

FSE Lifestyle Services (00331.HK)

Core net profit recorded a considerable growth,
with total outstanding contract sum of HK\$10.7B

Hong Kong | Business and Professional Services

23 December 2022

FSE Lifestyle Services (“FSE”) are a lifestyle services conglomerate with 3 major business segments: property & facility management services, city essential services and E&M services. FSE's services are being delivered through 8 major groups of companies which include Urban Group, Kiu Lok Group, Waihong Services Group, FSE Environmental Technologies Group, Hong Kong Island Landscape Company Limited, General Security Group, Nova Insurance Group and FSE Engineering Group. FSE offer comprehensive “one-stop shop” professional services to its clients who are engaged in a wide diversity of projects, including property developments, public infrastructures, education and transportation facilities, as well as entertainment and travel industries in Hong Kong, Macau and the Mainland China. FSE clientele includes the HKSAR Government, multinational corporations, owners and investors of properties, theme parks, universities, hotels and hospitals covering both private and public facilities.

Core np recorded a considerable growth, with total outstanding contract sum of 10.7B

In FY2022 (for the year ended 30 June 2022), FSE's recorded revenue amounting to HK\$6,966.9mn, representing an increase of HK\$514.2mn or 8.0%, as compared with HK\$6,452.7mn in FY2021. Profit attributable to shareholders was HK\$502.9mn, representing a decrease of HK\$84.0mn or 14.3% as compared with HK\$586.9mn in FY2021, mainly resulted from a decrease in government grants. If excluding the effects of government grants, adjusted net profit for the FY2022 of 35.2% to HK\$414.7mn (i.e. after excluding government grants of HK\$88.2mn from profit attributable to shareholders of the Company of HK\$502.9mn for the Year) as compared to adjusted net profit of HK\$306.8mn for FY2021. Basic EPS was HK\$1.10, a decrease of 14.7% YoY. The total dividends for 2022 was HK45.0 cents (2021: HK45.0 cents) per share, the dividend payout ratio is 41.0% (calculated based on the adjusted profit), while the dividend payout ratio was 48.7%, calculated based on the adjusted profit for the year ended 30 June 2021.

The gross profit decreased by HK\$142.6mn or 12.6% to HK\$992.5mn from HK\$1,135.1mn in FY2021, with an overall gross profit margin decreased to 14.2% from 17.6%, mainly reflecting a decrease in COVID-19 related government grants. If excluding the effects of these grants, adjusted gross profit margin increased to 13.6% from 12.8% last year, mainly caused by an improvement in the gross profit margin of the E&M services segment.

By business segment, city essential services segment revenue grew by 8.5% or HK\$254.0mn to HK\$3,252.6mn from HK\$2,998.6mn (restated), contributed 46.7% (FY2021: 46.5% (restated)) of the total revenue. The growth is mainly reflected a number of new general cleaning service contracts, which encompassed a wide range of buildings and facilities, including university campus, shopping malls, hospital, government buildings and residential and commercial properties, and additional ad-hoc intensive disinfection cleaning contracts; higher revenue from its environmental solutions business, especially in respect of its provision of ELV device installation services, largely contributed by 11 SKIES project in Chak Lap Kok; higher revenue from its technical support and maintenance services in Hong Kong contributed from the refurbishment works for a hotel in TST and the maintenance works for 2 residential properties in Shatin and Sai Wan Ho and an increase in new insurance contracts for construction projects awarded. Segment recorded a decrease in its gross profit of HK\$193.3mn or 30.8% to HK\$434.4mn from HK\$627.7mn (restated), with its gross profit margin decreased to 13.4% from 20.9% (restated), reflected a decrease in COVID-19 related government grants; a reduction in gross profit contribution from its security guarding & event services resulted from a lower demand in event services affected by the fifth wave of COVID-19 and a lower gross profit contribution from its technical support and maintenance services following the completion of Venetian contracts in Macau last year. Segment profit was 201.5mn, decrease 45.3% YoY.

