

Onewo (2602 HK)

1H23 earnings missed. Is bidding with capital injection an unhealthy strategy?

Onewo's 1H23 results missed the market expectation but declared an interim dividend for the first time after IPO. The Company's Onewo Town strategy is becoming more convincing evidenced by better margin. We think the controversial topic of bidding contract with capital investment is actually a good strategy given the reasons explained below. We like the Company on its edges in existing market and commercial PM, and low dependency on parentco. Maintain BUY.

- **1H23 earnings missed with an interim dividend for the first time.** Company delivered 20.5% YoY EBITDA growth in 1H23, below the market expectation of 25% mainly due to 1) low revenue growth at 12.5% YoY especially from non-owner VAS that only grew 1.3% YoY given a weak property market. 2) but GP margin lifted 0.1pct to 15.1%, SG&A fee rate improved to 7.6% from 8.2% in 1H22 as Onewo Town strategy was showing results. **Company guided <20% YoY revenue growth and 25-30% YoY EBITDA growth in FY23E** by expecting more cost reduction under Onewo town strategy. Company announced an interim dividend of RMB0.315 per share, as 20% of EBITDA (as 37% of NP) vs. 10% in FY22 (as 19% of NP). The rising pay-out ratio will be maintained according to the management.
- **Onewo Town strategy is becoming more convincing.** Company completed the renovation of 102 Onewo Towns that 1) improved GP of RMB104mn in 1H23, as 40% of GP improvement for residential PM segment, 2) led to more opportunities for community VAS evidenced by 22% YoY growth in comminute VAS revenue with GP margin improving to 36.5% in 1H23 (vs. 34.7% in 1H22). To better understand the Onewo Town strategy, we presented [a project case in page 2](#).
- **Bidding with capital investment: a valuable deal or rat-race?** Company's strategy of bringing capital when bidding PM contract was considered as a rule-breaker by peers, and it is also disliked by investors as it makes assets heavier. While by knowing more details and looking at it from another angle, **we think it is actually a good deal: 1)** the funds will be strictly used on formation and renovation of Onewo Town other than solving problems that should have solved by public housing maintenance funds. This can be proved by the fact that Onewo do not set up co-mgmt. account with property owners committee. **2)** the cost advantage brought by renovation enabled company to bid projects with lower margins that enlarged space for expansion. **3)** if we take this investment as an acquisition of PM company, the valuation is way more attractive - avg. P/S is ~0.26x, P/E is ~5x. (vs. 10x in M&A market). Besides, there will be no goodwill impairment issue in the future and the funds will be used on the project other than paid to seller.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	23,705	30,106	35,789	42,205	49,507
YoY growth (%)	30.6	27.0	18.9	17.9	17.3
Net profit (RMB mn)	1,668	1,511	2,076	2,540	3,062
EPS (Reported) (RMB)	1.65	1.40	1.92	2.35	2.83
YoY growth (%)	12.4	(15.2)	37.5	22.3	20.6
Consensus EPS (RMB)	N.A.	N.A.	1.85	2.33	2.79
P/E (x)	16.4	19.4	14.1	11.5	9.6
P/B (x)	13.3	3.4	2.7	2.2	1.8
Yield (%)	12.9	1.0	2.5	2.9	3.4
ROE (%)	16.9	9.2	10.9	11.6	12.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$44.11
(Previous TP) HK\$43.60
Up/Downside 51.6%
Current Price HK\$29.10

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Stock Data

Mkt Cap (HK\$ mn) 34,293.4
Avg 3 mths t/o (HK\$ mn) 30.1
52w High/Low (HK\$) NA/NA
Total Issued Shares (mn) 1178.5
Source: FactSet

Shareholding Structure

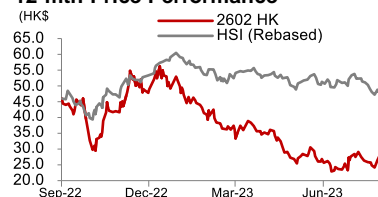
China Vanke 50.9%
Radiant Sunbeam Ltd. 15.3%
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	4.3%	14.6%
3-mth	6.6%	9.1%
6-mth	-26.0%	-19.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: 1H23 results summary

