

# Greentown Service (2869 HK)

## Earnings depends on VAS

- 6% adj. earnings growth in FY19.** In FY19, Greentown Service recorded a revenue of RMB8,582mn, up 28% YoY. Gross margin remained stable at 18.0% compared to 17.8% in FY18. Selling and marketing expenses increased by 155% in FY19 due to the expansion of new VAS services. Excluding the effect of SBC (FY18/19: RMB26.4mn/RMB62.5mn), adj. net profit to shareholder grew 6% from RMB510mn to RMB540mn, which is slightly above our forecast of RMB531mn. By end-FY19, Greentown Service had a managed/reserve GFA of 212/233mn sq m, indicating a strong growth in scale in the near term.
- Earnings depends on VAS.** The Company's PM service, consulting service, and community VAS accounted for 40.2%, 26.4% and 33.5% of total gross profit, and achieved 22.2%, 29.6% and 46.0% growth in FY19, respectively. Thus, VAS now plays an important role in the Company's earnings growth. However, some VAS are cyclical business (sales center assistance, property agency etc.) and some new VAS could be unstable in the early stage of development, for example education business recorded loss in the first year which dragged down the overall profit. The Company's earnings performance largely depends on the result of VAS, which could be fluctuating. But we are optimistic about the PM companies unlocking the potential of VAS. Temporary financial setback does not change the trend. And Greentown Service is leading in VAS, which should be credited.
- Longfor investment strengthens the cash position.** Greentown Service announced on 27 Dec 2019 that the Company would introduce **Longfor (960 HK, HOLD)** as its substantial shareholder. Longfor had (1) purchased approx. 5% of the total issued share from the Company's Chairman, LI, Hairong, and (2) will subscribe additional 5.3% of share placements on or before 15 Jun 2020. Upon the completion, Longfor will hold 10% of Greentown Service's enlarged capital. Longfor will also appoint a non-executive Director. The deal is a financial investment to Longfor. But the management of Greentown Service see it as alliance with Longfor in Life Service business. We believe Greentown Service will seek deeper cooperation with Longfor afterwards. More importantly, placement of new shares will help Greentown to raise fund after a heavy investment in Community Living Servicing sub-segment. By end-FY19, Greentown's cash on hand was RMB2,661mn and total debt was RMB483mn. Using the closing price of 2 Apr 2020 with 7.5% discount as subscription price, Greentown Service could raise approx. RMB1,100mn.

(Continued in the next page...)

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	6,710	8,582	10,156	12,091	14,220
YoY growth (%)	30.5	27.9	18.3	19.1	17.6
Adj. Net income (RMB mn)	510	540	622	794	951
Adj. EPS (RMB)	0.18	0.19	0.21	0.27	0.33
YoY growth (%)	21.4	1.0	17.0	30.4	21.9
Consensus EPS (RMB)	N.A.	N.A.	0.24	0.31	0.36
P/E (x)	43.8	41.3	37.7	29.5	24.6
P/B (x)	10.3	10.4	6.4	5.7	5.0
Yield (%)	0.8	0.8	0.8	1.1	1.4
ROE (%)	20.8	17.3	13.5	16.1	17.4
Net gearing (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIS estimates

**HOLD (Maintain)**

**Target Price** HK\$9.11  
**(Previous TP)** HK\$10.48  
**Up/Downside** +1.7%  
**Current Price** HK\$8.96

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### Stock Data

Mkt Cap (HK\$ mn)	25,006
Avg 3 mths t/o (HK\$ mn)	62.81
52w High/Low (HK\$)	10.66/5.42
Total Issued Shares (mn)	2,791

Source: Bloomberg

### Shareholding Structure

Orchid Garden	36.7%
LI, Hairong	21.3%
Free float	42.0%

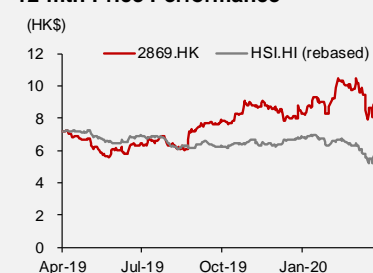
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-8.5%	3.4%
3-mth	7.0%	31.3%
6-mth	13.7%	27.2%
12-mth	25.5%	59.8%

