

CG Services (6098 HK)

Is it time to bottom fish yet?

The profit alert came slightly below expectation for both reported and core profits at -51% to -57%/+5% (vs. most bearish market expectation of -50%/+7%). This may put its share price under pressure at the market opening. However, we think the worst is almost over as 1) net profit growth may start to accelerate in 2023E at double digit with improving macro and the assumed addition of 100mn sqm managed GFA. 2) Country Garden started to see sales pick up in Feb (+10% MoM). 3) Impairment would be limited in 2023E after ~RMB2bn done in 2022. There might be potential RMB700mn debt from its acquisition of Caixin which is currently under lawsuit but the amount is quite small compared to RMB8.8bn cash on hands. 4) The management may consider to increase dividend payout. Net-net, we suggest investors to buy at 8x 2023E PE (assuming 10% core profit YoY growth in 2023E) vs. currently at 9x.

- **What's new?** After market close on 3 March, CGS announced the profits alert that its 2022E reported profits declined by 51-57% YoY mainly due to good will impairment. If adding it back, the core profit would grow >5% YoY.
- **Slightly missed:** both reported and core profits came slightly below expectation of -50% YoY and +7% YoY. The worsening macro in 2H22 has damaged its growth profile with 2H22 core profit -17% YoY and core NPM shrinking to 10% (vs. 14% in 1H22). Therefore, we might see some pressure on the stock price when the market opens.
- **Any more write offs?** We think ~RMB2bn goodwill impairment has cleared the path for 2023E as the improving macro would help reduce the likelihood of further write off. Other than that, there could be only potential RMB700mn debt from the acquisition of Casin Smart life, which provided guarantee obligations to a trust financing. As the guarantee happened before the acquisition without any notification, CGS is currently taking legal action to protect its rights. Anyway, the amount is relatively small compared to its RMB8.8bn cash position as of 1H22.
- **Future growth profile:** With improving macro and Country Garden's sales recovery (Feb sales +10% MoM), we may see core profits resuming back to double digit growth in 2023E. This can be achieved by just assuming the addition of 100mn sq m of managed GFA (50mn sq m delivered from CG and 50mn sqm from third-party expansion). If CGS could make some small acquisitions, even a 15-20% YoY growth will not be far-fetched. In the meanwhile, the management may consider to increase the dividend payout ratio with strong cash position. (30% in 2021). Our TP and financials are currently under review.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	15,600	28,843	43,303	61,955	86,155
YoY growth (%)	61.7	84.9	50.1	43.1	39.1
Net income (RMB mn)	2,686	4,033	5,662	7,863	10,899
EPS (RMB)	0.98	1.28	1.69	2.35	3.26
YoY growth (%)	55.7	31.1	32.2	38.9	38.6
Consensus EPS (RMB)	N.A.	N.A.	1.94	2.70	3.24
P/E (x)	N.A.	NA	8.0	6.0	4.8
P/B (x)	N.A.	15.6	12.7	9.2	6.4
Yield (%)	N.A.	0.8	1.1	1.5	2.1
ROE (%)	18.4	11.1	14.1	17.1	20.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$47.63
Up/Downside	+197%
Current Price	HK\$16.04

China Property Service Sector

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Stock Data

Mkt Cap (HK\$ mn)	54,105
Avg 3 mths t/o (HK\$ mn)	808.72
52w High/Low (HK\$)	46.15/6.52
Total Issued Shares (mn)	3,373

Source: Bloomberg

Shareholding Structure

Yan Huiyan	36.1%
Pingan Insurance	8.3%
Free float	55.6%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-15.2%	-10.7%
3-mth	-14.3%	-22.2%
6-mth	15.2%	9.0%
12-mth	-64.6%	-62.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	15,600	28,843	43,303	61,955	86,155
Basic PM	8,607	13,794	21,348	30,834	41,400
Non-owner VAS	1,370	2,675	3,936	5,398	6,983
Community VAS	1,731	3,328	6,106	9,426	14,806
City services	884	4,529	4,785	5,635	6,831
Others	3,009	3,863	6,147	9,190	13,928
Cost of sales	(10,301)	(19,979)	(30,540)	(43,901)	(60,896)
Gross Profit	5,300	8,864	12,763	18,054	25,259
Other income	121	199	238	286	343
Selling expenses	(136)	(338)	(476)	(620)	(862)
Administrative expenses	(1,950)	(3,259)	(4,547)	(6,505)	(9,046)
Impairment	(98)	(188)	(291)	(421)	(565)
Operating profit	3,236	5,277	7,686	10,794	15,129
JV/Associates	41	41	54	70	91
Finance cost	44	(98)	-	-	-
Exceptional	394	452	-	-	-
Pre-tax Profit	3,715	5,673	7,740	10,864	15,220
Income tax	(933)	(1,323)	(1,780)	(2,499)	(3,501)
PROFIT FOR THE YEAR	2,782	4,349	5,960	8,365	11,720
Non-controlling interest	(96)	(316)	(298)	(502)	(820)
Net Profit attribute to	2,686	4,033	5,662	7,863	10,899

