

# Poly Property Services (6049 HK)

## Leader in Public Property Management

- Signed new public projects with one-year contract value of RMB 950mn in 2021
- Targets to achieve at least 30%YoY growth in revenue and 20% YoY growth in net profit for 2022
- Margin under pressure due to rising revenue contribution from public projects, which entail lower margins
- Forecast GFA under mgt to grow at 24.8% CAGR for 2022E-24E
- Maintain **BUY** with DCF-based TP of HK\$ 60.45

**Leading position in public projects.** Poly Property Services (PPS) has established a nationwide presence in high schools and universities, urban scenic spots, and railways transportation properties. The three types of public projects accounted for more than 60% of PM revenue from public projects in FY21. For the same year, PM revenue from public projects rose 81.8% YoY to RMB 1,462mn, representing 21.9% (+5.7ppt YoY) of total PM revenue because of the signing of new public projects with a total one-year contract value of RMB 950mn during the year. The key public projects include the comprehensive enhancement project of Canton Tower in Guangzhou City, Shanghai Metro Line 15, Yubei Campus of Southwest University of Political Science & Law, Beijing Hospital, and the Affiliated Hospital of Chengdu University, among others. In 2021, the Group formed JVs with four local state-funded platforms, which should help acquire new public projects through the additional network.

**Margin headwind persists; receivables are rising.** For 2022, PPS targets to achieve at least a 30%YoY growth (vs our estimate: 31.3%) in revenue and 20%YoY growth (vs our estimate: 24.7%) in net profit. Despite the removal of social insurance subsidies, gross margin was stable at 18.7% in 2021. In the longer run, however, margins will be suppressed since revenue from public projects, which usually entail lower margins, will increase faster than other businesses. These public projects also have longer payment terms, which may affect cash inflow. In 2021, trade receivables jumped 60% YoY to RMB1,425mn. To reserve more cash for future acquisition, dividend payout fell to 20% in FY21 from 35% in FY20.

**Maintain BUY with revised TP at HK\$ 60.45.** Based on the lower margin outlook, we revise down our DCF-based TP to HK\$ 60.45 (from HK\$ 66.30), which translates into 25.0x P/E and 3.5x P/B for 2022E. We forecast GFA under mgt to expand from 599mn sqm in 2022E to 933mn sqm in 2024E, implying a CAGR of 24.8%; net profit would increase from RMB 1,078mn in 2022E to RMB1,677mn in 2024E, implying at a CAGR of 24.7%. Given its SOE status, PPS's operation is more defensive amid the sector downturn. Its pipeline of public projects will partially offset the slower residential growth. Maintain **BUY**.

**Risk factors:** 1) Margin erosion trend due to rising public projects; 2) Mounting receivables; 3) Slowing net profit growth; 4) further cut in dividend payout ratio

### Results and Valuation

FY ended Dec 31	2020A	2021A	2022E	2023E	2024E
Revenue (RMB mn)	8,037	10,783	14,159	18,127	22,645
Chg (% YoY)	34.7	34.2	31.3	28.0	24.9
Core net profit (RMB mn)*	644	855	1,078	1,362	1,677
Chg (% YoY)	26.3	32.6	26.1	26.4	23.1
Core EPS (RMB)	1.17	1.55	1.95	2.46	3.03
Chg (% YoY)	(7.5)	32.6	26.1	26.4	23.1
BVPS (RMB)	11.15	12.26	13.82	15.79	18.22
Chg (% YoY)	(11.8)	10.0	12.7	14.2	15.4
Core P/E (x)	33.58	25.31	20.07	15.89	12.90
P/B (x)	3.51	3.19	2.83	2.48	2.15
ROE (%)	11.1	12.6	14.3	15.7	16.8
ROA (%)	7.4	7.8	8.9	9.9	10.6
DPS(RMB)	0.43	0.31	0.39	0.49	0.61
Yield (%)	1.10	0.78	0.99	1.26	1.55
Net gearing (%)		Net cash	Net cash	Net cash	Net cash

