

Greentown Service (2869 HK)

Profit alert roughly in-line

The Company's profit alert of 5-10% core operating profit decline in 2022E was roughly in-line with the market expectation in consideration of a flat 1H22 and the even weaker macro during 2H22. Core operating profit margin lowered to 7% in 2022E from 9% in 2021 mainly due to GPM contraction to a range of 16-17% (est.). While we think the margin will be gradually recovered by 1) resuming consumption that leads to recovery in community VAS such as housing brokerage, education services etc.; 2) higher proportion of commercial projects in managed GFA going forward as Company is putting more efforts on commercial projects expansion; and 3) less impairment among better macro environment. Maintain BUY given the Company's stable core business expansion, high brand quality and less risk from related parties.

- What is new?** After market close on 10 Mar, the Company announced the profits alert that 2022E net profits attributable to shareholders declined by 30-40% YoY to RMB 500-590mn mainly due to ~RMB 200mn impairment losses on both ARs and equity instruments among weak macroeconomic environment. Core operating profit (GP-SG&A) decreased by 5-10% YoY, mainly due to labor cost control that was less effective than expected.
- Roughly in-line with expectation.** Core operating profit was roughly in-line with the market expectation as Company booked a flat YoY 1H22 and the macro environment was even weaker in 2H22. Core operating profit margin decreased from 9% in 2021 to 6.5-6.9% in 2022E mainly due to the decline of GP margin, which we expect to contract 2-3ppt to 16-17% level based on Company's +18% YoY revenue growth in 2022E and relatively stable SG&A in 2H22.
- Segment review.** Revenue from basic PM was relatively stable but the GFA conversion rate remained low at 20% level in 2022 (calculated by new managed-GFA/reserved GFA) due to delayed delivery and Company's exit of some projects. The housing brokerage, education services and car parking selling business were damaged heavier than others by repeated outbreaks of COVID-19. Consulting service was influenced by worsening broader property market. While retail business booked decent growth in 2022E as the Company took part in the material supply for residents during the lockdown.
- How is the future?** With more proportion of commercial projects and the improving economic environment that leads to recovery of community value service business, the overall GP margin will be gradually recovered to 17-18% level in 2024E. Impairment losses will be less going forward among improving macro which will help NP margin recovery as well. **Maintain BUY** given Company's stable core business expansion, high brand quality and less risk from related parties. **Risks:** 1) worse-than-expected business expansion; and 2) slower-than-expected economic recovery.

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				

Source: Company data, Bloomberg, CMBIGM estimate

BUY (Maintain)

Target Price **HK\$7.92**
 Up/Downside **+61.0%**
 Current Price **HK\$4.92**

China Property Service Sector

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Stock Data

Mkt Cap (HK\$ mn)	15,903
Avg 3 mths t/o (HK\$ mn)	24.37
52w High/Low (HK\$)	9.20/ 3.22
Total Issued Shares (mn)	3,232

Source: Bloomberg

Shareholding Structure

Orchid Garden	31.6%
LI, Hairong	14.0%
Free float	54.4%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-8.2%	0.7%
3-mth	-16.3%	-13.8%
6-mth	-11.8%	-11.6%
12-mth	-23.8%	-19.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

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
Technology services	-	-	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)	(1,300)	(1,560)	(1,930)
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)
	741	890	907	1,172	1,433
Profit for the year	(30)	(44)	(45)	(58)	(71)
Non-controlling interest	710	846	862	1,114	1,362
Net profit to shareholders	10,106	12,566	15,619	19,097	23,038

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	(347)	76	55	38
Income tax paid	(221)	(242)	(306)	(396)	(484)
Others	184	235	(81)	(92)	(106)
Cash flow from operating	1,316	1,019	1,102	1,335	1,565
CAPEX	(348)	(409)	(300)	(300)	(300)
Others	(1,917)	108	68	77	90
Cash flow from investing	(2,264)	(302)	(232)	(223)	(210)
Equity raised	-	-	-	-	-
Change of debts	(346)	(29)	-	-	-
Dividends paid	(223)	(560)	(302)	(390)	(477)
Others	3,200	(218)	(36)	(29)	(23)
Cash flow from financing	2,977	(779)	(338)	(419)	(500)
Net change in cash	2,029	(61)	532	693	855
Cash at the beginning of the	2,641	4,437	4,307	4,838	5,532
FX differences	(233)	(69)	-	-	-
Cash at the end of the year	4,437	4,307	4,838	5,532	6,387

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
Technology services			2.6	2.6	2.6
Total	100.0	100.0	100.0	100.0	100.0
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	72	89	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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