

CG Services (6098 HK)

Potential acquisition of Zhongliang's PM may not be so positive

We do not think the potential acquisition of Everjoy Service is very positive because 1) Zhongliang PM's earning quality is relatively low with 59% of 1H21 gross profit contributed by non-owner VAS. 2) Need more liquidity after Jun 2022. This transaction itself may cost HK\$3-3.6bn. Together with HK\$5bn CB due in May 2022, this may use up all the HK\$8bn placement in Nov 2021. However, no placement risk in the near term as CGS has said not to conduct another one before Jun 2022. Maintain Buy for its attractive valuation at only 22x 2022E PE.

- **What's new:** On 12 Feb noon, [CLS](#) learned from several channels that CGS has acquired all stakes of Zhongliang's PM and stated that the two sides have already signed the agreement and were happy with the total consideration.
- **Pro-forma analysis:** Everjoy Services has 291 projects under management in 1H21 with managed GFA of 33.2mn sq m and contracted GFA of 71.2 sq m (56.1% located in Yangtze River Delta). This would boost CGS's managed/contracted GFA by 5%/4% to 801/1,500mn sq m. From earnings perspective, we think 2021E earnings boost would be slightly higher to 6-8%.
- **CGS needs another round of fund raising? Not until Jun 13th.** CGS raised HK\$8bn through equity placement in Nov 2021. This can help support this transaction with potential consideration <HK\$3.6bn (the valuation CGS paid on 30 Mar 2021 for 6.24%). Given that CGS will have HK\$5bn CB due in May 2022 (unlikely to convert given conversion price at HK\$97.83/share), this may finish up the HK\$8bn placement. So it may have needs for more liquidity, but we may not worry about the placement risk in the near term as CGS made the announcement on 14 Dec 2021 saying no placement in 6 months.
- **Synergy – improve the project density in lower tier cities:** Zhongliang Group is a national developer focusing on lower-tier cities with 2021 sales of RMB172bn. So Everjoy also mainly managed residential projects located in tier 3-4 cities. **Challenge – Earnings outlook and consolidation:** Firstly speaking of Everjoy's earning quality, Non-Owner VAS contributed 59% of its 1H21 gross profit, much higher than industry average of 23%. After CGS's takeover, this part of earnings will face uncertainties.
- **Valuation:** CGS already owned 6.24% of Everjoy Services, bought at HK\$240mn on 30 Mar 2021, which is at 38x 2020E PE or 15-20x 2021E PE, higher than the previous M&As for R&F and LinkJoy. However, under the current downtrend in M&A valuations for PM companies, the new valuation they potentially agreed could be lower than that.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue (RMBmn)	4,675	9,645	15,600	27,265	39,683
YoY growth (%)	49.8	106.3	61.7	74.8	45.5
Net income (RMBmn)	923	1,671	2,686	4,537	6,382
EPS (RMB)	0.37	0.63	0.98	1.54	2.16
YoY growth (%)	N.A.	69.8	55.7	57.5	40.7
Consensus EPS (RMB)	N.A.	N.A.	N.A.	1.36	2.00
P/E (x)	N.A.	N.A.	N.A.	31.3	22.3
P/B (x)	N.A.	N.A.	N.A.	28.1	17.8
Yield (%)	N.A.	N.A.	N.A.	0.8	1.1
ROE (%)	40.8	31.1	18.4	25.3	28.0
Net gearing (%)	Net cash				

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$91.17
(Previous TP)	HK\$91.17)
Up/Downside	+67.7%
Current Price	HK\$54.35

China Property Service Sector

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Stock Data

Mkt Cap (HK\$ mn)	186,946
Avg 3 mths t/o (HK\$ mn)	882.51
52w High/Low (HK\$)	85.20/ 36.60
Total Issued Shares (mn)	3,366

Source: Bloomberg

Shareholding Structure

Chen Chong	45.1%
JPM	5.7%
Free float	48.7%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	19.7%	17.3%
3-mth	-13.2%	-11.7%
6-mth	-13.2%	-7.6%
12-mth	-15.6%	2.2%

