

Yuexiu Services (YXS) (6626 HK) Faster revenue growth with lower margin

- FY22 net profit increased 16% YoY to RMB 416mn
- Gross margin down 7.6ppt YoY to 27.3% – a major negative surprise
- Management remains confident to achieve its target of 100mn sqm in GFA under mgt by Jun 2024
- Maintain **BUY** with revised DCF-based TP of HK\$ 4.71 (from HK\$ 4.55)

Company Report

Mar 9, 2023

Rating: **BUY**

TP: HK\$ 4.71

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Big miss in net profit due to margin decline. YXS's 2022 revenue increased 30% YoY to RMB 2,486mn as revenue from non-commercial/ commercial projects rose 36% YoY/11% YoY. GFA under mgt increased 33%YoY to 51.7mn sqm and contracted GFA rose 21%YoY to 70.6mn sqm in 2022. 2022 net profit increased 16% YoY to RMB 416mn, 15% below consensus forecast because of significant drop in gross margin (-7.6ppt YoY to 27.3%). For non-commercial projects, gross margin from PMS dropped 5.7ppt YoY to 16.4% as GFA addition from third-party tendering, which entails lower margins, increased 138%YoY to 8.43mn sqm. Gross margin for VASNPO also declined 11.4ppt YoY to 32.1%, mainly due to weakened demand from property developers. While CVAS revenue grew 47% YoY to RMB 650mn, the segment's gross margin dropped 13.2ppt YoY to 32.9% because of set-up costs required for the business in initial stage. Going forward, we expect margin pressure to persist as third-party business increases further. We cut our earnings forecast by 34.9%/40.5% for 2023E/24E due to below-expected gross margin.

Backed by a solid parent. Management remains confident to achieve its 100mn sqm in GFA under mgt target by Jun 2024. Leveraging its parent's vast business network, YXS acquired the PMC of GZ Chimelong Group at RMB 9.5mn in 2022 and increased GFA under mgt by ~0.8mn sqm via M&A. In 2M23, contracted sales and GFA of YXS's parent, Yuexiu Property (123 HK), soared 187% YoY to RMB 22.6bn and 105% YoY to 0.641mn sqm. Impressive sales performance of parent ensures a stable pipeline for YXS's mgt area and VASNPO revenue. On Dec 30, 2022, YXS proposed a share incentive scheme to senior management by granting 15.2mn share options at an exercise price of HK\$3.334/share, with a vesting period of 2-4 years. One of the vesting conditions is that net profit for 2023/2024/2025 has to be 32%/52%/75% higher than 2021, implying a profit growth rate of 14-15% in 2023-25E.

Maintain BUY with revised TP at HK\$ 4.71. On the back of sharp rebound in parent's contract sales, we believe the risks associated with rising receivables and declining revenue from related party transactions has declined noticeably. We raise our DCF-based TP to HK\$ 4.71 (from HK\$ 4.55) as we lower WACC assumption from 20% to 15% on the back of policy easing for property sector, as well as rising sales of parent group. Share price plunged ~20% on Mar 9 to reflect this disappointing set of results announced on Mar 8. We, however, maintain our long-term positive outlook for YXS given its SOE status and solid performance in parent's sales. Reiterate **BUY**.

Results and Valuations

FY ended Dec 31	2021A	2022A	2023E	2024E	2025E
Revenue (RMB mn)	1,918	2,486	3,306	4,229	5,206
Chg (% YoY)	64.2	29.6	33.0	27.9	23.1
Net profit (RMB mn)	360	416	501	636	780
Chg (% YoY)	80.6	15.7	20.4	26.9	22.7
EPS (RMB)	0.27	0.27	0.33	0.42	0.51
Chg (% YoY)	40.6	(0.5)	20.4	26.9	22.7
BVPS (RMB)	1.93	2.12	2.33	2.60	2.94
Chg (% YoY)	219.2	9.9	10.1	11.6	12.8
P/E (x)	12.1	12.1	10.1	7.9	6.5
P/B (x)	1.72	1.57	1.42	1.28	1.13
ROE (%)	19.2	13.1	14.5	16.6	18.1
ROA (%)	9.8	7.7	8.2	9.5	10.5
DPS (RMB)	0.08	0.10	0.12	0.15	0.18
Yield (%)	2.50	2.89	3.47	4.41	5.41
Net cash (RMBmn)	3,822	4,394	4,698	5,048	5,472

Note: RMB to HK\$ = 1.13

Source(s): The Company, ABCI Securities estimates

Share price (HK\$)	3.75
Est. share price return	25.6%
Est. dividend yield	3.5%
Est. total return	29.1%
Previous Rating & TP	BUY; HK\$4.55
Previous Report Date	Nov 7, 2022

