

# Binjiang Service (3316 HK)

## 1H23 preview: high growth secured by visionary strategy

We expect the company to **continue delivering higher-than-peers results in 1H23E** with 32% YoY growth in NP, driven by robust GFA & revenue growth (both >35% YoY), mostly supported by reserved-GFA & unbooked revenue prepared in advance thanks to its visionary strategy which predicted the worse-than-expected market in 1H23E. NP grew slower than revenue as GP margin is estimated to decline 3ppt to 28%, given less contribution from non-owner VAS with higher margin, which leads to a healthier revenue structure in our view. Considering the company's high growth (+30% earnings CAGR in 22-25E) backed by [longtermism-seeking strategy](#), its clear and healthier VAS structure, beneficial regional focus, strong and stable parentco as well as attractive valuation (10/8x 2023/24E), we reiterate BUY and keep TP unchanged at HK\$35.8. The company remains our top pick in PM companies. **Catalysts:** 1H23 results; Stock Connect inclusion.

- Managed-GFA & revenue growth both secured by early preparation.** Despite the increasingly intensified competition in the field of third-party expansion especially in existing projects, we expect company to achieve 38% YoY managed-GFA growth (to 49mn sq m) in 1H23E thanks to **1) stable GFA delivery from strong parent-co Binjiang Group who ranked No.7 nationally by delivering 6.5 units in 1H23. 2) The company has stored sufficient reserved-GFA in FY22 to avoid predicted growing competitive threats in 1H23 (reserved-GFA +37% YoY in FY22 vs. 28% YoY in FY21).** The segment revenue is expected to grow +39% YoY to RMB 7.4mn in 1H23E as high contract liability in FY22 (up 5x YoY) was meant to be converted to revenue in FY23 for coping with difficult environment.
- Healthier VAS structure at the expense of margin contraction.** The company is reducing **non-owner VAS** business to cut down influence from the broad prop market ([Figure 2](#)) but with strong sales of its parentco, we expect the segment revenue to go up by ~20% YoY in 1H23E. **For 5S VAS**, both house brokerage and household services performed weaker than expected as the macro environment recovered slowly. On the contrary, home decoration business will deliver significant growth in 1H23E as it is at the expanding stage and had not much contribution in 1H22 which led to a very low base. We expect >2.3x YoY revenue growth of 5S VAS (to RMB 217mn) in 1H23E. With more contribution from 5S VAS and less from non-owner VAS, **overall GP Margin** is like to decline by 3ppt to 28.4% (flat from FY22) in our estimate as margin for 5S VAS is at 40-42% or less, (home decoration business at 20-30%) and that for non-owner VAS is at 45%.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	1,399	1,983	2,781	3,690	4,806
YoY growth (%)	45.7	41.7	40.3	32.7	30.2
Net profit (RMB mn)	321.8	412.0	538.2	701.7	902.5
EPS (Reported) (RMB)	1.16	1.49	1.95	2.54	3.27
YoY growth (%)	46.6	28.0	30.6	30.4	28.6
Consensus EPS (RMB)	na	na	1.96	2.57	3.30
P/E (x)	15.7	12.1	9.7	7.5	5.8
P/B (x)	5.4	4.0	3.2	2.6	2.0
Yield (%)	3.8	4.9	6.2	8.1	10.4
ROE (%)	36.1	37.7	37.7	38.4	39.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** HK\$35.8  
**Up/Downside** 73.0%  
**Current Price** HK\$20.7

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### Stock Data

Mkt Cap (HK\$ mn)	2,070.0
Avg 3 mths t/o (HK\$ mn)	3.4
52w High/Low (HK\$)	27.50/13.22
Total Issued Shares (mn)	100.0

Source: FactSet

### Shareholding Structure

GREAT DRAGON VENTURES LTD	45.9%
HAOYU VENTURES LTD	12.9%

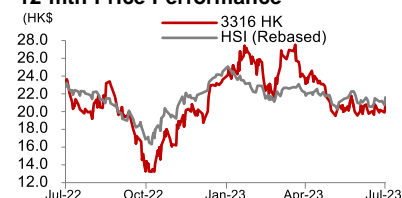
Source: Bloomberg

### Share Performance

	Absolute	Relative
1-mth	5.8%	2.9%
3-mth	-10.6%	-9.7%
6-mth	-12.3%	-0.5%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

