

# Evergrande Property Services (6666 HK)

## Multiple initiatives to grow CVAS

- 2021 GFA under management target of 600mn sqm implies 100%YoY growth
- EPSG also guided a 2021 revenue growth range of 60-70% YoY for PMS revenue, 30-40%YoY for VAS to NPO revenue, and 90-100%YoY for CVAS revenue
- Real estate agency, insurance brokerage, home decoration and community group purchases will be the key drivers for CVAS business
- Recommend **BUY** with DCF-based TP of HK\$21.50

**2021 GFA under management target of 600mn sqm implies 100%YoY growth.** Revenue increased 43%YoY to RMB10.5bn in FY20, as revenue from PMS, VAS to NPO, and CVAS increased 37%, 36%, and 121% YoY, respectively. Gross margin improved 14.2ppt YoY 38.1% in FY20 on higher operating efficiency. Driven by enhanced IT and smart management system, per capita area under management increased 59%YoY to 7,464sqm in FY20. FY20 net profit jumped 185%YoY to RMB 2,648mn, 1% above our forecast. Excluding listing expenses, core profit jumped 194%YoY to RMB2,732mn. More importantly, the Group announced a GFA under management target of 600mn sqm for 2021 (vs. our previous estimate of 436mn sqm). In 2M21, it has already secured 110mn sqm in GFA under management (or ~115mn sqm in contracted GFA), which included the recent Yatai acquisition (80mn sqm), completing 36% of its annual addition of 300mn sqm. EPSG also guided a 2021 revenue growth range of 60-70%YoY for PMS revenue, 30-40%YoY for VAS to NPO revenue and 90-100%YoY for CVAS revenue.

**Multiple initiatives to grow CVAS.** As CVAS only accounted for 12.0% of FY20 revenue, the Group highlighted several key initiatives to expand relevant revenue: **1) Real estate agency:** In full cooperation with the Fangchebao Group (房车宝), a company under its parent China Evergrande (3333 HK), the Group will share commission revenue by providing services such as real estate information integration and recommendation, customer development and diversion, and real estate custody; **2) Insurance brokerage:** It plans to acquire Evergrande Insurance Brokers (2020 premiums achieved: RMB 950mn) and explore cross-selling opportunities for life, property, and auto insurances within the managed communities; **3) Home decoration:** the Group has started providing services such as roughcast house decoration, refurbishing, partial renovation, and smart living since 2020. In 2020, EPSG registered RMB 35.1mn in revenue for its pilot home decoration; **4) Community group purchases:** By leveraging the advantage of direct access to property owners, the Group plans to expand its services to neighboring communities, as well as widen its self-owned and third-party product range. In 2020 the sales volume generated from group purchase reached RMB107mn.

**Maintain BUY with TP at HK\$ 21.50.** As we lift our 2021E GFA under management forecast to 609mn sqm (from 436mn sqm) on better M&A outlook and factor in higher CVAS contribution on new business initiatives, we raise our 2021E and 2022E core profit forecasts by 6.9% and 14.3%. Our DCF-based TP (WACC: 10%; terminal growth: 1%, unchanged) is raised to HK\$ 21.50 (from HK\$ 20.20). Maintain **BUY**. (Continue next page)

### Financial Summary

FY ended Dec 31	2019A	2020A	2021E	2022E	2023E
Revenue (RMB mn)	7,333	10,509	16,979	26,030	34,594
Chg (% YoY)	24.2	43.3	61.6	53.3	32.9
Core net profit (RMB mn) <sup>1</sup>	930	2,732	4,122	6,217	8,322
Chg (% YoY)	289.0	193.6	50.9	50.8	33.9
Core EPS (RMB)	0.09	0.27	0.38	0.58	0.77
Chg (% YoY)	289.0	191.8	40.6	50.8	33.9
BVPS (RMB mn)	0.18	0.92	1.20	1.64	2.21
Chg (% YoY)	121.1	421.0	31.2	35.8	35.3
P/E (x)	142.56	48.86	34.76	23.04	17.21
P/B (x)	75.22	14.44	11.01	8.10	5.99
Core ROE (%)	52.4	27.5	31.6	35.1	34.8
Core ROA (%)	12.5	16.0	19.2	21.2	21.5
DPS (RMB)	-	-	0.10	0.14	0.19
Yield (%)	-	-	0.72	1.08	1.45
Net cash (RMBmn)	682	12,604	9,455	11,926	16,240

<sup>1</sup> Core net profit= Profit after tax – listing expenses and related tax impact

