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Equity Research
Property Management / China

# China Property Management Sector


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**Sector Report**

## Clear vision of promising secular growth

- **We estimate 36.0% earnings FY18-21E CAGR for our coverage universe thanks to 36.6% revenue CAGR driven by GFA growth and operation efficiency improvement.**
- **For basic property management services (BMS), portfolio mix is crucial to margin sustainability with penetration into non-residential segment a confirmed trend for leaders. A-Living and CG Services are likely to benefit most.**
- **For value-added services (VAS), we are positive on community-based VAS especially early childcare services. We are conservative on O2O shopping VAS due to low barrier. We see GT Services well positioned in terms of VAS layout.**
- **Initiate BUY on China property management sector with top pick A-Living, BUY on CG Services and GT Services, HOLD on COPL.**

**We estimate 36.0% FY18-21E earnings CAGR for our coverage universe.** With the contracted sales of property developers as the leading indicator of growth in GFA reserve, the market size expansion of China property management ("PM") sector is in clear vision. Sector leaders will reap the additional consolidation positives as we expect the Top10/Top100 concentration rise to 24%/75% by 2023E from 11%/39% in 2018. We project 36.0% FY18-21E earnings CAGR for our coverage universe supported by (1) 36.6% revenue CAGR and (2) operation efficiency enhancement.

**Portfolio mix is crucial to long-term margin downside for basic property management services (BMS).** With solid GFA volume growth and increasingly diversified portfolio composition, GFA mix will be crucial to how sustainable margin can be in the long term. CG Services shows the strongest profitability in BMS with unit gross profit of RMB0.60/sqm/M in FY18 and it is expected to further increase to RMB0.67/sqm/M in FY21E, thanks to potential penetration into high-end commercial segment. A-Living is expected to experience near-term margin contraction due to contribution from public service projects while we estimate its BMS unit gross profit to edge down from RMB0.48/sqm/M in FY18 to RMB0.41/sqm/M in FY21E, still the second highest among our coverage universe.

**We are positive on the community-based VAS with high entry barriers.** The rise of community-based VAS in recent years is based on the development of more service SKUs. Barriers are essential to achieve sustainable high-margin and growth at the same time. Thus we are positive on GT Services' early childcare VAS given early mover advantages in industry talents acquisition and brand building. We are negative on the O2O shopping services that try to monetize offline traffic. We estimate GT Services has the highest revenue and gross profit contribution from community-based VAS by FY21E.

**Our top pick is A-Living (3319 HK, BUY, TP HK$25.90)** on its attractive valuation. We initiate at BUY on **CG Services (6098 HK, BUY, TP HK$29.10)** given its highest earnings growth visibility and BUY on **GT Services (2869 HK, BUY, TP HK$8.50)** given its leading position in community-based VAS and limited downside in margin. Initiate at HOLD on **COPL (2669 HK, HOLD, TP HK$3.80)** as we see it is fairly valued.

**Risks:** (1) margin contraction due to rising labor cost; (2) unfavorable valuation and execution risks related to M&A; (3) risks from connected developers

**Exhibit 1: Recommendation summary**

| Company | Stock code | Rating | Targeted FY20E PE | Current FY20E PE | Target PEG | Current PEG | Target Price | Close Price | Upside |
|---|---|---|---|---|---|---|---|---|---|
| A-Living | 3319 HK | BUY | 20.0x | 14.0x | 0.8x | 0.6x | HK$25.90 | HK$18.08 | 43.3% |
| Country Garden Services | 6098 HK | BUY | 35.0x | 27.1x | 1.3x | 1.0x | HK$29.10 | HK$22.60 | 28.8% |
| Greentown Services | 2869 HK | BUY | 27.0x | 24.4x | 1.0x | 0.9x | HK$8.50 | HK$7.70 | 10.4% |
| COPL | 2669 HK | HOLD | 20.0x | 20.2x | 1.0x | 1.0x | HK$3.80 | HK$3.87 | -1.8% |

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## Key metrics at a glance

**Exhibit 2: Summary of key metrics**

| Company | A-Living | | CG Services | | GT Services | | COPL | |
|---|---|---|---|---|---|---|---|---|
| Ticker | | 3319 HK | | 6098 HK | | 2869 HK | | 2669 HK |
| Our rating on stock | | BUY | | BUY | | BUY | | HOLD |
| Our target price (HK$) | | HK$25.90 | | HK$29.10 | | HK$8.50 | | HK$3.80 |
| Latest close price (HK$) | | HK$18.08 | | HK$22.60 | | HK$7.70 | | HK$3.87 |
| Implied upside/(downside) (%) | | 43.3% | | 28.8% | | 10.40% | | (1.80%) |
| Connected developer | | Agile/Greenland (3383 HK/600606 CH) | | Country Garden (2007 HK) | | Greentown (3900 HK) | | COLI (688 HK) |
| **Growth prospects** | | | | | | | | |
| FY18-21E CAGR | | | | | | | | |
| Revenue | | 61.1% | | 44.4% | | 25.2% | | 17.9% |
| Fully diluted adj. EPS | | 33.5% | | 35.7% | | 36.6% | | 25.0% |
| GFA under management | | 56.0% | | 36.0% | | 23.4% | | 11.8% |
| GFA coverage (reserve/under management) | | 94% | | 178% | | 113% | | 33% |
| FY18 GFA reserve (mn sqm) | | 92^ | | 324 | | 192 | | 46 |
| FY18 GFA under management (mn sqm) | | 98^ | | 182 | | 170 | | 141 |
| FY21E GFA under management (mn sqm) | | 525 | | 457 | | 320 | | 197 |
| **Revenue and Earnings** | **FY18** | **FY21E** | **FY18** | **FY21E** | **FY18** | **FY21E** | **FY18** | **FY21E** |
| Rev. (RMB mn) | 3,377 | 14,120 | 4,675 | 14,082 | 6,710 | 13,160 | 4,155* | 6,805* |
| Basic services contribution | 48% | 69% | 74% | 72% | 66% | 65% | 83%** | 77%** |
| Community-based VAS contribution | 9% | 14% | 9% | 9% | 20% | 22% | 7%** | 10%** |
| Non-community based VAS contribution | 43% | 17% | 17% | 19% | 14% | 13% | 10%** | 14%** |
| Gross profit (RMB mn) | 1,290 | 4,459 | 1,762 | 5,091 | 1,198 | 2,542 | 849* | 1,445* |
| Basic services contribution | 35% | 51% | 62% | 64% | 42% | 39% | 68%** | 57%** |
| Community-based VAS contribution | 11% | 23% | 16% | 16% | 28% | 38% | 20%** | 26%** |
| Non-community based VAS contribution | 54% | 26% | 22% | 20% | 30% | 24% | 12%** | 16%** |
| GPM (%) | 38.2% | 31.6% | 37.7% | 36.2% | 17.8% | 19.3% | 20.4% | 21.2% |
| For BMS | 27.4% | 23.4% | 31.9% | 32.5% | 11.4% | 11.4% | 16.9% | 15.9% |
| For Community-based VAS | 50.9% | 52.0% | 66.1% | 60.0% | 25.5% | 33.2% | 55.3% | 60.0% |
| For Non-community based VAS | 47.7% | 48.0% | 48.1% | 38.3% | 38.0% | 36.0% | 24.3% | 25.0% |
| Adj. Net Profits (RMB mn) | 801 | 2,083 | 936 | 2,500 | 394 | 1,005 | 402* | 785* |
| Implied unit management fee (RMB/sqm/M) | 1.25 | 1.63 | 1.89 | 2.07 | 2.41 | 2.47 | 2.99* | 2.92* |
| GP per GFA under management (RMB/sqm/M) | 0.99 | 0.75 | 0.96 | 1.04 | 0.65 | 0.73 | 0.53* | 0.65* |
| For BMS (RMB/sqm/M) | 0.48 | 0.41 | 0.60 | 0.67 | 0.27 | 0.28 | 0.36* | 0.37* |
| For VAS (RMB/sqm/M) | 0.51 | 0.34 | 0.36 | 0.37 | 0.38 | 0.45 | 0.17* | 0.28* |
| **Operation metrics** | | | | | | | | |
| FY18 GFA mix | | | | | | | | |
| High/Low tiers | | Mainly high tier | | 40%/60% | | 90%/10% | | 85%/15% |
| Residential/Non-residential | | 60%/40% | | 95%/5% | | 78%/22% | | 96%/4% |
| Related developer/Third party | | 30%/70% | | 80%/20% | | 28%/72% | | 92%/8% |
| FY18 total employees | | 18,859 | | 33,609 | | 24,975 | | **36,115** |
| FY18 staff/mn sqm under mgmt | | 137 | | 185 | | 147 | | **256** |
| FY18 GP/employee (RMB'000) | | 83 | | 61 | | 53 | | 26* |
| **Valuation** | | | | | | | | |
| Current FY20E P/E | | 14.0x | | 27.1x | | 24.4x | | 20.1x |
| Target FY20E P/E | | 20.0x | | 35.0x | | 27.0x | | 20.0x |
| Implied PEG | | 0.8x | | 1.3x. | | 1.0x | | 1.0x |
| Est. FY19E payout ratio | | 25% | | 25% | | 35% | | 30% |
| Dividend yield | | 1.3% | | 0.7% | | 1.1% | | 1.2% |
| **Trading parameters** | | | | | | | | |
| Market Cap (HK$ bn) | | 24.1 | | 60.3 | | 21.4 | | 12.7 |
| 3M Avg. daily volume (mn) | | 3.74 | | 7.21 | | 4.53 | | 10.48 |
| Free-float (%) | | 25% | | 46% | | 37% | | 39% |
| **Investment Highlight** | | **Attractive valuation** | | **Highest earnings growth visibility** | | **Leading position in community-based VAS** | | **Strong SOE background** |

**In HK$*
***COPL reclassified reporting segments in 1H19, data here is estimated by OP Research according to reclassified business units.*
*^We exclude GFA for consulting services here.*
*Source: Companies, OP Research*

## Investment summary

**Industry view: Leaders get bigger.**

We initiate our coverage on China property management (“PM”) sector with BUY rating as we believe urbanization rate in China will increase to 70% by 2030E as compared to 60% in 2018, which translates into 11.9bn sqm of new urban residential GFA for the PM market and implies 37.6% increase in the total addressable residential GFA by then. Meanwhile, we see increasing concentration in the PM industry where the Top PM companies keep consolidating the small-to-mid size players. As a result, we estimate the market share of the Top10/Top100 PM companies to increase to 24%/75% by 2023E from 11%/39% in 2018.

We see the PM companies enjoy (1) high visibility of secular GFA growth, (2) low policy risk, (3) abundant room for industry consolidation, and (4) rapid ramp-up of community-based VAS as promising earnings growth driver.

**Company view: Standing on the shoulders of giants or becoming a greedy market consolidator.**

We believe players with strong property developer background will outperform in the near-term thanks to the rapid GFA delivery, which helps on both GFA volume growth and margin performance. On a longer-run, profitability will be more important than scale. Players with high portfolio exposure to non-residential segment (especially high-end commercial projects) and those with high-barrier VAS are likely to stand out.

**Stock pick: A-Living > CG Services > GT Services > COPL**

Our **top pick** is **A-Living (3319 HK, BUY)** with TP HK$25.90 based on 20x FY20E P/E, representing 0.8x PEG, given (1) its potential to be the largest property management company with 470.7mn sqm of GFA under management by FY20E, 32% higher than the second, (2) 33.5% adjusted EPS CAGR from FY18 to FY21E, and (3) attractive valuation as the company trades at 32%/9% discount to our coverage universe/HK listed peers with 0.6x PEG.

We like **CG Services (6098 HK, BUY)** with TP HK$29.10 based on 35x FY20E PE, implying 29% potential upside, given (1) highest earnings growth visibility of 178% GFA reserve-to-GFA under management ratio, (2) highest BMS gross profit per sqm and (3) low penetration of non-residential GFA contribution suggests ample room for further BMS GPM improvement.

We also like **GT Services (2869 HK, BUY)** with TP HK$8.50 based on 27x FY20x P/E or 1.0x PEG with 25.2%/36.6% revenue/diluted EPS CAGR from FY18 to FY21E given (1) limited downside on its BMS gross margin thanks to high management service quality, (2) potential upside from scalable community-based VAS especially childcare education services, and (3) 113% GFA reserve-to-GFA under management ratio, second highest among our coverage universe.

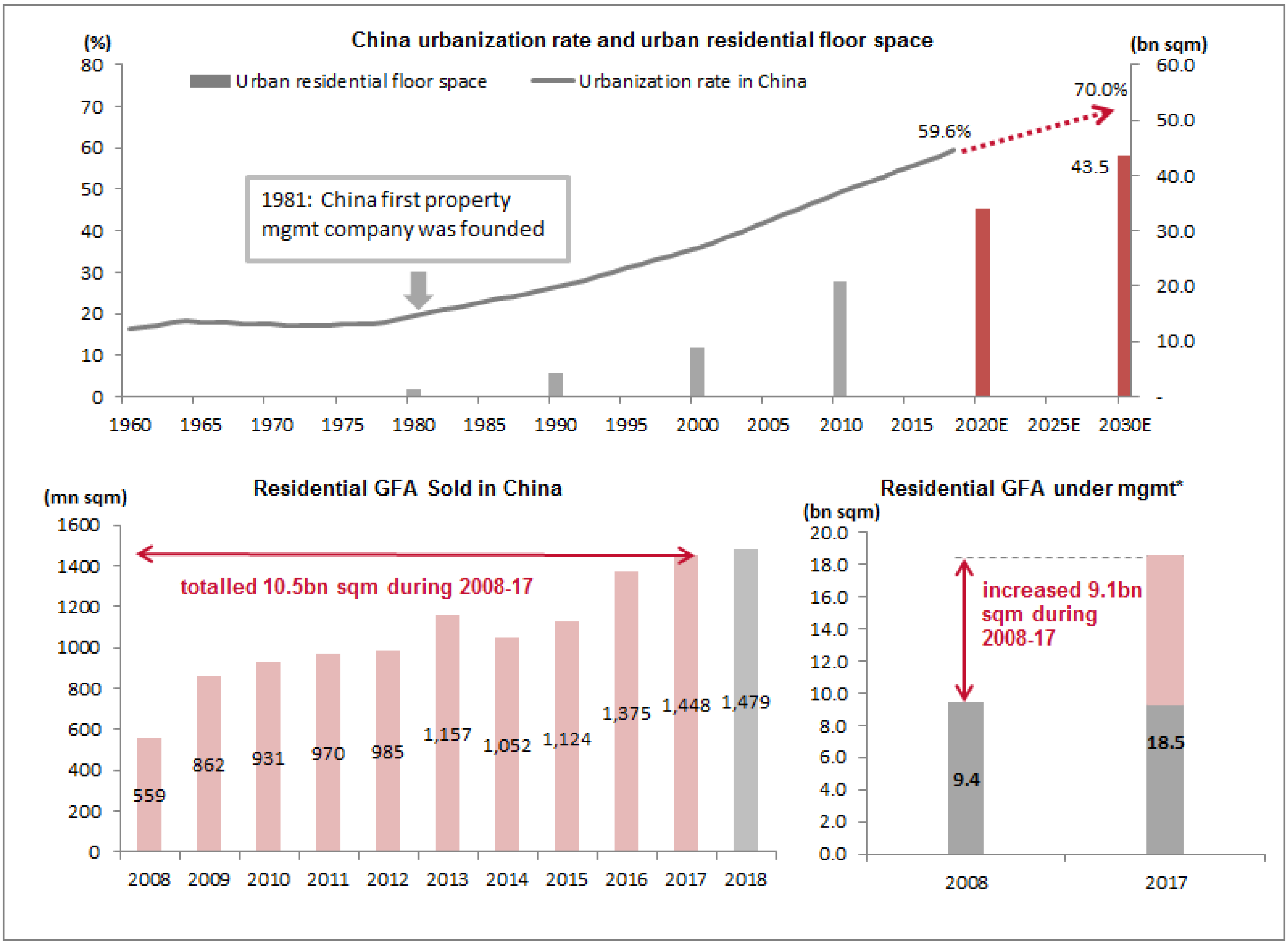
Initiate at HOLD on **COPL (2669 HK, HOLD)** with TP HK$3.80 based on 20x FY20E PE or 1.0x PEG given (1) 25.0% diluted EPS CAGR from FY18 to FY21E, lowest among our coverage universe, and (2) highest staff number per mn sqm under management and lowest gross profit per staff.

## Sector with clear vision of promising secular growth

### Urbanization drives PM market size expansion

The property management ("PM") industry closely follows the urbanization progress in China with the first PM company founded at the beginning of 1980s. The total residential GFA sold in China during 2008-2017, summing up to 10.5bn sqm, collides with the incremental residential GFA under management (9.1bn sqm) in the same period. According to the target set by NDRC, urbanization rate in China is expected to hit 70% by 2030E from 59.6% in 2018 with total urban residential floor space to reach 43.5bn sqm from 31.6bn sqm in 2018, up 37.6%, setting the stage for GFA volume growth for the PM sector in the next decade.

**Exhibit 3: Urbanization drives the promising GFA volume growth of property management companies in next decade.**



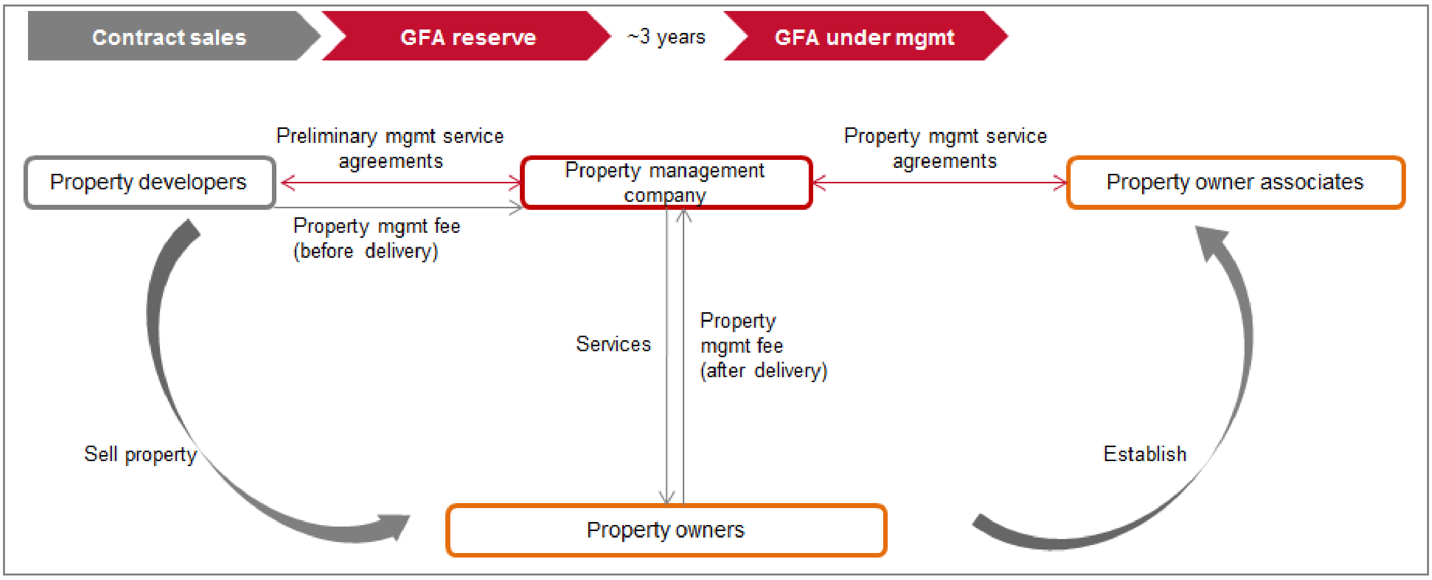

* Assume 75% of total GFA under management are residential properties

*Source: NBS, CPMI, NDRC, OP Research*

### High visibility of GFA growth embedded in business model

Revenue from basic property management service (BMS) segment is essentially a matrix of GFA volume and unit management fee, of which GFA volume is the major growth driver. The high visibility of GFA growth for the sector is embedded in its business model. The sector has exposure to both (1) the accumulated GFA under management in existing property market, and (2) the incremental GFA delivered by property developers, which can be largely estimated in advance from contract sales of the property developers as the PM companies usually takes 3 years to get its GFA reserve acquired from developers converted to GFA under management and start generating BMS revenue.

**Exhibit 4: High earnings visibility for PM sector is embedded in property management companies' business model.**




*Source: Company prospectus, OP Research*

**Exhibit 5: Estimated GFA CAGR for our coverage universe assuming alll reserve getting coverted to GFA under management in 3 years.**

| | A-Living | CG Services | GT Services | COPL |
|---|---|---|---|---|
| GFA Reserve (mn sqm) | 92 | 324 | 192 | 50 |
| GFA under management (mn sqm) | 98 | 182 | 170 | 141 |
| **Coverage (x)** | **0.94** | **1.78** | **1.13** | **0.35** |
| **GFA CAGR if all reserve converted in 3 years** | **25%** | **41%** | **29%** | **11%** |
| | **(57% if include 190mn sqm from CMIG)** | | | |

**For A-Living exclude GFA for consulting services. GFA reserve figures for A-Living and COPL are estimates.*

*Source: Companies, OP Research estimates*

Assuming all GFA reserve fully converted into GFA under management in the upcoming 3 years, we see:

**CG Services (6098 HK, BUY)** has the highest visibility of robust earnings growth given its 178% GFA reserve-to-GFA under management ratio which implies a 41% GFA CAGR. CG Services currently trade at 27.1x FY20E PE, 72% premium to its listed peers. We believe the valuation premium is justified by its high earnings growth visibility.

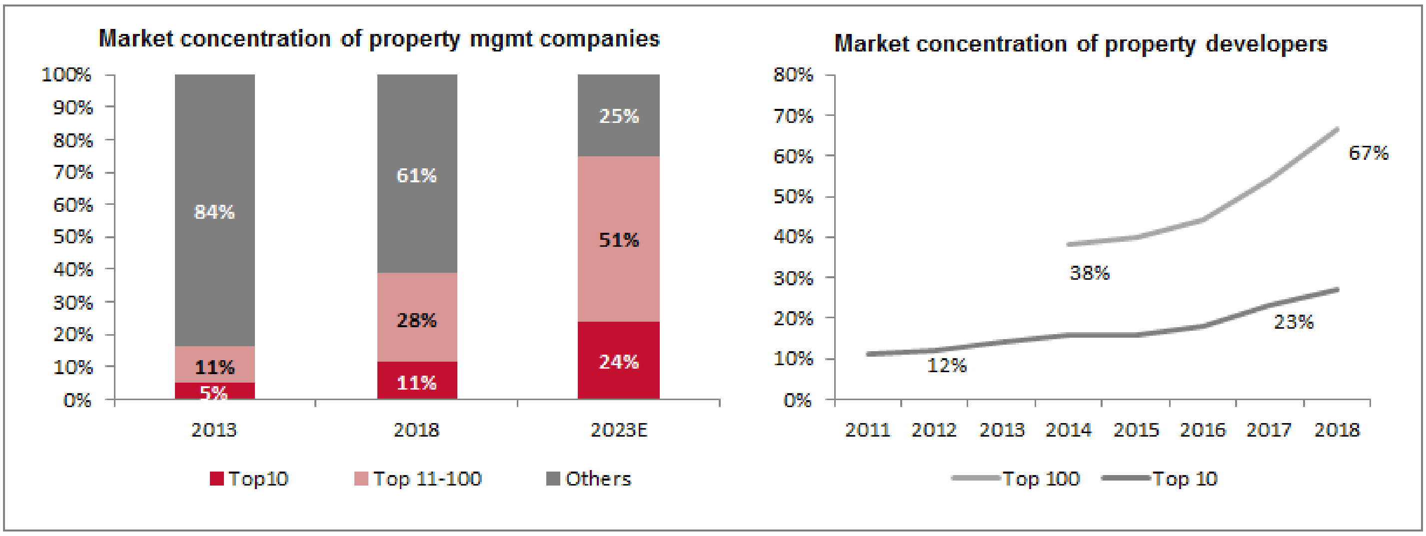
**A-Living (3319 HK, BUY)** is undervalued as the company currently trade at 14.0x FY20E PE, 11% discount to its peers, with 94% GFA reserve-to-GFA under management ratio and an expected 25% GFA CAGR for FY18-21E. This GFA CAGR for A-Living will surge to 57% if we take into account the potential GFA enhancement from its recent announced acquisition of 60% stake in CMIG PM and new CMIG PM. Hence, A-Living is our top pick among our coverage universe with 43% potential upside based on 20x FY20E PE, at par to COPL.

We also like **GT Services (2869 HK, BUY)** for its strength in bidding third parties projects as a key channel for acquiring new GFA, which indicates its strong management capability and high service quality. We have a BUY rating on GT Services. The company currently trades at 24.4x FY20E PE, 54% premium to its peers, we see its valuation premium is justified by (1) its 113% GFA reserve-to-GFA under management ratio and (2) its strong capability to acquire new GFA through independent third parties' tender.

## Industry consolidation offers leaders additional growth driver

We expect the PM sector to follow a similar industry consolidation path to the property developers due to the close tie in business nature. PM sector leaders can exploit the brand recognition of their connected developers to take over third-party developed GFA in addition to the connected parties' GFA heritage. We forecast Top10/Top100 PM companies can increase their market share to 24%/75% by 2023E from 11%/39% in 2018.

**Exhibit 6: We expect prop management sector CR10/CR100 to reach 24%/75% by 2023E from 11%/39% in 2018**




**The concentration ratio for prop management sector is calculated based on GFA under management. The concentration ratio for property developers was derived from the contract sales.*

*Source: CIA, CRIC, OP Research estimates*

The 3 key methods of increasing GFA volume are summarized in the table below:

**Exhibit 7: Three channels for acquiring new GFA under management**

| | From connected developers* | Bidding for third-party projects | M&A |
|---|---|---|---|
| **Precondition** | Connected developer as parent holding or brother company<br>Form strategic alliance with other developers to receive their GFA sold | Well-recognized brand name<br>Outstanding service quality | Strong financial stance<br>Available management resources to execute post-deal operation. |
| **Advantage** | **High visibility** for GFA reserve growth<br>Higher management fee<br>**High GPM** in near-term (new residential projects usually have higher margin than older projects) | **Easier to exit** unprofitable projects<br>**Sustainable** growth **independent** from related parties<br>**Effectively increase** project density in certain region and market share | **Easier to exit** unprofitable projects<br>**Immediate increase** in GFA under management<br>Increase project density and market share<br>Effective penetration into new segment/new region |
| **Disadvantage** | Potential **difficulty in exiting**<br>**Over-reliance** on related-parties | **Lower GPM** than projects from connected developers as projects are generally **older**<br>Higher project **acquisition cost** than those from connected developers | **Lower GPM** than projects from connected developers<br>**Uncertainty** in terms of growth and deal valuation<br>High project **acquisition costs** |
| **Mainly adopted by** | **CG Services**<br>**COPL**<br>**S-Enjoy** | **GT Services**<br>**Ever Sunshine** | **A-Living** |

**Here "connected developers" include those smaller-scale developers connected by strategic alliance.*
*Source: OP Research*

***CG Services and A-Living are sophisticated consolidators through M&A.***

**CG Services** and **A-Living** seem to us quite sophisticated in strengthening their market positioning and enlarging their market share by M&A. CG Services has invested more than RMB1.1bn since Nov 2018. Its acquisition is not only for residential projects but also for commercial PM services. We believe penetration into non-residential (esp. commercial PM) is a rising trend for China PM sector leaders owing to the high unit management fee. We believe tapping into high-end non-residential projects will act as the second earnings growth driver for PM companies apart from the GFA volume growth.

A-Living has invested RMB796mn in M&A since May 2018 to acquire 89mn sqm GFA, accounted for 42% of its total GFA under management by 1H19. The recent announced acquisition of 60% stake in CMIG PM (at 12.5x FY19E P/E) and 60% stake in new CMIG PM (at 12.5x FY20E PE) with total consideration not more than RMB2.06bn, upon completed, will allow A-Living to surpass CG Services and become the largest listed PM companies on HKEx in terms of GFA under management/revenue-bearing GFA. We expect A-Living's total GFA under management to hit over 470mn sqm by FY20E from 221.2mn sqm in 1H19, vs CG Services' 356.5mn sqm revenue-bearing GFA by FY20E.

M&A contributed GFA of A-Living will increase from 44% in 1H19 to 60% at the end of FY20E. There are re-rating opportunities for A-Living as: (1) current discounted valuation is due to high contribution from non-community based VAS, which is gradually declining, and (2) it will enjoy the market leader position in terms of GFA under management by then, and (3) it has sounds track record in post-acquisition execution, making the M&A transactions value accretive to its shareholders.

**Exhibit 8: Horizontal M&A done by our covered companies during 2018-2019. CG Services and A-Living are the most active consolidators.**

| Completion /(Announce) Date | Target company | Acquired stake (%) | Consideration (RMB mn) | Implied PE | Contracted GFA (sqm mn) | Portfolio |
|---|---|---|---|---|---|---|
| **CG Services** | | | | | | |
| (Nov 2018) | Beijing Shengshi | 70% | 682.59 | 9x | N/A | Residential |
| | Chengdu Jiaxiang | 100% | | | | |
| | Chengdu Qinghua Yijia | 100% | | | | |
| | Nanchang Jiejia | 100% | | | | |
| | Shanghai Ruijing Industrial | 100% | | | | |
| Mar 2019 | Beijing Shengshi | 30% | 90.00 | 8x | N/A | Residential |
| Jul 2019 | Asia Asset Real Estate | 100.0% | 316.35 (max.) | 10x | 13.5 (revenue-bearing) | Commercial, office, industrial and public service |
| **A-Living** | | | | | | |
| May 2018 | Nanjing Zizhu | 51% | 205 | 12x | 24.0 | Residential, commercial and public service |
| Mar 2019 | Harbin Jingyang | 60% | 114 | 11x | 10.5 | Residential, commercial and office buildings |
| Mar 2019 | Qingdao Huaren | 90% | 134 | 12x | 6.3 | Public service, office and residential |
| Apr 2019 | Guangzhou Yuehua | 51% | 195 | 10x | 30.0 | Public service buildings |
| Jun 2019 | Lanzhou Chengguan | 51% | 148 | 13x | 17.9 | Public service, office and residential |
| (Sept 2019) | CMIG PM and New CMIG PM | 60% | 2,060 at most | 12.5x | 190.9* | 50% public services, 32% residential and 18% commercial |
| Sub-total | | | 2,856 at most | | 279.6 | |

**This is GFA under consolidation and excludes GFA from associates and JVs.*

*Source: Companies, OP Research estimates*

## Basic prop management services (BMS): GFA mix is crucial to long-term profitability

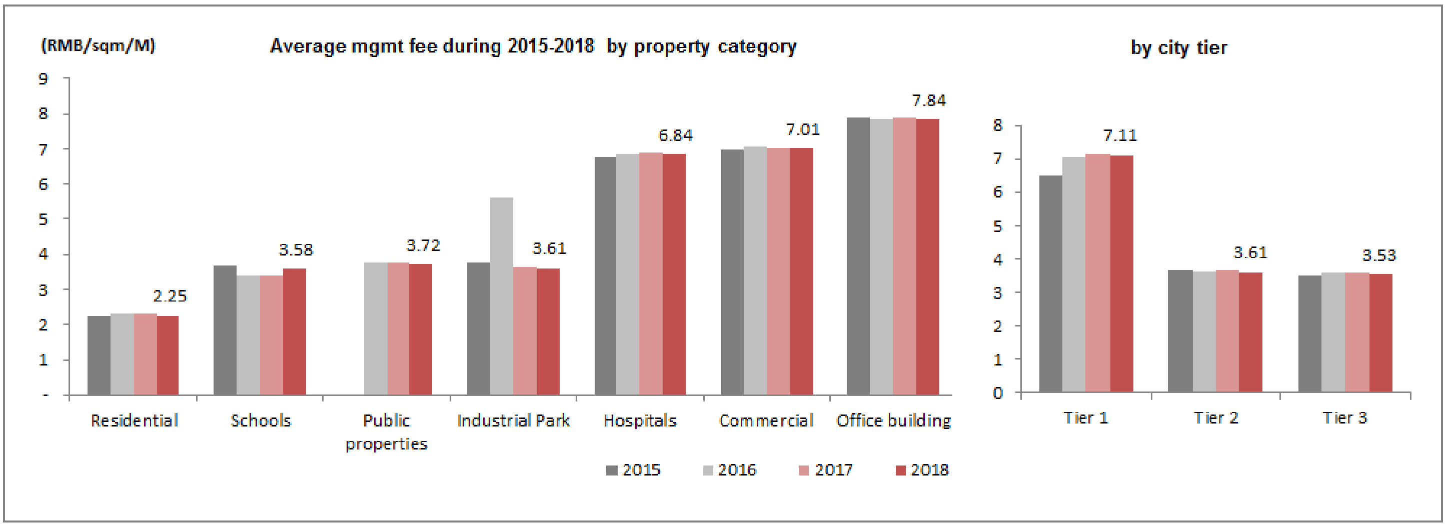
### GFA mix is meaningful to both topline and profitability

***The difficulty in revising management fee upward makes GFA mix meaningful to both topline and profitability.***

PM companies have weak pricing power when trying to make subsequent fee revision. During 2015-2018, the avg. unit management fee, either by property type or by city tier, remained flattish.

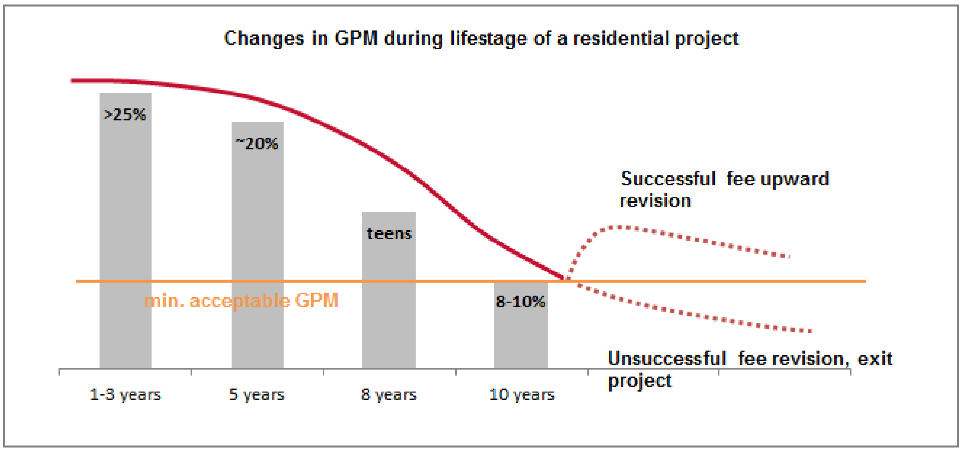
Among all kinds of property types (i.e. residential, commercial, public infrastructure, governmental, industrial, and others), residential has most difficulty in having management fee upward revised due to restrictions from local pricing bureau and some practical harassment during the communication with property owner associations. We believe it is unavoidable to see margin skimming as one residential project aging, even after considering the successful fee revisions.

