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Jinmao Services (816 HK)

Fast growing SOE player with organic capacity to be improved

As the only property management arm in the system of Sinochem Holdings (the world's largest chemical producer with trillion revenue that is merged by two SOE giants "Sinochen Group" & "ChemChina"), Jinmao Property Service is likely to benefit from multiple channels and deliver much stronger growth than its SOE peers. We estimated CAGR of managed GFA/revenue/net profit will reach 62%/67%/74% in 2021-24E. The Company's VAS business showed a high correlation to its parentco and only 50% of earnings were organic, in our view. We adopted core organic valuation method and assigned 18x PE on 2022E organic earnings (core profit – profit from VAS highly relying on parentco), equivalent to 10x 2022E PE, implying the target price of HK$5.48 and the rating of HOLD.

- **Multiple channels to boost managed GFA at 62% CAGR in 2021-24E. 1)** As a SOE developer, the Company's parentco has grown 19% CAGR in terms of contracted sales in 2018-21 and this would transfer into the big completion cycle in 2022-24E. The project completion and the merge of "Sinochem" and "ChemChina" (GFA injection of industrial part etc.) could deliver c.15mn sq m managed GFA per year in 2022-24E. **2)** City operation projects with local government and Company's strategic partnership to contribute 14-15mn sq m GFA from third parties in 2022-24E. **3)** M&A deals may add 6-10mn sq m per year in next three years (the acquisition of Beijing Capital Service with 2.8mn sq m managed GFA has been announced recently). As a result, we expect managed GFA/revenue from basic PM to grow at 62%/71% CAGR in 2021-24E to 154 mn sq m and RMB4.1bn.
- **VAS growth highly correlated to parentco. 1)** Company reported 36%/48% of revenue/gross profit in FY21 contributed by non-owner VAS (mainly services provided to parentco), compared to avg. 20%/23% for the industry. **2)** c.50% of revenue growth in community VAS would be affected by parentco or its affiliates (automobile service, move-in cleaning etc.), we estimated only c.53% of Company's FY21 earnings represented the organic growing capacity (industry avg. 76%). The Company stated to lower the revenue contribution from non-owner VAS to 20% on LT basis, which is not easy and requires improvement of VAS penetration in communities under management, while the bright side is Company's high-net-worth residents provide better monetization opportunities, which may bring business potential.
- **Adopted core organic valuation method.** We estimate organic earnings (core profits - profits from VAS to non-owners and profits from parent-assisted community VAS) accounted for 53% of total earnings in 2022E. Considering the Company's NP may grow fast at a 74% CAGR in 2021-24E, we assigned 18x PE on 2022E organic earnings, equivalent to 10x 2022E PE, implying the target price of HK$5.48 and the rating of HOLD. **Catalyst:** share incentives plan. **Risks:** 1) Parentco's sales and home completion slowdown; and 2) slower than expected development in community VAS.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	944	1,516	3,114	4,877	7,138
YoY growth (%)	19.8	60.5	105.5	56.6	46.4
Net income (RMB mn)	77	178	377	625	933
EPS (RMB)	0.10	0.22	0.47	0.78	1.17
YoY growth (%)	N.A.	131	112	66	49.3
Consensus EPS (RMB)	N.A.	N.A.	0.45	0.64	0.96
P/E (x)	42.0	18.2	8.6	5.2	3.5
P/B (x)	77.0	16.4	2.5	2.4	2.1
Yield (%)	N.A.	N.A.	N.A.	N.A.	N.A.
ROE (%)	157.0	91.1	29.8	47.8	61.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIGM estimate

HOLD (Initiation)

Target Price	**HK$5.48**
Up/Downside	**+12%**
Current Price	**HK$4.90**

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Stock Data

Mkt Cap (HK$ mn)	4,349
Avg 3 mths t/o (HK$ mn)	3.95
52w High/Low (HK$)	7.4/3.31
Total Issued Shares (mn)	904

Source: Bloomberg

Shareholding Structure

China Jinmao	66.37%
Sinochem Holdings	7.38%
The Vanguard Group	0.43%

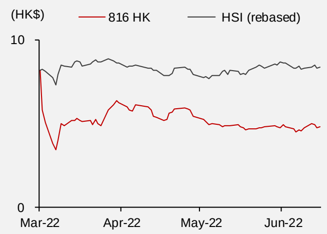
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-2.3%	-3.6%
3-mth	-8.7%	-4.8%
6-mth	NA	NA

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Contents

Investment thesis

High growing SOE player in the market

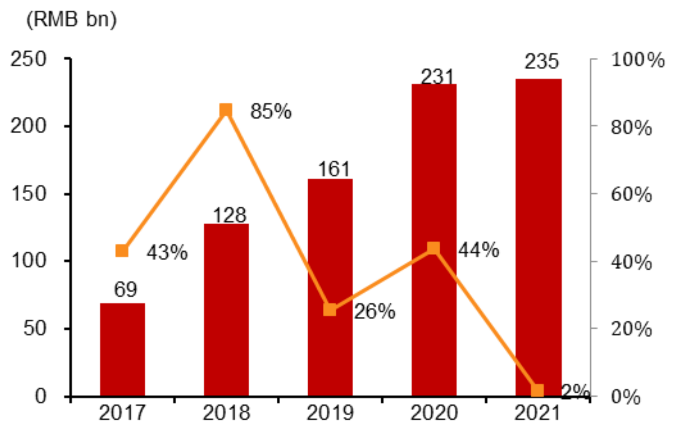
Figure 1: GFA under management with rapid growth

Key drivers	2019	2020	2021	2022E	2023E	2024E
Managed GFA (mn sqm)	**13**	**18**	**36**	**71**	**110**	**154**
YoY growth	24%	39%	106%	95%	55%	40%
Jinmao Group affiliates	12	15	24	38	55	74
Third party (mainly from local governments)	1	2	12	28	42	57
M&A	-	-	-	6	14	24
Others (alliance with other SOEs)	-	-	-	-	-	-
Contracted GFA (mn sqm)	31	41	58	112	160	215
YoY growth	41%	31%	42%	94%	43%	34%

Source: Company data, CMBIGM estimates

No.1 source of GFA expansion – Parentco Jinmao Group's big completion cycle. Jinmao Group has achieved faster-than-market contracted sales CAGR in 2018-21 at 19%. As a result, the Company had RMB350bn undelivered contracted sales as of Jun 2021, which is equivalent to 18mn sq m. These would transfer into a big completion cycle of 2022-24E while the delivery may have affected by COVID-19 lockdown in Mar-May 2022 so **we estimate 2022-24E deliveries to be 14mn, 17mn and 19mn sq.m accordingly**. In medium to long term, Jinmao Group as a SOE developer would gain market share (both sales and land acquisitions) in the current property downturn as an increasing number of high-leveraged one would gradually exit. Together with its current 93mn sq.m of land bank, we expect the GFA growth derived from China Jinmao would remain robust.

Figure 2: Jinmao Group's contracted sales and YoY growth, 2017-2021



Source: CRIC, CMBIGM

No.2 source of GFA expansion – third party via local government channel As of 21 July, Jinmao Group has 30 primary land projects with local governments (like Changsha, Guiyang, Nanjing, Ganjiang). This would help Jinmao property management to contract projects within the primary land zone. Currently, it has already entered into preliminary property management contracts for 22 projects among those city operation projects, representing a diverse portfolio of office building complexes, new towns, cultural towns and smart cities in Shanghai, Changsha, Lijiang, Qingdao, Nanjing, Sanya, Wenzhou, Tianjin and more, among which 12 projects were in operation. However, some projects need to be covered after the termination of existing contracts which may take longer than expected, according to the company.

SinoChem and ChemChina's M&A to bring more potential in GFA expansion. After the M&A between SinoChem and ChemChina, their total assets increased to RMB1.4tn with eight business lines including the aforementioned city operation services. According to our channel check, within the scope of SinoChem, Jinmao Group is the only platform for property development and city operation services with a non-compete agreement signed. Furthermore, Jinmao Property Services is the only platform providing property management services under Jinmao. In other words, all industrial parks and storage parks within the scope of Sinochem are highly likely to be entrusted to Jinmao Property Services in the future.

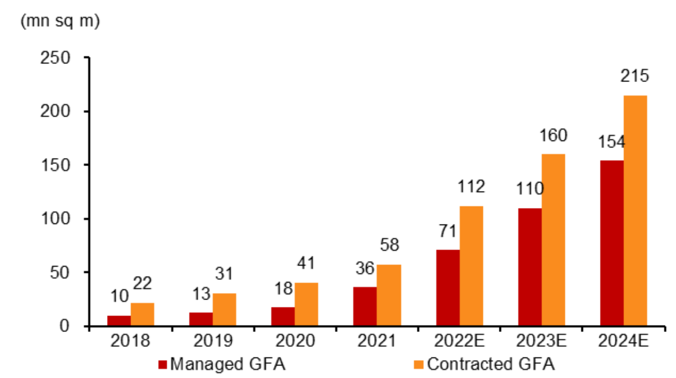
In July 2021, the Company signed a contract with SinoChem Lantian to manage its industrial parks in Shaoxing, Suzhou, Shaanxi, Chenzhou and Huzhou. In the first phase around 670K sq m were delivered, around 3.7% of the Company's managed GFA in 2020, according to MP news. We believe more contributions from SinoChem can be expected in the future.

We forecast two channels would contribute 15mn and 14mn sq m each in 2022E and 23E.

No.3 source of GFA expansion – Good timing for quality M&A deal. With more distressed developers willing to sell their PM arm for cash and industry de-rating, it could be a good timing to buy on dips. Especially as a SOE, the company may use funding both from equity market and loans under the favorable M&A policy to expand. **So M&A channel may contribute 6mn and 8mn sq.m in 2022-23E.** The Company has recently announced its acquisition of Beijing Capital Service which will bring 2.8mn managed GFA and 7.11mn contracted GFA, with a total cost of RMB450mn. Of which, RMB315mn will be paid by funds raised from IPO and RMB135mn will be paid by company's cash. Beijing Capital Service delivered RMB32.7mn profits in FY21, suggesting a 14x 2021PE.

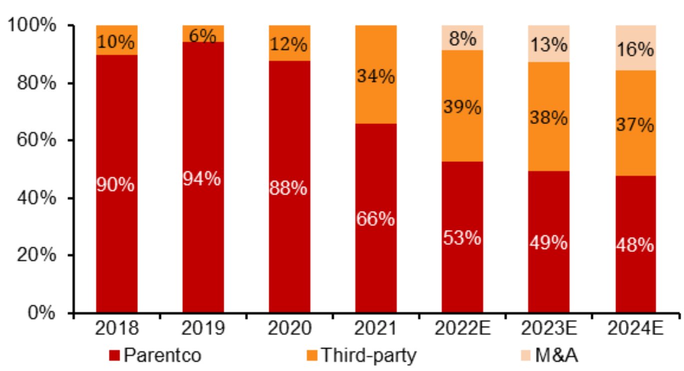
As a result, we expect managed GFA to grow at 62% 2021-24E CAGR reaching 154mn sq m by 2024E.

