

CG Services (6098 HK)

Potential acquisition of Languang Juston: Positive

We think the potential acquisition of Languang Juston (2606 HK) would be positive for CGS as 1) strategically, Languang's strong presence in Southwest (60% of managed GFA) would fill the gap for CGS (only 3% in the region). 2) Financially, the acquisition would boost CGS 2021/22E earnings by 20% if assuming 100% stake acquisition. Also, the two companies share similar profitability and thus there is less likely margin dilution. 3) Valuation wise, CGS is trading at 28x 2022E PE vs. Languang's 5.4x. This would be value accretive even if we assume acquisition price has 30% premium to the last trading price. 4) Balance sheet wise, there's enough cash to support up to 100% stake acquisition.

- **What's new:** CGS and Languang halted trading on 23 Feb before market open. According to [the Economic Observer](#), CGS would propose to acquire Languang listco but the news did not disclose the total consideration nor stakes to be acquired.
- **Strategically 1+1>2:** As of 1H20, Languang had a total managed/contracted GFA of 89.9mn/140.7mn sq m. The acquisition may further cement CGS's No.1 position to reach contracted GFA of 1.3bn sq m in 2021E. More importantly, CGS has less penetration in Southwest region (only 3% of total managed GFA) and thus the acquisition of Languang (60% of managed GFA in Southwest region) would help expand this coverage. We believe CGS could also bring efficiency improvement when it comes to consolidation as Languang previously expanded heavily via M&A (44% of total managed GFA).
- **We think it could be value-accretive for CGS:** From the valuation perspective, currently CGS is trading at 28x 2022E PE vs. Languang's 5.4x. Even if we assume the proposed acquisition price has 30% premium to the last trading price, the valuation is still below CGS and thus it would be value accretive. Also, the acquisition would boost its 2021/22E earnings by 20%/20% with little margin dilution given that two companies share similar profitability.
- **Balance sheet can support up to 100% acquisition.** As of 1H20, CGS had a cash of RMB9.9bn and we expect to increase to >RMB10bn by end of 2020E. This is enough to pay for up to 100% stakes acquisition of Languang with price premium of 30% to last price, which equals to RMB7.3bn. As pending for the official announcement, we do not exclude the possibility of partial stake acquisition, which may free more cash for VAS-related acquisition.
- **Implication for the industry:** there could be more of similar M&As in the future as 1) small players are losing market shares (even for those Top 30-50). 2) Competition gets more intensive together with parentco sales slowdown. 3) Huge valuation divergence between small and large players (difference as wide as 10-20x). We may see more small players with less parentco support to be acquired in the future.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	3,377	5,127	16,680	22,361	29,790
YoY growth (%)	91.8	51.8	72.9	34.1	33.2
Net income (RMB mn)	801	1,231	2,417	4,143	5,440
EPS (RMB)	0.37	0.63	0.89	1.53	2.01
YoY growth (%)	77.1	48.9	42.2	71.4	31.3
Consensus EPS (RMB)	N.A.	N.A.	0.91	1.28	1.75
P/E (x)	61.3	41.2	62.4	36.4	27.7
P/B (x)	12.0	11.4	26.0	16.8	11.4
Yield (%)	0.8	1.2	0.4	0.7	0.9
ROE (%)	14.8	19.9	33.6	40.2	37.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$84.60
(Previous TP	HK\$84.60)
Up/Downside	+26.3%
Current Price	HK\$67.00

China Property Service Sector

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Stock Data

Mkt Cap (HK\$ mn)	197.153
Avg 3 mths t/o (HK\$ mn)	606.50
52w High/Low (HK\$)	71.45/23.95
Total Issued Shares (mn)	2,932

Source: Bloomberg

Shareholding Structure

Yang Huiyan	49.5%
Ping An Insurance	8.3%
Free float	42.2%

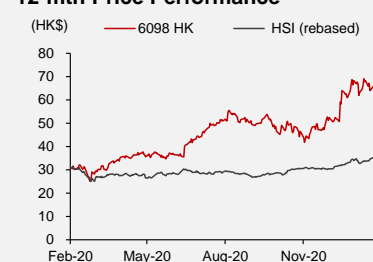
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-1.9%	-4.7%
3-mth	44.2%	25.8%
6-mth	31.5%	8.9%
12-mth	109.4%	88.6%