**Exhibit 9: Avg. prop management fee has seen very limited growth during 2015-2018. We believe such trend will keep up in the mid term.**



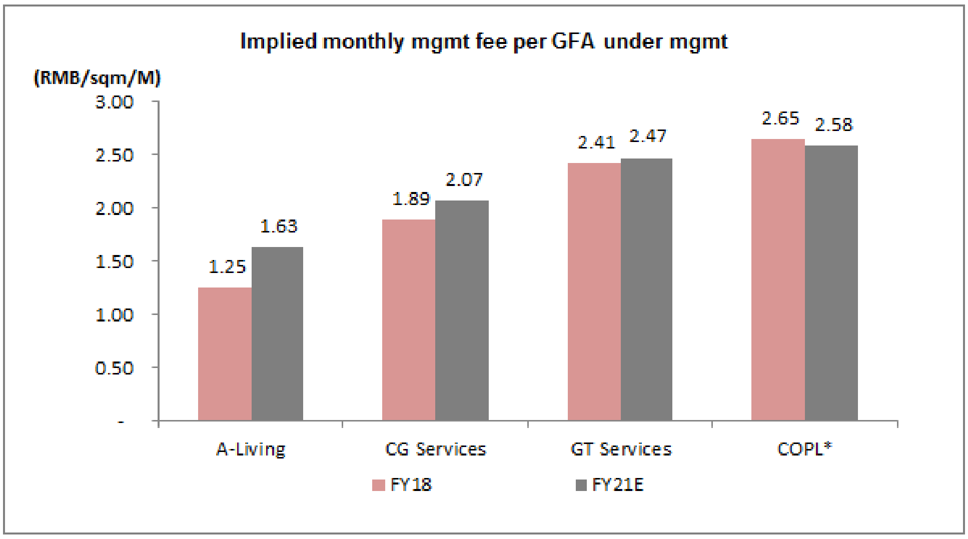

*Source: CIA, OP Research*

**Exhibit 10: GPM for residential project tends to decline as the project ages.**




*Source: OP Research*

**Exhibit 11: Implied monthly unit mgmt fee in FY18 and FY21E for our coverage universe**

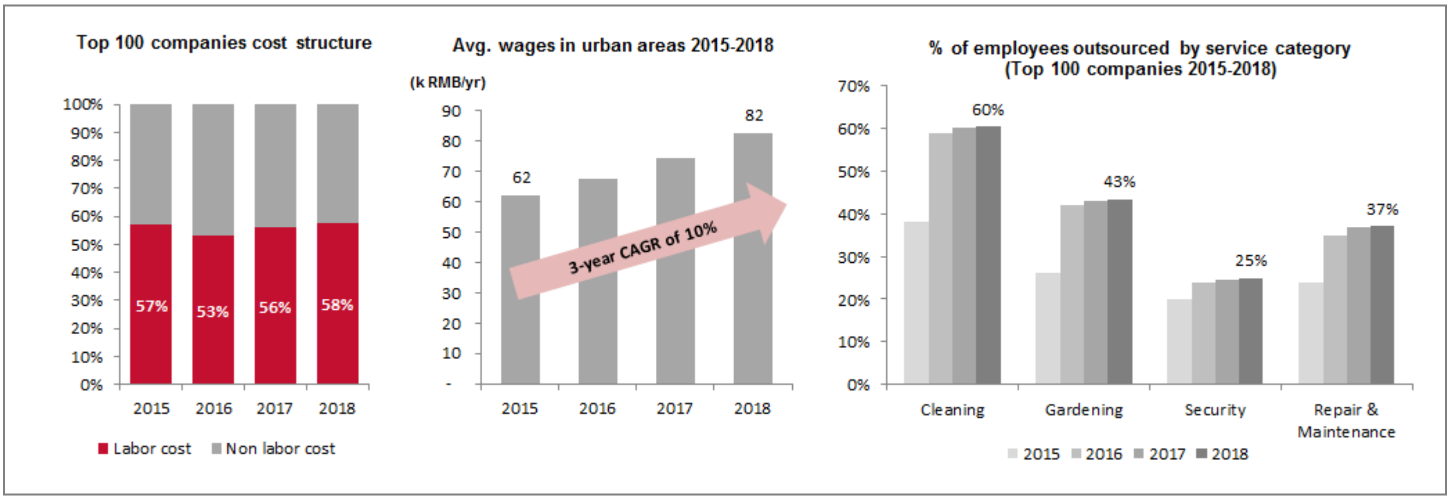



*Use 1.13HK$/RMB
*Source: Companies, OP Research estimates*

***Outsource won't save margin much in the future, in our view.***

Contrast with unit management fee, labor cost, which consistently counts for 50-60% of total opex, has seen 10% CAGR to RMB82k/yr from RMB62k/yr during 2015-2018. Although the PM companies have significantly rise their outsource ratio by 30-50ppts in order to mitigate the cost pressure (as outsource generally costs 30% less compared with direct employment), the benefits from outsource will become marginally weaker in the future as the functions available for outsource (e.g. gardening, cleaning) have largely been outsourced while the remaining key functions (e.g. security, customer services) are more likely to be kept in-house for better service quality control.

**Exhibit 12: Labor cost (consistently counts for 50-60% total cost) is a major constraint on GPM. The lifting effects on margin from outsourcing is expected to become marginally weaker in the future…**




*Source: NBS, CIA, OP Research*

**Exhibit 13: …as the functions available for outsource have largely been outsourced while the remaining key functions (e.g. security, customer services) will be kept in-house for better service quality control.**

| Outsourced item | A-Living | CG Services | GT Services | COPL | S-Enjoy | Ever Sunshine |
|---|---|---|---|---|---|---|
| Greening | √ | √ | √ | | √ | √ |
| Cleaning | √ | √ | √ | √ | √ | √ |
| Security | | | √ | | √ | |
| Repair & Maintenance | √ | √ | √ | | | |
| Customer Services | | | | | | |
| Total employees in FY18 | 18,859 | 33,609 | 24,975 | 36,115 | 5,050 | 6,066 |
| Staff/mn sqm under management | 137 | 185 | 147 | **256** | 118 | 151 |
| Gross profit/employee (RMB'000) | **83** | 61 | 53 | 26* | 67 | 57 |

**For COPL in HK$'000.*
*Source: Companies, OP Research*

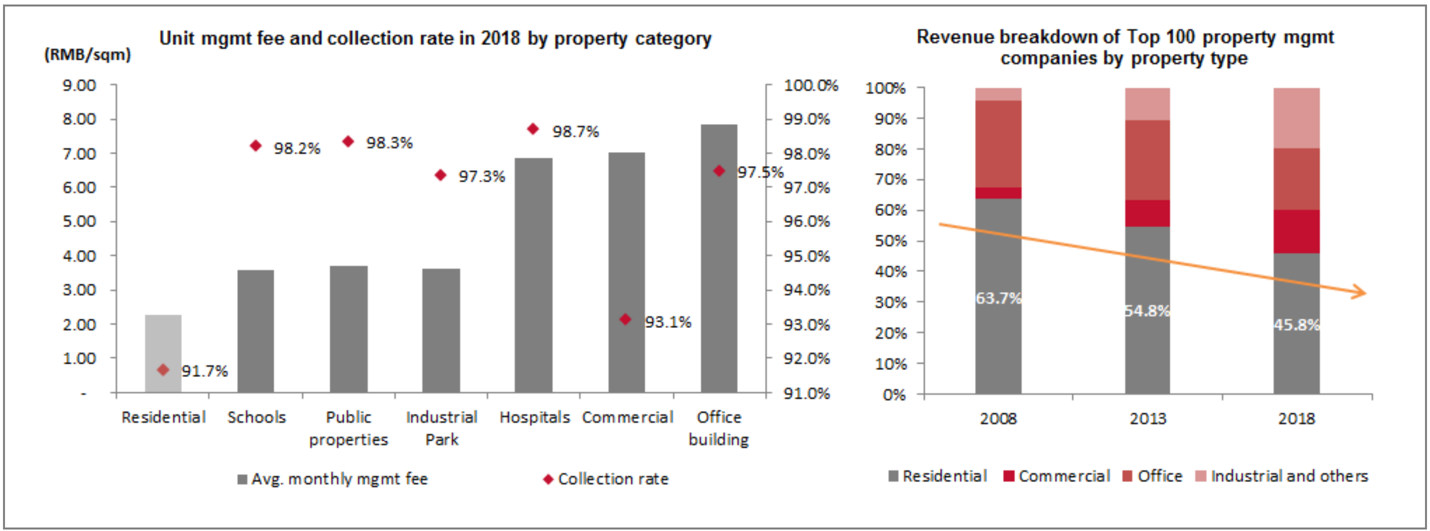
***GFA portfolio over-reliant on residential projects will have significant margin downside in the long-term.***

In this perspective, the outset of GFA mix plays a crucial role in telling the future margin trend. A GFA portfolio with heavy reliance on residential projects alone cannot support its high-level margin in the long-term, in our view.

## Non-residential penetration drives long-term GFA mix upgrade

On the long run, we are positive on the diversification into non-residential sphere, a sizeable market with generally higher unit management fee, higher collection rate, and most importantly, more solid margin level than residential segment due to more frequent fee adjustments and less pricing limits. In 2018 non-residential properties contributed 54% of Top 100's total revenue, 18ppts higher than 10 years ago (36.3% in 2008).

**Exhibit 14: Non-residential projects generally have higher management fee and collection rate than residential projects.**

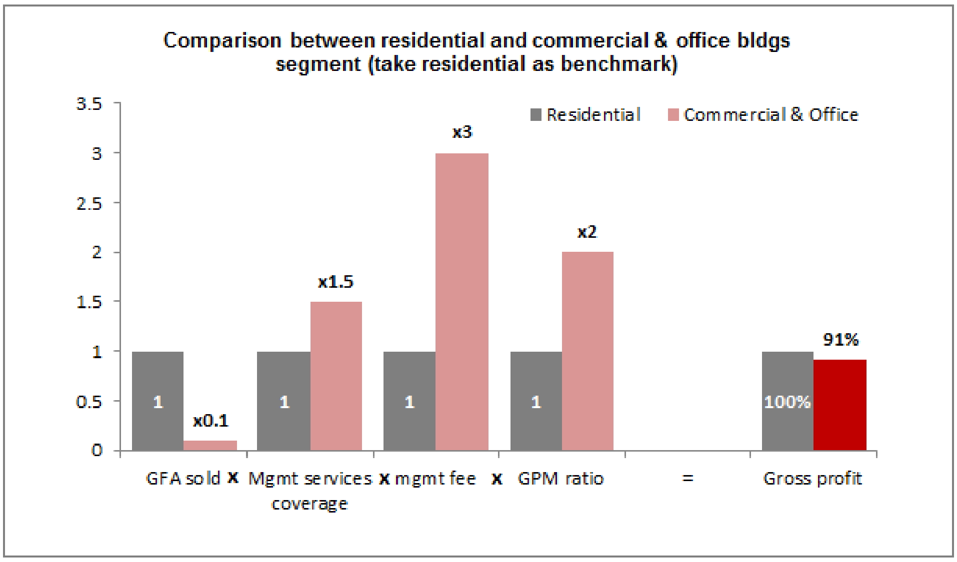



Source: CIA, OP Research

***The market size of commercial & office segment is ~90% that of residential in terms of gross profit, according to our estimation.***

Of all the non-residential segments, we like commercial & office segment most because of its high unit management fee and high margin (i.e. 30-50% vs 10-25% for residential projects). According to our back of envelope estimation, the addressable market size for commercial buildings and offices should be around 90% of that for residential in terms of gross profits.

**Exhibit 15: We believe the market size of commercial & office segment to be ~90% of that of residential in terms of gross profit.**




* We use total GFA sold as the estimate for relative GFA size for residential and commercial & office segments. The number has been consistently around 10:1 in the past 10 years

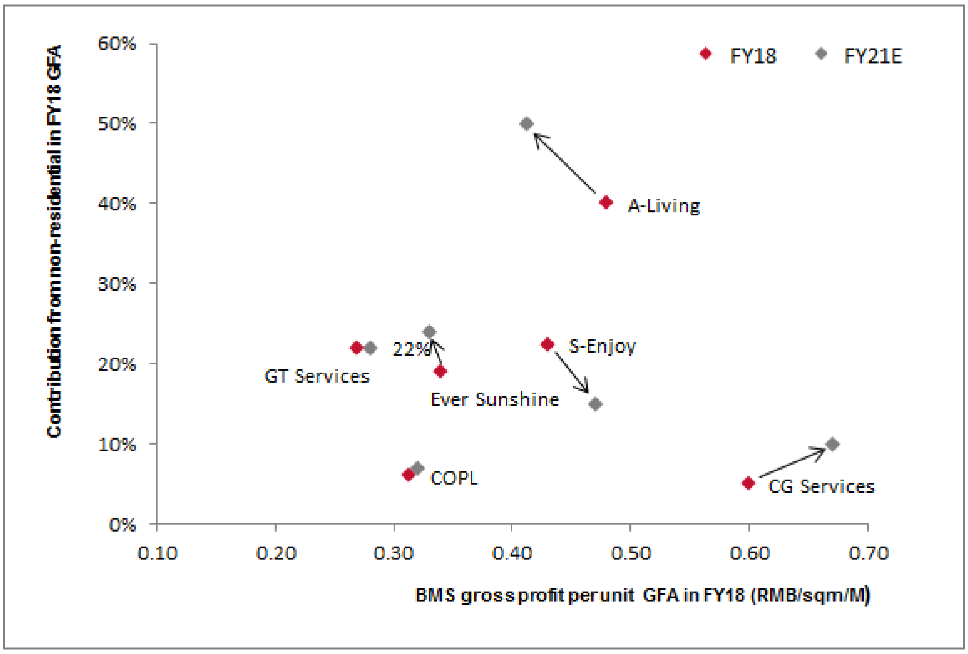
Source: CIA, NBS, Nacity Property Service Co. prospectus, OP Research estimates

## Players with high penetration in non-residential property and high BMS gross profit per unit deserve a valuation premium

***We use GP/sqm to measure and compare portfolio profitability.***

By comparing the GP per GFA under management for BMS, we directly evaluate the PM companies' profitability across various GFA mix given different pricing models (i.e. lump-sum basis and commission basis) and different project characteristics (e.g. high-margin projects with low unit management fee vs low-margin projects with high unit management fee).

**Exhibit 16: GP/sqm and non-residential contribution in FY18 and FY21E.**




**We use 1.13HK$/RMB when calculating gross profit per unit GFA for COPL*
***A-Living and S-Enjoy non-residential GFA estimated based on prospectus.*
*Source: Companies, OP Research estimates*

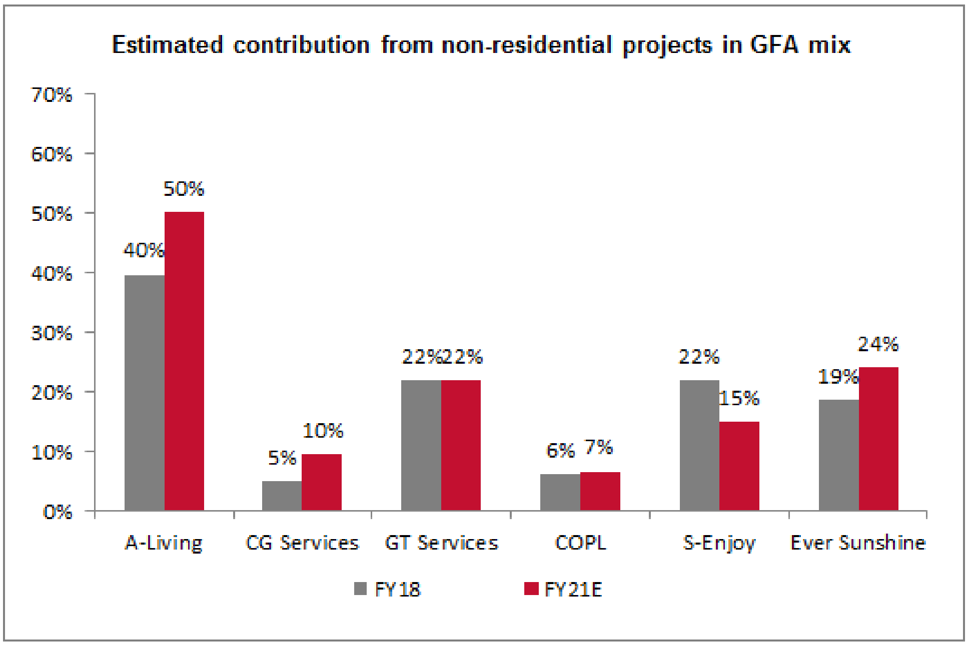
**A-Living** seems to us have the most diversified and balanced portfolio mix among its peers as a result of proactive strategic M&A. It has the highest penetration in non-residential GFA as well, which counted for 40% of its GFA under management in FY18. We estimate this figure to further increase to 50% in FY21E, of which commercial property contribution is likely to raise from less than 10% in FY18 to 13% in FY21E.

Due to the rapid intake of public services projects, we estimate its unit gross profit ("GP") for BMS to decline to RMB0.41/sqm/M in FY21E from RMB0.48/sqm/M in FY18. Despite of such decline, A-Living still ranks the second in our coverage universe in terms of unit GFA profitability by FY21E. We believe (1) the possible voluntary intake of more high-margin commercial projects, and (2) potential margin improvement through post-acquisition management will help gradually reverse the short-term margin pressure in BMS and expect the figure to go up from the trough in FY20E (est. 22.2%) to 23.4% in FY21E.

**CG Services** has highest BMS unit profitability thanks to its sector-leading single project scale with heavy reliance on residential projects from parent company at the juncture. We believe CG Services will gradually diversify into high-end commercial segment in the upcoming few years. Thus we estimate the contribution from non-residential GFA to increase to 10% in FY21E from 5% in FY18 and its GP/sqm from BMS segment to increase to RMB0.67/sqm/M in FY21E from RMB0.60/sqm/M in FY18, ranked the top among our coverage universe in both years.

**GT Services** and **COPL** have similar level of low GP/sqm from BMS. Given their impressive existence in high-tier cities and well-recognized reputation, we read their low unit profitability as a result of internal control and therefore believe there is more upside than downside in current margin level. Between these two, we prefer GT Services over COPL as we see greater potential in GT Services' community-based VAS.

**Exhibit 17: We expect CG Services and A-Living to benefit most from the penetration into non-residential segment in upcoming 3 years.**




*Source: Companies, OP Research estimates*

## Value added services (VAS): Barriers are essential to ensure sustainable earnings accretion

### VAS overview

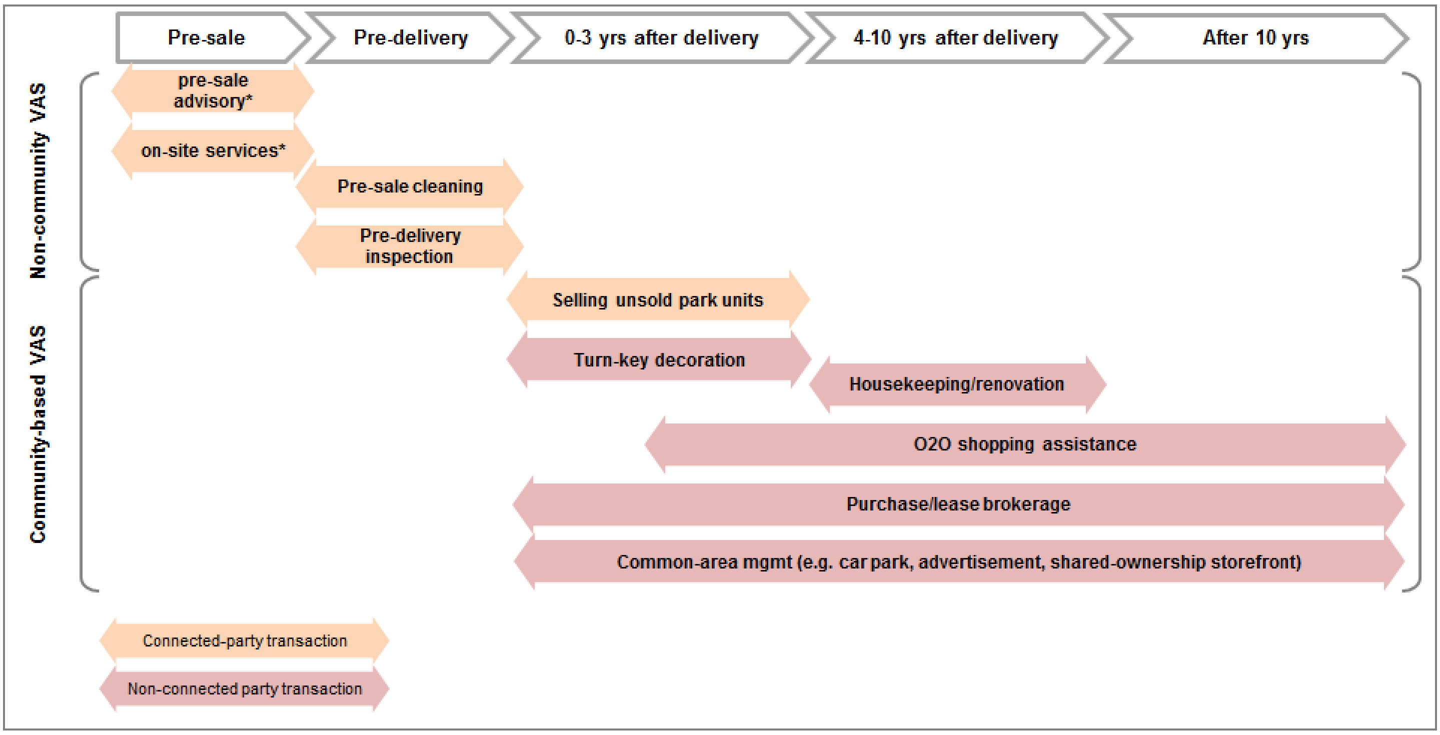
There are 2 categories of VAS in general: VAS provided to non-property owners ("non-community based VAS") and VAS provided to property owners ("community-based VAS"). Both of them typically enjoy higher GPM than BMS and thus are deemed as the profits driver.

- Non-community based VAS: It includes the on-site assistance services, design consultancy, on-site inspection etc. These services are mainly provided to the connected developers during the pre-sale period and thus highly dependent on the latter's sales performance.

  The tightening/easing of policies on property development sector will correspondingly restrict/boost its growth. Investors tend to value the segment at single-digit P/E multiples.
- Community-based VAS: services provided to the residential communities and it ranges from quite standard and traditional ones (e.g. car-park management and elevator advertising) to new service categories (e.g. O2O shopping services and child/elderly care).

The market is more interested in community-based VAS because of its (1) less cyclical business nature, (2) better growth sustainability due to high-frequency and recurring demand, and (3) a great more potential service touch points as they can cover the entire lifecycle of the residential community.

**Exhibit 18: Most suitable VAS SKUs may change as the community grows and ages. We see higher potential in the community-based VAS because of its (1) less cyclical nature, (2) better sustainability, and (3) much more diversified service touch points within the community.**




** May also be provided to third-party clients*
*Source: OP Research*

***High-margin and rapid growth of current community-based VAS may not be sustainable.***

We believe the sector players are still exploring the most suitable service SKUs for community-based VAS. Their service menu has witnessed significant shifts in the latest 5 years. We expect the PM companies to make more adjustments to the service menu with small to medium-scale horizontal M&As.

**Exhibit 19: The sector is still exploring the suitable VAS for its community.**

| Rev contribution | Brokerage | Elderly care | House keeping | E-commerce | Financing | Education | Auto-related |
|---|---|---|---|---|---|---|---|
| 2014 | 21% | 2% | 5% | 4% | <1% | <1% | <1% |
| 2018 | 18% | 5% | 8% | 14% | 10% | 5% | 3% |

*Source: CIA, OP Research*

**Exhibit 20: Revenue contribution from various community-based VAS categories of our coverage**

| Company | A-Living | | CG Services* | | GT Services | | COPL | |
|---|---|---|---|---|---|---|---|---|
| **Revenue contribution** | **FY18** | **FY21E** | **FY18** | **FY21E** | **FY18** | **FY21E** | **FY18** | **FY21E** |
| Home living services (decoration, housekeeping, consulting etc.) | **59%** | 42% | **52%** | **62%** | 6% | 7% | 15% | 8% |
| Common-area VAS (advertising, common resources mgmt) | 31% | **45%** | 12% | 8% | 17% | 17% | **44%** | **45%** |
| Real estate brokerage (excl. car parking space) | 5% | 5% | 22% | 11% | **55%** | **46%** | 17% | 16% |
| Education VAS | | | | | 3% | 4% | | |
| Car parking spaces selling | | | 14% | 19% | 1% | 3% | 0% | 7% |
| Shopping assistance | 5% | 8% | | | 18% | 23% | 24% | 24% |
| Adjusted community based VAS gross profit (RMB mn) | 147 | 1,024*** | 289* | 861* | **334** | **962** | 166** | 378** |
| - *FY18 – FY21E CAGR* | | *91%**** | | *44%* | | *42%* | | *32%* |

** CG Services classifies car parking spaces selling as VAS to non-property owners. We add it here for fair comparison with peers.*
***In HK$ mn, we include income from car-parking space selling here.*
****We assume that the acquisition of CMIG PM and new CMIG PM to have been completed by FY21E.*
*Source: Companies, OP Research estimates*

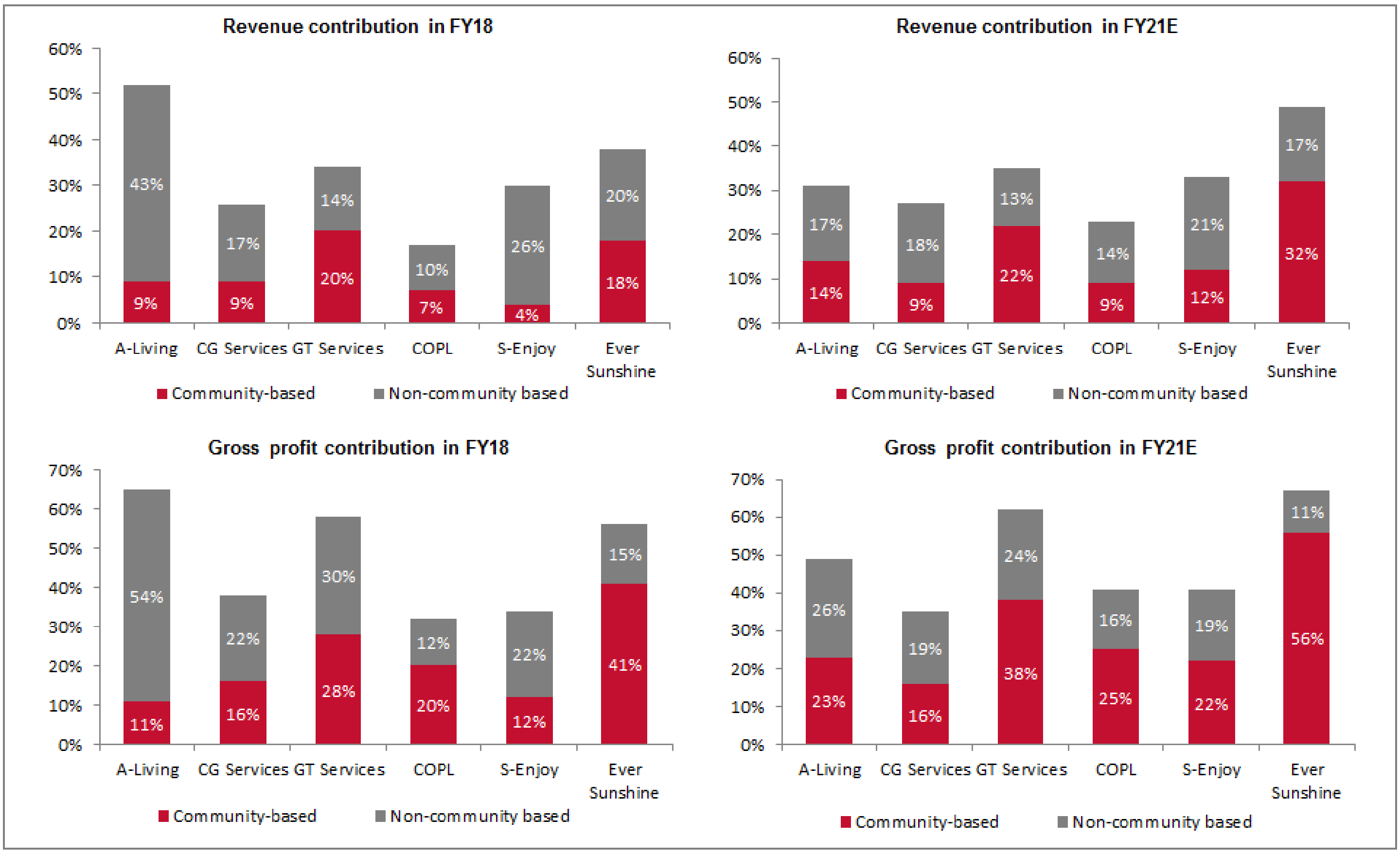
We see **GT Services** has the most advanced development of community-based VAS in terms of both absolute gross profit amount and percentage contribution. We believe the company's significant exposure (i.e. ~66% of total GFA) to eastern coastal areas, the most developed region in China, and its focus on high-end residential projects set the stage for easier VAS penetration. We forecast its gross profit from community-based VAS to grow to RMB962mn in FY21E from RMB334mn in FY18 at 42% CAGR.

**COPL** also has high exposure to tier-1 cities, but its community-based VAS development falls behind GT Services with fewer SKUs. The company added car-parking spaces selling to the service menu in late FY18 and changed the segment reporting classifications with separate reporting of community-based VAS starting from 1H19. We read this as a positive signal indicating more resources input in the near future to the VAS development. We currently forecast 32% CAGR of community-based VAS contribution to gross profits to HK$378mn in FY21E from HK$166mn in FY18.

**A-Living** is catching up from low base with gross profit contribution from community-based VAS increased from 11% (or RMB147mn) in FY18 to 23% (or RMB1,024mn) in FY21E, implying 91% CAGR. We expect the rapid growth to be propelled by (1) increasing penetration of common area resources management in northern China, (2) more diversified service SKUs, and (3) the extra GFA under mgmt from acquiring CMIG PM and new CMIG PM: we expect around 60mn sqm residential GFA to be added to A-Living's portfolio by the end of FY20E.

We think **CG Services** is going to see robust growth in community-based VAS thanks to its highly-visible GFA delivery from CGH. Our current forecast of RMB861mn gross profit contribution from community-based VAS in FY21E is after the adjustment of car-parking spaces selling service and implies 44% CAGR from RMB289mn in FY18.

**Exhibit 21: Revenue and gross profit contribution from VAS in FY18 and FY21E**




*Source: Companies, OP Research estimates*

### Community-based VAS: barriers are the key to debate on asset-light or heavy

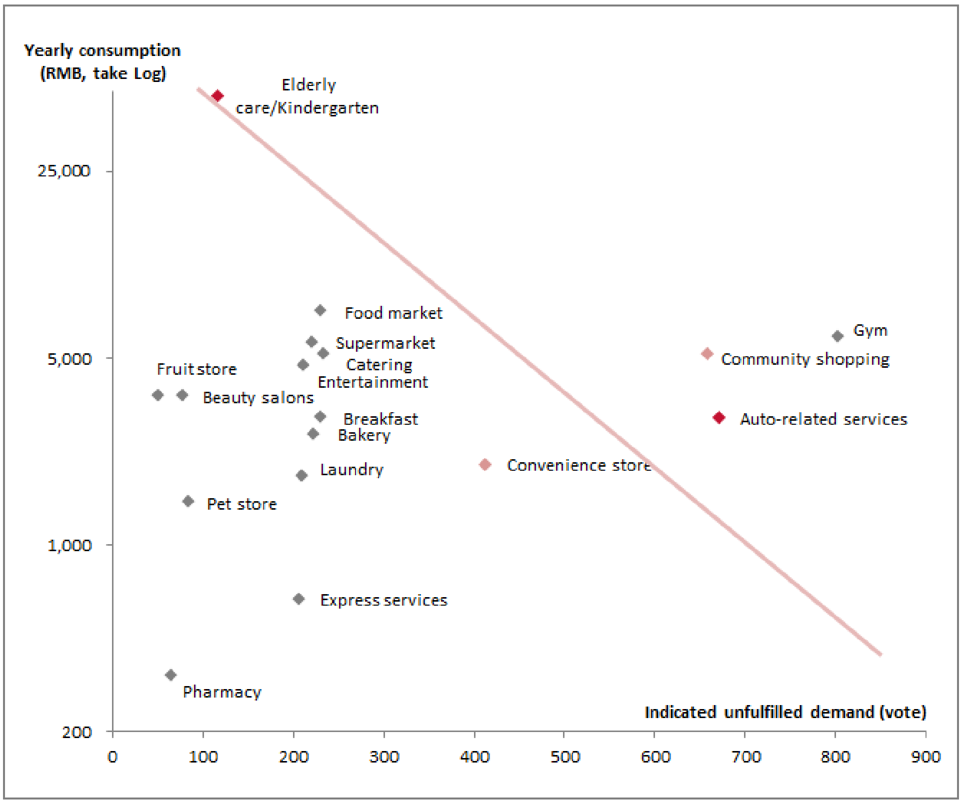
We have noted that investors and listed companies are reluctant to see community-based VAS business segment becoming relatively asset-heavy (by direct investment in specific professional service companies, or by deploying an in-house team and setting up a separate business unit).

A few considerations may led to the avoidance of heavy direct investment: (1) the company targets for a larger scale of BMS business at the juncture and thus would like to reserve cash for consolidating peers; (2) On the one hand, current community-based VAS is far from mature stage and its growth sustainability lacks evidence. On the other hand, once a new VAS SKU is proved to be profitable by one player, it can be easily copied by peers (e.g. selling car parking spaces); (3) the near-term investment required for some professional service verticals unavoidably drag ROE and free cash flows, which are emphasized by certain investors.

***We believe barriers are essential to the long-term development of community-based VAS. Preloaded investment may be justified with high barriers.***

We believe the key to the debate on going asset-light or heavy is the entry barriers. Heavy investment is necessary and can be justified for VAS categories with high entry barriers and rapid-expanding market size, especially before any nationwide dominant player exists. By contrast, for service verticals with low entry barrier and existing large players (e.g. laundry, bakery, and convenience store), providing leasable space to scaled players or seeking equity investment to them are better.