Figure 3: Managed and contracted GFA



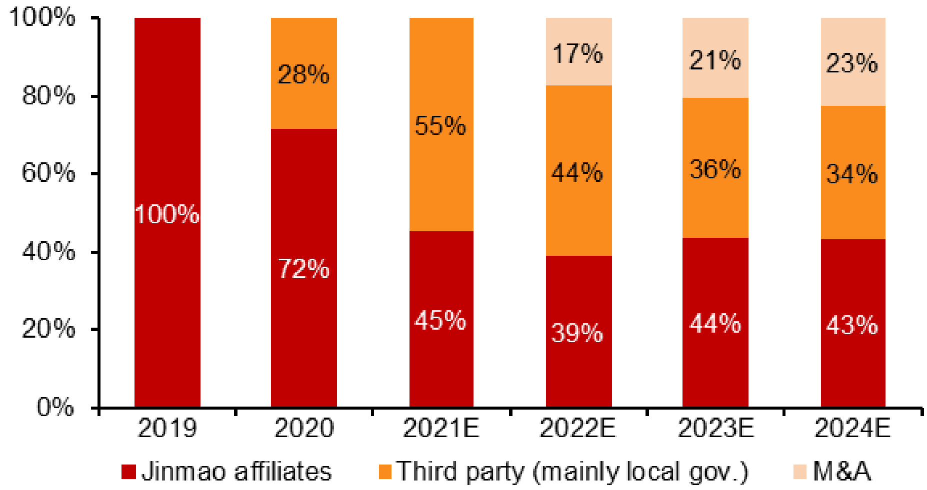
Source: Company data, CMBIGM estimates

Figure 4: Managed GFA breakdown by source



Source: Company data, CMBIGM estimates

Figure 5: New managed GFA breakdown by source



Source: Company data, CMBIGM estimates

VAS growth highly correlated to parentco

The company has large non-owner VAS contribution and reported 36% of revenue and 48% of gross profit in FY21 from non-owner VAS business, much higher than avg. of 20% and 23% in the industry. The segment mainly includes sales assistance services, consultancy and house delivery services provided to its parentco and most revenue was mainly generated directly from parentco. To reduce the dependency, the Company stated to slow down the growth assisted by parentco and expected non-owner VAS to contribute around 20% of revenue in the long term, which require much effort to improve the business penetration on community VAS, in our view.

Around 50% of its revenue from community VAS may largely affected by parentco as well. The Company stated that future growth of the community VAS segment will mainly come from new business initiated and the segment is expected to deliver RMB586mn revenue in FY22E, where RMB50mn/RMB170mn will come from move-in cleaning/interior decoration, which are largely affected by housing delivery pace of parentco. Another RMB50mn will come from automobile services in non-residential building, which is largely rely on company's contacting schedule of city operation projects and assistance from SinoChem platform. Thus, c.50% of revenue incremental will be linked to parentco which could not be completely regarded as organic growth in our view. Besides, the property market is still facing liquidity issues which will slow down delivery pace to some extent that makes it harder for Company to complete the target of above-mentioned new business.

Figure 6: New managed GFA breakdown by source

FY21	VAS to non-owners % in Revenue	VAS to non-owners % in Gross profit
Jinmao Service	35.6%	47.9%
Sunac Services	33.9%	38.4%
Excellence CM	22.5%	33.7%
A-living	20.3%	29.0%
Greentown service	15.6%	25.2%
Jinke Smart Services	17.3%	24.1%
Yuexiu Services	17.8%	22.1%
COPH	19.0%	19.5%
S-Enjoy	18.7%	17.6%
Poly Services	16.8%	16.8%
Sino-Ocean Services	19.8%	15.8%
Ever Sunshine	18.4%	13.9%
CG service	9.3%	12.3%
Shimao Services (1H21)	9.1%	8.5%
Average	**20%**	**23%**

Source: Company data, CMBIGM

Community VAS penetration has potential to improve

Company focuses on high-end properties in core cities. With a focus on providing premium services to customers, the Company has established a strong brand image. The Company's GFA under management reached 36.4mn sq m as of 31 Dec 2021, covering 48 cities in 22 provinces, autonomous regions and municipalities in China, 98.7% of which are in first-tier, new first-tier and second-tier cities in China. As a result, the Company also charged a relatively high property management fee, which was approximately RMB5.9, RMB5.4 and RMB4.64 per sq m. in 2019, 2020 and 2021 vs. industry average of the Top 100 Property Management Companies, being RMB4.2, RMB3.9 and RMB3.8 per sq m in the same period, according to CIA.

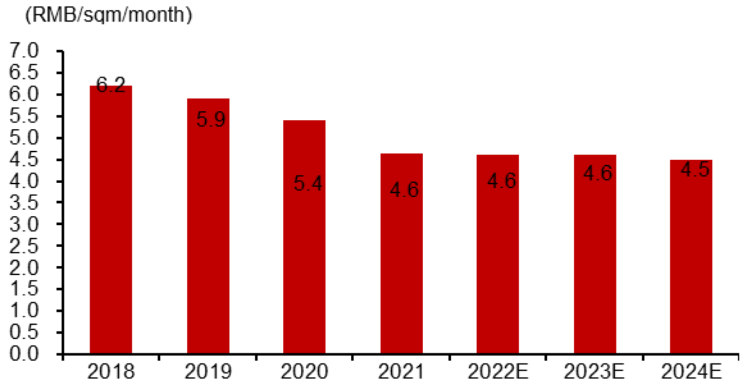
Thus it may bring potential for community VAS. Compared to the industry-average management fee of RMB2.5/sq m, Jinmao charges 40% premium to that (RMB3.6/sq m) mainly because of its focus on high-end projects in Tier 1-2 cities. Although its premium services offset some of the profitability, it does lead to the strong bonding with high-net-worth residents, as reflected by its high VAS per managed sq m at RMB6 in 2018-19 vs. industry average of RMB3-4 based on our calculation. (data in 2018-19 was more comparable as value-added business was less diversified in each company comparing to that 2020-21). With more high-end GFA deliveries from Jinmao property in 2022-24E, new businesses (such as car park sales to residents) and increasing penetration, we expect community VAS to exponentially grow at 126% in 2021-24E CAGR to RMB1,768mn with VAS per sq m reaching RMB11.5/sq m.

Figure 7: Jinmao is leading the industry average on VAS per sq m

Community VAS per sqm (RMB)	2018	2019	2020	2021
Jinmao Property Dev.	5.9	5.9	4.7	4.3
Greentown Service	7.7	9.0	8.7	9.3
Ever Sunshine	4.9	7.4	7.8	6.4
Sino-Ocean Services	6.5	5.9	6.6	10.7
S-Enjoy Service	1.1	2.9	4.9	5.9
Poly Services	3.3	4.0	4.6	4.9
Country Garden Services	2.3	3.1	4.6	4.3
Yuexiu	6.1	5.7	4.1	11.4
A-Living	3.1	2.7	2.8	3.8
COPH	2.9	2.5	2.7	3.1
Jinke Smart Services	1.4	2.0	2.6	6.3
Sunac Services	1.8	2.0	1.3	2.4
Average	**3.7**	**4.3**	**4.6**	**6.2**

Source: CRIC, CMBIGM

Figure 8: Management fee



Source: CRIC, CMBIGM

Share incentives may serve as a future catalyst

Following Poly services' successful launch of share incentives, an increasing number of SOEs (such as Yuexiu Services) are following the same path to improve the earnings visibility. Jinmao Group has previously launched the share option incentives and we believe a similar plan would be there for Jinmao Services after its listing. This may serve as a catalyst for its share price if the KPI has been set high. However, it may take at least six months to launch the plan taking the example of Poly services as a reference.

Financial Forecast

Following the key thesis above, we expect basic PM revenue to have strong growth, ensuring a 71% CAGR from RMB823mn in 2021 to RMB4.1bn in 2024E. Also, we expect Community VAS segment to grow rapidly at 126% CAGR in 2021-24E mainly due to low base. Lastly, VAS to non-property owners are on a rise in line with China Jinmao's completion cycle with revenue to reach RMB1.2bn in 2024 (32% 2021-24E CAGR). Therefore, group revenue is estimated to reach from RMB1.5bn in 2021 to RMB7.1bn in 2024E (68% CAGR).

As for GP margin, Company delivered GPM of 31% in FY21 and it's likely to fall into 28-29% range going forward in our view as **1)** segment with highest GPM - non-owner VAS will be scaled down.**2)** it might be dragged down to 43-45% (from 48% in FY21) due to expansion of Smart Community Service (which has GPM of ~15%). **3)** GPM for community VAS is also likely to decline to ~35% from 40% in FY21 as business is at the early stage of the expansion and hard to enjoy scale economic.

As a result, we forecast gross profit to grow 62% CAGR in 2021-24E to RMB2.0bn. Company stated to narrow the SG&A expenses as % of revenue to ~10% (from average of 15% in FY19-21) therefore we expect net profit to increase by 74% CAGR in 2021-24E to RMB933mn in 2024E. Core net margin is also forecasted to expand slightly to 12-13%, more stable than GP margin trend.

Figure 9: Financial forecast

Key drivers	2020	2021	2022E	2023E	2024E
Managed GFA (mn sqm)	**18**	**36**	**71**	**110**	**154**
YoY growth	39%	106%	95%	55%	40%
Jinmao Group affiliates	15	24	38	55	74
Third party (mainly from local governments)	2	12	28	42	57
M&A	-	-	6	14	24
Others (alliance with other SOEs)	-	-	-	-	-
Contracted GFA (mn sqm)	41	58	112	160	215
YoY growth	31%	42%	94%	43%	34%
Revenue (RMB mn)	**944**	**1,516**	**3,114**	**4,877**	**7,138**
YoY growth	19.8%	60.5%	105.5%	56.6%	46.4%
Property management services	567	823	1,734	2,835	4,132
VAS to non-property owners	294	539	794	1,032	1,238
Community VAS	82	153	586	1,011	1,768
Gross margin	**25%**	**31%**	**29%**	**29%**	**28%**
Property management services	18%	18%	19%	20%	20%
VAS to non-property owners	34%	48%	46%	45%	44%
Community VAS	40%	40%	36%	36%	35%
Net profits (RMB mn)	**77**	**178**	**377**	**625**	**933**
YoY growth	241%	131%	112%	66%	49%
Net margin	8%	12%	12%	13%	13%

Source: Company data, CMBIGM estimates

Valuation

Adopting organic earnings valuation method, initiate with HOLD

Jinmao Property Service is expected to deliver stronger growth than its SOE peers given solid support from parentco, promising GFA expansion from third party and M&A deals. But its VAS growth has high correlation to its parentco and we adopted organic earnings valuation method to avoid the impact.

The Company is trading at **9x** of our 2022E and we estimate organic earnings (core profits - profits from VAS to non-owners and profits from parent-assisted community VAS) accounted for 53% of total earnings in 2022E, representing **16x 2022E PE**. Considering the Company's NP may grow faster than peers at a 74% CAGR in 2021-24E, we gave **18x PE on 2022E organic earnings**, equivalent to **10x 2022E PE**, suggesting the target price of **HK$5.48** and the rating of **HOLD**.

