

COMPANY RESULTS

CG Services (6098 HK)

2022: Results At High End Of Guidance; Special Dividend Came As Surprise

CGS' attributable net profit was Rmb1,943m, decreasing 51.8% yoy, which is at the high end of earnings guidance. The special dividend of Rmb0.23/share came as a surprise. CGS' capability of market expansion remained strong in 2022; however, risks of receivables are still rising. Management prudently targets low double-digit growth in 2023. Maintain BUY with an unchanged target price of Rmb19.84.

2022 RESULTS

Year to 31 Dec (Rmbm)	2021	2022	yoy	UOBKH Estimate	Actual Vs Est.
Revenue	28,843	41,367	+ 43.4%	41,722	- 0.9%
Gross profit	8,864	10,258	+ 15.7%	10,776	- 4.8%
EBIT	5,729	3,523	-38.5%	3,642	- 3.3%
Attributable net profit	4,033	1,943	- 51.8%	1,818	+6.9%
Core attributable net profit	4,607	5,022	+ 9.0%		
Net impairment losses on goodwill and other intangible asset		-1,770	n/m	-2,700	-34.4%
EPS (Rmb/share)	1.28	0.58	- 54.9%		
DPS^ (Rmb/share)	0.30	0.14	- 51.8%		
Dividend Payout Ratio	23.4%	25.1%	+ 7.1%		
Cash	11,619	11,216	- 3.5%		
Margins/Ratios	FY21	FY22	yoy chg		
Gross Profit Margin	30.7%	24.8%	-5.9 pp	25.8%	-1.0 pp
Gross Profit Margin - adjusted*	32.5%	28.6%	-3.9pp		
SG&A/revenue	-12.5%	-11.4%	+1.1 pp		
Total labour cost /revenue	41.4%	45.3%	+3.9 pp		
Account Recievable Turnover Days	130	164	+34 days		

Source: CGS, UOB Kay Hian. *Special dividend of Rmb0.2281 is not included. *the adjustment to GP margin is to exclude the impact of amortization of intangible assets and reclassification of cost of management staff.

RESULTS

- **Attributable net profit below expectation.** CG Services' (CGS) attributable net profit was Rmb1,943m, decreasing 51.8% yoy, which is at the high end of the profit warning (attributable net profit fell by 51-57%). The final figure of net impairment losses on goodwill is smaller than our expectation. CGS declared an annual DPS of Rmb0.14/share, implying payout ratio of 25.1% (vs 23.4% in 2021). Besides, CGS also declared a special DPS of Rmb0.23/share, which came as an upside surprise.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	28,843	41,367	46,187	52,312	59,112
EBITDA	6,643	6,299	6,923	7,359	7,992
Operating profit	5,729	5,294	5,817	6,143	6,654
Net profit (rep./act.)	4,033	1,943	3,697	3,772	3,868
Net profit (adj.)	4,033	1,943	3,697	3,772	3,868
EPS (Fen)	128.0	61.7	117.3	119.7	122.8
PE (x)	9.2	19.1	10.0	9.8	9.6
P/B (x)	1.1	1.1	1.0	0.9	0.9
EV/EBITDA (x)	3.9	4.1	3.7	3.5	3.2
Dividend yield (%)	2.5	3.4	2.4	2.5	2.6
Net margin (%)	14.0	4.7	8.0	7.2	6.5
Net debt/(cash) to equity (%)	(29.0)	(23.9)	(41.7)	(37.9)	(55.9)
Interest cover (x)	67.9	87.3	n.a.	n.a.	n.a.
ROE (%)	15.9	5.3	9.5	9.1	8.7
Consensus net profit	-	-	5,476	6,802	7,471
UOBKH/Consensus (x)	-	-	0.68	0.55	0.52

Source: CPH, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$13.44
Target Price	HK\$19.84
Upside	+47.6%

COMPANY DESCRIPTION

CG 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):	45,334.8
Market cap (US\$m):	5,775.2
3-mth avg daily t'over (US\$m):	63.5

