

CR Mixc Lifestyle (1209 HK)

MixC's acquisition of Zhongnan PM a better deal than Yujia

- What's New?** On the eve of 20 Jan, MixC announced the acquisition of Jiangsu Zhongnan Construction's PM arm, which has reported managed/contracted GFA of 51.5/90.9mn sq m. The total consideration for this deal shall not be higher than RMB2.26bn with RMB300mn payable within 3 days after payment request.
- Quantitative impact on MixC:** On the Pro Forma basis, Jiangsu Zhongnan PM can bring 53.5%/41.5% boost for MixC's contracted and managed GFA and 11% boost on MixC's net profit based on our estimate of 2021E, which is significantly higher than that of Yujia (18.6%/16.5%/6% on contracted/managed GFA/net profit). Furthermore, Zhongnan PM has an expected managed GFA of 90mn sqm within 5 years (can be done through contracted GFA transfer) with on average 10mn sqm managed GFA delivered annually in the next three years. The valuation is estupfront to be as low as 6x 2021E PE if using upfront payments. To elaborate, MixC embed a safety net in its payment schedule, which only pays 44% upfront for the confirmed 51.5mn sqm managed GFA and will pay the remaining portion with the actual delivery progress of the managed GFA.
- Qualitative impact on MixC:** Zhongnan PM focuses on residential PM in Yangtze River Delta with 85% of the revenue in 2020 and this will boost its presence in the region. In regards to synergy, non-owner VAS accounts for 35.2% of revenue (2nd largest revenue source) with a major focus on sales assistance services. There is uncertainty of whether this business is transferable upon the sale to MixC, as it is more connected with Zhongnan Construction.
- Implications on Zhongnan Construction:** Zhongnan's contracted sales in 2021 declined 12% to RMB19.7bn. The Company also has four outstanding offshore bonds all trading at bid price 30, which generally indicates liquidity issues. This acquisition can fully cover Zhongnan Construction's outstanding amount of US\$223mn in 2022.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	4,432	5,868	6,779	8,984	11,957
YoY growth (%)	41.6	32.4	15.5	32.5	33.1
Net income (RMB mn)	423	365	818	1,580	2,115
EPS (RMB)	N.A.	N.A.	0.49	0.68	0.93
YoY growth (%)	N.A.	N.A.	N.A.	42.8	33.8
Consensus EPS (RMB)	N.A.	N.A.	0.49	0.66	0.91
P/E (x)	N.A.	N.A.	54.9	38.5	28.8
P/B (x)	N.A.	N.A.	4.9	4.4	4.0
Yield (%)	N.A.	N.A.	0.5	0.9	1.3
ROE (%)	63.4	35.4	6.6	11.3	14.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$56.00
(Previous TP)	HK\$56.00)
Up/Downside	+39.7%
Current Price	HK\$40.10

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Stock Data

Mkt Cap (HK\$ mn)	91,528
Avg 3 mths t/o (HK\$ mn)	129.71
52w High/Low (HK\$)	55.25/30.30
Total Issued Shares (mn)	2,283

Source: Bloomberg

Shareholding Structure

CR Land & CR Holdings	73.7%
Free float	26.3%

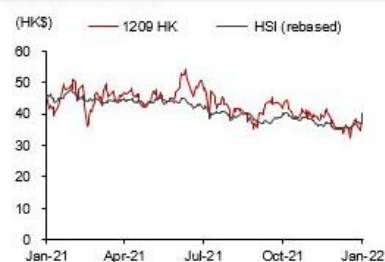
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	1.3%	-2.6%
3-mth	-9.3%	-3.1%
6-mth	-24.9%	-14.4%
12-mth	-15.1%	4.3

