

# Greentown Service (2869 HK)

## Reverse roadshow takeaway: Differentiation leads to long-term value

Greentown Service held a reverse roadshow to analysts recently and shared its progress on FY23 target which we think is slower than expected with regard to core operating profit that estimated to grow at  $\leq 20\%$  level in 1H23 and imposed certain pressure in 2H23 to catch up FY23 target of 20-25% YoY growth. It is also worth noting that the Company achieved a YoY decrease in administration expense, and operating cash flow is likely to reach a breakeven in 1H23. We think the Company still has a chance to complete its full year target if the economy recovers faster than 1H23, and the Company can benefit from its fee collection and VAS business. We think the Company's strategy to provide comprehensive services in one large area and its differentiation in various segments will provide LT value, considering its high independence, good progress on non-residential projects, stable related-parties and recovering ARs. We maintain BUY with TP unchanged at HK\$5.93

- How far from the FY23 target?** Company shared that financials in 1H23 will have improvement from 2H22 where **revenue** will grow  $>20\%$  YoY (in line with the FY23 target of 20-25%). **GPM** will be at the same level /slightly higher than that of FY22 which we estimate at 16.5% (vs. FY23 target of 16.5-17.5%). **Core operating profit** growth may be lower than 20% YoY in 1H23 which could bring more pressure in 2H23 to catch up the FY23 target of 20-25%. It is worth noting that the Company achieved a YoY decrease in administration expenses in 1H23 through organization structure adjustment and **operating cash flow** to reach a breakeven in 1H23 thanks to its better management on ARs built up in 1H23 and collection of ARs in FY22 (30% collected YTD vs. FY23 target of 50%). As economic recovery was slower than expected in 1H23 that affected companies' fee collection and VAS business, we think the Company still has a high chance to complete its full year target as 2H23 may be better off than 1H23 amid continuous recovery.
- Expansion strategy highlight: comprehensive services in one large area.** Due to the intense competition of 3<sup>rd</sup>-party expansion in residential market, the Company said to focus on advantageous areas and give up projects with less than RMB 2mn saturated annual income, and to expand non-residential projects around the area (municipal services, urban services, road services, fire protection etc.) to provide comprehensive services in one large area not only to developers and home owners but also to government departments and committees. Thus, we believe the Company will have higher revenue contribution ( $\sim 50\%$ ) from non-residential projects in the future (vs. 43.5% in FY22 new contract).

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	12,566	14,856	18,123	21,795	26,033
YoY growth (%)	24.3	18.2	22.0	20.3	19.4
Net profit (RMB mn)	846.3	547.5	639.1	735.4	840.1
EPS (Reported) (RMB)	0.26	0.17	0.20	0.23	0.26
YoY growth (%)	12.0	(35.4)	16.7	15.1	14.3
Consensus EPS (RMB)	na	na	0.24	0.29	0.34
P/E (x)	29.5	34.0	18.9	16.4	14.3
P/B (x)	4.1	3.1	1.9	1.8	1.6
Yield (%)	2.1	1.6	1.9	2.1	2.4
ROE (%)	12.2	7.7	8.7	9.5	10.1

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** HK\$5.93  
**Up/Downside** 45.1%  
**Current Price** HK\$4.09

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#### Stock Data

Mkt Cap (HK\$ mn)	13,220.5
Avg 3 mths t/o (HK\$ mn)	21.3
52w High/Low (HK\$)	9.03/3.22
Total Issued Shares (mn)	3232.4

Source: FactSet

#### Shareholding Structure

Orchid Garden Investment	31.6%
Li Hairong	14.0%

Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	-12.6%	-8.3%
3-mth	-25.9%	-20.2%
6-mth	-25.4%	-23.8%