Source: Bloomberg

12-mth Price Performance

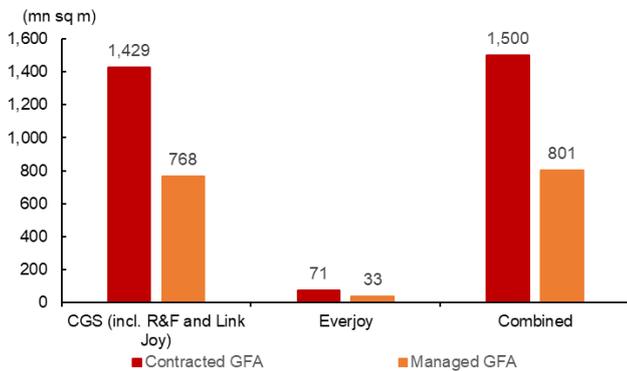


Source: Bloomberg

Auditor: PwC

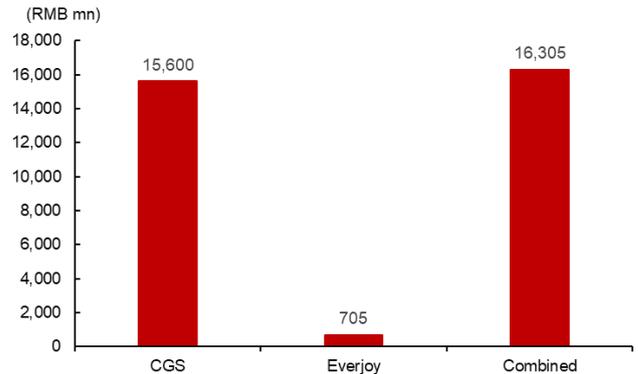
Key Charts

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



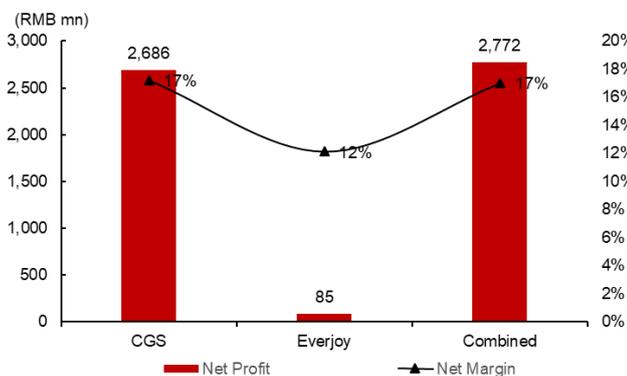
Source: Company data, CMBIS estimates

Figure 2: Pro-forma analysis on revenue in FY2020



Source: Company data

Figure 3: Pro-forma analysis on NP/NPM in FY2020



Source: Company data

Figure 4: Comps table

Company	Ticker	CMBI rating	TP (HK\$)	Last price (HK\$)	Mkt Cap (HK\$ mn)	P/E			Net profit growth (%)	
						20A	21E	22E	21E	22E
Country Garden Services	6098 HK	BUY	91.2	54.4	182,946	53.8	32.4	22.3	66.3	45.2
CR MixC Lifestyle	1209 HK	BUY	56.0	46.0	104,881	86.7	56.7	40.9	53.0	38.6
A-Living	3319 HK	HOLD	34.2	17.0	24,140	10.8	8.0	6.3	34.7	26.1
Greentown Services	2869 HK	HOLD	9.5	8.9	29,014	39.1	25.3	19.4	54.5	30.3
Ever Sunshine	1995 HK	BUY	22.2	16.1	28,273	63.6	34.9	23.8	82.3	46.3
Poly Services	6049 HK	HOLD	53.4	60.6	33,504	44.1	31.4	24.4	40.5	29.0
S-Enjoy	1755 HK	BUY	34.6	16.0	13,923	25.9	16.5	11.6	56.9	41.7
Powerlong Commercial	9909 HK	BUY	33.2	18.3	11,791	33.4	21.0	15.3	59.1	37.0
Excellence CM	6989 HK	BUY	14.9	5.5	6,700	15.8	10.0	7.3	58.5	37.3
Central China New Life	9983 HK	BUY	12.9	5.4	6,790	12.5	8.8	6.4	41.1	37.9
Sino-Ocean Services	6677 HK	BUY	7.1	4.5	5,292	11.8	10.4	7.5	12.9	38.9
New Hope Services	3658 HK	BUY	4.4	2.3	1,832	13.3	7.8	5.1	70.7	53.8
Redsun Services	1971 HK	BUY	9.4	3.7	1,548	16.5	8.1	5.4	105.2	48.4
Evergrande Services	6666 HK	BUY	10.4	2.8	30,486	8.9	6.2	4.1	54.0	52.5
Sunac Services	1516 HK	BUY	29.8	9.7	29,892	32.1	15.7	9.7	105.3	60.6
COPH	2669 HK	NR	NA	9.3	30,403	42.6	32.8	25.3	29.7	29.4
Times Neighborhood	9928 HK	NR	NA	3.3	3,243	12.1	6.7	3.8	80.8	76.9
Aoyuan Healthy Life	3662 HK	NR	NA	2.7	1,925	6.9	4.1	2.9	66.9	42.2
Shimao Services	873 HK	NR	NA	7.2	17,849	17.4	11.4	8.0	51.9	42.1
KWG Living	3913 HK	NR	NA	4.0	8,008	18.6	9.2	6.1	101.1	50.7
Jinke Smart Services	9666 HK	NR	NA	42.3	27,583	29.9	20.3	13.8	47.2	47.5
Average						47.5	30.1	21.4	59.1	42.0