Source: Bloomberg

### 12-mth Price Performance

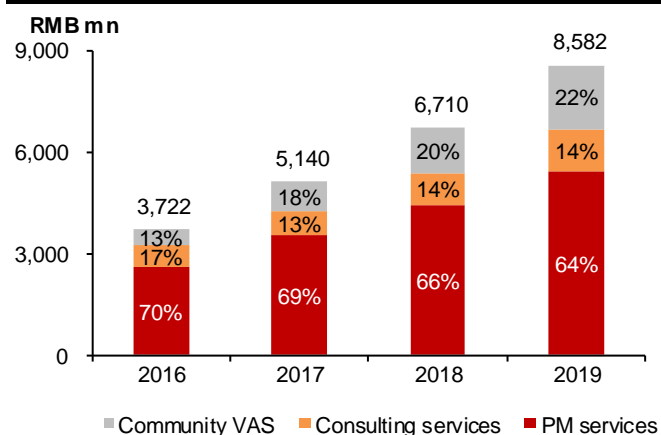


Source: Bloomberg

**Auditor: KPMG**

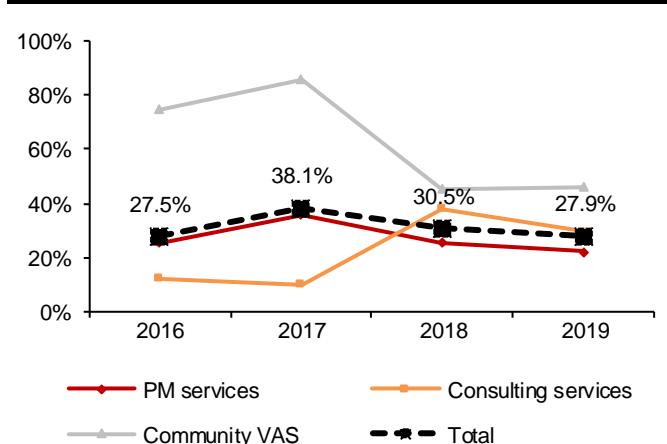
■ **Trim earnings forecasts and maintain HOLD.** The growth of the Company's PM service segment has maintained a robust growth over the past few years. With the abundant reserve GFA, we expect the momentum of PM service will carry on in FY20. However, due to the disease outbreak in 1Q20, we expect growth of consulting service and community VAS would slow down in FY20. Thus, we trim FY20/21E EPS by 13.8%/9.7% to RMB0.21/RMB0.27. Given 30x FY21 target P/E, we trim our TP from HK\$10.48 to HK\$9.11, **maintain HOLD**.

