

China Property Service Sector

Study the impact of Guangzhou Pandemic

The pandemic and partial lockdown in Guangzhou may re-emphasize the importance of property management sector. We think this may accelerate the PM fee reform in the region and nationwide as the progress has been relatively slow after MOHURD's 21 points on 5 Jan. (e.g.: Guangzhou announced the latest management fee cap in Apr and it remained same as 2016). Also, the pandemic could again help improve VAS penetration rate/customer stickiness and further drive the growth of VAS model such as community purchasing. Overall this should be mild positive to the sector and below names may benefit from this event: Times Neighborhood (Not rated), Poly Property Management, Country Garden Services, Evergrande PM (Not rated). As for the whole sector, we also prefer CR Mixc Lifestyle and Powerlong CM. **Catalysts:** positive policy support; strong 1H21 results (profits alert in July). Overhang removed after some cornerstone sold stakes.

- **It may accelerate the property management fee reform in the region and nation-wide:** Since MOHURD's "21 points" on 5 Jan have encouraged floating-fee scheme, the actual reform at the city level has been relatively slow. Taking Guangzhou as an example, Guangzhou government recently published its [management fee cap](#) at RMB2.8/sq m for 2021, same as 2016. The small break in Guangzhou this time may reinforce the importance of property management sector and staff. Therefore it could accelerate the management fee reform in the city and then the nation-wide.
- **Another chance for VAS penetration:** As Guangzhou has again made partial lockdown in Liwan/Yuexiu Districts with more restrictions in the whole city, the residents may start to rely more on property management staff for shopping and other helps. This would provide another chance to build up customer trust in its value-added services, especially now when more PM companies have spent more resources into community group purchasing. This may help improve penetration rate in the mid-to-long term.
- **Additional costs may have limited impact on margin:** Firstly we think this time the region is quite limited to some districts in Guangzhou so the costs as % of whole is relatively small. Secondly given government's solid execution and track record, we think the pandemic will not last very long. Lastly we think like 2020, some subsidizes may be provided to offset the costs. In 2020, on average government subsidizes help improve GP Margin by 1.5-2ppts for basic management business.
- **Who benefited most:** As this time the pandemic was mainly in Guangzhou for 12 days so far, it may mainly benefit the Guangzhou PM companies. The names are Times Neighborhood (29% of its 2020 managed GFA in Guangzhou), Poly property management (estimated 5%), Country Garden Services (estimated 5%) and Evergrande PM (estimated 3%).
- **Valuation:** Currently sector is still trading at 26x 2022E PE (Market-Cap weighted average) which looks fair compared to 50% CAGR in 2020-22E. We think the rerating opportunity would come from strong 1H21 results, positive policy progress for the fee reform and overhang remove from cornerstone sell-off (next one would be Sino-Ocean PM on 12 Jun).

OUTPERFORM
(Maintain)

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Figure 1: Comp sheet

Company	Ticker	CMBI rating	TP (HK\$)	Last price (HK\$)	Mkt Cap (HK\$ mn)	P/E			Net profit growth (%)	
						20A	21E	22E	21E	22E
Country Garden Services	6098 HK	BUY	91.2	81.5	261,200	75.2	48.3	32.8	68.9	40.7
CR MixC Lifestyle	1209 HK	BUY	56.0	45.9	104,539	112.3	58.2	42.1	93.2	33.8
A-Living	3319 HK	HOLD	34.2	35.8	50,267	24.2	17.3	13.1	47.3	33.5
Greentown Services	2869 HK	HOLD	9.5	12.4	40,994	47.9	34.3	25.5	32.2	21.5
Ever Sunshine	1995 HK	BUY	22.2	19.2	35,496	73.3	46.0	30.5	72.8	54.2
Poly Services	6049 HK	HOLD	53.4	56.9	33,449	39.8	31.4	24.3	15.5	26.9
S-Enjoy	1755 HK	BUY	34.6	25.4	21,060	38.1	24.8	17.3	41.3	27.2
Powerlong Commercial	9909 HK	BUY	33.2	30.5	19,095	51.1	34.5	24.9	52.1	31.5
Excellence CM	6989 HK	BUY	14.9	11.3	12,115	26.6	18.7	13.4	62.9	39.7
Languang Justbon	2606 HK	BUY	69.7	51.7	9,217	13.4	11.7	9.7	34.2	34.1
Central China New Life	9983 HK	BUY	12.9	6.6	8,826	17.7	11.6	8.4	22.1	32.6
Sino-Ocean Services	6677 HK	BUY	7.1	4.9	6,962	20.9	14.3	10.2	50.5	41.8
Redsun Services	1971 HK	BUY	9.4	4.3	1,768	18.4	9.3	6.3	75.8	47.7
COPH	2669 HK	NR	NA	8.2	27,051	40.1	29.5	22.7	36.1	29.7
Times Neighborhood	9928 HK	NR	NA	5.9	5,855	20.6	11.9	8.0	73.3	48.3
Aoyuan Healthy Life	3662 HK	NR	NA	5.8	4,241	14.9	9.7	7.2	54.0	34.6
Shimao Services	873 HK	NR	NA	21.8	51,535	60.7	32.9	20.0	84.4	65.0
KWG Living	3913 HK	NR	NA	8.2	16,566	41.7	19.5	12.3	113.2	58.8
Evergrande Services	6666 HK	NR	NA	9.8	105,730	34.6	20.4	13.5	69.3	50.7
Sunac Services	1516 HK	NR	NA	24.4	75,570	109.2	49.8	30.8	119.3	61.8
Jinke Smart Services	9666 HK	NR	NA	72.0	47,005	59.4	34.9	23.0	70.4	51.5
Average						64.8	38.2	26.2	70.0	39.4

Source: Bloomberg, CMBIS estimates

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