

Yuexiu Services (YXS) (6626 HK) CVAS supports quality growth in cash earnings

- 2021 core profit (excluding listing expenses and FX losses) rose 98% YoY to RMB 395mn
- CVAS revenue increased 229% YoY to RMB 442mn, driven by home-decoration business; online food retailing will be another new business driver
- Third-party tendering to double in 2022 from ~3.5mn sqm to ~7mn sqm
- We forecast GFA under mgt to reach 95.7mn sqm by 2023E, slightly below the Group's target of 100mn sqm
- Maintain **BUY** with revised DCF-based TP of HK\$ 5.45

Solid FY21 results. YXS's revenue increased 64% YoY to RMB 1,918mn, driven by revenue from non-commercial and commercial projects, which increased 76% YoY and 38% YoY. No M&A took place in 2021, but GFA under mgt rose 19% YoY to 38.9mn sqm while contracted GFA rose 17% YoY to 58.4mn sqm in 2021. Core profit (excluding listing expenses and FX losses) was up 98% YoY to RMB 395mn, in line with our forecast. Despite the weaker-than-expected GFA growth, gross margin, which rose 0.4ppt YoY to 35.0%, was better than expected. In particular, revenue from the CVAS segment, which entailed a gross margin of 46.1% (+8.3ppt YoY), soared 229% YoY to RMB 442mn due to significant growth in home-decoration business. The business generated RMB 139mn in revenue in FY21 vs. ~RMB 50mn in 1H21, demonstrating an impressive HoH increase. YXS also worked with Guangzhou Yuexiu Foods Group Company Limited (廣州越秀食品集團有限公司) to provide a new online retail business for food products, which we believe would be a new income driver.

Three-year GFA target of 100mn sqm remains unchanged. YXS has not made any acquisitions in 2021 but remains confident to meet its three-year GFA target of 100mn sqm by 2023. In particular, the Group believes third-party tendering would ramp up. It aims to double such GFA addition from 3.5mn sqm in 2021 to ~7mn sqm in 2022E. YXS believes more M&A opportunities will arise due to the credit crisis in the sector. For TOD projects, more new projects can be expected since total urban rail transit operating mileage in China will increase from 6,600km in 2020 to 10,000km in 2025E. Managing a total metro mileage of ~300km, YXS aims to increase its market share from ~5% at present to 10-15% by 2025E by leveraging its strategic cooperation with metro companies in cities such as Chongqing, Changsha, Kunming, Nanning, and Qingdao.

Results and Valuations

FY ended Dec 31	2020A	2021A	2022E	2023E	2024E
Revenue (RMB mn)	1,168	1,918	2,861	4,451	6,365
Chg (% YoY)	30.3	64.2	49.1	55.6	43.0
Core net profit (RMB mn) ¹	199	395	638	962	1,392
Chg (% YoY)	118.0	98.4	61.5	50.8	44.7
Core EPS (RMB)	0.20	0.30	0.42	0.63	0.91
Chg (% YoY)	137.4	54.5	38.8	50.8	44.7
BVPS (RMB)	0.55	1.93	2.22	2.66	3.30
Chg (% YoY)	137.4	247.5	15.2	19.9	24.0
P/E (x)	16.9	11.0	7.9	5.2	3.6
P/B (x)	6.0	1.7	1.5	1.2	1.0
Core ROE (%)	39.6	19.2	19.6	25.1	29.8
Core ROA (%)	7.6	9.8	11.8	15.0	18.1
DPS (RMB)	-	0.08	0.13	0.19	0.27
Yield (%)	-	2.5	3.8	5.73	8.29
Net cash (RMBmn)	1,008	3,822	3,862	4,220	4,727

Note: RMB to HK\$= 1.236

¹Core net profit= Net profit + listing expense and FX losses

Source(s): The Company, ABCI Securities estimates

Company Report Mar 4, 2022

Rating: **BUY**
TP: HK\$ 5.45

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Share price (HK\$)	4.09
Est. share price return	33.3%
Est. dividend yield	3.8%
Est. total return	37.1%
Previous Rating & TP	BUY; HK\$5.52
Previous Report Date	24 Dec 2021

Source(s): Bloomberg, ABCI Securities estimates

Key data

52Wk H/L(HK\$)	5.55/3.04
IPO price- 28 Jun 2021 (HK\$)	4.88
Issued shares (mn)	1,522
Market cap (HK\$ mn)	6,225
Avg daily turnover since listing (HK\$ mn)	9.23
Major shareholder(s) (%):	
Yuexiu Property	66.92
GZ Metro	5.94

