

China Property Service Sector

Worth to chip in the sector again

PM sector has seen >20% share price pull back from its recent peak and it is mainly due to the valuation correction, in line with global growth sector sell off. With increasing market uncertainty, we think the key sector valuation support has shifted to VAS and retail/rental growth as GFA growth is more of a defensive driver. On VAS, we continue to be positive on its high potential and may see an industry-average of 44% CAGR in 2019-22E contributing 35% of group GP. On retail/rental part, CR Land has shown a very positive sign of 29% YoY rental growth in Jan 2021 and may pose +60% YoY growth in 1H21 following the consumption recovery. Sector is currently trading at 17x 2022E PE vs. (+30% NP growth in 2022E, PEG of 0.6) and we think now it is a good time to accumulate. Top picks: CGS/Ever Sunshine and CR Mixc/Powerlong CM/Sino-Ocean Service.

- **VAS leaders would see more valuation support:** As our key thesis in our [industry report](#), we think VAS progress during 2020 results announcement would be the key to watch. The reason behind is that GFA is unlikely to continue driving the sector due to the growth slowdown and fierce competition. In comparison, VAS would be the key growth engine as 1) it has high potential given 5-10 times upside from now. Currently the industry VAS per managed GFA is only RMB4/sq m on average compared to RMB50-56/sq m in US/Japan leading firms such as FirstService/Nihon Housing (despite the salary difference). 2) Currently it is at the high-growth stage in the areas of retail, advertisement and brokerage. We continue to think CGS would be VAS leader on its first-mover advantage in the upper-stream acquisitions of advertisement and brokerage companies. Recently they have launched the health insurance program in its APP via their acquired company.
- **High-end shopping mall operator remains the key beneficiary from consumption recovery:** As 2021 would be the year of consumption, we reiterate our positive view on the rental income growth of 30% for major players like CR Land, which would benefit its service unit. This is evidenced by CR Land's January figure that shows 29% rental income growth despite a relatively high base (+15% YoY). With a gradual lowering base in 1H20 (-12% YoY) and retail sales picking up, we may see an even higher growth in 1H21 for CR Land (>60% YoY rental growth) to RMB 8bn and thereby benefits CR Mixc Lifestyle which can share 5%/10% of rental revenue/EBIT profits.
- **HK-connect to be effective on 15 Mar as a major catalyst:** On 26 Feb, Hang Seng indexes announced 8 PM names (see Figure 5) to be added in the HK-connect program. This will be effective on 15 Mar and we think the southbound money will provide some support especially for CR Mixc which is the only high-end shopping mall operator. As for the concern of recent southbound net outflow, we think it may only impact the size of inflow but not the direction.
- **Initiation and rating change:** We upgrade Poly PM and A-living to Hold on attractive valuation. Also, we initiate Sino-Ocean service with a Buy rating on its high-end commercial operation potential. As for top picks, we continue to prefer CGS/Ever Sunshine (on VAS and high earnings visibility) and CR MixC Lifestyle/Powerlong Commercial/Sino-Ocean Service (on shopping mall).

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(Maintain)

China Property Service Sector

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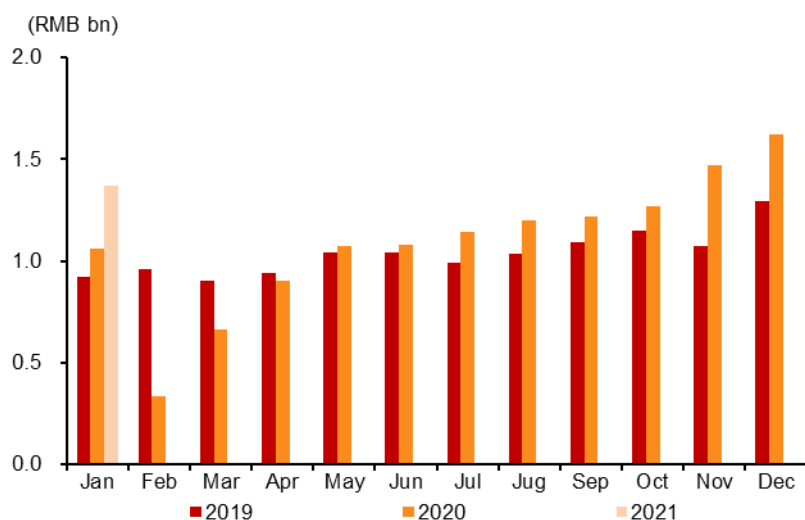
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Continue to prefer shopping mall operators to benefit from

