

COPH (2669 HK)

A key player with unexplored potential

- 34% earnings growth in FY19.** Driving by increased PM business scale and growing VAS, COPH recorded a revenue of HK\$5,466mn in FY19, up 32% YoY. Overall gross margin was stable at 20.0% (FY18:20.4%). Thanks to refined management structure, SG&A to revenue improved from 8.3% to 7.3%. Net profit grew 34% to HK\$538mn, representing net margin of 9.8%.
- Growth in GFA is slow but visibility is still strong.** In FY19, total managed GFA increased by 7.5% or 10.5 mn sq m to 151.4mn sq m from end-FY18. The increase is lower than our expectation. We think this was mainly due to the slow paced project delivery from COLI/COGO. But with ample land bank of COLI/COGO, the growth in the future is still firm and locked in. COLI/COGO has recorded 17.94mn sq m sales volume in FY19. We expect there will be a time when GFA dramatically increases. During the year, the segment gross profit margin from regular property management contracts under lump sum basis was 10.2%. The margin is significantly lower than peers', but downside risk is limited as well. Although growth of COPH may seem slow, its large SOE background, steadiness and limited downsides, are the highlights of the Company. We expect a potential SBC incentive program could motivate the Company.
- Good sign in VAS.** In FY19, the Company has established PM management services as the core foundation, 1) community assets and services operating platform led by "U+" (优你互联); 2) engineering services spearheaded by "Xinghai Wulian" (兴海物联); 3) asset management; and 4) investments, mergers and acquisitions are the four growth engines. The Company used to be lagging in VAS but now it is making progress. The Company has reclassified the VAS business segments to match the industry's practice. In FY19, the proportion of revenue from VAS out of total revenue increased from 21.4% in FY18 (restated) to 24.6%, and largely increased by 50.7% to HK\$1,348mn, of which sub-segment revenue from VAS-to-non-residents and VAS-to-residents increased by 57.4% and 38.2%. This will be a profit booster in the future given the Company's vast project coverage serving 5mn residents in 104 cities (VAS-to-residents) and COLI/COGO backed position (VAS-to-non-residents).

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (HK\$ mn)	4,155	5,466	6,479	7,906	9,714
YoY growth (%)	23.7	31.6	18.5	22.0	22.9
Net income (HK\$ mn)	402	538	693	866	1,036
EPS (HK\$)	0.12	0.16	0.21	0.26	0.32
YoY growth (%)	31.1	33.8	28.8	25.1	19.6
Consensus EPS (HK\$)	N.A.	N.A.	0.21	0.26	0.34
P/E (x)	54.0	40.3	31.3	25.0	20.9
P/B (x)	19.5	14.4	10.8	8.1	6.2
Yield (%)	0.6	0.8	0.8	1.0	1.0
ROE (%)	35.9	35.5	34.2	32.3	29.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$7.91
(Previous TP)	HK\$7.34)
Up/Downside	+19.8%
Current Price	HK\$6.60

China Property Service Sector

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Stock Data

Mkt Cap (HK\$ mn)	21,693
Avg 3 mths t/o (HK\$ mn)	29.32
52w High/Low (HK\$)	6.94/3.4
Total Issued Shares (mn)	3,287

Source: Bloomberg

Shareholding Structure

China Overseas	61.18%
Free float	38.82%

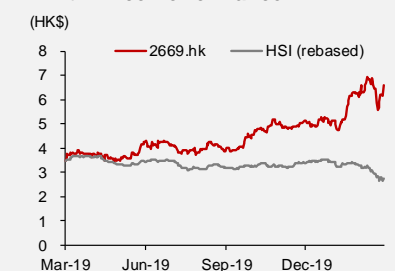
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	8.0%	-15.5%
3-mth	28.9%	-18.7%
6-mth	68.4%	-13.8%
12-mth	100.9%	-22.2%

