10 Nov 2022

Onewo (2602 HK)

Why market underpriced and over-concerned about Onewo?

Onewo is a top residential/commercial property management firm in China. We think the market is underpricing Onewo's dominant advantage over major peers (COPH, Poly Service) on existing residential projects, strategic corporate client expansion and Onewo town strategy, but over-concerned on its parentco. So the 30% fall since its Sep IPO offered a LT investing opportunity as 1) 32% earnings CAGR in 2021-24E led by fast expansion in existing residential projects and corporate clients will outpace COPH and Poly's 25-30%. 2) In the mid-to-long term, Onewo town strategy will cover >50% of its managed GFA and drive the margin upside on cost saving and better monetization. 3) Onewo is less dependent on parentco than COPH and Poly services. Currently the Company is trading at 12x 2023E PE (vs. COPH/Poly's 13x) and we expect 40% upside based on 18x 2023E PE on solid earnings. **Catalysts:** better-than-guided 2022E results.

- **Residential PM (50% of revenue): Onewo has dominant expansion advantage in existing projects which have become the main battlefield.** With 30% YoY decline in new home sales and home completion issues, PM firms have shifted their GFA expansion into existing projects, a market of 13bn sq m (only include projects <10 years old) and RMB300bn fees/year. Onewo is the absolute leader of this field, evidenced by its 50% of its third-party expansion from the existing projects (vs. the industry avg. of 10%). Besides, the industry competition is less intensified after many developers and PMs fell into trouble and it gives Onewo more rooms to choose and focus on the project densities that fit in their Onewo town planning (the concept of bigger community, less costs and better monetization). As such, we expect Onewo to deliver a steady 25% CAGR in managed GFA, in which 70-80% comes from the 3rd-party expansion. GP margin is likely to stay stable at 11%.

- **Commercial PM (25% of revenue): Strong penetration capability into facilities management (FM) of big corporates will drive 38% CAGR.** As the world-leading brand, Cushman&Wakefiled Vanke has already secured 50% of office revenue from FM business including big clients from internet, finance and high-end manufacturing. We expect this part will grow faster than traditional office management as 1) there is less competition due to white list, 2) it is less sensitive to the office vacancy, and 3) there are more VAS opportunities to support both revenue and margins. So we expect commercial PM to grow 38% CAGR in 2021-24E, becoming the main revenue driver.

- **Why market is over-concerned on its parentco?** 1) Onewo's reliance on Vanke is much less than peers**.** Non-owner VAS contributed only 13%/10% of total revenue in 2021/1H22, lower than the industry average of 22% and SOE peers (COPH 19% and Poly 17%). 2) Its parentco Vanke remains in the green category with Net debt to gearing only at 20% and Cash/ST cash at 1.7x. 3) Onewo's growth is largely dependent (70%) on its third-party expansion.

- **Initiate at Buy with 40% upside.** We forecast revenue and net profits to grow at 32% CAGR in 2021-24E with stable margin. In a longer term, we expect net margins to expand after Onewo towns show results (NPM of 10-15% each). It is currently trading at 12x 2023E PE, similar to COPH and Poly but with a better quality. **Catalysts**: better-than-guided 2022E earnings and relaxation in COVID policy. **Risks:** account receivable write-off; parentco default.

BUY

Target Price	**HK$49.6**
Up/Downside	**+43.4%**
Current Price	**HK$34.6**

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Stock Data

Mkt Cap (HK$ mn)	40,775
Avg 3 mths t/o (HK$ mn)	NA
52w High/Low (HK$)	47.45/27.2
Total Issued Shares (mn)	1,178

Source: Bloomberg

Shareholding Structure

Vanke	56.6%
Boyu	15.4%
Others	28.0%

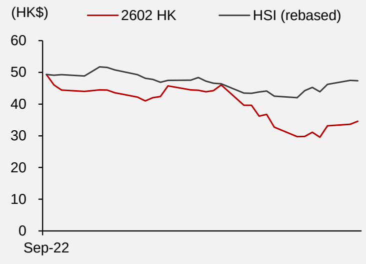
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-22.9%	-17.6%
3-mth	NA	NA
6-mth	NA	NA

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	18,145	23,705	30,962	41,262	54,283
YoY growth (%)	30.3	30.6	30.6	33.3	31.6
Net income (RMB mn)	1,464	1,668	2,200	2,923	3,834
EPS (RMB)	1.46	1.65	1.87	2.48	3.25
YoY growth (%)	N.A.	12.4	13.5	32.8	31.2
Consensus EPS (RMB)	N.A.	N.A.	1.84	2.28	3.15
P/E (x)	21.3	18.9	16.7	12.6	9.6
P/B (x)	5.2	15.3	9.1	5.7	3.8
Yield (%)	1.0	11.2	1.5	2.0	2.6
ROE (%)	23.4	16.9	18.9	21.1	23.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

One-page summary

Figure 1: Our key forecast and assumptions

Key drivers	2019	2020	2021	2022E	2023E	2024E	CAGR 21-24E
Managed GFA (mn sqm)	**479**	**577**	**785**	**991**	**1,269**	**1,618**	27%
YoY growth		20%	36%	26%	28%	28%	
- Residential (mn sqm)	431	498	660	820	1,035	1,306	26%
- Non-residential (mn sqm)	48	79	125	171	233	312	36%
Revenue (RMB mn)	**13,927**	**18,145**	**23,705**	**30,962**	**41,262**	**54,283**	32%
YoY growth		30.3%	30.6%	30.6%	33.3%	31.6%	
- Residential PM	7,251	9,130	11,363	14,423	17,997	22,602	26%
- Commercial PM	2,569	4,023	5,288	7,528	10,349	14,018	38%
- Community VAS	1,577	1,493	1,798	2,158	3,624	5,254	43%
- VAS for developers	1,693	2,363	3,065	3,400	4,028	4,595	14%
- Urban space integrated services	31	102	340	612	1,040	1,664	70%
- AIoT and BPaaS solution service	806	1,034	1,850	2,841	4,224	6,150	49%
Gross margin	**17.7%**	**18.5%**	**17.0%**	**16.8%**	**17.1%**	**17.3%**	
- Residential PM	9.5%	15.0%	11.1%	11.1%	11.1%	11.1%	
- Commercial PM	15.5%	14.3%	13.7%	13.7%	13.8%	13.8%	
- Community VAS	46.2%	41.6%	45.5%	43.5%	37.8%	35.9%	
- VAS for developers	28.1%	22.4%	19.5%	19.2%	18.5%	18.0%	
- Urban space integrated services	9.2%	14.0%	17.4%	17.4%	17.4%	17.4%	
- AIoT and BPaaS solution service	21.2%	24.6%	29.9%	30.8%	31.4%	31.2%	
Net profits (RMB mn)	**1,020**	**1,464**	**1,668**	**2,200**	**2,923**	**3,834**	32%
YoY growth		44%	14%	32%	33%	31.2%	
Net margin	7.3%	8.1%	7.0%	7.1%	7.1%	7.1%	

Source: Company data, CMBIGM estimates

Risk Reward Analysis

Figure 2: Bear and bull case

Scenarios	Key assumptions	Target PE Multiple	PT (HKD/share)	Upside (downsdie)
Bear case	1. COVID policy remains tight in 2023 2. Residential GFA and Commercial FM businesses expand slower than expected partly due to COVID policy and overall economy	10x 2023E PE	25	-25%
Base case	1. A gradual relaxation of COVID control in 2023 2. Residential GFA and Commercial FM businesses expand as planned	18x 2023E PE	50	40%
Bull case	1. China reopens with relaxation of COVID control 2. Residential GFA expansion in existing home market exceeds expectations and continues to gain market share 3. Commercial FM business benefits with overall economy revive and grows faster than expected	20x 2023E PE	60	70%

Source: Company data, CMBIGM estimates

Contents

Investment Thesis

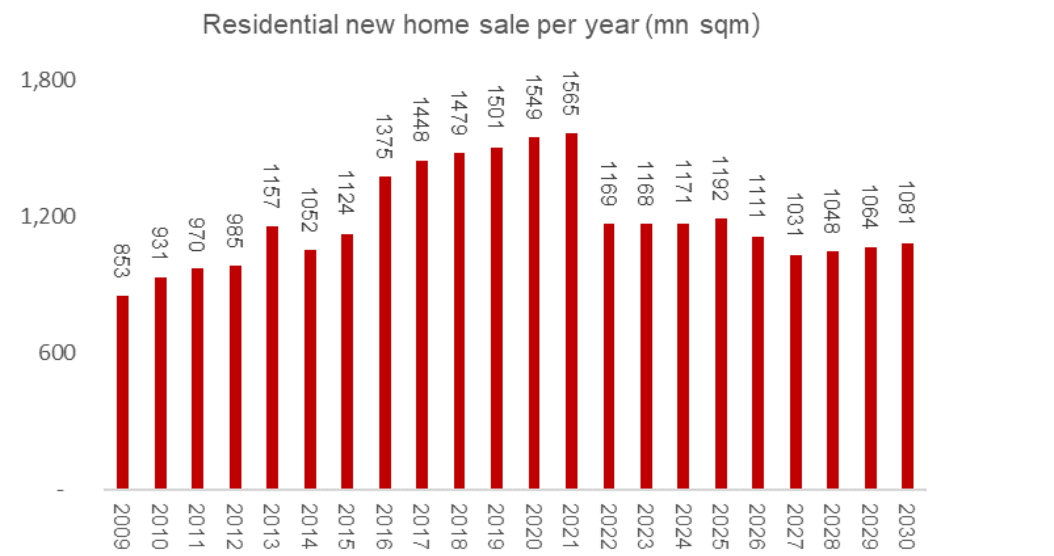
Onewo has dominant advantage of expanding in existing residential market to drive sustainable growths

■ **Existing home market becomes the main battlefield**

We think PM's third-party expansion would shift to existing home market as the PM demand from new home market is shrinking. This is mainly because 1) new home sales are declining very sharply at -30% YoY in 2022E to 1.2bn sq m and the trend is hard to be reverse due to the structural demand issue. 2) Home completion issue remains as rescue fund is not enough and more developers are at the edge of default or debt extension. The unfinished ratio was once as high as 20%.

