

## Poly Property Services (6049 HK)

### 2021 results in line but spike in AR is alarming

Poly recorded 26% YoY increase in NP, in line with its share incentives KPI and profit alert. However, we **remain cautious** on its reliance on public services that may see margin decline and long cash collection period in the future. This can be partly seen from 92% YoY increase in the account receivable from third party that has led to 1) operating cash much less than profits; 2) 15ppt cut in the dividend payout ratio.

- 2021 results in line:** The Company delivered 26% growth in 2021 earnings at RMB846mn, in line with its profit alerts of 25% YoY. The total revenue grew 34% YoY to RMB10.8bn in 2021 mainly driven by its three pillar business segments PM / Non-owner VAS / Community VAS with similar growth at +35%/+35%/+32% YoY. GP Margin remained flat at 18.7% in 2021. NPM was lowered to 7.8% in 2021 (-0.5ppt YoY) mainly due to increase in admin costs. The Company declared a dividend of RMB0.305/share, representing 19.9% payout ratio, which decreased 15.4ppts from 2020.
- Basic PM Business growth relied more on public services:** the segment grew 35% YoY in 2021 to RMB6.7bn (62% of total revenue, same as 2020), mainly driven by 80% YoY growth in public services. We think the public services growth was due to ASP rise as its managed GFA only increased by 20% YoY. Overall managed GFA grew 22% YoY to 465.3mn sqm, but contracted GFA slowed down to 15% YoY growth at 656.3mn sqm mainly due to parentco' sales slow down. This has led to lower reserve GFA ratio of 41% in 2021 (vs. 49% in 2020). GPM expanded slightly to 14.3% in 2021 vs. 14.2% in 2020.
- Community VAS** rose 32% YoY in 2021 and represented 21.3% of total revenue as the second largest source. It is mainly driven by the 70% YoY growth in space operation revenue and 49% YoY growth in community convenience services. These two services alone make up almost half of the community VAS revenue. Community VAS' GPM increased slightly from 30.3% in 2020 to 31.4% in 2021 (+1.1ppts).
- Our View:** It is current trading at 16x 2022E after the recent sell-through which is still much more expensive than the industry average of 12x. We remain cautious on the name as it still relies heavily on the public services, which may see lower margin and long cash collection period. Investors may turn to the conference call this morning at 10:00am to go through the figures more in depth. Please tune in at this [Link](#).

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21A	FY22E
Revenue (RMB mn)	4,229	5,967	8,037	10,783	13,589
YoY growth (%)	30.5	41.1	34.7	34.2	26.0
Net income (RMB mn)	328	491	674	846	987
EPS (RMB)	N.A.	1.22	1.22	1.53	1.78
YoY growth (%)	N.A.	N.A.	0.0	25.7	16.6
Consensus EPS (RMB)	N.A.	N.A.	N.A.	N.A.	2.02
P/E (x)	N.A.	28.0	28.0	21.2	16.4
P/B (x)	N.A.	3.8	3.1	2.8	2.6
Yield (%)	N.A.	0.9	1.3	0.9	1.8
ROE (%)	50.5	9.7	10.9	12.5	13.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

### HOLD (Maintain)

Target Price	HK\$53.4
(Previous TP)	HK\$53.4)
Up/Downside	+30.2
Current Price	HK\$41.0

### China Property Service Sector

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### Stock Data

Mkt Cap (HK\$ mn)	22,687
Avg 3 mths t/o (HK\$ mn)	87.69
52w High/Low (HK\$)	66.80/38.10
Total Issued Shares (mn)	153

Source: Bloomberg

### Shareholding Structure

Poly Development	72.3%
Free float	27.7%

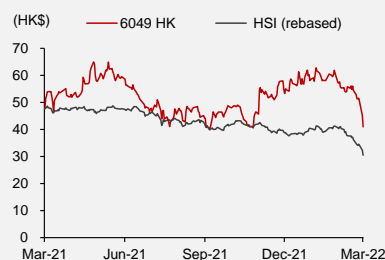
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-21.1%	-0.8%
3-mth	-17.9%	-0.6%
6-mth	2.1%	33.4%
12-mth	-5.0%	39.7%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: BDO

Figure 1: 2021 results summary

RMB mn	2020	2021	YoY	Diff. vs. Estimate
<b>Revenue</b>	<b>8,037</b>	<b>10,783</b>	<b>34%</b>	<b>-2%</b>
- Property management services	4,948	6,670	35%	-4%
- VAS to non-property owners	1,341	1,811	35%	5%
- Community VAS	1,748	2,301	32%	-4%
Gross profit	1,499	2,015	34%	-5%
<b>Net profit</b>	<b>674</b>	<b>846</b>	<b>26%</b>	<b>9%</b>
EPS (RMB)	1.22	1.53	26%	9%
DPS (RMB)	0.43	0.31	-29%	-38%
Dividend payout ratio	35.3%	19.9%	-15.4 ppt	-15.1 ppt
<b>GP Margin</b>	<b>18.7%</b>	<b>18.7%</b>	<b>0 ppt</b>	<b>-0.5 ppt</b>
<b>Net Margin</b>	<b>8.4%</b>	<b>7.8%</b>	<b>-0.5 ppt</b>	<b>0.8 ppt</b>
Managed GFA (mn sq m)	380.1	465.3	22%	6%
Contracted GFA (mn sq m)	567.2	656.3	16%	0%