Note: RMB to HK\$= 1.24

\*Core net profit= Profit attributable to owners of the Company + exchange losses/ (gain)

Source(s): The Company, ABCI Securities estimates

## Company Report

### Mar 17, 2022

### Rating: BUY

### TP: HK\$ 60.45

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Share price (HK\$)	48.55
Est. share price return	24.5%
Est. dividend yield	1.0%
Est. total return	25.5%
Previous Rating & TP	BUY; HK\$66.30
Previous Report Date	Feb 4, 2020

Source(s): Bloomberg, ABCI Securities estimates

#### Key Data

52Wk H/L(HK\$)	64.95/40.05
Issued shares (mn)	553
Issued H-shares (mn)	153
Market cap (HK\$ mn)	26,864
H-share Mkt cap (HK\$ mn)	7,444
3-mth avg daily turnover (HK\$ mn)	84.93
Major shareholder(s) (%):	
China Poly Group	72.29%

Source(s): Bloomberg, ABCI Securities

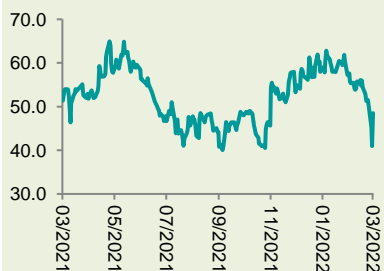
#### Share Performance (%)

	Absolute	Relative*
1-mth	(15.3)	2.9
3-mth	(11.7)	2.7
6-mth	19.0	37.6

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

#### Share performance (HK\$)



Source(s): Bloomberg, ABCI Securities



## Exhibit1: PPS's 2021 results

P&L	2021	2020	YoY Chg	Balance sheet	Dec-21	Dec-20	Variance %
	RMBm	RMBm	(%)		RMBm	RMBm	
Revenue	10,783	8,037	34.2	Gross debt	21	23	(6)
Cost of Sales	(8,768)	(6,538)	34.1	Cash	(7,669)	(7,425)	3
Gross Profit	2,015	1,499	34.4	Net debt/ (cash)	(7,691)	(7,448)	3
Gross Margin (%)	18.7	18.7	0.0ppt				
Selling and distribution costs	(9)	(15)	(38)				
Administrative expense	(1,006)	(770)	31				
EBIT	999	714	39.9				
EBIT Margin (%)	9.3	8.9	0.4 ppt				
Other income and other net gains	154	210	(26.9)				
Other expenses	(2)	(2)	(16.7)				
Share of profit of a associates/JV	22	18	23.5				
Finance cost	(11)	(5)	119.8				
Profit before tax	1,162	935	24.3				
Tax	(292)	(239)	21.9				
Profit after tax	871	696	25.1				
Minority Interest	(25)	(23)	11.5				
Net profit	846	674	25.6				
Core profit (excl. FX gains/losses)	855	644	32.6				
Core net margin	7.9	8.0	(0.1ppt)				
					2021	2020	YoY Chg
					RMBm	RMBm	
				Total revenue	10,783	8,037	34.2
				- PMS	6,670	4,948	34.8
				- VAS to NPO	1,811	1,341	35.0
				- CVAS	2,301	1,748	31.6
							<u>ppt</u>
				Gross margin	18.7%	18.7%	0.0
				-PMS	14.3%	14.2%	0.1
				- VAS to NPO	18.7%	20.1%	(1.4)
				- CVAS	31.4%	30.3%	1.1
				Operating statistics	2021	2020	YoY Chg
				GFA under mgt (mn sqm)	465	380	22.4
				Contracted GFA (mn sqm)	656	567	15.7

Source(s): The Company, ABCI Securities

## Exhibit 2: Changes in TP and profit forecasts

	OLD	NEW	Chg	Reasons
TP (HK\$)	66.30	60.45	-8.8%	In view of the latest business development of the company, we revise down our gross margin assumption from 17.9% to 14.4% for 2028E-31E in our DCF model.
Core profit (RMBmn)				
-2022E	NA	1,078		Previously we only included 2021E forecast in our initiation report;
-2023E	NA	1,362		We now introduce 2022E-23E detailed financial forecasts

