

Greentown Service (2869 HK)

Core business stable, upgrade to Buy

Company delivered a 38% /1% YoY decline in NP/Core NP in 1H22 mainly due to the impact of account receivable impairment, FV change of equity instrument and anti-COVID lockdown. While the basic PM business saw 28%/21% YoY growth in managed-GFA/reserved GFA, the Company locked multiple additional channels to support future growth. New segment-technology services and community service are also in a promising trend to pump up future revenue and profit. We slightly trimmed our forecast and maintain our TP at HK\$7.92, suggesting a 25x 2022 P/E. Upgrade to BUY as the valuation is attractive.

- 1H22 earnings dragged by impairment losses.** Company reported 1H22 net profit attributable to shareholders of RMB 341mn, a 38% YoY decline from 1H21 due to: 1) impairment losses on account receivables of RMB 100mn in consideration of economic environment change; 2) fair value change on equity instruments and FX losses impact of RMB 132mn; 3) COVID-19 outbreak brought 16% YoY growth in SG&A in 1H22. Company's core net profit excluding non-operating items delivered only 1% YoY decline to RMB 433mn. As pressure from impairment of ARs in 2H22 is likely to be eased to some extent, we expect Company's FY22 earnings to be flat from FY21 and reach RMB860mn.
- Stable core business expansion locked future revenue.** Company's managed-GFA/reserved GFA in 1H22 increased 28%/21% YoY to 349mn/366mn sq.m where parentco only contributed 14.5%/9.3% (vs 16.6%/9.8% in 1H21) suggesting company paid more efforts on expanding business from third parties. Several additional channels to further help on future expansion: 1) the cooperation with Cinda is expected to bring RMB 800mn revenue in FY22; 2) parentco's PJM arm is likely to deliver part of their projects to the Greentown Services; 3) non-residential projects already contributed 170mn sq.m in contracted GFA and company will keep it as a strategic focus.
- New segment and community VAS in promising trends.** Company reported RMB 200mn revenue from its new segment – technology service in 1H22, 297% YoY growth with GPM of 31.3%. The segment is likely to stay in its high growth trend in 2H22 and FY23 as it has signed new contacts with value of RMB335mn in 1H22 (2.5x YoY growth). The segment is also expected to improve the cost efficiency of the whole Group. Community VAS was mainly affected by COVID-19 in 1H22 especially housing broker services. While three other promising sub-segments may back up the LT growth: 1) Community retail business grew fast and reached break-even in 1H22 despite the economic downturn. 2) Company's rapid growth in early-childhood education and investment in pension industry may potentially bring considerable revenue growth on a LT basis as these are strategic focuses of national development plan which is supposed to benefit from strong policy support.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	10,106	12,566	15,619	19,097	23,038
YoY growth (%)	17.8	24.3	24.3	22.3	20.6
Net income (RMB mn)	710	846	862	1,114	1,362
EPS (RMB)	0.23	0.26	0.27	0.34	0.42
YoY growth (%)	36	12	2	29	22
Consensus EPS (RMB)	N.A.	N.A.	0.30	0.38	0.49
P/E (x)	20.1	17.9	17.7	13.7	11.2
P/B (x)	2.3	2.5	2.3	2.1	1.8
Yield (%)	1.5	3.6	2.0	2.6	3.1
ROE (%)	10.4	12.1	11.4	13.4	14.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Up)

Target Price **HK\$7.92**
 Up/Downside **+40.1%**
 Current Price **HK\$5.65**

China Property Service Sector

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Stock Data

Mkt Cap (HK\$ mn)	18,362
Avg 3 mths t/o (HK\$ mn)	41.32
52w High/Low (HK\$)	9.31/5.28
Total Issued Shares (mn)	3,250

Source: Bloomberg

Shareholding Structure

Orchid Garden	31.4%
LI, Hairong	13.9%
Free float	54.7%

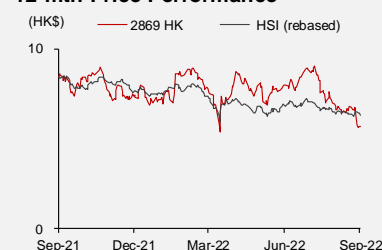
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-18.7%	-17.9%
3-mth	-27.9%	-22.7%
6-mth	-27.2%	-17.1%
12-mth	-31.5%	-11.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

- **Upgrade to BUY as valuation is attractive.** We trimmed our forecasts and expect 2022/23E revenue to grow by 24/22% YoY and a stable GP margin at 18-19%. We see NP to increase by 2/29% YoY in 2022/23E. Our TP is HK\$7.92, using 25x 22E PE due to company's stable core business expansion, high brand quality and promising strategic focus. **Risk:** 1) COVID-19 outbreak; 2) macro economic deterioration.