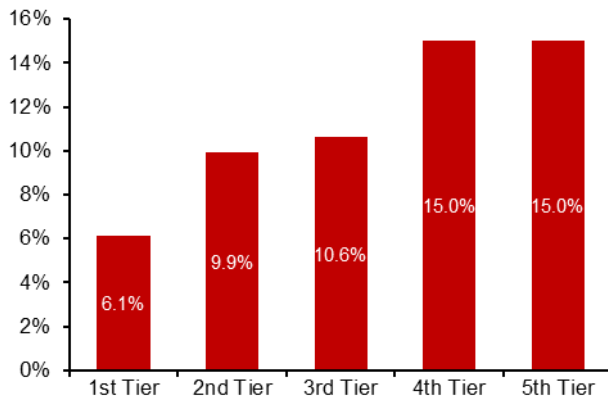
As 2021 would be the year of consumption, we reiterate our positive view on the rental income growth of 30% for major players like CR Land, which would benefit its service arm. This is evidenced by CR Land's January figure that shows 29% rental income growth despite a relatively high base (+15% YoY). With a gradual lowering base in 1H20 (-12% YoY) and retail sales picking up, we may see an even higher growth in 1H21 for CR Land (>60% YoY rental growth) to RMB 8bn rental income and thereby benefits CR Mixc Lifestyle which can share 5%/10% of rental/EBIT revenue.

Figure 1: CR Land's monthly rental income (we expect +60% YoY growth in 1H21)

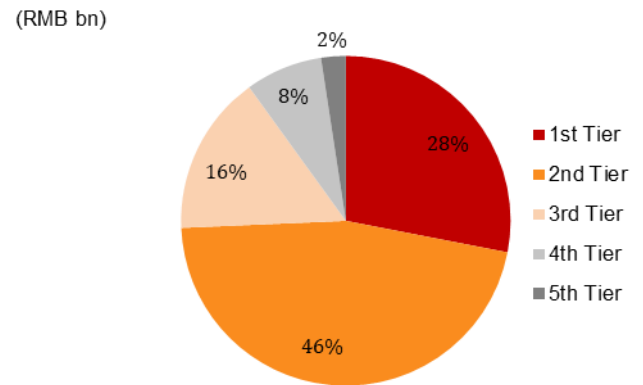


Source: Company data, CMBIS

To further drill down, we prefer shopping mall operators targeting Tier 1-2 cities and mid-to-high end tenants. This is mainly because 1) Tier 1-2 cities had 74% market share of total rental income and thus have more room to grow for shopping mall operators either via acquisition or light asset model. 2) Mid-to-high end operators can source more unique and irreplaceable tenants (such as luxury) that can take higher rent or rent/sales ratio. For example, CR Cities have a rent/sales ratio of 14% while 12% for Powerlong malls. 3) E-commerce has more impacts for shopping malls that target low-to-mid end or lower-tier cities. For example, internet giants such as PDD, Alibaba are all competing in the lower-tier cities and thus may dilute the market share of shopping malls.

Figure 2: 2019 Shopping vacancy rate by city tier

Source: Linkshop.com

Figure 3: 2019 Rental income by city tier

Source: Company data

VAS to become the new growth engine

For VAS, it is also partly driven by GFA growth but the increase in efficiency (VAS per sq m) is taking a more dominant role based on the graph below. Currently VAS per managed GFA is only RMB4.1/sq m and it has huge upside when compared to RMB50/sq m in US and RMB56/sq m in Japan (despite the salary difference).