Source(s): Bloomberg, ABCI Securities

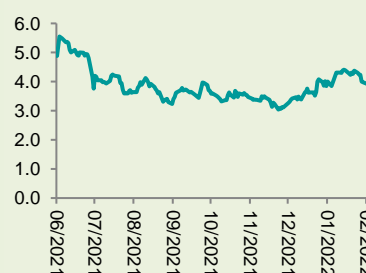
Share Performance (%)

	Absolute	Relative*
1-mth	6.2	11.8
3-mth	21.0	26.5
6-mth	5.1	18.4

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

Share performance since IPO (HK\$)



Source(s): Bloomberg, ABCI Securities

Well-positioned in office and TOD projects. In 2021, YXS's commercial GFA under mgt increased 18% YoY to 3.3mn sqm since it had started managing new office projects, including Guangdong Media Tower in Guangzhou, Science City Headquarters Building of Skyworth in Guangzhou, and Guangzhou Cloudshare Economic Ecology Park. In early 2022, it won the PMS contract bid for Line 2 of Fuzhou Metro, which is going to be its first TOD PMS project outside Guangzhou. Revenue from TOD business was RMB 238mn in 2021, accounting for 12.4% of total revenue.

Quality growth in cash earnings; maintain BUY with revised TP at HK\$5.45. We revise down our 2022E/23E core profit forecasts by 4.1%/2.2%, attributable to the lower GFA under mgt estimates for 2022E/23E since we slash our M&A addition from 20mn sqm to 15mn sqm per year. With a slower growth assumption in GFA and revenue, we lower our DCF-based TP to HK\$ 5.45 (from HK\$ 5.52), which translates into 10.5x P/E and 2.0x P/B for 2022E. In 2021, operating cash flow was RMB 998mn (representing 2.53x of core profit); together with the IPO proceeds (RMB1.45bn), net cash balance increased 279% YoY to RMB3.8bn. As such, its cash-to-market cap (HK\$ 6.3bn as of Mar 3, 2022) ratio was high at ~75%. The new home decoration business, which typically receives cash upfront (as reflected in the RMB 584.6mn contract liabilities), was also a key cash generator. Overall, we believe YXS is attractively valued with its huge cash balance and SOE status. Maintain **BUY**.

Risk factors: 1) Unsuccessful contract renewal; 2) Rising labor costs; 3) Substantial related-party transactions; 4) Conservative M&A approach.

Exhibit 1: YXS's 2021 results

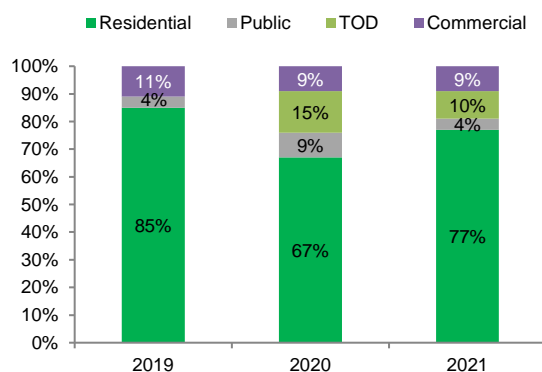
P&L	2021	2020	YoY Chg
	RMBmn	RMBmn	(%)
Revenue	1,918	1,168	64%
Cost of Sales	(1,248)	(765)	63%
Gross Profit	671	403	66%
Gross Margin (%)	35.0%	34.5%	0.4ppt
Selling and distribution costs	-	-	
Administrative expense (excl. listing exp.)	(142)	(144)	(2%)
EBIT	529	259	104%
EBIT Margin (%)	27.6	22.2	5.4ppt
Other income	14	45	(69%)
Net impairment losses on financial assets	(4)	(3)	44%
Listing exp. and FX losses	(36)	0	NA
Share of profit of a joint venture	0	-	NA
Finance income	24	7	242%
Finance cost	(3)	(29)	(88%)
Profit before tax	524	280	87%
Tax	(155)	(77)	102%
Profit after tax	370	204	82%
Minority Interest	(10)	(5)	123%
Net profit	360	199	81%
Core profit	395	199	98%
Core net margin	20.6%	17.0%	3.5ppt

Balance sheet	Dec-21	Dec-20	YoY Chg
	RMBmn	RMBmn	
Gross debt	-	-	na
Cash	3,822	1,008	279%
Net debt/ (cash)	(3,822)	(1,008)	279%