Source: Bloomberg

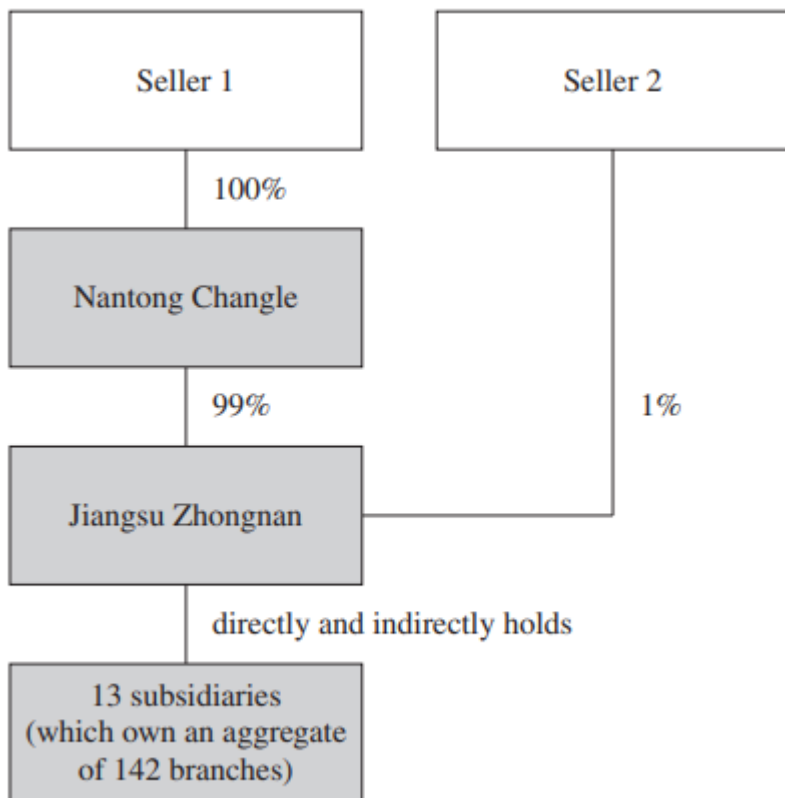
12-mth Price Performance



Source: Bloomberg

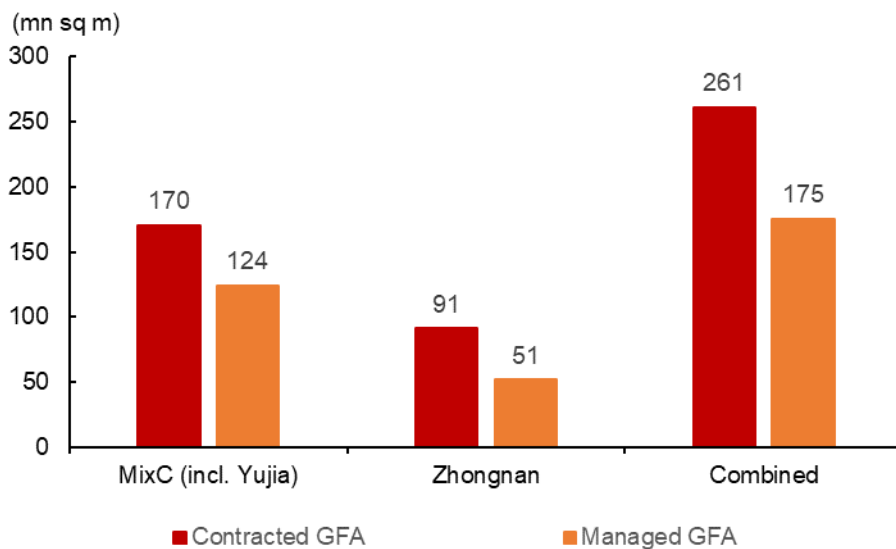
Auditor: Ernst & Young

Figure 1: Structure of Zhongnan

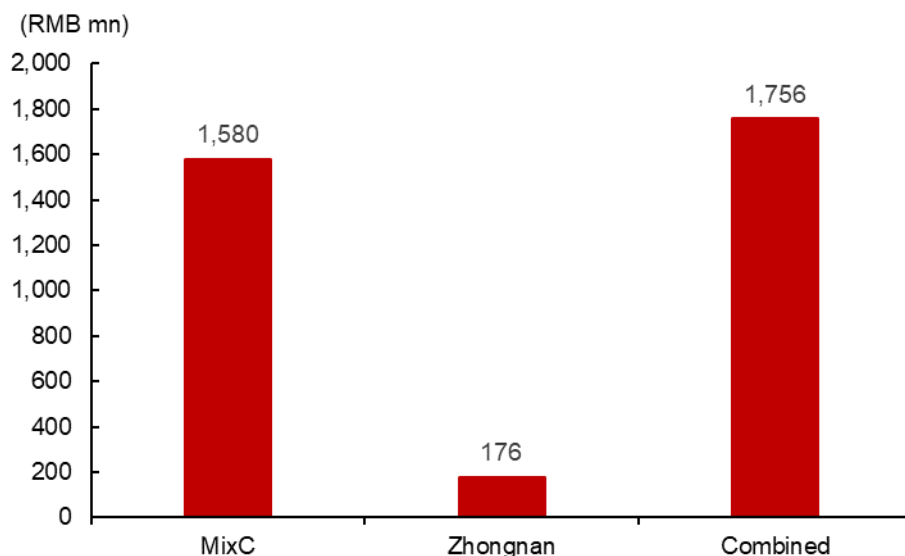


Source: Company announcement

Figure 2: GFA contribution for MixC (incl. Yujia), 2020A



Source: Company data, CMBIS

Figure 3: Net profit contribution for MixC, 2021E

Source: Company data, CMBIS

Figure 4: Zhongnan offshore bond summary

Jiangsu Zhongnan Debt Maturity Table				
Maturity Date	Coupon	Amount Issued (US\$ Mn)	Ostanding Amount (US\$ Mn)	Bid Px
6/8/2022	12.00%	150	150	30.0
6/18/2022	10.875%	350	73	30.0
4/7/2024	11.50%	250	240	30.0

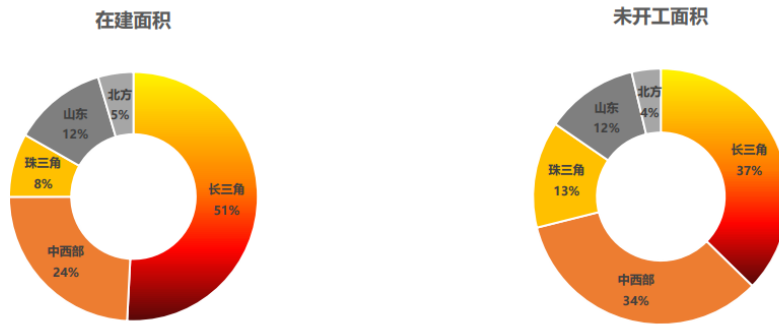
