

FSE Lifestyle Services (00331.HK)

Total outstanding contract sum of HK\$13B.

Stable natural growth potential.

Hong Kong | Business and Professional Services

31 January 2024

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 FY2023 (for the year ended 30 June 2023), FSE's recorded revenue amounting to HK\$7,767.2mn, representing an increase of 11.5% YoY. Profit attributable to shareholders was HK\$522.9mn, representing an increase of 4.0% YoY, mainly resulted from the strong performance of the cleaning & pest control, technical support & maintenance, insurance solutions, environmental solutions and E&M businesses, partly offset by the effects of a lower contribution from the security guarding & event services business, a decrease in government grants and higher corporate finance costs. If excluding the effects of government grants, FSE recorded an increase in adjusted net profit of 7.5% to HK\$445.9mn (i.e. after excluding government grants of HK\$77.0mn from profit attributable to shareholders of HK\$522.9mn) as compared to its adjusted net profit of HK\$414.7mn for FY2022. Basic EPS was HK\$1.14, an increase of 3.6% YoY. The final dividends for FY2023 was HK\$21.3 cents (FY2022: HK\$24.1 cents) per share, total dividends will be HK45.8 cents (FY2022: HK\$45.0 cents) per share, the dividend payout ratio (calculated based on the adjusted profit) is 40.1% (FY2022: 41.0%, calculated based on the adjusted profit).

The gross profit increased by HK\$59.1mn or 6.0% to HK\$1,051.6mn from HK\$992.5mn in FY2022, with an overall gross profit margin decreased to 13.5% from 14.2%. If excluding the effects of government grants, adjusted gross profit margin would decrease to 13.1% from 13.6% FY2022, mainly caused by a lower gross margin of the city essential services segment, principally driven by the higher labour costs in the security guarding & event services business.

By business segment, city essential services segment revenue grew by 15.8% YOY to HK\$3,766.8mn, contributed 48.5% (FY2022: 46.7%) of the total revenue. The growth is mainly reflected many new general cleaning service contracts, encompassing a wide range of buildings and facilities, including government leisure facilities, shopping malls, clubhouses, exhibition centres, airport ancillary building, government clinics and buildings, residential and commercial properties; higher revenue from its technical support and maintenance services business for system replacement and upgrading works including various shopping malls in Tseung Kwan O and Lei Yu Mun, a residential property in Central and term contract works for a number of government departments and facilities; higher revenue from its environmental solutions business, especially its provision of ELV device installation services for 11 SKIES project in Chak Lap Kok and an increase in new insurance contracts for general insurance and insurance for construction projects awarded. Segment profit increased by 7.1% YoY to HK\$215.9mn, with its gross profit margin decreased to 12.4% from 13.4%. This was caused by the higher labour costs.

Accumulate

CMP HKD5.56

(Closing price as of 29 January)

Target HKD 6.45 (+16.0%)

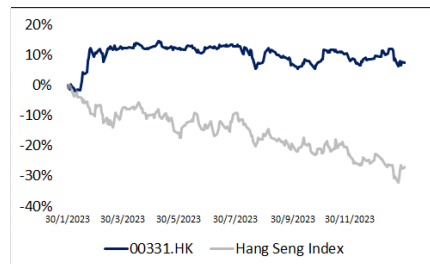
COMPANY DATA

O/S SHARES (MN) :	450.000
MARKET CAP (HKD MN) :	2376.0
52 - WK HI/LO (HKD):	5.967/4.992

SHARE HOLDING PATTERN, %

Doo Wai Hoi	75.00%
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PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

HKD mn	FY22	FY23	FY24E	FY25E
Revenue	6,967	7,767	8,423	9,105
Net profit	503	523	572	649
Reported EPS	1.10	1.14	1.25	1.42
P/E ratio, x	5.1	4.9	4.4	3.9
Dividend Yield, %	8.1%	8.2%	9.0%	10.3%

Source: Company reports, Phillip Securities Est.

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Property & facility management services segment revenue grew by 1.8% YoY to HK\$708.6mn, contributed 9.1% (FY2022: 10.0%) of the total revenue. Such growth was mainly driven by newly awarded property management contracts for residential and industrial buildings in Hong Kong and property management income from a property management project in Shanghai. Segment profit increased by 1.6% YoY to HK\$138.5mn, with its gross profit margin increased to 32.6% from 31.5%. This was caused by higher property management remuneration income from a commercial complex in Wanchai.

E&M services segment revenue increased by 9.1% to HK\$3,291.8 million, contributed 42.4% (2022: 43.3%) of the total revenue. Such growth reflected the substantial progress of a number of E&M engineering installation projects this year including Immigration Headquarters in Tseung Kwan O, redevelopment of an office building in Wan Chai, a public rental housing project in Tai Po and Ningbo New World Plaza Comprehensive Development project, partly offset by a lower revenue contribution from the Inland Revenue Tower project in Kai Tak and Macau Studio City Phase 2 which had significant progress last year. Segment profit increased by 7.0% YoY to HK\$186.6mn, with its stable gross profit margin at 10.8%, principally reflected a higher gross profit contribution from its Immigration Headquarters project in Tseung Kwan O, partly offset by a decrease in government grants.

As of 30 June 2023, the property & facility management services segment has a total gross value of contract sum of HK\$1,905mn with total outstanding contract sum of HK\$963mn; the city essential services segment has a total gross value of contract sum of HK\$9,857mn with a total outstanding contract sum of HK\$6,196mn; the E&M services segment has a total gross value of contract sum of HK\$11,378mn with a total outstanding contract sum of HK\$5,857mn. The total gross value of contract sum of the above-mentioned is HK\$23,140mn, and the total outstanding contracts sum of HK\$13,016mn. With the sufficient reserve of outstanding contracts project, future revenue growth would be guaranteed.

