

CG Services (6098 HK)

1H22 preview: results may beat but AR takes time

We forecast CGS will deliver slightly better-than-expected 1H22E results with revenue and NP to grow 49%/39% YoY (vs. market expectation of 30-35%). Both are mainly supported by the consolidation of M&As since 2H21 and the new business (commercial operation). However, account receivables are still yet to improve due to challenging macro for developers and this may neutralize the quality of its bottom line growth. Valuation-wise, currently the company is trading at 16x 2022E PE, below 1-std deviation of 25x and looks still attractive. We expect a further re-rating if AR is improving in 2H22E and parentco's sales could further improve to self-prove its liquidity position. Maintain BUY rating.

■ Segments in details (Figure 1):

- **Traditional PM (64% of group)** is likely to grow 62% YoY to RMB11bn and becomes the biggest revenue driver for 1H22. The increase is mainly coming from the consolidation and completion of major acquisitions such as Languang Jusbon, R&F PM and Fantasia in 2H21. This has driven managed GFA to 672mn sqm by Dec 21 end vs. 429mn sqm in Jun 21 (+57% HoH) and we expect to reach 720mn sqm by Jun 22. For GP margin, we expect 30% in 1H22E to be in line with the guidance.
 - **Commercial operation is filling the void:** CGS just started its commercial operation for shopping malls with over 100 projects (5mn sqm) and recorded RMB654mn in 2H21. We expect this number to grow to RMB800mn in 1H22E due to still low base. For GP margin, we expect 50% in 1H22E
 - **Community VAS** may see 11% YoY rise on further penetration of its group purchasing/advertisement business, but may offset by other segments. GPM is estimated to stay at 60%.
 - **Non-owner VAS:** We expect 7% YoY increase which has reflected by a 40% YoY decline in parentco's sales. However, CGS has added service fee of carpark/housing sales into this category aggressively since 2H21 and it will help support 1H22E revenue. We forecast GPM at 40%.
- **Improvement of account receivables may wait until 2H22E:** To recall, the Company saw a huge increase in trade receivable by RMB10bn in 2021 (+200% YoY) to RMB15bn. The majority is coming from M&A acquisitions (R&F, Languang) and city services. Due to the still challenging macro environment in 1H22, especially for developers, we do not expect much improvement compared to Dec 2021 and AR may remain at RMB15bn, flatish HoH.

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.	22.2	16.1	11.8	8.5
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**
 Up/Downside **+43.9%**
 Current Price **HK\$33.10**

China Property Service Sector

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Stock Data

Mkt Cap (HK\$ mn)	111,521
Avg 3 mths t/o (HK\$ mn)	557.73
52w High/Low (HK\$)	81.85/22.80
Total Issued Shares (mn)	3,369
Source: Bloomberg	

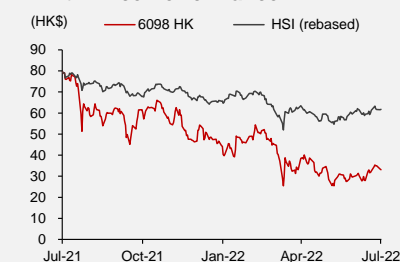
Shareholding Structure

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

Share Performance

	Absolute	Relative
1-mth	12.8%	21.8%
3-mth	-13.1%	13.4%
6-mth	-24.3%	6.2%
12-mth	-58.2%	-45.0%
Source: Bloomberg		

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Figure 1: Our forecast for 1H22E

RMB mn	1H20	1H21	1H22E	YoY
Revenue	6,271	11,560	17,186	49%
- Property management services	4,885	6,756	10,945	62%
- Developer VAS	674	1,058	1,133	7%
- Community VAS	603	1,398	1,558	11%
- City services	37	2,095	2,400	15%
- Office		-	800	NA
- Others	72	252	350	39%
Gross profit	2,333	3,860	5,528	43%
Net profit	1,315	2,113	2,931	39%
GP Margin	37.2%	33.4%	32.2%	-1.2 ppt
Net Margin	21.0%	18.3%	17.1%	-1.2 ppt
Managed GFA (mn sq m)	319.5	429.0	720.0	68%

Source: Company data, CMBIGM

Figure 2: CGS 1-yr forward PE trend



Source: Bloomberg

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	15,600	28,843	43,303	61,955	86,155
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)
Gross Profit	5,300	8,864	12,763	18,054	25,259
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)
Operating profit	3,236	5,277	7,686	10,794	15,129
JV/Associates	41	41	54	70	91
Finance cost	44	(98)	-	-	-
Exceptional	394	452	-	-	-
Pre-tax Profit	3,715	5,673	7,740	10,864	15,220
Income tax	(933)	(1,323)	(1,780)	(2,499)	(3,501)
PROFIT FOR THE YEAR	2,782	4,349	5,960	8,365	11,720
Non-controlling interest	(96)	(316)	(298)	(502)	(820)
Net Profit attribute to	2,686	4,033	5,662	7,863	10,899

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	7,916	35,612	38,015	40,826	43,658
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
Current assets	23,288	31,200	43,054	59,402	67,687
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
Total assets	31,204	66,813	81,069	100,228	111,345
Current liabilities	14,233	24,791	34,893	47,651	49,773
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
Non-current liabilities	812	3,649	3,649	3,649	3,649
Deferred income tax liabilities	510	2,275	2,275	2,275	2,275
Others	302	1,374	1,374	1,374	1,374
Total liabilities	15,045	28,439	38,542	51,300	53,421
Equity to shareholders	14,566	36,187	40,043	45,941	54,117
Non-controlling interests	1,593	2,187	2,485	2,987	3,807
Total Equity	16,159	38,373	42,527	48,928	57,924

Cash flow summary

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

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
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
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
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
Growth (%)					
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
Balance sheet ratios					
Current ratio (x)	1.6	1.3	1.2	1.2	1.4
Receivable turnover days	123	197	197	197	197
Returns (%)					
ROE	18.4	11.1	14.1	17.1	20.1
ROA	8.6	6.0	7.0	7.8	9.8
Per share					
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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