<sup>2</sup> RMB to HK\$= 1.199

Source(s): The Company, ABCI Securities estimates

## Company report

Mar 18, 2021

Rating: **BUY**

TP: HK\$ 21.50

Analyst: **Kenneth Tung**

Tel: (852) 2147 8311

kennethtung@abci.com.hk

Share price (HK\$)	15.90
Est. share price return	35.2%
Est. dividend yield	0.7%
Est. total return	35.9%
Previous Rating & TP	BUY; HK\$20.20
Previous Report Date	Jan 21, 2021

Source(s): Bloomberg, ABCI Securities estimates

### Key data

52Wk H/L(HK\$)	19.7/7.43
Issued shares (mn)	10,801
Market cap (HK\$ mn)	171,736
Avg daily turnover since listing (HK\$ mn)	309.94

### Major shareholder(s) (%)

China Evergrande	61.70
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Source(s): Bloomberg, ABCI Securities

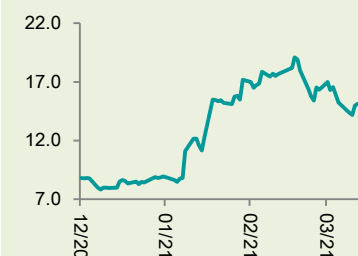
### Share Performance (%)

	Absolute	Relative*
1-mth	(10.0)	(6.4)
3-mth	86.0	70.9
6-mth	na	na

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

### 1-Year share performance (HK\$)



Source(s): Bloomberg, ABCI Securities

**Risk factors:** 1) Significant related party transactions; 2) Aggressive M&As may drive down margins 3) Uncertain development of COVID-19;.

### Exhibit 1: EPSG's 2020 results

P&L	2020	2019	YoY Chg	Balance sheet	Dec-20	Dec-19	YoY chg
	RMBmn	RMBmn	(%)		RMBmn	RMBmn	(%)
<b>Revenue</b>	<b>10,509</b>	<b>7,333</b>	<b>43.3</b>	Gross debt	-	3	(100)
Cost of Sales	(6,503)	(5,578)	16.6	Cash	12,604	684	1,741
<b>Gross Profit</b>	<b>4,006</b>	<b>1,755</b>	<b>128.3</b>	<b>Net cash</b>	<b>12,604</b>	<b>682</b>	<b>1,749</b>
<b>Gross Profit Margin (%)</b>	<b>38.1</b>	<b>23.9</b>	<b>14.2ppt</b>				
Selling and distribution costs	-	-	na				
Administrative expense	(629)	(515)	22				
<b>EBIT</b>	<b>3,377</b>	<b>1,240</b>	<b>172.3</b>				
<b>EBIT Margin (%)</b>	<b>32.1</b>	<b>16.9</b>	<b>15.2ppt</b>				
Other income	150	67	125.1				
Other losses-net	(46)	(0)	na				
Reversal/ allowance for impairment losses recognized on financial assets	36	(48)	(174.1)				
Share of results of associates	0	0	na				
Interest income	-	-	na				
Finance cost	(17)	(29)	(40.0)				
<b>Profit before tax</b>	<b>3,499</b>	<b>1,229</b>	<b>184.6</b>				
Tax	(851)	(299)	185.1				
<b>Profit after tax</b>	<b>2,647</b>	<b>931</b>	<b>184.5</b>				
Minority Interest	1	(0)	N/A				
<b>Net profit</b>	<b>2,648</b>	<b>930</b>	<b>184.7</b>				
<b>Net margin(%)</b>	<b>25.2%</b>	<b>12.7%</b>	<b>12.5ppt</b>				

	2020	2019	YoY Chg
	RMBmn	RMBmn	(%)
<b>Total revenue</b>	<b>10,509</b>	<b>7,333</b>	<b>43.3</b>
PMS	6,322	4,612	37.1
VASNPO	2,923	2,148	36.1
CVAS	1,264	573	120.6
<b>Gross profit margin</b>	<b>38.1%</b>	<b>23.9%</b>	<b>14.2%</b>
PMS	33.6%	17.7%	15.8%
VASNPO	37.1%	28.4%	8.7%
CVAS	63.4%	57.4%	6.1%

Operating statistics	2020	2019	YoY (%)
GFA Under management	300.0	237.9	26.1
Contracted GFA	565.0	505.1	11.9

Note: PMS= Property management services; VASNPO= VAS to non-property owners; CVAS= Community value-added services

