

# CG Services (6098 HK)

## Keeping low for its second takeoff

CGS may face short-term volatility after adjusting down its 2022E NP growth to 40% from 50%, together with declining margin and high trade receivables. However, we think the downside is limited given the attractive valuation at 15x 2022E and management's promise not to do placement for M&A. Also, margin and receivables will improve in 2022E after the M&A dilution was mainly reflected in 2021. Maintain Buy rating but cut target price to HK\$47.63 on slower growth.

- Road to RMB100bn in 2025E remained but with slight mix change:** The Company reiterated its confidence to achieve its 2025 plan. However the structure may be slightly adjusted to have more VAS contribution (target RMB35bn revenue, up from RMB30bn) as the outlook of city services looks challenging (RMB10bn, down from RMB15bn). Among all the segments, Basic PM Segment has high visibility to RMB50bn given its contracted GFA of 1.5bn sq m. Another key segment is commercial operational services in which CGS has held 100 projects already and will boost via M&A.
- Margin pressure may alleviate in 2022E:** CGS saw a relatively significant margin contraction in 2021 with GPM/NPM down 3ppt to 30%/14%. It was mainly due to the M&A dilution that has dragged down basic PM and community VAS GPM to 30% and 60%. Looking into the future, we think basic PM may see slight downside risk to 28%-29% level but the rest of segment is expected to remain stable given less M&A dilution risk.
- Acquisition of Everjoy (Zhongliang) PM at an attractive valuation of 6x:** CGS has also announced the consideration to acquire Everjoy PM at RMB748mn for its existing managed projects. This is equivalent to 6x 2021A PE which looks like a good deal. Moreover, the acquisition will also involve more payments after Everjoy delivered more GFA in the future with total consideration not exceeding RMB3.1bn. We think the consideration was much lower than the market expectation and thus cleared the concern.
- High trade receivables to improve:** The Company saw a huge trade receivable increase by RMB10bn in 2021 (+200% YoY). Out of which, RMB2bn was the loan to the shareholders of potential M&A underlying and will be used for the payment once the M&A was completed. Also, the rest was mainly due to the consolidation of city service and other M&A companies (RMB1bn+ each from Languang Justbo/R&F PM/City services). We think the situation will improve in 2022E as there are 1) less M&A; 2) CGS will put more efforts in the receivable management of those acquired companies.
- Maintain Buy:** We expect 2022/23E revenue to grow 50/43% after adjusting down the city services segment. GPM and NPM are estimated to stay stable at 29% and 13%. Our new target price is HK\$47.63/share, using 22x 2022E PE, in line with the industry average.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	15,600	28,843	43,303	61,955	86,155
YoY growth (%)	61.7	84.9	50.1	43.1	39.1
Net income (RMB mn)	2,686	4,033	5,662	7,863	10,899
EPS (RMB)	0.98	1.28	1.69	2.35	3.26
YoY growth (%)	55.7	31.1	32.2	38.9	38.6
Consensus EPS (RMB)	N.A.	N.A.	1.94	2.70	3.24
P/E (x)	N.A.	30.1	22.7	16.4	11.8
P/B (x)	N.A.	15.6	12.7	9.2	6.4
Yield (%)	N.A.	0.8	1.1	1.5	2.1
ROE (%)	18.4	11.1	14.1	17.1	20.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

Target Price	HK\$47.63
(Previous TP)	HK\$91.17)
Up/Downside	+52.2%
Current Price	HK\$31.30

### China Property Service Sector

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### Stock Data

Mkt Cap (HK\$ mn)	105,311
Avg 3 mths t/o (HK\$ mn)	869.15
52w High/Low (HK\$)	85.20/22.80
Total Issued Shares (mn)	3,365

Source: Bloomberg

### Shareholding Structure

Chen Chong	45.1%
JPM	5.7%
Free float	48.7%

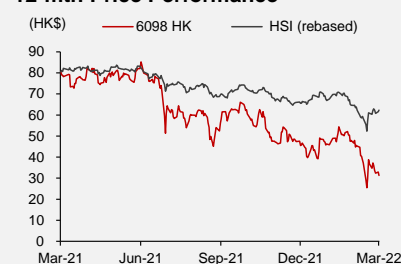
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-29.6%	-26.2%
3-mth	-30.8%	-25.7%
6-mth	-41.5%	-33.9%
12-mth	-57.1%	-43.9%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Figure 1: 2021 results summary

