27 Jul 2021

CMB International Securities | Equity Research | Company Initiation

Evergrande Property Services (6666 HK)

Bear-case study indicates value; Initiate at Buy

- **Bear case study shows attractive risk-reward:** recently the liquidity issue of its parentco was the main reason to drive its quick de-rating. While uncertainties remain, our bear base assumes if Evergrande Group had to dispose large assets, then it will affect both annual GFA delivery and reputation for its third-party expansion/new VAS initiatives. Therefore quantitatively, we assume 35%/30% lower for GFA expansion and Community VAS revenue than those in the base case. By using 10x 2022E (bear base) PE, we derive its bear-case price at HK$5 (13% downside) vs. base case price at HK$10.39 (80% upside) and it shows a skewed-up risk reward.
- **Managed GFA is expected to reach 1bn sq m by 2023E (52% 20-23E CAGR) driven by M&A.** With parentco contributing 55-65mn sq m managed GFA per year, the key focus of GFA expansion will rely on M&A and third-party bidding. For M&A, we think the Company could achieve its target as 1) the industry is still fragmented for consolidation; 2) strong execution to meet its pre-set targets (30mn sq m third-party expansion per month in 2021). It has completed an 80mn sq m-size M&A in Jan 2020 and 1H21 GFA under management reached 450mn sq m, on track to meet our 565mn sq m target in 2021. 3) Strong cash position of RMB12bn on hands. As for the financial impact of M&A, GPM dilution could be partly offset by higher margin of Community VAS and valuation dilution may lessen after re-rating.
- **Multi-initiatives to boost an explosive growth of Community VAS business at 88% 2020-23E CAGR:** with adding new businesses (Property, insurance agency and community shopping) and further penetration of old business, we expect the growth momentum to continue and become the key revenue driver. Its contribution to group revenue may improve from 12% in 2020 to 21% in 2023E catching up with market leaders.
- **Expect 48% earnings CAGR in 2020-23E:** With the fast GFA expansion via M&A and strong initiatives in Community VAS, we expect its top line to grow 55% CAGR in 2020-23E. Given that high-margin VAS business could partly offset the GPM erosion from M&A, group GPM is expected to maintain steadily at 35-37% range by 2023E and thus support its earnings growth to reach 48% CAGR in 2020-23E at RMB8,596mn. It has just announced 1H21 profit alert that expects NP to grow 70% YoY, higher than its full year guidance.
- **Initiate at Buy with TP of HK$ 10.39.** Based on our scorecard, we assigned 15x 2022E PE to derive target price of HK$10.39/share. Currently it is trading at 8x 2022E PE vs. industry average of 20.5x PE. **Catalysts:** parentco's liquidity issue successfully solved; share buyback. **Risks**: parentco's liquidity issue worsens; potential failure in M&A; worsening bad debts.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	7,333	10,509	17,011	26,928	38,982
YoY growth (%)	24.2	43.3	61.9	58.3	44.8
Net income (RMB mn)	930	2,648	4,076	6,216	8,596
EPS (RMB)	0.09	0.26	0.38	0.57	0.80
YoY growth (%)	N.A.	N.A.	43.3	52.5	38.3
Consensus EPS (RMB)	N.A.	N.A.	0.38	0.56	0.76
P/E (x)	N.A.	N.A.	12.7	8.3	6.0
P/B (x)	N.A.	N.A.	4.4	3.2	2.4
ROE (%)	52.8	26.7	29.8	32.1	31.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Initiation)

Target Price	**HK$10.39**
Up/Downside	**+79.8%**
Current Price	**HK$5.78**

China Property Service Sector

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Stock Data

Mkt Cap (HK$ mn)	84,000
Avg 3 mths t/o (HK$ mn)	305.66
52w High/Low (HK$)	19.74/7.43
Total Issued Shares (mn)	10,811

Source: Bloomberg

Shareholding Structure

Evergrande Group	60.96%
Free float	39.04%

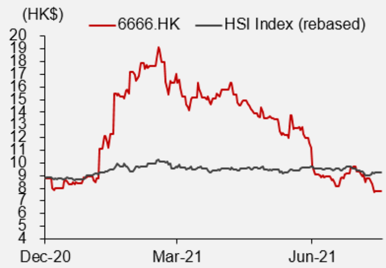
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-5.1%	-2.4%
3-mth	-46.9%	-44.8%
6-mth	-49.7%	-46.8%
12-mth	N.A.	N.A.

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

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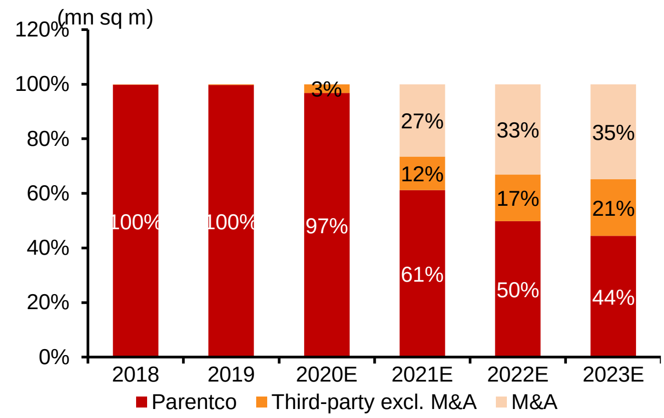
Focus Charts

Figure 1: key drivers

Key drivers	2017	2018	2019	2020	2021E	2022E	2023E
Managed GFA (mn sqm)	**138**	**185**	**238**	**300**	**565**	**815**	**1,060**
YoY growth		34%	28%	26%	88%	44%	30%
- Evergrande (mn sqm)	138	185	237	291	346	406	471
- 3rd Party (mn sqm)	0	0	1	10	70	140	220
- M&A (mn sqm)	-	-	-	-	150	270	370
Contracted GFA (mn sqm)	327	423	505	565	925	1225	1475
YoY growth		29%	20%	12%	64%	32%	20%
Revenue (RMB mn)	**4,399**	**5,903**	**7,333**	**10,509**	**17,011**	**26,928**	**38,982**
YoY growth		34.2%	24.2%	43.3%	61.9%	58.3%	44.8%
Property management services	2,538	3,464	4,612	6,322	10,366	16,673	22,941
VAS to non-property owners	1,610	2,103	2,148	2,923	4,085	5,479	7,668
Community VAS	251	335	573	1,264	2,561	4,776	8,373
Gross margin	**10%**	**12%**	**24%**	**38%**	**37%**	**36%**	**35%**
Property management services	9%	9%	18%	34%	31%	29%	27%
VAS to non-property owners	5%	11%	28%	37%	37%	37%	34%
Community VAS	52%	52%	57%	63%	60%	60%	60%
Net profits (RMB mn)	**107**	**239**	**930**	**2,648**	**4,076**	**6,216**	**8,596**
YoY growth		124%	289%	185%	54%	52%	38%
Net margin		2%	4%	13%	25%	24%	23%	22%

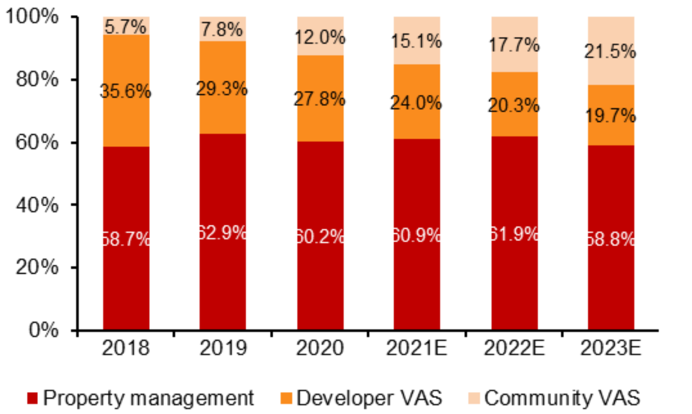
Source: CMBIS

Figure 2: newly-added Managed GFA by channels (M&A will be the key driver)