Source: FactSet

#### 12-mth Price Performance



Source: FactSet

- **Projects highlight: Differentiation.** From project visit in Hangzhou (details on P.3), we have noticed that the Company has its special strengths on various segments. **For residential project**, the Company is providing services to “Future Community”, the basic unit in pilot scheme to promote “Common Prosperity”. Moreover, the Company is authorized to provide consulting services to peers who would like to manage a “Future Community”, which will be of great help for future expansion as “common prosperity” is a national goal. **For non-residential projects:** except for industrial parks and buildings of financial companies, the Company is making a good progress on bidding sports-related and temple projects (eg. stadiums of the 19<sup>th</sup> Asian Games, Linping Sports Park, Urumqi Olympic Centre, Jingshan Temple, SH Jade Buddha Temple etc.). These special projects may become good growth points in the future. **For VAS business**, early education is unique business for PM companies and Greentown Services already has high brand value. Although the segment is still making losses, we saw successful cases of single store turning to profitable and this is highly replicable. We believe the differentiation strategy would bring value to Company on a long-term basis.
- **Maintain BUY for its LT value, with TP unchanged at HK\$5.93.** Considering the Company’s high quality services, high independence (80% from third party expansion), good progress on non-residential projects, stable related-parties, special strength on non-residential projects and VAS that brings long-term value, as well as its recovering ARs and financials, we maintain BUY rating and keep TP as HK\$5.93, representing 25x 2023E PE. **Catalyst:** faster-than-expected ARs collection.

## Project visiting details:

### Future Community projects - Yangliujun

“Yangliujun”, located in Hangzhou Shangcheng District, is a TOD complex co-developed by Hangzhou Metro and Greentown China, which has a GFA of 820K sqm consisting of residential and commercials areas. The Project is also listed as the benchmark of Future Community—the basic unit to promote “common prosperity, a pilot scheme initiated by Zhejiang Province and will be extended nationwide if successful. A future community could be newly constructed or renovated from old projects, and there are 33 indicators to measure if the projects meet the requirements of a “future community”, including transportation, community activities, digitalization, health care systems etc.. The project will be inspected twice a year by local branch of MOHURD to maintain the title. Greentown Service not only provides PM service for “Future Community” but also being authorized to provide consulting services and inspection services for other management companies who are trying to manage a such community.

**Figure 1: Yangliujun project - TOD complex project**



Source: CMBIGM

**Figure 2: Yangliujun project - Map & Intelligent Centre**



Source: CMBIGM

**Figure 3: Yangliujun project - Community activity venue & schedule**

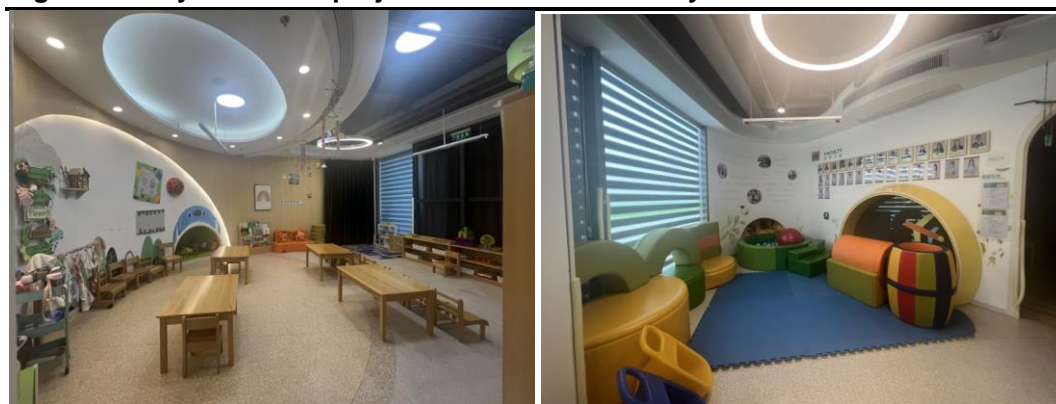


Source: CMBIGM

**Early education project – Qimiao Yuan**

The project is an early education centre located within the community, providing childcare services and parent-child class services (bilingual) for residents in community. The price of parent-child classes is RMB 10k per person for 3-4 months. Childcare service charges RMB 5.8k per child per month, and the centre has a total of 7 classrooms and 30 teaching staff. It was at a loss-making stage in FY20, but reached a breakeven by upgrading classrooms, optimizing the time arrangement for parent-child classes and childcare services, improving human efficiency etc. In FY22, it has a capacity of taking 120 children, generating a revenue of RMB 5mn and net profit of RMB 650K.