The two determined factors for VAS per sq m are **1) Occupancy rate** (more residents, more VAS potential). Based on our calculation, the industry is likely to see a declining occupancy rate due to the heavy dilution of new delivered GFA. However, CGS will see an uptrend due to slowdown in GFA growth. **2) Variety of services**: we prefer companies that focus on high margin business and have capital to do M&A to expand the coverage. We think the high-margin businesses are retail, asset management (life insurance, brokerage) and advertisement. Since it is very difficult to build up internally for these, we think acquisition would be the key to expand into these areas based on the experience of similar companies in US and Japan. This would be beneficial for market leaders, which have the capital and first-mover advantage. For example, CGS has already been buying asset management and media companies while growing retail business by making use of its parentco's support in sourcing. Recently it has launched the health insurance program in its APP via their acquired company.

We expect VAS to grow 44% in 2019-22E CAGR vs. revenue of 36% and it will contribute 17% of revenue and 35% of GP by 2022E (14% and 27% in 2019E).

Figure 4: Our forecast of Community VAS Revenue

Community VAS (RMB mn)	2017	2018	2019	2020E	2021E	2022E	YoY	2018	2019	2020E	2021E	2022E
A-Living	102	289	485	860	1,118	1,230		184%	68%	77%	30%	10%
Central China New Life	26	85	545	838	1,113	1,404		223%	538%	54%	33%	26%
Country Garden Services	242	417	865	1,775	3,099	5,297		73%	107%	105%	75%	71%
CR MixC Lifestyle	107	106	145	153	221	299		-1%	37%	5%	45%	35%
Ever Sunshine	110	198	483	897	1,536	2,434		80%	143%	86%	71%	58%
Excellence CM	89	133	204	338	746	1,168		50%	53%	66%	121%	56%
Greentown Services	900	1,310	1,913	2,029	2,564	3,116		46%	46%	6%	26%	22%
Languang Justbon	182	333	449	577	739	948		83%	35%	28%	28%	28%
Poly Services	319	623	1,154	1,847	2,401	3,001		95%	85%	60%	30%	25%
Powerlong Commercial		39	50	90	135	182			28%	80%	50%	35%
Redsun Services	12	15	27	81	202	343		22%	79%	200%	150%	70%
S-Enjoy	43	48	176	370	534	670		11%	268%	110%	44%	25%

Source: Company data, CMBIS estimates

HK-connect serves as a major catalyst

On 26 Feb, Hang Seng indexes announced 8 PM names (see Chart below) to be added in the HK-connect program. This will be effective on 15 Mar and we think the southbound money will provide some support especially for CR Mixc service which is the only underlying name heavily exposed to high-end shopping mall business. As for the concern of recent southbound net outflow, we think it may only impact the size of inflow but not the direction.

