

New Hope Services (3658 HK)

Robust expansion pace + anti-cyclical VAS; Maintain BUY

1H24 earnings met our expectation with revenue/NP +18/8% YoY. GPM contracted to 32.8% but was still above industry avg. of 20%+. We expect gross margin to further normalize given the company's fast expansion amidst heightened competition. New contract value surged 227% YoY in 1H24 given the company's smart strategies to leverage existing resources. The catering services showed cyclical resilience against the weak environment and drove the profit contribution of owner VAS up 2.8ppt to 27.5%, and we expect the figure to expand to 30% given challenging economic conditions ahead. We like the company for its robust expansion pace, anti-cyclical VAS and stable parentco. Maintain BUY with TP unchanged at HK\$2.79.

- **1H24 earnings inline, margins to normalize.** Revenue grew 18% YoY to RMB709mn driven by a 22% YoY increase in managed-GFA. Basic PM/Owner VAS rose 28%/26% YoY. Commercial Operation declined 10% YoY due to the loss of one contract resulting from client asset transactions. GPM narrowed 4.9ppt to 32.8%, still notably above the industry avg. of 20%+. GPM for four segments declined 3.2-5.8ppt, constrained by intensifying competition in project bidding, contracting property sector and a weak macro backdrop. Thanks to a 3.8ppt decline in SG&A ratio, NP margin declined only 1.6ppt to 16.7%, representing an 8% YoY increase in NP. We think GPM will further normalize given the company's expansion pace amidst intensifying competition.
- **New contract value surged after smartly leveraging existing resources.** New contract value surged 227% YoY to RMB353mn given the company's smart leverage of existing resources, such as 1) exploring PM services potential among clients receiving non-PM Service, with this part contributing 19% of new contracts; 2) identifying opportunities around benchmark projects with established quality, which accounted for 18%; and 3) SOE partnerships, estimated to contribute 30-50% of the 1H24 contracted value. **The company expects full-year new contract value to exceed RMB600mn**, which we think will boost managed-GFA by 20% in FY24E.
- **Catering services showed cyclical resilience.** Revenue of catering services grew 45% YoY to RMB74mn, driving overall VAS revenue up by 26% YoY. The number of projects rose by nine YoY to 25. The services contributed a record-high of 43% to owner-VAS revenue, up 5.8/5.0ppt from 1H23/2023. Amid a weak macro backdrop, VAS business was mostly impacted to varying degrees, while the catering business, closely tied to daily living, demonstrated cyclical resilience, which drove the GPM contribution of owner-VAS segment up 2.8ppt to 27.5% in 1H24. We anticipate the number to expand to c.29% in 2024E.
- **Accounts receivable stayed healthy.** 1H24 accounts receivable (ARs) increased by RMB180mn YoY to RMB496mn, mainly due to **1)** seasonal factors; and **2)** an increase in new contracts, with new clients allowing a 3-6 months' payment term. The AR balance had decreased to a normal level of RMB350mn as of August 20 according to the management.
- **Valuation.** We like the company for its **1)** robust expansion pace despite a challenging environment; **2)** cyclical resilience of VAS even in a weak consumption environment and **3)** stable related parties. Maintain BUY with TP unchanged at HK\$2.79, based on 8x 2024E P/E. The company is currently trading at 5.5x 2024E PE. **Risk:** worse competition, impairment risk of ARs.

BUY (Maintain)

Target Price **HK\$2.79**
(Previous TP) **HK\$2.79**
Up/Downside **60.1%**
Current Price **HK\$1.74**

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Stock Data

Mkt Cap (HK\$ mn)	1,416.4
Avg 3 mths t/o (HK\$ mn)	0.1
52w High/Low (HK\$)	1.80/1.05
Total Issued Shares (mn)	814.0

Source: FactSet

Shareholding Structure

Golden Rose Developments	66.9%
New Voyage Dvlp Ltd.	5.0%

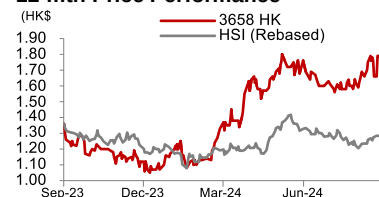
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	7.4%	3.1%
3-mth	-1.1%	3.1%
6-mth	30.8%	23.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	1,139	1,261	1,408	1,605	1,821
YoY growth (%)	23.1	10.7	11.7	14.0	13.5
Net profit (RMB mn)	203.0	215.0	235.3	263.3	294.2
EPS (Reported) (RMB)	0.25	0.26	0.29	0.32	0.36
YoY growth (%)	8.4	5.9	9.4	11.9	11.7
Consensus EPS (RMB)	na	na	0.29	0.32	0.36
P/E (x)	6.4	6.0	5.5	4.9	4.4
P/B (x)	1.2	1.1	1.2	1.0	0.9
Yield (%)	7.6	10.0	10.9	12.2	13.7
ROE (%)	19.8	19.0	19.7	19.8	18.9

Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: Results summary

RMB mn	1H23	2H23	1H24	YoY	HoH
Revenue	600	661	709	18%	7%
- Property management services	318	329	406	28%	23%
- Developer VAS	74	95	68	-9%	-29%
- Commercial operations	73	81	65	-10%	-20%
- Lifestyle services (Owner VAS)	135	155	170	26%	10%
Gross profit	226	214	232	3%	9%
SG&A	(82)	(88)	(70)	-15%	-20%
Net profit	109	105	118	8%	12%
EPS (RMB)	0.13		0.15	8%	
DPS (RMB)	0.07		0.08	23%	
Dividend payout ratio	50%		57%	7 ppt	
GP margin	37.7%	32.4%	32.8%	-4.9 ppt	0.4 ppt
- Property management services	28.8%	25.3%	25.6%	-3.2 ppt	0 ppt
- Developer VAS	39.7%	33.0%	33.9%	-5.8 ppt	1 ppt
- Commercial operations	67.8%	53.3%	63.9%	-3.9 ppt	11 ppt
- Lifestyle services (Owner VAS)	41.4%	36.0%	37.5%	-3.9 ppt	2 ppt
SG&A ratio	-13.7%	-13.3%	-9.9%	3.8 ppt	3 ppt
Net margin	18.3%	16.0%	16.7%	-1.6 ppt	1 ppt
Managed GFA (mn sq m)	29.1	32.3	35.4	22%	10%
Contracted GFA (mn sq m)	37.9	38.2	40.5	7%	6%

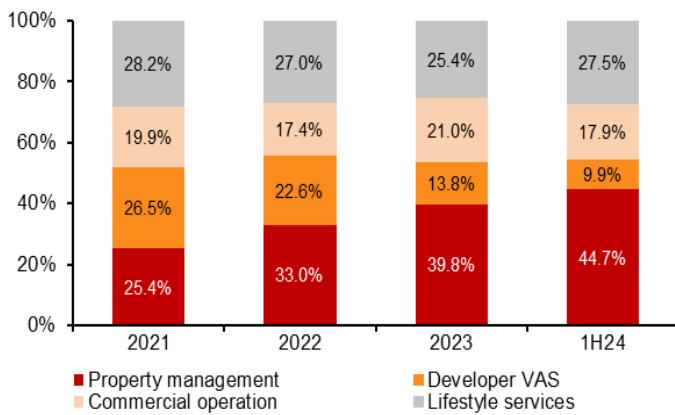
Source: Company data, CMBIGM

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	1,408	1,606	1,822	1,474	1,685	1,908	-4%	-5%	-5%
Gross profit	456	511	572	502	555	611	-9%	-8%	-6%
Operating profit	293	327	365	295	318	343	-1%	3%	7%
Net profit	235	263	294	235	253	271	0%	4%	9%
EPS (RMB)	0.29	0.32	0.36	0.29	0.31	0.33	0%	4%	10%
Gross margin	32.4%	31.8%	31.4%	34.1%	32.9%	32.0%	-1.7 ppt	-1.1 ppt	-0.6 ppt
Operating margin	20.8%	20.4%	20.1%	20.0%	18.9%	18.0%	0.8 ppt	1.5 ppt	2.1 ppt
Net margin	16.7%	16.4%	16.1%	15.9%	15.0%	14.2%	0.8 ppt	1.4 ppt	1.9 ppt