RMB mn	1H22	1H23	YoY	1H/2022	1H/2023E
Revenue	14,243	16,020	12.5%	47%	45%
- Residential PM	7,270	8,155	12.2%	49%	46%
- Commercial PM	3,454	3,974	15.1%	46%	43%
- Community VAS	724	881	21.7%	41%	40%
- VAS for developers	1,366	1,383	1.3%	47%	47%
- Urban space services	273	310	13.6%	41%	41%
- AIoT and BPaaS solution services	1,155	1,316	13.9%	49%	45%
Gross profit	2,127	2,412	13.4%	50%	57%
EBITDA (reported)	1,544	1,858	20.4%	54%	51%
Net profit attributable to shareholders	873	998	14.3%	58%	48%
EBITDA per share	1.47	1.58	7.3%	56%	47%
EPS (RMB)	0.83	0.85	1.8%	59%	60%
DPS (RMB)	-	0.32	n.a.		
Div payout ratio (as % of EBITDA)	-	20%	10% in FY22		
Dividend payout ratio	-	37%	19% in FY22		
GP Margin	14.9%	15.1%	0.1 ppt		
EBITDA margin	10.8%	12%	0.8 ppt		
Net Margin	6.1%	6.2%	0.1 ppt		
Annualized income of managed GFA (RMB bn)					
- Residential	19.4	22.9	18.5%		
- Commercial	9.4	11.4	21.4%		

Source: Company data, CMBIGM

Earnings revision

We cut our forecast on Onewo's revenue by 10%, 14%, 17% and project it to increase 19% YoY, 18% YoY, 17% YoY to reach RMB 35,789mn, 42,205mn, 49,507mn in FY23E, FY24E, FY25E, respectively. As competition in existing residential market, commercial PM and urban space services are all intensifying and the weakening broad property market will significantly reduce non-owner VAS revenue.

While we estimate GP margin to improve 0.2-0.3 ppts at around 15.2-15.7% in FY23-25E, NP margin to improve 0.2-0.3 ppts to 5.8-6.2% in FY23-25E given Onewo Town strategy is progressing well and will gradually show more results. Thus, Net profit is expected to increase 37%, 22%, 21% to RMB2,076mn, 2,540mn, 3,062mn in FY23E, FY24E, FY25E, our new forecast is -7%, -9%, -12% lower than the old one.

After consideration of D&A on company's historical acquisition, we project EBITDA to grow 27%, 18% and 17% to RMB3,618mn, 4,259mn and RMB4,965mn in FY23E, FY24E and FY25E.

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	35,789	42,205	49,507	39,864	49,208	59,426	-10%	-14%	-17%
Gross Profit	5,442	6,533	7,769	5,961	7,446	9,197	-9%	-12%	-16%
Operating profit	2,778	3,375	4,049	2,914	3,635	4,511	-5%	-7%	-10%
Net profit	2,076	2,540	3,062	2,227	2,795	3,476	-7%	-9%	-12%
EPS (RMB)	1.92	2.35	2.83	2.06	2.58	3.21	-7%	-9%	-12%
Gross Margin	15.2%	15.5%	15.7%	15.0%	15.1%	15.5%	0.3ppts	0.3ppts	0.2ppts
Operating Margin	7.8%	8.0%	8.2%	7.3%	7.4%	7.6%	0.5ppts	0.6ppts	0.6ppts
Net Margin	5.8%	6.0%	6.2%	5.6%	5.7%	5.8%	0.2ppts	0.3ppts	0.3ppts