Figure 1: 1H22 results summary

RMB mn	1H21	1H22	YoY	1H/2021	1H/2022E
Revenue	5,596	6,828	22%	45%	44%
- Property management services	3,626	4,360	20%	47%	46%
- Consulting services	816	957	17%	42%	42%
- Community living services	1,104	1,310	19%	39%	39%
- Technology services	50	200	297%	n.a.	50%
Gross profit	1,123	1,312	17%	48%	47%
Net profit	547	341	-38%	65%	40%
Core net profit (excl. non-operating items)	436	433	-1%		
EPS (RMB)	0.17	0.11	-38%		
DPS (RMB)	-	-	-		
Dividend payout ratio	-	-	-		
GP Margin	20.1%	19.2%	-0.8 ppt		
Net Margin	9.8%	5.0%	-4.8 ppt		
Managed GFA (mn sq m)	272.7	349.3	28%		
Reserved GFA (mn sq m)	302.3	365.8	21%		

Source: Company data, CMBIGM

Figure 2: Greentown Valuation

RMB mn	New		Old		Diff (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	15,619	19,097	16,065	20,181	-3%	-5%
Gross Profit	2,824	3,486	3,007	3,773	-6%	-8%
Operating profit	1,193	1,547	1,497	1,805	-20%	-14%
Net profit	862	1,114	1,064	1,291	-19%	-14%
EPS (RMB)	0.26	0.27	0.33	0.40	-21%	-34%
Gross Margin	18.1%	18.3%	18.7%	18.7%	-0.6ppts	-0.4ppts
Operating Margin	7.6%	8.1%	9.3%	8.9%	-1.7ppts	-0.8ppts
Net Margin	5.5%	5.8%	6.6%	6.4%	-1.1ppts	-0.6ppts

Source: Bloomberg, CMBIGM

Figure 3: Greentown Services Valuation



Source: Bloomberg, CMBIGM

Figure 4: PM sector comps

Company	Ticker	CMBI rating	TP (HK\$)	Last price (HK\$)	Mkt Cap (HK\$ mn)	P/E			Net profit growth (%)		Dividend Yield		Payout ratio
						21A	22E	23E	22E	23E	21A	22E	21A
Country Garden Services	6098 HK	BUY	47.6	15.8	53,254	10.5	8.5	6.5	26.9	28.9	2.3%	2.8%	24%
CR MixC Lifestyle	1209 HK	BUY	44.3	35.7	81,371	40.4	31.7	24.3	23.0	30.3	1.0%	1.1%	38%
A-Living	3319 HK	HOLD	34.2	8.3	11,772	3.8	4.2	3.7	-2.1	16.1	6.0%	5.6%	23%
Greentown Services	2869 HK	BUY	7.9	5.7	18,362	17.9	17.7	13.7	1.8	29.2	3.6%	2.0%	69%
Ever Sunshine	1995 HK	HOLD	12.7	5.1	8,868	11.5	9.2	6.9	26.9	31.3	2.6%	3.2%	29%
Poly Services	6049 HK	HOLD	53.4	46.6	25,785	25.5	21.2	16.6	19.1	27.0	0.8%	0.9%	20%
S-Enjoy	1755 HK	SELL	8.5	6.8	5,894	7.7	7.1	5.1	41.5	35.8	2.8%	4.5%	21%
Powerlong Commercial	9909 HK	BUY	33.2	4.3	2,784	5.0	4.4	3.5	18.4	21.9	7.5%	9.6%	38%
Excellence CM	6989 HK	BUY	14.9	3.3	4,015	6.5	4.5	3.4	33.8	31.7	10.9%	11.1%	71%
Central China New Life	9983 HK	BUY	12.9	3.3	4,147	5.0	5.2	4.5	10.6	18.5	10.3%	14.1%	51%
Sino-Ocean Services	6677 HK	BUY	7.1	2.5	2,913	5.3	4.4	3.3	26.8	33.1	4.6%	7.7%	24%
New Hope Services	3658 HK	BUY	4.4	1.9	1,522	6.2	3.8	NA	83.5	NA	4.6%	6.6%	29%
Redsun Services	1971 HK	BUY	9.4	3.2	1,328	8.3	6.0	4.6	41.2	32.2	NA	NA	NA
Evergrande Services	6666 HK	BUY	10.4	2.3	24,865	7.9	4.9	3.7	21.9	32.8	NA	NA	NA
Sunac Services	1516 HK	BUY	7.0	2.4	7,306	3.9	4.3	3.4	9.8	29.5	6.3%	6.8%	24%
Jinmao Service	816 HK	HOLD	5.5	4.2	3,780	14.2	8.0	5.8	103.1	45.6	NA	NA	NA
COPH	2669 HK	NR	NA	8.7	28,530	28.9	22.1	17.1	30.3	28.9	1.0%	1.4%	30%
Times Neighborhood	9928 HK	NR	NA	0.8	779	2.1	3.8	2.6	-45.2	50.2	7.2%	6.7%	15%
Aoyuan Healthy Life	3662 HK	NR	NA	1.9	1,351	4.8	2.0	1.6	41.3	31.2	NA	NA	NA
Shimao Services	873 HK	NR	NA	2.2	5,430	4.0	3.5	2.8	10.2	21.3	NA	NA	NA
KWG Living	3913 HK	NR	NA	1.4	2,877	3.5	3.2	2.6	11.5	21.7	10.2%	10.4%	36%
Jinke Smart Services	9666 HK	NR	NA	9.1	5,908	4.6	3.9	3.0	17.3	30.9	8.7%	8.8%	40%
Average						20.8	16.6	12.8	22.7	29.0	2.3%	2.5%	29.5%

