysts to emerge from better-quality M&As and regional competitiveness.** We expect around 75% completion for new GFA target in FY20, and see positive catalysts as sizable M&A deals start to materialize in 2021. In addition, Justbon’s competitiveness in Sichuan and Eastern & Southern China should help secure third-party contracts in the region. We forecast 39.6% 2019-22E CAGR for revenue and 33.5% 2019-22E CAGR for net profit.
- **Set TP at HK\$64.2; Initiate with BUY.** Justbon currently trades at 8.3x 2021E P/E, versus average of 19.1x P/E among mid-sized PM companies. We set TP at HK\$64.2, reflecting 13.5x 2021E P/E.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	1,464	2,100	2,906	4,153	5,716
YoY growth (%)	58.6	43.4	38.4	42.9	37.7
Net income (RMB mn)	289	430	563	760	1,021
EPS (RMB)	2.3	3.1	3.2	4.3	5.7
YoY growth (%)	N.A.	35	2	35	34
Consensus EPS (RMB)	N.A.	3.1	3.3	4.4	5.7
P/E (x)	N.A.	12.1	11.9	8.8	6.6
P/B (x)	N.A.	3.0	2.4	1.9	1.5
Yield (%)	N.A.	2.6	3.4	4.5	6.1
ROE (%)	66.3	19.5	20.8	22.3	23.7
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

## BUY (Initiation)

Target Price	HK\$64.2
(Previous TP)	--)
Up/Downside	+53.1%
Current Price	HK\$41.95

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#### Stock Data

Mkt Cap (HK\$ mn)	7,471
Avg 3 mths t/o (HK\$ mn)	30.36
52w High/Low (HK\$)	62.70/28.00
Total Issued Shares (mn)	178

Source: Bloomberg

#### Shareholding Structure

Languang Development	65.1%
Yao Min	6.1%
Others	3.9%
Free float	24.9%

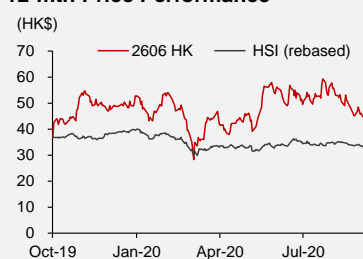
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	-16.5%	-9.6%
3-mth	-16.3%	-12.5%
6-mth	16.3%	16.4%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

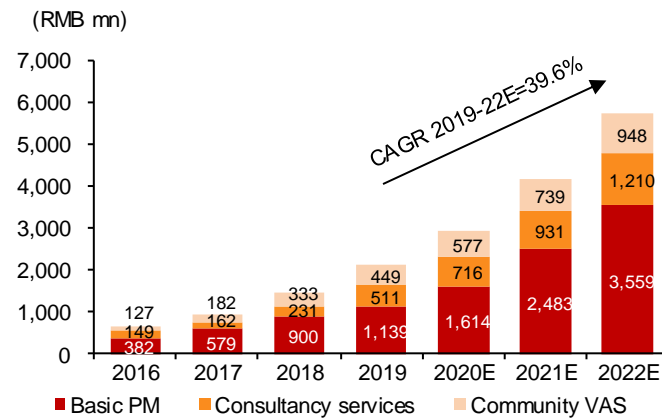
#### Auditor: PwC

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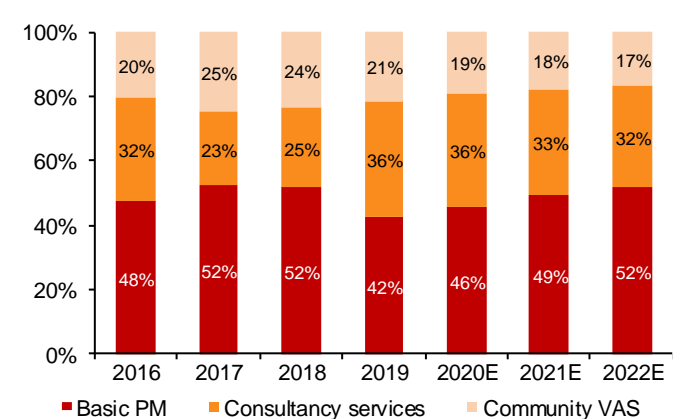
## Focus Charts

