

CG Service (6098 HK)

The stronger gets stronger

- 81% earnings growth in FY19.** In FY19, CG Service recorded a revenue of RMB9,645mn, up 106% YoY. Gross margin declined from 37.7% in FY18 to 31.6%. This was mainly due to the new business segment “Three Supplies and PM” starting to generate revenue in FY19, and its margin was low at the beginning of the development. Excluding the new business effect, gross margin was 35.9%. Net profit to shareholders grew 81% to RMB1,671mn, representing net margin of 18.6%.
- Bigger and bigger.** By end-FY19, contracted GFA and managed GFA of the Company was 685mn sq m and 276mn sq m, representing Reserve/Managed GFA is 1.5, showing a strong growth visibility in the near term. The Company now covers more than 350 cities and manages a total of 2,405 properties and provides property management services to 3.46mn property owners and tenants. 25% of PM business revenue was generated from third parties in FY19, compared to 11% in FY18. Other than the project delivery from Country Garden (2007 HK, BUY), third parties expansion is becoming the Company’s another growth driver.
- Growing of new PM business.** The Company established a JV in 2018 to operate “Three Supplies and Property Management” business. Such business has both managed and contracted GFA of 84.9mn sq m by end-FY19. As the business is at its initial stage of development, gross margin is only 8.6% in FY19. However, as the business model becomes stable, the Company plans to steadily increase the margin and profit. The Company is also ambitious about the urban service to help local governments in their daily maintain of the public facilities. CG Service has put a lot of effort in non-residential PM. With its leading position in the industry, we believe the Company has clear advantage over mid-to-small PM companies, as locals are more willing to work with a big player.
- Long term winner, maintain BUY.** We believe the current trend in the PM industry is the stronger gets stronger. CG Services, holding a vast project coverage and backed by the Country Garden, has a broad prospect and better growth visibility. We revise up our FY20/21E EPS forecast by 9.1/23.8% to RMB0.78/1.11. However, due the recent market sentiment, we trim our FY21 target P/E multiples from 38x to 30x. Thus our TP was HK\$37.06. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	4,675	9,645	14,144	19,400	24,867
YoY growth (%)	49.8	106.3	46.6	37.2	28.2
Net income (RMB mn)	923	1,671	2,120	3,004	3,935
EPS (RMB)	0.37	0.62	0.78	1.11	1.45
YoY growth (%)	n.a.	66.9	26.9	41.7	31.0
Consensus EPS (RMB)	n.a.	n.a.	0.79	1.07	1.45
P/E (x)	70.7	42.4	33.4	23.6	18.0
P/B (x)	n.a.	18.8	13.3	9.4	6.8
Yield (%)	n.a.	0.6	0.7	1.1	1.4
ROE (%)	40.8	31.1	30.4	32.6	32.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$37.06
(Previous TP)	HK\$37.37
Up/Downside	+27.4%
Current Price	HK\$29.10

China Property Service Sector

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Stock Data

Mkt Cap (HK\$ mn)	79,003
Avg 3 mths t/o (HK\$ mn)	225.00
52w High/Low (HK\$)	32.50/ 12.58
Total Issued Shares (mn)	2,715

Source: Bloomberg

Shareholding Structure

Yang Huiyan	53.5%
Free float	46.5%

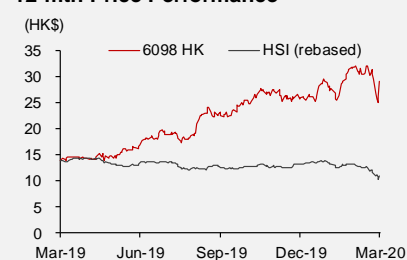
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-18.3%	4.0%
3-mth	1.2%	29.6%
6-mth	12.0%	36.6%
12-mth	109.1%	183.8%

