

Excellence Commercial Property (6989 HK)

Trio growth engines

Founded in 1999 and having market reputation and a premium brand, Excellence Commercial Property & Facilities Management Group Limited (ECM) focuses on providing commercial property management services. We believe its future earnings will be driven by managed GFA expansion, commercial property management fees hike and VAS business expansion. Our Target Price is HK\$13.34, equivalent to 28x 21E P/E. Initiate with BUY rating.

■ **Leading commercial property management service provider in Greater Bay Area.** As of 31 May 2020, the Company had 331 projects in 34 cities under management with an aggregate GFA of 25.8mn sq m. In 2019, commercial properties made up 52.3% of total GFA under management, and 75.9% of total revenue from property management. The Company's continuous growth has also been supported by Excellence Group. As of 31 May 2020, the Company managed 45 projects developed by Excellence Group with an aggregate GFA of 10.7mn sq m, accounting for approximately 41.6% of the GFA under the Company's management.

■ **Business expansion plans.** Geographically speaking, ECM plans to focus on the Great Bay Area and the Yangtze River Delta Region and enhance its penetration in other regions in China. Secondly, the Company aims to further expand the scale of operation in target cities through strategic acquisitions and investments. Finally, it will continue to improve existing value-added services and develop new innovative value-added services to provide more comprehensive services to its customers.

■ **Three earnings drivers.** On the back of successful business strategy, we believe earnings of ECM will be driven by managed GFA expansion, commercial property management fees hike and VAS business expansion.

■ **Initiate with BUY for TP of HK\$13.34.** We forecast total revenue to be RMB2,835mn, RMB3,837mn and RMB4,867mn in 2020-22E, respectively. We also project overall gross margin to be 24.2%, 24.0% and 24.7% in 2020-22E, respectively. At last, we forecast net profit attributable to shareholders to be RMB324mn, RMB511mn and RMB721mn in 2020-22E, respectively. Using peers comparison, they are on average trading at 21.4x 21E P/E with 6.6x standard deviation. ECM is a leading commercial property management company and deserved a premium valuation to peers. We set target price at HK\$13.34, representing 28x FY21E P/E.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	1,223	1,836	2,835	3,837	4,867
YoY growth (%)	29	50	54	35	27
Net income (RMB mn)	126	179	324	511	721
EPS (RMB)	N/A	N/A	0.336	0.418	0.590
YoY growth (%)	N/A	N/A	N/A	24.6	41.0
Consensus EPS (RMB)	N/A	N/A	N/A	N/A	N/A
P/E (x)	N/A	N/A	25.9	20.8	14.7
P/B (x)	N/A	N/A	3.4	3.4	2.9
Yield (%)	N/A	N/A	1.0	1.4	2.1
ROE (%)	11.3	9.2	6.9	10.5	12.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Initiation)

Target Price	HK\$13.34
Up/Downside	+34.8%
Current Price	HK\$9.90

China Property Service Sector

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Stock Data

Mkt Cap (HK\$ mn)	12,103
Avg 3 mths t/o (HK\$ mn)	N.A.
52w High/Low (HK\$)	12.04/9.65
Total Issued Shares (mn)	1,222

Source: Bloomberg

Shareholding Structure

Li Wa	58.8%
Xiao Xingping	9.6%
Li Yuan	5.2%
Free float	26.4%

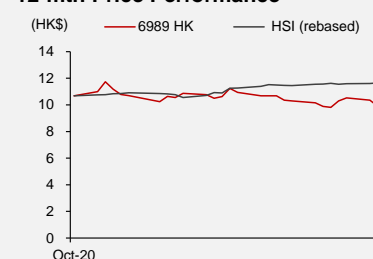
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-3.2%	-8.9%
3-mth	N.A.	N.A.
6-mth	N.A.	N.A.
12-mth	N.A.	N.A.

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

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Company Overview

Founded in 1999 and having market reputation and a premium brand, ECM focuses on providing commercial property management services. According to the F&S report, it ranked fourth among the commercial property management service providers in China and second among the commercial property management service providers in the Greater Bay Area in terms of the revenue from basic property management services provided to commercial properties in 2019.

The Company commenced to provide property management services to a residential community developed by Excellence Group in Shenzhen in 2000. It started to provide property management services to commercial properties in 2006. The first commercial property under management was “Excellence Building”, which is an office building located in the central business district of Shenzhen.

As of 31 May 2020, the Company had 331 projects in 34 cities under management with an aggregate GFA of 25.8mn sq m. The Company specializes in the management of commercial properties, including office buildings, commercial complexes, corporate buildings, office, and R&D parks. In 2019, commercial properties made up 52.3% of total GFA under management, and 75.9% of total revenue from property management. In addition to commercial properties, ECM is also engaged in the management of public and industrial, and residential properties.

Figure 1: Location of properties under managed and under contracted for management as of 31 May 2020



Source: Company data

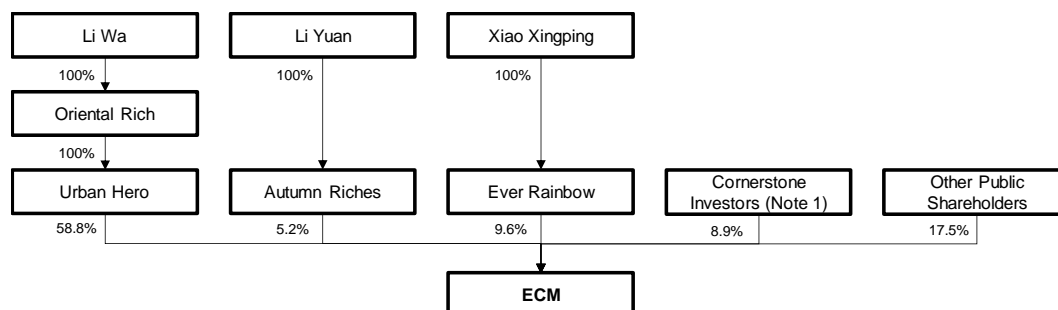
History

Back to 1999, Excellence Property Management was established in China and started to provide management services for the property developed by Excellence Real Estate. Excellence Real Estate is a property development company established in the PRC by Mr. Li Wa with his brother Mr. Li Xiaoping in Jun 1996 in China.

On 10 Jan 2020, the shareholders of Excellence Property Management passed a resolution approving, among other matters, the conversion of Excellence Property Management from a joint stock company with limited liability into a limited liability company. Upon completion of the conversion on 19 Jan 2020, the register capital of Excellence Property Management was RMB125mn and the shareholding structure of Excellence Property Management remained unchanged.

On 13 Jan 2020, ECM was incorporated in the Cayman Islands as an exempted company with limited liability. In Oct 2020, ECM was successfully listed on HKEx. It issued 322.5mn new shares (after green shoe) at price of HK\$10.68 per share and raised about HK\$3,298mn in IPO. Currently, the largest shareholder is Mr. Li Wa, who owns about 58.8% stake of the Company. The second and third largest shareholders are Ms. Xiao Xingping and Mr. Li Yuan, who own 5.2% and 9.6% stake of the Company, respectively. Mr. Li Yuan is the son of Ms. Xiao Xingping and they are the family members of Mr. Li Xiaoping who is Chairman and Executive Director of ECM. In addition, two corporations including Tencent (700 HK) and JD.com (9618 HK), and seven fund houses became cornerstone investors of the Company. These cornerstone investors aggressively owned 108.8mn shares and accounted for 8.9% of total issued shares.

Figure 2: Shareholding structure



Source: Company data

Notes:

1. Cornerstone investors include Tencent (owns 2.7% stake), JD.com (owns 1.2% stake), China Southern Asset Management (owns 1.0% stake), Snow Lake China (owns 1.0% stake), 3W Fund Management (owns 0.8% stake), OP Capital (owns 0.7% stake), GSC Fund 1 and Vision Fund 1 (owns 0.6% stake), J-Stone Capital (owns 0.6% stake) and Matthews Funds (owns 0.4% stake).

M&A in Track Record Period

In 2019, ECM acquired the equity interests of the following companies. Through these acquisitions, the Company obtained an aggregate GFA of approximately 3.9mn sq m under management as of 31 May 2020, including Wuhan International Commerce Center, schools, museums, hospitals and government facilities.

Figure 3: Shareholding structure after reorganization

Name of target company	Date of acquisition	Subject matter	Transferors	Transferees	Consideration
Zhejiang Gangwan (浙江港湾)	11 Jun 2019	60% equity interest	Shanghai Shenshe Enterprises Management Partnership (上海申奢企业管理合伙企业)	Excellence Operation Mgmt.	RMB 216mn
Wuhan Yuyang (武汉雨阳)	1 Jul 2019	60% equity interest	Wuhan Dexian	Excellence Operation Mgmt.	RMB 63mn
Wuhan Huanmao (武汉环贸)	15 Nov 2019	70% equity interest	Wuhan Yijing	Excellence Operation Mgmt.	RMB 77mn

Source: Company data, CMBIS

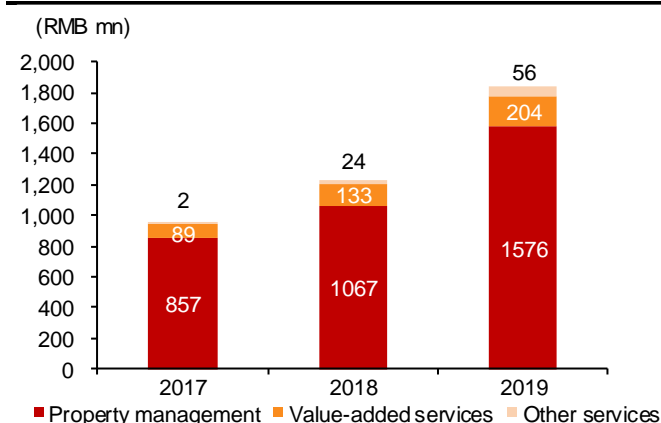
Business Overview

Overview

Founded in 1999, ECM has been providing premium property management services in the Greater Bay Area for around 20 years. As of 31 May 2020, the Company had 331 projects in 34 cities under management with an aggregate GFA of 25.8mn sq m. The Company specializes in the management of commercial properties, including office buildings, commercial complexes, corporate buildings, office, and R&D parks. In 2019, commercial properties made up 52.3% of total GFA under management, and 75.9% of total revenue from property management. In addition to commercial properties, ECM is also engaged in the management of public and industrial, and residential properties.

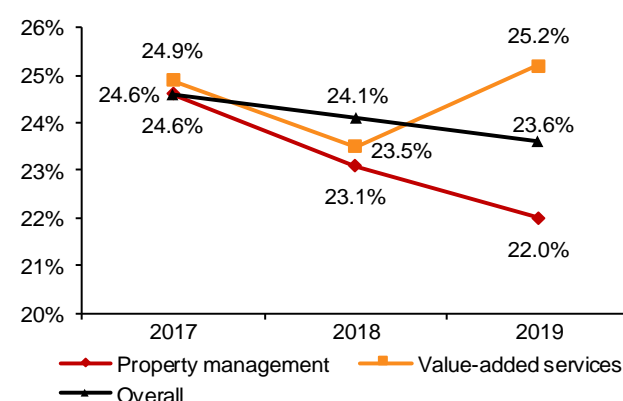
The Company generated revenue primarily from property management services. It also generated a small portion of revenue from finance services, apartment leasing services and other services relating to provision of software development and technical maintenance services. Overall speaking, ECM experienced rapid growth in recent years: from 2017 to 2019, the Company's revenue increased from RMB 947mn to RMB1,836mn, representing a CAGR of 39.2%, while aggregate GFA under management increased from 11.4mn sq m to 23.5mn sq m, representing a CAGR of 43.9%.