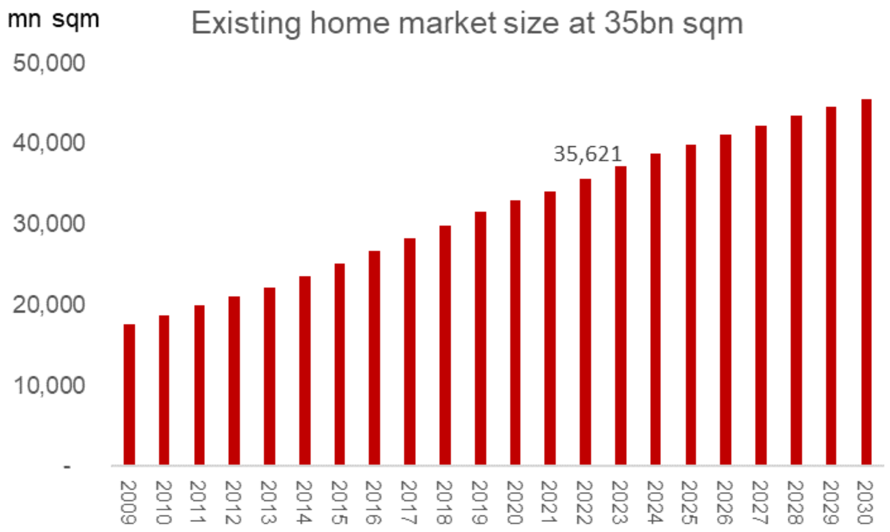
Therefore, the main battle has shifted to the existing home market, which is a market of 35bn sq m or RMB840bn management fee/year. Even if we only consider the projects that are <10 years old, the market size remains huge at 13bn sq m or RMB312bn management fee/year. The top 100 property management firms only take 5% market share of this market so the space remains quite open. Besides, as many developers and their PM are facing liquidity issue, the competition is further soothed while the demand for better PM firms is increasing, driven by the COVID epidemic.

Figure 3: New home market is shrinking



Source: NBS, CMBIGM estimates

Figure 4: Existing home market is huge and naturally growing



Source: NBS, CMBIGM estimates

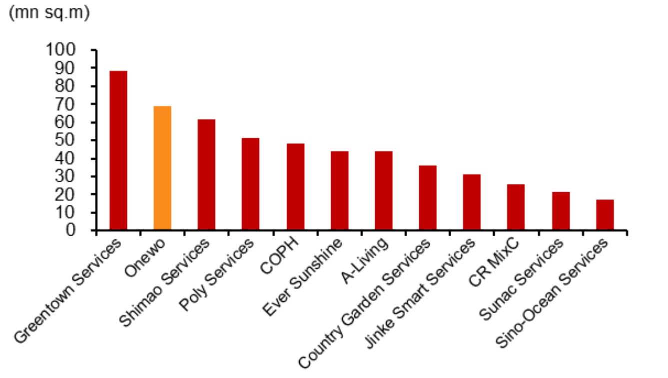
- **Onewo already has 50% of new projects from existing home market vs. industry average of 10% only**

Firstly, Onewo is famous for its third-party contacts winning ability backed by good service quality and brand reputation accumulated over the years - company is charging a monthly property management fee of RMB 3.1/ sq m which is higher than industry average of RMB 2.3/sq m (Top 500 PM companies in 2021). In 2021, company has 69mn sq m newly increased managed-GFA from third parties (excluding M&A) that ranked the top in the industry and this reflects its strong competitiveness in third-party contracts bidding.

Secondly, other than winning bidding of new projects, company is one of the first in the industry who has drilling skills on replacing contacts of existing projects. Company has about 50% (vs. the industry average of 10% and Poly/COPH even less than 10%) of its additional managed GFA derived from replacing contacts of existing projects which need more complex skills than bidding a new project, such as assisting property owners to set up committee, negotiation and legal process education to terminate the previous contacts, etc. These are the key abilities to expand in pool of existing projects.

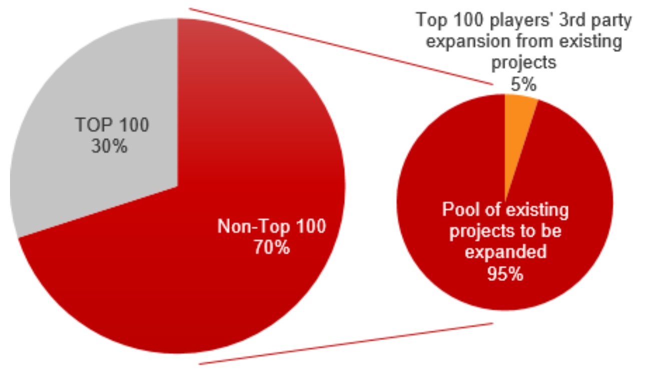
Therefore, we expect expansion within existing home market will drive its managed GFA growth in the future and widen the advantage over peers. It is estimated that Onewo will grow its managed GFA at 25% CAGR in 2021-24E.

Figure 5: New managed GFA from third parties in FY21



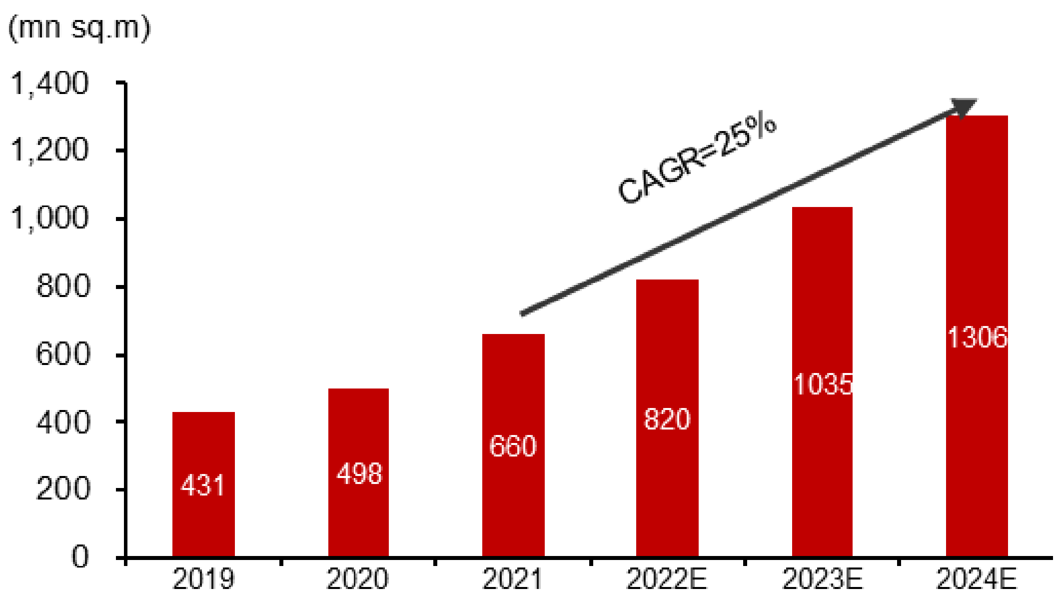
Source: Company data, CMBIGM estimates

Figure 6: The existing projects market



Source: Company data, CMBIGM estimates

Figure 7: Onewo will utilize its advantage to grow its managed residential GFA at 25% CAGR in 2021-24E



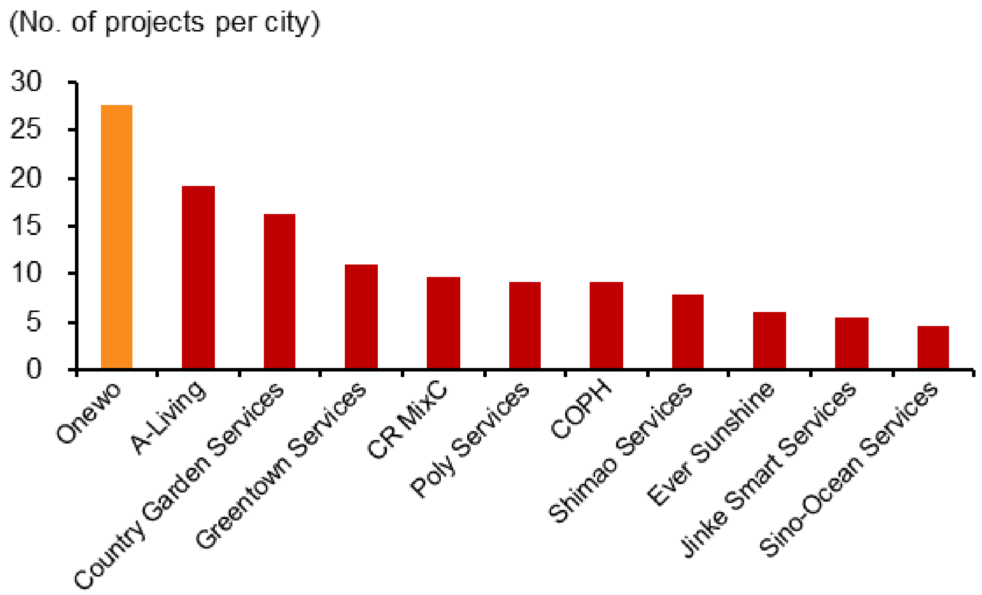
Source: NBS, CMBIGM estimates

- **The next step is to improve project density and implement Onewo town strategy for better margins.**

Company's "Onewo Town" strategy is good response to the future trend. From the view of "economies of scale", it is always better to manage large community. So the first step for Onewo is to increase the project density by expanding the surrounding area of existing projects. As we can see from Figure 8, Onewo has highest project density with about 28 projects distributed per city. The next step is to create the big community defined as sub-districts, covering >10k households, and the core value of the strategy is to build high-density and efficient service network among high-value sub districts for cost saving and better monetization. 3,409 out of 14,909 sub districts all over the mainland China have been targeted as high-value sub districts and 150 Onewo Town have been built as end of Jun-2022, as 4.4% of total pool. The number is expected to reach >180 at the end of FY22 according to the company.

In the mid-to-long term, we expect number of Onewo towns to reach 400 and they cover more than 50% of its managed GFA. By then it would help drive up the margin upside, not just by cost saving, but also by providing variable community VAS to the town residents at a larger scale.

