

Greentown Management (9979 HK)

Earnings in-line; Mgmt. changes imply a new round of expansion

The Company reported in-line results of +31.3% YoY growth in 1H23 NP, maintaining its good track record of target completion. GP margin lifted 1.6ppt YoY to 51.5% from 49.7% in 1H22 due to the revenue structure skewing to capital PJM with higher margin. The stock price dropped 6% yesterday mainly because of the significant management changes which increase investors' concern if the company is going to adopt a business model with heavier assets. **We think the market was over reacted, as 1)** New Co-Chairman is a supporter of asset-light model who promoted the spin-off the Greentown Mgmt. several years ago. **2)** Ex-CEO who is considered as spiritual leader of PJM business, is still in charge of the company's development. **3)** new arrangement implies more support from the parentco. that will empower company's next round of expansion. **4)** New management team promised to maintain high growth (~30% CAGR) and high dividend pay-out ratio (80%) which is not hard in our view. We continue to like company's leading position in industry (26% mkt share), asset light model, high cash flow and high dividend pay-out ratio, maintain BUY. We lift our TP by 3% to HK\$9.67, reflecting higher GP margin forecast ([Figure 2](#)). The New TP implies 18x 2023E PE. **Risks:** property sales drop, LGFV default.

■ **1H23 earnings +31% YoY, inline.** Company continued its good track record on target completion by reported RMB 474mn of 1H23 NP, a 31.3% YoY growth, in-line with FY23 target of +30%. This was mostly driven by higher GP margin (51.5% in 1H23 vs. 49.7% in 1H22) given Capital PJM (orders from FIs) with higher margin contributed more in business. The above-mentioned segment took 7.3% of total contracted GFA in 1H23 vs. 5.0% in FY22. In terms of new contract value, FIs contributed 20.9% in 1H23 (vs. 12% in FY22) and will continue to grow according to the management ([Figure 3](#)).

■ **Market was over-reacted to Mgmt. changes in our view.** Company announced a significant management changes including 1) Mr. Zhang Yadong, the Chairman of Greentown China, has been appointed to Co-Chairman of Greentown Mgmt. 2) Mr. Lijun has been promoted to Vice-Chairman from the position of CEO. 3) Mr. Wang Junfeng, leader of the operation centre, has been appointed as the new CEO. Market took it as a signal of strategy change and is worried that the company may lose its attractive features of asset light model, high growth and high dividend pay-out ratio. **We think the market is over reacted as 1)** Mr. Zhang Yadong was the promoter of the spin-off and the listing of Greentown Mgmt proved him a supporter of the asset-light business; **2)** Mr. Lijun (considered as spiritual leader of China PJM business) is fully responsible of company's development but with more management rights and resources. **3)** The new arrangement actually makes it easier for Greentown Mgmt. to access resources from Greentown China and brings benefit including more business importing, more experienced employees and more access to Greentown China's famous supply chain system. **4)** New mgmt. also highlighted that the company will stick to asset-light model and >80% dividend pay-out ratio with no doubt, and the earnings guidance is unchanged at ~30%.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	2,243	2,656	3,366	4,288	5,458
YoY growth (%)	23.7	18.4	26.7	27.4	27.3
Net profit (RMB mn)	565.2	744.5	963.4	1,214.1	1,494.4
EPS (Reported) (RMB)	0.29	0.38	0.50	0.63	0.77
YoY growth (%)	12.4	30.7	29.4	26.0	23.1
Consensus EPS (RMB)	na	na	0.47	0.58	0.76
P/E (x)	11.4	13.5	11.9	9.5	7.7
P/B (x)	1.9	2.7	3.3	3.1	3.0
Yield (%)	6.0	7.3	6.7	8.5	10.4
ROE (%)	17.6	21.0	26.7	34.1	39.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$9.67

(Previous TP) HK\$9.39

Up/Downside 49.4%

Current Price HK\$6.47

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Stock Data

Mkt Cap (HK\$ mn)	647.0
Avg 3 mths t/o (HK\$ mn)	15.7
52w High/Low (HK\$)	7.91/4.45
Total Issued Shares (mn)	100.0

Source: FactSet

Shareholding Structure

Greentown China Holdings Ltd	71.3%
SUPOR Industrial capital	2.9%

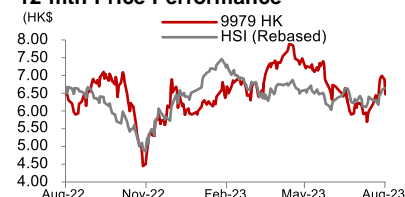
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	4.0%	-1.7%
3-mth	-13.5%	-14.0%
6-mth	-3.1%	6.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

- **Maintain Buy with TP lifted 3% to HK\$ 9.67.** We like company's leading position in industry (26% mkt share), asset light model, high cash flow and high dividend pay-out ratio, maintain BUY. our TP was lifted by 3% to HK\$9.67 reflecting higher GP margin forecast (Figure 2). The New TP implies 18x 2023E PE, implying the current valuation is attractive at 12x 2023E PE. **Risks:** property sales drop, LGFV default.

