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China Property Service Sector

FY22 review: if and only if Binjiang Service

OUTPERFORM (Maintain)

China Property Service Sector

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If there is one phrase to summarize PM sector's 2022, that is "never give up". Facing an unprecedented COVID and property market, not only SOEs utilized their dominate resources to deliver better-than-expected results (Poly, CR Mixc, COPH), but also POEs increased dividend and fought hard in third party expansion. (CGS, Sunac Service, New Hope Service). In this sector report, **we initiate Binjiang service as Top pick** on management's good track record, 30% growth profile, stable parentco (63% sales YoY growth in 1Q23) and attractive valuation (11/9x 2023/24E PE). Also we **upgraded Poly Service** to BUY on its results beat and successful penetration in Community VAS businesses. Our pick order would be Binjiang Service > Poly Service > CR Mixc > COPH.

- **Leading SOEs are crashing others on their incomparable resources.** Unsurprisingly or surprisingly, leading SOEs all delivered solid results with Poly Service's strong beat at 32% earnings growth (buy-side expectation at 20%) and CR Mixc/COPH at 31% and 29% YoY growth in 2022 core profits. The reasons behind are the strong parentco support on the steady GFA delivery, still growing non-owner VAS revenue and park sales. We think these incomparable resources would continue to widen their gaps with others as 1) their parentco are the key beneficiaries of property recover in which CRL/COLI/POLY recorded 73%/72%26% sales growth in 1Q23 (industry at 11%). 2) SOE status can help their expansion into government-related projects which are a big source of overall third party expansion.
- **Aspiring POEs increased dividend and fight hard in third party expansion.** Dragged by their parentco, POEs generally reported net profit decline due to impairment and non-owner VAS. However, motivated POEs have increased the dividend payout such as CGS at 65%, Sunac Service at 55%, and New hope Service at 50% to prove their cash independence and asset-light nature. Also they have made progress to rely on third party expansion (we expect >50% contribution) to drive the GFA growth so that would make the organic growth of 10-15% in 2022-25E.
- **If and only if Binjiang Service:** as argued in the initiation report, Binjiang service is the only property management company that has desperately insisted on long-termism. This can be seen from two aspects: 1) no M&A in the history book. 2) Focusing on high-end projects that match with its premium branding, evidenced by its average RMB4.4/sqm management fee. We think its 30% earnings CAGR is achievable by reliable parentco ranked No.13 in China (63% sales YoY growth in 1Q23), premium branding to help expand in the third party projects (>10mn sqm annually) and rapidly-growing home decoration in its dominate Hangzhou region (65% of managed GFA). It is currently trading at an attractive 11/9x 2023/24E.
- **Valuation and top picks:** The sector is currently trading at avg.17x 2023E P/E which we think is quite fair from a long-term perspective. However, we think market leaders like Poly Service and COPH can trade to 20x for their 25% earnings CAGR backed by strong parentco, third party expansion into non-residential type and continuous penetration in Community VAS. Also, CR Mixc is benefiting from retail boost on its shopping malls and deliver 35% earnings growth. Among POEs, Binjiang is likely to outperform on solid earnings and parentco.

Figure 1: Rating and TP change

	New Rating	New TP (HK$)	Old Rating	Old TP (HK$)	2023E Target PE	Comments on PE multiple
Binjiang Service	BUY	35.8	NA	NA	16x	Leading POE with high earnings visibility at 30% CAGR
Poly Service	BUY	58.4	HOLD	48.1	20x	SOE with high earnings visibility at 25% CAGR
CG Service	BUY	47.6	BUY	22.9	12x	Sister company under sales decline; earnings CAGR at 10%
Sunac Service	BUY	3.9	BUY	7.0	12x	Parentco under pressure; earnings CAGR at 10%
CR Mixc	BUY	48.0	BUY	56.0	32x	High ROE due to its shopping mall operation; SOE with earnings CAGR at 32%

Source: BBG, CMBIGM. For non-covered names, we use BBG consensus data

Figure 2: PM sector 2022E earnings review

RMB mn	Rev YoY	2022 GPM	2022 Core profit YoY growth	vs. cons	23E earnings YoY growth	24E earnings YoY growth	Company guidance
Binjiang Services	42%	30%	36%	Beat	31%	30%	Revenue/net profit to grow 30% YoY in 2023E
CR Mixc	35%	30%	31%	Beat	35%	30%	Target to accelerate profit growth in 2023 and beyond
COPH*	34%	16%	29%	Beat	28%	26%	30% CAGR in managed GFA unchanged
Poly Services	27%	19%	32%	Strong beat	26%	24%	Target 20% revenue and net profit YoY growth in 2023E
CGS	43%	25%	9%	In line	10%	10%	double digit growth in 2023E
Sunac Services	10%	23%	-46%	In line	11%	11%	10-15% YoY growth in core net profit in 2022-25E
Onewo	27%	14%	-17%	Miss	48%	25%	Core EBITDA would grow >25% YoY in 2023E
Greentown Services	18%	16%	-6%	Miss	17%	15%	Core operating profit to grow 20-25% YoY in 2023E
Yuexiu Services*	30%	27%	7%	Miss	15%	15%	15% YoY growth of net profits in 2022-25E
Average	30%	22%	8%		25%	21%	

Source: BBG, CMBIGM. *For non-covered names, we use BBG consensus data

Figure 3: Impairment risk still exists in 2023E especially for those with high% of AR over 1 year

RMB mn	2022 Account receivables	Impairment/AR	% of AR over 1 year
Sunac Services	4,440	34.7%	62%
Greentown Services	5,056	2.8%	16%
A-living	10,716	4.3%	13%
COPH	2,590	1.6%	10%
CGS	22,820	3.0%	9%
S-enjoy Service	2,594	5.6%	9%
Onewo	7,976	2.0%	7%
Yuexiu Services	1,022	0.3%	7%
CR Mixc	2,968	1.3%	3%
Poly Services	3,136	1.5%	3%
Binjiang Services	352	5.8%	2%
Average		**5.7%**	**12.9%**

Source: Company data, CMBIGM

Figure 4: VAS contribution as % of total Gross Profit

2022 Gross profit breakdown	Basic PM and operation	Community VAS	Others
Poly Services	46%	38%	16%
Yuexiu Services	46%	31%	23%
Greentown Services	48%	25%	28%
A-living	57%	23%	20%
CGS	61%	21%	18%
Binjiang Services	39%	20%	41%
COPH	63%	17%	21%
Onewo	56%	15%	29%
Sunac Services	83%	12%	4%
CR Mixc	81%	9%	7%
Average	**58%**	**21%**	**20%**

Source: Company, CMBIGM

Figure 5: Valuation comps of PM companies

Company	Ticker	CMBI rating	TP	Last price	Mkt Cap	P/E			Dividend Yield		Payout ratio
			(HK$)	(HK$)	(HK$ mn)	22A	23E	24E	22A	23E	22A
Binjiang Services	3316 HK	**BUY**	35.8	26.6	7,339	15.3	11.8	9.0	3.8%	4.9%	58%
Poly Services	6049 HK	**BUY**	58.4	48.1	26,615	20.6	17.0	13.9	1.3%	1.4%	26%
COPH	2669 HK	**NR**	NA	9.6	31,521	24.7	19.4	15.3	1.3%	1.5%	31%
CR MixC Lifestyle	1209 HK	**BUY**	48.0	41.3	94,153	35.9	28.2	22.3	1.2%	1.4%	44%
Onewo	2602 HK	**BUY**	43.6	35.2	41,423	24.8	15.1	11.6	0.8%	1.5%	20%
Country Garden Services	6098 HK	**BUY**	22.9	13.6	45,807	10.9	7.4	6.4	1.2%	3.4%	13%
Greentown Services	2869 HK	**BUY**	5.9	5.0	16,033	26.1	17.2	14.7	2.1%	3.0%	54%
Ever Sunshine	1995 HK	**HOLD**	12.7	3.1	5,335	n.a.	4.8	3.8	n.a.	5.8%	n.a.
S-Enjoy	1755 HK	**SELL**	8.5	6.2	5,375	10.5	5.5	4.7	3.0%	4.6%	32%
Powerlong Commercial	9909 HK	**BUY**	33.2	5.7	3,658	6.4	5.0	4.9	0.0%	4.7%	0%
Excellence CM	6989 HK	**BUY**	14.9	3.0	3,612	7.3	3.5	4.7	5.0%	8.5%	37%
New Hope Services	3658 HK	**BUY**	2.8	1.4	1,172	4.3	4.4	3.8	9.7%	9.5%	42%
Sunac Services	1516 HK	**BUY**	3.9	3.4	10,240	4.8	8.3	9.3	4.8%	3.3%	23%
Jinmao Services	816 HK	**HOLD**	5.5	4.1	3,734	9.9	5.8	4.4	0.0%	5.3%	0%
A-Living	3319 HK	**HOLD**	34.2	6.8	9,670	4.1	3.5	3.2	0.0	5.1%	0.0%
Shimao Services	873 HK	**NR**	NA	2.0	4,862	-4.5	5.2	6.0	0.0%	0.7%	n.a.
KWG Living	3913 HK	**NR**	NA	1.2	2,492	13.8	3.1	2.9	0.0%	9.7%	n.a.
Jinke Smart Services	9666 HK	**NR**	NA	12.0	7,834	-4.4	7.0	7.2	n.a.	4.4%	n.a.
Average						**21.8**	**16.7**	**13.6**	**1.4%**	**2.5%**	**28.6%**

