

## Yuexiu Services (YXS) (6626 HK)

### Attractively valued with strong cash balance

- 1H22 net profit increased 19% YoY to RMB 211mn; slowing profit growth is mainly due to weaker gross margin and declining revenue in VAS to Non-property owners and Commercial operation & mgt services
- CVAS revenue growth remains resilient at 32%YoY, driven by new retailing
- Secure TOD projects in Fuzhou, Changsha, and Qingdao
- Maintain **BUY** with revised DCF-based TP of HK\$ 5.05

**VAS to Non-property owners (VASNPO) is a major drag for 2022.** YXS's 1H22 revenue increased 14% YoY to RMB 1,090mn; revenue from non-commercial property mgt rose 20% YoY, but growth in commercial projects stayed flat. GFA under mgt increased 24%YoY/12%HoH to 43.5mn sqm and contracted GFA rose 19%YoY/7%HoH to 62.6mn sqm in 1H22. 1H22 net profit increased 19% YoY to RMB 211mn in 1H22, a substantial slowdown from the 98% YoY growth in 2021 because of: **1) Lower gross margin** that dropped 4.1ppt YoY to 31.7%, as GFA from third-party tendering, which entails lower margins, increased 151%YoY to 3.87mn sqm; **2) Declining revenue from VASNPO (-13%YoY) and Commercial operation & mgt services (-5%YoY)** resulted from slowing contracted sales of parent developer and declining office mgt fee rate (1H22: RMB21.9/sqm vs FY21: RMB22.3/sqm) due to COVID resurgence. On a positive note, revenue from CVAS remained resilient and grew 32%YoY to RMB 244mn. In particular, revenue from new retailing jumped 140%YoY to RMB 60mn.

**TOD projects expanding to cities outside Guangzhou.** In 1H22, YXS expanded its TOD PMS projects outside Guangzhou and won the PMS contract bids for Line 2 of Fuzhou Metro, Line 3 of Changsha Metro, and Line 4 of Qingdao Metro. As of June 2022, contracted GFA under TOD business was 6.58mn sqm, or 10.5% of total contracted GFA. Revenue from TOD business was RMB 139mn in 1H22, accounting for 12.7% of total revenue. Gross margin of TOD business was 25.3% in 1H22.

**Cash-to-market cap ratio high at 89%; maintain BUY with revised TP at HK\$5.05.** Weaker-than-expected margin and declining revenue from VASNPO prompt us to revise down 2022E/23E core profit forecasts by 14.5%/20.0%. With slower growth in revenue and profit estimates, our DCF-based TP tipped down to HK\$ 5.05 (from HK\$ 5.45), which translates into 12.1x P/E and 2.0x P/B for 2022E. In 1H22, operating cash flow was RMB 382mn (representing 1.81x of core net profit); net cash balance increased 9% HoH to RMB4.2bn. Its cash-to-market cap (HK\$ 5.5bn as of Aug 11) ratio was high at ~89%. We believe YXS is attractively valued given its enormous cash balance and SOE status. Maintain **BUY**.

#### Results and Valuations

FY ended Dec 31	2020A	2021A	2022E	2023E	2024E
Revenue (RMB mn)	1,168	1,918	2,588	3,712	5,124
Chg (% YoY)	30.3	64.2	34.9	43.5	38.0
Core profit (RMB mn) <sup>1</sup>	199	395	546	769	1,069
Chg (% YoY)	118.0	98.4	38.1	41.0	38.9
Core EPS (RMB)	0.20	0.30	0.36	0.51	0.70
Chg (% YoY)	118.0	54.5	18.7	41.0	38.9
BVPS (RMB)	0.60	1.93	2.18	2.53	3.02
Chg (% YoY)	137.4	219.2	13.0	16.3	19.4
P/E (x)	16.1	10.4	8.8	6.2	4.5
P/B (x)	5.21	1.63	1.45	1.24	1.04
Core ROE (%)	39.6	19.2	16.9	20.8	24.6
Core ROA (%)	7.6	9.8	10.2	12.6	15.0
DPS (RMB)	-	0.08	0.11	0.15	0.21
Yield (%)	-	2.6	3.4	4.8	6.7
Net cash (RMBmn)	1,008	3,822	4,079	4,414	4,772

Note: RMB to HK\$= 1.16

<sup>1</sup>Core profit= Net profit + listing expense and FX losses

Source(s): The Company, ABCI Securities estimates

## Company Report

Aug 12, 2022

Rating: **BUY**

TP: **HK\$ 5.05**

Analyst: Kenneth Tung  
Tel: (852) 2147 8311  
kennettung@abci.com.hk

Share price (HK\$)	3.65
Est. share price return	38.4%
Est. dividend yield	3.4%
Est. total return	41.8%
Previous Rating & TP	BUY; HK\$5.45
Previous Report Date	Mar 4, 2022