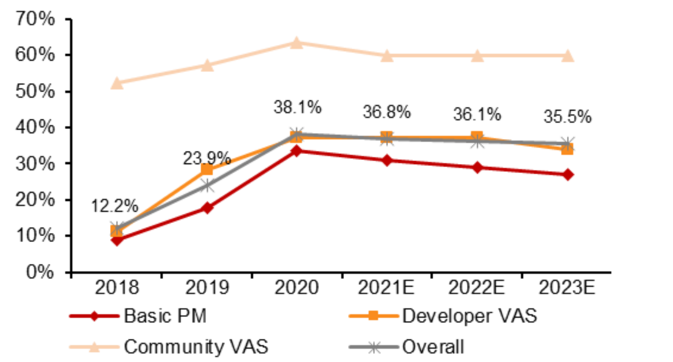
Source: Company data, CMBIS estimates

Figure 3: Revenue mix trend



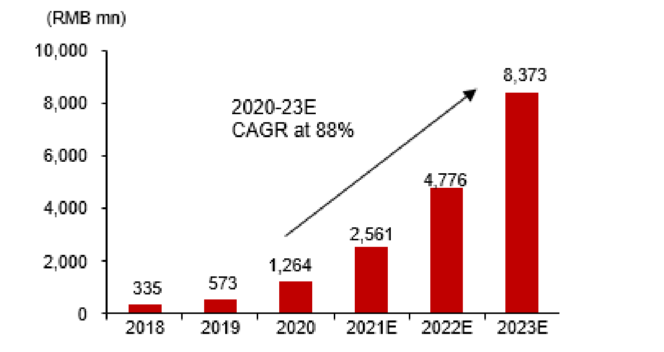
Source: Company data, CMBIS estimates

Figure 4: Segment gross margin



Source: Company data, CMBIS estimates

Figure 5: Revenue from Community VAS is expected to grow at 88% 2020-23E CAGR to RMB8.4bn



Source: Company data, CMBIS estimates

Scenarios study

As Evergrande Services has a close tie with its parentco on the business side (GFA expansion and VAS), the recent liquidity issue and outlook of Evergrande Property is also one of the keys to determine its growth. That is the main reason that we need to study different scenarios to analyse the impact on the business as well as the share price target.

For the bear case scenario, we assume Evergrande Property to remain struggling in the deleveraging process and thus may dispose some assets / pause land acquisitions. This would affect the following businesses in Evergrande Services.

- **Managed GFA growth:** the annual delivery from parentco may slow down to 50mn sq m in 2021-23E from previous 55-65mn sq m on potential sales decline. Also, due to the reputation risk, its M&A and third-party expansion may be slower than expected with 24% to 47% less than our base case. As a result, this may lead to overall managed GFA of only 820mn sq m by 2023 vs. our base case of 1,060 mn sq m.
- **Community VAS:** we also expect community VAS to be negatively impacted on 1) slower GFA expansion may lead to smaller residence base. 2) Reputation risk. 3) New initiatives such as property and insurance agency that requires parentco support may also start slower than expected. Therefore, we only assume 60% 2020-23E CAGR in its revenue vs. 88% in the base case.
- **Net profits growth:** by incorporating above, it may only give out 33% net profits growth in 2020-23E to RMB6.2bn vs. 48% in the base case.
- **PE multiple:** with growth slowing down, we only assume 8x PE multiple for 2022E EPS to derive the price target of HK$5 which implies 13% downside.

Figure 6: Scenario study

Scenarios	Key assumptions	Target PE Multiple	PT (HKD/share)	Upside (downsdie)
Bear case	1. Parentco is struggling to deleverage and on a tight schedule to solve liquidity issue 2. Managed GFA growth may slow down to 40% CAGR in 2020-23E reaching 820mn sq m mainly on slower-than-expected M&A and 3rd-party expansion (reputation risk from parentco) 3. Community VAS loss the momentum on less parentco support (property and insurance agency business) to grow only 60% 2020-23E	8x 2022E PE	5	-13%
Base case	1. Parentco deleverages as planned to meet three red lines requirement by 2023 and maintain an annual sales growth of 5-10%. 2. Managed GFA is expected to reach 1bn sq m by 2023 (52% CAGR) supported by M&A and 3rd party bidding 3. Community VAS grows driven by multiple initiatives and gradual increase of penetration rate at 88% 2020-23E CAGR	15x 2022E PE	10.39	+80%
Bull case	1. Parentco deleverages and solves the liquidity issue faster than expected via strong sales. Its business is back to growth again 2. GFA expansion is faster than expected on better-than-expected M&A and 3rd Party bidding riding on parentco's network. 3. Community VAS grows faster than expected on strong parentco support via. property and insurance agency businesses.	20x 2022E PE	13.85	+139%

Source: CMBIS

Company Overview

Evergrande Property Service was established in 1997. Through 25 years of development and refinement, it has become the third in contracted GFA and fourth in GFA under management in the whole industry. As at 31 Dec 2020, the total contracted area under management of the Group was approximately 565mn sq m, and the area under management was approximately 300mn sq m, covering 22 provinces, five autonomous regions, four municipalities and Hong Kong, with a total of 290 cities and 937 managed projects and providing services to more than 2.2 million households. On 2 Dec 2020, Evergrande Property was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), which was also a new starting point for Evergrande Property's further growth relying on acquisitions.

Figure 7: Listed PMco Ranking by GFA under management

Company Name (mn sq m)	Ticker	2017	2018	2019	2020
Poly Services	6049 HK	106	191	287	380
Country Garden Services	6098 HK	123	182	276	377
A-Living	3319 HK	54	94	177	375
Evergrande Services	6666 HK	138	185	238	300
Greentown Service	2869 HK	138	170	212	248
COPH	2669 HK	128	141	151	182
Shimao Services	873 HK	43	45	68	146
Sunac Services	1516 HK	20	29	53	135
CR Mixc Lifestyle	1209 HK	61	85	101	119
Languang Justbon	2606 HK	44	61	72	117
Ever Sunshine	1995 HK	27	40	65	102
Central China New Life	9983 HK	20	26	57	100
S-Enjoy	1755 HK	36	43	60	100
Kaisa Prosperity	2168 HK	24	27	46	57
KWG Living	3913 HK	12	14	18	29
Redsun Services	1971 HK	9	10	16	27
Powerlong CM	9909 HK	15	16	18	21
Excellence CM	6989 HK	7	9	10	12

Source: Company data

Its parentco China Evergrande Group (who owns 61% of the listco) has transformed from a real estate developer to a conglomerate featuring "diversified business & digital technology". It will gradually spin off its high-quality assets for listing, building a concentric and diversified ecosystem centered on fixed and mobile spaces, while connecting the eight major businesses through closed-loop data sharing to serve hundreds of millions of customers. For its real estate arm, the group has 231mn sq m of land reserve with 798 projects within 234 cities.

