

China Property Service Sector

2023 a year for market leaders and survivors

We are positive towards PM sector in 2023 as it is the key beneficiary of both housing completion push (GFA gain) and reopening (Community VAS), so higher growth and better cash collection. This would create room for the existing market leaders and surviving POEs (after property crisis) to accelerate earnings growth, both organically and via M&A activities. Therefore, we forecast 2023E earnings growth at 23% from a low base of 12% in 2022E. As for 2022E preview, Yuexiu/COPH may beat while Poly/CGS/Onewo may slightly fall below expectation. Currently the sector is trading at 15x 2023E PE which is fair in our view, but the leading SOEs could trade to 20-25x from currently 18x on their 25-30% earnings CAGR due to market consolation. Small players like Binjiang/Yuexiu traded at ~10x 2023E PE can also rerate on steady earnings and clear catalysts. Our top picks are Yuexiu Services (incentive plan, HK connect, attractive valuation) COPH (earnings beat), Binjiang services (growth outlook) and CR mixc (shopping mall recovery). Risks: bad debt/good will write off.

- **The year of housing delivery in 2023 benefits leaders' market share gain in GFA.** Due to construction delay in 2022 and direct completion funding support (RMB550bn in total), we forecast housing completion to rebound +10% YoY in 2023E. The pickup is likely to boost a faster transition from reserved GFA to managed GFA and more room for third-party expansion. We think this could benefit PM firms that have strong third-party expansion capability and abundant reserved GFA: Greentown service, Onewo, Poly Service and COPH who ranked top in terms of new managed GFA from third parties.
- **Reopening would put Community VAS in acceleration, like ads, brokerage and retail.** Community VAS was seriously affected by COVID in 2022 (especially 4Q), which dragged segment revenue growth to 29% YoY in 2022E vs. 63% YoY in 2021. Considering the low base and consumption-related services, we think community VAS segment will see quick recovery in 2023, especially for businesses like Ads, brokerage and retail. Therefore, names with large contribution from VAS is likely to outperform, like Ever Sunshine/Poly/Greentown/Yuexiu that all have >30% contribution from community VAS at GP level.
- **2022E earnings preview – high divergence and low cash collection:** Without a surprise, we expect NP growth of PM sector to decelerate to 12% YoY in 2022E from 52% in 2021 driven by both pressure in revenue (22% YoY vs. 47% in 2021) and GPM (24% vs. 30% in 2021). However, it is worth noting that 1) the divergence is even wider after the property crisis and COVID in 2022 (Figure 1). COPH/Yuexiu Services may see a beat while Poly/Onewo/CGS may slightly disappoint. 2) The cash collection ratio is likely to be low in 2022E as 4Q, the peak collection season was interrupted by COVID which may put OCF/NP to 0.6-0.7x vs. 0.9-1x in 2021.
- **Valuation and Top picks:** The sector is currently trading at avg.15x 2023E P/E which we think is quite fair from a long-term perspective. However, we think market leaders like COPH, Poly, Onewo can trade to 20-25x (implying 1x PEG). For top picks, we prefer Yuexiu Services and COPH for their 2022E earnings and growth outlook in 2023E and beyond. Also, CR Mixc could benefit from retail boost on its shopping malls. Among POEs, Binjiang is likely to outperform on solid earnings and parentco.

OUTPERFORM
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China Property Sector

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Figure 1: PM sector 2022E earnings preview

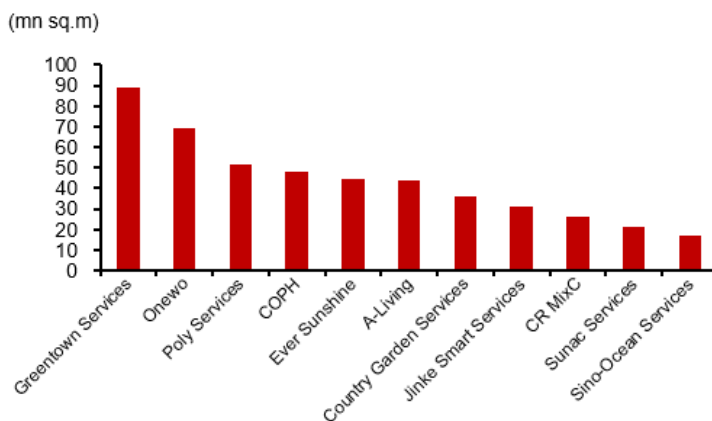
Tickers	Names	2022E Earnings (YoY)	vs. expectation	2023E Earnings (YoY)	2022E Revenue (YoY)	2023E Revenue (YoY)	2022E GPM	2023E GPM
3316 HK	Binjiang Services	40%	In-line	38%	NA	NA	NA	NA
1209 HK	CR MixC	28%	In-line	31%	35%	34%	30%	29%
2669.HK	COPH	31%	Higher	31%	32%	30%	17%	17%
6049.HK	Poly Services	22%	Lower	26%	24%	26%	19%	19%
6626 HK	Yuexiu Services	21%	Higher	20%	19%	51%	32%	31%
1995.HK	Ever Sunshine	18%	In-line	20%	34%	29%	26%	26%
2602 HK	Onewo	18%	Lower	28%	25%	27%	16%	16%
6098.HK	CGS	7%	Lower	15%	38%	24%	26%	25%
2869.HK	Greentown Services	4%	In line	20%	16%	22%	18%	18%
1755 HK	S-enjoy Service	3%	In line	20%	21%	25%	29%	29%
3319.HK	A-Living	-15%	In line	15%	9%	15%	26%	26%
9666.HK	Jinke Services	-27%	In line	15%	-8%	16%	27%	26%
Average		12%		23%	22%	27%	24%	24%

