



KWG Living Group [3913.HK]

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Issue Particulars

Industry sector	Property management
Listing category	Mainboard
Major Shareholders	Plus Earn (51.6%)
Total new shares issued (mn)	383.38
Issue price (HK\$)	7-8.13
Total share offer size (HK\$mn)	2,683.7-3,116.9
Shares offered for Placement (mn)	345
Shares offered for IPO (mn)	38.34
Total outstanding shares (mn)	2,017.8
FY19 profit (HKD mn)	214
FY19 P/E(x)	66-76.7
Market cap. of shares (HK\$mn)	14,124.7-16,404.8
NAV per share(HK\$)	1.39-1.6
Nominal Value (HK\$)	0.01
Board Lot (shares)	1,000
Sponsors	ABC International, HUATAI International

Time Table

IPO open	19-Oct-2020
IPO close	22-Oct-2020
Results announcement date	29-Oct-2020
Cheques refunded	29-Oct-2020
Dealing of shares	30-Oct-2020

Financial Data

FYE 31 Dec(RMB\$'000)	FY18	FY19	Four months ended 4/30/20
Revenue	659,136	1,124,878	427,634
Cost of sales	(476,175)	(705,050)	(259,916)
Gross profit	182,961	419,828	167,718
Profit before income tax	104,308	250,604	102,036
Profit for the year	79,682	184,987	76,592
Profit attributable to the shareholders	79,682	184,887	76,170

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 is a leading comprehensive property management service provider in China. Among the property management companies with commercial operational services, it ranked seventh in China and fifth in the Greater Bay Area in terms of total GFA under management, according to JLL. CIA has ranked the company No. 17 among the 2020 Top 100 Property Management Companies in China (in terms of the overall strength). As of April 30, 2020, the company managed 109 residential properties with an aggregate GFA under management of 18.9 million sq.m in China. As of the same date, it also had contracted GFA of 29.7 million sq.m. and is expected to support growth. In addition, the company also managed 30 commercial properties with an aggregate GFA under management of 3.3 million sq.m., it also had contracted GFA of 4.8 million sq.m.

As of 30, Jun 20, KWG Group(1813) had 165 projects in 39 cities across mainland China and Hong Kong with a land bank of approximately 16.36 million sq.m.. And in 2019, 89.0% and 95.9%, of the revenue generated from property management services was derived from the residential and commercial properties developed by KWG Group and its joint ventures, associates or other related parties. If counted the reserve area and the land bank from KWG Group, it is still expected to bring significant growth opportunities

During the reporting period, the company's revenue, gross profit and net profit continued to increase. For FY2019, the revenue from Residential property management services accounted for 67.5% of total revenue, in which Pre-sale management services, Property management services and Community value-added services accounted for 19.7%, 34% and 13.8% of total revenue, and commercial properties management and operation accounted for 32.5% of total revenue. The company achieved strong financial performance during the Track Record Period, its revenue increased at a CAGR of 55.8% from RMB463.4 million in 2017 to RMB1,124.9 million in 2019, while net profit increased at a CAGR of 104.7%. The company overall gross profit margins was 39.2% as of end of April 2020, while Residential property management services was 35.6% and Commercial property management and operational services was 47.2%. In fact, the company's overall gross profit margin increased from 22.5% in 2017 to 37.3% in 2019, and further to 39.2% as of end of April, while the gross profit margin for commercial property management remained above 40%, and the gross profit margin for residential property management increased from 15.8% in 2017 to 35.6%. On the other hands, KWG group will distribute the share of KWG Living Group to Qualifying Shareholders, while there will also be preferential offering, and may increase the free float of KWG Living Group.

Currently, the company is highly dependent on the parent company. Most of the property management income comes from KWG Group, the company expect to further increase revenue contribution from properties developed by third-party property developers, which may help in diversifying the income and develop new growth point. In terms of valuation, the company's FY19 P/E ratio is 66-76.7times, and the P/B ratio is about 5.04-5.08 times. The profit attributable to shareholders up 97% for the 4M2020, and it expected to rationalize the valuation. The company has entered into cornerstone investment agreements with several cornerstone investors including Hillhouse Funds, Orchid China and LMA SPC, Snow Lake Capital etc, moreover, the 1st day and the accumulated performance of property management sector were good, we recommended "Subscribe".

Use Of Proceeds

Used to pursue strategic acquisitions and investment opportunities to further develop strategic alliances	60%
Used to upgrade the intelligent service systems;	25%
Used to further diversify value-added services	10%
Used for general business purpose and working capital	5%

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