Source: Bbg, CMBIS

Figure 5: Zhongnan PM's operating summary

	2020年 收入	2020年 收入占比	2020年 毛利	2020年 毛利占比	截至2021年5月 收入	截至2021年5月 收入占比	截至2021年5月 毛利	截至2021年5月 毛利占比
物业管理服务	504.1	58.4%	68.6	34.6%	278.3	63.8%	47.0	42.0%
住宅物业	430.7	49.9%	58.0	29.2%	239.7	54.9%	40.2	35.9%
非住宅物业	73.5	8.5%	10.5	5.3%	38.6	8.8%	6.8	6.1%
非业主增值服务	303.9	35.2%	105.2	53.1%	134.6	30.8%	52.7	47.1%
- 协销服务	267.8	31.0%	87.8	44.3%	107.3	24.6%	36.3	32.4%
前期规划及设计咨询	29.4	3.4%	14.8	7.5%	6.5	1.5%	3.2	2.9%
交付前检验	6.8	0.8%	2.6	1.3%	2.9	0.7%	1.1	1.0%
停车位代理	0.0	0.0%	0.0	0.0%	18.0	4.1%	12.1	10.8%
社区增值服务	55.1	6.4%	24.6	12.4%	23.5	5.4%	12.3	11.0%
- 房地产经纪	16.2	1.9%	6.1	3.1%	4.1	0.9%	2.7	2.4%
- 公区经营	15.0	1.7%	7.8	3.9%	9.7	2.2%	5.3	4.7%
- 家居生活	23.9	2.8%	10.7	5.4%	9.7	2.2%	4.3	3.8%