**Figure 1: Revenue**



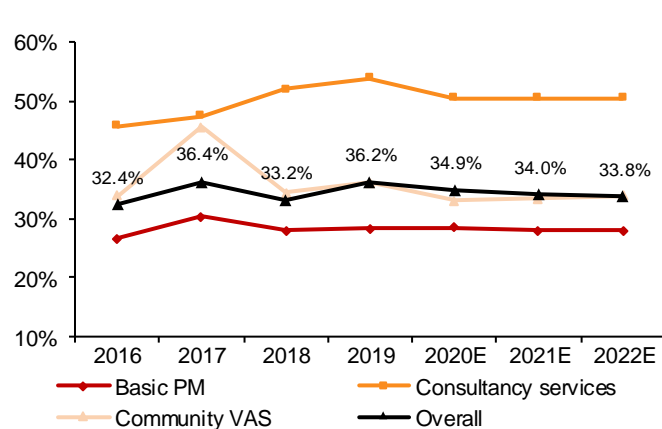
Source: Company data, CMBIS estimates

**Figure 2: Revenue mix**



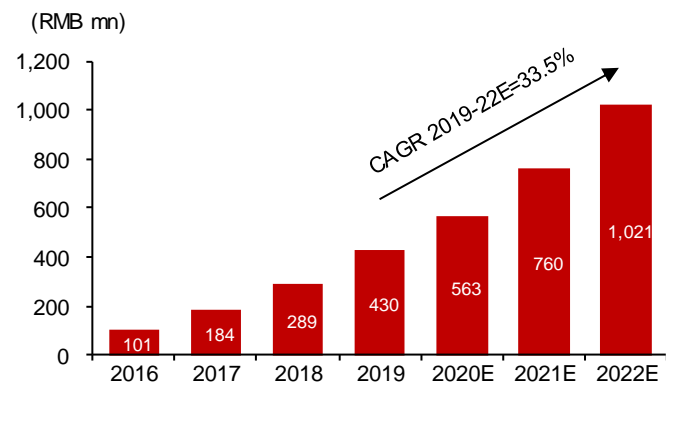
Source: Company data, CMBIS estimates

**Figure 3: Gross profit margin**



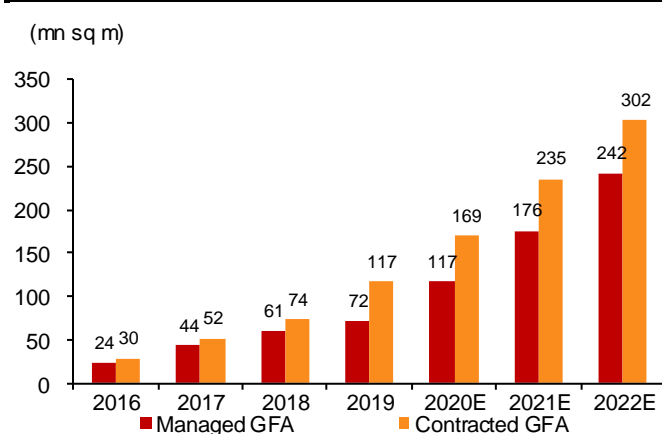
Source: Company data, CMBIS estimates

**Figure 4: Net profit attributable to shareholders**



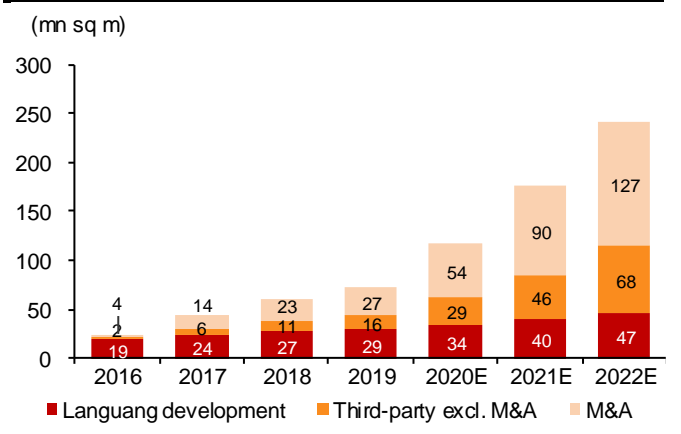
Source: Company data, CMBIS estimates

**Figure 5: Managed and contracted GFA**



Source: Company data, CMBIS estimates

**Figure 6: Managed GFA breakdown by source**



Source: Company data, CMBIS estimates

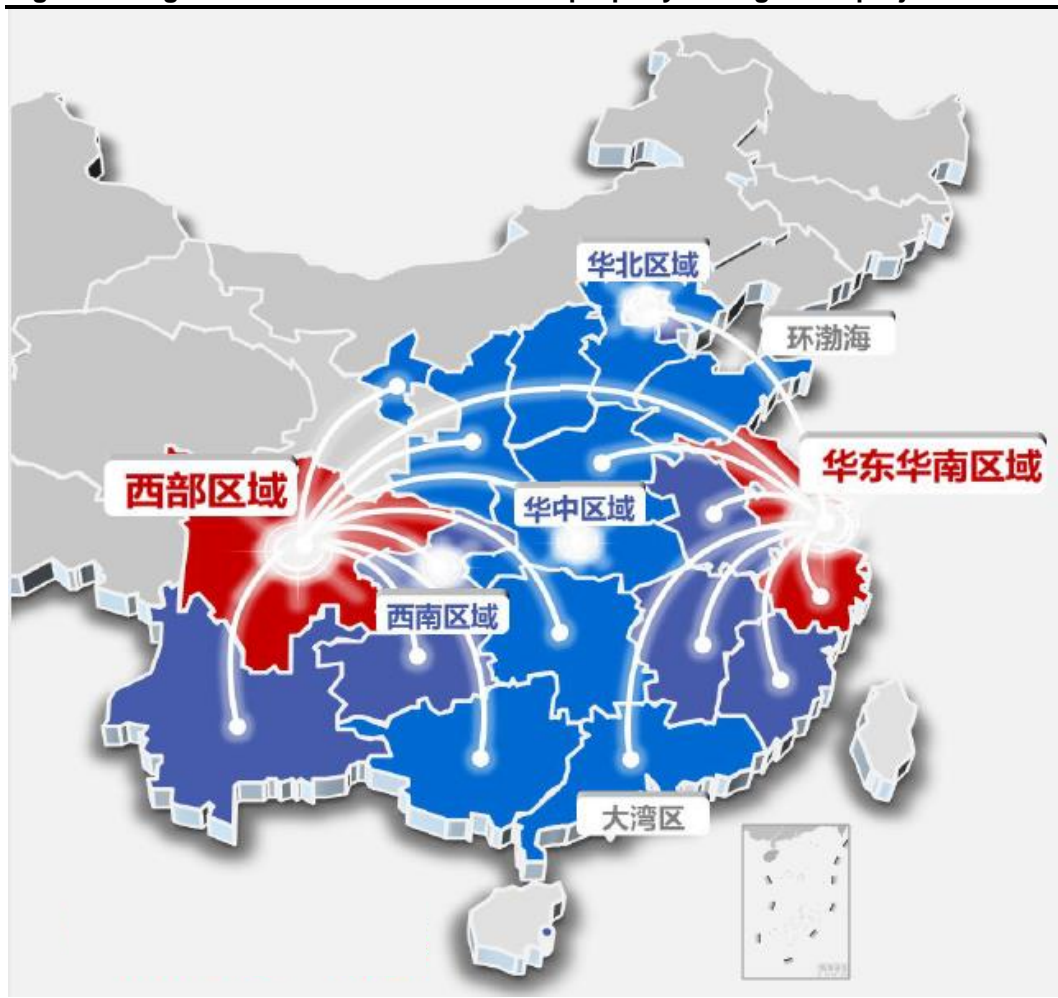
## Company Overview

### Leading PM service provider in Southwestern China

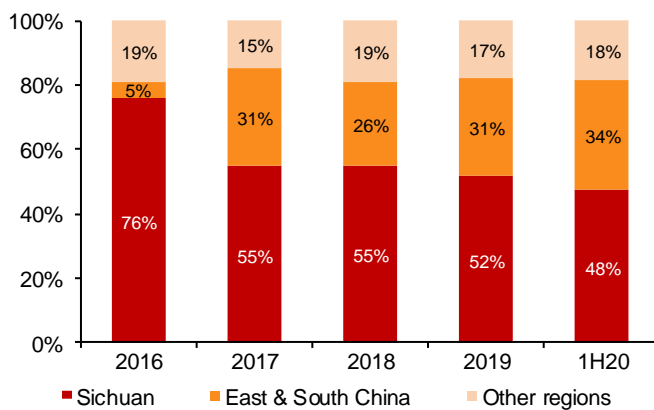
Founded in 2000, Justbon is a leading PM service provider in Southwestern China, ranked 11th among the 2019 China Top 100 Property Management Companies according to CIA. Justbon commenced its business in Sichuan province, and managed its first residential property project in 2006. Since then, Justbon has ventured into commercial property management, and expanded into a comprehensive platform providing property management services, consultancy services, and various community value-added services to cater to the needs of property owners and tenants.

Justbon follows a nationwide development strategy of “1+1+N”; as of 30 Jun, 2020, the Company has 477 projects under management with a managed GFA of 89.9mn sq m, covering 69 cities across the country. Managed GFA in the southwestern China (including Sichuan Province) and Eastern & Southern China amounted to 45.1 mn sq m and 22.0 mn sq m, respectively, signaling Justbon’s leading position in these regions.

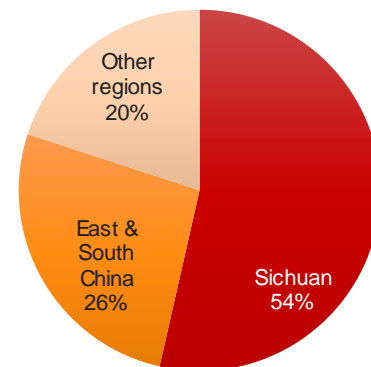
**Figure 7: Regional distribution of Justbon’s property management projects**



Source: Company data

**Figure 8: Geographical mix of managed GFA**

Source: Company data, CMBIS

**Figure 9: Geographical mix of revenue as of 1H20**

Source: Company data, CMBIS

