25 Jan 2021

China Property Service Sector

The growth engine shifts to community VAS

We think the supportive policy and fast GFA-driven earnings growth have been almost priced in the current valuation. Looking forward, as GFA competition is getting more intensive and fee hike has uncertainty/little impact in the near term, we expect the growth engine to switch to Community VAS because it has 5-10 times upside from now with high entry barrier and margin. The successful sector players in VAS would further differentiate and lead to re-rating.

- **Community VAS the new growth engine:** we believe residential PM sector would switch to VAS-driven model to differentiate given **1) its 5-10 times upside from now.** Currently the industry VAS per managed GFA is only RMB4/sq m on average compared to RMB50-56/sq m in US/Japan leading firms such as FirstService/Nihon Housing (despite the salary difference). **2) high entry barrier on the expertise and capital investment** as most of traditional PM firms are not equipped with the experience. **3) Potential margin uptrend for operating leverage** especially for market leaders with large GFA under management. We think the key to drive up VAS per managed GFA is through expansion into high-margin services (retail/asset management/media with gross margin >50%). Quality M&A with synergy would be the way of achieving it based on US/Japan experience. Market leaders like CGS have already made the first move for media/insurance acquisitions. With its strong capital, CGS may have huge growth potential.
- **Shopping mall management another blue sea.** Property management in shopping mall has the advantage of high entry barrier, fee marketization and high margin, compared to other types. With rather fragmented market, major players could have huge upside in consolidation via acquisitions/asset light model. In the near term, we expect consumption to pick up on high saving rate in 2020 and wealth effect. Major players (eg. CR Land/Longfor) may record 30% rental income growth and thus benefit the service providers. In the mid term, we like service providers of mid-to-high end shopping malls located in Tier 1-2 cities on high rent/sales ratio and less e-commerce cannibalization.
- **Impact on potential management fee rise is limited in short term:** As MOHURD's "21 points" on 5 Jan encouraged floating-fee scheme, we expect it may only affect the new delivery, as it is difficult to change for the existing community. We also developed a model to analyze its quantitative impact by assuming a national progressive rate on floating-fee residential GFA as % of new delivery. Our base case shows the floating-fee GFA as % of total GFA would reach 20% by 2025E but only 1%/3% in 2021E and 2022E.
- **Short-term catalysts:** We think there are two major coming catalysts as 1) **South bound inclusion to be announced on 26 Feb**: based on our analysis, many stocks like CR MixC and S-Enjoy are very likely to be included and may benefit from south bound inflow. 2) **2020E results beat in March**: We forecast 55% of earnings growth in 2020E for the major players.
- **Rating change/Top picks:** We downgrade A-living and Poly services to Sell rating and continue to prefer market leaders with 1) high exposure to shopping mall businesses; 2) high VAS potential and 3) high earnings visibility. Therefore, our top picks are CGS/Ever Sunshine (on VAS and high earnings visibility), and CR MixC Lifestyle/Powerlong Commercial (on shopping mall).

OUTPERFORM
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China Property Service Sector

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Company	Listing code	Rating	New TP (HK$)	Upside%
A-Living	3319.HK	SELL	31.7	-13.3
CGS	6098.HK	BUY	84.6	48.9
CR MixC	1209.HK	BUY	52.2	23.9
CC New Life	9983.HK	BUY	11.2	24.8
Ever Sunshine	1995.HK	BUY	28.8	22.6
Excellence CM	6989.HK	BUY	14.9	40.5
Greentown Services	2869.HK	HOLD	9.5	-0.2
Languang Justbon	2606.HK	BUY	69.7	88.6
Poly Services	6049.HK	SELL	53.4	-22.2
Powerlong CM	9909.HK	BUY	30.9	26.6
Redsun Services	1971.HK	BUY	9.4	85.9
S-Enjoy	1755.HK	BUY	29.5	28.4

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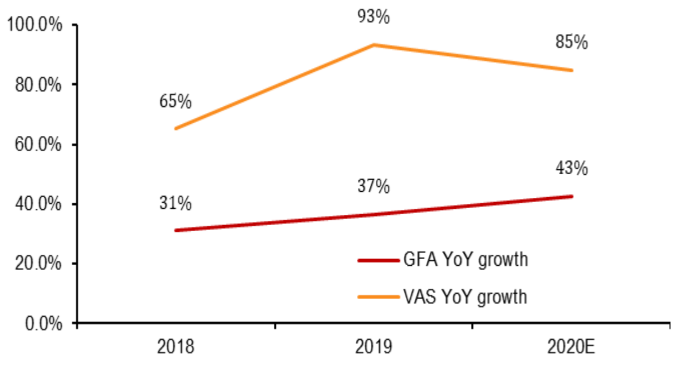
Focus Charts

Figure 1: VAS will be mainly driven by the efficiency (VAS per GFA)



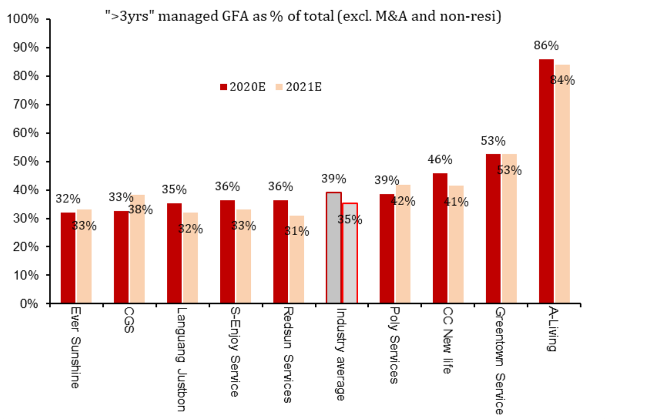
Source: Company data, CMBIS estimates

Figure 2: While VAS per GFA has 5-10 times upsize for growth comparing to RMB50-56 in US/Japan

VAS per sqm (RMB)	2017	2018	2019	1H20
Ever Sunshine	4.16	4.93	7.42	6.76
Greentown Service	6.53	7.69	9.01	6.70
S-Enjoy Service	1.19	1.12	2.93	5.20
Poly Services	3.01	3.27	4.02	4.80
Languang Justbon	4.14	5.50	6.27	4.43
Evergrande Services	1.81	1.81	2.41	4.00
Country Garden Services	1.97	2.30	3.13	3.77
Redsun Services	1.36	1.51	1.71	3.04
A-Living	1.30	2.67	2.75	3.01
COPH	1.36	1.92	2.48	2.10
Sunac Services	0.63	1.85	2.01	1.17
average	2.51	2.99	4.07	4.19
YoY		19%	36%	

Source: Company data, CMBIS estimates

Figure 3: Improvement of occupancy rate would help drive up VAS per GFA



Source: Company data, CMBIS estimates

Figure 4: Expansion into high-margin VAS business would become the key to improve VAS

			Revenue breakdown	Gross margin
VAS	Residents	Retail, asset management (life insurance, brokerage), decoration/cleaning and etc.	65%	~50%
	Common area	Advertisement, car park rental	13%	~50%
	Maintenance	Lifts, building renovation	22%	~20%

		Revenue breakdown	Gross margin
Residents	Community Retail	15%	>50%
	Asset management	17%	>50%
	Decoration/cleaning and etc	33%	10-20%

Source: Company data, CMBIS estimates

Figure 5: Shopping mall>Residential>Office>City Services

Types	Gross margin	Entry Barrier	Scalability
Shopping mall	35-40%	High	Slower growth due to capacity
Office	20-25%	Medium	Relatively slower growth
Residential	20%	Low	Fast growth
City services	10-15%	Medium	Scalable

Source: Company data, CMBIS estimates

Figure 6: Impact on potential management fee rise is limited in short term

Floating-fee GFA as % of new delivery	2021E	2022E	2023E	2024E	2025E
Base case	5.0%	15.0%	30.0%	45.0%	60.0%
Bear case	0.0%	5.0%	10.0%	20.0%	30.0%
Bull case	10.0%	25.0%	40.0%	60.0%	80.0%

Floating-fee GFA as % of total	2021E	2022E	2023E	2024E	2025E
Base case	1%	3%	8%	14%	20%
Bear case	0%	1%	2%	5%	9%
Bull case	2%	6%	11%	19%	28%

Source: Company data, CMBIS estimates

Investment Thesis

Market share gain story to continue: Focus on Top 30

The property management industry has long been a battle of GFA under management as the market is quite fragmented. This is evidenced that Top 30 players only had a market share of 16.6% in 2020 vs. 16% in 2019 despite an improvement of 0.6ppt. It is worth noticing that Top 30-50 players are losing market shares to the Top 30 which can be partly explained by difference of parentco support and capability of third party expansion. We believe the trend to continue in 2021 that Top 30 players would stand out in the market share gain and there's still ample room for growth in the future.

Figure 7: Market share of property management

Managed GFA	2020 Market share	2019 Market share	YoY
Top 10	10.35%	10.06%	0.29ppt
Top 30	16.56%	16.02%	0.54ppt
Top 50	19.31%	18.91%	0.40ppt

Source: CRIC

We forecast major market players to grow their GFA under management at a pace of 31% CAGR in 2019-2022E to support the revenue growth of 36%. It's worth noting that the competition has become very intensive with more and more PM firms listed and aiming to grow their managed GFA. Together with high base, we think the growth will also gradually slow down to 28% YoY in 2022E.

Figure 8: Our revenue forecast

Revenue (RMB mn)	2017	2018	2019	2020E	2021E	2022E	YoY	2018	2019	2020E	2021E	2022E
A-Living	1,761	3,377	5,127	10,380	12,857	15,496		92%	52%	102%	24%	21%
Central China New Life	461	694	1,754	2,789	4,057	5,613		51%	153%	59%	45%	38%
Country Garden Services	3,122	4,675	9,645	16,680	22,361	29,790		50%	106%	73%	34%	33%
CR MixC Lifestyle	3,129	4,432	5,868	7,270	9,734	11,760		42%	32%	24%	34%	21%
Ever Sunshine	725	1,076	1,878	3,417	5,739	8,830		48%	75%	82%	68%	54%
Excellence CM	947	1,223	1,836	2,847	3,860	4,918		29%	50%	55%	36%	27%
Greentown Services	5,140	6,710	8,582	10,156	12,091	14,220		31%	28%	18%	19%	18%
Languang Justbon	923	1,464	2,100	2,974	4,216	5,784		59%	43%	42%	42%	37%
Poly Services	3,240	4,229	5,967	8,333	10,559	13,009		31%	41%	40%	27%	23%
Powerlong Commercial	973	1,200	1,620	2,157	2,751	3,461		23%	35%	33%	28%	26%
Redsun Services	257	349	503	793	1,146	1,541		36%	44%	58%	45%	34%
S-Enjoy	866	1,173	2,024	3,048	4,148	5,153		35%	72%	51%	36%	24%

Source: Company data, CMBIS

Figure 9: Our forecast of GFA under management

Managed GFA (mn sqm)	2017	2018	2019	2020E	2021E	2022E	YoY	2018	2019	2020E	2021E	2022E
A-Living	54	94	177	371	475	548		75%	87%	110%	28%	15%
Central China New Life	20	26	57	85	146	200		26%	122%	50%	71%	37%
Country Garden Services	123	182	276	376	486	606		48%	52%	36%	29%	25%
CR MixC Lifestyle	66	85	101	119	133	151		28%	20%	18%	12%	13%
Ever Sunshine	27	40	65	105	171	226		52%	62%	61%	62%	32%
Excellence CM	7	9	10	12	16	19		15%	19%	23%	25%	22%
Greentown Services	138	170	212	248	285	323		24%	25%	17%	15%	13%
Languang Justbon	44	61	72	117	176	242		38%	18%	63%	50%	37%
Poly Services	106	191	287	358	416	476		79%	51%	25%	16%	14%
Powerlong Commercial	15	16	18	21	24	28		7%	11%	17%	16%	14%
Redsun Services	9	10	16	25	37	50		9%	59%	60%	45%	37%
S-Enjoy	36	43	60	100	132	167		18%	40%	66%	32%	27%

Source: Company data, CMBIS

VAS will become the main growth engine and the key to differentiate

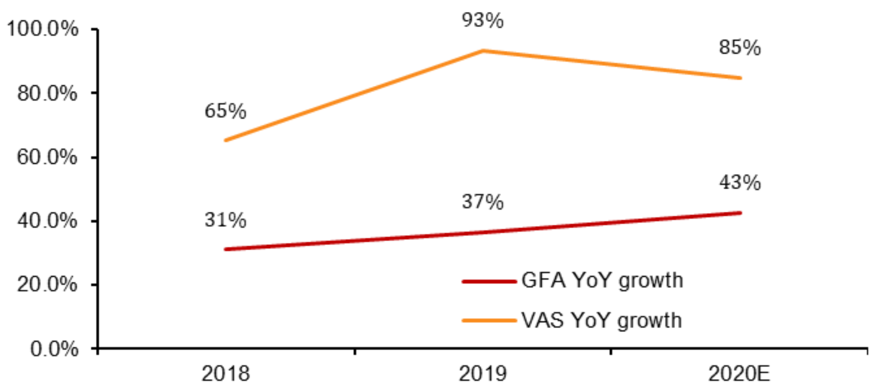
As mentioned above, the battle for GFA growth will become more and more intensive after many players raised capital via IPO and aim for growth. This would lead to slower growth or poorer-quality M&A of the industry. In addition, property management business has a low entry barrier, so the competition may also impact the management fees and margin when it comes to third party bidding. Therefore, we believe the next battle for future earnings growth would be on the value-added-services to residents and it will also become the key differentiation among major players.

For VAS, it is also partly driven by GFA growth but the increase in efficiency (VAS per sq m) is taking a more dominate role based on the graph below. Currently VAS per managed GFA is only RMB4.1/sq m and it has huge upside when compared to RMB50/sq m in US and RMB56/sq m in Japan (despite the salary difference).

The two determined factors for VAS per sq m are **1) Occupancy rate** (more residents, more VAS potential). Based on our calculation, the industry is likely to see a declining occupancy rate due to the heavy dilution of new delivered GFA. However, CGS will see an uptrend due to slowdown in GFA growth**. 2) Variety of services**: we prefer companies that focus on high margin business and has capital to do M&A to expand the coverage. We think the high-margin businesses are retail, asset management (life insurance, brokerage) and advertisement. Since it is very difficult to build up internally for these, we think acquisition would be the key to expand into these areas based on the experience of similar companies in US and Japan. This would be beneficial for market leaders, which have the capital and first-move-advantage. For example, CGS has already been buying asset management and media companies while growing retail business by making use of its parentco's support in sourcing.

We expect VAS to grow 44% in 2019-22E CAGR vs. revenue of 36% and it will contribute 17% of revenue and 35% of GP by 2022E (14% and 27% in 2019E)

Figure 10: PM Industry: VAS growth is positively correlated with GFA growth



Source: Company data, CMBIS

Figure 11: VAS per sq m (RMB)

VAS per sqm (RMB)	2017	2018	2019	1H20
Ever Sunshine	4.16	4.93	7.42	6.76
Greentown Service	6.53	7.69	9.01	6.70
S-Enjoy Service	1.19	1.12	2.93	5.20
Poly Services	3.01	3.27	4.02	4.80
Languang Justbon	4.14	5.50	6.27	4.43
Evergrande Services	1.81	1.81	2.41	4.00
Country Garden Services	1.97	2.30	3.13	3.77
Redsun Services	1.36	1.51	1.71	3.04
A-Living	1.30	2.67	2.75	3.01
COPH	1.36	1.92	2.48	2.10
Sunac Services	0.63	1.85	2.01	1.17
average	2.51	2.99	4.07	4.19
YoY		19%	36%	

Source: Company data, CMBIS

Figure 12: Our forecast of Community VAS Revenue

Community VAS (RMB mn)	2017	2018	2019	2020E	2021E	2022E	YoY	2018	2019	2020E	2021E	2022E
A-Living	102	289	485	860	1,118	1,230		184%	68%	77%	30%	10%
Central China New Life	26	85	545	838	1,113	1,404		223%	538%	54%	33%	26%
Country Garden Services	242	417	865	1,775	3,099	5,297		73%	107%	105%	75%	71%
CR MixC Lifestyle	107	106	145	153	221	299		-1%	37%	5%	45%	35%
Ever Sunshine	110	198	483	897	1,536	2,434		80%	143%	86%	71%	58%
Excellence CM	89	133	204	338	746	1,168		50%	53%	66%	121%	56%
Greentown Services	900	1,310	1,913	2,029	2,564	3,116		46%	46%	6%	26%	22%
Languang Justbon	182	333	449	577	739	948		83%	35%	28%	28%	28%
Poly Services	319	623	1,154	1,847	2,401	3,001		95%	85%	60%	30%	25%
Powerlong Commercial		39	50	90	135	182			28%	80%	50%	35%
Redsun Services	12	15	27	81	202	343		22%	79%	200%	150%	70%
S-Enjoy	43	48	176	370	534	670		11%	268%	110%	44%	25%

Source: Company data, CMBIS

Prefer shopping mall operators

We like shopping mall operators as 1) the market is very fragmented with Top 10 players only taking 15% market share by GFA (Wanda owns 6% and CR Land 1.5%). So the market leaders have high potential to consolidate. 2) The high entry barrier, fee marketization and high margin. 3) The asset-light model could help expand market share rapidly.