Buy

CMP HKD5.28

(Closing price as of 20 December)

Target HKD 6.73 (+27.5%)

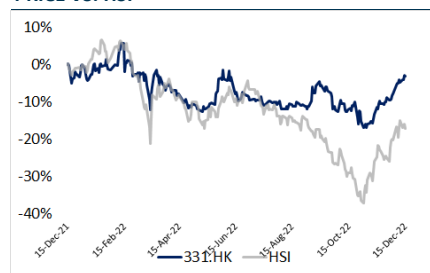
COMPANY DATA

O/S SHARES (MN) :	450.000
MARKET CAP (HKD MN) :	2376.0
52 - WK HI/LO (HKD):	5.81/4.50

SHARE HOLDING PATTERN, %

Doo Wai Hoi	75.00%
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PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

HKD mn	FY21	FY22	FY23E	FY24E
Revenue	6,453	6,967	7,692	8,399
Net profit	587	503	613	651
Reported EPS	1.29	1.10	1.34	1.43
P/E ratio, x	4.1	4.8	3.9	3.7
Dividend Yield, %	8.5%	8.5%	10.2%	10.9%

Source: Company reports, Phillip Securities Est.

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Property & facility management services segment revenue grew by 5.8% or HK\$38.1 million to HK\$696.3mn from HK\$658.2mn, contributed 10.0% (FY2021: 10.2%) of the total revenue. Such growth was mainly driven by newly awarded property management contracts for car parks of shopping malls, additional works for staff quarters of a university and increased commission income from property sales and leasing partly offset by a reduction in revenue from pandemic-induced additional works for government buildings. This segment recorded a decrease in its gross profit of HK\$23.5mn to HK\$219.4mn from HK\$242.9mn, with its gross profit margin decreased to 31.5% (FY2021: 36.9%), reflected a decrease in COVID-19 related government grants. Segment profit was 136.3mn, increased by 1.6% YoY.

E&M services segment revenue increased by 7.9% or HK\$222.1mn to HK\$3,018.0mn from HK\$2,795.9mn (restated), contributed 43.3% (2021: 43.3% (restated)) of the total revenue. Such growth reflected an increase in revenue contribution from Mainland China, Macau and Hong Kong by HK\$122.9mn, HK\$85.8mn and HK\$13.4mn respectively. The gross profit of the E&M services segment increased by HK\$74.2mn to HK\$338.7mn from HK\$264.5mn (restated) with its gross profit margin increased to 11.2% (FY2021: 9.5% (restated)), principally reflected a higher gross profit margin contributed by its Inland Revenue Tower project in Kai Tak. Segment profit was 173.4mn, increased by 60.1% YoY.

As of 30 June 2022, the property & facility management services segment has a total gross value of contract sum of HK\$2,074mn with total outstanding contract sum of HK\$1,162mn; the city essential services segment has a total gross value of contract sum of HK\$7,643mn with a total outstanding contract sum of HK\$4,415mn; the E&M services segment has a total gross value of contract sum of HK\$9,009mn with a total outstanding contract sum of HK\$5,085mn. The total gross value of contract sum of the above-mentioned is HK\$18,730mn, and the total outstanding contracts sum of HK\$10,660mn. With the sufficient reserve of outstanding contracts project, future revenue growth would be guaranteed.

Investment Thesis

After completing multiple acquisitions in the past, including property and facility management services, the overall business scale of FSE has been significantly expanded. Further to the strong synergies generated among business units within the group, it has also maximized cost-effectiveness and operational efficiency at all times. With the increasing expectation of the corporate clients and property investors, there is a growing demand of enhanced services and one-stop solutions in professional property and facility management services. FSE's compound annual growth rate (CAGR) of revenue and profit from FY2017 to FY2022 reached 14% and 24%, respectively. Upon the government policy on increasing the supplies of residential units by the coming 10 years, the increasing supply of both private and public housing units, hence, creates a growing demand and necessities of professional property management services in the territory, which is expected to bring huge market opportunities to FSE. We expect FY2023E-FY2024E EPS to be HK\$1.34 and HK\$1.43 respectively, with PT of HK\$6.73, implies a FY2023E P/E of 5.01x (~5-yrs historical average). Our investment rating is "Buy".

Risk factors

1) Market competition intensifies; 2) Soaring in operating cost; and 3) Unexpected slowdown in service demand.