### An integral part of Languang Group's dual-engine strategy

Justbon's parent company, Languang Development (600466 SH), is an established developer with a strong foothold in Sichuan province. In 2020, Languang Development was ranked "2020 China Property Product Value Top 7" (2020 中国房地产产品力优秀企业 TOP7) by CIA, ranked 21st in "2020 China Developers Top 100" (中国房地产综合实力百强), and 4th in China Top 10 most valuable for investment listed developers ("中国十大最具投资价值上市房企") by CIA. In 1H20, Languang Development achieved net attributable sales of RMB 27.2bn, with GFA of 3.1mn sq m. New projects under construction reached 4.9mn sq m in the same period.

Following its spin-off and independent listing in 2019, Justbon has grown alongside its parent developer as a core component of the Group's "Residence in Languang, residential services by Languang" ("人居蓝光, 生活蓝光") strategy, providing intelligent property management services to residents and tenants of Languang-developed properties, while continuing to expand beyond projects delivered by the parent developer.

## Achieving customer satisfaction through comprehensive service offerings

In addition to basic property management services, Justbon provides services including residential living products, housekeeping, and repairs & maintenance to its homeowners and tenants. In 1H20, Justbon's revenue from community value-added services reached RMB 199mn, up 3% YoY.

Justbon launched the “Justbon Happiness (嘉宝幸福居)” scheme nationwide in 2019, which included more than 2,000 initiatives for upgrading the quality of specialised property management services and 3,000 community cultural activities. Over a million home owners and residents took part in promoting the concept, which has since become the shared vision of the Group and millions of home owners and residents. In 2019, the Company achieved record highs in customer satisfaction rates.

Innovating with the “Justbon Life Pro (嘉宝生活家)” value added service model, and constructing a full-cycled value chain for residential living that combines shopping, dressing and living elements, Justbon seeks to satisfy everyday needs of home owners and residents. With “Justbon Life Pro (嘉宝生活家)” mobile application, the Company is on its way to building a full-cycled and comprehensive service model that covers residential living products, housekeeping and cleaning, housing decoration and maintenance, and fixed asset management.