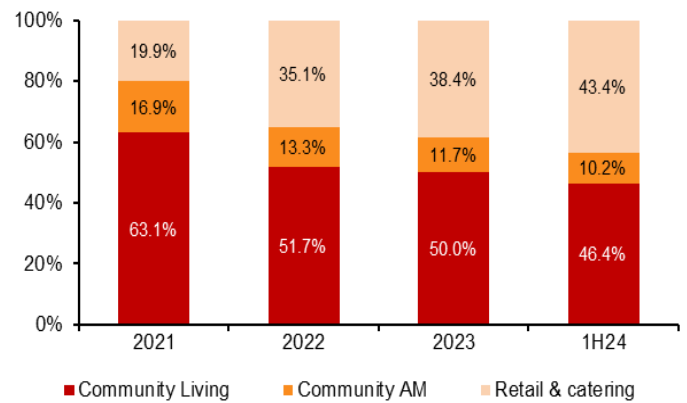
Source: Company data, CMBIGM estimates

Figure 3: Gross profit breakdown



Source: Company data, CMBIGM

Figure 4: Owner VAS revenue breakdown



Source: Company data, CMBIGM

Figure 5: Valuation comps

Company	Ticker	Last Price	Mkt Cap	P/E (x)			Net Profit Growth (%)			Payout ratio	Dividend Yield	
		(LC)		24E	25E	26E	24E	25E	26E	23A	23A	24E
CR MixC	1209.HK	24.00	7,026	13.9 x	11.8 x	10.1 x	22.4	18.1	17.0	99%	5.8%	4.6%
Onew o	2602.HK	17.80	2,675	9.9 x	8.7 x	7.7 x	(2.0)	13.9	13.3	66%	6.7%	7.5%
COPH	2669.HK	4.77	2,009	9.0 x	7.7 x	6.8 x	18.3	16.2	14.6	31%	2.9%	3.4%
Country Garden Services	6098.HK	4.41	1,891	7.8 x	6.3 x	5.9 x	NA	24.9	6.7	n.a.	7.3%	7.1%
Poly Services	6049.HK	25.65	1,820	8.5 x	7.6 x	7.1 x	10.7	10.5	8.4	40%	4.3%	4.7%
Greentown n Services	2869.HK	3.54	1,436	14.3 x	11.9 x	10.2 x	19.7	19.7	17.4	70%	4.2%	4.9%
China Merchant PO	001914.SZ	8.52	1,270	10.7 x	9.4 x	8.2 x	14.2	14.6	14.4	24%	2.0%	2.5%
Greentown n Management	9979.HK	3.40	877	6.0 x	5.6 x	5.1 x	3.0	8.8	8.1	80%	16.0%	13.1%
Binjiang Services	3316.HK	16.86	598	7.4 x	6.3 x	5.5 x	16.2	17.9	15.5	70%	8.1%	9.5%
Yuxiu Services	6626.HK	2.98	580	7.3 x	6.2 x	5.4 x	16.7	17.1	15.7	50%	5.9%	6.8%
C&D PM	2156.HK	2.27	410	5.5 x	4.5 x	3.8 x	13.5	22.1	19.2	67%	11.5%	NA
Ever Sunshine	1995.HK	1.77	392	5.8 x	5.3 x	0.0 x	10.7	10.2	NA	50%	7.7%	11.8%
S-Enjoy	1755.HK	2.99	334	4.7 x	4.4 x	4.1 x	12.8	8.2	7.4	39%	7.5%	NA
Jinmao Services	0816.HK	2.59	300	5.3 x	4.8 x	4.5 x	18.5	10.1	7.2	40%	6.5%	7.5%
Central China New Life	9983.HK	1.34	224	3.8 x	3.4 x	3.1 x	NA	10.4	10.3	NA	24.5%	13.3%
Powerlong Commercial	9909.HK	2.52	208	3.7 x	3.6 x	0.0 x	(12.6)	4.0	NA	19%	6.0%	7.8%
Excellence CM	6989.HK	1.26	197	4.3 x	3.9 x	3.6 x	7.0	11.7	9.1	69%	15.1%	NA
New Hope Services	3658.HK	1.73	181	5.5 x	4.9 x	4.4 x	9.4	11.9	11.7	60%	10.0%	10.9%
E-star CM	6668.HK	1.15	150	6.2 x	5.8 x	5.2 x	(0.4)	8.6	10.7	70%	11.3%	11.4%
Average				10.3 x	8.4 x	7.2 x	12.4	15.3	12.6	62%	6.3%	5.6%

