

CG Services (6098 HK)

Acquisition of R&F Property Services: quick wrap up is the key

We are neutral on CGS's RMB10bn acquisition in R&F property service as 1) 20x 2021E valuation does not look very cheap at this moment especially after accounting R&F's net profits to double in 2021E at RMB500mn. 2) Net margin difference (R&F's 10% vs. CGS's 17%) requires CGS to bridge the gap. From the strategical perspective, R&F could provide large commercial property exposure (16mn sq m) to CGS's expansion in this business and also its large residential community size (~200k sq m/project) fits well in CGS's comfort zone. We may see upside if CGS can wrap up quickly. Maintain Buy rating.

- What's new:** After market close of 20 Sep, CGS announced its acquisition of 100% equity interest in R&F property management for RMB10bn. R&F property service is a unlisted company with total GFA under management at 69.4mn sq m as of 2020 (including 11.2mn sq m in commercial properties) and is currently owned by 3 individuals before the transaction.
- Pro-forma analysis:** Based on the results guarantee, R&F would deliver 86mn/127mn sq m GFA under management and contracts in 2021E. This would boost CGS's managed GFA by 14% to 703mn sq m (excl. Three supplies) and further cement CGS's No.1 position. We think R&F could deliver the results as requested because 1) R&F already managed and contracted 69.4mn and 105mn sq m GFA in 2020. 2) The RMB10bn disposal of property service can help solve the liquidity issue in R&F property (R&F Chairman would provide RMB8bn no-interest loans to the developer) and this would help secure the property delivery. As a result, we think the acquisition would boost the 2021E revenue and net profits by 15% and 11% accordingly.
- Synergy and Challenge.** For the synergy, we think R&F could provide large commercial property exposure (16mn sq m) to CGS's expansion in this business and also its large residential community size (~200k sq m/project) fits well in CGS's comfort zone. For the challenge, R&F's net margin was only 10% in 2020 vs. CGS's 17% and this means CGS needs time to step in and improve its profitability.
- Balance sheet can support up to 100% acquisition.** As of 1H21, CGS had a cash of RMB21.77bn, which is enough to pay for up to 100% stakes acquisition of R&F Property Services with maximum price of RMB10bn.
- Valuation:** Based on R&F's RMB500mn net profits guarantee in 2021E (+100% YoY), the RMB10bn consideration is implying 20x 2021E PE similar to CGS's current 24x PE. Therefore we think it looks neutral from valuation perspective.

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	1.98
P/E (x)	N.A.	N.A.	N.A.	24.4	17.3
P/B (x)	N.A.	N.A.	N.A.	21.8	13.9
Yield (%)	N.A.	N.A.	N.A.	1.0	1.4
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	+102.2%
Current Price	HK\$45.10

China Property Service Sector

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Stock Data

Mkt Cap (HK\$ mn)	145,094
Avg 3 mths t/o (HK\$ mn)	839.25
52w High/Low (HK\$)	85.20/ 41.45
Total Issued Shares (mn)	3,217
Source:	Bloomberg

Shareholding Structure

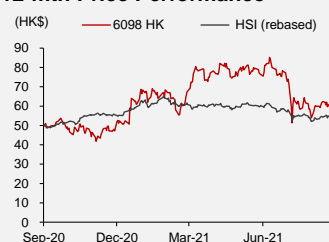
Chen Chong	45.1%
JPM	5.7%
Free float	48.7%
Source:	HKEx

Share Performance

	Absolute	Relative
1-mth	-11.6%	-10.2%
3-mth	-34.7%	-24.5%
6-mth	-26.5%	-14.5%
12-mth	-3.6%	-5.4%

