

New Hope Services (3658 HK)

12% dividend yield with cash balance > mkt cap; Maintain BUY

New Hope Services reported industry-average-level earnings with NP up 6% YoY in FY23. The company raised its dividend payout ratio to 60% from 48% in FY22, representing a yield of 12%, which boosted the share price by 6% in two days after announcement. We like the company for its clear strategy, high business concentration, high dividend yield and a cash/mkt cap ratio of >1. Maintain BUY with TP at HK\$2.79, reflecting 8x 2024E PE.

- FY23 earnings slightly missed.** The company delivered 6%/11% YoY growth in earnings/revenue at RMB215mn/RMB1,261mn in FY23, slightly below our expectation. NP margin edged down 0.6ppt to 17.1% but still led the industry given its higher business concentration. GP margin narrowed 2.9ppt to 34.9% due to 1) active expansion in third-party market where the competition is intensifying and 2) exit of non-owner VAS that has higher margin (segment revenue down 26% YoY). The company expects to deliver 10-20% growth in revenue and 5-10% growth in NP going forward.
- Operational highlights.** 1) Regional expansion toward eastern China was efficient with revenue contribution in Basic PM Segment expanded to 37.9% in FY23 vs. 31.3% in FY22. The number is likely to be stable at 40% in the future according to the company. 2) Its renowned catering services business achieved 44% YoY revenue growth in FY23 and signed three new contracts with value of RMB65mn in 1Q24.
- Dividend payout was lifted once again to 60%.** The company announced a dividend of RMB0.16/share, lifting its payout ratio to 60% in FY23 vs. 48% in FY22 and 31% in FY21, representing a dividend yield of 12% on the announcement day, which boosted the share price by 6% in two days after the announcement (vs. HIS -0.5%). The company confirmed plans to maintain its payout ratio at above 50% going forward.
- Cash balance > mkt cap; maintain BUY.** The company showed its cash collection ability by generating RMB335mn of operating cash in FY23, +87.1% YoY. It had cash balance of RMB1.15bn (HK\$1.24bn) at end-FY23, already surpassing its mkt cap of HK\$1.21bn as at the last trading day. We maintain BUY with TP of HK\$2.79 based on 8x 2024E PE. The company is currently trading at 5x 2024E PE. **Risks:** less-than-expected third party expansion; impairment risk from account receivable.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	1,139	1,261	1,474	1,685	1,908
YoY growth (%)	23.1	10.7	16.9	14.4	13.2
Net profit (RMB mn)	203.0	215.0	235.2	252.9	270.6
EPS (Reported) (RMB)	0.25	0.26	0.29	0.31	0.33
YoY growth (%)	8.4	5.9	9.4	7.5	7.0
Consensus EPS (RMB)	na	na	0.29	0.31	0.33
P/E (x)	6.4	4.6	4.8	4.4	4.1
P/B (x)	1.2	0.9	1.0	0.9	0.8
Yield (%)	7.5	13.1	10.5	11.3	12.1
ROE (%)	19.8	19.0	20.1	19.7	18.1

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$2.79
(Previous TP)	HK\$2.78)
Up/Downside	86.9%
Current Price	HK\$1.49

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Stock Data

Mkt Cap (HK\$ mn)	1,212.9
Avg 3 mths t/o (HK\$ mn)	0.4
52w High/Low (HK\$)	1.74/1.03
Total Issued Shares (mn)	814.0

Source: FactSet

Shareholding Structure

Golden Rose Developments	66.9%
New Voyage Dvlp Ltd.	5.0%

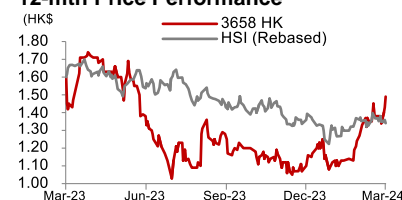
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	17.3%	20.2%
3-mth	35.5%	37.4%
6-mth	19.2%	28.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: FY23 results summary

