

# China / Hong Kong Company Update

## Country Garden Services Holdings Co Ltd

Bloomberg: 6098 HK Equity | Reuters: 6098.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

11 Feb 2022

**BUY**

Last Traded Price (10 Feb 2022): HK\$51.55 (HSI : 24,924)  
Price Target 12-mth: HK\$78.82 (53% upside) (Prev HK\$75.61)

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### What's New

- Reaffirms its 50% earnings CAGR guidance and 5-year growth plan
- Largely unaffected by the property market slowdown and is poised to deliver sector-leading growth despite its high comparison base
- Maintain BUY and sector top pick with TP of HK\$78.82

### Price Relative



### Forecasts and Valuation

FY Dec (RMBm)	2020A	2021F	2022F	2023F
Turnover	15,600	26,359	39,841	49,321
EBITDA	3,893	5,588	8,615	11,057
Pre-tax Profit	3,715	5,653	8,703	11,212
Net Profit	2,686	4,094	6,303	8,120
Net Profit Gth	60.8	52.4	53.9	28.8
EPS (RMB)	0.98	1.34	1.87	2.41
EPS (HK\$)	1.20	1.64	2.30	2.96
EPS Gth (%)	55.6	37.3	39.6	28.8
Diluted EPS (HK\$)	1.20	1.64	2.30	2.96
DPS (HK\$)	0.30	0.41	0.57	0.74
BV Per Share (HK\$)	6.49	14.62	15.18	17.56
PE (X)	43.0	31.3	22.5	17.4
P/Cash Flow (X)	32.0	27.2	21.4	15.9
P/Free CF (X)	488.1	nm	32.9	15.9
EV/EBITDA (X)	27.1	20.0	14.1	10.3
Net Div Yield (%)	0.6	0.8	1.1	1.4
P/Book Value (X)	7.9	3.5	3.4	2.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	26.9	16.1	16.1	18.1
Earnings Rev (%)		0	0	(1)
Consensus EPS (RMB)		1.37	1.99	2.79
Other Broker Recs:		B:40	S:0	H:0

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

## The undisputed sector leader

### Investment Thesis

A key beneficiary of an increasingly active M&A market. CGS has c.Rmb14.5bn of net cash (excl. payable convertible bonds, assuming recent acquisitions have been fully paid up) for potential M&A opportunities ahead. This would place it first across the sector in terms of cash resources. While we expect CGS will likely put more focus on the consolidation of recently acquired companies, the company is still proactive in the M&A space and is up for small and mid-sized acquisition opportunities. Further M&As would offer upside to our current earnings estimates and further enhance the company's already solid growth prospects.

**Largely unaffected by the property sector downturn.** Unlike most peers in the sector, CGS's related developer Country Garden (2007 HK) was less affected by the liquidity crunch in the development sector since 2H21. Delivery pace should be largely intact, with a manageable slowdown in presales alongside the physical market. Impact from these fronts on CGS should be manageable and are fully covered by its recent M&As and solid progress in community VAS.

### Valuation:

Our TP is based on a 35.8x FY22F EPS, which is the average 1-year forward PE for the company in 2H21.

### Where we differ:

**Poised to maintain its valuation outperformance** borne by its highest combined rankings in terms of earnings growth visibility, earnings quality and growth potential among peers – the three key factors that explains the valuation discrepancy in the sector (refer to our report: [Who is best poised to outperform?](#) for detailed comparisons vs peers)

### Key Risks to Our View:

Inability to secure sufficient M&A to offset EPS dilution; delayed deliveries from Country Garden (2007 HK); share disposal from controlling shareholder; faster than expected surge in labour cost.

### At A Glance

Issued Capital (m shrs)	3,366
Mkt Cap (HK\$m/US\$m)	144,841 / 18,592
Major Shareholders (%)	
Yang (Huiyan)	43.1
Free Float (%)	56.9
3m Avg. Daily Val. (US\$m)	113.66
GICS Industry: Industrials / Commercial & Professional Service	



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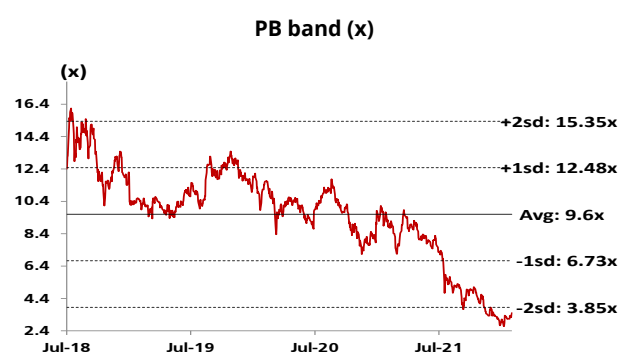
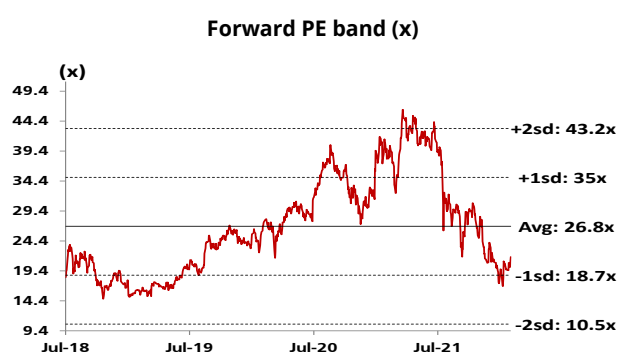
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## Country Garden Services Holdings Co Ltd

