

CG Services (6098 HK)

Acquisition of Color life's assets: execution complexity with Wanda

In general the transaction is relatively small and would boost CGS's managed GFA and NP by 9% and 7% in 2021E on a pro-forma basis. However we are slightly concerned that 1) it brings execution complexity. 23mn sq m of Wanda commercial area would indeed enhance CGS's portfolio in office/shopping mall. However, as the commercial operation is still controlled by Wanda Commercial and CGS would only do the PM, this would increase the execution complexity and also limit the upside. 2) Net margin difference (Link Joy's 10% vs. CGS's 17%) requires CGS to bridge the gap. 3) The valuation does not look very cheap as it implies up to 40% premium compared to color life's last trading price.

- What's new:** On 28 Sep night, CGS announced its acquisition of core asset of Colour Life Services for RMB3.3bn. The core assets mainly include Wanxiangmei Property (former Wanda PM) and Kaiyuan International. The core asset pack includes 65.22mn sq m in managed GFA (41mn sq m residential and 23mn sq m commercial) with 300+ projects and 2mn sq m contracted un-delivered GFA.
- Pro-forma analysis:** Based on the announcement and the conference call held today, the assets include 65mn/67mn sq m GFA under management and contracts in 2021E. This would boost CGS's managed/contracted GFA by 9%/5% to 768/1,429mn sq m (excl. Three supplies). From earnings perspective, the boost would be 20% and 11% for 2020 revenue and net profit. However given the limited growth (+3% YoY in color life's 1H21 NP), we think 2021E earnings boost would be much smaller to 7% only.
- Key challenge/opportunity is the Wanda asset.** In general we think the commercial GFA of 23mn sq m from Wanda plaza and office (acquired by color life back in 2016) would further enhance CGS's determination into this area. However, the commercial operation is still controlled by Wanda so CGS would only do the PM part which may face execution complexity and limit the upside. Also, Link Joy's net margin was only 9.7% in 2020 (similar to previously acquired R&F) vs. CGS's 17% and this means CGS needs time to step in and improve its profitability.
- Valuation does not look cheap:** Based on Link Joy's RMB309mn net profits recorded in 2020 (+1.2% YoY), the RMB3.3bn consideration is implying 11x 2020 PE vs. color life's 6x 2020 PE. If we assign 5x 2020 PE to the remaining assets of color life (excl. Link Joy) which recorded RMB200mn net profits in 2020, it implies 40% premium to last trading price of color life.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	4,675	9,645	15,600	27,265	39,683
YoY growth (%)	49.8	106.3	61.7	74.8	45.5
Net income (RMB mn)	923	1,671	2,686	4,537	6,382
EPS (RMB)	0.37	0.63	0.98	1.54	2.16
YoY growth (%)	N.A.	69.8	55.7	57.5	40.7
Consensus EPS (RMB)	N.A.	N.A.	N.A.	1.36	2.00
P/E (x)	N.A.	N.A.	N.A.	31.3	22.3
P/B (x)	N.A.	N.A.	N.A.	28.1	17.8
Yield (%)	N.A.	N.A.	N.A.	0.8	1.1
ROE (%)	40.8	31.1	18.4	25.3	28.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$91.17
(Previous TP)	HK\$91.17)
Up/Downside	+57.1%
Current Price	HK\$58.05

China Property Service Sector

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Stock Data

Mkt Cap (HK\$ mn)	186,756
Avg 3 mths t/o (HK\$ mn)	882.30
52w High/Low (HK\$)	85.20/ 41.45
Total Issued Shares (mn)	3,217

Source: Bloomberg

Shareholding Structure

Chen Chong	45.1%
JPM	5.7%
Free float	48.7%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-6.3%	-2.9%
3-mth	-31.5%	-18.2%
6-mth	-26.7%	-15.2%
12-mth	14.7%	9.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

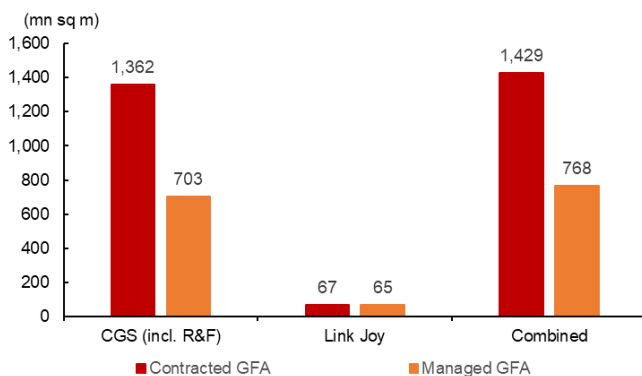
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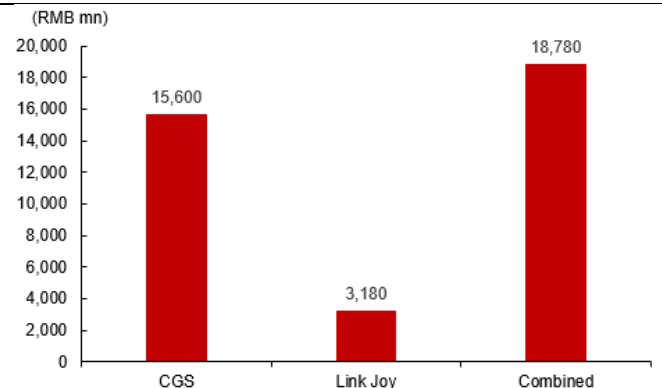
Key Charts

