Binjiang Service (3316 HK)

1H25: Robust PM with 5S VAS driver shifting; Targeting HK Connect inclusion by FY26

The Company's NP grew 12.2% YoY in 1H25, well above our projected industry LSD growth. Total revenue rose 22.7% YoY, with basic PM up 27.9% supported by robust GFA growth (+19%) on lower exit rates, higher collection rates and fee hikes. 5S VAS revenue grew 32% YoY, amid a driver shift from hard decoration to soft decoration & community living services. Non-owner VAS was the key drag: revenue was down 15% YoY, and its 8.3ppt gross margin drop pulled overall margin down 3.1ppt YoY (trend may persist). We trim TP by 3% to HK$31.79, to reflect minor earnings revision. The New TP is based on 13x 2025E P/E (unchanged). Maintain BUY.

- **Robust basic PM**. PM revenue rose 27.9% YoY, supported by steady managed-GFA growth (+19%), a 0.55ppt improvement in the collection rate, and higher avg. PM fees (1H25: RMB 4.20/sqm/month vs. 1H24: RMB 4.17). These positives stem from: 1) proactive exits from low-quality projects over the past 2-3 years (termination rates: FY23: 4.5%, FY24: 5.2%; declined to 0.8% in 1H25 vs. 1.7% in 1H24) (Figure 2), indicating subpar projects are largely resolved; 2) 14.1% fee hikes in 10 projects during 1H25 amid headwinds, reflecting limited impact of fee caps on high-end compounds. Segment GP margin dropped 1.5ppt YoY, mainly from higher costs from aging projects. Additionally, mandatory social security payment may exert further pressure on margins, although new project deliveries from the parentco are expected to support margin improvement.
- **5S VAS: growth driver shifting.** The segment's growth is shifting from hard decoration to soft decoration and community living services. Youju biz (once hard decoration-driven) logged FY22-24 revenue CAGR of 183%, but 1H25 growth slowed to 36.7% (hard decoration +34.4%, soft decoration +503%). With parentco's deliveries of large flat floor projects (hard decoration demand) set to drop, the company will step up efforts in soft decoration, second-hand housing renovation etc. Moreover, Youxiang biz (owner VAS) accelerated to 42% growth in 1H25 (vs. 13%/9% in 1H24/FY24), signalling higher penetration in in-home, community living services.
- **70% pay-out ratio; target Stock Connect inclusion by FY26E**: Payout ratio rose 10ppt from 1H24 to 70% in 1H25, matching FY24's level. The company noted potential for further hikes ahead. It has also set a Hong Kong Stock Connect inclusion target, aiming to achieve this by FY26E**.**
- **Maintain BUY**. Trim TP 3% to HK$31.79 on minor earnings revision, still on 13x 2025E P/E. Risks: 1) Slower 5S VAS growth; 2) higher-than-expected margin pressure from social security policy; 3) weak third-party expansion.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	2,809	3,595	4,265	4,880	5,508
YoY growth (%)	41.7	28.0	18.6	14.4	12.9
Net profit (RMB mn)	492.5	546.5	621.8	700.9	785.5
EPS (Reported) (RMB)	1.78	1.98	2.25	2.54	2.84
YoY growth (%)	19.6	11.0	13.8	12.7	12.1
Consensus EPS (RMB)	na	na	2.31	2.62	2.95
P/E (x)	12.9	11.6	10.2	9.0	8.1
P/B (x)	4.3	4.1	3.8	3.5	3.2
Yield (%)	5.4	6.0	6.9	7.8	8.7
ROE (%)	36.0	36.2	38.9	40.1	41.0

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**HK$31.79**
(Previous TP	HK$32.86)
Up/Downside	**27.6%**
Current Price	**HK$24.92**

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Stock Data

Mkt Cap (HK$ mn)	6,888.1
Avg 3 mths t/o (HK$ mn)	7.6
52w High/Low (HK$)	26.80/16.20
Total Issued Shares (mn)	276.4

Source: FactSet

Shareholding Structure

GREAT DRAGON VENTURES LTD	45.9%
HAOYU VENTURES LTD	12.9%

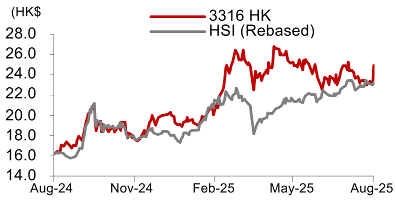
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	0.5%	-0.3%
3-mth	-1.3%	-8.3%
6-mth	22.2%	13.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: 3316 HK results summary- 1H25