Financial

Consolidated Statement of Profit or Loss

Jun Y/E, HKD mn	FY20	FY21	FY22	FY23E	FY24E
Revenue	5,656	6,453	6,967	7,692	8,399
COGS	(4,713)	(5,318)	(5,974)	(6,448)	(7,055)
Gross Profit	943	1,135	992	1,244	1,344
General & Admin exp	(459)	(458)	(444)	(495)	(559)
Other income/(expenses), net	(1)	(29)	42	(2)	1
Operating Profit	483	648	590	747	786
Finance income	6	2	2	2	8
Finance costs	(10)	(5)	(5)	(6)	(7)
Share of result of a JV	1	1	2	1	2
Profit before tax	481	646	589	744	788
Income tax	(68)	(60)	(85)	(128)	(135)
Shareholders Net profit	412	587	503	613	651
Reported EPS, Diluted	0.92	1.29	1.10	1.34	1.43
DPS	0.27	0.45	0.45	0.54	0.57
Payout ratio	30%	35%	41%	40%	40%

Key Financial Data

Jun Y/E	FY20	FY21	FY22	FY23E	FY24E
Valuation Ratio					
P/S ratio, x	0.4	0.4	0.3	0.3	0.3
P/E ratio, x	5.8	4.1	4.8	3.9	3.7
Dividend Yield, %	5.2%	8.5%	8.5%	10.2%	10.8%

Per share data (HKD)

EPS	0.92	1.29	1.10	1.34	1.43
BVPS	0.99	0.17	0.92	1.82	2.72
DPS (HKD)	0.27	0.45	0.45	0.54	0.57

Growth & Margin

Growth					
Revenue Growth	14.7%	14.1%	8.0%	10.4%	9.2%
Gross Profit Growth	57.2%	20.4%	-12.6%	25.3%	8.1%
Operating Profit Growth	65.4%	34.1%	-8.9%	26.5%	5.2%
Net Profit Growth	66.5%	42.4%	-14.3%	21.9%	6.1%
Margin					
Gross Profit Margin	16.7%	17.6%	14.2%	16.2%	16.0%
Operating Profit Margin	8.5%	10.0%	8.5%	9.7%	9.4%
Net Profit Margin	7.3%	9.1%	7.2%	8.0%	7.7%

Key Ratios

ROE	67.7%	215.7%	187.6%	95.8%	62.2%
ROA	14.0%	18.8%	15.1%	15.7%	14.7%

Consolidated Statement of Financial Position

Jun Y/E, HKD mn	FY20	FY21	FY22	FY23E	FY24E
Non Current Asset					
PPE	372	45	41	42	44
Others	175	266	314	308	302
Total Non Current Assets	547	311	354	350	346
Current Asset					
Inventory	52	19	24	40	49
Trade and other receivables	1,503	1,671	2,016	2,132	2,328
Bank balance and cash	701	550	767	1,215	1,473
Others	388	499	439	476	447
Total Current Assets	2,645	2,739	3,245	3,863	4,297
Total Assets	3,191	3,050	3,599	4,213	4,643
Non Current Liabilities					
Long-term debt	463	150	263	246	160
Other Non-current Liabilities	77	85	122	102	81
Total Non-current Liabilities	540	235	386	348	241
Current Liabilities					
Interest-bearing Borrowings	-	234	140	131	88
Trade payables	1,639	1,917	2,014	2,247	2,443
Others	567	564	623	642	621
Total Current Liabilities	2,206	2,716	2,777	3,021	3,153
Equity					
Shareholders' equity	445	78	413	819	1,222
Non-controlling interests	0	22	23	25	26
Total equity	445	100	437	844	1,248
Total Liabilities and Equity	3,191	3,050	3,599	4,213	4,643

Consolidated Statement of Cash Flow

Jun Y/E, HKD mn	FY20	FY21	FY22	FY23E	FY24E
CFO					
Profit before income tax	363	646	589	744	788
D&A add-back	84	73	58	18	19
Others	(41)	(40)	(73)	(124)	(131)
Net (inc)/dec working capital	63	(140)	(159)	63	20
Net cash flow from operating activities	469	539	415	702	697
CFI					
Purchase of PP&E	(19)	(19)	(15)	(19)	(21)
Others	(595)	(487)	4	3	4
Net cash flow from investing activities	(614)	(506)	(11)	(16)	(17)
CFE					
Dividends paid	(111)	(195)	(167)	(203)	(242)
Others	398	(188)	(26)	(75)	(180)
Net cash flows from financing activities	287	(383)	(193)	(277)	(422)
Net Change in Cash	142	(349)	211	408	258
Cash and CE at Y/E	701	550	767	1,175	1,433

Current Price as of: December 20

Source: PSHK Est.

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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