Figure 1: Pro-forma analysis on Contracted/Managed GFA in 2021E



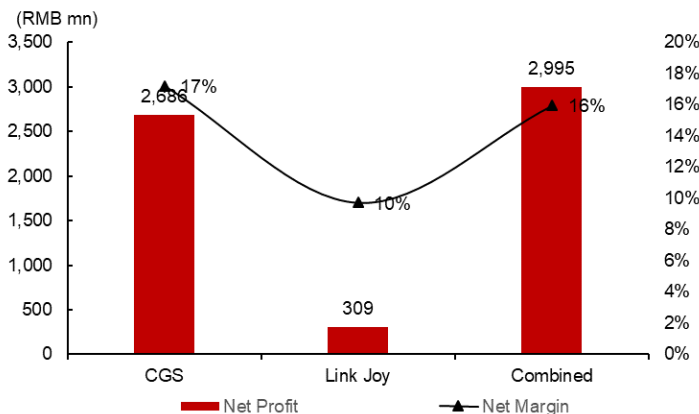
Source: Company data, CMBIS estimates

Figure 2: Pro-forma analysis on revenue in FY2020



Source: Company data, public announcement

Figure 3: Pro-forma analysis on net profits/margin in 2020



Source: Company data, public announcement

Figure 4: Comps table

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	58.1	186,756	57.5	35.4	24.2	62.4	46.4
CR MixC Lifestyle	1209 HK	BUY	56.0	42.1	96,093	79.4	53.5	38.5	48.5	39.0
A-Living	3319 HK	HOLD	34.2	27.7	39,334	17.6	12.9	9.8	36.6	30.9
Greentown Services	2869 HK	HOLD	9.5	8.3	26,962	36.4	23.2	17.8	56.7	30.4
Ever Sunshine	1995 HK	BUY	22.2	15.2	25,357	59.9	33.1	22.1	80.8	50.2
Poly Services	6049 HK	HOLD	53.4	45.9	25,370	33.4	23.8	18.3	40.5	29.9
S-Enjoy	1755 HK	BUY	34.6	16.5	14,377	26.6	17.2	12.0	55.0	43.8
Powerlong Commercial	9909 HK	BUY	33.2	18.7	12,000	33.9	21.5	15.6	57.7	37.8
Excellence CM	6989 HK	BUY	14.9	5.2	6,332	14.9	10.3	7.3	45.6	40.4
Central China New Life	9983 HK	BUY	12.9	5.4	6,858	12.6	9.1	6.7	38.1	36.0
Sino-Ocean Services	6677 HK	BUY	7.1	4.6	5,411	12.0	10.6	7.4	13.7	42.8
New Hope Services	3658 HK	BUY	4.4	2.1	1,734	12.6	7.4	4.8	70.7	53.8
Redsun Services	1971 HK	BUY	9.4	4.4	1,805	19.3	9.4	6.3	105.2	48.4
Evergrande Services	6666 HK	BUY	10.4	5.0	54,054	15.8	11.0	7.2	54.0	52.5
Sunac Services	1516 HK	BUY	29.8	15.2	47,254	50.4	24.6	15.3	105.3	60.6
COPH	2669 HK	NR	NA	6.4	20,937	29.3	22.7	17.5	29.3	29.2
Times Neighborhood	9928 HK	NR	NA	4.0	3,943	14.7	8.0	4.4	84.5	81.3
Aoyuan Healthy Life	3662 HK	NR	NA	4.1	3,007	10.8	7.0	4.9	55.2	42.0
Shimao Services	873 HK	NR	NA	16.0	37,824	38.6	24.5	14.9	57.4	64.3
KWG Living	3913 HK	NR	NA	5.7	11,562	26.8	13.1	8.4	103.9	55.7
Jinke Smart Services	9666 HK	NR	NA	42.2	27,550	29.8	20.5	13.6	45.8	49.9
Average						45.9	29.0	20.1	58.7	44.2