	2021	2020	YoY Chg
	RMBmn	RMBmn	
Total revenue	1,918	1,168	64%
Non-commercial property mgt	1,425	811	76%
- PMS	643	344	87%
- VAS to NPO	341	333	2%
- CVAS	442	134	229%
Commercial property mgt	493	357	38%
- COMS	383	303	26%
- MPCTSS	111	54	106%
Gross margin	35.0%	34.5%	0.4ppt
Non-commercial property mgt	34.7%	36.1%	(1.5%)
- PMS	22.1%	21.6%	0.5%
- VAS to NPO	43.5%	50.5%	(7.0%)
- CVAS	46.1%	37.8%	8.3%
Commercial property mgt	35.9%	30.8%	5.0%
- COMS	32.0%	29.2%	2.8%
- MPCTSS	49.0%	40.4%	8.6%
Operating statistics	2021	2020	YoY Chg
GFA under mgt	38.9	32.6	19.1%
Contracted GFA	58.4	49.9	17.0%

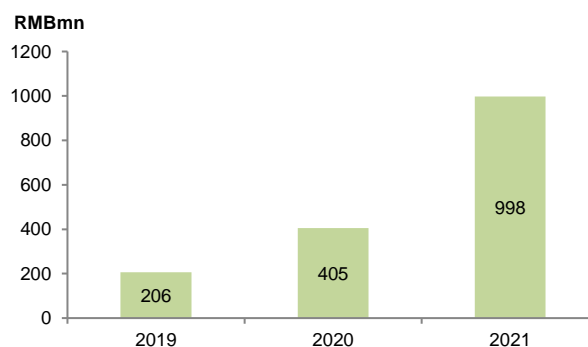
* COMS= Commercial operation and mgt services; MPCTSS= Market positioning, consultancy and tenant sourcing services
Source(s): The Company, ABCI Securities

Exhibit 2: YXS's Contracted GFA (by business type)



Source(s): The Company, ABCI Securities

Exhibit 3: YXS's operating cash flow



Source(s): The Company, ABCI Securities

Exhibit 4: Changes in TP and profit forecasts

	New	Old	Chg	Reasons
TP (HK\$)	5.45	5.52	(1.2%)	Lower M&A assumption from 20mn to 15mn sqm per year for 2022-24
Core profit (RMBmn)				
-2022E	638	665	(4.1%)	Lower M&A assumption from 20mn to 15mn sqm per year for 2022-24
-2023E	962	984	(2.2%)	Lower M&A assumption from 20mn to 15mn sqm per year for 2022-24

Source(s): The Company, ABCI Securities estimates

Financial statements

Consolidated income statement (2020A-2024E)

FY Ended Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
Revenue	1,168	1,918	2,861	4,451	6,365
Cost of services	(765)	(1,248)	(1,856)	(2,972)	(4,274)
Gross Profit	403	671	1,005	1,478	2,092
Selling and marketing expenses	-	-	-	-	-
Administrative expenses	(144)	(142)	(156)	(181)	(201)
EBIT	259	529	849	1,297	1,890
Other income	45	14	23	27	33
Share of results of associates	-	0	-	-	-
Finance income	7	24	38	40	44
Finance expenses	(29)	(3)	(7)	(7)	(7)
Net impairment losses on financial assets	(3)	(4)	(6)	(9)	(13)
Other (losses)/gains-net	0	(36)	-	-	-
Profit before tax	280	524	897	1,349	1,948
Tax	(77)	(155)	(248)	(372)	(537)
Profit after tax	204	370	650	977	1,410
Minority interest	(5)	(10)	(12)	(15)	(18)
Net profit	199	360	638	962	1,392
Core profit*	199	395	638	962	1,392
Per share					
Reported EPS (RMB)	0.20	0.27	0.42	0.63	0.91
Core EPS (RMB)	0.20	0.30	0.42	0.63	0.91
DPS (RMB)	-	0.08	0.13	0.19	0.27
Payout ratio (%)	0%	27%	30%	30%	30%
BVPS (RMB)	0.55	1.93	2.22	2.66	3.30
Growth %					
Revenue	30.3%	64.2%	49.1%	55.6%	43.0%
Gross Profit	65.7%	66.3%	49.8%	47.1%	41.5%
EBIT	104.9%	104.0%	60.4%	52.8%	45.7%
Core profit	118.0%	98.4%	61.5%	50.8%	44.7%
Margin %					
Gross margin	34.5%	35.0%	35.1%	33.2%	32.9%
EBIT margin	22.2%	27.6%	29.7%	29.1%	29.7%
Core net margin	17.0%	20.6%	22.3%	21.6%	21.9%
Revenue breakdown					
Commercial operational services	357	493	719	922	1,149
Non-commercial property mgt and value-added services	811	1,425	2,142	3,529	5,216
Total	1,168	1,918	2,861	4,451	6,365
Key assumptions					
Contracted GFA(mn sqm)	49.9	58.4	94.7	127.1	159.5
- Non-commercial property management	3.8	5.3	5.7	6.6	7.6
- Commercial property management	46.1	53.1	89.0	120.4	151.9
GFA under mgt (mn sqm)	32.6	38.9	67.2	95.7	125.6
- Commercial property management	2.8	3.3	4.5	5.4	6.2
- Non-commercial property management	29.9	35.6	62.6	90.3	119.4