Figure 8: No. of projects per city in FY21



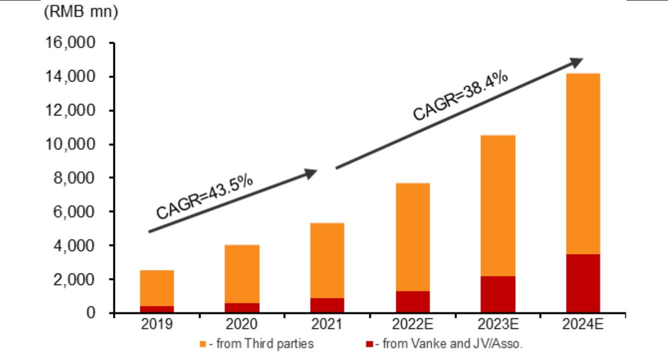
Source: Company data, CMBIGM estimates

Commercial PM: faster growth backed by large corporations

Revenue from commercial property service contributed c.25% of company's total revenue and delivered a CGGR of 44% from 2019 to 2021 and is expected to have a CAGR of 38% from 2021 to 2024E. The growth is mainly supported by company's strong penetration capability into facilities management (FM) of big corporates. As the leading brand, Cushman&Wakefiled Vanke Service already has 50% of office revenue from FM business including clients from internet, finance and high-end manufacturing.

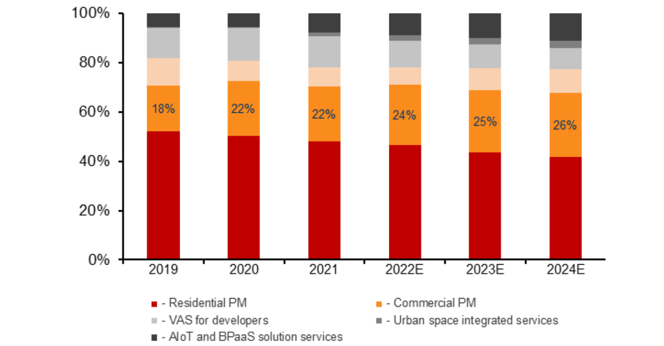
We expect this sub-segment to grow faster than traditional office management as 1) there is less competition because most large enterprises usually have their white list that only covers quality service providers including Onewo. 2) Service to large enterprise customers is less sensitive to the office vacancy as they mostly own entire office buildings. 3) Large enterprises have more diversified demand (such as reception service for corporate visits) that brings more VAS opportunities for Onewo to support both revenue and margins. Thus we expect commercial PM to become the main revenue driver in future years.

Figure 9: Revenue from commercial PM



Source: Company data, CMBIGM estimates

Figure 10: Revenue contribution of commercial PM



Source: Company data, CMBIGM estimates

Why market is overconcerned about Parentco reliance?

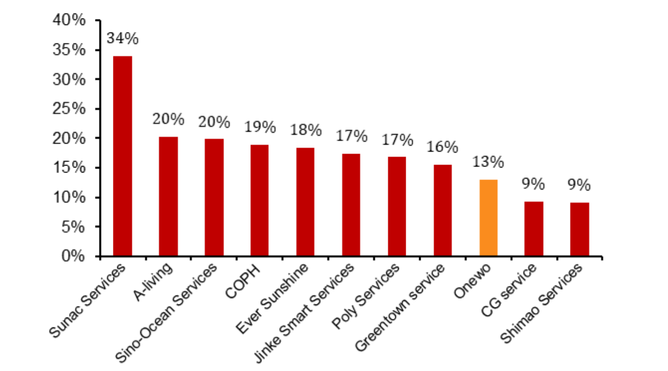
We think market is over concerned about Onewo's parentco Vanke. This is because

1. From connected transaction perspective, non-owner VAS only contributed 13%/10% of Onewo's total revenue. This is much lower than industry's average of 22% or SOE peers (COPH at 19% and Poly Services at 17%). Therefore, from this perspective, it is even of higher quality than its major peers.

2. From Parentco's stability, Vanke remains financially steady despite the sales growth slowdown that is in line with the market (Vanke's 10M22 sales -33% vs. industry -34%). As a Semi-SOE developer (Shenzhen Metro as its large shareholder), it enjoys the benefit of low funding rate at 3.7% and remains in the green category (Net debt to gearing at 20%, Cash/ST cash at 1.7x and asset to liability at 69.7%). So we think the default probability is rare in the property policy loosening cycle, especially towards developers with SOE backgrounds.

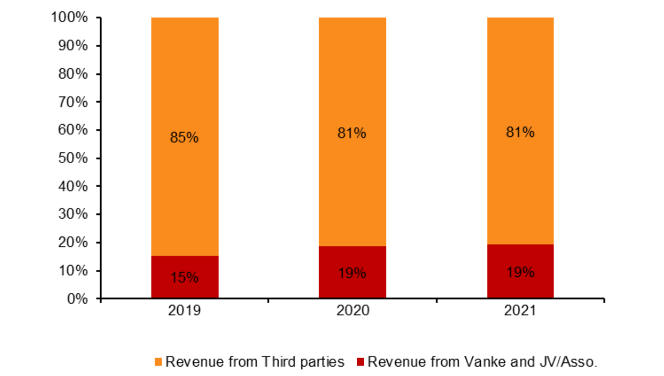
3. From growth perspective, Onewo (c.80% from third parties) is now largely dependent on its third-party expansion to drive the future earnings as argued above. So we think the reliance on Vanke is even smaller.

Figure 11: non-owner VAS as % of total (FY21)



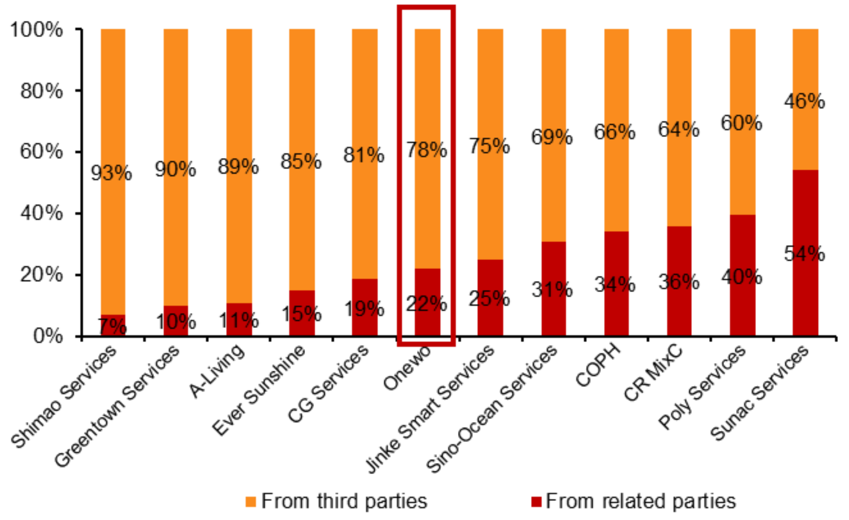
Source: Company data, CMBIGM estimates

Figure 12: Onewo's revenue source



Source: Company data, CMBIGM estimates

Figure 13: New-increased Managed GFA in FY21



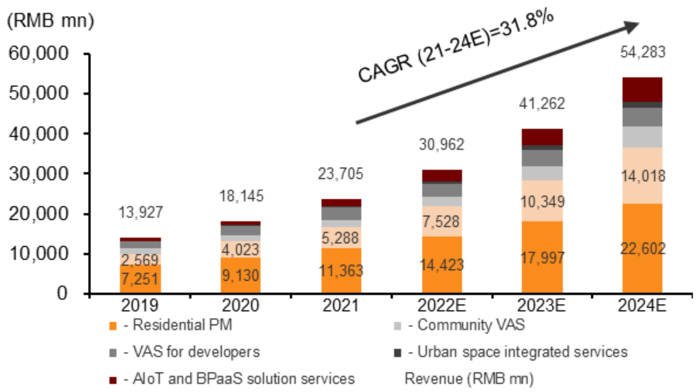
Source: Company data, CMBIGM estimates

Financials

A faster-than-peer growth rate to drive the rerating

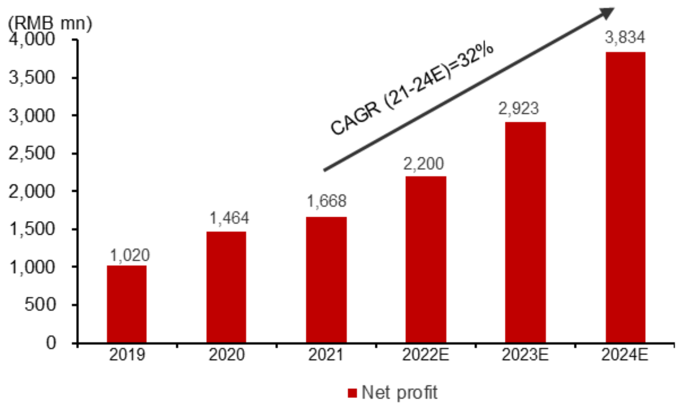
As argued above, we expect Onewo to deliver 32% revenue growth CAGR in 2021-24E, mainly driven by Commercial PM at 38%, Residential PM at 26% and SaaS at 49%. For the margin, we think it will be relatively stable at 17%/7% GPM and NPM as the investment in Onewo town would offset the margin upside from FM and other new businesses. However, the margin downside is also limited as it is already much lower than COPH and Poly Services' 9-10% NPM. In a nutshell, Onewo is estimated to see 32% CAGR in 2021-24E net profits, faster than COPH and Poly Services' 25-30%.

Figure 14: Revenue to grow at 32% CAGR in 21-24E



Source: Company data, CMBIGM estimates

Figure 15 Net profit attributable to shareholders to grow at 32% CAGR in 2021-24E



Source: Company data, CMBIGM estimates

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Target price and Catalysts

We derive our TP of HKD49.6/share by using 2023E EPS and 18x PE. The 18x multiple is based on COPH and Poly Services' 0.5x standard deviation below its historical average. The company is currently trading at 12x 2023E PE and thus we expect a 40% upside from a long-term perspective.

For the main catalysts, the keys are 1) relaxation of COVID restrictions. This would allow more business activities to carry including third-party expansion, community VAS and thus increasing the earnings visibility. 2) Better-than-guided 2022E earnings. As a newly-listed company, we think the first earnings release will be important to drive investors' confidence.

