



First Service Holding[2107.HK]

Neutral

Issue Particulars

Industry sector	Property management
Listing category	Mainboard
Major Shareholders	Mr. Zhang Lei (39.56%)
Total new shares issued (mn)	250
Issue price (HK\$)	1.86-2.46
Total share offer size (HK\$mn)	465-615
Shares offered for Placement (mn)	225
Shares offered for IPO (mn)	25
Total outstanding shares (mn)	1,000
FY19 profit (HKD mn)	89.47
FY19 P/E(x)	20.7-27.5
Market cap. of shares (HK\$mn)	1,860-2,460
NAV per share(HK\$)	0.52-0.72
Nominal Value (US\$)	0.0000002
Board Lot (shares)	2,500
Sponsors	Haitong

Time Table

IPO open	12-Oct-2020
IPO close	15-Oct-2020
Results announcement date	21-Oct-2020
Cheques refunded	21-Oct-2020
Dealing of shares	22-Oct-2020

Financial Data

FYE 31 Dec(RMB\$'000)	FY18	FY19	Four months ended 4/30/20
Revenue	495,531	624,679	224,860
Gross profit	164,957	217,509	74,676
Profit before income tax	72,186	106,884	22,534
Profit attributable to the shareholders	50,871	77,294	15,516

Clawback Structure

Over subscription for IPO (x)	% of IPO for the total share offer
15-50	30%
50-100	40%
Over 100	50%

Business

The company mainly provide Property management services, Green living solutions (energy operation services and solution) and Value-added services, and accounted for 43.7%, 24.7% and 31.6% of FY2019 revenue. As of the Latest Practicable Date, the company had registered 48 patents, including 46 utility model patents and two industrial design patents indicated the abilities to research and develop green technologies. In May 2020, CIA recognized the company as one of the 2020 Top 100 Property Management Companies in terms of Service Quality. Furthermore, according to CIA, the company achieved year-on-year growth in terms of GFA under management of 29.6% from 2018 to 2019, higher than the year-on-year growth of GFA under management of 15.1% for the Top 100 Property Management Companies

As of April 30, 2020, the company had contracted to provide property management services in 52 cities across 19 provinces and municipalities in China. For the area under management, GFA under management increased at a CAGR of 38.9% during FY2017-FY2019, and further to 15.0 million sq.m. as of April 30, 2020. For the contracted GFA, it grew at a CAGR of 50.2% during FY2017-FY2019, and further to 27.0 million sq.m. as of April 30, 2020, moreover, it was 1.8 times the area under management, which was higher than the peers and can support future growth. As of end of April, the GFA under management from Modern Land Group accounted for 64.4% of total GFA, and from Third-party developers was 27.4%. GFA under management from third-party developers had CAGR of 88.6% during FY2017-FY2019 and the CAGR for under the management from Modern Land Group was 25% during the same period. In fact, the tender success rates for the reporting period ranged from 57.1% to 65.7%, with the contribution from third-party developers increase, it can help to diversify the income.

For the revenue breakdown by region, as of end of April, Beijing accounted for 27.1% and Hunan province accounted for 18.6% and for the property type, Residential properties accounted for 96.8%, while Lump sum basis accounted for 99.9%. For the gross profit margin, Property management services, Green living solutions and Value-added services had profit margin of 27.8%, 29.1%, and 45.7%, and the overall gross profit margin was 33.2%. During the reporting period, the company's revenue, gross profit, gross profit also recorded growth, and it also recorded net inflow from operating activities, the results performance was not bad.

As of the Latest Practicable Date the company had an aggregate contracted GFA of 32million sq.m. moreover, it also newly-obtained green living solutions service engagements related to providing green technology consulting services to an Independent Third Party for a five-star hotel redevelopment project in Beijing, and is expected to underpin the future performance. In terms of valuation, the company's FY19 P/E ratio is 20.7-27.5 times, and the P/B ratio is about 3.41-3.58 times. The 1st day and the accumulated performance of commercial property sectors was not bad, however, serval large scale property management firm will also have IPO soon, including Shimao Services Holdings and KWG Living Group, we recommended "Neutral".

Use Of Proceeds

Used to pursue strategic acquisitions or investments in property management companies;	50%
Used to invest in energy operation projects and obtain energy operation rights;	20%
Used to research and develop green technologies;	5%
Used to enhance information technology systems and develop intelligent community;	10%
Used for attracting and nurturing talent;	5%
Used for general business operations and working capital;	10%

Analyst: Li Kam Ming, CFA, FRM
ken.li@kgi.com

Some of KGI Asia equity research and earnings estimates are available electronically on KGIEWORLD.COM. Please contact your KGI representative for information

The information and opinions in this report are those of KGI Asia Ltd. internal research activity. KGI Asia Ltd. does not make any representation or warranty, express or implied, as to the fairness, accuracy, completeness or correctness of the information and opinions contained in this report. The information and opinions contained in this report are subject to change without any notice. No person accepts any liability whatsoever for any loss however arising from any use of this report or its contents. This report is not to be construed as an invitation or offer to buy or sell securities and/or to participate in any investment activity. This report is being supplied solely for informational purposes and may not be reproduced or published (in whole or in part) for any purpose without the prior written consent of KGI Asia Ltd.. Members of the KGI group and their affiliates may provide services to any companies and affiliates of such companies mentioned herein. Members of the KGI group, their affiliates and their directors, officers and employees may from time to time have a position in any securities mentioned here.