

Greentown Management (9979 HK)

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Company Update

BUY

Maintain

Close price: HK\$6.65

Target Price: HK\$9.65(+45.1%)

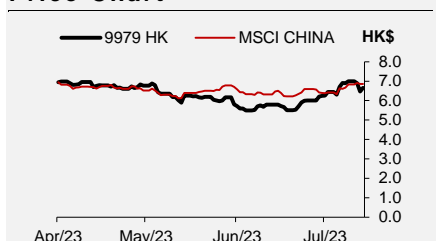
Prior TP: HK\$7.50

Key Data

HKEx code	9979 HK
12 Months High (HK\$)	7.84
12 Month Low (HK\$)	4.12
3M Avg Dail Vol. (mn)	2.88
Issue Share (mn)	2,010.00
Market Cap (HK\$mn)	13,366.50
Fiscal Year	12/2022
Major shareholder (s)	Greentown China (71.28%)

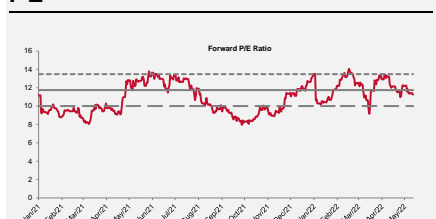
Source: Company data, Bloomberg, OP Research
Closing price are as of 3 Aug 2023

Price Chart



	1mth	3mth	6mth
Absolute %	+14.9	-2.1	+8.3
Rel. MSCI CHINA %	+11.5	-1.9	+21.0

PE



Company Profile

Greentown Management provides a full range of consultation and management services during the property development process. According to China Index Academy, it is the largest project management company in the PRC real estate market in 2019.

Impressive results in 1H23 backed by strong contracts growth

- Profit to shareholders rose 31.3% yoy to RMB473.6mn, on the back of 23.1% yoy increase in revenue to RMB1.55bn. No interim dividend was declared.
- Strong growth of newly contracted projects under the property headwinds. Surging new projects from financial institutions.
- Maintain BUY and tune up TP to HK\$9.65 on 18.0x FY23E PER.

Impressive growth in 23H1. We are impressed by the strong earnings of Greentown Management even though the property market in China is under hardship. We would like to highlight: (1) the improvement in GPM(+1.6p.p. to 52.0%), which is mainly driven by a higher contribution from commercial property projects, (2) the stringent control on Opex (admin expenses +2.1% yoy only in contrast to + 23% yoy in revenue) and (3) the strong contracted sales under Greentown Management's project management services (+28.9% yoy).

Strong growth of newly contracted projects, more diversified customer bases. During 1H23, the new project GFA and estimated project management fee were 17.3mn sqm and RMB5.12bn, up 30.6% and 26.3%, respectively. The company deepens its cooperation with financial institutions so that it acts as a market expert to release the value of bailout projects and urban investment. For the newly contracted projects signed in 2023H1, 17.8% of the newly contracted projects (in terms of GFA) were from financial institutions, while the estimated project management fees from financial institutions rose 94.5%. Meanwhile, the company provides more diversified businesses and services to cater to the different demands of different customers.

The new management arrangement makes it easier for Greentown Management to access Greentown China's resources. This will accelerate its development under prevailing industry conditions. We think the market over reacts to the arrangement on Mr. Li Jun, which he ceased to act as the CEO will be appointed as the vice chairman of the board. It is understood that Mr. Li is fully responsible of the company's development and have more management rights and resources.

Maintain BUY and lift TP to HK\$9.65, representing 18.0x PER in FY23E. Greentown Management is an unrivaled market leader in the property project management market, benefiting from the growing participation of government, SOEs and financial institutions in the property market. We think its property project service model is hard to replicate by its peers given the sound track record, the talent reserves, and the strong reputation. We tune up our EPS(HK\$) forecast on Greentown Management by +2.4%/+4.8% for FY23E/24E on the back of strong growth of new commercial projects, partly offset by the recent RMB weakness. We project net profit to grow at a CAGR of 28.5% between FY23E and 25E.