Figure 4: Revenue



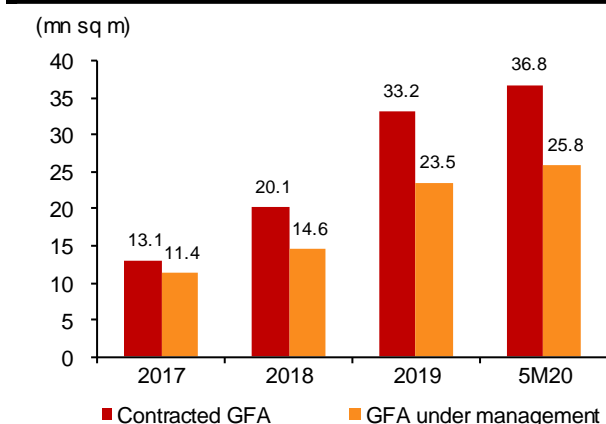
Source: Company data, CMBIS

Figure 5: Gross profit margin



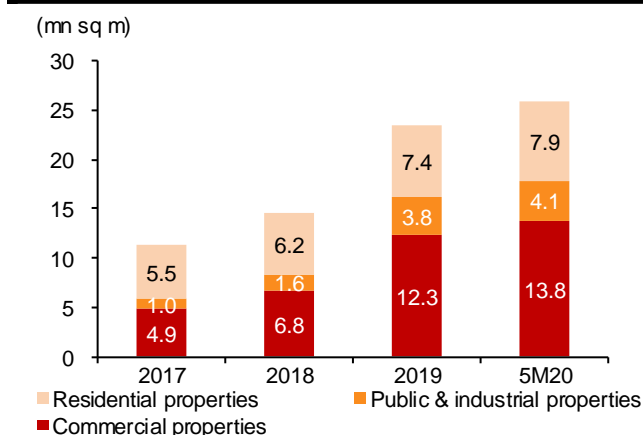
Source: Company data, CMBIS

Figure 6: Contracted and managed GFA



Source: Company data, CMBIS

Figure 7: GFA under management



Source: Company data, CMBIS

Comprehensive property management business

ECM provides property management services to property developers, property owners, tenants, residents and property owners' associations. As of 31 May 2020, ECM operated 331 property management projects that are mainly concentrated in the Greater Bay Area and the Yangtze River Delta, amounting to an aggregate GFA of 25.8mn sq m.

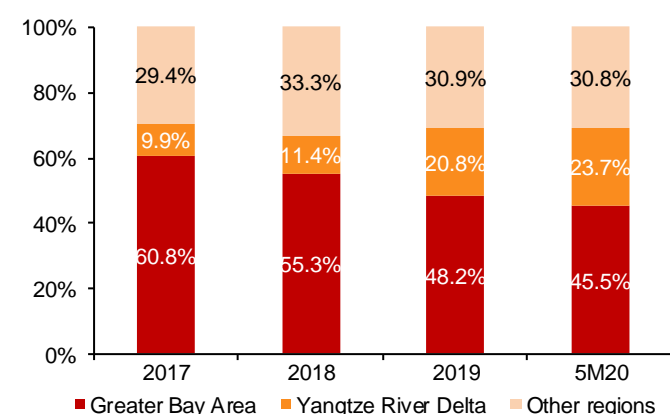
Figure 8: Geographic distribution of property management projects under ECM as of 31 May 2020

Region and City	Projects under management	Contracted but undelivered projects	Total number of projects
Greater Bay Area			
Shenzhen	68	8	76
Guangzhou	18	2	20
Dongguan	20	5	25
Other	5	6	11
Yangtze River Delta			
Hangzhou	54	4	58
Shanghai	17	2	19
Nanjing	2	4	6
Other	13	16	29
Other regions			
Wuhan	72	1	73
Chengdu	19	3	22
Beijing	12	1	13
Other	28	18	46
Overseas	3	0	3
Total	331	70	401

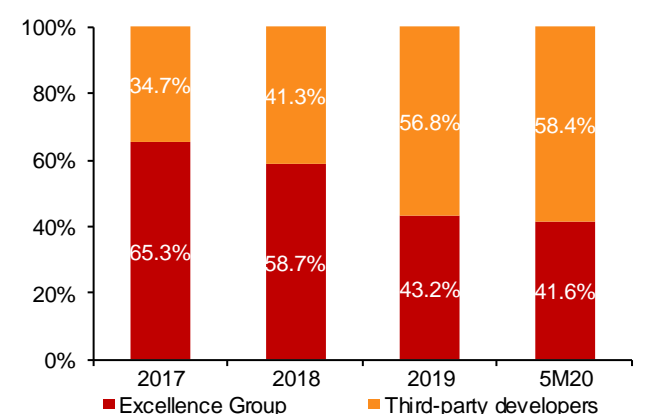
Source: Company data, CMBIS

Steady growth of ECM's property management business can be attributed to its related company, the Excellence Group (comprises Excellence Real Estate and its subsidiaries), a Shenzhen-based top national property developer known for its significant land reserve and strong urban redevelopment projects pipeline. Excellence Real Estate, is one of the 2019 Top 500 Real Estate Companies in China (2019 年中国房地产开发企业五百强), and Shenzhen Excellence Commercial Management Co., Ltd. (深圳市卓越商业管理有限公司), a company within the Excellence Group, ranked seventh among the commercial property developers in China in terms of comprehensive capabilities. In 2019, the Company derived 43.2% of its GFA under management and 42.2% of revenue from basic property management services, respectively, from managing properties developed by Excellence Group.

In recent years, ECM has made continuous efforts to diversify the sourcing of its property management projects by securing engagements from third-party developers. In 2019, the Company managed 266 projects developed by Independent Third Parties with an aggregate GFA of 13.4mn sq m, compared to 4.0mn sq m in 2017. The Company generated revenue of approximately RMB910.6mn from third-party projects in 2019, accounting for 57.8% of revenue from basic property management services for the same year.

Figure 9: GFA under management, breakdown by region

Source: Company data, CMBIS

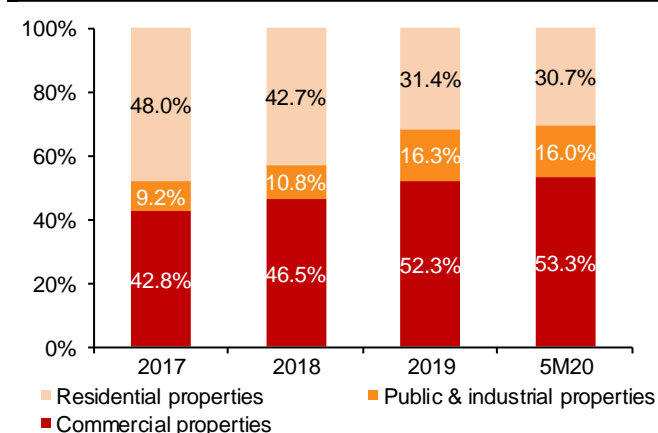
Figure 10: GFA under management, breakdown by developer

Source: Company data, CMBIS

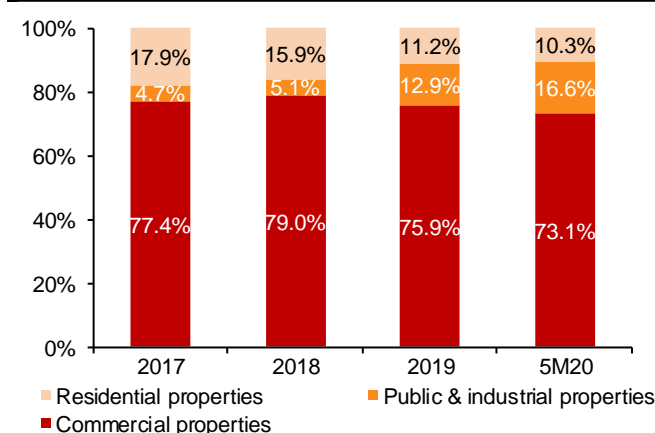
During the Track Record Period, the commercial properties under management primarily consisted of (i) office buildings and commercial complexes, and (ii) corporate buildings and office and R&D parks. As of 31 May 2020, ECM managed 40 office building and commercial complex projects with an aggregate GFA of 5.3mn sq m, and 158 corporate building and office and R&D park projects with an aggregate GFA of 8.4mn sq m.

During the Track Record Period, the public and industrial properties under management primarily consisted of government properties, educational properties, medical properties, storage and logistics centers and industrial parks. As of 31 May 2020, ECM managed 102 public and industrial property projects with an aggregate GFA of 4.1mn sq m.

The Company also manages a portfolio of residential properties to provide property management services. Substantial of the residential properties under management are developed by Excellence Group. As of 31 May 2020, it managed an aggregate GFA of 7.9mn sq m residential properties which are primarily located in the Greater Bay Area and Yangtze River Delta Region. The Company will expand its residential property management business along with the growth of Excellence Group's residential property development business.

Figure 11: GFA under management, breakdown by property type

Source: Company data, CMBIS

Figure 12: Revenue from basic property management, breakdown by property type

Source: Company data, CMBIS

Contracted GFA increased from 13.1mn sq m as of 31 Dec 2017 to 20.1mn sq m as of 31 Dec 2018, to 33.2mn sq m as of 31 Dec 2019 and further to 36.8mn sq m as of 31 May 2020.

Managed GFA also increased from 11.4mn sq m as of 31 Dec 2017 to 14.6mn sq m as of 31 Dec 2018, to 23.5mn sq m as of 31 Dec 2019 and further to 25.8mn sq m as of 31 May 2020.

Figure 13: Change of contracted GFA and managed GFA

(mn sq m)	Year ended 31 Dec,						Five months ended 31 May,	
	2017		2018		2019		2020	
	Contracted GFA	Managed GFA	Contracted GFA	Managed GFA	Contracted GFA	Managed GFA	Contracted GFA	Managed GFA
As of the beginning of the year	10.2	8.7	13.1	11.4	20.1	14.6	33.2	23.5
New engagements ¹	3.1	2.9	7.4	3.5	5.6	6.0	3.7	2.3
Acquisitions ²	-	-	-	-	8.0	3.6	-	-
Terminations ³	(0.2)	(0.2)	(0.4)	(0.3)	(0.6)	(0.6)	(0.0)	(0.0)
As of the end of the year	13.1	11.4	20.1	14.6	33.2	23.5	36.8	25.8

Source: Company data, CMBIS

Notes: 1) Primarily include a) PM service agreements with developers, property owners and/or tenants of newly developed properties, as well as property owners that have terminated previous PM companies; and b) GFA obtained through new delivery, which was contracted in previous years.

2) Refer to new GFA obtained through acquisitions of certain PM companies during the Track Record Period.

3) Terminated projects were primarily attributable to a) intensified market competition and b) voluntary non-renewal.

Diverse value-added services

ECM provides value-added services alongside basic property management services to satisfy the day-to-day needs of property owners and tenants. In 2017, 2018 and 2019 and the five months ended 31 May 2020, revenue from value-added services amounted to RMB88.6mn, RMB132.8mn, RMB203.8mn and RMB90.5mn, respectively, accounting for 9.4%, 10.9%, 11.1% and 9.6%, respectively, of total revenue for the same periods.

ECM provides a unique set of value-added services for each type of properties under management:

- Value-added services for commercial properties include asset services such as preliminary property consulting services and second-hand leasing and sales agency, and corporate services such as corporate administration and employee benefits;
- Value-added services for public properties mainly consist of specialized services such as special engineering, renovation services, and special cleaning services;
- Value-added services for residential properties include second-hand property leasing and sales agency services, space operation services, sales assistance services, turnkey and move-in furnishing services, and clubhouse operation services.

Other services

In addition to property management services, ECM also provides finance services, apartment leasing services and other services related to software development and technical maintenance.

The Company conducts finance services through Shenzhen Zhuotou, a company that provides micro-lending services to small and medium enterprises, proprietors and

individuals. Interest income from provision of micro-lendings amounted to RMB19.6mn and RMB50.2mn in 2018 and 2019, respectively, representing 1.6% and 2.7% of total revenue. The Company has arranged to dispose of its financing business through transferal of its equity interest in Shenzhen Zhuotou. Such transferal is scheduled to complete after 3 May 2021.

The Company provides apartment leasing services by operating apartments leased from property owners, subleasing them to tenants for rent. The Company operates two apartment leasing projects in Shenzhen, and collects rents from tenants primarily on a monthly basis, charging prices comparable to the market rate.

The Company disposed Zhenglian Haodong in Apr 2020, which provided software development and technical maintenance services.

Suppliers

The Company's suppliers are primarily subcontractors located in China who provide cleaning, security, greening, gardening, repair and maintenance services, and facility and equipment management services. In 2017-19 and the first five months in 2020, the purchase from the single largest supplier amounted to RMB33.7mn, RMB44.2mn, RMB35.6mn and RMB37.9mn, respectively, accounting for 14.7%, 14.9%, 7.8% and 12.9% of total purchase for the relevant periods. Purchases from the Company's five largest suppliers accounted for 30.7%, 29.1%, 18.8% and 33.5%, respectively, of total purchase from 2017 to 2019 and the first five months in 2020.

