

Poly Services (6049 HK)

1H23 results in line but AR remains a concern

Poly Services recorded 22% YoY increase in net profit in 1H23, in line with its full-year target. NP growth was largely higher than that of revenue (+11% YoY) reflecting margin improvement backed by higher business concentration and optimized VAS business structure. Accounts receivable remains a concern as public service (with longer cash collection period) is contributing more in revenue, while that will be an industry puzzle as the business is one the GFA growth points for the sector. We believe the Company will deliver decent growth backed by its SOE parentco and advantage on winning government project. Maintain BUY.

■ **NP growth >> Revenue growth: margin improvement.** The Company reported NP of RMB 764mn in 1H23, a 22% YoY increase, that is much higher than the 11% YoY growth of revenue, reflecting the improvement on both GPM (21.2% in 1H23 from 20.2% in 1H22) and SG&A fee rate (7.3% in 1H23 from 8.0% in 1H22). The improvements were mainly attributable to: 1) for Basic PM, the Company starts focusing on project density and cutting third-party expansion range to 48 cities from 100 cities originally. 2) for community VAS, the Company starts seeking growth quality among residents who have low willingness to spend, and quitting low-margin business related to material supply during pandemic.

■ **Full year target unchanged:** The Company remains resolute on its full year targets – to reach 20% YoY growth on revenue, NP attributable to shareholder and the expansion on annualized contract value of new project. Target completion on revenue growth especially on VAS segment remains a market concern, while **we are confident about it** as the Company's parentco. Poly Dev. has a tendency to have more project launches and housing delivery in 2H which will boost the revenue of VAS to non-owners. Poly Dev. is likely to deliver 180k units in 2H23 vs. 114k unit in 1H23 according to the mgmt.

■ **AR remains a concern.** The Company's accounts receivable went up 31% in 1H23 from FY22, mainly driven by fast growth (+31% YoY) in revenue from public service business, which naturally has longer cash collection period (1-3 months). The business contributed 25% of revenue in basic PM and is likely to contribute more as public service is one of the strategic focuses. While the AR increase driven by revenue structure is shifting towards To G business which is a puzzle at industry level as City Service is one of the GFA growth points supported by policy.

■ **Maintain BUY with TP trimmed 2% to HK\$57.31.** We like the Company as its decent growth is backed by strong parentco.(SOE) which is gaining more market share and its incomparable advantage on winning government projects. Maintain BUY. The TP adjustment is reflecting higher margin but lower revenue growth driven by the Company's new strategy. The new TP implies 20x 2023E PE, and the current valuation is attractive at 14x 2023E PE. **Risks:** more property defaults may cause fluctuation in the sector.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	10,783	13,687	16,526	19,908	23,739
YoY growth (%)	34.2	26.9	20.7	20.5	19.2
Net profit (RMB mn)	845.7	1,112.9	1,379.4	1,622.3	1,895.6
EPS (Reported) (RMB)	1.53	2.01	2.49	2.93	3.43
YoY growth (%)	25.6	31.6	23.9	17.6	16.8
Consensus EPS (RMB)	na	na	2.50	3.06	3.70
P/E (x)	28.5	20.6	13.8	11.7	10.0
P/B (x)	3.6	3.0	2.2	2.0	1.7
Yield (%)	0.7	1.2	1.8	2.1	2.5
ROE (%)	13.1	15.4	16.9	17.5	17.9

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$57.31
(Previous TP)	HK\$58.39
Up/Downside	54.9%
Current Price	HK\$37.00

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Stock Data

Mkt Cap (HK\$ mn)	3,700.0
Avg 3 mths t/o (HK\$ mn)	45.6
52w High/Low (HK\$)	60.05/29.05
Total Issued Shares (mn)	100.0
Source: FactSet	