**Auditor: KPMG**

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- **Good cash flow management:** Many peers are facing longer cash collection days due to slow recovery of macro environment, while Binjiang Services was affected less than others as it focuses on high-end projects with less PM fee delay. The company will keep its leading position of having the smallest AR/revenue ratio in our view (18% in FY22 vs. avg. of 40% for 11 top tier PM companies). (Figure 3)
- **Top pick in PM sector, maintain BUY.** Considering company's high growth (30% 22-25E earnings CAGR) backed by [longtermism-seeking strategy](#), its clear and healthier business structure which leads to less connected transaction, beneficial regional focus with >60% managed GFA concentrated in Hangzhou, strong and stable parentco that ranked as Top 10 developer by sales in 1H23, we reiterate our BUY rating and keep TP unchanged at HK\$35.8, representing 16x 2023E PE. The company is trading at an attractive valuation of 10/8x 2023/24E. **Catalysts:** 1H23 results, Stock Connect inclusion. **Risk:** worse-than-expected property market.

Figure 1: 1H23 earnings preview

RMB mn	1H22	1H23E	YoY	1H/2022	1H/2023E
<b>Revenue</b>	<b>832</b>	<b>1,239</b>	<b>49%</b>	<b>42%</b>	<b>45%</b>
- Property management services	536	744	39%	45%	44%
- VAS to non owners	235	278	19%	43%	43%
- 5S VAS	61	217	254%	25%	49%
Gross profit	262	352	34%	44%	44%
<b>Net profit</b>	<b>190</b>	<b>251</b>	<b>32%</b>	<b>46%</b>	<b>47%</b>
EPS (RMB)	0.69	0.91	32%	46%	47%
DPS (RMB)	-	-			
Dividend payout ratio	-	-			
<b>GP Margin</b>	<b>31.5%</b>	<b>28.4%</b>	<b>-3.1 ppt</b>		
<b>Net Margin</b>	<b>22.9%</b>	<b>20.3%</b>	<b>-2.6 ppt</b>		
Managed GFA (mn sq m)	35.4	49.0	38%		
Contracted GFA (mn sq m)	57.4	80.6	40%		

Source: Company data, CMBIGM

Figure 2: Healthier business structure

Revenue mix	2020A	2021A	2022A	1H23E
Property management services	57.7%	60.1%	60.2%	60.0%
VAS to non-property owners	32.5%	30.0%	27.2%	22.5%
Community VAS	9.8%	9.9%	12.6%	17.5%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Company data, CMBIGM

Figure 3: Account receivable analysis

FY22 (RMB mn)	AR	AR/Revenue	Impairment/AR	% of AR over 1 year
Binjiang Services	352	18%		2%
COPH	2,590	20%		10%
Poly Services	3,136	23%		3%
CR Mixc	2,968	25%		3%
Onewo	7,976	26%		7%
Greentown Services	5,056	34%		16%
Yuexiu Services	1,022	41%		7%
S-enjoy Service	2,594	50%		9%
CGS	22,820	55%		9%
Sunac Services	4,440	62%		62%
A-living	10,716	70%		13%