Investment thesis

Strong execution on third-party expansion to drive managed GFA reaching 1bn sq m by 2023E (51% 2020-23E CAGR)

We think the GFA expansion strategy shifting from parents to third party would drive the explosive growth of its managed GFA from 300mn sq m to 1bn sq m. Below is the key breakdown:

- Delivery from Parentco: Traditionally, Evergrande Service has heavily relied on its Parentco as almost all the newly added GFA under management came from its delivery. As its parentco continue to maintain the sales of 70mn sq m from 2020 onwards, we expect this channel could still contribute 55, 60 and 65mn sq m GFA under management in 2021-23E.

- **M&A:** we think this would become the key source for its GFA expansion going forward. On 29 Jan, the Company acquired Ningbo Yatai Hotel Property Services for RMB1.5bn (12.5x 2021E PE) which would bring 80mn sq m GFA under management. This has served a good example for its ambitious plan and room of the market size (top 50 PMCo. only owns 19% of total market share). With strong cash position (RMB15bn as of Dec 2020), this may continue to support annual M&A size of 100mn sq m. Based on management's guidance, its M&A pipeline has reached 1bn sq m, which may provide some confidence to reach its guided target. We estimate M&A to contribute 150, 120 and 100mn sq m GFA under management in 2021-23E.

Figure 8: Market share of property management

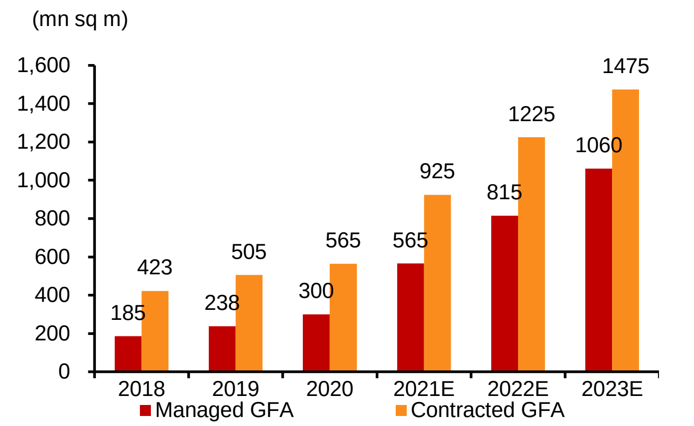
Managed GFA	2020 Market share	2019 Market share	YoY
Top 10	10.35%	10.06%	0.29ppt
Top 30	16.56%	16.02%	0.54ppt
Top 50	19.31%	18.91%	0.40ppt

Source: CRIC

- Third party bidding: this channel is likely to become another key source for the GFA under management. At the start of the year, the management has incentivized a monthly target of adding 30mn sq. m (incl. M&A) from third parties and it has formed a team size of 300 staff for this target. We expect this channel to add 60, 70 and 80mn sq m GFA.

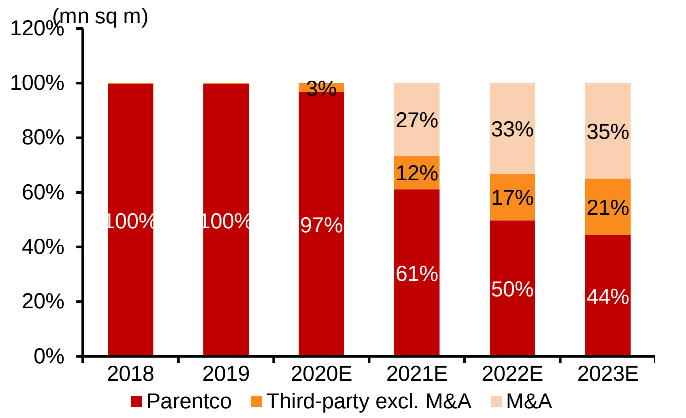
It's worth noting that M&A will be the main channel for GFA expansion as parentco's growth has slowed down and third party bidding takes time.

Figure 9: Managed and contracted GFA (52% CAGR in 2020-23E)



Source: Company data, CMBIS estimates

Figure 10: Newly-added managed GFA by channels (M&A will be the key driver)



Source: Company data, CMBIS estimates

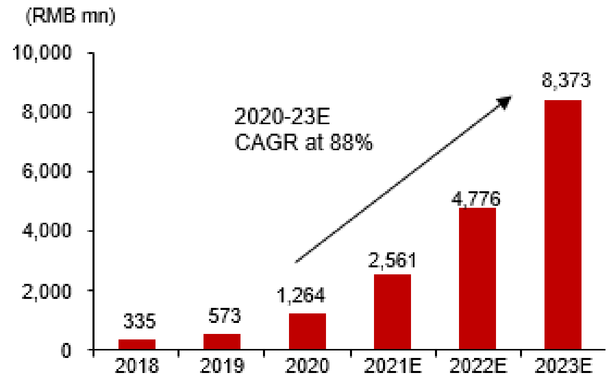
Explosive growth of Community VAS driven by multi initiatives

In 2020, its revenue from Community VAS rose 121% YoY to RMB2.5bn from a relatively low base, but only contributed 12% of group revenue, below the industry average of 17%. We attribute this to the relatively low penetration rate and limited service lines. Going forward, benefiting from its parentco's multi business lines that covers real estate, tourism, health, auto and insurance, Evergrande Services started multi initiatives to provide rich services in order to increase penetration rate.

- **Referral fee from its property agent business**: Parentco has initiated a property agency business named (Fangchebao/房车宝) which owns 40k offline stores, 400k agents and 21mn users. It's targeting a total transaction of RMB2tn in 2021 and will pay a fixed fee of RMB30k to the property service arm for any successful referrals (either buy or sell). This business may grow to RMB3bn per year if we assume 1% of its residents (up to 10mn so far) under Evergrande buy or sell per year.
- **Insurance agency business:** Evergrande Services acquired Evergrande Insurance for RMB39mn in Apr 2021 in order to penetrate into the community. Through online (via resident APP Hengzhihui) and offline channels, it will provides pre-sales, in-sales, and after-sales full-cycle insurance agency services covering comprehensive product lines including property, vehicle, life, medical care, travel and pensions to the residents.
- **Community shopping business**: In Feb 2021, the Company also introduced its own community shopping business named "恒优选" to provide specialized products such as alcohols, FMCG and other tourism products.

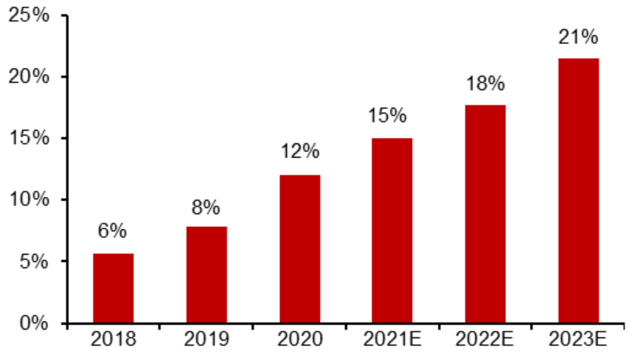
Together with the traditional renovation business, we expect these old and new initiatives would help drive the explosive revenue growth of community VAS at 88% 2020-23E CAGR to RMB8.4bn.