RMB mn	2023A	2024A	YoY	1H24	2H24	1H25	YoY	HoH
Revenue	**2,809**	**3,595**	**28.0%**	**1,650**	**1,944**	**2,025**	**22.7%**	**4.2%**
- Property management services	1,550	1,932	24.7%	905	1,027	1,158	27.9%	12.8%
- VAS to non owners	581	565	-2.7%	251	315	214	-14.6%	-32.0%
- 5S VAS	678	1,097	61.7%	494	603	653	32.0%	8.3%
Gross profit	**696**	**835**	**20.0%**	**422**	**414**	**455**	**7.9%**	**10.0%**
Income tax	(150)	(233)	55.8%	(119)	(114)	(109)	-8.9%	-4.3%
Net profit	**493**	**547**	**11.0%**	**265**	**281**	**298**	**12.2%**	**5.9%**
EPS (RMB)	1.78	1.98	11.1%	0.96	1.02	1.08	12.2%	5.6%
DPS (RMB)	1.25	1.38	11.0%	0.58	0.81	0.75	31.0%	
Dividend payout ratio	*70%*	*70%*	*n.a.*	*60%*	*79%*	*70%*	*10 ppt*	
GP Margin	**24.8%**	**23.2%**	**-1.5 ppt**	**25.6%**	**21.3%**	**22.5%**	**-3.1 ppt**	**1.2 ppt**
- Property management services	18.3%	18.4%	0.0 ppt	19.7%	17.2%	18.2%	-1.5 ppt	1.0 ppt
- VAS to non owners	33.2%	38.6%	5.4 ppt	43.0%	35.1%	34.7%	-8.3 ppt	-0.4 ppt
- 5S VAS	32.3%	23.9%	-8.4 ppt	27.4%	21.0%	26.1%	-1.3 ppt	5.1 ppt
Effective tax rate	-23%	-30%	-6.7 ppt	-30%	-29%	-26%	4.2 ppt	2.5 ppt
Net Margin	**17.5%**	**15.2%**	**-2.3 ppt**	**16.1%**	**14.5%**	**14.7%**	**-1.4 ppt**	**0.2 ppt**
Managed GFA (mn sq m)	54.8	67.9	23.9%	63.1	67.9	75.1	19.0%	10.5%
Contracted GFA (mn sq m)	82.2	92.9	13.0%	90.0	92.9	96.4	7.1%	3.7%
Trade receivables	545	590	8.2%	784	590	858	9.5%	45%
Cash (incl. deposits)	3,087	2,913	-5.6%	2,836	2,913	3,125	10.2%	7%

Source: Company data, CMBIGM

Figure 2: Managed-GFA termination rate

Managed GFA changes (mn sqm)	2022A	2023A	2024A	1H23	1H24	1H25
At the beginning of the period	29.9	42.0	54.8	42.0	54.8	67.9
Addition	12.6	14.8	16.0	7.8	9.2	7.7
Termination	(0.6)	(1.9)	(2.9)	(1.1)	(0.9)	**(0.5)**
At the end of the period	42.0	54.8	67.9	48.7	63.1	75.1
Termination rate (=Termination/beginning GFA)	***-1.9%***	***-4.5%***	***-5.2%***	***-2.6%***	***-1.7%***	***-0.8%***

Source: Company data, CMBIGM estimates

Figure 3: Earnings revision

	New			Old			Diff (%)		
RMB mn	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	4,265	4,880	5,508	4,145	4,749	5,459	2.9%	2.8%	0.9%
Gross profit	899	1,022	1,148	896	1,018	1,166	0.4%	0.4%	-1.6%
Operating profit	757	858	961	745	845	967	1.6%	1.5%	-0.6%
Net profit	622	701	785	643	731	832	-3.3%	-4.1%	-5.6%
Gross margin	21.1%	20.9%	20.8%	21.6%	21.4%	21.4%	-0.5ppt	-0.5ppt	-0.5ppt
EBIT margin	17.7%	17.6%	17.5%	18.0%	17.8%	17.7%	-0.2ppt	-0.2ppt	-0.3ppt
Net margin	14.6%	14.4%	14.3%	15.5%	15.4%	15.2%	-0.9ppt	-1ppt	-1ppt

Source: Company data, CMBIGM estimates

Figure 4: CMBI estimates vs. Consensus

	CMBIGM			Consensus			Diff (%)		
RMB mn	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	4,265	4,880	5,508	4,153	4,734	5,357	2.7%	3.1%	2.8%
Gross profit	899	1,022	1,148	938	1,055	1,169	-4.1%	-3.2%	-1.8%
Operating profit	757	858	961	766	845	961	-1.2%	1.5%	0.1%
Net profit	622	701	785	639	724	813	-2.7%	-3.2%	-3.4%
Gross margin	21.1%	20.9%	20.8%	22.6%	22.3%	21.8%	-1.5ppt	-1.3ppt	-1ppt
EBIT margin	17.7%	17.6%	17.5%	18.4%	17.8%	17.9%	-0.7ppt	-0.3ppt	-0.5ppt
Net margin	14.6%	14.4%	14.3%	15.4%	15.3%	15.2%	-0.8ppt	-0.9ppt	-0.9ppt