Source: Company data, CMBIGM

Figure 4: Valuation comps

Company	Ticker	CMBI rating	TP (HK\$)	Last price (HK\$)	Mkt Cap (HK\$ mn)	P/E			Net profit growth (%)		Dividend Yield		Payout ratio
						22A	23E	24E	23E	24E	22A	23E	22A
Binjiang Services	3316 HK	BUY	35.8	20.7	5,722	11.9	9.7	7.5	31.0	30.0	4.8%	6.2%	60%
Onewo	2602 HK	BUY	43.6	26.6	31,288	18.7	13.4	10.6	28.1	32.5	1.1%	1.2%	20%
Country Garden Services	6098 HK	BUY	47.6	8.7	29,178	6.2	6.2	5.1	112.9	14.5	1.9%	5.2%	12%
CR MixC Lifestyle	1209 HK	BUY	48.0	37.9	86,507	34.2	28.0	21.9	20.3	27.6	1.3%	1.5%	46%
A-Living	3319 HK	HOLD	34.2	5.1	7,171	2.8	3.2	3.0	3.1	9.2	0.0	2.6%	0.0%
Greentown Services	2869 HK	BUY	5.9	4.0	12,962	21.5	16.0	13.3	30.6	21.5	2.9%	3.1%	62%
Ever Sunshine	1995 HK	HOLD	12.7	3.1	5,335	9.6	6.8	6.1	39.9	13.8	2.8%	5.2%	27.0%
Poly Services	6049 HK	BUY	58.4	39.4	21,801	16.8	14.5	11.9	15.5	22.4	1.5%	1.7%	26%
S-Enjoy	1755 HK	SELL	8.5	4.7	4,095	6.6	6.1	5.3	34.3	17.3	4.0%	5.6%	26%
Powerlong Commercial	9909 HK	BUY	33.2	4.2	2,674	4.9	4.6	4.1	15.2	12.1	3.6%	7.8%	18%
Excellence CM	6989 HK	BUY	14.9	2.5	3,026	5.8	4.8	3.9	37.4	22.5	9.7%	9.7%	56%
Central China New Life	9983 HK	BUY	12.9	2.6	3,363	5.6	5.0	4.5	4.9	14.1	17.8%	14.9%	1.0
Sino-Ocean Services	6677 HK	BUY	7.1	1.4	1,669	20.4	3.2	2.9	498.1	8.9	21.4%	11.6%	4.4
New Hope Services	3658 HK	BUY	2.8	1.0	839	3.1	3.3	2.7	8.0	20.0	13.6%	12.7%	43%
Redsun Services	1971 HK	BUY	9.4	0.5	216	1.7	0.6	n.a.	260.5	n.a.	n.a.	59.0%	n.a.
Evergrande Services	6666 HK	BUY	10.4	2.3	24,865	-63.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sunac Services	1516 HK	BUY	7.0	2.3	7,031	3.3	8.4	5.9	-251.6	15.2	6.3%	5.2%	21%
Jinmao Services	816 HK	HOLD	5.5	2.9	2,622	7.0	5.4	4.3	27.7	29.2	6.8%	7.3%	48%
COPH	2669 HK	NR	NA	8.8	28,924	22.6	17.7	14.1	28.4	25.8	1.8%	1.7%	41%
Times Neighborhood	9928 HK	NR	NA	0.6	621	-4.0	4.0	3.6	-161.6	11.3	4.1%	3.8%	-16%
Aoyuan Healthy Life	3662 HK	NR	NA	1.9	1,351	7.2	n.a.	n.a.	n.a.	n.a.	0.0	n.a.	0.0
Shimao Services	873 HK	NR	NA	1.6	3,826	-3.5	7.0	6.3	n.a.	12.4	0.0%	0.0%	0%
KWG Living	3913 HK	NR	NA	0.9	1,884	10.4	3.7	3.3	n.a.	13.1	0.0%	0.0%	0%
Jinke Smart Services	9666 HK	NR	NA	12.2	7,946	-3.7	15.1	12.9	-125.0	17.2	6.2%	0.0%	-23%
<b>Average</b>						<b>12.6</b>	<b>15.2</b>	<b>12.1</b>	<b>21.4</b>	<b>21.4</b>	<b>2.2%</b>	<b>2.6%</b>	<b>32.3%</b>

Source: Company data, Bloomberg, CMBIGM

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	960	1,399	1,983	2,781	3,690	4,806
Cost of goods sold	(663)	(949)	(1,390)	(1,990)	(2,648)	(3,453)
Others	0	0	0	0	0	0
<b>Gross profit</b>	<b>297</b>	<b>450</b>	<b>592</b>	<b>791</b>	<b>1,042</b>	<b>1,353</b>
<b>Operating expenses</b>	<b>(44)</b>	<b>(60)</b>	<b>(76)</b>	<b>(106)</b>	<b>(135)</b>	<b>(174)</b>
Selling expense	(3)	(4)	(8)	(12)	(15)	(20)
Admin expense	(40)	(54)	(62)	(87)	(116)	(151)
<b>Operating profit</b>	<b>253</b>	<b>390</b>	<b>516</b>	<b>685</b>	<b>907</b>	<b>1,179</b>
Other income	10	10	15	7	7	7
Other expense	(12)	(12)	(21)	(14)	(11)	(10)
<b>Net interest income/(expense)</b>	<b>30</b>	<b>32</b>	<b>42</b>	<b>42</b>	<b>42</b>	<b>42</b>
Other income/expense	1	1	3	3	3	3
<b>Pre-tax profit</b>	<b>284</b>	<b>423</b>	<b>561</b>	<b>730</b>	<b>952</b>	<b>1,225</b>
Income tax	(64)	(98)	(142)	(185)	(241)	(310)
<b>After tax profit</b>	<b>220</b>	<b>325</b>	<b>419</b>	<b>545</b>	<b>711</b>	<b>914</b>
Minority interest	1	3	7	7	9	12
<b>Net profit</b>	<b>220</b>	<b>322</b>	<b>412</b>	<b>538</b>	<b>702</b>	<b>903</b>
Net dividends	132	106	247	323	421	542