**Figure 10: Justbon's consumer-themed community VAS highlights**



**Online education**



**E-commerce livestream**



**Indoors sanitization**



**Fresh produce delivery**



**Community marketing**



Source: Company data, CMBIS

## Investment Summary

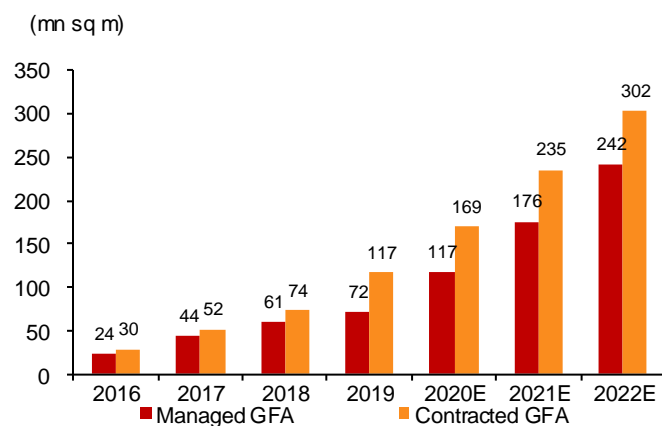
### Commentary on Justbon's M&A-driven expansion

Emphasis on M&A is Justbon's most distinguishing feature. While Justbon has been active in the M&A market, its completion of numerous small-sized deals unlikely to trigger a significant re-rating. Future acquisitions of more substantial size and stature, however, could improve market perception on Justbon and become a positive catalyst.

#### ■ Low developer contribution to GFA growth; seeking breakthrough from third-party sources

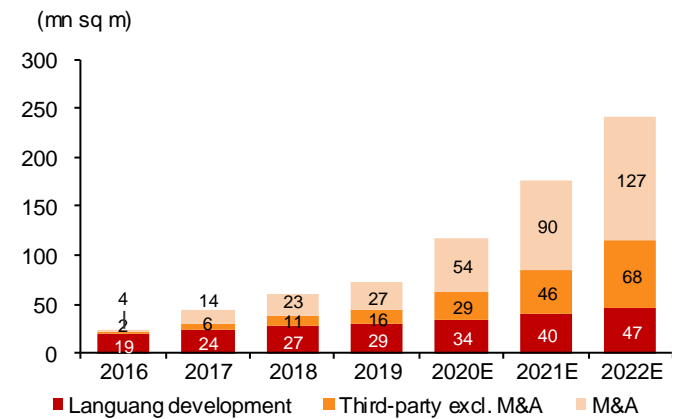
Justbon's parent developer, Languang Development, plays a small role in the Company's GFA growth. For Justbon, earnings growth depends on new GFA from third-party sources. While expansion through M&A has a high growth ceiling, it also carries low earnings visibility and high uncertainty, especially amidst intensifying competition within the sector.

**Figure 11: Managed vs. contracted GFA**



Source: Company data, CMBIS estimates

**Figure 12: Managed GFA breakdown by source**



Source: Company data, CMBIS estimates

#### ■ “Scattered” deals completed in 2020 unlikely to have strong impact

Prior to 2020, Justbon engaged in a moderate amount of M&A, with 38% of managed GFA sourced from M&A. Justbon ramped up M&A activity in 2020, acquiring managed GFA of 17.2mn sq m YTD from 11 companies. This represents, on average, 1.6mn sq m obtained per company acquired.

The “scattered” nature of these deals raises concerns, both in terms of profitability and management ability. Signals such as low collection rate (avg. 80%, compared to Justbon's 90% in 1H20) and lower-than-average management fee level (RMB 1.7 per sq m/month, compared to Justbon's est. RMB 1.9 per sq m/month in 2019) gives reasons for our concern. In addition, small acquisitions are unlikely to provide positive synergy for the Company's business.

We see Justbon as fundamentally different from A-Living (3319 HK), our sector top pick which experienced a re-rating after its acquisition of CMIG (managed GFA: 190mn sq m), as we cannot expect the same level market impact, even if Justbon completes its stated target.

**■ Sizable acquisitions necessary to provide re-rating catalyst**

We characterize “sizable acquisitions” as PM companies with managed GFA greater than 20mn sq m. So far, Justbon has not made any acquisitions of this size. While management confirms ongoing negotiations, we think it is unlikely that any such deals will materialize before the year ends, but we do expect some deal to be completed in 2021.

We think a switch to larger acquisitions could improve overall management quality, provide higher profit guarantee, potentially drive up collection rate and management fee, and provide better synergy for the Company. We see this as a potential catalyst for re-rating.

**■ Expect 65% completion of FY20 M&A target**

As of 30 Sep, 2020, Justbon achieved 41% of FY20 target of est. 42mn sq m. With the information available, we expect the Company to fulfill around 27mn, or 65% of the FY20 target. And expect M&A in FY21E to grow 30% YoY due to delayed completion of current projects in pipeline.

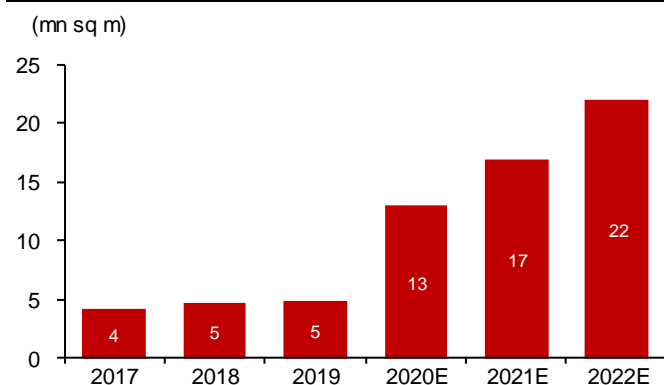


## Strong presence in core regions provides competitive edge

We believe that Justbon's strong regional exposure allows it to be competitive in the third-party tender market. With strong roots in core regions such as Sichuan province and Eastern & Southern China, Justbon is set to benefit from first-mover advantage and a strong regional brand, helping it gain third-party contracts in the tender market.

