

China Project Management Sector

Unsustainable demands from LGFVs but more from defaulted developers

As the land market is cooling off and LGFVs are not allowed to actively take land as they used to be, PJM companies will face a gradual decline in demand from LGFVs in the long run. ST demand may not drop dramatically mainly due to the new regulation on 8 Oct put restrictions on reserving land together with LGFVs' liquidity pressure that released the demand of part of land plots reserved. More demand may come from defaulted developers since a series of policies are urging the completion of housing delivery target. We forecast Greentown Mgmt. to fully complete the company's target (20% YoY growth) given its diversified demand sources, but estimate CCM to finish only 51% of the target due to impact of parentco and COVID control in Henan. We continue to favor Greentown Mgmt. as we think the market is overconcerned on parentco risk, and the company is expected to deliver 27% YoY growth in NP in 2022E. Maintain HOLD for CCM.

- **LGFVs' demand is hard to sustain.** The land transaction volume dropped after MoF's Paper No. 126 was unveiled on 8 Oct which restricted local SOEs and LGFVs to purchase land to inflate local financial revenue, and land unsold rate in 65 cities climbed to 16.3% in Oct from 9% in Sep. We saw Nanjing/Changsha revoked 14/20 land plots before land auction, accounting for 30%/48% of total planed amount. Land plots acquired by LGFVs are shrinking which will lead to less demand for PJM companies in the long run. ST term demand have not seen a sharp decline mainly due to **1)** LGFVs reserved much undeveloped land in past two years (only 16% of total was started as of end Aug). While Paper No. 126 clearly restricted to reserve land by financing that partly released the development demand. **2)** LGFVs are getting more liquidity pressure which motivate them to monetize the land in hands by cooperating with PJM companies. Greentown Mgmt.'s new contracts value in Oct fell 5.5% YoY to RMB 590mn vs. avg. of RMB 850mn per month in 3Q22.
- **More demands from defaulted developers due to housing delivery target.** A string of policies were introduced recently (find policy read in [report](#)) to add ST liquidity to developers, and more importantly to support on-time housing delivery as it remains the first priority in regulators eyes. This continue to bring strong demands for PJM companies that Greentown Mgmt. has c.10% of new contracts in 10M22 (about RMB 720mn service fee) came from defaulted developers under delivery pressure including big names not only Auyuan but expanded to Sunac, Kaisa and Zhengrong etc. With temporary demand from LGFVs and defaulted developers to be continued in near term, we expect Greentown Mgmt. to fully complete the target of RMB 8.5bn, 20% YoY growth in FY22E and estimate CCM's newly-contracted GFA in FY22E to decline 64% YoY to 3.6mn sq.m (51% of target) as the company was largely affected by parentco's liquidity crisis ([Figure 2](#))
- **What is the impact from ParentCo.?** For Greentown Mgmt., we think the market is overconcerned on parentco risk as **1)** the company has less dependence on ecosystem built by parentco than peers that evidenced by its much bigger supplier base than parentco to serve diversified client needs. **2)** Only 30% of the projects are using PM services from related parties. (vs. c.95% for CCM). **3)** Greentown China has a very low possibility of default as it remains financially stable and all green in 3 categories. We maintain HOLD on CCM as it is still clouded by CCRE's liquidity crisis and reiterate BUY on Greentown Mgmt. as it is expected to deliver 29% YoY growth in 2022E NP.

OUTPERFORM
(Maintain)

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- **Oct sales update: Greentown Mgmt. beat, CCM inline.** Greentown Mgmt. booked RMB 12bn contract sales in Oct, representing 60%/5% YoY/MoM growth vs. -28%/-3% for Top-100 property developers mainly driven by projects with high sell through rate in Wenzhou/Zhuhai/Kunshan. The Company has a project in Shanghai with sellable value of RMB 7.3bn and will be launched in Dec that will largely boost the full year sales. CCM's Oct sales declined 48% YoY to RMB 1.8bn vs. -51% YoY in Sep. The Company completed RMB 17.9bn sales in 10M22, and accounted for 60% of its full year target (RMB 30bn) which looks too hard to meet given the parentco CCRE is dealing with liquidity issue by massive layoffs and COVID control in Henan is still in limbo.