**Exhibit 22: Mapping of possible community-based VAS SKUs**



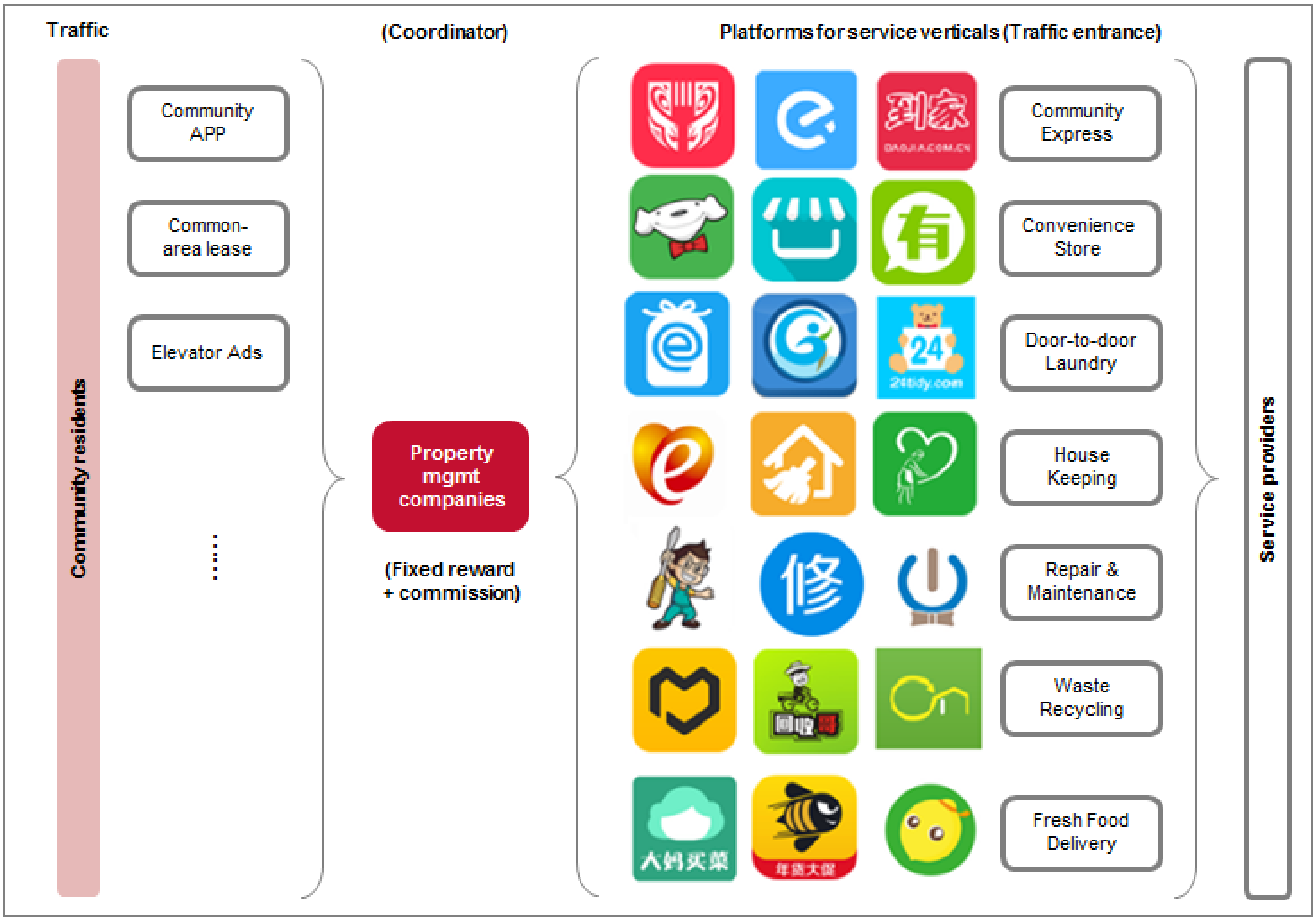

*Source: Beijing Business Today (Survey in 2017), dianping.com, OP Research*

### We are conservative on O2O VAS and positive on education VAS

Examining the entry barriers, we have more conservative attitude towards the O2O services that try to monetize resident traffic. We are constructive on the long-term development of early-child education VAS.

(1) <u>We are conservative on O2O services that try to monetize the resident traffic</u>: We believe the key value added from PM companies for such O2O services lies in its role as coordinator between traffic and traffic entrances. This business mode typically has low barriers against third-party professional platforms as those service providers have strong wish to bypass the PM companies and establish direct ties with their ultimate customers instead. Besides, certain services such as P2P financing are subject to high regulatory and policy risks

**Exhibit 23: Under the business model for community O2O services, prop management companies usually play the role as coordinator, connecting traffic to service platforms and receive fixed/performance-based commissions.**

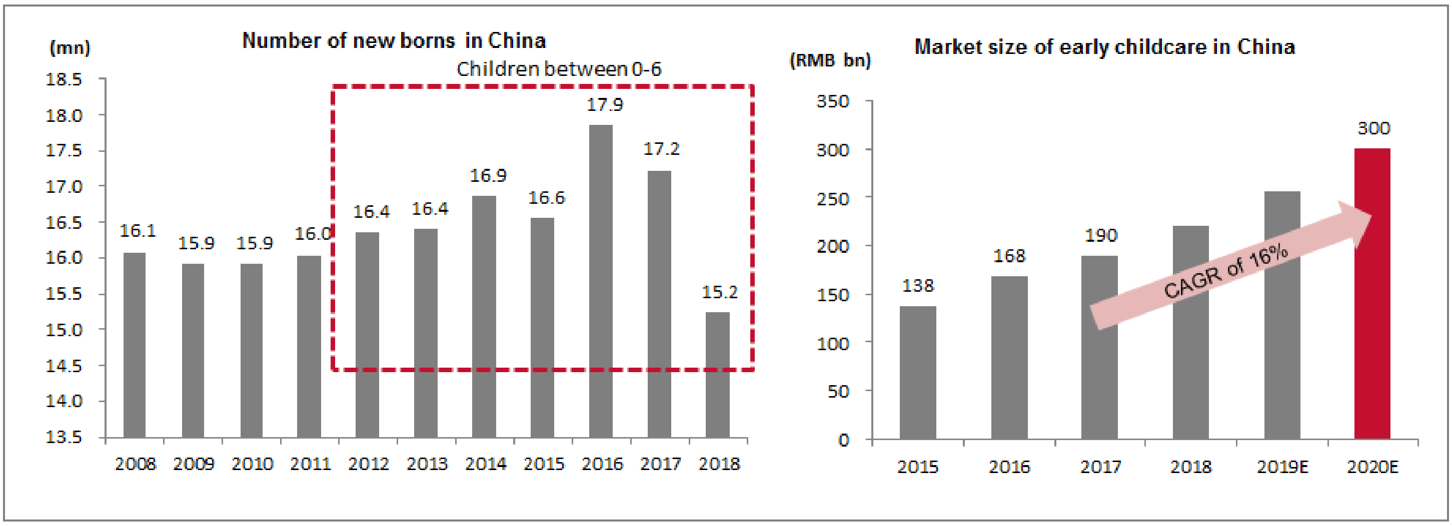



*Source: pintu360, OP Research*

(2) We are positive on the long-term potentials in childcare VAS:

The market size for early childcare (targeting kids below 6 years' old) in China is expected to reach RMB300bn by 2020E at 3-year CAGR of 16%. Players with chain operation are likely to grow even faster by exploiting its brand power and operation experience.

**Exhibit 24: The market size of early childcare in China is expected to hit RMB300bn by 2020E.**




*Source: NBS, ASKCI, OP Research*

PM companies have at least two advantages in running childcare business: (1) convenience in customer acquisition (thanks to superior knowledge of household demographic data in residential communities nearby); (2) easier expansion of operation outlets (as most PM companies operate across various regions).

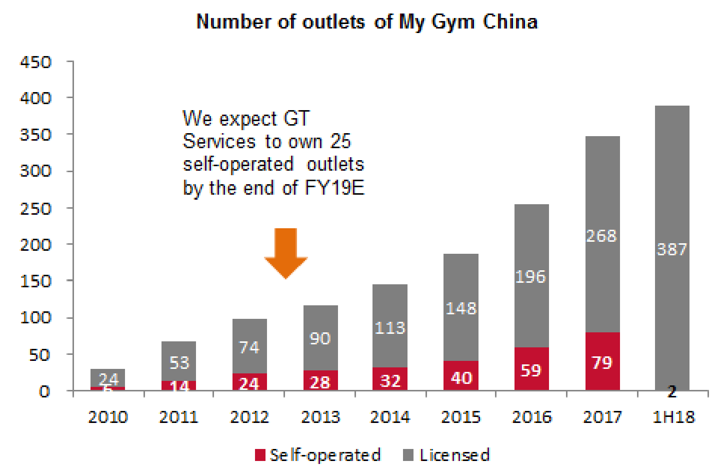
**GT Services** is an early mover in childcare VAS. It owns one self-developed nursery brand Wonderful Garden and one foreign brand Montessori Academy which was acquired in March 2019. Besides, it invested in China's largest online music education platform Finger App in Oct 2018.

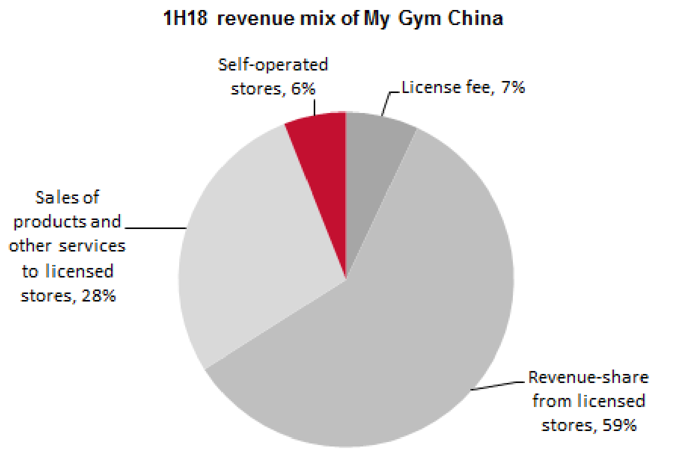
By June 2019, GT Services runs 22 Wonderful Garden, all directly operated in Hangzhou with an average occupancy rate 63%. We expect both the occupancy rate and the average tuition fee to keep climbing in the upcoming 2 years, leading to margin expansion and revenue growth.

***The potential change of operation mode of childcare business may trigger a spike of contribution in the gross profit of GT Services.***

We now project 2.5% gross profit contribution from childcare segment in FY22E by assuming all nurseries are self-operated. The management has indicated the possibility to adopt commissioned operation mode to better utilize its superior operation experience and practical know-how in management. We believe such potential change in operation mode may trigger spike in gross profit contribution as we take the growth track of an industry peer, My Gym China, as a reference. In 1H18, 94% revenue of My Gym China came from licensed outlets and its net profit doubled to RMB191mn in FY18 from RMB85mn in FY17.

**Exhibit 25: My Gym China may provide some insight for GT Service's childcare business with similar curriculum and same target group (children under 6). My Gym China has over 90% of revenue generated by licensed stores with occupancy rate of ~40%. GT Services is expected to operate 25 nurseries by the end of FY19E, with occupancy rate ~70%.**




**The sharp decrease in direct-operated outlets of My Gym China in 1H18 was because of the change in operation mode of 96 stores before My Gym China being acquired by 002621 CH.*

*Source: My Gym China, Company, OP Research*

**Exhibit 26: Service menu (partial) provided by Wonderful Garden**


*Source: Wonderful Garden*

## Initiate on China property management sector at BUY, top pick A-Living

### Initiate BUY on China property management sector

We initiate coverage of the China PM sector with an attractive view given its highly-visible secular growth prospect shielded from impacts of trade war and policy risks related to property development in China.

We expect more of the top 30 prop developers to spin off their PM arms to be listed on HKEx in the coming 12 months given (1) supervision and regulation on connected party transaction and IPO approval by HKEx are relatively easier than Shanghai Stock Exchange (SSE)/Shenzhen Stock Exchange (SZSE) and the top 30 PM companies usually have a high portion of connected party transaction; (2) the property developers can benefit from the revaluation of their PM companies via spin off as the PM companies trade at 16x FY20E PE versus property developers' low single digit PE.

We estimate 36.0% earnings CAGR for our coverage universe supported by (1) 36.6% FY18-21E revenue CAGR, and (2) improving opex ratio thanks to economies of scale.

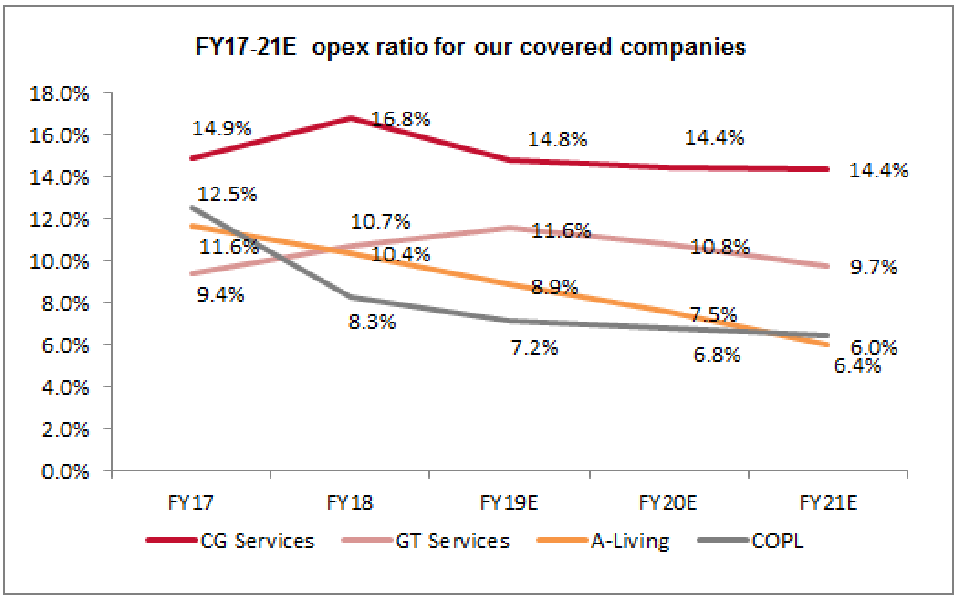
**Exhibit 27: Summary of key metrics of our coverage universe**

| | | Revenue | | | Core Earnings | | | Payout | Target | Current | Target | Close | Net |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | Ticker | FY18 | FY21E | CAGR | FY18 | FY21E | CAGR | Ratio | FY20E PE | FY20E PE | Price | Price | cash/share |
| A-Living | 3319 HK | 3,377 | 14,120 | 61.1% | 801 | 2,083 | 37.5% | 25% | 20.0x | 14.0x | HK$25.90 | HK$18.08 | HK$2.70* |
| CG Services | 6098 HK | 4,675 | 14,082 | 44.4% | 936 | 2,500 | 38.7% | 25% | 35.0x | 27.1x | HK$29.10 | HK$22.60 | HK$1.75 |
| GT Services | 2869 HK | 6,710 | 13,160 | 25.2% | 394 | 1,005 | 36.6% | 35% | 27.0x | 24.4x | HK$8.50 | HK$7.70 | HK$1.05 |
| COPL | 2669 HK | 4,155 | 6,805 | 17.9% | 402 | 785 | 25.0% | 30% | 20.0x | 20.0x | HK$3.80 | HK$3.87 | HK$0.73 |
| **Overall** | | | | **36.6%** | | | **36.0%** | | | | | | |

**This is after the deduction of RMB2.06bn cash consideration for acquisition of CMIG PM and new CMIG PM based on HK$4.45/share cash balance by the end of FY18.*

*Source: OP Research*

**Exhibit 28: We expect improving opex ratio thanks to economies of scale.**




*Source: Companies, OP Research*

## Top pick A-Living, initiate at BUY on CG Services and GT Services, and HOLD on COPL

Our top pick is **A-Living (3319 HK, BUY, TP HK$25.90)** given (1) A-Living is likely to replace CG Services as the largest PM company listed on HKEx in terms of revenue bearing GFA upon completion of the CMIG PM and new CMIG PM acquisition by FY20E with 470.7mn sqm GFA under mgmt, 32% higher than that of CG services, (2) above-average 37.5% FY18-21E earnings CAGR, and (3) attractive valuation as A-Living trades at 32%/9% discount to our coverage universe/HK listed peers with 0.6x PEG. We initiate our BUY rating on A-Living with TP HK$25.90 based on 20x FY20E PE or 0.8x PEG, implying 43% upside potential.

We like **CG Services (6098 HK, BUY, TP HK$29.10)** given (1) highest earnings growth visibility of 178% GFA reserve-to-GFA under management ratio, (2) highest unit gross profit for BMS segment (i.e. RMB0.6 per month per sqm), and (3) low penetration (i.e. 5%) of non-residential GFA suggests ample room for further improvement in BMS unit profitability. We initiate at BUY rating on CG Services with TP HK$29.10 based on 35x FY20E PE, 122% premium to its peers, 29% upside potential. We believe the high valuation premium is justified by it leading market position and strong support from its parent group, CGH.

We also like **GT Services (2869 HK, BUY, TP HK$8.50)** given (1) limited downside on its BMS GPM thanks to its high service quality; (2) potential upside from its robust VAS development, especially childcare education service that may open for commissioned operation. We estimate 30%/42% revenue/gross profit CAGR for its community-based VAS during FY18-21E; (3) 113% GFA reserve-to-GFA under management ratio, second highest among our coverage universe. We initiate at BUY on GT Services with TP HK$8.50 based on 27x FY20E PE or 1.0x PEG, justified by 25%/37% FY18-21E revenue/earnings CAGR, implying 10% potential upside,

We initiate at **HOLD** on **COPL (2669 HK, HOLD, TP HK$3.80)** given (1) its moderate FY18-21E earnings CAGR of 25.0%, (2) highest number of employees per mn sqm under management (256 staff per mn sqm, 64% higher than the average of coverage universe), (3) lowest GP generated per staff (HK$25,700 per staff, 66% lower than the average of coverage universe), and (4) SOE background may be a double-edge sword. On the positive side, it provides strong support of high quality PM projects while on the negative side, lack of management incentives and long execution processing time may weaken its earnings growth potential. Hence, we initiate an HOLD rating on COPL with TP HK$3.80 based on 20x FY20E PE, 27% premium to its peers.

### More IPOs on the way

There are 13 PM companies listed in HK and another 2 listed in A shares, over half of them got listed after 2017. We believe that more property developers are going to spin-off their PM business unit in the near future for more favorable valuation, names including Poly Real Estate (600048 CH), China Resources Land (1109 HK), Shimao Property (813 HK), Vanke, and Zhenro Group. We believe the long IPO list will keep the investment theme under spotlight and provide re-rating catalysts for the listed players.

**Exhibit 29: Summary of IPO of prop management companies**

| Ticker | Company Name | Listed on | IPO size | Listing price | Stock price change since IPO (%) | Connected developer |
|---|---|---|---|---|---|---|
| 1778 HK | Colorlife | 30/6/2014 | HKD945mn | HK$3.78 | 13.76 | Fantasia Holdings |
| 2669 HK | COPL | 23/10/2015 | N/A | (Spin-off) | N/A | COLI |
| 1538 HK | Zhong Ao Home | 25/11/2015 | HKD421mn | HK$1.88 | (63.83) | N/A |
| 2869 HK | Greentown Services | 12/7/2016 | HKD1780mn | HK$1.99 | 287.44 | Greentown |
| 3686 HK | Clifford Modern Living | 8/11/2016 | HKD115mn | HK$0.46 | 30.43 | N/A |
| 1417 HK | Riverine China | 11/12/2017 | HKD163mn | HK$1.55 | 59.48 | N/A |
| 603506 CH | Nacity Property Service | 1/2/2018 | RMB322mn | CNY 16.25 | 94.48 | N/A |
| 3319 HK | A-Living | 9/2/2018 | HKD4100mn | HK$12.30 | 35.77 | Agile & Greenland |
| 6098 HK | Country Garden Service | 19/6/2018 | N/A | (Spin-off) | N/A | Country Garden |
| 1755 HK | S-Enjoy | 6/11/2018 | HKD638mn | HK$2.90 | 126.90 | Future Land |
| 2168 HK | Kaisa Property | 6/12/2018 | HKD328mn | HK$9.38 | 66.31 | Kaisa Group |
| 1995 HK | Ever Sunshine | 17/12/2018 | HKD741mn | HK$1.78 | 127.53 | CIFI Holding |
| 3316 HK | Binjiang Service | 15/3/2019 | HKD532mn | HK$6.96 | 4.74 | Binjiang Real Estate |
| 3662 HK | Aoyuan Healthy | 18/3/2019 | HKD737mn | HK$3.66 | 40.71 | China Aoyuan |
| 000043 CH | Avic Sunda | 29/4/2019* | N/A | N/A | N/A | Avic Real Estate |
| 6093 HK | Hevol Services | TBA | HKD128mn | HK$1.28 | 5.47 | Hevol Real Estate |
| 1895 HK | Xinyuan Property Mgmt | TBA | N/A | N/A | N/A | Xinyuan Real Estate |
| TBA | Poly Property Development | TBA | N/A | N/A | N/A | Poly Developments/Holdings |
| TBA | Yincheng Life Service | TBA | N/A | N/A | N/A | Yincheng Real Estate |
| TBA | Times Neighborhood | TBA | N/A | N/A | N/A | Times China Group |
| TBA | Powerlong Commercial Mgmt | TBA | N/A | N/A | N/A | Powerlong Group |

** Through Major Asset Restructuring*
*Source: OP Research*

# A-Living (3319 HK) – To be No.1 by acquiring CMIG PM

- **We estimate 33.5% FY18-21E diluted EPS CAGR driven by strategic M&A with solid track record of post-acquisition execution.**
- **Well balanced GFA mix both in terms of managed property type and in terms of geographic exposure.**
- **Community-based VAS is catching up from low base.**
- **Initiate at BUY with TP HK$25.90 based on 20x FY20E P/E or 0.8x PEG.**

## Initial Coverage

## BUY

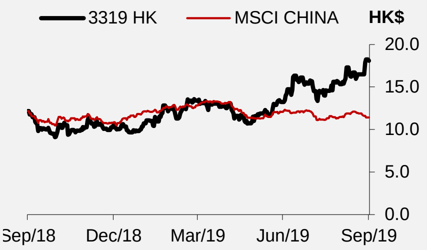
**Close price: HK$18.08**
**Target Price: HK$25.90 (+43.3%)**

### Key Data

| | | |
|---|---|---|
| HKEx code | | 3319 HK |
| 12 Months High | (HK$) | 18.78 |
| 12 Month Low | (HK$) | 8.84 |
| 3M Avg Dail Vol. | (mn) | 3.74 |
| Issued H Share | (mn) | 433.33 |
| Market Cap | (HK$mn) | 24,106.68 |
| Fiscal Year | | 12/2018 |
| Major shareholder (s) | | Agile Group (54.0%) |

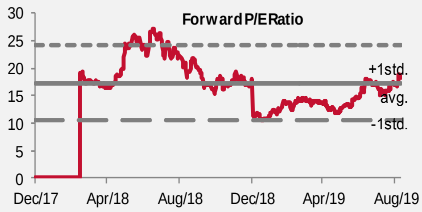
*Source: Company data, Bloomberg, OP Research*
*Closing price are as of 30/9/2019*

### Price Chart




| | 1mth | 3mth | 6mth |
|---|---|---|---|
| **Absolute %** | **17.9** | **34.3** | **38.4** |
| **Rel. MSCI CHINA %** | **18.5** | **41.5** | **51.4** |

### PE




### Company Profile

A-Living Services Co., Ltd. offers property management services. The Company provides hydropower maintenance, interior decoration works, landscaping works, parking management, home cleaning services, and other services. A-Living Services offers services in China.

**To be No. 1 in terms of GFA under management by acquiring CMIG PM** A-Living announced to acquire 60% of CMIG PM and New CMIG PM at cash consideration of no more than RMB2.06bn, all financed by the company's internal cash reserve. Upon completion of the transaction, A-Living will add 190mn sqm GFA under management and become the largest listed PM company in terms of GFA scale. The company's previous M&A cases have yielded encouraging post-acquisition performance with each of them registered over 15% yoy growth in topline and ~1ppt improvement in NPM during 1H19, indicating the strong execution and operation ability of the management team. CMIG now has GPM of 18.4% and admin expense ratio of 8% (vs A-Living's 26.6% and 5.6% respectively). We expect CMIG to improve its operation efficiency significantly after the acquisition through (1) more human resources outsource, (2) integration of management team, and (3) cooperation in project bidding and regional expansion.

**Well-balanced portfolio indicates better risk-resistance capacity** A-Living has the most diversified GFA exposure among its peers both in terms of property types and in terms of geographic exposure. By 1H19 residential/public services/commercial projects each counted for 55%/31%14% of total GFA under management with 44% exposure in Greater Bay area. After the acquisition of CMIG PM, the GFA contribution from commercial and public services projects will be increased to 16% and 40% respectively, with stronger existence in Shandong and Sichuan.

**Community-based VAS catching up from low base** We estimate A-Living's community-based VAS to grow from low base at 89.6% FY18-21E CAGR and contribute 14%/23% revenue/gross profits by FY21E from 9%/11% only in FY18 thanks to (1) increasing penetration of existing service categories (e.g. common-area advertisement) especially in northern areas and added projects from CMIG, (2) launch of new service SKUs, and (3) potential collaboration with internet giants.

**Initiate at BUY** We initiate coverage on A-Living with BUY rating and target at HK$25.90 based on 20x FY20E P/E, representing 0.8x PEG, given (1) potential to be the largest PM companies with 470.7mn sqm GFA under mgmt by FY20E, 32% higher than the second, (2) 33.5% diluted EPS CAGR for FY18-21E, and (3) attractive valuation as the company trades at 32%/9% discount to our coverage universe/HK listed peers with 0.6x PEG..

**Risks**: (1) unfavorable valuation of M&A, (2) margin pressure; (3) risks related to connected developer

### Exhibit 30: Forecast and Valuation

| Year to Dec (RMB mn) | FY17 | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|---|
| Revenue | 1,760.8 | 3,376.7 | 5,097.5 | 9,432.6 | 14,120.3 |
| Growth (%) | 41.5 | 91.8 | 51.0 | 85.0 | 49.7 |
| Net Profit | 289.7 | 801.0 | 1,113.2 | 1,527.8 | 2,082.8 |
| Growth (%) | 80.3 | 176.5 | 39.0 | 37.2 | 36.3 |
| Diluted EPS (HK$) | 0.435 | 0.741 | 0.943 | 1.295 | 1.765 |
| EPS growth (%) | 56.0 | 70.4 | 27.3 | 37.2 | 36.3 |
| Change to previous EPS (%) | | | 0.0 | 0.0 | |
| Consensus EPS (HK$) | | | 0.953 | 1.284 | |
| ROE (%) | 33.1 | 23.2 | 19.3 | 22.6 | 25.3 |
| P/E (x) | 41.6 | 24.4 | 19.2 | 14.0 | 10.2 |
| P/B (x) | 8.2 | 3.6 | 3.5 | 2.9 | 2.3 |
| Yield (%) | 0.0 | 1.0 | 1.3 | 1.8 | 2.4 |
| DPS (HK$) | 0.000 | 0.180 | 0.236 | 0.324 | 0.441 |

*Source: Bloomberg, OP Research*

## Exhibit 31: A-Living 1H19 results summary

| (RMB mn) | 1H18 | 2H18 | 1H19 | 2H19E | OP comments | FY18 | FY19E |
|---|---|---|---|---|---|---|---|
| **Revenue** | **1,406** | **1,971** | **2,241** | **2,856** | 1H revenue beat expectations on faster than expected growth in community-based services. | **3,377** | **5,097** |
| COGS | (895) | (1,191) | (1,412) | (1,804) | | (2,087) | (3,216) |
| **Gross profit** | 510 | 780 | 829 | 1,052 | | 1,290 | 1,881 |
| Other income & gains | 19 | 22 | 20 | 7 | | 41 | 27 |
| Selling exp | (16) | (30) | (18) | (42) | | (46) | (60) |
| Admin exp | (108) | (194) | (125) | (267) | | (302) | (392) |
| Other opex | (1) | (1) | 0 | 0 | | (2) | 0 |
| **Operating profit (EBIT)** | **404** | **576** | **706** | **750** | | **981** | **1,456** |
| Provisions or other items | (2) | 4 | (10) | 10 | | 3 | 0 |
| Interest income | 38 | 54 | 50 | 104 | | 93 | 154 |
| Finance costs | (1) | (0) | (2) | 3 | | (1) | 1 |
| Profit after financing costs | 440 | 635 | 745 | 867 | | 1,075 | 1,612 |
| Associated cos | 0 | 0 | 6 | (6) | | 0 | 0 |
| Jointly controlled cos | 0 | 0 | 0 | 0 | | 0 | 0 |
| Pre-tax profit | 440 | 635 | 750 | 861 | | 1,075 | 1,612 |
| Tax | (105) | (160) | (182) | (229) | | (264) | (411) |
| Minority interests | (3) | (6) | (27) | (60) | | (10) | (88) |
| **Net profit** | **332** | **469** | **541** | **572** | | **801** | **1,113** |
| | | | | | | | |
| **HoH%** | | | | | | | |
| Revenue | 32% | 40% | 14% | 27% | | | |
| Gross profit | 38% | 53% | 6% | 27% | | | |
| Net profit | 87% | 41% | 15% | 6% | | | |
| | | | | | | | |
| **YoY%** | | | | | | | |
| Revenue | 103% | 84% | 59% | 45% | | 91.8% | 51.0% |
| Gross profit | 131% | 111% | 63% | 35% | | 118.4% | 45.9% |
| Net profit | 196% | 164% | 63% | 22% | | 176.5% | 39.0% |
| | | | | | | | |
| **Key ratios** | | | | | | | |
| GPM | 36.3% | 39.6% | 37.0% | 36.8% | The margin decline moderately due to (1) higher contribution from public service projects, (2) lower contribution from non-community based VAS. | 38.2% | 36.9% |
| Selling exp | 1.1% | 1.5% | 0.8% | 1.5% | | 1.4% | 1.2% |
| Admin exp | 7.7% | 9.8% | 5.6% | 9.3% | We expect improvement in admin expense ratio thanks to internal human resources optimization. | 9.0% | 7.7% |
| EIT | 23.8% | 25.2% | 24.3% | 26.6% | | 24.6% | 25.5% |
| Net margin | 23.6% | 23.8% | 24.2% | 20.0% | | 23.7% | 21.8% |
| | | | | | | | |
| **Revenue breakdown** | | | | | | | |
| Prop management services | 750 | 875 | 1,227 | 1,524 | | 1,625 | 2,752 |
| VAS to non-property owners | 575 | 888 | 808 | 961 | | 1,463 | 1,768 |
| VAS to property owners | 80 | 209 | 206 | 371 | | 289 | 578 |
| | | | | | | | |
| **Revenue contribution** | | | | | | | |
| Prop management services | 53% | 44% | 55% | 53% | | 48% | 54% |
| VAS to non-property owners | 41% | 45% | 36% | 34% | | 43% | 35% |
| VAS to property owners | 6% | 11% | 9% | 13% | | 9% | 11% |
| | | | | | | | |
| **Revenue yoy%** | | | | | | | |
| Prop management services | 37% | 33% | 64% | 74% | | 35% | 69% |
| VAS to non-property owners | 439% | 156% | 40% | 8% | | 223% | 21% |
| VAS to property owners | 111% | 227% | 158% | 78% | | 184% | 100% |

*Source: Company, OP Research*

**Exhibit 32: Key assumptions for A-Living (assume acquisition of targted companies completed by the end of FY20E)**

| | FY17 | FY18 | FY19E | FY20E | FY21E | FY18-21E CAGR |
|---|---|---|---|---|---|---|
| **GFA under management (sqm mn)** | **78.34** | **138.12** | **225.72** | **470.70** | **524.70** | **56.0%** |
| Agile Group | 42.19 | 48.19 | 56.19 | 64.19 | 72.19 | 14.4% |
| Greenland Holdings | 2.68 | 4.73 | 10.73 | 16.73 | 22.73 | 68.8% |
| Third-party property developers | 33.46 | 55.85 | 65.85 | 105.85 | 145.85 | 37.7% |
| M&A | - | 29.35 | 92.95 | 283.93 | 283.93 | 113.1% |
| | | | | | | |
| **YoY change (sqm mn)** | | | | | | |
| Agile Group | | 6.00 | 8.00 | 8.00 | 8.00 | |
| Greenland Holdings | | 2.04 | 6.00 | 6.00 | 6.00 | |
| Third-party property developers | | 22.38 | 10.00 | 40.00 | 40.00 | |
| M&A | | 29.35 | 63.60 | 190.98 | - | |
| | | | | | | |
| **GFA under management contribution (%)** | - | - | - | - | - | |
| Agile Group | 54% | 35% | 25% | 14% | 14% | |
| Greenland Holdings | 3% | 3% | 5% | 4% | 4% | |
| Third-party property developers | 43% | 40% | 29% | 22% | 28% | |
| M&A | 0% | 21% | 41% | 60% | 54% | |
| | | | | | | |
| **GFA under contract (sqm mn)** | **126.10** | **229.80** | **364.80** | **526.80** | **618.80** | **39.1%** |
| Agile Group | 58.68 | 70.37 | 78.37 | 88.37 | 98.37 | 11.8% |
| Greenland Holdings | 9.33 | 22.03 | 34.03 | 46.03 | 58.03 | 38.1% |
| Third-party property developers | 58.09 | 106.44 | 156.44 | 196.44 | 236.44 | 30.5% |
| M&A | - | 30.96 | 95.96 | 195.96 | 225.96 | 94.0% |
| | | | | | | |
| **YoY change (sqm mn)** | | | | | | |
| Agile Group | | 11.69 | 8.00 | 10.00 | 10.00 | |
| Greenland Holdings | | 12.69 | 12.00 | 12.00 | 12.00 | |
| Third-party property developers | | 48.35 | 50.00 | 40.00 | 40.00 | |
| M&A | | 30.96 | 65.00 | 100.00 | 30.00 | |
| | | | | | | |
| **Implied unit management fee (RMB/sqm/M)** | **1.28** | **1.25** | **1.26** | **1.50** | **1.63** | |
| | | | | | | |
| **Gross profit (RMB mn)** | **590** | **1,290** | **1,881** | **2,972** | **4,459** | **51.2%** |
| Prop management services | 324 | 445 | 697 | 1,388 | 2,273 | 72.2% |
| VAS to non-property owners | 224 | 698 | 884 | 1,032 | 1,163 | 18.5% |
| VAS to property owners | 42 | 147 | 300 | 552 | 1,024 | 91.0% |
| | | | | | | |
| **Gross profit contribution (%)** | | | | | | |
| Prop management services | 55% | 35% | 37% | 47% | 51% | |
| VAS to non-property owners | 38% | 54% | 47% | 35% | 26% | |
| VAS to property owners | 7% | 11% | 16% | 19% | 23% | |
| | | | | | | |
| **Gross profit margin (%)** | | | | | | |
| Prop management services | 27% | 27% | 25% | 22% | 23% | |
| VAS to non-property owners | 49% | 48% | 50% | 49% | 48% | |
| VAS to property owners | 42% | 51% | 52% | 52% | 52% | |