Source: Bloomberg

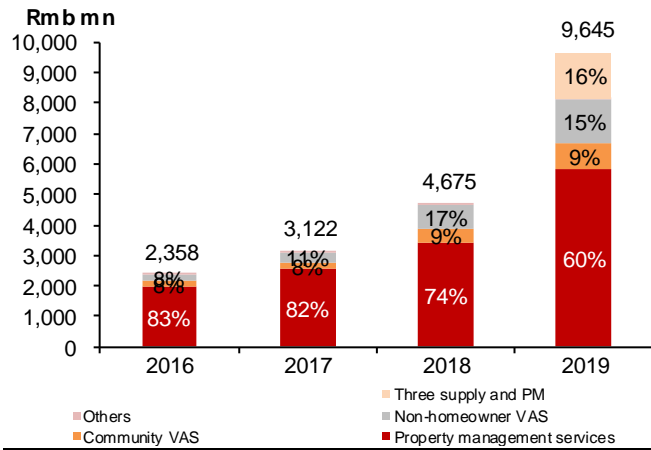
12-mth Price Performance



Source: Bloomberg

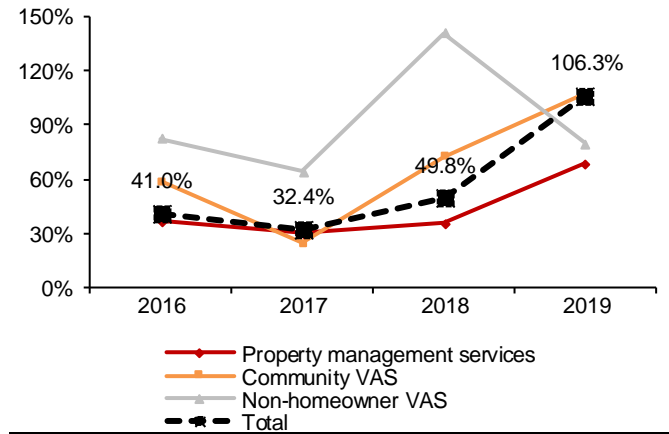
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Figure 1: Revenue