Source: Bloomberg

12-mth Price Performance

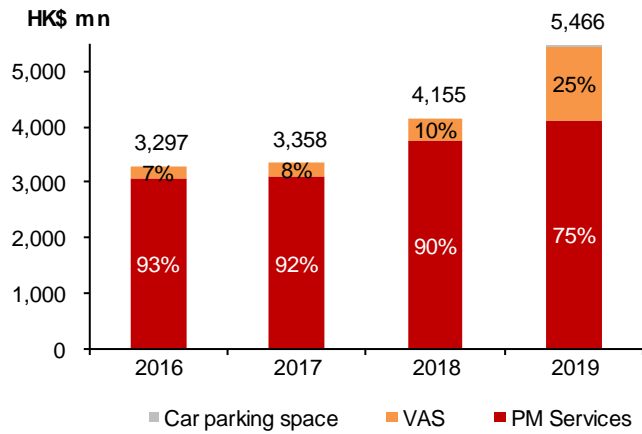


Source: Bloomberg

Auditor: EY

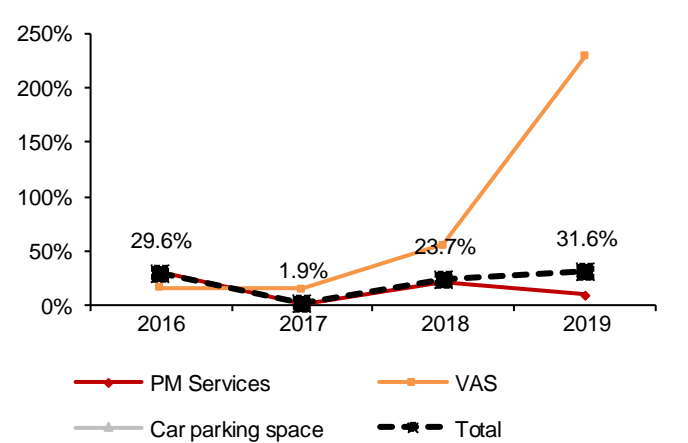
■ **Key player with unexplored potential, Maintain BUY.** Although growth of COPH is relatively slower than the new players, there is no doubt that COPH will always be a key player in the market. Its China Overseas Group/SOE background gives the Company a huge economic moat in PM of public projects and growth guarantee. With its vast coverage in tier1/2 cities, VAS also has so much to explore. We look forward to seeing the Company to motivate itself to realize its full potential. Time is more important than timing in investing in PM sector, especially for these larger players. We raise our earnings forecast for FY20/21E by 4.2%/13.0% to HK\$693mn/HK\$866mn. Given 30x FY21 P/E our TP is raised to HK\$7.91. **Maintain BUY.**