Price Performance (%)

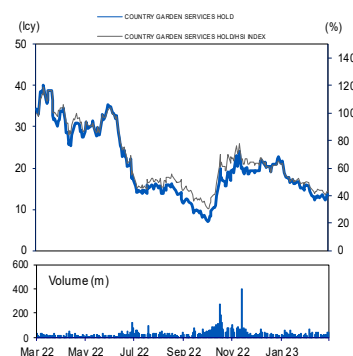
52-week high/low HK\$40.10/HK\$6.86

1mth	3mth	6mth	1yr	YTD
(7.6)	(28.7)	15.7	(57.1)	(30.9)

Major Shareholders

	%
-	-
-	-
-	-
FY23 NAV/Share (Rmb)	11.96
FY23 Net Cash/Share (Rmb)	4.99

PRICE CHART



Source: Bloomberg

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- **Capability of market expansion remained strong.** In 2022, new contracted GFA through market expansion amounted to 104m sqm, increasing by 23.8% yoy. Annual contract value of new contracted GFA through market expansion amounted to Rmb162.6b, jumping 43% yoy. In 2022, CGS also exited from 84m sqm of contracted GFA, which were offering a much lower margin.
- **Sharp contraction of profit from value-added services to non-property owners.** Total revenue grew 43.4% to Rmb41.4b. The revenue of value-added services (VAS) to non-property owners sharply underperformed, reporting a 0.4% yoy decrease in 2022. Gross profit contribution from value-added services to non-property owners declined to 4% in 2022 (2021: 12%), caused by a 27.3ppt yoy decrease in its gross profit margin (2021: 40.9% vs 2022: 13.6%).
- **Rising risk of receivables.** Receivables grew 42% yoy to Rmb22.1b, pointing to a drop in collection ratio, which was partially due to strict COVID-19 restrictions in 2022. The account receivable turnover days in 2022 increased by 34 days to 164 days. The estimated impairment rate of receivables went up from 2.8% to 3.9% in 2022, causing a total provision for receivable impairment of nearly Rmb0.6b.

STOCK IMPACT

- **Targeting low double-digit earnings growth in 2023.** Management believes that the worst period is behind CGS. For 2023, key growth drivers are expected to include: a) development of the commercial management segment, where CGS has made major breakthrough this year, b) resumption of VAS after all COVID-19-related restrictions are lifted, and c) market expansion. We are positive on CGS' capability of expansion; however, we are cautious on its profitability, as we think it will continue to face downside risks on gross profit margin and receivable impairment.

EARNINGS REVISION/RISK

- **Raise 2023/24 earnings forecast as we lower assumption of goodwill impairment loss and introduce 2025 earnings forecast.** We raise our earnings forecast for 2023/24 by 38%/18% respectively to factor in smaller impairment loss assumption on goodwill. We also introduce forecast for 2025.
- **Key risks include:** a) wages of workers rising at a faster-than-expected pace, and b) the government unexpectedly tightening regulations on the property management sectors.

VALUATION/RECOMMENDATION

- **Maintain BUY with an unchanged target price of HK\$19.84, derived from DCF model with a WACC of 14.5%.** The impairment loss is a non-cash item, thus our revision to impairment loss assumption will not change our DCM model target price. The target price implies 16.2x 2024F PE, which is close to mean of two-year forward PE.

SHARE PRICE CATALYST

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

PROPORTION OF GROSS PROFIT

	2021	2022
Property management services	47%	57%
Community Value-Added Services (VAS)	23%	21%
VAS to Non-Property Owners	12%	4%
Three supplies and property management businesses	5%	5%
City service	9%	9%
Commercial operational services	4%	4%
Others	0%	1%
Total	100%	100%

