

COMPANY RESULTS

Country Garden Services (6098 HK)

1H23: Results In Line With Profit Alert; Regaining Growth May Need More Time

CGS' 1H23 earnings dropped by 9.5% yoy, coming in at the low end of its profit alert. No interim dividend was declared. The steady growth in property management services was partially offset by a deterioration of value added services. The rapid increase in related party receivables may point to rising risks of impairment. Management strives to achieve steady development and independence in 2H23. We keep our earnings forecasts. Maintain target price of HK\$9.16 and HOLD rating.

1H23 RESULTS

(Rmbm)	1H23	1H22	yoy	2H22	hoh
Revenue	20,733	20,055	3.4%	21,311	-2.7%
Gross profit	5,158	5,387	-4.3%	4,871	5.9%
EBIT	3,247	3,626	-10.5%	-103	n/m
Attributable net profit	2,351	2,576	-8.7%	-632	n/m
Core attributable net profit	2,615	2,891	-9.5%	2,131	22.7%
EPS	0.697	0.765	-8.9%	-0.188	n/m
DPS ^	0.00	0.00	n/m	0.37	n/m
Key BS items	1H23	1H22	yoy	2H22	hoh
Cash	12,545	8,816	42.3%	11,216	11.8%
Trade and other receivables	24,053	18,590	29.4%	22,146	8.6%
Margins/Ratios	1H23	1H22	yoy	2H22	hoh
Gross Profit Margin	24.9%	26.9%	-2.0 pp	22.9%	+2.0 ppt
SG&A/revenue	9.5%	10.5%	-1.0%	12.2%	-2.7ppt

Source: CGS, UOB Kay Hian. ^Special dividend of Rmb0.2281 is not included.

RESULTS

- **1H23 results in line with profit alert.** Country Garden Services' (CGS) 1H23 earning came in at the low of its profit alert: a) revenue was Rmb20.733b, +3.4% yoy; b) gross profit margin declined by 2.0 ppt yoy to 24.9%; c) core net profit decreased 9.5% yoy to Rmb2.615b (vs profit alert: Rmb2.602b-2.819b). No interim dividend was announced. There are two highlights: a) SG&A ratio declined by 0.9ppt; and b) cash increased by 11.8% hoh to Rmb12.6b.

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.)	4,607	5,022	4,827	5,024	5,126
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 (%)	3.5	4.4	4.1	4.3	4.4
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)	-	-	1.12	1.04	0.96

Source: COPH, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	HK\$9.45
Target Price	HK\$9.16
Upside	-3.1%

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):	3,373.2
Market cap (HK\$m):	29,009.6
Market cap (US\$m):	3,698.0
3-mth avg daily t'over (US\$m):	63.8

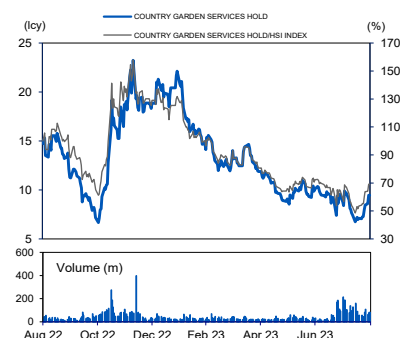
Price Performance (%)

52-week high/low					HK\$23.25/HK\$6.66
1mth	3mth	6mth	1yr	YTD	
(9.9)	(3.4)	(39.1)	(44.9)	(54.4)	

Major Shareholders

	%
-	-
-	-
-	-
FY23 NAV/Share (Rmb)	11.82
FY23 Net Cash/Share (Rmb)	4.79

PRICE CHART



ANALYST(S)

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

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

- **Steady growth in property management services.** Driven by the 8.6% yoy growth in GFA under management, revenue of property management services increased 10.9% yoy to Rmb12.2b, but with lower contribution from third-party projects (56.2% in 1H23 vs 58.5% in 1H22). The improvement in gross profit margin is a highlight. However, contracted GFA grew by only 2.3% yoy/2.8% hoh, indicating weakening expansion capacity.
- **Community VAS under pressure.** The increase in revenue of home services and real estate brokerage services was offset by a decrease in home decoration/community media/local life/community area services. Gross profit margin decreased 11.0ppt yoy and 4.8pp hoh to 48.7%, which is still above the industry's average.
- **VAS to non-property owners saw further profit contraction.** Revenue of value-added services (VAS) to non-property owners continued to contract, reporting a 31.8% yoy decrease in 1H23. Gross profit contribution from value-added services to non-property owners declined to only 2.5% in 1H23 (vs 4% in 2022), caused by a 14ppt yoy decrease in its gross profit margin.
- **Rapid expansion in related party receivables.** Total trade and other receivables grew 29.4% yoy/8.6% hoh to Rmb24.0b. Note that trade receivables with related parties grew by 32.9% hoh to Rmb2.3b, which may point to rising impairment risks. The account receivable turnover days in 1H23 further increased by 39 days to 203 days.

STOCK IMPACT

- **Prudent outlook for 2H23.** CGS will continue to seek steady development and business structure optimisation, eg further trimming down contribution from non-property owners VAS and focusing on a few community VAS businesses with high development potential (eg sales of liquor, laundry services, etc).
- **Reiterates independent operation.** Management reiterated that HR/finance/asset/organisation/business are independent from Country Garden Holdings. The company will consider further trimming related party transactions to control risks of receivables.

EARNINGS REVISION/RISK

- **We keep our earnings forecasts unchanged.**
- **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 sector; c) impairment of related party receivables.

VALUATION/RECOMMENDATION

- **Maintain HOLD with an unchanged target price of HK\$9.16, derived from the DCF model with WACC of 25.0%.** Our target price implies 5.5x 2023F PE over core EPS. CGS currently is trading at 5.6x 2023F PE with a 4.1% 2023 dividend yield. The liquidity crisis of Country Garden Holdings will continue to result in rising risks of related party receivables impairment. We maintain HOLD.

SHARE PRICE CATALYST

- Faster-than-expected recovery of business expansion of property management companies in 2023.
- Country Garden Holdings finally resolving its liquidity crisis.

REVENUE BREAKDOWN

	1H23	1H22	Yoy
Revenue	20,733	20,055	3.4%
Property management services	12,187	10,986	10.9%
Community Value-Added Services (VAS)	1,884	2,112	-10.8%
VAS to Non-Property Owners	972	1,424	-31.8%
Three supplies and property management businesses	2,701	2,231	21.1%
City service	2,394	2,635	-9.1%
Commercial operational services	534	589	-9.3%
Others	60	78	-22.5%

Source: CGS, UOB Kay Hian

GP MARGIN OF SEGMENTS

	1H23	1H22	Yoy
Gross Profit Margin	24.9%	26.9%	-2.0 ppt
Property management services	26.0%	25.9%	0.1 ppt
Community Value-Added Services (VAS)	48.7%	59.7%	-11.0 ppt
VAS to Non-Property Owners	13.2%	27.2%	-14.0 ppt
Three supplies and property management businesses	7.2%	8.7%	-1.5 ppt
City service	21.1%	18.1%	3.0 ppt
Commercial operational services	38.4%	36.4%	2.0 ppt

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.

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