

COMPANY UPDATE

Country Garden Services (6098 HK)

Issues Profit Alert For 2022 - Results Below Expectation Due To Impairment Of Goodwill

CGS' core attributable net profit is expected to grow 5% yoy, beating our expectation. Attributable net profit is expected to decline by 51% to 57% yoy, below our expectation. Impairment of goodwill and other intangible assets arising from M&A companies is the major reason behind the underperformance. We lower our 2022/23/24 forecast of attributable net profit by 61%/46%/43% respectively. Cashflow is less affected. Maintain BUY with a lower target price of HK\$19.84.

2022 PRELIMINARY RESULTS

Year to 31 Dec (Rmbm)	2021 Actual	2022 Preliminary	yoy	2022 UOBKH Estimate	Variation
Revenue	28,843	40,380	40%	41,722	-3.2%
Core attributable net profit	4,607	4,837	5%	4,895	-1.2%
Before tax profit	5,673	3,404-3,744	-34% ~ -40%	6,429	-42% ~ -47%
Net profit	4,350	2,131-2,392	-45% ~ -51%	4,834	-51% ~ -56%
Attributable net profit	4,033	1,734-1,976	-51% ~ -57%	4,518	-56% ~ -62%

Source: Country Garden Services, UOB Kay Hian

RESULTS

- 2022 preliminary results below expectation.** According to a profit alert published by Country Garden Services (CGS) on 3 Mar 23, in 2022: a) revenue/core attributable net profit is expected to grow 40%/5% yoy to over Rmb40,380/Rmb4,837m respectively, in line with our expectation, and b) attributable net profit is expected to decline by 51% to 57% yoy to Rmb1,734m to Rmb1,976m, which is 56-62% below our expectation. The sharp decline in attributable net profit is mainly due to: a) additional pandemic prevention expenses, b) negative impact on business development from the COVID-19 lockdowns, and c) impairment of goodwill and other intangible assets arising from some M&A companies.

STOCK IMPACT

- M&A projects missed 2022 targets.** The impairment loss implies that M&A projects may have missed their earnings targets that were promised at acquisition. Looking ahead, with China opening up, we expect the business development of M&A projects to also resume at an accelerated pace. In the medium term, we remain positive on the company's management capacity.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2020	2021	2022F	2023F	2024F
Net turnover	15,600	28,843	40,844	44,571	50,132
EBITDA	3,922	6,643	7,282	7,394	7,843
Operating profit	3,630	5,729	6,277	6,288	6,627
Net profit (rep./act.)	2,686	4,033	1,769	2,593	3,085
Net profit (adj.)	2,686	4,033	1,769	2,593	3,085
EPS (Fen)	96.3	128.0	56.1	82.3	97.9
PE (x)	14.3	10.8	24.5	16.7	14.1
P/B (x)	2.8	1.3	1.2	1.2	1.1
EV/EBITDA (x)	8.7	5.1	4.7	4.6	4.3
Dividend yield (%)	1.6	2.2	1.0	1.5	1.7
Net margin (%)	17.2	14.0	4.3	5.8	6.2
Net debt/(cash) to equity (%)	(100.3)	(29.0)	(30.5)	(38.5)	(47.8)
Interest cover (x)	n.a.	67.9	n.a.	n.a.	n.a.
ROE (%)	26.9	15.9	4.8	6.7	7.6
Consensus net profit	-	-	4,757	5,947	7,224
UOBKH/Consensus (x)	-	-	0.37	0.44	0.43

Source: Country Garden Services, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$15.60
Target Price	HK\$19.84
Upside	+27.2%
(Previous TP)	HK\$27.46)

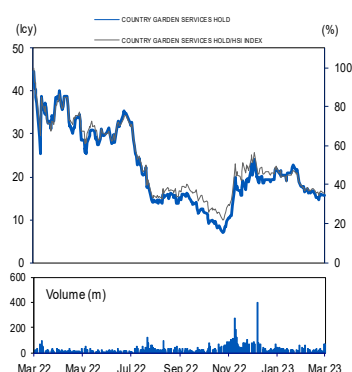
COMPANY DESCRIPTION

Country Garden Services provides real estate development services. The company develops residential apartments, multi-functional complexes, government and public facilities, industrial parks, and highway service stations.

STOCK DATA

GICS sector	Real Estate			
Bloomberg ticker:	6098 HK			
Shares issued (m):	3,373.1			
Market cap (HK\$m):	52,620.8			
Market cap (US\$m):	6,703.5			
3-mth avg daily t'over (US\$m):	103.0			
Price Performance (%)				
52-week high/low		HK\$44.70/HK\$6.86		
1mth	3mth	6mth	1yr	YTD
(12.2)	(31.9)	3.4	(65.5)	(19.8)
Major Shareholders				%
-				-
-				-
-				-
FY23 NAV/Share (Rmb)				11.76
FY23 Net Cash/Share (Rmb)				4.64

PRICE CHART



Source: Bloomberg

ANALYST(S)

Jieqi Liu
+852 2826 1392
jieqi.liu@uobkayhian.com.hk

Damon Shen
+86 21 54047225 ext.820
damonshen@uobkayhian.com

EARNINGS REVISION/RISK

- **Lower earnings forecast.** For prudence, we factor in: a) Rmb2.7b/Rmb2.0b/Rmb1.8b impairment loss for 2022/23/24; and b) slower-than-expected earnings growth of M&A projects, we lower our 2022/23/24 forecast of attributable net profit by 61%/46%/43% to Rmb1.8b/Rmb2.7b/Rmb3.2b respectively. Excluding impairment loss, our forecast of core attributable net profit is lowered by 1.0%/4.7%/9.1% respectively for 2022/23/24.

