

# Greentown Service (2869 HK)

## Await rebound in 2020

- **Introduction of Longfor.** Greentown Service announced on 27 Dec 2019 that the Company will introduce Longfor (960 HK, HOLD) as its substantial shareholder. Longfor shall (1) purchase approx. 5% of the total issued share from the Company' Chairman, LI, Hairong, at price of HK\$7.7168, and (2) subscribe additional 5.3% of share placements on or before 15 Jun 2020. Upon the completion of the transaction, Longfor will hold 10% of Greentown Service's enlarged capital. Longfor will also appoint a non-executive Director.
- **Financial investment at the current stage.** Longfor has its own property management division. However, right now the size of Longfor's PM division is smaller than Greentown Service. Longfor PM recorded RMB2,989mn revenue in FY18, compared to Greentown Service's RMB6,710mn. Its contracted GFA was 268mn sq m by end-FY18 compared to Greentown Service's 363mn sq m. Longfor has yet to announce plan to spin off its PM division. Revenue from Longfor PM only accounted for 2.6% of total revenue in FY18. But given Longfor's large-scale DP/IP business as well as fast growing PM business (48% revenue growth in 1H19), we presume Longfor is still incubating its PM division. The deal, in our view, is more like a financial investment at the current stage, and Greentown Service will remain independent operation and the position of independent third-party PM company. The introduction of Longfor will certainly enhance Greentown Service's profile and recognition. We expect management of Greentown Service will seek deeper cooperation with Longfor afterwards. More importantly, placement of new shares will help Greentown to raise fund after a heavy investment in Community Living Servicing Segment.
- **Revise down earnings forecast due to sluggish VAS.** Although we still expect a mild growth of topline of 27%/22% in FY19/20, we trim our FY19/20 earnings forecast down by 18%/7% to RMB481mn and RMB709mn, due to (1) margin of Consulting Services Segment is under pressure in FY19, especially the margin was a record high in FY18. (2) Growth of Community Living Service Segment is lower than we anticipated, especially Property Asset Management Services (second-hand property agency). (3) The Company recorded a gain from disposal at RMB116mn in FY18. We do not expect such item in FY19. Thus, we forecast a flat FY19.

### Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	5,140	6,710	8,495	10,369	12,376
YoY growth (%)	38.1	30.5	26.6	22.1	19.4
Net income (RMB mn)	387	483	481	709	872
EPS (RMB)	0.14	0.17	0.17	0.24	0.30
YoY growth (%)	16.7	21.4	1.8	40.0	23.0
P/E (x)	53.6	44.2	43.4	31.0	25.2
P/B (x)	11.7	9.6	8.5	5.5	4.8
Yield (%)	0.8	1.0	0.8	1.1	1.4
ROE (%)	20.2	20.8	18.2	16.8	18.2
Net gearing (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, CMBIS estimates

**HOLD (Down)**

Target Price **HK\$8.83**  
 (Previous TP **HK\$7.80**)  
 Up/Downside **+5.5%**  
 Current Price **HK\$8.37**

### China Property Service Sector

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### Stock Data

Mkt Cap (HK\$ mn)	23,344
Avg 3 mths t/o (HK\$ mn)	55.94
52w High/Low (HK\$)	9.59/ 5.49
Total Issued Shares (mn)	2,789
Source: Bloomberg	

### Shareholding Structure

Orchid Garden	36.7%
LI, Hairong	21.3%
Free float	42.0%

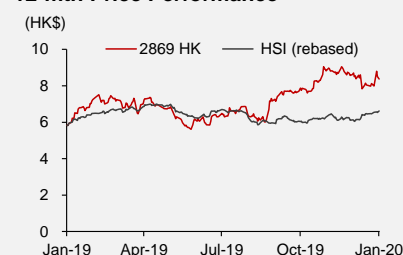
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-0.7%	-7.2%
3-mth	10.5%	2.3%
6-mth	34.9%	36.6%
12-mth	41.8%	30.0%