*Source: OP Research*

**Exhibit 33: Summary of recent acquisitions of A-Living**

| Completion / (Announcement) | Target company | Acquired stake (%) | Consideration (RMB mn) | Implied PE | Contracted GFA (sqm mn) | Portfolio |
|---|---|---|---|---|---|---|
| May 2018 | Nanjing Zizhu | 51% | 205 | 12x | 24.0 | residential, commercial and public |
| Mar 2019 | Harbin Jingyang | 60% | 114 | 11x | 10.5 | residential, commercial and office buildings |
| Mar 2019 | Qingdao Huaren | 90% | 134 | 12x | 6.3 | public, office and residential |
| Apr 2019 | Guangzhou Yuehua | 51% | 195 | 10x | 30.0 | public buildings |
| Jun 2019 | Lanzhou Chengguan | 51% | 148 | 13x | 17.9 | public, office and residential |
| (Sept 2019) | CMIG PM and New CMIG PM | 60% | 2,060 at most | 12.5x | 190.9* | 50% public services, 32% residential, and 18% commercial |

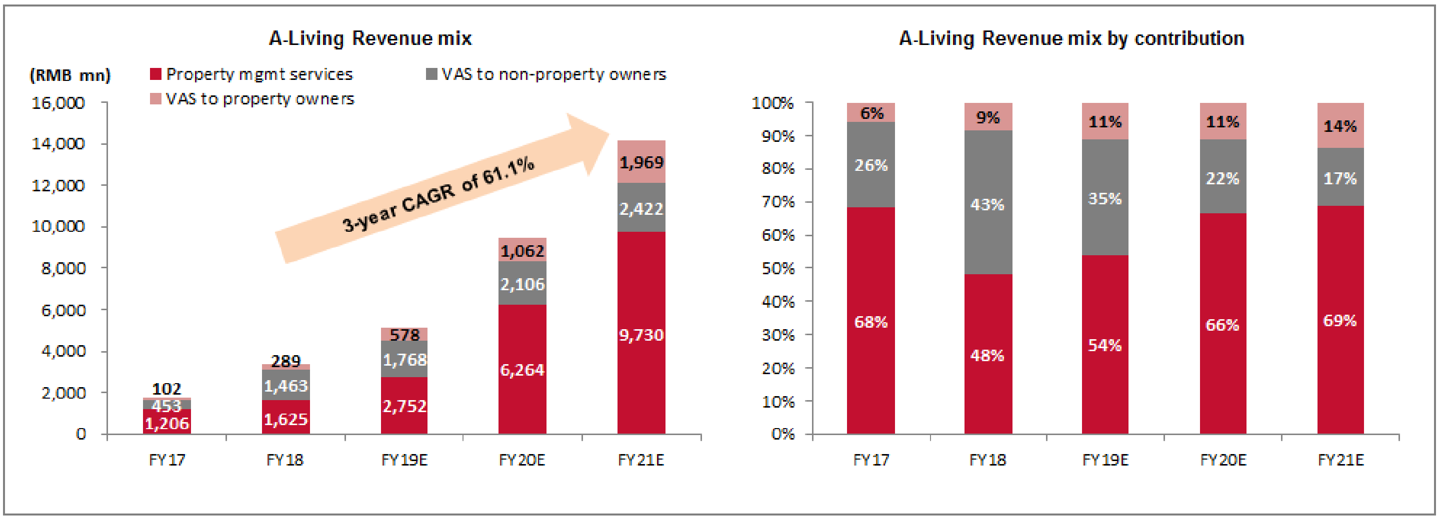
**GFA under consolidation*
*Source: Company, CMIG, CET news, OP Research*

**Exhibit 34: A-Living changed its use of proceeds on 15 Aug 2019 to support potential acquisitions.**

| Revised use of proceeds | % of the revised allocation % | Revised allocation RMB mn | Amount of the net proceeds used as of 15 Aug RMB mn | Remaining balance of the net proceeds after the revised allocation RMB mn |
|---|---|---|---|---|
| Pursue selective strategic investment and acquisition opportunities and further develop strategic alliances<br>- Inject capital into subsidiary companies, acquire (including injecting capital into subsidiary companies for acquisitions) other property management companies and other companies in related businesses and invest in property management industry funds jointly with our business partners | 85% | 2,719.4 | 717.5 | 2,001.9 |
| Further develop the one-stop service platform of the Group and develop “management digitalization, service specialization, procedure standardization and operation automation” of the Group | 5% | 160.0 | 11.9 | 148.1 |
| Working capital and general corporate purposes | 10% | 319.9 | 304.5 | 15.4 |
| **Total** | **100%** | **3,199.3** | **1,033.9** | **2,165.4** |

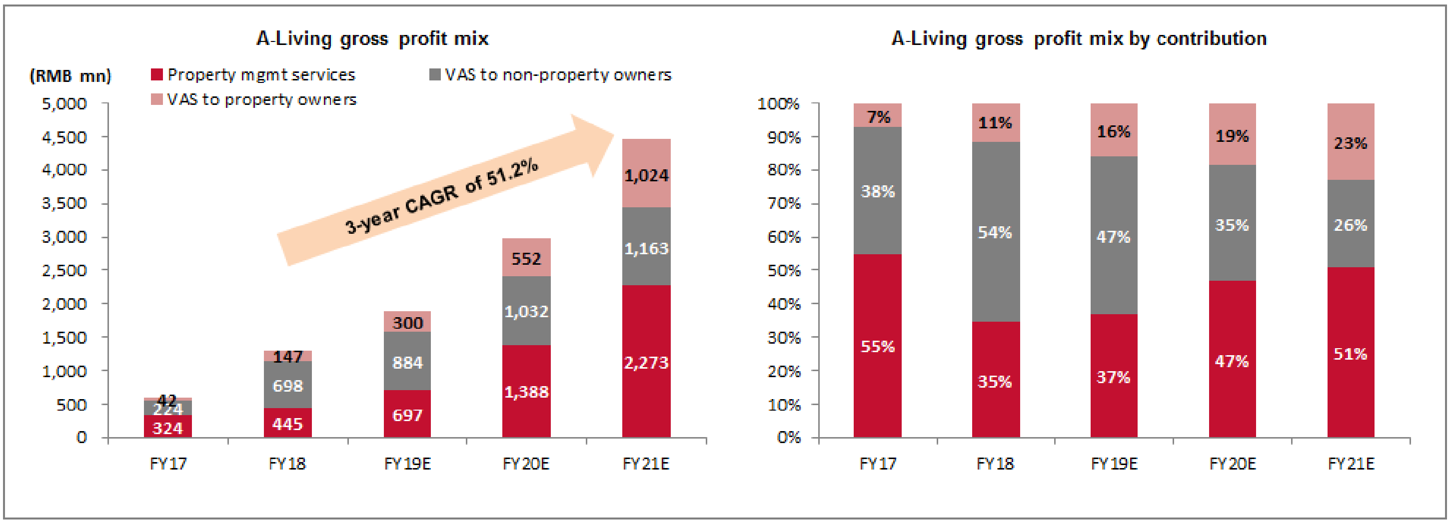
*Source: Company*

### Exhibit 35: We expect A Living revenue to grow at FY18-21E CAGR of 61.1%



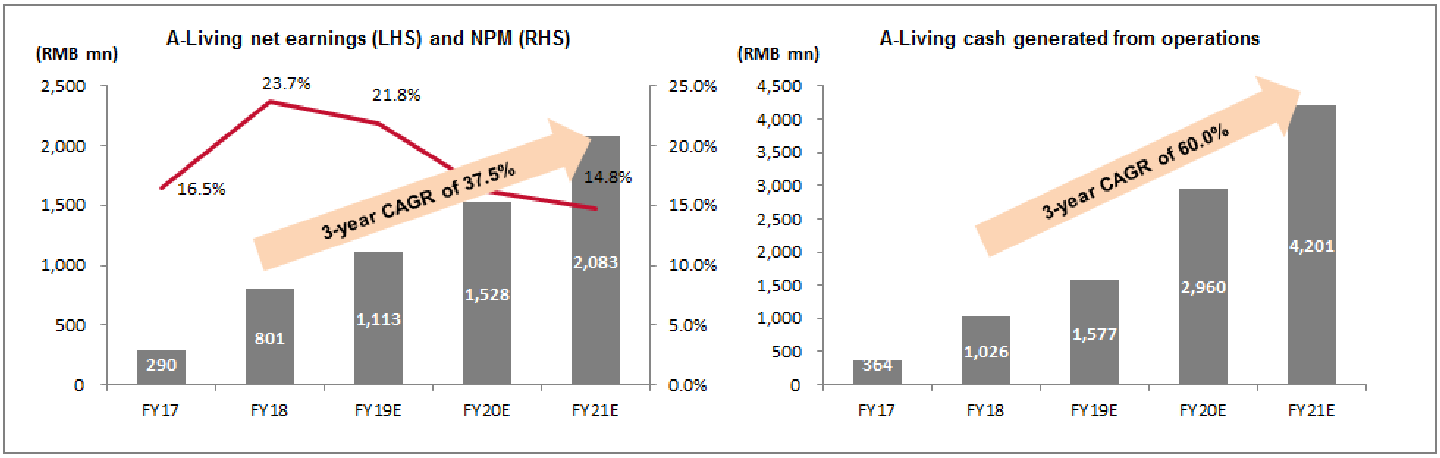

*Source: OP Research*

### Exhibit 36: We expect A Living gross profit to grow at FY18-21E CAGR of 51.2%



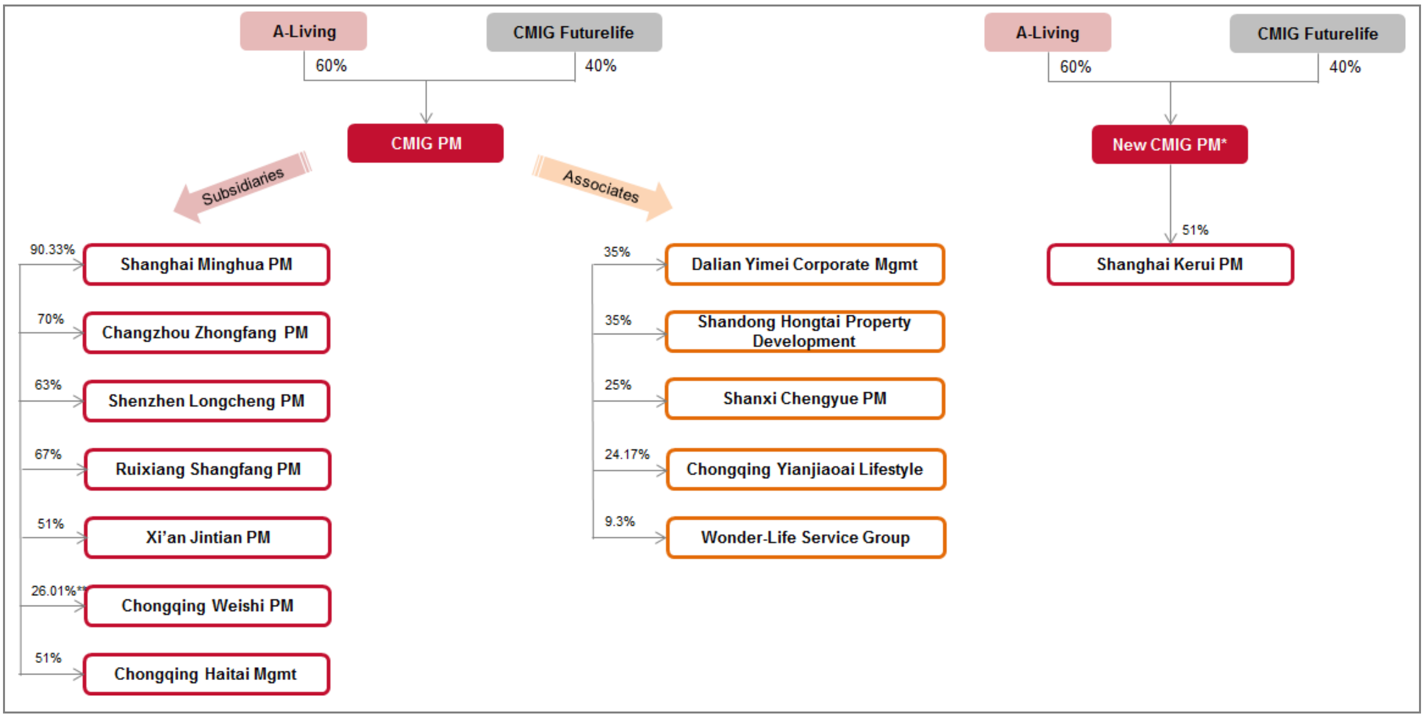

*Source: OP Research*

### Exhibit 37: We expect A Living net profits/cash generated from operations to grow at FY18-21E CAGR of 37.5%/60.0%




*Source: OP Research*

**Exhibit 38: A-Living announced to acquire 60% stake in CMIG PM and new CMIG PM ("targeted companies") at cash consideration of no more than RMB2.06bn, all financed by the company's cash reserve.**

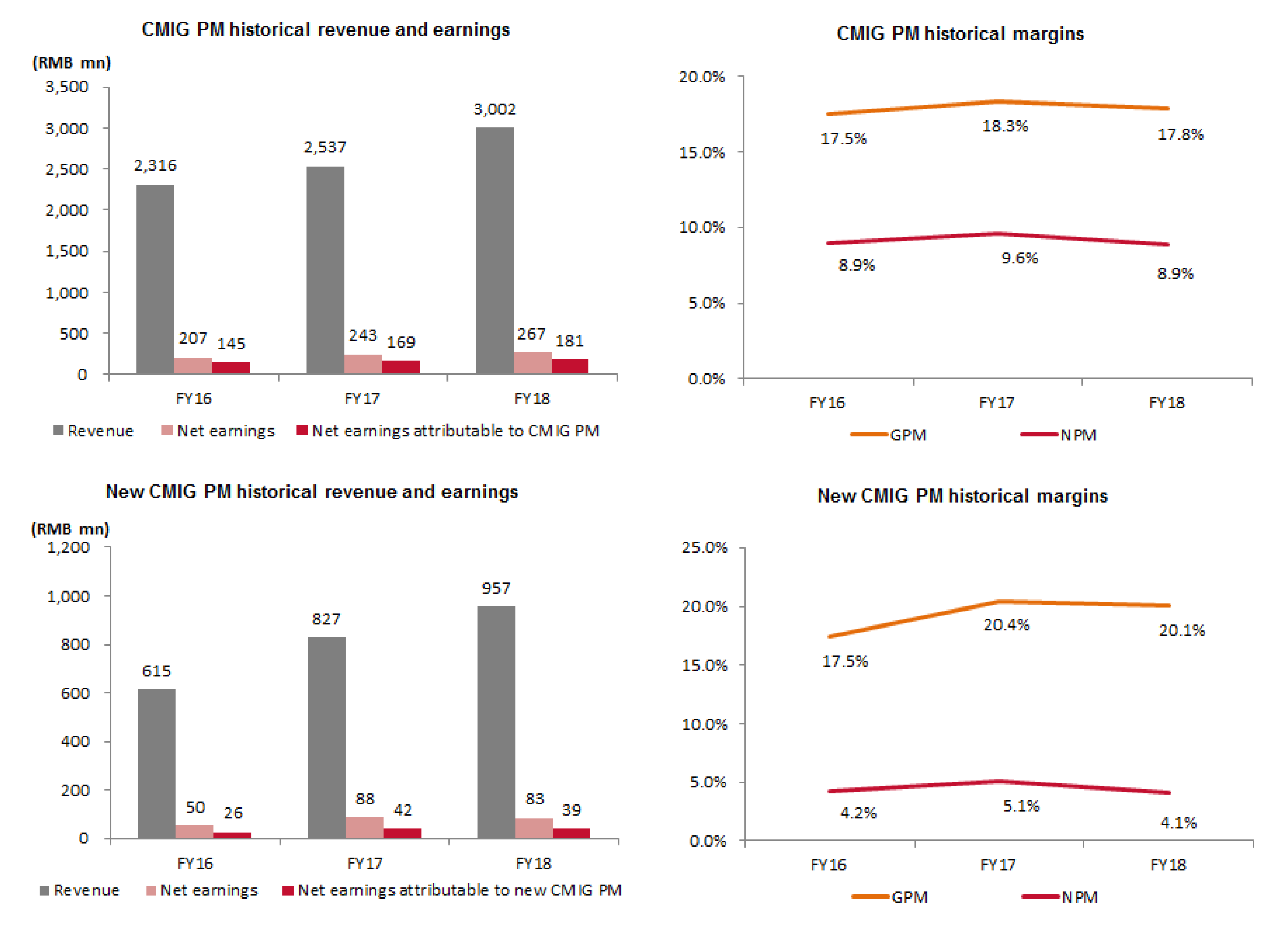



**Subject to repayment of Entrusted Loan and interests*

***Controlling power through shareholding agreement*

*Source: Company*

**Exhibit 39: FY16-FY18 financial data for CMIG PM and new CMIG PM ("targeted companies")**



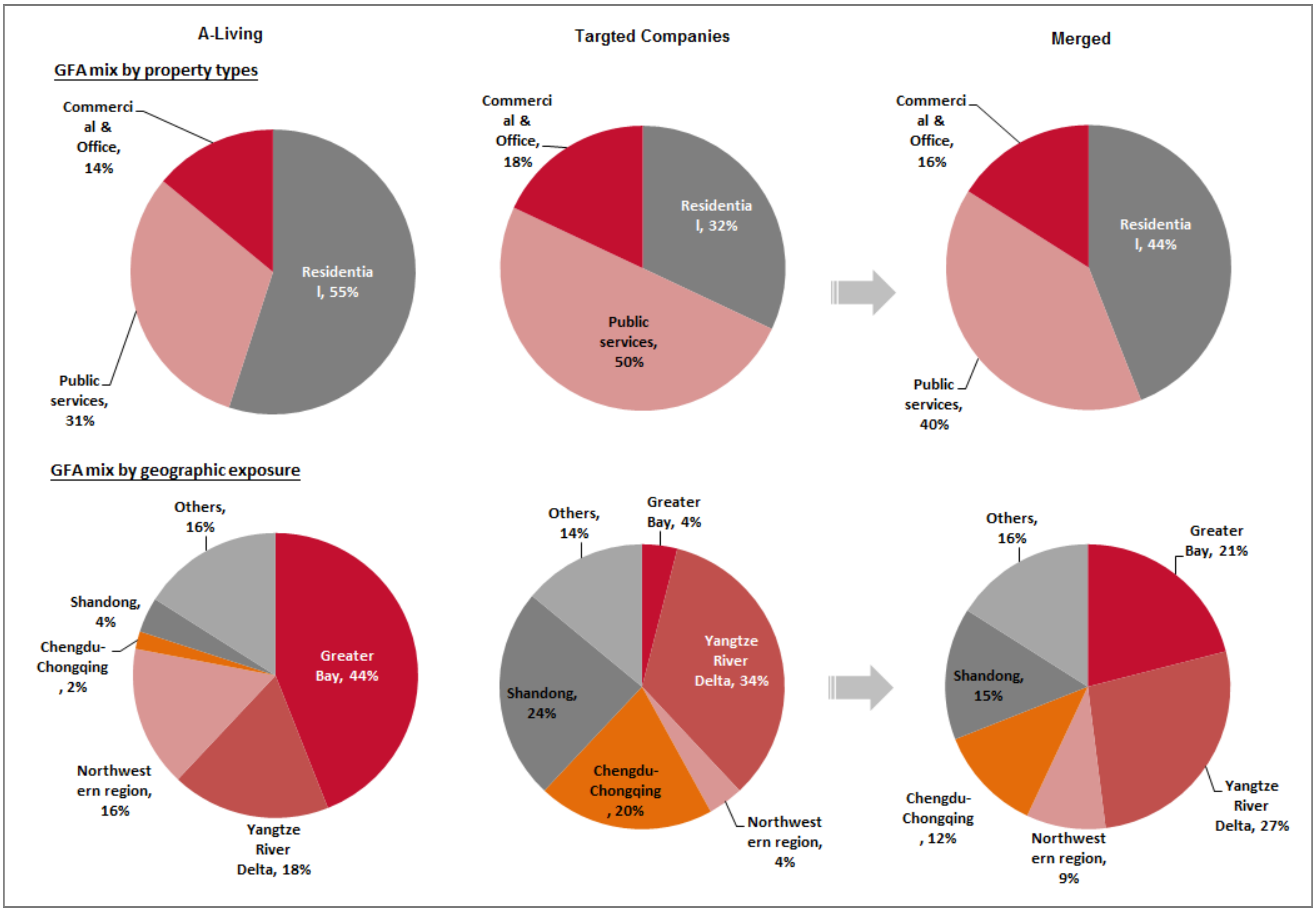

*Source: Company*

**Exhibit 40: Margin for different property types in targeted companies' portfolio**

| (Property type) | GPM | % of GFA mix |
|---|---|---|
| Commercial/residential/hospital/exhibition | 21-25% | 42.50% |
| Office/school/transportation infrastructure | 16-20% | 15.90% |
| Industrial park/park/tourist site | 11-15% | 41.60% |
| **Overall** | **18.4%** | **100%** |

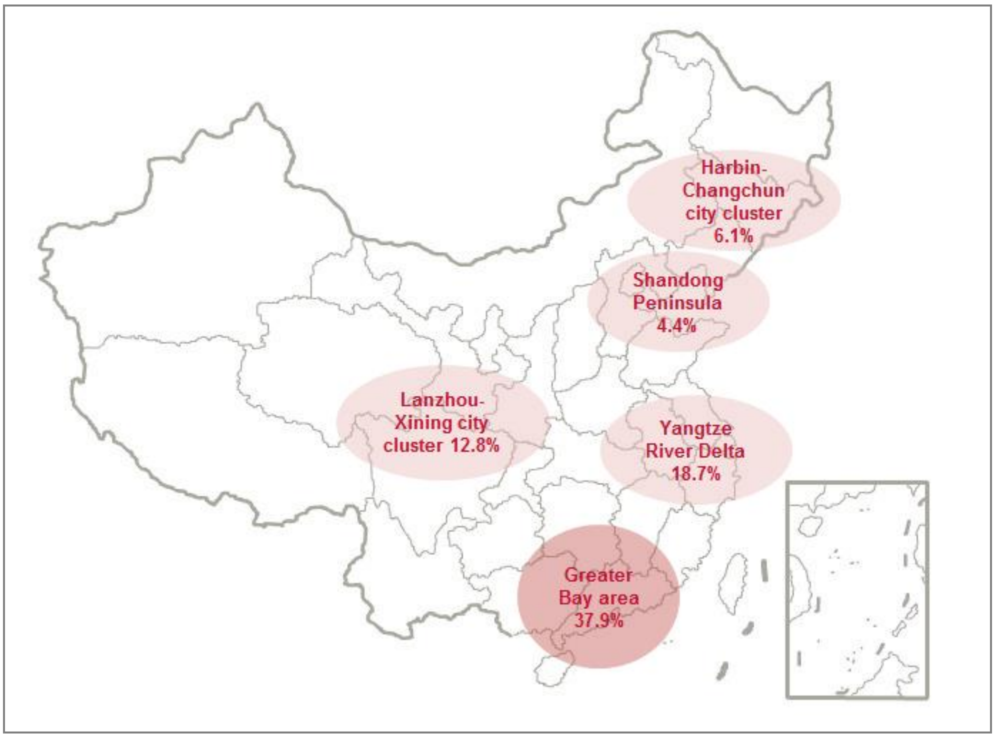
*Source: Company*

**Exhibit 41: The acquisition of CMIG PM and new CMIG PM (combined as "targeted companies") is going to make A-Living more balanced in terms of geographic exposure as well as managed property types.**




*Source: Company*

**Exhibit 42: Geographic coverage of A-Living's GFA in 1H19.**




*Source: Company*

## Investment risks

### Risks related to M&As

The company relies heavily on M&A for regional expansion and penetration into various service segments. Thus we see higher uncertainties in (1) valuation of the target projects; (2) overall GFA growth; (3) execution during the post-deal operation.

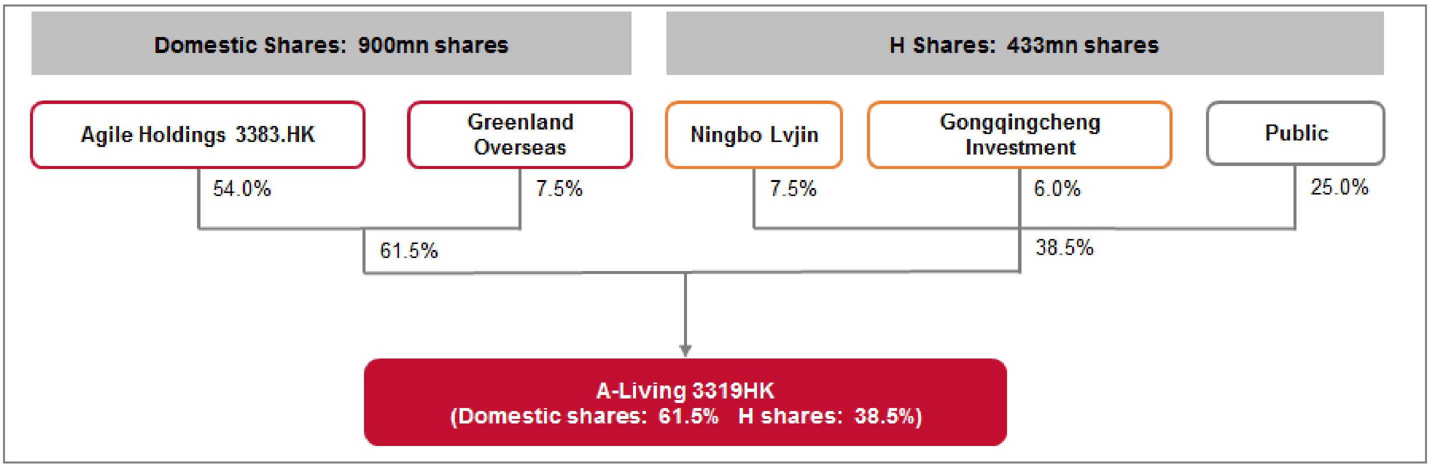
### Margin pressure due to increasing labor cost

Prop management services industry is labor-intensive as labor costs consistently take up over 50% of total outgoings. Unexpected rise in labor costs (including minimum wage level, social insurance paid-up ratio etc.) will weight on margins and drag earnings.

### Unsatisfying sales performance of connected developers

In FY18, the company has over 50% gross profits contributed by VAS provided to non-property owners (mostly pre-sale consulting and assistance services to Agile Group). If the connected developer slows down the contract sales due to industry headwinds (i.e. tighter policies related to property selling and development), the results of A-Living will be negatively impacted.

### Exhibit 43: Shareholding structure (as of 31 Dec 2018)




*Source: Company*

### Exhibit 44: Management profile

| Name | Age | Position | Description |
|---|---|---|---|
| Mr. Chan Cheuk Hung | 61 | Executive Director and Co-chairman | Over 25 years of experience in real estate development and related businesses.<br>He is responsible for the formulation of development strategies and provision of guidance for the overall development of the Group.<br>He is a director of certain subsidiaries of the Company.<br>He is also an executive director and executive director and vice president in other companies. |
| Mr. Huang Fengchao | 56 | Executive Director and the Co-chairman | Over 19 years of experience in real estate development and property management.<br>He is responsible for overall strategic decisions, business planning and major operational decisions of the Group.<br>He is a director of certain subsidiaries of the Company.<br>He is also a an executive director, vice president and president in other companies |
| Mr. Feng Xin | 47 | Executive Director | Over 21 years of experience in property management.<br>He is responsible for assisting the chief executive officer of the Company with business planning, overall management of property management and business development of the Group.<br>He is also a director of certain subsidiaries of the Company. |
| Ms. Huang Zhixia | 36 | Administrative manager | Over 13 years of experience in administration.<br>She is responsible for administration. |
| Mr. Mao Jianping | 49 | Vice president | Over 24 years of experience in real estate development and property management.<br>He is responsible for property sales, property inspection, advertising, and tourism services of the Group.<br>He is also a director of certain subsidiaries of the Company. |
| Mr. Li Dalong | 34 | CFO and joint company secretary | Over 12 years of experience in accounting and capital market.<br>He is responsible for financial management, accounting, investment, mergers and acquisitions and company secretarial matters of the Group. |

*Source: Company*

## Financial Summary – A-Living (3319 HK)

| Year to Dec | FY17 | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|---|
| **Income Stat. (RMB mn)** | | | | | |
| Prop management services | 1,206 | 1,625 | 2,752 | 6,264 | 9,730 |
| VAS to non-property owners | 453 | 1,463 | 1,768 | 2,106 | 2,422 |
| VAS to property owners | 102 | 289 | 578 | 1,062 | 1,969 |
| **Turnover** | **1,761** | **3,377** | **5,097** | **9,433** | **14,120** |
| YoY% | 41 | 92 | 51 | 85 | 50 |
| COGS | (1,170) | (2,087) | (3,216) | (6,460) | (9,662) |
| **Gross profit** | **591** | **1,290** | **1,881** | **2,972** | **4,459** |
| Gross margin | 33.5% | 38.2% | 36.9% | 31.5% | 31.6% |
| Other income | 5 | 41 | 27 | 10 | 10 |
| Selling & distribution | (33) | (46) | (60) | (81) | (96) |
| Admin | (171) | (302) | (392) | (631) | (747) |
| R&D | 0 | 0 | 0 | 0 | 0 |
| Other opex | (1) | (2) | 0 | 0 | 0 |
| **Total opex** | **(205)** | **(350)** | **(452)** | **(712)** | **(843)** |
| **Operating profit (EBIT)** | **391** | **981** | **1,456** | **2,271** | **3,626** |
| Operating margin | 22.2% | 29.0% | 28.6% | 24.1% | 25.7% |
| Provisions | 1 | 3 | 0 | 0 | 0 |
| Interest Income | 6 | 93 | 154 | 170 | 218 |
| Finance costs | 4 | (1) | 1 | 2 | 2 |
| Profit after financing costs | 403 | 1,075 | 1,612 | 2,443 | 3,847 |
| Associated companies & JVs | 0 | 0 | 0 | 0 | 0 |
| Pre-tax profit | 403 | 1,075 | 1,612 | 2,443 | 3,847 |
| Tax | (102) | (264) | (411) | (635) | (1,000) |
| Minority interests | (10) | (10) | (88) | (280) | (764) |
| **Net profit** | **290** | **801** | **1,113** | **1,528** | **2,083** |
| YoY% | 80 | 176 | 39 | 37 | 36 |
| Net margin | 16.5% | 23.7% | 21.8% | 16.2% | 14.8% |
| **EBITDA** | **406** | **1,014** | **1,487** | **2,301** | **3,657** |
| EBITDA margin | 23.1% | 30.0% | 29.2% | 24.4% | 25.9% |
| **EPS (RMB)** | **0.348** | **0.618** | **0.835** | **1.146** | **1.562** |
| YoY% | 56 | 70 | 27 | 37 | 36 |
| DPS (HK$) | 0.000 | 0.180 | 0.236 | 0.324 | 0.441 |

| Year to Dec | FY17 | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|---|
| **Cash Flow (RMB mn)** | | | | | |
| EBITDA | 406 | 1,014 | 1,487 | 2,301 | 3,657 |
| Chg in working cap | 0 | 0 | 90 | 659 | 543 |
| Others | (43) | 12 | 0 | 0 | 0 |
| **Operating cash** | **364** | **1,026** | **1,577** | **2,960** | **4,201** |
| Interest received | 0 | 0 | 1 | 2 | 2 |
| Tax | (76) | (143) | (192) | (411) | (635) |
| **Net cash from operations** | **287** | **883** | **1,386** | **2,552** | **3,568** |
| Capex | (17) | (19) | (29) | (54) | (80) |
| Investments | (994) | (118) | (600) | (2,000) | (500) |
| Dividends received | 0 | 0 | 0 | 0 | 0 |
| Sales of assets | 0 | 1 | 0 | 0 | 0 |
| Interests paid | 46 | 0 | 154 | 170 | 218 |
| Others | 1,014 | 24 | 0 | 0 | 0 |
| **Investing cash** | **49** | **(112)** | **(475)** | **(1,883)** | **(362)** |
| **FCF** | **337** | **771** | **911** | **668** | **3,206** |
| Issue of shares | 1,199 | 3,313 | 0 | 0 | 0 |
| Buy-back | 0 | 0 | 0 | 0 | 0 |
| Minority interests | 3 | 1 | 0 | 0 | 0 |
| Dividends paid | (298) | (50) | (400) | (278) | (382) |
| Net change in bank loans | (809) | (12) | 40 | 0 | 0 |
| Others | (75) | (110) | 120 | 0 | 0 |
| **Financing cash** | **20** | **3,142** | **(240)** | **(278)** | **(382)** |
| **Net change in cash** | **357** | **3,913** | **672** | **390** | **2,824** |
| Exchange rate or other Adj | 0 | 15 | 0 | 0 | 0 |
| Opening cash | 523 | 880 | 4,808 | 5,480 | 5,870 |
| **Closing cash** | **880** | **4,808** | **5,480** | **5,870** | **8,694** |
| **CFPS (HK$)** | **0.431** | **0.817** | **1.175** | **2.163** | **3.024** |

| Year to Dec | FY17 | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|---|
| **Ratios** | | | | | |
| Gross margin (%) | 33.5 | 38.2 | 36.9 | 31.5 | 31.6 |
| Operating margin (%) | 22.2 | 29.0 | 28.6 | 24.1 | 25.7 |
| Net margin (%) | 16.5 | 23.7 | 21.8 | 16.2 | 14.8 |
| Selling & dist'n exp/Sales (%) | 1.9 | 1.4 | 1.2 | 0.9 | 0.7 |
| Admin exp/Sales (%) | 9.7 | 9.0 | 7.7 | 6.7 | 5.3 |
| Payout ratio (%) | 0.0 | 24.3 | 25.0 | 25.0 | 25.0 |
| Effective tax (%) | 25.5 | 24.6 | 25.5 | 26.0 | 26.0 |
| Total debt/equity (%) | 0.0 | 0.0 | 0.7 | 0.5 | 0.4 |
| Net debt/equity (%) | Net cash | Net cash | Net cash | Net cash | Net cash |
| Current ratio (x) | 1.4 | 3.5 | 2.6 | 1.8 | 1.8 |
| Quick ratio (x) | 1.4 | 3.5 | 2.6 | 1.8 | 1.7 |
| Inventory T/O (days) | 5 | 3 | 3 | 3 | 3 |
| AR T/O (days) | 101 | 126 | 135 | 135 | 135 |
| AP T/O (days) | 297 | 204 | 204 | 204 | 204 |
| Cash conversion cycle (days) | (190) | (76) | (67) | (67) | (67) |
| Asset turnover (x) | 0.8 | 0.7 | 0.6 | 0.8 | 0.9 |
| Financial leverage (x) | 2.5 | 1.4 | 1.4 | 1.7 | 1.9 |
| EBIT margin (%) | 22.2 | 29.0 | 28.6 | 24.1 | 25.7 |
| Interest burden (x) | 1.0 | 1.1 | 1.1 | 1.1 | 1.1 |
| Tax burden (x) | 0.7 | 0.7 | 0.7 | 0.6 | 0.5 |
| **Return on equity (%)** | **33.1** | **23.2** | **19.3** | **22.6** | **25.3** |
| **ROIC (%)** | **49.6** | **110.6** | **133.0** | **113.6** | **143.5** |

| Year to Dec | FY17 | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|---|
| **Bal. Sheet (RMB mn)** | | | | | |
| Fixed assets | 71 | 80 | 98 | 138 | 200 |
| Intangible assets & goodwill | 1,029 | 1,212 | 1,192 | 1,176 | 1,162 |
| Asso. companies & JVs | 0 | 0 | 0 | 0 | 0 |
| Long-term investments | 0 | 0 | 600 | 2,600 | 3,100 |
| Other non-current assets | 12 | 16 | 16 | 16 | 16 |
| **Non-current assets** | **1,112** | **1,308** | **1,906** | **3,930** | **4,478** |
| Inventories | 17 | 15 | 23 | 47 | 70 |
| AR | 488 | 1,165 | 1,885 | 3,489 | 5,223 |
| Prepayments & deposits | 0 | 0 | 0 | 0 | 0 |
| Other current assets | 14 | 1 | 1 | 1 | 1 |
| Cash | 880 | 4,808 | 5,480 | 5,870 | 8,694 |
| **Current assets** | **1,399** | **5,989** | **7,389** | **9,406** | **13,988** |
| AP | 952 | 1,169 | 1,801 | 3,619 | 5,412 |
| Tax | 62 | 192 | 411 | 635 | 1,000 |
| Accruals & other payables | 0 | 365 | 552 | 1,021 | 1,528 |
| Bank loans & leases | 0 | 0 | 40 | 40 | 40 |
| CB & othe debts | 0 | 0 | 0 | 0 | 0 |
| Other current liabilities | 0 | 0 | 0 | 0 | 0 |
| **Current liabilities** | **1,015** | **1,726** | **2,804** | **5,315** | **7,980** |
| Bank loans & leases | 0 | 0 | 0 | 0 | 0 |
| CB & othe debts | 0 | 0 | 0 | 0 | 0 |
| Deferred tax & others | 22 | 60 | 180 | 180 | 180 |
| MI | 2 | 88 | 175 | 455 | 1,219 |
| **Non-current liabilities** | **24** | **148** | **356** | **636** | **1,399** |
| **Total net assets** | **1,472** | **5,422** | **6,136** | **7,385** | **9,086** |
| **Shareholder's equity** | **1,472** | **5,422** | **6,136** | **7,385** | **9,086** |
| Share capital | 1,000 | 1,333 | 1,333 | 1,333 | 1,333 |
| Reserves | 472 | 4,089 | 4,802 | 6,052 | 7,753 |
| **BVPS (HK$)** | **2.21** | **5.02** | **5.20** | **6.26** | **7.70** |
| Total debts | 0 | 0 | 40 | 40 | 40 |
| Net cash/(debts) | 880 | 4,809 | 5,440 | 5,830 | 8,655 |