RMB mn	2020	2021	YoY	Diff. vs. Estimate
<b>Revenue</b>	<b>15,600</b>	<b>28,843</b>	<b>85%</b>	<b>6%</b>
- Property management services	8,607	13,794	60%	
- Developer VAS	1,731	3,328	92%	
- Community VAS	1,370	2,675	95%	
- City services	884	4,529	412%	
- Commercial operational	NA	654	NA	
- Others	3,009	3,863	28%	
Gross profit	5,300	8,864	67%	
<b>Net profit</b>	<b>2,686</b>	<b>4,033</b>	<b>50%</b>	<b>-11%</b>
EPS (RMB)	0.98	1.28	31%	
DPS (RMB)	0.22	0.30	37%	
Dividend payout ratio	22.4%	23.4%	1 ppt	
<b>GP Margin</b>	<b>34.0%</b>	<b>30.7%</b>	<b>-3.2 ppt</b>	<b>-1 ppt</b>
<b>Net Margin</b>	<b>17.2%</b>	<b>14.0%</b>	<b>-3.2 ppt</b>	<b>-2.7 ppt</b>
Managed GFA (mn sq m)	319.5	765.7	140%	
Contracted GFA (mn sq m)	745.8	1,437.9	93%	

Source: Company data, CMBIGM

- 2021 results – in line:** The Company delivered 50% YoY growth in 2021 earnings at RMB4bn, in-line with guidance and profit alert of 50% YoY. However, the EPS growth was only 31% due to the placement dilution. Their total revenue grew 85% YoY to RMB29bn mainly driven by its consolidation of city service segment (+412% YoY); Community VAS segment (+95% YoY); Developer VAS segment (+92% YoY); Managed GFA rose to 140% YoY growth to 766mn sq m. after M&A GFA consolidation. GP Margin eroded 3.2ppt YoY to 30.7% in 2021 due to the consolidation of lower GPM city services and acquisitions of new community VAS business. In turn, the decrease caused NPM to erodes 3.2ppt YoY to 14.0% in 2021. The Company decided to declare dividend of RMB0.2995/share (+37% YoY), representing a dividend payout ratio of 23% (+1ppt YoY).
- High trade receivable:** The Company has a trade receivable of RMB10.3bn in 2021 (+141% YoY). Among which, there were RMB882mn (+491% YoY) from parento and RMB9.7bn (+130% YoY) from third parties. During the post-results announcement, the Company said 80% of trade receivable is due within 1 year and most arising from new business lines (city services) and M&As (Languang Justbon; R&F).
- Consolidation of city services and commercial segment.** The Company consolidated two M&As (acquired in 2020 – Manguo & Dongfei), which promoted this segment revenue to RMB4.5bn (+412% YoY) marking 16% of total revenue (+10ppts YoY). Segment GPM decreased to 17.6% in 2021 (-15ppts YoY) also due to consolidation of full year revenue. Moreover, the Company separated commercial operational services segment providing 100 projects services and recording RMB654mn in revenue. Management has guided they will do an acquisition which will be completed this April or May. GPM for commercial operational services was 50.3% in 2021.
- Community VAS:** Segment revenue increased to RMB3.3bn (+92% YoY) accounting for 11.5% of total revenue mainly due to increase in community media services (M&A driven) which recorded +179% YoY growth in revenue. This single business line has accounted for 37% of segment revenue. However, GPM has narrowed to 60.5% (-4.6ppts YoY) due to lower margin new businesses and media services.