Source: Bloomberg

### 12-mth Price Performance

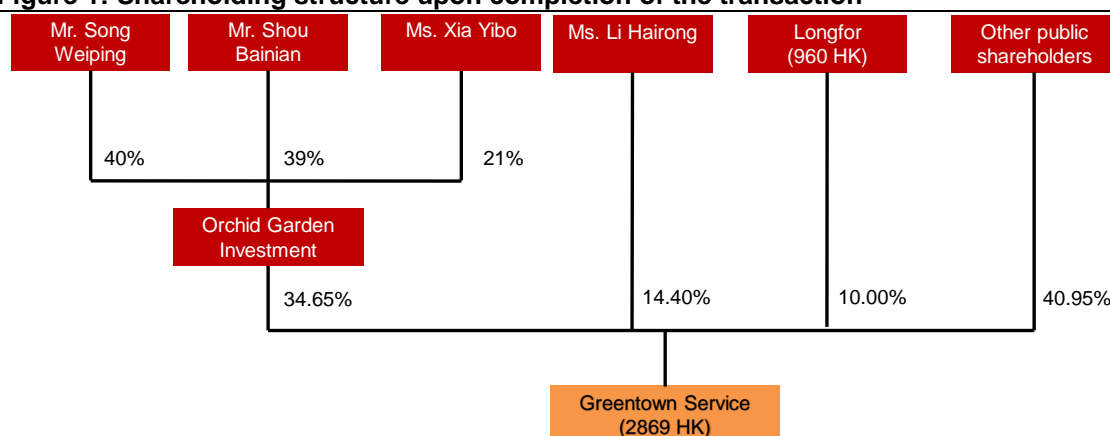


Source: Bloomberg

Auditor: KPMG

- **Looking forward to a rebound in FY20.** Growth of Property Service Segment remains robust in the past few years. We expect the Property Service Segment to continue to grow in FY20, and its margin is still able to slightly improve. After an adjustment in VAS in FY19 and given a low FY19 base, we expect Greentown Service to regain growth in FY20. The Company's reserved GFA exceeds its managed GFA. Fundamental of the Company's growth remains intact. Temporary financial setback does not change the Company's prospect. Market recognized service quality, high-end orientation, years in third-party projects expansion, as well as robust Property Service Segment are still the strengths of Greentown Service. We raise our TP to HK\$8.83, based on 32x FY20 P/E (historical avg +1 SD) to reflect its pioneer status in VAS. Upside potential is 5.5%. **Downgrade to HOLD.**