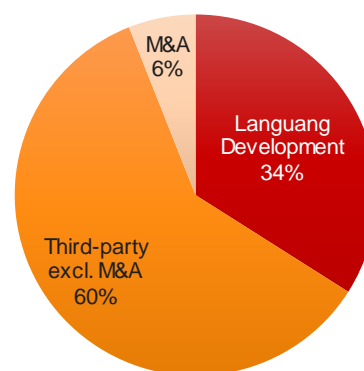
Reserves for GFA from third-party excl. M&A was around 30.5mn sq m in 1H20, providing additional certainty for growth. We estimate new managed GFA for third-party bidding to grow at around 30% YoY in 2021E/22E and respective contracted GFA to grow at 37%/27%.

**Figure 13: New managed GFA from third-party (excl. M&A)**



Source: Company data, CMBIS estimates

**Figure 14: Reserved GFA breakdown by source, as of 1H20**



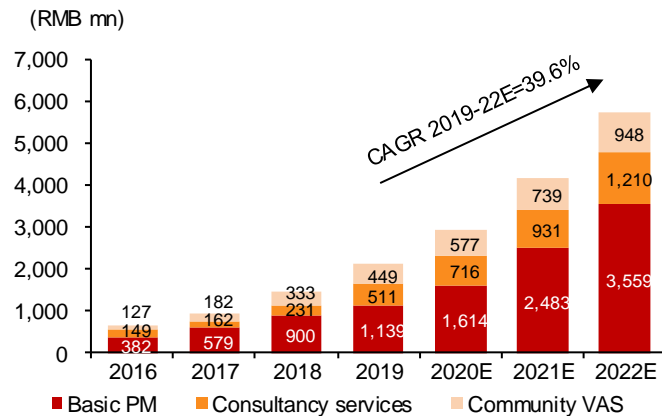
Source: Company data, CMBIS

## Financial Analysis

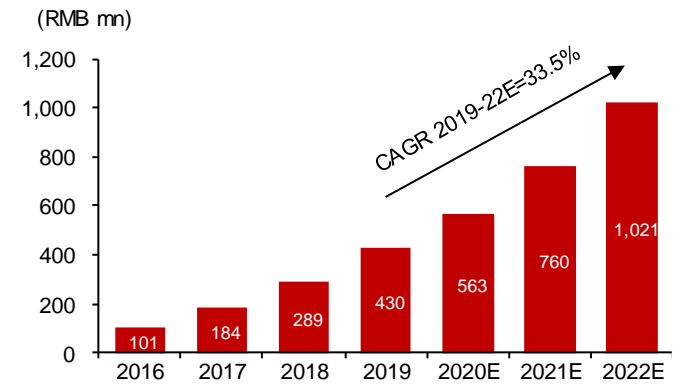
### Forecast revenue to grow at 39.6% CAGR in 2019-22E

We forecast revenue to grow from RMB 2,100mn in 2019 to RMB 5,716mn in 2022E with 39.6% CAGR, and net profit to grow from RMB 430mn in 2019 to RMB 1,021mn in 2022E with 33.5% CAGR, driven mainly by the following factors:

**Figure 15: Revenue**



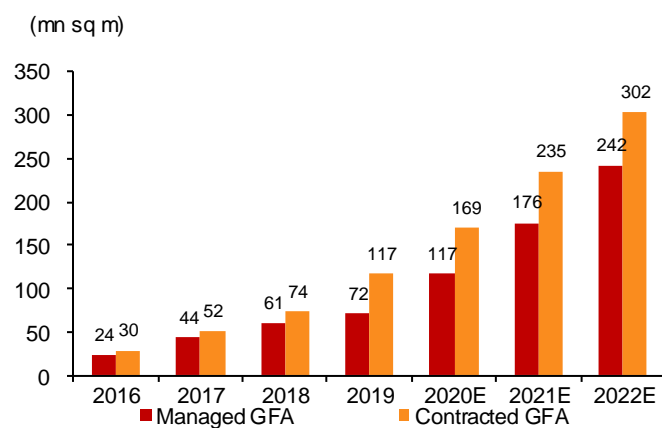
**Figure 16: Net profit**



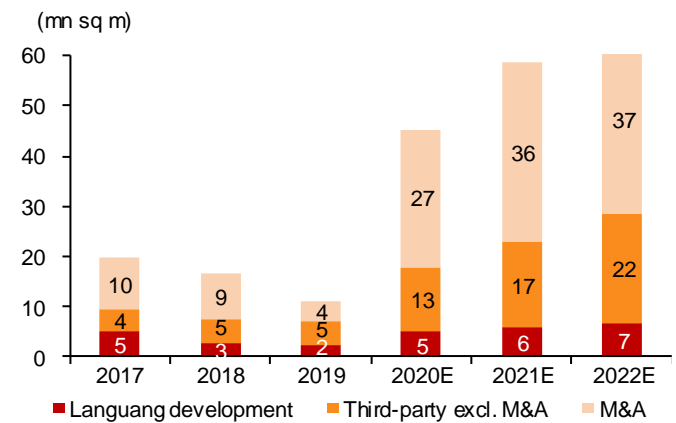
### Managed GFA to reach 242mn sq m by 2022E

We forecast managed GFA to grow from 72mn sq m in 2019 to 242mn sq m in 2022E, driven by better M&A delivery and third-party contract wins. We forecast contracted GFA to grow from 117mn sq m in 2019 to 302mn sq m in 2022E.