Source: Company data, Wind, CMBIGM estimates

Note: updated to 4 Sep 2024

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	925	1,139	1,261	1,408	1,605	1,821
Cost of goods sold	(548)	(708)	(821)	(952)	(1,094)	(1,249)
Gross profit	377	431	440	456	511	572
Operating expenses	(180)	(177)	(176)	(150)	(172)	(195)
Selling expense	(4)	(4)	(1)	(3)	(3)	(4)
Admin expense	(173)	(158)	(168)	(141)	(161)	(182)
Others	(3)	(15)	(6)	(7)	(8)	(9)
Operating profit	197	254	264	305	340	378
Share of (losses)/profits of associates/JV	(0)	0	0	0	0	0
Net Interest income/(expense)	4	20	16	18	20	23
Pre-tax profit	201	274	280	323	360	401
Income tax	(36)	(44)	(43)	(47)	(53)	(59)
After tax profit	165	229	237	276	307	342
Minority interest	0	(19)	(26)	(28)	(31)	(35)
Net profit	166	203	215	235	263	294
Core net profit	187	203	215	235	263	294

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	1,352	1,444	1,603	1,822	2,093	2,428
Cash & equivalents	1,106	1,040	1,197	1,369	1,576	1,841
Account receivables	189	325	318	355	404	459
Inventories	0	0	0	0	0	1
Prepayment	57	79	88	98	112	127
Non-current assets	139	376	409	348	365	380
PP&E	14	14	15	16	16	16
Deferred income tax	3	7	11	11	11	11
Investment in JVs & assos	1	2	5	5	5	5
Intangibles	25	115	138	157	174	189
Goodwill	0	133	133	133	133	133
Other non-current assets	97	105	107	26	26	26
Total assets	1,491	1,820	2,012	2,170	2,458	2,808
Current liabilities	469	569	645	780	898	1,020
Account payables	72	162	195	226	260	296
Tax payable	0	16	6	6	6	6
Other current liabilities	6	4	4	4	4	4
Lease liabilities	8	5	12	12	12	12
Contract liabilities	196	158	194	261	305	346
Accrued expenses	187	224	234	271	312	356
Non-current liabilities	68	77	59	59	59	59
Obligations under finance leases	60	61	45	45	45	45
Deferred income	7	16	14	14	14	14
Total liabilities	537	646	704	839	957	1,079
Share capital	7	7	7	7	7	7
Retained earnings	108	105	141	94	105	118
Other reserves	839	986	1,013	1,124	1,327	1,550
Total shareholders equity	953	1,098	1,161	1,225	1,439	1,674

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	202	266	284	311	348	389
Depreciation & amortization	10	11	8	9	9	9
Tax paid	(42)	(31)	(61)	(47)	(53)	(59)
Change in working capital	30	(88)	83	88	55	52
Others	36	21	20	24	25	25
Net cash from operations	236	179	335	384	384	416
Investing						
Capital expenditure	(16)	(10)	(5)	(5)	(5)	(5)
Net proceeds from disposal of short-term investments	9	24	21	0	0	0
Others	152	(149)	(25)	(14)	(14)	(14)
Net cash from investing	144	(135)	(9)	(19)	(19)	(19)
Financing						
Dividend paid	0	(58)	(152)	(141)	(158)	(177)
Net borrowings	(12)	(14)	(17)	0	0	0
Proceeds from share issues	648	0	0	0	0	0
Others	(24)	(2)	0	0	0	0
Net cash from financing	613	(74)	(169)	(141)	(158)	(177)
Net change in cash						
Cash at the beginning of the year	113	1,106	1,040	1,145	1,369	1,621
Exchange difference	0	0	0	0	0	0
Cash at the end of the year	1,106	1,075	1,197	1,369	1,576	1,841
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	57.2%	23.1%	10.7%	11.7%	14.0%	13.5%
Gross profit	52.3%	14.5%	2.1%	3.5%	12.1%	12.0%
Operating profit	58.3%	28.9%	4.1%	15.4%	11.2%	11.2%
Net profit	51.1%	22.4%	5.9%	9.4%	11.9%	11.7%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	40.7%	37.9%	34.9%	32.4%	31.8%	31.4%
Operating margin	21.3%	22.3%	21.0%	21.7%	21.1%	20.7%
Return on equity (ROE)	30.2%	19.8%	19.0%	19.7%	19.8%	18.9%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	2.9	2.5	2.5	2.3	2.3	2.4
Receivable turnover days	97.0	129.3	117.4	117.4	117.4	117.4
Inventory turnover days	0.2	0.2	0.2	0.2	0.2	0.2
Payable turnover days	172.0	198.8	190.5	190.5	190.5	190.5
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	6.9	6.4	6.0	5.5	4.9	4.4
P/B	1.2	1.2	1.1	1.2	1.0	0.9
Div yield (%)	4.5	7.6	10.0	10.9	12.2	13.7

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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