Source: Bloomberg

12-mth Price Performance

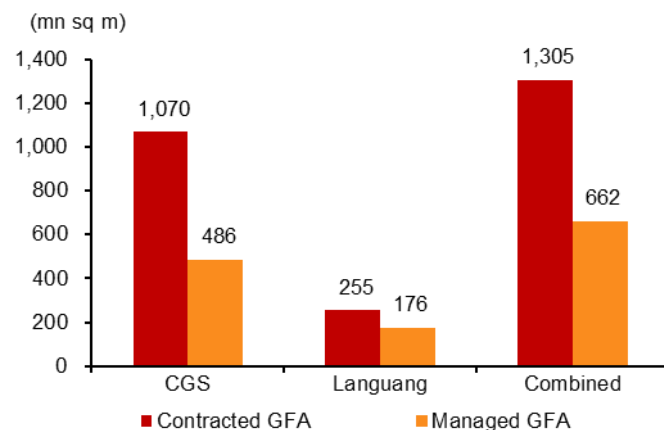


Source: Bloomberg

Auditor: PwC

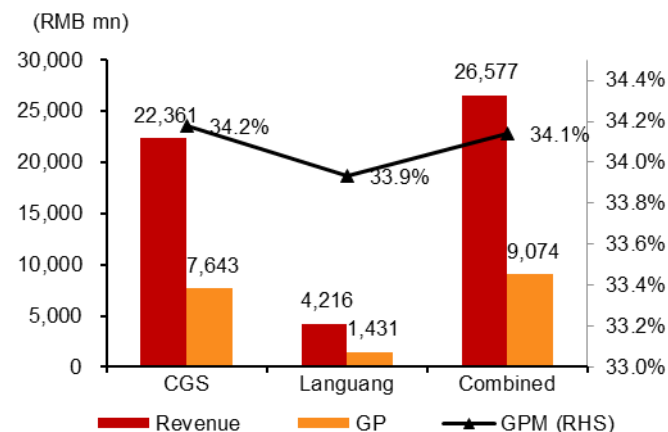
Key Charts

Figure 1: Pro-forma analysis on Contracted/Managed GFA in 2021E



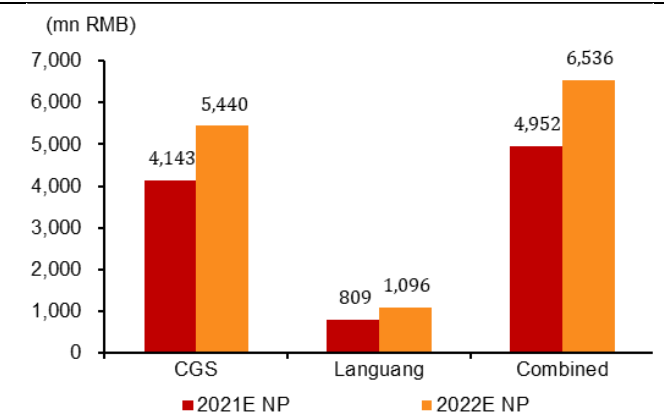
Source: Company data, CMBIS estimates

Figure 2: Pro-forma analysis on revenue/GP in 2021E



Source: Company data, CMBIS estimates

Figure 3: Pro-forma analysis on net profits in 2021/22E



Source: Company data, CMBIS estimates

Figure 4: Net gearing ratio

Company	Ticker	CMBI rating	TP (HK\$)	Last price (HK\$)	Mkt Cap (HK\$ mn)	P/E			Net profit growth (%)		
						20E	21E	22E	20E	21E	22E
CR MixC Lifestyle	1209 HK	BUY	52.2	48.05	109,674	102.2	60.7	46.1	144.2	68.2	31.8
Ever Sunshine	1995 HK	BUY	28.8	21.85	36,498	68.2	40.9	26.6	91.3	72.8	54.2
Country Garden Services	6098 HK	BUY	84.6	67.00	197,153	62.4	36.4	27.7	44.7	71.4	31.3
Poly Services	6049 HK	SELL	53.4	53.30	29,493	37.2	31.6	24.9	34.2	17.8	26.5
Powerlong Commercial	9909 HK	BUY	30.9	24.90	16,036	40.2	31.0	24.2	79.3	29.7	28.1
Greentown Services	2869 HK	HOLD	9.5	8.28	26,685	34.3	26.6	21.9	19.4	32.2	21.5
S-Enjoy	1755 HK	BUY	29.6	19.28	15,828	29.3	20.7	16.3	58.8	41.3	27.2
Excellence CM	6989 HK	BUY	14.9	9.85	12,042	23.8	18.5	13.2	86.0	62.9	39.7
A-Living	3319 HK	SELL	31.7	34.00	45,333	21.3	18.5	16.1	43.5	14.9	15.1
Central China New Life	9983 HK	BUY	11.3	7.16	9,002	20.3	13.3	9.5	55.4	53.1	39.3
Redsun Services	1971 HK	BUY	9.4	4.54	1,884	18.6	10.3	7.3	49.7	71.7	41.8
Languang Justbon	2606 HK	BUY	69.7	38.95	6,937	10.1	7.5	5.6	33.3	34.2	34.1
Average						39.0	26.3	19.9	52.2	46.9	30.0

