

# Greentown Service (2869 HK)

## High brand quality to boost its 2023 recovery

In line with profit alert, Greentown Service reported still strong top line growth at 18% YoY in FY22, thanks to its cooperation with Cinda Yue Life and strong third-party expansion. However, the GPM has been impacted due to COVID and mix shift, thus dragging down core EBIT to -9% and NP -35% YoY. We expect the company to gradually recover in 2023 with 15% YoY NP growth because 1) its high brand quality would accelerate in the expansion of existing home market (30% of overall GFA expansion) during post-period era. Together with cooperation with Cinda Yue, we think PM business would grow at 20%+ CAGR in 2023E-25E. This would also bring synergy to its community living segment. 2) The Company implemented cost control measures as management targets to lower the labor expense/revenue by 0.5ppt to support a stable margin. 3) AR impairment is likely to peak in 2022. Therefore we maintain BUY but cut TP to HK\$5.93.

- **Stable core business thanks to cooperation with Cinda Yue Life.** The Company reported +22% YoY growth in revenue of Basic PM in 2022 as managed GFA was expanded 26% YoY to 384mn sqm, an increase of 80mn sqm, in which c.20% (14.9mn sqm) was contributed by the Company's equity cooperation with Cinda Yue Life. If excluded the impact, the managed GFA grew 21.4% YoY in 2022. As the Company's GFA expansion is likely to continuously benefit from Cinda Yue Life and the Group behind it, we estimate that both the managed GFA and revenue of basic PM will grow at 20% CAGR in 2023-25E.
- **2022 earnings in line with profit alert.** As announced in profit alert, the Company reported 2022 net profits decline of 35% YoY to RMB 584mn due to 1) GP margin fell by 2.3ppt to 16.2% in 2022 mainly dragged down by high margin segments like consulting business (GPM down 7ppt) and community living services (GPM down 5ppt) as COVID repeated. 2) +58% YoY growth in impairment losses on ARs (reached RMB 142mn). 3) +227% YoY growth in other operating expenses to RMB 125mn which mainly includes losses on FV change in equity investments and bond portfolios. Revenue grew 18% YoY to RMB14.8bn and core operating profit declined by 9% on GPM erosion in FY22.
- **Management expected FY23E to record 20-25% core operating profit growth.** We think this is achievable with revenue expected to grow at 20% CAGR, driven by stable property management business and recovery in community living space. Also, the Company will further enhance cost control to reduce 0.5% in labor costs to revenue ratio. Thus we estimate NP to grow at a CAGR of 15% in 2023-25E which is slightly slower than core EBIT due to likely lingering impairment pressure (account receivables surged 62% YoY to RMB 5,056mn in 2022).
- **Maintain Buy on stable core business.** We like the Company's stable core business expansion and high brand value, and believe it is less prone to risk from related parties. Maintain BUY. Our new TP arrived at HK\$ 5.93, reflecting 25x 2023E P/E (unchanged). **Risks:** 1) worse-than-expected business expansion; and 2) slower-than-expected economic recovery.

### 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 income (RMB mn)	846	548	639	735	840
EPS (RMB)	0.26	0.17	0.20	0.23	0.26
YoY growth (%)	12	-35	17	15	14
Consensus EPS (RMB)	N.A.	N.A.	0.31	0.36	0.37
P/E (x)	14.9	23.1	19.8	17.2	15.1
P/B (x)	2.1	2.1	2.0	1.9	1.7
Yield (%)	4.2	2.3	1.8	2.0	2.3
ROE (%)	12.1	7.7	8.5	9.2	9.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimate

**BUY (Maintain)**

Target Price **HK\$5.93**  
 (Previous TP **HK\$7.92**)  
 Up/Downside **+26.3%**  
 Current Price **HK\$4.70**

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### Stock Data

Mkt Cap (HK\$ mn)	15,192
Avg 3 mths t/o (HK\$ mn)	24.12
52w High/Low (HK\$)	9.20/ 3.22
Total Issued Shares (mn)	3,232

Source: Bloomberg

### Shareholding Structure

Orchid Garden	31.6%
LI, Hairong	14.0%
Free float	54.4%

Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-4.9%	-4.5%
3-mth	-4.0%	-5.6%
6-mth	-6.0%	-11.6%
12-mth	-30.3%	-25.1%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