Figure 11: Revenue from Community VAS is expected to grow at 88% 2020-23E CAGR to RMB8.4bn



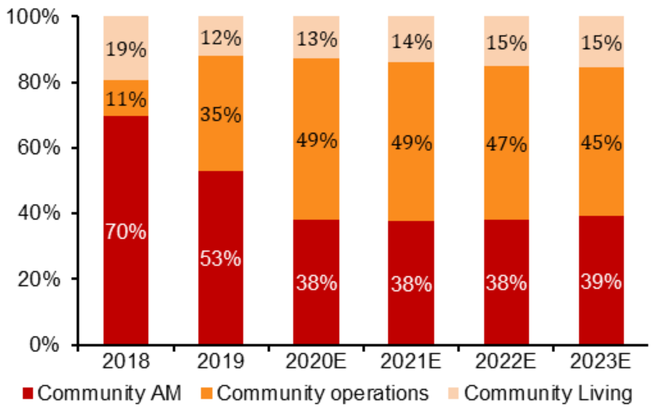
Source: Company data, CMBIS estimates

Figure 12: Its contribution to group revenue will increase to 21%, catching up with the industry



Source: Company data, CMBIS estimates

Figure 13: In terms of breakdown, Community Asset management and living will lead the growth driven by new initiatives



Source: Company data, CMBIS estimates

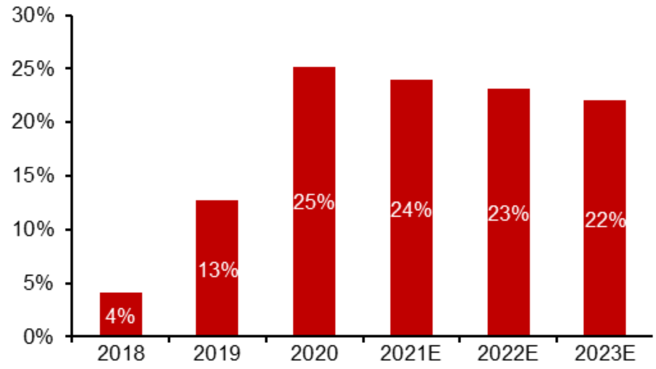
Digitalization + higher VAS contribution to help maintain its industry-leading GPM

Similar to Country Garden Services, the Company is one of the largest property management companies and mainly in charge of large-scale communities. As a result, both of them can maintain a relatively high GP Margin in its own projects at 30%+.

Going forward with more third party projects to contribute, we expect some level of margin erosion. However, this can be partly offset by cost saving via digitalization (it has signed with Tencent on improving digitalization plan) and higher VAS contribution (to reach 21% of group revenue by 2023E). More detailed calculation and discussion in the key debate.

Together with industry-low admin costs/revenue ratio at 6% only, we think the net margin can continue to maintain at relatively high level and expect 2021-23E NPM to be 24%, 23% and 22%.

Figure 14: We expect net margin to maintain at 20%+ level



Source: Company data, CMBIS estimates

Key debates

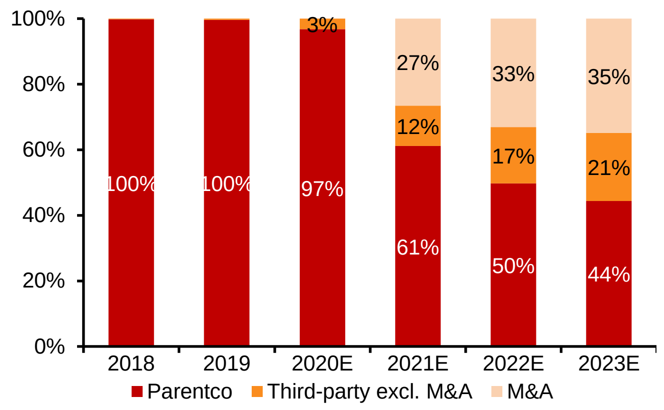
Would M&A-driven GFA expansion lead to significant GPM dilution?

As discussed above, Evergrande Service's GFA expansion relies mainly on the M&A and third-party expansion going forward. By 2023E, we estimate third party projects (incl. M&A) would contribute as much as 56% of total managed GFA.

In order to calculate the blended GPM for basis PM business, we assume the gross margin for third Party projects before taking over to be 20%, which is the industry norm. After taking over, there could be some improvement due to costs saving as Evergrande's extensive coverage (310 cities) and digitalization. With 10% cost saving, we model the GP margin to be 22% for third Party projects. As for Evergrande's own projects, we expect a stable GP margin at 33%, therefore we calculate the blended GP margin for basic PM businesses to be 31%, 29% and 27% in 2021-23E.

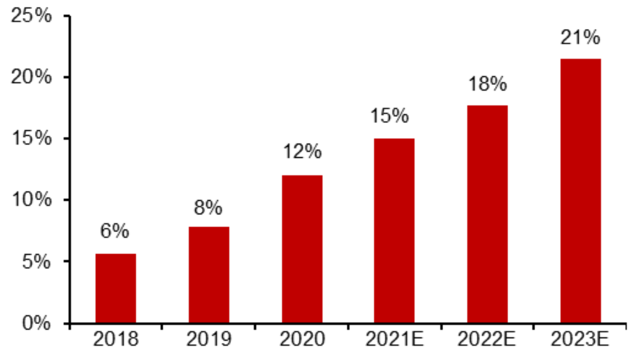
As for the Group margin, we expect the decline is rather mild as high-margin Community VAS could make a higher contribution to 21.5% by 2023E. Therefore, we expect the group GPM to be still in the range of 35-37%.

Figure 15: Newly added Managed GFA by channels (M&A will be the key driver)



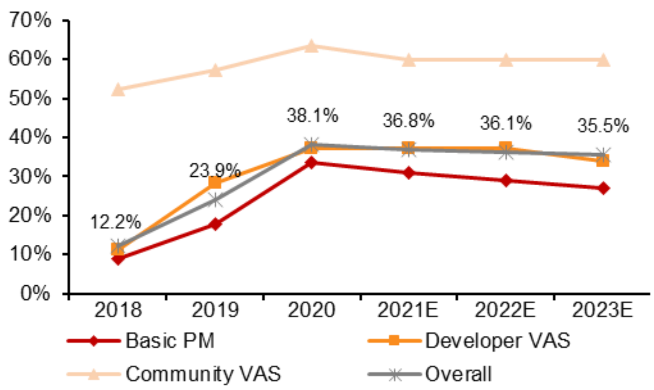
Source: Company data, CMBIS estimates

Figure 16: Community VAS revenue as % of Group



Source: Company data, CMBIS estimates

Figure 17: Segment gross margin



Source: Company data, CMBIS estimates

How much does it rely on its Parentco?

The recent share price correction was partly due to investors' concern on its parentco's liquidity issue and IPO investors' share selling. From the business standing point of view, the parentco directly contributed >35% of its revenue in 2020 by assuming VAS to non-residents and non-occupied GFA are paid by the parentco. The reputation risk discussed in our scenario studies is also an important factor that measures its reliance.

We cannot rule out any possibilities on the future development of its parentco. According to our different scenarios, our bear case that involves project disposal may have a significant impact the property service arm that needs to be priced in the earnings and price multiples.

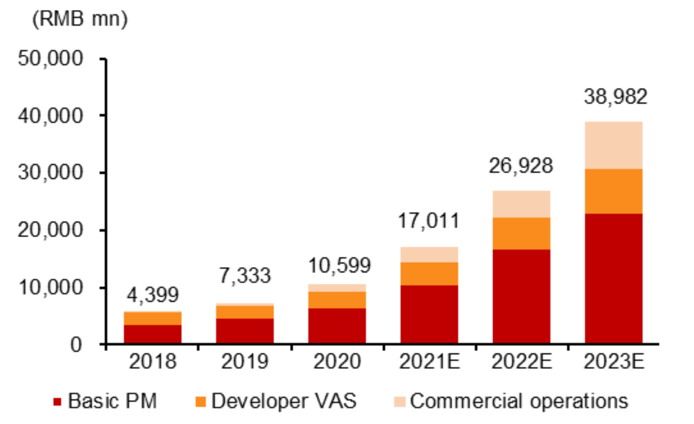
In the worst scenario of liquidity issue like Languang's case, we think there could be still some silver lining that it may be taken over by its competitors. However, given its huge size, it may not be easy to find buyers.