**Figure 2: CGS 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	47.6	31.3	105,311	30.1	22.7	16.4	49.6	38.5
CR MixC Lifestyle	1209 HK	BUY	56.0	36.3	82,855	43.6	31.2	23.2	37.7	34.4
A-Living	3319 HK	HOLD	34.2	11.5	16,387	5.5	4.4	3.5	25.6	25.1
Greentown Services	2869 HK	HOLD	9.5	7.5	24,278	21.3	17.9	14.0	20.7	28.9
Ever Sunshine	1995 HK	HOLD	12.7	9.7	16,965	21.0	15.0	10.9	43.4	38.1
Poly Services	6049 HK	HOLD	53.4	55.4	30,655	28.6	23.0	18.1	23.5	26.7
S-Enjoy	1755 HK	SELL	8.6	8.9	7,745	9.1	6.8	5.0	36.6	34.6
Powerlong Commercial	9909 HK	BUY	33.2	5.6	3,626	6.6	4.7	3.5	38.4	33.3
Excellence CM	6989 HK	BUY	14.9	3.9	4,698	7.0	5.0	3.8	39.2	35.0
Central China New Life	9983 HK	BUY	12.9	4.2	5,267	6.8	5.1	3.9	31.7	30.4
Sino-Ocean Services	6677 HK	BUY	7.1	3.7	4,393	8.6	6.0	4.4	43.7	36.4
New Hope Services	3658 HK	BUY	4.4	2.3	1,905	8.1	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	13,422	8.4	5.7	4.1	45.0	37.9
COPH	2669 HK	NR	NA	9.3	30,403	32.8	23.9	18.3	38.8	30.0
Times Neighborhood	9928 HK	NR	NA	2.1	2,099	4.3	2.3	1.9	39.9	30.1
Aoyuan Healthy Life	3662 HK	NR	NA	1.7	1,249	2.7	1.9	1.5	41.3	31.2
Shimao Services	873 HK	NR	NA	3.8	9,428	6.0	4.2	3.0	40.7	38.2
KWG Living	3913 HK	NR	NA	2.7	5,527	6.2	4.2	3.1	50.4	32.9
Jinke Smart Services	9666 HK	NR	NA	25.2	16,452	12.1	8.1	5.8	47.3	41.1
<b>Average</b>						<b>22.5</b>	<b>16.3</b>	<b>12.2</b>	<b>39.2</b>	<b>34.1</b>