Source: CMBIS, Bloomberg

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	4,675	9,645	15,600	27,265	39,683
Basic PM	3,445	5,817	8,607	12,767	16,396
Non-owner VAS	791	1,422	1,370	2,112	3,049
Community VAS	417	865	1,731	4,077	8,003
City services	-	-	884	3,452	4,538
Others	21	1,541	3,009	4,858	7,697
Cost of sales	(2,914)	(6,593)	(10,301)	(18,614)	(26,596)
Gross Profit	1,762	3,052	5,300	8,651	13,088
Other income	22	51	121	86	104
Selling expenses	(27)	(67)	(136)	(237)	(345)
Administrative expenses	(760)	(1,208)	(1,950)	(3,217)	(4,564)
Other gains/(losses)	(13)	(31)	(98)	(102)	(131)
Impairment	984	1,798	3,236	5,181	8,151
Operating profit	22	51	121	86	104
JV/Associates	3	8	41	53	69
Finance cost	54	92	44	46	48
Exceptional	29	178	394	-	-
Pre-tax Profit	1,069	2,076	3,715	5,279	8,268
Income tax	(135)	(358)	(933)	(528)	(1,571)
PROFIT FOR THE YEAR	934	1,718	2,782	4,751	6,697
Non-controlling interest	(11)	(48)	(96)	(214)	(315)
Net Profit attribute to	923	1,671	2,686	4,537	6,382

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Non-current assets	851	2,045	7,916	15,375	18,003
Property, plant and	113	312	1,249	1,929	2,609
Intangible assets	686	1,604	6,176	12,902	14,782
Others	52	129	490	543	612
Current assets	4,671	10,224	23,288	26,807	36,195
Trade and other receivables	788	2,004	5,244	9,164	13,338
Cash and cash equivalents	3,869	6,914	15,215	14,703	19,811
Others	14	1,306	2,829	2,940	3,046
Total assets	5,522	12,269	31,204	42,182	54,198
Current liabilities	3,127	6,427	14,233	21,594	28,509
Trade and other payables	2,060	4,690	7,476	13,588	19,415
Others	1,067	1,737	6,757	8,005	9,094
Non-current liabilities	65	162	812	812	812
Deferred income tax	65	143	510	510	510
Others	-	19	302	302	302
Total liabilities	3,192	6,590	15,045	22,406	29,321
Equity to shareholders	2,261	5,373	14,566	17,969	22,755
Non-controlling interests	69	306	1,593	1,807	2,122
Total Equity	2,330	5,680	16,159	19,776	24,877

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Profit before tax	1,069	2,076	3,715	5,279	8,268
D&A	26	149	60	240	240
Change in working capital	617	1,528	3,951	3,330	2,635
Others	(163)	(496)	(1,017)	(627)	(1,688)
Net cash from operating	1,549	3,257	6,709	8,222	9,455
Capex	(62)	(81)	(5,570)	(2,800)	(2,800)
JV/Associates	(6)	(40)	-	-	-
Others	(46)	(1,507)	44	(4,800)	48
Net cash from investing	(114)	(1,628)	(5,526)	(7,600)	(2,752)
Equity raised	10	1,738	-	-	-
Change of debts	-	(9)	3,812	-	-
Others	(211)	(331)	3,307	(1,134)	(1,596)
Net cash from financing	(200)	1,399	7,118	(1,134)	(1,596)
Net change in cash	1,235	3,028	8,301	(512)	5,108
Cash at the beginning of the year	2,634	3,869	6,914	15,215	14,703
Exchange difference	-	17	-	-	-
Cash at the end of the year	3,869	6,914	15,215	14,703	19,811

Key ratios

YE 31 Dec	FY18A	FY19A	FY20A	FY21E	FY22E
Sales mix (%)					
Basic PM	73.7	60.3	55.2	46.8	41.3
Non-owner VAS	16.9	14.7	8.8	7.7	7.7
Community VAS	8.9	9.0	11.1	15.0	20.2
City services	0.0	0.0	5.7	12.7	11.4
Others	0.5	16.0	19.3	17.8	19.4
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	37.7	31.6	34.0	31.7	33.0
Net margin	19.7	17.3	17.2	16.6	16.1
Effective tax rate	12.6	17.2	25.1	10.0	19.0
Growth (%)					
Revenue	49.8	106.3	61.7	74.8	45.5
Gross profit	70.1	73.3	73.6	63.2	51.3
Operating profit	69.6	82.8	80.0	60.1	57.3
Net profit	129.8	81.0	60.8	68.9	40.7
Balance sheet ratios					
Current ratio (x)	1.5	1.6	1.6	1.2	1.3
Receivable turnover days	62	76	123	123	123
Returns (%)					
ROE	40.8	31.1	18.4	25.3	28.0
ROA	16.7	13.6	8.6	10.8	11.8
Per share					
EPS (RMB)	0.37	0.63	0.98	1.54	2.16
DPS (RMB)	0.09	0.15	0.23	0.38	0.54
BVPS (RMB)	0.63	1.39	2.84	1.72	2.70

Source: Company data, CMBIS estimates

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