From the operating perspective, shopping mall runner charged fees from the landlord. We think the key driver for higher fees and other revenues would be the leasing capability that can help landlord improve occupancy rate and portfolio quality and thus help drive the retail growth. Therefore, the market leaders with strong leasing capability would stand out to gain more market shares.

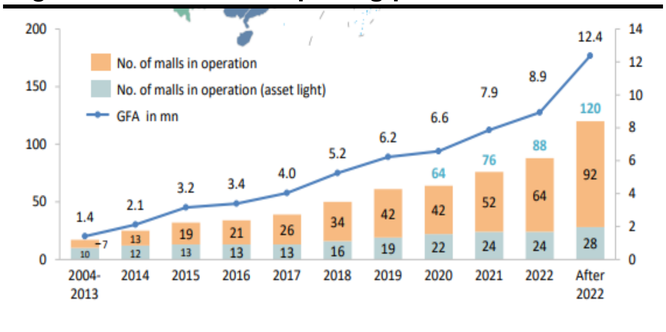
Figure 13: Comparison among four property management types

Types	Gross margin	Entry Barrier	Scalability
Shopping mall	35-40%	High	Slower growth due to capacity
Office	20-25%	Medium	Relatively slower growth
Residential	20%	Low	Fast growth
City services	10-15%	Medium	Scalable

Source: Company data, CMBIS

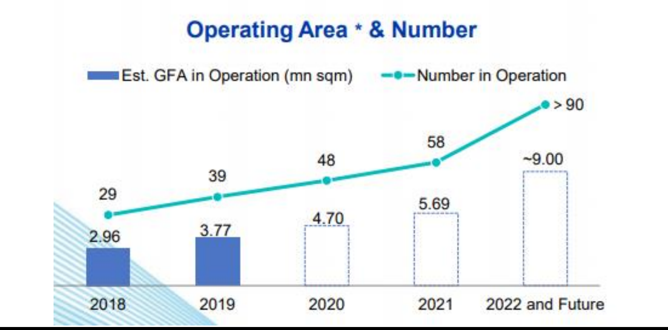
From the rental income perspective, we think 2021 would be the year of consumption due to wealth effect (stock market) and the high saving ratio in 2020 (39% vs. 30-32% in the previous years). We think this would also benefit shopping malls to accelerate rental income growth. For example, CR Land and Longfor, two major shopping mall operators in property space has seen sharp recovery of the rental income in 2H20. With the record number of new malls by both in 2021E (Longfor and CR Land expected to open 10 by 2021E), we expect to see an accelerated YoY growth of 30% in 2021E.

Figure 14: CR Land's opening plan



Source: Company data

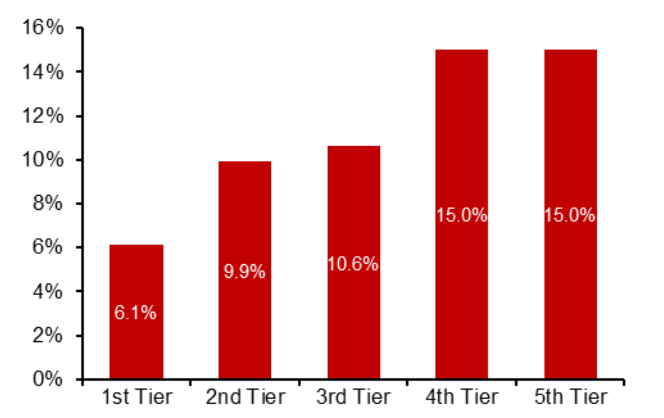
Figure 15: Longfor's opening plan



Source: Company data

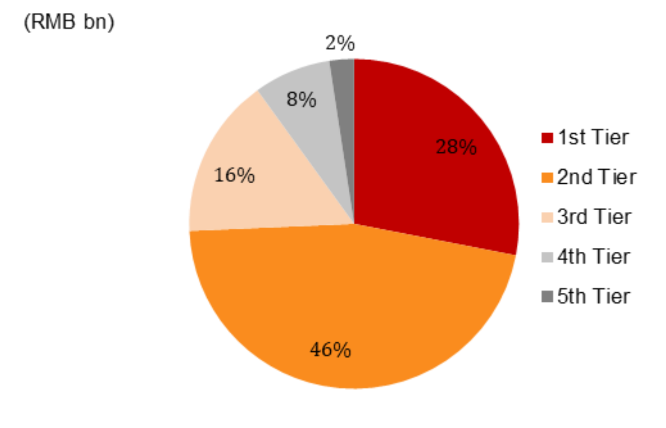
To further drill down, we prefer shopping mall operators targeting Tier 1-2 cities and mid-to-high end tenants. This is mainly because 1) Tier 1-2 cities had 74% market share of total rental income and thus have more room to grow for shopping mall operators either via acquisition or light asset model. 2) Mid-to-high end operators can source more unique and irreplaceable tenants (such as luxury) that can take higher rent or rent/sales ratio. For example, CR Cities have a rent/sales ratio of 14% while 12% for Powerlong malls. 3) E-commerce has more impacts for shopping malls that target low-to-mid end or lower-tier cities. For example, internet giants such as PDD, Alibaba are all competing in the lower-tier cities and thus may dilute the market share of shopping malls.

Figure 16: 2019 Shopping vacancy rate by City Tier



Source: Linkshop.com

Figure 17: 2019 Rental income by city Tier



Source: Company data

Rating change and Top picks

We downgrade A-living and Poly services to Sell rating on low earnings visibility and continue to prefer market leaders with 1) high exposure to shopping mall businesses; 2) high VAS potential and 3) high earnings visibility. Therefore, our top picks are CR MixC Lifestyle/Powerlong Commercial (on shopping mall) and CGS/Ever Sunshine (on VAS and high earnings visibility).

CGS (9983 HK, Buy, TP HK$84.6): We expect CGS to cement the sector leader position via first-move advantage in high-margin-VAS acquisitions (Asset management/Media). With its booming retail business, rich capital and strong integration capability, we think its

Community VAS could contribute as much as RMB5bn net income in the mid-to-long run and may worth RMB150bn valuation alone by assigning 30x PE. Therefore, we raised earnings forecast to 48% CAGR in 2019-22E on overall promising outlook, and lift TP to HK$84.6 and reiterate Buy (Top pick). **Catalysts:** 2020E earnings beat in March; announcement of 15% tax policy renewed.

Ever Sunshine (1995 HK, Buy, TP HK$28.8): We expect the Company to achieve industry-fastest earnings growth of 76% CAGR in 2019-2022E and meet its NP target of RMB1bn as early as 2022. What drives these numbers is the strong execution, proven by market-leading third party expansion capability, early penetration into VAS business and patience for high-quality M&A opportunity with parentco. With 18.6% share incentive, we think the management would continue to deliver higher-than-expected results. Raise TP to HK$28.8 and reiterate Buy. **Catalyst:** strong 2020E earnings beat.

CR MixC Lifestyle (1209 HK, Buy, TP HK$52.2): The Company is a heavy-hitter among commercial PM names with its high-end mall offerings and ~87% revenue concentration in tier 1 and 2 cities. Its key advantage and potential lies on the know how in the high-end mall operating which may allow rapid expansion via asset-light models. We think the Company could achieve 76% earnings CAGR in 2019-2022E, thanks to 1) bright outlook for luxury malls under consumption boom as its parentco is expected to post 30% rental growth in 2021E. 2) fast-scaling commercial services to shopping mall owners (pre-opening and operating services). We consider CR Mixc our top pick under the commercial PM theme. Initiate BUY with TP of HK$52.2, which equals 50x 2022E P/E according to our scorecard.

Powerlong Commercial (9909 HK, Buy, TP HK$30.9): As the key shopping mall service provider in YRD, We expect the Company to benefit from consumption boom and gain market share in the region via 1) parentco's fast growth as major competitors in the region have relatively slowed down their pace; 2) active M&A and asset light model. Therefore, we think the number of managed malls can reach the size of 150 by 2025 from 55 malls in 2020 (55 in the pipeline) and thus deliver 44% earnings growth. We initiate with BUY rating at TP HK$ 30.9, which equals 30x 2022E P/E according to our scorecard.

A-living (3319 HK, D/G to Sell, TP HK$31.7): We think the Company is having low visibility on future growth as its heavy reliance on M&A is facing fierce competition. This is evidenced that it has one of the lowest reserved/managed GFA ratio at 39% in 1H20. Also its efforts into city services may dilute the margins, which may not be the fuel for earnings. Lastly, after the full flow of its H-share, the placement will be the overhang for the share prices. We expect its earnings to only grow at 24% CAGR in 2019-22E, much below the industry average of 44%. The Target price of HK$31.7 is derived by using 15x 2022E PE based on our score card. **Catalyst:** placement.

Poly services (6049 HK, D/G to Sell, TP HK$53.4): We expect its revenue mix to worsen towards more low-margin public service projects. This is mainly because the Company targets 40% of increase value to come from public service and thus reduce residential % from 70% to 40%. We think this is more due to slow progress in third party expansion and quality M&A. For Community VAS, we think it may have a higher potential due to the size of GFA under management. However it requires strong execution as well and thus uncertainty remains. We revise down 2020E/21E/22E earnings by 6%/11%/18% to reflect the margin pressure. 2020E earnings growth is expected to be only at 35%, 7% below the consensus and 20% below the industry average. We derive the target price of HK$54/share by using 25x 2022E PE based on the score card and downgrade to Sell. **Catalyst:** 2020E results miss.

Sector catalysts

Earnings beat for 2020E

We forecast 55% YoY earnings growth in 2020E for the industry vs. market consensus of 40-50%. Companies are expected to announce profit alerts starting from January so it may further beat the market consensus. Among our coverage, we think CGS/Evergrande may post better-than-expected results with the upsize from Community VAS.

More stocks will be included in South bound connect

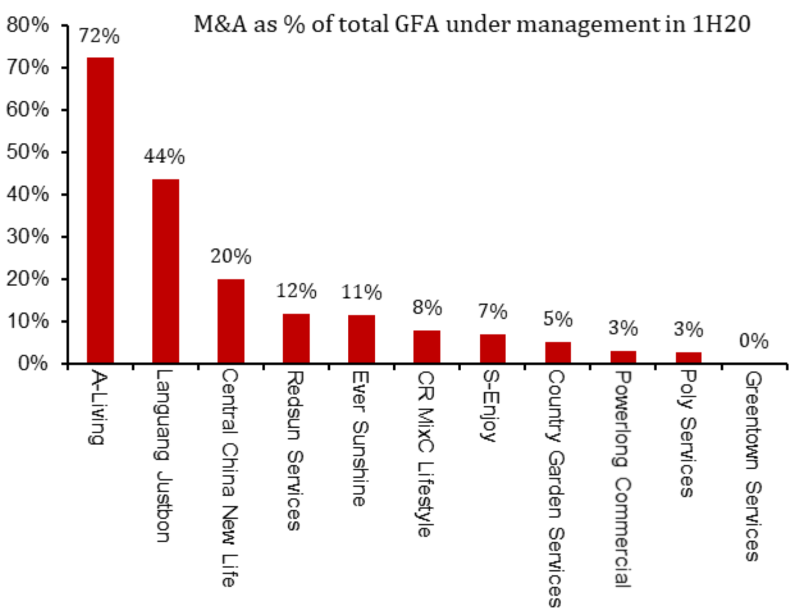
We expect more stocks to be included in the south bound connect, which will be announced during the next Hang Seng index Review date (26 Feb). Stocks like CR MixC, S-Enjoy, Shimao services, Sunac Services and Evergrande Services are very likely to be included and thus south bound flow may further drive the sector up.

Industry risks

Inadequate expansion via M&A may lead to earnings deterioration

M&A has been an important way of expansion especially for smaller PM firms. However, the associated risks are relatively high as 1) there is lack of disclosed information on cash flow and account receivable. Although the net income growth looks high and acquired valuation looks cheap, the actual contribution could be dilutive or less than market expectation. 2) The VAS penetration would be dragged down as it takes time to wrap up the consolidation. Below is the graph showing % of total GFA from M&A by major players.

Figure 18: Ranking by M&A as % of total GFA under management in 1H20



Source: Company data, CMBIS

Fierce competition in third party expansion may lead to margin decline

We think third party expansion may face more and more fierce competition and it may put pressure on the management fee. With many players joining the bidding of third party projects, it may eventually become the competition of management fee which may squeeze the business margin.

VAS relying on parentco may see a limit

Although we see a bright future for VAS growth in general, it may hit the limit for some players that rely strongly on the parentco. For example, commission of car park sales has seen a spike in some firms, however we don't see this business as a long-term driver as 1) the sales cannot be repeated; and 2) inventory from parentco may not support the long-term growth.

The key questions to answer

In the below sections, we further discuss in details on the three main questions: **1)** Potential Management fee hike? **2)** How to win the battle of VAS? **3)** Comparison among different types of property management.

1. Potential residential fee hikes?

On 5 Jan 2021, MOHURD and other government arms jointly announced "21 points" on how to improve the property management industry. Below are the key two points:

1. Encourage property management companies to expand into more VAS areas such as child/elderly, culture, health, brokerage and deliveries.
2. Encourage a more flexible property management fee scheme such as floating to CPI.

For the first point, we have explained it in VAS section and we are here to address the second section on fee hike. Our view is that the floating price scheme is certainly benefiting for the industry as to offset the salary hike. However in the real execution, we think 1) it will mainly benefit the newly delivered GFA. This is because it's practically challenging to convince old community to change contract forms and also many existing ones may not have an owner's committee to discuss. 2) The development will be gradual as different provinces may have different development stage.

We developed a model to analyze the quantitative impact by assuming a national progressive rate on floating-fee residential GFA as % of new delivery. Our base case (please refer to the table below) shows the floating-fee GFA as % of total GFA would reach 20% by 2025E but only 1% and 3% in 2021E and 2022E. Therefore, actually the short-term impacts are limited despite the long-term benefits for the industry.

Among our coverage, S-Enjoy and Evershine stand out as the long-term beneficiaries if the policy executes progressively according to our model given their fast growth in GFA.

Figure 19: Floating-fee GFA progress

Floating-fee GFA as % of new delivery	2021E	2022E	2023E	2024E	2025E
Base case	5.0%	15.0%	30.0%	45.0%	60.0%
Bear case	0.0%	5.0%	10.0%	20.0%	30.0%
Bull case	10.0%	25.0%	40.0%	60.0%	80.0%

Floating-fee GFA as % of total	2021E	2022E	2023E	2024E	2025E
Base case	1%	3%	8%	14%	20%
Bear case	0%	1%	2%	5%	9%
Bull case	2%	6%	11%	19%	28%

Source: Company data, CMBIS estimates

Figure 20: S-Enjoy and Ever Sunshine would benefit more in the long-term

Floating-fee GFA as % of total	2021E	2022E	2023E	2024E	2025E
S-Enjoy Service	1%	4%	10%	17%	25%
Ever Sunshine	1%	4%	10%	16%	24%
Central China New Life	1%	3%	8%	14%	20%
Greentown Service	1%	3%	7%	12%	19%
Languang Justbon	1%	3%	7%	12%	18%
Poly Services	1%	3%	7%	12%	18%
Redsun Services	1%	4%	7%	11%	17%
Country Garden Services	1%	3%	6%	10%	15%
A-Living	0%	1%	3%	6%	9%
Average	1%	3%	8%	14%	20%

Source: Company data, CMBIS estimates

2. How to win the battle of VAS

We think the next battle among property management companies would be on the Value-added services to its residents. We can call the first stage of battle focusing on the rapid growth of GFA under management. Although GFA expansion would remain the key to drive the earnings, the competition has already become so intensive with more and more PM companies listed and looking for earnings growth. That could lead to lower-quality M&A or thinner margins. Therefore, we think the next growth engine is VAS.

To break down, VAS is mainly driven by GFA under management and efficiency (VAS revenue per GFA). We think the future of VAS would be the improvement of the efficiency because currently The VAS per GFA is only RMB4.07/sq m in 2019. This means there's still a huge potential to catch up if we compare to a mature market of RMB50/sq m in US and RMB57/sq m in Japan (despite the salary difference). We think companies with strong execution, improving occupancy rate and types of services would grow faster than the industry.