Source: Company data, CMBIGM

Figure 3: Financial forecast of Onewo

Key drivers	2021	2022	2023E	2024E	2025E
Managed GFA (mn sqm)	785	991	1,269	1,618	2,040
YoY growth	36%	26%	28%	28%	26%
- Residential (mn sqm)	660	820	1,035	1,306	1,634
- Non-residential (mn sqm)	125	171	233	312	406
Revenue (RMB mn)	23,705	30,106	35,789	42,205	49,507
YoY growth	30.6%	27.0%	18.9%	17.9%	17.3%
- Residential PM	11,363	14,811	17,748	21,179	25,068
- Commercial PM	5,288	7,545	9,229	10,857	12,511
- Community VAS	1,798	1,772	2,199	2,748	3,456
- VAS for developers	3,065	2,935	2,935	2,935	2,935
- Urban space integrated services	340	664	764	863	967
- AIoT and BPaaS solution services	1,850	2,378	2,914	3,623	4,569
Gross margin	17.0%	14.1%	15.2%	15.5%	15.7%
- Residential PM	11.1%	9.9%	12.0%	12.2%	12.3%
- Commercial PM	13.7%	12.2%	12.2%	12.2%	12.2%
- Community VAS	45.5%	36.1%	35.8%	35.4%	34.4%
- VAS for developers	19.5%	13.9%	13.5%	13.3%	13.1%
- Urban space integrated services	17.4%	8.2%	9.2%	9.2%	9.2%
- AIoT and BPaaS solution services	29.9%	31.6%	32.0%	32.6%	32.8%
EBIDTA (RMB mn)	2,640	2,841	3,618	4,259	4,965
YoY growth	23%	8%	27%	18%	17%
Net profits (RMB mn)	1,668	1,510	2,076	2,540	3,062
YoY growth	14%	-9%	37%	22%	21%
EBITDA margin	11%	9%	10%	10%	10%
Net margin	7.0%	5.0%	5.8%	6.0%	6.2%

Source: Company data, CMBIGM

Valuation

Maintain BUY with TP up 1.1% to HK\$ 44.1

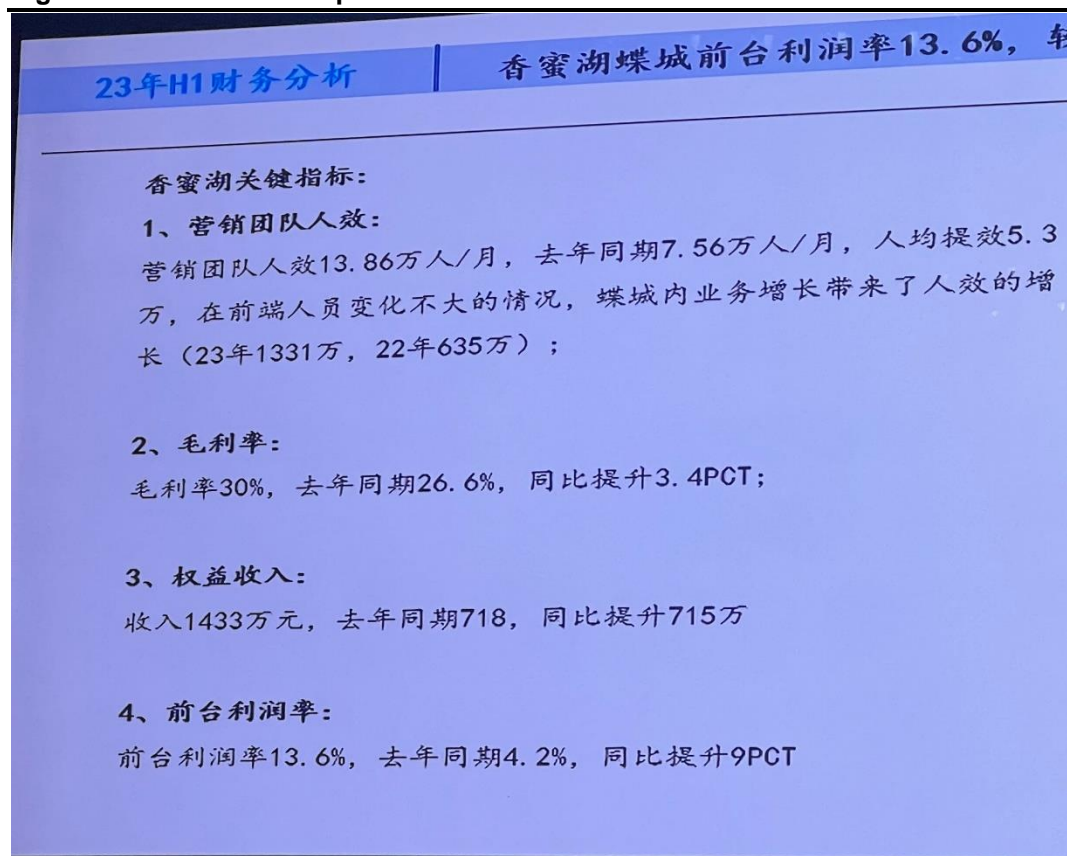
We continue to like Onewo on its 1) absolute competitiveness in existing residential market and secured community VAS opportunity under Onewo Town strategy, 2) dominant advantage on commercial PM under the brand - Cushman&Wakefield Vanke; 3) low dependency on parentco. and low parentco. risk, 4) lifted dividend pay-out at 20% of EBITDA.