Figure 5: Newly-added names into HK-connect program, effective on 15 Mar

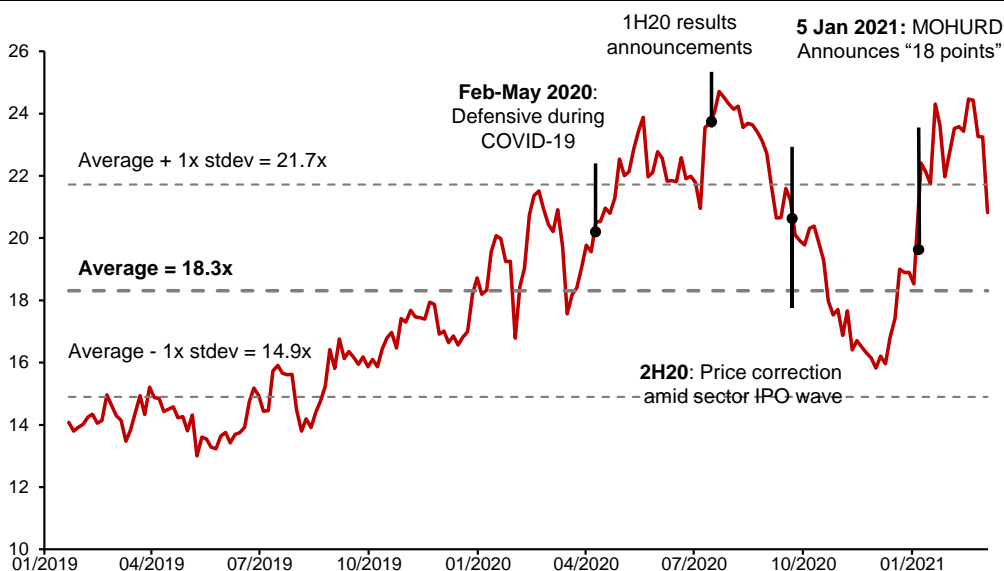
List code	Names	Market Cap (US mn)
6666	Evergrande Services	20,561
1209	CR Mixc Lifestyle	10,956
1516	Sunac Services	7,936
9666	Jinke Smart Services	5,261
873	Shimao Services	4,077
1755	S-Enjoy Services	1,962
3913	KWG Living	1,916
6989	Excellence CM	1,514

Source: Hang Seng Indexes

Valuation looks attractive

Currently the industry is trading at 17x 2022E PE, below its historical average of 18x. Also given that we forecast 2022E earnings growth at 30%, the peg is at 0.56 which looks attractive. With the growth engine switching to VAS, we think the valuation has further room to grow, especially for market leaders to widen the gap with small players.

Figure 6: 2-yr rolling forward PE



Source: Company data, CMBIS

Figure 7: Valuation table

Company	Ticker	CMBI rating	TP (HK\$)	Last price (HK\$)	Mkt Cap (HK\$ mn)	P/E			Net profit growth (%)		
						20E	21E	22E	20E	21E	22E
CR MixC Lifestyle	1209 HK	BUY	52.2	39.0	88,903	82.8	49.2	37.3	144.2	68.2	31.8
Country Garden Services	6098 HK	BUY	84.6	58.8	173,418	54.7	31.9	24.3	44.7	71.4	31.3
Ever Sunshine	1995 HK	BUY	28.8	17.8	29,767	55.7	33.4	21.7	91.3	72.8	54.2
Poly Services	6049 HK	HOLD	53.4	46.3	25,592	32.3	27.4	21.6	34.2	17.8	26.5
Greentown Services	2869 HK	HOLD	9.5	8.0	25,686	33.0	25.6	21.1	19.4	32.2	21.5
Powerlong Commercial	9909 HK	BUY	33.2	23.8	15,327	40.2	27.4	20.9	70.8	52.1	31.5
S-Enjoy	1755 HK	BUY	29.6	18.6	15,270	28.3	20.0	15.7	58.8	41.3	27.2
A-Living	3319 HK	HOLD	31.7	28.6	38,067	17.9	15.6	13.5	43.5	14.9	15.1
Excellence CM	6989 HK	BUY	14.9	9.5	11,589	22.9	17.8	12.7	86.0	62.9	39.7
Central China New Life	9983 HK	BUY	11.3	6.1	7,606	17.2	11.2	8.1	55.4	53.1	39.3
Languang Justbon	2606 HK	BUY	69.7	47.8	8,504	12.3	9.2	6.9	33.3	34.2	34.1
Redsun Services	1971 HK	BUY	9.4	4.2	1,739	17.1	9.5	6.7	49.7	71.7	41.8
Sino-Ocean Services	6677 HK	BUY	7.1	3.9	4,594	13.9	9.3	6.5	32.5	50.5	41.8
Average						32.9	22.1	16.7	51.3	47.7	30.4

Source: Bloomberg, CMBIS estimates

Rating change and stock picks

For the rating change, we upgrade Poly PM and A-living to Hold as the valuation looks cheap after the recent sell-off. Also we initiate Sino-Ocean services with a Buy rating and target price of HK\$7.13 based on 12x 2022E PE multiple (according to our score card). We like its high-end shopping mall exposure such as Chengdu Taikoo Li and Beijing Indigo which could benefit from the consumption recovery. Also, we expect the Company to include the commercial operating business such as tenancy and pre-opening services in the near future which could serve as a long-term re-rating factor.