**Figure 1: Shareholding structure upon completion of the transaction**

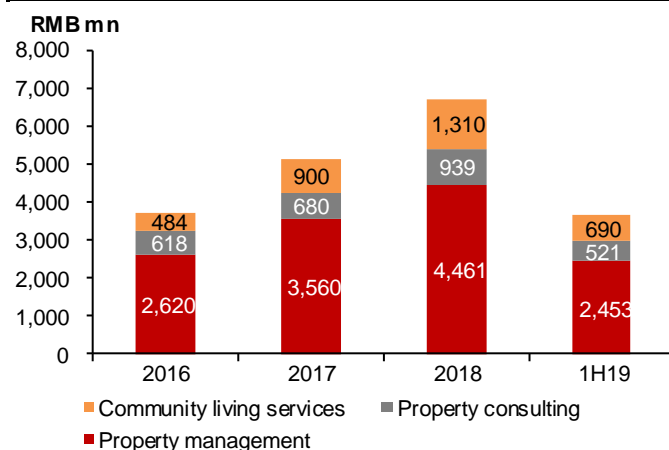


Source: Company data, CMBIS

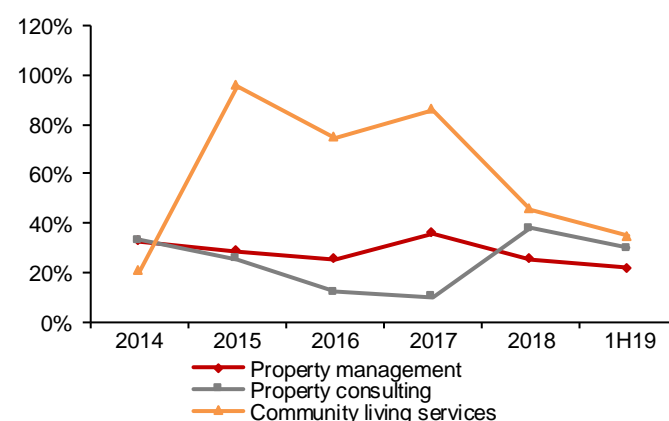
**Figure 2: Earnings revision**

RMB mn	New			Old			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	8,495	10,369	12,376	8,495	10,369	12,376	0.0%	0.0%	0.0%
Gross Profit	1,514	1,963	2,385	1,646	2,052	2,506	-8.0%	-4.3%	-4.8%
EBIT	610	939	1,161	762	1,017	1,281	-20.0%	-7.7%	-9.4%
Net profit	481	709	872	588	765	950	-18.3%	-7.4%	-8.3%
EPS (RMB)	0.17	0.24	0.30	0.21	0.28	0.34	-18.3%	-12.0%	-12.9%
Gross Margin	18%	19%	19.3%	19%	20%	20.2%	-1.6 ppt	-0.9 ppt	-1 ppt
EBIT Margin	7%	9%	9.4%	9%	10%	10.3%	-1.8 ppt	-0.8 ppt	-1 ppt
Net Margin	6%	7%	7.0%	7%	7%	7.7%	-1.3 ppt	-0.5 ppt	-0.6 ppt

