

Greentown Service (2869 HK)

1H23 results in-line, visible recovery in owner VAS

Greentown Service's [core operating profit/revenue](#) both went up 20% YoY in 1H23, in-line with the market expectation. GP margin declined 0.6 ppts to 18.7% but hedged by improving SG&A fee rate (-0.6 ppts to 10.0%). We saw visible recovery on home living services, housing brokerage and education services which will be proved to be a good VAS exploration in our view. The operating cash flow improved by active ARs mgmt. and will cover 1x NP in FY23E according to the Company. We like the Company for its high independence, stable parentco., good progress on VAS exploration and recovering cash flow. Maintain BUY

■ **1H23 earnings in-line with GPM declined but SG&A expense improved.** Company delivered 20% YoY growth in both revenue and core operating profit in 1H23 (core operating profit= GP-SG&A), in-line with the market expectation. This was resulted from **1) the decline of GP margin to 18.7%** in 1H23 from 19.2% in 1H22 on lower profitability from non-owner VAS given developers are cutting expenses. It is worth noting that Company kept no-decline in GPM for basic PM segment and improved that for community VAS business despite a difficult 1H. **2) Improvement of SG&A fee rate to 10.0%** in 1H23 from 10.6% in 1H22 due to active organizational optimization. NP grew faster at 21.8% YoY to RMB 415mn as Company booked RMB 86mn in share results from JV (6.5x of that in 1H22). **FY23E guidance was unchanged with core operating profit to grow 20-25% YoY and GPM at 16.5-17.5%.**

■ **Community VAS is showing visible recovery.** Despite slow consumption recovery in 1H23, Greentown Services showed an [apparent recovery in community VAS](#) segment by reporting 26.5% YoY rev. growth 1H23 (vs. 18.7% in 1H22 and 9.1% in FY22) and 1.1ppts improvement in GPM (to 24.3%). The improvements were mostly powered by **1) home living services**, rev. +122.6% YoY in 1H23 vs.19.9% in 1H22 and 32.5% in FY22 boosted by an equity corporation on home care services and a breakthrough made in elderly care business, **2) Housing brokerage services** rev. up 39.8% YoY in 1H23 vs. 4.4% in 1H22 driven by smart marketing models (encourage all residents to provide info. by giving certain commission), **3) education services** that reduced losses by RMB 9.05mn in 1H23. The business will soon be proved a good VAS exploration in our view.

■ **Cash flow is improving on active AR mgmt.** Company's cash flow from operations turned to positive at RMB 52mn in 1H23 from RMB -372mn in 1H22 due to its active management on historical ARs and collection rate. **Company expects operating cash flow to cover 1x of NP in FY23E.**

■ **Maintain BUY with TP unchanged at HK\$ 5.93.** We like the Company for its quality services with branding value, high independence, stable parentco, good progress on VAS exploration and recovering cash flow. Maintain BUY with TP unchanged at HK\$5.93, reflecting 25x 2023E P/E. **Catalysts:** breakeven in education business, higher efficiency in AR mgmt. **Risk:** slower-than-expected third party expansion.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	12,566	14,856	18,123	21,795	26,033
YoY growth (%)	24.3	18.2	22.0	20.3	19.4
Net profit (RMB mn)	846.3	547.5	639.1	735.4	840.1
EPS (Reported) (RMB)	0.26	0.17	0.20	0.23	0.26
YoY growth (%)	12.0	(35.4)	16.7	15.1	14.3
Consensus EPS (RMB)	N.A.	N.A.	0.24	0.29	0.34
P/E (x)	29.5	34.0	16.6	14.4	12.6
P/B (x)	4.1	3.1	1.7	1.5	1.4
Yield (%)	2.1	1.6	2.1	2.4	2.8
ROE (%)	12.2	7.7	8.7	9.5	10.1

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$5.93

(Previous TP) HK\$5.93

Up/Downside 69.1%

Current Price HK\$3.51

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Stock Data

Mkt Cap (HK\$ mn)	11,345.7
Avg 3 mths t/o (HK\$ mn)	23.5
52w High/Low (HK\$)	6.02/3.22
Total Issued Shares (mn)	3232.4

Source: FactSet

Shareholding Structure

Orchid Garden Investment	31.6%
Li Hairong	14.0%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-13.8%	-7.1%
3-mth	-16.8%	-16.3%
6-mth	-32.9%	-28.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: 1H23 results summary