Source: CMBIS, Bloomberg

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	4,675	9,645	15,600	27,265	39,683
Basic PM	3,445	5,817	8,607	12,767	16,396
Non-owner VAS	791	1,422	1,370	2,112	3,049
Community VAS	417	865	1,731	4,077	8,003
City services	-	-	884	3,452	4,538
Others	21	1,541	3,009	4,858	7,697
Cost of sales	(2,914)	(6,593)	(10,301)	(18,614)	(26,596)
Gross Profit	1,762	3,052	5,300	8,651	13,088
Other income	22	51	121	86	104
Selling expenses	(27)	(67)	(136)	(237)	(345)
Administrative expenses	(760)	(1,208)	(1,950)	(3,217)	(4,564)
Impairment	(13)	(31)	(98)	(102)	(131)
Operating profit	984	1,798	3,236	5,181	8,151
JV/Associates	3	8	41	53	69
Finance cost	54	92	44	46	48
Exceptional	29	178	394	-	-
Pre-tax Profit	1,069	2,076	3,715	5,279	8,268
Income tax	(135)	(358)	(933)	(528)	(1,571)
PROFIT FOR THE YEAR	934	1,718	2,782	4,751	6,697
Non-controlling interest	(11)	(48)	(96)	(214)	(315)
Net Profit attribute to	923	1,671	2,686	4,537	6,382

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Non-current assets	851	2,045	7,916	15,375	18,003
Property, plant and	113	312	1,249	1,929	2,609
Intangible assets	686	1,604	6,176	12,902	14,782
Others	52	129	490	543	612
Current assets	4,671	10,224	23,288	26,807	36,195
Trade and other receivables	788	2,004	5,244	9,164	13,338
Cash and cash equivalents	3,869	6,914	15,215	14,703	19,811
Others	14	1,306	2,829	2,940	3,046
Total assets	5,522	12,269	31,204	42,182	54,198
Current liabilities	3,127	6,427	14,233	21,594	28,509
Trade and other payables	2,060	4,690	7,476	13,588	19,415
Others	1,067	1,737	6,757	8,005	9,094
Non-current liabilities	65	162	812	812	812
Deferred income tax	65	143	510	510	510
Others	-	19	302	302	302
Total liabilities	3,192	6,590	15,045	22,406	29,321
Equity to shareholders	2,261	5,373	14,566	17,969	22,755
Non-controlling interests	69	306	1,593	1,807	2,122
Total Equity	2,330	5,680	16,159	19,776	24,877

Source: Company data, CMBIS estimates

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Profit before tax	1,069	2,076	3,715	5,279	8,268
D&A	26	149	60	240	240
Change in working capital	617	1,528	3,951	3,330	2,635
Others	(163)	(496)	(1,017)	(627)	(1,688)
Net cash from operating	1,549	3,257	6,709	8,222	9,455
Capex	(62)	(81)	(5,570)	(2,800)	(2,800)
JV/Associates	(6)	(40)	-	-	-
Others	(46)	(1,507)	44	(4,800)	48
Net cash from investing	(114)	(1,628)	(5,526)	(7,600)	(2,752)
Equity raised	10	1,738	-	-	-
Change of debts	-	(9)	3,812	-	-
Others	(211)	(331)	3,307	(1,134)	(1,596)
Net cash from financing	(200)	1,399	7,118	(1,134)	(1,596)
Net change in cash	1,235	3,028	8,301	(512)	5,108
Cash at the beginning of the year	2,634	3,869	6,914	15,215	14,703
Exchange difference	-	17	-	-	-
Cash at the end of the year	3,869	6,914	15,215	14,703	19,811

Key ratios

YE 31 Dec	FY18A	FY19A	FY20A	FY21E	FY22E
Sales mix (%)					
Basic PM	73.7	60.3	55.2	46.8	41.3
Non-owner VAS	16.9	14.7	8.8	7.7	7.7
Community VAS	8.9	9.0	11.1	15.0	20.2
City services	0.0	0.0	5.7	12.7	11.4
Others	0.5	16.0	19.3	17.8	19.4
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	37.7	31.6	34.0	31.7	33.0
Net margin	19.7	17.3	17.2	16.6	16.1
Effective tax rate	12.6	17.2	25.1	10.0	19.0
Growth (%)					
Revenue	49.8	106.3	61.7	74.8	45.5
Gross profit	70.1	73.3	73.6	63.2	51.3
Operating profit	69.6	82.8	80.0	60.1	57.3
Net profit	129.8	81.0	60.8	68.9	40.7
Balance sheet ratios					
Current ratio (x)	1.5	1.6	1.6	1.2	1.3
Receivable turnover days	62	76	123	123	123
Returns (%)					
ROE	40.8	31.1	18.4	25.3	28.0
ROA	16.7	13.6	8.6	10.8	11.8
Per share					
EPS (RMB)	0.37	0.63	0.98	1.54	2.16
DPS (RMB)	0.09	0.15	0.23	0.38	0.54
BVPS (RMB)	0.63	1.39	2.84	1.72	2.70

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