Source: Company data

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	4,675	9,645	16,680	22,361	29,790
Basic PM	3,445	5,817	8,455	11,424	14,789
Non-owner VAS	791	1,422	2,010	2,517	3,179
Community VAS	417	865	1,775	3,099	5,297
City services	-	-	2,712	3,452	4,538
Others	21	1,541	1,728	1,870	1,987
Cost of sales	(2,914)	(1,192)	(1,536)	(1,943)	(2,425)
Gross Profit	1,762	428	621	807	1,037
Other income	22	51	36	44	40
Selling expenses	(27)	(67)	(115)	(155)	(206)
Administrative expenses	(760)	(1,208)	(2,088)	(2,800)	(3,730)
Impairment	(13)	(31)	-	-	-
Operating profit	984	1,798	3,305	4,732	6,912
JV/Associates	3	8	9	11	14
Finance cost	54	92	96	101	106
Exceptional	29	178	-	-	-
Pre-tax Profit	1,069	2,076	3,411	4,845	7,032
Income tax	(135)	(358)	(853)	(485)	(1,336)
PROFIT FOR THE YEAR	934	1,718	2,558	4,361	5,696
Non-controlling interest	(11)	(48)	(141)	(218)	(256)
Net Profit attribute to	923	1,671	2,417	4,143	5,440

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	851	2,045	2,274	2,506	2,739
Property, plant and	113	312	482	652	822
Intangible assets	686	1,604	1,654	1,704	1,754
Others	52	129	139	150	163
Current assets	4,671	10,224	15,145	21,299	29,056
Trade and other receivables	788	2,004	3,465	4,646	6,189
Cash and cash equivalents	3,869	6,914	10,363	15,330	21,534
Others	489	3	3	3	3
Total assets	5,522	12,269	17,419	23,804	31,795
Current liabilities	3,127	6,427	9,623	12,684	16,339
Trade and other payables	2,060	4,690	7,285	9,567	12,338
Others	1,067	1,737	2,338	3,117	4,000
Non-current liabilities	65	162	162	162	162
Deferred income tax	65	143	143	143	143
Others	-	19	19	19	19
Total liabilities	3,192	6,590	9,786	12,846	16,501
Equity to shareholders	2,261	5,373	7,186	10,293	14,373
Non-controlling interests	69	306	447	665	921
Total Equity	2,330	5,680	7,633	10,958	15,294

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before tax	1,069	2,076	3,411	4,845	7,032
D&A	26	-	60	60	60
Change in working capital	617	2,027	1,725	1,873	2,102
Others	(163)	(845)	(959)	(597)	(1,456)
Net cash from operating	1,549	3,257	4,237	6,181	7,738
Capex	(62)	-	(280)	(280)	(280)
JV/Associates	(6)	-	-	-	-
Others	(46)	(1,608)	96	101	106
Net cash from investing	(114)	(1,608)	(184)	(179)	(174)
Equity raised	10	1,700	-	-	-
Change of debts	-	-	-	-	-
Others	(211)	(304)	(604)	(1,036)	(1,360)
Net cash from financing	(200)	1,396	(604)	(1,036)	(1,360)
Net change in cash	1,235	3,045	3,449	4,966	6,205
Cash at the beginning	2,634	3,869	6,914	10,363	15,330
Exchange difference	-	-	-	-	-
Cash at the end	3,869	6,914	10,363	15,330	21,534

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Basic PM	73.7	60.3	50.7	51.1	49.6
Non-owner VAS	16.9	14.7	12.1	11.3	10.7
Community VAS	8.9	9.0	10.6	13.9	17.8
City services	0.0	0.0	16.3	15.4	15.2
Others	0.5	16.0	10.4	8.4	6.7
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	37.7	4.4	3.7	3.6	3.5
Net margin	19.7	17.3	14.5	18.5	18.3
Effective tax rate	12.6	17.2	25.0	10.0	19.0
Growth (%)					
Revenue	49.8	106.3	72.9	34.1	33.2
Gross profit	70.1	73.3	79.3	39.7	41.4
Operating profit	69.6	82.8	83.8	43.2	46.1
Net profit	129.8	81.0	44.7	71.4	31.3
Balance sheet ratios					
Current ratio (x)	1.5	1.6	1.6	1.7	1.8
Receivable turnover days	62	76	76	76	76
Returns (%)					
ROE	40.8	31.1	33.6	40.2	37.8
ROA	16.7	13.6	13.9	17.4	17.1
Per share					
EPS (RMB)	0.37	0.63	0.89	1.53	2.01
DPS (RMB)	0.09	0.16	0.22	0.38	0.50
BVPS (RMB)	0.63	1.39	2.04	3.17	4.65

Source: Company data, CMBIS estimates

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