Source: Company data, CMBIGM

Figure 2: PM sector comps

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	25.5	85,835	25.2	15.1	10.4	73.9	50.0
CR MixC Lifestyle	1209 HK	BUY	56.0	29.3	66,877	55.3	35.2	25.5	108.7	37.3
A-Living	3319 HK	HOLD	34.2	9.4	13,348	6.0	4.4	3.5	48.7	26.1
Greentown Services	2869 HK	HOLD	9.5	5.4	17,430	23.5	15.3	11.8	41.7	24.6
Ever Sunshine	1995 HK	BUY	22.2	7.3	12,846	28.9	15.9	10.9	75.8	48.1
<b>Poly Services</b>	<b>6049 HK</b>	<b>HOLD</b>	<b>53.4</b>	<b>41.0</b>	<b>22,687</b>	<b>29.9</b>	<b>21.2</b>	<b>16.4</b>	<b>41.5</b>	<b>28.2</b>
S-Enjoy	1755 HK	BUY	34.6	7.3	6,352	11.8	7.5	5.3	63.4	43.4
Powerlong Commercial	9909 HK	BUY	33.2	6.2	3,954	11.2	7.1	5.2	60.4	38.3
Excellence CM	6989 HK	BUY	14.9	3.4	4,088	9.7	6.1	4.4	81.3	35.5
Central China New Life	9983 HK	BUY	12.9	3.2	4,036	7.4	5.2	3.8	58.4	35.6
Sino-Ocean Services	6677 HK	BUY	7.1	3.1	3,670	8.2	7.2	5.1	74.6	40.9
New Hope Services	3658 HK	BUY	4.4	2.0	1,588	11.6	6.8	4.4	91.1	51.3
Redsun Services	1971 HK	BUY	9.4	2.9	1,204	12.9	6.3	4.2	139.1	50.2
Evergrande Services	6666 HK	BUY	10.4	1.8	19,568	5.7	4.0	2.6	42.7	21.4
Sunac Services	1516 HK	BUY	29.8	3.4	10,405	11.2	5.4	3.4	128.7	49.3
COPH	2669 HK	NR	NA	6.3	20,576	28.8	22.2	17.2	31.4	30.3
Times Neighborhood	9928 HK	NR	NA	1.7	1,646	6.1	3.3	1.8	89.4	41.5
Aoyuan Healthy Life	3662 HK	NR	NA	1.7	1,198	4.3	2.6	1.8	53.3	41.3
Shimao Services	873 HK	NR	NA	3.6	8,836	8.6	5.6	4.0	93.0	41.5
KWG Living	3913 HK	NR	NA	2.2	4,357	10.1	4.9	3.3	135.8	53.7
Jinke Smart Services	9666 HK	NR	NA	20.6	13,449	14.6	9.9	6.6	96.6	48.3
<b>Average</b>						<b>27.2</b>	<b>17.4</b>	<b>12.5</b>	<b>75.5</b>	<b>39.8</b>