RMB mn	2022	2023	YoY
Revenue	1,139	1,261	11%
- Property management services	488	647	33%
- Developer VAS	229	169	-26%
- Commercial operations	118	154	30%
- Lifestyle services (community VAS)	303	291	-4%
Gross profit	431	440	2%
Net profit	203	215	6%
Core net profit (ex. Listing expenses)	203	215	6%
EPS (RMB)	0.25	0.26	6%
DPS (RMB)	0.12	0.16	32%
Dividend payout ratio	48%	60%	12 ppt
GP Margin	37.9%	34.9%	-3 ppt
Net Margin	17.8%	17.1%	-1 ppt
Managed GFA (mn sq m)	28.8	32.3	12%
Contracted GFA (mn sq m)	36.1	38.2	6%

Source: Company data, CMBIGM

Figure 2: 2H23 results summary

RMB mn	1H22	1H23	YoY	2H22	2H23	YoY	HoH
Revenue	512	600	17%	627	661	5%	10.2%
- Property management services	233	318	36%	255	329	29%	3.6%
- Developer VAS	106	74	-30%	123	95	-23%	28.0%
- Commercial operations	57	73	27%	61	81	33%	11.8%
- Lifestyle services (community VAS)	115	135	17%	188	155	-17%	15.0%
Gross profit	209	226	8%	222	214	-4%	-5.4%
Net profit	100	109	10%	103	105	2%	-3.7%
Core net profit (ex. Listing expenses)	100	109	10%	103	105	2%	-3.7%
EPS (RMB)	0.12	0.13	10%	0.13	0.13	2%	-3.7%
DPS (RMB)	-	0.07	-	-	-	-	-
Dividend payout ratio	-	50.0%	50.0 ppt	-	-	-	-
GP Margin	40.8%	37.7%	-3 ppt	35.4%	32.4%	-3 ppt	-5 ppt
Net Margin	19.5%	18.3%	-1 ppt	16.5%	16.0%	0 ppt	-2 ppt
Managed GFA (mn sq m)	22.1	29.1	32%	28.8	32.3	12%	11.1%
Contracted GFA (mn sq m)	31.0	37.9	23%	36.1	38.2	6%	0.7%

Source: Company data, CMBIGM

Figure 3: Financial forecast – New Hope Services

Key drivers	2019	2020	2021	2022	2023	2024E	2025E	2026E
Managed GFA (mn sqm)	7	10	16	29	32	40	47	55
YoY growth		57%	58%	78%	12%	23%	19%	17%
- Residential (mn sqm)	5	7	11	18	23	29	35	41
- Non-residential (mn sqm)	2	3	5	11	9	11	12	14
Revenue (RMB mn)	381	588	925	1,139	1,261	1,474	1,685	1,908
YoY growth		54.6%	57.2%	23.1%	10.7%	16.9%	14.4%	13.2%
- Residential PM	141	190	317	488	647	774	903	1,033
- Developer VAS	128	168	234	229	169	153	137	124
- Commercial operations	73	113	120	118	154	169	187	206
- Community VAS	39	117	254	303	291	378	458	544
Gross margin	41.9%	42.1%	40.7%	37.9%	34.9%	34.1%	32.9%	32.0%
- Residential PM	27.1%	31.2%	30.1%	29.2%	27.0%	26.9%	26.8%	26.2%
- Developer VAS	42.1%	43.8%	42.7%	42.5%	36.0%	32.0%	27.0%	23.0%
- Commercial operations	61.5%	54.8%	62.4%	63.4%	60.2%	60.0%	57.0%	56.0%
- Community VAS	58.6%	44.9%	41.9%	38.4%	38.5%	38.0%	37.0%	36.0%
Net profits (RMB mn)	64	110	166	203	215	235	253	271
YoY growth		72%	51%	22%	5.9%	9.4%	7.5%	7.0%
Core net profits (RMB mn)	64	116	187	203	215	235	253	271
YoY growth				9%	5.9%	9.4%	7.5%	7.0%
Net margin	16.8%	18.7%	17.9%	17.8%	17.1%	16.0%	15.0%	14.2%