Figure 8: Score card ranking

Metrics	Overall score	Parentco support	GFA growth	VAS growth	Shopping mall contribution	Non-M&A expansion	Execution	Target 2022E PE
CR MixC Lifestyle	76	95	30	80	90	70	80	50x
Country Garden Services	69	95	50	95	10	80	90	35x
Ever Sunshine	66	80	80	80	20	60	80	35x
Powerlong Commercial	60	70	40	30	90	70	60	30x
S-Enjoy	58	70	70	70	20	70	60	25x
Greentown Services	54	30	40	70	20	90	80	25x
Poly Services	52	80	50	50	10	80	60	25x
Excellence CM	51	50	50	60	30	80	50	20x
Central China New Life	49	50	40	70	30	50	50	15x
Redsun Services	42	40	60	30	30	50	50	15x
A-Living	41	40	40	50	20	30	60	15x
Sino-Ocean Services	39	40	40	40	30	30	50	12x
Languang Justbon	37	40	60	30	20	20	50	10x

Source: Company data, CMBIS

Figure 9: Rating change and new TP

Company	New Rating	Old Rating	New TP (HK\$)	Old TP (HK\$)	Upside%
CR MixC Lifestyle	BUY	BUY	52.2	52.2	34%
Country Garden Services	BUY	BUY	84.6	84.6	44%
Ever Sunshine	BUY	BUY	28.8	28.8	62%
Powerlong Commercial	BUY	BUY	33.2	33.2	39%
S-Enjoy	BUY	BUY	29.6	29.6	59%
Greentown Services	HOLD	HOLD	9.5	9.5	19%
Poly Services	HOLD	SELL	53.4	53.4	15%
Central China New Life	BUY	BUY	11.3	11.3	86%
Excellence CM	BUY	BUY	14.9	14.9	57%
Redsun Services	BUY	BUY	9.4	9.4	124%
A-Living	HOLD	SELL	31.7	31.7	11%
Languang Justbon	BUY	BUY	69.7	69.7	46%
Sino-Ocean Services	BUY	N.A.	7.1	N.A.	84%

Source: Bloomberg, CMBIS

As for top picks, we prefer market leaders with 1) high exposure to shopping mall businesses; 2) high VAS potential; 3) high earnings visibility. Therefore, our top picks are **CR MixC Lifestyle/Powerlong Commercial/Sino-Ocean Service** (on shopping mall) and CGS/Ever Sunshine (on VAS and high earnings visibility).

Sino-Ocean Service (6677 HK)

Re-rating on potential commercial operating service; Initiate with Buy

We like Sino Ocean Service's exposure to high-end shopping malls and offices, which could reach 3.5mn sq m by 2022E given parentco's strong pipeline such as Indigo 2 and Wuhan Guiyuan Temple projects. More importantly, the potential addition of commercial operation service (similar to CR Mixc's pre-opening services) could become the new growth engine and we estimate it may contribute 9% of GP in 2022E (assuming 10% commission on rental). By incorporating potential M&A and VAS contribution, we expect earnings to grow 41% CAGR in 2019-22E to reach RMB584mn. Initiate at Buy rating with TP of HK\$7.13.