Risks: (1) Weak property sales, (2) Increase market competitions

Exhibit 1: Forecast and Valuation

Year to Dec (RMB mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	2,243	2,656	3,292	4,187	5,149
Growth (%)	+23.7	+18.4	+23.9	+27.2	+23.0
Adj. net profit	565	745	971	1,264	1,581
Growth (%)	+20.5	+31.7	+30.4	+30.2	+25.1
Adj. diluted EPS (HK\$)	0.352	0.435	0.531	0.692	0.865
Adj. EPS growth (%)	+16.8	+23.6	+22.1	+30.2	+25.1
Change to previous EPS (%)			+2.4	+4.8	
Consensus EPS (HK\$)			0.520	0.648	0.792
ROE (%)	17.5	20.6	25.5	32.0	36.2
P/E (x)	18.9	15.3	12.5	9.6	7.7
P/B (x)	3.2	3.1	3.3	3.0	2.7
Yield (%)	3.5	6.4	6.4	8.3	10.4
DPS (HK\$)	0.2344	0.4232	0.43	0.55	0.69

Source: Bloomberg, OP Research

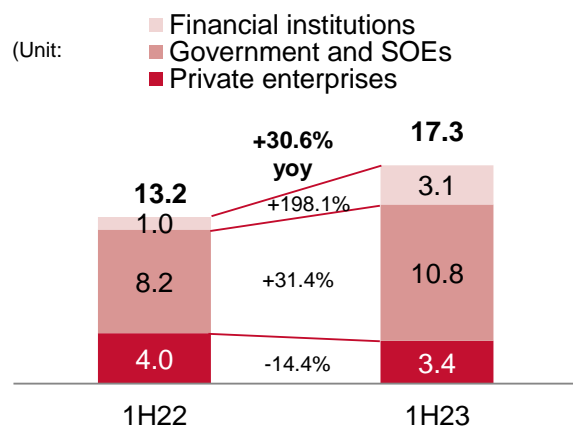
Exhibit 2: Greentown Management's earnings review – 1H23

	1H23	1H22	Yoy%	Remarks
Profitability Data (in RMB mn)				
Revenue	1,549.0	1258.5	+23.1%	
Project - Commercial	1,064.8	764.7	+39.2%	
Project - Government	395.2	381.3	+3.6%	
Others	89.0	112.5	-20.9%	
Gross profit	806.2	634.7	+27.0%	
Profit attributable to shareholders	473.6	360.8	+31.3%	
Profitability ratio (%)				
Gross Margin	52.0%	50.4%	+1.6p.p.	Due to the higher revenue contribution from commercial project management, which has a higher GPM
Operating ratio (%)				
Admin expenses to revenue	14.8%	17.8%	-3.0p.p.	This is mainly due to the absence of an equity incentive plan in 1H23.
Effective tax rate	22.2%	21.7%	+0.5p.p.	
Key operating figures				
Total GFA of contracted projects (in mn sqm)	113.6	94.3	+20.4%	

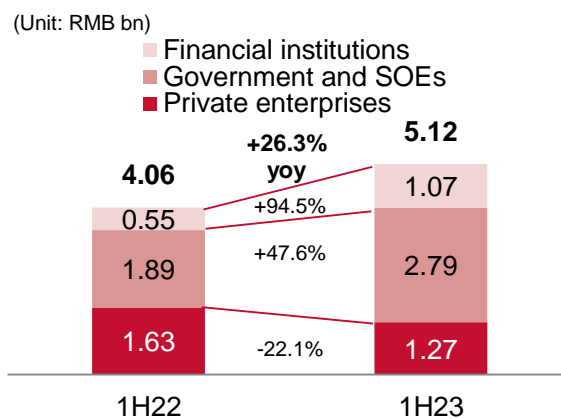
Source: OP Research, Company

Exhibit 3: Greentown Management's newly contracted project in 1H23

Total GFA of the newly contracted projects (in mn sqm)



Estimated project management fees (in RMB bn)



Source: OP Research, Company

Exhibit 4: Earnings Revision

(RMB mn)	FY23E			FY24E			OP Comments
	New	Old	%Chg	New	Old	%Chg	
Revenue	3,292	3,599	-8.5	4,187	4,615	- 9.3	We now anticipate a lower growth in government projects
Gross margin	52.0%	48.5%	+3.5p.p.	52.3%	48.5%	+3.8 p.p.	We expect an increase in contribution from commercial projects, which has a higher gross profit margin
Adj. net Profit	971	892	+8.9	1,264	1,134	+11.4	We expect an increase in gross margin and a stringent control on OPEX will boost the company's earnings
Diluted adj. EPS (HK\$)	0.531	0.519	+2.4	0.692	0.660	+4.8	Due to the recent RMB weaknesses