Source: Jump Institute

Figure 6: Zhongnan Construction's land bank



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Source: Company data, CMBIS

Figure 7: PM sector comps

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	49.1	165,274	48.6	29.3	20.2	65.7	45.3
CR MixC Lifestyle	1209 HK	BUY	56.0	40.1	91,528	75.6	49.6	35.7	52.6	38.9
A-Living	3319 HK	HOLD	34.2	15.5	22,067	9.9	7.2	5.7	36.4	26.6
Greentown Services	2869 HK	HOLD	9.5	8.5	27,423	37.0	23.8	18.2	55.4	30.7
Ever Sunshine	1995 HK	BUY	22.2	14.4	25,186	56.7	30.9	21.1	83.5	46.5
Poly Services	6049 HK	HOLD	53.4	62.8	34,749	45.8	32.4	25.2	41.3	28.4
S-Enjoy	1755 HK	BUY	34.6	14.4	12,530	23.3	14.8	10.5	57.1	41.7
Powerlong Commercial	9909 HK	BUY	33.2	16.4	10,531	29.8	18.6	13.5	60.4	37.1
Excellence CM	6989 HK	BUY	14.9	4.9	5,929	14.0	8.8	6.4	58.5	37.3
Central China New Life	9983 HK	BUY	12.9	5.3	6,675	12.3	8.7	6.3	41.1	37.9
Sino-Ocean Services	6677 HK	BUY	7.1	4.4	5,233	11.6	10.4	7.1	11.6	46.0
New Hope Services	3658 HK	BUY	4.4	2.3	1,848	13.5	7.9	5.1	70.7	53.8
Redsun Services	1971 HK	BUY	9.4	4.0	1,652	17.6	8.6	5.8	105.2	48.4
Evergrande Services	6666 HK	BUY	10.4	2.8	30,703	9.0	6.3	4.1	54.0	52.5
Sunac Services	1516 HK	BUY	29.8	9.2	28,503	30.6	14.9	9.3	105.3	60.6
COPH	2669 HK	NR	NA	9.3	30,436	42.6	32.6	25.1	30.6	29.9
Times Neighborhood	9928 HK	NR	NA	3.3	3,282	12.2	6.8	3.8	80.8	77.1
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	6.6	16,237	15.8	10.1	7.1	55.7	43.7
KWG Living	3913 HK	NR	NA	4.0	8,008	18.6	9.1	6.0	104.9	51.1
Jinke Smart Services	9666 HK	NR	NA	40.4	26,375	28.5	19.4	13.0	47.3	48.5
Average						42.7	27.1	19.3	59.1	42.4

Source: Company data, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	4,432	5,868	6,779	8,984	11,957
Residential PM	2,763	3,472	3,884	5,155	7,110
Commercial op. and PM	1,668	2,397	2,895	3,829	4,847
Cost of sales	(3,766)	(4,926)	(4,952)	(6,076)	(8,069)
Gross Profit	665	942	1,827	2,908	3,888
Other income	55	77	180	77	79
Selling expenses	(54)	(71)	(50)	(63)	(84)
Administrative expenses	(335)	(432)	(747)	(674)	(897)
Other gains/(losses)	308	45	(3)	(5)	(5)
Operating profit	640	561	1,207	2,244	2,981
JV/Associates	-	-	-	-	-
Finance cost	(68)	(64)	(72)	(64)	(64)
Pre-tax Profit	572	497	1,135	2,180	2,917
Income tax	(149)	(132)	(317)	(599)	(802)
PROFIT FOR THE YEAR	423	365	818	1,580	2,115
Non-controlling interest	-	-	-	-	-
Net Profit to shareholders	423	365	818	1,580	2,115