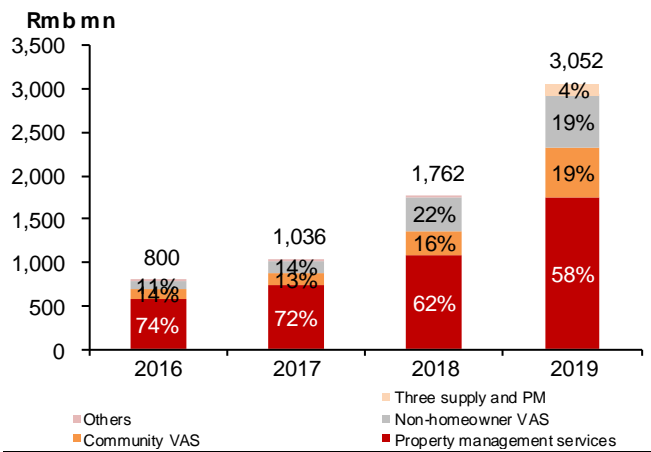
Source: Company data

Figure 2: Revenue growth



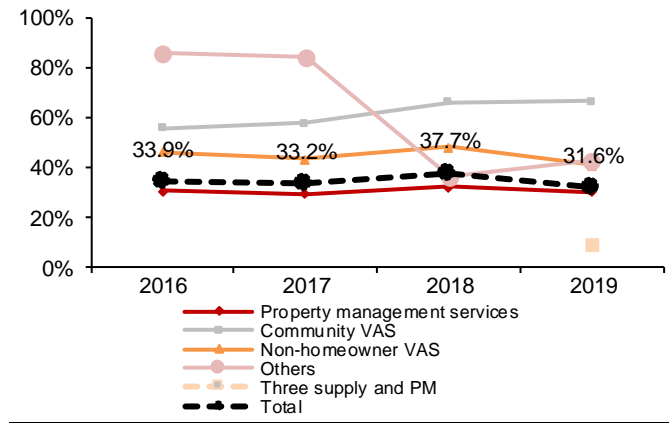
Source: Company data

Figure 3: Gross profit



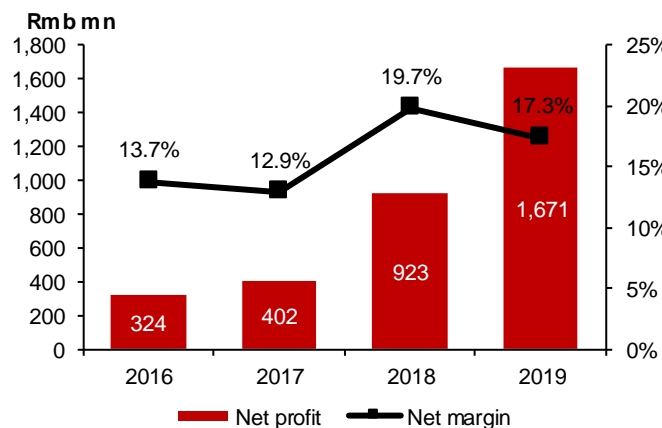
Source: Company data

Figure 4: Gross margin



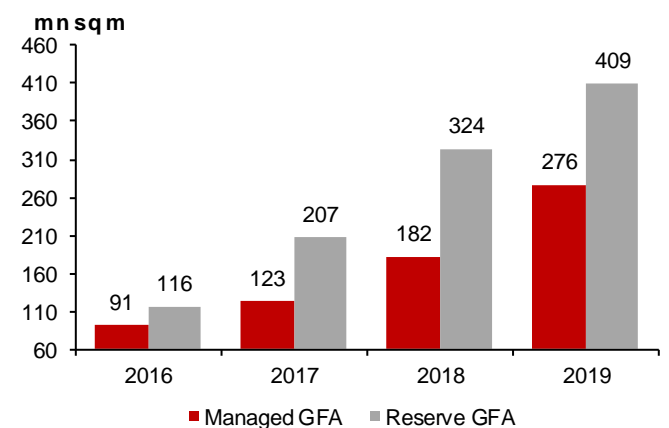
Source: Company data

Figure 5: Net profit



Source: Company data

Figure 6: GFA



Source: Company data

Figure 7: Earnings revision

RMB mn	New		Old		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	14,144	19,400	10,438	13,545	35.5%	43.2%
Gross Profit	4,451	6,285	3,840	4,894	15.9%	28.4%
EBIT	2,573	3,704	2,322	2,914	10.8%	27.1%
Net profit	2,120	3,004	1,943	2,426	9.1%	23.8%
EPS (RMB)	0.78	1.11	0.72	0.89	9.1%	23.8%
Gross Margin	31.5%	32.4%	36.8%	36.1%	-5.3ppts	-3.7ppts
EBIT Margin	18.2%	19.1%	22.2%	21.5%	-4.1ppts	-2.4ppts
Net Margin	15.0%	15.5%	18.6%	17.9%	-3.6ppts	-2.4ppts

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Turnover	4,675	9,645	14,144	19,400	24,867
Property mgmt services	3,445	5,817	8,660	11,875	15,320
Community VAS	417	865	1,696	2,831	3,871
Non-property owners VAS	791	1,422	2,060	2,824	3,688
Other services	21	25	30	37	44
Three Supplies and PM	-	1,515	1,697	1,833	1,943
Cost of sales	(2,914)	(6,593)	(9,693)	(13,115)	(16,610)
Gross Profit	1,762	3,052	4,451	6,285	8,256
Other income, net	22	51	36	44	40
Selling & marketing expenses	(27)	(67)	(98)	(134)	(172)
Administrative Expenses	(773)	(1,238)	(1,816)	(2,491)	(3,193)
EBIT	984	1,798	2,573	3,704	4,932
Share from JCE	3	8	9	11	14
Finance cost, net	54	92	96	101	106
Exceptional	29	178	-	-	-
Pre-tax Profit	1,069	2,076	2,679	3,816	5,052
Income tax	(135)	(358)	(482)	(687)	(909)
PROFIT FOR THE YEAR	934	1,718	2,197	3,129	4,142
Non-controlling interest	(11)	(48)	(77)	(125)	(207)
Net Profit	923	1,671	2,120	3,004	3,935