- Potential addition of commercial operating services in its high-end malls and offices.** As one of the key high-end mall and office players, Sino Ocean currently owns 2.5mn sq m of commercial areas including Beijing Indigo, Chengdu Taikoo Li and other offices. Given parentco's continuous efforts into complex projects such as Indigo 2 and Wuhan Guiyuan Temple complex, we expect another 1mn sq m addition of high-end projects by 2022E, which could contribute 25% of PM revenue. More importantly, the Company is considering to add commercial operation such as tenancy and pre-opening services. This would be similar to CR Mixc's business model which charges commission. If we assume 10% commission on rental, this may bring RMB147mn revenue (4% of total) and RMB95mn GP (9%) by 2022E. Given that we are positive on the retail/rental recovery, this may become a mid-to-long term driver.
- Overall contracted GFA to exceed 100mn sq m (+50% YoY) by 2021E:** We expect Sino Ocean to add >30mn sq m of contracted GFA this year, out of which parentco would support 20% and 80% would come from M&A and third-party bidding. For the M&A target of 20mn sq m in 2021E, we are confident the Company could achieve it given parentco's strong network and proven M&A track record (contributed 35% of land acquisition). However, Sino Ocean needs to be very selective on the M&A assets given its low valuation.
- Expect 41% earnings CAGR in 2019-22E:** With the parentco support, commercial operation business and M&A expansion, we expect its top line to grow 28% CAGR in 2019-22E. Given the high margin of commercial operation business, GPM is expected to grow steadily to 27.5% by 2022E and thus support its earnings growth to reach 41% CAGR in 2019-22E at RMB584mn.
- Initiate at Buy with TP of HK\$ 7.13.** Based on our score card, we assigned 12x 2022E PE to derive target price of HK\$7.13/share. Currently the Company is trading at 7x 2022E PE which looks attractive. **Catalysts:** update on commercial operation; management incentive plan. **Risks:** less-than-expected GFA growth and M&A expansion.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	1,610	1,830	2,023	2,826	3,790
YoY growth (%)	32.8	13.6	10.5	39.7	34.1
Net income (RMB mn)	137	207	274	412	584
EPS (RMB)	N.A.	N.A.	0.23	0.35	0.49
YoY growth (%)	N.A.	N.A.	N.A.	50.5	41.8
Consensus EPS (RMB)	N.A.	N.A.	0.25	0.35	0.47
P/E (x)	N.A.	N.A.	14.5	9.7	6.8
P/B (x)	N.A.	N.A.	1.5	1.5	1.3
Yield (%)	N.A.	N.A.	2.8	4.1	5.9
ROE (%)	27.4	49.4	10.0	14.8	18.1
Net gearing (%)	Net cash	452.4	482.1	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Initiation)

Target Price	HK\$7.13
Up/Downside	+83.8%
Current Price	HK\$3.88

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Stock Data

Mkt Cap (HK\$ mn)	4,795
Avg 3 mths t/o (HK\$ mn)	N.A.
52w High/Low (HK\$)	5.87/4.01
Total Issued Shares (mn)	1,184

Source: Bloomberg

Shareholding Structure

Sino-Ocean Group	67.6%
Free float	32.4%

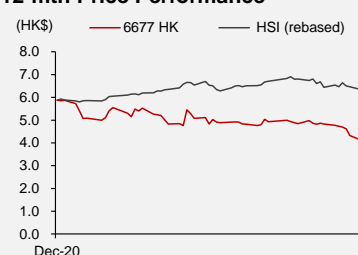
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-13.4%	-11.1%
3-mth	N.A.	N.A.
6-mth	N.A.	N.A.
12-mth	N.A.	N.A.