Source: Bloomberg, CMBIGM

## Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21A	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19E	FY20A	FY21A	FY22E
<b>Turnover</b>	<b>4,229</b>	<b>5,967</b>	<b>8,037</b>	<b>10,783</b>	<b>13,589</b>	<b>Profit before tax</b>	<b>463</b>	<b>685</b>	<b>935</b>	<b>1,162</b>	<b>1,369</b>
Property management	2,910	3,844	4,948	6,670	8,459	D&A	27	33	20	NA	20
VAS to non-property	697	969	1,341	1,811	2,129	Chg in working capital	74	164	(357)	NA	(175)
Community VAS	623	1,154	1,748	2,301	3,001	Others	(131)	(188)	(239)	NA	(356)
Cost of sales	(3,378)	(4,756)	(6,538)	(8,768)	(10,939)	<b>Net cash from operating</b>	<b>433</b>	<b>694</b>	<b>(18)</b>	<b>NA</b>	<b>(18)</b>
<b>Gross Profit</b>	<b>851</b>	<b>1,211</b>	<b>1,499</b>	<b>2,015</b>	<b>2,650</b>	FA Capex & Inv, net	-	-	-	NA	-
Other income	24	59	207	152	35	Others	(23)	(25)	(27)	NA	(27)
Administrative expenses	(415)	(574)	(785)	(1,015)	(1,327)	<b>Net cash from investing</b>	<b>(23)</b>	<b>(25)</b>	<b>(27)</b>	<b>NA</b>	<b>(27)</b>
Other expenses	(4)	(1)	(2)	-	(3)	Equity raised	-	4,314	-	NA	-
<b>EBIT</b>	<b>456</b>	<b>695</b>	<b>918</b>	<b>1,065</b>	<b>1,355</b>	Chg of debts	-	-	-	NA	-
Share from JCE	5	16	18	22	18	Others	(213)	(166)	(238)	NA	(346)
Finance cost, net	(1)	(1)	(5)	(11)	(5)	<b>Net cash from financing</b>	<b>(213)</b>	<b>4,148</b>	<b>(238)</b>	<b>NA</b>	<b>(346)</b>
Exceptional	3	(25)	4	-	-	Net change in cash	197	4,697	76	1,124	468
<b>Pre-tax Profit</b>	<b>463</b>	<b>685</b>	<b>935</b>	<b>1,162</b>	<b>1,369</b>	<b>Cash at the beginning of the year</b>	<b>1,597</b>	<b>1,794</b>	<b>6,491</b>	<b>6,567</b>	<b>6,862</b>
Income tax	(127)	(182)	(239)	(292)	(356)	Exchange difference	-	-	-	-	-
<b>PROFIT FOR THE YEAR</b>	<b>336</b>	<b>503</b>	<b>696</b>	<b>871</b>	<b>1,013</b>	<b>Cash at the end of the year</b>	<b>1,794</b>	<b>6,491</b>	<b>6,567</b>	<b>7,691</b>	<b>7,329</b>
Non-controlling interest	(8)	(13)	(23)	(25)	(25)	<b>Key ratios</b>					
<b>Net Profit attribute to shareholders</b>	<b>328</b>	<b>491</b>	<b>674</b>	<b>846</b>	<b>987</b>	<b>YE 31 Dec</b>	<b>FY18A</b>	<b>FY19A</b>	<b>FY20A</b>	<b>FY21A</b>	<b>FY22E</b>
<b>Balance sheet</b>						<b>Sales mix (%)</b>					
<b>YE 31 Dec (RMB mn)</b>	<b>FY18A</b>	<b>FY19A</b>	<b>FY20A</b>	<b>FY21A</b>	<b>FY22E</b>	Property management	68.8	64.4	61.6	61.9	62.2
<b>Non-current assets</b>	<b>255</b>	<b>268</b>	<b>546</b>	<b>1,147</b>	<b>557</b>	VAS to non-property owners	16.5	16.2	16.7	16.8	15.7
Property, plant and	91	99	162	200	172	Community value-added	14.7	19.3	21.8	21.3	22.1
Intangible assets	99	96	136	125	102	<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Others	65	73	248	823	284	<b>Profit &amp; loss ratios (%)</b>					
<b>Current assets</b>	<b>2,297</b>	<b>7,303</b>	<b>7,931</b>	<b>8,682</b>	<b>9,628</b>	Gross margin	20.1	20.3	18.7	18.7	19.5
Trade and other receivables	420	748	1,400	1,425	2,013	EBIT margin	10.8	11.6	11.4	9.9	10.0
Cash and cash equivalents	1,794	6,491	6,567	7,691	7,329	Net margin	7.8	8.2	8.4	7.8	7.3
Others	84	64	932	875	85	Effective tax rate	27.4	26.6	25.6	25.1	26.0
<b>Total assets</b>	<b>2,552</b>	<b>7,571</b>	<b>9,444</b>	<b>11,138</b>	<b>9,984</b>	<b>Growth (%)</b>					
<b>Current liabilities</b>	<b>1,831</b>	<b>2,424</b>	<b>3,130</b>	<b>4,136</b>	<b>3,397</b>	Revenue	30.5	41.1	34.7	34.2	26.0
Trade and other payables	1,081	1,434	1,644	2,584	1,911	Gross profit	46.6	42.2	23.8	34.4	31.5
Contracted liabilities	704	3	1,182	1,381	1,182	EBIT	58.8	52.3	32.2	16.0	27.3
Others	45	988	304	171	304	Net profit	49.7	49.3	37.3	25.6	16.8
<b>Non-current liabilities</b>	<b>29</b>	<b>25</b>	<b>68</b>	<b>113</b>	<b>68</b>	<b>Balance sheet ratios</b>					
Deferred income tax liabilities	13	13	18	13	18	Current ratio (x)	1.3	3.0	2.8	2.4	2.8
Others	15	12	49	100	49	Receivable turnover days	17	24	40	59	59
<b>Total liabilities</b>	<b>1,859</b>	<b>2,449</b>	<b>3,197</b>	<b>4,249</b>	<b>3,465</b>	<b>Returns (%)</b>					
<b>Equity to shareholders</b>	<b>650</b>	<b>5,055</b>	<b>6,171</b>	<b>6,786</b>	<b>7,318</b>	ROE	50.5	9.7	10.9	12.5	13.5
Non-controlling interests	43	67	76	103	121	ROA	12.9	6.5	7.1	7.6	9.9
<b>Total Equity</b>	<b>693</b>	<b>5,122</b>	<b>6,247</b>	<b>6,889</b>	<b>7,440</b>	<b>Per share</b>					
						EPS (RMB)	N.A.	1.2	1.2	1.5	1.8
						DPS (RMB)	N.A.	0.3	0.4	0.3	0.6
						BVPS (RMB)	N.A.	9.0	10.9	12.0	13.0

Source: Company data, CMBIGM estimates

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