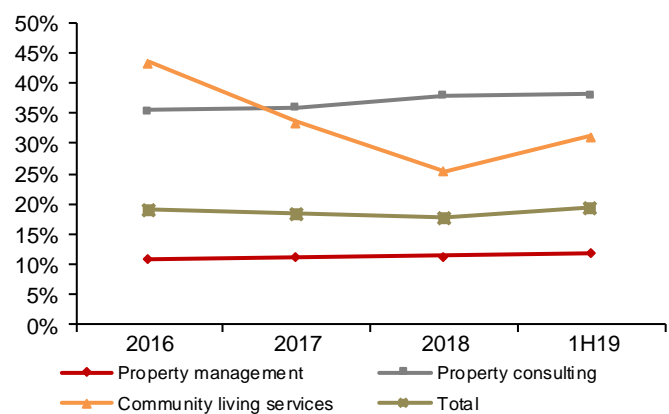
Source: CMBIS estimates

**Figure 3: Revenue**

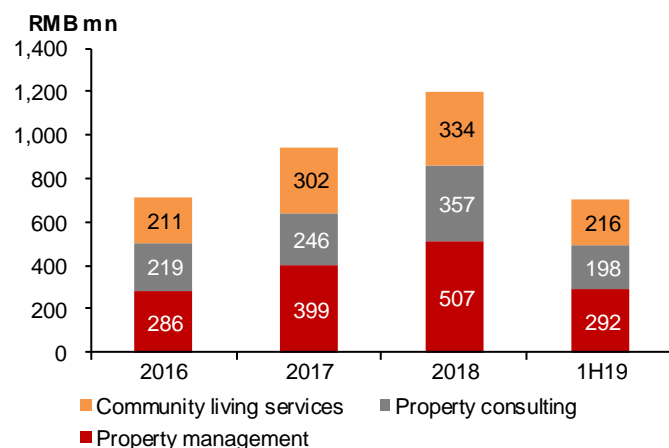
Source: Company data

**Figure 4: Revenue growth**

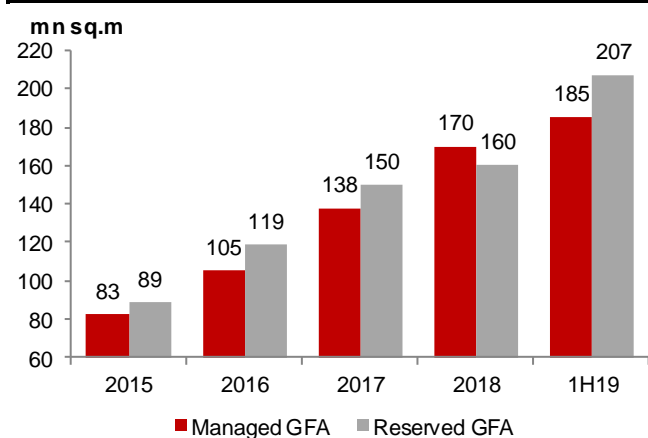
Source: Company data

**Figure 5: Gross margins by segment**

Source: Company data

**Figure 6: Gross profit**

Source: Company data

**Figure 7: Managed and reserve GFA**

Source: Company data

**Figure 8: Property management fee**

Source: Company data

## Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E	YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Turnover</b>	<b>5,140</b>	<b>6,710</b>	<b>8,495</b>	<b>10,369</b>	<b>12,376</b>	<b>Profit before tax</b>	<b>509</b>	<b>629</b>	<b>643</b>	<b>954</b>	<b>1,186</b>
Property management services	3,560	4,461	5,592	6,714	7,861	D&A	40	81	12	12	12
Extended VAS	680	939	1,236	1,618	2,103	Chg in working capital	75	116	107	78	101
Community VAS	900	1,310	1,666	2,037	2,412	Others	(96)	(170)	7	(254)	(322)
Cost of sales	(4,194)	(5,512)	(6,980)	(8,406)	(9,991)	<b>Net cash from operating</b>	<b>529</b>	<b>656</b>	<b>769</b>	<b>791</b>	<b>977</b>
<b>Gross profit</b>	<b>946</b>	<b>1,198</b>	<b>1,514</b>	<b>1,963</b>	<b>2,385</b>	FA Capex & Inv, net	(578)	(173)	(32)	(13)	(5)
Other income, net	13	13	13	13	13	Associated companies	(172)	(26)	-	-	-
Selling & marketing expenses	(23)	(59)	(76)	(93)	(111)	Others	-	-	-	-	-
Administrative Expenses	(416)	(597)	(714)	(788)	(941)	<b>Net cash from investing</b>	<b>(750)</b>	<b>(199)</b>	<b>(32)</b>	<b>(13)</b>	<b>(5)</b>
Other expenses	(43)	(61)	(127)	(156)	(186)	Equity raised	24	21	-	1,115	-
<b>EBIT</b>	<b>478</b>	<b>493</b>	<b>610</b>	<b>939</b>	<b>1,161</b>	Chg of debts	-	1	291	-	-
Share from JCE	8	(21)	1	3	5	Others	(95)	(142)	(176)	(263)	(320)
Finance cost, net	19	18	11	12	20	<b>Net cash from financing</b>	<b>(71)</b>	<b>(120)</b>	<b>115</b>	<b>852</b>	<b>(320)</b>
Exceptional	5	139	22	-	-	<b>Net change in cash</b>	<b>(292)</b>	<b>337</b>	<b>852</b>	<b>1,630</b>	<b>652</b>
<b>Pre-tax Profit</b>	<b>509</b>	<b>629</b>	<b>643</b>	<b>954</b>	<b>1,186</b>	Cash at the beginning	2,182	1,836	2,180	3,032	4,662
Income tax	(117)	(163)	(167)	(239)	(297)	Exchange difference	(53)	6	-	-	-
<b>PROFIT FOR THE YEAR</b>	<b>392</b>	<b>466</b>	<b>476</b>	<b>716</b>	<b>890</b>	<b>Cash at the end</b>	<b>1,836</b>	<b>2,180</b>	<b>3,032</b>	<b>4,662</b>	<b>5,314</b>
Non-controlling interest	(5)	18	5	(7)	(18)	<b>Key ratios</b>					
<b>Net Profit to shareholders</b>	<b>387</b>	<b>483</b>	<b>481</b>	<b>709</b>	<b>872</b>	<b>YE 31 Dec</b>	<b>FY17A</b>	<b>FY18A</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>