**Figure 17: Managed and contracted GFA**



**Figure 18: New managed GFA**



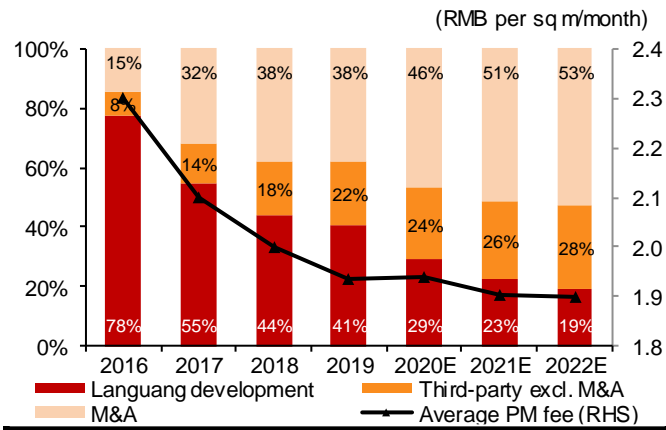
### Drag in average management fee expected due to increased M&A

Due to superior management and customer satisfaction, properties sourced from Languang Development charge higher management fees on average. In 2019, Justbon reported RMB 2.4 per sq m/month in average management fees for properties sourced from Languang development, and RMB 1.7 per sq m/month for property from third-party sources. As the share of third-party managed GFA increases, we expect average management fees to slightly decrease.

**Overall collection rate set to improve**

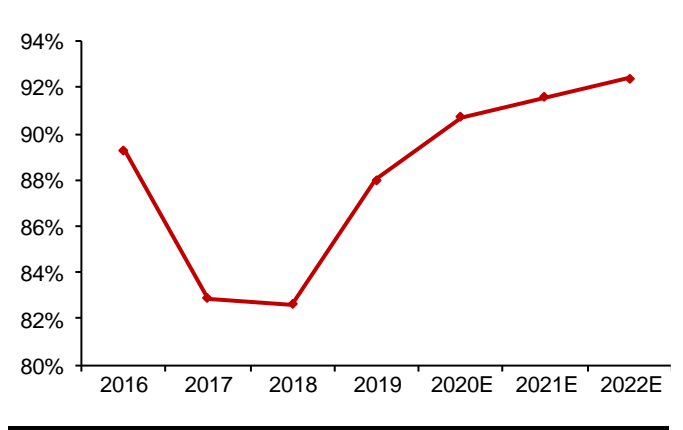
Collection rate is a signal of tenant satisfaction and management effectiveness. Justbon’s overall collection rate improved significantly from 88% in 2019 to 90% in 1H20, showing strong resolve to improve in this area. Despite past acquisitions having below-average collection rate (2020 YTD: 80%), we still expect overall collection rate to gradually improve.

**Figure 19: Average PM fee vs. GFA mix**



Source: Company data, CMBIS estimates

**Figure 20: Overall collection rate**



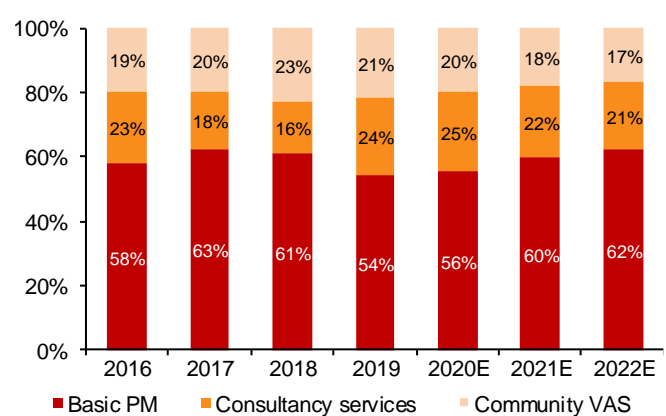
Source: Company data, CMBIS estimates

**VAS to experience steady growth**

In 1H20, revenue mix for basic PM/consultancy services/community VAS was 58%/25%/17% respectively. As Justbon redoubles efforts on GFA gain, we expect revenue mix to be further optimized, reaching around 62%/21%/17% in 2022E.

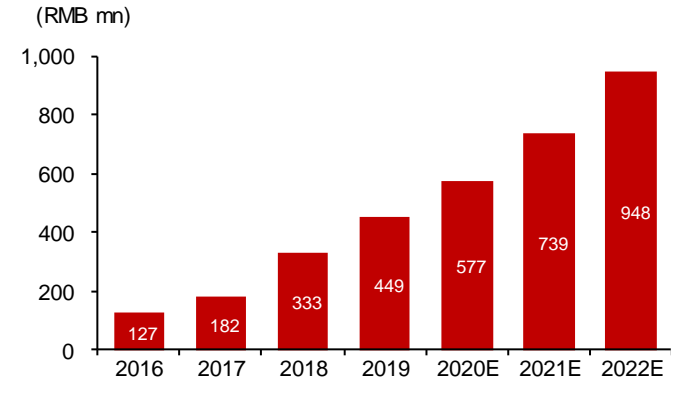
Due to COVID-19, 1H20 was a slow period for both consultancy (non-owner VAS) and community VAS. We expect VAS in general to recover in 2H and grow naturally alongside expansion in PM scale.