Source: Bloomberg, CMBIGM

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>15,600</b>	<b>28,843</b>	<b>43,303</b>	<b>61,955</b>	<b>86,155</b>
Basic PM	8,607	13,794	21,348	30,834	41,400
Non-owner VAS	1,370	2,675	3,936	5,398	6,983
Community VAS	1,731	3,328	6,106	9,426	14,806
City services	884	4,529	4,785	5,635	6,831
Others	3,009	3,863	6,147	9,190	13,928
Cost of sales	(10,301)	(19,979)	(30,540)	(43,901)	(60,896)
<b>Gross Profit</b>	<b>5,300</b>	<b>8,864</b>	<b>12,763</b>	<b>18,054</b>	<b>25,259</b>
Other income	121	199	238	286	343
Selling expenses	(136)	(338)	(476)	(620)	(862)
Administrative expenses	(1,950)	(3,259)	(4,547)	(6,505)	(9,046)
Impairment	(98)	(188)	(291)	(421)	(565)
<b>Operating profit</b>	<b>3,236</b>	<b>5,277</b>	<b>7,686</b>	<b>10,794</b>	<b>15,129</b>
JV/Associates	41	41	54	70	91
Finance cost	44	(98)	-	-	-
Exceptional	394	452	-	-	-
<b>Pre-tax Profit</b>	<b>3,715</b>	<b>5,673</b>	<b>7,740</b>	<b>10,864</b>	<b>15,220</b>
Income tax	(933)	(1,323)	(1,780)	(2,499)	(3,501)
<b>PROFIT FOR THE YEAR</b>	<b>2,782</b>	<b>4,349</b>	<b>5,960</b>	<b>8,365</b>	<b>11,720</b>
Non-controlling interest	(96)	(316)	(298)	(502)	(820)
<b>Net Profit attribute to</b>	<b>2,686</b>	<b>4,033</b>	<b>5,662</b>	<b>7,863</b>	<b>10,899</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Non-current assets</b>	<b>7,916</b>	<b>35,612</b>	<b>38,015</b>	<b>40,826</b>	<b>43,658</b>
Property, plant and equipment	1,249	1,366	2,136	2,907	3,678
Intangible assets	6,176	27,945	29,915	31,885	33,855
Others	490	6,302	5,965	6,035	6,126
<b>Current assets</b>	<b>23,288</b>	<b>31,200</b>	<b>43,054</b>	<b>59,402</b>	<b>67,687</b>
Trade and other receivables	5,244	15,578	23,388	33,461	46,532
Cash and cash equivalents	15,215	11,619	15,551	21,684	16,720
Others	2,829	4,004	4,115	4,256	4,435
<b>Total assets</b>	<b>31,204</b>	<b>66,813</b>	<b>81,069</b>	<b>100,228</b>	<b>111,345</b>
<b>Current liabilities</b>	<b>14,233</b>	<b>24,791</b>	<b>34,893</b>	<b>47,651</b>	<b>49,773</b>
Trade and other payables	7,476	14,413	22,032	31,671	43,931
Others	6,757	10,378	12,861	15,981	5,842
<b>Non-current liabilities</b>	<b>812</b>	<b>3,649</b>	<b>3,649</b>	<b>3,649</b>	<b>3,649</b>
Deferred income tax liabilities	510	2,275	2,275	2,275	2,275
Others	302	1,374	1,374	1,374	1,374
<b>Total liabilities</b>	<b>15,045</b>	<b>28,439</b>	<b>38,542</b>	<b>51,300</b>	<b>53,421</b>
<b>Equity to shareholders</b>	<b>14,566</b>	<b>36,187</b>	<b>40,043</b>	<b>45,941</b>	<b>54,117</b>
Non-controlling interests	1,593	2,187	2,485	2,987	3,807
<b>Total Equity</b>	<b>16,159</b>	<b>38,373</b>	<b>42,527</b>	<b>48,928</b>	<b>57,924</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Profit before tax</b>	<b>3,715</b>	<b>5,673</b>	<b>7,740</b>	<b>10,864</b>	<b>15,220</b>
D&A	60	NA	60	60	60
Change in working capital	3,951	NA	2,182	2,543	(11,128)
Others	(1,017)	NA	(1,834)	(2,569)	(3,592)
<b>Net cash from operating</b>	<b>6,709</b>	<b>NA</b>	<b>8,148</b>	<b>10,899</b>	<b>561</b>
Capex	(5,570)	NA	(2,800)	(2,800)	(2,800)
JV/Associates	-	NA	-	-	-
Others	44	NA	-	-	-
<b>Net cash from investing</b>	<b>(5,526)</b>	<b>NA</b>	<b>(2,800)</b>	<b>(2,800)</b>	<b>(2,800)</b>
Equity raised	-	NA	-	-	-
Change of debts	3,812	NA	-	-	-
Others	3,307	NA	(1,416)	(1,966)	(2,725)
<b>Net cash from financing</b>	<b>7,118</b>	<b>NA</b>	<b>(1,416)</b>	<b>(1,966)</b>	<b>(2,725)</b>
Net change in cash	8,301	(3,596)	3,932	6,133	(4,964)
<b>Cash at the beginning of the year</b>	<b>6,914</b>	<b>15,215</b>	<b>11,619</b>	<b>15,551</b>	<b>21,684</b>
Exchange difference	-	-	-	-	-
<b>Cash at the end of the year</b>	<b>15,215</b>	<b>11,619</b>	<b>15,551</b>	<b>21,684</b>	<b>16,720</b>

### Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
Basic PM	55.2	47.8	49.3	49.8	48.1
Non-owner VAS	8.8	9.3	9.1	8.7	8.1
Community VAS	11.1	11.5	14.1	15.2	17.2
City services	5.7	15.7	11.0	9.1	7.9
Commercial operational services	0.0	2.3	2.3	2.4	2.6
Others	19.3	13.4	14.2	14.8	16.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	34.0	30.7	29.5	29.1	29.3
Net margin	17.2	14.0	13.1	12.7	12.7
Effective tax rate	25.1	23.3	23.0	23.0	23.0
<b>Growth (%)</b>					
Revenue	61.7	84.9	50.1	43.1	39.1
Gross profit	73.6	67.3	44.0	41.5	39.9
Operating profit	80.0	63.1	45.7	40.4	40.2
Net profit	60.8	50.2	40.4	38.9	38.6
<b>Balance sheet ratios</b>					
Current ratio (x)	1.6	1.3	1.2	1.2	1.4
Receivable turnover days	123	197	197	197	197
<b>Returns (%)</b>					
ROE	18.4	11.1	14.1	17.1	20.1
ROA	8.6	6.0	7.0	7.8	9.8
<b>Per share</b>					
EPS (RMB)	0.98	1.28	1.69	2.35	3.26
DPS (RMB)	0.23	0.30	0.42	0.59	0.81
BVPS (RMB)	2.84	2.46	3.03	4.20	6.05

Source: Company data, CMBIGM estimates

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