Source: Bloomberg

12-mth Price Performance

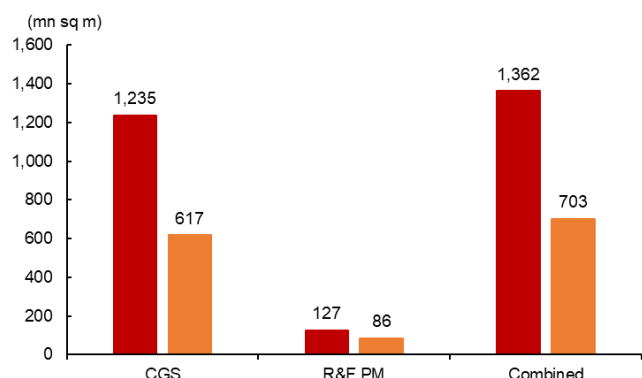


Source: Bloomberg

Auditor: PwC

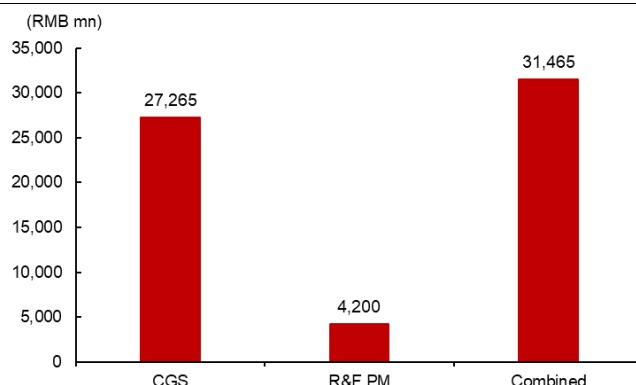
Key Charts

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



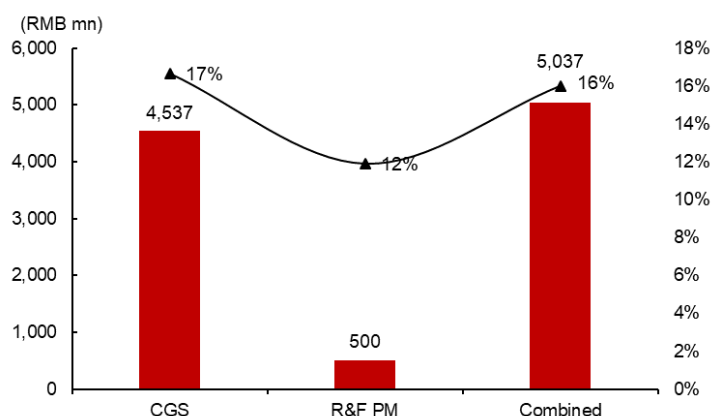
Source: Company data, CMBIS estimates

Figure 2: Pro-forma analysis on revenue in 2021E



Source: Company data, CMBIS estimates

Figure 3: Pro-forma analysis on net profits/margin in 2021/22E



Source: Company data, CMBIS estimates

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	45.1	145,094	44.6	27.3	18.8	63.3	45.5
CR MixC Lifestyle	1209 HK	BUY	56.0	35.6	81,257	67.2	45.3	32.5	48.3	39.2
A-Living	3319 HK	HOLD	34.2	25.6	36,352	16.2	11.8	9.1	37.7	30.3
Greentown Services	2869 HK	HOLD	9.5	7.4	23,879	32.2	20.7	15.6	55.8	32.6
Ever Sunshine	1995 HK	BUY	22.2	12.9	21,481	50.8	28.0	18.6	81.1	50.3
Poly Services	6049 HK	HOLD	53.4	40.1	22,161	29.2	20.8	16.0	40.6	29.8
S-Enjoy	1755 HK	BUY	34.6	14.2	12,352	22.9	14.7	10.2	55.4	43.9
Powerlong Commercial	9909 HK	BUY	33.2	17.8	11,463	32.4	20.6	14.9	57.5	38.1
Excellence CM	6989 HK	BUY	14.9	5.0	6,051	14.3	9.4	6.8	51.0	39.1
Central China New Life	9983 HK	BUY	12.9	4.9	6,273	11.5	8.3	6.1	38.3	36.1
Sino-Ocean Services	6677 HK	BUY	7.1	4.8	5,719	12.7	11.2	7.8	13.7	42.8
New Hope Services	3658 HK	BUY	4.4	2.0	1,661	12.1	6.4	4.5	87.9	43.5
Redsun Services	1971 HK	BUY	9.4	4.0	1,660	17.7	8.6	5.8	105.2	48.4
Evergrande Services	6666 HK	BUY	10.4	4.1	44,108	12.9	9.0	5.9	54.0	52.5
Sunac Services	1516 HK	BUY	29.8	14.0	43,286	46.2	22.5	14.0	105.3	60.6
COPH	2669 HK	NR	NA	5.8	19,031	26.6	20.6	15.8	29.3	30.2
Times Neighborhood	9928 HK	NR	NA	3.6	3,568	13.3	7.2	4.0	84.5	81.3
Aoyuan Healthy Life	3662 HK	NR	NA	3.6	2,644	9.5	6.1	4.3	55.2	42.0
Shimao Services	873 HK	NR	NA	13.6	32,245	32.9	20.8	12.6	58.1	65.2
KWG Living	3913 HK	NR	NA	5.2	10,432	24.2	11.9	7.6	103.9	55.7
Jinke Smart Services	9666 HK	NR	NA	37.7	24,580	26.6	18.2	12.0	46.5	50.9
Average						38.0	23.9	16.6	59.0	44.0

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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