Figure 1: Revenue



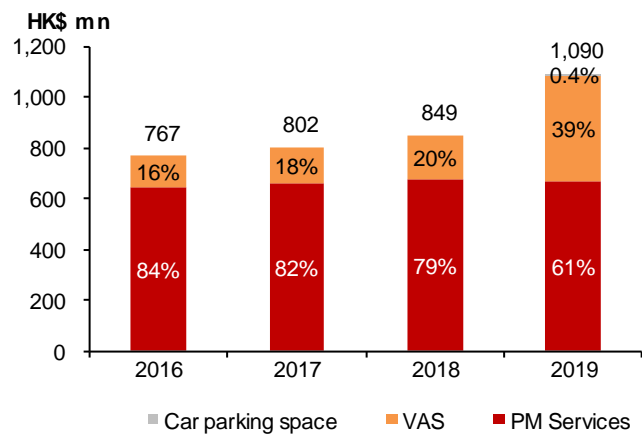
Source: Company data

Figure 2: Revenue growth



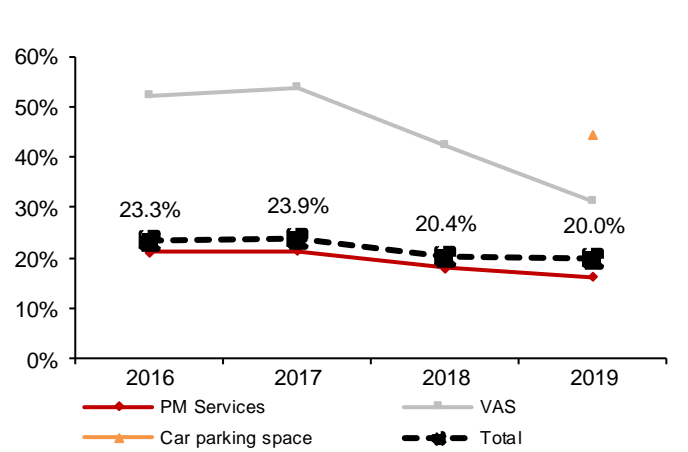
Source: Company data

Figure 3: Gross profit



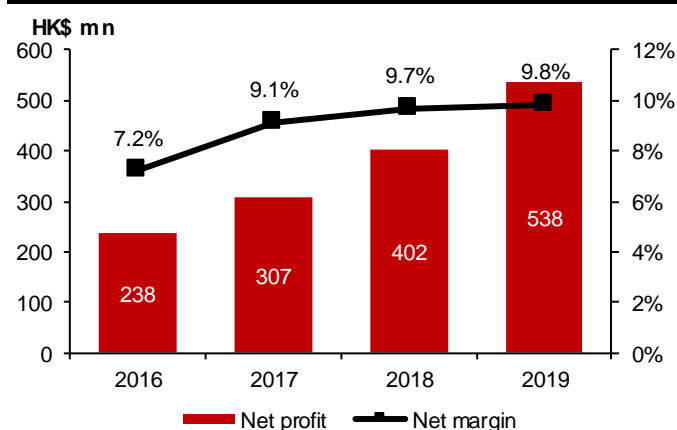
Source: Company data

Figure 4: Gross margin



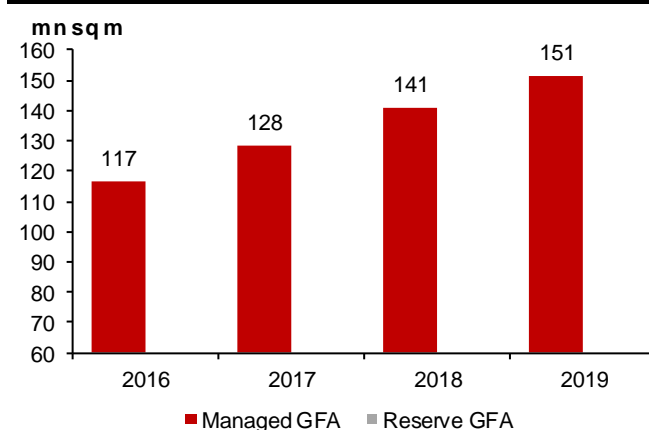
Source: Company data

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	6,479	7,906	5,845	6,648	10.8%	18.9%
Gross Profit	1,334	1,646	1,260	1,455	5.9%	13.1%
EBIT	976	1,221	938	1,083	4.0%	12.8%
Net profit	693	866	665	766	4.2%	13.0%
EPS (RMB)	0.21	0.26	0.20	0.23	4.2%	13.0%
Gross Margin	20.6%	20.8%	21.6%	21.9%	-1ppts	-1.1ppts
EBIT Margin	15.1%	15.4%	16.1%	16.3%	-1ppts	-0.8ppts
Net Margin	10.7%	11.0%	11.4%	11.5%	-0.7ppts	-0.6ppts

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Turnover	4,155	5,466	6,479	7,906	9,714
Property services	3,745	4,108	4,669	5,492	6,531
Value added service	410	1,348	1,799	2,400	3,167
Car parking spaces	-	10	12	14	17
Cost of Sales	(3,306)	(4,375)	(5,145)	(6,260)	(7,719)
Gross Profit	849	1,090	1,334	1,646	1,995
Other income	49	66	50	50	50
Administrative expenses	(344)	(397)	(408)	(474)	(583)
EBIT	554	760	976	1,221	1,463
Share from JCE	0	0	0	0	0
Finance cost	(3)	(2)	(3)	(3)	(3)
Exceptional	4	3	-	-	-
Pre-tax Profit	555	761	974	1,219	1,460
Income tax	(149)	(216)	(273)	(341)	(409)
PROFIT FOR THE YEAR	406	544	701	878	1,051
Non-controlling interest	(4)	(6)	(8)	(11)	(15)
Net profit to shareholders	402	538	693	866	1,036