### Company Background

CGS is the property management arm of Country Garden (CG; 2007 HK). It was spun off by introduction onto the HKSE via a 1-for-8.7 distribution ratio of CG shares in June 2018. The company is a leading residential property management services provider, ranked first in terms of overall strength among the Top 100 Property Management Companies in China by the CIA in 2020. It operated total contracted GFA of 1.11bn sm as at Jun-21.

### Historical PE and PB band



Source: Thomson Reuters, DBS HK

## Country Garden Services Holdings Co Ltd

### Key Assumptions

FY Dec	2021F	2022F	2023F
Average property management fee growth (%)	(0.3)	0.3	0.1
Average GFA conversion rate for new projects from 3rd party (years)	2.8	2.8	2.8
Average GFA conversion rate for projects from CG (years)	4.2	4.2	4.2

Source: Company, DBS HK

### Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
<b>Revenues (RMB m)</b>					
Property management services	5,749	8,607	12,568	21,208	25,879
Three supplies and property management	525	1,540	1,555	1,571	1,587
Heat supply	990	1,159	1,217	1,270	1,270
Community value-added services	865	1,731	3,445	5,764	7,988
Value-added services to non-property owners	1,422	1,370	1,848	2,337	2,549
City services	68	884	4,941	6,546	8,674
Other services	25	309	784	1,145	1,375
<b>Total</b>	<b>9,645</b>	<b>15,600</b>	<b>26,359</b>	<b>39,841</b>	<b>49,321</b>
<b>Gross Profit (RMB m)</b>					
Property management services	1,729	2,979	3,772	5,941	7,120
Three supplies and property management	70	108	156	157	159
Heat supply	59	99	110	121	127
Community value-added services	573	1,128	2,211	3,695	5,103
Value-added services to non-property owners	583	624	838	1,056	1,167
City services	26	288	1,087	1,506	1,995
Other services	11	74	409	598	718
<b>Total</b>	<b>3,052</b>	<b>5,300</b>	<b>8,583</b>	<b>13,074</b>	<b>16,389</b>
<b>Gross Profit Margins (%)</b>					
Property management services	30.1	34.6	30.0	28.0	27.5
Three supplies and property management	13.4	7.0	10.0	10.0	10.0
Heat supply	6.0	8.6	9.0	9.5	10.0
Community value-added services	66.2	65.1	64.2	64.1	63.9
Value-added services to non-property owners	41.0	45.5	45.4	45.2	45.8
City services	38.7	32.5	22.0	23.0	23.0
Other services	42.2	24.0	52.1	52.2	52.2
<b>Total</b>	<b>31.6</b>	<b>34.0</b>	<b>32.6</b>	<b>32.8</b>	<b>33.2</b>

Source: Company, DBS HK

**Country Garden Services Holdings Co Ltd**
**Income Statement (RMB m)**

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	9,645	15,600	26,359	39,841	49,321
Cost of Goods Sold	(6,593)	(10,301)	(17,776)	(26,768)	(32,932)
<b>Gross Profit</b>	<b>3,052</b>	<b>5,300</b>	<b>8,583</b>	<b>13,074</b>	<b>16,389</b>
Other Opng (Exp)/Inc	(1,076)	(1,669)	(3,261)	(4,729)	(5,608)
<b>Operating Profit</b>	<b>1,976</b>	<b>3,630</b>	<b>5,322</b>	<b>8,345</b>	<b>10,781</b>
Other Non Opng (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	8	41	45	49	54
Net Interest (Exp)/Inc	92	44	286	309	377
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>2,076</b>	<b>3,715</b>	<b>5,653</b>	<b>8,703</b>	<b>11,212</b>
Tax	(358)	(933)	(1,413)	(2,176)	(2,803)
Minority Interest	(48)	(96)	(146)	(224)	(289)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>1,671</b>	<b>2,686</b>	<b>4,094</b>	<b>6,303</b>	<b>8,120</b>
Net Profit before Except.	1,671	2,686	4,094	6,303	8,120
EBITDA	2,133	3,893	5,588	8,615	11,057
<b>Growth</b>					
Revenue Gth (%)	106.3	61.7	69.0	51.1	23.8
EBITDA Gth (%)	103.8	82.5	43.6	54.2	28.3
Opg Profit Gth (%)	95.3	83.7	46.6	56.8	29.2
Net Profit Gth (%)	81.0	60.8	52.4	53.9	28.8
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	31.6	34.0	32.6	32.8	33.2
Opg Profit Margin (%)	19.4	22.6	19.8	20.7	21.6
Net Profit Margin (%)	21.5	23.8	21.4	21.8	22.7
ROAE (%)	43.8	26.9	16.1	16.1	18.1
ROA (%)	18.8	12.4	9.1	10.0	11.2
ROCE (%)	39.7	20.6	12.5	14.2	16.8
Div Payout Ratio (%)	25.0	25.0	25.0	25.0	25.0
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS HK