RMB mn	1H22	1H23	YoY	1H/2022	1H/2023E
Revenue	6,828	8,197	20%	46%	45%
- Property management services	4,360	5,251	20%	46%	45%
- Consulting services	957	1,075	12%	46%	52%
- Community living services	1,310	1,657	26%	46%	58%
- Technology services	200	213	7%	41%	34%
Gross profit	1,312	1,530	17%	55%	51%
Core profit for the operation	590	710	20%		
Net profit	341	415	22%	62%	65%
EPS (RMB)	0.11	0.13	22%		
DPS (RMB)	-	-	-		
Dividend payout ratio	-	-	-		
GP Margin	19.2%	18.7%	-0.6 ppt		
Net Margin	5.0%	5.1%	0.1 ppt		
Managed GFA (mn sq m)	349.3	414.5	19%		
Reserved GFA (mn sq m)	365.8	379.3	4%		

Source: Company data, CMBIGM

Figure 2: Financial forecast of Greentown Services

Key drivers	2020	2021	2022	2023E	2024E	2025E
Managed GFA (mn sqm)	251	304	381	459	555	655
<i>YoY growth</i>	<i>18%</i>	<i>21%</i>	<i>25%</i>	<i>20%</i>	<i>21%</i>	<i>18%</i>
Revenue (RMB mn)	10,106	12,566	14,856	18,123	21,795	26,033
<i>YoY growth</i>	<i>17.8%</i>	<i>24.3%</i>	<i>18.2%</i>	<i>22.0%</i>	<i>20.3%</i>	<i>19.4%</i>
Property services	6,429	7,770	9,446	11,754	14,248	17,072
Consulting services	1,500	1,960	2,067	2,067	2,067	2,067
Community living services	2,177	2,616	2,854	3,665	4,653	5,819
Technology services			489	636	827	1,075
Gross margin	19.0%	18.5%	16.2%	16.6%	16.5%	16.2%
Property services	12.8%	12.5%	12.1%	12.2%	12.0%	11.5%
Consulting services	32.6%	30.0%	22.7%	23.0%	23.0%	23.0%
Community living services	28.2%	25.7%	20.8%	23.0%	23.0%	23.0%
Technology services			40.9%	40.0%	40.0%	40.0%
Core profit for the operation (RMB mn)	876	1,079	981	1,196	1,428	1,656
<i>YoY growth</i>	<i>40%</i>	<i>23%</i>	<i>-9.1%</i>	<i>21.9%</i>	<i>19%</i>	<i>16%</i>
Net profits (RMB mn)	710	846	548	639	735	840
<i>YoY growth</i>	<i>49%</i>	<i>19%</i>	<i>-35.3%</i>	<i>16.7%</i>	<i>15%</i>	<i>14%</i>
Net margin	7.0%	6.7%	3.7%	3.5%	3.4%	3.2%

Source: Company data, CMBIGM

Figure 3: Gross profit margin

Gross Profit Margin	2021A	2022A	1H22	1H23
Property services	12.5%	12.1%	13.8%	13.8%
Consulting services	30.0%	22.7%	36.0%	30.1%
Community living services	25.7%	20.8%	23.2%	24.3%
Technology Services	42.8%	40.9%	31.3%	36.6%
Total	18.5%	16.2%	19.2%	18.7%

Source: Company data, CMBIGM

Figure 4: Community VAS revenue growth

YoY growth	2021A	2022A	1H22	1H23
Community products and services	18.8%	18.7%	35.1%	10.2%
Home living services	31.4%	32.5%	19.9%	122.6%
Community space services	15.1%	11.5%	19.1%	21.3%
Property asset management services	9.6%	-15.1%	4.4%	20.7%
Cultural & education services	45.3%	19.0%	9.0%	32.4%
Total	20.2%	9.1%	18.7%	26.5%

Source: Company data, CMBIGM

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	10,106	12,566	14,856	18,123	21,795	26,033
Cost of goods sold	(8,183)	(10,236)	(12,454)	(15,116)	(18,209)	(21,826)
Gross profit	1,923	2,331	2,402	3,007	3,586	4,207
Operating expenses	(1,047)	(1,251)	(1,421)	(1,811)	(2,158)	(2,551)
Selling expense	(156)	(201)	(266)	(325)	(371)	(417)
Admin expense	(891)	(1,050)	(1,155)	(1,486)	(1,787)	(2,135)
Operating profit	122	91	(90)	(187)	(268)	(330)
Other income	138	98	157	73	36	18
Other expense	(43)	(38)	(125)	(145)	(174)	(208)
Other gains/(losses)	(1)	11	(150)	(125)	(140)	(150)
Share of (losses)/profits of associates/JV	28	21	29	10	10	10
Net Interest income/(expense)	(0)	26	(37)	0	0	0
Others	5	(5)	10	0	0	0
Pre-tax profit	1,003	1,191	864	1,009	1,160	1,326
Income tax	(262)	(301)	(233)	(271)	(312)	(357)
After tax profit	741	890	631	737	848	969
Minority interest	(30)	(44)	(84)	(98)	(113)	(129)
Net profit	710	846	548	639	735	840