Figure 16 Our target price derivation

Price Target	
2023E EPS	2.48
HKDRMB rate	0.90
Target PE multiple	18 x
Price Target (HKD/share)	49.62

Source: Company data, CMBIGM estimates

Figure 17 Valuation comps

Company	Ticker	CMBI rating	TP (HK$)	Last price (HK$)	Mkt Cap (HK$ mn)	P/E 21A	P/E 22E	P/E 23E	Net profit growth (%) 22E	Net profit growth (%) 23E	Dividend Yield 21A	Dividend Yield 22E	Payout ratio 21A
Onewo	2602 HK	BUY	49.6	34.6	40,775	n.a.	16.7	12.6	31.9	32.8	n.a.	1.5%	n.a.
Country Garden Services	6098 HK	BUY	47.6	10.4	34,946	6.9	6.0	4.7	16.2	26.2	3.5%	4.1%	24%
CR MixC Lifestyle	1209 HK	BUY	44.3	28.9	65,964	32.7	26.9	20.8	17.0	29.3	1.2%	1.3%	38%
A-Living	3319 HK	HOLD	34.2	5.8	8,250	2.7	3.3	2.8	-10.2	16.3	8.5%	7.1%	23%
Greentown Services	2869 HK	BUY	7.9	4.1	13,390	14.2	13.3	10.4	-6.4	27.4	4.9%	3.7%	69%
Ever Sunshine	1995 HK	HOLD	12.7	2.6	4,486	5.8	5.1	3.9	16.9	29.3	5.1%	5.6%	29%
Poly Services	6049 HK	HOLD	53.4	34.2	18,924	18.7	16.1	12.7	15.1	26.4	1.1%	1.2%	20%
S-Enjoy	1755 HK	SELL	8.5	5.1	4,406	5.8	5.5	4.0	31.1	30.6	3.7%	6.0%	21%
Powerlong Commercial	9909 HK	BUY	33.2	3.2	2,083	3.8	3.4	2.8	8.5	13.0	9.3%	11.7%	35%
Excellence CM	6989 HK	BUY	14.9	2.5	3,039	4.9	3.4	2.5	33.5	33.8	14.5%	14.6%	71%
Central Chin.a. New Life	9983 HK	BUY	12.9	2.6	3,311	4.0	4.4	3.9	-7.8	13.6	12.9%	14.9%	51%
Sino-Ocean Services	6677 HK	BUY	7.1	1.7	2,048	3.7	3.4	2.6	8.1	28.1	6.5%	11.8%	24%
New Hope Services	3658 HK	BUY	4.4	1.0	782	3.2	1.9	n.a.	83.5	n.a.	9.0%	12.9%	29%
Redsun Services	1971 HK	BUY	9.4	2.8	1,150	7.2	5.2	4.0	41.2	32.2	n.a.	n.a.	n.a.
Evergrande Services	6666 HK	BUY	10.4	2.3	24,865	7.9	5.2	3.9	21.9	32.8	n.a.	n.a.	n.a.
Sun.a.c Services	1516 HK	BUY	7.0	1.8	5,411	2.9	15.9	3.3	-143.9	n.a.	8.4%	0.0%	24%
Jinmao Service	816 HK	HOLD	5.5	2.7	2,477	9.3	5.6	4.1	92.8	44.9	n.a.	n.a.	n.a.
COPH	2669 HK	NR	n.a.	6.0	19,721	20.0	15.5	12.0	29.8	29.2	1.5%	2.0%	30%
Times Neighborhood	9928 HK	NR	n.a.	0.4	409	1.1	2.9	1.6	-61.4	78.5	13.6%	3.9%	15%
Aoyuan Healthy Life	3662 HK	NR	n.a.	1.9	1,351	4.8	2.0	1.6	41.3	31.2	n.a.	n.a.	n.a.
Shimao Services	873 HK	NR	n.a.	1.8	4,418	3.2	9.6	4.3	-64.8	78.9	n.a.	n.a.	n.a.
KWG Living	3913 HK	NR	n.a.	1.0	2,006	2.5	2.7	2.3	-10.1	16.9	14.6%	10.4%	36%
Jinke Smart Services	9666 HK	NR	n.a.	11.7	7,625	6.0	8.3	6.9	-34.9	15.3	6.7%	3.7%	40%
Average						**13.9**	**14.4**	**10.9**	**13.2**	**28.7**	**2.5%**	**2.6%**	**24.7%**

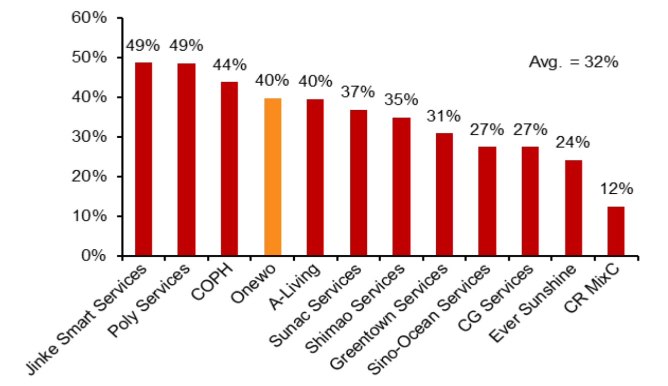
Source: Company data, CMBIGM estimates

Risks

Recivables and goodwill place strain on profits

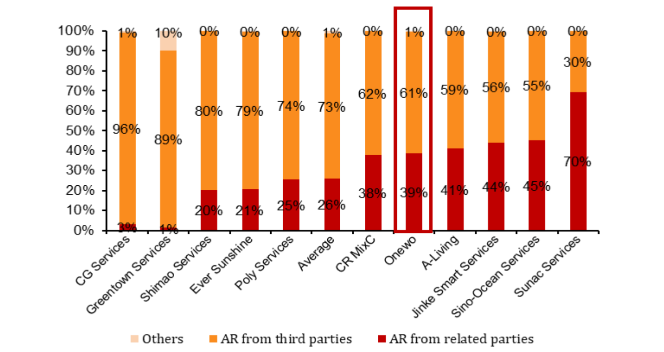
Company's trade receivables reached RMB 6.5bn in 1H22 and it accounted for 40% of the total assets, higher than 32% of the peers' average implying the risk against generating healthy cash flow. 39% trade receivables are from related parties that mainly derived from business of sales assistance and commercial PM service with contacts having longer duration, also collection rate for commercial projects were slightly impacted by COVID-19 in 1H22. 61% due from third parties in which c. 50% from developers and 50% from property owners.

Figure 18: AR as % of total assets in 1H22



Source: Company data, CMBIGM estimates

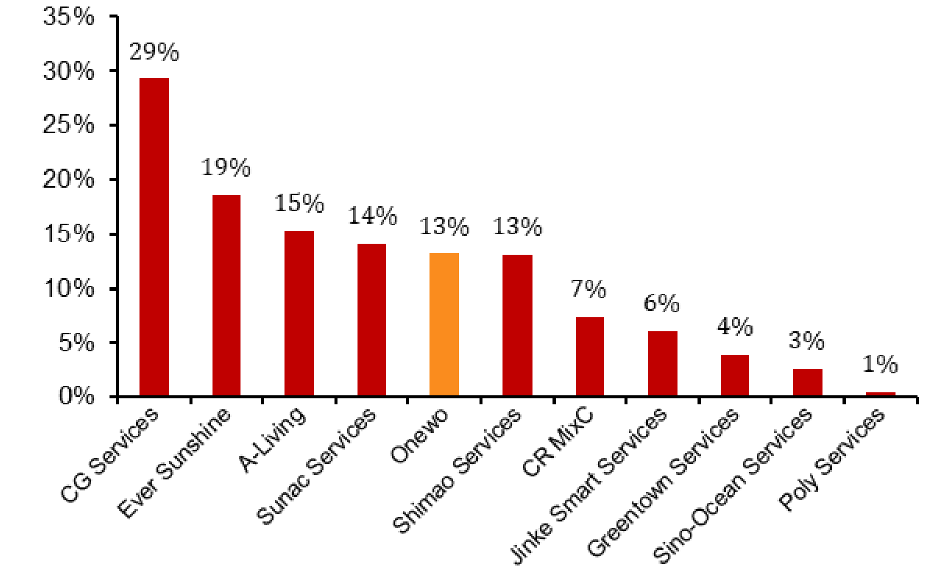
Figure 19: AR structure by source in 1H22



Source: Company data, CMBIGM estimates

Company's goodwill accumulated by M&A activities takes 13% of total assets in 1H22 which is in line with the industry average but company states to use more prudent principle and adopt a 10-yr life cycle for goodwill impairment that will impose much pressure on company's profit. Besides, M&A will still be a choice to support company's scale expansion and "Onewo town" strategy thus we believe goodwill will stay as a burden to profitability.

Figure 20: Goodwill as % of total assets in 1H22



Source: Company data, CMBIGM

We noticed that the company's impairment losses eroded about 4% of FY21 net profit, and is likely to take up to 9% of FY22E net profits if we adopt the same impairment principle and assume a 30% growth rate for net profit in 2022. The impairment impact looks lower than Greentown Services but higher than other SOEs.

Figure 21: Impairment impact on net profit

	Impairment loss as % of NP (annualized)		
	FY21	1H22	FY22E as % of FY22E NP
Onewo	4%	10%	9%
COPH	2%	4%	4%
CR MixC	0%	n.a.	0%
Poly Services	4%	2%	9%
Greentown Services	11%	12%	18%

Source: Company data, CMBIGM estimates

Company Overview

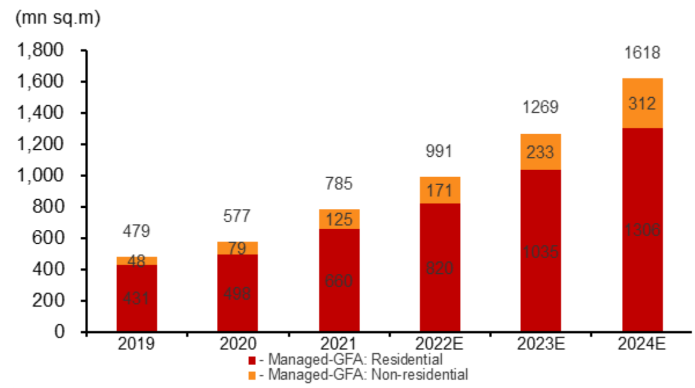
Onewo is a leading property management service provider in China that has expanded its business beyond property management services with growth model built upon the synergy of businesses across community, commercial and urban spaces, serving a diverse array of properties such as residential communities, workspaces and public premises. Leveraging R&D investments, the company has developed AIoT and BPaaS solutions aiming to digitalize workflows, mobilize resources and improve efficiency of the spaces under its coverage. The Company has gradually built diversified service brands under each business segment over the past 30 years.1) For broader residential PM services - community space living consumption services, the Company is running under brands of "Vanke Service (万科物业), Pulin (朴邻) and Onewo (万物云)".2) For commercial and unban space integrated services, operation is mainly under "Cushman & Wakefield Vanke Service (万物梁行) and City Up (万物云城)".3) For AIoT and BPaaS solution services, the Company has brands of "Vanrui IntelliTech (万睿科技), Xiangying. Enterprise Service (祥盈企服) and The Fifth Space (第五空间)".