Source: Bloomberg

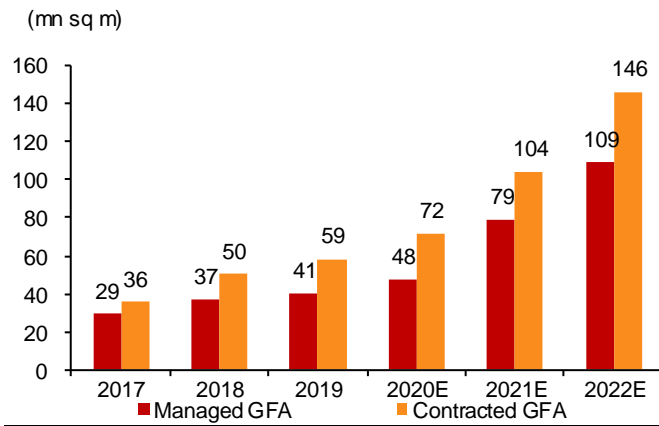
12-mth Price Performance



Source: Bloomberg

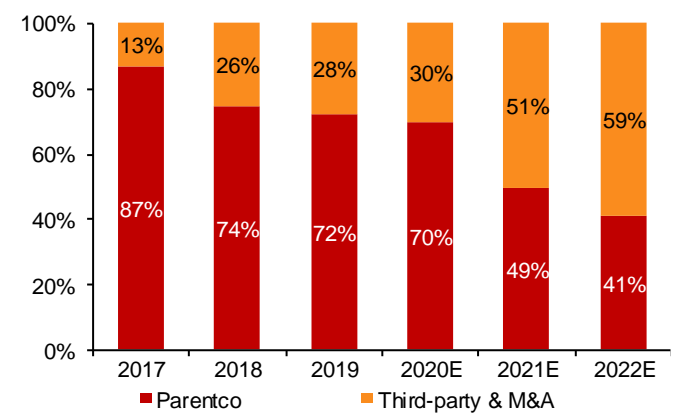
Auditor: PwC

Figure 10: Managed and contracted GFA



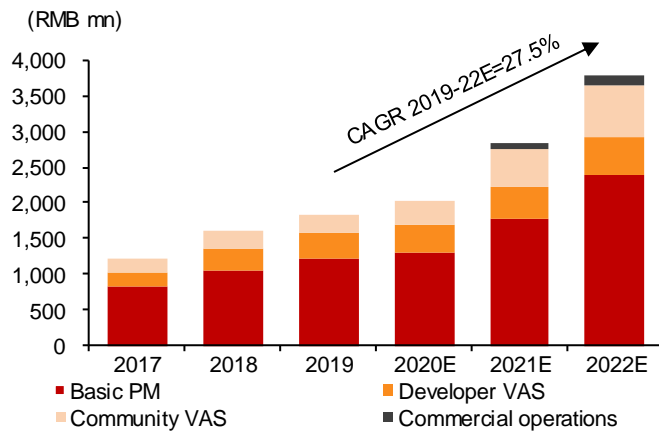
Source: Company data, CMBIS estimates

Figure 11: GFA breakdown by source



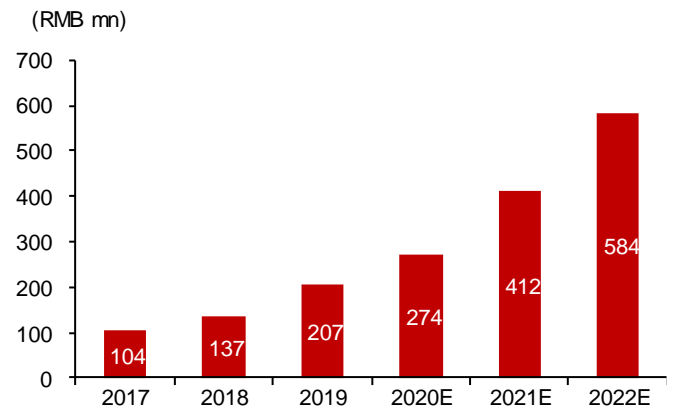
Source: Company data, CMBIS estimates

Figure 12: Revenue



Source: Company data, CMBIS estimates

Figure 13: Net profit



Source: Company data, CMBIS estimates

Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	1,610	1,830	2,023	2,826	3,790	Profit before tax	185	266	349	526	746
Property management services	1,052	1,220	1,305	1,781	2,388	D&A	27	27	20	16	16
Developer VAS	317	373	378	444	522	Change in working capital	(134)	(4)	15	227	282
Community VAS	241	237	340	532	733	Others	(40)	(83)	(100)	(121)	(171)
Commercial operations	-	-	-	69	147	Net cash from operating	38	207	284	648	873
Cost of sales	(1,287)	(1,453)	(1,512)	(2,066)	(2,749)	Capex	(13)	(11)	(11)	(11)	(11)
Gross Profit	323	377	511	760	1,041	JV/Associates	(17)	-	-	-	-
Other income	111	225	101	3	3	Others	(3,060)	430	400	(5)	(5)
Selling expenses	(10)	(9)	(8)	(11)	(15)	Net cash from investing	(3,090)	419	389	(16)	(16)
Administrative expenses	(132)	(144)	(162)	(212)	(269)	Equity raised	-	-	1,635	-	-
Other gains/(losses)	3	4	-	-	-	Change of debts	2,802	(267)	266	-	-
Impairment	(25)	(14)	(16)	(16)	(16)	Others	(36)	(350)	(292)	(109)	(165)
Operating profit	269	439	426	524	743	Net cash from financing	2,766	(617)	1,608	(109)	(165)
Finance cost	(84)	(173)	(80)	(1)	(1)	Net change in cash	(286)	9	2,282	523	692
Pre-tax Profit	185	266	349	526	746	Cash at the beginning of the year	701	415	423	2,705	3,228
Income tax	(41)	(61)	(78)	(118)	(168)	Exchange difference	-	-	-	-	-
PROFIT FOR THE YEAR	144	205	270	408	578	Cash at the end of the year	415	423	2,705	3,228	3,920
Non-controlling interest	(7)	1	3	4	6	Key ratios					