*Source: Company, OP Research*

# CG Services (6098 HK) – Clear vision of high growth

- **We estimate 35.7% FY18-21E adj. diluted EPS CAGR backed by GFA delivery from CGH with sustainable basic prop management GPM.**
- **Large-scale new residential projects support near-term margin outlook, commercial will help preserve long-term sustainability.**
- **Initiate at BUY and TP HK$29.10 based on 35x FY20E P/E.**

## Initial Coverage

# BUY

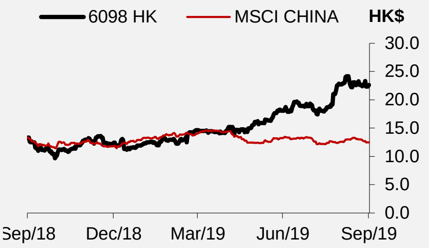
**Close price: HK$22.60**
**Target Price: HK$29.10 (+28.8%)**

### Key Data

| | | |
|---|---|---|
| HKEx code | | 6098 HK |
| 12 Months High | (HK$) | 24.60 |
| 12 Month Low | (HK$) | 9.54 |
| 3M Avg Dail Vol. | (mn) | 7.21 |
| Issue Share | (mn) | 2,668.76 |
| Market Cap | (HK$mn) | 60,314.00 |
| Fiscal Year | | 12/2018 |
| Major shareholder (s) | | Director Yang Huiyan (54.4%) |

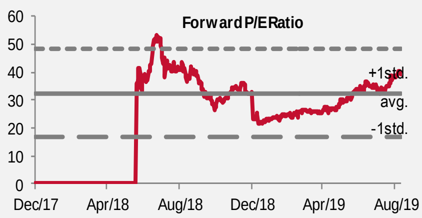
*Source: Company data, Bloomberg, OP Research*
*Closing price are as of 30/9/2019*

### Price Chart




| | 1mth | 3mth | 6mth |
|---|---|---|---|
| **Absolute %** | **-0.4** | **22.7** | **56.3** |
| **Rel. MSCI CHINA %** | **0.2** | **29.9** | **69.2** |

### PE




### Company Profile

Country Garden Services Holdings Company Limited provides real estate development services. The Company develops residential apartments, multi-functional complex buildings, government and public facilities, industrial parks, highway service stations, and schools. Country Garden Services Holdings serves clients in China.

**Clear vision of 44.4% FY18-21E revenue CAGR backed by CGH** The management targets at above 40% revenue CAGR for upcoming 3 years mainly driven by the GFA expansion. We project its revenue-bearing GFA to grow at 36.0% CAGR to reach over 450mn sqm by FY21E, of which over 70% is contributed by its parent developer CGH (2007 HK, NR) and the remaining comes from strategic alliance developers and M&A in tier 1-2 cities. On top of that, the company is going to take over c. 90mn sqm GFA prop management projects and c. 40mn heating supply projects from Petro China on JV level ("Three Supplies and Prop management"), which though by itself may not be significantly accretive to bottom line, will bring meaningful breakthrough in the company's geographic layout, in our view.

**GPM for BMS sustainable at 30%+ in the mid-term** We believe the GPM for the company's basic prop management services ("BMS") is able to maintain its above-average level at above 30% as (1) the majority of the newly added GFA are new projects (either from CGH or from third parties), which usually enjoy higher margin than old projects; (2) industry-leading residential project size (i.e. over 250k sqm vs ~194k sqm for Top100 peers) and increasing project density make the company better positioned than peers to reap the economies of scale; (3) deployment of tech devices and systems is expected to replace partial labor usage in roles such as security check, fee collection etc.

**Potential upside in portfolio optimization by tapping into commercial sector** So far CG Services has heavy reliance on residential projects (we estimated ~95% GFA under management in FY18 from residential projects, higher than industry average) and tier 3-4 cities (est. ~60% exposure). The management aims for a more balanced portfolio. In July 2019 CG Services announced to acquire 100% equity of Asia Asset Real Estate Services at no more than RMB375mn cash consideration to enhance its existence in high-end commercial building management. We expect more strategic investments of similar kind to come in the upcoming few years and help preserve long-term margin sustainability.

**Initiate BUY with TP HK$29.10.** We initiate at BUY on CG Services with TP HK$29.10 based on 35x FY20E PE, implying 30% upside potential, given (1) highest earnings growth visibility of 178% GFA reserve-to-GFA under management ratio, (2) highest BMS gross profit per sqm and (3) low penetration of non-residential GFA contrition suggest ample room for further BMS GPM improvement.

**Risks**: (1) Margin pressure; (2) slower than expected GFA delivery from CGH; (3) fail to diversity portfolio

### Exhibit 45: Forecast and Valuation

| Year to Dec (RMB mn) | FY17 | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|---|
| Revenue | 3,121.9 | 4,675.3 | 7,627.0 | 10,751.1 | 14,081.8 |
| Growth (%) | 32.4 | 49.8 | 63.1 | 41.0 | 31.0 |
| Net Profit | 400.4 | 936.0 | 1,483.0 | 1,966.5 | 2,499.5 |
| Growth (%) | 23.5 | 133.7 | 58.4 | 32.6 | 27.1 |
| Diluted EPS (HK$) | 0.192 | 0.423 | 0.628 | 0.833 | 1.058 |
| EPS growth (%) | 23.5 | 120.1 | 48.4 | 32.6 | 27.1 |
| Change to previous EPS (%) | | | 0.0 | 0.0 | |
| Consensus EPS (HK$) | | | 0.620 | 0.809 | |
| ROE (%) | 32.9 | 50.1 | 53.0 | 45.0 | 40.5 |
| P/E (x) | 117.6 | 53.4 | 36.0 | 27.1 | 21.4 |
| P/B (x) | 33.1 | 22.1 | 14.9 | 10.3 | 7.4 |
| Yield (%) | 0.0 | 0.6 | 0.7 | 0.9 | 1.2 |
| DPS (HK$) | 0.000 | 0.138 | 0.157 | 0.208 | 0.265 |

*Source: Bloomberg, OP Research*

## Exhibit 46: 1H19 results review

| (RMB mn) | 1H18 | 2H18 | 1H19 | 2H19E | OP Comment | FY18 | FY19E |
|---|---|---|---|---|---|---|---|
| **Revenue** | **2,016** | **2,660** | **3,516** | **4,111** | 1H revenue beat market expectations on higher than expected GFA delivery from CGH. | **4,675** | **7,627** |
| COGS | (1,230) | (1,684) | (2,138) | (2,594) | | (2,914) | (4,731) |
| **Gross profit** | **786** | **976** | **1,378** | **1,518** | 1H margin higher than expected thanks to large amount of first-hand CGH projects. | **1,762** | **2,896** |
| Other income & gains | 24 | 26 | 90 | 18 | | 50 | 108 |
| Selling exp | (9) | (18) | (20) | (23) | | (27) | (43) |
| Admin exp | (294) | (466) | (465) | (618) | | (760) | (1,084) |
| Other opex | 0 | 0 | 0 | 0 | | 0 | 0 |
| **Operating profit (EBIT)** | **508** | **518** | **983** | **894** | | **1,026** | **1,877** |
| Provisions or other items | (5) | (8) | (23) | 0 | | (13) | (23) |
| Interest income | 13 | 41 | 37 | 30 | | 54 | 67 |
| Finance costs | 0 | 0 | (0) | 0 | | 0 | 0 |
| Profit after financing costs | 516 | 550 | 996 | 925 | | 1,066 | 1,921 |
| Associated cos | (3) | 0 | 0 | 0 | | (3) | 0 |
| Jointly controlled cos | 3 | 3 | 1 | 4 | | 6 | 5 |
| Pre-tax profit | 516 | 554 | 998 | 928 | | 1,069 | 1,926 |
| Tax | (36) | (99) | (172) | (194) | | (135) | (365) |
| Minority interests | (9) | (2) | (9) | (7) | | (11) | (16) |
| **Net profit** | **471** | **452** | **817** | **728** | | **923** | **1,545** |
| **Adj. net profit** | **468** | **468** | **755** | **728** | | **936** | **1,483** |
| Other gains | 17 | 3 | 69 | | | 19 | 69 |
| Listing expenses | (10) | (2) | 0 | | | (12) | 0 |
| Share compensation expenses | (4) | (17) | (7) | | | (21) | (7) |
| **YoY%** | | | | | | | |
| Revenue | 42% | 56% | 74% | 55% | Acquisition of Asia Asset is expected to start contribution in 2H19E. | 49.8% | 63.1% |
| Gross profit | 61% | 78% | 75% | 56% | | 70.1% | 64.4% |
| Net profit | 133% | 126% | 73% | 61% | | 129.8% | 67.4% |
| Net profit | 132% | 136% | 61% | 55% | | 133.7% | 58.4% |
| **Key ratios** | | | | | | | |
| GPM | 39.0% | 36.7% | 39.2% | 36.9% | | 37.7% | 38.0% |
| Selling exp | 0.4% | 0.7% | 0.6% | 0.6% | | 0.6% | 0.6% |
| Admin exp | 14.6% | 17.5% | 13.2% | 15.0% | | 16.3% | 14.2% |
| EIT | 7.0% | 17.9% | 17.2% | 20.8% | | 12.7% | 19.0% |
| Adj. net margin | 23.2% | 17.6% | 21.5% | 17.7% | | 20.0% | 19.4% |
| **Revenue breakdown** | | | | | | | |
| Prop management services | 1,564 | 1,882 | 2,586 | 2,961 | | 3,445 | 5,548 |
| Value-added services to community | 171 | 246 | 307 | 360 | | 417 | 668 |
| Value-added services to non-property owners | 276 | 515 | 596 | 758 | | 791 | 1,354 |
| Other services | 5 | 16 | 27 | 31 | | 21 | 58 |
| **Revenue contribution** | | | | | | | |
| Prop management services | 77.6% | 70.8% | 73.6% | 72.0% | | 73.7% | 72.7% |
| Value-added services to community | 8.5% | 9.3% | 8.7% | 8.8% | | 8.9% | 8.8% |
| Value-added services to non-property owners | 13.7% | 19.4% | 16.9% | 18.4% | | 16.9% | 17.8% |
| Other services | 0.3% | 0.6% | 0.8% | 0.8% | | 0.5% | 0.8% |
| **Revenue yoy%** | | | | | | | |
| Prop management services | 34.8% | 35.9% | 65.4% | 57.4% | | 35.4% | 61.0% |
| Value-added services to community | 52.9% | 89.5% | 79.5% | 46.5% | | 72.5% | 60.0% |
| Value-added services to non-property owners | 97.9% | 173.1% | 116.1% | 47.1% | | 141.2% | 71.1% |
| Other services | 49.7% | 321.1% | 408.8% | 93.3% | | 192.3% | 170.0% |

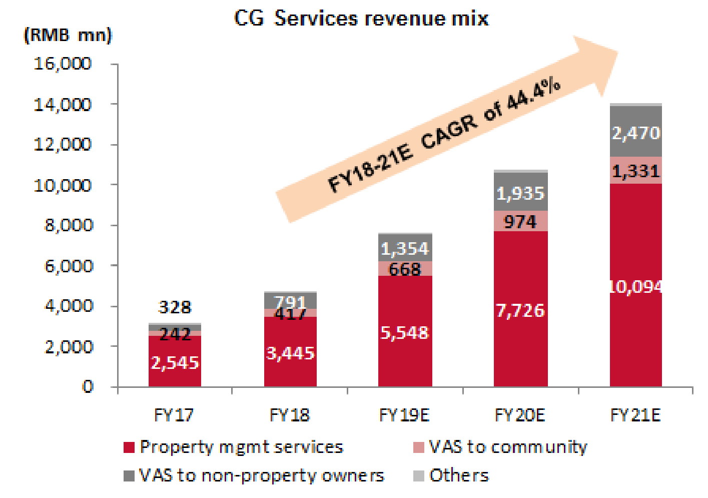
*Source: Company, OP Research*

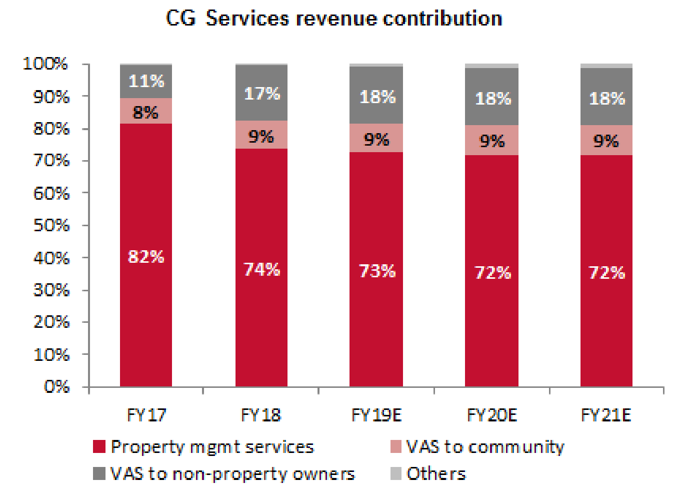
## Exhibit 47: Key assumptions for CG Services

| | FY17 | FY18 | FY19E | FY20E | FY21E | FY18-21E CAGR |
|---|---|---|---|---|---|---|
| **GFA under management (sqm mn)** | **122.76** | **181.50** | **266.50** | **356.50** | **456.50** | **36.0%** |
| CGH | 109.4 | 145.5 | 205.5 | 265.5 | 330.5 | 31.5% |
| Third-party developers | 13.3 | 36.0 | 61.0 | 91.0 | 126.0 | 51.8% |
| | | | | | | |
| **YoY change (sqm mn)** | | | | | | |
| CGH | 31.69 | 58.74 | 85.00 | 90.00 | 100.00 | |
| Third-party developers | 22.08 | 36.05 | 60.00 | 60.00 | 65.00 | |
| | | | | | | |
| **Implied prop management fee per unit (RMB/sqm/M)** | **1.98** | **1.89** | **2.06** | **2.07** | **2.07** | |
| CGH | 1.99 | 2.00 | 2.04 | 2.04 | 2.04 | |
| Third-party developers | 1.91 | 1.32 | 2.15 | 2.15 | 2.15 | |
| | | | | | | |
| **Gross profit breakdown (RMB mn)** | **1,036** | **1,762** | **2,896** | **3,969** | **5,091** | **42.4%** |
| Prop management services | 748 | 1,099 | 1,914 | 2,588 | 3,281 | 44.0% |
| Value-added services to community | 140 | 276 | 414 | 585 | 799 | 42.5% |
| Value-added services to non-property owners | 142 | 381 | 547 | 756 | 947 | 35.5% |
| Other services | 6 | 6 | 20 | 41 | 65 | 118.7% |
| | | | | | | |
| **Segment Margin (%)** | | | | | | |
| Prop management services | 29.4% | 31.9% | 34.5% | 33.5% | 32.5% | |
| Value-added services to community | 57.7% | 66.1% | 62.0% | 60.0% | 60.0% | |
| Value-added services to non-property owners | 43.2% | 48.1% | 40.4% | 39.1% | 38.3% | |
| Other services | 84.4% | 28.9% | 35.0% | 35.0% | 35.0% | |
| | | | | | | |
| **Segment Margin contribution (%)** | | | | | | |
| Prop management services | 72.2% | 62.4% | 66.1% | 65.2% | 64.4% | |
| Value-added services to community | 13.5% | 15.7% | 14.3% | 14.7% | 15.7% | |
| Value-added services to non-property owners | 13.7% | 21.6% | 18.9% | 19.0% | 18.6% | |
| Other services | 0.6% | 0.4% | 0.7% | 1.0% | 1.3% | |

*Source: OP Research*

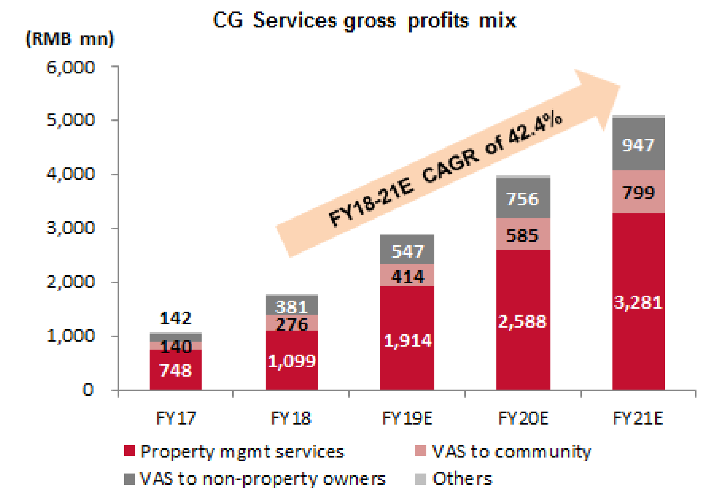
## Exhibit 48: We expect CG Services revenue to grow at FY18-21E CAGR of 44.4%

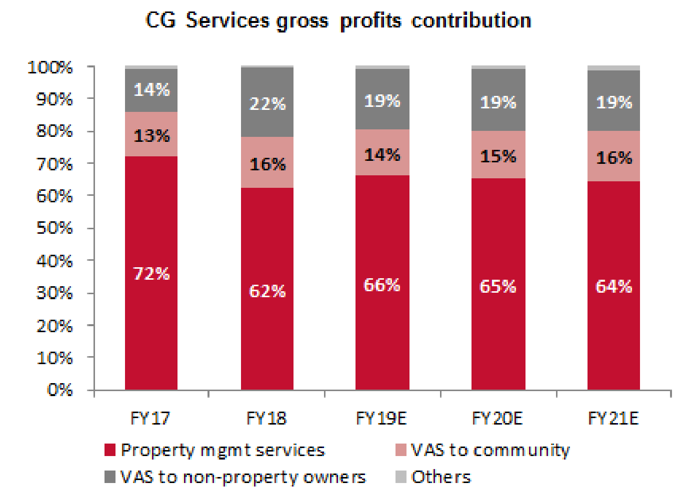



Source: OP Research

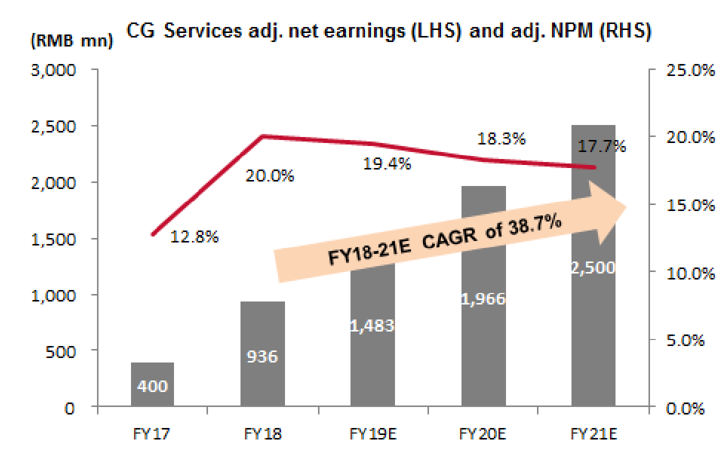
## Exhibit 49: We expect CG Services gross profit to grow at FY18-21E CAGR of 42.4%

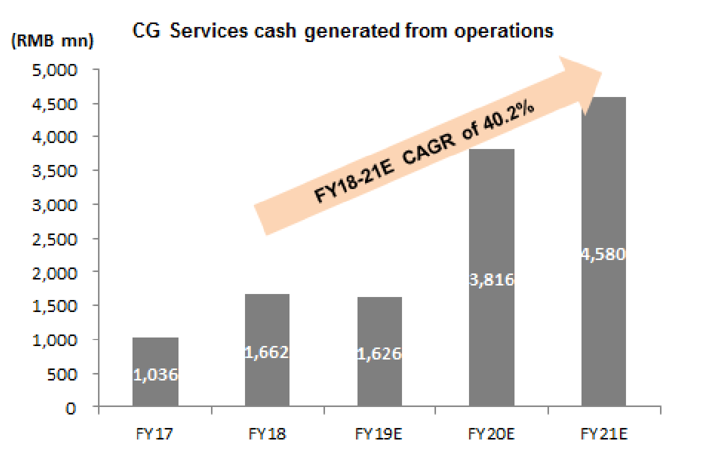



Source: OP Research

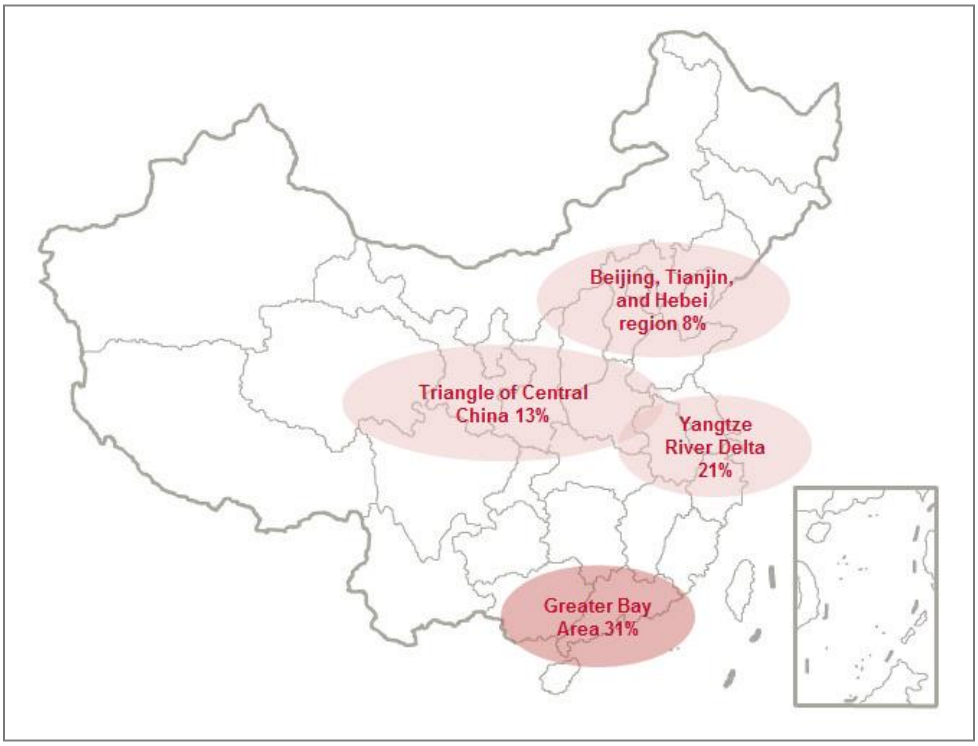
## Exhibit 50: We expect CG Services adj. net profits/cash generated from operations to grow at FY18-21E CAGR of 38.7%/40.2%




Source: OP Research

**Exhibit 51: The proportion of contracted GFA of CG Services in major metropolitan areas reached 73% by 1H19.**




*Source: Company*

**Exhibit 52: Summary of recent acquisitions of CG Services**

| Completion of transaction (Announcement date) | Target company | Acquired stake (%) | Consideration (RMB mn) | Implied historical PE | Contracted GFA (sqm mn) | Portfolio |
|---|---|---|---|---|---|---|
| (Nov 2018) | Beijing Shengshi | 70% | 682.59 | 9x | N/A | Residential |
| | Chengdu Jiaxiang | 100% | | | | |
| | Chengdu Qinghua Yijia | 100% | | | | |
| | Nanchang Jiejia | 100% | | | | |
| | Shanghai Ruijing Industrial | 100% | | | | |
| Mar 2019 | Beijing Shengshi | 30% | 90.00 | 8x | N/A | Residential |
| Jul 2019 | Asia Asset Real Estate | 100.0% | 316.35 (max.) | 10x | 13.5 (revenue-bearing) | Commercial, office, industrial and public services |

*Source: Company, OP Research*

## Investment risks

**Margin pressure due to increasing labor cost**

PM industry is labor-intensive as labor costs consistently take up over 50% of total outgoings. Unexpected rise in labor costs (including minimum wage level, social insurance paid-up ratio etc.) will weight on margins and drag earnings.

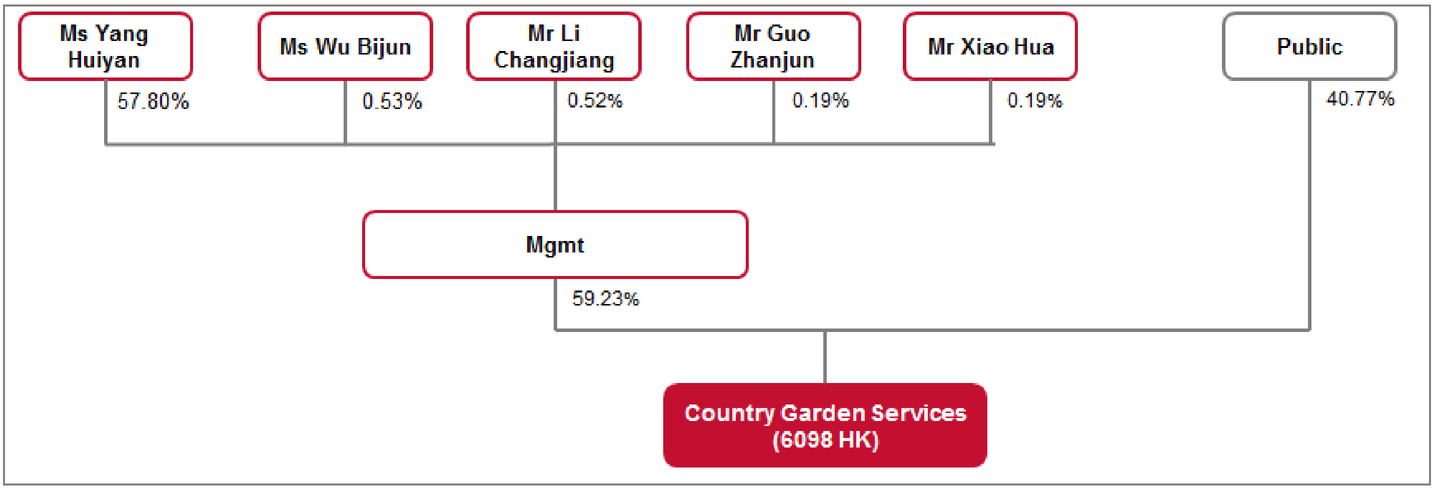
**Slower than expected GFA delivery from parent company**

In FY18 ~80% of the company's GFA under management is contributed by CGH, the connected-developer of CG Services. We assume a similar contribution from CGH in the company's GFA reserve. Slower than expected GFA delivery and weaker than expected contract sales may result in lukewarm revenue growth.

**Failure of portfolio mix diversification**

The company relies heavily on residential projects, with only ~5% GFA mix related to non-residential buildings. We expect a downward margin trend for most residential projects as the buildings and facilities age. Therefore it is necessary for the company to seek greater exposure to non-residential segment in order to offset the impact. Failing to diversify portfolio mix will make the company margin vulnerable in the long-term.