Customers

The Company's customers are primarily property developers, property owners, property owners' associations and tenants. In 2017-19 and the first five months in 2020, revenue from services provided to the largest single customer, Excellence Group, amounted to RMB95.5mn, RMB117.7mn, RMB194.3mn and RMB123.9mn, respectively, representing 10.1%, 9.6%, 10.6% and 13.2% of total revenue, respectively. In the same period, revenue from services to the largest five customers was RMB317.3mn, RMB383.2mn, RMB602.0mn and RMB308.9mn, respectively, accounting for 33.5%, 31.3%, 32.8% and 32.9% of total revenue, respectively.

Pricing

The average property management fee for commercial, public and industrial, and residential properties under the Company's management was RMB18.7 per sq m per month, RMB8.3 per sq m per month and RMB2.8 per sq m per month, respectively, for the first five months in 2020. Due to the effect of new third-party projects or acquisitions, fees for commercial properties dropped slightly from 2017 to 2019 while fees for public and industrial properties increased. Meanwhile, fees for residential properties remained stable.

Figure 14: Average property management fee by type of property developer

	Year ended 31 Dec			Five months ended
	2017	2018	2019	31 May 2020
	(RMB per sq m per month)			
Excellence Group (1)	13.3	13.3	15.0	17.4
Third-party property developers (2)	15.8	14.6	14.0	14.1
Overall	14.2	13.8	14.5	15.5

Source: Company data, CMBIS

- (1) Includes properties solely developed by Excellence Group and properties that Excellence Group jointly developed with other property developers for which properties Excellence Group held a controlling interest.
- (2) Refers to properties solely developed by third-party property developers independent from Excellence Groups

Figure 15: Average property management fee by type of properties

	Year ended 31 Dec			Five months ended
	2017	2018	2019	31 May 2020
	(RMB per sq m per month)			
Commercial properties	17.6	16.7	17.1	18.7
From Excellence Group	18.1	17.9	19.6	23.0
From third-party property developers	17.0	15.5	15.3	15.8
Public and industrial properties	6.4	6.6	8.4	8.3
From Excellence Group	2.5	2.5	2.5	2.5
From third-party property developers	6.9	6.9	8.5	8.3
Residential properties	2.7	2.7	2.8	2.8
From Excellence Group	2.7	2.7	2.8	2.8
From third-party property developers	-	2.6	2.6	2.6
Overall	14.2	13.8	14.5	15.5

Source: Company data, CMBIS

Impact of COVID-19 outbreak

As of the Latest Practicable Date, ECM managed 74 projects in Hubei Province with a total GFA under management of approximately 1.7mn sq m, representing 6.5% of total GFA under management, and Hubei projects contributed to 4.1% of the Company's FY19 revenue. To date, according to the best knowledge of the Directors of ECM after consulting Excellence Group, the COVID-19 outbreak has not caused any delay in the expected delivery date of properties developed by Excellence Group, nor has the outbreak affected current GFA under management, property management fees, or forced the Company to reduce or suspend part of its business operations.

Competitive Advantages

A leading commercial property management service provider in China with a proven record and strong brand recognition

Since its inception in 1999, ECM has been focusing on providing commercial property management services for about 20 years. Leveraging its in-depth knowledge on the demands for various customers by providing a wide range of services to various commercial properties, the Company grows into a leader in the commercial property management industry, and in particular, high-end commercial property management sector in China.

As of 31 May 2020, ECM had approximately 13.8mn sq m of commercial properties under management, including office buildings, commercial complexes, corporate buildings, and office and R&D parks. In 2019, for the commercial properties charged on a lump-sum basis, the Company charged an average management fee of RMB17.6 per sq m per month on 11.8mn sq m. The Company generated a revenue of approximately RMB1,196.5mn from commercial property management services in 2019, including a revenue of approximately RMB885.3mn from properties in the Greater Bay Area with an aggregate GFA of 6.5mn sq m. According to the F&S Report, in 2019, the Company ranked the fourth among the commercial property service providers in China, and second among the commercial property service providers in the Greater Bay Area.

ECM provides quality services to high-end commercial properties developed by Excellence Group or third-party property developers. As of 31 May 2020, the Company managed 28 high-end commercial properties with a GFA of 4.7mn sq m. In 2019, for the high-end commercial properties charged on a lump-sum basis, the Company charged an average management fee of RMB18.8 per sq m per month on 4.3mn sq m. The Company generated a revenue of approximately RMB 615.0mn from basic property management services to high-end commercial properties in 2019, including a revenue of approximately RMB 534.7mn from the 3.5mn sq m of high-end commercial properties in the Greater Bay Area.

ECM has developed a strong brand name and received various honors and awards. According to the CIA, the Company was named as one of the China Top 100 Property Management Companies (中国物业服务百强企业) from 2017 to 2020. The Company was also named as one of the China Office Property Management Exceptional Companies (中国办公物业管理优秀企业) and awarded the Real Estate Services Company Worth Focusing by Capital Markets (值得资本市场关注的房地产服务商) by the CIA in 2019. According to the China Property Management Associate (中国物业管理协会), the Company was named as one of the Leading Companies in Office Property Service (办公写字楼物业服务领先企业) in 2019.

Property management services to cover the full lifecycle of properties and comprehensive asset services along the industry chain

As ECM's customers hold properties for long-term use and investment purposes, the Company is dedicated to extend the lifespan and maximize the value of these properties. It provides property management services, aiming to increase property sustainability, maintain occupancy rate at a high level, and maintain rent at a premium price during full lifecycle of properties. The Company also provides various asset services along the industry chain, such as preliminary property consulting services, second-hand property leasing and sales agency services, and space operation services.

Through property management services to cover the full lifecycle of customers' properties, the Company endeavors to:

1. Extend the lifespan of the properties and ancillary facilities. With quality services, the lifespan of properties may last for a longer period of time, and the reduced depreciation costs help enhance the financial performance of customers; and
2. Reduce the maintenance costs throughout the lifespan of the properties, which contributes to customers' profitability.

The Company provides the following asset services along the industry chain to maximize the value of its customers' properties and diversify its sources of income:

1. Preliminary property consulting services. ECM provides advice on the design, construction management, and inspection and delivery from the perspective of property management to help its customers save construction costs, develop property functions to meet their expectation, enhance the operational efficiency of their properties, and avoid operational risks. The expertise and skills the Company demonstrates in providing such services help it establish cooperative relationship with the customers and secure post-delivery property management projects.
2. Second-hand property leasing and sales agency services. ECM provides such service to office buildings and commercial complexes, as well as residential properties. By providing property management services, the Company can obtain first-hand information about property availability, and provide leasing and sales agency services accordingly. It assists new tenants with property inspection, decoration, and move-in, and helps property owners to collect rents and renew leases. The Company also helps property owners take care of their vacant properties.
3. Space operation services. Through space operation services, ECM authorizes third parties to use certain space in the properties under management, such as advertising space and underground space, and charges space management fees from such third parties. Its space operation services also cover urban redevelopment projects of Excellence Group. Through such services, the Company maintains the vacant properties under urban redevelopment projects and lease them out to third parties.

Established reputation among well-known companies in various industries and a stable source of quality long-term customers

The Company serves a number of market leaders in various industries, including internet companies, high-technology companies, and financial institutions in China. According to the F&S Report, ECM is serving seven of the top ten internet companies in China. Its high-profile customer base has won it an established market reputation, distinguished it from its competitors, and helped it further attract high-quality customers.

Its ability to provide bespoke comprehensive services is an important competitive edge to attract key customers:

1. ECM has established a comprehensive key customer management system. The Company meets with key customers periodically to understand their needs and expectations for services, and review the quality of onsite services. Accordingly, it comes up with innovative solutions to satisfy their evolving needs and expectations;
2. For internet companies and high-technology companies, which place a great emphasis on information security, the Company takes the responsibility to safeguard their sensitive and confidential data from unauthorized access and handle emergencies;
3. ECM provides high-end services to senior executives of its corporate customers, such as executive meeting catering services, office maintenance services, business meal

and banquet catering services, business guest reception services, and business travel butler services.

Its capability of providing quality corporate services has distinguished it from other property management companies and made it one of the few property management companies that can provide comprehensive solutions. As a result, ECM has entered into strategic framework agreements with some of its key customers to further enhance business relationship. Its capability to provide quality corporate services helps to increase customer stickiness and generate additional revenue. It also helps to bring business opportunities to serve high-end commercial properties, including serving well-known companies in various industries.

Technology-backed services to enhance customer experience and management efficiency

ECM is dedicated to applying new technologies to its services. Such new technologies have been changing the traditionally labor-intensive property management industry. The Company uses “E+FM Dual Smart Platforms” (E+FM 智慧双平台) to enhance its operational efficiencies and customer experience. The Company’s “E+FM Dual Smart Platforms” include the FM smart management information platform and the “O+” platform:

1. FM smart management information platform. It has engaged an “IoT” technology-based smart management information platform to connect facilities, technicians, and management team. With the help of the platform, in Dec 2019, technicians were able to respond to approximately 82.8% maintenance requests within time limit, as compared to 65.8% in Dec 2018. Monthly average number of maintenance assignments that each project could handle increased from 274 in Dec 2018 to 481 in Dec 2019. As a result, the number of technicians needed has been reduced, and the Company’s customer satisfaction level has been increased.
2. “O+” platform. It provides customers with various services through the “O+” platform. These services help increase the customer satisfaction level and stickiness. Currently, its services provided through the “O+” platform are available at all of its managed commercial properties developed by Excellence Group. The “O+” platform had approximately 900,000 registered users as of 31 May 2020, and approximately 140,000 monthly active users in May 2020.

Independent business development capabilities and strong support from Excellence Group

The Company’s rapid growth during Track Record Period was largely driven by its capabilities to successfully secure engagements from Independent Third Parties. As of 31 May 2020, ECM managed 285 projects developed by Independent Third Parties with an aggregate GFA of 15.1mn sq m, accounting for approximately 58.4% of the total GFA under its management. In 2019, the Company generated revenue of approximately RMB910.6mn from these projects, accounting for approximately 57.8% of revenue from basic property management services.

In addition to securing engagements independently, ECM has been seeking to enter into target regions through mergers and acquisitions. In 2019, the Company acquired Wuhan Yuyang, Zhejiang Gangwan and Wuhan Huanmao. Through these acquisitions, the Company obtained an aggregate GFA of approximately 3.9mn sq m as of 31 May 2020.

The Company’s continuous growth has also been supported by Excellence Group. As of 31 May 2020, the Company managed 45 projects developed by Excellence Group with an aggregate GFA of 10.7mn sq m, accounting for approximately 42.4% of the GFA under the Company’s management. In 2019, the Company generated revenue of approximately RMB665.7mn from these projects, accounting for approximately 42.2% of the Company’s

revenue from basic property management services. During the Track Record Period, the Company's success rate in tender bids for properties developed by Excellence Group remained at 100.0%.

Seasoned management team supported by established human resource management system

ECM is led by a seasoned management team. Ms. Guo Ying joined the Company's Group in Oct 2000. She has been in the property management industry for about 20 years and led the Company to grow into an industry leader in China. Other management team members have been working in the property management industry for an average of about 14 years. Many of them have work experience as senior management team members with large property management companies, internationally renowned facility management companies, or reputable domestic real estate consulting companies.

The Company has also established an advanced human resource development system, including training system, talent pool management, and education scheme. Based on annual business development plan, the Company manages the talent pool and formulates target education schemes to prepare its personnel for career advancement. The Company has a human resource succession plan, under which it identifies and trains up employees to step into more challenging roles, including supervisors, managers, and regional or branch heads through "Talent with Potential Program" (潜才计划), "Excellent Talent Program" (优才计划), and "Talent with Leadership Program" (领军人才计划), respectively. Through these programs, the Company continues to enhance employees' capabilities to support its business expansion.

Business Strategies

Rapidly expand geographic presence and coverage of property types

ECM targets to focus on the Greater Bay Area and the Yangtze River Delta Region and enhance its presence in other regions in China.

Leveraging its capability of providing comprehensive service and rich experiences in serving commercial properties, the Company plans to continue to focus on Guangzhou and Shenzhen where it has been operating for a long period of time, and further expand into the surrounding cities, such as Dongguan, Zhuhai and Foshan, aiming to increase its market share in these cities.

The Company also plans to further increase its presence in the Yangtze River Delta Region. With Shanghai, Hangzhou and Nanjing as focuses in this region, the Company plans to expand into the major cities in the neighbouring areas such as Suzhou, Wuxi and Ningbo.

The Company believes that the increase in the commercial properties in the Greater Bay Area and the Yangtze River Delta Region will boost demands for commercial property management services, in particular, the demands for high-end commercial property management services. Such demands will bring in new opportunities for the Company's future growth. The Company also strives to expand into first-tier and new first-tier cities in other regions, including Beijing, Chengdu, Chongqing, Wuhan, Changsha and Xi'an.