Shareholding Structure

Poly Development	72.3%
Free float	27.7%

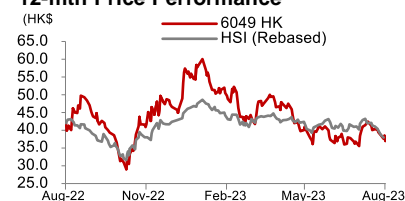
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	0.3%	7.2%
3-mth	-10.0%	-2.0%
6-mth	-25.6%	-15.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: 1H23 results summary

Poly Services Results Summary					
RMB mn	1H22	1H23	YoY	1H/2022	1H/2023E
Revenue	6,449	7,141	11%	47%	43%
- Property management services	3,955	4,818	22%	47%	46%
- VAS to non owners	1,092	1,051	-4%	50%	41%
- Community VAS	1,402	1,272	-9%	46%	36%
Gross profit	1,305	1,512	16%	51%	48%
Net profit	628	764	22%	56%	55%
EPS (RMB)	1.14	1.38	22%	56%	55%
GP Margin	20.2%	21.2%	0.9 ppt		
Net Margin	9.7%	10.7%	0.9 ppt		
Managed GFA (mn sq m)	523.1	650.5	24%		
Contracted GFA (mn sq m)	731.6	842.4	15%		

Source: Company data, CMBIGM

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	16,526	19,908	23,739	17,070	21,138	25,825	-3.18%	-5.82%	-8.08%
Gross Profit	3,140	3,746	4,425	3,204	3,939	4,761	-1.98%	-4.89%	-7.06%
Operating profit	1,879	2,210	2,583	1,916	2,301	2,720	-1.91%	-3.94%	-5.06%
Net profit	1,379	1,622	1,896	1,406	1,689	1,997	-1.91%	-3.94%	-5.06%
EPS (RMB)	2.5	2.9	3.4	2.5	3.1	3.6	-1.91%	-3.94%	-5.06%
Gross Margin	19.0%	18.8%	18.6%	18.8%	18.6%	18.4%	0.2 ppt	0.2 ppt	0.2 ppt
Operating Margin	11.4%	11.1%	10.9%	11.2%	10.9%	10.5%	0.1 ppt	0.2 ppt	0.3 ppt
Net Margin	8.3%	8.1%	8.0%	8.2%	8.0%	7.7%	0.1 ppt	0.2 ppt	0.3 ppt

Source: Company data, CMBIGM

Figure 3: Revenue contribution of Public Service Business

Revenue mix %	2020	2021	2022	1H22	1H23
- PM services	62%	62%	62%	61%	67%
- VAS to non owners	17%	17%	16%	17%	15%
- Community VAS	22%	21%	22%	22%	18%
Revenue mix - PM services					
Residential	70%	63%	60%	61%	59%
Commercial and office buildings	14%	15%	15%	15%	16%
Public and other properties	16%	22%	24%	24%	25%

Source: Company data, CMBIGM

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	8,037	10,783	13,687	16,526	19,908	23,739
Cost of goods sold	(6,538)	(8,768)	(11,113)	(13,386)	(16,162)	(19,314)
Gross profit	1,499	2,015	2,574	3,140	3,746	4,425
Operating expenses	(787)	(1,017)	(1,215)	(1,441)	(1,716)	(2,023)
SG&A expense	(785)	(1,015)	(1,213)	(1,438)	(1,712)	(2,018)
Others	(2)	(2)	(2)	(3)	(4)	(5)
Operating profit	918	1,184	1,543	1,879	2,210	2,583
Other income	207	187	184	180	180	180
Pre-tax profit	935	1,162	1,513	1,880	2,210	2,583
Income tax	(239)	(292)	(380)	(472)	(555)	(649)
After tax profit	696	871	1,133	1,408	1,655	1,934
Minority interest	(23)	(25)	(20)	(28)	(33)	(39)
Net profit	674	846	1,113	1,379	1,622	1,896
Gross dividends	238	169	278	345	406	474