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	8,609	9,278	10,841	11,936	13,518	15,377
Cash & equivalents	4,437	4,307	4,183	4,144	4,398	4,723
Restricted cash	284	283	365	365	365	365
Account receivables	1,990	3,055	4,840	5,905	7,101	8,482
Inventories	346	434	570	641	772	926
ST bank deposits	981	21	0	0	0	0
Financial assets at FVTPL	572	1,179	882	882	882	882
Other current assets	0	0	0	0	0	0
Non-current assets	4,469	5,097	6,013	6,079	6,189	6,299
PP&E	695	773	917	973	1,073	1,173
Right-of-use assets	747	872	938	938	938	938
Deferred income tax	201	237	356	356	356	356
Investment in JVs & assos	681	722	688	698	708	718
Intangibles	362	430	529	529	529	529
Goodwill	284	451	658	658	658	658
Financial assets at FVTPL	886	877	1,039	1,039	1,039	1,039
Other non-current assets	614	734	889	889	889	889
Total assets	13,079	14,375	16,854	18,014	19,706	21,676
Current liabilities	4,686	5,789	7,387	8,127	9,247	10,557
Short-term borrowings	6	5	124	124	124	124
Account payables	2,963	3,706	4,734	5,473	6,593	7,903
Tax payable	404	512	685	685	685	685
Other current liabilities	36	37	58	58	58	58
Lease liabilities	164	185	258	258	258	258
Contract liabilities	1,112	1,343	1,529	1,529	1,529	1,529
Non-current liabilities	1,281	1,216	1,590	1,498	1,479	1,464
Long-term borrowings	140	147	187	94	75	60
Other non-current liabilities	1,140	1,068	1,403	1,403	1,403	1,403
Total liabilities	5,967	7,004	8,978	9,625	10,726	12,021
Share capital	0	0	0	0	0	0
Other reserves	6,821	7,019	7,121	7,536	8,014	8,560
Total shareholders equity	6,821	7,019	7,121	7,536	8,014	8,560
Minority interest	291	351	755	853	966	1,095
Total equity and liabilities	13,079	14,375	16,854	18,014	19,706	21,676

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,003	1,191	864	1,009	1,160	1,326
Depreciation & amortization	285	378	433	200	200	200
Tax paid	(221)	(242)	(202)	(271)	(312)	(357)
Change in working capital	205	(347)	(894)	-395	-208	-224
Others	43	38	494	-82	-96	-96
Net cash from operations	1,316	1,019	695	460	745	848
Investing						
Capital expenditure	(348)	(409)	(454)	(300)	(300)	(300)
Acquisition of subsidiaries/ investments	(315)	(232)	(32)	0	0	0
Net proceeds from disposal of short-term investments	(582)	(480)	193	0	0	0
Others	(1,020)	819	152	77	90	90
Net cash from investing	(2,264)	(302)	(141)	(223)	(210)	(210)
Financing						
Dividend paid	(220)	(542)	(543)	(224)	(257)	(294)
Net borrowings	(340)	5	159	(24)	(19)	(15)
Proceeds from share issues	3,648	0	0	0	0	0
Share repurchases	0	0	(78)	0	0	0
Others	(111)	(242)	(259)	(5)	(4)	(3)
Net cash from financing	2,977	(779)	(720)	(253)	(280)	(313)
Net change in cash						
Cash at the beginning of the year	2,641	4,437	4,307	4,183	5,643	6,201
Exchange difference	(233)	(69)	43	(24)	0	0
Cash at the end of the year	4,437	4,307	4,183	4,144	4,398	4,723
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	17.8%	24.3%	18.2%	22.0%	20.3%	19.4%
Gross profit	24.3%	21.2%	3.1%	25.2%	19.3%	17.3%
Operating profit	652.2%	(25.5%)	na	na	na	na
Net profit	48.8%	19.1%	(35.3%)	16.7%	15.1%	14.3%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	19.0%	18.5%	16.2%	16.6%	16.5%	16.2%
Operating margin	1.2%	0.7%	(0.6%)	(1.0%)	(1.2%)	(1.3%)
Return on equity (ROE)	14.8%	12.2%	7.7%	8.7%	9.5%	10.1%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Current ratio (x)	1.8	1.6	1.5	1.5	1.5	1.5
Receivable turnover days	71.9	88.7	88.7	88.7	88.7	88.7
Inventory turnover days	15.4	15.5	15.5	15.5	15.5	15.5
Payable turnover days	132.2	132.2	132.2	132.2	132.2	132.2
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	36.3	29.5	34.0	16.6	14.4	12.6
P/B	4.2	4.1	3.1	1.7	1.5	1.4
Div yield (%)	0.9	2.1	1.6	2.1	2.4	2.8

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

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