Source: BBG, CMBIGM

Binjiang Services (3316 HK)

The rare long-termism implementer

Among the whole PM sector, Binjiang Services' 36% core profit growth in 2022 was the distant No.1. More importantly it is the only property management company that has desperately insisted on long-termism. This can be seen from two aspects: 1) no M&A in the history book. 2) Focusing on high-end projects that match with its premium branding, evidenced by its average RMB4.4/sqm management fee. We think its 30% earnings CAGR is achievable by reliable parentco ranked No.13 in China (63% sales YoY growth in 1Q23), premium branding to help expand in the third party projects (>10mn sqm annually) and rapidly-growing home decoration in its dominate Hangzhou region (65% of managed GFA). Initiate at Buy with TP of HK$35.8/share. It is currently trading at an attractive 11/9x 2023/24E. Catalysts: HK stock connect inclusion in August; 1H23 results

- **High visibility in its GFA expansion at 28% CAGR via its dominate premium branding.** Binjiang Service with deep root in Hangzhou (65% of its managed GFA) has grew its managed GFA to 42mn sqm by 2022 (45% 20-22 CAGR) mainly relying on its strong third party expansion (67% of managed GFA growth at 9mn sqm in 2022). Looking forward, we think its premium branding could continue to help its third party expansion at >10mn sqm annually together with Binjiang Group's stable 4mn sqm delivery. That would translate into a CAGR of 28% managed GFA in 2022-25E to 88mn sqm. GPM is expected to stay at a slight downward trend to 18% from current 19%.

- **Home decoration business will become the key VAS driver:** Binjiang Group is famous for its luxury brand and design especially in Hangzhou. So the service arm has tested the water in 2022 to carry on home decoration business for penthouse and achieved very appealing results to ~RMB100mn (up 11x YoY). With 65% of managed GFA concentrated in Hangzhou, Binjiang Service would deepen the furnish business by building its own team for the existing and potential owners. We expect this business to grow at 90% CAGR, becoming the key driver of 5S VAS (60% CAGR). Home decoration's GPM is around 25-30% and will drag down the VAS GPM to 40% but still higher than GPM of property management business at 18-19%. So it is accretive to both top line and margin.

- **Stable parentco to continue empowering.** Binjiang Group has achieved No.13 ranking in 2022 from No.22 in 2021 in terms of total sales (RMB153bn, -9% YoY) in 2022 due to steady sales in Hangzhou. In 1Q23, it has also recorded 63% YoY sales growth leading the industry again. We think a reliable parentco will not only can help deliver a steady 4mn sqm GFA per year, but also can empower its development network to Binjiang service for its third party expansion.

- **Initiate at BUY with 35% upside:** With clear strategy and capability mentioned above, we expect the Company to deliver 34% revenue CAGR in 2022-25E driven by GFA growth and home decoration business within community VAS. GPM is estimated to face slight pressure on the industry headwind and mix change (home decoration has GPM of 25-30%) to stabilize at 28% level from 30% in 2022. Net net, we think its net profit would grow 30% CAGR in 2022-25E to RMB903mn. We derive our TP of HK$35.8/share by using 16x 2023E PE (close to its historical and industry average). It is currently trading at 11/9x 2023/24E, vs. industry average of (16/12x).

BUY (Initiate)

Target Price	**HK$35.8**
Up/Downside	**+35%**
Current Price	**HK$26.6**

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Stock Data

Mkt Cap (HK$ mn)	7,339
Avg 3 mths t/o (HK$ mn)	5.32
52w High/Low (HK$)	27.8/12.50
Total Issued Shares (mn)	276

Source: Bloomberg

Shareholding Structure

Qi Jinxing	71.6%
Free float	28.4%

Source: HKEx

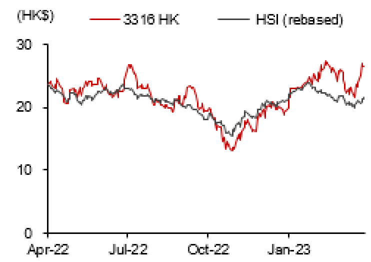
Share Performance

	Absolute	Relative
1-mth	2.9%	4.0%
3-mth	39.2%	34.9%
6-mth	36.9%	15.5%
12-mth	28.9%	39.2%

Source: Bloomberg

12-mth Price Performance

Source: Bloomberg



Auditor: KPMG

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23A	FY24E	FY25E
Revenue (RMB mn)	1,399	1,983	2,781	3,690	4,806
YoY growth (%)	45.7	41.7	40.3	32.7	30.3
Net income (RMB mn)	322	412	539	702	903
EPS (RMB)	1.16	1.49	1.95	2.54	3.27
YoY growth (%)	46.6	28.0	30.8	30.2	28.7
Consensus EPS (RMB)	NA	NA	NA	NA	NA
P/E (x)	19.8	15.5	11.9	9.1	7.1
P/B (x)	6.8	5.1	4.0	2.9	2.2
Yield (%)	3.0	3.9	2.5	3.3	4.2
ROE (%)	34.2	33.1	33.5	32.2	31.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

One page summary

Figure 1: Key summary

Key drivers	2020	2021	2022	2023E	2024E	2025E
Managed GFA (mn sqm)	**20**	**30**	**42**	**56**	**71**	**88**
YoY growth	39%	50%	40%	33%	27%	24%
Binjiang Group affiliates	13	16	19	23	27	31
Third party	7	14	23	33	44	57
M&A	-	-	-	-	-	-
Contracted GFA (mn sqm)	35	50	69	92	117	145
YoY growth	32%	40%	39%	33%	27%	24%
Revenue (RMB mn)	**960**	**1,399**	**1,983**	**2,781**	**3,690**	**4,806**
YoY growth	37%	46%	42%	40%	33%	30%
Property management services	554	841	1,193	1,688	2,209	2,824
VAS to non-property owners	312	420	540	647	775	929
Community VAS	94	139	249	446	705	1,053
Gross margin	**31%**	**32%**	**30%**	**28%**	**28%**	**28%**
Property management services	19%	19%	19%	19%	18%	18%
VAS to non-property owners	45%	45%	45%	45%	44%	43%
5S - Community VAS	55%	71%	48%	42%	42%	42%
Net profits (RMB mn)	**220**	**322**	**412**	**539**	**702**	**903**
YoY growth	91%	47%	28%	31%	30%	29%
Net margin	23%	23%	21%	19%	19%	19%

Source: Company data, CMBIGM

Investment thesis

High visibility in its GFA expansion at 28% CAGR via its dominate premium branding.

