

China Project Management Sector

Defaulted developers + LGFV, the new demand

Two major players of PJM industry - Greentown Mgmt. and Central China Mgmt. (CCM) both delivered a better-than-expected new contract QoQ growth in 3Q22. Solid growth against the sluggish property market was mainly due to pent-up demand from 2Q, incremental demand from local SOEs, LGFVs ([see details in next page](#)) and defaulted developers. Looking into 4Q and beyond, both companies saw continuously fresh demand from defaulted names (such as Aoyuan and others) as well as LGFV (who took 45% of the land acquisitions) that could drive its long-term growth. Therefore, we continue to favor market leader Greentown Mgmt. which may beat its guidance in terms of newly signed contracts but maintain HOLD for CCM.

- **New contracts solid in 3Q, why?** Greentown Mgmt. reported new contracts value grew +24%/58% QoQ/YoY in 3Q22 representing +37% YoY growth in 9M22 vs. +26% in 1H22. CCM signed seven new projects in Sep which is much better than 1-3 projects each month from Jan-Aug. Strong growth was not only due to **1)** pent-up demand during COVID lockdown has been released in 3Q, but also powered by **2)** local SOEs & LGFVs who's actively acquiring land and **3)** defaulted developers (including big names) facing home delivery pressure. Greentown Mgmt. saw client structure skewing to these types and CCM's said all seven projects in Sep were signed with LGFVs.
- **Future growth boosted by new demand.** Both players said they have large amount of contracts under negotiation which are enough to support an even-better 4Q. Greentown Mgmt. is very positive on outperforming FY22 target of +20% YoY growth in new contracts (up to 29% even assuming a flat QoQ in 4Q) given **foreseeing demand from local SOEs & LGFVs which we think only 9% were fulfilled (Figure 1)** + new corporation opportunities with big defaulted developers. Company is expecting more strategic clients like Aoyuan as most of **defaulted developers ranked in TOP20 are currently approaching Greentown Mgmt.** We think the company is likely to deliver >25% YoY new contract value growth in FY22 despite we assume a flat QoQ in 4Q22. ([Figure 3](#)). While CCM expects to sign 7mn sq.m of new projects in FY22 which we think is not rational as they only completed 2mn sq.m. in 9M22 and the number indicates 1.7x/5.3x YoY/QoQ newly-contracted GFA growth in 4Q22 vs. -66%/2% in 3Q ([Figure 4](#))
- **Sep sales: PJM leader beat the property industry avg.** Greentown Mgmt. booked RMB 11.4bn contract sales in Sep, representing 5%/39% YoY/MoM growth vs. -25%/10% for Top100 property developers. Company showed its robustness by reporting above-industry sales almost every month in 2022. ([Figure 5](#)) CCM delivered a -51.3% YoY decline and a 45% MoM increase as more projects were launched in county level cities while Greentown Mgmt. focused more on Tier 1/2 cities. CCM is expecting FY22 sales to reach RMB 30bn, (vs. RMB 16bn completed in 9M22) as they saw branding developers strategically quitting low tier cities and more demand coming with migrant workers returning their home at the end of the year. We think this is another aggressive goal that looks hard to complete as it suggests sales decline narrowed to -6.3% YoY in 4Q22 from -41% in 3Q22. ([Figure 6](#))

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Figure 1: Only small part of demand from Local SOEs & LGFVs were fulfilled

mn sqm	1H22
Total GFA of residential land sold in 1H22	408.4
% to local SOEs and LGFVs ⁽¹⁾	45%
GFA of land acquired by local SOEs and LGFVs	184.9
New starts % of land acquired by LGFVs in 2021 ⁽²⁾	21%
PJM demand from local SOEs and LGFVs	38.8
Newly-contracted GFA of Greentown Mgmt.	13.2
% from local SOEs and LGFVs	26%
Demand taken by Greentown Mgmt.	3.4
% of demand taken by Greentown Mgmt.	9%

Source: CREIS, CRIC, Company data, CMBIGM

Notes: (1) Referring to 3 batches centralized land supply in 2022, Local SOEs excluded listco branding names and companies who have project named by their own brand. (2) As of Mar 2022 (3-month after land transaction)

■ How much demand from local SOEs & LGFVs were fulfilled already?