## Country Garden Services Holdings Co Ltd

## Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	312	1,249	1,145	1,040	935
Invt in Associates & JVs	80	312	16,238	18,538	18,538
Other LT Assets	1,654	6,355	6,238	6,121	6,004
Cash & ST Invt	6,926	15,341	23,024	22,546	30,268
Inventory	14	137	231	350	433
Debtors	2,004	5,244	9,763	15,937	19,729
Other Current Assets	1,281	2,566	2,566	2,566	2,566
<b>Total Assets</b>	<b>12,269</b>	<b>31,204</b>	<b>59,205</b>	<b>67,097</b>	<b>78,473</b>
ST Debt	0	3,564	4,434	362	362
Creditors	4,690	7,476	12,631	19,092	23,634
Other Current Liab	1,737	3,193	3,193	3,193	3,193
LT Debt	0	248	248	248	248
Other LT Liabilities	162	564	564	564	564
Shareholder's Equity	5,373	14,566	36,396	41,676	48,220
Minority Interests	306	1,593	1,739	1,963	2,252
<b>Total Cap. &amp; Liab.</b>	<b>12,269</b>	<b>31,204</b>	<b>59,205</b>	<b>67,097</b>	<b>78,473</b>
Non-Cash Wkg. Capital	(3,129)	(2,722)	(3,264)	(3,432)	(4,100)
Net Cash/(Debt)	6,926	11,530	18,343	21,936	29,659
Debtors Turn (avg days)	52.8	84.8	103.9	117.7	132.0
Creditors Turn (avg days)	191.2	220.3	209.0	218.1	238.4
Inventory Turn (avg days)	0.6	2.7	3.8	4.0	4.4
Asset Turnover (x)	1.1	0.7	0.6	0.6	0.7
Current Ratio (x)	1.6	1.6	1.8	1.8	1.9
Quick Ratio (x)	1.4	1.4	1.6	1.7	1.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	N/A	88.6	340.2	377.4	0.0
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

## Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	2,076	3,715	5,653	8,703	11,212
Dep. & Amort.	149	336	221	221	221
Tax Paid	(295)	(509)	(1,413)	(2,176)	(2,803)
Assoc. & JV Inc/(loss)	(8)	(41)	0	0	0
(Pft)/ Loss on disposal of FAs	0	1	0	0	0
Chg in Wkg.Cap.	1,528	108	542	168	668
Other Operating CF	(193)	4	(286)	(309)	(377)
<b>Net Operating CF</b>	<b>3,257</b>	<b>3,614</b>	<b>4,717</b>	<b>6,608</b>	<b>8,921</b>
Capital Exp.(net)	(398)	(3,377)	(15,926)	(2,300)	0
Other Invt.(net)	2,218	1,950	0	0	0
Invt in Assoc. & JV	(174)	(342)	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(3,274)	(2,863)	286	309	377
<b>Net Investing CF</b>	<b>(1,628)</b>	<b>(4,632)</b>	<b>(15,640)</b>	<b>(1,991)</b>	<b>377</b>
Div Paid	(237)	(432)	(672)	(1,024)	(1,576)
Chg in Gross Debt	0	3,658	4,072	(4,072)	0
Capital Issues	1,715	6,568	15,205	0	0
Other Financing CF	(79)	(32)	0	0	0
<b>Net Financing CF</b>	<b>1,399</b>	<b>9,762</b>	<b>18,605</b>	<b>(5,096)</b>	<b>(1,576)</b>
Currency Adjustments	17	(443)	0	0	0
Chg in Cash	3,045	8,301	7,683	(478)	7,722
Opg CFPS (RMB)	0.65	1.27	1.37	1.91	2.45
Free CFPS (RMB)	1.07	0.09	(3.67)	1.28	2.65

Source: Company, DBS HK

## Country Garden Services Holdings Co Ltd

### Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	26-Mar-21	HK\$72.95	HK\$96.57	Buy
2:	19-Nov-21	HK\$53.70	HK\$75.61	Buy

Source: DBS HK

Analyst: Jason LAM  
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 Ken HE CFA,  
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 Ben WONG

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**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

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**Country Garden Services Holdings Co Ltd**

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