Figure 1: 1H23 results summary

9979 HK Greentown Mgmt. results summary

RMB mn	1H22	1H23	YoY	1H/2022	1H/2023E
Revenue	1,259	1,549	23.1%	47%	46%
Commercial PJM	765	1,065	39.2%	46%	51%
Government PJM	381	395	3.6%	49%	37%
Other services	112	89	-20.9%	55%	42%
Gross profit	635	806	27.0%		
Net profit	361	474	31.3%	48%	49%
EPS (RMB)	0.19	0.24	30.1%	48%	49%
Diluted EPS (RMB)	0.18	0.24	33.3%		
GP Margin	50.4%	52.0%	1.6 ppt		
GP Margin - Commercial	49.7%	51.5%	1.8 ppt		
GP Margin - Goernment	42.2%	44.8%	2.6 ppt		
GP Margin - Other services	83.6%	90.7%	7.1 ppt		
Net Margin	29%	31%	1.9 ppt		
New contract GFA (mn sqm)	13.23	17.27	31%		
New contract Value (RMB bn)	4.06	5.12	26%		

Source: Company data, CMBIGM

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	3,366	4,288	5,458	3,372	4,294	5,465	0%	0%	0%
Gross Profit	1,708	2,156	2,722	1,691	2,143	2,723	1%	1%	0%
Operating Profit	988	1,283	1,626	969	1,269	1,625	2%	1%	0%
Net profit	963	1,214	1,494	935	1,174	1,461	3%	3%	2%
EPS (RMB)	0.50	0.63	0.77	0.48	0.61	0.75	3%	3%	2%
Gross Margin	50.7%	50.3%	49.9%	50.1%	49.9%	49.8%	0.6 ppt	0.4 ppt	0.0 ppt
Operating Margin	29.4%	29.9%	29.8%	28.8%	29.5%	29.7%	0.6 ppt	0.4 ppt	0.0 ppt
Net Margin	28.6%	28.3%	27.4%	27.7%	27.3%	26.7%	0.9 ppt	1.0 ppt	0.6 ppt

Source: Company data, CMBIGM

Figure 3: Orders from FIs contributed more in business

	Total contracted GFA		New contract value	
	2022	1H23	2022	1H23
Private property developers	34%	34%	30%	25%
State-owned property developers	28%	31%	47%	45%
Government entities	33%	28%	11%	10%
Financial institutions	5%	7%	12%	21%
Total	100%	100%	100%	100%

Source: Company data, CMBIGM

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	1,813	2,243	2,656	3,366	4,288	5,458
Cost of goods sold	(947)	(1,203)	(1,267)	(1,658)	(2,132)	(2,736)
Gross profit	866	1,041	1,389	1,708	2,156	2,722
Operating expenses	(379)	(471)	(609)	(690)	(843)	(1,066)
Selling expense	(48)	(93)	(120)	(145)	(176)	(224)
Admin expense	(331)	(378)	(489)	(545)	(667)	(842)
Operating profit	(9)	42	(14)	28	28	28
Other income	(31)	(10)	(73)	(30)	(30)	(30)
Other expense	(34)	0	0	0	0	0
Share of (losses)/profits of associates/JV	56	52	58	58	58	58
Interest income	49	116	166	161	180	190
Interest expense	(1)	(6)	(7)	(7)	(7)	(7)
Net Interest income/(expense)	47	110	159	154	174	183
Pre-tax profit	525	722	925	1,200	1,515	1,867
Income tax	(117)	(152)	(189)	(246)	(310)	(382)
After tax profit	408	571	735	954	1,205	1,485
Minority interest	27	(5)	9	9	9	9
Discontinued operations	5	0	0	0	0	0
Net profit	439	565	745	963	1,214	1,494
Core net profit	429	565	745	963	1,214	1,494