**Figure 1: Revenue**



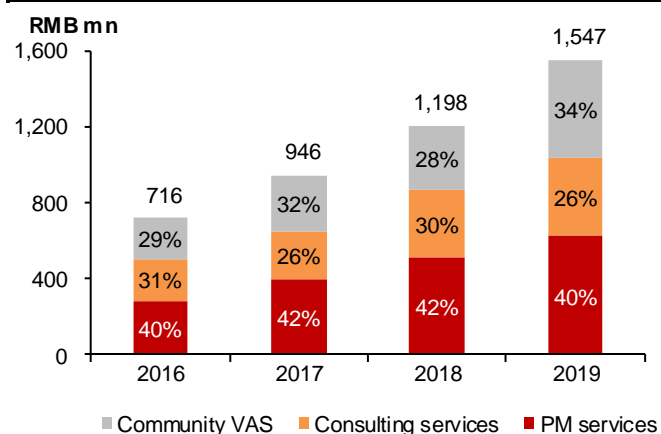
Source: Company data

**Figure 2: Revenue growth**



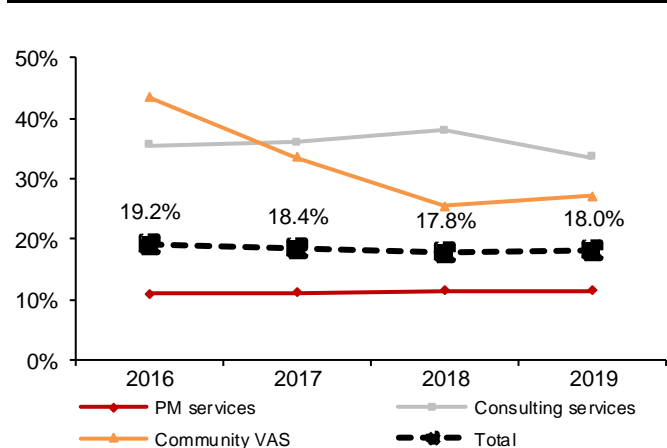
Source: Company data

**Figure 3: Gross profit**



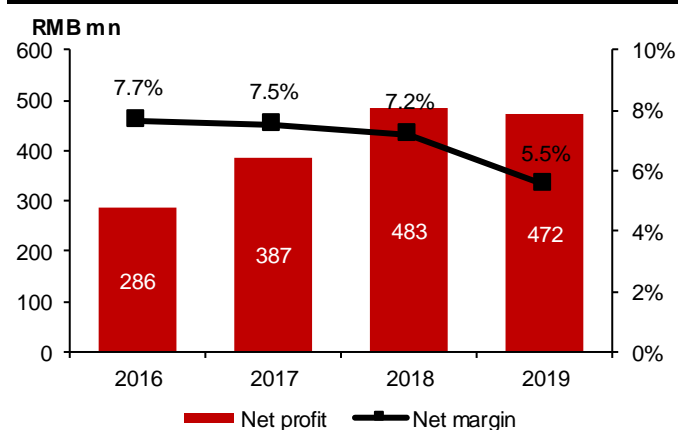
Source: Company data

**Figure 4: Gross margin**



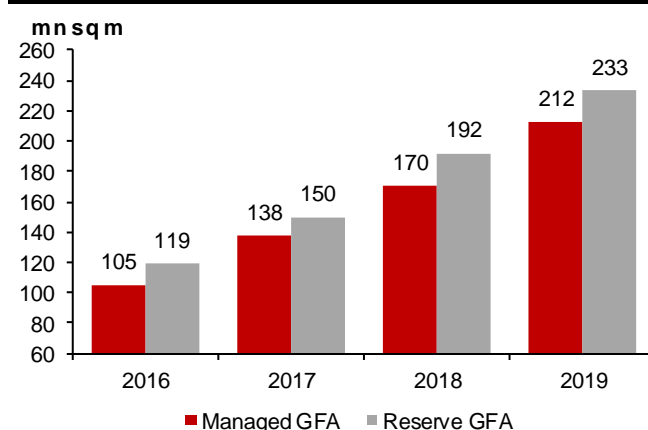
Source: Company data

Figure 5: Net profit



Source: Company data

Figure 6: GFA



Source: Company data

Figure 7: Earnings revision

RMB mn	New		Old		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	10,156	12,091	10,369	12,376	-2.1%	-2.3%
Gross Profit	1,748	2,142	1,963	2,385	-10.9%	-10.2%
EBIT	768	1,034	939	1,161	-18.2%	-10.9%
Adj. Net profit	622	794	724	882	-14.0%	-10.0%
Adj. EPS (RMB)	0.21	0.27	0.25	0.30	-13.8%	-9.7%
Gross Margin	17%	17.7%	19%	19.3%	-1.7 ppt	-1.6 ppt
EBIT Margin	8%	8.6%	9%	9.4%	-1.5 ppt	-0.8 ppt
Net Margin	6%	6.6%	7%	7.1%	-0.9 ppt	-0.6 ppt

