

FSE Lifestyle Services (00331.HK)

Stable natural growth potential

Hong Kong | Business and Professional Services

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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.

Stable natural growth potential

FSE's delivered a solid performance in FY2024, achieving revenue of HK\$8,447.9 million, representing an 8.8% year-on-year (YoY) growth. This reflects the diversification of its business segments and the effectiveness of its operational strategies. Shareholders' profit stood at HK\$501.1 million, a 4.2% decline YoY. Excluding the impact of government grants, the adjusted net profit was HK\$475.3 million, up 6.6% YoY. During the period, basic earnings per share (EPS) were HK\$1.09, down 4.4% YoY, while the total dividend per share was HK\$0.438, maintaining a stable payout ratio of 40.0%.

In terms of gross profit, the overall gross profit margin declined from 13.5% in FY2023 to 12.5% in FY2024. This was primarily due to the reduction in government grants and the reduction in profit contributions from COVID-related works, particularly in the city essential services segment. Excluding government subsidies and other non-recurring items, the adjusted gross profit margin remained steady at 12.4%, demonstrating the resilience of the company's core business profitability.

By business segment, the city essential services segment remained FSE's core revenue driver, with revenue reaching HK\$4,459.1 million in FY2024, up 18.4% YoY. Cleaning and pest control services saw significant growth, with revenue increasing by 35.7% to HK\$2,349.6 million, reflecting contributions from newly signed service contracts. Additionally, revenue from Technical support & maintenance services grew by 10.1% to HK\$1,060.0 million, driven by new projects such as the system replacement works at a commercial building in Tsuen Wan. Despite a decline in building materials sales, the segment's overall growth momentum remains robust. Looking ahead, as the Northern Metropolis and Kai Tak Development Area projects progress, demand for cleaning services and technical support is expected to increase further.

Revenue from the Property and Facility Management Services segment decreased by 6.4% YoY to HK\$663.4 million, primarily due to the reduction in temporary COVID-related works. Nevertheless, the segment maintained a stable gross profit margin of 32.0%, reflecting the profitability of its core management operations. With the growing demand for professional property management services, the segment holds significant long-term growth potential. In particular, as Hong Kong's housing supply increases and urban redevelopment projects progress, the segment is likely to benefit from participation in more large-scale projects in the coming years

Accumulate

CMP HKD5.57

(Closing price as of 17 December)

Target HKD 6.00 (+7.7%)

COMPANY DATA

O/S SHARES (MN) :	450.000
MARKET CAP (HKD MN) :	2520.0
52 - WK HI/LO (HKD):	5.746/4.962

SHARE HOLDING PATTERN, %

Doo Wai Hoi	75.00%
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PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

HKD mn	FY23	FY24	FY25E	FY26E
Revenue	7,767	8,448	9,082	9,828
Net profit	523	501	528	571
Reported EPS	1.14	1.09	1.15	1.25
P/E ratio, x	4.9	5.1	4.8	4.5
Dividend Yield, %	8.2%	8.2%	8.3%	9.0%

Source: Company reports, Phillip Securities Est.

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E&M Services segment achieved revenue of HK\$3,325.4 million in FY2024, representing a 1.0% YoY increase, mainly driven by contributions from the Hong Kong and Macau. While revenue from mainland China declined by 3.6%, the Macau recorded a remarkable 119.1% growth, reflecting a recovery in hotel renovation and infrastructure development demand. Looking ahead, the segment is expected to benefit from sustainable growth opportunities driven by Hong Kong's railway development, the Northern Metropolis projects, and the advancement of district cooling systems. In Macau, the recovery of the gaming industry and continued demand for hotel renovations will remain key revenue growth drivers.

As of 30 June 2024, FSE's outstanding contract value stood at HK\$13,522 million, comprising HK\$6,851 million from the city essential services segment, HK\$5,786 million from the E&M Services segment, and HK\$885 million from the Property and Facility Management Services segment. These contract reserves will provide strong support for the company's future performance, enabling it to benefit from sustained growth in the coming years.

Investment Thesis

FSE's maintained a healthy financial position as of June 30, 2024, with cash and bank balances of HK\$601.3 million and a net cash position of HK\$365.5 million. Combined with its leading position in the industry and strong growth momentum, we expect FY2025E-FY2026E EPS to be HK\$1.15 and HK\$1.25 respectively, with PT of HK\$6.00, implies a FY2025E P/E of 5.2x (~5-yrs historical average). Our investment rating is "Accumulate".

Risk factors

1) Intensifying industry competition; 2) Sharp increase in operating costs; and 3) Unexpected slowdown in service demand.

