

Analyst: Sam Ho

## Main Board Listing- Research

新昌管理集團有限公司

Synergis Holdings Limited [Stock Code: 2340]
**Sponsor and Lead Underwriter**

: UOB Asia (Hong Kong) Limited

**Sector** : Property management

**Business** : Provision of property and facility-management services

|   |  |
|---|--|
| <p><b>Total share offer:</b> <u>80,000,000</u> shares<br/>(25% of the enlarged share capital)</p> <p><b>Placement:</b> 69,000,000 shares (86.25%)</p> <p><b>IPO:</b> 11,000,000 shares (13.75%)</p> <p><b>Greenshoe:</b> 12,000,000 shares</p> <hr/> <p><b>Price:</b> HK\$0.75 per share<br/><b>Market cap. :</b> HK\$240 million</p> <p><b>Prospective FY2004 P/E:</b> 8.2x (fully diluted)<br/><b>Estimated NAV per share:</b> HK\$0.389</p> <p><b>Staffing:</b> 3,473</p> <hr/> <p><b>IPO opens:</b> 29<sup>th</sup> September 2003<br/><b>IPO closes:</b> 3<sup>rd</sup> October 2003</p> <p><b>Share registrar:</b> Computershare Hong Kong<br/>Investor Services Limited</p> <p><b>Receiving bank:</b> HSBC</p> <p><b>Listing date:</b> 9<sup>th</sup> October 2003</p> | <p><b><u>Business of Synergis</u></b></p> <p>The Company is principally engaged in the provision of property and facility-management services in Hong Kong and the PRC. Essentially, the Company's businesses capitalize on ongoing corporate and governmental outsourcing trends in the context on record regional FDI inflows and the development of the property markets in Hong Kong and the PRC.</p> <p>As at 30/06/2003, the Company managed 185 properties and facilities, comprising more than 150,000 residential units and some 1.33 million m<sup>2</sup> in GFA of office, commercial, industrial and facility space in Hong Kong.</p> |
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### Major Shareholders after Listing

*(Assuming the over-allotment option is not exercised)*

|   |               |
|---|---------------|
| Hsin Chong Holdings (stock code: 0404)                  | 68.89%        |
| Mr Fan Cheuk-hung, an executive director of the Company | 3.63%         |
| Management staff of the Company                         | 2.48%         |
|   | <u>75.00%</u> |

### Use of Proceeds

Net proceeds from the offer are estimated to be HK\$49 million  
(Assuming the over-allotment option is not exercised)

|   | HK\$ million |
|---|--------------|
| To fund the development of a call centre supported by CMMS (computerized maintenance management system) | 8            |
| To fund the implementation of IT infrastructure and ERP (enterprise resources planning) systems         | 22           |
| To fund the development of the PRC business   | 8            |
| To use for launching and sustaining the Company's brand   | 7            |
| To serve as general working capital   | 4            |

### Financial Highlights

|  | 2003<br>HK\$'000 | Year ended 31 <sup>st</sup> March<br>2002<br>HK\$'000 | 2001<br>HK\$'000 |
|--|------------------|---|------------------|
| Revenue  |                  |   |                  |
| Property-management and facility-management services | 215,983          | 131,378   | 61,734           |
| Security services                                    | 5,429            | 2,689   | 2,084            |
| Cleaning services                                    | 4,019            | 2,751   | 1,117            |
| Laundry services                                     | 2,196            | 2,091   | 1,713            |
| Repair and maintenance works                         | 8,379            | 10,214  | 8,974            |
| Sales of cleaning-related products                   | 3,638            | 3,663   | 2,750            |
|  | <u>239,644</u>   | <u>152,786</u>  | <u>78,372</u>    |
| Operating profit                                     | <u>29,137</u>    | <u>29,555</u>   | <u>13,411</u>    |
| Net profit   | <u>22,683</u>    | <u>23,621</u>   | <u>11,313</u>    |
| Dividend   | 10,371           | 5,129   | 12,666           |

Note: No EPS figures are being presented as they are not considered meaningful prior to the time that the Company restructured itself for the listing on 31/03/2003.

### Strengths

- ✓ The Company has been accredited ISO 9001:2000 Quality Management System and the ISO 14001:1996 Environmental Management System.
- ✓ There are no direct comparables available in the market, and Synergis' valuation at a prospective P/E of 8.2x seems to be reasonable. Moreover, its plan to declare not less than HK\$0.05 per share of dividend in FY2004, representing a dividend yield of 6.7%, is attractive.

### Weaknesses

- × Competition in the industry is intense and most of the private properties in Hong Kong are managed by the management companies under the respective developers.
- × The Company noted a jump in revenue but a slight decline in net profit in FY2003. Its gross and net profit margins dropped from 52.7% and 14.4% in FY2001 to 29.9% and 9.5% in FY2003. This was mainly because Synergis shifted its contract mix from Management Remuneration contracts (FY2003: 15% of turnover) to Lump Sum contracts (FY2003: 85% of turnover). Under a Lump Sum contract, the Company would be paid a lump-sum fee and the costs involved in the management of a property/ facility would all be borne by the Company. In the case of Management Remuneration contracts, the management company would be remunerated by a predetermined fee and all the costs involved in management will be borne by clients.
- × The Housing Authority is the largest customer of the Company, accounting for more than 40% of its total turnover. In addition, the Government Property Agency was the 2<sup>nd</sup>-largest, contributing some 17% share in total turnover in FY2003. Since the Government and the Housing Authority will largely reduce their presence in the property market and that Synergis' total contract sum is now accounting for 25% of the outstanding contracts of Housing Authority (though it can still gain market share from other service providers, it is unlikely that Housing Authority will give it a monopolized market share), we have doubts on the top-line growth ability of the Company in the future.
- × The Company plans to have its foray to the PRC market. However, it is uncertain that the move can be successful in the short term. Thus, Hong Kong business will remain its major source of income.

### **Recommendation: Unexciting**