**Auditor: KPMG**

**Figure 1: Earnings revision**

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	18,123	21,795	26,033	19,097	23,038	n.a.	-5%	-5%	n.a.
Gross Profit	3,007	3,586	4,207	3,486	4,312	n.a.	-14%	-17%	n.a.
Operating profit	999	1,150	1,316	1,547	1,897	n.a.	-35%	-39%	n.a.
Net profit	639	735	840	1114	1362	n.a.	-43%	-46%	n.a.
EPS (RMB)	0.20	0.23	0.26	0.27	0.34	n.a.	-26%	-34%	n.a.
Gross Margin	16.6%	16.5%	16.2%	18.3%	18.7%	n.a.	-1.7ppts	-2.3ppts	n.a.
Operating Margin	5.5%	5.3%	5.1%	8.1%	8.2%	n.a.	-2.6ppts	-3ppts	n.a.
Net Margin	3.5%	3.4%	3.2%	5.8%	5.9%	n.a.	-2.3ppts	-2.5ppts	n.a.

Source: Company data, CMBIGM

**Figure 2: FY22 results summary**

RMB mn	2021	2022A	YoY
<b>Revenue</b>	<b>12,566</b>	<b>14,856</b>	<b>18%</b>
- Property management services	7,770	9,446	22%
- Consulting services	1,960	2,067	5%
- Community living services	2,616	2,854	9%
- Technology services	221	489	122%
<b>Gross profit</b>	<b>2,331</b>	<b>2,402</b>	<b>3%</b>
<b>Core operating profit</b>	<b>1,079</b>	<b>981</b>	<b>-9%</b>
<b>Net profit</b>	<b>846</b>	<b>548</b>	<b>-35%</b>
EPS (RMB)	0.26	0.17	-35%
DPS (RMB)	0.16	0.09	-46%
Dividend payout ratio	63%	52%	-10.3 ppt
<b>GP Margin</b>	<b>18.5%</b>	<b>16.2%</b>	<b>-2.4 ppt</b>
<b>Net Margin</b>	<b>6.7%</b>	<b>3.7%</b>	<b>-3 ppt</b>
Managed GFA (mn sq m)	304.1	384.1	26%
Reserved GFA (mn sq m)	347.4	379.0	9%