Figure 10 : 2022E PE on organic earnings (as of 20220623)

	Market Cap (HK$ mn)	2022E PE	Organic Earning as % of Total	Core PE	NP growth 2022E (%)	NP growth 2023E (%)
COPH	28,727	22x	76%	29x	32.1	32.2
Greentown Services	27,310	22x	75%	29x	27.4	27.8
Poly Services	28,497	22x	83%	27x	28.2	28.1
Jinmao Services	**4,503**	**9x**	**53%**	**16x**	**111.7**	**65.9**
Ever Sunshine	16,526	16x	85%	19x	42.1	37.1
Country Garden Services	108,489	16x	87%	18x	46.0	39.8
Yuexiu Services	5,540	8x	70%	11x	67.7	50.1
Sunac Services	14,459	7x	62%	12x	36.7	30.3
Jinke Smart Services	13,808	8x	73%	11x	41.7	37.0
A-Living	18,545	6x	71%	8x	19.1	17.2
S-Enjoy	7,835	8x	82%	10x	54.7	36.9
Shimao Services	10,366	5x	75%	7x	45.5	30.2
Excellence CM	4,576	6x	79%	7x	37.2	23.4
Sino-Ocean Services	3,741	5x	84%	6x	38.9	41.7
KWG Living	4,700	4x	78%	6x	36.0	32.9
Weighted Average		**15x**	**76%**	**18x**	**39.9**	**34.5**

Source: BBG, CMBIGM estimates

Figure 11 : Valuation Comps (as of 20220623)

Company	Ticker	CMBI rating	TP	Last price	Mkt Cap	P/E			Net profit growth (%)	
			(HK$)	(HK$)	(HK$ mn)	21A	22E	23E	22E	23E
Country Garden Services	6098 HK	**BUY**	47.6	31.9	107,309	21.2	15.3	11.3	43.4	35.8
CR MixC Lifestyle	1209 HK	**BUY**	56.0	38.1	86,963	43.2	32.3	24.5	28.7	31.3
Poly Services	6049 HK	**HOLD**	53.4	51.8	28,635	28.3	22.3	17.8	22.9	27.4
Greentown Services	2869 HK	**HOLD**	7.9	8.6	27,797	29.4	22.0	17.3	23.0	27.9
Evergrande Services	6666 HK	**BUY**	10.4	2.3	24,865	7.9	4.2	3.2	32.1	31.2
A-Living	3319 HK	**HOLD**	34.2	12.2	17,381	5.6	5.5	4.8	10.2	17.1
Ever Sunshine	1995 HK	**HOLD**	12.7	9.5	16,632	21.5	15.7	11.7	38.7	35.5
Sunac Services	1516 HK	**BUY**	7.0	4.6	14,000	7.5	7.1	5.7	26.4	25.6
S-Enjoy	1755 HK	**SELL**	8.5	8.7	7,609	9.9	7.5	5.6	56.4	34.0
Central China New Life	9983 HK	**BUY**	12.9	3.9	4,937	5.9	5.3	4.2	30.0	22.9
Excellence CM	6989 HK	**BUY**	14.9	3.8	4,662	7.5	5.2	3.9	47.7	32.2
Jinmao Service	816 HK	**HOLD**	5.5	4.9	4,349	18.2	8.6	5.2	111.7	65.9
Powerlong Commercial	9909 HK	**BUY**	33.2	6.5	4,153	7.5	5.9	4.6	29.0	27.2
Sino-Ocean Services	6677 HK	**BUY**	7.1	3.2	3,789	6.9	5.5	3.8	38.9	36.3
New Hope Services	3658 HK	**BUY**	4.4	2.3	1,864	7.7	4.7	NA	83.5	NA
Redsun Services	1971 HK	**BUY**	9.4	3.1	1,295	8.1	5.9	4.5	41.2	32.2
COPH	2669 HK	**NR**	NA	8.5	27,774	28.2	21.4	16.5	31.4	29.6
Times Neighborhood	9928 HK	**NR**	NA	1.7	1,666	4.5	3.3	2.7	28.9	24.5
Aoyuan Healthy Life	3662 HK	**NR**	NA	1.9	1,351	4.8	2.0	1.6	41.3	31.2
Shimao Services	873 HK	**NR**	NA	4.1	10,144	7.3	6.4	4.9	14.3	20.0
KWG Living	3913 HK	**NR**	NA	2.4	4,821	5.9	4.8	3.8	24.0	23.7
Jinke Smart Services	9666 HK	**NR**	NA	20.5	13,351	10.4	7.8	5.8	34.1	32.6
					Average	**23.5**	**17.5**	**13.3**	**33.5**	**31.1**

Source: BBG, CMBIGM estimates

Company Overview

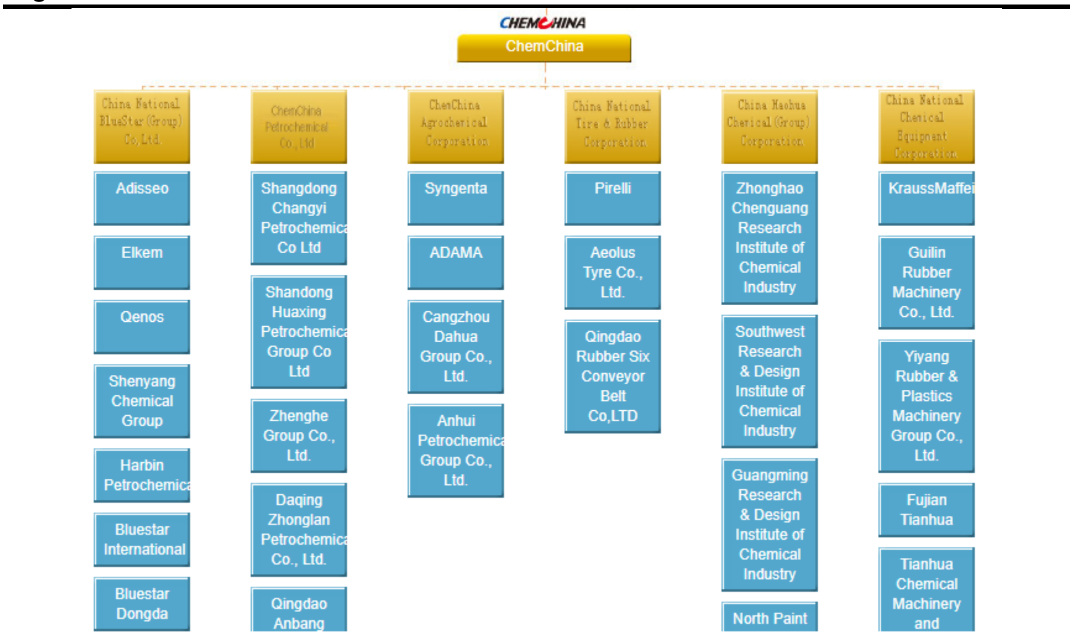
A grandson of SinoChem and ChemChina

After merger between Sinochem Group Co., Ltd. ("**Sinochem Group**") and China National Chemical Corporation Limited ("**ChemChina**") (both are SOE under SASAC), their total asset increased to RMB1.4 tn which is expected to create a globally competitive powerhouse in the global chemical industry with eight business lines, namely life science, materials science, basic chemicals, environmental science, rubber and tire, machinery and equipment, city operation, and industrial finance. Sinochem Group's business covers a range of sectors including energy, chemicals, agriculture, real estate and finance. According to our channel check, within the combined scope of SinoChem Group, Jinmao Group is the only platform for property development and city operation services with a non-compete agreement signed. This would indirectly benefit the property management services.

With a wide array of businesses covering life science, materials science, petrochemicals, environmental science, rubber & tire, machinery & equipment, city operation, and industrial finance, Sinochem rises as the world's largest chemical conglomerate. It enjoys leading advantages in many industry subdivisions, such as agrochemicals and animal nutrition in life science, fluorine silicon materials in materials science, engineering plastics and rubber additives. The company has established a business model across the entire petrochemical industrial chain with distinctive features in its basic chemicals business. Meanwhile, the focus of its fast-growing environmental science business is on industrial ecological protection. It takes the lead in the world's high-end tire business and is the top player in the plastic machinery market. In terms of city operation, it is one of the sixteen central SOEs approved by SASAC to develop real estate as main business.

ChemChina is a state-owned enterprise established on the basis of companies affiliated to the former Ministry of the Chemical Industry of China. It ranks 164th on the "Fortune Global 500" list. It has 148,000 employees, 87,000 of whom work overseas.

Figure 12 : ChemChina's business lines



Source: ChemChina data

Parentco Jinmao Group – premium SOE developer focusing on Tier 1-2 cities

China Jinmao is the only platform enterprise under the real estate and hotel segments of Sinochem Group. For the year ended 31 December 2021, Jinmao Group's revenue was RMB90 bn, representing an increase of 50% compared with RMB60bn last year (according to China Jinmao annual reports). As of July 2021, Jinmao Group held land reserves of 85.5 mn sq m, according to China Index Academy. The accumulative contracted sales amount of Jinmao Group reached RMB235,603 mn in 2021, ranking 15th among the Top 100 Property Companies in China and representing a CAGR of 19% from 2018, which was significantly higher than the industry average.

Figure 13: Jinmao Group has presence nationwide

Source: Company data, CMBIGM

Property management co.

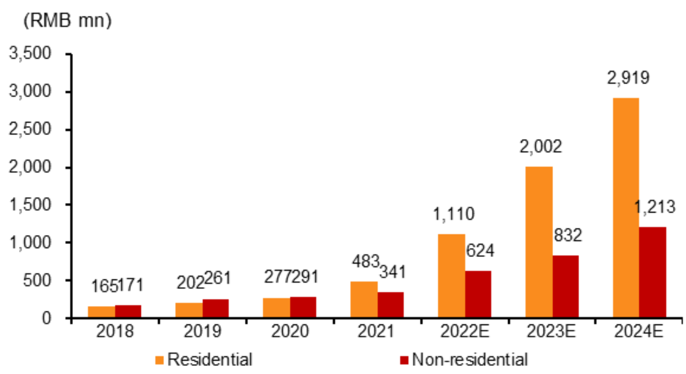
Jinmao Property Services Co., Limited (the "**Company**") is a fast-growing and leading upscale property management and city operation service provider in China. China Jinmao Holdings Group Limited ("**China Jinmao**"), the controlling shareholder, is a top tier property developer in China. The Company provides a full range of high-quality property management and value-added services to one of the fastest growing portfolios of high-end residential properties. The Company also manages and operates a diversified and growing portfolio of commercial properties primarily comprising office buildings and shopping malls, as well as public properties such as schools, government facilities and other public spaces. As of 30 Dec 2021, the total GFA under management services was approximately 36.4 mn sq m and contracted GFA of 57.6 mn sq m

Business lines

The Company generates revenue primarily from three business segments:

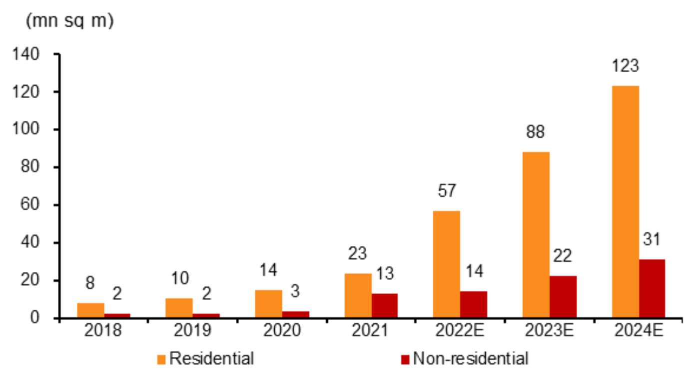
PM services: The Company provides a range of property management services including security, cleaning, greening, gardening and repair and maintenance services for the operation of common area facilities. The property management portfolio covers residential properties, in particular, high-end ones, and a wide range of non-residential properties, including 1) commercial properties, such as office buildings and shopping malls, and 2) public and other properties, such as schools, government facilities and other public spaces. Additionally, the Company provides city operation services in multiple forms to assist governments and enterprises in the optimization, innovation and distribution of urban resources and the delivery of value-added public services to citizens.

Figure 14: Revenue, breakdown by prop. type



Source: Company data, CMBIGM estimates

Figure 15 : Managed GFA, breakdown by prop. type

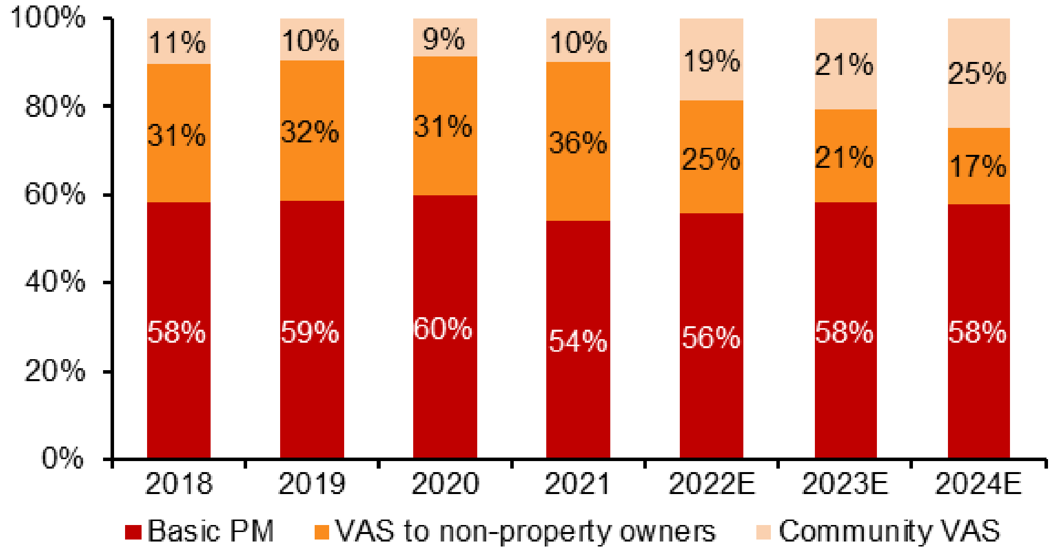


Source: Company data, CMBIGM estimates

Value-added services to non-property owners: The Company provides value-added services to non-property owners, including 1) sales assistance services to property developers to assist with their sales and marketing activities at property sales venues and display units, and 2) consultancy and other value-added services such as pre-delivery and consultancy services, mainly to property developers.