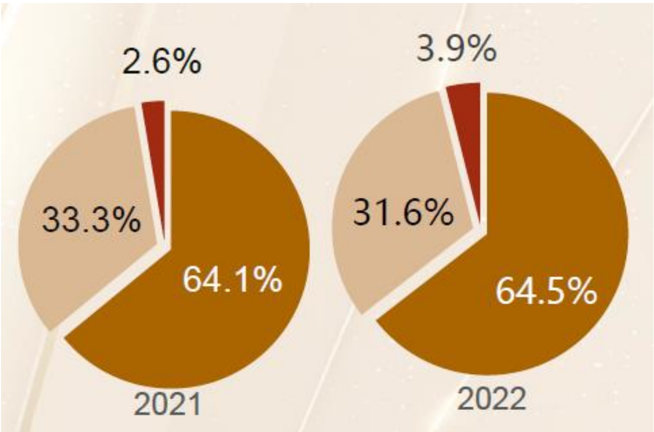
Binjiang Service with deep root in Hangzhou (65% of its managed GFA) has grew its managed GFA to 42mn sqm by 2022 (45% 20-22 CAGR) purely relying on its strong third party expansion (67% of managed GFA growth at 9mn sqm in 2022). Looking forward, we think its premium branding could continue to help its third party expansion at >10mn sqm annually together with Binjiang Group's 4mn sqm. That would translate into a CAGR of 28% managed GFA in 2022-25E to 88mn sqm. GPM is expected to stay at a slight downward trend to 18% from current 19%.

Figure 2: The managed GFA growth is dominated by third party expansion

Key drivers	2020	2021	2022	2023E	2024E	2025E
Managed GFA (mn sqm)	**20**	**30**	**42**	**56**	**71**	**88**
YoY growth	39%	50%	40%	33%	27%	24%
Binjiang Group affiliates	13	16	19	23	27	31
Third party	7	14	23	33	44	57
M&A	-	-	-	-	-	-

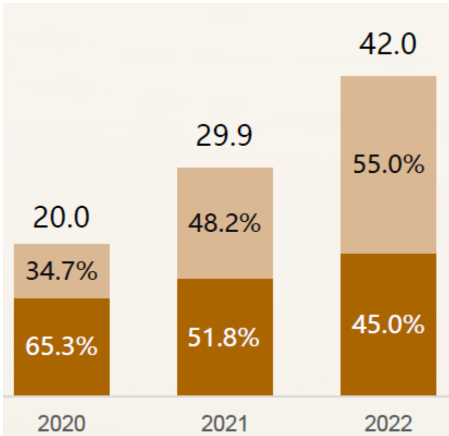
Source: Company data, CMBIGM

Figure 3: 65% of managed GFA located in Hangzhou while 32% in Zhejiang Province (excl. Hangzhou)



Source: Company data, CMBIGM

Figure 4: 55% of 42mn sqm managed GFA comes from 3rd party



Source: Company data, CMBIGM

Fast-growing Home decoration business to drive community VAS

Binjiang Group is famous for its luxury brand and design especially in Hangzhou. So the service arm has tested the water in 2022 to carry on home decoration business for penthouse and achieved very appealing results to ~RMB100mn (up 11x). With 65% of managed GFA concentrated in Hangzhou, Binjiang Service would deepened the furnish business by building its own team for the existing and potential owners. We expect this business to grow at 90% CAGR, becoming the key driver of 5S VAS (60% CAGR). Its GPM is around 25-30% and will drag down the VAS GPM to 40% but still higher than GPM of property management business at 18-19%. So it is accretive to both top line and margin

Figure 5: Home decoration business is the key VAS driver

5S Community VAS	2020	2021	2022	2023E	2024E	2025E	2022-25E CAGR
Total	**94**	**139**	**249**	**446**	**705**	**1,053**	62%
Youjia services	36	92	91	100	110	121	10%
Youju services	24	6	117	292	526	841	93%
Youxiang living services	34	41	41	53	69	90	30%

Source: Company data

Figure 6: Home decoration business

Source: Company data

Binjiang Group stands strongly to support Binjiang Service

Binjiang Group has achieved No.13 ranking in 2022 from No.22 in 2021 in terms of total sales (RMB153bn, -9% YoY) in 2022 due to steady sales in Hangzhou. In 1Q23, it has also recorded 63% YoY sales growth leading the industry again. We think a reliable parentco will not only can help deliver a steady 4mn sqm GFA per year, but also can empower its development network to Binjiang service for its third party expansion.

Figure 7: Binjiang Group achieved 63% YoY sales growth in 1Q23, fastest among POEs

Sales (RMB bn)	Mar-23	YoY	MoM	Feb-23	YoY	1Q23	YoY	2022 sales	YoY
Yuexiu	20.9	251%	52%	13.7	386%	43.5	215%	125.0	9%
Binjiang	17.5	126%	57%	11.1	60%	40.7	63%	153.9	-9%
COLI*	42.9	89%	56%	27.4	153%	83.5	73%	294.7	-20%
CR Land	38.8	86%	60%	24.2	148%	79.0	72%	301.3	-5%
CM Shekou	33.9	53%	50%	22.5	124%	72.2	53%	292.6	-10%
Poly	50.1	30%	46%	34.3	43%	113.9	26%	457.3	-15%
Longfor	22.1	30%	27%	17.4	87%	50.3	36%	201.6	-30%
Sino-Ocean	8.2	20%	62%	5.1	36%	16.6	10%	100.3	-26%
Vanke	42.0	1%	39%	30.1	3%	100.7	-5%	416.9	-34%
Gemdale	20.1	-4%	36%	14.8	54%	44.1	-3%	221.8	-23%
Shimao	6.3	-15%	52%	4.1	-43%	14.9	-33%	86.5	-68%
Country Garden (attri)	24.9	-17%	0%	24.9	-24%	71.8	-28%	357.5	-36%
CIFI	8.3	-31%	6%	7.8	-6%	21.1	-26%	124.0	-50%
China SCE	4.6	-43%	21%	3.8	-10%	11.5	-34%	59.0	-44%
Sunac China	11.2	-49%	3%	10.9	-51%	29.3	-60%	169.3	-72%
Average	**351.7**	**24%**	**40%**	**252.1**	**32%**	**793.1**	**19%**	**3,362**	**-32%**

Source: CRIC

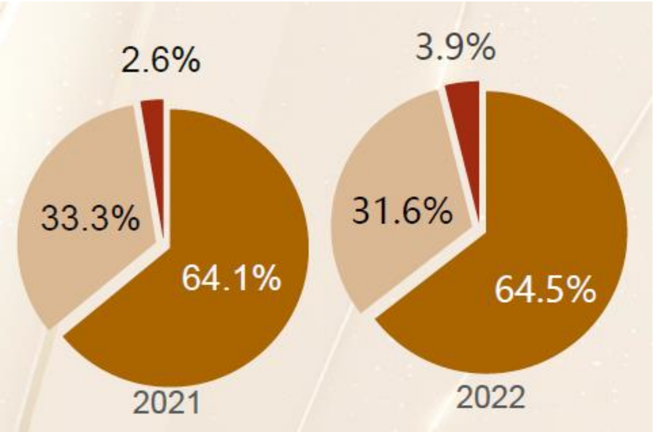
Company Overview

Binjiang Services, established in 1995, is a reputable property management service provider focusing on high-end residential properties and shares the same actual controller with Binjiang Group. The company entered into the PM business from managing residential projects from Binjiang Group, started third party expansion from 2016, signed first high-end commercial project in 2017 and successfully listed on the HKEX in Mar 2019.

The Company has grown from a local residential property management service provider in Hangzhou, Zhejiang province, to one of the leading premium providers in the Yangtze River Delta. As of 31 Dec 2022, the Company has a total of 155 subsidiaries and branches across the Zhejiang Province, Shanghai, Jiangsu Province and Jiangxi Province, Hainan Province and Guangdong Province. The Company's GFA under management was approximately 42.0 million sq.m., representing a year-on-year increase of 40.1%. The contracted GFA was approximately 69.1 million sq.m., representing a year-on-year increase of 38.7%.