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	8,899	9,991	12,133	13,488	15,101	16,978
Cash & equivalents	7,448	7,691	8,956	9,503	10,081	10,685
Account receivables	888	1,425	2,263	3,063	4,088	5,350
Inventories	51	51	40	49	59	70
Prepayment	512	825	873	873	873	873
Non-current assets	546	1,147	977	946	976	1,006
PP&E	162	200	219	177	182	187
Deferred income tax	13	20	39	39	39	39
Intangibles	136	125	115	122	142	162
Other non-current assets	234	802	604	609	614	619
Total assets	9,444	11,138	13,110	14,434	16,077	17,985
Current liabilities	3,130	4,136	5,185	5,507	5,901	6,347
Account payables	397	804	1,575	1,897	2,290	2,737
Tax payable	92	135	154	154	154	154
Lease liabilities	211	36	38	38	38	38
Contract liabilities	1,182	1,381	1,429	1,429	1,429	1,429
Accrued expenses	1,247	1,781	1,989	1,989	1,989	1,989
Non-current liabilities	68	113	80	80	80	80
Obligations under finance leases	27	79	69	69	69	69
Other non-current liabilities	41	34	11	11	11	11
Total liabilities	3,197	4,249	5,265	5,587	5,980	6,427
Share capital	553	553	553	553	553	553
Other reserves	5,618	6,232	7,137	8,112	9,328	10,750
Total shareholders equity	6,171	6,786	7,691	8,665	9,882	11,303
Minority interest	76	103	154	182	215	254
Total equity and liabilities	9,444	11,138	13,110	14,434	16,077	17,985

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	935	1,162	1,513	1,880	2,210	2,583
Depreciation & amortization	96	311	371	20	20	20
Tax paid	(204)	(262)	(382)	(472)	(555)	(649)
Change in working capital	(145)	317	(6)	(486)	(642)	(826)
Net cash from operations	549	1,449	1,474	936	1,029	1,123
Investing						
Capital expenditure	(54)	(66)	(74)	(45)	(45)	(45)
Acquisition of subsidiaries/ investments	1	(19)	(4)	0	0	0
Net proceeds from disposal of short-term investments	0	0	0	0	0	0
Others	114	(792)	(24)	0	0	0
Net cash from investing	60	(858)	(98)	(45)	(45)	(45)
Financing						
Dividend paid	(202)	(240)	(172)	(345)	(406)	(474)
Net borrowings	0	0	0	0	0	0
Proceeds from share issues	622	0	49	0	0	0
Others	(154)	(102)	(18)	0	0	0
Net cash from financing	302	(340)	(138)	(345)	(406)	(474)
Net change in cash						
Cash at the beginning of the year	6,509	7,448	7,691	8,956	9,503	10,081
Exchange difference	29	(9)	27	0	0	0
Cash at the end of the year	7,448	7,691	8,956	9,503	10,081	10,685
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	34.7%	34.2%	26.9%	20.7%	20.5%	19.2%
Gross profit	23.8%	34.4%	27.8%	22.0%	19.3%	18.1%
Operating profit	32.2%	28.9%	30.3%	21.8%	17.6%	16.9%
Net profit	37.3%	25.6%	31.6%	23.9%	17.6%	16.8%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	18.7%	18.7%	18.8%	19.0%	18.8%	18.6%
Operating margin	11.4%	11.0%	11.3%	11.4%	11.1%	10.9%
Return on equity (ROE)	12.0%	13.1%	15.4%	16.9%	17.5%	17.9%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Current ratio (x)	2.8	2.4	2.3	2.4	2.6	2.7
Receivable turnover days	40.3	48.2	60.4	67.7	75.0	82.3
Inventory turnover days	2.8	2.1	1.3	1.3	1.3	1.3
Payable turnover days	22.2	33.5	51.7	51.7	51.7	51.7
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	49.8	28.5	20.6	13.8	11.7	10.0
P/B	5.6	3.6	3.0	2.2	2.0	1.7
Div yield (%)	0.7	0.7	1.2	1.8	2.1	2.5
EV	13,694.9	14,579.3	16,801.1	18,350.2	20,178.2	22,242.8
EV/Sales	1.7	1.4	1.2	1.1	1.0	0.9

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

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