Net Profit attribute to shareholders	137	207	274	412	584	YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Balance sheet						Sales mix (%)					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	Property management services	65.3	66.7	64.5	63.0	63.0
Non-current assets	3,361	3,123	347	359	376	Developer VAS	19.7	20.4	18.7	15.7	13.8
Property, plant and equipment	25	25	28	30	32	Community VAS	15.0	13.0	16.8	18.8	19.4
Others	3,336	3,097	320	329	343	Commercial operations	0.0	0.0	0.0	2.4	3.9
Current assets	978	1,034	6,031	4,116	5,067	Total	100.0	100.0	100.0	100.0	100.0
Inventories	129	135	140	192	255	Profit & loss ratios (%)					
Trade and other receivables	435	458	502	662	853	Gross margin	20.1	20.6	25.2	26.9	27.5
Cash and cash equivalents	415	423	2,705	3,228	3,920	Net margin	8.5	11.3	13.5	14.6	15.4
Others	0	18	2,684	34	39	Effective tax rate	22.4	22.9	22.5	22.5	22.5
Total assets	4,339	4,157	6,379	4,475	5,443	Growth (%)					
Current liabilities	1,341	1,552	3,601	1,651	2,188	Revenue	32.8	13.6	10.5	39.7	34.1
Trade and other payables	644	800	832	1,137	1,514	Gross profit	28.5	16.6	35.6	48.8	36.9
Others	698	752	2,769	514	674	Operating profit	89.1	63.0	-3.0	22.9	41.9
Non-current liabilities	2,468	2,164	26	26	26	Net profit	31.7	50.6	32.5	50.5	41.8
Deferred income tax liabilities	16	14	13	13	13	Balance sheet ratios					
Others	2,452	2,150	13	13	13	Current ratio (x)	0.7	0.7	1.7	2.5	2.3
Total liabilities	3,809	3,717	3,627	1,677	2,214	Receivable turnover days	78	73	73	73	73
Equity to shareholders	501	418	2,732	2,783	3,220	Returns (%)					
Non-controlling interests	29	22	19	15	9	ROE	27.4	49.4	10.0	14.8	18.1
Total Equity	530	440	2,751	2,798	3,229	ROA	3.2	5.0	4.3	9.2	10.7
						Per share					
						EPS (RMB)	N.A.	N.A.	0.23	0.35	0.49
						DPS (RMB)	N.A.	N.A.	0.09	0.14	0.20
						BVPS (RMB)	N.A.	N.A.	2.23	2.28	2.65

Source: Company data, CMBIS estimates

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Analyst Certification

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