Figure 21: VAS per sqm (RMB)

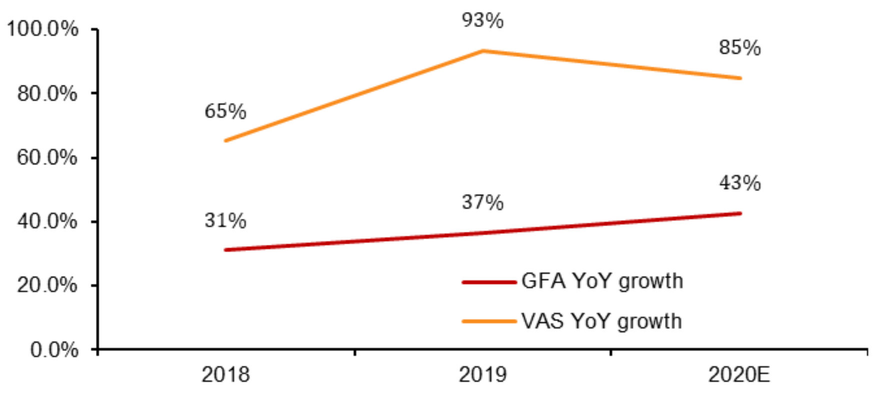
VAS per sqm (RMB)	2017	2018	2019	1H20
Ever Sunshine	4.16	4.93	7.42	6.76
Greentown Service	6.53	7.69	9.01	6.70
S-Enjoy Service	1.19	1.12	2.93	5.20
Poly Services	3.01	3.27	4.02	4.80
Languang Justbon	4.14	5.50	6.27	4.43
Evergrande Services	1.81	1.81	2.41	4.00
Country Garden Services	1.97	2.30	3.13	3.77
Redsun Services	1.36	1.51	1.71	3.04
A-Living	1.30	2.67	2.75	3.01
COPH	1.36	1.92	2.48	2.10
Sunac Services	0.63	1.85	2.01	1.17
average	2.51	2.99	4.07	4.19
YoY		19%	36%	

Source: Company data, CMBIS

GFA under management: companies with strong parentco would stand out

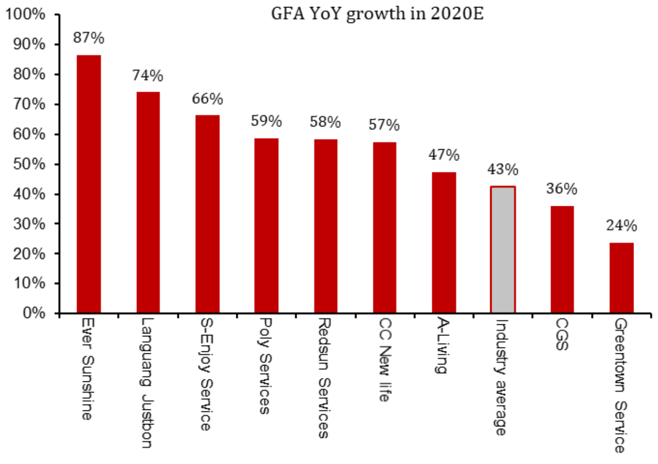
Naturally, VAS is positively correlated with GFA under management and the fast growth of GFA would help drive up VAS. However, we also need to consider the composition of GFA (from parentco, third party expansion and M&A). This is because the GFA from parentco tends to drive higher growth of VAS due to more types of services to be provided such as car park sales, move-in services and so on. Figure 24 shows the % of total net GFA increase from parentco among different players and we can see that generally the Companies with a strong parentco would stand out.

Figure 22: PM Industry: VAS growth is positively correlated with GFA growth



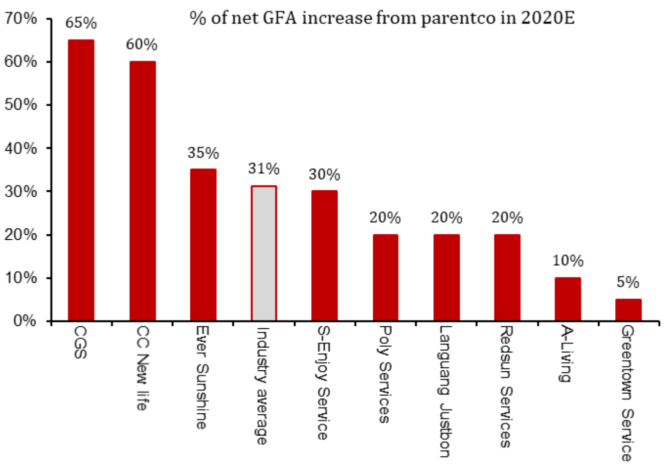
Source: Company data, CMBIS

Figure 23: Ranking by GFA YoY growth in 2020E



Source: Company data, CMBIS

Figure 24: Ranking by % of net GFA increase from Parentco

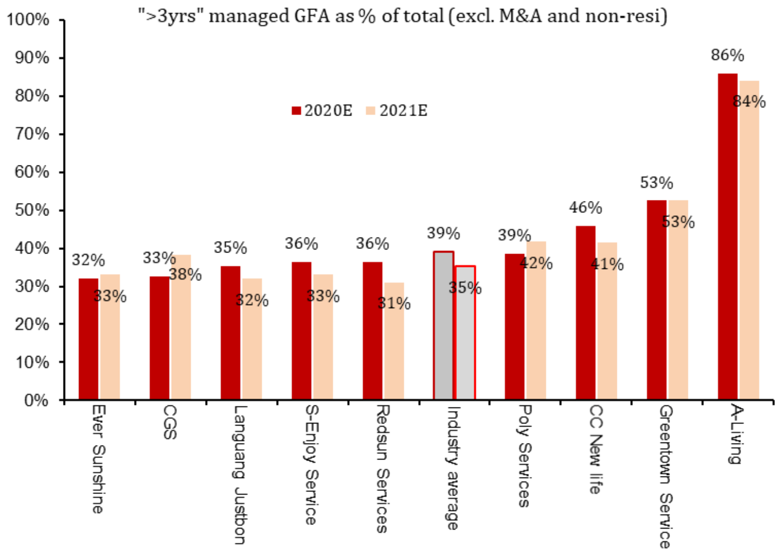


Source: Company data, CMBIS

Occupancy rate: prefer companies with less new delivery dilution

Besides GFA, the occupancy rate of residential buildings also determines the total population that could receive value-added services. In general, the more mature community tends to have a higher occupancy rate and it usually takes 3 and 5 years to reach 60% and 80% occupancy rate for a newly delivered residential community. Based on our analysis, as of 2020 among major listed companies, the industry average for >3-year-old residential GFA (excl. M&A) as percentage of total is only 39%, and we expect this to go further lower to 35% due to the large dilution of GFA completion. However, CGS is likely to see an improving ratio (higher occupancy rate) due to lower base and controlled GFA expansion.

Figure 25: Occupancy rate ranking



Source: Company data, CMBIS

Type of services: Prefer retail and asset management

For type of services, there are currently two major breakdowns – residents, common area (advertisement) and maintenance (please refer to the chart below). We can see the major revenue contribution come from services provided to residents (65% of total) together with high gross margin of around 50%, and then maintenance (22%) and common area (13%).

Figure 26: Current VAS breakdown by type

			Revenue breakdown	Gross margin
VAS	Residents	Retail, asset management (life insurance, brokerage), decoration/cleaning and etc.	65%	~50%
	Common area	Advertisement, car park rental	13%	~50%
	Maintenance	Lifts, building renovation	22%	~20%

		Revenue breakdown	Gross margin
Residents	Community Retail	15%	>50%
	Asset management	17%	>50%
	Decoration/cleaning and etc	33%	10-20%

Source: Company data, CMBIS

Among VAS to residents, although decoration and cleaning services still contribute heavily at the revenue level, its relatively high base and low margin make it not a long-term growth engine. We think the retail and asset management would grow more rapidly together with >50% gross margin to drive. However, these two areas have high entry barrier and most of PM companies and staff are traditionally not equipped for these. Therefore, there are only three ways: building up a new team, corporate or acquisition.

For community retail, previously PM firms could choose to work with internet giants and take advantage of their platform. However, after the anti-subsidy investigation, now it may not be the best practice. Then it leaves the option of building up a new team, which may take huge expenses time for most firms, and the option of acquisition, which commercially makes less sense due to their high valuation. Therefore, we think the winner in the community retail would lie in companies, which have already built a strong retail network by its parentco such as CGS. CGS's parentco Country Garden has long had its own retail stores and network called "Phoenix pick" （凤凰优选） and this gives a huge advantage for CGS on retail SKU and price for its residents. In 1H20, 29% of VAS revenue came from community retail business with gross margin >60% (as it usually takes 10% of transaction value as revenue).

Figure 27: Community retail

	How	Difficulty
To grow community retail	Acquisitions	Valuation is too expensive
	Corporation with internet giants	Anti-subsidy investigation and ban
	Build up own team	Economically too costly
	Parentco support	Not many property companies have the exposures.

Source: Company data, CMBIS

For asset management business, currently PM firms could still take advantage of parentco support on carpark sales, etc. Going forward, we think it may need to focus more on the secondary transaction, rental, life insurance and so on. Therefore, through acquisitions or corporation with large players would be a better way of growing the business. From revenue perspective, acquisitions would help drive a faster growth and it may make sense in terms of valuation (high PE firms to acquire low PE ones).

As for the future of VAS, we think it has even more potentials such as expansion into baby/elderly care, education and so on. We believe the way of doing that is via acquisitions following our study of US/Japan property service companies due to similar reasons mentioned above. In this case, the market leaders with more capital and strong execution would stand out as the winner.

Figure 28: CGS had a first-move advantage in VAS acquisitions

CGS	Acquisition	Considerations (Rmb mn)	21E PE	Business
Apr-20	Wenjian international	84	NA	Insurance
Jul-20	City-Media	1512	14x	Lift Advertisement

Source: Company data, CMBIS

Figure 29: Study of leading foreign players

	FirstService	Nihon Housing
Ticker/Mkt Cap	FSV.US (6bn USD)	4781.TYO (0.6bn USD)
Geography	North America	Mainly Japan
Year of founding	1989	1970
Scale	1.7mn units	>500k units
VAS as % of total	81%	46%
VAS types	Insurance, brokerage, equipment, pool management	Equipment, brokerage, Education

Source: Company data, CMBIS

Figure 30: Major acquisitions by FirstService to expand VAS

FirstService	Acquisition	Business
1998	California Closets	Furniture
2003	Floor coverings	Floor design
2006	Service America	Airconditioner management
2006	PCG Valuation	Property valuation
2016	Century Fire Protection	Fire protection
2019	Global Restoration Holdings	Building renovation

Source: Company data, CMBIS

Figure 31: Major acquisitions by Nihon Housing to expand VAS

Nihon housing	Acquisition	Business
2012	Sanko Engineering	Aircondition equipment
2014	Surf Co	Interior design
2017	Kosan Building Service	Property brokerage
2017	Propell integrated	Equipment maintenance

Source: Company data, CMBIS

Conclusions

Currently the battle of PM firms has gradually moved from GFA expansion into VAS due to the room to grow and high margin. We think the battle of VAS will be the expansion into the high-margin businesses such as retails, asset management and advertisements. However, due to the high entry barrier, we believe the key to succeed lies in complimentary acquisitions and strong parentco with relative exposure and market leaders such as CGS.

Figure 32: Metrics summary

	Drivers	Future winner
VAS	GFA growth	Evershine
		S-Enjoy services
	Efficicency (VAS revenue per sq m)	CGS/Ever Sunshine/Greentown services

Source: Company data, CMBIS

3. Shopping mall > Residential > Office > City services

Among all four types of property management, based on growth potential our preference is shopping mall > residential > office > city services. For shopping mall, we like its sustainable GFA growth with high margin, entry barrier and fee marketization. For residential, it could achieve fast GFA growth to drive the earnings and thus becomes second preference. For office, we think it has relatively slow growth with only 20-25% gross margin and our least preference is city services, which has lowest margin among four types.

Figure 33: Comparison among four property management types

Types	Gross margin	Entry Barrier	Scalability
Shopping mall	35-40%	High	Slower growth due to capacity
Office	20-25%	Medium	Relatively slower growth
Residential	20%	Low	Fast growth
City services	10-15%	Medium	Scalable

Source: Company data, CMBIS

Shopping mall PM: high sustaintable margin and growth

From the operating perspective, property management in shopping mall has the advantage of high entry barrier, fee marketization and high gross margin compared to other types of property management. As shopping mall runner charged fees from the landlord, the key driver for higher fee and gross margin would be the leasing capability that can help landlord improve occupancy rate and portfolio quality and thus help drive the retail growth.

Figure 34: Scope of shopping mall services (malls)

Service provided	Revenue model
Pre-opening design and construction	
Consultancy services (project positioning and planning)	One-time fixed fee
Tenant sourcing	One-time fixed fee
Post-opening operation	
Property management service	Lump sum or commission basis
Commercial operational service, including:	
Tenant management	Commission basis
Marketing services	Fixed price based on GFA
Event organization	One-time fixed fee
Value-added service	Commission basis

Source: Company data, CMBIS

Management fee for commercial properties is typically raised every 1-2 years upon contract renewal. Better quality properties/services translates to higher fees. As management fee in commercial properties varies compared to residential properties, earnings is not solely driven by increase in GFA. In fact, premium commercial units with high fees are frequency small in terms of GFA. Strong pipeline is key to evaluating earnings growth.

Our base assumption for commercial PM fee hikes is +10-12% upon contract renewal every two years, or mid-to-high single digit per annum.

City services: low margin

Although many PM firms start expanding into city services, we do not think this will be the direct growth engine due to the low service fee and margin dilution. However, in an indirect way, city services may help build up a better relationship with the local governments and that can indirectly help on the local expansion.

Figure 35: Vision surrounding city services, as laid out by CGS

Source: Company data, CMBIS

Earnings and valuation

Robust earnings growth

We expect the industry to continue delivering robust revenue growth in 2019-2022E with 36% CAGR. The growth engine will shift more towards community VAS, which has a higher growth of 44% vs. GFA growth slowing down to 31%. As a result, the community VAS as % of total revenue will rise to 17% in 2022E vs. 14% in 2019%. Due to its higher margin, it will then drive the gross margin on an upward trend of 0.5ppt per year.

As a result, at the bottom line level we forecast core earnings to grow 44% CAGR in 2019-2022E. Among our coverage, CR MixC Lifestyle and Ever Sunshine are expected to outperform the industry with 74% and 66% 2019-22E CAGR.

Figure 36: Our revenue forecast

Revenue (RMB mn)	2017	2018	2019	2020E	2021E	2022E	YoY	2018	2019	2020E	2021E	2022E
A-Living	1,761	3,377	5,127	10,380	12,857	15,496		92%	52%	102%	24%	21%
Central China New Life	461	694	1,754	2,789	4,057	5,613		51%	153%	59%	45%	38%
Country Garden Services	3,122	4,675	9,645	16,680	22,361	29,790		50%	106%	73%	34%	33%
CR MixC Lifestyle	3,129	4,432	5,868	7,270	9,734	11,760		42%	32%	24%	34%	21%
Ever Sunshine	725	1,076	1,878	3,417	5,739	8,830		48%	75%	82%	68%	54%
Excellence CM	947	1,223	1,836	2,847	3,860	4,918		29%	50%	55%	36%	27%
Greentown Services	5,140	6,710	8,582	10,156	12,091	14,220		31%	28%	18%	19%	18%
Languang Justbon	923	1,464	2,100	2,974	4,216	5,784		59%	43%	42%	42%	37%
Poly Services	3,240	4,229	5,967	8,333	10,559	13,009		31%	41%	40%	27%	23%
Powerlong Commercial	973	1,200	1,620	2,157	2,751	3,461		23%	35%	33%	28%	26%
Redsun Services	257	349	503	793	1,146	1,541		36%	44%	58%	45%	34%
S-Enjoy	866	1,173	2,024	3,048	4,148	5,153		35%	72%	51%	36%	24%

Source: Company data, CMBIS estimates

Figure 37: Our forecast of GFA under management

Managed GFA (mn sqm)	2017	2018	2019	2020E	2021E	2022E	YoY	2018	2019	2020E	2021E	2022E
A-Living	54	94	177	371	475	548		75%	87%	110%	28%	15%
Central China New Life	20	26	57	85	146	200		26%	122%	50%	71%	37%
Country Garden Services	123	182	276	376	486	606		48%	52%	36%	29%	25%
CR MixC Lifestyle	66	85	101	119	133	151		28%	20%	18%	12%	13%
Ever Sunshine	27	40	65	105	171	226		52%	62%	61%	62%	32%
Excellence CM	7	9	10	12	16	19		15%	19%	23%	25%	22%
Greentown Services	138	170	212	248	285	323		24%	25%	17%	15%	13%
Languang Justbon	44	61	72	117	176	242		38%	18%	63%	50%	37%
Poly Services	106	191	287	358	416	476		79%	51%	25%	16%	14%
Powerlong Commercial	15	16	18	21	24	28		7%	11%	17%	16%	14%
Redsun Services	9	10	16	25	37	50		9%	59%	60%	45%	37%
S-Enjoy	36	43	60	100	132	167		18%	40%	66%	32%	27%

Source: Company data, CMBIS estimates

Figure 38: Our forecast of Community VAS Revenue

Community VAS (RMB mn)	2017	2018	2019	2020E	2021E	2022E	YoY	2018	2019	2020E	2021E	2022E
A-Living	102	289	485	860	1,118	1,230		184%	68%	77%	30%	10%
Central China New Life	26	85	545	838	1,113	1,404		223%	538%	54%	33%	26%
Country Garden Services	242	417	865	1,775	3,099	5,297		73%	107%	105%	75%	71%
CR MixC Lifestyle	107	106	145	153	221	299		-1%	37%	5%	45%	35%
Ever Sunshine	110	198	483	897	1,536	2,434		80%	143%	86%	71%	58%
Excellence CM	89	133	204	338	746	1,168		50%	53%	66%	121%	56%
Greentown Services	900	1,310	1,913	2,029	2,564	3,116		46%	46%	6%	26%	22%
Languang Justbon	182	333	449	577	739	948		83%	35%	28%	28%	28%
Poly Services	319	623	1,154	1,847	2,401	3,001		95%	85%	60%	30%	25%
Powerlong Commercial		39	50	90	135	182			28%	80%	50%	35%
Redsun Services	12	15	27	81	202	343		22%	79%	200%	150%	70%
S-Enjoy	43	48	176	370	534	670		11%	268%	110%	44%	25%