Source(s): The Company, ABCI Securities estimates

* Core net profit= Net profit + Listing expenses and FX losses



Consolidated balance sheet (2020A-2024E)

As of Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
Current assets	1,876	4,641	5,151	6,046	7,200
Bank balances and cash	995	3,803	3,843	4,201	4,708
Restricted cash	7	11	11	11	11
Trade and other receivables and prepayments	862	795	1,266	1,803	2,449
Inventories	1	1	1	1	1
Income tax recoverable	11	31	31	31	31
Other current assets	0	0	0	0	0
Non-current assets	535	490	756	1,036	1,336
Property, plant and equipment	41	39	49	59	69
Financial assets at fair value through other comprehensive income	35	32	32	32	32
Restricted cash	7	8	8	8	8
Other non-current assets	453	411	666	936	1,226
Total Assets	2,411	5,131	5,907	7,082	8,536
Current Liabilities	1,556	1,543	1,860	2,348	2,809
Other payables and accruals	0	0	0	0	0
Contracted liabilities	163	159	159	159	159
Trade payables	1,272	1,302	1,619	2,106	2,568
Borrowings	0	0	0	0	0
Other current liabilities	120	82	82	82	82
Non-current liabilities	94	498	498	498	498
Bank and other borrowings	0	0	0	0	0
Lease liabilities	52	53	53	53	53
Other non-current liabilities	42	445	445	445	445
Total Liabilities	1,650	2,041	2,358	2,845	3,307
Net Assets	761	3,090	3,549	4,237	5,230
Shareholders' Equity	615	2,932	3,378	4,052	5,026
Minority Interest	146	159	170	185	203
Total Equity	761	3,090	3,549	4,237	5,230
Key ratio					
Gross debt (RMB mn)	-	-	-	-	-
Net debt/ (cash) (RMB mn)	(1,008)	(3,822)	(3,862)	(4,220)	(4,727)

Source(s): The Company, ABCI Securities estimates

**農銀國際**

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Yuexiu Services Group Limited (6626 HK, BUY)

China Property Management Sector

Mar 4, 2022

Consolidated cash flow statement (2020A-2024E)

As of Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
Operating Cash Flow	450	998	453	883	1,178
Purchase of PP&E	(14)	(10)	(10)	(10)	(10)
Purchase of intangible assets	-	(247)	(260)	(278)	(300)
Cash advance to related parties	(26)	-	-	-	-
Repayment of related parties	1,316	-	-	-	-
Others	(250)	24	38	40	44
Investing Cash Flow	1,026	(233)	(233)	(248)	(266)
Debt raised	-	-	-	-	-
Repayments of borrowings	(981)	-	-	-	-
Interest expenses	(28)	(3)	(7)	(7)	(7)
Equity raised	-	1,605	-	-	-
Payment to shareholders	(4)	(126)	(191)	(289)	(418)
Others	(243)	569	17	19	20
Financing Cash Flow	(1,256)	2,044	(181)	(277)	(405)
Net cash inflow/ (outflow)	221	2,809	39	358	508
Cash- beginning	774	995	3,803	3,843	4,201
Cash- year-end	995	3,803	3,843	4,201	4,708

Source(s): The Company, ABCI Securities estimates

Disclosures

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Rating	Definition
Buy	Stock return rate \geq Market return rate ($\sim 10\%$)
Hold	- Market return rate ($\sim 10\%$) \leq Stock return rate $<$ Market return rate ($\sim +10\%$)
Sell	Stock return $<$ - Market return ($\sim 10\%$)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months
Market return rate: average market return rate since 2009 (For reference: HSI total return index 2009-20 averaged at 9.2%)

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