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	**1,983**	**2,809**	**3,595**	**4,265**	**4,880**	**5,508**
Cost of goods sold	(1,390)	(2,113)	(2,759)	(3,365)	(3,858)	(4,360)
Others	0	0	0	0	0	0
Gross profit	**592**	**696**	**835**	**899**	**1,022**	**1,148**
Operating expenses	**(76)**	**(119)**	**(130)**	**(142)**	**(164)**	**(186)**
Selling expense	(8)	(18)	(24)	(25)	(29)	(32)
Admin expense	(62)	(76)	(101)	(102)	(117)	(132)
Operating profit	**516**	**577**	**705**	**757**	**858**	**961**
Other income	15	11	6	9	9	9
Other expense	(21)	(35)	(12)	(24)	(28)	(31)
Net Interest income/(expense)	**42**	**67**	**80**	**88**	**96**	**107**
Other income/expense	3	8	1	1	1	1
Pre-tax profit	**561**	**653**	**786**	**847**	**954**	**1,069**
Income tax	(142)	(150)	(233)	(217)	(244)	(274)
After tax profit	**419**	**503**	**554**	**630**	**710**	**795**
Minority interest	7	10	7	8	9	10
Net profit	**412**	**493**	**547**	**622**	**701**	**785**
Net dividends	247	345	383	435	491	550

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	**2,640**	**2,605**	**3,082**	**3,712**	**4,301**	**4,918**
Cash & equivalents	1,950	1,455	891	1,323	1,755	2,213
Restricted cash	58	58	68	68	68	68
Account receivables	343	545	590	725	830	936
Inventories	147	245	290	354	406	458
ST bank deposits	132	279	941	941	941	941
Financial assets at FVTPL	0	0	302	302	302	302
Contract assets	9	22	0	0	0	0
Non-current assets	**354**	**1,450**	**1,177**	**1,190**	**1,198**	**1,204**
PP&E	27	43	43	57	65	71
Deferred income tax	26	34	36	36	36	36
Investment in JVs & assos	9	14	9	9	9	9
Intangibles	0	4	3	3	3	3
Other non-current assets	292	1,354	1,085	1,085	1,085	1,085
Total assets	**2,994**	**4,055**	**4,259**	**4,902**	**5,499**	**6,122**
Current liabilities	**1,681**	**2,492**	**2,653**	**3,164**	**3,611**	**4,066**
Short-term borrowings	0	0	0	0	0	0
Account payables	672	847	1,009	1,231	1,411	1,594
Other current liabilities	101	86	87	87	87	87
Lease liabilities	0	2	2	2	2	2
Contract liabilities	907	1,556	1,555	1,845	2,112	2,383
Non-current liabilities	**27**	**22**	**14**	**14**	**14**	**14**
Deferred income	27	20	13	13	13	13
Other non-current liabilities	0	2	1	1	1	1
Total liabilities	**1,708**	**2,513**	**2,667**	**3,178**	**3,625**	**4,080**
Share capital	0	0	0	0	0	0
Retained earnings	0	0	0	0	0	0
Other reserves	1,246	1,488	1,529	1,669	1,828	2,006
Total shareholders equity	**1,246**	**1,488**	**1,529**	**1,669**	**1,828**	**2,006**
Minority interest	40	53	63	55	46	36
Total equity and liabilities	**2,994**	**4,055**	**4,259**	**4,902**	**5,499**	**6,122**

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**561**	**653**	**786**	**847**	**954**	**1,069**
Depreciation & amortization	8	14	18	20	22	24
Tax paid	(91)	(179)	(241)	(217)	(244)	(274)
Change in working capital	670	484	70	313	290	296
Others	(25)	(42)	(72)	(65)	(69)	(77)
Net cash from operations	**1,123**	**929**	**561**	**897**	**953**	**1,038**
Investing						
Capital expenditure	(22)	(25)	(26)	(30)	(30)	(30)
Acquisition of subsidiaries/ investments	(1)	(0)	0	0	0	0
Net proceeds from disposal of short-term investments	372	130	730	0	0	0
Others	(318)	(1,273)	(1,312)	0	0	0
Net cash from investing	**32**	**(1,168)**	**(608)**	**(30)**	**(30)**	**(30)**
Financing						
Dividend paid	(111)	(259)	(505)	(435)	(491)	(550)
Proceeds from share issues	2	7	9	0	0	0
Others	(2)	(3)	(7)	0	0	0
Net cash from financing	**(111)**	**(256)**	**(503)**	**(435)**	**(491)**	**(550)**
Net change in cash						
Cash at the beginning of the year	906	1,950	1,455	891	1,323	1,755
Exchange difference	1	1	(15)	0	0	0
Cash at the end of the year	**1,950**	**1,455**	**891**	**1,323**	**1,755**	**2,213**

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

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