

TIMES NEIGHBORHOOD (9928 HK)

Acquired Southwest's leading company to expand coverage

Hong Kong | Property Management | Update Report

29 December 2020

Investment Summary

On December 14, 2020, the company announced that it intends to acquire 49% of Chengdu Holytech Technology Co., Ltd.'s equity. After the completion of the acquisition, Holytech will become an associated company of the company and be recorded as an investment project of the company. The target acquiring company wholly owns Chengdu Holytech Property Co., Ltd., which provides property management services including residential properties, commercial properties and other types of properties, which include government office buildings, tourist attractions, etc. At the same time, Holytech also provides urban public services, including city appearance and order ancillary management services of Pengzhou City, Sichuan Province of the PRC, etc. The total consideration is approximately RMB 297 million, corresponding to approximately 14x P/E for the company in 2019.

Target company

Chengdu Holytech Property Co., Ltd. was established in 2007 and initially provided property management services for Chengdu Zhixin Industrial Group Co., Limited (Chengdu Zhixin Industrial Group Co., Ltd.). Holytech has been deeply involved in southwestern China and is a leading local enterprise. Project under management covers 18 provinces and cities across the country, totaling 155. GFA under management is about 18.52 million square meters, among which residential properties, commercial properties and other types of properties are GFA under Management calculations accounted for 82.1%, 11.2% and 6.7% respectively. The company currently has 30 projects reserve, with a reserve GFA of approximately 8.18 million square meters, and an average conversion period of 1-2 years.

We believe that through the acquisition of the target company, the company can further expand the company's business scale and market scale in the field of property management services in Southwest China. The target company's project under management is mainly concentrated in the Southwest. According to the geographical distribution of GFA under management, the Southwest, East China, Northwest and Central China account for 83.5%, 9.3%, 4.7% and 2.5% of GFA under management respectively. TIMES NEIGHBORHOOD has been focused on the Greater Bay Area and has begun to expand into different regions in recent years. On June 30, 2020, TIMES NEIGHBORHOOD has a reserve GFA of 1.671 million square meters in the southwest region. After the acquisition, the company can rely on the target company's related parties and its strong external expansion capabilities for the development of the southwest region.

Post-investment management synergy

Holytech's business model is similar to TIMES NEIGHBORHOOD, and after the acquisition, it can produce synergies with it, and further enhance the operating capacity of the target company. In FY18 and FY19, Holytech's net profit margin was 9.97%/10.15%, which was lower than TIMES NEIGHBORHOOD. On the other hand, Holytech has invested less in value-added services, accounting for approximately 6% of its revenue. After the acquisition, TIMES NEIGHBORHOOD can assist the target company in carrying out business activities with higher gross profit margins such as value-added services for owners to increase profitability. After the acquisition, TIMES NEIGHBORHOOD will assign certain persons to Holytech Property Services to serve as senior management personnel of the project company to supervise daily operations and financial work. In addition, the company will also join the board of directors of each target company and project company for further post-investment management.

BUY (Maintain)

CMP HKD 7.52

(Closing price as of 24 Dec)

Target Price HKD 14.91 (+98.3%)

COMPANY DATA

O/S SHARES (MN) :	985.67
MARKET CAP (HKD MN) :	7,412
52 - WK HI/LO (HKD):	13.74/4.52

SHARE HOLDING PATTERN, %

Shum Chiu Hung	46.85
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PRICE VS. HSI



Source: Wind, PSHK

KEY FINANCIALS

CNY mn	FY19	FY20E	FY21E	FY22E
Net Sales	1,081	1,820	3,051	4,558
Net Profit	96	227	426	621
EPS, CNY cent	16.00	23.06	43.26	63.03
P/E, x	42.30	29.35	15.64	10.74
BVPS, CNY	0.91	1.81	2.19	2.71
P/BV, x	7.42	3.73	3.09	2.49
DPS (HKD cent)	3.61	7.57	14.42	21.01
Div. Yield (%)	0.48	1.02	1.92	2.79

Source: Company reports, Phillip Securities Est.

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Valuation and Investment Recommendation

In the second half of the year, valuation adjustments occurred in the property services sector of the Hong Kong stock market. Many property companies are currently trading at an attracting valuation. The company is actively expanding this year and has entered different segments of the industry. This acquisition paves the way for the company's future expansion of business to the southwest region. The business model of the acquired project company is similar to TIMES NEIGHBORHOOD, and it is expected to further improve the operating efficiency of the acquired company after the acquisition. After this acquisition, the company still has ample cash to conduct mergers and acquisitions, providing potential growth room for the future. This acquisition will be recorded as an investment in the company, and further investments in the future can consolidate the company into the financial statement. It is expected that the company's revenue from associates will continue to increase in the future. We expect the company's 2020/2021 earnings per share to be RMB 23.06/43.26 cent, revise up target price to HK\$14.91 (previous HK\$14.25) corresponding to 58.16x/31.00x expected P/E ratio for 2020 and 2021. Maintain the buy rating.