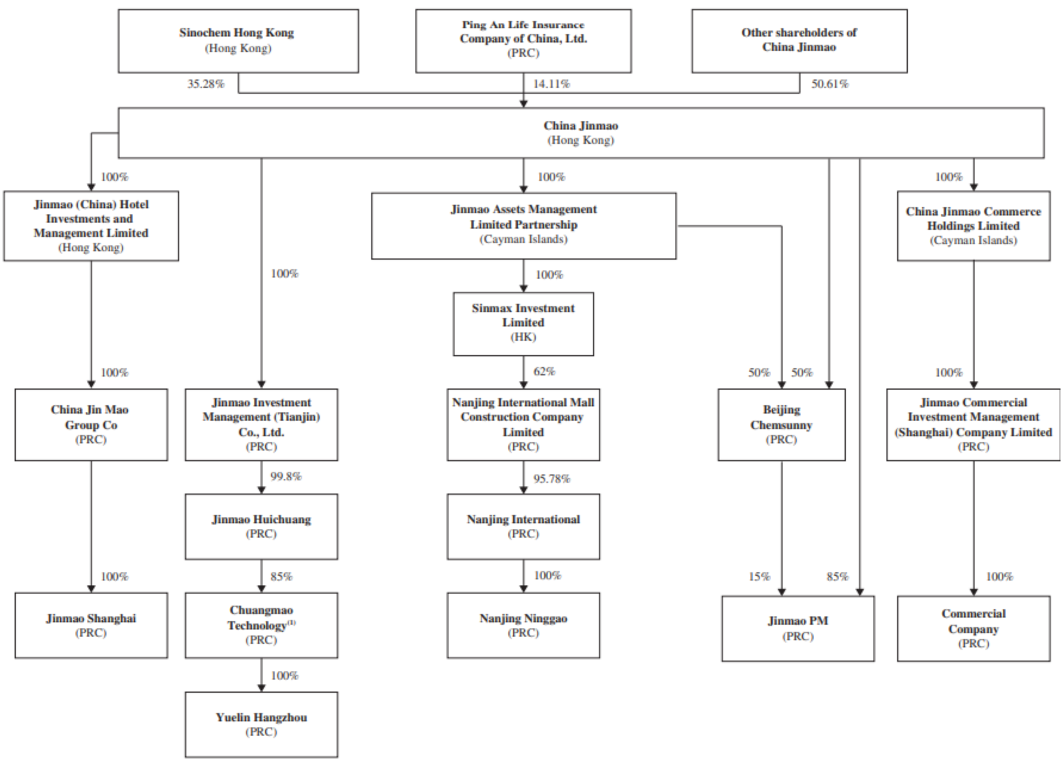
Community VAS: The Company provides community value-added services to address property owners and residents' daily lifestyle needs, which mainly consist of: 1) platform services for interior decoration, 2) community living services such as housekeeping, new retail and catering services, 3) community space operation services such as elevator advertising services and car park space management services, and 4) real estate brokerage services.

Figure 6: Revenue, breakdown by business lines



Source: Company data, CMBIGM estimates

Figure 7: Shareholding structure before IPO



Source: Company data

Competitive Advantages

Industry leader with nationwide coverage and expertise in managing skyscrapers

Over the years, the Company has established a nationwide business covering 48 cities in China, with a strong focus on high-end properties in core cities. As of 31 December 2021, the Company had 36.4 mn sq m of GFA under management, 98.7% of which was located in first-tier, new first-tier and second-tier cities, in contrast with the industry average of 63.8%, according to CIA. The strong presence in higher-tier cities provides them with first-mover advantages in many of these markets which are poised for growth. They are able to explore more opportunities to expand value-added services to cater to the rapidly increasing consumption power and increasingly complex consumption habits of citizens in higher-tier cities, thereby generating more revenue and achieving higher margins.

The Company provides a full spectrum of property management services to a broad range of properties. They provide premium services to one of the fastest growing portfolios of high-end residential properties in China. The diversified property management portfolio also extends to an increasing variety of commercial properties such as office buildings and shopping malls, industrial parks such as Shangyu and Taicang industrial parks, and public properties such as central government facilities, international schools and other public spaces. The all-inclusive property profile maximizes synergies across different property types under management, and enhances the vitality of multi-dimensional service offerings, thus creating value for customers and improving satisfaction and loyalty.

The Company manages a large portfolio of office buildings including skyscrapers. As of 30 September 2021, the total GFA of the office buildings under management amounted to 1.7 mn sq m The Company has been actively involved by various industrial organizations in formulating industry standards for commercial office property management services as a member of China Property Management Institute. These achievements indicate the relentless commitment for over a decade to offer best-in-class property management and operational services to high-end skyscrapers, including the 421-meter Shanghai Jinmao Tower, one of the ten tallest skyscrapers in the world at the time of completion, the 313-meter Lanzhou Asia-Europe International Building, the tallest skyscraper in China's northwestern region, and the 250-meter Meixi Lake Twin Towers in Changsha. The expertise in office building and skyscraper management is further demonstrated by the Company's 13 consulting projects from independent third parties, mainly for office buildings and hotels, with a total area of 2.0 mn sqm.

In 2020, the average property management fee for office buildings under management amounted to RMB27.3 per sq m, which was higher than the average for the Top 100 Property Management Companies of RMB6.93 per sq m, according to CIA. In addition to conventional property management services, the Company strives to become the trusted partner and one-stop solution provider to both landlord customers and the tenants in the office buildings under management, many of whom are Fortune 500 companies. The Company developed one-stop integrated commercial property management and operational solutions under "Yue Business Services (悦商服务)" brand, which consist of shared reception services, shared administrative services, shared accounting services, shared cleaning services, customized conference services and more.

Strong support and pipeline from parentco

The Company benefits from the long-standing business cooperation with China Jinmao, which is a leading and fast-growing property developer in China with a brand value of RMB42.1bn in 2021, according to World Brand Lab. As of 31 December 2020, Jinmao Group held land reserves of 95.1 mn sq m, representing a CAGR of 21.7% from 2018, according to China Index Academy. The contracted sales of Jinmao Group reached RMB231.1 bn in 2020, ranking 14th among the Top 100 Property Companies in China, and representing a CAGR of 34.4% from 2018, which was significantly higher than the industry-average CAGR of 14.2%, according to China Index Academy. The average selling price of the properties developed by Jinmao Group was RMB20,468 per sq m in 2020, which was significantly higher than the industry average of RMB15,755 per sq m, according to China Index Academy. Jinmao Group has ranked first on the Top List of the Typical Real Estate Products Brand Index issued by Yihan Zhiku for eight consecutive quarters.

The long-term and stable cooperation with Jinmao Group has driven continuous growth since inception and it will pave the way for long-term growth. The Company provided property management services to most of the properties developed by Jinmao and a wide variety of community value-added services for properties developed by Jinmao Group.

Poised in the high-end PM market with premium PM services

The Company focuses on providing premium services to customers and have established a strong brand image. This is partly attributable to the fact that most of the properties under management are high-end properties. The average selling prices of the properties under management were generally higher than the industry average. Capitalizing on the strong brand image and reputation of “Jinmao”, the Company positioned itself as a quality living services provider and has established a proprietary MOCO high-quality services system. For instance, the Company provides specialized one-stop property care services, including real estate brokerage, examination, repair and maintenance services, which cover the full life cycle of properties under management; organize residents to participate in various outdoor activities to appreciate the sceneries of different seasons; in addition to property management capability, butlers typically possess special skills in order to provide personalized services to our residents, such as pet care, clutter-cleaning, parenting, cooking, photographing, painting and music; promote friendly culture in the diversified communities by connecting our property owners through a variety of social events and environmental protection activities.

The average property management fee for properties under management was approximately RMB6.2, RMB5.9 and RMB5.4 per sq m. in 2018, 2019 and 2020, which was significantly higher than the industry average of the Top 100 Property Management Companies, being RMB4.2, RMB3.9 and RMB3.8 per sq m. in the same period, according to CIA. The average property management fee charged for residential properties was approximately RMB3.6, RMB3.7 and RMB3.6 per sq m. in 2018, 2019 and 2020, respectively, which was above the industry average of RMB2.3, RMB2.1 and RMB2.1 per sq m in the same period. The average property management fee charged for non-residential properties was approximately RMB20.7, RMB20.0 and RMB19.7 per sq m in 2018, 2019 and 2020, which was significantly higher than the industry average of RMB5.9, RMB5.2 and RMB5.0 per sq m in the same period.

The premium quality service enables the Company to maintain high customer satisfaction, client retention and collection rates. According to a survey conducted by FG Consulting, customer satisfaction rate remained at approximately 90% throughout 2018, 2019 and 2020. Other than two projects that did not match with the profitability criteria which was terminated on a voluntary basis in 2019 and the three months ended March 31, 2021, the Company had renewed all property management contracts during the 2018-2020.

Collection rate of property management fees was 96.8%, 94.1% and 94% for the years ended 31 December 2019, 2020 and 2021, respectively.

The Company also started to expand into community value-added services and offer services such as real estate brokerage services, platform services for interior decoration and new retail services from the second quarter of 2020. Since then, revenue from community value-added services has increased by 85.9% to RMB153mn in 2021 from RMB82 mn in 2020.

Pioneer in city operation

Leveraging its advantages as a state-owned enterprise, Jinmao Group continues to scale its city operation and has established itself as a developer of city operation projects through joint ventures with local governments and business partners. As of 31 31, 2021, Jinmao Group had successfully contracted for 32 city operation projects nationwide. These projects span new urban zones, city complexes and charismatic towns, covering a wide array of property types, including hotels, commercial properties, office buildings, schools, health care centers, theaters and smart energy stations, with various construction forms, including urban skyscrapers, complex underground spaces, and integrated urban corridors. The Company typically seek to enter into strategic cooperation agreements with government authorities and state-owned enterprises, optimize the allocation of social resources, and have built a multi-dimensional management mechanism for city operation services. For example:

- In February 2021, the Company established a joint venture with Jiashan Economic Development Zone Property Management Co., Ltd. to provide city operation services for Jiashan's 60 sq.km. economic development zone encompassing municipal gardens, parks, roads, river course and underground pipes and provide greening, security, cleaning, repair and maintenance services.
- In May 2021, the Company signed a cooperation agreement with Zhoushan government to provide city operation services for Zhoushan's 12 sq.km. economic development zone.

Advanced technology and delivering smart PM

The Company's independent digital research and development team consists of 30 personnel, with an average of nine years of experience. Through technology innovations, the Company established a comprehensive smart property service system and formulated service standards for smart community, smart office building and smart city. Our smart community service consists of three key pillars: smart community, smart operation, and smart life.