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Profit before tax	572	497	1,135	2,180	2,917
D&A	42	53	50	54	58
Change in working capital	865	(10)	1,116	196	571
Others	(337)	(84)	(317)	(599)	(802)
Net cash from operating	1,142	455	1,984	1,831	2,743
Capex	(184)	(76)	(70)	(70)	(70)
JV/Associates	-	1	2	3	4
Others	(544)	(1,009)	(2)	(3)	(4)
Net cash from investing	(727)	(1,084)	(70)	(70)	(70)
Equity raised	-	-	11,051	-	-
Change of debts	73	191	522	-	-
Others	(223)	(92)	(3,780)	(301)	(569)
Net cash from financing	(150)	99	7,793	(301)	(569)
Net change in cash	265	(531)	9,707	1,460	2,104
Cash at the beginning of year	871	1,136	605	10,312	11,772
Exchange difference	-	-	-	-	-
Cash at the end of the year	1,136	605	10,312	11,772	13,876

Key ratios

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Non-current assets	2,382	2,478	2,744	2,651	2,671
PP&E	180	203	260	251	269
Investment properties	2,168	2,218	2,234	2,234	2,234
Others	34	57	250	166	168
Current assets	3,360	4,623	16,332	18,359	21,247
Inventories	106	106	196	241	320
Trade and other receivables	1,933	3,188	1,608	2,132	2,837
Cash and cash equivalents	1,136	605	10,312	11,772	13,876
Others	185	724	4,215	4,215	4,215
Total assets	5,742	7,101	19,076	21,010	23,918
Current liabilities	3,685	4,637	5,055	5,527	7,323
Trade and other payables	2,898	3,739	3,366	4,129	5,484
Others	787	899	1,690	1,397	1,839
Non-current liabilities	1,390	1,432	1,558	1,558	1,558
Deferred income tax liabilities	176	202	226	226	226
Others	1,214	1,230	1,332	1,332	1,332
Total liabilities	5,075	6,070	6,613	7,085	8,881
Equity to shareholders	667	1,032	12,463	13,925	15,037
Non-controlling interests	-	-	-	-	-
Total Equity	667	1,032	12,463	13,925	15,037

YE 31 Dec	FY18A	FY19A	FY20A	FY21E	FY22E
Sales mix (%)					
Residential PM	62.4	59.2	57.3	57.4	59.5
Commercial op. and PM	37.6	40.8	42.7	42.6	40.5
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	15.0	16.1	27.0	32.4	32.5
Net margin	9.5	6.2	12.1	17.6	17.7
Effective tax rate	26.1	26.5	27.9	27.5	27.5
Growth (%)					
Revenue	41.6	32.4	15.5	32.5	33.1
Gross profit	63.4	41.6	93.9	59.2	33.7
Operating profit	17.6	-12.4	115.3	85.9	32.8
Net profit	8.9	-13.7	124.1	93.2	33.8
Balance sheet ratios					
Current ratio (x)	0.9	1.0	3.2	3.3	2.9
Receivable turnover days	35	37	44	44	44
Returns (%)					
ROE	63.4	35.4	6.6	11.3	14.1
ROA	7.4	5.1	4.3	7.5	8.8
Per share					
EPS (RMB)	N.A.	N.A.	0.49	0.69	0.93
DPS (RMB)	N.A.	N.A.	0.13	0.25	0.33
BVPS (RMB)	N.A.	N.A.	5.46	6.10	6.59

Source: Company data, CMBIS estimates

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