Source: OP Research

Exhibit 5: Peer Group Comparison

Company	Ticker	Price	Mkt cap	3-mth avg t/o	PER	PER	PER	3-Yr EPS		Div yld	Div yld	P/B	P/B	ROE	ROE	Sh px	Sh px
								Cagr	PEG(x)					Hist	FY1	1-mth	3-mth
		(US\$m)	(US\$m)		(x)	(x)	(x)	(%)				(x)	(x)	(%)	(%)	%	%
Greentown Management	9979 HK	6.65	1,712	2.4	15.3	12.5	9.6	28.5	0.4	6.4	6.4	3.1	3.3	20.6	25.5	+14.9	-2.1
HSI		19,420.87			9.8	9.7	8.8	6.3	1.5	3.7	1.53	1.05	1.06	10.8	11.0	0.0	-2.6
HSCEI		6,652.16			8.7	8.9	8.0	6.4	1.4	3.5	1.39	0.98	1.02	11.3	11.4	+0.6	-1.0
CSI300		4,004.98			14.2	12.7	11.0	13.7	0.9	2.5	2.5	1.7	1.6	12.0	12.6	+2.7	-0.6
Peers																	
Adjusted sector avg*					6.7	6.5	6.3	6.5	1.6	4.2	7.0	1.1	0.8	17.4	16.8	+3.0	0.4
Central China Ma	9982 HK	0.39	181	0.1	3.9	3.8	4.2	1.3	2.9	6.9	18.1	0.5	0.5	13.5	13.7	+4.0	-19.6
China State Cons	3311 HK	9.43	6,085	5.9	6.0	5.2	4.6	14.2	0.4	5.1	5.8	0.8	0.7	13.9	14.7	+4.5	-5.5
Pultegroup Inc	PHM US	82.13	18,023	N/A	N/A	7.0	6.9	4.3	1.6	0.8	N/A	1.9	N/A	31.6	27.4	+6.3	23.5
Sekisui House	1928 JT	2,863.50	13,332	67.1	10.4	9.7	9.6	6.0	1.6	4.1	4.1	1.2	1.1	10.7	11.4	-3.0	3.0

* Outliners and "N/A" entries are excl. from the calculation of averages

Source: Bloomberg, OP Research

Financial Summary

Year to Dec	FY21	FY22	FY23E	FY24E	FY25E
Income Statement (RMB mn)					
Project - Commercial	1,478	1,669	2,168	2,862	3,578
Project - Government	572	781	937	1,125	1,350
Other services	194	206	186	200	222
Turnover	2,243	2,656	3,292	4,187	5,149
YoY%	+23.7	+18.4	+23.9	+27.2	+23.0
COGS	-1,203	-1,267	-1,580	-1,996	-2,445
Gross profit	1,041	1,389	1,712	2,191	2,704
Gross margin	46.4%	52.3%	52.0%	52.3%	52.5%
Other gain/losses	64	47	71	68	70
Selling expenses	-93	-120	-129	-144	-153
Admin expenses	-378	-489	-527	-628	-747
Other expenses	-1	0	0	0	0
Total opex	-472	-609	-656	-772	-899
Operating profit (EBIT)	633	827	1,127	1,487	1,875
Operating margin	28.2%	31.1%	34.2%	35.5%	36.4%
Interest Income	44	47	47	47	47
Finance costs	-6	-7	-7	-7	-7
Profit after financing costs	670	867	1,167	1,527	1,915
Associated companies & JVs	52	58	50	61	75
Pre-tax profit	722	925	1,218	1,588	1,990
Tax	-152	-189	-256	-334	-418
Minority interests	-6	9	9	9	9
Net profit	565	745	971	1,264	1,581
Net margin	25.4%	28.0%	29.5%	30.2%	30.7%
YoY%	+31.9	+31.7	30.4	30.2	25.1
Adj. net profit	565	745	971	1,264	1,581
Adj. net margin	25.2%	28.0%	29.5%	30.2%	30.7%
YoY%	+20.5	+31.7	30.4	30.2	25.1
EBITDA	651	847	1,150	1,512	1,902
EBITDA margin	29.0%	31.9%	34.9%	36.1%	36.9%
Adj. EPS (HK\$)	0.352	0.435	0.531	0.692	0.865
YoY%	+16.8	+23.6	+22.1	+30.2	+25.1
DPS (HK\$)	0.2344	0.4232	0.43	0.55	0.69