(Closing price as of 24 Dec)

Risk

- 1) Post-investment management after M&A is not as expected

Financials

Consolidated Statement of Profit or Loss

Dec Y/E, RMB mn	FY18	FY19	FY20E	FY21E	FY22E
Revenue	696	1,081	1,820	3,051	4,558
COGS	(505)	(776)	(1,303)	(2,192)	(3,276)
Gross Profit	190	305	517	859	1,282
S&D expense	(8)	(10)	(18)	(31)	(46)
Admin expense	(90)	(125)	(200)	(275)	(410)
Other operating gain/(loss)	(5)	(27)	-	-	-
Operating Profit	89	149	300	556	828
Net finance income	(6)	(17)	6	7	12
Associated companies & JVs	3	3	3	22	25
Profit before tax	87	136	309	585	864
Tax	(22)	(40)	(80)	(146)	(218)
NCI	(1)	1	(2)	(12)	(25)
Profit for the year	64	96	227	426	621
EPS	N/A	16.00	23.06	43.26	63.03

Key Financial Data

Dec Y/E	FY18	FY19	FY20E	FY21E	FY22E
Valuation Ratio					
P/E ratio, x	N/A	42.30	29.35	15.64	10.74
P/B ratio, x	62.09	7.42	3.73	3.09	2.49
Dividend Yield, %	0.00	0.48	1.02	1.92	2.79

Per share data (RMB cent)

EPS	N/A	16.00	23.06	43.26	63.03
BVPS	10.90	91.23	181.37	218.97	271.53
DPS (HKD cent)	0.00	3.61	7.69	14.42	21.01

Growth & Margin

Growth					
Revenue Growth	110%	55%	68%	68%	49%
Operating income Growth	72%	67%	101%	85%	49%
Net income Growth	88%	52%	136%	88%	46%
Margin					
Gross Profit Margin	27%	28%	28%	28%	28%
Operating profit Margin	13%	14%	16%	18%	18%
Net Profit Margin	9%	9%	12%	13%	13%

Key Ratios

ROE	59%	11%	13%	20%	23%
ROA	2%	6%	9%	14%	16%

(Closing price as of 24 Dec)

Source: PSHK

Consolidated Statement of Financial Position

Dec Y/E, RMB mn	FY18	FY19	FY20E	FY21E	FY22E
Non Current Asset					
PPE	28	35	41	47	54
GoodWill	47	69	69	69	69
LT investment	67	71	628	651	675
Other	36	69	58	51	47
Total Non Current Assets	178	244	796	818	845
Current Asset					
T/R	212	213	349	585	874
Inventories	2	4	4	6	9
Restricted Bank deposits	0	4	4	4	4
Cash and cash equivalents	1,182	971	1,352	1,676	2,125
Others	2,072	65	17	17	17
Total Current Assets	3,468	1,257	1,725	2,287	3,028
Total Assets	3,646	1,501	2,521	3,104	3,873
Non Current Liabilities					
Loan	1,450	0	0	0	0
Bond Payable	1	5	5	5	5
Others	2	12	12	12	12
Total Non Current Liabilities	1,453	18	18	18	18
Current Liabilities					
Loan	201	174	174	174	174
T/P	112	122	214	360	539
B/P	1,741	243	243	243	243
Others	32	46	85	152	224
Total Current Liabilities	2,086	584	716	929	1,179
Equity					
Share capital	-	8	8	8	8
Reserve	103	888	1,774	2,132	2,625
Non controlling interest	4	3	6	18	43
Total Equity	107	899	1,788	2,158	2,676
Total Liabilities and Equity	3,646	1,501	2,521	3,104	3,873

Consolidated Statement of Cash Flow

Dec Y/E, RMB mn	FY18	FY19	FY20E	FY21E	FY22E
EBITDA	108	165	320	573	845
Chg in working cap	1,026	(985)	5	(92)	(114)
Others	(6)	(4)	6	7	12
Tax	(13)	(34)	(40)	(80)	(146)
CFO	1,115	(857)	291	408	596
Capex	(10)	(22)	(14)	(16)	(19)
Others	(1,533)	1,683	(554)	-	-
CFI	(1,543)	1,661	(568)	(16)	(19)
Issue of Shares	-	749	-	-	-
Dividends paid	-	-	(30)	(68)	(128)
Others	1,524	(1,760)	689	(0)	(0)
CFF	1,524	(1,011)	659	(68)	(128)
Net Change in Cash	1,096	(207)	381	323	450
Foreign exchange	-	(4)	-	-	-
Cash and CE at Y/E	1,182	971	1,352	1,676	2,125

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within \pm 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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