**Figure 4: early education project within the community**



Source: CMBIGM

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
<b>Revenue</b>	<b>10,106</b>	<b>12,566</b>	<b>14,856</b>	<b>18,123</b>	<b>21,795</b>	<b>26,033</b>
Cost of goods sold	(8,183)	(10,236)	(12,454)	(15,116)	(18,209)	(21,826)
<b>Gross profit</b>	<b>1,923</b>	<b>2,331</b>	<b>2,402</b>	<b>3,007</b>	<b>3,586</b>	<b>4,207</b>
<b>Operating expenses</b>	<b>(1,047)</b>	<b>(1,251)</b>	<b>(1,421)</b>	<b>(1,811)</b>	<b>(2,158)</b>	<b>(2,551)</b>
Selling expense	(156)	(201)	(266)	(325)	(371)	(417)
Admin expense	(891)	(1,050)	(1,155)	(1,486)	(1,787)	(2,135)
<b>Operating profit</b>	<b>122</b>	<b>91</b>	<b>(90)</b>	<b>(187)</b>	<b>(268)</b>	<b>(330)</b>
Other income	138	98	157	73	36	18
Other expense	(43)	(38)	(125)	(145)	(174)	(208)
Other gains/(losses)	(1)	11	(150)	(125)	(140)	(150)
Share of (losses)/profits of associates/JV	28	21	29	10	10	10
<b>Net Interest income/(expense)</b>	<b>(0)</b>	<b>26</b>	<b>(37)</b>	<b>0</b>	<b>0</b>	<b>0</b>
Others	5	(5)	10	0	0	0
<b>Pre-tax profit</b>	<b>1,003</b>	<b>1,191</b>	<b>864</b>	<b>1,009</b>	<b>1,160</b>	<b>1,326</b>
Income tax	(262)	(301)	(233)	(271)	(312)	(357)
<b>After tax profit</b>	<b>741</b>	<b>890</b>	<b>631</b>	<b>737</b>	<b>848</b>	<b>969</b>
Minority interest	(30)	(44)	(84)	(98)	(113)	(129)
<b>Net profit</b>	<b>710</b>	<b>846</b>	<b>548</b>	<b>639</b>	<b>735</b>	<b>840</b>

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
<b>Current assets</b>	<b>8,609</b>	<b>9,278</b>	<b>10,841</b>	<b>11,936</b>	<b>13,518</b>	<b>15,377</b>
Cash & equivalents	4,437	4,307	4,183	5,643	6,201	6,877
Restricted cash	284	283	365	365	365	365
Account receivables	1,990	3,055	4,840	4,405	5,298	6,328
Inventories	346	434	570	641	772	926
ST bank deposits	981	21	0	0	0	0
Financial assets at FVTPL	572	1,179	882	882	882	882
Other current assets	0	0	0	0	0	0
<b>Non-current assets</b>	<b>4,469</b>	<b>5,097</b>	<b>6,013</b>	<b>6,079</b>	<b>6,189</b>	<b>6,299</b>
PP&E	695	773	917	973	1,073	1,173
Right-of-use assets	747	872	938	938	938	938
Deferred income tax	201	237	356	356	356	356
Investment in JVs & assos	681	722	688	698	708	718
Intangibles	362	430	529	529	529	529
Goodwill	284	451	658	658	658	658
Financial assets at FVTPL	886	877	1,039	1,039	1,039	1,039
Other non-current assets	614	734	889	889	889	889
<b>Total assets</b>	<b>13,079</b>	<b>14,375</b>	<b>16,854</b>	<b>18,014</b>	<b>19,706</b>	<b>21,676</b>
<b>Current liabilities</b>	<b>4,686</b>	<b>5,789</b>	<b>7,387</b>	<b>8,127</b>	<b>9,247</b>	<b>10,557</b>
Short-term borrowings	6	5	124	124	124	124
Account payables	2,963	3,706	4,734	5,473	6,593	7,903
Tax payable	404	512	685	685	685	685
Other current liabilities	36	37	58	58	58	58
Lease liabilities	164	185	258	258	258	258
Contract liabilities	1,112	1,343	1,529	1,529	1,529	1,529
<b>Non-current liabilities</b>	<b>1,281</b>	<b>1,216</b>	<b>1,590</b>	<b>1,498</b>	<b>1,479</b>	<b>1,464</b>
Long-term borrowings	140	147	187	94	75	60
Other non-current liabilities	1,140	1,068	1,403	1,403	1,403	1,403
<b>Total liabilities</b>	<b>5,967</b>	<b>7,004</b>	<b>8,978</b>	<b>9,625</b>	<b>10,726</b>	<b>12,021</b>
Share capital	0	0	0	0	0	0
Other reserves	6,821	7,019	7,121	7,536	8,014	8,560
<b>Total shareholders equity</b>	<b>6,821</b>	<b>7,019</b>	<b>7,121</b>	<b>7,536</b>	<b>8,014</b>	<b>8,560</b>
Minority interest	291	351	755	853	966	1,095
<b>Total equity and liabilities</b>	<b>13,079</b>	<b>14,375</b>	<b>16,854</b>	<b>18,014</b>	<b>19,706</b>	<b>21,676</b>



