

Excellence Commercial Property (6989 HK)

Asset sale will not affect guidance

What's new: After market close on 22 Dec, Excellence announced a RMB350mn asset disposal of all its 60% interest in Wuhan Yuyang and Zhejiang Gangwan which both engaged in public and industrial property management with a total GFA of 3.2mn sq m. It is worth noting that both assets were acquired in 2019 at a total value of RMB280mn. The purchaser was Shenzhen Xishui Investment (an investment fund) and the payment will be made throughout Dec 2021 to 2023.

- Rationale behind:** The management thinks the outlook of the target company, which may see a risk of missing the performance guarantee in the future, mainly drives its decision. We can also see that 2019-20's net profit grew 55% YoY but 2020-21's were flattish.
- Valuation:** The disposal amount is equivalent to 6x 2021E PE and 1x 2021E PB which seems breakeven based on the amount they paid in 2019. The deal would record a small before-tax gain of RMB2.3mn.
- Our view:** **Firstly, we do not think the sale is to help the property side as** the amount is just too small and the payment schedule is not urgent. **Secondly,** from the financial impact perspective 2021E earnings will be unaffected. Disposed asset recorded a net profit of RMB56/57mn in 2020 and 11M2021, equivalent to 17% and 11% of 2020A and our 2021E full year profits. As the transaction happened in Dec 2021, Excellence will still consolidate the earnings through 11M21 and thus has little impact on 2021E results. **Thirdly,** however, for the 2022E it may need a bigger size of M&A to fill in the shoes. Given that Excellent PM is currently trading at 9x 2021E PE, it could be a bit challenging to get a similar-size deal with attractive valuation to boost the company. The chance may lie on the weak property market, which may see more developers willing to sell their PM arm.
- More details on sole investor call today at 4:15PM:** Please dial in for the Company's investor call on 23 Dec at 4:15PM via Zoom. If you wish to attend, please contact CMBI corporate access team at ca-research@cmbi.com.hk. The management attendance of this call includes CEO – Ying GUO; CFO – Li LV; and Secretary of the Board – Andy LI.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	1,223	1,836	2,525	4,034	4,980
YoY growth (%)	29	50	37	60	23
Net income (RMB mn)	126	179	325	553	733
EPS (RMB)	N/A	N/A	0.337	0.452	0.599
YoY growth (%)	N/A	N/A	N/A	34.4	32.5
Consensus EPS (RMB)	N/A	N/A	N/A	N/A	N/A
P/E (x)	N/A	N/A	13.0	9.0	6.4
P/B (x)	N/A	N/A	2.0	1.8	1.7
Yield (%)	N/A	N/A	1.1	1.6	2.1
ROE (%)	55.4	59.8	11.2	18.9	20.7
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price HK\$14.90
(Previous TP) HK\$14.90
Up/Downside +234.8%
Current Price HK\$4.45

China Property Service Sector

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Stock Data

Mkt Cap (HK\$ mn)	5,540
Avg 3 mths t/o (HK\$ mn)	7.15
52w High/Low (HK\$)	10.78/4.21
Total Issued Shares (mn)	1,222

Source: Bloomberg

Shareholding Structure

Li Wa	59.4%
Li Xiaoping	11.0%
Free float	29.6%

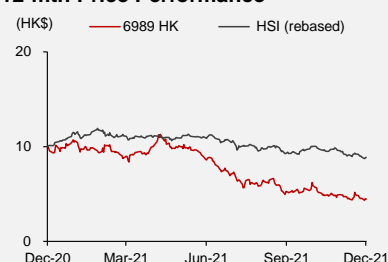
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-7.8%	0.6%
3-mth	-14.4%	-9.7%
6-mth	-47.7	-35.2
12-mth	--55.7	-49.3

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Figure 1: 5-Year Daily PE Trend