Year to Dec	FY21	FY22	FY23E	FY24E	FY25E
Cash Flow (RMB mn)					
EBITDA	664	852	1,140	1,536	1,953
Chg in working cap	57	-82	98	59	52
Others	-36	138	0	0	0
Operating cash	685	909	1,238	1,595	2,005
Tax	-119	-184	-249	-331	-416
Net cash from operations	566	725	989	1,264	1,588
Capex	-21	-29	-50	-50	-49
Other investment	-86	-400	0	0	0
Div from assoc	43	63	0	0	0
Interests received	98	33	33	47	47
Others	-531	-198	0	0	0
Investing cash	-497	-530	-17	-3	-2
FCF	-29	194	972	1,261	1,586
Issue of shares	0	0	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	-333	-388	-745	-783	-1,035
Interest paid	-4	-5	-7	-7	-7
Net change in bank loans	0	0	0	0	0
Related parties	0	0	0	0	0
Others	25	-7	0	0	0
Financing cash	-322	-400	-751	-790	-1,042
Net change in cash	-253	-205	221	472	544
Exchange rate or other Adj	-6	0	0	0	0
Opening cash	2,397	2,138	1,933	2,154	2,626
Closing cash	2,138	1,933	2,154	2,626	3,170
CFPS (HK\$)	-0.16	-0.12	0.12	0.26	0.30

Source: Company, OP Research

Year to Dec	FY21	FY22	FY23E	FY24E	FY25E
Ratios					
Gross margin (%) - blended	46.4	52.3	52.0	52.3	52.5
Operating margin (%)	28.2	31.1	34.2	35.5	36.4
Net margin (%)	25.2	28.0	29.5	30.2	30.7
Net adj. margin (%)	25.2	28.0	29.5	30.2	30.7
Selling exp/sales (%)	4.1	4.5	3.9	3.4	3.0
Admin exp/sales (%)	16.9	18.4	16.0	15.0	14.5
R&D exp/Sales (%)	0.0	0.0	0.0	0.0	0.0
Payout ratio (%)	69.0	100.0	80.0	80.0	80.0
Effective tax (%)	21.0	20.5	21.0	21.0	21.0
Total debt/equity (%)	0.5	0.4	0.5	0.4	0.4
Net debt/equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	2.0	1.8	1.8	1.8	1.8
Quick ratio (x)	2.0	1.8	1.8	1.8	1.8
Inventory T/O (days)	0	0	0	0	0
AR T/O (days)	122	113	100	90	90
AP T/O (days)	286	338	320	300	300
Cash conversion cycle (days)	-164	-225	-220	-210	-210
Asset turnover (x)	0.4	0.5	0.5	0.6	0.7
Financial leverage (x)	1.5	1.6	1.6	1.7	1.7
EBIT margin (%)	28.2	31.1	34.2	35.5	36.4
Interest burden (x)	1.1	1.1	1.1	1.1	1.1
Tax burden (x)	0.8	0.8	0.8	0.8	0.8
Return on equity (%)	17.5	20.6	25.5	32.0	36.2

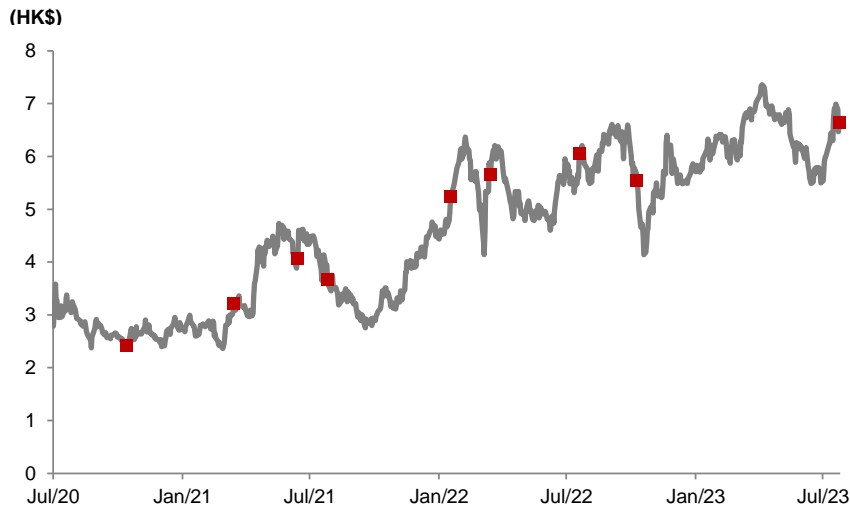
Year to Dec	FY21	FY22	FY23E	FY24E	FY25E
Balance Sheet (RMB mn)					
Net PPE	102	109	102	97	90
Investment property	47	46	46	46	46
Intangible assets	0	412	412	412	412
Goodwill	769	982	982	982	982
Deferred tax	18	28	28	28	28
Other non-current assets	606	727	489	489	489
Non-current assets	1,543	2,304	2,058	2,053	2,046
Inventories	0	0	0	0	0
AR	749	824	902	1,032	1,270
Contract assets	482	574	691	879	1,081
Other current assets	332	527	527	527	527
Cash	2,138	1,933	2,163	2,627	3,168
Current assets	3,701	3,858	4,283	5,065	6,046
AP	943	1,173	1,386	1,640	2,010
Contracted liabilities	385	433	520	656	804
Tax	265	252	252	252	252
Bank loans & leases	0	0	0	0	0
Leased liabilities	5	8	8	8	8
Other current liabilities	246	221	221	221	221
Current liabilities	1,844	2,087	2,386	2,777	3,294
Bank loans	0	0	0	0	0
Leased liabilities	10	9	9	9	9
Deferred tax & others	19	192	192	192	192
Non-current liabilities	29	201	201	201	201
Total net assets	3,372	3,873	3,753	4,140	4,597
Total Equity	3,372	3,873	3,753	4,140	4,597
Shareholder's equity	3,341	3,739	3,629	4,024	4,490
Share capital	16	17	17	17	17
Reserves	3,325	3,722	3,612	4,008	4,474
NCI	30	134	125	115	106
BVPS (HK\$)	2.08	2.16	1.99	2.20	2.46