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	7,916	35,612	38,015	40,826	43,658
Property, plant and equipment	1,249	1,366	2,136	2,907	3,678
Intangible assets	6,176	27,945	29,915	31,885	33,855
Others	490	6,302	5,965	6,035	6,126
Current assets	23,288	31,200	43,054	59,402	67,687
Trade and other receivables	5,244	15,578	23,388	33,461	46,532
Cash and cash equivalents	15,215	11,619	15,551	21,684	16,720
Others	2,829	4,004	4,115	4,256	4,435
Total assets	31,204	66,813	81,069	100,228	111,345
Current liabilities	14,233	24,791	34,893	47,651	49,773
Trade and other payables	7,476	14,413	22,032	31,671	43,931
Others	6,757	10,378	12,861	15,981	5,842
Non-current liabilities	812	3,649	3,649	3,649	3,649
Deferred income tax liabilities	510	2,275	2,275	2,275	2,275
Others	302	1,374	1,374	1,374	1,374
Total liabilities	15,045	28,439	38,542	51,300	53,421
Equity to shareholders	14,566	36,187	40,043	45,941	54,117
Non-controlling interests	1,593	2,187	2,485	2,987	3,807
Total Equity	16,159	38,373	42,527	48,928	57,924

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before tax	3,715	5,673	7,740	10,864	15,220
D&A	60	NA	60	60	60
Change in working capital	3,951	NA	2,182	2,543	(11,128)
Others	(1,017)	NA	(1,834)	(2,569)	(3,592)
Net cash from operating	6,709	NA	8,148	10,899	561
Capex	(5,570)	NA	(2,800)	(2,800)	(2,800)
JV/Associates	-	NA	-	-	-
Others	44	NA	-	-	-
Net cash from investing	(5,526)	NA	(2,800)	(2,800)	(2,800)
Equity raised	-	NA	-	-	-
Change of debts	3,812	NA	-	-	-
Others	3,307	NA	(1,416)	(1,966)	(2,725)
Net cash from financing	7,118	NA	(1,416)	(1,966)	(2,725)
Net change in cash	8,301	(3,596)	3,932	6,133	(4,964)
Cash at the beginning of the year	6,914	15,215	11,619	15,551	21,684
Exchange difference	-	-	-	-	-
Cash at the end of the year	15,215	11,619	15,551	21,684	16,720

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Basic PM	55.2	47.8	49.3	49.8	48.1
Non-owner VAS	8.8	9.3	9.1	8.7	8.1
Community VAS	11.1	11.5	14.1	15.2	17.2
City services	5.7	15.7	11.0	9.1	7.9
Commercial operational services	0.0	2.3	2.3	2.4	2.6
Others	19.3	13.4	14.2	14.8	16.2
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	34.0	30.7	29.5	29.1	29.3
Net margin	17.2	14.0	13.1	12.7	12.7
Effective tax rate	25.1	23.3	23.0	23.0	23.0
Growth (%)					
Revenue	61.7	84.9	50.1	43.1	39.1
Gross profit	73.6	67.3	44.0	41.5	39.9
Operating profit	80.0	63.1	45.7	40.4	40.2
Net profit	60.8	50.2	40.4	38.9	38.6
Balance sheet ratios					
Current ratio (x)	1.6	1.3	1.2	1.2	1.4
Receivable turnover days	123	197	197	197	197
Returns (%)					
ROE	18.4	11.1	14.1	17.1	20.1
ROA	8.6	6.0	7.0	7.8	9.8
Per share					
EPS (RMB)	0.98	1.28	1.69	2.35	3.26
DPS (RMB)	0.23	0.30	0.42	0.59	0.81
BVPS (RMB)	2.84	2.46	3.03	4.20	6.05

Source: Company data, CMBIGM estimates

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