**Exhibit 53: Shareholding structure (as of 31 Dec 2018)**




*Source: Company*

**Exhibit 54: Management profile**

| Name | Age | Position | Description |
|---|---|---|---|
| Mr. Li Changjiang | 57 | Executive Director | Over 20 years of experience in the fields of administration and management.<br>He is primarily responsible for overall strategic decisions, business planning and major operational decision making of the Group. |
| Mr. Xiao Hua | 41 | Executive Director and Deputy general manager | Over 16 years of experience in the field of managements.<br>He is primarily responsible for overall management of value-added services to non-property owners. |
| Mr. Guo Zhanjun | 39 | Executive Director and Deputy general manager | Over 17 years of experience in the fields of human resources.<br>He is primarily responsible for overall management of human resources of the Group. |
| Mr. Gong Shunsong | 40 | Chief Operating Officer | Over 16 years of experience in the field of logistics management.<br>He is primarily responsible for overall management, operations and business development. |
| Mr. Xu Binhuai | 40 | Deputy General Manager | Over 15 years of experience in the field of marketing.<br>He is primarily responsible for strategic planning in business innovation and brand management. |
| Mr. Huang Peng | 36 | CFO | Over 13 years of experience in the field of financial management and board secretarial matters.<br>He is primarily responsible for financial management, investment management, compliance and company secretarial matters of the Group. |
| Mr. Yu Xiangdong | 49 | Deputy General Manager | Over 20 years of the experience in the field of business management.<br>He is primarily responsible for management of community value-added services business. |
| Mr. Yuan Hongkai | 41 | Deputy General Manager | Approximately 20 years of the experience in the field of information technology management and research.<br>He is primarily responsible for informatization solutions and intelligent technologies management. |

*Source: Company*

## Financial Summary – CG Services (6098 HK)

| Year to Dec | FY17 | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|---|
| **Income Stat. (RMB mn)** | | | | | |
| Prop management services | 2,545 | 3,445 | 5,548 | 7,726 | 10,094 |
| VAS to community | 242 | 417 | 668 | 974 | 1,331 |
| VAS to non-property owners | 328 | 791 | 1,354 | 1,935 | 2,470 |
| Other services | 7 | 21 | 58 | 116 | 186 |
| **Turnover** | **3,122** | **4,675** | **7,627** | **10,751** | **14,082** |
| YoY% | 32 | 50 | 63 | 41 | 31 |
| COGS | (2,086) | (2,914) | (4,731) | (6,782) | (8,990) |
| **Gross profit** | **1,036** | **1,762** | **2,896** | **3,969** | **5,091** |
| Gross margin | 33.2% | 37.7% | 38.0% | 36.9% | 36.2% |
| Other income | 14 | 50 | 108 | 39 | 39 |
| Selling & distribution | (9) | (27) | (43) | (61) | (80) |
| Admin | (455) | (760) | (1,084) | (1,489) | (1,946) |
| R&D | 0 | 0 | 0 | 0 | 0 |
| Other opex | 0 | 0 | 0 | 0 | 0 |
| **Total opex** | **(465)** | **(786)** | **(1,127)** | **(1,551)** | **(2,026)** |
| **Operating profit (EBIT)** | **585** | **1,026** | **1,877** | **2,458** | **3,104** |
| Operating margin | 18.7% | 21.9% | 24.6% | 22.9% | 22.0% |
| Provisions | (4) | (13) | (23) | 0 | 0 |
| Interest Income | 35 | 54 | 67 | 99 | 148 |
| Finance costs | (0) | 0 | 0 | 0 | 0 |
| Profit after financing costs | 616 | 1,066 | 1,921 | 2,557 | 3,252 |
| Associated companies & JVs | (8) | 3 | 5 | 5 | 5 |
| Pre-tax profit | 608 | 1,069 | 1,926 | 2,562 | 3,257 |
| Tax | (168) | (135) | (365) | (575) | (732) |
| Minority interests | (39) | (11) | (16) | (20) | (26) |
| **Net profit** | **402** | **923** | **1,545** | **1,966** | **2,500** |
| **Adj. Net Profit** | **400** | **936** | **1,483** | **1,966** | **2,500** |
| YoY% | 24 | 134 | 58 | 33 | 27 |
| Net margin | 12.8% | 20.0% | 19.4% | 18.3% | 17.7% |
| **EBITDA** | **600** | **1,043** | **1,875** | **2,490** | **3,152** |
| EBITDA margin | 19.2% | 22.3% | 24.6% | 23.2% | 22.4% |
| **EPS (RMB)** | **0.160** | **0.374** | **0.556** | **0.737** | **0.937** |
| YoY% | 24 | 134 | 48 | 33 | 27 |
| DPS (HK$) | 0.000 | 0.153 | 0.157 | 0.208 | 0.265 |

| Year to Dec | FY17 | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|---|
| **Cash Flow (RMB mn)** | | | | | |
| EBITDA | 600 | 1,043 | 1,875 | 2,490 | 3,152 |
| Chg in working cap | 0 | 0 | (249) | 1,326 | 1,428 |
| Others | 436 | 618 | 0 | 0 | 0 |
| **Operating cash** | **1,036** | **1,662** | **1,626** | **3,816** | **4,580** |
| Interest received | 0 | 0 | 0 | 0 | 0 |
| Tax | (151) | (113) | (67) | (365) | (575) |
| **Net cash from operations** | **885** | **1,549** | **1,559** | **3,451** | **4,005** |
| Capex | (55) | (62) | (101) | (143) | (187) |
| Investments | (15) | (426) | 0 | 0 | 0 |
| Dividends received | 0 | 0 | 0 | 0 | 0 |
| Sales of assets | 2 | 338 | 0 | 0 | 0 |
| Interests paid | 35 | 54 | 67 | 99 | 148 |
| Others | 0 | (18) | 0 | 0 | 0 |
| **Investing cash** | **(32)** | **(114)** | **(34)** | **(43)** | **(39)** |
| **FCF** | **853** | **1,435** | **1,525** | **3,407** | **3,966** |
| Issue of shares | 0 | 2 | 0 | 0 | 0 |
| Buy-back | 0 | 0 | 0 | 0 | 0 |
| Minority interests | 10 | (106) | 0 | 0 | 0 |
| Dividends paid | 0 | (96) | (231) | (371) | (492) |
| Net change in bank loans | (3) | 0 | 0 | 0 | 0 |
| Others | (0) | 0 | (65) | 0 | 0 |
| **Financing cash** | **7** | **(200)** | **(296)** | **(371)** | **(492)** |
| **Net change in cash** | **860** | **1,235** | **1,229** | **3,037** | **3,474** |
| Exchange rate or other Adj | 0 | 0 | 0 | 0 | 0 |
| Opening cash | 1,774 | 2,634 | 3,869 | 5,098 | 8,135 |
| **Closing cash** | **2,634** | **3,869** | **5,098** | **8,135** | **11,609** |
| **CFPS (HK$)** | **0.443** | **0.774** | **0.660** | **1.461** | **1.696** |

| Year to Dec | FY17 | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|---|
| **Ratios** | | | | | |
| Gross margin (%) | 33.2 | 37.7 | 38.0 | 36.9 | 36.2 |
| Operating margin (%) | 18.7 | 21.9 | 24.6 | 22.9 | 22.0 |
| Net margin (%) | 12.9 | 19.7 | 20.3 | 18.3 | 17.7 |
| Selling & dist'n exp/Sales (%) | 0.3 | 0.6 | 0.6 | 0.6 | 0.6 |
| Admin exp/Sales (%) | 14.6 | 16.3 | 14.2 | 13.9 | 13.8 |
| Payout ratio (%) | 0.0 | 32.7 | 25.0 | 25.0 | 25.0 |
| Effective tax (%) | 27.2 | 12.7 | 19.0 | 22.5 | 22.5 |
| Total debt/equity (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net debt/equity (%) | Net cash | Net cash | Net cash | Net cash | Net cash |
| Current ratio (x) | 1.7 | 1.5 | 1.5 | 1.6 | 1.6 |
| Quick ratio (x) | 1.7 | 1.5 | 1.5 | 1.6 | 1.6 |
| Inventory T/O (days) | 1 | 1 | 1 | 1 | 1 |
| AR T/O (days) | 83 | 62 | 80 | 80 | 80 |
| AP T/O (days) | 230 | 258 | 240 | 240 | 240 |
| Cash conversion cycle (days) | (146) | (195) | (159) | (159) | (159) |
| Asset turnover (x) | 1.1 | 1.0 | 1.1 | 1.0 | 1.0 |
| Financial leverage (x) | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 |
| EBIT margin (%) | 18.7 | 21.9 | 24.6 | 22.9 | 22.0 |
| Interest burden (x) | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Tax burden (x) | 0.7 | 0.9 | 0.8 | 0.8 | 0.8 |
| **Return on equity (%)** | **32.9** | **50.1** | **53.0** | **45.0** | **40.5** |
| **ROIC (%)** | **(46.7)** | **(67.5)** | **(101.2)** | **(87.4)** | **(66.2)** |

| Year to Dec | FY17 | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|---|
| **Balance Sheet (RMB mn)** | | | | | |
| Fixed assets | 79 | 113 | 189 | 295 | 430 |
| Intangible assets & goodwill | 21 | 686 | 691 | 695 | 700 |
| Associated companies & JVs | 18 | 27 | 32 | 37 | 42 |
| Long-term investments | 4 | 19 | 19 | 19 | 19 |
| Other non-current assets | 0 | 6 | 6 | 6 | 6 |
| **Non-current assets** | **122** | **851** | **936** | **1,052** | **1,196** |
| Inventories | 6 | 8 | 14 | 20 | 26 |
| AR | 712 | 788 | 1,672 | 2,356 | 3,086 |
| Prepayments & deposits | 0 | 0 | 0 | 0 | 0 |
| Other current assets | 3 | 5 | 1,048 | 1,048 | 1,048 |
| Cash | 2,634 | 3,869 | 5,098 | 8,135 | 11,609 |
| **Current assets** | **3,356** | **4,671** | **7,832** | **11,559** | **15,770** |
| AP | 1,315 | 2,060 | 3,111 | 4,459 | 5,912 |
| Tax | 49 | 67 | 365 | 575 | 732 |
| Accruals & other payables | 557 | 1,000 | 1,632 | 2,300 | 3,012 |
| Bank loans & leases | 0 | 0 | 0 | 0 | 0 |
| CB & othe debts | 0 | 0 | 0 | 0 | 0 |
| Other current liabilities | 0 | 0 | 0 | 0 | 0 |
| **Current liabilities** | **1,921** | **3,127** | **5,108** | **7,335** | **9,656** |
| Bank loans & leases | 0 | 0 | 0 | 0 | 0 |
| CB & othe debts | 0 | 0 | 0 | 0 | 0 |
| Deferred tax & others | 14 | 65 | 0 | 0 | 0 |
| MI | 121 | 69 | 85 | 105 | 132 |
| **Non-current liabilities** | **135** | **134** | **85** | **105** | **132** |
| **Total net assets** | **1,421** | **2,261** | **3,575** | **5,171** | **7,179** |
| **Shareholder's equity** | **1,421** | **2,261** | **3,575** | **5,171** | **7,179** |
| Share capital | 0 | 2 | 2 | 2 | 2 |
| Reserves | 1,421 | 2,259 | 3,573 | 5,169 | 7,177 |
| **BVPS (HK$)** | **0.71** | **1.13** | **1.51** | **2.19** | **3.04** |
| Total debts | 0 | 0 | 0 | 0 | 0 |
| Net cash/(debts) | 2,637 | 3,874 | 5,104 | 8,140 | 11,615 |

*Source: Company, OP Research*

# GT Services (2869 HK) – Time tries quality

- **We estimate 36.6% FY18-21E diluted EPS CAGR driven by 25.2% organic topline growth, margin expansion, and controlled spend.**
- **Entry barriers and scalability on potential adoption of commissioned operation justify near-term investments in childcare VAS.**
- **Sound human resources management and employee cultivation.**
- **Initiate BUY with TP HK$8.50 based on 27x FY20E P/E, or 1.0x PEG.**

## Initial Coverage

## BUY

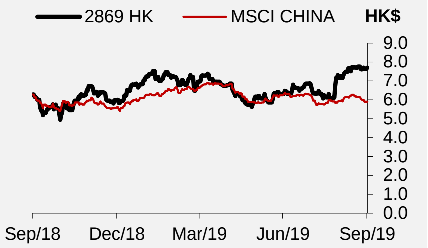
**Close price:** **HK$7.70**
**Target Price:** **HK$8.50 (+10.4%)**

### Key Data

| | | |
|---|---|---|
| HKEx code | | |
| 12 Months High | (HK$) | 7.86 |
| 12 Month Low | (HK$) | 4.75 |
| 3M Avg Dail Vol. | (mn) | 4.53 |
| Issue Share | (mn) | 2,777.78 |
| Market Cap | (HK$mn) | 21,388.88 |
| Fiscal Year | | 12/2018 |
| Major shareholder (s) | | Orchid Garden Inv. (36.7%) |

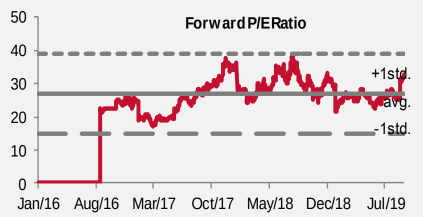
*Source: Company data, Bloomberg, OP Research*
*Closing price are as of 30/9/2019*

### Price Chart




| | 1mth | 3mth | 6mth |
|---|---|---|---|
| **Absolute %** | **7.4** | **18.8** | **5.6** |
| **Rel. MSCI CHINA %** | **8.0** | **26.0** | **18.6** |

### PE




### Company Profile

Greentown Service Group Co. Ltd. operates in the real estate service industry. The Company provides property management, consulting, and community value-added services.

**Little downside in prop management GPM in view of solid service quality** The GPM of Greentown's basic management services (BMS) is intentionally kept at 11-12%, lower than industry average (~20%) due to strict internal control for service quality (evidenced by 98% collection rate) and high portion of third party projects in GFA mix. We see very limited downside in current GPM level as GT Services has a greater say in revising up unit management fee considering its (1) brand power, (2) high exposure to tier 1&2 cities and non-residential projects (22% of GFA under management by 1H19), fee review of which is more frequent and fee setting more market-oriented, (3) low GFA mix contribution from connected developers allows the company to exit low-margin projects more easily.

**Leader in VAS with entry barriers and scalability potential justifying near-term investment in childcare VAS** GT Services has the highest contribution from community-based VAS among our coverage universe in terms of both absolute gross profits amount and percentage. We expect its GP from community-based VAS to hit RMB962mn in FY21E at 42% FY18-21E CAGR. We are positive on the company's investment in childcare VAS. The early childcare market (targeting kids below 6) in China is expected to hit RMB300bn in size by 2020E at CAGR of 16% while sector leaders will achieve even higher growth with trustworthy and experienced team. GT Services has relative advantages in (1) location (i.e. near GT residential communities); (2) operation scale. Its nursery "Wonderful Garden" has opened 22 outlets in Hangzhou with occupancy of over 60%. We expect 3 more to kick off operation in 2H19E; (3) enhanced brand connotation and operation know-how by acquiring Montessori Academy in July 2019.

**Sound human resources management and corporate governance** Compatible with its organic growth strategy, GT Services emphasizes much on its human resources mgmt and employee cultivation. It spends over 3% of its total costs in employee training every year in order to provide high-quality services. In addition, its share option award scheme covers a wide range of non-senior mgmt staffs (e.g. in 2018 a total of 887 employees received share options, only 15% of them were senior mgmt).

**Initiate at BUY** with TP HK$8.50 based on 27x FY20x P/E or 1.0x PEG with 25%/37% revenue/earnings CAGR for FY18-FY21E given (1) limited downside on its BMS gross margin thanks to high management service quality, (2) potential upside from its robust VAS especially childcare education service and (3) 113% GFA reserve-to-GFA under management ratio, second highest among our coverage universe.

**Risks**: (1) slower than expected expansion; (2) risks specific to childcare business

### Exhibit 55: Forecast and Valuation

| Year to Dec (RMB mn) | FY17 | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|---|
| Revenue | 5,140.1 | 6,709.9 | 8,418.9 | 10,588.4 | 13,160.0 |
| Growth (%) | 38.1 | 30.5 | 25.5 | 25.8 | 24.3 |
| Adj. net profits | 387.5 | 394.0 | 577.9 | 775.4 | 1,005.2 |
| Growth (%) | 35.7 | 1.7 | 46.7 | 34.2 | 29.6 |
| Diluted EPS (HK$) | 0.174 | 0.160 | 0.235 | 0.315 | 0.409 |
| EPS growth (%) | 15.7 | (8.1) | 46.7 | 34.2 | 29.6 |
| Change to previous EPS (%) | | | 0.0 | 0.0 | |
| Consensus EPS (HK$) | | | 0.241 | 0.315 | |
| ROE (%) | 21.3 | 22.8 | 20.3 | 24.9 | 28.3 |
| P/E (x) | 44.2 | 48.0 | 32.8 | 24.4 | 18.8 |
| P/B (x) | 8.9 | 8.1 | 7.1 | 6.0 | 4.8 |
| Yield (%) | 0.8 | 1.0 | 1.1 | 1.4 | 1.9 |
| DPS (HK$) | 0.060 | 0.075 | 0.082 | 0.110 | 0.143 |

*Source: Bloomberg, OP Research*

## Exhibit 56: 1H19 results review

| (RMB mn) | 1H18 | 2H18 | 1H19 | 2H19E | OP comments | FY18 | FY19E |
|---|---|---|---|---|---|---|---|
| **Revenue** | **2,927** | **3,782** | **3,663** | **4,756** | 1H revenue growth mainly driven by community living services. | **6,710** | **8,419** |
| COGS | (2,377) | (3,136) | (2,957) | (3,877) | | (5,512) | (6,834) |
| **Gross profit** | 551 | 647 | 706 | 878 | Margin beat expectations thanks to higher operation efficiency in basic prop management services and improving profitability for education business. | 1,198 | 1,585 |
| Other income & gains | 22 | 130 | 33 | 2 | | 152 | 35 |
| Selling exp | (15) | (45) | (43) | (58) | | (59) | (102) |
| Admin exp | (234) | (363) | (317) | (445) | | (597) | (762) |
| Other opex | (34) | (27) | (64) | (45) | | (61) | (109) |
| **Operating profit (EBIT)** | **290** | **342** | **314** | **332** | | **632** | **646** |
| Provisions or other items | 0 | 0 | 0 | 0 | | 0 | 0 |
| Interest income | 12 | 6 | 17 | 4 | | 18 | 21 |
| Finance costs | (0) | 0 | (0) | 1 | | (0) | 0 |
| Profit after financing costs | 301 | 349 | 330 | 337 | | 650 | 668 |
| Associated cos | (3) | (20) | (3) | 3 | | (23) | 0 |
| Jointly controlled cos | (1) | 3 | (1) | 1 | | 2 | 0 |
| Pre-tax profit | 297 | 332 | 326 | 341 | | 629 | 668 |
| Tax | (81) | (83) | (92) | (75) | | (163) | (167) |
| Minority interests | 13 | 5 | 3 | 2 | | 18 | 5 |
| **Net profit** | **229** | **254** | **237** | **269** | | **483** | **506** |
| **Adjustments** | **12** | **77** | **(37)** | **(35)** | Adjusted for gain/loss on disposal and share option expenses. | **89** | **(72)** |
| **Adjusted net profit** | **217** | **177** | **274** | **304** | | **394** | **578** |
| | | | | | | | |
| **HoH%** | | | | | | | |
| Revenue | 0% | 29% | -3% | 30% | | | |
| Gross profit | 3% | 17% | 9% | 24% | | | |
| Net profit | 9% | 11% | -7% | 13% | | | |
| | | | | | | | |
| **YoY%** | | | | | | | |
| Revenue | 33% | 29% | 25% | 26% | | | 25.5% |
| Gross profit | 34% | 21% | 28% | 36% | | | 32.3% |
| Net profit | 29% | 21% | 3% | 6% | | | 4.6% |
| Adj. net profit | 23% | -16% | 26% | 72% | | | 46.7% |
| | | | | | | | |
| **Key ratios** | | | | | | | |
| GPM | 18.8% | 17.1% | 19.3% | 18.5% | | 17.8% | 18.8% |
| Selling exp | 0.5% | 1.2% | 1.2% | 1.2% | | 0.9% | 1.2% |
| Admin exp | 8.0% | 9.6% | 8.7% | 9.4% | | 8.9% | 9.1% |
| EIT | 26.8% | 23.7% | 27.8% | 22.2% | | 25.1% | 25.0% |
| Adj. Net margin | 7.4% | 4.7% | 7.5% | 6.4% | | 7.2% | 6.0% |
| | | | | | | | |
| **Revenue breakdown** | | | | | | | |
| Property services | 2,015 | 2,445 | 2,452 | 3,104 | | 4,461 | 5,556 |
| Consulting services | 400 | 539 | 521 | 646 | | 939 | 1,167 |
| Community living services | 512 | 798 | 690 | 1,006 | | 1,310 | 1,696 |
| | | | | | | | |
| **Revenue contribution** | | | | | | | |
| Property services | 69% | 65% | 67% | 65% | | 66% | 66% |
| Consulting services | 14% | 14% | 14% | 14% | | 14% | 14% |
| Community living services | 17% | 21% | 19% | 21% | | 20% | 20% |
| | | | | | | | |
| **Revenue yoy%** | | | | | | | |
| Property services | 32% | 20% | 22% | 27% | | 25% | 25% |
| Consulting services | 24% | 50% | 30% | 20% | | 38% | 24% |
| Community living services | 45% | 46% | 35% | 26% | | 46% | 29% |

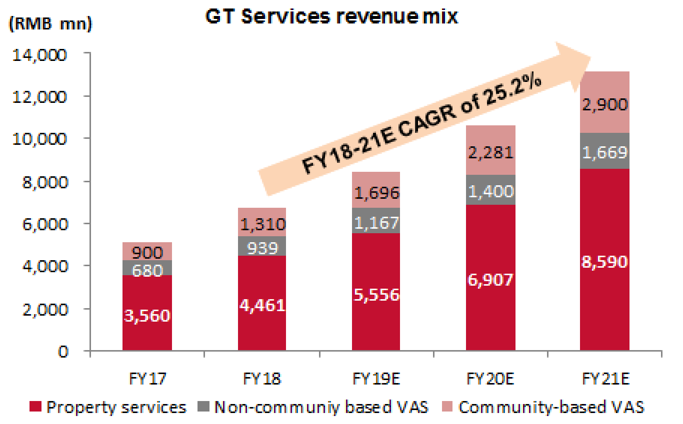
*Source: Company, OP Research*

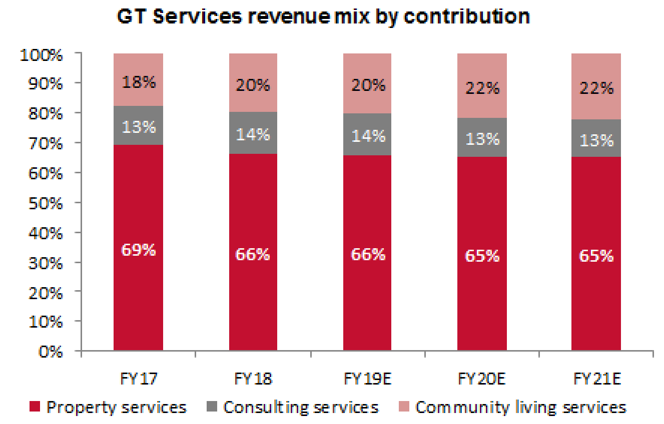
**Exhibit 57: Key assumptions for GT Services**

| | FY17 | FY18 | FY19E | FY20E | FY21E | FY18-21E CAGR |
|---|---|---|---|---|---|---|
| **GFA under management (sqm mn)** | **137.80** | **170.40** | **210.40** | **260.40** | **320.40** | **23.4%** |
| Residential | 108.86 | 132.91 | 164.91 | 204.91 | 249.91 | 23.4% |
| Non-residential | 28.94 | 37.49 | 45.49 | 55.49 | 70.49 | 23.4% |
| Greentown | 30.87 | 35.44 | 40.44 | 45.44 | 50.44 | 12.5% |
| Third-party | 106.93 | 134.96 | 169.96 | 214.96 | 269.96 | 26.0% |
| **GFA under management net change (sqm mn)** | **32.60** | **32.60** | **40.00** | **50.00** | **60.00** | |
| Residential | 28.70 | 24.05 | 32.00 | 40.00 | 45.00 | |
| Non-residential | 3.90 | 8.55 | 8.00 | 10.00 | 15.00 | |
| Greentown | 7.51 | 4.58 | 5.00 | 5.00 | 5.00 | |
| Third-party | 25.09 | 28.02 | 35.00 | 45.00 | 55.00 | |
| **GFA under management contribution** | | | | | | |
| Residential | 79% | 78% | 78% | 79% | 78% | |
| Non-residential | 21% | 22% | 22% | 21% | 22% | |
| Greentown | 22% | 21% | 19% | 17% | 16% | |
| Third-party | 78% | 79% | 81% | 83% | 84% | |
| **Implied unit management fee (RMB/sqm/M)** | **2.44** | **2.41** | **2.43** | **2.45** | **2.47** | |
| **Gross profit breakdown (RMB mn)** | **946** | **1,200** | **1,585** | **2,038** | **2,542** | **28.5%** |
| Property services | 399 | 509 | 633 | 787 | 979 | 24.4% |
| Consulting services | 246 | 357 | 420 | 504 | 601 | 19.0% |
| Community living services | 302 | 334 | 531 | 746 | 962 | 42.3% |
| **Segment margin (%)** | **18.4%** | **17.8%** | **18.8%** | **19.2%** | **19.3%** | |
| Property services | 11.2% | 11.4% | 11.4% | 11.4% | 11.4% | |
| Consulting services | 36.1% | 38.0% | 36.0% | 36.0% | 36.0% | |
| Community living services | 33.5% | 25.5% | 31.3% | 32.7% | 33.2% | |
| **Segment margin contribution (%)** | | | | | | |
| Property services | 42.2% | 42.4% | 40.0% | 38.6% | 38.5% | |
| Consulting services | 26.0% | 29.8% | 26.5% | 24.7% | 23.6% | |
| Community living services | 31.9% | 27.8% | 33.5% | 36.6% | 37.8% | |

*Source: OP Research*

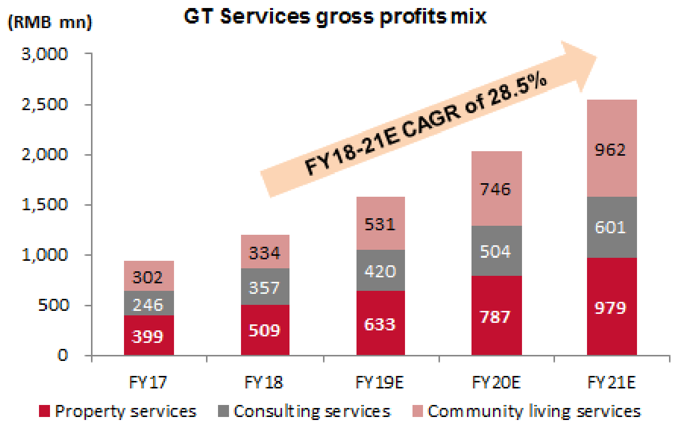
**Exhibit 58: We expect GT Services revenue to grow at FY18-21E CAGR of 25.2%**

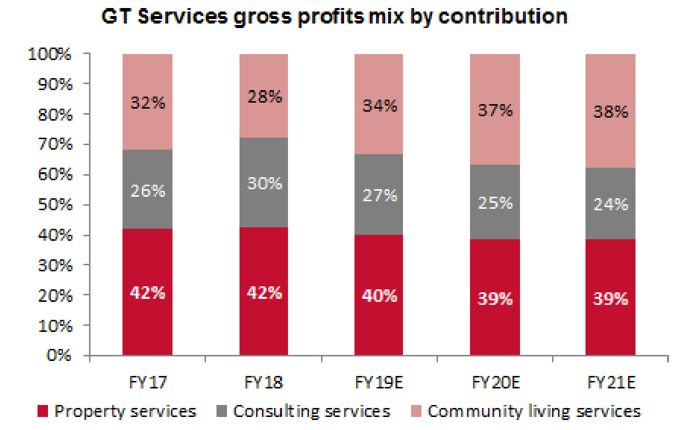



Source: OP Research

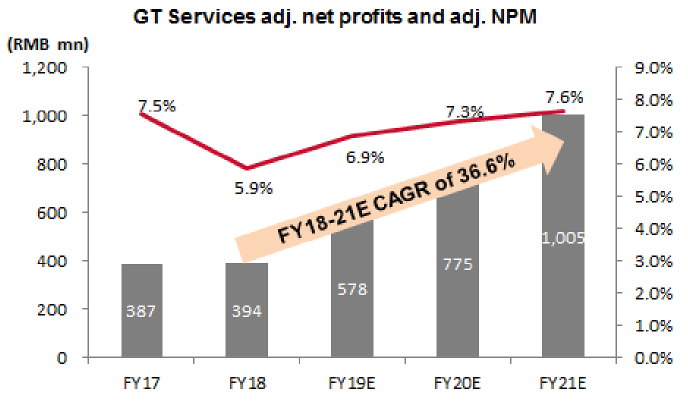
**Exhibit 59: We expect GT Services gross profit to grow at FY18-21E CAGR of 28.5%**

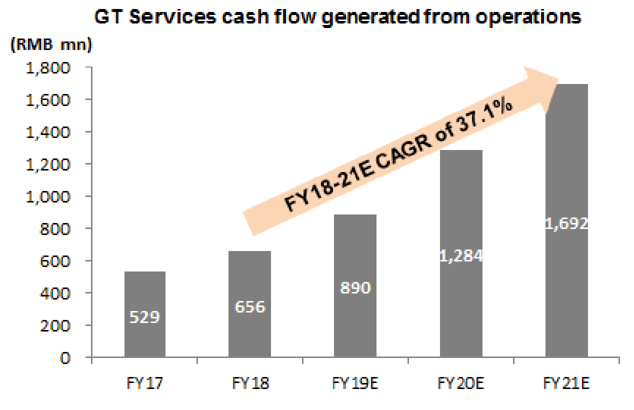



Source: OP Research

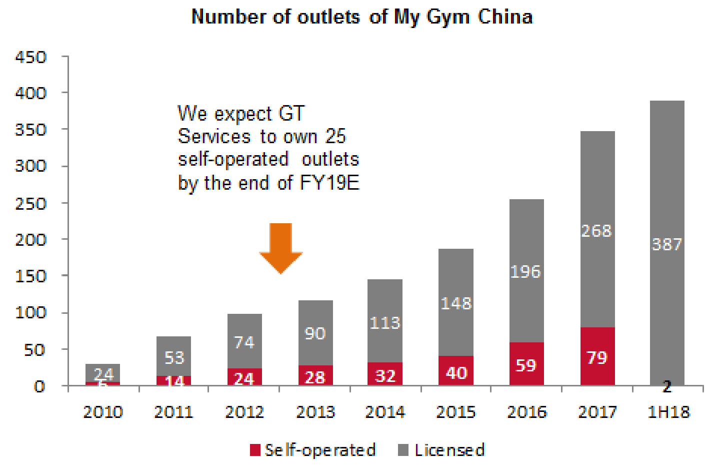
**Exhibit 60: We expect GT Services adjusted net profits/cash generated from operations to grow at FY18-21E CAGR of 36.6%/37.1%**

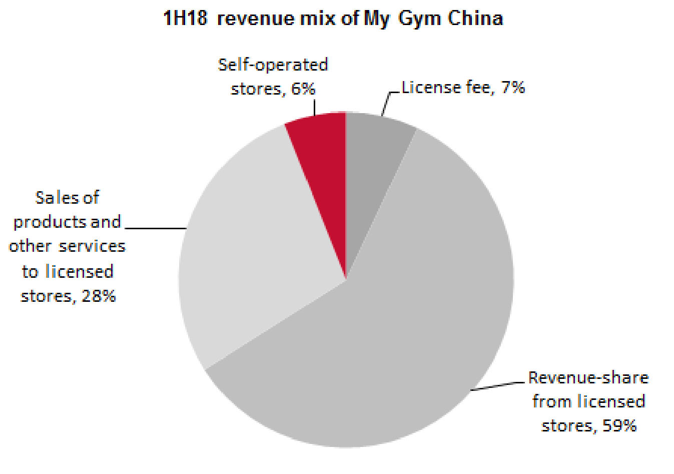



Source: OP Research

**Exhibit 61: My Gym China is a comparable peer of GT Services' childcare business with similar curriculum and same target group (children under 6). My Gym China has over 90% of revenue generated by licensed stores with occupancy rate of ~40%. GT Services is expected to operate 25 nurseries by the end of FY19E, with occupancy rate ~70%.**



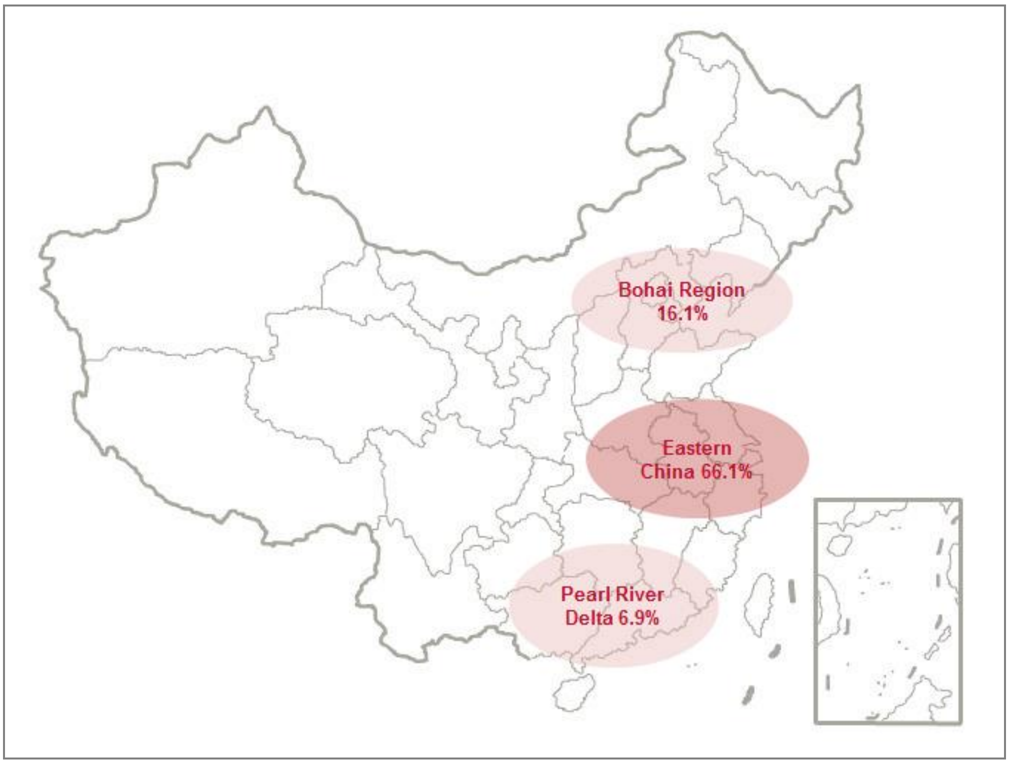

**The sharp decrease in direct-operated outlets of My Gym China in 1H18 was because of the change in operation mode of 96 stores before My Gym China being acquired by 002621 CH.*

*Source: My Gym China, Company, OP Research*

**Exhibit 62: Wonderful Garden in Hangzhou**


*Source: Dianpin.com*

**Exhibit 63: GT Services has over 66% GFA under management and over 70% of revenue from Eastern China in 1H19.**




*Source: Company*

## Investment risks

**Slower than expected expansion**

The company management emphasizes on the service quality and has a clear preference for organic growth strategy, which is limited to the growth rate of internal human resources and may result in slower than expected GFA expansion.

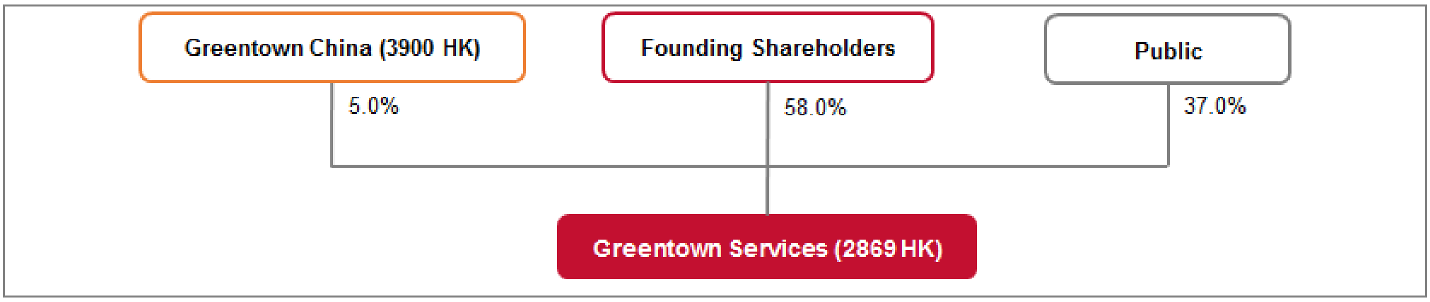
**Margin pressure due to increasing labor cost**

PM services industry is labor-intensive as labor costs consistently take up over 50% of total outgoings. The company has most of projects in high-tier cities where upward revision of minimum wages level is more frequent. Unexpected rise in labor costs will weight on margins and drag earnings.

**Risks specific to childcare business**

The early childcare business is a highlight of the company's VAS development. Specific concerns related to safety, child protection, and industry-specific policies will create additional operation risks.