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	851	2,045	2,274	2,506	2,739
PP&E	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	13,927	19,142	25,243
Inventories	8	14	21	28	35
Trade and other receivables	788	2,004	2,938	4,030	5,166
Cash and cash equivalents	3,869	6,914	9,675	13,791	18,749
Others	5	1,293	1,293	1,293	1,293
Total assets	5,522	12,269	16,201	21,647	27,982
Current liabilities	3,127	6,427	8,692	11,760	14,936
Trade and other payables	2,060	4,690	6,301	8,525	10,797
Others	1,067	1,737	2,392	3,236	4,140
Non-current liabilities	65	162	162	162	162
Deferred income tax liabilities	65	143	143	143	143
Others	-	19	19	19	19
Total liabilities	3,192	6,590	8,855	11,923	15,099
Equity to shareholders	2,261	5,373	6,963	9,216	12,167
Non-controlling interests	69	306	383	508	716
Total Equity	2,330	5,680	7,346	9,725	12,883

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E
Profit before tax	1,069	2,076	2,679	3,816	5,052
D&A, impairment	33	(388)	60	60	60
Change in working capital	617	2,027	1,324	1,969	2,033
Others	(171)	(457)	(588)	(799)	(1,029)
Net cash from operating	1,549	3,257	3,475	5,045	6,115
Capex	49	(1,608)	(184)	(280)	(280)
Associated companies	(396)	-	-	-	-
Others	233	-	-	101	106
Net cash from investing	(114)	(1,608)	(184)	(179)	(174)
Equity raised	10	1,700	-	-	-
Change of debts	-	-	-	-	-
Others	(211)	(304)	(530)	(751)	(984)
Net cash from financing	(200)	1,396	(530)	(751)	(984)
Net change in cash	1,235	3,045	2,761	4,116	4,958
Cash at the beginning	2,634	3,869	6,914	9,675	13,791
Exchange difference	-	-	-	-	-
Cash at the end	3,869	6,914	9,675	13,791	18,749

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Property mgmt services	73.7	60.3	61.2	61.2	61.6
Extended VAS	8.9	9.0	12.0	14.6	15.6
Community VAS	16.9	14.7	14.6	14.6	14.8
Other services	0.5	0.3	0.2	0.2	0.2
Three Supplies and PM	0.0	15.7	12.0	9.4	7.8
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	37.7	31.6	31.5	32.4	33.2
EBIT margin	21.0	18.6	18.2	19.1	19.8
Net margin	19.7	17.3	15.0	15.5	15.8
Effective tax rate	12.6	17.2	18.0	18.0	18.0
Growth (%)					
Revenue	49.8	106.3	46.6	37.2	28.2
Gross profit	70.1	73.3	45.8	41.2	31.4
EBIT	69.6	82.8	43.1	43.9	33.2
Net profit	129.8	81.0	26.9	41.7	31.0
Balance sheet ratios					
Current ratio (x)	2.1	2.0	2.0	2.0	3.0
Receivable turnover days	62	76	76	76	76
Payables turnover days	258	260	237	237	237
Inventory turnover days	1	1	1	1	1
Net debt / total equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	40.8	31.1	30.4	32.6	32.3
ROA	16.9	14.0	13.6	14.5	14.8
Per share					
EPS (RMB)	0.37	0.62	0.78	1.11	1.45
DPS (RMB)	n.a.	0.16	0.20	0.28	0.36
BVPS (RMB)	n.a.	1.39	1.96	2.77	3.84

Source: Company data, CMBIS estimates

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