Source(s): Bloomberg, ABCI Securities estimates

#### Key data

52Wk H/L(HK\$)	4.45/2.90
Issued shares (mn)	1,522
Market cap (HK\$ mn)	5,555
3-mth Avg daily turnover (HK\$ mn)	4.41
Major shareholder(s) (%):	
Yuexiu Property	66.92
GZ Metro	5.94

Source(s): Bloomberg, ABCI Securities

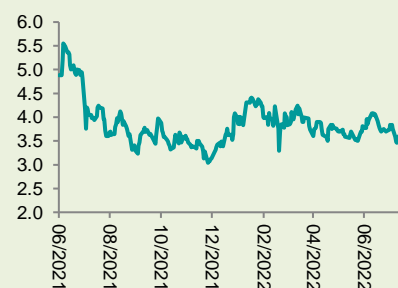
#### Share Performance (%)

	Absolute	Relative*
1-mth	(5.2)	(0.3)
3-mth	(2.9)	(2.6)
6-mth	(17.5)	3.0

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

#### Share performance (HK\$)



Source(s): Bloomberg, ABCI Securities



**Exhibit 3: Changes in TP and profit forecasts**

	New	Old	Chg	Reasons
<b>TP (HK\$)</b>	5.05	5.45	(7.5%)	Lower-than-expected gross margin and revenue from VASNPO in 1H22
<b>Core profit (RMBmn)</b>				
-2022E	546	638	(14.5%)	Lower-than-expected gross margin and revenue from VASNPO in 1H22
-2023E	769	962	(20.0%)	Lower-than-expected gross margin and revenue from VASNPO in 1H22

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
<b>Revenue</b>	<b>1,168</b>	<b>1,918</b>	<b>2,588</b>	<b>3,712</b>	<b>5,124</b>
Cost of sales	(765)	(1,248)	(1,744)	(2,539)	(3,521)
<b>Gross Profit</b>	<b>403</b>	<b>671</b>	<b>844</b>	<b>1,173</b>	<b>1,603</b>
Selling and marketing expenses	-	-	-	-	-
Administrative expenses	(144)	(142)	(156)	(180)	(200)
<b>EBIT</b>	<b>259</b>	<b>529</b>	<b>688</b>	<b>993</b>	<b>1,403</b>
Other income	45	14	23	27	33
Share of results of associates	-	0	-	-	-
Finance income	7	24	71	76	83
Finance expenses	(29)	(3)	(7)	(7)	(7)
Net impairment losses on financial assets	(3)	(4)	(5)	(8)	(11)
Listing expenses	-	(20)	-	-	-
Other (losses)/gains-net	0	(16)	-	-	-
<b>Profit before tax</b>	<b>280</b>	<b>524</b>	<b>769</b>	<b>1,083</b>	<b>1,501</b>
Tax	(77)	(155)	(212)	(299)	(414)
<b>Profit after tax</b>	<b>204</b>	<b>370</b>	<b>557</b>	<b>784</b>	<b>1,087</b>
Minority interest	(5)	(10)	(12)	(15)	(18)
<b>Net profit</b>	<b>199</b>	<b>360</b>	<b>546</b>	<b>769</b>	<b>1,069</b>
<b>Core profit*</b>	<b>199</b>	<b>395</b>	<b>546</b>	<b>769</b>	<b>1,069</b>
<b>Per share</b>					
Reported EPS (RMB)	0.20	0.27	0.36	0.51	0.70
Core EPS (RMB)	0.20	0.30	0.36	0.51	0.70
DPS (RMB)	-	0.08	0.11	0.15	0.21
Payout ratio (%)	0%	27%	30%	30%	30%
BVPS (RMB)	0.60	1.93	2.18	2.53	3.02
<b>Growth %</b>					
Revenue	30.3%	64.2%	34.9%	43.5%	38.0%
Gross Profit	65.7%	66.3%	25.8%	39.1%	36.6%
EBIT	104.9%	104.0%	30.0%	44.4%	41.3%
Core profit	118.0%	98.4%	38.1%	41.0%	38.9%
<b>Margin %</b>					
Gross margin	34.5%	35.0%	32.6%	31.6%	31.3%
EBIT margin	22.2%	27.6%	26.6%	26.8%	27.4%
Core net margin	17.0%	20.6%	21.1%	20.7%	20.9%
<b>Revenue breakdown</b>					
Commercial property management and operational services	357	493	690	860	1,043
Non-commercial property mgt and value-added services	811	1,425	1,898	2,852	4,081
<b>Total</b>	<b>1,168</b>	<b>1,918</b>	<b>2,588</b>	<b>3,712</b>	<b>5,124</b>
<b>Key assumptions</b>					
<b>Contracted GFA(mn sqm)</b>	<b>49.9</b>	<b>58.4</b>	<b>84.7</b>	<b>107.1</b>	<b>134.5</b>
- Commercial property management	3.8	5.3	5.7	6.6	7.6
- Non-commercial property management	46.1	53.1	79.0	100.4	126.9
<b>GFA under mgt (mn sqm)</b>	<b>32.6</b>	<b>38.9</b>	<b>58.4</b>	<b>77.9</b>	<b>102.4</b>
- Commercial property management	2.8	3.3	4.5	5.4	6.2
- Non-commercial property management	29.9	35.6	53.9	72.5	96.2