Maintain BUY rating with TP lifted 1% to HK\$ 44.1 based on 20x FY23E P/E. Our adjustment is reflecting: 1) above-mentioned forecast cut (by -7%, -9%, -12% in NP in FY23-25E), 2) lifted target P/E multiple of 20x (vs. 18x originally) as we think Onewo Town with convincing results worth a premium. 3) FX adjustment. Company is currently trading at 14x 2023E P/E.

Project Case: Onewo Town in Shenzhen (Xiangmi Lake)

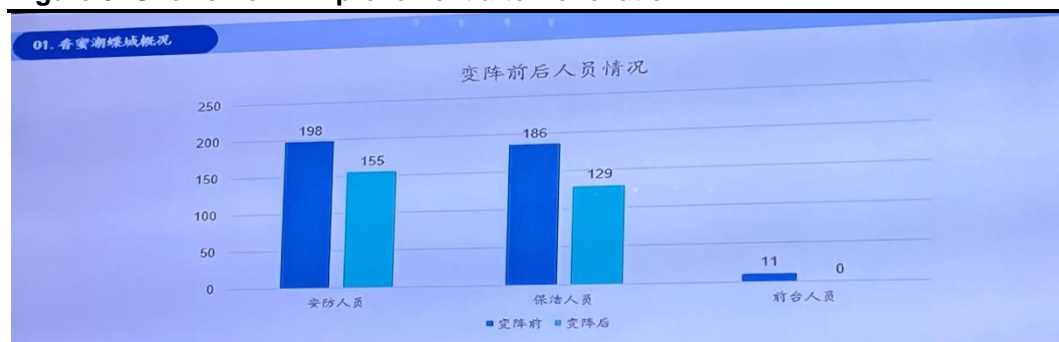
We visited a Onewo Town around Xiangmi Lake in Shenzhen (香蜜湖蝶城) and the Town covers 328 projects including 192k residential units. As we can see from the pictures showing below that after the renovation measures required by Onewo Town strategy, the gross profit margin of the Xiangmi Lake Town has been improved 3.4 ppts to 30% in 1H23 from 26.6% in 1H22. According to the project manager that Onewo's declaration services accounted for 30% of the market share in Xiangmi Lake Town.