Smart community. The Company employs technologies such as IoT, AI, big data analytics and cloud computing to establish a smart community encompassing various application scenarios including security, cleaning, parking, billing and more, providing residents with secure, convenient and comfortable living environment. For example, the Company uses facial recognition or QR code technology to enable an automatic lift call and intelligent management system, improving residents' ride experience. Also the use of AI technology provides location tracking to improve security management. IBA IoT technology allows 24-hour monitoring of major equipment and facilities in communities, enabling efficient operations, early detection of critical conditions and timely maintenance. Furthermore, the smart parking lots have greatly improved traffic flow for vehicles of property owners and visitors.

Smart operation. The core of smart community service is the digitalization of property management, which has significantly enhanced operational efficiency and space utility and improved the ability to respond to residents' demands. For example, the Company began to operate a centralized parking management platform and provide unattended parking services in 2021, which reduced parking attendant headcount by over 50% and is expected to reduce cost of revenues by approximately RMB6mn per year. The application of IBA IoT technology has also improved efficiency in equipment and facility management in one of the projects in Beijing by reducing the number of staff for this task by approximately 20% from 31 March 2020 to 31 March 2021. Moreover, employees use “Jin Xiaomao” (金小茂) APP, an online platform for internal resources management, to access their task checklists in real time, which has greatly improved their work efficiency. Jinmao OA is a platform which enables employees to perform smart office work such as document review, order approval, email sending and receiving and internal communications through mobile phone. The Company developed Client Relationship Management (“CRM”) System to help collect basic information relating to properties, car park spaces and residents. Customers can make repair and maintenance requests and settle the bills through the CRM System. The Company has developed a financial operating system to streamline the process of expense reimbursement, receipt certification and account auditing.

Smart life. “Home” (回家) APP, as an aftermarket service platform to build a closed-loop smart life ecosystem for property owners and residents and improve their digital living experience in a vibrant and interactive community. The “Home” APP connects with intelligent IoT devices in apartments and features the seamless integration of online and offline services to serve property owners and residents. Through this platform, the Company can analyze online data in order to introduce offline services that address the needs of property owners and residents more precisely. The Company also provides smart delivery services which include a digital file of the property at the time of offline delivery. The digital file includes information relating to the structure of each room and parameters of facilities, enabling the Company to obtain information and prepare for repair and maintenance work when residents make a request on the “Home” APP.

Business Strategies

Further expand and diversify portfolio under management to achieve economies of scale

The Company intends to leverage the abundant land and project reserves held by Jinmao Group and actively secures projects to be developed by Jinmao Group in the future to scale rapidly. Leveraging the premium services and brand, the Group also seeks to obtain more engagements from Independent Third Party property developers. The Company plans to diversify the types of properties under management and to expand business scale by obtaining more engagements from non-residential properties, including commercial properties, government and public facilities, educational institutions, airport lounges, elderly-care facilities, hospitals, museums and industrial parks. Leveraging the status as a state-owned enterprise, the Company seeks to further expand city operation services by deepening the cooperation with local governments and large companies in space management, public resources operation and comprehensive services with multiple use case scenarios including greening and cleaning, infrastructure and facility maintenance, social governance, public space operation, urban ecology management, social and livelihood services, auxiliary public services and urban planning.

Focus on selected major cities

The Company intends to increase presence in major cities with relatively high population density and per-capita income, continue to focus on quality residential communities in selected major cities and increase the number of managed projects to capitalize on the geographic focus and economies of scale.

Develop new VAS to diversify sources of income

Value-added services are an increasingly important aspect of property management services for modern communities. In particular, the high-end communities in the selected cities show strong demand for diversified and distinguished new value-added services. The Company intends to enhance service diversity and value creation capability by deepening and broadening value-added services provided to property owners and residents as well as property developers in order to satisfy the diversifying needs of customers and to build a personalized community ecosphere. The Company plans to introduce services that satisfy both daily living needs, as well as customized needs for parent-child bonding, healthcare, education, recreation and real estate brokerage services, thereby creating an ecosystem comprising individuals, families and communities.

Continue to enhance technological capabilities

Investments in smart technology will remain crucial for the property management industry. The Company intends to continue to enhance standardized management system and adhere to the approach of lean management. The Company seeks to ensure effective implementation of high-quality business standards and satisfactory user experience among customers, and to effectively identify inefficient operations, minimize wastage and control costs reasonably. Also, the company aims to upgrade the features and functionalities of the data middle office, and to strengthen data analytics and application capabilities. The Company plans to introduce features that allow them to predict collection rates, expected costs and customer satisfaction rates in connection with new mandates, which will offer meaningful support and insight to the decision-making processes.

The Company also intends to increase the use of technology to enhance user experience and satisfaction, effectively reduce the amount of manual work which is subject to greater deviations in service quality, enhance operational efficiency and results, and strengthen on-site quality control.

Continue to improve the talent training and incentive mechanisms

The Company intends to maintain effective talent training and incentive mechanisms to identify, select and cultivate employees across the organization. Through systematic training and development mechanisms, to nurture teams of competent employees at various levels. The Company will continue to stimulate employees' creativity and value by performance evaluation and assessment system to achieve the performance sharing culture. For key employees, the Company may provide them with long-term incentive opportunities through share option scheme to ensure the stability of talents.

Financial Analysis

Figure 18: Summary of our key assumptions and forecast

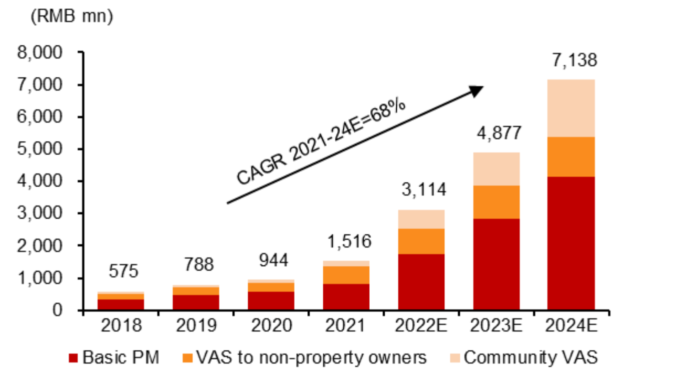
Key drivers	2019	2020	2021	2022E	2023E	2024E
Managed GFA (mn sqm)	**13**	**18**	**36**	**71**	**110**	**154**
YoY growth	24%	39%	106%	95%	55%	40%
Jinmao Group affiliates	12	15	24	38	55	74
Third party (mainly from local governments)	1	2	12	28	42	57
M&A	-	-	-	6	14	24
Others (alliance with other SOEs)	-	-	-	-	-	-
Contracted GFA (mn sqm)	31	41	58	112	160	215
YoY growth	41%	31%	42%	94%	43%	34%
Revenue (RMB mn)	**788**	**944**	**1,516**	**3,114**	**4,877**	**7,138**
YoY growth	37.2%	19.8%	60.5%	105.5%	56.6%	46.4%
Property management services	462	567	823	1,734	2,835	4,132
VAS to non-property owners	251	294	539	794	1,032	1,238
Community VAS	75	82	153	586	1,011	1,768
Gross margin	**19%**	**25%**	**31%**	**29%**	**29%**	**28%**
Property management services	12%	18%	18%	19%	20%	20%
VAS to non-property owners	27%	34%	48%	46%	45%	44%
Community VAS	37%	40%	40%	36%	36%	35%
Net profits (RMB mn)	**23**	**77**	**178**	**377**	**625**	**933**
YoY growth	29%	241%	131%	112%	66%	49%
Net margin	3%	8%	12%	12%	13%	13%

Source: Company data, CMBIGM estimates

Revenue to grow at 62% CAGR over next three years

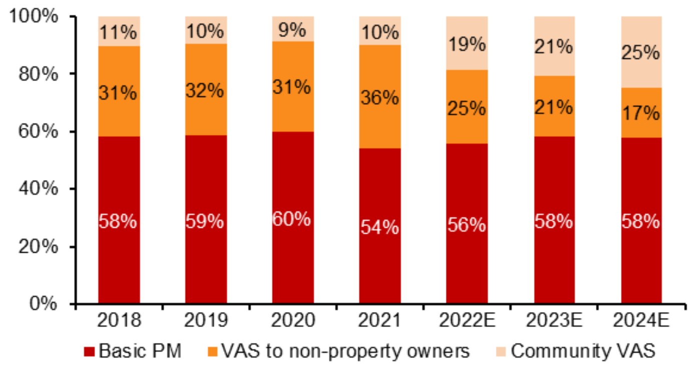
Leveraging the strong connection with parentco – Jinmao Group and SinoChem Holding, cooperation with local governments and potential M&A, basic PM revenue will continue to show robust growth, ensuring a 71% CAGR from RMB823mn in 2020 to RMB4.1bn in 2024E. The key driver – managed GFA is forecasted to reach 154mn sq m in 2024E from 36mn sq m in 2021 (CAGR 62%). Also Community VAS segment is expected to grow rapidly at 126% CAGR in 2021-24E mainly due to low base and new business line initiated. Lastly, VAS to non-property owners are also on a rise, in line with Jinmao's completion cycle with revenue reaching RMB1.2bn in 2024E (32% 2021-24E CAGR). We expect a relatively constant mix of revenue with basic PM as the main driver contributing 58% in 24E, rising community VAS at 25% and decreasing trend in VAS to non-owners at 17%. In summary, the top line is likely to grow at 68% 2021-24E CAGR to reach RMB7.1bn.

Figure 19: Revenue to grow 68% CAGR in 2021-24E



Source: Company data, CMBIGM estimates

Figure 20: Revenue mix

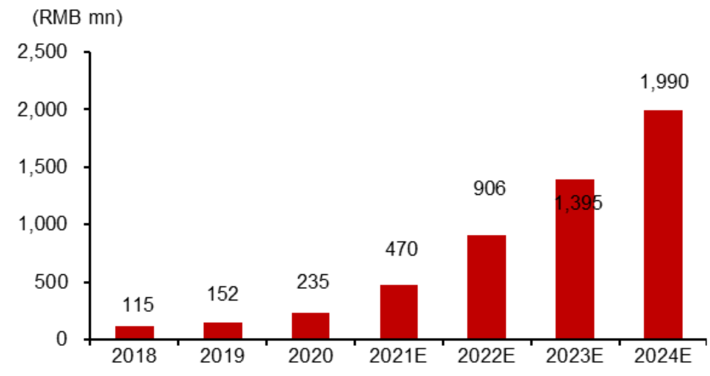


Source: Company data, CMBIGM estimates

Gross margin to decline in 2022E on VAS to non-property owners

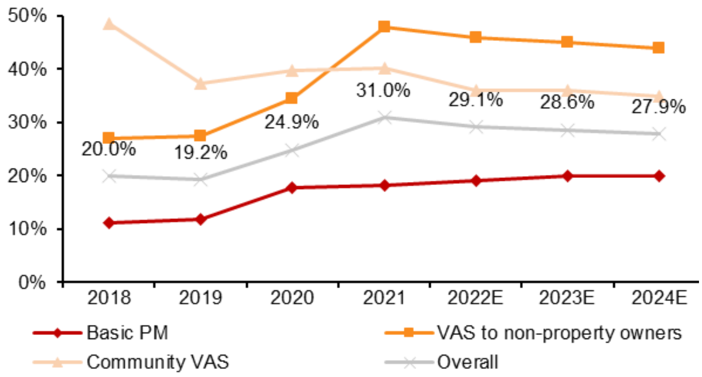
Gross profit was RMB152mn, RMB235mn and RMB470mn in 2019, 2020 and 2021, while the corresponding gross margin was 19.2%, 24.9% and 31.0% respectively. The increase of gross margin from 19.2% to 31% in 2019 to 2021 was mainly due to rising profitability from non-owner VAS segment in 2021. 2022E may see a decline on group GP margin mainly because 1) segment with highest GPM (non-owner VAS) will be scaled down. 2) it might be dragged down to 43-45% (from 48% in FY21) due to expansion of Smart Community Service (which has GPM of ~15%). 3) GPM for community VAS is also likely to decline to ~35% from 40% in FY21 as business is at the early stage of the expansion and hard to enjoy scale economic. The margin will be slightly lower to 28-29% region for 2023-24E. As a result, we forecast gross profit will grow 62% CAGR in 2021-24E to RMB2.0bn.