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E
Profit before tax	555	761	974	1,219	1,460
Depreciation, amortization, impairment	18	-	21	21	21
Change in working capital	(180)	(351)	165	154	210
Others	(163)	(5)	(273)	(342)	(409)
Net cash from operating	229	405	887	1,053	1,282
Fixed assets Capex & Investment, net	(212)	-	(25)	(25)	(25)
Associated companies	(45)	(110)	-	-	-
Others	33	-	-	-	-
Net cash from investing	(224)	(110)	(25)	(25)	(25)
Equity raised	-	-	-	-	1
Change of debts	(265)	(33)	-	-	-
Others	(119)	(164)	(181)	(212)	(212)
Net cash from financing activities	(384)	(198)	(181)	(212)	(211)
Net change in cash	(378)	97	681	815	1,045
Cash at the beginning	2,452	2,398	2,496	3,177	3,992
Exchange difference	(99)	-	-	-	-
Others	423	-	-	-	-
Cash at the end	2,398	2,496	3,177	3,992	5,037

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Property services	90.1	75.2	72.1	69.5	67.2
Value added Service	9.9	24.7	27.8	30.4	32.6
Car parking spaces	0.0	0.2	0.2	0.2	0.2
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	20.4	20.0	20.6	20.8	20.5
EBIT margin	13.3	13.9	15.1	15.4	15.1
Net margin	9.7	9.8	10.7	11.0	10.7
Effective tax rate	26.8	28.5	28.0	28.0	28.0
Growth (%)					
Revenue	23.7	31.6	18.5	22.0	22.9
Gross profit	5.8	28.5	22.3	23.4	21.2
EBIT	28.6	37.3	28.4	25.2	19.7
Net profit	31.1	33.8	28.8	25.1	19.6
Balance sheet ratios					
Current ratio (x)	1.4	1.5	1.6	1.7	1.8
Receivable turnover days	51	51	51	51	51
Payables turnover days	177	146	146	146	146
Inventory turnover days	3	30	30	30	30
Net debt / total equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	35.9	35.5	34.2	32.3	29.6
ROA	11.4	12.7	13.7	14.1	13.7
Per share					
EPS (HK\$)	0.12	0.16	0.21	0.26	0.32
DPS (HK\$)	0.04	0.05	0.06	0.06	0.06
BVPS (HK\$)	0.34	0.46	0.61	0.81	1.06

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	294	320	324	328	333
PP&E	41	56	61	66	71
Investment properties	133	146	146	146	146
Others	121	117	117	116	116
Current assets	3,263	3,976	4,799	5,905	7,321
Inventory	37	418	418	509	628
Trade and other receivables	586	766	908	1,108	1,362
Bank balances and cash	2,398	2,496	3,177	3,992	5,036
Others	242	295	295	295	295
Total Asset	3,557	4,295	5,123	6,233	7,654
Current liabilities	2,406	2,696	3,004	3,449	4,031
Trade and other payables	1,604	1,746	2,053	2,498	3,080
Receipts in advance	671	740	740	740	740
Others	131	210	210	210	210
Non-current liabilities	22	64	64	64	64
Deferred tax liabilities	22	32	32	32	32
Others	-	32	32	32	32
Total liabilities	2,428	2,761	3,068	3,513	4,095
Equity to shareholders	1,120	1,514	2,026	2,680	3,504
Non-controlling interests	9	21	29	41	55
Total Equity	1,129	1,535	2,055	2,720	3,559

Source: Company data, CMBIS estimates

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