Figure 22: business model

Source: Company data

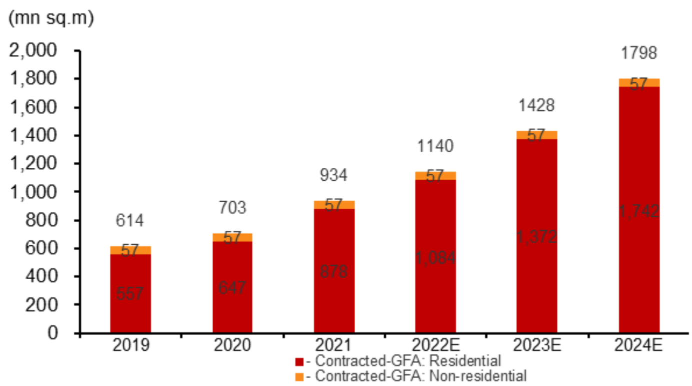
As of 31 Dec 2021, the total contracted area under management of the Group (including residential and commercial) was approximately 1,014 mn sq m, and the area under management was approximately 785 mn sq m. On 29 Sep 2022, Onewo was successfully listed on the Main Board of the Stock Exchange of Hong Kong.

Figure 23: Managed-GFA by property type



Source: Company data, CMBIGM estimates

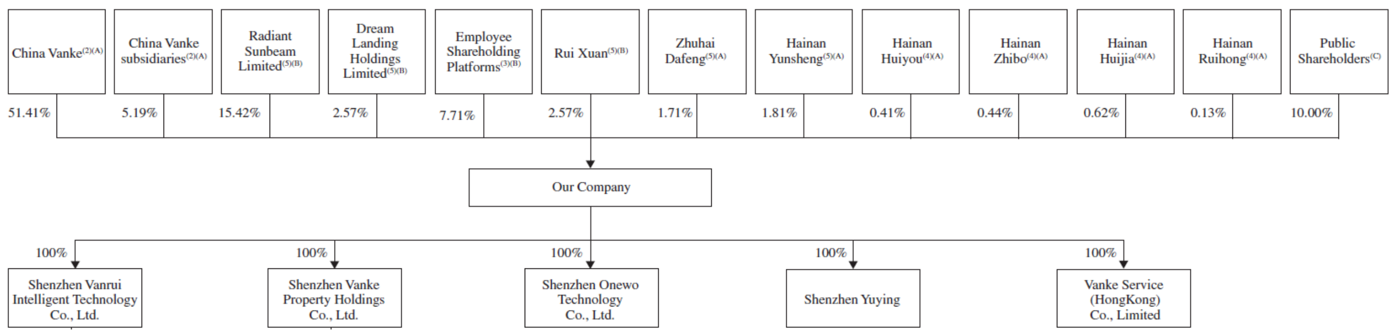
Figure 24: Contracted-GFA by property type



Source: Company data, CMBIGM estimates

Its parentco China Vanke (who owns 57% of the listco) was the leading developer in China in terms of sales and has recorded contracted sales of RMB628bn in 2021. According to the disclosure of the company, as of end-2021, the company has 49% of managed-GFA of residential projects and 17% of managed-GFA of commercial projects were generated from Vanke and its related parties. As to total revenue, the company has 19.2% of total revenue from parentco in 2021.

Figure 25: Shareholding structure after IPO



Source: Company data

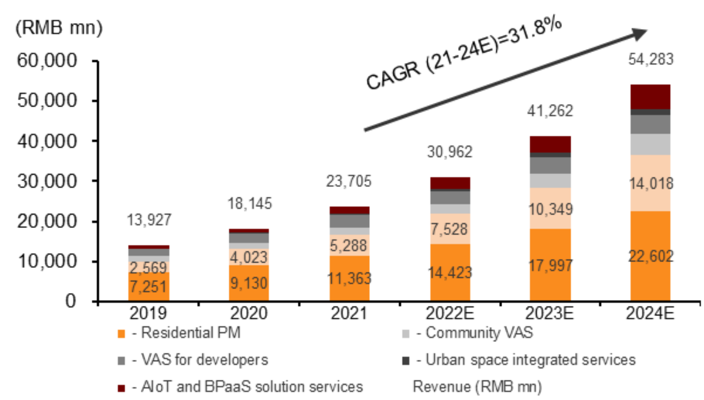
Notes: "Our Company" in the chart denotes "Onewo"

Financial Analysis

Revenue to grow at 32% CAGR in 2021-24E

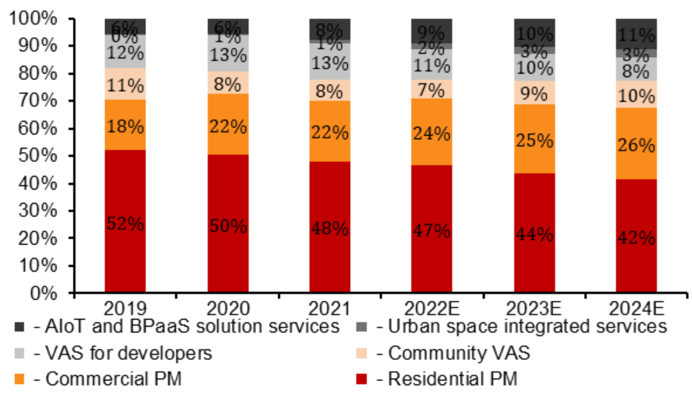
Thanks to robust GFA growth in both residential and commercial PM, revenue is set to grow at 31.8% CAGR from RMB23,705mn in 2021 to RMB54,283mn in 2024E. We expect basic residential PM services and commercial space PM services to be major growth drivers, and expect segment revenue CAGR of 26% and 38%, respectively, in 2021-24E.

Figure 26: Revenue to grow at 32% CAGR in 21-24E



Source: Company data, CMBIGM estimates

Figure 27: Revenue mix

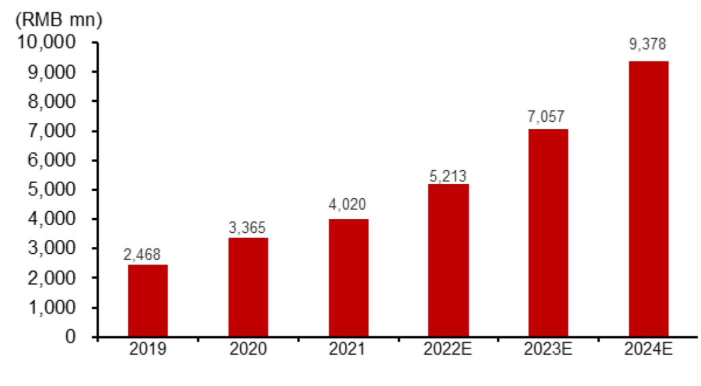


Source: Company data, CMBIGM estimates

Gross profit margin to decline in 2022 and recover in 2023/24E

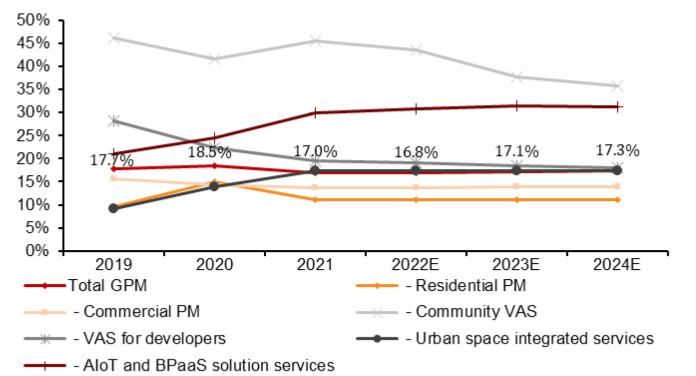
Gross profit was RMB3,365mn and RMB4,020mn in 2020 and 2021 and the corresponding gross margin was 18.5% and 17.0%, respectively. Going forward, we expect GPM to slightly contract to 16.8% in 2022E owing to COVID-19 impact and recover to 17.1-17.3% in 2022E/23E, respectively.

Figure 28: Gross profit



Source: Company data, CMBIGM estimates

Figure 29: Segment gross margin



Source: Company data, CMBIGM estimates

SG&A expenses

Selling, General and Administrative (SG&A) expenses increased from RMB1,529mn in 2020 to RMB2,049mn in 2021. The rise in SG&A expenses was in line with the expansion of the Company's business scale. SG&A expenses to revenue ratio was at 8.6% at the end of 2021. We expect SG&A expenses/revenue to remain stable each year since the company is at the early stage of "Onewo Town strategy".

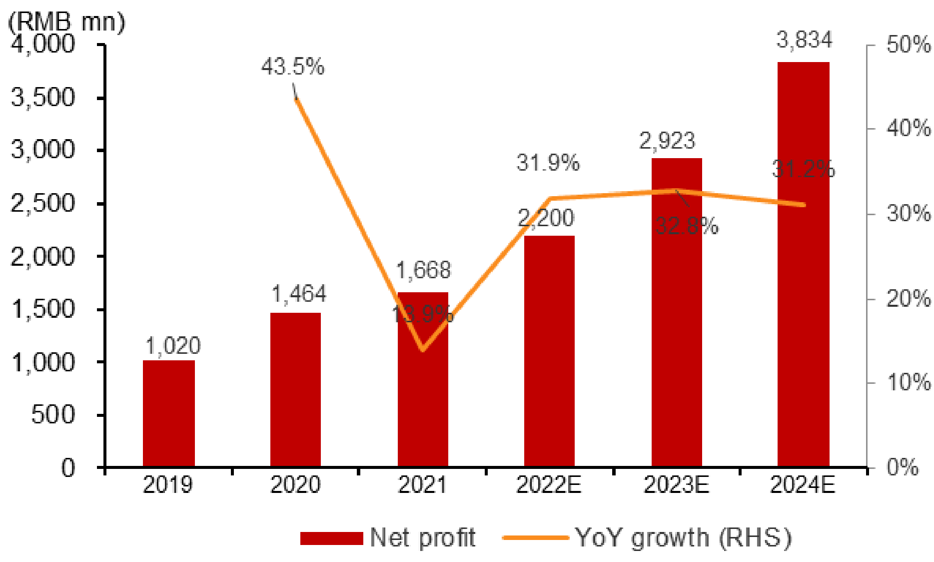
Estimated net profit attributable to shareholders to grow at 32% CAGR in 2021-24E

Net attributable profit amounted to RMB1,464mn/1,668mn in 2020/2021, respectively. The corresponding net profit margin (attributed to shareholders) was 8.1%/7.0%, respectively. Going forward, we expect net profit to increase by 32% CAGR in 2021-24E, in line with revenue growth, to RMB3,834 mn in 2024E with net margin remaining steady at 7.1% by 2024E.