Financial

Consolidated Statement of Profit or Loss

Jun Y/E, HKD mn	FY22	FY23	FY24	FY25E	FY26E
Revenue	6,967	7,767	8,448	9,082	9,828
COGS	(5,974)	(6,716)	(7,389)	(7,925)	(8,566)
Gross Profit	992	1,052	1,059	1,157	1,262
General & Admin exp	(444)	(471)	(492)	(539)	(594)
Other income/(expenses), net	42	42	23	4	4
Operating Profit	590	623	591	622	671
Finance income	2	11	19	15	11
Finance costs	(5)	(17)	(19)	(13)	(8)
Share of result of a JV	2	(0)	0	(0)	(0)
Profit before tax	589	618	592	623	674
Income tax	(85)	(94)	(91)	(95)	(103)
Shareholders Net profit	503	523	501	528	571
Reported EPS, Diluted	1.10	1.14	1.09	1.15	1.25
DPS	0.450	0.458	0.458	0.462	0.501
Payout ratio	41%	40%	42%	40%	40%

Key Financial Data

Jun Y/E	FY22	FY23	FY24	FY25E	FY26E
Valuation Ratio					
P/S ratio, x	0.3	0.3	0.3	0.3	0.3
P/E ratio, x	5.1	4.9	5.1	4.8	4.5
Dividend Yield, %	8.1%	8.2%	8.2%	8.3%	9.0%

Per share data (HKD)

EPS	1.10	1.14	1.09	1.15	1.25
BVPS	0.92	1.55	2.20	2.90	3.70
DPS (HKD)	0.450	0.458	0.458	0.462	0.501

Growth & Margin

Growth					
Revenue Growth	8.0%	11.5%	8.8%	7.5%	8.2%
Gross Profit Growth	-12.6%	6.0%	0.7%	9.2%	9.1%
Operating Profit Growth	-8.9%	5.5%	-5.2%	5.2%	8.0%
Net Profit Growth	-13.1%	4.0%	-4.2%	5.4%	8.2%
Margin					
Gross Profit Margin	14.2%	13.5%	12.5%	12.7%	12.8%
Operating Profit Margin	8.5%	8.0%	7.0%	6.8%	6.8%
Net Profit Margin	7.2%	6.7%	5.9%	5.8%	5.8%

Key Ratios

ROE	187.6%	92.0%	59.4%	46.0%	38.4%
ROA	15.1%	13.8%	12.6%	12.8%	12.5%

Consolidated Statement of Financial Position

Jun Y/E, HKD mn	FY22	FY23	FY24	FY25E	FY26E
Non Current Asset					
PPE	41	57	65	55	46
Others	314	281	239	265	281
Total Non Current Assets	354	338	305	320	327
Current Asset					
Inventory	24	21	18	25	28
Trade and other receivables	2,016	2,319	2,427	2,650	2,889
Bank balance and cash	767	752	601	583	769
Others	439	560	599	735	796
Total Current Assets	3,245	3,652	3,645	3,992	4,482
Total Assets	3,599	3,990	3,950	4,312	4,809
Non Current Liabilities					
Long-term debt	263	264	-	-	-
Other Non-current Liabilities	122	98	90	85	85
Total Non-current Liabilities	386	362	90	85	85
Current Liabilities					
Interest-bearing Borrowings	140	18	236	197	125
Trade payables	2,014	2,043	2,115	2,166	2,397
Others	623	868	520	557	535
Total Current Liabilities	2,777	2,929	2,871	2,920	3,057
Equity					
Shareholders' equity	413	699	989	1,307	1,667
Non-controlling interests	23	0.3	0.3	0.4	0.5
Total equity	437	699	989	1,307	1,667
Total Liabilities and Equity	3,599	3,990	3,950	4,312	4,809

Consolidated Statement of Cash Flow

Jun Y/E, HKD mn	FY22	FY23	FY24	FY25E	FY26E
CFO					
Profit before income tax	589	618	592	623	674
D&A add-back	58	71	72	35	27
Others	(73)	(67)	(125)	(90)	(97)
Net (inc)/dec working capital	(159)	(181)	(392)	(315)	(72)
Net cash flow from operating activities	415	440	146	253	532
CFI					
Purchase of PP&E	(15)	(39)	(31)	(25)	(18)
Others	4	15	29	5	5
Net cash flow from investing activities	(11)	(24)	(2)	(20)	(13)
CFF					
Dividends paid	(167)	(219)	(197)	(206)	(208)
Others	(26)	(203)	(104)	(88)	(124)
Net cash flows from financing activities	(193)	(422)	(301)	(294)	(332)
Net Change in Cash	211	(6)	(157)	(61)	186
Cash and CE at Y/E	767	752	601	541	727

Current Price as of: December 17

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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