Financial Analysis

Revenue to grow at 69% CAGR in 2019-22E

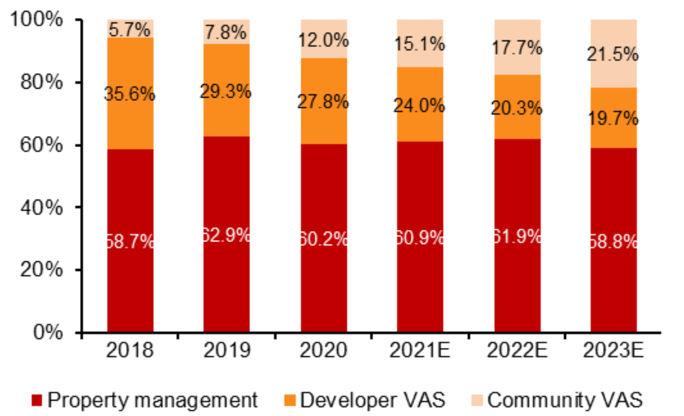
Thanks to robust GFA growth and booming VAS, revenue is set to grow at 55% CAGR from RMB10.5bn in 2020 to RMB39.0bn in 2023E. We expect basic PM services and community VAS (lifestyle services) to be major growth drivers, and expect segment revenue CAGR of 54% and 88%, respectively, in 2020-23E.

Figure 18: Revenue to grow at 55% CAGR in 20-23E



Source: Company data, CMBIS estimates

Figure 19: Revenue mix trend

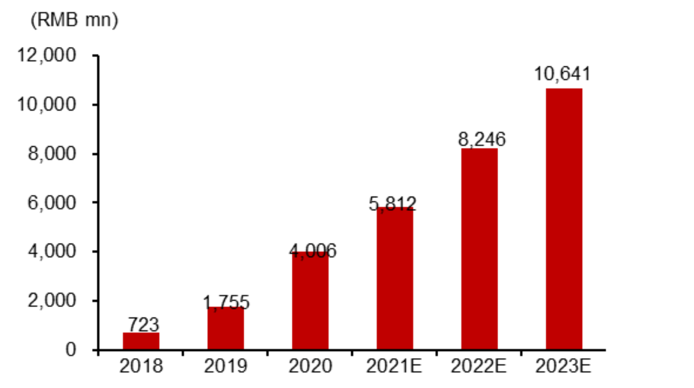


Source: Company data, CMBIS estimates

Gross profit margin to maintain relatively stable on mix change

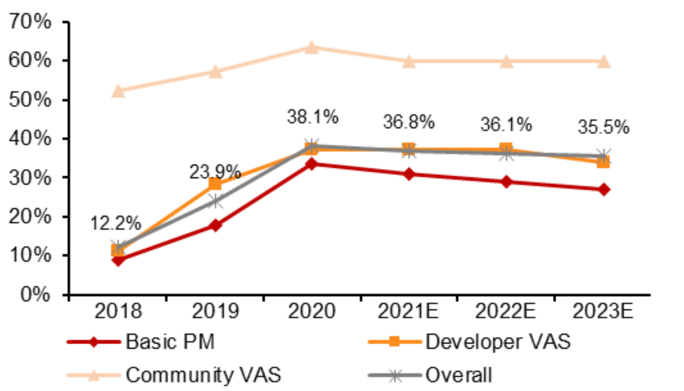
Gross profit was RMB1,755mn and RMB4,006mn in 2019 and 2020, while the corresponding gross margin was 24% and 38%, respectively. Going forward, we expect a GPM to stay relatively stable on mix change as VAS portion that has higher margin may partly offset the GPM decline in basic PM business. We project overall gross margin to be 35-37% range in 2021E/22E/23E, respectively.

Figure 20: Gross profit



Source: Company data, CMBIS estimates

Figure 21: Segment gross margin



Source: Company data, CMBIS estimates

SG&A expenses

Selling, General and Administrative (SG&A) expenses increased from RMB563mn in 2019 to RMB640mn in 2020. The rise in SG&A expenses was in line with the Company expansion into new geographic regions. SG&A expenses to revenue ratio was relatively low at 6.5-7%. We expect SG&A expenses/revenue to stay relatively stable due to better scale economy resulting from GFA expansion.

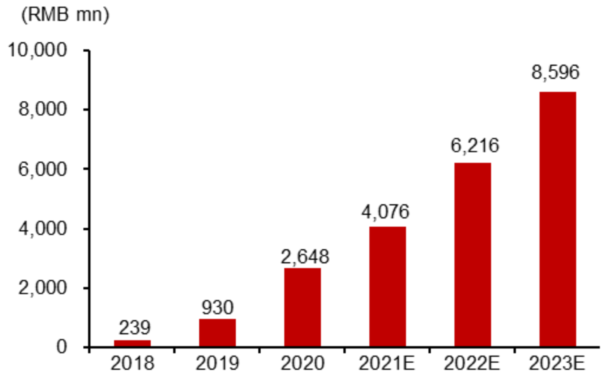
Estimated net profit attributable to shareholders to grow at 48% CAGR in 2020-23E

Net attributable profit amounted to RMB930mn/2,648mn in 2019-20, respectively. The corresponding net profit margin (attributed to shareholders) was 12.7%/25.2%, respectively. Going forward, we expect net profit to increase by 48% CAGR in 2020-23E, in line with revenue growth, to RMB8,596 mn in 2023E with a stable net margin.

Strong operating cash flow to support potential M&As

Cash on hand was RMB12.6bn in 2020 and with annual operating cash show to generate RMB4-9bn in 2021-2023E, we believe the Company's cash level is able to support potential M&As of single non-residential projects and further boost scale.

Figure 22: Net profit attributable to shareholders



Source: Company data, CMBIS estimates

Price Target and Valuation

We value PM companies based on a scorecard system. There are six main categories as listed below:

1) **Parentco support (15% weights):** Companies with strong parentco support (on new GFA delivery) would have higher visibility on earnings.
2) **GFA growth (15%):** This is currently the key growth driver
3) **VAS growth (20%):** It will be the future growth engine
4) **Shopping mall contribution (20%):** high entrance barrier with high margin
5) **Non-M&A expansion (10%):** prefer companies with least expansion from M&A.
6) **Execution (20%):** It is based on the track record.

Figure 23: Valuation scorecard

Metrics	Overall score	Parentco support	GFA growth	VAS growth	Shopping mall contribution	Non-M&A expansion	Execution	Target 2022E P/E
CR MixC Lifestyle	76	95	30	80	90	70	80	50x
Country Garden Services	69	95	50	95	10	80	90	35x
Ever Sunshine	66	80	80	80	20	60	80	35x
Powerlong Commercial	60	70	40	30	90	70	60	30x
S-Enjoy	58	70	70	70	20	70	60	25x
Greentown Services	54	30	40	70	20	90	80	25x
Poly Services	52	80	50	50	10	80	60	25x
Excellence CM	51	50	50	60	30	80	50	20x
Central China New Life	49	50	40	70	30	50	50	15x
Redsun Services	42	40	60	30	30	50	50	15x
A-Living	41	40	40	50	20	30	60	15x
Evergrande Services	**41**	**50**	**50**	**50**	**20**	**20**	**50**	**15x**
Languang Justbon	37	40	60	30	20	20	50	10x

Source: CMBIS

Based on the above scorecard, we target to assign 15x PE multiple on 2022E EPS to derive our target price of HK$10.39/share. Currently company is trading at 10x 2022E PE, significantly below the industry average of 26x.