Source: Company data, CMBIS estimates

Figure 39: Our forecast of gross margin

GPM	2017	2018	2019	2020E	2021E	2022E		2018	2019	2020E	2021E	2022E
A-Living	33.5%	38.2%	36.7%	30.2%	28.6%	28.0%		4.7ppts	-1.5ppts	-6.5ppts	-1.7ppts	-0.6ppts
Central China New Life	22.9%	23.2%	32.8%	30.4%	29.3%	28.6%		0.3ppts	9.7ppts	-2.5ppts	-1.1ppts	-0.7ppts
Country Garden Services	33.2%	37.7%	31.6%	32.8%	34.2%	36.3%		4.5ppts	-6ppts	1.2ppts	1.4ppts	2.1ppts
CR MixC Lifestyle	13.0%	15.0%	16.1%	25.5%	27.8%	28.9%		2ppts	1ppts	9.4ppts	2.3ppts	1.1ppts
Ever Sunshine	25.2%	28.7%	29.6%	33.0%	34.3%	34.5%		3.5ppts	0.9ppts	3.4ppts	1.2ppts	0.3ppts
Excellence CM	24.6%	24.1%	23.6%	24.6%	25.0%	25.4%		-0.6ppts	-0.4ppts	1ppts	0.4ppts	0.5ppts
Greentown Services	18.4%	17.8%	18.0%	17.2%	17.7%	18.1%		-0.6ppts	0.2ppts	-0.8ppts	0.5ppts	0.3ppts
Languang Justbon	36.4%	33.2%	36.2%	34.7%	33.9%	33.7%		-3.1ppts	3ppts	-1.5ppts	-0.8ppts	-0.2ppts
Poly Services	17.9%	20.1%	20.3%	21.1%	21.6%	21.9%		2.2ppts	0.2ppts	0.9ppts	0.4ppts	0.4ppts
Powerlong Commercial	26.0%	27.1%	26.4%	28.8%	29.4%	29.9%		1.1ppts	-0.7ppts	2.4ppts	0.6ppts	0.6ppts
Redsun Services	22.6%	20.0%	25.3%	26.3%	27.8%	28.6%		-2.6ppts	5.3ppts	0.9ppts	1.6ppts	0.7ppts
S-Enjoy	28.0%	29.4%	29.6%	29.3%	28.6%	28.6%		1.4ppts	0.2ppts	-0.4ppts	-0.7ppts	0.1ppts

Source: Company data, CMBIS estimates

Figure 40: Our forecast of net profits

Net profits (RMB mn)	2017	2018	2019	2020E	2021E	2022E	2018	2019	2020E	2021E	2022E
CR MixC Lifestyle	388	423	365	891	1,499	1,976	8.9%	-13.7%	144.2%	68.2%	31.8%
Ever Sunshine	76	101	224	428	740	1,141	31.5%	122.7%	91.3%	72.8%	54.2%
Country Garden Services	402	923	1,671	2,417	4,143	5,440	129.8%	81.0%	44.7%	71.4%	31.3%
Poly Services	219	328	491	724	947	1,195	49.7%	49.3%	47.6%	30.7%	26.3%
Powerlong Commercial	79	133	179	320	415	532	69.7%	34.0%	79.3%	29.7%	28.1%
Greentown Services	387	483	477	570	754	916	24.7%	-1.2%	19.4%	32.2%	21.5%
S-Enjoy	73	152	282	518	660	804	107.3%	85.3%	83.8%	27.3%	21.8%
A-Living	290	801	1,231	1,767	2,029	2,336	176.5%	53.6%	43.5%	14.9%	15.1%
Excellence CM	109	126	179	332	541	756	15.3%	41.9%	86.0%	62.9%	39.7%
Central China New Life	23	19	234	361	551	772	-16.8%	1101.6%	54.5%	52.4%	40.2%
Redsun Services	29	33	59	88	152	215	14.9%	79.0%	49.7%	71.7%	41.8%
Languang Justbon	184	289	430	573	769	1,030	57.0%	48.4%	33.3%	34.2%	34.1%

Source: Company data, CMBIS estimates

Score card

We build up our score card system to differentiate the companies in the industry. There are six main categories as listed below:

1) **Parentco support (15% weights):** Companies with strong parentco support (on new GFA delivery) would have higher visibility on earnings.
2) **GFA growth (15%):** This is currently the key growth driver
3) **VAS growth (20%):** It will be the future growth engine
4) **Shopping mall contribution (20%):** high entrance barrier with high margin
5) **Non-M&A expansion (10%):** prefer companies with least expansion from M&A.
6) **Execution (20%):** It is based on the track record.

Figure 41: Score card ranking

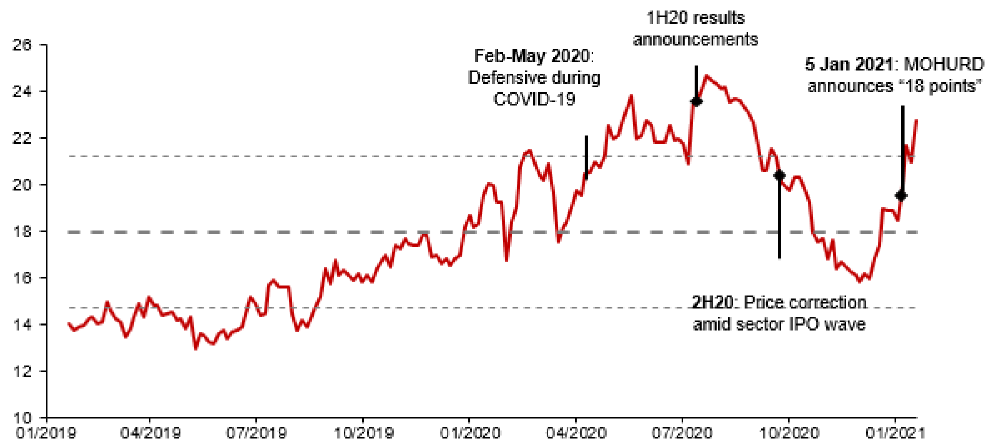
	Weights	15%	15%	20%	20%	10%	20%	
Metrics	Overall score	Parentco support	GFA growth	VAS growth	Shopping mall contribution	Non-M&A expansion	Execution	Target 2022E PE
CR MixC Lifestyle	76	95	30	80	90	70	80	50x
Country Garden Services	69	95	50	95	10	80	90	35x
Ever Sunshine	66	80	80	80	20	60	80	35x
Powerlong Commercial	60	70	40	30	90	70	60	30x
S-Enjoy	58	70	70	70	20	70	60	25x
Greentown Services	54	30	40	70	20	90	80	25x
Poly Services	52	80	50	50	10	80	60	25x
Excellence CM	51	50	50	60	30	80	50	20x
Central China New Life	49	50	40	70	30	50	50	15x
Redsun Services	42	40	60	30	30	50	50	15x
A-Living	41	40	40	50	20	30	60	15x
Languang Justbon	37	40	60	30	20	20	50	10x

Source: Company data, CMBIS

Valuation still has room to rerate as growth engines switch to VAS

Currently the industry is trading at 23x 2022E PE, vs. its historical average of 18x. Also, it is very divergent among different PM firms. Market leaders such as CGS, CR MixC and Ever Sunshine are trading at above 30x while small players are trading at below 10x. With the growth engine switching to VAS, we think the valuation has further room to grow, especially for market leaders to widen the gap with small players.

Figure 42: 2-yr rolling forward PE



Source: Company data, CMBIS

Figure 43: Valuation table

Company	Ticker	CMBI rating	TP (HK$)	Last price (HK$)	Mkt Cap (HK$ mn)	P/E 20E	P/E 21E	P/E 22E	Net profit growth (%) 20E	Net profit growth (%) 21E	Net profit growth (%) 22E	Community VAS % of revenue in 2022E
A-Living	3319 HK	SELL	31.66	36.50	12,109	22.9	19.9	17.3	43.5	14.9	15.1	8%
Central China New Life	9983 HK	BUY	11.21	7.56	8,286	21.6	14.2	10.1	54.5	52.4	40.2	25%
Country Garden Services	6098 HK	BUY	84.61	68.30	200,281	63.6	37.1	28.3	44.7	71.4	31.3	18%
CR MixC Lifestyle	1209 HK	BUY	52.16	41.80	92,144	90.1	54.3	41.7	140.9	65.9	30.1	3%
Ever Sunshine	1995 HK	BUY	28.80	23.50	37,533	73.4	45.1	30.1	91.3	68.7	49.8	26%
Excellence CM	6989 HK	BUY	14.89	10.60	15,033	25.6	19.9	14.2	82.4	58.2	41.8	24%
Greentown Services	2869 HK	HOLD	9.46	9.48	105,339	39.3	30.5	25.1	19.4	32.2	21.5	22%
Languang Justbon	2606 HK	BUY	69.70	36.95	6,691	9.5	7.1	5.3	33.3	34.2	34.1	16%
Poly Services	6049 HK	SELL	52.04	68.65	36,836	43.6	33.3	26.4	47.6	30.7	26.3	23%
Powerlong Commercial	9909 HK	BUY	30.89	24.40	31,166	39.4	30.4	23.7	79.3	29.7	28.1	5%
Redsun Services	1971 HK	BUY	9.37	5.04	2,222	20.6	11.4	8.1	49.7	71.7	41.8	22%
S-Enjoy	1755 HK	BUY	29.52	23.00	36,187	30.2	23.7	19.5	83.8	27.3	21.8	13%
Average						**40**	**27**	**21**	**54**	**46**	**29**	**17%**

Source: Bloomberg, CMBIS estimates

Rating change and stock picks

Based on our scorecard above, we assigned the new target 2022E PE multiple accordingly and adjusted the target price accordingly.

Figure 44: Score card ranking

	Weights	15%	15%	20%	20%	10%	20%	
Metrics	Overall score	Parentco support	GFA growth	VAS growth	Shopping mall contribution	Non-M&A expansion	Execution	Target 2022E PE
CR MixC Lifestyle	76	95	30	80	90	70	80	50x
Country Garden Services	69	95	50	95	10	80	90	35x
Ever Sunshine	66	80	80	80	20	60	80	35x
Powerlong Commercial	60	70	40	30	90	70	60	30x
S-Enjoy	58	70	70	70	20	70	60	25x
Greentown Services	54	30	40	70	20	90	80	25x
Poly Services	52	80	50	50	10	80	60	25x
Excellence CM	51	50	50	60	30	80	50	20x
Central China New Life	49	50	40	70	30	50	50	15x
Redsun Services	42	40	60	30	30	50	50	15x
A-Living	41	40	40	50	20	30	60	15x
Languang Justbon	37	40	60	30	20	20	50	10x

Source: Company data, CMBIS

Figure 45: Rating change and new TP

Company	Listing code	New Rating	Old Rating	New TP (HK$)	Old TP (HK$)	Upside%
A-Living	3319.HK	SELL	BUY	31.7	60.70	-13.3
Central China New Life	9983.HK	BUY	N/A	11.3	N/A	48.9
Country Garden Services	6098.HK	BUY	BUY	84.6	37.06	23.9
CR MixC Lifestyle	1209.HK	BUY	N/A	52.2	N/A	24.8
Ever Sunshine	1995.HK	BUY	BUY	28.8	14.00	22.6
Excellence CM	6989.HK	BUY	BUY	14.9	13.34	40.5
Greentown Services	2869.HK	HOLD	HOLD	9.5	9.11	-0.2
Languang Justbon	2606.HK	BUY	BUY	69.7	64.20	88.6
Poly Services	6049.HK	SELL	BUY	53.4	90.60	-22.2
Powerlong Commercial	9909.HK	BUY	N/A	30.9	N/A	26.6
Redsun Services	1971.HK	BUY	BUY	9.4	9.17	85.9
S-Enjoy	1755.HK	BUY	N/A	29.5	N/A	28.4

Source: Bloomberg, CMBIS

As for top picks, we prefer market leaders with 1) high exposure to shopping mall businesses; 2) high VAS potential; 3) high earnings visibility. Therefore, our top picks are **CR MixC Lifestyle**/**Powerlong Commercial** (on shopping mall) and CGS/Ever Sunshine (on VAS and high earnings visibility).

Central China New Life (9983 HK)

Regional leadership highlighted by visible expansion track

BUY (Initiation)

Target Price	**HK$11.20**
Up/Downside	**+48.9%**
Current Price	**HK$7.56**

Leveraging regional dominance in Henan province, Central China New Life ("CCNL") has enjoyed rapid growth marked by unhindered third-party expansion. We believe CCNL's high reserved/managed GFA ratio sets up highly visible expansion, which offsets the disadvantages of being a regional PMC. We think CCNL is currently undervalued for its regional leader status; set TP at HK$11.20, reflecting 15x 2022E P/E. **Initiate with BUY.**

- **Low mgmt. fees offset by rapid expansion.** As a regional PMC based in Henan province, CCNL suffers from low management fees (est. RMB 1.8/sq m/m in 2020E and declining) but enjoys uncontested leadership in the region. As per Company update in Dec 2020, managed GFA reached 100mn sq m, growing 75% YoY, with est. 95% originating from Henan province. Third -party gains (including M&A) made up 61% of new GFA delivery in 2020 with 70%+ bidding success rate.
- **High reserved/managed ratio sets up visible expansion track.** As of Dec 2020, reserved GFA stood at 87% of managed GFA, which sets up a highly visible expansion track with third-party taking est. 53%/57% of managed GFA gains in 2021E/22E. We forecast managed GFA to grow by 52% CAGR in 2019-22E, with further upside from potential M&As within Henan province.
- **Building comprehensive platform through localized service offerings.** CCNL boasts diversified service offerings, including commercial PM services with a focus on local cultural tourism, and lifestyle services featuring the Jianye+ integrated platform that provides various conveniences to local customers. As of 31 Dec, Jianye+ platform had 3.7mn registered users, with 1.5mn registrations in 2020.
- **Top regional PMC deserves more appreciation.** We forecast 2019-2022E revenue/net profit CAGR of 48.1%/49.1%. We believe CCNL's expansion outlook should outweigh any regional bias against it. **Major catalysts:** 1) 2020 results announcement; 2) VAS-oriented M&As. We set TP at HK$11.20, reflecting 15x 2022E P/E and close to its historical peak. **Initiate with BUY.**

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	694	1,754	2,909	4,235	5,695
YoY growth (%)	50.7	152.8	65.8	45.6	34.5
Net income (RMB mn)	19	234	364	557	776
EPS (RMB)	N.A.	N.A.	0.29	0.45	0.62
YoY growth (%)	N.A.	N.A.	N.A.	53.1	39.3
Consensus EPS (RMB)	N.A.	N.A.	0.32	0.46	0.62
P/E (x)	N.A.	N.A.	19.5	12.7	9.1
P/B (x)	N.A.	N.A.	3.2	2.8	2.4
Yield (%)	N.A.	N.A.	1.5	2.4	3.3
ROE (%)	16.7	63.3	15.9	21.4	25.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

China Property Service Sector

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Stock Data

Mkt Cap (HK$ mn):	9,505
Avg 3 mths t/o (HK$ mn)	21.25
52w High/Low (HK$)	11.88/5.8
Total Issued Shares (mn)	1,257

Source: Bloomberg

Shareholding Structure

Enjoy Start Ltd.	68.1%
Free float	31.9%

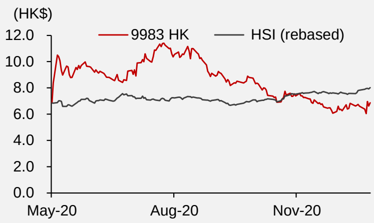
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	2.6%	-1.2%
3-mth	-22.2%	-31.5%
6-mth	-23.2%	-27.6%
12-mth	N.A.	N.A.