The Company intends to implement the following to expand its geographic presence:

1. Secure landmark office building and commercial complex projects in target cities. The Company intends to increase investments in obtaining landmark office building and commercial complex projects in target cities, and develop into signature projects. These projects will enhance the Company's brand recognition and reputation in the local markets, and enable it to secure additional projects in the same regions.
2. Follow the footprints of the Company's key customers to expand. The Company may also utilize the business network of its key customers to reach other market players in the respective industry. The Company also endeavours to serve additional key customers. It is currently exploring opportunities to serve leading companies in the internet industry, high-technology industry and modern manufacturing industry.

Strategic acquisitions and investments to expand the scale of operations

Through strategic acquisitions and investments, the Company aims to further expand the scale of its operations in target cities:

1. The Company plans to target landmark projects, for example, high-end office buildings and commercial complexes, in first-tier and new first-tier cities. In 2019, the Company acquired Wuhan Huanmao. Through the acquisition, it provided commercial property management services to Wuhan International Commerce Center, a high-end commercial complex consisting of office buildings, shopping malls and residential properties with an aggregate GFA of approximately 291,656 sq m. The Company intends to obtain similar landmark projects in target cities through acquisitions in the future.

2. It also targets property management companies with sizeable operations in target cities, well-established brand recognition, and growth potential in the local markets. The Company intends to increase its market share in the target cities through such acquisitions.

Continue to provide innovative value-added services

The Company will continue to improve existing value-added services and develop new innovative value-added services to provide more comprehensive services to its customers:

1. Asset services. The Company aims to enhance its asset services along the industry chain to serve its customers' properties, with a focus to expand the Company's business to provide commercial property preliminary property consulting services, second-hand property leasing and sales agency services, asset-light property operation services, and space operation services. In addition, the Company plans to start providing (1) preliminary property consulting services to developers of residential properties and (2) first-hand property sales agency services in the near future.
2. Administration and employee benefit support services. The Company will incorporate its administration and employee benefit support services into its "O+" app. The Company plans to provide its business-side customers with points, which can be granted to employees as benefits. Employees can use the points to purchase different products and services on the "O+" platform. The Company believes that its administration and employee benefit support services as well as other services it provides through the "O+" app help to further increase customer stickiness and the Company's competitiveness to secure new projects.
3. Specialized value-added services. The Company intends to analyse the supply chain of its key customers and explore business opportunities to provide new specialized value-added services. In providing new specialized value-added services, the Company may seek cooperation with third party service providers, and invest in or acquire third party service providers when opportunities arise.

Use data analytics intelligence technologies to further enhance operational efficiency and service quality

The Company will further incorporate data analytics intelligence technologies into operations to enhance operational efficiency and service quality. The Company plans to increase the coverage of the FM smart management information platform to cover all the projects under management. With the application of the FM smart management information platform, the Company aims to further increase efficiency and quality in providing facility maintenance services to its customers, and thus extend the lifespan of customers' properties and reduce maintenance costs.

In addition, the Company intends to utilize the data it collects in providing property management services, such as utility consumption data, to improve operation and maintenance strategies, and identify new business opportunities. The Company also plans to collect behavioural data of "O+" app users, including corporate customers and their employees, and use big-data technology to analyse their demands, with an aim to provide them with targeted services.

Three earnings drivers

Managed GFA expansion

We believe the increasing managed GFA is the first earning driver. Managed GFA increased by 2.70mn sq m, 3.19mn sq m and 8.98 mn sq m in 2017-19, respectively. The substantial increase of managed GFA in 2019 was contributed by 4.12mn sq m increase from third parties and 3.58mn sq m through M&A.

There were about 9.63mn sq m reserve GFA (contracted GFA - managed GFA) as at 31 Dec 2019. This provided a clear guidance of managed GFA addition when the buildings are delivered in the future. We project about 2.33mn sq m, 3.12mn sq m and 3.40mn sq m of newly added managed GFA in 2020-22 came from Excellence Group. And then about 10% of total newly added managed GFA will be contributed by M&A in 2021 and 2022. The remaining newly added managed GFA will be contributed by third-party developers. We forecast total managed GFA will increase from 23.53mn sq m in 2019 to 42.74mn sq m in 2022, representing a 22.0% CAGR in the corresponding period.

Figure 16: Newly added managed GFA

	2017 (mn sq m)	2018 (mn sq m)	2019 (mn sq m)	2020E (mn sq m)	2021E (mn sq m)	2022E (mn sq m)
At the beginning of the year	8.66	11.36	14.55	23.53	29.44	36.40
New by Excellence Group	0.63	1.29	1.85	2.33	3.12	3.40
New by third party developers	2.23	2.21	4.12	3.62	3.14	2.29
New by M&A	0.00	0.00	3.58	0.00	0.70	0.65
Terminations	(0.15)	(0.32)	(0.57)	(0.03)	0.00	0.00
At the end of the year	11.36	14.55	23.53	29.44	36.40	42.74
Newly added managed GFA	N.A.	3.19	8.98	5.91	6.96	6.34

Source: Company data, CMBIS estimates

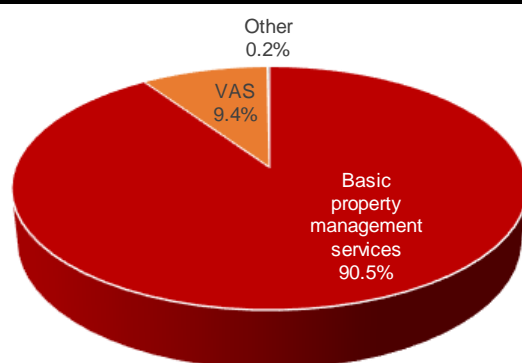
Positive reversion of commercial property management fees

Average property management fee increased from RMB14.5 per month per sq m in the year ended 31 Dec 2019 to RMB15.5 per month per sq m in the five months ended 31 May 2020 because of the higher monthly average property management fees for newly completed commercial projects (such as One Avenue in Shenzhen) which commenced operation in Sep 2019. We expect rise in property management fee for commercial property will be a driving force for ECM in the future.

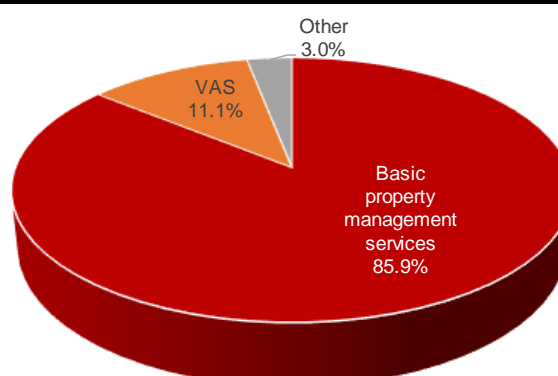
We expect that average property management fee for commercial properties developed by Excellence Group will increase about mid-high single digit per annum. On the other hand, we forecast other commercial properties developed by third-party developers will have about 2-3% hike in average property management fee in the future.

Accelerate VAS services and revenue contribution

Revenue from VAS only accounted for a small portion of total revenue in the Track Record Period. Although revenue contribution from VAS to total revenue increased from 9.4% in 2017 to 11.1% in 2019, it was lower than peers of 30-50%. We expect the Company will accelerate to develop VAS business.

Figure 17: Revenue breakdown in 2017

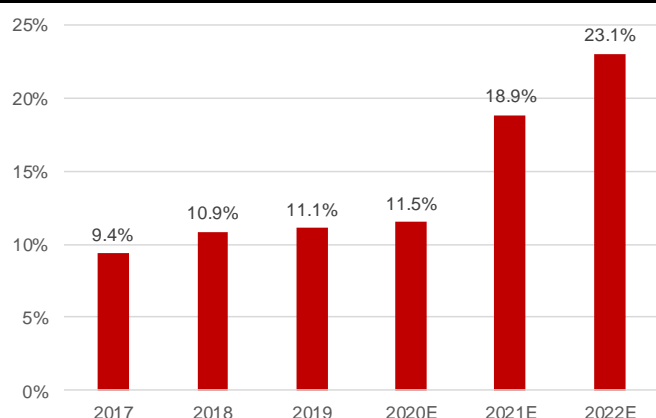
Source: Company data, CMBIS

Figure 18: Revenue breakdown in 2019

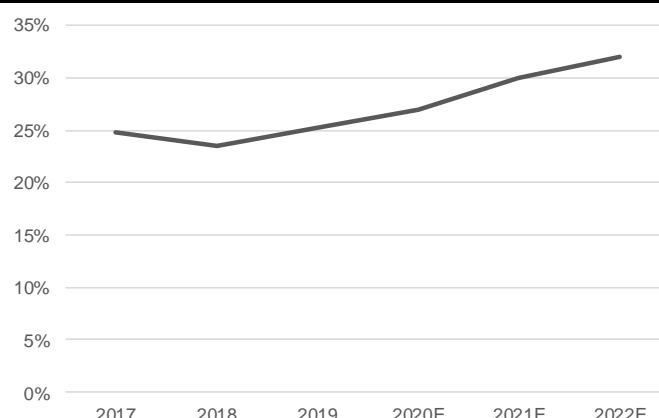
Source: Company data, CMBIS

ECM will launch a series of VAS business in the future. But we believe there are three major plans. Firstly, the Company will provide first-hand property sales agency services. Being a leading property developer, Excellence Group recorded about RMB95bn contracted sales according to CRIC. Generally speaking, commission rate for primary property sales is around 1% of transaction amount. RMB100bn contracted sales will result in RMB1bn sales commission. In the long run, we expect ECM is capable to serve majority of first-hand property sales services to Excellence Group. Secondly, Excellence Group is a leading developer in Greater Bay Area and participates in many urban redevelopment projects in GBA. According to Excellence Group website, it takes part in at least 10mn sq m urban redevelopment projects in GBA. ECM can provide property management services such as securities or space operation services for urban redevelopment projects of Excellence Group. Finally, ECM managed about 12.31mn sq m of commercial properties and 7.4mn sq m of residential properties as of 31 Dec 2019. As a second hand property leasing and sales agency, ECM embraces huge business opportunities. Through providing property management services, the Company can obtain first-hand information about properties available for leasing and sales.

We expect revenue contributed from VAS business will increase from 11.1% of total revenue in 2020 to 23.1% of total revenue in 2022. In addition, gross margin of VAS business is higher than that of property management business. Enhancing contribution from VAS business will strengthen ECM's profitability.

Figure 19: Revenue contribution from VAS business to total revenue

Source: Company data, CMBIS estimates

Figure 20: Gross profit margin of VAS business

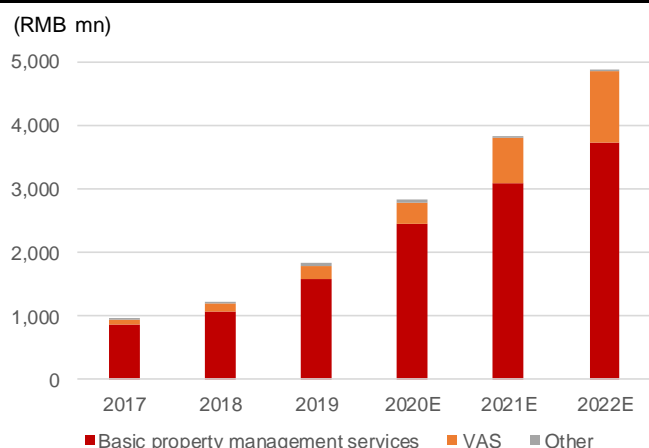
Source: Company data, CMBIS estimates

Financial Analysis

Forecast revenue to growth at a 38% CAGR next three years

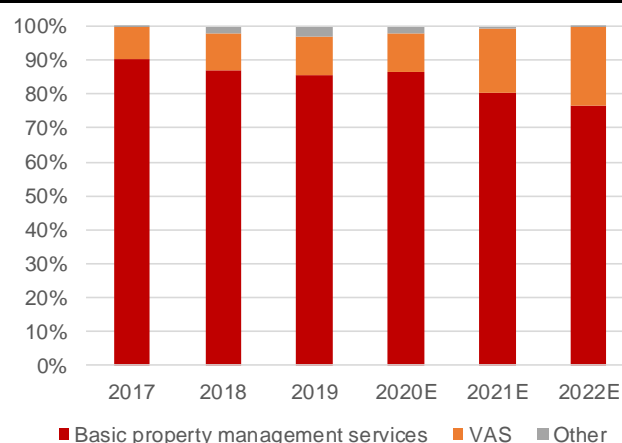
The Company experienced a rapid revenue growth last three years. Total revenue increased from RMB947mn in 2017 to RMB1,223mn in 2018 and then to RMB1,836mn in 2019. The growth was mainly driven by the rise in revenue from basic property management services, which increased from RMB857mn in 2017 to RMB1,576mn in 2019. We forecast total revenue to be RMB2,835mn, RMB3,837mn and RMB4,867mn in 2020-22E, respectively, representing a CAGR of 38.4% in the corresponding period.