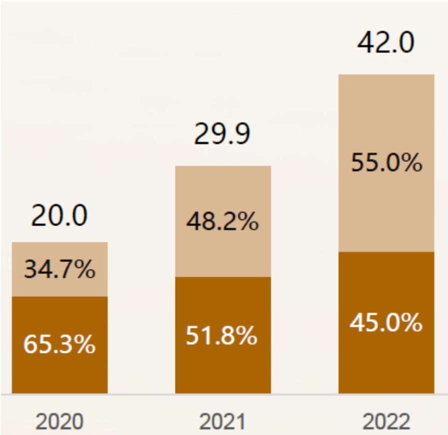
For PM services, the Company provides property owners with a series of high-quality property management services, including security, cleaning, gardening, repair, maintenance and ancillary services, and charges service fee from residents and property owners or real estate developers of such properties under our management for property management services. In addition, the Group provides land reserve management services, primarily including land management and maintenance, green planting and maintenance, wall and fence painting works, muck removal and transportation, installation and management of monitoring devices, and others.

Figure 8: 65% of managed GFA located in Hangzhou while 32% in Zhejiang Province (excl. Hangzhou)



Source: Company data, CMBIGM

Figure 9: 55% of 42mn sqm managed GFA comes from 3rd party

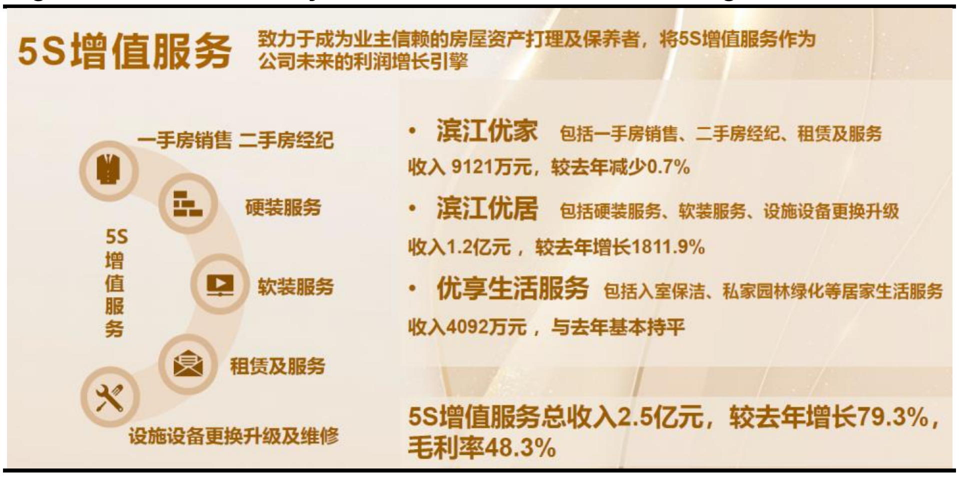


Source: Company data, CMBIGM

VAS to non-owners mainly refer to pre-delivery services, consulting services and community space services. Pre-delivery services include cleaning, assisting with quality check and security services for completed properties and display units and providing property sales venue management services to property developers during the pre-delivery stage of property sales. consulting services include advising property developers at the early and construction stages on project planning, design management and construction management to enhance functionality, comfort and convenience. Community space services include (i) assisting advertisement companies with regards to advertisement placements in the community spaces in our managed properties, and (ii) managing community venues in our managed properties.
5S VAS mainly includes three major businesses, namely Youjia services, Youju services and Youxiang living services. Youjia services include the primary and

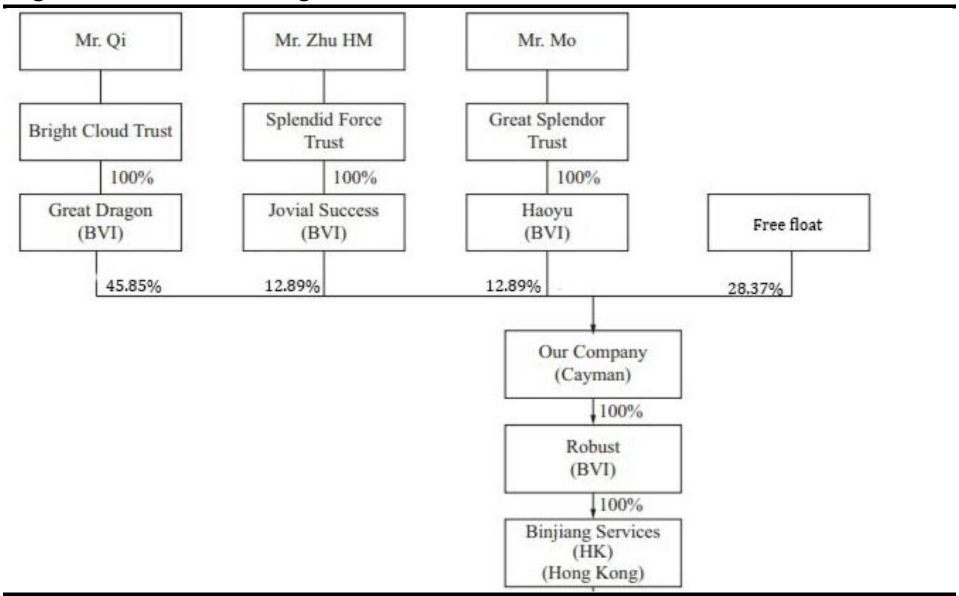
secondary property sales and leasing agency services, car parking space and storage room services. The Company is committed to providing seamless services for customers with its own resources. Youju services include the furnishing services. It adheres to its “Living Home” interior services concept to provide customers with elegant, stylish, modern and customized furnishing services and interior design services, home decoration services and facility upgrade services and maintenance. Youxiang living services include home living services.

Figure 10: its community VAS business with 5 main categories



Source: Company data

Figure 11: Shareholding structure



Source: Company data, CMBIGM

Financial Analysis

Revenue to grow at 34% CAGR in 2022-25E

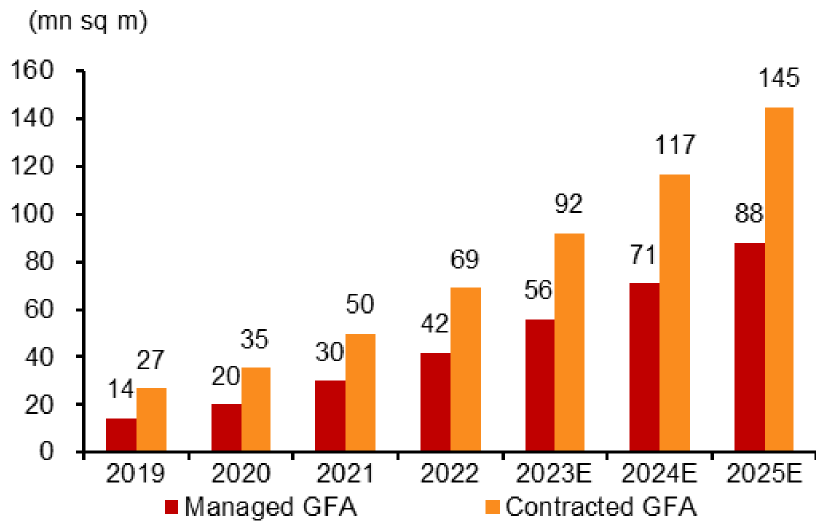
Thanks to steady GFA delivery from parentco, strong third party expansion capacity and fast-growing home decoration business, total revenue is set to grow at 34% CAGR from RMB2.0bn in 2022 to RMB4.8bn in 2025E. We expect revenue of two major segments – basic PM service and 5S to grow at CAGR of 28% and 60% in 2022-25E and reach RMB2.8bn and RMB1.1bn in 2025E.