**Exhibit 64: Shareholding structure (as of 31 Dec 2018)**




*Source: Company*

**Exhibit 65: Management profile**

| Name | Age | Position | Description |
|---|---|---|---|
| Ms. Li Hairong | 61 | Chairman and Executive Director | Over 20 years of the experience in Greentown Property Management. She is responsible for the development strategy and strategic planning and makes decisions for material operational matters of the Group. She also holds directorship in various other subsidiaries. |
| Mr. Yang Zhangfa | 47 | Vice Chairman | Over 17 years of the experience in Greentown Property Management. He is responsible for making decisions for material operational matters, participating in Board decisions and implementing the resolutions of the Board. He also holds directorship in various subsidiaries and executive president in Hangzhou property management association |
| Mr. Wu Zhihua | 40 | CFO | Over 10 years of the experience in Greentown Property Management. He is responsible for the overall business operation and daily management of our Group, making decisions for material operational matters, participating in Board decisions and implementing the resolutions of the Board. He also holds directorship in various subsidiaries and is the president of the Property Management Association of Xihu District, Hangxhou. |
| Mr. Chen Hao | 49 | Executive Director | Over 10 years of the experience in being director about resources company. He is primarily responsible for the management of community products and services of the Group. He also hold directorship in various subsidiaries. |
| Ms. Jin Keli | 36 | Chief Operating Officer | Over 12 years of the working experience in Zhejiang Xinhu Lvcheng Property Service Company Limited. She is responsible for management work relation to the overall operation of our Group as well as for management of administration and human resources. |
| Mr. Yuan Weidong | 49 | Chief Technology Officer | Over 17 years of the experience in the field of engineering technology. He is responsible for the coordination and operation of the “smart community” project of the Group. |
| Mr. Zhou Hong | 55 | Chief Safety Officer and Vice President | Over 20 years working experience in the Company. He is responsible for the security management operation of the Group. |
| Ms. Weng Yafei | 39 | Chief Quality Officer and Vice President | Over 18 years working experience in the Company. She is responsible for the management of the service quality and customer relationship of the Group. |
| Ms. Xu Yaping | 39 | Chief Marketing Officer and Vice President | Over 20 years of the experience in the field of Real Industry. She is responsible market development of the Group. |

*Source: Company*

# Financial Summary – Greentown Services (2869 HK)

| Year to Dec | FY17 | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|---|
| **Income Stat. (RMB mn)** | | | | | |
| Property services | 3,560 | 4,461 | 5,556 | 6,907 | 8,590 |
| Consulting services | 680 | 939 | 1,167 | 1,400 | 1,669 |
| Community living services | 900 | 1,310 | 1,696 | 2,281 | 2,900 |
| **Turnover** | **5,140** | **6,710** | **8,419** | **10,588** | **13,160** |
| YoY% | 38 | 31 | 25 | 26 | 24 |
| COGS | (4,194) | (5,512) | (6,834) | (8,551) | (10,618) |
| **Gross profit** | **946** | **1,198** | **1,585** | **2,038** | **2,542** |
| Gross margin | 18.4% | 17.8% | 18.8% | 19.2% | 19.3% |
| Other income | 20 | 152 | 35 | 33 | 33 |
| Selling & distribution | (23) | (59) | (102) | (129) | (153) |
| Admin | (416) | (597) | (762) | (926) | (1,024) |
| R&D | 0 | 0 | 0 | 0 | 0 |
| Other opex | (43) | (61) | (109) | (85) | (105) |
| **Total opex** | **(481)** | **(718)** | **(973)** | **(1,139)** | **(1,281)** |
| **Operating profit (EBIT)** | **485** | **632** | **646** | **931** | **1,294** |
| Operating margin | 9.4% | 9.4% | 7.7% | 8.8% | 9.8% |
| Provisions | (2) | 0 | 0 | 0 | 0 |
| Interest Income | 19 | 18 | 21 | 26 | 32 |
| Finance costs | 0 | (0) | 0 | 1 | 1 |
| Profit after financing costs | 501 | 650 | 668 | 958 | 1,327 |
| Associated companies & JVs | 8 | (21) | 0 | 0 | 0 |
| Pre-tax profit | 509 | 629 | 668 | 958 | 1,327 |
| Tax | (117) | (163) | (167) | (239) | (332) |
| Minority interests | (5) | 18 | 5 | 7 | 10 |
| **Net profit** | **387** | **483** | **506** | **725** | **1,005** |
| **Adj. net profits** | **387** | **394** | **578** | **775** | **1,005** |
| YoY% | 36 | 2 | 47 | 34 | 30 |
| Adj. Net margin | 7.5% | 5.9% | 6.9% | 7.3% | 7.6% |
| **EBITDA** | **525** | **713** | **748** | **1,064** | **1,464** |
| EBITDA margin | 10.2% | 10.6% | 8.9% | 10.0% | 11.1% |
| **EPS (RMB)** | **0.139** | **0.142** | **0.208** | **0.279** | **0.362** |
| YoY% | 16 | 2 | 47 | 34 | 30 |
| DPS (HK$) | 0.060 | 0.075 | 0.082 | 0.110 | 0.143 |

| Year to Dec | FY17 | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|---|
| **Cash Flow (RMB mn)** | | | | | |
| EBITDA | 525 | 713 | 748 | 1,064 | 1,464 |
| Chg in working cap | 0 | 0 | 402 | 386 | 467 |
| Others | 105 | 53 | 0 | 0 | 0 |
| **Operating cash** | **629** | **765** | **1,149** | **1,450** | **1,931** |
| Interest received | 0 | 0 | 0 | 1 | 1 |
| Tax | (101) | (109) | (260) | (167) | (239) |
| **Net cash from operations** | **529** | **656** | **890** | **1,284** | **1,692** |
| Capex | (119) | (177) | (222) | (279) | (347) |
| Investments | (649) | (125) | (150) | (150) | (150) |
| Dividends received | 0 | 0 | 0 | 0 | 0 |
| Sales of assets | 2 | 84 | 0 | 0 | 0 |
| Interests paid | 16 | 18 | 21 | 26 | 32 |
| Others | 0 | 0 | 0 | 0 | 0 |
| **Investing cash** | **(750)** | **(199)** | **(351)** | **(403)** | **(464)** |
| **FCF** | **(221)** | **457** | **539** | **880** | **1,228** |
| Issue of shares | 0 | 0 | 0 | 0 | 0 |
| Buy-back | 0 | 0 | 0 | 0 | 0 |
| Minority interests | 24 | 21 | 0 | 0 | 0 |
| Dividends paid | (100) | (142) | (178) | (202) | (271) |
| Net change in bank loans | 0 | 1 | 18 | 0 | 0 |
| Others | 5 | (0) | 0 | 0 | 0 |
| **Financing cash** | **(71)** | **(120)** | **(160)** | **(202)** | **(271)** |
| **Net change in cash** | **(292)** | **337** | **379** | **678** | **957** |
| Exchange rate or other Adj | (53) | 6 | 0 | 0 | 0 |
| Opening cash | 2,182 | 1,836 | 2,180 | 2,559 | 3,238 |
| **Closing cash** | **1,836** | **2,180** | **2,559** | **3,238** | **4,194** |
| **CFPS (HK$)** | **0.238** | **0.295** | **0.362** | **0.522** | **0.688** |

| Year to Dec | FY17 | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|---|
| **Ratios** | | | | | |
| Gross margin (%) | 18.4 | 17.8 | 18.8 | 19.2 | 19.3 |
| Operating margin (%) | 9.4 | 9.4 | 7.7 | 8.8 | 9.8 |
| Net margin (%) | 7.5 | 7.2 | 6.0 | 6.9 | 7.6 |
| Selling & dist'n exp/Sales (%) | 0.4 | 0.9 | 1.2 | 1.2 | 1.2 |
| Admin exp/Sales (%) | 8.1 | 8.9 | 9.1 | 8.7 | 7.8 |
| Payout ratio (%) | 34.4 | 42.3 | 35.0 | 35.0 | 35.0 |
| Effective tax (%) | 23.3 | 25.1 | 25.0 | 25.0 | 25.0 |
| Total debt/equity (%) | 0.0 | 0.0 | 0.7 | 0.6 | 0.5 |
| Net debt/equity (%) | Net cash | Net cash | Net cash | Net cash | Net cash |
| Current ratio (x) | 1.4 | 1.3 | 1.3 | 1.3 | 1.3 |
| Quick ratio (x) | 1.3 | 1.2 | 1.2 | 1.2 | 1.2 |
| Inventory T/O (days) | 11 | 19 | 19 | 19 | 19 |
| AR T/O (days) | 56 | 65 | 70 | 70 | 70 |
| AP T/O (days) | 113 | 125 | 125 | 125 | 125 |
| Cash conversion cycle (days) | (46) | (41) | (36) | (36) | (36) |
| Asset turnover (x) | 1.4 | 1.4 | 1.4 | 1.5 | 1.5 |
| Financial leverage (x) | 2.1 | 2.2 | 2.4 | 2.5 | 2.5 |
| EBIT margin (%) | 9.4 | 9.4 | 7.7 | 8.8 | 9.8 |
| Interest burden (x) | 1.1 | 1.0 | 1.0 | 1.0 | 1.0 |
| Tax burden (x) | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| **Return on equity (%)** | **21.3** | **22.8** | **20.3** | **24.9** | **28.3** |
| **ROIC (%)** | **(134.0)** | **1,189.2** | **834.0** | **(1,609.5)** | **(399.9)** |
| **Year to Dec** | **FY17** | **FY18** | **FY19E** | **FY20E** | **FY21E** |
| **Balance Sheet (RMB mn)** | | | | | |
| Fixed assets | 383 | 454 | 610 | 800 | 1,028 |
| Intangible assets & goodwill | 170 | 695 | 709 | 715 | 714 |
| Associated companies & JVs | 559 | 218 | 218 | 218 | 218 |
| Long-term investments | 19 | 22 | 122 | 222 | 322 |
| Other non-current assets | 73 | 117 | 117 | 117 | 117 |
| **Non-current assets** | **1,203** | **1,506** | **1,776** | **2,072** | **2,399** |
| Inventories | 128 | 291 | 361 | 452 | 561 |
| AR | 790 | 1,202 | 1,615 | 2,031 | 2,524 |
| Prepayments & deposits | 0 | 0 | 0 | 0 | 0 |
| Other current assets | 182 | 165 | 165 | 165 | 165 |
| Cash | 1,836 | 2,180 | 2,559 | 3,238 | 4,194 |
| **Current assets** | **2,936** | **3,838** | **4,700** | **5,885** | **7,444** |
| AP | 1,304 | 1,892 | 2,346 | 2,935 | 3,645 |
| Tax | 167 | 260 | 167 | 239 | 332 |
| Accruals & other payables | 650 | 749 | 1,179 | 1,482 | 1,842 |
| Bank loans & leases | 0 | 1 | 19 | 19 | 19 |
| CB & othe debts | 0 | 0 | 0 | 0 | 0 |
| Other current liabilities | 17 | 21 | 21 | 21 | 21 |
| **Current liabilities** | **2,138** | **2,922** | **3,731** | **4,696** | **5,858** |
| Bank loans & leases | 0 | 0 | 0 | 0 | 0 |
| CB & othe debts | 0 | 0 | 0 | 0 | 0 |
| Deferred tax & others | 10 | 17 | 17 | 17 | 17 |
| MI | 74 | 76 | 71 | 64 | 54 |
| **Non-current liabilities** | **83** | **93** | **88** | **81** | **71** |
| **Total net assets** | **1,918** | **2,329** | **2,657** | **3,180** | **3,914** |
| **Shareholder's equity** | **1,918** | **2,329** | **2,657** | **3,180** | **3,914** |
| Share capital | 0 | 0 | 0 | 0 | 0 |
| Reserves | 1,918 | 2,329 | 2,657 | 3,180 | 3,914 |
| **BVPS (HK$)** | **0.86** | **1.05** | **1.08** | **1.29** | **1.59** |
| Total debts | 0 | 1 | 19 | 19 | 19 |
| Net cash/(debts) | 1,990 | 2,328 | 2,690 | 3,368 | 4,325 |

*Source: Company, OP Research*

# COPL (2669 HK) – High-end market leader backed by SOE

- **A high-end market leader with 25.0% FY18-21E diluted EPS CAGR backed by SOE brother company COLI.**
- **Sector-leading exposure to high-end commercial & office projects and encouraging pipeline are positive for margin sustainability.**
- **1H19 results missed market expectations on slower GFA delivery, human resources restructure, and weak RMB.**
- **Initiate with HOLD with TP HK$3.80 based on 20x FY20E P/E, or 1.0x PEG.**

## Initial Coverage

# HOLD

**Close price: HK$3.87**
**Target Price: HK$3.80 (-1.8%)**

### Key Data

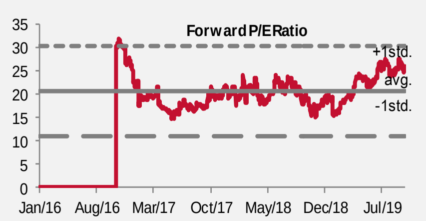
| | | |
|---|---|---|
| HKEx code | | 2669 HK |
| 12 Months High | (HK$) | 4.52 |
| 12 Month Low | (HK$) | 1.69 |
| 3M Avg Dail Vol. | (mn) | 10.48 |
| Issue Share | (mn) | 3,286.86 |
| Market Cap | (HK$mn) | 12,720.15 |
| Fiscal Year | | 12/2018 |
| Major shareholder (s) | | China Overseas Hldg (61.2%) |

*Source: Company data, Bloomberg, OP Research*
*Closing price are as of 30/9/2019*

### Price Chart


| | 1mth | 3mth | 6mth |
|---|---|---|---|
| **Absolute %** | **-3.3** | **-3.0** | **1.0** |
| **Rel. MSCI CHINA %** | **-2.7** | **4.2** | **14.0** |

### PE




### Company Profile

China Overseas Property Holdings Limited operates as a property management firm. The Company manages residential communities, commercial properties and government properties in Hong Kong and Macau.

**Strong SOE background gives a head start in GFA expansion** As a subsidiary of China State Construction Corporation Ltd (601668 CH) and the brother company of COLI (688 HK), COPL has over 90% of GFA under management from connected developers. We expect such this ratio to keep well above 80% in the upcoming 3 years. In addition, the SOE background puts COPL in a favorable position when bidding state-owned property and government-related projects (e.g. HK West Kowloon Station, HK Port Passenger Clearance building), in our view.

**Pipeline of high-margin commercial projects will enhance portfolio mix** COPL has an industry-leading exposure in high-end commercial & office segment (where unit management fee can be over 10 times that of residential projects and the GPM is usually 20-30ppts higher) thanks to its early start in South China and the abundant commercial projects from China Overseas. As COLI has reiterated its mid-term ambition in achieving 20% FY18-23E CAGR in revenue from commercial properties development and operation. We expect COPL to keep strengthening its existence in commercial segment, which will partially mitigate the long-term downward margin trend of residential projects.

**1H19 results miss on GFA, margin, and weak RMB** The 1H19 results of COPL missed market expectations, with revenue/earnings up 26%/12% yoy to HK$2.4bn/HK$248mn respectively. GFA under management increased only 1.3mn to 142.2mn from 140.9mn by the end of FY18. Due to internal human resources restructure, a part of admin staff were dispatched to front line and caused a decrease in opex ratio as well as GPM for prop management services. Besides, as the company reports in HK dollars, the depreciation of RMB in 1H19 by over 6% also dragged the financial performance.

**Initiate at HOLD** on COPL with TP HK$3.80 based on 20x FY20E PE or 1.0x PEG given (1) 25% earnings CAGR from FY18 to FY21E, lowest among our coverage universe, (2) highest staff per mn sqm under management and lowest GP per staff, and (3) strong SOE background is a double-edged sword as long execution processing time and lack of management incentive at the listed company level. COPL adopted A-shares incentive plan of CSCECL and granted 5.58mn shares in FY18 with exercise price of RMB3.468/share instead of direct tie with COPL's operating performance.

**Risks**: (1) Execution risks as SOE; (2) higher/lower than expected GFA expansion; (3) unexpected fluctuations in RMB/HKD exchange rate

### Exhibit 66: Forecast and Valuation

| Year to Dec (HK$ mn) | FY17 | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|---|
| Revenue | 3,357.8 | 4,154.7 | 4,884.8 | 5,779.7 | 6,805.2 |
| Growth (%) | 1.9 | 23.7 | 17.6 | 18.3 | 17.7 |
| Net Profit | 306.8 | 402.1 | 503.1 | 629.4 | 784.9 |
| Growth (%) | 29.1 | 31.1 | 25.1 | 25.1 | 24.7 |
| Diluted EPS (HK$) | 0.093 | 0.122 | 0.153 | 0.191 | 0.239 |
| EPS growth (%) | 29.1 | 31.1 | 25.1 | 25.1 | 24.7 |
| Change to previous EPS (%) | | | 0.0 | 0.0 | |
| Consensus EPS (HK$) | | | 0.155 | 0.196 | |
| ROE (%) | 36.7 | 40.7 | 38.6 | 36.7 | 35.2 |
| P/E (x) | 41.5 | 31.6 | 25.3 | 20.2 | 16.2 |
| P/B (x) | 14.9 | 11.4 | 8.6 | 6.6 | 5.1 |
| Yield (%) | 0.8 | 1.0 | 1.2 | 1.5 | 1.9 |
| DPS (HK$) | 0.030 | 0.040 | 0.046 | 0.057 | 0.072 |

*Source: Bloomberg, OP Research*

**Exhibit 67: 1H19 results summary**

| (HK$ mn) | 1H18R | 2H18* | 1H19 | 2H19E | OP comments | FY18 | FY19E |
|---|---|---|---|---|---|---|---|
| **Revenue** | **1,907** | **2,248** | **2,400** | **2,484** | 1H revenue growth missed expectations on slower than expected GFA growth. | **4,155** | **4,885** |
| COGS | (1,379) | (1,927) | (1,917) | (1,973) | | (3,306) | (3,890) |
| **Gross profit** | 528 | 320 | 483 | 511 | | 849 | 995 |
| Other income & gains | 28 | (13) | 23 | (13) | | 14 | 10 |
| SG&A exp | (240) | (96) | (153) | (191) | | (337) | (343) |
| Other opex | 0 | (7) | 0 | (7) | | (7) | (7) |
| **Operating profit (EBIT)** | **316** | **204** | **353** | **301** | | **519** | **654** |
| Provisions or other items | 0 | 0 | 0 | 0 | | 0 | 0 |
| Interest income | 0 | 39 | 0 | 39 | | 39 | 38 |
| Finance costs | (3) | 0 | (1) | 1 | | (3) | 0 |
| Profit after financing costs | 312 | 242 | 352 | 341 | | 555 | 692 |
| Associated cos | 0 | 0 | 0 | 0 | | 0 | 0 |
| Jointly controlled cos | 0 | 0 | 0 | 0 | | 0 | 0 |
| Pre-tax profit | 312 | 242 | 352 | 341 | | 555 | 693 |
| Tax | (88) | (60) | (102) | (93) | | (149) | (186) |
| Minority interests | (3) | (1) | (2) | (2) | | (4) | (4) |
| **Net profit** | **221** | **181** | **248** | **246** | | **402** | **503** |
| | | | | | | | |
| **YoY%** | | | | | | | |
| Revenue | 20% | 27% | 26% | 11% | | 23.7% | 17.6% |
| Gross profit | 21% | -13% | -9% | 60% | | 5.8% | 17.2% |
| Net profit | 39% | 23% | 12% | 35% | | 31.1% | 25.1% |
| | | | | | | | |
| **Key ratios** | | | | | | | |
| GPM | 27.7% | 14.3% | 20.1% | 20.6% | The company re-allocated part of human resources to front line and thus GPM declined yoy. | 20.4% | 20.4% |
| Selling exp | 12.6% | 4.3% | 6.4% | 7.7% | | 8.1% | 7.0% |
| EIT | 28.3% | 24.9% | 28.9% | 27.3% | | 26.8% | 26.8% |
| Net margin | 11.6% | 8.1% | 10.3% | 9.9% | | 9.7% | 10.3% |
| | | | | | | | |
| **Revenue breakdown** | **1,907** | **2,248** | **2,400** | **2,484** | | **4,155** | **4,885** |
| **Prop management services** | **1,574** | **2,172** | **1,938** | **1,935** | | **3,745** | **3,873** |
| Lump-sum base | 1,446 | | 1,800 | 1,749 | | | |
| Commission base | 127 | | 138 | 186 | | | |
| **Value-added services** | **333** | **76** | **463** | **550** | | **410** | **1,012** |
| VAS to non-property owners | 211 | | 313 | 291 | | | |
| VAS to property owners | 122 | | 144 | 249 | | | |
| Car-park trading | 0 | | 5 | 10 | | | |
| | | | | | | | |
| **Revenue contribution** | | | | | | | |
| Prop management services | 82.5% | 96.6% | 80.7% | 77.9% | | 90.1% | 79.3% |
| Value-added services | 17.5% | 3.4% | 19.3% | 22.1% | | 9.9% | 20.7% |
| VAS to non-property owners | 11.1% | | 13.0% | | | | |
| VAS to property owners | 6.4% | | 6.0% | | | | |
| Car-park trading | 0.0% | | 0.2% | | | | |
| | | | | | | | |
| **Revenue yoy%** | | | | | | | |
| Prop management services | 5.5% | 35.4% | 23.1% | -10.9% | | 21.0% | 3.4% |
| Value-added services | 231.1% | -53.0% | 38.8% | 620.5% | | 55.7% | 147.1% |
| VAS to non-property owners | | | *48.1%* | | | | |
| VAS to property owners | | | *18.2%* | | | | |
| Car-park trading | | | *n.a.* | | | | |

**The company reclassified VAS items in 1H19 reporting. Figures in red are from FY18 annual report before reclassification and thus not directly comparable.*

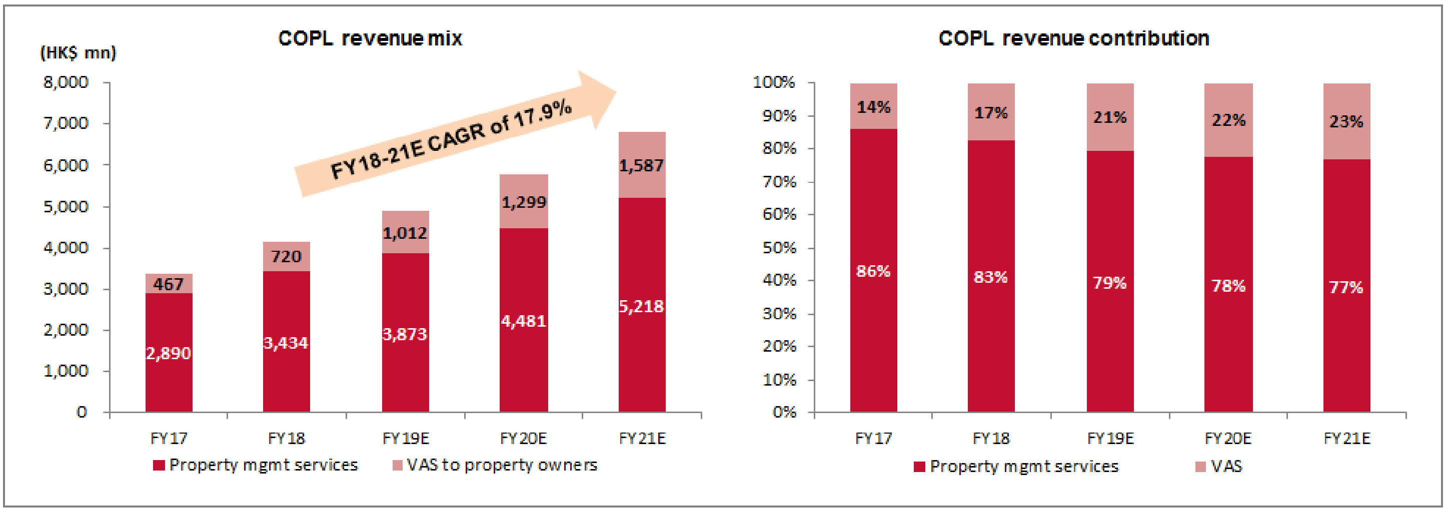
*Source: Company, OP Research*

## Exhibit 68: Key assumptions for COPL

| | FY17 | FY18 | FY19E | FY20E | FY21E | FY18-21E CAGR |
|---|---|---|---|---|---|---|
| **GFA under management (mn sqm)** | **128.30** | **140.90** | **152.90** | **174.90** | **196.90** | **11.8%** |
| YoY change (sqm mn) | 11.80 | 12.60 | 12.00 | 22.00 | 22.00 | |
| | | | | | | |
| **Revenue-bearing GFA (mn sqm)** | **96.23** | **112.72** | **122.32** | **139.92** | **157.52** | **11.8%** |
| **Implied management fee per unit (HK$/sqm/M)** | **2.90** | **2.99** | **2.75** | **2.85** | **2.92** | |
| | | | | | | |
| **Gross profit breakdown (HK$ mn)** | **802** | **849** | **995** | **1,203** | **1,445** | **19.4%** |
| **Prop management services** | **503** | **581** | **643** | **724** | **831** | **12.6%** |
| Lump-sum base | 277 | 297 | 319 | 381 | 455 | 15.4% |
| Commission base | 226 | 285 | 323 | 344 | 375 | 9.7% |
| **Value-added services** | **299** | **268** | **352** | **478** | **615** | **31.9%** |
| VAS to non-property owners | 108 | 102 | 145 | 194 | 237 | 32.5% |
| VAS to property owners | 191 | 166 | 200 | 272 | 360 | 29.5% |
| Car-park trading | - | - | 6 | 12 | 18 | N/A |
| | | | | | | |
| **Segment GPM (%)** | | | | | | |
| **Prop management services** | **17.4%** | **16.9%** | **16.6%** | **16.2%** | **15.9%** | |
| Lump-sum base | 10.4% | 9.4% | 9.0% | 9.2% | 9.4% | |
| Commission base | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | |
| **Value-added services** | **64.0%** | **37.2%** | **34.7%** | **36.8%** | **38.7%** | |
| VAS to non-property owners | 41.4% | 18.5% | 24.0% | 25.0% | 25.0% | |
| VAS to property owners | 92.7% | 55.1% | 51.0% | 55.0% | 60.0% | |
| Car-park trading | n.a. | n.a. | 42.0% | 43.0% | 45.0% | |
| | | | | | | |
| **Segment Margin contribution (%)** | | | | | | |
| **Prop management services** | **62.7%** | **68.5%** | **64.6%** | **60.2%** | **57.5%** | |
| Lump-sum base | 34.6% | 34.9% | 32.1% | 31.7% | 31.5% | |
| Commission base | 28.2% | 33.5% | 32.5% | 28.6% | 26.0% | |
| **Value-added services** | **37.3%** | **31.5%** | **35.4%** | **39.8%** | **42.5%** | |
| VAS to non-property owners | 13.5% | 12.0% | 14.6% | 16.1% | 16.4% | |
| VAS to property owners | 23.8% | 19.5% | 20.2% | 22.7% | 24.9% | |
| Car-park trading | 0.0% | 0.0% | 0.6% | 1.0% | 1.3% | |

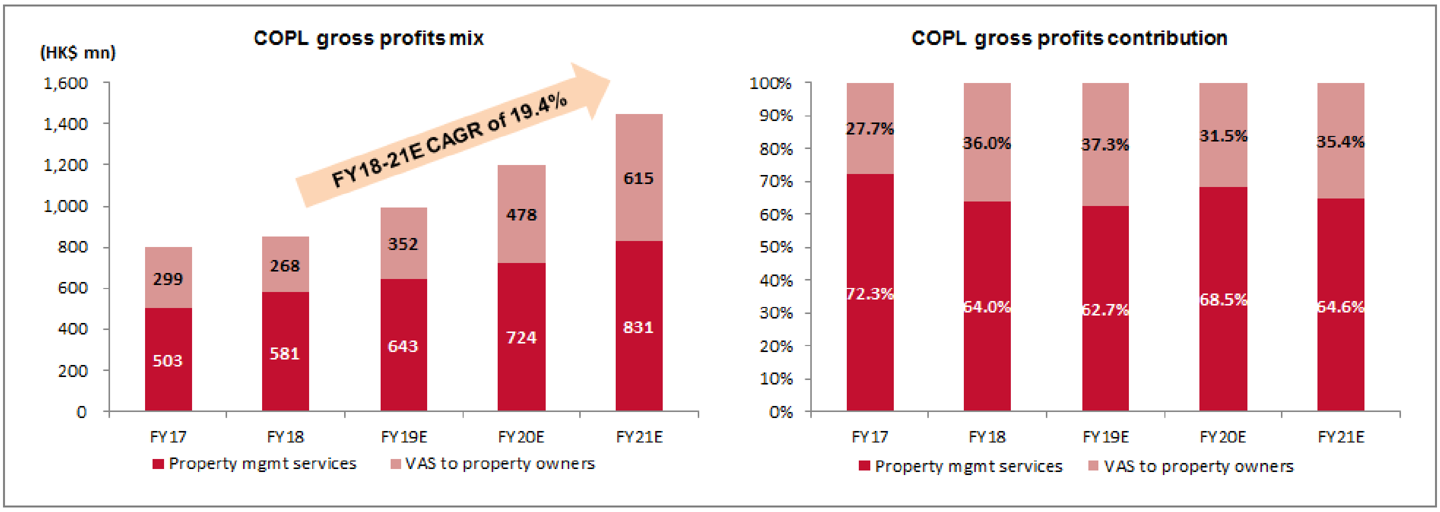
*Source: OP Research*

**Exhibit 69: We expect COPL revenue to grow at FY18-21E CAGR of 17.9%**



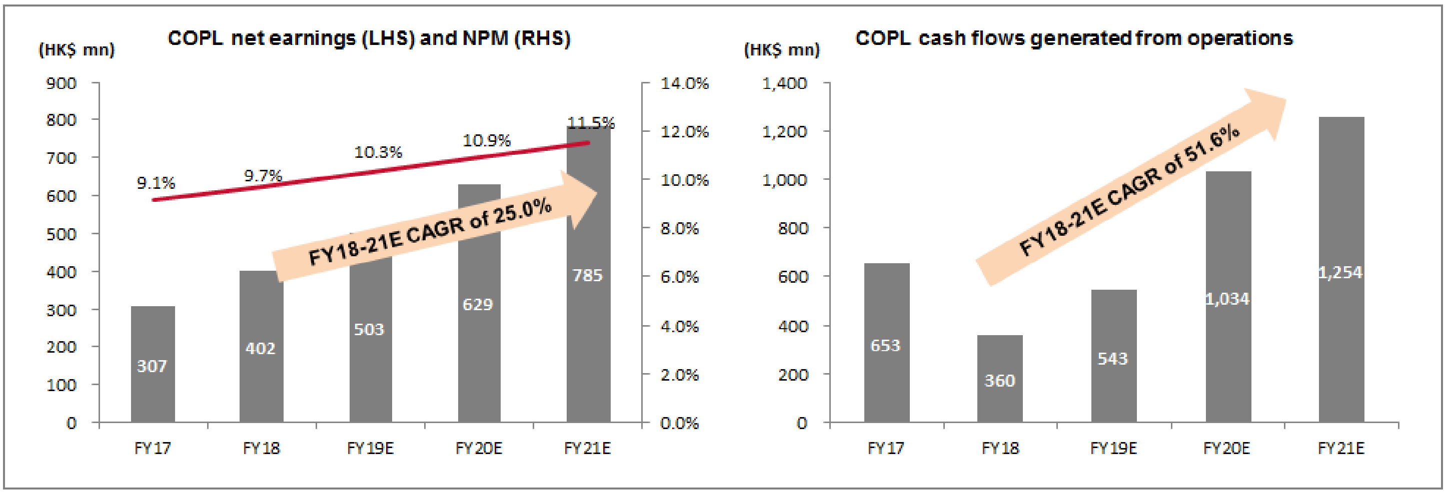

*Source: OP Research*

**Exhibit 70: We expect COPL gross profit to grow at FY18-21E CAGR of 19.4%**



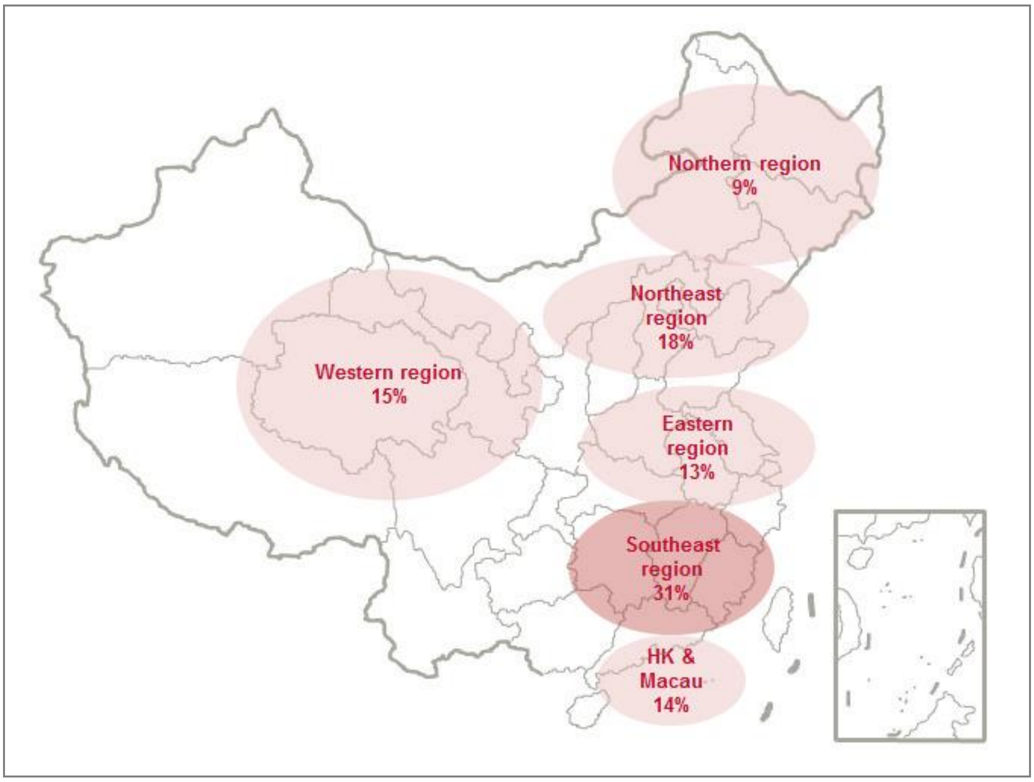

*Source: OP Research*

**Exhibit 71: We expect COPL net profits/cash generated from operations to grow at FY18-21E CAGR of 25.0%/51.6%**




*Source: OP Research*

**Exhibit 72: FY18 revenue by geographic exposure**




*Source: Company*

## Investment risks

### Execution risks of SOE

The company has changed its management team at the end of 2016. The new team has started a new development plan for more proactive expansion and better investor communication, which has been reflected in the stock price rally in late 2017 and 1H19. If the expansion plan is not well executed, investors may re-rate the stock.

