

# China Property Service Sector

## Trading idea: Buy Vanke's Onewo via proxy

**OUTPERFORM**  
(Maintain)

We think property management industry remained volatile in 1Q22, still mainly due to the parentco risk (that contributed 50% of PM's revenue). In general, developers faced heavy debt maturity repayments and construction accounts payable peak (migrant workers need to be paid before the Lunar New Year). There could be potentially more defaults such as Yuzhou (1628 HK, NR)'s US\$242mn bond will be due on 23 Jan and Zhongliang property just delayed its dividend payment to Aug 2022. Also, December property sales for the developers we track still recorded a -20% YoY decline and we see no major rebound in the absence of strong policy support. Therefore, we prefer SOE PM players **COSP (2669 HK) and Onewo (Private)** as they are benefiting on parentco's anti-cycle land acquisitions in 2H21 that could provide more earnings visibility in the near-to-mid-term.

As for Onewo, since it has not yet been listed, we suggest investors to trade via **Long Vanke H and Short Vanke A with equal notional amount**. Rational below:

- **Basic logic:** Vanke H investors are entitled to 20% of planned Onewo's new shares, equivalent to 3% of Onewo's total shares (as Onewo plans to issue 15% of new shares). However, Vanke A does not have this option and its liquidity is good (easy to borrow in the market). So Vanke H – Vanke A is roughly = option to buy Onewo.
- **Downside of this trade:** As Vanke H has 24% higher beta than Vanke A, the pair trade is not delta neutral but at 0.19 Delta (Vanke H 5-Yr Weekly Adjusted Beta (HSI) = 1.16; Vanke A 5-Yr Weekly Adjusted Beta (HSI) = 0.94). However, since Vanke A and H are highly correlated, then the delta risk does not have fat tail risk. As the downside for Vanke H is only 9% compared to 52-week low at HK\$16.8/share and trading at historically low valuation at 0.78x PB and 4x 2021E PE, **implying the spread downside is 2%**.
- **Why now?** Vanke H is trading at 25% discount to Vanke A which is at historically high. Therefore we think the liquidity difference has been priced in already.
- **Why Pair trade?** As said, only Vanke H investors are entitled to 20% of planned Onewo's new shares, equivalent to 3% of Onewo's total shares (as Onewo plans to issue 15% of new shares). We estimate total market value of Onewo is at least HKD100bn so Vanke H investors could receive options to buy HKD3bn-worth Onewo shares or valued at HK\$290mn. This is equivalent to **4% dividend yield**, which can cover the downside of 2%.
- **Where is the alpha? (Target 22% upside)** The alpha will come from our positive view on Onewo's potential share price upside, mainly because:

**Strong incentives** as senior management and staff of Onewo has already held below 10% stakes. This is much better than other SOE players like COSP, CR Mixc and Poly Services.

**High earnings visibility** due to its semi-SOE status on GFA transfer in its residential segment. Moreover, residential segments' management GFA only contributed 50% in 1H21, lower from 55% in 2020. This shows management is trying to lower its dependency on parentco's property sales.

**Diversified portfolio** with office exposure at 30% of total revenue from Cushman & Wakefield Vanke Service. In particular, it has delivered 33%

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of revenue increase in 1H21. The Company serves more than 50 leading Internet companies and unicorns, of which more than 20 companies have a market value of more than US\$10bn. 8 of China's top 10 Internet companies by market capitalization are customers of the Company. Lastly, its premium office management with Cushman & Wakefield Vanke Service brand may continue to penetrate in Tier 1-2 cities and unicorn companies.

**New initiatives** such as RMB10bn targeted revenue generated from Tier 1 and 2 cities' services by 2023, accounting for 50% of growth. (Including cities like Beijing, Shenzhen, and Guangzhou, etc.). In addition, it has technology development with Vanrui and 5<sup>th</sup> Dimension Technologies, which could bring BPaaS service on top of its traditional PM services.