Source: Bloomberg, CMBIGM

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	10,106	12,566	15,619	19,097	23,038
Property management	6,429	7,770	9,522	11,396	12,986
Consultancy services	1,500	1,960	2,280	2,681	3,180
Community value-added	2,177	2,836	3,418	4,420	5,973
			400	600	900
Cost of sales	(8,183)	(10,236)	(12,796)	(15,610)	(18,725)
Gross profit	1,923	2,331	2,824	3,486	4,312
Other income	138	98	139	70	37
Selling and marketing	(156)	(201)	(249)	(305)	(368)
Administrative expenses	(891)	(1,050)	(1,30)	(1,56)	(1,93)
Other expenses	(43)	(38)	(95)	(58)	(70)
Operating profit	970	1,150	1,193	1,547	1,897
Share from JCE	28	21	20	20	20
Finance cost	(0)	26	-	-	-
Exceptional	5	(5)	-	-	-
Pre-tax profit	1,003	1,191	1,213	1,567	1,917
Income tax	(262)	(301)	(306)	(396)	(484)
Profit for the year	741	890	907	1,172	1,433
Non-controlling interest	(30)	(44)	(45)	(58)	(71)
Net profit to shareholders	710	846	862	1,114	1,362

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	4,469	5,097	5,217	5,337	5,457
PP&E	695	773	873	973	1,073
Goodwill	284	451	451	451	451
Other intangible assets	362	430	430	430	430
Others	3,128	3,442	3,462	3,482	3,502
Current assets	8,609	9,278	10,661	12,319	14,264
Cash and cash equivalents	346	434	543	662	794
Trade and other receivables	1,990	3,055	3,797	4,642	5,600
Others	6,274	5,789	6,321	7,014	7,870
Total Asset	13,079	14,375	15,877	17,655	19,721
Current liabilities	4,686	5,789	6,716	7,735	8,863
Trade and other payables	2,963	3,706	4,633	5,653	6,781
Contract liabilities	1,112	1,343	1,343	1,343	1,343
Others	610	739	739	739	739
Non-current liabilities	1,281	1,216	1,186	1,163	1,144
Deferred tax liabilities	76	76	76	76	76
Others	1,205	1,139	1,110	1,086	1,068
Total liabilities	5,967	7,004	7,902	8,898	10,007
Shareholders' equity	6,821	7,019	7,579	8,303	9,189
Non-controlling interests	291	351	396	454	525
Total Equity	7,112	7,370	7,975	8,757	9,714

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before tax	1,003	1,191	1,213	1,567	1,917
D&A	145	181	200	200	200
Change in working capital	205	(410)	76	55	38
Income tax paid	(221)	(301)	(306)	(396)	(484)
Others	184	150	(81)	(92)	(106)
Cash flow from operating	1,316	812	1,102	1,335	1,565
CAPEX	(348)	(40)	(300)	(300)	(300)
Others	(1,917)	80	68	77	90
Cash flow from investing	(2,264)	40	(232)	(223)	(210)
Equity raised	-	-	-	-	-
Change of debts	(346)	-	-	-	-
Dividends paid	(223)	(542)	(302)	(390)	(477)
Others	3,200	(74)	(36)	(29)	(23)
Cash flow from financing	2,977	(616)	(338)	(419)	(500)
Net change in cash	2,029	236			
Cash at the beginning of the year	2,641	4,437	532	693	855
FX differences	(233)	-	4,307	4,838	5,532
Cash at the end of the year	4,437	4,673	-	-	-

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Property management services	63.6	61.8	61.0	59.7	56.4
Consultancy services	14.8	15.6	14.6	14.0	13.8
Community value-added	21.5	22.6	21.9	23.1	25.9
Total	100.0	100.0	97.4	96.9	96.1
Profit & loss ratios (%)					
Gross margin	19.0	18.5	18.1	18.3	18.7
Operating margin	9.6	9.2	7.6	8.1	8.2
Net margin	7.0	6.7	5.5	5.8	5.9
Effective tax rate	26.2	25.2	25.2	25.2	25.2
Growth (%)					
Revenue	17.8	24.3	24.3	22.3	20.6
Gross profit	24.3	21.2	21.2	23.5	23.7
Operating profit	61.3	18.6	3.7	29.7	22.6
Net profit	48.8	19.1	1.8	29.2	22.3
Balance sheet ratios					
Current ratio (x)	1.8	1.6	1.6	1.6	1.6
Receivable turnover days	78	78	89	89	89
Returns (%)					
ROE	10.4	12.1	11.4	13.4	14.8
ROA	5.4	5.9	5.4	6.3	6.9
Per share					
EPS (RMB)	0.23	0.26	0.27	0.34	0.42
DPS (RMB)	0.07	0.17	0.09	0.12	0.15
BVPS (RMB)	2.03	1.90	2.06	2.28	2.55

Source: Company data, CMBIGM estimates

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