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	3,321	3,701	3,858	4,536	5,339	6,366
Cash & equivalents	2,397	2,138	1,933	2,159	2,373	2,653
Restricted cash	16	13	153	153	153	153
Account receivables	388	749	824	1,044	1,330	1,693
Inventories	0	0	0	0	0	0
Financial assets at FVTPL	0	80	75	75	75	75
Other current assets	203	240	298	378	482	613
Contract assets	317	482	574	727	926	1,179
Non-current assets	1,427	1,543	2,304	1,990	2,062	2,145
PP&E	98	102	109	73	101	138
Right-of-use assets	18	17	19	12	17	23
Deferred income tax	17	18	28	48	68	88
Investment in JVs & assos	161	244	317	317	317	317
Intangibles	0	0	412	0	0	0
Goodwill	769	769	982	982	982	982
Financial assets at FVTPL	93	101	67	67	67	67
Other non-current assets	270	292	370	491	511	531
Total assets	4,748	5,244	6,161	6,526	7,401	8,511
Current liabilities	1,619	1,844	2,087	2,729	3,427	4,316
Short-term borrowings	0	0	0	0	0	0
Account payables	819	943	1,173	1,535	1,974	2,533
Tax payable	197	265	252	252	252	252
Other current liabilities	199	246	221	290	372	478
Lease liabilities	9	5	8	8	8	8
Contract liabilities	396	385	433	645	821	1,045
Non-current liabilities	26	29	201	201	201	201
Obligations under finance leases	9	10	9	9	9	9
Deferred income	17	19	103	103	103	103
Other non-current liabilities	0	0	89	89	89	89
Total liabilities	1,645	1,872	2,288	2,930	3,628	4,517
Share capital	16	16	17	17	17	17
Retained earnings	1,411	1,534	1,717	1,910	2,152	2,451
Other reserves	1,648	1,791	2,006	1,546	1,489	1,420
Total shareholders equity	3,075	3,341	3,739	3,472	3,658	3,888
Minority interest	27	30	134	125	115	106
Total equity and liabilities	4,748	5,244	6,161	6,526	7,401	8,511

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	412	571	735	954	1,205	1,485
Depreciation & amortization	24	25	77	24	24	24
Tax paid	(81)	(119)	(184)	(246)	(310)	(382)
Change in working capital	503	57	(82)	188	110	141
Others	46	33	178	67	112	174
Net cash from operations	903	566	725	987	1,140	1,442
Investing						
Capital expenditure	(7)	(21)	(29)	(40)	(60)	(73)
Acquisition of subsidiaries/ investments	0	(86)	(34)	0	0	0
Net proceeds from disposal of short-term investments	3	(69)	11	0	0	0
Others	(89)	(321)	(479)	56	113	113
Net cash from investing	(92)	(497)	(530)	16	53	40
Financing						
Dividend paid	(15)	(333)	(388)	(771)	(971)	(1,195)
Net borrowings	3	0	0	0	0	0
Proceeds from share issues	1,184	0	0	0	0	0
Others	(686)	10	(12)	(7)	(7)	(7)
Net cash from financing	486	(322)	(400)	(778)	(978)	(1,202)
Net change in cash						
Cash at the beginning of the year	1,139	2,397	2,138	1,933	2,159	2,373
Exchange difference	(39)	(6)	1	0	0	0
Cash at the end of the year	2,397	2,138	1,933	2,159	2,373	2,653
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	(9.1%)	23.7%	18.4%	26.7%	27.4%	27.3%
Gross profit	(1.8%)	20.2%	33.4%	23.0%	26.2%	26.3%
Operating profit	na	na	na	na	0.0%	0.0%
Net profit	35.3%	28.7%	31.7%	29.4%	26.0%	23.1%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	47.8%	46.4%	52.3%	50.7%	50.3%	49.9%
Operating margin	(0.5%)	1.9%	(0.5%)	0.8%	0.7%	0.5%
Return on equity (ROE)	18.8%	17.6%	21.0%	26.7%	34.1%	39.6%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Current ratio (x)	2.1	2.0	1.8	1.7	1.6	1.5
Receivable turnover days	78.2	121.9	113.2	113.2	113.2	113.2
Payable turnover days	315.5	286.3	337.9	337.9	337.9	337.9
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	10.6	11.4	13.5	11.9	9.5	7.7
P/E (diluted)	10.6	11.4	13.5	11.9	9.5	7.7
P/B	1.5	1.9	2.7	3.3	3.1	3.0
Div yield (%)	6.1	6.0	7.3	6.7	8.5	10.4

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

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