Figure 21: Gross profit



Source: Company data, CMBIGM estimates

Figure 22: Segment gross margin



Source: Company data, CMBIGM estimates

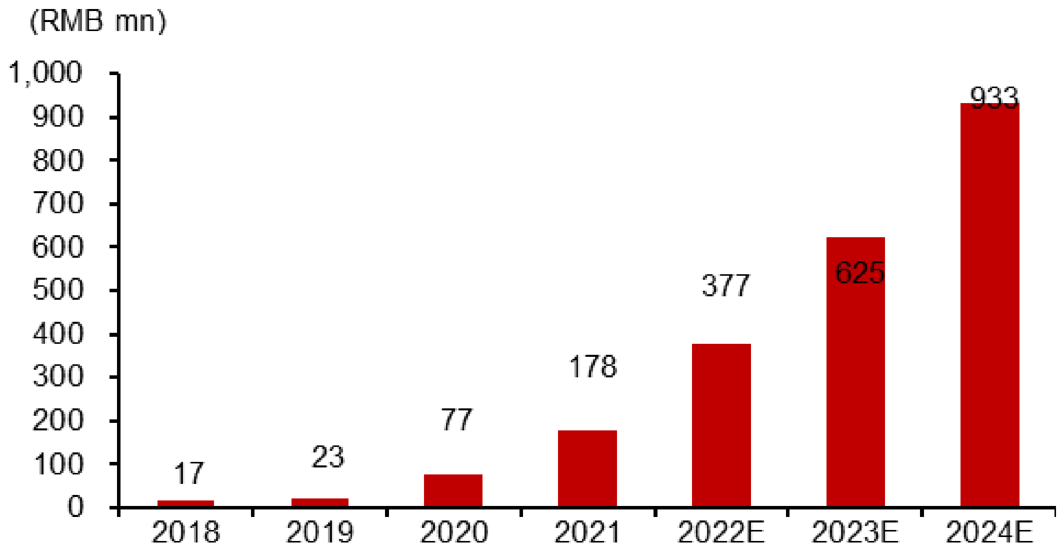
SG&A expenses

Selling, General and Administrative (SG&A) expenses increased from RMB85mn in 2018 to RMB224mn in 2021. The rise in SG&A expenses was in line with the Company's growth in scale and expansion. SG&A expenses to revenue ratio was 15.0%, 14.5% and 14.8% in 2019, 2020 and 2021, respectively, reflecting an improvement in operation efficiency. We expect SG&A expense growth to be more stable against the fast revenue growth, and estimate the SG&A to revenue ratio will improve further to 10% in 2024E due to economies of scale and the company's strategic focus.

Estimated net profit attributable to shareholders to grow at 74% CAGR in 2021-24E

Net profit attributable to shareholders amounted to RMB23mn/77mn/178mn in 2019-21, respectively. The corresponding net profit margin was 2.9%/8.2%/11.7%, respectively. Going forward, we expect core net profit to increase by 74% CAGR in 20221-24E to RMB933mn in 2024E. Core net margin is also forecasted to expand slightly to ~12%, more stable than GP margin's down trend.

Figure 23: Net profit attributable to shareholders



Source: Company data, CMBIGM estimates

Strong operating cash flow to support potential M&As

The Company recorded positive operating cash flow of RMB136mn and RMB347mn, in 2020 and 2021, respectively, and we expect OCF to improve as the Company continues to grow in scale. We estimate cash flow from operations will be RMB1.4bn in 2024E. Cash and cash equivalents was RMB554mn in 2021, which we expect to reach RMB2,4bn by 2024E. We believe the Company's cash level is able to support any potential M&As and further boost scale.

Financial Summary

Income statement

YE Dec 31 (RMB mn)	FY20A	FY21E	FY22E	FY23E	FY24E
Revenue	**944**	**1,516**	**3,114**	**4,877**	**7,138**
Property management	567	823	1,734	2,835	4,132
VAS to non-property owners	294	539	794	1,032	1,238
Community VAS	82	153	586	1,011	1,768
Cost of sales	(709)	(1,045)	(2,208)	(3,482)	(5,148)
Gross Profit	**235**	**470**	**906**	**1,395**	**1,990**
Other income	75	46	30	35	40
Selling expenses	(2)	(15)	(16)	(24)	(36)
Administrative expenses	(135)	(209)	(367)	(512)	(678)
Other gains/(losses)	(1)	(10)	(5)	(5)	(7)
Impairment	-	-	-	-	-
Operating profit	**172**	**282**	**547**	**888**	**1,309**
Finance cost	(64)	(34)	(34)	(34)	(34)
Pre-tax profit	**108**	**248**	**514**	**855**	**1,276**
Income tax	(30)	(69)	(132)	(220)	(328)
Profit for the year	**77**	**179**	**382**	**635**	**948**
Non-controlling interest	-	1	5	10	15
Net Profit attribute to shareholders	**77**	**178**	**377**	**625**	**933**

Cash flow summary

YE Dec 31 (RMB mn)	FY20A	FY21E	FY22E	FY23E	FY24E
Profit before tax	**108**	**248**	**514**	**855**	**1,276**
D&A	11	22	25	27	27
Change in working capital	35	163	427	384	416
Others	(18)	(86)	(128)	(216)	(324)
Net cash from operating	**136**	**347**	**837**	**1,049**	**1,394**
Capex	(7)	(12)	(24)	(35)	(35)
Others	178	1,088	(451)	(640)	(640)
Net cash from investing	**171**	**1,076**	**(475)**	**(675)**	**(675)**
Equity raised	(3)	(8)	(8)	(8)	(8)
Change of debts	1,341	(126)	(134)	(1,081)	(100)
Others	(1,529)	(1,007)	802	946	(35)
Net cash from financing	**(191)**	**(1,141)**	**661**	**(143)**	**(143)**
Net change in cash	116	283	1,023	232	577
Cash at the beginning of the year	**155**	**271**	**554**	**1,576**	**1,809**
Cash at the end of the year	**271**	**554**	**1,576**	**1,809**	**2,386**

Balance sheet

YE Dec 31 (RMB mn)	FY20A	FY21E	FY22E	FY23E	FY24E
Non-current assets	**1,011**	**110**	**538**	**735**	**733**
Property, plant and equipment	34	55	500	700	700
Others	978	56	38	35	33
Current assets	**1,124**	**1,249**	**2,329**	**2,685**	**3,541**
Inventories	5	5	10	15	22
Trade and other receivables	848	682	734	853	1,124
Cash and cash equivalents	271	554	1,576	1,809	2,386
Others	-	9	9	9	9
Total assets	**2,135**	**1,359**	**2,867**	**3,421**	**4,274**
Current liabilities	**1,011**	**1,128**	**1,573**	**2,072**	**2,707**
Trade and other payables	112	171	265	348	515
Others	899	957	1,308	1,724	2,192
Non-current liabilities	**1,075**	**27**	**17**	**19**	**19**
Deferred income tax liabilities	2	2	2	2	2
Others	1,073	25	15	17	17
Total liabilities	**2,086**	**1,155**	**1,590**	**2,091**	**2,726**
Equity to shareholders	**49**	**195**	**1,264**	**1,307**	**1,510**
Non-controlling interests	-	9	14	24	39
Total equity	**49**	**204**	**1,277**	**1,330**	**1,548**

Key ratios

YE Dec 31	FY20A	FY21E	FY22E	FY23E	FY24E
Sales mix (%)					
Property management services	60.1	54.3	55.7	58.1	57.9
VAS to non-property owners	31.2	35.6	25.5	21.2	17.3
Community VAS	8.7	10.1	18.8	20.7	24.8
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Profit & loss ratios (%)					
Gross margin	24.9	31.0	29.1	28.6	27.9
Net margin	8.2	11.7	12.1	12.8	13.1
Effective tax rate	28.3	27.9	25.7	25.7	25.7
Growth (%)					
Revenue	19.8	60.5	105.5	56.6	46.4
Gross profit	55.0	100.2	92.7	54.1	42.6
Operating profit	65.6	64.1	94.2	62.3	47.4
Net profit	240.9	130.8	111.7	65.9	49.3
Balance sheet ratios					
Current ratio (x)	1.1	1.1	1.5	1.3	1.3
Receivable turnover days	79	100	55	44	44
Returns (%)					
ROE	157.0	91.1	29.8	47.8	61.8
ROA	3.6	13.1	13.1	18.3	21.8
Per share					
EPS (RMB)	0.10	0.22	0.47	0.78	1.17
DPS (RMB)	N/A	N/A	N/A.	N/A.	N/A.
BVPS (RMB)	0.05	0.25	1.59	1.66	1.94

Source: Company data, CMBIGM estimates

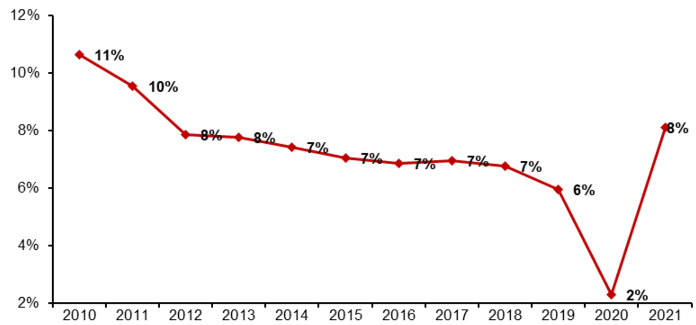
Industry Overview

Real estate industry in China

The gross domestic product (GDP) of China reached RMB 114.37tn in 2021, representing a CAGR of 8.9% from RMB74.6 tn in 2016. In contrast with the traditional growth drivers, the new GDP growth drivers focus on optimizing the economic structure and improving quality of life.

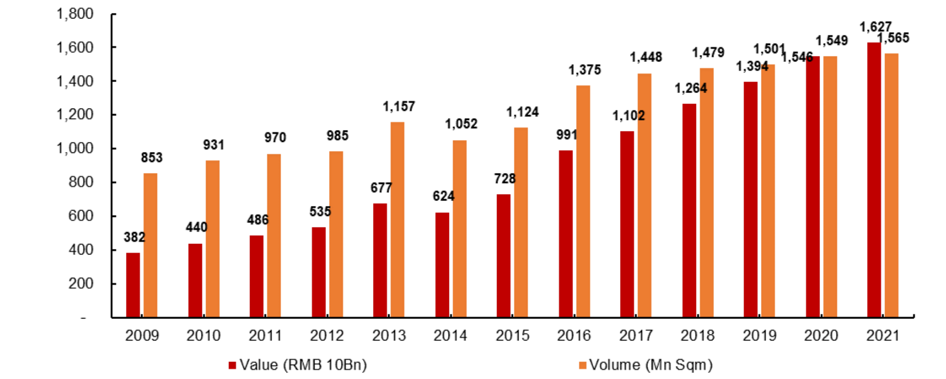
Driven by rapid economic growth and favorable monetary policies, total property development investment amount increased from RMB 10.2tn in 2016 to RMB 14.8tn in 2021, representing a CAGR of 7.7%, and total residential property investment amount increased from RMB 6.9tn in 2016 to RMB 11.1tn in 2021, representing a CAGR of 10.1%, according to NBS. The GFA of contracted sales from residential commodity properties increased from 1.4 bn sq m in 2016 to 1.6 bn sq m in 2021, representing a CAGR of 2.6%. The total GFA of commodity residential properties under construction increased from 7.6 bn sq m in 2016 to 9.8 bn sq m in 2021, representing a CAGR of 5.2%. Such growth has provided an excellent opportunity for the development of the property management industry.