Figure 24: Price target

Price Target	
2022E EPS	0.57
HKDRMB rate	0.83
Target PE multiple	15x
Price Target (HKD/share)	10.39

Source: CMBIS

Figure 25: 2YR-rolling forward PE at historically low level

Source: CMBIS

Figure 26: Comps table

Company	Ticker	CMBI rating	TP	Last price	Mkt Cap	P/E			Net profit growth (%)	
			(HK$)	(HK$)	(HK$ mn)	20A	21E	22E	21E	22E
Country Garden Services	6098 HK	BUY	91.2	59.6	192,166	59.0	36.8	24.8	60.2	48.3
CR MixC Lifestyle	1209 HK	BUY	56.0	40.0	91,300	75.5	52.6	37.8	43.4	39.3
Evergrande Services	6666 HK	BUY	10.4	5.8	62,486	18.2	12.7	8.3	54.0	52.5
Sunac Services	1516 HK	BUY	29.8	19.4	60,146	64.1	31.2	19.5	105.3	60.6
A-Living	3319 HK	HOLD	34.2	33.0	46,789	20.9	15.3	11.7	36.2	31.1
Greentown Services	2869 HK	HOLD	9.5	8.3	26,962	36.4	23.1	17.3	57.1	33.7
Ever Sunshine	1995 HK	BUY	22.2	15.0	25,089	59.3	33.2	21.9	78.4	51.5
Poly Services	6049 HK	HOLD	53.4	46.8	25,868	34.1	24.5	18.9	39.0	29.6
S-Enjoy	1755 HK	BUY	34.6	17.6	15,383	28.5	18.3	12.7	55.9	43.6
Powerlong Commercial	9909 HK	BUY	33.2	22.3	14,329	40.5	26.5	19.1	52.6	38.9
Excellence CM	6989 HK	BUY	14.9	6.7	8,191	19.3	12.7	9.2	51.9	38.7
Central China New Life	9983 HK	BUY	12.9	6.1	7,734	14.2	10.1	7.3	40.2	38.4
Sino-Ocean Services	6677 HK	BUY	7.1	5.0	5,920	13.2	11.6	8.1	13.7	43.8
New Hope Services	3658 HK	BUY	4.4	2.2	1,791	13.0	6.9	4.8	88.5	43.7
Redsun Services	1971 HK	BUY	9.4	4.1	1,693	18.1	8.9	6.0	103.0	48.3
COPH	2669 HK	NR	NA	6.9	22,778	31.9	24.8	19.3	28.3	29.0
Times Neighborhood	9928 HK	NR	NA	5.2	5,125	19.1	10.5	7.1	80.8	48.5
Aoyuan Healthy Life	3662 HK	NR	NA	4.9	3,522	12.6	8.1	5.9	57.0	35.9
Shimao Services	873 HK	NR	NA	17.8	42,126	43.0	27.4	16.7	56.9	64.1
KWG Living	3913 HK	NR	NA	7.0	14,024	32.5	17.0	10.6	91.8	60.5
Jinke Smart Services	9666 HK	NR	NA	46.0	30,031	32.5	22.9	15.2	41.7	50.7
					Average	47.0	29.9	20.5	57.4	43.5

Source: CMBIS

Risk factors

In our view, the key risk factors are:

1) Reliance on property delivery from Evergrande Group, joint ventures or associates of New Hope Group or associates of the ultimate controlling shareholders of New Hope;
2) Potential failure to secure new or renew existing PM contracts on favourable terms;
3) Potential failure in future M&A;
4) Potential adverse impact arising from business concentration in Southwestern China and Eastern China due to any adverse development in governmental policies or macro business environment;
5) Potential difficulty in fee collection;
6) Potential fluctuations on labour and subcontracting costs; and
7) The COVID-19 pandemic.

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	**7,333**	**10,509**	**17,011**	**26,928**	**38,982**
Basic PM	4,612	6,322	10,366	16,673	22,941
Non-owner VAS	2,148	2,923	4,085	5,479	7,668
Community VAS	573	1,264	2,561	4,776	8,373
Cost of sales	(5,578)	(6,503)	(10,748)	(17,197)	(25,157)
Gross Profit	**1,755**	**4,006**	**6,263**	**9,731**	**13,825**
Other income	67	150	150	152	155
Administrative expenses	(515)	(629)	(900)	(1,500)	(2,377)
Other expenses	(48)	(10)	(101)	(131)	(167)
Operating profit	**1,258**	**3,516**	**5,413**	**8,253**	**11,436**
JV/Associates	-	-	-	-	-
Finance cost	(29)	(17)	(1)	(1)	(1)
Pre-tax Profit	**1,229**	**3,499**	**5,411**	**8,251**	**11,43**
Income tax	(299)	(851)	(1,31	(2,00	(2,77
PROFIT FOR THE YEAR	**931**	**2,647**	**4,096**	**6,246**	**8,656**
Non-controlling interest	(0)	1	(20)	(30)	(60)
Net Profit attribute to shareholders	**930**	**2,648**	**4,076**	**6,216**	**8,596**

Balance sheet

YE Dec 31 (Rmb mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	**150**	**262**	**4,767**	**9,572**	**14,577**
Property, plant and	57	54	59	64	69
Right-of-use assets	26	128	4,628	9,428	14,428
Others	67	80	80	80	80
Current assets	**7,307**	**16,803**	**16,883**	**18,795**	**22,913**
Trade and other receivables	6,606	4,186	5,024	6,028	7,234
Cash and cash equivalents	684	12,604	11,860	12,767	15,679
Others	16	12	0	0	0
Total assets	**7,457**	**17,064**	**21,650**	**28,367**	**37,490**
Current liabilities	**5,669**	**7,105**	**7,930**	**8,920**	**10,109**
Trade and other payables	3,367	4,365	5,191	6,181	7,369
Others	2,302	2,739	2,739	2,739	2,739
Non-current liabilities	**13**	**26**	**26**	**26**	**26**
Lease liabilities	13	11	11	11	11
Others	-	15	15	15	15
Total liabilities	**5,682**	**7,130**	**7,955**	**8,946**	**10,134**
Equity to shareholders	**1,762**	**9,923**	**13,664**	**19,360**	**27,235**
Non-controlling interests	13	11	31	61	121
Total Equity	**1,774**	**9,934**	**13,695**	**19,421**	**27,356**