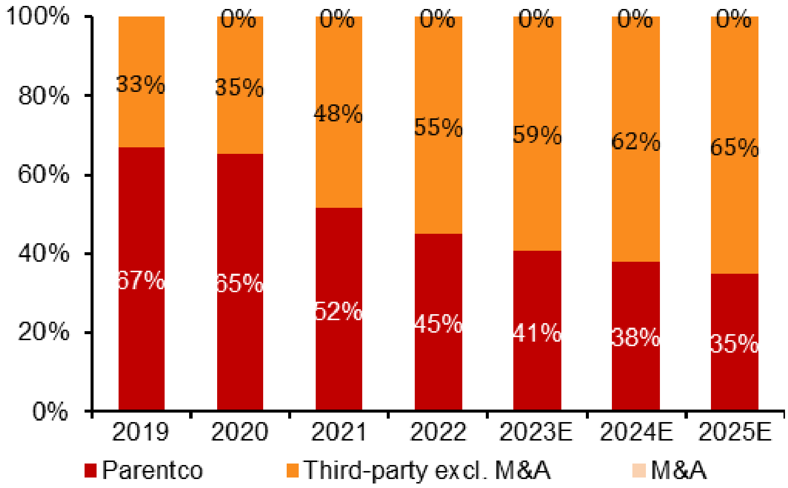
Figure 12: FY22 results: 36% YoY core profit growth leading the industry

RMB mn	2021	2022	YoY
Revenue	**1,399**	**1,983**	**42%**
- Property management services	841	1,193	42%
- VAS to non owners	420	540	29%
- 5S VAS	139	249	79%
Gross profit	450	592	32%
Net profit	**322**	**412**	**28%**
Core net profit (ex. Tax impact)	**321**	**438**	**36%**
EPS (RMB)	1.16	1.49	28%
DPS (RMB)	0.70	0.89	28%
Dividend payout ratio	60%	60.0%	0 ppt
GP Margin	**32.1%**	**29.9%**	**-2.3 ppt**
Core net Margin	**23.0%**	**22.1%**	**-0.9 ppt**
Managed GFA (mn sq m)	29.9	42.0	40%
Contracted GFA (mn sq m)	49.8	69.1	39%

Source: Company data, CMBIGM estimates

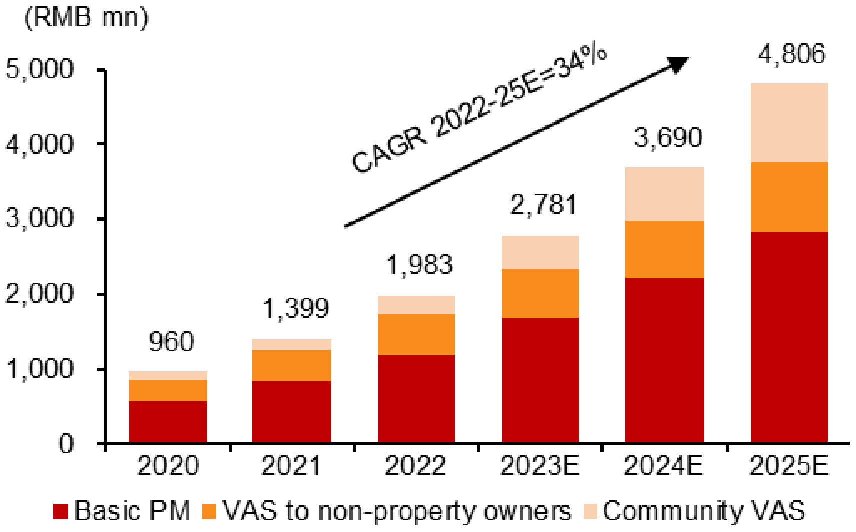
Figure 13: Binjiang Service has grown its managed GFA purely by leveraging its brand premium to do third party expansion





Source: Company data, CMBIS estimates

Figure 14: We expect it to deliver 34% revenue CAGR in 2022-25E driven by 5S community VAS (especially decoration business) and GFA growth.

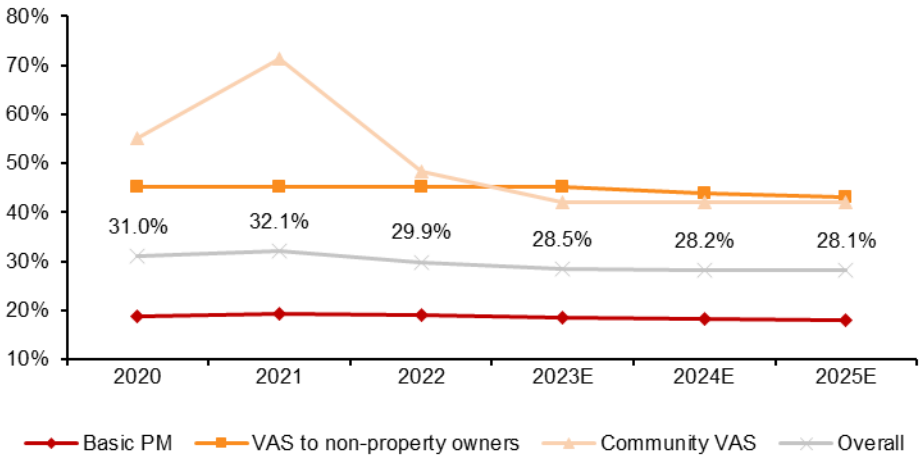


Source: Company data, CMBIGM estimates

Gross profit margin to decline on industry headwind

Gross profit was RMB450mn and RMB592mn in 2021 and 2022 and the corresponding gross margin was 32% and 30%, respectively. Going forward, we expect GPM to slightly come down to 28-29% in 2023E/24E due to Basic PM service's margin decline on rising labour costs and lower margin of its new home decoration business (25-30% GPM).

Figure 15: GPM is estimated to slide slightly with the industry

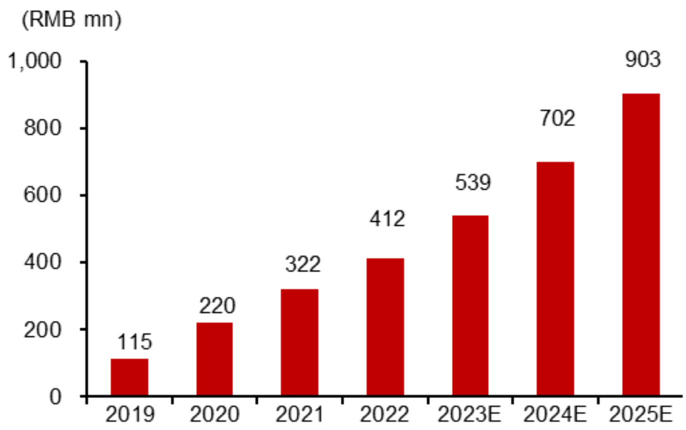


Source: Company data, CMBIGM estimates

Net profit attributable to grow at 30% CAGR in 2022-25E

Net profit attributable to owners grew 28% YoY in 2022. The core net profit excluding tax impact was RMB438mn, up 36% YoY. The corresponding core net profit margin (attributed to shareholders) was 21%, respectively. Going forward, we expect core net profit to increase by 30% CAGR in 2022-25E to RMB903mn in 2025E with net margin to decline to 19% level.

Figure 16: We estimate its NP to grow 30% CAGR in 2022-25E



Source: Company data, CMBIGM estimates

Target price and Catalysts

We derive our TP of HK$35.8/share by using 2023E EPS and 16x PE. The 16x multiple is based on industry average. The company is currently trading at 11x 2023E PE and thus we expect a 35% upside from a long-term perspective.

For the main catalysts, the keys are 1) Inclusion of HK Stock connect in August. Based on the current market cap and trading volume, the chance is very high. 2) Strong 1H23 results to demonstrate its advantage in third party expansion and progress of its home decoration business.

Risks: GP contribution from non-owner VAS business was relatively high in comparison to the industry. This part may see risks if Binjiang Group faces liquidity risk.

