

CG Services (6098 HK)

USD2bn fund raising for its ambitious 2025 plan

We think CGS's USD2bn fund raising was well expected and may provide a good entry-point for long-term buyers given 1) overhang removed and the demand for equity/CB was higher than expected with finalized price at high end. 2) potential high-quality acquisition of JLL's China property management into office area; 3) community purchasing may see explosive growth this year to drive Community VAS to double in 2021E. Currently it is trading at 28x 2022E PE which looks attractive on its market leading position and 50% NP growth CAGR in 2020-25E. Reiterate CGS as our Top pick.

- **What's new:** After market close on 24 May, Cailian reported that CGS is raising US\$2bn funds via equity placement and CB issuance. The equity placement was said to be at HK\$75.25 per share (6% discount to last trading price) for a total size of US\$1.35bn, or 4.35% of enlarged total shares. CB size was US\$0.65bn at a strike price of HK\$97.83 per share.
- **Fund raise was well-expected and removed the overhang.** As of 2020, CGS had a total cash of RMB15bn and the use of RMB8.3bn on the privatization of Languang Justbon (assuming successful) will leave the cash balance to be RMB6.7bn. As the management hinted further high-quality acquisition is possible to help drive the >RMB100bn revenue target by 2025E, the market actually expected the fund raising after the 2020 results. So we think it removed the overhang and would be a good opportunity to position in for long-term buyers.
- **What would be the potential target? – likely JLL property management in China.** As mentioned in 2020 results briefing CGS is newly tapping into office market and targeted to achieve RMB15bn revenue by 2025 from current 100 buildings only. We think the acquisition is likely to be in this area. According to Chicago business, JLL is considering to sell its property management in China at US\$500mn or above. Based on JLL 2020 results, we estimate the property management business revenue in China was US\$200mn with 8% net margin (group level) then the P/E multiple was 30x 2020. PE (by assuming 100% stakes acquisition). This is still value-accretive based on CGS's 59x 2020A PE. More importantly, strategically JLL's professional office management team and global vision is what CGS needs most to explore this growth path and catch up with Vanke which set up a JV with Cushman&Wakefield back in 2018.
- **Community purchasing may see explosive growth this year.** As Community VAS is the major growth driver for its 2025 plan (RMB30bn), CGS has been trying to penetrate more into the group purchasing. Based on our channel check, the target for group purchasing itself would be 5-6x times more than 2020 which could drive overall VAS to double in 2021E.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	9,645	15,600	27,265	39,683	56,879
YoY growth (%)	106.3	61.7	74.8	45.5	43.3
Net income (RMB mn)	1,671	2,686	4,649	6,479	9,944
EPS (RMB)	0.63	0.98	1.57	2.20	3.37
YoY growth (%)	69.8	55.7	61.3	39.4	53.5
Consensus EPS (RMB)	0.63	0.91	1.28	1.75	2.75
P/E (x)	N.A.	58.8	36.5	28.2	17.0
P/B (x)	N.A.	20.2	32.9	20.9	12.4
Yield (%)	N.A.	0.4	0.7	1.0	0.0
ROE (%)	31.1	18.4	25.8	28.3	32.7
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 **+13.8%**
Current Price **HK\$80.05**

China Property Service Sector

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Stock Data

Mkt Cap (HK\$ mn)	204,265
Avg 3 mths t/o (HK\$ mn)	615.71
52w High/Low (HK\$)	71.45/27.20
Total Issued Shares (mn)	2,952

Source: Bloomberg

Shareholding Structure

Yang Huiyan	49.5%
Ping An Insurance	8.3%
Free float	42.2%

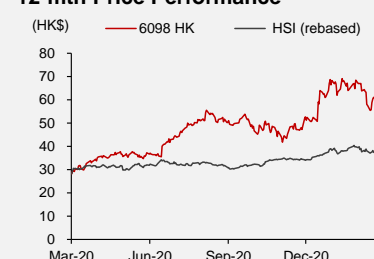
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-0.9%	4.8%
3-mth	30.5%	18.4%
6-mth	35.1%	11.6%
12-mth	133.0%	83.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Figure 1: JLL's property management business in 2020

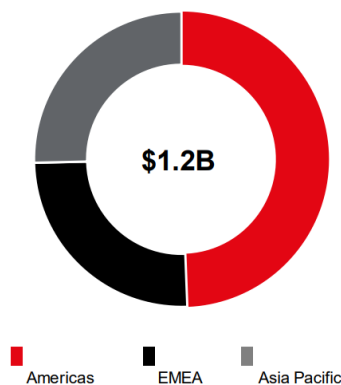
Property and Facility Management

Annuity Focus – double-digit average annual growth

Operating Model

- Services are provided through our employees or third-party providers, to maintain high levels of occupancy and tenant satisfaction
- Contracts typically include reimbursement for costs
- Agreements are typically 3-7 years
- Leverage market share and buying power to reduce property operating costs
- Growth driven by share of institutionally occupied property being outsourced and cross-selling