Source(s): Company, ABCI Securities estimates



## Financial statements

### Consolidated income statement (2020A-2024E)

FY Ended Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
<b>Revenue</b>	<b>8,037</b>	<b>10,783</b>	<b>14,159</b>	<b>18,127</b>	<b>22,645</b>
Cost of services	(6,538)	(8,768)	(11,586)	(14,869)	(18,599)
<b>Gross Profit</b>	<b>1,499</b>	<b>2,015</b>	<b>2,573</b>	<b>3,258</b>	<b>4,047</b>
Selling and marketing expenses	(15)	(9)	(10)	(12)	(15)
Administrative expenses	(770)	(1,006)	(1,222)	(1,524)	(1,888)
<b>EBIT</b>	<b>714</b>	<b>999</b>	<b>1,341</b>	<b>1,722</b>	<b>2,144</b>
Other income	210	154	126	134	144
Share of results of associates	18	22	22	22	22
Finance expenses	(5)	(11)	(11)	(11)	(11)
Other expenses	(2)	(2)	(2)	(2)	(2)
<b>Profit before tax</b>	<b>935</b>	<b>1,162</b>	<b>1,476</b>	<b>1,865</b>	<b>2,297</b>
Tax	(239)	(292)	(366)	(463)	(570)
<b>Profit after tax</b>	<b>696</b>	<b>871</b>	<b>1,110</b>	<b>1,402</b>	<b>1,727</b>
Minority interest	(23)	(25)	(32)	(41)	(50)
<b>Net profit</b>	<b>674</b>	<b>846</b>	<b>1,078</b>	<b>1,362</b>	<b>1,677</b>
<b>Core profit*</b>	<b>644</b>	<b>855</b>	<b>1,078</b>	<b>1,362</b>	<b>1,677</b>
<b>Per share</b>					
Core EPS (RMB)	1.17	1.55	1.95	2.46	3.03
Reported EPS (RMB)	1.22	1.53	1.95	2.46	3.03
DPS (RMB)	0.43	0.31	0.39	0.49	0.61
Payout ratio (%)	35%	20%	20%	20%	20%
BVPS (RMB)	11.15	12.26	13.82	15.79	18.22
<b>Growth %</b>					
Revenue	34.7%	34.2%	31.3%	28.0%	24.9%
Gross Profit	23.8%	34.4%	27.7%	26.6%	24.2%
EBIT	12.1%	39.9%	34.2%	28.4%	24.5%
Net profit	37.3%	25.6%	27.4%	26.4%	23.1%
<b>Margin %</b>					
Gross margin	18.7%	18.7%	18.2%	18.0%	17.9%
EBIT margin	8.9%	9.3%	9.5%	9.5%	9.5%
Net margin	8.4%	7.8%	7.6%	7.5%	7.4%
<b>Revenue breakdown</b>					
Property management services	4,948	6,670	8,702	11,250	14,146
VAS to non-property owners	1,341	1,811	2,324	2,950	3,540
Community value added services (CVAS)	1,748	2,301	3,134	3,927	4,960
<b>Total</b>	<b>8,037</b>	<b>10,783</b>	<b>14,159</b>	<b>18,127</b>	<b>22,645</b>
<b>Key assumptions</b>					
Contracted GFA(mn sqm)	567	656	751	851	957
GFA under management (mn sqm)	380	465	599	754	933
Gross margin	18.7%	18.7%	18.2%	18.0%	17.9%

\* Core net profit= Profit attributable to owners of the Company + exchange losses/ (gain)

Source(s): The Company, ABCI Securities estimates



Consolidated balance sheet (2020A-2024E)