**Figure 21: Revenue mix**



Source: Company data, CMBIS estimates

**Figure 22: Community VAS revenue**



Source: Company data, CMBIS estimates

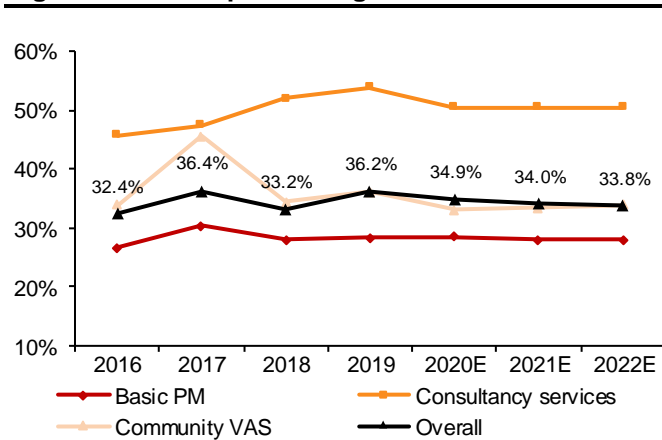
## Margins to recover from COVID-19 impact

Justbon's gross margins dropped from 36.2% in YE19 to 35.0% in 1H20, which was common for the sector, and we mainly attribute this to COVID-19 impact on VAS. Community VAS, especially high-margin services such as community space and community media, faced pressure during the pandemic, causing margin drop which offset policy benefits in the same period. We expect VAS margins to gradually recover to pre-pandemic levels. Overall margins will fall over time due to increased revenue share of basic PM services.

## Strong operating cashflow to sustain M&A efforts

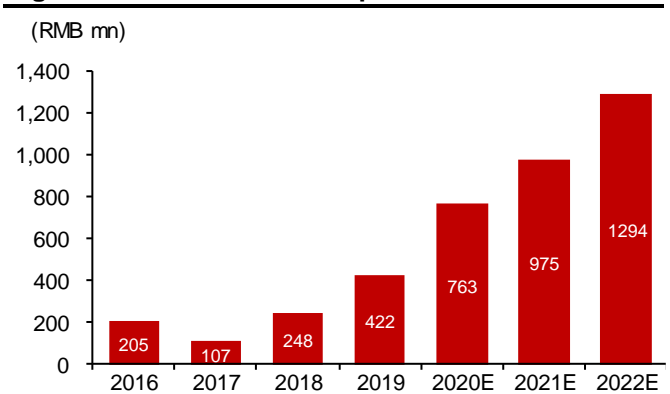
We expect Justbon's strong operating cashflow to sustain M&As at our expected level. We expect overall cash to increase from RMB1,963mn in 2019 to RMB2,728 in 2022E.

**Figure 23: Gross profit margin**



Source: Company data, CMBIS estimates

**Figure 24: Cash flow from operations**



Source: Company data, CMBIS estimates

## Valuation

Justbon currently trades at 8.3x 2021E P/E versus the average for mid-sized property management companies of 19.1x 2021E P/E. We think the current share price discount reflects the following factors:

- 1) Uncertainty and inefficiencies associated with Justbon's M&A-focused expansion;
- 2) The lesser role of parent developer in contributing to Justbon's GFA;
- 3) Past underperformance.

We feel that the share price has largely taken into account the potential under-delivery of M&A in FY20. We set our target price at HK\$64.2 based on 13.5x 2021E P/E, reflecting our relative optimism in M&A delivery in 2021.

**Figure 25: Peers' valuation**

Company	Ticker	Last price (HK\$)	Mkt Cap (HK\$ mn)	P/E		
				19A	20E	21E
<b>Large-size property management companies</b>						
CG Services	6098 HK	49.6	136,865	54.5	44.1	34.2
A-Living	3319 HK	38.2	50,933	30.9	24.0	19.6
Poly Services	6049 HK	61.8	34,196	44.9	31.1	30.9
Average			73,998	43.4	33.1	28.2
<b>Mid-size property management companies</b>						
Greentown Services	2869 HK	9.4	30,371	38.2	37.8	29.6
COPH	2669 HK	6.3	20,674	36.3	22.5	23.9
Ever Sunshine	1995 HK	14.6	24,388	65.3	47.6	35.0
S-Enjoy	1755 HK	19.8	16,186	51.1	29.5	22.1
CC New Life	9983 HK	8.4	10,408	N.A.	22.9	16.1
Powerlong CM	9909 HK	26.6	16,501	53.1	45.8	34.0
Languang Justbon	2606 HK	42.0	7,471	11.9	11.1	8.3
Times Neighborhood	9928 HK	10.1	9,955	68.4	29.6	21.4
Colour Life	1778 HK	3.5	5,136	8.5	8.1	7.5
Aoyuan HL	3662 HK	6.2	4,525	23.1	16.5	11.0
Kaisa Prosperity	2168 HK	22.5	3,457	14.4	13.0	9.4
Binjiang Services	3316 HK	15.6	4,301	31.1	19.8	16.3
Redsun Services	1971 HK	5.5	2,283	N.A.	22.5	13.5
Average			11,973	36.5	25.1	19.1

Source: Bloomberg, CMBIS estimates

## Key Investment Risks

Key investment risks include: 1) Worse-than-expected M&A completion; 2) intensified competition landscape; 3) Prolonged pandemic impact on VAS; 4) Increase in labor costs.

## Financial Summary

### Income statement

YE Dec 31 (Rmb mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>1,464</b>	<b>2,100</b>	<b>2,906</b>	<b>4,153</b>	<b>5,716</b>
Property management	900	1,139	1,614	2,483	3,559
Consultancy services	231	511	716	931	1,210
Community value-added	333	449	577	739	948
Cost of sales	(978)	(1,340)	(1,893)	(2,740)	(3,787)
<b>Gross profit</b>	<b>487</b>	<b>760</b>	<b>1,013</b>	<b>1,413</b>	<b>1,930</b>
<b>Other income</b>	<b>5</b>	<b>12</b>	<b>14</b>	<b>9</b>	<b>10</b>
Selling and marketing	(4)	(5)	(9)	(12)	(17)
Administrative expenses	(128)	(202)	(279)	(399)	(549)
Impairment	(17)	(26)	(36)	(51)	(70)
Other expenses	-	-	-	-	-
<b>Operating profit</b>	<b>344</b>	<b>540</b>	<b>704</b>	<b>960</b>	<b>1,304</b>
Finance cost	(0)	(0)	(0)	(0)	(0)
Exceptional	10	(7)	-	-	-
<b>Pre-tax profit</b>	<b>344</b>	<b>540</b>	<b>704</b>	<b>960</b>	<b>1,304</b>
Income tax	(57)	(89)	(117)	(159)	(217)
<b>Profit for the year</b>	<b>297</b>	<b>444</b>	<b>587</b>	<b>800</b>	<b>1,087</b>
Non-controlling interest	(8)	(15)	(23)	(40)	(65)
<b>Net profit to shareholders</b>	<b>289</b>	<b>430</b>	<b>563</b>	<b>760</b>	<b>1,021</b>