Figure 21: Revenue



Source: Company data, CMBIS estimates

Figure 22: Revenue mix

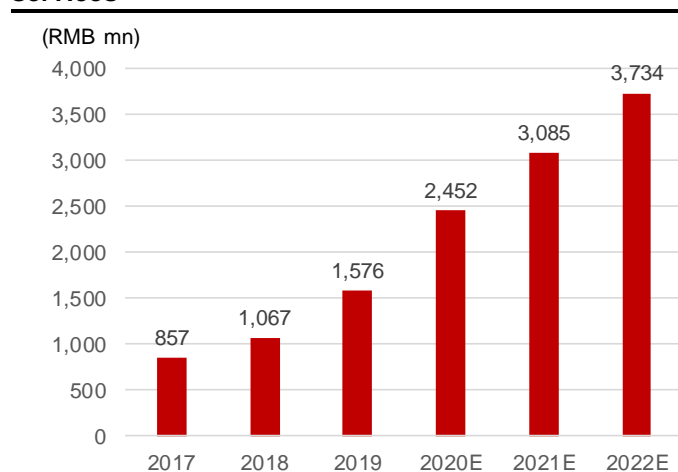


Source: Company data, CMBIS estimates

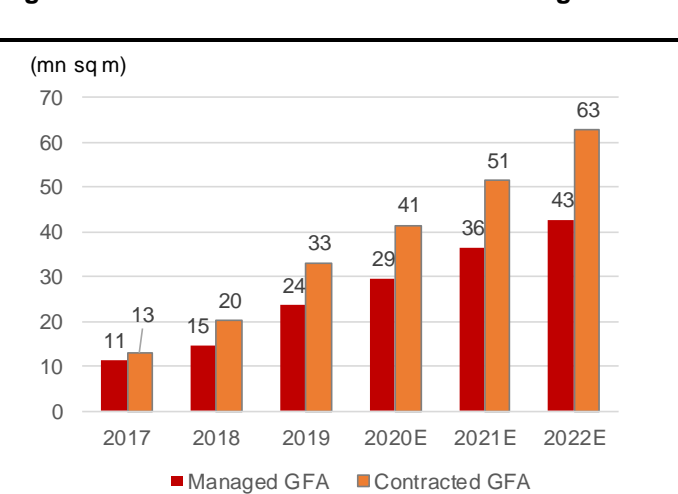
We believe the future revenue growth is driven by basic property management services and VAS. We project revenue from basic property management services to grow from RMB2,452mn in 2020 to RMB3,734mn in 2022 and revenue from VAS to grow from RMB326mn in 2020 to RMB1,122mn in 2022. We expect contribution of revenue from basic property management services to shrink from 86.5% in 2020 to 76.7% in 2022 while contribution from VAS to expand from 11.5% in 2020 to 23.1% in 2022.

The growth of revenue from basic property management services will be driven by the change of managed GFA. As of 30 Dec 2019, contracted GFA and managed GFA amounted to 33.16mn sq m and 23.53mn sq m, respectively, and about 9.63mn sq m of properties will be converted to managed GFA in coming years. We forecast managed GFA to be 29.44mn sq m, 36.40mn sq m and 42.74mn sq m in 2020-22E, respectively, representing a CAGR of 22.0% in the corresponding period. As a result, we project revenue from basic property management services to be RMB2,452mn, RMB3,085mn and RMB3,734mn in 2020-22E, respectively.

With an aim of enhancing the level of convenience and meeting the daily needs of property owners, residents and tenants of its managed properties, the Company accelerates the provision of value-added services. Revenue from value added services amounted to RMB88.6mn, RMB132.8mn and RMB203.8mn in 2017-19, respectively, accounting for 9.4%, 10.9% and 11.1% of total revenue in the corresponding period. We estimate revenue from value added services to be RMB326mn, RMB724mn and RMB1,122mn in 2020-22E, respectively, representing a CAGR of 76.6% in the corresponding period.

Figure 23: Revenue from basic property management services


Source: Company data, CMBIS estimates

Figure 24: Contracted GFA and managed GFA


Source: Company data, CMBIS estimates

Gross profit margin is expected to narrow

Cost of sales was RMB714mn, RMB929mn and RMB1,403mn in 2017-19, respectively. Cost of sales mainly consists of (1) staff costs; (2) cleaning costs incurred for provision of basic property management and VAS; (3) repair and maintenance costs; (4) subcontracting costs; (5) utility costs; (6) carpark expenses; (7) office expenses; (8) depreciation and amortization; and (9) cost of apartment leasing services. Major component of cost of sales was staff costs, which accounted for 62.6%, 62.1% and 62.3% of cost of sales in 2017-19, respectively. Staff costs mainly relate to the salaries and benefits paid to staff for engaging in property management services.

Figure 25: Cost of sales

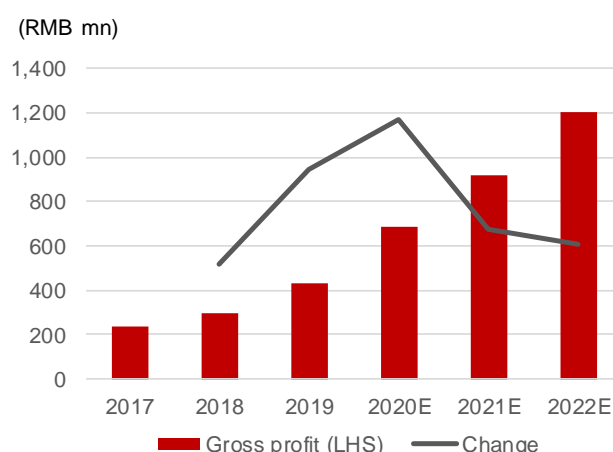
	2017 (RMB mn)	% of total	2018 (RMB/sq m)	% of total	2019 (RMB/sq m)	% of total
Staff costs	446.6	62.6%	577.2	62.1%	873.3	62.3%
Subcontracting costs	6.4	0.9%	15.0	1.6%	56.4	4.0%
Cleaning costs	78.5	11.0%	122.3	13.2%	179.0	12.8%
Repair and maintenance costs	35.1	4.9%	39.5	4.3%	73.9	5.3%
Utility costs	50.6	7.1%	52.2	5.6%	53.8	3.8%
Carpark expenses	31.0	4.3%	36.4	3.9%	42.4	3.0%
Office expenses	14.9	2.1%	23.3	2.5%	29.3	2.1%
Depreciation and amortization	7.1	1.0%	12.6	1.4%	25.3	1.8%
Costs of apartment leasing services	11.6	1.6%	16.7	1.8%	19.7	1.4%
Other expenses (1)	31.9	4.5%	33.7	3.6%	49.4	3.5%
Total	713.8	100.0%	928.9	100.0%	1,402.6	100.0%

Source: Company data, CMBIS

(3) Primarily included miscellaneous expenses such as costs incurred for holding community cultural events and activities, purchasing consumables as well as insurance expenses

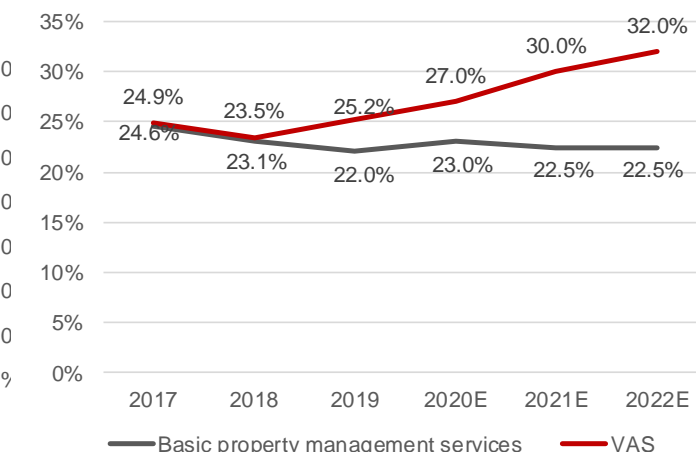
Gross profit was RMB233mn, RMB294mn and RMB433mn in 2017-19 while the corresponding gross margin was 24.6%, 24.1% and 23.6%, respectively. The declining gross margin was attributed by the decreases in gross profit margin of basic property management services, which declined from 24.6% in 2017 to 22.0% in 2019. Gross profit margin for property management services relating to properties developed by third-party property developers were lower than that for properties developed by Excellence Group during Track Record Period. Gross margin of VAS stood at 24.9%, 23.5% and 25.2% in 2017-19, respectively.

Figure 26: Gross profit



Source: Company data, CMBIS estimates

Figure 27: Segment gross margin



Source: Company data, CMBIS estimates

Overall speaking, we forecast gross margin of basic property management services to be 23.0%, 22.5% and 22.5% next three years and gross margin of VAS to be 27.0%, 30.0% and 32.0% next three years, respectively. As a result, we project overall gross margin to be 24.2%, 24.0% and 24.7% in 2020-22E, respectively.

SG&A expenses

Selling, General and Administrative (SG&A) expenses increased from RMB53.7mn in 2017 to RMB84.9mn in 2018 and to RMB103.8mn in 2019. Administrative expenses increased by 61.7% from RMB47.4mn in 2017 to RMB76.7mn in 2018 and by 26.2% to RMB96.8mn in 2019. The rise in administrative expenses was in line with business expansion, which included the costs incurred in relation to acquisitions of Zhejiang Gangwan, Wuhan Yuyang and Wuhan Huanmao in 2019. SG&A expenses to revenue ratio was 5.7%, 6.9% and 5.7% in 2017-19, respectively.

We forecast SG&A expenses to revenue ratio to be 7.4%, 5.2% and 4.6% in 2020-22, respectively. The rise of SG&A expenses to revenue ratio in 2020 is related to increase in professional fees. As such, we project total SG&A expenses to be RMB210mn, RMB198mn and RMB225mn in 2020-22E, respectively.

Figure 28: SG&A expenses

	2017 (RMB mn)	% of revenue	2018 (RMB mn)	% of revenue	2019 (RMB mn)	% of revenue
Selling expenses	6.3	0.7%	8.2	0.7%	7.0	0.4%
Administrative expenses	47.4	5.0%	76.7	6.3%	96.8	5.3%
SG&A expenses	53.7	5.7%	84.9	6.9%	103.8	5.7%

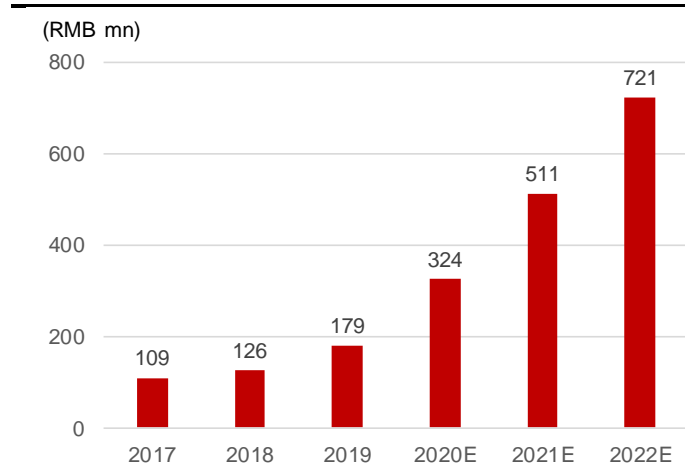
Source: Company data, CMBIS

Estimated net profit attributable to shareholders to grow at 59% CAGR next three years

Net profit attributed to shareholders amounted to RMB109mn, RMB126mn and RMB179mn in 2017-19, respectively. The corresponding net profit margin (attributable to shareholders) was 11.5%, 10.3% and 9.7%, respectively.