Figure 17: Our price target

Price Target	
2023E EPS	1.95
HKDRMB rate	0.87
Target PE multiple	16 x
Price Target (HKD/share)	35.8

Source: Company data, CMBIGM estimates

Figure 18: Valuation band: Historical average of 15x

Source: Company data, CMBIGM estimates

Financial Summary

Income statement

YE Dec 31 (Rmb mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	**1,399**	**1,983**	**2,781**	**3,690**	**4,806**
Property management	841	1,193	1,688	2,209	2,824
VAS to non-property	420	540	647	775	929
5S - Community VAS Commericial	139	249	446	705	1,053
Cost of sales	(949)	(1,390)	(1,990)	(2,648)	(3,453)
Gross Profit	**450**	**592**	**791**	**1,042**	**1,353**
Other income	10	15	7	7	7
Selling expenses	(4)	(8)	(12)	(15)	(20)
Administrative expenses	(54)	(62)	(87)	(116)	(151)
Other gains/(losses)	(0)	(1)	-	-	-
Impairment	(12)	(20)	(14)	(11)	(10)
Operating profit	**390**	**516**	**686**	**907**	**1,180**
Finance cost	32	42	42	42	42
Pre-tax Profit	**423**	**561**	**731**	**952**	**1,225**
Income tax	(98)	(142)	(185)	(241)	(310)
PROFIT FOR THE YEAR	**325**	**419**	**546**	**711**	**915**
Non-controlling interest	3	7	7	9	12
Net Profit	**322**	**412**	**539**	**702**	**903**

Cash flow summary

YE Dec 31 (Rmb mn)	FY21A	FY22E	FY23E	FY24E	FY25E
Profit before tax	**423**	**561**	**731**	**952**	**1,225**
D&A	6	72	79	85	86
Change in working capital	(69)	702	127	399	490
Others	(118)	(152)	(208)	(273)	(345)
Net cash from operating	**242**	**1,183**	**728**	**1,163**	**1,456**
Capex	-	(8)	(13)	(7)	(4)
Capital Injection of	-	(1)	-	-	-
Others	66	30	9	2	(1)
Net cash from investing	**66**	**21**	**(4)**	**(5)**	**(5)**
Equity raised	-	-	-	-	-
Change of debts	-	-	-	-	-
Others	(208)	(247)	(162)	(210)	(271)
Net cash from financing	**(208)**	**(247)**	**(162)**	**(210)**	**(271)**
Net change in cash	100	957	563	948	1,180
Cash at the beginning of the	**805**	**906**	**1,862**	**2,426**	**3,373**
Exchange difference	1	-	-	-	-
Cash at the end of the year	**906**	**1,862**	**2,426**	**3,373**	**4,554**

Key ratios

YE Dec 31	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Property management	60.1	60.2	60.7	59.9	58.8
VAS to non-property owners	30.0	27.2	23.3	21.0	19.3
5S - Community VAS	9.9	12.6	16.0	19.1	21.9
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Profit & loss ratios (%)					
Gross margin	32.1	29.9	28.5	28.2	28.1
Net margin	23.0	20.8	19.4	19.0	18.8
Effective tax rate	23.2	25.3	25.3	25.3	25.3
Growth (%)					
Revenue	45.7	41.7	40.3	32.7	30.3
Gross profit	51.2	31.7	33.6	31.6	29.9
Operating profit	54.1	32.3	32.9	32.2	30.1
Net profit	46.6	28.0	30.8	30.2	28.7
Balance sheet ratios					
Current ratio (x)	2.1	1.6	1.7	1.7	1.8
Receivable turnover days	45	63	63	0	0
Returns (%)					
ROE	34.2	33.1	33.5	32.2	31.3
ROA	19.1	13.8	14.6	14.4	14.3
Per share					
EPS (Rmb)	1.16	1.49	1.95	2.54	3.27
DPS (Rmb)	0.70	0.89	0.58	0.76	0.98
BVPS (Rmb)	3.41	4.51	5.82	7.87	10.45

Balance sheet

YE Dec 31 (Rmb mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Non-current assets	**202**	**354**	**357**	**362**	**367**
Property, plant and	19	26	30	35	40
Others	183	327	327	327	327
Current assets	**1,482**	**2,640**	**3,321**	**4,500**	**5,965**
Inventories	79	147	211	281	366
Trade and other receivables	173	343	482	639	833
Cash and cash equivalents	906	1,950	2,426	3,373	4,554
Others	324	199	203	207	212
Total assets	**1,685**	**2,994**	**3,678**	**4,862**	**6,332**
Current liabilities	**711**	**1,681**	**2,009**	**2,636**	**3,405**
Trade and other payables	496	672	796	1,059	1,381
Others	215	1,008	1,213	1,577	2,023
Non-current liabilities	**0**	**27**	**27**	**27**	**27**
Deferred income tax	-	27	27	27	27
Others	0	-	-	-	-
Total liabilities	**711**	**1,708**	**2,036**	**2,663**	**3,432**
Equity to shareholders	**942**	**1,246**	**1,609**	**2,176**	**2,888**
Non-controlling interests	32	40	33	24	12
Total Equity	**974**	**1,286**	**1,642**	**2,199**	**2,900**

Source: Company data, CMBIGM estimates

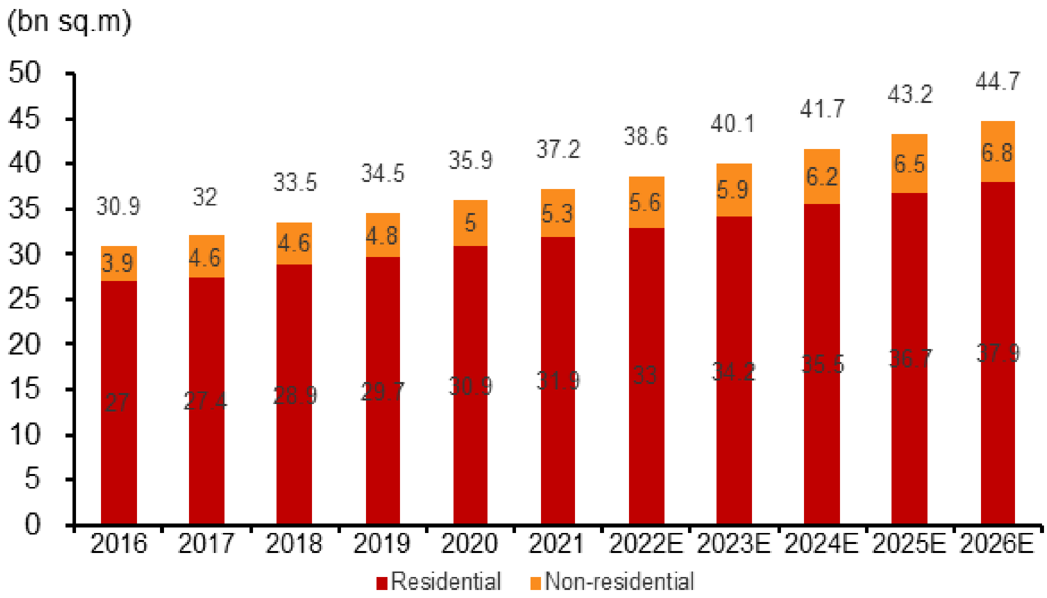
Industry overview

Market size of China PM industry

The property management industry in China has been developing for nearly 40 years and the market is highly fragmented with around 110,000 participants as of end-2021. According to Frost & Sullivan, the total GFA under management by China PM companies increased from 30.9 bn sq.m. in 2016 to 37.2 bn sq.m. in 2021, representing an overall CAGR of 3.8%. The total GFA under management of residential properties in China reached 31.9 bn sq.m. in 2021, representing an overall CAGR of 3.4% from 2016 to 2021, and the total GFA under management of non-residential properties reached 5.3 bn sq.m. in 2021, representing an overall CAGR of 6.3% from 2016 to 2021. In 2026, the total GFA under management is expected to reach 44.7 bn sq.m., representing an overall CAGR of 3.7% from 2021 to 2026.