Source: BBG, CMBIGM. For non-covered names, we use BBG consensus data

Figure 2: Ratio of reserved GFA/managed GFA

(mn sq.m)	Ticker	2017	2018	2019	2020	2021	2022E
Greentown Services	2869 HK	109%	113%	110%	113%	114%	100%
CGS	6098 HK	168%	178%	148%	117%	88%	41%
S-Enjoy	1755 HK	87%	162%	154%	100%	82%	58%
Sunac Services	1516 HK	187%	239%	198%	95%	67%	48%
Powerlong CM*	9909 HK	18%	31%	54%	50%	62%	50%
Ever Sunshine	1995 HK	26%	63%	70%	78%	58%	28%
Poly Services	6049 HK	74%	90%	74%	49%	41%	49%
Excellence CM	6989 HK	15%	38%	41%	40%	38%	58%
A-Living*	3319 HK	134%	104%	69%	39%	36%	37%
Onewo	2602 HK	NA	NA	28%	27%	29%	29%
CR Mixc	1209 HK	8%	23%	25%	35%	29%	24%

Source: Company, CMBIGM

Figure 3: New managed GFA from third parties in FY21

Source: Company data, CMBIGM

Figure 4: Gross profit from VAS as % of total

2021	Community VAS as % of Gross Profit
Ever Sunshine	38%
Poly Services	36%
Jinke Smart Services	34%
Greentown Services	33%
Yuexiu Services	30%
S-Enjoy	29%
Country Garden Services	23%
Binjiang Services	22%
A-Living	22%
Onewo	20%
COPH	16%
Sunac Services	9%
CR MixC	7%
Average	23%

Source: Company, CMBIGM

Figure 5: Valuation comps of PM companies

Company	Ticker	CMBI rating	TP (HK\$)	Last price (HK\$)	Mkt Cap (HK\$ mn)	P/E			Net profit growth (%)		Dividend Yield		Payout ratio
						21A	22E	23E	22E	23E	21A	22E	21A
CR MixC Lifestyle	1209 HK	BUY	44.3	41.4	94,496	46.9	36.5	27.8	24.6	31.0	0.8%	1.2%	38%
COPH	2669 HK	NR	NA	9.8	32,178	32.6	25.4	19.5	28.5	29.0	0.9%	1.2%	30%
Poly Services	6049 HK	HOLD	53.4	50.3	27,833	27.5	22.4	17.7	22.3	26.1	0.7%	0.9%	20%
Onewo	2602 HK	BUY	60.7	45.2	53,267	-	22.3	17.4	15.3	33.8	-	1.1%	-
Greentown Services	2869 HK	BUY	7.9	5.3	17,035	18.1	17.1	13.5	-6.1	26.7	3.8%	2.9%	69%
Binjiang Services	3316 HK	NR	NA	25.5	7,048	18.2	13.0	9.4	5.6	53.6	NA	NA	NA
Yuexiu Services	6626 HK	NR	NA	4.9	7,412	14.1	11.5	8.2	27.5	35.6	2.1%	2.3%	29%
Country Garden Services	6098 HK	BUY	47.6	16.4	55,387	10.9	9.3	7.5	19.3	23.5	2.2%	2.6%	24%
Jinke Smart Services	9666 HK	NR	NA	12.5	8,187	6.4	8.7	7.0	-33.4	20.4	6.2%	4.3%	40%
Sunac Services	1516 HK	BUY	7.0	3.5	10,638	5.7	112.3	6.6	-151.1	NA	4.3%	-0.9%	24%
Jinmao Services	816 HK	HOLD	5.5	4.5	4,078	15.4	8.6	6.3	103.7	48.6	NA	NA	NA
Shimao Services	873 HK	NR	NA	2.5	6,269	4.6	15.1	6.2	-70.7	100.2	NA	NA	NA
S-Enjoy	1755 HK	SELL	8.5	7.2	6,247	8.1	7.9	5.7	23.8	30.1	2.6%	4.1%	21%
Ever Sunshine	1995 HK	HOLD	12.7	3.6	6,315	8.2	6.9	5.4	21.7	27.2	3.6%	4.4%	29%
Central China New Life	9983 HK	BUY	12.9	3.3	4,207	5.0	5.3	4.7	-0.5	11.6	10.2%	12.7%	51%
Powerlong Commercial	9909 HK	BUY	33.2	5.7	3,632	6.6	5.6	4.6	11.0	16.2	5.3%	7.1%	35%
Sino-Ocean Services	6677 HK	BUY	7.1	3.0	3,576	6.5	5.8	4.5	8.6	19.5	3.7%	5.0%	24%
KWG Living	3913 HK	NR	NA	1.6	3,302	4.0	4.8	4.2	-15.3	15.0	8.9%	6.0%	36%
A-Living	3319 HK	HOLD	34.2	8.6	12,269	4.0	4.7	4.0	-7.5	14.2	5.7%	4.8%	23%
Excellence CM	6989 HK	BUY	14.9	3.7	4,540	7.3	5.1	3.8	33.5	33.8	9.7%	9.8%	71%
Evergrande Services	6666 HK	BUY	10.4	2.3	24,865	7.9	4.9	3.7	21.9	32.8	NA	NA	NA
Redsun Services	1971 HK	BUY	9.4	2.3	971	6.1	3.1	2.2	41.2	32.2	NA	NA	NA
New Hope Services	3658 HK	BUY	4.4	1.4	1,164	4.8	NA	NA	83.5	NA	6.0%	8.7%	29%
Average						20.5	22.4	15.1	12.5	29.3	1.7%	1.9%	25.2%

Source: BBG, CMBIGM

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