

Excellence Commercial Property (6989 HK)

Corporate services to fuel its 35% CAGR plan; Maintain Buy

If we look closer at its strong 2021 growth, the contribution from business VAS has improved to 22% vs. 14% in 2020. We believe this segment will see further growth potential as the Company has a dominant position in large-corporate property management (30% market share) that allows more penetration opportunities. For example, its VAS service fees for some clients are even higher than basic management fee at a ratio of 1.25 to 1. We believe this new growth engine would lead to its guided 35% NP CAGR towards 2024. On the parentco side, the group's financial position remains healthy within the green category which could lessen investors' worries. We maintain Buy and the Company is trading at attractive valuation of 5x 2022E P/E.

- 2021 results – in line:** The Company delivered 57% growth in 2021 earnings at RMB510mn, at the higher bounds of its 50-60% profit alert. The total revenue grew 37% YoY to RMB3.5bn in 2021 mainly driven by VAS (+118% YoY). GP Margin widened 1.4ppt YoY to 27.7% in 2021 and NPM widened to 14.7% in 2021 (+1.8ppt YoY), also driven by VAS segment (+6.9ppts YoY). EPS was RMB0.42/share (+24% YoY) and the Company declared a relatively generous dividend of HK\$0.36/share (+279% YoY), representing 72% payout ratio (+48ppts YoY).
- Community and business VAS** rose 118% YoY in 2021 to account for 23% of revenue (+8.3ppts YoY). This growth has further facilitated the establishment of value chain for commercial asset services and corporates services, of which corporates services saw a high growth in performance. Gross profit margin were lifted to 41.5% (+6.9% YoY) attributable to the increased proportion of higher GPM businesses.
- Basic PM Business** grew a steady 25% YoY in 2021, mainly driven by 29% growth in managed GFA to 41.2mn sq m (contracted GFA at 56.8mn sq m). It is worth noting that third-party GFA contribution is maintained at a stable and healthy 83% of total commercial properties, which shows the organic growth capabilities of the Company. However, similar industry wide, because there is no longer social security subsidies in 2021 so GPM narrowed slightly to 22.9% in 2021 (-1.2ppts YoY).

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21A	FY22E
Revenue (RMB mn)	1,223	1,836	2,525	3,467	4,980
YoY growth (%)	29.1	50.1	37.5	37.3	43.6
Net income (RMB mn)	126	179	325	510	733
EPS (RMB)	N/A	N/A	0.34	0.42	0.60
YoY growth (%)	N/A	N/A	N/A	23.5	42.9
Consensus EPS (RMB)	N/A	N/A	N/A	N/A	0.63
P/E (x)	N/A	N/A	9.2	7.5	5.2
P/B (x)	N/A	N/A	1.2	1.1	0.9
Yield (%)	N/A	N/A	2.7	4.0	5.7
ROE (%)	55.4	59.8	11.2	15.9	20.7
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$14.90**
 (Previous TP **HK\$14.90**)
 Up/Downside **+297.1%**
 Current Price **HK\$3.75**

China Property Service Sector

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Stock Data

Mkt Cap (HK\$ mn)	4,576
Avg 3 mths t/o (HK\$ mn)	8.55
52w High/Low (HK\$)	10.76/ 2.70
Total Issued Shares (mn)	1,220

Source: Bloomberg

Shareholding Structure

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

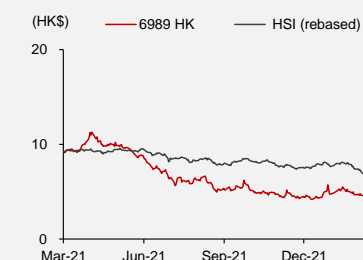
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-18.4%	-13.2%
3-mth	-12.2%	-4.8%
6-mth	-27.4%	-17.9%
12-mth	-58.1%	-44.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Figure 1: 2021 results summary