Source(s): The Company, ABCI Securities estimates

### Exhibit 2: Changes in TP and profit forecasts

	New	Old	Change	Reason
<b>TP (HK\$)</b>	21.50	20.20	6.4%	- Revise up core profit forecasts; assumptions of WACC at 10% and terminal growth at 1% stay unchanged
<b>Core profit (RMBmn)</b>				
- 2021E	4,122	3,855	6.9%	- higher GFA under management assumption and new CVAS initiatives
- 2022E	6,217	5,438	14.3%	- higher GFA under management assumption and new CVAS initiatives
<b>GFA under management (RMBmn)</b>				
- 2021E	609	436	39.8%	- Better-than-expected 2M21 acquisition and GFA guidance
- 2022E	810	572	41.5%	- Better-than-expected 2M21 acquisition and GFA guidance

Source(s): The Company, ABCI Securities estimates

## Financial statements

### Consolidated income statement (2019A-2023E)

FY Ended Dec 31 (RMB mn)	2019A	2020A	2021E	2022E	2023E
<b>Revenue</b>	<b>7,333</b>	<b>10,509</b>	<b>16,979</b>	<b>26,030</b>	<b>34,594</b>
Cost of services	(5,578)	(6,503)	(10,840)	(16,787)	(22,306)
<b>Gross Profit</b>	<b>1,755</b>	<b>4,006</b>	<b>6,139</b>	<b>9,243</b>	<b>12,288</b>
Selling and marketing expenses	-	-	-	-	-
Administrative expenses	(515)	(629)	(826)	(1,122)	(1,375)
<b>EBIT</b>	<b>1,240</b>	<b>3,377</b>	<b>5,313</b>	<b>8,121</b>	<b>10,914</b>
Other income	67	150	136	124	147
Share of results of associates	-	-	-	-	-
Finance expenses	(29)	(17)	-	-	-
Net impairment losses on financial assets	(48)	36	(55)	(110)	(171)
Other losses-net	(0)	(46)	-	-	-
<b>Profit before tax</b>	<b>1,229</b>	<b>3,499</b>	<b>5,393</b>	<b>8,135</b>	<b>10,890</b>
Tax	(299)	(851)	(1,272)	(1,918)	(2,568)
<b>Profit after tax</b>	<b>931</b>	<b>2,647</b>	<b>4,122</b>	<b>6,217</b>	<b>8,322</b>
Minority interest	(0)	1	-	-	-
<b>Net profit</b>	<b>930</b>	<b>2,648</b>	<b>4,122</b>	<b>6,217</b>	<b>8,322</b>
<b>Core net profit*</b>	<b>930</b>	<b>2,732</b>	<b>4,122</b>	<b>6,217</b>	<b>8,322</b>
<b>Per share</b>					
Reported EPS (RMB)	0.09	0.26	0.38	0.58	0.77
Core EPS (RMB)	0.09	0.27	0.38	0.58	0.77
DPS (RMB)	-	-	0.10	0.14	0.19
Payout ratio (%)	0%	0%	25%	25%	25%
BVPS (RMB)	0.18	0.92	1.20	1.64	2.21
<b>Growth %</b>					
Revenue	24.2%	43.3%	61.6%	53.3%	32.9%
Gross Profit	142.7%	128.3%	53.2%	50.6%	32.9%
EBIT	285.4%	177.6%	54.3%	52.9%	34.4%
Core profit	289.0%	193.6%	50.9%	50.8%	33.9%
<b>Margin %</b>					
Gross profit margin	23.9%	38.1%	36.2%	35.5%	35.5%
EBIT margin	16.9%	32.8%	31.3%	31.2%	31.5%
Core net margin	12.7%	26.0%	24.3%	23.9%	24.1%
<b>Revenue breakdown (RMBmn)</b>					
Property management services	4,612	6,322	10,631	17,019	22,492
VAS to non-property owners	2,148	2,923	3,878	4,886	6,156
Community value added services	573	1,264	2,470	4,125	5,946
<b>Total</b>	<b>7,333</b>	<b>10,509</b>	<b>16,979</b>	<b>26,030</b>	<b>34,594</b>
<b>Key assumptions</b>					
Contracted GFA(mn sqm)	505	565	809	938	1,078
GFA under management (mn sqm)	238	300	609	810	1,020