Strong operating cash flow to support investment in “Onewo Town”

Cash on hand was RMB6,431mn in 2021 and with annual operating cash flow to generate RMB1.3-2.1bn in 2022-2024E, we believe the Company’s cash level is able to support further investment in “Onewo Town” to achieve synergistic operation among residential, commercial and urban space by improving density of managed-properties in early stage.

Figure 30: Net profit attributable to shareholders



Source: Company data, CMBIGM estimates

Valuation

Figure 31: Valuation comps (as of 8/11/2022)

Company	Ticker	CMBI rating	TP (HK$)	Last price (HK$)	Mkt Cap (HK$ mn)	P/E 21A	P/E 22E	P/E 23E	Net profit growth (%) 22E	Net profit growth (%) 23E	Dividend Yield 21A	Dividend Yield 22E	Payout ratio 21A
Onewo	2602 HK	BUY	49.6	34.6	40,775	n.a.	16.7	12.6	31.9	32.8	n.a.	1.5%	n.a.
Country Garden Services	6098 HK	BUY	47.6	10.4	34,946	6.9	6.0	4.7	16.2	26.2	3.5%	4.1%	24%
CR MixC Lifestyle	1209 HK	BUY	44.3	28.9	65,964	32.7	26.9	20.8	17.0	29.3	1.2%	1.3%	38%
A-Living	3319 HK	HOLD	34.2	5.8	8,250	2.7	3.3	2.8	-10.2	16.3	8.5%	7.1%	23%
Greentown Services	2869 HK	BUY	7.9	4.1	13,390	14.2	13.3	10.4	-6.4	27.4	4.9%	3.7%	69%
Ever Sunshine	1995 HK	HOLD	12.7	2.6	4,486	5.8	5.1	3.9	16.9	29.3	5.1%	5.6%	29%
Poly Services	6049 HK	HOLD	53.4	34.2	18,924	18.7	16.1	12.7	15.1	26.4	1.1%	1.2%	20%
S-Enjoy	1755 HK	SELL	8.5	5.1	4,406	5.8	5.5	4.0	31.1	30.6	3.7%	6.0%	21%
Powerlong Commercial	9909 HK	BUY	33.2	3.2	2,083	3.8	3.4	2.8	8.5	13.0	9.3%	11.7%	35%
Excellence CM	6989 HK	BUY	14.9	2.5	3,039	4.9	3.4	2.5	33.5	33.8	14.5%	14.6%	71%
Central Chin.a. New Life	9983 HK	BUY	12.9	2.6	3,311	4.0	4.4	3.9	-7.8	13.6	12.9%	14.9%	51%
Sino-Ocean Services	6677 HK	BUY	7.1	1.7	2,048	3.7	3.4	2.6	8.1	28.1	6.5%	11.8%	24%
New Hope Services	3658 HK	BUY	4.4	1.0	782	3.2	1.9	n.a.	83.5	n.a.	9.0%	12.9%	29%
Redsun Services	1971 HK	BUY	9.4	2.8	1,150	7.2	5.2	4.0	41.2	32.2	n.a.	n.a.	n.a.
Evergrande Services	6666 HK	BUY	10.4	2.3	24,865	7.9	5.2	3.9	21.9	32.8	n.a.	n.a.	n.a.
Sun.a.c Services	1516 HK	BUY	7.0	1.8	5,411	2.9	15.9	3.3	-143.9	n.a.	8.4%	0.0%	24%
Jinmao Service	816 HK	HOLD	5.5	2.7	2,477	9.3	5.6	4.1	92.8	44.9	n.a.	n.a.	n.a.
COPH	2669 HK	NR	n.a.	6.0	19,721	20.0	15.5	12.0	29.8	29.2	1.5%	2.0%	30%
Times Neighborhood	9928 HK	NR	n.a.	0.4	409	1.1	2.9	1.6	-61.4	78.5	13.6%	3.9%	15%
Aoyuan Healthy Life	3662 HK	NR	n.a.	1.9	1,351	4.8	2.0	1.6	41.3	31.2	n.a.	n.a.	n.a.
Shimao Services	873 HK	NR	n.a.	1.8	4,418	3.2	9.6	4.3	-64.8	78.9	n.a.	n.a.	n.a.
KWG Living	3913 HK	NR	n.a.	1.0	2,006	2.5	2.7	2.3	-10.1	16.9	14.6%	10.4%	36%
Jinke Smart Services	9666 HK	NR	n.a.	11.7	7,625	6.0	8.3	6.9	-34.9	15.3	6.7%	3.7%	40%
Average						**13.9**	**14.4**	**10.9**	**13.2**	**28.7**	**2.5%**	**2.6%**	**24.7%**

Source: Company data, CMBIGM estimates

Financial Summary

Income statement

YE Dec 31 (Rmb mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	**18,145**	**23,705**	**30,962**	**41,262**	**54,283**
Residential PM	9,130	11,363	14,423	17,997	22,602
Commercial PM	4,023	5,288	7,528	10,349	14,018
Community VAS	1,493	1,798	2,158	3,624	5,254
VAS for developers	2,363	3,065	3,400	4,028	4,595
Urban space services	102	340	612	1,040	1,664
AIoT and BPaaS solution	1,034	1,850	2,841	4,224	6,150
Cost of sales	(14,781)	(19,685)	(25,749)	(34,204)	(44,905)
Gross profit	**3,365**	**4,020**	**5,213**	**7,057**	**9,378**
Other income	**371**	**417**	**432**	**422**	**422**
Selling expenses	(166)	(257)	(336)	(448)	(589)
Administrative expenses	(1,363)	(1,792)	(2,340)	(3,119)	(4,103)
Other expenses	(139)	(92)	(10)	(10)	(10)
Operating profit	**2,067**	**2,297**	**2,959**	**3,902**	**5,097**
Share from JCE	56	34	46	66	86
Finance cost	(14)	(10)	(9)	(9)	(9)
Pre-tax profit	**2,109**	**2,320**	**2,995**	**3,959**	**5,174**
Income tax	(590)	(606)	(749)	(990)	(1,293)
Profit for the year	**1,519**	**1,714**	**2,247**	**2,969**	**3,880**
Non-controlling interest	(55)	(47)	(47)	(47)	(47)
Net profit to shareholders	**1,464**	**1,668**	**2,200**	**2,923**	**3,834**

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	**2,109**	**2,320**	**2,995**	**3,959**	**5,174**
D&A	214	395	556	646	736
Change in working capital	725	784	(468)	(609)	(741)
Income tax paid	(366)	(496)	(749)	(990)	(1,293)
Others	(124)	(170)	(147)	(187)	(227)
Net cash fr. operating act.	**2,557**	**2,834**	**2,187**	**2,820**	**3,649**
Capex & investments	(408)	(285)	(580)	(680)	(780)
Others	(1,542)	804	110	130	150
Net cash fr. investing act.	**(1,950)**	**519**	**(470)**	**(550)**	**(630)**
Equity raised	-	-	5,502	-	-
Change of Debts	5	(18)	-	-	-
Dividend paid	(318)	(2,243)	(461)	(731)	(958)
Others	(78)	(58)	(9)	(9)	(9)
Net cash fr. financing act.	**(390)**	**(2,319)**	**5,032**	**(740)**	**(968)**
Net change in cash	**216**	**1,033**	**6,749**	**1,530**	**2,052**
Cash at the beginning of the	5,185	5,398	6,431	13,180	14,710
Exchange difference	(4)	(0)	-	-	-
Cash at the end of the	**5,398**	**6,431**	**13,180**	**14,710**	**16,762**

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	**6,796**	**15,016**	**15,086**	**15,186**	**15,316**
Fixed asset	358	501	661	831	1,011
Goodwill	80	3,700	3,700	3,700	3,700
Other intangible assets	503	4,544	4,364	4,184	4,004
Prepayments	2,043	1,992	1,992	1,992	1,992
Others	3,812	4,279	4,369	4,479	4,608
Current assets	**12,208**	**13,708**	**21,288**	**24,268**	**28,002**
Cash	5,398	6,431	13,180	14,710	16,762
Account receivable	3,021	4,514	5,264	6,602	8,142
Prepayments	1,495	1,698	1,698	1,698	1,698
Other current assets	2,294	1,066	1,146	1,259	1,401
Total Assets	**19,004**	**28,724**	**36,374**	**39,454**	**43,318**
Current liabilities	**11,512**	**16,282**	**16,643**	**17,485**	**18,427**
Account payables	2,605	3,243	3,605	4,447	5,389
Contract liabilities	3,546	4,168	4,168	4,168	4,168
Other	5,361	8,871	8,871	8,871	8,871
Non-current liabilities	**927**	**2,130**	**2,130**	**2,130**	**2,130**
Borrowings	11	4	4	4	4
Deferred tax liabilities	68	1,088	1,088	1,088	1,088
Others	848	1,038	1,038	1,038	1,038
Total Liabilities	**12,439**	**18,412**	**18,773**	**19,615**	**20,557**
Shareholders' equity	**6,255**	**9,893**	**17,134**	**19,326**	**22,202**
Non-controlling interests	310	419	466	512	559
Total Equity	**6,565**	**10,313**	**17,600**	**19,839**	**22,761**