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before tax	**1,229**	**3,499**	**5,411**	**8,251**	**11,434**
D&A	38	39	15	15	15
Change in working capital	(1,683)	2,669	0	(14)	(17)
Others	48	(1,034)	(1,262)	(1,923)	(2,660)
Net cash from operating	**(368)**	**5,172**	**4,164**	**6,329**	**8,772**
Capex	**-**	**(55)**	**(4,500)**	**(4,800)**	**(5,000)**
JV/Associates	4	4	-	-	-
Others	118	961	-	-	-
Net cash from investing	**122**	**910**	**(4,500)**	**(4,800)**	**(5,000)**
Equity raised	-	5,953	-	-	-
Change of debts	(147)	(3)	-	-	-
Dividend	23	(113)	(408)	(622)	(860)
Net cash from financing	**(124)**	**5,838**	**(408)**	**(622)**	**(860)**
Net change in cash	(370)	11,920	(744)	907	2,912
Cash at the beginning of the	**1,054**	**684**	**12,603**	**11,860**	**12,767**
Exchange difference	-	(1)	-	-	-
Cash at the end of the year	**684**	**12,603**	**11,860**	**12,767**	**15,679**

Key ratios

YE Dec 31 (Rmb mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Basic PM	62.9	60.2	60.9	61.9	58.8
Non-owner VAS	29.3	27.8	24.0	20.3	19.7
Community VAS	7.8	12.0	15.1	17.7	21.5
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Profit & loss ratios (%)					
Gross margin	23.9	38.1	36.8	36.1	35.5
Net margin	12.7	25.2	24.0	23.1	22.1
Effective tax rate	24.3	24.3	24.3	24.3	24.3
Growth (%)					
Revenue	24.2	43.3	61.9	58.3	44.8
Gross profit	142.7	128.3	56.3	55.4	42.1
Operating profit	289.0	179.5	53.9	52.5	38.6
Net profit	289.1	184.7	53.9	52.5	38.3
Balance sheet ratios					
Current ratio (x)	1.3	2.4	2.1	2.1	2.3
Receivable turnover days	262	145	110	110	110
Returns (%)					
ROE	52.8	26.7	29.8	32.1	31.6
ROA	12.5	15.5	18.8	21.9	22.9
Per share					
EPS (RMB)	0.09	0.26	0.38	0.57	0.80
DPS (RMB)	0.00	0.00	0.04	0.06	0.08
BVPS (RMB)	0.00	0.92	1.26	1.79	2.52

Source: Company data, CMBIS estimates

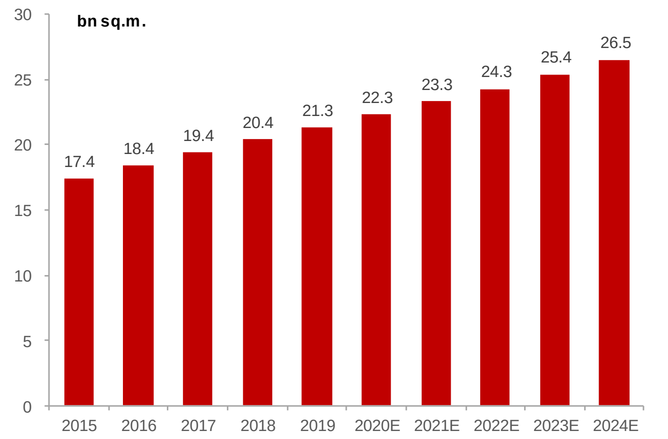
Industry Overview

Property management industry in China

The property management industry in China has been developing for nearly 40 years. As of the end of 2019, there were approximately 137,000 property management companies in China. The overall market size of the property management industry in China increased from 17.4bn sq m in 2015 to 21.3bn sq m in 2019, representing a CAGR of 5.2%. According to Savills and EH Consulting, the CAGR for the management area of the Chinese property industry from 2020 to 2024 will be 4.5%.

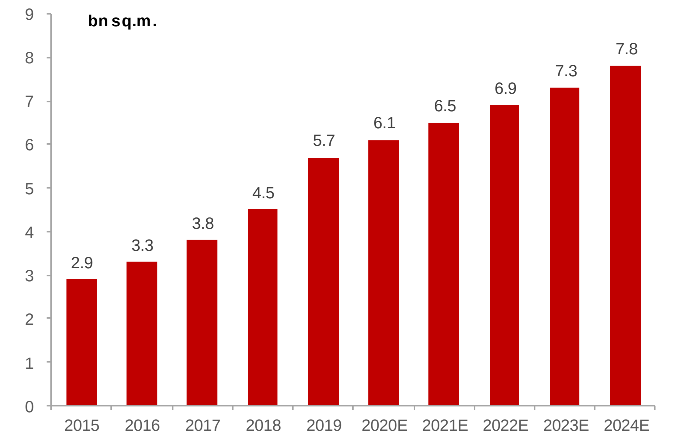
The Top 100 PM Companies in China have accelerated their growth in terms of managed GFA. According to Savills and EH Consulting, the GFA under management of the Top 100 grew steadily to 5.7bn sq m. in 2019, with a CAGR of 19.1% from 2015 to 2019. According to Savills and EH Consulting, the GFA under management of the Top 100 will increase at a CAGR of 6.2%.

Figure 27: The overall market size of the property management industry in China, 2015-2024E



Source: Savills and EH Consulting, CMBIS

Figure 28: The GFA under management of the top 100 property management companies in China



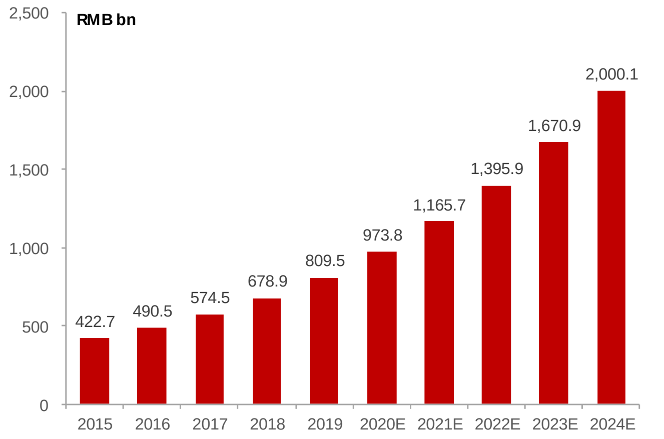
Source: Savills and EH Consulting, CMBIS

The continuous increase in the GFA, growing customer needs of diversified services and the expansion of diversified revenue channels have promoted greater growth in the operating revenue. In 2019, the total operating revenue of the PM industry of China increased 19.2% YoY to approximately RMB809.5bn, whereas the CAGR for the total operating income of the PM industry reached 17.6% between 2015 and 2019. According to Savills and EH Consulting, the CAGR for the total operating revenue of the PM industry will reach 19.7% from 2020 to 2024.

The operating revenue of the Top 100 Property Management Companies reached a record high of RMB 149.4bn in 2019, accounting for 18.5% of the entire industry, representing a YoY increase of 38.8% as compared to RMB 107.6bn in 2018. The CAGR for the operating revenue of the Top 100 Property Management Companies was 22.2% from 2015 to 2019, which was 4.6% higher than the CAGR for the overall operating revenue of the industry.

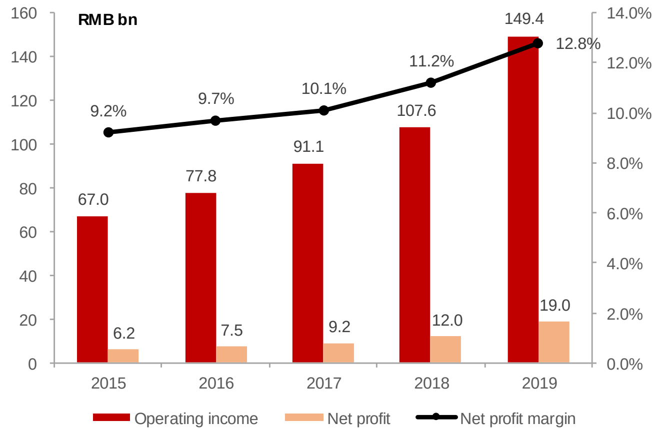
The Top 100 Property Management Companies have achieved steady growth in net profits while maintaining stable charging levels. According to Savills and EH Consulting Report, net profit of the Top 100 Property Management Companies amounted to RMB 19.0bn in 2019, representing a YoY increase of 58.2% from 2018. The CAGR for net profits of the Top 100 Property Management Companies was 32.6% from 2015 to 2019.