Source: Bloomberg

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	1,223	1,836	2,525	4,034	4,980
Basic property mgnt	1,067	1,576	2,111	3,211	3,736
VAS	133	204	359	798	1,239
Other	24	56	55	25	6
Cost of sales	(929)	(1,403)	(1,861)	(2,977)	(3,643)
Gross profit	294	433	664	1,058	1,337
Other income	3	17	23	31	39
Other net losses	(7)	(16)	21	(10)	(9)
Distribution expenses	(8)	(7)	(15)	(20)	(25)
Administrative expenses	(77)	(97)	(195)	(254)	(314)
Operating profit	205	331	498	804	1,028
Finance expenses	(1)	(20)	(30)	(7)	(2)
Associates/JV	7	6	9	7	10
Exceptional	-	-	-	-	-
Pre-tax profit	211	317	477	804	1,036
Profits tax	(55)	(83)	(121)	(203)	(257)
After-tax profit	157	234	356	601	779
Minority interest	(31)	(55)	(31)	(48)	(46)
Net profit	126	179	325	553	733

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
EBIT	205	331	498	804	1,028
Depreciation and amortization	15	28	28	28	31
Change in working capital	(332)	(103)	(17)	385	315
Income tax paid	(60)	(74)	(131)	(211)	(248)
Others	7	3	199	140	(1)
Net cash from operating	(164)	185	578	1,148	1,125
Capex	(16)	(306)	(14)	(89)	(172)
Associates/JV	(21)	1	(11)	(1)	(2)
Other	(54)	(460)	0	(0)	-
Net cash from investing	(92)	(765)	(26)	(90)	(174)
Equity raised	-	-	2,894	-	-
Change of Debts	150	315	(91)	(254)	(110)
Dividend paid	-	-	(458)	(575)	(166)
Other	37	227	(30)	(6)	(1)
Net cash from financing	187	542	2,315	(835)	(277)
Net change in cash	(69)	(38)	2,867	223	674
Cash at the beginning	554	485	447	3,314	3,537
Exchange difference	-	-	-	-	-
Cash at the end	485	447	3,314	3,537	4,210
Pledged deposit	75	69	39	69	69
Cash at BS	560	516	3,353	3,606	4,280

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Non-current assets	115	589	596	652	799
Fixed asset	49	55	64	75	83
Investment properties	11	134	123	130	137
Associates/JV	40	40	51	52	54
Intangible assets/Goodwill	3	338	326	370	496
Other non-current assets	11	22	31	25	28
Current assets	1,265	1,963	4,334	4,549	5,338
Cash	560	516	3,353	3,606	4,280
Account receivable	295	929	561	735	850
Inventories	0	0	2	0	0
Other current assets	411	517	418	209	209
Current liabilities	1,002	1,874	1,243	1,611	2,053
Borrowings	150	465	194	20	10
Trade and other payables	766	1,276	893	1,450	1,880
Contract liabilities	45	63	82	84	96
Deferred taxation	34	59	57	43	52
Lease liabilities	7	11	18	14	15
Non-current liabilities	16	222	431	331	239
Borrowings	0	0	180	100	0
Other non-current liabilities	16	222	251	231	239
Shareholders' equity	283	391	3,184	3,182	3,763
Minority interest	80	65	72	78	83
Total equity	363	456	3,256	3,260	3,846

Key ratios

YE 31 Dec	FY18A	FY19A	FY20A	FY21E	FY22E
Sales mix (%)					
Basic property mgnt services	87.2	85.9	83.6	79.6	75.0
VAS	10.9	11.1	14.2	19.8	24.9
Other	2.0	3.0	2.2	0.6	0.1
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	24.1	23.6	26.3	26.2	26.8
EBIT margin	16.8	18.0	19.7	19.9	20.6
Net margin	10.3	9.7	12.9	13.7	14.7
Effective tax rate	25.9	26.3	25.3	25.3	24.8
Growth rate (%)					
Revenue	29.1	50.1	37.5	59.8	23.5
Gross profit	26.0	47.3	53.1	59.3	26.4
EBIT	12.0	61.3	50.2	61.6	27.8
Net profit attributable	15.3	41.9	82.1	70.2	32.5
Balance sheet ratios					
Current ratio (x)	1.3	1.0	3.5	2.8	2.6
Net gearing ratio (%)	-1.1	-0.1	-0.9	-1.1	-1.1
Returns (%)					
ROE	55.4	59.8	11.2	18.9	20.7
ROA	11.3	9.2	7.2	11.5	12.7
Per share data					
EPS (RMB)	N.A.	N.A.	0.34	0.45	0.60
DPS (RMB)	N.A.	N.A.	0.10	0.14	0.18
BVPS (RMB)	N.A.	N.A.	2.60	2.60	3.08

Source: Company data, CMBIS estimates

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