Our recent reports

Date	Company / Sector	Ticker	Title	Rating	Analyst
31/07/2023	Edvantage Group	382	9M22/23 operating results in-line with expectation	BUY	John Siah
03/07/2023	China Water Affairs	855	FY22/23 earnings slightly declined, pipeline direct drinking water shines	BUY	John Siah
22/05/2023	Newborn Town	9911	Fine-tuning content ecology to further monetize new social networking products	BUY	John Siah
05/05/2023	China Edu Group	839	FY1H23 results up to expectations	BUY	John Siah
04/05/2023	Edvantage Group	382	FY1H23 results showed the strong organic growth	BUY	John Siah
27/04/2023	New Higher Edu	2001	FY1H23 results in-line	BUY	John Siah
19/04/2023	361 Degrees	1361	2023Q1 sales bounced as expected	BUY	John Siah
24/03/2023	Micro Connect	-	Releasing the investment value of SMEs in China through technological innovation(中/ENG)	NR	John Siah
02/03/2023	Xinyi Energy	3868	FY22 results miss, expecting a rebound for FY23E	BUY	John Siah
24/02/2023	Edvantage Group	382	FY23Q1 operations on track	BUY	John Siah
13/02/2023	Newborn Town	9911	More social apps expecting to begin bearing fruit	BUY	John Siah
02/02/2023	China Water Affairs	855	Tapping into opportunities in the direct drinking water market	BUY	John Siah
18/01/2023	361 Degrees	1361	The worst has likely passed	BUY	John Siah
05/12/2022	China Edu Group	839	Higher vocational education leads the growth	BUY	John Siah
05/12/2022	New Higher Edu	2001	FY22 results slightly beat, emphasis on quality education	BUY	John Siah
29/11/2022	Edvantage Group	382	FY22 earnings beat, moderate growth ahead	BUY	John Siah
20/10/2022	361 Degrees	1361	Lockdown may impact sales in Q4	BUY	John Siah
20/10/2022	Greentown Mgmt	9979	Impressive new contracts growth in Q3 under severe headwinds	BUY	John Siah
16/09/2022	EVA Holdings	838	Decent earnings outlook supported by strong order backlogs	BUY	John Siah
02/09/2022	Tian Lun Gas	1600	1H22 results missed, tough near-term outlook	HOLD	John Siah
31/07/2023	Edvantage Group	382	9M22/23 operating results in-line with expectation	BUY	John Siah

Historical recommendations and target price: Greentown Management (9979 HK)

(as of 03 Aug 2023)



Date	Rating	TP	Close	Date	Rating	TP	Close
1 20 Nov 2020	BUY	HK\$4.50	HK\$2.79	6 25 Mar 2022	BUY	HK\$8.00	HK\$6.40
2 25 Mar 2021	BUY	HK\$5.60	HK\$3.74	7 1 Aug 2022	BUY	HK\$8.00	HK\$6.54
3 23 Jun 2021	BUY	HK\$5.90	HK\$4.77	8 18 Oct 2022	BUY	HK\$7.50	HK\$6.03
4 5 Aug 2021	BUY	HK\$5.90	HK\$4.12	9 4 Aug 2023	BUY	HK\$9.65	HK\$6.65
5 27 Jan 2022	BUY	HK\$8.00	HK\$5.88				

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Buy (B)	We expect this stock outperform the relevant benchmark greater than 15% over the next 12 months.
Hold (H)	We expect this stock to perform in line with the relevant benchmark over the next 12 months.
Sell (S)	We expect this stock to underperform the relevant benchmark greater than 15% over the next 12 month.
Relevant Benchmark	Represents the stock closing price as at the date quoted in this report.

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