Source: 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	FY19E	FY20E	FY21E	FY22E
<b>Turnover</b>	<b>6,710</b>	<b>8,582</b>	<b>10,156</b>	<b>12,091</b>	<b>14,220</b>	<b>Profit before tax</b>	<b>629</b>	<b>643</b>	<b>770</b>	<b>1,054</b>	<b>1,325</b>
Property mgmt services	4,461	5,452	6,764	7,878	9,042	D&A	81	88	12	12	12
Extended VAS	939	1,217	1,362	1,649	2,061	Chg in working capital	116	49	109	86	97
Community VAS	1,310	1,913	2,029	2,564	3,116	Others	(170)	(72)	(202)	(294)	(378)
Cost of sales	(5,512)	(7,035)	(8,407)	(9,949)	(11,652)	<b>Net cash from operating</b>	<b>656</b>	<b>708</b>	<b>689</b>	<b>859</b>	<b>1,056</b>
<b>Gross profit</b>	<b>1,198</b>	<b>1,547</b>	<b>1,748</b>	<b>2,142</b>	<b>2,568</b>		-	-	-	-	-
Other income, net	13	39	25	17	17	FA Capex & Inv, net	(173)	(519)	(16)	(10)	(6)
Selling & marketing expenses	(59)	(151)	(61)	(60)	(71)	Associated companies	(26)	-	-	-	-
Administrative expenses	(597)	(771)	(863)	(967)	(1,109)	Others	-	-	-	-	-
Other expenses	(61)	(63)	(81)	(97)	(114)	<b>Net cash from investing</b>	<b>(199)</b>	<b>(519)</b>	<b>(16)</b>	<b>(10)</b>	<b>(6)</b>
<b>EBIT</b>	<b>493</b>	<b>601</b>	<b>768</b>	<b>1,034</b>	<b>1,291</b>	Equity raised	21	-	1,115	-	-
Share from JCE	(21)	(3)	(1)	5	12	Chg of debts	1	482	(134)	(70)	(56)
Finance cost, net	18	(1)	3	15	22	Others	(142)	(210)	(212)	(283)	(339)
Exceptional	139	46	-	-	-	<b>Net cash from financing</b>	<b>(120)</b>	<b>272</b>	<b>769</b>	<b>(353)</b>	<b>(394)</b>
<b>Pre-tax Profit</b>	<b>629</b>	<b>643</b>	<b>770</b>	<b>1,054</b>	<b>1,325</b>	<b>Net change in cash</b>	<b>337</b>	<b>461</b>	<b>1,441</b>	<b>496</b>	<b>656</b>
Income tax	(163)	(171)	(200)	(274)	(344)	Cash at the beginning of the year	1,836	2,180	2,641	4,083	4,579
<b>PROFIT FOR THE YEAR</b>	<b>466</b>	<b>472</b>	<b>569</b>	<b>780</b>	<b>980</b>	Exchange difference	6	-	-	-	-
Non-controlling interest	18	5	3	(16)	(49)	<b>Cash at the end of the year</b>	<b>2,180</b>	<b>2,641</b>	<b>4,083</b>	<b>4,579</b>	<b>5,234</b>
<b>Net Profit to shareholders</b>	<b>483</b>	<b>477</b>	<b>572</b>	<b>764</b>	<b>931</b>						
<b>Adj. Net profit</b>	<b>510</b>	<b>540</b>	<b>622</b>	<b>794</b>	<b>951</b>						
						<b>Key ratios</b>					
						YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY21E
						Sales mix (%)					
						Property mgmt services	66.5	63.5	66.6	65.2	63.6
						Extended VAS	14.0	14.2	13.4	13.6	14.5
						Community VAS	19.5	22.3	20.0	21.2	21.9
						<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
						<b>Profit &amp; loss ratios (%)</b>					
						Gross margin	17.8	18.0	17.2	17.7	18.1
						EBIT margin	7.3	7.0	7.6	8.6	9.1
						Net margin	7.2	5.6	5.6	6.3	6.5
						Effective tax rate	26.0	26.6	26.0	26.0	26.0
						<b>Growth (%)</b>					
						Revenue	30.5	27.9	18.3	19.1	17.6
						Gross profit	26.5	29.2	13.0	22.5	19.9
						EBIT	3.2	21.9	27.7	34.7	24.8
						Net profit	24.7	-1.2	19.9	33.5	21.9
						<b>Balance sheet ratios</b>					
						Current ratio (x)	1.3	1.3	1.5	1.5	1.6
						Receivable turnover days	65	78	78	78	78
						Payables turnover days	125	136	136	136	136
						Inventory turnover days	19	18	18	18	18
						Net debt / total equity ratio (%)	net cash	net cash	net cash	net cash	net cash
						<b>Returns (%)</b>					
						ROE	20.8	17.3	13.5	16.1	17.4
						ROA	8.7	5.5	5.5	6.8	7.8
						<b>Per share</b>					
						Adj. EPS (RMB)	0.18	0.19	0.21	0.27	0.33
						DPS (RMB)	0.06	0.06	0.07	0.09	0.11
						BVPS (RMB)	0.78	0.78	1.25	1.42	1.62

Source: Company data, CMBIS estimates

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