Source(s): The Company, ABCI Securities estimates

\* Core net profit = profit after tax – listing expenses and related tax impact

**Consolidated balance sheet (2019A-2023E)**

As of Dec 31 (RMB mn)	2019A	2020A	2021E	2022E	2023E
<b>Current assets</b>	<b>7,307</b>	<b>16,803</b>	<b>19,097</b>	<b>26,629</b>	<b>35,683</b>
Bank balances and cash	684	12,604	9,455	11,926	16,240
Trade receivables	5,257	4,186	9,630	14,691	19,430
Inventories	0	0	0	0	0
Due from related parties	1,350	0	0	0	0
Other current assets	16	12	12	12	12
<b>Non-current assets</b>	<b>150</b>	<b>262</b>	<b>2,335</b>	<b>2,659</b>	<b>2,979</b>
Property, plant and equipment	57	54	2,127	2,452	2,772
Intangible assets	0	128	128	128	128
Right of use assets	26	23	23	23	23
Other non-current assets	66	57	57	57	57
<b>Total Assets</b>	<b>7,457</b>	<b>17,064</b>	<b>21,432</b>	<b>29,289</b>	<b>38,662</b>
<b>Current Liabilities</b>	<b>5,669</b>	<b>7,105</b>	<b>8,381</b>	<b>11,575</b>	<b>14,707</b>
Lease liabilities	14	13	13	13	13
Contract liabilities	2,285	2,726	2,726	2,726	2,726
Bank borrowings	3	0	0	0	0
Trade payables	2,969	4,126	5,403	8,597	11,729
Other current liabilities	398	239	239	239	239
<b>Non-current liabilities</b>	<b>13</b>	<b>26</b>	<b>26</b>	<b>26</b>	<b>26</b>
Other non-current liabilities	13	11	11	11	11
Deferred Tax Liabilities	0	15	15	15	15
<b>Total Liabilities</b>	<b>5,682</b>	<b>7,130</b>	<b>8,407</b>	<b>11,601</b>	<b>14,733</b>
<b>Net Assets</b>	<b>1,774</b>	<b>9,934</b>	<b>13,025</b>	<b>17,688</b>	<b>23,929</b>
<b>Shareholders' Equity</b>	<b>1,762</b>	<b>9,923</b>	<b>13,014</b>	<b>17,677</b>	<b>23,918</b>
Minority Interest	13	11	11	11	11
<b>Total Equity</b>	<b>1,774</b>	<b>9,934</b>	<b>13,025</b>	<b>17,688</b>	<b>23,929</b>
<b>Key ratio</b>					
Gross debt (RMB mn)	3	-	-	-	-
Net debt/ (cash) (RMB mn)	(682)	(12,604)	(9,455)	(11,926)	(16,240)
Net gearing (%)	-38%	-127%	-73%	-67%	-68%

Source(s): The Company, ABCI Securities estimates



**Consolidated cash flow statement (2019A-2023E)**

As of Dec 31 (RMB mn)	2019A	2020A	2021E	2022E	2023E
EBITDA	1,278	3,484	5,435	8,362	11,187
Change in Working Capital	(1,639)	2,228	(4,167)	(1,868)	(1,607)
Tax payment	(7)	(851)	(1,272)	(1,918)	(2,568)
<b>Operating Cash Flow</b>	<b>(368)</b>	<b>4,861</b>	<b>(4)</b>	<b>4,577</b>	<b>7,013</b>
Purchase of PP&E	(17)	(133)	(2,195)	(566)	(594)
Disposal of IP	-	-	-	-	-
Change in financial assets	(0)	-	-	-	-
Proceeds from disposal of financial assets	139	-	-	-	-
Others	0	-	-	-	-
<b>Investing Cash Flow</b>	<b>122</b>	<b>(133)</b>	<b>(2,195)</b>	<b>(566)</b>	<b>(594)</b>
Debt raised	3	-	-	-	-
Interest expenses	(5)	-	-	-	-
Equity raised	-	5,861	-	-	-
Payment to shareholders	(4)	(683)	(1,030)	(1,554)	(2,081)
Others	32	2,014	81	14	(24)
<b>Financing Cash Flow</b>	<b>(124)</b>	<b>7,192</b>	<b>(950)</b>	<b>(1,540)</b>	<b>(2,104)</b>
<b>Net cash inflow/ (outflow)</b>	<b>(370)</b>	<b>11,920</b>	<b>(3,149)</b>	<b>2,471</b>	<b>4,314</b>
<b>Cash- beginning</b>	<b>1,054</b>	<b>684</b>	<b>12,604</b>	<b>9,455</b>	<b>11,926</b>
<b>Cash- year-end</b>	<b>684</b>	<b>12,604</b>	<b>9,455</b>	<b>11,926</b>	<b>16,240</b>

Source(s): The Company, ABCI Securities estimates

## Disclosures

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### Definition of equity rating

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 2008 (For reference: HSI total return index 2008-20 CAGR at 9.2%)

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**Office address: ABCI Securities Company Limited, 13/F Fairmont House,  
8 Cotton Tree Drive, Central, Hong Kong.  
Tel: (852) 2868 2183**