RMB mn	2020	2021	YoY	Diff. vs. Estimate
Revenue	2,525	3,467	37%	-14%
- Property management services	2,111	2,631	25%	
- VAS	359	781	118%	
- Other	55	56	1%	
Gross profit	664	960	45%	
Net profit	325	510	57%	-9%
EPS (RMB)	0.34	0.42	24%	
DPS (RMB)	0.08	0.30	279%	
Dividend payout ratio	23%	72%	48.2 ppt	
GP Margin	26.3%	27.7%	1.4 ppt	2.7 ppt
Net Margin	12.9%	14.7%	1.8 ppt	0.7 ppt
Managed GFA (mn sq m)	32.0	41.2	29%	
Contracted GFA (mn sq m)	44.7	56.8	27%	

Source: Company data, CMBIGM

Figure 2: Excellence CM PE trend



Source: Bloomberg

Figure 3: PM sector comps

Company	Ticker	CMBI rating	TP (HK\$)	Last price (HK\$)	Mkt Cap (HK\$ mn)	P/E			Net profit growth (%)	
						21A	22E	23E	22E	23E
Country Garden Services	6098 HK	BUY	91.2	32.9	110,695	19.6	13.5	9.6	49.6	38.5
CR MixC Lifestyle	1209 HK	BUY	56.0	36.0	82,056	43.2	30.9	22.9	37.7	34.4
A-Living	3319 HK	HOLD	34.2	11.9	16,898	5.6	4.5	3.6	25.6	25.0
Greentown Services	2869 HK	HOLD	9.5	7.4	23,954	21.0	17.3	13.6	30.3	24.1
Ever Sunshine	1995 HK	HOLD	12.7	10.0	17,455	21.7	15.4	11.2	43.4	38.1
Poly Services	6049 HK	HOLD	53.4	54.9	30,378	28.3	22.8	18.0	23.5	27.0
S-Enjoy	1755 HK	SELL	8.6	9.0	7,814	9.2	6.7	4.9	42.7	36.4
Powerlong Commercial	9909 HK	BUY	33.2	5.8	3,729	6.7	4.9	3.6	38.4	33.3
Excellence CM	6989 HK	BUY	14.9	3.8	4,576	6.8	5.0	3.7	35.5	30.0
Central China New Life	9983 HK	BUY	12.9	4.1	5,204	6.7	5.0	3.8	31.9	30.4
Sino-Ocean Services	6677 HK	BUY	7.1	3.7	4,416	8.7	6.0	4.4	37.9	36.5
New Hope Services	3658 HK	BUY	4.4	2.4	1,913	8.2	4.8	NA	55.5	NA
Redsun Services	1971 HK	BUY	9.4	3.0	1,257	6.5	4.4	3.1	50.2	44.1
Evergrande Services	6666 HK	BUY	10.4	2.3	24,865	5.6	4.2	3.2	32.1	31.2
Sunac Services	1516 HK	BUY	29.8	4.4	13,391	8.4	5.7	4.1	45.0	37.9
COPH	2669 HK	NR	NA	9.6	31,620	34.1	24.9	19.0	30.7	28.8
Times Neighborhood	9928 HK	NR	NA	2.2	2,159	4.4	2.4	2.0	39.9	30.1
Aoyuan Healthy Life	3662 HK	NR	NA	1.8	1,285	2.8	1.9	1.5	41.3	31.2
Shimao Services	873 HK	NR	NA	4.0	9,873	6.3	4.4	3.2	40.7	38.2
KWG Living	3913 HK	NR	NA	2.8	5,729	6.5	4.3	3.2	51.7	32.7
Jinke Smart Services	9666 HK	NR	NA	25.5	16,615	12.2	8.2	5.8	47.3	41.1
Average						22.6	16.4	12.2	39.4	33.8

Source: Bloomberg, CMBIGM

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21A	FY22E
Revenue	1,223	1,836	2,525	3,467	4,980
Basic property mgnt	1,067	1,576	2,111	2,631	3,736
VAS	133	204	359	781	1,239
Other	24	56	55	56	6
Cost of sales	(929)	(1,403)	(1,861)	(2,507)	(3,643)
Gross profit	294	433	664	960	1,337
Other income	3	17	23	46	39
Other net losses	(7)	(16)	21	(6)	(9)
Distribution expenses	(8)	(7)	(15)	(19)	(25)
Administrative expenses	(77)	(97)	(195)	(203)	(314)
Operating profit	205	331	498	778	1,028
Finance expenses	(1)	(20)	(30)	(21)	(2)
Associates/JV	7	6	9	9	10
Exceptional	-	-	-	-	-
Pre-tax profit	211	317	477	766	1,036
Profits tax	(55)	(83)	(121)	(218)	(257)
After-tax profit	157	234	356	547	779
Minority interest	(31)	(55)	(31)	(37)	(46)
Net profit	126	179	325	510	733