Figure 1: Greentown Mgmt. to complete new contract value of RMB 8.5bn in FY22

Quarterly	3Q21	4Q21	1Q22	2Q22	3Q22	Oct	To be completed in Nov-Dec	4Q22 Target
Estimated service fee (RMB bn)	1.61	2.28	2.01	2.05	2.55	0.59	1.3	1.9
QoQ Growth	83%	42%	-12%	2%	24%			-25%
YoY growth	99%	28%	-14%	133%	58%	-6%		-16%
YTD	9M21	FY21	3M22	6M22	9M22	10M22		FY22 Target
Estimated service fee (RMB bn)	4.83	7.11	2.01	4.06	6.61	7.2	n.a.	8.5
YoY growth	17%	22%	-14%	26%	37%	32%	133%	20%
Fee as % of FY (target completion rate)	68%	100%	24%	48%	77%	84%		100%

Source: Company data, CMBIGM

Figure 2: CCM was estimated to new contracts GFA

Quarterly	3Q21	4Q21	1Q22	2Q22	3Q22	Oct	To be completed in Nov-Dec	4Q22 Target	Estimated completion in Nov-Dec	4Q22E (CMBI est.)
Newly contracted GFA (mn sqm)	2.4	1.9	0.3	0.8	0.8	0.5	4.6	5.1	1.2	1.7
QoQ Growth	n.a.	-21%	-83%	148%	2%			527%		106%
YoY growth	n.a.	n.a.	n.a.	n.a.	-66%	n.a.	275%	168%	-5%	-12%
YTD	9M21	FY21	3M22	6M22	9M22	10M22		FY22 Target		FY22E (CMBI est.)
Newly contracted GFA (mn sqm)	8.1	10.0	0.3	1.1	1.9	2.4	n.a.	7.0	n.a.	3.6
YoY growth	25%	17%	n.a.	-81%	-76%	-72%		-30%		-64%
GFA as % of FY (target completion rate)	81%	100%	5%	16%	28%	35%		100%		51%

Source: Company data, CMBIGM

Figure 3: Property sales - Greentown Mgmt. vs. industry

Monthly	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22
Contracted sales (RMB bn)	2.9	3.4	4.4	4.9	4.3	7.9	7.0	8.2	11.4	12.0
YoY growth	-3%	-3%	-32%	-18%	-42%	-6%	-5%	-4%	5%	60%
MoM growth	-62%	17%	29%	11%	-12%	84%	-11%	17%	39%	5%
YTD	1M22	2M22	3M22	4M22	5M22	6M22	7M22	8M22	9M22	10M22
Contracted sales (RMB bn)	2.9	6.3	10.7	15.6	19.9	27.8	34.8	43	54.4	66.4
YoY growth	-3%	-3%	-18%	-18%	-25%	-20%	-18%	-15%	-12%	-4%
Industry (Top 100)	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22
YoY growth		-47%	-53%	-59%	-59%	-43%	-40%	-33%	-25%	-28%
MoM growth		-24%	27%	-16%	6%	55%	-29%	0%	10%	-3%
YTD YoY growth			-47%	-51%	-53%	-51%	-49%	-48%	-45%	-45%

Source: Company data, CRIC, CMBIGM

Figure 4: Property sales - CCM vs. industry

Monthly	Jan-22	Feb-22	3M22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	4Q22 target
Contracted sales (RMB bn)	1.0	1.1	2.7	1.8	2.1	2.2	1.9	1.3	1.8	1.8	14
YoY growth	-35%	-44%	27%	n.a.	-31%	-62%	-18%	-49%	-51%	-48%	-6.3%
MoM growth	-86%	8%	137%	-33%	17%	7%	-14%	-35%	45%	1%	n.a.
YTD	1M22	2M22	3M22	4M22	5M22	6M22	7M22	8M22	9M22	10M22	FY22 target
Contracted sales (RMB bn)	1.0	2.2	4.9	6.7	8.8	11.0	13.0	14.2	16.0	17.9	30
YoY growth	-35%	-40%	-15%	-16%	-20%	-34%	-32%	-34%	-37%	-38%	-25.5%
Industry (Top 100)	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	
YoY growth		-47%	-53%	-59%	-59%	-43%	-40%	-33%	-25%	-28%	n.a.
MoM growth		-24%	27%	-16%	6%	55%	-29%	0%	10%	-3%	n.a.
YTD YoY growth			-47%	-51%	-53%	-51%	-49%	-48%	-45%	-45%	n.a.

Source: Company data, CRIC, CMBIGM

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