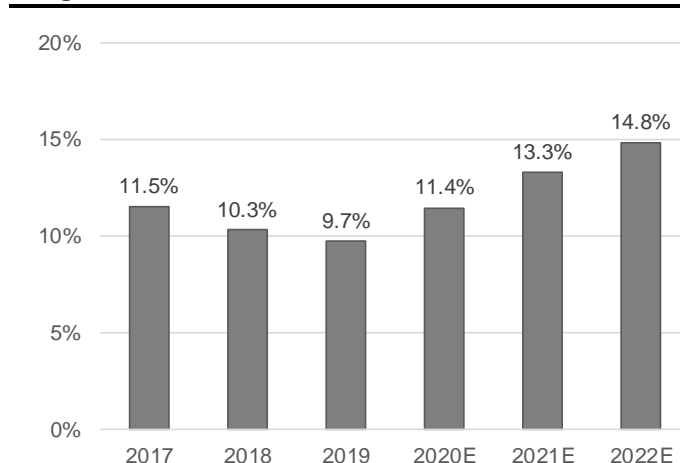
We forecast net profit attributable to shareholders to be RMB324mn, RMB511mn and RMB721mn in 2020-22, respectively, representing a 59.3% CAGR in the period. Furthermore, we project net profit margin (attributable to shareholders) to be 11.4%, 13.3% and 14.8% in 2020-22, respectively.

Figure 29: Net profit attributable to shareholders



Source: Company data, CMBIS estimates

Figure 30: Net profit (attributable to shareholders) margin

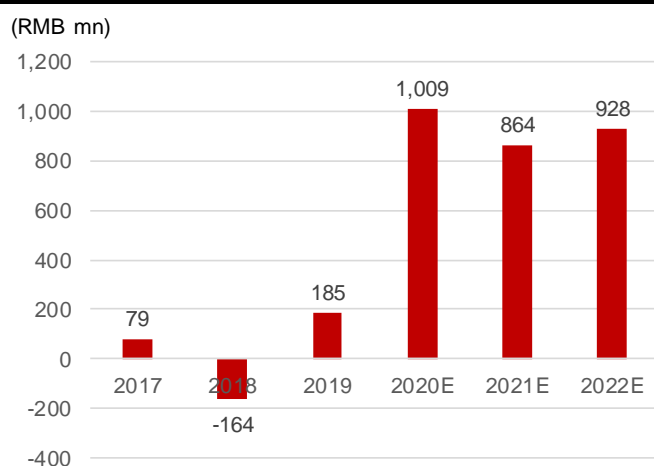


Source: Company data, CMBIS estimates

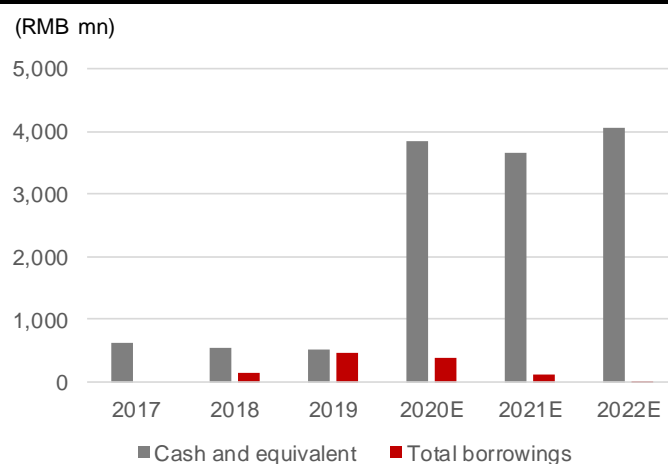
Healthy balance sheet with net cash position

The Company experienced positive operating cash flow of RMB79.5mn in 2017 and RMB185mn in 2019. On the other hand, there was about RMB164mn operating cash outflow in 2018. It is because the Company commenced finance service business in May 2018, resulting an increase of RMB298mn loans receivable in the year. Furthermore, there was another RMB80mn increase in trade and other receivables arisen from the increase in the number of property management projects. ECM plans to sell its micro-lending business in 2021. We expect the amount of loans receivable will diminish in coming years. We forecast operating cash flow to be RMB1,009mn, RMB864mn and RMB928mn in 2020-22E, respectively.

As of 31 Dec 2019, total interest-bearing bank and other borrowings was RMB465mn while cash and cash balances as well as restricted deposits were RMB516mn. The Company was in net cash position last three years. Since the Company plans to withdraw from its micro-leading business in 2021, we expect it will continue to maintain as net cash position next three years.

Figure 31: Operating cash flow

Source: Company data, CMBIS estimates

Figure 32: Cash and debt position

Source: Company data, CMBIS estimates

Related party transactions

During the Track Record Period, the Company mainly provided property management services to related parties. Revenue from property management services to related parties was RMB102mn, RMB124mn and RMB202mn in 2017-19, respectively.

Amounts due to and due from related parties arose when Excellence Group was the parent company prior to the Reorganization. Excellence Group centralized all the funding needs of its subsidiaries and affiliates, and allocated funds among them based on a centralized fund management mechanism. The foregoing balances were subsequently classified as related party balances of a non-trade nature following the Reorganization. In order to meet the requirement for financial independence, Excellence Group has discontinued the centralized fund management mechanism, and all of the outstanding non-trade related party balances will be settled. As of 31 Dec 2019, non-trade amounts due from related parties and due to related parties were RMB477mn and RMB683mn, respectively.

Figure 33: Balances with related parties

	2017	31-Dec 2018 (RMB mn)	2019
Amounts due from:			
Excellence Group	20.1	50.4	89.4
-Trade nature	19.0	48.9	84.3
-Non-trade nature	1.1	1.5	5.1
Other related parties	5.7	13.7	474.1
-Trade nature	1.4	3.6	2.6
-Non-trade nature	4.3	10.0	471.4
Total	25.8	64.1	563.5
Amounts due to:			
Excellence Group	397.1	453.7	710.8
-Trade nature	36.4	31.0	28.5
-Non-trade nature	360.6	422.7	682.3
Other related parties	3.5	2.2	4.0
-Trade nature	3.4	1.9	3.8
-Non-trade nature	0.1	0.2	0.2
Contract liabilities	11.4	8.7	6.9
Lease liabilities	1.0	4.8	6.1
Total	413.0	469.3	727.8

Source: Company data, CMBIS

Financial Summary

Income statement						Key ratios					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	1,223	1,836	2,835	3,837	4,867	Operating profit	205	331	510	744	1,005
Basic property mgmt services	1,067	1,576	2,452	3,085	3,734	Depreciation and amortization	15	28	28	29	31
VAS	133	204	326	724	1,122	Change in working capital	(332)	(103)	414	135	135
Other	24	56	57	29	11	Income tax paid	(60)	(74)	(146)	(184)	(242)
Cost of sales	(929)	(1,403)	(2,148)	(2,918)	(3,667)	Others	7	3	202	140	(1)
Gross profit	294	433	687	920	1,200	Net cash from operating	(164)	185	1,009	864	928
Other income	3	17	21	32	39	Capex	(16)	(306)	(26)	(185)	(262)
Other net losses	(7)	(16)	12	(10)	(9)	Associates/JV	(21)	1	(7)	(5)	(2)
Selling expenses	(8)	(7)	(11)	(14)	(16)	Other	(54)	(460)	-	-	-
Administrative expenses	(77)	(97)	(198)	(184)	(209)	Net cash from investing	(92)	(765)	(32)	(190)	(265)
Operating profit	205	331	510	744	1,005	Equity raised	-	-	2,894	-	-
Net finance costs	(1)	(20)	(17)	(8)	(2)	Change of Debts	150	315	(65)	(280)	(110)
Share of associates/JV	7	6	6	7	10	Dividend paid	-	-	(458)	(562)	(153)
Pre-tax profit	211	317	499	743	1,013	Other	37	227	(17)	(7)	(1)
Income tax	(55)	(83)	(124)	(188)	(251)	Net cash from financing	187	542	2,353	(849)	(264)
After-tax profit	157	234	375	555	762	Net change in cash	(69)	(38)	3,330	(175)	399
Non-controlling interest	(31)	(55)	(51)	(44)	(41)	Cash at the beginning	554	485	447	3,777	3,602
Net profit attributable to the owners	126	179	324	511	721	Cash at the end	485	447	3,777	3,602	4,001
						Pledged deposit	75	69	69	69	69
						Cash at BS	560	516	3,846	3,671	4,071

Balance sheet						Key ratio					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	115	589	595	758	995	Sales mix (%)					
Property, plant & equipment	49	55	60	75	83	Basic property mgmt services	87.2	85.9	86.5	80.4	76.7
Investment properties	11	134	132	130	128	VAS	10.9	11.1	11.5	18.9	23.1
Associates/JV	40	40	47	52	54	Other	2.0	3.0	2.0	0.8	0.2
Intangible assets	3	338	333	476	702	Total	100.0	100.0	100.0	100.0	100.0
Deferred income tax assets	11	22	23	25	28	Profit & loss ratios (%)					
Current assets	1,265	1,963	4,803	4,532	5,047	Gross margin	24.1	23.6	24.2	24.0	24.7
Cash	560	516	3,846	3,671	4,071	Operating margin	16.8	18.0	18.0	19.4	20.6
Trade and other receivables	295	929	680	735	850	Net margin (attributable to owners)	10.3	9.7	11.4	13.3	14.8
Inventories	0	0	0	0	0	Effective tax rate	25.9	26.3	24.8	25.3	24.8
Other current assets	411	517	276	126	126	Growth rate (%)					
Current liabilities	1,002	1,874	1,761	1,791	2,053	Revenue	29.1	50.1	54.4	35.4	26.8
Borrowings	150	465	200	20	10	Gross profit	26.0	47.3	58.6	33.8	30.5
Trade and other payables	766	1,276	1,440	1,630	1,880	Net profit attributable to owners	15.3	41.9	81.6	57.8	41.0
Contract liabilities	45	63	70	84	96	Balance sheet ratios					
Tax payable	34	59	38	43	52	Current ratio (x)	1.3	1.0	2.7	2.5	2.5
Other current liabilities	7	11	13	14	15	Net gearing ratio	Net cash	Net cash	Net cash	Net cash	Net cash
Non-current liabilities	16	222	424	331	239	Returns (%)					
Borrowings	0	0	200	100	0	ROE	55.4	59.8	11.9	17.9	20.8
Other non-current liabilities	16	222	224	231	239	ROA	11.3	9.2	6.9	10.5	12.6
Shareholders' equity	283	391	3,150	3,099	3,668	Per share data					
Minority interest	80	65	62	70	83	EPS (RMB)	N.A.	N.A.	0.34	0.42	0.59
Total equity	363	456	3,212	3,169	3,751	DPS (RMB)	N.A.	N.A.	0.09	0.13	0.18
						BVPS (RMB)	N.A.	N.A.	2.58	2.54	3.00

Source: Company data, CMBIS estimates

Valuation

Valuation using comparable company analysis

We select 11 property management companies for valuation comparison with ECM. On average, they are trading at 30.5x 2020E P/E or 21.4x 2021E P/E.

Being a leading commercial property management company, ECM should deserve a premium valuation to peers, in our view. Based on 28.0x 2021E P/E (mean + 1 standard deviation), our Target Price is HK\$13.34. Upside potential is 34.8%. We initiate coverage on ECM with a BUY recommendation.

Figure 34: Peers' valuation

Company	Ticker	Last price (HK\$)	Mkt Cap (HK\$ mn)	P/E		
				19A	20E	21E
Country Garden Services	6098 HK	44.55	122,930	60.3	41.3	29.1
A-Living	3319 HK	34.25	45,667	31.6	22.3	16.9
Poly Property	6049 HK	52.10	28,829	36.5	34.6	25.6
Greentown Service	2869 HK	8.93	28,737	44.6	34.4	26.6
China Overseas Properties	2669 HK	4.74	15,580	29.0	23.1	18.0
Ever Sunshine Lifestyle	1995 HK	13.92	23,252	81.0	49.3	32.0
S-Enjoy Service	1755 HK	19.30	15,824	48.2	30.7	20.4
Central China Newlife	9983 HK	7.17	8,927	N.A.	18.7	13.3
Powerlong Commercial	9909 HK	20.80	12,927	40.1	36.5	25.2
Times Neighbourhood	9928 HK	7.32	7,215	47.8	25.8	14.9
Zhenro Service	6958 HK	4.50	4,669	N.A.	18.6	13.1
Average				46.6	30.5	21.4
Standard deviation				16.0	9.8	6.6

Source: Bloomberg, CMBIS

Industry Overview

Commercial property management service market in China and Greater Bay Area

Commercial properties include office buildings, corporate buildings, office parks and R&D parks, and others. The participants in the commercial property management service market generally offer: (1) basic property management services; and (2) value-added services.

Basic property management services primarily include security services, cleaning services, car park management, repair and maintenance of elevators, escalators and mechanical car park equipment, gardening and landscaping services, daily repair and maintenance of equipment and machinery and other services such as concierge services.