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21A	FY22E
EBIT	205	331	498	NA	1,028
Depreciation and amortization	(15)	(28)	(28)	NA	(31)
Change in working capital	(332)	(103)	(17)	NA	315
Income tax paid	(60)	(74)	(131)	NA	(248)
Others	7	3	202	NA	(1)
Net cash from operating	(164)	185	525	NA	1,125
Capex	(16)	(306)	42	NA	(172)
Associates/JV	(21)	1	(11)	NA	(2)
Other	(54)	(460)	0	NA	-
Net cash from investing	(92)	(765)	30	NA	(174)
Equity raised	-	-	2,894	NA	-
Change of Debts	150	315	(91)	NA	(110)
Dividend paid	-	-	(458)	NA	(166)
Other	37	227	(30)	NA	(1)
Net cash from financing	187	542	2,315	NA	(277)
Net change in cash	(69)	(38)	2,870	(310)	674
Cash at the beginning	554	485	447	3,317	3,537
Exchange difference	-	-	-	-	-
Cash at the end	485	447	3,317	3,007	4,210

Key ratios

YE 31 Dec	FY18A	FY19A	FY20A	FY21A	FY22E
Sales mix (%)					
Basic property mgnt services	87.2	85.9	83.6	75.9	75.0
VAS	10.9	11.1	14.2	22.5	24.9
Other	2.0	3.0	2.2	1.6	0.1
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	24.1	23.6	26.3	27.7	26.8
EBIT margin	16.8	18.0	19.7	22.4	20.6
Net margin	10.3	9.7	12.9	14.7	14.7
Effective tax rate	25.9	26.3	25.3	28.5	24.8
Growth rate (%)					
Revenue	29.1	50.1	37.5	37.3	43.6
Gross profit	26.0	47.3	53.1	44.6	39.3
EBIT	12.0	61.3	50.2	56.2	32.1
Net profit attributable	15.3	41.9	82.1	57.0	43.7
Balance sheet ratios					
Current ratio (x)	1.3	1.0	3.5	3.1	2.6
Net gearing ratio (%)	-1.1	-0.1	-0.9	-0.9	-1.1
Returns (%)					
ROE	55.4	59.8	11.2	15.9	20.7
ROA	11.3	9.2	7.2	10.8	12.7
Per share data					
EPS (RMB)	N.A.	N.A.	0.34	0.42	0.60
DPS (RMB)	N.A.	N.A.	0.09	0.13	0.18
BVPS (RMB)	N.A.	N.A.	2.60	2.82	3.08

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21A	FY22E
Non-current assets	115	589	596	323	799
Fixed asset	49	55	64	48	83
Investment properties	11	134	123	112	137
Associates/JV	40	40	51	58	54
Intangible assets/Goodwill	3	338	326	75	496
Other non-current assets	11	22	31	29	28
Current assets	1,265	1,963	4,334	4,513	5,338
Cash	560	516	3,353	3,041	4,280
Account receivable	295	929	561	1,135	850
Inventories	0	0	2	5	0
Other current assets	411	517	418	332	209
Current liabilities	1,002	1,874	1,243	1,473	2,053
Borrowings	150	465	194	75	10
Trade and other payables	766	1,276	893	1,077	1,880
Contract liabilities	45	63	82	216	96
Deferred taxation	34	59	57	91	52
Lease liabilities	7	11	18	14	15
Non-current liabilities	16	222	431	132	239
Borrowings	0	0	180	0	0
Other non-current liabilities	16	222	251	132	239
Shareholders' equity	283	391	3,184	3,446	3,763
Minority interest	80	65	72	21	83
Total equity	363	456	3,256	3,466	3,846

Source: Company data, CMBIGM estimates

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