VALUATION/RECOMMENDATION

Maintain BUY with a lower target price of HK\$19.84. We applied a higher WACC to reflect lower visibility of earnings and higher volatility of the company. Impairment loss is a non-cash item, thus will have a relatively smaller impact on CGS' DCF model-derived target price. The target price implies 21.7x 2023F PE, which is close to 0.5SD below mean.

SHARE PRICE CATALYST

- Faster-than-expected recovery of business expansion of property management companies in 2023.
- Stronger-than-expected economic recovery in 2023.

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Net turnover	28,843.0	40,844.2	44,571.1	50,131.8
EBITDA	6,643.4	7,282.0	7,394.0	7,843.3
Deprec. & amort.	914.1	1,005.5	1,106.1	1,216.7
EBIT	5,729.3	6,276.5	6,287.9	6,626.6
Associate contributions	41.4	49.7	59.6	71.6
Net interest income/(expense)	(97.9)	37.3	177.4	212.9
Pre-tax profit	5,672.8	3,663.5	4,525.0	5,111.1
Tax	(1,323.4)	(1,578.5)	(1,616.3)	(1,709.9)
Minorities	(316.1)	(316.1)	(316.1)	(316.1)
Net profit	4,033.4	1,769.0	2,592.6	3,085.2
Net profit (adj.)	4,033.4	1,769.0	2,592.6	3,085.2

BALANCE SHEET

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Fixed assets	1,629.3	2,015.2	2,439.7	2,827.3
Other LT assets	33,983.0	30,662.4	27,984.6	25,445.1
Cash/ST investment	11,618.6	12,572.3	16,338.0	21,123.4
Other current assets	19,581.9	21,281.2	23,415.8	26,535.8
Total assets	66,812.8	66,531.0	70,178.1	75,931.6
ST debt	680.4	680.4	680.4	680.4
Other current liabilities	24,110.2	22,176.8	23,550.4	26,658.5
LT debt	442.2	442.2	442.2	442.2
Other LT liabilities	3,206.5	3,206.5	3,206.5	3,206.5
Shareholders' equity	36,186.9	37,522.5	39,479.9	41,809.2
Minority interest	2,186.6	2,502.7	2,818.7	3,134.8
Total liabilities & equity	66,812.8	66,531.0	70,178.1	75,931.6

CASH FLOW

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Operating	3,407.4	6,173.0	5,194.0	6,334.5
Pre-tax profit	5,672.8	3,663.5	4,525.0	5,111.1
Tax	(1,347.4)	(1,578.5)	(1,616.3)	(1,709.9)
Deprec. & amort.	914.1	1,005.5	1,106.1	1,216.7
Associates	(41.4)	(49.7)	(59.6)	(71.6)
Working capital changes	(1,972.4)	432.1	(761.1)	(11.9)
Non-cash items	122.6	2,700.0	2,000.0	1,800.0
Other operating cashflows	59.0	0.0	0.0	0.0
Investing	(25,092.4)	(721.1)	(793.2)	(793.2)
Capex (growth)	(17,273.7)	(721.1)	(793.2)	(793.2)
Investments	(7,816.0)	0.0	0.0	0.0
Others	(2.6)	0.0	0.0	0.0
Financing	18,297.6	(4,498.2)	(635.2)	(755.9)
Dividend payments	(760.1)	(433.4)	(635.2)	(755.9)
Issue of shares	15,311.7	0.0	0.0	0.0
Proceeds from borrowings	4,538.1	(4,064.8)	0.0	0.0
Others/interest paid	(792.1)	0.0	0.0	0.0
Net cash inflow (outflow)	(3,387.4)	953.7	3,765.6	4,785.4
Beginning cash & cash equivalent	15,215.2	11,618.6	12,572.3	16,338.0
Changes due to forex impact	(209.2)	0.0	0.0	0.0
Ending cash & cash equivalent	11,618.6	12,572.3	16,338.0	21,123.4

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	23.0	17.8	16.6	15.6
Pre-tax margin	19.7	9.0	10.2	10.2
Net margin	14.0	4.3	5.8	6.2
ROA	8.2	2.7	3.8	4.2
ROE	15.9	4.8	6.7	7.6
Growth				
Turnover	84.9	41.6	9.1	12.5
EBITDA	69.4	9.6	1.5	6.1
Pre-tax profit	52.7	(35.4)	23.5	13.0
Net profit	50.2	(56.1)	46.6	19.0
Net profit (adj.)	50.2	(56.1)	46.6	19.0
EPS	32.9	(56.1)	46.6	19.0
Leverage				
Debt to total capital	2.8	2.7	2.6	2.4
Debt to equity	3.1	3.0	2.8	2.7
Net debt/(cash) to equity	(29.0)	(30.5)	(38.5)	(47.8)
Interest cover (x)	67.9	n.a.	n.a.	n.a.

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2023, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W