### Cash flow summary

YE Dec 31 (Rmb mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Profit before tax</b>	<b>344</b>	<b>540</b>	<b>704</b>	<b>960</b>	<b>1,304</b>
D&A	18	24	30	65	95
Change in working capital	(99)	(117)	111	59	42
Income tax paid	(39)	(70)	(117)	(159)	(217)
Others	23	45	35	50	70
<b>Cash flow from operating</b>	<b>248</b>	<b>422</b>	<b>763</b>	<b>975</b>	<b>1,294</b>
CAPEX	(16)	(20)	(19)	(21)	(23)
Others	188	(65)	(399)	(538)	(565)
<b>Cash flow from investing</b>	<b>171</b>	<b>(85)</b>	<b>(418)</b>	<b>(559)</b>	<b>(588)</b>
Equity raised	-	1,644	-	-	-
Change of debts	-	-	-	-	-
Dividends paid	(319)	(218)	(173)	(225)	(304)
Others	17	(98)	-	-	-
<b>Cash flow from financing</b>	<b>(302)</b>	<b>1,328</b>	<b>(173)</b>	<b>(225)</b>	<b>(304)</b>
<b>Net change in cash</b>	<b>117</b>	<b>1,664</b>	<b>173</b>	<b>191</b>	<b>401</b>
Cash at the beginning of the	190	307	1,963	2,136	2,327
FX differences	-	(8)	-	-	-
<b>Cash at the end of the year</b>	<b>307</b>	<b>1,963</b>	<b>2,136</b>	<b>2,327</b>	<b>2,728</b>

### Key ratios

YE Dec 31	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales mix (%)</b>					
PM Services	61.4	54.3	55.5	59.8	62.3
Consultancy services	15.8	24.4	24.6	22.4	21.2
Community value-added	22.8	21.4	19.8	17.8	16.6
Total	100.0	100.0	100.0	100.0	100.0
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	33.2	36.2	34.9	34.0	33.8
Operating margin	23.5	25.7	24.2	23.1	22.8
Net margin	19.8	20.5	19.4	18.3	17.9
Effective tax rate	16.6	16.4	16.6	16.6	16.6
<b>Growth (%)</b>					
Revenue	58.6	43.4	38.4	42.9	37.7
Gross profit	44.9	56.2	33.3	39.4	36.6
Operating profit	73.8	57.0	30.5	36.4	35.8
Net profit	57.0	48.4	31.1	35.0	34.4
<b>Balance sheet ratios</b>					
Current ratio (x)	1.2	2.5	2.1	1.9	1.8
Receivable turnover days	149	174	164	164	164
Payables turnover days	180	218	218	218	218
Net debt / total equity ratio (%)	Net	Net	Net	Net	Net
<b>Returns (%)</b>					
ROE	66.3	19.5	20.8	22.3	23.7
ROA	22.8	12.3	12.6	12.9	13.3
<b>Per share</b>					
EPS (RMB)	2.3	3.1	3.2	4.3	5.7
DPS (RMB)	-	1.0	1.3	1.7	2.3
BVPS (RMB)	3.6	12.6	15.6	19.8	25.2

### Balance sheet

YE Dec 31 (Rmb mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	<b>361</b>	<b>501</b>	<b>1,015</b>	<b>1,680</b>	<b>2,353</b>
Property, plant and	19	18	22	26	30
Goodwill	184	267	591	1,028	1,487
Other intangible assets	115	163	350	574	784
Others	43	52	52	52	52
<b>Current assets</b>	<b>910</b>	<b>2,981</b>	<b>3,451</b>	<b>4,203</b>	<b>5,308</b>
Cash and cash	307	1,963	2,136	2,327	2,728
Trade and other	596	1,004	1,308	1,869	2,572
Others	6	15	7	7	7
<b>Total Asset</b>	<b>1,270</b>	<b>3,482</b>	<b>4,465</b>	<b>5,883</b>	<b>7,661</b>
<b>Current liabilities</b>	<b>777</b>	<b>1,199</b>	<b>1,614</b>	<b>2,234</b>	<b>2,979</b>
Trade and other payables	481	800	1,130	1,636	2,262
Contract liabilities	231	299	374	475	581
Others	65	100	109	123	137
<b>Non-current liabilities</b>	<b>27</b>	<b>35</b>	<b>75</b>	<b>129</b>	<b>185</b>
Deferred tax liabilities	22	32	72	126	182
Others	4	3	3	3	3
<b>Total liabilities</b>	<b>804</b>	<b>1,234</b>	<b>1,689</b>	<b>2,363</b>	<b>3,165</b>
<b>Shareholders' equity</b>	<b>437</b>	<b>2,199</b>	<b>2,705</b>	<b>3,408</b>	<b>4,319</b>
Non-controlling interests	30	49	72	112	177
<b>Total Equity</b>	<b>467</b>	<b>2,248</b>	<b>2,776</b>	<b>3,520</b>	<b>4,496</b>

Source: Company data, CMBIS estimates

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