Source: Bloomberg

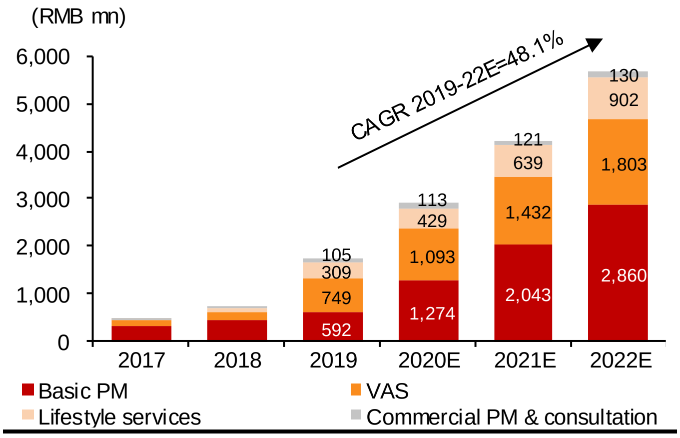
12-mth Price Performance



Source: Bloomberg

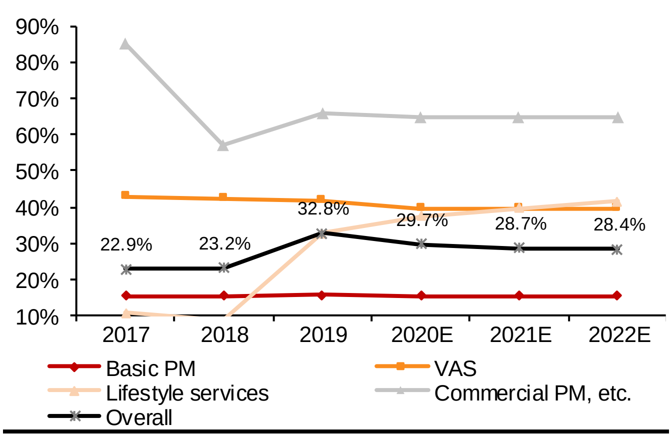
Auditor: PwC

Figure 46: Revenue



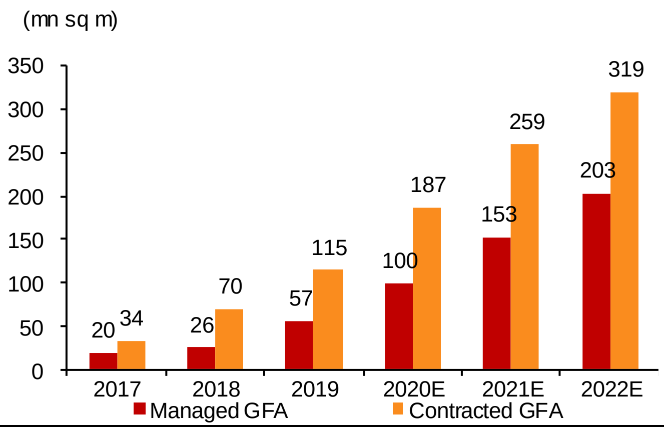
Source: Company data, CMBIS estimates

Figure 47: Gross profit margin



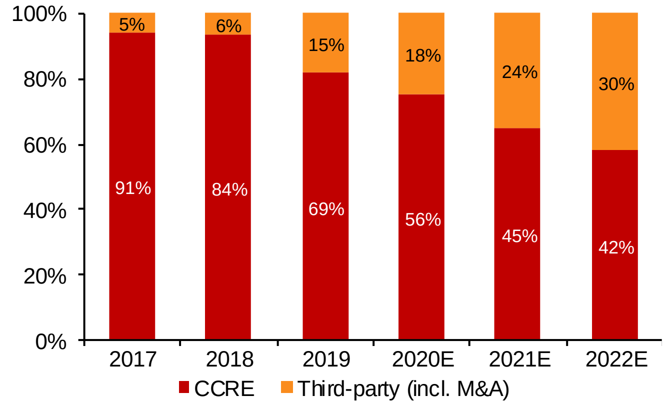
Source: Company data, CMBIS estimates

Figure 48: Managed and contracted GFA



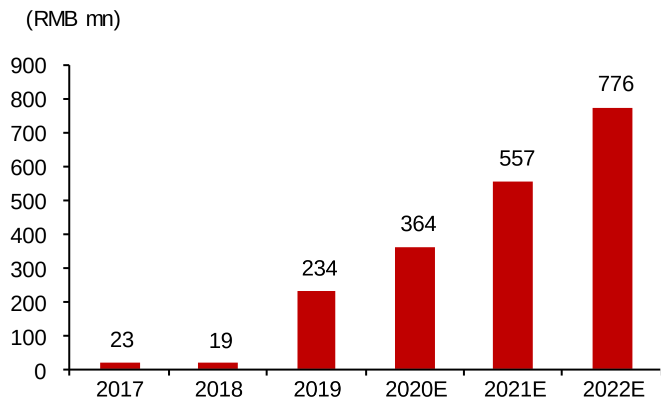
Source: Company data, CMBIS estimates

Figure 49: Managed GFA breakdown by source



Source: Company data, CMBIS estimates

Figure 50: Net profit



Source: Company data, CMBIS

Figure 51: Jianye+ mobile app

Source: Company data, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	**694**	**1,754**	**2,909**	**4,235**	**5,695**
Basic PM	423	592	1,274	2,043	2,860
Value-added services	197	749	1,093	1,432	1,803
Lifestyle services	62	309	429	639	902
Commercial PM, etc.	11	105	113	121	130
Cost of sales	(533)	(1,178)	(2,044)	(3,020)	(4,077)
Gross profit	**161**	**576**	**865**	**1,215**	**1,619**
Other income	**49**	**20**	**-**	**-**	**-**
Selling & marketing expenses	(12)	(46)	(87)	(85)	(114)
Administrative expenses	(86)	(230)	(291)	(381)	(456)
Impairment	(2)	(0)	(0)	(0)	(1)
Operating profit	**110**	**320**	**487**	**749**	**1,048**
Share from JV & associates	(1)	(0)	-	-	-
Finance cost	(43)	(16)	(0)	(0)	(0)
Exceptional	5	4	-	-	-
Pre-tax profit	**72**	**308**	**487**	**749**	**1,048**
Income tax	(20)	(75)	(119)	(183)	(257)
Profit for the year	**52**	**233**	**367**	**565**	**791**
Discontinued operations	(70)	(5)	-	-	-
Non-controlling interest	37	6	(4)	(8)	(16)
Net profit to shareholders	**19**	**234**	**364**	**557**	**776**

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	**283**	**101**	**108**	**113**	**118**
Property, plant and	21	18	20	22	24
Intangible assets	8	73	78	81	84
Others	254	10	10	10	10
Current assets	**1,041**	**1,362**	**3,743**	**4,678**	**5,736**
Cash and cash	134	585	2,578	2,982	3,570
Trade and other	871	767	1,164	1,694	2,164
Others	36	10	2	2	2
Total Asset	**1,324**	**1,463**	**3,852**	**4,791**	**5,854**
Current liabilities	**626**	**1,018**	**1,470**	**2,047**	**2,538**
Trade and other payables	353	654	981	1,359	1,631
Contract liabilities	167	311	436	635	854
Others	105	53	53	53	53
Non-current liabilities	**601**	**64**	**64**	**64**	**64**
Deferred tax liabilities	-	4	4	4	4
Others	601	60	60	60	60
Total liabilities	**1,227**	**1,082**	**1,534**	**2,111**	**2,602**
Shareholders' equity	**117**	**369**	**2,302**	**2,656**	**3,212**
Non-controlling interests	(19)	12	16	24	40
Total Equity	**97**	**382**	**2,317**	**2,681**	**3,252**

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before tax	**72**	**308**	**487**	**749**	**1,048**
D&A	7	10	8	8	8
Change in working capital	37	(12)	14	(9)	(6)
Income tax paid	(14)	(51)	(117)	(173)	(239)
Others	32	26	-	-	-
Cash flow from operating	**133**	**281**	**392**	**575**	**812**
CAPEX	(4)	(14)	(15)	(13)	(13)
Others	142	658	-	-	-
Cash flow from investing	**138**	**644**	**(15)**	**(13)**	**(13)**
Equity raised	-	-	1,724	-	-
Change of debts	-	-	-	-	-
Dividends paid	-	-	109	167	233
Others	(259)	(474)	(217)	(324)	(444)
Cash flow from financing	**(259)**	**(474)**	**1,616**	**(157)**	**(212)**
Net change in cash	**12**	**450**	**1,993**	**405**	**587**
Cash at the beginning of the year	122	134	585	2,578	2,982
FX differences	-	0	-	-	-
Cash at the end of the year	**134**	**585**	**2,578**	**2,982**	**3,570**

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Basic PM	61.0	33.8	43.8	48.2	50.2
Value-added services	28.4	42.7	37.6	33.8	31.7
Lifestyle services	9.0	17.6	14.8	15.1	15.8
Commercial PM, etc.	1.6	6.0	3.9	2.9	2.3
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	23.2	32.8	29.7	28.7	28.4
Operating margin	15.9	18.2	16.7	17.7	18.4
Net margin	2.8	13.3	12.5	13.1	13.6
Effective tax rate	27.7	24.3	24.5	24.5	24.5
Growth (%)					
Revenue	50.7	152.8	65.8	45.6	34.5
Gross profit	52.6	258.6	50.1	40.4	33.2
Operating profit	19.2	189.5	52.2	53.9	40.0
Net profit	-16.8	1101.6	55.4	53.1	39.3
Balance sheet ratios					
Current ratio (x)	1.7	1.3	2.5	2.3	2.2
Receivable turnover days	458	160	146	146	139
Payables turnover days	242	203	175	164	146
Net debt / total equity ratio (%)	Net	Net	Net	Net	Net
Returns (%)					
ROE	16.7	63.3	15.9	21.4	25.1
ROA	1.5	16.0	9.5	11.7	13.5
Per share					
EPS (RMB)	N.A.	N.A.	0.29	0.45	0.62
DPS (RMB)	N.A.	N.A.	0.09	0.13	0.19
BVPS (RMB)	N.A.	N.A.	1.78	2.03	2.41

Source: Company data, CMBIS estimates

CG Services (6098 HK)

How big is the potential of Community VAS?

We expect CGS to cement the sector leader position via first-move advantage in high-margin-VAS acquisitions (Asset management/Media). With its booming retail business, rich capital and strong integration capability, we think its Community VAS could contribute as much as RMB5bn net income in the mid-to-long run and may worth RMB150bn valuation alone by assigning 30x PE. Therefore, we raised earnings forecast to 48% CAGR in 2019-22E on overall promising outlook, and lift TP to HK$84.6 and reiterate Buy (Top pick). Catalysts: 2020E earnings beat in March; announcement of 15% tax policy renewed.

- **High visibility in GFA expansion and market share gain.** CGS is set to add 90-100mn sq m GFA under management in 2020E with 70% contribution from Country Garden (2007 HK). We expect managed GFA to grow at a stable 30% CAGR in 2019-2022E with high visibility as its parentco could achieve >70mn GFA sales per year. Therefore, it could maintain the market leader position.
- **First-move advantage in Community VAS acquisition.** While small-mid players still aims for GFA-growth acquisition, CGS has turned to focus on acquisitions of community VAS expansion such as City-Media (elevator ads), Hopefluent (real estate agency) and Wenjin International (insurance) acquisition. We think these acquisitions are more important than GFA-related ones as 1) traditional PM firms are not equipped with enough experience such as insurance and media; 2) these businesses have >50% gross margin which boost the margin upward trend. Together with its booming retail business (with the help of its Parentco sourcing), we believe CGS would be the key winner in VAS growth.
- **How big is its VAS potential?** With CGS's strong capital and execution, we think the Company can improve its VAS per sq m from current RMB3/sq m to RMB30/ sq m in the future, getting closer to the level of RMB50-56 in US and Japan. With contracted GFA of 800mn sq m and net margin of Community VAS of 20%, the potential net income contribution from Community VAS could be as much as RMB5bn. If assigning 30x PE, VAS business could worth RMB150bn valuation (or HK$180bn) and this is almost equivalent to the company valuation.
- **Raised TP to HK$84.6 and maintain Top pick.** We raise earnings forecast by 14%/38%/38% in 20-22E to reflect faster-than-expected GFA growth and breakthrough in Community VAS. We derive the target price of HK$84.6/share by using 35x 2022E PE based on the score card. It's currently trading at 27x 2022E PE, higher than the historical average of 20x. However, it has further re-rating opportunity from boosted Community VAS and thus remains our top pick.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	3,377	5,127	16,680	22,361	29,790
YoY growth (%)	91.8	51.8	72.9	34.1	33.2
Net income (RMB mn)	801	1,231	2,417	4,143	5,440
EPS (RMB)	0.62	0.92	0.89	1.53	2.01
YoY growth (%)	77.1	48.9	42.2	71.4	31.3
Consensus EPS (RMB)	N.A.	N.A.	0.91	1.28	1.75
P/E (x)	61.3	41.2	59.6	34.8	26.5
P/B (x)	12.0	11.4	26.0	16.8	11.4
Yield (%)	0.8	1.2	0.4	0.7	0.9
ROE (%)	14.8	19.9	33.6	40.2	37.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	**HK$84.60**
(Previous TP	HK$37.06)
Up/Downside	**+23.9%**
Current Price	**HK$68.30**

China Property Service Sector

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Stock Data

Mkt Cap (HK$ mn)	187.,672
Avg 3 mths t/o (HK$ mn)	491.11
52w High/Low (HK$)	64.00/23.95
Total Issued Shares (mn)	2,932

Source: Bloomberg

Shareholding Structure

Yang Huiyan	49.5%
Ping An Insurance	8.3%
Free float	42.2%

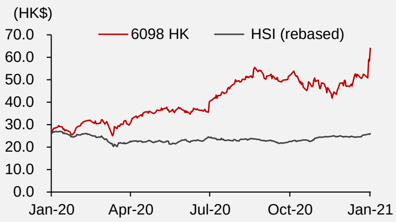
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	19.8%	15.2%
3-mth	12.2%	-1.2%
6-mth	45.1%	36.9%
12-mth	124.7%	131.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	**4,675**	**9,645**	**16,680**	**22,361**	**29,790**
Basic PM	3,445	5,817	8,455	11,424	14,789
Non-owner VAS	791	1,422	2,010	2,517	3,179
Community VAS	417	865	1,775	3,099	5,297
City services	-	-	2,712	3,452	4,538
Others	21	1,541	1,728	1,870	1,987
Cost of sales	(2,914)	(1,192)	(1,536)	(1,943)	(2,425)
Gross Profit	**1,762**	**428**	**621**	**807**	**1,037**
Other income	22	51	36	44	40
Selling expenses	(27)	(67)	(115)	(155)	(206)
Administrative expenses	(760)	(1,208)	(2,088)	(2,800)	(3,730)
Impairment	(13)	(31)	-	-	-
Operating profit	**984**	**1,798**	**3,305**	**4,732**	**6,912**
JV/Associates	3	8	9	11	14
Finance cost	54	92	96	101	106
Exceptional	29	178	-	-	-
Pre-tax Profit	**1,069**	**2,076**	**3,411**	**4,845**	**7,032**
Income tax	(135)	(358)	(853)	(485)	(1,33
PROFIT FOR THE YEAR	**934**	**1,718**	**2,558**	**4,361**	**5,696**
Non-controlling interest	(11)	(48)	(141)	(218)	(256)
Attributable NP	**923**	**1,671**	**2,417**	**4,143**	**5,440**

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	**851**	**2,045**	**2,274**	**2,506**	**2,739**
Property, plant and equipment	113	312	482	652	822
Intangible assets	686	1,604	1,654	1,704	1,754
Others	52	129	139	150	163
Current assets	**4,671**	**10,224**	**15,145**	**21,299**	**29,056**
Trade and other receivables	788	2,004	3,465	4,646	6,189
Cash and cash equivalents	3,869	6,914	10,363	15,330	21,534
Others	489	3	3	3	3
Total assets	**5,522**	**12,269**	**17,419**	**23,804**	**31,795**
Current liabilities	**3,127**	**6,427**	**9,623**	**12,684**	**16,339**
Trade and other payables	2,060	4,690	7,285	9,567	12,338
Others	1,067	1,737	2,338	3,117	4,000
Non-current liabilities	**65**	**162**	**162**	**162**	**162**
Deferred income tax	65	143	143	143	143
Others	-	19	19	19	19
Total liabilities	**3,192**	**6,590**	**9,786**	**12,846**	**16,501**
Equity to shareholders	**2,261**	**5,373**	**7,186**	**10,293**	**14,373**
Non-controlling interests	69	306	447	665	921
Total Equity	**2,330**	**5,680**	**7,633**	**10,958**	**15,294**

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before tax	**1,069**	**2,076**	**3,411**	**4,845**	**7,032**
D&A	26	94	60	60	60
Change in working capital	617	2,027	1,725	1,873	2,102
Others	(163)	(845)	(959)	(597)	(1,456)
Net cash from operating	**1,549**	**3,352**	**4,237**	**6,181**	**7,738**
Capex	(62)	-	(280)	(280)	(280)
JV/Associates	(6)	-	-	-	-
Others	(46)	(1,608)	96	101	106
Net cash from investing	**(114)**	**(1,608)**	**(184)**	**(179)**	**(174)**
Equity raised	10	1,700	-	-	-
Change of debts	-	-	-	-	-
Others	(211)	(304)	(604)	(1,036)	(1,360)
Net cash from financing	**(200)**	**1,396**	**(604)**	**(1,036)**	**(1,360)**
Net change in cash	1,235	3,140	3,449	4,966	6,205
Cash at the beginning of the year	**2,634**	**3,869**	**7,009**	**10,457**	**15,424**
Exchange difference	-	-	-	-	-
Cash at the end of the year	**3,869**	**7,009**	**10,457**	**15,424**	**21,629**

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Basic PM	73.7	60.3	50.7	51.1	49.6
Non-owner VAS	16.9	14.7	12.1	11.3	10.7
Community VAS	8.9	9.0	10.6	13.9	17.8
City services	0.0	0.0	16.3	15.4	15.2
Others	0.5	16.0	10.4	8.4	6.7
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Profit & loss ratios (%)					
Gross margin	37.7	4.4	3.7	3.6	3.5
Net margin	19.7	17.3	14.5	18.5	18.3
Effective tax rate	12.6	17.2	25.0	10.0	19.0
Growth (%)					
Revenue	49.8	106.3	72.9	34.1	33.2
Gross profit	70.1	73.3	79.3	39.7	41.4
Operating profit	69.6	82.8	83.8	43.2	46.1
Net profit	129.8	81.0	44.7	71.4	31.3
Balance sheet ratios					
Current ratio (x)	1.5	1.6	1.6	1.7	1.8
Receivable turnover days	62	76	76	76	76
Returns (%)					
ROE	40.8	31.1	33.6	40.2	37.8
ROA	16.7	13.6	13.9	17.4	17.1
Per share					
EPS (RMB)	0.37	0.63	0.89	1.53	2.01
DPS (RMB)	0.09	0.16	0.22	0.38	0.50
BVPS (RMB)	0.63	1.39	2.04	3.17	4.65

Source: Company data, CMBIS estimates

CR Mixc Lifestyle (1209 HK)

Best positioning in high-end shopping mall space

The Company is a heavy-hitter among commercial PM names with its high-end mall offerings and ~87% revenue concentration in tier 1 and 2 cities. Its key advantage and potential lies on the know-how in the high-end mall operating which may allow rapid expansion via asset-light models. We think the Company could achieve 76% earnings CAGR in 2019-2022E, thanks to 1) bright outlook for luxury malls under consumption boom as its parentco is expected to post 30% rental growth in 2021E, and 2) fast-scaling commercial services to shopping mall owners (pre-opening and operating services). We consider CR Mixc our top pick under the commercial PM theme. Initiate BUY with TP of HK$52.2, which equals 50x 2022E P/E according to our scorecard.