Figure 24: Real GDP growth in China



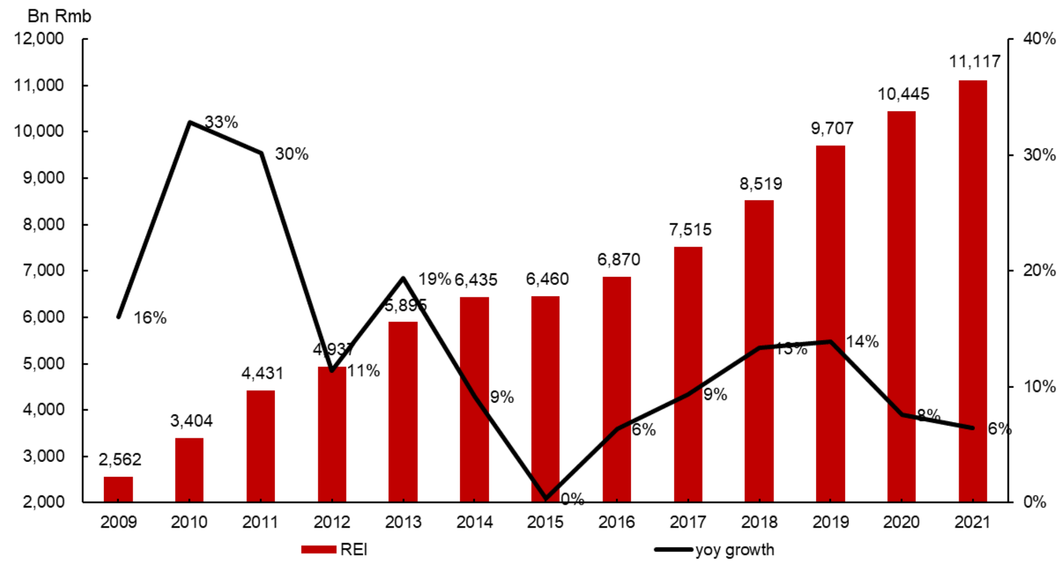
Source: World Bank, CMBIGM estimates

Figure 25: Contracted sales of residential commodity properties



Source: Company data, CMBIGM estimates

Figure 26: REI



Source: NBS, CMBIGM estimates

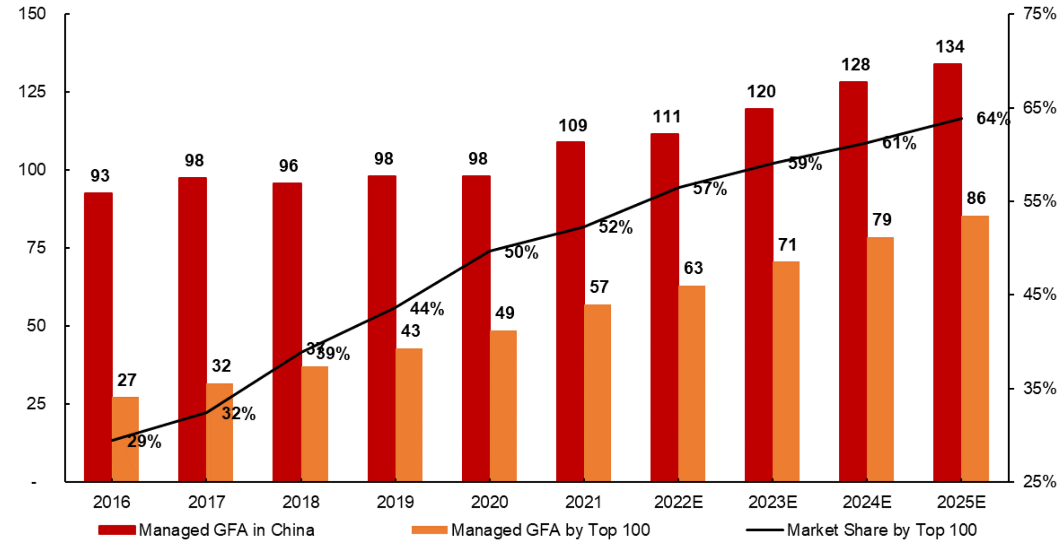
PM industry in China

The aggregate GFA under management and the number of properties managed by the Top 100 Property Management Companies have increased rapidly as a result of rapid urbanization and continual growth in per capita disposable income in China. According to CIA, the average GFA under management by the Top 100 Property Management Companies increased from 27.3 mn sq m in 2016 to 56.9 mn sq m in 2021, representing a CAGR of 15.8%. Meanwhile, the average number of properties managed by the Top 100 Property Management Companies reached 256 in 2021, representing a CAGR of 9.1% from 2016. The market share of the Top 100 Property Management Companies increased from 29.4% in 2016 to 52.3% in 2021. The average revenue from property management services of the Top 100 Property Management Companies increased from RMB519.3 mn in 2016 to RMB1.02 bn in 2021, representing a CAGR of 14.5%. The average revenue from value-added services of the Top 100 Property Management Companies in the PRC was RMB319.0 mn in 2021, representing a CAGR of 24.1% from RMB108.5 mn in 2016.

Competitive landscape

The property management industry is fragmented and competitive in China with approximately 200,000 participants in the property management industry in 2020, according to CIA. Top 100 PM Companies grew rapidly in recent years. According to CIA, the Managed GFA by Top 100 PM Companies and their aggregate market share continued to expand from 2016 to 2021, and is expected to further grow from 2022 to 2025. According to CIA, the average GFA under management of the Top 100 Property Management Companies increased from 27.3 mn sq m in 2016 to 56.9 mn sq m in 2021 at a CAGR of 15.8%.

Figure 27: Managed GFA and market share of Top 100 PM companies



Source: Company data, CMBIGM

Industry trends

Increasing market concentration

The property management industry in China is fragmented and competitive. In order to expand the GFA under management and realize economies of scale to strengthen market positions, large-scale property management companies actively accelerate their expansions by means of both organic growth and acquisitions of small- and medium-sized property management companies. Subsequently, the market continues to become more concentrated. According to CIA, the average GFA under management of the Top 100 Property Management Companies increased from 27.3 mn sq m in 2016 to 56.9 mn sq m in 2021 at a CAGR of 15.8%. Meanwhile, the total GFA under management of property management companies in China increased from 2016 to 2021 at a CAGR of 3.3%.

Diversifying revenue sources

With the increasing adoption of the Internet, mobile applications, cloud computing, artificial intelligence, and other related technologies, along with policy support from the Chinese government, property management companies increasingly engage in developing intelligent and smart management systems. Property management companies also keep diversifying their revenue streams by offering various value-added services with higher profitability. In addition, leveraging further urbanization and favorable policies in China, property management companies have begun to offer municipal services leveraging their professional property management experience and well-developed service capabilities. Moreover, property management companies are also increasingly diversifying the types of managed non-residential properties as management of such properties generally has a higher profit margin as compared to residential properties.

Professional staff and enhanced service quality

To enhance service quality and reduce labor costs, most of the Top 100 Property Management Companies have set up their own internal standardized operating procedures and are increasingly adopting information technologies in their daily operations. They are also increasingly outsourcing labor-intensive aspects of their operations to subcontractors while placing greater emphasis on recruiting and training professionalized and skilled employees to facilitate the implementation of smart management and information technologies and promote innovations to maintain their leading market positions.

Growth drivers

Favorable policies

The introduction of favorable laws, regulations and policies serves as a critical foundation for the health and growth of China's property management industry. These policies provide comprehensive support and clear guidance on smart city development for property management companies in China.

Urbanization and increase in per capita income

The level of urbanization and per capita disposable income in China have increased significantly in recent years and have accelerated the growth of the property management industry. According to CIA, the urbanization rate in China, being the percentage of population living in urban areas, increased from 34.8% in 1999 to 64.7% in 2021, with the urban population increasing by approximately 20.6 mn each year. Moreover, per capita disposable income of the urban population has also steadily increased to RMB47,412 in 2021, representing a CAGR of 8.2% from 2016, driving increasing demand for better living conditions and quality property management services, and creating growth opportunities for property management companies.

Stable supply

Following the rapid urbanization and continuous growth in per capita disposable income, the supply of commodity properties also surged in China. According to CIA, the total GFA of contracted sales from commodity properties in China increased from 1.6 bn sq m in 2016 to 1.8 bn sq m in 2021 at a CAGR of 2.9% and kept stable at 1.8 bn sq m in 2021, whereas the total GFA of the commodity properties being newly constructed increased from 1.7 bn sq m in 2016 to 2.2 bn sq m in 2020 at a CAGR of 7.7%, and slowed to 2.0 bn sq m in 2021.

Industry risks

According to CIA, the risks faced by the property management industry in China mainly include:

Competition. Property management industry in China is increasingly competitive. As a result, property owners have more choices and are placing greater emphasis on professional and standardized services.

Cost control. Property management companies in China charge property management fees primarily on a lump sum basis. As a result, when total costs and expenses incurred exceed the amount of property management fees they receive, the property management companies will bear the shortfall and may not charge additional fees from property developers, property owners or residents during the agreement terms.

Increasing labor costs. The property management industry in China is labor-intensive. Staff costs as a percentage of cost of sales of the Top 100 Property Management Companies stood at 59.1%, 58.3% and 58.4% for the years ended 31 December 2019, 2020 and 2021, respectively. Given the increasing market concentration, the Top 100 Property Management Companies need to recruit more staff to expand their property management scale and thus are expected to pay increasing staff salaries and benefits, as well as relevant training and management expenses.

Entry barriers

According to CIA, entry barriers for the property management industry in China mainly include:

Brand. Brand reputation is the key to the development and expansion of property management companies. As consumers are demanding higher quality property management services and players in the property management industry are growing, it is critical for property management companies to offer services of superior quality. Brand reputation therefore increasingly becomes an entry barrier in the industry. Top property management companies have built a brand reputation in China through decades of services and operations. In contrast, newer entrants without an established brand and cultivated business relationships with industry participants face a greater challenge when penetrating into the market.

Experience. Urban city services usually require service providers to have rich project experience. During bidding process, bidders are required to show past business performance and other relevant supporting materials. Service providers need to formulate comprehensive solutions that tailor to individual needs of end customers, including front-end design, mid-end project implementation, and follow-up operation and maintenance services. It is difficult for new entrants to establish such comprehensive service capabilities within a short period of time.

Technical barriers and capital threshold. The property management industry involves different service areas, and the technical standards and requirements vary greatly. For example, urban city services involve new facilities and equipment maintenance scenarios covering underground integrated pipe corridors, ground pipeline maintenance, traffic governance, river water quality, etc. In addition, due to expansion of business scale, property management companies are increasingly inclined to adopt automated and intelligent technologies, such as network interoperability, information fusion, intelligent building management, communication automation, big data and cloud computing. Companies are replacing intensive manual labor tasks with intelligent management systems and equipment, introducing corporate information management systems, and promoting the idea of a smart community. Management efficiency has improved and the industry is moving towards a technology driven industry. This will further increase the capital threshold for new entrants in the property management industry.

Operations and management. As the property management industry becomes increasingly competitive, experience and capabilities of core management members of industry players play a critical role in maintaining core competitiveness. Established property management companies typically have developed their unique management competencies in terms of property management procedures, application of information systems, and financial management, and are therefore better positioned to manage large properties.

Professional talent. Property management depends on manual labor, not only for the performance of property management services but also for implementing and innovating technological solutions such as big data and internet technologies. Furthermore, the innovation of property management business models, especially the launch of value-added services to property owners and property developers, requires significant support from talented employees. In addition to professional technical capabilities, they should also have an in-depth understanding of the business processes, management standards, related technologies and application scenarios, and be able to provide reasonable design based on regional characteristics. It is increasingly difficult for property management companies to recruit and retain talented individuals who are up to date with the technological advances in the industry to help achieve the above-mentioned goals.