Figure 4: Onewo Town improvement after renovation



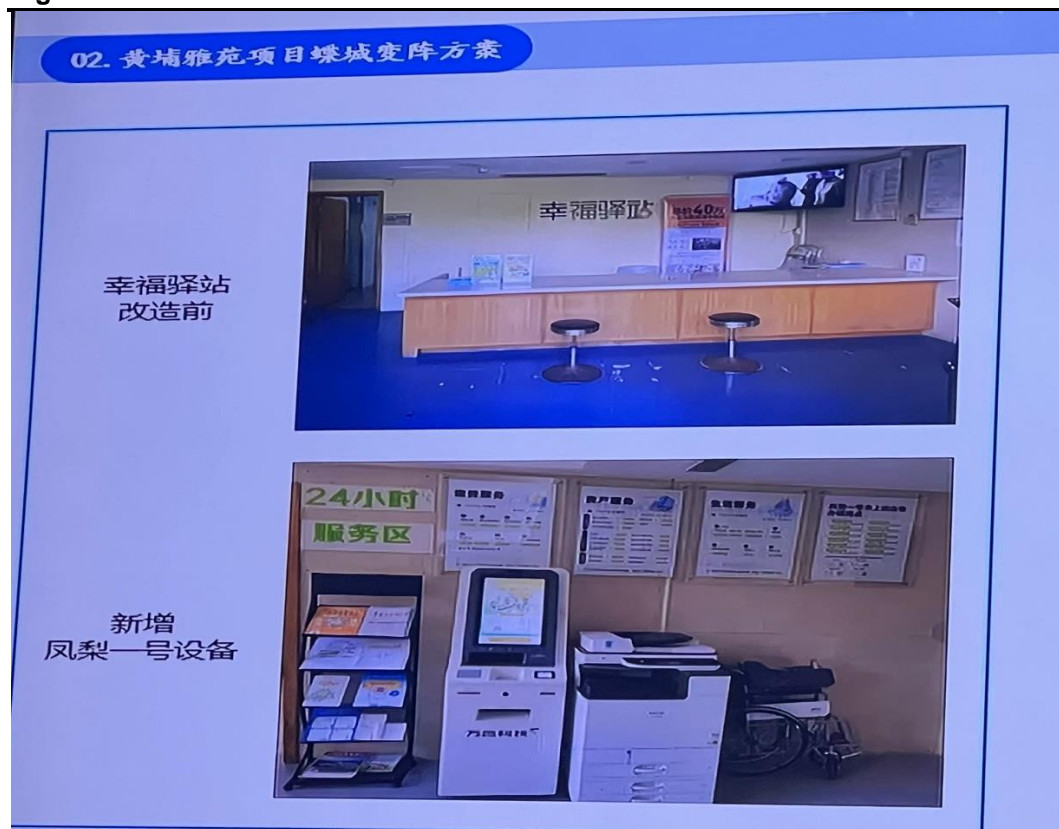
Source: Company data, CMBIGM

Figure 5: Onewo Town improvement after renovation



Source: Company data, CMBIGM

Figure 6: Onewo Town renovation measures



Source: Company data, CMBIGM

Figure 7: Onewo Town renovation measures



Source: Company data, CMBIGM

Figure 8: Onewo Town renovation measures



Source: Company data, CMBIGM

Figure 8: Onewo Town renovation measures



Source: Company data, CMBIGM

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	18,145	23,705	30,106	35,789	42,205	49,507
Cost of goods sold	(14,781)	(19,685)	(25,875)	(30,347)	(35,672)	(41,738)
Gross profit	3,365	4,020	4,231	5,442	6,533	7,769
Operating expenses	(1,529)	(2,049)	(2,604)	(2,792)	(3,292)	(3,862)
Selling expense	(166)	(257)	(450)	(501)	(591)	(693)
Admin expense	(1,363)	(1,792)	(2,153)	(2,290)	(2,701)	(3,168)
Operating profit	1,836	1,971	1,627	2,650	3,241	3,908
Other income	331	309	525	243	243	243
Other expense	(139)	(69)	(156)	(180)	(180)	(180)
Share of (losses)/profits of associates/JV	56	34	(10)	10	10	10
EBITDA	2,139	2,640	2,841	2,723	3,314	3,981
Depreciation	56	395	855	0	0	0
Interest income	40	85	46	65	71	78
Interest expense	(14)	(10)	(11)	(10)	(10)	(9)
Net Interest income/(expense)	25	75	35	54	61	69
Pre-tax profit	2,109	2,320	2,021	2,777	3,375	4,049
Income tax	(590)	(606)	(435)	(625)	(759)	(911)
After tax profit	1,519	1,714	1,586	2,152	2,616	3,138
Minority interest	55	47	76	76	76	76
Net profit	1,464	1,668	1,510	2,076	2,540	3,062
Net dividends	318	3,537	284	724	852	993