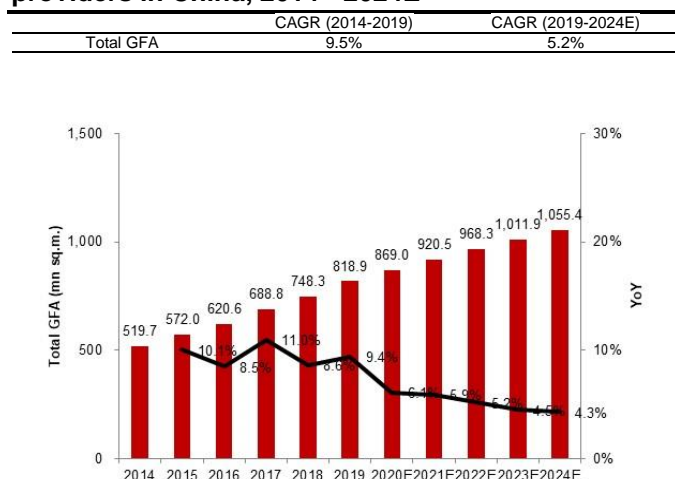
Value-added services primarily include asset services, customer services provided to property owners, corporate customers and tenants, and other customized services.

Commercial property management service providers can charge management fees either on a lump-sum basis or on a commission basis. Lump-sum fee model is the dominant method of collecting property management fees in China with respect to residential and non-residential properties.

Market size of commercial property management service market in China

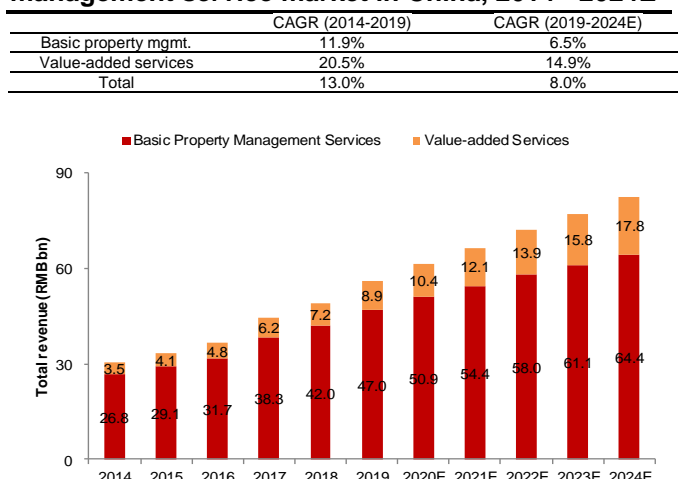
In 2019, basic property management services and value-added services accounted for approximately 84.1% and 15.9%, respectively, of the total revenue of the commercial property management service providers in China. As the commercial property management service providers have been seeking to further diversify their services and revenue sources, it is expected that value-added services will contribute to an increasing portion of the total revenue in the near future.

Figure 35: Total GFA of commercial properties under management by property management service providers in China, 2014 - 2024E



Source: Company data, CMBIS

Figure 36: Total revenue of commercial property management service market in China, 2014 - 2024E



Source: Company data, CMBIS

Competitive landscape

In China, the commercial property management service market was rather fragmented. In terms of revenue from basic property management services provided to commercial properties, the top five property management service companies in China accounted for approximately 16.7% in 2019.

The Group was ranked the fourth among the leading property management service companies, accounting for approximately 2.6% of total revenue from basic property management services provided to commercial properties.

Figure 37: Top 5 property management service companies by revenue from basic property management services provided to commercial properties in China, 2019

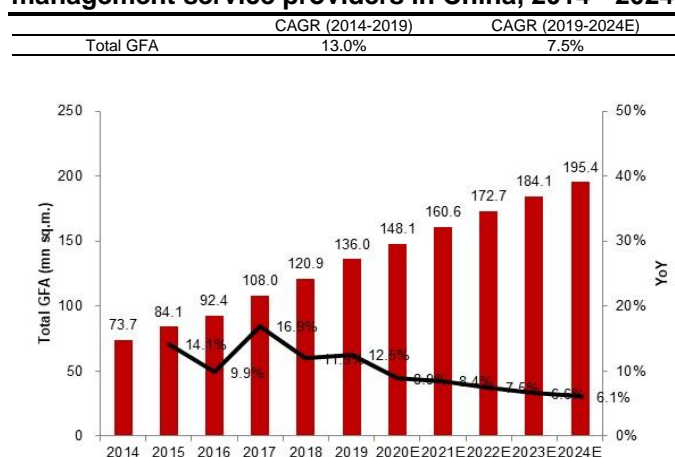
Ranking	Company	Background information	Market share by revenue from basic property management services
1	Company A	A leading property management service company in China, providing comprehensive services for facilities, assets, processes and personnel in commercial property management service market.	5.4%
2	Company B	A listed property management service company, which mainly provides property management services to non-residential properties including commercial properties.	3.9%
3	Company C	A listed property management service company, which mainly manages commercial properties in Yangtze River Delta and Bohai Economic Rim.	3.1%
4	The Group	A leading commercial property management service provider in China, which has been focusing on providing commercial property management services for about 20 years and has established market reputation and a premium brand.	2.6%
5	Company D	A leading property management service company in China, focusing on the management of high-end commercial properties in commercial property management service market.	1.7%
Top 5			16.7%
Others			83.3%
Total			100.0%

Source: Company data, CMBIS

Market size of high-end commercial property management service market in China

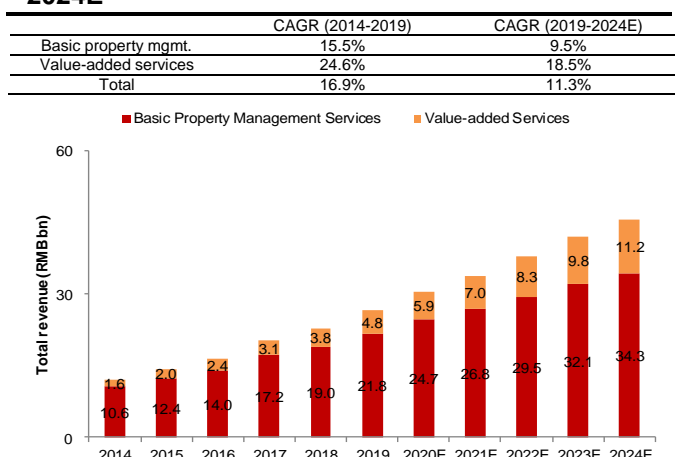
As of 31 Dec 2019, the GFA of the high-end commercial properties under management accounted for approximately 16.6% of the total GFA of the commercial properties under management in China. It is expected that value-added services will contribute to an increasing portion of the total revenue of high-end commercial property management service market in the near future, which is in line with the general trend in the commercial property management service market in China.

Figure 38: Total GFA of high-end commercial properties under management by property management service providers in China, 2014 - 2024E



Source: Company data, CMBIS

Figure 39: Total revenue of high-end commercial property management service market in China, 2014 - 2024E



Source: Company data, CMBIS

Competitive landscape

The Group is one of the few leading property management service providers who primarily provide commercial property management services especially for high-end commercial properties in China. The top five companies accounted for approximately 14.6% in terms of revenue from basic property management services provided to high-end commercial properties in 2019. The Group was ranked the third, accounting for approximately 2.8% of total revenue from basic property management services provided to high-end commercial properties in China.

Figure 40: Top 5 property management service companies by revenue from basic property management services provided to high-end commercial properties in China, 2019

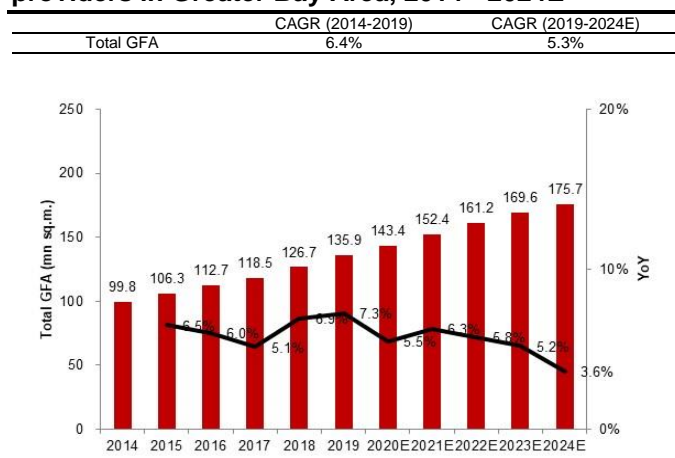
Ranking	Company	Background information	Market share by revenue from basic property management services
1	Company A	A leading property management service company in China, providing comprehensive services for facilities, assets, processes and personnel in commercial property management service market.	4.4%
2	Company B	A listed property management service company, which mainly provides property management services to non-residential properties including commercial properties.	2.9%
3	The Group	A leading commercial property management service provider in China, which has been focusing on providing commercial property management services for about 20 years and has established market reputation and a premium brand.	2.8%
4	Company D	A leading property management service company in China, focusing on the management of high-end commercial properties in commercial property management service market.	2.3%
5	Company E	A leading property management service company, which primarily focuses on managing high-end commercial properties in the Yangtze River Delta especially in Shanghai.	2.2%
Top 5			14.6%
Others			85.4%
Total			100.0%

Source: Company data, CMBIS

Market size of commercial property management service market in Greater Bay Area

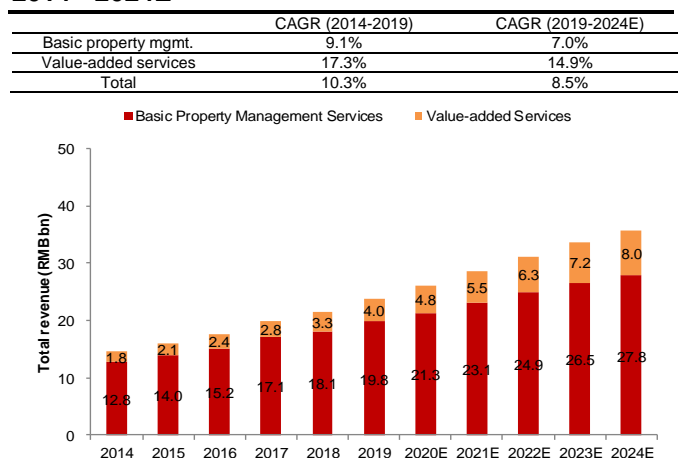
In 2019, the average commercial property management fee reached RMB 5.1 per sq m per month and RMB 7.5 per sq m per month in China and the Greater Bay Area (excluding Hong Kong and Macao) respectively.

Figure 41: Total GFA of commercial properties under management by property management service providers in Greater Bay Area, 2014 - 2024E



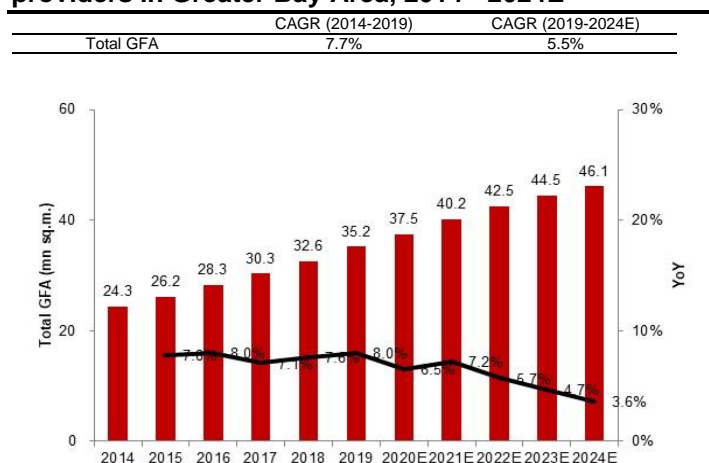
Source: Company data, CMBIS

Figure 42: Total revenue of commercial property management service market in Greater Bay Area, 2014 - 2024E



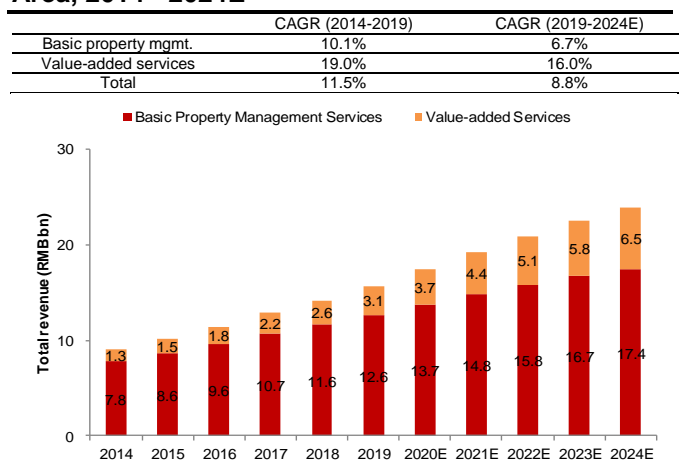
Source: Company data, CMBIS

Figure 43: Total GFA of high-end commercial properties under management by property management service providers in Greater Bay Area, 2014 - 2024E



Source: Company data, CMBIS

Figure 44: Total revenue of high-end commercial property management service market in Greater Bay Area, 2014 - 2024E



Source: Company data, CMBIS

Competitive landscape

In the Greater Bay Area, in terms of revenue from basic property management services provided to commercial properties, the top five property management service companies accounted for approximately 17.1% in 2019. The Group was ranked the second among the property management service companies in 2019, accounting for approximately 4.5% of total revenue from basic property management services provided to commercial properties in the Greater Bay Area.