<b>Adj. Net profit</b>	<b>387</b>	<b>510</b>	<b>531</b>	<b>724</b>	<b>882</b>	<b>Sales mix (%)</b>					
<b>Balance sheet</b>						Property services	69.3	66.5	65.8	64.7	63.5
<b>YE 31 Dec (RMB mn)</b>	<b>FY17A</b>	<b>FY18A</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>	Consulting services	13.2	14.0	14.6	15.6	17.0
<b>Non-current assets</b>	<b>1,203</b>	<b>1,506</b>	<b>2,239</b>	<b>2,270</b>	<b>2,303</b>	Community value-added services	17.5	19.5	19.6	19.6	19.5
PP&E	304	372	402	422	442	<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Investment in associated & JV	559	218	221	224	229	<b>Profit &amp; loss ratios (%)</b>					
Goodwill	79	82	102	102	102	Gross margin	18.4	17.8	17.8	18.9	19.3
Others	262	834	1,514	1,522	1,530	Pre-tax margin	9.3	7.3	7.2	9.1	9.4
<b>Current assets</b>	<b>2,936</b>	<b>3,838</b>	<b>5,187</b>	<b>7,228</b>	<b>8,324</b>	Net margin	7.5	7.2	5.7	6.8	7.0
Inventory	128	291	369	444	528	Effective tax rate	23.0	26.0	26.0	25.0	25.0
Trade and other receivables	790	1,202	1,522	1,858	2,217	<b>Growth (%)</b>					
Bank balances and cash	1,836	2,180	3,032	4,662	5,314	Revenue	38.1	30.5	26.6	22.1	19.4
Others	182	165	264	264	264	Gross profit	32.2	26.5	26.4	29.7	21.5
<b>Total assets</b>	<b>4,140</b>	<b>5,344</b>	<b>7,426</b>	<b>9,498</b>	<b>10,627</b>	EBIT	15.7	3.2	23.6	54.1	23.6
<b>Current liabilities</b>	<b>2,138</b>	<b>2,922</b>	<b>3,934</b>	<b>4,423</b>	<b>4,967</b>	Net profit	35.7	24.7	-0.6	47.5	23.0
Trade and other payables	1,304	1,892	2,396	2,885	3,429	<b>Balance sheet ratios</b>					
Contracted liabilities	650	749	1,134	1,134	1,134	Current ratio (x)	1.4	1.3	1.3	1.6	1.7
Bank borrowing	-	1	10	10	10	Trade receivables turnover days	56	65	65	65	65
Others	185	281	394	394	394	Trade payables turnover days	113	125	125	125	125
<b>Non-current liabilities</b>	<b>10</b>	<b>17</b>	<b>780</b>	<b>780</b>	<b>780</b>	Inventory turnover days	11	19	19	19	19
Bank borrowing	-	-	282	282	282	Net debt to total equity ratio (%)	net	net	net	net	net
Others	10	17	499	499	499	<b>Returns (%)</b>					
<b>Total liabilities</b>	<b>2,148</b>	<b>2,939</b>	<b>4,714</b>	<b>5,203</b>	<b>5,747</b>	ROE	20.2	20.8	18.2	16.8	18.2
Non-controlling interest	74	76	71	78	96	ROA	9.5	8.7	6.4	7.5	8.4
<b>Shareholders' equity</b>	<b>1,918</b>	<b>2,329</b>	<b>2,641</b>	<b>4,217</b>	<b>4,783</b>	<b>Per share data</b>					
Source: Company data, CMBIS estimates						EPS (RMB)	0.14	0.17	0.17	0.24	0.30
						DPS (RMB)	0.06	0.08	0.06	0.08	0.10
						BVPS (RMB)	0.64	0.78	0.88	1.38	1.57

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