Investment Thesis

FSE's compound annual growth rate (CAGR) of revenue and profit from FY2017 to FY2023 reached 13% and 20%, respectively. In fact, according to the government's 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; in addition, Kai Tak and the Northern Metropolis, and the demand for professional cleaning and hygiene services is expected to increase. At the same time, the municipal solid waste charging scheme will be enacted in the second quarter of 2024, and the company's waste management team has also expanded fleet scale and business mode to deal with the anticipated market demand. Finally, looking forward to the large number of business opportunities on sizeable infrastructure and building projects expected to arise in Hong Kong, Mainland China and Macau in the coming years, it is also expected to bring many business opportunities to FSE's E&M services business. The net cash balance increased by HK\$106.4 million to HK\$469.9 million, and the financial and liquidity position was stable. We expect FY2024E-FY2025E EPS to be HK\$1.25 and HK\$1.42 respectively, with PT of HK\$6.45, implies a FY2024E P/E of 5.15x (~2-yrs historical average). Our investment rating is "Accumulate".

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	FY21	FY22	FY23	FY24E	FY25E
Revenue	6,453	6,967	7,767	8,423	9,105
COGS	(5,318)	(5,974)	(6,716)	(7,253)	(7,797)
Gross Profit	1,135	992	1,052	1,170	1,308
General & Admin exp	(458)	(444)	(471)	(524)	(562)
Other income/(expenses), net	(29)	42	42	32	18
Operating Profit	648	590	623	679	765
Finance income	2	2	11	12	9
Finance costs	(5)	(5)	(17)	(12)	(6)
Share of result of a JV	1	2	(0)	1	1
Profit before tax	646	589	618	679	769
Income tax	(60)	(85)	(94)	(105)	(118)
Shareholders Net profit	578	503	523	572	649
Reported EPS, Diluted	1.29	1.10	1.14	1.25	1.42
DPS	0.450	0.450	0.458	0.502	0.571
Payout ratio	35%	41%	40%	40%	40%

Key Financial Data

Jun Y/E	FY21	FY22	FY23	FY24E	FY25E
Valuation Ratio					
P/S ratio, x	0.4	0.3	0.3	0.3	0.3
P/E ratio, x	4.3	5.1	4.9	4.4	3.9
Dividend Yield, %	8.1%	8.1%	8.2%	9.0%	10.3%

Per share data (HKD)

EPS	1.29	1.10	1.14	1.25	1.42
BVPS	0.17	0.92	1.55	2.36	3.29
DPS (HKD)	0.450	0.450	0.458	0.502	0.571

Growth & Margin

Growth					
Revenue Growth	14.1%	8.0%	11.5%	8.4%	8.1%
Gross Profit Growth	20.4%	-12.6%	6.0%	11.3%	11.8%
Operating Profit Growth	34.1%	-8.9%	5.5%	8.9%	12.7%
Net Profit Growth	40.3%	-13.1%	4.0%	9.4%	13.5%
Margin					
Gross Profit Margin	17.6%	14.2%	13.5%	13.9%	14.4%
Operating Profit Margin	10.0%	8.5%	8.0%	8.1%	8.4%
Net Profit Margin	9.0%	7.2%	6.7%	6.8%	7.1%

Key Ratios

ROE	212.6%	187.6%	92.0%	65.0%	51.1%
ROA	18.5%	15.1%	13.8%	13.6%	13.6%

Consolidated Statement of Financial Position

Jun Y/E, HKD mn	FY21	FY22	FY23	FY24E	FY25E
Non Current Asset					
PPE	45	41	57	57	53
Others	266	314	281	276	270
Total Non Current Assets	311	354	338	332	323
Current Asset					
Inventory	19	24	21	26	42
Trade and other receivables	1,671	2,016	2,319	2,661	2,926
Bank balance and cash	550	767	752	952	1,347
Others	499	439	560	470	454
Total Current Assets	2,739	3,245	3,652	4,109	4,770
Total Assets	3,050	3,599	3,990	4,441	5,093
Non Current Liabilities					
Long-term debt	150	263	264	243	260
Other Non-current Liabilities	85	122	98	78	56
Total Non-current Liabilities	235	386	362	322	316
Current Liabilities					
Interest-bearing Borrowings	234	140	18	8	16
Trade payables	1,917	2,014	2,043	2,167	2,419
Others	564	623	868	884	862
Total Current Liabilities	2,716	2,777	2,929	3,058	3,297
Equity					
Shareholders' equity	78	413	699	1,060	1,478
Non-controlling interests	22	23	0	1	2
Total equity	100	437	699	1,061	1,480
Total Liabilities and Equity	3,050	3,599	3,990	4,441	5,093

Consolidated Statement of Cash Flow

Jun Y/E, HKD mn	FY21	FY22	FY23	FY24E	FY25E
CFO					
Profit before income tax	646	589	618	679	769
D&A add-back	73	58	71	26	24
Others	(40)	(73)	(67)	(102)	(114)
Net (inc)/dec working capital	(140)	(159)	(181)	(132)	(13)
Net cash flow from operating activities	539	415	440	471	667
CFI					
Purchase of PP&E	(19)	(15)	(39)	(25)	(21)
Others	(487)	4	15	3	4
Net cash flow from investing activities	(506)	(11)	(24)	(22)	(17)
CFE					
Dividends paid	(195)	(167)	(219)	(206)	(226)
Others	(188)	(26)	(203)	(79)	(28)
Net cash flows from financing activities	(383)	(193)	(422)	(285)	(254)
Net Change in Cash	(349)	211	(6)	164	395
Cash and CE at Y/E	550	767	752	916	1,311

Current Price as of: January 29

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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