Source: CGS, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	41,366.6	46,187.0	52,311.5	59,112.0
EBITDA	6,299.3	6,922.9	7,359.3	7,991.9
Deprec. & amort.	1,005.5	1,106.1	1,216.7	1,338.3
EBIT	5,293.8	5,816.9	6,142.7	6,653.6
Associate contributions	34.4	41.3	49.6	59.5
Net interest income/(expense)	(72.1)	147.9	177.4	0.0
Pre-tax profit	3,485.7	5,506.0	5,669.7	5,913.1
Tax	(1,224.3)	(1,491.2)	(1,580.0)	(1,663.4)
Minorities	(317.9)	(317.9)	(317.9)	(381.5)
Net profit	1,943.5	3,696.9	3,771.7	3,868.2
Net profit (adj.)	1,943.5	3,696.9	3,771.7	3,868.2

BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	1,691.9	2,116.4	2,504.0	2,851.1
Other LT assets	33,728.5	32,532.4	31,070.9	29,438.2
Cash/ST investment	11,215.8	19,043.9	18,593.4	27,980.4
Other current assets	23,440.7	19,369.7	29,202.0	24,291.2
Total assets	70,076.9	73,062.5	81,370.3	84,560.7
ST debt	1,237.6	1,237.6	1,237.6	1,237.6
Other current liabilities	23,756.5	23,633.0	28,775.3	28,662.7
LT debt	1,015.9	1,015.9	1,015.9	1,015.9
Other LT liabilities	4,157.8	4,157.8	4,157.8	4,157.8
Shareholders' equity	37,456.4	40,247.6	43,095.3	46,016.8
Minority interest	2,452.6	2,770.5	3,088.4	3,469.9
Total liabilities & equity	70,076.9	73,062.5	81,370.3	84,560.7

CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Operating	2,272.8	9,527.1	1,266.7	11,127.8
Pre-tax profit	3,485.7	5,506.0	5,669.7	5,913.1
Tax	(1,224.3)	(1,491.2)	(1,580.0)	(1,663.4)
Deprec. & amort.	1,005.5	1,106.1	1,216.7	1,338.3
Associates	(34.4)	(41.3)	(49.6)	(59.5)
Working capital changes	(2,730.1)	3,947.5	(4,690.0)	4,799.3
Non-cash items	1,770.4	500.0	700.0	800.0
Other operating cashflows	0.0	0.0	0.0	0.0
Investing	2,072.3	(793.2)	(793.2)	(791.2)
Capex (growth)	(721.1)	(793.2)	(793.2)	(792.2)
Investments	2,793.4	0.0	0.0	0.0
Others	0.0	0.0	0.0	1.0
Financing	(4,748.2)	(905.8)	(924.1)	(949.7)
Dividend payments	(1,255.5)	(905.8)	(924.1)	(947.7)
Issue of shares	0.0	0.0	0.0	1.0
Proceeds from borrowings	(2,933.8)	0.0	0.0	0.0
Others/interest paid	(559.0)	0.0	0.0	(3.0)
Net cash inflow (outflow)	(403.1)	7,828.2	(450.5)	9,386.9
Beginning cash & cash equivalent	11,618.6	11,215.8	19,043.9	18,593.4
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	11,215.5	19,043.9	18,593.4	27,980.4

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	15.2	15.0	14.1	13.5
Pre-tax margin	8.4	11.9	10.8	10.0
Net margin	4.7	8.0	7.2	6.5
ROA	2.8	5.2	4.9	4.7
ROE	5.3	9.5	9.1	8.7
Growth				
Turnover	43.4	11.7	13.3	13.0
EBITDA	(5.2)	9.9	6.3	8.6
Pre-tax profit	(38.6)	58.0	3.0	4.3
Net profit	(51.8)	90.2	2.0	2.6
Net profit (adj.)	(51.8)	90.2	2.0	2.6
EPS	(51.8)	90.2	2.0	2.6
Leverage				
Debt to total capital	5.3	5.0	4.7	4.4
Debt to equity	6.0	5.6	5.2	4.9
Net debt/(cash) to equity	(23.9)	(41.7)	(37.9)	(55.9)
Interest cover (x)	87.3	n.a.	n.a.	n.a.

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