We did a rough estimation on how much PJM service demand from local SOEs & LGFVs who actively acquiring land and what % has been fulfilled by the absolute leading player - Greentown Mgmt. Our conclusion is that only small part of needs had been met. **The industry leader (who took ~25% of PJM market in FY21) has only addressed 9% of demand from local SOEs & LGFVs.** Our calculation details are showing below:

According to CREIS, total GFA of national residential land sold in 1H22 was 408.4mn sq.m, 45% of GFA sold to local SOEs & LGFVs in 2022 centralized land supply (For local SOEs, we excluded listco and companies who have projects named by their own brands).

With two numbers above, we estimated that the GFA of residential land sold to local SOEs & LGFVs in 1H22 was 184.9mn sq.m.

As market believes large part of land acquired by these two entities would be used to finance for local gov. thus have no PJM demand, we multiply 184.9 by 21% (new starts % of land acquired by LGFVs in 2021) to estimate accessible demand which was 38.8 mn sq.m.

By using available data of Greentown Mgmt. we estimated that the company signed 3.4 mn sq.m of contract with local SOEs & LGFVs in 1H22, which accounted for 9% of total demand pool, suggesting there is still large chunk of needs from local SOEs & LGFVs to be fulfilled.

- **Serious new entrants threat?** Not in ST in our view. 1) Despite more developers stated to join the PJM game, we found most of them have **diversified expertise and business resources which resulted in not much direct confrontation (Figure 2)** with two major players that serve mostly residential projects. Greentown Mgmt. now turned to focus on government entities, local SOEs & LGFVs (which created enough demands for players to fulfil) and CCM is concentrating on county-level cities inside Henan province where has been gradually given up by branding developers. Besides, new entrants are helping on expanding the whole cake by their diversified service scope and business line. As such, we expect a continuously enlarging industry scale with different leaders emerged in their specialized business line. 2) Also we found **players started to establish strategic alliance who have complementary skills** to expanding business boundaries. Greentown Mgmt. has cooperated with CR Land (specialized in commercial projects mgmt.) on projects with both residential and commercial needs. Company is also negotiating with Powerlong for similar purpose.

Figure 2: New entrants and their PJM expertise

Developers	Comments
CIFI	JV/Asso could be PJM businee resource
Country Garden	- Tend to drive PJM business by contruction robots - Assistaning some local government on home delivery
Shimao	Currently focus on eldercare projects
Vanke	Set up "安居建业" for PJM, focus on renovation projects
CR Land	Focus on government PJM and commercial buildings
Longfor	Set up "龙湖龙智造" for PJM business, specialized on TOD projects and digitalization
CFLD	Set up "幸福安基" in Aug, focus on industry town

Source: Company data, CMBIGM

- **Reiterate BUY on Greentown Management.** PJM Industry is not immune to economic downturn but much more defensive than developers especially when most of them are clouded by debt crisis. We reiterate BUY on industry leader Greentown Management who has solid fundamental characterized by **1)** solid operation that will be proved again by strong 4Q22 new contracts data, **2)** good execution as client structure shifting is (SMDs to Gov./SOEs/LGFVs) proceeding as promised, **3)** Company kept delivering above-industry contract sales which showed its resilience against broader property market. Our target price is HK\$ 8.09, representing 18x 2022E P/E. **Risks:** **1)** another wave of massive lockdown; **2)** property price collapses.

Figure 3: Greentown Mgmt. new contracts

Quarterly	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22E (old)	4Q22E (new)
Newly contracted GFA (mn sqm)	2.4	6.46	9.0	3.02	4.6	6.1	n.a.	n.a.	9.0	5.9	9.0
QoQ Growth	n.a.	167%	40%	-67%	54%	31%	n.a.	n.a.	n.a.	-34%	0%
YoY growth	n.a.	n.a.	182%	-54%	91%	-6%	n.a.	n.a.	94%	-3%	48%
Estimated service fee (RMB bn)	0.8	1.78	2.34	0.88	1.61	2.28	2.01	2.05	2.55	2.1	2.6
QoQ Growth	n.a.	119%	32%	-62%	83%	42%	-12%	2%	24%	-16%	0%
YoY growth	n.a.	n.a.	n.a.	n.a.	99%	28%	-14%	133%	58%	-6%	24%
YTD	9M20	FY20	3M21	6M21	9M21	FY21	3M22	6M22	9M22	FY22E (old)	FY22E (new)
Newly contracted GFA (mn sqm)	12.2	18.70	9.0	12.04	16.7	22.8	n.a.	13.23	22.3	27.3	31.3
YoY growth	n.a.	17%	182%	23%	36%	22%	n.a.	10%	33%	20%	37%
Estimated service fee (RMB bn)	4.1	5.81	2.34	3.22	4.83	7.11	2.01	4.06	6.61	8.5	9.2
YoY growth	n.a.	22%	n.a.	0%	17%	22%	-14%	26%	37%	20%	29%
GFA as % of FY	65%	100%	40%	53%	73%	100%	n.a.	48%	81%	100%	n.a.
Fee as % of FY	71%	100%	33%	45%	68%	100%	24%	48%	77%	100%	n.a.