Source(s): Bloomberg, ABCI Securities estimates

Key data

52Wk H/L(HK\$)	5.12/2.25
Issued shares (mn)	1,522
Market cap (HK\$ mn)	5,708
3-mth Avg daily turnover (HK\$ mn)	4.11
Major shareholder(s) (%):	
Yuexiu Property	66.92
GZ Metro	5.94

Source(s): Bloomberg, ABCI Securities

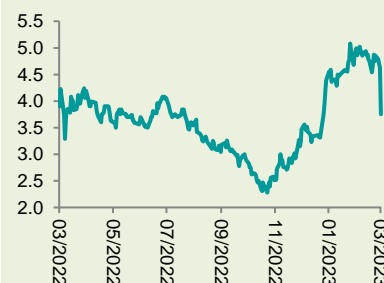
Share Performance (%)

	Absolute	Relative*
1-mth	(22.4)	(15.9)
3-mth	19.0	13.1
6-mth	23.4	17.7

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

Share performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Risk factors: 1) Unsuccessful contract renewal; 2) Rising labor costs; 3) Substantial related-party transactions; 4) Conservative M&A approach. 5) Contracting profit margins. 6) Valuation change caused by assumption of WACC; 7) Our projected GFA under management in 2024E is lower than management guidance.

Exhibit 1: Revenue and Gross Profit breakdown (FY22)

	2022	2021	YoY change
	RMBmn	RMBmn	(%)
Revenue	2,486	1,918	30%
Non-commercial property mgt and value added services	1,941	1,425	36%
Property management services	812	643	26%
VASNPO	479	341	41%
CVAS	650	442	47%
Commercial property management and operational services	545	493	11%
Commercial operation and management services	423	383	11%
Market positioning, consultancy and tenant sourcing services	122	111	10%
Gross profit	679	671	1%
Non-commercial property mgt and value added services	501	494	1%
Property management services	133	142	-6%
VASNPO	154	148	4%
CVAS	214	204	5%
Commercial property management and operational services	178	177	1%
Commercial operation and management services	126	122	2%
Market positioning, consultancy and tenant sourcing services	53	54	-2%
Gross profit margin	27.3%	35.0%	-7.6ppt
Non-commercial property mgt and value added services	25.8%	34.7%	-8.9ppt
Property management services	16.4%	22.1%	-5.7ppt
VASNPO	32.1%	43.5%	-11.4ppt
CVAS	32.9%	46.1%	-13.2ppt
Commercial property management and operational services	32.7%	35.8%	-3.1ppt
Commercial operation and management services	29.6%	32.0%	-2.4ppt
Market positioning, consultancy and tenant sourcing services	43.5%	49.0%	-5.5ppt

Source(s): The Company, ABCI Securities

Exhibit 2: Changes in TP and Profit Forecasts

	Old	New	Chg	Reasons
TP (HK\$)	4.55	4.71	3.5%	Lower WACC assumption from 20% to 15% due to policy easing for property sector and improving sales performance of parent group
Core profit (RMBmn)				
-2023E	769	501	-34.9%	Cut gross margin assumption due to rising third-party projects contribution
-2024E	1,069	636	-40.5%	Cut gross margin assumption due to rising third-party projects contribution

Source(s): The Company, ABCI Securities estimates

Exhibit 3: Sensitivity of TP against WACC

WACC	10.0%	12.5%	15.0%	17.5%	20.0%
TP (HK\$)	5.19	4.90	4.71	4.57	4.47
Variance	10.2%	4.0%	0.0%	-2.9%	-5.1%

Source(s): The Company, ABCI Securities estimates

Financial statements

Consolidated income statement (2021A-2025E)

FY Ended Dec 31 (RMB mn)	2021A	2022A	2023E	2024E	2025E
Revenue	1,918	2,486	3,306	4,229	5,206
Cost of sales	(1,248)	(1,807)	(2,416)	(3,090)	(3,803)
Gross Profit	671	679	890	1,139	1,403
Selling and marketing expenses	-	-	-	-	-
Administrative expenses	(142)	(211)	(272)	(340)	(410)
EBIT	529	469	618	799	992
Other income	14	25	27	33	40
Share of results of associates	0	0	-	-	-
Finance income	24	75	81	86	93
Finance expenses	(3)	(3)	(13)	(13)	(13)
Net impairment losses on financial assets	(4)	(4)	(7)	(9)	(11)
Listing expenses	(20)	-	-	-	-
Other (losses)/gains-net	(16)	14	-	-	-
Profit before tax	524	576	706	896	1,100
Tax	(155)	(152)	(191)	(242)	(297)
Profit after tax	370	424	516	654	803
Minority interest	(10)	(8)	(15)	(18)	(23)
Net profit	360	416	501	636	780
Per share					
EPS (RMB)	0.27	0.27	0.33	0.42	0.51
DPS (RMB)	0.08	0.10	0.12	0.15	0.18
Payout ratio (%)	30%	35%	35%	35%	35%
BVPS (RMB)	1.93	2.12	2.33	2.60	2.94
Growth %					
Revenue	64.2%	29.6%	33.0%	27.9%	23.1%
Gross Profit	66.3%	1.3%	31.0%	27.9%	23.2%
EBIT	104.0%	-11.5%	31.9%	29.3%	24.2%
Core profit	80.6%	15.7%	20.4%	26.9%	22.7%
Margin %					
Gross margin	35.0%	27.3%	26.9%	26.9%	26.9%
EBIT margin	27.6%	18.8%	18.7%	18.9%	19.1%
Net margin	18.7%	16.7%	15.2%	15.0%	15.0%
Revenue breakdown					
Commercial property management and operational services	493	545	663	799	944
Non-commercial property mgt and value-added services	1,425	1,941	2,643	3,430	4,261
Total	1,918	2,486	3,306	4,229	5,206
Key assumptions					
Contracted GFA(mn sqm)	58.4	70.6	90.8	106.2	121.6
- Commercial property management	5.3	5.8	6.6	7.6	8.5
- Non-commercial property management	53.1	64.8	84.2	98.7	113.1
GFA under mgt (mn sqm)					
- Commercial property management	3.3	4.1	5.4	6.2	7.1
- Non-commercial property management	35.6	47.6	58.1	71.2	84.8