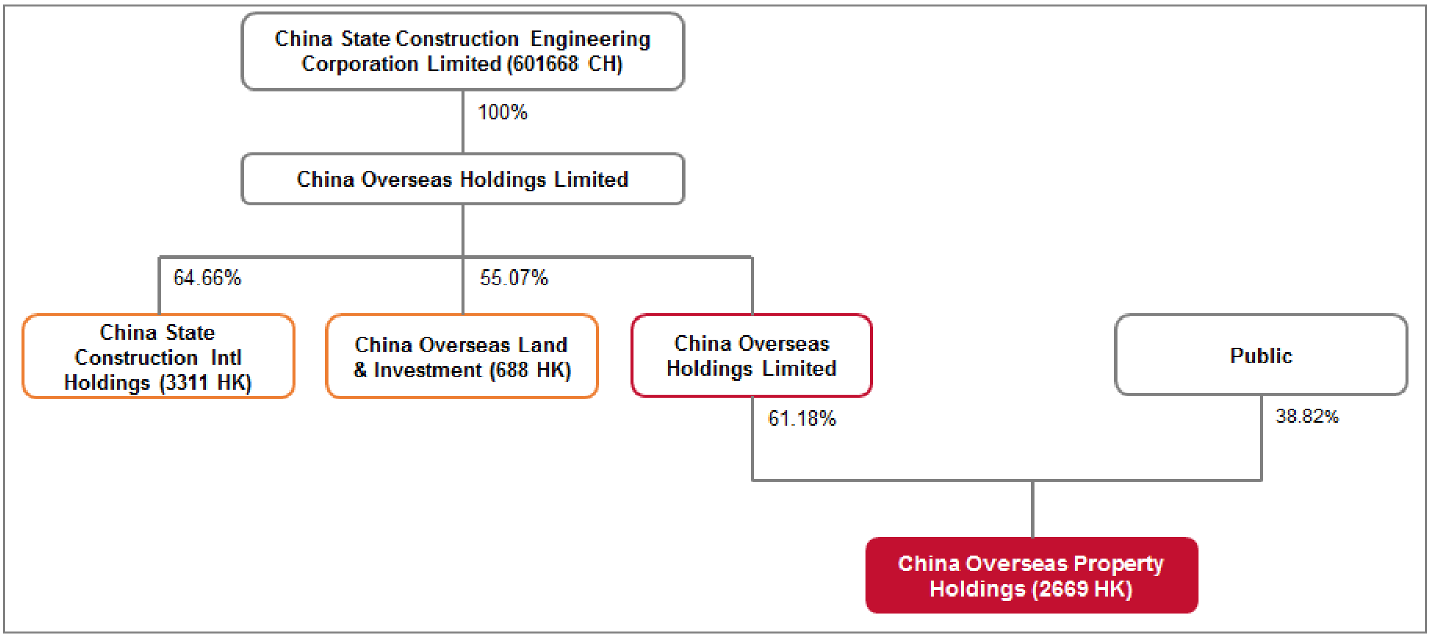
### Slower than expected GFA delivery from parent company

In FY18 over 90% of the company's GFA under management is contributed by COLI, the connected-developer of COPL. We assume a similar contribution from COLI in the company's GFA reserve. Slower than expected GFA delivery and weaker than expected contract sales may result in lukewarm revenue growth.

### Margin pressure due to increasing labor cost

PM services industry is labor-intensive as labor costs consistently take up over 50% of total outgoings. COPL has most of its projects in high-tier cities where the minimum wages level is revised up more frequently than lower-tier cities. Unexpected rise in labor costs (including minimum wage level, social insurance paid-up ratio etc.) will weight on margins and drag earnings.

## Exhibit 73: Shareholding structure (as of 31 Dec 2018)




*Source: Company*

## Exhibit 74: Management profile

| Name | Age | Position | Description |
|---|---|---|---|
| Mr. Yuan Bing | 47 | Chairman | Over 28 years of experience in the sportswear industry. He is primarily responsible for the overall corporate strategies, planning and business development of the Group. |
| Mr. Yang Ou | 41 | CEO | Over 17 years of industry experience in property development management. He is responsible for the overall management, operation of the business and the general manager of the Group. |
| Mr. Pang Jinying | 51 | Vice president | Over 29 years of experience in financial management in the field of construction contracting and real estate investment. He works as a director of the Group. |
| Mr. Kam Yuk Fai | 55 | CFO | Over 31 years of the experience in the of accounting, auditing and finance and is a director and responsible for the financial management of the Group. |
| Mr.Wong Kai Sang | 63 | Senior Vice President | Over 30 years of property management experience in Hong Kong. He is responsible for the supervision of the overall operation and business development of the property management of the Group. |
| Mr. Ye Xiang | 46 | Vice president | Approximately 27 years of experience in real estate and property management and is responsible for the quality control and market development business of the Group. |
| Mr. Liu Zhonghua | 54 | Vice president | Approximately 30 years of experience in electrical and mechanical engineering project management and 22 years of experience in property management in Hong Kong. He is the general manager of the Group. |
| Mr. Wang Zhigang | 45 | Vice president | Approximately 23 years of the property management experience in the PRC. He is responsible for the operation of the Group and is a director of certain subsidiaries of the Company. |
| Ms. Li Xiaohua | 44 | Assistant President | Approximately 20 years of human resources experience in the PRC. She is responsible for administrative management of the property management business of the Group and is a director of certain subsidiaries of the Company. |
| Mr. Li Zhenxi | 45 | Assistant President | Approximately 23 years of experience in operation of property management. He is a qualified senior engineer and a registered 1st grade constructor and responsible for the operation of the Group. |
| Ms. Han Fang | 46 | Assistant President | Approximately 16 years of experience in operation of property management. He is responsible for the operation of the Group. |

*Source: Company*

# Financial Summary – China Overseas (2669 HK)

| Year to Dec | FY17 | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|---|
| **Income Statement (HK$ mn)** | | | | | |
| Prop management services | 3,095 | 3,745 | 3,873 | 4,481 | 5,218 |
| Value-added services | 263 | 410 | 1,012 | 1,299 | 1,587 |
| **Turnover** | **3,358** | **4,155** | **4,885** | **5,780** | **6,805** |
| YoY% | 2 | 24 | 18 | 18 | 18 |
| COGS | (2,555) | (3,306) | (3,890) | (4,577) | (5,360) |
| **Gross profit** | **802** | **849** | **995** | **1,203** | **1,445** |
| Gross margin | 23.9% | 20.4% | 20.4% | 20.8% | 21.2% |
| Other income | 16 | 14 | 10 | 12 | 15 |
| Selling & distribution | 0 | 0 | 0 | 0 | 0 |
| Admin | (403) | (337) | (343) | (385) | (427) |
| R&D | 0 | 0 | 0 | 0 | 0 |
| Other opex | (16) | (7) | (7) | (9) | (10) |
| **Total opex** | **(420)** | **(344)** | **(351)** | **(394)** | **(437)** |
| **Operating profit (EBIT)** | **399** | **519** | **654** | **820** | **1,023** |
| Operating margin | 11.9% | 12.5% | 13.4% | 14.2% | 15.0% |
| Provisions | 0 | 0 | 0 | 0 | 0 |
| Interest Income | 39 | 39 | 38 | 46 | 57 |
| Finance costs | (9) | (3) | 0 | 0 | 0 |
| Profit after financing costs | 429 | 555 | 692 | 866 | 1,080 |
| Associated companies & JVs | 0 | 0 | 0 | 0 | 0 |
| Pre-tax profit | 429 | 555 | 693 | 866 | 1,081 |
| Tax | (122) | (149) | (186) | (232) | (290) |
| Minority interests | (0) | (4) | (4) | (5) | (6) |
| **Net profit** | **307** | **402** | **503** | **629** | **785** |
| YoY% | 29 | 31 | 25 | 25 | 25 |
| Net margin | 9.1% | 9.7% | 10.3% | 10.9% | 11.5% |
| **EBITDA** | **414** | **534** | **670** | **839** | **1,044** |
| EBITDA margin | 12.3% | 12.9% | 13.7% | 14.5% | 15.3% |
| **EPS (HK$)** | **0.093** | **0.122** | **0.153** | **0.191** | **0.239** |
| YoY% | 29 | 31 | 25 | 25 | 25 |
| DPS (HK$) | 0.030 | 0.040 | 0.046 | 0.057 | 0.072 |

| Year to Dec | FY17 | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|---|
| **Cash Flow (HK$ mn)** | | | | | |
| EBITDA | 414 | 534 | 670 | 839 | 1,044 |
| Chg in working cap | 147 | (22) | (127) | 195 | 210 |
| Others | 92 | (153) | 0 | 0 | 0 |
| **Operating cash** | **653** | **360** | **543** | **1,034** | **1,254** |
| Interest received | 0 | 0 | 0 | 0 | 0 |
| Tax | (138) | (131) | (118) | (186) | (232) |
| **Net cash from operations** | **515** | **229** | **426** | **849** | **1,022** |
| Capex | (11) | (25) | (29) | (34) | (40) |
| Investments | (223) | (49) | 0 | 0 | 0 |
| Dividends received | 0 | 0 | 0 | 0 | 0 |
| Sales of assets | 5 | 1 | 0 | 0 | 0 |
| Interests paid | 32 | 33 | 38 | 46 | 57 |
| Others | (250) | (185) | 0 | 0 | 0 |
| **Investing cash** | **(448)** | **(224)** | **9** | **11** | **17** |
| **FCF** | **67** | **6** | **435** | **860** | **1,039** |
| Issue of shares | 0 | 0 | 0 | 0 | 0 |
| Buy-back | 0 | 0 | 0 | 0 | 0 |
| Minority interests | 0 | 0 | 0 | 0 | 0 |
| Dividends paid | (85) | (115) | (138) | (173) | (212) |
| Net change in bank loans | (45) | (265) | 0 | 0 | 0 |
| Others | (75) | (4) | 0 | 0 | 0 |
| **Financing cash** | **(206)** | **(384)** | **(138)** | **(173)** | **(212)** |
| **Net change in cash** | **(139)** | **(378)** | **297** | **687** | **827** |
| Exchange rate or other Adj | 174 | (99) | 0 | 0 | 0 |
| Opening cash | 2,417 | 2,452 | 1,975 | 2,272 | 2,959 |
| Adjust for deposits over 3 month maturity | (259) | (423) | (423) | (423) | (423) |
| **Closing cash** | **2,711** | **2,398** | **2,695** | **3,383** | **4,210** |
| **CFPS (HK$)** | **0.157** | **0.070** | **0.130** | **0.258** | **0.311** |

| Year to Dec | FY17 | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|---|
| **Ratios** | | | | | |
| Gross margin (%) | 23.9 | 20.4 | 20.4 | 20.8 | 21.2 |
| Operating margin (%) | 11.9 | 12.5 | 13.4 | 14.2 | 15.0 |
| Net margin (%) | 9.1 | 9.7 | 10.3 | 10.9 | 11.5 |
| Selling & dist'n exp/Sales (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Admin exp/Sales (%) | 12.0 | 8.1 | 7.0 | 6.7 | 6.3 |
| Payout ratio (%) | 32.1 | 32.7 | 30.0 | 30.0 | 30.0 |
| Effective tax (%) | 28.4 | 26.8 | 26.8 | 26.8 | 26.8 |
| Total debt/equity (%) | 38.3 | 1.1 | 0.9 | 0.7 | 0.5 |
| Net debt/equity (%) | Net cash | Net cash | Net cash | Net cash | Net cash |
| Current ratio (x) | 1.4 | 1.4 | 1.5 | 1.5 | 1.6 |
| Quick ratio (x) | 1.4 | 1.3 | 1.4 | 1.4 | 1.5 |
| Inventory T/O (days) | 1 | 4 | 25 | 25 | 25 |
| AR T/O (days) | 51 | 51 | 51 | 51 | 51 |
| AP T/O (days) | 228 | 177 | 165 | 160 | 155 |
| Cash conversion cycle (days) | (175) | (122) | (89) | (84) | (79) |
| Asset turnover (x) | 1.0 | 1.2 | 1.3 | 1.2 | 1.2 |
| Financial leverage (x) | 4.0 | 3.6 | 3.0 | 2.7 | 2.5 |
| EBIT margin (%) | 11.9 | 12.5 | 13.4 | 14.2 | 15.0 |
| Interest burden (x) | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| Tax burden (x) | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 |
| **Return on equity (%)** | **36.7** | **40.7** | **38.6** | **36.7** | **35.2** |
| **ROIC (%)** | **(20.1)** | **(26.6)** | **(38.4)** | **(45.3)** | **(47.8)** |

| Year to Dec | FY17 | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|---|
| **Balance Sheet (HK$ mn)** | | | | | |
| Fixed assets | 141 | 174 | 186 | 202 | 221 |
| Intangible assets & goodwill | 5 | 6 | 6 | 6 | 6 |
| Asso. companies & JVs | 0 | 1 | 1 | 1 | 1 |
| Long-term investments | 2 | 1 | 1 | 1 | 1 |
| Other non-current assets | 120 | 112 | 112 | 112 | 112 |
| **Non-current assets** | **269** | **294** | **307** | **323** | **342** |
| Inventories | 10 | 37 | 266 | 314 | 367 |
| AR | 467 | 586 | 689 | 815 | 960 |
| Prepayments & deposits | 41 | 62 | 73 | 86 | 101 |
| Other current assets | 61 | 180 | 180 | 180 | 180 |
| Cash | 2,711 | 2,398 | 2,695 | 3,383 | 4,210 |
| **Current assets** | **3,289** | **3,263** | **3,903** | **4,777** | **5,818** |
| AP | 1,593 | 1,604 | 1,759 | 2,006 | 2,276 |
| Tax | 108 | 118 | 186 | 232 | 290 |
| Accruals & other payables | 652 | 671 | 733 | 867 | 1,021 |
| Bank loans & leases | 0 | 0 | 0 | 0 | 0 |
| CB & othe debts | 63 | 13 | 13 | 13 | 13 |
| Other current liabilities | 0 | 0 | 0 | 0 | 0 |
| **Current liabilities** | **2,415** | **2,406** | **2,690** | **3,118** | **3,599** |
| Bank loans & leases | 265 | 0 | 0 | 0 | 0 |
| CB & othe debts | 0 | 0 | 0 | 0 | 0 |
| Deferred tax & others | 16 | 22 | 22 | 22 | 22 |
| MI | 5 | 9 | 13 | 18 | 24 |
| **Non-current liabilities** | **286** | **31** | **35** | **40** | **46** |
| **Total net assets** | **856** | **1,120** | **1,485** | **1,941** | **2,514** |
| **Shareholder's equity** | **856** | **1,120** | **1,485** | **1,941** | **2,514** |
| Share capital | 3 | 3 | 3 | 3 | 3 |
| Reserves | 853 | 1,116 | 1,482 | 1,938 | 2,511 |
| **BVPS (HK$)** | **0.26** | **0.34** | **0.45** | **0.59** | **0.76** |
| Total debts | 328 | 13 | 13 | 13 | 13 |
| Net cash/(debts) | 2,383 | 2,385 | 2,683 | 3,370 | 4,197 |

*Source: Company, OP Research*

## Appendix I – Top 20 property management companies (ranking in 2019)

**Exhibit 75: 2019 CIA ranking for prop management companies (Top 20)**

| Rank | Company name in Chinese | Company name in English | Stock code |
|---|---|---|---|
| 1 | 万科物业发展股份有限公司 | Vanke Service | Under 2202 HK |
| **2** | **绿城物业服务集团有限公司** | **Greentown Service** | **2869 HK** |
| **3** | **广东碧桂园物业服务股份有限公司** | **Country Garden Services** | **6098 HK** |
| 4 | 长城物业集团股份有限公司 | Changcheng Property | |
| 5 | 保利物业发展股份有限公司 | Poly Services | Under 600048 CH |
| 6 | 恒大物业（金碧物业有限公司） | Evergrande Services | |
| **7** | **雅居乐雅生活服务股份有限公司** | **A-Living Services** | **3319 HK** |
| 8 | 金地物业管理集团公司 | Gemdale PM | |
| 9 | 龙湖物业服务集团有限公司 | Longfor Services | Under 960 HK |
| 10 | 金科物业服务集团有限公司 | Jinke Services | Under 000656 CH |
| 11 | 华润物业科技服务有限公司 | CR Property | Under 1109 HK |
| **11** | **中海物业集团有限公司** | **COPL** | **2669 HK** |
| 11 | 四川蓝光嘉宝服务集团股份有限公司 | Sichuan Languang JUSTBON Services | Applied for IPO on HKEx Mainboard |
| 12 | 北京首开鸿城实业有限公司 | Beijing Capital Development Hongcheng | |
| 12 | 幸福基业物业服务有限公司 | City Service | Under 600340 CH |
| 12 | 佳兆业物业管理（深圳）有限公司 | Kaisa Prosperity | 2168 HK |
| 13 | 新城悦控股有限公司 | S-Enjoy Service | 1755 HK |
| 13 | 河南建业物业管理有限公司 | Henan Jianye Property | |
| 13 | 广州市时代物业管理有限公司 | Times China Services | Under 1233 HK |
| 14 | 万象美物业管理有限公司 | Fantasia Prop management | 1778 HK |
| 14 | 山东省诚信行物业管理有限公司 | H&C Prop management | |
| 14 | 上海永升物业管理有限公司 | Shanghai Ever Sunshine | 1995 HK |
| 15 | 鲁能物业服务有限公司 | Luneng Tenement | |
| 15 | 广东康景物业服务有限公司 | Kangjing Services | Under 754 HK |
| 15 | 广州奥园物业服务有限公司 | Aoyuan Healthy | 3662 HK |
| 16 | 深圳市卓越物业管理股份有限公司 | Excellence Property | |
| 16 | 深圳市保利物业管理集团有限公司 | Shenzhen Poly Property | |
| **17** | **港联不动产服务股份有限公司** | **Asia Asset** | **6098 HK** |
| 17 | 世茂天成物业服务集团有限公司 | Shimao Tiancheng | |
| 17 | 北京金融街物业管理有限责任公司 | Financial Street Property | |
| 18 | 广州市宁骏物业管理有限公司 | LIEGE Property Services | Under 1813 HK |
| 18 | 南都物业服务股份有限公司 | Nacity Property Service | 603506 CH |
| 18 | 重庆新大正物业集团股份有限公司 | Chongqing New Dazheng Property Service | Applied for IPO on SZEx SME board |
| 19 | 上海高地物业管理有限公司 | GOLTE | |
| 19 | 财信智慧生活服务集团有限公司 | Casin Smart Service | |
| 19 | 江苏银河物业管理有限公司 | Suning Property | |
| 20 | 廊坊荣盛物业服务有限公司 | RiseSun Property | Under 002146 CH |
| 20 | 山东宾至嘉宁物业管理有限公司 | Jianing Property Service | |
| 20 | 浙江开元物业管理股份有限公司 | New Century Property | 831971 CH |

*Source: CIA*

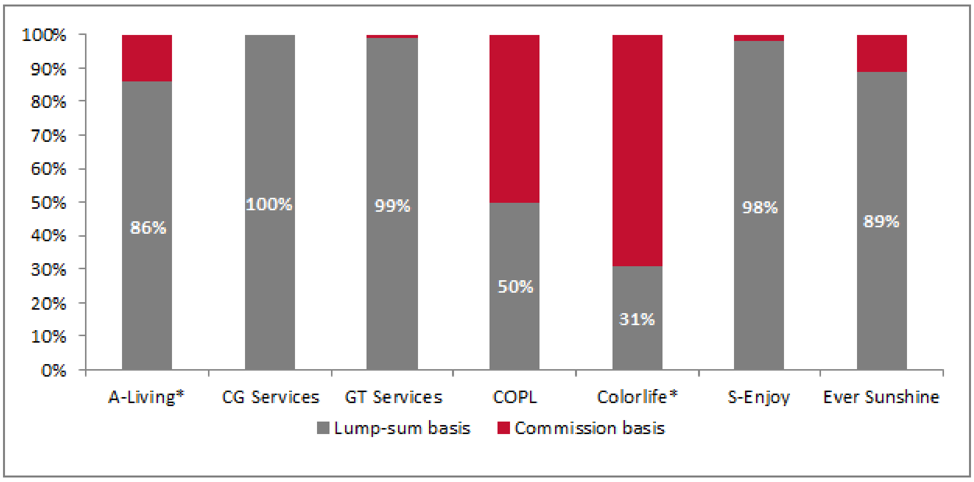
## Appendix II – Pricing model and cost structure

### Exhibit 76: Lump-sum basis vs commission basis pricing model

| Differences | Lump-sum basis | Commission basis |
|---|---|---|
| **Description** | Property owners pay a fixed amount of prop management fee, the prop management company is entitled to retain as revenue the full amount of property management fees it receives. If the amount of property management fees collected is insufficient to cover all the expenses incurred, the company is not entitled to request the property owners to pay for the shortfall | The company acts as an agent of the property owners. They are entitled to first retain as revenue a pre-determined percentage (generally 8% to 10%) of the property management fees the property owners and residents pay, and we reserve the remainder as working capital to cover the expenses associated with our property management services. |
| **Risks related to profitability** | Borne by the prop management company | Borne by the property owners and residents |
| **Components of prop management fee** | Costs of management services<br>Statutory tax duties<br>Profit of prop management company | Costs of management services<br>Profit of prop management company |
| **Advantages** | Easier to understand and execute | Less tax burden to prop management company<br>High transparency |
| **Disadvantages** | Less Transparency<br>Trade-off between service quality and profitability | Difficult to understand and execute |

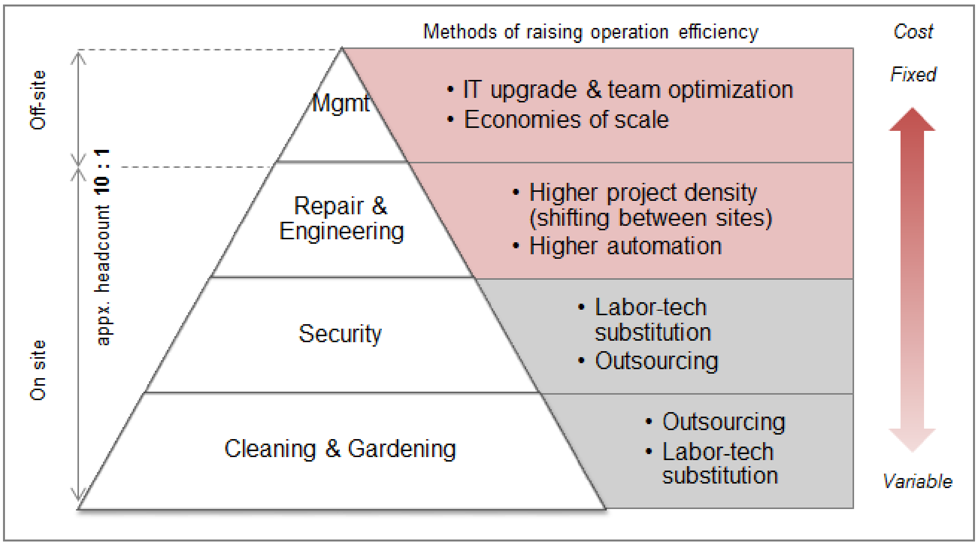
*Source: Company prospectus, OP Research*

### Exhibit 77: FY18 GFA under management breakdown by pricing model




**Excluded GFA for consulting services*
*Source: Companies, OP Research estimates*

### Exhibit 78: Staff structure for prop management companies




*Source: OP Research*

## Appendix III – Peers comparison

| Company | Ticker | Price | Mkt cap (US$m) | 3-mth avg t/o (US$m) | PER Hist (x) | PER FY1 (x) | PER FY2 (x) | EPS FY1 YoY% | EPS FY2 YoY% | 3-Yr EPS Cagr (%) | PEG (x) | Div yld Hist (%) | Div yld FY1 (%) | P/B Hist (x) | P/B FY1 (x) | EV/ Ebitda Hist | EV/ Ebitda Cur Yr | Net gearing Hist (%) | Gross margin Hist (%) | Net margin Hist (%) | ROE Hist (%) | ROE FY1 (%) | Sh px 1-mth % | Sh px 3-mth % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| HSI | | 26,092.27 | | | 10.2 | 10.4 | 9.8 | (2.7) | 6.3 | 3.8 | 2.72 | 3.8 | 3.9 | 1.15 | 1.13 | | | | | | 11.4 | 10.8 | 1.4 | (8.6) |
| HSCEI | | 10,200.97 | | | 8.1 | 8.2 | 7.7 | (0.2) | 6.5 | 5.1 | 1.60 | 3.8 | 4.0 | 1.07 | 1.04 | | | | | | 13.2 | 12.8 | 1.2 | (6.3) |
| CSI300 | | 3,814.53 | | | 13.8 | 12.4 | 11.0 | 11.2 | 13.4 | 12.3 | 1.0 | 2.2 | 2.5 | 1.8 | 1.6 | | | | | | 12.8 | 13.2 | 0.4 | (0.3) |
| **China Property Management Peers** | | | | | | | | | | | | | | | | | | | | | | | | |
| **Adjusted sector avg*** | | | | | **30.0** | **21.2** | **15.8** | **41.4** | **33.3** | **33.9** | **0.65** | **1.4** | **1.6** | **6.64** | **5.29** | **20.4** | **14.9** | **5.9** | **28.2** | **11.7** | **25.5** | **23.5** | **0.8** | **(0.7)** |
| **Country Garden Services** | **6098 HK** | **22.60** | **7,693** | **18.5** | **53.4** | **36.0** | **27.1** | **48.4** | **32.6** | **35.7** | **1.01** | **0.6** | **0.7** | **22.12** | **14.93** | **50.4** | **29.4** | **Net cash** | **37.7** | **19.7** | **50.1** | **53.0** | **(0.4)** | **25.1** |
| **China Overseas Prop Hldg** | **2669 HK** | **3.87** | **1,622** | **5.4** | **31.6** | **25.3** | **20.2** | **25.1** | **25.1** | **25.0** | **1.01** | **1.0** | **1.2** | **11.36** | **8.57** | **19.3** | **15.0** | **Net cash** | **20.4** | **9.7** | **40.7** | **38.6** | **(3.3)** | **(4.9)** |
| **A-Living Services** | **3319 HK** | **18.08** | **3,075** | **7.4** | **24.4** | **19.2** | **14.0** | **27.3** | **37.2** | **33.5** | **0.57** | **1.0** | **1.3** | **3.60** | **3.48** | **18.4** | **12.6** | **Net cash** | **38.2** | **23.7** | **23.2** | **19.3** | **17.9** | **36.8** |
| **Greentown Services** | **2869 HK** | **7.70** | **2,728** | **4.0** | **48.0** | **32.8** | **24.4** | **46.7** | **34.2** | **36.6** | **0.89** | **1.0** | **1.1** | **8.13** | **7.12** | **26.8** | **25.0** | **Net cash** | **17.8** | **7.2** | **22.8** | **20.3** | **7.4** | **22.0** |
| Colour Life Service | 1778 HK | 3.91 | 710 | 2.3 | **9.4** | **8.2** | **7.1** | **14.0** | **16.2** | **15.8** | **0.52** | **4.6** | **4.8** | **1.50** | **1.30** | **5.7** | **6.1** | **30.9** | **35.5** | **13.4** | **17.6** | **16.3** | **(5.3)** | **(25.0)** |
| S-Enjoy Service | 1755 HK | 6.74 | 705 | 6.6 | 25.6 | 18.9 | 12.9 | 35.4 | 46.2 | 42.2 | 0.45 | 1.7 | N/A | 5.96 | 4.99 | 18.7 | N/A | 0.0 | 29.5 | 13.1 | 30.1 | 20.3 | 14.4 | (19.7) |
| Kaisa Prosperity | 2168 HK | 14.02 | 250 | 0.4 | 25.5 | 12.0 | 9.3 | 112.0 | 29.2 | 47.4 | 0.25 | 1.3 | 2.1 | 3.10 | 3.11 | 11.4 | 6.2 | 0.0 | 30.9 | 6.0 | 26.6 | 26.2 | 0.4 | 9.5 |
| Ever Sunshine Li | 1995 HK | 3.74 | 733 | 1.2 | 38.5 | 25.8 | 15.6 | 49.2 | 65.2 | 48.9 | 0.53 | 0.6 | 1.2 | 4.57 | 4.68 | 31.5 | 14.3 | 0.0 | 28.7 | 9.3 | 23.5 | 19.8 | (2.9) | 9.0 |
| Shenzhen World-A | 002285 CH | 3.79 | 1,085 | 5.8 | 19.0 | 15.0 | 12.0 | 26.0 | 25.4 | 26.0 | 0.58 | 0.6 | 0.5 | 1.44 | 1.38 | 9.2 | 10.8 | 4.3 | 21.1 | 5.6 | 3.4 | 6.8 | (4.5) | (16.0) |
| Nacity Property-A | 603506 CH | 17.55 | 330 | 5.8 | 25.1 | 19.3 | 15.8 | 30.0 | 22.0 | 27.8 | 0.69 | 1.3 | N/A | 4.61 | 3.31 | 12.9 | N/A | 0.0 | 21.7 | 8.7 | 16.8 | 14.5 | 1.6 | (6.3) |
| **Commercial Property Management Peers** | | | | | | | | | | | | | | | | | | | | | | | | |
| **Adjusted sector avg*** | | | | | **28.9** | **18.3** | **16.9** | **49.1** | **7.6** | **19.3** | **1.03** | **0.4** | **N/A** | **7.67** | **2.79** | **17.2** | **49.1** | **51.1** | **30.1** | **3.7** | **(13.3)** | **19.6** | **3.3** | **3.8** |
| Jones Lang Lasal | JLL US | 139.31 | 7,177 | 52.6 | 13.1 | 11.3 | 10.9 | 15.8 | 4.0 | 10.0 | 1.14 | 0.6 | N/A | 1.67 | 2.45 | 10.3 | 36.4 | 14.8 | N/A | 3.0 | 12.9 | 17.6 | 3.9 | (1.0) |
| Cbre Group Inc-A | CBRE US | 52.90 | 17,792 | 75.6 | 16.9 | 14.0 | 13.1 | 20.6 | 6.7 | 10.8 | 1.30 | N/A | N/A | 3.33 | 3.12 | 14.2 | 47.6 | 46.3 | 22.9 | 5.0 | 21.9 | 21.6 | 1.2 | 3.1 |
| Firstservice-Wi | FSV CN | 135.09 | 4,136 | 6.4 | 55.7 | 31.6 | 28.7 | 76.4 | 10.2 | 28.9 | 1.09 | 0.6 | N/A | 18.71 | N/A | 29.1 | 64.5 | 69.2 | 31.6 | 3.4 | (112.8) | N/A | (2.3) | 7.2 |
| Colliers Interna | CIGI CN | 99.04 | 2,960 | 7.9 | 30.0 | 16.4 | 14.9 | 83.6 | 9.6 | 27.6 | 0.59 | 0.1 | N/A | 6.96 | N/A | 15.0 | 48.0 | 74.1 | 35.7 | 3.5 | 25.0 | N/A | 10.3 | 5.8 |

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

*Source: Bloomberg, OP Research*

## Our recent reports

| Date | Company / Sector | Stock Code | Title | Rating | Analyst |
|---|---|---|---|---|---|
| 11/09/2019 | Q Tech | 1478 | August saw product mix improving on track | BUY | Yuji Fung/Dallas Cai |
| 10/09/2019 | Sunny Optical | 2382 | Upgrade on HLS market share gain | BUY | Yuji Fung/Dallas Cai |
| 05/09/2019 | Sinosoft Tech | 1297 | 1H19 saw softened growth | BUY | Yuji Fung/Dallas Cai |
| 05/09/2019 | Truly Int’l | 732 | 1H19 saw loss from associate narrowing on track | BUY | Yuji Fung/Dallas Cai |
| 02/09/2019 | TCL Electronics | 1070 | 1H19 earnings beat our expectations | BUY | Yuji Fung/Dallas Cai |
| 27/08/2019 | Anta Sports | 2020 | Positive surprise from OPM and Descente breakeven | BUY | Dallas Cai/Megan Jin |
| 23/08/2019 | Tian Lun Gas | 1600 | 1H19 saw growth on track | BUY | Yuji Fung/Dallas Cai |
| 23/08/2019 | Ju Teng Intl | 3336 | 1H19 results in line with expectations | BUY | Yuji Fung/Dallas Cai |
| 22/08/2019 | Xtep Intl | 1368 | 1H19 earnings beat on non-core items | BUY | Dallas Cai/Megan Jin |
| 22/08/2019 | Tongda | 698 | 1H19 saw GPM recovery as expected | BUY | Yuji Fung/Dallas Cai |
| 21/08/2019 | Chinasoft Intl | 354 | 1H19 results in line with expectations | BUY | Yuji Fung/Dallas Cai |
| 21/08/2019 | 361 Degrees Intl | 1361 | 1H19 results in line | BUY | Megan Jin |
| 21/08/2019 | Edvantage Group | 382 | Pathway to the World | NR | Yuji Fung |
| 20/08/2019 | Regal Intl Airport | 357 | Franchise revenue retreated on competition | BUY | Yuji Fung/Dallas Cai |
| 19/08/2019 | Ausnutria Dairy | 1717 | Response to short-sell allegations | BUY | Dallas Cai/Megan Jin |
| 16/08/2019 | CH Display OPT | 334 | Downgrade on robust shipment growth at the cost of squeezed dollar margin | HOLD | Yuji Fung/Dallas Cai |
| 16/08/2019 | Kingdee Intl | 268 | 1H19 results in line with previous profit warnings | SELL | Yuji Fung/Dallas Cai |
| 16/08/2019 | Sunny Optical | 2382 | Positive surprise on handset lens sets margin | BUY | Yuji Fung/Dallas Cai |
| 15/08/2019 | Ausnutria Dairy | 1717 | Inventory surge on one-off events | BUY | Dallas Cai/Megan Jin |
| 15/08/2019 | Li Ning | 2331 | Higher visibility for wholesale channel optimization | BUY | Dallas Cai/Megan Jin |
| 13/08/2019 | Q Tech | 1478 | Comeback with upbeat margin | BUY | Yuji Fung/Dallas Cai |
| 13/08/2019 | China Youzan | 8083 | Sign of net loss narrowing | BUY | Yuji Fung/Dallas Cai |
| 31/07/2019 | Ausnutria Dairy | 1717 | 1H19E preview: investment thesis intact | BUY | Dallas Cai/Megan Jin |
| 24/07/2019 | Xtep Intl | 1368 | Upgrade on improved investor confidence | BUY | Dallas Cai/Megan Jin |
| 23/07/2019 | Anta Sports | 2020 | Upgrade on 1H19E profits surprise | BUY | Dallas Cai/Megan Jin |
| 17/07/2019 | 361 Degrees Intl | 1361 | 2Q19E online sales slowed on product mix shift | BUY | Megan Jin |
| 15/07/2019 | Xtep Intl | 1368 | 2Q19E keeps up robust growth momentum | BUY | Dallas Cai/Megan Jin |

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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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