- **Undisputed top shopping mall operator.** CR Mixc's competitive advantage lies in its outstanding brand reputation, pricing power, and tenant sourcing ability, as shown by its high occupancy rate (93.1% in 1H20, vs. 89% of Powerlong) consistent fee hikes (malls: +8% during 2017-2019), and high rent/sales ratio (14% vs. 12% of Powerlong). We also favor CR Mixc's high-end positioning and focus on tier 1-2 cities (87% revenue concentration), due to more room for growth and less competition against internet giants.
- **Commercial operations carried by parentco rental surge.** Since 1H20, CR Mixc started monetizing its commercial operations segment, which generates fixed pre-opening service fees, commissions fees based on 5% mall rental income and 10% EBITDA, and has higher margin GPM at 55-60%. We expect 57% growth in mall operations in 2020-22E given 1) CR Land's rental growth of est. 30% p.a. 2) surge in mall footfall amidst upcoming consumption upcycle.
- **Consistent residential segment with margin upside.** On the residential side, we expect ~15mn sq m GFA delivery per year. In the future CR Mixc intends to focus high-end residential brands from parentco, and repair or phase out SOE reform projects that made losses in 1H20. Thus, we expect GPM of residential PM to widen to 15% by 2022E from 10.9% in 1H20.
- **Top pick for commercial PM;** Initiate with BUY with TP HK$52.2. We think the Company is on track to doubling revenue in 2020-2023, especially given the bright outlook for luxury malls under consumption boom. Furthermore, we expect earnings to grow with 49% CAGR from 2020-22E. Catalysts: 1) Update on key commercial PM metrics; 2) New mall openings; 3) Favorable macro data. CR Mixc is our top pick under the commercial PM theme. Set TP to HK$52.2, which equals 50x 2022E P/E; Initiate with BUY.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	4,432	5,868	7,270	9,734	11,760
YoY growth (%)	41.6	32.4	23.9	33.9	20.8
Net income (RMB mn)	423	365	891	1,499	1,976
EPS (RMB)	N.A.	N.A.	0.39	0.66	0.87
YoY growth (%)	N.A.	N.A.	N.A.	68.2	31.8
Consensus EPS (RMB)	N.A.	N.A.	0.33	0.63	0.86
P/E (x)	N.A.	N.A.	93.1	55.4	42.0
P/B (x)	N.A.	N.A.	5.9	5.6	5.1
Yield (%)	N.A.	N.A.	0.3	0.5	0.7
ROE (%)	63.4	35.4	5.2	8.5	11.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Initiation)

Target Price	**HK$52.2**
Up/Downside	**+24.8%**
Current Price	**HK$41.80**

China Property Service Sector

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Stock Data

Mkt Cap (HK$ mn)	99,974
Avg 3 mths t/o (HK$ mn)	N.A.
52w High/Low (HK$)	44.50/27.25
Total Issued Shares (mn)	2,283

Source: Bloomberg

Shareholding Structure

CR Land & CR Holdings	73.7%
Company directors	0.1%
Free float	26.2%

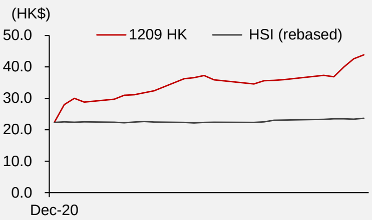
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	N.A.	N.A.
3-mth	N.A.	N.A.
6-mth	N.A.	N.A.
12-mth	N.A.	N.A.

Source: Bloomberg

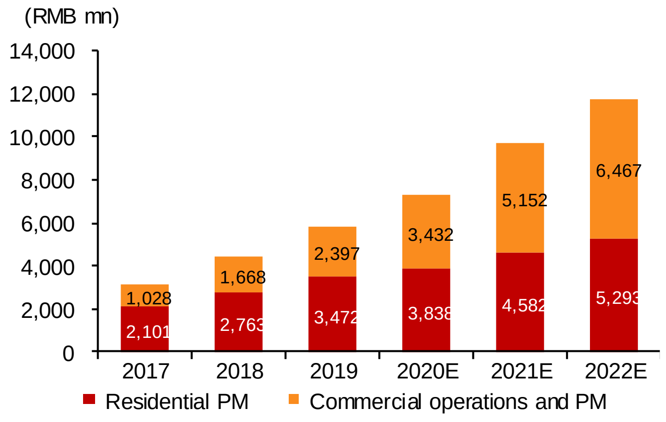
12-mth Price Performance



Source: Bloomberg

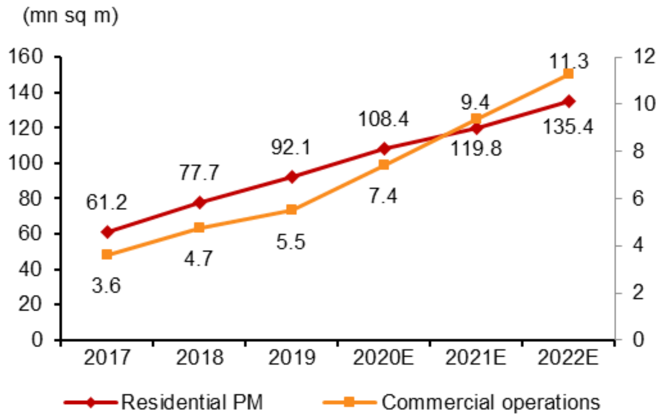
Auditor: Ernst & Young

Figure 52: Revenue



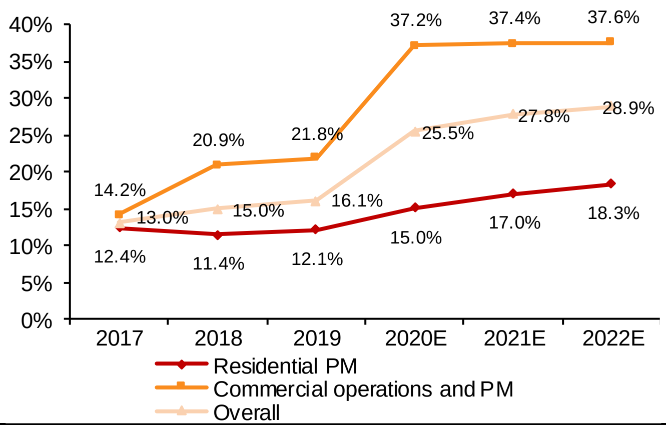
Source: Company data, CMBIS estimates

Figure 53: GFA under management



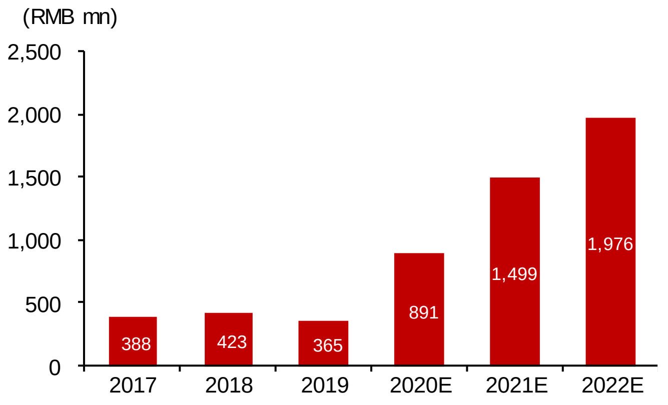
Source: Company data, CMBIS

Figure 54: Gross profit margin



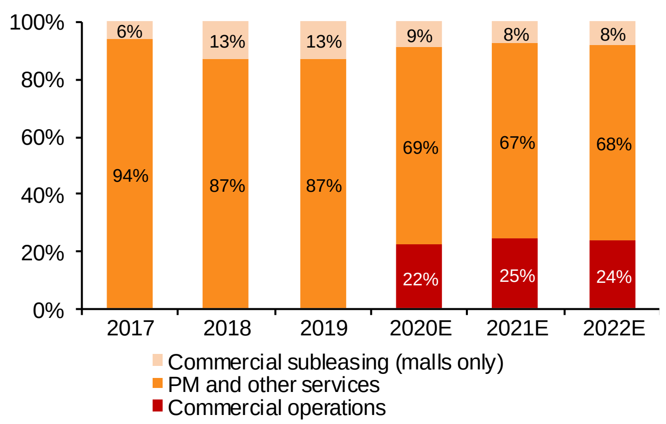
Source: Company data, CMBIS

Figure 55: Net profit



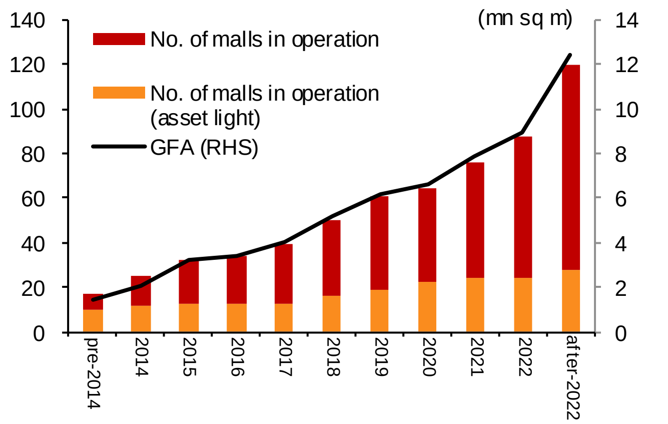
Source: Company data, CMBIS

Figure 56: Revenue mix within commercial segment



Source: Company data, CMBIS

Figure 57: CR Land's opening plans



Source: Company data, CMBIS

Figure 58: CR Mixc's commercial project portfolio

Existing	# of projects	Managed GFA (mn sq m)	Occupancy rate
MIXC			
North China	5	0.99	90.2%
South China	7	0.98	93.8%
East China	4	0.57	91.0%
West China	3	0.48	96.2%
Central China	2	0.32	97.3%
NE China	1	0.17	98.6%
MIXONE			
North China	8	0.74	92.8%
South China	4	0.15	91.4%
East China	5	0.36	95.2%
West China	1	0.06	91.0%
Central China	4	0.23	93.8%
NE China	4	0.38	93.5%
Other malls			
Others	3	0.20	87.5%
New ly opened	3	0.25	93.1%
Total	**54**	**5.86**	**93.1%**
Pipeline projects	**45**	**4.27**	
Office buildings			
North China	17	1.21	
South China	22	1.71	
East China	16	1.11	
West China	7	0.55	
Central China	6	0.38	
NE China	5	0.18	
New ly delivered	1	0.03	
Total	**74**	**5.17**	
Pipeline projects	**16**	**1.75**	

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	**4,432**	**5,868**	**7,270**	**9,734**	**11,760**
Residential PM	2,763	3,472	3,838	4,582	5,293
Commercial operations	1,668	2,397	3,432	5,152	6,467
Cost of sales	(3,766)	(4,926)	(5,418)	(7,026)	(8,361)
Gross Profit	**665**	**942**	**1,853**	**2,708**	**3,399**
Other income	55	77	92	64	64
Selling expenses	(54)	(71)	(88)	(88)	(94)
Administrative expenses	(335)	(432)	(553)	(604)	(647)
Other gains/(losses)	308	45	(34)	(5)	(5)
Operating profit	**640**	**561**	**1,269**	**2,076**	**2,717**
JV/Associates	-	-	-	-	-
Finance cost	(68)	(64)	(65)	(64)	(64)
Pre-tax Profit	**572**	**497**	**1,204**	**2,012**	**2,653**
Income tax	(149)	(132)	(313)	(513)	(676)
PROFIT FOR THE YEAR	**423**	**365**	**891**	**1,499**	**1,976**
Non-controlling interest	-	-	-	-	-
Net Profit attribute to shareholders	**423**	**365**	**891**	**1,499**	**1,976**

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	**2,382**	**2,478**	**2,498**	**2,520**	**2,538**
Property, plant and	180	203	229	251	269
Investment properties	2,168	2,218	2,218	2,218	2,218
Others	34	57	52	52	52
Current assets	**3,360**	**4,623**	**18,164**	**20,600**	**23,128**
Inventories	106	106	116	151	180
Trade and other receivables	1,933	3,188	3,949	5,288	6,388
Cash and cash equivalents	1,136	605	12,650	13,714	15,112
Others	185	724	1,448	1,448	1,448
Total assets	**5,742**	**7,101**	**20,662**	**23,120**	**25,666**
Current liabilities	**3,685**	**4,637**	**5,181**	**6,737**	**8,026**
Trade and other payables	2,898	3,739	4,112	5,333	6,346
Others	787	899	1,069	1,404	1,680
Non-current liabilities	**1,390**	**1,432**	**1,435**	**1,435**	**1,435**
Deferred income tax liabilities	176	202	212	212	212
Others	1,214	1,230	1,223	1,223	1,223
Total liabilities	**5,075**	**6,070**	**6,616**	**8,172**	**9,461**
Equity to shareholders	**667**	**1,032**	**14,046**	**14,949**	**16,205**
Non-controlling interests	-	-	-	-	-
Total Equity	**667**	**1,032**	**14,046**	**14,949**	**16,205**

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before tax	**572**	**497**	**1,204**	**2,012**	**2,653**
D&A	42	53	50	54	58
Change in working capital	865	(10)	(399)	(152)	(116)
Others	(337)	(84)	(313)	(513)	(676)
Net cash from operating	**1,142**	**455**	**542**	**1,401**	**1,918**
Capex	(184)	(76)	(70)	(70)	(70)
JV/Associates	-	1	2	3	4
Others	(544)	(1,009)	(2)	(3)	(4)
Net cash from investing	**(727)**	**(1,084)**	**(70)**	**(70)**	**(70)**
Equity raised	-	-	11,682	-	-
Change of debts	73	191	-	-	-
Others	(223)	(92)	(109)	(267)	(450)
Net cash from financing	**(150)**	**99**	**11,573**	**(267)**	**(450)**
Net change in cash	265	(531)	12,045	1,064	1,399
Cash at the beginning of the year	**871**	**1,136**	**605**	**12,650**	**13,714**
Exchange difference	-	-	-	-	-
Cash at the end of the year	**1,136**	**605**	**12,650**	**13,714**	**15,112**

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Residential PM	62.4	59.2	52.8	47.1	45.0
Commercial PM	37.6	40.8	47.2	52.9	55.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Profit & loss ratios (%)					
Gross margin	15.0	16.1	25.5	27.8	28.9
Net margin	9.5	6.2	12.3	15.4	16.8
Effective tax rate	26.1	26.5	26.0	25.5	25.5
Growth (%)					
Revenue	41.6	32.4	23.9	33.9	20.8
Gross profit	63.4	41.6	96.6	46.2	25.5
Operating profit	17.6	-12.4	126.4	63.5	30.9
Net profit	8.9	-13.7	144.2	68.2	31.8
Balance sheet ratios					
Current ratio (x)	0.9	1.0	3.5	3.1	2.9
Receivable turnover days	35	37	37	37	37
Returns (%)					
ROE	63.4	35.4	6.3	10.0	12.2
ROA	7.4	5.1	4.3	6.5	7.7
Per share					
EPS (RMB)	N.A.	N.A.	0.39	0.66	0.87
DPS (RMB)	N.A.	N.A.	0.12	0.20	0.26
BVPS (RMB)	N.A.	N.A.	6.15	6.55	7.10

Source: Company data, CMBIS estimates

Ever Sunshine (1995 HK)

Continuous beat is the new norm

We expect the Company to achieve industry-fastest earnings growth of 76% CAGR in 2019-2022E and meet its NP target of RMB1bn as early as 2022. What drives these numbers is the strong execution, proven by market-leading third party expansion capability, early penetration into VAS business and patience for high-quality M&A opportunity with parentco. With 18.6% share incentive, we think the management would continue to deliver higher-than-expected results. Raise TP to HK$28.8 and reiterate Buy (Top pick). **Catalyst:** 2020E results beat.