Figure 29: The operating revenue of property management service market in China



Source: Savills and EH Consulting, CMBIS

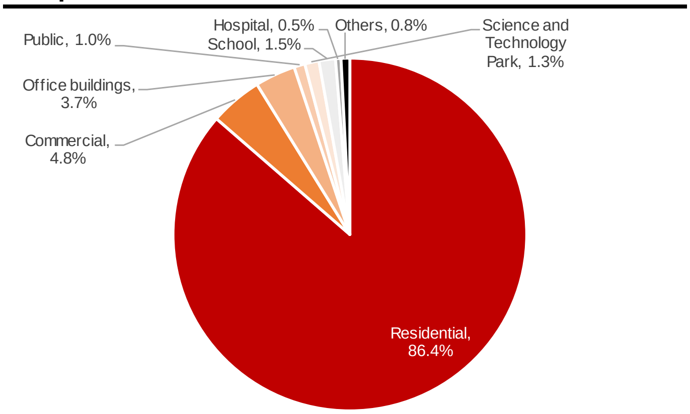
Figure 30: Operating revenue, net profit and net profit margin of the top 100 property management companies from 2015 to 2019



Source: Savills and EH Consulting, CMBIS

At present, the principal property management services in China are provided to residential and non-residential properties, of which the residential properties remain the main focus. In 2019, the area of residential properties under management of the Top 100 Property Management Companies amounted to 5.0bn sq m, accounting for 86.4% of the total area under management of the Top 100 Property Management Companies.

Figure 31: The proportion of property types under management of the top 100 property management companies in 2019

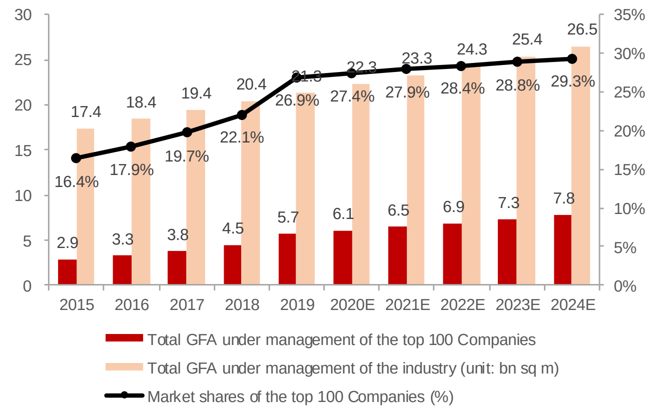


Source: Savills and EH Consulting, CMBIS

Competitive landscape

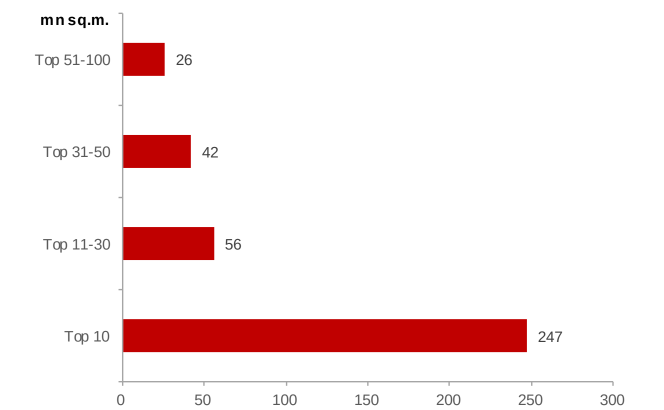
The PM industry in China is highly competitive. The Top 100 companies rely on strong capital and resource advantages to capture a market share of near 26.9% in terms of GFA under management. Growing property companies make use of competitive advantages to differentiate themselves from large players, developing diversified VAS while improving basic PM services, in order to gain market share among intense competition.

Figure 32: Increasing market concentration



Source: Savills and EH Consulting, CMBIS

Figure 33: Competitive landscape of property management industry in China



Source: Savills and EH Consulting, CMBIS

Key industry drivers

Introduction of the Relevant Supporting Policies

Laws and regulations are the fundamental supporting pillar of the industry, and a good policy environment creates an important foundation for the industry's healthy development.

On 29 Oct 2020, the NDRC and 14 other ministries jointly issued the Work Programme on The Promotional Fees for The Recent Expansion of Domestic Demand, which provides external protection for the diversification of the property industry and is conducive to promoting the construction of intelligent communities and community life services for property management companies.

On 5 Jan 2021, the MOHURD issued Notice on Strengthening and Improving the Management of Residential Property, which clearly improves the pricing mechanism of property services, emphasizes the market-oriented pricing tone of residential property management, and establishes a dynamic adjustment mechanism based on the implementation of government-directed prices.

The Significant growth in population, urbanization rate and per capita disposable income

According to the NBS, the total population of China was 1.4bn at the end of 2019, representing a net increase of 4.7 million as compared to 2018. At the end of 2019, the urbanization rate of China has reached 60.6%, representing a CAGR of 2.4% from 2015 to 2019. The per capita disposable income of urban residents of China increased from RMB31,195 in 2015 to RMB42,359 in 2019, representing a CAGR of 7.9% from 2015 to 2019. The significant growth in the urbanization rate and per capita disposable income have become the major driving factors of the development of the PM industry.

New Opportunities under the Epidemic

During the COVID-19 epidemic, PM companies improved customer satisfaction by providing quality services and meeting customer needs. PM companies have received government financial support for the development of mobile applications, internet platforms and smart communities. In addition, driven by the demand for epidemic prevention, old residential communities will seek and entrust PM companies to provide necessary services.

Entry barriers

According to Savills and EH Consulting, entry barriers of the PM industry are as follows:

Figure 34: Operating revenue of PM service market in China

Entry barriers	Reason
Market demand for professional services	The demand for PM services varies by client and property type. New players may be at disadvantage as they typically lack understanding and experience in providing PM services to different clients.
Demand for professional talents	The development of new technologies have led to a substantial increase in the demand for professional talents.
Standardization of operations and management	PM companies need to standardize service and operations to better control costs and ensure service quality, which could present a challenge to new players.
Specialized brands	It is challenging for new players without established brands to gain market share in the PM industry.
Capital requirement	Capital is required to improve management and operations efficiency, which can be an obstacle for new players.

Source: Savills and EH Consulting, CMBIS

❖

Financial Formula

Operating profit=Gross profit + Other income – Other net losses - Selling and distribution expenses – Admin expenses

Operating margin = Operating profit/Revenue

Pre-tax margin = Pre-tax profit/Revenue

Effective tax rate = Profit tax/Pre-tax profit

Net debt/total equity ratio = Total borrowings including loans from related parties, interest bearing bank and other borrowings and lease liabilities less cash and cash equivalents and restricted cash divided by total equity

ROA = Profit for the period divided by the average balance of total assets as of the beginning and end of the period and multiplied by 100%

ROE = Profit for the period divided by the average balance of total equity as of the beginning and end of the period and multiplied by 100%

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