

China Property Service Sector

Long shopping mall operators in 2Q

During 2Q21, PM sector has seen relatively flat performance as we think overall 27x 2022E P/E valuation has almost priced in the 40-50% 2020-23E CAGR guidance. With competition intensifying and cornerstone lock-up expiry in the residential management, we suggest investors to long shopping mall operators given that 1) retails sales recovered faster than expected during labor holiday and 4M21 together with occupancy rate and rental improvement. This provides earnings upside on 5-10% rental commission for commercial operators. 2) Competition remains limited in this space which gives rooms for major players to consolidate via asset-light models. **Top picks:** Powerlong/CR Mixc Lifestyle/CGS. **Catalysts:** 1H21 results; Wanda Commercial Management to announce IPO.

- **Retail sales/occupancy rate/rental all are improving.** The retail sales during Labor holiday (1-5 May) has seen strong recovery of 20% YoY (or 10% 2Y CAGR), accelerating from 6.3% in Mar 2021. In particular, major shopping mall operators have outperformed the market such as Powerlong (+44% YoY for the comparable malls), Wanda (+77% YoY) and Golden Eagles (+44% YoY). Also the occupancy rate of shopping mall has improved to 90% in 1Q21 from 89% in 4Q20 while rental saw 1.3% QoQ increase in Shanghai based on JLL's data. This is in line Powerlong's latest guidance. Therefore we think this would boost the shopping mall operator's earnings upside as they can enjoy 5-10% of commission from rental income growth.
- **Competition over shopping mall management remains modest.** Due to the high entry barrier, overall competition in the commercial operation is still limited. This can be seen from the 4M21 CRIC data that shows only 1.5% of overall GFA expansion came from shopping mall type while office/residential/schools took 35%/22%/10% of total. Therefore we believe market leaders (top 10 players only took <15% of market share) with first-mover advantage and know-how can continue to consolidate the market.
- **Asset-light model provides fast expansion opportunity for market leaders.** Major players all announced target of expansion via asset-light models such as Powerlong (open 50 malls by 2025, Wanda (70 contracted malls in 2021), CR Mixc (50 by 2025). We think this is achievable given that 1) there will be 500-600 new malls opening per year; 2) old mall renovation under new branding is one way of consolidating the existing market of >6,000 shopping malls (75% in Tier 1-3 cities). CR Land is currently exploring this business. 3) Another way of tapping the existing shopping malls would be wholesale leasing and renting out to earn the rental difference under the brand premium. Powerlong is currently doing this business. Therefore, we may see more upside in this model especially to acquire small commercial operators.
- **Lock-up expiry in the near term may pose some selling pressure:** 4Q20 was the quarter when some large PM IPOs were seen. Therefore the coming lock-up expiry in May-Jun 2021 may cause some short-term impact. In particular, major players are **Jinke Services** (17 May, +23% since IPO, cornerstone size of 427mn USD), **Sunac Services** (19 May, +85% since IPO, 686mn USD), **Evergrande PM** (2 Jun, +47% since IPO, 1,318mn USD) and **CR Mixc Lifestyle** (9 Jun, +90% since IPO, 1,235mn USD).