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Residential PM	50.3	47.9	46.6	43.6	41.6
Commercial PM	22.2	22.3	24.3	25.1	25.8
Community VAS	8.2	7.6	7.0	8.8	9.7
VAS to developers	13.0	12.9	11.0	9.8	8.5
Urban space services	0.6	1.4	2.0	2.5	3.1
AIoT and BPaaS solution	5.7	7.8	9.2	10.2	11.3
Total	**100.**	**100.0**	**100.0**	**100.0**	**100.0**
P&L ratios (%)					
Gross margin	18.5	17.0	16.8	17.1	17.3
Operating margin	11.4	9.7	9.6	9.5	9.4
Net margin	8.1	7.0	7.1	7.1	7.1
Effective tax rate	28.0	26.1	25.0	25.0	25.0
Growth (%)					
Revenue	30.3	30.6	30.6	33.3	31.6
Gross profit	36.3	19.5	29.7	35.4	32.9
Net profit	43.5	13.9	31.9	32.8	31.2
Balance sheet ratios					
Current ratio (x)	1.1	0.8	0.9	1.1	1.2
Receivable turnover days	61	70	62	58	55
Returns (%)					
ROE	23.4	16.9	18.9	21.1	23.0
ROA	7.7	5.8	7.1	8.6	10.1
Per share					
EPS (RMB)	1.46	1.65	1.87	2.48	3.25
DPS (RMB)	0.32	3.49	0.47	0.62	0.81
BVPS (RMB)	5.98	2.04	3.42	5.48	8.11

Source: Company data, CMBIGM estimates

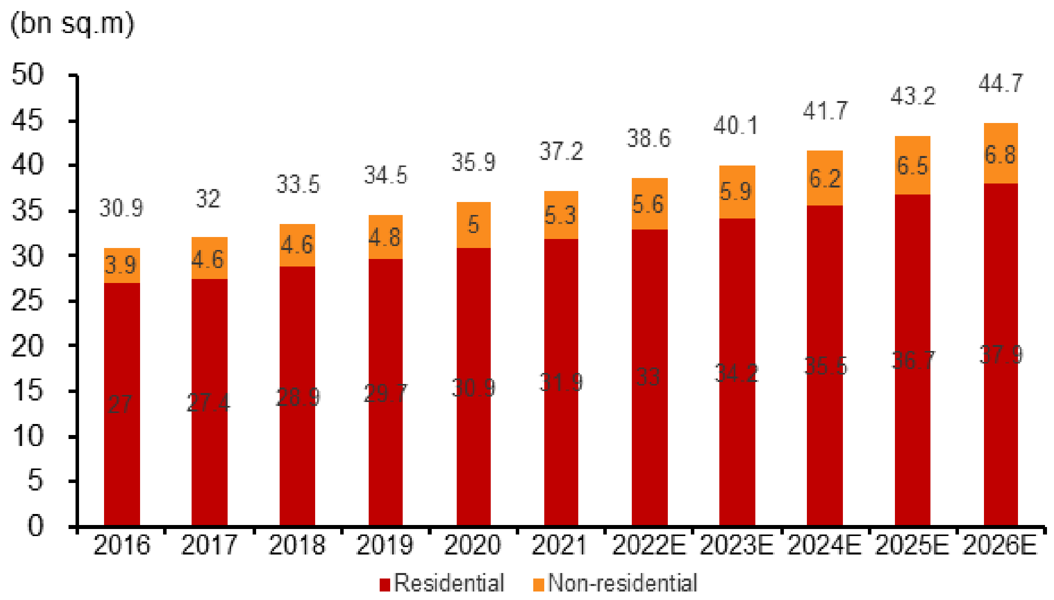
Industry overview

Market size of China PM industry

The property management industry in China has been developing for nearly 40 years and the market is highly fragmented with around 110,000 participants as of end-2021. According to Frost & Sullivan, the total GFA under management by China PM companies increased from 30.9 bn sq.m. in 2016 to 37.2 bn sq.m. in 2021, representing an overall CAGR of 3.8%. The total GFA under management of residential properties in China reached 31.9 bn sq.m. in 2021, representing an overall CAGR of 3.4% from 2016 to 2021, and the total GFA under management of non-residential properties reached 5.3 bn sq.m. in 2021, representing an overall CAGR of 6.3% from 2016 to 2021. In 2026, the total GFA under management is expected to reach 44.7 bn sq.m., representing an overall CAGR of 3.7% from 2021 to 2026.

Figure 32: Managed GFA by China PM companies, (2016-2026E)

	CAGR (2016-2021)	CAGR (2021-2026E)
Non-residential	6.3%	5.1%
Residential	3.4%	3.5%
Total	**3.8%**	**3.7%**

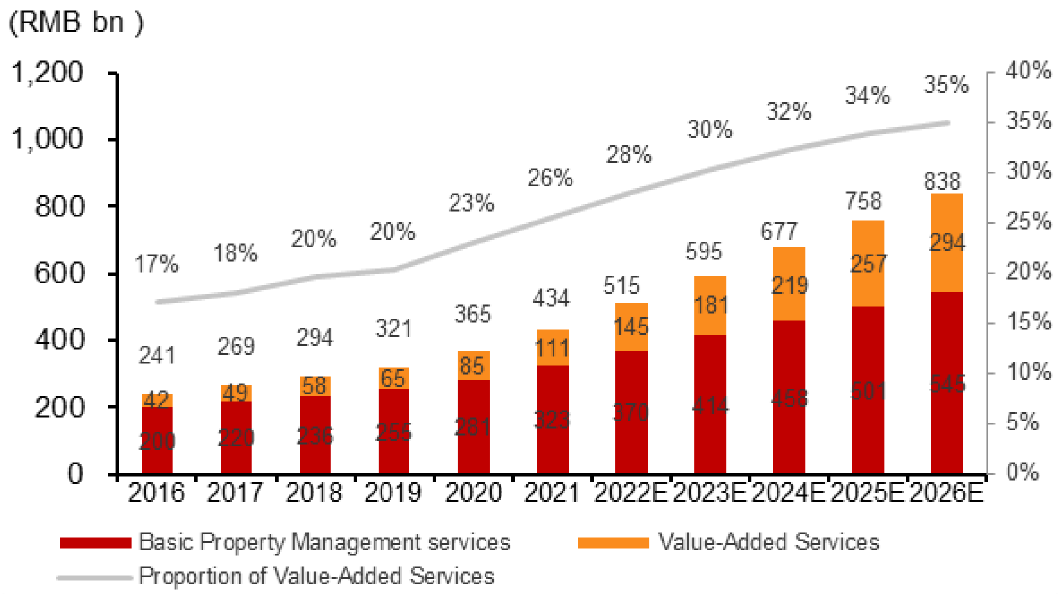


Source: Company data, CMBIGM

Most China PM companies generated revenue from basic property management services, which accounted for approximately 74.4% in 2021. In recent years, property management services companies have been seeking to diversify their services and revenue streams. With the increasing diversification of services, the total revenue of value-added services provided by these companies has grown from RMB41.5 bn in 2016 to RMB111.1 bn in 2021, representing an overall CAGR of 21.8%, and is expected to reach RMB293.5 bn in 2026, representing an overall CAGR of 21.4% from 2021 to 2026. From 2016 to 2021, the proportion of value-added services in the total revenue of property management services increased from 17.2% to 25.6% and is expected to reach 35.0% in 2026.

Figure 33: China PM companies' revenue by service type (2016-2026E)

	CAGR (2016-2021)	CAGR (2021-2026E)
Value-Added Services	21.8%	14.1%
Basic Property Management services	10.1%	11.0%
Total	**12.4%**	**21.4%**



Source: Frost & Sullivan, CMBIGM

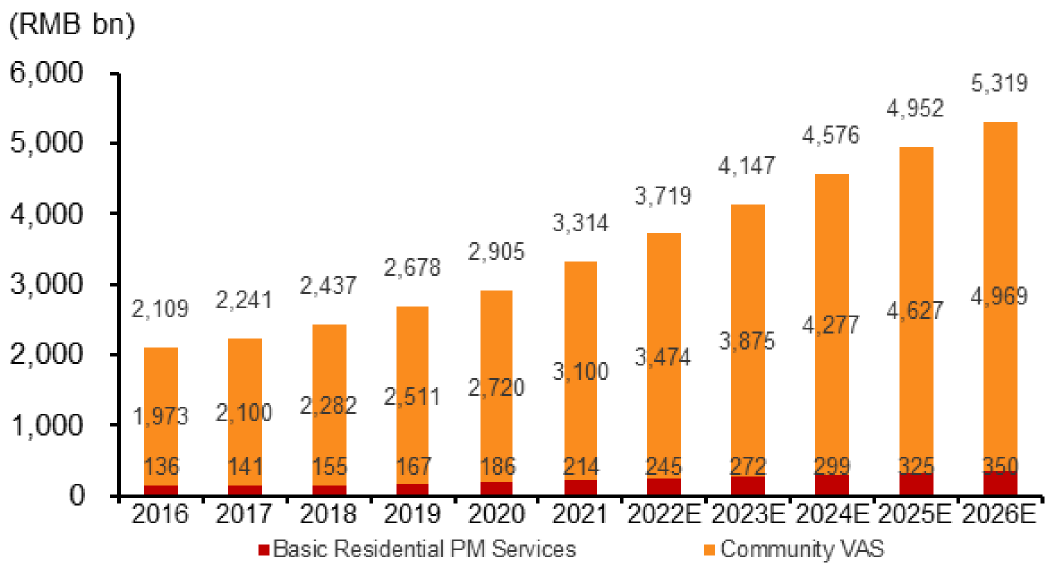
Residential - Community space living consumption service

The broader residential PM service market, also known as the community space living consumption services market, mainly includes: (i) basic residential property management services covering repair and maintenance, gardening, cleaning and security services. (ii) community value-added services including home-related asset services containing home sale and rental brokerage services and home redecoration and furnishing services, other community value-added services mainly include common area operation services, carpark space sales assistance services, electromechanical device maintenance services and others.

According to Frost & Sullivan, the total revenue of China's community space living consumption services market has increased from RMB2,109.3 bn in 2016 to RMB3,313.9 bn in 2021, representing an overall CAGR of 9.5%. It is expected to reach RMB5,319.2 bn in 2026, representing an overall CAGR of 9.9% for the period from 2021 to 2026. Within the community space living consumption services market, the total revenue of basic residential property management services has increased from RMB135.9 bn in 2016 to RMB213.6 bn in 2021, representing a CAGR of 9.5%. It is expected to reach RMB350.1 bn in 2026, representing a CAGR of 10.4% from 2021 to 2026. The total revenue of community value-added services has increased from RMB1,973 bn in 2016 to RMB3,100 bn in 2021, representing an overall CAGR of 9.5%. It is expected to reach RMB4,969 bn in 2026, representing a CAGR of 9.9% from 2021 to 2026.