<b>CASH FLOW</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
<b>Profit before taxation</b>	<b>1,003</b>	<b>1,191</b>	<b>864</b>	<b>1,009</b>	<b>1,160</b>	<b>1,326</b>
Depreciation & amortization	285	378	433	200	200	200
Tax paid	(221)	(242)	(202)	(271)	(312)	(357)
Change in working capital	205	(347)	(894)	1,104	96	126
Others	43	38	494	(82)	(96)	(96)
<b>Net cash from operations</b>	<b>1,316</b>	<b>1,019</b>	<b>695</b>	<b>1,959</b>	<b>1,049</b>	<b>1,199</b>
<b>Investing</b>						
Capital expenditure	(348)	(409)	(454)	(300)	(300)	(300)
Acquisition of subsidiaries/ investments	(315)	(232)	(32)	0	0	0
Net proceeds from disposal of short-term investments	(582)	(480)	193	0	0	0
Others	(1,020)	819	152	77	90	90
<b>Net cash from investing</b>	<b>(2,264)</b>	<b>(302)</b>	<b>(141)</b>	<b>(223)</b>	<b>(210)</b>	<b>(210)</b>
<b>Financing</b>						
Dividend paid	(220)	(542)	(543)	(224)	(257)	(294)
Net borrowings	(340)	5	159	(24)	(19)	(15)
Proceeds from share issues	3,648	0	0	0	0	0
Share repurchases	0	0	(78)	0	0	0
Others	(111)	(242)	(259)	(5)	(4)	(3)
<b>Net cash from financing</b>	<b>2,977</b>	<b>(779)</b>	<b>(720)</b>	<b>(253)</b>	<b>(280)</b>	<b>(313)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	2,641	4,437	4,307	4,183	5,643	6,201
Exchange difference	(233)	(69)	43	(24)	0	0
<b>Cash at the end of the year</b>	<b>4,437</b>	<b>4,307</b>	<b>4,183</b>	<b>5,643</b>	<b>6,201</b>	<b>6,877</b>
<b>GROWTH</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Revenue	17.8%	24.3%	18.2%	22.0%	20.3%	19.4%
Gross profit	24.3%	21.2%	3.1%	25.2%	19.3%	17.3%
Operating profit	652.2%	(25.5%)	na	na	na	na
Net profit	48.8%	19.1%	(35.3%)	16.7%	15.1%	14.3%
<b>PROFITABILITY</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Gross profit margin	19.0%	18.5%	16.2%	16.6%	16.5%	16.2%
Operating margin	1.2%	0.7%	(0.6%)	(1.0%)	(1.2%)	(1.3%)
Return on equity (ROE)	14.8%	12.2%	7.7%	8.7%	9.5%	10.1%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Current ratio (x)	1.8	1.6	1.5	1.5	1.5	1.5
Receivable turnover days	71.9	88.7	88.7	88.7	88.7	88.7
Inventory turnover days	15.4	15.5	15.5	15.5	15.5	15.5
Payable turnover days	132.2	132.2	132.2	132.2	132.2	132.2
<b>VALUATION</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
P/E	36.3	29.5	34.0	18.9	16.4	14.3
P/B	4.2	4.1	3.1	1.9	1.8	1.6
Div yield (%)	0.9	2.1	1.6	1.9	2.1	2.4

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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