Figure 45: Top 5 property management service companies by revenue from basic property management services provided to commercial properties in Greater Bay Area, 2019

Ranking	Company	Background information	Market share by revenue from basic property management services
1	Company A	A leading property management service company in China, providing comprehensive services for facilities, assets, processes and personnel in commercial property management service market.	5.4%
2	The Group	A leading commercial property management service provider in China, which has been focusing on providing commercial property management services for about 20 years and has established market reputation and a premium brand.	4.5%
3	Company B	A listed property management service company, which mainly provides property management services to non-residential properties including commercial properties.	3.9%
4	Company F	A renowned property management service company in China, providing commercial property management services mainly in Greater Bay Area.	1.7%
5	Company G	A listed property management service company, which provides commercial property management services mainly in Greater Bay Area.	1.6%
Top 5			17.1%
Others			82.9%
Total			100.0%

Source: Company data, CMBIS

The commercial properties which the Group managed are mainly located in central business districts in the Greater Bay Area such as Futian District of Shenzhen. The top five companies accounted for approximately 13.5% in terms of revenue from basic property management services provided to high-end commercial properties in 2019. The Group was

ranked the first, accounting for approximately 4.2% of total revenue from basic property management services provided to high-end commercial properties in the Greater Bay Area.

Figure 46: Top 5 property management service companies by revenue from basic property management services provided to high-end commercial properties in Greater Bay Area, 2019

Ranking	Company	Background information	Market share by revenue from basic property management services
1	The Group	A leading commercial property management service provider in China, which has been focusing on providing commercial property management services for about 20 years and has established market reputation and a premium brand.	4.2%
2	Company A	A leading property management service company in China, providing comprehensive services for facilities, assets, processes and personnel in commercial property management service market.	3.5%
3	Company D	A leading property management service company in China, focusing on the management of high-end commercial properties in commercial property management service market.	2.1%
4	Company G	A listed property management service company, which provides commercial property management services mainly in Greater Bay Area.	2.0%
5	Company B	A listed property management service company, which mainly provides property management services to non-residential properties including commercial properties.	1.7%
Top 5			13.5%
Others			86.5%
Total			100.0%

Source: Company data, CMBIS

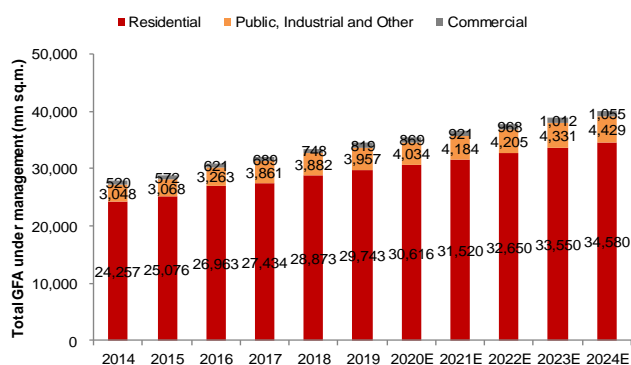
Property management service market in China

Market size of property management service market in China

Most Chinese property management service companies provided services for a wide range of properties, including commercial properties, residential properties, public properties, industrial properties and other properties. Property management service companies generally offer: (1) traditional property management services, and (2) other services, mainly including pre-delivery services, consulting services and value-added services.

Figure 47: Total GFA under management by property management service companies in China, 2014 - 2024E

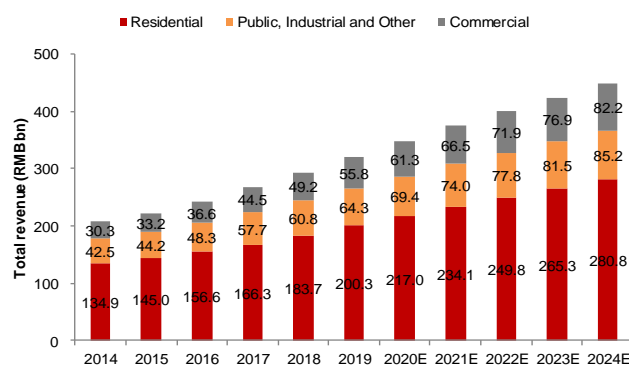
	CAGR (2014-2019)	CAGR (2019-2024E)
Residential	4.2%	3.1%
Public, Industrial & Other	5.4%	2.3%
Commercial	9.5%	5.2%
Total	4.4%	3.0%



Source: Company data, CMBIS

Figure 48: Total revenue of property management service companies in China, 2014 - 2024E

	CAGR (2014-2019)	CAGR (2019-2024E)
Residential	8.2%	7.0%
Public, Industrial & Other	8.7%	5.8%
Commercial	13.0%	8.0%
Total	9.1%	6.9%



Source: Company data, CMBIS

Risk factors

Potential adverse development in government policies or business environment in the Greater Bay Area

The Company focuses on first-tier or new first-tier cities with high population densities in economically developed regions, and a significant portion of the Company's operations are concentrated in the Greater Bay Area. As of 31 Dec 2017, 2018 and 2019, the Company managed an aggregate GFA of approximately 6.9 mn sq m, 8.1 mn sq m, and 11.4 mn sq m of properties in the Greater Bay Area, which accounted for approximately 60.8%, 55.3%, and 48.2%, respectively, of the Company's total GFA of properties managed, and revenue generated from basic property management services of such properties contributed approximately 79.5%, 74.4%, and 66.3%, respectively, of the Company's total revenue from basic property management services. Due to such concentration, any adverse development in government policies or business environment in these regions may materially and adversely affect the Company's business, financial position and results of operations.

Potential failure to secure new or renew existing property management service agreements on favorable terms

The Company's ability to expand its portfolio of property management service agreements is key to the sustainable growth of business. The selection of a property management company depends on a number of factors, including the quality of services, the level of pricing, the operating history of the property management company, general economic conditions, evolving government regulations, and supply and demand dynamics within the property management industry, especially commercial property management service market. Even where the Company succeeds in entering into property management service agreements with property owner associations or property owners, the Company cannot guarantee that they will be renewed upon expiration. In 2017, 2018, and 2019, the Company's retention rates for property management service agreements were 98.2%, 94.6%, and 91.9%, respectively.

Potential disruption in the Company's future growth

The Company has been seeking to expand its business through organic growth as well as acquisitions of other companies. As of 31 Dec 2017, 2018, and 2019, the properties which the Company managed had an aggregate GFA of 11.4 mn sq m, 14.6 mn sq m, and 23.5 mn sq m, respectively. The Company seeks to continue to expand through increasing the total GFA and the number of properties it manages in existing and new markets, including properties developed by Excellence Group and third-party property developers. However, the Company's expansion plans are based upon its assessment of market prospects, and may be affected by a number of factors, many of which are beyond its control.

Potential failure to achieve desired benefits from acquisitions

The Company recorded goodwill of RMB 271.7mn in 2019 as a result of acquisitions. The Company may face difficulties in integrating the acquired operations with existing business, particularly when integrating acquired workforce with the Company's workforce. The Company's ability to integrate the acquired businesses may be affected by a variety of factors. These factors include, but are not limited to, the complexity and size of the acquired business, the risks of operating in new markets, unfamiliarity with new regulatory regimes, differences in corporate cultures, the inability to retain the acquired business's personnel, as well as additional hidden costs associated with the acquisition. As a result, the Company's acquisitions may not achieve desired strategic objectives or the expected return on investment.

Potential failure to estimate or control costs in performing property management services

The Company generated substantially all of its revenue from property management services on a lump-sum basis. On a lump-sum basis, the Company charges property management fees at a pre-determined fixed lump sum price per sq m per month, representing "all-inclusive" fees for the property management services provided. These property management fees do not change with the actual amount of property management costs the Company incurs. The Company recognizes as revenue the full amount of property management fees it charges to the property owners or property developers, and recognizes as cost of sales the actual costs the Company incurs in connection with rendering its services. The Company's profitability depends on its ability to estimate or control costs in performing property management services.

Appendix 1: Milestones

Figure 49: Milestones

Year	Event
1999	Excellence Property Management was established in Shenzhen, Guangdong province.
2004	The Company was recognized as one of the Top Ten Best Property Management Companies with Influential Brand in Shenzhen (深圳 十大最具影响力的品牌物业管理公司) by Shenzhen Special Zone (深圳特区报).
2005	Shenzhen Blue Coast (深圳蔚蓝海岸) was awarded as "National Property Management Demonstration Pilot Residential Community (全国物业管理示范住宅小区)" by MOHURD.
2006	The Company started managing properties developed by Independent Third Parties.
	The Company began to manage Shenzhen Excellence Building (深圳卓越大厦), its first commercial project developed by the Excellence Group, and entered the field of commercial property management services.
	The Company was recognized as the Resident's Most Satisfied Company of the Year in the China Property Management Carnival Golden List (中国物业管理嘉年华金榜题名之年度业主最满意企业).
2008	The Company was recognized as one of the China Top 100 Property Service Companies in terms of overall strength (中国物业服务百强企业) by China Real Estate Top 10 Research Group (中国房地产 Top 10 研究组).
2010	The Company was recognized as one of the Property Management Service Excellent Brand Enterprise (中国物业服务优秀品牌企业) by China Real Estate Top 10 Research Group (中国房地产 Top 10 研究组).
2011	The Company began to manage its first corporate building used as the headquarters for a Chinese well-known internet company, providing customized service solutions to customers and becoming a practice model for comprehensive property services in the Internet industry.
2017	The Company launched "E+FM Dual Smart Platforms" (E+FM 智慧双平台), introducing Internet and IoT solutions into property project management.
2019	The Company launched its new business service plan and created "Zhuopin", a high-end business service sub-brand.
	The Company ranked 16th among the 2019 China Top 100 Property service Companies in terms of overall strength (2019中国物业服务 百强企业第16名) and was recognized as one of the 2019 China Special Property Service Excellent Enterprise for office property management (2019中国专租物业服务优秀企业—办公物业管理) by China Real Estate Top 10 Research Group (中国房地产 Top 10 研究组).

Source: Company data, CMBIS

Appendix 2: Management team

Figure 50: Management team

Name	Age	Position	Roles and Responsibilities	Date of Joining the Group	Date of Appointment as Director
Mr. Li Xiaoping (李晓平)	62	Executive Director and chairman of the Board	Responsible for the overall strategic planning and major business decisions of the Group	27 Oct 1999	22 May 2020
Ms. Guo Ying (郭莹)	52	Executive Director and general manager	Responsible for implementing the strategies and daily operations of the Group	16 Oct 2000	22 May 2020
Mr. Wang Dou (王斗)	52	Nonexecutive Director	Responsible for providing guidance for the business development of the Group	22 May 2020	22 May 2020
Mr. Wang Yinhu (王银虎)	43	Nonexecutive Director	Responsible for providing guidance for the business development of the Group	30 Jun 2016	22 May 2020
Mr. Huang Mingxiang (黄明祥)	61	Independent nonexecutive Director	Responsible for providing independent advice on the operations and management of the Group	[●]	[●]
Mr. Kam Chi Sing (甘志成)	49	Independent nonexecutive Director	Responsible for providing independent advice on the operations and management of the Group	[●]	[●]
Ms. Liu Xiaolan (刘晓兰)	54	Independent nonexecutive Director	Responsible for providing independent advice on the operations and management of the Group	[●]	[●]
Mr. Lv Li (吕力)	41	Financial controller and joint company secretary	Responsible for the financial management of the Group	9 Feb 2018	9 Feb 2018

Source: Company data, CMBIS

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