Figure 18: Managed GFA by China PM companies, (2016-2026E)

	CAGR (2016-2021)	CAGR (2021-2026E)
Non-residential	6.3%	5.1%
Residential	3.4%	3.5%
Total	**3.8%**	**3.7%**

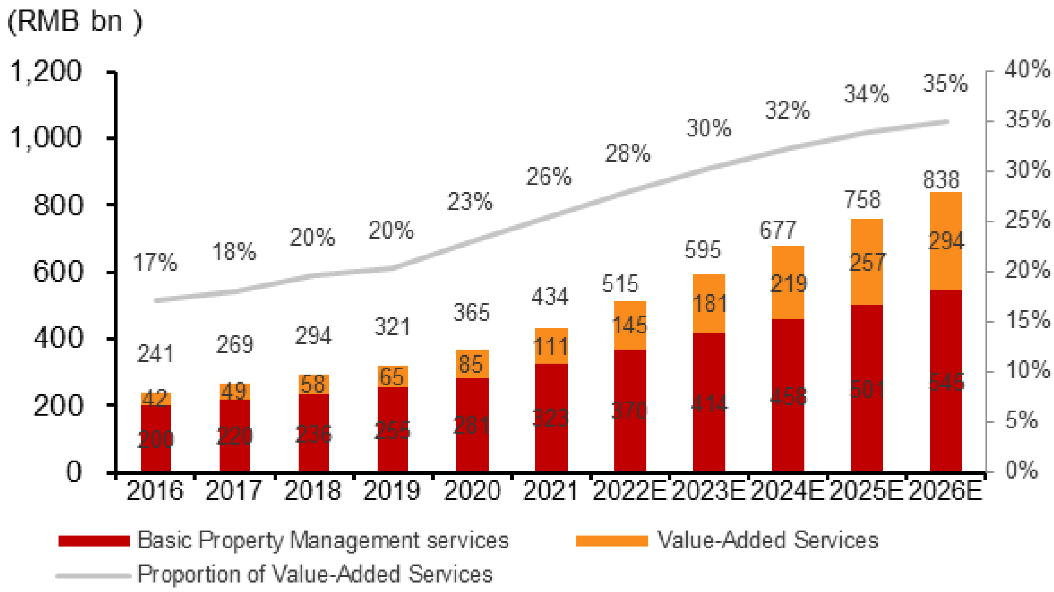


Source: Company data, CMBIGM

Most China PM companies generated revenue from basic property management services, which accounted for approximately 74.4% in 2021. In recent years, property management services companies have been seeking to diversify their services and revenue streams. With the increasing diversification of services, the total revenue of value-added services provided by these companies has grown from RMB41.5 bn in 2016 to RMB111.1 bn in 2021, representing an overall CAGR of 21.8%, and is expected to reach RMB293.5 bn in 2026, representing an overall CAGR of 21.4% from 2021 to 2026. From 2016 to 2021, the proportion of value-added services in the total revenue of property management services increased from 17.2% to 25.6% and is expected to reach 35.0% in 2026.

Figure 19: China PM companies' revenue by service type (2016-2026E)

	CAGR (2016-2021)	CAGR (2021-2026E)
Value-Added Services	21.8%	14.1%
Basic Property Management services	10.1%	11.0%
Total	**12.4%**	**21.4%**



Source: Frost & Sullivan, CMBIGM

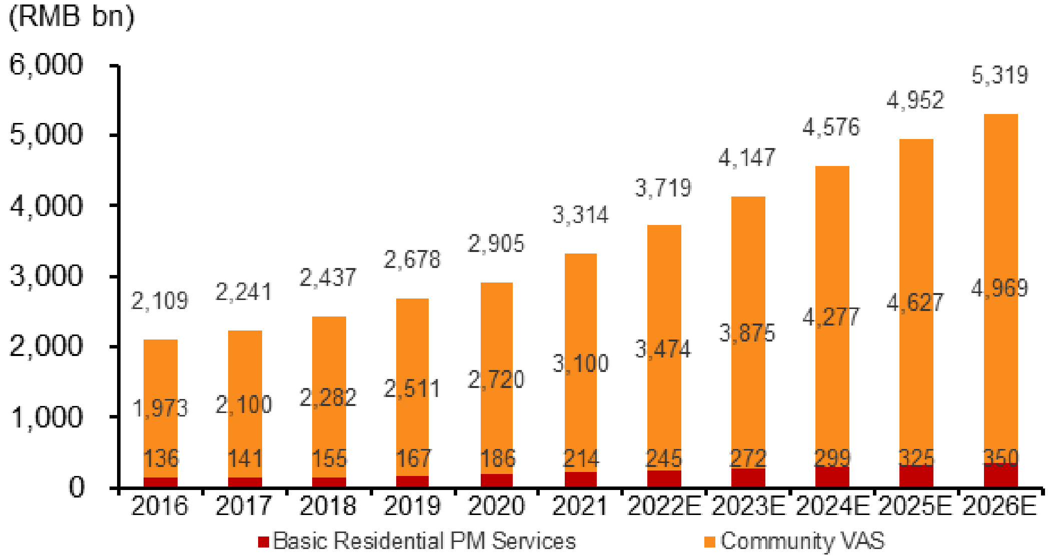
Residential - Community space living consumption service

The broader residential PM service market, also known as the community space living consumption services market, mainly includes: (i) basic residential property management services covering repair and maintenance, gardening, cleaning and security services. (ii) community value-added services including home-related asset services containing home sale and rental brokerage services and home redecoration and furnishing services, other community value-added services mainly include common area operation services, carpark space sales assistance services, electromechanical device maintenance services and others.

According to Frost & Sullivan, the total revenue of China's community space living consumption services market has increased from RMB2,109.3 bn in 2016 to RMB3,313.9 bn in 2021, representing an overall CAGR of 9.5%. It is expected to reach RMB5,319.2 bn in 2026, representing an overall CAGR of 9.9% for the period from 2021 to 2026. Within the community space living consumption services market, the total revenue of basic residential property management services has increased from RMB135.9 bn in 2016 to RMB213.6 bn in 2021, representing a CAGR of 9.5%. It is expected to reach RMB350.1 bn in 2026, representing a CAGR of 10.4% from 2021 to 2026. The total revenue of community value-added services has increased from RMB1,973 bn in 2016 to RMB3,100 bn in 2021, representing an overall CAGR of 9.5%. It is expected to reach RMB4,969 bn in 2026, representing a CAGR of 9.9% from 2021 to 2026.

Figure 20: Revenue of China broader residential PM market (2016-2026E)

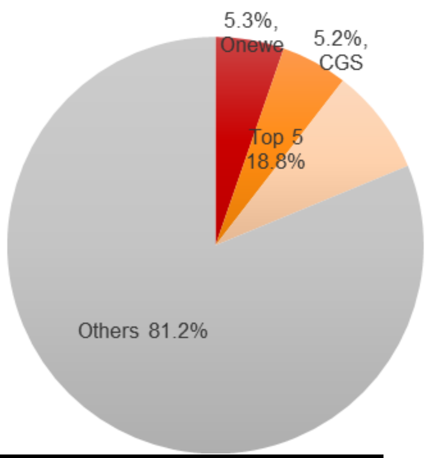
	CAGR (2016-2021)	CAGR (2021-2026E)
Basic Residential PM services	9.5%	10.4%
Community VAS	9.5%	9.9%
Total	**9.5%**	**9.9%**



Source: Frost & Sullivan, CMBIGM

According to Frost & Sullivan, the total revenue of China's basic residential property management services market reached RMB213.6 bn in 2021 with the top five service providers contributing approximately 18.77% market share in terms of revenue in 2021. In 2021, Onewo Inc. ranked first in China's basic residential property management services market in terms of revenue, and secured a market share of 5.32%.