**Therefore**, Onewo is likely to grow at least 30% CAGR in 2021-23E. We also think the above could not just help Vanke deliver revenue growth, but also lead to net margin expansion from current below 10%. PE multiple range of 27-44E 2021E with reference to COSP, Poly Services and CR Mixc Lifestyle. This implies there could be 50% upside on its valuation re-rating.

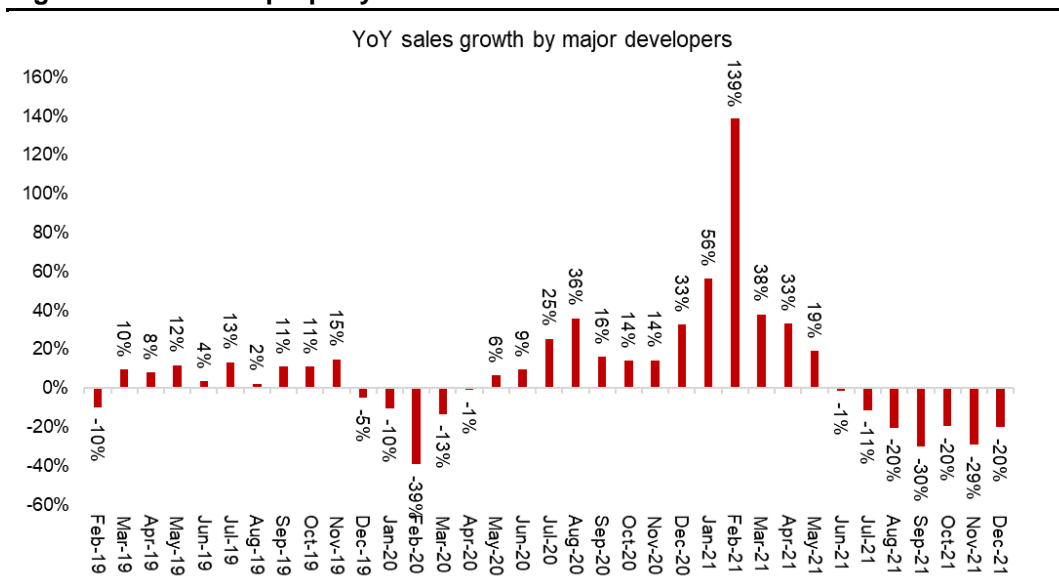
## Key Charts

Figure 1: January 2022's debt maturity schedule

Debt Maturing in Jan 2022 (USD Mn)				
Company	Date	Amount	Bond Details	Current Px
Logan	01/03/22	62	USD Bond LOGPH 5.75 01/03/22 with US\$61.7mn outstanding	99.75
Seazen	01/07/22	49	RMB MTN FTLNHD 5.50 01/07/22 with RMB310mn outstanding	99.92
KWG	01/11/22	250	USD 250mn Bond KWG 6.00 01/11/22	98.00
R&F	01/13/22	725	USD 725mn Bond GZRFP 5.75 01/13/22	63.00
Zhenro	01/13/22	100	USD 100mn Bond ZHPRHK 5.35 01/13/22	98.20
Shimao	01/15/22	315	RMB Bond SHSMA 4.65 01/15/22	85.00
Radiance	01/16/22	300	USD 300mn Bond JNHUI 10.50 01/16/22	98.95
Dafa	01/18/22	185	USD Bond DAFAP 9.95 01/18/22 with US\$18.5mn outstanding	90.00
Aoyuan	01/20/22	188	USD 188mn Bond CAPG 4.20 01/20/22	20.00
Poly	01/21/22	236	RMB 1500mn Bond POLYRE 3.60 01/21/22	100.00
CIFI	01/22/22	49	HKD 385mn Term Loan	-
Aoyuan	01/23/22	500	USD 500mn Bond CAPG 8.50 01/23/22	18.00
Yuzhou	01/23/22	242	USD Bond YUZHOU 8.625 01/23/22 with US\$242mn outstanding	50.00
Sinic	01/24/22	242	USD Bond SINHL 8.50 01/24/22 with US\$242mn outstanding	5.00
Yuzhou	01/25/22	347	USD Bond YUZHOU 6.00 01/25/22 with US\$347mn outstanding	47.00
Powerlong	01/26/22	128	HKD 1000mn Bond PWRLNG 6.00 01/26/22	-
Country Garden	01/27/22	425	USD 245mn Bond COGARD 7.125 01/27/22	98.51
Zhongliang	01/31/22	203	USD Bond ZHLGHD 7.50 01/31/22 with US\$203mn outstanding	96.50