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	925	1,139	1,261	1,474	1,685	1,908
Cost of goods sold	(548)	(708)	(821)	(971)	(1,130)	(1,297)
Gross profit	377	431	440	502	555	611
Operating expenses	(180)	(177)	(176)	(207)	(237)	(268)
Selling expense	(4)	(4)	(1)	(3)	(3)	(4)
Admin expense	(173)	(158)	(168)	(197)	(225)	(255)
Others	(3)	(15)	(6)	(7)	(8)	(9)
Operating profit	197	254	264	295	318	343
Share of (losses)/profits of associates/JV	(0)	0	0	0	0	0
Net Interest income/(expense)	4	20	16	16	16	15
Pre-tax profit	201	274	280	311	334	357
Income tax	(36)	(44)	(43)	(47)	(51)	(55)
After tax profit	165	229	237	263	283	303
Minority interest	0	(19)	(26)	(28)	(30)	(32)
Net profit	166	203	215	235	253	271
Core net profit	187	203	215	235	253	271

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	1,352	1,444	1,626	2,092	2,160	2,485
Cash & equivalents	1,106	1,040	1,220	1,618	1,628	1,892
Account receivables	189	325	318	383	438	496
Inventories	0	0	0	0	0	0
Prepayment	57	79	88	91	94	97
Non-current assets	139	376	409	409	414	419
PP&E	14	14	15	25	35	45
Deferred income tax	3	7	11	11	11	11
Investment in JVs & assos	1	2	5	5	5	5
Intangibles	25	115	138	138	138	138
Goodwill	0	133	133	133	133	133
Other non-current assets	97	105	107	97	92	87
Total assets	1,491	1,820	2,036	2,502	2,575	2,905
Current liabilities	469	569	645	987	1,100	1,217
Account payables	72	162	195	507	590	677
Tax payable	0	16	6	6	6	6
Other current liabilities	6	4	4	4	4	4
Lease liabilities	8	5	12	12	12	12
Contract liabilities	196	158	194	214	234	254
Accrued expenses	187	224	234	244	254	264
Non-current liabilities	68	77	59	59	59	59
Obligations under finance leases	60	61	45	45	45	45
Deferred income	7	16	14	14	14	14
Total liabilities	537	646	704	1,046	1,159	1,276
Share capital	7	7	7	7	7	7
Retained earnings	108	105	141	94	101	108
Other reserves	839	986	1,013	1,085	1,279	1,493
Total shareholders equity	953	1,098	1,161	1,186	1,387	1,608

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	202	266	284	311	334	357
Depreciation & amortization	13	20	13	20	15	15
Tax paid	(42)	(31)	(43)	(47)	(51)	(55)
Change in working capital	30	(88)	77	274	55	56
Others	33	12	(10)	(9)	(8)	(6)
Net cash from operations	236	179	321	549	345	369
Investing						
Capital expenditure	(16)	(10)	(12)	(10)	(10)	(10)
Net proceeds from disposal of short-term investments	9	24	0	0	0	0
Others	152	(184)	0	0	0	0
Net cash from investing	144	(170)	(12)	(10)	(10)	(10)
Financing						
Dividend paid	0	(58)	(129)	(141)	(152)	(162)
Net borrowings	(12)	(14)	0	0	0	0
Proceeds from share issues	648	0	0	0	0	0
Others	(24)	(2)	0	0	0	0
Net cash from financing	613	(74)	(129)	(141)	(152)	(162)
Net change in cash						
Cash at the beginning of the year	113	1,106	1,040	1,220	1,444	1,696
Exchange difference	0	0	0	0	0	0
Cash at the end of the year	1,106	1,040	1,220	1,618	1,628	1,892
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	57.2%	23.1%	10.7%	16.9%	14.4%	13.2%
Gross profit	52.3%	14.5%	2.1%	14.1%	10.5%	10.0%
Operating profit	58.3%	28.9%	4.1%	11.6%	7.9%	7.7%
Net profit	51.1%	22.4%	5.9%	9.4%	7.5%	7.0%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	40.7%	37.9%	34.9%	34.1%	32.9%	32.0%
Operating margin	21.3%	22.3%	21.0%	20.0%	18.9%	18.0%
Return on equity (ROE)	30.2%	19.8%	19.0%	20.1%	19.7%	18.1%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	2.9	2.5	2.5	2.1	2.0	2.0
Receivable turnover days	74.7	104.1	104.1	94.9	94.9	94.9
Payable turnover days	172.0	198.8	190.5	190.5	190.5	190.5
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	8.7	6.4	4.6	4.8	4.4	4.1
P/B	1.5	1.2	0.9	1.0	0.9	0.8
Div yield (%)	3.6	7.5	13.1	10.5	11.3	12.1

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

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