- **Strong third party expansion capability to win the market share battle:** Different from peers, the Company relies heavily on the third party expansion to grow its GFA under management. Based on 1H20, 60% of managed GFA is coming from this channel and we think it has to do with its parentco CIFI's JV model with many partners and strong execution. In the era of market share competition, this capability would be the key to drive mid-to-long term growth and thus gain market share from others. Therefore, Ever Sunshine would be the potential winner in the battle.

- **Robust Community VAS growth:** The Company has long focused on the growth of Community VAS and this part has contributed 26% in 2019 vs. industry of 14%. We expect it to grow 71% CAGR in 2019-22E mainly riding on the fast GFA growth of 51% and improving penetration. The future growth may lie on the expansion of retail.

- **Patience for high-quality M&A pays off.** With strong third party expansion, the Company is very cautious on the M&A expansion due to higher quality requirement. This is evidenced by its GFA contribution via M&A at only 10% of total via industry average of 20%. We think this conservative approach could help company focus on high-quality M&A with strategical and margin benefits. On 7 Jan, the Company spent RMB433mn acquiring 65% of Zhangtai Service Group, a Guangxi provincial PM firm with contracted GFA of 23mn sq m. It has a high gross and net margin of 30%/20%, higher than the Company and also the valuation is only at 11x PE. We expect it to continue this M&A approach to further boost the earnings.

- **Market-leading incentive plan for its management.** According to the announcement of Jun 2019, the Company will use 18.6% of shares (held by Chairman Lin's family) to reward the management team with a wide coverage. This is far greater than the industry-average package and thus it may have more impact to boost its market-leading execution.

- **Raised TP to HK$28.8 and Reiterate BUY.** We revise up our FY20/21/22E net profit forecast and expect to reach RMB428/740/1141mn, which is 10-20% higher than the consensus on faster-than-expected GFA and Community VAS growth. We derive the target price of HK$28.8 by using 35x 2022E PE based on our scorecard and reiterate Buy (our Top pick). Currently it is trading at 28x 2022E PE vs. its historical average of 25x and we think further re-rating would come from strong earnings beat.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	1,076	1,878	3,417	5,739	8,830
YoY growth (%)	48.3	74.5	82.0	68.0	53.9
Net income (RMB mn)	101	224	428	740	1,141
EPS (RMB)	0.09	0.15	0.27	0.44	0.68
YoY growth (%)	29.6	64.7	82.3	66.7	54.2
Consensus EPS (RMB)	N.A.	N.A.	0.24	0.37	0.56
P/E (x)	120.0	72.8	71.4	42.8	27.8
P/B (x)	18.1	26.5	12.0	9.9	7.8
Yield (%)	0.2	0.4	0.4	0.7	1.0
ROE (%)	11.2	19.5	12.7	18.6	23.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	**HK$28.80**
(Previous TP	HK$14.00)
Up/Downside	**+22.6%**
Current Price	**HK$23.5**

China Property Service Sector

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Stock Data

Mkt Cap (HK$ mn)	38,920
Avg 3 mths t/o (HK$ mn)	126.56
52w High/Low (HK$)	23.30/5.54
Total Issued Shares (mn)	1,670

Source: Bloomberg

Shareholding Structure

Lin Family	31.1%
CIFI Holdings	21.5%
Free float	47.4%

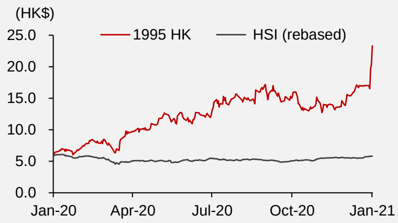
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	45.6%	40.1%
3-mth	35.3%	19.1%
6-mth	62.9%	53.6%
12-mth	257.4%	267.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	**1,076**	**1,878**	**3,417**	**5,739**	**8,830**
Basic PM	667	1,070	1,894	3,069	4,419
Non-owner VAS	211	325	626	1,134	1,977
Community VAS	198	483	897	1,536	2,434
Cost of sales	(767)	(1,322)	(2,288)	(3,773)	(5,779)
Gross Profit	**309**	**555**	**1,128**	**1,966**	**3,051**
Other income	16	-	-	-	-
Administrative expenses	(187)	9	16	35	20
Other expenses	(5)	-	(4)	(24)	(39)
Operating profit	**133**	**564**	**1,140**	**1,977**	**3,031**
JV/Associates	9	(0)	-	-	-
Finance cost	(0)	(1)	(1)	(1)	(1)
Exceptional	(0)	13	-	-	-
Pre-tax Profit	**142**	**329**	**691**	**1,219**	**1,891**
Income tax	(42)	(80)	(176)	(311)	(482)
PROFIT FOR THE YEAR	**100**	**249**	**515**	**908**	**1,409**
Non-controlling interest	0	(25)	(86)	(168)	(268)
Net Profit attribute to shareholders	**101**	**224**	**428**	**740**	**1,141**

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	**109**	**670**	**675**	**680**	**685**
Property, plant and equipment	27	62	67	72	77
Investment properties	49	51	51	51	51
Others	33	557	557	557	557
Current assets	**1,384**	**1,808**	**4,053**	**4,976**	**6,358**
Inventories	-	-	-	-	-
Trade and other receivables	213	481	762	1,185	1,747
Cash and cash equivalents	1,160	1,284	3,249	3,749	4,568
Others	10	43	43	43	43
Total assets	**1,493**	**2,478**	**4,728**	**5,656**	**7,044**
Current liabilities	**574**	**1,187**	**1,131**	**1,280**	**1,481**
Trade and other payables	358	775	719	868	1,068
Others	216	412	412	412	412
Non-current liabilities	**16**	**63**	**63**	**63**	**63**
Deferred income tax	16	49	49	49	49
Others	-	14	14	14	14
Total liabilities	**590**	**1,250**	**1,194**	**1,343**	**1,544**
Equity to shareholders	**899**	**1,148**	**3,367**	**3,979**	**4,898**
Non-controlling interests	4	80	167	334	602
Total Equity	**903**	**1,228**	**3,534**	**4,313**	**5,500**

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before tax	**142**	**329**	**691**	**1,219**	**1,891**
D&A	4	16	15	15	15
Change in working capital	67	219	(336)	(275)	(362)
Others	(37)	(55)	24	(311)	(482)
Net cash from operating	**175**	**509**	**394**	**649**	**1,061**
Capex	(15)	(18)	(20)	(20)	(20)
JV/Associates	-	1	2	3	4
Others	9	(301)	(2)	(3)	(4)
Net cash from investing	**(6)**	**(318)**	**(20)**	**(20)**	**(20)**
Equity raised	-	56	1,522	-	-
Change of debts	9	(9)	-	-	-
Others	544	(131)	69	(128)	(222)
Net cash from financing	**553**	**(83)**	**1,591**	**(128)**	**(222)**
Net change in cash	722	108	1,965	500	819
Cash at the beginning of the year	**438**	**1,160**	**1,284**	**3,249**	**3,749**
Exchange difference	-	16	-	-	-
Cash at the end of the year	**1,160**	**1,284**	**3,249**	**3,749**	**4,568**

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Basic PM	62.0	57.0	55.4	53.5	50.0
Non-owner VAS	19.6	17.3	18.3	19.8	22.4
Community VAS	18.4	25.7	26.2	26.8	27.6
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Profit & loss ratios (%)					
Gross margin	28.7	29.6	33.0	34.3	34.5
Net margin	9.3	11.9	12.5	12.9	12.9
Effective tax rate	29.3	24.2	25.5	25.5	25.5
Growth (%)					
Revenue	48.3	74.5	82.0	68.0	53.9
Gross profit	68.9	79.7	103.2	74.2	55.2
Operating profit	29.4	138.1	118.6	76.2	55.1
Net profit	31.5	122.7	91.3	72.8	54.2
Balance sheet ratios					
Current ratio (x)	2.4	1.5	3.6	3.9	4.3
Receivable turnover days	55	66	66	66	66
Returns (%)					
ROE	11.2	19.5	12.7	18.6	23.3
ROA	6.7	9.0	9.1	13.1	16.2
Per share					
EPS (RMB)	0.09	0.15	0.27	0.44	0.68
DPS (RMB)	0.02	0.04	0.08	0.13	0.20
BVPS (RMB)	0.59	0.40	1.70	2.06	2.61

Source: Company data, CMBIS estimates

25 Jan 2021

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Powerlong Commercial (9909 HK)

Potential market share gain in YRD region

As the key shopping mall service provider in YRD, we expect the Company to benefit from consumption boom and gain market share in the region via 1) parentco's fast growth as major competitors in the region have relatively slowed down; 2) active M&A and asset light model. Therefore, we think the number of managed malls can reach the size of 170 by 2025 from est. 76 malls in 2020 (50+ in the pipeline) and thus deliver 44% earnings growth. We initiate with BUY rating at TP HK$ 30.9, which equals 30x 2022E P/E based on score card.

- **Power shift in the YRD makes way for Powerlong's rise.** We favor YRD-based commercial operators for its high GDP per capita and economic activity. Powerlong RE (1238 HK, NR) currently ranks No.5 among major YRD-based developers focusing mainly on lower-tier cities. As top competitors like Wanda and Seazen have slowed down in land acquisition, and CR Land (1109 HK, BUY, TP: HK$44.79) focuses more on tier 1 and 2 cities, we see room for Powerlong RE to climb up the ranks, and consequently, better likelihood for Powerlong to deliver its GFA target.
- **50+ malls in pipeline targeting consumers with medium spending power.** Powerlong targets a wide range of consumers with projects ranging from large individual mall complexes to shopping streets tied to residential projects. Powerlong aims for commercial GFA gain of 2mn sq m per year in 2021E-25E (20+ new malls per year), mostly small-to-medium-sized malls with a few large flagship projects (equal GFA split between small, medium, and large-sized projects).
- **Existing malls to benefit from 2021 consumption boom.** We expect a macro-level consumption boom in 2021, boosting mall rental income which Powerlong receives ~5% in commercial operations. Increased footfall and sales activity also provides assurances to key commitments such as improving occupancy rate to ~95% (1H20: 87%) and raising mgmt. fee (est. ~5% p.a.).
- **Initiate with BUY with TP HK$30.9.** We expect Powerlong to deliver est. 79% earnings growth YoY in 2020 on 1) est. 21 new malls to reach 76 malls in operation; 2) better-than-expected COVID-19 impact in 1H; and 3) mall sales recovery in 2H. Catalysts: 1) Update on key commercial PM metrics; 2) New mall openings and third-party gains; 3) Outperformance of key peer in CR Mixc Lifestyle (1209 HK, BUY, TP: HK$52.2). Set TP to HK$30.9, which equals 30x 2022E P/E; Initiate with BUY.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	1,200	1,620	2,157	2,751	3,461
YoY growth (%)	23.4	35.0	33.1	27.5	25.8
Net income (RMB mn)	133	179	320	415	532
EPS (RMB)	N.A.	0.44	0.51	0.67	0.85
YoY growth (%)	N.A.	N.A.	16.9	29.7	28.1
Consensus EPS (RMB)	N.A.	0.44	0.48	0.70	0.94
P/E (x)	N.A.	N.A.	46.0	35.5	27.7
P/B (x)	N.A.	N.A.	5.8	4.9	4.2
Yield (%)	N.A.	N.A.	1.1	1.4	1.8
ROE (%)	58.0	11.3	12.6	13.8	15.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

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BUY (Initiation)

Target Price	**HK$30.9**
Up/Downside	**+26.6%**
Current Price	**HK$24.40**

China Property Service Sector

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Stock Data

Mkt Cap (HK$ mn)	18,354
Avg 3 mths t/o (HK$ mn)	44.21
52w High/Low (HK$)	29.85/9.05
Total Issued Shares (mn)	644

Source: Bloomberg

Shareholding Structure

Powerlong Real Estate	65.1%
Hoi Wa Fong	7.2%
Free float	27.7%

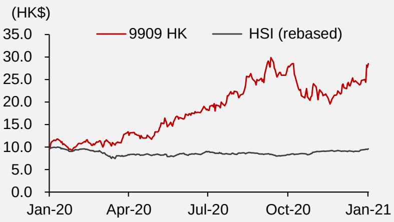
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	27.4%	22.5%
3-mth	0.9%	-11.2%
6-mth	50.5%	41.9%
12-mth	185.6%	193.6%

Source: Bloomberg

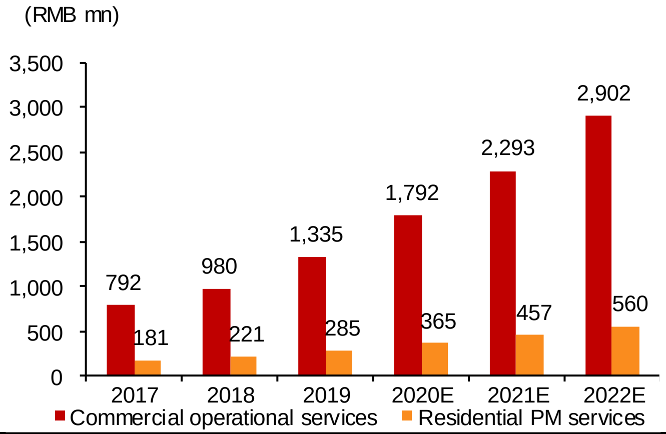
12-mth Price Performance



Source: Bloomberg

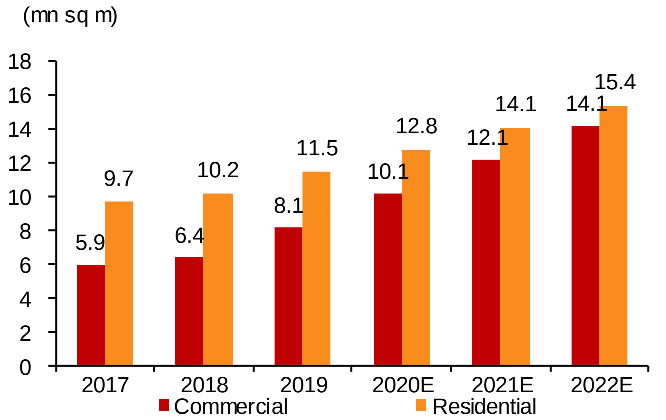
Auditor: PwC

Figure 59: Revenue



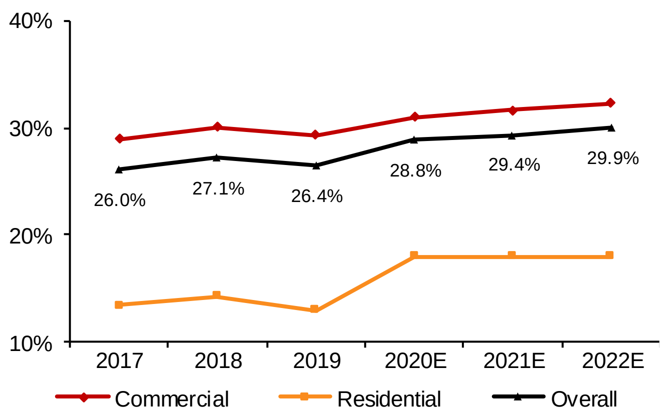
Source: Company data, CMBIS estimates

Figure 60: GFA under management



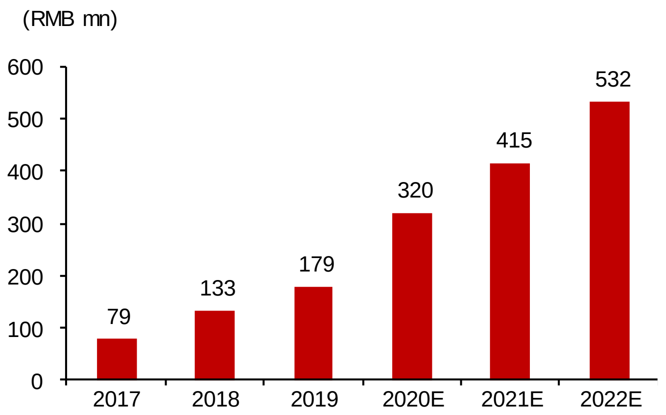
Source: Company data, CMBIS estimates

Figure 61: Gross profit margin



Source: Company data, CMBIS estimates

Figure 62: Net profit



Source: Company data, CMBIS estimates

Figure 63: Powerlong's commercial segment revenue model

Service provided	Revenue model
Pre-opening design and construction	
Consultancy services (project positioning and planning)	One-time fixed fee
Tenant sourcing	One-time fixed fee
Post-opening operation	
Property management service	Lump sum or commission basis
Commercial operational service, including:	
Tenant management	Commission basis
Marketing services	Fixed price based on GFA
Event organization	One-time fixed fee
Value-added service	Commission basis