Source: Bloomberg

Figure 2: December property sales -20% YoY



Source: CMBIS

Figure 3: Correlation between Vanke H and Vanke A



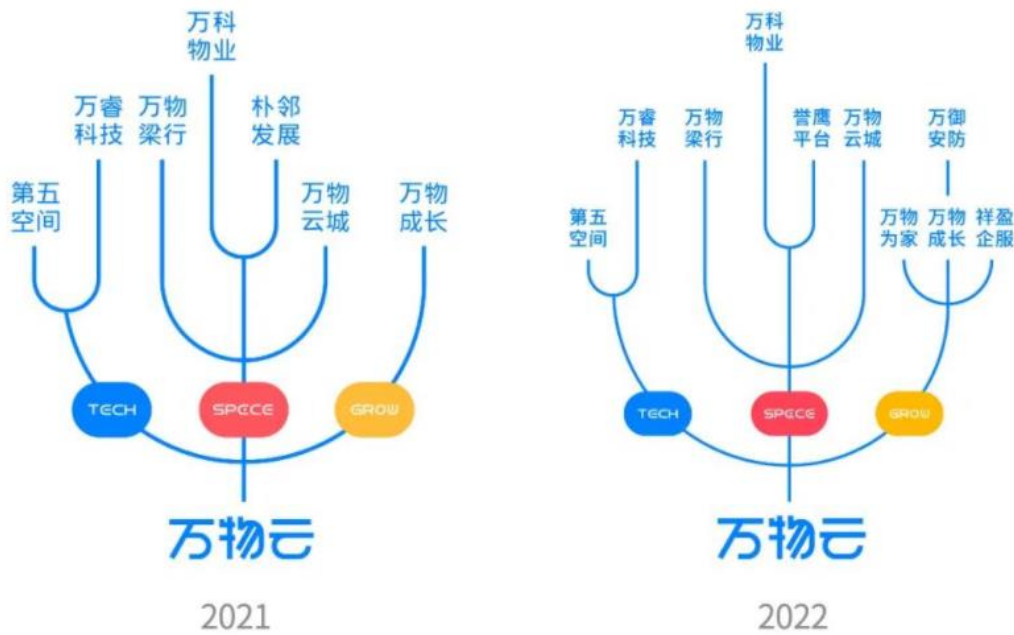
Source: Bloomberg

Figure 4: Pair trade strategy to long Vanke H and short Vanke A

Pair Trade Strategy:	Long 1mnUSD of Vanke H and Short 1mn USD of Vanke A
Downside of this trade:	As Vanke H has 24% higher beta than Vanke A, the pair trade is not delta neutral but at 0.19Delta. However since Vanke A and H are highly correlated, then the delta risk does not have fat tail risk while liquidity risk has been factored in the H-A discount. As the downside for Vanke H is only 9% comparing to 52-week low at HKD16.8/share and trading at historically-low valuation at 0.78x PB and 4x 2021E PE, <b>it implies the spread downside is 2%</b>
Why Pair trade?	Only Vanke H investors are entitled to 20% of planned Onewo's new shares, equivalent to 3% of Onewo's total shares (as Onewo plans to issue 15% of new shares). We estimate total market value of Onewo is at least HKD100bn so Vanke H investors could receive options to buy HKD3bn-worth Onewo shares or valued at HKD290mn. This is equivalent to 4% dividend yield which can cover the downside
Where is the alpha:	The alpha will come from our positive view on Onewo's potential share price upside, mainly because 1) High earnings visibility due to its semi-SOE status on GFA transfer 2) Diversified portfolio with office exposure at 30% of total revenue from Cushman & Wakefield Vanke Service. In particular, it has delivered 33% of revenue increase in 1H21. The Company serves more than 50 leading Internet companies and unicorns, of which more than 20 companies have a market value of more than US\$10bn. 8 of China's top 10 Internet companies by market capitalization are customers of the Company. 3) New initiatives such as RMB10bn targeted revenue generated from Tier 1 and 2 cities' services by 2023, accounting for 50% of growth. (Including cities like Beijing, Shenzhen, and Guangzhou etc.)