Figure 334: Revenue of China broader residential PM market (2016-2026E)

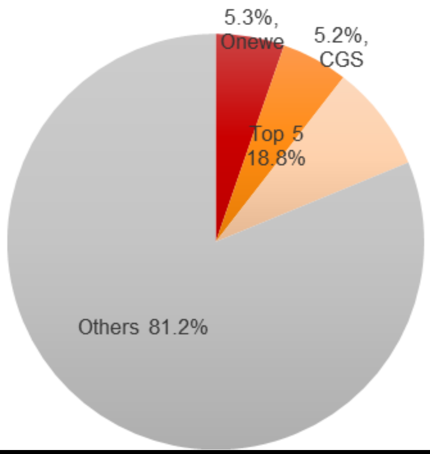
	CAGR (2016-2021)	CAGR (2021-2026E)
Basic Residential PM services	9.5%	10.4%
Community VAS	9.5%	9.9%
Total	**9.5%**	**9.9%**



Source: Frost & Sullivan, CMBIGM

According to Frost & Sullivan, the total revenue of China's basic residential property management services market reached RMB213.6 bn in 2021 with the top five service providers contributing approximately 18.77% market share in terms of revenue in 2021. In 2021, Onewo Inc. ranked first in China's basic residential property management services market in terms of revenue, and secured a market share of 5.32%.

Figure 35: Market Share of Basic residential PM

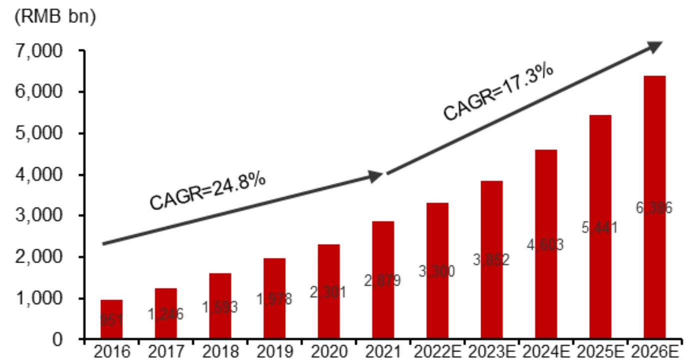


Source: Company data, CMBIGM

Non - residential: Commercial Space + Urban Space

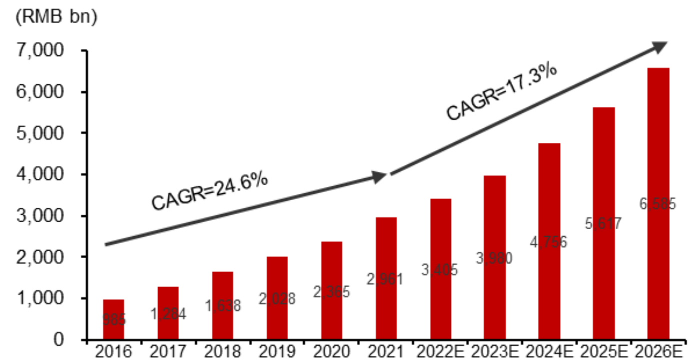
Commercial space integrated services offer two types of services including: (i) property and facility management services (PFM), or basic commercial PM services, mainly covering security services, cleaning services greening services, facility operation and maintenance, environment, health and safety management, integrated administrative support, event support and concierge services; and (ii) value-added services for developers, which include services such as pre-delivery services, building renovation and maintenance services and sales center and model room. According to Frost & Sullivan, following the continuous expansion of commercial space and service scopes and the consciousness of related service outsourcing (especially administrative outsourcing), the property and facility management (PFM) services market in China is expected to maintain rapid growth in the next five years. The PFM market is expected to reach RMB6,385.7 bn in 2026 with a CAGR of 17.3% from 2021 to 2026

Figure 36: Revenue of basic commercial PM services in China (2016-2026E)



Source: Frost & Sullivan, CMBIGM

Figure 37: Revenue of urban space service in China (2016-2026E)



Source: Frost & Sullivan, CMBIGM

Urban space mainly consists of government buildings, schools, hospitals, roads, streets and other urban spaces. Urban space integrated services offer three types of services, namely:(i) space governance solutions, which mainly include urban cleaning and sanitation services, repair and maintenance of municipal infrastructure and urban safety and security management services in urban public spaces, including indoor and outdoor areas open and accessible to the public; (ii) urban environmental governance solutions, which include technology-enabled water quality control, river system maintenance and preservation, as well as integrated management of urban parks; and (iii) old community operation, which is mainly old community management and renewal services.

Market drivers

Increase of urban population and per capita disposable income. The steady growth of China's urban population and per capita disposable income have contributed to the increasing demand of quality community space living consumption services. According to Frost & Sullivan, the urbanization rate in China has increased from 57.4% in 2016 to 64.7% in 2021. The Chinese urban population has increased steadily from 793.0 mn in 2016 to 914.3 mn in 2021, representing a CAGR of 3.3%. Also, the per capita disposable income of urban households in China increased steadily from RMB33,616 in 2016 to RMB47,412 in 2021, representing a CAGR of 7.1%. As a result, there is a significant increase in sales area of residential housing, which in turn stimulates the demand for community space living consumption services. On the other hand, with the increase in precipitate disposable income, people seek for a better living environment and are more willing to pay for quality community space living consumption services, such as coordinator services, in which community space living consumption service providers engage service coordinators to provide personalized services to property owners before and after they move into their new homes. Meanwhile, the increasingly concentrated population demands more commercial and urban spaces that are carefully-designed with better work and city environment. This in turn created a greater demand for commercial and urban space integrated services and raised the standard of commercial and urban space integrated service quality.

Rapid development of first-tier, new first-tier and second-tier cities. According to Frost & Sullivan, the urban population of first-tier cities, new first-tier cities and second-tier cities has experienced steady growth with a CAGR of 3.2%, 5.7% and 4.0% respectively for the period of 2016 to 2021. In addition, the per capita disposable income of urban households of first-tier cities, new first-tier cities and second-tier cities are expected to reach a CAGR of 7.1%, 7.0% and 7.1% respectively for the period of 2021 to 2026. Residents of the first-tier, new first-tier and second-tier cities have strong consumption capabilities and higher expectations of their housing environment and on the quality of residential services. Accordingly, the continuous development of first-tier, new first-tier and second-tier cities will further drive the development of community space living consumption services market in China.

Increasing popularity of housing rental and redecoration and furnishing services. With the restriction on new housing supply and the continued increase of housing prices, the volume of second-hand housing transactions and rental transactions has continued to rise in the past five years. According to Frost & Sullivan, the trading volume of existing houses has increased from 2.13 mn in 2016 to 5.92 mn in 2021, with a CAGR of 22.7%. In addition, benefited from the government's support on well-renovated houses, the demand for house redecoration and furnishing services has further increased, allowing community space living consumption service providers to participate in the business and compete with original home improvement companies.

Entry barriers

Brand reputation. Brand reputation has been established amongst top community space living consumption service providers in China, which is an important factor in acquiring new opportunities in the market. For example, large-scale property developers usually engage well-known community space living consumption service providers in delivering community space living consumption services. Most residential property owners also prefer to engage well-known community space living consumption service providers as they believe their brand reputation indicates better services. New entrants may find it difficult to build brand reputation within a short time and to penetrate the market when competing with community space living consumption service providers with great brand reputation.

Standardization and professionalization. The community space living consumption services market now focuses on standardization and professionalization. With the support from the government, leading community space living consumption service providers actively establish standardized operation and management systems in order to manage projects in a more cost-effective way and increase profitability. They tend to outsource labor-intensive aspects of their operations to subcontractors and place heavier emphasis on developing standardized systems and training staff to implement such standardized systems. With sufficient resources, they are able to standardize their operations and enhance their management and operational capabilities. In contrast, with limited resources, new entrants may find it difficult to invest in professional and standardized operation systems and build up their management and operational capabilities.

Human resources. Community space living consumption services rely on labor for the delivery of services as well as implementing and innovating technological solutions. Well-established community space living consumption service providers have formed their own talent reserve, training mechanisms and incentive systems over time. In addition, they are more devoted to managing and training their employees with standardized management. They attract talents who are equipped with technological skills. In contrast, new entrants lack experience in recruiting and cultivating talents. Talents may prefer companies with established brand values and recognition. With this gap between new entrants and established key players, new entrants may find it difficult to compete with other strong service providers in terms of human resources.

Partnerships and relationships. There are partnerships between service providers and government in the urban space integrated services market. The government tends to establish long-term partnerships with its service providers. Customer relationships remain one of the key factors in the operation of commercial space integrated services as service providers can achieve better customer satisfaction with sustainable customer relationships. While leading service providers have already accumulated abundant customer resources and built mutual trust with their customers, it is difficult for new entrants to obtain long-term partnerships and relationships in a short time.

Technology capability. Along with the popularization of technologies including the Internet of Things and mobile Internet technologies, most leading community space living consumption service providers and commercial space integrated services have established core information systems. Efficient IT systems are conducive to integrate resources, improve management efficiency and monitor service processes effectively. Key market players have also made use of other advanced technologies such as big data analytics and cloud-based applications to explore new value-added services and diversify revenue streams. By integrating their own business characteristics with their core information systems, they had edges in technology that may form technical barriers to new entrants.

Risk

Rising labor costs. The community space living consumption services market requires a large workforce to provide cleaning, decoration, home sale and rental brokerage services and repair and maintenance and other services. However, staff cost has become one of the largest components of service providers' operating costs. The monthly average wages of workers in the community space living consumption services market in China, according to Frost & Sullivan, have increased from RMB4,218.0 in 2016 to RMB5,973.0 in 2021 with a CAGR of 7.2%. In addition, the imposition of minimum wage has driven the increase in labor costs. Rising labor costs could materially and adversely affect business operations and financial conditions

Commercial space integrated service providers face higher labor costs each year, with the monthly wages of workers in commercial space integrated services market expected to reach a CAGR of 7.8% for the period of 2021 to 2026. However, as an increasing number of service providers adopt digitalization and other technological tools, they rely less on manual labor and the impact of increasing labor costs on the commercial space integrated service providers is expected to be immaterial. Urban space integrated service providers also face higher labor costs each year, with the monthly wages of workers in urban space integrated services market to reach a CAGR of 2.8% for the period of 2021 to 2026. However, as service providers started to adopt digitalization and other technological tools in the market, the labor investment required in the urban space integrated services market will be reduced, minimizing the impact of increasing labor costs among market players.

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