Source: Company data, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	**1,200**	**1,620**	**2,157**	**2,751**	**3,461**
Commercial PM	980	1,335	1,792	2,293	2,902
Residential PM	221	285	365	457	560
Cost of sales	(875)	(1,192)	(1,536)	(1,943)	(2,425)
Gross Profit	**326**	**428**	**621**	**807**	**1,037**
Other income	14	17	-	-	-
Selling expenses	(31)	(42)	(56)	(72)	(90)
Administrative expenses	(80)	(117)	(129)	(165)	(208)
Impairment	(3)	(7)	-	-	-
Operating profit	**225**	**279**	**436**	**571**	**739**
JV/Associates	-	-	-	-	-
Finance cost	(43)	(32)	-	-	-
Pre-tax Profit	**183**	**247**	**436**	**571**	**739**
Income tax	(50)	(69)	(109)	(143)	(185)
PROFIT FOR THE YEAR	**133**	**179**	**327**	**428**	**554**
Non-controlling interest	-	-	(7)	(13)	(22)
Attributable NP	**133**	**179**	**320**	**415**	**532**

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	**719**	**267**	**649**	**799**	**940**
PPE	173	7	45	60	66
Investment properties	156	207	220	250	280
Others	390	53	384	489	594
Current assets	**1,458**	**2,824**	**3,168**	**3,665**	**4,295**
Trade and other receivables	416	205	243	284	334
Cash and cash equivalents	553	2,616	2,922	3,378	3,957
Others	489	3	3	3	3
Total assets	**2,178**	**3,091**	**3,817**	**4,464**	**5,235**
Current liabilities	**1,597**	**1,313**	**1,102**	**1,296**	**1,555**
Trade and other payables	648	763	922	1,166	1,455
Others	949	550	180	130	100
Non-current liabilities	**351**	**190**	**176**	**163**	**144**
Deferred income tax	7	-	-	-	-
Others	344	190	176	163	144
Total liabilities	**1,948**	**1,504**	**1,278**	**1,459**	**1,699**
Equity to shareholders	**230**	**1,587**	**2,539**	**3,005**	**3,536**
Non-controlling interests	-	-	-	-	-
Total Equity	**230**	**1,587**	**2,539**	**3,005**	**3,536**

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before tax	**183**	**247**	**436**	**571**	**739**
D&A	109	104	4	27	36
Change in working capital	54	224	121	203	239
Others	10	(41)	(109)	(143)	(185)
Net cash from operating	**356**	**533**	**452**	**658**	**829**
Capex	(3)	(6)	(42)	(42)	(42)
JV/Associates	-	(5)	-	-	-
Others	(29)	713	-	-	-
Net cash from investing	**(31)**	**702**	**(42)**	**(42)**	**(42)**
Equity raised	-	1,277	-	-	-
Change of debts	170	(364)	-	-	-
Others	(55)	(85)	(103)	(160)	(208)
Net cash from financing	**116**	**827**	**(103)**	**(160)**	**(208)**
Net change in cash	441	2,063	306	456	579
Cash at the beginning of the year	**113**	**553**	**2,616**	**2,922**	**3,378**
Exchange difference	(0)	(0)	-	-	-
Cash at the end of the year	**553**	**2,616**	**2,922**	**3,378**	**3,957**

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Commercial PM	81.6	82.4	83.1	83.4	83.8
Residential PM	18.4	17.6	16.9	16.6	16.2
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Profit & loss ratios (%)					
Gross margin	27.1	26.4	28.8	29.4	29.9
Net margin	11.1	11.0	14.8	15.1	15.4
Effective tax rate	27.1	27.8	25.0	25.0	25.0
Growth (%)					
Revenue	23.4	35.0	33.1	27.5	25.8
Gross profit	28.6	31.5	45.0	30.0	28.4
Operating profit	51.9	23.9	56.0	31.0	29.4
Net profit	69.7	34.0	79.3	29.7	28.1
Balance sheet ratios					
Current ratio (x)	0.9	2.1	2.9	2.8	2.7
Receivable turnover days	25	26	26	26	26
Returns (%)					
ROE	58.0	11.3	12.6	13.8	15.0
ROA	6.1	5.8	8.4	9.3	10.2
Per share					
EPS (RMB)	N.A.	0.44	0.51	0.67	0.85
DPS (RMB)	N.A.	0.17	0.26	0.33	0.43
BVPS (RMB)	N.A.	2.65	4.08	4.83	5.68

Source: Company data, CMBIS estimates

25 Jan 2021

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S-Enjoy Service (1755 HK)

Fast-scaling player with long-term ASP edge

S-Enjoy Service ("S-Enjoy") has reached 200mn sq m in contracted GFA and 100m in managed GFA, with 40% from third-party bidding and M&As. We see S-Enjoy as a fast-scaling player with competitive edge in 1) long-term mgmt. fee hikes driven by new policy and market share in YangTze River Delta; 2) surge in community VAS thanks to rapid expansion and new offerings. We derive TP of HK$29.5 from 25x 2022E P/E. **Initiate with BUY.**

- **Managed GFA to grow 66% by 2022E.** S-Enjoy reached 200mn sq m in contracted GFA and 100m in managed GFA, thanks to est. +40% YoY in parentco delivery and ~16mn sq m in M&As. We estimate managed GFA to grow 66% in the next two years, with 46% new delivery comings from third-party bidding or M&A.
- **Main beneficiary of MOHURD's guidance on mgmt. fee hikes.** S-Enjoy historically had high new project/third-party delivery ratio at ~85%, which coupled with its fast GFA growth, makes the Company a main beneficiary of MOHURD's new guidance on flexible mgmt. fees. We expect S-Enjoy's floating fee-GFA (mainly consisting of new projects) to reach a sector-high 25% of total managed GFA by 2025E, ensuring competitive advantage in the long term.
- **Community VAS bolstered by fast expansion and new offerings.** We expect +110% YoY community VAS revenue in 2020E given 1H20 outperformance, and expect community VAS to continue to be a major driver given S-Enjoy's rapid expansion. In particular, we expect home living (新城居) and community AM services (橙享家) to continue their rapid growth, with new services in catering, elevator service, etc. as potential highlights. We expect community retail business (新橙社) to perform strongly this year but gradually lose momentum due to lack of infrastructure in place.
- **Set TP at HK$29.5; Initiate with BUY.** We estimate 41.8% 2019-22E earnings CAGR, potentially with further upsides in policy-driven residential fee hikes. **Major catalysts:** 1) 2020 results announcement; 2) New community VAS offerings. We derive TP of HK$29.5 from 25x 2022E P/E. **Initiate with BUY.**

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	1,173	2,024	3,048	4,148	5,153
YoY growth (%)	35.4	72.5	50.6	36.1	24.2
Net income (RMB mn)	152	282	518	660	804
EPS (RMB)	0.24	0.34	0.63	0.80	0.98
YoY growth (%)	N.A.	42.9	83.8	27.3	21.8
Consensus EPS (RMB)	0.24	0.34	0.53	0.80	1.17
P/E (x)	N.A.	54.5	29.7	23.3	19.1
P/B (x)	N.A.	16.1	12.2	8.5	3.5
Yield (%)	N.A.	1.0	1.5	1.9	2.4
ROE (%)	17.8	30.5	43.4	39.2	35.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

招银国际 CMB INTERNATIONAL
招商银行全资附属机构 A Wholly Owned Subsidiary Of China Merchants Bank

BUY (Initiation)

Target Price	**HK$29.50**
Up/Downside	**+28.4%**
Current Price	**HK$23.0**

China Property Service Sector

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Stock Data

Mkt Cap (HK$ mn)	18,533
Avg 3 mths t/o (HK$ mn)	30.12
52w High/Low (HK$)	27.65/10.80
Total Issued Shares (mn)	820

Source: Bloomberg

Shareholding Structure

Wang Zhenhua	73.2%
Free float	26.8%

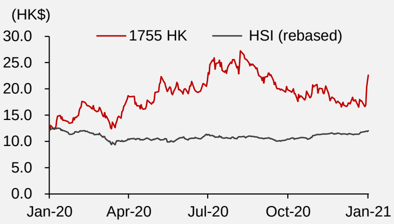
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	25.0%	20.3%
3-mth	7.5%	-5.4%
6-mth	-0.5%	-6.1%
12-mth	74.3%	79.2%

Source: Bloomberg

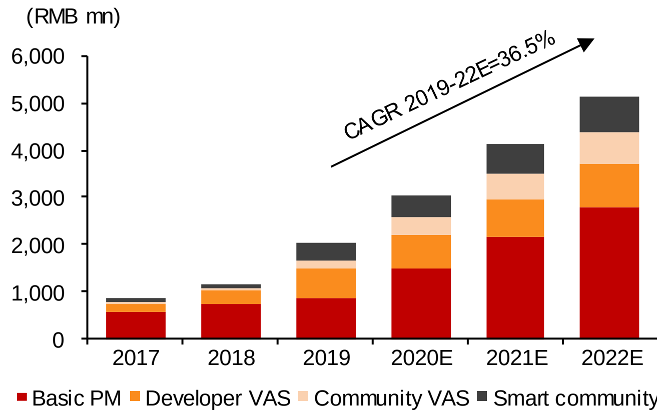
12-mth Price Performance



Source: Bloomberg

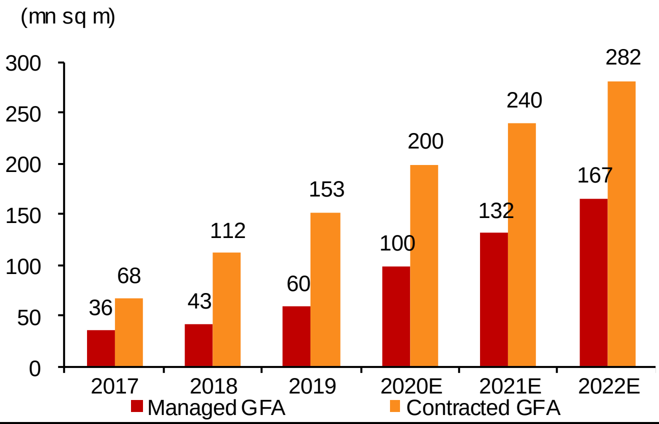
Auditor: PwC

Figure 64: Revenue



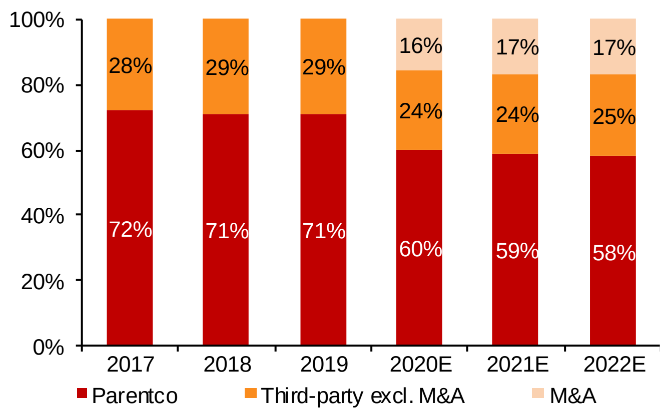
Source: Company data, CMBIS estimates

Figure 65: Managed and contracted GFA



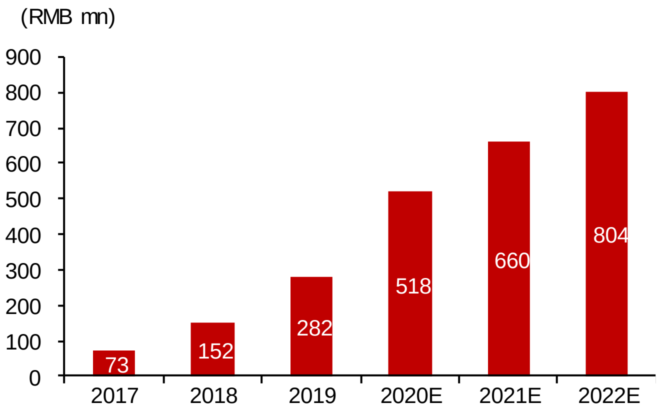
Source: Company data, CMBIS estimates

Figure 66: Managed GFA breakdown by source



Source: Company data, CMBIS estimates

Figure 67: Net profit



Source: Company data, CMBIS estimates

Figure 68: S-Enjoy to benefit from floating-fee policy in the long term

Floating-fee GFA as % of total	2021E	2022E	2023E	2024E	2025E
S-Enjoy Service	1%	4%	10%	17%	25%
Ever Sunshine	1%	4%	10%	16%	24%
Central China New Life	1%	3%	8%	14%	20%
Greentown Service	1%	3%	7%	12%	19%
Languang Justbon	1%	3%	7%	12%	18%
Poly Services	1%	3%	7%	12%	18%
Redsun Services	1%	4%	7%	11%	17%
Country Garden Services	1%	3%	6%	10%	15%
A-Living	0%	1%	3%	6%	9%
Average	1%	3%	8%	14%	20%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	**1,173**	**2,024**	**3,048**	**4,148**	**5,153**
Property management services	732	849	1,491	2,162	2,800
Developer VAS	297	648	725	813	910
Community VAS	48	176	370	534	670
Smart community services	97	351	461	639	773
Cost of sales	(828)	(1,424)	(2,156)	(2,962)	(3,678)
Gross Profit	**345**	**600**	**892**	**1,185**	**1,476**
Other income	11	25	30	25	25
Selling expenses	(7)	(11)	(18)	(25)	(31)
Administrative expenses	(148)	(234)	(176)	(255)	(330)
Other gains/(losses)	18	6	-	-	-
Impairment	(12)	(10)	(4)	(4)	(5)
Operating profit	**207**	**375**	**724**	**926**	**1,135**
Finance cost	6	17	-	-	-
Pre-tax Profit	**213**	**392**	**724**	**926**	**1,135**
Income tax	(48)	(90)	(166)	(213)	(261)
PROFIT FOR THE YEAR	**165**	**302**	**557**	**713**	**874**
Non-controlling interest	(13)	(20)	(39)	(54)	(70)
Net Profit attribute to shareholders	**152**	**282**	**518**	**660**	**804**

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	**55**	**148**	**149**	**151**	**152**
Property, plant and	8	9	10	10	10
Others	46	139	139	141	142
Current assets	**1,518**	**2,052**	**2,798**	**3,951**	**5,146**
Inventories	12	11	16	22	27
Trade and other receivables	225	363	557	764	976
Cash and cash equivalents	1,281	1,339	1,874	2,754	3,662
Others	-	339	351	411	481
Total assets	**1,572**	**2,200**	**2,947**	**4,102**	**5,298**
Current liabilities	**689**	**1,215**	**1,657**	**2,269**	**2,818**
Trade and other payables	417	774	1,078	1,481	1,839
Others	272	441	579	788	979
Non-current liabilities	**6**	**18**	**13**	**13**	**13**
Deferred income tax liabilities	5	13	13	13	13
Others	1	4	-	-	-
Total liabilities	**694**	**1,233**	**1,670**	**2,282**	**2,831**
Equity to shareholders	**855**	**924**	**1,195**	**1,684**	**2,262**
Non-controlling interests	23	43	82	135	205
Total Equity	**878**	**967**	**1,277**	**1,819**	**2,467**

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before tax	**213**	**392**	**724**	**926**	**1,135**
D&A	3	10	4	5	5
Change in working capital	15	219	293	400	331
Others	(46)	(76)	(166)	(213)	(261)
Net cash from operating activities	**186**	**545**	**855**	**1,118**	**1,210**
Capex	(2)	(4)	(5)	(5)	(5)
JV/Associates	-	1	2	3	4
Others	12	(260)	(169)	(3)	(4)
Net cash from investing activities	**9**	**(264)**	**(172)**	**(5)**	**(5)**
Equity raised	538	-	-	-	-
Change of debts	-	-	-	-	-
Others	(108)	(225)	(147)	(233)	(297)
Net cash from financing activities	**430**	**(225)**	**(147)**	**(233)**	**(297)**
Net change in cash	625	56	535	880	908
Cash at the beginning of the year	**638**	**1,281**	**1,339**	**1,874**	**2,754**
Exchange difference	19	2	-	-	-
Cash at the end of the year	**1,281**	**1,339**	**1,874**	**2,754**	**3,662**

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Property management services	62.4	41.9	48.9	52.1	54.3
Developer VAS	25.3	32.0	23.8	19.6	17.7
Community VAS	4.1	8.7	12.2	12.9	13.0
Smart community services	8.2	17.4	15.1	15.4	15.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Profit & loss ratios (%)					
Gross margin	29.4	29.6	29.3	28.6	28.6
Net margin	13.0	13.9	17.0	15.9	15.6
Effective tax rate	22.7	23.0	23.0	23.0	23.0
Growth (%)					
Revenue	35.4	72.5	50.6	36.1	24.2
Gross profit	42.4	73.9	48.6	33.0	24.5
Operating profit	95.2	81.0	92.9	28.0	22.5
Net profit	107.3	85.3	83.8	27.3	21.8
Balance sheet ratios					
Current ratio (x)	2.2	1.7	1.7	1.7	1.8
Receivable turnover days	40	47	55	58	62
Returns (%)					
ROE	17.8	30.5	43.4	39.2	35.5
ROA	9.7	12.8	17.6	16.1	15.2
Per share					
EPS (RMB)	0.24	0.34	0.63	0.80	0.98
DPS (RMB)	0.10	0.18	0.28	0.36	0.44
BVPS (RMB)	1.06	1.16	1.54	2.20	2.99

Source: Company data, CMBIS estimates

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