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
<b>Current assets</b>	<b>1,876</b>	<b>4,641</b>	<b>5,111</b>	<b>5,826</b>	<b>6,661</b>
Bank balances and cash	995	3,803	4,060	4,395	4,753
Restricted cash	7	11	11	11	11
Trade and other receivables and prepayments	862	795	1,009	1,389	1,865
Inventories	1	1	1	1	1
Income tax recoverable	11	31	31	31	31
Other current assets	0	0	0	0	0
<b>Non-current assets</b>	<b>535</b>	<b>490</b>	<b>673</b>	<b>866</b>	<b>1,169</b>
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	583	767	1,059
<b>Total Assets</b>	<b>2,411</b>	<b>5,131</b>	<b>5,784</b>	<b>6,693</b>	<b>7,830</b>
<b>Current Liabilities</b>	<b>1,556</b>	<b>1,543</b>	<b>1,802</b>	<b>2,158</b>	<b>2,529</b>
Other payables and accruals	0	0	0	0	0
Contracted liabilities	163	159	159	159	159
Trade payables	1,272	1,302	1,561	1,917	2,288
Borrowings	0	0	0	0	0
Other current liabilities	120	82	82	82	82
<b>Non-current liabilities</b>	<b>94</b>	<b>498</b>	<b>498</b>	<b>498</b>	<b>498</b>
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
<b>Total Liabilities</b>	<b>1,650</b>	<b>2,041</b>	<b>2,300</b>	<b>2,656</b>	<b>3,027</b>
<b>Net Assets</b>	<b>761</b>	<b>3,090</b>	<b>3,484</b>	<b>4,037</b>	<b>4,803</b>
<b>Shareholders' Equity</b>	<b>615</b>	<b>2,932</b>	<b>3,314</b>	<b>3,852</b>	<b>4,600</b>
Minority Interest	146	159	170	185	203
<b>Total Equity</b>	<b>761</b>	<b>3,090</b>	<b>3,484</b>	<b>4,037</b>	<b>4,803</b>
<b>Key ratio</b>					
Gross debt (RMB mn)	-	-	-	-	-
Net debt/ (cash) (RMB mn)	(1,008)	(3,822)	(4,079)	(4,414)	(4,772)

Source(s): The Company, ABCI Securities estimates



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

As of Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
<b>Net cash generated from operating activities</b>	<b>450</b>	<b>998</b>	<b>526</b>	<b>677</b>	<b>892</b>
Purchase of PP&E	(14)	(14)	(10)	(10)	(10)
Purchase of intangible assets	-	-	(177)	(190)	(301)
Increase in amounts due from related parties	(26)	-	-	-	-
Decrease in amounts due from related parties 164,907	1,316	165	-	-	-
Others	(250)	(13)	71	76	83
<b>Investing Cash Flow</b>	<b>1,026</b>	<b>138</b>	<b>(116)</b>	<b>(124)</b>	<b>(228)</b>
Debt raised	-	-	-	-	-
Repayments of borrowings	(981)	-	-	-	-
Interest expenses	(28)	(0)	(7)	(7)	(7)
Equity raised	-	2,007	-	-	-
Dividends paid to shareholders	(4)	(90)	(164)	(231)	(321)
Others	(243)	(243)	17	20	22
<b>Financing Cash Flow</b>	<b>(1,256)</b>	<b>1,673</b>	<b>(153)</b>	<b>(218)</b>	<b>(305)</b>
<b>Net cash inflow/ (outflow)</b>	<b>221</b>	<b>2,809</b>	<b>256</b>	<b>336</b>	<b>358</b>
<b>Cash- beginning</b>	<b>774</b>	<b>995</b>	<b>3,803</b>	<b>4,060</b>	<b>4,395</b>
<b>Cash- year-end</b>	<b>995</b>	<b>3,803</b>	<b>4,060</b>	<b>4,395</b>	<b>4,753</b>

Source(s): The Company, ABCI Securities estimates

## Disclosures

### Analyst Certification

I, Tung Yiu Kei Kenneth, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject Company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed Company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed Company (ies) covered in this report.

### 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 2009 (For reference: HSI total return index 2009-21 averaged at 9.2%)

### Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates may pursue financial interests to the companies mentioned in the report

### Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, Groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2022 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

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