Source: Company data, CMBIGM

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>12,566</b>	<b>14,856</b>	<b>18,123</b>	<b>21,795</b>	<b>26,033</b>
Property management	7,770	9,446	11,754	14,248	17,072
Consultancy services	1,960	2,067	2,067	2,067	2,067
Community value-added	2,616	2,854	3,665	4,653	5,819
Technology services	221	489	636	827	1,075
Cost of sales	(10,236)	(12,454)	(15,116)	(18,209)	(21,826)
<b>Gross profit</b>	<b>2,331</b>	<b>2,402</b>	<b>3,007</b>	<b>3,586</b>	<b>4,207</b>
<b>Other income</b>	<b>98</b>	<b>157</b>	<b>73</b>	<b>36</b>	<b>18</b>
Selling and marketing	(201)	(266)	(325)	(371)	(417)
Administrative expenses	(1,050)	(1,155)	(1,486)	(1,787)	(2,135)
Other expenses	(38)	(125)	(145)	(174)	(208)
<b>Operating profit</b>	<b>1,150</b>	<b>863</b>	<b>999</b>	<b>1,150</b>	<b>1,316</b>
Share from JCE	21	29	10	10	10
Finance cost	26	(37)	-	-	-
Exceptional	(5)	10	-	-	-
<b>Pre-tax profit</b>	<b>1,191</b>	<b>864</b>	<b>1,009</b>	<b>1,160</b>	<b>1,326</b>
Income tax	(301)	(233)	(271)	(312)	(357)
<b>Profit for the year</b>	<b>890</b>	<b>631</b>	<b>737</b>	<b>848</b>	<b>969</b>
Non-controlling interest	(44)	(84)	(98)	(113)	(129)
<b>Net profit to shareholders</b>	<b>846</b>	<b>548</b>	<b>639</b>	<b>735</b>	<b>840</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Non-current assets</b>	<b>5,097</b>	<b>6,013</b>	<b>6,079</b>	<b>6,189</b>	<b>6,299</b>
PP&E	773	917	973	1,073	1,173
Goodwill	451	658	658	658	658
Other intangible assets	430	529	529	529	529
Others	3,442	3,909	3,919	3,929	3,939
<b>Current assets</b>	<b>9,278</b>	<b>10,841</b>	<b>11,960</b>	<b>13,542</b>	<b>15,402</b>
Cash and cash equivalents	434	570	641	772	926
Trade and other receivables	3,055	4,840	4,405	5,298	6,328
Others	5,789	5,430	6,914	7,472	8,148
<b>Total Asset</b>	<b>14,375</b>	<b>16,854</b>	<b>18,039</b>	<b>19,731</b>	<b>21,700</b>
<b>Current liabilities</b>	<b>5,789</b>	<b>7,387</b>	<b>8,127</b>	<b>9,247</b>	<b>10,557</b>
Trade and other payables	3,706	4,734	5,473	6,593	7,903
Contract liabilities	1,343	1,529	1,529	1,529	1,529
Others	739	1,125	1,125	1,125	1,125
<b>Non-current liabilities</b>	<b>1,216</b>	<b>1,590</b>	<b>1,498</b>	<b>1,479</b>	<b>1,464</b>
Deferred tax liabilities	76	101	101	101	101
Others	1,139	1,490	1,397	1,378	1,363
<b>Total liabilities</b>	<b>7,004</b>	<b>8,978</b>	<b>9,625</b>	<b>10,726</b>	<b>12,021</b>
<b>Shareholders' equity</b>	<b>7,019</b>	<b>7,121</b>	<b>7,536</b>	<b>8,014</b>	<b>8,560</b>
Non-controlling interests	351	755	853	966	1,095
<b>Total Equity</b>	<b>7,370</b>	<b>7,876</b>	<b>8,390</b>	<b>8,980</b>	<b>9,655</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Profit before tax</b>	<b>1,191</b>	<b>864</b>	<b>1,009</b>	<b>1,160</b>	<b>1,326</b>
D&A	181	200	200	200	200
Change in working capital	(347)	(894)	1,104	96	126
Income tax paid	(242)	(202)	(271)	(312)	(357)
Others	235	727	(82)	(96)	(96)
<b>Cash flow from operating</b>	<b>1,019</b>	<b>695</b>	<b>1,959</b>	<b>1,049</b>	<b>1,199</b>
CAPEX	(409)	(454)	(300)	(300)	(300)
Others	108	313	77	90	90
<b>Cash flow from investing</b>	<b>(302)</b>	<b>(141)</b>	<b>(223)</b>	<b>(210)</b>	<b>(210)</b>
Equity raised	-	-	-	-	-
Change of debts	(29)	(321)	-	-	-
Dividends paid	(560)	(548)	(224)	(257)	(294)
Others	(218)	(172)	(29)	(23)	(18)
<b>Cash flow from financing</b>	<b>(779)</b>	<b>(720)</b>	<b>(253)</b>	<b>(280)</b>	<b>(313)</b>
<b>Net change in cash</b>	<b>(61)</b>	<b>(166)</b>	<b>1,484</b>	<b>558</b>	<b>676</b>
Cash at the beginning of the year	4,437	4,307	4,183	5,667	6,225
FX differences	(69)	43	-	-	-
<b>Cash at the end of the year</b>	<b>4,307</b>	<b>4,183</b>	<b>5,667</b>	<b>6,225</b>	<b>6,901</b>

### Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Sales mix (%)</b>					
Property management services	61.8	63.6	64.9	65.4	65.6
Consultancy services	15.6	13.9	11.4	9.5	7.9
Community value-added	20.8	19.2	20.2	21.4	22.4
Technology services		3.3	3.5	3.8	4.1
<b>Total</b>	<b>98.2</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	18.5	16.2	16.6	16.5	16.2
Operating margin	9.2	5.8	5.5	5.3	5.1
Net margin	6.7	3.7	3.5	3.4	3.2
Effective tax rate	25.2	26.9	26.9	26.9	26.9
<b>Growth (%)</b>					
Revenue	24.3	18.2	22.0	20.3	19.4
Gross profit	21.2	3.1	25.2	19.3	17.3
Operating profit	18.6	-25.0	15.7	15.2	14.4
Net profit	19.1	-35.3	16.7	15.1	14.3
<b>Balance sheet ratios</b>					
Current ratio (x)	1.6	1.5	1.5	1.5	1.5
Receivable turnover days	89	89	89	89	89
<b>Returns (%)</b>					
ROE	12.1	7.7	8.5	9.2	9.8
ROA	5.9	3.2	3.5	3.7	3.9
<b>Per share</b>					
EPS (RMB)	0.26	0.17	0.20	0.23	0.26
DPS (RMB)	0.16	0.09	0.07	0.08	0.09
BVPS (RMB)	1.90	1.83	1.96	2.10	2.27

Source: Company data, CMBIGM estimates

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