2020 Fee Revenue



2020 Statistics

- Property Management services totaling **~3.8B square feet**

Source: Company data

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	9,645	15,600	27,265	39,683	56,879
Basic PM	5,817	8,607	12,767	16,395	20,385
Non-owner VAS	1,422	1,370	2,112	3,049	4,225
Community VAS	865	1,731	4,077	8,003	15,032
City services	-	884	3,452	4,538	5,758
Others	1,541	3,009	4,858	7,697	11,479
Cost of sales	(6,593)	(10,301)	(18,614)	(26,595)	(37,072)
Gross Profit	3,052	5,300	8,651	13,087	19,807
Other income	51	121	86	104	95
Selling expenses	(67)	(136)	(237)	(345)	(495)
Administrative expenses	(1,208)	(1,950)	(3,217)	(4,564)	(6,427)
Impairment	(31)	(98)	(102)	(131)	(163)
Operating profit	1,798	3,236	5,180	8,151	12,817
JV/Associates	8	41	53	69	89
Finance cost	92	44	46	48	51
Exceptional	178	394	129	126	128
Pre-tax Profit	2,076	3,715	5,408	8,394	13,08
Income tax	(358)	(933)	(541)	(1,59)	(2,617)
PROFIT FOR THE YEAR	1,718	2,782	4,868	6,799	10,46
Non-controlling interest	(48)	(96)	(219)	(320)	(523)
Net Profit attribute to	1,671	2,686	4,649	6,479	9,944

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	2,045	7,916	15,375	18,003	20,653
Property, plant and	312	1,249	1,929	2,609	3,290
Intangible assets	1,604	6,176	12,902	14,782	16,662
Others	129	490	543	612	701
Current assets	10,224	23,288	26,895	36,361	50,538
Trade and other receivables	2,004	5,244	9,164	13,338	19,118
Cash and cash equivalents	6,914	15,215	14,791	19,977	28,235
Others	1,306	2,829	2,940	3,046	3,185
Total assets	12,269	31,204	42,270	54,364	71,191
Current liabilities	6,427	14,233	21,593	28,508	37,353
Trade and other payables	4,690	7,476	13,588	19,415	27,062
Others	1,737	6,757	8,005	9,094	10,291
Non-current liabilities	162	812	812	812	812
Deferred income tax	143	510	510	510	510
Others	19	302	302	302	302
Total liabilities	6,590	15,045	22,405	29,320	38,165
Equity to shareholders	5,373	14,566	18,052	22,912	30,371
Non-controlling interests	306	1,593	1,812	2,132	2,655
Total Equity	5,680	16,159	19,865	25,044	33,026

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before tax	2,076	3,715	5,408	8,394	13,084
D&A	149	60	240	240	240
Change in working capital	1,528	3,951	3,329	2,635	2,925
Others	(496)	(1,017)	(639)	(1,711)	(2,757)
Net cash from operating	3,257	6,709	8,338	9,557	13,493
Capex	(81)	(5,570)	(2,800)	(2,800)	(2,800)
JV/Associates	(40)	-	-	-	-
Others	(1,507)	44	(4,800)	48	51
Net cash from investing	(1,628)	(5,526)	(7,600)	(2,752)	(2,749)
Equity raised	1,738	-	-	-	-
Change of debts	(9)	3,812	-	-	-
Others	(331)	3,307	(1,162)	(1,620)	(2,486)
Net cash from financing	1,399	7,118	(1,162)	(1,620)	(2,486)
Net change in cash	3,028	8,301	(424)	5,186	8,258
Cash at the beginning of the year	3,869	6,914	15,215	14,791	19,977
Exchange difference	17	-	-	-	-
Cash at the end of the year	6,914	15,215	14,791	19,977	28,235

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Basic PM	60.3	55.2	46.8	41.3	35.8
Non-owner VAS	14.7	8.8	7.7	7.7	7.4
Community VAS	9.0	11.1	15.0	20.2	26.4
City services	0.0	5.7	12.7	11.4	10.1
Others	16.0	19.3	17.8	19.4	20.2
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	31.6	34.0	31.7	33.0	34.8
Net margin	17.3	17.2	17.0	16.3	17.5
Effective tax rate	17.2	25.1	10.0	19.0	20.0
Growth (%)					
Revenue	106.3	61.7	74.8	45.5	43.3
Gross profit	73.3	73.6	63.2	51.3	51.3
Operating profit	82.8	80.0	60.1	57.3	57.2
Net profit	81.0	60.8	73.1	39.4	53.5
Balance sheet ratios					
Current ratio (x)	1.6	1.6	1.2	1.3	1.4
Receivable turnover days	76	123	123	123	123
Returns (%)					
ROE	31.1	18.4	25.8	28.3	32.7
ROA	13.6	8.6	11.0	11.9	14.0
Per share					
EPS (RMB)	0.63	0.98	1.57	2.20	3.37
DPS (RMB)	0.15	0.23	0.39	0.55	0.00
BVPS (RMB)	1.39	2.84	1.74	2.75	4.64

Source: Company data, CMBIS estimates

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