Source: Company data, CMBIGM

Figure 4: CCM new contracts

Quarterly	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22 Target
Newly contracted GFA (mn sqm)	n.a.	n.a.	n.a.	n.a.	2.4	1.9	0.3	0.8	0.8	5.1
QoQ Growth	n.a.	n.a.	n.a.	n.a.	n.a.	-21%	-83%	148%	2%	527%
YoY growth	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-66%	168%
No. of newly contracted projects	n.a.	n.a.	n.a.	n.a.	20	15	5	4	9	n.a.
QoQ Growth	n.a.	n.a.	n.a.	n.a.	n.a.	-25%	-67%	-20%	125%	n.a.
YoY growth	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-55%	n.a.
YTD	9M20	FY20	3M21	6M21	9M21	FY21	3M22	6M22	9M22	FY22 Target
Newly contracted GFA (mn sqm)	n.a.	n.a.	n.a.	5.73	8.1	10.0	0.3	1.1	1.9	7.0
YoY growth	n.a.	n.a.	n.a.	22%	25%	17%	n.a.	-81%	-76%	-30%
No. of newly contracted projects	n.a.	n.a.	n.a.	52	72.0	87.0	5.0	9.0	18.0	n.a.
YoY growth	n.a.	n.a.	n.a.	24%	18%	n.a.	-14%	-83%	-75%	n.a.
GFA as % of FY	n.a.	n.a.	n.a.	57%	81%	100%	5%	16%	28%	100%
Fee as % of FY	n.a.	n.a.	n.a.	60%	83%	100%	n.a.	n.a.	n.a.	100%

Source: Company data, CMBIGM

Figure 5: Greentown Mgmt. property sales vs. industry

9979 HK Property Sales		Jan	Feb	Mar	Apr	May	Jun	1H	Jul	Aug	Sep	9M
2022	GFA Sold (mn sqm)	0.18	0.27	0.38	0.39	0.33	0.45	2.00	0.53	0.72	0.75	4.0
	Contracted Sales (RMB bn)	2.9	3.4	4.4	4.9	4.3	7.9	27.8	7	8.2	11.4	54.4
2022 % change	Monthly Contracted Sales MoM	n.a.	17%	29%	11%	-12%	84%		-75%	17%	39%	
	Monthly Contracted Sales YoY	n.a.	-3%	-32%	-18%	-42%	-6%		-5%	-4%	5%	
2022 % change	Accumulative GFA Sold YoY	n.a.	-12%	-17%	-12%	-17%	-16%		-18%	-15%	-14%	
	Accumulative Contracted Sales YoY	n.a.	-3%	-18%	-18%	-25%	-20%		-18%	-15%	-12%	
Industry % change (Contracted sales)	Monthly: Top 100 developers MoM	n.a.	-24%	27%	-16%	6%	55%		-29%	0%	10%	
	Monthly: Top 100 developers YoY	n.a.	-47%	-53%	-59%	-59%	-43%		-40%	-33%	-25%	
	Accumulative:Top 100 developers YoY	n.a.	n.a.	-47%	-51%	-53%	-51%		-49%	-48%	-45%	
ASP	2022 ASP (RMB/sqm)	16,111	12,593	11,579	12,564	13,030	17,556	13,900	13,208	11,389	15,200	13,600

Source: Company data, CRIC, CMBIGM

Figure 6: CCM property sales

CCM Property Sales	Jan-22	Feb-22	3M22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	4Q22 target
Contracted sales (RMB mn)	1,045	1,133	2,688	1798	2105	2248	1,943	1,257	1,822	13,961
YoY growth	-34.8%	-44.2%	26.80%	n.a.	-30.6%	-61.5%	-17.6%	-48.9%	-51.3%	-6.3%
MoM growth	-86%	8%	137%	-33%	17%	7%	-14%	-35%	45%	n.a.
Contracted sales GFA (mn sqm)	0.16	0.19	0.44	0.29	0.36	0.37	0.32	0.20	0.29	n.a.
YoY growth	-38.5%	-46.7%	18.80%	n.a.	-30.1%	-60.6%	-17.5%	-49.1%	-42.3%	n.a.