Risk factors

Significant business dependency on Jinmao Group

A substantial portion of the Company's property management service contracts are related to the management of properties developed by Jinmao Group (and its joint ventures and associates). Revenue from the management of these properties accounted for 92.5%, 92.4% and 91.9% of total revenue from property management services for the years ended 31 December 2019, 2020 and 2021, respectively. As the Company does not have control over the management strategy of Jinmao Group, if there are any potential measures from the Chinese government to further regulate the real estate market, any macro-economic or other factors that may affect the business operations and prospects of Jinmao Group, or any adverse development in the operations of Jinmao Group or its ability to develop new properties, it may affect the Company's ability to procure the relevant new service contracts for property management services, value-added services to non-property owners and community value-added services.

Moreover, the Company charged higher average property management fees for residential properties developed by Jinmao Group compared to those developed by independent third-party property developers. In 2018, 2019 and 2020 and the three months ended 31 March 2021, average property management fee per sq m was RMB3.41, RMB3.43, RMB3.56 and RMB3.54, respectively, for residential properties developed by Jinmao Group. In the same periods, average property management fee per sq m was RMB3.83, RMB3.93, RMB3.73 and RMB3.69, respectively, for residential properties developed by Jinmao Group's joint ventures and associates. By contrast, in 2020 and the three months ended 31 March 2021, average property management fee per sq m was RMB2.62 and RMB2.64, respectively, for residential properties developed by independent third-party developers. Therefore, profitability may decrease if the Company reduces reliance on Jinmao Group in the future.

Termination or non-renewal of property management service contracts for a significant number of properties

For the years ended 31 December 2019, 2020 and 2021, revenue generated from property management services accounted for 58.6%, 60.1% and 54.3% of total revenue, respectively. As of 31 December 2019, 2020 and 2021, contracted GFA were 30.8 mn sq m, 40.5 mn sq m and 57.6 mn sq m, respectively. As of 31 December 2018, 2019 and 2020 and 31 March 2021, the number of property management contracts were 131, 182, 233 and 239 respectively. The Company's preliminary property management service contracts entered into with developers generally do not have a fixed term and can be terminated when the property owners select another property management service provider through the property owners' general meeting and a replacing property management service contract entered into by the property owners' association takes effect. The property management service contracts entered into with property owners' associations generally have fixed terms which will need to be renewed upon expiry and can be terminated for cause. Renewal cannot be guaranteed. If such contracts are not renewed or are terminated for cause, there is no guarantee that the Company would be able to find other business opportunities and enter into alternative property management service contracts on favorable terms, or at all. The termination or non-renewal of a significant number of management service contracts could have a material and negative impact on revenue collected from property management services.

City operation services' dependency on continued public spending and investment by local governments

City operation services mainly include the integration, optimization, transformation and distribution of urban resources by governments and enterprises and the delivery of value-added public services to citizens, which are affected by the level of public spending and investment by local Chinese governments. Public spending and investment by local Chinese governments is subject to various factors such as macroeconomic environment, real estate market condition and government's economic policies, many of which are beyond the Company's control. As a result, any reduction of public spending and investment in urban planning, operations and development by local Chinese governments, may cause a decrease in the number of engagements obtained for the Company's city operation services. To the extent that local Chinese governments significantly reduce public spending and investment in urban planning, operations and development, business, financial position and results of operation may be materially and adversely affected. In addition, the Company's city operation services commenced in 2014. Given the limited operating history in this sector, there is no assurance that city operation business will be able to maintain the growth rate as in the past, or will be able to successfully implement the plans to expand such services.

Profit margin may decrease if fail to control costs or raise management fee

The Company generated revenue from property management services on a lump sum basis, which accounted for 98.7%, 98.5% and 98.7% of total revenue from property management services for the years ended 31 December 2019, 2020 and 2021, respectively. On a lump sum basis, the Company generally charges property management fees at a pre-determined fixed lump sum price, representing "all-inclusive" fees for the property management services provided. These property management fees are fixed regardless of the actual amount of property management costs. On a lump sum basis, the Company recognizes as revenue the full amount of property management fees charged to customers, and recognizes as the cost of sales the actual costs incurred in connection with rendering property management services. If the Company fails to estimate the actual costs accurately prior to negotiation and entering into property management service contracts, and the amount of property management fees proves insufficient to cover all the costs incurred for rendering the property management services, the Company is not entitled to collect the shortfall from the relevant property owners, residents or property developers. As of 31 December 2018, 2019 and 2020 and 31 March 2021, the Company had 8, 11, 14 and 15 property management projects managed on a lump sum basis which had incurred losses, respectively. The property management service revenue from these projects accounted for 2.6%, 2.6%, 2.1% and 2.0% of total revenue for the years ended 31 December 2018, 2019 and 2020 and the three months ended 31 March 2021, respectively.

Potential difficulty in fee collection

The Company may encounter difficulties in collecting service fees from customers, such as property management fees from property owners and residents. The balance of allowance for impairment of trade receivables was RMB 3.2mn, RMB 3.6mn and RMB 5.9mn as of 31 December 2019, 2020 and 2021, respectively. In addition, the Company's collection rate of property management fees was 96.8%, 94.1% and 94.0% for the years ended 31 December 2019, 2020 and 2021, respectively. And the Company may encounter lower collection rates of trade receivables for value-added services to non-property owners during the first few months in a year, in particular, during the Chinese Lunar New Year. Seasonal fluctuations in property management fee collection rates and trade receivables require liquidity to be carefully managed so as to provide business with adequate cash for operations. If the Company is unable to collect service fees from customers or experiences a prolonged delay in receiving such fees, cash flow position and ability to meet working capital requirements may be adversely affected.

Limited experience in community VAS

New retail services and community space operation services have been launched recently. The Company has encountered and expects to continue to encounter risks and difficulties frequently in relation to new business offerings, and those risks and difficulties may be heightened in a rapidly evolving market, including: 1) retain customers and qualified employees; 2) maintain stable cooperation with strategic partners; 3) maintain effective control of operating costs and expenses; 4) develop and maintain internal personnel, systems, controls and procedures to comply with the extensive regulatory requirements; 5) respond to competitive market conditions in the relevant industries or build the scale of these value-added services; and 6) respond to changes in the regulatory environment.

Risks associated with regulatory environment in both property management sector and property sector

Fees that property management companies may charge in connection with property management services are subject to regulation and supervision by relevant regulatory authorities in China. For example, the relevant price administration department and construction administration department of the State Council are jointly responsible for the supervision over and administration of fees charged in relation to property management services for preliminary property management service contracts and such fees may need to follow PRC government guidance prices. Although government-imposed price controls on property management fees may continue to relax over time pursuant to the Circular of the National Development and Reform Commission on Relaxing Price Controls in Certain Services (国家发展改革委关于放开部分服务价格意见的通知) with effect from 17 December 2014, the property management fees the Company charge, such as those for preliminary property management service contracts, may still need to follow guidance prices imposed by local governments in different regions in China.

Moreover, the Company may also be affected by the Chinese government regulations on the property industry. In the past, the Chinese government introduced various restrictive measures to discourage speculation in the real estate market and has exerted considerable direct and indirect influence on the development of the real estate industry by imposing industry policies and other economic measures, such as control over the supply of land for property development, control of foreign exchange, real estate financing and taxation. Through these policies and measures, the Chinese government may restrict or reduce property development activities, place limitations on the ability of commercial banks to make loans to property purchasers, impose additional taxes and levies on property sales and affect the delivery schedule and occupancy rates of the properties. In particular, the Chinese government may introduce other initiatives or implement more stringent measures in the future, such as setting caps on certain debt ratios, with a view to controlling the increase of the debt levels in the real estate sector. Such potential initiatives or measures, once in place, may further limit property developers' access to capital and slow down the overall growth of the real estate sector and expansion of property developers, including Jinmao Group, which may in turn negatively impact the growth of the property management industry and the supply of new properties for management by property management companies like Jinmao Property Services.

Appendix 1: Milestones

Figure 28: Milestones

Year	Event
1993	Sinochem International Property and Hotel Management Co., Ltd. ("**Sinochem Hotel**") was established to provide property management services for Sinochem Tower, an office building in Beijing, China developed by the predecessor of Jinmao Group.
1999	The Group started to provide property management services for Shanghai Jin Mao Tower, an office and commercial complex in Shanghai developed by the predecessor of Jinmao Group, through Jinmao Shanghai.
2007	Sinochem Jinmao Property Management (Beijing) Co., Ltd. was established in China and took over the property management business from Sinochem Hotel with respect to Sinochem Tower and started to provide property management services for Beijing Chemsunny World Trade Centre, an office building in Beijing developed by Jinmao Group.
2011	The Group diversified the types of properties under its management and started to provide property management services for residential properties developed by Jinmao Group. The Group was first named as one of the Top 10 Property Management Companies in China in terms of service quality (中国物业服务百强企业 服务质量 Top 10), according to China Index Academy.
2013	The Group was first named as one of the Top 100 Property Management Companies in China (中国物业服务百强企业), according to China Index Academy.
2015	The Group expanded business coverage to other cities in China, including Changsha, Qingdao, Nanjing and Ningbo.
2016	The Group pushed forward its national layout by setting up five regional centers in Beijing, Shanghai, Guangzhou, Changsha and Chongqing. The Group was first included in the list of Blue-Chip Property Companies in China (中国蓝筹物业榜) by The Economic Observer (经济观察报).
2018	The Group's customer satisfaction rate reached 92%, ranking 2nd among the 81 industry-leading property management services enterprises, according to a survey conducted by FG Consulting, an independent professional consultancy.
2019	The Group launched the "Home" (回家) APP, thereby building a close-loop smart life ecosystem and integrating online and offline services to serve property owners and residents.
2020	The GFA under the Group's management exceeded 15 mn sq m. The Group started to manage residential properties developed by independent third-party property developers. The Group was named as one of the Top 100 Leading High Quality Property Management Service Enterprises in China (中国物业服务百强服务质量 领先企业), an Outstanding Enterprise in Office Building Management in China (中国办公物业管理优秀企业) and a Leading Upscale Property Management Service Enterprise in China (中国高端物业服务领军企业), according to China Index Academy.
2021	The Group started to provide city operation services to Independent Third Parties. Ranked 17th among the Top 100 Property Management Companies in China (中国物业服务百强企业), and recognized as a Leading Enterprise in Property Technology Empowerment in China (中国物业科技赋能领先企业) and a Leading Enterprise in Smart City Services in China (中国智慧城市服务领先企业), according to China Index Academy. The Company was ranked first in the Top 10 High-End Property Service Force Enterprises in China (高端物业服务力 TOP10 企业), according to CRIC Research.

Source: Company data, CMBIGM

Appendix 2: Management team

Figure *29*: Management team

Name	Age	Position	Roles and Responsibilities	Date of joining the Group	Date of appointment as Director
Mr. Xie Wei (谢炜)	47	Executive Director and the chief executive officer	Responsible for the daily operations, formulation of the overall strategy, business planning and operation decisions	Oct-15	Aug-21
Ms. Zhou Liye (周立烨)	47	Executive Director and the chief financial officer	Responsible for the overall financial and cost management, internal audit, tax planning and capital market-related matters	May-21	Aug-21
Mr. Jiang Nan (江南)	48	Non-executive Director and chairman of the Board	Responsible for formulation of business strategies and providing guidance for the overall development	Aug-21	Aug-21
Ms. He Yamin (贺亚敏)	49	Non-executive Director	Responsible for formulation of business strategies and providing guidance for the overall development	Feb-13	Aug-21
Ms. Qiao Xiaojie (乔晓洁)	47	Non-executive Director	Responsible for formulation of business strategies and providing guidance for the overall development	Aug-21	Aug-21
Dr. Chen Jieping (陈杰平)	68	Independent non-executive Director	Responsible for providing independent advice on the operations and management	[●]	[●]
Dr. Han Jian (韩践)	48	Independent non-executive Director	Responsible for providing independent advice on the operations and management of the Group	[●]	[●]
Mr. Sincere Wong (黄诚思)	57	Independent non-executive Director	Responsible for providing independent advice on the operations and management	[●]	[●]

Source: Company data, CMBIGM

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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UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

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