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	12,208	13,708	21,789	24,040	27,392	31,199
Cash & equivalents	5,398	6,431	13,345	15,062	17,603	20,574
Restricted cash	238	305	376	376	376	376
Account receivables	3,021	4,514	6,278	6,800	7,597	8,416
Inventories	327	261	70	82	96	113
Prepayment	1,495	1,698	1,698	1,698	1,698	1,698
ST bank deposits	1,719	496	22	22	22	22
Financial assets at FVTPL	10	4	0	0	0	0
Non-current assets	6,796	15,016	15,121	15,681	16,290	16,960
PP&E	358	501	666	842	1,017	1,203
Right-of-use assets	226	253	231	209	187	165
Deferred income tax	17	57	97	97	97	97
Investment in JVs & assos	1,567	9,264	9,377	9,860	10,393	10,976
Intangibles	583	8,244	8,507	8,820	9,183	9,596
Financial assets at FVTPL	1	1	1	1	1	1
Other non-current assets	4,044	(3,303)	(3,758)	(4,148)	(4,588)	(5,078)
Total assets	19,004	28,724	36,910	39,721	43,682	48,158
Current liabilities	11,512	16,282	17,714	17,856	18,815	19,907
Short-term borrowings	10	12	0	0	0	0
Account payables	2,605	3,243	5,320	5,463	6,421	7,513
Tax payable	524	745	738	738	738	738
Other current liabilities	0	192	192	192	192	192
Lease liabilities	80	101	109	109	109	109
Contract liabilities	3,546	4,168	4,515	4,515	4,515	4,515
Accrued expenses	4,747	7,822	6,840	6,840	6,840	6,840
Non-current liabilities	927	2,130	2,195	2,195	2,195	2,195
Long-term borrowings	4	4	0	0	0	0
Obligations under finance leases	145	150	124	124	124	124
Deferred income	68	1,088	990	990	990	990
Other non-current liabilities	709	888	1,081	1,081	1,081	1,081
Total liabilities	12,439	18,412	19,909	20,052	21,010	22,102
Share capital	1,000	1,050	1,178	1,178	1,178	1,178
Other reserves	5,255	8,843	15,281	17,873	20,800	24,109
Total shareholders equity	6,255	9,893	16,460	19,052	21,979	25,287
Minority interest	310	419	541	617	693	769
Total equity and liabilities	6,565	10,313	17,001	19,669	22,672	26,056

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	2,109	2,320	2,021	2,777	3,375	4,049
Depreciation & amortization	214	395	855	895	945	985
Tax paid	(366)	(496)	(535)	(625)	(759)	(911)
Change in working capital	725	784	588	(391)	147	256
Others	(124)	(170)	(171)	116	109	101
Net cash from operations	2,557	2,834	2,756	2,772	3,816	4,480
Investing						
Capital expenditure	(79)	1	(423)	(545)	(645)	(745)
Acquisition of subsidiaries/ investments	(1,052)	(1,500)	(122)	160	160	160
Net proceeds from disposal of short-term investments	(819)	2,018	509	65	71	78
Others	0	0	0	0	0	0
Net cash from investing	(1,950)	519	(36)	(321)	(414)	(507)
Financing						
Dividend paid	(318)	(2,243)	(1,294)	(724)	(852)	(993)
Net borrowings	(2)	(19)	(16)	(10)	(10)	(9)
Proceeds from share issues	0	0	5,728	0	0	0
Others	(71)	(58)	(235)	0	0	0
Net cash from financing	(390)	(2,319)	4,183	(734)	(862)	(1,002)
Net change in cash						
Cash at the beginning of the year	5,185	5,398	6,431	13,345	15,062	17,603
Exchange difference	(4)	(0)	12	0	0	0
Cash at the end of the year	5,398	6,431	13,345	15,062	17,603	20,574
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	30.3%	30.6%	27.0%	18.9%	17.9%	17.3%
Gross profit	36.3%	19.5%	5.2%	28.6%	20.1%	18.9%
Operating profit	45.4%	7.4%	(17.5%)	62.9%	22.3%	20.6%
EBITDA	50.2%	23.4%	7.6%	(4.1%)	21.7%	20.1%
Net profit	43.5%	13.9%	(9.4%)	37.5%	22.3%	20.6%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	18.5%	17.0%	14.1%	15.2%	15.5%	15.7%
Operating margin	10.1%	8.3%	5.4%	7.4%	7.7%	7.9%
EBITDA margin	11.8%	11.1%	9.4%	7.6%	7.9%	8.0%
Return on equity (ROE)	24.9%	20.7%	11.5%	11.7%	12.4%	13.0%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Current ratio (x)	1.1	0.8	1.2	1.3	1.5	1.6
Receivable turnover days	60.8	69.5	76.1	69.4	65.7	62.1
Inventory turnover days	8.1	4.8	1.0	1.0	1.0	1.0
Payable turnover days	64.3	60.1	75.0	65.7	65.7	65.7
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	18.5	16.4	19.4	14.1	11.5	9.6
P/B	4.5	13.3	3.4	2.7	2.2	1.8
Div yield (%)	1.2	12.9	1.0	2.5	2.9	3.4

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

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