Source: CMBIS

Figure 5: New initiatives and diversified business lines



Source: Vanke Service

Figure 6: PM sector comps

Company	Ticker	CMBI rating	TP (HK\$)	Last price (HK\$)	Mkt Cap (HK\$ mn)	P/E			Net profit growth (%)	
						20A	21E	22E	21E	22E
Country Garden Services	8098 HK	BUY	91.2	44.8	150,127	44.2	28.6	18.2	65.8	45.9
CR MixC Lifestyle	1209 HK	BUY	56.0	35.5	80,915	66.9	43.6	31.7	53.6	37.3
A-Living	3319 HK	HOLD	34.2	12.5	17,778	7.9	5.7	4.4	38.9	29.4
Greentown Services	2889 HK	HOLD	9.5	7.1	23,169	31.3	19.8	15.2	57.6	30.8
Ever Sunshine	1995 HK	BUY	22.2	11.3	19,749	44.4	24.1	16.3	84.7	47.2
Poly Services	6049 HK	HOLD	53.4	56.7	31,374	41.3	29.3	22.8	41.0	28.5
S-Enjoy	1755 HK	BUY	34.6	9.9	8,629	16.0	10.1	7.1	58.2	42.7
Powerlong Commercial	9909 HK	BUY	33.2	14.1	9,052	25.6	15.9	11.5	61.5	37.7
Excellence CM	6989 HK	BUY	14.9	4.5	5,440	12.8	8.4	6.2	51.9	36.4
Central China New Life	9983 HK	BUY	12.9	4.8	6,142	11.3	8.1	5.9	40.2	36.1
Sino-Ocean Services	6877 HK	BUY	7.1	4.6	5,482	12.2	10.7	7.7	13.4	39.4
New Hope Services	3658 HK	BUY	4.4	2.6	2,109	15.4	9.0	5.8	70.7	53.8
Redsun Services	1971 HK	BUY	9.4	4.2	1,747	18.7	9.1	6.1	105.2	48.4
Evergrande Services	6886 HK	BUY	10.4	2.6	28,324	8.3	5.8	3.8	54.0	52.5
Sunac Services	1516 HK	BUY	29.8	7.0	21,470	23.0	11.2	7.0	105.3	60.6
COPH	2669 HK	NR	NA	7.9	25,999	36.4	27.9	21.4	30.6	30.3
Times Neighborhood	9928 HK	NR	NA	2.6	2,533	9.4	5.1	2.8	85.6	78.5
Aoyuan Healthy Life	3662 HK	NR	NA	2.4	1,736	6.2	4.0	2.8	55.2	42.0
Shimao Services	873 HK	NR	NA	5.1	12,742	12.4	8.0	5.4	55.0	47.6
KWG Living	3913 HK	NR	NA	2.9	5,829	13.5	6.5	4.2	108.2	53.5
Jinke Smart Services	9886 HK	NR	NA	31.8	20,728	22.4	15.1	10.1	48.1	49.4
Average						37.7	23.9	17.1	59.1	42.6

Source: Bloomberg

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