YTD	1M22	2M22	3M22	4M22	5M22	6M22	7M22	8M22	9M22	FY22 target
Contracted sales (RMB mn)	1,045	2,177	4,866	6,664	8,769	11,017	12,960	14,217	16,039	30,000
YoY growth	-34.8%	-40.1%	-15.40%	-16.10%	-20.1%	-34.5%	-32.4%	-34.3%	-36.8%	-25.5%
Contracted sales GFA (mn sqm)	0.164	0.358	0.795	1.084	1.441	1.813	2.133	2.337	2.629	n.a.
YoY growth	-38.5%	-43.2%	-20.40%	-21.40%	-23.7%	-36.0%	-33.8%	-35.5%	-36.3%	n.a.

Source: Company data, CMBIGM

Figure 7: Valuation table (as of 20221014)

Company	Ticker	CMBI rating	TP (HK\$)	Last price (HK\$ mn)	Mkt Cap (HK\$ mn)	21A	P/E 22E	23E	Net profit growth % 22E	23E	Dividend Yield 21A	22E	Payout ratio 21A
PJM													
Greentown Management	9979 HK	Buy	8.1	6.2	12,502	17.7	13.9	11.6	27.2	19.2	3.9%	4.3%	68%
Central China Management	9982 HK	Hold	1.4	0.7	2,204	2.2	2.2	2.4	3.3	-7.7	27.0%	24.9%	63%
Average						15.4	12.1	10.2	23.6	15.2	7.3%	7.4%	67.3%
PM													
Country Garden Services	6098 HK	Buy	47.6	9.6	32,213	6.3	5.5	4.4	16.2	26.2	3.8%	4.4%	24%
CR MixC Lifestyle	1209 HK	Buy	44.3	30.0	68,475	34.0	28.2	21.8	17.0	29.3	1.1%	1.3%	38%
A-Living	3319 HK	Hold	34.2	5.3	7,583	2.5	3.0	2.5	-10.0	16.3	9.3%	7.9%	23%
Greentown Services	2869 HK	Buy	7.9	4.4	14,397	15.2	14.8	11.6	-6.3	27.6	4.5%	3.4%	69%
Ever Sunshine	1995 HK	Hold	12.7	2.4	4,189	5.4	4.8	3.7	16.9	29.3	5.4%	6.0%	29%
Poly Services	6049 HK	Hold	53.4	39.1	21,635	21.4	18.4	14.5	15.1	26.4	0.9%	1.1%	20%
S-Enjoy	1755 HK	Sell	8.5	4.8	4,205	5.5	5.4	3.9	31.1	30.6	3.9%	6.3%	21%
Powerlong Commercial	9909 HK	Buy	33.2	3.1	2,012	3.6	3.3	2.7	10.3	14.0	9.6%	14.1%	35%
Excellence CM	6989 HK	Buy	14.9	2.6	3,185	5.1	3.5	2.7	33.5	33.8	13.8%	13.9%	71%
Central China New Life	9983 HK	Buy	12.9	2.5	3,107	3.7	4.5	3.9	-7.8	13.6	13.8%	15.9%	51%
Sino-Ocean Services	6677 HK	Buy	7.1	1.7	2,025	3.7	3.6	2.8	5.5	30.7	6.6%	8.9%	24%
New Hope Services	3658 HK	Buy	4.4	1.0	839	3.4	2.1	NA	83.5	NA	8.3%	12.0%	29%
Redsun Services	1971 HK	Buy	9.4	2.9	1,195	7.5	5.4	4.2	41.2	32.2	NA	NA	NA
Evergrande Services	6666 HK	Buy	10.4	2.3	24,865	7.9	4.9	3.7	21.9	32.8	NA	NA	NA
Sunac Services	1516 HK	Buy	7.0	1.8	5,380	2.9	37.4	3.4	-144.4	NA	8.5%	0.0%	24%
Jinmao Services	816 HK	Hold	3.3	3.002	11.3	11.3	6.8	4.9	92.8	44.9	NA	NA	NA
Average						18.0	16.0	11.7	11.7	27.3	2.9%	2.9%	29.6%

Source: Company data, BBG, CMBIGM

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