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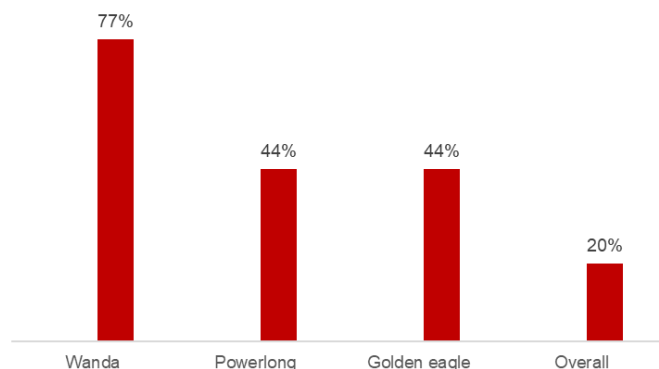
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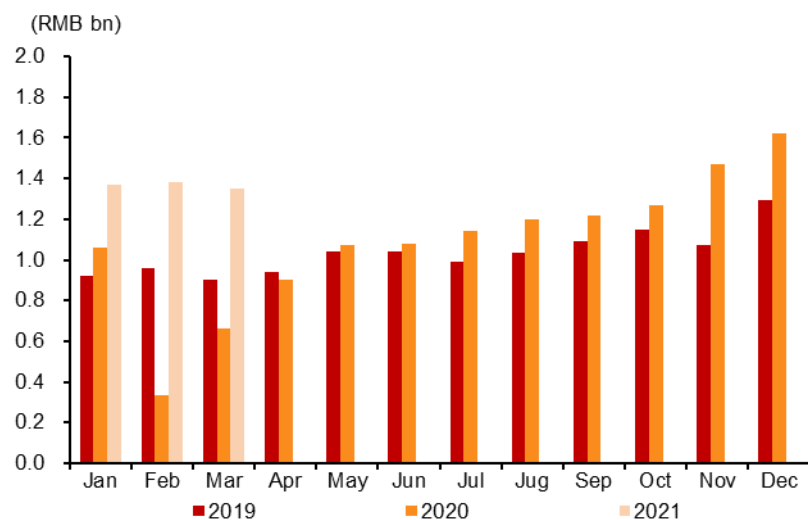
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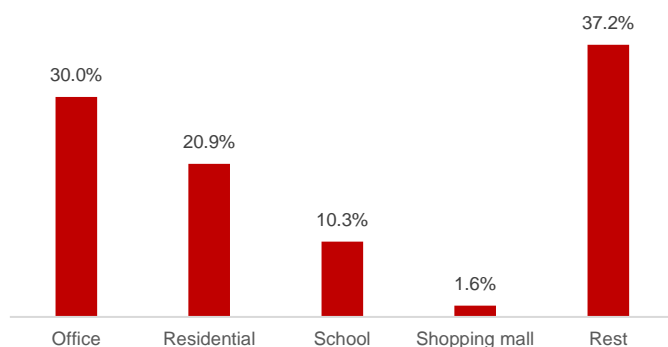
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Figure 1: retail sales YoY growth during labour holiday (1-5 May 2021)

Source: Company data, CMBIS

Figure 2: CR Land on track to achieve +60% YoY rental growth in 1H21 (1Q +101% YoY)

Source: Company data, CMBIS

Figure 3: 4M21 GFA expansion by type among Top 50 PM companies

Source: CRIC

Figure 4: Lock-up expiry in the near term may pose some selling pressure

Listco	Lock-up expiry date	Performance since IPO	Cornerstone size (mn USD)
CR Mixc Lifestyle 1209.HK	9-Jun-21	90%	1,235
Evergrande PM 6666.HK	2-Jun-21	47%	1,318
Sunac Services 1516.HK	19-May-21	85%	686
Jinke Services 9666.HK	17-May-21	23%	427

Source: Company data, CMBIS

Figure 5: Valuation table

Company	Ticker	CMBI rating	TP (HK\$)	Last price (HK\$)	Mkt Cap (HK\$ mn)	P/E		Net profit growth (%)	
						21E	22E	21E	22E
Country Garden Services	6098 HK	BUY	91.2	75.2	227,576	40.6	28.9	68.9	40.7
CR Mixc Lifestyle	1209 HK	BUY	56.0	42.4	96,664	50.8	37.9	93.2	33.8
A-Living	3319 HK	HOLD	34.2	35.0	46,667	15.0	11.2	47.3	33.5
Greentown Services	2869 HK	HOLD	9.5	12.0	39,048	38.7	31.8	32.2	21.5
Ever Sunshine	1995 HK	BUY	22.2	17.9	29,967	33.6	21.8	72.8	54.2
Poly Services	6049 HK	HOLD	53.4	64.0	35,386	37.8	29.7	15.5	26.9
S-Enjoy	1755 HK	BUY	34.6	23.1	20,145	24.9	19.5	41.3	27.2
Powerlong Commercial	9909 HK	BUY	33.2	28.9	18,579	33.2	25.3	52.1	31.5
Excellence CM	6989 HK	BUY	14.9	10.0	12,200	18.7	13.4	62.9	39.7
Languang Justbon	2606 HK	BUY	69.7	51.8	9,217	10.0	7.4	34.2	34.1
Central China New Life	9983 HK	BUY	12.9	5.9	7,455	11.9	9.0	22.1	32.6
Sino-Ocean Services	6677 HK	BUY	7.1	4.8	5,671	11.4	8.1	50.5	41.8
Redsun Services	1971 HK	BUY	9.4	4.3	1,768	8.9	6.1	75.8	47.7
Average						36.9	27.1	62.4	36.3

Source: Bloomberg, CMBIS estimates

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