Source(s): The Company, ABCI Securities estimates



Consolidated balance sheet (2021A-2025E)

As of Dec 31 (RMB mn)	2021A	2022A	2023E	2024E	2025E
Current assets	4,641	5,418	5,964	6,593	7,307
Bank balances and cash	3,803	4,361	4,640	4,958	5,341
Restricted cash	11	4	4	4	4
Trade and other receivables and prepayments	795	985	1,252	1,563	1,893
Inventories	1	6	6	6	6
Income tax recoverable	31	24	24	24	24
Other current assets	0	38	38	38	38
Non-current assets	490	530	592	653	713
Property, plant and equipment	39	37	47	57	67
Financial assets at fair value through other comprehensive income	32	32	32	32	32
Restricted cash	8	29	29	29	29
Other non-current assets	411	432	484	535	585
Total Assets	5,131	5,948	6,556	7,246	8,019
Current Liabilities	1,543	2,021	2,288	2,547	2,790
Other payables and accruals	0	0	0	0	0
Contracted liabilities	159	356	356	356	356
Trade payables	1,302	1,587	1,854	2,113	2,357
Borrowings	0	0	0	0	0
Other current liabilities	82	78	78	78	78
Non-current liabilities	498	536	536	536	536
Bank and other borrowings	0	0	0	0	0
Lease liabilities	53	59	59	59	59
Other non-current liabilities	445	477	477	477	477
Total Liabilities	2,041	2,557	2,824	3,083	3,327
Net Assets	3,090	3,391	3,731	4,163	4,693
Shareholders' Equity	2,932	3,223	3,548	3,962	4,469
Minority Interest	159	169	183	201	224
Total Equity	3,090	3,391	3,731	4,163	4,693
Key ratio					
Gross debt (RMB mn)	-	-	-	-	-
Net debt/ (cash) (RMB mn)	(3,822)	(4,394)	(4,673)	(4,991)	(5,375)

Source(s): The Company, ABCI Securities estimates

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ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Yuexiu Services Group Limited (6626 HK, BUY)

China Property Management Sector

Mar 9, 2023

Consolidated cash flow statement (2021A-2025E)

As of Dec 31 (RMB mn)	2021A	2022E	2023E	2024E	2025E
Net cash generated from operating activities	998	411	432	509	615
Purchase of PP&E	(14)	(10)	(10)	(10)	(10)
Purchase of intangible assets	-	(19)	(56)	(56)	(55)
Increase in amounts due from related parties	-	-	-	-	-
Decrease in amounts due from related parties	165	-	-	-	-
Others	(13)	75	81	86	93
Investing Cash Flow	138	46	15	21	27
Debt raised	-	-	-	-	-
Repayments of borrowings	-	-	-	-	-
Interest expenses	(0)	(3)	(13)	(13)	(13)
Equity raised	2,007	-	-	-	-
Dividends paid to shareholders	(90)	(146)	(175)	(223)	(273)
Others	(243)	250	20	24	28
Financing Cash Flow	1,673	100	(168)	(212)	(258)
Net cash inflow/ (outflow)	2,809	557	279	318	384
Cash- beginning	995	3,803	4,361	4,640	4,958
Cash- year-end	3,803	4,361	4,640	4,958	5,341

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 ($\sim 9\%$)
Hold	- Market return rate ($\sim 9\%$) \leq Stock return rate $<$ Market return rate ($\sim 9\%$)
Sell	Stock return $<$ - Market return ($\sim 9\%$)

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 2006 (For reference: HSI total return index 2006-22 averaged at 8.4%)

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