Figure 21: Market Share of Basic residential PM

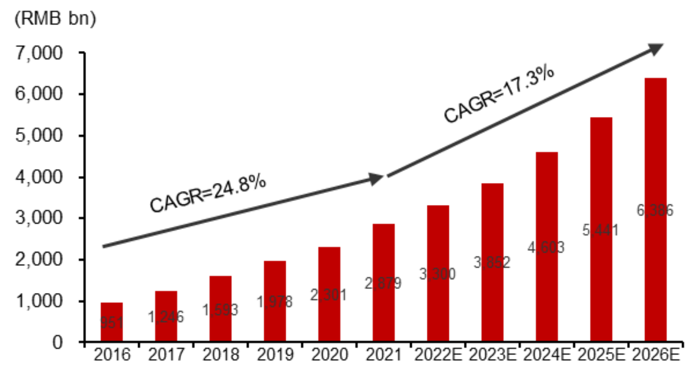


Source: Company data, CMBIGM

Non - residential: Commercial Space + Urban Space

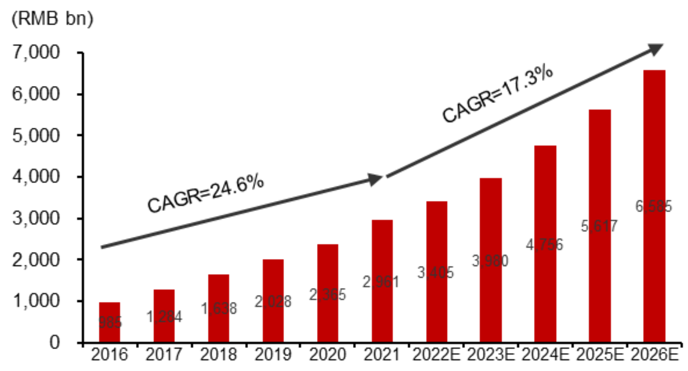
Commercial space integrated services offer two types of services including: (i) property and facility management services (PFM), or basic commercial PM services, mainly covering security services, cleaning services greening services, facility operation and maintenance, environment, health and safety management, integrated administrative support, event support and concierge services; and (ii) value-added services for developers, which include services such as pre-delivery services, building renovation and maintenance services and sales center and model room. According to Frost & Sullivan, following the continuous expansion of commercial space and service scopes and the consciousness of related service outsourcing (especially administrative outsourcing), the property and facility management (PFM) services market in China is expected to maintain rapid growth in the next five years. The PFM market is expected to reach RMB6,385.7 bn in 2026 with a CAGR of 17.3% from 2021 to 2026

Figure 22: Revenue of basic commercial PM services in China (2016-2026E)



Source: Frost & Sullivan, CMBIGM

Figure 23: Revenue of urban space service in China (2016-2026E)



Source: Frost & Sullivan, CMBIGM

Urban space mainly consists of government buildings, schools, hospitals, roads, streets and other urban spaces. Urban space integrated services offer three types of services, namely:(i) space governance solutions, which mainly include urban cleaning and sanitation services, repair and maintenance of municipal infrastructure and urban safety and security management services in urban public spaces, including indoor and outdoor areas open and accessible to the public; (ii) urban environmental governance solutions, which include technology-enabled water quality control, river system maintenance and preservation, as well as integrated management of urban parks; and (iii) old community operation, which is mainly old community management and renewal services.

Market drivers

Increase of urban population and per capita disposable income. The steady growth of China's urban population and per capita disposable income have contributed to the increasing demand of quality community space living consumption services. According to Frost & Sullivan, the urbanization rate in China has increased from 57.4% in 2016 to 64.7% in 2021. The Chinese urban population has increased steadily from 793.0 mn in 2016 to 914.3 mn in 2021, representing a CAGR of 3.3%. Also, the per capita disposable income of urban households in China increased steadily from RMB33,616 in 2016 to RMB47,412 in 2021, representing a CAGR of 7.1%. As a result, there is a significant increase in sales area of residential housing, which in turn stimulates the demand for community space living consumption services. On the other hand, with the increase in precipitate disposable income, people seek for a better living environment and are more willing to pay for quality community space living consumption services, such as coordinator services, in which community space living consumption service providers engage service coordinators to provide personalized services to property owners before and after they move into their new homes. Meanwhile, the increasingly concentrated population demands more commercial and urban spaces that are carefully-designed with better work and city environment. This in turn created a greater demand for commercial and urban space integrated services and raised the standard of commercial and urban space integrated service quality.

Rapid development of first-tier, new first-tier and second-tier cities. According to Frost & Sullivan, the urban population of first-tier cities, new first-tier cities and second-tier cities has experienced steady growth with a CAGR of 3.2%, 5.7% and 4.0% respectively for the period of 2016 to 2021. In addition, the per capita disposable income of urban households of first-tier cities, new first-tier cities and second-tier cities are expected to reach a CAGR of 7.1%, 7.0% and 7.1% respectively for the period of 2021 to 2026. Residents of the first-tier, new first-tier and second-tier cities have strong consumption capabilities and higher expectations of their housing environment and on the quality of residential services. Accordingly, the continuous development of first-tier, new first-tier and second-tier cities will further drive the development of community space living consumption services market in China.

Increasing popularity of housing rental and redecoration and furnishing services. With the restriction on new housing supply and the continued increase of housing prices, the volume of second-hand housing transactions and rental transactions has continued to rise in the past five years. According to Frost & Sullivan, the trading volume of existing houses has increased from 2.13 mn in 2016 to 5.92 mn in 2021, with a CAGR of 22.7%. In addition, benefited from the government's support on well-renovated houses, the demand for house redecoration and furnishing services has further increased, allowing community space living consumption service providers to participate in the business and compete with original home improvement companies.

Entry barriers

Brand reputation. Brand reputation has been established amongst top community space living consumption service providers in China, which is an important factor in acquiring new opportunities in the market. For example, large-scale property developers usually engage well-known community space living consumption service providers in delivering community space living consumption services. Most residential property owners also prefer to engage well-known community space living consumption service providers as they believe their brand reputation indicates better services. New entrants may find it difficult to build brand reputation within a short time and to penetrate the market when competing with community space living consumption service providers with great brand reputation.

Standardization and professionalization. The community space living consumption services market now focuses on standardization and professionalization. With the support from the government, leading community space living consumption service providers actively establish standardized operation and management systems in order to manage projects in a more cost-effective way and increase profitability. They tend to outsource labor-intensive aspects of their operations to subcontractors and place heavier emphasis on developing standardized systems and training staff to implement such standardized systems. With sufficient resources, they are able to standardize their operations and enhance their management and operational capabilities. In contrast, with limited resources, new entrants may find it difficult to invest in professional and standardized operation systems and build up their management and operational capabilities.

Human resources. Community space living consumption services rely on labor for the delivery of services as well as implementing and innovating technological solutions. Well-established community space living consumption service providers have formed their own talent reserve, training mechanisms and incentive systems over time. In addition, they are more devoted to managing and training their employees with standardized management. They attract talents who are equipped with technological skills. In contrast, new entrants lack experience in recruiting and cultivating talents. Talents may prefer companies with established brand values and recognition. With this gap between new entrants and established key players, new entrants may find it difficult to compete with other strong service providers in terms of human resources.

Partnerships and relationships. There are partnerships between service providers and government in the urban space integrated services market. The government tends to establish long-term partnerships with its service providers. Customer relationships remain one of the key factors in the operation of commercial space integrated services as service providers can achieve better customer satisfaction with sustainable customer relationships. While leading service providers have already accumulated abundant customer resources and built mutual trust with their customers, it is difficult for new entrants to obtain long-term partnerships and relationships in a short time.

Technology capability. Along with the popularization of technologies including the Internet of Things and mobile Internet technologies, most leading community space living consumption service providers and commercial space integrated services have established core information systems. Efficient IT systems are conducive to integrate resources, improve management efficiency and monitor service processes effectively. Key market players have also made use of other advanced technologies such as big data analytics and cloud-based applications to explore new value-added services and diversify revenue streams. By integrating their own business characteristics with their core information systems, they had edges in technology that may form technical barriers to new entrants.

Risk

Rising labor costs. The community space living consumption services market requires a large workforce to provide cleaning, decoration, home sale and rental brokerage services and repair and maintenance and other services. However, staff cost has become one of the largest components of service providers' operating costs. The monthly average wages of workers in the community space living consumption services market in China, according to Frost & Sullivan, have increased from RMB4,218.0 in 2016 to RMB5,973.0 in 2021 with a CAGR of 7.2%. In addition, the imposition of minimum wage has driven the increase in labor costs. Rising labor costs could materially and adversely affect business operations and financial conditions

Commercial space integrated service providers face higher labor costs each year, with the monthly wages of workers in commercial space integrated services market expected to reach a CAGR of 7.8% for the period of 2021 to 2026. However, as an increasing number of service providers adopt digitalization and other technological tools, they rely less on manual labor and the impact of increasing labor costs on the commercial space integrated service providers is expected to be immaterial. Urban space integrated service providers also face higher labor costs each year, with the monthly wages of workers in urban space integrated services market to reach a CAGR of 2.8% for the period of 2021 to 2026. However, as service providers started to adopt digitalization and other technological tools in the market, the labor investment required in the urban space integrated services market will be reduced, minimizing the impact of increasing labor costs among market players.

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