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
<b>Current assets</b>	<b>1,368</b>	<b>1,482</b>	<b>2,640</b>	<b>3,649</b>	<b>4,807</b>	<b>6,214</b>
Cash & equivalents	805	906	1,950	2,754	3,680	4,803
Restricted cash	46	57	58	58	58	58
Account receivables	96	173	343	482	639	833
Inventories	52	79	147	211	281	366
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	22
<b>Non-current assets</b>	<b>134</b>	<b>202</b>	<b>354</b>	<b>357</b>	<b>362</b>	<b>367</b>
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
<b>Total assets</b>	<b>1,503</b>	<b>1,685</b>	<b>2,994</b>	<b>4,007</b>	<b>5,169</b>	<b>6,581</b>
<b>Current liabilities</b>	<b>643</b>	<b>711</b>	<b>1,681</b>	<b>2,336</b>	<b>3,070</b>	<b>3,970</b>
Short-term borrowings	0	0	0	0	0	0
Account payables	473	496	672	962	1,281	1,670
Other current liabilities	61	70	101	101	101	101
Lease liabilities	1	2	0	0	0	0
Contract liabilities	107	144	907	1,273	1,688	2,199
<b>Non-current liabilities</b>	<b>1</b>	<b>0</b>	<b>27</b>	<b>27</b>	<b>27</b>	<b>27</b>
Deferred income	0	0	27	27	27	27
Other non-current liabilities	1	0	0	0	0	0
<b>Total liabilities</b>	<b>644</b>	<b>711</b>	<b>1,708</b>	<b>2,363</b>	<b>3,097</b>	<b>3,997</b>
Share capital	0	0	0	0	0	0
Retained earnings	0	0	0	0	0	0
Other reserves	841	941	1,246	1,610	2,048	2,572
<b>Total shareholders equity</b>	<b>842</b>	<b>942</b>	<b>1,246</b>	<b>1,610</b>	<b>2,048</b>	<b>2,572</b>
Minority interest	17	32	40	33	24	12
<b>Total equity and liabilities</b>	<b>1,503</b>	<b>1,685</b>	<b>2,994</b>	<b>4,006</b>	<b>5,169</b>	<b>6,581</b>

<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	730	952	1,225
Depreciation & amortization	6	6	8	79	85	86
Tax paid	(48)	(96)	(91)	(185)	(241)	(310)
Change in working capital	96	(69)	670	453	507	621
Others	(19)	(22)	(25)	52	49	48
<b>Net cash from operations</b>	<b>318</b>	<b>242</b>	<b>1,123</b>	<b>1,130</b>	<b>1,352</b>	<b>1,670</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)	(323)	(421)	(542)
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>(323)</b>	<b>(421)</b>	<b>(542)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	517	805	906	1,950	2,754	3,680
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>2,754</b>	<b>3,680</b>	<b>4,803</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%	40.3%	32.7%	30.2%
Gross profit	50.9%	51.2%	31.7%	33.5%	31.7%	29.9%
Operating profit	81.3%	54.1%	32.3%	32.8%	32.4%	30.0%
Net profit	91.4%	46.6%	28.0%	30.6%	30.4%	28.6%
<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%	28.4%	28.2%	28.1%
Operating margin	26.3%	27.9%	26.0%	24.6%	24.6%	24.5%
Return on equity (ROE)	28.1%	36.1%	37.7%	37.7%	38.4%	39.1%
<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>						
Net debt to equity (x)	Net cash	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	2.1	2.1	1.6	1.6	1.6	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	9.7	7.5	5.8
P/B	4.0	5.4	4.0	3.2	2.6	2.0
Div yield (%)	3.9	3.8	4.9	6.2	8.1	10.4

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

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<b>BUY</b>	: Stock with potential return of over 15% over next 12 months
<b>HOLD</b>	: Stock with potential return of +15% to -10% over next 12 months
<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
<b>NOT RATED</b>	: Stock is not rated by CMBIGM
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