As of Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
<b>Current assets</b>	<b>8,899</b>	<b>9,991</b>	<b>11,558</b>	<b>13,467</b>	<b>15,725</b>
Bank balances and cash	7,448	7,691	9,115	10,868	12,954
Trade receivables	888	1,425	1,567	1,724	1,896
Inventories	51	51	51	51	51
Other current assets	512	825	825	825	825
<b>Non-current assets</b>	<b>546</b>	<b>1,147</b>	<b>909</b>	<b>684</b>	<b>522</b>
Property, plant and equipment	162	200	216	235	266
Intangible assets	136	125	125	125	125
Other non-current assets	248	823	568	324	130
<b>Total Assets</b>	<b>9,444</b>	<b>11,138</b>	<b>12,466</b>	<b>14,151</b>	<b>16,247</b>
<b>Current Liabilities</b>	<b>3,130</b>	<b>4,136</b>	<b>4,570</b>	<b>5,124</b>	<b>5,828</b>
Accruals and other payables	1,247	1,781	1,781	1,781	1,781
Contract liabilities	1,182	1,381	1,381	1,381	1,381
Trade payables	397	804	1,237	1,792	2,496
Other current liabilities	304	171	171	171	171
<b>Non-current liabilities</b>	<b>68</b>	<b>113</b>	<b>113</b>	<b>113</b>	<b>113</b>
Other non-current liabilities	49	100	100	100	100
Deferred Tax Liabilities	18	13	13	13	13
<b>Total Liabilities</b>	<b>3,197</b>	<b>4,249</b>	<b>4,683</b>	<b>5,237</b>	<b>5,941</b>
<b>Net Assets</b>	<b>6,247</b>	<b>6,889</b>	<b>7,783</b>	<b>8,914</b>	<b>10,306</b>
Shareholders' Equity	6,171	6,786	7,648	8,738	10,080
Minority Interest	76	103	135	176	226
<b>Total Equity</b>	<b>6,247</b>	<b>6,889</b>	<b>7,783</b>	<b>8,914</b>	<b>10,306</b>
<b>Key ratio</b>					
Gross debt (RMB mn)	23	21	21	21	21
Net debt/ (cash) (RMB mn)	(7,425)	(7,669)	(9,094)	(10,847)	(12,932)

Source(s): The Company, ABCI Securities estimates



**Consolidated cash flow statement (2020A-2024E)**

As of Dec 31 (RMB mn)	2020A	2021E	2022E	2023E	2024E
EBITDA	818	1,310	1,659	2,026	2,386
Change in Working Capital	(60)	(130)	291	398	532
Tax payment	(204)	(292)	(366)	(463)	(570)
<b>Operating Cash flow</b>	<b>554</b>	<b>889</b>	<b>1,584</b>	<b>1,961</b>	<b>2,347</b>
Purchase of PP&E	(54)	(80)	(80)	(80)	(80)
Purchase of intangible assets	-	-	-	-	-
Purchase of financial assets	-	-	-	-	-
Proceeds from disposal of financial assets	-	-	-	-	-
Others	114	-	-	-	-
<b>Investing Cash flow</b>	<b>60</b>	<b>(80)</b>	<b>(80)</b>	<b>(80)</b>	<b>(80)</b>
Acquisition of non-controlling interests	-	-	-	-	-
Equity raised	622	-	-	-	-
Payment to shareholders	(166)	(171)	(215)	(272)	(335)
Others	(125)	(385)	146	154	164
<b>Financing Cash flow</b>	<b>326</b>	<b>(566)</b>	<b>(80)</b>	<b>(128)</b>	<b>(182)</b>
Net cash inflow/ (outflow)	<b>939</b>	<b>242</b>	<b>1,424</b>	<b>1,753</b>	<b>2,086</b>
<b>Cash- beginning</b>	<b>6,509</b>	<b>7,448</b>	<b>7,691</b>	<b>9,115</b>	<b>10,868</b>
<b>Cash- year-end</b>	<b>7,448</b>	<b>7,691</b>	<b>9,115</b>	<b>10,868</b>	<b>12,954</b>

Source(s): The Company, ABCI Securities estimates

## Disclosures

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Rating	Definition
Buy	Stock return $\geq$ Market return rate ( $\sim 10\%$ )
Hold	- Market return ( $\sim 10\%$ ) $\leq$ Stock return $<$ 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 (HSI total return index 2009-21 CAGR averaged at 9.2%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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